

Evolving your business as a value exchange between stakeholders

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A business model comprises five primary components: markets, products, processes, people and economics¹. In this paper, we explore the fourth component – people². By “people”, we mean the stakeholders in the business, including customers, employees, partners and investors.

A business can be thought of as a value exchange between its primary stakeholders. The goals of the “people” component of the business model are to: (a) assemble the optimal group of stakeholders for that business (b) design the value exchange between them so that the total value created by the business is maximized and (c) deliver more value to each stakeholder than competing business models.

Who are the stakeholders in a business and how do they participate in the value exchange?

The primary stakeholders in a very simple business are a buyer and a seller. Here, the value exchange consists of the seller providing a product or service (a “solution”) for which the buyer pays a price. This exchange creates mutual value where the solution is worth more to the buyer than the price, and the seller can provide the solution at a lower cost than the price and thus make profit.

In a more complex business, the “seller” expands to include three primary groups of stakeholders – *team*, *partners* and *capital providers*. The “team” consists of the core group creating, marketing and delivering the solution - management, employees and contractors. “Partners” are external firms, and include vendor partners, channel partners and strategic partners. “Capital providers” include both equity investors and debt providers.

Here the value exchange is more complex. Buyers still pay a price for the solution, but this price is not just received by a single seller, but is effectively shared between these three stakeholder groups. The team provides their services in return for their share, earned as compensation and benefits. Partners provide components of the solution or the value chain in return for their share in the form of payment from the seller or a share of the price paid by the buyer. Capital providers provide funding to the team and partners in return for their share in the form of interest, dividends and / or equity value appreciation.

Yet another layer of complexity is added when there are multiple buyers, as found in so-called “two-sided” or network markets. Examples of these include advertising-based businesses like the media, insurance-based businesses like healthcare, or secondary-market businesses like renewable energy certificates. In these businesses, there are more stakeholders and the value exchanges get even more complex.

Who are the right stakeholders for your business?

The first question to address in thinking about the stakeholder or “people” component of your business model is who are the right stakeholders for this business? You need to think about this question at two levels: (a) who are the right types of stakeholders for the business, and (b) who specifically should be approached to participate in the business?

Who are the right types of stakeholders for the business?

Many businesses put insufficient thought into which types of stakeholders make sense for a particular business. Firstly, as discussed in our paper on markets², having a clear market focus is a key component of a business model. As such, the pool of potential stakeholders should be identified from within the target market. Secondly, even within a specific market there are typically many different types of potential customers, team members, partners and capital providers.

The starting point is to identify the customer/s and the solution to be provided to the customer/s that will lay the foundation for maximum value creation. In our framework, these are done within the markets and products components of the business model. With these in place, you need to identify the types of team members and partners who will be best at creating, marketing and delivering the solution to the target customer/s. For team members, you need to define the specific roles, skills and experience needed, and for partners, the types of vendor, channel and strategic partners that will fit best. Finally, you need to identify the types of capital providers in the market that are the best fit for the nature and stage of your business.

Who specifically should be approached to participate?

Once you have identified the right types of stakeholders that will maximize value for the business, you need to identify and approach individual prospective stakeholders and gain their agreement to participate. Many businesses reach out to those people they happen to know, rather than undertaking a systematic search within each category of target stakeholder for the best participants for a specific business. While it is more time-consuming and difficult, it is more than worthwhile to put in the effort to find the best possible stakeholders for a business. In many respects, the difference between unsuccessful and successful businesses is a reflection of the difference between mediocre and exceptional customers, team members, partners and capital providers. As any savvy investor knows, ultimately it is the people in the business that are the key to success.

How do you attract the right stakeholders to your business?

Develop a superior value proposition for each type of stakeholder

In free markets, all prospective stakeholders – customers, team members, partners and capital providers – typically have many options from which to choose. Each individual strives to participate in those businesses that create the most value for him or her. As a result, to attract prospective stakeholders you need to clearly define a *value proposition* for each type of stakeholder. Given that the foundation for a business is laid by defining the customer and the solution to be provided, this forms the foundational value proposition of the business. In addition, you need to craft value propositions to each of your other stakeholder groups, including team members, partners and capital providers.

Your value proposition must define and articulate how the business model will deliver value to each stakeholder, and how this value will be superior to the other options available to the stakeholder. For customers, this means how your solution addresses their needs better than other solutions. For team members, this means offering better compensation and career prospects. For partners, this means providing equal or better income opportunities. And for capital providers, this means providing a better risk-adjusted return than other investment options.

Your ability to offer these superior value propositions to each of your stakeholders is a function of the design and execution of each component of your business model. It depends on the market you select, the solution you offer, the value chain or processes needed to provide the solution, the stakeholders you attract, and the economic model you design to effect the value exchange.

Focus initially on a small group of early adopters and key influencers

These latter two components explain the “Catch-22”³ facing early stage businesses – you need to offer superior value propositions to attract stakeholders, but those value propositions in turn partly depend on having the right stakeholders. This is a well known problem for start-up entrepreneurs – you need investors to enable you to hire team members and find partners, who will then build the solutions and win the customers – but the investors want to see your customers, team members and partners before they invest. Even within stakeholder groups there is this “chicken and egg” problem - prospective customers want to know which other customers have bought, prospective team members want to know who else is part of the team, and the same with partners and investors.

So what do you do?

The answer is to focus on a small group of prospective stakeholders in each of your target categories *in parallel*, and to facilitate dialogue amongst them around your business model. Through such a group conversation amongst prospective customers, team members, partners and investors, each can get tangible evidence that the other stakeholders are interested and will derive value from participating in the business model.

In doing so, ensure each of the prospective stakeholders you include in this dialogue meets two important criteria: they are intrinsically *early adopters*, interested in and comfortable with new ideas, products and

businesses, and they are also *key influencers* in their respective fields, able to set the trend and attract other stakeholders.

Then build stakeholder attraction into core processes

Once a business is up and running, it must design into its core processes the ability to continually attract stakeholders. Attracting customers becomes the responsibility of sales and marketing; attracting team members and partners is a responsibility shared amongst the primary functions and support groups; and attracting capital providers is a responsibility of general management and finance⁴.

How do you define the optimal value exchange between your stakeholders?

As intimated in the above discussion, the value proposition to each stakeholder actually needs to comprise two elements: what *contribution* is required from the stakeholder, and what *value* they will get in return. This is the essence of the value exchange between each stakeholder and the other stakeholders. Customers contribute a price and receive a solution; team members contribute skills and receive compensation; partners contribute solution and value chain components and receive payment or a share of the price; capital providers provide funding and earn a return. Each of these value exchanges needs to be negotiated with the individual stakeholders, in the context of the negotiations with all the other stakeholders.

To do this successfully, you need to make clear and tangible both the contributions expected from and the value to be received by each stakeholder. In addition, each stakeholder needs to feel that the value exchange for him or her is fair and reasonable, and that the value exchanges for all the other stakeholders are fair and reasonable. Significant problems arise when stakeholders' understanding and expectations of contributions made and value received are misaligned, or where some stakeholders feel that other stakeholders are making a proportionately smaller contribution relative to their share of the value.

A key tool in managing these negotiations is the business' economic model. This will be discussed in a forthcoming paper in more detail, but essentially it is typically a spreadsheet model of the business' projected operating and financial drivers and performance. Initially this model is developed based on a number of hypotheses, and it sets the initial parameters for the value exchange to be negotiated with each stakeholder group. As negotiations proceed, these hypotheses are validated or changed as needed. For example, the price customers are willing to pay, the salaries employees will accept, the commissions channel partners require and the returns investors seek are all validated or changed.

Your task as the business model designer is ensure the overall economics of the business model continue to make sense with these adjustments, and that the negotiations with stakeholders are informed and guided by their impact on the overall economics.

How do you manage stakeholders to ensure the value exchange is implemented properly?

Once you have your stakeholders in place and the value exchange between them agreed, it is an ongoing challenge to manage them to ensure that they contribute as promised, and share in the value created by the business as agreed. Customers need to be chased for payment, team members and partners managed to ensure they are performing their roles correctly, and capital providers, particularly equity investors through the board of directors, managed in terms of expectations.

To do so, it is important to “triage” your stakeholders for purposes of ongoing management. Large customers, senior team members, strategic partners and the board should be a primary focus of the CEO and senior management. Other stakeholders should be managed through the kinds of core processes discussed above. There is a large body of knowledge around managing each of these stakeholder groups, which is not necessary to replicate or summarize here. From the perspective of business model design, it is important to ensure that the business has in place effective ways to manage each stakeholder group and individual stakeholder, to address any problems that come up and to ensure the value exchange continues to be mutually rewarding. Any lack of attention to your stakeholders’ needs will lead quickly to an unraveling of the business model.

Most importantly, you need a clear set of mechanisms for strategy and decision making that takes into account the goals and needs of all your stakeholders. These might include the board of directors, management team, user groups and partner councils, all of which play important roles in the overall direction of the business.

How do you evolve your stakeholders and business model over time?

All markets, especially for technology-based businesses, are continually changing and evolving. As a result, your business model needs to continually evolve to meet the needs of stakeholders in a dynamic system, where each stakeholder has new options becoming available to him or her all the time. New products are launched for customers, new career opportunities open up for team members, new partnership opportunities for partners and new investment opportunities for capital providers. Your value proposition to each stakeholder group needs to continually evolve to remain attractive in the face of these competitive pressures.

At the same time, the contribution your business model needs from stakeholders also evolves. Not only is the market evolving, but also your business migrates along the S-curve (the technology, product or business lifecycle), from creation, through growth and then maturity. At each stage of its lifecycle, a business typically needs different contributions from its stakeholders, which often means its needs different stakeholders.

Changing stakeholders is challenging for many businesses. A feeling of gratitude and loyalty has developed to the customers, team members, partners and investors that helped the business through the previous stage. It can be emotionally difficult to recognize that the business is now at a different stage, and that it makes sense to replace some or many of the stakeholders to allow the business to continue forward successfully. There are also built in reward systems that strongly favor continued tenure for current stakeholders.

However failure to evolve the stakeholders in a business in line with the internal business evolution and the external market evolution is one of the prime causes of business failure. Many start-ups fail to transition successfully into the growth phase. Start-up stakeholders need to be skilled in and comfortable with the uncertainty, experimentation and creativity associated with this phase. They are seldom equally skilled and comfortable with the attention to detail and systemization of the business required for successful rapid growth. Similarly, at the end of the growth phase, the stakeholders in a business are often entrenched and well respected – after all, look what they have achieved. Such stakeholders are not usually the best positioned for the continued refinement, cost and efficiency optimization and exploration of exit options associated with the maturity phase.

Which other stakeholders do you need to address?

Finally, there is a range of secondary stakeholders who can play important roles in the creation and evolution of a business. *Influencers* include the media, trade associations and other interest groups that can help educate your market about your business and its solutions. *Government* is an important stakeholder in all industries through the rule of law and regulatory authorities, and is a very prominent stakeholder in some industries such as communications, healthcare and energy. The broader *community* within your market, and its perception of your business and its solutions can be an important stakeholder, as can be the general public wherever you do business.

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In summary, this paper has presented an overview of the “people” component of a business model – how to attract the right stakeholders and define the right value exchange between them in order to maximize the value of the business model to each stakeholder.

- Understand that a business is essentially a value exchange between stakeholders.
- Begin by thinking about which types of stakeholders make sense for your business model, starting with customers, then team members and partners, and then capital providers.
- Then undertake a systematic effort to find the best stakeholders in each category, not just the first you come across.
- Facilitate a discussion amongst prospective customers, team members, partners and capital providers around your business model to attract your initial stakeholders.
- Develop an effective value exchange formula for each stakeholder group that makes clear what is to be contributed and how value is to be shared.
- Over time, develop effective processes to attract and manage stakeholders, with your CEO and senior executives focusing on the most important stakeholders in each category.
- Put in place clear strategy and decision making mechanisms to guide the business based on the goals and needs of all stakeholders.
- Carefully monitor your internal business and external market evolutions, and make sure you evolve your stakeholders in line with your business needs at each stage.
- Finally develop effective approaches to managing secondary stakeholders such as influencers, government authorities and the community.

References

1. For an introduction to how the model was developed and how it compares to others, see [What is a business model? A new approach.](#)
2. For an overview of the first three components see [Selecting and understanding markets for technology innovation](#), [Developing a winning product offering](#), and [Optimizing your core processes to execute successfully](#).
3. Heller, Joseph. *Catch-22*. New York: Simon & Schuster, 1961
4. See [Optimizing your core processes to execute successfully](#) for a definition of the core processes and functions in a business.

About the author

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