

The business model as root cause of short-term challenges

What are your biggest short-term challenges? How can you address them effectively to ensure the survival and growth of your venture?

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Critical short-term challenges

In today's precarious economic conditions, most ventures are facing major short-term challenges in addition to their perennial long-term value creation issues. For many, the most critical challenges fall into at least one of three groups:

Market challenges

One set of top priorities is on the sales and marketing side of the business. The fundamental concern here is that the venture is not securing customers, revenue and market traction quickly enough. The venture is struggling with the following types of issues:

- Pursuing a range of potential markets, but not getting any real traction in any of them.
- Having difficulties communicating what it offers in a way that prospective customers understand and find compelling.
- Receiving few inbound enquiries, and finding it very difficult to gain prospective customers' attention for even an initial conversation.
- Experiencing long sales cycles with many opportunities stuck in a "black hole" after presenting a proposal.

The net impact of these market challenges is that sales goals are not being met, and the venture is in danger of either never getting to, or falling below, sustainably profitable revenue levels.

Product challenges

A second set of critical issues for many ventures is on the engineering / operations side of the business. Here the core concern is that the venture is taking too long and spending too much to get to the point where it is delivering on its promise to customers. Critical issues include:

- A current product offering and operational delivery system that is first generation and clearly inadequate relative to future customer needs or competitive offerings.
- Frequent internal arguments and lack of clarity on which new products and features to develop, with continual changes in direction and priorities.
- Constant product development delays and “scope creep”, with frequent missed deadlines amidst complaints of inadequate internal staffing and equipment.
- Significant product quality issues and high rates of customer dissatisfaction with both products and customer experience, leading to high product return and “customer churn” rates.

The impact of these product challenges is excessive levels of investment and costs, missed market windows of opportunity, and an inability to retain customers, putting huge strain on the business in terms of short-term cash flow.

Venture challenges

The third set of challenges relate to the primary stakeholders and resources in the business. The key issue is that the venture does not have, and cannot attract, the right stakeholders or the right resources to achieve its goals. These issues include:

- Running low on current funding, and finding it difficult to attract new funding.
- Constant pressure and high anxiety on the board and amongst investors.
- Having in place an incomplete management team, and struggling to attract the right management team.
- Either a lack of strategic partnerships, or partnerships that consume resource and deliver no value to the venture.
- Lack of true, valuable intellectual property (IP).

The impact of these venture challenges is that the business is severely hampered in executing its plan and pursuing its goals, and may be missing one or more ingredients that are vital for its success and growth.

Root cause of short-term challenges

In our experience, the root cause of all of these of issues is a fundamental flaw in the answers to one or more of three simple but profound questions:

- Which products do we offer to which markets?
- How do we provide these products to these markets?
- How do we make money?

As defined in a previous article ([Maximizing the value of innovation through strategic product management](#)), the answers to these three core questions define the three elements of the venture's business model: *product market definition*, *business system definition* (how the venture develops, markets, sells, and delivers its products to its customers), and the venture's *economic model*.

While it is hard to believe because it sounds so simple, in our experience *most ventures fail to answer these three questions effectively*, and as a result have weak business models that are not based on either the reality of their markets or the shared, considered thinking of their management teams. *This failure has immediate and dramatic impact* – it is the driving cause of the critical, short-term challenges listed above, leading directly to inadequate revenue, high costs and cash burn rates, and unsustainable losses.

Of these three root cause questions, we have found the single biggest problem to be the first one – which products should we offer to which markets? Answering this question correctly almost inevitably leads to success – by fully meeting the urgent needs of a large, growing market with excellent, complete solutions that are clearly better than all alternatives. Conversely, and far more frequently, many ventures make fatal decisions in market selection and product definition – leading to long, drawn out struggles in every business function, ranging from lack of clarity on what product to build, through to endless efforts to convince skeptical prospects to buy products they don't think they need.

Analyzing the root cause of your short term challenges

By focusing on the presenting problems – the market, product, and venture issues – management teams become overwhelmed, and waste large amounts of essential time and resources trying to solve a myriad seemingly independent issues. The result is a constant feeling of fire fighting, endless problems, high degrees of stress amongst the management team, and poor venture performance and results.

Rather, you should analyze all your critical short-term challenges to understand which weaknesses in your business model are causing these issues. Doing so allows your management team to recognize the foundational structural flaws in your venture, and to begin to address these root causes.

The table below illustrates this kind of analysis. While a review of the left hand column implies that this venture has a wide range of issues, the analysis shows that all of these issues can be traced to weaknesses in one or more of the three components of the venture's business model.

The business model as root cause of short-term challenges

Challenges	Business model component		
	Sub-optimal or unclear definition of products and / or markets	Poor or inappropriate business system elements (how the venture develops, markets, sells and / or delivers)	Poor economic model (pricing / revenue, cost structure, investment / funding, cash flow)
Market			
Multiple potential markets, no real traction	x	x	
Difficulties communicating clear and compelling offer	x	x	
Few inbound enquiries, difficult to gain prospect attention	x	x	
Long sales cycles with many opportunities on hold	x	x	x
Product			
First generation, inadequate products and operational delivery	x	x	x
Arguments / lack of clarity on new products and features	x	x	
Constant product development delays and “scope creep”	x	x	x
Product quality and customer satisfaction issues	x	x	x
Venture			
Running low on funding, difficult to attract new funding	x		x
High anxiety on the board and amongst investors	x	x	x
Incomplete management team, struggling to attract the right team	x	x	x
Lack of strategic partnerships, or partnerships that deliver no value	x	x	x
Lack of true, valuable intellectual property (IP).	x	x	

Note: an “x” means that particular business model component is a likely root cause of that challenge / symptom.

Value and urgency of this root cause analysis

The above discussion and analysis demonstrates that there is probably *nothing more urgent or more valuable for your venture than to conduct a root cause analysis of your critical short-term challenges*, in order to identify the structural weaknesses in your business model.

For many teams with which we have worked, this analysis has been a revelation, and has unleashed an outpouring of energy and creativity to solve these root cause issues. Instead of attacking the challenges in each row of the table independently, these teams have focused on the real underlying problems represented by the business system columns.

Solving these foundational problems has *an immediate and very substantial impact*:

- Your best market opportunities are identified.
- Your products are rapidly repositioned to meet real customer needs with solutions that they are excited about and that are clearly better than competitors.
- Wasted engineering and operational activity and investment is eliminated. Energy is focused on designing the right products and delivering them to the right customers.
- Ineffective sales and marketing efforts are eliminated, and refocused on productive, receptive markets and customers.
- This positive momentum brings in new, more appropriate stakeholders, who help bring in the right resources your venture needs.
- Within months, revenue is growing, costs and investment are under control, and the venture faces a positive future.

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At a time when ventures face severe short-term challenges, a root cause analysis of your priority short-term challenges using a business model framework pays huge dividends. Doing so will enable you to maximize your team's ability to meet your short-term goals – and will lay solid foundation for long-term success.

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Additional reading and resources

Afuah, Allan. [Business Models: A Strategic Management Approach](#)

A practical resource covering the main elements of a business model, this book focuses on presenting business model options for customer value, competitive positioning, profitability models, target markets, and business system activities.

Chesbrough, Henry. [Open Business Models](#)

In the follow-up to his pioneering book, [Open Innovation](#), Chesbrough explains how to structure your business model to take advantage of open innovation. He also provides a diagnostic instrument for assessing your business model, and explains how to overcome common barriers.

Johnson, Mark W., Clayton M. Christensen, and Henning Kagermann. [“Reinventing Your Business Model”](#) *Harvard Business Review*, December 2008. (Subscription required)

In a recent HBR cover story, innovation thought leader Clayton Christensen and his co-authors address business model (re)invention. An effective business model prevents poor results by ensuring market focus, product definition, attractive economics, and an optimal business system.

Magretta, Joan. [“Why Business Models Matter”](#) *Harvard Business Review*, May 2002. (Subscription required)

An interesting article that attempts to remove some of the fuzziness around the meaning of a business model. Magretta lists two main reasons why business models fail – the story around the business does not make sense and the economics do not stand up. When used correctly, a business model forces manager to think rigorously about their business. Its strength is as a planning tool that focuses attention on how all the elements in the system are working as a whole.

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