

Value-Capture Mechanisms

The business model must also account for how the firm will capture profits. These value-capture mechanisms are the “monetizing” part of any business model. They include the ways the firm gets paid and the choice of fixed and variable costs built into the investments the firm makes to create the value. These together determine the pattern of cash flows. There is a high degree of complementarity between value creation and value capture, as when Gillette subsidizes the price of razors to sell more profitable replacement blades.

Zara, the international clothing retailer, is a fashion imitator that uses a business model often referred to as “fast fashion.” Its value-creating system is built on a well-tuned system of designers who observe and quickly copy fashion and a manufacturing system that creates and moves clothing quickly into centrally located stores all over the world. Store managers and retail systems provide fast feedback on customer purchases, which feeds designers with ideas. The firm captures value because the clothing, often supplied in small batches to create a sense of scarcity, sells fast and no inventories are held. Prices are low, but discounts are rare. Value is also captured because stores don’t advertise but use central locations to attract customers and remind them to visit often for the latest fashion additions.

Coordinating the Business Model Elements

A business model is best designed as a whole, rather than the sum of isolated and separate decisions about pricing or outsourcing. To ensure the whole is greater than the sum of the parts, a company needs to:

- **Create a tightly bound relationship between the value proposition elements and the business model elements.** Zara has done this masterfully with the value proposition benefiting from the business model and the business model getting clear direction from the value proposition. This deep integration is often referred to as strategic complementarity because there is a positive synergistic effect between the two elements.
- **Remain immersed in deep customer and competitor insights.** Many business models fail because they get out of sync with customer needs or are trumped by a competitor with a better solution.
- **Align metrics and incentives.** These should be tailored to the business model to measure and reward key value-creating and value-capture activities. For example, Edward Jones should reward advisors for increasing their share of clients’ investments as well as new client acquisition—both support its business model, which is based on a single advisor acquiring and developing strong and long relationships with clients in a local area.

Creating Strategic Synergies

Aligning business model elements is one critical synergy the company should create. There are many others that improve marketplace performance and the bottom line. Technologies in one business can become innovations in another. For example, a core element in the GE strategic turbine technology that GE pioneered facilitated the development of its aviation business.

Sony exploits synergy across its product line by showcasing them together in stores and even on Celebrity Cruise ships. The ships are outfitted with Sony entertainment products, including

television screens, movie theaters, and sound equipment. The result is an integrated package that helps create and reinforce Sony’s brand of providing high-quality and technologically advanced entertainment.

Synergies can be generated by leveraging assets and competencies for multiple uses. Amazon leverages its warehouses, ordering, and distribution systems by allowing other firms to use its system. Services such as Elastic Compute Cloud (EC2) provide developers with computing capacity in the Amazon Web Services Cloud. Amazon allows third parties, even competitors, to sell products and use fulfillment services in the Amazon Marketplace. Both generate more margin and scale for Amazon’s fixed assets. In the same way, Disney leverages its brand and its connection to kids and family over a wide variety of owned and licensed offerings including Broadway shows and cruise ships.

Companies should seek synergies such as these when creating its strategy. Leveraging existing assets, competencies, and offerings generates more value for the company. Such synergies are also important because they make it harder for competitors to imitate the company. The scale and scope of strategy that synergy is built on cannot be easily copied by rivals.

Monitoring Morphing Market Boundaries

The traditional strategy playbook of 20 years ago was anchored on fixed and well-defined markets—competitors were familiar and stable, and product functions were well-defined and distinct from adjacent categories. These arbitrary product-market boundaries were enshrined in industry statistics and marketing research tracking systems that offered a reassuring picture of continuity.

As markets evolve, though, firms find themselves in increasingly dynamic and competitive environments. In the new game, market boundaries have evolved from fixed to fuzzy. Competition to satisfy customers’ requirements comes from unexpected places—especially in the fast-converging computing, telecommunications, and entertainment industries. Digital technologies have created many unlikely competitors, such as phones substituting for watches, people’s homes substituting for hotels, and video conferencing software substituting for business travel.

There are also complex role reversals with customers becoming competitors and vice versa. For example, General Motors is a customer of Apple’s Carplay—a feature that enables users to connect an iPhone while driving and get directions, make calls, send and receive messages, and listen to music using voice commands and the built-in display and controls of supported vehicles—

even as Apple is emerging as a competitor in the autonomous car market. Globalization further intensifies and complicates the competition for customers. Plummeting communication costs and diffused manufacturing capabilities permit the entry of hordes of low-cost competitors into many industries. As emerging market firms build their capabilities, they expand their global reach. Some foresee a world where companies from every part of the world compete with each other in every market around the world. Products and services flow from many locations to many destinations, and firms that do not solidify value leadership will soon find customers being enticed away by competitors that were not even on their competitive radars.

Adapting to Changing Market Realities

Given changing market boundaries, it is essential that companies be open to adapting their strategies over time. The balance between strategic stubbornness, in which the company is too wedded to its current strategy, and strategic drift, in which the company is too easily pulled off