You’re holding a guide to the world’s best business models. Use it to inspire your own portfolio of new ideas and reinventions. Design a culture of innovation and transformation to become...

The Invincible Company

strategyzer.com/invincible

Written by
Alex Osterwalder
Yves Pigneur
Fred Etienoble
Alan Smith

Designed by
Chris White
Trish Papadakos

WILEY
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Thanks,
Alex, Alan, Yves, Fred, Lucy, Chris & Trish
The Invincible Company

An organization that constantly reinvents itself before it becomes obsolete. The Invincible Company explores the future, while excelling at exploiting the present. It cultivates an innovation and execution culture that live in harmony under the same roof. It competes on superior business models and transcends traditional industry boundaries.
To stay ahead of everybody else and beat disruption you need to constantly reinvent yourself. Business Models expire faster than ever before and you don’t want to become obsolete alongside their decline. Competition increasingly comes from unexpected places like insurgent startups in addition to traditional incumbent rivals. Invincible Companies constantly reinvent who they are and where and how they compete in order to stay relevant and ahead.

It is increasingly a rat race to compete on new products, services, price and technologies alone. Leave competitors behind and maximize market opportunities, new customer needs and emerging technologies by embedding them in superior business models. Design, test, and build superior business models that disrupt others and are hard to disrupt.

The most successful organizations aren’t confined by industry boundaries or industry forces. In fact, they often crush industry boundaries and disrupt others. Their business model or portfolio of businesses is not the result of the area they work in, it comes from an organization that constantly explores new ways to create value around market opportunities.
For Society
Small and large companies that constantly reinvent themselves have an enormously positive impact on society. They provide economic growth and potentially game-changing innovations. The best of them put environmental and societal impact at the center of their endeavors to change the world for the better. On the other hand, the decline or death of companies can be devastating for cities and entire regions that will suffer from economic decline.

For Customers
Companies that constantly innovate and explore new business models, constantly create new and better value propositions at more attractive prices. Some innovations may be banal and just lead to more consumption. Yet, many will create substantial value for customers in the form of convenience, entertainment, wellbeing, and fulfilment.

For the Team
Invincible companies thrive over centuries and provide long term job security, while others that fail to reinvent themselves have to let go of thousands of employees. Invincible companies provide a home for execution and innovation talent alike and they feature world class organizational structures and processes that are fit for the challenges of the 21st century.

For Owners
Owners of Invincible Companies benefit from long term growth, reduced disruption risk, and the attraction of world class execution and innovation talent. Invincible Companies thrive over the long term, because they harvest the fruits of managing the present, while already sowing the seeds for tomorrow’s business. Their ability to exploit and explore simultaneously substantially reduces the risk of disruption and obsolescence and attract the best talent.

…and create more value
From Business Model Generation to Invincible Company

The Invincible Company is the fourth in the series of Strategyzer books. It complements the previous books and addresses a number of jobs-to-be-done for innovation teams, entrepreneurs, and senior leaders who manage entire organizations.

The new content is based on what we’ve learned from working with leading organizations around the world and from studying the world’s few Invincible Companies.

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As a business leader you establish the conditions to keep your organization humming and growing. You need transparency to understand which parts of your business have further potential to grow, which parts need renovation, and which parts are at substantial risk of disruption. You need to understand which initiatives have the potential to define tomorrow’s business. You aim to make sound investments in the future, while consciously managing risk.

How to Read this Book

As an innovation leader and team you help your organization de-risk ideas that keep it growing and improving. You put the tools, processes, and metrics in place that help manage innovation. You understand how to enhance innovation opportunities by embedding them in sound business models in order to disrupt entire arenas or renovate your company’s declining business models.

Innovation Leader and Teams

As an entrepreneur your only goal is to de-risk your idea and turn it into a real business. You understand that the hard part of entrepreneurship is to constantly test, and adapt your idea based on input from the real world. You know that superior business models — rather than technology or product innovation alone — will allow you to disrupt entire industries and build a more sustainable business.

Entrepreneurs

Create the conditions for success by establishing an INNOVATION CULTURE (p.106). Complement your core culture with a world class innovation culture.

Ask the right QUESTIONS FOR LEADERS (p.118) to help your teams explore new opportunities and compete on superior business models.

Establish the kind of ENTREPRENEURIAL LEADERSHIP & TEAM (p.310) that will help you succeed. Understand the key characteristics of winning teams.

Use the PATTERN LIBRARY (p.130) to enhance market opportunities, new technologies, and other innovations. Apply Business Model Patterns to design superior business models.

Help your senior leaders develop an INNOVATION CULTURE (p.294). Understand the key elements that foster innovation and blockers that prevent innovation.

Use the PORTFOLIO MAP (p.10) to create the transparency your senior leaders need to make sound investment decisions. Show where the opportunities are. Learn how to MANAGE (p.49) your business portfolio.

Use the EXPLORER MAP (p.14) to visualize which one of your ideas has the most potential and apply INNOVATION METRICS (p.88) to measure your progress from idea to business.

Use the PORTFOLIO MAP (p.10) to design, test, and MANAGE (p.49) your business portfolio. Ensure GUIDANCE to lead your teams in the right direction and transparency for everybody to manage the present and invest in the future.

Use the EXPLORE MAP (p.18) to visualize which one of your ideas has the most potential and apply INNOVATION METRICS (p.88) to measure your progress from idea to business.

Use the PATTERN LIBRARY (p.130) to enhance market opportunities, new technologies, and other innovations. Apply Business Model Patterns to design superior business models.
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The collection of existing business models a company exploits and the new business models it explores in order to avoid disruption and ensure longevity.

**Business Model Portfolio**
PORTFOLIO MAP
A strategic management tool to simultaneously visualize, analyze, and manage the business models you are improving and growing and the new business models you are searching for and testing.

PORTFOLIO DICHOTOMY
We believe great business model portfolios are actually composed of two distinct portfolios that exist in a somewhat different plane. The EXPLOIT portfolio contains existing businesses, value propositions, products, and services that you are managing and growing. The EXPLORE portfolio contains all your innovation projects, new business models, new value propositions, new products, and services that you are testing.

Chasing Invincibility
No company is invincible. Those that come closest are the ones that constantly reinvent themselves in the face of disruption. These companies manage a portfolio of existing business models that they exploit and continuously improve. Simultaneously, they manage a portfolio of new business models that they explore to systematically produce new growth engines.

Portfolio Management
Designing and maintaining a strong business model portfolio requires three main activities: visualize, analyze, manage.

VISUALIZE
The starting point for any discussion, meeting, or workshop about your business model portfolio is a shared language to visualize it. You need a shared understanding of which business models you have and which ones you are exploring.

ANALYZE
A shared understanding of your business model portfolio allows you to identify if you are at risk of disruption and if you are doing enough against it. You need to understand which of your business models are the most profitable, which ones are most at risk, and which ones you are exploring to ensure your future growth.

MANAGE
Good portfolio management includes taking action to design and maintain a balanced portfolio that protects you from disruption. This includes continuously growing and improving existing business models and protecting those that you understand will fail. It also includes exploring completely new business models that may offer significant new business models and services that you can exploit and grow.

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Good portfolio management includes taking action to design and maintain a balanced portfolio that protects you from disruption. This includes continuously growing and improving existing business models and protecting those that you understand will fail. It also includes exploring completely new business models that may offer significant new business models and services that you can exploit and grow.
Invincible companies do not prioritize exploitation over exploration. They are world-class at simultaneously managing the entire continuum from exploring new businesses to exploiting existing ones. They keep a culture of “day one,” maintaining a start-up spirit, while managing thousands or even hundreds of thousands of people and multibillion-dollar businesses. Increasingly, this ability to manage exploration and exploitation is not just limited to large established companies. It is also a matter of survival for SMEs and start-ups with the shortening lifespan of business models across industries.
The Portfolio Map
A strategic management tool to simultaneously visualize, analyze, and manage the business models you are improving and growing and the future business models you are searching for and testing.

**Explore Portfolio**
Your portfolio of innovation projects, new business models, new value propositions, new products and services, all mapped out in terms of Expected Return and Innovation Risk.

**Exploit Portfolio**
Your portfolio of existing businesses, value propositions, products and services, all mapped out in terms of Return and Death & Disruption Risk.

**Expected Return**
How lucrative a business area could be for the company if it turned out to be successful.

**Return**
How lucrative a business area is for the company.

**Innovation Risk**
The risk that a (convincing) business idea is going to fail. Risk is high when there is little evidence beyond slides and spreadsheets to support the success chances of an idea. Risk decreases with the amount of evidence that supports the desirability, feasibility, viability, and adaptability of a business idea.

**Death & Disruption Risk**
The risk that a business is going to die or get disrupted. Risk is high when a business is emerging and still vulnerable, or when a business is under threat of disruption from technology, competition, regulatory changes, or other trends. Risk decreases with the moats protecting your business.
There are four types of innovation risks that might kill a business idea:

- **Desirability Risk**: Customers aren’t interested. The risk that the market a business is targeting is too small, that too few customers want the value proposition, or that the company can’t reach, acquire, and retain targeted customers.
- **Viability Risk**: We can’t earn enough money. The risk that a business can’t generate successful revenue streams, that customers are unwilling to pay (enough), or that the costs are too high to make a sustainable profit.
- **Adaptability Risk**: External factors are unfavorable. The risk that a business won’t be able to adapt to the competitive environment, technology, regulatory, social, or market trends, or that the macro environment is not favorable (lacking infrastructure, recession, etc.).
- **Feasibility Risk**: We can’t build and deliver. The risk that a business can’t manage, scale, or get access to key resources (technology, IP, brand, etc.), key activities, or key partners.

**Expected Return**

The financial potential (or impact) of a business idea if it is successful. You can pick how you define expected return according to your preferences. This may be profitability, revenue potential, growth potential, margins, or any other financial metric that allows you to evaluate the financial potential of an idea. Alternatively, you may focus on the social or environmental return, rather than the financial return.
Search and Pivot

The journey in the EXPLORE portfolio is one of search and pivot until you have enough evidence that a new business idea will work. The search for ideas, value propositions, and business models that will work consists of two main activities that continuously nourish each other:

**Test**

Testing is the activity of reducing the risk of pursuing ideas that look good in theory, but won’t work in reality. You fast fail by defining critical hypotheses, conducting rapid experiments, and learning from the evidence. The evidence may support or refute the value propositions and business models you are exploring.

**Business Design**

Design is the activity of turning vague ideas, market insights, and evidence from testing into concrete value propositions and solid business models. Good design involves the use of strong business model patterns to maximize returns and compete beyond product, price, and technology.
Bosch

To illustrate the Explore portfolio we use Bosch, the German multinational engineering and technology company founded in 1886. This illustration is based on anonymized data from the Bosch Accelerator Program between 2017 and 2019.

The Bosch Group employs 410,000 associates worldwide with annual sales of €78.5 billion (2018).¹

Bosch has four core business sectors: Mobility Solutions (hardware and software), Consumer Goods (household appliances and power tools), Industrial Technology (including drive and control), and Energy and Building Technology.

From Products and Technology to Business Models

Since its beginnings, Bosch has been a driving force in technological innovation. Its R&D led to successes such as the diesel injection pump and the antilock brake system (ABS).

In 2014, Bosch’s CEO, Volkmar Denner, sent out a communication to spur business model innovation. Bosch needed to maintain its technology and product focus but simultaneously turn more of its attention to new types of business models.

In 2015, Bosch created the Business Model Innovation Department to complement its innovation process with business model development capabilities. Bosch saw a need to create an ecosystem dedicated to exploring, nurturing and facilitating growth innovation, moving beyond product innovation.

Bosch Accelerator Program

As part of their service portfolio Bosch’s Business Model Innovation Department has created the Accelerator Program. Teams going through the program explore either a new idea or explore a concept originating in an existing business. The program teams perform a business model deep dive and refine, test, and adapt ideas systematically over the course of two phases.

The program management selects an initial cohort of 20–25 teams from all over the world that work together for 2–10 months. Teams receive an initial funding of €120,000 and get two months to test whether their business-model ideas can scale. Depending on the results, teams can obtain an additional €300,000 or more during Phase 2 of the program. With this additional funding, teams can test minimum viable products (MVPs) with customers and demonstrate the ability of the business model idea to scale profitably.

After the successful completion of the Bosch Accelerator Program, only the teams with the best evidence move on to the incubation phase.

Since 2017, Bosch has invested in more than 200 teams. From these teams, 70% refined their projects after the first investment round and 75% of the remaining teams stopped after the second. With this process, 15 teams have successfully transferred their projects to scale with follow-on funding. The Bosch Accelerator Program has become Bosch’s global standard for validating new business ideas with batches in Europe, Asia, North America, and South America.

“Bosch Accelerator Program has allowed Bosch to implement a fast, structured, and capital-efficient process for validating business models at scale and has led to the establishment of a Bosch-wide innovation portfolio.”

DR. UWE KIRSCHNER
VP Business Model Innovation, Bosch Management Consulting

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PORTFOLIO MANAGEMENT

Guidance

You need to provide a clear direction in order to design and maintain a strong portfolio. We call this strategic guidance and it consists of outlining your strategic direction, the required organizational culture, and the corporate image you would like to project to the outside world. Once you have defined this strategic portfolio guidance, you will have all you need to determine your portfolio actions.

Strategic Direction

Defines your aspirations for your organization. Here you define what kind of financial performance you hope to achieve, strategic directions you want to follow, what you want to do in the long-term (e.g., new technologies, markets, etc.), and what you want to explore and what not. Strategic direction is about defining what type of company you want to build or become.

Corporate Identity

 Defines the key behaviors people in your company need to exhibit in order to deliver on the strategic direction you outlined for your organization. Here you define which enablers you will put in place to facilitate the culture you want.

Organizational Culture

 Defines the external world you want to be perceived as. This includes customers, stakeholders, shareholders, etc. The external image should be aligned with your strategic direction and organizational culture.

Brand Image

 Defines how you want the outside world to perceive you. This includes customers, stakeholders, shareholders, etc. The external image should be aligned with your strategic direction and organizational culture.

Portfolio Guidance

Your strategic guidance provides a clear context for portfolio management. It helps you define the portfolio guidance for resource allocation and portfolio actions. Portfolio guidance provides explicit boundaries to understand where to focus, what not to focus on and what not to explore, or what to explore and what not to develop.

OVERALL GUIDANCE

 Defines...

 □ financial performance philosophy (e.g., safe dividends, growth performance, etc.)
 □ arenas to play in the long-term (e.g., technology, investments, business model shifts)
 □ strategic key resources and capabilities to develop (e.g., tech resources, business model foundations, etc.)

TRANSFER GUIDANCE

 Defines...

 □ governance of how explore projects will be integrated into existing profit and loss divisions or how new ones will be set up
 □ governance of how explore projects will be protected from being swallowed up by dominant established business models

EXPLORE GUIDANCE

 Defines...

 □ performance guidelines to prioritize explore projects (e.g., new markets, new technologies, etc.)
 □ exploration boundaries and strategic fit (e.g., new arenas or not, new business models or not, new technologies or not, etc.)
 □ key resources and capabilities to prioritize (e.g., tech resources, business model foundations, etc.)

EXPLOIT GUIDANCE

 Defines...

 □ short term financial performance targets
 □ business model improvement targets (e.g., technology investments, business model shifts)
 □ how to develop or improve value propositions for the existing portfolio

Adapted from The VCI (Vision-Culture-Image) model by M. Hatch and M. Schultz (2003)

Adapted from The VCI (Vision-Culture-Image) model by M. Hatch and M. Schultz (2003)
If we invest into **250** projects of $100K each, **A 162** will fail, **B 87** will find some success, and **C 1** will become a new growth engine.

### Return Distribution in U.S. Venture Capital 2004 - 2013

Statistics from early-stage venture capital investment show that the majority of early-stage investments won't return capital or will only provide small returns.

- 64.8% lose money
- 1 - 5x: 64.8% of investments lose money. That means the majority of projects invested in fail and don’t return the invested capital.

#### Lessons Learned

- **6 out of 10 investments** lose money.
- 32.1% of early-stage investments make some money, which means between 1 and 20 times the invested capital. 1.1% return 20 to 50 times the invested capital.

- **6 out of 1,000** are outliers and show large performance.

- Only a small fraction of early-stage investments break through to provide extraordinary results.

- **250** projects with **162** losses, **87** gains, and **1** return 20 to 50 times the invested capital.

### Lessons Learned

- **You can’t pick the winner** without investing in projects that will fail. The larger the return you expect, the more projects you need to invest small sums in.

- **Innovation Funnel**

- **Explore**

- **Death & Disruption Risk**

- **Mature Funding**

- **Metered Funding**

The traditional investment process of established corporations equips teams with a large budget upfront to implement a full project. This leads to large risky bets with unproven ideas. In innovation, you don’t know what will work.

In the start-up and venture world risk and uncertainty are acknowledged and investments are spread over a portfolio of projects. This is combined with metered funding that equips teams with capital over a series of rounds. Only ideas with traction are retained and get follow-up funding to continue.

In other words, a large number of ideas get small amounts of money to get started. Of all those ideas only those with sufficient traction and evidence get follow-up funding. Ideas that don’t work or project teams that don’t have it in them get weeded out.
## Project Scorecard

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### Opportunity

- **Overview:** We understand the financial potential of our idea.

### Risk Reduction - Desirability

- **Overview:** Our critical customer segments have the jobs, pains, and gains relevant for selling our value proposition.
- **Value Proposition:** Our value proposition resonates with our critical customer segments.
- **Channels:** We have found the best channel(s) to reach and acquire our critical customer segments.
- **Customer Relationships:** We have developed the right relationships to retain customers and repeatedly earn from them.

### Risk Reduction - Feasibility

- **Evidence & Confidence:** We have the right technologies and resources to create our value proposition.
- **Key Activities:** We have the right capabilities to handle the most critical activities for creating our value proposition.
- **Key Partners:** We have found the right key partners who are willing to work with us to create and deliver our value proposition.
- **Revenues:** We know how much our customers are willing to pay us and how they will pay.
- **Costs:** We know our costs for creating and delivering the value proposition.

### Risk Reduction - Adaptability

- **Evidence & Confidence:** Our idea/project is well positioned to succeed against established competitors and new emerging players.
- **Market Forces:** Our idea/project takes known and emerging market shifts into account.
- **Key Trends:** Our idea/project is well positioned to benefit from key technology, regulatory, cultural, and societal trends.
- **Macroeconomic Forces:** Our idea/project is adapted to known and emerging macroeconomic and infrastructure trends.
Patterns
Pattern Library

In the following pages we outline a pattern library that is split into two categories of patterns: invent patterns to enhance new ventures and shift patterns to substantially improve an established but deteriorating business model to make it more competitive.

Invent Patterns
Codify aspects of a superior business model. Each pattern helps you think through how to compete on a superior business model, beyond the traditional means of competition based on technology, product, service, or price. The best business models incorporate several patterns to outcompete others.

Shift Patterns
Codify the shift from one type of business model to another. Each pattern helps you think through how you could substantially improve your current business model by shifting it from a less competitive one to a more competitive one.

Explore

Exploit
The companies we portray in this section all started from a blank sheet. They built business models from scratch around a technology, market opportunity, or trend. They all disrupted an industry by applying powerful business model patterns unheard of in that industry.

**Greenfield**

Pattern

We highlight nine different invent patterns with 27 flavors that new ventures and established companies can apply to build better, more competitive business models. We describe each pattern so that you can make use of it as a reference library.

**Case Illustration**

Each case serves to highlight a pattern in action. We don’t outline the company’s entire business model — just show how it applied a particular pattern to build a more competitive business model. In reality, an entire business model might combine several patterns.
A radical change of who is targeted and how value is delivered.
**Market Explorers**

**Unlock Markets**

Develop innovative value propositions, that create, unleash, or unlock completely new, untapped, or underserved markets with large potential. Be a pioneer and unearth new revenue potential through market exploration.

**Trigger Question**

How could we tap into new, untapped, or underserved markets with large potential?

**Assessment Question**

How large and attractive is the untapped market potential we are going after?

*There is little untapped potential and the market is shrinking.*  
The market potential is large, not yet occupied, and growing.

---

**Visionaries** – Use imagination to see a large market potential where others don’t. Unleash growth by exploiting unproven needs that you satisfy with a new value proposition.  
**Examples:** Tesla, iPhone, Nintendo Wii  
**Trigger Question:** Which unproven needs of a large market might be worth exploring?

**Repurposers** – Find innovative ways to tap into proven market demand by repurposing existing technology and infrastructure that previously served other ends.  
**Examples:** M-Pesa, AWS  
**Trigger Question:** How could we repurpose an existing technology or infrastructure to unlock proven, but so far inaccessible, customer needs?

**Democratizers** – Find innovative ways to democratize access to products, services, and technologies that were previously only accessible to a small number of high-end customers.  
**Examples:** Sears, Azuri, M-Pesa, AWS  
**Trigger Question:** How could we unlock products, services, and technologies that are limited to a niche market and make them more widely available for a mass market?
Tesla Motors

In 2012 Tesla envisions a large untapped market (high-end electric vehicles) where nobody else sees one. With the Model S they create the right value proposition to unlock the opportunity.

Prior to Tesla, the market for electric vehicles was relatively insignificant and was served by utilitarian and unremarkable models. Tesla was the first car manufacturer to view the market for electric vehicles differently: Tesla saw a significant opportunity by focusing on performance and the high end of the market.

Tesla Motors

In 2012 Tesla envisions a large untapped market (high-end electric vehicles) where nobody else sees one. With the Model S they create the right value proposition to unlock the opportunity.

Prior to Tesla, the market for electric vehicles was relatively insignificant and was served by utilitarian and unremarkable models. Tesla was the first car manufacturer to view the market for electric vehicles differently: Tesla saw a significant opportunity by focusing on performance and the high end of the market.
Questions for leaders

**Market Explorers**

TRIGGER QUESTION: How could we tap into new, untapped, or underserved markets with large potential?

Assessment Question: How large and attractive is the untapped market potential we are going after?

-3 -2 -1 0 1 2 3

There is little untapped potential and the market is shrinking.
The market potential is large, not yet occupied, and growing.

**Channel Kings**

TRIGGER QUESTION: How could we increase market access and build strong and direct channels to our end customers?

Assessment Question: Do we have large-scale and, ideally, direct access to our end-customer?

-3 -2 -1 0 1 2 3

We have limited market access and depend on intermediaries to get our products and services to customers and interact with them.
We have large-scale market access and own the channel(s) and relationships with end-users of our products and services.

**Gravity Creators**

TRIGGER QUESTION: How could we make it difficult for customers to leave and increase switching costs in a positive way?

Assessment Question: How easy or difficult is it for our customers to leave or switch to another company?

-3 -2 -1 0 1 2 3

All our customers could theoretically leave us immediately without incurring direct or indirect switching costs.
Our customers are locked in for several years and they would incur significant direct and indirect switching costs if they left.
Backstage Disruption

A radical change in how value is created.
A radical change in how profits are made in terms of revenues and costs.
A business model shift describes an organization's transformation from a declining business model to a more competitive one. For example, the shift from product to service. However, in some contexts, the reverse shift, from service to product, might make just as much sense.
Shift Pattern Library

Value Proposition Shifts
- p. XXX From Product to Recurring Service
- p. XXX From Low-Tech to High-Tech
- p. XXX From Sales to Platform

Frontstage Driven Shifts
- p. XXX From Niche Market to Mass Market
- p. XXX From Low Touch to High Touch

Backstage Driven Shifts
- p. XXX From Dedicated Resources to Multi-Usage Resources
- p. XXX From Asset Heavy to Asset Light
- p. XXX From Closed to Open (Innovation)

Profit Formula Driven Shifts
- p. XXX From High Cost to Low Cost
- p. XXX From Transactional to Recurring Revenue
- p. XXX From Conventional to Contrarian
From Original Business Model...
The companies we portrayed in this section all started from an existing business model. This existing business model is often outdated and in decline and requires an overhaul.

Apply New Business Model Pattern
Twelve different shift patterns that established companies can apply to substantially improve and boost an existing business model are highlighted. We describe each pattern so that you can make use of it as a reference library.

...Shift to New Business Model
Each case serves to highlight a pattern in action. The company’s entire business model isn’t outlined, we just show how it applied a particular pattern to shift from an old business model to a new, more competitive business model. In reality, an entire business model has many more building blocks that we omit to focus on the shift.
Value Proposition Shifts

A radical shift of the value created for customers

From Product to Recurring Service

is the shift from manufacturing (and/or buying) and selling products toward providing a recurring service. Selling products on a transactional basis requires a continuous effort for every sale and it is often unpredictable. Recurring services require upfront customer acquisition costs that lead to recurring revenues. Revenues become more predictable and grow exponentially, because you build on top of a continuously growing base of customers.

STRATEGIC REFLECTION
How might we grow recurring and predictable revenues by providing a recurring service, rather than selling a product?

Upfront acquisition costs per customer might be higher, but revenues become more predictable and the lifetime value of customers often increases. Product and/or technology innovation can often provide the foundation for new services.

EXAMPLE
Hilti

A radical shift of the value created for customers
Hilti

Hilti shifts from selling high quality tools to selling tool fleet management services to construction companies, after a key customer requests a holistic tool management system to increase productivity.

In 2000, one of Hilti’s customers asked for a holistic tool management solution. That made Hilti realize that customers didn’t want to own tools, but always wanted their workers to work productively. Hilti began an initial pilot program for tool fleet management in Switzerland and eventually rolled out the service worldwide in 2003.

With tool fleet management, Hilti became more relevant to construction companies by reducing nonproductive time for workers and adding a gain of taking on more customer jobs (e.g. tool repair).

Hilti also discovered that customers were willing to lease more tools than they had ever purchased. Some even asked Hilti to include non-Hilti tools in the service to completely prevent nonproductive time due to broken tools.

When the 2008 financial crisis hit the construction sector, many stopped purchasing new equipment. Yet Hilti’s business model shift from a product to a recurring service allowed it to overcome the crisis and it has continued to grow since.

1. From Product to Recurring Service

2. From Product-Related Activities to Service Provisioning

3. From Sales Channel to Service Delivery Channels

4. From a Product to a Service Cost Structure

Hilti shifts from selling high quality tools to selling tool fleet management services to construction companies, after a key customer requests a holistic tool management system to increase productivity.

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1. From Product to Recurring Service

Managers of building companies have a lot more to worry about than just buying tools. Hilti recognizes this in 2000 and starts offering to track, repair, replace and upgrade the whole tool fleet for their clients. This increases their productivity by ensuring they always have the right tools, properly maintained and available at all times. Hilti allows customers to lease the tools through a monthly subscription rather than paying for them upfront – enabling predictability of costs for building company managers and recurring revenues for Hilti.

2. From Product-Related Activities to Service Provisioning

Hilti evolves its key activities from its core of manufacturing and sales to fleet management activities that enable tool tracking, repairing, replacement and upgrading.

3. From Sales Channel to Service Delivery Channels

Hilti’s cost structure adapts to this new service orientation with new fleet management costs. To date, this shift has added over CHF1 billion worth of receivable volume to Hilti’s balance sheet. Even customer acquisition costs (CAC) increase, due to the longer sales and contract- ing process with building company managers. The CAC, however, is now a one-time cost, leading to recurring revenues and opportunities for additional revenues with the long-term relationship.

4. From a Product to a Service Cost Structure

Hilti had 1.5 million tools under fleet management in 2015.

“[The big benefit of recurring service revenues helped us to stabilize our business during the global financial crisis]—A TIME WHEN MOST CONTRACTORS WOULDN'T PURCHASE NEW EQUIPMENT”

—DR. CHRISTOPH LOOS
CEO OF HILTI
Backstage Driven Shifts

A radical shift of how value is created
is the shift toward a more efficient activity and resource configuration in order to substantially decrease the cost structure and offer price-conscious customers a low-price value proposition. This shift allows for the conquering of new customer segments that might have not had access to such a value proposition previously.

**STRATEGIC REFLECTION**

Which new, price-conscious customer segment might we conquer with a low-price value proposition? How might we reconfigure activities and resources to disrupt our cost structure and make that low price possible?

**EXAMPLE**

Dow Corning

**From High Cost to Low Cost**

A radical change of how profits are made in terms of revenues and costs

**Profit Formula Driven Shifts**

From Transactional to Recurring Revenue

From Conventional to Contrarian

From High Cost to Low Cost

From Transactional to Recurring Revenue

From Conventional to Contrarian

Profit Formula Driven Shifts

A radical change of how profits are made in terms of revenues and costs
Questions for leaders

Value Proposition Shifts

How might we...

Product

To

Service

From

...shift to a business model built around a recurring service that provides predictable and recurring revenues?

To

...increase our life resources to create a new value proposition for a completely new customer segment? How might our life resources enable us to provide a better value proposition than competitors?

To

...leverage the strengths of our business model to use external R&D, IP and resources (outside-in) or share our core resources with outside partners (inside-out)? How might that help us create a competitive advantage, make us difficult to copy, or create barriers to market entry?

To

...focus on recurring customer jobs-to-be-done in order to create a high-value, high-price position with a long-term relationship and recurring revenue?

To

...create value for price-sensitive customer segments? How might we reconfigure activities and resources to disrupt our cost structure and make that low price possible?

Shift

How might we...

Frontstage Driven Shifts

From

To

Niche Market

Mass Market

...modify our value proposition, adopt our marketing and branding, and extend our reach to shift from a niche market to a mass market?

...create niche value propositions for a series of niche segments with specific needs? How would that affect our market- ing and branding and distribution strategy?

...become relevant and valuable to our end customers? How would we know if our value proposition to our direct customers (B2B) and consumers (B2C) to make that happen?

...use our B2C customer experience and relationships, resources, activities, and expertise, to create value for B2B customers and vice versa?

...create a high-touch experience, improve our value proposition, and increase our profits and revenues, while maintaining the advantages of standardization and scale?

...create or maintain customer value, while shifting from a high-touch to a low-touch experience? Which aspects of high-touch do customers not value as much as the price of providing them?

Backstage Driven Shifts

From

To

Dedicated Resources

Multi-usage Resources

...leverage technology activities or resources to transform our value proposition, radically modify our cost structure, or dramatically extend our reach?

...become relevant and valuable to our end customers? How would we know if our value proposition to our direct customers (B2B) and consumers (B2C) to make that happen?

...increase customer share of wallet and lifetime value of each customer and boost overall revenues?

...free up capital and energy from focusing on client-related activities?

...trim our business model by refocusing our resources and activities to create a low-cost model?

...increase our life resources to create a new value proposition for a completely new customer segment? How might our life resources enable us to provide a better value proposition than competitors?

...internalize R&D, IP and resources (inside-out) or share our core resources with outside partners (outside-in)? How might that help us create a competitive advantage, make us difficult to copy, or create barriers to market entry?

...allocate R&D or capital invested?

...make that low price possible?

...leverage our light assets like IP and brand to invest in heavy assets? How might that create or maintain customer value, while shifting from a high-touch to a low-touch experience? Which aspects of high-touch do customers not value as much as the price of providing them?

...create a new value proposition for a series of niche segments with specific needs? How would that affect our marketing and branding and distribution strategy?

...create a high-touch experience, improve our value proposition, and increase our profits and revenues, while maintaining the advantages of standardization and scale?

...create a competitive advantage by internalizing R&D, IP, resources, and activities? How might that create cost, knowledge, or profit efficiencies? How might we stop shifting R&D, IP, resources, and activities with outside partners?

...leverage technology activities or resources to transform our value proposition, radically modify our cost structure, or dramatically extend our reach?

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Your corporate identity defines who you want to be and sets the context for everything else. It allows you to specify the guidance that will shape your entire portfolio. Your portfolio is a reflection of who you are in terms of businesses you own (exploit), and who you are trying to become in terms of businesses you are exploring (explore).

In order to smoothly manage this type of dual portfolio you need to put in place a so-called ambidextrous culture that is world-class at both exploitation and exploitation. This entire chapter describes how to achieve that by eliminating blockers and implementing enablers that will facilitate your cultural transformation.
**The Culture Map**

Together with Dave Gray, Strategyzer developed the Culture Map as a tool to design better-performing companies. The Culture Map is a practical, simple, and visual tool to understand, design, test, and manage the corporate culture you want to bring to fruition in your organization. In this book, we use the Culture Map to map and design an innovation culture.

*“If you want to understand culture, you need to map it.”*  
Dave Gray  
Author and entrepreneur

**Outcomes**
The concrete positive or negative consequences resulting from people’s behavior.

**Behaviors**
How do individual and teams act or conduct themselves within the company? What do they do or say? How do they interact? What patterns do you notice?

**Enablers/Blockers**
The levers that lead to positive or negative behaviors inside your company. These could be formal policies, processes, and reward systems, or informal rituals and actions that influence people's behaviors and, ultimately, influence a company’s outcomes.
Invincible companies build a strong exploration and exploitation culture under the same roof. In this book we mainly outline how to build a strong exploration culture, since most companies already have a pretty strong exploitation culture. We believe there are three main levers that you can work on to create an exploration culture.

Designing an Exploration Culture
**Innovation Behaviors and Outcomes**

Invincible companies design great enablers and eliminate the blockers in each one of these three areas: leadership support, organizational design, and innovation practice. This leads to the following innovation behaviors that you can observe:

### Leadership Behavior

Leaders understand how innovation works and they invest a substantial amount of their time into innovation. They provide clear strategic guidance for innovation projects and they regularly review a company-wide exploit and explore portfolio. They are eager to explore new growth opportunities and they understand how the related risk is managed.

- **Innovators pursue ideas based on evidence from experiments, not their opinions or their boss’s opinions. Risk and uncertainty of ideas are systematically measured and projects start with cheap and quick experiments. Experiment time and costs increase with increasing evidence and decreasing uncertainty. People accumulate skills over years of practice and learn and grow from failures in any project.**

---

**Culture Map: Innovation Culture Blockers**

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Enablers / Blockers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inno &amp; growth, integral part of strategy</td>
<td>CEO spends 40%+ time on innovation</td>
</tr>
<tr>
<td>Innovation funnel reviewed every quarter</td>
<td>Innovation teams focused on innovation</td>
</tr>
<tr>
<td>Start with cheap experiments</td>
<td>People choose innovation as a career path</td>
</tr>
<tr>
<td>Systematic measurement of risk reduction</td>
<td>Systematic measurement of risk reduction</td>
</tr>
<tr>
<td>Resilient to change and disruption</td>
<td>People change information on an ofifice wall</td>
</tr>
<tr>
<td>Reduced innovation risk</td>
<td>Personal change is expected</td>
</tr>
<tr>
<td>Higher return on R&amp;D</td>
<td>People change information on an ofifice wall</td>
</tr>
<tr>
<td>New growth engines</td>
<td>People choose innovation as a career path</td>
</tr>
<tr>
<td>Inno on agenda of important meetings</td>
<td>Innovation teams focused on innovation</td>
</tr>
<tr>
<td>Nobody gets fired for experimenting</td>
<td>People choose innovation as a career path</td>
</tr>
</tbody>
</table>

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**Behaviors**

- **Leaders provide guidance for innovation.**
- **Eagerness to invent and pioneer.**
- **Innovators & executors collaborate.**
- **Ideas chosen based on evidence.**
- **People grow innovation skills over several projects.**

---

**Organizational Behavior**

In organizations with an exploration culture, nobody gets fired for experimenting with new growth opportunities that fit the strategy. You find innovation on the agenda of the most important meetings and people choose innovation as a career path. Innovators understand the constraints of leaders and managers of the existing business and they, in return, do their best to help innovators. Exploration and execution form a true partnership to manage the present and explore the future.
Innovation Tools and Process

Mastering the tools of innovation radically facilitates the search for new growth engines. We suggest a toolbox of integrated tools to shape, test, and grow ideas in your organization.

**Corporate Identity Triangle**
A strategic management framework to make your corporate identity explicit in order to define your portfolio guidance.

**Portfolio Guidance**
The guidelines that define what types of innovations you want to pursue. They make explicit what is “in” and what is “out”.

**Portfolio Map**
An analytical strategy tool to simultaneously visualize, analyze, and manage the business models you are improving and growing and future business models you are searching for and testing.

**The Culture Map**
A strategic management tool to help assess, design, implement, and transform a company’s (innovation) culture.

**Business Design**

**Business Environment Map**
A foresight and scanning tool to map the environment in which you conduct business. It captures the trends that might disrupt your organization or represent new opportunities for growth and transformation.

**Business Model Canvas**
A strategic management tool to make explicit how you create, deliver, and capture value. Used to innovate or existing business models, or to invent new ones. It serves as the foundation to identify hypotheses to test new business ideas.

**Value Proposition Canvas**
A product management tool to make explicit how you create value for customers. Used to assess and improve existing value propositions or to invent new ones. Serves as the foundation to identify customer and product/service hypotheses.

**Business Model Testing**
A product management tool to test your business hypotheses.

**Assumptions Map**
A tactical tool to identify the hypotheses you need to test first.

**Strategyzer Innovation Metrics**
A metrics system to measure the reduction of risk and uncertainty of new business ideas, visualize progress from idea to validated business case, and evaluate the disruption risk of a company’s business portfolio.

**The Team Alignment Map**
A project management tool to keep teams aligned over the course of an (innovation) project journey.

**Testing**
Strategyzer Innovation Metrics and Business Model Testing.
How ready are you to become an invincible company?

- Give your company a score from 0 to 5 for each area.
- Define which area you’d like to improve over the next 12 and 36 months.
- Eliminate the blockers and implement the enablers that will help you achieve your improvement goals.

### Leadership Support

<table>
<thead>
<tr>
<th>Strategic Guidance</th>
<th>Resource Allocation</th>
<th>Portfolio Management</th>
<th>Legitimacy and Power</th>
<th>Bridge to the Core</th>
<th>Rewards and Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEGINNER</td>
<td>Leadership does not provide explicit strategic guidance for innovation</td>
<td>Resources for innovation are bootstrapped or on an ad-hoc project basis</td>
<td>Leadership is mainly focused on improving the core business</td>
<td>Innovation projects have ad-hoc work and outside official channels</td>
<td>Innovation does not have a dedicated incentive system that differs from the core business</td>
</tr>
<tr>
<td>INTERMEDIATE</td>
<td>There is some strategic guidance for innovation but not everybody in the company knows it</td>
<td>Resources for innovation are available, but they are not substantial and not protected</td>
<td>We make some investments to explore the future and new business models, but it's not systematic</td>
<td>Innovation is effectively in the org chart, but lacks power and influence</td>
<td>We have some incentives in place to encourage innovation and reward new value creation</td>
</tr>
<tr>
<td>WORLD CLASS</td>
<td>Leadership provides strategic innovation guidance at important meetings and everybody knows it</td>
<td>Resources for innovation are institutionalized and leaders commit at least 50% of their time to innovation</td>
<td>Leadership is eager to pioneer and invest in a large innovation pipeline of small bets of which the best get follow-up investments</td>
<td>Innovations are at the very tip of the org chart and has power and influence</td>
<td>Innovation has a dedicated incentive system that rewards experimentation and new value creation</td>
</tr>
</tbody>
</table>

### Organizational Design

<table>
<thead>
<tr>
<th>Innovation Practice</th>
<th>Innovation Tools</th>
<th>Process Management</th>
<th>Innovation Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEGINNER</td>
<td>We do not use business model, lean startup, or design thinking tools for innovation.</td>
<td>Our processes are linear and require detailed business plans with financial projections.</td>
<td>We don’t hire for innovation skills and experience and don’t develop them</td>
</tr>
<tr>
<td>INTERMEDIATE</td>
<td>Business model, lean startup, or design thinking tools are used in pockets of the organization.</td>
<td>We occasionally use iterative processes and systematic business experiments to test business ideas</td>
<td>We occasionally hire experienced innovation talent and have some specialized staff in innovation</td>
</tr>
<tr>
<td>WORLD CLASS</td>
<td>Business model, lean startup, or design thinking tools are widely adopted and mastered</td>
<td>Our processes are optimized for innovation and we systematically measure the reduction of risk in new ideas</td>
<td>We hire and develop world-class innovation talent with extensive experience across the organization</td>
</tr>
</tbody>
</table>
AUTHOR
Alex Osterwalder
Founder, Speaker, Business Thinker

Alex is a leading author, entrepreneur and in-demand speaker whose work has changed the way established companies do business and how new ventures get started. Ranked No. 4 of the top 50 management thinkers worldwide Alex also holds the Thinkers50 Strategic Award. Together with Yves Pigneur he invented the Business Model Canvas, Value Proposition Canvas, and Business Portfolio Map—practical tools that are trusted by millions of business practitioners.

@AlexOsterwalder
strategyzer.com/blog

COAUTHOR
Yves Pigneur
Professor, Business Thinker

Yves is a professor at the University of Lausanne since 1984, and has held visiting professorships at Georgia State University, University of British Columbia, National University of Singapore, and HEC Montreal. Together with Alex Osterwalder, he invented the Business Model Canvas and co-authored the international bestselling books, Business Model Generation and Value Proposition Design. Yves and Alex are ranked No. 4 among the Thinkers50’s Most Influential Management Thinkers in the world and hold the Thinkers50 Strategic Award.

@YvesPigneur

COAUTHOR
Fred Etiemble
Executive Advisor, Implementer

Fred is an executive advisor on strategy and innovation. He works with courageous leaders on how to develop an innovation culture, explore new growth engines, and transform their businesses. He has been working with or in large organizations for more than 25 years and knows their challenges from the inside. Fred co-creates tools and methodologies for strategy and innovation with other business thinkers and facilitates regular trainings on how to use them in Europe and Asia. Fred has been an Associate at Strategyzer since 2017.

tredericetiemble.com

COAUTHOR
Alan Smith
Founder, Explorer, Designer

Alan uses his curiosity and creativity to ask questions and turn the answers into simple, visual, practical tools. He believes that the right tools give people confidence to aim high and build big meaningful things. He cofounded Strategyzer with Alex Osterwalder, where he works with an inspired team to build great products from the strategist’s books, tools, and services are used by leading companies around the world.

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strategyzer.com

DESIGNER
Chris White
Designer, Art Director

Chris is a multidisciplinary designer who lives in Toronto. He has spent his time working on a number of business publications in various roles, most recently as Assistant Art Director at The Globe and Mail, focusing on presentation design for both print and online stories. He has collaborated with Yves on a number of projects and is currently collaborating on with the Strategyzer team.

DESIGNER
Trish Papadakos
Designer, Photographer, Creator

Trish holds a Masters in Design from Central St. Martin in London and a Bachelor of Design from the York Sheridan Joint Program in Toronto. She has taught design at her alma mater, worked with award-winning agencies, launched several startups and has been working with Strategyzer for the fifth time with Strategyzer.

@trishpapadakos

CONTENT LEAD
Lucy Luo
Advisor, Problem Solver

Lucy is an innovation advisor to organizations large and small, helping them ideate and launch new products to seek breakthrough growth. She specializes in working with founders to develop and implement their innovation strategies as well as early stage startups across Europe and Asia. Lucy has a passion for addressing social and sustainability challenges, through the use of innovation tools and has worked with a number of not for profit and social enterprise organizations such as the United Nations, the Atlantic Council, and World Economic Forum Global Shapers.

lucylaocom
Strategyzer uses the best of technology and coaching to support your transformation and growth challenges.

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- Mastering value propositions
- Mastering business models
- Mastering business testing
- Mastering culture
- Mastering team alignment

Create Growth
Systematize and scale your growth efforts, innovation culture, and business portfolio.

- Innovation culture readiness assessment
- Growth strategy
- Growth funnel design and implementation
- Innovation management
- Coaching
- Innovation metrics
If you like this sample material and wish to purchase the book, please visit www.strategyzer.com/books to get your copy.

Thanks!
This handbook features the leadership toolkit decision makers, innovators and entrepreneurs need in order to build The Invincible Company.

**Strategic Guidance**
Decide where to compete and what strategic decisions are required. Build a disruption-proof business.

**Business Portfolio**
Manage your portfolio of new ideas and business model improvements with the Portfolio Map. Build a solid innovation funnel to constantly reinvent your business(es), while measuring and reducing risk and uncertainty.

**Innovation Culture**
Assess your innovation readiness and build a world class innovation culture with the Culture Map.

**Business Model Patterns**
Compete with superior business models—not just product, service, technology, and price.

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