

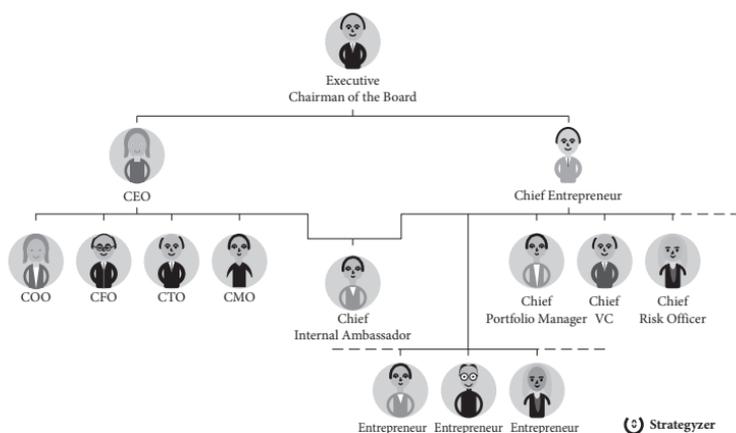
# From Alex Osterwalder and Yves Pigneur

*Dear CEO,*

A recent McKinsey study (McKinsey Global Innovation Survey) shows that 80 per cent of your CEO peers think that their current business model is at risk. The research also shows that a mere 6 per cent of your executives are satisfied with the innovation process in your organization.

You have been excellent at executing and improving your proven and successful business models. But as the research above shows, you have not yet found the answer to inventing entirely new business models, value propositions and growth engines.

In fact, managing the present is taking oxygen away from inventing the future. To prevent this from happening, you need a powerful Chief Entrepreneur to focus on the future while you focus on the present. You need to give these entrepreneurs prestige and power and a space for new ideas to flourish and thrive. And you need to change the way your organization is structured so it can systematically churn out new growth engines. Anything less than this is innovation theatre, and that's just not enough.



## The leadership challenge: Simultaneously manage the present and invent the future

You're likely to be in your current position because you are world class at managing and growing the company's known business model. However, it's no longer enough to 'only' be world class at execution. We like to say that business models and value propositions expire like a yoghurt in the fridge. The reality is that business models are expiring faster than ever before. The likelihood of a CEO managing a single business model through his or her tenure no longer exists. You have to also invent the future, which will require systematically and continuously inventing new business models. You not only have to be world class at executing and improving your current business model, but you also have to be world class at searching and inventing new business models for the future.

That's the real leadership challenge.

Innovation today is about exploiting market opportunities with new business models and value propositions. This does not mean pumping more money into R&D. Product and technology innovation – classic R&D – is not enough to keep you relevant. We can point to businesses like Kodak, Nokia and Blackberry as warning signs of innovative technology companies that went bust. Instead, you have to allocate a percentage of your R&D budget to the exploration of business models and value propositions.

You would have to be schizophrenic, and have more than twenty-four hours in the day, to be world class at both jobs. In order to excel at both, you need a powerful person skilled at execution who focuses on the present, and a powerful person skilled at entrepreneurship who focuses on inventing the future. You need to create an innovation engine that will function alongside your current business. This is a whole new organizational chart of people and skills led at the top by a Chief Entrepreneur.

This 'ambidextrous culture' is how you will survive in the twenty-first century.

## **What does an innovation engine do?**

Your innovation engine is a home for the entrepreneurs inside your business. It's where new growth engines are manufactured and it's managed by a Chief Entrepreneur. It's a space where

new business ideas can flourish and thrive. It's a space for new ideas that are very different, or potentially in conflict, from the established business model.

Your innovation engine is not a space where you write business plans for new ideas. Your main goal is to decrease the risk and uncertainty around new ideas. It's a space where you prototype and test new business models and value propositions, where you experiment and gather evidence as cheaply and quickly as possible by getting out the building with methodologies like Lean Startup and Customer Discovery.

It's a myth that innovation is extremely risky and costly – in fact, innovation is only an expensive gamble when you do it wrong. Today the knowledge, tools and processes exist to systematically reduce the market risk inherent to new ideas, business models and value propositions.

The use of visual and practical tools like the Business Model and Value Proposition Canvas will help you shape, prototype and test new business ideas systematically – similar to how architects design new buildings. These tools encourage teams to design quick and rough prototypes that can be tested on customers immediately for fast feedback and learning.

## **The challenge has changed, and so the organization needs to change**

The challenge is that companies need to constantly churn out new business models. Not just new business ideas – but entirely

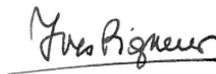
new growth engines year over year. This is a crucial turning point for twenty-first-century organizations, and it requires a new organizational model to address the challenge of constantly churning out new growth engines.

Do you have the organizational structures in place to be world class at executing, but also at churning out new growth engines? On the one hand, your execution engine will need to be world class at managing factories and tolerating zero failure; on the other hand, your innovation engine will need to be world class at experimenting, failing and learning to shape new ideas.

Lastly, your innovation engine will need help from your execution engine – we cannot stress this enough. You need to give entrepreneurs the advantages of a large company. You have to give them access to existing brand credibility, existing customers, existing resources and assets that can be powerful for the innovation engine's exploration of new growth engines. This is what distinguishes internal ventures from start-ups.

Very few companies are good at this ambidextrous culture, but this is changing. Companies are slowly and steadily acting in the face of business model disruption. This is going to be a difficult journey, but you are not alone in this challenge. The truth is, there's never going to be a right time to start. If you don't want to end up like Kodak, Nokia, or Blackberry, then you have to start now.

Sincerely,



**Alexander Osterwalder and Yves Pigneur**



Winners of the 2015 Thinkers50 Strategy Award, **Alex Osterwalder** and **Yves Pigneur** are authors of the international bestseller *Business Model Generation: A Handbook for Visionaries, Gamechangers and Challengers* (Wiley, 2010).



Osterwalder and Pigneur have followed up with a string of other books, including *Value Proposition Design: How to Create Products and Services Customers*

*Want and Business Model You: A One-Page Model for Reinventing Your Career*. They are Thinkers50 ranked thinkers.