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## **SEIZING THE WHITE SPACE**

**Business Model Innovation For Growth and Renewal**

**By**

**Mark W. Johnson**

**New Book Offers Road Map for Business Model Innovation that Will Seize the White Space of Opportunity to Help Companies Achieve Transformative Growth and Renewal.**

“Can a young company make the Fortune 500 list? Business model innovation is now the most proven route and *Seizing the White Space* is the bible on how your firm can do it.”

—Scott Cook, Founder and Chairman, Intuit

*White Space*. What is it? More important, how can you seize it and make it work for your company? The fertile ground of opportunity for transformative growth and renewal existing outside your company’s usual way of working, white space is where you can orchestrate game-changing moves that will break open your existing market, create a whole new market, or transform entire industries in today’s turbulent global business

environment. Using business model innovation as the conduit to seizing this often elusive white space, you can translate this immense promise into action, leading your company to the next level of prosperity.

Creating a playbook for executing leaps into the white space, Mark Johnson, Chairman of the innovation consultancy Innosight, has written **SEIZING THE WHITE SPACE: Business Model Innovation for Growth and Renewal** (Harvard Business School Press; February 2010; hardcover). “The chance to seize a piece of white space presents a tantalizing opportunity,” he says. “Success here can bring the game-changing, transformational growth or renewal that so many business leaders seek.”

**SEIZING THE WHITE SPACE** prescribes a structured process for designing new business models and developing them into profitable enterprises, providing a set of clear steps, key tools, and practical solutions to the implementation and managerial the challenges that inevitably arise on the road to building something new. Going one step further, it codifies learning into a process that companies of all kinds can use to achieve transformative growth and renewal.

To venture into the white space, you will need to leave the comfort of your core business platform and innovate your business model, or build an entirely new one. Occasionally, a visionary leader -- a Jeff Bezos of Amazon or a Steve Jobs of Apple -- intuitively understands what that takes. But for the majority of us who need an explicit design and manageable process to get the job done, Johnson distills the four interdependent elements of any successful business model -- customer value proposition (CVP,) profit formula, key resources, and key processes -- into a clearly defined business model framework. With this blueprint for diagramming your existing core business model and building new ones, you can confidently step into the low-knowledge and high-assumption environment of your company’s white space in search of new possibilities for innovation, transformative growth, and renewal.

The term *white space* is hardly new, but Johnson makes its role in strategy

formulation clear with a key insight – white space is relative—that is, one company’s white space is another’s home turf. What’s more, for each company, white space is a continuum: There is the *white space within*, where there lie important, but unsatisfied jobs-to-be-done for customers in your existing markets. In the *white space beyond*, unserved new markets languish untapped due to barriers to consumption. Finally, in the *white space between*, where tectonic forces of political, technological, social, or regulatory upheaval have created the highest states of uncertainty, there are also opportunities for transformative growth through new business models uniquely suited to the radically altered terrain.

Delving deeply into the success stories of companies such as Apple, Whole Foods, Amazon, and India’s leading carmaker Tata Motors, Johnson illustrates how used they business model innovation to make the leap and conquer the white space while achieving growth and renewal in industry-changing ways.

Ready to make it happen?

In **SEIZING THE WHITE SPACE**, you can learn how to make business model innovation a managed process and a more predictable discipline. The book offers essential truths, patterns, and best practices to arrive at a thorough and systematic approach to unlocking transformative growth. A clearly defined business model design and implementation process can bring real structure and predictability to seizing the white space. By developing external processes to help unlock internal creativity, you can greatly enhance the success of forays into the unknown.

To build your company to transform you must pursue your vision unafraid of white space. To create new growth, bring transformative change, and renewal, you must be bold enough to break industry rules, change the game, and seize the white space through business model innovation.

### **About the Author**

**Mark Johnson** is Co-founder and Chairman of Innosight, an innovation-based consulting, research, and executive-training firm focused on helping companies and institutions

innovate for new growth and transformation. He cofounded the firm with Harvard Business School professor and best-selling author Clayton M. Christensen. His consultancy includes a broad range of Global 1000 companies in such industries as consumer packaged goods, health care, enterprise IT, energy, automotive, and aerospace/defense. He is also coauthor of *The Innovator's Guide to Growth*.

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**Advance Praise for**  
**SEIZING THE WHITE SPACE: Business Model Innovation For**  
**Growth and Renewal**

“Why can’t powerful, well-financed companies be as innovative as nimble start-ups? With Johnson’s book they can—it’s a realistic playbook that shows us how to get out of our own way and become as good at breakthrough innovation as we are at sustaining the core.”

—Alex Gorsky, Worldwide Chairman Medical Devices & Diagnostics, Johnson & Johnson

"Having led several significant organizational transformations over the years of my Navy career, I found Mark's book particularly on point. He is a truth pathfinder in the world of business thinking!"

—Admiral James Stavridis, U.S. Navy

“It’s not enough to create new products or services -- your organization must be ready to imagine and implement new business models to fully exploit many of them. Johnson has come up with a truly practical process for doing just that – taking the fear out of venturing into the unknown and opening up new territories of opportunity.”

—J.W. Marriott, Jr., Chairman and CEO, Marriott International

“The speed at which today’s economy is changing has drastically raised the importance of game changing transformation. *Seizing the White Space* is an important guide for business leaders seeking to understand how companies manage constant change while identifying and capitalizing on new ideas to stay ahead.”

—Victor K. Fung, Group Chairman, Li & Fung Group

“Most managers think the key to growth is developing new technologies and products. But often this is not so. To unlock the next wave of growth, companies must embed these innovations in disruptive new business models. That’s what Mark Johnson’s book so convincingly demonstrates.”

—Clay Christensen, Robert and Jane Cizik Professor Business Administration, Harvard Business School, and author, *The Innovator’s Dilemma*

"Companies that introduce new business models to their industry are able to take advantage of enormous opportunities. In *Seizing the White Space*, Johnson gives businesses the critical tools they need to develop new ways of bringing value to customers—and to make those opportunities a reality."

—Reed Hastings, CEO, Netflix

“Raising the ambitions of companies and lenders is the key to making any business model transformation process work. Johnson provides unique examples and insights that will make you think in new ways. A must read.”

—Arkadi Kuhlmann, President and CEO ING Direct, and co-author, “The Orange Code”

"I know from my own experience how difficult it is to build a new business model within an established organization, where it is hard to shed the traditional mores and structures to effect real change. It would have been great to have Johnson's book – *Seizing the White Space* will be a valuable tool for anyone who wants to reshape their business."

—Bill Hambrecht, Chairman W.R. Hambrecht + Co.

"Bringing innovations successfully to market is as much about leadership as technical prowess. Mark Johnson has taken innovation out of the R&D lab and put it squarely where it belongs – in the executive suite. Any leader looking for growth from innovation will find new insights and practical tools in this book."

—Susan Marcinelli, Senior Vice President, Innovation and Leadership Development, Best Buy

## About the Author

### Mark Johnson

**Mark Johnson is Chairman and Co-founder of Innosight, a strategic innovation consulting and research firm focused on helping companies and institutions innovate for new growth and transformation. He cofounded the firm with Harvard Business School professor and best-selling author on innovation, Clayton M. Christensen.** He has consulted to Global 1000 and start-up companies in a wide range of industries—including health care, aerospace/defense, enterprise IT, energy, automotive, and consumer packaged goods—and has advised Singapore’s government on innovation and entrepreneurship.

Mark’s most recent work has focused on business model innovation, helping companies create and manage distinct new business models for new market growth and renewal. This work is the subject of the December 2008 *Harvard Business Review* article “Reinventing Your Business Model” and now the book *Seizing the White Space: Business Model Innovation For Growth and Renewal*. He is also coauthor of *The Innovator’s Guide to Growth*.

Mark is a much-requested authority and speaker on innovation, transformation, and business model change and has been a featured speaker at *Fortune* and *Forbes* innovation and leadership conferences and at other various industry conferences and forums.

Prior to cofounding Innosight, Mark was a consultant at Booz Allen Hamilton, where he advised clients on managing innovation and comprehensive change programs. Prior to Booz Allen Hamilton, he was a commissioned officer in the United States Navy.

Mark received his MBA from the Harvard Business School. He received a MS in civil engineering (concentration in aerospace structures) and engineering mechanics from Columbia University and a BS in aerospace engineering from the United States Naval Academy. He currently serves on the board of the US Naval Institute.

## **Company Success Stories in**

### **SEIZING THE WHITE SPACE: Business Model Innovation For Growth and Renewal**

#### **Apple**

At the end of the millennium, the potential in Apple's core market was tapped out. Once a major player in the personal computer market, the company had watched its market share fall from 20% to less than 3% in the 1990s. Even after the return of cofounder Steve Jobs, it followed a well-trodden path of successive product innovation, but Apple needed to transform to become a leader again.

In 2001, Apple introduced the iPod, the innovative product that revolutionized the way we consume portable entertainment, created an entirely new market, and set Apple on the road to exponential growth. But it was not the first company to develop a digital music player. So why did Apple's iPod revolutionize the music world?

Apple's genius lay in the realization that making it easy and convenient to download music to the iPod through the iTunes store would fuel demand for its high-priced music player. Apple essentially gave away low-margin, consumable music to lock in purchase of the iPod, whose high margins returned high profits. Apple did something far smarter than wrap a good technology in a snazzy design; it wrapped a good technology in a great business model, defining value in a new way for both the customer and the company. In just three years, the iPod/iTunes combination became a \$10 billion product accounting for nearly 50% of the company's revenue.

Further, its digital platform became the basis of a newly defined Apple brand that made the company a leader in the world of lifestyle media. Its new business model has paved the way for subsequent moves into video content and convergent media. The iPod and iTunes represented a huge leap into Apple's white space, allowing it to achieve astounding transformational growth.

#### **Amazon**

The continued growth of Internet pioneer Amazon (from about \$4 billion in 2002 to nearly \$11 billion by 2007) reflects its unabashed embrace of the white space. Amazon survived the dotcom boom and bust in large part because it built an innovative business model around a market-changing profit formula radical to the staid book industry. Combining Internet technology with just-in-time supply chain management, Amazon turned inventory over much faster and reduced overhead, dramatically improving the speed with which assets moved through its system, thereby maximizing the profit from its working capital. And it shifted the cash flow from a seller-financed model to a buyer-financed one (since on-line buyers send in their money before they get their books).

Amazon then expanded its product offerings to include easily shippable consumer goods, growing its core retail operations into near adjacencies through various extensions of its expertise and infrastructure.

Just a few years into its growth, the company seized its *white space within* with a new value proposition, offering up used books through a buyer/seller brokerage model. It moved into the *white space beyond* to serve a different customer, third-party sellers, transforming its business from direct sales to sales *and* service, shifting to a commission-based centralized aggregation of many sellers.

In 2000, an IT expansion effort uncovered a new customer—the IT community. To serve this new customer required different processes, resources, and a different profit formula – in short, a new business model. Amazon launched a web services platform offering low-cost, reliable, easy-to-use online services for other websites and client-side applications for web developers. Within five years, bandwidth used by these services grew dramatically and is now the seventh largest site in the world.

In 2007, Amazon introduced the Kindle e-book reader and a business model that was not only foreign to the DNA of Amazon but potentially disruptive to the entire publishing industry. It wrapped this technology in an iTunes-type digital media platform that seamlessly integrated both transaction-based content delivery and a subscription model for periodical content. It partnered with content producers, creating an open back-end that allowed independent publishers to create content specifically for the Kindle. In its first year, Kindle sold better than 500,000 units with high customer satisfaction. Amazon, at its core, is built to transform, pursuing its vision unafraid of white space, business model innovation, or transformation in its pursuit of renewal. When it sees opportunities to serve new customers, or existing customers in new ways, it imagines and builds a new business model to seize them with a series of evolutions, innovations, and transformations.

### **Whole Foods Market**

A small chain of health food stores, Whole Foods catered to the niche market of naturopathic-conscious consumers. To grow, CEO John Mackey envisioned a business model that would enable the company to organize local organic farmers into a national distribution network to provide a superior grade of organic perishables to a far larger group of food aficionados and green buyers, attracting them to Whole Foods' core products.

Reaching out from its “crunchy granola” core, Whole Foods defined a new customer value proposition that embodied a focused, complementary set of jobs to serve those high-end customers. To deliver it profitably, the company inverted the establish supermarket model and fundamentally shifted the economics of the grocery business. It relied not on volume but on higher prices and margins on the customer's desirable perishables – produce, meats, baked goods, and prepared foods. To sell customers on the higher prices it required to deliver the customer value proposition it made the shopping experience more pleasurable. By considering customer experience an integral part of its CVP and then devising a profit formula to satisfy it, Whole Foods found a way to serve important jobs-to-be-done at the high end.

By innovating the traditional supermarket supply chain process to serve its profit formula, Whole Foods achieved transformative growth in its white space. As a result, the retailer grew to manage 10,000 mainly small regional companies. The decentralized nature of the business model enables stores to operate as independent business units, but still enjoy the benefits of being part of a distribution network.

### **Tata Motors**

When Ratan Tata, president and chairman of Indian carmaker Tata Motors, saw the danger in entire families riding atop a single motor scooter to travel the crowded streets of New Delhi, he saw a national problem and recognized a critical job-to-be-done. Knowing that many families could not afford a safer alternative, he saw the need for a lower cost offering -- an automobile that could be profitably sold for the price of a scooter. Such a powerful CVP had the potential to reach tens of millions of “non-consumers” who could not yet afford to participate in the car-buying market.

Within a month of the Tata Nano becoming available for pre-sale, Tata’s website garnered 30 million hits, showrooms welcomed 1.4 million visitors, and buyers put down deposits of as much as 80% on more than 200,000 cars (17% of the annual new car market in India).

Tata had to sell the Nano for one lakh (about US \$2,000) in order to deliver its CVP to scooter families; a higher price point would be prohibitive to low-earning consumers. To build a successful profit formula, he worked backward from the offering price. He knew that gross margins would have to be drastically reduced but that the company could still remain profitable through the increase sales volume the low prices would command. The challenge to create a less expensive car forced Tata’s engineers to fundamentally rethink how they designed, manufactured, and distributed cars. They built it out of fewer parts, outsourced production, and reconsidered the car’s distribution strategy.

Tata Motors achieved its goals because Ratan Tata was able to articulate a clear, focused CVP upon which the company could craft a clear business model that delivered the Nano at the required price point via a radically different way of designing, manufacturing, distributing, and selling cars.

## The Path to Business Model Innovation from

### SEIZING THE WHITE SPACE: Business Model Innovation For Growth and Renewal

With a networked global economy, rapidly changing markets, technologies, and global trends adding increasing unpredictability to the pursuit of new growth for businesses, leaders and management need a solid platform for venturing into the unknown, but high-potential, territory of the white space.

Lots of business theorists have talked about “white space,” but Johnson makes an important advance in this thinking by viewing “white space” not as a place where no one in your industry is operating but as the place that a company can only go if it changes some part of its core activities – by developing new customer value propositions and/or innovative new ways to turn a profit. To do that, companies need to first understand their current core activities – that is their current business model. That will tell them what they can and can’t do in pursuit of new opportunities or in addressing new threats. Then they need a systematic process with which to conceive of, build, and implement new business models, when needed. This is called business model innovation.

The path to business model innovation consists of three basic steps:

1. **Understand** that success starts not by thinking about business models at all but rather by thinking about the opportunity to satisfy an unmet need for a real customer through a powerful new customer value proposition (CVP) based on a more externally focused approach.
2. **Construct** a full business model blueprint describing how your company will fulfill the well-defined CVP with a targeted offering in the real world and create a flexible profit formula, delivering a range of reasonable assumptions that can be tested and modified during the implementation stage. This will reveal the key steps of a structured implementation process to maximize the chance of white space success.
3. **Implement** the plan by systematically working out key resources and key processes, and integrating them in a powerful way that fully honors the definition of value articulated in the CVP and your profit formula. Implementation succeeds best when pursued in three stages:
  - **Incubation** – Identify assumptions most critical to the success of the proposition, then test early, test cheaply, and test often in a foothold market – adapting your model according to the lessons you learn. Creative problem solving and emergent planning skills are important during this phase of determining viability. The important thing here is to focus on profitability and keep expectations for revenue generation low.

- **Acceleration** – Here the focus is on refining and standardizing processes as well as developing the proper metrics and operating rules that will allow for successful repeatable execution of the model. Be prepared to continue to adjust as you move toward broader market adoption.
- **Transition** – Primarily for incumbent businesses, this is the stage in which you will need to determine whether your existing business can house the new model or whether a better path lies in creating a new business unit entirely to achieve sustained success in the new market.

Adapted from **SEIZING THE WHITE SPACE: Business Model Innovation For Growth and Renewal**, Harvard Business School Press, February, 2010.

## Questions & Answers for

### **SEIZING THE WHITE SPACE: Business Model Innovation For Growth and Renewal**

- **As enterprises are still reeling from the upheaval of the global financial crisis and the resulting recession, how can SEIZING THE WHITE SPACE guide them in not just sustaining their business but determining ways to achieve transformative growth and renewal during these uncertain times?**

When the recession recedes, it will likely leave a very different landscape in its wake, one in which overall demand may very well be lower than it was before the credit bubble burst. Will your company's current business model be suited to the new market conditions? The only way to tell is by having an explicit understanding of how your current model works and a managed process with which to create a new one if it's warranted. *Seizing the White Space* presents a business model framework and new model development process that will turn business model innovation into a predictable discipline, radically reducing the risks of venturing into the unknown. Tweaking the core business plan or integrating adjacencies are options in addressing new opportunities.

- **What are the pros and cons of taking this approach?**  
Successful companies do best what they already do, so opportunities that can be addressed with core competencies have a high rate of success, and no company should abandon them in a mindless pursuit of something new. That would be ignoring the power they have as incumbents.

But all markets mature and when that happens, a company seeking continued growth needs to explore opportunities that require a different way of working, very often ones that can't be addressed without accepting lower margins or radically reduced overhead costs. These are extremely hard for a company to do without a new business model that maps out a new way to turn a profit.

Such opportunities tend to start small and need time to develop, making them far more attractive to start-ups. But the wise company thinks of them as new vineyards whose wine will one day replace its present stock and so designates resources both for continuing the current harvest and planting the seeds of the next one.

- How can a company figure out when it has tapped out the potential of its core operating space and needs to venture into the White Space?**  
 The question implies an either/or approach, which is perhaps misleading. The issue isn't when to abandon your core space to venture into the unknown. The real question is how to plant the seeds of white space opportunities before the markets addressed by your core are tapped out.
- Please define the markets existing in the White Space Within, the White Space Beyond, and the White Space Between and how companies can seize these challenging opportunities?**  
 The white space is by definition the place where a company needs to operate with a different business model than it's currently using. The *white space within* contains such opportunities to fulfill important, unsatisfied jobs for existing or new customers within your existing markets. The *white space beyond* involves opportunities to create new markets by making products and services available to individuals for whom existing offerings are too expensive, too complicated, or too inaccessible. Opportunities (and very often imperatives) in the *white space between* are those created by seismic shifts in markets, technologies, or government policies.
- Of all the tectonic forces at work in the white space between--disruptive technology, social or political change, regulatory and economic -- you present the clean technology challenge as the largest and most intractable across the board for all industries. Why is this and what can be done about it?**  
 The global shift away from fossil fuels and toward clean and renewable energy will affect almost every industry and every consumer worldwide, changing consumption habits, manufacturing and distribution systems, financial models—indeed, the very way everyone on the planet lives. Changes in market demand, technological advances, and government policy are converging on this most pressing of global issues. So what's needed is a comprehensive business model innovation that takes into account all three sets of forces to make clean tech as convenient, affordable, and accessible as the current petroleum-based alternative.

Few organizations have far been able to rise to such a complicated a challenge. One company that's taking a comprehensive approach is Better Place, Shai Agassi's bid to create a complete electric-car infrastructure. Another is the government of Abu Dhabi, which is underwriting the construction of a clean tech city, Masdar, which may become the basis of a comprehensive clean tech technology cluster – the Silicon Valley of clean tech, if you will.

- In advising companies in their business model innovation efforts, you have created a language and framework, a sort of playbook for conquering the unknown. How does this new framework apply to the standard business model?**  
 Thought leaders in the past have offered numerous definitions of a business model. The late management guru Peter Drucker defined it implicitly when he

talked about “the theory of the business.” Management consultant and author Joan Magretta described business models as “stories that explain how enterprises work.” Other management theorists and practitioners have devised any number of frameworks, some of which focus purely on the economics of a business while others take an impossibly wide scope that includes almost every aspect of business strategy and organization. No one else to my knowledge squarely focuses on only those elements in the business system that are central to value’s creation and delivery and the way those elements work together to ensure or impede the overall success of the enterprise.

- **With the framework for embracing, designing, and implementing a new business platform hinging on a clearly defined and articulated customer value proposition (CVP,) what are the critical prerequisites to nailing new CVPs?**

Too often companies start with the question: “How can I get customers to buy my product (or service)?” What they should be asking is “Why should a customer want to buy it?” A great CVP identifies an important, unsatisfied consumer problem, or “job,” and then proposes a focused offering to do that job at a given price. So, before you can design a great CVP, you must first develop a comprehensive understanding of your target customer’s job-to-be-done. This is trickier than it sounds.

As Harvard Business School Professor Theodore Levitt first pointed out, customers don’t really buy products—they “hire” them to perform a particular task. He famously said that people don’t go to the hardware store to buy a drill, for instance; they go to buy a hole. The drill they purchase is the candidate hired to get that job done.

Over the last few decades, a lot of emphasis has been put on “customer needs” and “the voice of the customer.” But understanding a customer’s job-to-be-done is not the same as understanding a customer. Too often, “needs” are thought of only in relation to existing products and services – “What do you need my product to do?”. To develop new CVPs in the white space, you must stop trying to figure what kind of product people are trying to buy and instead work out what they are trying to get done that they haven’t been able to do satisfactorily.

- **Once a company has designed a new business model with a powerful CVP, what is the best approach to determining whether it will work when implementing it in the real world?**

A new business model should be thought of as an untested theory about how an offering that *might* be of value to a customer *could* be delivered in a profitable way. Like all untested theories, at the beginning it will be full of assumptions that could turn out to be wrong. So the prudent course is to test those assumptions, starting with the ones that are most critical to success, in as low-cost a way as

possible. This is what is meant by “discovery-driven planning” and “emergent strategy.” It’s actually the opposite of “let’s discover the strategy as we go along.” For a discovery-driven approach to work, you need to start with a theory specific enough to test.

The critical assumptions will depend on the model, of course, but generally speaking what you’re looking for is evidence that your offering will be profitable. Such tests should be conducted on a small scale in pilot operations in small, foothold markets. Once profitability is established, a steady path to growing in scale will give you time to work out the kinks in your processes, clearing the way for revenue growth. That’s why companies looking to seize their white space need to be impatient for profits but patient for growth.

- **Ultimately, how do you address the gamut of challenges -- from leadership’s fear of uncertainty and taking risks to internal managerial and structural threats -- that can either stop the leap into the White Space in its tracks or greatly diminish its full potential for success?**

The main reason most companies fail at new business creation is that they fear to act without an unambiguous motive to do so. Staffed with people trained to operate within the defined norms of their company and their industry, they shy away from moves that don’t immediately make sense within the context of their current operations. They resist venturing into the unknown territory of business model innovation when so much uncertainty clouds the path to success. Who knows what’s out there? And who is willing to risk his job to find out?

Occasionally, a visionary leader—a Jeff Bezos or a Steve Jobs—intuitively understands what it takes to innovate a business model or to build an entirely new one. The rest of us need an explicit framework and a manageable process to reduce the uncertainty and risk of venturing into the unknown. We need structure to unlock our creativity—a disciplined process that can spur us toward new ideas. The better we understand the structure of business models, the better we will be at creating them.