

# Change by (the Offer of a New) Meaning

*Innovating business models to support rich brand narratives: the role of  
dynamic capabilities*

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## ***ABSTRACT***

Social and cultural meanings, such as authenticity, heritage and local cultures, might play a crucial role in fostering innovation within firms. Changing the meaning of present offer creates new value propositions that ameliorate the competitive position of the firm. Such meaning based innovation process affects the way business models are configured in several ways, depending on the intensity of the innovation brought by new meanings. These innovation processes are supported and activated by dynamic capabilities which play different roles depending on the type of innovation brought by new meanings. These phenomena are investigated using a set of three exploratory case studies.

## **1. INTRODUCTION**

Innovation is regarded as a crucial aspect for company's growth by both practitioners and academics. Though the importance of innovation is clearly recognised by companies, they often show a narrow view of the different domains of innovation (Sawhney et al., 2011). In particular, innovation could take place in the domain of social and cultural meanings. The proposition of authenticity, heritage, local cultures, are all aspects that could be included in the design of innovative value propositions that foster changes at all the different levels of the organisation. Authenticity, heritage and local cultures are particularly relevant to the contemporary patterns of consumption in several markets, from food to fashion, from luxury to tourism. Such consumption patterns are characterised by the search for symbolic resources allowing customers to construct and define their own identities. Consumers are engaged in symbolic projects (Elliot and Davies, 2006) that use symbolic materials, such as brands, to configure new identities in a transformation process. The cultural meaning of brands does not originate in the marketing departments, but is rather placed in the culturally constituted world that involves the whole organisation and a whole set of actors and relationships that are located outside the organisation and its marketing efforts. Companies re-interpret this meaning and, together with other social pressures and phenomena, embed it in products, services and brands for individual acquisition and consumption. The re-interpretation of the meaning is the basis for a business model innovation, sustained by dynamic capabilities.

In particular, the authors concur with the assumption that this kind of innovation might affect the way business models are designed and requires the intervention of a specific set of (dynamic) capabilities to allow the organisation to adopt the new value proposition and implement it.

This paper assumes that the adoption of a rich cultural meaning as value proposition has an impact on the way business models are configured and key internal processes are designed. Authors aim at defining: a) the impact of an innovation in the meaning of a brand on existing business models; b) the relevance of this change in terms of business model; c) the typology and role of dynamic capabilities in fostering this innovation process based on rich brand identities and narratives.

## **2. THEORETICAL FRAMEWORK**

### *2.1 Business Model Innovation and Rich Brand Narratives*

Brand narratives are a result of the evolution of brands from “marketing products”, fully developed within the marketing departments, to “storytellers” of pre-existing, external values already embedded in society (McCracken, 1986; Goodyear, 1996). In this sense, brands become vehicles used by customers to move meanings for individual and collective purposes. This approach to branding turns brands into cultural objects that establish relationships with customers through narrative processes. Brands show complex identities and develop conversations with customers through a large and ever growing number of touch-points. All stakeholders contribute to the co-creation of the brand identity. Post-modern consumers seek a narrative upon which to base their identity. The role of customers is very active in the creation of brand meanings and they embrace conversations about the brand not only in touch-points controlled by the brand itself but also in groups and communities away from brand’s reach. Consumers are co-creating brand value and identity and, by doing so, they are tailoring the brand to individual and group needs. In this perspective, brands adopt and translate pre-existing, external values that are already embedded in society. By doing so brands become vehicles that customers can use to move meanings for their individual and collective purposes. Brands become cultural objects whose meaning and identities are co-created through the participation and involvement of customers, internal and external stakeholders, groups and communities. Brands tend to shape the whole organisation and its systems of communication and relationships as well as the way through which it creates value for the market. Goodyear (1996) defines this stage of brand evolution as “brand as company” stage.

The nature of business model innovation generated by the adoption of a value proposition based on rich narratives and culturally rooted meanings could be clustered into three separated

families, characterised by the intensity of the impact on present business model and the organisational implications underneath it:

- a) Business model evolution by brand repositioning based on heritage: while maintaining several aspects of present business model, the organisation defines its new value proposition by enriching present brand with new associations related to the mythical origins of the founder. This process of innovation through the reinterpretation of the past is common in fashion (e.g. Burberry and Gucci found renewed success through the reinterpretation of their roots) and luxury.
- b) Business model adaptation by brand focussing on local cultures, authenticity and craftsmanship as value proposition. Offering local products that represent local cultures and attitudes is a way of connecting customers to communities (either their own or new ones), to local roots and to develop a different perspective on the meaning of the products that are consumed. This value proposition requires a constant adaptation of many parts of the business model (e.g. supplier relationships, adaptation of messages to enable a full understanding of the value proposition in different cultural contexts, distribution network) to allow a constant and profitable growth while aligning with the changing environment (Saebi, 2015).
- c) Business model innovation by the revolution in the brand meanings associated to a product, a service or a category. The process of business model innovation affects many aspects of the existing business model and involves the reconfiguration of core activities and processes and, in many cases, the creation of new ones. In this sense, the radical modification of the meaning and usage of a product requires that the organisation modifies many aspects of the business model, from the selection of the intermediaries to the core services supporting the product to the role of new forms of influencers to support the new product narrative.

In all three categories of business model innovation, identifying the organisational conditions that allow the company to migrate from existing to future business model and create an adequate internal culture is crucial to a full understanding of the implications of “meaning based” value propositions. Dynamic capabilities are one of the key enabling factors for business model transformation driven by meaning-enriched value propositions.

## *2.2 Business model innovation and the role of dynamic capabilities*

Business model innovation has different forms depending on the need of the company to adapt to opportunities and threats that emerge from environmental changes. Different environmental

conditions need to be matched through different degrees of business model modification. In this context, the identification of the determinants of business model innovation over time is a crucial aspect (Saebi, 2015). Another critical issue is the identification of the different competencies that allow firms to operate in changing scenarios (Doz & Kosoner, 2010; Achtenhagen, Melin & Naldi, 2013).

Following recent works by Saebi (2015), it is possible to identify three archetypes of business model change that all require a modification of the current value proposition the firm:

- (i) Business model evolution such as the ones that occur during brand repositioning or other initiatives that are aimed at ameliorating the competitive situation of the firm within a given set of competitive rules.
- (ii) Business model adaptation that might take place when the firm grows through the adaptation of existing business model to local competitive or market situations.
- (iii) Business model reconfiguration occurs through radical innovation is brought into the market, reshaping customer preferences and changing the competitive conducts.

In contrast with Saebi (2015), who describes such archetypes as examples of business model change, it seems more appropriate to classify them as examples of business model innovation as they all imply a change in the value proposition of the firm and a modification of the business model components. When value proposition is not modified, business model changes are supported by fine tuning processes for a better standardisation, replication and maintenance of the existing business model.

The three different business model innovation archetypes could be described using several dimensions: (i) the expected output of the innovation process; (ii) the nature and scope of the changes in the business model components (both internal and external ones); (iii) the degree of novelty brought to the firm and the competitive environment; (iv) the frequency of change in business model related to the nature of the innovation process (Saebi, 2015; Robertson, Roberts & Porras, 1993). A more detailed representation of these dimensions in relationship to the different archetypes of business model innovation is depicted in Table 1.

Following the elaboration presented in Table 1, it is possible to describe the different business model innovation archetypes in a more detailed manner.

- (i) Business model evolution: the purpose of this kind of business model innovation is the amelioration of the competitive position of the firm, within the frame of existing competitive conducts in the market. The nature of this innovation is incremental and is linked to a better configuration of business model components around a new value proposition (repositioning). The degree of novelty for the market and the industry is limited even though such innovation might require relevant reconfiguration processes within the organisation. This kind of business model innovation could take place companywide or might affect only single business units, depending on the nature of the repositioning process. Repositioning is a strategic change that show a low level of frequency in the firm as it takes a long time to be transferred to customers and generate the expected results in a consistent way. Brand repositioning based on heritage (Cooper et al. 2015) is a process of innovation through the reinterpretation of the past. Corporate heritage could be a relevant strategic source of brand differentiation, capable of creating meanings that affect the whole organisation and the way it creates value for the market (Urde, 1994, 1999). In this sense, it is of the utmost importance to have a clear vision of the process through which a latent heritage (Santos et al, 2016) could be brought back to life and used, company-wide, to obtain a significant change in the way business model is configured for the purpose of creating a new value proposition for the market.
- (ii) Business model adaptation: the expected result of this kind of business model innovation is supporting company growth through constant adaptation of business model components to local market characteristics and competitive environments. The frequency of this kind of innovation could be high as it depends on the differences expressed by the markets that the firm is willing to address. The degree of novelty of the business model could be higher than in the case of repositioning though this is not necessarily a requirement for this kind of innovation. The scope of the innovation is large, involving several components of the business model with different degrees of radicalness (Dunford, Palmer & Benveniste, 2010; Teece, 2010). The integration of local cultures in the value proposition impacts business model configuration in several ways. Firm's adoption of dynamic business models allows the core competencies and skills of the company to adapt to different contexts, maintaining the key differentiating aspects though re-designing components or the whole business model every time. Business models could be seen as machines that generate different "grammars" to adapt firm's messages to the different contexts, playing the role of storytellers (Nacamulli & Pini, 2013).

(iii) Business model reconfiguration introduces disruption in current competitive and market conditions (Voelpel, Leibold & Tekie, 2004). This kind of business model innovation involves a relatively high number of business model components and might result in the creation of a totally new business model. It might require the design of totally new processes and core activities. Business model innovation might refer to the redesign of the whole industry or of the revenue models usually adopted by the other players, as well as a complete reconfiguration of the value chain and the external network. The degree of novelty is very high as this innovation brings new rules to the competition and the way customers are served. Showing such a high level of novelty, this kind of business model innovation does not occur frequently in the firm. Revising the meaning of a whole product category is a form of innovation that belongs to this type of business model innovation (Normann, 2001; Hamel, 2000) as it reshuffles the existing value proposition.

Table 1: Archetypes of business model innovation (our elaboration based on Saebi, 2015, pag.151)

	Planned outcome	Nature and scope of change	Degree of novelty	Frequency of change
Business model evolution	Repositioning Change the competitive position of the firm in the market	Existing business model components reconfiguration	Low	Unfrequent Depending on current competitive landscape
Business model adaptation	Align with environment to compete in new markets	Support business model growth entering new local markets	Medium to low	Periodical, depending on the differences in local markets
Business model reconfiguration	Drastically change the market and competitive conditions	Involve the whole set of business model components and their configuration	High Radical	Very infrequent for the same company

Following Saebi (2015), the ability of the firm to change its business model when facing environmental challenges is influenced by its current design and existing capabilities. Organizational readiness to business model innovation is a determinant of successful changes in the business model structure and in its components. Such readiness is determined by a set of specific capabilities, namely dynamic capabilities that define the “capacity of an organisation to propose fully create, extend or modify its resource base” (Helfat et al. 2009). In this sense, dynamic capabilities alternate the existing set of available resources enabling new value creating strategies and the configuration of innovative business models. A dynamic capability is a higher order capacity that helps a firm integrate, build, and reconfigure internal and external resources to address and shape rapidly changing business environments (Teece et al., 1997). Such capabilities reside at the level of top management team, but they also involve the entire organisation. They can be weak or strong and are related to a company’s unique history, experience, culture and creativity.

Existing literature highlighted the relevance of dynamic capabilities for the introduction of company innovation (e.g. Eisenhardt and Martin, 2000; Lawson and Samson, 2001), with a special focus on the introduction of new products or processes. The literature on innovation has widely addressed the role of dynamic capabilities. Many authors underline the problem of the way in which the dynamisation of capabilities occurs (Schreyogg and Kliesch, 2007). However, being the studies about business model innovation still preliminary, a specific analysis of the contribution of dynamic capabilities to the introduction of business model innovation is missing.

Teece (2007) points out that dynamic capabilities are the capacity to (1) sense opportunities, (2) seize opportunities, and (3) transform (i.e. enhance, combine, and reconfigure).

Sensing involves gaining knowledge of external and internal environments and making decisions about strategic direction. Sensing capabilities involve activities that create a culture of open communication, and knowledge about the organisation's readiness to capture value. Seizing involves mobilising and inspiring the organisation and its complementers to develop organisational readiness in the face of opportunities. Core seizing activities include developing and communicating the business case, aligning stakeholders, raising capital, planning strategies



and the implementation of organisational or business model innovations, which provide structures for action.

Transformational capabilities are the routines designed to sustain strategic relevance in changing markets through continuous alignment and realignment of tangible and intangible assets.

A specific analysis of the operationalisation of dynamic capabilities during a business model innovation based on the creation of rich and culturally rooted meanings is missing. In spite of this gap, authors think that the investigation of business model innovation in this domain might be relevant from a research as well as an operational point-of-view of dynamic capabilities for several reasons:

- a) Authenticity, heritage, local cultures, craftsmanship and traditional processes are all aspects that characterise the value proposition of many companies in contemporary markets but, despite their relevance, the business model implications of such kind of innovation, and of the capabilities supporting it, are still poorly understood.
- b) It is often argued that innovation through enriched meanings is in the hands of designers and creative directors but the business implications of such an innovation cannot be underestimated. The lack of organisational readiness and the rigidity of business models have often thwarted the most spectacular efforts in terms of design and fashion solutions.

In order to pursue the research objective, a thorough literature review has been performed whereby the main contributions to develop the conceptual framework for meaning based value proposition and brand narratives, business model innovation and dynamic capabilities have been identified. Furthermore, an in-depth set of case studies of companies that experienced a meaning based business model innovation was developed, with the aim of exploring the applicability of the conceptual model in practical contexts.

### **3. Research context and method**

As presented in the first parts of this work, the ability of a company to modify its business model, in order to support the creation of richer customer experiences, depends on the presence and exploitation of dynamic capabilities. Such capabilities are composed by different routines, and assume different roles, depending on the nature of the transformation. It is therefore of

interest to reconstruct the way top managers deal with “meaning based” business model innovation and, at the same time, the way through which they put in place different routines that could be related to dynamic capabilities allowing transition.

This research problem can be transformed into the following research questions:

Q1: Do managers modify business model components to establish new offers based on new meanings?

Q2: How are such dynamic capabilities managed by the organizational actors involved in the innovation process?

Q3: Do dynamic capabilities show differences in the different business model innovation archetypes?

In order to address these research questions a case study based research, with exploratory purposes, has been adopted with a multiple case study approach (Yin, 2009). This approach appears to be extremely valuable given the complex and holistic nature of the research subject. There are non pre-existing researches on this specific subject and the frame of reference for this research topic is still in an evolutionary stage. Moreover, the need for an exploratory approach to the research is motivated by the fact that the constructs upon which the research is based are at the intersection of different disciplines and field of studies, making it difficult to use an explanatory perspective in dealing with the cases.

### *3.1 Data sample*

The sample is composed by three different companies representing the different business model innovation originated by different meaning enriched value propositions: brand repositioning; business model adaptation and disruptive innovation. The aim is to explore the applicability of the conceptual model of three business model innovation driven by brand in practical contexts. In this sense, the selection of the cases is based on their relevance and their ability of being “exemplary” for the matter. The cases were not selected using a statistical sampling approach, but rather one based on their individual relevance for theoretical purposes.

The case selection strategy has been driven by the desire of analysing a representative case, for both company and industry peculiarities (Seuring, 2008; Yin, 2009), by using an information-

oriented selection approach (Flyvbjerg, 2006). The process of case selection was made up of several stages:

(i) market identification and selection; (ii) category selection; (iii) firm selection.

(i) The selection of markets (or segments of them) was based on the role played by storytelling and brand narratives in driving purchase decisions. In this perspective, high-end and luxury segments show a higher degree of interests from consumers in brand meanings and, consequently, it is easier to identify companies that use offer meanings as an innovative tool.

(ii) In terms of category selection, it was regarded as critical for the purposefulness of the cases, the fact that digitalisation played only a marginal role in the innovation process. The innovation process itself was not supposed to be activated by an innovation in digital technologies. The reason for this choice is related to the fact that there is a well established literature on the relationships between digitalisation and business model innovation and this was not meant to be the subject of present research that, on the contrary, puts its attention on innovations that do not stem out of digitalisation but that are culturally rooted.

(iii) The identification and selection of the specific three firms was based on their ability to represent archetypical cases in terms of business model innovation as presented in the previous part of this work. The selection criteria was also based on some critical research conditions such as the observability of the innovation process and the access to information and key actors of the innovation process.

The first case is the one of Champagne Krug, a French company part of LVMH group, that went through a company turnaround with impacts on the business model through the reinterpretation of brand's and company's heritage and the founder myth. This process involved the whole organization and impacted on several parts of the organisation: from wine production to digitalization. This effort was accomplished thanks to the contribution of "informatists", such as historians, that helped to bring company roots to new life and new meaning for employees, stakeholders and customers.

The second case is Eataly (one of the most innovative food retailers on the global scene), an Italian based multinational supermarket chain that transformed the supermarket shopping experience into a deep learning and cultural experience for its customers. The assortment is composed in large part of local products and is adapted to the different geographical areas. There is no format for the stores, that are selected depending on the relevance of the site as a cultural landmark in different town. The format includes restaurants and courses for customer

on food quality and its preparation. The company relies upon the contribution of Slow Food consultant when addressing different geographical areas with different food cultures and local productions to re-configure its assortments consequently.

The third case is DG Mosaic, a niche Italian luxury mosaic producer that, through a radical product innovation, totally modified the perception of mosaic and its usage. The innovation, though fostered by a new product concept, is based on a complete change in the meaning of mosaic and the way of using it. DG Mosaic is present on Ferragamo shoes, in yacht interiors and even in curtains and furnitures. The change of destination of this extremely traditional product implied a complete business model redesign with the introduction of new forms of distribution, the involvement of creative communities around the world as brand and product ambassadors.

### *3.2 Data collection*

Beside semi-structured interviews, data gathering has been performed exploiting different sources (internal documents and official documents), to increase the reliability of data and to contrast information between official and non-official sources. Furthermore, an additional important source of information has been the direct observation in the company.

For pursuing an in depth analysis of the different companies and comparing different internal viewpoints, in-depth interviews with the major roles involved in the process of business model innovation have been conducted. Data was collected between 2014 and 2017. The interviews were tape recorded (with permission) and later transcribed. The interviews lasted around 60-90 minutes. The objective was to interview all the relevant people operating in company's expansion, and collecting also the perspective of all of the roles involved in the significant innovation in progress. Face-to-face interviews were preferred as the tool to collect information. For gaining an in depth analysis of the case, from two to three researchers were involved in each interview, to allow a comparison of the different perspectives.

The researchers used a coding process (Rubin & Rubin, 2005; Saldana 200) to code and categorize the data. After, researchers collected information with a cross verification. First of all, the notes of the researchers have been collected in a single file, thus avoiding loss of information. The results of the different researchers have been collected and compared, in order to converge towards a common classification of the case study. The final goal of the coding phase was to get an objective view of the case, to reduce the number of data to compare and to arrive to a single and shared description of the single case among all the researchers. Selective

coding was adopted to avoid bias and to validate interpretations. Selective coding considers business model innovation process as the core category and the other categories are related to it (Strauss & Corbin, 1990). The case studies are built around the business model innovation storyline. The role of dynamic capabilities and the organizational conditions of their deployment are draped and described around this storyline. Dynamic capabilities are described using the categories presented by Teece (2007): sensing; seizing; transforming. Rich narratives and the creation of value propositions based on new meanings are considered both as drivers for innovation and organizational conditions under which dynamic capabilities are operated. A representation of the research data collection process is presented in table 2.

Table 2: Sources of data and their use in the analysis

Source	Type of data	Use in the analysis
Semi-structured interviews	<p>6 interviews at Eatly headquarters between 2014-2015</p> <p>5 interviews at Krug headquarters between 2016-2017</p> <p>4 interviews at DG Mosaic headquarters 2017</p>	<p>Interviews with C-levels or board members aimed at understanding the business model innovation process, the critical phases and the modifications brought to the business model components. This set of interviews permitted to verify if top managers’s decision impact on business model.</p> <p>Interviews with middle managers, directly involved in the transition form the old to the new business model, aimed at identifying the use of dynamic capabilities routines in supporting the innovation process.</p>
Company publications reports		Tracking of changes in the strategies, actions and performance.
Third party publications and reports		Tracking of changes in the strategies, actions and performance.

Source	Type of data	Use in the analysis
In store visits and event participations	Eataly store visits in eight different locations Champagne tasting and cave visit event at Krug Milan design Week events organized by DG Mosaic	Reconstruct the narrative of the brand and how the business model components enable the delivery of meaning based innovations.

#### 4. CHANGE BY MEANING: CASE STUDIES ANALYSIS

In this section, authors briefly introduce the case-study firms: Krug, Eataly and DG Mosaic and the main results of the study.

##### *4.1 Krug: A Business Model Evolution*

The analysis identifies four stages of business model evolution process, based on corporate heritage rediscovery and the role and the use of dynamic capabilities in different stages. Table 2 are shows the main findings in every stage of the proposed model, with a synthetic framework of the role, activities and results of different functional units. These results put in evidence the organisational work of change management plan to support and implement managerial choices starting from the discovery of corporate heritage.

In every stage, the change of new meaning induced by corporate heritage is supported by different dynamic capabilities. Such capabilities empower and help the change management process. Corporate heritage ignites this process but it also gives direction and vision about what to do to reconfigure business model for a successful turnaround.

Table 2: Preview of findings of Krug case study

	Phase 1	Phase 2	Phase 3	Phase 4
<b>CEO</b>	Brand identity rediscovery through history	Eliminate barriers between function to help people to share the maison culture and philosophy. Reinforce the distinctiveness of champagne identity vs wine.	Allocate resources for excellence based on heritage	
<b>Consultants</b>	Historian supporting the ceo in heritage rediscovery communication consultant linking heritage with communications and luxury image	Recreate KRUG founder guidelines for champagne excellence		
<b>Enology and production</b>	return independant from LVMH group on product as well as marketing	Develop an independent stance towards production, separating it from LVMH economies of scale approach	Uniqueness and the fact that KRUG does things differently putting wine excellence in the first row. Enology becomes key function in turnaround.	Integration mechanisms based on brand heritage and corporate identity: degustations; communication (transparency) and technical meeting opened to all layers of the organisation. integration role with savoir faire transmission goal

	Phase 1	Phase 2	Phase 3	Phase 4
<b>Marketing</b>		Communication strategies on heritage values and graphic design modifications	Create unique codes for champagne that might please a larger audience than technical experts	
<b>HR</b>	Develop a sense of belonging through internal training		Promote champagne codes and KRUG codes within the company. Support change management through symbols and artifacts related to champagne culture (book): create pride	Consolidation processes through culture diffusion
<b>Operations and retail</b>	Highlight the product uniqueness compared with other champagne	Development of a KRUG stand alone operating system. Step away from gastronomie to promote champagne as not a wine	Courses with commercial and retailers to promote brand values	KRUG develops synergies with group retail systems exploiting new brand position

The research focuses on the turnaround period for Krug that took place in the middle of a severe crisis, both economical and societal.

In order to frame the period of the turnaround, a synthetic description of the company's history is provided in following paragraph. The findings for each stage are presented eventually.

Foundation, growth and crisis (1843-2009)

Champagne Krug is a luxury champagne producer that, since 1999, is part of LVMH group. Krug produces an average of 450.000 bottles of champagne a year, divided into several different types. This accounts for less than one per cent of the whole yearly champagne production, making of Krug a luxury niche brand in the market. The Maison of Krug & Champagne was founded in 1843 by German born Joseph Krug. Joseph Krug aimed at creating a champagne that could preserve the same quality year after year despite the variations in grapes quality by using very year only the best wines from the best vineyards.



Krug had been a family owned company for more than a century, from 1843 until 1970, when it was acquired by Remy Cointreau group. After the acquisition, Krug reinforced its positioning on product outstanding quality: “There is champagne and then there is Krug” was one of favored slogans of Remi Krug who travelled the world to promote the Krug brand (Tardi, 2016). Like many successful brands, Krug had its own enthusiasts, named “Krugistes” that appreciated the uniqueness of the product and the so un-French sounding name. The uniqueness of the product generating an aura of secrecy, reinforced by the fact that no external visitor was allowed to pass the company gates. This approach, though very successful for several decades, was hardly matching with new global markets and economies. The demand for richer storytelling supporting luxury brands (Pini, 2017) and a need for a deeper relationship with authenticity from customer all over the world was putting Krug in a completely different situation and its aura of distinctiveness and secrecy was lacking of appeal for new affluent customers calling for richer experiences while interacting with brands.

In 1999, in the midst of this market turmoil, LVMH acquired Krug from Remy Cointreau, in order to add a luxury brand to its already rich portfolio of champagne brands. Since 1999, different CEOs tried to give Krug brand a new boost in order to avoid declining sales. The decrease of sales put the survival of the company at risk. This critical situation was made worse by the champagne and wine market crisis that broke out during the first years of 2000, due to economic downturns in several national economies, forcing customers to cut on luxury goods spending. The long period of crisis generated also internal tensions with labour force conflicts breaking out for the first time in the firm’s history during the first years of 2010.

Turnaround (2009-today)

In 2009, Maggie Henriquez was appointed as new CEO for Krug.

### Stage 1

Maggie Henriquez was facing a very critical situation with sales going down, low employee's morale and a not very promising future for the company. The first year at the wheel of Krug did not bring the expected result, and this suggested to the CEO that a new approach to develop a luxury house of champagne with an “unknown story” (Tardi, 2016) needed to be taken. As she reported during interview:

*“I discovered that in Krug, they didn’t know the founder story, his value and basis. Therefore, it was not possible to build a strategy. I asked expert to help me in brand understanding. With the support of Alain Tardi, an historian with a deep knowledge of*

*wine history and an expert in luxury communication, we started to work hard on Krug identity”.*

Their work was supported by the discovery of founder’s diaries that describe how champagne should be produced and the values of Krug compared to other producers. These diaries were turned into a book, translated in several languages, that was made available internally and for customers in 2012.

### Stage 2

Krug developed a brand identity heavily relying upon founder’s heritage, his ideals of excellence and endless commitment of the whole organisation to perfection:

*“Krug represents the art of the contrast... [It is full yet fine; it is fresh yet mature; it is magical yet modern]. Krug is a unique type of champagne house. Unique in its refinement... we work on detail, we never compromise. However, it is never for perfection, it is for pleasure. We all insist on consistency and continuity while striving for modernity. Everybody in our house knows how he or she contribute to value creation. It’s all in the contrast: demanding in our modernity and in our continuity.”*

Managerial decision in this stage is focused on sharing *maison*’s culture and philosophy. This goal implied the development of autonomy from LVMH group, developing independent production and communication strategy.

### Stage 3

In the process of rediscovery of the corporate heritage several actions were taken by top management team and its consultants that modified different parts of Krug’s business model:

- (i) Relationships with external networks: an open and participatory relationship with influencers was established by opening the gates of the company, for the first time, to journalists, writers and sommeliers who could visit wineries, cellars and wine yards. This decision generated more than a tension within the organisation that perceived this disclosure as a violation of the secrecy legacy that was part of company’s tacit culture.
- (ii) In terms of customer relationships, a bottle ID code was put on Krug bottles so that customers could access several information about the product, the way it is made and the philosophy beneath it by accessing Krug website. This activity required the digitalisation of a huge amount of information, disseminated all throughout the production phases to make them available for consultation.

### Stage 4:

Krug's management decides to capture the corporate heritage's value in these ways:

- (iii) Krug moved towards a "talent company" by bringing the people that create the product under the spotlight, giving external visibility to roles such as the Cavist and the Enologue as ambassadors of the Krug heritage. This required the dissemination of the Krug's diary within the organisation to create a proper internal culture based on corporate heritage. The turnaround required "*talent stories*", i.e. centring the organisation around excellence and unique skills that makes people working at Krug talents that innovate Joseph Krug vision day after day.
- (iv) The rediscovery and dissemination of company heritage allowed reducing barriers between functions and organisational layers and having a better alignment of key processes. As stated, during interview, by Chief Caviste, Julie Cavil: "*In term of management, it was a new starting point. There was huge boundaries between different job positions: workers, white collars and managers. So it seems important to break these rules and help people to work together in order to recreate a real "maison"*".

### Findings

Starting from stage 2 a huge effort was made to "*show men and women behind the Krug stories*". From dynamic capabilities perspective, these actions are relevant because in this stage management develop knowledge about the organisation's readiness to capture value from corporate heritage. Sensing involves gaining knowledge about the internal environment and making decisions about strategic direction.

In the stage 3, seizing corporate heritage required mobilising and inspiring the organisation and its complementors to develop organisational readiness to capture opportunities. Dynamic capabilities include communicating the business case, aligning stakeholders, planning to execute strategy for providing structures for action.

In stage 4, dynamic capabilities are transformational capabilities: evolution of business model means working on alignment and realignment of tangible and intangible assets. It is crucial to change resources as external or organisational realities change.

Corporate heritage becomes a tool of the transformation process to mobilise, motivate and inspire people to change.

In the process of turnaround, the top management team activated dynamic capabilities through the exploitation of rediscovered corporate heritage. During different stages top managers, consultants, c-levels as well as the rest of the company were involved in several actions and

initiatives that progressively brought Henry Krug heritage to the centre of the stage and turned it into a powerful tool for business model reconfiguration and transformation to create new value for the market.

## EATALY: A BUSINESS MODEL ADAPTATION

The market insight at the core of Italy's business model is well described by its founder, Mr. Oscar Farinetti: "On the whole, Italian consumers spend 25% of their money on food, there is a 75% still to address: This is Eataly's challenge." Eataly has modified the cultural perception of food by turning food purchase into a deep, motivating experience far away from the need based, mass consumption one so typical of mass food retail shopping.

The three steps that compose the essence of Eataly's business model are:

- i) Learn;
- ii) Eat;
- iii) Buy.

i) Learn is the starting point of this new customer experience. Eataly spends lots of energy and resources in providing formal and informal communication and training to its customers to help them achieve a deep understanding of the cultural implications of food, local food and traditions and suppliers' selection.

ii) Eat refers to product tasting, through restaurants and other forms of catering. Through food tasting, customers complete their transformation and can perceive food under a different perspective, catching the cultural implications and meanings underneath its consumption.

iii) Buy at Eataly's is a unique experience compared to traditional supermarket purchases. A large number of regional and local products from small, selected producers compose up to 70 per cent of the assortment of a single store. Producers are selected through the support of Slow Food movement consultants. The selection of such local producers allows the reduction of the number of stages in the logistic chain and shifts margins from intermediaries to producers.

### Eataly business model

Eataly business model is built around the exploitation of two organisational skills: (i) adaptation to local contexts and patterns of consumption and (ii) meaning creation through store formats. Such skills are enhanced through the recruiting process and an intense training activity aiming at making employees share the same beliefs on the role and meaning of food and its consumption. On the other hand, Slow Food consultants help the firm selecting local suppliers

and act as “informants”, in the ethnographic sense, creating a strong connection with local cultures and food habits. The approach adopted by Eataly to sustain its national and global expansion is based on key differentiating factors that exploit such unique organisational skills: (i) integration of local products in each store assortment and (ii) adaptation of the retail formula and the format to contingent factors such as local food heritage, local tastes and product narratives, allowing the business model to adapt to different environments and contexts without losing its DNA.

Company growth is, in fact, achieved through extreme business model adaptation to local contexts. In the same words of Mr. Farinetti:

*“There is but only one scenario and it is crucial to adapt to it in the best possible way, every time”.*

The scenario is made up by the local context, with its network of suppliers and its consumption habits and cultural biases about food consumption and related narratives. Eataly's adoption of dynamic business model permits core competencies and skills to adapt to different contexts. Business model innovation is brought by though re-designing components and reconfigure them consequently. Business model innovation, in this case, could be seen as the definition of different grammars to adapt Eataly messages to the different contexts, playing the role of storytellers more than blueprints for replicability. Value proposition is innovated through including, excluding or mixing in various forms the role of grocery products, restaurants and training programmes in delivering Eataly deeply involving customer experience. The channels adopted to deliver cultural values and experiences to the local customer base vary in terms of format and revenue models including standalone outlets, shopping mall shops, shops in shop, integration with other existing formats (like in the Bologna shop) and franchising (Dubai and Istanbul). The way customer relationship is established depends on local purchase behaviours and swings from co-creation activities to off shelves purchase. These variations have an impact on the revenue models of the different outlets that might be depending mostly on restaurants and catering or on local selected assortments or on franchisee fees depending on the specific local situation. On the other hand, there are significant differences in the cost structure of the different outlets and there seems to be an effort in the standardisation of processes only as far as logistics and supplier integration for core, locally produced Italian goods are concerned. A crucial role in this constant business model innovation is played by the availability of Slow Food experts with an adequate understanding of local cultural dimensions of food and small producers' availability. On the other hand, the narrative skill is differently declined depending on the context. In this sense, there are formats more related to formal training and oral narratives

and ones more depending on tacit knowledge transmission through deep customer experiences, where in store communication plays a crucial role.

### Findings

In order to reconstruct the way Eataly plans and executes its business model innovation, researchers identified the key components of firm's business model and the way dynamic capabilities help the company in its constant business model adaptation. Interviews were based on a set of questions related to the timeline and process for new store openings, taking into account the following topics:

- i) The selection of new location
- ii) The existence of a predetermined format, in terms of space allocation and assortment, that has to be taken into account.
- iii) The definition of the assortment grid used in the opening process
- iv) The choices of the assortment and the suppliers selected for every new shop
- v) The role of partners and consultant in the new opening process?

These aspects are related to the activation of different sets of dynamic capabilities that have an impact on how the different business model components are configured during the opening process:

- (i) Sensing capabilities are related to the selection of the new location with the identification of its business potential and its value as cultural landmark for the customers;
- (ii) The identification of local suppliers and the definition of the assortment grid is supported by seizing routines that enable the company to transform the local network of suppliers into an integrated offer for customers;
- (iii) The transformation capabilities support the whole project of new opening from integration of store layout with assortment needs, to ad hoc in store communication projects and the selection of restaurants and menus to give value to local suppliers. the adaptation of Eataly's combination of Learn, Eat and Buy (with the definition of the role of different product categories in the assortment, the identification of restaurants and catering services that better fit local tastes, the design of the communication project for the store and the integration of local suppliers in the category management).

In choosing the location for new shops, Eataly's top managers do not look for standardisation or replication of existing formats: "Eataly is an anti-model company". On the contrary, the quality of the building and its history are the key factor affecting the decision.

*"The location has to be iconic and capable of creating deep emotional connections with the customer...it must have a past history and somehow be a landmark in the city".*

*"The format is adapted to the history of the location and the food tradition and is part of the narrative of quality food".*

*"All our locations have a history to tell: in Rome it is the forgotten air terminal of Ostiense, in Genoa it is the old harbour and its tradition, in Florence is an old and precious bookstore that was a landmark of the town..."*

The selection of the facility is a way of exploring new solutions and formulas that could then be integrated in future openings or remain ad hoc solutions.

*"Format must always be adapted to different realities...we continually strive to experiment through trial and error".*

*"Our approach is based on the uniqueness of our idea of using food to tell stories to our customers and deliver the richest possible experience to them".*

*"Our customers are attracted by the beauty and uniqueness of the location, by the quality of our restaurants and eventually by the fact that they could purchase good local food".*

The opening process is described by the subjects interviewed as very flexible. Flexibility is expressed in different aspects: flexibility to the local tastes, flexibility in adopting ad hoc solutions in a fast and continuous way (the New York store restaurant named "La Piazza" was decided 48 hours before the grand opening).

The uniqueness of the location implies adaptations of the layouts and the merchandising. This process is undertaken not only by Eataly's category management staff but also through the involvement of partner suppliers and Slow Food consultants. "Categories are designed differently for every shop in order to fit the location and deliver a unique customer experience", "we have shops as small as few square meters in Tokyo underground and multi-floor ones like the one in New York: We want each shop to tell its own story and yet show the Eataly formula at its best". This adaptation is not a finished project itself as continuous improving is generated through customers' feedbacks and shops hybridations.

Assortments are built starting from the idea of food heritage and using a completely different stance when compared to traditional supermarkets. Eataly does not use a fixed grid in building assortments based on category roles: the assortments is adapted to local excellences. Local

products and small producers play a crucial role and can have a different weight in shop assortments. “We take a snapshot of local excellences and promote them in our shops. In the Turin shop 70% of all products come from local producers, in Bologna this percentage is 45% and 55% in Rome”.

With such a wide range of producers to evaluate and with the complexity of creating ad hoc assortments for each shop the suppliers’ selection criteria plays a crucial role in Eataly’s strategy. This activity is managed with the active support of Slow Food consultants. “Slow Food is our strategic partner that always brings to us so many options and new ideas”. Once the location as well as the lay out are planned the Slow Food local team scouts the territory in search of excellences. This process works for both the Italian shops and the international ones. All store managers made their careers internally as most of the training is on the job. Eataly has an internal school to form specific roles such as butchers, bakers, etc. Top managers defined social intelligence as one of the key characteristics of their employees.

#### DG MOSAIC: BUSINESS MODEL RECONFIGURATION

DG Mosaic is an Italian start-up company that brought a completely new perception of mosaic to the market, changing its applications and its functionalities. The firm is family owned and is part of a larger group of leading companies specialised in the high-security graphics and anti-counterfeiting graphics. High-security graphics is a sector where attention to detail, excellence of execution and the ability of dealing with complex design are all key competencies.

DG Mosaic was established in 2011 with only three employees and the entrepreneur. The first year of activity was fully devoted to the implantation of TILLA system. TILLA is the smallest mosaic tile of the world: a glass fragment could be cut down to the dimensions of 1.5X1.5X1 mm. The reduced size of the tiles is not the only characteristic of TILLA: the mosaic weighs only 2.5 kg per square meter, which makes of TILLA the lightest mosaic system in the world. Thanks to TILLA characteristics, DG mosaic can offer high quality mosaics that can reproduce even the most complicated designs on several different surfaces. The design of the mosaic is rendered through a proprietary software (MOSAIC SW), while the mosaic production is achieved through several hand-made transformation processes.

The firm’s expansion in the early phases was not backed up by business plans or any kind of marketing programme but replicated the path of growth of main players in the mosaic industry. Russia and the Middle East were identified as the target markets as the entrepreneur assumed that in those regions there were customers that could afford the price of hand-made, made in



Italy, luxury mosaics. Premium markets were considered crucial to fund the investments that had been put in place to permit the processing of TILLA tiles in all different shapes and colours. The traditional business model for the high-end coating industry (that includes the glass mosaic sector) is based on some components that are common to all the players:

- i) The application of mosaic is concentrated in bathrooms and swimming pools;
- ii) Mosaic purchase is part of all the purchases of building and restoration material for housing projects;
- iii) Mosaic is sold as part of a larger assortment of materials by resellers and wholesalers. Building companies show a preference in buying all materials under one roof and this implies a high level of concentration in the distribution;
- iv) Standardised and easy to use products are preferred by building companies as they do not require special skills from workers or the adoption of particular building techniques;
- v) Fairs and exhibitions specialised in building materials or coatings are the key touch-points that are used to establish relationships with potential customers and resellers.

The uniqueness of DG Mosaic manufacturing process together with the characteristics of TILLA called for specific training for installers and, at the same time, were hard to show through multi-brand, multi-category retailers. DG Mosaic was a perfect partner for complex projects with sophisticated design and challenging applications, but this aspect was clashing with the business model adopted by the company. Installers and resellers, in fact, were reluctant to invest time and resources on a product that was perceived as complicated to handle, out of standard. Final users, in the other hand, were more concentrated on the main aspects of home design, considering bathrooms and swimming pools as less important parts of the overall architectural project.

In 2014, a business model innovation process was undertaken to fully exploit the potential of the TILLA technology. Such innovation process was based on the idea of radically changing the way mosaic was perceived, turning it into an “expressive material” for creative applications outside the traditional ones. TILLA was to become the favoured material for architects and designers that wanted to express their creativity and innovative ideas. Mosaic was presented as a custom made solution at the service of creative processes, focussing on the unique qualities of TILLA that could apply to several applications offering highly customised solutions.

A first example of this shift in the way mosaic was handled by the company is the project of an acoustic sculpture (in the shape of a horn) by architects Sets and Shinobu Ito in 2015. The concrete for the acoustic sculpture, named “Carp”, was created by Italo Rota and donated to the Fondazione Museo del Vittoriale by Italcementi. DG Mosaic worked in partnership with the architects and created a mosaic fabric that was laid over the sculpture and then sewed at its base by a specialised upholster. The mosaic fabric does not show any sign of junctions and the surface is perfectly even and smooth without any sign or irregularity that are common when traditional mosaic is applied over curved surfaces.

DG Mosaic has changed its value proposition from high-end Italian mosaics to “Material for design challenges”. The new value proposition has brought with it a radical innovation of the business model. The changes in the business model components could be summarised as follows:

- i) Moving from indirect distribution to direct relationship with architects and designers. DG Mosaic proposes TILLA system directly to these subjects as a new material capable of helping them in penancing their creativity and vision.
- ii) Product is promoted through “design consultants” that are specialised in the different industries where TILLA could be applied. These consultants mix technical competencies with the ability of integrating mosaic into several different applications and projects in various sectors.
- iii) The possible sectors of application of TILLA have been enlarged. DG Mosaic is no longer focussing on traditional applications of mosaics in bathrooms and swimming pools, but has progressively selected a set of industries where the application of TILLA could be perceived as core to the design and creative solution, making it a central element in the quality of the final result. These new industries range from Hotels and Resorts to naval leisure (super yachts); from Spa and wellness to fashion product design (shoes and accessories). Recently DG Mosaic has been addressing the customisation segment of automotive industry in search on new and more challenging applications of TILLA.
- iv) DG Mosaic is no longer operating its markets on a regional basis, but focussing on selected areas where innovations in design and architecture take place. These areas are called “Design Hubs” and refer to cities such as: Milan, Rome, Paris, London, Dubai, Hong-Kong and New York. These locations are the places where contemporary innovative design is

situated and where it is possible to interact with visionary designers and customers willing to experiment this expressive material in challenging applications.

A representation of the most relevant innovations brought to the business model by the change in the meaning of TILLA is reported in table 3.

Table 3: Major changes in DG Mosaic business model brought by the change of the meaning of mosaic

	Past business model	Reconfigured business model
Product applications	Bathrooms Swimming pools	Hotel and resorts Naval leisure SPA and wellness Fashion accessories Automotive
Intermediaries	Multi-brand, multi-category resellers	Design consultants specialised per application
Market identification	Geography	Design hubs
Value proposition	Luxury and Made in Italy	Customisation and creativity

## Findings

The business model reconfiguration of DG Mosaic has been made possible by the sensing capabilities expressed by the entrepreneur and its staff that has progressively overturned the perception of the mosaic.

*“At the root of what DG Mosaic has achieved till now there is the attempt to free glass mosaic from usual clichés. Mosaic becomes a super technological material for architecture and design: the renewed symbol of a millenary tradition”.*

Seizing competencies are acquired through the constant interactions with “design consultants” that enable the company to transfer their value proposition into new projects, applications and

industries. The creation this growing network of specialists is based on the shared new vision about what mosaic can do for creativity.

The reconfiguration of business model components was achieved through the transformation capabilities of the entrepreneur and its staff. Such capabilities were orientated by the perception of the uniqueness of TILLA and the need to preserve its potential in face of a conservative business model unable to sustain the technological advantages brought by the product.

The transformation capabilities are related to the project culture that is widespread all throughout the organisation. In this sense, the perception of risk in new projects is shared with design consultants and its quality is assured by the presence of DG Mosaic in design hubs where high-level design competencies are widespread and available.

## **5. Findings and contribution**

Findings show some commonalities in the approach to business model innovation in the three different cases analysed.

- a) Impact of the change in the brand meaning on business model. In all the three cases, the new value proposition required for its deployment a redesign of several parts of the existing business model. Top managers interviewed in all the three companies highlighted the need of business model modifications as part of their innovation strategy.
- b) The relevance of value proposition change on business model innovation. The growth process supported by the new value proposition implied conceiving of the business model as a sort of “narrative machine” (Nacamulli and Pini, 2013) that evolves in line with the needs of storytelling in different markets and industries or in order to create a tighter bond with new customers.
- c) The role of dynamic capabilities in allowing business model innovation is significant in all cases and is shown in many different aspects.

C1) Role of informants in creating the right frame of reference for market sensing. In all the three cases, a crucial role in the transition is played by the informants, i.e. subjects external to the organisation who support the change teams in gaining a deep understanding of the cultural dimensions of the new meaning and its strategic and managerial implications. In the case of Krug this role was played by a historian who reconstructed the saga of the founder and supported the top management team in understanding and exploiting the brand’s heritage. Eataly’s new opening team is

constantly supported by Slow Food consultants who assist in the selection of local suppliers of traditional foods as well as in understanding local food culture and tastes in different geographic areas. DG Mosaic heavily relies upon trend setters and creative communities of designers and architects to enrich the meanings associated with their new material and find new ways of using it in new industries and applications. On the whole, initial evidence shows the significant role informants play in helping strategic teams to develop sensing competencies, providing new visions of product categories, and social and cultural meanings related to consumption and customer experiences.

c.2) Seizing and transformational capabilities were stimulated by, and supported, a cross-functional and project based management style. The need for functions and organisational cultures to be consistent with the new meaning is of vital importance in all the cases researched by the authors. Processes, routines and parts of the business model need to be configured so as to fully incorporate the managerial and operative implications of the new value proposition. Cross functional approaches, built around strategic processes, help the whole organisation to develop a deep understanding of the new meaning and create a company-wide culture supporting the transition.

- d) Different business model innovations activate different sets of dynamic capabilities. In the cases analysed all the categories of dynamic capabilities have been activated, though some categories play a more central role in supporting the innovation process (Table 4). d.1) In the Krug case, the routine of engaging people in the repositioning of the brand through the rediscovery of its heritage is described by all subjects as the crucial one. Such capability is expressed by firm's CEO that engaged the whole organisation in the process of innovation facing resistances and organisation barriers. d.2) In the Eataly case, transformation capabilities permit the continuous redesign of business model components to adapt them to new formats and stores at a global level. This capability is widespread within the organisation and is part of its culture ("*we are a non model company*"). The project culture, that dominates the new opening team, together with the shared visions about the cultural dimension of food allow an integration of business model components around new projects without creating barriers to change and dogmas. d-3) In the DG Mosaic case, the set of routines that enable the innovation is the one of sensing. The entrepreneur and its staff struggled to find a meaning that could fit the technological innovation beneath TILLA. The idea of bringing mosaic back to its central role as an expressive material was originated, in the mind of the founder, during a visit to Saint Sophia church in Istanbul where he admired its mosaics.

A synthesis of the research findings that matches types of business model innovation with key dynamic capabilities is reported in table 5.

Table 5: Main research findings

	Business model evolution	Business model adaptation	Business Model reconfiguration
Case study	Krug reposting through heritage	Eataly growth through adaptation to local food cultures	DG Mosaic transformation of the mosaic perception into a material for design challenges
Changes in business model configuration	Modification of components	Continuous transformation and adaptation of components	Modification of components
Frequency of innovation	Unfrequent	Frequent	Very unfrequent
Primary dynamic capabilities activated in the innovation process	Seizing	Transforming	Sensing

**6. Conclusion**

The research results lead to several managerial and methodological implications. Implications for a business model innovation driven by rich brand narratives are drawn. An offer of a new meaning of the brand is an important element for change management. A business model innovation that is coherent with a new brand meaning has a relevant impact not only on customers but also for organisational members, providing an alignment of the members within

organisations. The paper also makes it easier to understand what kind of dynamic capabilities are necessary to sustain innovation in this framework and how dynamic capabilities are put into practice.

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