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OPPORTUNITIES FOR BUSINESS MODEL INNOVATION – CASE OF A. LE COQ

Master's Thesis

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I have written this master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced.

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Abstract

This study explores the opportunities of business model innovation as a case of A. Le Coq by using the Business Model Navigator framework and it analyzes how A. Le Coq captures, delivers, and creates value. The data gathered by semi-structured interview along with the accessible information on the company's website. The results identified A. Le Coq's current business model and revealed that out of the three suggested combined models, the combination of Integrator, Layer Player, and Orchestrator business model is the most applicable model for A. Le Coq. Although A. Le Coq is operating well with its current business model, in the future they might need to innovate their model.

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1. Introduction

Nowadays, innovations are shifting from product or process innovations to business model innovations to complement products or processes (Amit & Zott, 2012). Innovative business models have positive effects on creating a wealth of entrepreneurial firms (Zott & Amit, 2002) and the business model change affects companies' performance positively in terms of sales growth (Bettinelli & Cucculelli, 2014). Innovative business models are keys to surpassing the other company in terms of competition, and it results in high profit (Afuah & Tucci, 2001). To compete in the current market, companies must establish new business models (Hamel, 2000). The business model implies the description of a systematic conceptual logic on how a company can create and offer value to its customers. Value creation can be done through the arrangement of the value chain (Porter, 1985), the bonds between the company and its partners, or focusing on the companies' core competencies (Zott et al., 2011).

IBM Institute for Business Value's biannual Global CEO Study, in 2006, showed that top managers in different companies are making their priority as innovative business models and this study was complemented with another research, in 2009, which uncovered that seven out of ten companies are trying to innovate their business models, and 98% are changing their business model components continuously (Casadesus-Masanell & Ricart, 2011). Moreover, according to Economist Intelligence Unit's survey which was conducted with more than 4000 senior managers revealed that 54% claimed that business model innovation will be the key to gain competitive advantage in the future and another study from IBM, which was done with 750 corporate and public sector leaders, found out that the companies giving priority to business model innovations had thrived in terms of profit when it compared with the companies which focus on product or process innovation (Amit & Zott, 2012).

A. Le Coq has been operating for so long in the Estonian market. Besides their focus on product innovation, they should be aware of modifying their business model to adapt to the current age and to be competitive in the market. A. Le Coq and the industry they are operating in have so many opportunities to complement their product portfolio with business model innovations. Therefore, this study helps A. Le Coq to be aware of the business model innovation field and use this concept to modify their existing business model to get more

customers after which they will have the chance to continue their competitive domination in the current Estonian food industry.

This study aims to answer how A. Le Coq could innovate their business model. This thesis proposes new business models for A. Le Coq, assesses the applicability of the models, and analyzes the company's current business model. A literature review was made to understand the concepts of the business model and business model innovation. Different frameworks about business model innovation investigated to find an appropriate framework to apply it to A. Le Coq. Moreover; an interview, with A. Le Coq's R&D Manager, was made to understand A. Le Coq's current business model and to get feedback for what is proposed to be used as a new business model. The results showed that currently, A. Le Coq has a sustainability-oriented business model, and it has the resources to innovate their business model. In addition to these, three different combined methods were suggested, and the combined model of Integrator, Layer Player, and Orchestrator were found to be the most applicable one.

The thesis is structured as follows. Section 2 presents the theoretical background of the research and explains the relevant literature. Section 3 describes the research method. Section 4 presents the results derived from the research method and discusses the derived results from interviews. Section 5 presents the conclusion.

2. Literature Review

2.1. Business Model

The business model concept has many different usages such as converting company's competence into economic value (Teece, 2010), creating value from an innovative solution (Chesbrough & Rosenbloom, 2002), establishing an interconnected bond between the company's strategy to create value and how they deliver it through their business processes (Al-Debei & Avison, 2010). A business model explains how a company creates, delivers, and captures value; in short, it describes a company's way of doing business (Magretta, 2002; Osterwalder et al., 2005; Teece, 2010).

A business model is combined of different components which are designed to offer value to the customer (Demil & Lecocq, 2010). A simple, yet comprehensive explanation, which is "a business model defines who your customers are, what you are selling, how you

produce your offering, and why your business is profitable” was made by Gassmann et al. (2015). Osterwalder and Pigneur (2010) explained the business model as “the rationale of how an organization creates, delivers, and captures value” and visualized it in nine blocks and called it “Business Model Canvas” (see Figure 1). The business model concept should not be mistaken by the term, value chain. Value chain is a term which was introduced by Porter (1986) who explains the term as value creating activities that generates end products from raw materials with the help of interlinked activities such as inbound logistics, operations, outbound logistics, marketing and sales, procurement, technological development, human resources management, and firm infrastructure.

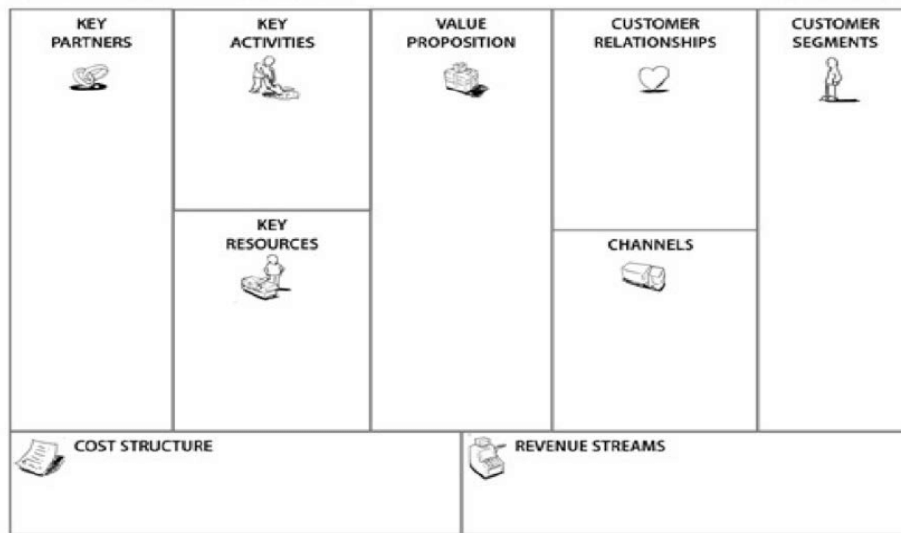


Figure 1. Business Model Canvas (Osterwalder & Pigneur, 2010)

Many authors in the sector used Osterwalder and Pigneur (2010)'s canvas for different applications. Muhtaroglu et al. (2013) applied the canvas in big data applications to identify the business models in various sector such as health, retail, manufacturing, and so on. Dudin, Kutsuri, Fedorova, Dzusova, and Namitulina (2015) used the canvas as a tool for strategic management to make effective budgeting in enterprises. Moreover, Dudin, Lyanikov, Leont'eva, Reshetov, and Sidorenko (2015) worked with the canvas to map the current structures in the agriculture sector and concluded that the business model canvas is an effective management tool.

Richardson (2008) defined the business model components under three aspects; value proposition (what is the unique selling point of the company, in other words what does the

company do to satisfy their customer's needs), value creation and delivery (with whom the company works with to create value for their customers), and the value capture system (how company earns money). As Richardson (2008), Teece (2010) has also stated that business model explains the combination of value creation, delivery, and capture aspects of the company. These approaches are similar to what a business model canvas indicates.

When we look at company examples from different industries, such as Google, Netflix, YouTube, Facebook, Amazon, Apple, Ford, Transferwise, and so on, they all have unique features to write under those nine blocks as well as common ones. Business model canvas concept creates a systematically shared language in which companies can describe their business model as well as creating alternatives, and the canvas is already in use by different organizations such as IBM, Ericsson, Deloitte, and many more (Osterwalder & Pigneur, 2010).

To stay in the market and satisfy the market needs, a company has to create value for its customers and at the same time earn money from the value creation (Saebi et al., 2017; Teece, 2010). Sustainability is a significant phenomenon in which companies make long-term plans to survive in the competitive market, keeping in mind that the resources are not endless (Haanaes, 2016). Sustainability has also implemented into the business model concept. Sommer (2012) claimed that there is no robust body research regarding sustainable business models. Therefore, he developed a taxonomy of green business models (less pollution, reduces the wastes, materials are reused by recycling, using renewable energy resources, and so on) which can help companies to change their business models into more sustainable and environmentally friendly models. Boons and Lüdeke-Freund (2013) stated that value creation should also include ecological and social values rather than focusing only on profit where every party (suppliers, customers) should be aware of sustainable responsibility. Bocken et al. (2014) proposed eight different sustainable business model archetypes (see Figure 2) to help the process of implementing sustainability into current business models.

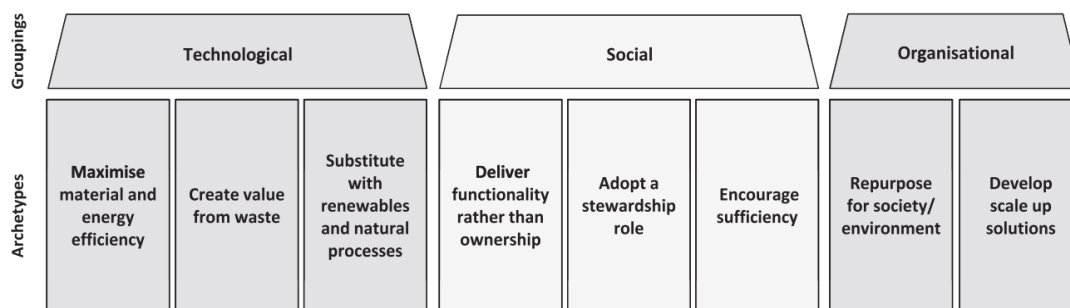


Figure 2. The sustainable business model archetypes (Bocken et al., 2014)

The business model aids companies in certain situations to quickly adapt the change and revise their organizational strategy (Karlsson, 2019). It is imperative to stay competitive in the market, increase profits, and betimes revive from bad situations (Chesbrough & Rosenbloom, 2002; Johnson, 2010; Teece, 2010). Lean thinking, a paradigm which focuses on maximizing customer value while eliminating the waste, applied in the business model concept and found out that it offers a significant role in improving the business model (Balocco et al., 2019). Lean thinking has 5 principles; specify value (add value to a customer’s need), identify the value stream (determine the crucial steps that deliver the products or services to the customer, optimize workflows), flow (eliminate the steps which are causing delays), pull (produce only when customer demands, reduce waste), pursue perfection (continuous improvement) (P. Womack & Jones, 1996).

Patterns are models which are used as a guide for reappearing problems (Alexander et al., 1977). Many authors have identified different business model patterns. Osterwalder and Pigneur (2010) defined five patterns to create a standardized format. Lüdeke-Freund et al. (2018) compiled 45 sustainable business model patterns to help companies to develop sustainability-oriented business models. A comprehensive study was made by Gassmann et al. (2015) by identifying 55 patterns and make them available to be useful for designing new business models.

In this thesis, Osterwalder and Pigneur (2010)’s business model canvas will be used to describe A. Le Coq’s current business model because it gives detailed information about the company’s all aspects on how they operate their business. It helps to see companies’ competencies by covering every aspect which is related to the business. It includes different elements of a business model in a structured way.

2.2. Business Model Innovation

The business model is a dynamic process, which means it can change or evolve and even can be used to make innovation (Coles & Mitchell, 2003; Massa & Tucci, 2013). Business model innovation means changing the way of doing business, shifting to a new business model; it can be a complete change or some parts of the business model, or can be done as a need for innovation to avail an opportunity or to avoid threats from the environment (pressure from competitors, changing trends, and so on) (Geissdoerfer et al., 2018). Business model innovation does not focus solely on product or service innovation; rather its goal is to find new ways of providing the existing products or services to the customer and to capture value from it (Yang et al., 2017). The same product can be released into the market with two distinct business models and can be resulted in two different economic outcomes (Chesbrough, 2010).

Business model innovation is done by reorganizing the companies' resources and their partners (Amit & Zott, 2010). It is an iterative process where the status quo is questioned, and the experience is gained by trial and error (Sosna et al., 2010). The process is complicated because it not only brings together two simple steps (conception and execution) but also it requires a sequential process of using cognitive abilities to create the model and then implements it into real-life (Berends et al., 2016). Sustainability can also be achieved through business model innovation besides product innovations (Schaltegger et al., 2012). Business model innovations have their benefits to improve companies' sustainability by aligning the new product with new business models (Girotra & Netessine, 2013).

According to Osterwalder and Pigneur (2010), business model innovation has four motivations; (i) when the current business model does not work anymore ("near death" experiences), (ii) changing environment forces the company to change the current model, (ii) bringing innovative solutions to the market, or (iv) foreseeing a new business model which will disrupt the existing ones in the future. While product innovation is a key success factor in the market; business model innovation will decide whether a company will be successful or not (Gassmann et al., 2015). Additionally, combining business model innovation with digitalization opportunities yield economic, sustainable, and social benefits in which digitalization plays a crucial role as a facilitator (Parida et al., 2019).

The process could be challenging when the company is not aware of the shift; especially the key stakeholders need to understand the demand for a change when it is necessary (Bouchikhi & Kimberly, 2003). The reasons for the stakeholders to avoid the change could be a contradiction of the new business model with the existing one (Amit & Zott, 2001), the appropriate model is not perceived easily (Chesbrough, 2010), the inadequacy of the management's leadership capabilities (Doz & Kosonen, 2010), or the absence of a systematic tool (Gassmann et al., 2015).

Although it is a challenging way to innovate the current business model, business model innovation can allow a company to gain a competitive advantage in the market (Lindgardt et al., 2015). Being proactive gives greater leverage for the companies to exploit the opportunities in the market instead of counteracting threats (Bucherer et al., 2012). Bashir and Verma (2017) proved that business model innovation is a process to create value for the company and "it can be a source of competitive advantage." Studies have demonstrated that rather than product or process innovation, business model innovation helps companies to achieve success (Gassmann et al., 2015, p. 5).

There are several approaches on how to make innovation in one company's business model. O Riordan et al. (2014) identified three significant phases – ideation, evaluation, and prioritization. In the ideation phase, which is called "fuzzy front end" in literature where ideas are brought up and chosen (Montoya-Weiss & O'Driscoll, 2000), the critical point is to create more ideas which can add more value into both the company and the market. The objective here is to generate as many ideas as possible. In the evaluation phase, the aim is to evaluate the ideas which are adjustable with company goals. In the prioritization phase, the intended ideas are prioritized according to the measures that are defined by the company. (O Riordan et al., 2014)

Organization's awareness is increasing about the importance of sustainable business models and guiding companies to implement sustainable business models, a different framework was added to the literature under the name of The Cambridge Business Model Innovation Process (CBMIP) which consists of 8 steps on how to innovate business model (Geissdoerfer et al., 2017). CBMIP identified three major clusters; concept design, detail design, and implementation which has similarities to what was proposed by O Riordan et al.

(2014). Concept design consists of the ideation phase where new ideas are brought up by identifying the key stakeholders, and a virtual prototype should be made. Detail design requires an in-depth analysis of the discussion of the previous steps and testing the new elements of the business model. Last phase, implementation, the carefully assessed business model is launched throughout the organization, and adjustments and diversifications will have been made during the usage.

Another approach is presented by Gassmann et al. (2015). Business model innovation has been successfully made after changing two of the four questions of who-what-how-why; “who are your customers, what do you offer to the customer, how do you create value, why does the business model generate profit.” Gassmann et al. (2015) had brought out 55 business model patterns to help companies that are willing to innovate their business models. His method has four steps for the business model innovation process; initiation, ideation, integration, and implementation. Initiation is the phase of analyzing the company’s ecosystem, including the company’s current business model, the competitors, technologies, megatrends, and regulatory changes. Ideation is the part where the company adapts patterns from his identification. Integration part is applying the selected patterns from the last step while keeping in mind the internal (organization) and external (stakeholders, competition, trends, and so on) consistencies. The final step, implementation, release the plan after successfully testing the business model. He starts the innovation process by analyzing the company’s current business model as well as with the industry it is operating and ends it by explaining how the company can manage the change. (Gassmann et al., 2015)

In this thesis, along with Business Model Canvas (Osterwalder & Pigneur, 2010), Gassmann et al. (2015)’s framework will be followed because it gives a well-ordered framework to follow in the process of making business model innovation ranging from analyzing the company’s current business model to how to manage the change after implementing the new business model. Apart from these, 55 business model patterns help to understand the existing models from different industry examples.

3. Data and Method

3.1. Research Method

Semi-structured interviews are based on questions, but since it is not entirely structured, the interviewee has the freedom to explain other things which they think it is relevant to the subject (Greener, 2008). Qualitative researches allow us to understand how people define their knowledge, how they select their words to express their ideas, and what value they add to their experience (Merriam & Tisdell, 2015).

Data collection: The first approach of data collection started with the use of Gassmann et al. (2015)'s framework. First two steps of Gassmann's framework were followed. The first step's name is "Initiation." In this step, the key point is to analyze the current business model of the company. The current model identified by asking the questions under the topic of "Open questions" (see Appendix A). Osterwalder and Pigneur (2010)'s Business Model Canvas used in this step to identify the company's current business model. The second step is called "Ideation" where the 8-10 business model patterns (out of 55) are selected to adopt them into the company's business model. The suggested business models discussed based on the similarity principle where business models are investigated by asking the question of "how will adapting pattern X to the company change the business model?" (Gassmann et al., 2015, p. 25-44) The selected business models' applicability was assessed by asking the questions under the topic of "Open questions about the selected models" (see Appendix A). Also, the interviewee was asked to give a scale from 1 to 5.

A. Le Coq's R&D Manager was contacted via email. The purpose of the study is explained and asked about his willingness to participate, along with sending a document that allows him to read the selected business models and the interview questions beforehand. Once the positive reply was received, a meeting was set, and the interview was conducted face to face with the R&D Manager of A. Le Coq.

The interview questions (see Appendix A) were divided into three different parts. The first part (Identifying questions) was to understand the interviewee's and the company's profile. The second part (Open questions) was to get an overview of the company's current business model. The last part (Open questions about the selected models) was to gather interviewee's feedback about the chosen business models. Also, the website of A. Le Coq

and the website of the mother company, Olvi Group, were used to gather data, as a desktop study, about their current business. As the Olvi Group has listed the shares publicly, they publish their annual reports and information about their news transparently. The necessary information was easily accessible through their website.

Data analysis: The data were analyzed at the same time the interview started. The interview recorded as an audio file, and the essential points of the meeting written down during the interview. The audio recording transcribed by using a software called oTranscribe. The transcription of the data is a rudimentary analysis which helps to grasp the generated input from interviewee's answers (Merriam & Tisdell, 2015).

Transcribed data analyzed by coding the data into categories (see Appendix B). The coding can consist of "single words, letters, numbers, phrases, colors, or combination of these" (Merriam & Tisdell, 2015). Furthermore, the company's current business model analyzed, and according to the interviewee's feedback, the applicability of the selected business models examined.

3.2. Business Model Selection

The ideal way of making the selection would be to sit down with the companies and discuss the 55 models one-by-one as suggested in Gassmann et al. (2015), but due to the limitations, I couldn't be able to carry out the step.

The business models have selected from Gassmann et al. (2015)'s patterns because of its detailed explanations and of the industry examples which are given from real-life practices. Three combined models identified. First model consists of the following four patterns; Experience Selling (Gassmann et al., 2015, p. 146-150), Direct Selling (Gassmann et al., 2015, p. 137-140), Customer Loyalty (Gassmann et al., 2015, p. 126-130), and Cross Selling (Gassmann et al., 2015, p. 113-116). The second model consists of the following three patterns; Integrator (Gassmann et al., 2015, p. 188-192), Layer Player (Gassmann et al., 2015, p. 193-196), and Orchestrator (Gassmann et al., 2015, p. 240-243). The third model consists of the following three patterns; Licensing (Gassmann et al., 2015, p. 202-206), Ingredient Branding (Gassmann et al., 2015, p. 183-187), and Lock-in (Gassmann et al., 2015, p. 207-211). On the following pages, to refer the models easily, only their numbers will be mentioned.

The common denominator of the first model is brand loyalty, which has a positive relationship with both customer satisfaction and brand trust (Ahmed et al., 2014). Customers tend to reduce perceived risks and want to simplify their purchasing decisions (Matzler et al., 2008). Customers take into account brand loyalty as a risk-reducing aspect for specific products or services (Sheth & Parvatiyar, 1995).

Experience selling gives an additional value to the product. Customers not only want products anymore; they also want the experience where they can have a memorable event (Pine II & Gilmore, 1998). That's why most of the companies are switching their focus on building experiences. Like Amazon's founder Jeff Bezos said, "If you do build a great experience, customers tell each other about that. Word of mouth is very powerful." (Katakam, 2017), providing great experiences allow companies to increase their reputation amongst customers. For example, bookstore designers have come to know that selling coffee in the store is a complementary business for their customers where they can have a memorable event (Pine II & Gilmore, 1998). Different examples from the industry can be found about how successful the experience selling model is, such as Starbucks (coffeehouse chain), Red Bull (energy drink company), and so on (Gassmann et al., 2015, p.146-150).

Direct selling has become a successful innovation by the usage of different companies such as Tupperware, The Pampered Chef, and The Longaberger Company, and it is a profitable model (Duffy, 2005). Global retail sales of direct selling companies earned almost \$190 billion in 2017 (WFDSA, 2018). According to a study by Brodie and Albaum (2004), which had 4,263 samples on a global scale, 76% of the total sample have either bought or would consider buying in the future from a direct seller. Direct selling model has benefits for the company in terms of eliminating the middle man which helps companies to decrease the prices, giving more detailed insight about the customer which helps to gain a better understanding of customer needs as a result of strong communication (Gassmann et al., 2015, p. 137-140).

Customer loyalty is an excellent way to retain customers. Customer retention is one of the key points for a company. Finding a new customer and making them buy your product is 5 to 25 times more expensive than retaining a customer (Gallo, 2014). Eriksson and Vaghult (2000) stated that satisfaction is an element to increase customer retention. Heskett

et al. (1994) claimed that customer satisfaction leads to customer loyalty, and customer loyalty leads to profitability. In the end, loyalty helps to retain customers, make them repurchase the same product or service and gives the feeling of a long-term commitment to the company (Srivastava & Rai, 2018). Various examples can be given regarding the customer loyalty business models from different industries such as American Airlines from the US, a loyalty card concept from Germany (Payback), and so on (Gassmann et al., 2015, p. 126-130).

Cross-selling is the term used for the products or services which are bought by the customers in addition to their original purchase as a complementary need (Li et al. 2011). We are living in a data-driven era now. Companies have a vast customer database in which they can identify the customers who are likely to buy a new product (Kamakura et al., 2004). Predictive analytics offers practical ways to make an accurate forecast to sell “right product to the right customers at the right time” (Derby, 2017). The basic principle for cross-selling is the customer’s trust to the company where customers feel secure when they buy products or services from a reliable company (Gassmann et al., 2015, p. 113-116).

The second model’s common aspect is value chain control. In the beginning, a company starts as a layer player in the industry. After acquiring the know-how about a specific value chain, a company slowly shifts towards different value chains and shifts to an integrator model where they have control over the value chains in the industry. The value chains that they cannot have control, the company can adopt an orchestrator business model to outsource those activities to providers who can successfully carry them out. By combining these three models, a company could have the opportunity to exploit all steps in the production and have full control over the complete value chain.

Layer player model focuses on only one step of the value chain and allows companies to gain superior expertise in that chain (Schweizer, 2005), for example, PayPal has the layer player business model by focusing only on the payment process (Gassmann et al., 2015, p. 193-196). **Integrator** business model means that a company has access to most of the value chains and this allows a company to create value efficiently and to react changes in the market quickly (Gassmann et al., 2015, p. 188-192). As can be understood from its name, the **Orchestrator** business model means that a company orchestrates the value chain. These

companies outsource the activities that are not inside of their value chain. This helps them to work together with innovative external partners (Gassmann et al., 2015, p. 240-243).

The third model puts Intellectual Property (IP) in its center. According to World Intellectual Property Organization (WIPO), “Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names, and images used in commerce.” IP can be in forms of patents, designs, copyrights, trademarks, and trade secrets (Hardie & Rooney, 2011). IP is a valuable business asset in the market where new ideas or products are being created rapidly - not able to protect the invention would cause losing the business asset to competitors (Sukarmijan & Sapong, 2014). IP is becoming a substantial resource amongst the companies where they create strategic alliances to improve the value of their IP assets (Idris, 2002). This combined method can help companies to focus on research and development (Licensing), lock-in the customer by offering a product that is an essential part of the final product (Ingredient Branding) (Gassmann et al., 2015).

Licensing is commonly used by large companies as a strategy to make revenue (Arora & Fosfuri, 2003). Licensing eliminates the threat of imitation of the products, and as a business model licensing is only useful when a company has a strong IP (Teece, 2018). A strong technological or chemical asset may lock the customers into the company. Lock-in model restrains the customer and eliminates the risk of losing them to the competitor (Amit & Zott, 2001). In the latter model, because of the time that has spent with the same provider, a status-quo bias (Just, 2013, p. 76) can occur and customers may not want to buy a similar product from another company since they don't want to strive with the switching costs (Burnham, Frels, & Mahajan, 2003). These costs have other aspects rather than money, such as time, technological dependency, contracts, learning costs, customer habits, and so on (Fornell, 1992; Gassmann et al., 2015, p.208).

Ingredient Branding refers to the model that a product is not directly sold to the customer. Instead, the product is put in another brand which is bought by customers. This model is costly to implement at the beginning, but once the brand awareness is established, the recognition would increase the sales. Studies showed that educated customers tend to buy products that are branded ingredients and are willing to buy more for those products (Kotler

& Pfoertsch, 2010, p. 3). Ingredient branding requires a partner to merge your brand with another. This mutually beneficial strategy creates value for both partners (Erevelles et al., 2008). The ingredient must carry out an essential role in the main product such as widely known Intel (Intel Inside) and DuPont (creator of Teflon brand) (Gassmann et al., 2015, p. 184-185).

Lock-in model, as can be understood from its name, locks the customers where they cannot have a chance to shift to another provider because of high switching costs. The costs can be anything which prevents the company from changing the provider such as money, time, learning new procedures, technological bond, and many other things. The high utility is on the company's side, and if this model is used wisely, the customer does not even understand that they are locked into the company if they are happy with the service or product (Eurich & Burtscher, 2014). The lock-in effect can toughen the bonds between the company and the customer with the help of trust or brand awareness (Amit & Zott, 2001).

4. Results & Discussion

4.1. About A. Le Coq

A. Le Coq has its roots in the drink manufacturing industry for so long – founded in 1807 - and it is the most prominent drink manufacturer in Estonia. They have 11 different product groups ranging from beer to water. They preserve their traditions as well as keeping up with the current age. The employee numbers are depending on the season – in summers; they have more employees. The total number varies between 320-350; they are a medium sized company. The company belongs to Olvi Group, which is a Finish brewery company. Olvi Group has different companies in Latvia, Lithuania, and Belarus. As the companies belong to Olvi Group, their business strategy and values are similar to Olvi. Company's current business model is as follows:

Customer segment: Company focuses on basically everyone who is drinking beverages. Their beers are for adults and mostly male, the ciders are for everyone, soft drinks are for young people mostly - but the targeted group is everyone: "It is quite hard to define who is a direct customer for the beverage group. Of course, we are developing for certain groups, but you never know". Also, besides individuals, they have enterprises as their customers, such as pubs, restaurants, and so on.

Value Proposition: A. Le Coq's main value proposition is selling beverages. Besides selling beverage, they offer promotions to businesses such as providing coolers, tables, glasses, fridges, and so on. This model depends on a contract, whether it is free or paid. They label this process as a win-win situation – businesses buy a significant amount of beer cans, and A. Le Coq delivers to the pubs. A. Le Coq has the freedom to choose a product from Olvi Group's portfolio or even using the same supplier.

Channels: They use physical channels to deliver their value proposition. They have their logistic department in Tartu and Parnu and send the products to retail stores directly. A. Le Coq owns only one store as a small souvenir shop where they sell directly to the customers. They don't own pubs or retailers.

Customer Relationship: Customer acquisition is made in two ways: "Give new ideas or go to new fields." One way is to offer new products – new, fresh taste. The second way is to go to the segment that is not active, which means offering different products such as instant soups. As discussed in the value proposition part, they focus on pubs or restaurants by assisting them in terms of buying their tables, glasses, and so on. This kind of relationship also helps their brand awareness – when the customer enters a pub, which is sponsored by A. Le Coq, the familiarity with the brand increases. A. Le Coq always asks for feedback and they offer personal assistance to their customers when the consumer wants to give feedback regarding a new product or the company via email, social media, or a phone call.

Revenue Streams: Their revenue comes from selling their products to the retailers. It is either a list price or volume dependent.

Key resources: It falls under two topics; intellectual and human. Intellectual because A. Le Coq aims to preserve and develop a good drinking culture in Estonia. They are creating a brand in Estonian drinks market by holding the lead position in beer, juice, and long drinks categories. Human because they value their employees and support them in every way they can: "We are different than other companies because of the flexibility, willingness to change, and employees are in charge. All my colleagues have the aim of the best. The investments must be agreed with the owner, but daily, we are free to do our products, our commercial. What we think is best for us".

Key activities: Three key activities can be counted; research and development (R&D), production, and sales. A. Le Coq gives importance to R&D by bringing new tastes to the market: “We are launching roughly 25-30 products per year”. Their production management consists of a selection of product, planning the production, quality and cost control, and maintaining the machines. Their own sales team has their responsibilities: “We have our own sales team which supports market change. They are putting the products to the shelves or in refrigerators. We have our responsible person that checks the product number daily. Everything – labels - should be visible, and we agreed that the layout of the fridge should be as we agreed, etc. Everything is nicely done”.

Key Partnerships: The most important partner is the mother company, Olvi Group. They can share their suppliers and products. Other partners are other companies which A. Le Coq make agreements to produce specific beverages to test the market whether or not the new drink is profitable or not: “We outsource some of the products to know where to invest in one small category. Test the market, for 1-2 years, for the products which are not profitable for us to produce”. Other partners consist of suppliers who provide the raw materials to A. Le Coq. In this component; pubs, restaurants, and other shops can be counted as their key partners because even if they pay for A. Le Coq’s products, they have an agreement with each other, and these enterprises help A. Le Coq to increase the brand awareness by using their sponsored furniture or their products.

Cost Structure: The costs are as follows; employee costs, research and development costs, maintenance costs, raw material costs, logistics costs, and taxes. They have the economies of scale as the characteristic of their cost structure, which means when the size of production increases, their cost per unit decreases.

Opportunities and challenges: The main challenge for their business is government and European Union change of regulations: “Government changes existing laws rapidly. Increasing taxes is a challenge. In the case of the European Union, their changes are already known years before. It is not a rare event that legislation happens; it happens yearly, but changes might be too many sometimes. I was in one meeting. One UK company, which provides food worldwide, they said in 2014 or another year, 1500 change happened in food legislation. If you are active in several markets and different categories, you can imagine that

it is too much”. Customer behavior is another challenge: “The willingness of consuming sugar is decreasing rapidly. If we looked five years ago, the customer segment who consumes soft drinks (they have 10 grams sugar per 100 ml) has shifted to near water type, which has 5-6 grams of sugar. The customer behavior drives the market eventually”. The technology counted as an opportunity: “Available equipment is also important – different package sizes, different approaches. What was too expensive ten years ago, now maybe is available. Maybe, we can afford it. It gives more opportunity and allows us to produce more drinks”.

4.2. Feedback for Suggested Business Models

The first model was; Experience Selling, Direct Selling, Customer Loyalty, Cross Selling. This model selected as not applicable by the interviewee: “We are not allowed to give anything else with the alcohol. If we sell beer, then, we sell only alcohol. Of course, these models are doable, but we haven’t discussed such kind of approach. We need a new division for us to create something like this. In Olvi Group, we have such kind of R&D department where they are looking forward, what could be done in the future, rather than product development – creating new beverages. At the moment, we don’t have the willingness to do it”.

The second model was; Integrator, Layer Player, Orchestrator. This model was selected applicable by the interviewee: “This is more familiar for us. We don’t have full control of the value chain; for example, we don’t have options to create additives. We don’t have yeast field. We outsource these. We don’t have control over them. So, we hope that we do it in our best and they do it in their best way to provide what is agreed. We are focusing on one layer; we are strong in this field”.

The third model was; Licensing, Ingredient Branding, Lock-in. This model rated as not applicable: “Licensing is a method which is done by Royal Crown, a US company. We are producing RC Cola under their license and with their raw materials. It is not common for us; we are aiming to produce our products to gain more profit. But if needed, we can do it. Ingredient Branding is a completely different approach. Our task is to provide directly to the customer. So, we are not selling semi-products to the companies. Our competitor Saku, is using Lock-in model quite aggressively. For example, three years ago, they offered to the pub if you want you can buy three boxes of our beverages, we deliver you 5 – 2 is out of

charge – but you have to get rid of our competitors’ products. We are not doing it. We are offering options to customers to choose. With the volume, they get better offers. We don’t lock them. We believe that customers want to choose their preference. If it is just one company, then most likely, the amount of customer will reduce. Because with this free beer, the pub owner is getting one brand and they are reducing the price of the product. The company is suffering in the long term. We understand this, and we are not doing, it is not a good model”.

For the selected models, interviewee gave the following points:

- The first model graded as 1 (out of 5),
- The second model graded as 4 (out of 5),
- The third model graded as 2 (out of 5).

4.3. Discussion

A. Le Coq is in the market with the same business model for so many years. Their innovation focus is mostly on products or processes rather than the business model. Their main aim is to create new products to gain more customers and to improve the efficiency in their production line as well as caring about the environment by reducing their carbon footprint, water consumption, recycling materials, and responsible procurement. They name this as responsible value chain in which they respect the environment and society. This implies that they are trying to implement sustainability in their business model where they try to work together with the sustainability responsible suppliers and at the same time, A. Le Coq motivates the customer for responsible consumption. This result matches with Boons and Lüdeke-Freund (2013)’s definition of sustainability in a business model.

They once innovated their business model by selling directly to the customers. After Olvi Group has bought A. Le Coq, A. Le Coq had their pubs and retailers. Olvi Group invested in the company and provided new machines for production. To overthrow Saku’s domination in the market, they started to establish pubs in the center of the city to make their brand known. The domination and aggressive behavior of Saku allowed them to obtain retailers attention. They welcomed A. Le Coq quickly. After acquiring market shares and making the brand known, they stopped using the direct selling model because they didn’t need their pubs anymore. This example of adopting direct selling for gaining competitive

advantage through business model innovation supports Bashir and Verma (2017)'s statement. This action also supports Lindgardt et al. (2015)'s assertion which implies a business model innovation process helps to gain a competitive advantage in the market.

Company is aware of the megatrends. They invest in sustainability and decreasing the energy that they are using – “in 2014 A. Le Coq launched an energy-saving program in cooperation with the Danish company Scanenergi that saw an energy audit drawn up for the company outlining 14 energy-saving projects” (Responsible Value Chain, n.d.). They strictly follow the changes in customer behavior and adapt it swiftly to keep up with the demographic changes. Moreover, digitalization is the key success factor in the market. Digitalization allows them to monitor real-time data and optimize the use of supplies such as water, steam, and electrical power with the help of Lean methodology. As stated in Parida et al. (2019)'s research, digitalization facilitates business model innovations and it leads to a sustainable industry as well as changing the company's way of doing business by allowing them to obtain more data to make predictive analysis.

Their current business model focuses on six core competencies; operation efficiency, being local, responsibility, high quality, and the best taste of products, skilled personnel, and good customer relationships. They follow the lean methodology for continuous improvement because it focuses on maximizing customer value (Balocco et al., 2019) and pursues perfection (P. Womack & Jones, 1996). The management model enables the agile decision-making process by helping them to make better, rapid, and coordinated decisions. Bocken et al. (2014)'s “Maximize material and energy efficiency” archetype can be observed in A. Le Coq's current business model where they use their resources to operate at maximum capacity while decreasing the waste, emissions, and pollution.

The most applicable model selected as the second one, which consists of Integrator, Layer Player, and Orchestrator. Because of its similarity to the company's current business model, this model was well received by the interviewee. The familiarity with the model, helped the interviewee to bring out his ideas. He focused on positive aspects of the model rather than bringing out the negative ones. This allowed him to reveal more creative ideas and find ways to use the pattern as their new business model. Moreover, they have the resources and a business strategy to acquire the company when it meets their expectations in

terms of product quality, delivering on time, and the company culture. This could allow them to adopt this business model as their current strategy.

Adopting the second model will help them to gain control of the value chain in every aspect. They have control in several chains in their current model, such as logistics, and production. In terms of other chains such as yeast or additive production, they outsource. The benefit for the second model comes in at this point since this model allows them to improve their knowledge on the layers one by one. Once they have the necessary knowledge, they can easily take control of another value chain which allows them to shift slowly to the Integrator model. After obtaining control of the chains, they will have dominance in their sector. Another key benefit of this model is, they can produce for other companies. This will allow them to create sub-companies that produces the same products for both A. Le Coq and other firms such as Olvi Group's other companies. The main idea behind selecting the model is supported by the interview results as well.

The third model ranked more than the first one because of the licensing pattern. A. Le Coq is using RC Cola's license to produce the drink and sell it in the Estonian market. If it can be done by another beverage company, A. Le Coq could also implement a similar business model to adopt a new business model. This will allow them to be in the other markets with their licensed product. When they acquire their own patents, this would be easier for them to give out their license and create value for the company. Another reason for the objection for this model (especially for lock-in pattern) is the aggressive behavior of the competitor of A. Le Coq, Saku. Saku is forcing the pubs to use only their products and locks the customer in with a contract. The adverse effects of the model were identified and decided not to be used by A. Le Coq. Ingredient branding idea was not accepted because of the production processes. They are not producing semi-products in the company and this model's implementation will require changes in their production system. This change would damage their current business instead of innovating it.

Although some patterns of the first model had used by the company, it is graded as the lowest applicable model. They have tried the direct selling method which helped them in the past and a similar way of cross-selling method where they gave away free music CDs with beer or giving free toys as a gift if the customer buys a specified amount of drinks.

However, the legislation inhibits them to give something with alcohol. Therefore, this model cannot relate to alcohol sales. Even though they had footprints of the two patterns of experience selling and customer loyalty and because of the brand awareness they try to create in the Estonian market, I thought that this model would be perceived as a good solution for them. Quite contrary, this model graded very low. Another reason was the unwillingness to change. The model considered as doable model in the industry, but when it comes to the desire of changing the current model, the questions arose from the interviewee saying that we are not willing to implement this model soon.

The business model innovation process should start with the company's willingness to change. From my observations; A. Le Coq has not discussed such an approach to make a business model innovation in their current system. They are not interested in changing the current business model, which caused by the following reasons:

- **Status quo bias:** As the company operates in the market with the same model for quite a long time, A. Le Coq embraced the current business model. This causes resistance to change (Hede & Bovey, 2001) at the organizational level when it comes to business model innovation. There are facts that when it comes to decision making, most people choose the status quo and decide to do nothing or to maintain the current situation (Samuelson & Zeckhauser, 1988). As stated in Bouchikhi and Kimberly (2003)'s study, when the conditions met for a change, key stakeholders should be aware of the change.
- **Unwillingness to change:** In A. Le Coq's agenda, they are not considering changing their business model. They are happy with the existing one and focuses on product innovations to attract more customers. However, they are aware that the future might force them to update their business model because of the changing trends, customer behavior, or competition in the market. Especially, competition with Saku would be a starting point for A. Le Coq to change their business model as they did in the past to gain market shares from Saku's monopoly.
- **Mother company approval:** For the crucial decisions, the company requires Olvi Group's approval. They must include the key stakeholders in the company's essential decision-making processes. This can be a barrier for the company to act fast and react

to the current changes immediately even though they state that agile methods are being used in the company.

Competition aspect can force them to change their current business model as they did in the past. As can be observed from the literature and the real-life example from A. Le Coq's case of gaining market shares by using the direct selling method, business model innovation can occur because of competition. Gassmann et al. (2015) have also pointed out the importance of the competition as a driver of business model innovation. Moreover, to be able to survive in the market in long-term, companies need innovative business model because "tomorrow's competitive advantage of companies will not be based on innovative products and processes but on innovative business models." (Gassmann et al., 2015)

Moreover, the lean methodology that they are using can be a driver for their business model innovation process. Because of its core aspect, lean methodology has the phenomenon of adding value to customers' needs. Customers' needs can be met if a company consistently updates itself and reacts to the developments of the age in which they are operating. A value cannot only be met with offering new products for the customers. As stated in Pine II and Gilmore (1998)'s research, customers want to experience a memorable event from the companies. A. Le Coq has the capability to create a bond with their customers as Red Bull is doing to draw attention to their brand. A. Le Coq can start this journey from Estonia and spread it throughout the world.

5. Conclusion

This thesis concentrated business model innovation opportunities as a case study of A. Le Coq. The study revealed that A. Le Coq has a sustainability-based business model in which they are trying to maximize their production by minimizing the waste, working with the sustainable suppliers, and motivate the customer for responsible consumption. The interview revealed that A. Le Coq's focus is mostly on product innovations instead of their business model. Business model innovation analysis process was done by selecting different patterns and combining the patterns to create three different models. The followed framework is a guide for A. Le Coq to innovate their business model. The results showed that out of the three suggested models, the second model (Layer Player, Integrator, Orchestrator) is the most applicable one which can have a positive impact on A. Le Coq's survivability in the market. This model has the capability to control the value chain, decrease transaction costs, gain expertise on the layers, and work together with innovative partners to enhance the production. Overall, business model innovation is a long process, and A. Le Coq should be aware of the business model innovation importance even though they are operating quite well in the market for now.

The limitations of interpreting the results are as follows:

- **Time.** Due to the time limitations, only the first two steps of Gassmann's framework could be used in the thesis. The rest of the steps – integration, and implementation - require a contribution from key stakeholders.
- **Lack of responsiveness.** Only one person agreed to be interviewed. This caused a limited amount of data for interpretation. This limitation attempted to be mitigated by the company's online data on its website.
- **Data quality.** Biases against the selected models can hinder the creativity of the participant. Sample data size is meager, and it can cause a wrong interpretation.

Business model innovation is an iterative process where everyone should be willing to participate. Everyone in the company should understand the benefits of business model innovation. The process should be well explained to grasp the topic. Otherwise, the organizational change will be hindered because of the fear of the unknown and broken communication. Therefore, for future research, it would be beneficial to examine the macro

level transformation which includes the rest of the steps of Gassmann et al. (2015) – integration and implementation – as well as including the board members of the companies, both from A. Le Coq and the mother company, Olvi Group.

More comprehensive studies can also analyze the implementation barriers of new business models. Moreover, the economic effect of business model innovation could be examined by comparing the financial statements before and after the implementation of the new business model.

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Appendices

Appendix A

Questionnaire of the interviews

Identifying questions - Analyzing the interviewee's and the company's profile.

1. Could you please briefly introduce yourself?
2. When was the company established?
3. What is the size of the company? Employees? Turnover?
4. Could you explain your responsibility in the company?

Open questions - Get an overview of the current model

1. What products/services does your company offer? (Value proposition)
2. What makes your company different than others? (Competitive advantage)
3. Who are your customers? (Customer segments)
4. How do you get, keep, and grow your customers? (Customer relationships)
5. How do you deliver your products/services to your customers? (Channels) - Physical stores, virtual (web, mobile, cloud)
6. How do your partners help you to deliver value to your customers? (Shareholders, suppliers, contractors, and so on)
7. What business opportunities and challenges do you foresee in your sector? Trends, technologies, and so on. (Influence factors)

Open questions about the selected models - Feedback collection

1. What do you think of the selected business models in terms of applicability into the sector?
2. What could be the opportunities of the selected models?
3. What could be the implementation problems of the selected models? If there is any.
4. Have you ever tried a similar method like this? (Making business model innovation inside the company)

Appendix B

Codes

Interviewee profile

R&D manager

16 years of experience

Develop new products

Value Proposition

Selling beverage

Support the pubs

Customer Segments

Adults - Alcohol

Everyone – other drinks

Shelf Arrangement

Better marketing

Check product amount

Make the product visible

Customer Relationship

New products

New tastes

Feedback Gathering

Shop visits

Social media

Phone call

Email

Channels

Physical

Delivering Value with the Help of Partners

No direct help

Work together on campaigns

Supplier help

Challenges

Government change of regulations

Customer behavior

EU legislations

Opportunities

Technological improvement

First model

No willingness

Not in company's agenda

Second model

Similar

Interested

Applicable

Third model

Negative sides of lock-in
Freedom to customer
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I, Kerim Yiğit Özsoy

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