



Business model innovation

A case study on what the challenges and opportunities
are for a consulting company's business model

Affärsmodellinnovation

En fallstudie på vad utmaningarna och möjligheterna
är för ett konsultföretags affärsmodell.

Marcus Schmidt

Faculty of Health, Science & Technology

Master of Science in Industrial Management and Engineering

Master thesis: 30 ECTS

Supervisor: Antti Sihvonen

Examinator: Mikael Johnson

2018-06-04

Issue: 1

Abstract

With technologies changing faster than ever the need to change business models is getting more and more important. However, it is not as easy as one might think for a company to change their business model. A lot of companies believe they need to change their business models but very few has been able to do so. In order to find out why companies have such a problem this master thesis attempts to answer the question of how consulting companies understand their own business models and business model innovation. By combining a literature review with interviewing both employees at a consulting company and their customers the author presents existing business models with the help of business model canvas as a framework in order to show what parts of a business model that a consulting company focuses on. Other than presenting the findings on the consulting company's existing business model a totally new business model is also created. The insurance model is a new way for consulting companies to raise their value proposition in order to gain more revenue streams. This master thesis also finds out that one of the main problems for a consulting company when it comes to understanding its own business model is the fact that the company hierarchy creates a diversion between the cognitive aspects and the material aspects in the business model and a lot of innovative ideas goes missing. The thesis also finds that the main focus is on value proposition and revenue streams and that the other parts of the business model is ending up in the shadow.

Keywords: *Business model innovation, Business model canvas, Cognitive aspects, Material aspects, Sustainability.*

Sammanfattning

Med tanke på att teknologin förändras snabbare än någonsin så har behovet av förändringar för affärsmodellerna också blivit viktigare och viktigare. Problemet är att det inte är så lätt som man kan tro för ett företag att förändra sin affärsmodell. Många företag vet om att de behöver förändra sin affärsmodell men lyckas ändå inte göra det. För att förstå varför företag har så stora problem med detta så ska det här examensarbetet försöka svara på frågan: Hur uppfattar ett konsultföretag sin egen affärsmodell och affärsmodellens innovation? Genom att kombinera en litteraturöversikt med att intervjua anställda på ett konsultföretag och även en av deras kunder så kan författaren presentera affärsmodeller via ramverket från business model canvas för att visa vilka delar av en affärsmodell som ett konsultföretag fokuserar på. Utöver att presentera resultaten av företagets nuvarande affärsmodeller så presenteras även en ny affärsmodell. Försäkringsmodellen är ett nytt sätt för konsultföretag att förbättra sitt värdeerbjudande till kunden för att på så sätt öka inkomstkällorna. Det här examensarbetet har också hittat att ett av de största problemen för ett konsultföretag när det kommer till att förstå sin egen affärsmodell så är det för att företagets hierarki skapar ett avstånd mellan de kognitiva aspekterna och de materiella aspekterna av en affärsmodell och en mängd innovativa idéer försvinner på grund av det. Examensarbetet påvisar också att huvudfokuset för ett konsultföretag är värdeerbjudandet och inkomstkällorna och att alla andra delar av en affärsmodell försvinner lite i skuggan.

Nyckelord: *Affärsmodellinnovation, Business model canvas, Kognitiva aspekter, Materiella aspekter, Hållbarhet.*

Acknowledgements

The master thesis is the final course in my Master in Industrial Engineering and Management at Karlstad University.

After five years at Karlstad University I would like to thank everyone who played a part and has helped me in writing this master thesis. First of all, I would like to thank my supervisor Antti Sihvonen for his guidance in this process with all the valuable inputs and the support he has given me. I would also like to thank everyone at Consulting Ltd who has taken such great care of me and helped me during this spring. I would like to thank my two supervisors at Consulting Ltd who has always been there and helped with both their time and knowledge.

I would also like to thank everyone who participated in my thesis by participating in the interviews which was essential in order to gain the information needed for this master thesis.

Lastly, I would like to thank my family and friends who has supported me during this process.

Karlstad, May 2018



Marcus Schmidt

Table of content

1.	Introduction	8
1.1.	Background.....	8
1.2.	Problem formulation and research gap.....	9
1.3.	Aim.....	10
1.3.1.	Research question	10
2.	Theoretical framework.....	11
2.1.	Business model definition.....	11
2.2.	Business model canvas	12
2.3.	Business model innovation	16
2.4.	Sustainable business models	18
2.5.	Synthesis	19
3.	Method	20
3.1.	Research approach.....	20
3.2.	Research strategy	21
3.2.1.	Participants.....	23
3.2.2.	Procedure and materials.....	23
3.3.	Data collection	24
3.3.1.	Primary data - Interviews.....	25
3.3.2.	Secondary data – Company data	25
3.4.	Data analysis	26
3.5.	Trustworthiness.....	26
4.	Findings & Analysis.....	28
4.1.	Understanding of business models.....	28
4.2.	Different business models.....	29
4.2.1.	Payment per hour.....	34
4.2.2.	Fixed price.....	35
4.2.3.	Incentive-model.....	36
4.3.	Business model innovation	37
4.3.1.	Financial impact	41
4.3.2.	Environmental impact.....	43
4.3.3.	Social impact.....	43
4.3.4.	Viability of the new business model.....	44
5.	Discussion.....	45
6.	Conclusion.....	50
6.1.	Academic contributions.....	50

6.2. Limitations and further research	51
7. References	52
8. Appendices	54

1. Introduction

This section explains the background and the research gap, so the reader can get an overall picture of the master thesis. This section will also present the aim with the master thesis and the research questions that are generated from the research gap. It also takes up the limitations for this master thesis.

1.1. Background

The new technologies around the world are making the industries change faster than ever. This makes consultancies face new challenges in order to adjust to the new markets. Internet of things, Big data, 3d printing and industry 4.0 are some examples of the technological changes that are changing the industries and therefore also how business are done all over the world (Tempelaar et al., 2015).

In order for consultant companies to stay competitive on the market many have invested a lot when it comes to exploring new ideas and technologies. But business model innovation has also grown and become more important for consulting companies around the world since two different business models will provide two different economic results (Chesbrough, 2010). The importance of business models is explained by the following quotation by Chesbrough, (2010, p. 354) “A mediocre technology pursued within a great business model may be more valuable than a great technology exploited via a mediocre business model”.

But it is not only the new technologies that are forcing a lot of companies to change their business models. Sustainability is also a concept that is becoming more and more important which has increased the need for new business models that are so called sustainable business models. The reason for this is because sustainability is becoming more and more important every day in order to create a better customer value proposition which in turn will create a better profit formula. In order for the business model to be sustainable it needs to be economically, environmentally and socially acceptable (Johnson et al., 2008). By being more sustainable the company will also have it easier to attract employees and investors as well as it will help to improve the company brand (Bocken et al., 2014).

According to research made by (Seipl, 2016) a majority of the respondents answered that their business model have to change in order for their consulting company to remain competitive. In the same research 70 % of the respondents

answered that their consulting company used only an hourly or a fixed fee and less than 10 % used mostly or only performance based revenue models (Seipl, 2016).

1.2. Problem formulation and research gap

The consulting profession is continuously developing in order to be competitive. That is why a well-integrated business model can play an important role in order to get a competitive advantage. But most consulting firms are still using fees per hour or flat rates as their revenue streams and many are still using exactly the same business model as they have for a long time. (Seipl, 2016)

However, the last few years more and more consulting firms are starting to try out different kinds of business models. An example of this is McKinsey & Co that has worked a lot on business model innovation and now are for example working with a solution-based business model (McKinsey & Co, 2008)

Business model innovation is also becoming increasingly recognized by consulting firms as an important factor to deliver better social and environmental sustainability (Lüdeke-Freund, 2010). But the understanding of sustainable business models and therefore also the options available for innovation in this area is limited at the moment (Lüdeke-Freund, 2010).

According to Tikkanen et al., (2005) there are two main aspects of a business model that needs to be taken into consideration. They are the *material aspects* of a business model and the *cognitive aspects* of a business model. The material aspects are the tangible elements of a company's business network, operations, strategy as well as their finance and accounting. The cognitive aspects are the belief system of a company, in other words the systematic meaning structures of a company. When it comes to decision-making, the belief system is the main aspect, therefore there needs to be a relationship between the two aspects in order to understand the business model (Tikkanen et al., 2005).

With all the research done on business models and business model innovation as well as sustainability and sustainable business model it is interesting to empirically test how a consulting company understand its business model as well as how well the employees understand business model innovation in order to figure out whether or not it is possible to implement a new business model that is more sustainable for the future.

1.3. Aim

The aim with this thesis is to analyze how consulting companies understand business model and business model innovation in order to see what innovations are possible to implement in a consulting company to create a new business model with the help of business model canvas. Since most consulting companies use hourly fees the aim with this thesis is to see if it is possible to create a sustainable business model for consulting companies that will give a surplus both financially and environmentally. The aim is also to examine whether or not their lack of understanding their business models limits their possibilities to use business model innovation.

1.3.1. Research question

In order to contribute academically to the research on business models and how consulting companies use business models and business model innovation as a competitive advantage on the market the research question was conducted as follows.

RQ: How do consulting companies understand business models and business model innovation?

To be able to answer the research question a case company was used. The case company will be called Consulting Ltd in this thesis due to the privacy of the company and the employees of the company that participated in the interviews. The company is a consulting company and is multinational with over 6000 employees worldwide. They have competencies within engineering, economics and environmental science and works with more than 14,000 projects at any given moment.

2. Theoretical framework

This chapter starts by describing what a business model is and creates a definition of a business model for this thesis. The middle part of this chapter explain why business model innovation is important and present how to create a business model with the help of a business model canvas. Finally, this chapter explains sustainability and the concept sustainable business model.

2.1. Business model definition

Business model is a concept with many varieties and different definitions, some more detailed than others. This thesis has outlined some of the most used and well-known definitions and put them into table 1. These different definitions are the groundwork for the definition of business models that this thesis will use.

Table 1: Different business model definitions.

Author(s)	Definition
Amit & Zott (2001)	“The content, structure and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit and Zott, 2001, p. 511)
Chesbrough & Rosenbloom (2002)	Chesbrough and Rosenbloom (2002) explains the six functions of a business model: <ul style="list-style-type: none">• Value proposition: A business model needs to explain the value created for the users by the product or service provided by the seller.• Market segment: A business model needs to identify the market segment where their product or service is useful to the customers.• Value chain: Defining the structure of the value chain within the firm is an important part of a business model. Both to distribute the offering and to determine what complementary assets the firm need to support its position in this chain.• Cost structure and profit potential: A business model should estimate, given the value chain structure chosen and the value proposition, the potential cost structure and profit potential of their product or service.• Value network: A business model should also describe what position the firm has within its value network that links them to suppliers and customers. It should also indicate the potential competitors.

Morris et al., (2005)	“A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets” (Morris et al., 2005, p. 727).
Shafer et al., (2005)	“We define a business model as a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network” (Shafer et al., 2005, p. 202)
Teece (2010)	“In short, a business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits” (Teece 2010, p. 173)
Osterwalder & Pigneur (2010)	“The rationale of how an organization creates, delivers and captures value” (Osterwalder and Pigneur, 2010, p. 14)

These definitions of a business model are just a few of many that exists today. However, they are some of the most common and accepted ones and they all have either a lot in common or at least something in common with each other. Value is for example one concept that almost every definition includes and another concept that most of them include is customers or customer segments. So, to summarize what a business model is the following is the definition used for this thesis: A business model is a tool that an organization should use in order to offer value to their targeted customers. This includes channels, internal resources, activities and partnerships.

In order to further explain what a business model is and the different parts of a business model this thesis will use business model canvas by Osterwalder and Pigneur, (2010) as the framework.

2.2. Business model canvas

There are several different methods to create business models and one of those is the business model canvas. The reason for using the business model canvas is that it takes a lot more different parts of a business model into consideration compared to other frameworks. It is also a good framework to use when it comes to explaining the existing business models but also to show how new business models could look like which is why it is widely used by practitioners

and not only an academic tool. The canvas is a guide consisting of nine different parts that together cover all of the main areas for a business (Osterwalder and Pigneur, 2010).

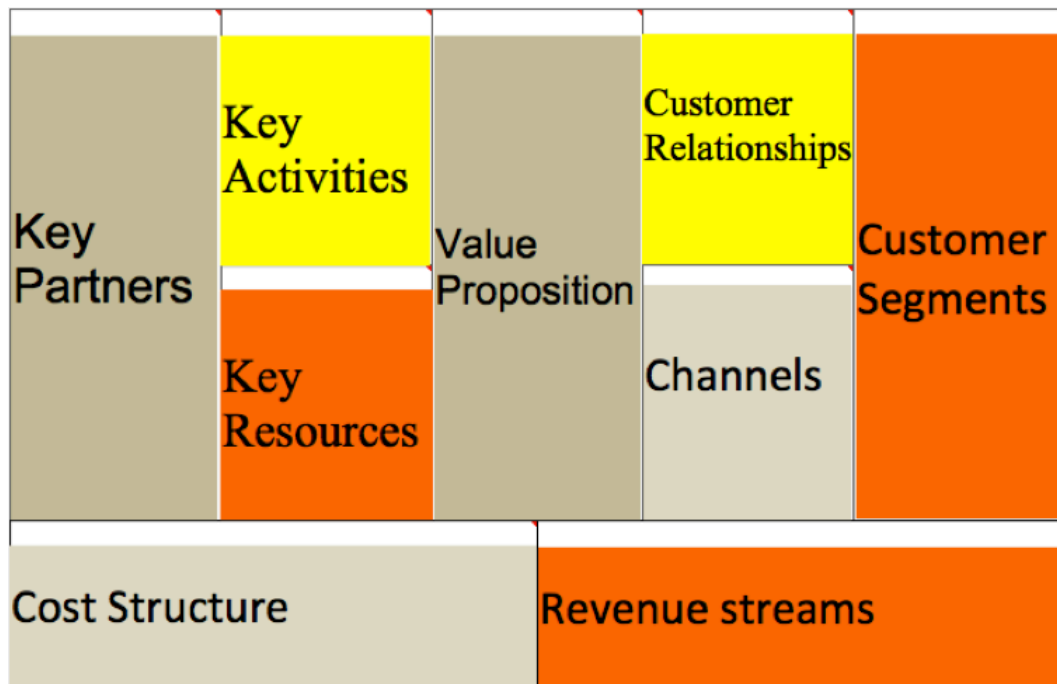


Figure 1: An illustration of the business model canvas framework from Osterwalder & Pigneur (2010).

The main focus in this thesis will be on revenue streams but to get an understanding of the business model all nine will be used and presented.

Customer Segments

First and foremost, in any business model the organization must decide what market they want to act on and therefore also which customer segment they want to work with. In these customer segments the customers have similar needs, characteristics or behavior which makes them easier to target as a group (Osterwalder and Pigneur, 2010). This is important according to Teece (2010) since it is increasingly important for companies to deliver value to their customers. Depending on what products and/or services the organization can provide for their customers there can be several different customer segments in a business model. That is why the organization needs to be aware of its qualities, so they can make the right call on which segments to act on and which ones they should ignore. Five examples of different ways of segmenting customers are segmented platforms, multi-sided platforms, mass market, niche market and diversified platforms (Osterwalder and Pigneur, 2010).

Value Propositions

After choosing the customer segment the organization now needs to create a value proposition for their customer in these segments. The value proposition should simply put be why the customer should choose to buy the organizations product or hire their service. Due to the changes in technologies around the world many companies need to re-evaluate the value proposition they give to their customers (Teece 2010). The value proposition needs to satisfy the customer need and address the specific customer segment. Depending on the chosen customer segment the value propositions should be customized in order to create maximum effect for certain segments. A value proposition can be totally innovative or very similar to existing propositions already offered on the market. It can be similar as long as it targets a different segment or if it has at least one different element compared to the similar value proposition. Elements can for example be price, design, performance or customization (Osterwalder and Pigneur, 2010).

Channels

It is through different kind of channels that the organization sell their products and/or services. These channels should also be used in order to raise awareness for the organization and to let the customers evaluate the organizations value proposition (Osterwalder and Pigneur, 2010). The channels can either be the organizations own channels, for example personal selling or own stores. If the organization does not have their own channels they can use for example wholesalers and agents (Osterwalder and Pigneur, 2010).

Customer Relationships

The different customer segments demand different kinds of customer relationships. For example, according to Morris et al., (2005), the different costs of having either a long-term or short-term could affect the business model. Which channel that is used is also a factor when it comes to how an organization should approach customer relationships. The relationships can either be personal or automatized through internet. They can be through co-creation or through self-service. If an organization wants to create a long-term relationship with a customer it is important to give the customer the right kind of approach to create the best customer experience (Osterwalder and Pigneur, 2010).

Revenue Streams

Revenue streams are, along with the customer segment, perhaps the most important parts of a business model. The revenue streams can be very different from each other and depend on what kind of customers the organization has and how much they are willing to pay for the certain product and/or service. There are two typical kinds of revenue streams, the transaction revenue and the continuous revenues. The transaction revenue is a one-time payment for the certain product and/or service. During long time services this payment can come either before the start of the service, during the service or after the service is completed. The continuous revenues are payments that come in continuously during a period of time. This can be for example for support of a product or for long term projects. The continuous revenues are according to Teece (2010) getting more popular amongst companies. There are however many different ways of gaining revenue streams within these two and some kind of revenue streams are somewhere in between them. A flexible organization can use several different kinds of revenue streams and use that in the value proposition to create a higher value for the customer (Osterwalder and Pigneur, 2010).

Key Resources

Key resources are used by organizations in order to create value for their customers. The key resources can be everything from the people, technology and products to brand and channels (Johnson et al., 2008). They are also used to reach their target market and keep their customer relationships. According to Osterwalder and Pigneur, (2010) there are four categories of key resources, they are physical, intellectual, human and financial. Physical can for example be buildings, machines, vehicles and so on, intellectual can be a certain brand, patent or copyright that the organization have. Human resources are especially important for companies that are knowledge-based or based on creativity from humans. The financial resources are also an important key resource for organizations since they can give stability to a business model (Osterwalder and Pigneur, 2010).

Key Activities

In order for an organization to keep creating value for its customers, for it to keep reaching markets and to build relationships with its customers, it needs to perform some key activities. These key activities are different depending on the customer segment and that is one of the reasons why it is so important for an

organization to identify their customer segments. The key activities are similar to the key processes that Johnson et al., (2008), discuss which are operational and managerial processes. However, the three categories for key activities are production, platform/network and problem solving (Osterwalder and Pigneur, 2010).

Key Partners

Key partners can be everything from suppliers to other partners that exist in the organization network. They are crucial for making the business model work. There might be a lot more partners in the network for an organization but if they are not crucial for the business model then they do not count as key partners. Some other organizations might be partners in one part of the market segment but compete in another part of the market segment (Osterwalder and Pigneur, 2010). There are four different types of partnerships that an organization can be a part of according to Osterwalder and Pigneur, (2010):

- Strategic alliances: Alliances between non-competitors.
- Joint ventures: Partners that can develop new businesses together.
- Buyer-supplier relationships: The most common type in order to assure reliable suppliers for the buyer and for suppliers to have a steady confirmed buyer for their product.
- Co-operation: Strategic partnerships between two competitors.

Cost Structure

The cost structure focuses on the main costs for the organization. The cost structure depends on other parts of the business model, for example key partners, key activities and key resources. According to Johnson et al., (2008), the costs will be predominantly driven by the costs of the key resources. The cost structure is an important factor for realizing how much revenue is needed for the business to be profitable. There are two different ways for organizations to think of their cost structure. The organization can either be cost-driven or value-driven, meaning that they are either focusing on reducing costs or focusing on creating a higher value for their customers. (Osterwalder and Pigneur, 2010).

2.3. Business model innovation

With the development in the global economy the traditional balance between the supplier and the customer have changed. Customers have so many more choices today than they used to have. This has forced businesses to be more customer-centric since technology has evolved making the products and

services cheaper. With this change in the global economy, there is a need to address customer needs more wisely (Teece, 2010).

Many companies are investing a lot when it comes to exploring new ideas and technologies, but they rarely innovate their business models. This is a big problem for many companies since two different business models will provide two different economic outcomes. The importance of business models is explained by the following quotation: “A mediocre technology pursued within a great business model may be more valuable than a great technology exploited via a mediocre business model” (Chesbrough, 2010, p. 354).

With a suitable business model, the company will provide considerable value to their customers as well as collecting a certain portion of this in revenues. However, according to Teece, (2010) the implementation of a successful business model is in no way assuring competitive advantage over time. This is because once a business model is implemented and successful it will only take a few years, or in some cases even only months, before a competitor has eclipsed the business model with a new even more successful one. That is why the business model needs to be evolved throughout time with the help of business model innovation (Teece, 2010).

Another important factor when it comes to business model innovation is to understand the cognitive belief system hierarchy since according to Tikkanen et al., (2005) it determines the firms’ actions and business performance. The entire business model can be seen as a complex web with both material and cognitive components that need to work together to change the business model. According to (Cavalcante et al., 2011) there are four different types of business model change. They are the following:

- Business model creation
- Business model extension
- Business model revision
- Business model termination

Business model creation refers to a firm or company going from a new business idea to the materialization of it. In other word getting a new business model up and running. Business model extension refers to when a company or a firm is basically adding activities or maybe expanding certain already existing processes

into an existing business model. Business model revision refers to when a company or a firm replaces an existing part of the business model with a new part. For example, when the company's competitors develop new processes that changes the market and forces the company to replace some parts of the business model with new parts. Business model termination simply means that sometimes a company needs to remove or terminate parts of a business model in order to stay competitive. That can for example be to stop providing a certain service to the customer since that service is not profitable for the company (Cavalcante et al., 2011).

2.4. Sustainable business models

Sustainability is becoming a more and more important focus in firms since their environmental work is becoming much more important (Elkington, 1998). There are quite a few literature studies on this subject, one example is that Stubbs and Cocklin, (2008) conducted a literature review of business models that delivered sustainability and called them sustainable business models. However, according to Bocken et al., (2014) there is a problem in getting out to firms and companies and teaching them how to include sustainability in their business models. Including sustainability in the business models is also a way for companies and firms to approach the triple bottom line which is a concept that a lot of stakeholders, customers and employees appreciate since that gives them a better reputation and that will increase the brand for the company. The triple bottom line is very similar to sustainability since they both combine economics with the social aspect and the environmental aspect (Bocken et al., 2014).

Sustainable development was defined as early as in the 80s by WCED (1987, p.41) as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Only a few years later IISD (1992, p.1) said this regarding sustainable development in business: "Adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future".

Business can contribute to solving the sustainability challenges that the world is facing today. In order to do so sustainability must be incorporated in the value proposition of the business model and then it needs to be successfully marketed to attract customers, employees and stakeholders. According to (Lüdeke-Freund, 2010) a business model can create a competitive advantage through

adding sustainability into the value proposition and therefore improve results for a company financially, socially and environmentally.

This addition to the value proposition can be explained by Figure 2. It is important for every company to understand who they want to create the value for and why. Is the goal to create value for the customers only or is it important to also create value for the public and the company itself (Lüdeke-Freund, 2010).

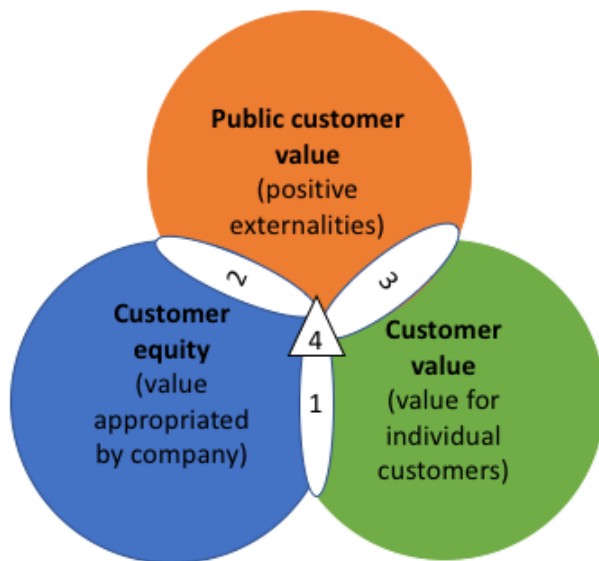


Figure 2: An illustration of environmental product fit (Lüdeke-Freund, 2010, p.19)

According to Lüdeke-Freund, (2010) sustainable business models focus more on creating extended customer value for the individual customers and the society as a whole. With other words private and public benefits. Whether or not a business model is sustainable will depend on the individual circumstances (Lüdeke-Freund, 2010).

2.5. Synthesis

The material collected in this chapter will be used as a base in order to be able to answer the aim and the research question of this thesis. The templates for the interviews is based on questions surrounding business model, business model innovation, business model canvas and sustainable business models. The findings from the interviews will be presented both in text and in the framework of business model canvas.

3. Method

This chapter intends to give the reader an understanding of how the research has been done. What different methods that has been used and how the literature- and case data was gathered. It will also discuss the trustworthiness of the thesis.

3.1. Research approach

Since the purpose with this study is to understand how consulting companies understand business models and business model innovation in order to see if it is possible to create sustainable business models that is feasible both in practice as well as in theory the author has used a qualitative case study approach.

The reason for a case study approach is because it is ideal to use for this kind of research since it happens in the present and since the study includes a qualitative approach. A case study approach is also useful when an observation or interview of a social unit is being done, meaning that the unit is a person, group, community or an institution. It is also preferable if the research questions are developed as “what”, “how” and “why” which is the case for this master thesis. Furthermore, it suits the research when the aim is to investigate deeper into an unknown area in order to get a better understanding of a particular situation (Kothari, 2004; Yin, 2003).

According to (Yin, 2009) there are several different ways to gather relevant data for a case study. For example, by gathering documents, observing ongoing events and participating by taking a role in the event yourself. However, in order to get good primary data this master thesis will use semi-structured interviews.

Also, this master thesis will conduct a single case study as it focuses on how a particular company understands its business model and business model innovation rather than looking at comparative elements (Dyer and Wilkins, 1991). A multiple case study would build stronger theory and produce more generalizable results, but given the time frame and resources available for this study a single case study is preferable in order to get an in-depth level of contextual insight in the chosen company (Dyer and Wilkins, 1991).

This master thesis will also follow an abductive approach to case research by using the concept of systematic combining. Systematic combining is a process where empirical fieldwork, theoretical framework and case analysis evolve simultaneously. By doing this it is easier to develop new theories. Within the concept of systematic combining there are four factors that are affecting the

process. These four are the analytical framework, the available theories, the case that will evolve gradually and finally what is going on in reality (Dubois and Gadde, 2002).

According to Dubois & Gadde, (2002) the researcher is able to expand his or her understanding of both theory and empirical phenomena by constantly going 'back and forth' between the four factors as can be seen in figure 3.

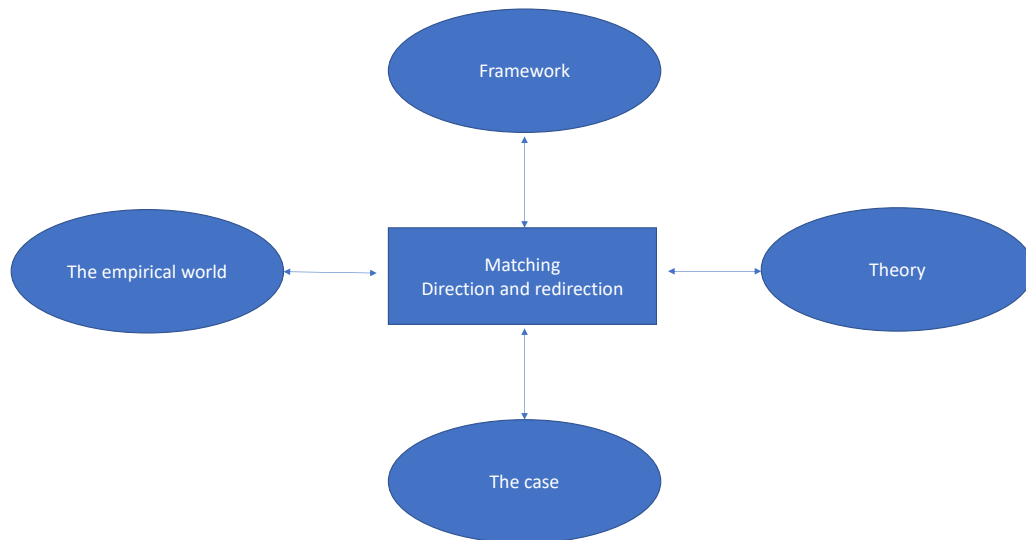


Figure 3: An illustration of systematic combining by Dubois & Gadde (2002).

The reason behind this is that without empirical observation the theory cannot be understood and vice versa. The framework that is evolving is directing the search for empirical data. The observations from the empirical part of the research might as well result in the identification of different parts of theory that needs to be further explored by collection of different data, for example by following up with more interviews (Dubois and Gadde, 2002).

3.2. Research strategy

This research will be based on both a literature study and a case study. Since it will take an abductive approach the research will go back and forth between the theoretical focus and the empirical realm as can be seen in figure 4.

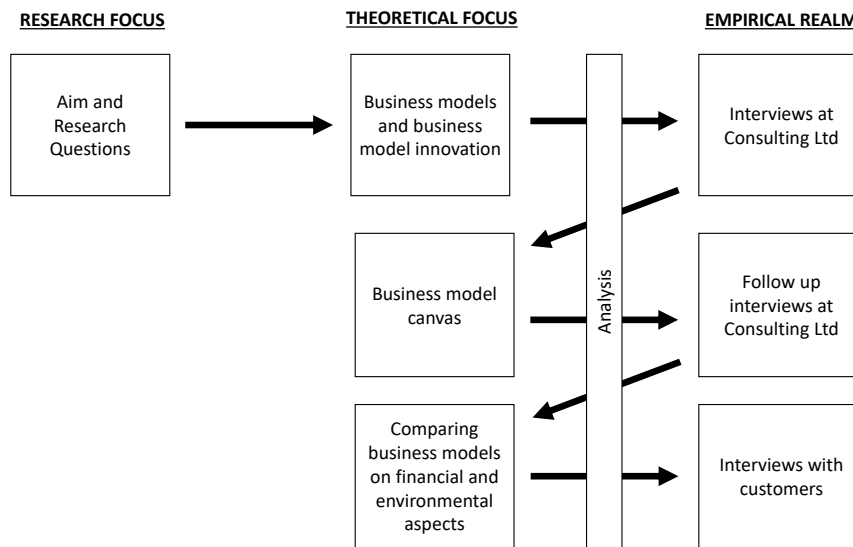


Figure 4: An illustration of the research strategy and the systematic combining.

In order to be able to answer the aim and the research questions a literature study on business models and business model innovation was done. The literature study was analyzed and the findings from the analyze helped creating a template for a semi-structured interview.

The interviews were transcribed and analyzed which helped creating a new business model with the theoretical tool business model canvas. Depending on the variation of the answers from the interviews there can be one or several different business models created, in this instance there was only one created. This new business model was then analyzed again in order to create a new template for follow up interview with one of the interviewed respondents from earlier. This new interview filled in all of the holes that existed in the new business model and also worked as a way to see if there was any misunderstanding from the first interviews.

After the follow up interview the business models were analyzed when it comes to its financial aspects compared to the original business models. If the new business model is an improvement when it comes to the financial and environmental aspects that means that it is feasible in theory. At the end there was an interview with a customer to the consulting company in order to test whether or not the new business model is feasible in practice as well.

3.2.1. Participants

The participants of this master thesis were divided into two groups. The first group were the employees of the consulting company. Nine different employees from the consulting company who all have positions high up in the hierarchy, meaning that they are all in positions where they get in contact with the business model on a regular basis, was interviewed and one of those nine was interviewed twice in order to test the results.

Table 2: The table shows the order in which the respondents were interviewed, what department they work in, what position they have in the department and the duration of the interviews.

Interview	Department	Position	Date	Duration
1	Forestry Industry	Vice President	18-03-16	00:55:04
2	Industry	Senior Vice President	18-04-05	01:01:11
3	Structural Engineering Industry	Vice President	18-04-05	01:03:13
4	Business Controlling	Head of Section	18-04-06	00:55:15
5	Business Controlling	Business Controller	18-04-06	00:55:15
6	Process Design	Chief Market Manager	18-04-06	00:44:34
7	Water and Environment	Senior Market Director	18-04-27	00:32:13
8	Urban Development	Chief Market Manager	18-05-02	00:57:28
9	Buildings	Chief Project Manager	18-05-02	00:42:42

The second group of interviewed participants was the customer of the consulting company. The interviewed participant is well integrated with its company's business model. The respondent is also well integrated with the relationship between the two companies.

3.2.2. Procedure and materials

The interviews were recorded so that they could be transcribed and analyzed afterwards. There were a few prepared questions that everyone had to answer and depending on the time-line there were several more that was used if the answers for the first questions were too slim from the interviewed participants.

3.3. Data collection

When it comes to data collection there are generally two different categories to collect from. These two are either primary data, or secondary data. A research can either use one of those or use both in order to collect data. Which one to use is depending on several different factors such as, what the purpose of the research is, what resources are available, what the research study intends to answer and the knowledge of the researcher (Kumar, 2011).

Primary data

Primary data is usually the data that is gathered explicit for the research problem itself. It is selected in order to help answer the research question in the best manner possible. That is why the selection of primary data is based on what kind of research that needs to be made, what kind of method that is believed to be the best and what kind of data that is useful to answer the research questions. One way to look at primary data is that it is what makes the research unique as it is the 'fresh' data that has been gathered for the first time. It is meant to be an aid for the researcher to be able to answer the research questions (Hox & Boeije, 2005).

Secondary data

Secondary data are in comparison to primary data something that has been used or collected before either by the author or someone else. It can be either as raw data or as published summaries. This can be everything from copies of documents and accounting details to payroll information and other data. This kind of data is mostly in numbers but can also be qualitative data in the shape of texts (Saunders et al., 2009).

Since this is a qualitative research it will be mostly using primary data in the shape of interviews with both employees and customers. But it will also use secondary data by using numbers from an old project in order to compare the financial and environmental between different business models. According to Mack et al., (2005) profound interviews is one of the methods to gather primary data and is especially useful when the need is to gather data on peoples' personal experiences, perspectives and knowledge. The secondary data was collected from the company's database.

3.3.1. Primary data - Interviews

Since this is a case study that needs to gather information during a limited time it will be a cross-sectional study. Most academic research are cross-sectional due to the time limits (Saunders et al., 2009).

When it comes to performing qualitative interviews Spradley (1979, p.3 referenced in Yin 2013, p.139) discusses six points he considers important to think about:

- Don't be dominant.
- Stay neutral.
- Use an interview guide.
- Analyze during the interview.
- Speak in moderation.
- Maintain a good relationship.

Before the interviews all of these six points were taken into consideration by the author. By using an interview guide it makes it easier to stay neutral and also makes it easier to avoid being dominant in the interview. The whole interview will be recorded and in order to make it easier to analyze and transcribe afterwards the interviewer will also take notes. The interviews will be conducted either face-to-face or by video with the help of Skype or facetime. The interview guide that can be seen in Appendix 1 was overseen by a Professor at Karlstad University who has great expertise in the area.

3.3.2. Secondary data – Company data

In order to be able to calculate the financial impact the new business model will have compared to the ones that are used today data was collected from the company.

The data collected was analyzed and calculated by the author of this thesis to keep the integrity of the company. So, to make sure that no company secrets for neither Consulting Ltd or their customers will be spilled the results will be shown in percentages compared to the payment per hours model which is the most regularly used today.

3.4. Data analysis

To make the data that was collected useful for the thesis it is important to choose an analysis method that will help understanding the content of the data. The purpose of analyzing the data is to summarize and organize the data so that it can be used in order to answer the research question (Kothari, 2004).

Each interview was recorded and transcribed to make it easier to examine and structure them. After that they were analyzed by taking out the key factors and the themes that emerged from the collected data. The most frequent, important and interesting parts from the interviews were collected into a new document where they could be compared to each other. The analysis then resulted in different characteristics and categories which is considered to be the phenomena in reality (Bryman and Bell, 2015).

Based on the theoretical framework used in this thesis they were compiled into nine different categories according to the business model canvas. With the data collected from the interviews analyzed it could be compared with the theoretical framework in order to create clear and structured empirical results.

3.5. Trustworthiness

When it comes to analyzing whether or not the content of the research has been made with quality there are different approaches. The reliability and validity approach are a very common one but when it comes to a qualitative research Bryman and Bell, (2015) states that the research should be evaluated by its trustworthiness instead. Trustworthiness is a method that consist of four different parts according to Bryman and Bell, (2015). They are the following: *credibility, transferability, dependability and confirmability*.

If the empirical findings of the thesis have a high credibility, then it implies that the chosen research methodology is appropriate when it comes to answering the research question. In order to get a high credibility, the interviews will be made with both employees at the consulting company as well as their customers. The interviews will also be made with employees that have different roles in the company. At the end of the interviews member-checking will also be used to get a higher credibility. The analyses and findings will be presented to some of the respondents that participated in the interviews (Lincoln and Guba, 1985).

The transferability measures the degree of applicability and generalizability of the findings from the thesis to other contextual settings. In order to get as high

of a transferability as possible this thesis will not only interview the employees of the consulting company but also their customers. If the customers accept the new business models that will be presented to them then the findings can be proven to be generalizable (Lincoln and Guba, 1985).

The dependability can be explained as the consistency of the findings and whether or not it is possible to repeat the research work and get the same results. This can be raised by having an external researcher that is not involved in the research process examine the process and its outcomes (Lincoln and Guba, 1985).

The confirmability is whether or not the findings from the thesis is neutral. By making sure the researchers do not have any motivation or self-interest in the results. High confirmability can be ensured by having an external audit and by having an audit trail (Lincoln and Guba, 1985).

4. Findings & Analysis

This section focuses on analyzing the findings from the interviews. It will analyze how Consulting Ltd are understanding their business models and present the existing business models. It will also analyze the findings on the future of Consulting Ltd and what innovations that is possible within the company and present the findings on business model innovation. This section will also present the financial impact the new business model would have compared to payment per hour model and it will also analyze and present what environmental and social affects it could have. Finally, this section will present the viability of this new business model by analyzing the interview with the customer as well as one of the respondents from Consulting Ltd.

4.1. Understanding of business models

When asking the employees of Consulting Ltd if they could explain their business model, preferably with examples, everyone ended up talking about their value proposition and revenue streams. They all spoke mainly about two different business models, one in which they take payment per hours and one in which they have fixed costs per project. Some of the respondents also told me about a third business model that they called the incentive model which is a business model they are implementing more and more.

These three different business models can be described as three different ways of getting revenue streams but also as three different ways of proposing value to the customers. When asked to explain their business model no one elaborated on other parts of the business model at first. Some added that they needed to take more responsibilities for the projects and more risks in order to provide more value for their customers which focuses on the value proposition.

“I think there are models where we take a bigger responsibility for the projects. When the customers organization is becoming smaller the competence they have is small, then we can take a bigger responsibility for the projects.” – Vice president of structural engineering industry

Another thing that they all had in common was that they all felt that something needed to change within the business model in order to stay competitive on the market in the future. Taking more responsibilities is one way they talked about and increasing the value proposition was discussed a lot. Another thing that was discussed was the fact that they needed to increase the revenues compared to their costs.

“We need to become better at taking charge for what we do.” - Vice president of structural engineering industry

This explains quite well where the focus is on their business models. They focus on how they can charge customers trying to find different ways of getting revenue streams. But no one talked about the customer segments, their channels or even their cost structure when asked to explain their business model. Not even when they were asked to explain their business model as explicit as possible with examples they talked about those parts of the business model. It was not until they got the direct questions about these other parts of the business model canvas that they started to elaborate on the customer segments for example.

“When you connect the process industry with the building part then you find our main market, that is where we are strong. On the other side we have product development and manufacturing industry where we do not want to go to.” – Senior vice president of industry

This quote proves that they have discussed internally about how they should work with customer segments, but it was not something that was mentioned until asked specifically about how they work with customer segments. It was also interesting that a couple of them were very similar in their answers, something they explained with the fact that they discuss their business model quite often internally. That can also be one of the explanations to why they all focused on the same parts of the business models, they affect each other when it comes to their thinking. All of those who had a similar mindset when it came to business models are in positions within the company where they can have a major impact on the business model.

4.2. Different business models

Since each interviewee was asked both to explain their business model as a whole but also to explain and elaborate on each different part of the business model canvas a lot of information was collected.

Customer segments:

When it comes to customer segments the response was very similar between all of the interviewees and it is not hard to understand why. Consulting Ltd do have a very clear understanding of their customer segments which is the following:

- Infrastructure
- Buildings

- Environment
- Water
- Energy
- Industry
- Planning

The characteristics of their customers varies a lot. This is because Consulting Ltd is a big company with a lot of different types of customers. They are taking projects that are both in the private market as well as on the open market. They are often working with public procurements for example. They all agreed that they also work both with small simple projects as well as big multidiscipline-projects.

Value proposition:

The value proposition is an interesting one since this is one of two parts of the business model canvas that they wanted to talk about the most. A lot of different things came up when they answered what value proposition they offer their customers. Words like quality, experience and knowledge were often used to explain their value proposition.

“In small projects we offer technical competence.” – Vice president of structural engineering industry

“We offer some kind of guarantee that we have a lot of competence. Some kind of guarantee that we have a certain qualitative level. That we have the capacity and quality to solve the problem.” – Vice president of the forest industry

These quotes were typical answers to their value proposition. Other than these they also talked about how they offer the fact that they will be very focused on the customer needs and that the customer satisfaction is very important to the company. All of the respondents seemed to be well aware of the importance to provide more values than just the project to the customer.

Channels:

When it comes to the channels they use in order to get a good connection with their customers all of them agreed that the main thing is personal contact through their own employees.

“We do almost everything ourselves, we have a lot of employees that works at the customers offices and we have human resource people that are calling people all the time for example.” – Head of business controlling section

This contact is often through having meetings, preferably personal meetings but also through skype or by phone or simply by having employees that work at the customers offices. They are also subscribing to newsletters when it comes to public procurements. In order to make sure that their customers get the value proposition it is important for Consulting Ltd to have these personal contacts that work close with their customers. They are also working more and more on social media trying to get closer to the customers but also to win new customers that might not be aware of the value proposition that Consulting Ltd offer.

Revenue streams:

The revenue streams seemed to be the main focus for all of the interviewed persons along with the value proposition. The main revenue stream according to the respondents is taking fees per hour on the projects. This fee per hour could in some cases be changed into fixed price per projects and in some even more rare cases there could be an incentive in the projects which could provide new revenue streams for the company.

The most usual one is the classical consulting model, time and material as we call it. That you deliver a service and take payment per hour. It does not generate much value maybe but is more that you get payment for the hours that you have done some sort of engineering work. Another model is that you actually take a big project to a certain price. That demands a bit more from us, it gives more possibilities but also more risks. The third model is some form of incentive model where you work towards a common goal and then have different calculation models if you at the end do better than the goal, so you earn more money or if you do not reach the goal then you get less payment. - Vice president of the forest industry

These three are also the three different business models that Consulting Ltd are working with at the moment. However, they have some other revenue streams as well that some of the interviewees talked about even though they were fast to point out that they were very small in comparison. One of these other revenue streams was that sometimes they rent out their offices. They also get some revenues from customers that use their software programs.

Customer relationship:

When it comes to customer relationship all of them answered that they work with both long-term and short-term relationships. In a lot of cases they work with personal assistance, in other words employee-customer interaction both during and after sales. In a lot of projects they have consultants that are working for long periods at the customers offices in order to create a better relationship. Some of them also answered that they often use co-creation where they work tightly with their customers. But since this is such a big consulting company they work very differently with the customer relationship depending on the customer. They are flexible and try to fit the customer needs as much as possible.

Key activities:

The key activities for Consulting Ltd, according to the interviews is to keep providing and producing successful projects. In order to do so they need to keep evolving with the new technologies and keep up their good relationships with their customers. Another key activity that was mentioned was to keep networking and to make sure that the employees work a lot on their networks.

“I think networking is the most important activity we do.” – Vice president of the forest industry

Having employees with big networks will provide more successful projects and also bring in more new projects. One of the interviewees said that if you are visible and work in the right network you give yourself the highest possible potential to show that you exist and get the type of customers that you want. They also talked about the importance to keep working with problem solving. If they can solve their customers problems in an easier and cheaper way, then both them and the customers would benefit.

Key partners:

When asked about their key partners the answers differed a bit. Some of them talked about the customers that they have long-term relationships with as their key partners. Other talked about universities and high schools are their key partners, for example they are part of a network with Chalmers University in order to recruit the best students. They also mentioned the suppliers of both hardware and software as their key partners. Some of the suppliers of software

they have close relationships with and work close with each other to develop the software to better fit what they need for their projects.

Key resources:

The main key resource for Consulting Ltd is their human resources and that is something everyone agrees on. The competence, experience and knowledge that the employees possess are the resources that makes it all possible. Other than the human resource they do also have some financial resources, some physical resources and some intellectual resources. These resources are their offices, company cars, their branding and more. However, all of these other resources are minimal in comparison to the importance of their human resources which is why their human resources are their key resource.

Cost structure:

The cost structure of Consulting Ltd is mainly fixed costs. For example, the salary for the employees and the rent for their offices. These are without any doubt the biggest costs for the company and all of the interviewed agrees on this. They do also have some variable costs as well, for example travels. This is an area that they are working a lot on minimizing already. When it comes to office-costs there has been a lot of work done by having open-landscapes and renting out the offices that they do not use at the moment. They also agree that their business is value-driven, meaning that they are less concerned with costs which can be proven by the fact that when asked about their business model they all talk about the revenue streams and not their costs.

4.2.1. Payment per hour

Payment per hour is the most used business model by Consulting Ltd. When structured according to a business model canvas the result became figure 5.

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Companies that they have long-term relationships with.	Client Projects	They offer technical competence in smaller projects	Mostly long-term.	Infrastructure
	Recruitment		In some cases short term.	
Suppliers of hardware and software.	Business development	They offer experience and competence when working on bigger projects.	Channels	Buildings
Universities.	Key Resources			
	Employees	Own employees	Personal contact	Environment
Image	Some social media			
Knowledge		Website	Energy	
Experience	Industry			
Software		Planning		
Cost Structure	Revenue Streams			
Employees	Payment per hours on projects			
Offices	Small amounts for renting out offices and software			
Travels				
Software				

Figure 5: Business model canvas on payment per hour model.

Very similar to the other business models for almost all of the parts of the business model canvas except for the revenue streams. However, if you go in depth there are more differences, albeit small. Payment per hour is a model that is used in all of the different customer segments, it has the same key partners, the same key activities and the same key resources as the other business models. The cost structure is also very much alike since the company is value-driven meaning that the company focuses on getting more income rather than slimming down their expenses.

This model is used in both long-term and short-term relationships and uses all of the different channels in order to provide the value proposition to the customers. This business model is very useful for projects that might change as they go on since Consulting Ltd only will get paid for the hours they do and not for the work they do. This makes it possible to put in more hours if needed but also less hours if the project goes well.

4.2.2. Fixed price

Fixed costs are an alternative model to payment per hour although they are very similar to each other as can be seen in figure 6.

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Companies that they have long-term relationships with.	Client Projects	They offer technical competence in smaller projects	Mostly long-term.	Infrastructure
	Recruitment		In some cases short term.	
Suppliers of hardware and software.	Business development	They offer experience and competence when working on bigger projects.	Channels	Buildings
Universities.	Key Resources			Own employees
	Employees	Image	Personal contact	Water
Knowledge	Some social media		Energy	
Experience	Software	Website	Industry	
				Planning
Cost Structure		Revenue Streams		
Employees		Fixed price on projects		
Offices		Small amounts for renting out offices and software		
Travels				
Software				

Figure 6: Business model canvas for fixed costs model.

In the same way that payment per hour is a model that works in all different customer segments the fixed costs model does as well. The key partners and key resources are also very similar. The difference with this model is that it needs to be with projects that both the customer and Consulting Ltd are familiar with, therefore it happens mostly when they have long-term relationships. This kind of projects offer a security for both the customer and the company since both knows exactly what the revenue streams will be. This model is beneficiary since it is a secure income for Consulting Ltd and also leaves some room for problem solving. If they can come up with more efficient ways of doing the project they can limit the costs per project by using less hours on it and therefore creating a better marginal and profit for the company.

4.2.3. Incentive-model

The incentive-model is a model that is used more and more. It is a way of going from getting paid for the hours the company does to getting paid for the work they actually do.

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Companies that they have long-term relationships with. Suppliers of hardware and software. Universities.	Client Projects Recruitment Business development	They offer technical competence in smaller projects They offer experience and competence when working on bigger projects.	Mostly long-term. In some cases short term.	Infrastructure Buildings Environment Water Energy Industry Planning
	Key Resources		Channels	
	Employees Image Knowledge Experience Software		Own employees Personal contact Some social media Website	
Cost Structure		Revenue Streams		
Employees Offices Travels Software		Either fixed price or payment per hour and then incentives in different shapes. Small amounts for renting out offices and software		

Figure 7: Business model canvas for the incentive-model.

The incentive-model is very similar to the payment per hour model but with an add on, the incentive. The incentives can be very different between different projects. For example, there can be incentives on the hours on the project, if they use less hours they divide the winnings and if they use more hours they divide the losses. Another incentive can be if they finish with the project earlier than expected and can therefore get a bonus for doing so. This means of course that if they take more time than expected they will not get full price on the hours they do after the deadline for example.

By using incentives, the goal is to get paid more for doing a good job which in turn will make the customers more satisfied. Both will benefit from a successful project making both more interested in making sure that the project will be successful.

4.3. Business model innovation

The second part of the interviews was used to ask about business model innovation and how each of these different parts of the business model canvas could be used in order to innovate and improve the business model. The answers differed so much that it was very difficult to create new business models out of them. However, one new business model could be created from the thoughts and ideas that the interviewees had.

Customer segments:

A majority of the respondents said that the customer segments will be the same in the future since that is where they have their competence as a consulting company. But they also pointed to the importance of working over the different segments in what they called multidiscipline-projects. Since Consulting Ltd have a lot of knowledge in different areas they have the knowledge in working with bigger projects which was explained by one of the respondents.

“We were a little bit better before to find big projects that connects all of Consulting Ltd, multidiscipline projects. We need to get more attractive for multidiscipline projects.” – Vice president of structural engineering industry

All of them also talked a lot about the green movement and the need to work with companies that needs to make a green change in the future. To work a lot with sustainability projects with customers in the forest industry and energy sector for example. No one of the respondents talked about phasing out any of the current segments and when it came to new segment the steel industry was the one that came up as an example.

Value proposition:

When it comes to the value proposition most of them answered that they need to provide successful projects with all that comes within that. Which is not any different from the value proposition that exists at the moment. They also said that they need to take more responsibilities for the projects and take more risks for the projects. This in order to provide more value to their customers by trying to ensure them that the projects will be successful.

“We can also offer more value by raising the risk and taking a bigger responsibility for the projects.” – Vice president of structural engineering industry

Another thing that came up was to create some sort of product or service that Consulting Ltd could lease out to their customers as a part of the value proposition. What kind of product or service that could be they did not know and instead of elaborating on what they could be they answered that they did not have any good ideas.

Channels:

Channels is something that Consulting Ltd is working a lot on at the moment, for example by exposing themselves more in social media. The respondents talked about involving the customer even more in the process of the projects by using the channels to have closer relationship. One of the respondents also talked about having a chat-function on their website in order to make it easier to get in contact with customers and others who visit the website. But the respondents did not elaborate that much on this part of the business model.

Revenue streams:

The revenue streams are maybe the most interesting part when it comes to innovation since it is the one that everyone talked the most about. But even though it is the part that gained the most interest there are not many innovative ideas when it comes to the revenue streams. They all say that they need to work on finding new revenue streams but have almost no concrete ideas. When asked to think about innovation for revenue streams the ideas were missing.

“This is what I am searching without finding any good answers. I think if you find a good answer to this you will be very successful.” – Vice president of the forest industry

The most concrete idea that comes up is that they could get more revenue streams by taking more responsibilities in the projects and by taking more risks in the projects. Other than that, the most concrete thing that comes up is to have a product or service that they can get paid for leasing out. This product or service could be some kind of software or maybe some sort of database.

Customer relationship:

When it comes to how they could innovate how they work with customer relationship they had very different ideas. Some said that it will become increasingly important to have a close and good relationship with the customers and other said that they think that when everything will become more digitalized it will not become as important to have a good customer relationship. This

divide made it hard to draw any conclusions about how the company should work with customer relationship in the future.

The main thing that came up here that they all agreed on was to talk more about the environment and sustainability. This was so they can work closer with their customers on environmental questions and sustainability questions in order to then create a stronger relationship. This will help Consulting Ltd becoming a more attractive company not only for their customers but also for their employees.

Key activities:

The key activities are another part where the ideas on innovation were missing. They believe that they need to continue working on their networking and growing a stronger network. It will also be important to keep solving the customers problems and try to involve the new technologies in order to solve the problems even better and cheaper in the future.

Key partners:

Here they had a lot of ideas on how to be innovative. One main factor that came up here was to evolve and expand their affiliates since they are their key partners. By doing this they could for example work more across the borders and have strong affiliates in other countries and therefore use software's more hours per day since there are different time-zones.

Key resources:

The key resources will according to the respondents be the same in the future. The human resources will be the main resource in the future as well and if they could work on something in the future it will be to make their image stronger in order to have that as a resource.

Cost structure:

The cost structure was a very interesting part since it divided the respondents in two halves. Consulting Ltd is a value-driven company and some of the respondents had no innovation ideas when it came to the cost structure. They said that they needed to rather raise their costs in order to stay competitive on the market when it comes to hiring the best engineers.

But the other half of the respondents had a lot of ideas on how to be innovative with the costs. The main cost for Consulting Ltd is the salaries and one of the

respondents said that they could not compete with other companies when it comes to salaries. She implied that they needed to find some other advantage for the employees to choose their company and she proposed shorter work-days. Another proposal was to have a cheap lunch-restaurant at the office and a third was to work hard on creating a friendly environment at the offices. The other main parts of the cost structure, the offices and the traveling, they were already working hard on slimming down as much as possible which could be a reason to why the respondents did not have any innovative ideas there.

Insurance model:

Out of all of the different innovation ideas that the respondents had one new business model was discovered and created. It is very similar to the three already existing business models with the main difference that it will take more responsibilities and risks in order to get more income. This model will mainly be used on bigger projects with more insecurities involved for the customer. It can be used in multidiscipline projects as well as bigger projects in each of the different segments.

Key Partners Companies that they have long-term relationships with. Suppliers of hardware and software. Universities.	Key Activities Client Projects Recruitment Business development	Value Propositions They offer experience and competence when working on bigger projects and provide an insurance that the project will finish in time.	Customer Relationships Mostly long-term. In some cases short term.	Customer Segments Infrastructure Buildings Environment Water Energy Industry Planning
	Key Resources Employees Image Knowledge Experience Software	Value Propositions They can take on multidiscipline projects by taking more responsibility and more risks	Channels Own employees Personal contact Some social media Website	
Cost Structure Employees Offices Travels Software		Revenue Streams 70-80% in fixed costs and 20-30% in insurance costs. Small amounts for renting out offices and software		

Figure 8: Business model canvas for the insurance model.

The revenue streams with the insurance model is that the biggest part will come from fixed costs for each project. These fixed costs can vary a bit depending on the project but will always be enough to cover the expenses for Consulting Ltd.

For example, if Consulting Ltd leaves a bid with 10 000 hours on a project then the fixed costs will be 80-90 % of what the costs would be if they used the payment per hour model. Then there will be an insurance cost upon it that will be on 15-35 % of the fixed costs that will be paid to Consulting Ltd if they finish the project in time. If Consulting Ltd will not finish the project in time the insurance will stay in their customers hands. That is also why the fixed costs should be somewhere around 80-90 % since that would mean that the consulting company would at least get an income that covers the expenses.

This model will make it possible for Consulting Ltd to add more hours to project to make sure that they will finish in time in order to get the insurance money. It also gives them the possibility to earn more money than they would do with the payment per hour model if they do exactly 10 000 hours on the project.

The customer will receive an insurance that if the project will not finish in time they will not need to pay as much. This is beneficiary for them since a lot of projects run over the time making the consultant companies put in more hours in the project which will force the customers to pay even more.

4.3.1. Financial impact

The financial impact is calculated as a comparison to the payment per hour model. The payment per hour model uses a very simple equation that is hours times price equals earnings as can be seen in equation 1.

$$\text{Hours per project} * \text{Price per hour} = \text{Payment per hour model} \quad (1)$$

As for the insurance model it is based on the payment per hour model in the sense that if the offer to the customer is 10 000 hours then the insurance model will use a percentage on what 10 000 hours would have cost for the customer if they used the payment per hour model. That can be seen as the fixed cost for the project which is calculated with equation 2.

$$\text{Payment per hour model} * \text{Fixed costs percentage} = \text{Fixed costs} \quad (2)$$

Then there is the insurance cost that will only be payed to Consulting Ltd if the project is successful. The insurance cost is a percentage cost based on the fixed cost as can be seen in equation 3.

$$\text{Fixed costs} * \text{Insurance percentage} = \text{Insurance costs} \quad (3)$$

The two percentages can differ depending on different projects and what kind of deal Consulting Ltd would like to do with their customer. Table 3 shows three different ways of combining the fixed costs and the insurance costs. Lower fixed costs will demand higher insurance costs for the customer.

Table 3: Shows the income from the insurance model in % compared to payment per hour model.

Income table in %	<i>Fixed costs</i>	<i>Insurance</i>	<i>Total</i>
<i>1. Fixed cost of 80% and insurance of 35%</i>	80%	28%	108%
<i>2. Fixed cost of 85% and insurance of 25%</i>	85%	21%	106%
<i>3. Fixed cost of 90% and insurance of 15%</i>	90%	14%	104%

As the income table shows, lower fixed costs and higher insurance costs will provide a better total income for Consulting Ltd. These are just three different ways of mixing the fixed costs with the insurance costs.

As can be seen in the results a successful project will provide Consulting Ltd with incomes 4-8% higher than they would have received with the payment per hour model. However, if a project is not successful then Consulting Ltd will not receive the insurance cost then the project will provide 10-20% lower incomes than the payment per hour model depending on the fixed cost percentage.

In order to make sure that the insurance model will provide at least the same amount of income as the payment per hour model a little bit more than 70% of the projects need to be successful if the percentages are the same as in the examples as can be seen in table 4.

This was calculated by using the same three different combinations of fixed cost percentage and insurance percentage as in table 3. Meaning that for combination 1 the earnings for a successful project would be 8% higher than with the payment per hour model and the earnings for an unsuccessful project would be 20% lower than with the payment per hour model.

Table 4: The insurance model compared with the payment per hour model depending on how many projects that are successful in time.

Income compared to the payment per hour model	<i>60% successful</i>	<i>70% successful</i>	<i>80% successful</i>	<i>90% successful</i>
<i>1. Fixed cost of 80% and insurance of 35%</i>	-3,2%	-0,4%	2,4%	5,2%
<i>2. Fixed cost of 85% and insurance of 25%</i>	-2,4%	-0,3%	1,8%	3,9%
<i>3. Fixed cost of 90% and insurance of 15%</i>	-1,6%	-0,2%	1,2%	2,6%

So, in order to make sure that the insurance model will provide more income than the payment per hour model the important thing is to make sure that the majority of the projects are successful.

For example, with fixed cost of 80% and insurance cost of 35% on a project, the consulting company can put in 8% more hours than they had in their budget in order to make sure the project is successful and still make the same profit as they would with the payment per hour model.

All of these calculations are also made with the assumption that no project will finish with less hours than needed. Since the insurance model is working with fixed costs and insurance costs they will not lose anything if they finish the project with less hours than budgeted. That is another financial benefit compared to the payment per hour model since that model only gives income per hour put into a project.

4.3.2. Environmental impact

The insurance model could make real difference for the environmental impact since it gives the consulting company more possibilities to make sure that the projects will be successful.

If the project is to build a heat and power station, then the environment will be affected if the project is unsuccessful. But with the insurance model more projects will be successful due to the fact that the consulting company will lose such an amount of income if the project would be unsuccessful.

A delayed project could mean that a lot of houses would be heated with electricity that is not classified as green electricity. But if the project is finished in time these houses could get green electricity provided from the newly build heat and power station.

4.3.3. Social impact

The social impact by using the insurance model is a bit more difficult to analyze compared to the financial and environmental impact. Some projects will barely have any social impact and others will have a higher impact on the society.

If the projects for example is to build a bridge between an island and the mainland and other bigger technical projects that often includes consulting companies, then the insurance model could have a great social impact compared to the payment per hour model.

If the project need to be finished a certain date in order to be considered a successful project, then the insurance model will make the consulting company put in extra hours to make sure it is finished in time. In contrast, if the consulting company uses a payment per hour model then they will only put in the extra hours to make sure the project finishes in time if the customer is willing to let them.

By making sure that the bridge is finished in time it will provide an impact to the society that exists around this area that will use the bridge. Therefore, the insurance model could have a great social impact.

4.3.4. Viability of the new business model

The viability of the new business model was tested by interviewing a customer of Consulting Ltd. He explained that the majority of the projects are using the payment per hour model and that they used fixed costs in the projects that they kind of knew exactly what the hours on those projects would be.

Before presenting the insurance model to him he was asked how the value proposition that Consulting Ltd are proposing to them as a customer could improve. The answer was he gave was that they were willing to pay if Consulting Ltd would take more responsibilities and more risks for the projects that are new and difficult to make a budget for.

When presented the insurance model he was positive that it could be used in some of the bigger more uncertain projects but said that it would need to be tested a couple of times on some smaller projects first.

The viability of the new business model was also tested by presenting it to one of the respondents from the interviews with the employees at Consulting Ltd. Interestingly the answer was quite similar to what the customer said. He found the model interesting but thought that it needed a lot of testing first in order to make a good valuation of it.

5. Discussion

This section discusses the results from analyzing the findings. It will start of by discussing the problematization and whether or not the employees of Consulting Ltd are aware of the problem. Then this section will discuss about the material and cognitive aspects and how they might impact a company's understanding of their business model. It will discuss how a consulting company views their own business model and why they understand it like they do. Towards the end of the section the author will discuss about the new business model and what impact it can have financially, environmentally and socially.

According to research by Seipl, (2016) a majority of the consulting companies believe that they need to change their business models in order to stay competitive on the market in the future. But even though they believe that they need to change their business models and even though more and more consulting companies are trying out new business models the majority is still using payment per hour and fixed fees as their only business model and over 90 % are using mostly or only these two business models (Seipl, 2016).

Consulting Ltd was very well aware of the issues that are standing in front of them and all of the respondents talked about the need to change their business model. According to Tempelaar et al., (2015), companies are facing new challenges in order to adjust to the new markets that the new technologies are creating. This is also something that they were very aware of and the fact that the costs are going up a lot for consultancies through the raise in salaries is what makes them so eager to find new ways of earning more money.

So, the reason to why they have a difficult time in changing their business model is not due to the fact that they are not aware of the problem. Rather the opposite, they are well aware of the problem and are open to new business models. One of the reasons to why consulting companies have a difficult time changing their business models could instead be the cognitive aspects of the business models. The cognitive aspects are the belief system of a company which could be translated to the systematic meaning structures of a company (Tikkanen et al., 2005). When it comes to business model evolution and innovation the focus is often on the material aspects of a business model. The material aspects of a business model are the company's strategy, operations, finance, accounting and business network. According to Tikkanen et al., (2005) the relationship between the material aspects and the cognitive aspects is key to a successful business model evolution but that is also where most consulting companies lack knowledge. That is why it is so important for them to analyze and understand

their own business model and how they understand and cope with business model innovations. Because if they do not work on the cognitive aspects of their business models they will not be able to truly be innovative.

Another reason to why a lot of consulting companies have a difficult time in changing their business models could be the fact that there is no accepted definition of what a business model is. Some of the definitions are more common than others, for example the ones by Amit & Zott (2001), Chesbrough & Rosenbloom (2002) and Teece (2010). But for a lot of people business model is a vague expression and they only choose to focus on the revenue streams and the value propositions since those are easier to understand. After analyzing the interviews, it was very clear that this is the case. It could be important for consultant companies in order to work on their understanding of their own business model to define what a business model is for them as a company. There are several different definitions that are similar in a lot of different ways with each other. By collecting some of the most accepted ones and putting them in a table to compare them to each other a more generalizable definition was created. By realizing the size and all of the different areas of a business model a company would get a better understanding which in turn could lead to a change in the belief system for a company (Tikkanen et al., 2005).

This thesis used the business model canvas by Osterwalder & Pigneur (2010) as a framework in order to test different employees at Consulting Ltd on their knowledge about their own business model but also about business models in general. With the business model definition created for this thesis and the framework in place, the interviews could be analyzed and several patterns evolved from it. One of the clearest patterns was that everyone focused on the value proposition and the revenue streams when asked to explain their business model. When the focus from a company is on raising the value for their customer that means according to Osterwalder & Pigneur (2010) that the company is value-driven. The conclusion that Consulting Ltd is value-driven was therefore made and with that in mind it was obvious that the constant search for value had limited the thinking on other parts of a business model. When they were presented to the business model canvas most of them had never seen it and the few that had seen it quickly pointed out that they did not remember it that well.

There was a drive in the company to try to change the business model and they talked about innovation-days that was held at the company and that they often had discussions about their business model with each other. The fact that they

did talk about it quite often was something that showed in their answers. A lot of the responses on the questions were similar and often quite vague. The belief system in the company was very strong when it came to finding new revenue streams but it was clear that it had blinded them from other parts of the business model. By using the framework by Osterwalder & Pigneur (2010) it was clear that the majority of the parts stayed the same which implies that they did not think about those parts.

One of the respondents talked about the hierarchy system that was in place which makes it difficult for the employees that are lower in the hierarchy to get hold of the ones at the top in order to share their ideas. Tikkanen et al., (2005) talks about the fact that the belief system is the driver of decision-making and therefore also the actions that is taken by the company. By having a clear and structured hierarchy a lot of ideas and innovations could get lost by not making it to the top of the company. By having this kind of hierarchy discussions often happen between people with similar mindset rather than between people with different mindsets. What happens when someone often only talk to the same people is that the ideas get very similar since they will then affect each other. This was something that showed in the interviews because the ones who admitted that they are talking to each other about the subject of business models had very similar thoughts. But the ones that was interviewed that did not talk about business models that often was the ones with the most creative ideas.

One other thing that stood out from the interviews was that no one thought that any of the segments that they worked with today would need to be phased out in order to make room for a new one. Instead the only ideas when it came to the customer segment was to work with the same segments but with the technological change that would be needed in these segments. This is another example of how the belief system that exists within the company is value-driven and optimistic and that they do not discuss the possibilities of changing the company enough (Tikkanen et al., 2005).

The interviews did not provide many ideas when it came to the infrastructure part of the business model canvas, the key activities, key resources and key network (Osterwalder & Pigneur 2010). There were some vague ideas about creating a product that they could lease out to their customers. But they all quickly said that it would be difficult to do that and that they could not see how that would work in the future. This is another proof that the belief system and mentality within the company is that they are a consulting company and always

will be. They have limited their thinking when it comes to business model innovation even before they have started.

Something they all agreed on was that they needed to take more risks and more responsibilities in projects. That they need to create more value for their customers in order to gain more revenue streams from them. But when it comes to creating a new product or even a new software that they could lease out then they were not as convinced that it was a risk they should take. This shows that they are willing to take risks and more responsibilities in areas where they feel that they are safe. In other words, the risks they take will not that big of a risk, at least not compared with the risk of phasing out a segment in order to start a new one or by creating a new product that they could sell or lease out. Another problem for Consulting Ltd and other consulting companies is that if one of them would take a risk and be successful then it would according to Teece (2010) only be a matter of time before the competition does the same.

Through the interviews one new business model emerged, and it emerged through the talk of taking more risks and more responsibilities. This new business model is called the insurance-model since it provides the customer with an insurance that the project will be successful. The new model can be seen as a way for consultant companies to gain a new revenue stream which would be the insurance money but at the same time, they would not receive as much in payment per hour or fixed costs. The model demands that the customer can structure what is expected to be the result from the project and also that Consulting Ltd can leave a proposal with as correct number of hours as possible. By having the right amount of percentages for the fixed costs and for the insurance cost this model could give Consulting Ltd possibilities to use more hours in the project that needs them and less hours in the project that does not need to use every hour that was budgeted. This new insurance model could be seen as a business model extension (Cavalcante et al., 2011).

By having this flexibility and being able to move hours around without the customer getting affected a consulting company can earn a lot more if they do their job well. At the same time this demands a lot more responsibilities between the projects and it is also a risk since an unsuccessful project would mean big losses for the consulting company. This is also a way for the company to raise the occupancy rate since the flexibility makes it possible to move around hours. The insurance model does also not only have financial benefits. It could also be an improvement for the environment and the society meaning that it could be seen as a more sustainable business model (Lüdeke-Freund, 2010). If this model

is going to be financially successful there needs to be a majority of successful projects. By making sure that more projects are successful the environment can benefit since a lot of the projects work on making processes greener. For example, a project that focuses on building a new heat and power station could have big impacts on the environment. If the project is delayed it means that houses and offices that would have used the green electricity and heat instead has to keep using the less green electricity and heat that comes from an old heat and power station. So, by implementing the insurance model it can be a way for Consulting Ltd to work towards the triple bottom line by using a sustainable business model (Bocken et al., 2014).

The society could also benefit a lot from this business model since a lot of people not involved in the projects are getting affected by them. It can be construction sites, it can be roads that are closed and a lot of other things. By using the insurance model, a lot more projects will be successful and finished in time which will have a positive effect on everyone that has been directly or indirectly involved. This is also a proof that the choice of business model could have a very big impact on a company's sustainability (Stubbs & Cocklin, 2008).

6. Conclusion

The aim of this thesis is to understand how consulting companies understand their own business model and how they understand the concept of business model innovation. Even though the thesis was able to present a new business model that was found through the interviews it should not be implying that the consulting company do have a wide understanding of their own business model. It is rather proof that Consulting Ltd are focusing on the revenue streams and value proposition when it comes to their business models since those are the only two parts that changed from earlier business models to the insurance-model.

When told to explain their business models the interviewed employees of Consulting Ltd talked about different revenue streams and how they worked with their value proposition. They also had a couple of ideas on how to improve their value proposition in order to gain more revenue streams. It was through those ideas that the insurance-model was founded. The insurance-model will however not be a game-changer and will not change much when it comes to how the company works with their business models and business model innovation.

By using business model innovation there is possible for consultant companies to find more sustainable business models that will not only help them as a company but also help everyone around them. One of the conclusions that can be drawn from this thesis is that when a consulting company limits their understanding of their business model to only the value proposition and revenue streams they also limit their understanding of business model innovation and therefore their possibilities to truly innovate their business model.

Another conclusion that can be drawn out of this is that the focus on business models is on the material aspects of them and not on the cognitive aspects and that the relationship between the two is lacking. The hierarchy within Consulting Ltd is forcing them apart from each other which limits not only the company's understanding of business models but more importantly their possibilities of innovation.

6.1. Academic contributions

The academic contributions from this thesis is mainly on how business models are perceived by consulting companies and the fact that there is a mismatch

between the theory and the practice. This thesis also contribute to the research of business model by using the paper by Tikkanen et al., (2005) in order to show that the cognitive aspects of a business model not only exists but also is rather important for a company.

The final academic contribution from this thesis is that it contributes to the understandings of how consulting companies understand their own business models and how that affects their understanding of the concept of business model innovation.

6.2. Limitations and further research

Due to time limitations this research did not have the possibility to interview more customers in order to validate the findings. It did not either have the possibility to do more research on other companies in other areas to find out whether or not this is something that can only be used for consultant companies in the technical business or more generally for companies as a whole.

Further research could focus on why there is a mismatch between the research on business models and how the companies understand business models. The author also believes that there is a need on further researching how companies understand the concept of sustainable business model since sustainability and business models is to concepts that many companies talk about but still there seems to be a lack of understanding when it comes to both of them.

7. References

- Amit, R., Zott, C., 2001. Value creation in E-business. *Strateg. Manag. J.* 22, 493–520.
- Bocken, N.M.P., Short, S.W., Rana, P., Evans, S., 2014. A literature and practice review to develop sustainable business model archetypes. *J. Clean. Prod.* 65, 42–56.
- Bryman, A., Bell, E., 2015. *Business Research Methods*. Oxford University Press.
- Cavalcante, S., Kesting, P., Ulhøi, J., 2011. Business model dynamics and innovation: (re)establishing the missing linkages. *Manag. Decis.* 49, 1327–1342.
- Chesbrough, H., 2010. Business Model Innovation: Opportunities and Barriers. *Long Range Plann., Business Models* 43, 354–363.
- Dubois, A., Gadde, L.-E., 2002. Systematic combining: an abductive approach to case research. *J. Bus. Res., Markets as Networks* 55, 553–560.
- Dyer, W.G., Wilkins, A.L., 1991. Better Stories, Not Better Constructs, to Generate Better Theory: A Rejoinder to Eisenhardt. *Acad. Manage. Rev.* 16, 613–619.
- Elkington, J., 1998. *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. New Society Publishers.
- Hox, J.J., Boeije, H.R., 2005. Data collection, primary versus secondary, in: *Encyclopedia of Social Measurement*. Elsevier, p. 593null.
- International, F.H., Mack, N., 2005. *Qualitative Research Methods: A Data Collector's Field Guide*. FLI.
- Johnson, M.W., Christensen, C.M., Kagermann, H., 2008. *Reinventing Your Business Model*.
- Kothari, C.R., 2004. *Research Methodology: Methods and Techniques*. New Age International.
- Kumar Rajesh, 2011. Evaluation of Two Instrumental Methods of Comparing Writing Paper. *J. Forensic Sci.* 56, 514–517.
- Lincoln, Y.S., Guba, E.G., 1985. *Naturalistic Inquiry*. SAGE.

Lüdeke-Freund, F., 2010. Towards a Conceptual Framework of “Business Models for Sustainability” (SSRN Scholarly Paper No. ID 2189922). Social Science Research Network, Rochester, NY.

McKinsey & Company, 2008. How Companies Think About Climate Change: A McKinsey Global Survey. February 2008.

Morris, M., Schindehutte, M., Allen, J., 2005. The entrepreneur’s business model: toward a unified perspective. *J. Bus. Res.* 58 (2005) 726-735.

Osterwalder, A., Pigneur, Y., 2010. Business model generation: A handbook for visionaries, game changers, and challengers. John Wiley & Sons, Inc, New Jersey.

Saunders, M.N.K., Thornhill, A., Lewis, P., 2009. Research Methods for Business Students, 5 edition. ed. Pearson, Harlow.

Seipl, D., 2016. The three emerging business models in consulting. 2016.

Shafer, S., Smith, J., Linder, J., 2005. The power of business models. *Bus. Horiz.* (2005) 48, 199-207.

Stubbs, W., Cocklin, C., 2008. Conceptualizing a “Sustainability Business Model.” *Organ. Environ.* 21, 103–127.

Teece, D.J., 2010. Business Models, Business Strategy and Innovation. *Long Range Plann.*, Business Models 43, 172–194.

Tempelaar, M., Volberda, H., Jansen, J., 2015. Global Consultancy Index 2015 - Managing Innovation in Consulting. 2015.

Tikkanen, H., Lamberg, J.-A., Parvinen, P., Kallunki, J.-P., 2005. Managerial cognition, action and the business model of the firm. *Manag. Decis.* 43, 789–809.

Yin, R.K., 2003. Case Study Research: Design and Methods. SAGE.

8. Appendices

A.1 Template for the interviews with the employees

Start by introducing yourself and what you are doing and why. Do not explain anything about the aim or the research question since that may affect them. Then the interview starts with the following questions:

- Could you please give me a short introduction about yourself?
 - How long have you worked here?
 - What is your current position in the company?
 - Have you worked in similar positions in other similar companies?
- Can you please explain the Business model(s) that are used regularly by this company? Please give examples.
- How do you believe this company could use Business model innovation? Please give examples.
- Now I will divide a business model into nine different parts, can you please explain how this company is working with this at the moment and also please add if you have any ideas for innovation for this part.
 - Customer segments?
 - Value propositions?
 - Revenue streams?
 - Channels?
 - Cost structure?
 - Customer relationships?
 - Key partners?
 - Key activities?
 - Key resources?

If there is time left these following questions will also be asked:

- Out of these nine parts of a business model, which one do you feel would be easiest to change in order to create a new more sustainable business model?
- Do you think the choice of business model could improve the company's sustainability work?

A.2 Template for the interviews with the customers

Start by introducing yourself and what you are doing and why. Do not explain anything about the aim or the research question since that may affect them. Then the interview starts with the following questions:

- Could you please give me a short introduction about yourself and your company?
 - How long have you worked here?
 - What is your current position in the company?
 - How long have you been a customer to Consulting Ltd?
- Are you satisfied with the relationship between your company and Consulting Ltd?
 - How could the relationship improve?
- Are you satisfied with the value proposition that Consulting Ltd are offering you?
 - How could the value proposition change in order to improve it?
- Do you prefer payment per hour-model, fixed price-model or incentive-models? (Explain each of the three models)
- Would you be willing to work with the following business model? (Explain the new business model).
- Do you believe there is a possibility to work more on a sustainability together with Consulting Ltd?

