

Model Behavior

**In today's fast-paced marketplace, your business model has to be flexible. Are you up to the challenge?**

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By Chris Penttila

Denver-based [Thought Equity Management Inc.](#) started in 2002 with a straightforward premise: The company would gather speculative [print](#) work from various ad agencies and sell it online to newspapers and businesses for use in their creative campaigns. Along the way, Thought Equity would make access to creative print work fast and affordable for smaller end-users. "The whole idea was to bring Madison Avenue quality to Main Street America," says founder Kevin Schaff, 31.

Today, Thought Equity is still in the [advertising](#) industry, but the 35-employee company does production-ready TV commercials. Mainly, it has become a leading supplier of digitally mastered stock video footage with a website that houses just about every type of clip, from video of Pope John Paul II's childhood to snowboarding turkeys. Customers can search, preview and download clips in high-definition formats and resolutions, all in real time. Thought Equity manages video inventory for HBO and the NCAA, and customers pay up to \$500 per second of footage for somewhat rare or older video clips. "If you want to integrate Michael Jordan's North Carolina game-winning shot into your TV show or commercial, you have to come to Thought Equity," Schaff says. "If you watch *CSI: Miami*, [and the episode has] two people sitting at a bar watching a game, that game is actually licensed from us."

So what happened to the company's print-based [business](#) model? It's gone. Schaff likes to say it evolved, especially as he and his team realized there was a multibillion-dollar opportunity waiting in the motion-footage space. "Throughout the last year, we've made significant strides in our business model," Schaff says. "Making those changes had an enormous impact on our bottom line." The company projects 2006 sales of more than \$5 million.

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The Pressure Is On

Even the largest companies feel growing pressure to change basic elements of their business models. Microsoft is trying to keep up with Google, Salesforce.com and Yahoo! by changing how it distributes and prices its software. Apple's iTunes, which has shaken up the music and film industries, suddenly faces a threat from Google's new online video service that lets content owners set prices. Netflix's innovative distribution model forced Blockbuster to change its rental model, and Netflix, in turn, must find new ways to compete with digital on-demand movie downloads offered by cable companies as well as competitors like Gamefly. And internet phone startups Skype and Vonage are giving traditional phone companies a run for their money. The list of one-upmanship goes on.

In time, your company will also face disruptive innovations that enter the marketplace and challenge your business model. Consider [travel agents](#) and record store owners, many of whom were blindsided by the internet and didn't alter their distribution and pricing models to remain competitive. **And in recent years, philosophical movements such as Six Sigma have resulted in a heavy internal focus on quality and operations, says Beth Zimmerman, founder and principal of [Cerebellas](#), a Long Beach, New York, firm that provides strategy and marketing solutions for Fortune 1000 companies. "There was so much effort expended on perfecting existing ways of doing business," she says, "it sometimes muted what was going on [outside] companies."**

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Flexibility in your business model requires continual experimentation to get to the next level. Maybe you need to add an extra layer to your business model, whether it's franchising, switching from products to services (or vice versa), transitioning to a web-based retail model or a brick-and-mortar location, or going high-end with your pricing. Newman mentions Starbucks' foray into CD sales. "They're very successful [in] the stores with the coffee and everything else. Why mess with success? Because they're looking for the next success," he says. "[Experimentation] is where real business success lies."

But you have to stay focused. "There's been quite a bit of research that suggests [that] small businesses that allow themselves to get too diversified too early lose focus," says Rita Gunther McGrath, a Columbia Business School associate professor and co-author of *Market-Busters: 40 Strategic Moves That Drive*

*Exceptional Business Growth.* "The dilemma for small companies is [that] you have this real tension between the cost it requires to maintain flexibility and the conservation of resources it takes to keep yourself going."

Adapting your business model means finding new business opportunities while also staying flexible with the solutions you already provide. "I actually believe [flexibility in the business model] is the key to success," Schaff says. "Have your executive-level people out in front of the customers so you can stay on top of what the real demand is."

In August 2003, Gina Maschek, 31, and Josh Grossman, 30, started [Beyond Blossoms](#), a Wilmington, Massachusetts, online florist. The idea was to deliver fresh-cut, European-style floral arrangements to corporate reception areas all around the Boston area. Beyond Blossoms would supply the vases, and [customers](#) would simply swap out the wilting flowers with fresh bouquets that Beyond Blossoms would deliver weekly under contract. "We thought, 'This is easy to do,'" Maschek says.

But the bloom came off the rose when the pair encountered challenges to their [business](#) model. Maschek and Grossman quickly learned that their corporate clientele wanted fresh flowers delivered by Monday morning at 9 a.m.--a staggering delivery challenge that meant working all day Sunday to fill orders. They also discovered it was very difficult to get companies to commit to long-term floral delivery contracts. To top it all off, a local floral competitor had a large portion of the downtown Boston corporate market sewn up, relegating Beyond Blossoms to suburban business parks on the outskirts of Boston. To supplement the business, they started delivering flower arrangements to private homes and rest homes, but that had its own thorns. "We thought [businesses] would be a little bit more flexible in their budgets, but they weren't," Maschek says. "For the homes, it was even tougher to [convince customers to] commit and say, 'I want a \$50 arrangement every week.'"

Realizing their [business model](#) had to change, Maschek and Grossman switched from local delivery to online sales in December 2004, letting one of their investors manage Beyond Blossoms' supply chain. The company lowered its prices to carry more bouquets in the \$46 to \$48 range. The transition wasn't always easy; the company had to hire a box designer and simplify its floral arrangements so it could ship via FedEx. "We've positioned ourselves as an affordable company where you can still get great designs vs. stressing the great designs and not talking about price at all," Maschek says. "[Customers] want good value." Her advice? Get feedback from as many outsiders as possible about your revamped business plan before you make any big changes, and keep an open mind. "You have to learn so much about other markets," she says, "about what [customers] like and don't like." Today, the company has 10 part-time employees and projects 2006 sales of \$500,000.

Just like the science of evolution is based on a series of very small, incremental changes that happen over the long run, customers don't have to notice the evolution in your business model overnight. In the end, your business model is all about the journey, not the destination. "Our experience is that [changing the business model is] not a cataclysmic, 180-degree turn," says McNeill. "It's a series of 30-degree turns that eventually ends up with you facing the opposite direction." Who knows? A change in scenery could do your company good.

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*Chris Penttila is Entrepreneur's "Smart Moves" columnist.*