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Design driven innovation:  
new meanings in the products  
or also in the business models?

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# DESIGN DRIVEN INNOVATION: NEW MEANINGS IN THE PRODUCTS OR ALSO IN THE BUSINESS MODELS?

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## Abstract

*In a complex and unstable context, the value could be found not only in the product, but also in the machines, in the projects, in the communicated meanings, in the links, etc. The meaning and the message of things, what Krippendorff (2005) calls “design”, or in other words the semantic dimension carried out by products and by companies, is gaining even more value in the business to consumer market.*

*Since there is no predefined meaning “attached” to facts, the sensemaking process has the objective to create meaning and build the context to support it. But most of the companies find themselves unable to “make sense” of and suitably respond to disruptions and discontinuities, rendering them to be insignificant and irrelevant to their businesses or being unable to break free from their established ways of doing business.*

*To help in overcoming this stasis of the companies, we propose to look at the Verganti’s model of design driven innovation interpreting it through the lens of the business model molded by building blocks, in order to find a scheme to support companies in the processes of creating a new design (intended as a new meaning) not only of the products, but also of the cost structures, the networks, and so on, leveraging on the building blocks that form the business model.*

*Two exemplar cases of radical meaning innovation has been selected to be compared. They are both cases of best practice in changing the meaning of the context and of the business model but they show an opposite approach to the market in terms of product range: Thun and Illycaffè.*

*The present work has both an academic and a managerial value. From a literature point of view, the value is in expanding and connecting the literature on sensemaking and design driven innovation with the literature on strategy and business model. From a practitioners point of view, the present work suggests on which building blocks to act through sensemaking, knowledge creating and decision making about meanings and presents a matrix products/building blocks that suggests the post-design driven innovation strategies.*

## Keywords

Design driven innovation, Sense-making, Business model, Building Blocks, Case studies

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# 1 Introduction

In a global and complex economy, design is becoming more and more a critical competitive advantage for companies. The semantic dimension carried out by the products and by the companies, in other words their aesthetic, symbolic and emotional messages, is gaining even more value in the business to consumer market.

The literature has surpassed the common interpretation of the design as style: design is not style, but is “making sense (of things)” (Krippendorf, 1986). Moreover, overcoming the traditional market-pull and technology-push dichotomy, Verganti (2003) proposed a model called “design driven innovation” (DDI). The DDI is “a strategy that aims at radically change the emotional and symbolic content of products, i.e. their meanings and languages, through a deep understanding of broader changes in society, culture and technology” (Verganti, 2008, p. 2).

The DDI model is very innovative, convincing and can be noticed in many companies in Italy and worldwide. Nevertheless, that model do not consider the link between DDI strategy and the underlying business model divided into building blocks. As a matter of fact, defining a business model by its building blocks (Chesbrough and Rosenbloom, 2002) is a convincing approach to interpret a company strategy. Deciding the right business model is finding the “architecture of the revenue” in order to capture value from a particular technology or meaning (eg. Chesborough and Rosenbloom, 2002).

For DDI the socio-cultural roots of innovation (eg. Bijker) are fundamental: function and technology can together form a process of complex and pushed innovation. Many Italian companies have built their competitive advantage on a design driven innovation strategy, considering design not only as a part of the product development process, but in a broader sense linking creativity and innovation (Treasury, 2005) and strategic management, because “design process has to include not only the box, but the entire venture: what it looks like, what value it brings to each network partner, and how it will evolve.” (Hargadon, 2005:35).

The present work aims to contribute in enriching the research field on DDI by interpreting the Verganti’s model through the lens of the building blocks approach. This task will be accomplished by addressing the following research question:

- Can DDI be interpreted not only through the product strategy but also through the building blocks approach?
- Which are the strategies post radical DDI?

Since the literature analysis highlighted the newness of the topic, the case-study is especially proper for new investigations (Eisenhardt, 1989). Therefore, to address the above questions the present research adopted the descriptive case study research design, as defined by McCutcheon and Meredith (1993) and Yin (2003).

Two exemplar cases of radical meaning innovation has been selected to be compared. They are both cases of best practice in changing the meaning of the context and of the business model but they show an opposite approach to the market in terms of product range: Thun and Illy. Case Thun is about an Italian leading firm that produces gifts and household goods, oriented to creativity management and continuous product innovation. Case Illy refers to the Italian leading company in the coffee business, therefore selling a standard product, but continuously innovating through knowledge and culture diffusion. They not only innovate through design of the products, but also through design of the building blocks: the main examples are the value proposition, partner network and customer relationship ones.

The cross-case analysis highlighted how a company can implement a DDI strategy not only to create new meanings in the products, but also new meanings in the building blocks of their business model. We split the company in building blocks and we defined on which building blocks the DDI can be applied.

The present work has a double task: to show why it is important to link DDI and business models and to show how to link them and how to proceed after the design innovation of a business model.

Therefore it first explains the multiple links among innovation, design, strategy and business models (innovation and design, design and strategy, strategy and business models, business models and innovation) and comes to the theoretical foundations that permit to understand why it is important to link DDI to business models (par. 3); then it tries to draw a scheme to suggest how to link the design to the innovation of the business models (cap. 3.4). The paper uses the descriptive cross-case analysis design (par. 2) to describe how two companies innovate through business models design driven innovation. The cross-case analysis highlighted how a company can

implement a DDI strategy not only to create new meanings in the products, but also new meanings in the building blocks of their business model (par. 4). Then, we split the company in building blocks and we defined on which building blocks the DDI can be applied, and we draw conclusions extending the DDI model through the building blocks point of view and define how it is possible for a company to be a market leader building a valuable business model, and we finally suggest different possible post DDI strategies by using a matrix products/building blocks (par. 5). Finally, we draw conclusions and we highlight the academic and managerial implications (par. 6).

## **2 The research method and empirical base**

Since the literature analysis highlighted the newness of the topic, the case-study is especially proper for new investigations (Eisenhardt, 1989). The present research adopts the descriptive case study research design, as defined by Yin (1989) and McCutcheon and Meredith (1993). The units of analysis are the projects of design driven innovation and the entire business model deployed in building blocks.

Therefore we used this methodology selecting among the enterprises that use a business model design driven innovation two success-cases for comparison. The criteria for the choice were companies that realize business model innovation through design, but with a different context in order to be compared: for example from different industries, with different sizes and different company history.

This article focuses on the study of two enterprises operating in different industries: Thun and Illy. Case Thun is about an Italian leading firm that produces gifts and household goods, oriented to creativity management and continuous product innovation. Case Illy refers to the Italian leading company in the coffee business, therefore selling a standard product, but continuously innovating through knowledge and culture diffusion.

In particular, the research has been developed in two phases. At the beginning, we analyse the literature on design driven innovation and on business models, finding the links between the variables. Then we analyse and study how the two companies innovate through design. These two analysis permitted to interpret the Verganti's model through the lens of the building blocks approach.

The analysis of the case studies refers to periods from 2007 to 2008. In particular, the channels for the research were:

- direct interviews with the stakeholders of the companies;
- companies' official documents;
- websites;
- direct observation.

in order to have multiple and different sources of information to compare and to build a complete and integrated description.

## **3 Literature review and theoretical development**

### ***3.1 A triangle among innovation, design and strategy***

Innovation can be defined as “the process of successfully creating something new that has significant value to the relevant unit of adoption.”(Assink, 2006:217)

The object of innovation can be classified as things (products and services), or as changes in the way we create and deliver products and services (processes). Johnes (1999) distinguishes product and process innovation from market innovation. Other objects of innovation are the organisation, transactions, management style and business model (Slappendel, 1996 in Assink, 2006; Higgins, 1995 in Assink, 2006; Paap and Katz, 2004 in Assink, 2006).

The ability to innovate and the ability of re-invention of the organization are more and more a need to realize a competitive advantage (eg. Griffin and Page, 1993). A remarkable contribute to the growth is brought in particular way from the disruptive and radical innovations that break with traditions and reconfigure the rules of the industry which the firm belongs to (eg. Christensen, 1997). While the sustaining innovation regards the “steady state”, “doing what we do better”, in other words to manage in an efficient and effective way the business, instead the concepts of disruptive innovation (Christensen, 1997) and discontinuous or radical

innovation (eg. Phillip *et al.*, 2006) are equivalent to the concept of shifting the status quo. The disruptive innovation attacks slowly the status in an underestimated way, while the discontinuous innovation totally breaks the rules in an unpredictable way, collapsing and regenerating the status.

The literature on disruptive/discontinuous innovation prospered in the last decade and developed in different directions, as the analysis of the dimensions of discontinuity of an innovation (Veryzer, 1998) or their origins and causes (Chandy and Tellis, 2000) or the analysis of the new managerial approaches (Rice *et al.*, 2001), of the organization solutions and of the operative instruments supporting the disruptive/discontinuous innovation (eg. Veryzer, 1998).

The literature is certainly focused on the analysis of the relationship between disruptive/discontinuous innovation and the technology change (eg. Chandy and Tellis, 2000), but many scholars have underlined the importance of the meanings (eg. Verganti, 2003) driven by the product, the service, the experiences or the entire business model of a firm. The meaning innovation in fact can be a sustaining innovation, a disruptive innovation, as for example the mobile phones<sup>1</sup>, or a radical innovation, as for example the Wii<sup>2</sup>, as shown in Figure 1.

MEANING INNOVATION SCALE						
		ACTION DURING TIME				
		CONTINUOUS		DISCONTINUOUS		
ATTACK TO STATUS QUO	UNFORESEEABLE			<b>DISCONTINUOUS MEANING INNOVATION</b>	COLLAPSE & REGENERATION	
	NOT SUSPECTED AND UNDERVALUED		<b>DISRUPTIVE MEANING INNOVATION</b>		RECONFIGURATION & EROSION	
	FORESEEABLE	<b>SUSTAINING MEANING INNOVATION</b>			CONTINUOUS IMPROVEMENT	
		UNCHANGED	SIMILAR	NEW		
		TRAJECTORY				
					EFFECT ON STATUS QUO	

**Figure 1 – The innovation scale applied to meanings**

The concept of meaning is strongly interconnected with the one of design. As a matter of fact, design can be defined as “making sense (of things)” (Krippendorf, 1989) and it is deeply connected with meanings that people give to products (as in Verganti, 2008), but also to the entire company and its business model. This approach on design deals with socio-technical systems: “the advantage of looking explicitly at socio-technical systems is that the co-evolution of technology and society, of form and function becomes the focus of attention” (Geels, 2004:902).

Out of doubts, design can be a lever for innovation (eg. Walsh, 1996): it can be applied as “a strategic competence for the development of product and business innovation” (Bertola *et al.*, 2003) because it is “a core capability that shapes open innovation practice” (Design Council, 2008:4).

Surpassing the traditional dichotomy between technology-pushed innovation or market-pulled one, Verganti (2008) proposed a new model of innovation driven by design, the design driven innovation (DDI), that is “a strategy that aims at radically change the emotional and symbolic content of products, i.e. their meanings and languages, through a deep understanding of broader changes in society, culture and technology” (Verganti, 2008, p. 2).

<sup>1</sup> The mobile phones before had a business segment of customers, and nobody was suspecting their diffusion in all the people worldwide and of every age and social position.

<sup>2</sup> Wii has radically changed the message conveyed by the videogame, by the meanings of player-videogame physical interaction and social networking between player and friends.

According to Verganti (2008), design driven innovation is therefore a pushed innovation strategy. The introduction of design-driven innovations requires an approach of foresight and sensing the dynamics of socio-cultural models, and then firms and consumers interact to co-create needs and co-propose breakthrough meanings and product languages, looking forward to the future society to understand the possible future scenarios in the consumer environment.

An open innovation and network context is fundamental to favour the DDI: the connection of the firm with other actors (as designers, users, artists, suppliers, etc.) and other external realities (as events, showrooms, design services, firms in other industries, etc.) is important to understand the actual and future socio-cultural models, to unify the similar and different competences in order to imagine new meanings and innovate the old ones and to attain to find the weak signals coming from the periphery of the social and environment in order to foresee the tacit or distributed desires of the future consumers. A pivotal role in this process of sensing and foresight and of open innovation and networking is lead by the designers that have to act as “brokers of knowledge on languages and not only on technology” (Verganti, 2008:36).

The literature does not only investigate the concept of design and its links with innovation, but has also underlined how design is an important aspect in the corporate strategy. In fact design is an activity which overlaps with both R&D and with technological innovation, but can also make a contribution to the business of the firm outside either (Walsh, 1996). Design is “a powerful but neglected strategic tool” (Kotler *et al.*, 1984) that is increasingly being used to “enhance performance and unlocks innovation” (Design Council 2008:1). It is therefore important to understand how to operate and how to achieve breakthrough strategies for success, by design.

To embed design mindset in a firm strategy, a convincing approach to analyze the strategy and to indicate on which part of the company to act and to create a “lever effect” is the definition of the business model strategy through the building blocks (Osterwalder, 2004). These new meanings do not only use the product as a support, but the entire firm through its business model made of building blocks is a channel to convey and diffuse the new meaning. The firm depicts itself as different through a semantic innovation of firm signs and languages and communicates new meanings and values to the customers.

The Verganti’s model can be therefore interpreted with the lens of the building blocks: design driven innovation deals not only with the “radical innovation of a product’s meaning” (Verganti, 2008:4) but also with the disruptive/discontinuous innovation of the strategy and the business model’s meaning. Innovation is now pushed by the company sensing of the possible breakthrough meanings and languages that could emerge not only from the product offer, but also for example from the partner network, the cost structure and so on.

For example, Apple conveys its new meaning of beauty not only by the products, but also by its stores, by its brand and so on. Or Italian manufacturers in design-intensive industries (e.g., Kartell, Artemide, Alessi, B&B Italia) understood the social needs and developed integrated systems to offer different socio-cultural values and meanings (Dell’Era and Verganti, 2007).

Thus far, the discussion has drawn a first triangle among innovation, design and strategy, explaining what we mean by these concepts and linking them with each other (innovation and strategy, innovation and design, design and strategy). Through the triangle we identified some literature gaps:

- the DDI approach explains innovation on the product and links it with the surrounding organization system by the “design discourse”;
- the theme connected with the managing of the post-innovation is not highlighted, and we suppose that the fact of linking the DDI to the business model can let originate some strategies post DDI.

The following discussion will try to draw an other triangle (among strategy, business model and innovation) to identify a first mental map to build a scheme in order to fill these gaps.

This connections are shown in Figure 2.

### **3.2 A triangle among strategy, business model and innovation**

Since “Every company has a business model, whether they articulate it or not” (Chesbrough, 2007:12), it is interesting to investigate the business model of a company and understand its deployment.

It is important to note that a business model is not a strategy (Magretta, 2002; Shafer *et al.*, 2005, Chesbrough *et al.*, 2002) nevertheless the two concepts are clearly complementary (Davenport *et al.*, 2006:182), in fact the function of the strategy is “to give meaning and direction to the development of the company’s business model” (Tikkanen *et al.*, 2005:793).

Chesbrough *et al.*, (2002:535) highlight the differences between the business model and strategy:

- “Firstly, the business model starts by creating value for the customer, and constructs the model around delivering that value”;
- “A second difference lies in the creation of value for the business, versus creation of value for the shareholder”;
- “A third difference lies in the assumptions made about the state of knowledge held by the firm, its customers and third parties”.

Scholars (eg. Osterwalder *et al.* 2005) present numerous definitions of business models, draw difference with strategy and provide research on components and architectures constituting them.

Chesbrough *et al.* (2002) describe the business model as an architecture by which innovation is converted to economic value for the business, creating a sustainable competitive advantage in defined markets. Davenport (2006) defines it as “a way of doing business as reflected by the enterprise’s core value propositions for customers”.

Moreover, some scholars highlight its representational and multidimensional nature of a firm’s underlying core logic and strategic choices (Shafer *et al.*, 2005; Morris *et al.*, 2005) focused on fitting the pieces of a business together (Magretta, 2002) more than the sum of its parts (Morris *et al.*, 2005). Mitchell *et al.* (2004b) suggest that a business model is the combination of “who”, “what”, “when”, “where”, “why”, “how”, and “how much” an organization seeks to provide its goods and services exploiting resources and capabilities.

Osterwalder *et al.* (2005) deepen analysis on how a business model, as a conceptual tool, seek to establish and express a company’s logic of earning money.

Shafer *et al.*, (2005) through an affinity diagram analysis, identify four major categories of a business models (strategic choices, creating value, capturing value, and value network) while Morris *et al.* (2005) present a wider synopsis of available perspectives regarding model components.

Chesbrough (2007:13) identifies six parameters where innovation might generate new value in an industry (Value proposition, Target market, Value chain, Revenue mechanism(s), Value network or ecosystem, Competitive strategy).

Moreover Osterwalder *et al.* (2005) define and build a “business model ontology” that describes, in a structured way, elements and sub-elements of the business model.

The aim of this stream of research, as highlighted by Morris *et al.* (2005) and by Voelpel *et al.* (2005), is on building and developing on it a standard framework for characterizing a business model. In this line more and more scholars are developing and proposing X-component frameworks for characterizing a business model: the building-blocks approach.

Furthermore, it is important to link business models with innovation, since innovation creates value and lies also in discovering new or applying different business models (Chesbrough, 2007; Markides, 2008). Thus disruptive/discontinuous “business model innovation matters” (Pohle *et al.*, 2006:34) because it is difficult for competitors to imitate, substitute, or replicate quickly (Markides, 1997).

An organization’s business model is the result of a never-ending iterative and ongoing process (Shafer *et al.*, 2005) that, as environmental conditions change, requires adaptation or wholesale change (Morris *et al.*, 2005). In this line Mitchell *et al.* (2004b) define the concept of continuing business model innovation. More specifically, Morris *et al.* (2005:733) speak in term of business model life cycle, detecting periods of specification, refinement, adaptation, revision, and reformulation. Moreover Tikkanen *et al.* (2005:802) argue that “from an evolutionary perspective, the essential question is to understand why and how new business models emerge and mutate from the existing stock of business model components”.

Markides (2008) draws common themes in business model innovation, noticing that a different value proposition (emphasizing different attributes, aspects and key success factors), initially developing business not attractive to big establishing companies, activates over time a sort of self-reinforcing loop due to a series of continuous improvements enhancing value proposition and performance emphasized. In fact “Business model innovation allows companies to specialize and move more quickly to seize growth opportunities as they emerge”. (Pohle *et al.*, 2006:38).

But as far as companies develop such tuning and resonating ability, challenged by joining and building collaborative business networks, they need to manage multiple business models. (Davenport *et al.*, 2006).

Markides (2008:7) argues that often business model innovators “simply redefine what an existing product or service is and how it is provided to the customer”. To supports this view, he considers that Swatch innovation didn’t rely on discovering the watch but in redefining “what this product is and why the customer should buy for it” (Markides, 2008:7).

Thus far, the discussion has drawn the second triangle among strategy, business model and innovation, explaining what we mean by these concepts and linking them with each other (strategy and business models, business models and innovation, strategy and innovation). Through the scheme of the two triangles (Figure 2) we explained why it is important to link business models and design driven innovation.

The following discussion will explore what links the two triangles, in other words how the literature supports and talked about why the two triangles link and which are the links between them. The main link between the two triangles that the following discussion will highlight is the concept of sensemaking.

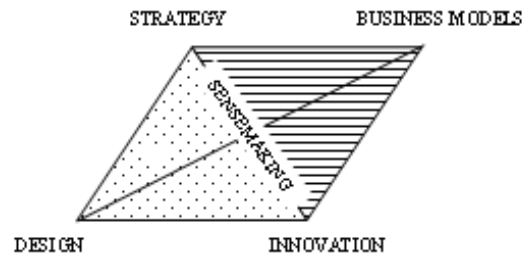


Figure 2 – The scheme of the two triangles

### 3.3 The link between the two triangles: sensemaking

Assink (2006:225) remarks the lack of market sensing and foresight, especially due to the belief that “markets that do not exist cannot be analyzed”. More specifically he highlights the negative market research tests for a lot of non-incremental innovations, including the first video recorder, fax, microwave, mobile telephone, FedEx and Sony’s Walkman. Most of these innovations and their new or different related business models, required an ‘entrepreneurial act’, deepening insight into both the technology and the market (Chesbrough *et al.*, 2002). In our opinion, this has much in common with the designer’s role of interpreter of socio-cultural trends as described by Verganti (2008). What is crucial in order to foresee and making sense of new or different dynamics in an ever changing business environments, is the continuously reinterpretation of information for its meaning - or for its multiple meanings (Malhotra, 2001). As Choo (1996) remarks, the concept of giving meaning to the events and actions of the organization has been brought in management studies by the Weick’s notion of sensemaking. More specifically, “Sensemaking is induced by changes in the environment that create discontinuity in the flow of experience engaging the people and activities of an organization” (Choo, 2002:16). Moreover, Voelpel *et al.* (2005:42) define sensemaking as “conceptual or constructed ‘mental frames’ that are used as filters and references to interpret cues picked up from events and objects”. Weick *et al.* (2005:411) characterize sensemaking concept arguing that it “starts with chaos” and with “noticing and bracketing”. Sensemaking is in fact about action, about “labeling and categorizing to stabilize the streaming of experience”, about “organizing through communication” and about “presumption (to make sense is to connect the abstract with the concrete)”. Moreover they affirm that sensemaking is “social and systemic” (Weick *et al.*, 2005:411) since “to grasp the meaning of a thing, an event, or a situation is to see it in its relations to other things” (Dewey, 1933:137 in Malhotra, 2001:12). Besides, Drazin *et al.* (1999) deepen the analysis about the way individuals hold and organize meanings. Quoting and condensing the concepts of frames (Bateson, 1972; Goffman, 1974), enactments (Weick, 1993), schemata and cognitive maps (Porac *et al.*, 2002), they argue that “an individual (1) develops an intra-subjective cause-and-effect map of events, actions, and consequences; (2) places himself or herself in this map; and (3) takes action according to this map as events unfold” (Drazin *et al.*, 1999). Thus “sensemaking is central because it is the primary site where meanings materialize that inform and constrain identity and action” (Mills 2003:35 in Weick *et al.*, 2005:410).

On these concepts and bases on the way organization uses information strategically, Choo (1996 and 2002) builds an ‘Organizational Knowing’ model: through *sensemaking* modality an organization collect information to make sense of change in its environment; through *knowledge creating* modality seeks to create new knowledge for innovation; and through *decision making* modality seeks to make decisions about courses of action. The basic assumption of his model is the view of a fluid, open-ended, self-reinforcing process in which sensemaking, knowledge building, and decision making are highly interconnected.



Moreover in their work titled “making sense of sensemaking”, Klein *et al.* (2006:88) propose a Data/Frame<sup>3</sup> Theory to address the sensemaking process. The assumption given is that “when people try to make sense of events, they begin with some perspective, viewpoint, or framework—however minimal”.

Many scholars address sensemaking in strategic and organizational management studies (Kurtz and Snowden, 2003; Voelpel *et al.*, 2005; Davenport *et al.*, 2006) pushed by “the need to make sense of the complex and discontinuous changes in the environment” (Voelpel *et al.*, 2005:42). For example Thomas *et al.* (1993) investigate the link between organizational performance and the strategic “sensemaking” processes of scanning, interpretation, and action. Moreover Gioia *et al.* (1991) refer to sensemaking and sensegiving<sup>4</sup> processes to explain modalities of strategic and organizational changes.

Chesbrough *et al.* (2002:536) notice that Weick’s notion of sensemaking could be useful and powerful to explain the process of business models construction “in environments characterized by high complexity and ambiguity”. Moreover they claim that a different ‘sensemaking’ translation between the technical and the economic domains could be represented by presenting in the market, through a different business model, the same technology that is making “little or no business sense in a traditional business model” (Chesbrough *et al.*, 2002:538).

Thus a new appropriate business model could be discovered when someone intercepts ‘weak signals’ (Ansoff, 1976) and latent, uncaught, business value potential, “making sense of socio cultural dynamics and opportunity gaps, reinventing of customer value proposition(s), and reconfiguring the business network and its value chains” (Davenport *et al.*, 2006:181).

Moreover scholars invoke the need of ‘systemic thinking’ (Davenport *et al.*, 2006), ‘abductive thinking’ (Fraser, 2007), and of an ‘heuristic logic’ (Chesbrough *et al.*, 2002) to ignite this process of sensemaking, but they notice how such a logic should overcome the constraints of the corporation’s dominant logic, expressed by its extant business model. Voelpel *et al.* (2005:37) suggest that sensing a discontinuous (fast-changing, disruptive) competition shouldn’t be accompanied by a reaction to “work harder”, but by of an unlearning process of what firms and managers know and to seek to ‘work differently’.

Many scholars highlight the powerful role of business models in communicating strategic choices (Shafer *et al.*, 2005) and in getting “everyone in the organization aligned around the kind of value the company wants to create” (Magretta, 2002:8 and Fraser, 2007). But it is a dynamic condition, since, in order to gain a business model innovation, “the system must be shocked out of its inertia” (Markides 2008:46) but this will inevitably impact organizational performance (Malhotra, 2001). New goals are to be targeted, stretched and continually challenged. But it is through the business model that they could be communicated and sold to the rest of the organization.

Moreover Malhotra (2000) propose a sensemaking model of knowledge management for new business environments, arguing it could facilitate business model innovation. More specifically Malhotra (2000:9) highlights that adopting a sense-making model in contrast to the deterministic information-processing model represents a radical innovation and “is more conducive for sustaining competitive advantage in the ‘world of re-everything’ (Arthur 1996)”. “Such rethinking of the nature of the business and the nature of the organization itself characterizes paradigm shifts that are the hallmark of business model innovation”. (Malhotra, 2000:9).

“Creating a business model is a lot alike writing a new story”, by which explanation of how enterprises work is given (Magretta, 2002:4). Magretta (2002), then, arguing why business models may not work, draw two important tests to be equally considered: the numbers test and the narrative test. A bad result in the narrative test of a business model means “the story doesn’t make sense” (Magretta, 2002:5). We could deepen the author’s considerations<sup>5</sup>: a meaning or an ‘emotional connection’ driven by the way some components of a business model are linked together, could be perceived and sensed by the stakeholders.

Tikkanen *et al.* (2005) propose a cognitive perspective of the business model. More specifically they highlight that “business model can be conceptualized as the sum of material, objectively existing structures and processes as well as intangible, cognitive meaning structures at the level of a business organization” (Tikkanen *et al.*, 2005:790). Moreover they remark the crucial “role of individual and organizational meanings and meaning structures in the structuration process of a business model” (Tikkanen *et al.*, 2005:791). This cognitive perspective of the business model entails both functional and structural dimensions. Actors build and collect meanings and meaning structures about the components of the business model but also about their functioning

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<sup>3</sup> “Frames shape and define the relevant data, and data mandate that frames change in nontrivial ways” (Klein *et al.*, 2006:88).

<sup>4</sup> sensegiving (cf. Whetten, 1984). Gioia *et al.* (1991:434). “sensegiving” is called the process wherein the leader is one who alters or guides the manner in which his followers mind the world by giving it a compelling face (Weick, 1995, p.10) in Lu *et al.* (2008)

<sup>5</sup> We refer also to this anecdote given by the author: “Meg Whitman joined eBay in its early days because she was struck by what she described as ‘the emotional connection between eBay users and the site’” (Magretta, 2002:6 – from “Meg Whitman at eBay Inc. (A),” HBS case no. 9-400-035)

(Tikkanen *et al.*, 2005). More specifically they identify four conceptual levels of managerial cognition constituting a ‘managerial belief system’: industry recipe, reputational rankings, boundary beliefs and product ontologies. Tikkanen *et al.* (2005) claim that the way managers draw on this managerial belief system interacting with material aspects<sup>6</sup> of the business model constitutes the business model of the firm.

Voelpel *et al.* (2005:42) and Davenport *et al.* (2006:254) suggest a sense-testing tool for managers to enable disruptive innovation of business models. More specifically, this tool emphasizes four key dimensions constituting a sort of wheel by which authors claim that it is possible to make sense of business ecosystem dynamics.

Extending these considerations, we may affirm that business models constitute frames that managers and firms develop to organize ‘the way they make money’ considering also meaning, beliefs, organizational culture and diversity, etc.

But as remarked by Fraser (2007:73), business model should be considered by its enterprise as “a living organism rather than a fixed model” in order to be able to respond to ongoing opportunities and intercept new emerging needs.

Moreover Fraser (2007) invokes the active and broader role of design in achieving breakthrough strategies for success, through the exaptation of design methods and mindsets to an organization’s strategic business design. More specifically she claims that “where design has its highest value is in applying design thinking to strategy and business modeling” (Fraser, 2007:67).

Fraser (2007) proposes three “gears”/steps of design: (1 - reframe the business wholly through the eyes of the user; 2 – concept visualization through the process of ideation and multiple-prototyping; 3 - align strategic concepts with future reality through strategic business design). More specifically for the last step she remarks the Porter’s (1996) ‘activity system’ as an useful visualization and development tool.

What we claim is that this role of design could be enriched considering the Krippendorff (2005) and Verganti’s (2008) view of design as “making sense of things”. More that specifically we claim that the design-driven innovation approach could be extended to strategic business design aiming at making sense of an enterprise business model.

These considerations can be supported by some examples may be found in the literature, seeped through these new lens, and that we will briefly describe just afterwards:

- IKEA built its success mostly on conveying a disruptive meaning in the market. It offers style & design with medium-low quality at low-price and around this meaning configured its business model. The network of (young or not yet affirmed) talented designers, the materials employed, the product’s packaging and modular architecture for home-assembly and easy-safe space and handling, the store’s layout, the peculiar customers relationship developed, such as the self-picking practice from shelves as in supermarkets, etc., are all solutions characterizing the IKEA’s business model and reinforcing its original meanings.
- Another example of a successful business model built around an original and powerful meaning is the Starbucks’ one. Howard Schultz, president of Starbucks, pursued the meaning of *third place*, replacing and enriching the stagnant and constraining commodity-oriented perception to be in the coffee business. He sensed to be “in the business of creating a consumption experience – of which coffee is a part” (Markides, 2008:30). With no doubt, he was one of the first in intercepting the experience economy trend described by Pine and Gilmore (1999). Moreover he explains that what Starbucks does and its business model could not be copied by anyone else since “you can’t copy the heart and soul of a business<sup>7</sup>”.
- In literature many scholars studies the successful Apple’s case. Markides (2008) argues that Steve Jobs and Steve Wozniak started the company with a new business redefinition perceiving to be not just in the ‘computer business’ but also in ‘the toy or hobby business’. They proposed a new meaning, “computers were supposed to be fun” and he claims that this new “mind-set let to the user friendliness of the Macintosh and to the first machine that allowed physical interaction with the computer by means of a mouse” (Markides, 2008:31). Moreover Verganti (2008) recognizes the Apple I-Pod as a design-driven innovation. He argue that the I-pod has proposed “a radical new language and also, and above all, a radical new meaning, implying a new experience limited not simply to listening music, but also to accessing music on the web through the I-tune website, financially supporting the music industry, organizing and accessing songs through novel interfaces, etc..” (Verganti, 2008:13). These

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<sup>6</sup> The material aspects of the business model (or key components) include the company’s network of relationships, operations embodied in the company’s business processes and resource base, and the finance and accounting concepts of the company (Tikkanen *et al.*, 2005).

<sup>7</sup> (<http://www.unitedbit.com/making-sense-of-uncertainty-markets-the-case-of-starbucks/>)

considerations are in line with the analysis provided by Hargadon (2005), Fraser (2007) and Osterwalder (2004) about Apple's business model. All of them highlight the Apple's ability in building a complex network of interrelated activities or building blocks functional in supporting and developing capabilities and competitive advantages not only product-design related. What we suggest is to consider the Apple's business model evolution lead by the definition and sensing of a stream of meanings (computers or technological devices has to be fun, user-friendly, stylish, easy-of-use, etc.) linking the Verganti's approach to that of more business-design oriented scholars. The motivation lies in considering certainly that "no amount of [product] design can save a bad business model (Hargadon, 2005:34)" but that a great amount of design could lead to a successful business model innovation.

### **3.4 The framework of analysis of business model design driven innovation**

In order to develop a framework that helps in explaining how to link the triangles and in analyzing the case studies of business model design driven innovation, we will build a framework by finding the similarities and merging different models and concepts derived from the above cited and explained literature, in particular the Organizational Knowing model of Choo (2002), composed by the phases of sensemaking, knowledge creating and decision making, and the concepts of sense, meaning and actions of Krippendorff (2005). We come so to a point where our framework is composed by three steps:

1. SENSEMAKING;
2. KNOWLEDGE CREATION ABOUT MEANINGS;
3. DECISION MAKING ABOUT WHICH BUILDING BLOCK TO ENRICH BY GIVING MEANINGS.

In particular, for sensemaking and knowledge creation about meanings, the main contributors to our framework are the system of four beliefs of Tikkanen *et al.* (2005:792) and the four key dimensions for making sense of business ecosystem dynamics pinpointed by Voelpel *et al.* (2005:43) and Davenport *et al.* (2006:254).

The four-level belief hierarchy are the industry beliefs (economic and competitive constructions related to the institutional context of the firm (Spender, 1990)), the boundary ones (social constructions of a firm within an inter-organizational community (Porac *et al.*, 2002)), the product ontologies (cognitive constructions related to the offering (Porac *et al.*, 2002)) and the reputational rankings (how organizations socially evaluate competition and their competitors).

The four key dimensions of the "wheel of business model reinvention process" Davenport *et al.* (2006:254) are sensing in order to identify respectively new spaces about customer, product/services, business value system and results.

1. *Sensing new customer benefits*: "sensing potential for change in customer behavior and new customer benefits";
2. *Sensing new value propositions*: "sensing the strength, direction, and impact of technology for new customer value propositions";
3. *Sensing new business system configurations*: "sensing the potential for value system (re)configuration, including supply chains, demand chains, and internal value chains";
4. *Economics/Profitability sensing*: "sensing the economic feasibility, profitability and wider benefits of the reinvented business models".

As regards the decision making about building blocks, we refer mainly to the Osterwalder (2004)'s model of nine areas grouping the related building blocks (Figure 3), but we do not exclude to add other areas, coming from other scholars who developed a building blocks scheme of the business model. In particular, the nine areas are value proposition, distribution channels, customer relationships, revenue streams, key resources, key activities, partner network and cost structure.

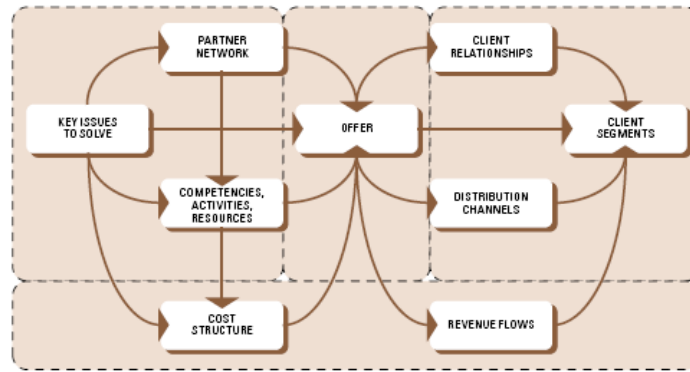


Figure 3 – Osterwalder (2004)'s scheme of business model building blocks

Finally, we synthesize the sensemaking of Davenport *et al.* (2006) and Voelpel *et al.* (2005:43) and the building blocks scheme of Osterwalder (2004) by correlating and identifying which sensing has to be made for which building block area of the business model (Figure 4): while the key resources and the key activities can be investigated by all the four sensing, the cost structure and the revenue flows can be sensed searching for new result space, the client relationship and the client segments have to be investigated by the sensing of new customer benefits to find a new customer space, then the partner network and the distribution channel finding the new business value system space and the offer sensing the new value propositions to find the new product/service space.

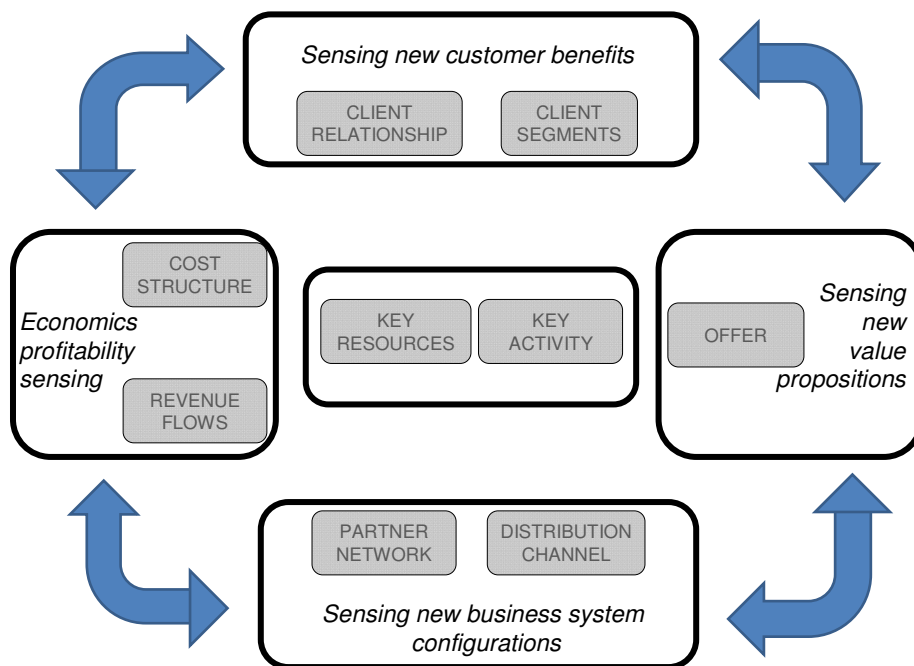


Figure 4 – Framework of analysis of the meaning innovation on business models

#### 4 Case studies

Two exemplar cases of radical meaning innovation has been selected to be compared. They are both cases of best practice in changing the meaning of the context and of the business model but they show an opposite approach to the market in terms of product range.

Case illycaffè refers to the Italian leading company in the coffee business, therefore selling a standard product, but continuously innovating through knowledge and culture diffusion. Case Thun is about an Italian leading firm that produces gifts and household goods, oriented to creativity management and continuous product innovation.

They not only innovate through design of the products, but also through design of the building blocks: the main examples are the value proposition, partner network and customer relationship ones.

We will now present the results of the case studies: we will describe their business model design driven innovation through the scheme shown in chapter 3.4 and schematically highlight the connection between the new created meanings and their action on the specific area of the building blocks.

## 4.1 Illycaffè

Illycaffè is an Italian worldwide innovative company based in Trieste producing and selling a unique single blend of 100% Arabica premium quality espresso coffee since 1933. The Company is one of six international business companies controlled by the illy Group. It promotes itself as the “art and science of the espresso coffee”. History of illycaffè could testify with no doubts its world class expertise and leadership in espresso coffee and its passion for science and technology. Not by chance, recently, illycaffè signed a joint venture with The Coca-Cola Company focused on the premium ready-to-drink espresso coffee segment.

Many scholars analyzed the illycaffè’s case from different perspectives. For example, from the business model perspective (De Toni and Tracogna, 2005), from the supply chain management perspective (Kaplinsky, 2004), from the design-driven innovation and laboratories perspective (Dell’Era and Verganti, 2009) and from the knowledge management and business strategy perspective (Andriani *et al.*, 2009).

Here we will analyze the illycaffè case by a business model design driven innovation perspective, applying the three level framework proposed in the last section, to collect and interpret some of these concepts in order to nurture and consolidate our analysis.

### Sensemaking

Investigating the system of belief (Tikkanen *et al.*, 2005), the fact that emerges from the interviews and the analysis of the above cited authors, is that illycaffè has been able to build a new product ontology of the espresso coffee, rejecting most of the industry recipes and reputational rankings that characterized the traditional coffee business. Illycaffè has always prompted on the extreme research on product quality and on its aesthetic-sensorial characterization, where the majority of the market was selling only a commodity product. It based its strategy on the concept of “one blend one brand”<sup>8</sup>, avoiding to competing with multinationals and their strategies of multi-product and multi-brand. It headed, as underlined by its president Andrea Illy, on quality and business ethics intended as the construction of value over time, and it recognized the importance and the potentialities of the knowledge-sharing and the trust-based relationships not ruled by formal contracts with the suppliers, not adopting the limiting and close role of channel master typical of the agrifood sector (Andriani *et al.*, 2009).

In particular, applying the scheme proposed above, we can describe and rebuild the seeds picked during time by illycaffè that permitted to develop certain meanings and applying them on its actual business model. They are:

- Sensing new customer benefits:
  - Sensing the increasing seeking of sensorial and emotional pleasure and focus on consumption experience and better quality of life. Sensing the need of an enrichment of the emotional and intellectual involvement of consumers, not only developing the most desirable products but also places of consumption.
  - Sensing the importance of building a strong emotional and trustworthy brand to join and nurture growing premium-quality niches market<sup>9</sup>.
- Sensing new value propositions
  - Sensing that a perfect sensory experience and the Espresso quality could be founded only on researching on the complex chemical substances and chemical-physical variables affecting its preparation.
  - Sensing the potential for solving technical problems and for proposing innovations (Illycaffè holds more than 100 patents as reported by Ernesto Illy in Andriani and De Toni (2008)).

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<sup>8</sup> Ernesto Illy (in Andriani and De Toni, 2008) highlights how this strategic idea generated a positive feedback between the brand and the consumers and led to a lock-in phenomenon.

<sup>9</sup> “We have a realistic attitude toward consumers: we try to attract that 1% of them who are sensitive to our top-quality message. The illy brand which you can find here, in Tokyo or in Buenos Aires has the same meaning because there is an underlying relationship of trust and confidence based on reputation. And reputation means more than image - because an image can be sold - while reputation is built step by step by always keeping faith to promises”. (Ernesto Illy in Andriani and De Toni, 2008:90)

- Sensing the importance and benefits of a set of networked knowledge management practices and laboratories to acquire new insights in developing a coffee science-based culture (see Dell’Era and Verganti, 2009; Andriani *et al.*, 2009)
- Sensing new business system configurations
  - Sensing in the early 90’s the emergence of new business models and new business system configurations in the Brazilian market (Andriani *et al.*, 2009). Illy established an award for coffee quality since 1991 in order to react to the closure of Instituto Brasileiro do Café (IBC). By means of the “Brazilian Award for Quality Coffee”<sup>10</sup>, illycaffè implemented an innovative procurement strategy to attract and let emerge high-quality Brazilian coffee growers (Andriani *et al.*, 2009) and unexpectedly “changed the mentality of the Brazilian market” (as reported by Enesto illy in Andriani and De Toni, 2008:91).
  - Building a trust-based knowledge ecosystems: As analyzed by Andriani *et al.* (2009), illycaffè developed among time an emergent-powerful and trust-based knowledge-sharing ecosystem, linking growers, technicians and coffee experts, universities, laboratories, etc.. more specifically they highlight that through reputation and knowledge sharing fluxes, illycaffè shaped new business system configuration, in which trust replaced contractual form of relations.
- Economics/Profitability sensing
  - illycaffè “rewards quality with prices that are approximately 30% higher than the market average” (Andriani *et al.*, 2009:16) because according to Ernesto illy “the right strategy to win over competition cannot therefore be a low price policy but high quality products!” (Andriani and De Toni, 2008:91).

### Knowledge creation about meanings

The meanings founded and conveyed by illycaffè are in our opinion mainly four:

1. **High quality coffee (M1)**: choosing the illycaffè’s coffee should mean to taste and experiencing one of the best premium quality finest coffee. As a matter of fact illycaffè is recognized as a world leading brand for quality coffee;
2. **Eudemonia & kalokagathia (M2)**: these two ancient philosophical concepts are strongly stressed by illycaffè’s meaning-conveying strategy. The term of *eudemonia*<sup>11</sup> synthesizes the concept of “well being of the soul” while the term *kalokagathia*<sup>12</sup> conveys the meaning that “taste and beauty are inseparable”. For illycaffè the coffee should provide the aesthetic taste of an artistic work. The illycaffè mission is in fact “seeking beauty in everything we do”;
3. **Coffee culture leading expert (M3)**: illycaffè wants to be and represent the specialist and the repository of the culture of the coffee. Illycaffè in fact defines itself as “the home of coffee culture”;
4. **Trustworthy partner (M4)**: illycaffè establishes long term trust-based relationships (based on reputation and knowledge sharing), on which it bases its business ethics and sustainability.

### Decision making about which BB to implement

The Figure 5 evidences the illycaffè business model we have built up, connected to the four described levels of sensing.

The illycaffè business model is complex, and it is composed briefly by:

- **Offer**: today illycaffè promotes the expansion of the coffee market and the global culture of coffee through all the elements contributing to a perfect cup of coffee: from its blend to the machines for its preparation, from the training of specialized staff in cafés to the study and choice of settings for savoring it. Thus illycaffè main product is still a high quality coffee (one blend) offered in different formats (Fine and Medium Grind - Whole Bean - Moka - E.S.E ‘easy serving espresso’ - Hyper

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<sup>10</sup> “Premio Brasil de Qualidade do Café para Espresso”

<sup>11</sup> *Eudemonia* derives from the greek *eudaimon* (lucky), composed by *eu* (good) and *daimon* (genius).

<sup>12</sup> *Kalokagathia* is the derived noun of *Kalos kagathos*, an idiomatic phrase used in ancient Greek literature, synthesized in the expression “what is good cannot but be beautiful”.

Espresso Capsules). Moreover illycaffè offers ‘cups and mugs’ of the *illy art collection*<sup>13</sup>, coffee machines (with the Francis Francis brand) and ‘education on coffee’ (e.g. courses at the University of coffee<sup>14</sup>);

- Key resources: illycaffè gives a fundamental importance to knowledge of chemistry and sensorial aspects of coffee, and therefore on quality management, it holds in fact many patents and it is well-known for technological innovations on coffee;
- Key activities: the main activity is the roasting and blending of coffee, but the quality is supported by the activities of R&D and design-driven laboratories<sup>15</sup>, together with art and culture by the activities of brand management<sup>16</sup> and knowledge ecosystem coordinator<sup>17</sup>;
- Revenue flows: they come from products revenues and courses revenues;
- Cost structure: illycaffè distinguishes itself for buying green coffee of the highest quality Arabica directly from the growers and for according them a premium price above-market prices.
- Partner network: the partners are connected to the operational level and the knowledge ecosystem<sup>18</sup>;
- Supplier relationship<sup>19</sup>: the supplier relationship is based on some events and activities that illycaffè created for its suppliers, in order to augment the quality and to enrich the knowledge and trusted relationship, and these are the *unilly*<sup>20</sup>, the *clubilly*<sup>21</sup> and the *illy Award for quality coffee*<sup>22</sup>;
- Distribution channel: the distribution is based on different channels, ho.re.ca. (hotel, restaurants and cafès), retail, vending and services (offices) and e-commerce. Two particular channels are the “Artists of taste” and the “espressamente illy” cafès<sup>23</sup>;
- Client segments: the most important client segment are the home high-end consumers, the consumers in the offices and the bars and cafès;
- Client relationship: the client relationship is based on cultural-artistic events and initiatives<sup>24</sup>, *illystories*<sup>25</sup>, *illyworlds*<sup>26</sup>, and the concepts of art, culture and coffee lovers brand.

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<sup>13</sup> illy expresses its values through chosen art, literature and creativity. It all began in 1992, with the first collection of designer cups entitled “Arts and Crafts”, which combined coffee with the aesthetics of the cup. Since then, illy has established a strong bond with the art world, constantly adding new encounters between the good and the beautiful.

<sup>14</sup> The “Università del caffè” (University of Coffee) is a training institute established by illy to further and spread the coffee culture, by offering a theoretical and practical preparation on all themes relating to the café (consumption place), to coffee and to all the preparation techniques.

<sup>15</sup> See the analysis of AromaLab, SensoryLab, TechLab, BioLab and Inno.cent in Dell’Era and Verganti (2009).

<sup>16</sup> See how the branding strategy promoted by illy is connected to the motto “one-blend-one-brand” in De Toni and Tracogna, (2005) and Andriani and De Toni, (2008).

<sup>17</sup> See the analysis provided by Andriani *et al.*, (2009).

<sup>18</sup> *ibidem*

<sup>19</sup> Building block that we added to the Osterwalder’s scheme taking from Dowlatshahi (1998).

<sup>20</sup> illycaffè founded in 2000 the Università del Caffè in partnership with the University of São Paul, for the education of the growers and suppliers. (for more references see [www.illy.com](http://www.illy.com) and Andriani *et al.*, 2009).

<sup>21</sup> Club illy was established in 2000, making it the meeting and exchange site for all illycaffè suppliers in Brazil (for more references see [www.illy.com](http://www.illy.com) and Andriani *et al.*, 2009).

<sup>22</sup> illycaffè launched its first quality program, the Brazil Award, in 1991, awarding \$30,000 to the producer of the best Arabica coffee. This initiative was followed by the India Award, the Colombia Award and the Guatemala Award (for more references see [www.illy.com](http://www.illy.com) and Andriani *et al.*, 2009).

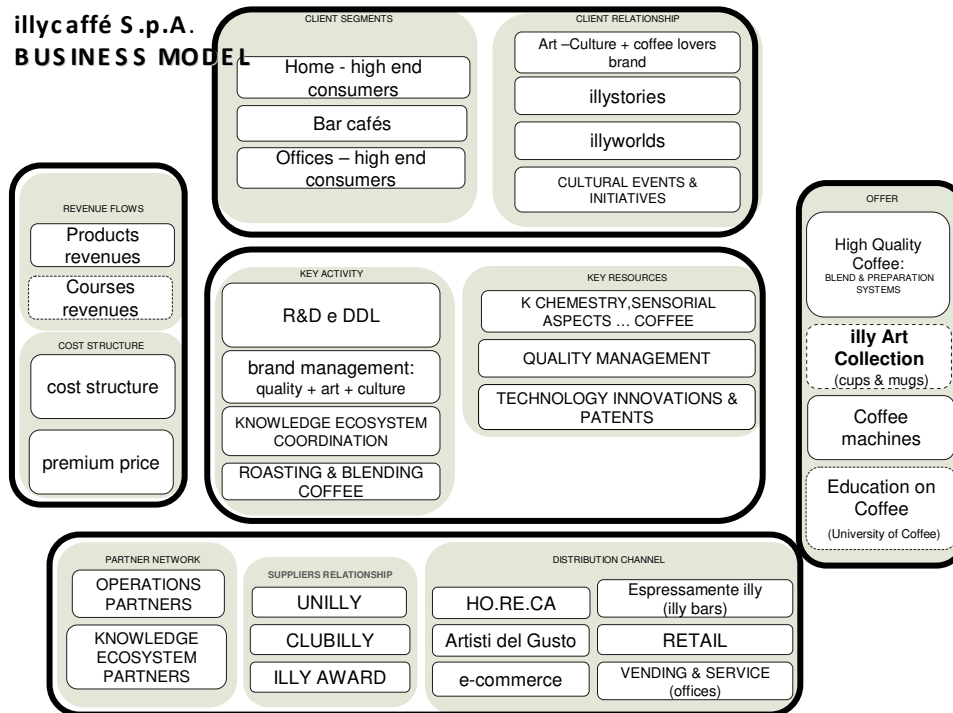
<sup>23</sup> In 2003, the company created “espressamente illy” cafès, claimed as “a complete coffee immersion”. They are a chain of franchising of Italian-style coffee houses proposed to its customers worldwide. The philosophy behind the project lies in illy’s pursuit of quality and the cafès are marked by innovative design. In the last three years, over 150 cafès have been opened in 20 countries ([www.illy.com](http://www.illy.com)).

<sup>24</sup> For example, in 1997, 2003, 2005 and 2007, the company was the main partner of the Venice Art Biennale. ([www.illy.com](http://www.illy.com)).

<sup>25</sup> *Illystories* is a series of small books distributed free of charge in Italian coffee bars serving illy written by young students and writers to enhance the espresso occasion. ([www.illy.com](http://www.illy.com)).

<sup>26</sup> *Illyworlds* is the illycaffè’s magazine of Inno.cent Lab in which are published dialogues, opinions and points of view on themes such as dreams, multiculturalism, awareness, chaos and the non-linear path of knowledge, etc. ([www.illy.com](http://www.illy.com) and Dell’Era and Verganti, 2009).

**illycaffè S.p.A.  
BUSINESS MODEL**



**Figure 5 – The four levels of sensing applied to the illycaffè business model**

The interesting aspect is to see how the four meanings explained before impact on which one of the building blocks. The matrix in Table 1 highlights these impacts.

		BB1		BB2		BB3		BB4		BB5		BB6		BB7		BB8		BB9		BB10														
		OFFER		KEY RESOURCES		KEY ACTIVITIES		REVENUE FLOWS		COST STRUCTURE		PARTNER NETWORK		SUPPLIER RELATIONSHIP		DISTRIBUTION CHANNEL		CLIENT SEGMENTS		CLIENT RELATIONSHIP														
		BB 1.1	BB 1.2	BB 1.3	BB 1.4	BB 2.1	BB 2.2	BB 2.3	BB 3.1	BB 3.2	BB 3.3	BB 3.4	BB 4.1	BB 5.1	BB 5.2	BB 6.1	BB 6.2	BB 7.1	BB 7.2	BB 7.3	BB 8.1	BB 8.2	BB 8.3	BB 8.4	BB 8.5	BB 8.6	BB 9.1	BB 9.2	BB 9.3	BB 10.1	BB 10.2	BB 10.3	BB 10.4	
M1	HIGH QUALITY COFFEE	X				X	X	X	X	X	X	X		X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
M2	EUDEMONIA	X	X			X				X											X	X	X	X					X	X	X			
M3	COFFEE CULTURE	X			X															X	X	X						X	X			X		
M4	TRUSTWORTHY PARTNER	X								X	X			X	X	X	X	X	X	X	X													

**Table 1 – Impact of meanings on the building blocks in illycaffè**



## 4.2 Thun

Thun S.p.A. is an European leader company<sup>27</sup> in the ideation and production of gifts. It is born in 1950 as a little artisanal laboratory in a cellar of a castle in Bozen. Today it is a growing reality, that produces every year more than 7 million of pieces, manufactured artisanally. The product yet famous and loved by the public is the “angelo laudante” (angel glorifying) in oven-cooked clay and completely hand-painted, well-known as the “Bozen original angel”. Today Thun offers a large assortment of gifts and does not limit to the manufacturing of ceramics products: the variety is formed by the wood and the textile creations, and also the peluches.

Thun structured its distributing network with 1300 Thun-authorized shops, 596 shop in shop Thun (corner Thun in other shops), 33 Thun shops (single-brand shops) and 2 Thun Stores (owned shops).

### Sensemaking

Applying the scheme proposed above in chapter 3.4, we can describe the four levels sensing of Thun that permitted to construct meanings applied on its actual business model. They are:

- Sensing new customer benefits
  - Sensing the increasing opportunity of enriching the customer experience interaction with the brand. More specifically, sensing the benefits of designing a multisensory experience (since 2002 with the Thuniversum<sup>28</sup>);
  - Sensing the increasing customers’ sensibility, loyalty and awareness for effective emotional brand strategy;
- Sensing new value propositions
  - Sensing the potential of large emergent social interactions and networks, and the benefits due to the sense of belonging to a community, etc;
  - Sensing the value that lies in the tradition, and in talking through the language of the fairy-tale world for enriching and making sense of the purchasing opportunities;
- Sensing new business system configurations
  - Sensing the business growth opportunities offered by building a franchising network<sup>29</sup>;
  - Sensing internationalization dynamics and enlarging its influence areas<sup>30</sup>;
- Economics/Profitability sensing
  - Sensing the economic feasibility and profitability: Thun can make a high markup on a product that does not have high material costs, because of the artisanality, the tradition and the branding strategy it can set an higher price than its competitors;
  - Sensing the profitability of the un-seasonality of the purchasing occasions: trying to attract the costumers not only during the traditional feasts and festivities but continuously.

### Knowledge creation about meanings

The meanings conveyed and driven by Thun’s business model are in our opinion mainly four:

1. **Fairy-tale world (M1)**: with the motto “the dreams come true” and with the colorful and “as kids designed” products, Thun wants to convey the values of the childhood, the concepts of dreams and of magic;
2. **Friendship, fun and love (M2)**: the Countess Lene Thun’s motto was “to gift joy to yourself and to others”, so Thun designs its products and its business model trying to build a channel for the messages of fun, friendship and love;
3. **Tradition and modernity (M3)**: Thun conveys the message of being an artisanal factory (for example, the products are painted by hand) but opened to change, to modernity and to a worldwide diffusion;
4. **Exclusivity, collecting and prestige (M4)**: these are the meaning that Thun stresses for its main client segments (the women) and for the collectors of handmade objects loving the Thun brand.

### Decision making about which BB to implement

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<sup>27</sup> The main market areas are Italy, Germany and Switzerland.

<sup>28</sup> In the 2002, inside the Bozen main office, Thuniversum was born: it is composed by Panopticum, the THUN Store, the THUN Outlet, the Bistrò “Caffè al volo” and the Production Show, and it is considered a really universe of Thun, where the person can see and touch all the products and the Thun world.

<sup>29</sup> In 2004 Thun opened its first single-brand shop.

<sup>30</sup> 1999 THUN International; 2000 THUN Deutschland and acquisition of Thangshan Ali Ceramics Ltd. in China as production facility.

The Figure 6 evidences the Thun business model connected to the four described levels of sensing.

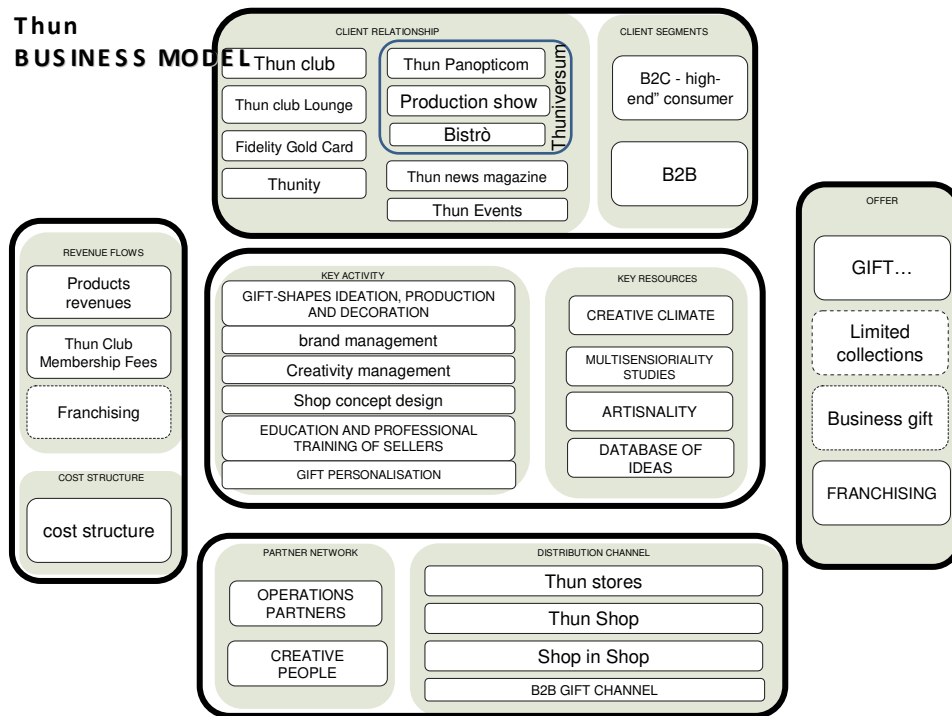


Figure 6 – The four levels of sensing applied to the Thun business model

The Thun business model is briefly composed by:

- **Offer:** gifts<sup>31</sup> and limited collections (business to consumer), business gifts (products that Thun sells to other companies to constitute their gifts for example for Christmas time) and franchising;
- **Key resources:** Thun bases its business on the concept of artisanality (the products are hand-painted). Moreover, it is very important the creative climate that it tries to develop, through databases of ideas, creative workshops, creative consultants and so on. Finally, the idea is not only to offer a product but to study through multisensoriality the possibility to surround and delight the customer with all the senses.
- **Key activities:** the main activity is the design, production and decoration of the product-shapes and gifts. Thun can also personalize the gifts for business to business customers. Moreover, a key activity is the creativity management: Thun manage a network of designers and creative people that originate new concept ideas and products. Finally, Thun conveys its brand not only by selling the products, but also by offering to its sellers the full design of the interiors of their shops, the professional training in marketing and selling strategies, and promoting and organizing local events.
- **Revenue flows:** they come from the direct selling to the high-end customers and the indirect selling to the franchisee shops. Moreover Thun nurture a collectors' association, named Thun Club<sup>32</sup>, by which it receive the revenue coming from the membership fees;
- **Cost structure:** Thun does not distinguishes for a particular cost structure;
- **Partner network:** the network of partners is composed by operations partner and creative people, as for example consultants for creativity management or design experts;
- **Distribution channel:** as already described, Thun has more than 1300 shops divided in Thun stores, Thun shops, and Shop in Shop. Finally, an other distribution channel is the one for business to business gifts.
- **Client segments:** the client segments are both the business to consumer market (high-end customers) and the business to business market;
- **Client relationship:** the relationship with the customers is really important and carefully managed. The first channel is the so called Thuniversum, a multisensory world located in Bozen composed by Thun Panopticom<sup>33</sup>, the THUN Store<sup>34</sup>, the THUN Outlet, the Bistrò "Caffè al volo"<sup>35</sup> and the Production

<sup>31</sup> Visit [www.thun.it](http://www.thun.it) for more details on Thun's product range.

<sup>32</sup> It gives to members advantages as discounts, participation to exclusive events and the membership of a community called Thunity.

<sup>33</sup> An enormous window inside the Thun factory to be virtually surrounded by the mountains atmosphere.

<sup>34</sup> Thun owned store in Bozen.

Show<sup>36</sup>. Thun publishes also its own magazine and organizes cultural events<sup>37</sup> in order to diffuse its brand image and the idea of Thun connected with culture and art. Moreover, for the premium customers or for the collectors there are other structured relationship formulas, as the Thun Club, Thun Club Lounge<sup>38</sup> and the fidelity card.

These building blocks convey the four meanings explained above, that are impacting as shown in Table 2.

		BB1		BB2				BB3				BB4		BB5	BB6		BB7		BB8		BB9																				
		OFFER		BB 1.1	BB 1.2	BB 1.3	BB 1.4	BB 2.1	BB 2.2	BB 2.3	BB 2.4	BB 3.1	BB 3.2	BB 3.4	BB 3.5	BB 3.6	BB 3.7	BB 4.1	BB 4.2	BB 4.3	BB 5.1	BB 6.1	BB 6.2	BB 7.1	BB 7.2	BB 7.3	BB 7.4	BB 8.1	BB 8.2	BB 9.1	BB 9.2	BB 9.3	BB 9.4	BB 9.5	BB 9.6	BB 9.7	BB 9.8	BB 9.9			
		GIFTS	LIMITED COLLECTIONS																																						
		BUSINESS GIFTS																																							
		FRANCHISING																																							
		CREATIVE CLIMATE																																							
		MULTISENSORIALITY STUDIES																																							
		ARTISANALITY																																							
		DATABASE OF IDEAS																																							
		HANDCRAFT PRODUCTION AND DECORATION																																							
		BRAND MANAGEMENT																																							
		CREATIVITY MANAGEMENT																																							
		SHOP CONCEPT DESIGN																																							
		PROFESSIONAL TRAINING OF THUN SELLERS																																							
		GIFT PERSONALIZATION																																							
		PRODUCT REVENUES																																							
		THUN CLUB MEMBERSHIP FEES																																							
		FRANCHISING REVENUES																																							
		COST STRUCTURE																																							
		OPERATIONS PARTNER																																							
		CREATIVE PEOPLE																																							
		THUN STORES																																							
		THUN SHOP																																							
		SHOP IN SHOP																																							
		B2B GIFTS CHANNEL																																							
		B2C HIGH-END CUSTOMERS																																							
		B2B																																							
		THUN CLUB																																							
		THUN CLUB LOUNGE																																							
		FIDELITY GOLD CARD																																							
		THUNITY																																							
		THUN NEWS MAGAZINE																																							
		THUN EVENTS																																							
		THUN PANOPTICUM																																							
		PRODUCTION SHOW																																							
		BISTRO*																																							
M1	FAIRY-TALE WORLD		X	X																																					
M2	FRIENDSHIP, FUN AND LOVE		X																																						
M3	TRADITION & MODERNITY		X	X																																					
M4	EXCLUSIVITY, COLLECTING AND PRESTIGE		X	X	X																																				

Table 2 – Impact of meanings on the building blocks in Thun

<sup>35</sup> A café inside the Thun factory, where the customer can drink a coffee surrounded by a Thun designed environment.

<sup>36</sup> A virtual tour to understand the phases of the artisanal production, from the idea to the quality control.

<sup>37</sup> As for example travels, or Thun parties.

<sup>38</sup> Special events only for Club members organized in the Bozen Thuniversum location.

## Analysis and discussion

The cross-case analysis highlighted how a company can implement a DDI strategy not only to create new meanings in the products, but also new meanings in the building blocks of its business model. According to Chesbrough *et al.* (2002), a business model has different tasks, as articulate the value proposition, identify a market segment, define the structure of the value chain, estimate the cost structure and profit potential of the offering, describe the position of the firm within the value network linking suppliers and customers and formulate the competitive strategy to gain advantage over competitors.

We split the company in building blocks and we defined first on which building blocks the DDI can be applied through which sensing, as shown in the framework of analysis of the meaning innovation on business models (see Figure 4) and then we individuate a matrix of analysis of the meaning conveyed by the company, crossing the meanings with the building blocks (see tables 1 and 2 in the case study section).

Since ultimately, the most valuable benefits for customers are built on knowledge that cannot be duplicated in any other way (Mitchell *et al.*, 2004a) and the meaning is a “socially-constructed phenomenon” (Gioia *et al.*, 1991:435), it becomes important to innovate through design not only the product but the entire business model, conveying to the customers but also to all the stakeholders of the company and all the community a new company meaning.

Through the sensemaking and the design driven innovation of socio-cultural business system dynamics, managers can guide, cultivate, and shape self-reinforcing creative activities in the organization for the creation and building of new business models.

Consequently our approach extends the DDI model through the building blocks point of view by using a matrix products/building blocks in order to first define how it is possible for a company to be a market leader building a valuable meaningful business model and finally to suggest different possible post DDI strategies (Figure 7). The question is, after the DDI on the product or on the business model, the company conveys a new meaning, but how can it manage and reinforce it? This matrix shows four possible strategies post DDI to sustain the new generated meanings:

1. **Meaning support strategy:** this strategy adds similar products or services and insist on the same building blocks. For example, Swatch, after having innovating through design and having created the new meaning of a stylish and economic watch, had not continued creating new meanings, but had continued producing other similar collections of watches (Verganti, 2008), keeping the existing category of products and insisting on the same areas of building blocks;
2. **Meaning enlargement strategy:** this strategy adds new and complementary products and services that build on the existing building blocks and on what the company already provide. For example, Nintendo have surpassed the competition paradigm in the videogames market that was anchored to the offer of a more and more powerful processors and high graphic resolution. Instead, through the introduction of Wii playstation, it shifted the competition on conveying a new meaning based on the ideas of more experiential player-machine interaction and networking among players. Now it is enlarging this meaning strategy, holding this meaning and building on it new product ranges (for example Wii games, Wii Fit and so on);
3. **Meaning enrichment strategy:** this strategy adds new meaningful building block insisting on the same product that led to a DDI. For example illycaffè, as remarked in our analysis, is trying to enrich the meanings conveyed through its product extending them to new or different building blocks of its business model (for example not only the customer relationship but also the partner network);
4. **Meaning enlargement&enrichment strategy:** this strategy adds new products and new building blocks to enlarge and enrich the same meanings. A fitting example is provided by Apple strategy, that conveys the meaning of beauty, easy of use, etc., not only by the I-book but also by I-pod, I-phone and other products, (the offer building block) but also by other building blocks, such as Apple-stores (distribution channel), the Apple-brand (brand management) and so on. Such system therefore provides the basis for continuously sustaining the meaning, by responding (creatively and/or adaptively) to the changing environment through value propositions.

These are only the strategies to sustain a new meaning created by the business model design driven innovation, but obviously a firm can continue innovating and finding also new meanings through new disruptive/discontinuous design driven innovations.

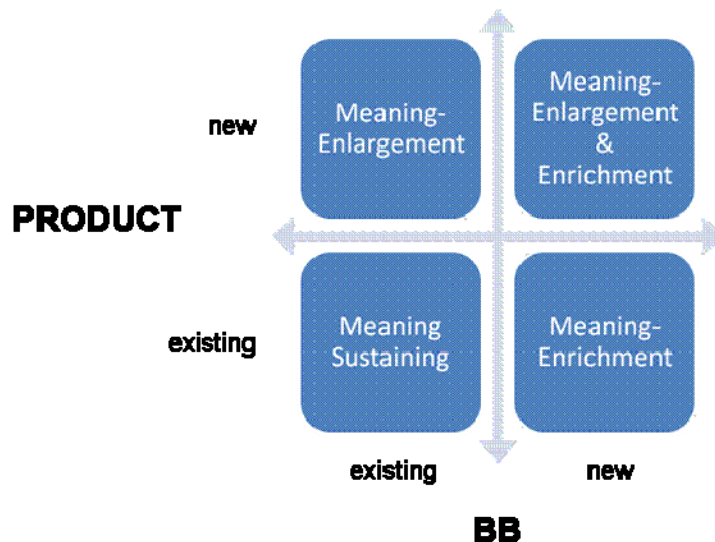


Figure 7 – Matrix products/building blocks for post DDI strategies

## 5 Conclusions and managerial implications

According to Rullani (2004) and Pine and Gilmore (1999), we are moving respectively to the Knowledge Economy and to the Experience Economy, where the value is conveyed by the sense and the meaning of the things, what Krippendorff (2005) calls “design”.

Moreover, the modernity changed the concept of value: it looks at the world as an unstable system but in a continue transformation, and the value is postponed and forwarded, in the future. In the knowledge economy the value is not only in the product, but also in the machines, in the projects, in the communicated meanings, in the links, etc.

How can we then face the uncertainty? According to Rullani (2004), the point is that the future has to be shared: the value is now a participated bet about the future, and has to be built acting on the knowledge and the experience and the networks that emphasize and fuel them.

Since there is no predefined meaning “attached” to facts, the sensemaking process has the objective to create meaning and build context to understand unexpected situations. But most of the companies find themselves unable to “make sense” of and suitably respond to disruptions and discontinuities, rendering themselves to be insignificant and irrelevant to their businesses or being unable to break free from their established ways of doing business (Voelpel *et al.*, 2005). So we propose to look at the Verganti’s model of design driven innovation (Verganti, 2003) interpreting it through the lens of the business model molded by building blocks (as in Osterwalder’s approach, 2004), in order to find a scheme to support companies in the processes of creating a new design (intended as a new meaning) not only of the products, but also leveraging on the building blocks (e.g. the cost structures, the networks, and so on) that form the business model.

Literature (eg. Chesbrough *et al.*, 2002) offers an interpretation of the business model as a construct that mediates the value creation process. It proposes the business model as a mediating construct between technology and economic value. Extending this concept, we propose the business model as a mediating construct between technology, economic and semantic value.

The present work has therefore both an academic value and a managerial one. From a literature point of view, the value relies in expanding and connecting the literature on sensemaking and design driven innovation with the literature on strategy and business model. From a practitioners point of view, the present work suggests on which building blocks to act through sensemaking, knowledge creating and decision making about meanings and presents a matrix products/building blocks that suggests possible post-design driven innovation strategies.

In conclusion, according to Rullani (2004), the firm has to evolve from the efficient company, passing through the flexible company to the creative company. He highlights that the efficient company is based on replicable solutions, volumes and minor costs and is due to a technical intelligence embedded in machines, standards, softwares and rules, while the flexible company is based on niches and speed in responding to the market and is due to a fluid intelligence that exploits the complexity and the adaptive capacities of humans and organizations.

The creative enterprise instead is based on the creation of meanings, experiences and identities, due to a fluid intelligence able in imagining new languages possibilities (Rullani, 2004). More specifically, the creative company can use this fluid intelligence to imagine and intercept new meanings and exploiting the sensing and the knowledge creating of new customer benefits, new value propositions, new business system configurations and new economics and profitability. Thus the creative company, being the interpreter of these streams of meanings, can pour them into the business model to create a system of strategies and networks, nurturing innovation through designing and shaping new meanings.

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