Why Business Transformations Fail and How to Get It Right

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A whopping 98% of CEOs say that they need to overhaul their business model in the next three years, but most transformations fail. This article explains why—and how to successfully unlock a business model that is unique to you and is future-focused.

Change is in the air—at least that's what this year's corporate earnings releases will have you believe. Various leaders have announced transformation strategies to deliver on big growth expectations, recognizing that something fundamental is shifting in their industries. Incremental innovation alone won't get them there. Leaders are looking for something bigger: business model transformation.

A whopping 98% of CEOs say that they need to overhaul their business model in the next three years. This isn't just about experimenting with business models. The leaders I'm talking to are considering whole new ways of operating—from who they are to what they sell to how and how much.

Unfortunately, 70% of transformation projects fail. The reason they miss the mark is that "business model" is a particularly nebulous and imprecise term. That makes it great for PR statements and rallying teammates but is not clear enough to address the specific disruption at the heart of a company's challenges. That's why business model transformation so often looks like chasing the latest revenue model fad rather than something unique and lasting.

The business model transformation conversation today reminds me a lot of the classic razor and blades business model craze of the 90s that Gillette popularized. Or the proliferation of subscription boxes and services in the form of direct-to-consumer brands. As soon as one of these ideas starts working well for one business, investors start pushing executive teams to find their unique take on that model.

For example, let's say you're the leader of a world-renowned retailer with a historically loyal customer group. But you're starting to notice that more customers are being lured to competitors and there are new entrants every day. So you decide to investigate a new business model that can help keep folks with you. Seeing what other retailers—like Amazon and Walmart—are doing, you decide to set up a marketplace. This, you hope, will not only keep people on your site but will also ultimately drive more revenue. The problem is that it isn't addressing the core problem. Marketplaces are great for driving lock-in and systems efficiency, but that won't address the fact that the big idea behind your brand—the one that made you relevant—is no longer relevant. It's hard for a marketplace to solve that.

To avoid the trap of solving the wrong problem, start by asking yourself: What part of my business model is under threat? In other words, why am I taking on not just innovation, but business model transformation? By starting with the part of the current model—whether it's delivery or offerings or revenue—that's most important to your future, you unlock the core of your next new business model.

I find that there are a few common issues leaders are facing today, and they all require a different focus for a business model transformation.

1. **The Customer Relevance Problem**

There's a new generation of folks gaining in spending power and making up our workforces. They're changing what the rest of us believe and expect as well. People aren't just buying things; they're buying into things. And they're not buying into your big idea.

Take Levi's, which built a global legacy on its classic denim. After experiencing a sales surge during the pandemic, fueled by shoppers wielding stimulus checks, the company is now worth less than half of its $12 billion in May 2021. That's a relevance problem: Levi's core customer base has aged out and selling Americana to disaffected Gen Z teenagers isn't working. With no bigger idea, Levi's is left to lose out to more affordable players like Walmart, Target, Tractor Supply, and other retailers expanding their private label lines at low prices.

When a strategic priority for your business is attracting a new generation of shoppers or reconnecting with core customers, you need to double down on the "Why" and "How" of your business model. Why should people buy into you over your competitors? Why and how do your core or new customers want to engage?

This isn't just an act of modernizing ad creative or rebranding. This starts with rethinking your strategic differentiators and articulating your main proposition to all stakeholders. Then translate those ideas into new partnerships, offerings, and distribution channels. By centering your transformation on your big "Why," you may find possibilities you never considered before. Take Mattel as an example. How do you take "old" toy brands and make them relevant again? They could have tried a hot new D2C model like many toy manufacturers. Rather, they looked at who they were and followed that thread to IP and entertainment.

2. **The Market Disruption Problem**

We're all familiar with this kind of problem. It's when a new player enters the market and upends not just your business, but also your entire industry. It's Netflix to your DVD store. It's your iPhone to digital cameras.

Players in the CPG and F&B space—like General Mills and Coca-Cola—are feeling this type of disruption especially now. Increasingly popular weight-loss GLP-1 drugs like Ozempic are suppressing appetites and growth forecasts for packaged foods companies. More than 70% of people on the new drugs reported visiting fast-food restaurants less frequently.

Unfortunately, organizations often wait until there's a clear and large disruption at hand before exploring future business models. The funny thing is that most organizations usually have the disruptive thing that could one day kill their industry. Blockbuster had a streaming prototype. Sony had an MP3 player. It's just that usually your core business is too lucrative for you to want to grow the thing that might kill it. Late fees and CD sales were too lucrative. Until, of course, someone else disrupts the market.

When your entire industry is being disrupted, your business model transformation needs to start with rethinking your core offering and how you define your industry. No amount of price changes, new retail partners, or special features will save your business if no one wants what you're offering. The solution is also certainly not telling folks to eat more cereal for dinner.

Sometimes, it may make sense to literally separate the core business model from the future one so you don't kill it for the sake of the present. Think Google and Alphabet. More recently, Kellogg's has done an interesting thing here. They've spun off their iconic, longstanding cereal business and kept it as Kellogg's and everything new is now Kellanova. The now-distinct companies represent the original brand's past and its future, respectively.

3. **The Discovery Problem**

This problem seems to be getting worse with algorithms like TikTok's, micro audiences, and generative AI. How folks learn about you and what they learn is increasingly out of your control.

When faced with a disruption like this, it's hard to win on value propositions, costs, or offerings. It doesn't matter if discovery is dead as long as people stay in their ever-smaller comfort zones.

While many retailers are responding by trying to own digital shopping channels or working with influencers, Walmart understands one important thing. Retailers like Walmart and Target win when they can get you in the physical store.

So, Walmart launched Walmart Health clinics, which are attached to physical retail stores and offer an affordable one-stop-shop for all basic healthcare needs like primary, dental, vision, and psychiatric care. People still need and like to go into a place to get those services done. The company plans to open 28 new Walmart health centers this year, bringing its number of total locations to 75. The company used its retail know-how to create a seamless, integrated customer experience—creating high-traffic areas with vital, value-based care and therefore new avenues to access their entire ecosystem of products. People might come in to get their eyes checked but might leave with a new dress or groceries.

Walmart took a step back and recognized that the key to its core business model is its ability to sell you high-margin items while you're buying or doing something else. In the world of delivery, groceries or convenience items aren't enough of a motivator. And driving online discovery is harder and harder. Walmart decided to redefine the industry it's in. From retail and grocery to healthcare. In their future model, with folks coming for health visits, they may consider curbside convenience with low-margin items and dedicate store space to showrooming. They could also reconsider their footprint strategy and partnerships in the context of this big shift.

This is the trick that makes the difference between Disney+ and CNN+. It's the difference between investing in a transformation that has a shelf life and building something that sets the organization on a path to growth for years to come. Certainly, there are other major challenges, but the point is to be specific. For many organizations, business as usual won't drive outsize growth and defend against disruption. A new business model could help. But it's critical to step back and ask, "What part of my current business model isn't working or is most at risk?" Transform that area first to unlock a new business model that is unique to you and is future-focused.

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