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Balancing scalability readiness and demand

Towards an integrative framework

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Summary

The paper reviews the relevant areas and relations in a company to balance when scaling in order to minimize the risks and added costs of being in imbalance.

What was found was that there is a crossover between innovation and strategic literature which could be explored to overcome the problem in companies of being unable to design their business for successful scalability.

By identifying relevant theory from various relevant fields of study it has been possible to combine the knowledge and relations between theories that has a correlation on the strategic agility to balance scalability and demand.

The work comes from existing literature which have been validated and proven yet by integrating this into a framework, it was possible to create a guide from which strategy makers in companies can implement relevant literature from innovation as well as traditional business literature into an overview of how to scale the business.

The case studies with two companies who experienced imbalance in each their way showed that the framework is able to outline the main issues that caused the imbalance and that it can operate sufficiently as a strategic guide for what preparations, capabilities, processes and flexibility to have in place at what times when trying to scale the business.

Our main developed propositions were that the scalability process requires a scalable business model, dynamic capabilities for creating scalability readiness as well as demand and further that when scalability readiness and demand are imbalanced it will add extra costs to the company.

The framework can thus be used as a tool to analyze how to be able to scale your business and manage the risks of investing in either scalability readiness or creation of demand and is thus a contribution to theory that still needs further validation, but can be used as a guideline for the overall and at least simplified version of scaling.

Introduction

Strategic management and innovation are two concepts that are often intertwined yet difficult to combine.

The crossover from two different areas of literature presents itself often in companies, where most stories are about .

The few companies who manage to create a business consisting of a combination of strategy and innovation are the companies who are able to scale and be admired as the perfect examples of how to create a company.

There are though multiple process beforehand which needs to be designed in a manner which can build the perfect setup of an organization, create a sustainable and scalable business model and overcome the challenges of innovation.

Several studies have been made when it comes to the relation between the business model and scalability, as well as why dynamic capabilities are important for innovation and adapting to change, yet the literature are mainly from a singular perspective.

The lack of clarity also mean that companies often do not acknowledge innovation as a tangible asset for all departments of their company, but rather use it as a "thought" or if actually used, as see it as a way to create new products.

At the meantime most frameworks and tools for strategy often ends with specific suggestive actions, however are often not implemented by the organization and hardly criticized for lacking the broad perspective and realism.

This means that business managers and employees have a ton of suggestive actions from multiple areas of literature and various theories, but lack the ability to exploit these, leaving them to explore areas which they may not have the required capabilities or skills to either explore or exploit.

"Data is useless without the skills to analyze it," and "*what is the point of data without knowledge?"* are two examples from experts of what is happening in companies, where the company strategy is either to accept the lack of ability to analyze through theory and operate under uncertainty or try and make the best with the capabilities that they have.

This makes companies work under a higher level of uncertainty, where they are only able to achieve as good results as their level of exploration of opportunities and exploitation of these allows them.

The organization consists of human employees which cannot collectively know everything about everything but instead something about most things. When scaling a company most factors in the company is affected and the strategy makers must therefore ensure that they make the right decisions as well as combination of capabilities in the organization to support the decision.

So how do companies make the right decision and minimize the uncertainty and costs of making mistakes when scaling? Much literature has been made about the implementation of innovation in companies, but what if the focus on uncertainty comes from a more “realistic” perspective?

This paper takes a deeper look into how the already created knowledge correlates and how it can be combined for companies to use when scaling their business in a manner that is understandable for strategy makers.

Problem

All companies use strategy in one way or the other to run their business, however recommendations from innovation literature can be difficult to implement from a strategic perspective.

In today’s ever-changing environment with globalization, technology development and rising competition, business are often in need of adapting and undergoing many changes. This leads to disruptions in markets, failures in companies and create a pressure on companies to explore and exploit new potential.

It is therefore not sufficient to have the strategic perspective of merely running the business as it is, but to create flexibility and in some cases to scale the business.

This demands a cross over between innovation and strategic management, where managers in scaling companies now have to be aware of the challenges of innovation when scaling. However literature and acknowledged recommendations from innovation often lack understanding from the business managers as it lacks a clear perspective to strategy and requires a high knowledge about innovation as a whole before it can be exploited.

Therefore most companies have difficulties in including innovation as a natural part of their strategies and thus end up with an imbalanced or sporadic attempt of either exploring or exploiting with the desire to scale and therefrom end up with added costs and/or failure.

To integrate the desire to scale with the rest of the company can be difficult with the many factors in play and the lack of resources in most companies to acquire all the needed expertise for a successful scaling process often prove vital.

Companies therefore experience a problem in having the overview foundation for what capabilities to have or acquire and the decisions to make when operating under the very high levels of uncertainty that naturally follows the decision to scale.

Scope

Due to research limitations in the research group and from the problem at hand, the scope is outlined from the objective of the paper as well as what literature found relevant to exclude.

The objective of the paper is to identify ways to overcome the problem presented in the paper in an explorative manner that does not necessarily provide a fixed conclusion but develop propositions of how it can be overcome.

The literature review aims to explore relevant literature that could provide an overview of theory related to the structure relevant to the problem and will here define what is meant by each part of literature.

The limitations are created to focus on the overall theory and thus not seek to contradict but rather to relate existing theory. In relation to theory with a broad scope, the scope will focus on the main literature used and not explore deeper into each single theory related thereto.

Literature review

Scalability

The term is directed towards the ability of a company to increase in size. Scalability refers to the capability of a system to increase its total output under an increased load when resources are added and thereby manage to grow in size (Lund & Nielsen, 2015).

In the paper scalability will be used to describe the companies' ability to reach increasing returns on scale of their business model. To describe the difference dimensions of scalability, it can be split into two forms; linear relationship and exceptional relationship (Lund & Nielsen, 2015).

In a linear relationship the return on scale is at a constant rate, meaning that the investments in creation of demand at the end of the day just leads to the same profit. The company will increase in size, but the extra cost by scaling will eat the increased profit.

In an exceptional relationship the business model is capable of more than finding some synergies and creating a marginal extra profit. This is seen in cases where the applied resources, competences and value propositions of a business models in combination with one another is capable of providing an exceptional return of scale. In this form every process of the business model is geared to deliver a profitable value proposition to more customers without costs increasing in a similar pace.

Scalability readiness and demand costs

Demand is the most accessible way to increase revenue, which in turn means higher costs related to attaining that revenue. Whether the demand is obtained through developing a new product/service or through campaigns to acquire new customers, the demand costs are increasing as well. There are various forms of business demand from introducing a new sales channels, investing in marketing campaigns and discounts, to adding more value to the product or service. Subsequently, the demand costs for these incentives to increase sales are not necessarily financial but also require other resources.

Customer acquisition costs represents the funds allocated by an organization, with the expectation to acquire new customers who will procure their products or services (Cook, 2017).

The customer acquisition cost is determined by dividing the total acquisition costs by the total of newly acquired customers over a certain extent of time.

Customer acquisition costs usually covers marketing and advertising costs, discounts, and other incentives which can determine customers to buy the respective product/service.

Furthermore, customer acquisition costs help in better planning forthcoming marketing budgets, capital distributions, etc.

Scalability readiness costs implicates all the resources allocated to prepare the organization for being able to keep up with the demand. Preparing a company to scale can involve new sets of routines, new partners, or new activities which require organizational resources as well.

The scalability costs are most often incremental, especially for companies that use technologies in order to acquire new customers more easily and have a lower degree of needing large inventories.

Preventive strategies

As there are several costs included in scaling, many company use certain strategies to minimize these.

In order to prevent the high costs in scaling small and medium enterprises there are several business model approaches and strategies such as the Lean business model, asset light business model, etc. that can be used.

For small companies or startups, where the level on uncertainty is high the **lean startup** is one approach that can be undertaken. The three areas where a high degree of risk can occur are technical, customer and business model risks. Lean startup is a method for creating and sustaining innovation in all kinds of organizations, not only in startups.

The three main key principles of lean startup approach are:

1. **Business model canvas**: instead of creating an elaborate business plan, founders summarize hypotheses in the Business Model Canvas to foresee the effects of their plans in a clear overview.
2. **Customer development:** during this phase the hypotheses made in the previous step, are tested in order to gain as much knowledge as possible and ask potential users, customers,

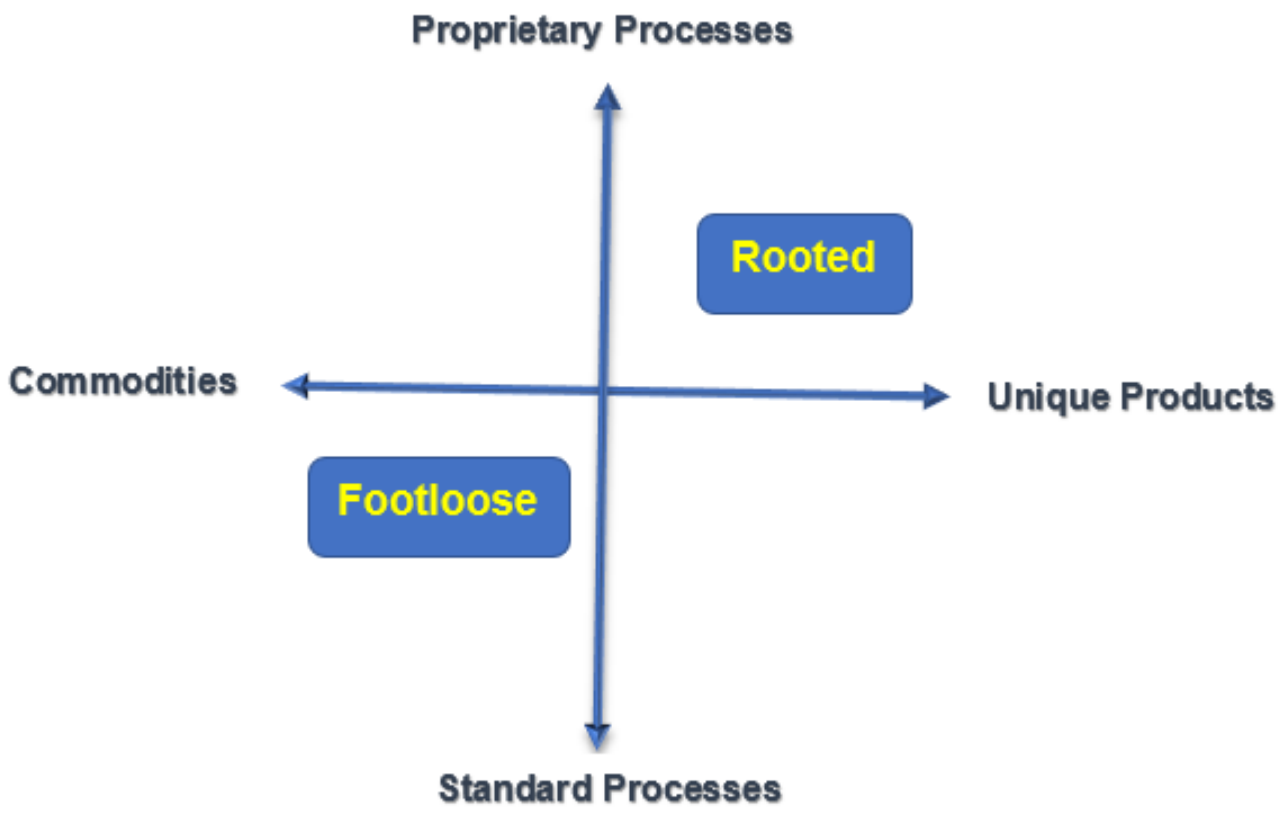
and partners for feedback on all building blocks of the business model, including product features, pricing, distribution channels, and affordable customer acquisition strategies.

3. **Agile development:** through this last aspect the development of the product is done through testing the minimum viable product/service with sufficient features to satisfy early adopters. The final product/service which will have the complete set of features is developed taking into consideration the data from the early adopters. This process allows to gain knowledge about the product/service and develop it iteratively without investing a lot of resources and time.

Another approach in regards to preventing scalability costs is the **asset-light business model.** The asset-light model represents a business strategy that is focused on capital efficiency by directing their equity investments on assets where a company's competences realize the best return for investors (Maly and Palter, 2002). This type of business model can be pursued through a footloose networking approach, where a firm is continuously seeking to find external factories or actors to outsource their activities. Opposed to a rooted approach where companies commit to long term investments in every activity site and allocate investments in order to reach their full potential (Ferdows K., et al, 2008).

Both production networks have their own advantages and disadvantages depending on the aim of the organization. Those seeking agility in an environment of high uncertainty usually incline to a more footloose network where capabilities from external sources are leveraged in order to focus on their resources for other activities such as: design, marketing, etc.

The main benefit of an asset light business model is its scalability. Since the resources needed in scaling are significantly lower compared to investing in your own production and supply chain capabilities and use them as your main competitive advantage (Ferdows K., et al, 2008).



Operations Networks Architecture - Rooted and Footloose

Organizational growth and forecasts are higher in the case of the asset light business model. As more stakeholders are joining the network, the more accessible it becomes to expand into new geographical locations, especially for tech companies like Uber, Airbnb, etc. which do not invest heavily in assets.

Nonetheless, there are also disadvantages with this model. Firstly, the organization is heavily dependent on external actors or partners, therefore the operations can be at risk if the outsourcing fails. Also depending on the uniqueness of the product/service and the availability to risk sharing knowledge to external parties, there are higher chances of imitation.

Costs of being in imbalance

When a company has a relative larger scalability readiness than demand it experiences an unexploited potential and needs to find a way to overcome the challenges presented from not receiving a full return on investment.

In this case the risks will be cash flow challenges often times has capital tied up or is working with capital that needs a return on investment or to be exploited. Furthermore, the business environment and competition is always on the move, which means that unexploited scalability readiness also declines over time as either competitors or new trends will exploit the market meanwhile.

When a company on the other hand experience more demand than it can keep up with due to lack of scalability readiness, it experienced various negative effects.

In this case the costs are most often seen in a decreased experience of the value delivery to the customers as the resources needed to provide service with e.g. support and delivery are insufficient.

In order to keep up with a too high demand, companies will have to invest all their resources and focus on delivering their product to the customers which can be expensive and cause loss of focus on further development.

Organizational theory

Organizational theory consists of approaches to organizational analysis. Organizations are defined as social units of people that are structured and managed to meet a need, or to pursue collective goals. Theories of organizations include rational system perspective, division of labor, bureaucratic theory, and contingency theory.

According to Aldrich and Ruef (2006), organizations are goal directed, boundary maintaining, and socially constructed systems of human activity.

The focus of this paper is on small and medium enterprises which are defined as non-subsidiary, independent firms which have less than 250 employees (as in EU, in other countries the number varies between 200-500). Small companies usually employ fewer than 50 people, while micro-enterprises have no more than 10, or in a few circumstances 5, employees.

Financial assets are also relevant in determining SMEs. “The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million.” (OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17).

Obstacles for innovation

In recent times, more and more empirical innovation literature has been dedicated to understanding obstacles in innovation and their influence on organization’s incentives to innovate. Looking into the effects of obstacles upon innovation failure/success rate is important due to observing what the strengths are and what can be changed in order to increase the innovation performance.

Besides the financial constraints, which were studied and observed as one of the main obstacles for innovation, the market structure and lack of demand are two more factors which have an impact on innovation (G. Pellegrino, M. Savona, 2013).

Economic decline, increasing unemployment rate and lack of demand do not represent only a macro-economic downturn but in an indirect way these factors influence in reducing stimuli for organizations to invest in innovation (Archibugi and Filippetti, 2011). Therefore, the authors argue that the existence of strong competition and the lack of demand are crucial in organizational decision making for ceasing innovation projects.

The impact of obstacles on innovation can be divided into deterrent barriers (which prevent firms from engaging in innovation activities) and revealed barriers (which obstruct firms’ achievements in innovation activities). (D’Este et al., 2012) As mentioned earlier, knowledge, market and regulations have a high impact on innovation as well. Therefore, organizational literature cases on entry barriers have shown that large companies suffer from lock-in meaning that they focus too much on their internal vision and refuse to adjust to external changes (Ferriani et al., 2008). Preventing existent product cannibalization or the fear to under main core competences is another factor why organizations refuse to involve in radical innovation (Henderson, 1993).

Furthermore, small new organizations suffer from lack of knowledge or financial resources (Katila and Shane, 2005) or market structure (Nelson and WInter, 1982; Malerba and Orsenigo, 1993,1995)

Stakeholders impact

An important aspect in strategy making for organizations is how to manage the different stakeholders' demands and interests in accordance with the organization's strategic goals.

One technique in identifying the stakeholders (people, groups, organizations, etc.) is dividing them into internal or external participants. The figure below helps to identify and map internal and external stakeholders (and partnerships).

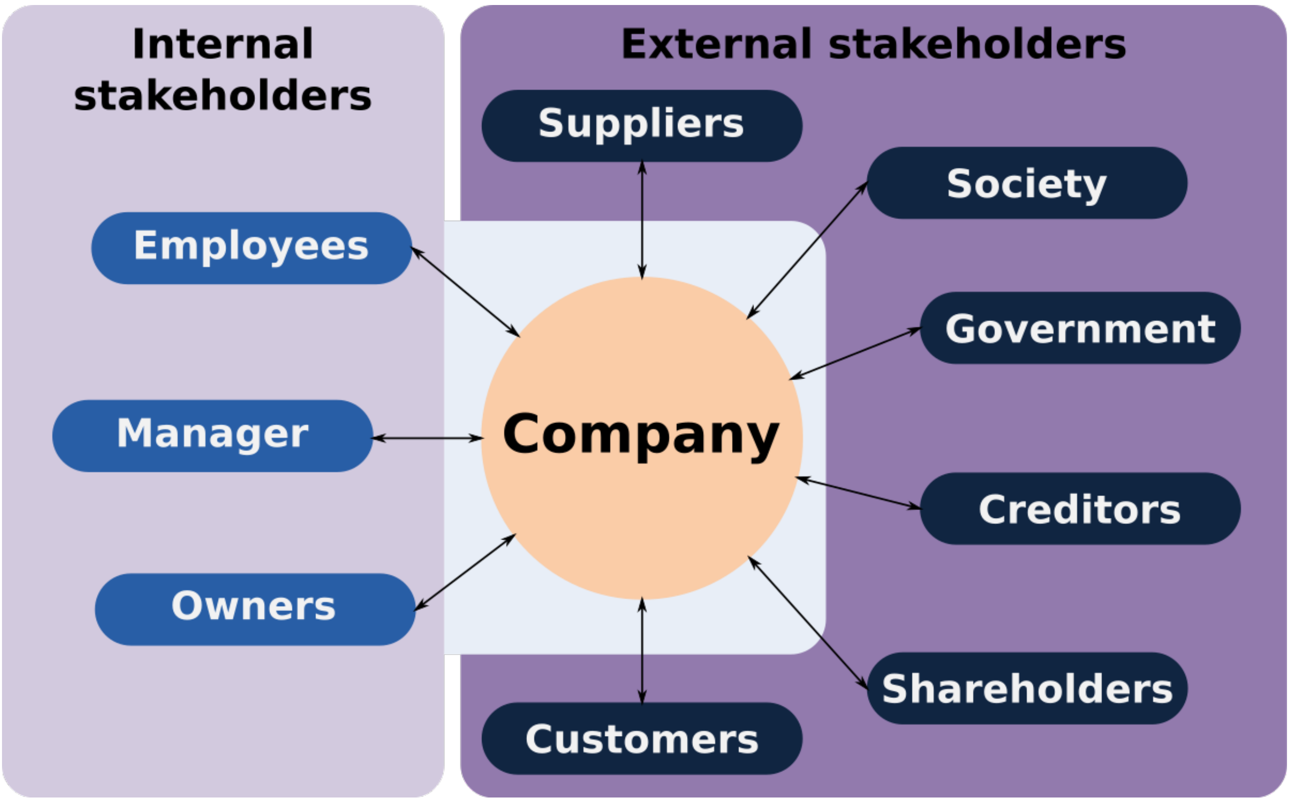


FIgure 1. Internal and external classification of stakeholders

As mentioned earlier, each stakeholder has their own interest which may be different from others, thus a business organization cannot manage all the stakeholders equally. Some of the main objectives of the organization are in terms of business survival and profit maximization along with other strategic objectives. Often times conflict of interests arise and the success of the organization is in predicting and managing these challenges.

Mitchell and Agle et al., suggested that stakeholders should be classified upon “power to influence, the legitimacy of each stakeholders’ relationship with the organization, and the urgency of the stakeholder’s claim on the organization.” Using this type of classification helps managers to prioritize their attention on what is relevant first. Also referred as salience, this represents the level of prominence of the stakeholders claims to which managers choose to prioritize (Mitchell, Agle et al., 1997).

Throughout numerous stakeholder management researchers, Freeman has established the dimensions of power and interest as being important and proposed the use of a ‘Power-Interest Grid’.

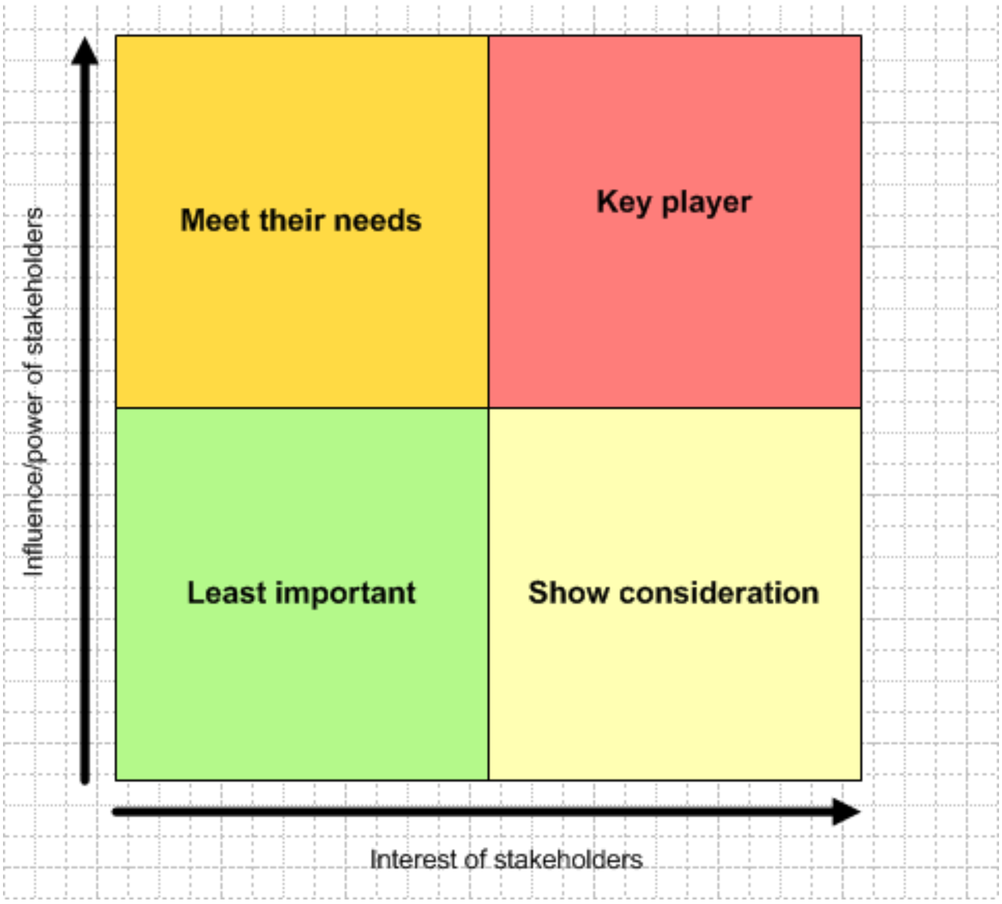


Figure 2. Stakeholder matrix classification

The **least important** quadrant represents stakeholders with low influence/power and low interest. This category of stakeholders do not require a high level of prioritization, simple monitoring is suited for it. Require general communication to keep them updated: newsletters, mails, etc.

The next quadrant represent stakeholders that have a higher interest but low influence/power. The level of prioritization is higher, and since they are more interested in the business they can be involved by consulting them in the area of interest. These can be potential supporters/goodwill ambassadors.

The following category of stakeholders have a high influence on the organization but have low interest. The manager's goal is to meet their needs, increase or at least maintain their level of interest through engaging and consulting with them.

Lastly, the key player category represents stakeholders with high influence and also a high interest in the organization. For managers, the aim is to engage them on a regular basis and work to preserve the relationship. Their involvement in projects and decision is higher, therefore managing them closely is an advantage.

Change management

Change management is necessary to develop and support individuals, departments and organizations in making organizational change. Many organizations intend to improve the quality, culture or processes but have little to no success in doing so. Kotter argues that the biggest mistake that managers make is by not acknowledging that transformation is a process that takes time rather than an event.

Being pressured to accelerate the transformation, managers are inclined to omit stages of the process and the consequences can be seen in the results.

Kotter's 8-step change model

Kotter stresses the importance of understanding of eight different stages of the transformation and the errors to avoid when implementing the change management.

1. The first step is to establish a sense of urgency. It begins when a company examines their market competitive situation and focus on improving their weaknesses for potential crises or

reaching new opportunities. ”It is essential to convince at least 75% of your managers that the status quo is more dangerous than the unknown” (Kotter, 2006).

The pitfalls of this step is underestimating the difficulty of driving people out of their comfort zones and the possibility of people becoming paralyzed by the risks that might occur.

2. The second step in leading change by Kotter is to form a powerful guiding coalition. This can be implemented by assembling a group with shared commitment and enough power to lead the change effort. Encourage the people to work as a team outside a normal hierarchy, including individuals who are not necessarily part of the senior management.

Failing this step is usually done by underestimating the challenges of producing change. By relegating team leadership to an HR, quality, or strategic-planning executive rather than a senior line manager can see some temporary changes but not lasting, because without a strong leadership the changes are stopped eventually by the employees.

3. After the previous step where the company has now a powerful guiding coalition, creating a vision is necessary to direct the change effort. After a clear vision is made, it is necessary to develop strategies in order to implement the vision.

Most of the companies that fail at this point do so because the vision presented is either too complicated to share and implement, or it is too vague to be communicated in five minutes.

4.Communicate the vision by using every vehicle possible to share the new vision and strategies for achieving it. Also, by teaching new behaviors by the example of the guiding coalition.

Failing this step is done by under communicating the vision or by behaving in ways which are opposite to the new vision that needs to be implemented.

5.One important step is to empower others to act on the vision. Often times employees would act on the vision but they are stopped by different obstacles and/or people who oppose the vision.

Kotter suggests to “remove or alter systems or structures undermining the vision” and “to encourage risk taking and nontraditional ideas, activities, and actions.”

Failing to remove powerful individuals who resist the change effort will slow down the changing process or even stop it.

6.The following step is to plan and create short term wins as a way to recognize and compensate employees who are committed to those improvements.

Construct and implement visible performance improvements that can be measured and rewarded.

One major factor for failing this step is not planning to have short term wins but rather just hoping for them and also when there is no registered success early enough (12-24 months into the change effort).

7. At this point in the process the company sees some improvements and the focus is on consolidating these changes and producing even more progress.

The increased credibility from early wins can be leveraged to change systems, structures, and policies undermining the vision. To strengthen this position, employees who can implement the vision can be hired, promoted and developed.

On the other hand, declaring victory too soon—(after some changes have been observed) can be precarious. Soon the changes can regress especially if resistors to change find opportunities to stop the development and convince more people that it does not work, therefore leading change is a long term process which can last for years and is not just a one-time event.

8. The final step is to institutionalize new approaches. Establish links between new behaviors and corporate success to show how the results of implementing the change had a an impact on the company’s performance. The second part is to create leadership development and succession plans consistent with the new approach, making sure that the future leadership is aligned with the new changes and will not stop or regress the work that has been done until that point. The pitfalls

of this step would be to “not creating new social norms and shared values consistent with changes and also by promoting people into leadership positions who do not personify the new approach.”

Lewin's Change Management Model

Lewin argues the relevance of understanding why the change must be implemented, before the process starts. This relates to the unfreezing stage of the model. This stage involves preparing the company to understand that change is essential and the status quo must be transformed in order to be able to build a new manner of operating.

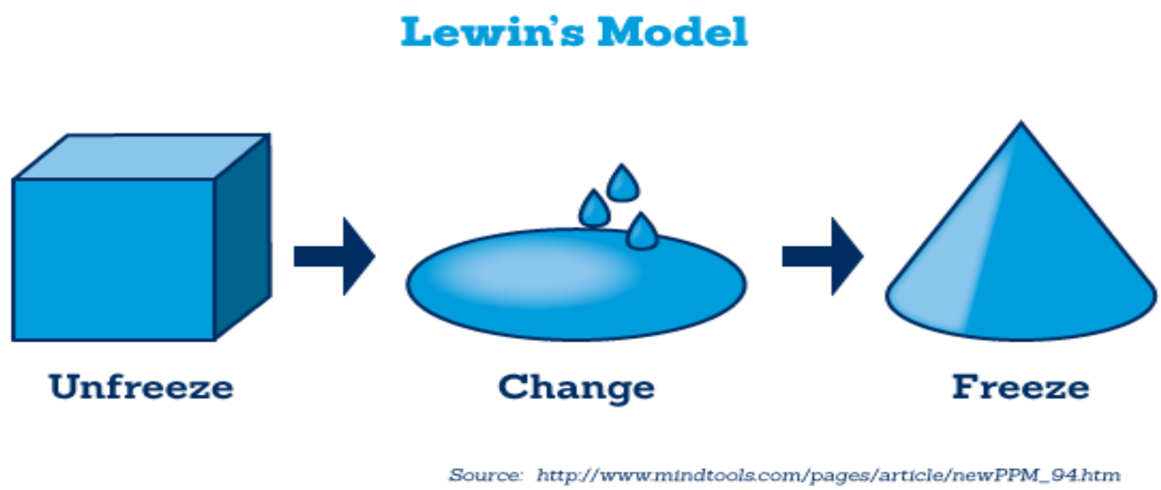


Figure 3. Lewin’s change management model

Unfreeze

In order to have a successful preparation for change in the organization, the current beliefs, values, attitudes and behaviors which stand at the foundation of the firm have to be challenged. This initial step is often the most difficult part of the process since the normal approach of doing routines is changed, people get confused and tend to oppose change. By questioning the status quo and the actual beliefs, it is possible to shape a controlled “crisis” which leads to building an intense motivation to look up for a new equilibrium.

Lewin argues that without building high motivation, the essential participation of all the actors involved in change will not have a meaningful impact.

Change

Subsequent to the uncertainty generated by the first phase of the process, at this point people undertake action to decrease their uncertainty and are inclined to new approaches in their routines. Thus people will begin to take action under the new direction. This transition from the unfreeze stage to change is an ongoing process that takes time, whereas people can be part and actively engage in change. Lewin stresses the importance of making the people understand the benefits of change and how it helps and involves them as well, arguing that only outlining the benefits that the company gains is a common risk that should be bypassed.

The two main factors that build a successful change in organizations are time and communication. As mentioned earlier people need time to understand and implement changes and communication is essential in order to feel highly engaged to the transition phase.

Refreeze

The last phase of Lewin's framework concerns stabilizing the new routines in a manner that people are not confused after the transition phase whether or not to the new changes are temporary. Without a "refreeze" stage, it is hard to implement change initiatives in the future and also keeps a sense of uncertainty in regards to what routines should people do, therefore it will lead on inefficiencies. Similarly to Kotter's framework, rewarding successes of the change will help strengthen trust from more adapters of change and also empowers them to believe that change will be lucrative.

Exploration vs exploitation

An important issue in organizational evolution is how do firms gain new capabilities (H.R. Greeve, 2007). Organizational exploration suggests seeking for new knowledge, use of unexplored technologies, and generation of products with unknown demand. Exploration does not usually have immediate benefits because it is rather a range of activities with long term effects on the organization. Exploitation on the other hand, focuses on improving existing knowledge, products or technologies and have a shorter-time effect on the organization.

According to J.G. March (1991), there are two common cases involving the development and use of knowledge in firms. Organizational exploitation of the capabilities that the organization currently has usually diminishes exploration of new capabilities, which leads to being stuck in suboptimal stable equilibria. On the other hand, organizations that engage in exploration to the detriment of exploitation generally encounter the costs of experimentation without acquiring most of the gains (J.G.March, 1991).

Furthermore, both exploration and exploitation are necessary in an organization, but both of them require the same limited resources, therefore organizations have to tradeoff between them (J.G.March, 1991). Because exploration and exploitation depend on distinct organizational routines and capabilities, it is rather challenging for firms to make these trade offs, thus majority of the organizations choose to specialize on one of them instead of trying to balance the two (Lewin et al., 1999).

In general, the expectation is that balancing between exploration and exploitation is optimum for organizations and it have been discussed and empirically supported (Katila and Ahuja, 2002; He and Wong, 2004). Even though there are arguments that show the benefits of balancing exploration and exploitation, it is challenging to maintain an equilibrium between them (R. Greeve, 2007).

Exploration requires less focus on the current strategy of the firm, a lower degree of compliance to the existent practices and less significance to leveraging the current assets. Differently, focusing on developing and improving current routines and processes will increase the exploitation but will diminish the exploration capabilities (Benner and Tushman, 2002).

Beckman argues that experienced top managers support exploitation in the detriment of exploration.

As seen so far, exploration and exploitation is difficult to obtain in the same time in an organization, therefore decoupling sub units within the organization, or change the organizational behavior for two types of strategies is considered a way of mixing the two. According to Burgelman (2002), decoupling over a period of time will request organizational capabilities to switch between two classes of behaviours, exploration supposedly being used more rarely.

One alternative to explore new opportunities for organizations that do not possess the necessary capabilities to explore is through alliances with external partners (Beckman et al., 2004; Lavie and Rosenkopf, 2006).

Exploration and exploitation are two distinct approaches to gaining capabilities with an organization, and even though both of them specialize in different routines and methods, both of them can benefit the organization to adapt to uncertain environments.

Risk Management

Risk is defined as “uncertainty of outcome” (Chapman and Ward, 2004). Risk management represents the identification, evaluation, and prioritization of risks in accordance with the systematic utilization of management procedures and routines in order to minimize uncertainty or maximize opportunities (Douglas, 2009; ISO/IEC Guide 73, 2002).

Firstly, a risk assessment should consider researching and trying to identify risks in the following four areas:

- Technology: risks in designing the product and developing the platform, manufacturing technology and intellectual property
- Market: consumer and trade acceptance, public acceptance and the potential actions of competitors
- Finance: commercial viability
- Operations: internal organization, project team, codevelopment with external parties and supply and distribution (Keizer et al., 2002).

The Risk Diagnosing Methodology (RDM) proposed by Keizer et al., intends to determine strategies which will enhance the probability of success for projects by recognizing and managing potential risks.

As seen in the figure below, the RDM is composed of nine steps categorized in three stages of the methodology. The first stage is identifying potential risks in the four areas mentioned earlier. The second stage is assessing the risks. This is done through developing qualitative research methods in the forms of risk questionnaires. Lastly, in the risk response development and control stage the risks and respective action plans are brought together in a risk management plan. Furthermore, the risk management plan appoints who is responsible for certain risks, the resources needed to cope with it and a timeline.

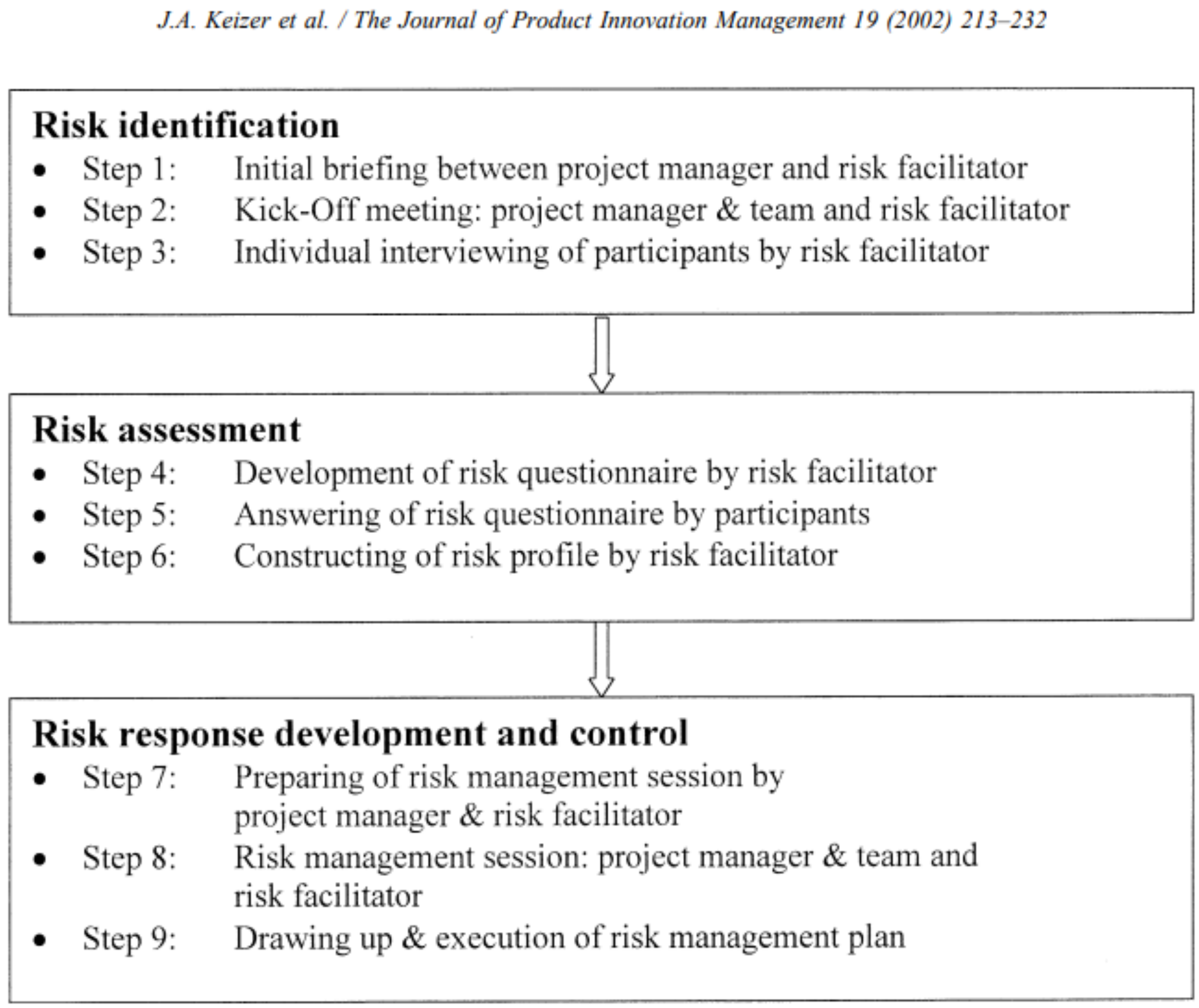


Figure 4. Risk Diagnosing Methodology

The authors argue that Risk Diagnosing Methodology is designed in order to be used only at the end of feasibility phase, and should therefore concern issues as “consumer and trade acceptance, commercial viability, competitive reactions, human resource implications, and manufacturability.”

J.A. Keizer et al. / The Journal of Product Innovation Management 19 (2002) 213–232

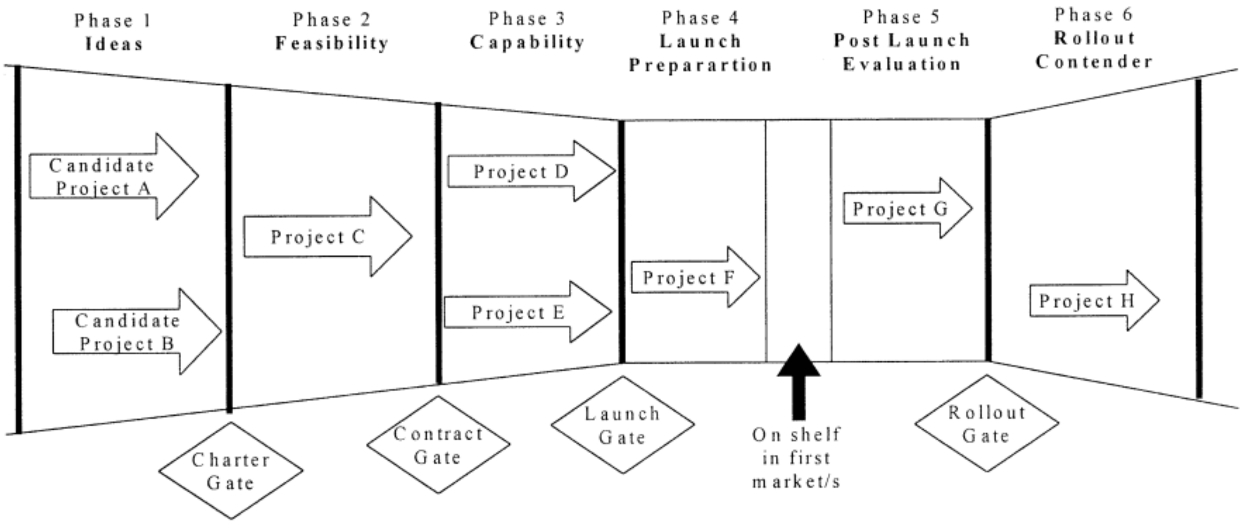


Figure 5. The Unilever innovation funnel (Keizer et al., 2002)

Risk management in business model innovation

As seen thus far, Keizer et al., proposed that RDM should be effectuated only in the end of the feasibility phase. Taran et al., (2013) argues that risk management should be present throughout the entire innovation process. This model of risk management characterizes a successive and systematic execution of risk management within the process of innovating the business model.

	Stage 1	Gate 1	Stage 2	Gate 2	Stage 3	Gate 3	Stage 4
Innovation/ Risk management	As-is business model		New business model design		Prioritizing and milestones		Implementation
Identify risks	**I**		**I**		**I**		
Analyze risks		**A**		**A**		**A**	
Evaluate-prioritize		**E**		**E**		**E**	
Treat risks			**T**		**T**		**T**

Risk management integrated in the business model innovation process (Taran et al, 2013)

The model is divided in four stages and three gates. The role of the gates is to ease the uncertainties and complexities throughout the business model process. The first stage is used to analyze the business model as it is, observe its weakness and threats which have to be dealt with and also the strengths and opportunities which can be leveraged for a successful innovation in the business model. Following, after the risk identification, managers are seeking potential ways to eliminate them. The second phase of the risk management is initiated by recognizing the risks of every business model innovation probability that was suggested in the design phase. During this phase, all the risks are analyzed as well and new ways of treating them are found, resulting in a dismiss of business model innovation ideas and choosing others to be tested. The last phase of the risk management assists the progress of identification, analysis, evaluation and treatment of risks related to each downstream milestone. The aim of this last gate is to anticipate and assure that the implementation processes are systematically organized and there are no threats when handling large variety of strategic, operational & cultural, financial and hazard risks (Taran et al., 2013).

Therefore, this risk management model applies the risk management process through the entire business model innovation process (all stages and at all gates), and not only at the end of the feasibility phase to diminish the risks linked to the uncertainty of developing and implementing a new business model (Taran et al., 2013).

Strategy under uncertainty

The traditional approach to cope with strategizing under uncertainty drives executives into thinking in a binary way. Considering that the world is either certain and for this reason is feasible for accurate predictions about the future or, on the other hand it is uncertain thus it is impossible to predict (Hugh Courtney, et al., 1997).

Dealing with uncertainty has a big impact on the future outcome, making it easier to understand what actions to take weather is pursuing new opportunities (new markets, product lines, etc.) or defending against threats. Executives who handle uncertainty from a binary perspective and believe that the world is certain, usually overlook the opportunities or threats in the market. On the other hand, executives who believe that the future is too uncertain, ignore their usual analytical strictness and take decisions from a gut feeling or they stick to their analytical approach but take no action in making strategic decisions because they do not trust their instinct (Hugh Courtney, et al., 1997).

Despite the most uncertain business environment, there is still strategically important data like market demographics and other sources of information which at first might not be easily knowable but can be obtained through different strategic tools.

The first level of uncertainty defined by Courtney et al. is “a clear enough future” or a forecast that will be satisfactory to aim to one strategic direction. The residual uncertainty is limited therefore it is not too relevant towards making strategic decisions.

The second level of uncertainty also called “alternate futures”, the future can be described in different scenarios. The analysis can not predict which will be the end scenario, but it can help to create probabilities. This level of uncertainty is regarded to legislative changes or the competitor’s plans to expand. Depending on what the outcome is, the organization can choose which strategy to pursue.

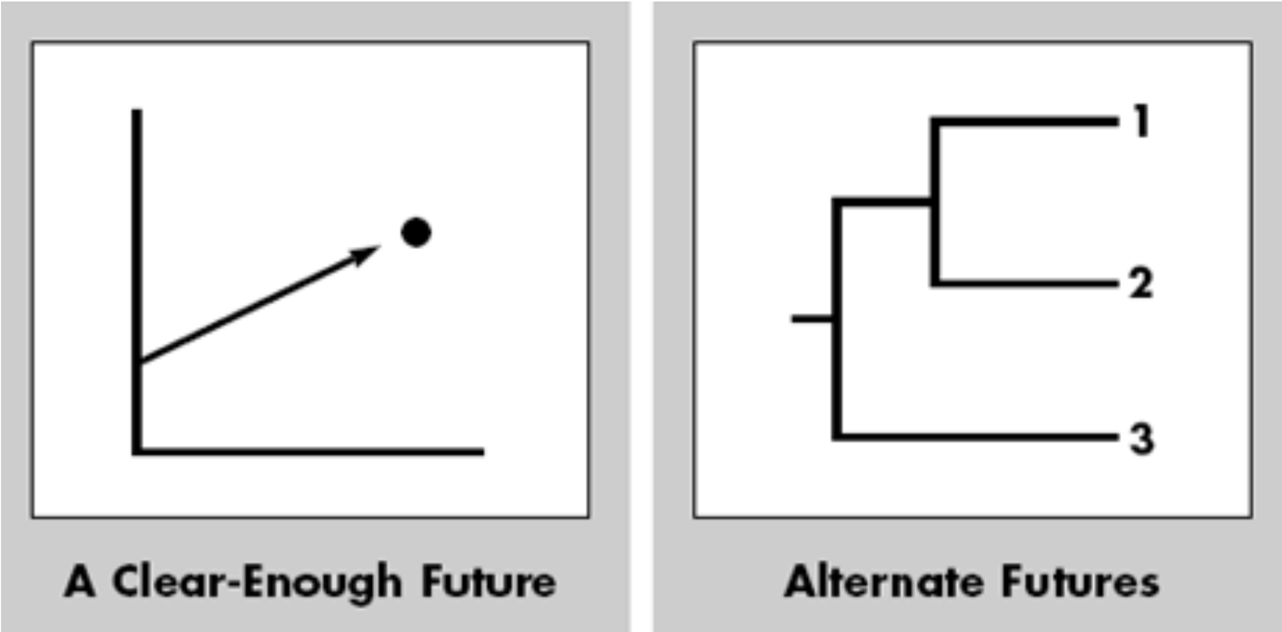


Figure 7. Courtney et al., 1997

Level three or “a range of futures” represents a broader variety of outcomes, for that reason it is more difficult to assess where the outcome will be situated within that range. Similar to level 2 uncertainty, a range of futures does not have a clear direction and the strategy decisions can change if the outcome was predictable. The organization can have certain expectations but it can not dictate a more aggressive or passive strategy just yet, because they do not know where they situate.

“True ambiguity” represents a business environment where multiple dimensions of uncertainty interact, making it impossible to anticipate. In contrast to the previous level, in true ambiguity it is impossible to establish a range of outcomes or even scenarios within the variety of futures. There are cases of true ambiguity but they usually are very rare (Hugh Courtney, et al., 1997).

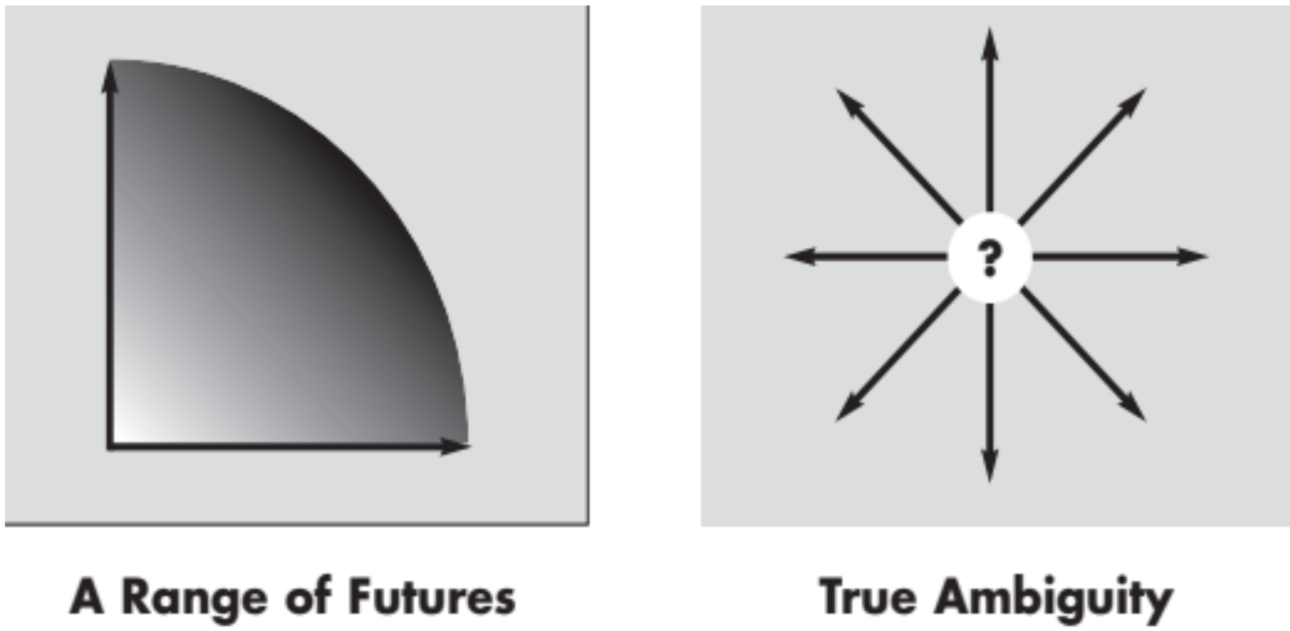


Figure 8. Courtney et al., 1997

Strategies based on the level of uncertainty

There are various approaches to take strategically and the uncertainty levels play a big role in which path a company should most often choose.

Strategy in Level 1's Clear-Enough Future

In a clear-enough future (anticipated business environment), the majority of the companies are adapters (win through speed, agility, and flexibility in recognizing and capturing opportunities in existing markets). It is important to set up an analysis in order to forecast an industry's future direction, thereafter building a strategy which concern how and where to compete.

Strategies that focus on adapting are not always incremental and can be innovative when new unexploited opportunities are found in a rather established market and a low uncertainty business context.

In this level of uncertainty it is also possible to be a shaper of the industry and have a leading role in setting new standards, but it is rather risky and uncommon.

Strategy in Level 2's Alternate Futures

For a shaper of the industry in an alternate futures level of uncertainty, the goal is to minimize the uncertainty as opposed to the first level where the shapers aim to innovate by increasing the industry's uncertainty. Because the uncertainty is not relatively high, it can be accessible for companies to adapt or to reserve the right to play (invest in order to be in the market, but avoid any premature investing). These companies' decision making is not to invest a lot of resources in new technologies which can be often risky, but on the other hand if they do not invest enough in incremental changes they will fall behind their competitors. Investing in licenses to secure new technologies is one option to assure that if the technology succeeds the companies are not falling behind, and if the technology does not succeed, the loss is not as high as investing in R&D for example.

Strategy in Level 3's Range of Futures

In level 3 uncertainty, shaping companies have an even bigger impact in the industry compared to level 2, because now they can recognize a range of available outcomes and they attempt to move the market in a general course by big-bet investing in infrastructure, research and development, etc.

Companies that use adapting strategies, invest mostly in organizational capabilities, this way they keep flexibility over their structure and can adapt accordingly to the market direction.

Reserving the right to play is a very typical strategy for a range of futures level of uncertainty. Organizations which choose this strategy are investing gradually in incremental innovations in such a manner that they do not risk a lot of resources but are relevant in the market and keep up with the technologies.

Strategy in Level 4's True Ambiguity

This level of uncertainty is a transitional period often times after technological, macro economical or legislator shocks. Therefore this level of uncertainty may offer opportunities for high returns and sometimes low risks for companies that take a shaper position. Since there are no competitors with an exact vision of the right strategy in these type of uncertainty, shapers have the power to drive the industry and standards to a new, stable direction.

A common strategy for level 4 is also the right to play, but this can be potentially unstable, depending on the value of the investments. If high maintenance costs are required to leverage the success of the organization and also having in mind that this level of uncertainty is a transitional period, this strategy might be risky.

Lastly, many organizations which cannot manage what options to purse in this level of uncertainty, fall into the adapter category. Similarly to level 3, adapters invest in organizational capabilities and do not take riskier actions as investing in big bets options.

The framework developed by Hugh Courtney et al., displays strategies that organizations can implement depending on the level of uncertainty they deal with and also the position they want to adopt in their respective industries.

Dynamic capabilities

Organizational capabilities are defined by Winter (2000) as a " high-level routine (or a series of routines) that, simultaneously with its implementing input flows, inflicts upon an organization's management a set of decision options for producing significant outputs of a particular type" (Winter, 2003). A routine, is a behavior that is learned, highly patterned, repetitious, or quasi-repetitious, founded in part in tacit knowledge (Winter, 2003).

Organizational capabilities are composed of operational and dynamic capabilities. The operational capabilities are the ones that companies use to operate their daily activities. Usually, the operational capabilities involve little to no change (except for minor incremental innovations), on the other hand, Helfat et al. (2007) describes dynamic capabilities as 'the capacity of an organization to purposefully create, extend, and modify its resource base'. The 'resource base' is formed of 'tangible, intangible, and human assets (or resources) as well as capabilities which the organization owns, controls, or has access to on a preferential basis'.

Therefore, this paper will focus on the dynamic capabilities of companies and not on organizational capabilities.

Dynamic capabilities sustain an organization with the capacity to purposefully create, extend, or modify its resource base. Dynamic capabilities involve change. Firstly, in order to determine the need or opportunity for change and to successfully achieve this change, the organization employs processes such as search processes, decision-making processes, change management processes, etc. As seen in the figure below, there is a complex relationship between dynamic capabilities and the organizational and managerial processes that set them up.

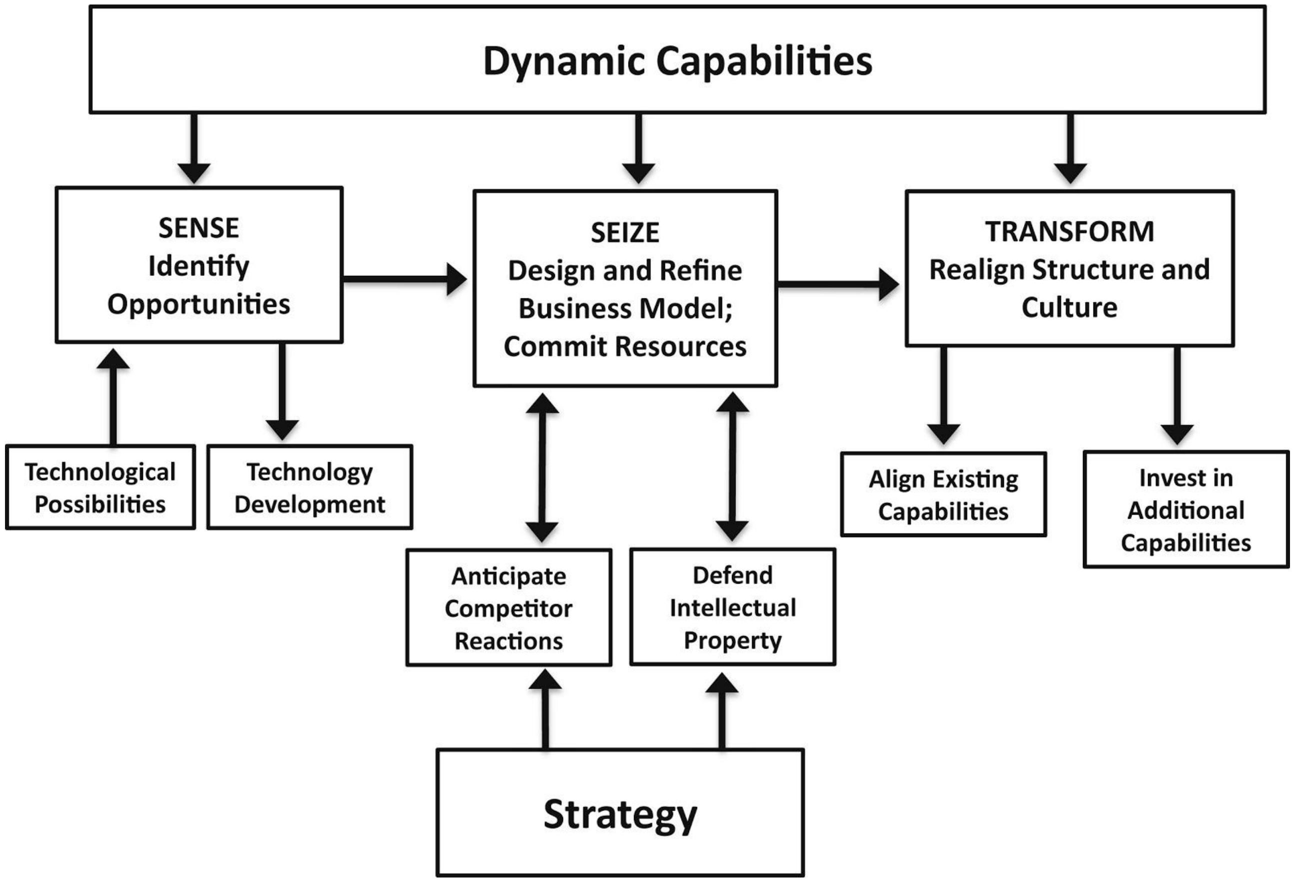


Figure 9. Simplified schema of dynamic capabilities, business models, and strategy (Teece, 2018)

Three dimensions of dynamic capabilities are essential in order to face upcoming challenges: organizational processes, the companies' asset position and past and future development paths available (Teece, 1997).

Organizational processes

Organizational processes have 3 main purposes in relation to dynamic capabilities: coordination/integration, learning, and reconfiguration.

Coordination/integration represents the processes of companies to undertake incentives in order to achieve different types of activities such as time-to-market, quality, costs (Teece et al., 1997).

Learning demands common codes of communication and coordinated search procedures. The focus resides in organizational knowledge generated into new routines, or a new logic of organization with the aim of rising the quality or speed of performance execution and decreasing the costs (Teece et al., 1997).

Reconfiguration and transformation as organizational processes refer to the proficiency of identifying weaknesses and implement changes in the asset structure of the company. This is usually implemented by examining the market and competitive environment and implementing changes before competitors decide to reconfiguration and transformation (Teece et al., 1997).

The company's asset position

The second dimension mentioned earlier is in regard to different classes of assets that organizations possess, such as: technological, complementary, reputational, structural, institutional and market assets and organizational boundaries.

Technological assets can bring many benefits for organizations that aim to gain competitive advantage. But not all companies succeed having this type of asset because it is either hard to find partners willing to transfer the knowledge or it's difficult to implement it.

Complementary assets describe all the necessary assets that help in reaching out to customers or bring value to the customer, such as: distribution channels, software or online applications, etc.

Financial assets play an important role, particularly when future strategic decisions rely on company's balance sheet (Teece et al., 1997).

Reputational assets represent intangible assets that are more concerned to external parties outside the company (e.g. customers, manufacturers, etc.). At the core of this asset lies trust from customers or stakeholders which empower the company's reputation and allows the organization to make strategies which otherwise would have been more difficult to reach.

Structural assets display the manner of how companies are structured and how it interacts with external parties. The amount of hierarchical tiers and different levels of vertical and lateral integration can increase the level of innovation in the organization's environment (Argyres, 1995; Teece, 1996).

Institutional assets involve not only the market as an environment but also public policies, regulatory systems, intellectual property regimes, tort laws, antitrust laws. Simply put, higher education and national culture make up the institutional environment of companies. Also, the geographical location plays an important role since organizations of different origin have other institutional assets in alignment with their respective policy settings (Nelson, 1994).

Market assets represent the product market positioning. Even though it plays an important role, market position is usually overplayed, whereas a strategy should rather focus on fundamental aspects of organization performance, such as competences and capabilities shaped by paths and positions (Teece, 2003).

Organizational boundaries or the degree of integration (vertical, lateral and horizontal), have a significant influence on competences and capabilities through the nature of coordination that can be reached internally. Hierarchical control structures can be implemented this way in order to protect specific assets, etc. (Teece, 2003).

Path dependencies

The third dimension introduced by Teece et al. is the path dependencies. The author argues that the prior investments made by an organization and its set of routines restrain its forthcoming behavior. Learning is a process of trial, feedback and evaluation, therefore if an organization experiences many changes at the same time, it constrains the company's ability to realize a cause-effect relationship. As a result to lack of deep cognitive structure in the organization, the learning rates are accordingly low (Teece, 1996).

Besides the firm's history, another important factor on the development path are the technological opportunities in the industry. This depends heavily on the innovative activities that the companies undertake to contribute in research and also on their ability to create and strengthen relationships with research institutions.

To sum up, the previous research activities constrain the opportunities relevant to R&D level and investments therefore the stress on technological opportunities is rather firm related than industry related (Teece, 1996).

Replicability and imitability

As seen so far, competences and capabilities of a firm are based essentially on processes and are shaped by positions and paths. Nevertheless, capabilities have competitive advantage unless routines, skills and complementary assets are difficult to imitate.

Replication is the act of transferring competences from one economic background to another (Teece, 2003). Replication is often impossible to achieve without people, therefore investments in converting the tacit knowledge in codified knowledge can help in replication. Even though this requires more resources and it is not a guarantee of success in transferring the knowledge, because the competences and routines that are at core are harder to replicate.

Replication provides two types of strategic values: the first one is the power to expand thus these capabilities are relevant and provide value to customers in other geographical areas.

The second one refers to the fact that if a firm has the ability to replicate it also has the infrastructure to learn and improve. Empirical evidence endorse that an organization cannot improve something that can not understand, therefore it is hard to codify something which can not be comprehended.

Imitation represents replication but achieved by a competitor. The same determinants that make replication challenging also make imitation tough to achieve. Thus the higher the tacit knowledge that is produced by the firm, the harder it is to replicate itself and even more difficult by competitors. Besides protecting the firm's competitive advantage through complexity and secrecy, other methods of protection against imitation can be used in the form of patents, trade secrets, copyrights and trademarks. In spite of that, intellectual property rights should not be dependent on heavily as they are rather expensive to oversee and cannot cover all products, processes or technologies accordingly (Teece et al., 1997).

To conclude, the framework by Teece et al., describes the four dimensions mentioned earlier, which play an important role in sustaining an organization with the capacity to purposefully create, extend, or modify its resource base.

The aim is to analyze how balancing the business model of a firm is done through dynamic capabilities in order to achieve change and how it will help small and medium businesses to scale.

Dynamic capabilities and business models are interdependent. Business models limit the actions companies can take, on the other hand the speed with which business models are extended, revised or terminated depends on the companies' ability to rapidly implement, test, and refine new business models (Teece, 1996). This will be developed into more depth in the business model theoretical framework.

Dynamic marketing capabilities

As seen in an earlier subchapter, dynamic capabilities are defined as 'the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments' (Teece et al., 1997).

Dynamic marketing capabilities are often referred to as an extension of dynamic capabilities, a point of view that places dynamic marketing capabilities as being part of a broader set of dynamic capabilities (Bruni and Verona 2009; Easterby-Smith and Prieto 2008).

Market knowledge is perceived as one of the primary marketing resource in modern business (Hou and Chien 2010; Morgan 2012) because through a strategic position of marketing in order to assimilate market knowledge is possible to produce accurate observations into customers, markets, competitors, etc. (Maklan and Knox 2009; Morgan 2012).

According to V.B. Molina, et al. (2014) dynamic marketing capabilities have not been yet associated to absorptive capacity and knowledge management, regardless of their main characteristic: market knowledge. Similarly to absorptive capacity, the marketing department requires to assimilate market knowledge, thereafter if must further assist the implementation of this knowledge into the organization.

(1) Can it be considered a DC?	(2) Can it be considered a DMC?
• Is it developed in the organization? (Ambrosini and Bowman 2009; Makadok 2001) • Is it a set of processes embedded in the firm? (Eisenhardt and Martin 2000) • Is it a path-dependent phenomenon? (Teece *et al.* 1997; Zollo and Winter 2002) • Is it intentional and deliberate? (Helfat *et al.* 2007; Zollo and Winter 2002) • Is it a process that impacts other resources, capabilities or routines? (Ambrosini and Bowman 2009; Winter 2003; Zollo and Winter 2002) • Is it a stable and repeated process rather than a spontaneous process? (Ambrosini and Bowman 2009; Zahra *et al.* 2006; Zollo and Winter 2002) • Is it the result of managers' commitment? (Adner and Helfat 2003) • Can it be measured through four essential underlying processes (sensing, learning, integrating and coordinating)? (Pavlou and El Sawy 2011; Protogerou *et al.* 2012; Teece 2007)	• Does the marketing area have a strong influence on this construct? (Bruni and Verona 2009; Easterby-Smith *et al.* 2009; Fang and Zou 2009) • Is market knowledge a fundamental 'raw material' in developing this construct? (Bruni and Verona 2009; Griffith and Harvey 2001; Menguc and Auh 2006) • Is this construct a tool to absorb market knowledge? (Bruni and Verona 2009; Marsh and Stock 2003; Menguc and Barker 2005) • Is this construct a tool to disseminate market knowledge within the organization? (Bruni and Verona 2009; Fang and Zou 2009; Ma and Todorovic 2011; Marsh and Stock 2003; Martelo Landroguez *et al.* 2011) • Does this construct imply inter-functional coordination within the organization? (Bruni and Verona 2009; Fang and Zou 2009; Marsh and Stock 2003)

Figure 10. Dynamic Marketing Capabilities: Toward an Integrative Framework, 2014

In the figure above it can be observed the two aspects of defining a dynamic marketing capability. First one is to ensure that the the respective process is a dynamic capability itself, thereafter it is important to determine if it is market related. By examining all previous affirmations dynamic marketing capabilities can be defined as capabilities that use market knowledge to adapt organizational resources and capabilities (V.B. Molina, et al. 2014).

Business models

With a deeper look into the business models, Any company has a set of processes, assets and services that ensures that is company is able to function. These parameters can be structured and described as a company's business model. By structuring all the essential parameters that makes the company function, it creates a valuable overview that can be used to improve aspects that can make the company function even better and thereby increasing the value. This makes the business model a valuable tool on how to make the right strategic decision, as you can base the decisions on the main parameters that make the company function. It is a strategic tool that makes it possible to analyze customer segments, which value is created for the customers and through which channels the relations to the customers are created. Hereby it is possible to create an overview of which kind of value is created, how it is delivers and to whom it should be delivered. Further the business model considers which resources, activities and partners are part of creating the value, as well as which income and costs are related to this (Osterwalder & Pigneur, 2010: 21). Overall this provides a base to analyze where the business can be improved as well as a base to see the possible effects of a strategic implementation. Thereby not only the effect of the specific aspect the strategy is focused towards but also how it will affect the whole way the company is functioning. To give an example the strategy could be to try and sell the product to a new customer segment to increase revenue. But by doing this it can be essential to consider things such if the value should be altered, does the value need to be delivered through different channels, are the organization geared to carry out all the activities that are necessary to execute the strategy, what will be the cost to reach these segment and what kind of revenue can it potentially bring. The point is that a strategic implementation will affect a lot of parameters in the business and by using the business model as a base, it a possible to consider these effects in a wider perspective than just what you are aiming to with the strategy.

If companies are capable of creating a sustainable business model, they are capable of visualizing their position in the market, as well as creating the base to survive and staying competitive. The business model is not a fixed way of doing business, but instead something that should be constantly adjusted and further developed to meet the constant changes that will occur in the market when trying to grow the business. A business model is not a strategy, but instead a tool that makes it possible for the company to execute their strategy, by looking at the connection between the company's activities and the value propositions the companies strive to deliver to their customers (Nielsen & Lund, 2013: 9).

To define how a business model works, the paper will take departure in Raphael Amit and Christoph Zott definition from their research published in 2012:

"We define a company's business model as a system of interconnected and interdependent activities that determines the way the company "does business" with its customers, partners and vendors. In other words, a business model is a bundle of specific activities — an activity system — conducted to satisfy the perceived needs of the market, along with the specification of which parties (a company or its partners) conduct which activities, and how these activities are linked to each other." (Amit & Zott, 2012).

The paper will consider that all the activities that make the company capable of doing business as something that interact with each other in a system. It is the connections between these activities that ensure the company can create value customers seek and deliver it to them. Even though any activity in the business model can be essential, the most important focus should be the holistic picture and the ability to connect the activities to create a well-functioning business model. If creating a new business model or improving an existing business model, it is essential for future success to be aware that changes to activities in the business model, will not only affect the part of the business model where the changes have been applied, it will also affect activities that are connected to the activities where the change is being applied. This is why it is so important to understand the overall picture of the business model. If companies only focus on the activities they want to change, it can have a lot of side effects on their business that they will not be prepared to handle. Thereby the process of changing can end up being a spiral of improving things just to create new problems. The way to avoid risking creating a spiral of problems is to always be aware of the holistic picture. This should not mean that the focus should always be at the whole business model all at once, but rather that when focusing on improving a certain activity, part of the improvement process should be to look at what effect the implementation could have on the rest of the business model.

This project is concerned with the effects of implementing an effective marketing plan as a strategy. In the case of marketing the focus could be to find new channels to reach a relevant customer segment. Thereby the obvious focus is the customer segment and finding the channel to reach them and maybe even the value proposition as it makes sense to alter it according the specific marketing plan. But what could easily be forgotten in this example is the effect on the left side of the business model. For example let's say that the combination of marketing channel and the way the value is presented to the customer is a perfect match. What will happen is that the demand will rise remarkably. This can result in a lot of things on the left side of the business model. For example the strategic partners that are producing the product might not be able to follow the demand, resulting in a lot of money being wasted on marketing, as the company is not able to take the orders. It can also be internal activities such as logistics or processes when handling a risen amount of orders that results in the company not being able to deliver the orders customers have ordered. The point is that if part of the focus is not holistic, the company can end up with great success in the activities they focus on, but the side effect other places in the business model can end up damaging the result drastically.

This project will research if and how it is possible to balance the challenge of aiming for demand, through strategies that can increase sales, without causing drastic damage to the rest of the business model. Because if the rest of the activities can not follow the challenges that comes along with rise in demand the business will not survive, unless they change their business model drastically. It is interesting to find a recipe that focus on growth strategies while also preparing the business to be capable of scaling. When it comes to scaling the interest here is not to just look at how the company can grow bigger. The expansion needs to happen in a manner where profits from increasing revenue by far exceeds the costs of growing, at least in the long run.

Business model canvas:

The Business model canvas is developed by Alexander Osterwalder and Yves Pigneur and is an analyze of nine different building blocks that represents a given company and in cooperation make up how a company creates, provides and achieve value (Osterwalder, 2010: 14).

In the project this theory will be used to analyze central elements of the two case companies Shaping New Tomorrow and OGbets. The idea is to analyze for central elements in their business model that is related to their ability to reach scalability. To understand how scalability can be reached the building blocks will be analyzed individually but the main driver will be how the building blocks interact with each other in order to achieve a scalable business model.

The canvas is chosen, as it is a very simplified model that provides an overview over all the activities that makes the company go around. As Morten Lund puts it in the interview "The business model in understandable and you can use it without reading the book, this fits well with a lot of managers" (Morten Lund, interview). This works well in this paper as it is aiming to create and extensive tool to the business model, that helps manager makes decision on how they should invest their capital if they want to reach a scalable business.

Using a simplified model as the canvas makes it possible to focus on the company's ability to gear the business model towards scalability without making it to theoretical complex. Further it will make the final result much more useful in real life situations. The goal is to create something that is possible to implement as part of real life business decisions.

Besides the business model canvas there are several more advanced business models that takes more parameters into consideration both internally and externally. One example of a more advanced business model can be seen in appendix 1 (Hedman mfl, 2013). This model is firmly based upon the value chain, generic strategies as well as external factors in the industry. The point is not that this model necessarily can not provide further useful information to analyze the best way to reach scalability. The point is rather that the more complex the model becomes, the more difficult it becomes to apply it to real life situations. There is a variety of business models that can be chosen depending on what the purpose is. In this case the purpose is to create a simplified overview of the way a company "does business" to analyze how activities can be altered and connected to build a scalable business model.

Important no matter what business model is chosen is that if a modification is made it will in some way affect all the other components in the model. To be able to execute improvements in individual activities, without causing negative effects in other areas of the model, it is essential to understand that those activities are part of a system where everything interacts. The ideal result is to improve one activity and the effect of that improvement causes positive effects all the way around the business model. The goal should always be to try to improve the value proposition. If the company is able to deliver more value, it will lead to increased profit (Hedman mfl, 2013). That is one of the reasons why the business model canvas works well. Because the business model canvas connects the value proposition with the company's infrastructure, which affects the way value is delivered to the customer (Nielsen & Lund, 2013). Hereby it is made understandable which connections are necessary to benefit from increased value. It provides an understanding of the company's internal activities as well as analyzing the activities that are creating value.

The nine building blocks

1. Customer segments.

Customer segments is described as the heart of any business model, as a company without any customer in the long run will not be able to survive (Osterwalder, 2014:20). In order to be capable of running a business that survives the company needs to find customer segments that respond well to the value that is being offered. This can be done in several ways. The company can create a product they find valuable and find customer segments that responds well to it. Or the companies can questions desirable customer segments about what kind of value they are seeking in their life. From this information a product that delivers that value could be a possibility to create. It is necessary to have a least one key customer segment but at the same time is a possibility to expand the business buy including new customer segments. If a setup is created where the company is ready to scale an opportunity could be to find more customer segments to attract to the business model. This can be difficult though and would be part of a growth strategy where resources would need to be invested.

2. Value propositions

Value proposition describes the activities and services that create value to the company's customer segments (Osterwalder, 2014:22). This is ultimately what enables the company to generate revenue, as they need to offer something those customers' desires in order to sell anything. It is considered a necessity that companies adapt their value proposition to its customer segments (Teece, 2009).

Value can be created in many ways and on many parameters. It can be argued that the more parameters the company is able to create value for the customer on, the greater the chance is that the customer will place their order with them, rather than the competition. Value can be everything from a superior product, a new feature that can't be found anywhere else, the best prices or an extraordinary service that makes the customer feel like the are being taken care of the best possible way etc.

As value is ultimately what the company strives to create in order to generate revenue it is seen as the driver of the business model. The building blocks surrounding the value proposition are what enable the company to create the value and deliver it to their customer segments (Amit and Zott, 2012).

According to the theorists Parasuraman, Berry and Zeitbalm there are two types of customer expectations: The value the customer hopes to receive and the value the customer finds acceptable (Parasuraman m.fl., 1991). If the company is capable of delivering the service and product the customer hopes to get or even exceed their expectations a strong customer relationship is created. On the other side, if the companies delivery of their value proposition is not sufficient in regards to the customers expectations, the customer will not have a high tolerance and it will not take much from them to deselect the company (Parasuraman m.fl., 1991).

For that reason it should always be the goal to create a value proposition that is strong enough to at least fulfill the customer's expectations. It is important to distinguish between the value proposition the company desires and the value that is actually being delivered. This is where the other building blocks play their part and the desired value is something that can be difficult to sustain when faced with an uneven balance between readiness to scale and a large input on the demand side.

3. Channels

"The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition" (Osterwalder, 2010:32).

Channels represent the point where organizations meet the customers and this suggests a major aspect in the customer experience.

Channels serve several functions, including:

- Raising awareness between customers regarding the company's products and services
- Helping customers assess the value proposition of a company
- Enables customers to purchase products and services

- Providing post-purchase customer support

There are various distribution channels with advantages and disadvantages according to different types of business models:

- Direct distribution: personal sales, internet, mail, telephone
- Indirect distribution: retailers, agents and brokers, distributors.

4. Customer relationships

Customer relationships describes the relation a company creates to it’s chosen customer segments (Osterwalder, 2014:28). Osterwalder & Yves further describes this building block as the strategy the company applies to gain customer information. The way the company tries to create relations to their customers should be adapted to what kind of information they realize the customer demands (Osterwalder & Yves, 2002).

As described above the customer relationship is directly affected by the company’s ability to deliver sufficient value. If they are not able to create sufficient value a strong customer relationship will be difficult to establish. The information they gain about customers can be used to constantly improve the value proposition so it fits better to the customers’ needs. If the company can apply better value according to the information they have on their customers, it will naturally put them in position where the customer relationship will grow stronger. Further this information can be used to attract new customers, with similarities to their current customer segment, as they will know things that trigger interest.

One of the biggest challenges when trying to create a scalable business model can be the cost of acquiring a new customer (Morten Lund, interview). The determining factor of how much can be paid to acquire a customer depends on the lifetime value. It might cost 1000 DKK to get the customer to make a purchase worth 1000 DKK, but if the company is capable of creating a circle where the customer on average buys 4 times, then paying 1000 DKK for this customer is suddenly good business.

That highlights the importance of keeping and growing a customer. Because essentially the contrast between how much it costs to acquire a customer and the lifetime value of the customer can determine if the business model can be scaled (Morten Lund, interview)

5. Revenue streams

Revenue streams describe the revenue that the company is able to generate on its respective customer segments (Osterwalder, 2010:30). Firms must calculate the worth of the value they serve to every customer segment. Several ways to generate a revenue stream: asset sales, membership fees, leasing/renting, licensing, etc. Revenue streams should be as accurate as possible, since it is important to emphasis the projected life cycles as well, for a more precise estimation.

Customer lifetime value is defined as the financial value of the entire future customer relationship (Fripp, 2014). Customer lifetime value is a major metric because it serves as the upper limit on allocating money to acquire a new customer (D.J. Reibstein 2010). Using this metric, it is easier to asses the monetary value of each customer. Even more, this metric helps in predicting the main customer segments and their characteristics. Therefore it helps to prioritize resources for the most profitable customers, since not all customer segments are equally valuable.

6. Key resources

Key resources describe the most important assets the company has available in its business model (Osterwalder, 2010:34). Key resources can be classified into four main categories: physical, intellectual, human and financial.

Physical resources: are tangible assets that a firm uses to create its value proposition. These can consist of equipment, inventory, buildings, manufacturing plants, etc.

Intellectual resources: represent intangible assets such as brand, patents, IP, copyrights, etc.

Human resources: one of the main important resource in a company are its employees. Regardless of the organization's industry and its key activities, human resources add value through knowledge, or physical work, especially in service oriented organizations.

Financial resources: comprise cash, lines of credit and the availability to give shares stock to its employees.

7. Key activities

The company's key activities are those activities a company has to execute to make their business model function (Osterwalder, 2010:36). These represent the most crucial activities which a company must accomplish in order to reach its business objective. Key activities are distinct depending to the business model of each organization using the activities: research and development, marketing, sales, production, etc.

As mentioned earlier, depending on the business model of each organization, one can engage in multiple key activities or specialize in one or a few.

8. Key partners

Key partners are made up of the suppliers and external partners that make the company capable of running their business model (Osterwalder, 2010:38).

Firms engage in partnerships with external organizations in order to optimize operations, reducing the risk of a business model by focusing its main resources on the core competencies of the company. Partnerships can be classed in four different categories:

Strategic alliances: These form of partnerships are established between non-competitors. Through this type of alliance, the company can gain access to new sales channels or add more value to their product/service for example.

Co-opetition: Engaging in this type of partnership with another organization (even competitors) can decrease the risk of both companies when pursuing a new idea, the risk being shared between them.

Joint-Ventures: A joint venture is a business entity developed by two or more partners, complementing the key resources needed to seek a new business opportunity. Usually, both risks and rewards are shared between the parties.

Buyer-Supplier Relationships: One of the most typical kind of partnerships due to securing a steady source of supplies. On the other hand, for the supplier this signifies a stable confirmed buyer for its products.

9. Cost structures

The cost structure describes all the costs that are in the business model (Osterwalder, 2010: 40). Costs represent a major aspect for every business model since companies are opting for different strategies, due to their industry, product/service, etc., businesses can be categorized in two classes of cost structures:

- Cost-Driven: For this type of business model, the aim is to minimize all costs and their strategy is to be the cheaper option on the market. e.g. Ryanair.
- Value-Driven: This type of business model aims to increase the value of their product/service, and the emphasis on costs is lower. e.g. Emirates Airlines.

Characteristics of cost structures:

- Fixed Costs: Represent costs that are unchanged regarding of the volume of work.
- Variable Costs: Costs which fluctuate depending on the volume of production of goods or services.
- Economies of Scale: Costs decrease according to the amount of goods ordered/produced.
- Economies of Scope: Costs decrease due to the organization investing in other businesses or larger scope of operation.

Customer acquisition costs represent the funds allocated by an organization, with the expectation to acquire new customers who will procure their products or services (Cook, 2017). The customer acquisition cost is determined by dividing the total acquisition costs by the total of newly acquired customers over a certain extent of time.

Customer acquisition costs usually covers marketing and advertising costs, discounts, and other incentives which can determine customers to buy the respective product/service.

Furthermore, customer acquisition costs help in better planning forthcoming marketing budgets, capital distributions, etc.

Organization's business models are different depending on which cost structures they adopt, since the cost structure block can have an impact on other blocks of the BMC (Osterwalder, 2010).

Scalability in business models

Among the key aspects of business model thinking are a focus on what the customer values, how this value is best delivered to the customer and how strategic partners are leveraged in this value creation (Lund & Nielsen, 2015). When faced with great growth possibilities that are being taken advantage of by the company, it puts them in a position where it can be difficult to maintain the same quality of the value proposition that is being delivered to the customers. This effects the cooperation with important strategic partners, as they need to be able to expand the activities they are operating, in order to keep up with the growing demand. If the company is not capable of scaling up their operations internally and with strategic partners, they will be put in a position where they are burning a lot of bridges because they are not able to deliver a consistent value to their customers.

Everything in the business model is basically processes surrounding the value proposition, as that is essentially what the business is built upon. If the company is able to consistently deliver a value proposition that their customer segment appreciates and benefiting financially while doing it, they have a well-functioning business model. From that position it is in most companies interest, to expand their customer base, as it will increase their revenue. A way to generate a larger customer base is through marketing as it is a way to expose more potential customers. If the company knows how much it earns per customer, they have great control over how profitable it is to invest in growing.

The cheapest way to get new purchases is without discussion the returning customers. They have already experienced the value proposition and approved it suits their needs.

There is a mainstream understanding that if the firm delivers to the customer what he/she requires then there is a good foundation for a long-term profitable business (Lund & Nielsen, 2015). This is one of the main reasons while it is so important that the company is capable of scaling the processes that allows them to deliver their value to the customers. Otherwise they will reach a point where they are mainly generating new customers which has a much larger accusation cost compared to returning customers.

Being able to generate growth and scaling the business while doing it is basically how large companies emerge. A lot of small businesses have a value proposition that helps them get by but the really successful businesses of today are those able to reach the sweet-spot of business model scalability (Lund & Nielsen, 2015).

The goal when focusing on creating increasing returns on scale should be to create the best and most cost efficient way to do it. In this paper it will be analyzed how an essential approach to reach increasing returns scale is by balancing between investing in creation of demand and scalability readiness. An uneven balance, no matter if it is in the favor of demand or investments in scalability readiness, can cause crucial consequences to the company. To make an example to illustrate this; consider the situation where the company has invested a lot of time and money in preparing their business to growth. When they then actually reach the point where they are prepared to invest in growth efforts that will attract customers to their scalable business model, it takes much longer time than expected and before they find the right recipe to attract customers to their value proposition they run out of cash.

Now consider an opposite situation; the company's main focus is on creating an exceptional value proposition and delivering it to the customer and suddenly the demand explodes. When the demand suddenly explodes as a result of focusing efforts towards delivering exceptional value, it can cause a negative effect on the processes surrounding the value proposition such as production, preparing the orders, customer care etc. This can result in several negative effects as it might cause that a lot of customers will never buy again because they had a bad experience. This means that it will be more expensive to get new purchases. Further the company can even gain a bad reputation that will keep a lot of new customers away until the reputation is restored. Ultimately it might open a spot on the market for new competitors that have developed a similar product and it might therefore lead to the company being outcompeted even though they were first movers.

It is not always possible to plan how much growth that will be achieved within a certain timeframe. If the goal is to create a strategy that at some point should provide increasing returns on scale, it can be important knowledge in small/medium companies to know the possible effect of allocating resources in either demand or scaling efforts.

A scalable business model can be defined like this:

"A business model that is agile and which provides exponentially increasing returns to scale in terms of growth from additional resources applied" (Lund & Nielsen, 2015).

To archive a scalable business model there are several ways companies can work towards achieving increasing return of scale. The ideal point to reach is where exceptional attributes collide with increasing rate to scale.

Scalability can be achieved through new distribution channels in cases where adding a new distribution channel simultaneously provides additional value to existing channels and the customers using those (Lund & Nielsen, 2015). This kind of scalability is an example a complementary fit as identified by Zott and Amit (2013). This occurs when activities are mutually reinforcing to increase the value delivered. Activities are complementary if they contribute to each other in a way where one has a marginal cost compared to the value it is creating to other activities (Milgrom and Roberts, 1995).

Business models can be scalable if they are able to push capital over to the right strategic partners that can help them create or improve the final value proposition. If it is a profitable setup, the company can use that approach as an advantage to scale, as it allows them to focus on improving their core competencies while getting specialist to take care of certain processes and components. It is also a strategy that needs to be supported by a strong cash flow as the company could quickly run out of liquidity, because they have many obligations to a lot of partners. But if they have a positive cash flow they can push the cash flow to strategic partners that will increase the value proposition and profits. This way the company can focus on the core of their business and use cash flow to outsource investments to strategic partners that takes care of important parts of the final value proposition. These partners can for example be separate manufactures that each makes unique product parts that are part of creating the final product (Lund & Nielsen, 2015). By letting strategic partners take care of a lot of the jobs associated with providing the value proposition, it frees up a lot of time that allows the company to focus on their core competences that instead for example could be function and design.

Another way to work towards reaching scalability is to leverage partners to work for free (Lund & Nielsen, 2015). This is something that can be reached through clever marketing. If they company is capable of positioning their values in a manner where the customer expectations are exceeded, there is not only a high likelihood that they will be loyal customers; they might become ambassadors for the product. If a high amount of customers are sharing the fantastic experience they had by encountering the company's value proposition, it provides a remarkable rise in demand without the company has to invest any cash in marketing. This is another example of how activities that contributes to each other in a way where one has a marginal cost compared to the value it is creating to other activities, provides an opportunity to reach increasing return to scale.

Business models can also reach increasing return on scale by focusing on making the competitors into partners or even customers (Lund & Nielsen, 2015).

Scalability readiness and growth to create scalable business models:

The paper seeks to analyze how small/medium companies can minimize risk when attempting to create a scalable business model. In order to minimize the risk it is necessary to know how to place the available capital optimally. Every time capital is invested wrongly it can be categorized as a waste of opportunity. Cash is almost never in abundance, or free for that matter (Lund & Nielsen, 2015) this is especially the case when dealing with small or medium sized companies. In the attempt of creating a tool that is easy to manage, just like the business model, the paper has split the efforts that capital can be invested in to reach scalability into two: Scalability readiness and growth.

Growth is concerned with all the efforts that can be performed in order to increase the input into the business model. Here the company invests in activities that can increase the demand. This can be effort such as marketing. If capital is invested cleverly in marketing it will increase the demand of the product the company is providing.

Scalability readiness on the other hand is concerned with all the activities that make the company able to handle all the extra demand that is coming in from increased growth. When demand is increasing it is necessary to be able to increase supply otherwise it is impossible to reach increasing scale.

Ability to scale can be access to capital, control over production facilities in order to increase the amount that is being produced in the right pace to follow the demand. The demand might also change slightly where it can be important to have a flexible production where it is easy to make small alterations that meets the changing demand. Further growth can make it necessary to invest in distribution processes that makes it possible to store a significant amount of products and package them in a pace where customers do not lose their patience.

The above examples of activities within growth and scalability readiness are just some examples of the activities that can be invested in within the two fields and they can be very different depending on the type of business model.

The point though is that it is important in any type of business model to be capable of balancing the ability to make enough supply to meet the demand. Because investing too much in either side can create issues that will hinder the road to reach scalability. This leads to another aspect that is important to be aware of when investing in creating a scalable business model. You need to be able to create at least the same or preferably higher value, while making it available to a larger extent of people. If the business is growing significantly but while doing it the value that is being offered is slowly decreasing the company is creating a setup that can ultimately lead to bankruptcy. All this might even happen without the board of the company is noticing it. They can be too caught up in either side because they have not balanced it correct from the beginning. Meaning that they are either trying to fix their ability to scale while their customers are unhappy with the current value they are receiving and therefore not returning as well as giving the company a bad reputation to everyone surrounding them. Or it can be the opposite where the company is working too hard on improving the value they are offering but in the meantime a lot of new things are happening in the market and therefore at the end they will not be capable of spreading the value out to customers in a large enough extend.

Partial conclusion on business models

Cash is almost never in abundance, or free for that matter (Lund & Nielsen, 2015) therefore it is important to have as much knowledge as possible on what effect the allocation of capital has. This paper is focused towards creating knowledge upon the best way to allocate capital when aiming towards creating a business model that is capable of bringing exceptional return to scale.

The focus on allocating the capital in the best way possible is concerned with balancing growth and scalability efforts and determining that some efforts might be both at the same time.

A general insight is that companies that only search for cost-cutting alternatives typically will find their way to declining, constant and at best linear increasing returns to scale (Lund & Nielsen, 2015). This points out that the necessary strategy to build a highly profitable business model should be to invest capital in efforts that can gear the business model towards reaching increasing returns on scale rather than focusing on cutting costs. The point is not that it does not make sense to reduce cost because of cause it will make the business more profitable to cut deadweight costs. The point is rather that if the company understands the value of investing the capital in the right assets it can have much higher value than being capable of removing some deadweight costs.

To be able to invest capital in the right way it is important to know the effect of the different kind of assets that is possible to invest in. In the search of trying to define the value of the types of assets this paper has split it into growth and scalability efforts. These assets can cross each other, but the meaning is that on the growth side you can invest to gain a higher input into your business model and on the scalability side you can invest to create processes that makes your business model capable of handling a higher input. Both are important aspects to reach significant return to scale and both can have significantly negative effects on the future of the business if too much of the company's capital is put in. Therefore the paper seek to create further understanding on how these aspects can be balanced in order to gain maximum value of the capital that is available when the goal is to reach increasingly return on scale.

To investigate this further, the paper will use two case examples that has experienced the effect of growing too fast and another case where the company has experienced investing to much in being able to scale but not being able to gain sufficient input through growth.

Exploring versus exploiting

The challenge of mastering the balance between being ready to scale (supply) and generating growth (demand) can also be categorized as explorative efforts and the capability to exploit the input that can be generated through the explorative efforts.

In order to generate more demand the company needs to explore ways they can attract customer segments to their value proposition. To be capable of attracting new customers resources needs to be invested in exposing the potential customers to the value proposition. Increasing the invested capital in existing marketing channels as well as exploring new channels to reach the customers can do this. Both approaches will involve increased explorative costs. By increasing resources invested in existing channels the acquisition cost will most likely rise as the customer segment only have a certain tolerance to the content they are being exposed to. For that reason it requires constant testing of new ways to appeal to existing customers segments as well as potential new segments. Both are connected to an explorative cost before the sweet spot is found and the acquisition cost is ideal. The sweet spot of acquiring a new customer will most likely be within a price range. Any company should have an idea of how much a customer is worth to them and aim to attract as many customers within that price. But this only applies if they are geared to exploit the value of new customers. Otherwise a lot of cash flow can be burned acquiring new customers without being able to capitalize properly on the usual lifetime value.

These two aspects of both exploring and exploiting create valuable information to the strategic decisions the company can choose to implement. Because on the one side there are cost connected to acquiring new customers, but there are also costs connected to create a business model that is setup to exploit the maximum value of each customer that is acquired. If the company is not aware that they could be gaining significant higher value on each of their customers they will be using an unnecessary high amount of their cash flow on trying to acquire more revenue through attracting new customers. Instead they could be increasing revenue by increasing the lifetime value of customers they already have acquired. But in order to secure a high lifetime value, it is necessary to invest in processes that make the business model able to provide at least the same value to every customer. When the demand is rising is means that there is a larger customer base that needs to be serviced. They all need to experience the same amount of service and quality in products that the company's value proposition is based upon to create the most likely situation of a high lifetime value.

That makes it important to find a balance between the explorative and exploiting efforts. There is no algorithm that can tell exactly where this balance is. It can still make sense to attract new customers even though the ideal way to exploit the value of them is not find yet. It can be a working process. But the consideration can act as factor of which strategic implementation are focused on. Because from the perspective that in small/medium size company's cash is never in abundance it is important optimize the resources that available and how the use of these resources affects the future cash flow. It might seem like a good idea to invest a lot in marketing because it clearly has a positive effect on the revenue, but if the cost is also very high the strategy is not leading to a business model that is scaling significantly out of ratio. It could be argued that these customers can always be made into loyal customers when the company has reached a certain size and growing fast is the growth strategy. But is that really the best way to use resources? And how can it be possible to make sure that the customer in the meantime will not find a better value match with another company?

From the assumption based on Parasuraman research, it is suggested that if a company is able to exceed the customer's expectations, they will be made into a loyal customer. That would mean that if another company manage to do that, while you are too busy increasing in size, it might not be possible to get another shot at that customer. If every customer is instead exposed to value that exceeds their expectations, they will most likely return and they will most likely recommend others in the network to try the same. Thereby creating a situation where potential customers, could be convinced to try the solution you are offering.

On the other hand, what good is it to be able to get a high lifetime value on every customer, if there is only a small amount of customers?

This paper will try to gain a deeper understanding of the processes that are connected to being able to exploit value as well as exploring new opportunities to increase demand. The idea is to understand the connections in the building blocks that are relevant when attempting to reach scalability. If there is a better understanding of those connections, it can be used to make better strategic decisions on the road to building a scalable business model.

Sub conclusion of literature review

To shortly summarize the literature it is found that the simplified schema of dynamic capabilities, business models, and strategy (Teece, 2018) shows how companies can develop their abilities to identify opportunities, to refine their business model and to implement this by realigning the structure and culture. However, it focusses without limits on any innovation opportunities and thus have no visible end goal for the organization but innovation for the sake of innovation.

There are many ways to employ strategy. It can be done through dynamic capabilities as suggested in the works of Teece et. al, by creative business model designs and by chance. The common factor in all the literature is that organizations need both the ability to identify and to execute in order to make a decision and thus choose a strategy.

The literature gap

Through the literature review it was identified that most of the current literature within the topics of organizational theory, business strategy and scalability seem to have been focused on their individual parts and not seen as a whole.

This has caused the knowledge about scalability processes to lack direct relations to other parts of the business and what a company should do when scaling and how the company is influenced in the scaling process and imbalances it often creates.

Furthermore literature about dynamic capabilities and dynamic marketing capabilities are seen on an incremental level to explore and exploit the opportunities that presents itself from changing conditions, but not as capabilities a company should actively develop for strategic purposes and in this case for the strategic purpose of scaling.

Therefore it is possible to believe that there is a literature gap when it comes to using innovation and dynamic capabilities in the organization and relate this to the literature about how to design a scalable business model and even further how to balance scalability readiness with creation of demand.

From the perspective of strategy there is a lack of overview which allows users to associate the relations between the various business model areas with innovation as well as the company's dynamic capabilities and organizational setup.

There is a very strong relation between exploring and exploiting in the literature but it has not been explained sufficiently in a strategic perspective nor explored in relevance to scalability.

Research question

From the literature review have found the research question:

"How do you design the dynamic capabilities and the business model for balancing the scalability?"

Methodology

The aim of this research is to explore the processes and factors involved in the relations between the organization, dynamic capabilities, the business model, scalability readiness, growth and scalability and to put all these into a strategic perspective for decision making.

In order to identify possible solutions or to enhance the understanding of how companies can solve the problem of the paper these research technique, procedures and methods are mainly exploratory.

To understand the concept and structure of literature and to explore potential gaps, a literature review related to the problem will be made. This helped to narrow down a literature gap where further relations and answers might be found.

The defined structure of the methodology to explore a way to try and breach this literature gap is based on the research question.

The literature review and analysis will be followed by further exploration of the literature gap by having carried out two explorative cases with two companies that have experienced the problem at hand. One of them is currently undergoing a scaling process while the other was a start-up which went bankrupt during the scaling process. Both of them were interviewed in order to figure out how these companies tried to breach this gap given their settings and challenges, which could help to understand how companies can design dynamic capabilities and a business model for scaling.

For the interviews there was developed an unstructured interview guide by designating each member of the research group to be in charge of securing that all areas of relevant literature was explored while still using mainly a Socratic interview technique which let the focus of the interview be based upon the interviewee's experienced challenges and focus areas and it was highly important to go with questions that were natural.

By carrying out the interview with this technique it was managed to find a balance where it was both acknowledged that every organization and interviewee is different and experience the known literature differently and minimized the influence on the results.

The influence of lack of expertise as well as the negative effects of blind spots from participatory action from a research group member being one of the owners the case study of SNT was furthermore minimized as it served a search guides that would help the interviewees realize the main issues and challenges that they experienced.

In order to use these interviews for analysis, the interviews were recorded and lightly transcribed them through a charged software, which allowed to have an overview of what was discussed and the ability to find direct quotes in the attached audio file afterwards. Due to resource limitations it was estimated it to be a better priority to analyze the topics overall instead of focusing on what was specifically answered for each question since the end goal was not to analyze how the interviewees experienced and understood each factor but what actually happened in the organization due to this factor.

The main validation challenges of the interviewees were that everyone has different perspective on managing a company. Furthermore, OGBets went bankrupt around 2 years ago, which makes it difficult for the interviewees to remember the details that occurred, however it has provided them with time for evaluation and reflection, while the other case of SNT is under pressure from the high demand and are experience a mass change which makes it harder to have the overall overview of what has and is happening.

Besides the case studies also more expertise knowledge from primary sources was looked for, which brought the idea of a meeting with Business Model Canvas expert Morten Lund, Aalborg University. As some of the ideas were presented at the time and received suggestions for other secondary sources that would be relevant to use.

The findings were scaled it back up to theory through a cross analysis of the case studies based upon the literature review, with the aim to develop propositions which could help define the identify how the literature gap can be breached and problem be solved. In order to create usability of the findings it will also be develop a framework to enhance the understanding and overview of the propositions.

This data analysis was conducted in view of theory as well as the case studies and used triangulation as an alternative method to the lack of reliability and validity that was not possible to achieve with the literature gap in mind. This has on the other hand helped overcome the weaknesses of using single methods or single theory and instead been able to look at the problem from a broader perspective.

The methodology used allows to explore ‘the unknown’ of the literature gap that was found and is carried out with a focus on the epistemology of reasoning based upon the acquired knowledge through literature review and the case studies.

The research question is to be understood as an opportunity for exploration which means that validity and reliability is highly based upon expertise as well as testing, where limitations in both were experienced.

The conclusions are thus created in a manner where was used the in-vivo understanding of what literature is relevant yet contributing to theory by developing propositions and a framework to better present the explored key points and correlations that has yet to be researched.

Analysis

Business model canvas

To gain further insight on how business models can be altered to reach scalability the paper will include two real life cases. The cases are chosen from the perspective of trying to understand the effect of focusing resources on either scalability readiness or demand efforts. The cases act as prove of some of the effects that can happen when there is an uneven balance of invested resources in either effort. By analyzing two cases where resources has been prioritized differently can help create insight on what causes the decisions makers to prioritize as they do and thereby provide valuable information on how decisions could be considered differently.

If it is possible to understand some of the important parameters that causes decisions to be made it is easier to know how to affect this decisions.

The cases will be analyzed through the business model canvas as it provides a simplified overview of the processes within the company. To reach scalability it is necessary to be able to deliver the same, or higher value, to a growing base of customers without having increased cost that eats all the profit from the new revenue. But in order to gain any new revenue the company needs to be able to attract more customers.

The company OGbets had invested all their capital in scalability readiness but had to close down the company as they ran out of cash to attract new customers.

On the other hand is the other company Shaping New Tomorrow where the main focus has been to build value and attract customers to the value. But when the demand suddenly exploded, it appeared that a lack of resources had been invested in scalability readiness.

Both scenarios has caused significant problems for both companies and put them in a position where all they can do is to try and fix the situation. This is never ideal as it puts focus away from other aspects of the business. The end results for the two companies are very different as OGbets went bankrupt while Shaping New Tomorrow are trying to fix the situation of not being able to meet the demand.

The end result is not the point though, as it could be argued that OGbets could have had a bright future if they had been able to raise another round of capital. But they might never have been put in that position if they had balanced their resources right from the beginning. In the case of Shaping New Tomorrow the loose is instead a significant amount of revenue, which could have been prevented if they had balanced their resources right from the beginning.

Therefore the point with the two cases is to find similarities as well as opposites to give an idea of how scalability readiness and demand efforts can be balanced. This might even raise the question if is the always possible to make a strategy where the two are balanced. If it is not it is interesting to see how it can be handled because most likely in most real life situation it will be up and down on both sides. It might not be a problem that they are not always equally balanced, that be a necessary part of expanding, but as long as there is a strategy to reach balance again at some point.

Shaping New Tomorrow

Have you ever asked yourself the question if your everyday clothing could be more comfortable?

That is the questions that drives the value proposition of the first case company Shaping New Tomorrow APS. With a vision to make stylish everyday clothes more comfortable (Kasper Ulrich, interview), Christian Aachmann, Christoffer Bak & Kasper Ulirch founded the company in 2015. The analysis of the company will be built on their knowledge of how all the processes are making them able to deliver their value proposition.

Their product line consists of clothing products with a specific item category being the main revenue driver. This item category is pants, which can be classified as the company's cash cow. Even though the company is placed in North Jutland, which is a part of Denmark where being humble is deep rooted in the culture, because Janteloven has a big influence on potential customer segments mindset, they have chosen to call this item category: The perfect Pants.

What makes the value proposition stand out to the customer is the definition of what is meant by "perfect pants". It is a combination of the best from two worlds. On the surface they look like a stylish everyday pant that would fit any dress code. At the same time they are just as comfortable as if the customer would choose to wear sweatpants. Thereby solving two problems in one solution creating double value to their customers. When choosing the perfect pants, the customer no longer has to compromise on either appearance or comfort. Thereby making them the perfect choice of pants, for almost any activity, that the customer segment has a need towards in their life. The pants can be used for activities, ranching from biking, jogging with a football to picking things up from the floor etc. Basically any active activity that is not an activity executed to get exercise, while still providing excellent appearance to the customer anywhere he wants to look good or has an appearance standard that needs to be meet by the clothes he wears.

The pants and all the other clothing are made in the northern part of Portugal. The manufactures are placed in separate textile clusters but they are still within one-hour driving distance. This part of Portugal has a lot of textile companies that are operating within different part of the processes that are necessary to create cloth.

This provides a lot of opportunity and flexibility towards product development. The Signature pants line, that is the bestseller and flagship to the concept "dress pants that feels like sweatpants" are the best example of the development opportunities it provides. They are produced through a 3-step process. Each step of the process has an independent manufacture and they are all placed within the same radius of 20 km.

1. The first manufacture creates the fabric. This process consists of weaving a lot of threads together, to make it into a solid piece of thread called fabric.

2. In the next process there is a manufacturer that specializes in treating the fabric to stabilize it for durability, so it lasts longer and look like new for a longer time period.

3. In the end the fabric needs to be cut into pieces and sewed together in specific measurements. When the cutting is finished all the details are added to the pants such as zippers, buttons and waistband straps etc.

With focus on constant improvement of the core products while exploring how to increase customer segments interest towards their value proposition, Shaping New Tomorrow experienced a steady growth rate in their two first financial statements. In 2016/2017 (12 months) the revenue was 2.397.390 DKK which has increased to 10.008.792 DKK in the first 7 months of the current financial statement year (SNT main number per 30/4/2018).

The steady growth continued in the beginning of the third financial statement year where the balance between scalability readiness and growth were still well aligned. The explorative efforts and exploitive capability were well balanced. The company was investing appropriate in the amount of products that could be produced and how many products they were capable of selling within quarterly time frames (Ca.)

Last year they made a strategic decision to use the TV program Løvens Hule as a channel to reach new customers. The programs plot is that contenders pitch the companies to the investors and offering them to buy a share for a certain price ex. 250.000 DKK in exchange of 10% of the company's shares. That was the outcome when Shaping New Tomorrow entered the show. Around 8 months after the recording the episode was aired to approximately 1 million viewers and suddenly the demand for especially the product Perfect Pants exploded. The months leading up to the show went on air Shaping New Tomorrow had an average revenue of around 1.000.000. Per month, this was increased to 8.500.000 the month the episode was shown (4.April). This led to an uneven balance in the company's ability to scale the supply side enough to meet the massive increase in demand. This situation has caused inability to exploit the potential in the market, missing out on a lot of revenue that could have been gained.

Not being able to meet the demand side has put a lot of pressure on many of the activities in the left side of the business model. First of all production needs to be scaled to a significant amount to meet the demand. This can cause issues with quality and delivery times. At the same time there are many challenges in remaining the interest when it is not possible to deliver the products the customer wants.

It is a balance of trying to capitalize on the demand, without annoying the customer to an extent where the likelihood of him being a returning customer is really low.

To be able to create a scalable business model in a high competitive market, it is necessary to be able to keep a high lifetime value on the customers that can be attracted. As there are a lot of other companies offering clothes in the same categories the acquisition cost can be high. The customer has a lot of options, but if he can be impressed when exposed to the value proposition he will not search for other options anymore. But there is a lot of things that can cause he will not necessarily return next time he has a need of the value that is offered; Delivering wrong products, exceeding delivery dates on pre-orders, production mistakes when increasing quantity rapidly leading to the customer receiving products with defects etc. All mistakes that happens because processes are not prepared for the increasing demand, thereby making it the number 1 priority to adjust the ability to being capable of scaling according to the demand.

Business model canvas

The following analysis of Shaping New Tomorrow's business model will take departure in the processes that the framework Business Model Canvas describes as drivers of the way a company is functioning. The building blocks will be assessed individually, but at the same time mention important connections to the rest of the building blocks. According to the connection in the nine building blocks the analysis of the case will move towards how the building blocks can be affected and geared to be able to create balance between supply and demand in this specific business situation. Information about the operations and connections that are in this case building blocks, will be based on the insight knowledge of the three CEO's and founders of the company: Christian Aachmann, Christoffer Bak & Kasper Ulruch from the interview.

The insights and considerations of the case will be used to uncover specific actions that can be applied to create balance between readiness to scale and growth.

1. Customer segments.

Customer segments describes as the heart of any business model, as a company without any customer in the long run will not be able to survive (Osterwalder, 2014:20). So the first step to uncover the potential of the business model is to understand the size of the segment that can be interested in the value Shaping New Tomorrow offers. It is simple math that if a large amount of people are interested in the value there is a base to create a large business. But it can also have a negative effect to focus on to many customer segments as it can hinder the ability to really take advantage of the right segments. In this case the company originally assumed their main customer segment was younger people aged between 16-25. But as the company evolved and tested how different segments responded to the value they discovered that the main customer segment was actually remarkably older. After revealing that, the key customer segment changed to men aged 25-35 (Christian Aachmann, interview). Despite that they are still appealing to the younger segment, as well as an older segment all the way up to men aged 70.

Such a large age group provides opportunity to sell products to a large amount of people. To succeed on that it can be essential to understand that different customer segments responds to different type of content. Shaping New Tomorrow are using Facebook marketing as their main marketing channel, which enables them to get a lot of information on exactly which segments are profitable and what kind of content they respond well to. Further the owners have always been hands on with their customers through their store and in that way gained a lot of useful information that have been applied to improve the value to fit the segment's needs (Kasper Ulrich, interview). Customer segments can be a building block that evolves over time, as the company finds new way to attract segments to their value proposition. In order to be scalable it is important to have a customer segments that is significant enough in size to support the ambitions. In this case they appeal to several customer segments and an overall large base of potential customers. This creates a situation where scalability can be reached, if the rest of the business model can support that sufficient value is delivered to the customer segments.

2. Value propositions

Shaping New Tomorrow strives to deliver value to the customer segments in several ways, including both product and service. They have entered a high competitive market, which makes the ability to differentiate essential to get a breakthrough. The idea behind their products is to make stylish menswear products that are remarkably comfortable, thereby offering customers the ideal options if they do not want to compromise on look or comfort (Kasper Ulrich, interview).

If the quality of the products fit the description it can be a strong value proposition as it is solving two problems in one solution. In that way creating more value than the solutions the customer is used to. This value is also the main driver of the content strategy that they are applying. Because one thing is to make a product that creates desirable value to the customer segment, the next is to convince them it is actually better than what they are used to.

Shaping New Tomorrow are an example of how a clear definition of the value proposition can be used to differentiate in the market if it is used as the base of content making and communicated through the right channels. Right from the beginning they were experiencing customers that liked the products when they tried them on, but it was difficult to attract mainstream interest. Then they discovered that by communicating the function perspective of the clothes, rather than the fashion perspective as the rest of the industry, it started to gain mainstream interest across different segments (Kasper Ulrich, interview). Instead of presenting fashionable clothing and explaining how comfortable it is, the content started to showcase the functionality and the fashionable aspect instead became implicit. This created a situation where the customer suddenly became much more aware of the increased value this kind of clothing could supply them. Teece explains that it is a necessity to adapt the value to what the customer wants and in this case that explanation links to how the customer perceives the value. The customer does not always know what they want, before they are shown something that is attractive enough to create a need.

The other part of the value proposition that Shaping New Tomorrow aims to offer is exceptional service. They explain it as the possibility to experience a high level of expertise as well as personal service, no matter if you shop online or in the physical shop (Christian Aachmann, interview). In the physical shop it is more straightforward and concerned with a way of communicating with people. The online communication is also concerned with the kind of conversation type that should be applied, but further than that they also have strategic plans to implement a "real life" shopping experience through an interactive video. The customer will be meet by the owner Christoffer and they will have the option to be shown product categories of their choice and get the expertise knowledge regarding the product explained directly to them (Christian Aachmann, interview).

Part of providing good service is also much more simple and regard things such as fast delivery, easy navigation and pain free returns and size exchanges (Kasper Ulrich, interview).

Overall the value proposition is concerned with offering innovative high quality products while remaining a high level of service to customers. Both these value proposition can be put in danger when scaling the business. It is the rest of activities in the business model that makes the company capable of creating and delivering the value. When demand is rising rapidly and production is trying to catch up it can be with the risk of lowering the quality of the final product. This makes it necessary for the manufacture to hire new people to his facility and outsource to other manufacturing facilities. Both of these situations put a lot of workers who are inexperienced, in regards to produce within the perfect pants standard, to take care of essential parts of producing the product. This increases the chance radically that mistakes will be made, that can lower the lasting time and look of the pants the customers receive. This can cause a spiral that spreads a bad reputation of the quality standards of the products, making other potential customer less likely to buy. This can be done virally or digitally by writing a review on either the Facebook page or on Trustpilot, which is set up to interact directly with the website front page, and product category pants (https://shapingnewtomorrow.dk/collections/the-perfect-pants).

On the other hand, it can have a strong impact on the ability to spread the value proposition, if a strong reputation is spread about the quality standards of the products. This makes other people must more eager to try the product, because they are only faced with other people in their customer segment, who are satisfied with the value that was delivered to them.

The rising demand does not only put pressure on the products value proposition, it also creates challenges in maintaining the same service level. In this case the extreme upwards spike in demand, lead to misinformation on delivery times, and long delivery dates on a lot of sizes in every color of the perfect pants. This can just as well as bad product quality standard lead to angry customers who can share their experience both virally and digitally. Especially through digital challenges, can it seem easy to the customer to complain, as they are just frustrated behind a screen. This can cause small things to trigger public viewable complaints about exactly what they think have been unreasonably. This has Shaping New Tomorrow handled by always informing the customer by either phone or e-mails what the situation is and why their product has not arrived yet (Kasper Ulrich, interview). This way they are not just an “evil” company that has not delivered their product yet. Shaping New Tomorrow especially experienced angry customers, when they were not informed with an explanation of where their product was (Kasper Ulrich, interview).

This highlights how important the relation between value proposition and customer relationship is. If the customer’s expectations are exceeded they will be willing to return and they will provide free and trustable marketing by validating the products to their network. To be able to deliver a value proposition, that meets or exceeds the customer segments expectation is an essential base line to be able to create a scalable business model.

3. Channels

Which channels are applied determines how many people that will be exposed to the value proposition. Shaping New Tomorrow is reaching their customers in several ways, which is necessary to reach a wide customer segment base. The base of the strategy to reach customer is through a good reputation. By giving people an experience that exceeds their expectations, they act as a channel working directly towards new customers. They are properly the most reliable channel that can be exploited. That connection highlights the importance of creating and maintaining a strong relationship to the customers.

Besides using customers as ambassadors, Shaping New Tomorrow are investing in several paid platform to reach customers, where the main one is Facebook. This channel makes it possible to apply a lot of insight to determine whom you want to reach through the campaign. A campaign is setup in Facebook's Ads manager tool. This tool provides accesses to Facebook insight knowledge about their users, which enables you to create very precise segment types. It is possible to specify everything from age & gender, to job type & interests. When the segment is specified it is possible to choose exactly the content, within Facebook's restrictions, that you believe can trigger a desired action. In this case an example of a campaign is where they have targeted men in the age 20-35 years old who works within a large range of branches, such as accounting, banking, physiotherapist, entrepreneurs etc. All people who has an interest in working in a comfortable pair of pants, while being able to maintain the dress code norms within the branch. For that reason they were shown content that related the pants to how great it is to be completely free in movement during the day. This way the channel supports content to be relativity relevant to the segment that is exposed to it. To be better at using this data they decided to hire a Facebook specialist with expertise in optimizing results from the data that is explored every time a new campaign is run (Kasper Ulrich, interview). By getting somebody specialized in the specific field, to optimize the use of data, the results of the input from the marketing channel rose. On top of improving the results, the strategic move was also freeing time in the organization to focus on their strengths (Christian Aachmann, interview).

The learning's from that should be to always invest in professionals if they can gear your business model to make more money than you are spending on them. If somebody is specialized in optimizing something, by using data you are getting, it should most likely be considered as a good strategic choice to go for that optimization. In this way it can be measured if it is bringing more money in than what is being spent on it. If it is something as in this case, where the allocation of resources are high to the channel, a professional should be able to generate revenue that can bring in their salary many times. In an organization like this case, where the founders drive the company, outsourcing time dragging tasks frees up a lot times that can be used to focus on their main skills (Christian Aachmann, interview). Further marketing channels include, adwords, PR and in June a cinema ad (Christian Aachmann).

The channels that are used to sell the products are both digital and physical. They have a website as well as a physical store. Both channels have different advantages. In the physical store the customer can try the clothes on and feel how comfortable it as, while the salesman can have a conversation face to face. This kind of contact provides a good opportunity, to establish a personal relationship to the customer, beyond the products they are buying. It is a service approach that makes them more likely to return repeatedly and thereby increasing the lifetime value. But on the negative side, the physical store only has a limited geographical reach. This means that the potential revenue limited is much lower than on the digital platform. The website has no geographical limited, which in some way makes the potential endless. But it is much more difficult to offer a shopping experience online, in the same standards as what is offered in the physical store. It lacks the elements of being able to try the product, as well as physical service and the expertise that goes along with that.

That makes the online platform something that is very valuable to improve. It is all about making the customer trust that the product is as good as being claimed, providing significant personalized service to meet customers' needs and all the way through make sure that the shopping experience goes smooth (Christian Aachmann, interview).

Running an online business is associated with less cost, to serve a large geographical base of customers, compared to a physical store. That makes it strategically interesting to focus on selling products online, rather than to expand through opening more physical shops (Kasper Ulrich, interview). The strategy is to sell as many of the new products that comes in, as result of the tripling of production and see how much can be distributed online. The plan is to keep up scaling production and as soon as a point is reached where there are more products in stock than what is easy to sell online, they will initiate opening a new physical shop at a strategic location (Kasper Ulrich, interview).

The advantages and disadvantages of selling through physical shops or an online platform are important to consider when attempting building a scalable business model. As seen in this case the strategy to scale can include focusing on both. But it is necessary to take precaution of cash is never abundant. That means new sale channels needs to be balanced, so the company is getting the most out of it assets. It makes no sense to open a new store to sell products, if it puts the company in a situation where they lack cash to buy enough new products.

4. Customer relationships

Customer relationships describes the relation a company creates to it's chosen customer segments (Osterwalder, 2014:28). This relation is essential to exploit a high lifetime value per customer, as well as being able to attract new customers. A satisfied customer can generate great value to the company, whereas an unsatisfied customer can damage the chances of getting new customers. This can be an important baseline of thought, to have when trying to build a scalable business model.

In this case the highest cost, despite production, is the acquisition cost of a new customer (Kasper Ulrich, interview). It highlights the importance of keeping the customers when they have been attracted to the value proposition. The aspect of how to acquire customer and where they have a high acquisition cost is important to consider here. Even though Shaping New Tomorrow are spending a lot of money on attracting new customer, they also get a lot of new customers that are close to free of cost. These are people within the customer segments, who have been recommended the product by peers (Kasper Ulrich, interview). To achieve something that people want to recommend, sufficient value needs to be offered. Part of that is the product and price etc. It is few people that will recommend a product that is not better, cheaper or in some way superior to other similar products. In this case the product impresses most people with the combination of look and comfort (Kasper Ulrich, interview). But to generate strong relationship it takes much more than a good product. So when the goal is to keep customers as long as possible and use them as an ambassador channel to new customers, it is essential to operate on as many parameters as possible that can start and maintain a strong relationship to the customer.. According to Morten Lund one of the main keys to develop a scalable business model is to keep and grow customers (Morten Lund, interview).

When the product is in place, communication is the key aspect in keeping and growing customers. How the customers are communicated with throughout the entire buying processes, no matter what their need is, has a big impact on how likely they are to return. Customers can be very easy, but also many different degrees of unreasonable in what they demand or complain about (Kasper Ulrich, interview). Shaping New Tomorrow communicates to their online customers through phone, e-mail and live chat (Kasper Ulrich, interview). This way is possible for the customer to get an answer back in several ways and Shaping New Tomorrow has different channels they can use to reach their customer, depending on what the message is. If there is a large amount of people who needs to be contacted with roughly the same message emails will usually be the best choice. Then the strategy is to make the email sound like it is written for that exact customer, instead of something that is just copy and paste for everyone. Thereby still keep a personal touch to the communication, which can help to keep the customer. With some customer they choose to contact them through phone. If it is something where there are many different options available and the customer needs to be convinced to take a specific action, phone is an effective way to contact the customer. It adds a more personal aspect than e-mail and can for that reason be efficient to keep the good customer relationship even though the situation is not ideal (Kasper Ulrich, interview).

Osterwalder & Yves further describes this building block as the strategy the company applies to gain customer information. All the data that is conducted by communicating with customers, through all channels, can be used to optimize the value proposition that the customer segments are exposed to. This range all the way from improving products to the segment's needs, as well as how the service they are offered to keep and growth the customer is applied. The way the company tries to create relations to their customers should be adapted to what kind of information they realize the customer demands (Osterwalder & Yves, 2002).

5. Revenue streams

Revenue streams describe the revenue that the company is able to generate on its respective customer segments (Osterwalder, 2010:30).

The Revenue Shaping New Tomorrow are generating is coming through two channels: One physical shop placed in Aalborg and the website.

The amount of revenue is directly linked to the amount that is placed in marketing (Kasper Ulrich, interview). The bigger the ratio can be made between cost of acquiring the customer and the lifetime value of the customer, the more the business model will be geared to scale out of ratio. If one of the biggest costs as in this case is acquiring new customers, reducing that cost has potential to make a significant difference on the final markup. When Shaping New Tomorrow was featured in one of the most shown TV programs in the country, it reduced the cost of acquiring new customers remarkably. Thereby not only increasing the revenue, but also the profit. They experienced what can be categorized as hype. It makes “everyone” want to try the product and if these customers can be kept and grown, they will not only have been cheap to acquire, they also end up generating revenue for many years. In this case they have a customer segment where three generation are represented; Son, dad & grandad (Kasper Ulrich, interview). By selling a minimalistic product, where the need has been there for many years, it increases the potential for a long lifetime value. If Shaping New Tomorrow can manage to master customer relationship a customer can bring them income the rest of their life. This indicates how important it is to think about the value of creating a strong customer relationship, as it has a big impact on the revenue that can be generated.

The past year they have focused on shifting the balance between revenue from the physical store and the website. When the recordings were made for Løvens Hule in June 2017, the balance was composed of 80% of the revenue from the physical shop and 20% from the website. The stated goal in the program was that they a year from that point, the balance should be tipped to 50/50.

Two month ago the store had revenue of 1.642.155 and the webshop 5.910.859.

Last month the store had revenue of 1.323.568 incl. Vat and the webshop 1.154.581. This information is taken from the back end system of the webshop and cash register in the store.

In 2016/2017 (12 months) the revenue was 2.397.390 DKK with a result of 237.688.

In 2017/2018 (7 months) the revenue has been 10.008.792 DKK with a result of 4.296.819 DKK (SNT main number per 30/4/2018). This indicates that the business model is capable of scaling out of ratio, as the profit is rising significantly when the revenue is rising.

The Advantage of the website is clearly that it breaks down the geographical barriers and thereby making the value proposition accessible to much more people, making it possible to make a much higher revenue, without fixed costs increasing significantly. This provides a dynamic that strengthen the business model ability to scale out of ratio.

6. Key resources

Key resources describe the most important assets the company has available in its business model (Osterwalder, 2010:34).

The resources describe the assets that make the company capable of delivering their value proposition to the customer segment. When the company as in this case has increased sales radically within a short time period, and grown beyond the expectations of the decisions makers, it can be difficult to handle such growth if the decisions makers are not fully aware of what the key resources are and what impact such increased demand has on them.

Growing demand has put a lot of pressure on the human resources that were available within the organization. The result of the growing sales means a lot of extra time has to be dedicated to fulfill the orders. To handle the problem the company hired two more full time employees, to free time to take care of other tasks (Kasper Ulrich, interview). Expertise and know-how from the entrepreneurs are the drivers of the company's business model and to maintain improving the business model, it is important that the people with the know-how does not get caught up in mainly doing operational tasks.

Further key resources consists of the store and the website that enables them to offer the product to the customers. This is backed up by stock facilities where the merchandize can be kept before it is sold and office spaces where the daily work is conducted. Resources further covers all services that are used to automate procedures (Christian Aachman, interview).

The resources available to the manufactures, which are key partners, are also an essential part of being able to deliver the value proposition. Those resources are what enable the company to create the product. These resources are affected by decisions made internally by Shaping New Tomorrow, but are outside of their direct control as a key partner manages them. This highlights the importance of working on a strong relationship with suppliers in order to enable a situation, where these resources can follow the requirements from the rest of the business model. If this cannot be controlled it will be difficult to scale.

7. Key activities

The company's key activities are those activities a company has to execute to make their business model function (Osterwalder, 2010:36).

In this case they need to take care of many different activities to create and deliver the value proposition:

The product needs to be designed and communicated to the manufacture. This involves creating drawings with explanation of the details on the product along with a measurement sheet to explain how the product should be sized. It is a constant process of communicating how previous lacks need to be improved to make the product better. Further it includes ordering new quantities to prepare for the amount of pants that are expected to sell the next two quarters (Christoffer Bak, Author and co-owner).

When the products are finished, they need to be sold. This includes selling the product and everything connected to it.

On the website those activities consist of getting the customer information and delivering their product. If a customer call there has to be someone who can answer the phone. All written communication with the customer needs to be answered within an acceptable time frame. The products that are ordered, needs to go from the back-end system of the website, into a sealed package that can be shipped to the customer.

In the physical store there is shorter to the customer and most things can be resolved on the spot. There are fewer activities that has to be performed to deliver the value proposition to the customer. Simplified the product just has to be hanged in the shop and a salesman need to help the customer find the right products and take their payment.

Selling the product to the customer is much more than being able to deliver it to them, it is necessary to perform activities that attract customer demand. To create demand, it is an important activity to make relevant content that convince potential buyers that they want to buy the product (Christian Aachmann, interview).

One of the main challenges, they have experienced by the fast spike of demand, is the issue of not have processes in place to handle the increased pressure. Because there have not been processes to handle it, it has allocated most of the time the entrepreneurs spent to be on operational tasks to handle the situation (Christian Aachmann, interview).

8. Key partners

Key partners are made up of the suppliers and external partners that make the company capable of running their business model (Osterwalder, 2010:38).

In this case, and properly most cases, the supplies are an essential part of being able to create the product that is offered. Shaping New Tomorrow produces all the clothes in Portugal in clusters close by each other. They do not own the factories and is not planning to buy the factories. Instead they focus on creating a strong relationship to the manufacture and get them to push other customers out as the business is growing. The manufactures have many years of experience and it is better to work closely with him and let him do what de does best, and instead focus on the activities where the strengths lies within the company structure (Christian Aachmann, interview). But not owning the facilities can remove some of the control and thereby hold down the business models ability scale. But if control can be achieved, not owning the factories that are supplying the product, saves the business a large cost.

Another partner that is essential to the business model is the developers of the website. It is something that can constantly be improved and the developers are the only ones that can execute upgrades to the website. Before the new website version was launched 3/6/2018, they already previously had 3 other developers. The website is something that should be constantly improved to build a successful online business and even though the website is developed by an external partner, it takes a lot of time internally to find prepare and consider the best options (Christian Aachmann, interview).

To optimize the results of marketing efforts, they have external partners to take care of the marketing channels they apply. The most important marketing partner is the guy who takes care of the Facebook marketing, who funny enough calls his company Marketing Guy (Kasper Ulrich, interview). He uses data to optimize the result of the campaigns, which frees up time to focus on creating content for the ads (Christian Aachmann, interview).

In the case of Shaping New Tomorrow key partners are used to get more specialized people to take care of technical tasks, thereby improving the results while freeing up time to be spent elsewhere in the business model. This means that key partners can be an effective way to improve processes that improves the capability to scale the business model.

9. Cost structures

The cost structure describes all the costs that are in the business model (Osterwalder, 2010: 40). The main cost in this case are the cost connected to producing the product, being capable of delivering the product and the cost of attracting customers. The amount that is spent on making products and placed in marketing efforts has a direct effect on the size of the revenue. The lower the cost is to create the product, acquire customers and deliver the product to them, the higher the markup will be.

To achieve exponential scalability, it is necessary to be able to generate more revenue without the cost following close to linearly (Lund & Nielsen, 2015).

In the case of Shaping New Tomorrow the cost of serving a new customer is lower than the revenue gained on a customer (Kasper Ulrich, interview), thereby opening up for the possibility to create a scalable business model. But if too much money is spent on acquiring new customer, instead of gaining revenue from the customers that can be served, it decreases the exponential scalability of the business model.

OGbets

OGbets was originally founded on the idea to make a platform to bet on E-sport. This idea the two founders Kåre Hyttel & Niels Bak started to work on 4 years ago. With that idea they managed to get several investors on board, which gave them ressources to follow through on the idea.
The process of creating a website that was capable of handling betting activity, turned out to be a very long processes with a lot of regulation that needed to be taken care of (Kåre Hyttel, interview). That in top of creating a complex product, that could calculate the probability to make money of betting, turned out to be a time consuming task. In the process of creating the platform they experienced many times, that they thought they were almost done, just to see the deadline be extended again and again because of unforeseen circumstances (Kåre Hyttel, interview).

When they initiated the idea, Esports betting was something that very few sites were offering, but in the meantime as they were developing their platform, several of the large betting providers began to offer the possibility to bet on Esport. This made it necessary to change the original value proposition. In the original value proposition they were offering odds on a range of esport games. the idea was a classic betting platform focused on esport. With help from the their investors they

made a pivot from the classical betting platform and started to focus on skill games (Niels Bak. interview). Skill games means that it is games where the users play against each other. The winners or winners' prize will be calculated from the price each contended has paid to enter the game and OGbets would take a small percentage in fee to host each game (Kåre Hyttel, interview). It is basically like playing poker online, but instead esport themed games.
By changing the value proposition this way, they removed the risk of running out of capital if they would hit a bad streak of customers winning on their bets. The new approach created a good structure to create a scalable business model. Serving more customers would not cost them any extra (Kåre Hyttel, interview), but only increase revenue. At the same time more customers would make the website more interesting to enter, as it would be easy to join new games all the time. (Niels Bak, interview).
But while having a lot of customers could create a positive spiral of interest and revenue, the website would be very boring without a decent amount of users, because there would not be games available to play when the need is there.

After three years of work they launched the OGbets platform. When they launched they experienced that the acquisition cost in the industry was very high (Kåre hyttel, interview). That put them in a position where they had a platform that was ready to service a high amount of customers, but it was very expensive to create the demand. Most of the ressources had already been put in developing the platform, which left limited resources to create demand. Before they were able to create a significant amount input on the demand side, they ran out of cash, and had to close down the business.

OGbets business model

The following analysis of OGbets business model will take departure in the processes that the framework Business Model Canvas describes as drivers of the way a company is functioning. The building blocks will be assessed individually, but at the same time mention important connections to the rest of the building blocks. According to the connection in the nine building blocks it will be analyzed why the business model was not able to survive. The analyses seek to cover information that can be useful to creating a lasting scalable business model. Information about the operations and connections in this case building blocks, will be based on the insight knowledge of the two founders Kåre Hyttel and Niels Bach.

The insights and considerations of the case will be used to uncover specific actions that can be applied to create balance between readiness to scale and demand.

1. Customer segments.

Customer segments describes as the heart of any business model, as a company without any customer in the long run will not be able to survive (Osterwalder, 2014:20). The main customer segment that OGbets was targeting are people who play video games on a regular basis, which will be referred to as “gamers” throughout the project. According to Kåre Hyttel, their primary market segment were people who enjoy games like themselves, therefore they believed that the value proposition OGbets delivers will satisfy the needs of their customers. According to the preventive strategy that was mentioned in an earlier chapter, a lean startup method would have allowed them to diminish uncertainty through customer development. This way their initial hypothesis could have been tested to see whether or not the main customer segment is validated. Furthermore, additional information could have been gathered about their customer segments like: age, gender, financial status, etc.

2. Value proposition

Their value proposition was built to appeal to the customer by being entertaining. OGbets were offering a different way of gambling trough skill games. The customers could play against each other, making it into a fun activity to pass time, with the opportunity to gain financial reward. The games that could be played on the platform, were games that could not be played anywhere else. Thereby the value proposition was to some extend unique to their platform. If the customers thought the games was both fun to play, as well as getting the thrill of being able to win money, there would be a pretty high incentive to use the service. But in order to unlock the value fully to the customers, it was necessary that games with interesting stakes, were always available to the customer. If the customers have to wait too long to be able to play they will not be entertained. A solid user base would therefore be necessary to exploit the value proposition.

3. Channels

Channels characterize how organizations communicate and reach their customer segments in order to deliver the value proposition. According to the founders of OGbets the main channel used

by them to reach their customers were 3rd parties related to the Esports industry. This channel turned out to be an expensive option, therefore the resources allocated for it were limited.
The Facebook channel which is used with success by SNT to gain brand awareness and also online sales was not an option for OGbets, due to Facebook regulations.

One cheaper alternative for reaching new customers could have been implemented by integrating a strategy from which their early adopters would act as ambassadors in order to reach more customers. Strategy that was pursued by SNT as well.

Given the business model of the company a physical location would not have been the right channel. The founders engaged in a mix of direct and indirect distribution channels which allowed them to reach a relatively large number of potential consumers, but due to limited resources and unbalanced allocation, the conversion rate of paying customers was low. Being a platform where the more users are engaged the better the value, in a moment where not so many customers are playing it becomes unattractive for the other customers as well. (Niels Bach, interview)

4. Customer relationships

Customer relationship allows the organization to get, keep and grow their customer base. One of the most important elements of keeping and growing customers is through strategies that focus on customer relationship (Martin Lund, interview). According to the founders of OGbets, a strategy which concerns how to get new customers and keep them was not implemented since most of the focus was on building a great platform. This was not a concern until the very last moment and it was too late. Linking to the channel previously mentioned, where early adapters could act as ambassadors, a cheap alternative to get new customers could have been by implementing a referral system, which would incentivize the users to invite new players. This way the older users would receive tokens or the equivalent of a financial amount which would motivate them to not only invite more people but also spend those tokens in the game.

5. Revenue streams

As seen thus far, revenue streams describe the income that the company is able to generate from its customers. The only revenue stream that OGbets was implementing was fees gained from every player who would engage in a playing a game on their platform.

Even though the firm reached a significant number of potential users, the customer acquisition cost for each one of them would have been too high in order to have a positive life time value, even less a positive cash flow.

6. Key resources.

The main key resources that OGbets possessed were the human and financial resources. The human resources originates from their knowledge and capabilities to build a platform which was new at the time. In joint with the financial resources obtained from the investors, these formed the main resources of the organization. Most of the resources they had available was spent to build the platform. When they approached the investors, 3 years before launching, they presented a marketing plan, which they later realized was not sufficient enough. But the investors kept referring to that as what they should be able to use to attract customers (Kåre Hyttel, interview).

The investors encouraged them to use resources in a certain way that fueled an unbalance between readiness to scale and demand. For example they spend 7.000 Euros on creating a holding company in the Canary islands, that did not create any value to them in the end (Niels Bach, interview).

7. Key activities

Key activities describe the core tasks which a company must accomplish in order to reach its business objective. The main activities that OGbets was relying were research and development of the product. As seen in key resources, the limited human capital did not allow enough focus on other key activities. It has been observed limited marketing and sales activities, but due to the lack of intensive processes and routines it is difficult to consider them as key activities.

8. Key partners

Firms engage in partnerships with external parties in order to optimize operations, reducing the risk of a business model by focusing its main resources on the core competencies of the company. OGbets partnered with gaming tournaments which gave them the chance to gain new customers through strategic alliances. This way the company had the possibilities to focus on their key activities and relied on their partners to bring them new customers. This partnership was beneficial to an extent, because they did get more exposure to new customers, but as analyzed earlier this was not enough to convert them into paying customers.

9. Cost structure

The cost structure describes all the costs that are in the business model (Osterwalder, 2010: 40). In this case there was a lot of cost connected to building the final product (Kåre Hyttel, interview). This ultimately meant that they ran out of cash to fast, when they reached the point where they had to sell the product (Kåre Hyttel, interview).

On the finished platform the cost of serving a customer was very small. It would have almost the same cost to serve 100 customer as 1000 customer (Niels Bach). This is a dynamic that is very desirable to create a scalable business model. But in to the equation also comes the cost of acquiring new customers. In this case the acquisition cost of customers was much higher than expected (Kåre Hyttel, interview) which ultimately led to the business model not being able to survive.

Cross analysis

Interview

Through or case studies it was explored what the key factors of the failure in the company's scaling attempt were as the co-founders of the company viewed and presented them.

The interview with OGbets presented what could be identified as six main issues that led to the inability to create a scalable business.

1. Investing money in scalability readiness and expecting demand.
2. The flow from scalability to actualization was not prepared
3. The higher dynamic scalability capabilities caused focus on creating scalability readiness
4. Lack of preparation on creating demand
5. Lack of business experience
6. Scalability is seen as a necessary cost and taken to perfection, while demand is only done with what you have left.

The interview with SNT presented what could be identified as six main issues that led to an inability to exploit the full potential of the demand that occurred.

1. Investing in creating demand and catching up with scalability readiness
2. Too little flexibility in increasing the production levels
3. The higher dynamic scalability capabilities caused focus on creating scalability readiness
4. Lack of preparations in processes
5. Lack of business experience
6. Lack of available data to budget from

The first issue in the case studies is that both companies invested highly in either scalability readiness or creation of demand in order to move the business forward and then expected to follow the automatisms of the other side to catch up.

The second issue deals with the flow in the companies from scalability readiness to demand and vice versa, where OGbets did not include the flexibility of being a start-up with the necessary flexibility in scaling, which presented itself in the lack of awareness of designing a business model that matched the scalability readiness with an attractive enough market and demand.

Meanwhile SNT had a target group with high demand but did not have access to increasing the scalability readiness and produce enough products to match the demand.

The third issue was in both companies that they focused on the part of scalability in which they had the best dynamic capabilities and thus neglected the other part.

The fourth issue relates to the lack of preparations for when or if the scaling process would succeed. Neither OGbets or SNT had planned processes on how to deal with the opposite part of the framework than what they focused on when or if they would experience success in their efforts.

OGbets built a large system to handle multiple customers, but was not sure how to exploit the value of these to the fullest potential and might have identified further challenges if they would succeed. SNT was not ready for the extreme demand on the website, in the production, in customer service and in delivery & packaging and had to make a quick fix in a short period of time.

The fifth issue was that when both companies experienced difficulties they did not have much business experience to draw from and thus already having the knowledge of what to do in certain situations, which could have resulted in other outcomes.

The sixth issue is difficult to find a comparison in, as OGbets issue relates to an organizational culture and management of the company, while SNT's issue relates more to the organizational situation and setup they had, where they could not make an accurate budget to forecast the effect of the changes.

By comparing the main issues that created the imbalance that led to an inability to exploit the potential of either the scalability readiness or demand there is found a clear correlation of the imbalances in dynamic capabilities which in turn again correlated to the choice of strategy.

Development of propositions

From a cross analysis of the literature review and analysis it is possible to develop various propositions which could help solve the problem of the paper.

1. A company's scalability is dependent on its organizational setup and dynamic capabilities
2. A company needs dynamic capabilities for creating scalability readiness and demand when scaling
3. A company's scalability is created from scalability readiness and demand
4. The business model can be designed for scalability by being a strategic guide for developing the necessary dynamic capabilities in the organization.
5. An imbalance between scalability readiness and demand will add extra costs
6. The business model can be designed for scalability by being a strategic guide for creating an optimum flow between scalability readiness and demand.
7. Change management is needed to implement the needed design changes in the organization, the business model as well as in the creation of scalability readiness and demand.

Development of framework

From the propositions it is possible to design a framework which can provide an overview for users to more easily understand the relations and aspects of the propositions.

The goal of the framework is to realize the balancing of scalability readiness with demand through dynamic capabilities and the business model, so users are able to answer the research question: *"How do you design the dynamic capabilities and the business model for scalability?*

The design of the framework included material from other models such as Teece's *"simplified schema of dynamic capabilities, business models and strategy"* as well as known relations between literature.

It was taken into account that the framework is not a completely detailed guide, but an overview of a structure or system that can show how to reach the balances and capabilities needed to reduce the risks and costs of scaling the company. Each organization is different and the framework should therefore be both designed as and seen as a guideline for how the system in the organization works in relation to scaling processes.

The framework

The seven propositions from the studies presents itself in the framework: *"Balancing scalability through dynamic capabilities and the business model"*

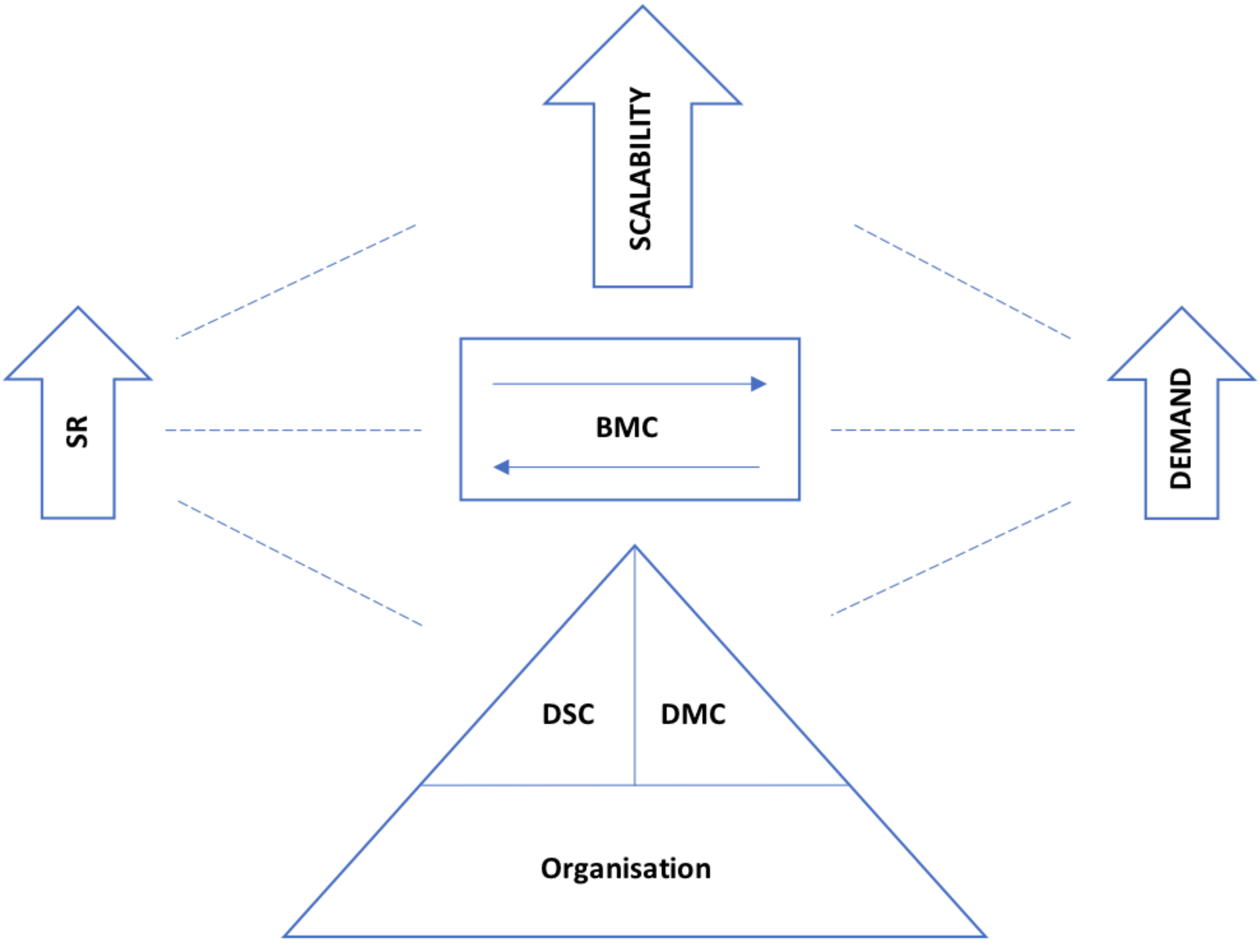


Figure 11. Balancing scalability through dynamic capabilities and the business model

The first part of the framework is the organization with its dynamic capabilities. The dynamic capabilities have been divided into two categories by defining dynamic scalability capabilities

(DSC) and dynamic marketing capabilities (DMC) as separate in order to provide a more detailed overview.

The dynamic scalability capabilities are closer related to the left side of the business model canvas and also influences the scalability readiness (SR) or the creation thereof while dynamic marketing capabilities are closer related to the right part of the business model canvas as well as demand. The division of dynamic capabilities are hence very usable when it comes to understanding the complete system of how to balance the scaling process.

The 2nd block in the framework is used to provide a factor that can connect the scalability process with the organization and dynamic capabilities further. The business model canvas (BMC) is foremost used due to the structure which mostly defines scalability readiness and demand as separate areas in the business model and secondly as it is one of the most used models that is known, validated and tested in both literature and in companies.

From Bondi's (2000) description it is known that the business potential when scaling depends highly on the flexibility of an entire structure or system, also known as organizational agility. This agility is what helps the company innovate the way they are able to deliver value to customers (Christopher and Towill, 2001; Boden, 2004) and is thus directly linked to not only scalability readiness and demand but also the dynamic capabilities.

The arrows in the business model canvas represent the flow of being able to deliver value to the customers and the effect that scalability readiness should have on creation of demand in order to create balance and vice versa.

When using this models for change in one or multiple blocks in the framework the relations between the blocks and potentially certain factors outside of the framework will also be affected. To control this entire process it is therefore recommend a strong focus on change management when implementing changes based on this framework and its end goal.

Assessment

The framework applied

Shaping new tomorrow

The system of Shaping New Tomorrow business model have faced a lot of pressure due to a significant rise in demand within a short time period. This pressure has made it necessary to triple production capabilities just to meet the current demand (Kasper, interview). But that is connected to a time period and while waiting to have enough stock, a lot of the processes as analyzed in the business model, needed to be improved in order to capitalize on demand, without damaging customer relationships to severely. This situation has put the company in a situation where time is a scarce resource as all time is spent on trying to fix the situation to reach some sort of balance again. Each founder has different "hats" on in the company, while they also have designated roles of responsibility. Christian who is in charge of creating content, tells that he has barely created any new content for the last 2 months, as all his time has been put in to work related to handle orders (Christian Aachmann, interview). It puts a lot of focus other places than creating value, which is of course not an ideal situation when aiming to evolve the company. First of all these processes surrounding customers' orders needs to be optimized to handle higher demand and from there on a lot of time can be freed by hiring new employees. But every time a new employee is hired it is an increase in fixed cost. Therefore it is in the company's interest to not over hire people, which could be a result of panic that naturally can occur in a situation where demand has risen out of control. The whole situation of growing out of control can create a dangerous path if the demand curve should break at a lower point than expected (Morten Lund, interview).

The business model is used as an overview of the system that makes the company capable of doing business. The assessment seeks to uncover how the activities in the system can work together to prepare small/medium companies to scale.

In this case the company deliberately chose to use pre-orders to capitalize of the exploding demand that occurred (Christian Aachmann, interview). This made sure that they gained a lot of revenue fast, but made it very difficult to sustain a good experience to all customers (Kasper Ulrich, interview). The customers experienced delay on their promised deadlines, because activities were not in place to serve that the merchandize was not in stock to be shipped right away. This put the customer lifetime value in high danger, but was to some extend solved by calling customers personally to explain the situation (Kasper Ulrich, interview). This shows how treating the customer relationship in the right way and being transparent about issues, can help to keep the value proposition high, when faced with abnormal situations.

A preventive strategy in this case needs to minimize the downsides of not being able to supply enough to meet the demand, without risking spending all the liquidity on costly efforts connected to the supply side. The idea is create balance between readiness to scale and growth, while preventing the balance to tip in the other direction. This could be a pitfall in this case. If they keep investing in the supply side, from obscure predictions based on the current rise in demand, it could in worst-case scenario lead to bankruptcy. On the other hand they also need to be able to capitalize well, if they are able to keep growing the demand.

This makes pre-orders an interesting strategy. The problems they faced with this strategy earlier seem to be mostly due to lack of the right processes. If the right processes were put in place a pre-order strategy could help prevent ordering to many products and thereby misallocating a lot of important cash flow. Further if the right processes are put in place, all the way from manufacture to the way the customer is ordering the product, it will always be possible to keep what is promised to the customer. On top of that, the internal activities that are connected to preparing the order, from the back end system to the physical handling of the merchandize needs to be in control (Christian Aachmann, interview). This is how the business is capable of actually getting the value delivered to the customer. With a well-functioning pre-order strategy it is possible to explore on the growth side without investing too heavily all at once in readiness to scale. This does not mean that the company should aim for constantly having pre-orders, instead it should be considered as a strategy that can be applied when the future growth is hard to predict. By applying a pre-order strategy it minimizes risk of over estimating future demand, while still allowing planning for significant growth.

The strategy takes Morten Lund's considerations of the dilemma that can occur when attempting to scale. On the structure side you should never say "yes" if you know you can not deliver, but at the same time the customer will also get angry if you say "no" to them (Morten Lund, interview). By applying a well-functioning pre-order strategy, it is possible to say "yes" to the customer, while knowing it can be delivered within the promised timeframe.

OGbets

It is clear that the allocation of resources had a big impact on why the business model failed. It can be argued that they were always abundant of resources to reach a point of scalability. But with that in consideration, the assessment will use the findings from the paper, to suggest how they could have applied a different strategy that could have led to another outcome.

Most of the resources they had available was spent to build the platform. This created an uneven balance between investments in readiness to scale and efforts that could create demand. A lot of the activities included dealing with legislation demands, that needed the right set-up to be in place (Kåre Hyttel, interview). This of course needed to be taken care of before the business model could begin to make money. But while time was being spent on preparing the finished platform, it could have made sense to already look at which efforts could be prepared to create demand. By creating an MVP of their value proposition, they could have started to create demand before their final product was finished. An MVP is an active prototype, that exposes customer to the value proposition, before the final product is finished (Ries, Eric , 2009).

By applying an MVP strategy, they could have gotten closer to a balance between readiness to scale and demand before it was too late. The MVP could have consisted of one or two skill games that they wanted people to play. The service would not have allowed people to actually play with real money, but allowed people to try the games and make them aware that in the future they would be able to make money out of this, if they were good at playing. They call it skill games and the MVP could aim to fuel the interest of gaining skills within the games. If they could have started to gain a small customer base, who enjoyed playing the games, they could have been used as a channel to new customers. This could have been done by giving all users of the MVP 10 Euros to play for when the final platform launches, if they invited 5 friends to sign up as users.

Then when the final platform was launched, there would already have been a group of users, which would ensure that new visitors did not enter a website where most games were not active. This could be one of the big reason they did not manage to generate sufficient demand, as it can be difficult to acquire customers if they are not exposed correct to the value proposition. In this case the amount of customer was directly linked to the value proposition new customers was met with.

Lack of testing on how to attract the customer segment, can also be seen as one of the reasons why the business model failed. The above is one suggestion, to a different strategy that could have been applied to create demand. It could have worked and it might not have worked. But by approaching customers early, they would have generated valuable knowledge, that could have been used to create a well-functioning strategy to attract customers.

Applicability in the case studies

Even though the cases are very different, it is possible to see some similarities, that can be taken into considerations when attempting to build a scalable business model. In both cases it can be seen that an uneven balance between readiness to scale and demand leads to limitations to exploit the potential of the business model. But despite that the cases have been faced with two opposite situations in lack of ability to exploit, the strategy to improve somehow build on the same principles.

To exploit the potential, when there is an uneven balance in the preparation to reach scalability, a strategy can be to offer something that does not exist yet. In the Shaping New Tomorrow case a pre-order strategy could be applied, to convert the demand into revenue, without actually having the products in stock. In the OGbets case it was too late to create sufficient demand when the final product was already live. To overcome that, a solution could have been to offer an MVP of the product, to create demand earlier on the processes. In both cases the strategic initiative is based on offering a teaser of the product, to either expolit the demand or explore the demand. If the case is that demand has grown out of proportion, the strategy should be to exploit the demand, with the resources available at the time, which can be done through a pre-order strategy. If the business model is time and resource heavy to build, an MVP can be used to gain a customer base early on and ensure there is a demand towards the business model when launching the final product.

The ability to grow a scalable business model is heavily linked to the ability to keep and grow customers. When competition is high, as seen in this two cases, it can be expensive to acquire new customers. If these customers are used to generate more customers and has a high lifetime value, it justifies a high acquisition cost. In the case of OGbets they did not apply any strategy to use their customers as a channel to more customer, neither did they do specific efforts to create a strong relationship between them and the customers. On the opposite Shaping New Tomorrow are using the relationship to their customer as one of the drivers to increase revenue and gain new customers. This way of operating with strategy ensures that the cost of new revenue is always decreasing and thereby making the business model more capable to scale out of ratio.

Ability

Through the findings and analysis it was found that the suggested framework is able to provide an overview of the structure which a company should aim to balance if they desire to minimize the risk and added costs of being imbalanced when scaling.

By creating the connection from scalability readiness to demand through the business model, the framework is not only able to showcase how to design a business model for an optimum flow of delivering value, but also which capabilities are required within the organization.

From this framework, companies are thus able to have a more solid foundation when it comes to decision making and can more easily determine how to build the company structure and what strategies to choose.

Limitations

The framework is able to showcase the relevant factors and connections that should be used when scaling, but does not contain a specific strategy suggestion nor clear guide on what activities to carry out and how.

As organizations and business models are created in many forms and structures and often is intertwined in networks and the entire business environment, this paper only focuses on what capabilities the organization needs and not how it acquires it. Any company can thus use this framework no matter how their business is structured and what setup, capabilities and resources it has, but should still mainly seek to in some way acquire a way to have the needed capabilities for creating balance when scaling.

Further, as it could be seen from the literature review that business models are far from rigid and the left side of the business model canvas does not only focus on scalability readiness, as well as the right side neither focuses solely on demand creation. Therefore it is important to take into account that this framework is not to be seen as a rigid one-truth solution, but that it allows and recommends different setups to accommodate the different challenges each company is presented with.

From the cross analysis it can also be seen from the two cases studied that both seemed to focus on the dynamic capabilities, where they were best and would then expect the opposite side of the framework to catch up automatically, instead of viewing the scaling process as a simultaneous process.

Comparison

In comparison to literature about exploration vs exploitation where an organization decides the framework provides an overview that guides the user to identify the importance of balance in the organization’s scalability readiness and demand. It is thus not used for knowing when to invest and when to optimize for profit, but rather knowing how to scale the company with minimum risk.

Future research

Due to research limitations that are presented in the conclusion of the paper and the developed framework needs to undergo further research.

The framework is highly likely not complete and might need either additions or corrections. For it to be validated there needs to be found a method on how to test it in real life scenarios and in other settings than from these two cases as well as analyzed more in depth by people with more expert knowledge on the area.

The geographical setting might have influenced the level of knowledge, cultural behavior and business environment and therefore it is possible to suggest for future research to go beyond the geographical area of Northern Jutland.

The cases were furthermore used in an explorative manner and the framework should therefore be tested for validation and possibly to quantify and thus prove the propositions.

The actual factors are identified in the relations between building blocks in the framework as relevant for further research in order to both validate the relation and define the various factors and their relevance as this knowledge would strengthen the foundation for the user's decision making.

Furthermore, different organizations have different levels of data availability, working cultures and rigidness which can also have relations on the usage of the framework. This was not a part of the scope of this paper due to the research limitations, but could most likely be introduced in the evaluation of the framework.

Conclusion

"How do you design the dynamic capabilities and the business model for balancing the scalability?"

What can be concluded from this research is that there is no singular answer for an organisation to follow, since organisations are vastly different from each other and operate in different business environments, where business model type, size of the company, industry and market all have big impact on how the specific design of dynamic capabilities and the business model should be in the individual company.

The problem of balancing scalability appears in various ways and is experienced differently depending on the human factor, the processes and setup of the organisation.

The review of literature and analysis of these findings made it possible to develop seven propositions regarding what parts in the company, from both the perspective of strategy and innovation, are relevant for a successful or unsuccessful scaling.

The propositions are that a company's scalability is composed by scalability readiness and creation of demand and in need of a flow to actualize the potential created in either part, e.g. through a business model or organizational processes.

Furthermore, this paper proposes that a company's scalability dependents on its organisation and especially the dynamic scalability capabilities and dynamic marketing capabilities, since it was observed saw a direct relation to these in the choice of strategy and subsequent consequences in both of the case studies. From combined literature knowledge, it is also seen a relation between dynamic marketing capabilities to the right side of the business model canvas as well as to creation of demand while the dynamic capabilities in general also includes the capability to create the scalability readiness factors, which you may often find in the left side of the business model canvas.

It was also found that imbalances lead to extra costs and that the imbalance seems to be a cause of lack knowledge and understanding about which processes to control when scaling.

Through this it was developed a framework which can operate as a strategic guide for companies actively seeking to scale and that it is able to provide the users with an overview of the structure and relations that should be taken into consideration in order to minimize the risk and added costs of being imbalanced when scaling.

By clarifying the aspects of the business needed for a successful balancing when scaling, the framework shows where capabilities are required, how the relevant areas of the business can reach balance and thereby support decision and strategy making.

The framework is though limited by its inability in itself to provide generalized suggestions such as strategies or uncovering the specific relevant factors in the specific areas and should thus be used only as a strategic overview.

Perspectivation and implications

The paper deals with the context of scaling companies, however it might also be relevant in the context of decision making in business management as a whole. Most companies are not in the same process of scaling as it is defined in the paper, but in one way or the other, all companies need to balance their readiness to supply and the creation of demand in general.

The framework could thus implicate that there is a similar problem and solution in companies who are not only looking to scale on a larger level.

An interesting aspect would have been to look deeper into the reasoning why companies do not actively use strategies from literature besides the literature of strategy under uncertainty, as this showed to be an essential part of the analysis that could easily contain more valuable knowledge to add to the propositions.

The human psychology, motivation, organizational culture and much more could be of relevance when it comes to both the ability to make and execute strategies and change and could furthermore be factors relevant to the scaling processes that should be taken into account.

The main context that it was not researched was how these propositions could further develop in larger companies where the organizational setup, processes and challenges must be expected to be vastly different, but nevertheless likely still applicable to the framework.

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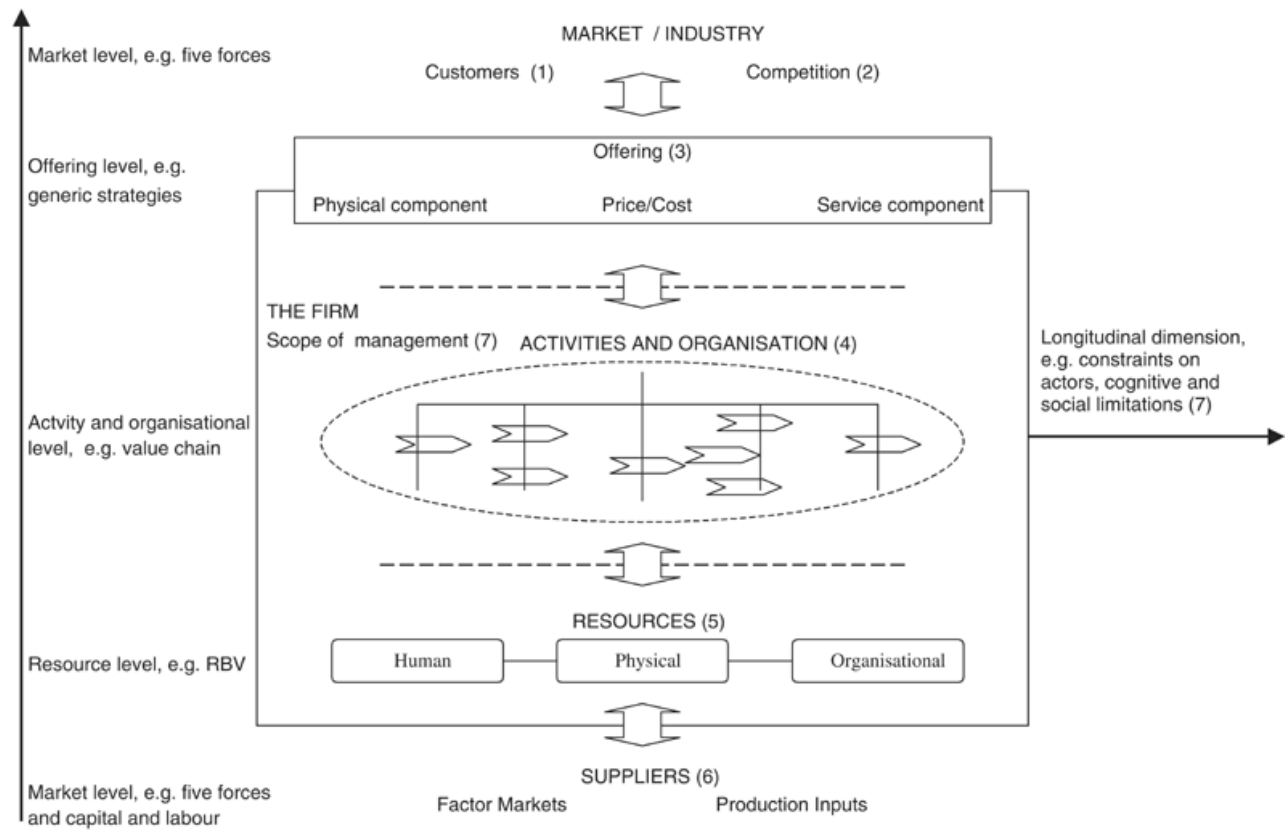
Appendix

Hedman, 2002



Hedman, 2002

SNT – key numbers

SNT - key numbers		
	2017/18 7 mdr.	2016/17 12 mdr.
Omsætning	10.008.792	2.397.390
Resultat før skat	4.296.819	237.688
Egenkapital	3.999.269	191.679
Total Aktiver	7.574.500	1.068.384

Revevenue

Result before taxes

Equity

Total Assets

Software transcription of OGbets interview

[00:00:01]

The balance between growth and being able to scale. So on one side we will have the case of IS and see where the business model and you basically have the resource side and you have all the marketing and channels and this is part and what happened to SNC was that we groomed much more than we were ready to, which creates a lot of problems because everything is not equal ready to scale. And in your case the exact opposite happened you built it. As I recall it the perfect engine to to actually scale in. But you never reached a point where you actually had had to grow. So the scaling engine ran properly.

[00:00:58]

Do you agree?

[00:01:01]

Yes.

Yeah. So we will just ask you some questions how you built that and what.

[00:01:14]

What what happened and why it ended up collapsing. And of course a lot of the questions will also just be questions because we need to hear some things that we can put into the theory that's surrounding the VX scare investors organization.

[00:01:39]

Okay.

[00:01:40]

So first is the situation in perspective and Kim, how many people were in the company why did you make that and common sense as well.

[00:02:06]

Yeah.

[00:02:13]

Okay. Sorry Neil Nilsson you know what.

[00:02:22]

Yeah we got working on the project.

[00:02:26]

We had.

[00:02:31]

So and that's that's why Nevada is also consulting and stuff like that. So we're not on our own completely but I think officially only 2.

[00:02:44]

Okay. How much did the investors put in.

[00:02:51]

I think we were meeting with them and we also had a meeting in Copenhagen. So I would. Say that they didn't really have put time into it. But I would. Say something like 2 3 hours as we.

[00:03:16]

Said in any strategic level wasn't that much.

[00:03:21]

Actually the thing was I think it depends on the time.

[00:03:27]

Sometimes they really engaged at times if they were not so much. So I think at times they did.

[00:03:39]

Again.

[00:03:42]

And how did they contribute. Was it mainly how to spend your money and strategic level.

[00:03:58]

Know that much about the industry so it was you know solving approach for negotiation.

[00:04:11]

So they are also asking about disclosure and sand and stuff like that so it's more general business. OK not so much detail money management rights. I don't agree.

[00:04:35]

Do you feel that. Of course the money goes to the moon and then this is also like perspective. Do you feel that because of that that they had a role in why running the company and that's why the company was. Built to burn services to say don't misunderstand it because of course it wasn't built to burn. But there is this line if you know if you build a company only running on cash flow then you. Always know what's coming in and what's coming out. So do you maybe feel that this set up with the investors well we're part of what what went wrong.

[00:05:25]

I have one really big issue with investors and the decision they wanted and that was creating a holding company on a Corsaro that holding company cost us I think six thousand euro to create. And then also I had some running costs. So it was really expensive and the company itself the holding company is of good use for anything.

[00:05:50]

And those chips of money could have been years from marketing and all stops to maybe improve our chances and actually breaking even at some point.

[00:06:01]

So I think that legally that's a good thing is the biggest issue I have had with the investors during that time is it makes sense.

[00:06:12]

Why did they want to have that.

[00:06:15]

I think I think mainly because they were thinking if we can get profit from this at some point it's good that they have the holding company so to manage the money. So for be because I had the head in the company of companies that they had investing in us.

[00:06:31]

Were also for mining companies so I think that the company the company structure was built around that.

[00:06:41]

And the purpose for it was when are we getting when we're reaching profit margins. It will be easier but it just held us down so much. And so I think that was a bad to private preservation of the money.

[00:06:59]

Were already thinking about profit before you even ready to make it happen.

[00:07:04]

Yes exactly. It's very good.

[00:07:06]

And investors would give us a slide because I've seen that before.

[00:07:13]

OK here we have a nice investment that we can earn some quick cash on and more ready for the long term commitment to your projects. So when we realized okay we actually need a lot of resources and know how cash Sidrah to to make this project a success the kind of that's that's what I experienced the piece.

[00:07:39]

Happily we had one. One possible agreement with Cambuslang that was really promising and could have turned the tide. But they went up ready for tags to tag it because it was quite a Spencer but I think what was witnessed titans Lumad annoy we were getting what was was tightest and pass them on to some type of storm the sport organization that has several professional teams and so different games as well as SAP platform. I know. It's hard stone to have a quite big platform so that that person. Is pretty big player within the sports scene was it was it could possibly have.

[00:08:28]

But I think that they possibly quite a lot lies and maybe more importantly also is trust base because when you see a company like tempest on news you always you it's it's like a market that says this good for this company you can trust them. And I think that's also one of the big issues we had was trust because basically got cut and I said a lot of you have to be we've got to think for five on the USS but of many trust that money because I think that they didn't know this a smaller company.

[00:09:09]

Can we trust this company with our money and so on.

[00:09:14]

So I think that that deal with them really have hope that God did the deal with Tim Stone that that cost much more than 7000 euros 7000.

[00:09:32]

Was that would you paid for the holding company. Okay so you compare it to the.

[00:09:41]

Same amount of time negotiating we did this and most of them on the deal.

[00:09:47]

And I figure this should be the deal was like he found something of marketing and endorsements and putting it up to what was happening was twelve thousand U.S. dollars.

[00:10:03]

I can't recall but that doesn't sound too real.

[00:10:08]

And my feeling was a great deal of us as I said before the business weren't ready for it so yeah at that point it became serious and actually negotiation with syas symbolist on sending the draft contract again. And I'm very happy for both of you.

[00:10:28]

OK this is what we're going to do to get out of this. So. And I remember showing the contract to the investors and they kind of just threw it on the ground because they thought that the contract was the work of an amateur.

[00:10:46]

I remember one of the races go on telling me that and also that they didn't want to do it anymore. And the funny thing is that a couple of months after a similar storm made a deal with us.

[00:10:59]

What's happened is I mean I think there are several billion dollars in debt to be not so kind of bitter about that one. Bush it is what it is.

[00:11:12]

And when he said it wasn't professional it was how it was done had drafted the deed of wording and blankets used in the contract.

[00:11:27]

And they are signed up as well. And whatever the team was made some of them gap. But they did deals with this.

[00:11:35]

And you know that's pretty crazy. Is this something absurd about wanting to spend 7000 in a holding company in L.A. and not wanting to spend approximately the same amount in marketing to actually. Yeah yeah yeah yeah.

[00:11:56]

Also less cost management I think. I think it's helpful was. Making. That so much insight.

[00:12:11]

Yeah. OK listen let's move on then before everybody becomes too set in how we clearly were the rules you had defined nominee between the two also.

[00:12:36]

Yes.

[00:12:37]

Also with the investors the whole center OK would be a with roads were very clear from the beginning because when I initially got the idea I knew that I had some capabilities to make it work but I couldn't do it without a guy like nails. The thing is that in order to have a company like this you need to have some degree of ethical land. So you know how we still says while I work as a driver hands and taking care of the operation and concept development.

[00:13:19]

So in that regard I think the most of the signs for the plus side and the volatility and also the guy told me how to use the system when we got it. Got to leave it to us what we had.

[00:13:39]

OK. It's all on this. Some residents are the guys that initially got some contact with business groups in Israel thought that big compared to the others.

[00:13:55]

A legal background so he advises some legal matters go on wearing these believing he industry so he was advised of some some technical aspects for the project but Costilla says they did not know very much about the industry. And finally we hedged.

[00:14:17]

So was he the guy who won was that the guy who threw the contract. He was the one that I agreed.

[00:14:28]

And then finally we had blue. It was like the guy that the other business got to do it. And you wasn't really that often only have the big meetings been made to make use decisions.

[00:14:40]

He was the former CEO of Siemens in creation. So he was a very big guy but he wasn't really that known.

[00:14:51]

So I can see kind of a problem having a guy who's not really their only being there with big decisions to be taken and I'm sure that he always had an opinion that was listened to. Is that correct.

[00:15:09]

Yeah and he has the time he just went with. Watkins says so if he said something and keep in mind you just he was very. He's a tough guy you know you're not Stuber coating things so what he's said something was we're normally just like I agree with what he said. I agree with what he wants it. Do you agree.

[00:15:33]

And also I think at one point we reach out to it and get mad about that. You has to be that middleman. I will say that I think that that helps our relationship that was between us and us and that South Africa in the way they have been since you did change your routines to investors so how does Kito in general I think they help us up to what he said he believed to made an initial bandwidth with the intent of offering pungency classical lots in the sense that we all know from Sogard and so on and then the concept of us into offering skill gains instead.

[00:16:45]

Of products. But I think that's somewhat of a subconscious sign. But it was irrelevant what you said at least.

[00:16:59]

Is the question of signed.

[00:17:01]

Yes. Did it change your routines to have investors. And if yes how so.

[00:17:08]

We had the weekly meetings and then we had we also had to write a weekly update. And. I asked for me personally. It became a very stressful event because against especially I had some one on one talks with him and every time he was he was kind of mad at me because especially in the later stages of the project he was always like okay guys say Why have you got from more revenue.

[00:17:39]

And in the beginning you said that you could just handle it with the marketing budget like this and this and this. And I remember telling him OK but we have also learned through this experience and you can't keep holding us up to what we said earlier and we have learned new thinking was just I don't care. You said you could name it with a marketing budget of 5000 euros a month and now you have 50000 so blah blah blah.

[00:18:07]

Very stressful indeed for me personally.

[00:18:09]

Yeah the stand. So no no no sympathizing situation is always changing.

[00:18:19]

No no not at all.

[00:18:22]

But actually what you said before is very interesting from what we into also in the interview you said that the investors had a big part of it from being classical arts to school games.

[00:18:38]

No no no no that's not mine. It was tough. We went to Switzerland to Chokwe don't believe us because they were so slow. And that's the thing we need to talk about as well. So if we're going to do it now. There was over the CEO of spades and he advised us to make a steel game based model instead of the classical one because first of all it's very risky offensive for flash floods. Say something is not calculated right you are under the same rules and you you're going to have a very very large deficit and you have to have a big pop culture to that.

[00:19:20]

So I think maybe about 1 1 to 2 million now. Sir thank you for that. Because last week I got to pay out the winnings.

[00:19:34]

So that's that's a pretty drastic change your business model to go from Escalades tutus to school games. You at the time did you did you work with business concepts. Oh was that not in the considerations when doing searches like this. What do you mean the second the business model concept.

[00:20:03]

I don't know if you can say okay it's the first person we've made a business plan from the crisscross idea and then we we just made a small what we call in this business case or something we have vision innovation to do business a skill games provider and because of that extensive Complexo old business plan.

[00:20:30]

You could also I think one of the reasons why we changed this Coalgate base was because of their meeting in Switzerland but also because there were all the sports betting sites emerging. So all idea become less and less unique. So to say. So we had our site on the crowd so we decided to take this move because no one will know what has happened. Now provides us good guidance.

[00:21:04]

And I still think it could a phase of here here I. I think that the main reasons why we changed from that traditional setting to Moscow.

[00:21:23]

Yes. And then in that perspective we are looking at changing light that is really really a good idea because it makes the business much more scalable because you have new extra costs having more customers. Right. Then we have one of my questions melted down and what would be different.

[00:21:51]

What would the difference has been if it if you had one customer if you had 1000 paying customers would have in terms of cost in terms of incentives of course and processes and all these kind of things because then it wouldn't change anything because I think the new business model that we got because you offer them on a bus and then people can join that game and we take a fee of a provision from that entry.

[00:22:43]

And that's it. And then we have the option of making a base price of let's say 50 euros but it was entirely up to you. So must like some guidance just as fast and if you will we need to pay them let's say five years or something. So we want complete control of the expenses we have.

[00:23:08]

So with the new business model we only have expenses for that state. But the end they released process.

[00:23:22]

Money. I think I think what you mentioned the difference between having a run. And cost them a thousand anchors would have made a big change because if we were to break the stress for things because we know exactly what costs we have we have a and that the against because the class gets stolen gets us. So if you're breaking even if you have time to develop making excursions more state and ship it just for proof that the Web site that we have that wouldn't turn.

[00:24:01]

I would imagine it generates generate more more plastic than it was just being out of water spiral. So I think I think if that could break even there would.

[00:24:17]

Have been Greiff.

[00:24:19]

Yes definitely. That's it's actually a pretty.

[00:24:31]

Awesome business model. That doesn't sound like you actually what the business model concept but that doesn't matter. It is pretty awesome but so that's why I am. What do you think were the main factors in that that allowed you to to create a business model that was so scalable. What do what processes did you have to succeed as a success and creating in terms of making it scalable engine. We already agreed that the holding company in Canary Island that you spend seven thousand euros on was not part of creating scalable business model but what did you do to me.

[00:25:27]

From a technical side. Yeah just like what processes and what things and where.

[00:25:36]

Did you go. How do you get from your initial ideas to the business model that you ended up with.

[00:25:44]

Like an absolute as it was mainly due to get Houzan from this bit telling us okay your current business it's okay but it's very risky especially when you guys don't experience the caves that you have available is simply not enough to run a business like this.

[00:26:09]

So Hades is soulless okay makes Gogi instead. And then he went home and thought about it and we came up with this idea where the puzzle was playing against each other. And in that way there is no risk for us.

[00:26:25]

So to say though I think that was the main reason. And also as you said the stuff we did not follow any frameworks or theories.

[00:26:38]

If that was your work yeah we just made it ourselves from scratch so to say yes this was not phishing for how you came up with the idea was more phishing after you came up with the idea. What did you do.

[00:26:57]

What did you create that that that made its engine ready.

[00:27:02]

Because as we always established you were at a point when this ended. If you had just reached a thousand customers of 2000 to 3000 it would just create more and more revenue. So what did you have in place in order to be able to do that target.

[00:27:21]

First of all actually we had a fitting engine that could offer classical us. So of course we had made several modifications to that.

[00:27:32]

So in conversation with switchblades we changed that had been building and getting tweeted so to say we did not have access to Samsung from France because most of functionality will stop if you tweeted that and then we made some major overhauls to the general design of the website expressway effort especially the profile where you cook the chief Chief achievements and keep track of statistics on your games.

[00:28:05]

How did you do. How much money do go and so on.

[00:28:08]

And we did that because we felt that the segment we were going to target areas you know gave us and the like a very competitive people. So we are fighting it Fonzo and now a concept development we tried to get at competitive side where it has become that progress against other.

[00:28:31]

Sensate so this was kind of the brain focus. It was this computer pittances this is say. And all the resources you had. They were mainly technical resources.

[00:28:48]

Yes.

[00:28:50]

And so they would do what marketing effort did you do to get this year. We talked about what you didn't do but what did you do to grab this competitive side.

[00:29:08]

Yeah okay. So initially know early business plan we had a lot of options such as advertising on YouTube Facebook Instagram all the glassful virus and channels. But the thing is with the gaming industry you're very limited because there is a lot of legal issues. It's very very complex industry when it comes to the digital side so regularly we found out that's okay. Most of the chance to go news that were good and inexpensive. We were in slavery too because if you missed you advertise on Facebook you need to have a gaming license in that respect country where you're going to targeted me that we could only target puts out into a room with 50000 people or something like that.

[00:29:58]

So and the same was true for Instagram and YouTube.

[00:30:02]

So we had to come up with other instances and they were deals with eSports organizations and streamers on Twitch TV and that's what we did. Basically we had to do with Germany's most organizations where they major social media posts about me in hospital hands.

[00:30:24]

We've also had a ban on air streams era and we did the same with the Italian sports organization and that we're going to do the same with Templestowe efforts. But then that deal did not go through. So.

[00:30:40]

So I would say our team was great but our marketing express my responsibility wasn't that great as it was not because we we were very good at it so to say maybe not the best but we do what we had to do but we couldn't get the business on board because it was very very expensive because these sports organizations always wanted more than from a normal marketing deal because we were a building company and as to so me. OK but we also are taking a risk here by endorsing. You to do you have to pay us equally.

[00:31:21]

Yeah me just to add that we also had some boxing on individuals on stream us on Twitch TV. I think we had like four or five of us. But that didn't play out either.

[00:31:37]

But just to add so you did right with the embezzlers but you no success.

[00:31:43]

Yeah. We needed some big passes us. But they again they wouldn't risk having Tadamasa Betty because that might actually ruin though and they make it fun but also very present with our campaign.

[00:32:03]

The Italians although it was on a small scale in regards to where you see the chain of events no doubt Kuzma conditions. Yes. Oh no. Most were actually great. It wasn't that many customers we got in but they told me I have a report from them and offices to complain if you'd like to see it I can send them to you.

[00:32:30]

Yeah well they told us that they actually went great.

[00:32:39]

We only got the response but if we compare it to earlier campaigns over this campaign did you not be very great. Also with the Germans first flights I think Boston five host and only got only you when you've got 300 customers of something like that and I was I told the CEO from a German comedian and you told me Don't worry this is known for being silenced. And you did great so.

[00:33:10]

Yeah yeah. And I guess if you had living time then 100 customers would you pay 3000 euros. That said they said well we get a lot right.

[00:33:24]

Yes.

[00:33:25]

And as I said it's only 30 years and that would have easily paid in the lifetime value in competitive games I think.

[00:33:36]

Yeah.

[00:33:38]

I was so disappointed initially for the speed we are now upon us like it's OK to snowmen. So this is just the way it is in the industry. And that's when we realize OK we're going to need a lot more money if we are going to interest.

[00:33:53]

Yet.

[00:33:55]

Did you ever think you might continue to focus very specifically are not being imbedding side but being competitive gaming site.

[00:34:06]

Yeah I would say this.

[00:34:08]

You can because for me when we speak now that sounds like that was kind of the key of what is different from everything else.

[00:34:20]

That's what you're trying to be. And also in the articles that they wrote something in the lines of Okay this is a new way to bet.

[00:34:32]

That some complain that we want to convey it insinuates that it's not a classical Vinnicombe need that skill game company and that's why it's great.

[00:34:42]

Yeah and it ended had great results as he said it was performed a lot better than other customers they had. It was just it was just it sounds like it was too expensive on the growth side compared to where it had been invested and the scaling side. And then because how much was invested in this gadding site.

[00:35:05]

Do you see on the scaling side I mean and building the technical platform also edgily them then the holding company if everything around it building the platform before you start getting through you have an estimate.

[00:35:24]

It doesn't have to be good news you have to think.

[00:35:29]

Yeah. It's the same as the metal back round 60000 euros 60000 years ago.

[00:35:36]

It's 60000 years I think but that was also because there's a lot of lightning Manea inside that we had some development racially biased in terms had a good enough switch to switch. And then we changed the whole concept as well. So there was some bumps on the way yet that that cost us.

[00:36:01]

Sure.

[00:36:01]

And so that's sixty thousand years away how much was invested in marketing before the company closed and I think Salomé ballots 9000 year. Thank you for five months.

[00:36:23]

And that's the general problem with the whole process. The thing is is that we were focused on getting the site up and running and there was very hot lead in legally. But we kind of forgot how important miting is because you can have the greatest idea in the world but if you can save lives how great is that right.

[00:36:43]

Yes. And if you don't have time to sell it because it sounds to me like you could sell it you just needed more time and money.

[00:36:53]

Basically that's what we think the East is in had another question.

[00:37:01]

But now I forgot.

[00:37:01]

So we will go back to the to the Rydén is the name of Kim how did you learn about the market and you're talking to now.

[00:37:23]

Well we are part of it. So I think that's how we learned of it at least.

[00:37:30]

And I'm semi previous semi professional it's finally this time Havana has many more pain.

[00:37:48]

It's kind of used to that.

[00:37:50]

I think that's the best way we know from the start of the way the mess that the last five months where we actually live we also learned a lot about them how they as commented earlier the controversial riots and what we have to do to try and get them on your side.

[00:38:17]

Yes.

[00:38:20]

And that's what I said is absurd. Because of course you need to learn about your customers before you can do good marketing.

[00:38:28]

Exactly. And the thing is and that's very important to keep in mind. You already notice this but we made the company got that idea and it's really easy for us where the spigot is. EDIT Just today it wasn't mainstream and. I remember people laughing at me when I said OK just wait a few years. I suppose you'd get big. And now today is to keep them on the front page of The Dali's TV. So when all the mainstream media has kind of picked up and my point is that we did not have that much data about the potential was when we made our visits plan we only found one article talking about OK to say when you want to target so be kind of just went with that. So it was mainly based on the assumptions that it is false. We could not find any data about it. And also because at that point there weren't really any other sports if any for.

[00:39:34]

Yes.

[00:39:36]

It was we're learning as we go process with them. With that you think you know not enough time to mend.

[00:39:45]

Exactly. Exactly. And that's also the thing right.

[00:39:50]

Because I just don't know what code is being and what we're looking at our competitors. We could see that the way it going 20 plus people that stuff and they all had university degrees.

[00:40:05]

Society accelerates and remarketing and it was just me and it was and we had to do everything wholesales and most of the things we had and needed tried before so it was a very stressful learning experience and we had to work very very hard to even get to a point where we did yes.

[00:40:26]

So did you experience any change in that group while you were creating new product.

[00:40:35]

No I wouldn't say no.

[00:40:40]

Did you experience any change in the market competition while you were creating new products.

[00:40:46]

Yeah you eat right cephalic so many of you had disappeared the industry in our earliest business friend Brostrom we couldn't even. We could find maybe two or three other providers and they were small as well.

[00:41:01]

But gradually a lot of new sportsbook virus appears. So indeed it became a very very competitive market.

[00:41:12]

And all this we're having right. You were building your platform that was ready to scale.

[00:41:20]

Yes. So we also in terms of what we're doing you could you could say that if you had spent equal time on an interest towards show you your brand while creating the engine then you would have taken a lot of the first mover effect instead of competitors reaching the same level as you.

[00:41:49]

Would. Yeah I think I think the main problem and at times as I mentioned earlier was that we became too focused on getting the site up and running. It was very very expensive. Any of those very tangled tuning from the legal and taken to the side that we kind of forgot. We also have to brand ourselves at some point that that kind of became Christe of the site. With that being said we Spin's nearly yes years before we could go live.

[00:42:21]

And if I had to get from an I.T. perspective I think that's we made some very very big mistakes in the development phase as well because we were all the time.

[00:42:33]

First of all our developers resubmitted. They were very very slow and even beriberi communicating with us and became obsessed with making the perfect products instead of just making an MVP with that term and is just making MEP and that's what.

[00:42:53]

If we're done then I think we could have had more success than we had. But except we we continually tweak the concept and made changes so we also need that we also need that instead of just coasting on getting the product live getting the first mover a bonus and then we develop our concept from that and give us a very very big mistake in my opinion.

[00:43:15]

Yes. Putin you actually even have made a website where you didn't have all this legal stuff in place yet. You know all this betting and all this technical side about making money. Well you could just have people playing the skill games for free.

[00:43:33]

And this way could imagine the customer base while creating the whole engine that should make you money that that would be another target.

[00:43:47]

We could use the money or the Yeah Yeah we could have done that. That is just a thought.

[00:43:57]

Actually a great idea when you think about this in hindsight.

[00:44:07]

You know you can petition change the new company.

[00:44:13]

Did you change your vote and you just stick to your initial product.

[00:44:23]

I would say we maybe just six of our products because even though there are a lot of them to us they did not offer the same concept as we did. So we can hope they get a big part of the market but the market is more specific than that.

[00:44:46]

We want the need to target talking Seagram that they could not be this.

[00:44:52]

What would you say like the main factors if you had to sum it all up adventure that goal to reach this point of significant scale that the total about their news.

[00:45:08]

You think there are several things to point out. One is there that develop us I think maybe if we had tried to develop it ourselves it would have a higher learning curve and the Stobbs but we will be working on it 24/7. So.

[00:45:29]

That will have made the two big changes that we want to the side without having to speak back and forth with the jailbirds.

[00:45:38]

So so that I think that that was really an issue because everything took so long and all the competitors got to go out there and running before us. So that's one thing. And then as I mentioned earlier I think Wensing allows that's holding colonnaded many Boxman today because we don't have the stomach for the market. Yes. So yeah that's what comes to mind right now to having it helps us to have.

[00:46:15]

I think were too small to just fall off a company we would just have Nielsen we should have been more guys so were saying this would focus on the technical side. I could focus on the sendup Mr Keating concept development side and then we have a guy in marketing who actually knew something about marketing you know instead of just going with assumptions that we should have made focusing on making him the MVP instead of continually tweaking the size. And they asked us to do the. They brought him a lot of. They were also very inflexible.

[00:47:00]

And I think they were looking for quick investment quick return of the investment and the service think it's Iovine is going to take long. That may be good but we need to put a lot more Kiva's flew into this privately to make it grow. And they were not ready for that yet.

[00:47:20]

So I think the whole set of rules was skewed in terms of what it was going to do it wasn't them.

[00:47:30]

A the necessary building the product obviously is just something think from me and it wasn't really getting into your venture because you started completely green. Of course you didn't know how much marketing because it sounded like it kind of became the standpoint of what you could get. Because you said this in the beginning.

[00:47:58]

I remember the very last month starting this I think we can have our Fremont's and then we have been running on that for you. Yes let us.

[00:48:09]

Yeah.

[00:48:11]

So I think it makes that star really under appreciated how difficult it is for us to stop this company.

[00:48:25]

Yeah exactly. And also I think that's very naive in the sense that I for example thought OK you're going to start this and then then we've come out OK it's up to obtain a lot then you need to at least have two million.

[00:48:50]

And we kind of onwards to ship Rosa Ireland man and mailed to all those places and we ended up in Warsaw but we spent a lot of time on the pregnancy developing through the legal framework.

[00:49:08]

Yeah call called and also the company structure it in order to have it have a nice operation so that the commissioner ratchets up crisis.

[00:49:25]

I had a cold call on the whole thing that had a bad company and then I guess well that wasn't messed up in the holding company.

[00:49:37]

Zollo that was investing in a company that had the license that was best coming out of Cyprus which had a bad banking ties and stop it last night.

[00:49:50]

Within five six seven companies. Break. Right.

[00:49:53]

Think about that as well we data from Cyprus so appealing in Egypt because the transaction fees are too high as they were to be located in Greece because it would take like 7 percentage of transactions so pretty crazy stuff.

[00:50:19]

Thinking about it is written down five main problems. I think we've talked about and I just want you to read them out.

[00:50:29]

Do you have any comments or maybe if there's something I forgot. But I think the core of what we discussed. The first one is that the investors method is good ability and potential withdrew when it came to the investments which could actually realise the value into thinking that investors invested inscrutability and profit.

[00:50:58]

Yeah but that's the. And the second one if you don't know when it comes to making that the flexibility in the business plan that you have especially since you were intrapreneurs. Did not keep up with the flexibility in the strategies that you could employ for example for building a different brother and then to creating a different growth rate that you should mention.

[00:51:27]

As you mentioned you have you asked what was the guns about Mamani money because you needed that to keep up with the idea that there was a roomful that you didn't.

[00:51:42]

You made all these learnings but there was no room in the venture for investing in the learnings.

[00:51:50]

Yeah.

[00:51:52]

And then I had what you what you mentioned before that the good ability to use 60000 drones and that and then used about 10000 on marketing and the fact that somehow that needs to be balanced.

[00:52:10]

But also that you need the correct marketing challenge because it's not just one you can't say you will have success if you invest equally as much. Was it hard for you to find a balance of estimating how much you needed to do marketing incredibly high and definitely one of the challenges.

[00:52:32]

The funny thing is it's not funny but the thing is what we do now it's with us.

[00:52:41]

Actually I wasn't all that guy and he did not once because he did not like it. So maybe that was a good decision on his part. But yeah some difficulties. All right. Yeah.

[00:52:53]

So yeah. And that comes down to the next problem which is that is that these factions that we operate with is getting really good growth.

[00:53:04]

It has a lot of other requirements that need to be fulfilled. You cannot just say no I'm going to do my thing now I'm going to do it ability for example within is going to be that you have the problem with life the developers in India that were not good enough. And as you say you had a very hard time keeping track of the target pool and the market because it was expanding so much. So the resources of our founders and developers and everything seemed to be different.

[00:53:35]

And I noticed was that the buck always prioritizes downsizing the gross part instead of the scalability part because this capability and the product itself is necessary costs. And then you can just take the money from the marketing and that's that's fine.

[00:53:54]

That's the five core elements that I notice. I don't know if you have anything else.

[00:54:02]

I think that you haven't discussed outside of offering it because of course we are only asking you the questions that we know we can ask from our framework but maybe there's something else that could change.

[00:54:13]

Yeah.

[00:54:15]

Let me put some emphasis on the legal parts because that alongside site development was not to get up and running free press getting the license last October. So again that comes down to what about Adelia about the stuff that Foxhound that US had given cold weather has been 2020 And Khaybar working on this. So yeah but maybe maybe that's a question about resources resources.

[00:54:48]

But I think added to the problem for about the unnecessary requirements before you can do it like reserves. And as Paul mentioned maybe you could have been the guy you want to have more time to focus on the retail side.

[00:55:03]

But it is I think one thing you can say that in mind that sums it up that the news became too focused on developing the Praja products and the investors became too focused on getting a return of this service and biting kind of got to go up and when we reached the point we need for marketing they weren't ready for it because they have no data that okay this can be a success because they only need ten thousand euros or something like that.

[00:55:31]

And when we ask them all they just coming with us and so what you told us in the beginning you could do with this stuff.

[00:55:37]

So I think that sums it up and these guys it's kind of like I imagine at least that you say okay this is this is a unique idea and we have I don't know 10 million people who were gambling. So it's probably much more than 10 million people so there's a huge potential customer base and how can it be to get. 10000 of these and then we have a highly profitable business.

[00:56:07]

That's how we did.

[00:56:10]

I told you that a couple of times before we went live right probably we will make this framework and then hopefully next time you succeed we are doing Ubuntu at the minute so that's got to worry about us. And where were you project.

[00:56:32]

I think the general the general say is that you don't have access before your third venture.

[00:56:39]

Well you're the exception to that rule.

[00:56:41]

Yes. And that's this whole another interesting discussion because this is kind of that's kind of the thing of building a business on cash flow or building a business investment because it is said that it has taken us a long time to build.

[00:57:00]

And a lot of bumps in the road because of those items. We have failed yet we have failed more than three attempts.

[00:57:07]

So to say but just within the same the same brand.

[00:57:15]

But anyway this stuff is fucking awesome. This is how it fits all framework perfectly so that's great thanks.

[00:57:26]

Thanks a lot for this and I hope it's also been okay for you to kind of think a little bit back and reflect about what or what actually happened and we will of course send the project to you and you can read it if you want.

[00:57:43]

If you don't want to read it I you visit bottom for the free. If you feel like it's.

[00:57:50]

That time that's great.

[00:57:54]

Okay thank you very much for your time.

[00:57:57]

Thank you and good to see you guys again. See you in the shop.

[00:58:03]

Yes. No I don't have much money to buy.

[00:58:08]

Somebody say Columella Yiftah if it's good enough for the gutter No not miniscule is going to kill him if the scanner he says seasonals that says be.

Software transcription of SNT interview

[00:00:00]

OK. Christopher Brody told me much more about what it's about. But I'll start off since we're having this project where we are right balancing is going to be this year end and growth with the case of waterbeds who you also know and in your case to be your side. And we look at it from an organizational perspective how are you set up your company and what the process is. So first of all I would like to ask you how clearly your roles are in the company. I know the three of you plus an extra employees. Yeah.

[00:00:34]

How would you say you have these roles say in the last half year it has been more clear than it has been from the beginning. It's quite clear now that we still have these different hats on because we as prisoners in China. So I would say somber. Both Christopher and me attest to this as well.

[00:01:01]

And it's also the other way you see it the rules are fluent. Yeah good. OK.

[00:01:10]

Guys always have to be in charge. So I'm in charge.

[00:01:14]

Do feel like it could give you more control or less control if you're more people to to put on this specific cuts.

[00:01:20]

HOBSON specialists work more controlled because the focus will be really good instead of having to deal with other issues since some of evil where it is common sense we may maybe in some areas will deal with this.

[00:01:36]

And how important is control now versus maybe a year ago. Consolingly which in the sense that they have control that you can change within the company pretty easily and yet know different processes and responsibilities. It's important that we can things quite the same. Would you said that you should be more flexible now or less flexible now in your workplaces. I think we're more flexible because we have a few more. Yes. We can use for us so we can focus on your. Yeah. Yeah.

[00:02:11]

And also there must be more tasks in space.

[00:02:17]

Yes. So does that provide a lodging and then that was less tasks and you 3Q Ligas. Just thoughts about this.

[00:02:34]

I feel like there were less tests them we had the same flexibility just now because now the more US House with more people. So anyway so it's just like everything you do is more important than it was before.

[00:02:50]

So you have had more people to try and gain the same flexibility. Yes.

[00:02:54]

Yeah. Yeah. And what about how do you feel the impact of the investors have been. Has it been helped you be more flexible or do you feel like a more put into some some frameworks.

[00:03:06]

First of all do you have any interest as visible this is you're looking at that is yes we have news this.

[00:03:16]

Bougainville. OK.

[00:03:19]

I don't think we're getting more flexible of our when we got them into the combine. However they gave us some nice networking and stuff like that but they also. It's not everything that goes that we have to stick to them and they're following up on it so that that is less so.

[00:03:45]

Maybe also on a strategic level think preventing any valuable stuff.

[00:03:51]

SS Yeah.

[00:03:54]

Luzie mostly here is since they have the access to all of you that we have also a to sense they put us in a direction and help us not make mistakes but it's limited how much they really gave like strategically so far.

[00:04:14]

So all this and she hasn't changed. They have just provided.

[00:04:19]

Yeah. Yeah. So we'd like you broadened your view of possibilities you yeah maybe something like that. And what would you say is your main limitation now from where you want to be free to reach goals production production.

[00:04:36]

Yeah because right now it is because we don't have enough fast enough products to meet the demands at the moment. But I see from when when we get past that I say procedures. Yeah. Procedures and maybe not enough people here so we have to keep doing all these tasks doesn't make any sense of either.

[00:05:01]

Yeah. What issues has it caused that they say to hide demand to match demand for the products. And yet what issues is that cost in terms of keeping customers happy and being able to serve as much revenue.

[00:05:21]

Do you feel like you've lost anything else from not being able to produce quickly enough yet resolve in other words.

[00:05:30]

Yeah I don't think it has been the best customer service because when we have tried to make things available that we didn't have to know about. So we have tried to make preorders available but still some of the customers ended up waiting more than two months for their pants which is not the best service and the lifetime value of the customer.

[00:05:55]

Yeah. Did certainly increase significantly. Did you make any other initiatives in order to help this problem.

[00:06:03]

We had a few if you will call everyone to tell them we are sorry but we don't have the product right now off the back. Also we hired some people to come and e-mail people because it took too long to call you that we wanted to. But what I feel is the biggest problem sidesteps it's about customer service as we've used so much time just getting everything back on track since we did the POS because there were so many e-mails we had hundreds of e-mails every day. We had to answer so many calls about how this stuff works and that it took us a long time just to get back on track so we could build the company again.

[00:06:48]

Now the Triodos must also contend it's an advantage.

[00:06:53]

Yes it created a big revenue and people who would just we could just over everything if you just so everyone could get a good order or least what they wanted to have. I think that's the.

[00:07:06]

Yeah I gather the fans were happy for anything.

[00:07:12]

What have you done in order to like help this problem out with with customers who are unhappy. How do you try to deal with them with the customers.

[00:07:23]

Yeah through customer service like a gift card through whatever they have some of them with there have been a bit mad and we have made it give them free stuff on the web. I don't know how that's just but mostly we have just made the service personnel. So we call them and explain the situation. Most of them actually like. It's nice that you actually call it seems like a cop out.

[00:07:51]

So what I hear is that the main challenges is resources human resources and it's access to production.

[00:07:59]

You know in terms of the increase in the production levels is there any other processes that has been an issue when the demand has risen so significantly so fast.

[00:08:11]

I think a very big issue in the banking system of our home page for example which weren't made for such high volume of orders. So the processes within the bank was not really. So it wasn't really easy to do a lot for us in same time especially if you don't know if you like what we're having. No I don't have that sense that it's a on time but also just internally here procedures where how we do have everything do we have this team right here. You have it there terrorism. Just from inside and out.

[00:08:54]

How do you feel like you've identified all these new opportunities was it something new to some extent planned for or did you just come up with it as long as the problem itself.

[00:09:05]

Yeah we just came up with the presidents before it was hard to figure out these small things with the tagging and so on because it has never been an issue before. So it's not something that you pay that much attention to when you get inside abandonments it's a Bethwaite it's all the processes because then you look at all the small flaws. The way we packed the orders for this is not even in Rosko.

[00:09:38]

Printers friends is that this process was just like using two hours a day when you get up and bagging of it.

[00:09:46]

So yeah. The whole legal system was manually before. So you have to type in everything with change. So we just have to create one rather than just automatically fill it out but it's still not the best way to do it but it's still sometimes through the system so in some ways we were kicked out for not and these automation processes.

[00:10:12]

Did you do anything about that on the marketing side to what you said you made personal service work beforehand. How did how did you deal with the amount of growth that came in. People were waiting for their orders for four before we started being the person.

[00:10:28]

So it was sort of trade for one year you said it was just so maybe we where we didn't call people because it was the by then we realized we don't really have anything. So we buy them. We just fall out we just pack everything as fast. And also and said on their live chat emails but we really get that many have missed because people were just waiting for the stuff they would have requested.

[00:10:55]

And Rose are sharing some Verizon stock on line. So we have sort of won a certain amount of quantity over the past but then we found out that the homepage just something Ranglin we never did have an overview of it.

[00:11:16]

So we would like to get a lot of pressure in order to get to a point to see the processes needs to be improved drastically.

[00:11:28]

Yes. It came through precious such high demand and created pressure to test the processes.

[00:11:37]

Yeah.

[00:11:38]

And what did you do if we then go and we didn't go back in before this high demand a kick occurred in the how was the planning insurance put in. Because there must have been some is a market saying they created this high growth in unbalancing what most suspended time preparing for this high growth actually came.

[00:12:08]

What would you say. What would you say was the main reason that customers started to demand new products.

[00:12:17]

No that's not the question. So just take this one first. So we reached a point where a lot of demand suddenly came. And of course some of it was because of it being shown on television but some of it must also have been from the intensive marketing and growth efforts in regards to that. And so when we go back before you were in TV how was the planning process in terms of preparing for the MSF profe and preparing for how do we get massive growth.

[00:12:53]

We started it's almost a year ago when we made this last episode begins for okay. When we go and speed the lines of what we're going to do Christopher Benflis Fulker is where we sit in silence and so our not very many things have adventures that we share that we're going to be in this program that we've got to have a really high drive. So again started telling them so we could do far more. And since December I think we produced lots of growth in the past month for. And we all actually that was going to be enough. But we saw those in a few days.

[00:13:39]

But as I hear there's also one thing was production s which as you say you made as much as she could but when the growth actually came out there was a lot of increasing use and stuff that also collapsed or could have been better but it was more time put into planning marketing than planning how these processes work.

[00:14:04]

If the growth would actually be huge if if I'm not sure.

[00:14:12]

The question is if we use more sinum ideas about these procedures how many resources we actually put into creating the optimal procedures compared to how many resources and truly into marketing efforts.

[00:14:27]

Okay excellent and good was the procedures were just focused on we focused on them from actually from the beginning of December. But everything takes a lot of time and then you have to find these collaborations with other companies can kind of these procedures we'll have a system for these sort of things. And everything needs to be set up so it takes a lot of time but it doesn't have to take that much of your time. Something maybe two 25 percent of the time that that time magazine actually or more that it was more like we were waiting for the other companies.

[00:15:08]

Do you think that we didn't use that much more than as you say. It's really opposite me. Maybe that's because we use maybe. I think all of the marketing you just made. OK. We have to make this demand. And it came as a surprise that the man was that high.

[00:15:25]

So I think we were that was recently you Summerside hoggets you could say that you had this great idea about how you could increase the demand and it was more exploring this that took their time. They are then preparing to exploit it.

[00:15:44]

Yes I do think this is huge. So you should focus and resources on the market pushing hard or even more and you didn't get the resources allocations shifted yet from.

[00:16:02]

Yes a lot of the marketing and the other it was not shut down because we already always have that at all. But all the time has been focusing on catching up and hedging and see if we can figure out some smart ways to do it.

[00:16:22]

My primary goal that the company is marketing and content and creating that and use I've used. We did a the commercial but other than that usually almost no sign whatsoever that lasts months.

[00:16:37]

So just answering e-mail here here's why The Mazia virtual shanghaied beforehand was because of their capabilities in the company that we have a designated marketing guy while the others have multiple hats on. Do you think that it's because you knew you were going to mounting debts why did more fight. Yes. That's why we did exactly that is like saying we saw it automats when you have a product developer that you would like more product develop instead of what they did. Yeah. Because you do what you're good at the probabilities approach.

[00:17:09]

That's kind of one of 4 appendixes but I think actually that's just note that because of all this demand we've really learns and become becoming increasingly good at processes as well because you have to learn otherwise you just going to fail.

[00:17:26]

And when I learned it from from trying and other things that it that has helped you.

[00:17:32]

I've changed a lot. Honestly it's nice to see how people become mysterious in terms of which systems they're using and the automation and it's time trying to get a feeling of how easy it can be or how hard it actually can be if you go back to him.

[00:17:50]

What about the investors role in this in this process. They've been helpful and optimization. So you're still on and exploring possible one could you keep growing.

[00:18:01]

Yeah okay maybe a bit one of them is okay once you have that focus on how we should optimize production when we experience this have the manpower really in here. Now it's not like it's just like we have to do something about it. So you have to place your focus is the real revenue here.

[00:18:23]

Chris Smith But the investors have not been in this business before.

[00:18:29]

So it's you and when you say you bet every penny something similar would happen.

[00:18:35]

Yes. Yes. Yes.

[00:18:38]

Can you summarize rising you've been prepared.

[00:18:40]

This happened in all the other procedures on the Web page up in been all. We're still holding on them.

[00:18:50]

So we will be much easier for us to handle demand online which has been the biggest issue that the system has some different phases and production.

[00:19:04]

We have President went to go to increase the production and right now that have I don't know 3 times more people creating plans. So instead of creating the past months shopping is show time we can move 15000.

[00:19:25]

So it also less costly and certainly since that May one of the issues was that the caste system in our store wasn't really connected to the web page. So the system really didn't fall together and with it it just fucked up. So now we are creating a new system. We're not buying users and we expect to find new homepage. We don't have that problem again because one of the big issues was that when we saw something line we it's not disappearing right away. Ecevit's when it's sold in stores are sold something they didn't use installed just to get there and we have the proper customer.

[00:20:04]

You when you say that you were aware of all of these relations that all aspects of the company have to each other award must. Boy was it more that you saw when when it failed.

[00:20:15]

Alexis yeah if it had just some things that we're about ready for that kind of event.

[00:20:22]

But maybe not and how you can connect them in the ideal way know exactly we know what you want to do.

[00:20:30]

We just didn't know how to do the problems that they were that spirit. And another thing that I think is essential is if we get this high demand again that we also have a lot more manpower about customer accounts.

[00:20:49]

We don't have to sit and write us everyday and then we have someone who can comment peg our pages and stuff like that. So that will help a lot. So it's not our families friends that come every day.

[00:21:03]

How much easier would you like lives have been if you had better known how these connections would tied together in the process.

[00:21:13]

Yes it will be much better than they would just have created notepads and I just sold a hell of a lot on that we were just it was very slow.

[00:21:27]

But as you said you couldn't have created more pains. So oh so going from the situation that you had mentioned amount of payments. How was your life been if you had paid insights.

[00:21:40]

I think that's to say because we knew the problems were there we just chose to accept the problems and go for the most revenue as possible so we could have said okay we had just putting this stuff online. And with that so that said people can buy more. We were thinking about that but we thought that revenue would be better in this instance and people have been accepting it because we have done this great customer service to them. But if we weren't aware of the problems I think it would take a lot longer time to realize that we had to do something about this and get people into Kepu access to customers open even when you didn't have the access to production.

[00:22:23]

And I remember a similar story about access to capital maybe. How did you get the counselor. First did you have everything at hand maybe Christopher can answer when you went to the bank or did you maybe just like just to just to finish up what.

[00:22:39]

Okay. Well who were talking about before. So it was a deliberate strategy to maximize revenue and trying to solve the problems by creating personal services to not lose too much customer relationship purpose.

[00:23:01]

And how did you get access to capital that was required in the beginning of the beginning and maybe you need more capital later.

[00:23:11]

We've been bootstrapping from the beginning. We got invested in the beginning and gosh 300 15000. This would be like that. Yeah that was actually Cancela. We've got the license. Caps we've got from the business that weren't really capital needed. All that knowledge needed from them.

[00:23:32]

So access to capital has really been the problem. We have financed everything from cash flow.

[00:23:38]

Yeah I think we would have done that if we were going to be. Right away we have to have 10 employees in there because then you would have to have a lot of capital to get it going instead of we just use a lot of time getting it going it solves.

[00:23:54]

And do you see any advantages of doing it that way instead of just having a lot of money going really fast onto it.

[00:24:01]

I think the the most positive thing is that you have to sell with you through the whole process and you learn a lot you really learn your industry and you go home you are forced to evolve over time and it's also like a mental state where you have to figure out what to do because you can't really just spend money and just make other people solve your problem.

[00:24:28]

You have to think about it yourself. And just if it was expensive to do something using it doesn't have to be the right solution that you create for you anyway.

[00:24:39]

Yeah. The most important is that the concept where we start is the same as it is now and the product where through this now and it is very important for the whole process.

[00:24:57]

In Turkey and now for my question should we take a short trip to back to the past before hand before the all the demand started just to get your marketing capability.

[00:25:13]

What would you say were demanding given is not a member of the question. Hold on one second is that the U.S. would have been different to Christmas if you were in another industry than close trade with China. Was there funding access to capital. Do you think this is the best strategy for all industries. Do you think your answers will be different to like. Take it slow to take a big risk.

[00:25:38]

Do you think you think in some industries like we do creating an app and you have to have a lot of developers to create this app that you just have the idea and you are racing against time because of people doing as well. You have to have a lot of capital because then you have to have 10 employees just on this 24/7 because if you are going to be the first and the best you're not going to make it. But in most industries I will say that you could just bootstrap and start from about that and learn through experience and interaction with everything all the stakeholders things you will need and wants because when you would you learn has bought the company and learn all the different aspects of it. I think it's much easier to take a bigger risk next time because you're already so far ahead of when you started.

[00:26:29]

It's your experience that the things you learn from running the company in this case a the company. A lot of these things can be applied if the idea for something else is trivial. Yeah that's it.

[00:26:43]

Yeah yeah. When you talk to FIDEM has been this networking a place called since then you meet a lot of different companies. It can be everything and you can talk about everything with them even though this could be it could be said psychologist will have an office or something. Yeah. And it's the same problem that they experience.

[00:27:13]

So you can you can easily apply to other businesses and business small quittance.

[00:27:20]

Yes because I just have one. And yet a few questions that business model and also you get an idea of what you're making and what is say day value proposition what value in creating the company.

[00:27:35]

What what ideas the whole thing is again from the beginning it's been the same strategy the same value proposition we want to trade Classico menswear which is very minimalistic but has this infused combo. So it's possible to get that Rukun Fugere simultaneously. It's the whole idea that we have just kept on evolving and creating it is actually very plain minimalistic Danish design classic menswear but we just keep on evolving the functionality of the console. And how do you communicate its value to potential customers when instead of just communicating the desire to communicate they can vote and we do that through video announcing we have it's like three years ago we created this Kickstarter campaign where we found out in a different way of making this mindset. So we focus on all the functions instead of the loop about it and try to be very.

[00:28:54]

Down to Earth to people. We were just talking directly to the client to gain trust and then you had that dysfunctionality speaks for itself which we have experienced high success with is a different approach than most of other fashion companies.

[00:29:14]

And what do what channels still use to reach the customer.

[00:29:18]

Facebook Instagram our store PR.

[00:29:25]

Yeah previous that was.

[00:29:29]

Yes it's been a see you as well as Google and YouTube also and some and some of that through Google we have these REMOXY complaints where you go to the polls something about us will share with the sites and we have just started the cinema campaign actually a couple of days ago so we'll see that soon.

[00:29:57]

So a new channel can come if you should just sum up some of the activities and resources you can think of that makes you capable of creating that value and at the end delivering it to the customer what with those resources and activities be consumed internally. Yeah.

[00:30:19]

It's creating all these videos pictures stuff like that the content that comes out is very important.

[00:30:27]

I think that's one of our big advantages combat's or maybe our closest competitor is that we can create content features and videos that screws are better than most companies do.

[00:30:39]

Even though they hire professionals and we do for free we just have to use our time to feel like their content has changed over time due to the customer or group change two or.

[00:30:51]

Yes I think in the beginning it was more awesome to be here. The just were focused a bit more on people how we're thinking of it more sophisticated and trying to find all the people all the looking people just like a bit more sophisticated settings instead of like that these and.

[00:31:09]

And how. How did you get to that.

[00:31:12]

You used to use data and feedback from the customers to create the content.

[00:31:17]

Yet it has been that way from the beginning we have now on physical. So it's a different way to do it. Most companies just opened with a workshop and they have not. They're not that close to their clients which has been a huge benefit for us because every time we introduce a new product the new way of marketing we can get feedback and we can ask is How did you get to know about us. And yet everybody we reply and then you're going to love back what is the most important things when we got this.

[00:31:51]

Have we actually found out five from data. Wow. Brian Todd who was before that was about 20 to 25 year olds. But as you can see from Google the lyrics it was 25 to 34 year old and they were actually like 40 percent of everyone at home. He said also about 40 percent of all revenue created for that. So that was really a time when we could use the data and customize a marketing tool.

[00:32:19]

It's the finding said from the story used to gain first success last yeah of course it is.

[00:32:27]

Yeah.

[00:32:28]

Now we're just talking about everything and other resource activity is of course production. And if you're not making the right production people if we really create something that is people don't like it could be a bad fit. You could also just be that the fabric doesn't last that long. That is one of the greatest feedback that we can get. So that changes the whole approach.

[00:32:55]

So you are constantly altering the product to meet the customers demand. Yeah. Okay. Any other activities since you mentioned content and production and store the web showing the station. Okay which which just some up some of the activists you see there in the sation some other services said We already talked about that earlier.

[00:33:26]

Kustra again revenues. Yeah OK. So yeah.

[00:33:30]

No I think we need to just to hear a little bit more about what this money is spent on and how is it connected to the revenue. Well we spend money we spend the money on and how much of that money is directed into higher revenue.

[00:33:48]

OK. Yeah most of the money is spent on production actually. And we also spent a lot of time and of course they follow each other.

[00:33:59]

We have a lot of products that we can increase our marketing and that leads to a higher revenue. But if we don't have enough products then we will of course decrease our marketing and have less the amount of revenue we don't have that many fixed costs.

[00:34:17]

Of course we have these new employees and soon the Friederich CEOs is going to have some salary. But in terms of the percentage of how much we spend we still spend I don't know about 80 percent of everything on production.

[00:34:40]

Okay and are you able to to sell everything. Okay. Okay. So that's a good investment. So the main sunk cost is actually the cost of acquiring new customers.

[00:34:54]

Yes in the beginning we had a lot of some costs in the end of that because we raised the price it just didn't last that some bad decides that words sold at all so well and losing money. Yeah exactly. We've gotten a lot better. So now we are seeing all this going to work because we have all of this. We know we do for people like the site that was kind of seamlessness and so those. So we think it's spelled out for some cost isn't there.

[00:35:30]

That was very nice because you talked about something else that that was a cost earlier but that's not anymore. But in the current situation it is mainly a cost of acquiring new new customers.

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It's yeah you do invest money or time in prison in some processes that would keep the demand high skill ability like besides just producing to the demand.

[00:35:56]

Do you have any processes that would keep the demand high like new stores for example or something we just created a new website where we change Greenstream feast of ads it's a lot better than cell phones so it will be much easier for customers to check out there but also just the processes within the home page good for getting through HP and how easy it is to purchase. And also we have some ideas for some interactive on the home base where shot turns are going to visit the store. Christopher skirt's you woke up what are you going to look at today. I'm going to wear the pants. Here's another screen and he's going to tell the first customers about everything they need to know so be a personal experience even though it's Omei.

[00:36:43]

So most of your profits are doing to giving better access for customers to actualize their demand. Yet. Yeah.

[00:36:52]

Yeah and on the other hand as you mentioned yourself the physical stores it's plan is a part of our plans to open physical stores and try to go into new markets.

[00:37:09]

But maybe also now we have Obama in Denmark. We also want to Copenhagen. But right now of course we have to follow up on that. And so we don't have enough paradox in it it doesn't make sense to hire new people create or get all these new fixed costs. We're going to do is test Copenhagen with fuling arranging these events over there and see how people are sending to the U.S. and then finding maybe some some place where we can we are going to start to test again.

[00:37:48]

So you could in one way actually say that this huge demand that you're trying to catch up to me is holding you back from going to the next steps if you want the company.

[00:37:55]

Yes it's yes it's kind of slowing down the process because we have to deal with all these issues. We Kriti in terms hire more people but we also see it as not the first thing you just do when you have a high demand because you have to really find where are we going to be of this. So you can't just hire some people that say you control everything and you just go out and keep developing. So it's like kind of trying to balance cell lines. Yeah yeah.

[00:38:26]

I think it is the current situation and not taking into account the possibilities of expanding is they need like let's just call it buttons you can push to increase increased demand. Yeah. Magazine Okay so you can't just increase marketing demand will be increased.

[00:38:49]

Yes yes sure that it will. And example is that before we with live television we had this we had planned and I could say that on Facebook Instagram and so on for like the next month first we were going to do this. We did that and then we sold out and then we all the other week that comes out with us just not done the marketing because we're sold out from the first initiative that were made. So we actually have like no more free we can apply. But we still have to retain good games and new content.

[00:39:30]

OK so let's say if you're going to for example a Global Shark Tank a year from now what would be the first things you would look at that the company to be able to deal with any consequences of that not knowing whether the demand is going to be 100 times bigger or not. Anything could happen.

[00:39:51]

How does the police now know. I mean he kind of needs to pack so many orders if not most probably have the tough stuff so we can just keep selling and just keep printing orders and just tagging them instead of having to go through a whole week either. Right there. Oh that will be different. So the processes will working as well.

[00:40:16]

And also the processes from the from our manufacturers because it could also be jettisoned just to produce it for say the demand would be increased 500 percent. Like at times it was a hundred times more. But then we figure out it was over 50 55 50 times more than we have. Love clothes and stuff which is not good for our job.

[00:40:46]

So how would you how much do you think you can maybe create this flexibility from your experiences internally on procedures cost but also externally with our manufacturers say since without the ones who delivers the fabrics of the fixer and yet so.

[00:41:08]

So you're saying that you've been through it all. So you know the same things you need to do just on a bigger scale. And then just preparing more because you have the possibility take a bit bigger risk you would if you could have you would of course take your pick.

[00:41:24]

Since you now know in hindsight maybe it's difficult to know how much risk because in hindsight then we thought it was we're actually preparing for it. We didn't know that it was the first who goes in particular and Sevenzo higher three times as many as they ever. And that is what has been crazy.

[00:41:48]

So we're going to transition from our lives as a business model and having outsourcing your manufacturing to other companies reinvesting in production your own merchandising pending outsourcing or other parties or partners like I said meaning you only control your marketing and then you try to make other people be more flexible so you don't necessarily have to cast some something like agendas and use their own stuff.

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They have manufacturers that I just need just a you know something like you do use items in order to be more credible.

[00:42:28]

You know I think that would be stupid. I'm just sure that we would be so big here strengths we have such close relationships to our enemies. So I think that we're kind of what we have here which is so big. We didn't see this just know exactly what they want and how they want it. I think it's a possibility but when you're developing a company where he points out close relationships are.

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So so you don't want to set out on findability by having this control right now.

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So that would make sense for ourselves.

[00:43:04]

You know I was thinking when we talked about you if you chose to produce 100 times more paints and as you mentioned gas but that would be the issue with you don't know exactly how the demand curve goes so you might produce twice as much as there's actually a need from seeing that you were when you had the opposite situation where you solved that day by doing preorders. Do you think that it will be a better strategy prepaying for growth to make a little bit less than what you expect expected would be the demand and then have proper processes to handle preorders. So you're not taking a huge risk. But you still have to deal with not necessarily having everything in stuck.

[00:43:58]

I'm always a fan of risk management. It was slow but I think it's very important that you have the processes ready for preorders but you also have to know exactly how much you can get which time. So you can meet and give the customers the correct information not having to deal with them and he even say sorry it's not coming out yet. I mean because it was paid its fine but otherwise I would do it again.

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Another problem too to write to make sales through preorders is just a problem. If you can deliver the product and when you say that gap then the customer level.

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So if you had all the processes in place to make a good experience that could be a good strategy to not take too much risk while growing. Yes. Yet that fits very well with what Martin Lawrence said theories on this in this case had a lot of case examples telling examples of companies who in the beginning always made it to low supply in order to create hype about the products. So you didn't say Sarbox but then it adds more modern the same wholesome.

[00:45:16]

Yeah. Again.

[00:45:20]

No they're not. The battery gets that.