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The journey of business model innovation in media agencies: towards a three-stage process model

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ABSTRACT

Digital entrants have changed the competitive landscape for advertisers and media. Over the past decade, media agencies have grown more rapidly than the media market as a whole, securing a larger share of the value generated in the advertising industry. *We develop a process model describing how these agencies have altered their business models over a decade*. We discuss three separate stages in this innovation process, labelled business model innovation (BMI) awareness, business model exploration, and business model exploitation. We find and document how different building blocks of the business model are a focal point of innovation in each stage of the BMI process. Our findings offer a way for the media industry to understand the transformation of media agencies.

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Introduction

Scholars have shown a growing interest in media agencies and their role in the advertising industry (Bogart, 2000; Bulearca & Bulearca, 2009; Jacobs, 1991; Knuth, 2013; Ots, 2009). Such agencies guide advertisers on the effectiveness of different media and execute the actual buying of media space. In a declining Danish media market, media agencies have managed to grow their revenue and profit margins substantially (Agency for Culture and Palaces, 2015; Bureauanalyse, 2008–2015). Media agencies thus capture more value in the marketplace than previously. In this paper, we suggest that the business model construct can help document and explain this observation.

Technology has changed the media industry and resulted in a challenge to existing business models (Kung, 2008). In what is sometimes referred to as the "post television" age (Auletta, 2005; Cappo, 2003; Perez-Latre, 2007), new digital advertising actors such as Google and Facebook have been instrumental in disrupting the previous advertising paradigm (Klopfenstein, 2011; Young, 2014). The digital media landscape has increased the complexity and uncertainty for advertisers, who search for ways to understand advertising effectiveness in this new paradigm (Tolvanen, Olkkonen, & Luoma-Aho, 2013). In the face of this, media agencies have explored and redesigned their business models the better to serve advertisers. Media agencies have diversified from being simple buyers of media to becoming marketing consultancy actors (Knuth, 2013) and

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have become a significant and independent part of the advertising industry (Bulearca & Bulearca, 2009; Ots, 2009). Advertisers appear to rely increasingly on their media agencies in making media budget decisions and buying advertising space from media, allowing such agencies to capture value in the marketplace. Exactly why, and how, media agencies have been successful in adapting to the new digital advertising environment remains largely unexplored in the media management literature.

The general management literature on business models contains a number of studies on the information, media, and telecommunications industries but focuses on the classification of business models rather than on the process of business model innovation (BMI) (Lambert & Davidson, 2013). Studies from other industries suggest that business capabilities, rather than technological capabilities, drive the successful innovation of a business model (Brink & Holmén, 2009; Chesbrough, 2010; Lambert & Davidson, 2013). Successful BMI has to do with the management of the innovation process, not the actual technologies currently available to the firm. Moreover, several recent studies have suggested that successful BMI involves a process that occurs in stages. Such studies have posited the existence of at least two stages, referred to sometimes as stages of exploration and exploitation (Bogers, Sund, & Villarroel, 2015; Sosna, Trevinyo-Rodríguez, & Velamuri, 2010). These stages differ in terms of organisational challenges or barriers to innovation which need to be addressed in each stage (Santos, Spector, & Van der Heyden, 2015; Sund, Bogers, Villarroel, & Foss, 2016), but as yet, it has not been determined what components of the business model typically enable efforts at BMI in each stage (Wirtz & Daiser, 2017). We also know little about the correlation between successful BMI and the organisational design and context for incumbent organisations (Bogers et al., 2015; Santos et al., 2015).

In this paper, we attempt to address some of these gaps by developing a process model of BMI that, although focused on the media industry, can be replicated in other industries. We describe the new business model and the evolutionary path of media agencies – one they are to some extent still on. To do this, we use the framework of the business model canvas (Osterwalder & Pigneur, 2010). This framework defines a business model as consisting of nine building blocks and has previously been used to describe business models in the media industry (Peters, van Kleef, Snijders, & van den Elst, 2013). We show how the business model stages can be differentiated according to the role played by these nine different components and focus on how each element acts to enable BMI in each of the stages.

The changing role of the media agency

Advertisers use multiple types of agencies for their marketing activities (Knuth, 2013). According to market research company MyResearch,[1] in 2015 approximately 2000 Danish advertisers used some kind of agency service in their marketing. Danish advertisers used three types of agency service. Advertising agencies (84%) and digital agencies (71%) were the largest agency types, besides media agencies. For advertising agencies, the basic service offering is "what to advertise" and for media agencies it is "where to advertise," while digital agencies are specialists within digital services.

The purpose of advertising is to motivate the consumption of specific goods or services. Advertiser-funded media sell access to their audience to advertisers. Historically, broadcast media, such as television and radio, have been more dependent on advertising revenue than, for example, magazines and newspapers (Picard, 2011). Similarly, Google and Facebook are today highly dependent on revenue from advertisers. According to the Danish Association of Creativity & Communication, the share of the Danish advertising media market handled via a media agency was 37% in 2015. The advertiser makes the final decision on a media budget, but the media agency acts as a gatekeeper or influencer in the relationship between media and advertisers (Aris & Bughin, 2009; Ots, 2009).

Media agencies developed from media-buying departments in advertising agencies into separate entities in the 1990s (Brierley, 2002). The driver was the launch of the people meter system measuring television audience viewing. This made buying space for a television commercial significantly more complicated. The role of the new independent media agencies was to guide advertisers on the effectiveness of different media and to execute the actual buying of media space on behalf of the advertiser.

There are limited market data available on media agencies. Furthermore, no study has attempted systematically to analyse and describe the development of media agencies over the past decade. Yet, media agencies would appear to play an increasing role. From 2008 to 2014, the Danish media market on average declined 2% annually (Agency for Culture and Palaces, 2015). Media agencies, however, increased their revenue by 8% annually in the same period. Furthermore, the average profit margin for media agencies was 12%. For all agencies in Denmark, it was only 8% (Bureauanalyse, 2008–2015). Media agencies thus appear to have captured more value in the marketplace, despite difficult general economic conditions in the aftermath of the financial crisis. Table 1 provides an overview of the media agency share of the advertising revenue for specific types of media.

Advertisers using media agency services are typically larger in size, as well as operating on a regional or national basis. Advertisers may use media agency services when they lack particular resources and capabilities, such as knowledge of local consumers or media. However, there is a trade-off between insourcing and outsourcing of the media-buying function in terms of developing capabilities (Knuth, 2013). Consequently, advertisers tend to use media agency services for some media, while other media are handled by the advertisers themselves. On a global level, media agencies have consolidated during the last 20 years. In 2011, the 13 largest media holding groups were active in 50 countries on average (Knuth, 2013), and the 5 marketing communication holding groups WPP, Omnicom, IPG, Publicis, Dentsu, and Havas, today control 90% of the global media agency market (RECMA, 2012). This development has made it possible for media agencies to provide better service to

Table 1. Share of the advertising volume in Denmark handled by media agencies.

Media	Media agency share (%)
Daily newspapers	27
Weekly newspapers	11
Magazines	18
TV	97
Radio	32
Cinema	72
Outdoor	57
Digital/Internet	23
Total	**37**

Source: Danish association of Creativity & Communication.

advertisers across multiple markets. It has also meant increasing consistency in media agency operations globally. A systematic analysis of how media agencies have developed in recent years could help media industry researchers understand all these observations.

Towards a model of business model change

The business model concept has become increasingly popular with both academics and practitioners (Klang, Wallnöfer, & Hacklin, 2014; Lambert & Davidson, 2013). A business model describes a "recipe" for creating and appropriating value in the market place and can be thought of as comprising the key components of a business (Hedman & Kalling, 2003). Scholars have identified a number of such components, the most cited framework being the business model canvas developed by Osterwalder and Pigneur (2010). In their conceptualisation, the business model consists of nine components, or in their language, "building blocks": customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure.

The *customer segments* building block defines the segments of the market for which the organisation creates value. The *value proposition* defines the value the organisation delivers to the customer segments. It thus "describes the bundle of products and services that create value for a specific customer segment" (Osterwalder & Pigneur, 2010, p. 22). The *channels* building block describes how the value proposition is delivered to the customer segments, while *customer relationships* are the types of relationships with the customer segments. *Revenue streams* are the revenue sources. The *key resources* building block "describes the most important assets required to make a business model work" (Osterwalder & Pigneur, 2010, p.34), while *key activities* "are the most important actions a company must take to operate successfully" (Osterwalder & Pigneur, 2010, p. 36). *Key partnerships* describe "the network of suppliers and partners that make the business model work" (Osterwalder & Pigneur, 2010, p. 38). Finally, the *cost structure* building block describes costs required to operate the business model.

The business model is overall defined as describing "the rationale of how an organization creates, delivers, and captures value" (Osterwalder & Pigneur, 2010, p. 14). For businesses, the definition of value is linked to the financial performance of the business model. The purpose of a BMI process is thus to create, deliver, and capture more value, while the consequence is a change to the business model (Santos et al., 2015). A BMI process is linked to the strategic development of the organisation and the literature suggests that changing a business model is a process that can take many years (Kaplan, 2012; Markides, 2013; Sosna et al., 2010).

A number of studies have attempted to explore and describe the process of BMI. Such studies suggest that the process occurs in stages. Prior to actual changes in the building blocks of the business model is the awareness of a need for a change. This awareness occurs early in the process. Leih, Linden, and Teece (2015) characterise this early stage as aiming to identify and assess an opportunity. Micheli (2015) describes it as the "initiation of actions." The quality of leadership and managers' understanding of the building blocks in the business model are important in this early awareness stage. Although awareness could originate elsewhere in the organisation, this stage is assumed to require support from top management (Sosna et al., 2010).

The second stage suggested in the literature is dominated by the logics of business model exploration that find their origin in the awareness stage. Sosna et al. (2010) identify a substantial degree of trial and error followed by constant fine tuning in this stage. For the organisation, there is an element of both unlearning and new learning, as business logic changes and transforms during the BMI process (Linder & Cantrell, 2000). The changes in business logic cause organisational tensions (Bogers et al., 2015), and resilience is required. The role of leadership moves from sense-making in the awareness stage to sense-giving in the business model exploration stage (Bogers et al., 2015). Customers are part often active in the exploration stage via acceptance and trial of the new business model (Micheli, 2015).

The third stage is business model exploitation. In this stage, the organisation ceases to question why or how the business model must change, focusing instead on optimising the new model. A new business model has emerged and must be implemented. This results in new collective perceptions of organisational frameworks and lower perceived organisational uncertainty (Bogers et al., 2015). The new business model becomes scalable and the performance expectations in terms of value are also at a higher level (Micheli, 2015; Sosna et al., 2010). The three stages outlined above are suggested by examining a variety of studies in the literature.

Changes in technology and market conditions require that businesses constantly look for BMI opportunities (Leih et al., 2015). There is always a balance between exploration for new business models and the exploitation of existing business models in the incumbent organisation (Bogers et al., 2015; Sosna et al., 2010). Despite existing studies on the process of BMI having indicated the existence of these various stages, we know relatively little about the roles of the various components of the business model in this process (Wirtz & Daiser, 2017). Yet, Chesbrough (2010) has identified business model mapping as a "promising approach" to clarifying the process underlying change (p. 359). For now, the BMI process literature is dominated by organisational design and context findings. The focus has to some extent been on the building block labelled "key resources" by Osterwalder and Pigneur (2010). There is a need to link the remaining building blocks of a business model with the stages in a successful BMI process. Furthermore, business model frameworks such as the business model canvas have been criticised for being too descriptive and lacking a dynamic element (Chesbrough, 2010; Peters et al., 2013). Linking business model components to each of the stages in the BMI process provides precisely such a dynamic perspective. In particular, it provides a systematic way of empirically analysing how a business model changes over time and what actors are involved in operating these changes. We will demonstrate this in the context of Danish media agencies.

Method

The conceptual framework of our study combines the three stages in a BMI process with the nine building blocks in the business model canvas (Osterwalder & Pigneur, 2010). It thus contains 27 nodes to be examined. The question we ask ourselves is to what extent each node acted as a focal point during the business model change process of media agencies over the last decade. We fully recognise that other frameworks exist, but there are good arguments for selecting Osterwalder and Pigneur's (2010) business model canvas as the framework for describing changes to the business model in this paper. First and foremost, the business model canvas is "the most well-known and widely used framework" (Fielt, 2014, p. 93), and a review conducted by Peters et al. (2013) concluded that the business model canvas framework is useful for studying media industry businesses.

Our study focuses on the media industry and more specifically on media agencies. The approach is deductive as we use the framework to trace business model changes over time. The study is based on interviews with key decision makers, supported by secondary evidence from annual reports, presentations, industry and newspaper reports, and anecdotal data. Personal interviews provide us with the perception of the course of change from the relevant decision maker's perspective. Although media agencies are typically members of international holding groups, operating in multiple markets (Knuth, 2013), in business model research the relevant unit of analysis is typically the business unit (Santos et al., 2015). The key informant in BMI process research then becomes the operational manager (Sosna et al., 2010). The local media agency managing director is typically responsible for, and involved in, all relevant decisions regarding the local agency business model and is therefore a relevant target for our interviews. The operational responsibility of our informants ranges from 20 to 350 employees, and in their role, they are responsible for the local profit and loss statement, staffing, and relationships with clients and media. We used semi-structured interviews with agency managing directors in what could most accurately be described as an embedded multiple case study approach with a sample of media agencies in Denmark.

We limited ourselves to studying changes over a period of approximately 10 years, from around 2005 to 2015. Managing directors who have been part of the media agencies in the past 10 years are relevant, and we interviewed 11 such current or previous media agency directors in September and October 2015. The respondents represent 11 agencies, generating 78% of the total market revenue of media agencies in Denmark in 2014 (Bureauanalyse, 2008–2015). Due to the consolidated nature of the industry, these 11 agencies belong to only 4 international holding groups but operate with semi-independent brands. We would therefore expect some diversity in our sample. Table 2 provides an overview of the organisations represented. The main criticism, and thus limitation, of the case study approach, is the generalisability of the findings beyond the Danish context. However, having the four big international holding groups, as well as entities with varying performance within the sample, should allow for some degree of generalisability (Yin, 2003).

In the first phase of the research, we used secondary sources of data, including industry data, financial reports, and trade magazines, to trace the journey of BMI in these agencies over the 10-year period. In the second phase, we conducted semi-structured qualitative interviews. This is consistent with the methodology previously

Table 2. Overview of the sampled organisations.

Owner	Media agency holding group	Media agencies	Revenue (2014 in DKK)	Number of interviews
WPP	Group M	Mediacom, Mediabroker, MEC, Mindshare, Maxus	347,588,000	6
Dentsu	Dentsu Aegis Network	Carat, Vizeum	179,196,000	3
IPG	IPG Mediabrands	Initiative Universal Media, BPN	85,990,000	1
Publicis	Vivaki	Starcom, Zenith Optimedia	29,371,000	1
Total			642,145,000	11

used in similar studies (Bogers et al., 2015; Sosna et al., 2010). The interviews were structured around the nine building blocks from the business model canvas (Osterwalder & Pigneur, 2010). The interview guideline consisted of 36 questions and sub-questions. We categorised these into 10 sections, starting with overall questions regarding the journey of business model change (7), and then the specific business model canvas elements: customer segments (5), customer relationships (3), channels (1), value proposition (2), key activities (5), key resources (7), revenue streams (1), cost structure (1), and key partnerships (4). An example from one of the building blocks is for key activities: "What services do you offer to the customers today? And has it changed?" One of the authors of this paper has himself 15 years of experience in media agency management and access to additional anecdotal information that helped in conducting and interpreting the interviews.

We transcribed and coded the interviews according to the nine building blocks in the business model canvas. If response data were applicable to more than one building block in the coding frame, it was included in all relevant building blocks. An example is the role of Google and Facebook in relation to which one of the respondents remarked: "They have forced everyone to focus on digital. Forced us to invest in search. Forced us to focus on social media. So they are in reality a generator for new business areas for the media agencies." This response was coded under both key activities and key partnerships.

Second, we coded the data into the three stages of the BMI process. Data from the nine building blocks in the coding frame were divided into the business model awareness stage, the business model exploration stage, or the business model exploitation stage. An example from the revenue streams building block is the statement: "It changed a lot since we previously had contracts and revenue sources that were very tightly correlated to the media turnover." We coded the above statement as belonging to the exploration stage. An additional statement from the same respondent was coded in all three stages as it encapsulated the entire BMI process the agency had been through: "…so our percentage fee has gone from 70–80% of our revenue to become the opposite now, i.e. it's about 25–30% of the revenue." Coding was conducted by one of the authors over a relatively short period of time (3 weeks).

From the coding, we were able to determine whether the building block was a focal point in the specific stage. Each of the 27 nodes from the conceptual framework was given a value based on the interaction with the BMI process. Initially, all the 27 nodes were given a neutral or positive value. Neutral was defined as the node not being a focal point of change. Positive nodes were those mentioned in relation to a stage of the BMI process. Through this categorisation, 20 of the 27 nodes were identified as focal points. On the one hand, those nodes show where management focused their attention on business model adaptations during each stage. On the other, as we will discuss in the analysis section, the changes and actors involved in each enabled the process to move forward. The 20 focal modes were then divided into primary and secondary focal points. Primary focal points have a strong impact on change in the specific stage. Secondary focal points have a weaker impact. A focal point was considered primary if respondents from all the four media agency holding groups focused on the node. The remaining focal points (those mentioned by only a subsample) were defined as secondary.

An implicit assumption of our method is that the respondents were able to recall the transformation their company had been through in the past decade. The data and change stories were consistent across the respondents. Furthermore, 5 out of the 11 respondents had acted as media agency director during the entire period examined. Four respondents had held executive positions in a media agency before being promoted to their current managing director role. The remaining two respondents were employed in roles and companies closely related to the services of media agencies before being appointed to the director role. Finally, the responses appeared consistent with the various secondary data we examined prior to conducting the interviews.

Analysis

The three stages in the BMI process for media agencies

Through our coding, outlined in Table 3, we identified a pattern in our data indicating that the BMI process indeed consisted of at least three differentiable stages. The nine building blocks in the business model act varyingly as focal points during the three stages of the process. Before discussing each stage in more detail, illustrated with quotes from the managers we interviewed, we here provide an overview of the overall industry change during the period we studied.

In the business model awareness stage, the rise of new technology in terms of search marketing and display advertising changes demand and requirements from advertisers. This is especially the case for advertisers where the internet is more core to their marketing activities. The primary interaction between agency and advertiser is the dedicated account management function at the agency. The changes in demand are sensed by the account management function and passed on to management. The changing demand and corresponding pressure from advertisers were by management perceived as an opportunity for the media agencies, rather than a threat.

Interaction between management and new technology players like Google and suppliers of display advertising strengthened the perception of an opportunity that could create and capture more value for the agency. In business model terms, the customer segments component, in terms of advertisers, acted as a primary focal point in launching the BMI process. Key resources in terms of management also acted as a primary focal point. A general observation when studying our data was that the journey

Table 3. Business model focal components in the case of Danish media agencies ca. 2005–2015.

	Business model innovation stages		
	Awareness stage	Exploration stage	Exploitation stage
Primary component focus	Key resources Customer segments	Key resources Customer segments Value proposition Channels Key activities Key partnerships Cost structure	Key resources Customer segments Customer relationships Revenue streams Key activities Key partnerships
Secondary component focus	Channels Key partnerships	Customer relationships Revenue streams	Value proposition
Neutral component	Value proposition Customer relationships Revenue streams Key activities Cost structure		Channels Cost structure

of business model change for these media agencies appeared an emergent, rather than a planned one, where external factors have acted as triggers, pushing management in these organisations to reconsider and adapt their business model to a changing environmental context.

In the second (exploration) stage, all nine building blocks in the business model appear to have played a role. New employees with digital skills were recruited, and a test-and-learn culture was adopted in order to explore the opportunities. Consequently, the service offering was broadened via a continuous launch of new (digital marketing) services. The marginal cost of launching the new services was limited due to economies of scope. The revenue source for media agencies was in this stage still primarily based on a percentage fee from the media turnover, but new and alternative fee models were tested. In other words, the core logic of the agencies started to change in this stage. Media agencies gradually transformed their business from being only a buyer of traditional media, into offering consultancy services in marketing, with a focus on digital media.

A new typology for media activity emerged with the rise of the digital media landscape. This typology falls into three categories: paid media, owned media, and earned media (Corcoran, 2009; Goodall, 2009). Paid media, or traditional advertising, refers to media activities that advertisers acquire from traditional media. Owned media refers to media activity that advertisers generate in channels they control themselves, like company websites or retail stores. Earned media refers to media activities that are not generated directly by the advertiser but by other entities, like digital word of mouth among customers. Previously, media agencies only handled paid media for advertisers. During the exploration stage, they developed their value proposition into handling paid media, earned media, and owned media for advertisers. The dialogue with advertisers according to one managing director developed from "media-language" to "marketing-language," and the media agencies penetrated their portfolio of existing advertisers with the new services. The suppliers of display advertising and especially Google, and later Facebook, became strategic partners for agencies in this stage. In business model terms, we identified customer segments, channels, value proposition, key activities, key resources, cost structure, and key partnerships as primary focal points, and client relationship and revenue streams as secondary focal points.

In the third (exploitation) stage, "digital natives" dominated the culture in the words of one managing director, i.e. the majority of the staff worked with digital services. Furthermore, the organisational design was typically adjusted in order to make way for and accelerate investments in digital services. New services are still being launched but with a more strategic approach, based on what was learned in the exploration stage. Adjustments to the value proposition are minor compared to the exploration stage. New revenues streams, such as project fees, fixed fees, or technology fees, now exceed the old revenue stream based on a percentage fee on the media turnover. Internet-based marketing services are now a core element of advertisers' campaigns, and the role of the media agency is to drive the digital transformation. This makes the media agency a more important partner for the advertisers than was previously the case. The core role of digital marketing services also anchors Google, Facebook, and other technology-based media players into strategic partners, at the expense of traditional media. In business model terms, we identified key resources, customer segments, customer relationship, revenue streams, key activities, and key partnerships as primary focal points, and value proposition as a secondary focal point.

The awareness stage

The primary focal points in the awareness stage were "customer segments" and "key resources." The secondary focal points were "channels" in terms of the client service function and "key partnerships" in terms of input from the international network. Advertisers are interested in marketing efficiency. Interviewees told us that there was growing pressure from their customers, seeking help with understanding new technologies. This pressure was quickly perceived as an opportunity for media agencies, rather than as a threat. One managing director commented "In the beginning it was display advertising, then it became search marketing, then social media, and now it is big data and programmatic … the more complex the bigger opportunity it is." The threat–opportunity interpretation of environmental change is well known from the literature on organisational sense-making (Sund, 2015), and the collective early opportunity interpretation thus appears to have played a role in the successful change made to the business model in this group of firms. We categorised "customer segments" as a primary focal point as advertisers were the ones requiring that the media agencies help, thereby creating a new perceived business opportunity for the agencies.

One of the ways in which agencies altered their business model in response to the changing needs of their customers was to start conducting customer research. This was not just at one agency, but was something copied very quickly by others. One managing director commented: "We do a bunch of research for advertisers. We have outperformed the research agencies. It was actually the first major business we disrupted." Management at media agencies sensed a need in the market. The interviewees suggested the importance of visionary managers in identifying the need for this change. As human resources, such managers are part of the "key resources" building block. As an example, one managing director told us: "There were some really innovative people around at the right time, [and] they were at the same time very competitive against each other, and kind of started a culture in those companies."

Media agencies service advertisers via their client service unit. This department within an agency is the point of contact for the advertiser. The client service function can be considered part of the "channel" building block in the business model canvas. It is responsible for the relationship between the agency and the advertiser. Channels had an impact as a secondary focal point in the awareness stage. The regular dialogue with client services provided the opportunity for media agencies to sense needs, advertiser challenges, and future requirements; as one managing director commented: "That's why the most important thing is to listen to the advertisers. Because if we are not listening, we do not know their needs."

The exploration stage

In the exploration stage, all nine building blocks acted as focal points to one degree or another. The primary focal points were "customer segments," "value proposition," "channels," "key resources," "key activities," "key partnerships," and "cost structure." We only categorised "customer relationship" and "revenue streams" as secondary focal points. Rather than illustrate all nine building blocks, we here focus on those that were not present in the awareness stage, and only briefly mention the others, starting with "customer segments." These were still a primary focal point, but advertisers active in the awareness stage were the early adopters of new digital marketing services, demanding an agency that could provide specific digital services. In the exploration stage, a broader cross-section of advertisers transitioned toward demanding digital marketing services. This allowed media agencies to determine with more clarity what new customer segments were developing and what their requirements would be.

In addition, in the exploration stage, the media agencies started to develop legitimacy for the new business model. In this process, the building blocks "channels" and "customer relationship" were focal points. One managing director said about customer relationships that "…in the early years we just did as the advertisers asked. Now we tell them what to do." The implications of this type of statement are profound. Agencies had to change their approach from being buyers of media space *on behalf* of advertisers to selling digital services *to* advertisers. As some interviewees indicated to us, media agencies moved from talking "media language" to talking "marketing language" with advertisers. In the exploration stage, the distinction between paid media, owned media, and earned media also emerged. This required a transformed revenue model. The previous revenue model was based on a percentage fee for turnover in paid media such as television, newspapers, and radio. This fee covered the planning and buying of the different media. Today, owned media and earned media are priced on hourly workload, and consequently, a new revenue stream based on a project fee or a retainer has emerged. These streams were identified in the exploration stage. One managing director mentioned, "It changed a lot since we previously had contracts and revenue sources that were very tightly correlated to the media turnover." The new revenue stream was a primary focal point for the exploration of the new business model. Another managing director remarked: "It is obvious that [with our digital services] if you move more budgets to digital … this is not rocket science … then you make more money." The "value proposition" building block had similarly transformed as it redefined media from being only paid media to also include owned media and earned media. The core logic of the media agencies was thus redefined in the exploration stage. One managing director said: "We tell the story in a completely different way."

The "key resources" building block was still a primary focal point in the exploration stage. In the awareness stage, it was a focal point in terms of management sensing the need for change in the business model. Later, in the exploration stage, culture and talent management played a role. Agencies needed to adopt a new and more innovative culture, allowing for trial-and-error learning. One managing director illustrated this, describing how they had to develop the ability to "test things and if it is not working close it down. And test something new all the time. And have an organization that is geared for it and thinks it is exciting." The recruitment and training of young talent with the required attitudes and skills were equally important. One managing director told us:

> It has become more and more important for us to educate and develop internally. It has always been important to let people move from down [the organization] and up. Both cost wise, but also because the higher you get in the organization, the more important it is that you have experience of being part of this type of organization.

The "key activities" building block became a primary focal point in the exploration stage. In this stage, the media agencies annually launched one or two new services and on top of this 10–15 product innovations within the existing service offering. There was an element of trial-and-error learning, as one managing director illustrated when he told us: "We probably launch 3–4 new products for each time we close one down." Consequently, media agencies in this stage developed a significantly broader service offering. The services that survive make it to the exploitation stage. Key activities are of course linked to "customer segments" and "key resources," as new services will typically be developed in relation to customer needs and employees need to be trained to deliver these.

"Key partnerships" were also a primary focal point. It was initially Google and later Facebook that played a major role. The traditional media has apparently not played a role. One managing director said: "It is Google and Facebook and those kinds of players that have been part of it. The rest of the media has fallen asleep." Another told us, "We don't have the close dialogue we had with traditional media ten years ago. They are much less a partner. Today they are more a supplier." Key partnerships include those with sister companies abroad, which are the result of being part of an international network. Such networks benefit from economies of scope. A managing director remarked, "You can get things from outside that you would not be able to do on your own in Denmark [...] and when we employ new SEO or SEM staff, we have actually begun to send them to London to ensure that they learn from the best."

The final building block, "cost structure," was also a primary focal point in the exploration stage of business model change. The actual cost structure remained stable during the process, consisting mainly of salaries. It was in terms of economies of scale and scope that the cost structure was a focal point. The marginal cost for launching new services was low and became even lower compared to those that would be faced by a new entrant in the market. As these agencies were all incumbents in the market, they could gradually change their business model at low cost.

The exploitation stage

In the exploitation stage, seven building blocks were focal points. "Customer segments," "key resources," "key activities," and "key partnerships" were still primary focal points. "Customer relationships" and "revenue streams" moved from secondary to primary focal points, while "value proposition" moved from primary to secondary focal points. We did not identify "channels" or "cost structure" as focal points in this stage.

Advertisers continued to request support from the media agencies on their path to digital transformation Some advertisers went as far as having internal performance indicators linked to their digital investments to challenge the dominant logic of old media within their organisations. One managing director said the following in relation to one client: "20% of their media spend must be digital. And they are measured on this in their bonuses. That too makes them push." Others told us: "On the client side there is a serious lack of people who understand the digital economy," and "A challenge is to understand the digital and how the digital should be integrated in their business and where they should use it. And that also means that many advertisers don't know where to put something like e-commerce." Complexity and uncertainty for advertisers thus continued into the exploitation stage, allowing agencies to crystalise their new business model, scale up their services, and start reaping the financial benefits.

The development of both complementary services and more strategic services has transformed the perception of the media agency in the mind of the advertisers. Media agencies have increasingly become the most important agency partner at the expense of the simpler advertising agency. Customer relationships were a primary focal point. A managing director told us, "One of my KPIs is to be the most important marketing partner for our clients" and another that "We have a quote from the Nordic marketing director that we have been the most important strategic partner for them." In the exploitation stage, agencies introduced a new revenue stream, the so-called technology fee. This revenue stream was on top of existing ones, and allowed agencies with the new business model to gain bargaining power over their customers. As one managing director told us, "The complexity in our business model has become so great that the clients cannot see through it. We have made it enormously complex with the new trading model, and all sorts of other products." Media agencies have moved from one dominant revenue stream to a combination of three. Previously, the majority of revenues were from a percentage fee from media turnover. During the BMI process, a project or retainer fee based on the number of hours, and a technology fee based on the usage of technological platforms supplemented this. The percentage fee is now less than half of the total revenue. Our findings suggest that the share of the percentage fee in the revenue will continue to diminish and the technology fee will increase its share of the revenue. This has been a primary focal point in the exploitation of the new business model.

Moreover, in the exploitation stage, the "value proposition" acted as a secondary focal point, linked to "customer relationships." More than half the revenue now comes from digital services. Ten years ago, it was less than 10%. The core value proposition of media agencies has therefore changed. As one managing director told us, "It is marketing services. We must be the preferred partner within marketing services."

"Key resources" remained a primary focal point in terms of a "digital native" culture and organisational design. The interviewees expressed concern about perfecting the organisational competences linked to selling digital marketing services. One managing director reflected on this, saying, "If I should hire again, maybe it would not be some of the people out there from the traditional advisors. I would maybe aim a little more for individuals with digital skills." In terms of organisational design, the agencies strive in this stage for a leaner organisation to maximise the value capture from the new business model. The skills and resources linked to the old business model become obsolete and the numbers of staff are reduced accordingly. As one managing director put it, "There is one thing that can slow down the transformation: if you are not willing to say that there are things we close down, there are some things we don't do, [and] there are some people and skills we don't need anymore."

"Key activities" were still a primary focal point during business model exploitation. However, to ensure a much more successful exploitation, there was more strategic control in terms of which services and products were launched compared to the exploration stage. Several directors commented on this:

> We have more strict control regarding what we put on the map and what we do not put on the map. (Managing Director)
>
> When I started here in 2006 we started a lot of things. It went really fine, but at a certain point, someone said "How the hell do we prioritize?" Then we started working much more with a strategic plan about what we are launching, when, and why. (Managing Director)

"Key partnerships" were also a primary focal point in the exploitation stage. First, international ownership played a considerable role in this stage, especially when it came to bigger investments in technology. One managing director mentioned that "…some of it is decided elsewhere. Some of it is not my decision. Until today I had more or less made all the decisions." Second, the large digital partners like Google and Facebook affected decision-making but were perceived as both partners and competitors in the business. As a managing director put it, "In the long run, they are the best thing that has happened to our industry." Another commented: "We wouldn't have been here today if it hadn't been for them, but they are not going to succeed with their plan, which is to disrupt us."

Discussion and implications

We clearly see a pattern in our data indicating that a successful BMI process does indeed consist of at least three different stages of awareness, exploration, and exploitation. We found that the components in the business model have a different enabling role in each of these three stages. The components can be neutral, or act as a primary or secondary focal point, with a primary focal point having a strong interaction with the specific stage. A secondary focal point has a relationship, but it is not a strong one. Four of the business model building blocks were focal points in the awareness stage. In the exploration stage, all the building blocks in the business model were primary or secondary focal points. In the exploitation stage, seven out of nine building blocks were focal points. From this pattern, we conclude that the most dynamic stage for a successful BMI process is probably the exploration stage. This is the stage in which awareness turns into action and the foundations are laid for the new business model.

The BMI process literature is dominated by organisational design and context findings. This is not surprising as our findings indicate the "key resources" building block as a primary focal point in all three stages of the BMI process. In some ways, using the business model canvas to examine the process of business model change reveals that successful BMI is more complicated and sophisticated than the existing literature reveals. In particular, the process is likely to be highly contextualised. Examining a change in the dominant business model in a different industry and context might reveal a different pattern in terms of the role of each business model component across stages. As such, the conclusions in terms of the components that were focal points are not likely to be generalisable across industries. However, the method is in our view empirically useful for industry studies such as this one.

New technological innovation changed the requirements and demands for advertisers. The response from the media agencies was to explore this as a business opportunity in order to create and capture more value. This paper addresses a BMI process that lasted approximately 10 years. During this period, a number of technological innovations appeared. It started with display advertising, then came search marketing and social media, and currently, it is big data and programmatic advertising that is gaining traction. Against this backdrop, media agencies have managed to create and capture more value.

In this paper, we have contributed to the ongoing discussion on media industry change generally, and the role of media agencies specifically. These have developed from being only a buyer of traditional media, into offering consultancy services in marketing, with a focus on digital media. They have transformed their core logic from services within only paid media into a combination of paid, owned, and earned media. Yet, the BMI journey was not a planned journey, but an emergent one, where actors linked to some components of the business model have acted triggers, pushing management in these organisations to explore and adapt their business model to a changing environmental context. A possible avenue for future research in the media industry could be to distinguish conditions under which successful business model change is intended and planned, and those where it is emergent and realised.

The media agencies interviewed all followed a similar journey. Eight out of the 11 managing directors interviewed previously worked at a competing media agency group in Denmark. How this mobility affects shared cognition and performance, which plays a role at the inter-organisational level, is beyond the scope of this paper, but it is worth noting its existence as a potential area for further research.

Note

1. Personal communication with Mr. Ostergaard, managing director at MyResearch, 1 December 2015.

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