



Challenges of Innovative Business Models in the Cosmetics Industry

Lessons Learned From SJÚ

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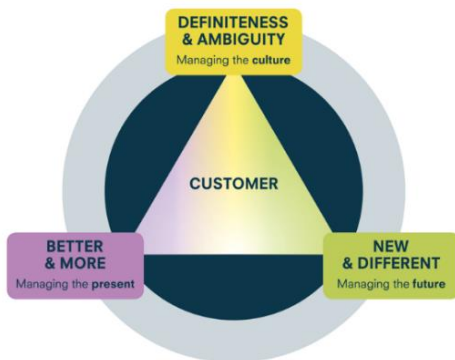
1 Introduction

Innovation in traditional industries can be challenging, especially in the context of digitization. While implementing new approaches and technologies is always demanding, dealing with organizational and cultural change can be critical.

Mibelle Group and its workforce of 1,200 employees develop proprietary and other brands in the fields of personal care & beauty and home care & nutrition, as well as active ingredients at Mibelle Biochemistry. Its headquarters are in Buchs, Switzerland, and it has sites in four countries: Switzerland, France, the United Kingdom, and South Korea. This working paper tells the story of how Mibelle Group approached the development of an innovative digital business model for SJÚ, a premium cosmetic brand to be sold online. In particular, it describes the organizational and cultural challenges Mibelle Group faced and what can be learned from their experiences.

Building innovative future business is never a trivial matter. It requires preserving the current business while managing the cultural change and organizational challenges that result from pursuing these two very different aspirations.

Figure 1: The strategic directions of Mibelle Group (Mibelle Group, 2016)



Mibelle Group's goals (see Figure 1) towards these strategic directions are as follows (Mibelle Group, 2016):

- **Better & More:** Mibelle Group wants to expand its core business, the development of private labels, and make it more (cost-) efficient. This business is characterized by short periods and a high frequency of product launches (several hundred per year) and smaller, incremental organizational and technical improvements.
- **New & Different:** This strategic direction entails the development of new business models for radical innovations, such as SJÚ. This business is characterized by long periods and a low frequency of product launches (a few dozen per year) and focuses on groundbreaking organizational and technical advances.
- **Definiteness & Ambiguity:** Bridging the gap between traditional and innovative business, the old and the new worlds, while exploiting potential synergies requires a common understanding of corporate culture, even more so if the new world is financed by revenues of the old world. Mutual learning and support are key factors.

The combination of traditional and innovative business is difficult to achieve. There are profound differences in the types of problems and how they need to be solved: Traditional business addresses complex problems with standardized measures and experience, both of which benefit from repetition. Gebauer (2017) referred to this approach as “Logic I”. Innovative business, however, typically engages in “Logic II”, which is the term he used to describe complex and rather unpredictable situations where the outcome is highly uncertain. Logic II, therefore, focuses on currently perceived risks – learning about them and finding ways to mitigate them.

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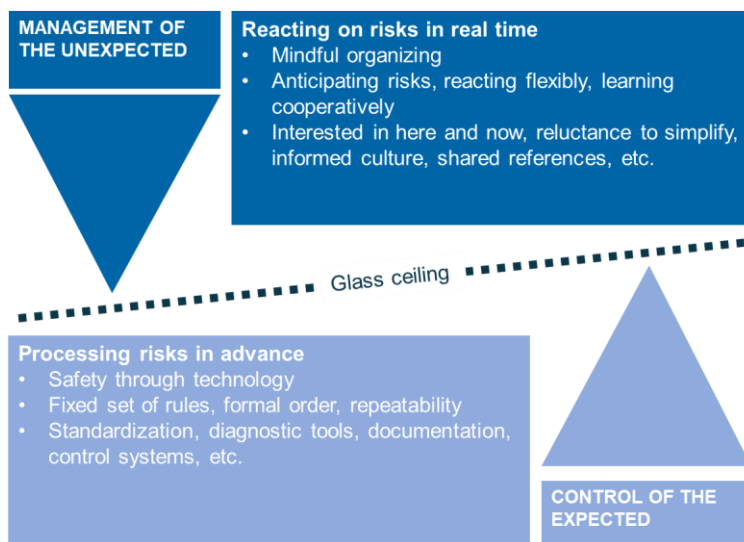
Table 1 provides an overview of the differences between the two types of logic.

Table 1: Differences between Logic I and Logic II (Gebauer, 2017, p. 89)

	Logic I	Logic II
Perceived challenge	Solving complicated but seemingly calculable problems	Solving complex and unpredictable situations
Description	Technical / trivial system	Social / non-trivial system
Goal	Preservation and protection of security	Dealing with currently perceived risks
Approach	Security through technology / routine / repetition	Managing risks by organizing collective awareness
Focus	Preserve / stabilize	Learn / innovate

Logic I and II also differ in the strategies used to counter uncertainty (Brückner & Böwer, 2015; see Figure 2). The maxim of Logic I is to “control the expected” in advance by relying on standardization and repeatability. The glass ceiling shown in Figure 2 reflects the limitations of this strategy, where “more of the same” will not necessarily produce better results or may even achieve the opposite. In Logic II, unpredictability is accepted and addressed with flexible responses. “Known unknowns” are expected, “unknown unknowns” are embraced as opportunities for learning. Such a practice of learning and experimentation is key to strategic renewal (Binns et al., 2015), especially in the medium term of building an emerging business (Erzinger et al., 2020).

Figure 2: Two strategies of addressing uncertainty (Brückner & Böwer, 2015, p. 16)



2 SJÚ: Vision of a New Digital Business Model

Mibelle Group is the third-largest European manufacturer of private label cosmetics. It produces proprietary brand products for many companies across Europe. However, as far as innovative business models are concerned, Mibelle Group lacks know-how and experience, especially regarding the development of innovative brands and services. This is a problem because innovation is becoming more and more important in the cosmetics sector, as this list of current trends shows:

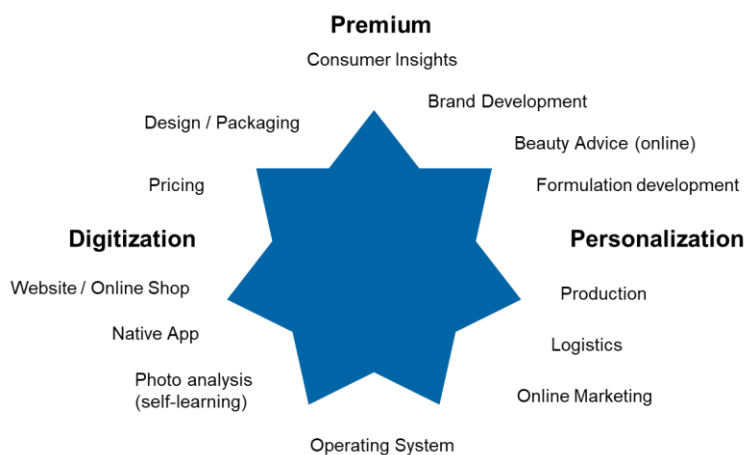
- There is a shift in the retail sector from offline to online business.
- There is a change from mass-produced goods to highly personalized products, services, and packaging.
- Online consultation can provide a personalized experience.
- New types and designs of cosmetics application (e.g., masks, skin care devices) are emerging.
- Sustainability (natural, organic ingredients and packaging) is gaining in importance.

With these trends in mind, Mibelle Group created a vision for a new business model: SJÚ, a personalized premium cosmetics line to be marketed and sold exclusively online¹. Positioned in the B2C market and presented online, SJÚ was an opportunity for strategic renewal outside the established core markets (Binns et al., 2015), complementing the traditional business segment without competing with it.

The following basic concept was developed in 2017: On the SJÚ website, the end-customer would fill out a detailed questionnaire about their skincare needs and upload a suitable photo of themselves. Cosmetic experts would then analyze the information provided and create an individual formulation for a set of personalized skincare products, which the customer could order directly (and repeatedly) in the online shop. To accommodate changing needs (e.g., drier skin in the winter), the product's formulation could be changed, allowing the customer to order another, also personalized version of their skincare regime.

As groundbreaking as this innovative business model was, it brought with it many product-related challenges that were new to Mibelle Group (see Figure 3).

Figure 3: Product-related challenges of SJÚ



As Figure 3 shows, the members of the SJÚ project team had to consider many requirements. These included customer-centricity (having to research the prospective retail clients and identify their specific needs), the customer

¹ Former post on the brand's Instagram account: "SJÚ - Your skin is beautifully unique, just like you. We make personalised skincare that adapts to the changing needs of your skin."

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experience (Weill & Woerner, 2015), and online marketing (having to develop a new brand that could be marketed online). In addition, there were the complexities of online technology (having to develop a website and an online shop, an online questionnaire, and the technology needed for skin analysis based on the information provided).

Although the project team succeeded in addressing all these areas, SJÚ did not meet Mibelle Group's financial expectations. A minimum viable product was launched in the summer of 2018, and was discontinued in early 2020.

Significantly, many of the challenges in developing the SJÚ product line were not technical in nature. Rather, they were related to organizational factors. In the following sections, these challenges are explored in detail.

3 SJÚ: Organizational Setup

For the organization to be able to learn as much as possible from the process of developing SJÚ, it was set up as an internal corporate venture. To this end, internal experts were seconded from Mibelle Group's traditional business sections to develop the product line on a part-time project basis. They would be instrumental in transferring the project outcomes back into the traditional business. Being an integral part of the project organization with its innovative ideas and methods was meant to inspire and excite all business units (traditional and new).

This approach has features of both the "intrapreneur" and the "educator" corporate venturing modes in accordance with Gutmann (2019) (see Table 2): Intrapreneurs generate ideas internally; they develop and commercialize them within or outside the traditional domain, using internal resources to generate and accelerate innovation and business opportunities. Educators invest in internal business opportunities, but they also focus on creating a more entrepreneurial culture by driving the innovation, creativity, and calculated risk-taking of employees while also providing training and education. They build on their company's resources to nurture and support new business opportunities while managing and further growing the "traditional" core business.

Table 2: Corporate venturing modes (Gutmann, 2019, p. 129)

Prioritization of Objectives	Primarily Strategic	Internal Explorer	Intrapreneur	External Explorer
	Balanced	Educator	Venture Builder	Strategic Investor
	Primarily Financial	Exploiter	Commercializer	Financial Investor
		Inside-In	Inside-Out	Outside-In
Direction of Innovation Flow				

This approach is also reminiscent of the principle of medical vaccination: to enable it to learn and adapt to changes, the company is exposed to innovation in small doses while maintaining organizational functions and processes for the existing businesses. This allows the organization to gradually become better prepared for innovation and more resilient in managing change.

Such an involvement is considered difficult to achieve by (external) startups or incubators, which operate more independently of the parent organization and have dedicated employees who only work for the innovation project team (as opposed to also being part of a traditional business unit). In addition, it often proves difficult to integrate innovation from incubators into the traditional organization because the required functions and processes do not yet exist, and neither does the culture. If incubators fail, this can also mean that the organization will benefit little from their experience and the knowledge gained.

Being set up as an internal corporate venture, the SJÚ project team had to face the challenges of the different types of logic mentioned above. As an industrial company, Mibelle Group operates along the principles of Logic I (highly standardized planning, efficiency goals, low risks and error tolerance), while SJÚ – as an innovative endeavor – operated according to Logic II (openness of results, limited predictability, high risks, and error tolerance).

The opposing types of logic had various effects on Mibelle Group and its employees. The traditional organization had to learn that innovation is highly unpredictable and very iterative and may not always comply with existing

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expectations, processes, and guidelines. Conversely, the SJÚ project team also had to establish a deep understanding of the specific details of Logic I to benefit from the know-how of the traditional business. However, while applying new approaches and techniques as is usual for innovation projects, the team also had to “unlearn” specific traditional behaviors and bypass existing processes.

In the next section, the most important organizational challenges and lessons learned are reviewed in detail.

4 SJÚ: Challenges and Lessons Learned

4.1. FROM B2B TO (ONLINE) B2C

For a company that had previously been mainly active in the traditional B2B field, the move into B2C and online sales was a big step. It would affect many of Mibelle Group's activities, especially the interaction with its end-customers, and would require market and trend research as well as needs and requirements analysis. In addition, online marketing would require more than building a website and setting up social media accounts.

Initially, many of the corresponding functions and processes in the organization were either not available or were exclusively geared towards B2B. For example, the SAP IT system was not designed to process end-customers efficiently, let alone deal with individualized products. This made it difficult to process orders from the online shop. It was therefore necessary to build a dedicated system to handle the tasks related to personalization, sales, and shipping, among others.

These technological hurdles, together with the expectation that SJÚ would – to a certain extent – adhere to existing processes and use the existing infrastructure, led to a certain amount of organizational friction.

Lessons Learned

The learning curve of changing from a mass market to personal online sales was very steep and was underestimated, at least in the beginning. Not enough attention was paid initially to understanding the end-customer and meeting their needs and desires. Such a human-centered design did not reflect the tradition and experience of the organization.

The shift to online marketing and sales was found to be complex. In retrospect, it would have made sense to build and manage a corresponding online community as early as possible and use it for feedback and marketing, thereby allowing for organic customer growth.

Regarding the existing infrastructure and processes, a high degree of organizational flexibility was necessary to apply them in innovative settings or to replace them with new ones if necessary.

4.2. INTEGRATION INTO THE EXISTING ORGANIZATION

As described above, SJÚ was embedded within the company to allow cross-pollination between the different businesses. This was often perceived as problematic and was not always productive.

In particular, the need to implement fast, pragmatic solutions typical of innovation projects clashed with the Logic I approach of the traditional business side. The people working there had been taught to be precise and follow internal and external regulations, processes, and product specifications to the letter. For the SJÚ project team, on the other hand, it was sometimes necessary to bypass established processes – always with the challenge of not interfering with other products relying on these processes (e.g., in terms of packaging, legal framework, quality, planning, or financials).

This tension was reinforced by the inherently poor predictability of an innovation project with regard to issues such as quantities of ingredients and packaging volume, the scalability of production and IT systems, as well as the planning horizon and corresponding lead times. While such requirements are standard according to Logic I, in Logic II they can often only be communicated provisionally and with a high risk of being “incorrect”.

Another area of friction was a lack of skills in certain areas, such as procurement or packaging development since the existing organization had little experience with premium products. However, the respective departments resisted the idea of outsourcing certain tasks that they regarded as their area of expertise.

The deployment of internal staff was also challenging for another reason, namely their availability. Most of the employees involved in SJÚ were doing so part-time: Their main work was in traditional business units (e.g., R&D, logistics, and marketing). The innovation project was, therefore, not their first priority. Their performance was measured primarily by the (financial) performance of the traditional business, so dealing with problems in their daily business always took precedence over SJÚ. This led to availability issues and transfer losses when employees were transferred or needed to be replaced. As a result, the transfer of the innovative spirit and know-how of the project into the traditional business, which is a key principle for strategic renewal (Binns et al., 2015) and had been an important goal, was never really achieved.

Another challenge for Mibelle Group was their internal employees' understanding of their specific professional roles. They had mostly been trained in Logic I, and it was, therefore, difficult to establish a "culture of error". As a result, communication of operational problems often clashed with personal sensitivities. To work on the innovation project, the staff had to extend their traditional roles (and adapt their self-image) to cope with unfamiliar, unexpected problems on a daily basis. There are many reasons why not all employees are capable or willing to leave their comfort zone. However, working on a Logic II project can also broaden the mindset and strengthen the flexibility of employees, who may actually appreciate the experience as enriching and develop an emotional connection to the project (Binns et al., 2015).

Lessons Learned

In theory, closely embedding innovation projects into the organization seems a promising approach for a company. The iterative exchange between Logic I and Logic II business challenges existing processes and structures, resulting in improvements. The resulting friction seems necessary to enable sustainable changes ("vaccination").

One the other hand, this approach requires a compromise regarding the speed of iterative development which may be crucial for innovation projects (in particular with regard to windows of opportunity). From a practical point of view, certain existing premises should therefore be revised as follows: (1) the innovation project should be staffed with a dedicated team (whose first priority is the project); (2) it should be easier to bypass internal processes that do not work for Logic II projects – this does, of course, require the strong support of top management (see Challenge 4 below).

Such an approach would combine the advantages of an internal corporate venture with those of an independent innovation lab: a dedicated team that makes use of internal infrastructure and processes but can circumvent them if necessary. This should also make it easier and faster to generate success stories that inspire the organization by linking the preservation focus of Logic I and innovation focus of Logic II.

However, this cultural change is difficult to achieve "on the job". In order to enable all members of an organization to learn, gain insights, and develop new views and skills, an innovation project should be accompanied by a dedicated transformation program. This should provide the organization with up-to-date information and knowledge in a structured way (e.g., through regular newsletters, presentations, or round-table discussions).

4.3. EXTERNAL SUPPORT

As discussed above, the internal procurement of competencies required to deal with SJÚ proved difficult. Similar problems were encountered with external procurement from partners and service providers. For example, the multilateral management of (external) cooperation (briefings and debriefings or communicating and reviewing requirements and specifications) proved to be both demanding and time-consuming. The innovation project also covered

several areas that were new territory for Mibelle Group, especially the new target market (B2C) but also the technology and marketing requirements of selling the SJÚ product line online. It was therefore also challenging to assess the competence of potential service providers and what to consider in terms of the content they should deliver and the criteria for successful cooperation with them.

As the SJÚ product line evolved, its requirements and objectives evolved along with it, which also affected the skills required from service providers. For that reason, the service providers for the IT platform, design and marketing, and online performance marketing had to be replaced in mid-project. This raises the question of how this could have been avoided, such as by correctly assessing the specific goals of the various development stages and matching them with service provider profiles.

Lessons Learned

Skills and competencies that are unavailable internally may be obtained quickly and easily from external service providers. At the same time, it is important to build up basic competencies in the relevant areas internally quickly to allow for

- (1) more and faster iterations that enable employees to gain confidence in the new technologies and approaches early. (Early steps in new areas are often taken rather slowly and with a tendency to “perfection”.)
- (2) better assessment of provider profiles to find the best match in terms of the project goals at certain stages of the project. When planning the project, it should be taken into account that, as the project develops and goes through the various stages of product development, service providers must adapt in terms of the services they provide.

4.4. EXPECTATION OF SUCCESS

A very important factor in innovation projects is how to measure success. As such projects mostly learn and develop through failure (i.e., when hypotheses are falsified), traditional key performance indicators may not reveal much about their progress or success. One such indicator may however be the speed with which an organization is able to recognize failure and turn it around.

To be able to operate as an innovative startup within the organization, the project needs “space to fail”, which requires the trust and support of all stakeholders, especially top management (Viki, 2018). This, alas, was not always the case with SJÚ. Although the project’s iterative design and development were generally well received, the expectations Mibelle Group had with regard to SJÚ’s (financial) success were similar to those for its other products, and so they also used the same metrics (KPIs, planning horizon).

Lessons Learned

As with any strategically important venture, support from top management is crucial. This also requires clear expectation management and the definition of appropriate goals and metrics. It is not advisable to impose direct budgetary sanctions on innovation projects if their development is actually based on making mistakes and learning from them.

At the beginning of an innovation project, it is difficult to estimate the expected revenue and measure the success of the project against it. Since the primary goal of the project may be to identify potential end-customers and develop an appropriate product for them, such sales forecasts will change quickly and frequently as they are necessarily based on, mostly untested, hypotheses. If management compares such a product with traditional products, it will inevitably perform worse. This increases the risk of “false negative” decisions, meaning the discontinuation of products for the wrong reasons.

Fear of sanctions due to (financial) “setbacks” may impede regular, transparent communication with management. The result could be a vicious cycle: Communication may be kept to a need-to-know level, and updates

will be provided less frequently. Management may take less notice of the project and, ultimately, be less committed to the product.

In summary, therefore, an innovation project needs a strong internal sponsor who understands the project's approach and stands firmly behind it. In addition, the project requires a protected space to prototype and learn.

Innovation projects require metrics to measure their success other than financial KPIs. These might include predefined project phases and goals that are aimed at progress in terms of content maturity, amount of testing performed, or number of different variants explored – with committed budgets (“financial space”, according to Viki (2018)) that are independent of overall organizational performance and politics.

5 Conclusion

Although the SJÚ project was ultimately not viable economically, it has resulted in many helpful insights from which the organization can benefit. In particular, it had to face many challenges regarding the product itself (B2C, premium segment, online sale). However, the most important stumbling blocks were organizational and cultural in nature.

The lessons learned are summarized below.

Innovation projects should

- be decoupled from daily (traditional) business as much as possible. To enable cross-pollination between Logic I and Logic II business, innovation projects should rely on the same organizational processes and structure as traditional projects, but with justified exceptions.
- have dedicated staff members focusing on and prioritizing the project at hand. This should allow for faster and better development and be better suited to provide success stories and inspiration for the organization as a whole.
- be accompanied by dedicated transformation programs fostering the cultural change.
- manage expectations differently than traditional projects, using appropriate goals and performance metrics that reflect uncertainties. This requires strong support from top management as well as a willingness by everyone to learn and adapt.
- follow an iterative approach. It should not try to accomplish “everything at once” and test the product in the real market with real end-customers as early as possible.

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