Stockholm School of Economics

Master Thesis in Business & Management

Spring 2023

From Growth to Profitability

A multiple case study on business model innovation among tech startups to meet changed investor preferences during an economic downturn.

Abstract:
Investors are fundamental stakeholders for most companies, particularly tech startups, as they often depend on external financing. With an economic downturn and increased interest rates during 2022, tech startups were significantly impacted by the dramatic shift in investor preferences from growth to profitability. Through a multiple case study, we investigate *how* tech startups' business models were innovated to meet investors' increased demands for profitability, with a particular focus on the enabling role of dynamic capabilities. We uncover major changes in the value creation, delivery, and capture of the case companies, including clarified strategic directions, acceleration of data-driven ways of working, and discovery of new business opportunities. Business model innovation was particularly enabled by high inter-organizational trust, knowledge-sharing capabilities, and data analytics capabilities. Our findings expand the understanding of business model dynamics and bring construct clarity to how business models are innovated among tech startups when investor preferences shift from growth to profitability.

Keywords: Business Model Innovation, Dynamic Capabilities, Investor Preferences, Growth, Profitability, Economic Downturn, Start-ups, Startups, Tech Startups, Multiple Case Study
Authors: Klas Andersson (50459) & Marcus Josefsson (42098)
Supervisor: Daniel Tolstoy

Acknowledgments

We would like to express our deepest gratitude to our supervisor, Daniel Tolstoy, for his support and exceptional guidance. Your constructive feedback was impressive and incredibly valuable for us during the research and writing process.

Furthermore, we would like to thank all our interviewees and case companies for the educative and fruitful conversations that we were lucky to have. Thank you for taking your valuable time and showing great engagement in the topic. We are genuinely grateful for allowing us to dive deep into these exciting companies during this challenging period.

Stockholm, May 15th 2023

Klas Andersson Marcus Josefsson

Table of Content

1 Introduction

1.1 Background

“High rates are painful for almost everyone, but they are particularly painful for Silicon Valley,” said Kairong Xiao, associate professor of finance at Columbia Business School (Streitfield, 2023, para. 16). High inflation, increased interest rates, and a world economy shifting towards recession are top of mind for most managers as of 2023. Falling by a third, the tech-heavy Nasdaq index experienced one of its worst years ever in 2022, drawing comparisons with the dot-com bust of 2000–2001 (“How the titans of tech investing are staying warm over the VC winter”, 2023). An industry that has been particularly affected is the tech industry, where European tech companies laid off 115 000 employees during the second half of 2022 (Sinclair & Scolari, 2023). With tech startups being particularly sensitive, firms such as Kry and Voi have experienced a decrease of 50% or more in valuation compared to the last round of financing (Sinclair & Scolari, 2023).

The constrained financial market has enlarged the challenges for tech startups to raise funding (Griffith, 2023), often fundamental for the survival and commercialization of products or services (Cantamessa et al., 2018). The aggravated challenges are related to the rising inflation and interest rates, which have increased the cost of capital (Griffith, 2023). This has led to a decreased value of positive cash flows far in the future, resulting in investors’ preferences shifting from growth to profitability (Heim & Wilhelm, 2022). Consequently, investors have increased their share of investments in firms likely to turn a profit sooner (“The tech slump is encouraging venture capital to rediscover old ways”, 2023). Tech startups, on the other hand, are often unprofitable and dependent on external financing to develop proprietary technology and achieve network effects and first-mover advantages (Revest & Sapio, 2012). Since the absence of financial capital during a firm’s expansion stage could significantly impact its future success (Cantamessa et al., 2018), the changed investor preferences will likely trigger major changes among tech startups to meet those new demands. Not only did our pre-study on tech startups confirm changes in investor demands, but it also showed that the change of investor preference from growth to profitability was the most important driver of change following the economic downturn (see 4.2.1 “Explorative Pre-study”). An intuitive action to adopt under this context is overall cost-cutting. However, coping with external changes can also imply fundamental changes to a business' absolute core: its business model (Revest & Sapio, 2012).

Business Models (BMs) have become a widely recognized analytical unit used across a range of business and management subject disciplines (Wirtz et al., 2016). As BMs are becoming increasingly dynamic, the idea of business model innovation (BMI) has drawn significant attention (Di Toma & Ghinoi, 2021), referring to the procedure or actions that modify an existing BM (Zott et al., 2011). Research suggests BMI is central in handling changing environments, directly impacting a firm's competitiveness and profitability (White et al., 2023; Wirtz et al., 2016). Further, BMI is crucial for an organization's growth, scale-up, and eventual establishment (Saebi et al., 2017). Facing resource limitations, tech startups are in a particular need to perform quick, efficient, and effective processes of BMI to not run out of cash (Sosna et al., 2010). Lower resistance to change among startup managers also results in tech startups outperforming other types of firms in quickly adapting to changes (Zaech & Baldegger, 2017). This makes them particularly interesting to look at from a BMI perspective.

To enable successful BMI and adaptation to a changing business environment, the ability to anticipate and seize opportunities is crucial (Teece, 2018). This is referred to as Dynamic Capabilities (DCs), defined as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al., 1997, p. 516). Again, our pre-study substantiated the enabling role of DCs in BMI to change internal processes, resources, and resource allocation to seize the opportunities and overcome the challenges following investors' demand for profitability. With a particular emphasis on DCs and the reconfiguration of resources to external changes, this study builds an understanding of how it facilitates the innovation of business models to meet shifting investors' preferences from growth to profitability during an economic downturn.

1.2 Research Gaps and Intended Contributions

This thesis intends to address four research gaps (Figure 1). First, there is a need for simplification, conceptual clarification, and empirical work on BMI (Foss & Saebi, 2017; 2018; Saebi et al., 2017). Existing literature on BMI covers the creation of general plans and guidelines for a business and defines particular steps or stages of these plans (Khanagha et al., 2014; Cavalcante, 2014; De Reuver et al., 2013; Frankenberger et al., 2013; Girotra & Netessine, 2013; Teece, 2010; Osterwalder & Pigneur, 2010). Foss and Saebi (2017, p.222) express a need for construct clarity, stating that BMI literature "attempts to grapple with a puzzling and complex reality that represents real challenges to practitioners". This thesis intends to improve construct clarity by outlining distinct BM changes following the specific context of changed investor preferences. To further increase clarity, we intend to describe the process and capabilities leading to the identified BMI.

Second, entrepreneurship and its relation to BMI occupies a research gap, as studies on large companies predominate the BMI literature (Ghezzi & Cavallo 2020; Clauss et al., 2019; Anwar, 2018; Foss & Saebi, 2017). We address this gap by seeking an understanding of BMI among entrepreneurial firms, using tech startups' BMs as the unit of analysis.

Third, there is a need for research on how changes in investor preferences affect BMI. This is interesting as previous research has primarily focused on understanding investor preferences from investors' perspectives (Balachandra et al., 2019; Kim & Wagman, 2016; Davila et al., 2003). Moreover, important drivers of BMI have been studied by various streams of research. Examples of drivers of BMI include new technologies (Bouwman et al., 2019; Sabatier et al., 2012), the covid-19 pandemic (Seetheraman, 2020), institutional stakeholders (Miller et al., 2014), and actors part of a firm's solution network (Ferreira et al., 2013). However, to the best of our knowledge, no previous research has been conducted on changed investor preferences as a potential driver of BMI. The effects of the economic downturn of 2008-2010 on small businesses have, to a certain extent, been the subject of prior research (Lee et al., 2015; Bamiatzi & Kirchmaier, 2014; Williams & Vorley, 2014), but without considering the effect from investors. By studying how changed investor preferences drive BMI during an economic downturn, we intend to fill this gap.

Fourth, there is a need to expand the DCs-based perspective of BMI (Weimann et al., 2020; Mezger, 2014) and specify the role of DCs in BMI (Hock-Doepgen et al., 2021; Leih et al., 2015; Teece, 2018). Additionally, research on the relationship between BMI and DCs is primarily focused on large established companies (Teece et al., 2016). By studying how DCs facilitate BMI in tech startups, we intend to develop and clarify the link between these two perspectives.

Research Gap	**Articles that Accentuate Gap**
Gap 1: Construct Clarity of BMI	Foss & Saebi, 2017; 2018; Saebi et al., 2016
Gap 2: BMI in technological entreprenurial firms	Ghezzi & Cavallo 2020; Clauss et al., 2019; Anwar, 2018; Foss & Saebi, 2017
Gap 3: BMI in the context of changed investor preferences	N/A
Gap 4: Expand the DCs based perspective on BMI	Hock-Doepgen et al., 2021; Teece, 2018; Weimann et al., 2020; Teece et al., 2016; Leih et al., 2015; Mezger, 2014

Figure 1: Summary of research gaps

1.3 Purpose and Research Question

Based on the presented research gaps, the purpose of this thesis is to present how tech startups change their business models to meet the new preferences of investors during an economic downturn. This is done by analyzing the BMI driven by the change in investor preferences among four theoretically sampled tech startups. To develop a deeper understanding of how business models are innovated, we build a theoretical framework combining the BMI and the DCs perspectives. The framework is used as the theoretical lens to analyze the BM changes, and the processes and enablers leading to them. The conclusions of this study aim to be theoretically generalizable and practically applicable for tech startups.

Based on the logic above, the research question this thesis aims to answer is:

- ***How do tech startups innovate their business models to meet investor preferences going from growth to profitability?***

2 Literature Review

This thesis builds on existing research from two research fields: (1) business model theory and (2) dynamic capabilities theory. First, we introduce the concept of business models (BM), followed by definitions of business model innovation (BMI). Second, we present Dynamic Capabilities (DC), its relevance for the study, and its link to business model theory.

2.1 Business Models

2.1.1 The Business Model Concept

Over the past few decades, the idea of business models (BMs) has attracted increased attention from academics and practitioners (Gassmann et al., 2016; Massa & Tucci, 2013). Articles on BMs have been increasingly published in academic and non-academic management journals during the 21st century, with a continued trend (Massa et al., 2017). Since its introduction (Bellman et al., 1957), the BM concept has undergone constant definitional evolution (Foss & Saebi, 2017). It has changed from being primarily connected to a company's operational and functional aspects to being understood as a tool for effectively implementing a business strategy (Wirtz et al., 2016).

Setting the scene for the modern development of the BM concept, Osterwalder et al. (2005, p. 17) define a BM as “A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm”. A BM includes elements that describe the value that a firm offers to consumers, the firm's structure, and its connectivity with partners (Osterwalder et al., 2005). Furthermore, Shafer et al. (2005) define a BM as a representation of the essential tasks that any organization must complete to remain profitable and survive. Consequently, a BM can be defined as a structure that aims first to identify the customers in order to understand their needs, then to satisfy those needs and produce revenue from the value provided (Baden-Fuller & Haefliger, 2013).

Despite different streams of research and definitions, a consensus is increasingly emerging (Wirtz et al., 2016), defining a BM as the “architecture of the value creation, delivery, and capture mechanism” of a firm (Teece, 2010, p. 172). Furthermore, scholars appear to agree that the term "business model" refers to a system-level concept that focuses on activities and value (Massa & Tucci, 2013), and that it can be viewed as an analytical unit (Zott et al., 2011).

While BMs in the context of investor preferences switching from growth to profitability have not been studied before, research has frequently been relating BMs to a firm's external environment. For example, Gibe and Kalling (2019, p. 32) define BM as "an idea concerning the interrelation of the things inside and outside an organization”. A BM matches internal organizational factors like activities, resource base, culture, and structure to external business factors like suppliers, competitors, investors, and socio-economic trends (Gibe & Kalling, 2019). The BM accounts for activities and elements arranged to enable the firm to create, deliver, and capture value for itself and its stakeholders within the ecosystem it is embedded in. Thus, the BM provides a comprehensive picture of a company, making it suitable to analyze when seeking an understanding of how internal or external changes have impacted a company as a whole (Mason & Spring, 2011; Demil & Lecocq, 2010; Osterwalder & Pigneur, 2010; Zott & Amit, 2010).

This thesis combines the BM definitions of value creation, delivery, and capture, with research demonstrating its interrelation with external stakeholders around the focal firm. Thus, it sees a BM as several interdependent elements creating and delivering value to its customers and other stakeholders while ensuring that value is monetized (Ghezzi & Cavallo, 2020; Gibe & Kalling, 2019; Osterwalder & Pigneur, 2010; Teece, 2010).

2.1.2 Business Model Innovation

The BM concept is increasingly seen as a dynamic process, including both complete reinvention and partial adaptation (Teece, 2018; Khanagha et al., 2014). Continuously changing an existing BM through innovation is vital for firms’ performance (Foss & Saebi, 2017). These changes range from new means of creating value (e.g., selling services rather than products), new venues where value can be offered and delivered (e.g., e-commerce), and new possibilities for capturing revenues (e.g., paying per use) (Massa et al., 2017). These changes across various parts of the BM broaden the scope of product and process innovation (Foss & Saebi, 2017). Product innovation refers to introducing new products and services, and process innovation is defined as implementing new operations or manufacturing methods (Massa et al., 2017). Business Model Innovation (BMI) is a distinct type of innovation that complements product and process innovation by taking a holistic view of the innovation potentials in the various components of the organization (Snihur & Wiklund, 2019). Introducing innovation-oriented interventions into the current business model entails changing the firm's strategic direction in response to internal or external phenomena, such as socioeconomic trends or technological advancements (Casadesus-Masanell & Ricart, 2010; Demil & Lecocq, 2010; Osterwalder & Pigneur, 2010). In an effort to comprehend BM change, BMI has become increasingly popular in the management research field (Filser et al., 2021).

BMI refers to the implementation of “designed, novel, non-trivial changes to the key elements of a firm's business model and/or the architecture linking these elements” (Foss & Saebi, 2017, p. 201). Ghezzi and Cavallo (2020, p. 521) further contend that "BMI involves innovation to at least one of the foundational elements of value creation, delivery, and capture, and thereby gives a firm the potential to activate overlooked value sources within the company or create new systems that are difficult to imitate". As a result, companies must constantly improve and strengthen their capabilities and modify their BMs when opportunities or threats present themselves (Battistella et al., 2017). The scope of BMI may result from both gradual reconfigurations or radical changes in BM components (Velu & Jacob, 2016; Massa & Tucci, 2013). When studying BMI, it is therefore appropriate to observe and analyze major and minor changes in firms’ business models, which is also the adopted approach in this thesis.

2.2 Dynamic Capabilities

As BM theory describes BMs at a specific point in time, it benefits from being complemented with a more process-oriented theory. Thus, the Dynamic Capabilities Framework (Teece et al., 1997) can assist in gaining a deeper understanding of how business models are innovated when investor preferences shift from growth to profitability. The DCs perspective becomes particularly relevant when studying BMI triggered by external changes, as DCs are a critical success factor for businesses when changes in the external environment call for quick response and adaptation (Teece et al., 1997).

2.2.1 Relevance of Dynamic Capabilities

Created in 1997 by Teece et al., the DCs theory explains and analyzes how successful businesses maintain a competitive advantage by adapting and rebuilding competencies in constantly changing environments (Qaiyum & Wang, 2018). Before the development of the DCs theory, there were two main approaches to examining a firm's competitive advantage: the market-based view, developed by Porter in 1985, and the resource-based view, developed by Barney in 1991. Even though widely accepted by academics, both, according to Cordes-Berszinn (2013), fail to consider that the market is constantly changing. This gap is addressed by the DCs theory by describing the sources of competitive advantage for the firm in times of change (Teece, 2007).

Although academics approach the idea of DCs differently, they all ultimately build on the same fundamentals. DCs are referred to as organizational patterns by Zollo and Winter (2002), organizational routines and processes by Eisenhardt and Martin (2000), and organizational abilities by Helfat et al. (2009). Commonly used definitions of DCs have flaws of their own. For instance, there is little information in the definitions offered by Helfat et al. (2009) and Zollo and Winter (2002) on how a firm can adapt to a constantly changing environment. This shortcoming is addressed in Teece's expanded works (2007; 2018), where he distinguishes three main categories of DCs - sense, seize, and transform - that businesses must carry out to adapt to change. In line with Teece (2007; 2018), this study defines DCs as the firm’s ability to integrate, build, and reconfigure internal and external resources to address rapidly changing environments.

Previous research suggests a close link between a firm’s DCs and BMI (Teece, 2018; Doz & Kosonen, 2010). Firstly, companies need to be able to sense BM opportunities to formulate new BM concepts (Mezger, 2014). Secondly, seizing such opportunities requires a firm to reflect on how it uses its existing resources (Kump et al., 2019). Thirdly, to develop new BM-related competencies and integrate complementary stakeholders, a firm must transform old and new resources through reconfiguration (Teece, 2007; 2018).

The DCs perspective becomes particularly useful when studying firms operating in a rapidly changing environment, where it is critical to adapt to changing circumstances and take advantage of new opportunities (Teece, 2007). Prescott (2014) claims that failing to adapt the available tangible and intangible resources to the external environment's most recent changes and requirements could put a company's competitive advantage at risk. Tech markets are often rapidly moving and characterized by uncertainty about the outcome of new technology: what it should be used for and how it is best applied (Hall & Martin, 2005). Hence, tech firms need to be particularly adaptive toward change (Trimi & Berbegal-Mirabent, 2012; Demil & Lecocq, 2010). Applying the DCs framework to tech startups during turbulent times offers an interesting opportunity to provide construct clarity of the processes behind BMI and its relation to external change.

In managerial literature, researchers have used the DCs view as a theoretical lens to investigate its relationship with BMI (Ciampi et al., 2021; Khodaei & Ortt, 2019; Jiang et al., 2018). For example, Ciampi et al. (2021) examined the relationship between big data DCs and BMI, which showed that a data-driven culture with enhanced capabilities of collecting and sharing information assisted in grasping market opportunities and innovating BMs. Thus, applying the DCs framework allows for a deeper understanding of how tech startups have used and reconfigured internal resources to support the BMI triggered by investors' increased demands for profitability.

3 Theoretical Framework

As previously mentioned, this thesis sees a BM as interdependent elements creating and delivering value to its customers and other stakeholders while making sure that value is being monetized (Ghezzi & Cavallo, 2020; Gibe & Kalling, 2019; Osterwalder & Pigneur, 2010; Teece, 2010). Based on this definition, the existing literature is narrowed down into a BMI framework and a DCs framework. Firstly, this chapter describes the BMI framework and its three key components: value creation, value delivery, and value capture. Secondly, the chapter describes the Dynamic Capabilities framework and its three key components: sensing, seizing, and transforming. Lastly, the BMI and DCs frameworks are integrated into the theoretical framework that will be used to answer the research question.

3.1 The Business Model Innovation Framework

3.1.1 The Business Model Canvas

A BM can be defined as "building blocks to produce a proposition that can generate value for consumers and thus the organization" (Demil & Lecocq, 2010, p. 227). Applying the "building block"-concept, the "Business Model Canvas" (Osterwalder & Pigneur, 2010) has become one of the most recognized tools, frequently used in practice to formulate the different parts of a firm's BM. The Business Model Canvas adopts a holistic approach that places organizational activities in the center and explains how value is created, delivered, and captured (Zott et al., 2011). Thus, it is consistent with how literature views BMs (Filser et al., 2021; Clauss et al., 2019; Wirtz et al., 2016). The Business Model Canvas outlines nine essential components of BMs: value proposition, customer segment, customer relationships, channels, partner networks, key resources, key activities, revenue streams, and cost structure. In this thesis, Osterwalder and Pigneur's terminology will be used to describe and analyze BMI in the examined firms.

3.1.2 Categorization of Business Model Canvas Building Blocks

This thesis further breaks down the nine building blocks of the Business Model Canvas' into three distinct value-driven constructs, namely value creation, value delivery, and value capture (Figure 2) (Kaplan, 2012). The categorization is done in light of the inherent use of the BM in conceptualizing an organization's value creation, delivery, and capture (Filser et al., 2021; Clauss et al., 2019; Osterwalder & Pigneur, 2010). Due to its overlap with value creation, delivery, and capture, the value proposition, defined as "the bundle of products and services that creates value for a specific customer segment" (Osterwalder & Pigneur, 2010, p. 22), is integrated into these three pillars rather than separately analyzed. The categorization enables in-depth exploration of the relationships and dynamics within and between the essential parts of the BM.

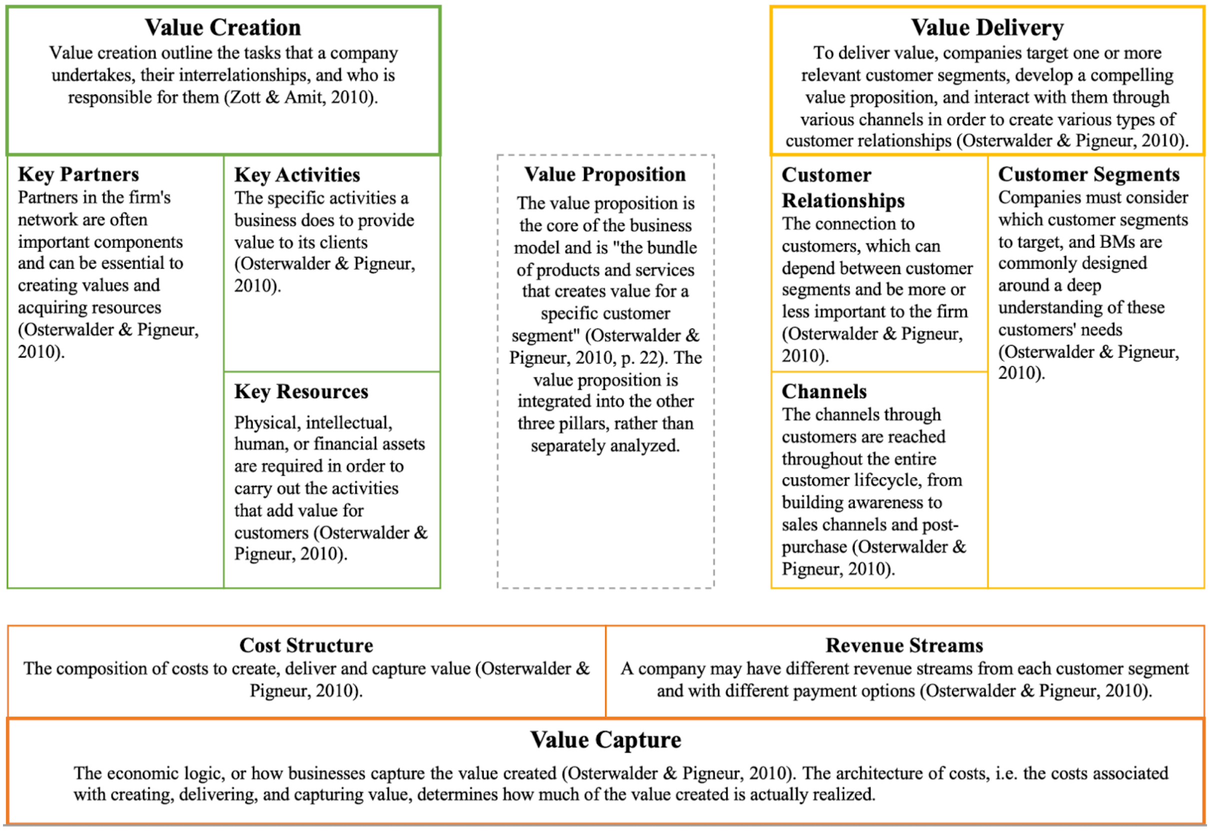

Figure 2: Illustration of a value-driven business model canvas

3.1.2.1 Value Creation

To provide value for its customers, a business must carry out specific activities (Osterwalder & Pigneur, 2010). BMs outline a company's key activities, their interrelationships, and who is responsible for them (Zott & Amit, 2010). Since activities in a firm's BM can be carried out by either the focal firm or with partners, suppliers, or even customers, partners in the firm's network are often important components of a BM (Osterwalder & Pigneur, 2010). To carry out the activities creating value, key resources like physical, intellectual, human, or financial assets are required (Osterwalder & Pigneur, 2010). For smaller companies, findings suggest that resource constraints are directly linked to value creation and that they, in contrast to larger companies, cannot afford resource slack (Dasí et al., 2015).

3.1.2.2 Value Delivery

When delivering value, companies must consider which customer segments to target, and design their BMs around the understanding of these customers' needs (Osterwalder & Pigneur, 2010). Further, the channels through which these customers are reached are a vital part of a firm's BM (Massa et al., 2017). These touchpoints can happen throughout the customer lifecycle, from building awareness to sales channels and post-purchase support (Osterwalder & Pigneur, 2010). These interactions form various types of customer relationships that may be of more or less importance to the company (Osterwalder & Pigneur, 2010). Research on previous economic downturns has shown significant effects on firms' value delivery. Local adaptation increases (Weaven et al., 2021), internationalization strategies increase in importance (Colombo et al., 2016), marketing spending decreases (Rollins et al., 2014; Roberts, 2003), channel strategies shift from traditional media to digital media, and customer relationship management increases in importance (Rollins et al., 2014).

3.1.2.3 Value Capture

Finally, the economic logic, or how businesses capture the value created, is at the core of a BM. Revenues may stem from different streams, such as standard and premium services or products for different customer segments. These additionally rely on various payment options, such as flat rates or subscriptions (Osterwalder & Pigneur, 2010). The architecture of costs, i.e., the costs associated with creating, delivering, and capturing value, determines how much of the value created is actually realized. A firm's size may affect its ability to capture value since small companies lack economies of scale and have low bargaining power (Heider et al., 2021).

3.1.3 Application of the BMI Framework

Demil and Lecocq (2010, p. 230) define BM changes as "a fine-tuning process involving intended and emergent changes both between and within its core components". With the core components defined in the sections above, this thesis analyzes both changes in the content of and the relationship between these components (Filser et al., 2021; Clauss et al., 2019). While these changes can result from both internal and external factors (Demil & Lecocq, 2010), this thesis will exclusively examine BM changes significantly influenced by the external factor of changed investor preferences. Finally, as previously mentioned, the degree of BMI can vary from minor gradual changes to radical reconfiguration of BM components (Velu & Jacob, 2016; Massa & Tucci, 2013). Therefore, this thesis will examine both minor and major BM changes.

3.2 The Dynamic Capabilities Framework

While the Business Model Canvas is appropriate to describe a firm's BM at a specific point in time (static view), it needs to be complemented by a process-based perspective to enable a more dynamic view. While the BMI framework supports understanding how BM components change when investors demand profitability, the DCs framework supports understanding how these changes were made possible (Teece, 2007; 2018; Teece et al., 2016). The DCs framework will be used to analyze the BMI process: how opportunities arising from the external change are captured and implemented. Below, the three DCs sensing, seizing, and transforming will be described in more detail to add clarity and support to the subsequent analysis.

3.2.1 Sensing

Sensing refers to the ability to obtain information that enables the firm to understand the market better and identify threats and opportunities (Teece, 2007). Some of the sensing activities used to identify and shape these opportunities include examining the external environment and its trends, creating new knowledge through customer research, and monitoring how technologies are evolving in relation to customers, suppliers, and competitors (Teece, 2007). These actions assist businesses in anticipating threats and opportunities before the market becomes aware of, and reacts to them (Teece, 2007).

3.2.2 Seizing

Seizing refers to the capability of businesses to reconfigure resources to respond effectively to turbulent market conditions that present threats and new opportunities (Teece, 2012). This can be interpreted as the capacity to put newly acquired knowledge into practice by allocating resources where they are required to seize these opportunities more effectively (Weaven et al., 2021). To take advantage of those opportunities, new product and service developments are often needed, as well as operational modifications to processes, logics, and BMs (Teece, 2018). Thus, redesigning existing business models is crucial in the seizing stage (Teece, 2018). Further, Teece et al. (2016) emphasize the significance of having adaptable operational procedures, where both low specialization and low hierarchy in the organization facilitate swift response to changing environments.

3.2.3 Transforming

Transforming refers to the evaluation of resources and BMs to ensure continuous evolution and maintain competitiveness (Teece et al., 2016). Transformation entails challenging the status quo and departing from conventional ways of thinking, which calls for managers to communicate effectively and offer direction toward the required change (Teece et al., 2016). However, change may be challenging to implement due to conflicts of interest, human resistance, or a lack of clear communication (Teece et al., 2016). There are several reasons why startups are likely to find the transforming stage easier than well-established businesses. Firstly, startups must typically restructure less deeply ingrained assets and processes than well-established businesses (Teece et al., 2016). Secondly, accepting significant changes goes smoother in organizations where the culture has been shaped to accept high levels of uncertainty, change, and rapid adaptation (Teece et al., 2016). Thirdly, information flows more easily in organizations with flatter, decentralized organizational structures. This makes them perform better in terms of communication than organizations with highly hierarchical structures, enabling better adaptation and response to changes (Teece et al., 2016).

3.3 Synthesis of Theoretical Framework

Synthesizing the theory, the authors combine the BMI framework of value creation, value delivery, and value capture with DCs framework of sensing, seizing, and transforming into a theoretical framework (visualized in Figure 3). The theoretical framework exclusively focuses on BM changes among tech startups related to the context of investor preferences going from growth to profitability during an economic downturn. The framework visualizes how a firm’s existing BM is turned into new, innovated BMs as its three key components, value creation, value delivery, and value capture, are altered. In addition to examining changes in the value creation, delivery, and capture pillars, the framework incorporates the enabling role of sensing, seizing, and transforming. Combining BMI and DCs as the theoretical lens enables an analysis of how firms sense and seize opportunities and transform their organizations to create, deliver, and capture value in the studied context (Teece, 2018).

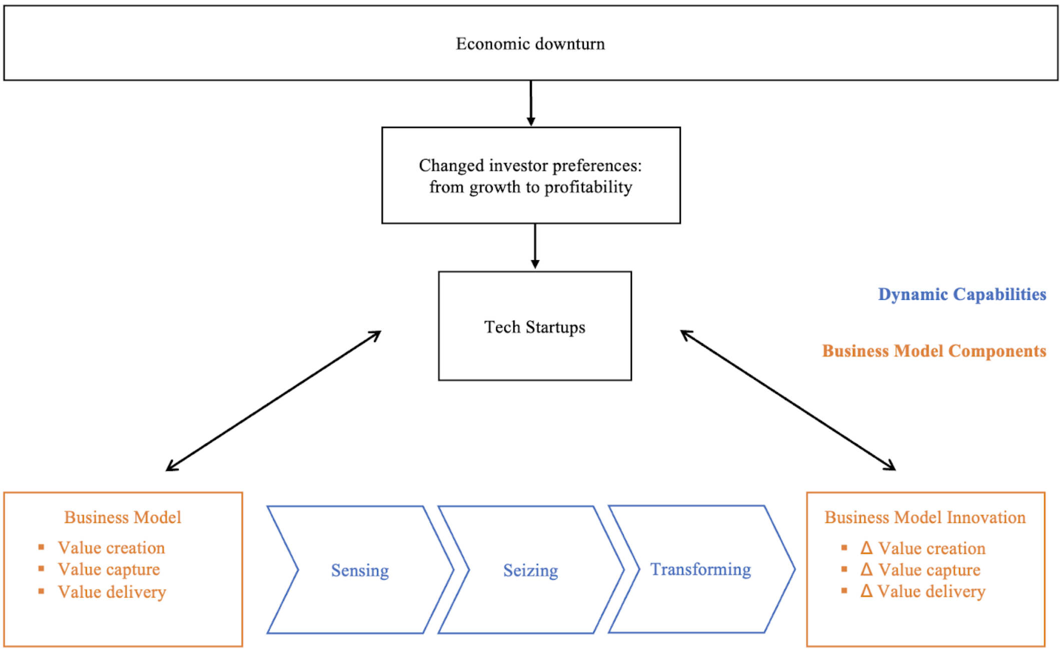

Figure 3: Theoretical framework

4 Methodology

This chapter outlines the methodological approach to address the identified research gaps and answer the research question. We begin by discussing the methodological fit and research approach (4.1), followed by the research design of the pre-study and main study (4.2). Thereafter, we discuss case selection, data collection, and data analysis (4.3). Lastly, the quality of the study is discussed (4.4).

4.1 Methodological Fit

There is limited research on BMI of tech startups, which to the extent of the author's knowledge, has not been done in the context of economic downturn and increased demand for profitability among investors. Therefore, we intend to develop theory and form a deeper understanding of *how* BMs are innovated to meet changed investor preferences. This includes both how BMs are changing during this context and the internal processes and dynamics that drive the changes and explain cross-company differences. Discovering the interaction between BMI and DCs in the new context of tech startups and changed investor preferences, this thesis takes a more explorative approach rather than testing theory (Bendassolli, 2013). A qualitative approach was deemed appropriate to discover and explore the interaction between BMI and DCs in tech startups (Flick, 2014). This choice was further motivated by the appropriateness of qualitative studies when trying to understand and explain internal organizational mechanisms, such as processes for the identification of opportunities, product development, and reallocation of resources (Bell et al., 2019).

4.1.1 Research Approach

As mentioned above, the research contributes to a new field of research, and therefore, an abductive approach was deemed appropriate (Bell et al., 2019). The abductive approach enabled the authors to be open to various meanings and theoretical perspectives and move back and forth between empirical data collection and theory selection (Dubois & Gadde, 2002). As the theory was iteratively confronted with the empirical world, the theoretical framework evolved with the case analysis throughout the research process (Dubois & Gadde, 2002). Based on the findings, the study's interview guides (Appendix A) were updated continuously throughout the iterative process. For example, as internal and dynamic processes were identified as important to business model changes, the theoretical framework was adjusted to incorporate both BMI and DCs. During this process, several theoretical concepts were tested to incorporate the relationship between firms and investors, such as resource dependency theory and agency theory, before ultimately deciding the appropriate theoretical framework. In addition, based on the pre-study, the preliminary research question was refined from analyzing BMI during an economic downturn to analyzing BMI when investor preferences go from growth to profitability. This was done to narrow down the research question and more accurately align it with the observed driver of BMI among tech startups during an economic downturn.

4.2 Research Design

4.2.1 Explorative Pre-study

As mentioned, business media has frequently described the effects of changes in the financial market on startups. However, to gain a more precise understanding of the drivers of BMI during an economic downturn, a pre-study was conducted through 15 interviews, mainly with CEOs, from 14 tech startups in diverse markets and in various stages of their capital-raising journey (see Appendix B for in-depth results). Questions were asked about when and how the economic downturn had affected them and what the drivers behind potential BM changes had been. Exploring a broader range of potential drivers for recent BMI enabled the authors to ensure that the most relevant phenomenon related to the economic downturn was studied. The results showed a wide range of BM innovations and that these changes were, more than anything else, driven by investors' changed preferences from growth to profitability. Moreover, it became evident that adaptations in internal processes had a dynamic relationship with BMI. This indicated that adjusting the theoretical perspective to capture these processes and relationships could contribute to the findings.

Lastly, insights from the pre-study also guided the methodology of the main study. The pre-study showed significant differences in BMI between companies. The number and combination of altered BM components differed widely between the tech startups and ranged from minor to major changes. Given these circumstances, a multiple case study was deemed to have the highest potential for theoretical contribution.

4.2.2 Main Study

Based on the insights from the pre-study, the main study was designed to closely investigate how tech startups have used BMI to respond to investor preferences going from growth to profitability. A case study was chosen as the method, as it allows for an understanding of the context of the units of analysis, which was central to our theoretical framework (Yin, 2014; Baxter & Jack, 2008). In addition, due to their ability to give rich data, case studies are suitable for investigations that demand a thorough understanding of a particular organizational process (Cassel & Symon, 2004), such as BMI.

No company during the pre-study emerged as the sole representative of how BMs are innovated among tech startups, making a single-case study less appropriate (Yin, 2014). Instead, a multiple case study approach was adopted to allow for an understanding of the various strategies tech companies adopt when innovating their business model to meet new demands from investors. It also enabled analysis of common patterns and cross-company differences in BMI and its underlying dynamics (Bell et al., 2019; Yin, 2014). Analyzing multiple cases enabled comparison and opposing explanations of the findings, such as how internal capabilities, processes, decision-making, and leadership had supported BMI and could explain conflicting innovations. For these purposes, a multiple case study yields more robust and reliable findings (Yin, 2014; Baxter & Jack, 2008). An overview of the research process is illustrated in Figure 4. The study examined the period between Spring 2022, when the case companies described that they started to feel the effects of the new investor preferences, until Spring 2023, when most of the BMI had been realized.

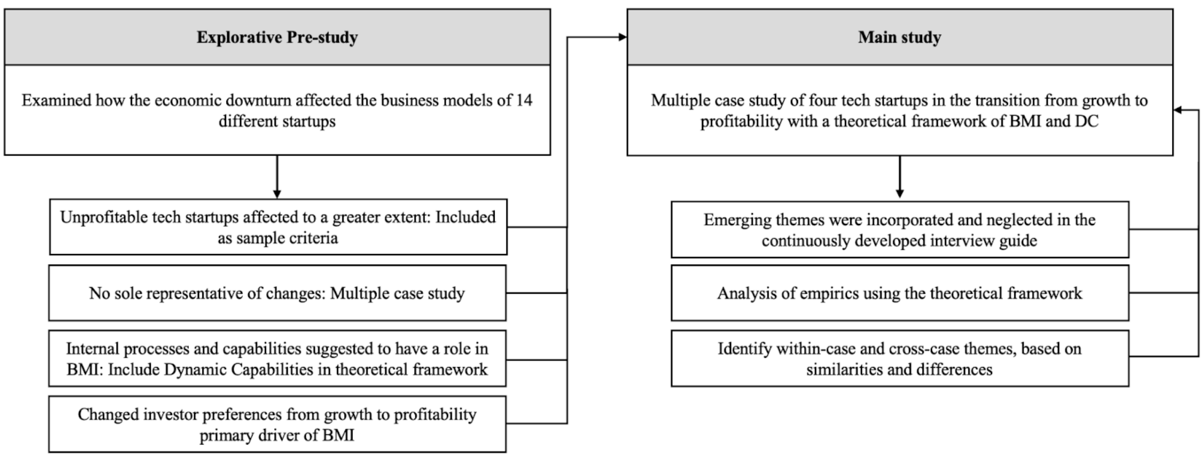

Figure 4: Research process

4.3 Data Collection and Analysis

4.3.1 Case Selection & Interview Sample

Purposive sampling through the following business sample criteria was employed during the sampling process to guarantee a selection of information-rich cases relevant to the research question (Bell et al., 2019). Firstly, the companies needed a tech product as their core business to be classified as a tech firm, ensuring a common ground of the investigated objects. Secondly, the case companies must have secured at least one round of financing and have expressed a clear intention to grow significantly beyond their current size to include the tension between growth and profitability. Thirdly, the company's latest financial year should show a loss, since the pre-study suggested that unprofitable tech startups were more significantly affected by the changed investor preferences, making them more appropriate when conducting theoretical sampling. Lastly, a minimum of SEK 5 million in annual revenues was set to exclude early-stage startups still searching for their first product/market fit. This enabled the study to focus on more established business models that had been triggered to change due to investor preferences going from growth to profitability.

Theoretical sampling was adopted by choosing companies that would replicate or extend theory (Eisenhardt, 1989). In addition, to address differences in BMs connected to business-to-business (B2B) and business-to-consumer (B2C) firms that may affect the findings, an even split between the two was included. A total of *four* cases were selected for the main study to balance between generating theory, theoretical saturation, and pragmatic reasons, such as the scope of our thesis, in line with Eisenhardt (1989). With the pre-study as a reference point, the four selected cases were chosen based on the degree of BMI (number and extent of BM changes), access, and abundance of information. Interviews were conducted, and empirical findings were analyzed until no new patterns emerged. Theoretical saturation was considered reached when interviews repeated the same information (Bell et al., 2019). As a result, 31 interviews were conducted (the complete list is shown in Figure 5). In addition, follow-up emails were sent to some participants to collect details not fully covered during interviews, such as the exact number of employees in each department or how “core markets” were defined.

4.3.2 Data Collection

Frequently used in qualitative studies, semi-structured interviews were conducted to collect the data (Flick, 2014; Bell et al., 2019). The interview guide was designed with the theoretical framework as a foundation, which enabled cross-case comparison. At the same time, the flexibility of semi-structured interviews enabled the researchers to capture the unique context of the cases. It also enabled an iterative development of the interview guide (Appendix A), as the researchers could capture emerging topics for the individual companies and interviews. The customized order of questions and follow-up questions further enabled the authors to dig deeper into a specific direction and to let new topics emerge during the interviews (Bell et al., 2019). For example, if an interview revealed that tasks in a particular role were becoming more automated, this information was included in other interviews conducted within the same company. If multiple roles indicated increased automation of tasks, this information was incorporated into the evolving interview guide used for all the case companies. Furthermore, the flexibility to ask follow-up questions depending on how the interviewees responded can build trust between both parties and generate deep understanding and more objective information (Rubin & Rubin, 2005). This was demonstrated when employees stated the negative effects on company culture and sense of job security due to the changes.

Interview	Use of interview	Company *	Role	Date	Duration	Channel
Interview 1	Pre-Study	Foodtech Company 1	CEO & Founder	2023-01-30	30 min	Phone call
Interview 2	Pre-Study	Lavendla	CEO & Founder	2023-02-02	60 min	Virtual meeting
Interview 3	Pre-Study	Mavenoid	Business Development Manager	2023-02-05	30 min	Physical meeting
Interview 4	Pre-Study	Heja	CEO & Founder	2023-02-06	40 min	Virtual meeting
Interview 5	Pre-study & Main Study	StreamingCo (B)	Chief of Staff	2023-02-08	30 min	Virtual meeting
Interview 6	Pre-study & Main Study	MediaCoverageCo (D)	CEO	2023-02-08	70 min	Virtual meeting
Interview 7	Pre-Study	Sana	Chief of Staff	2023-02-08	45 min	Virtual meeting
Interview 8	Pre-Study	Foodtech Company 2	Business Analyst	2023-02-09	30 min	Physical meeting
Interview 9	Pre-Study	Voi	Product Manager	2023-02-09	50 min	Virtual meeting
Interview 10	Pre-Study	MaginePro	CEO	2023-02-10	70 min	Virtual meeting
Interview 11	Pre-Study	Sana	Strategy Manager	2023-02-14	40 min	Virtual meeting
Interview 12	Pre-Study	Fintech Company	CEO & Founder	2023-02-15	50 min	Physical meeting
Interview 13	Main Study	StreamingCo (B)	Strategy Associate	2023-02-16	60 min	Physical meeting
Interview 14	Pre-Study	Off Script	CEO & Founder	2023-02-23	45 min	Virtual meeting
Interview 15	Pre-study & Main Study	PersonalizedVideoCo (A)	Operations Manager	2023-02-27	70 min	Virtual meeting
Interview 16	Main Study	PersonalizedVideoCo (A)	CEO & Founder	2023-02-28	55 min	Virtual meeting
Interview 17	Pre-study & Main Study	SalestechCo (C)	CTO & Founder	2023-03-01	90 min	Virtual meeting
Interview 18	Main Study	PersonalizedVideoCo (A)	CEO & Founder	2023-03-03	30 min	Virtual meeting
Interview 19	Main Study	SalestechCo (C)	Customer Success Manager	2023-03-07	55 min	Virtual meeting
Interview 20	Main Study	MediaCoverageCo (D)	Customer Success Manager	2023-03-08	60 min	Virtual meeting
Interview 21	Main Study	SalestechCo (C)	Head of Customer Success	2023-03-09	40 min	Virtual meeting
Interview 22	Main Study	StreamingCo (B)	Head of Marketing Analytics	2023-03-09	65 min	Virtual meeting
Interview 23	Main Study	StreamingCo (B)	Head of Product & Tech	2023-03-12	60 min	Virtual meeting
Interview 24	Main Study	MediaCoverageCo (D)	CEO	2023-03-12	55 min	Virtual meeting
Interview 25	Main Study	MediaCoverageCo (D)	Head of Product	2023-03-12	60 min	Virtual meeting
Interview 26	Main Study	SalestechCo (C)	Team Lead Sales	2023-03-15	50 min	Virtual meeting
Interview 27	Main Study	PersonalizedVideoCo (A)	CTO	2023-03-16	60 min	Virtual meeting
Interview 28	Main Study	SalestechCo (C)	Product & Growth Manager	2023-03-16	40 min	Virtual meeting
Interview 29	Main Study	StreamingCo (B)	Head of Global CRM	2023-03-21	55 min	Virtual meeting
Interview 30	Main Study	PersonalizedVideoCo (A)	Operations Manager	2023-04-01	30 min	Virtual meeting
Interview 31	Main Study	StreamingCo (B)	Customer Support Manager	2023-04-04	35 min	Virtual Meeting

* Companies from the main study and some companies in the pre-study are anonymous due to request

Figure 5: List of interviews for the pre-study and main study

4.3.3 Data Analysis

The data foundation was assembled through digital transcription of interviews, field note collection by the researcher who was not the main speaker during the interviews, and individual notes by both researchers after each session. After that, independent coding of themes was performed by both researchers to increase validity and objectivity (Denzin, 1970). The coding of themes was reviewed and merged collectively by both researchers. Transcriptions and field notes were revisited throughout the research to support a more detailed analysis, calibrate empirics and theory, and identify potential data collection gaps (Timmermans & Tavory, 2012). When interpretations differed, the researchers revisited transcripts or sent follow-up emails to ensure interpretive correctness. For instance, this process was adopted to understand the changes made in SalestechCo's (C) value proposition and the reasoning behind these.

Within-case analysis was conducted to identify emerging themes capturing BMI and how DCs supported the changes. The advice on cross-case comparison by Eisenhardt (1989) was adopted to look at the data in many divergent ways. This was done by looking for similarities and differences between the individual case companies and between different pairings (Eisenhardt, 1989). A selection of supporting quotes substantiating the key concepts used as subheadings in the empirics can be seen in Figures 6 and 7 in 5.5. Further analyzing the empirics, the theoretical framework was used as a lens, identifying recurring patterns and cross-case differences from field notes and transcripts. These were then synthesized into themes, and the most relevant ones have been kept as subheadings in the analysis chapter. Figure 8 in 6.4 provides an overview of the themes identified in the analysis.

4.4 Quality of Study

To incorporate reliability and validity in qualitative studies, Guba and Lincoln (1994) propose to assess the *trustworthiness* of a study using four criteria. Therefore, *credibility, transferability, dependability, and confirmability* will be discussed below.

4.4.1 Credibility

Credibility examines the plausibility of the findings by following good research practice and confirming that the information corresponds to the social world that is studied (Bell et al., 2019). We aim to strengthen credibility through two main practices. First, to ensure interpretive and descriptive accuracy, respondent validation was adopted by sharing interview transcripts and notes with interviewees (Merriam, 2009). Although responses did not generate significant changes, they ensured that data was descriptive and interpreted correctly. Second, by interviewing several respondents in each company with different positions until theoretical saturation, findings were also based on multiple sources of reference. By contrasting and comparing perspectives from different roles and functions within the same company, we were able to better reflect on the constructed reality.

4.4.2 Transferability

Transferability refers to how generalizable the study findings are to other situations (Merriam, 2009). Purposive sampling was adopted to increase transferability and generalizability, as other researchers may contrast and compare several cases within a similar context or with similar sample criteria. We aimed to increase generalizability by identifying patterns across cases, such as that all case companies changed their cost structure by significantly reducing marketing spending in relation to total costs. Nonetheless, with a sample size of four cases, external validity is limited and definitive conclusions cannot be drawn.

4.4.3 Dependability

Dependability refers to the research's trustworthiness (Bell et al., 2019). To mitigate dependability concerns, we provide detailed documentation of the research design and process, in line with Shenton (2004). By describing the overall research design, detailing the data collection and analysis process, and reflecting on the quality of the thesis, future researchers and readers can assess the trustworthiness of the conducted research. In addition, we provide a selection of illustrative quotes that support the narrative sections of the empirical chapter (Figures 6 and 7).

4.4.4 Confirmability

Confirmability is related to the term objectivity, which comprises the neutrality of the study and its findings (Guba & Lincoln, 1994; Bell et al., 2019). The interview guide evolved throughout the research process and enabled the researchers to confirm and omit emerging themes. Multiple employees were interviewed at each case company to get a more holistic and neutral empirical perspective. Cross-checking and comparison of interview data were conducted to compare viewpoints on changes or to deeper investigate contradicting information. In addition, as described in 4.3.3, cross-checking between the two researchers was conducted to counteract personal bias in the analysis.

5 Empirics

The following chapter presents how the four studied tech startups have innovated their business models following the changed investor preferences. To ensure anonymity, the four companies have been named PersonalizedVideoCo (A), StreamingCo (B), SalestechCo (C) and MediaCoverageCo (D). The empirics are presented separately for each company, with two main categories of data: (1) business model changes related to the new investor preferences and (2) mechanisms that have enabled these changes. Empirics in the second category are further categorized into (i) decision-making, (ii) implementation, and (iii) organizational enablers for each case. Lastly, we provide an overview of representative quotes from selected interview data that served as particular empirical evidence for each case.

5.1 PersonalizedVideoCo (A)

PersonalizedVideoCo sells personalized videos to consumers. The videos are sold via its platform and are created by a network of individual content creators. Before the change in investor preferences, the company was active in Scandinavia, UK, Germany, Spain, France, North America, Brazil, India, and Australia.

5.1.1 Business Model Changes

PersonalizedVideoCo was on a fast growth journey focusing on the international expansion of its service when investor preferences changed. Rather than increasing penetration in newer and less mature markets like Brazil, India and Australia, the strategic focus switched to four core markets: Scandinavia, UK, North America and Germany, being the markets with the highest revenues. Investments were withdrawn from all other markets, including laying off all employees and canceling marketing and product adaptation efforts to these local markets. Instead, the organization became centralized in Stockholm, and its team is now responsible for the four remaining markets (after the strategic shift named “core markets”). The shift involved going from around 130 employees to 30 employees. The CEO explains:

> “I think organizations rarely work close to maximum utilization of their resources. Naturally, the marginal utility of each new employee decreases for a company that grows fast. When we are now focusing more on profitability, that is much easier to achieve with fewer people, especially if keeping the most productive and profitable employees.”
>
> - CEO, PersonalizedVideoCo (A)

Investments were now only made in projects that could generate immediate additional revenues or cost savings, at least within the same quarter. This resulted in a complete reduction of marketing spending, such as paid ads in social media, previously making up a double-digit percentage of the company’s overall costs. Further, all software subscriptions not creating significant value were canceled, and many of the suppliers of tech solutions were replaced by cheaper ones. The reduced demand for fast growth enabled activities that were previously outsourced to be done in-house, such as quality testing of new product features.

Furthermore, major business model changes in customer segmentation and value proposition were made to shift focus from B2C to B2B customers. To find new ways of developing the business when investor preferences shifted, PersonalizedVideoCo started to pivot an adapted version of its product for selling to other businesses (B2B). This implied a completely new value proposition, going from offering consumers entertaining content to offering companies content for marketing purposes. After positive indications of the pivot, the company decided to turn the business model around. Resources were moved from the development and marketing of the B2C product to B2B sales in the search for a scalable value proposition and a large, profitable B2B customer segment. Different price levels and price tiers are still being tested, with one cheaper alternative with self-service onboarding, script writing, and editing, and another full-service offering where PersonalizedVideoCo takes care of everything.

While the B2C business still constitutes roughly two-thirds of total revenues, resources are now only allocated to maintain it with as low effort as possible. New features are only developed if applicable to the B2B business, and all product development solely connected to B2C has been stopped. One such example is the development of a mobile payment option that was canceled as it would only have been applicable to consumers. Further, paid ads for the B2C product have now been completely replaced by non-paid marketing channels, such as working with affiliates and posting on Linkedin.

Except for experimenting with B2B sales, the company has focused on two key activities: B2B customer loyalty (measured by retention rate and customer lifetime value) and collaborations with its network of content creators (measured by revenues generated by each content creator). The company has longer and more frequent interactions with its larger customers and follows up on purchases and their effects together with its clients to a much larger extent. Similarly, PersonalizedVideoCo has started to work more collaboratively with its most profitable content creators to increase the visibility of the creators' content. The company has started to educate the creators on increasing their visibility through email and one-on-ones and supports the creators in planning their content series and Instagram live sessions. Leveraging the network of content creators has provided a cost-efficient marketing alternative to paid ads.

5.1.2 Mechanisms Enabling the Business Model Changes

5.1.2.1 Decision-Making

By the beginning of the economic downturn, PersonalizedVideoCo had only served B2B customers on single occasions when companies unexpectedly reached out and asked for a license to temporarily use the product for marketing purposes. People within the organization started to discuss this new customer segment, and in their relatively small office, it soon reached the CEO. Despite more complex and time-consuming deals, the B2B business was expected to offer significantly higher profit margins (driven by the ability to charge 20-40 times more per purchase) and a lower customer churn rate (loss in customers in a given period of time). An increasingly active board had triggered an increase in strategic discussions, and this new customer segment offered an opportunity to show a more attractive customer lifetime value and a customer retention rate for the next round of financing. The pivot validated that the B2B service delivered distinct value and showed promising margins and customer retention. After advice from board members (including investors), the new strategic direction was communicated within the company, and resources were reallocated. For example, all people working with the B2C business that were not necessary for its operations were laid off to quickly reduce investments in the B2C business, shifting focus to B2B sales.

While this new business model emerged internally, then accelerated by investors' demand for profitability, decisions about cost cutting, centralization, and focusing on core markets were purely driven by the changed financial market. The CEO describes:

> "Investors talk with each other. They hear other firms are doing major cost-cuttings and taking action to improve short-term profitability radically. Our investor-represented board members are frequently calling me, sharing that the other board members think we should do this or that. By the time we have board meetings, I have already gotten enough hints during these phone calls to know what the board thinks and what strategies and roadmaps that need to be set. The board very much drives decisions like cost-cutting and layoffs, and together we make the decisions. Big decisions are most often taken top down."
>
> - CEO, PersonalizedVideoCo (A)

After some very stressful and anxious months, employees started to feel more comfortable that the company had a clear plan on how to work towards profitability, resulting in motivation to deliver on the new targets.

5.1.2.2 Implementation

While previously scaling up everything as quickly as possible to maximize growth, PersonalizedVideoCo started to adopt a different approach following the changed investor preferences. PersonalizedVideoCo now only spends time on the most profitable customers and content creators while removing or automating activities associated with B2C customers, smaller B2B customers, and less profitable content creators. As the organization has become more centralized, the company works less with local solutions, instead prioritizing activities that can scale and be applied to all markets. One example is automating communication to content creators, triggered by certain behaviors or inactivity, rather than "babysitting" and manually communicating to the content creators from the local office. The CEO describes the implementation of the new priorities:

> "The fact that we kept the people with the roles closely connected to revenues and let go of roles only vaguely connected to revenues sends a clear signal of what is now important. Essentially all people not working with operations have had to leave, while core roles for driving revenue and operational efficiency have been given increased responsibility and compensation. We have to focus on the things that generate returns and not on the things that are nice to have. Things like improving the workplace and having several people acquiring and building relationships with content creators are no longer a priority."
>
> - CEO, PersonalizedVideoCo (A)

5.1.2.3 Organizational Enablers

The employees describe that strong leadership has been a key to the transition towards profitability. As the employees' roles had changed significantly after the layoffs, nobody really knew what to do. Some employees did not know what to prioritize, while others had difficulties finding work as their previous tasks had become irrelevant. After the initial weeks, the new strategic direction became clearer for employees. The CEO constantly communicated the profitability focus during bigger weekly meetings and one-on-one meetings. An example of a method employees describe as particularly effective was frequent storytelling in the company's internal channels (mainly Slack, a platform for communicating within the company), where the CEO shared examples of what he had been working with, relating it to the new strategic direction.

The company's ability to shift towards profitability was also facilitated by information transparency and knowledge sharing within the company. Employees have for years been kept updated in areas outside their work tasks through shared Slack channels and the knowledge-sharing platform Notion. This made it easier to increase employee responsibility to cover key activities that the laid-off people previously handled. For example, the Operations Manager is now covering for the laid-off Data Analysts by working with basic automation of time-consuming activities throughout the organization. He explains:

> “Information in the organization is very transparent, and people are used to helping each other out, also in parts of the organization outside the one you belong to. Everyone is like a Swiss army knife, able to jump in and assist in almost any area within the organization. And if you are thrown into a new project, you can quickly get up to speed by reading up in Notion.”
>
> - Operations Manager, PersonalizedVideoCo (A)

Even though the coordination and communication had become increasingly inefficient during the growth phase, the knowledge sharing and cross-functional collaboration that still existed in the company’s culture facilitated the change towards the new prioritizations. For example, around 40% fewer request tickets were sent to developers after the layoffs, partly because people knew how busy one another was and that only the most important issues would be prioritized. Instead, employees tried to solve problems in other ways first, only sending the request tickets that were business-critical.

A final important characteristic that stood out during the interviews was the highly perceived accountability and mutual trust among employees. Fewer people became involved in decisions, leaving more responsibility among team leaders and individual employees. The freedom to make decisions and the trust of others in these decisions have incentivized people to find smarter ways of working now when resources are limited.

> “We first thought search engine optimization (SEO) would be an effective channel to reach customers, as it generates free traffic to our platform. Management assigned a person in the growth team to develop the SEO of the platform. A couple of weeks later, he concludes that the project requires too much time and resources in relation to its effect and decides to close the project. Management trusts his opinion and does not push him to continue.”
>
> - Operations Manager, PersonalizedVideoCo (A)

There is also a cultural aspect of accountability and pride in delivering on one's responsibilities, described to be particularly striking among the employees still in the company after the layoffs. The Operations Manager exemplifies:

> "A colleague had worked as Content Creator Manager for Scandinavia for a year. As a result of our new B2B focus, responsibility for B2B accounts was added to his table, without removing his responsibility for the 1000+ local content creators. A person with a lower sense of pride and accountability would probably accept that he will not be able to hit the same targets, as he just got twice as much to achieve. Instead, he found smarter ways to handle the content creators while hitting his sales targets, even outperforming B2B account executives from other markets where two employees manage the two different responsibilities."
>
> - Operations Manager, PersonalizedVideoCo (A)

5.2 StreamingCo (B)

StreamingCo is a streaming service company for consumers and is present in markets worldwide, such as Australia, Indonesia, India, Europe, and North America, with highest market penetration in the Nordic countries.

5.2.1 Business Model Changes

Following the changes in investors' preferences, StreamingCo experienced major BM changes. During the fall of 2022, the company performed a reorganization where 30% of the workforce were laid-off and the organization became significantly more centralized. Examples of units that became centralized were Marketing (still had some local representatives left), Customer Relationship Management (CRM), Content Curation, Company Partnerships, and Customer Support. The decision to centralize was taken together with the decision to focus more on the company's core markets (with higher penetration and profitability) while focusing less on non-core markets (with lower penetration and profitability). The local offices in non-core markets were reduced from an average of 5-10 people to an average of 2-3 people, a significantly higher reduction than the company average (30%).

Eight months after the layoffs, StreamingCo had not experienced negative effects on its revenue-related and customer-related KPIs. Previously, investments were made in various projects, initiatives, and activities that could potentially have a positive effect. However, the company now focuses on what will most likely generate or capture significant value. Customer acquisition strategies were focused on mature markets with lower barriers to adopting StreamingCo's type of streaming service. Customer segmentation within markets was narrowed down to focus on "high-quality users" that data indicated were more likely to stay as customers. The shift implied more frequent communication with a smaller group of customers with an increased level of personalization. The Head of Digital Marketing exemplifies StreamingCo's efforts to adapt customer segmentation and channel strategy:

> "We now have a small but dedicated team that focuses on building a model that estimates a consumers' potential customer lifetime value, by training the model on historical data about loyal and disloyal customers."
>
> - Head of Digital Marketing, StreamingCo (B)

StreamingCo further applied a more selective approach to key partnerships. The local Partnership Managers in each country were replaced by a centralized team working with fewer but larger deals. Initiatives such as payment integration partnerships are now only done on a global scale. Marketing collaborations with telecom companies are only done with selected telecom companies where partnerships can bring large financial impact.

Despite always being a company with tech at its core, the organization could not carefully measure its various activities, coordinate the data to reach the relevant persons, and follow up on the data. The company has become much more data-driven to enable efficient prioritization between activities. Exemplifying the new data-driven approach, the CRM team has started to work more structured by measuring and analyzing the effects of different kinds of CRM messages and channels on customer activity. They have developed a closer relationship with the Tech team to improve data quality and ensure a common understanding of which data streams are needed and relevant to act on. Insights generated from the data-driven approach have enabled StreamingCo to focus on the most impactful customer activities, often applicable to multiple markets. For example, the company no longer performs CRM activities that do not create a clear value for the customer, such as newsletters or win-back campaigns proven by data not performing very well. The positive results of the more data-driven approach have made the company aim to hire more data engineers and data analysts to strengthen this capability.

Moreover, the customer acquisition cost (CAC) that the company is willing to spend for a new customer has decreased by 30% to shorten the time for a customer to become profitable. Employees perceive a shift in focus from new customers to existing customers, but rather than investing in CRM, this focus is materialized through investments in the company's value proposition and value for customers:

> "We have always had a strong content offering compared to our competitors, but previously we have not focused very much on how the content is presented. We have previously developed all kinds of features and said yes to many of the ideas from the team and other units without considering what is most critical for customers. By focusing on ensuring that the customer is presented with exactly what he or she is looking for, we want to strengthen our competitive advantage. Great content is much more difficult for competitors to imitate than things like user interface."
>
> - Head of Product & Tech, StreamingCo (B)

To succeed, StreamingCo has centralized the content curation unit to increase collaboration and work on more impactful projects. Many of the designers and back-end developers not working with content curation have been laid off. The focus on content has been combined with an overall commitment to focus on the company's core business, canceling all development projects that lack a certain and significant positive impact on the firm's profitability. The development of new product features and improvements to the app interface has been deprioritized, such as the development of a social community feature. These joint efforts enabled significant cost savings, including a 30% reduction of the Product & Tech team.

To directly increase revenues, StreamingCo increased prices in some of its markets, where margins were particularly low or where the risk of losing a significant amount of customers to competitors was relatively low. Further, StreamingCo introduced a new revenue stream: a lower-priced extension of its core product, with a time limit of content consumed per month by the customer. The company's marketing efforts are increasingly spent on the new time-capped (basic) service instead of its unlimited (now premium) service, including offering it at a 50% discount during the first six months, the largest discount StreamingCo has ever offered. The new service lowers the barrier to acquiring new customers and increases the chances of retaining existing customers that risk canceling their current subscriptions due to infrequent use.

Another focus area has been decreasing the proportion of content costs in the company's overall cost structure. As it limits consumption, the new time-capped (basic) service has decreased content cost, which is paid to suppliers based on customer usage. Further, StreamingCo has decreased the time until the notification “still active?” appears, pausing the media to check if the consumer is actively consuming or has fallen asleep. Also, product algorithms have been developed to increase the share of owned content consumed, associated with a lower variable cost than purchased content. Content costs objectives and target levels have been set on team levels and are measured and evaluated to ensure the organization works towards higher margins.

5.2.2 Mechanisms Enabling the Business Model Changes

5.2.2.1 Decision-Making

The more radical changes in the business model were sparked by the board not approving the budget for the upcoming fiscal year when they had started to notice the increased constraints in the financial market. The management team realized they had to take drastic measures and presented a new plan focused on profitability for the board. The management teams used inputs from the layer of managers below them to understand what could be done to increase profitability and how to make it work with a reduced workforce. Major changes seemed possible without a negative expected effect on the customers. Therefore, the firm decided to dramatically streamline the business and communicate the changes throughout the organization directly in bigger meetings and through the middle managers.

The less radical business model innovations have occasionally stemmed from the board or management team but have often started as input from customers, employees, or the strategy team that works closely to monitor the external environment. The relevant inputs are shared in Slack channels and discussed with managers, bringing relevant ideas further up the organization until a decision is made.

5.2.2.2. Implementation

Implementing the strategies, StreamingCo met several challenges. While most employees seemed to understand the new strategic direction and experienced a stronger clarity in what to focus on, people were still discouraged by people having to leave. Previously, strategic changes had emerged organically within the organization, and everyone was aware of the ongoing changes before they were announced. This time, things happened much faster, and the board and management team made big decisions in closed rooms. The Head of Product & Tech reflects:

> "The announcement of the layoffs was received like a cold shower among the employees. The company had never been through bad times before, and it took a while for employees to accept the new strategic direction and the reasons behind the lay-offs."
>
> - Head of Product & Tech, StreamingCo (B)

Centralizing the organization has also led to increasing challenges with getting the local teams and country managers onboard on strategies they do not always agree on, set by the global team. Nevertheless, StreamingCo successfully aligned the majority of the organization toward profitability. Employees describe the most important factor to have been strong leadership from the management team. Employees perceived the new organizational goals and the path to reach them to have been clearly communicated. They appreciated the consistency in communicating the new strategic direction rather than having it change from month to month. Clear communication has also clarified what roles teams and individuals play for the organization. Head of Global CRM explains:

> "Now I know much more about what StreamingCo is and what it is not. Instead of running in all kinds of directions, with all kinds of initiatives to achieve growth, the company now feels more unified. I have better understood what markets and activities to focus on. We collaborate more with each other, and all parts of the organization have become more engaged in saving costs, improving processes, etc., to make the company profitable. We have started to work more like an established tech firm than a startup."
>
> - Head of Global CRM, StreamingCo (B)

Non-urgent and time-consuming matters, such as making the website cleaner and more conversion-friendly, have previously often been postponed despite having a significant impact on the business. As people now have a more holistic view of the company and see a clearer “why” behind saving costs and improving processes, these matters are now taken care of to a larger extent. The motivation is further accelerated by middle managers experiencing higher accountability to deliver on their goals. With fewer people, making decisions is now perceived as less complex. Accountability has been integrated into several KPIs, expectations on what teams are to deliver have been clarified, and self-leadership criteria have been integrated into individual performance measurements. The accountability has also been affected by the increased pressure on the firm to perform and deliver on its clearly communicated goals:

> “No one wants their team to be a reason for the organization not reaching the new profitability goals.”
>
> - Head of Global CRM, StreamingCo (B)

The pressure on profitability is tangible, and on the downside, managers are perceived busier and with less time to have conversations with lower-level employees. Even though employees have been given higher freedom to make decisions, the organization is by some perceived as slightly more hierarchical.

5.2.2.3 Organizational Enablers

At the beginning of its existence, StreamingCo had a slower growth plan and steadily hired a few more people every year. When they realized the competition was growing stronger, they dramatically accelerated the recruitment of new people to grow fast and establish strong market positions in several international markets. Without realizing it, the company started picking up organizational slack, becoming less productive and inefficient. This is described as a reason why the company could significantly reduce the workforce to achieve profitability while so far not experiencing significant negative effects.

As the company grew fast during the years leading up to the economic downturn in 2022, a country manager and local offices were established in many of its international markets.

When the organization centralized many of the functions that the local offices previously managed, the company could decrease personnel costs without negatively affecting (at least short-term) performance. Instead of working with local initiatives on every single market, the company centrally created clusters of similar markets and prioritized activities for each cluster. For instance, instead of having one person in Indonesia responsible for the local market and its 800 subscribers, a centralized team of ten employees is now managing the company's two million subscribers (~200 000 subscribers per employee). The centralization was combined with a higher focus on marketing and CRM activities toward the customer segments with the highest potential impact on returns. Meanwhile, activities with less impact on profitability have been automated. Examples of activities that have been fully automated are customer onboarding, upsell, win-back, customer support, and managing data flowing between the company and its content providers. The automation is described to have reduced the quality of some of those activities, but this has been accepted to free up more time for the higher prioritized activities. To enable further focus on activities that data shows truly have an impact on firm performance, the company is planning on establishing a Data & Insights department with Data Analysts identifying operational improvements and new business opportunities.

5.3 SalestechCo (C)

SalestechCo is a software-as-a-Service (SaaS) company that helps clients find new prospects and customers, which is mostly used in sales functions. Their primary markets are Sweden, Denmark, Norway, and a few customers in Spain and Italy.

5.3.1 Business Model Changes

Prior to investors' preferences shifting towards profitability, the company focused on scaling up the Sales team to nine employees to drive future growth. The company's sales process was specialized, with roles for booking sales pitch meetings with new prospective customers, other roles responsible for the actual sales pitch meetings, and the Customer Success team managing the onboarding and relationship with the active customer. To support growth, build brand awareness, and gain inbound customers, investments were also made in marketing, particularly through paid digital ads.

> "In April 2022, when speaking to investors in the US, we realized that access to funding started to get uncertain. All [investors] had different opinions. A couple of months later, when we talked to Nordic investors, they wanted to conduct extensive due diligence, which was new, and we thought they wanted to stall the process. That is when we realized we were about to raise our A-round going into recession. Consequently, we postponed financing to build a more robust organization to get a higher valuation in the A-round. However, we recently took another round of seed financing to keep us afloat for the next nine months, to work on the product and the organization, and then aim for the A-round financing."
>
> - CTO & Co-founder, SalestechCo (C)

During the process of raising money, the leadership team noticed increased uncertainty and contrasting beliefs about the future financial markets from prospective investor's projections at the start of January 2022. Before current investors raised concerns, SalestechCo postponed their round financing and adjusted their plans. To sustain operations until the next financing round and increase the attractiveness of investing, the company set a target of decreasing total monthly costs by 30% in three months and break-even at the start of 2024. Accelerated by this shift, the growth strategy of the firm shifted from a sales-led-growth, meaning that the Sales team was the primary driver of new customers and increased revenues, to product-led-growth, which implies that the product should acquire, convert and retain customers through distinct customer value and self-service onboarding. As part of the new strategy, the pricing was changed from licensing cost per user to pricing based on credits, which are spent when using its software and finding leads. In addition, a free tier of the software was introduced, with limited credits per month. Through this new offering, management hoped that the barrier to trying and becoming a paying customer would decrease. With a more granular and usage-based pricing model, customers would expectantly find the product more appealing. Moreover, with a reduction of employees in sales, there was a shift to focus on larger customers and deals, from roughly SEK 20,000 to SEK 120,000. These were more profitable, and larger customers could be used in marketing case studies. The company increased its focus on core customers, SMEs in Scandinavia, and stopped growth efforts in new markets such as Italy and Spain. Due to the changes in packaging, sales, and expansion of the service, the projected growth for 2023 was roughly 43%, which is lower than the previous year's actual growth of 125%. In addition, the new direction brought the potential to scale more profitably due to lower cost of sales since it could be increasingly done through self-service onboarding through the product. As a result, the company downsized its Sales team from a maximum of nine to two employees. Also, the average cost per sales pitch meeting had been approximately SEK 2000, which contributed to sales being one of the highest costs that were decided to be decreased. Other costs that were identified to be decreased were personnel, marketing, and technological systems and tools. Marketing spend was essentially nullified, stopping paid ads. Current technological systems and tools were reviewed, and the ones bringing the least value in relation to their costs were removed. To support the increased focus on the product, two new employees were hired to the Product team, the only team that increased in number of employees.

5.3.2 Mechanisms Enabling the Business Model Changes

5.3.2.1 Decision-Making

The Leadership team and board decided to set a drastic cost-cutting target, which included laying off employees in Sales, Marketing, and Customer Success as well as a management layer between Team Leads and the Leadership team. The CEO proposed the cost-cutting plan during a four-hour board meeting and was then communicated the following day throughout the organization. Along with the new strategic direction of cost-cutting, teams throughout the organization understood and embraced that reducing costs is necessary to prevent more layoffs. This led them to find ways of saving costs and reaching the 30% total cost reduction target within three months through three main changes. First, with a decreased number of managers and increased accountability and empowerment of employees, combined with an increased awareness of the importance of saving time and resources. Time previously spent in meetings and aligning decisions with superiors was now freed up for operational work. Second, with a greater consciousness of costs, employees in different roles found ways to save costs where possible. After reviewing systems and tools, costs of approximately SEK 100,000 per month could be terminated and replaced by ten additional hours of manual labor per month. Third, automation of processes helped employees make time for other tasks available and focus their efforts on the most critical issues.

The leadership team has reverted to making quick decisions based on imperfect data instead of carefully analyzing and discussing risks with other managers as they had previously done. This change in approach is due to considering the alternative cost of waiting to make a decision. For decisions such as changing the sales process with fewer employees, full accountability was put on respective team leaders. There was an increased flexibility to negotiate terms with customers for Sales and Customer Success employees and after the new cost-cutting target and removal of a layer of managers, decision-making became faster further down the organizational hierarchy.

> "The removal of the management teams meant that we [team leaders] took their roles as well. This has led to faster decisions and less need for communication. Before, we had to have so many meetings just to inform and align decisions. Looking back now, it was not needed for such a small company."
>
> - Sales Team Lead, SalestechCo (C)

Yet, challenges have been acknowledged by both leadership and other roles. From the leadership perspective, there has been a struggle with the culture ingrained in the organization of a high-growth startup to make drastic cost cuts. From the employee level, job insecurity and lost colleagues have inflicted uncertainty. In the shift towards product-led growth, there has also been an increasing emphasis on existing customers due to a significant customer churn, yet with fewer resources. The downsized Customer Success team raised the need for automation of tracking customer activity efficiently and adding features in the product that decreases their workload and time spent in customer meetings.

5.3.2.2 Implementation

Finding ways to use time and resources more efficiently has been integrated into the whole organization. The Customer Success and Sales team started to continuously reassess their processes, technological tools, and tasks to identify potential cost savings, bottlenecks, or potential to work more efficiently. Meetings have been decreased through prioritization and replaced with collaboration documents, which has released time to focus on the core tasks of the employees. However, employees have experienced extended working hours to keep up with fewer resources.

> "We have tried every week to find ways to understand customers faster, terminate tools we do not use much, and solve various bottlenecks. We are repeatedly trying to work more efficiently. But of course, we have to work longer days now."
>
> - Customer Success Manager, SalestechCo (C)

The new sales process transitioned from highly specialized roles to employees owning the deal from prospecting to closing, which has increased productivity.

> “Very specialized roles may be better in theory. However, sometimes it just leads to additional organizational fat. If every Sales employee has clear responsibility for the entire sales process, it is much easier to measure if they bring in more revenues than costs. This reduces the need for coordination between employees and clarifies incentives. You could say that we have simplified a lot to squeeze out more value from our resources.”
>
> - CTO & Co-founder, SalestechCo (C)

The benefits from a simplified sales process and structure are also supported by the Sales Team Lead. Although not outweighing the benefits, a downside of the change was not having a clear idea of what other team members were doing and planning to do.

In line with the newly set product-led growth strategy, the Product & Tech team and the product itself got increased visibility in the organization. The weekly meeting for all employees has changed from primarily an update on how the Sales team is doing to a product meeting, where updates and plans are shared with the entire company. Another aspect of the strategy is to increase customer value, where features have been increasingly implemented in response to concerns raised by the Customer Success team. For example, an integration in the product that enabled customers to directly contact the Finance team instead of having Customer Success acting as mediators for billing concerns was implemented. Also, a platform that observes different variables of the customers, such as usage of the product and their activity with communication sent from SalestechCo to the user. Based on these variables, a customer “health” score is observed, and Customer Success representatives are notified if it reaches a certain threshold, enabling them to direct their time and effort to the customers they are most likely to prevent from churning. This has led to further benefits to the Customer Success team, as motivation has risen when the product is updated more frequently, partially from their requests, in combination with an expanded role as a strategic sales advisor to their client’s Sales teams rather than only supporting them with the product.

> "Customers are more excited and satisfied when they see updates in the product. [...] It is very motivating when you see the development of the product and that it helps customers."
>
> - Customer Success Manager, SalestechCo (C)

5.3.2.3 Organizational Enablers

The organization has shown the ability to change quickly, which enabled the company to pivot towards a product-led-growth strategy. The leadership team started to assess changes when they realized the shift in external investor preferences before their own board and investor raised any concerns. Most employees successfully adapted to their roles by finding cost-saving opportunities, becoming more efficient, and improving value delivered to customers. Some employees had to adapt to new roles in this transition. For example, the CMO role transitioned from focusing on paid ads to a 50% role of writing marketing material with no costs (e.g., blog posts and case studies) combined with a 50% sales role. However, another Marketing employee did not perform in the new sales role and was laid off.

An organizational enabler has been the accountability of employees, which both members of the leadership team and employees have highlighted.

> "We look for employees that are open to embracing the journey and love taking ownership, and these values are at the core of our company culture. This is especially true for the employees that are still with us after the layoffs. [...] One thing I have learned is that the higher autonomy and accountability of employees, the more motivated employees you will get."
>
> - CTO & Co-founder, SalestechCo (C)

5.4 MediaCoverageCo (D)

MediaCoverageCo is a media coverage and analytics tool with a SaaS-business model. The company has most of its customers in Sweden, Denmark, and Norway and a smaller share of customers in the US, Finland, and Germany.

5.4.1 Business Model Changes

Before the change in investor preferences towards profitability, the company had plans to expand to the US with a local team and significant marketing expenditure. The US market was attractive for its product with a large pool of potential customers. Another main driver of the decision was that investors' thought it would attract US investors and rapidly increase the company's valuation. In this growth phase, key metrics for the company were the number of sales meetings and customer growth.

> "We had an investor directive to grow in the US at basically any cost. A new customer could cost SEK 500,000 even if it only brought SEK 50,000 in revenues. This has completely changed since then."
>
> - CEO, MediaCoverageCo (D)

During spring 2022, the leadership team talked to potential external investors and noticed a growing uncertainty. Based on these circumstances, the leadership team realized they would have to dilute their ownership and take an increasingly unfavorable round of financing to realize their ambitious growth in existing geographical markets and venture into the US market. To continue without raising a new round and meet external investors' new preferences for profitability rather than growth, a series of changes to the business was made to meet the new goal of being profitable in its most mature market (Sweden) by the beginning of 2024.

To decrease costs, employees were laid off, and the company went from 60 to 36 employees. Most affected was the Sales team (from 32 to 14) and Marketing team (from 6 to 0), while the Customer Success staff (working with existing customers) was proportionally less affected (from 9 to 7). Product & Tech was the only function that increased in size (from 8 to 11). Increasing the focus on profitability, key metrics shifted from customer growth to customer lifetime value and customer acquisition cost. While Sales remained an important function, new performance and control measures were introduced for Sales employees on the number of meetings, conversion, and deal size, to have a more nuanced view of how each employee contributes. Customer Success and preventing customer churn were identified as a critical focus area to further shift toward profitability. Moreover, as the company's costs were reviewed, a reduction of roughly 75% in total costs was realized, mainly through reducing the number of employees, marketing, and technological systems and tools. For example, a reduction of the server costs by 80% was enabled by switching from a fixed Amazon Web Services plan to a flexible plan using the excess capacity of other servers. In hindsight, it was stated that a total expenditure of SEK 15 million over a few years on marketing activities had little to no impact.

> "Now, you must tie every decision to how it will lead the company towards profitability either in the short or the long-term. [...] Previously, investors wanted us to ditch the Nordics and solely focus on the expansion to the US and now they [investors] are all about going profitable in the Nordics."
>
> - CEO, MediaCoverageCo (D)

In an attempt to both increase revenues and reduce risk of canceled subscriptions, the targeted customer segment was expanded from previously being Public Relations and Marketing managers to include Investor Relations (IR) managers. Developing new adapted features of their product to make it applicable to more users within each account (now including IR managers) was expected to increase customer activity and customers' perceived value of the product. As MediaCoverageCo charges customers per number of users, it was also a way to increase revenues per customer.

The venture to the US market has been significantly downsized, removing all marketing activities and relocating from New York to Toronto to operate with two Sales employees in the same time zone and at lower costs instead of the initial plan to open an office.

5.4.2 Mechanisms Enabling the Business Model Changes

5.4.2.1 Decision-Making

Since investor preferences changed from growth to profitability, MediaCoverageCo's board has become more engaged and has more frequent contact with the CEO. The board leveraged inputs from being on boards of other tech firms and increased its participation in strategic and operational decisions, such as product development, market expansion, and reducing customer churn rate. Further, the leadership team has brought in external experts and relevant employees for certain decisions, such as Customer Success representatives providing insights on combating an increasing customer churn and employees in Product & Tech to bring potential solutions.

Product decisions were previously primarily driven by the developers, leading to many added features with little concern about creating customer value. Discussions on what updates and features to implement happen both organically and on a more strategic level in the organization. For example, developers or other employees can raise an idea in a Slack channel to introduce an emerging technology into the product, which through iteration, becomes an idea that is decided by the Head of Product or Product Manager to be implemented. On the other hand, discussions at the board level may also lead to product changes, such as the need to combat churn. As part of the adaptation, product development has become more connected to needs identified by Customer Success and Sales representatives. Customer Success and Sales collect feedback and prioritize what to send to the Product Manager, who decides whether it should be implemented. For instance, it was identified that customers had to structure and categorize mentions in the media coverage tool manually. In response, implementing automatic tagging for mentions aided customers in streamlining data management and analysis. Moreover, customer interviews were conducted to identify product developments that could add value to customers. The CEO stated that while employees always have had freedom in their roles, it was expanded for the Sales and Customer Success team (more room for discounts and other arrangements) as flexibility in negotiations with customers increased in importance to sign or keep a customer. Since it was decided that reducing churn is the highest priority, other projects have been deprioritized, such as a self-service onboarding feature on their website for small inbound customers.

5.4.2.2 Implementation

Previously, the direction of the company had been unclear. There is still ambiguity about the future, such as whether to keep the text media coverage feature in the product since it is not as high quality as their audio coverage. Although, the new direction has provided clarity for employees:

> "We have been sprinting in all directions. This is common in startups, but now we are getting closer to a clear strategy and prioritization."
>
> - Customer Success Executive, MediaCoverageCo (D)

The leadership team faced challenges in implementing and communicating the new priorities of the organization, as employees found it troublesome to understand why such a significant change was needed. According to the CEO, explanations of how investor preferences have changed, why they have changed, and what that means for a high-growth startup through continuous communication were required for some employees to grasp the concept.

Driven by a need to improve profitability, three main changes enabled the company to enhance the utilization of available resources. First, automation of renewing customer subscriptions and observing customer activity helps the Customer Success team direct their efforts where it can prevent churn. Before, the customer base was manually monitored to identify customers not realizing the value of their product. Automating the monitoring has enabled MediaCoverageCo to focus on more critical and complex issues. Second, to decrease time spent on meetings and increase efficiency, a series of videos aiding new customers in getting familiar with the product and its features have been implemented. Third, the sales role has become increasingly specialized with the aim of increased productivity, where the task of trying to sell additional features to existing customers has been moved from Sales to Customer Success. In addition, specialization in the processes of prospecting and closing deals has been implemented to increase conversion with customers that have progressively become harder to convince in the economic downturn.

> "You become quite lazy when you have 'unlimited' money. You could just throw money at the problem, such as hiring more people. The market has become much healthier, and you have to rethink these decisions."
>
> - CEO, MediaCoverageCo (D)

5.4.2.3 Organizational Enablers

Important enablers to create value with fewer resources have been the information transparency and cross-functional communication in the organization through Slack and in the office. An example brought up for the Product & Tech team was that the close communication with other teams made employees from other teams prioritize the most important issues before submitting requests to developers, which has enabled the Product & Tech team to increase productivity. The Head of Product has played a key role in educating the Product & Tech team to prioritize the most meaningful requests.

> "Me and the Product Manager make clear but harsh prioritizations of what is most important. The rest of the organization has now understood that they must prioritize and only send the most important requests that are worth the time to fix"
>
> - Head of Product, MediaCoverageCo (D)

Two additional enablers have been adaptability and a sense of accountability among employees. As the business model changed, two employees from Customer Success had to adapt to new tasks. One of them had noticed the opportunities of leveraging the data of customers and moved into a full-time CRM role, taking responsibility for providing customer insights to other departments and developing the customer "health" feature and customized scorecards for each customer. With increased automation of Customer Success, they could maintain the customer base with fewer employees, which led to another employee moving into Sales and eventually performing relatively well in the new role. Sales and Customer Success representatives were also given more accountability through more flexibility in negotiations with customers.

5.5 Illustrative Quotes to the Empirical Chapter

To support the empirics and provide an overview, representative quotes are presented in Figures 6 and 7. These figures include additional quotes that are not presented earlier, which are the foundation of the narrative sections of the empirics.

	PersonalizedVideoCo (A)	StreamingCo (B)	SalestechCo (C)	MediaCoverageCo (D)
Business Model Change	“I think organizations rarely work close to maximum utilization of their resources. Naturally, the marginal utility of each new employee decreases for a company that grows fast. When we are now focusing more on profitability, that is much easier to achieve with fewer people, especially if keeping the most productive and profitable employees.” - CEO “We use shorter investment horizons for everything. For example, brand building activities where you spend money with a clear negative financial impact today, but with a possible positive impact long-term. That’s an obvious thing to instantly terminate.” - CEO “We have made a pivot towards the B2B business. It is still smaller than B2C and it is not profitable yet. But we think that if we do not pivot, we do not have an upside. That is why we have hired some new roles and shifted everyone's priorities towards the B2B business. Otherwise, we could have laid off almost everyone and just maintained the B2C business.” - CEO	“We now have a small but dedicated team that focuses on building a model that estimates a consumers’ potential customer lifetime value, by training the model on historical data about loyal and disloyal customers.” - Head of Digital Marketing “We have always had a strong content offering compared to our competitors, but previously we have not focused very much on how the content is presented. We have previously developed all kinds of features and said yes to many of the ideas from the team and other units without considering what is most critical for customers. By focusing on ensuring that the customer is presented with exactly what he or she is looking for, we want to strengthen our competitive advantage. Great content is much more difficult for competitors to imitate than things like user interface.” - Head of Product & Tech “We have increased our focus on our core markets, rather than investing broadly on expansion. We also reviewed our ability to increase prices to drive profitability. Ultimately, we increased prices in the markets based on an assessment of when we last increased the prices and competitor price levels, in combination with some other factors. We have also reviewed our core subscription offering to develop several tiers, introducing a time-capped version.” - Strategy Associate	“In April 2022, when speaking to investors in the US, we realized that access to funding started to get uncertain. All [investors] had different opinions. A couple of months later, when we talked to Nordic investors, they wanted to conduct extensive due diligence, which was new, and we thought they wanted to stall the process. That is when we realized we were about to raise our A-round going into recession. Consequently, we postponed financing to build a more robust organization to get a higher valuation in the A-round. However, we recently took another round of seed financing to keep us afloat for the next nine months, to work on the product and the organization, and then aim for the A-round financing.” - CTO & Co-founder “We have scaled down on employees overall, with a focus on those who give the least value. For example, the CMO does not work with marketing anymore and is now working full-time on sales. We have also removed software and costs at an overhead level to improve profitability. As such, we have rearranged employees and resources to gain more bang for the buck” - CTO & Co-founder “We are working more long-term and strategic towards larger accounts, in order to land deals of 120 000 SEK instead of 20 000 SEK. Of course, the smaller deals are easier to sign, but you have to do five instead of one. In the future, smaller accounts should not need a bunch of sales meetings and onboarding sessions, but to sign up on the website and use the product independently.” - Sales Team Lead	“We had an investor directive to grow in the US at basically any cost. A new customer could cost SEK 500,000 even if it only brought SEK 50,000 in revenues. This has completely changed since then.” - CEO “Now, you have to tie every decision to how it will lead the company towards profitability either in the short or the long-term. [...] Previously, investors wanted us to ditch the Nordics and solely focus on the expansion to the US and now they [investors] are all about going profitable in the Nordics.” - CEO "We wanted to lay off employees earlier, but the board wanted to wait due to uncertainty and that financial markets may improve later this year. Since then, we have laid off a lot of people. Customer Success, Product & Tech has become relatively more important. However, Sales is till the foundation of making the company grow" - CEO
Decision-making	“There were more hierarchical layers before that needed to approve changes and sense check decisions. Now we save a lot of time by not having to do these things. This is a cultural aspect we have strived to improve, in order to promote faster decisions. Most of the people that are still with the company have been here since an early stage, which means that they have a good all-round understanding of what to do and how it affects others. This makes it easier to trust each other, since you know that your colleagues are competent in their area and know what’s best for the company.” - Operations Manager “Investors talk with each other. They hear other firms are doing major cost-cuttings and taking action to improve short-term profitability radically. Our investor-represented board members are frequently calling me, sharing that the other board members think we should do this or that. By the time we have board meetings, I have already gotten enough hints during these phone calls to know what the board thinks and what strategies and roadmaps that need to be set. The board very much drives decisions like cost-cutting and layoffs, and together we make the decisions. Big decisions are most often taken top down.” - CEO "We have gone from product-led growth where we worked with hypotheses and looking for patterns in data to sales-led growth with the B2B-business. Here, we have to use the insights and requests from Sales employees. Consequently, we work less data-driven in a regard, but it is also due to that the sample size is still too small. [...] Before the layoffs, the Product Managers had ownership for part of the product and decided what to be implemented. Although, ideas often came from support or employees through Slack channels. But the Product Manager ultimately made the decision. Since the Product Managers are now removed the CTO decides. These decisions are now based on available developers, requests by other C-level executives and boils down to the cost, including use of internal resources, such as developers and the potential upside. This can be cost savings or increased revenues." - CTO	“We have a dedicated part of the Commercial Strategy team observing changes in customer needs, technology, competitors and the market. These dedicated projects can sometimes be used for decisions, such as the changes in pricing. Throughout the company, people are also attentive to these things, where they send messages of news or ideas in Slack.” - Strategy Associate “The decision to centralize the organization started with the budget not being approved by the board in the end of 2021. That’s when we realized that drastic changes were needed. They looked through the organization and the CTO and CPO, who is part of the management team, considered that there was a possibility to lay off a significant amount of employees in Product & Tech without destroying value for customers. They included the layer beneath them in these decisions, which I am part of” - Head of Product & Tech “Taking decisions was very complicated previously. Each country had a team with its own Country Manager that had seniority over the local CRM-specialist, even on some technical matters, which may have been suboptimal. Now it’s more clear what authority you have and what you can say yes or no to. When it is centralized, you have a better overview of what will have the highest impact, which drives my decisions.” - Head of Global CRM	“Previously, we had rigorous processes for decisions, often making spreadsheets and calculating risk for an entire week before making a decision. This has changed to faster decisions. For the major cost-cutting target, we had a board meeting of four hours, where the CEO proposed how to deal with it. The board discussed it and then approved it. Overall, we take faster decisions, with a slightly higher risk. However, we have realized that it is often not that dangerous and it is not worth it to spend too much time contemplating decisions” - CTO & Co-founder “The removal of the management teams meant that we [team leaders] took their roles as well. This has led to faster decisions and less need for communication. Before, we had to have so many meetings just to inform and align decisions. Looking back now, it was not needed for such a small company” - Sales Team Lead “We have always had a substantial freedom of action and do not have to check with superiors for everything. Still, we had a frame for what actions we could take in our role. We can now act faster and go beyond this frame in order to keep a customer, even things that previously would not been approved.” - Customer Success Manager	"Our employees have always had freedom in their roles, but now we have fewer layers in the organization, which helps" - CEO "I have a large mandate to make decisions. However, it has been messy with a bunch of different managers. Now, I can do pretty much whatever I want with my customers, such as pricing and other components of the deals, like what features they have access to." - Customer Success Executive “The board is much more involved than previously. They contact me much more frequently and are more interested in how things progress. They also hear that things are tough at other companies and want to hear how we are doing and be part of decisions” - CEO “Churn is and has been the number one priority. But if we had more resources, we would have developed a ‘real’ self-onboarding service, so you could become a customer instantly. The manual sales processes we have now are not very scalable. We have deprioritized this since the churn is so significant and overall, sales are okay.” - Head of Product

Figure 6: Illustrative quotes to the empirical chapter for business model changes and decision-making

	PersonalizedVideoCo (A)	StreamingCo (B)	SalestechCo (C)	MediaCoverageCo (D)
Implementation	"The fact that we kept the people with the roles closely connected to revenues and let go of roles only vaguely connected to revenues sends a clear signal of what is now important. Essentially all people not working with operations have had to leave, while core roles for driving revenue and operational efficiency have been given increased responsibility and compensation. We have to focus on the things that generate returns and not longer on the things that are nice to have. Things like improving the workplace, frequently posting on social media, and having several people acquiring and building relationships with content creators are no longer a priority." - CEO "We had a plan initially to have 7 parallel product teams with a total of 42 employees. When we first saw the need for a handbrake, we downsized to 25 people and stopped expansion projects that needed separate tax handling and language in the product. Instead, we optimized the application on our core markets. When we decided to go through with the B2B pivot, we realized that we would not be able to build a scalable and optimized technical solution as of yet, since it was in this stage driven by old school sales. Therefore, we downsized again to 5 developers and 2 product roles." - CTO "We have deprioritized many types of product bets, where we did not have a concrete upside in cost savings and different types of product formats that could potentially give value to B2C customers. Instead, we have focused on what has a clear correlation to cost savings, customer conversion rate, and what would benefit the B2B business. For example, we planned to implement a Swish payment option, but it was not relevant to the B2B business. Therefore, it was neglected." - CTO	"The announcement of the lay-offs was received like a cold shower among the employees. The company had never been through bad times before, and it took a while for employees to accept the new strategic direction and the reasons behind the layoffs" - Head of Product & Tech "Now I know much more about what StreamingCo is and what it is not. Instead of running in all kinds of directions, with all kinds of initiatives to achieve growth, the company now feels more unified. I have better understood what markets and activities to focus on. We collaborate more with each other, and all parts of the organization have become more engaged in saving costs, improving processes, etc., to make the company profitable. We have started to work more like an established tech firm than a startup." - Head of Global CRM "No one wants their team to be a reason for the organization not reaching the new profitability goals." - Head of Global CRM	"We have tried every week to find ways to understand customers faster, terminate tools we do not use much, and solve various bottlenecks. We are repeatedly trying to work more efficiently. But of course, we have to work longer days now." - Customer Success Manager "Very specialized roles may be better in theory. However, sometimes it just leads to additional organizational fat. If every Sales employee has clear responsibility for the entire sales process, it is much easier to measure if they bring in more revenues than costs. This reduces the need for coordination between employees and clarifies incentives. You could say that we have simplified a lot to squeeze out more value from our resources." - CTO & Co-founder "Customers are more excited and satisfied when they see updates in the product. [...] It is very motivating when you see the development of the product and that it helps customers." - Head of Customer Success	"We have been sprinting in all directions. This is common in startups, but now we are getting closer to a clear strategy and prioritization" - Customer Success Executive "You become quite lazy when you have 'unlimited' money. You could just throw money at the problem, such as hiring more people. The market has become much more healthy, and you have to rethink these decisions" - CEO "I tried to keep goals fixed to not confuse employees earlier by changing the overall direction of the firm frequently. However, I have now changed to trying to explain how the external environment affects us, the logic of investors, and why the targets need to shift. I can not give clear goals to my employees and this is something I have never experienced before." - CEO
Organizational Enablers	"Information in the organization is very transparent, and people are used to helping each other out, also in parts of the organization outside the one you belong to. Everyone is like a Swiss army knife, able to jump in and assist in almost any area within the organization. And if you are thrown into a new project. In that case, you can quickly get up to speed by reading up in Notion." - Operations Manager "We first thought search engine optimization (SEO) would be an effective channel to reach customers through, as it is key to free traffic to our platform. Management assigned a person in the growth team to develop the SEO of the platform. A couple of weeks later, he concludes that the project requires too much time and resources in relation to its effect and decides to close the project, just a few weeks after he got it as a new responsibility. Management trusts his opinion and doesn't push him to continue. - Operations Manager "A colleague had worked as Content Creator Manager for Scandinavia for a year, including responsibility for the relationship with the 1000+ local content creators. As a result of our new B2B focus, responsibility for B2B accounts was added to his table, without removing any of his previous responsibilities. A person with lower sense of pride and accountability would probably accept that he will not be able to hit the same targets, as he just got twice as much to achieve, reaching one target for generated B2B revenues and one for how well content creators are managed. Instead, he has found smart ways to handle the content creators while spending the majority of his time on the B2B sales. There, he has found additional smart ways to hit his targets, he even outperforms B2B account executives from other markets despite that they have two persons managing the two different responsibilities. He has been in the company for several years, which means that he has a high amount of this pride/accountability in delivering on his targets." - Operations Manager	"We work a lot with automation and made significant progress last year. With the help of bots and self-service on our web page, customers can find help and answers to their questions without our time. We also use translation tools in the Support team to cover all markets after the centralization. We work to help as many customers with as few employees as possible, which has been facilitated through automation and centralization." - Customer Support Manager "We had a one-size-fits-all approach to CRM and customer loyalty before. For example, even though Indonesia had 800 subscribers, we had a CRM employee for that market. It is difficult to make a significant impact if the customer base is that small and you want to make it grow. Instead, we have tried to find clusters of markets, where we have grouped smaller markets with similar characteristics to have similar packages of onboarding, win-back and upsell communications completely automated. This is in contrast to mature markets with more competition where we are working more with campaigns and communication customized to each market. Consequently, we have tried to prioritize our efforts in the centralized CRM team on the markets where it has more 'leverage' and can yield a larger impact" - Head of Global CRM "It is obvious that we were too many since we had a total of 30 CRM employees for two million subscribers. I don't think that exists anywhere else. We simply have a better 'costume' now. [...] One area where we laid off too many is in data analysis. We have no other point of contact with customers than through our digital apps and the data we gather from it, so I think we could improve efficiencies in many areas if we had more Data Analysts and Data Scientists." - Head of Global CRM	"We look for employees that are open to embracing the journey and love taking ownership, and these values are at the core of our company culture. This is especially true for the employees that are still with us after the layoffs. [...] One thing I have learned is that the higher autonomy and accountability of employees, the more motivated employees you will get." - CTO & Co-founder "We are an agile company, enabled by young employees that feel that they are in it for the journey to some extent. I think that many employees enjoy changing directions swiftly and adapt quickly to new goals and tasks. That's where I think many other organizations would become uncomfortable" - Product & Growth Manager "We do not use any paid ads anymore in contrast to before where we spent hundreds of thousands SEK per month. Instead, we focus on working smart and cheaply. For example, use web scraping to find who likes our LinkedIn posts and target them as leads. But we barely have a Marketing team anymore, since we have moved from two full-time employees to one working on marketing 50% of their time." - CTO & Co-founder	"Finding the right variables to measure and to become more data-driven has helped us to identify critical moments for our customers. [...] We have also become better at focusing at what is important, instead of sprinting on every opportunity." - Customer Success Executive "Me and the Product Manager makes clear, but harsh prioritiations for what is most important. The rest of the organization has now understood that they must prioritize themselves when making requests." - Head of Product "The Head of Product has implemented structure for some processes of product development and bug fixes, which has helped immensley. Before, developers were fixing inbound bug tickets, and therefore putting out small 'fires' all the time. Now, I see that the customers are increasingly happy an improving product." - Customer Success Executive "We are more agile, since we are a smaller organization than other competitors. We also have a very open and transparent culture with a sense of community. The people that are left are driven, have ownership in what they do, and really want to bring results. But people may be worried that they are replaceable." - Customer Success Executive

Figure 7: Illustrative quotes to the empirical chapter for implementation and organizational enablers

6 Analysis

This section discusses the empirical findings by using the theoretical framework. The analysis of the tech startups' BMI is divided into three sections: 6.1.1 value creation, 6.1.2 value delivery, and 6.1.3 value capture. To highlight the enabling role of DCs, we explicitly state DCs when applicable, in the format of [sensing], [seizing], or [transforming], throughout the analysis. Moreover, to relate the analysis to the empirics, we refer to examples and cross-case similarities and differences to specific case companies using (A), (B), (C), and (D), representing PersonalizedVideoCo (A), StreamingCo (B), SalestechCo (C) and MediaCoverageCo (D). Lastly, 6.4 provides an overview of the analysis in the form of a table.

6.1 Value Creation

Through interactions with its surroundings, the case companies reprioritized key activities and coordinated partners and resources to meet investors' changed preferences. The three most significant changes in the value creation pillar are explained below.

6.1.1 Clarified Strategic Directions and Enhanced Focus

Investor preferences going from growth to profitability made all of the case companies realize that the previous focus on growth had come with major downsides [sensing]. The companies had collected organizational "fat" and lost a clear strategic direction. They had initiated all kinds of projects that could possibly generate revenue, over-recruited, and lost overall efficiency. Investment in R&D activities typically increases during periods of economic boom (Barlevy, 2007), which may have accelerated the number of projects in various directions. The new profitability focus increased the importance of prioritization between activities and implied a significant shift in key value-creation activities and key resource allocation (Osterwalder & Pigneur, 2010). The case companies abandoned the development of product extensions and product features with uncertain effects on profitability, such as building a social community (B), locally customized payment options (A), and improving customer interface (B) [seizing]. New key activities were identified, including accelerating product development and enhancing its competitive advantage (B, C, D), focusing on customers with higher revenue potential (A, C, D), creating larger partnership deals (B), and tracking, building relationships and following up on the most profitable customers to a larger extent (A, B, C) [transforming]. Further, task responsibility was altered (Zott & Amit, 2010) as resources were centralized to create more value in a scalable way (A, B) [seizing & transforming]. The findings highlight the importance of having adaptable assets (including human assets) and operational procedures (Teece, 2018). This can be exemplified by MediaCoverageCo (D) recognizing the opportunity to leverage data and move an employee from Customer Success to a full-time Customer Insights and Analytics role. The findings confirm the importance of quickly being capable of reorganizing resources (Teece, 2007; 2018) to create value and seize opportunities more effectively and that startups experience this easier than well-established businesses (Teece et al., 2016).

In contrast to Dasí et al. (2015), our findings suggest that tech startups are not as streamlined as previously believed, but rather possess significant resource slack during their growth phase. Our empirics show that resource slack was deemed a critical factor to address for the management teams of the tech startups. A significant amount of activities and projects could be removed without significantly hurting operations when focusing on profitability [seizing]. As management was forced to think through prioritizations and communicate new focus areas, employees perceived a clarified strategic direction, particularly concerning the prioritization of value-creation activities (A, B, C).

6.1.2 Knowledge Sharing, Inter-organizational Trust, and Leadership as BMI Enablers

When adapting organizational key value creation activities to external change, organizations with flatter, decentralized organizational structures perform better (Teece et al., 2016). Complementing the organizational structure perspective, our findings reveal the importance of having knowledge sharing and close inter-organizational collaboration embedded in the organizational culture (A, C). Practical examples of this enabler include knowing what others are working with through shared Slack channels (A, B, D), actively using knowledge-sharing platforms (A), having weekly product demo meetings for the organization (C), and constantly informally interacting with each other at the office (A, D) [sensing]. The knowledge sharing and close inter-organizational collaboration enabled employees to support under-resourced teams and take on new tasks and responsibilities more easily (A, C, D). The ability to take the perspective of other teams and being concerned with their limited time further made the organization naturally focus on the new key value-creation activities [seizing]. As previously found in larger firms during an economic downturn (Weaven et al., 2021), our findings suggest knowledge sharing to be an important DC for tech startups in order to seize new opportunities and adapt to changed investor preferences.

Further building on the DCs theory (Teece, 2007), the results suggest inter-organizational trust as an important DC supporting the organization's alignment towards creating value with reduced resources (A, B, C) [transforming]. With fewer employees and organizational layers, teams and employees received increased autonomy in making decisions in their roles (A, B, C, D). For example, SalestechCo (C) removed one layer of managers and increased the accountability of the teams. The increased autonomy accelerated BMI among the firms through higher employee motivation to work more efficiently and towards the new strategic direction (A, B, C) [transforming]. Similar patterns were uncovered by Weaven et al. (2021), finding that increased delegation to local managers improved franchisers' performance during an economic downturn. Our findings suggest that local adaptation may not be the most important reason for this, but the increased accountability further down in the organization, such as a Customer Success representative leveraging data to give customer insights to other parts of the organization and building the customer "health" feature (D). The high level of trust in decisions by others could also, at least partly, explain the relatively low employee resistance when implementing the BM changes, despite otherwise being a common challenge (Teece et al., 2016).

With increased freedom to make decisions among employees, the importance of clear directions and guidance from the management team increased. Strong and direct leadership towards a clear, specific direction clearly facilitated value creation with reduced resources among the case firms (A, B, C) [transforming]. In line with Teece et al. (2016), strong leadership is therefore also suggested as an important DC for BMI when investor preferences change. Strong leadership made it easier for employees to know what value-creating activities to prioritize (A, B, C) and how individual employees contribute to the organization as a whole (A, B). The case companies enabled BMI by leveraging leadership tools like communicating strategic direction during meetings and in daily interactions (A, B, C), setting an example by communicating how they individually worked based on the new strategic direction (A) and updating KPI's to better align with the new direction (B) [seizing & transforming]. This exemplifies the role of effective communication when implementing BM change which has been discussed in previous literature (Teece et al., 2016).

6.1.3 Enhanced Value Creation Through Investments in the Value Proposition

New product and service developments are needed to take advantage of new opportunities (Teece, 2018) and benefit entrepreneurial ventures' growth performance after economic downturns (Colombo et al., 2016). Accordingly, our findings show that all case companies developed their core value proposition (Osterwalder & Pigneur, 2010) as a key response to the new investor preferences [seizing & transforming]. PersonalizedVideoCo (A) turned around its business model when realizing it could create more value for customers by targeting businesses instead of consumers. StreamingCo (B) put major efforts into developing its content curation to increase value for customers compared to competitors and ensure customers stayed on their platform. SalestechCo (C) accelerated product feature updates based on customer inputs, and MediaCoverageCo (D) developed its product to fit the needs of more users at each company [transforming]. Rather than only increasing short-term profitability, these changes increase value for customers. Thus, these business model innovations are likely to generate a greater long-term competitive advantage for the companies (Teece, 2010). Sales and Customer Success representatives often recognized these opportunities and emergent trends in their dialogues with customers (A, C, D). The insights were shared with management teams and Product teams that made the necessary decisions to integrate the inputs into the product, enhancing customer value (A, B, C, D). This demonstrates the importance of having systems and a culture that allows the newly acquired knowledge to be shared and put into practice (Teece, 2007) [sensing & seizing]. The findings build on existing research on information flows as an enabler for better adaptation to change (Teece et al., 2016).

6.2 Value Delivery

As investors' demands for profitability increased, the case companies recognized the significance of rethinking their orchestration of resources to deliver value to customers (Teece, 2018). Targeted customer segments, customer acquisition strategies, and customer relationship management (CRM) were modified to align value-delivering activities with the new economic environment (Osterwalder & Pigneur, 2010). The three most significant changes in the value delivery pillar are explained below.

6.2.1 Adopting More Cost-Efficient Customer Acquisition Strategies

In line with research on marketing spending during economic downturns (Rollins et al., 2014), the case companies adapted their customer acquisition strategies to slashed marketing budgets. Marketing as a function significantly decreased in strategic importance. MediaCoverageCo (D) removed its Marketing team completely, and SalestechCo (C) only kept its CMO working with marketing, additionally splitting his time equally between marketing and sales [transforming]. While companies during the recession of 2008-2010 shifted focus from traditional media to digital marketing channels (Rollins et al., 2014), our findings reveal new types of BMI to acquire customers more cost-efficiently. While previously using paid digital ads as the main marketing channel (A, B, C, D), the tech startups shifted to more cost-efficient marketing activities enabled by firm networks (e.g., content creators or business partners) (A, B), improving product website and self onboarding (C, D) and by focusing sales and digital marketing efforts on the most convertible users by leveraging data (A, B, C, D) [seizing & transforming]. To acquire B2B customers more cost-efficiently, both SalestechCo (C) and MediaCoverageCo (D) implemented a product-led growth strategy. Focus on sales was significantly decreased, and investments were made in the product to acquire new customers organically, such as launching the free tier version (C) and the self-service onboarding (C) [transforming]. For the new B2B service of PersonalizedVideoCo (A), a focus on sales was still needed until awareness and customer adoption were high enough, and a scalable value proposition had been found.

6.2.2 Broadening vs. Narrowing Down Customer Segmentation

The role of boards in sensing opportunities and eliciting change has been left out by Teece (2018) and Foss and Saebi (2017). Our findings indicate that the change in investor preferences increased board engagement and was an essential catalyst of strategic discussions within the management teams of the case companies in search of new business opportunities [sensing]. The elicited strategic discussions, with inputs from the board, particularly sparked the more radical changes in the firms’ BMs, such as customer segmentation strategies (Osterwalder & Pigneur, 2010). In some cases, the discussions led to decisions to focus on the most profitable existing segments within specific markets (B, C) [seizing]. In other cases, these discussions (including insights from employees in the organization) led to identifying a completely new target segment (B2B for A and IR teams for D), to achieve higher revenues per customer and higher customer retention.

In contrast to the entrepreneurial ventures studied by Colombo et al. (2016), the tech startups of our study increased focus on delivering value in their core markets, rather than expanding through internationalization (A, B, C, D). The case companies stopped geographical customer expansions and withdrew significant investments from countries and regions with a low share of revenue (A, B, C, D) [seizing]. The changed customer segmentation strategy was likely a consequence of reducing marketing costs that constituted a particular opportunity to meet investors' preferences for profitability. The changes in customer acquisition strategies described in 6.2.1 were likely deemed more suitable in core markets where product awareness and customer adoption were higher, resulting in the changed customer segmentation.

6.2.3 More Structured Work to Manage Existing Customers

In line with previous research on firm response during an economic downturn, employees at all case companies experienced increased strategic importance of managing the relationship with existing customers as investor preferences changed (Rollins et al., 2014). The firms perceived losing customers as a major threat due to the decreased budgets among many customers and responded by accelerating a data-driven approach to CRM. With a tech product at the core of the business, the response aligns with existing digital BMs of the tech startups, making the changes easier to implement (Teece, 2018). To a greater extent, the case companies worked to predict customers' needs for attention, measure their activity, and follow up on the effects of their customer relationship activities (A, B, C, D) [sensing & seizing]. Exemplifying the increased data-driven approach, MediaCoverageCo (D) established individual scorecards for each of its customers to track how well their different needs were met, to what extent they were using the service and the time until contracts were expiring. Further, automation replaced manual management of less important customers and activities with a lower need for human interaction, such as onboarding, upselling, and renewing customer subscriptions (B, C) [transforming]. This freed up more time for CRM activities with higher effects on revenues and customer retention. Our findings strengthen indications from previous research that leveraging data throughout the organization serves as an important knowledge resource and dynamic capability for BMI (Ciampi et al., 2021). This finding further brings clarity to the important role of data analytics capabilities in BMI among tech startups (Foss & Saebi, 2017).

6.3 Value Capture

Through reconfigurations of cost structures and an agile approach to pricing and product offerings, the case companies were able to innovate their BMs to increase profitability. The three most significant changes in the value capture pillar are explained below.

6.3.1 Introducing Lower-Priced Services with Dual Purposes

As previously mentioned, new product and service developments are needed to fully take advantage of opportunities arising from external changes (Teece, 2018). Our empirics show that several of the case companies introduced a lower-priced extension of their product (B, C, D) as a response to customers' reduced purchasing power and the new investor preferences [seizing]. StreamingCo (B) introduced a cheaper but time-capped version of its streaming service, and SalestechCo (C) introduced a free tier version of its SaaS service as well as switched from user to usage-based pricing to lower the barrier for new customers [transforming]. The purpose of the new services was to lower the barrier for new customers, but more surprisingly also to decrease customer churn rates, a KPI that had increased in importance for investors (A, B, C, D). Leveraging customer activity data enabled StreamingCo (B) to proactively recommend the limited version of its service to customers at risk of leaving, as well as presenting its reactivity every time a customer tries to leave the premium service [seizing]. The free tier model used by SalestechCo (C) enabled them to keep customers and customer data in their system, making it easier to re-activate them into paying customers again [seizing]. While MediaCoverageCo (D) did not introduce an official lower-priced version of its service, it still applied the approach of increasing customer loyalty by giving the Sales and Customer Success teams higher freedom and flexibility when negotiating prices, terms, and included product features with customers [seizing]. Without removing any customer value, the customized adaptation of product features ensured that nothing was given away for free. Consequently, long-term negotiation power remained, being particularly important for smaller firms to capture value over time (Heider et al., 2021).

6.3.2 From Wasteful to Cost-Conscious by Reconfiguring the Cost Structure

To manage investors' increased demands for profitability, the tech startups developed a more conscious approach to costs, resulting in changes in their cost structures. Our findings reveal strong indications of wasteful behavior before the changed investor preferences, such as over-hiring (A, B, D), significant marketing expenditure with low effect (A, D), and overspending on technological tools that could be done manually at a much lower cost (C). After reviewing the cost structure, employee costs were reduced by laying off a significant share of employees (A, B, C, D) [transforming]. This altered the employee cost structure in various ways. PersonalizedVideoCo (A) increased its share of Sales and decreased in Product & Tech to establish its new B2B service. StreamingCo (B) decreased relative costs for Business Development, CRM, and Customer Support. The two B2B companies (C, D) increased in Product & Tech as they deemed their value capture ability to depend on continuously improving the value to customers to minimize customer churn [seizing]. Although these layoffs enabled companies to reach cost-cutting targets, the empirics indicated a negative effect on company culture and relationships between managers and employees (B, C, D), in line with previous findings from the recession of 2008-2010 (Ogbonnaya et al., 2022).

Common for all companies was the significant and disproportionate reduction in marketing costs, taken to the extreme by MediaCoverageCo (D), laying off all marketing employees [transforming]. Paid ads were completely stopped (A, C, D), which had previously received significant resources to boost growth, even if it would take many years to earn back each customer's acquisition cost (C, D). Interestingly, cutting marketing costs is contrary to what literature suggests to do in a recession (Roberts, 2003). This disparity may be due to the "growth at all costs" approach to marketing before the downturn, making the contexts differ significantly. Lastly, an assessment of technological services and tools enabled the tech startups to decrease the relative share of this cost in their overall cost structures. This was achieved by terminating tools and services with the highest cost in relation to their value (A, B, C, D), and when possible, services were replaced by doing tasks in-house (A, C) [transforming].

6.3.3 Reduced Specialization to Increase Value Capture Ability

When investor preferences changed, the degree of specialization in various roles was altered to capture value better. Aiming to increase the utilization of employees, three of the case companies decreased the degree of specialization for employees (A, B, C). Employees started to work on a more diverse set of tasks (A, C), centralization of competencies was made to work with scale rather than local initiatives (A, B), and Sales employees became responsible for the process end-to-end, from prospecting to closing (C) [seizing]. In contrast, MediaCoverageCo (D) increased the degree of specialization in the sales process as a response to customers becoming more difficult to acquire [seizing]. Thus, for Sales teams, the underlying prioritization of costs or revenues seems to decide the degree of specialization. SalestechCo (C) decreased specialization in its Sales team to cut costs, while MediaCoverageCo (D) increased specialization to increase the ability to sell. Where Teece et al. (2016) suggest reduced specialization and hierarchy to facilitate the firm's seizing capabilities, our findings develop the understanding of specialization by describing how decreased specialization can manifest itself in different contexts as well as suggesting multiple plausible approaches to specialization as part of BMI.

6.4 Overview of Analysis

Concluding the analysis, all four case companies adapted, revised, and reformulated several components of their business models. The BMI involved both the acceleration of intended changes, such as the transition to product-led growth (C), and the seizing of emergent changes, like the transition towards B2B (A) (Demil & Lecocq, 2010). The performed BMI ranged from smaller adaptations like adjustments in customer acquisition strategies to radical innovations like identifying a completely new customer segment. Below, we provide an overview of the observed BMI as a response to the new investor preferences, structured by BMI component horizontally and the enabling DC vertically (Figure 8).

	Value Creation	Value Delivery	Value Capture
Sensing	• Identified shift in investor preferences (A, B, C, D) • Knowledge-sharing through e.g. Slack (A, B, D) and close inter-organizational collaboration (A, C, D) • Sales and Customer Success representatives sensed changes in customer behavior (C, D)	• Board engagement catalyst of strategic discussions for search of new business opportunities (A, B, C, D) • The case companies started to measure and follow up effects of its customer relationship activities to a higher extent, predicting customers' needs of attention, in order to retain them (A, B, C, D). E.g. using individual scorecards to track each customer (D)	• Recognized that customers are more difficult to keep (C, D) • Sensed that the churn rate had increased in importance for investors (A, B, C, D) • Recognized the need to lower barriers for customers (B, C, D)
Seizing	• Reallocation of resources from geographical market expansion to markets with higher share of revenues (A, B, C, D). • Abandoned high-risk projects (A, B) • New key activities: focusing on customers with higher revenue potential (A, C, D), creating larger partnership deals (B) and tracking, building relationships and following-up on the most profitable customers to a larger extent (A, B, C)	• Replacing focus on paid digital ads with more cost efficient customer acquisition strategies (A, B, C) • Shift in targeted customer segments, such as narrowed focus on core customers (B, C), new B2B target segment (A), and expanded into IR segment (D). • Focus on delivering value in core markets, where larger shares of current revenues were found, rather than expanding through internationalization (A, B, C, D) • Increasingly using data-driven methods to focus on customers and CRM activities generating most value (A, B, C, D)	• Altered cost structure by significantly decreasing in marketing costs, such as completly stopping paid ads (A, C, D) • More freedom and flexibility for Sales and Customer Success teams when negotiating prices and terms with customers (C, D) • Reduced specialization of employees (A, B, C) such as making the Sales process end-to-end (C) • Changes in cost structure related to the share of total employees costs for each function, such as increase in Sales for its B2B offering (A), Product to increase value for customers (C, D), decrease in Business Development, CRM and Customer Support (B).
Transforming	• Accelerated the implementation of new product features (C, D) • Reconfiguration of employees from B2C to B2B (A) and from Marketing to Customer Success (C) • Leaders continuously communicating strategic direction during meetings and in daily interactions (A, B, C), enhancing employee motivation to create value in the new investor environment • Increased autonomy in decision-making (A, B, C, D). E.g. removing one layer of managers increased accountability of the teams (C) • Increased value for customers by focusing on content curation, assessed to have the highest potential to strengthen the firm's competitive advantage (B)	• Reconfigured assets for customer relationships, through automation of processes and observation of "health" score (C, D), and centralization of employees (B), from B2C to B2B (A). • Removed Marketing team completely (D) • Automation of processes to manage less important customers and processes, such as onboarding, upsell and renewing customer subscriptions (B, C) • Launch of free-tier version that can organically acquire customers through self-service onboarding (C) • Developed features to make the product fit for a wider range of users among customers (D)	• Changed from license to usage-based pricing model and launched a free-tier version (C) • Introduced a time-capped lower cost subscription (B) • Assessment of technological services and tools enabled the tech startups to terminate those with the highest cost in relation to its value (A, B, C, D), including replacing services with doing tasks in-house (A, C)

Figure 8: Overview of analysis

7 Conclusion

The purpose of this thesis was to examine how tech startups innovate business models as a response to investor preferences going from growth to profitability during an economic downturn. Throughout the study, we offer empirical evidence on how startups used DCs to innovate value creation, value delivery, and value capture during this context.

By removing projects and activities with higher risk or lower connection to profitability, the organizations could free up resources and transform their organizations to fit the new investor preferences. Instead, the tech startups clarified their strategic directions and invested in projects that could generate immediate revenues or cost savings. A focus on geographical (core) markets with a higher share of revenues and cost-efficient customer acquisition strategies replaced internationalization and high spending on paid digital ads. Further, they introduced lower-priced and usage-based services, and Sales representatives gained more freedom to negotiate deal terms in order to lower barriers for new customers. Data analytics capabilities were developed and leveraged to establish a more organized approach to customer relationship management. Inter-organizational collaboration and knowledge-sharing capabilities enabled quick reorchestration of resources and implementation of BMI. To increase value for customers, the tech startups accelerated product development, strengthened sources of competitive advantage and increased the products' application areas for the customers. The findings further illustrate the importance of sensing financial and commercial market conditions through board member interaction and customer dialogues. This capability, combined with a structure for sharing and decision-making based on these insights, played an important role when generating viable BMI ideas in response to external change.

7.1 Theoretical Contributions

Firstly, our study contributes to the scarce knowledge about what external changes cause business model adaption by showing that the effects of an economic downturn on investor preferences have a major impact on BMI among tech startups (Foss & Saebi, 2017). The pre-study identified investors' preferences shifting from growth to profitability as the most important driver of BMI among tech startups during an economic downturn. The main study manifested the impact of the changed preferences across all BM components: value creation, delivery, and capture. Given the growing importance of tech startups' role in economic growth and innovation, our findings expand the understanding of how investors influence value distribution and innovation in this sector. Moreover, as we have highlighted the importance of investor preferences in regard to BMI, this may inspire academics to further explore the role of investor preferences on various theoretical concepts, as well as across industries and company sizes.

Secondly, by using tech startups as the unit of analysis and studying BMI in a new context, our study contributes to filling the theoretical gap of construct clarity in BMI literature, particularly in entrepreneurial contexts (Foss & Saebi, 2017; 2018; Saebi et al., 2017). As a response to the rather general research conducted on BMI up until now, we provide a practical study with concrete descriptions of BMI that might facilitate a more widespread and practical understanding of BMI. By identifying drivers, processes, and enablers of changes in business models, we have improved the understanding of business model dynamics and brought construct clarity in *how* tech startups innovate BMs when investor preferences shift from growth to profitability (Foss & Saebi, 2017; 2018; Saebi et al., 2017). Considering tech startups' ability to disrupt certain industries, understanding their BMI during specific contexts might help foresee developments in these industries during certain macroeconomic environments. Furthermore, demonstrating the high adaptability among tech startups might encourage academics to increasingly use these firms as units of analysis. The insights can also be contrasted with BMI among larger firms to expand the knowledge of how small and larger firms differ.

Thirdly, we expand the DC-based perspective of BMI (Weimann et al., 2020; Mezger, 2014) through a practical study using BMI combined with DCs as the theoretical lens. The findings identify critical DCs enabling and facilitating BMI and contribute to the understanding of how BMI and DCs are interlinked. More specifically, we present how sensing, seizing, and transforming are used to innovate business models, specifying the role of DCs in BMI (Hock-Doepgen et al., 2021; Teece, 2018; Leih et al., 2015). Demonstrating the important role of particular DCs to sense emerging external changes leading to rapid seizing and transforming of internal resources, our findings support the idea that DCs enable a proactive BMI (Clauss et al., 2019).

7.2 Managerial Implications

Given that economic growth is cyclical, periods of investor preferences shifting from growth to profitability will keep posing challenges to managers and entrepreneurs. This study sheds light on BMI as a way to manage these challenges. It exemplifies various strategies that entrepreneurs and managers can adopt and identifies important DCs enabling and facilitating the BMI. Our findings allow other firms to learn how tech startups' high adaptability manifests in practice. Managers are encouraged to strengthen capabilities such as inter-organizational trust, establish structures that allow insights from customers to quickly get incorporated into the product, and take the courage to dramatically reallocate resources between functions and teams to adapt to changing environments. More broadly, the illustration of BMI in a practical context can facilitate managers' understanding of the BMI concept, thereby accelerating efforts to innovate BMs and increase firm performance.

Despite often being perceived as a threat, particularly as it includes major layoffs, our findings show that the changed investor preferences may also bring about major opportunities for positive changes and BMI outcomes. These include a clarified strategic direction, the discovery of new business opportunities, and significant cost-efficiency gains through relatively simple measures. Rather than resisting change, our findings might inspire entrepreneurs and managers to reap these benefits by quickly adapting when demands on profitability increase. This might be particularly valuable for startups, as matching investor preferences can help overcome funding challenges and ensure survival. The results might also guide managers to focus on identifying smarter and more efficient ways of working, such as increasing automation of simpler tasks and focusing on the activities with the highest effect on revenues, as well as improving the value for the customers over time to ensure long-term benefits. Lastly, the study demonstrates multiple ways of innovating BMs to meet investor preferences shifting toward profitability. Rather than providing a one-fits-all approach to BMI, our study highlights the importance of decision-making and clear communication from leaders about strategic direction and prioritization to enable successful BMI.

7.3 Limitations and Suggestions for Future Research

This study has three main limitations. Firstly, due to the temporal limitations of the project, data collection was conducted during a short period of time, even though BMI is a long-term process (Demil & Lecocq, 2010). While the case companies experienced the BMI bringing positive change, the long-term effects on firm performance are still unknown. We suggest future research to employ longitudinal studies on the long-term consequences of BMI activities to meet investor demands for profitability, such as significantly reducing marketing spending on digital ads, increasing automation of activities, introducing lower-priced services, and withdrawing investments from international markets.

Secondly, as our research focused on BMI from an internal perspective, interviews were exclusively conducted with founders, managers, and employees. However, future research could yield an interesting perspective on the findings and the BMI process by taking the investor's perspective. Such a study could expand the understanding of how tech startups innovate BMs to meet changing investor preferences, how investors try to influence these decisions, and how investors' role changes when their preferences dramatically shift.

Thirdly, while this study has investigated drivers of BMI among tech startups in response to changing investor preferences, it has studied a very limited number of firms. Quantitative studies on how common the identified responses are among tech startups could broaden the understanding of the generalizability of the study. To further expand the empirical foundation of firms' responses to investor preferences, we suggest future studies to examine firms of various sizes and industries. Comparing the results of such studies with our findings could provide interesting nuances to the role of changing investor preferences in firms' BMI and how BMI and its enablers potentially differ between types of companies.

References

Anwar, M. (2018). Business model innovation and SMEs performance—does competitive advantage mediate?. *International Journal of Innovation Management, 22(07),* 1850057

Baden-Fuller, C., & Haefliger, S. (2013). Business models and technological innovation. *Long range planning, 46(6),* 419-426.

Balachandra, L., Briggs, T., Eddleston, K., & Brush, C. (2019). Don't pitch like a girl!: How gender stereotypes influence investor decisions. *Entrepreneurship theory and practice, 43(1),* 116-137.

Bamiatzi, V. C., & Kirchmaier, T. (2014). Strategies for superior performance under adverse conditions: A focus on small and medium-sized high-growth firms. *International Small Business Journal, 32(3),* 259-284.

Barlevy, G. (2007). On the cyclicality of research and development. A*merican Economic Review, 97(4),* 1131-1164.

Barney, J. (1991). Firm resources and sustained competitive advantage. J*ournal of management, 17(1),* 99-120.

Battistella, C., De Toni, A. F., De Zan, G., & Pessot, E. (2017). Cultivating business model agility through focused capabilities: A multiple case study. J*ournal of Business Research, 73,* 65-82.

Baxter, P. & Jack, S. (2008). Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers. *The Qualitative Report, 13(4),* 544-559.

Bell, E., Bryman, A., & Harley, B. (2019). *Business research methods* (Fifth edition). Oxford University Press.

Bellman, R., Clark, C. E., Malcolm, D. G., Craft, C. J., & Ricciardi, F. M. (1957). On the construction of a multi-stage, multi-person business game. *Operations Research, 5(4),* 469-503.

Bendassolli, P. F. (2013). Theory building in qualitative research: Reconsidering the problem of induction. *Forum: Qualitative Social Research, 14(1)*.

Bouwman, H., Nikou, S., & De Reuver, M. (2019). Digitalization, business models, and SMEs: How do business model innovation practices improve performance of digitalizing SMEs?. *Telecommunications Policy, 43(9),* 101828.

Cantamessa, M., Gatteschi, V., Perboli, G., & Rosano, M. (2018). Startups' roads to failure. *Sustainability, 10(7),* 2346.

Casadesus-Masanell, R., & Ricart, J. E. (2010). From strategy to business models and onto tactics. *Long range planning, 43(2-3),* 195-215.

Cassell, C., & Symon, G. (2004). *Essential guide to qualitative methods in organizational research.* Sage.

Cavalcante, S. (2014). Designing business model change. *International Journal of Innovation Management, 18(2)*, 1450018–1450018.

Ciampi, F., Demi, S., Magrini, A., Marzi, G., & Papa, A. (2021). Exploring the impact of big data analytics capabilities on business model innovation: The mediating role of entrepreneurial orientation. *Journal of Business Research, 123,* 1-13.

Clauss, T., Abebe, M., Tangpong, C., & Hock, M. (2019). Strategic agility, business model innovation, and firm performance: an empirical investigation. *IEEE transactions on engineering management, 68(3),* 767-784.

Colombo, M. G., Piva, E., Quas, A., & Rossi-Lamastra, C. (2016). How high-tech entrepreneurial ventures cope with the global crisis: changes in product innovation and internationalization strategies. *Industry and innovation, 23(7),* 647-671.

Cordes-Berszinn, P. (2013). *Dynamic capabilities: How organisational structures affect knowledge processes*. Springer.

Dasí, À., Iborra, M., & Safón, V. (2015). Beyond path dependence: Explorative orientation, slack resources, and managerial intentionality to internationalize in SMEs. *International Business Review, 24(1)*, 77-88.

Davila, A., Foster, G., & Gupta, M. (2003). Venture capital financing and the growth of startup firms. *Journal of business venturing, 18(6),* 689-708.

Demil, B., & Lecocq, X. (2010). Business model evolution: In search of dynamic consistency. *Long range planning, 43(2-3),* 227-246.

Denzin, N. K. (1970). *Research act.* Aldine Publishing Chicago.

Di Toma, & Ghinoi, S. (2021). Overcoming hierarchy in business model innovation: an actor-oriented approach. *European Journal of Innovation Management, 24(4),* 1057–1081.

Doz, Y. L., & Kosonen, M. (2010). Embedding strategic agility: A leadership agenda for accelerating business model renewal. *Long range planning, 43(2-3),* 370-382.

Dubois, A. & Gadde, L. E. (2002). Systematic combining: an abductive approach to case research. *Journal of Business Research, 55,* 553-560.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 14(4),* 532-550.

Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: what are they?. *Strategic management journal, 21(10-11)*, 1105-1121.

Ferreira, F. N. H., Proença, J. F., Spencer, R., & Cova, B. (2013). The transition from products to solutions: External business model fit and dynamics. *Industrial Marketing Management, 42(7),* 1093-1101

Filser, M., Kraus, S., Breier, M., Nenova, I., & Puumalainen, K. (2021). Business model innovation: Identifying foundations and trajectories. *Business Strategy and the Environment, 30(2),* 891-907.

Flick, Y. (2014). *An Introduction to Qualitative Research* (5th ed.). London: Sage.

Foss, N. J., & Saebi, T. (2018). Business models and business model innovation: Between wicked and paradigmatic problems. *Long range planning, 51(1),* 9-21.

Foss, N. J., & Saebi, T. (2017). Fifteen Years of Research on Business Model Innovation. *Journal of Management, 43(1),* 200–227.

Frankenberger, K., Weiblen, T., Csik, M., & Gassmann, O. (2013). The 4I-framework of business model innovation: a structured view on process phases and challenges. *International Journal of Product Development, 18(3-4),* 249–273.

Gassmann, O., Frankenberger, K., & Sauer, R. (2016). *Exploring the field of business model innovation: New theoretical perspectives*. Springer.

Ghezzi, A., Cavallo, A. (2020). Agile business model innovation in digital entrepreneurship: Lean startup approaches. *Journal of business research*, 110, 519-537.

Girotra, K. & Netessine, S. (2013). OM Forum-Business Model Innovation for Sustainability. *Manufacturing & Service Operations Management, 15(4),* 537–544.

Hall, J. K., & Martin, M. J. (2005). Disruptive technologies, stakeholders and the innovation value-added chain: a framework for evaluating radical technology development. *R&D Management, 35(3)*, 273-284.

Heider, A., Gerken, M., van Dinther, N., & Hülsbeck, M. (2021). Business model innovation through dynamic capabilities in small and medium enterprises–Evidence from the German Mittelstand. *Journal of Business Research, 130,* 635-645.

Heim, A., & Wilhelm, A. Investors have flipped their weighting of growth versus profitability (2022, June 2). *Techcrunch.* https://techcrunch.com/2022/06/02/investors-have-flipped-their-weighting-of-growth-versus-profitability/

Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D., & Winter, S. G. (2009). *Dynamic capabilities: Understanding strategic change in organizations.* John Wiley & Sons.

Hock-Doepgen, M., Clauss, T., Kraus, S., & Cheng, C. F. (2021). Knowledge management capabilities and organizational risk-taking for business model innovation in SMEs. *Journal of Business Research, 130,* 683-697.

How the titans of tech investing are staying warm over the VC winter. (2023, February 26). *The Economist* https://www.economist.com/business/2023/02/26/how-the-titans-of-tech-investing-are

-staying-warm-over-the-vc-winterhttps://www.economist.com/business/2023/02/26/how-the-titans-of-tech-investing-are-staying-warm-over-the-vc-winter

Jiang, W., Chai, H., Shao, J., & Feng, T. (2018). Green entrepreneurial orientation for enhancing firm performance: A dynamic capability perspective. *Journal of cleaner production, 198,* 1311-1323.

Khanagha, S., Volberda, H., & Oshri, I. (2014). Business model renewal and ambidexterity: structural alteration and strategy formation process during transition to a Cloud business model: Business model renewal and ambidexterity. *R&D Management, 44(3),* 322–340.

Khodaei, H., & Ortt, R. (2019). Capturing dynamics in business model frameworks. *Journal of Open Innovation: Technology, Market, and Complexity, 5(1),* 8.

Kim, J. H., & Wagman, L. (2016). Early-stage entrepreneurial financing: A signaling perspective. *Journal of Banking & Finance, 67,* 12-22.

Kump, B., Engelmann, A., Kessler, A., & Schweiger, C. (2019). Toward a dynamic capabilities scale: measuring organizational sensing, seizing, and transforming capacities. *Industrial and Corporate Change, 28(5),* 1149-1172.

Lee, N., Sameen, H., & Cowling, M. (2015). Access to finance for innovative SMEs since the financial crisis. *Research Policy, 44(2),* 370-380.

Leih, S., Linden, G., & Teece, D. J. (2015). Business Model Innovation and Organizational Design: A Dynamic Capabilities Perspective. In *Business Model Innovation. UC Berkeley. Report #: 2*.

Mason, K., & Spring, M. (2011). The sites and practices of business models. *Industrial marketing management, 40(6),* 1032-1041.

Miller, K., McAdam, M., & McAdam, R. (2014). The changing university business model: a stakeholder perspective. *R&D Management,* 44(3), 265-287.

Gibe, J., & Kalling, T. (2019). *Business models and strategy.* Studentlitteratur AB.

Griffith, E. (2023, May 11). Fear and loathing return to tech start-ups. *The New York Times.* https://www.nytimes.com/2022/05/11/technology/tech-start-ups.html

Guba, E.G. & Lincoln, Y.S. (1994). Competing paradigms in qualitative research. In: Denzin, N.K. and Lincoln, Y.S., Eds., *Handbook of Qualitative Research*, Sage Publications, Inc. Thousand Oaks, 105-117.

Massa, L., & Tucci, C. L. (2013). Business model innovation. *The Oxford handbook of innovation management, 20(18),* 420-441.

Massa, L., Tucci, C. L., & Afuah, A. (2017). A critical assessment of business model research. *Academy of Management annals, 11(1),* 73-104.

Merriam, S.B., (2009). *Qualitative research*: *A guide to design and implementation: Revised and expanded from qualitative research and case study applications in education.* San Francisco: Jossey-Bass.

Mezger, F. (2014). Toward a capability-based conceptualization of business model innovation: insights from an explorative study. *R&D Management, 44(5),* 429-449.

Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: a handbook for visionaries, game changers, and challengers.* John Wiley & Sons.

Osterwalder, A., Pigneur, Y., & Tucci, C. L. (2005). Clarifying business models: Origins, present, and future of the concept. *Communications of the association for Information Systems, 16(1)*, 1.

Ogbonnaya, C., Dhir, A., Maxwell-Cole, A., & Gorny, T. (2022). Cost-cutting actions, employment relations and workplace grievances: Lessons from the 2008 financial crisis. *Journal of Business Research, 152,* 265-275.

Porter, M. (1985). How information gives you competitive advantage. *Harvard Business Review, 63(4),* 149-160.

Prescott, M. (2014). Big data and competitive advantage at Nielsen. *Management Decision, 52(3),* 573-601.

Qaiyum, S., & Wang, C. L. (2018). Understanding internal conditions driving ordinary and dynamic capabilities in Indian high-tech firms. *Journal of Business Research, 90,* 206-214.

De Reuver, M., Bouwman, H., & Haaker, T. (2013). Business model road mapping: a practical approach to come from an existing to a desired business model. *International Journal of Innovation Management, 17(1),* 1340006–1340024.

Revest, V., & Sapio, A. (2012). Financing technology-based small firms in Europe: what do we know?. *Small Business Economics, 39(1),* 179–205.

Roberts, K. (2003). What strategic investments should you make during a recession to gain competitive advantage in the recovery?, *Strategy & Leadership, Vol. 31 No. 4,* pp. 31-39.

Rollins, M., Nickell, D., & Ennis, J. (2014). The impact of economic downturns on marketing. *Journal of Business Research, 67(1),* 2727-2731.

Rubin, H. J. & Rubin, I. S. (2005). *Qualitative Interviewing (2nd ed.): The Art of Hearing Data.* SAGE Publications Inc.

Sabatier, V., Craig-Kennard, A., & Mangematin, V. (2012). When technological discontinuities and disruptive business models challenge dominant industry logics: Insights from the drugs industry. *Technological Forecasting and Social Change, 79(5),* 949-962.

Saebi, T., Lien, L., & Foss, N. J. (2017). What drives business model adaptation? The impact of opportunities, threats and strategic orientation. *Long range planning, 50(5),* 567-581.

Seetharaman, P. (2020). Business models shifts: Impact of Covid-19. *International Journal of Information Management, 54*, 102173

Shafer, S.M., Smith, H.J., & Linder, J.C. (2005). The Power of Business Models. *Business Horizons*, *48*, 199-207.

Shenton, A. K. (2004). Strategies for Ensuring Trustworthiness in Qualitative Research Projects. *Education for Information*, 22(2), 63-75.

Sinclair, J., Scolari, F. (2023, February 1). 9 charts that tell where European tech is right now. *Sifted.* https://sifted.eu/articles/9-charts-european-tech-2023/

Snihur, Y., & Wiklund, J. (2019). Searching for innovation: Product, process, and business model innovations and search behavior in established firms. *Long Range Planning, 52(3),* 305-325

Sosna, M., Trevinyo-Rodríguez, R. N., & Velamuri, S. R. (2010). Business model innovation through trial-and-error learning: The naturhouse case. *Long Range Planning, 43(2-3),* 383–407.

Streitfield, D. (2023, January 23). For Tech Companies, Years of Easy Money Yield to Hard. *The New York Times* https://www.nytimes.com/2023/01/23/technology/tech-interest-rates-layoffs.html

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal, 18(7),* 509-533.

Teece, D. J. (2007). Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. *Strategic management journal, 28(13),* 1319-1350.

Teece, D. J. (2010). Business models, business strategy and innovation. *Long range planning, 43(2-3),* 172-194.

Teece, D. J. (2012). Dynamic capabilities: Routines versus entrepreneurial action. *Journal of management studies, 49(8)*, 1395-1401.

Teece, D. J., Peteraf, M., & Leih, S. (2016). Dynamic capabilities and organizational agility: Risk, uncertainty, and strategy in the innovation economy. *California management review, 58(4),* 13-35.

Teece, D. J. (2018). Business models and dynamic capabilities. *Long range planning, 51(1),* 40-49.

The tech slump is encouraging venture capital to rediscover old ways. (2023, March 2). *The Economist.*

https://www.economist.com/leaders/2023/03/02/the-tech-slump-is-encouraging-venture-capital-to-rediscover-old-ways

Timmermans, S., & Tavory, I. (2012). Theory construction in qualitative research: From grounded theory to abductive analysis. *Sociological Theory, 30(3),* 167-186.

Trimi, S., & Berbegal-Mirabent, J. (2012). Business model innovation in entrepreneurship. *International Entrepreneurship and Management Journal, 8,* 449-465.

Velu, C., & Jacob, A. (2016). Business model innovation and owner–managers: the moderating role of competition. *R&D Management, 46(3),* 451-463.

Weaven, S., Quach, S., Thaichon, P., Frazer, L., Billot, K., & Grace, D. (2021). Surviving an economic downturn: Dynamic capabilities of SMEs. *Journal of Business Research, 128,* 109-123.

Weimann, V., Gerken, M., & Hülsbeck, M. (2020). Business model innovation in family firms: dynamic capabilities and the moderating role of socioemotional wealth. *Journal of Business Economics, 90,* 369-399.

White, J. V., Markin, E., Marshall, D., & Gupta, V. K. (2022). Exploring the boundaries of business model innovation and firm performance: A meta-analysis. *Long Range Planning, 55(5),* 102242.

Williams, N., & Vorley, T. (2014). Economic resilience and entrepreneurship: lessons from the Sheffield City Region. *Entrepreneurship & Regional Development, 26(3-4),* 257-281.

Wirtz, B. W., Pistoia, A., Ullrich, S., & Göttel, V. (2016). Business models: Origin, development and future research perspectives. *Long range planning, 49(1),* 36-54.

Yin, R. (2014). *Case Study Research Design and Methods* (5th ed.). Thousand Oaks, CA: Sage.

Zaech, S. & Baldegger, U. (2017). Leadership in start-ups. *International Small Business Journal, 35(2),* 157–177.

Zollo, M., & Winter, S. G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization science, 13(3)*, 339-351.

Zott, C., & Amit, R. (2010). Business model design: An activity system perspective. *Long range planning, 43(2-3),* 216-226.

Zott, C., Amit, R., & Massa, L. (2011). The Business Model: Recent Developments and Future *Research. Journal of Management, 37(4),* 1019–1042.

Appendices

Appendix A: Interview Guides

The interview guides were continuously updated throughout the research process and was used as a support. Further, the guides were adapted based on the interviewee and case company.

Pre-study interview guide

SECTION #1 GENERAL EFFECTS OF ECONOMIC DOWNTURN ON COMPANY
How would you describe the changes in external market conditions during the last year?

When did you first experience this?

SECTION #2 BUSINESS MODEL ADAPTATION AND ITS DRIVERS
Has your business model changed due to the changes in the external environment? How?
What has driven the changes?

Has the **value** you deliver to the customers changed?

Have the **needs of the customers changed**? Have you made any adaptations to what customer needs you are addressing?

If not, has the way you package your offering changed?

Has your **targeted customer group** changed? How?

Has your approach to **customer relationships** changed? How? Focus on acquiring or retention?

How do your **customer segments** want to be reached? Which channels do you use to reach customers?

How have your **revenue streams** changed? Any new revenue streams? Any revenue streams being taken away, becoming more or less important?

Any changes in the **key activities** you are performing to deliver your value proposition?

Any new **key partners**? Any partners that have become more or less important?

Any **resources** that you need to deliver your value proposition that has become more or less important?

Any changes in **cost structure**?

> Any costs that have become more or less important for you to be able to deliver your value proposition?

Has anything changed in your strategic discussions about the future, as a consequence of the changed market conditions?

SECTION #3 Conclusion
Are these changes in your business model temporary or long-term?

Are there other factors causing the changes in the business models as much as the changes in the economy/market environment?

Would the changes/adaptations in your business model have occurred even if the downturn in the world economy wouldn't happen (if the market had kept being as hot as in 2021)?

> If yes, would they have happened at the same speed and in the same ways?

Main Study interview guide

SECTION #1 BUSINESS MODEL ADAPTATION AND ITS DRIVERS
Has your business model changed due to the changes in the external environment? How?
What has driven the changes?
Have the **needs of the customers changed**? Have you made any adaptations to what customer needs you are addressing? Packaged your solution in new ways?

Has your **targeted customer group** changed? How?

Has your approach to **customer relationships** changed? How? Focus on acquiring or retention?

How do your customer segments want to be reached? Which **channels** do you use to reach customers? Any adaptations in **marketing strategies?** Any shift in what channels new customers come from?

How have your **revenue streams** changed? Any **new** sources of revenue? Any revenue streams being **closed down**? Any **expansions in product line**/new services? Any changes in **Pricing/packaging strategies?**

Any new **key partners**? Any changes in how you collaborate with the business ecosystem? Any strategic changes connected to suppliers?

Any changes in **cost structure**? Which costs have gone up/down? Increased investments in any parts of the business?

Key resources:
What are key resources + capabilities that are necessary to carry out activities, such as technology, employees with certain skills, patents, etc. (innate to the firm or do they belong in the supply chain)?

> Any changes in how **efficiently resources are used** (money, HR, technologies)?
>
> Any changes in **funding strategy**/how has the role of capital changed**?**
>
> Has **a group function** (e.g. product development, customer support) become more or less important? Have you increased or decreased the number of employees in different functions within the organization? Have you changed the responsibilities or focus areas for any of the teams or functions?

Key activities: Any dramatic **improvements in operational processes**?

Has anything changed in your **strategic discussions about the future**, as a consequence of the changed market conditions?

SECTION #2 WHY HAS THESE PARTICULAR PARTS OF THE BM BEEN IN FOCUS
What has been driving these changes/adaptations? (Zoom in on particularly interesting adaptations) (Investors, customer preferences, competitors, internal stakeholders, etc.)

Why have you focused on adapting these particular parts of your business model and business strategies?

Why have you focused less on BM components X and Y?

What of your firm characteristics do you think have affected why you chose to focus mostly on the mentioned parts of the business model? Or do you think all startups focus more on those components and less on XYZ (components that the company hasn't changed very much)?

SECTION #3 PROCESS LEADING TO BUSINESS MODEL ADAPTATION

1. **ANALYSIS OF EXTERNAL CHANGES**

How do you notice changes in the external environment that may potentially demand that you change your strategy and adapt your business? What processes are in place to sense these changes and what do you do with these insights?

Do you have any **routines**/recurring meetings/roles to discuss changes in the environment/competitors/investors' preferences?

> How do you search and gather information about things outside the company that may affect your business?
> On what level? In what format? (relationship, role, formal meetings, coffee chats?)

How much information do you receive and share with external parties (e.g. investors, partners, competitors) that may affect your business?

Do other stakeholders affect you? (e.g. board, unions, government?)

(If they have stated that investors have changed preferences from growth to profitability):
How is the process of adapting to the changed preferences from growth to profitability? What makes you start the process (e.g. investor implies in a recurring meeting that you need to change focus?)

2. **DECISIONS**

How long is the process from the perception of changes in the external environment to a decision for implementation of changes in the business?

Who is involved in these decisions?

How centralized or decentralized are these decisions? For example, what decisions are made centrally for all markets and functions?

Har ni ändrat något kring hur ni fattar beslut och får dessa beslut att bli verklighet i takt med att ni har vuxit?

SECTION #4 IMPLEMENTATION OF ADAPTATIONS

Focus on key changes mentioned by the respondent

After setting the new strategic direction - **how have they been executed?** How will you execute them in the coming year?

Please describe, if possible, **step-for-step,** how the execution of the change in strategy to the finished implementation has been/will be?

How do you ensure that the strategic direction is **aligned in the organization**? Have you faced any challenges and how has it been mitigated?

Have you needed to acquire any **new resources**? Such as technologies, skillsets, and offices to implement the changes in the business? Have you needed to hire employees with new skills or developed new skills with existing employees? Have any existing resources become increasingly or decreasingly important?

Have you used any partners or acquired new partners to improve or develop the business in these adaptations?

SECTION #5 FIRM CHARACTERISTICS

What are some reasons for growth being more/less important on your market compared to startups in general?

How important is the first mover advantage for your business?

How fierce is the competition in your market?

How sensitive is your market to changes in the economy?

Did customer preferences change significantly due to the shift in the economy?

Did you experience “overgrowth” (e.g., hired too many, expanded in too many markets) during the covid-19 pandemic?

How risky is your business model? Already proven with a strong track record or still a gamble for investors? Do you have a high or low-risk profile relative to other startups, from an investor point of view?

When and how big was your latest round?

How dependent are you on successfully raising a successful round within the near future/coming years?

Are the founders still in the company?

SECTION #6 INVESTOR PREFERENCES

How has your access to capital changed?

Have investors’ preferences changed in any other ways than that profitability has become more important and growth become less important?

Besides what has been mentioned so far, is that anything else that has been done to adapt to changes in investors' preferences?

Appendix B: Results of the Pre-study

Early during the research, a pre-study was conducted as a first step in understanding BMI in tech startups initiated or accelerated by changes in the macro-environment. Exploring a broader range of potential drivers for recent business model innovation enabled the authors to ensure that the most relevant phenomenon during an economic downturn was studied. While frequently reported in the media, few studies have researched how startups are affected when investors tighten their financing. To validate the relevance of the study and confirm assumptions, the pre-study was therefore conducted through 15 interviews, mainly with CEOs, from 14 tech startups with various types of products, number of employees, core markets, and different stages of their financing journey. Questions were asked about how the economic downturn had affected them when they had been affected, how their business models had been adapted, and what the drivers behind the changes were.

The pre-study confirmed the relationship between decreased access to funding and business model innovation. To some degree, all startups had experienced business model innovation derived from or accelerated by the changed financial market. In addition, the changes in the financial market were described as a significantly more important driver of business model innovation than any other factor related to the economic downturn, such as changed customer preferences or changes among competitors. More precisely, the startups described the increased cost of capital stemming from the increased interest rates as having affected investor preferences dramatically. From previously demanding growth to almost any price, existing investors and the whole investor ecosystem were now expecting the startups to focus on profitability.

Out of the 15 interviewed companies, only Magine Pro stated that they had not been particularly affected by changed investor preferences. Failing with its first business model but receiving a new chance many years later from the same investors, Magine Pro has a deep and stable relationship with its investors. Since the turnaround of its business model several years before the economic downturn in 2022, Magine Pro has worked diligently to streamline its business, developing it organically with a clear plan on when to become profitable. Therefore, changing investor preferences in the financial market did not imply any significant difference for Magine Pro. Similarly, a company like Heja did innovate components of its business model, such as adapting expansion strategies and increasing conversion of non-paying users, but these types of changes were made to a very limited extent. Changed investor preferences had a limited effect as they came from a background without major financing rounds and abnormal growth rates. Already able to turn profitable, Heja could finance itself if needed. While having to accept slower growth, the changed investor preferences were not enough to spark significant business model innovation among companies like Heja.

Despite these exceptions, most companies in the pre-study experienced considerable influence from changed investor preferences on their business model innovation. The pre-study indicated that the change in preferences from growth to profitability triggered a diverse range of business model innovations. Adaptations ranged from changing a few components, such as increasing prices towards less price-sensitive customer segments and focusing on cutting costs, whilst others responded by developing completely new products, changing targeted customer segments, and taking on new means to build stronger customer relationships.

Further, some business model innovations originated directly from the changed investor preferences. Other BM innovations had been thought about, existing in the pipeline of projects, but did not get priority until investor preferences changed. Thus, the changed investor preferences triggered and accelerated business model innovation among the observed companies.

Finally, the internal processes of identifying and adapting to the changes in the external environment suggested to have an important role in the business model innovation process. While some investors provided their portfolio companies with general insights about the new preferences in the financial market, other investors actively involved themselves in frequent strategic discussions. They provided operational decision support to accelerate the startups' shift toward profitability. The pre-study revealed significant changes in internal processes, resources, and resource allocation to seize the opportunities and overcome the challenges following the increased focus on profitability. Therefore, an internal, process-oriented perspective could complement the business model perspective in answering the research question.