

Business Model Change in Action

Interface Corporation, a large provider of commercial carpeting, is an example of a company who has successfully innovated its business model in the midst of great challenges. In addition to financial troubles—falling total shareholder return relative to its industry in the early 1990s—the company faced increased environmental pressures from customers, activists, and other stakeholders to reduce the toxins that exist in its core business product. In response, Interface altered its value proposition and moved from selling broadloom and modular carpets to leasing floor covering solutions. Interestingly, this seemingly simple switch resulted in extensive changes throughout the business model.

The change in Interface's value proposition altered the revenue model from one-time payments for new carpets to recurring payments for leasing carpet services. The cost structure was also impacted. Prior to the change, Interface's focus was on reducing raw material costs. The new leasing business model meant that the company owned the carpet they produced. This provided Interface with a huge incentive to invest in carpet recyclability, which required substantive changes in its supporting infrastructure. As the company moved from a cost-competitive sales model toward a leasing business committed to developing carpet's long-term value, Interface regained its financial footing and reduced its negative environmental impact.

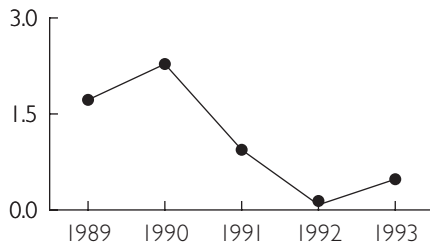
CASE IN POINT

BUSINESS MODEL EXPERIMENTATION

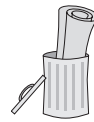
A business model change provides Interface with the opportunity to simultaneously address financial and environmental pressures

Interface's Total Shareholder Return Relative to Industry

1989–1993

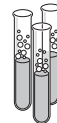


Environmental Pressures



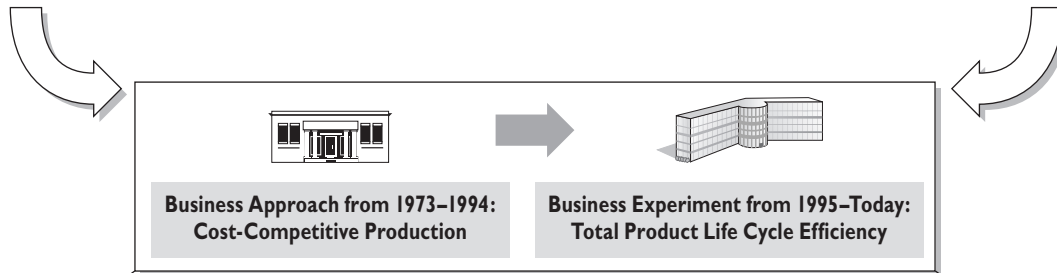
Growing Landfills

Every year, discarded carpets account for about 1% of all solid waste by weight or 2% by volume.



High Toxicity Levels

New carpets contain carcinogens that cause hallucinations, nerve damage, and respiratory illness.



Elements of Interfaces's Business Model That Changed

Elements	What It Used to Be	What It Is Now
Value Proposition		
What Is Sold	Sold broadloom and modular carpets	Sell floor covering solutions
Profit System		
Revenue Model	One-time payment for new carpets	Recurring payments for leasing carpet services
Cost Structure	High cost for raw materials	Recycling worn carpet into new carpet to eliminate cost from fresh raw materials
Supporting Infrastructure		
Key Internal Resources	Product development focused on initial carpet purchase decisions	Research and development focused on extending the fiber life cycle and decreasing impact on the environment
Key Internal Processes	Focused mainly on manufacturing and installing new carpets	Focused on closed-loop recycling of worn carpets

Source: Compustat data; "Is Carpeting Safe?," *Home Energy Magazine Online*, (April 2000); "Toxic Carpet: Dangerous Toxins That Live In Your Carpeting," <http://www.aircleaners.com/carpets.html> (22 August 2007); Petzinger Jr., Thomas, "Business Achieves Greatest Efficiencies When at Its Greenest," *Wall Street Journal* (November 1997); Allrich, Ted, "Interface, Inc.: Laying Out the Red Carpet," *Yahoo Finance* (16 July 2007); Hensler, Connie, "Carpet Maker Closes the Loop," *In Business* (May 2006); Business Leadership Forum research.

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