European Forum on Paradox and Pluralism
Nova SBE Twinning Project

MANAGING PARADOX MINI-CASE SERIES

Together Alone?

Mastering paradoxes within inter-organizational business model innovation settings

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THE CASE[1]

Velasca is a shoe making company. But a closer examination reveals a digital native vertical brand (DNVB) that disintermediates the leather-footwear industry's value chain with an innovative direct-to-consumer business model[2]. Velasca is a client-centric data-driven company that harnesses organizational design and digital technologies to move made in Italy shoes directly from producer to consumer. By skipping intermediaries (i.e., wholesalers), it can market shoes with a higher quality-price ratio than firms that use conventional distribution chains. From an organizational design standpoint, Velasca currently orchestrates an alliance involving a logistics operator and nine co-located, small-sized artisanal manufacturers. Besides handling coordination, Velasca drives the processes of digital marketing, omnichannel sales, customer relationship management, and new product development.

Figure 1. Velasca shoes. Source: *Velasca Courtesy*

Velasca started marketing and selling its branded shoes online in 2013, thanks to a brilliant idea and a partnership with a small-sized artisanal manufacturer on the production side and a reliable, large-sized logistics partner for handling transportation and quality control. Having spent the first seed funding on a month-long temporary store, Velasca realized the power of omnichannel retailing and, in 2014, opened its first physical flagship store in Milan. From that point on, Velasca experienced exponential growth: two additional

[1] This case is based on the following sources of information: https://www.velasca.com/ ; Daood A. (2020). Made in Italy, strategia e tradizione: L'innovazione strategico-organizzativa nelle microimprese e nelle piccole imprese vitivinicole e calzaturiere tra cambiamento e "non-cambiamento". Ph.D. thesis, Sapienza University of Rome.

[2] See "Velasca | Middlemen raise prices, we skip them" [Available at: https://www.youtube.com/watch?v=atlomMU_GrM] or "The Velasca journey: from our artisans to you" [Available at: https://www.youtube.com/watch?v=Jb-69YPRNwE]

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manufacturers started making Velasca shoes, and three new flagship stores were opened by 2018.

The three small-sized artisanal firms involved in the manufacture of Velasca shoes share a similar history, and they are located in the very same village. They are family businesses that were established between the 70s and the 90s. However, after a period of flourishing growth driven by the advent of the internet and international trade fairs, they incurred huge losses as a result of the financial crises (of 2008-2009 and 2014). When their individual paths crossed with that of Velasca, it was like a rebirth.

They took a while to grasp the change required in the production logic they had been used to for decades. The inverted bi-seasonal production process (e.g., summer production for the winter collection, and vice versa) and the related plans, programmed well in advance, were disrupted by the new marketing logic, which required a reduction in production time and an increase in desired product quality. In addition to the support provided by Velasca, the logistics partner was also crucial in smoothing out the transitional challenges: for instance, by allowing for multiple pick-ups on a single order, it helped the three manufacturers to mitigate production delays. The changes in each firm's business model were functional to the overarching inter-organizational business model innovation. However, this was not the sole issue.

Initially, the artisans were all manufacturing the same shoe models, but they looked quite different (as would be the case in handmade production). As well as the visible differences between pairs of the same shoe model, competing attitudes started to emerge: the firms were running ahead with production to obtain the next order and snatch it from the others – to show them "who was the best." Building on its growing product portfolio, Velasca started to order each model from a single manufacturer, thereby enhancing their production efficiency through increased specialization and discouraging competitive attitudes. At the same time, by cultivating the aim of "growing together" and "being family," Velasca managed to promote cooperative behavior: the artisans began to help each other when they were struggling to meet production deadlines and started to share best practice on production techniques.

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By 2021 Velasca managed both to turn competitive attitudes into collaborative behavior among the three initial manufacturing firms and to involve six new small-sized artisanal producers located in the very same industrial district – thus meeting the tremendous demand that led the company to open 11 flagship stores, two of which were outside Italy (in London and Paris).

The case of Velasca raises some important questions:

- *Being both single and multiple*? Velasca managed to turn the individualistic, competitive attitudes that emerged among manufacturing partners into collaborative behavior by adopting solutions that simultaneously resulted in separation and unity among them at the same time. How can organizations handle paradoxes "by design"?
- *Playing both small and big games*? The case shows that relatively small changes in the single firms' business models can result in a disruptive overarching inter-organizational business model. Can inter-organizational alliances represent a small-change/big-impact solution for established traditional firms?

Additional issues to be noted and incorporated in the discussion:

- *Being both 'I' and 'we'*? Intuitively one might expect friction to arise among partners of an alliance between whom differences exist, for example in terms of size (small vs. large firms), life-cycle stage (new ventures vs. incumbents), and the technological intensity of the industry (low-tech vs. high-tech). One would expect to see friction arise less where there is similarity. Why does this happen?

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Useful sources:

Cunha, M. P., Giustiniano, L., Rego, A., & Clegg, S. (2017). Mission impossible? The paradoxes of stretch goal setting. *Management Learning*, 48(2), 140-157.
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TEACHING NOTE

The case showcases the fact that inter-organizational alliances directed at business model innovation may represent paradoxical settings wherein individualistic attitudes emerge between partners who, in principle, are collaborating. The case indicates that such situations can be handled effectively through equally paradoxical solutions that are able to separate the partners and unite them at the same time.

The case can be used to explore how the paradox of competitive attitudes within collaborative settings can be managed:

- What are the conditions favoring the emergence of competing attitudes among the partners of an inter-organizational collaboration?
- What are the organizational levers that managers/orchestrators can rely upon to govern such situations?
- What are the risks of failing in mitigating such conflicting attitudes when undertaking an inter-organizational business model innovation process?

Areas:

business model innovation, inter-organizational relationship, made in Italy industries

Keywords:

Velasca, inter-organizational business model innovation, paradox

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