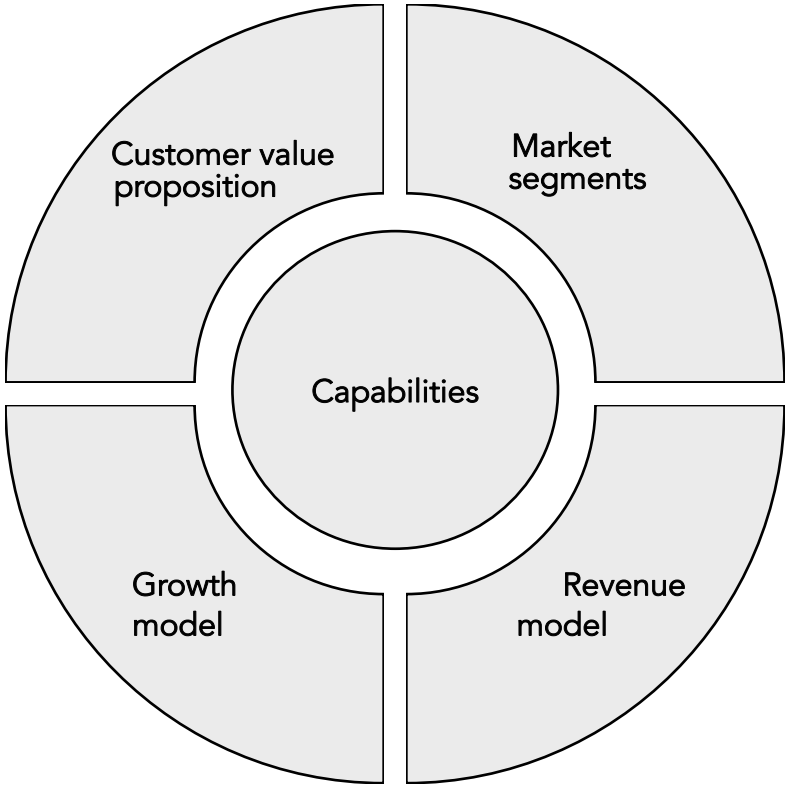
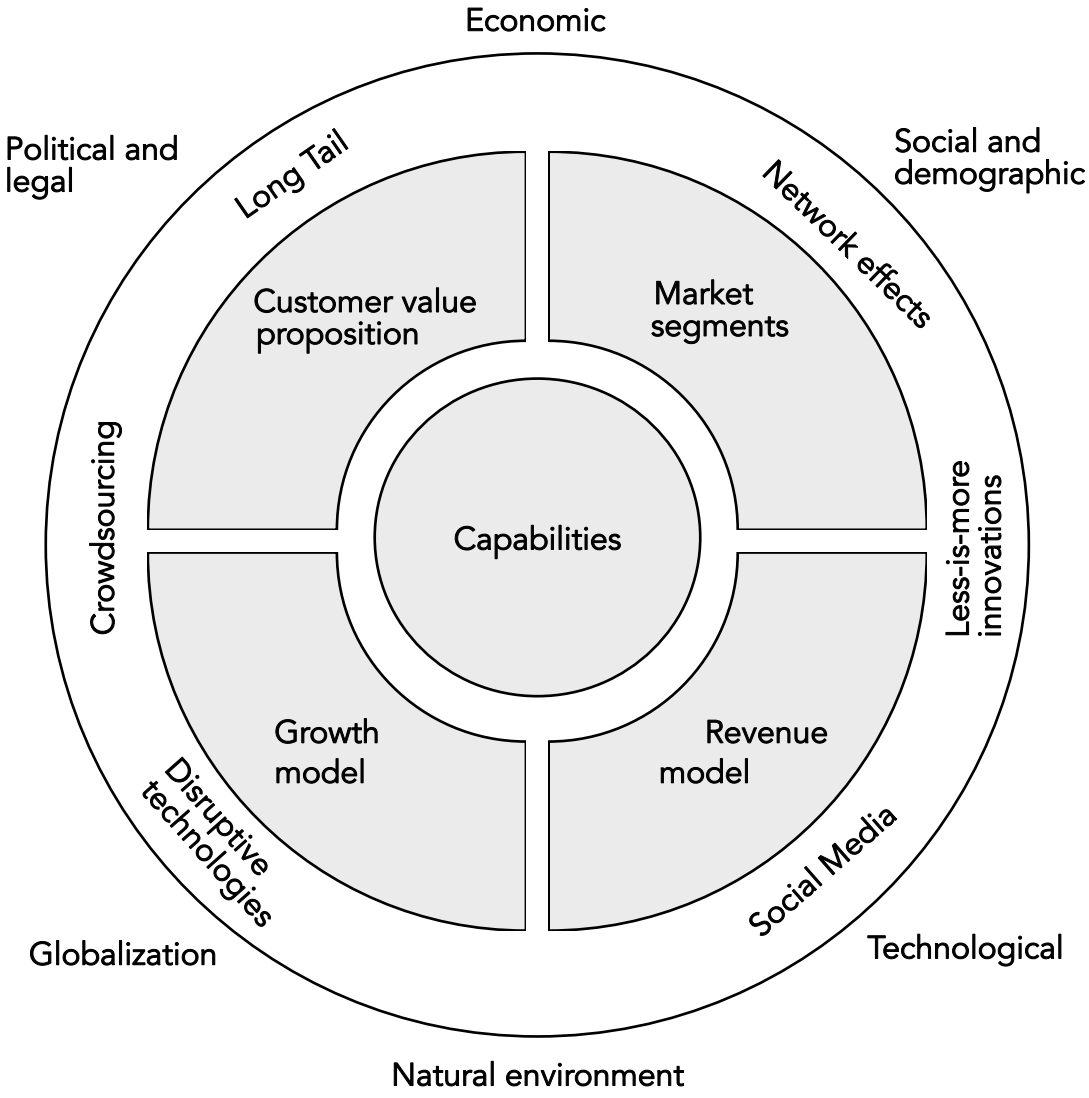
Business model innovation: concepts, analysis, and cases.

Allan Afuah

Components of a Business Model



Business Model innovation environment



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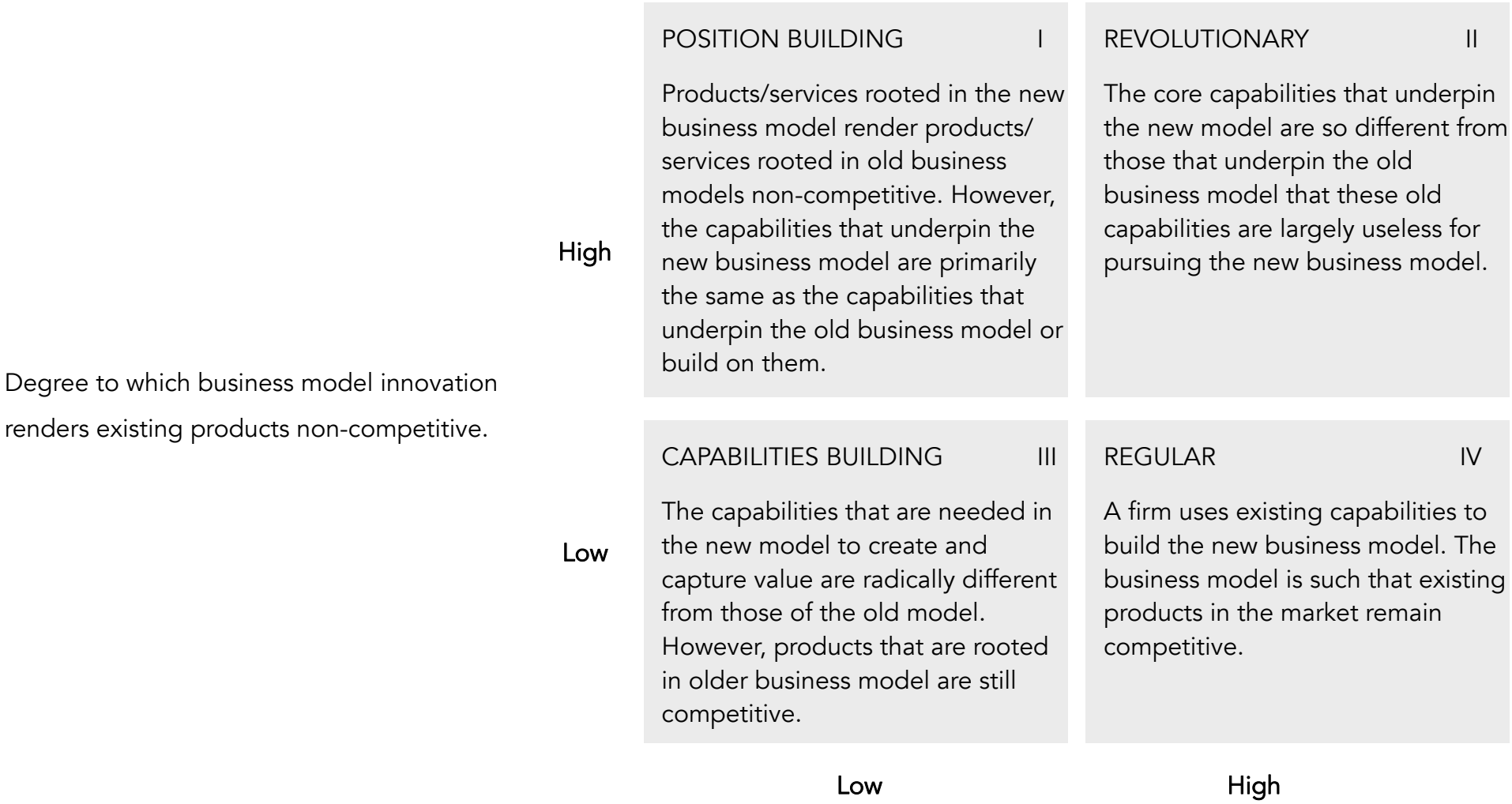
Types of Business Model innovations



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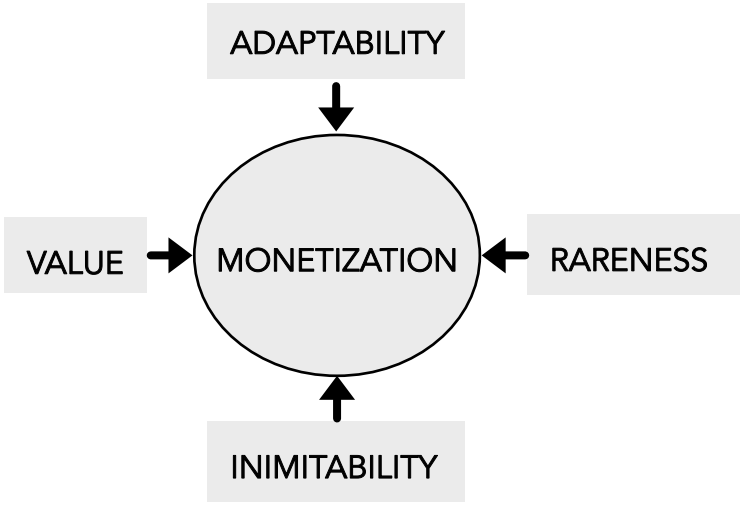
VARIM framework



Component	*Key Question*	*Measures (examples)*
VALUE	Does the business model offer benefits that customers perceive as valuable to them?	Customer satisfaction and loyalty
		Market share
		Benefits offered to customers relative to competitors' offerings
		Reputation / image as perceived by customers
		Quality of resources
		Quality of activities
ADAPTABILITY	Is the business model or core parts of it cost-effectively reconfigurable or re-deployment to offer benefits that customers perceive as valuable to them?	Number and diversity of new products (benefits) offered by firm
		Level of "improvement" in the benefits that customers perceive
		Revenues from new products
		Flexibility of valuable capabilities
RARENESS	Is the firm the only one that offers the customer benefits? If not, is the firm's level of the benefits higher than that of competitors?	Number of competitors or firms with substitute products
		Level of the benefits from the firm compared to those from competitors
INIMITABILITY	Are the benefits difficult for other firms to imitate, substitute or leapfrog?	Number of imitators
		Inimitability of resources
		Inimitability of activities
MONETIZATION	Does the firm make, or stands to make, money from offering the benefits to customers?	Return on sales or any other measure of profitability
		Right pricing
		Importance and value of complementary assets
		Number of customers with a height willingness to pay
		Number and quality of sources of revenues
		Cost structure
		Industry attractiveness and firm's positioning in it

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Less is more innovations (LIMIs)

	Improved and / or new ones added	Deemphasized or stripped off
More is better innovations (MIBIs) I The goal is to offer the customers products with improve features or with additional ones that they hope customers will like. The more improvements that can be made to existing features, the better the product is thought to be for customers		
Cost reducing MIBIs II Innovation activities designed to reduce the cost of products with sophisticated features. The cost of most high-tech products usually starts out hike, but as firms go up the learning and experience curves, intake on process or incremental product innovations, costs drop.		
Semi LIMIs III The new products are the result of performing activities that not only strip off or deemphasize old products' attributes, but they also lower the cost of the new product. The new product is simplified relative to existing products, and some attributes that customers may not have expected can also be added, provided the resulting product is still simpler and cost less than the products already in the market.		
Less is more innovations (LIMIs) IV An novation can result in a simplified product whose cost is higher than that of existing products.		

Attributes of the new product.

Whether the new product is a result of:
(1) Improving some attributes of the old product and / or adding new ones

(2) Deemphasizing or stripping of some of the attributes of the old product taking away something that some customers have come to expect.

Higher

Lower

Relative cost of an innovation.

Whether the innovation cost more or less than the products that were in the market before it was introduced.

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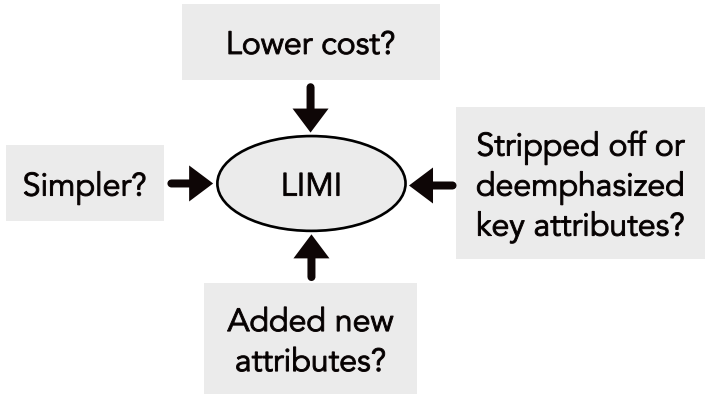
Strategic advantages of LIMIs

- ☐ Innovation tasks may be simpler: because some attributes have been stripped of or deemphasized.
- ☐ No head-to-head competition: it is not in a battle to outdo the competitors in providing better or more product features.
- ☐ Opportunity to build first-mover advantages.
- ☐ Secondary or disposable product: some customers may decide to own both their MIBI and the LIMI.
- ☐ Disabling for many incumbents: some of the most formidable competitors can be incumbents who had a competitive advantage in the old game of offering the product that the innovation is supposed to dislodge.
- ☐ Resources and system of activities underpin both low-cost and differentiation: in developing an exploiting a LIMI, the system of activities and associated resources/ capabilities that an innovator builds are consistent with both differentiation and low cost.
- ☐ Counter to conventional wisdom: LIMIs are usually counter to conventional wisdom, especially the dominant managerial logic of the industry.
- ☐ Likely to have disruptive component: a LIMI's uncontested market can be the starting point for an innovator to launch attacks on neighboring markets.

Effective LIMIs have four features:

1. Some of their attributes are stripped of all the emphasized.
2. The resulting product is simpler than previous ones.
3. They have lower costs than predecessor products in the market.
4. They may have new unexpected features.



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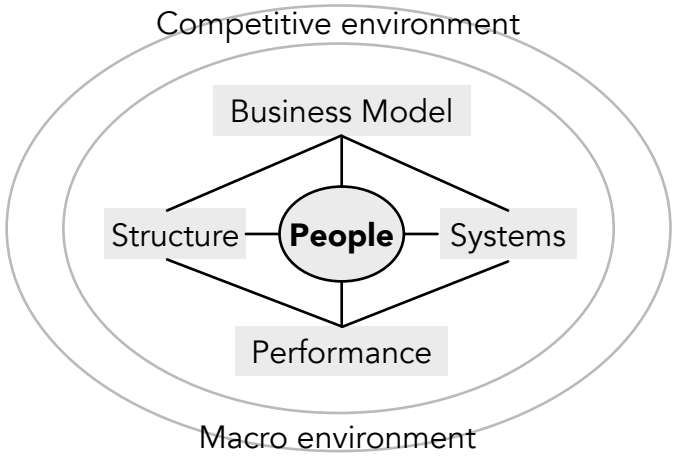
The Business model, Structure, Systems, People, and Environment framework (BS2PE)

Business models are conceived of and executed by people who often differ considerably. The tasks that people must perform to execute a business model vary from model to model. Therefore, not only do individuals need to perform different roles in the face of a business model innovation, what motivates them to perform a task differs from task to task, individual to individual, industry to industry, and country to country. Therefore, the type of people that a firm hires, who reports to whom, how performance is measured and rewarded, and the type of information systems that are needed depends on the type of business model innovation and the environment in which the firm operates.



Degree to which innovation renders existing product position non-competitive.	Degree to which innovation renders existing resources / capabilities obsolete.	
	Low	High
High	POSITION BUILDING Market oriented project unit. Champions, sponsors, gatekeepers, project managers, boundary spanners.	REVOLUTIONARY Autonomous unit. Champions, sponsors, gatekeepers.
Low	REGULAR Use or build on pre-game structure, systems and people. Project managers.	CAPABILITIES BUILDING Product oriented project unit Champions, sponsors, gatekeepers, project managers, boundary spanners.

The objective, in executing a business model innovation in a given environment, is therefore to find those structures, systems, and people that best fits the set of activities of a firm chooses to perform, how, where and when it performs them.

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Technology & Market newness

Technology newness

Market newness

Product Objectives	No Technological Change	Improved Technology	New Technology
No Market Change		**Reformation** Change in formula or physical product to optimize costs and quality.	**Replacement** Replace existing product with new one based in improved technology.
Strengthen Market	**Re merchandising** Increased sales to existing customers.	**Improved product** Improve product's utility to customers.	**Product life extension** Add new similar products to line. Serve more customers based in new technology.
New Market	**New use** Add new segments that can use present products.	**Market extension** Add new segments modifying present products.	**Diversification** Add new markets with new products developed from new technology.

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To what extent is a technology disruptive to establish technology?

Potentially disruptive technology
Does the innovation create a new market whose performance requirements are not as demanding as those of the old market?
Does the innovation cost less than existing products?
Is the innovation inferior in performance but keeps improving enough to be able to meet performance criteria of the old market?

Established technology
Does the established technology's performance overshoot demands, or are there too many bells and whistles that customers are being forced to pay for?
Are there little or no switching cost to switching from establish technology to disruptive one?

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