



UNIVERSITA' DEGLI STUDI
DI ROMA TOR VERGATA



BA MASTER OF SCIENCE IN
BUSINESS ADMINISTRATION

UNIVERSITY ROME TOR VERGATA
SCHOOL OF ECONOMICS PRESENTS

BUSINESS MODEL INNOVATION

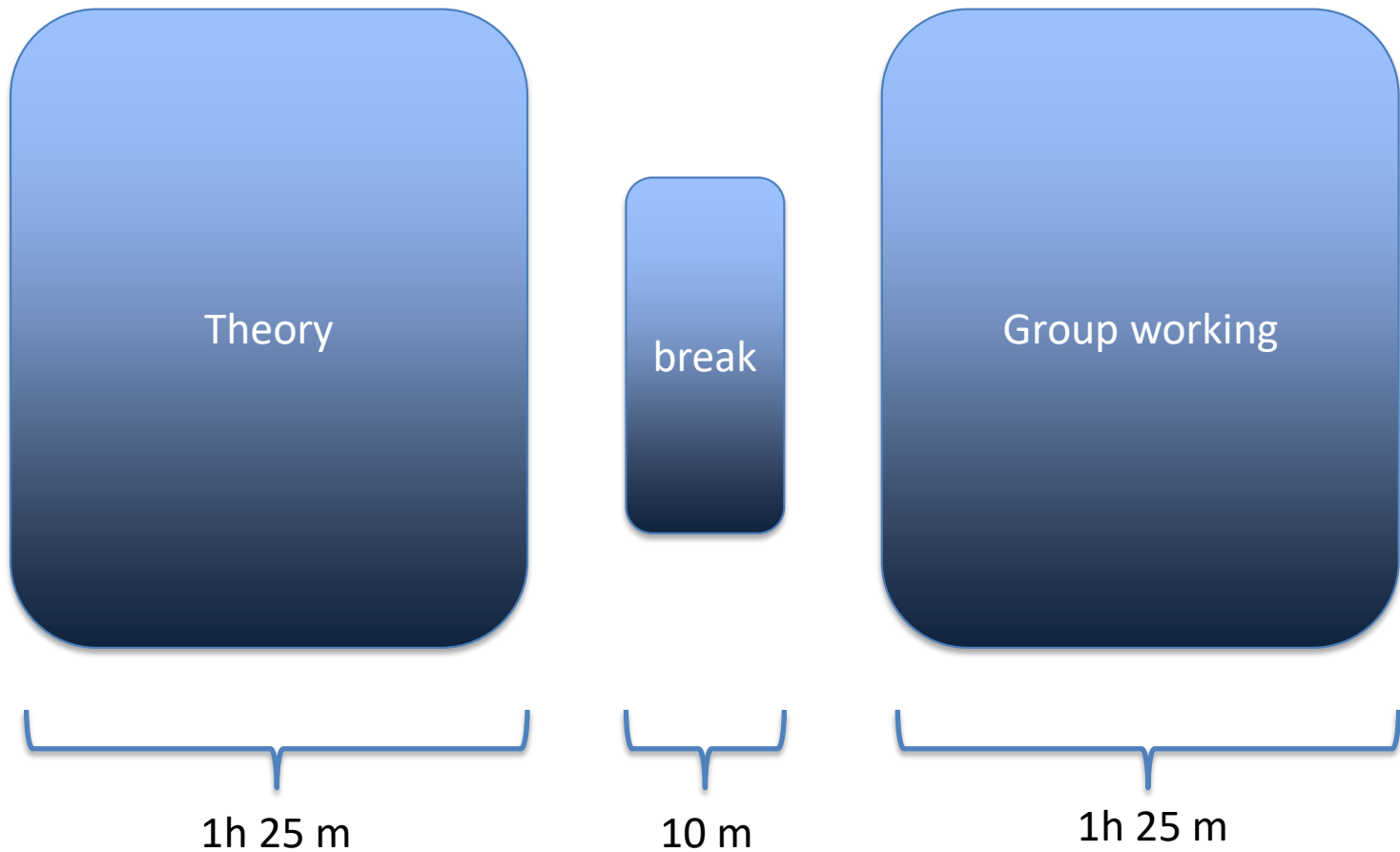
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Lesson #2

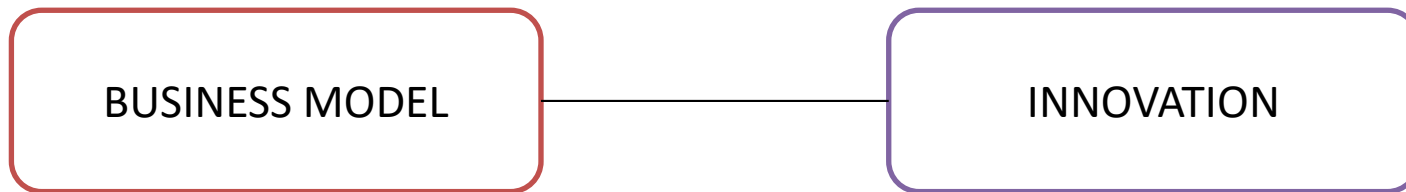
The concept of Business Model and its components

Definition and typologies of Business Model Innovation

Structure of each lesson



Introducing Business Model Innovation



A framework or recipe for making money – for creating, capturing and delivering value

Doing things differently from the norm

A BMI is a framework or recipe for creating, capturing and delivering value by doing things differently. It's changing the rules of the game.

Introducing Business Model Innovation

- BMI does not mean to leapfrog competitors with products that have better characteristics (Es. Nintendo Wii)
- Most profitable BMI have little to do with products (Es. Xerox 914 photocopier)
- The winner can be the firm that moved first to change the rules of the game, or a firm that came in later and pursued a better business model

The concept of Business Model

The concept of Business Model

*“Business models, though, are anything but arcane. They are, at heart, stories – **stories that explain how enterprises work**”*

Magretta, 2002

*“A business model describes the rationale of how an organization **creates, delivers, and captures value**”*

Osterwalder and Pigneur, 2010

*“A business model is a framework for **making money**. It is the set of activities which a firm performs, how it performs them, and when it performs them so as to offer its customers benefits they want to earn a profit”*

Afuah and Tucci, 2003

The concept of Business Model

- BM has become a popular concept in both research and practice – explosive growth during the dotcom boom
- There is still no agreement on a single definition, yet there is consensus on some main aspects:
 - BM as unit of analysis
 - BM as representation of how firms do business in a dynamic way
 - BM as a tool aimed at creating, capturing and delivering value

How to define the Business Model

- The conceptual abstraction of BM
- The architecture of BM
- The content of BM components
- The dynamic approaches to BM

Conceptual abstraction of BM

Strategy

- BM is a tool that strategically helps companies to make decisions. Focus on new technologies (technical potential → economic value)

Narrative

- BM is the story that describe how the enterprise works (interconnection among different actors)

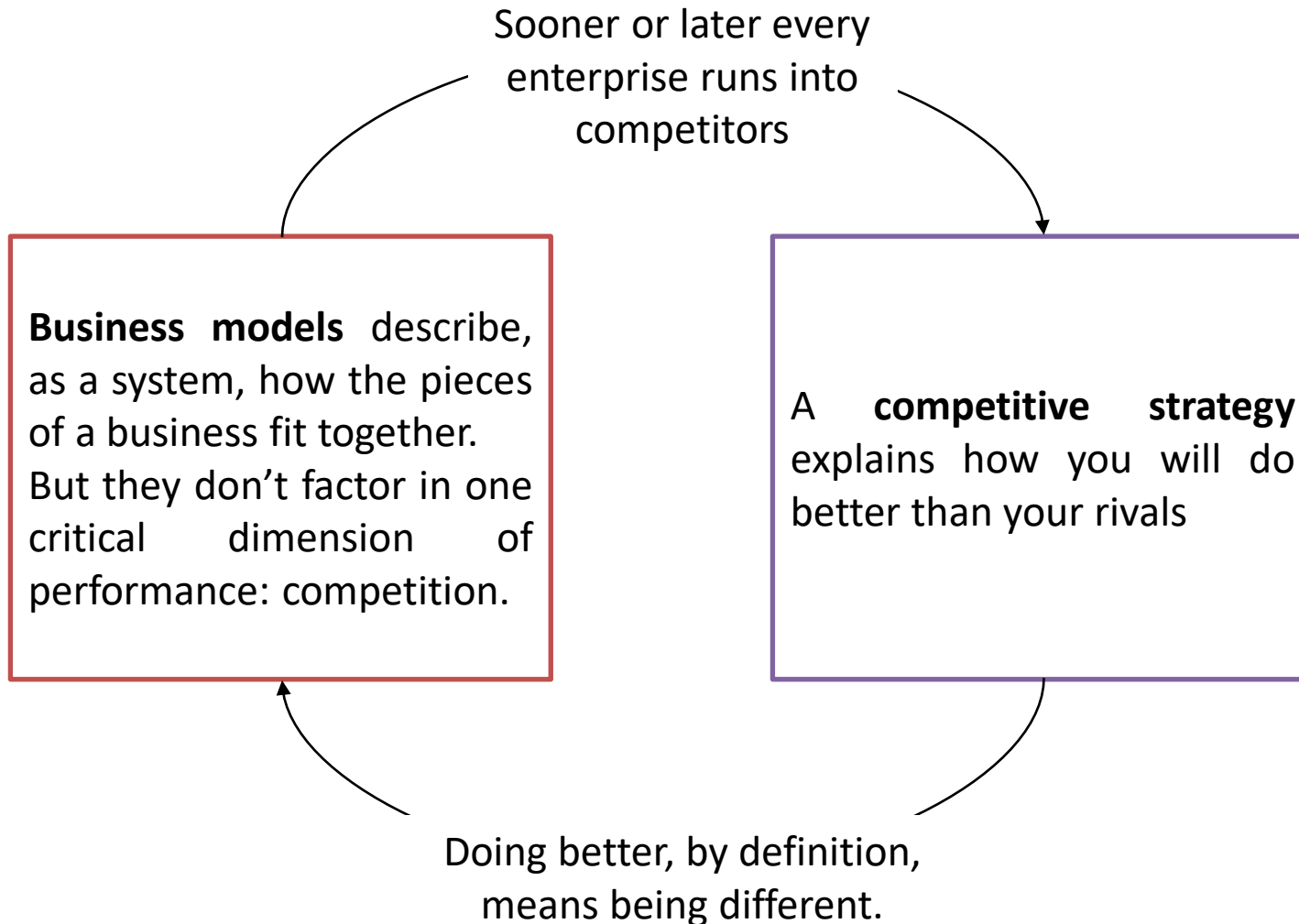
Process-based

- BM express the principles supporting the development of a firm's core repeated processes

Cognitive

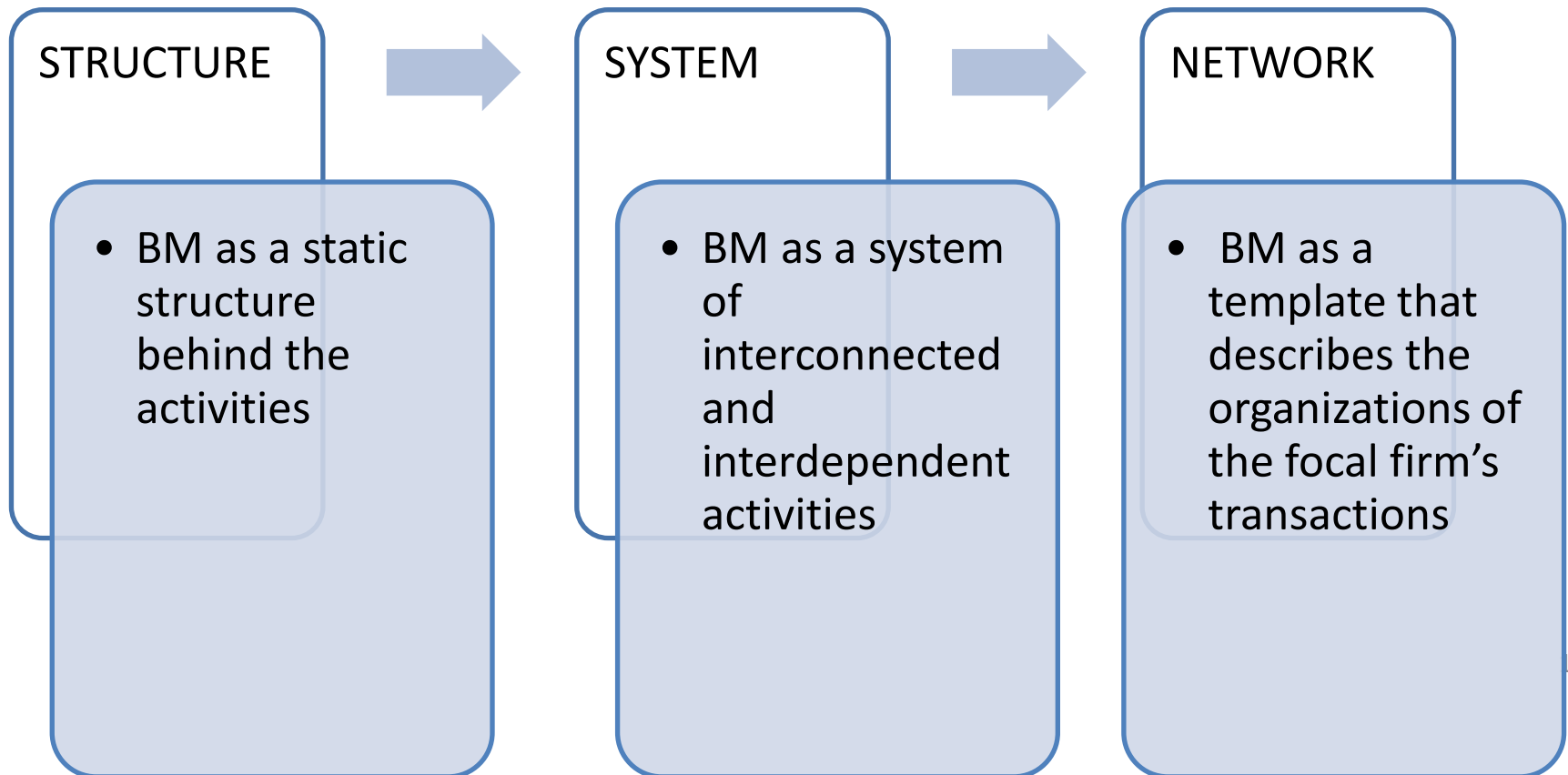
- BM is a combination of material structures and intangible structures (e.g. concepts and relations, intuitions, mental cognitions of managers)

BM and strategy



The architecture perspective of BM

- BM (and in particular BMI) can be seen as a **set of components**, of **generic descriptors** of how a firm creates, captures and distributes value in a profitable manner



The content of BM components

- **STRATEGIC ACTIVITIES AND MANAGERIAL DECISION**
 - BM activities to implement for value creation and competitive position in the market
 - Concrete choices made by management about how to operate and the consequences of these choices
- **RESOURCES**
 - Control of rare, valuable and imperfectly imitable assets that offer differentiation and competitiveness to companies (external and internal – organizational capabilities, top management features, managerial cognitive capabilities, personal/investor competencies)

The content of BM components

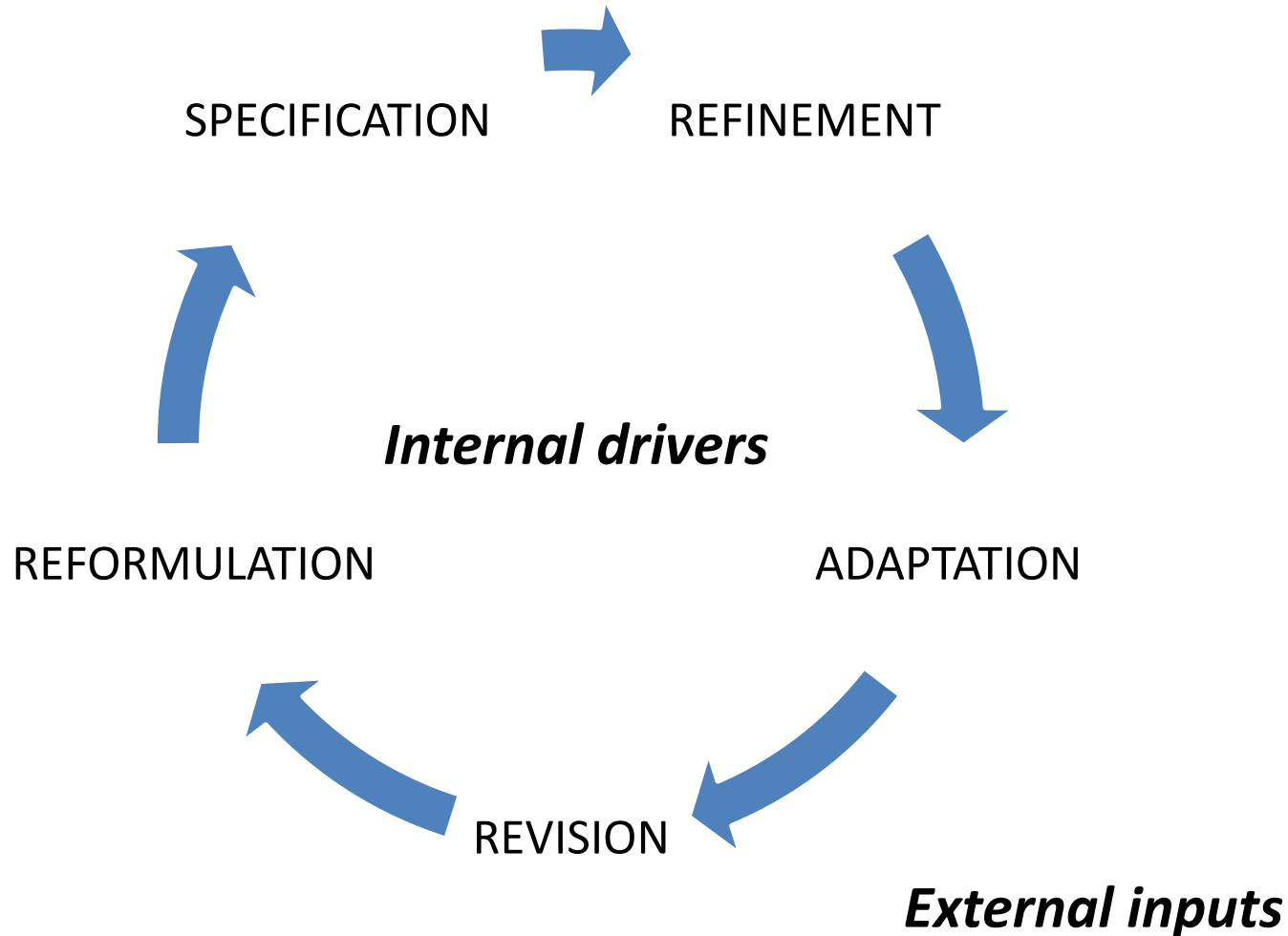
- **NETWORKS AND RELATIONSHIPS**

- BM are economically exchanged relationships through which companies exchange information, goods and finances in order to create value in the market
- Exploit external resources to co-create value

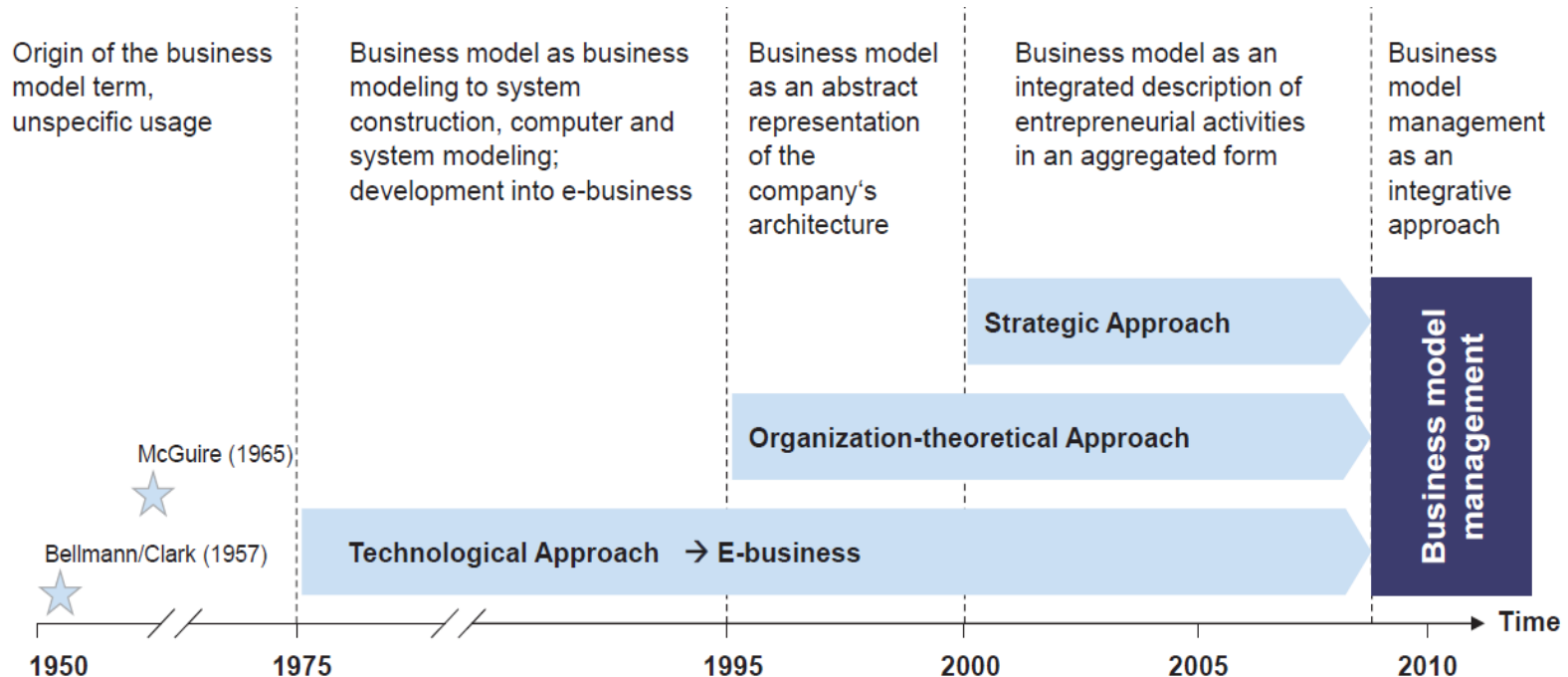
- **VALUE**

- Marketing: customer value, repurchasing, loyalty
- Economics: profits and margins
- Strategy: competitiveness
- Organization: efficiency
- Entrepreneurship: innovation, social enhancement and market opportunities

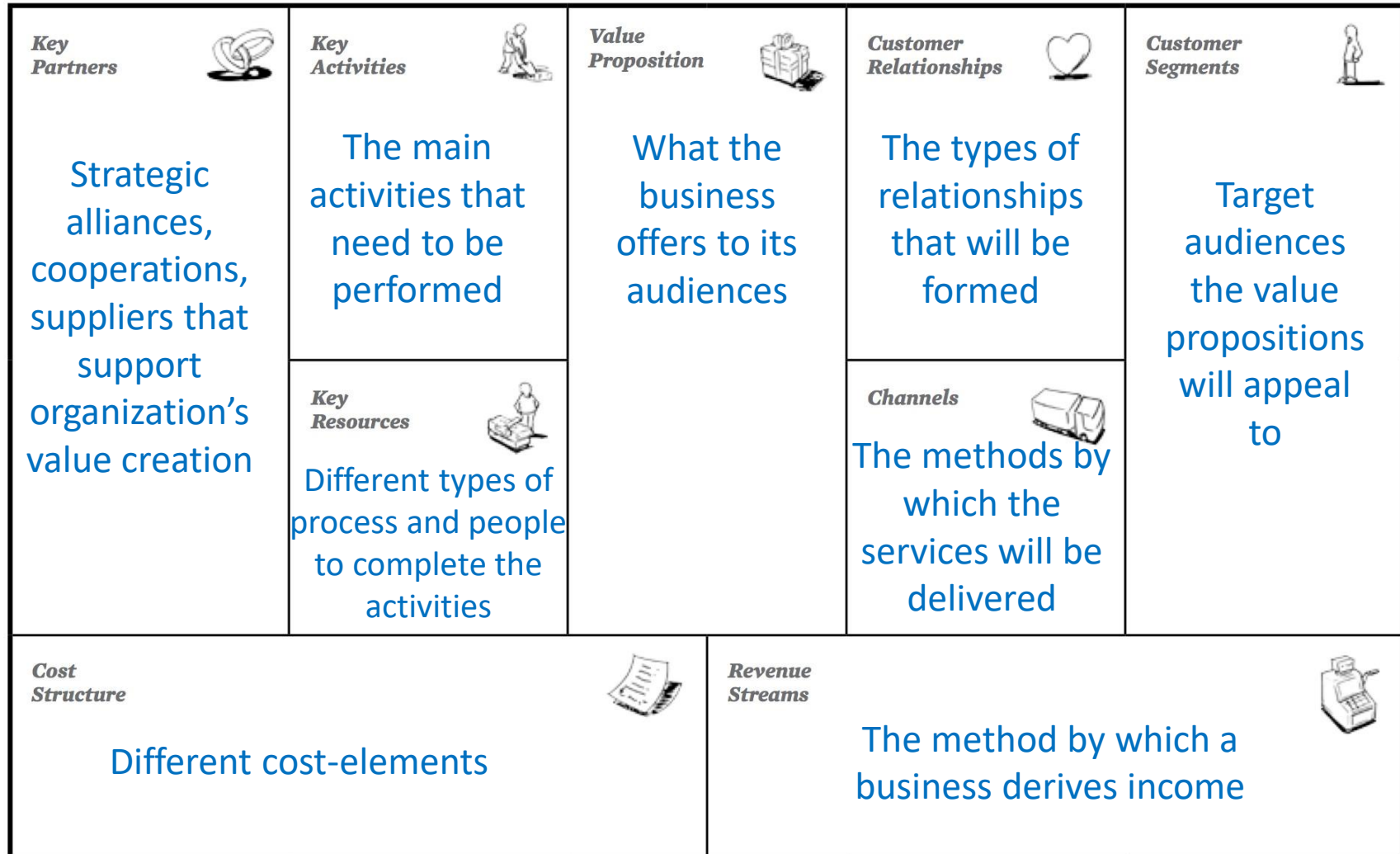
The dynamic approaches to BM



The evolution of the BM concept



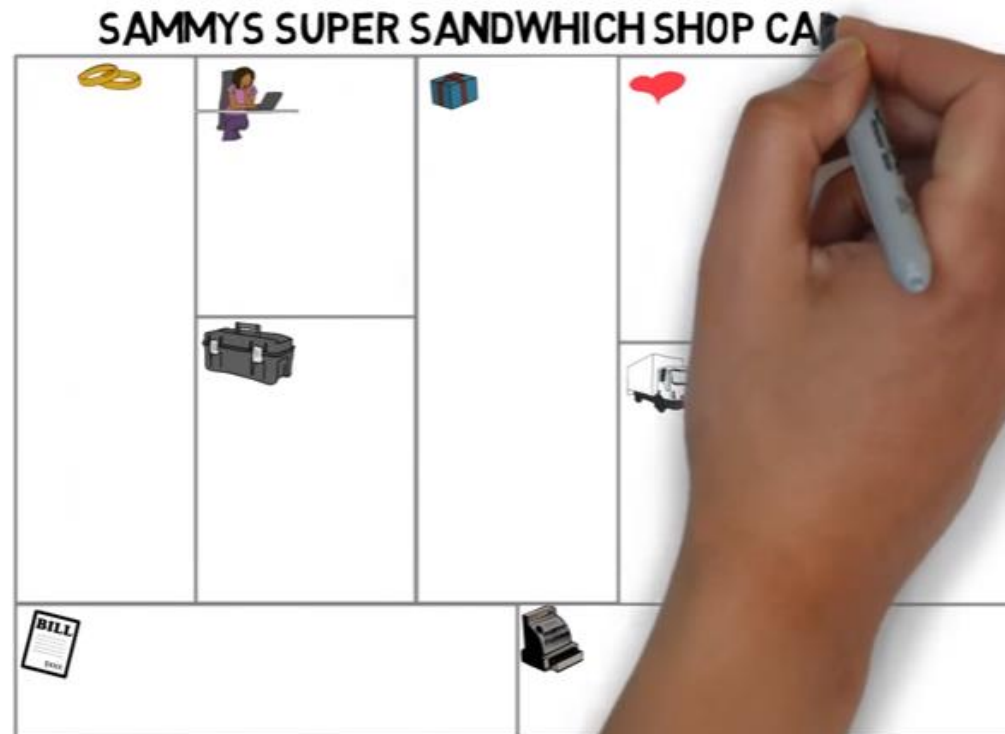
The Business Model Canvas



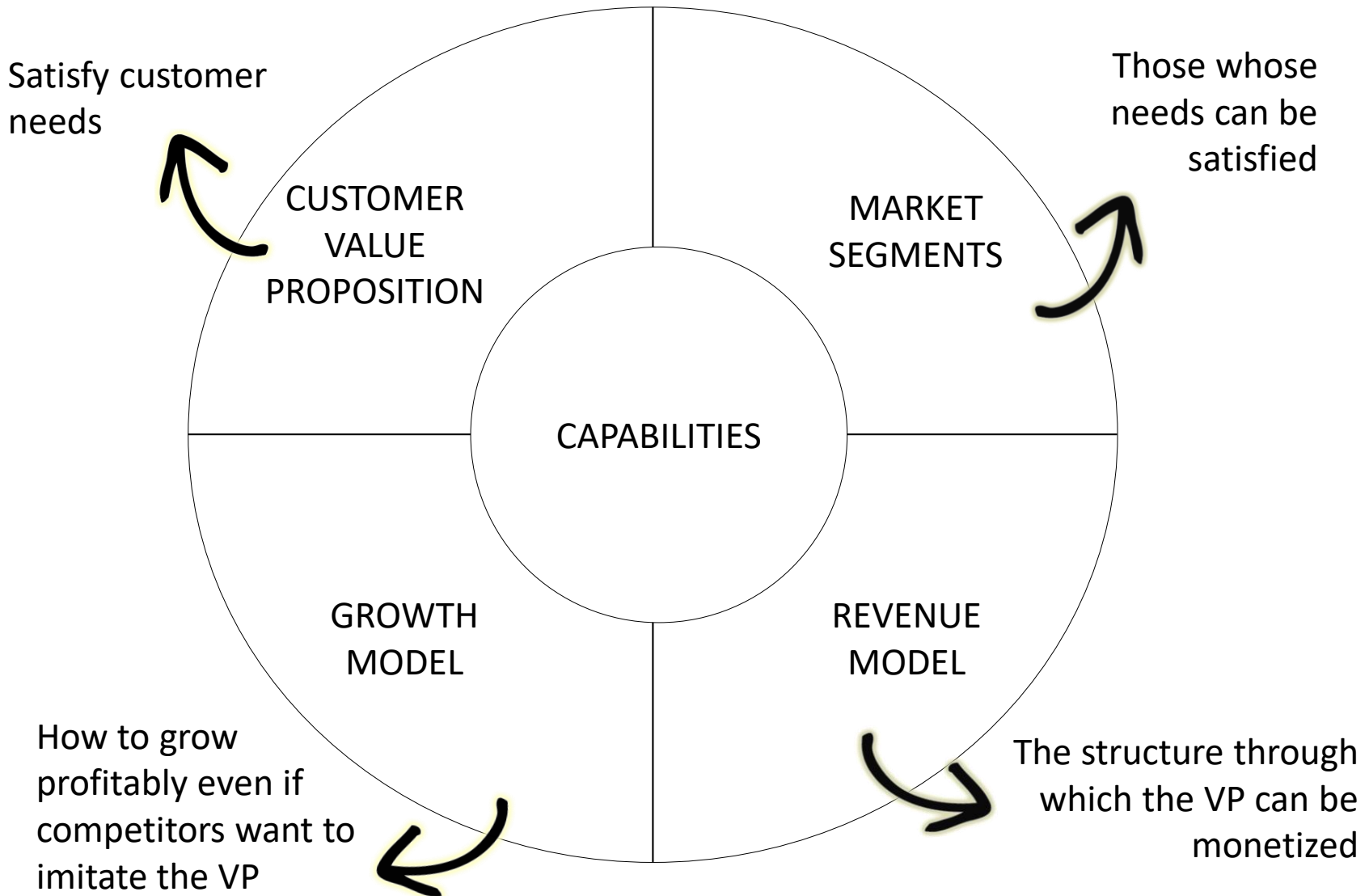
The Business Model Canvas

[SAMMY SUPER SANDWHICH SHOP](#)

An example of Business
Model Canvas



The components of Business Model



The components of Business Model

CUSTOMER VALUE PROPOSITION

- Those things that the firm and its products/services can do for customers to solve their problems and/or satisfy their needs better than competitors
- It answers the question: *What is so compelling, engaging, rewarding, or delightful to customers about what a firm has to offer that will attract customers from competitors or from the sidelines?*
- Products/services + attributes + reputation + image + ...

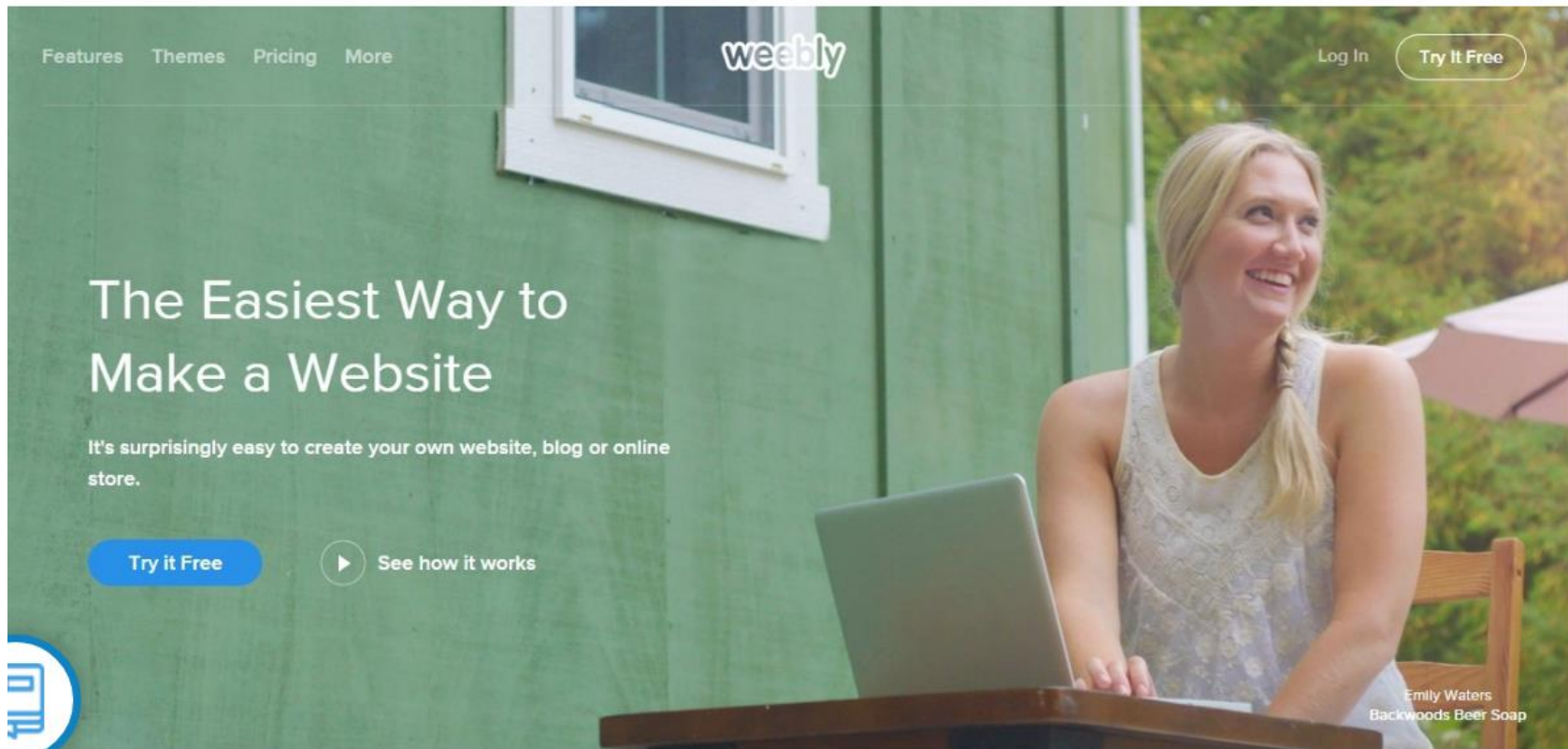
The components of Business Model

CUSTOMER VALUE PROPOSITION



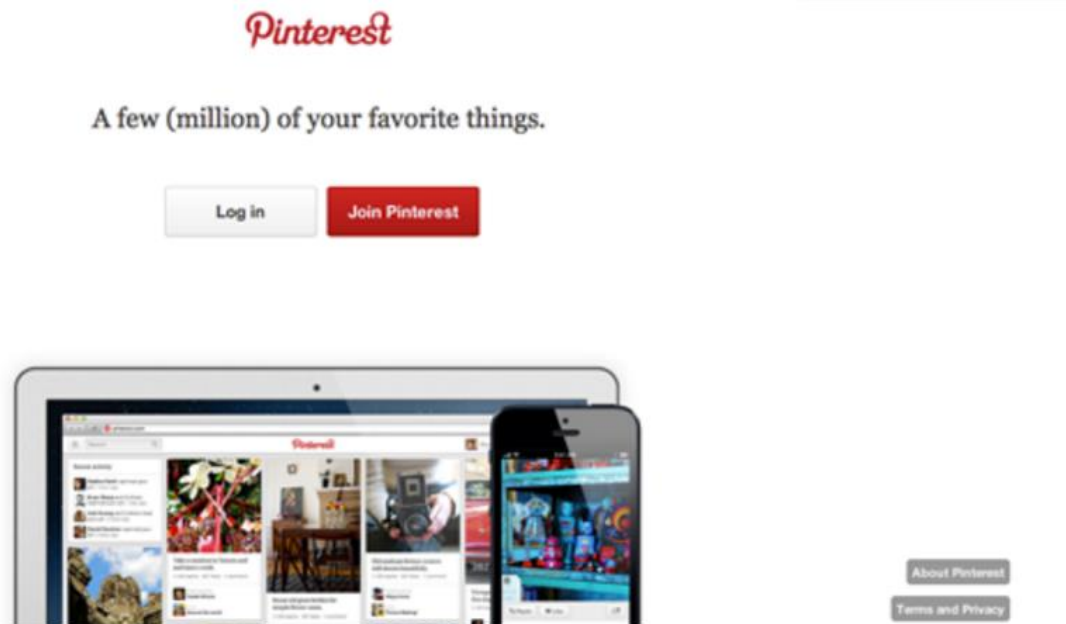
The components of Business Model

CUSTOMER VALUE PROPOSITION



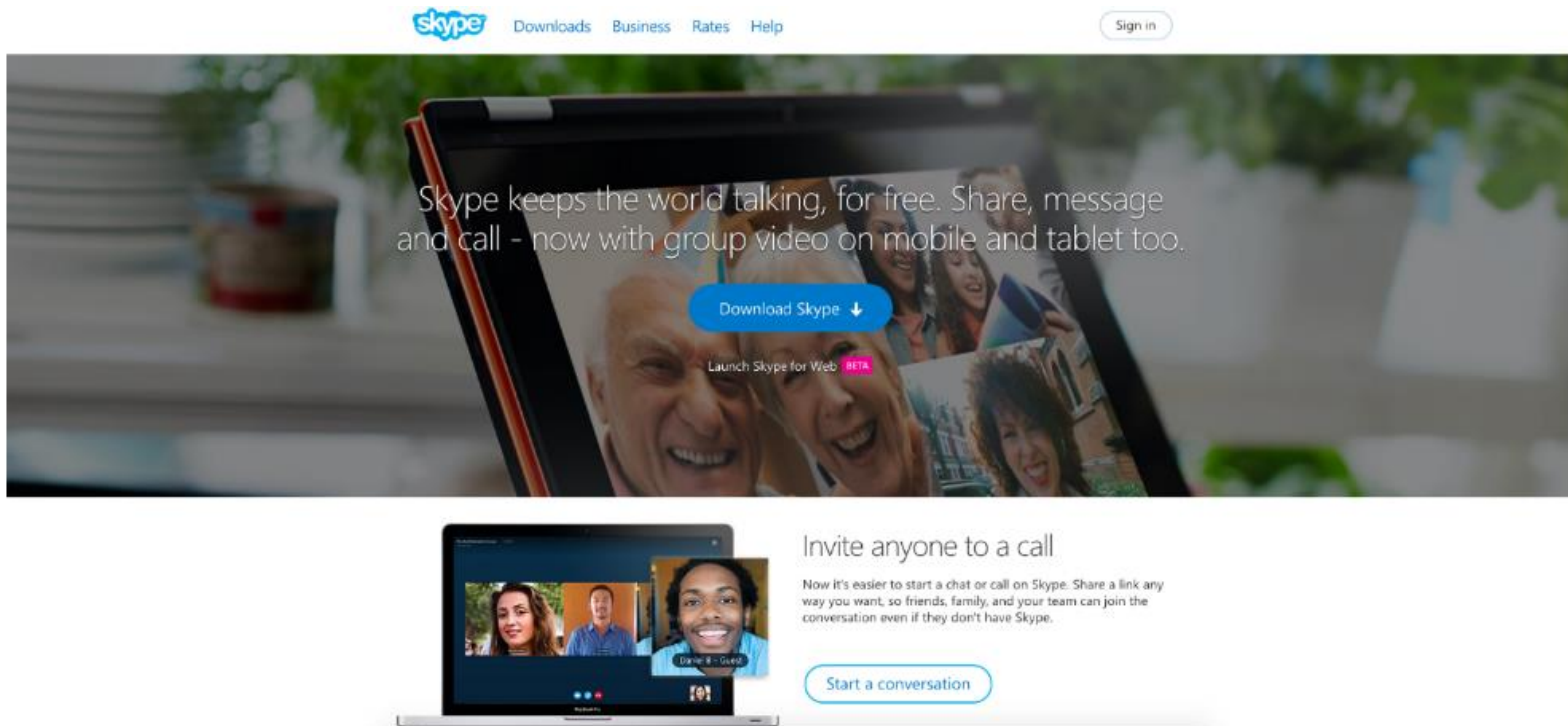
The components of Business Model

CUSTOMER VALUE PROPOSITION



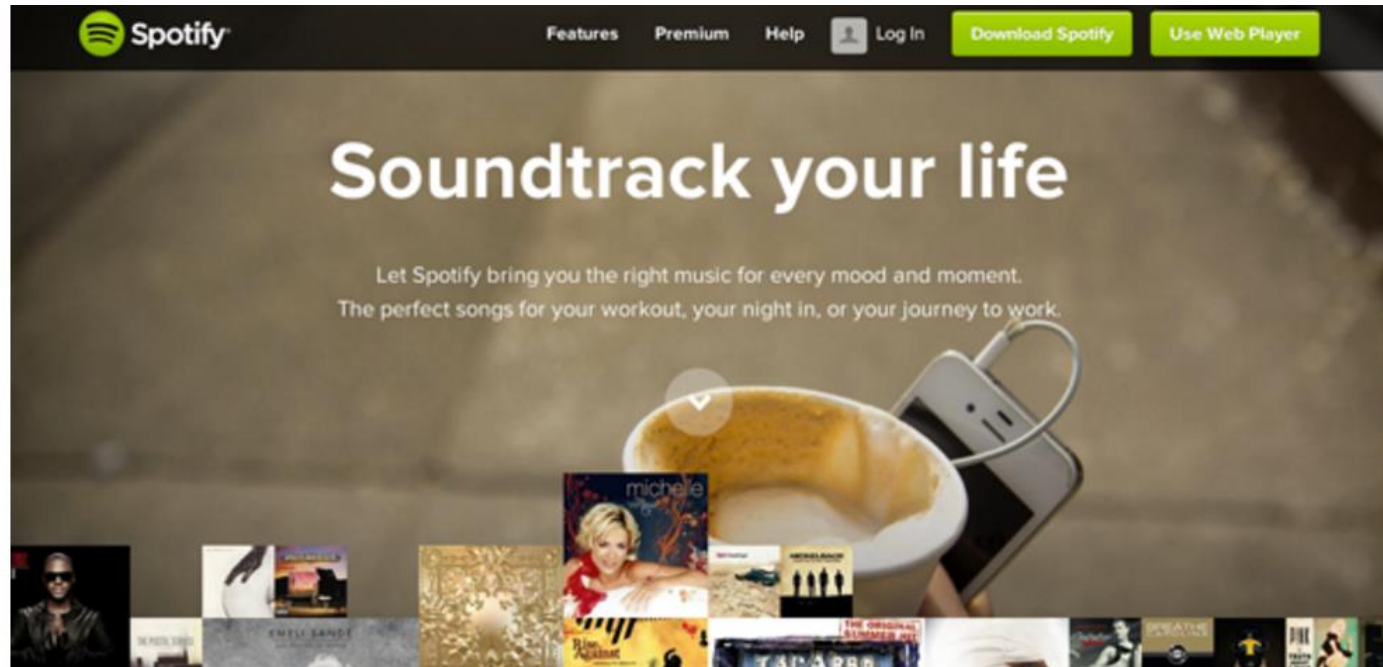
The components of Business Model

CUSTOMER VALUE PROPOSITION



The components of Business Model

CUSTOMER VALUE PROPOSITION



The components of Business Model

MARKET SEGMENT

- The groups of customers to whom a value proposition is being offered or should be offered, how many customers there are in each group, their willingness to pay, the attractiveness of each group
- The larger the market size, the higher would be the likelihood of more revenues. The higher the willingness of customer to pay, the better a firm's chances of obtaining high prices for the benefits offered to customers.
- Coopetitors: cooperation (customers, suppliers, governments, complementors) + competition (competitive forces)

The components of Business Model

MARKET SEGMENT

- Segmentation → type of customers, their preferences, type of products offered, demographics, geography, willingness to pay, distribution channels, relationship with the firm
- Criteria for an effective segmentation:
 - Measurable
 - Substantial
 - Accessible
 - Differentiable
 - Actionable
- Different type of market segments: e.g. multi-sided market, mass market, niche market

The components of Business Model

REVENUE MODEL

- How many customers get to pay how much for what product/service
- It is about getting as many of the customers who like the value proposition as possible to pay a price that is close to their reservation prices without driving them away
- In some cases the earning logic is considered as resuming the overall business model of a firm
- Revenue model also includes the firm's pricing model

The components of Business Model

REVENUE MODEL

- Free: Companies don't charge the end users (directly), while their data and their attention are the currency
- Subscription fee: Customers have to pay a subscription price to access the products/services
- Transaction fee: Companies take a percentage on every transaction that happens on/because of their platforms
- Advertising: Companies make most of their revenues selling advertising spaces on the website
- Freemium: Customer have free access to the basic services but are charged for additional features

The components of Business Model

GROWTH MODEL

- What a firm has to do to increase the number of customers, increase their willingness to pay, keep prices close to customers' reservation prices while keeping costs low
- Coopetitors → suppliers may demand higher prices for the firm's input; customers may want lower prices or higher quality products; competitors may want to imitate or leapfrog the firm; macro-environmental factors may have an impact as well

The components of Business Model

GROWTH MODEL

- *Maintaining higher revenues:*
 - Block strategy: defending its position in the market vigorously even as it tries to win over more customers (e.g. patents, intellectual property)
 - Run strategy: being one of the first to innovate and moving to something better by innovating again before competitors have the chance to become a significant threat (e.g. Apple's iPod, iPhone and iPad)
 - Team up strategy: strategic alliances, acquisitions, joint ventures... enabling the firm to share valuable and rare assets, to attain and prolong profitability (e.g. Pixar and Disney)

The components of Business Model

GROWTH MODEL

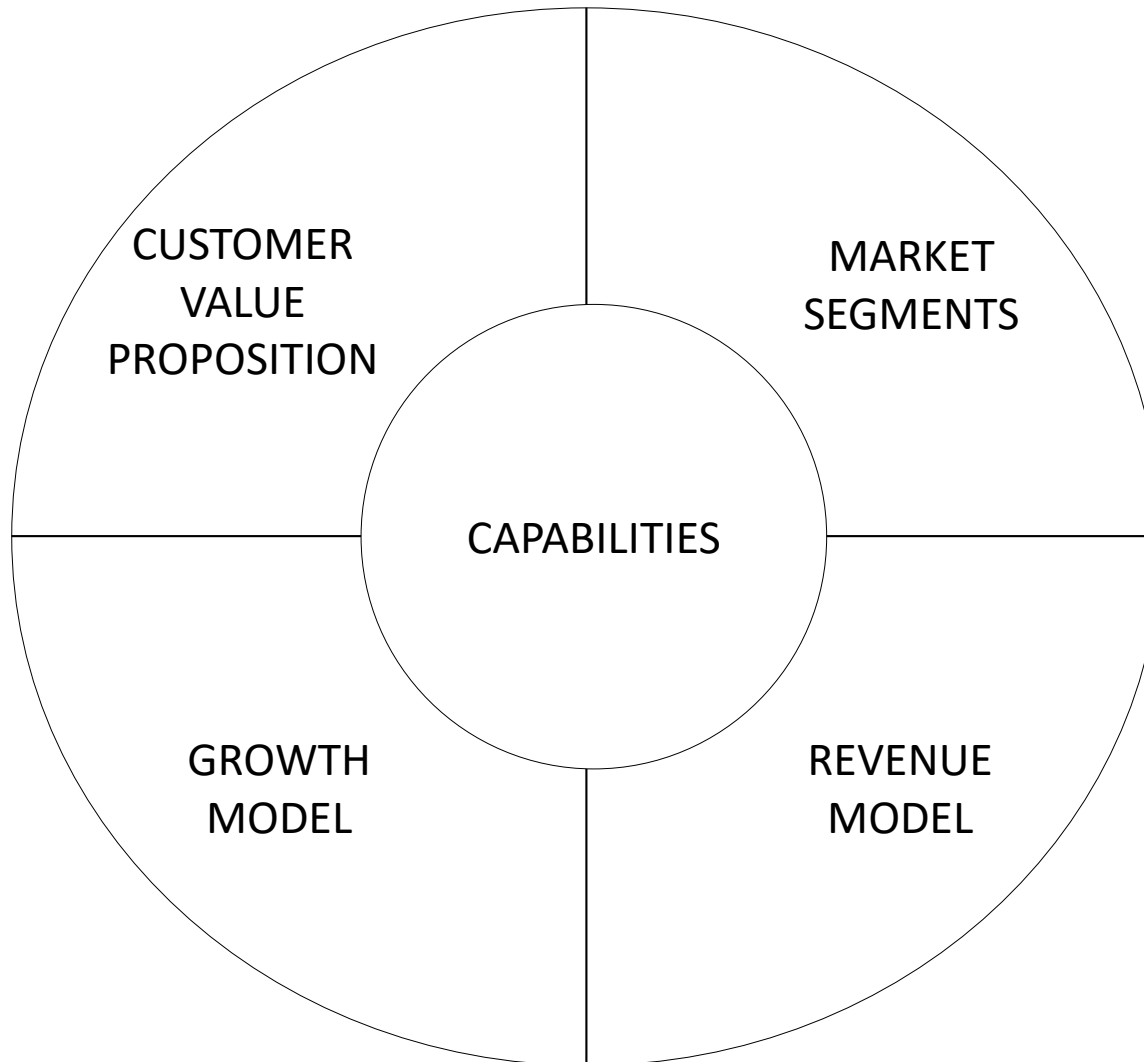
- *Cost structure:*
 - Production costs (fixed costs, variable costs, marginal costs, sunk costs) are the costs of conceiving, designing and manufacturing a product or delivering a service
 - Transaction costs are the costs associated to (i) searching and acquiring information about inputs; (ii) the contracting associated with value creation and capture activities; (iii) the monitoring and enforcement of contracts/agreements
- Cost-driven BM – Differentiation-driven BM → ensure that costs do not rise faster than revenues

The components of Business Model

CAPABILITIES

- Capabilities are central to every business model as they determine the ability to take advantage of any opportunities
 - Resources: what a firm *owns* or *have access to* (e.g. brands, people, equipment, products, culture, financing, knowledge, patents, copyright...)
 - Activities: what a firm *does* to transform these resources into value created and/or captured

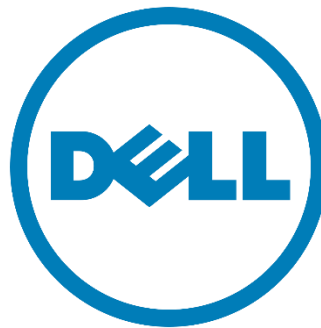
Business Model as a system



From BM to BMI

The innovation difference

- Innovating the BM means doing things differently and change the rules of the game to create and/or take advantage of new opportunities to better create and capture value
- Changes can happen in one or more of the components of a business model, considering the impact that innovation has on the overall system

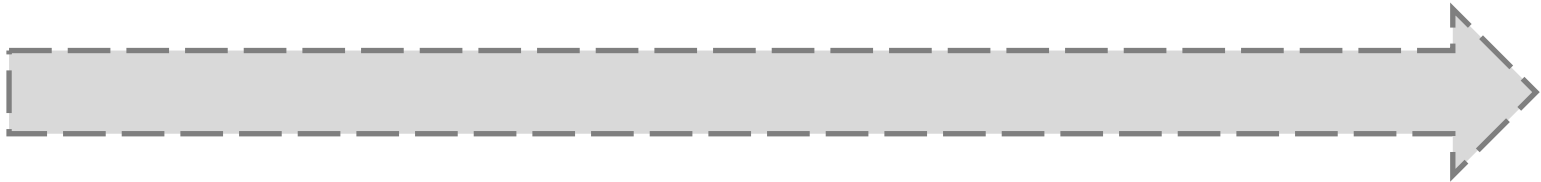


The emergence of BMI

BM as basic **architecture** underlying all successful business
– **structural template** of firms' relations

BM as a blend of concepts and relations among them to **create value in the firm's exchange network**

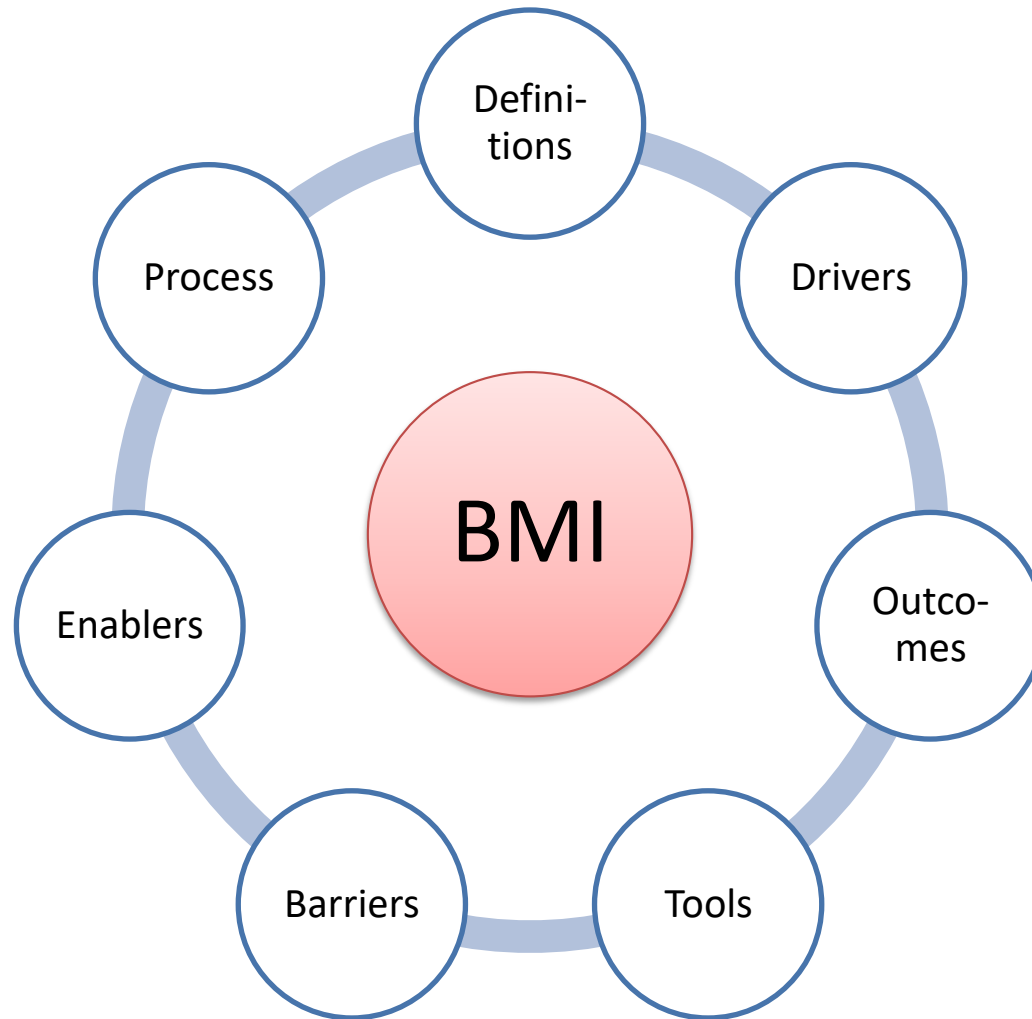
BM as **continuous improvements and innovations** that companies must undertake



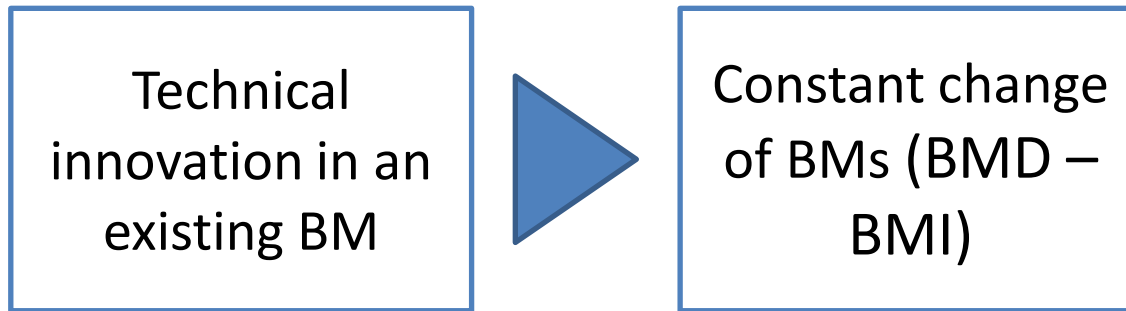
The concept of BMI

- BMI is a holistic concept used to deal with issues related to the search for new business logics and new ways for a company to create, deliver and capture value for its stakeholders
- BMI refers to finding new ways to generate profits, define value propositions for customers, partners and suppliers, grow profitably, address new market segments (or in new ways)
- BMI describes how the firm transforms itself with reference to where it was before to pursue higher performance and competitive advantage

Thematic map of BMI



BMI definitions



- **MARKETING** – change in the target customer and the value proposition, new consumption/distribution model, new product conceptualization
- **ORGANIZATION** – change implemented by managers through learning experimentation and trial-and-error activities
- **STRATEGY** – innovative ways to create and capture value for stakeholders
- **ENTREPRENEURSHIP** – disruptive or substantial innovation introduced and developed to seize new economic opportunities

BMI definitions



BM components:
dynamic vision of the
created and captured
value

Adoption of new
activities, new ways of
linking/govern
activities



Innovation: its nature
and characteristics
that underpin the
definition of BMI

Learning, trial-and-
error learning, co-
creation, disruptive
innovation

BMI drivers

- Those antecedents or elements that lead to BMI
 - Activities: knowledge management, corporate entrepreneurship, BM design, marketing, learning, accounting, CSR
 - External stakeholders: venture capital firms, technological partnerships
 - Environmental factors: sustainability, internationalization
 - Organizational characteristics: top management features, organizational capabilities
 - Service stream: the transformation of offering from products to services requires companies to innovate their BM

BMI outcomes

- Economic performance (real/perceived): corporate survival, market value of firms' equity, market performance and growth
- Value: value creation for customers, value appropriation, competitiveness
- Industry level: industry structure, disruptive innovations
- Strategic action: modifying organizational boundaries (insourcing/outourcing)

Tools for BMI

- Methods: available for managers to help understanding, performing and managing BMI (practitioner-oriented)
 - prospective tools, roadmapping, experimental game-like innovation activities, assessments
- Artifacts: and the impact they have on the development of BMI
 - Visual templates, physical objects
- Sector-specific tools: indications about how a firm should change or transform their old BMs into new one to stay competitive
 - Hospitality, mobile, music, manufacturing, fashion, sharing economy, BoP

BMI barriers

- Internal barriers: firm's existing BM that tends to shape the approach toward BMI, time, excessive specialization, bureaucracy, cognition, leadership

→ specific managerial approaches can be adopted to overcome the barriers

- External barriers: values of the society, national institutions, customer rigidity, dissimilarities in the network partners' BM

→ out of firms' control

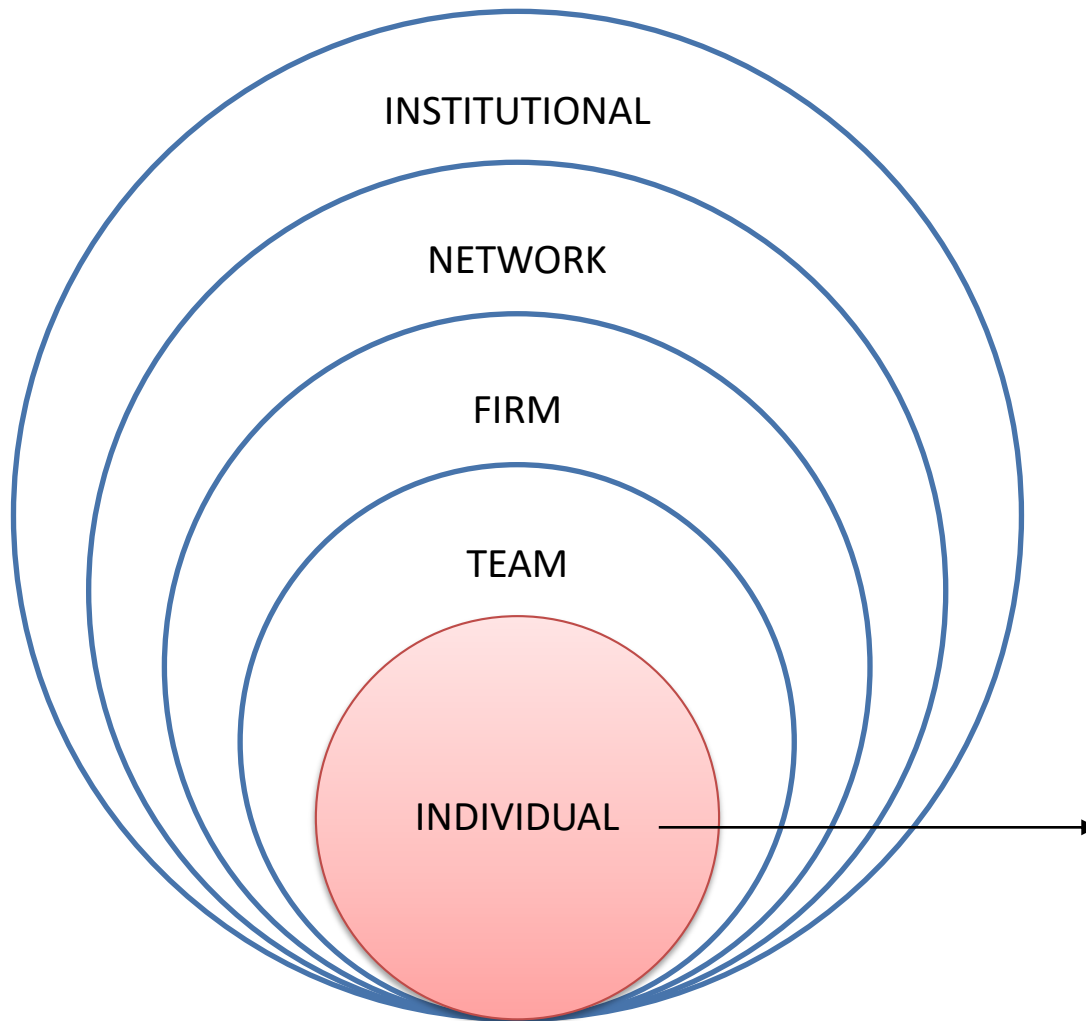
BMI enablers

- Elements that assist, support and facilitate the process of BMI (\neq drivers)
 - Organizational: marketing activities, open innovation
 - Technological: cloud computing, smart devices
 - Contextual: specific markets and industries

BMI process

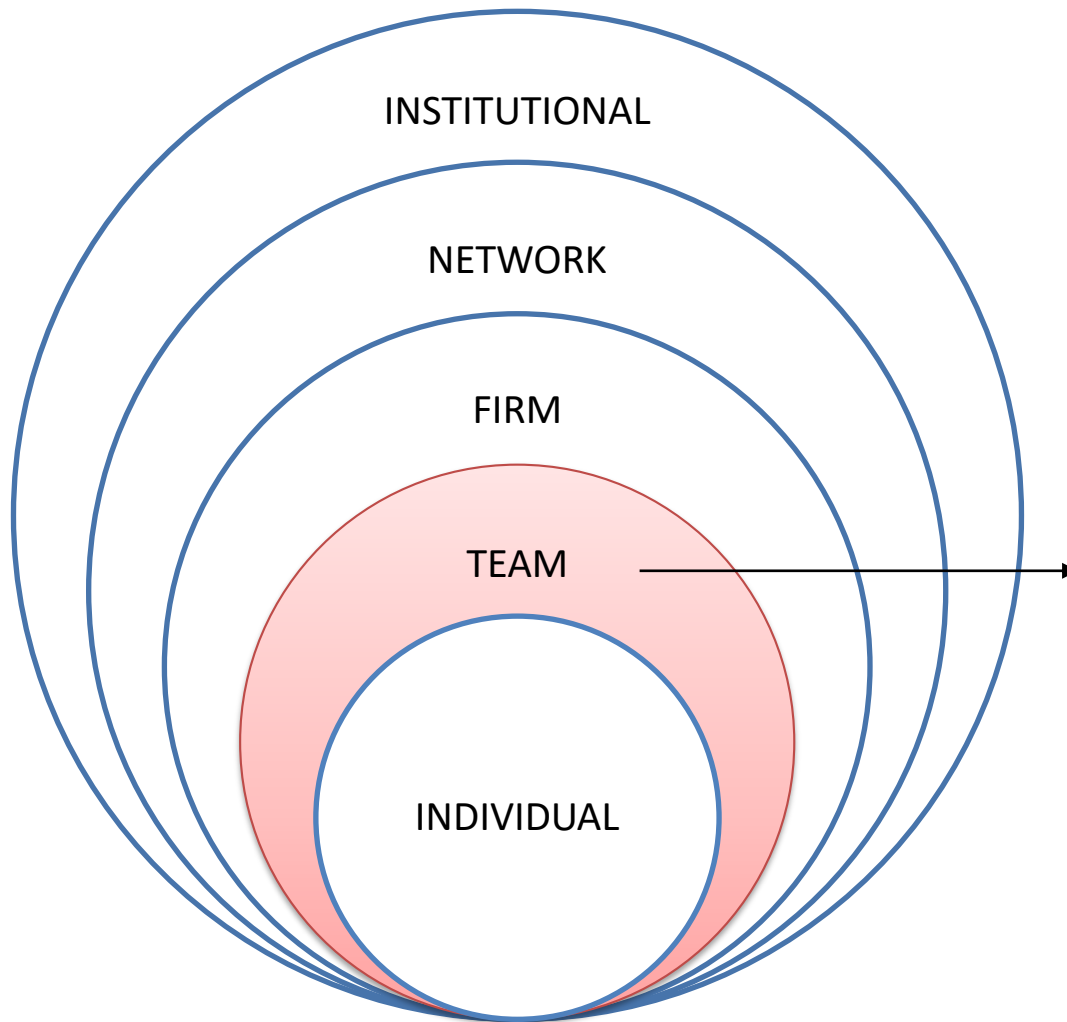
- Phases of BMI: trial-and-error process, strategy-making process, innovation management
- Conditions and characteristics: market evolution, timing, skills, technological shift
- Types of BMI process: imitation (role, risks and opportunities) and moderators (organizational culture – firm growth)

Multilevel analysis of BMI



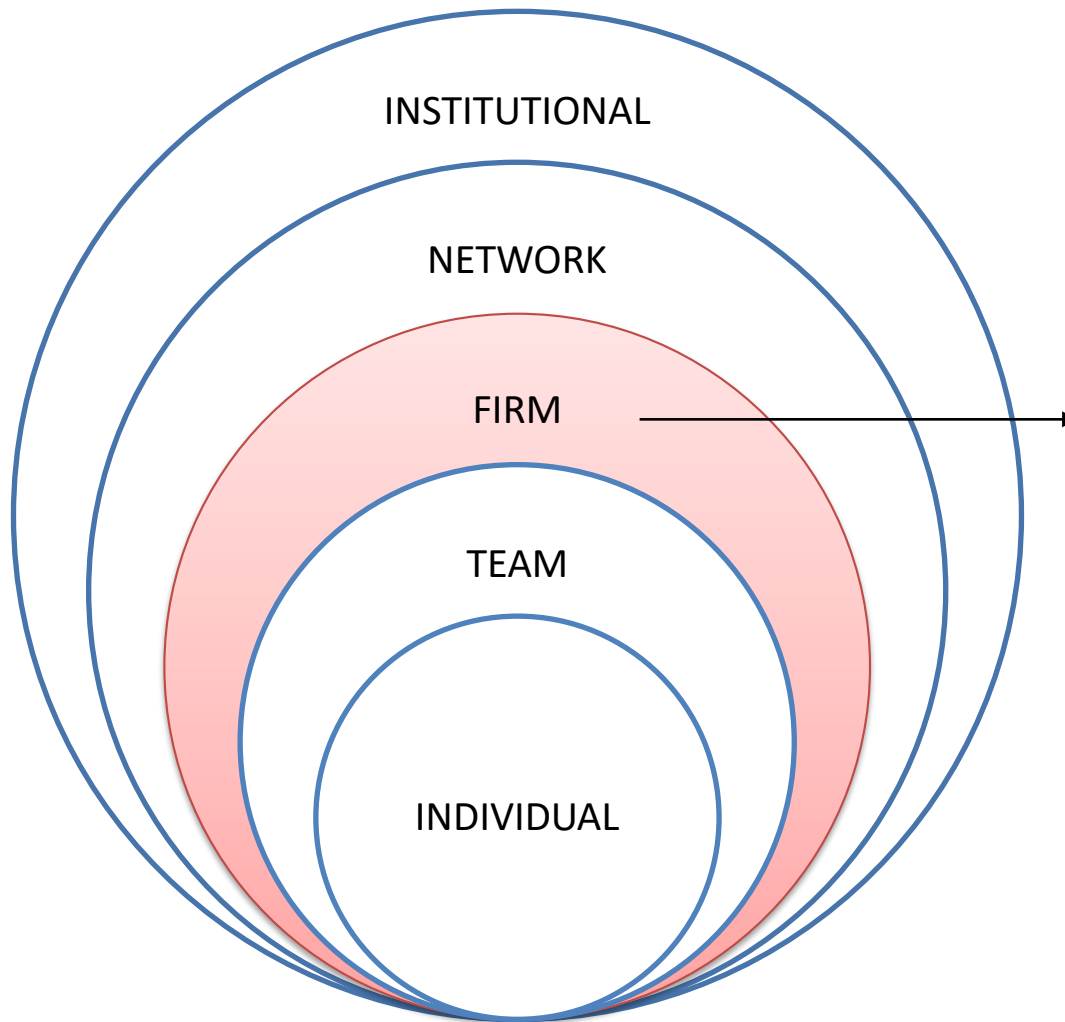
- The influence of managers (initiatives, cognitive processes, individual characteristics, intuitions)
- The role of leaders (KSFs)
- The individuals' learning processes (trial-and-error, knowledge transfer)
- Implication of consumer views on BMI

Multilevel analysis of BMI



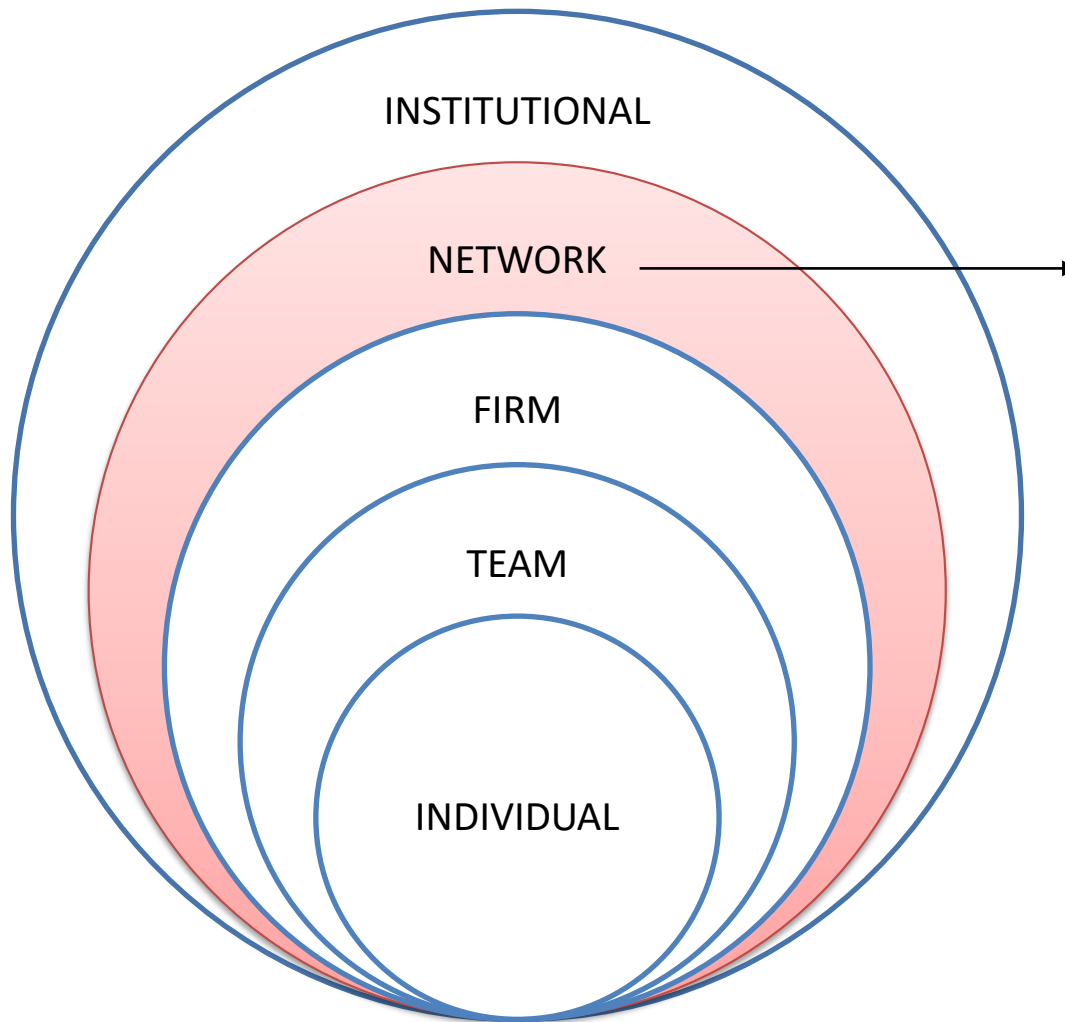
- The role of divergent and convergent group processes in driving BMI
- Meta-capabilities: strategic sensitivity, leadership unity, resource fluidity

Multilevel analysis of BMI



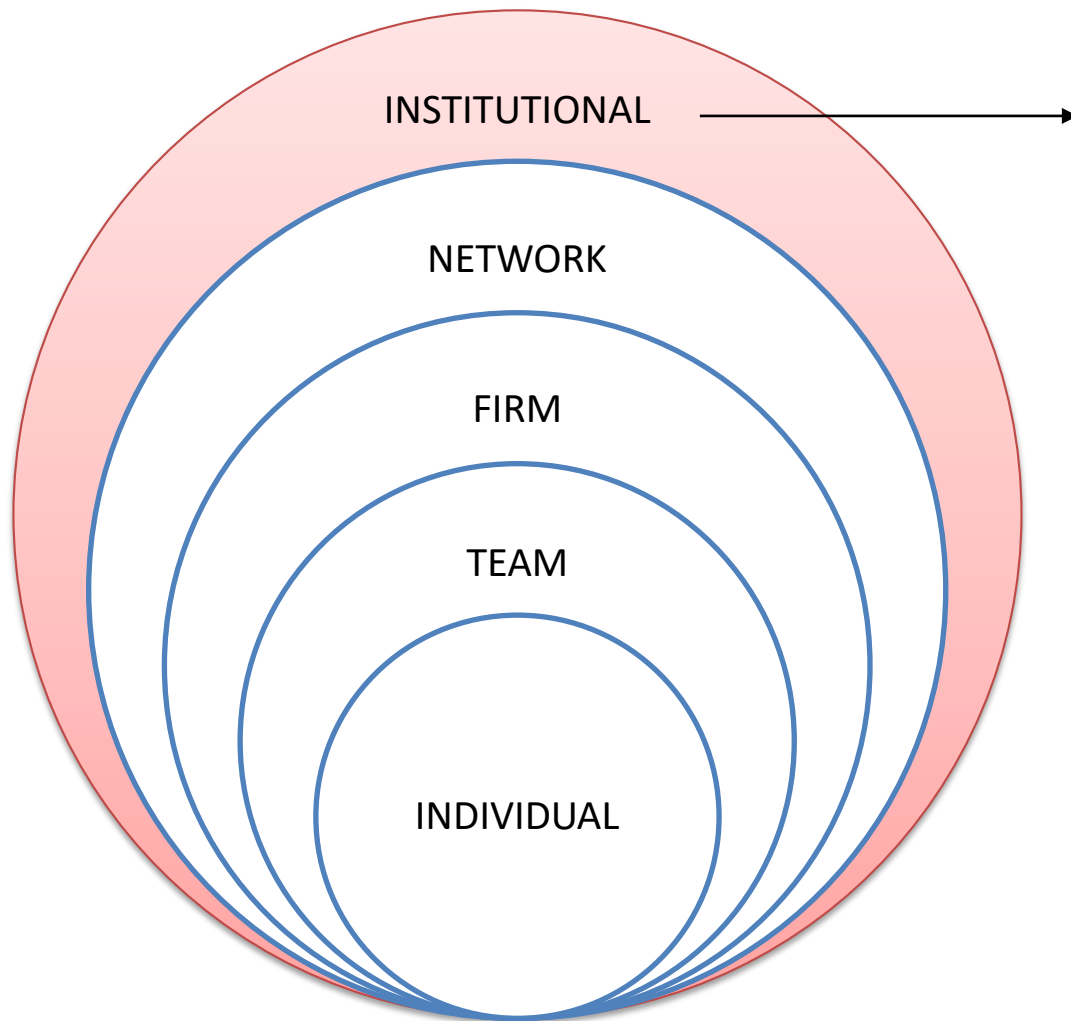
- Firm-level behaviors that occur in BMI (internationalization, expansion in other cultural context, demand for sustainability)
- Firm-level strategies and solutions for BMI (use of technologies, ways to face opportunities and challenges of BMI)
- Firm-level design activities (processes that led to the development of innovative forms of doing business)

Multilevel analysis of BMI



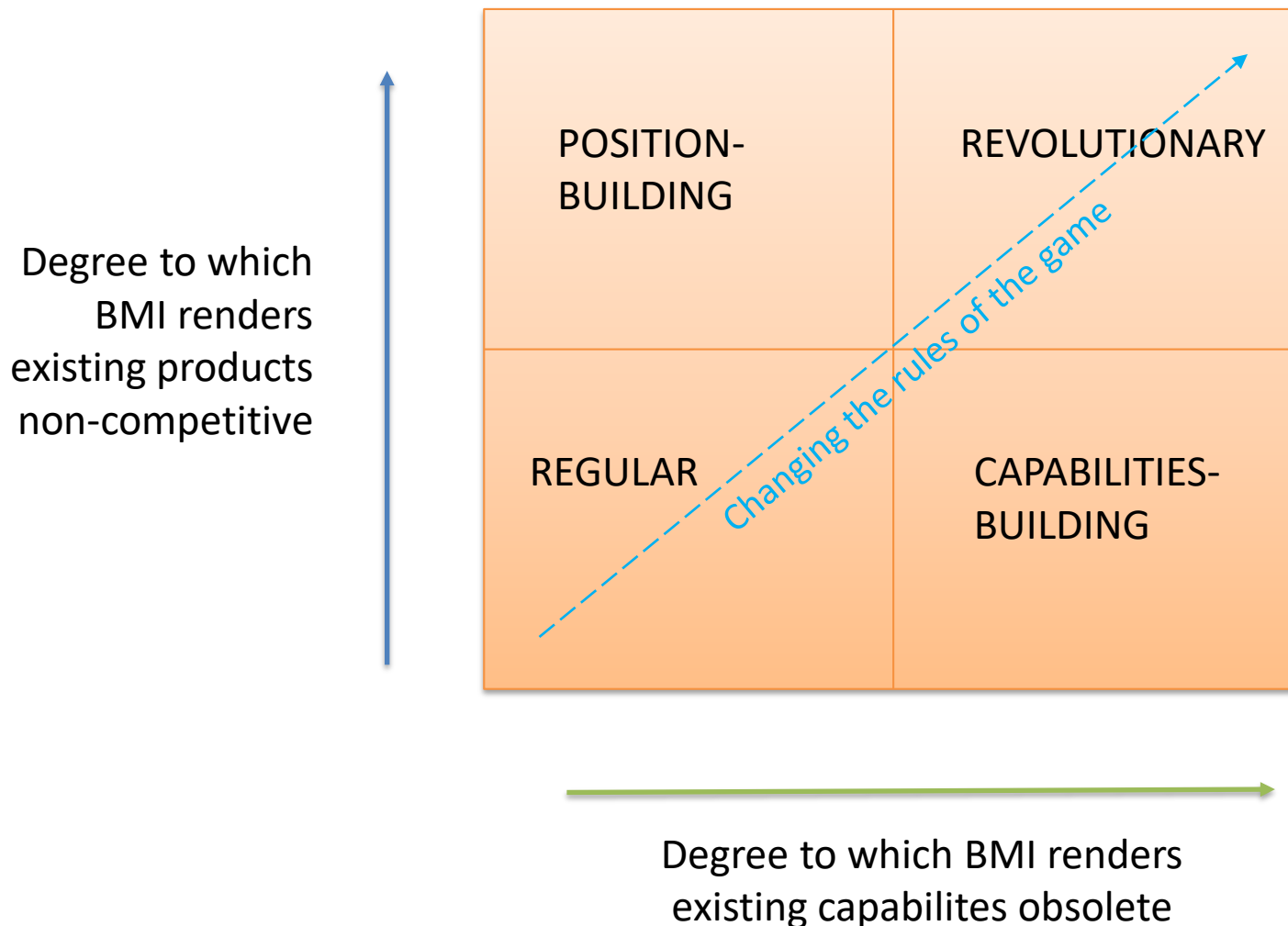
- Network as a driver, context, facilitator of BMI
- The process of cooperation within the network to innovate the BM
- Emerging issues and challenges of working in a network

Multilevel analysis of BMI



- The impact of the external forces/pressures on the development of BMI (emerging economies or new sectors)
- BMI in specific industries: digital music market, hospitality industry (focus on the regulatory environment, industry structure and consumer attitudes)
- External pressures towards sustainability

Types of Business Model Innovation



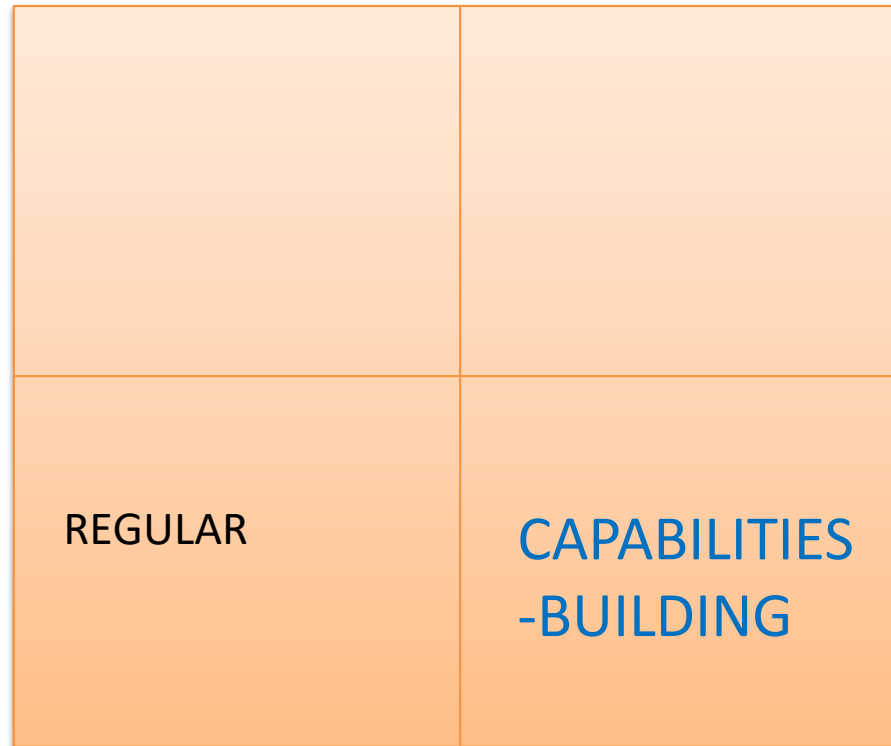
Types of Business Model Innovation



Existing capabilities are used and existing products remain competitive in the market.

Es. Dell (1990s)'s build-to-order direct model

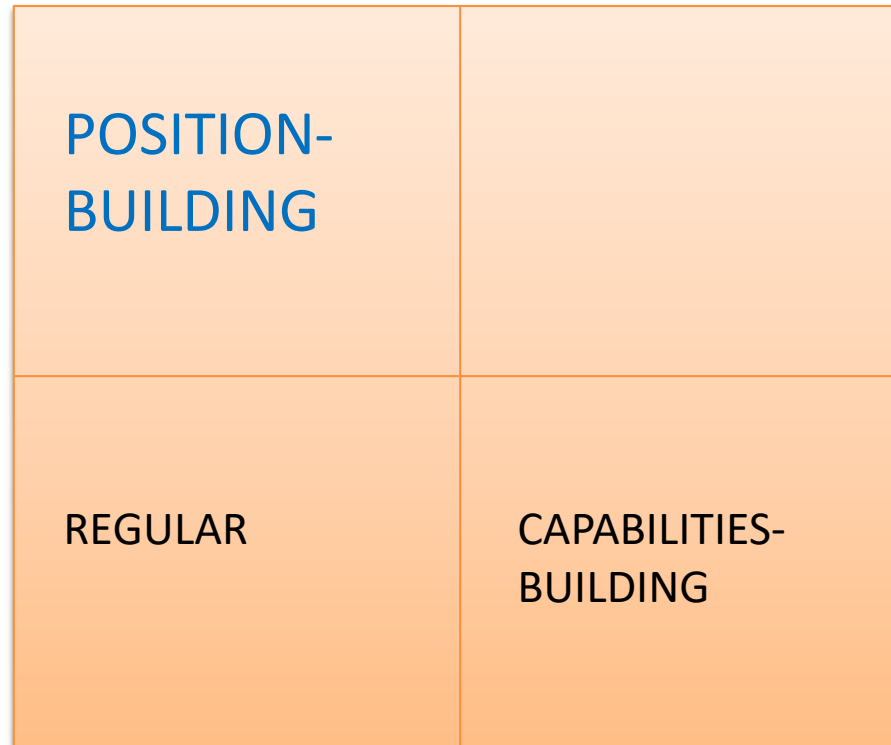
Types of Business Model Innovation



Capabilities needed are radically different while products rooted in the older BM remain competitive in the market.

Es. Brick-and-mortar retail versus online retail

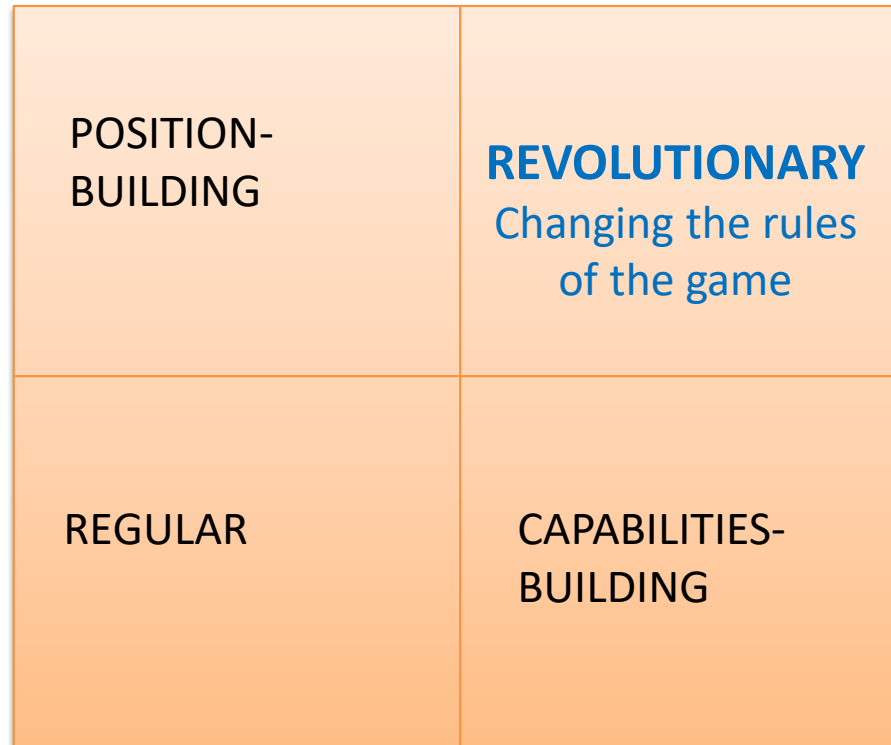
Types of Business Model Innovation



Capabilities needed remain the same, but products/services rooted in the new BM render those rooted in the older non competitive.

Es. Wal-Mart in US small towns

Types of Business Model Innovation



Core capabilities needed are radically different and products/services rooted in the new BM render those rooted in the older non competitive.

Es. Online auctions

BM discovery process

Business Model already exists

Detail what is going on within each component and appraise the model to determine what is good or bad

No Business Model exists

(Start-ups) Try to determine what should go into the model and what should not

Today's Case Study Objectives

- Case study session
 - Case analysis in groups
 - Discuss the Business Model of your Case Study
 - How have innovated their Business Model recently
 - How has this made them successful against their competitors
 - (if time) How should they move forward