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Business Model Innovation: How to revolutionize your Industry

Have you ever wondered why hyper successful companies like Nokia or Kodak suddenly lose their edge? Or how could firms like Commodore Computers, Grundig, Nakamichi, Newsweek or Polaroid possibly fail? Did they not have abundant R&D resources, top employees and profound knowledge of their markets?

Yes, but they had another thing in common: They all missed the moment when they should have left their successful path to rethink their business model. They missed out on radical innovation because they were too busy managing daily business and serving current clients – instead of envisioning future opportunities. In other words: Today's success is the enemy of tomorrow's success! The innovation cycle spins faster than ever in nearly all industries.

Innovation either increases the customer value of a product or service or it lowers their costs – and therefore creates a competitive advantage.

Apple, for instance, creates a high perceived customer value with its innovative new products. And Dell reduces its costs and working capital through build-to-order-processes. But even though its importance is undisputed, there are many misconceptions about innovation. Three myths are particularly pervasive:

First, innovation stems from ideas nobody has had before.

Second, big success requires big resources.

And third, innovation breakthroughs are always based on fascinating technologies.

Luckily, they are all wrong!

IBM did not invent the Personal Computer, Apple did not invent MP3 technology, and Amazon did not invent the online book store.

Successful innovators learn and recombine – whereas the pioneers get eaten by the wolves.

Cisco had virtually non-existent R&D resources, but out-innovated the largest research lab in the world, AT&T's Bell labs.

14 of today's 25 most innovative firms have innovated their business model – and not just their technology!

Take firms such as Google, Amazon, or Ebay. Great algorithms, yes, but it is the business model not just the technology that is responsible for their success.

So, what exactly is a business model innovation?

A business model provides answers to four questions:

Who is your target customer?

What do you offer to the customer?

How do you create the value proposition?

And how do you generate revenue?

And a business model innovation changes at least two of these four dimensions!

In our research, we have looked at all major business model innovations in the past 50 years.

They have all revolutionised one or several industries. For instance, Ikea has redefined the

way we buy furniture, TomTom has transformed the navigation business, or Ebay has changed the world of trade.

Yet only 10% of these business model innovations were novel and introduced new business model patterns. The other 90% merely adapted, refined or combined these patterns. For instance, innovative companies often apply creative imitation. They ask themselves: How could a business model innovation from another industry revolutionise our own industry? In total, we have identified 55 business model patterns that are responsible for all business model innovations.

For example Flatrate, Supermarket, Rent Instead of Buy, Experience Selling, E-Commerce or the Razor and Blade Pattern.

Let's have a look at this one:

Since 1904, Gillette has been giving away Razors for next to nothing, but selling its blades at obscenely high prices.

Nespresso creatively imitated this pattern, selling cheap coffee machines and expensive coffee – and revolutionised the coffee industry.

And many other companies applied the Razor and Blade Pattern, too.

Remember Apple's iTunes, Amazon's Kindle or Hewlett Packard's Inkjet-Printers?

Now, what do YOU have to do to innovate YOUR business model?

We advise you to follow four steps: Initiation, ideation, integration, and implementation.

During Initiation, you analyse your current business model. Again:

Who is your target customer?

What do you offer to the customer?

How do you create the value proposition?

And how do you generate revenue?

During Ideation you confront this business model with the 55 business model innovation patterns and develop new models.

How would Nespresso conduct your business?

Or is there a match between your product and the experience selling pattern? Challenge your basic assumptions and the dominant logic of your industry.

But don't try to reinvent the wheel.

Instead, use analogies and learn from other industries.

During Integration you need to check the consistency of the business model.

This is important detail work where you examine all four questions regarding organizational fit.

Finally, during Implementation, it is time to awaken the beast.

But be careful!

In iterative cycles, you design a business model, build a pilot, test the pilot and return to the design phase.

It is important to not only gain qualitative and quantitative data to verify or falsify your assumptions about your new business model but also not to forget about the soft factors of innovation!

Thanks to incorrect management behaviour and organisational resistance more than 70% of all change initiatives fail! Therefore, keep a few rules in mind:

First, only implement one business model at the time.

Second, clearly communicate the new business model and the need for change.

Third, don't overemphasise short term KPIs. Innovation needs time.

Fourth, get top management commitment. Without their sponsorship, a business model innovation is doomed to fail!

And finally, overcome the not-invented-here syndrome!

Got that? Let's wrap it up then.

Innovation is THE key factor to defeat path dependency and stay competitive in today's economy.

Yet, innovation is not necessarily about new technologies, excessive research and development, or about creating completely new ideas. Most of the time, innovation is about learning from others and reinventing your business model – not just your technology.

This can be done in a structured process of initiation, ideation, integration, and implementation: You analyse your business model, apply the 55 innovation patterns, check for inconsistencies and start implementing carefully – keeping in mind success factors and pitfalls.

Are you ready then to revolutionize your own industry?

Try to creatively learn from the giants whose shoulders you are standing on!

Think big and think different. Steve Jobs did it – so why can't you

Link:

<https://www.youtube.com/watch?v=B4ZSGQW0UMI&list=PLbuayHrXca4IswkVusLanUS1Hk-OQio37&index=9>