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Scottish Innovative Actions Programme



# INNOVATING NATION DELIVERING CHANGE

Tuesday 26 June 2007

# Business Model Innovation



PROJECT PART-FINANCED  
BY THE EUROPEAN UNION

Europe and Scotland  
Making it **work together**

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*" Somewhere out there is a bullet with your company's name on it. Somewhere out there is a competitor, unborn and unknown, that will render your business model obsolete. Bill Gates knows that. When he says that Microsoft is always two years away from failure, he's not just blowing smoke at Janet Reno. He knows that **competition today is not between products, it's between business models**. He knows that irrelevancy is a bigger risk than inefficiency. And what's true for Microsoft is true for just about every other company"*

– Gary Hamel and Jeff Sampler in **Fortune Magazine** December 7, 1998.

*'Developing a sound business model matters for making money. However, business models wear out, and firms must alter them in order to remain viable. The better managers know their business model, the better they can manage patterns of change'*

– Linder and Cantrell (2000) Accenture Report

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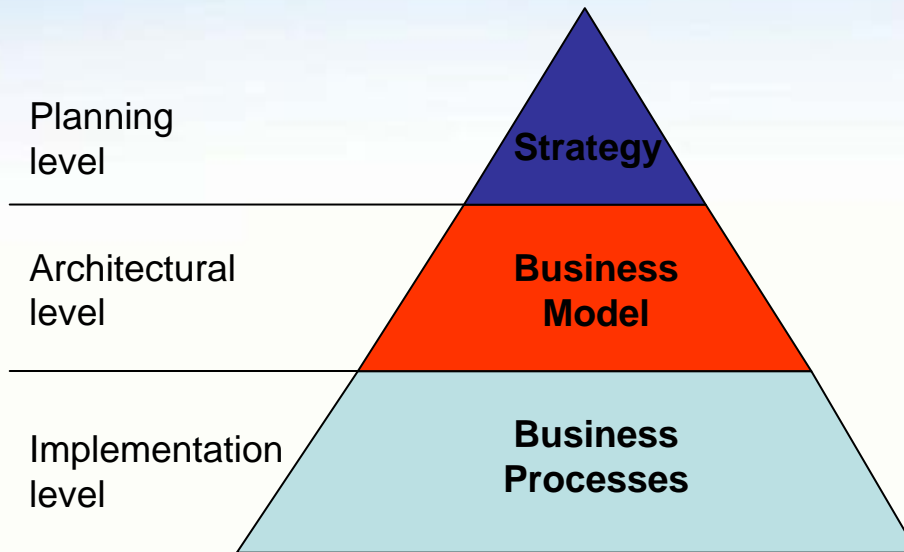
## Background

- Can a company innovate in terms of its Business Model?
  - A search of Google produced 100,000 hits against 'Business Model' – none of these related to how to define a business model.
  - Given this, how can you define a 'business model'?
  - Thereafter, how can you systematically innovate within that model?
- What techniques or innovative approaches would lead to a company asking the right questions and challenging assumptions to allow the creation of a new business model?
- SE, in conjunction with the European Innovative Actions Programme, initiated a piece of work to examine these questions.

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A Business Model is ...



- Not the processes a business operates by
  - Not strictly the organisation's Strategy
- ... it sits between the two ...*
- It is not the 'why' a business exists or the 'what' it does, but the 'how' it operates.

*'business models are a better predictor of financial performance than industry classifications and ... some business models do indeed perform better than others'*

*Peter Weill et al, MIT draft paper 2004*

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## Definition

- It is well understood that successful innovation creates competitive advantage but breaking this down:
  - Product innovation can either maintain your position in a market (iterative development) or can lead to a new interaction in the market (radical innovation)
  - Process innovation normally improves efficiency and cost points either opening or maintaining new markets
  - Business Model innovation changes the nature of the interaction with the market

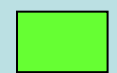
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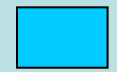
## Key



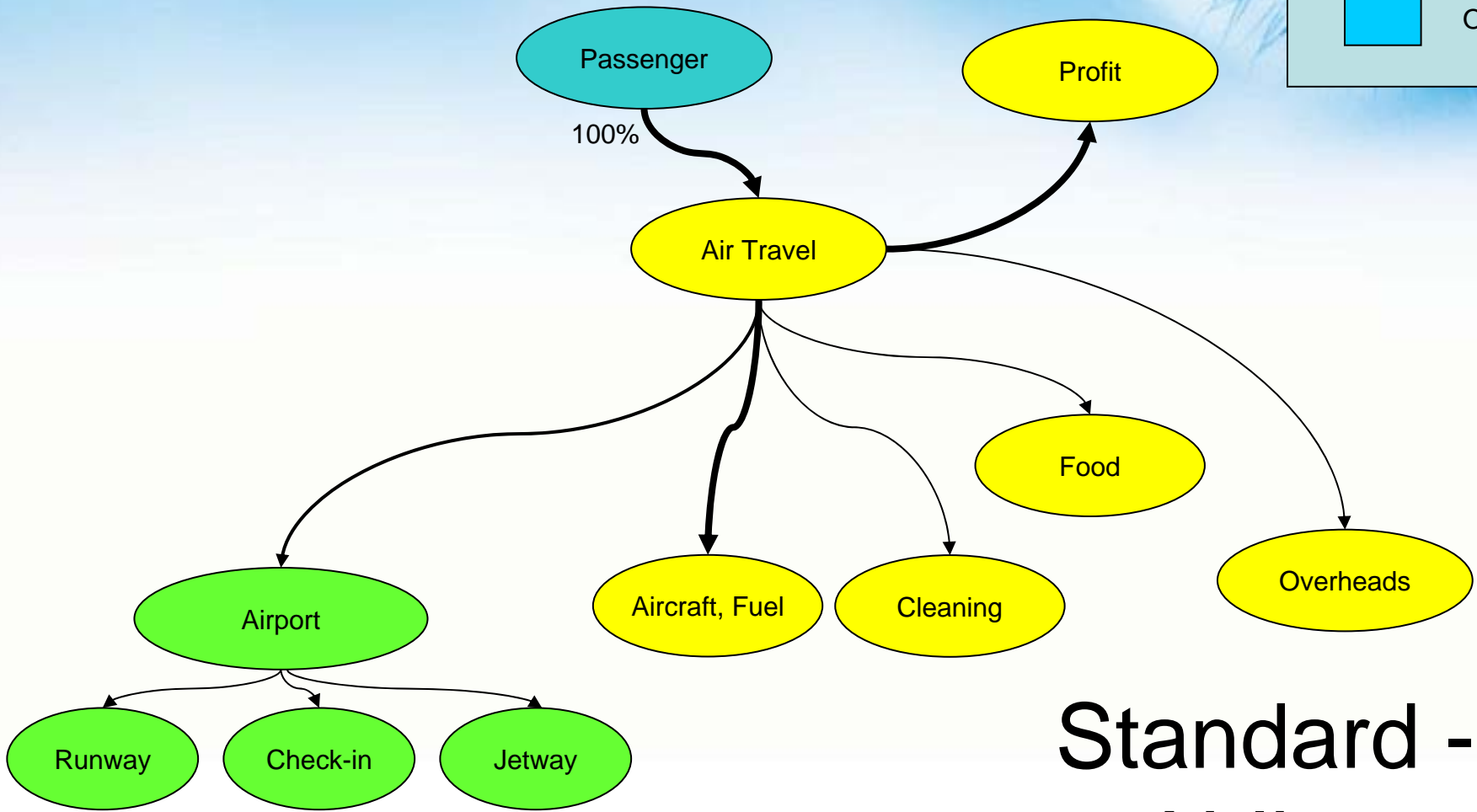
Airline



Airport



Others



# Standard - Airline

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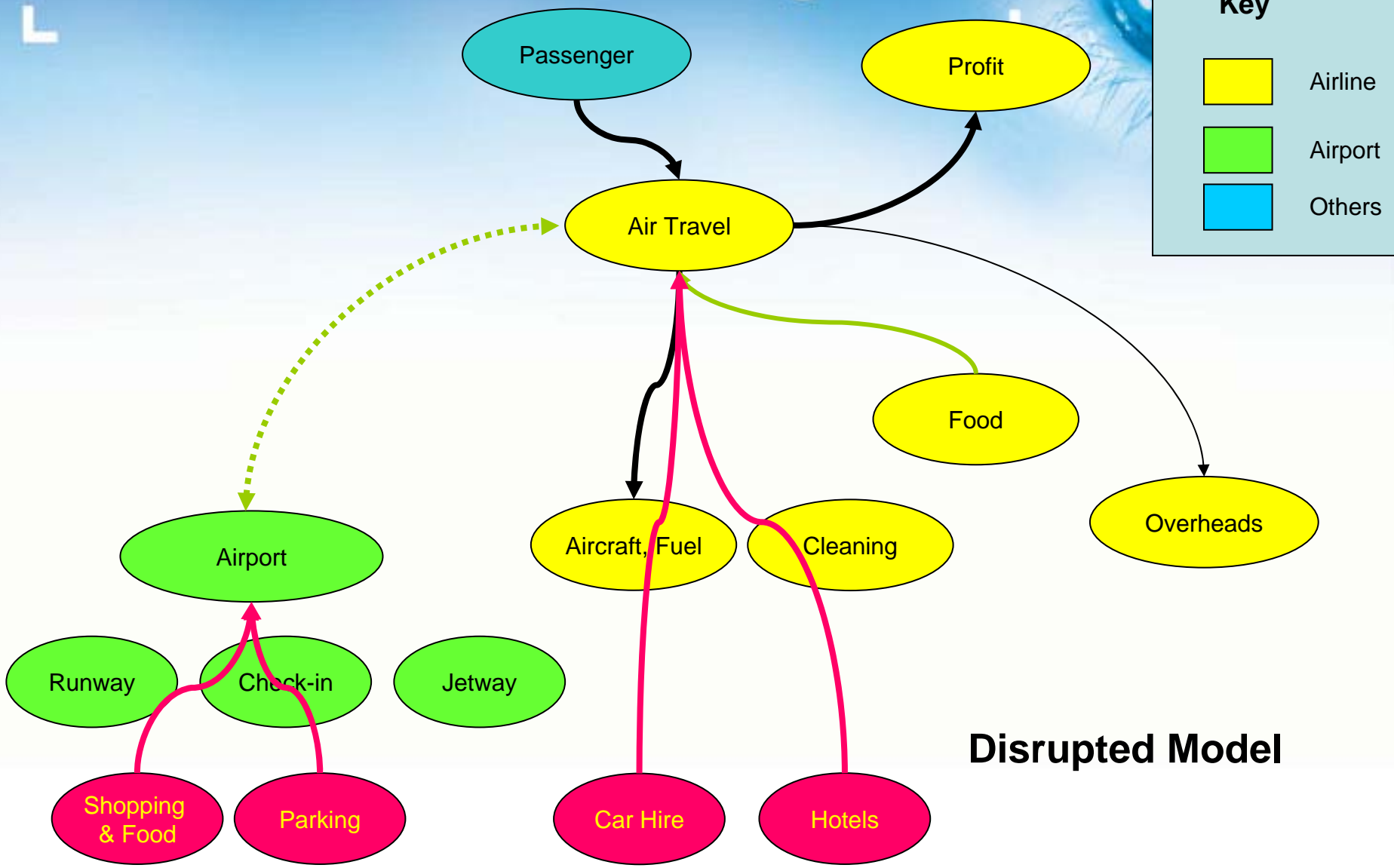


# Assumptions for a standard airline

- The passenger must meet the whole cost of the service
- Landing at an airport costs the airline money
- The landing site must be as close as possible to the final destination
- Food, seating allocation, tickets, jet ways etc must all be provided within the service and paid for
- **IS THIS TRUE?**

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**Key**

- Airline
- Airport
- Others

**Disrupted Model**

%s reflect representative percentage of total revenue

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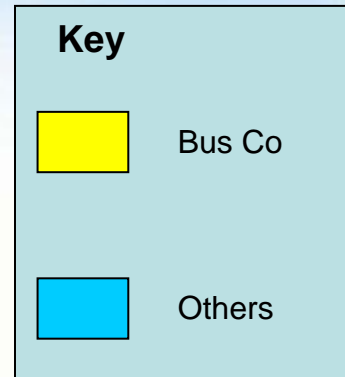
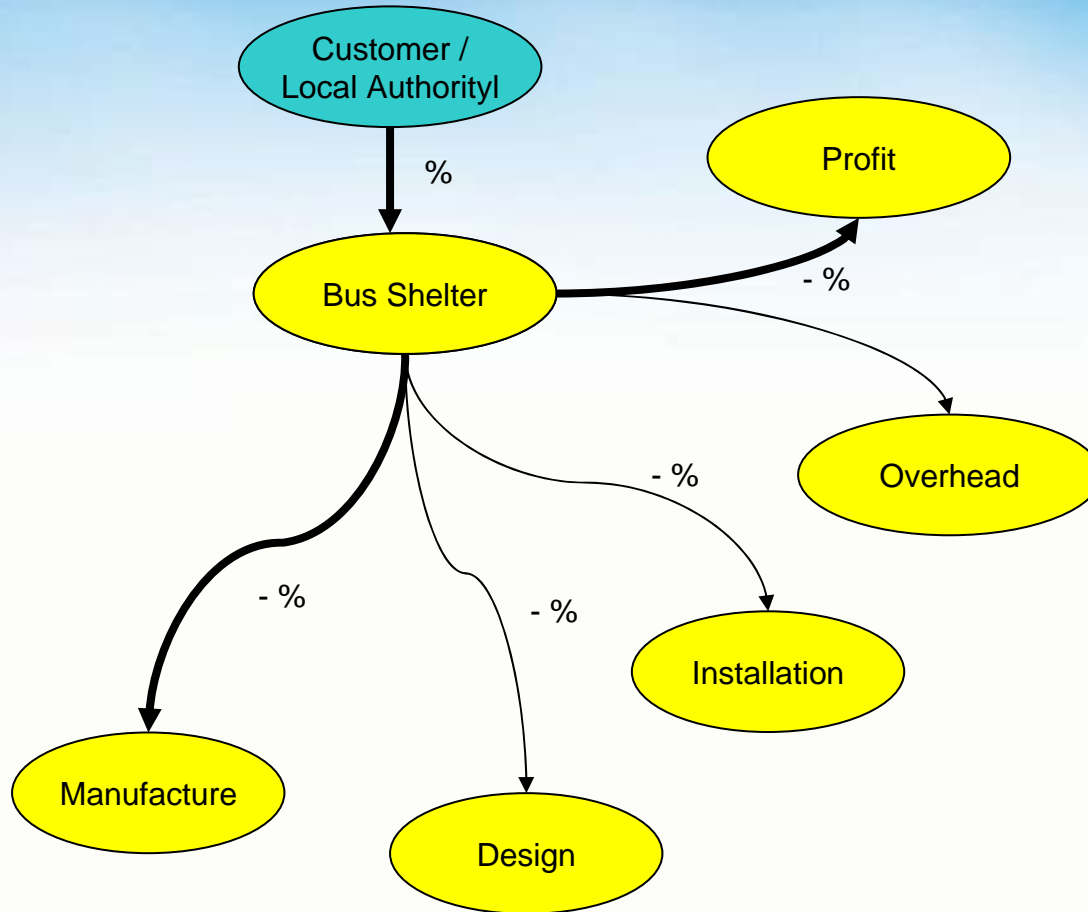
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# Assumptions for standard bus shelter

- A bus shelter is a service provided for the good of the community

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## Standard – Bus Shelter

- Major Business Activities
- Significant Capabilities and Resources
- Major Customers, Payers, Suppliers
- Significant Relationships

%s reflects a representative percentage of the business flow

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# Assumptions for standard bus shelter

- A bus shelter is a service provided for the good of the community

## Discussion topic

- Challenge the assumption?
- How else could this service provision be met?

# Innovating the business Model – Strategic Conversations

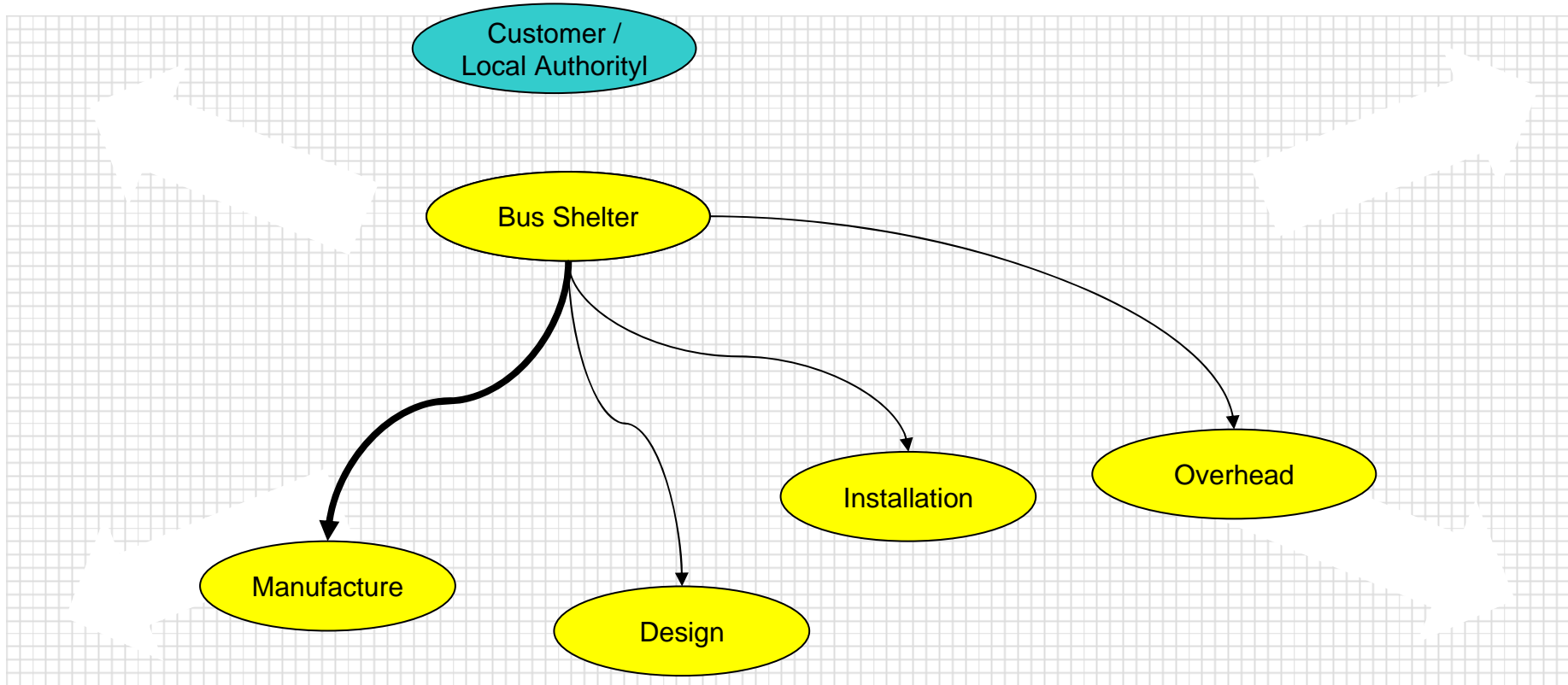
## 1. Benefits . . . and beneficiaries

- What other **benefits** or **assets** are produced or consumed?
- Who else are **'silent beneficiaries'**?
- Identify:
  - Delighters** – potential to expand this to become new core revenue generators?
  - Satisfiers** – potential to optimise this element?
  - Dissatisfiers** – potential to disrupt aspects based on servicing sources of dissatisfaction?



## 2. Invert / disrupt - what if you . . .

- Reduce the main source of revenue to 'ZERO'
- Reverse direction of revenue flows
- Re-define main supplier as a key customer.
- Raise the performance 'bar' by several orders of magnitude



## 3. Change Perspective - viewed from . . .

- A new-start entering the market
- Your 'smartest user' . . . and 'non-user'
- Achieve the same benefit – without the current means.



## 4. Evaluate . . .

- How does it scale - exponential or linear ?
- What is the mechanism that drives increasing returns?
- Does it exploit new behaviours ? - is there a tipping point?
- Does it incorporate barriers to competition?



## 5. Assess the implications . . .

- What rules, beliefs or assumptions are ignored or challenged – who owns them?
- Does it 'fit' existing structures? or cut across / in-between / re-draw them?
- Does it 'fit' the cost structure and 'market share' of a different kind of organisation ? . . . - if so what does it look like?



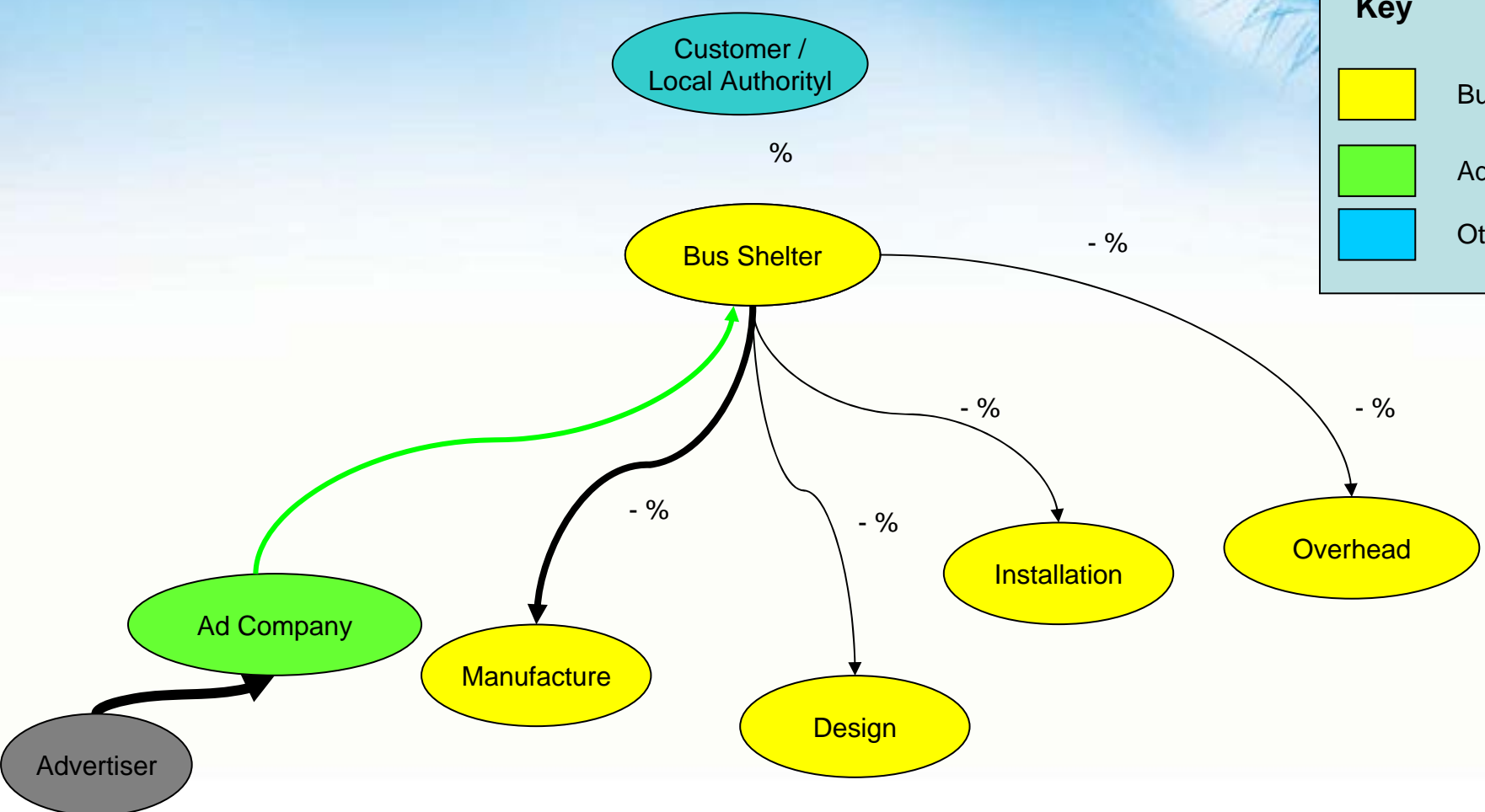
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**Key**

- Bus Co
- Advertise
- Others



## Disruptive – Bus Shelter

%s reflects a representative percentage of the business flow