

Navigating Business Model Innovation: A Four-Step Guide

Writer: Damianos Michailidis

Organisation: RAINNO

Keywords: business models, business model innovation, business strategy

Business model (BM) development is a very important aspect of any business or organisation. It is an almost necessary prerequisite for success, since it can help to identify its key competencies and shortcomings, and how to properly capitalise or address them. By developing a comprehensive and innovative business model, corporations and institutions can ensure that they are well-positioned to bring their plans into fruition, effectively communicate their value proposition and create a competitive advantage. There are numerous BM frameworks that can be applied to help organisations develop an action plan to achieve their goals, like the business model generation framework (from where business model canvas is derived) [1] or the Lean Startup Canvas [2], as analysed in a previous article.

Business model development is a crucial step at the initial stage of the entrepreneurship process and must work closely with the strategy formulation [3]. By using BM models and frameworks, companies can create a strategic plan that fits their business and helps them achieve their goals. BMs can also play an important role as links, connecting business strategy, processes, and Information Technology (IT). Literature suggests that translating business strategies into IT systems and efficiently managing business and IT processes together can be vital for business success [4]. This is especially important for effective execution of digitisation strategies and tapping into the advantages of Internet of Things (IoT).

The purpose of this technical article is to help in bridging the gap between the theory and practice by providing a clear and simple guide for innovative business model development.

Business Model Innovation mechanism

By looking at a pre-existing literature review of 114 papers regarding Business Model Innovation (BMI) processes from 2001 to 2020 [5], four key distinct processes can be identified during BM development. It is evident that multiple approaches exist for generating BMI. Research on these processes has expanded in various directions, resulting in diverse conceptualizations of BMI processes and sub-processes. However, throughout the literature some key steps can be identified and be presented as a mechanism for creating innovative business models. This mechanism has four distinct components: (i) Strategic Analysis; (ii) Ideas Generation; (iii) Hypotheses Validation & Pilot Testing; and (iv) Implementation & Adaptation.

Strategic Analysis

Strategic analysis can be defined as an investigation into the external and internal environment of an organisation. The management needs to consider industry and competitive conditions, and determine its own competitive capabilities, resources, internal strengths, weaknesses, and market position when formulating strategy [6]. Before conducting the strategic analysis, organisations need to decide the level that they want to conduct the analysis. This can either be done on the corporate level, business level, industry level or even for specific functional areas (i.e. sales or marketing). A strategic analysis must be tailored to meet each organisation's unique requirements. Analysing corporations with

several business units at the corporate level is more intricate than examining firms that operate in a single business sector. Certain analysis can lean more towards an industry analysis, which could be beneficial for a company contemplating industry entry. Conversely, some projects primarily focus on the analysis of penetrating a new market or formulating new business strategies [7].

The next step would be to employ one or more specific analysis methods to assess the external and internal environment. Examples of popular and effective tools would be a PEST (Political, Economic, Social, Technological) or PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis for assessing the external environment [8] and a SWOT (Strengths, Weakness, Opportunities, Threats) analysis for internal assessment [9]. It is generally advised to conduct the PESTLE analysis before the SWOT analysis, because this will help in identifying where an organisation stands in the context of its environment. A PESTLE analysis will also directly “feed” the opportunities and threats of the SWOT and can make people consider a broader range of internal strengths and weaknesses. After that, the output of the chosen methods can be summarised in a report disseminated inside the organisation to generate ideas and input (see Ideas generation below) and used to draft an initial strategy plan or an initial business model.

Ideas Generation

By only using strategic cognitive tools it's very hard to achieve real innovation. An important part that literature highlights is the dissemination of knowledge in the entire organisation [5]. This leads to the definition of knowledge processes; processes that an entity can use to generate innovations [10]. Overall, knowledge processes are social processes that primarily occur on the team level and are the main source of a firm's competitive advantage [11]. Thus, the facilitation of brainstorming novel business model elements and ideas is vital for exploring new options that can lead to business innovation.

Hypotheses Validation & Pilot Testing

The discourse on Business Model Innovation (BMI) began with the emergence of BMI literature and remains a topic of intense discussion. BMI is a resource-intensive and costly endeavor, making the quest for profitability, opportunity exploitation, and cost reduction critical for both managers and researchers. So, after having an initial draft of the BM, the need for validation arises. One of the most frequently mentioned processes to facilitate BMI is the commercialization of innovative products and services. This is echoed by a focus on marketing processes, such as commercial licensing, which enable companies to realize value by commercializing technologies, thereby fostering ongoing business model innovation. In service industries, the pay-per-use business model is gaining popularity as a means to capture market value [5].

Additionally, since delivering value to stakeholders is one of BMI's primary objectives, another approach to value creation in BMI is to co-create it with and for multiple stakeholders. Many studies [12, 13] propose business models, where value is co-created by suppliers, buyers/users, and companies. For these business models, value co-creation processes should be backed by knowledge, skills, and collaboration. It is also crucial to understand how to distribute resources among the involved parties.

Implementation and Adaptation

Implementation and Adaptation is the last but crucial phase in the process of developing innovative business models. It involves the practical application of the newly developed BM within the

organisation's operations [14]. This stage is not a one-time event but a continuous process that requires the model to be rolled out in a controlled and measured manner. As the new model is implemented, it's essential to gather feedback from various stakeholders, including employees, customers, and partners. This feedback serves as a valuable resource for refining and optimizing the model. It allows for adjustments to be made in response to real-world challenges and opportunities, ensuring that the model remains relevant and effective in achieving its intended objectives [15].

Conclusion

In light of the insights gathered, it's clear that creating an innovative BM is not a linear, one-size-fits-all process. Instead, it's a dynamic, iterative process that requires a deep understanding of both the internal and external environments of an organisation. The four key processes identified - (i) Strategic Analysis, (ii) Ideas Generation, (iii) Hypotheses Validation & Pilot Testing and (iv) Implementation & Adaptation - serve as a roadmap for organisations embarking on an innovative journey. However, the successful execution of these processes hinges on the organisation's ability to foster a culture of innovation, encourage knowledge sharing, and adapt to feedback and changing market conditions. Therefore, while the framework provides a starting point, the real challenge lies in its application, which requires strategic thinking, creativity, and resilience. Ultimately, the goal of a BM is not just to innovate for the sake of innovation, but to create value for all stakeholders and ensure the organisation's long-term sustainability and competitiveness. This underscores the importance of BMI as a strategic tool in today's rapidly evolving business landscape.

The XGain project

BMI is imperative for creating products and services that not only stand the test of time but also excel in finding ways to create a positive impact on society. As mentioned in the intro, business model development is a key component for effectively harnessing new technologies and driving innovation. This need of technology integration is especially important in rural areas, where it can help in enhancing the competitiveness and resilience of many key sectors like agriculture, aquaculture, forestry and tourism. Towards this end, RAINNO is participating in the XGain project, striving to provide innovative business models regarding connectivity solutions to the aforementioned sectors. XGain aims to develop a knowledge facilitation tool (KFT) that will recommend a suited mixture of technologies for a broad range of applications to accelerate rural development. The project is funded by the European Commission to narrow the digital urban-rural digital divide. The consortium consists of 17 partners from 12 countries who foster high-tech innovations and dissemination of the acquired knowledge during this three-year-lasting project.

References

1. Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: a handbook for visionaries, game changers, and challengers* (Vol. 1). John Wiley & Sons.
2. Simanjuntak, M., Banjarnahor, A. R., Handiman, U. T., Permadi, L. A., Murdana, I. M., Nasrullah, N., ... & Patiung, M. (2022). *Perancangan Model Bisnis Pariwisata*. Yayasan Kita Menulis.
3. Bouwman, H., De Reuver, M., Heikkilä, M., & Fiel, E. (2020). Business model tooling: where research and practice meet. *Electronic Markets*, 30(3), 413-419.

4. Veit, D., Clemons, E., Benlian, A., Buxmann, P., Hess, T., Kundisch, D., ... & Spann, M. (2014). Business models. *Business & Information Systems Engineering*, 6(1), 45-53.
5. Andreini, D., Bettinelli, C., Foss, N. J., & Mismetti, M. (2022). Business model innovation: a review of the process-based literature. *Journal of Management and Governance*, 26(4), 1089-1121.
6. Adom, A. Y., Nyarko, I. K., & Som, G. N. K. (2016). Competitor analysis in strategic management: Is it a worthwhile managerial practice in contemporary times. *Journal of Resources Development and Management*, 24(1), 116-127.
7. Boardman, A. E., Shapiro, D. M., & Vining, A. R. (2004). A framework for comprehensive strategic analysis. *Journal of Strategic Management Education*, 1(2), 1-36.
8. Carruthers, H. (2009). Using PEST analysis to improve business performance. In practice, 31(1), 37-39.
9. Humphrey, A. S. (2005). SWOT analysis. *Long Range Planning*, 30(1), 46-52.
10. Nonaka, I. (1994). A dynamic theory of organizational knowledge creation. *Organization science*, 5(1), 14-37.
11. March, J. G. (1991). Exploration and exploitation in organizational learning. *Organization science*, 2(1), 71-87.
12. Andreassen, T. W., Lervik-Olsen, L., Snyder, H., Van Riel, A. C., Sweeney, J. C., & Van Vaerenbergh, Y. (2018). Business model innovation and value-creation: the triadic way. *Journal of service management*, 29(5), 883-906.
13. Maglio, P. P., & Spohrer, J. (2013). A service science perspective on business model innovation. *Industrial Marketing Management*, 42(5), 665-670.
14. Chesbrough, H. (2010). Business model innovation: opportunities and barriers. *Long range planning*, 43(2-3), 354-363.
15. Casadesus-Masanell, R., & Ricart, J. E. (2010). From strategy to business models and onto tactics. *Long range planning*, 43(2-3), 195-215.

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Research Executive Agency (REA) (granting authority). Neither the European Union nor the granting authority can be held responsible for them.