

# Business Model Innovation: Opportunities and Barriers

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Companies commercialize new ideas and technologies through their business models. While companies may have extensive investments and processes for exploring new ideas and technologies, they often have little if any ability to innovate the business models through which these inputs will pass. This matters - the same idea or technology taken to market through two different business models will yield two different economic outcomes. So it makes good business sense for companies to develop the capability to innovate their business models.

This paper explores the barriers to business model innovation, which previous academic research has identified as including conflicts with existing assets and business models, as well as cognition in understanding these barriers. Processes of experimentation and effectuation, and the successful leadership of organizational change must be brought to bear in order to overcome these barriers. Some examples of business model innovation are provided to underline its importance, in hopes of inspiring managers and academics to take these challenges on.

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## Introduction

Technology by itself has no single objective value. The economic value of a technology remains latent until it is commercialized in some way via a business model. The same technology commercialized in two different ways will yield two different returns. In some instances, an innovation can successfully employ a business model already familiar to the firm, while, other times, a company will have a business model that can make use of the technology via licensing. In still other cases,

though, a potential new technology may have no obvious business model, and in such cases technology managers must expand their perspectives to find an appropriate business model in order to be able to capture value from that technology. [In fact, it is probably true that a mediocre technology pursued within a great business model may be more valuable than a great technology exploited via a mediocre business model.] Unless a suitable model can be found, these technologies will yield less value to the firm than they otherwise might — and if others, outside the firm, uncover a business model more suited for a given technology, they may realize far more value from it than the firm that originally discovered the technology.

To begin at the beginning — what is a business model? In previous work with my colleague Richard Rosenbloom we have suggested that a business model fulfils the following functions:<sup>1</sup>

- Articulates the value proposition (i.e., the value created for users by an offering based on technology);
- Identifies a market segment and specify the revenue generation mechanism (i.e., users to whom technology is useful and for what purpose);
- Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain;
- Details the revenue mechanism(s) by which the firm will be paid for the offering;
- Estimates the cost structure and profit potential (given value proposition and value chain structure);
- Describes the position of the firm within the value network linking suppliers and customers (incl. identifying potential complementors and competitors); and
- Formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals.

I came to understand the importance of business models through a research program conducted with the cooperation of the Xerox Corporation, particularly their (now retired) CTO, Mark Myers. This research examined in detail the activity history surrounding more than 35 technology projects throughout Xerox's five research laboratories around the world. By design, I selected projects that were judged not worth pursuing internally within Xerox, and were either pushed outside the company, or allowed to leave if a researcher wanted to continue the project after Xerox terminated its support internally. I then followed the subsequent experience of each of these projects after their departure from Xerox. It eventually became clear that the many research projects that remained within Xerox's R&D system (and proved to be quite valuable economically) differed from those that left Xerox in one important respect: the former fitted well with Xerox's business model, while those that 'went outside' did not. Thus, to understand Xerox's technology innovation successes and failures, one has to grapple with Xerox's business model.

In the 1980s, Xerox was known as 'the copier company' — it made industry leading copiers and also printers. While these products were profitable in their own right, the really big money was in the consumables (especially toner and paper) they required: and, therefore, the higher the copy or print volumes of each machine sold, the greater the returns for Xerox. So Xerox's business model searched widely (and effectively) for technologies that would enable more copies, faster. Xerox's business model motivated them to develop ever-faster machines that could handle very high copy volumes, and had maximum machine uptime and availability. This resulted in a strong cognitive bias within Xerox whose business model discouraged the development of low-speed personal copiers. As Xerox's CEO at the time observed later: '*...our profits came from how many copies were made on those machines. If a copier was slow in generating copies, that was money plucked out of our pocket*'.<sup>2</sup>

At that same time, however, Xerox was funding significant industrial research activity - most prominently developed at its Palo Alto Research Center (PARC) - in the domains of man-machine interfaces and other key building blocks of what would go on to become the personal computer industry. Some of this work, such as semiconductor diode lasers, and the technologies that assisted

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