

Business Model Innovation

Business Model Innovation is coming up with new ways to conduct a business or changing, modifying or upgrading an existing business model in order to meet the demands of its customers and gain profit. Business Model Innovation aims to increase the business' performance by widening its reach, establishing new relationships with potential business partners, introducing a new service, product or technology or opening up a totally new market with their value proposition.

Although many people refer to business model innovation as new ways for a business to generate money, it actually involves the interrelationship of a lot of factors within a business. For existing businesses, business model innovation strategizes how they can advance from competitors and ward off start-up businesses. For new businesses, business model innovation is the strategy used to capture their markets and mark their position in the business landscape.

One of the important factors that gave rise to business model innovation is technology. Before the internet, businesses have already established advantages to their customers. However, when business owners began to realize that technology can have a profound impact in their businesses, the need to innovate their business models became more pronounced. Today, most business models integrate technological innovations in their strategies.

While technology has definitely accelerated business model innovation, it does not comprise the entirety of the innovation. Business owner who wish to change, modify or upgrade their existing business models also need to consider several factors, and these factors make up the core of the way a business should be handled.

Below are some examples of business model innovation:

Razor and Blades Business Model

Also called the “freebie marketing” and “tied products” business model, this model is made famous by Gillette which was then followed and adapted by several

companies. The razor and blades business model works by offering a product at a low cost (or for free), however, tying another product with a higher value. Gillette is known for offering the razor for free, but selling the replacement blade for a much higher value. Since the razor was offered for free, a market for the replacement blades was opened, and it was through these blades that Gillette was able to acquire and grow their revenue.

Following this example, several companies have followed this model and have succeeded in doing so. HP offers printers and ink cartridges; Apple offer the iPod and iTunes while numerous mobile networks offer mobile phones and air time.

Bricks and Clicks Business Model

Combining both online and offline business aspects, this business model allows customers to order online then personally go to the store to pick up the product or have the product delivered at his home.

Businesses can begin with a physical store then establish its online counterpart, or begin with an online store and later on establish a brick and mortar store. Since the bricks and clicks business model allow the integration of the store's offline and online presence, business owners are able to reach out to a wider audience and increase their existing customer base. Furthermore, in contrast with pure online businesses, bricks and clicks appear more stable before the public especially because people are able to go to a physical location for orders, inquiries and other similar concerns.

On the other hand, some businesses have ventured into a reverse of this business model. For instance, Proper Cloth began just as an online store. But as the demand for their products increases, customers began seeking a physical store where they could actually hold, touch and feel the items.

Deal of the Day Business Model

Also called One Day One Deal, this business model operates by providing customers deals that they can only book or avail for that given day. Retailers

typically join a deal website, such as www.woot.com and www.groupon.com and list their products and services that will become available at a discounted price for 24 hours. When these deals are available, the website gets a cut from the retailers' sales.

Social media and email marketing helped hype up this business models. When users register to the deal website, they will receive emails containing descriptions of the deals of the day. An indicated minimum number of orders must be reached, then the customer's credit card will be charged for the deal. The website then emails a redeemable voucher which the customer must use within an indicated period of time, or else the product goes back to its original value.

Growth First Revenue Later Business Model

Capitalizing on building the desired inventory first, the growth first revenue later business model is typified by the largest online retailer today, www.amazon.com.

The secret to Amazon's success is believed to lie on its focus for growth first, that is, the company worked on its core competencies first rather than the revenue. Amazon focused in generating its inventory and space where products will be stored. Amazon was conscious about the changing customer behavior, especially at the dot.com age. Its value proposition shifted from books to include more items that can easily be shipped. Then it opened its doors to a brokerage service for selling used books and third party sellers.

Amazon's focus on growth was almost unstoppable, often at the expense of profit. But time was Amazon's best investment, because it was able to grow to an amazing scale, thus making it today's largest online retailer. After which, more investors got interested and more business opportunities came pouring in for Amazon and its profit rose year after year.

All in all, business models evolve to cater to the changing business landscape. There's no one-size-fits-all business model, but most models do work because companies are not threatened to accept change and apply modifications to segments of their business models when needed.

Article contributed by Dr Michael Teng, Assistant Secretary-General, Singapore Manufacturing Federation

Look out for more insights from Dr Teng in our next issue of connect!