

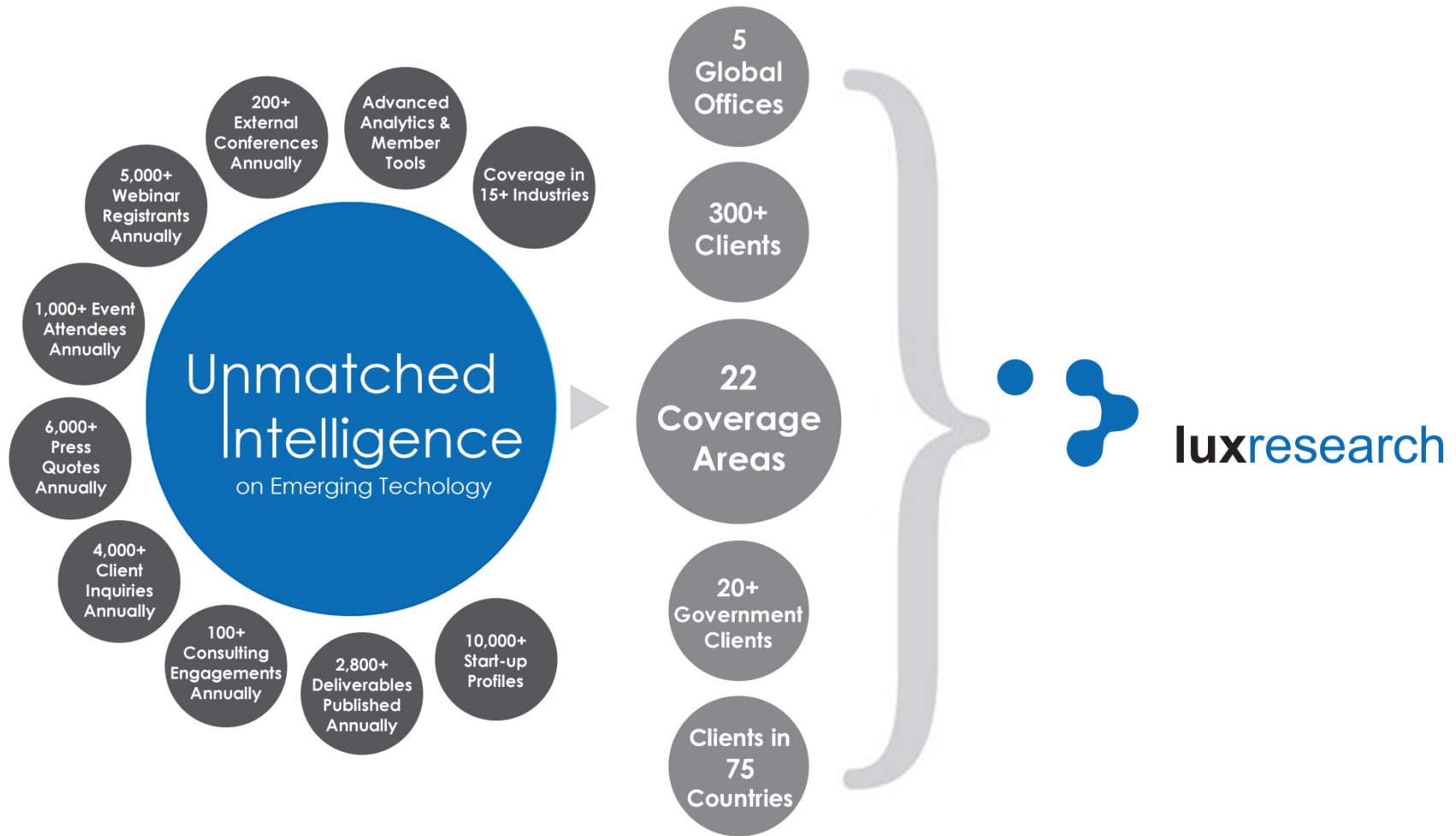
Business model innovation: industry's latest fad diet or a useful approach to strategy?

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About Lux Research



TECHNICAL EXPERTISE • BUSINESS ANALYSIS • PRIMARY DATA

INDEPENDENT • BOLD • OPINIONATED

Agenda

- What is business model innovation (BMI)?
 - Definition
 - Basic checklist and recommendations
- What can we learn from BMI examples?
 - Six examples
 - Workshop to capture group's discussion of important BMI elements



How business model innovation is being described in the literature (lightly edited for clarity)

➤ Why is it?

- Innovation goes beyond features and functions — it can involve new ways to promote, package, produce, distribute, finance, or provide support. (Forbes)
- Business model innovation demands neither new technologies nor the creation of brand-new markets: It can be about delivering *existing* products that are produced by *existing* technologies to *existing* markets. (Harvard Business Review)

➤ Why should a firm care about it?

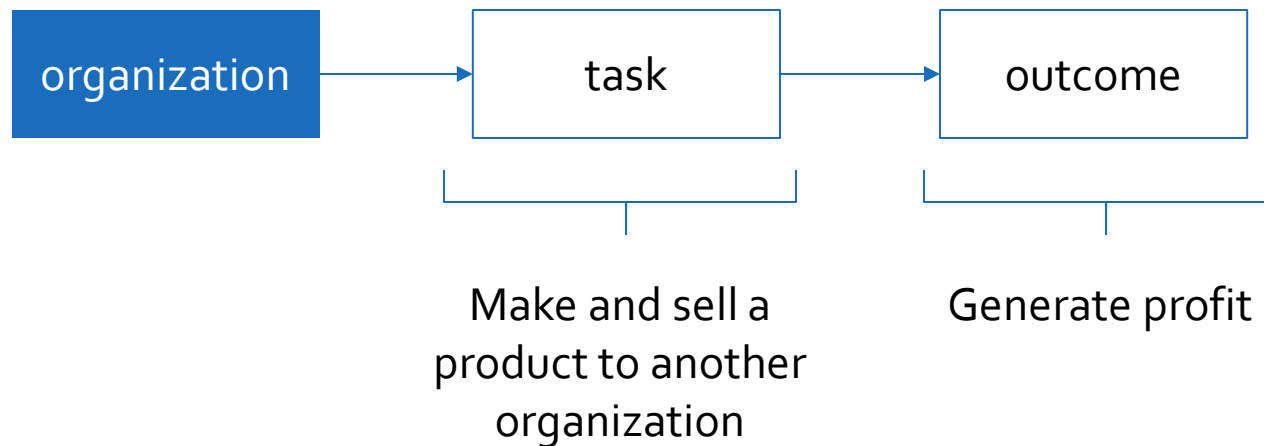
- Business model innovation is essential to capture value and drive competitive advantage. (UC Berkeley Exec Ed/Henry Chesbrough)
- It often involves changes invisible to the outside world. It can bring advantages that are hard to copy. (Harvard Business Review)

Our view

- Fundamental for long term survival
 - Corbion (1919 beat sugar → biochemicals / biopolymers)
 - Koppers (1912 coke chemicals → wood preservatives / rail ties)
 - Morgan (1856 graphite crucibles → ceramic and carbon materials)
- Major driver of growth and profitability
- In the broadest definition, BMI is almost anything that makes the business successful
 - Somewhat nebulous and ill-defined
 - Key is defining BMI specifically enough to lead to an action plan

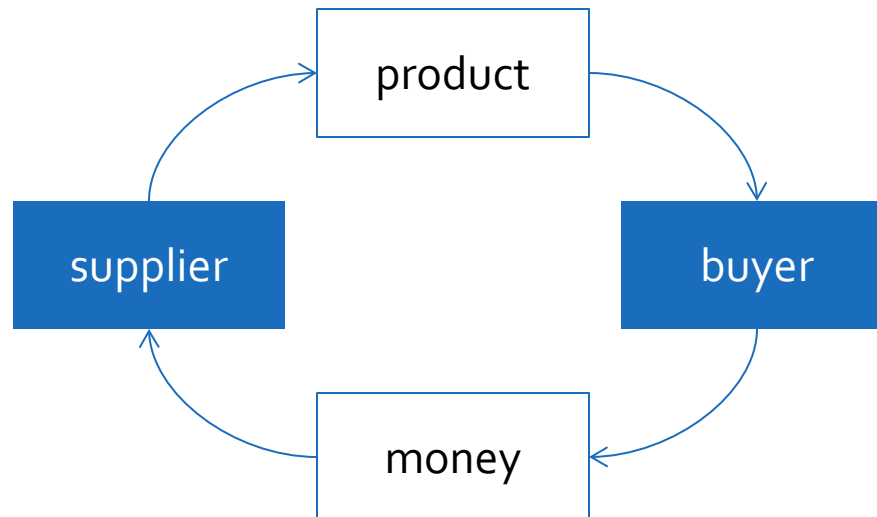
Model of a “business”

- A company is a group of people organized to do a task to achieve a goal (Activity Theory)
- In a business, the task is some sort of commercial exchange with another organization and the desired outcome is profit



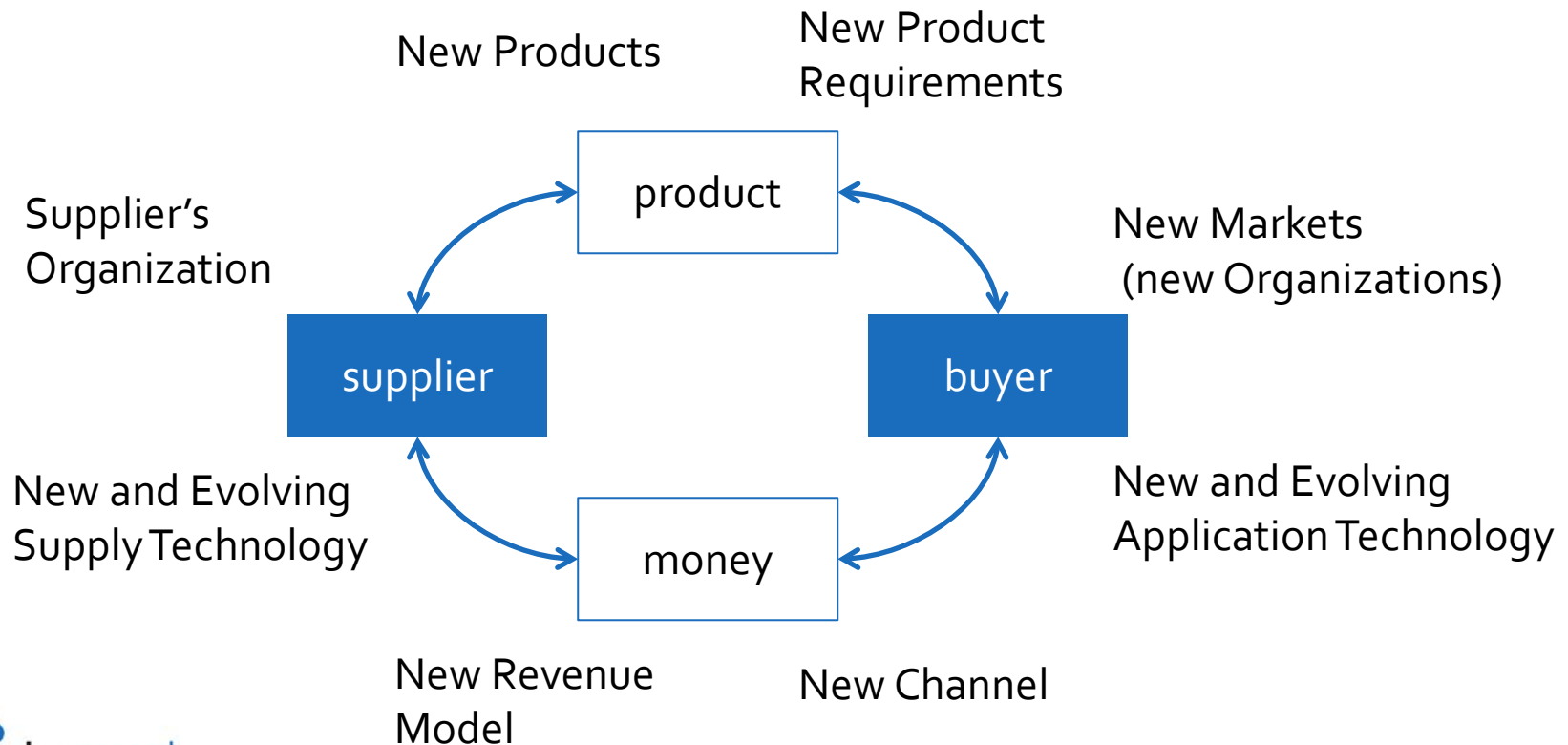
A model of “business model”

- Core of a business model is the buyer-seller transactions
 - Supplier gives a product to a buyer
 - Buyer gives money to the supplier



Business model elements and innovation

- 8 main elements to buyer-seller transaction
- Innovation involves changing one or more of these elements
- Viewed from the supplier's perspective:



Basic BMI checklist

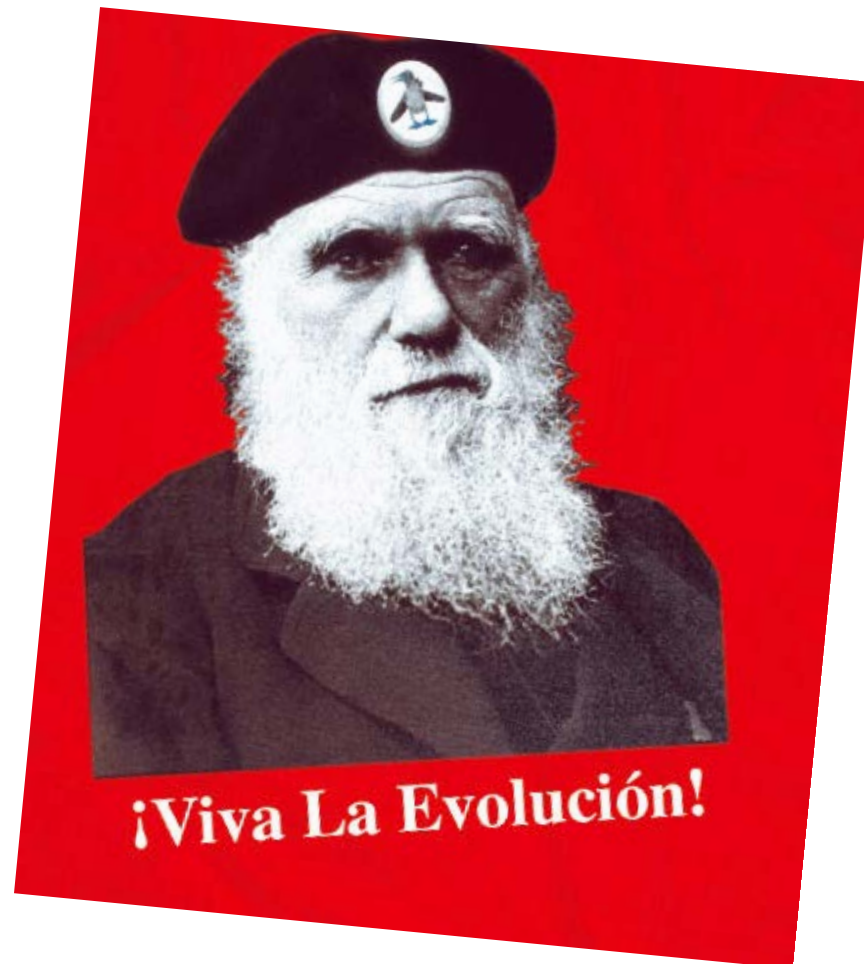
- › Changes to your firm's organization
- › New manufacturing and distribution technologies
- › New products and product capabilities
- › New product requirements
- › New markets
- › New application technologies
- › New channel partners
- › New revenue model

BMI is not an event, or even a project, but an ongoing process

- Establish capability
 - People
 - Skills and training
 - Other resources
- Create and test business model hypotheses
 - Internal ideation
 - Customer interaction
 - Partner input
- Execute, monitor, and revise



Don't be afraid to evolve



BMI Examples

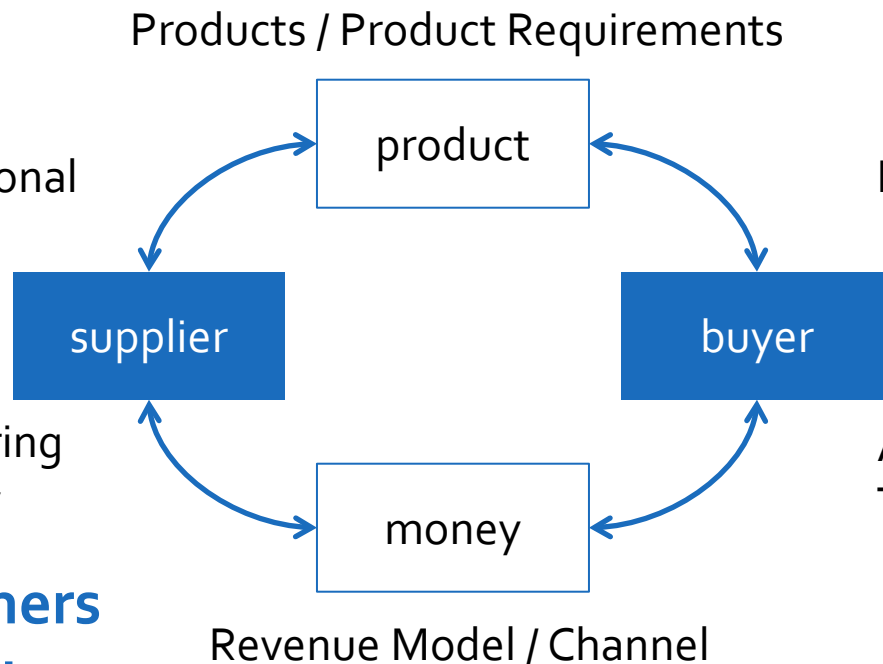
Ocean Spray

IBM

Organizational
Change

Manufacturing
Technology

**Wright Brothers
vs. Bleriot**



KMG Chemicals

New Markets

Application
Technology

**Industrial
Revolution**

IoT Data Capital
(Kaeser Compressors, ABInBev)

NEW PRODUCT

Ocean Spray: turning waste into a new product

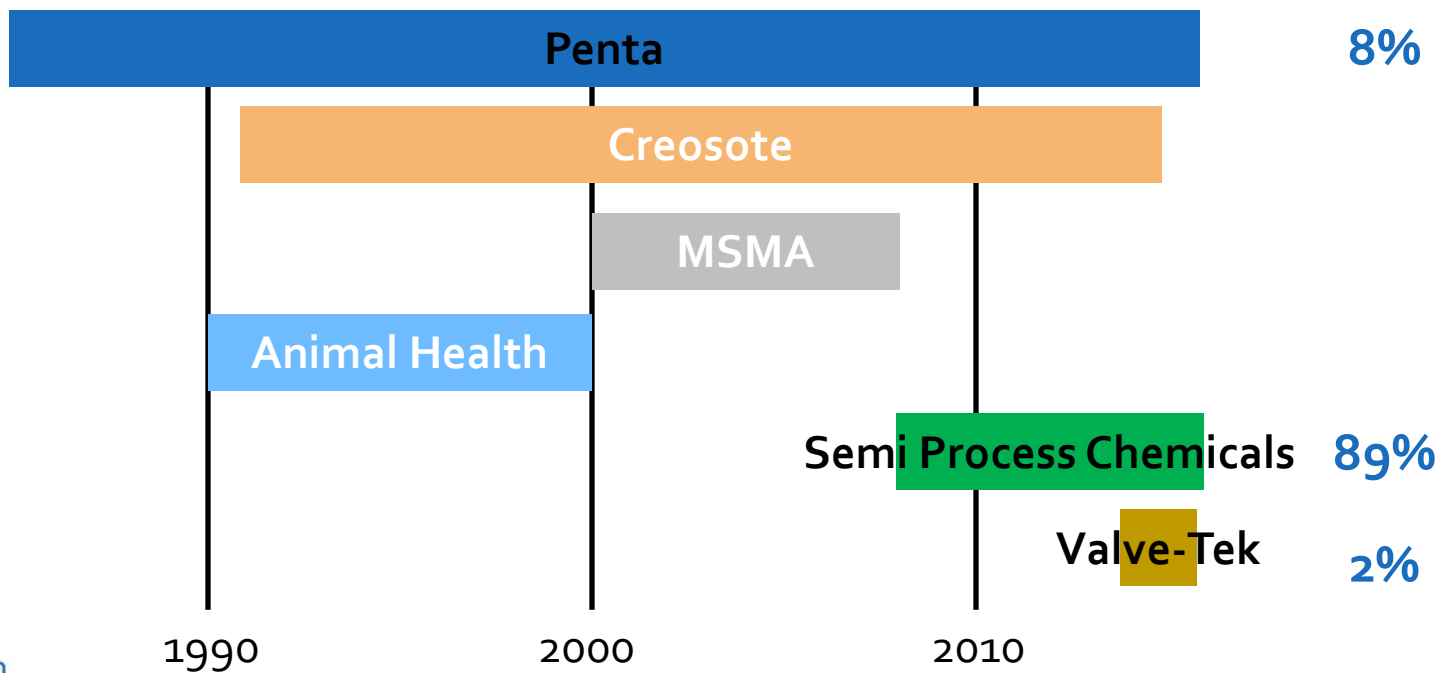
- Cooperative formed in 1930, sold jellied cranberry sauce
- Began selling cranberry juice in the 1930s
- Launched white cranberry juice in 2002
 - Smoother, less tart
 - Entirely new product



NEW MARKET

KMG Chemicals

- 15 acquisition and 3 divestments in 31 years
 - Entered 5 new markets and exited 3 markets
- Transformed from a regional penta distributor to a global leader in semiconductor process chemicals
 - Grew revenue from \$20 million in 1998 to \$320 million in 2015
 - 0 to 18% global market share in semi chemicals in 8 years

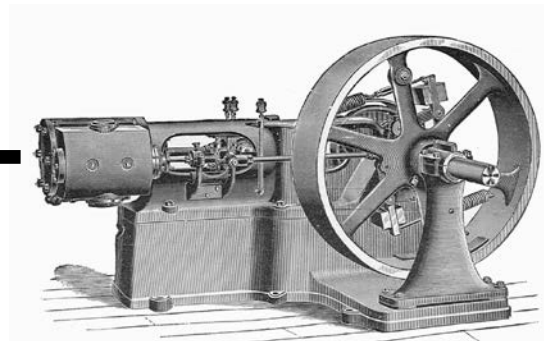


NEW APPLICATION

The Industrial Revolution, in retrospect



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Industrial revolution shocks the world!

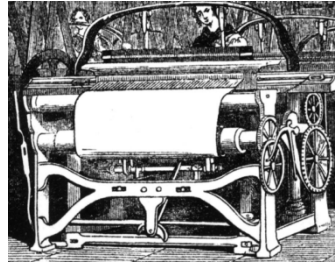
In fact, things were a little more complex, with a series of product improvements



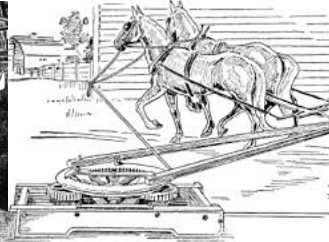
1733: Flying shuttle, John Kay



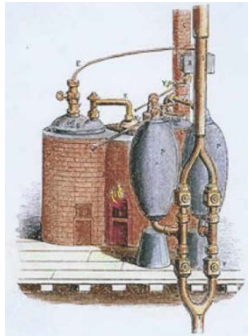
1764: Spinning Jenny, James Hargreaves



1789: Power loom, Edmund Cartwright



1769: Water frame, Richard Arkwright



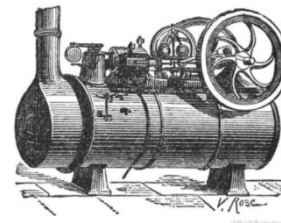
1698: Water pump, Thomas Savery



1709: Blast furnace, Abraham Darby



1712: Piston engine, Thomas Newcomen

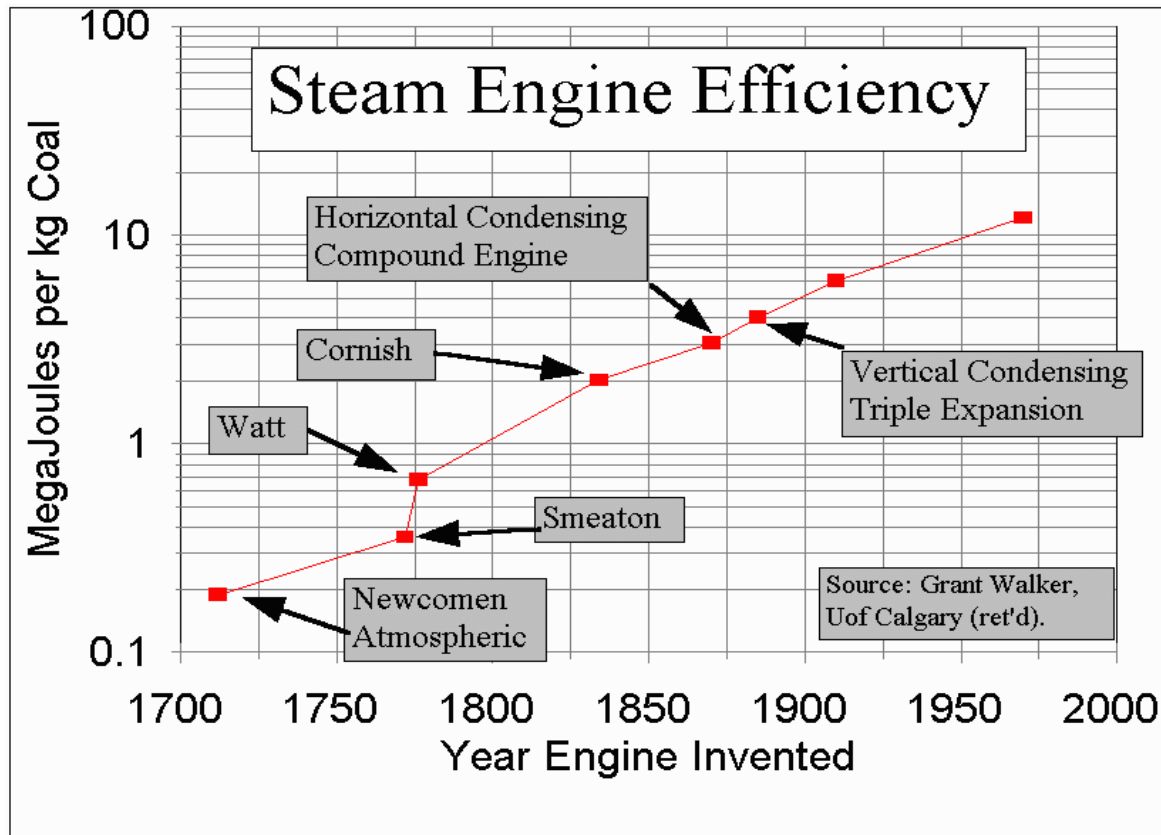


1778: Steam engine, James Watt



Industrial revolution!

What does a new breakthrough product look like?

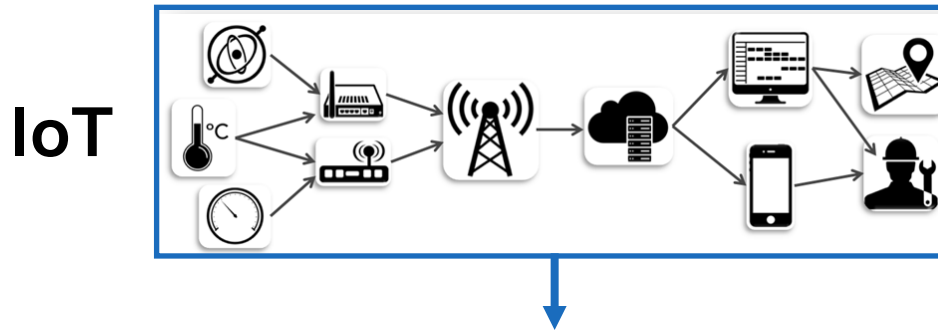


"James Watt's real fame wasn't inventing the engine, it was jumping ahead 60 years on the curve and making an economic one possible."

http://www.cuug.ab.ca/branderr/eeepc/o17_coal.html

NEW REVENUE MODEL / CHANNEL

IoT Data Capital

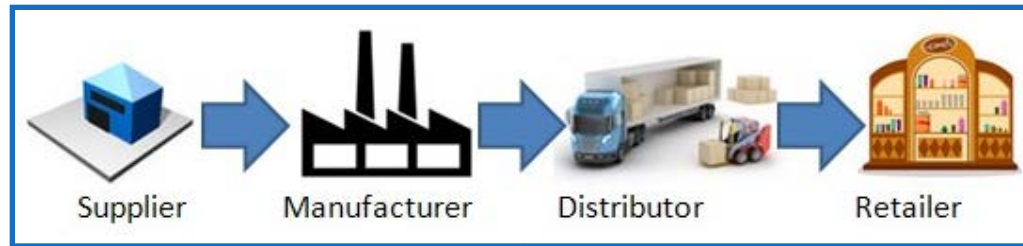


Data capital: recorded information necessary to produce a good or service*

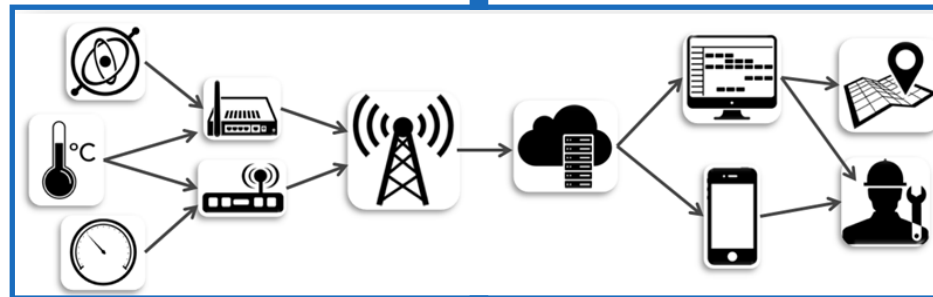
Data pollution



Apply IoT sensing, connectivity, and analytics to manufacturing and products



To improve operations



To improve products



To create new products

- Recurring services
- Pay-per-use
- Selling data to third parties

This is already happening at industrial manufacturers

KAESER KOMPRESSOREN



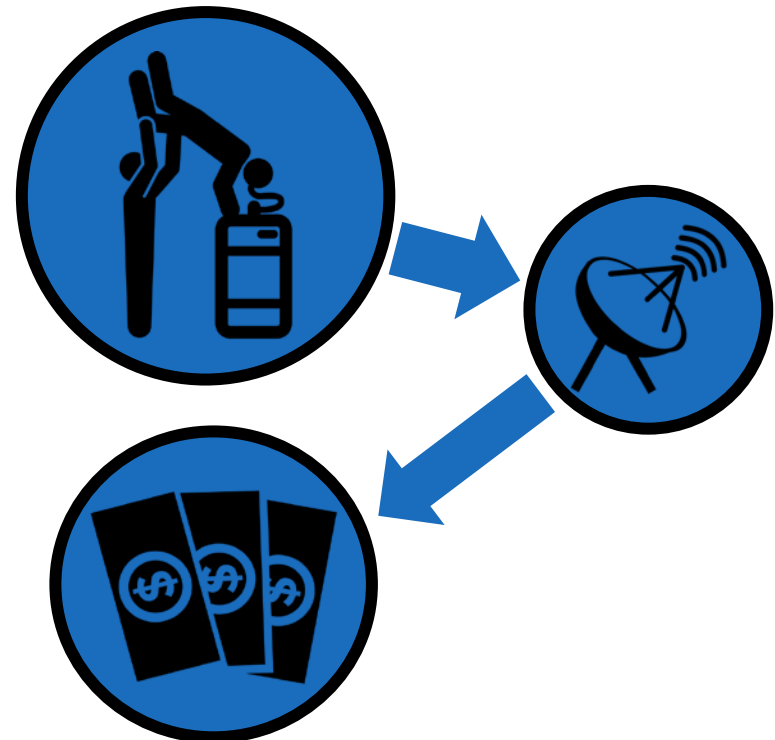
- Historically heavy users of SAP for operations and customers
- Developed connected gas compressors, which stream to SAP IoT cloud
- Experimenting with service / pay-per-use business models
- Could sell usage data to gas chemicals providers or utilities



This applies outside of discrete manufacturing



- Connected kegs light up at bars with promotions
- Remotely monitor consumption
- Real-time demand forecasting and business intelligence
- Could resell data to insurance companies, regulators, or municipalities



MANUFACTURING

The Wright Brothers vs. Bleriot



Wrights fly using wing-warping
1903

Bleriot's company SPAD builds
more than 14,000 aircraft for
WW1

Bleriot crosses English Channel
1909



1860

1870

1880

1890


1900

1910

1920



ORGANIZATIONAL CHANGE

IBM's EBO process circa 1999 to 2004



A Problem in September 1999

“One issue looms larger and larger in our company: Why do we consistently miss the emergence of new industries?”



What should IBM do to improve its ability to successfully identify, select and pursue emerging business opportunities in a **timely fashion**?

- *Understand root causes*
- *Recommend actions to address these issues*

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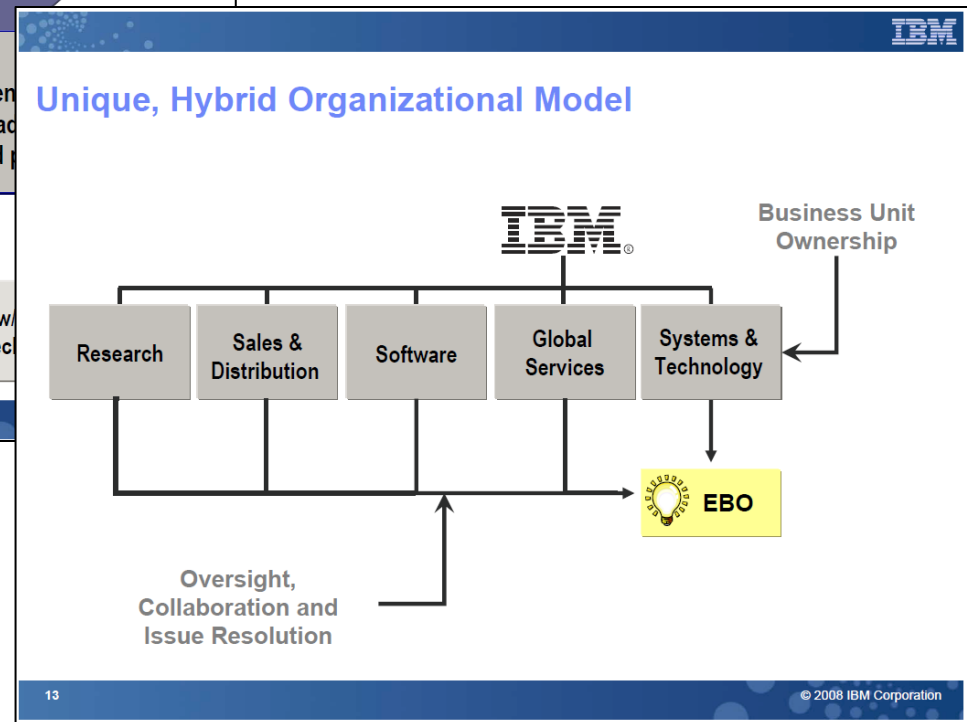
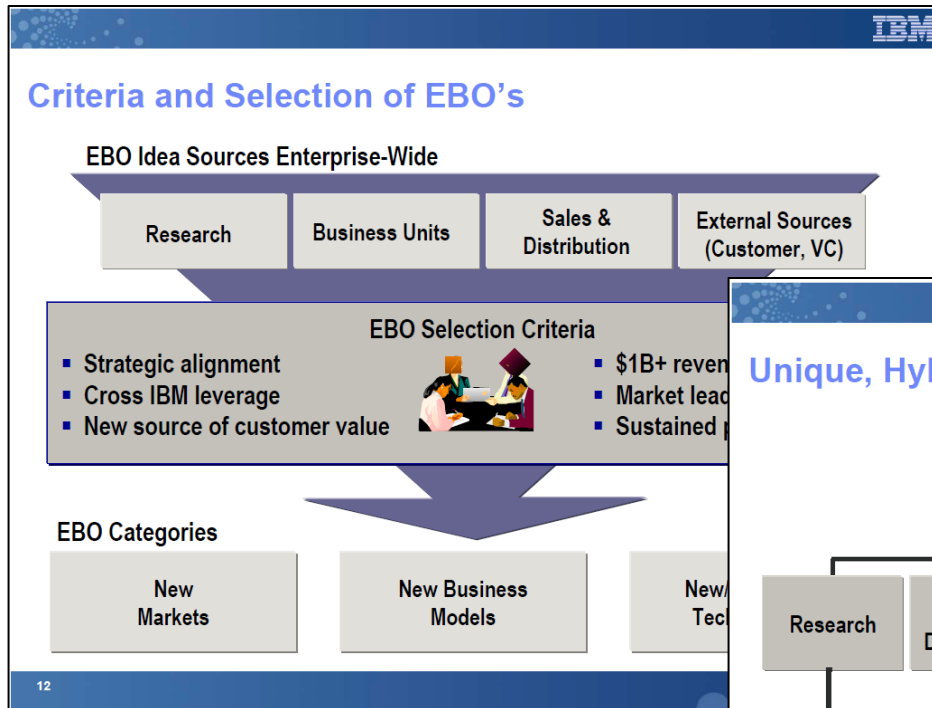
In-depth self assessment 4Q99




The Underlying Root Causes

1. Our management system rewarded execution directed at short-term results and did not place enough value on strategic business building.
2. We were preoccupied with our current served markets and existing offerings.
3. Our business model emphasized sustained profit and EPS improvement rather than actions to drive higher P/E's.
4. Our approach to gathering and using market insights was inadequate for embryonic markets.
5. We lacked established disciplines for selecting, experimenting, funding, and terminating new growth businesses.
6. Once selected, many ventures failed in execution.
7. Senior management didn't spend time on new growth opportunities

New management system installed 2000 - 2001



Excellent results achieved by 2004



EBO Results

2004 Annual Report

"In 2000, IBM established its Emerging Business Opportunities program to identify and nurture new lines of business. An EBO focuses on 'white space' opportunities that can become profitable, billion dollar businesses within five to seven years. EBOs are typically assigned an experienced IBM executive 'champion' to manage the venture during its startup phase ... Once an EBO has grown to sufficient size, it becomes part of an existing business unit ..."

- 25 EBO's launched since 2000
- 5 EBO's achieved \$1B+ rev in 2003 and 2003
- 4 additional EBO's doubled revenue in 2004
- 2 new emerging businesses launched in 2004

2006 Analyst Briefing

New Markets

- Retail on Demand
- Sensors & Actuators
- Info Based Medicine

FY05
~\$1B
+100% YTY

Business Performance Transformation

- Business Transformation
- Strategy & Change
- Engineering & Technology
- Bus Performance Mgmt Software

FY05
\$4B
+28% YTY

Emerging Countries

- China
- India
- Russia
- Brazil

FY05
\$4B
+14% YTY