

Chapter 1

An Integrated Business Model Innovation Approach: It is Not All about Product and Process Innovation

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ABSTRACT

This chapter will foster the understanding of business model innovation with a focus on the Information and Communication Technology (ICT) industry and e-entrepreneurship. A general overview of business models and their elements as well as an introduction to innovation alternatives will provide the necessary background for business model innovation. On the basis of Schumpeterian innovation, this chapter will pioneer in describing business model innovation as addendum to Abernathy's and Utterback's dynamic model of process and product innovation. Thereby an integrated business model innovation approach will be initiated overcoming the drawbacks of unilateral innovation. The integrated business model innovation approach proposes a framework for long-term differentiation and competitive advantages. Different examples, in particular ICT-ventures, will clarify the effect of integrated business model innovation.

INTRODUCTION

Not long ago Information and Communication Technology (ICT) was reserved to a few specialists. In the last decades, however, ICTs became ever easier to use and are nowadays open to the majority

of western society. Modern ICTs have become part of our daily lives and have even changed our way of life. We are getting used to checking our e-mail inboxes on a daily basis, connecting with our friends via social networking websites such as Facebook (<http://www.facebook.com>), being reachable 24/7, writing documents on personal computer applications, finding the fastest train connections via an

DOI: 10.4018/978-1-61520-597-4.ch001

Internet application, and browsing the Internet to find products that offer the best value for the money. In the course of this development information is no more limited to being an auxiliary factor that supported the production of physical products as in the “Real Economy”. Information became a product of its own in the so-called “Net Economy”. Net Economy refers to the economically used part of electronic data networks. Net Economy is thereby a network economics that benefits from the network effect through electronic platforms that enable the processing of information, communications and transactions (Kollmann, 2006a). The economic opportunities within the Net Economy are termed e-business (Kollmann, 2006a). ICTs are playing a decisive role in business model innovation as the advent of modern ICTs facilitated the development of new services and the realization of innovative e-business ideas. We call a start-up in e-business an ICT-venture. ICT-ventures, such as Skype Technologies S.A. (<http://www.skype.com>), Joost N.V. (<http://www.joost.com>), MySpace (<http://www.myspace.com>), or Adobe Systems Inc. (<http://www.adobe.com>), have shown to be scoring particularly well in developing and deploying the latest ICTs. The business logic of an ICT-venture is influenced by ICT as either its products can only be developed by the means of ICTs or the ICT-venture develops new or more sophisticated ICTs itself. This chapter explains the effects of the net on business models: the Internet enables electronic products, electronic processes, new ways of reaching customers, and new value networks. The business scope of a company, which traditionally did business in the Real Economy, can be redefined on the basis of ICT-enabled business transformation (Venkatraman, 1994) and ventures can accomplish innovations in industries, in which innovation has no longer been considered as being possible anymore. An ICT-venture is typically doing business in the Net Economy. Moreover, ICT-enabled ventures can break the mold of doing business through the introduction of ICT in the Real Economy. Enter-

prises developing and deploying sophisticated ICTs offer their products or services on the basis of either direct electronic creation of value (e.g. Adobe Systems Inc.) or ICT-enabled creation of value (e.g. Blacksocks S.A.). The global market has tremendously increased competition and the appearance of ICT-ventures entering the global market has the potential to tighten this competition yet more. The act of establishing a venture in the Net Economy is termed “e-entrepreneurship” (Kollmann, 2006b).

Against this background, effective research and development become ever more important for companies in order to protect or increase their market shares and to sell their products on the market for as long as possible. However, many companies still rely either on pure product or on process innovation, which is not an adequate approach to remain in mature markets. Toyota successfully showed that there is no contradiction between product leadership (based on product innovation) and cost leadership (based on process innovation). For a long time, these two approaches were considered to be contrasting each other. Porter (1985) described the combination of both as “stuck-in-the-middle” (p. 72). However, a successful combination of product and process innovation might need to be complemented or enhanced with further innovation approaches: it is the time for integrated business model innovation! Interviews with 765 CEOs from the Americans, Europe and Asia Pacific showed that most companies still trust in product and process innovations, while not even a third of them emphasized the business model as innovation type of choice. However, the study also revealed that business model innovation is prioritized by about 30% of outperformers compared to only 15% of underperformers, which could be interpreted as a hint that business model innovation pays off (Pohle, & Chapman, 2006).

This chapter aims at fostering the understanding of business model innovation. Therefore, it starts with an introductory description of business

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