Business model innovation: Designing the process

Innovation usually means a new product. But what if it meant a new way of doing business? A business model innovation process from the world of design.

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When we think of innovation, we usually think of creating or refining new products. But innovation can occur in every level of business. Indeed, a more hidden form of innovation may lead to the most profound results.

This is business model innovation (known as "BMI" to some business professors and consultants), and relatively little is known about how it is brought about.

Professors **Christoph Zott** of IESE and Raphael Amit of Wharton address this gap in their chapter "Business Model Innovation: Toward a Process Perspective," published in the 2015 *Oxford Handbook of Creativity, Innovation and Entrepreneurship*. Zott explains that the chapter reflects a new stage of the co-authors' deep research on the topic, which they plan to develop and refine over the next several years.

Drawing on what is known about business model innovation so far, Zott and Amit derive a model from the world of design to promote it across a range of industries. The model is flexible and can be used both for new ventures and established firms.

The far-reaching effects of business model choice

The business model is one of the most fundamental strategic choices that entrepreneurs, CEOs and general managers make.

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It may sound abstract, but it is anything but. Take the case of Israeli start-up FriCSo which developed a friction-reduction technology. They had three very different business models to choose among for commercializing it:

- **As machine manufacturers**, they could embed the technology in machines and sell them to interested resellers and suppliers;
- **As an R&D company**, they could license their technology to machine manufacturers; or
- **As a service provider**, they could provide an outsourced service to resellers and suppliers in manufacturing.

Each of these three options carries vastly different implications in terms of costs, core capabilities, competition and potential partners — making the choice of business model a crucial decision. Given its importance, it is no leap to see that business models require thoughtfulness, and sometimes also innovation, just as any other area of the company.

Turning to design

But how should business models be innovated? The relative neglect these innovations receive led the authors to work on a generalizable process.

They looked to design theory and practice for inspiration. Designers, like innovators, deal with ill-defined problems and attempt to find new and desirable solutions.

In creating a process for business model innovation, the authors drew on a process used by the design firm IDEO, based in Palo Alto, California. While its original purpose was to help IDEO develop new products, it has also been used for services and entirely new businesses.

There are five stages that make up the design process:

1. **Observe**. How do customers use products and services (from hospital services to trains and cell phones)? Observation means going to the source, not to market research experts. In business model innovation, this stage is broader and more complex. All business model stakeholders, not just end-users, need to be taken into consideration.
2. **Synthesize**. Take stock, share and make sense of the data received in the observation stage. In BMI, this means gaining a holistic understanding of the challenges to and influences on the design process.
3. **Generate**. Create potential design solutions; brainstorm. This may involve

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modifying an existing business model in novel ways or creating an entirely new business model.

4. **Refine**. Evaluate and concept-test the various proposed solutions. Experiment on a small scale to make sure the innovation is moving in the right direction.
5. **Implement**. Select the design that is the best fit. Once the new or modified business plan has been chosen, the firm must make necessary organizational and strategic adaptations.

Think systemically, think mindfully

Of course, not every change in a business model counts as business model innovation. Designs may provide new angles in terms of a firm's content, structure or governance, but to qualify as business model innovation, this novelty has to manifest itself at the system level, and it must be "new to the world."

This five-stage business model design process, once codified (as within IDEO), can be considered a firm-level capability.

As such, it could become an invaluable tool to help CEOs, entrepreneurs and general managers think more proactively about the way their firm is doing business.

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