

BUSINESS MODEL INNOVATION – WHY SOME FIRMS SUCCEED, AND OTHERS DO NOT

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ABSTRACT

Many firms operate in a dynamic context and need to innovate their business model to stay competitive. The literature on business model innovation tends to have an intra-organisational bias in the sense that to a limited degree is interdependency between actors in the network considered, leaving many important challenges unexplored. Based on four cases from the graphical and advertising industry, we provide new insights on how inter- and intrafirm difficulties on their own and in combination provide challenges for business model innovation.

Keywords: Business Model Innovation, challenges, intra- and interorganisational factors

INTRODUCTION

There are different understandings and perspectives of business models and what they are for, including explaining the business, running the business and innovating the business (Spieth et al. 2014). In this article, we research business model innovation, applying the perspective of developing the business, considering business models as support to the strategic development of firms (Spieth et al. 2014) to create new opportunities and enact commercial opportunities.

The commonly applied definition by Zott et al. (2011) is that a business model is a holistic description of how a firm creates an appropriate value through interaction with its surrounding environment. Value creation is considered to be created in the interaction among various actors in a network of actors and through their customer relationships (Mason & Spring 2011). In this sense, customers' demands are a pivotal issue of the business model (Doganova & Eyquem-Renault 2009). Although business model innovation involves actors such as customers and suppliers, the business model literature tends not to consider interdependency between actors in the network when identifying business model challenges, leaving many important challenges unexplored (Berglund & Sandström 2013; La Rocca & Snehota 2017).

Sosna et al. (2010) make the point that business model innovations are among the most sustainable forms of innovation. However, the literature points out that not all firms succeed in business model innovation (Cavalcante et al. 2012; Chesbrough, 2010; Weirtz et al. 2016). Chesbrough (2010) stresses that business model innovation is important, but "very difficult to achieve" (p.362) and Cavalcante et al. (2012) highlights that there are specific challenges related to different types of business model innovation, without detailing the precise nature of the problems. Weirtz et al. (2016) conclude that more knowledge is needed on innovation, change and evolution of business models. The difficulty to understand and innovate business models may be due to the domination of the narrow focused intra-firm perspective.

Within IMP Business models has been discussed (Håkansson 2009). First one proposition claiming that "The success of the company depends on the economic efficiency of its "business model" which is and should be the result of intentional and conscious design" (p.156) is developed. However, the proposition is re-phased in order to cope with the emerging, depend and relationship specific nature of business networks where actors not evolve autonomously, but "they co-evolve with specific others" (p.157).

In line with this La Rocca & Snehota (2017) argues that business models emerge within relationships and are continuously enacted and fundamentally are interactive. This points towards the challenges and nature of business model innovation. Firms innovate their business models in interaction with others. Therefore, this paper aims to provide insights into why some firms succeed in business model innovation in networks while others do not. To gain theoretical and practical insights we compare four business model innovation cases that are struggling with innovating their business model. As the four cases are from two industries close to each the graphical industry and the advertising industry, many of the contextual factors in the four cases are similar, making it possible within a single context to concentrate on what fosters and constrains business model innovation within in a firm and across a firm's relationships.

Both the graphical industry and the advertising industry has been challenged by digital technology and the increasing use of digital media among customers. In Denmark, the overall spend on marketing media declined with 20% from 2007 until 2015. Digital media spend in this period has almost doubled, and printed media has on the contrary been close to half (Graphical trade organisation Denmark). Simultaneously, the amounts of graphical firms in the market have dropped from 700 to 450 (Graphical trade organisation). The advertising industry has also experienced the effects of the increasing demand for digital solutions. However, the number of advertising agencies going out of business and new ones emerging has been increasing in Denmark over the last ten years. In 2017 about advertising agencies existed in Denmark which almost the same number as in 2018. Offset printing and traditional graphical solutions are being replaced and reshaped by evolution in digital solutions (internet media). Firms have responded differently to the challenges, depending on own capabilities and network position (Sarkees 2011). As customers' needs have evolved, graphical firms have attempted to innovate and adapt their business model, and different solutions have emerged (Harrison & Prenkert 2009).

THEORETICAL BACKGROUND

Foss and Saebi (2017) have made the point that business model innovation (BMI) is "designed, novel, nontrivial changes to the key elements of a firm's business model and/or the architecture linking these elements." (p. 201). Such changes may hold different effects for a firm and its surroundings. Some scholars view BMI as a game-changing type of innovation that is new to the industry (e.g. Aspara et al. 2010; Johnson et al. 2008; Saebi et al. 2017), other scholars suggest that BMIs can be new only to the firm, and not necessarily to industry (e.g. Björkdahl & Holmén 2013; Khanagha et al. 2014; Zott & Amit 2015). Thus, the impact of BMI will be in the industry and/or the firm. However, BMI is said to be important for firms competing in both mature and changing markets (Berglund and Sandström 2013; Chesbrough 2010). There have been reported difficulties for firms to innovate their business model. Challenges of business model innovation are described in the literature. Four main areas were identified by Berglund and Sandström (2013) that either leads to success or create barriers: resource inertia, cognitive inertia, top management leaderships capabilities, firm-internal organisational structures and processes. Barriers to business model innovation in existing firms are identified as a challenge of configurations of assets and processes and the implementation of the new business models as managers are faced with that new business models rarely work the first time around (Sosna et al. 2010). Further the cognitive inability of managers to understand new business model is described and the value potential of these (Zott et al. 2011; Chesbrough 2010) therefore decision makers face difficulties at exploring new business models. Another barrier is internal tension between new and old business models, as old competences lose their value due to technological change (Chesbrough 2010).

A further a problem is a tendency mainly to have an intra-firm perspective on business model innovation when identifying challenges and thus not considering interdependency between actors in a network, and therefore many important business model innovation challenges are left unexplored (Berglund and Sanström 2013; La Rocca & Snehota 2017). To understand barriers and drivers of business model innovation, it is necessary to consider aspects internally in the firm and collaboration with actors in the network. Thus, an inter- and intra-firm perspective on the business model is applied. Business models are seen as an open system, and as firm acts under the conditions of the interdependencies of the network, it is embedded in, which gives opportunities and restriction for developing a new business model (Berglund & Sandström 2013; Mason & Spring 2011). Thus, the ability to change the

existing business model may be enabled and hampered by only intra-organisational factors but also inter-organisational factors. La Rocca & Snehota (2017) has made the point that in business model innovation external key players are important. The key players through their interaction will affect how the business model develops. As different players bring in various resources and capabilities and have different requirements this give direction to the development of the business model. However, little is so far known about business model innovation where both an inter- and intra-firm perspective on the business model is applied. We provide new insights on how inter- and intra-firm barriers on their own and in combination provide challenges for business model innovation.

METHOD

To extend our theoretical understanding of how barriers in and between firms hampers and enables BMI we report from a comparative case study. The four cases that builds the core of the investigation are from the printing and advertising industry and are a part of an overall “commercial communication industry”. As our aim is to learn about the capabilities and what may barriers of business model innovation are, we have used a case study approach (Dubois & Gibbert 2010; Stake 1995). Theory, method and empirical phenomena are related. Theory provides a lens for understanding reality and methods provide guidelines and tools for investigating a phenomenon. As phenomena are not given per se the natural setting in which the researcher is aiming for making discoveries in should not be framed to narrow. The cases studies selection was based on that the firm should have an interest in innovating their business model. The firms we report from in this article represent firms where the management in the firms has felt a pressure to innovate their business models. I.e. a need to identify new segments, provide new offerings and to change the organisation accordingly. Case studies offers possibilities for exploring natural settings from a many-sided view and to include multiple sources of information (Halinen & Tornroos 2005; Miles & Huberman 1994). The four cases which are compared in the below are based on interviews (Marroun & Young 2018), observations (Young 2018) and workshops (Storvang et al. 2018). In combining these different techniques in our investigation, it is possible in a reflective manner to deepen and challenge our understanding of the empirical phenomenon. Findings are based on 11 interviews; 5 company visits and 11 workshops. Cases has been sent for approval in the 4 case firms.

CASE DESCRIPTION

In the four cases, the current situation and challenges for the focal firm are first discussed and next to the attempts to innovate the firm's business model is explicated.

Cross-Print(CP)

CP was founded in 1980-ties, has 35 employees and offers a wide range of printing solution from graphical design from printing to bookbinding. The firm concentrates on for example printing of books, brochures, leaflets and printing on clothes and equipment for fairs such as roll-ups, different types shelves, displays and stands for fairs. However, sub-suppliers produce some special offers. As the industry has been under pressure for some years, the firm has gradually expanded its offerings to be able to solve most customers' needs.

The firm sees itself as standing at a crossroad with the question whether it should invest in new printing equipment or change the overall business model? The firm has just changed its

name and removed the "Offset" part of the firm's name. By removing this from the name, the reasoning is to signal that the CP is more than just a printing firm based on particular printing technology. The aim is through a more targeted branding of the firm to indicate that CP is modern broad range provider of communication solutions which not only includes printings and items for fairs but also consulting services within communication.

The CP's has grouped their customers into different segments. Attractive segments; Larger industry customers, public customers and firms within the tourist industry. Less attractive segments; associations and clubs, publishers and advertising agencies. In the future CP aim not to sell to; print brokers, unregular customers and less attractive customers. These represent close to 50% of the turnover, however, considered very price sensitive and not particularly loyal. CP has although gained an acceptable earning for these customers as CP has taken in more and different tasks as part of the offerings for these customers. CP is not sure that such a strategy will have success in the long run. Other printing firms have also improved delivery times (time to market) and the ability to solve a wide range of tasks for the customer and CP expects that the pressure for more services for lower prices will continue.

Therefore, CP is considering changing its business model fundamentally by moving out of printing or at least to build up a new focus area. 3D - printing is regarded as the new area to build the firms business model around. A radical solution considered to employ new staff to produce new items, to become a production company. The less radical idea is to use 3D print as part of widening the assortment within advertising and communication services. However, in the present situation, the firm found itself stuck with the current customers and the manner in which the firm through its business model addresses these customers. In particular, the firm has been searching for customers in and outside their customer base who has an interest in a fundamental new offering (i.e. 3D-printing) but has not succeeded so far.

Front Add (FA)

The graphical printing firm FA was established shortly before the financial crisis and has 22 employees. The turnover has been growing steadily, and FA has a solid financial record. The firm's overall aim is to be a strong provider of graphical solutions mainly for printing (brochures, leaflets and others) and consulting. Consulting predominately concerns technical printing issues, and marketing consulting plays a minor role. A web-based solution for standard offerings for loyal accounts has been a success. The web-based solutions provide faster delivery and discounts, and the customers widely use it.

FA's has continuously adapted their business model to the very dynamic and shrinking market, and they have attempted both internally and externally to innovate the business model. Internally they have focused on and improved: lowering costs, delivery on time and increasing quality based on clear targets and procedures. Still, a task is to make the production flow more efficient and faster. Central to the current innovation process has been involvement and knowledge sharing between management and employees. Even though FA is a small firm, employees are focused on own task and have been insufficient concerned with the overall production flow. The aim is to make the employees work in teams where no one is working in isolation. At the same time, performance indicators of the production have been improved, clarified and made a part of the daily routines. FA's also employed a new marketing employee to strengthen their marketing competencies. The aim is to innovate the marketing and consultancy offerings in a manner where "pure-print" becomes of less interest.

The aim is also to build-up a well-structured and functioning CRM system that support the emphasis on providing more consulting services.

Customers are divided into different target groups: Group A; Consulting services is an essential part of a purchase and includes mainly retails chains, middle-sized private firms and a few private organisations. Group B: requires some marketing and technical consulting and includes larger industrial firms, public firms and some retail chains. Group C: Customers emphasise price and fast delivery and need almost no consulting services. It is a challenge that most customers are from the local area. Therefore, the aim is to build a stronger brand and to become more well-known outside the local area. Finally, the aim is also to provide new offerings within outdoor large-scale print and packaging as FA until now only has provided a limited range of offerings. These innovations require that the firm innovates its business model concerning its capabilities and offerings. At the same, this also requires that the customers perceive FA as a capable provider of the new offerings.

Enlarge(EL)

EL was founded as an advertising agency 11 years ago and has since grown from 1 employee to 25 employees. Personal relationships in a local area are primary reason for the growth. The firm provides solutions which help customers to build identity and branding for industrial firms. The firm has had less success with customers within the fashion and fast-moving-consumer-goods in general. EL has learned that the best customers are characterised by having a well-functioning marketing department. A well-functioning marketing department provides a solid basis for the exchange of ideas and to get things right from the start. Another learning point is that it can be challenging to work with well-established and branded customers whereas small customers, in general, are easier to please. EL has tried to work strategically with acquiring new customers through it personal networks and through social media.

The EL sees itself as at a turn-point where an aim is to become better at serving larger and more prestigious customers. The management group of the firm discuss this aim and how to achieve it and whether it is the right aim to pursue. Overall, the aim may be wrong as it demands new and more professional competences in EL as well as a new and more proactive social media strategy. The firm needs skills within social media to be attractive to the right customers. Currently, the customers are segmented as follow: event providers, small new firms, retail chains, industrial firms, international customer, local customers and others.

There is a need for a more focused customer approach as part of the overall new aim of EL. However, the aim of getting more prestigious customer and cutting some of the smaller customers of or at least down prioritise has coursed distress in the management group. As a result, the bureau director has left EL after working for a year towards the new aim of EL. The owner of EL has taken over and has decided to concentrate more on smaller accounts. The owner is not willing to acquire some new competences and at the same time to dismiss some employees.

Touchpoint (TP)

The advertising agency was founded in early 2000 by its two owners. TP had some challenges after the financial crisis but recovered fast. In earlier 2010's TP success builds on creativity and being at eye level with the customers. The main strength is within the food

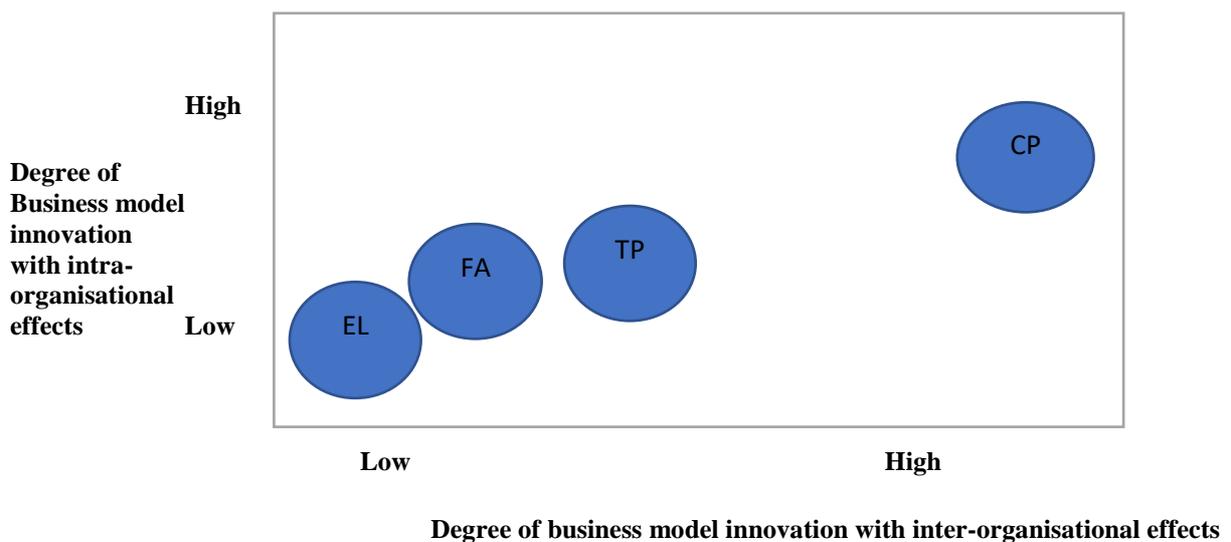
industry building up campaigns and packing concepts for their customers. TP attempted unsuccessfully to penetrate other industries and consequently have improved its prioritisation of its current and potential customers emphasising a motto saying, "you can't win them all". TP has today around 15 employees who work in teams between 2 and 4 to handle the individual customers depending on the particular task and type of customer. Offerings are divided into four groups; business strategy development, concept development, advertising campaigns and small ad hoc tasks (single adds). As customers are handled concurrently internal sharing can be problematic. To help to support knowledge sharing and collaboration briefing schemas has been developed and has helped to support a more "sharing-culture" aiming at providing quality which is well targeting the customer.

To innovate the firm's business model two different and related attempts have been launched. First at all TP is striving to target new customer groups. The current emphasis on the food industry provides on one side a strong base but limits the number of potential customers considerably. A limiting factor is that competitors can be TPs customers at the same time. To identify new segments, TP has re-segmented the market and has identified some promising segments which they have not yet addressed. Potential segments include firms within the metal and iron industry. To proceed and to grow the new segments TP has engaged two new business developers. Targeting new segments has an impact on the current business model and among others includes innovation of the value creation and resources at TP. However, after struggling for some time with attracting new customer types, TP had to give up on the new segments. Customers saw TP as a strong solution provider within given industries but didn't believe that TP had the capabilities - at least in the short run - to provide strong content-based solutions in other industries.

CASE ANALYSIS AND COMPARISON

Below figure 1 shows the degree of innovation of the business model and reveals the differences in the four firms strive to innovate their business model.

Figure 1: Intra- and interorganisational effects of BMI



EL has after an attempt to think its business model differently chosen to concentrate on its current business model by emphasising and strengthening its current business model. EL still works with innovating its current business model but done making the current business model

more effective and efficient. The overall aim is to become known as a provider of strong solutions for smaller customers. In the attempt to innovate the business model in particular cognitive inertia and top management leaderships capabilities played a role the choice made. The management team were uncomfortable with having to work with large and potentially very competent accounts. A worry was that new customer relationships could have an asymmetric power balance in favour of the customer. At the same time, the attempt made to work with larger accounts showed that they, in general, was seen as more demanding by EL's management. Thus, the choice not to make a more fundamental innovation of the business model was based on both intra- and interorganisational factors.

FA is both attempting to innovate its internal processes and knowledge sharing to improve its current offerings. At the same time, the firm tries to attract more customers which fits into the current customer base and new customers with new demands. To be able to innovate internal training is taking place as well as new employees are engaged. Even though FA is a small firm it has to some extent come as a surprise how time-consuming it has been to change internal processes and make the employees share their knowledge. At the same time, it is also taking a longer time to identify relevant prospects which has an interest in having a visit from a salesman from FA. The market may be sensitive, but relationships and local presence seem still to play a role for some customers.

TP has worked with business innovation through the growth of new segments as it has been found difficult to grow more within the current segments. A major barrier has been that TP is a well-known and strong provider of campaigns and other with a distinctive approach within the food industry. In targeting of new customer segments, the reputation of TP has been a barrier. Even after hiring business developers and becoming better of sharing knowledge within the firm TP has to give up on achieving its aim getting several new customers from new segments as the customers did believe in the provider's knowledge about their industry and their customers.

CP are fundamentally looking for a way out of an industry which they as less and less attractive to stay in. The trigger is that CP needs make a larger re-invest in new equipment within the next year. CP's management would preferably invest in other areas than within the current printing industry. Still, management wants to keep the firm going, but wish to transform it fundamentally and gradually move out of the printing business. In CP a discussion is, what needs to which competence to build, keep and down priorities. To be able to address new customer types with new demand own competences has to mirror these demands. Recruiting new employees is a part of the innovation of the business model. However, the firm is struggling with how to get started and what technologies and competencies to take in in a situation where the firm does not have the competences to make a deliberate choice one their own. The firm is depending on its relationships to innovate its business model. Firms don't develop in a linear way but are formed in interaction with others (Håkansson et al 2009, p.156).

CONCLUSION

From the four cases it appears that the capability to innovate the firm's business model is based on a number of intra- and interorganisational factors which are connected. Managers in the four firms strive to innovate the firm's business models. However, this is only possible when the managers connect intra- and interorganisational factors. Intraorganisational factors such as cognitive inertia, top management leaderships capabilities, firm-internal

organisational structures and processes are often connected to interorganisational factors. FA and TP are developing new competencies and knowledge to attract new customers. However, the reputation of both firms plays a role in whether potential customers see them as attractive. At CP and EL cognitive inertia play a role in the struggle to innovate the business model, this inflicts on the capability to relate to new customer types. Finally, FA has to convince not only new customers that they provide new solutions, but existing customers also look at FA based on the quality of the current relationship and its past and present capabilities.

Summing up, the degree to which the firms are struggling with business model innovation depends on; 1) Who they are - what their reputation is/what their history is? 2) What capabilities they have - what they can provide and how well they can provide it's for customers? 3) What relationship they have and needs to build - what kind of relationships are needed in future collaboration? 4) and how other firms acts and reacts to a focal firm attempts to innovate its business model!

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