

COURSE: BUSINESS MODEL INNOVATIONS

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# Types of Business Models

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# Industry Convergence

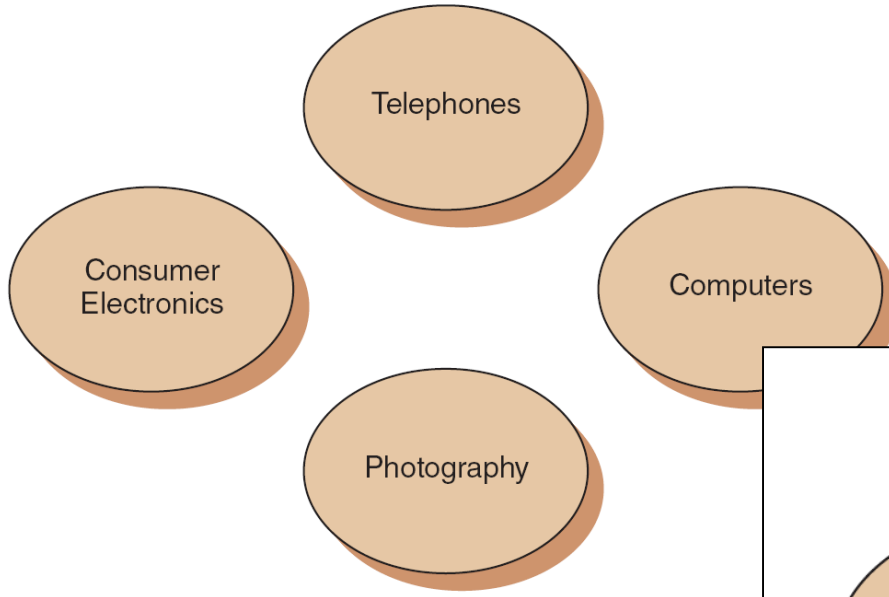
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“The 2000s were the broadband decade, the disintermediation decade, the file-sharing decade, the digital recording (and image) decade, the iPod decade, the long-tail decade, the blog decade, the user-generated decade, the on-demand decade, the all-access decade. Inaugurating the new millennium, the Internet swallowed culture whole and delivered it back—cheaper, faster, and smaller—to everyone who can get online.”

Jon Pareles, New York Times columnist

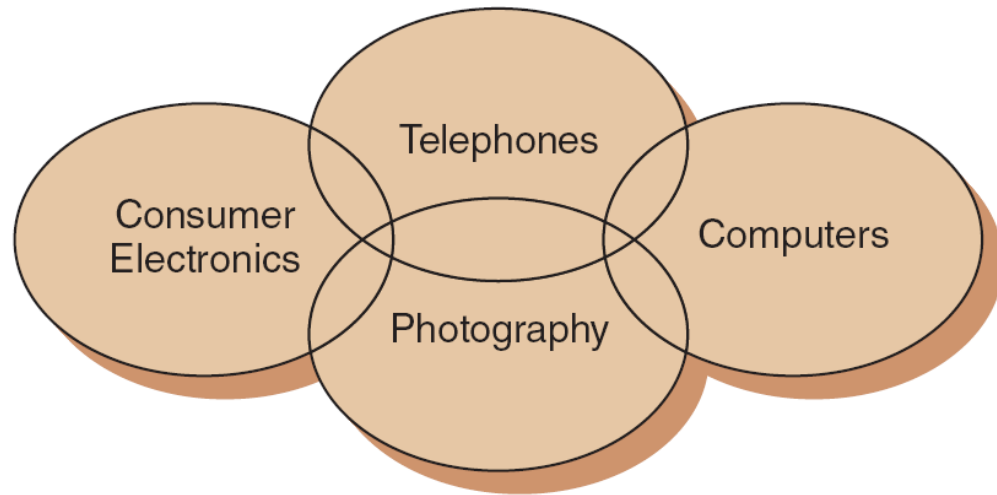
# Industry Convergence

1990



**Convergence: The coming together of previously separate industries and product categories.**

2010



# Value Networks and Disruptive Technologies

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Innovator's Dilemma

Value network

Sustaining Technologies

Disruptive Technologies

# Innovator's Dilemma

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## Innovator's Dilemma

- Staying committed to a current, profitable technology
- Failing to provide adequate levels of investment to new and possibly risky technologies
- Company is responding to the needs of established customers

# Value Network

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Found in every industry

Cost structure that dictates the margins needed to achieve profitability

Boundaries are defined by the unique rank ordering of the importance of various product attributes

Each network has its own metrics of value

# Sustaining Technologies

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Incremental or radical innovations that improve product performance

Most new technologies developed by established companies are sustaining in nature

The vast majority of innovations are sustaining in nature

# Disruptive Technologies

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Redefine performance

New entrants to an industry

Enable something to be done that was previously deemed impossible

Enable new markets to emerge

# Five Principles of Disruptive Innovations

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1. Companies are dependent on customers and many innovations are customer-driven. By listening to those long-established customers, opportunities may be missed.
2. Small markets don't solve the growth needs of large companies.
3. Markets that don't exist can't be analyzed.
4. An organization's capabilities define its disabilities.
5. Technology supply may not equal market demand.

# Global E-Commerce

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- Every 48 hours, Yahoo records more than 24 terabytes of data about its users' online habits— equal to all the information contained in all the books in the Library of Congress
- Between 2003 and 2010, the number of Internet users in China increased from 68 million to 450 million; in Shanghai, Beijing and Guangzhou, one-third of all residents use the Internet
- 37% of European adults—136 million people—shopped online in 2008. Online retail and travel sales will have a CAGR of 8%

# Global E-Commerce

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- Divided into three broad categories
  - Business to Business (B2B) largest share of the Internet economy
  - Business to Consumer (B2C) iTunes
  - Consumer to Consumer (Peer to peer) eBay

# Internet as a Communications Tool

“Content for broadband costs significantly less than TV...and distributes to a much larger audience.”

Ad Agency Executive

Unilever digitized TV commercials stored as product videos, and created Web series for Yahoo! Food built around Hellman's Mayonnaise.

# Internet Retail Sales

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U.S online retails sales \$192 billion in 2011

Companies like A&F, Saks, Timberland, Coach trying to attract foreign buyers

- Weak U.S. dollar
- Saks' Canadian buyers spend 20 – 30% more
- Some retailers to open distribution centers abroad to hold down shipping costs

# Luxury Retailers and the Internet

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Many do not sell online but use the Internet to inform and promote

Concern that the brand essence cannot be communicated online but changing

Smartphone and iPad apps and Facebook communities aim to “create a dialog and get consumers connecting with our brand”.

# Special Forms of Marketing Communications

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## Direct Marketing

- Direct mail
- Catalogs
- Infomercials, Teleshopping

## Event Sponsorship

- Concerts, sporting events
- Product placement in movies

## Internet Communications

# Direct Marketing

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Any communication with a consumer or business recipient that is designed to generate a response in the form of:

- An order
- Request for further information
- A visit to a store or other place of business

# Mass Marketing

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Communication that is typically aimed at broad segments of consumers with certain demographic, psychographic, or behavioral characteristics

# Direct Marketing vs. Mass Marketing

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## Direct Marketing

Marketer adds value (creates place utility) by arranging for delivery of product to customer's door.

Marketer controls the product all the way through to delivery.

Direct response advertising is used to generate an immediate inquiry or order.

Repetition is used within the ad or offer.

Customer perceives higher risk because product is bought unseen. Recourse may be viewed as distant or inconvenient

## Mass Marketing

Product benefits do not typically include delivery to customer's door.

Marketer typically loses control as product is turned over to distribution channel intermediaries.

Advertising is used for cumulative effect over time to build image, awareness, loyalty, and benefit recall. Purchase action is deferred. Repetition is used over a period of time.

Customer perceives less risk due to direct contact with product. Recourse is viewed as less distant.

# One-to-One Marketing

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## Building from Customer Relationship Management

- Identify customers and accumulate detailed information about them
- Differentiate customers and rank them in terms of their value to the company
- Interact with customers and develop more cost efficient and effective forms of interaction
- Customize the product/service offered to the customer

# Catalogs

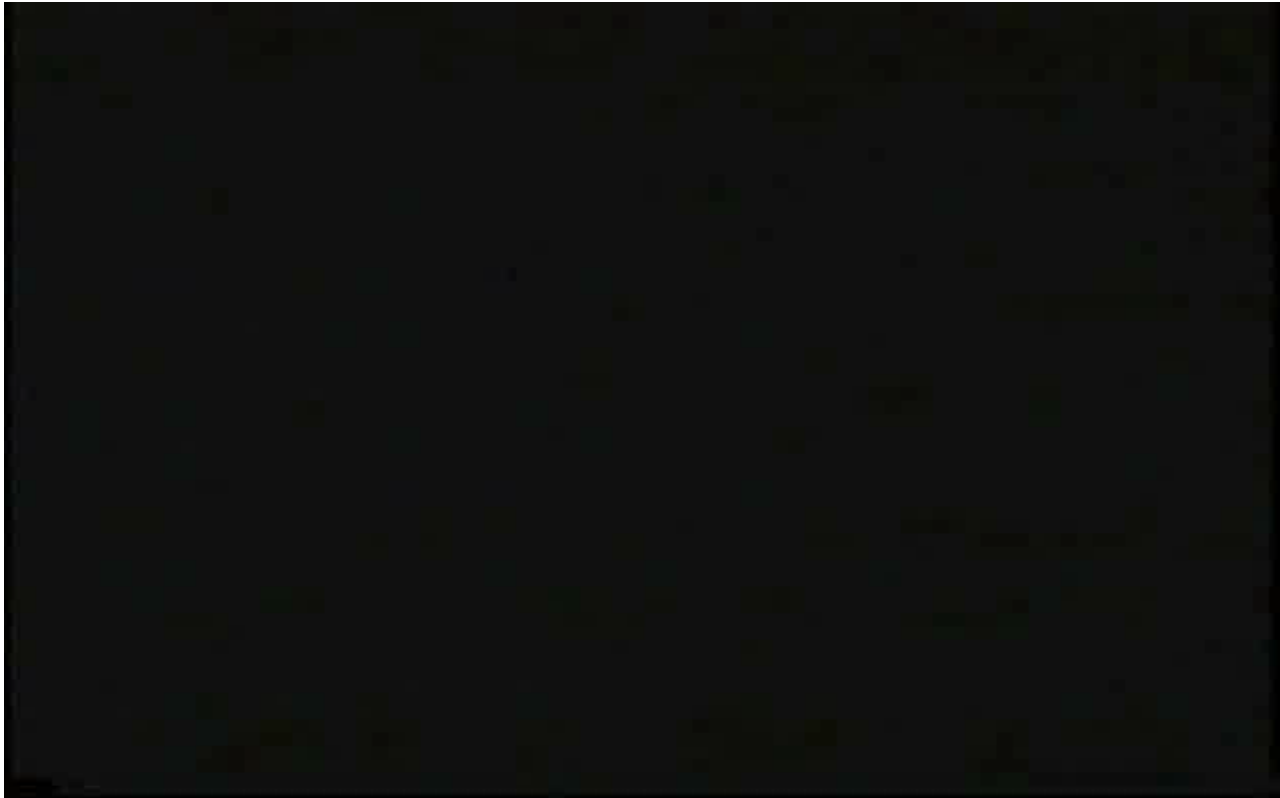
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A magazine style publication that features photographs and extensive information about a company's products



# Product Placement

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# Looking Ahead

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Chapter 15 Strategic Elements of Competitive Advantage

# Expatriates

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## Advantages

- Superior product knowledge
- Demonstrated commitment to service standards
- Train for promotion
- Greater HQ control

## Disadvantages

- Higher cost
- Higher turnover
- Cost for language and cross-cultural training

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# Host Country

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## Advantages

- Economical
- Superior market knowledge
- Language skills
- Superior cultural knowledge
- Implementation quicker

## Disadvantages

- Needs product training
- May be held in low esteem
- Language skills may not be important
- Difficult to ensure loyalty

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# Third Country

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## Advantages

- Cultural sensitivity
- Language skills
- Economical
- Allows regional sales coverage

## Disadvantages

- May face identify problems
- May be blocked for promotions
- Income gaps
- Needs product and/or company training
- Loyalty not assured

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# Other Options

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Sales agents

Exclusive license arrangements

Contract manufacturing or production

Management-only agreements

Joint ventures

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# Approach

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Initial Contact with the customer/prospect

Must completely understand the decision-making process and the roles of each participant



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# Presentation

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Prospect's needs are assessed and matched to the company's products

The style and message of the presentation must be tailored to the audience

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# Demonstration

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Salesperson has the opportunity to tailor the communication effort to the customer

Can show how the product can meet the customer's needs



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# Negotiation

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Ensures that both the customer and the salesperson come away from the presentation winners

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# Reference and source

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