Business Model Innovation and the Impact of Globalization

Master’s Thesis
to confer the academic degree of

Master of Science
in the Master’s Program

Sozialwirtschaft
Sworn Declaration

I hereby declare under oath that the submitted Master’s Thesis has been written solely by me without any third-party assistance, information other than provided sources or aids have not been used and those used have been fully documented. Sources for literal, paraphrased and cited quotes have been accurately credited.

The submitted document here present is identical to the electronically submitted text document.


Astrid Lechner, BSc.
Executive Summary

Throughout the last decade, business models increased in importance. Because of changes in the business environment, managers must innovate their business models. However, there is no agreement on the definition of the terms, the purpose of a business model and the reasons for and types of business model innovation. Even though opinions overlap, no holistic perspective has been developed yet, resulting in misunderstandings and misinterpretations. Therefore, the status quo in business model research will be discussed in this thesis. The main focus is on the literature about business model innovation, with the aim to identify the influence of globalization on business model innovation. The basis of this thesis is a detailed literature review of academic articles and books that have been critically examined. Managers can benefit from the comprehensive overview on business model innovation provided in this thesis.

A business model consists of different elements and interdependent activities which are generating and delivering value for the stakeholders and the firm itself. Its main goal is customer satisfaction. With an appropriate business model, a company can create a sustainable competitive advantage on the market. When a business model is innovated, the goal is to combine the business model elements in such a way that a better and new value can be generated for the customers and the firm itself. Globalization, technological changes, advances in ICT and the rise of the Internet are regarded as important drivers of business model innovation. Globalization can be defined as increased interaction and interdependence of people and countries all over the world. Business model innovation is not only influenced by globalization, but also by different trends (e.g. climate change, global security) that shape the present and the future. As a result, managers have to consider lots of aspects when they aim at innovating their business models successfully.

It can be concluded that business models, business model innovation and globalization are strongly interlinked. Globalization is one of the major drivers of business model innovation. It can give new opportunities to business model innovation but at the same time also poses a challenge. As a result, globalization is changing the business game across countries and national borders. This is especially demanding for managers who have to consider the internal and external resources of their companies, develop and analyze ideas for business model innovation and then weigh up carefully which ideas to further implement. As the business environment, including the needs and tastes of the customers, is changing quickly, firms need to develop capabilities to scan the environment and to draw appropriate conclusions. Finally, managers have to keep in mind that no business model will be successful forever and that business model innovation is necessary for long-term success.
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Abbreviations

BCG  Boston Consulting Group
BM  Business Model
BMI  Business Model Innovation
CEO  Chief Executive Officer
e.g.  exempli gratia (Latin) = for example
et al.  et alii (Latin) = and others
EU  European Union
FDI  Foreign Direct Investment
GDP  Gross Domestic Product
ICT  Information and Communication Technologies
IMF  International Monetary Fund
ff.  and the following pages
MNC  multi-national corporation
NASA  National Aeronautics and Space Administration of the United States of America
p., pp.  page(s)
PMP  Product-Market-Position
sic!  (Latin) = thus, so
WTO  World Trade Organization

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1. Introduction

The focus of this introduction chapter is on the problem and objectives of this thesis. The applied methods and the way the thesis is structured will be explained as well.

1.1. Problem statement

The business model is a very complex phenomenon with little consensus about its definition or its functions. Its "multidimensional and boundary-spanning characteristics make business models equally attractive and slippery as study subjects." (Spieth et al., 2014, p. 242)

In the past, the focus in business research was often mainly on business strategy. However, the business model increases in importance. As globalization is changing the business game, also business model innovation finds its way into the business model literature. Despite that, there is no agreement between academics and scholars. From the definition of the terms, the purpose of a business model and the reasons for and types of business model innovation – even though opinions overlap, no holistic perspective has been developed yet, resulting in misunderstandings and misinterpretations. As this field of research is developed continuously, having no common basis may be problematic in the long run. Thus, there also seems to be a lack of information about which firms do well in business model innovation and why, and what it is that makes business model innovation successful.

1.2. Objectives

This thesis consists of an analytical critical research and discussion of the status quo in business model research. The primary objective is processing, discussing and analyzing the literature on business model innovation, with particular attention to the impact of globalization. Therefore, the research question that will be answered throughout this thesis is: "How is business model innovation influenced by globalization?". Thus, a holistic perspective on business models, business model innovation and the impact of globalization should be developed. This will help business managers to gain a comprehensive overview on the one hand, on the other hand they will be able to get ideas for business model innovation and relate them to their individual situations in the light of globalization.
1.3. Methods

The basis of this master’s thesis is a detailed literature review. Therefore, academic articles and books have been critically examined. The research for the articles has been managed with the help of databases provided by Johannes Kepler University such as EBSCO, WISO and Web of Science. Even though mostly academic articles have been applied for the literature review, the use of selected monographs was indispensable. For providing a better overview and understanding, relevant tables and figures have been used in this paper. If necessary, also certified internet resources have been utilized.

1.4. Structure

This thesis is structured in six main chapters. This first chapter gives information about the problem statement, the objectives and the research question of this paper. Also, the methods and the structure are explained.

The second chapter concentrates on the business model, the basic subject of this thesis. At the beginning, the historical development and the emergence of the business model will be portrayed. As there is no consensus about the definition and the elements of a business model, they will be discussed in detail. Thus, the relationships of the business model to other fields of research, such as strategy or the value chain, will be examined. At the end of this chapter, the reader can find a short summary.

The third chapter deals with the main issue of this thesis, namely business model innovation. At first, the term innovation will be clarified. Then, different definitions of business model innovation as well as inherent elements will be presented. The next subchapter deals with distinct types of business model innovation. Incremental and radical innovations as well as open and closed innovations will be compared. Also, attention will be paid to issues such as crowdsourcing and disruption. Moreover, difficulties that may occur concerning business model innovation will be discussed. In order to provide a holistic approach, the reader will be introduced to frameworks on how to innovate a business model practically. At the end of this chapter, the drivers of business model innovation will be identified.

The fourth chapter informs the reader about the influence of globalization on business model innovation. First, globalization itself will be examined, looking at definitions and drivers of globalization. Second, current and future trends in relation to globalization will be taken into consideration. Third, the causal relationship of globalization and business model innovation
will be pictured in a graphic. Fourth, it will be investigated how globalization is changing the business environment. Reasons why firms go global as well as differences of business model innovation in established companies and start-ups will be regarded. Fifth, the importance of the customers and the roles they are playing in the business model innovation process are considered. Sixth, business model innovation will be looked at from the inside of the firm, also reflecting on the influence of the corporate culture and the role of the leaders and innovators. Finally, at the end of the chapter, the consequences of globalization for business model innovation will be summarized.

The fifth chapter is the final conclusion chapter of this thesis. The reader can find an overall summary of the content. Thus, the research question put at the beginning will be answered. Additionally, the thesis and the topic of this paper will be critically reviewed and ideas for further research are offered.

The sixth chapter consists of a detailed list of references.
2. The business model

Throughout this chapter, the historical development as well as plenty of definitions will be presented and analyzed. Thus, the question about the purpose of a business model will be answered by looking at the elements of a business model. In order to provide a holistic approach, the topic of business models is linked to other related fields of research.

2.1 Historical development and emergence of the business model

A review of the business model literature by Osterwalder et al. (2005) shows that business model is a very young term. Scholars such as Casadesus-Masanell and Ricart (2010, p. 197) and Magretta (2002, p. 87) date the origins of the business model back to the 1950s when Peter Drucker (1956) discussed what it is that makes a business successful.

However, the term became mostly popular since the 1990s when the number of authors mentioning “business model” increased continuously, especially with the rise of information and communication technologies (ICT). During that time, the term was mainly used in the context of technological firms. Then in the 21st century, the focus changed and in more papers the business model was used in a rather general economic context. (DaSilva and Trkman, 2014, pp. 380–381; Osterwalder et al., 2005, p. 4; Seddon et al., 2004, p. 428)

Other scholars also notice increasing interest in business models in relation to challenges such as globalization, developments in technology, deregulation as well as different forms of doing business and of creating value. (Casadesus-Masanell and Ricart, 2010, p. 195; Spieth et al., 2014, p. 238) Some also associate the rise of importance of the business model with the so-called dot-com revolution, meaning that new companies began to compete online. These firms were characterized by different processes and structures compared to the established firms on the market. (Birkinshaw and Ansari, 2015, p. 85)

However, economists like Baden-Fuller and Morgan (2010, p. 167) share the opinion that the focus on models such as model communities or model factories have already been important exemplary cases at the end of the 18th and at the beginning of the 19th century. Like business models today, these have been regarded as examples to be copied or followed when they were successful.

Since the term "business model" has first been mentioned, a plethora of definitions has been developed. For that reason, the next subchapter is dedicated to shed light into this area.
2.2. Definitions of the term business model

In this section, the term business model will be defined. Due to the large amount of definitions, carefully selected definitions will be presented. According to a literature review of Zott et al. (2010) that dealt with the state of the art of business model research, frequently scholars tend to define the term business model only for their field of study instead of a general application. For that reason, Zott et al. identified three major aspects on which the definitions of other authors are most focused on: e-business, strategy issues, and innovation as well as technology management. Selected definitions according to Zott et al., extended by other perceived as relevant definitions after a detailed research conducted in digital databases, can be found in table 1.

<table>
<thead>
<tr>
<th>Author(s), Year, Page(s)</th>
<th>Definitions</th>
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<tbody>
<tr>
<td>(Timmers, 1998, p. 3)</td>
<td>A business model is &quot;an architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues.&quot;</td>
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<tr>
<td>(Linder and Cantrell, 2000, p. 1)</td>
<td>&quot;A business model, strictly speaking, is the organization's core logic for creating value.&quot;</td>
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<tr>
<td>(Amit and Zott, 2001, p. 511)</td>
<td>&quot;A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.&quot;</td>
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<td>(Hamel, 2001, p. 10)</td>
<td>&quot;[...] the major components of a business model: customer interface, core strategy, strategic resources, and value network. These basic components are linked by the three &quot;bridging&quot; components: customer benefits, configuration of activities, and company boundaries.&quot;</td>
</tr>
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<td>(Magretta, 2002, p. 87)</td>
<td>&quot;Business models [...] are stories that explain how enterprises work. A good business model answers Peter Drucker's age-old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that&quot;</td>
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<td>(Chesbrough and Rosenbloom, 2002, p. 529)</td>
<td>A successful business model creates a heuristic logic that connects technical potential with the realization of economic value.</td>
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<tr>
<td>(Mitchell and Coles, 2003, p. 16)</td>
<td>A business model comprises the combined elements of &quot;who&quot;, &quot;what&quot;, &quot;when&quot;, &quot;why&quot;, &quot;where&quot;, &quot;how&quot; and &quot;how much&quot; involved in providing customers and end users with products and services.</td>
</tr>
<tr>
<td>(Afuah and Tucci, 2003, p. 4)</td>
<td>A business model is the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so.</td>
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<tr>
<td>(Seddon et al., 2004, p. 429)</td>
<td>A business model outlines the essential details of a firm's value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers.</td>
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<tr>
<td>(Morris et al., 2005, p. 727)</td>
<td>A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.</td>
</tr>
<tr>
<td>(Osterwalder et al., 2005, p. 3)</td>
<td>A business model is a conceptual tool containing a set of objectives, concepts and their relationships with the objective to express the business logic of a specific firm.</td>
</tr>
<tr>
<td>(Chesbrough, 2007b, p. 22)</td>
<td>A &quot;business model performs two important functions: It creates value, and it captures a portion of that value.&quot;</td>
</tr>
<tr>
<td>(Johnson et al., 2008, pp. 52, 54)</td>
<td>A business model [...] consists of four interlocking elements that, taken together, create and deliver value. These elements are &quot;customer value proposition&quot;, &quot;profit formula&quot;, &quot;key resources&quot; and &quot;key processes&quot;.</td>
</tr>
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<td>(Richardson, 2008, p. 135)</td>
<td>A business model [...] is a conceptual framework that helps to link the firm's strategy, or theory of how to compete, to its activities, or execution of the strategy.</td>
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<tr>
<td>(Lindgardt et al., 2009, p. 1)</td>
<td>&quot;A business model consists of two essential elements—the value proposition and the operating model—each of which has three subelements.&quot;</td>
</tr>
<tr>
<td>(Casadesus-Masanell and Ricart, 2010, pp. 195–196)</td>
<td>A “business model […] is a reflection of the firm’s realized strategy.” (p. 195) &quot;Business Model refers to the logic of the firm, the way it operates and how it creates value for its stakeholders” (p. 196)</td>
</tr>
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<td>(Osterwalder and Pigneur, 2010, p. 14)</td>
<td>&quot;A business model describes the rationale of how an organization creates, delivers, and captures value&quot;</td>
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<td>(Johnson, 2010, p. 7)</td>
<td>A business model &quot;[…] defines the way the company delivers value to a set of customers at a profit. Like a highly specialized organism, this model evolves until it perfectly suits the company's needs – showcasing its competitive strengths, honing its key resources and processes, and eliminating its vulnerabilities.”</td>
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<td>(Teece, 2010, p. 179)</td>
<td>“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value.” A business model is &quot;[…] about the benefit the enterprise will deliver to customers, how it will organize to do so, and how it will capture a portion of the value that it delivers.”</td>
</tr>
<tr>
<td>(Casadesus-Masanell and Ricart, 2011, p. 103)</td>
<td>“In its simplest conceptualization […], a business model consists of a set of managerial choices and the consequences of those choices.”</td>
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</table>
| (Amit et al., 2012, p. 42)                | "We define a company's business model as a system of interconnected and interdependent activities that determines the way the company "does business" with its customers, partners and vendors. In other words, a business model is a bundle of specific activities – an activity system – conducted to satisfy the perceived needs of
<table>
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<tr>
<td>Arend, 2013, p. 391</td>
<td>&quot;We define the business model as a useful representation of how the organization creates value through transforming and transferring matter, by drawing on available factors, fueled by an identifiable economic engine.&quot;</td>
</tr>
<tr>
<td>Chatterjee, 2013, p. 97</td>
<td>&quot;A business model is a configuration (activity systems) of what the business does (activities) and what it invests in (resources) based on the logic that drives the profits for a specific business.&quot;</td>
</tr>
<tr>
<td>Schallmo, 2013, pp. 22–23</td>
<td>&quot;Ein Geschäftsmodell ist die Grundlogik eines Unternehmens, die beschreibt, welcher Nutzen auf welche Weise für Kunden und Partner gestiftet wird. Ein Geschäftsmodell beantwortet die Frage, wie der gestiftete Nutzen in Form von Umsätzen an das Unternehmen zurückfließt. Der gestiftete Nutzen ermöglicht eine Differenzierung gegenüber Wettbewerbern, die Festigung von Kundenbeziehungen und die Erzielung eines Wettbewerbsvorteils.&quot;</td>
</tr>
<tr>
<td>DaSilva and Trkman, 2014, p. 383</td>
<td>&quot;[...] the core of a business model is defined as a combination of resources which through transactions generate value for the company and its customers.&quot;</td>
</tr>
<tr>
<td>Afuah, 2014, p. 4</td>
<td>&quot;A business model is a framework or recipe for making money – for creating and capturing value.&quot;</td>
</tr>
<tr>
<td>DosSantos et al., 2015, p. 46</td>
<td>&quot;A business model is a configuration of activities, the organizational units that perform those activities, the company boundaries in which the organizational units reside, and the linkages among them.&quot;</td>
</tr>
</tbody>
</table>

Table 1: Selected definitions of the term "business model"

One of the earliest and most relevant definitions has been found in 1998. Therefore, it has been tried to present a new definition for each year since then, but for 2006 any new definition
could be found. Thus, it could be noticed that since 2015, mostly literature reviews, analyses or simply adoptions of existing definitions prevail. (e.g. Aversa et al., 2015; Bertels et al., 2015; Gronum et al., 2015; Kohler, 2015; Mahdi and Abbas, 2015; Pisano et al., 2015) Also, it was noticeable that many contemporary authors, such as Philipson (2016, p. 133) and Schaltegger et al. (2016, p. 4) for instance, prefer the definition of Teece (2010).

For analyzing the definitions of table 1, the classification of Spieth et al. (2014) will be used. They categorized the definitions into three areas where each business model is fulfilling a different role, namely “(1) explaining the business, (2) running the business and (3) developing the business” (Spieth et al., 2014, p. 238). The first perspective addresses the question of how a firm can generate profit, with special concentration on external stakeholders. Terms that can be associated with this perspective are: abstraction, description, outline, reflection, representation, statement and story. The second concept is about operational roles, processes and structures within the company and can be associated with activity system, architecture, framework, structural template or method. The strategic utility of the business model is addressed by the third perspective. There the business model is used for supporting the firm's strategy's definition and development. Terms like approach, design or plan, logic, model, conceptual tool, recipe and set of choices/consequences can be associated here. (Spieth et al., 2014, p. 238-240)

However, it is not clear why Spieth et al. assigned the definition of Casadesus-Masanell and Ricart (2011) to explaining the business as their definition is about a set of choices and consequences which would better fit to developing the business.

After looking at the different definitions, it can be summarized that a business model

- can help explain, run and develop the business. (Spieth et al., 2014)
- consists of different elements (Hamel, 2001; Mitchell and Coles, 2003) and interdependent activities which are generating and delivering value. (Amit et al., 2012; Amit and Zott, 2001; Chatterjee, 2013; DosSantos et al., 2015; Johnson et al., 2008; Lindgardt et al., 2009; Zott and Amit, 2010)
- is targeted on expressing the logic of the firm (Casadesus-Masanell and Ricart, 2010; Chatterjee, 2013; Osterwalder et al., 2005; Teece, 2010) or is the logic for value creation itself. (Chesbrough and Rosenbloom, 2002; Linder and Cantrell, 2000; Schallmo, 2013)
- explains how a firm operates, how value can be generated for the stakeholders, especially customers, and how a profit for the firm itself can be realized at the same time. (Afuah and Tucci, 2003; Arend, 2013; Casadesus-Masanell and Ricart, 2010; Chesbrough, 2007b; DaSilva and Trkman, 2014; Johnson, 2010; Magretta, 2002; Osterwalder and Pigneur, 2010; Schallmo, 2013; Seddon et al., 2004; Teece, 2010; Wirtz et al., 2010)
- clarifies how this value can be used to create sustainable competitive advantages on the market. (Morris et al., 2005; Schallmo, 2013)
- is strongly focused on the satisfaction of and long-term relationships with customers. (Afuah and Tucci, 2003; Hamel, 2001; Magretta, 2002; Mitchell and Coles, 2003; Schallmo, 2013; Seddon et al., 2004; Teece, 2010)
- is composed of choices and consequences. (Casadesus-Masanell and Ricart, 2011)
- is a tool for conceptualizing (Osterwalder et al., 2005), an architecture (Timmers, 1998), a method (Afuah and Tucci, 2003), a configuration (DosSantos et al., 2015), a framework (Richardson, 2008) and a recipe (Afuah, 2014).
- reflects the realized strategy of the firm (Casadesus-Masanell and Ricart, 2010) or links the strategy of the firm with its execution (Richardson, 2008).

Throughout the thesis, the reader should keep this summarized definition in mind. In the next chapter, the elements of a business model will be identified.

### 2.3. Elements of a business model

Certain functions and elements are attributed to business models. Yet, opinions differ, similar to the definition of the business model. As one will see, the definitions, functions and elements
cannot be distinguished clearly as they are often overlapping. Subsequently, different proposals of elements and functions that a business model should contain or fulfill according to different scholars will be illustrated and summarized.

There are different viewpoints on business models. Some consider a business model as a way of doing business. Others regard a business model as a concept of doing business. (Osterwalder et al., 2005, p. 3) Also, a business model can be looked at from either a more static or a more transformational perspective. The first has a more descriptive function, explaining how the firm works and how value and revenue are generated whereas the latter is more focused on innovation and change. With the static view, typologies and impacts on performance can be identified, but most of the models are not able to describe business model evolution processes. This task can be fulfilled by the transformational view, helping managers to find out how their business models can be changed. (Demil and Lecocq, 2010, pp. 227-228)

The elements and functions described and explained by different scholars are similar in certain points, however the number of elements varies from four (e.g. Hamel, 2001; Johnson et al., 2008) to fifteen (e.g. Schallmo, 2013) elements. Because of that difference, it has been tried to combine and summarize the elements proposed by various scholars to an outcome of seven elements:

- Value proposition
- Target customer and target market segment
- Profit formula
- Value chain
- Core capabilities
- Value network
- Differentiation and competitive advantage

Scholars agree that a business model needs to include a value proposition. This incorporates the questions of what the customers value, what the problems of the customers are, how the firm is creating value for its customers and especially with which products or services this value can be created. Then, how the problems of the customers can be solved and how they can be satisfied. The value can either concern the price of a certain product (quantitative) or the design for instance (qualitative). These are the grounds why a customer decides for a certain company instead of another. (Afuah, 2014, p. 5; Bieger and Reinhold, 2011, pp. 32–33; Chesbrough, 2007a, p. 13; Chesbrough and Rosenbloom, 2002, pp. 533–534; DaSilva and Trkman, 2014, p. 383; Demil and Lecocq, 2010, p. 234; Johnson, 2010, pp. 25–26; Johnson et al., 2008, pp. 52–54; Linder and Cantrell, 2000, pp. 3–4; Lindgardt et al., 2009, pp. 2–3; Magretta, 2002, p.
Another, frequently mentioned element of a business model is the decision for a target customer or a target market segment. Aspects to consider are for instance whether a mass market or a market niche should be served, which customer type should be addressed and which geographic region should be chosen. Thus, customer segments themselves may be differentiated as well even though they differ only slightly. For instance, customer group A and B have similar interests and needs. However, A has twice as much average income and therefore it is important to distinguish between A and B such that both groups can be satisfied. (Afuah, 2014, p. 5; Bieger and Reinhold, 2011, pp. 32–33; Chesbrough, 2007a, p. 13; Chesbrough and Rosenbloom, 2002, pp. 533–534; Hamel, 2001, p. 10; Johnson, 2010, pp. 24–26; Johnson et al., 2008, pp. 52–54; Lindgardt et al., 2009, pp. 2–3; Magretta, 2002, p. 87; Morris et al., 2005, p. 730; Osterwalder et al., 2005, p. 10; Osterwalder and Pigneur, 2010, pp. 20–21; Schallmo, 2013, p. 118; Teece, 2010, pp. 189–190; Yip, 2004, p. 20)

Many authors call the next central element profit formula. Scholars agree that even though value needs to be created for the customers, it is in the same manner important that the firm delivers profit and generates value for itself. Managers need to think about revenue models, the prices they will offer their products or services for, margin models and the cost structure in general. Often, a company follows different revenue streams for its different customer segments. Common revenue streams are for instance selling the ownership of assets such as a car or selling the access to or the use of a certain service (e.g. fee for the entrance to the gym). In general, business models tend to be either more cost-driven or more value-driven. Cost-driven business models try to keep the costs at a minimum. Therefore, these firms are able to offer their customers their products or services at a lower price. Low-cost airlines such as EasyJet or Ryanair are typical examples. Contrary, value-driven business models focus on creating a superior value for the customers who are willing to pay more for receiving a better service or a premium product. As a result, the cost and revenue structures determine the success potential of a firm. (Afuah, 2014, p. 5; Bieger and Reinhold, 2011, pp. 32–33; Chesbrough and Rosenbloom, 2002, pp. 533–534; DaSilva and Trkman, 2014, p. 383; Demil and Lecocq, 2010, p. 234; Johnson, 2010, pp. 24–26; Johnson et al., 2008, pp. 52–54; Linder and Cantrell, 2000, pp. 3–4; Lindgardt et al., 2009, pp. 2–3; Magretta, 2002, p. 87; Morris et al., 2005, p. 730; Osterwalder et al., 2005, p. 10; Osterwalder and Pigneur, 2010, pp. 30–33, 40–41; Schallmo, 2013, p. 118; Teece, 2010, pp. 189–190; Wirtz et al., 2010, p. 274)
Example: no frills business model of a low-cost airline

Southwest Airlines was the first U.S. airline that offered direct flights at low cost but still with good customer service and reliability. The managers assumed that the people prefer to buy cheaper tickets and a no-frills service. With a standardized aircraft and exclusively direct sales, the company managed to become the largest low-cost airline worldwide up to now. (Teece, 2010, pp. 176–177) Thus, Southwest Airlines can be regarded as a disruptor that changed the airline industry and started a totally new market. (Markides and Sosa, 2013, p. 329) The major focus of Southwest Airlines is to save costs. In general, the price for a flight is about ten or twenty percent less compared to its competitors. This attracts new customers, increases sales and revenue and as a result, reduces costs. (Mitchell and Coles, 2004, p. 21) As the cost-driven business model of Southwest Airlines turned out to be so successful, it has been copied by companies such as EasyJet or Ryanair. (Morris et al., 2005, p. 732; Osterwalder and Pigneur, 2010, pp. 24, 41; Teece, 2010, pp. 176–177)

The fourth element proposed by most scholars is the value chain which concerns the resources necessary for producing and offering the product or service. This includes decisions about the structure of the value chain, such as the nature of inputs and outputs, which processes will be operated in-house and what will be outsourced, are the products or services standardized or customized, what does the distribution channel (how the offering gets to the customers) look like? For being successful, a firm must find the proper balance between internal, own channels and channels they have indirectly over partners. With this balance a company can best create value for its customers and thus generate value for itself as well. (Bieger and Reinhold, 2011, pp. 32–33; Chesbrough, 2007a, p. 13; Chesbrough and Rosenbloom, 2002, pp. 533–534; DaSilva and Trkman, 2014, p. 383; Demil and Lecocq, 2010, p. 234; Hamel, 2001, p. 10; Johnson, 2010, pp. 24–26; Johnson et al., 2008, pp. 52–55; Linder and Cantrell, 2000, pp. 3–4; Lindgardt et al., 2009, pp. 2–3; Morris et al., 2005, p. 730; Osterwalder et al., 2005, p. 10; Osterwalder and Pigneur, 2010, pp. 26–27, 34–35, 38–39; Schallmo, 2013, p. 118; Teece, 2010, pp. 189–190; Wirtz et al., 2010, p. 274; Yip, 2004, p. 20)

Even though some of the scholars include core capabilities in the value chain element, many propose them as important individual element. Core capabilities include for instance skills, knowledge, resources and competences required to execute a certain business model. The success of a business model strongly depends on the resources and activities are company uses. Depending on the business model, different types of resources and activities can be used. Resources can be physical, intellectual, financial and human. Concerning the activities, firms need different capabilities depending on their industry. Most of the companies may need

The importance of a **value network** is emphasized by various scholars as well. This network concerns the external channels and relationships of the firm as well as components such as suppliers and partners for instance. Alliances between firms are created in order to reduce risk and to leverage the benefits of each company. If every firm is doing what it is best in, the combined output is better than the output one single firm could ever achieve. Further, the value network is also about the type of relationship the firm aims to achieve with its customer segments. Thus, managers need to think about what kind of relationship their customers might expect. Depending on the business model of the company, the type of relationship may vary from automated service and self-service to deep personal assistance of the customer. (Chesbrough, 2007a, p. 13; Chesbrough and Rosenbloom, 2002, pp. 533–534; Hamel, 2001, p. 10; Linder and Cantrell, 2000, pp. 3–4; Osterwalder et al., 2005, p. 10; Osterwalder and Pigneur, 2010, pp. 28–29, 38–39; Schallmo, 2013, p. 118)

A lot of authors also consider **differentiation** and the creation of a **competitive advantage** as eminent element of a business model. Questions to consider are for example: How can a firm position itself on the competitive market? How can a sustainable competitive advantage be created and how can the business model be developed in order to maintain this advantage? (Afuah, 2014, p. 5; Bieger and Reinhold, 2011, pp. 32–33; Chesbrough, 2007a, p. 13; Chesbrough and Rosenbloom, 2002, pp. 533–534; Hamel, 2001, p. 10; Lindgardt et al., 2009, pp. 2–3; Morris et al., 2005, p. 730; Schallmo, 2013, p. 118; Teece, 2010, pp. 189–190; Yip, 2004, p. 20)

To sum up, the definitions, elements and functions of business models have been dealt with by scholars at length. Even though the perspectives and opinions differ, it has been possible to summarize them as many elements were just referred to by different names.

## 2.4. Relationships to other fields of research

Throughout this chapter, the relationships of the business model topic to other fields of research will be examined. First, the term "strategy" will be closed off the term "business model". Then, the value chain and the value network will be studied before customer
relationship management, ecosystems and the resource-based view will be considered with regard to the business model issue.

2.4.1. Strategy

Yip (2004, p. 24) shares the opinion that there is a large conceptual difference between strategy and business model. Thus, it is the manager's task to distinguish between these two concepts. Casadesus-Masanell and Ricart (2010, p. 196) recognize a lack of understanding and differentiation between the terms "business model" and "strategy" themselves, thus they offer a distinction. A strategy "refers to the choice of business model through which the firm will compete in the marketplace" (Casadesus-Masanell and Ricart, 2010, p. 196). It is not only a decision about the business model, but about its detailed configuration, including any kinds of happenings that might take place. As a repetition, according to Casadesus-Masanell and Ricart (2010, p. 205) a business model is about the organization's logic, its ways of operating and value creation. Thus, they claim that the business model of a company reflects the realized strategy.

In connection with this, DaSilva and Trkman (2014, p. 383) state that strategy – which is oriented towards a more long-term perspective – is responsible for the development of certain capabilities (more medium-term focus) that can in turn change the short-term oriented or present business model such that it can deal with any happenings in the future. As a result, an interdependency between strategy and business model can be identified – strategies are kinds of preconditions for the development of a business model and depending on the business model, managers have different choices available. (Casadesus-Masanell and Ricart, 2011, p. 196)

This interdependency theory is shared by Teece (2010, p. 179) who is of the opinion that a business strategy is more detailed than a business model which tends to be more generic. However, Schallmo (2013, p. 41) notices that Teece does not explain why a business model is more generic than a strategy. Teece further states that the combination of strategy and business model is a requirement for the creation of a sustainable competitive advantage. Therefore, a careful analysis of the strategy is required if a business model that is sustainable should be designed. (Teece, 2010, p. 180) However, Casadesus-Masanell and Ricart (2010, pp. 205–206) claim that every firm has a business model as it is continuously making decisions while this does not mean that a firm necessarily has to have a strategy as well. Additionally, DaSilva and Trkman (2014, p. 383) state that a business model is a description of what the company is at present while the strategy explains what a firm wants to become in the future.
According to Chesbrough and Rosenbloom (2002, p. 535), business model and strategy differ because the latter is stronger focused on the threats of competition and on value capture while the business model is targeted more on value creation for the customer. Moreover, a strategy is more concerned with the financial dimension of creating value for the shareholders (e.g. calculations, analytics) whereas the business model does not deal with it this much. Likewise, Magretta (2002, p. 91) explains that dealing with competition is the task of a strategy. A business model describes how the firm operates and how all the elements included match. Also, for Seddon et al. (2004, p. 429) the business model represents an abstraction of the strategy of an organization on some level (organization as defined by Porter 1996). The main difference lies in the focus on competition that is attributed to the latter but not to the earlier.

Moreover, Zott and Amit (2008, p. 5) offer a detailed comparison of business model and product market strategy. Like scholars mentioned earlier, they see the focus of a strategy on competition and on decisions about the firm's position on the market. Contrary, a business model is concentrated on exploiting opportunities, connections with product markets and factor markets, which resources and capabilities to use and how to control the transactions. Thus, a strategy deals with decisions about how to enter a certain market, what products or services to be sold or provided for which customers in which geographic area. It is internally and externally oriented but mostly on the firm in general whereas the business model's unit of analysis is more externally oriented, namely the focal firm and the network it is embedded in. Overall, a product market strategy and the design of a business model can better be regarded as complements instead of substitutes. This view is shared by Mitchell and Coles (2003, p. 16) who state that any strategy can be enforced through the improvement of a business model. According to them, a strategy is a set of plans and actions about how to use the resources of the firm in order to create and keep a sustainable competitive advantage.

In a nutshell, even though scholars propose different relationships and differentiation elements between strategy and business model, they agree that these terms should not be used similarly and that they are to be clearly distinguished. Bieger and Reinhold (2011, p. 26) append that thinking in business models completes the strategic planning with the value dimension inherent to the business model. Thus, a strategy serves as a frame as well as a precondition for a business model (Schallmo, 2013, p. 43).

2.4.2. Value chain and value networks

As it has already been demonstrated, many scholars regard the value chain and the value network as important elements and functions of a business model. For instance, Zott et al.
(2010, pp. 41–43) explain that Porter (1985/1996) has described the value chain as activities that a firm performs such that value can be added for the firm and its processes and thus value can be delivered to the customers as well. However, as originally the value chain was only focused on the internal side of the firm, other concepts like the value network arose. The latter takes the increasing complexity, especially of firm relationships, thus the ecosystem of the firm and the changing business environment, into consideration. As a result, it can be summarized that the scope of the original value chain framework may be too narrow for business model analysis whereas the value network concept can broaden the business model perspective.

2.4.3. Customer relationship management

Customer relationship management is mainly focused on marketing and sales with the goal to learn more about the firm's customers, to build a tighter relationship with them, thus to understand them better and as a result, to generate value for them which in turn leads to more profit for the firm itself. (Hedman and Kalling, 2003, p. 56) According to Chen and Popovich (2003, p. 682), customer relationship management is like an overall business model itself with special focus on customers. This requires understanding the customer from scratch – from employee to manager, everybody in the firm needs to capture the customer perspective. (Chen and Popovich, 2003, p. 685)

2.4.4. Ecosystems

The term "ecosystem" originates from biology. Moore (1996) suggested to stop talking about industries and to use the term "business ecosystem", in which firms and individuals interact, instead. Firms cannot be successful alone – they need to be embedded in a certain ecosystem, which is the same like in a natural ecosystem. This implies a different understanding of a business concerning competition. As a result, different levels of cooperation are needed for firms in order to be successful. However, cooperation can happen through a relationship of dependency or complementarity and support. (Zott et al., 2010, p. 38)

Likewise, Baden-Fuller and Morgan (2010, pp. 157–165) compare model organisms of biology as well as mathematical models of economics with business models. In biology, real life objects such as laboratory mice are used to represent kinds of life. In economics, it is more common to use mathematical objects for the representation of relationships for instance. This means that individual examples are used to represent a wider class, like the laboratory mice are representatives of all mice as well as for mammals, their general class. In a business sense, a certain McDonald's restaurant can be a representative of the company McDonald's whereas
McDonald’s can be regarded as a representative for a certain firm type, namely franchising. Even though all franchise systems are somehow different, McDonald’s is treated as a benchmark and as a model for franchising. But what is the most relevant difference between the models of management, biology and economics? Most important is the difference of knowledge as by experimenting, managers know a lot more about interdependences, correlations and elements because they are parts of the organization and thus have some inside knowledge. This inside knowledge is what distinguishes business models from the models of other disciplines. Magretta (2002, p. 90) also sees this similarity of management and science. There is a hypothesis at the beginning, then it is tested in practice and finally verified or if necessary revised.

Further, Baden-Fuller and Morgan (2010, p. 157) try to show what roles models and modeling play in relation to business models. By comparing role models and scale models for example, they argue that business models are tools for classifying and that they are valuable for the development of certain ideal types and for a better understanding of the field. Scholars use business models to describe typical behaviors or kinds of firms and also how they create and capture value. Business models are also often linked with the firm’s name or with a certain type of doing business, such as the low-cost airline model or the McDonald’s business model.

Thus, business models may be considered as practical models that can be copied and are open for innovation and variation. In this sense, business models can be seen as recipes. They give advice or demonstrate something, with always focusing on the output. That means that they include some general principles that should be followed and details that can be used or applied as well. With the help of business models, managers can explain and describe different types of business behavior. Firms can thus follow or take certain aspects of ideal-type business model examples that have already been tested in the real world. When viewing business models as recipes, they are not just principles that have to be followed in order to be successful – they offer certain ways, mostly based on a general idea, how a business can be successful. (Baden-Fuller and Morgan, 2010, pp. 165–166)

Osterwalder et al. (2005, p. 8) agree and think of the business model as a building plan with the help of which the systems and the structure of the business can be modeled and realized. From this point of view, the business model as a concept is a tool for defining the characteristics and activities of a business, thus a certain type of behavior and at the same time explaining why this works. However, it is important to keep in mind that even though managers can follow a recipe, not all of them can actually make a business model work. (Baden-Fuller and Morgan, 2010, p. 167)
2.4.5. Resource-based view

As it has been already discussed, many scholars regard "resources" or "core competences" as important elements of a business model. Here a relationship of the business model issue and the resource-based view of the firm proposed by Barney (1991) can be assumed. (DaSilva and Trkman, 2014, p. 382) According to Barney, a competitive advantage can be created when the firm follows a strategy that is focused on value creation and that is not implemented by any competitor. A sustained competitive advantage can be delivered when additionally, these other competitors cannot copy the benefits the firm is gaining from its value creation strategy. However, sustained does not mean that the advantage lasts forever, but instead for a certain period of time. (Barney, 1991, pp. 102–103) A resource needs to fulfill four characteristics for being a potential source for sustained competitive advantages:

First, "(a) it must be valuable, in the sense that it exploit [sic!] opportunities and/or neutralizes threats in a firm's environment, (b) it must be rare among a firm's current and potential competition, (c) it must be imperfectly imitable, and (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable." (Barney, 1991, pp. 105–106)

However, some scholars object that neither resources alone can generate value for the customers nor can only the resource-based view explain the business model subject's complexity. Instead, it is also the transactions using resources that are relevant for the value creation for customers and the firm itself. (DaSilva and Trkman, 2014, p. 382) Criticism also concerns the fact that the resource-based view disregards the external business environment as well as external resources. As a result, this perspective is not fully applicable for the value network. (Pynnönen et al., 2012, pp. 3–4)

Contrary to Barney (1991), Collis (1994) argues that sometimes organizational capabilities can be a source of sustained competitive advantage, but they differ in places, time and industry. Thus, the value of a certain organizational capability depends on the context. (Collis, 1994, pp. 150, 143) Nonetheless, the relationship between the business model issue and the resource-based view cannot be denied. Following, the chapter on business models will be summarized.

2.5. Chapter summary

The term "business model" increased in importance mainly from the 1990s, going hand in hand with the rise of ICT. Nearly every year, new definitions of the term are proposed and so a plethora of them exists. However, it can be summarized that a business model consists of
different elements and fulfills distinct functions that are targeted on generating value for the customers and at the same time delivering value and profit for the firm itself. Then, with this value the business model has the potential of being a sustained competitive advantage. Elements that many authors agree on are value proposition, target customers and target market segment, profit formula, value chain, core capabilities, value network, differentiation and competitive advantage.

Further, the business model topic is related to other fields of research such as strategy, value chain and value network, customer relationship management, ecosystems and the resource-based view. Following, the next chapter focuses on business model innovation.
3. Business model innovation

Chapter three concentrates on the innovation aspect of business models. At the beginning, relevant definitions and elements of business model innovation will be explained for a better understanding of the subject. Then, different types of business model innovation will be examined. Difficulties concerning business model innovation will also be considered. Further, it will be discussed how a business model can be innovated in practice. Finally, the drivers of business model innovation will be identified.

3.1. Definition of the term innovation

Over the last decades, the term "innovation" has become so popular that most of the companies want to focus on it. However, for many of them this idea quickly turns into an unrealizable goal. One reason may be the fact that many business managers associate innovation with something radically new, with a breakthrough – even tough also small changes or step-by-step innovation are possibilities. (Debruyne, 2014, pp. 53–54)

But what is innovation? As with the term business model, there is no agreement on the term innovation neither. The origins of the term can be found in the Latin language. Innovation results from the words "novus", meaning new, and "innovatio", meaning renewal. Even though there is no agreement on the definition, scholars agree on the elements that any innovation might contain. Innovations are qualitative new products, services, processes or methods that can be distinguished clearly from what is currently existing on the market. The goal is to create superior and long-term value. (Völker et al., 2012, p. 18)

According to Kelly and Booth (2004, p. 90), innovation "involves the ability to think differently, to come up with a new idea, a fresh take, a unique offering". Continuously, the business model's role in innovation management is increasing. A business model can be innovated in different ways, one example is the value innovation. With a new value proposition, a product or a service can be offered that is superior to those of the competitors. A value innovation is also often associated with new value chain architectures that are related to business model innovation. This means that value creation may happen on a certain level with the aim to become a specialist in this area. So-called pioneers are able to introduce a completely new step in the value chain in order to gain competitive advantage. (Völker et al., 2012, pp. 50–52)

The relationship of innovation and the business model is explained by Schallmo (2013, pp. 23–25) when he states that innovation can be regarded from a results-oriented and a process-oriented perspective, referring to Gerpott (2005). The results-oriented perspective is strongly
focused on increasing profit for the firm. When innovation is looked at from a process-oriented perspective, it consists of a set of decisions and activities with the aim to create a new product or service for the market. The often quite complex and multi-level business model innovation process similarly is a process of activities and decisions with logical and temporal relationships. These are necessary for the development, the implementation and the commercialization of the business model. In the next section, views from different scholars on business model innovation will be outlined.

3.2. Definitions and elements of business model innovation

As with the definition of the term "business model", scholars' opinions on the definition of "business model innovation" differ. Put most simply, business model innovation explains how a company is changing its business model. (Birkinshaw and Ansari, 2015, p. 85) Afuah (2014, p. 4) defines the terms business model, innovation and business model innovation: "A business model is a framework or recipe for making money – for creating and capturing value. Innovation is about doing things differently from the norm. Therefore, a business model innovation is a framework or recipe for creating and capturing value by doing things differently."

Therefore, Osterwalder and Pigneur (2010, p. 5) suggest to date the development of business model and business model innovation back to the 15th century "[...] when Johannes Gutenberg sought applications for the mechanical printing device he had invented" and thus did something differently.

Markides (2006, p. 20) for instance defines business model innovation as "[...] the discovery of a fundamentally different business model in an existing business." Lindgardt et al. (2009, p. 2) explain that business model innovation requires that "[...] two or more elements of a business model are reinvented to deliver value in a new way. Because it involves a multidimensional and orchestrated set of activities, BMI is both challenging to execute and difficult to imitate."

Mitchell and Bruckner Coles (2004, p. 41) do not fully agree as they speak of a business model improvement when four or more elements are changed. Thus, Mitchell and Coles (2003, p. 17) define business model innovation as "[...] replacements that provide product or service offerings to customers and end users that were not previously available" and as a "[...] process of developing and making these novel replacements." If a firm continuously improves its business model, then they call this "continuing business model innovation" and when a
company is only imitating the business model of another firm, it cannot be called business model innovation but better a "business model catch-up". (Mitchell and Coles, 2003, p. 17)

Girotra and Netessine (2014, p. 98) view business model innovation as modifications to decisions concerning what kinds of products or services a firm will offer, why this decision has to be made as well as who has to decide it and when. When changed successfully, the company can expect a better interplay of risks, costs and revenue.

Osterwalder and Pigneur (2010, p. 244) claim that business model innovation is the result of different objectives such as "(1) to satisfy existing but unanswered market needs, (2) to bring new technologies, products, or services to market, (3) to improve, disrupt, or transform an existing market with a better business model, or (4) to create an entirely new market."

Overall, business model innovation is an alternative to traditional product, process and organizational innovation. Additionally, it also includes certain forms of collaboration or cooperation. (Zott et al., 2010, p. 18) A business model can be innovated in different ways. Either new activities are added or newly linked or it may be changed who is performing which activity. New business models can be the root of a new competitive advantage. Thus, business model innovation is necessary because it can be a source of sustainable value, it is harder to imitate than a single product or process and it is a powerful tool to shake off competitors. It can also be only incremental changes, but still very effective ones. (Amit et al., 2012, pp. 41-43)

The different types of business model innovation are discussed in the next chapter.

The importance of business model innovation is emphasized by Debruyne (2014, pp. 204–205) as well when she explains that firms are more successful when they start the innovation from the business model compared to companies that focus on product or service innovation. These firms are then successful because through innovating their business models, they are becoming unique – unique in the sense of unique resources, first-mover advantages or monopoly positions as well as customer loyalty. Moreover, these companies act differently to their competitors, they do things differently as usual in a particular industry. Thus, they are building up imitation barriers which reinforce their success.

Teece (2010, p. 187) also advises managers to constantly consider business model innovation in such a way as to keep a sustained competitive advantage for their firm. He mainly concentrates on technological innovation and explains that all such innovations have an impact on the business model. However, if there are only minor changes, such as in the manufacturing process for instance, the business model as a whole must not be innovated. If the management
is planning a more radical technical innovation, more changes of the current business model and as a result, innovation is necessary. (Teece, 2010, p. 186)

Thus, firms that engage in business model innovations are able to reshape and change the game and the rules of the game of entire industries. (Afuah, 2014, p. 4; Johnson et al., 2008, p. 52) Those that do well in business model innovation innovate in a different, non-traditional manner. Turned away from the prevailing way of thinking, the main focus is on the target customers and on how value can be created from them. This unconventional manner also requires to rethink the needs and wants of current customers, the target market itself and the whole process of delivering value to the customers as well as to the firm. (Debruyne, 2014, p. 204) IKEA, for example, changed the game of the furniture industry with its "[...] in-stock, take-it-home-and-assemble-it-yourself kits [...]" (Christensen et al., 2007, p. 61) Its customers value this so-called IKEA experience with its simplicity, in-house child care and a self-service restaurant, for instance, and appreciate its difference to traditional retailers. (Christensen et al., 2007, p. 61)

For that reason, the explanation of business model innovation by Schallmo (2013, p. 29), based on existing literature and definitions, and Afuah (2014, pp. 11–12) will be used as reference throughout this thesis, as they summarize and combine many of the proposed definitions above:

- Business model innovation means doing certain things in a different way and the (rules of the) game of an industry are changed as well.
- Either the whole business model or at least one element is innovated.
- The innovation can be incremental or more radical.
- The main focus is on the customer, but also competition and the industry need to be considered. It is about creating better value for the customers while also capturing more value for the firm itself.
- Throughout the business model innovation process, the model itself is developed, implemented or merchandised.
- The goal is to combine the elements in such a way that new value can be created by combining new or existing capabilities and the new customer value proposition.

With this new value creation, the company can distance itself from its competitors, can strengthen the relationships with its customers and can create a competitive advantage because imitability becomes more difficult. (Schallmo, 2013, p. 29) Throughout the next chapter, the reader will be introduced to distinct types of business model innovations.
3.3. Types of business model innovation

Scholars have identified different types of business model innovation. However, as with the definitions of the terms business model and business model innovation, there is also a disagreement on the types of business model innovation. Therefore, different types of business model innovation will be examined in this chapter.

Giesen et al. (2007, pp. 27–29) distinguish between innovation in industry models, revenue models and enterprise models. An innovation in the industry model encompasses innovation in the value chain of the firm. This includes either moves to new industries, changing the game of existing industries or developing totally new industries or segments of industries. If the revenue model is innovated, the way how the firm generates and delivers value must be changed. By offering new modes of pricing or by changing the offering itself, an impact on the customer's experience, preferences and choices can be recognized. Innovation of the enterprise model involves the innovation of the firm's structure and thus also changing the role the company is playing in different value chains. Organizational boundaries are to be redefined through integration. Specialization and network collaborations play an important role here. Throughout their study of 35 cases, Giesen et al. (2007, pp. 27–31) found out that enterprise model innovations, with a focus on networking and collaboration, were most common, but with a tendency to be fulfilled by older firms. Another finding was that even though breakthrough innovations were mostly initiated by new entrants, revolutionary efforts can be made by any firm on any stage. Also, all three models can result in financial success.

Similarly, Lindgardt et al. (2009, pp. 5–6) identified three different innovation patterns, namely innovation of the value proposition, of the operating model and of the business system architecture. Concerning the value proposition, a firm might offer its product or service for free or mostly free or it may promise its customers a special experience when using it. For instance, many software firms make use of the so-called freemium business model, meaning that their basic product or service is offered for free while the customers have to pay for the premium version including additional features and services. By offering something for free, the firm can easily attract new customers. When they like what they get for free, they tend to be more willing to pay for the premium version as it still seems to be cheaper for them (as the basic version is free). (Teece, 2010, p. 179) If the operating model must be innovated, the firm could shift its focus to direct distribution or low-cost for instance. When the business system architecture, meaning the integration of the innovation in the business environment or business ecosystem, has to be innovated, it might take the form of a person-to-person or open innovation. (Lindgardt et al., 2009, pp. 5–6)
Thus, Pisano (2015, pp. 50–52) suggests that if a company wants to be successful in innovation, managers have to decide whether they want to focus more on business model innovation, more on technological innovation or similarly on both. If a firm concentrates on routine innovation, the managers try to exploit the existing business model by using the firms’ existing technological capabilities and competences. An example would be Apple Inc., a MNC specialized on technology, when it introduced a new version of its iPhone. Radical innovation incorporates leveraging the existing business model with new technologies. Contrary, with disruptive innovation a new business model is developed while sticking with the existing technological competences. It somehow disrupts the existing way of doing business in the industry. An architectural innovation is most difficult to achieve as it combines a new business model with new technologies. A photography firm such as Kodak for example, that originally focused on paper photos and then had to switch its software as well as hardware towards digital photography, is an example for architectural innovation.

Pisano (2015, p. 21) adds that most of the innovations are routine innovations and that it does not necessarily mean that only architectural innovations can be successful. However, firms should focus on both – incremental, routine innovations as well as breakthrough architectural innovations. As there is no best method or no magic formula, managers need to consider different factors which have an impact on the innovation decision: "the rate of technological change, the magnitude of the technological opportunity, the intensity of competition, the rate of growth in core markets, the degree to which customer needs are being met, and the company’s strengths." (Pisano, 2015, p. 51)

Afuah (2014, pp. 12–15) also suggests four different types of business model innovation along two variables: regular, position-building, capabilities-building and revolutionary innovation. As the rules of the game change with business model innovation, the degree to which existing services and products are turned into something non-special, meaning that through business model innovation they are devaluated as competition material, is the first variable. The second variable encompasses the degree to which business model innovation turns existing and former important capabilities into something out-of-date – as the rules of the game change, also the required capabilities change.

When a firm follows the type of regular business model innovation, existing capabilities are used. Even though the new business model will take market share, the firms which are using the old business model can still be profitable as well. An example for this innovation type is the company Dell which introduced a new business model in the 1990s. Suddenly, customers were able to create their own computers by directly buying from Dell and by ordering the
components they liked to be included in the computer. Although this business model was something totally new, it did not change the rules of game itself too much. Existing, conventional customer-distributor-producer-relationships were still the most common on the market. (Afuah, 2014, p. 13)

**Example: direct sales or build-to-order business model**

*Dell Inc.* is one of the most successful producers of personal computers and computer equipment. By manufacturing easy-to-use computers, innovating its supply chain and selling directly to its customers, *Dell* has become a role model for the direct sales business model. (Magretta, 2002, p. 92; Sawhney et al., 2006, p. 76) As *Dell* does not stock any components, it customizes its products, uses the newest material and saves money. That is why it has also become a role model for build-to-order business models. (Euchner and Ganguly, 2014, p. 33) Even though *Dell* is selling customized products, its prices can still compete, it is more convenient for the customers as the computer is also home delivered and thus the customers are more satisfied. Also, over time, *Dell* has developed capabilities to build a supply chain and a distribution channel that is hard to replicate, preventing the company from its competitors. This is what makes *Dell* so successful. (Linder and Cantrell, 2000, p. 7; Magretta, 2002, p. 92; Teece, 2010, p. 180)

Much more changes of the rules of the game occur by a position-building business model innovation. Existing services and products are devaluated competitively by this new model while the existing capabilities still remain useful and necessary. When *Wal-Mart* first opened its retail store outside the city, mainly in small towns, it followed such a position-building business model innovation. By using the same capabilities, many local entrepreneurs were set non-competitive as *Wal-Mart* was able to offer cheaper prices. (Afuah, 2014, p. 14)

**Example: discount-retailing business model**

*Wal-Mart*'s business model is successful because its founder Sam Walton decided to bring his discount retail store to small towns where no other store at this size could have survived. (Teece, 2010, p. 180) Thus, *Wal-Mart* puts lots of effort into the management of its value chain. With its global network of stores and distribution centers, *Wal-Mart* could build a close relationship with its suppliers. By cultivating this relationship, *Wal-Mart* developed a strong bargaining power with them and was able to create a logistics infrastructure that is hard to replicate. This logistics system, which is still continuously improved, allows *Wal-Mart* to keep its costs low and offer its products at a cheaper price than its competitors. (Afuah and Tucci, 2003, p. 214; Amit et al.,
2012, p. 46; Casadesus-Masanell and Ricart, 2007, p. 12; Chesbrough, 2007a, p. 13; Nunes and Breene, 2011, p. 83; Osterwalder and Pigneur, 2010, p. 35) Therefore, Wal-Mart could easily leverage its first-mover advantage. (Teece, 2010, p. 180) Also, the company uses the same business model successfully all over the world. (Linder and Cantrell, 2000, p. 12) Discount retailers like Wal-Mart offer a broad selection of low-priced products to attract customers. Because of the sales volume, they can offer more discounts than their competitors. (Linder and Cantrell, 2000, p. 7) In its industry, Wal-Mart has the largest market share. (Keiningham et al., 2014, p. 40)

The same amount of changes of the rules of the game can be noticed with capabilities-building business model innovations. Instead of innovating its position, a firm changes its existing or adapts new capabilities required for pursuing this model. Existing products or services, that are linked with the old business model, remain competitive. An example for this business model innovation is the coexistence of petrol and ethanol. Even though a firm that concentrates on ethanol has to develop certain new capabilities, existing cars that go with petrol are still profitable. (Afuah, 2014, p. 14)

However, the rules of the game are most changed when a company is going the route of a revolutionary business model innovation. The capabilities needed for this kind of innovation are entirely different to existing, former successful ones. Also, the products and services developed from older business models are not competitive anymore then. Creating and capturing value gets a new meaning and former value chain activities become obsolete. When the MNC eBay started its online auctions, this was an example of a revolutionary business model innovation. The rules of the game of an auction were completely changed and face-to-face or offline auctions were not competitive anymore. (Afuah, 2014, pp. 14–15)

Afuah (2014, p. 15) further explains that even though a business model innovation may start as a regular one, it does not necessarily mean that it cannot become another type in the future as well. Often, revolutionary innovations start as regular ones first and then start with their breakthrough.

For analyzing business model innovation in existing businesses, Dos Santos et al. (2015, pp. 47–49) offer a typology. They distinguish between four categories, namely reactivating, relinking, repartitioning and relocating. When a firm is reactivating its business model, it is changed in such a way that activities are added or removed from the current business model. Relinking encompasses innovating the interdependence of the firm’s units by changing the nature of interdependence or the sequence of input and output. Relinking also means
innovating and moving the governance concerning transactions between the hybrid, the market and the hierarchy in the existing model. Repartitioning happens when a company is moving its organizational elements beyond the boundaries of the firm while the activities themselves stay the same. This involves either insourcing, outsourcing or reassigning. When the firm is relocating, certain activities are physically, culturally or institutionally located differently. If the geographic location is changing from the home to a foreign country, it is called off-shoring. If it is the other way around, this is on-shoring. Dos Santos et al. (2015, p. 49) further state that they mainly analyze the company with regard to business model change as the business model itself lies within the different business units of the firm. Thus, any business model change has to start inside the business units.

Linder and Cantrell (2000, pp. 10–13) also deal with the question of how and why companies change. Therefore, they developed four change models, meaning paths that a firm is following for being profitable in the future as well. When a firm is using a realization model, its aim is to maximize profit, returns and the potential from the current business model and its core logic. This type may be applied for instance for geographical expansion, extensions of the product or service line or introduction of new service or sales channels. However, the level of change is the smallest of the four proposed models. Most of the firms that follow a renewal model are pursuing the goal of keeping their level on the value or price curve. By continuously revitalizing the service and product range, the cost structure, technology or brands, these firms put lots of effort into outperforming its competitors. Firms that follow extension models, aim at expanding their businesses by focusing on new product and service lines, new markets and new functions of the value chain. Importantly, these new aspects complete and do not replace the existing organizational operations. Forward, backward and horizontal integration are very common for extension models. Journey models lead the firm into a new direction. The company is moving completely without the intent to return. With the decision for globalizing for instance, it is sure that the firm will follow a new way and will not be a local player anymore in the future. The degree to which the core logic of the firm changes differs a lot between these four change models. While the realization model is not really changing the logic at all, the renewal and the extension model can change it whereas it is sure that a journey model leads the firm into a completely new direction.

Four types of business model innovation are also proposed by Cavalcante et al. (2011, pp. 1330–1334). Business model creation is mostly concerned with ideas about the business model and how to get the business model running. Managers may have this idea that will have to deal with several difficulties – such as creating interest and commitment of other employees and the firm owners for instance or getting enough financial capital – until it can be realized.
When all difficulties can be overcome, the most crucial step is the implementation of the idea. Challenges that may be faced are for instance attracting customers for the product or the service as well as balancing value creating for the customer and value capture for the firm. However, it can be difficult to find the appropriate balance being persistent and flexible. (Cavalcante et al., 2011, pp. 1331–1332)

Firms that follow business model extension have already closed the idea creation and implementation process. Either contemporary activities are expanded or new ones are added such that new business opportunities can be exploited. Difficulties for this type of innovation include, above others, attracting new financial capital, recruiting new employees and coordinating old and new activities. (Cavalcante et al., 2011, pp. 1332–1333)

Contrary to business model creation and extension, business model revision innovates current working manners and practices. Revision means that existing processes are changed and replaced by new ones. This may be necessary for different reasons: because a firm wants to exploit opportunities that require these new processes, because the current business model of the company is not effective anymore, because the customer needs cannot be satisfied anymore, because of competitors’ moves that have to be dealt with or because new entrants on the markets have changed the game and thus new processes are required to meet these new demands. Most probable challenges are path-dependency and inertia within the company. Business model revision is a type of radical or disruptive innovation. (Cavalcante et al., 2011, pp. 1333–1334)

The fourth type is business model termination. Within this type, processes are either removed or completely abandoned. This can mean that a certain business unit or business area is closed or that the whole company is shut down. Common challenges that may arise are differences of opinions of the managers and the owners of the firm. Cavalcante et al. (2011, pp. 1334–1337) further explain that their four-type-framework is characterized by analytical simplicity and that in practice, these types cannot be distinguished from one another that easily. They are often interlinked, especially business model revision and business model extension. As there are different business model elements and different key processes, also different levels of change can be required at the same time or within the same company. Further, business model innovation is not only driven by the market, but also by people within the firm who recognize that change is needed and who are willing to deal with change.

In addition to that, Saebi (2015, pp. 148–151) is suggesting that only three types of business model change can be distinguished: business model evolution, business model adaption and
business model innovation. Business model evolution concerns "[...] the effective standardization, replication, implementation, and maintenance of the existing business model." (Saebi, 2015, p. 150) The goal is to continuously make minor and incremental adjustments within the existing activities and processes, without changing the core logic of the firm. Contrary, the aim of business model adaption is to adjust the company to its changing environment. The changes are more irregular and can be incremental as well as radical. Thus, novelty must not necessarily be included in the change, meaning that it can also be something already existing on the market or in the industry. As with evolution and adaption, business model innovation can include changes of the existing business model but it can also result in the development of a new business model. The degree of change has to include something fully new to the industry. Here, change is mostly radical and often lots of business units or different business components are involved. At this point, Saebi refers to the three types of business model innovation by Giesen et al. (2007), mentioned at the beginning of this chapter.

Different viewpoints of scholars on the types of business model innovation have been presented. Now, the following can be summarized:

- Business model innovation is different from product or service innovation as well as from technological innovation. However, they are interlinked on some level as business model innovation often involves changes of the value chain or technological changes.
- Scholars distinguish between established companies and new entrants in the industry concerning the types of business model innovation.
- Even though most of the authors suggest different types of business model innovation (see table 2), they always differ between a more incremental and a more fundamental business model innovation type.
- By explaining distinct kinds of business model innovation, the scholars mainly try to answer three questions: HOW is the business model innovated? WHAT exactly is innovated? WHY is it innovated?
- Furthermore, most of the academics reflect on the impact on the competitors within the industry while considering different paths of business model innovation that a firm may follow.

To sum up, business model innovation can allow any business to leverage opportunities – in times of a challenging environment as well as in times of flourishing economic growth. However, the right business model innovation type has to be chosen. This depends on external and internal factors such as the business itself (e.g. employees, corporate structure, culture), the business environment and its dynamic or more general the opportunities of the market.
(Giesen et al., 2010, p. 17) In the following subchapters, different types of business model innovations will be looked at and compared with each other.

<table>
<thead>
<tr>
<th>(Afuah, 2014)</th>
<th>incremental</th>
<th>fundamental</th>
</tr>
</thead>
<tbody>
<tr>
<td>regular</td>
<td>position-building</td>
<td>capabilities-building</td>
</tr>
<tr>
<td>(Cavalcante et al., 2011)</td>
<td>creation</td>
<td>revision</td>
</tr>
<tr>
<td>(DosSantos et al., 2015)</td>
<td>reactivating</td>
<td>relinking</td>
</tr>
<tr>
<td>(Giesen et al., 2007)</td>
<td>enterprise model</td>
<td>operating model</td>
</tr>
<tr>
<td>(Linder and Cantrell, 2000)</td>
<td>realization</td>
<td>renewal</td>
</tr>
<tr>
<td>(Lindgardt et al., 2009)</td>
<td>operating model</td>
<td>value proposition</td>
</tr>
<tr>
<td>(Pisano, 2015)</td>
<td>routine</td>
<td>disruptive</td>
</tr>
<tr>
<td>(Saebi, 2015)</td>
<td>BM evolution</td>
<td>BM evolution or adaption</td>
</tr>
</tbody>
</table>

Table 2: Types of business model innovation in comparison

3.3.1. Incremental and radical innovation

An incremental innovation refers to improvements, adaptions, enhancements or refinements of a firm's existing services or products. The aim is to better satisfy the customer, may it be a current or a potential one, by including new features or aspects and thereby creating extra benefits. By comparison, radical innovation usually includes something substantially new to the industry, the market and the firm. This embodies new technologies and an obviously higher benefit to the customers compared to the products and services currently available on the market. (Varadarajan, 2009, p. 21) According to Debruyne (2014, p. 54), it is necessary for any firm to be able to well implement incremental innovation before reaching for a breakthrough. Innovation can become successful in the long run when it is included on a daily basis, meaning continuous and incremental improvements. Pisano (2015, pp. 50–51) agrees that if a firm wants to keep its competitive advantage, constant investments in innovation are necessary. Thus, a firm that follows a disruptive innovation strategy for instance also needs to be successful with routine innovations.
However, a firm seems to be most successful when it simultaneously pursues incremental as well as radical innovation strategies. Therefore, Kanter (2006) introduced the so-called innovation pyramid which consists of three levels. At the top of the pyramid one can find "a few big bets" (Kanter, 2006, p. 80) that define a clear path for the future and get most of the firm's innovation investments. At the middle level there are several promising ideas of which designated teams are concerned with. At the bottom of the pyramid lies the broad base of incremental innovation ideas. When thinking of the innovation process as a pyramid, activity and participation can be assured at all levels, creating a culture of innovation where everyone can participate within the firm. (Kanter, 2006, p. 80)

An example for radical as well as incremental business model innovations is the airline Rynair. When Ryanair almost had to go bankrupt at the beginning of the 1990s, the managers decided to adopt the business model of Southwest Airlines. Then, the traditional full-service airline Ryanair radically changed into a no-frills-service airline. (Casadesus-Masanell and Ricart, 2010, p. 203) Following, it will be illustrated which choices result in which consequences that allow Ryanair to stay competitive. By using secondary airports, the company has to pay lower airport fees. By offering lower ticket prices than its competitors, many people buy their tickets, increasing their sales volume. By relying on a standardized fleet of aircrafts, Ryanair developed a strong bargaining power with its suppliers and thus saved money as well. As nothing is offered for free, the customers have to pay extra for meals or luggage for example which allows the firm to generate extra revenue. As a result of these choice-consequence-relationships, Ryanair was able to survive and now it is able to keep its business model while continuously trying to improve and innovate. (Casadesus-Masanell and Ricart, 2010, pp. 198–199) Ryanair's strategy is to "[…] reduce the perceived fare price to the lowest possible compared to other airlines, in order to attract customers." (DaSilva and Trkman, 2014, p. 383) As resources are combined successfully, such as the standardized fleet of aircrafts, and value is generated through transactions, Ryanair keeps being successful with its business model. (DaSilva and Trkman, 2014, p. 384)

### 3.3.2. Open and closed innovation

Even though many authors mostly concentrate on incremental or fundamental innovation, a distinction between open and closed innovation is essential. In the past, most of the companies were following a closed innovation process. Managers used to believe that control is necessary for successful innovation and that all new ideas have to be generated inside the company. Research and Development departments received major attention and investments. Firms tried hard to protect their intellectual property from competitors and thus to earn profit on the
market. However, at the end of the 20th century, more companies seemed to fail with their innovation strategies. It became harder for companies to control their knowledge, their expertise and ideas. The brightest people within a company were not dependent anymore on their employers – if the firm did not appreciate their ideas, they could pursue them on their own by creating start-up companies as more firms were willing to invest venture capital. (Chesbrough, 2003, pp. 35–36)

But why does it seem like the closed innovation model has had its days? The fact that product life cycles are shortened and the costs for developing new technology are rising continuously are two main reasons for a change of the game in many industries. Open business models can find a remedy in these cases. On the one hand, they deal with the cost side by looking for external resources concerning research and development of ideas. On the other hand, they deal with the revenue side by cooperating with other firms through licensing or venture capitals for instance. (Chesbrough, 2007b, pp. 22–24) Hence, open innovation means that traditional innovation processes are opened up to path the way for the exchange of external and internal ideas. (Debruyne, 2014, p. 8)

But how can opening business models help firms to be more successful? Intellectual property is no longer locked in, ideas are screened differently, joint ventures and licensing agreements are common. (Chesbrough, 2003, p. 37) New opportunities through time and cost savings allow the firm to participate in other market segments and thus generate more revenue. As mentioned earlier, a main factor for successful business model innovation is the willingness and ability to experiment with business models. Therefore, CEOs and managers need to have courage as well as vision and faith in other employees and business partners. (Chesbrough, 2007b, pp. 24–28) Table 3 summarizes the different principles and assumptions concerning open and closed innovation.
<table>
<thead>
<tr>
<th></th>
<th>Closed innovation</th>
<th>Open innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Knowledge</strong></td>
<td>All the smart people are in our firm.</td>
<td>We can and should find many other smart people outside of the firm.</td>
</tr>
<tr>
<td><strong>Research &amp; Development</strong></td>
<td>We need to keep all Research &amp; Development inside the firm in order to profit.</td>
<td>It is most valuable when external and internal Research &amp; Development are combined.</td>
</tr>
<tr>
<td><strong>Source of new ideas</strong></td>
<td>When we discover all new ideas ourselves, we can be the first on the market.</td>
<td>We can also get the ideas from outside to gain the profit.</td>
</tr>
<tr>
<td><strong>The first vs. the best</strong></td>
<td>We will win when we are the first to launch commercial.</td>
<td>It is more important to create a better business model than being the first on the market.</td>
</tr>
<tr>
<td><strong>How do we win?</strong></td>
<td>We will win when we develop the best and the most ideas.</td>
<td>We will win when we use internal as well as external ideas at the best.</td>
</tr>
<tr>
<td><strong>Intellectual Property</strong></td>
<td>Intense control or our intellectual property is necessary in order to protect it from our competitors.</td>
<td>We should share our intellectual properties on the market – others can profit from the use of ours and we can buy other ones.</td>
</tr>
</tbody>
</table>

Table 3: Principles and assumptions of closed and open innovation (Source: Chesbrough, 2003, p. 38)

Managers who are interested in open innovation have to deal with three questions: Should the idea-generation process be opened? Should the idea-selection process be opened? Or should both, the idea-generation and the idea-selection, processes be opened? The selection of the right approach for innovation is crucial for success. So managers have to find out if the knowledge required for the solution of an innovation problem can be gained from a few people or if plenty of skills are needed. If the latter applies, firms should open their idea-generation processes. The next question managers should ask themselves is whether external people have proper knowledge about customer needs and then if they are willing to offer their ideas to the company. (King and Lakhani, 2013, pp. 41–48)

The idea-generation process has been opened by NASA for instance. The NASA did not know how to construct a laundry system for their International Space Station. Hence, people have been asked to solve the problem. The toy company LEGO Group for example opened its idea-selection process. LEGO includes its customers in the decision about which landmark buildings to be developed next. Wal-Mart as well invites its customers to choose which new products the firm should offer in the retail shelves or in the online shop. Other firms like ModCloth invite their customers to vote on designs and give feedback to drafts. In this case, the clothing community is able to take part in the decision of which t-shirts will be produced or
not. (King and Lakhani, 2013, pp. 44–45) Thomke and von Hippel (2002, p. 77), for instance, suggest to develop a tool kit for the customers to best include them in the innovation process. Four aspects need to be included in the kit. First, the customers must be able to design their products through learning by doing, such as computer simulation where they can easily try different alternatives. Second, the tool kit has to be easy-to-use for any type of customer (meaning without technical language, for instance). Third, a large amount of elements has to be suggested to customers so that they can only decide in between a certain spectrum of possibilities. Fourth, it has to be ensured that in the end, any design of the customer can be produced. This requires the announcement of limitations and capabilities of the production itself within the tool kit.

Even though opening up the innovation process has many advantages such as moving risks and costs to external people, also some difficulties can be associated with this model. To mention one, outsiders might have special ideas but they are less valuable when they do not fit with the brand or profit strategy of the firm as outsiders usually do not have enough insight into the firm’s internal processes. King and Lakhani (2013, pp. 45–48) mention that managers need to evaluate carefully whether an open innovation strategy – what and how to open – is the right approach for their company.

3.3.3. Crowdsourcing

While some authors (e.g. Kohler, 2015) regard crowdsourcing as a type of open innovation, others (e.g. Pisano et al., 2015) consider it a business model type itself. For instance, crowdsourcing can be defined as "[…] a business model in which a company or an institution entrusts the design, implementation or project development, object or idea to a group of previously unorganized people." (Pisano et al., 2015, p. 190) More general, crowdsourcing means that instead of using the knowledge of the employees, a firm is using a certain crowd, that is not embedded in the firm structure, and its ideas for reaching business goals and for solving particular problems. So this process is opened up for external people. (Pisano, 2015, p. 53; Pisano et al., 2015, p. 190) A business model that is based on crowdsourcing is constituted by three elements. First, the crowd-based business model must also be an open business model. Second, this kind of business model is highly influenced by and dependent on technology. Third, value creation, that originally happened within the organization, is transferred to the crowd. This is also related with the question of how much value can be captured in the firm itself then. (Kohler, 2015, pp. 64, 82)
However, crowdsourcing has advantages and also disadvantages. The fact that the crowdsourcing-based business model is driven by the crowd is essentially different from conventional transactions between consumer and producer. (Kohler, 2015, p. 82) More specific, it can be a disadvantage that all solutions proposed by the crowd need to be tested and evaluated quickly and not all kinds of problems allow such a time-consuming procedure. Thus, modular systems tend to be more suitable for crowdsourcing as the crowd can focus solely on solving a certain problem without having to consider other influential aspects. (Kohler, 2015, p. 63; Pisano, 2015, p. 53)

Contrary, an advantage is for instance that a large amount of people has the chance to get involved with a business and a business development process. Reversely, a firm is able to get the knowledge of people who they might not have got in contact with at all without the crowdsourcing initiative. Value can be created with the help of unknown people. A new solution may be found quicker as well as more efficiently as everyone involved limits oneself to what he or she is best at. Furthermore, when a customer is invited to participate in the crowd, the firm can identify the customer needs, then respond better and more easily. Therefore, the relationship and bonding with the customers can be intensified. On the one hand, costs can be reduced when less employees have to be paid and instead the crowd gets a small fee. On the other hand, the talented people can be identified that may work for the firm in the future. As a result, the company can be more productive which leads to more profit. (Kohler, 2015, pp. 63–66; Pisano, 2015, p. 53)

Moreover, the innovation of a business model that is based on crowdsourcing can change the way of doing business in an industry fundamentally. This is especially challenging for the established firms on the market which have to decide whether to stick to their former successful business models or to follow this new kind of doing business. However, it is crucial to find a crowd that is willing to engage in creating value for the firm and a crowd that also has a certain knowledge that may be required for this engagement. (Kohler, 2015, pp. 63–64)

After all, having in mind the disadvantages, a crowdsourcing-based business model can result in a strong competitive advantage. When certain people can be turned into a valuable crowd for the business, this is something that can hardly be replicated by its competitors. (Kohler, 2015, p. 66)
3.3.4. Disruptive innovation

As the term "disruptive" has already been mentioned several times, it is necessary to specifically define the term. Christensen et al. (2015, p. 46) complain that too many researchers rashly use the phrase disruptive innovation for describing any circumstance that is churning up a certain industry. Rather they state that according to their idea, disruption "[…] describes a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses." (Christensen et al., 2015, p. 46) Further, they explain how this is possible. As usually incumbents tend to focus on their most profitable customer segments, they often forget about the needs of their other customers. This is the chance for new entrants who start focusing on these customers, frequently by offering their products or services at lower prices. At first, the incumbent firms might not respond and continue concentrating on their highly profitable and more demanding customers. However, during that time, the new entrants build up relationships with their customers, satisfying them better than the established firms. And that is when disruption has occurred on the market. (Christensen et al., 2015, pp. 46–49) This process is pictured in figure 1.

![Figure 1: The disruptive innovation model (Source: Christensen et al., 2015, p. 49)](image)

Markides (2006, pp. 20–22) claims that business model innovation is not about discovering new services or products. Instead, it is about redefining the meaning and the distribution channel of an existing service or product. Usually, a different customer group, compared to the ones existing firms are serving, is attracted by a new business model. Also, new business models require other value chains that may not fit with the value chain of established companies. As a result, the latter do not have the motivation to adopt or react to the new business models as well. But as with time the new business model may allow the firms superior performance compared to those still using the old business models, established companies
may get interested in the new models as well. However, the balance between or combination of new and old business models is the difficulty for established firms. Often, this is not possible at all and that is why business model innovations tend to be called disruptive to existing firms and their current ways of doing business.

For that reason, Markides (2006, p. 22) sees three options where it does really make sense for established firms to create disruptive business model innovations. The first option is, when an established firm is entering a new market and its competitors there have first-mover advantages. Then a disruptive business model innovation can change the game on this market. When the firm's existence is in danger and the disruptive business model innovation can be used to counteract a crisis, this is the second option. And the final option is, when the firm aims at making a product appealing to the mass market and therefore a radical product innovation might be the most useful way.

Whenever an established firm wants to react to disruption, it has to evaluate first if the new market is that attractive and if the firm itself is in the position for dealing with it. Of course, an incumbent cannot ignore a new entrant, but it has to make its decision carefully. Even though the new market or market segment may be interesting for the new entrant, it does not necessarily mean that it will also be profitable for the established firm. Managers need to consider whether it makes more sense to better focus on the current customers and to further develop the current business model, or whether much more value can be created with the new market segment and probably the development of a new business model. (Markides and Oyon, 2010, pp. 42–44)

When the firm decides to react to the disruption, the managers have to find out if maybe the new customers can also be satisfied with the existing business model or if a new model has to be developed. If it is the latter, managers need to find out how to cope with two business models (the new and the old one) then. Furthermore, it is not enough to simply copy the business model or the market entry strategy of the disruptors. Instead, a business model has to be developed that is able to somehow disrupt the business model of the disruptors. Only then an incumbent can be successful with the new business model. (Markides, 2015, p. 139; Markides and Oyon, 2010, pp. 45–47) Other scholars explain that an incumbent firm should not start a disruptive innovation of the current business model if it is still profitable. When the company wants to react to the disruption of the new entrant anyway, it could start an own division that focuses on the new opportunities in relation to the disruption. (Christensen et al., 2015, pp. 50–51)
Example: disrupt the disruptor

When Nintendo lost market share to its competitors that disrupted the video games industry, the company decided to react by disrupting the disruptor. It was looking for a different target group and emphasized different functions. Finally, it developed the Nintendo Wii – a gaming console for families. The competitors, Microsoft (Xbox) and Sony (PlayStation), obviously did not expect this reaction which allowed Nintendo to reach leadership in the video gaming industry again. (Markides and Oyon, 2010, p. 29) The new business model of Nintendo can be characterized by a "[…] shift in focus from "hardcore" to casual gamers, […] elimination of state-of-the-art chip development and increased use of off-the-shelf components, reducing costs and allowing lower console prices; elimination of console subsidies resulting in profits on each console sold."

(Osterwalder and Pigneur, 2010, p. 230)

The decision about how independent the new business model should be from the core business is crucial for success. Markides and Oyon (2010, p. 47) propose the reflection of the following: What name should the separate business unit get? Should it be rather different or more similar to the parent company such as with Nestlé and its coffee chain Nespresso for instance? Should the new business unit be located near the parent firm? Should the business unit be fully owned by the parent company or only by a small percentage? Should certain activities of the value chain be shared or should the business unit be allowed to develop them on its own? Can the separate business unit develop its own values or culture for example, or does it have to follow the parent company? The scholars suggest that there is no right or wrong answer, but instead managers need to think about all these aspects individually for their firms, keeping in mind the specific frame conditions.

Example: Nestlé – Nespresso

When its industry was disrupted by the coffee chain Starbucks, Nestlé, "the world's largest food company" (Osterwalder and Pigneur, 2010, p. 236) reacted by innovating its business model and developing a new business unit called Nespresso. (Markides and Oyon, 2010, p. 29) This was a necessary step as Nestlé's line Nescafé and Nespresso were strongly competing against each other. Originally, Nestlé was targeting the mass market with its instant coffee Nescafé, sold indirectly through supermarkets. Contrary, Nespresso is producing and selling an espresso coffee maker machine and capsules as luxury goods directly to wealthy customers. But when Nestlé decided to set up a new individual business unit for Nespresso, this turned out to be a great success. (Markides and Charitou, 2004, p. 25; Markides and Oyon, 2010; Osterwalder and Pigneur, 2010, p. 236) As a wholly-owned subsidiary, Nespresso was
allowed to develop its own business model with an independent leadership. Therefore, it was able to position the brand in the luxury sector and to address a new, more wealthy customer segment. Through different channels of distribution and new external partners that co-produced the coffee machines, Nespresso quickly reached market share. (Giesen et al., 2010, p. 21; Saltmarsh, 2009, pp. 1–3) Thus, Nespresso knows how to lock their customers in. As the machines only work well with the original Nespresso capsules, they make the customers buy and use the highly priced capsules as otherwise the company does not guarantee for any problems with the machine. (Amit et al., 2012, p. 45) Moreover, Nespresso spends lots of money on advertising. With actors, such as George Clooney for instance, the business unit was able to symbolize a certain lifestyle that many people want and that comes along when drinking Nespresso coffee. (Saltmarsh, 2009, pp. 1–2) Overall, the business model of Nespresso is still successful, with more than 35 percent growth rates over the last decade. (Osterwalder and Pigneur, 2010, p. 236)

According to Christensen et al. (2015, pp. 48–50, 53), it is important to recognize that disruptive innovation is not a one-time occurrence, but a process that can take time. Also, managers need recognize that not every innovation that is disruptive necessarily has to result in success. However, from their point of view, firms can be most successful when established firms, that want to respond to disruption in their market, create a separate business unit. This unit should be protected and supervised by the parent company but be allowed to develop its own disruptive business model. Markides and Oyon (2010, p. 48) agree. They also found out that successful firms allowed their separate business units to operate on their own, to build up own cultures and values, to have own CEOs and finally giving them financial freedom.

Further, Markides (2015, pp. 125–128) examined what differentiates firms that are successfully reacting to disruption with the implementation of a new business model from those who are not able to do so. He found out that the business units of successful companies had more autonomy, financially and operationally, and that they were also allowed to develop certain elements, such as an own culture or budgetary system, on their own. The balance between this autonomy and freedom and a still close relationship to and cooperation with the parent company seemed to be decisive for the successful business model innovation. Thus, the success is attributable to following factors:

- "strong shared values between the parent and the unit;
- transfer of people between the two and use of common conferences to make them feel part of one company;
- subjective incentives that encourage cooperation between the two;
hiring outsiders to staff the unit but using an insider to lead it;  
• having the general manager of the unit sit on the Board of the parent;  
• using common projects to get people working together; and  
• using common goals that both could aim for." (Markides, 2015, p. 128)

As a result, the decision about the business model (adaption of the existing model or adoption of a new model) as well as for which activities the business units receive autonomy and which not to separate from the parent company is important. Markides (2015) found out that established firms need to develop a new business model – one that is different from the existing model it already uses on the market and that is different from the winning business model the disruptors are using. Even though this does not necessarily mean that the firm will be successful, at least it increases its chances on the market. However, developing a new business model for disrupting those who have disrupted the market in the first place is a challenging task. A major difficulty are conflicts that will occur between existing and new business models. If a company aims at managing two (or more) business models at the same time, the ability to balance recurring conflicts and strong leaders are required. Moreover, it seems to be most promising when the company can simultaneously compete with the disruptors, no matter what kind of value proposition they are offering, and also improve the firms' own value proposition in such a way that the consumers regard its product or service superior than the competitors' which is just not good enough anymore. (Markides, 2015, pp. 125–128, 139–142)

Example: Gillette and Bic razors

The Gillette business model has been introduced in 1904 by King C. Gillette who developed the first razor and razor blade system that has been disposable. (Osterwalder and Pigneur, 2010, p. 105) This allows the customers to acquire the basic product at a cheap price or even for free. However, the expendable materials are sold a lot more expensively. That business model has become quite popular and companies from different industries make use of it. (Linder and Cantrell, 2000, p. 7; Osterwalder and Pigneur, 2010, p. 105; Teece, 2010, p. 177) When being attacked by its most famous competitor Bic, that is offering cheap disposable razors, Gillette turned the attention of its customers to the performance of its product. The company wanted its customers to think about what they really deserve and what they expect from a razor and similarly explaining them that Bic razors are not good enough for them. (Markides and Sosa, 2013, p. 331) Up to now, Gillette is still the most valuable shaving brand. Because the company patented its products, no competitor is able to produce substitutes for Gillette's razor handles. A similar scenario can be noticed with office
supplies. For instance, inkjet printers are often offered cheaply while the customers have to reach deep in their pockets for the ink cartridges. (Osterwalder and Pigneur, 2010, p. 105)

To sum up, it is mostly a new entrant to the market that is disrupting the current way of doing business there. Somehow, established firms need to react. As de Jong and van Dijk (2015, p. 10) point out, incumbents can also be disruptive, but therefore they need to face certain difficulties. Markides (2015, pp. 139–140) agrees and mentions that thinking of a business model that can disrupt the business model of the disruptors is easier said than done. When incumbents come up with a good idea, they have to deal with implementation. However, this should not come at the expense of the main business of the company. As "[…] managing two conflicting business models at the same time requires strong leadership, ambidextrous mindsets, and the ability to continuously juggle ever-changing balances between conflicting demands and priorities" (Markides, 2015, p. 140), a firm may be most successful when it develops a new business model for entering a new market (instead of trying it with the existing business model). Therefore, the next chapter deals with difficulties that may arise in relation to business model innovation.

3.4. Difficulties with business model innovation

The relationship between business model innovation and firm performance has been empirically studied by Zott and Amit (2007, pp. 183–187) for instance. They consider novelty and efficiency as important themes for the business model design which are the independent variables in their study. Firm performance on the other hand is the dependent variable. According to them, a company can create value when it manages to increase the willingness of customers to pay for its product or service or when it is able to decrease the opportunity costs of its business partners. The more value can be delivered for the firm and its stakeholders, the higher is the total value. The relationship between firm performance and business model innovation has also been empirically studied by Morris et al. (2013, p. 62). They found out that there is a strong interrelationship between the elements of a business model. It is not the characteristics of the elements themselves, but the combination of these elements that influence and determine the performance of a company.

However, business model innovation seems to be difficult in practice. Different authors explain why. One goal of business model innovation is to gain a competitive advantage among competitors. Such an advantage can be created when the elements of a business model fit tightly. The tighter the elements, the more difficult it is for a competitor to imitate the business
model. However, this tightness might turn into a disadvantage when it comes to business model innovation. This depends on whether the change is incremental or radical. If it is the latter, the change of one element will highly influence the rest of the business model. Moreover, when the change does not fit, is uncoordinated with or isolated from the existing elements, the intended innovation might fail. If the elements are too complementary, any attempt to change may be complex and unfruitful. Because of that, detailed research has to be done in order to maintain a certain balance of the elements of the existing business model. Whenever an existing business model will be innovated, any firm will have to deal with certain challenges. (Foss and Stieglitz, 2014, pp. 10–18)

Even though it is required to well handle incremental innovation for being successful, it can become disadvantageous for firms when innovation happens in the wrong aspects. (Debruyne, 2014, pp. 55–56) calls them "feature bloat", "overshooting" and "meaningless differentiation". Feature bloat occurs when a company tries to be innovative in such a way that its product or service turns out to be multifunctional. But at the same time it can become too complex so that the customers lose interest in it. Overshooting is when a product or service is not really required anymore by the market and as a result, customers do not want to pay more for additional offerings and thus lose interest. Meaningless differentiation happens when a firm only focuses on distinguishing itself from its competitors, in other words to outperform them, instead of looking at the needs of their customers (Debruyne, 2014, pp. 53–56).

Likewise, Ahuja and Morris Lampert (2001, p. 522) identified three traps that may hinder a firm from being successful with breakthrough innovation, namely "familiarity trap", "maturity trap" and "propinquity trap". The first refers to the situation when the familiar tends to be favored over the unknown. When the mature is preferred instead of the emerging, a firm might step into the maturity trap. If the managers are always looking for solutions similar to existing instead of new solutions, a breakthrough innovation may not be possible. Hence, it is suggested to experiment with and explore technologies that are completely new (the firm has no experience with it), pioneering (they do not build on any existing technologies) and emerging (they are fully new to the industry) in order to succeed in breakthrough innovation. (Ahuja and Morris Lampert, 2001, pp. 522–523) Whether a manager aims at innovating incrementally or radically, having in mind the arguments of Debruyne, Ahuja and Morris Lampert can be beneficial for being successful.

Moreover, firms might fail in business model innovation because of a lack of definition of the terms business model and business model innovation. Thus, firms often fail in understanding their existing business models. That is why they do not know when to exploit the existing model
and when a new model is required. (Johnson et al., 2008, p. 52) Also, firms may fail in business model innovation because they lose track and do not know anymore why they invested in this kind of innovation in the first place. They tend to forget that the business model innovation is not the end of the road but instead a matter for staying and continuing on the road. Additionally, managers fail to execute their business model innovation and get caught solely on their idea, either because they do not want to commit themselves and the resources of the firm too much or because they lack of motivation and knowledge. (Debruyne, 2014, pp. 205–206)

Anyway, Pisano (2015, p. 46) does not fully agree because in his opinion, the reason why many firms struggle to innovate is more deeply rooted that just failing in execution, namely in the lack of a good innovation strategy. Such a strategy needs to be individually developed for every firm because applying the innovation system of another, perceived as successful company, will not succeed. Being successful requires a connection of the business strategy, the innovation strategy which has to be articulated clearly, and the value proposition of the firm. (Pisano, 2015, pp. 46–48)

Also, Lindgardt et al. (2009, pp. 2–5) from the Boston Consulting Group (BCG) asked themselves what might go wrong concerning business model innovation and they identified seven possible, quite common problems: "Portfolio Bloat", "Failure to Scale Up", "Pet Ideas", "Isolated Efforts", "Fixation on Ideation", "Internal Focus" and "Historical Bias" (Lindgardt et al., 2009, pp. 4–5). Portfolio bloat may happen when the firm has concentrated mainly on uncoordinated innovations with little resources and no support of the top management. Failure to scale up occurs when a project was exiting at first but does not receive enough attention afterwards and thus cannot be further developed. When a company has to deal with projects that seem to be unfruitful but managers are not willing to fully let them go, Lindgardt et al. call them pet ideas. For being able to concentrate on promising ideas, it is necessary to finally cut them off. If ideas have been developed by autonomous teams of the firm, they might not fit with the business itself and as a result, these isolated efforts will not get any support. Fixation on ideation is a problem as creativity is an important aspect of innovation, but only the first step. When internal focus dominates, there is a high chance for failure as the customer needs and other environmental influences might not be sufficiently taken into consideration. The last possible problem is called historical bias meaning that a firm must be willing to look forward and not to get stuck too much in the past. A good leadership is necessary for this task. Even though business model innovation seems to be a more difficult task than product or process innovation, it is also more promising and more powerful with higher and more sustainable returns. (Lindgardt et al., 2009, pp. 2–5)
A major problem for any firm is to decide what exactly, how and when to innovate the business model. For example, if a company decides to innovate its business model in such a way that it becomes crowdsourcing-based, the level of change is high. Different skills and firm structures are needed to be able to deal with certain challenges that might occur. For instance, the role of the customers as well as the role of the company will change. A former consumer turns into an active value co-creator. A firm that formerly concentrated on selling its products or services then has to provide ways for interactions. Also, the value has to be shared with the crowd and the firm has to find new ways of capturing value for itself. Thus, certain strategies that may have been suitable for traditional business models might not be valid anymore as value creation is more networked instead of linear then. All these aspects have to be taken into consideration when a firm decides to open its business model for the crowd. (Kohler, 2015, p. 67)

The following chapter provides an overview on different frameworks on how to innovate a business model in practice.

**3.5. Business model innovation in practice**

After looking at the different types of business model innovation, different practical frameworks will be presented in this chapter. However, it has to be mentioned that these frameworks only represent a extract of all the frameworks available. Continuously, scholars and researchers propose slightly adapted or completely new frameworks for business model innovation.

As any other capability, also the capability for business model innovation can be developed according to the BCG. For being successful, it is necessary to discover the innovation opportunities of the current business model. However, this does not mean that a company must also develop new models – those that first implement the idea (even though it originates from others) on the market will be the winners. In addition, firms need to decide if they want to develop the new business model within the existing core business or if it should be developed as a new, separated unit. The first option can seem to be the easiest and most convenient, however it means disruption of the current way of doing business. The balance between the old and the new business model is also crucial for success, as it has been dealt with in the last chapter. A new business model does not necessarily replace the old one. As a result, managers need to defend the current position of the old business model on the market while thinking forward and continuously working on the development of new business models as to be a jump ahead of the competitors. (Lindgardt et al., 2009, pp. 5–6) "BMI requires a distinct
set of processes and capabilities to overcome an organization's short-term focus and also to sustain a BMI advantage on a continuous basis.” (Lindgardt et al., 2009, p. 6)

The idea that business model innovation needs special skills that a firm has to develop is shared by Sinfield et al. (2012, p. 85). Therefore, they suggest experimenting with the business model, meaning to look for alternative business models to increase growth. According to them, a business model should be considered a variable instead of a constant. Thus, the exploration of alternative business models is more a process rather than a one-time event. Then it is possible to build a routine for continuously and methodically analyzing the improvement opportunities of the business model. Thus, the firm can better react to changing customer tastes as well as new technologies. First, a company needs to create a template for answering the following questions: "Who is the target customer? What need is met for the customer? What offering will we provide to address that need? How does the customer gain access to that offering? What role will our business play in providing the offering? How will our business earn a profit?” (Sinfield et al., 2012, p. 86) Additional questions that can be helpful are for instance whether a product or a service should be sold, whether this should be rather customized or standard, or whether it should be consumable or long-lasting. The different answers then represent different sets of decisions that can be combined (as the business model is regarded as a variable) and deliver different possible results. In this way, distinct combinations can be revealed. However, only some of the combined choices can be used in practice as they also have to match with the firm's mission, goals and boundaries. Keeping in mind these limitations, a firm can profit from business model experimentation. By answering different questions and combining the answers, the managers are able to get a broader view on the company's options and potentials concerning competition, value creation for themselves and for their customers, research and development. Even though Sinfield et al. (2012, pp. 86–90) admit that accomplishing business model experimentation successfully is a challenging task for most of the companies, it can be a valuable source of competitive advantage.

McGrath (2010, p. 253) also shares the opinion that experimentation is crucial for the success of a business model. Changes in the business environment offer opportunities for the development of a new business model or for further development of the existing model. In order to identify the most effective business model, experimentation is needed.

Furthermore, Giesen et al. (2007, p. 32) claim that if there was a perfect business model innovation strategy, it would definitely include a fit between the industry and its competitors, the strength and weaknesses of the firm itself and other relevant characteristics such as the size of the company for example. In order to decide how the business model should be properly
innovated, Giesen et al. suggest some questions that might help the firm. Questions that are important for understanding the industry of the firm are: Are there any business models currently emerging in the industry that also drive the competition? Are these emerging business models coming from within the industry or outside? Is the innovation in the industry more incremental or radical and what might the firm itself be able to learn from successful innovators in its industry? For defining the contemporary situation of the firm, following questions should be considered: What level of innovation – more radical or more incremental – is the firm currently following? How does this relate to the firm’s industry? Is the change in the industry initiated by the firm itself or by others? Which areas are the new business models focused on? With regard to the firm’s individual situation and characteristics, is it following an enterprise, revenue or industry model innovation strategy? The last block of questions is related to building the capabilities required for business model innovation: Is the development of the industry somehow predictable so that the firm can consider this in its industry business model innovation strategy? How can the firm take advantage of new value offerings and new revenue models? Does the firm fully understand and make use of its uniqueness, its resources and capabilities? How can the firm develop its enterprise business model innovation strategy with them?

Questions that Lindgardt et al. (2009, pp. 6–7) suggest for starting a business model innovation are: What is it that is not satisfying the customers with the current business model? Can the firm offer the customer a better value proposition compared to its competitors? What other business models might become successful in the industry and gain some market share? From the point of view of an industry outsider, how could they profit from the weaknesses of the industry? How can promising business models be identified, realized and embedded in the company? What has to be changed within the firm and its current way of doing business? Is it already an emergency that the firm has to change? And how can the firm prevent its business model from being substituted or copied?

As it has been already mentioned, Girotra and Netessine (2014, p. 98) consider business model innovation as changes to what the firm offers, when something is decided, who is responsible for the decision and why the decision is made. If these changes are successful, it can result in overall profit for the firm – more revenue, less risk and costs.

Concerning the most promising product and service mix offered, managers should try to identify common grounds of their products or services. Then it is possible to reduce risk in production for instance, such as the company Volkswagen does for instance. As similar components are used for all its cars, production can easily be shifted between the different
models. Also capabilities can be a common ground resource. As for example Amazon.com, Inc., the largest online retailer, that can simply offer different kinds of products as all of them need the same capabilities in logistics. Another possibility for achieving a successful product and service mix, is to reduce risk in general. An airline could engage itself in passenger and cargo transportation, so that the highest possible revenue can be generated with each airplane. Another change that may be possible is the time frame of the firm’s decisions. A key decision can either be postponed (e.g. the prices for seats on the same flight can vary a lot), split into smaller key decisions or the traditional way of decision-making can be changed by opening up the innovation process for instance. Thus, firms may improve when the decisions are made by the most competent and most responsible people. In a call center, a customer will be most satisfied when he or she is advised by one person with the best knowledge on the topic instead of being passed on to different people with less knowledge. Moreover, it is also important to consider why a decision is made. When looking at the motivations of the decision makers, different stakeholders are able to understand their incentives. When considering these aspects, a business model can be changed or a new one can be created. The goal should be to start a business model innovation process which may lead to the creation of a sustainable competitive advantage. (Girotra and Netessine, 2014, pp. 98–103)

Concerning the perfect way of innovating a business model, Schallmo (2013, p. 139) has reviewed different ideas. As a result, he proposes a six-step-approach for business model innovation himself. At first, a certain innovative business model idea has to be developed without having the existing business model or other frame conditions in mind. Then, the business model development idea has to be translated into a business model innovation vision. Therefore, it has to be embedded in the micro and macro environment, such as customer expectations or technology trends. Through that it is possible to identify the relevant cornerstones of the business model in the next three to five years. The next task is to develop prototypes of the business model. Again, certain environmental conditions, like stakeholders or the industry’s value chain, need to be incorporated and analyzed regarding the different elements and dimensions of the business model. Then, the most promising prototype needs to be identified and further developed. Each business model element has to be investigated in detail concerning its critical success factors. The following step requires the implementation of the business model. The existing business model elements are to be compared with the essential new elements. Finally, the business model will be expanded with regard to its content. Necessary adjustments to a certain geographical region for instance have to be made in this last step. (Schallmo, 2013, pp. 139–141)
Euchner and Ganguly (2014, p. 34) also propose a six-step framework of the business model innovation process. A precondition is that the managers know what kind of new value they expect from the innovation. At first, the value creation has to be demonstrated. Euchner and Ganguly attach great importance to separate the value proposition from the development of the business model itself. In that way, it is possible not to lose track and to focus entirely on what the customers need, looking at the value proposition from the perspective of the possible customer. Second, business model options need to be generated. As a good business model allows the firm to capture lots of the generated value, three characteristics can be ascribed to good business models: they create advantage in combining the elements coherently, they can be the potential source of a competitive advantage, and they ensure profit for the firm. Further, it is important to recognize that there are only some examples of strong business models that can be used as archetypes. The latter should be used and adapted to the specifics of the company. Third, risks of the different options need to be identified. Fourth, these risks need to be prioritized. For each option, the elements that are most likely for success or for failure of the firm should be defined and ranked. Fifth, business model experiments need to be carried out in order to reduce the risks. Contrary to Sinfield et al. (2012, pp. 85–90) who suggest experimenting by using certain templates and comparing options theoretically, Euchner and Ganguly (2014, p. 37) aim at conducting the experiments in practice. By stimulating experiences of potential users or by using prototypes, they can weigh up the different options with their specific risks against each other. Sixth, the incubation of the business model innovation has to be organized. An aspect that has to be considered is, for example, whether the incubation should happen within the existing business or whether a new business unit should be developed. When managed disciplined, business model innovation can extend the chances of success. (Euchner and Ganguly, 2014, pp. 34–39)

Similarly to Schallmo (2013) and Euchner and Ganguly (2014), Osterwalder and Pigneur (2010, pp. 162–163) suggest the development of prototypes in the business model innovation process. A prototype helps to develop new ideas, visualize existing ideas and makes mental ideas more tangible. It is a tool that encourages discussion and putting effort into continuously developing business model ideas. However, it is not sufficient to develop only one prototype. Several prototypes of the business model are required to draw conclusions and take further action. In the long run, the difference between a company that is successful with its business model innovation and a company that has failed, can be attributed to the willingness to spend time and money for the development and testing of prototypes at the beginning of the process.

Moreover, Frankenberger et al. (2013) suggest a four-step process of business model innovation. Through drawing conclusions from a case study analysis, they were able to
develop an integrative 4I-framework. "4I" stands for the phases initiation, ideation, integration and implementation. In the first phase of initiation, the focus is on analyzing the ecosystem of the firm (e.g. customers, competitors, suppliers) and its impact on the operations of the company. The main challenge here is to understand the desires of those in the ecosystem. To identify the drivers of change (e.g. technological change) is another challenging task in the first phase. The phase of ideation is specialized on translating the opportunities that have been identified in phase one into concrete ideas for new, possible business models. A challenge here is to overcome the current logic and ways of doing business. Then, instead of product innovation, it has to be thought in terms of business model innovation. The third phase of integration deals with the development of the new business model. Promising ideas that have been identified earlier need to be transformed into a good business model. A challenge might be the integration of the different business model elements and dimensions. Also, it can be challenging to get all the relevant business partners, such as stakeholders, on board of the new business model. The support of them is necessary for success. In the fourth and last phase of implementation, the business model is ready for being realized. However, this task might be the most difficult one. Managers may have to deal with internal resistance as many people do not like change. For that reason, open communication and explanation of the new business model are necessary. Then, the type of implementation has to be chosen which can be challenging too. Business model experimentation is a very common approach for instance. (Frankenberger et al., 2013, pp. 1–14) Business model design and development is predominant in the first three phases. In the fourth phase, the implementation and realization of the business model is under focus. Furthermore, there are redundant feedback loops between the individual phases to ensure alignment and consistency which is crucial for the success of the new business model. (Frankenberger et al., 2013, pp. 15–17)

Rather similar is the three-step framework suggested by Breiby and Wanberg (2011, pp. 106–115) with which they came up after a detailed literature review. According to them, any business model innovation process consists of three phases which they call impetus, ideation and implementation. In the first phase, impetus stands for the reason why a business model should be innovated. Different internal and external driving forces, that will be explained in the following chapter, are responsible for that. The managers' task is to develop and maintain information flows such that opportunities and threats can be identified. Also, they have to decide how the information is to be dealt with and when a business model innovation should be started. The second phase of ideation, which is mostly initiated by the management, reacts to the impetus from phase one. This phase can be subdivided in different phases. Preparation signifies for instance the selection of people who will be in charge of ideation and the development of a common comprehension. Different levels and departments should be
represented in this team. Managers can also use other successful business models as inspiration. Then, new ideas for a business model can be generated. Afterwards, the ideas that seem to be most feasible need to be chosen. In the last phase of implementation, the ideas generated in the ideation phase will be realized. To begin with, the implementation strategy has to be chosen. Then, relevant ideas will be experimentally tested and if necessary, adapted. Finally, the new business model is ready to be implemented in the market. Breiby and Wanberg regard this as a continuing process that can be started all over again. However, they admit that in practice, this process might not be that linear and therefore, attention to the individual situation of the firm has to be paid. (Breiby and Wanberg, 2011, pp. 106–115)

Osterwalder and Pigneur (2010, p. 136) also suggest ideation as important creative process of business model innovation. They state that it is necessary that managers allow themselves to develop lots of ideas without boundaries and let their creativity flow. According to them, this process is called idea generation. The second phase of synthesis is the process where all of the ideas are discussed and evaluated such that in the end, a few promising business model options that can be worked with are the result. As business models and their innovation can be very complex, they also suggest to use visual tools to understand the business model and the system it is embedded in. (Osterwalder and Pigneur, 2010, p. 148) In addition, they propose the development of detailed scenarios. Two important scenarios are customer scenarios and scenarios about the future business environment. The first allows the managers to get deeper insights into the world of the customer. The latter is about developing possible images of the future environment that the company is embedded in. Both scenarios can help the firm to evaluate business model innovation ideas and to be prepared for probable future occurrences. (Osterwalder and Pigneur, 2010, p. 182)

Another six-step framework for business model innovation, that takes scenario planning into consideration, is suggested by Eurich et al. (2014, pp. 393–340). First, a new mission statement and presumptions about the business environment (e.g. trends of technology or regulations) have to be determined. Second, interdependencies have to be identified and analyzed to investigate the inherent consequences. These should further be visualized which might facilitate communication with the stakeholders. Third, design alternatives need to be determined and analyzed. Future scenarios are developed and compared. Fourth, different design alternatives of the business model that are based on future scenarios of step three can be created. Fifth, one alternative of business model innovation has to be chosen. Criteria such as strategic fit, distribution of power or dependency on stakeholders need to be considered and evaluated. Sixth, the chosen business model innovation alternative needs to be tested in
practice, for instance by using a test market or test users. After revising the business model, it can be realized.

Another way for innovating a business model is proposed by de Jong and van Dijk (2015, pp. 3–5). They suggest a five-step disruptive framework. First, a firm must identify the dominating business model and coherent beliefs in its industry. Second, the most significant belief has to be analyzed in detail. What is believed about customer needs, technology or regulation, for instance? Third, the managers need to take one such belief and turn it upside down. A new belief with a new hypothesis has to be formulated that no competitor in the industry can believe. Fourth, the reframed belief of step three needs to be tested. Contrary to product or process innovations, successful business model innovations are likely to be transferred from one industry to another. Thus, before creating a new belief, it may be useful to consider other business model innovations that have been proved to be successful in the past. Fifth, the managers have to translate the new belief that has been developed before, into a new business model for their industry.

It can be summarized that most of the scholars regard business model innovation as a process instead of a one-time change (e.g. Breiby and Wanberg, 2011; Euchner and Ganguly, 2014; Frankenberger et al., 2013; Girotra and Netessine, 2014; Lindgardt et al., 2009; Schallmo, 2013; Sinfield et al., 2012). Furthermore, at least three steps or phases that characterize business model innovation could be identified. An idea for a new business model or for a business model change is generated in all frameworks. Additionally, all of them contain the development of different alternatives that can be chosen from. Some frameworks explicitly suggest testing the different alternatives (e.g. Euchner and Ganguly, 2014) or the one business model chosen (e.g. Breiby and Wanberg, 2011; Euchner and Ganguly, 2014; Eurich et al., 2014; de Jong and van Dijk, 2015; Schallmo, 2013) before implementation. Many frameworks also include an analysis of the business environment or the business ecosystem (e.g. Breiby and Wanberg, 2011; Eurich et al., 2014; Frankenberger et al., 2013; de Jong and van Dijk, 2015). However, only some of the authors admit limitations of their frameworks (Breiby and Wanberg, 2011, p. 108; Eurich et al., 2014, p. 344).

Throughout the following section, the drivers of business model innovation will be identified.

### 3.6. Drivers of business model innovation

After having presented different types of and frameworks for business model innovation, some may ask when a business model change is in fact necessary. Johnson et al. (2008, pp. 57–
identify five phenomena that may call for business model innovation. First, if it is possible to satisfy a large amount of potential customers with disruptive innovation, a firm should consider changing its business model. Second, when a new technology can be leveraged by using a new business model or when such a new technology can be introduced in a new market, then also business model change can be successful. Third, a company should engage in business model change when it is possible to shift the job focus in a certain industry, leading to more profitability. Fourth, business model innovation may be fruitful for repelling disrupters that may lower the price level of the industry. Fifth, when competition changes in the market, a firm may have to respond with a new business model. Overall, it is necessary that managers carefully weigh up the advantages and disadvantages of any business model innovation and that they consider the consequences. Only if a business model change is well considered, the firm can be successful.

Saebi (2015, p. 153) distinguishes between three types of dynamics in the business environment. The regular environmental change is most predictable compared to the other types. Firms tend to only engage in minor changes or incremental adaptations of their business models. Secondly, if the environment is highly competitive, firms need to identify new bases for competitive advantages for staying successful. As it can be quite expensive to continuously innovate the business model, adaptations to the existing business model might be more appropriate. The third type is called environmental shift. It is hardly ever predictable and requires radical and revolutionary changes across most of the business model's elements. Saebi argues "[…] for the important role of business model innovation in the face of environmental shifts. […] business model innovation provides an effective way for firms to get ahead of the competition and to "rewrite" the rules of the game by introducing a novel way of creating, delivering, and capturing value." (Saebi, 2015, p. 154)

As some authors state, business model innovation can be driven by internal as well as external factors (Osterwalder and Pigneur, 2010, p. 200). However, most of the scholars focus on external factors that may drive business model innovation.

Osterwalder and Pigneur (2010, p. 201) cover the external factors that can influence business models and business model innovation most thoroughly. They distinguish between key trends, market forces, macro-economic forces and industry forces. The key trends include societal and cultural, regulatory, technology and socioeconomic trends. Concerning the market forces, market segments, needs and demands, market issues, switching costs and revenue attractiveness play important roles. Macro-economic forces comprise global market conditions, capital markets, economic infrastructure, commodities and other resources. To industry forces
belong aspects such as suppliers and other value chain actors, stakeholders, incumbent competitors, new market entrants and substitutes. Following, viewpoints of different scholars on the drivers of business model innovation will be summarized.

The technological development, such as technological change, advances in ICT (Bieger and Reinhold, 2011, p. 84; Bondakdar, 2014, p. 83; Casadesus-Masanell and Ricart, 2010, p. 195; Frankenberger et al., 2013, p. 11; McGrath, 2010, p. 253; Osterwalder and Pigneur, 2010, p. 201; Schneider and Spieth, 2013, p. 5; Teece, 2010, p. 174), digitalization (Manyika et al., 2016, p. 86) and Web 2.0 (Wirtz et al., 2010, p. 273), is regarded as the most crucial driver of business model innovation. In order to be able to respond properly to technological changes in the business environment, careful analysis is required before taking further steps regarding the business model.

**Example: Internet business models**

Traditional industries have new options for innovating their business models since the development of the Internet. A DVD rental, such as Netflix for instance, can now offer its products and services online. (Euchner and Ganguly, 2014, p. 34; Teece, 2010, p. 178) Netflix has introduced a new pricing model and now charges its customers a monthly fee that allows them to stream as many movies and series as they want. (Giesen et al., 2007, p. 28; Teece, 2010, p. 188) Originally, Reed Hastings, the founder of Netflix, had the idea for starting his own movie rental business because he was always charged an extra fee for missing to return a DVD in time. (Abraham, 2013, p. 36) Moreover, Netflix tries to achieve deep customer focus by analyzing the movie decisions of its customers and then offering them similar movies matching their tastes. (Giesen et al., 2007, p. 22) By entering the online DVD rental and streaming industry, Netflix managed to innovate its business model successfully and became the leader of its industry. (Markides and Sosa, 2013, p. 328)

**Globalization** as another factor that drives managers to think about innovating their companies' business models is explicitly mentioned only by some authors, while others are explaining the different dimensions of globalization as drivers of business model innovation. (Bieger and Reinhold, 2011, p. 84; Casadesus-Masanell and Ricart, 2010, p. 195; Schneider and Spieth, 2013, p. 5)

Moreover, some authors regard regulatory changes and trends as important reasons why firms engage in innovating their business models. (Bonakdar, 2014, p. 83; Casadesus-
Behavioral changes (Bonakdar, 2014, p. 83; Schneider and Spieth, 2013, p. 5), changes in social norms and societal trends (Casadesus-Masanell and Ricart, 2010, p. 196; McGrath, 2010, p. 253; Osterwalder and Pigneur, 2010, p. 200) are also mentioned as drivers of business model innovation.

Bieger and Reinhold (2011, p. 84) also believe that changes in the ecological environment as well as changes of knowledge (also Teece, 2010, p. 174) drive business model innovation.

Furthermore, business model innovation can be driven by changes of the financial market. (Bieger and Reinhold, 2011, p. 84; McGrath, 2010, p. 253; Osterwalder and Pigneur, 2010, p. 201; Teece, 2010, p. 174)

Thus, business model innovation may also be initiated by internal (Bieger and Reinhold, 2011, p. 84) and external stakeholders, especially the customers (Osterwalder and Pigneur, 2010, p. 201; Spieth et al., 2014, p. 244).

As business model innovation can also be started internally, exploitation of opportunities of the market and trends as well as desire for growth and profitability (Breiby and Wanberg, 2011, p. 109; Cavalcante et al., 2011, p. 1332; McGrath, 2010, p. 253; Osterwalder and Pigneur, 2010, p. 201) can be the reasons why managers decide to innovate their business models.

As globalization has been identified as a driver of business model innovation, the next main chapter will focus on the influence of globalization on business model innovation.
4. The impact of globalization on business model innovation

As a business model is innovated within a certain business environment, firms need to deal with the changing frame conditions. Different trends shape the business environment on a long-term basis. According to Krys (2011, p. 368), globalization is one such trend. All predicted trends with their inherent characteristics are based on assumptions which requires careful handling concerning a firm's business model innovation. However, for staying competitive or for developing a competitive advantage, managers need to deal with these trends and their possible consequences for the business environment and the company itself. If the trends are misinterpreted or simply ignored, this can be catastrophic for the firm's existence. (Krys, 2011, pp. 371–372)

Throughout this chapter, the definition of globalization will be clarified as well as its drivers. Then, current and future trends in relation to globalization will be taken into consideration. Thus, the causal relationship of globalization and business model innovation can be found in a graphic. As globalization is changing the business environment, relevant aspects in this connection will be examined. Reasons why firms go global as well as differences of business model innovation in established companies and start-ups will be regarded. The importance of the customers and the roles they are playing in the business model innovation process are considered too. Finally, business model innovation will be looked at from the inside of the firm, also reflecting on the influence of the corporate culture and the role of the leaders and innovators. At the end of the chapter, the consequences of globalization for business model innovation will be summarized.

4.1. Definition of globalization

Globalization can be described in different ways. Scholte (2005, pp. 15–17) criticizes that the term is used too rashly which is resulting in confusions about the definition. Often, globalization is associated or sometimes equated with internationalization, liberalization, universalization, westernization or modernization and de-territorialization. Globalization in the sense of internationalization means interdependence, interaction and transaction between nations. In the sense of liberalization, globalization stands for the opening of borders between countries, especially openness concerning the economy. Keywords concerning globalization as universalization are "everywhere" and "worldwide". De-territorialization is mostly referred to the cultural aspect of globalization. If globalization is regarded as westernization, it is used in a rather negative way and is often referred to as Americanization or colonialism as well. It further signifies that globalization is destroying local cultures and autonomies for the sake of
the spread of modernity all over the people of the world. (Keohane and Nye, 2000, p. 7; Scholte, 2005, pp. 54–58)

As people have different understandings of globalization, various definitions will be offered in this section. While some concentrate more on society, others focus on the economic dimension. A rather broad definition is proposed by the World Health Organization (2016): "Globalization, or the increased interconnectedness and interdependance [sic!] of peoples and countries, is generally understood to include two interrelated elements: the opening of borders to increasingly fast flows of goods, services, finance, people and ideas across international borders; and the changes in institutional and policy regimes at the international and national levels that facilitate or promote such flows. It is recognized that globalization has both positive and negative impacts on development."

Afuah (2014, p. 220) agrees and regards globalization as "[…] the interdependence and integration of people, firms, and governments to produce and exchange products and services." Scholte (2005, p. 49) regards globalization "[…] as the rise of transplanetary and supraterritorial links between people […]". Das (2010, p. 66) explains that globalization "[…] brings down national boundaries and integrates world economies, financial markets and societies."

Gopinath (2008, p. 10) suggests the following definition: "Globalization represents the continuing effort by the peoples of the world to interact and share transnationally in the pursuit of their objectives." A famous definition comes from 2001 noble price winner and economic scientist Joseph Stiglitz who claims that globalization is "[…] the removal of barriers to free trade and the closer integration of national economies […]" (Stiglitz, 2002, p. XI) which has to be managed properly for being a good cause overall. It has to be mentioned that Stiglitz is in fact regarded as a strong critic of globalization. (Kinsella, 2004, p. 89)

To summarize, globalization is about interdependence, integration and interaction of people, peoples and countries as well as the opening of national borders and barriers that allow free flow and exchange of people, services and goods. Concerning interdependence Keohane and Nye (2007, p. 3) explain that this is a situation that can increase or decrease.

Some authors (e.g. Das, 2010, p. 66; Keohane and Nye, 2007, pp. 3–6) also point to fact that the term globalization is often equated with globalism. Globalism involves different relationships across the world and is a state that can increase as well as decrease. Globalism is often called "thick" when the relationships are long-distance with continuous and large flows
that have an impact on lots of people. "Globalization is the process by which globalism becomes increasingly thick." (Keohane and Nye, 2007, p. 6) Even though Keohane and Nye try to differentiate between these two terms, they use both terms when explaining the different dimensions of globalization. They distinguish between environmental (which they regard as the oldest type of globalization), military, social and cultural and economic globalization. (Keohane and Nye, 2000, pp. 3–5) The economic globalization is about "[…] long-distance flows of goods, services, and capital, and the information and perceptions that accompany market exchange." (Keohane and Nye, 2000, p. 4) The "[…] movement of ideas, information, and images, and of people […]" (Keohane and Nye, 2000, p. 5) characterize the social and cultural dimension of globalization. The military dimension of globalization concerns "[…] long-distance networks of interdependence in which force, and the threat or promise to force, are employed." (Keohane and Nye, 2000, p. 4) Dreher (2006, p. 1092) adapted this dimension and called it political globalization which is "characterized by a diffusion of government policies". (Keohane and Nye, 2000, p. 5)

When Dreher (2006, p. 1092) introduced the KOF Index of Globalization in 2006, he focused only on the three main dimensions of economic, social and political globalization originally introduced by Keohane and Nye (2000). Sub-indices that are influencing the overall index are economic restrictions and actual flows, details about flows of information, personal contacts and cultural proximity. After studying this index, Dreher found out that there is a positive correlation between growth and globalization in a country. (Dreher, 2006, pp. 1095, 1105; Surugiu and Surugiu, 2015, p. 132)

As a result, globalization comes with positive as well as with negative aspects. New job and learning opportunities may be created, thus products and services can be improved, standards of living, financial flows and trade might increase. Contrary, the negative side includes dangers to jobs or businesses and as a result to certain ways of living. Thus, some people consider globalization as something dangerous, as dominance of particular countries over the rest of the world while poor countries, their people and cultures are exploited. For others, developing countries can receive support through globalization as the world becomes more integrated and together the countries are stronger and more powerful. (Afuah, 2014, p. 220) Stiglitz agrees that while some have benefited from globalization, others suffer. He shares the opinion that the underlying idea of globalization is positive and that it can be a strong force, especially for economic growth. However, when the globalization process is not well managed, such as with the global financial crisis, it can achieve the opposite effect. (Stiglitz, 2004, pp. 467–468, 482)
Contemporary globalization is described by economic growth, reduced transportation costs, new trade forms (e.g. outsourcing), the possibility to trade services that could not have been traded before (e.g. financial or research services), advances in ICT such as enormous increase of access to the Internet and overall development of the computer science for instance. The World Trade Organization (WTO) is the most important organization that focuses on trade. (Das, 2010, pp. 68–70)

Anyway, globalization can be beneficial for whole countries as well as for companies or individuals. Different dimensions characterize the globalization movement. Reduced costs of communication, free flows of ideas and easier transfer of knowledge are the positive results of globalization. Negative impacts of globalization may occur when an institution, such as the International Monetary Fund (IMF) for instance, aims at imposing certain conditions or cultural norms on countries without considering the individual frame conditions. Another element ascribed to globalization is trade. In general, trade liberalization as a result of globalization can affect growth positively. However, unfair trading conditions can also put developing countries at a disadvantage. The movement of labor is another dimension of globalization. Different types of labor are moved from areas where productivity is low to areas where productivity is high. Labor flows can have positive aspects when for example a firm is producing in a developing country. The people in the developing country have employment and sometimes get paid better by the foreign country compared to a firm of its home country. The consumers in the developed country benefit on the one hand because they can get their products at a lower price, on the other hand they suffer from job losses because jobs are transferred to the developing country. Here, the positive as well as the negative aspects of globalization are well demonstrated. (Stiglitz, 2004, pp. 470–472) Foreign direct investments (FDI) are generally associated positively as human and financial capital, access to technology and foreign markets are brought to the developing countries, resulting in economic growth there. (Masteikiene and Venckuviena, 2015, p. 1091; Stiglitz, 2004, p. 472)

However, domestic firms often cannot compete anymore with foreign investors. Another, most controversial, dimension of globalization is the liberalization of the capital market. Capital can now flow freer around the world, mostly resulting in growth in developed markets. Often, emerging markets cannot deal with the inherent risks and consequences of capital market liberalization, thus globalization is having a negative influence in poor countries. Through these five dimensions, globalization can have positive as well as negative impacts on countries. (Stiglitz, 2004, pp. 472)
As globalization has been identified as a major driver for business model innovation, one may ask what it is that drives globalization itself. Scholte (2005, pp. 20–21) explains that there is no consensus on this issue and only a few publications deal with this question. He distinguishes between idealist and materialist approaches which differ regarding their view on the driving forces behind globalization. The first see ideology, imagination, identity, metaphors and invention as driving forces whereas the latter regard production, technology, nature, institutions and laws as drivers of globalization. Moreover, it can be differentiated between an individualist and a structuralist view on the driving forces of globalization. While the individualists see social actors (e.g. business managers, politicians or citizens) as responsible persons for globalization, the structuralists view the state system, rationalism, nationalism or capitalism as drivers of globalization. Scholte himself adopts an eclectic approach, linking the materialist and idealist view, and tries to combine the ideas of materialists as well as individualists when identifying the driving forces behind globalization.

Following, the driving forces of globalization will be explained in detail.

### 4.2. Drivers of globalization

Das (2010, p. 66) is one of the authors who has proposed drivers of globalization. In his opinion, innovation is a major driver for financial and economic globalization as well as progress in technology. Also, Gopinath (2008, pp. 29–31) suggests four driving forces of globalization. First, the different worlds – the first world (Western nations), the second world (former communist countries) and the third world (developing nations) – are continuously closing up by exchanging politically, culturally and economically. Second, regional cooperation increases. The development of the European Union (EU) is one example. Third, the development of digital technology is another driving force of globalization. Forth, the goal of solving global problems commonly between different nations is also driving globalization. Moreover, Afuah (2014, pp. 221-223) is one of the authors who goes into detail when offering different driving forces of globalization. He suggests that globalization is driven by technological innovation, the needs and tastes of consumers, government policies and the strategies of the firms. Following, these will be explained in more detail.

**Technological innovation** is a major driver of globalization. Because of it, more and more people seek to have certain popular products or services, such as the mobile phone or the Internet for instance. Moreover, communication and interaction of firms and people, exchange of knowledge and capital flows as well as cheaper and easier transportation have been facilitated through technological innovation. As a result, especially with the Internet, it is
possible that employees from different continents and countries work together on a certain project. Employee 1 from China can work on his field of study and before going home, sending it to employee 2 in Europe who can proceed then. Before leaving work, this can be sent to employee 3 in America who is able to contribute. Later, the Chinese employee 1 will receive the work of the colleagues and so on. People in certain countries can so contribute to international projects, knowledge of different people can be integrated and the benefits of every country can be exploited. Not only has the technological development facilitated work, but also improvements in transportation. Airplanes for instance have made the transport of people or important documents in a short period of time possible. (Afuah, 2014, p. 222)

The tastes and needs of consumers are also regarded as major drivers of globalization. Often, firms develop certain products or services and the consumers do not know yet they might need them. But when the Internet or the mobile phone appeared on the market, everyone wanted to have them. Depending on the marketing efforts, the information about new products, services or also medicine or curing methods are spread widely and quickly. Needs and tastes can also be awakened for instance when people travel to other countries or get in touch with other kinds of innovations, like when they find something new in the Internet. (Afuah, 2014, pp. 222-223)

According to Afuah, government policies are most important concerning globalization. By introducing, reducing or increasing quotas, taxes, tariffs, import duties or subsidies, production, imports and exports are broadly influenced. Some industries are also controlled by the government, such as the pharma industry, for instance, when it is the government to decide which products are allowed on the market. Also, intellectual property laws, currency flows, foreign investments or migration for example might be influenced by government policies and thus have consequences. (Afuah, 2014, p. 223)

The strategies followed by different companies are also drivers of globalization when many firms decide to include the globalization aspect in their strategy efforts. A firm might extend its target customers or its target markets, it might influence and be influenced by consumer tastes and needs from different countries and many more. Multinational corporations (MNCs) are especially powerful as they possess lots of financial resources and can thus influence poorer countries and governments. (Afuah, 2014, p. 223)

So-called MNCs are the major players in globalization. These firms are successful in at least two countries as they have their capabilities or their market positions there. Classified whether their market-position and their valuable capabilities are more home-oriented or multinational,
it can be distinguished between global multinational firms (multinational value capabilities and market position), position multinational firms (multinational market position, but home-oriented valuable capabilities), resource multinational companies (multinational valuable capabilities, but home-oriented market position) and domestic corporations (home-oriented market position and valuable capabilities). (Afuah, 2014, pp. 220-221)

However, there is a strong debate whether MNCs have a positive or a negative impact on developed and developing countries. The supporters say that MNCs can increase employment and growth in the home country while transferring technology, jobs and investments to their host countries. Contrary, the opponents claim that MNCs only enhance power and profits for a certain elite in their home country while they destroy the environment, undermine social protection laws and erode wages at the same time. (Epstein, 2011, p. 185)

Similar as Afuah (2014) and Epstein (2011), Gopinath (2008, p. 125) also regards MNCs as an important factor concerning globalization. In his point of view, a MNC is a global company. However, other authors such as Levitt (1999, p. 249) suggest that it has to be distinguished further between a MNC and a global company. Levitt summarizes the difference in a clear and easy way: "The multinational corporation operates in a number of countries, and adjusts its products and services in each – at high relative costs. The global corporation operates with resolute constancy – at low relative cost – as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere." (p. 249) Other scholars regard a global firm as a type of company that acts internationally. (Johnson et al., 2011, p. 266)

Current and future trends will be discussed in the next chapter.

4.3. Current and future trends

Major trends will shape the business environment throughout the next years. Globalization itself has been regarded as a major trend that will shape contemporary as well as future business environment. The challenge is to manage globalization properly in order to maintain national power, especially in emerging markets, and to link it with international leadership (such as from the IMF or the WTO for example). (Czinkota and Ronkainen, 2007, pp. 339–341; Stiglitz, 2002, pp. 248–252) Moreover, firms need to develop the capability to keep their national identity while similarly adopting a global identity. This global identity will and should be influenced by its roots that have originally shaped the company. (Czinkota and Ronkainen, 2007, p. 340; Gopinath, 2008, p. 135) Governments will have the task to deal with the
increasing inequality of income within the nations as well as between them. (Czinkota and Ronkainen, 2007, p. 340; Hirst and Thompson, 2011, p. 21) Also, developed countries might have to accept that past achievements cannot be kept up or they have to admit that promises to their citizens of continuous growth of wealth cannot be kept anymore. (Czinkota and Ronkainen, 2007, p. 340) However, global growth is expected overall. Exports, for instance, might increase twice as much as the worldwide economic output. Moreover, the so-called BRIC-states (Brazil, Russia, India, China) will continue to develop dynamically. The GDP of the so-called "Next Eleven" (Egypt, Iran, Bangladesh, Indonesia, Mexico, Philippines, South Korea, Turkey, Nigeria, Pakistan, Vietnam) countries is also expected to increase above average. (Krys, 2011, pp. 373–374) Cross-border expansions will further increase as well. These have been facilitated by loosened regulations such as trade liberalization for example. Similarly, outsourcing will grow in importance. Sourcing from all over the world allows firms to develop large networks of their operations – a global value chain is possible. However, this attitude leads to job losses in one country whereas in another one firms are created. The success of the global firm goes hand in hand with good and bad consequences. (Czinkota and Ronkainen, 2007, pp. 346–347; Gopinath, 2008, pp. 132–134)

Nonetheless, globalization can also contribute to social change in a positive way. (Czinkota and Ronkainen, 2007, p. 341; Stiglitz, 2002, p. 248) How people think about civil society and democracy has been changed by globalization, for instance. Further, with the help of global political movements countries could be relieved of debt. Also, the living standards of many people have been improved. In spite of these positive aspects, globalization had negative consequences for millions of people. For achieving a globalization that is also improving the lives of those millions of people that are currently suffering from it, cooperation between developed and developing countries as well as global and local organizations need to be strived for more strongly. (Stiglitz, 2002, pp. 248–252)

Another major trend that already is and further will be influencing the business environment is the natural environment and climate change. Global warming represents an important challenge. It is expected that global average temperature will rise about 1,5 degrees until 2030. Extreme weather conditions, such as floods, storms, drought and heat waves that are just some examples, will increase in frequency and strength, with more negative consequences. Lots of species of animals and plants already struggle to adapt to global warming and some even might become extinct. (Krys, 2011, pp. 375–376) The rise of sea levels and shortage of water are other expected outcomes of climate change. Even though this will influence developing as well as developed countries, the first will suffer more. Developing nations do not have as many resources and possibilities to respond to the consequences of climate change
which could increase the poverty. People from these countries then might flee, leading into a global climatic refugee movement. (Hirst and Thompson, 2011, p. 20)

As a result, environmental standards will increase in importance and become tighter. It is expected that governments are going to support those companies that are willing to engage in environmental friendly production for example or that are willing to invest in sustainable energy and technology. The environmental aspect will thus influence competitiveness on the market in the future. Thus, more disagreements concerning the environmental protection are expected as well, leading to stronger tensions between the nations and global organizations. The latter will impose stricter conditions, putting pressure on the countries and the firms, especially MNCs. (Czinkota and Ronkainen, 2007, pp. 341–342)

Furthermore, it is possible that negotiations about global trade get worse or at least will not improve. Some argue that the differences between all the nations in the WTO are too big to overcome, resulting in non-cooperation. (Czinkota and Ronkainen, 2007, p. 344) Thus, national borders will continue to exist and even limitations to global trade are possible because of differences that are often based in cultural, institutional, geographical or political aspects. (Hirst and Thompson, 2011, p. 34) As shortage of natural resources will shape the future as well, prices are going to increase, burdening global relations more intensely. (Krys, 2011, pp. 374–375)

Another trend shaping the business environment concerns global security. Terrorism is more and more present, Western and developed countries are frequent targets. While policies and strategies against terrorism increase, so do terrorist attacks. On the one hand, unexpected regions or targets are hit, one the other hand, strongly secured and protected ones are also targets of terrorists. (Czinkota and Ronkainen, 2007, pp. 342–343; Hirst and Thompson, 2011, pp. 24–25) Also, conflicts will continue and increase because of fights over resources, trade or human rights, for instance. (Hirst and Thompson, 2011, p. 25)

What does this mean for the business environment? Businesses should be aware of the security issue. Import and export regulations may be changed. However, a hotel, for instance, will continue to allow the guests to drive close to the entrance and probably will not make a full security and personal check of them. This should express that businesses have only limited possibilities to fight against and prevent terrorism. Contrary, governments and global as well as local organizations have more power. They need to cooperate to make investing in formerly insecure regions attractive such that terrorism can be approached at its roots. Thus, they need to invest in information and education concerning freedom of religion to prevent religious
conflicts, wars and religiously motivated terrorism. (Czinkota and Ronkainen, 2007, pp. 342–345)

Therefore, the awareness of global responsibility needs to be strengthened. Non-governmental organizations will play an important role concerning education, mentoring and consultation. (Krys, 2011, pp. 377–378)

Another trend that will influence the future business environment is demographic change. Experts predict that in the year 2030, the population will have been increased about twenty percent. While the birth rate in the developed nations is expected to decline, it will multiply several times in developing countries. Additionally, life expectancy is going to increase all over the world. This poses new challenges for businesses as they have to adapt their products and services to a growing number of the elderly, mainly in developed countries. Thus, cities with more than ten million inhabitants will spread because of an increasing urbanization, especially in Asia and Africa. (Krys, 2011, p. 373)

Moreover, the level of global education will increase in all parts of the world. Because of the Internet, it will continuously become easier for the people to study or educate themselves. (Krys, 2011, p. 376) Thus, it will get more important to engage in cultural training and cultural sensitivity which may be facilitated by the creation and use of global education and learning centers. (Czinkota and Ronkainen, 2007, pp. 345–346)

Finally, the fast development of technology is another trend shaping the future. Innovation periods for new technologies are continuously shortened. Also, the diffusion of technology is increasing. With the rise of ICT and digitalization, interpersonal and business relationships will be more strongly influenced. (Krys, 2011, p. 376)

In the next chapter, the causal relationship between business models, business model innovation and globalization will be illustrated.

4.4. Causal relationship of globalization and business model innovation

After having described the business model, business model innovation and globalization with its inherent elements and characteristics, their causal relationship will be summarized in the following figure 2. In short, a business model consists of seven elements, marked in orange. It has to be innovated as business model innovation is driven by different factors, presented in
dark green. One of these factors, maybe the most important one, is globalization. Thus, globalization itself is driven by various aspects that are shown in light green.

4.5. Change of the game: a different business environment

As globalization is changing the rules of the business game, firms need to adapt to the changing frame conditions for staying competitive on the market. Because of environmental changes such as increased uncertainty and technological innovation, the companies need to change their existing business models or come up with entirely new ones. (Pisano et al., 2015, p. 182) Questions that a firm may think about in relation to globalization are for instance: What services or products are needed in order to fully take advantage of the benefits of globalization as well as of local responsibility? How can a firm develop the capabilities and resources
required for being successful globally, meaning the creation of value in different countries? (Afuah, 2014, p. 220)

Up to now, it can be summarized that globalization is about interdependence, integration and interaction of people and countries as well as the opening of national borders that allow free flow and exchange of services, goods, finance, people and knowledge. Thus, it is characterized by liberalization and economic growth in general, (de-)regulation, advances in technology and more specifically in ICT and the overall challenge to manage the global and the local. So, what are the consequences of globalization for business model innovation? Following, the different characteristics of globalization will be looked at in more detail with regard to the firm and the business model.

4.5.1. Characteristics of globalization

Liberalization, that allows the opening of national borders, free trade, easier flow and exchange of ideas, capital, people, products and services, can be regarded as a milestone characteristic of globalization. Firms have the possibility to get access to a cheaper labor force (e.g. in China, India) and to outsource production to an emerging market. Products or services can be produced at lower costs, resulting in higher profit margins. Then, it is possible to offer them at lower prices, leading to a higher purchasing power of the customers as they can afford more of the cheaper products instead of only some expensive ones. While some customers appreciate this and are satisfied, others will not support the outsourcing strategy of the firm. In general, outsourcing means creating cheap labor jobs in the foreign market whereas the jobs formerly in the domestic market get lost because they are too expensive. Furthermore, some Western customers associate products labeled for instance "Made in China" with less quality, non-sustainability and exploitation of workers. Thus, they prefer buying domestic, perhaps more expensive products instead. However, this is also a matter of income. Even though people with low income might prefer the latter, they have to buy the cheaper, foreign product. As a result, as long as customers are purchasing the "Made in China" products – it does not matter if they are of less or higher quality – MNCs will continue to outsource, enter emerging markets and profit from the cheaper labor force there. (Bond and O'Byrne, 2014, pp. 25–26; Masteikiene and Venckuviene, 2015, pp. 1087, 1089–1090; Matthews, 2013, p. 57; Surugiu and Surugiu, 2015, pp. 132–136)

Differences in quality may also result from different national regulations concerning food standards, for example. Quality standards in Austria are higher than those in the United States where they are still higher than the standards in China. A MNC in the grocery industry that is outsourcing its production to China can take advantage of the cheaper labor force, but it has
to deal with the local regulations there as well. When the MNC wants to export the food to its domestic market then, it has to consider the regulations of China which are more loose and quality, security or health standards may differ a lot. While seizing the opportunity of cheap labor and loose labor market law, extra effort and cost have to be put into dealing with the country specific differences. (Brumana and Delmestri, 2012, pp. 142–143; Jain et al., 2012, p. 532)

However, open borders indicate free flow of knowledge and ideas too, allowing the company to engage in open innovation. By opening up the idea generation or idea selection process to the public, new inputs and ideas can be generated at a low cost. On the one hand, it needs time to carefully evaluate all the ideas. On the other hand, potential new employees can be identified or attracted. Also, a firm can cooperate with another company such that instead of competing against each other, they combine their resources to be better than a single firm could ever be. Of course, this requires good thought about which processes to open to the public and which intellectual property to keep enclosed within the firm. Overall, it offers new opportunities. (King and Lakhani, 2013, pp. 41–48)

As open borders allow free trade, firms can serve new markets and new industries. This requires the consideration of different frame conditions and national regulations. MNCs need to find out how they can enter the foreign market. Common are FDIs, joint ventures or cooperations with local firms. Whenever MNCs aim at entering a new foreign market, they have to consider the regulations of national governments. At the same time, they have to respect trade agreements of the WTO as well as regional agreements and trading blocs like the EU, the North American Free Trade Agreement or the Association of Southeast Asian Nations, for instance. (Baffour Awuah and Amal, 2011, p. 123; Bond and O'Byrne, 2014, pp. 30, 33; Brooks et al., 2011, p. 310; Hartungi, 2013, p. 731; Jakobsen, 2011, p. 14; Surugiu and Surugiu, 2015, p. 136; Zekos, 2013, pp. 109–110)

Further, different markets include a different group of local customers with distinct needs and tastes. MNCs have to identify new ways in order to satisfy this customer group. What works well in one market does not necessarily mean that it will work in another too. If a firm is currently working with a standardized product, as it had already identified what satisfies the customers in the specific market, that probably will not work anymore. It is the culture, the language, the climate and other aspects that are shaping the needs and tastes of the customers. As they are different around the world, the company might be more successful with a customized product even though cost savings and increased output are positive aspects of standardization. However, the needs and tastes may be media-influenced. Consider the following case: Person
A and person B are using the social media platform Facebook. While person A is living in Austria, a developed country, person B lives in India, a developing country. On Facebook, person A is posting a picture and tells the Facebook community how great the new iPhone by Apple is as it is making such fantastic snapshots. Person B sees that and wants to make such great pictures as well. As a result, the MNC Apple Inc. identifies the need and taste of this person B (who is representing the Indian customer segment). If the firm is doing its job well, it will find out that the living conditions in India are different compared to Austria. Also, the people in India might have different demands on a smartphone than the people in Austria. All such factors need to be taken into consideration when a company wants to succeed in different markets with different customers all over the world. (Bond and O’Byrne, 2014, p. 32; Matthews, 2013, pp. 56–59)

Advances in technology are another characteristic of globalization that influence companies worldwide. The development of the Internet and the rise of ICT goes hand in hand. Communication has never been easier and cheaper. Social media such as social networks (e.g. Facebook, LinkedIn, XING, Google+) or sites for sharing content (e.g. YouTube, Twitter) allow to stay in contact with family, friends or business partners all over the world. Information can be spread quickly and broadly. However, once it is in the Internet, it will stay in the Internet. This may pose a challenge on a business such as a restaurant if it gets a bad reputation for example. When a customer was not satisfied and shares his/her opinion on Facebook, other people will read it and some may avoid going to eat there in the future. Even though others may not care and write a good comment about the food later, the bad reputation will stay in the Internet, influencing people’s decisions where to have dinner. Besides this negative aspect, a business manager may use the Internet for his/her own benefit, such as reading customer critics and trying to find out what they want and like to have changed, for instance. (Manyika et al., 2016, pp. 2, 8, 35, 51; Martin, 2012, pp. 21, 24; Merlo et al., 2014, p. 86; Surugiu and Surugiu, 2015, p. 133)

With the Internet also new channels of distribution have been created. For example, people can now purchase services and goods via the Internet. As a result, online shopping is booming as all businesses try to offer online shops on their own for staying competitive on the market. However, it is not sufficient to only have an online shop. Customers have different expectations like it has to be easy to use or it has to be available as a mobile app (short for application) for the smartphone. A mobile app is "[…] a type of software that allows the user to perform a specific task that can be installed and run on a range of portable digital devices such as smartphones and tablets." (Liu et al., 2014, p. 327) It is not sufficient to have a website anymore, a firm also needs to provide a mobile version of the website such that it can be used
on a tablet or a smartphone. Every time technology is developing, it offers opportunities for a business but it can be a burden at the same time. It is costly to develop a new website or an app but more customers can be reached with it, increasing sales as a result. (de Jong et al., 2015, p. 7; Liu et al., 2014, p. 327; Oestreicher-Singer and Zalmanson, 2013, p. 612)

Furthermore, the advances in ICT have created a so-called global workforce. A MNC can have a workforce that is spread all across the world. For instance, it is not necessary anymore that all the employees take part at a meeting in person in one place. Instead it is possible to arrange a meeting via video chat or conference, for example. Thus, it can be easier to send an employee to a business unit in another country as it is possible to stay in contact with the family and the headquarter anytime with social media platforms and other communication devices. Also, geographical distances and time differences can be leveraged. As already mentioned earlier, it is possible that employees in the US, Europa and Asia work jointly at a project. (Manyika et al., 2016, p. 29; Martin, 2012, p. 21)

All the time, businesses need to adapt to new technologies. The automobile industry is changing a lot. Electric cars or cars that drive on their own are just some examples. Automobile firms have to put a lot of money and effort in Research and Development for staying competitive. However, customers often expect state-of-the-art technology but do not want to pay more. Another example is a travel agency. Its customers may appreciate the personal advice in the office while at the same time they want to have the option to book their trips online. If the agency wants to keep its staff, other marketing efforts are needed to motivate the customers to come to the office and get the travel information in person. In the finance industry, banks also have to deal with changes because of technological development. Most of the banks are now offering their services 24 hours per day via the Internet, some also provide mobile versions or apps. This requires training of the old or employment of new staff as they have to consider aspects such as security or hacking for example. (Afuah and Tucci, 2003, p. 126; DaSilva and Trkman, 2014, p. 383; Govindarajan and Euchner, 2012, p. 16; Masteikiene and Venckuviene, 2015, pp. 1088–1089; Overland, 2016, p. 124; Weill and Woerner, 2012, p. 71)

Furthermore, the aspect of security is in danger because of globalization. Because of open borders in the EU for example, free traveling without having to show any identity card is possible. However, also people who have terror attacks planned can enter a country more easily now. Even though social media has lots of positive aspects, it can also be used by terrorists to communicate. Terrorism plays an increasingly important role in general at the moment. Developed, wealthy and especially Western nations are main goals of terrorists. Even
though governments put lots of effort into the protection of their countries, the number of terrorist attacks is augmenting. What does this mean for businesses? An airline producer, such as Airbus or Boeing for example, has to improve the security standards in their airplanes (e.g. doors to the cockpit that cannot be opened so easily such that nobody can hijack a plane). Airlines need to make sure to carefully check their passengers before entering an airplane. However, as within regional cooperations such as the EU the national borders are open and freedom to travel has become a fundamental right of every EU citizen, the airlines have to respect the loosened regulations and security controls. Anyway, even though globalization has opened the borders and allowed more freedom of trade or travel, national governments and international organizations always react to terrorism with the reintroduction of barriers. (Brooks et al., 2011, pp. 314–315; Czinkota and Ronkainen, 2007, pp. 342–344; Dye and Stephenson, 2010, pp. 10–11; Hirst and Thompson, 2011, pp. 26–27; Manyika et al., 2016, p. 38) Zekos (2013, pp. 55–56) however is of the opinion that terrorism is not rooted in globalization but in local phenomena. In his opinion, communication has been improved by globalization which facilitates protection against terrorist attacks.

**Communities of states**, such as the EU in Europe, offer different opportunities and facilitations. It has become easier to study or work abroad, people can travel within the EU without having to apply for a visa. This is advantageous for businesses that have business units in different countries when they want to send employees from one unit to another. As already mentioned, as free trade has been facilitated and regulations have been loosened, businesses can shift business units to foreign countries (outsourcing) to leverage the local benefits. In spite of these advantages, businesses also need to deal with certain barriers. For instance, the EU has abolished the production and sale of the electric light bulb or it has determined the maximum curvature of cucumbers. Thus, a small local farmer has to concentrate on growing perfectly formed cucumbers, possibly requiring specific knowledge or seeds. As a result, all the vegetables that do not correspond to the regulation are not for sale. Then, the farmer may have to sell his products at a higher price to compensate for his loss. In the grocery store however the customers might prefer the cheaper mass-produced cucumber that has been imported. (Goryakin et al., 2015, p. 68; Graf, 2014; Manyika et al., 2016, p. 29; Segal-Horn, 1996, p. 15; Surugiu and Surugiu, 2015, p. 133)

Because of globalization, **local businesses** have to compete with MNCs that enter their country. A local grocery store has to hold its ground against a Wal-Mart, a local family restaurant has to deal with a global fast food chain such as McDonald’s or Burger King, a regional furniture store fights over customers with global IKEA. A major problem small businesses are facing is the price difference. It is clear that a global player can better leverage
economies of scale and thus offer its products or services at a lower cost for the customers. However, small local businesses can be successful by focusing on the local that the people appreciate. For instance, some people prefer to buy a hand-made unique chair instead of a mass-produced one they can get at IKEA. Instead of trying to compete with McDonald's, a small local restaurant could not offer burgers but regionally produced, traditional dishes. These are only some examples that should emphasize that local businesses are not fully at the mercy of MNCs. Nonetheless, it is a given fact that many of them already went out of business because of the high competition of MNCs. (Abraham, 2013, p. 33; Masteikiene and Venckuvienė, 2015, p. 1088; Surugiu and Surugiu, 2015, p. 138)

After all, it is apparent that there is a discourse between the global and the local. An often mentioned keyword in this context is "glocalization". Matthews (2013, p. 55) explains it as "[...] the process of adapting global products or services to suit local practices or cultural expectations." Another definition is proposed by Brumana and Delmestri (2012, p. 124) who regard glocalization "[...] as an in-between process compromising between homogeneous global standards and heterogeneous local traditions [...]". Thus, glocalization is not a one-time case, instead it is a process of combining the local with the global. A business that engages in glocalization has to adapt the global to local conditions. Thereby, it needs to consider local factors such as regulations of the government or local organizations, culture, common practices on local markets. It is also necessary that the company keeps in mind its individual situation like its common way of doing global business and if the required local adaption is incremental or more radical. (Jain et al., 2012, p. 532) So, a glocal product can be standardized in some aspects while the rest is adapted to local conditions such that the local customers can be best satisfied. (Cooper, 1999, p. 118)

Therefore, if a company wants to be successful in another country, it can be most fruitful when it cooperates with a local partner. It can use the partner’s local knowledge and network to enter and gain a foothold on the market. In return, the local partner can leverage the resources of the global player. (Surugiu and Surugiu, 2015, p. 136) Moreover, glocalization processes are most common in MNCs. During these processes, the standards and traditions – global and local ones – are changing as they are also path-dependent of global and local institutions as well as societies. (Brumana and Delmestri, 2012, pp. 125, 145)

When a firm decides to move to a foreign country, it faces several challenges as already seen before. "One big challenge is that, as organizations become more global, they face more complex issues related to culture, regulation, technology and other areas." (Giesen et al. 2007, p. 31) However, according to Afuah (2014, p. 225), the level of profitability of a firm is
determined by the firm's product-market-position (PMP) and its capabilities. As a result, a firm has different options of having a competitive advantage, depending on the capabilities it uses in the foreign market and its PMP there. The PMP can either be unique or like a "battlefield". The latter describes a market with lots of existing competitors who already have cooperative relationships and understandings. A new firm may enter with complementary products or services for instance or because it is sure about its exceptionality. Contrary, when a firm's PMP is unique, it has special activities that allow to offer a product or service that is one of a kind on the market. Thus, firms with unique PMPs tend to be more successful than those in a battlefield. Moreover, the global capabilities of a firm determine whether it will have a competitive advantage in the future. If the capabilities are important and rare, imitation and substitution is difficult. However, if they are unimportant and easy to get, they are likely to be imitated or substituted and thus lose value. As a consequence, Afuah distinguishes between four types of global strategies that a firm can follow when going international: global adventurer, global heavyweight, global star and global generic. (Afuah, 2014, pp. 225–227)

A global adventurer is a firm that sets its foot into a foreign market with mostly unimportant, common and easily available capabilities. Despite of that, it is in the possession of a unique PMP which results in a competitive advantage that is based on the PMP. This global strategy is very promising, unless the competitors can overcome entry barriers or business partners, (such as suppliers) increase their power. Thus, in order to maintain its PMP-based advantage, a firm has to put its efforts in building entry barriers and cooperative, friendly business partnerships. (Afuah, 2014, pp. 227–229)

A global heavyweight is the exact opposite of the global adventurer. It has important and rare capabilities that allow to exploit a competitive advantage which is based on its resources. Though, it has no unique PMP. Instead, this firm finds itself in the middle of the battlefield and has to deal with existing competitors in the foreign market. Value is then created by using its rare capabilities which cannot be easily imitated. For sustaining its competitive advantage, a global heavyweight firm has to put all its effort in strengthening its resources and preventing them from being substituted or imitated. (Afuah, 2014, pp. 228–229)

A global star enters a foreign market with a unique PMP and possesses capabilities that are rare and very important. That is why such companies can profit from both competitive advantages, namely PMP-based and resourced based ones. The chance of building a sustained competitive advantage is the highest for firms following a global star strategy. (Afuah, 2014, pp. 228–229)
A global generic strategy is characterized by a PMP in the battlefield and by unimportant and easily available global capabilities. Firms that follow such a strategy are not able to get a PMP-based or a resourced-based competitive advantage. As a result, a firm that follows a global generic strategy has to try very hard to be successful and compared to the other three possible strategies, this is the least promising one. (Afuah, 2014, pp. 228–229)

One might ask why not all firms can follow a global star strategy and why not all automatically create a sustainable competitive advantage. The answer is that only some companies are going after the right business model innovation. But how can a firm identify its chances to get a sustainable competitive advantage? Afuah (2014, pp. 229-230) suggests the application of the so-called VARIM-framework for receiving the answer. "V" stands for value and asks if the firm's business model is offering a product or a service that the customers appreciate and value. "A" as in adaptability questions whether it is possible to adapt or reconfigure the business model in such a way that value can be offered to the customers. "R" stands for rareness and points out the importance of the uniqueness of the benefits the firm is offering to its customers. "I", standing for inimitability, addresses the question about substitution and imitability. "M" as in monetization accentuates the importance of the firm making profit while offering value to the customers.

Following, reasons for going global will be looked at in more detail.

4.5.2. Reasons for going global

Rask (2014, p. 156) suggests four types of business models for internationalization – domestic-based, export-based, import-based and semi-global business models – that are summarized in figure 3. Upstream and downstream activities are shaping the globalization of markets and production. Domestic ventures utilize domestic-based business models to produce products and services locally that can also be sold on the international market indirectly by external vendors. Even though all operations are domestically located, an international perspective can be adopted. A small local food producer who sells its products to a global food chain is an example for this business model. If the different local contexts are similar or if the differences can be overcome, standardization is the result of this international business model innovation. (Rask, 2014, pp. 150–151, 157)

With the export-based business model the resources are gathered locally. Then, the goods are exported internationally as more profitability can be expected compared to the domestic market. A special knowledge concerning the supply and demand market allows the exporters
to create a competitive advantage. All the activities that create value are kept domestically while services and sales are exported to the foreign markets. When the business model is changed from domestic-based to export-based, standardization is needed when there are no differences while adaption to local factors is required in areas such as customer relationships or customer segments. Modes of entry into the international market are direct export over agents, direct international sales or subsidiaries abroad that are wholly owned. (Rask, 2014, pp. 151, 156–157)

**Import-based business models** leverage opportunities to sale their products in the domestic market, but they supply their goods on the global market. Similar to the exporters, they can build up a competitive advantage because of their knowledge about demands and supplies on the market. When the firm changes its business model from domestic-based to import-based, also standardization is important when there are no differences. Specialization is important for this kind of business model to save costs and thus outsourcing or collaboration with partners for instance should be achieved – all the partners should do what they are best in to be most effective. (Rask, 2014, pp. 151, 156–157)

By following the **semi-global business model**, the expansion is most radical. The experiences of other business models are coordinated such that importing and exporting can be used most efficiently. When it is most efficient, also localizing is appropriate. Coordination and a combination of standardization, adaption and specialization is the clue to success with this business model. This model relies similarly on globalization of markets and of production. Rask (2014, p. 151) explains that the text that is written on all iPhones of Apple summarizes best what the semi-global business model is about: "Designed by Apple in California. Assembled in China." (Rask, 2014, pp. 150–158)

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**Figure 3: Going global through business model innovation** (Source: Rask, 2014, p. 156)
After having looked at different aspects of globalization, its influence on businesses and different international business models, some might still ask what it is that motivates companies to go global. To answer that, Afuah (2014) and Surugiu and Surugiu (2015) propose different reasons why firms want to act internationally.

When a firm wants to increase growth and exploit opportunities and its domestic market is for instance too competitive, declining or stagnant, it might decide to go global for searching growth. However, it is also possible that a firm first concentrates on the domestic market and thus is looking for another market segment there before going global. (Afuah, 2014, pp. 223–224; Surugiu and Surugiu, 2015, p. 136)

As the profits of a company often depend on the domestic market and its economic factors, a firm might go international in order to escape this domestic dependency and to ensure its earnings. Thus, diversifying markets can be promising. (Afuah, 2014, p. 224; Surugiu and Surugiu, 2015, p. 136)

Many companies decide to go global for reducing the costs of production and then move it to countries such as Taiwan, India or China. There the advantages of the labor force (e.g. costs, skills) can be exploited. (Afuah, 2014, p. 224; Surugiu and Surugiu, 2015, p. 136)

Thus, firms are strongly dependent on their key buyers and that is why they frequently follow them when they go international. As some markets tend to be freer and larger, companies might strive for entering such markets (e.g. the United States). (Afuah, 2014, p. 224)

Another reason why firms go global is to outperform its competitors. When the firm supposes that a competitor might enter a foreign market as well, it tries to exploit first-mover advantages. (Afuah, 2014, p. 224; Surugiu and Surugiu, 2015, p. 136)

A company may want to go global in order to use economies of scale and scope. This is especially true for firms with high fixed and low variable costs. Through going international, the chance of selling more units is higher – for example, when the home market is very small (e.g. Switzerland and Nestlé) or when products can easily be modified to consumer tastes (e.g. software). (Afuah, 2014, p. 224; Surugiu and Surugiu, 2015, p. 136)

An incentive for going global are less governmental regulations in the foreign country. When firms want to avoid safety regulations or regulations concerning environmental pollution for
example, firms decide to act internationally for taking advantage of these more loosened regulations. (Afuah, 2014, p. 224; Surugiu and Surugiu, 2015, p. 136)

When a company wants to go global, it may also do it for being able to exploit **technological advantages** in the foreign market. (Surugiu and Surugiu, 2015, p. 136)

Also, firms can decide to go international for **learning reasons**. Firms can learn from a leading market. Not only is the knowledge of the home country moving to the foreign market, but also can the knowledge of the host country be transferred to the home country. (Afuah, 2014, p. 225; Surugiu and Surugiu, 2015, p. 136)

Finally, a firm might want to go global for building up or **strengthening its own competitive market position** and **increasing its reputation** by building a **global image**. (Surugiu and Surugiu, 2015, p. 136)

Regardless of the reasons for entering a new international market, the right strategies and the right business model as well as the time matter. Afuah (2014, p. 165) distinguishes between "[...] four types of players: explorers, superstars, exploiters, and me-toos". An explorer is a company that moves first with its innovation, not with the aim to make money, but more for curiosity and for enjoying exploring. As it has no real strategy of how to deliver and capture value and how to exploit first-mover advantages, it is often an exploiter that takes over its advantage. Basically, a superstar is doing the same as an explorer but with having an appropriate strategy for making money, delivering and capturing value and leveraging opportunities. It can be said that this firm does the right things right at the right time. Therefore, it is hard for its competitors to follow. Their only chance to compete is to use the weaknesses of the superstar as a first-mover with all the concomitant challenges and uncertainties. These challenges and uncertainties are leveraged by the exploiters that wait for the superstars and explorers to make the first step and then they enter themselves. An exploiter is good at leveraging unused first-mover advantages or it can make a better use than the first-mover itself. Similar to the superstar, the exploiter is following a clear strategy, knowing when there is the right time to enter. Often, the exploiter possesses important complementary assets that it can make good use of and money with. The fourth player proposed are the me-toos. They are not better than the superstars, explorers or exploiters and they do not have a promising strategy or business model. Somehow they need to defend their current market position and sometimes they manage to leverage the first-mover disadvantages of their competitors or they enter a market niche and try to receive a market share there. In general, the success of each single player always depends on the time and its competitors. For instance, while a mee-too
player may lose everything in one situation, in may become the market leader in another. (Afuah, 2014, pp. 165–172)

However, even if a company wants to go global, the managers need to make sure that their firm is ready to go global. Whenever a company fails, often unpredictable external factors are to blame. Nonetheless, it is also the internal factors, such as insufficient preparation or unwillingness to adapt, that may be the reason for the failure of an organization aiming at going global. Because of that, Quackenbos et al. (2016, pp. 2–4) have developed a tool for diagnosing the strengths and weaknesses concerning a probable international expansion of the firm. The tool focuses on seven areas with four statements each. The managers are then asked to rate these statements on a scale and in the end, they will receive a score about their firm’s readiness to expand internationally. The seven areas are:

- "attitude" (prioritization of global expansion);
- "aptitude" (knowledge and skills);
- "magnitude" (ability to align opportunities with capabilities);
- "latitude" (ability to adapt);
- "rectitude" (legal and ethical practices);
- "exactitude" (tolerance for uncertainty); and
- "fortitude" (commitment to global initiatives)." (pp. 2-3)

Overall, it can be stated that firms which are highly successful internationally have internal processes that are characterized by flexibility. Also, their vision for going global is clear and they are ready for and willing to face the challenges that might stand in their way. The leaders of these successful firms put lots of effort, energy and money into training staff, hiring external experts and building up an international team. Thus, they care about their stakeholders and want them to understand the processes the firm is going through during their international expansion. Further, they deal with the cultural differences and make sure that the people understand their home culture, the host culture and the organizational culture. Moreover, they care about the existing ethical and legal rules and habits, trying to find a consensus, but also being ready for overcoming difficulties in this field. Finally, they attach a certain value to open communication as they want everybody within the firm to understand their going-international-strategy. (Quackenbos et al., 2016, pp. 4–6)

After having looked at the reasons of firms to go global, business model innovation in start-up, born-global and established companies will be looked at in the next chapter.
4.5.3. Business model innovation in start-ups, established companies and born-globals

Business model innovation in established companies differs from business model innovation in start-up firms. (Criscuolo et al., 2012, p. 330; Sosna et al., 2010, p. 403) Start-ups can be defined as "[…] new ventures created by independent entrepreneurs." (Sinha, 2015, p. 317). Osterwalder et al. (2005, p. 16) suggest that comparing the business models from different industries and also comparing the business models of start-ups and established firms might be useful for identifying opportunities and threats. Thus, it will be helpful to understand competitive moves in the industry. Often, it is the start-ups that innovate radically, changing the game of the industry and forcing the established firms to react. (Thomke and von Hippel, 2002, p. 77) The car rental company "Enterprise Rent-a-Car" is an example for that. In 1957, it entered the car rental industry as a start-up that did everything contrary to the incumbent firms already there. More than fifty years later, it had grown from an unexperienced start-up to the biggest market leader in the car rental industry in North America. (Markides and Sosa, 2013, p. 328)

Furthermore, it is assumed that start-ups do better in business model innovation than incumbent firms because the latter are afraid of or not willing to cannibalize their established business. Compared to a start-up, an established firm has an existing business that it has to consider when aiming to innovate. Established routines, structures and general understandings of how to do business may hinder an incumbent to innovate. (Debruyne, 2014, p. 206; Laudien and Daxböck, 2015, p. 15)

Additionally, incumbents have developed certain beliefs over time that are hard to change. Debruyne (2014, pp. 210–211) calls this a "mental model", Afuah (2014, p. 184) calls it "dominant managerial logic" which shapes the way managers see the business world with and how business is supposed to be done. As usually the mental model is rooted deeply in the organization, it is something all the people in the company share. This logic is then something that holds the organization together on the one hand, but on the other hand holds it back from any promising change. Often, an external person is needed to broaden the horizon of the business. (Debruyne, 2014, pp. 210–211) Another aspect that may prevent an incumbent from changing its business model are its established stakeholders, mainly the customers. Even though an opportunity could be leveraged by innovating the business model, managers tend to be afraid of driving away current customers – although far more new customers could be attracted. Firms that have already developed a certain market position do not want to risk this by innovating their business models. (Debruyne, 2014, pp. 212–215; Laudien and Daxböck, 2015, p. 16) As a result, path dependency often hinders established firms from innovating their
business models. It always has to be kept in mind that decisions that have been made in the past determine the future. (Cavalcante et al., 2011, p. 1335; DaSilva and Trkman, 2014, p. 387; Laudien and Daxböck, 2015, p. 22; McGrath, 2010, p. 254)

What is it then that makes start-ups possibly more successful in business model innovation? Easily formulated, a start-up has nothing or at least less to lose compared to an established firm. They do not have any existing mental models or routine that may hold them back. They do not have current customers that need to be satisfied. They have no existing business that would have to be cannibalized. And they do not have any existing competitors that they cannot fall behind of. Start-ups can take their time to experiment and develop a strong market position. When the established firms in the industry start to respond, the start-ups are already far ahead of them. (Debruyne, 2014, p. 215) Incumbents should not make the mistake to wait what the start-ups entering their market are doing. Instead they should react, create separate business units and give themselves the freedom to act like a start-up. (Debruyne, 2014, pp. 216–218)

Nonetheless, other scholars focus on start-ups and reasons for their failure compared to more successful incumbent firms. Main aspects are uncertainty and unevenly distributed information compared to more established firms. As a result, investors might prefer incumbents as they bear less risk. Thus, a major barrier for start-ups to succeed is the power of established firms. (Bocken, 2015, p. 650) That is why connection and cooperation between start-ups and incumbents is suggested as a recipe for success. Established networks and relationships as well as knowledge of the incumbents can be used while leveraging the seemingly endless opportunities of the start-up. (Bocken, 2015, p. 655; Laudien and Daxböck, 2015, p. 20)

Concerning business model innovation of start-ups and incumbents, first-mover-advantages and pioneering needs to be taken into consideration. No matter if a firm is following a pioneering strategy or is trying to leverage first-mover or late-mover advantages – an innovative business model is crucial for its success. Even though most of the early entrants or pioneers to an industry fail, there are always some that succeed because they follow a business model that allows them to dominate the market. When new competitors enter their market, it is substantial how the established firms (the former pioneers) react. Gillette for instance, after having lost lots of market share to the late-mover Bic, developed a new business model that changed the game of the industry. By explaining its customers that they deserve something better and that Bic razors are not good enough for them, Gillette shifted the focus to its products.
But how can late-movers have a chance then? When a company is entering a market full of successful incumbents, it has to come up with a totally new business model. On the one hand, it has to be disruptive from the former business model and on the other hand it has to be the contrary to the business model of the established players in the industry. An example that has already been mentioned earlier is Nestlé’s independent business unit Nespresso. The pioneer Nespresso revolutionized the coffee industry. Many late entrants followed but only one succeeded, namely Senseo. Compared to the others that tried to imitate Nespresso's business model and strategy, Senseo focused on doing exactly the contrary of Nespresso. Instead of targeting wealthy customers with a luxury coffee product especially created for drinking espresso and cappuccino, it targeted the mass market by offering a conventional American coffee. These examples should explain the importance of the right business model at the right time for the success of a firm – no matter if it is a pioneer exploiting its first-mover advantage or a late-entrant or an incumbent reacting to new entrants. (Markides and Sosa, 2013, pp. 327, 330–331)

Besides the differences of business model innovation between start-ups and incumbents, there are companies that are called "born-global". These firms engage in global markets soon after their foundation. (Coviello, 2015, p. 21) They are like start-ups which focus their strategies and business models to internationalizing and going global from the beginning. (Knight and Cavusgil, 2004, p. 137) Fan and Phan (2007, p. 1113) call them "[…] a new class of start-ups that span international borders at birth." When Knight and Cavusgil (2004) first defined the term "born global", this was still a young field of research. Since then, they have started a discussion about the meaning and the characteristics of a born global firm. (Coviello, 2015, pp. 21, 24) According to them, born global companies are "[…] business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries." (Knight and Cavusgil, 2004, p. 124) Coviello (2015, p. 21) criticizes that this definition implies that born globals are firms that only export their sales. However, she is of the opinion that internationalizing includes various operations of the value chain such as importing or outsourcing. Because of that it is not appropriate to call such firms born globals, at least according to the definition of Knight and Cavusgil (2004).

As born globals aim at going international quickly, they need special capabilities, knowledge and resources. As they lack in experience and often also in resources – financial, human and physical – they are primarily based on capabilities and knowledge. That is what distinguishes them from traditional established companies that first develop certain skills in their home country and then internationalize when they have already been successful. (Knight and
For that reason, born globals want to internationalize rapidly and early and thus tend to choose exporting as primary entry mode in foreign countries. Thus, born globals have potential customers all over the world which enable them to take the risk and internationalize, even with limited resources. (Cavusgil and Knight, 2015, pp. 4, 10)

Thus, scholars have identified that firms tend to be born globals more often when their domestic market is relatively small (e.g. Nestlé in Switzerland). When the home market is larger, start-ups can focus domestically as they have the chance to be profitable there as well. (Cavusgil and Knight, 2015, p. 10; Fan and Phan, 2007, p. 1127)

On the one hand, globalization and the concomitant fast technological development are fostering the spread of born global firms. This includes for example the increase of worldwide demand, which is getting more homogenous, and the increase of networks across borders between producers, suppliers and customers. (Cavusgil and Knight, 2015, p. 5; Knight and Cavusgil, 2004, p. 136)

On the other hand, it is mostly internal capabilities and motivation as well as leaders that focus strongly on innovation which leads to the appearance of born globals all over the world. For being able to compete with traditional established businesses operating globally, the born globals have lots of pressure to succeed earlier and better than their competitors because they have less resources and cannot afford making mistakes. (Knight and Cavusgil, 2004, p. 136) However, one reason why born global companies are successful may be the fact that their founders and leader have a tendency to "[…] view the world as their marketplace." (Cavusgil and Knight, 2015, p. 4) Instead of putting much effort into identifying the pros and cons for internationalizing, for born globals it is clear from the beginning that they will do their businesses globally. Anyway, it is advisable for born globals to focus on relationships and collaborations when they want to enter markets with high uncertainty. With the help of experienced partners, born global firms can leverage opportunities the most. (Cavusgil and Knight, 2015, pp. 4, 12) However, just because a firm is a born global, it does not necessarily mean that it is automatically more successful than other companies. (Fan and Phan, 2007, p. 1128)

In the future, is expected that the number of born global companies will continue to increase. Also, they will be more born global firms from the beginning as their founders and managers are more global people themselves. (Cavusgil and Knight, 2015, p. 13; Coviello, 2015, p. 24; Knight and Cavusgil, 2004, p. 137)
The next chapter will focus on the role of the customer in the business model innovation process. It will be examined how a firm can achieve deep customer focus to best satisfy its customers.

### 4.5.4. The role of the customer

Strategic managers need to focus on various aspects when they want to outperform the competitors in the long run: “1) choosing the right business model (selecting the right combination of resources and associated transactions) for the present circumstances; 2) executing their business model in an excellent manner; 3) continually developing and strengthening their company’s dynamic capabilities; 4) being able to effectively and timely modify their business model when an opportunity or threat arises.” (DaSilva and Trkman, 2014, p. 386)

Originally, a common idea was that for being successful it is necessary to identify the needs of the customers and then to respond with new services or products to satisfy them. Anyway, fully understanding the customers and their needs can be quite difficult to achieve and above all costly and time-consuming. Sometimes it is even harder for customers to express their wishes and often they do not know what they expect exactly from a product or service. Moreover, their needs can be very complex and their wishes change quickly. (Simons, 2014, pp. 52–53; Thomke and von Hippel, 2002, pp. 74–76)

Thus, a major problem is that often companies think their services or products satisfy their customers’ needs but they do not test or try to prove this assumption. For that reason, data on customers is very important to identify the customer values (e.g. customer buying habits, search activities, preferences). With the help of constant data analysis, changes in customer needs and values can be identified and responded to quickly. To find out what the customers want but are not yet receiving, it is required to ask the customers themselves. (Simons, 2014, pp. 52–53)

Therefore, Pisano (2015, pp. 53–54) suggests that a firm in general has two possibilities. It can either identify the problems and desires of the customers first and then develop the necessary services or products. Or it can start with the development of products and services before the managers must find target customers or a completely new market. However, this choice depends on the company’s inherent business model.
Moreover, towards the end of the 20th century, researchers have noticed the development of a global consumer culture. (Alden et al., 1999, p. 75; Domzal and Kernan, 1993, p. 17) A global customer segment can be associated with "[…] a larger group generally recognized as international and transcending individual national cultures […]" (Alden et al., 1999, p. 80) instead of being focused on a single country. It can also be "[…] people who regard a product category in essentially the same way, regardless of their country of residence." (Domzal and Kernan, 1993, p. 17) Then at the beginning of the 21st century, Keillor et al. (2001, p. 8) also dealt with global consumers and defined them as "[…] individuals whose cultural and national differences do not affect their consumer behavior [...]". As globalization is still going on, scholars continue to identify the impact of globalization on customer culture. National consumer cultures seem to give way to an increasing global consumer culture across national borders. (Cleveland and Laroche, 2007, pp. 249–251) When a firm wants to be successful globally, it is crucial that it chooses one or more global customer segments, looking across national borders and traditional classifications. The potential consumers can either be grouped by country or by similar needs and tastes. That is what is challenging in the time of globalization – to identify a promising and profitable global customer group. (Capon and Senn, 2010, p. 34; Hassan et al., 2003, p. 447)

Additionally to identifying a global customer segment and the needs and tastes of the consumers, it is crucial for a firm to define its customers as narrowly as possible which is especially important in rapidly changing and evolving markets. (Simons, 2014, p. 50) Thus, research shows that firms can be most successful when they deeply focus on their customers. Through constant customer feedback and innovation, the relationship between the firm and the customer will get deeper and in the end, it will be more profitable for both. (Vandermerwe, 2004, p. 26) For that reason, managers have to adopt a customer perspective by trying to look through the eyes of the customers. Then, it is possible to evaluate the business model from this customer perspective. The insights that can be gained will be helpful for further innovation of the business model. (Osterwalder and Pigneur, 2010, p. 128)

In order to achieve deep customer focus, firms must undergo ten different stages, according to Vandermerwe (2004). At the first stage, excitement has to be created for striking a new path of satisfying the firm's customers. Possible risks as well as opportunities have to be communicated openly. After having created excitement, at stage two people are needed for leading the process – people who see why and how the company has to change. These people are open for the new and prepared to take the risk while at the same time motivating their colleagues to follow their path. They will also formulate a hypothesis. The new market space is expressed across the whole firm at stage three. All employees need to be able to visualize
how important their contribution to the new way is. Market research alone will not work but instead has to be combined with research on the hypothesis. (Vandermerwe, 2004, pp. 27–29)

At stage four, the value opportunities for the customers and thus also for the company itself have to be identified. This requires a small team, provided with sufficient resources and time, that can recognize value gaps. Through choosing primary markets, a new structure for the innovation path has been created and thus more confidence, creativity and credibility within the firm are fostered. At the next stage, a convincing story about customers is built, serving as a substitute for a traditional business plan. Stories are usually more powerful for emphasizing relevance and can often build a more comprehensible and exciting picture. Stage six is used to deal with the numbers, meaning the revenue that can be expected from the new way. Good numbers can motivate for further investment, internally and externally. Then, at stage seven, the concept has to be modeled in order to proof customers and employees that it works. This process can take up to eight months, sometimes even longer. Key customers are selected who then test the value proposition and reveal critical aspects. Again, this fosters credibility as well as trust. (Vandermerwe, 2004, pp. 29–30)

Stage eight is used to get the people to work together. This can be a challenging task as most of the employees inside the firm are still occupied with the regular business. Together with all the partners, success is celebrated to encourage motivation and commitment. At stage nine, the firm tries to approach the critical mass. Resources need to be used for intensive marketing measures. The new product or service has to be made attractive for the customers, especially in financial terms. Also, the benefits compared to the previous product or service need to be presented to the customers as to show them how considerate the company was about their needs. Once a certain amount of customers is satisfied, they can easily convince others to want the same. This is what happens at stage ten. Finally, the rewards are beginning to flow, success becomes visible. The challenge now is to sustain and intensify the deep customer focus and performance. (Vandermerwe, 2004, pp. 30–34)

Another way to achieve customer focus is the creation of so-called tool kits through which the customers of a company can develop their own products, including their personal needs. Be it special flavors that can be added to any kind of food or special components to personalize standard products – there are possibilities as there were no limits. If the idea behind is appealing for the customers, enormous value can be generated. Capturing this value is often the difficulty for companies. Because of that, an innovation and especially customer-centric innovation requires embedment in the overall business. Full adaption of the firm, from business
models to corporate culture, is necessary. The benefits reach from reduced costs to reduced effort to understand the customers, because they bring their ideas in themselves and the feedback loop can be closed faster. (Thomke and von Hippel, 2002, pp. 74–77) A danger especially for software companies is the fact that production is basically free. Competitors as well as customers might be able to copy the tool kit of another firm. That is why managers need to be aware of the fact that no tool kit and no strategy can be valuable forever and thus continuous enhancement is required. (Thomke and von Hippel, 2002, p. 81)

Further, choosing a primary customer group can contribute to the success of the firm. Even though a company is serving different customer segments, it should put special resources into identifying its primary customers and give them special attention. At Amazon, Inc. for instance, four types of customers are served: consumers, sellers, enterprises, and content providers. (Simons, 2014, p. 50) The choice of its primary customer can be identified by looking at the firm’s mission: “We seek to be Earth’s most customer-centric company for four primary customer sets: consumers, sellers, enterprises, and content creators.” (Amazon.com, 2016) If the firm cannot identify one primary customer group, Simons (2014, p. 54) suggests to split the firm into separate business units and then to categorize its customers again. Even though a primary customer group or some important customer groups need to be chosen, managers also have to be open to look out for new possible customer segments and groups which needs are currently unmet. All of them have the potential to become the next primary customer group. (Osterwalder and Pigneur, 2010, p. 129)

As a firm must achieve deep customer focus, it can enable the customer to slip into the role of an innovator. Five principles need to be considered. First, a user-friendly tool kit has to be developed, bearing in mind the four aspects already mentioned above. Second, flexibility of the production processes has to be ensured and if required, adjusted. Third, in order to test the tool kit, customers need to be invited for a first use and for feedback. Fourth, the tool kit has to be finalized quickly in order to be offered for all customers. Fifth, managers need to be open for continuous improvements as technology and customer needs change. Finally, all other business elements and business practices have to be adapted as well. Relationships with customers as well as employees will change and managers should be prepared for that. (Thomke and von Hippel, 2002, p. 79)

Moreover, when customers participate in innovation processes, they not only act in their traditional roles such as buyers or users but on some level they extend their roles, mostly temporarily. The type and degree of their involvement may vary and depend on the company itself, its industry, market concentration and innovation barriers, complexity of technology and
overall customer satisfaction. As a result, customer roles refer to what a customer does, which role(s) the customer plays when involved in innovation and how this differs from a traditional role of buying and using. Thus, a firm can either innovate with, by or for its customers. (Öberg, 2010, pp. 989–994)

Roles that a customer can take over are: "initiator, co-developer, source of inspiration, informant, generator of new ideas, developer, user and marketer." (Öberg, 2010, p. 1000) This means that whenever the customer acts as an initiator for example, innovation within the firm occurs because of the customer. Depending on the roles, the customer acts more actively or more passively. If he or she is regarded as source of inspiration, the customer is passive whereas he or she is active when being a developer. According to Öberg, the business model is related with the role of the customer and with the type of his or her involvement. Mostly, it is the managers who decide about the degree and type of customer involvement in their firm. Moreover, certain phases can be identified during which different customer roles dominate. As for the first phase of innovation development, customers tend to play the roles of idea generators and initiators. After the innovation development process has started, the roles of customers shift to informants, developers and co-developers. At the end of the development phase, customers turn to marketers, alternative users and idea sources for improvements. However, certain roles can be played simultaneously throughout different phases but after the development, the traditional roles of buyer and user prevail. For managers it is crucial to identify what kind of roles the customers might play in order to set the frame conditions for innovation within the firm. (Öberg, 2010, pp. 1000–1006)

In spite of all the discussion about customer participation, many managers might still ask if this really matters. The answer is easy: whenever customers are asked for feedback and suggestions, they feel appreciated, included and thus the customer-firm-bonding is intensified. When someone agrees to spend time with giving feedback and thinking about improvements for a company, this person cares for the firm and its products or services. In such a way real loyal and most precious customers can be identified. However, it is most valuable when the firm reacts on customer feedback. This means that whenever a customer writes an email – it does not matter if the person complains or compliments – any manager is obliged to answer in order to show how much the firm cares about this one customer. This customer will continue to buy products from the firm because he or she feels appreciated and the good news will be spread to other customers. A crucial aspect is that some managers tend to believe that it is only word of mouth that can create a close relationship with customers. But in fact it is the other way around. Merlo et al. (2014) found out that word of mouth matters but that much more value can be created by focusing on active customer participation. When a customer has the
chance to participate in innovation, is then acknowledged for the feedback and then tells others about it, this is when real value increases. (Merlo et al., 2014, pp. 81–84)

*Example: the customer-centric business model of Starbucks*

Starbucks managed to turn coffee, a former ordinary product, into an emotional product. (Kim and Mauborgne, 1999, p. 90) The company created a business model that allows to sell its cup of coffee expensively because its customers come to enjoy the Starbucks atmosphere and experience. This means a place to hang out, meet people and feeling like in their own living room. (Sawhney et al., 2006, p. 29) Since 2008, Starbucks is innovating its business model. Customers are encouraged to give feedback and make suggestions about how the Starbucks experience can be further improved. Because of that, Starbucks is able to build a deeper relationship with its customers, tying them closer to its brand. (Merlo et al., 2014, p. 86)

In fact, it is easier to manage customer participation compared to word of mouth. Six guidelines, developed by Merlo et al. (2014, p. 88) should help managers to think about introducing customer participation programs in their firms. First, managers need to be open for customer participation and invest time and resources for paying attention to the customers. Second, participation should be made as simple as possible for the customers. The less time it takes for them to engage themselves in company matters, the more they will participate and the more they will appreciate it. Third, customer participation has to become embedded in the firm's overall strategy and its business model for capturing value. Fourth, the opportunities of social media networks need to be exploited. By taking part at group discussions of various websites, customers feel that the firm cares about their needs and ideas. A company can thus easily close the important feedback loop. Fifth, customers have to get the feeling of participating voluntarily. Bombarding them with standardized emails and asking for feedback might be less fruitful than sending a personalized email once in a while, for instance. Sixth, creativity is demanded concerning the management of customer participation as customers like to make sure that their contribution makes sense and generates benefits. A possibility is to inform the customers what managers intend to do with their ideas and how important their feedback is for innovation. (Merlo et al., 2014, pp. 84–88) Managers have to keep in mind “that the systematic fostering of customer participation is an underutilized weapon in the marketer's arsenal.” (Merlo et al., 2014, p. 88)

However, a good business model will not be useful forever because customer needs and values change, new technologies will be invented, new competitors or other regulations may threaten the company. For that reason, constant analysis of changes that may affect the
business model is required. In case of extensive or radical changes, it might be necessary to fundamentally innovate the business model and possibly also to choose another primary customer group. Therefore, managers are advised to adopt a good and interactive control system for their firms' business models. The performance measure chosen should be used by everyone in the company to regularly answer what and why something has changed, and how it can be reacted to it. (Simons, 2014, pp. 54–55)

What can be learnt so far is the fact that a business model always includes a customer value proposition. If the business model has to be innovated because of changing environmental or internal conditions, the importance of an orientation towards the customers should not be underestimated. A company that wants to be successful in business model innovation also has to succeed in customer innovation. Therefore, Debruyne (2014, pp. 3–5) suggests a model of three elements – namely connect, convert and collaborate – in which firms that do well in customer innovation are successful. "All three processes are intrinsically linked and lose their individual value when not exercised at the same time." (Debruyne, 2014, p. 5)

The first element is to connect. Companies that engage in customer innovation put lots of effort into connecting with the market such that changes in the business environment can be forecasted. Unsatisfied customer needs or needs that may just be emerging can be identified. The firm builds up a close relationship with the customers by asking them about their desires, by listening to them, by involving them in the business and by constantly trying to offer them a unique customer experience. (Debruyne, 2014, pp. 3–4)

Convert is the second element. Companies that concentrate on customer innovation immediately try to convert the insights they got from their connection with the customers into business action. These firms recognize that constantly question their current offerings is unavoidable if they want to satisfy their customers. All the time, managers need to rethink and adapt their strategies and business models. Also, possibilities for disruption should be leveraged which results in entirely new business models. (Debruyne, 2014, p. 4)

The third important element is to collaborate. Companies that do well in customer innovation and business model innovation also know how to collaborate with partners if their own capabilities are not sufficient. As their primary focus is the satisfaction of their customers, they try to find the best solutions by concentrating on its own strengths and those of their business partners in the ecosystem. (Debruyne, 2014, pp. 4–5)
To sum up, a firm must identify a primary customer group and then identify their current, emerging and unmet needs and tastes. Thus, it is essential that the company puts all its effort into building a close relationship with its customers. There are different ways to involve the customers actively which allow the firm to create customer loyalty. Also, a business network or ecosystem should be created to support the firm where its own capabilities are not sufficient. Further, the business environment should be constantly monitored such that it can be reacted with changes. If required, adoption of the business model or development of an entirely new business model with a primary customer group is necessary.

The next chapter concentrates on the company's internal processes and aspects with regard to business model innovation. The skills of leaders and innovators as well as the influence of the corporate culture will be taken into consideration.

4.5.5. Inside the company

The challenge of globalization for organizational leadership results from an increased complexity because of a changing global power, increased social, technological and economical connectedness and interdependence, and differences of culture, politics and religions for example. (Sheppard et al., 2013, p. 267) In order to be successful with innovation, it is necessary to be flexible concerning the firm's internal processes of planning and control. For example, special funds should be reserved to be able to support unexpected ideas and opportunities. Thus, managers should foster close relationships between those who concentrate on innovation and those who focus on the mainstream business. Moreover, leadership skills need to be supported within the firm. This means that on the one hand, managers should surround the innovators with a group of qualified people supporting them. On the other hand, managers have to consider and give responsibility also to people who may not have the technical skills for innovation but who have good leadership skills. (Kanter, 2006, pp. 80–82) Following, the importance of the leadership and the corporate culture concerning a business model innovation process will be looked at in detail.

4.5.5.1. Leaders and innovators

Business model innovation represents a leadership challenge for the top management. Because the business model consists of different interlinked and dependent elements, a business model change always has an impact on the entire organization. As there are different types of business model innovation, these also require different types of leadership as can be seen in table 4. (Stieglitz and Foss, 2015, pp. 104, 113)
When the business model change is modular, only some elements or business units are innovated. If the innovation is architectural, changes occur across departments, business units and elements. If the business model innovation is modular and incremental, the existing business model is continuously adapted and refined. The top management is necessary as a monitor of the decentralized tasks of the employees. Thus, active involvement of the top managers is not required. They only have to ensure that employees have enough incentives to fulfill their tasks properly and to stay committed to the business model innovation process. Also, the top management has to scan the external business environment for possible disruptions. However, this type of business model innovation is most likely to become worthless when competitors disrupt the industry. Nokia Oyj is an example for a company that was perfectly good in modular and incremental business model innovation but which missed to engage in the development of smartphones at the right time – such as its competitors did. (Stieglitz and Foss, 2015, pp. 112–113, 115–116)

If the business model innovation is radical and modular, often a new business model is created in addition to the old model. The top management acts like a sponsor for the new business segment which is focusing on the new business model rather than trying to fit to the existing model. The managers have to balance and coordinate the old and new units and models. As there are still complementarities between them, they have to act as an interface – especially when there is internal resistance against the new business model. (Stieglitz and Foss, 2015, pp. 116–117)

If the business model innovation is incremental and architectural, the top management has to act as a moderator because the business model change affects the whole organization. On the one hand, required leadership skills are to provide a plan of what, where and how to innovate. On the other hand, a leader must be able to moderate and mediate between the business units, mainly if conflicts occur. Communication is especially crucial here – only if the employees know what tasks to fulfill, they can contribute to a successful business model innovation. (Stieglitz and Foss, 2015, pp. 117–118)

If the business model innovation is architectural and radical, the top management has to deal with a revolutionary change within the organization. This kind of innovation is quite risky as the

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<tr>
<th>Depth and breadth of BMI</th>
<th>Incremental</th>
<th>Radical</th>
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<tr>
<td>Modular</td>
<td>Top management as monitor</td>
<td>Top management as sponsor</td>
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<td>Architectural</td>
<td>Top management as moderator</td>
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*Table 4: The role of the top management in different BMIs (adapted from: Stieglitz/Foss, 2015, p. 115)*
company faces lots of uncertainties. The top managers have to focus on proper communication which is especially important in this case. Thus, they are active participants in the innovation process. They have to experiment themselves, make decisions centrally and then delegate certain tasks to their employees. This type of business model innovation poses the biggest challenges for the top management team. (Stieglitz and Foss, 2015, pp. 118–119)

For a business model innovation process to be successful, a good leadership is necessary. Leaders need to be strongly focused on innovation. Thus, they have to be flexible and willing to change something – sometimes incremental adaptations are sufficient, sometimes radical breakthrough innovations are required. Therefore, a culture of innovation should be developed such that decisions can be made effectively when the business environment is changing. (Giesen et al., 2010, pp. 23–24)

A common mistake top managers are making is that they often put the wrong people in charge of innovation. They tend to give the responsibility to those specialized in the area of innovation. However, it is necessary that they put those in charge who can best lead an innovation process. (Kanter, 2006, p. 78) When a business model has to be innovated, internal commitment of the employees is necessary. This requires a qualified, strong leadership. According to Pisano (2015, p. 54) it is the senior leaders who can fulfill this task best. As innovation involves not just the business model but all elements of the organization, someone who is used to deal with such a complex system is required. As the senior leaders of a firm are usually familiar with all business units, it should be them who are responsible for the innovation process. Thus, different behaviors and talents as well as structures that shape the company need to be taken into consideration.

Therefore, Doz and Kosonen (2010, p. 376) suggest a leadership unity, consisting of different top managers who have to trust and understand each other. For being successful, they have to focus on having a good dialogue instead of debating too much. This means that they share their assumptions and opinions, then discuss them openly and then they are able to present a collective decision that every member agrees with. Moreover, the leaders should feel free to communicate their personal motives such as satisfaction, motivation or fear for instance. This allows better integration of ideas. As the decision-making happens collectively, it is more probable that new business models can be discovered and adopted. Additionally, a firm can only innovate its business model when the top managers and leaders care about the desires and expectations of the employees as much as they care about their own ones. The leaders need to be empathic and passionate about what they are doing, about making a change and about communicating this to the other employees. (Doz and Kosonen, 2010, pp. 376–378)
Additionally, it is important to leverage the different knowledge, skills and strengths of the people within the firm if the company wants to succeed with innovation. Also, it should be recognized that trust and teamwork – which takes some time to be built within a team – are necessary for success. Thus, communication is not only important within the team but also between different teams in the company. The atmosphere within a team is as important as the atmosphere within the company in general. The innovators need support for their ideas, otherwise their concepts will not reach the next level and then fizzle out. (Kanter, 2006, pp. 78–80) If conflicts within the team occur often, innovators have to put lots of effort into creating a positive climate and group dynamic that support the business model innovation process. (Toegel and Barsoux, 2016, p. 79) Leaders need the support of the whole organization if they want to be successful. Therefore, emphasis "must shift [...] from leadership excellence to organizational excellence." (Trimble and Govindarajan, 2005, p. 58)

During a business model innovation process, the people within the organization play different roles. According to Afuah (2014, pp. 200–202), there are the top management team, the champions, the sponsors, the gatekeepers and boundary spanners and the project managers. How the top management team is doing its work is often shaped by certain beliefs and values (meaning the dominant logic, as mentioned earlier). When a business model should be innovated, they have to pay attention that their traditional beliefs and assumptions do not stand in the way of the innovation process. The champion is that person who formulates and implements a business model innovation. It is the one who has a business model vision and explains the intention of the innovation to other employees or other stakeholders in general. Sponsors are often senior managers who ensure that the champion and other employees who are in charge of the business model innovation receive the support they are in the need of. Sometimes, the sponsor is also the champion. An example for a successful champion and sponsor was Steve Jobs, the founder and visionary of Apple, for instance. Boundary spanners are those employees who act as a mediator between different business units as those often speak different languages and find difficulties to communicate between each other. The gatekeepers have a similar role but instead of translating information between business units, they ensure communications between different businesses. Finally, there is the project manager who ensures that everybody within the organization understands the aim of the business model innovation and that all know which tasks they should fulfill in this process. The tasks of the project manager always depend on the top management who decides the amount of authority and freedom of decisions the project manager is given to.

In order to best deal with the challenges of globalization, leaders need to have good cross-cultural knowledge and leadership skills. Additionally, their mindsets should be rather globally,
innovatively and strategically oriented. They need to be decisive on the one hand, and flexible and open-minded on the other hand. (Sheppard et al., 2013, p. 268) Their leadership is challenged mainly by three themes: "(1) global ethics; (2) global tempo, and (3) global risk." (Sheppard et al., 2013, p. 269)

Concerning global ethics, successful leaders are those who engage in corporate social responsibility or triple bottom line (social, environmental, financial) issues. Thus, globalization has increased the speed of change that is often not predictable anymore. The speed increased especially in the technology industry. As for instance Internet-based communication is continuously facilitated, managers are facing leadership challenges. Global risks are augmenting as well. Global financial crises, terrorism or natural disasters are not rare occurrences anymore, imposing new responsibilities on leaders. (Sheppard et al., 2013, pp. 269–271)

So which skills do leaders need to have in order to best respond to global ethics, global tempo and global risks? From leaders it is expected to be caring – caring about their employees and society in general as much as they care about themselves. They need to be trustworthy and build collaborative and social partnerships. Their personalities should be characterized by keywords such as ethical, moral and authentic. They need to fight against corruption and develop a cross-cultural understanding. Therefore, programs for the development of a global leadership might be useful. (Sheppard et al., 2013, pp. 271–272)

It is necessary that the leaders are willing and able to reflect about themselves and their actions such that they can be role models for their employees and society. As they have to deal with complex tasks, they need to be fast-learning all-rounders with a certain knowledge in different areas. Thus, they have to make fast decisions if required such that they can give the people a feeling of security in times of change and anxiety. (Sheppard et al., 2013, pp. 272–273)

They also have to be courageous concerning the different global risks they are facing. If possible, they should put lots of effort into preventing crises. Skills for global risk and crisis management can be developed in special programs for leaders where they can learn how to deal with such extremes like terrorism or natural disasters. (Sheppard et al., 2013, pp. 273–274)

Govindarajan and Trimble (2011, p. 109) also recognize the challenges the leaders of today are facing concerning business model innovation when they state the following: "A forward-looking CEO must do three things: Manage the present, selectively forget the past, and create
the future." However, most of the CEOs only concentrate on managing the present and many of them have problems to let go the past. According to Govindarajan and Trimble, it is important to exploit the achievements of the past but not at the cost of the present or the future. Often, anything new can be created because of the burden of the past. In such a case, it would be better to cannibalize its own past success to facilitate the development of something newer and better that fits more to the current business model. Thus, it is necessary to put lots of the firm's energy into the daily performance of the present. Managers should try to continuously improve and push this performance towards excellence. In order to continue being an important player on the market, a manager needs to start developing and creating for the future as well. Otherwise, the competitors such as new market entrants or incumbents that were prepared better might get their market share. Finally, leaders and managers have to recognize that strategy making is totally different in all three stages, that accountability differs and that the demands on the design of the company are not the same either. (Govindarajan and Trimble, 2011, pp. 109–114)

Following, the influence of the corporate culture on business model innovation will be examined.

4.5.5.2. Influence of the corporate culture

All leaders have similar challenges. They have to deal with certain problems but at the same time they have to build and maintain a culture that supports their work. (Sheppard and Canning, 2006, p. 18) As Kanter (2006, p. 80) points out: "Having a negative instead of a positive culture can cost a company real money." The leaders can strongly influence the corporate culture by setting an example of certain value systems and beliefs to their employees. (Baltazar Herrera, 2016, p. 1727) As a result, companies that want to succeed should develop a strong culture within their organizations and embed innovation in their firms' cultures. (Jong et al., 2015, p. 11) Leaders must allow their employees to develop and share their ideas without (or at least with little) restrictions. They should assure that lessons can be learnt from failure and that success is appropriately rewarded. Being curious, willing to experiment and to collaborate must be supported by the company's culture. Big companies that are already mature and have a powerful culture are often slow in moving towards innovation. The leaders need to make sure that there is a certain place for innovation and experimentation processes to develop within the company. (de Jong et al., 2015, pp. 11–12; Sheppard and Canning, 2006, p. 18)

Osterwalder et al. (2016) agree and suggest that a leader needs to foster the continuous development of the company culture. A tool that may help to think and talk about organizational
culture is the culture map. The map takes three elements into consideration, namely outcomes, behaviors and enablers/blockers. The ways the people within the company behave influence the outcomes. However, a leader can only exert influence on the enablers and blockers which "are the formal and informal levers that leaders, teams, and individuals can intentionally pull to drive a company's culture." (Osterwalder et al., 2016, p. 5) Incentives, such as a fair wage or career options, the leadership style as well as rules and processes (e.g. how the people are hired or promoted) shape the corporate culture. With the culture map a firm leader can identify what the current culture looks like and develop a version of the desired culture. Then, it is possible to determine ways for achieving the desired goals. Further, Osterwalder et al. suggest that companies have to care about culture as much as they care about business model innovation and strategy. (Osterwalder et al., 2016, pp. 1–10)

Moreover, when leaders are striving to innovate a business model, shared values and a mission to follow within the company can be helpful for achieving their goal. This creates more flexibility and a better understanding of the leadership team and the employees. Then it is also easier for the managers to spread enthusiasm towards business model innovation all over the firm. (Doz and Kosonen, 2010, p. 378)

Not only enthusiasm, but also education of the people within the firm are necessary for a successful innovation. It is important that the leaders educate their employees, encouraging them to develop new skills and supporting them to make experiences on their own. On the one hand, the people will be more understanding and cooperative when they are actively included in the process. On the other hand, all of their talents and experiences can be useful for the business model innovation. (Sheppard and Canning, 2006, p. 18)

In a study of Bock et al. (2012, pp. 299–300), they found out that a culture that allows to be creative and generate new ideas also gives path to strategic flexibility and further business model innovation. However, when the firm has to rely too much on business partners, this flexibility gets lost easily. To ensure a strategic flexibility, managers need to pay attention to changes in the competitive business environment and react flexibly. Thus, when a company concentrates on business model innovation, the managers must focus on identifying and leveraging new opportunities all the time.

All types of change such as a business model innovation pose various challenges for the organization. Therefore, the support of the internal organizational team is important for being successful with innovation. First, it is necessary that the leader clearly communicates the goal to them team. The goal needs to be reachable even though it can be difficult. Second, there
must be people in the team who are willing and ready to take responsibility for the process. Also, the leader has to define the rules and norms as well as the incentives and possible rewards. Then, it is important that appropriate information and resources are provided. Additionally, the leader needs to support the channels of communication. It is necessary to consider these elements as globalization has also influenced teams in general who are more digitally oriented, more widely separated, more diverse and more dynamic nowadays. (Haas and Mortensen, 2016, pp. 72–76)

After all, in times of growth and innovation, the organizational culture is more than important for the success of the firm. (Gulati and Desantola, 2016, p. 60) Therefore, the leaders need to consider that the corporate culture has to support the current business model while similarly it has to be prepared for the business model innovation. (Chesbrough, 2010, p. 362)

4.6. Consequences of globalization for business model innovation

As it has been summarized before, globalization means increased interaction and interdependence of people and countries all over the world, beyond national boundaries. This results in a free flow and exchange of services and goods. Globalization is not something that has developed just recently. Instead it is a phenomenon that already develops since hundreds of years. Thus, globalization has different dimensions, namely an economic, a social and a political dimension.

Moreover, globalization has positive as well as negative aspects. While one element of globalization may be beneficial for someone (e.g. a MNC), someone else (e.g. workers who are exploited) may suffer.

Globalization is a major driver for business model innovation. Globalization itself is also driven by different factors such as technological innovation, the tastes and needs of consumers, government policies and strategies followed by different, especially MNCs.

Thus, globalization will shape the future of each single company worldwide. Some may be influenced more while others might not feel the effects of globalization as much. Other trends that are already shaping and will continue to be shaping the business environment are for instance the climate change, global trade, global security, global responsibility, demographic change, global education and the technological development.
As a result, it can be said that globalization is changing the rules of the game in the business environment. A company needs to adapt in order to stay competitive. Inevitably, an innovation of the business model of the firm seems to be appropriate for many managers. Liberalization, meaning the opening of national border, free trade, easier flow and exchange of ideas, capital, people, products and services are major aspects that influence how a firm is doing business. Thus, regulations are strongly influencing the way a firm is doing or can do business, especially when the company is acting globally. New possibilities are generated through open innovation and outsourcing. New markets and new industries are emerging and because of open borders, firms can engage there as well. As a traditional customer segment is often replaced by a global customer segment, a firm must pay special attention to the different (or similar) needs and tastes. The continuous technological development with the rise of the Internet, social media and other ICT change the business environment and its frame conditions as well as for instance new channels of distribution (e.g. online shopping) have been created. Apart from the many positive aspects, it is often the local businesses that suffer from the increasing power of the MNCs which they cannot compete with anymore. Furthermore, the issue of security becomes more important than ever before. Not only business managers, but also terroristic organizations can leverage the opportunities resulting from globalization. Communities of states, such as the EU for example, can be powerful forces in the fight against terrorism but also probable targets of the terrorists. As a result, firms that want to compete globally have to consider the positive as well as the negative aspects of globalization. Also, glocalization and the choice for different product-market-positions are to be kept in mind.

Whenever a company decides to internationalize, it has to choose between different entry modes, depending on its strategy, its individual resources and capabilities and its business model innovation goal. It has to put lots of effort into experimentation, for instance. Thus, a business model innovation of a start-up and an established company differs. Often, the start-ups are better in business model innovation because they have less to lose. However, an incumbent has more experience and more money as investors tend to invest more readily in established than newly founded firms. Additionally, the success of the firm also depends on the frame conditions of the business model innovation and the objectives of the regular start-up, the born global or the incumbent firm.

Furthermore, companies have to consider the role of the customer. Managers need to achieve a customer focus, keeping in mind a global customer culture. Also, they have to decide what kind of relationship they want to have with their customers which will influence the success of their firm.
Finally, also the inside of the company is important if a manager wants to be successful with a business model innovation. The leader plays a crucial role here. Even though there are different leadership styles, any leader has to put the right people in charge for the right tasks. Trust and teamwork are only two of the fundamental principles. Thus, the managers need to make sure that the company culture is supporting a business model innovation and if required, they need to adapt it.

To sum up, globalization is strongly influencing all kinds of organizations and the way they are doing business. For being successful, managers need to consider the internal and the external environment and must develop an appropriate strategy for the desired business model innovation.
5. Conclusion

This final chapter consists of a conclusion of this thesis, an answer to the research question from chapter one, a critical review, the benefit for managers and ideas for further research.

5.1. Summary and answer to the research question

The business model is continuously increasing in popularity since the 1990s, since when the term has been used more often in academic articles. Opinions differ, but some authors date the origins of the business model back to the end of the 18th century. Since then, different definitions of a business model and its elements have been suggested. In this paper, 27 definitions have been presented and compared, resulting in the following definition: A business model can help explain, run and develop the business. It consists of different elements and interdependent activities which are generating and delivering value for the stakeholders and the firm itself. Its main goal is customer satisfaction. With an appropriate business model, a company can create a sustainable competitive advantage on the market.

Thus, a business model consists of seven important elements. First, the value proposition explains how the company is creating value for its customers. It is the basis of customer satisfaction. Secondly, a firm has to decide which customers or which customer segment(s) it wants to serve with its value proposition. The third element is the profit formula which defines how the firm is delivering profit and generating value for itself. Business models tend to be either more cost-driven or more value-driven. The next central element is the value chain. A firm has to find a balance between internal and external channels for being successful with its business model. Fifth, a company needs to have certain core capabilities such as physical, intellectual, financial and human resources and competences. The sixth element is a strong value network, consisting of suppliers and partners as well as relationships with the customers. Finally, a firm has to decide how to differentiate itself from its competitors and how a sustainable competitive advantage can be created with its business model.

Moreover, even though the business model subject is often equated with the term strategy, a distinction has to be made. Scholars agree that there is a relationship between them, but again, definitions differ. However, most of them view a business model as the result of a certain strategy.

Similar as with the term business model, also opinions diverge at the term business model innovation. By analyzing and comparing the viewpoints of different scholars, business model innovation can be defined as followed: In general, it means that things are done differently.
When a business model is innovated, either the whole model or only some of its elements are changed. The goal is to combine the business model elements in a new way such that a better and new value can be generated, especially for the customers and then the firm itself.

Furthermore, there are different types of business model innovation. Most of the authors distinguish between an incremental and a more radical innovation. A firm must be able to implement incremental as well as radical innovation for being successful. Beyond that, scholars clearly close business model innovation off from traditional product innovation or technological innovation. Also, business model innovation in a start-up company appears to be different from an established firm. Moreover, traditional innovation processes are opened up continuously, inviting others (e.g. customers, suppliers) to engage in innovating the business model. Crowdsourcing can also be regarded as a type of open innovation. Managers have to decide which processes (idea-generation, idea-selection or both) to open. Open innovation provides many opportunities, such as moving risks or strengthening the customer relationship for example. But it may also cause difficulties because external people often do not have enough information to suggest proper ideas or managers do not want to give delicate information to business outsiders. For that reason, managers have to decide which processes to open and whether this is the right approach for their organization.

Another business model innovation type is disruptive innovation. Often, new entrants to the industry are disrupting the way current business is done there. In order to react, companies have to choose carefully if disruption is appropriate for them. This means that a start-up firm can take the risks of disrupting more easily as it has less to lose than an incumbent. When an established firm wants to react to disruption in its industry, it is recommendable to disrupt the disrupter by using a totally new business model instead of trying to copy the disruptor. Also, it is advisable to create a new business unit and a new business model for the disruption instead of changing an existing, successful business model. Thus, different authors suggest different frameworks about how to innovate a business model in practice. At first, an idea with different alternatives for business model innovation has to be developed. Then, testing and experimenting is required in order to decide which idea to further implement.

In addition, the drivers for business model innovation have been identified in this thesis. Globalization as well as technological changes, advances in ICT and the rise of the Internet are regarded as important drivers. Regulatory changes, behavioral changes, changes in social norms and societal trends, changes in the ecological environment and changes in the financial market also cause business model innovations. Business model innovation can be initiated by
internal and external stakeholders as well, for instance in order to exploit opportunities of the market or from the desire for growth and profitability.

As globalization is an important driver of business model innovation, globalization has been dealt with in detail. Even though the definitions of this term differ, globalization can be defined as increased interaction and interdependence of people and countries all over the world. Globalization itself is driven by different forces, such as technological innovation, the tastes and needs of the customers, government policies and strategies that different firms, especially MNCs, follow. Moreover, business model innovation is influenced not only by globalization, but also by different trends that shape the present and will also shape the future. Some of the trends are climate change, global trade, global security, global responsibility, demographic change, global education and the development of technology.

Business model innovation is influenced by globalization and these different trends, resulting in a change of the business game and the business environment. Managers have to consider lots of aspects when they aim at innovating their business models. Liberalization is one of the characteristics of globalization. It allows the opening of national borders, free trade, easier flow and exchange of ideas, capital, people, products and services. Thus, different regulations (e.g. concerning food standards) need to be taken into consideration. With open innovation and open borders, firms can serve new markets. MNCs continue to increase in importance. Small, local companies have to find ways in order to compete with these MNCs. As the customers turn more and more into global customers, firms meet new challenges of how to satisfy this new type of customer. If a company wants to be successful globally, it has to achieve a deep customer focus. As the needs and tastes of the customers change, firms need to innovate their business models continuously for satisfying them in the long run. "Glocalization" is a buzzword in this context, meaning to find a balance between globalization and localization. Advances in ICT, the rise of the Internet and social media offer new opportunities but also pose threats. When looking at terrorism, for instance, it can be advantageous that potential terroristic attacks can be averted, on the other hand, terrorists can communicate and plan attacks more easily. In general, the issue of security will continue to increase in importance in the future.

Moreover, firms decide to innovate their business models and go global for different reasons. While some want to increase growth and exploit opportunities, others aim at ensuring their earnings or reduce the costs of production by leveraging local advantages of the labor force, for example. Often, firms also follow their main suppliers or key buyers that act internationally in order to exploit economies of scale and scope. Foreign countries may also be interesting for
learning reasons, technological advantages or less governmental regulations. A company might also want to develop a global image to strengthen its competitive position on the market. Thus, it is not only important that a firm reacts to the trends and considers the different characteristics of globalization, it is also necessary that the firm develops internal capabilities for business model innovation. This means that for a successful business model innovation, a good leadership is required. As there is no right way to do that, leaders can play different roles. However, all of them need to motivate their employees such that the business model innovation is supported from all of the company's internal stakeholders. The corporate culture plays a crucial role here as well.

In order to answer the research question, "How is business model innovation influenced by globalization?", it can be summarized that business models, business model innovation and globalization are strongly interlinked. Globalization is one of the major drivers of business model innovation. It can give new opportunities to business model innovation but at the same time may also pose a challenge. As a result, globalization is influencing all types of organizations and it is changing the business game across countries and national borders. This is especially challenging for managers who have to consider the internal and external resources of their companies, develop and analyze ideas for business model innovation and then weigh up carefully which ideas to further implement. As the business environment, including the needs and tastes of the customers, is changing very quickly, firms need to develop capabilities to scan the environment and to draw appropriate conclusions. Overall, managers have to keep in mind that no business model will be successful forever and that business model innovation is necessary for a long-term success.

Finally, the reader can find a critical review, the benefit of this thesis for managers, ideas for further research and the list of references.

5.2. Critical review, benefit for managers and further research

The aim of this thesis was the development of a holistic perspective on business models, business model innovation and the impact of globalization. Throughout the literature review, lots of different information, articles and books have been found, read, analyzed and compared. However, it was difficult to get an overview of the topic, its most important authors and scholars. Thus, analyzing and comparing all the – often quite contradictory – definitions and elements of business model, business model innovation and globalization that had been proposed, was hard to achieve. For that reason, it has been tried to combine the manifold suggestions to offer a holistic perspective.
The analysis of the influence of globalization on business model innovation in this thesis offers a general overview. However, it would be interesting to study this impact in more detail. An empirical research of selected companies of different industries and countries about what has changed because of globalization would be a possible approach. By looking at each single characteristic or element of globalization, its influence (positive or negative) on the business model, on business model innovation and the firm in general could be analyzed. Also, the opportunities and challenges of globalization for each firm could be identified, then compared and in the end, conclusions can be drawn. Questions to consider might be: Is globalization the reason for the business model innovation or is globalization just something that has to be considered in the innovation process? To what extent do the managers of the firm bear in mind globalization when they innovate a business model?

How can business managers benefit from this master's thesis? Managers can benefit from the comprehensive overview on business model innovation. As the influence of globalization on business model innovation has been analyzed, the managers are able to use the information provided to draw conclusions for their individual business situations. Thus, it may inspire managers to think about about the possible impacts of globalization in general and as a result, about different, new ways to innovate their business models.

Finally, it can be assumed that the globalization process will continue in the future and that it will continue to influence business model innovation. Some elements, such as global security, will increase in significance, others might become less important. However, it is interesting to keep on analyzing the impact of globalization on business model innovation and to compare the results with former studies.
6. List of references


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