

**BUS359**

# **Contemporary Strategic Analysis**

Lecture 9: Innovation and Business Models

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# Recap:

## Industry evolution & strategic change

### Think-pair-share (5 minutes):

- What are the four stages of industry life cycle?
- What is organisational inertia? And what are possible sources?
- How can a company manage change?

# Outline

- Business model
- Strategic entrepreneurship
- Innovation

# Business models

“A business model describes the rationale of how an organization creates, delivers, and captures value”

(Osterwalder and Pigneur, 2010, p.14)

- Plan for making profit (i.e., helps achieve strategy):
  - Identifies products to be sold
  - Target market
  - Expenses anticipated

## Notes:

- Industry maturity = institutionalised business model, which is part of the recipe for success.
- Competitors may share a business model, but their strategy can still differ.

Osterwalder, A. and Pigneur, Y. (2010), Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, John Wiley & Sons

# Business model innovation

Business model innovation – the transformation from one business model to another (Geissdoerfer et al, 2018)

## Why do we need to know?

- A new entrant in an industry with a new or different business model to that used by established firms can significantly disrupt industry dynamics.
- E.g., Uber's business model disrupting the taxi industry.

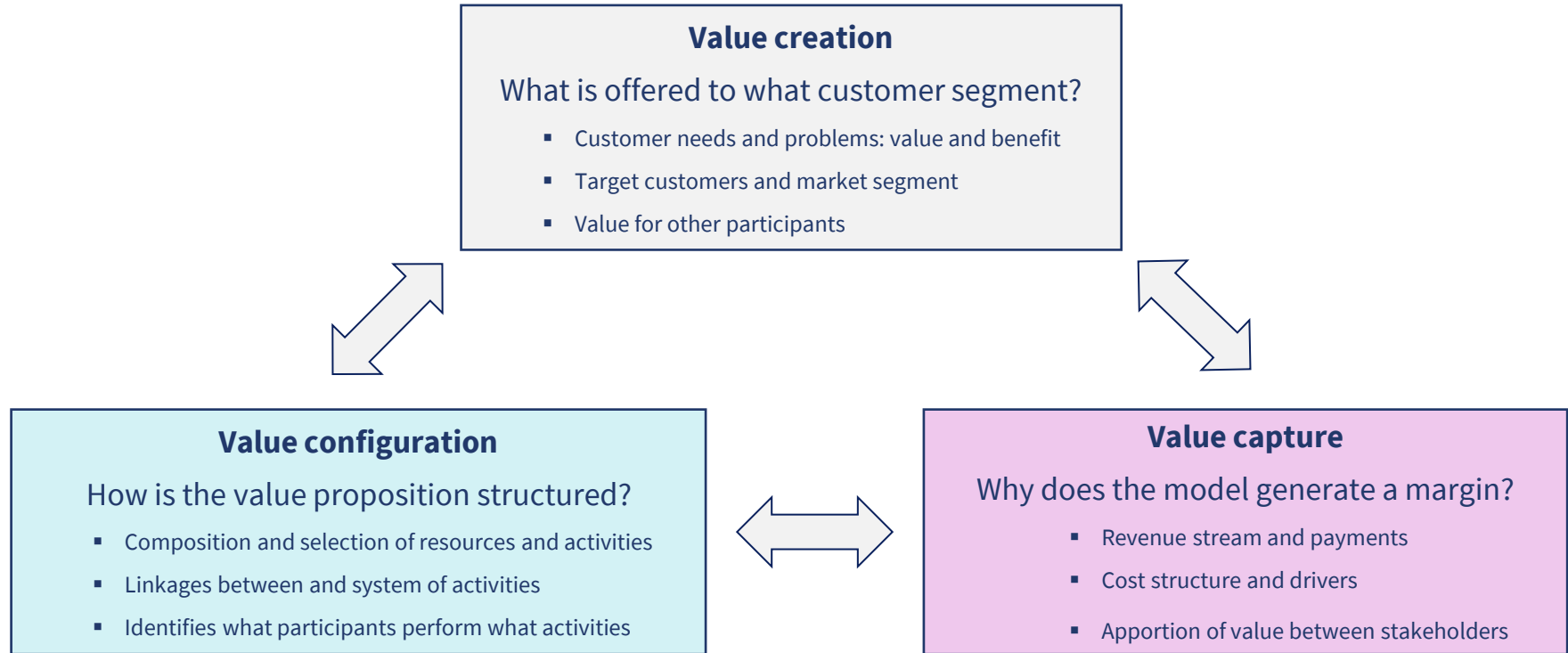
# Uber



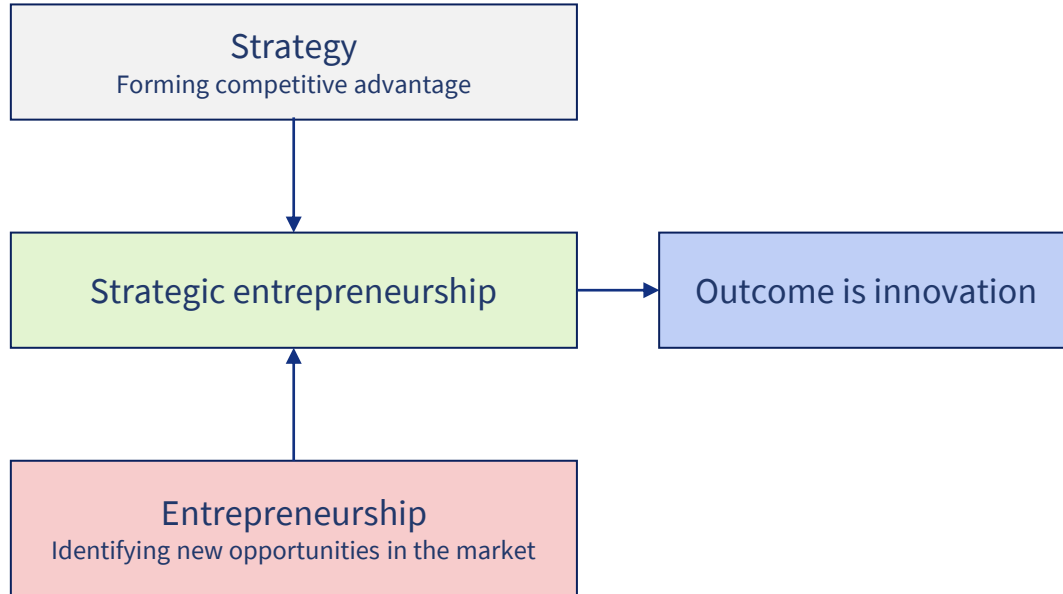
Geissdoerfer, M., Vladimirova, D., & Evans, S. (2018). Sustainable business model innovation: A review. *Journal of cleaner production*, 198, 401-416.

# Business model components

**Question:** How do the business model components apply to either Spotify or Netflix?

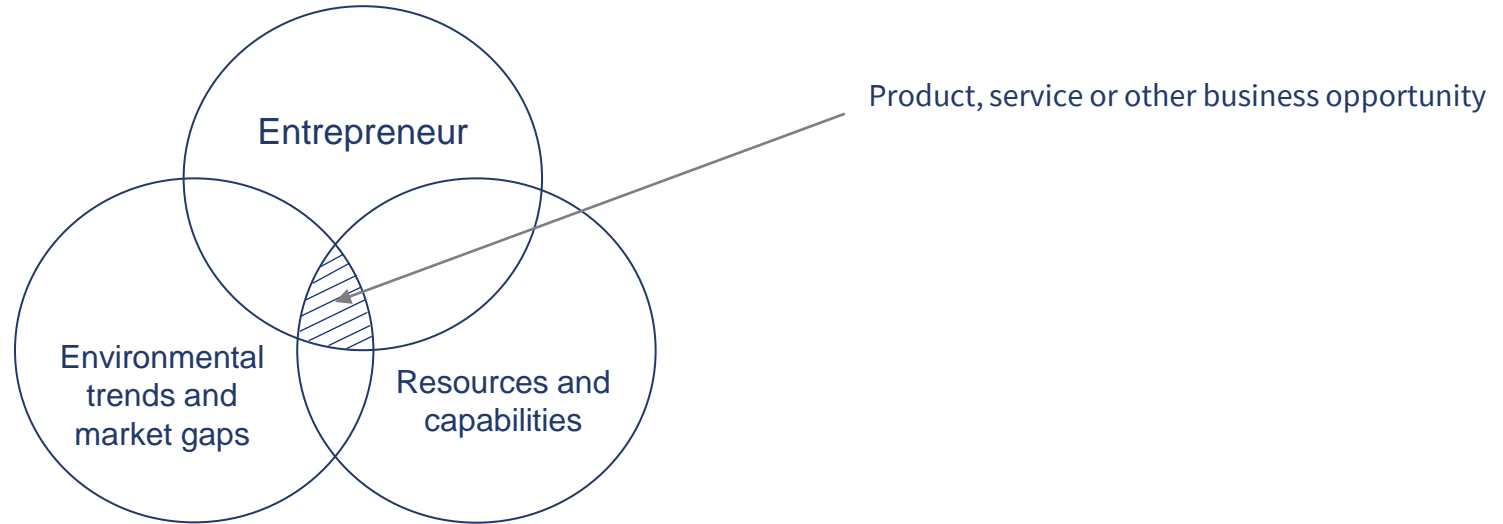


# Strategic entrepreneurship



- **Entrepreneurship** is a process by which individuals, teams or organisations identify and *exploit opportunities* for new products or services that satisfy a need in a market.
- Focus on **new**, not existing.

# Entrepreneurial opportunity recognition





# Steps in entrepreneurial process

Opportunity recognition



Feasibility analysis



Business plan



Industry conditions and competitor analysis



Business model and strategy



Financing and funding

In reality iterative process rather than sequential.

- Steps do not always follow as shown
- Multiple set backs occur

Requires continuously experimentation: business idea evolves.

‘Pivoting’ occurs: changes in product due to market and external feedback.

# Innovation dilemmas

- Approach

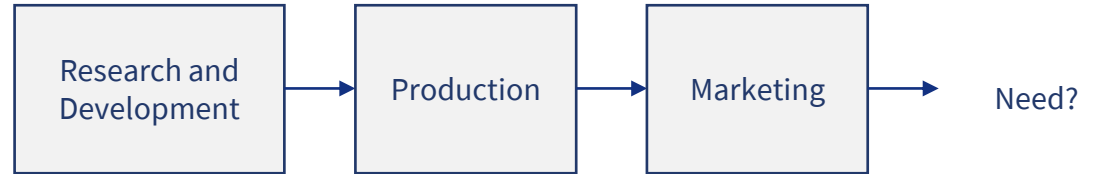
Technological push or market pull?

- Where to place emphasis?

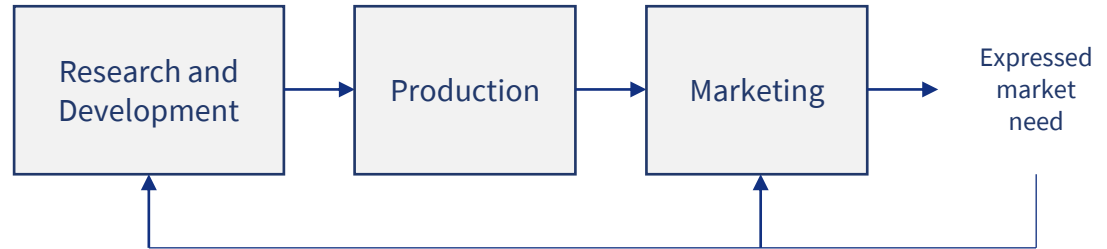
- Product innovation or process innovation?
- Incremental or radical innovation?
- Component or architectural innovation?

- Open or closed innovation?

Technology push



Market push



# To lead or to follow? Innovate or Imitate

## Advantages

- Can develop greater experience and expertise than late entrants.
- Greater potential for scale benefits (e.g., mass production), useful in price wars.
- Better and cheaper access to scarce resources (e.g., skilled labour).
- Reputation as innovator and potential to become dominant brand.
- Can make switching costs to late entrants high by locking in customers (e.g., technology compatibility).

## Disadvantages

- Innovation cost greater than imitation cost.
- Lots of mistakes & time consuming.
- Innovation does not always take off.

# To lead or to follow? Innovate or Imitate

## ‘Fast second’ strategy (Markides and Geroski, 2004) instead?

- Time entry when dominant design is beginning to emerge, where rate of innovation is slowing, product legitimacy is increasing, and complements emerging

## Which do I choose?

- Capacity for profit capture – is the innovation easy to replicate? Intellectual property?
- Your resources – do you have the resources to scale up production or advertise the innovation?
- Pace of change in the industry/market – fast moving makes it harder to establish a durable advantage

# Summary and next week

## Recap:

- Business models
- Entrepreneurship
- Innovation

## Forthcoming:

- Lecture 10: Corporate strategy
- Seminar session 9
  - Required reading: Chapters 11, 12 & 13 from Grant, Contemporary Strategy analysis; The Virgin Group from Grant casebook.
  - Discussion questions, refer to the QMplus module page



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