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BUSINESS MODEL INNOVATION WITH SPECIAL REFERENCE TO INDIA'S MOST INNOVATIVE COMPANIES

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Abstract

The importance of an innovative business model increases continuously and innovative business models are getting greater significance among both the researchers and managers. Furthermore, customer participation is broadly used as source of the competitive edge. This paper combines these aspects and concentrates on understanding how customer participation can be used when developing, innovating and adding services to a business model. Due to globalization, competition continuously increases among companies and especially among industrial companies. New players appear particularly from emerging and developing countries. In addition to cheaper production costs in developing countries, the level of knowledge rises, which causes new challenges for the firms of industrialized countries. The competitive edge of industrialized countries can no longer be based on an expertise in technology only, because developing countries already compete for market share with sophisticated technology. In order to differentiate from competitors, business should be somehow unique. This can be achieved by exploiting a business model concept. Thus, the cutting edge lies in an extraordinary business model, which either explicitly or implicitly addresses the internal competencies of the firm.

Key words: Business Model, Innovation, Business Model and Innovation Premium.

1. Introduction

The importance of an innovative business model increases continuously and innovative business models are getting greater significance among both the researchers and managers. Furthermore, customer participation is broadly used as source of the competitive edge. This thesis combines these aspects and concentrates on understanding how customer participation can be used when developing, innovating and adding services to a business model.

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2. Business Model

A business model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of business model construction is part of business strategy.

According to economic consideration the business model is a statement of how a firm will make money and sustain its profit stream over time. Whereas according to Component consideration consider the business Model as the blueprint of how a company does the totality of how a company selects its customers, defines and differentiates it offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers and captures profits. According to Strategic outcome, the business model as the design of key interdependent systems that create and sustain a competitive business.

3. Design content emphasis of business model design

Business model design includes the modelling and description of a company's: Business model design is distinct from business modelling. The former refers to defining the business logic of a company at the strategic level, whereas the latter refers to business process design at the operational level. A business model design template can facilitate the process of designing and describing a company's business model. Business Model Innovation opens up the opportunity to not only transform the value proposition, value architecture or revenue model of an organisation, it is a chance to rethink your human value systems and build businesses that customers love, employees' value and investors are excited about. Often, particularly in turbulent times, cultural innovation is an imperative for management.

4. Innovation

Innovation is a strange beast. Most people say innovation is about new technology or bringing new things to the market. Some might think of better processes.

The introduction of new goods, new methods of production, the opening of new markets, the conquest of new sources of supply and the carrying out of a new organization of any industry.

5. Ten Types of Innovation

Meshing Inventive Profit Model with New Forms of Customer Engagement In examining more than 5,000 innovations successful and not over the past 15 years, the team at Doblin has classified innovation activities into Ten Types of Innovation. Sadly, most of these innovations have not been successful (defined as returning their cost of capital), achieving in aggregate an abysmal success rate of 4.5 per cent. The vast majority of them and especially the failed attempts have been cantered on product performance and product system innovation (see Figure 1 below). This focus area should not be surprising: new product ideas are easy to dream up and just as easy to kill in the average company's stage-gate process. If they are lucky enough to make it through to market launch, many product-focused innovators find themselves vulnerable to competitors.

This challenge is becoming only more daunting as competition heats up in all corners of the world, especially in emerging markets where patent law may be less effective and mastery of complex distribution systems can matter more than having the best product on the shelf. By contrast, the most successful innovations studied share two important traits. First, they focus on shifts in the profit model and means of customer engagement. And second, they employ multiple types of innovation frequently six or more making them genuinely new and different "business models." These are breakthrough innovations that are difficult to replicate because they deliver unique value to customers and are integrative in nature (across company functions).

Parts	Considerations	Warning
A business model has two parts, the value proposition and operation system. The value proposition consists of the target demographic and the influences needed to attract those customers to doing business with you. The operation system defines how to sell your product or service in order to make a profit, according to the Boston Consulting Group.	Factors to consider when working on a BMI includes weaknesses in the current business model, what can be done to edge out the competition and how fast a change needs to be made. For example, a retail company that has noticed a decline in sales could try to implement social media into the business's advertising strategy.	Not all innovations to business models prove successful. Warning signs to look for includes attempts to implement innovations in too many areas of a business design, failure to garner enough attention or resources for a business model innovation, and refusal to embrace new business tools into the business model.

6. Possible Innovation Targets

S No	Innovation	Targets
1	**Business Structure**	Capital Formation, Alliances
2	**Organization**	Structure Type, Decision-Making Process, Process to Improve Processes, Facilities Infrastructure, Facilities Effectiveness, Information Technology Infrastructure, Employee and Contractor Mix, Employee Experience
3	**Supply Chain**	Manufacturing, Communication, Distribution System
4	**Products and Services**	Product Offerring, Product Availability, Technology (Evident) , Technology (Hidden), Research and Development, Manufacturing, Sales Model, Distribution, User Interface, Packaging, Functionality, Lifestyle Model, Sustainability, After-Sales Service
5	**Customer Service**	Communication, Service Process
6	**Customer Experience**	Brand and Image, Advertising, Communication Process, Feedback, Customer Relationship Management

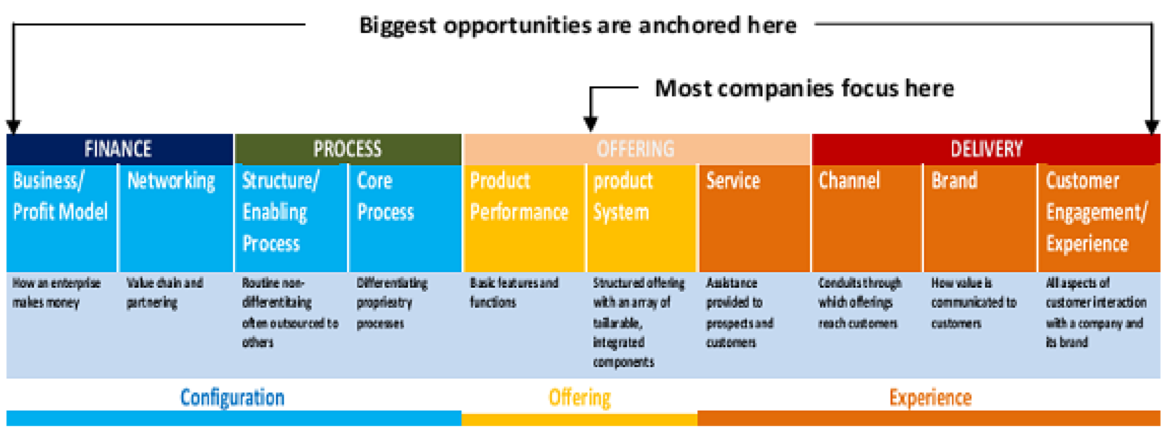

Fig - 1: Ten Types of Innovation

In our research, only two percent of the initiatives demonstrated these attributes and yet they delivered 90 percent of the cumulative value of all the innovations studied.

The most successful business model innovations combine new ways of making money with innovative, great customer experiences.

7. Innovation is about being different

However, what most of the time is missing is that innovation has something to do about being positively different from your competitors. When everybody in industry is bringing out new products, then this is no innovation. It is just daily business. Have to do it to survive. It's a rat race.

8. Business Model Innovation (BMI)

Business model innovation (BMI) refers to a business's attempt to reinvent itself in order to obtain a competitive edge and stimulate company growth.

In theory and practice, the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, business process, target customers, offerings, strategies, infrastructure, organizational structures, trading practices, and operational processes and policies. The literature has provided very diverse interpretations and definitions of a business model. A systematic review and analysis of manager responses to a survey defines business models as the design of organizational structures to enact a commercial opportunity. Further extensions to this design logic emphasize the use of narrative or coherence in business model descriptions as mechanisms by which entrepreneurs create extraordinarily successful growth firms.

Business models are used to describe and classify businesses, especially in an entrepreneurial setting, but they are also used by managers inside companies to explore possibilities for future development. Well-known business models can operate as "recipes" for creative managers. Business models are also referred to in some instances within the context of accounting for purposes of public reporting.

9. Forbes Announces Fifth Annual List of the World's Most Innovative Companies

August 19, 2015, Forbes Announced Fifth Annual List of the World's Most Innovative Companies. The rankings are based on analysis from Finstra Consulting in collaboration with Innovators DNA and uses data and a proprietary valuation model from HOLT, a division of Credit Suisse. The method relies on an innovation premium of existing businesses.

Companies are ranked by their innovation premium: the difference between their market capitalization and a net present value of cash flows from existing businesses (based on a proprietary formula from Credit Suisse HOLT). The difference between them is the bonus given by equity investors on the educated hunch that the company will continue to come up with profitable new growth.

To be included, firms need seven years of public financial data and $10 billion in market cap. Forbes includes only industries that are known to invest in innovation. Excluding industries that have no measurable investment in R&D, so banks don't make the list. Nor do energy and mining firms, whose market value is tied more to commodity prices than it is to innovation.

10. Most Innovative Companies in India 2015

Three Indian companies figure in Forbes' annual list of The World's Most Innovative Companies topped by Tesla Motors, leading maker of fully electric vehicles.

11. Hindustan Unilever

Ranked 41st, Hindustan Unilever, India-based fast moving consumer goods company, tops the list of Indian Innovative Companies. It operates in seven business segments ranging from soaps and detergents to tea and coffee and packaged foods.

12. Tata Consultancy Services

It's followed by Tata Consultancy Services in the 64th spot. India's largest IT Company appears on the list for the eighth time. It took a major step toward bolstering its digital services with a training programme in digital technologies for a third of its workforce.

13. Sun Pharma Industries

Ranked 71st, Sun Pharma Industries, India's largest drugs company, with 45 manufacturing sites across the globe, appears on the list for the fourth straight time.

14. Most Innovative Companies in India 2014

Five Indian companies, including Hindustan Unilever and Tata Consultancy Services, are among Forbes' list of the world's 100 most innovative companies that investors think are most likely to "generate big, new growth ideas.

The annual 'World's Most Innovative Companies' list, released on Wednesday, has been topped by California-based global cloud computing company Sales force for the fourth year in a row.

The five Indian companies on the list are consumer goods company Hindustan Unilever, which is ranked 14th, followed by IT major Tata Consultancy Services (57), construction services firm Larsen & Toubro (58), pharma major Sun Pharma Industries (65) and Bajaj Auto (96).

Hindustan Unilever recorded an innovation premium of 54.7 per cent. Forbes said the innovation premium is a measure of how much investors have bid up the stock price of a company above the value of its existing business based on expectations of future innovative results like new products, services and markets.

The innovation premium of TCS was 39.58 per cent and the Mumbai-based company had a market cap of USD 71.25 billion as of May 2014.

15. Business Model Innovation in India

Developing new business models for competitive advantage has become a priority for firms around the world, but relatively little is known about the nature and dynamics of this type of innovation in India. Competitive pressures are pushing business model innovation ever higher up companies' 'to do' lists. While the concept has been around for a long time, it has come increasingly to the fore over the last 15 years as the pace of globalisation and technological change and shifts in industry borders have all created opportunities for new business models. The importance of business model innovation was confirmed by a survey of 700 CEOs worldwide carried out by IBM in 2008 which showed that those firms with the fastest-growing operating margins were placing twice as much emphasis on business model innovation as those which were under-performing.

New business models have shown themselves to be particularly effective for commercialising scientific innovations (important for countries like India with its large scientific community), creating strategic flexibility and reducing the costs of products and services in less affluent societies. Achieving these outcomes through business model innovation is much harder for other firms to copy than product or process innovations and can therefore deliver greater competitive advantage. In emerging economies, business innovation has been instrumental in delivering more efficient services in key areas such as health care, energy provision, food security and nutrition.

India has long perceived innovation to be a necessary component of sustained economic growth. Dr Manmohan Singh, who was Prime Minister from 2004 to 2014, has said that India lacks funding more than innovative ideas and in 2011 the government established a $1 billion venture fund to foster innovation. Indeed, according to the GE Global Innovation Barometer (2012), India is the sixth most innovative country in the world. However, it is still far from reaching its potential; Indian companies spend only about 0.3% of their revenue towards innovation as compared to 3% spent by their counterparts in developed countries. And although firms in India have been increasingly active in creating new business models, a significant proportion of these business model innovations have been borrowed from elsewhere with very few innovations that are truly ‘new-to-world’. However, it is these new-to-the-world innovations that India needs to develop if it is to achieve sustained economic growth.

16. Conclusion

Business Model Innovation in India, although established firms are still the main drivers of business model innovations, the percentage share of innovations by new entrants has been increasing. New entrants increasingly try to achieve both efficiency improvements and find novel ways of meeting customer needs while established firms mainly use new business models to improve efficiency. Contrary to received wisdom that the IT sector is the main driver of innovation in India, there has been a clear shift in business model innovation away from IT-related industries towards consumer goods, media and financial services. New entrants introduced business model innovations that were primarily ‘new-to-industry’, whereas established firms tended to introduce innovations that were ‘new-to-firm’. Business models based on new ways of meeting customers’ needs adopted by both new entrants and established firms were predominantly new-to-firm. Efficiency-centred business models, however, differed according to the type of firm, with new entrants predominantly introducing new-to-firm innovations while established firms tended to develop new-to-industry models. Over time, the novelty-centred business models changed from being predominantly new-to-industry to new-to-firm, whilst efficiency-centred business models remained relatively unchanged in terms of the newness of innovation. Somewhat unexpectedly, the study also shows that most business model innovations in India were either new-to- firm or new-to-industry but not new-to-world.

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