Designing radical business models by looking across industry boundaries

Radically new business models enlarge value creation (Amit & Zott, 2001) and create competitive advantages (Mitchell & Coles, 2003). Creative imitation provides a highly relevant approach for designing such radical business models by recombining existing business model components of a source industry or a source market segment with new business ideas, products, and services within the target industry. The systematic consideration of cross-industry business models is not only relevant for traditional industries and companies, but also for start-ups, e.g. in the Internet domain.

Innovation through imitation

While cross-industry innovation has become an accepted method within product and technology innovation, it is still in its early stages regarding business model innovation. However, our research sheds light on the possibilities and potential of looking across industry and market boundaries, when designing and implementing radically new business models. In this context, we are not talking about “copy cats”, i.e. a mere duplication of successful business models (e.g. StudiVZ as a copy of Facebook), but a systematic search for analogies in other industries followed by creative recombination of different business model components. This form of imitation overcomes the barriers of dominant logic (Prahalad & Bettis, 1986) and industry recipes (Spender, 1989) and creates new, valuable business models.

When to use imitation

Start-ups and established companies face increasing pressures to introduce new business models in ever changing industries, which are for example subject to digitalization or commoditization. Companies need to address new customer needs, emerging niche markets, or new international markets that differ from their established market segments. Furthermore, start-ups have to find ways to monetize their innovative service ideas and essentially create profits. In such cases, already established business models in other industries provide answers to the following questions:

- How can we reshape the value proposition to address customers adequately?
- Which revenue models do other industries use?
- How can we design a sustainable and valuable customer relationship?

Leveraging cross-industry innovation in these situations enables companies to find radically new business model deviating from the established concepts of “how to do business”, which all other competitors still follow. It also speeds up the implementation process and eases communication to future customers and investors. As some business model components have been successfully established, both customers and investors have the chance to see the basic principles of the business model in the source industry. This facilitates the “proof of concept” for the new business model, which ensures a fast understanding by customers and secures financing from investors.

Imitation at work: An example

J.W. Ostendorf, a producer of paint and finishing products, serves as an example how this approach works. The company traditionally serves male customers by producing private label paints for do-it-yourself retailers. Recently the company searched for a new business model in order to specifically address women as customers. Through a targeted search in other industries, the company found the business model of Nespresso. J.W. Ostendorf imitated the “convenience”-aspect of this business model based on an easy-to-use combination of a coffee machine (hardware) and capsules (consumables). They developed a new “Plug-and-Spray”-System that allowed a
The new marketing and distribution model targets the convenience- and lifestyle-oriented market segment – similar to Nespresso.

A systematic process for imitation

To pursue this approach systematically, we propose a three-stage process, similar to technology-related cross-industry approaches (e.g. Gassmann & Zeschky, 2008). The three structural phases are abstraction, analogy identification, and adaptation (see Figure 1).

Abstraction reduces a problem to its core aspects and formulates a highly abstract reference point necessary for recognizing and identifying analogous solutions (Weiß, 2004). For business model innovation, a company has to define a new value proposition, based on its core product but also serving some generic customer needs (e.g. “convenience” at J.W. Ostendorf). This forms the base of their targeted new business model. These generic aspects of the value proposition can typically be found in various industries and provide the search terms to look across industry boundaries.

Within the analogy identification phase, companies compare these generic customer needs with value propositions companies in other industries or market segments offer. Once an industry is found that addresses structurally similar aspects (e.g. Nespresso’s convenience- and lifestyle-oriented business model for premium coffee), the company can evaluate whether the business model components providing this value proposition might be also valuable to implement the new business model in the target industry.

In the last phase, adaptation, customer-oriented business model components (e.g. customer relationship or revenue model) are transferred in order to implement the new value proposition. It is not always possible to transfer specific components directly. However, cross-industry searches can also provide ideas how business models look like in other industries and how principle mechanisms and interactions between different components of these business models, e.g. for revenue creation, work.

![Figure 1: Imitation process for business model innovation](Source: adapted from Enkel & Mezger, 2013)
When imitation creates value

If companies creatively adapt business model components from other industries, they enlarge value creation in their own industry. By adapting the value proposition to the specific needs of a target market segment, more sustainable and valuable customer relationships are created. The adaptation of the Nespresso business model enabled J.W. Ostendorf to leverage strong incentives for rebuying as their spraying system are ideally aligned with the paint capsules. At the same time customers are willing to pay an extra charge for this premium-positioned product.

Hence, imitation of business models across industry- or market-boundaries provides a starting point to achieve profitable growth in new or changing markets.

At a glance – Summary

| Business model innovation complements a firm’s innovation activities regarding product, process, and service innovation. |
| Imitation of business models from other industries or market segments can be approached through a systematic three-step-process. |
| “Abstraction” identifies generic customer needs that can be found in a variety of industries, “analogy identification” searches and evaluates business models of other industries, which serve the previously identified customer needs. Finally, “adaptation” transfers these business model components to the target industry. |

Further readings
