

**Transforming SMEs in Creative Sectors through Business Model Innovation**

**A REPORT FOR INDUSTRY**



**REINVENT**  
BUSINESS MODEL INNOVATION

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## About the research

To learn about business models in European SMEs in creative sectors, a survey was conducted among managers in Iceland, Denmark and Poland. SMEs in creative sectors were identified from public records and their managers were contacted by phone. They were asked to participate in our research and if they agreed, we sent them a link to our online survey. **This research would not have been possible without these managers' participation and we are greatly indebted to them.** A total of 644 responses were collected from managers of Icelandic, Danish and Polish SMEs in creative sectors, with a roughly equal split among the three countries.

The survey consisted entirely of multiple-choice questions covering a wide range of topics. The survey was first developed in English and then translated into Icelandic, Danish and Polish. To ensure consistent translations, the translated surveys were then translated back to English by people who had not been involved in the original translations. We compared the translations into English with the original English version of the survey and made adjustments to the translations where needed to ensure consistency.

As befits research that draws insights from industry, its culmination should be crossing the academia-industry barrier for the second time, in the opposite direction, to bring new insights back to industry. That is when the academic research becomes relevant and contributes to the process of business reinvention. In this spirit, this report provides an overview of the main findings of the survey research as well as other research on business models conducted by the Reinvent researchers over the course of the project. A full list of references is provided at the end of this report.



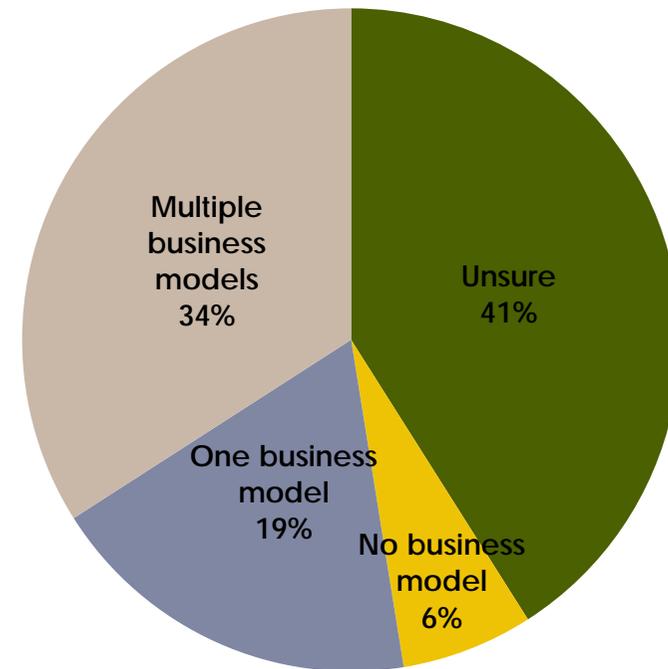
## Business model perception

Managers were asked how many business models their firms had used in the last year. Almost one fifth (19%) of the managers indicated that their firms used one business model, while about one third (34%) indicated that their firms used multiple business models. The more complicated and multi-faceted that a firm's operations are, the more distinct business models can be expected. Two fifths (41%) of the managers did not answer this question and some entered comments that they weren't sure, didn't know or didn't understand the question. 6% of managers claimed that their firms used no business model. Since all businesses operate using some business model, the implication is that these managers possibly do not understand the business model concept. Thus, although 53% of managers are familiar with the business model concept, the rest are not.

## Business model innovation

We asked managers to divide 100 points among three types of innovation (product/service innovation, process innovation, and business model innovation) to reflect the breakdown of their firms' overall investment in innovation. Managers assigned an average of 50 points to product/service innovation, 25 points to process innovation and 19 points to business model innovation. Thus, it appears

Figure 1: Managers' responses about business models used by their firms



that SMEs in creative sectors invest least in business model innovation. This can be viewed as evidence of an untapped opportunity; SMEs should consider the possibility of engaging in business model innovation to improve their competitive advantage.

Research conducted among young technology-based firms [4] reveals that firms engaged in radical innovation are likely

to also be engaged in business model innovation, and although the direction of causality is not known, it is likely that radical innovation and business model innovation are mutually reinforcing. This implies that firms competing primarily with incremental innovations may gain competitive advantage by adding business model innovation to their innovation mix and bring incremental innovations to market using novel business models – thus diverging from what is common in this category of firms. Furthermore, young technology-based firms can expect that their competitors are likely to engage in more process innovation and business model innovation when competitive intensity in the environment is high. This implies that neglecting their processes or business models could pose a risk of losing out in competition [27].

Business model innovation should be the process through which an organization becomes more robust. Only after managers have been able to rethink and reshape their business model, does the old adage “if it does not kill you, it will make you stronger” become true. In the context of business and management, “stronger” means more innovative, more competitive and more profitable.

## **The “stories” business models tell**

A business model can be thought of as a “story” about how a business creates value – for its customers, its shareholders and other stakeholders. Therefore, we sought to understand

the stories told by the business models of European SMEs. To this end, we asked managers a series of questions about their firms' business models.

We identified four classes of business models:

- 1) Business models “borrowed” (or replicated) from other industries, where they have already proven successful. This is essentially a low risk strategy, and may be successful for firms who are the first to introduce a business model into their industry.
- 2) Business models based on offering new features. This is sometimes referred to as incremental innovation. Like business model replication, this is generally viewed as a low risk strategy, but one that may not lead to competitive advantage. Examples of new features are an increased variety and number of options, new combinations of products, services and information, bringing together new collaborators, introducing new incentives for customers and creating new links with customers.
- 3) Business models based on efficiency. These are also referred to as “low cost” business models. This is usually achieved through internal optimization or exploitation of economies of scale, which can result in lower prices for customers.
- 4) Business models based on radical novelty that disrupts the status quo in the market. This involves being a

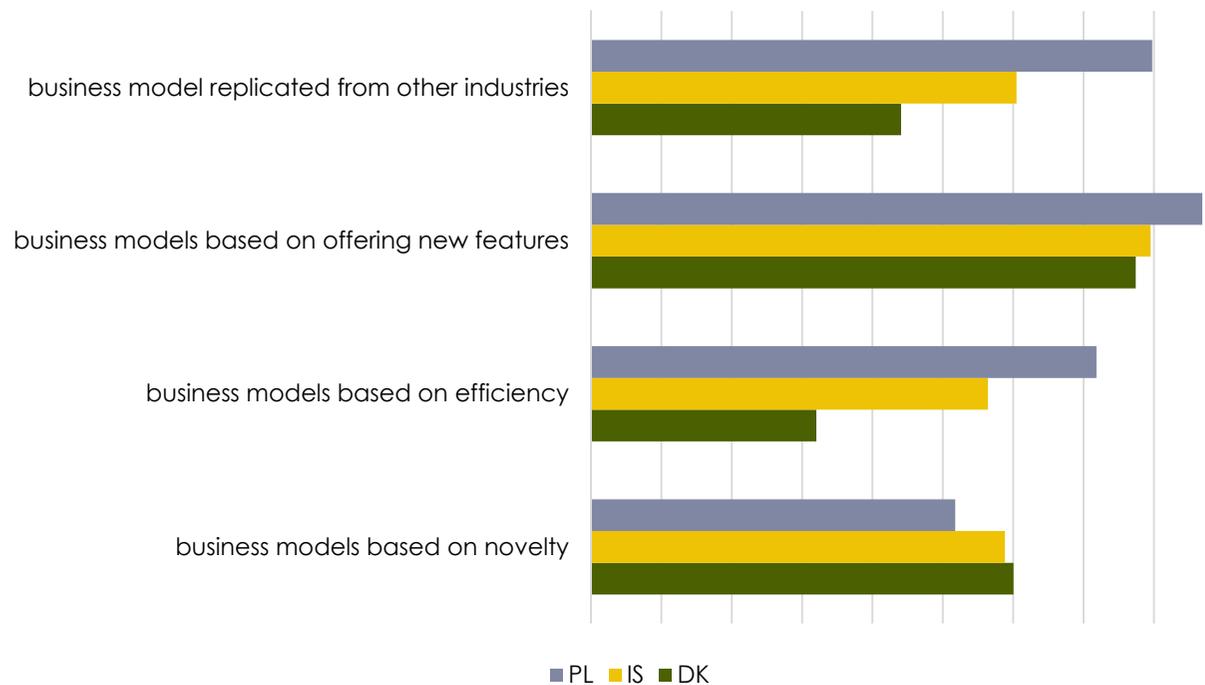
pioneer in one's industry and offering entirely new value to customers. Developing a novelty-centered business model can require challenging existing industry business models.

It is important to bear in mind that a business model might exhibit characteristics of more than one of these classes and a firm can operate using multiple business models, each of which belongs to a different class.

In Figure 2, we see the average scores for each of the classes of business models in the three countries included in the research. We see that business models based on offering new features – or incremental innovation – are most prevalent in all three countries.

Differences between countries are statistically significant for business model replicated from other industries and for business models based on efficiency. Business model replication is most common in Poland and least common in Denmark. The same pattern is observed for business models offering new features. For the other two classes of business models, differences between pairs of countries were not significant.

Figure 2: Prevalence of classes of business models



The survey included several questions about performance, which allowed us to examine relationships between classes of business models and performance. We consider two measures of firm performance:

- 1) Customer acceptance, which refers to managers' assessments of their customers' satisfaction, the level of value provided to customers, how well the firm performs in terms of meeting customer needs and retaining existing customers –

all compared with the firm's competitors.

- 2) Market growth, which refers to managers' assessments of their firms' market share and revenue growth, and their ability to gain new customers and increase sales to existing customers – all compared with the firm's competitors.

The findings are quite interesting. In the first place, we found that business models based on efficiency do not contribute to either of the performance variables. This implies that firms are not likely to improve their performance by offering products or services at lower cost. At this point it is important to highlight that the firms studied were all SMEs in creative sectors and so these findings are only relevant for this particular context, which might explain why firms like Walmart are in fact successful despite – or even because of – their low-cost business models.

When it comes to business models based on novelty, we found positive contributions to both performance variables. Thus, SMEs in creative sectors that develop business models based on novelty can expect a higher level of customer acceptance than their competitors and a higher level of market growth. In sum, customers seem to appreciate novelty, while they do not seem to be impressed by lower prices – at least not in creative sectors. Those firms not prepared to take the risks involved in business models based on novelty will be heartened to know that we also found positive contributions of business models based on offering

new features rather than full-blown game-changing innovations.

Finally, for business models borrowed (or replicated) from other industries, we found a positive relationship with market growth, but not customer acceptance. So the benefits of replicating a business model from another industry are not as clear as for basing a business model on novelty or new features.

## **Socially responsible business models**

Professional service firms – meaning firms that rely crucially on their employees' expertise – can be particularly challenged by a misalignment in the mental pictures that managers, employees and customers have of the service. Research shows that articulating a shared service concept can reduce the impact of these challenges [3]. In a professional service firm studied, articulating a service concept around the notion of social responsibility was found to be effective [3, 24].

Indeed, social responsibility can form the core of the “story” a firm adopts – or, in other words, of its business model [21]. Research findings indicate that business models with social responsibility at their core are more likely when market turbulence is high than when it is low. This suggests that when customers' demands are changing rapidly, firms are more likely to implement socially centered business models.

[8, 9]. This is likely to be in response to increased customer expectations about social responsibility. Furthermore, firms engaged in business model innovation are more likely than other firms to develop socially centered business models. This might be because business model innovation calls for looking at the “big picture”, which can lead to taking the social dimension into account [10].

## **Experience-based innovation**

Although not necessarily classed as a separate type of business model, augmenting a product or service with experience or having a customer experience at the core of a business model is also possible. This can be referred to as experience-based innovation and is most commonly seen in service business models; we can think of it as making services „sing and dance“[6]. This can be relevant even when a service is functional in nature, e.g. insurance or dry cleaning. Six service design strategies that can create a compelling customer experience have been identified [1]. They fall into two categories, strategies for customer empowerment and strategies for customer accommodation. Using these strategies can help set the stage for a service to offer an emotional experience.

Emerging thinking views service benefits as multi-dimensional, including functional, emotional and social benefits. As mentioned above, experiences – made up of emotional and symbolic aspects – are important even for

functional services. This makes sense when one thinks about consumers, but what about business-to-business (B2B) service contexts? Research shows that even in B2B service contexts, emotional and social benefits contribute to customer satisfaction. But the contribution is greatest if emotional and social benefits are low to start with in which case firms can expect stronger effects on customer satisfaction than if they are high to start with [7].

Following from the thinking on experience-based innovation, firms engaged in service innovation should emphasize design as a way to create engaging customer experiences. They should include designers in service innovation, and they should seek evaluations of their design outcomes (design excellence) from outside the firm [5].

## **Analyzing business models**

For managers, understanding the logic of their organization's business model is not only an abstract intellectual exercise but is essential for efficient managing and decision-making [13]. Since a business model describes the entire “metabolism” of the organization, it is sensible to explore the relationships between the business model's structure and the organization's fitness. Importantly, such fitness should reside in every building block of the business model, from the financial aspects to relationships with partners, customers, and employees [22].

Managers and employees may have very different views about which parts of the organization's business model are most important. Some may see cultivating relationships with business partners as fundamental, while for others customers and their concerns are the most essential. Thus, for all practical purposes, it is as if there exist multiple implicit business models in an organization [16]. Appropriate means for analyzing business models to reach a common understanding are, therefore, called for.

Social network analysis is one such approach. Social network analysis supports the exploration of a specific part of organizational reality from the relationships and interdependencies perspective. This approach can be applied to business model components to understand how they mutually depend on one other [28, 33]. The business model components that can act as "levers" for influence are those that have the highest and most immediate impact on other components but are not strongly influenced by other components.

Relationships are important components of business models. Internal (among employees) and external (with business partners and customers) relationships are maintained via surprisingly similar and universal mechanisms. They are all based on behaviors that promote and strengthen trust and reciprocity, i.e. mutually exchanged acts of cooperation [22]. This effect may be especially pronounced in family firms, since relatives are likely to cooperate and show family-oriented honesty, loyalty and trust. This may result in

improved business efficiency (e.g. by enabling savings on security or IP protection costs) and, ultimately, business success [15].

## **Tools for business model innovation**

The Business Model Canvas and Doblins's Ten Types are two popular business model concepts. They differ in the terms they use to describe their building blocks, but they deal with the same issues. Managers may benefit by applying tools (from creative-thinking methods to quantitative analysis) suggested in each concept – such tools are aimed at introducing innovations in each of the building blocks. For example, Doblin's over 100 "innovation tactics" may well be applied during the reinvention of Canvas-based business models [18].

Business model innovation may also be facilitated with the help of either Altshuller's engineering-based methods (also known as TRIZ) or creative-thinking tricks (such as Osborn's SCAMPER) developed in the world of marketing. The latter has the form of simple intellectual triggers (for example: "Do it in reverse!", "More slowly") that can stimulate managers to revise the ways they think about their business practices [17].

Some managers work in highly technical fields but are not scientists or engineers themselves. How are they then to evaluate the quality of R&D work, hire consultants or make

personnel decisions – all important elements of business models in high-tech industries? One set of tools to help managers originates in bibliometrics (scientometrics) and is based on the analysis of citations of academic papers relevant for a given industry. Authors of well-cited papers make better consultants and experts – their intellectual quality is likely to be reflected in the quality of their input into the reinvention of business models [11].



## About the Reinvent project

Business model innovation has to do with inventing and implementing new models for doing business and creating value. As such, business model innovation can be viewed as a process of transformation and reinvention.

The aim of the Reinvent project (2013-2016) was to develop and share knowledge about how SMEs in creative sectors – SMEs operating in both digital and non-digital markets – can implement business model innovation as a means to enhance competitive advantage. Reinvent created opportunities to evaluate and validate business model innovation as a competitive tool for European SMEs through empirical research among SMEs in three countries: Iceland, Poland and Denmark.

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The Reinvent Project web site can be found here: <http://bmreinvent.com/> and a short documentary about the project here: <https://www.youtube.com/watch?v=H4thGefJ72w&t=1s>.

The Reinvent academic partners are the Reykjavik University Center for Research on Innovation and Entrepreneurship and the Wyższa Szkoła Biznesu Center for Innovatics; the industry partners are VA Arkitektar (Reykjavik, Iceland), i3D (Gliwice, Poland) and Stormsalen (Horsens, Denmark).



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*The Reinvent researchers have conducted academic research spanning a broad range of topics related with business models in one way or another. The resulting publications, listed below, are available to anyone interested; simply contact the authors or the project coordinator by sending an email to marina@ru.is.*

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