Innovating Business Models: An Outside-In Approach

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Full Spectrum Innovation: The Disciplined Search for Opportunities

- Stretch and reimagine every element of the strategy
- Start from the outside-in

**VALUE PROPOSITION**
- Perceived risks
- Perceived benefits and costs

**BUSINESS MODEL PATHWAYS**
- Transactional
- Integrated solutions
- Triadic

**PROFIT CHOICES**
- Less risk = fewer rewards
- More risk & effort = greater profit potential
Which Path to Growth?

**What’s Needed?**

What are we good at? What are our resources?

**What’s Possible?**

- How can we sell more? Gain more share? Improve productivity?
- What else can we make with our technology?
- Where can we leverage our capabilities and patents?
**Which Path to Growth?**

**What’s Needed?**

- What is our value advantage?

**What’s Possible?**

- What are we good at? What are our resources?

**INSIDE-OUT**

- How can we sell more? Gain more share? Improve productivity?
- What else can we make with our technology?
- Where can we leverage our capabilities and patents?

**OUTSIDE-IN**

- What else can we do for our customers?
- How can we leverage our brand and customer assets?
- How do we keep outperforming competitors in the eyes of our customers?

What are we good at? What are our resources?

What customer value do we offer? To whom?

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Innovating the Customer Value Proposition

Customers
What other needs of our customers can we serve?
What other customers should we serve?

Offerings
How and where can we leverage our brand, technologies, and resource base?

Value Profile
Where can we gain a competitive advantage?

1. Satisfy latent/unmet needs
2. Overcome barriers to consumption
3. Enter new market segments or geographies
4. Improve the customer experience across all touch points
5. Develop innovative new products, services or platforms
6. Provide complete customer solution
7. Innovative imitation
8. Eliminate/increase/reduce or add value attributes relative to industry standards

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Innovating a Complete Customer Solution

“There are products, and there are solutions: A product performs a function. A solution fulfills a human need. People want solutions.”

- **Inside-out view:** “A bundling of existing products and services to help us sell more”

- **Outside-in view:** “Help our customers succeed to our mutual benefit”, by:
  
  - Improving their ability to retain and satisfy customers
  
  - Enhancing their revenue and financial performance

  - Decreasing their risks

  - Reducing their total life cycle costs

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Profiling Customer Solutions from the Outside-In

Service quality
(problem solving, easy access…)

Single and accountable point of contact

Mutual trust

Perceived performance
(benefits vs costs)

Integration
(Products + Services + Information)

Shared Risk

Customized = recognize our needs/constraints

Parity (perceived as competent but not superior)

Co-created (customer engagement and control)
MEDIMAGE – 2014

- Full line of basic imaging modalities (x-ray, ultrasound) and advanced modalities (CT, MRI, Molecular imaging)
- Intense global competition
- Revenue flat/profits down
- Service limited to one-year warranties and service contracts for each device
- 98% up-time is parity performance
- Customers want productivity improvements and efficient asset management
- Siloed organization selling services, consulting and devices separately
Customer Assessments of Medimage vs. Competition

Service quality
(problem solving, easy access…)

Integration

Shared Risk

Perceived performance

Parity on functionality and price

Co-created

Rely on Key Opinion Leaders

Siloed organization

Salesforce incented for volume

Single and accountable point of contact

Mutual trust

98% Up-Time guarantees

Hard to do business with

Poor interconnectivity between data systems and devices

Customized = recognize our needs/constraints

Listen only to academic centers

*Survey of Heads of Radiology

*Survey of Heads of Radiology (c) Day and Baden-Fuller, 2015
Each group is asked to:

(A) Identify possible innovations that MEDIMAGE could introduce to improve their value proposition and overcome their competitive disadvantages.

• How can MEDIMAGE help their hospital/clinic customers succeed?
• How can they utilize advances in information technology?

(B) Extract lessons that can be applied to any business model innovation.
Ideas Innovating the MEDIMAGE Solution

- **Integrated data platform across devices**
- **Cloud based**
- **Decision support system**
- **Automatic problem notification system**
- **Service quality** (problem solving, easy access...)
- **Single and accountable point of contact**
- **Account managers for each hospital**
- **Mutual trust**
- **Salesforce incentives to encourage consultative selling**
- **Pay/scan or leasing options**
- **Shared Risk**
- **Tailored economic analyses for community hospitals**

**Perceived benefits**
- **Co-created**
- **Integrated Bundles**

**Customized**
- **Medical records**
- **Monitoring data**
- **Diagnostic images**
- **Physician notes**
- **Patient-generated data**

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Business Model Pathways
Outside-in is challenging

“There are products, and there are solutions: A product performs a function. A solution fulfills a human need. People want solutions.”

• **Inside-out view**: “A bundling of existing products and services to help us sell more”

• **Outside-in view**: “Help our customers succeed”, by:
  - Integrating products and services to deliver a solution that decreases their risks and total life cycle costs.
  - Create consumer demand for products and services not previously saleable.
  - Find new players outside the current system, who can provide knowledge and additional revenues.
Case One: The Integrated Customer Solution

Push
- Revenues up front
- Customer bears risk

Passive
- Costly integration

Pull
- Revenues later
- We bear risk
- BUT greater final profit

Engaged
- Supplier integrates
- Pay more but cost less
- Only pay when use

Dyadic
- Money before use
- Push product
- Money when used

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Case Two: Multi-sided Business Model

- In Formula 1 racing (a $9 billion industry) Ferrari gains significant revenues from selling general purpose auto technology.
- The race track provides a venue to develop and test new technology.
- The large revenues from prize money and participation help subsidize the technology costs.
- Fiat – Ferrari’s owner – sells components that incorporate Ferrari knowledge.
- The other companies get technology faster and cheaper than from in house auto teams.
- Consumers are also co-creators – originally speed was valued.
- The race rules were rewritten to maximise Ferrari’s potential IP achievements.
- This means cars do not go very fast.
- Consumers appreciate the fun and skill – speed not the issue.
Case Two: Multi-sided Business Model

Multi-sided Triadic

Multi-sided business model
- Additional revenues to assist the costs of development
- The “second side” brings added benefits knowledge and engagement
- Interactions between two sides – vital expands demand and brings additional revenues

Dyadic

Traditional auto firms – in house R&D paid for by sales

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Case Three: Creating new markets

Before Airbnb

- Home is fortress – something “beyond” price
- Hotel is where one stays when travelling
- Maybe rent house for holidays

- Home is a hotel
- Strangers can come and use your things and you trust them
- Staying in a strange house is OK and one behaves (there are sanctions)
Customer Co-creates with Entrepreneurial Managers

New opportunities in the digital age are not created by manager-entrepreneurs working alone, we need customers to be engaged in the innovation process as well. It is true for B2B as well as B2C.

• Consumers spread the word that **low price can be high value**: Google required customers to change their view of advertising supported free information.
• Consumers help others to alter perceptions of a good race. Its not the speed that is critical on the race track: Ferrari and McLaren got the public to enthusiastically accept **new kinds of race rules**.
• Actors outside the system can come with new perspectives and revenues: ARM persuaded makers of mobile games to provide resources to do its R&D.
• Consumers can change their view on **what is tradeable**: Airbnb changed our view of our home as our sanctuary to that of being a hotel.
• Companies can be persuaded to **let their workers give away their “crown-jewels”** for chance of fame: crowd sourcing gets expert individuals and organizations to give away knowledge and skill for low prices or free.
Where are you? Stages for transformation

Stage One – accept new ideas – crowd source

Stage 2 – move towards integrated service solutions

Stage 3 – create match-making markets

Stage 4 – truly multi-sided BM

Stationary - Dyadic view – internally focused

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STAGES FOR TRANSFORMATION

Step 1: Engage in crowd sourcing ideas
  Get the organization to source knowledge from customers
  Accept they may know more that you do about many things

Step 2: Move to integrated service solutions
  Create trust with customer
  Reduce their costs and risks – not your costs or risk
  Achieve culture change about issues of responsibility and cash flow

Step 3: Create some markets
  Identify things that customers do not trade
  Persuade them to allow for a market for those items
  Get them committed to joint success

Step 4: Multi-sided business models
  Upside down value – lower prices mean better quality
  Knowledge that is paid for by other source is not inferior
  Total penetration is much more valuable than being niche

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