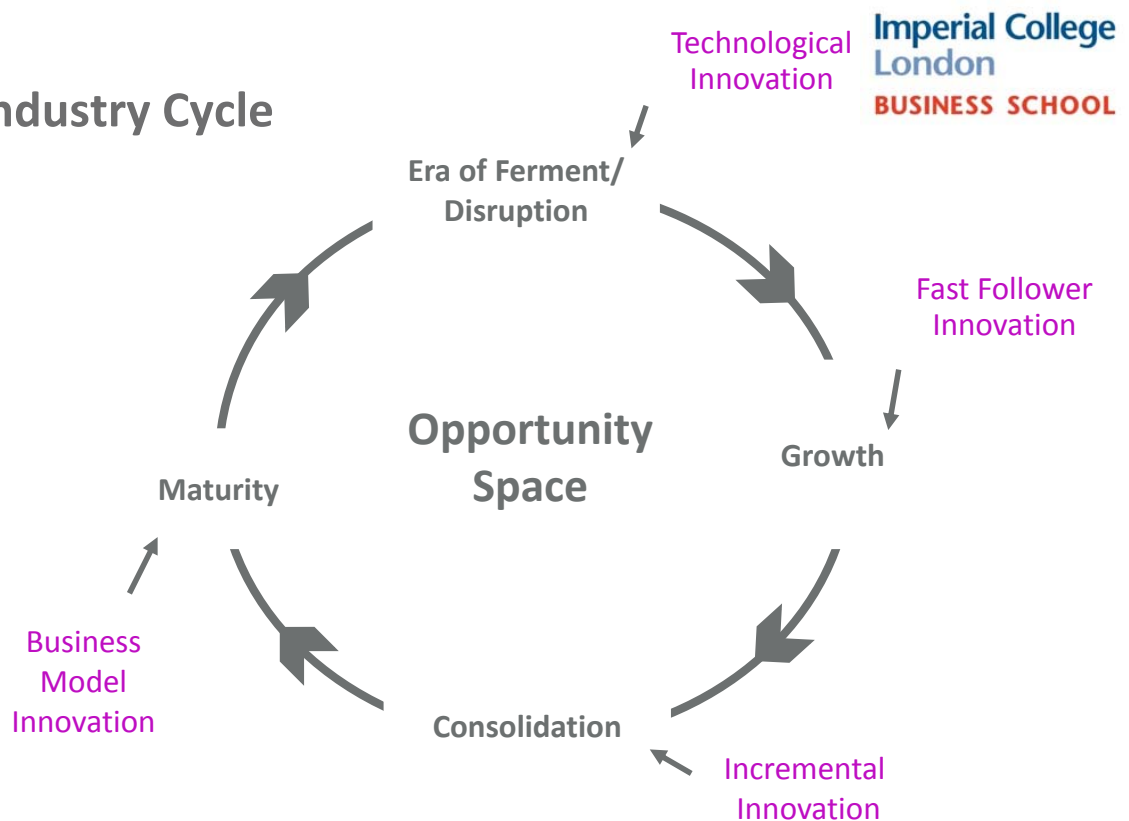


Business Models and Innovation

Bart Clarysse

Imperial College London Business School

The Industry Cycle



Summary: Entrepreneurial Strategies

COMPLEMENTARY ASSETS

		Free available or unimportant	Tightly held and important
APPROPRIABILITY	low	<ul style="list-style-type: none"> -lean start-up/effectuation -bricolage -job passion -business model innovation 	<ul style="list-style-type: none"> -partnering -some funding -entrepreneurial passion -product/service ideas
	high	<ul style="list-style-type: none"> -some funding (< 1 mio) -private equity if growth is realised -entrepreneurial passion 	<ul style="list-style-type: none"> -business plan + milestones -VC funding + 5 mio Euro -management team -platform technology

Gans and Stern³ (2003)

Business Model, Upper Left Quadrant

- Look for an unaddressed niche and build up competences over time
- Eg. Technical consulting, Design, Nursing
- Entrepreneurial **Passion** is the main driver of success
- Born global companies are less likely to get off the ground
- Counter-examples : Red Bull, DHL, Amazon.com
- Growth is realised **after** success
- Typical example : Le Pain Quotidien

Business Model, Upper Right Quadrant

- Look for reliable partner that can scale you up over time
 - Eg. B-to-C mass consumer startups, software companies, social entrepreneurship ventures
- Entrepreneurial **Passion** needed, but not enough
- Industrial Partners are needed which see a win win and own the market
- Growth is realised **after** partnerships

Business Model, Lower Left Quadrant

- Choice between markets, contracts, aggressive strategies
 - Eg. Technical companies, data mining algorithms in Pharma,...
- Entrepreneurial **Ambition** is possible in addition to Passion
- Business Model has highest degrees of freedom
- Born Globals are possible
- Typical example : Garmin
- 1999, date of founding (algorithm based company)
- Could grow steadily from day one with a competitive entrepreneurial strategy
- See references to the Teece framework

Business Model, Lower Right Quadrant

- Venture Capital Backed Model
 - Eg. High Tech Companies in Capital Intensive Technologies...
- Entrepreneurial **Ambition** is more important than Entrepreneurial Passion
- Business Model has as an objective to create value rather than revenues
- Born Global is a necessity
- Typical example : Cropdesign (see “the Smart Entrepreneur, chapter 3)
 - company founded in 1998, sold in 2006 to BASF
 - by 2006 company had a portfolio of 30 patents (> 100 countries geographical coverage)
 - it had raised 38 mio of VC money
 - it had a press coverage of over 100 press releases, internationally
 - It had no revenues (business model first to go to rice, but they could not raise sufficient money, then to corn)
 - It was eventually sold for slightly less than 100 mio Euro



Understanding the Mechanisms behind Experimental and Structural Adaptation of New Ventures in Nascent Markets

Bart Clarysse
Mike Wright
Charlotte Pauwels

Successful innovative firms typically do not start with the business model they are known for...

Terracycle: worm excrement → organic fertilizers → waste management program

Google: library reference search tool → OEM Internet search tool → AdSense

... so how did they get there?

Two Different Views on Adaptation

Entrepreneurship Literature

(Sarasvathy, 2008; Baker & Nelson, 2005; Baker et al., 2004; Chandler et al., 2011, Grichnick et al., 2013...)

Instantaneous adaptation through inductive mechanisms such as effectuation, bricolage, improvisation...

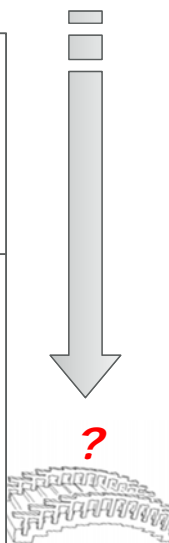
BUT
Ignores Rigidity/Inertia in startups (eg blueprints, cognitions...)

Organization Theory Literature

(Miller & Friesen, 1980 ; 1984 ; Greenwood & Hinnings, 1988; 1993; Gersick, 2006; Siggelkow, 2001; 2002 ; Gilbert, 2006...)

"Fit-conserving" configurations are the starting point to understand adaptation which is only exceptionally frame-breaking due to inertia

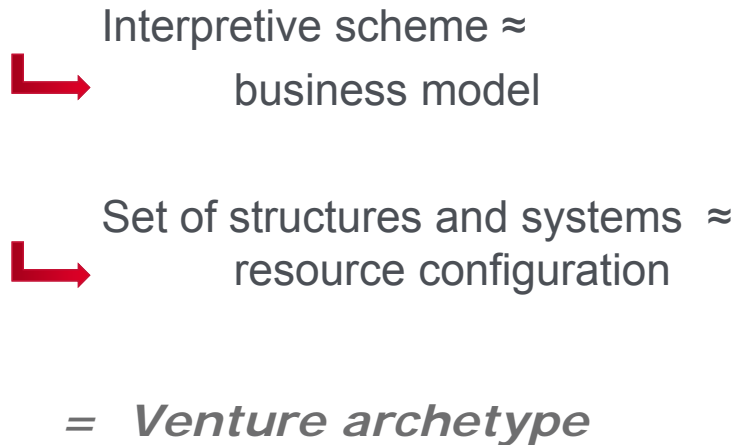
BUT
Ignores Adaptation in the absence of fit (eg nascent markets)



Unit of Analysis: Archetype

Organizational archetype = “Set of structures and systems that reflect a single interpretive scheme.” (Greenwood & Hinings, 1997)

Adapted to
the context
of new
ventures
Ambos &
Birkinshaw
(2010)



Research Question

“How does a **new venture** develop over time its **venture archetype** (business model & resource configuration), to **fit** the unfolding conditions of a nascent market (and hence create the **basis** for **eventual** success)?”

Research Context

High Tech company HQ in Belgium (Ghent), founded 2006,
followed from start to trade sale (October 2010)

Mobile Internet industry: early stage, high level of uncertainty,
changing industry structure (nascent market – Santos &
Eisenhardt, 2009)

Company raised 4 mio Euro VC in November 2008

After VC investment the original business model needed to
change due to overwhelming success of iPhone Apps

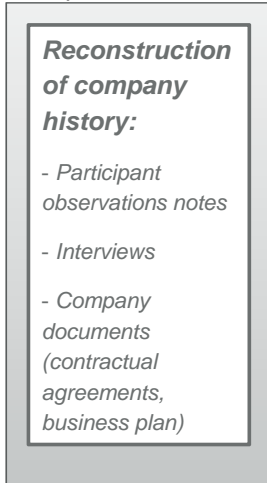
1. Starting Point
2. Research Question
3. Research Context
4. Methodology
5. Data analysis
6. Findings
 - a. Experimental adaptation
 - b. Structural adaptation
7. Data structure
8. Conclusions
9. Theoretical contributions

Data Type	Quantity	Original data source	Original (intended) data audience	Use in the analysis
Preliminary interviews	5 interviews, 1 hour/interview	Informants	Analysis for this study	Familiarize with the organizational context
Focused interviews	3 interviews, 1,5 hours/interview	Informants	Analysis for this study	Integrate observations with informant's accounts
Lead sales presentations, proposals and tenders	14 presentations, average 15 slides, 210 pages	CEO's and account manager's archive	Customers	Open coding to reconstruct the business model changes in phase 1
Team meeting minutes	15 reports, 42 pages	Account manager's archive	Employees and management team	Analysis of resource orchestration practices during phase 1
E-mails	Original e-mail account of 4622 e-mails, reduced to 235 e-mails (268 pages) most relevant in the company's history.	E-mail account of the CEO	E-mails to and from employees and founders, e-mails to board members and e-mails to investment committees of Limited Partners	Open coding to reconstruct the business model changes in phase 3 and axial coding using Nvivo to illustrate the gradual decoupling of the old business model for the benefit of the new business model in phase 3.
PowerPoint Presentations	15 presentations, 174 slides	CEO's archive	Monthly BoD meetings	Open coding to analyze the presentation of the new business model associated with Osmobi
BoD meeting minutes	15 reports, 78 pages	CEO's archive	Management team and board members	Open coding to reconstruct the business model changes in phase 3
Management meeting reports	20 documents, 24 pages	COO folder, dropbox	Management meeting, resource allocation planning	Analysis of resource orchestration practices during phase 3
Observational data	Approximately 275 hours and 600 pages of observation notes	Principal investigator's notes from attending formal and informal meetings	Analysis for this study	Use of field notes to interpret data from other sources and use of quotes throughout the text
Business Plans	2 business plans, 70 pages	dropbox	BP1 was used to sign the shareholders agreement upon VC investment, BP2 the rewrite to continue the investment	Contextual information to determine details of business model 1 and 2
Business press articles (press coverage)	10 articles, 15 pages	Belgian newspapers and business magazines	Readers of Belgian newspapers and business magazines	Contextual information
Post hoc interviews	6 interviews, 1,5 hours/interview	Founders	Analysis for this study	Post hoc interviews with the founders of the company to discuss our findings.
Conference video	53 minutes	Used to present the company and its original value proposition at conferences	Conference attendees	Contextual information used to understand business model 1

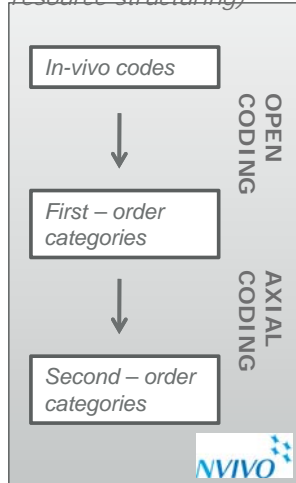
Methodology

Ethnographic study

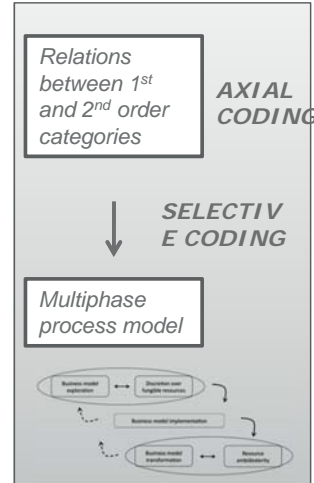
STEP 1: Tracing the process of organizational adaptation



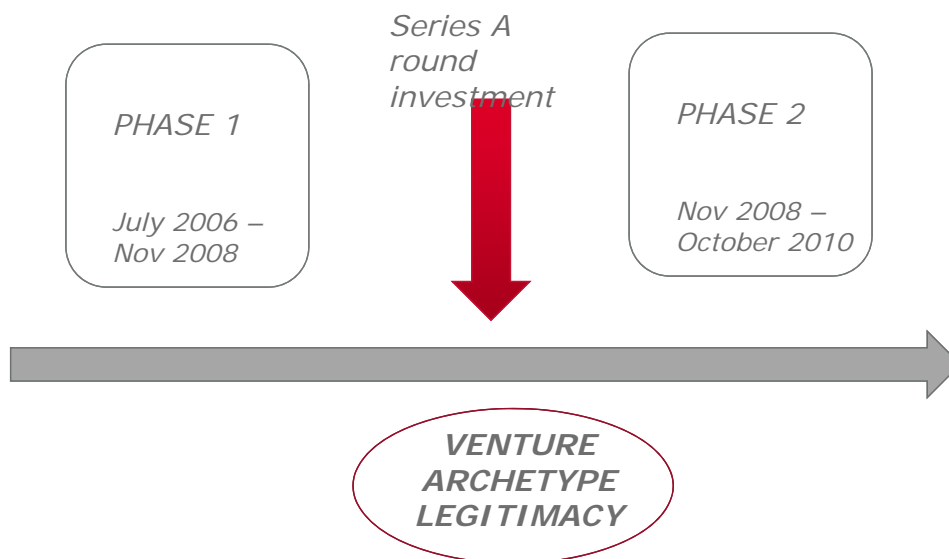
STEP 2: Tracing the micro-processes of archetype development (business model and resource structuring)



STEP 3: Building a grounded theoretical framework



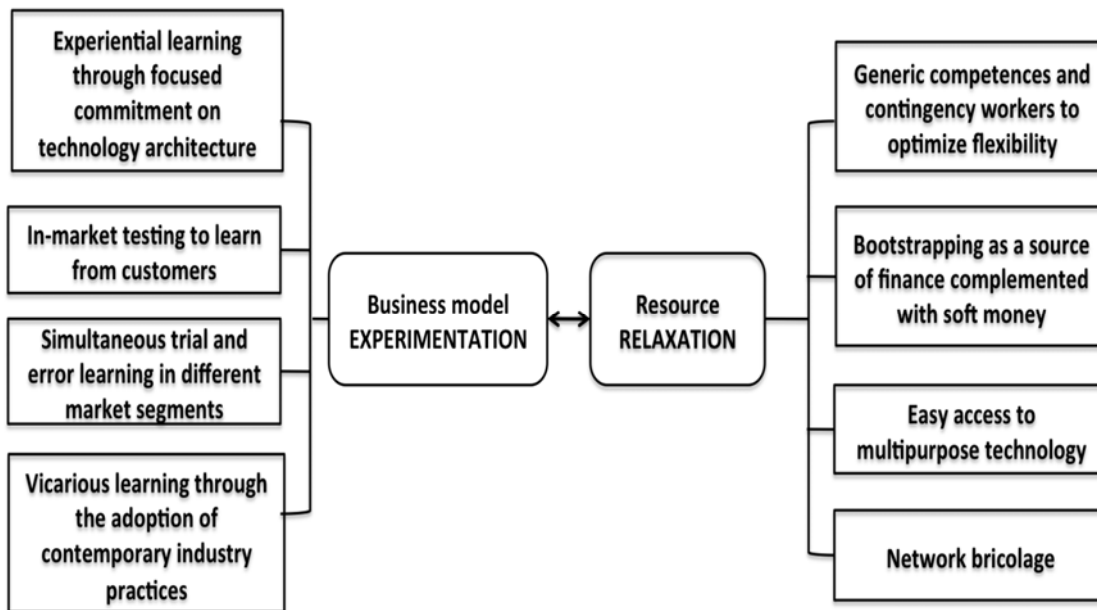
Data Analysis



1. Starting Point
2. Research Question
3. Research Context
4. Methodology
- 5. Data analysis**
6. Findings
 - a. Experimental adaptation
 - b. Structural adaptation
7. Data structure
8. Conclusions
9. Theoretical contributions

“The stage at which the venture archetype receives enough legitimacy among the different stakeholders to determine their decision to commit resources to the company”

Data Structure



1. Starting Point
2. Research Question
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Phase 1: EXPERIMENTAL ADAPTATION

July 2006 – Nov 2008

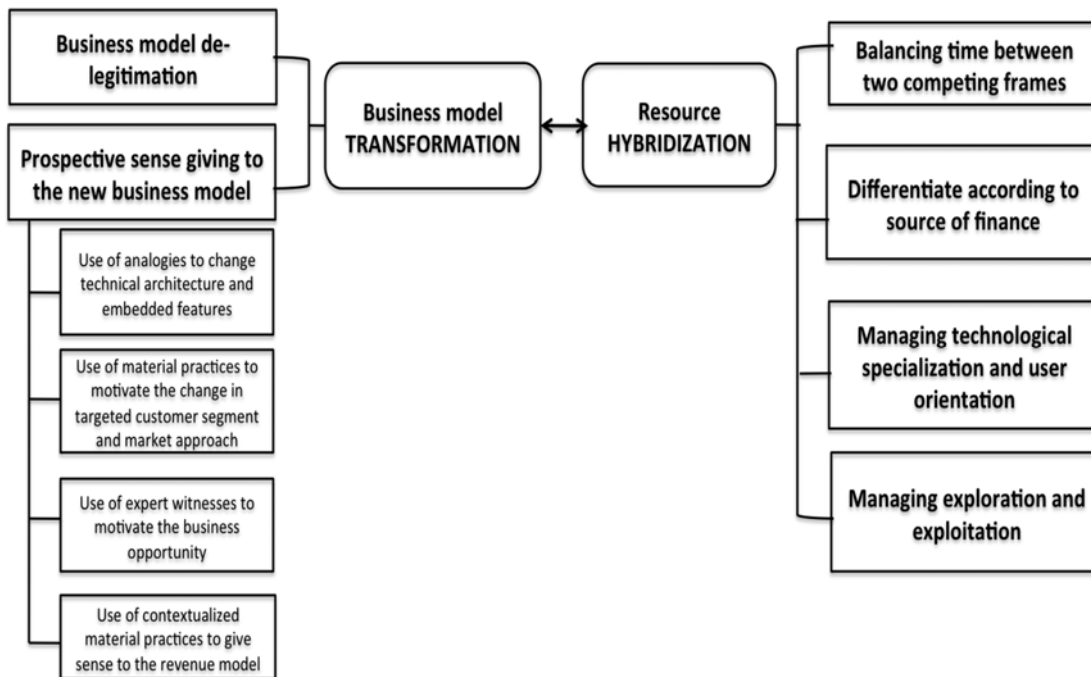
Business model experimentation

“ The use of different learning models to experiment with and improve the business model”

Resource relaxation

“ Safeguarding flexibility by keeping the venture’s resources fungible”

Data Structure



Phase 2: STRUCTURAL ADAPTATION

Nov 2008 – October 2010

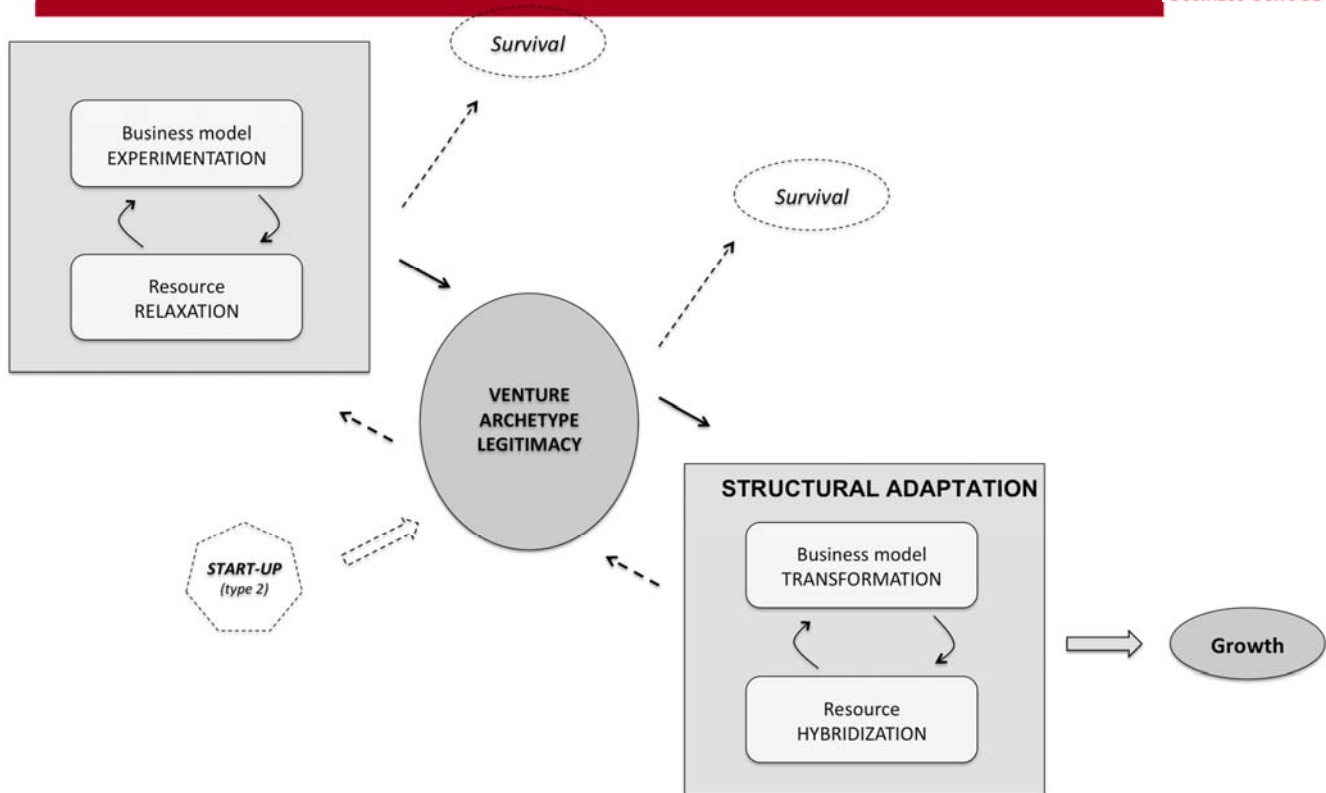
Business model transformation:

“ The process of delegitimizing the old business model and creating legitimacy for the new business model through prospective sense-giving”

Resource hybridization:

“ The process through which resources are managed to serve different objectives ”

Grounded Theory Model



- Thank you !
- Questions? Comments?