



## INNOVATIVE ACTIONS WITHIN THE BUSINESS MODELS OF EUROPEAN COMPANIES

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**Abstract** Companies regularly reassess and reorganize their business models in order to create value and generate growth. They also reassess the price-performance correlation and new levels of capital efficiency. The new business models are frequently needed to provide goods at affordable prices through the adaptation of packaging strategies, pricing strategies, the product itself, and by helping to sustain financially the demand. In the context of current financial and economic difficulties, it reveals the inclusive business models that provide goods and services to poor people and also create employment. The paper tries to emphasize ways in which business models are evolving, and how to determine the right model for companies. In the same time, it also seeks to highlight trends in the development of new business models in the European countries which creates basic economic activities, giving people facing social and economic problems access to products and services that meet their needs.

**Key words:**

Higher education, value creation for business, inclusive business models, start-up incubators, financial difficulties

**JEL Codes:**

A13, L71, M 13, L26

### 1. Introduction

Increasingly more competitive, fast changing and increasingly uncertain economic environment make the business decisions complex and difficult. Companies are tackled with new information and communication technologies, shorter product life cycles, global markets and stronger competition. In this aggressive business environment firms should be able to manage multiple distribution channels, complicated supply chains, expensive IT implementations, strategic partnerships and still stay flexible enough to answer to market changes.

In recent years, an increasing number of authors have started to highlight the importance of changes in "business models". The business model means a lot of different things to different people. The best-known description is the following: "An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD, 2005).

More accurately, a business model means the rationality of how an organization creates, delivers and captures value. These words are specific at the whole business. Today this description is in use in a lot of kind of start-up incubators. In addition, it is looking at how to put together the product or service, how to attract

customers and then how to get paid. So in a kind of traditional retail setting, a business model is about how to put together the product, how to create something, and how to set up the store. And then how to get paid is how to attract customers and how to get the money for the products or service. If all of that generates profit at the end then we have a *viable business model*.

### 2. Developing distinctive and creative business models

A model is a standard or example used for replication or comparison. In difficult financial times, starting a business or launching a new product to the market could be the best suited for enterprise business model. This makes up the basic framework on how to create and provide value to the consumers and consequently, generate revenue. Numerous companies have found success and profits by simply *developing unique and creative business models*.

Currently, there are many existing business models that can be studied and adapted. Each industry would usually have its own prevailing business model. By simply scanning the environment, *doing* research on the target market and studying the internal resources, one can easily find the best business infrastructure that would guarantee optimum cash-flow.

Over the years, business models have been created to provide more sophisticated means to generate revenue

for the company. *There is no definitive list of business models* that one can choose from although there are those which have been proven both efficient and profitable. Some of these are the subscription model, the bait and hook, the auction business model, multi-level marketing and the premium service business model.

Mainly, *a business model is a simplified description of how a company will run with respect to maximizing revenue*. It can pertain to the core operation of the business or just a part of the enterprise such as specific product or service offerings. In general, conceptualization of a business model is done by synthesizing nine different aspects of the business and analyzing these data to come up with best framework that will provide optimum profits. By sincerely considering these building blocks and focusing to enhance one or two aspects, a business can come up with an effective infrastructure to find success.

The *nine elements of building a business model* are recognized:

- Value Proposition – what are you offering to your customers?
- Customer Segment – to whom specifically are you offering your product or service?
- Distribution Channel – how are you planning to reach your customers?
- Customer Relationship – how does your target market perceive your company or product?
- Core Capacities – how well can you execute various business models?
- Value Configuration – is the business model beneficial to both the business and the customers?
- Partner Network – how can your business alliances contribute to the framework?
- Revenue Streams – how will the business model create profit?
- Cost Structure – how much will it cost for you to execute the business model? (Osterwalder, 2004).

Designing a successful framework often leads to a variety of innovations that drives businesses to stand out in their fields. Moreover, coming up with such systems help provide effective strategies to reach the *target consumers and expected performances*.

### 3. Business model innovation and value creation

Nowadays *business model innovation* is regarded as a major resource of competitive advantage and an important driver of value creation and growth. The opening of markets and constantly accelerating global competition are leading to circumstances in which competitive advantage based purely on product advantage will be only short-term. The way products are created, delivered, and maintained will make the

greatest difference in the future. *How* companies do business will frequently be more significant than *what* they do. As a result, companies will have to constantly reconsider and reconfigure their business models.

*Business model innovation* needs to be turned into a *systematic process* that allows organizations to perform it with operational excellence and to replicate it successfully many times.

In the process of business model innovation, the challenge for companies is to find *stability and reliability with change and innovation*. Not including a systemic approach that ensure that all involved internal and external parties work 'in concert' to develop and apply one reliable business model that can influence existing assets and that is aligned with the markets that won't be possible.

Organizations that start to think about to work on business model innovation and to institutionalize the process rapidly realize that they have to find new answers for a variety of questions and have to fight with many challenges.

The International Institute of Enterprise – Heidelberg (IIOE), based in Heidelberg, Germany, is an independent European think tank dedicated to develop and promote concepts and practices for enterprise management and leadership that facilitate entrepreneurial value creation and sustainable enterprise development. This international institute hosts a number of events among which stands the *European Business Model Innovation Forum*. The purposes of this forum are:

- To influence the collective experience and intelligence of a group of professionals – cross-company, cross-industry, and cross-country – to accelerate the process of developing a '*best practice business model innovation process guideline*'; and
- To facilitate learning and new insights help the participating companies to *successfully implement business model innovation* in their organizations.

Particularly this guideline should allow organizations to avoid the cost of failure and implement change with no putting in danger the existing business, to generate real differentiation and to beat competitors, to overcome resistance to change and increase speed, to boost productivity and reduce down time, and to determine the impact of change (IIOE 2012).

### 4. Inclusive business models - innovative ways to work with low-income people living at the base of the pyramid

In the context of current financial and economic difficulties, businesses around the world are finding innovative ways to work with low-income people living at the *base of the pyramid* (BoP), working with them as

suppliers, distributors, retailers, or customers. These firms are called inclusive businesses.

The term inclusive business was invented by the *World Business Council for Sustainable Development* in 2005. It refers to *sustainable business solutions* that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways.

Inclusive business models are defined as businesses that provide goods and services to poor people, but also include poor people in value chains by providing employment. To deal with hunger and malnutrition, new models are needed. Markets must be made to work to reduce hunger.

These kinds of business models will often need *support from governments* and donors. Governments need to create platforms to bring together all relevant players and policies that create level playing fields and environments conducive to inclusive businesses. (EDD 2012)

Inclusive business models can benefit companies by enhancing their reputations and improving employee morale. (EDD, 2012)

Inclusive business models increase the access to goods, services, and livelihood opportunities for those at the base of the global economic pyramid in commercially viable, scalable ways.

There have been some notable successes in creating inclusive business models, but there are limitations. Businesses need to be profitable.

A growing number of business and development partners is driving a new movement in development, which aims to redefine people living at the base of the economic pyramid – as valuable economic partners for business – as both talented and resilient business entrepreneurs, and value aware consumers.

For companies, inclusive business models are opportunities for market growth and competitive advantage. For development agencies, inclusive business represents a powerful approach to achieving their goal of inclusive growth and development. (IFC, 2013)

Globally, there are currently 3.7 billion people who have been excluded from formal markets. Base of the pyramid (BoP) comprises of a population who earn an average income of *8 USD a day or less*. With an annual total income of 2.3 trillion USD a year, BoP is a highly diversified, fast growing consumer market.

Currently it is made up of an underutilized productive sector with an untapped source of entrepreneurial energy.

Through businesses understanding and utilizing its potential, engaging BoP is increasingly recognized as a *key driver for both human development and value creation for business*. There is possibility to better

understand, develop and maintain effective cross sector and multi-stakeholder approaches that partner with BoP groups in a mutually inclusive value chain (European CSR, 2012).

Developing an inclusive business model that addresses the particular needs of people living at the base of the pyramid is an accomplishment. Scaling that model and replicating it in new markets is a challenge.

By recognizing businesses that have already succeeded in developing innovative, scalable, and financially sustainable inclusive business models, the G20 provides a global platform for all businesses to learn from successful leaders in the growing field of inclusive business, and enables these leaders to come together and develop linkages with other inclusive businesses. (Nelson, Ishikawa, Geaneotes, 2009)

A growing number of companies can point to inclusive business models of their own, which *integrate low-income people into corporate value chains* either as producers, entrepreneurs and employees, or as consumers. While recognizing competitive realities and pressures, there is an opportunity for leading companies to develop more of these pioneering business-led approaches to poverty alleviation, and as they do so, to learn from each other what works, and to mobilize other companies to get involved.

In the same way, governments and development experts can play vital roles in supporting the business models and value chains that demonstrate measurable business and development impact, and that have the potential of reaching sustainability and scale. Most significantly, all of these players will need to become more effective at learning from and working with the millions of men and women living in low-income urban and rural communities - the majority of who are not asking for charity, but rather seeking opportunity. (Nelson, Ishikawa, Geaneotes, 2009)

Essentially, inclusive business models try to find *synergies between development goals and the company's core business operations*. Inclusive models can deliver higher socio-economic value for communities, and presents a stimulating opportunity for the private sector because it is excellent for business. A variety of commercial returns—market entry, market share, secure supply chains, product line innovation, and competitive advantage—all help to build market value. (EDD 2012)

Inclusive business leads to the creation of employment opportunities for low-income communities – either directly or through companies' value chains as suppliers, distributors, retailers and service providers. Alternatively, companies can develop ways to supply affordable products and services to meet basic needs for food, water, sanitation, housing and health care. Or they can develop innovative business models to

enhance access to key development enablers such as energy, communications, financing and insurance. (European CSR, 2012)

### 5. Start-up incubators and the opportunities for entrepreneurs

Where anywhere some see limits, entrepreneurs see opportunities. More and more entrepreneurs are hearing about the successful graduates and investors are in line behind a few well-known start-up incubators. A start-up incubator is a collaborative program designed to help new start-ups succeed. Incubators help entrepreneurs solve some of the problems commonly associated with running a start-up by providing workspace, seed funding, mentoring, and training. The sole purpose of a start-up incubator is to help entrepreneurs grow their business.

As a definition, a business or start-up incubator is a company, university, or other organization which provides resources to nurture young companies, usually for a share of the equity, hoping to capitalize on their success, or at least strengthen the local economy. Incubators operate under many different models. In the current economic and financial difficulties, the questions are how to *determine the most suitable operational model* for existing and new incubators and which are the appropriate strategic and tactical decisions that determine the choice of model used.

Nowadays, defining the incubator model means answering the strategic and tactical questions that provide the basis for planning the incubator. Defining an incubator model helps deal with decisions such as the deciding the focus of the incubator, the region, purpose and any other issues.

The process of *taking the decision for creation an incubator* consists of two phases: the Strategic Decision and the Tactical Decision.

Within the first phase "Strategic Decision", the following aspects are determined:

- *Purpose*. Define whether the incubator will be a profit-seeking group or a non-profit association.
- *Focus*. Define what the supported companies' activities are: traditional, technological, etc.
- *Operational Model*. The operational model "determines the way in which the incubator will be organized and operate". The operational model of an incubator "dictates its structure, its scope of services it provides, its funding opportunities, and its level of external alliances".
- *Area*. The place choice for the incubator depends on which focus is chosen and the operational model to be implemented.
- *Stage of the Enterprises*. The support and services offered to the incubated companies

depend directly on the development stage of these businesses (or what they are).

Within the second phase "Tactical Decision", the following aspects are concluded:

- *Legal Status*. The incubator may have its own legal status or may be tied to an existing institution.
- *Documents*. For an incubator to be operable depends on a number of different documents, such as statutes, internal regulations, contracts with the different companies etc.
- *Organizational Structure*. Must define the authority and duties of the different functions that exist within the incubator.

### 6. Conclusions

Countries' economic difficulties come at a time of increasing financial pressure to meet a variety of social challenges. Business model innovation is thus essential if countries and firms are to recover from the economic downturn and thrive in today's highly competitive and connected global economy. It is a great mechanism for development and for addressing social and global challenges. (OECD, 2010)

Based on the analysis of international good practices and the insights gained from various realized business model designs in the European market, four factors that contribute to success can be recognized:

- *Target-group oriented design*. Good practices show that offering products and services specifically geared towards a well-defined group of customers are particularly attractive.
- *Simple products or services* and simple and transparent pricing models.
- *Sustainable business models*.
- *Collaboration with partners*. In order to cover the necessary know-how, increased collaboration among various experts is required.

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