CSI Publications

Theme 1: Business Model Innovation

The State of Business Model Innovation in Norway

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1. The Study

Business models and business model innovation have become increasingly influential in management research well as in managerial practice. This report presents the State of Business Model Innovation in Norway, carried out on behalf of the Center for Service Innovation.

In fall 2014, a research group in Theme 1 (Best practices in business model innovation) at CSI carried out the first large scale, quantitative survey to specifically probe the adoption of business model innovation in Norwegian companies. The study investigates the extent to which Norwegian companies have changed or innovated their business model over the past three years. In this report, we contrast this with the companies’ other innovation processes, such as new product development, and innovation in organizational structures and management. In addition, we look at the propensity of firms to use external sources of knowledge, such as industrial partners, scientific partners and the use of publicly available knowledge in their quest for innovation.

With the help of TNS Gallup, the survey was sent to senior executives of 4000 companies with an employee base greater than 30 employees. 284 companies responded by fall 2014.

As figure 1 shows, the manufacturing industry makes up the largest portion of companies surveyed at 21.5%, other sectors such as healthcare and social work activities; construction, wholesale and retail trade followed at 13%, 11.3%, and 10.2% respectively, making up 65.9% of companies surveyed.

We would like to thank the participants who have responded to our survey. We hope these results will help managers in Norway to utilize business model innovation to their advantage, and gain more knowledge on its impact in the industry.

The remainder of this report is structured as follows. Section 2 explores the adoption of business model innovation practices across different industries. Section 3 and Section 4 take a closer look at the propensity of firms to engage in new product development as well as organizational innovation, while Section 5 examines the use of external sources for innovation.
Firms can innovate their business models by (a) targeting new customer segments (b) offering new value propositions (new bundle of services and products), (c) capturing value in a novel way (novel pricing mechanisms or new main source of revenue) and/or (d) finding new ways of producing, delivering or distributing existing or new products and services to existing or new customer segments (Foss & Saebi, 2015). However, not all business model innovation is truly innovative. Some companies adapt their business models by introducing changes that are new to the firm but known to the industry. This is often the case where companies follow the example of innovative business models in their industry. However, if managers introduce changes to the business model that are new to the firm as well as new to the industry, then this constitutes business model innovation in its true sense (Saebi, 2015).
The majority of companies in the sample report varying overall change to their business model dimensions. Innovation is least present in the value capture component, with 84.5% remaining unchanged and only 3.5% innovation. Innovation is most present in the value proposition component, with 24.6% of firms innovating. Overall change is most present in value delivery, with 57.7% of companies adopting either adaptations or innovations to that component.

As competition is reported as intense across industries, firms are leaning towards introducing new products or services to customers or bundling them in different ways that are new to both the firm and the industry. However, the way that value is captured has remained 84.5% the same, as few firms changed their main sources of revenues or pricing schemes.

**Changes in target segment**

Companies can innovate the target segment of their business model by targeting a new segment, entering a new market, or targeting customers that competitors have ignored. The most innovations to the target segment occurred in the water supply; sewerage, and waste industry, with 33.3% innovation and 16.7% adaptation. The second most innovations to target segment occurred in the professional, scientific and technical industry with over half of the reported innovation rate at 14.3%.
Most innovations happening in value proposition

A company can innovate its existing value proposition by offering a new bundle of services and products. Across all industries, the value proposition has reported to experience the most innovations among business model components.

The manufacturing industry reported the most innovations to the value proposition, with 41% of firms innovating this dimension. Electricity, gas and air followed closely with 40% of firms innovating, and wholesale and retail at 37.9%. Industries that experienced the most overall change to their value proposition included information and communication with 75% combined adaptation and innovation, Wholesale retail and trade (69%), manufacturing (63.9%), and professional, scientific and technical industries (60.7%)

Information and communication and administrative and support service industries reported the most adaptations to value proposition with 50% and 45.5% respectively. The mining and quarrying and real estate activities industries report no change to this component.
Many adaptations to value delivery

Innovating the value delivery dimension of the business model may include changes to the value chain, and finding new ways to collaborate with parties in or outside of a firm’s supply chain. This can also include significant changes to the traditional roles and power relationships within an industry.

Arts, entertainment and recreation reported the most innovations to their value delivery, with 33.3% of firms innovating. Information and communication, Professional, scientific and technical, and other service activities industries follow with all reporting 25% of firms innovating.

The accommodation and food service industry also experienced significant change with 13.3% innovation and 60% adaptation. The mining and quarrying, water supply, sewerage and waste, construction, information and communication, financial and insurance activities, and arts, entertainment and recreation industries all reported around two thirds of firms changing their
value delivery overall. Real estate activities reported no change, while agriculture, forestry and fishing reported 85.7% of firms experiencing no change.

Figure 5: Changes in value delivery

Least amount of change to value capture

Innovating the value capture component of the business model may include offering new pricing schemes, sources of revenue, and the use of trademarks, patents and copyrights. Six out of the 17 industries surveyed reported no change to this component. Only five industries reported innovations to this component.

The wholesale and retail trade industry reported the highest rate of innovation at 10.3%. However, the majority of changes to the value capture were in adaptations. The arts, entertainment and recreation industry reported 66.7% of firms made adaptations to this
component, where changes to the firm but not to the market in this component. This is twice the rate of change experienced in the financial and insurance activities industry who experienced the second highest rate of change to their value proposition with 33.3% adaptation.

Figure 6: Changes in value capture
3. Majority of Products Remain Unchanged

Product innovation is the market introduction of a new good or service, or a significantly improved good or service with respect to its capabilities, such as quality, user friendliness, software, or subsystem.

On average, over half of the products companies released were unchanged or only marginally modified. 18.9% of products released on average were significantly improved versions of products previously released. 14.2% of products released were adapting to their competitors, where they were new to the firm, but already known to the market. On average, 14.35 new products were released, which made up 13% of released products on average.

Figure 7: Product innovation
4. Low Degree of Organizational Innovation

More than half of organizational activities remain the same, with 55.2% of firms reporting no change to organizational structure and 57.3% reporting no change to management practices. Though more overall change was reported to occur in organizational structure, more firms reported innovating management practices at 11% and 8.5% respectively.

![Figure 8: Changes to organizational activities](Image)

5. Industrial Partners Are Greatest Source of Innovation

Industrial partners were by far the largest source of innovation among firms, with 89.7% of companies utilizing their information to some extent. This included information within firm or firm group; clients or customers; competitors or others firms in their industry; suppliers of equipment, materials, services, or software. 27% of firms reported a high usage of industrial partners and 39.8% reported moderate usage.
Scientific partners consisted of universities or other higher education institutions; government or public research institutes; consultants, commercial labs, or private R&D institutes, and were the least utilized source of innovation. 51% of firms did not use scientific partners at all, and only 5.5% of firms utilized them to a high extent.

Publicly available knowledge consists of professional and industry associations; technical, industry or service standards; scientific journals and trade/technical publications; conferences, trade fairs, exhibitions. 69.5% of firms used publicly available knowledge, but mostly on a low or moderate extent. Only 4.5% of firms reported a high usage of publicly available knowledge.

Figure 9: External sources of innovation

6. Concluding Remarks

Business model innovation is still in its infancy. Firms have focused more on innovating products than innovating comprehensive business models. On average, 14.35 new products were released, which made up 13% of released products on average. In comparison, 25% of firms across industries innovated their value proposition, which can but is not limited to the firm’s products. As wide product and/ or service range, and launching of new products and services, were ranked as important factors facing competitors, this supports firms focusing on innovations in the product and value proposition areas.
Business model innovation linked to organizational activities

Perhaps the lack of business model innovations among firms can be explained through a lack of innovations in organizational activities. Business models are often firmly rooted in a firm’s organizational structure, and management practices can also act as a key driver for business model innovation. Therefore, it is not surprising that where the majority of business models remain unchanged, so do their organizational activities. There is still an enormous opportunity for firms to innovate their business models, particularly in value capture, where 85% of firms have not changed. So in further innovating business models, it is important to consider the necessity to change organizational activities accordingly and understand the impact they have on each other.

Opportunity to utilize scientific partners

An astounding 88.7% of firms use industrial partners as sources of innovation, and 20% used them to a high extent. Scientific partners on the other hand, were not used by 51% of firms, and only 5.5% of firms utilized them to a high extent. Therefore, scientific partners, including higher education institutions; government or public research institutes; consultants, commercial labs, and or private R&D institutes are largely untapped resources that companies can utilize in their innovation efforts.

References

