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One doesn't need to be especially creative or innovative to come up with great new ideas, just smart enough to listen to creative people and collect ideas from experts.

In this spirit, the OWIC Executive Innovation Brief summarizes thinking from global innovation experts that we feel have application for forest industry companies.

In addition, each Brief includes insights from a group of advisors, listed below.

**Executive Brief Advisors**

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OWIC EXECUTIVE INNOVATION BRIEF

## Business Model Innovation

**Insights based on the article: Creating Value Through Business Model Innovation by R. Amit and C. Zott. MIT Sloan Management Review. Spring 2012.**

Summary by: Eric Hansen, [Eric.Hansen@oregonstate.edu](mailto:Eric.Hansen@oregonstate.edu)

The basic point of this article is that business model innovation is an opportunity, beyond traditional product and process innovations that are normally discussed. What exactly is business model innovation? The authors define it as the way a company does business, involving various stakeholders. In other words, it is a bundle of activities that together serve to satisfy the needs of the market. Business model innovation involves changes in the parties involved, the activities conducted by the parties, or how the activities are linked together. Business model innovation is one form of what we often refer to at OWIC as business systems innovation.

The authors claim that more companies are relying on business model innovation as an alternative or even complement to product or process innovation. They claim that the increase in business model innovation is because improving products and processes can be expensive and time consuming (though they provide little evidence that business model innovation would be less expensive or time consuming). There are signs of this in the forest sector as well—see [WoodEXPO 2013](#).

One reason for increased focus on business model innovation is that some managers feel that innovations in other areas are reaching diminishing returns and that what can be accomplished already has. I feel this thinking is a bit non-innovative and questionable, but the bottom line is that business model innovation is coming to the forefront for many businesses and may present an opportunity for wood products companies. As described by the authors, “competitors may find it more difficult to imitate or replicate an entire novel activity system than a single novel product or process.”

The authors describe three ways that business model innovation can happen:

**Content:** Addition of novel activities

**Structure:** Linking activities in novel ways

**Governance:** Changing parties that conduct activities

The following provides examples from Oregon companies of each type of business model innovation.

**Content:** A manufacturer of value added products for the commercial construction industry found that providing project management associated with its

products gave it a competitive edge. Thus, adding the content of project management was a business model innovation that better met customer needs.

**Structure:** Multiple Oregon companies have found that dealing directly with architects and engineers is the way to make sure their products are specified for large, commercial projects. This new link to specifiers was a novel approach to the market and changed the structure of the business model.

**Governance:** An Oregon company stopped warehousing and providing JIT delivery for a distant customer and instead contracted with a third party to conduct that activity. In the end it meant lower costs and increased margin for the supplying company as well as a lower price for the customer. Needless to say, this change in governance in the business model created a satisfied customer.

A business model innovation not addressed in the article but of potential interest is [IKEA's new 3D furniture app](#). The app allows one to use a smart phone or tablet to take a picture of a room and then place a 3D piece of furniture in the picture, thereby gaining insight into how the furniture “fits” the room with respect to style, color and size. The app has the potential to increase sales for IKEA, but it may be even more important when it comes to reducing the costs of returned goods.

Claims are a key issue in the forest sector value chain. With a natural material there are many things that can go wrong. How could your business model be enhanced by improving the ability of your customers to see your product during production or before it is delivered? This is, of course, regularly done with digital photography, but what might be accomplished with real-time data and new technology such as Google Glass? Technology is advancing quickly and opens a whole host of new business model innovation possibilities.

As a company considers business model innovation, the authors suggest carefully considering a number of issues. How does the newly envisioned model satisfy the needs of all interested parties? What is the specific content that is needed to meet the needs? How can the necessary activities be linked in innovative ways? Who should perform each activity? How is value created for each involved participant? How will value be captured from the new model?

As we continue to climb out of the Great Recession and new opportunities present themselves, you should be creatively considering alternative business models that can increase your long-term competitiveness. For additional ideas, see Jeff Howe's recent [essay](#).