Chapter XIX
Innovations from Business Process Models

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ABSTRACT

This chapter asserts that process models are an excellent platform for a continuous stream of innovations. Such models can illuminate opportunities for new products and services and for new ways of distributing products and services. These dynamic models make it possible to coordinate the efforts of multiple business partners in order to better serve customers with quality, speed, and responsiveness to their needs. There is increasing evidence that businesses using these models to discover opportunities have achieved a sustainable advantage over their competitors.

INTRODUCTION

Business Week's annual feature section on innovation demonstrates the recognition of how important innovation is to business. Many of the articles describe how to motivate innovative behaviors, how to effectively move innovations from idea to the marketplace. This chapter will describe a larger context for innovating. It will show that software process models plus ancillary systems are already being used for discovering opportunities for innovating, for testing out innovations, and for bringing new products and services to market.

Innovation took on a new focus during the1980s and 1990s, when thousands of new e-businesses came into existence and made millionaires of their owners. E-businesses demonstrated that there were hundreds of business models beyond the traditional ones (e.g., portals such as Amazon, auction sites such as eBay, business to business, business to government). Innovation literature exploded during this dot.com era, much of it trying to generalize about what these businesses were about—their business models—and how these new innovative businesses came into existence. Stakeholders forced the owners of the many start-up dot.com businesses to make explicit

how their businesses were to operate in order to make money—or at least generate revenue. Many knowledgeable people doubted that Amazon.com or Google had a workable business model. Many of these start-ups were small, unique, and served a narrow market niche. Many failed because their success prompted larger firms to copy, even improve upon, the original business concept.

These were business-model innovations, and from this confusion came a standardized and accepted concept of a business model. Chesbrough and Rosenbloom (2004) present a basic framework describing the elements of a business model. They list the following six components:

1. **Value proposition:** A description of the customer problem, the product that addresses the problem, and the value of the product from the customer's perspective.
2. **Market segment:** The group of customers to target, recognizing that different market segments have different needs. Sometimes the potential of an innovation is unlocked only when a different market segment is targeted.
3. **Value chain structure:** The firm's position and activities in the value chain and how the firm will capture part of the value that it creates in the chain.
4. **Revenue generation and margins:** How revenue is generated (sales, leasing, subscription, support, etc.), the cost structure, and target profit margins.
5. **Position in value network:** Identification of competitors, complementors, and any network effects that can be utilized to deliver more value to the customer.
6. **Competitive strategy:** How the company will attempt to develop a sustainable competitive advantage, for example, by means of a cost, differentiation, or niche strategy.

This relatively recent definition of a business model puts the business into a larger context by recognizing its essential relationships with suppliers, partners, wholesalers, distribution systems, and with customers. The requirement of specifying a business model draws attention to the larger competitive environment. The model's emphasis on how customers perceive value forces owners to specify how each business partner contributes part of the value. The business model, in other words, forces business people to take a process view of business. It forces managers to consider the importance of their relationships with partners, to think about how best to coordinate the whole supply chain process to maximize adding value to customers. Dell's competitive advantage is built on its excellent supply chain management, and its careful focus on every element of process to the degree that it routinely uses half the overhead of its leading rivals per unit of sales (Breen, 2004).

Howard Smith reiterates the idea that innovation is no longer just a concern for the R&D departments. Innovations are needed from every aspect of the business, from every business process:

In a 2003 Communication on Innovation Policy, Erkki Liikanen, EU Commissioner for enterprise and the information society, wrote: "Innovation is ... a multi-dimensional concept, which goes beyond technological innovation to encompass ... new means of distribution, marketing or design. Innovation is thus not only limited to high tech sectors of the economy, but is rather an omnipresent driver for growth." Companies that recognize this will not define innovation as owned by one part of the organization. Every aspect of how an organization operates is subject to innovation—administrative innovations, marketing innovations, financial innovations, design innovations, manufacturing innovations, service concept innovations, and human resource management innovations. These process innovations are echoes of the reengineering mantra of the early 90s (Smith, 2006).

Information technology has become an essential part of the business model's supply network. The network is the communications link for the