

Benefits of reinvention

Sustainable future awaits companies that change their business models

EVERY company starts small, often finding a niche in the marketplace. Some of these companies find a niche that is an innovation, which either delivers a new value or delivers value in a new manner, while others address opportunities in business as usual space. Small companies with a well-defined and well-practised innovation culture could grow into large enterprises. Even large, profitable enterprises tend to lose market leadership when they take their eyes off their customers.

Every company, large or small, has to continuously review its product and service offerings and reinvent its business model. Let us examine some examples.

Although Ford was the company that invented the assembly line, it was General Motors which understood customers' desire for different sizes and colours of cars and was founded in 1908 to meet such market needs. However, it soon realised that in order to help sell many more of its cars, it had to offer financial services to its customers, thus it set up GMAC Financial

Services in 1919. It may be surprising for many readers to know that in 2003, 74 per cent of General Motors' profits came from GMAC Financial Services.

Apple was established in 1976 as a personal computer company. However it was the introduction of iTunes in 2003 that vaulted it to its current dominant position in the world. IBM was founded in 1914 and decided to transform from a computer company to a service-oriented company in 1993.

Kodak was set up in 1878. It foresaw the oncoming disruption in the photography industry from digital cameras. In fact, it had some key early patents in digital camera technologies. However, it was too preoccupied with protecting its photo film market leadership and eventually became the victim of technological disruption.

Enlightened companies proactively reinvent themselves before new upstarts disrupt and make them obsolete. Take the case of Amazon. It started out in 1995 as an e-commerce company that disrupted the traditional manner in which books reached the readers – through bookstores.

It offered readers the convenience of buying books online without having to go to a bookshop. Very soon, it realised that others could copy its service offering. So it started offering music and other goods. In other words, it was enhancing its product offerings.

Later, Amazon realised the need to extend its product/service offerings and launched the Amazon Web Services in 2002. Even as it was raking in revenue from its Web services it was considering what other product it could offer its customers. It was very astute in coming up with Kindle in 2007.

Kindle offered multiple benefits to Amazon's customers, such as the ability to carry a number of books on a single device, and the quick receipt of a purchased book. However, creating such a device also offered Amazon a platform to disrupt the publishing industry. It then went on to offer authors self-publishing tools which established a strong and immediate link between Amazon and authors interested in using its publishing platform.

Industries and companies within an industry should regularly review their long-term sustainability. Industries that have not changed their business models in a long while invite disruptors to their doorsteps. Banking is one such industry in which the leading players have not started reinventing themselves. This has given rise to an entire new band of want-to-be-disruptors offering new business models in the fintech (financial technology) industry.

Companies that disrupt their current products and services actively through new business models and are able to find a means of retaining their customers during the transition are the ones that are likely to have a sustainable future. Others would inevitably fall by the wayside after being passive bystanders all this while.

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