

What is Business Model Innovation?

Worksheet

Business model innovation changes one or more of: customer segments, value proposition, distribution, revenue model, partnerships, or cost structure. It often creates new markets or disrupts existing ones.

Questions

1. Netflix's shift from DVDs to streaming is primarily
 - A) Product innovation
 - B) Business model innovation
 - C) Marketing improvement
 - D) Cost reduction
2. A business model innovation often creates
 - A) Incremental profit improvement
 - B) New markets or disruption
 - C) Better product features
 - D) Higher employee salaries
3. Which is NOT a typical business model element?
 - A) Revenue model
 - B) Customer segments
 - C) Marketing slogans
 - D) Distribution channels
4. Why do established companies struggle to innovate their business model?
 - A) Lack of capital
 - B) Cannibalizes existing revenue, culture resists change
 - C) Customers don't want it
 - D) Technology doesn't exist
5. How did Airbnb innovate the accommodation business model?
6. Spotify's music subscription model vs. iTunes downloads.
7. Amazon Prime: bundled services model.
8. Define: What is business model innovation?
9. Define: Key components of a business model?
10. Define: Subscription vs. pay-per-use: which is innovation?

Answer Key

1. B) Business model innovation - It changed the entire value chain: delivery (mail internet), costs (DVDs servers), and revenue (per-rental subscription).
2. B) New markets or disruption - By rethinking the system, innovations can unlock entirely new markets (ridesharing, streaming, sharing economy).
3. C) Marketing slogans - Slogans are marketing; business models focus on how value is created and delivered.
4. B) Cannibalizes existing revenue, culture resists change - Disruptive models cannibalize old business; organizations are built around old models and resist.
5. Old model: Hotels own property, charge per night. Airbnb innovation: Customers own property, earn passive income. Airbnb takes commission. Key changes: Asset-light (no property), platform (match supply/demand), trust (reviews/verification). Result: Disrupted hotels, lower costs, flexible supply.
6. Old: iTunes - buy songs individually (pay-per-track). Spotify innovation: Monthly subscription, unlimited access, personalized playlists, artist discovery. Key changes: Recurring revenue, shift from ownership to access, algorithm-driven value. Result: Artists paid per stream, users pay once for all music, Spotify becomes distribution hub.
7. Traditional e-commerce: One-time purchases, separate shipping fees. Amazon Prime innovation: Membership fee bundles shipping + streaming + cloud storage. Key changes: Recurring revenue, ecosystem lock-in, cross-selling. Result: Higher customer lifetime value, increased shopping frequency, digital services monetization.
8. Rethinking how you create, deliver, and capture value - the full system, not just the product.
9. Customer segments, value proposition, distribution, revenue model, partnerships, and cost structure.
10. Both can be. It depends on context. Spotify's subscription was innovation; software licenses' shift to SaaS was innovation.

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