

Impact case study (REF3b)

**Institution:** *London Business School.*

**Unit of Assessment:** *C19 — Business and Management Studies.*

**Title of case study:**

*Business Model Innovation and Product Innovation.*

## **1. Summary of the impact**

Costas Markides undertook several studies on two broad topics related to corporate innovation: (a) business model innovation; and (b) radical product innovation. His work has been published in top academic and practitioner journals, and has been broadly disseminated in several best-selling books. *His ideas and findings have made an impact in several large multinational companies who have adopted his ideas in their practices; his research has also had an impact through executive education and keynote speeches.* His work on innovation has led to his membership of the *Thinkers 50* management guru list every time the list has been compiled since 2005.

## **2. Underpinning research**

Markides's research on corporate innovation falls into two categories: *business-model* innovation and radical *product* innovation. This work was conducted at London Business School within the relevant period (1993–2013) for the underpinning research.

His research on *business model innovation* introduced the notion that a business can derive competitive advantage not only through superior products and technologies but also through a unique business model. It also demonstrated that through business-model innovation, an enterprise can increase the probability of winning against bigger rivals or of entering new markets successfully.

This body of work challenged several of the “accepted wisdoms” on disruptive innovation that prevailed at the time, such as: (a) the notion that disruptive innovations always grow to dominate a market and destroy incumbents; (b) the idea that a firm can only adopt a disruptive innovation by creating a separate unit; and (c) the belief that responding to a disruptive innovation necessarily implied “adopting” the disruption. Markides's work on business model innovation was the first to identify the “business model” as a key concept and set the foundation for the dramatic increase in work on this concept in the last ten years.

His work on innovation also explored radical *product* innovation, the type that creates new-to-the-world products such as the car, television, personal computers, VCRs, mobile phones and the like. This body of work showed that the early pioneers that create radical and new-to-the-world markets are very rarely the ones that scale them up from small niches to large mass markets. This is because the skills, mindsets, and cultures needed for discovery are fundamentally different and often conflict with those needed for scaling up. This insight led to several provocative implications on how large established firms ought to approach radical product innovations. Contrary to the prevailing accepted wisdom, large companies ought to shy away from investing in the discovery of

new radical products. They should, instead, “subcontract” the discovery part of innovation to small, entrepreneurial firms. Large firms ought to then move in after the product has been discovered to consolidate young markets into mature mass markets. The insight that innovation is actually two activities—discovery and scaling up—that can be performed by different actors found immediate applicability in a variety of industries, including university education.

### 3. References to the research

#### *On Business Model Innovation*

*All the Right Moves: A Guide to Crafting Breakthrough Strategy* by Constantinos C. Markides, Boston, MA: Harvard Business School Press, December 1999. ISBN: 978-0875848334.

“Strategic Innovation,” Constantinos C. Markides, *Sloan Management Review*, 38(3), Spring 1997, pp. 9–23.

*Game-Changing Strategies: How to Create New Market Space in Established Industries by Breaking the Rules* by Constantinos C. Markides, San Francisco: Jossey Bass, June 2008.

ISBN: 978-0470276877.

“What to Do Against Disruptive Business Models: When and How to Play Two Games at Once,” Constantinos C. Markides and Daniel Oyon, *Sloan Management Review*, 51(4), Summer 2010, pp. 25–32.

#### *On Radical Product Innovation*

*Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets* by Constantinos C. Markides and Paul A. Geroski, San Francisco: Jossey Bass, December 2004. ISBN: 978-0787971540.

“In Search of Ambidextrous Professors,” Constantinos C. Markides, *Academy of Management Journal*, 50(4), August 2007, pp. 762–768.

*Evidence of quality.* The *Sloan Management Review* and the *Academy of Management Journal* are rated as 3★ and 4★ by the Association of Business Schools. These articles have received over 500 “google cites.” *All the Right Moves* was shortlisted for the Igor Ansoff Strategic Management Award, and has been translated into Chinese, Japanese, Korean, German, Spanish, Greek, Russian, and Estonian; *Fast Second* was shortlisted for the Financial Times-Goldman Sachs Management Book of the Year, and has been translated into Dutch, Korean, Russian, and Greek; and, finally, *Game-Changing Strategies* was translated into Russian, Chinese, Turkish and Indonesian.

#### 4. Details of the impact

Three key pieces of evidence demonstrate the impact of Markides's research.

*Reach via Executive-Audience Books.* The first item of evidence is the large volume of sales of the three books we have listed above. *All the Right Moves* has sold more than 32,000 copies; *Game-Changing Strategies* has sold 12,000 copies; and *Fast Second* has sold 15,000 copies.

The general impact of his work is also evidence by his regular appearance on the management guru list *Thinkers 50*. He also appeared on MBA Ranking's "fifty most influential professors, 2013."

*Implementation in Corporate Practice.* The second item of evidence is the substantial impact that this work has had on corporate practice. Costas Markides's ideas on business model innovation have been used by several companies (such as Nestlé, If Insurance, and Roche) to anchor their transformational executive education programmes.

The Markides corporate practice impact started with the pioneering application of his ideas in Sara Lee Douwe Egberts to develop and market a radical new product in the coffee market: *Senseo* (a capsule system for coffee making) is now a dominant product in Germany and Holland.

Markides's ideas have been used by many companies ranging from the fashion conglomerate LVMH (Moët Chandon · Louis Vuitton) to the pharmaceutical giant Roche; these relationships overlap with another LBS connection, since the same clients enjoy impact from the work of LBS Professor Rob Goffee's work on leadership. Turning back to the Markides work, these companies consider innovation to be a source of sustained competitive advantage; see for example (for LVMH) [www.lvmh.com/the-group/lvmh-group/group-mission-and-values](http://www.lvmh.com/the-group/lvmh-group/group-mission-and-values) and (for Roche) [www.roche.com/valueofinnovation.htm#/1](http://www.roche.com/valueofinnovation.htm#/1) for descriptions of this

To influence an attribute that these businesses consider to be key to their continued success should be considered as significant impact. It is therefore noteworthy that these companies have taken on the central idea in Markides's work that the inventor of the product is not the one that captures the mass market and, with his help, designed processes and structures to identify innovative products by other companies, acquire them, and use their capabilities to scale them up. In other words, the companies have been influenced by Markides's work and structured themselves to be the "first second mover."

Markides's work has been credited with changing the mindsets of senior executives in LVMH and Roche to one where they do not believe that they need to invent everything. Instead, they look for innovative products and solutions that outsiders have discovered which can then be scaled up using their own complementary assets (such as access to distribution channels or consumer knowledge that allows them to segment the market). The organizations are now designed to scour for and identify innovations in related products and services which can be successfully internalized and scaled up; they do this, for instance, through investing in many startups that are working on products somewhat related to their lines of business.

A specific example of his impact at Roche was their use of outsiders to solve some intractable research-and-development problems in 2009. Tod Bedilion (Senior Director, Diagnostic Biomarkers) said: “we solved in 60 days what our own R-and-D was trying to do in 2 years . . .”

*Industry Communication.* The third item of impact evidence is from the repeated invitations he receives from companies and industry groups to talk about this work.

As noted in section 2, transformation to a successful “fast second” company requires a change in mindset and organizational culture. Companies and their leaders who have been influenced by Markides’s work have therefore taken to calling on Markides to present his work to senior executives as part of their transformational efforts. His ideas on business model innovation have been used by several companies (such as Zurich Financial Services, LVMH, Nestlé, If Insurance, and Roche) to anchor their transformational executive education programmes. Markides is seen as the key resource to develop and teach executive workshops for their employees on how to enhance their innovation capabilities in general and how to become “fast second” companies.

Markides also has given hundreds of Keynote speeches at industry and company conferences. He is also a regular participant and presenter at the World Economic Forum where he presented in 1999, 2002, 2003, 2012 and 2013.

## **5. Sources to corroborate the impact**

The primary source for corroboration should be direct contact with the organizations that use and are impacted by the Markides work. Four such contacts have been assembled, for the organizations (i) Thinkers 50; (ii) LVMH; (iii) Sara Lee Douwe Egberts; and (iv) Roche. Contact names and email addresses are provided in the supplementary corroboration sources; they can confirm the Markides impact that is described in this case study.