Business Model Innovation: The Gift that Keeps Giving

By Karan Girotra

In a recent blog post on the Harvard Business Review bloggers network, we discuss the sustainability of the advantage that come from innovating the business model.
With the Winter holiday shopping season, fashion apparel retailer Zara has been the focus of media attention — the New York Times recently profiled the innovative fast fashion business model pioneered by Zara, while Elizabeth Cline's book on the costs of fast fashion has climbed up the sales charts.

Despite this very recent popularity, the novel business model of Zara has gone virtually unnoticed for over 30 years, allowing Zara's parent company, Inditex, to grow from zero to almost $20B in revenues. Why wasn't it copied immediately? How can it be so sustainable and continue growing? The answer lies in a different type of innovation that Zara used: Business Model Innovation.

We have long been fans of the Zara business model. We have **written about it** and have been teaching it in the classroom for years. The model is designed to enable fast response to fashion trends, which allows Zara to ensure that its store shelves are always stocked with the trendiest clothes. While most of the recent attention on the Zara model has focused on what makes the model work — we continue to be amazed by the sustainability of the gains from the model.

Zara was founded in 1975 and its parent company, the Inditex group went public in 2001. Within the first 5 years of its founding, Amancio Ortega, the founder of Zara figured out the responsiveness and speed were key to dominance in apparel retail as opposed to costs so Zara produced in expensive locations and used expensive shipping modes to react to trends faster. This business model innovation served Zara well for an unusually long time, over 30 years now.

Sure enough, the Zara model has attracted its fair share of imitators and followers in recent year — Uniqlo, Mango and H&M being the most prominent. But what continues to amaze us is how long it took for the world to catch on to Zara’s model and to start imitating it. For over 20 years, Zara’s model was rarely mentioned by press and understood by the competition, with reactions ranging from dismissive mockery to indifference. It is only in the last 5 years that Zara has even been recognized as an innovator in the popular press, but even today few people sufficiently appreciate the Zara model.

In contrast, consider the following: Pfizer’s blockbuster drug Viagra was patented in 1996, and went on the market in 1998. Within 5 years, it had two mighty competitors — Cialis and Levitra. Before long, despite all the first mover advantages of Viagra, the competitors reduced Viagra’s market share from over 90% to around 50%. At best, the once in a lifetime blockbuster discovery of Viagra gave its parent organization about 5 years of market dominance before the competition caught up. And this in an industry with perhaps more patent protection than any other.

Consider the fate of another innovator: Apple revolutionized the smartphone market with the iPhone launch in 2007. Within months, its innovative touch screen interface adorned surprisingly similar looking phones from Samsung (the exact chronological sequence of events is at the center of the commercial dispute between Apple and Samsung). And today, 5 years since its launch, the revolutionary interface, and the subsequent application platform are all standard features in smartphones from many of Apple’s competitors.

Now compare the fate of Apple and Pfizer to that of Zara. While Pfizer’s advantage from its technology innovation and Apple’s advantage from product innovation were imitated by the competition in 5 years, why does Zara continue to profit from its business model innovation? Was Zara better at protecting its innovation?

We believe the answer lies in the substance of these innovations — in particular, Zara innovated its business model, as opposed to product or technology as in the case of Apple iPhone or Pfizer Viagra. **Business model innovations share some unique characteristics that make the benefits from them more sustainable**.

First, the innovation is often in the firm’s processes that may not even be directly visible to competitors. While a new product design must be launched with some fanfare, business model innovations remain relatively hidden.

Second, copying a business model innovation from the competition is much harder than imitating the competitor’s product design. Business model innovations are often embedded in the firm’s DNA, they define its core operating logic and for the competition to change and adapt its business model is much harder.

This is all good news for business model innovators — the gains from such innovation continue to persist even when product and technology innovations might be imitated…

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