
What is the “best” way to innovate?

By [Serguei Netessine](#)

MIT Sloan Management Review just came out with the latest 2012 picks for the world’s most innovative companies. This is a great list which includes 50 very interesting companies (mostly young) in a number of industries. While I enjoyed reading about these innovative companies, I could not help but be once again disappointed with the exclusive focus on product and technology innovators on the list and the lack of Business Model Innovators.

Why? I think first and foremost, it is very easy to “see” new products and technologies: when one sees a new iPhone or iPad it is quite easy to tell that this is a new product. On the other hand, new Business Models can be operated by companies for many years before anyone takes notice. Just think about Toyota – for many years US automotive companies did not think it was a threat and they dismissed famed Toyota Production System as a local Japanese phenomenon.

Nobody doubts its advantages now. Likewise, [Dell revolutionized production of personal computers](#) but it took at least 10-15 years for other computer manufacturers to realize why and start emulating Dell’s production to order system. Second, very often the word “innovation” is associated in the minds of managers with new products and technologies, rather than with new business models. This is the reason we started [our blog about business model innovations](#). Finally, even if one believes in innovations without new products and technologies and somehow “sees” a company doing something differently, I believe managers are generally much more comfortable evaluating new products than new business models, even though, in my experience, new products and technologies are much more likely to fail. Of course, these very facts that make business model innovations less visible, also makes them more of a sustainable competitive advantage! But back to the list which does contain a few Business Model

Innovations which I would like to highlight.

In the transportation category I was delighted to see Better Place, the company that offers a novel electric vehicle mobility system (don't confuse it with yet another promise to make batteries last longer! Some other companies on the list try to do that – good luck). [We have blogged about them more than once](#) and I have also coauthored a paper and a case about its innovation. Very well-deserved placement!

In the energy category I spotted a couple of interesting business models, [Siemens receives an award to harnessing tidal wave power](#). Tidal power is not new, Siemens did not invent this sustainable source of energy but, like many other [Renaissance innovators](#), it recognized that there are huge risks inherent in using solar and wind power to generate electricity: namely, risks involved in whether wind blows and sun shines. Tidal waves, on the other hand, can be predicted centuries in advance which, if predicted and managed properly, dramatically decreases costs of energy.

A notable winner in the [digital media category is Safaricom](#), a Kenyan company that provides health-related information to the African population using mobile phones. This is a very important problem: millions of people still die in Africa from such diseases as malaria. At present, only 7,000 doctors serve a nation of 40 million people in Kenya. But Kenya is rich in mobile phones, with 25 million subscribers. The plan is not only to provide information, but also to be able to check serial numbers of medicine to catch fakes and to link population with doctors, who would eventually provide advice for a small fee. A related effort but in the telemedicine category is Healthpoint Services which is using [telemedicine techniques to deliver health care to rural India](#).

Another clear business model innovation in the digital media category is Spotify which offers digital music subscription service. The key innovation here is that Spotify has negotiated with record labels to allow users access to a large library of music one track at a time. I greatly enjoy this service which, for some time, was only available in Europe. Some other notable companies in this category are Twitter, Facebook and Zynga, all business model innovations. However, the digital media category is the only one with a large number of business model innovations but even this greatly skewed list clearly demonstrates that one does not have to create dramatically new technology or products to innovate and create value. Looking forward to more Business Model Innovators on this list in 2013!

Find article at

<https://knowledge.insead.edu/entrepreneurship/what-best-way-innovate>

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