

7th International Strategic Management Conference

Prevailing During the Periods of Economical Crisis and Recession through Business Model Innovation

Ahmet Ucakturk^a, Mustafa Bekmezci^{b*}, Tülay Ucakturk^c^a*Kocaeli University Civil Aviation College, 41100, Kocaeli, Turkey*^b*MSB, 06100, Ankara, Turkey*^c*Canakkale Onsekiz Mart University, 17100, Canakkale, Turkey*

Abstract

There is a consensus among economists on the measures to be taken in economical means during an economic recession and crisis. In this context, these measures include establishing and managing capital structure in a way to cover costs of long term losses and expensive loan payments, avoiding borrowing to finance the losses, being cautious on the use of long-term bank loans only for long-term loan needs, managing stock's levels efficiently and, if possible, reducing inventories, making savings, changing business model since the current economic conditions may well be very different from the pre-crisis environment, even if the economic crisis is over.

There are many companies, in Turkey and in the world, that outlast and increase their market shares and profits through changing their business model in this regard. Serious problems and insurmountable obstacles are considered as a boon for creativity and innovation in business model and in the mean time; innovations are reported as a powerful trigger in times of crisis [1]. Jeffrey Fox identifies that companies surpassing their rivals in innovation, during the Great Depression and 12-recession period afterwards in the United States, possessed always much stronger market shares after these economic crisis and gained more profits [2]. Ken Chenault, American Express CEO, expresses, "difficult periods require you to be more innovative" [3]. In other words, the path to be pursued for prevailing, during periods of crisis and the difficult economic conditions, passes through innovation. Business model innovation is gathering key resources and processes of an enterprise in harmony and in a totally different way than competitors', in order to create value for itself and its customers. Therefore, business model innovation is the best and the most valid way to cope with the crisis and recession periods to increase market share and to profit. However, it is observed that enterprises considering their existing business models as steadfast phenomenon do not divert from their traditional processes and are rarely successful in business model innovation. This study determines the failure causes of enterprises in business model innovation. If these determinations are taken into consideration by managers and CEOs they will help enterprises to cope with difficult economic conditions, such as crisis and recession periods, economic stagnation, lucratively.

© 2011 Published by Elsevier Ltd. Selection and/or peer-review under responsibility of 7th International Strategic Management Conference

Keywords: business model; business model innovation; local enterprises; bottom of the pyramid; crisis; recession

* Corresponding author. Tel.: 0-90-312-261 84 21.

E-mail address: mbekmezci14@gmail.com.

1. Introduction

Circumstances, such as entering into a new market, emergence of a new disruptive technology, economic stagnation and crisis, refer to difficult economic conditions enforcing enterprises to re-evaluate their business model. Gulati et al. [4] studied 4700 publicly traded company during the crises of 1980, 1990 and 2000 by categorizing the periods covering 3-years before the recession, recession years, and 3 years after the recession. It was revealed that 17% of the companies either bankrupted or were taken over by competitors and approximately 80% of the remaining companies could not reach their sale and profit figures of 3 years before the recession, even 3 years after the recession. After the periods of economic bottlenecks, the proportion of the companies adjusting their key financial indicators to a better level than level of pre-crisis period, and, performing, in terms of sales and profit growth figures, at least 10% better than their competitors is only around 9%.

In a new business model, innovation is also crucial for businesses under harsh business environment [1] and this requires abandoning the traditional methods and implementing various applications untested before. During the crises and recession periods, it is very unlikely for companies to succeed only through reducing costs much earlier and much more than competitors, or accomplish much more courageous investments than competitors or step into the recession as the growth champion. However, during recession periods, innovative companies have been the most profitable companies [4].

This study will emphasize the importance of business model and business model innovation, apart from those studies mentioned above, investigate issues on why some enterprises are rarely successful in innovation business model and how large enterprises with latest technology and products, a very large financial resources, strong brands and most capable systems in the world stumble against local businesses. In addition, it will emphasize the requirement for enterprises to develop a new business model for a customer segment previously not been addressed before. Examples of business models in use will also be presented. It is an identified fact that enterprises revising their business model on time prevail. Our investigations will help developing a better understanding of business model innovation, as well as answers will be sought for how enterprises in difficult conditions prevail in business model innovation during periods of crisis and recession, economic recession, businesses. This is because business model innovation requires different way of thinking than traditional or conventional approaches.

2. Business Model Innovation

A good business model is imperative for all the institutions. Any prevailing enterprise, whether it is aware of, is built on a solid business model. A business model answers the following basic questions that should be asked by every manager [5]: "Who are the customers and what is valuable for them? How to earn money in this work? How do we transfer a value to the customer at an affordable cost?" The right answering these questions that is through a business model determines the success of a business.

A business model consists of a customer value proposition performing an important task for customer much better than competitors' presentations, a profit formula demonstrating how the enterprise will make money while providing value for customers, necessary key resources, such as human, technology, products, facilities, equipment, channels and brands, to deliver this proposition to the customer, and key processes, such as training, development, production, budgeting, planning, sales and services, allowing the enterprise to create the value [6]. Customer value proposition, profit formula, the key resources and key processes constitute building blocks of a touchstone. While customer value proposition and profit formula define the value for the company, the key processes and key resources reveals on how to transfer that value to both the customer and the company [6]. In short, the business model convenes parts of business in harmony in a way to convey value to the customer and the company.

In the history of companies; it is observed that a success is cultivated either after a crisis or when a company manager who is not satisfied with the current status of the company decides to change company

strategy or when market competition intensifies and technology changes or when a different business model comes out against the competitors, as a result of the company's success, business model is replicated by competitors. Since no business endures forever, when ineffective, the model must be replaced. Indeed, descriptions and/or metaphors such as W. Chan Kim and Renée Mauborgne's "Blue Ocean Strategy", Robert I. Sutton's "Weird Ideas that work", Richard Foster's "Creative Destruction", Clayton M. Christensen's "Disruptive Technologies/Innovation", Jim Collins' "Power of Catalytic Mechanisms", P&G's "Disruptive Market Innovations" and many others are nothing more than nomenclature of this issue a different way, and common point of definitions and descriptions mentioned above is business model innovation.

An Economist Intelligence Unit study of 2005 reveals that over 50% of managers believe that business model innovation is even more important than product or service innovation for success. In 2008, an IBM company survey on CEOs reflects the same result: almost all of the CEOs interviewed revealed the necessity for adaptation of business models, and over two-thirds also revealed that there is a need for large scale change on business models [6]. While the annual number of patents for "business model" is only 1,000 for 1997 this figure is reached to 8000 for 2000 and 11,800 for 2007 [7].

In a case study of the most innovative companies published yearly by the Boston Consulting Group and Business Week, companies are classified as companies engaged in business model innovation, companies engaged in product innovation and companies engaged in process innovation. It is determined that enterprises engaged in Product innovation and process innovation provides to their shareholders premiums more than average of the same industry, and enterprises engaged in business model innovation provided to their shareholders 4-fold greater premium than former innovation types'. In addition, it is observed that business model innovation is more permanent and, even after 10 years; enterprises with a business model innovation maintain better performance than their competitors and companies with product and process innovation [8]. Indeed, 11 of 27 companies established in the last quarter-century and ranked in the Fortune 500 in last decade achieved this success through business model innovation [6].

With business model innovation, periods of crisis can also be converted into a competitive advantage. Indeed, 18 of the 30 firms in Dow Jones Industrial Index were founded during the economic crisis. In addition, Kauffman Index of Activities of Entrepreneurs reveals that the number of companies established during the most severe recession of 2009 is at the highest level of the last 14 years, including technology boom between 1999-2000 years [1].

It is possible to reveal four elements of a successful business model in Dell Computer example. Dell created a new value for the customer and gained profits by using key resources and processes: While personal computer manufacturers other than Dell sold their products through intermediaries, Dell preferred direct sales to the consumers without using intermediaries. Not only this value chain omitted a very expensive ring, but also Dell's stocks were managed better than other companies in the sector. The advantage of Dell's management of its stocks saved Dell from high cost of old fashioned products as the other computer manufacturers had to endure this. What makes different Dell is business model that was difficult to duplicate. If Dell rivals had sold their products with direct sales they would have disrupted existing distribution channels and break the trust among their trusted intermediaries. As a result, even if Dell's competitors had emulated Dell they would have been in a very difficult situation. With this business model, Dell demonstrated a superior performance to its competitors more than ten years [5].

A new business model, which is defined and implemented to retain market share from competitors, furnishes much better performance to existing tasks. It solves an unaddressed problem with a new product or process innovation, or addresses to a customer segment never reached before [5;6]. For example, when FedEx first started the parcel delivery it did not compete with lower prices or with better marketing activities. Instead, it focused on faster and more reliable long distance deliveries, in which none of the competitors accomplished this before [6]. In Vodafone Group and in Turkey, Vodafone Turkey launched a "voice signature" project, for the first time, where call center recognizes a calling customer by analyzing customer's biometric voice. Due to this, speech recognition provides much safer and faster

processing by eliminating steps for customer's identity validation process, such as, place of birth, date of birth, tariff information, etc. [9]. While the success of FedEx is emanating from solving an unaddressed problem before, the reason for success of "Signature Voice" project is due to accomplishing the existing task in much better way.

A Business model compels managers to think vigilantly on his/her task [5]. This is because business models built on incorrect assumptions on customer behaviors are doomed to failure. Changes in the market and technology entails companies to divert from traditional processes and to make a difference by creating a new business model based on customer needs. Making a difference actually means catching the success. For example, Dell has become the world's largest personal computer manufacturer not because of manufacturing better products than its competitors, but because of marketing its products with a different system. Similarly Red Bull has become a global brand not because of better drinks (cola drinks, fruit juices, etc.) but, because Red Bull is the first energy drink marketed in the US [7]. Mavi Jeans, due to its "perfect fit" approach, was chosen among the world's top 16 brand jeans in 2006 by the Design & Style magazine. "Perfect Fit" jeans are emerged from ideas of creating jeans that would fully fit to the body as well as culture and budget. Mavi Jeans sustain distinguishing itself, with the collection sensitive to the environment and human health, by manufacturing blue jeans from 100% organic cotton produced in recent years [10].

A successful business model offers a better solution than existing alternatives, and creates a new and escalating expectation [5] and, as a result of this, it sketches all the sectors from a scratch and distributes values in billions of dollars [6]. Nano brand cars produced by Tata Community Enterprises constitute a good example in this regard. Ratan Tata from Tata Community Enterprises observed a large number of families driving motorcycles in a dangerous path around cars in India and, because of this, deemed to propose a safer alternative for poor families with motorcycle: Offering a reliable and cheap car they could buy for \$2500 [6]. Nano with this price as the world's cheapest car is a novelty allowing the hundreds of millions of people who are not currently eligible to buy cars in the developing countries to buy it [11]. In order to make expected profit from a product sold in this range of price, production and distribution processes must be reestablished [12]: Rather than manufacturing cars in a classical factory and distributing them to dealers, Tata developed a new model where the cars is manufactured in pieces in factories and these pieces is shipped to dealers, and, based on the sales, installation and after sale services are performed there.

3. Some Findings

Despite developments in technology and varying markets under the increasing escalating customer expectations, it is observed that companies grasp business models as an irrevocable fact and they conform to traditional processes unless conditions of competitions is vigorous [13]. Even companies well positioned in the market rarely change their business model. In this regard, author of the book "Game Changing Strategies", Costas Markides, reveals that 95% of different business models in the world constitute from companies new entrant to market and, mature companies' lack of change the rule of the game, but had to take precautions against the successful business models in the market [14]. Indeed, in an American Management Association survey on innovation investment of global companies, it is determined that investments focused on developing new business models are less than 10% total innovation investments [6]. In this case, the result is to enter the emerging market late and, thus, to lose its competitive advantage and to hold aloof of competitors to snatch the market. Some of the examples on this subject in the literature are the followings [15]:

- Goodyear and Firestone entered radial tire market quite late.
- Xerox allowed Canon to create a small photocopy market.
- Bucyrus-Erie allowed Caterpillar and Deere to gain mechanical excavator market.

- IBM dominated mainframe computer market system, but it missed, within a few years, the emergence of mini computers that is technologically much simpler than its main system computers.
- Digital Equipment was dominant in mini-computer market with innovations such as VAX architecture, but almost entirely missed the personal computer market.
- Apple Computer led personal computer market, and established standards for user-friendly computers, but remained five years behind ongoing leaders of portable computers on the market.

Similarly, it is determined that, in lieu of the assumption where local enterprises of countries opening their economies to global competition, reducing tariffs and freeing foreign investments lack probability of ceasing to exist against multinational enterprises, a 3-year study conducted in the fastest growing 10 countries [16] identifies that local enterprises not only survive against multinational enterprises, but also dominate the market with their successful strategies and practices. Indeed, Innovation and Entrepreneurship Group Chairman of Massachusetts Institute of Technology, Eric von Hippel, reveals small and local enterprises in the world as more innovative than global companies [13]. The followings cases depict several local companies prevailing over foreign competitors and list some of the great competitors defeated [16;7]:

- In Brazil, PC market share of Grupo Positivo is larger than Dell's and Hewlett-Packard's. In resource planning software, Totvs is ahead of the SAP, world's largest manufacturer of commercial software enterprise.
- Daily use of Baidu, Chinese search engine, is four times more than Google search engine's. QQ instant messaging program of Tencent is ahead of MSN Messenger.
- Bharti Airtel leads in mobile phone market in India, surpassing Hutchison Telecom that sold its unit to Vodafone in this country in 2007.
- In Mexico, Grupo Elekta has created one of the largest retail sales networks of the country and won the competition war against Wal-Mart.
- Wimm-Bill-Dann Foods in Russia, the country's largest dairy product producer, is ahead of Coca-Cola and Danone.
- Kentucky Fried Chicken had left the Guatemala market for sometime because of the success of Pollo Campero.

In this example, it is easily determined that strategies of multinational enterprises do not work much in developing countries. Of course, there are successful cases such as KFC, Pizza Hut and Taco Bell as well. However, what is making valuable to investigate local businesses in terms of business model is the cases of local enterprises against the giant enterprises, such as Dell, HP, Google, Vodafone, Wal-Mart, Danone and Coca-Cola, where the world follows their every moves and applications. In this context, it is apparent that there are a number of the issues to be learnt, by global companies, from local and small enterprises.

It is a fact that enterprises prolong their life by re-evaluating and changing their business models in periods such as a new market, new technology, economic stagnation and crisis periods. Why the business model should be changed is revealed clearly by the study of famous management expert, Arie De Gues: The average span of life of companies has decreased from 45 years to 18 years in Germany, 13 years to 9 years in France and 10 years to 4 years in the UK. According to World Bank data, 80% enterprises established in Turkey go under before the fifth anniversary and 96% before tenth years [17]. Additionally, while the average period of holding ordinary shares was 3 years in the 1980s, it has decreased to nine months today [18]. This is because new technologies are decreasing the costs nowadays and capital, innovation and management capability is moving more freely and more quickly around the earth. Technological and market basis of every business disappears over the time. Therefore, when it is the time the business model needs to be changed. In this context, some examples of enterprises prolonging their existence by changing their business model, providing a competitive advantage, increasing profits and market share are given below [13]:

- Lego Company was selling only small children legos through traditional retail channel, but has become electronic distributor and software programming publisher of Midstorms Robot as well.

- Starbucks was only a worldwide American chain selling coffee and coffee by-products and has become music CDs and movie distributor in its stores and web site as well.
- Stata Corp. was only a statistical software developer and maintaining direct sales to consumers, and, today, is distributing customized software for installation over the Internet as well.
- Boyner was mainly in textiles business with its famous brands such as Mayer, Altinyildiz, and has developed Advantage credit card model and sold it to HSBC sold. It is also in the service sector with Back-Up.
- Pasabahce was a company manufacturing and selling only glass and glass products and opened concept stores. It has grown into a chain selling home decorating products as well.
- TAV was established as a consortium for the construction and operation of Istanbul Ataturk Airport, gained experience and, has created airport construction and operating model within its periphery.
- Altinkiliclar was only in coffee production and mass sales of coffee. It offers coffee chocolates directly to consumers through its cafe chains renown as “Coffee World”.

In addition, C.K. Prahalad (2005) in his book “The Fortune at the Bottom of the Pyramid” states that companies can profit by providing products and services to poor people who are more than 4 billion people in the world and making a living for less than \$2 per day [19]. He identifies the poor as “a hidden market” and entitles poor segment as the “bottom of the pyramid”. Traditional products, services and management style have not been able to create a value for this market and a new innovative approach for business model is necessary. Some of enterprises prevailing with a different business model for bottom of the pyramid and challenging management style of developed markets are as follows:

- PRODEM FFP, a Bolivian financial services enterprise, introduced color-coded touch screen and three local language-speaking intelligent ATMs recognizing fingerprints, in order to provide 24 hours of high-quality financial service even for illiterate consumers. This system has also been used in developed countries.
- ITC, an Indian holding, had decided to connect PCs of Indian farmers in their villages. ITC e-Choupal (village meeting place) offered farmers to monitor not only local sale prices, but also sales prices of soybean futures stock exchange in Chicago Mercantile. Thus, income of farmers who can reach prices of goods anywhere in the world increased by 5% to 10%.
- Considering that the poor people had brand consciousness like the rich people, P&G created consumption capacity by offering single-use packages of luxury shampoo of Pantene in India.
- HLL, subsidiary of Unilever, realized that traditional methods would not make them to reach remote villages; it launched a new program letting village women to distribute its products in villages where it can't provide full service using its existing dealer and supplier system. Similarly, Avon converted more than 800,000 Avon Women to distributors in order to reach to the remotest corner of Amazon and became one of the largest cosmetic enterprises in Brazil.
- Cemex, one of the world's largest cement factories in Mexico, help consumers for cash buildup savings and investment on a “do it yourself” project focused on the market in the bottom of the pyramid and provided access to good quality homes. By instigating groups of 3 women pressuring each other for cash buildup and keeping project alive in a “group discipline”, Cemex alleviated buildup and access to credits for adding bathroom or kitchen to their homes.
- Aravind Eye Care System in India performs, in the same manner that is done in the United States, a cataract surgery between \$50 and \$300, which can cost \$2,500 to \$3,000 in the United States. Despite 60% of patients is not charged for the surgery and fees for the surgery is that low, Aravind still makes profits. A few hospitals following Aravind are specializing in heart health more and more.

Large enterprises are not interested in the bottom of pyramid with the views where they can not get into this market with their existing cost structure because the poor are not envisioned as their target consumers and only developed countries value technological innovations, and pay the bills, and, in their long-term developments, poor countries are not very important markets, that is why they can't use their best men in these markets. Doing business based on the terms of the customer requires a radical reversal

in business method [20] and a new development opportunity for companies creates great opportunities for innovation that could be used in developed countries as well. In addition, it assists companies to develop internal management style and financial situations.

4. What are the Underlying Factors for Failure and what can be done for these?

Some of the elements, in which examples are given above and considered as a failure, are described below with underlying factors which are entering market late, and/or not having desired success against local businesses, and/or not being able to transform by clinging to current business model, and/or not envisaging the bottom of the pyramid as target consumers, and/or missing a big opportunity due to all these. Questioning of business models of enterprises in this context will provide success, not only in times of recession and crisis, but in other difficult economic circumstances.

4.1. Focusing on Existing Technology

The biggest reason why companies can not adapt themselves to the change is to invest too much to improve existing technologies, to focus on the development of existing technologies more than enough by gradually and deliberately meeting the needs of customers, not to seek markets to welcome for technologies developed in their laboratories [21]. For these reasons, enterprises leading their sectors can not succeed in commercialization of new technologies, which is mentioned above as these kinds of technologies enable creation of new markets, which appeal to small or emerging markets and not meeting the expectations of main customers [15]. For example, Polaroid assumed that a 3-minute tape with \$7 price can compete effectively with a half an hour videotape with \$20 price. After all, Polavision lost \$200 million for their films. Polaroid assumed that high of cost video recording and playback devices is prohibitive on most consumers. Meanwhile, companies following up these technologies pulled-down costs without stopping [22].

These kinds of companies developing technology in their sector face difficulties to be out of a certain thought patterns [23]. Thus, customers face to a large number of convenient product and services turned into a commodity and the urge for innovation to meet customers' tacit expectations and to find better ways to solve their problems is destroyed [24]. As a result, until market meets financial conditions desired by the company and the existing customers expectations new technologies, companies follow “wait and see” approach and when markets re-shaped, it is too late for them. Indeed, when a disruptive technology emerges between half and two-thirds of manufacturers settled can not accomplish to launch models using new architecture—as opposed to the fact that they launched additional improvements on existing technologies on time [15]. Executives can prevent this situation by being vigilance on potential disruptive technologies that does not meet the needs of existing customers.

4.2. Adhering to Traditional Patterns

Adherence of these companies to traditional patterns make them to think a standard strategy that will be valid everywhere. A large number of companies are trying to implement better strategies succeeded in the past. However, enterprises with an in-depth understanding of customers and know how of how people's preferences change in different urban areas, income levels, age groups and sex are able to provide customized, at a limited extent, and cheaper products and services to consumers. For example, Goodbaby, baby products market leader in China, offers 1600 different products in 16 different categories. Thus, it differentiates itself by customizing products [16]. A result of adherence to traditional patterns makes enterprises to recognize structural and infrastructure problems that would prevent them to conduct their business in accustomed way as an insurmountable barrier. Business model innovation seeks an answer for the question “How can we do?” not for the question “Why can not it be done?”. Successful

enterprises develop strategies to overcome these obstacles. For example, while global enterprises, such as Microsoft, Nintendo and Sony, cannot expedite their business much in the video games industry in China because of software piracy Chinese, companies stepped in the sector in 2001, such as Shanda, created a productive game sector with multi-player online role-playing games. It is not possible to use these products unauthorized. This is because they perpetuate to a large number of players live experience based on technologies setting up the Internet connection among them [16].

Richard Foster, as a result of his study covering 1000 company from 15 different industries, indicates that even the world's most respected and well-known corporations sustain competitiveness for at most 15 years and that companies maintain their market domination through restructuring themselves and that the key to success is the constant change and creativity that can keep up with the change [25]. Although it is specified that 70% of change initiatives resulted in the failure [26] enterprises should re-evaluate their business models and re-configure themselves according to market conditions. Enterprises that do not conduct this assessment and change themselves accordingly don't have a chance to persevere in the market. Reconstruction of enterprises means constantly questioning their current states and assumptions underlying their model in the market [5]. In this context, business models should have a flexible and variable feature in the early years [6]. This is because the success is achieved by the business model revisions consistent with market conditions. For example, when Disney had opened EuroDisney in 1992 in Paris it was deemed that its successful business model in the United States would have been valid for Europe. But, Disney's all the assumptions had gone wrong. By 1994, Disney had lost over \$1 billion. It had the break trough after it had modified some business model factors in accordance with the Europeans [5;22;27].

4.3. Not Questioning Implicit Assumptions

If companies are not aware of hidden assumptions, as in the case of EuroDisney, of "previously what was successful will be successful again" style in their planning they may encounter serious problems. If they had used the right control tools and the right planning, the initial failure of EuroDisney could have been prevented and the costs could have been under control. The intention for correct planning and correct control tools is "the right perspective". It should be admitted that a new initiative contains inherent uncertainties -such as serving a customer segment that has not been addressed previously in the market, using the potential of technology to optimize the current work or to make better products/services cheaper or to optimize them-. In the past, there were too many assumptions in connection with an untested application [22]. Since many companies insisted on attempts to build on the platform based on implicit assumptions (use of common parts, methods, or technologies together for different products) they plunged into the situation of Disney [22]. Therefore, it is advised to be vigilant to implement platform-based methods on new initiatives.

New initiatives require the company, by its very nature, to imagine unknowns. It would be wise to give a new direction to new initiatives since assumptions about the unknown often come out wrong [22]. In this context, in order to convert assumptions to knowledge, significant resource commitments should be postponed until the proof of the previous stage presents signs for taking risk to step up for the next stage. This is the formula for "invest a little, learn a lot of" [21]. This can be summarized as putting something on the market, the viewing the reactions and making a correction. So expecting assumptions to turn into knowledge yield administrators to address the uncertainties at the lowest cost possible.

4.4. Being late to question the profit formula:

One of the important indicators of to determine whether business model is successful is the profits obtained. Profit is an indicator that confirms whether the company's business model works [5;6]. EuroDisney was able to profit, 3 years after opening, after the business model is corrected. Profit is result

of value was created for customers and company rewarding customers. Profit of enterprise from new business is a powerful symbol indicating the success of new business [28]. In order to evaluate new business as a successful, business model should be applied in a different way than the competitors. Boston Consulting research on this subject would be more descriptive [29]: Based on this research that reveal product presentation of 86 of 100 companies is in the scope of “me too” (I exist, a copy of competitor) and product presentation and the business model of remaining 14 companies are on value innovation, while turnover of “me too” companies increased by 63% and profits increased only by 39%, it is observed that proportions of companies on value innovation occurred in the opposite direction, 38% turnover increased and 61% profit increased.

While new technologies keep low operating costs they provide the ability to offer quality products and services to enterprises and as a result of this, they allow enterprises make profits. For example, setting up the whole fleet of Brazil's Gol Linhas Aereas Company, the first cheapest airline company in South America, on a single aircraft type and investing only on new models made the company to be the second most profitable airline in the world [16]. Therefore, the use of new technology is extremely important for the success of this business. How important is the use of technology in successful business models at the bottom of the pyramid is also observed.

4.5. Not Producing Innovative Solutions on Structural and of Infrastructure Problems

While structural and infrastructure challenges are defeated with low-cost labor, innovative ways to overcome qualified staff shortages must be explored. For example, Focus Media, which has become China's largest outdoor advertising company, has been using low-tech solutions in a conscious way. Instead of managing by using electronic means on LCD screens in more than 130,000 points in 90 cities, it is using people. Its staff, if necessary, replaces DVDs and memory cards displaying the ads. Thus, operating costs are falling. If the automated system had been used, the Chinese government could have considered Focus Media as one of network-based media companies and, of course, could have applied the same regulations. Here, this identifies how important it is to know rules and regulations of a country. Apollo Hospitals in India have won a good reputation by recruiting some of best doctors and nurses in the country. By using its quality of services as a differentiating factor, the hospital chain may request patients to pay 10 times higher bills than that of a public hospital [16]. Since adaptable set of solutions developed in the market will save time to enterprises it will also provide a competitive advantage. What Unilever gained experience from Wheel brand detergent, on its formula, manufacturing process, packaging, pricing, distribution, advertising and promotions, for the poor was also used for markets in countries such as Brazil, China, Indonesia. In Brazil, by producing a similar product called “Ala”, Unilever has achieved success very easily together with the experience gained in India. Today, Unilever considers India as a laboratory for its markets like India [30].

4.6. Not Running Business Based on Customer Requirements:

Living and working conditions of consumers involve in a rethinking of functionality. Washing out clothes in running water outside is different than washing with a washing machine that is automatically adjustable based on the intensity of the dirt and colored or white laundry. For example, solutions developed for poor can not be thought as for sources used in developed countries. The question will be asked in regions with water shortages: Can we catch the western world living standards without water or with too little water? Can we wash clothes without water? Can we clean without taking shower? These require new solutions and such a new perspective. Doing a business based on customer terms is a radical reverse method in doing business method [31]. As customers center-based, how to create value is evaluated. The success of Grameen Bank as a commercial operation on micro finance developing in Bangladesh is a good example capturing a global interest to process. Initially, the amount of average loan

is less than \$20. Today, including the United States, there are 17.000 micro enterprises in the world as variations of Grameen Bank. A global conference on micro finance revolution topics is organized each year now [32]. As a result of process innovation, making products and services purchasable by the poor is an important step.

4.7. Not Changing Business Model in Time and Not Forming Business Model Infrastructure

In order enterprises to dominate the market, it should make a timely transition to new business model and also create an infrastructure to support new business model. Apple's iPod/iTunes revolution is a good example in this regard [6;8]: With an infrastructure supporting a new business model, only in a short period of 3 years, it has become a product of a nearly \$10 billion by constituting almost fifty percent of Apple's revenue with iPod/iTunes combination. Apple has purchased a good technology and offered it by a business model that combines hardware, software and services. Apple's real innovation is to facilitate digital music downloads. Apple has signed an agreement to make music legally downloadable from internet with five largest music companies, Sony, Warner, Universal, EMI and BMG [33] and the iTunes Music Store launched a catalog for 200.000 songs with a sale price of 99 cents per song or \$10 per album for the iPod owners. After a while, the iTunes Music Store attained control of 70 percent of legal music download market from Internet. In a year, the virtual store sold 85 million songs. This model described the value in a new format and provided to consumers easiness of doing something in a new way from top to bottom.

4.8. Changing Business Model with the Idea of Turning into Innovative Company

It may not be necessary to create a new business model every time for a new business. Moreover, enterprises should not thoughtlessly engage in business model innovation. Enterprises should maintain their existing business models using most of the key resources and processes with profit formula if they may generate a new customer value suggestion the same with core criteria, rules and norms presently used. In this case, companies can defeat their competitors without making fundamental changes in their business models. For example, (P&G) retailed Swiffer, disposable dusters and mops, and Febreze, a product used as an air cleaner, with the existing business model. Business models of both products are built in on sited sovereignty of the area of consumable home products of P&G [6].

It is waste of money and time to create a new model that is not oriented on changing rules in the market or in the sector. What is important here is whether the yield of opportunities worth to the effort. It is evaluated that business model change is suitable [6] when there is an opportunity to address through disruptive innovation (as in the case Nano car) to a customer segment previously not been addressed, when there is an opportunity to exploit a new technology with a new business model (Apple iPod/iTunes as in the case), when solution of a problem does not exist in the market, but, is essential to find out (as in the case of FedEx), when it is necessary to remove cheap and poor quality market disruptive (If Nano becomes successful, other car manufacturers will face a threat) and replaced when it is necessary to respond to competitors in a changing competitive environment.

5. Discussion and Conclusions

Business model is combination of key resources and processes creating value for customers and enterprises in harmony. Every successful enterprise has a successful business model. However, there is not any everlasting business model. With developing technology to meet escalating customer expectation, enterprises are urged to change their business model. Business model innovation is combination of key resources and processes different than competitors' to create value for the enterprise and its customers in

the face of the co-modification of goods and services. It is apparent that enterprises engaged in business model innovation are more successful than enterprises engaged in product and process innovation.

Entering into a new market, emergence of a new disruptive technology, economic stagnation and crisis periods indicate hard conditions for enterprises to re-evaluation their business model. Studies show that innovative businesses are the ones that prevail in these difficult conditions. Therefore, crisis periods can be converted to a competitive advantage with the business model innovation. However, it is observed that the existing business models of enterprises are unchangeable facts and, unless intensified competition conditions do not compel, enterprises do not change the traditional processes. As a result of this, companies enter the market late and large enterprises are forced to quit against local businesses. They also miss great opportunities by not considering poor as a target population or by implementing well-known business strategies in poor markets. However, because business model innovation ensures the current work to be done in a better way, resolves a problem that has never addressed before with a new product or process innovation, or addresses to a customer segment that has not previously addressed before, business model innovation is the best and valid way to profit, in addition to elude from the difficult economic conditions like crisis and recession periods and to grow the market share. If our findings about the reasons that prevent the success of enterprises on business model innovation are considered by enterprises it will help them to outrun difficult economic conditions with success.

References

- [1] Chakravorti, B., Finding Competitive Advantage in Adversity. *Harvard Business Review*, Reprint R1011H, 2010:1-8.
- [2] Fox, J., What do ferocious competitors do in difficult days?. *Capital*, 2010;11:170.
- [3] Ozgenc, A., Overcoming Economic Difficulties with Innovation. *Strategy & Innovation*, 2008;8:34.
- [4] Gulati, R., Nohria, N. and Wohlgezogen, Roaring out of Recession. *Harvard Business Review*, 2010;88(3):62-9.
- [5] Magretta, J., Why Business Models Matter?. *Harvard Business Review*, Reprint R0205F, 2002:1-8.
- [6] Johnson, M.W., Christensen, C.M. and Kagermann, H., Reinventing Your Business Model. *Harvard Business Review*, Reprint R0812C, 2008:1-12.
- [7] Ates, M.R., How did a fast food chain undergo a change?. *Capital*, 2008;10:60-1.
- [8] Lindgardt, Z., Reeves, M., Stalk, G. and Deimler, M.S., Business Model Innovation: When the Game Gets Tough, Change the Game, <http://www.bcg.com/documents/file36456.pdf>, 2009 (Date of Access: 03.01.2011).
- [9] Gozutok, N., Business Model is booming Export. *Capital*, 2009;12:262-270.
- [10] Altun, S. *Turks catching the success with Innovation*. Istanbul: MediaCat; 2008:180.
- [11] Fisk, P. *A customer geniusy: To be a customer centered enterprise*, Translator: Aytül Ozer, Istanbul: MediaCat; 2008:162.
- [12] Tan, B., Tata Nano: Process Innovation and Circulation of Democracy. *Capital*, 2008;2:61.
- [13] Cirik, E., Those who changing the model prolongs their existence. *Capital*, 2008;4:118-124.
- [14] Bayıksel, S.O., When should a business model be changed?. *Capital*, 2008;7:202-6.
- [15] Bower, J.L. and Christensen, C.M., Disruptive Technologies: Catchind the Wave. *Harvard Business Review*, 1995;January-February:43-54.
- [16] Bhattarcharya, A.K. and Michael, D.C., How Local Companies Keep Multinationals at Bay. *Harvard Business Review*, 2008;86(3):84-95.
- [17] Ates, M.R. *Innovation Saves Life*. Istanbul: Dogan Kitap; 2007:26.
- [18] Zook, C., Finding Your Next Core Business. *Harvard Business Review*, Reprint R0704D, 2007:1-12.
- [19] Prahalad, C. *Treasure in bottom of the pyramid*, Translator: Serpil Demirci, Istanbul: Sistem; 2008.
- [20] Fisk, P. *A customer geniusy: To be a customer centered enterprise*, Translator: Aytül Ozer, Istanbul: MediaCat; 2008:77.
- [21] Anthony, S.D., Eyring, M. and Gibson, L., Mapping Your Innovation Strategy. *Harvard Business Review*, Reprint R0605F, 2006:1-11.
- [22] McGrath, R.G. and Macmillan, I.C., Discovery Driven Planning. *Harvard Business Review*, 1995;73(4):44-54.
- [23] Yılmaz, A., Inovation Definition Models, <http://www.yenilesim.org>, 2010 (Date of Access: 14.01.2010).
- [24] Fisk, P., *A customer geniusy: To be a customer centered enterprise*, Translator: Aytül Ozer, Istanbul: MediaCat; 2008:94.

- [25] Yavuz, H., Developing strategies even in the period of the crises. *Capital*, 2009;1:96-9.
- [26] Beer, M. and Nohria, N. Cracking the code of change. *Harvard Business Review*, 2000;May-June:133-141.
- [27] Rothman, H. *Most Effective 50 Companies Guiding the World History*, Translator: Nursan Üstüntaş, İstanbul: Neden; 2007:213.
- [28] Govindarajan, V. and Trimble C., Building Breakthrough Business within Established Organizations. *Harvard Business Review*, 2005;83(5):58-68.
- [29] Ates, M.R. *Innovation Saves Life*. İstanbul: Dogan Kitap; 2007:33.
- [30] Prahalad, C. *Treasure in bottom of the pyramid*, Translator: Serpil Demirci, İstanbul: Sistem; 2008:58.
- [31] Fisk, P., *A customer geniusity: To be a customer centered enterprise*, Translator: Aytül Ozer, İstanbul: MediaCat; 2008:77.
- [32] Prahalad, C. *Treasure in bottom of the pyramid*, Translator: Serpil Demirci, İstanbul: Sistem; 2008:59.
- [33] Young, J.S. ve Simon, W.L. *Steve Jobs*, Translator: Selim Yeniceri, İstanbul: Yakamoz; 2009:324.