

# An Outside-In Approach to Business Model Innovation – Customer Context and Digitalisation

## Purpose

The purpose of this paper is to develop a framework for an ‘outside-in’ (Payne *et al*, 2007) approach to business model innovation, placing emphasis on the customers context of use it examines how digital transformation and connectivity causes the system of business model components to become more tightly coupled.

## Design/Methodology/approach

In the modern techno-economic climate of increasing R&D cost, shortening product lives and the rise digital materiality and connectivity, firms are finding that great technology alone no longer provides sufficient impetus for competitive advantage (Chesbrough, 2007; Ng, 2014). Instead there is greater emphasis being placed upon business models, as the ‘supra-set’ of innovation, to allow novel and competitive forms of commercialisation (Chesbrough and Rosenbloom, 2002; Teece, 2010; Baden-Fuller and Haefliger, 2013). Despite the increased importance attributed to business model innovation (BMI) as a means to counter the amplified dynamism and uncertainty of the connected digital economy, the majority of existing frameworks provide static representations which fail to account for the linkages between different BM components (Frankenberger *et al*, 2013). Moreover, there is a marked lack of BMI frameworks that specifically take account of the customer, their value creating activities, or contextual use environments (Ng, 2014; Wirtz *et al*, 2016). Digitalisation has enabled a greater appreciation of customer value creating process, however developing an ‘outside-in’ approach (Payne *et al*, 2007) to offerings in order to better to support value co-creation may require concomitant changes across other components of the business model. Building on a BMI tool developed with InnovateUK, this paper surveys the extant literature to develop an outside-in BMI framework in order to examine the effect of digital transformation on the system of business model components.

## Findings:

Traditionally isolation of BM components and customer experience may have been possible, in the connected digital economy this is no longer the case. The rise of digital materiality and connectivity has not only changed the way in which customers create value within their contexts of use, but will also cause the system of BM components to become more tightly coupled as the boundary between the offering and experience blurs and new streams of revenue emerge, necessitating changes to the configuration of the firm in order to become more agile in response to changing market conditions (Ng, 2014).

## Value:

Customer driven business model innovation frameworks have hitherto been lacking in the literature (Wirtz *et al*, 2016), this paper aims to address this gap as well as provide novel insights into the transformative effect of digitalisation on business models.

**Key words:** Business model innovation, digitalisation, value-in-context, service systems, connected digital economy

**Paper type:** Conceptual paper

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