To replicate or to renew?

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The speed with which technologies and markets change forces firms to innovate their business model. The two main types of business model innovation are replication and renewal. Replication flourishes in relatively stable environments. Renewal, however, has a particularly positive effect in environments where there is a moderate level of dynamism. Top managers can play a vital role in realizing a sufficient level of both types of business model innovation and influencing the market conditions and emergent technologies.

When faced with increasing disruption, how do you innovate your business model? In the present turbulent environment, it is no longer relevant to ask ‘whether’ firms should innovate their business model. Continuing to do what you have always done amounts to self-destruction. These days, it is about ‘how’ you change your business model, ‘when’, and ‘the extent to which’ you do that—questions which our book, Reinventing Business Models: How Firms Cope with Disruption, brings up for discussion. In this article, we distinguish two pure types of business model innovation, namely replication and renewal, and show how their performance effects differ with various levels of environmental dynamism. The alignment between a

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firm’s business model and its external environment is crucial for it to survive or prosper, and business model innovation is vital in realizing that alignment.

**about business model innovation: renewal and replication**

The business model has emerged relatively recently as a level of analysis. It focuses on how value creation occurs, and for which parties, and how the firm appropriates value. It is made up of various components and describes the relationships between them (architecture). Components that are often mentioned include a firm’s value offering, economic model, partner network, internal infrastructure, and target market.

Every organization has a business model, either explicit or implicit, but in today’s rapidly changing business environments, business model innovation has become even more important and is a crucial factor in explaining differences in firm performance. Innovation of a business model occurs not only when the components of the model change, but also when those components are combined in different ways to create and capture value. Research on business model innovation falls into two main types: renewal and replication.

Business model renewal is about the introduction of new components or new interdependencies between those various components which go beyond the framework of an existing model in order to create and capture new value. It involves a radical appraisal of a firm’s present business model in order to arrive at a new or more sustainable competitive position for the firm. The Dutch firm DSM, in particular, has reinvented itself several times as it moved from mining to petrochemicals, then to life sciences, and more recently to material sciences and sustainability.

As an alternative to radically renewing a business model, firms can also improve or replicate it. IKEA and McDonald’s have achieved global success by expanding and perfecting their existing business models. Business model replication can be described as the recreation of a successful business model in which a firm develops or upscalés components of its existing model so as to create and capture more value. It leverages those existing components—and the interdependencies between them—by refining and adjusting its current model, or by using the model more widely across different parts of the firm. This can be done either geographically and/or over time. Replication is not about cloning the original model, but creating one that is broadly similar.

**business model renewal or replication, after all?**

While replication offers a comparatively safe route to short-term success by improving the firm’s competitive position, it does not provide variety, and this can threaten a firm’s survival in the longer run. The more proficiently a firm replicates a business model elsewhere, the more effectively it can reap the rewards of that replication. Quite often, firms fail to recognize in time the new means of value creation which are becoming dominant in the market. Business model renewal increases a firm’s chances of survival in the longer run. The risks attached are quite high as it requires experimentation, but not undertaking this journey may erode a firm’s competitive position.

Discussing the relative merits of replication and renewal does not give us a definitive answer as to which may be the best option. That will naturally depend on the particular
circumstances of the firm. More frequent and intense changes in customer preferences or technologies, regulatory or governmental changes, or new competitive structures in the market can make a firm’s existing business model more short-lived, thereby increasing the need for business model renewal.

Firms benefit most from business model renewal in moderately dynamic environments.

Business model renewal is needed to respond to threats to the existing business model and to adapt to changing environmental conditions. For instance, by introducing new components or new complementary effects in a new market, business model renewal targets customer niches that are underserved by the industry, and can sometimes even create new markets or industries. We might then expect this to have a positive effect on firm performance.

However, we found and suggest that, as the level of environmental dynamism increases, more business model renewal is not always better. Beyond a certain point, it will still enable a firm to respond to threats or chase opportunities, but the rewards will not be as great. The potential gains need to be sufficiently large to warrant investment, but in environments that are highly dynamic, the gains made are likely to be smaller. For example, customers need change more rapidly, and this erodes the profit that a firm can make by renewing its business model. In addition, once a firm has brought in a new model that it thinks will outperform other alternatives, the environment may have already changed to such an extent that the model is no longer an optimal fit, and this can then lead to suboptimal performance outcomes. In relatively stable environments, firms have more time to develop a business model, which is in line with environmental characteristics, but less need to do so.
Business model replication pays off in relatively stable environments.

A focus on business model replication seems to be beneficial for firm performance in relatively stable environments. Replication provides cost advantages and can increase total revenue, by correcting mistakes, getting rid of inefficiencies and upscaling or increasing the competitive advantage of an existing business model, for instance. In a more dynamic environment, replication allows an organization to become better at doing things that are similar. At the same time, however, business model replication becomes less valuable; environmental dynamism may affect a firm’s key success factors, and can weaken a business model or make it ineffective. Replication also establishes closer interactions and reinforcing effects between the various components of a business model. However, when the context is not appropriate, high levels of interdependency can easily become a weakness for the firm, and in dynamic environments, business model components can lose their complementary effects on firm performance.

**business model renewal and business model replication: friends or foes?**

Notwithstanding the contradictory nature of these two business models, they are also interdependent, have the potential to be compatible, and can complement one another. Over the longer run, having a sufficient level of both replication and renewal is likely to be the best way of achieving success for the firm. Having these multiple business models within a firm provides opportunities for synergies between them—for instance, through the sharing of value chain activities and branding. Top managers can play a vital role in realizing a sufficient level of both types of business model innovation by ensuring that one type is not focused on too heavily, at the expense of the other.

However, the relationship between a firm’s business model innovation and its environment is not a static one. Managerial choices regarding the business model co-evolve with changes in the environment (competitive dynamics, and technological and institutional changes) and fundamentally new models (renewal) or improved models (replication) can emerge from the existing population of firms. Managerial choices regarding when and how to innovate a business model can thus influence the market conditions and emergent technologies.

We encourage managers to rethink the firm’s existing business model. A better understanding of how business model renewal and replication affect firm performance may provide the foundation for successful business model innovation in a disruptive world.