Value Creation Through Business Model Innovation : A Case Study of Connect Broadband

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Abstract

This paper attempted to clarify how business model innovation can be a great source of value creation in businesses using a case study on "Connect Broadband," a data service provider headquartered in Mohali, Punjab, India. Connect Broadband in 2014 became the first company in the history of broadband industry to innovate their existing business model by combining antivirus solutions with data services and as a result, their penetration rate increased by more than 50% and the revenues also saw a huge surge. The company also added 40,000 - 45,000 customers in no time. This business model innovation took the company to the second position in the market with reference to the customer base or market share in Punjab, coming behind Bharat Sanchar Nigam Limited (BSNL), a government owned subsidiary.

Key words : **business model innovation, competitive advantage, Connect Broadband**

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Businesses these days operate in very dynamic and changing environments. The product life cycles have shortened to a dramatic extent, and as a result, sustainability has become very difficult in almost every business across any industry. In the quest to innovate, high performing firms collaborate beyond their organizations with their stretched network of suppliers, partners, customers, etc. (Misra & Parashar, 2008). Thus, in order to remain competitive and sustainable, companies put many efforts in innovating their products and services. These innovations always come at a very hefty cost and still, the probability of generating profits from these innovations is always very low. This has resulted in reluctance by companies in putting big bets in innovating products and services. So, rather than going for product and process innovations, companies have shifted focus towards business model innovation since the perks associated with it are very high and the risks and costs are very minimal.

The Economist Intelligence Unit (2012) conducted a survey of almost 4000 senior managers throughout the globe. The survey findings highlighted that executives prefer business model innovation rather than new products and services as a source of competitive advantage. IBM (2006) conducted a similar type of study in which around 750 corporate and public sector executives were interviewed upon the subject of innovation. The study found that companies whose profit margins have grown faster than that of their competitors over the last 5 years were most likely to emphasize more business model innovation as opposed to product or process innovation.

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Despite huge surge in academic and non-academic literature on business model innovation over the last decade, there is still very less clarity on the general concept of business model and most importantly, on the components of business model. Managers and academicians are still not able to tailor a process of innovating business models, and thus, there is still a lot of ambiguity associated with the overall concept.

In this paper, we would try to clarify the confusion surrounding these constructs and clarify how business model innovation can be a source of value creation in businesses by using a case study on "Connect Broadband," a data service provider headquartered in Mohali, Punjab, India. The sources of data are both primary as well as secondary. Secondary data was gathered by using company reports, and primary data was collected using in-depth interviews with top management. Connect Broadband innovated their existing business model by becoming the first company throughout the broadband industry in combining antivirus solutions with the data services. This resulted in an enormous increase in their market share as their penetration rate increased up to 40% and the revenues also saw a huge surge.

Literature Review

Since the advent of the dot-com business, the discussion on business models has gained extensive attention. Business model innovation has emerged as a new source of creating value and has appeared as a major source of competitive advantage. The term "business model" has become increasingly popular within management, strategy, and information system literature (Hedmang & Kalling, 2003). Despite many surges in academic literature and focus by corporate houses on business model innovation, there is still very less clarity on actually what is a business model ? Some companies don't even understand their own business models.

In the most basic sense, a business model is a method of doing business by which a company can sustain itself, that is, generate revenue. The business model spells out how a company makes money by specifying where it is positioned in the value chain (Rappa, 2001). Timmers (1998) suggested that a business model is the architecture of the product, service, and information flows, including a description of the various business actors and their roles ; a description of the potential benefits for the various business actors; and a description of the sources of revenues.

Researchers have also included a value dimension in defining a business model. Osterwalder and Pigneur (2010) defined a business model as the rationale of how an organization creates, delivers, and captures value. A business model enunciates the logic, the data, and other evidence that upkeep a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value (Teece, 2010). The role of business models is to provide a set of generic level descriptors of how a firm organizes itself to create and distribute value in a profitable manner (Baden-Fuller & Morgan, 2010).

Westerlund (2008) defined business models as the means by which a company generates returns by specifying the associations with other actors as well as the firm's position in the value creating network. Weil and Vitale (2001) explained that a business model represents the roles and relations among the firm's customers, allies, and suppliers identifying the major flows of product, information, and money, and the major benefits for the actors.

A business model represents an important locus of innovation and a crucial source of value creation for the firm and its suppliers, partners, and customers (Amit & Zott, 2001). Based on the fact that transactions connect activities, the authors further evolved this definition to conceptualize a firm's business model as a system of interdependent activities that transcend the focal firm and spans its boundaries (Amit & Zott, 2010).

A lot of other authors and researchers link business models with strategy. A business model is a reflection of a firm's realized strategy (Casadesus-Masanell & Ricart, 2010). Scholars contend that the business model can also be a source of competitive advantage that is distant from the firm's product market position (Christensen, 2001). Firms that address the same customers' need and pursue similar product and market strategy can do so with very different business models ; business model design and product market strategy are complemented, not substitutes (Zott & Amit, 2008).

Some researchers defined a business model in terms of components, while other scholars used the term elements in addition to components. Amit and Zott (2001) defined a business model as an important locus of innovation and value creation for the firm and its suppliers, partners, and customers. The challenge which researchers have with the term "business model" is that researchers have discussed many components of a business model suiting their purpose, having very little linkage with other studies, but there are some frameworks which are quite popular (Amit & Zott, 2001 ; Osterwalder, Pigneur, & Tucci, 2005; Westerlund, 2008). In order to explain the term "business model," we would be using Westerlund's (2008) framework of business model innovation having the following components :

(1) Value Proposition,

(2) Assets & Capabilities,

(3) Economic Logic or Revenue Logic,

(4) Actors in Business Networks.

One of the main rational of using this model is that it was developed after reviewing all of the literature on business model and only those elements were picked which were present in almost all of the studies and have ample validity. Second, the model is also in line with Osterwalder and Pigneur (2010) and Amit and Zott (2001), which further justifies the use of this framework in explaining the business model.

Although there is no concensus among researchers on what is a business model and what are its components, but all of the researchers agree that it is useful and is worth of academic study. Some researchers have also highlighted that business model innovation can be a source of competitive advantage, which is different from product and process innovation (Amit & Zott, 2010 ; Bashir, Yousaf, & Verma, 2016 ; Bashir & Verma, 2016). The billion-dollar valuations of companies like Uber, Xiaomi, and Airbnb have proven that the perks of business model innovation are beyond measurement. This all has contributed in more importance and surge of academic literature on business models.

About Connect Broadband

Connect Broadband is under the proprietorship of a well-known brand Quadrant Tele Ventures Ltd. formerly known by the name of HFCL Infotel Ltd. This company was established in 1946, and it provides telecommunication services, including voice telephony (both wired and wireless), code division multiple access (CDMA) mobile services, and global system for mobile communications (GSM) based mobiles, Internet services, broadband data services, and a wide range of services namely, centrex, leased lines, virtual path number (VPNs), voice mail, etc. The company, with its optic fibre cable network of over 3,800 kilometers, provides services in 52 of the 55 short-distance charging areas (SDCA) (Connect Broadband, 2015).

Connect Broadband started its operations in October 2000 to provide broadband services across all major towns and villages in Punjab. The company started its services in fixed-line telephony, fixed wireless phone, mobile telephony, and broadband services. Connect Broadband is also planning investment in phased manners to cover the Punjab telecom circle completely. The company is also planning to provide "triple play services" of voice, data, and video. Connect Broadband has positioned itself as a total telecommunications solution provider having all of the telecom services along with a bunch of value-added services.

Since its launch in 2000, the company has gone a long way to become the second biggest broadband service provider in the entire state of Punjab coming behind Bharat Sanchar Nigam Limited, a government-owned subsidiary. Connect Broadband has completely transformed the Internet services in the entire state of Punjab by bringing continuous improvements and new innovations in line with their vision statement: "To be the most admired telecommunication and infotainment service brand through innovation and excellence." The company has truly understood the importance of delivering quality products and services to nurture long lasting relationships with customers (Connect Broadband, 2015).

Connect Broadband & Business Model Innovation

The management team of Connect Broadband realized that a vast majority of customers who were using data services for their PCs and notebooks did not have any kind of antivirus protection. This resulted in lower speeds than what was being offered by the company and also additional consumption of data. The company hired Nielsen Corporation, formerly known as AC Nielsen, a leading marketing research firm in order to know the exact number of customers in Punjab region who did not have any kind of antivirus protection. The findings revealed that an enormous 74% of active customers, who were using data services in the region of Punjab, were without any antivirus solution. This opened a new window and a huge untapped market which had been left untouched by the companies, citing reasons that there is no demand for it, their purpose is to sell data, and if customers want to buy an antivirus solution, they can purchase it from a third party.

No doubt this was a big leap in the market, but the company wanted to know whether customers would be willing to trust or rather buy an antivirus solution if Connect Broadband would provide it at a genuine and affordable price. The company conducted another research with the help of Nielsen Corporation (AC Nielson) in order to know the willingness of customers to purchase an antivirus solution if Connect Broadband would provide it at a very compatible price ; 78% of the customers expressed their willingness to purchase an antivirus from Connect Broadband, provided it is of good quality and affordable price.

The market was wide open with a huge demand for a service having no supply at all. The million-dollar question was from where to get an antivirus solution ? Should we manufacture it in-house, which means more delay in launching and risking the first mover or should we procure it from a third party, which means no control over the cost ? The company weighted many options and finally decided to procure it from F-secure by means of a strategic alliance. F-secure Corporation is based in Helsinki, Finland and is an anti-virus, cloud content, and computer security company. It is a well-established and distinguished brand known not only in Europe, but throughout the world for data security and antivirus solutions. The company has 20 country offices, presence in more than 100 countries throughout the globe, and is a global leader in providing software as a service through operators with over 200 operator partners worldwide, including AT&T, Vodafone, and Telefonica (F-secure, 2015).

Connect Broadband initially got excited about the product and huge demand in the market and launched it as a standalone product in the year 2011, but the response from the market was not good as they were not able to penetrate even 5% of the market. The reason behind this was that they launched the product without even changing and altering their business model and that too at a very high price, which was the very reason why people were not purchasing the product. The management of Connect Broadband quickly realized that they were doing it totally wrong and in order to stop the bleeding, they need to make this right on an immediate basis before their competitors.

Connect broadband took a bold move and became the first broadband operator in India to provide security solutions along with data services. The response for the very first time was little encouraging as they were able to penetrate around 8% of the market. Connect Broadband realized that customers these days use multiple devices like ipads, notebooks, PCs, etc., and they need protection for every device. Thus, in order to solve this problem, they launched a multi-user antivirus solution giving the customer around five keys, and at the same time, minor adjustments were made to the price also. The results were out of the blue for the company as they penetrated around 50% of the market and by the third quarter of 2014, Connect Broadband became the second largest provider of broadband services in the region of Punjab, coming only after the government owned Bharat Sanchar Nigam Limited (BSNL).

This study uses Westerlund's (2008) framework for explaining the business model and its components. The impact of this business model innovation on each of the parameters can be explained under the following headings :

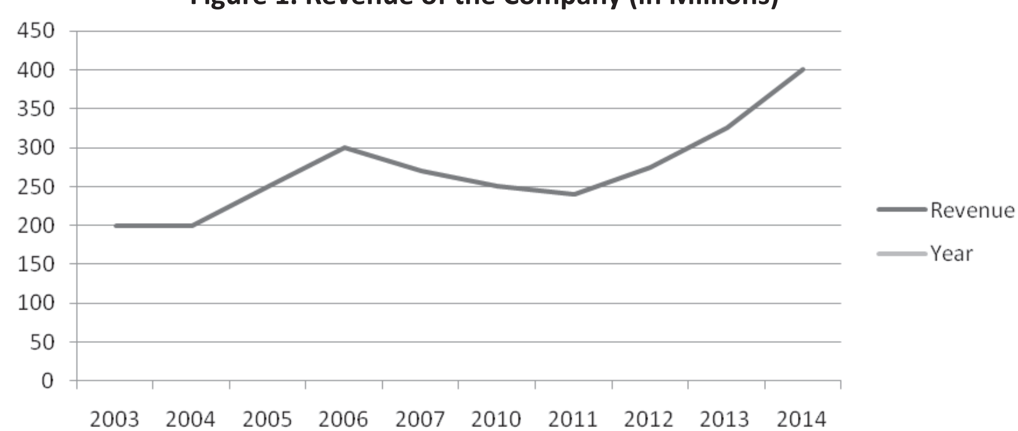
(1) Value Proposition : This business model innovation had a huge influence on the value proposition of the company. The value proposition for customers was boosted as they got not only the data services from the company, but also a multi interface antivirus protection at almost the same price. The internal value for the company was also amplified as their penetration rate reached almost 50%. This resulted in a significant increase in market share for the company. The company, in no time, increased its customer base by around 40,000- 45,000, therefore, taking it right next to Bharat Sanchar Nigam Limited (BSNL) as far as the market share was concerned.

(2) Assets and Capabilities : Connect Broadband became the first and sole company throughout the industry to combine data services with anti-virus solutions. Connect Broadband developed considerable expertise in data security solutions as a result of this business model innovation. The company also got an opportunity to improve their data services from the findings of the survey. This business model innovation also gave the element of differentiation to the services of Connect with respect to their competitors, thus giving it a competitive advantage.

(3) Economic Logic or Revenue Logic : This business model innovation had huge implications as far as the revenue structure of the company is concerned. Firstly, the decision of forming a partnership with F- secure rather than developing the antivirus in house decreased the cost for the company to a huge extent and also made it easy for the company to sell it as F-secure is a known name worldwide for antivirus solutions.

The company's revenue at the end of the year 2003 was just INR 200 million and by the end of 2006, it had surged and went up to INR 300 million. The revenue was continuously falling primarily due to the falling prices and competition from other players like Airtel and Reliance. Once the business model innovation was implemented, 40,000 - 45,000 new customers were added and the penetration level touched around 50% and as a result, the revenue of the company took a big leap upwards from 250 million INR in 2011 to around 400 million INR by the end of 2014 (Figure 1).

Figure 1. Revenue of the Company (in Millions)



Source: Connect Broadband (2015)

(4) Actors in Business Networks : One of the highlights of the findings of the survey from F-secure was that 78%

of the customers who were using broadband services did not have any kind of antivirus solution. This partnership with F-secure created a market for data security services (antivirus solutions) for the first time in the industry as the company was able to penetrate 50% of the market. This partnership also decreased the cost for the company in providing a quality antivirus solution for the customers. The company also developed a meaningful strategic alliance with F-secure, which helped in leveraging and transfering the expertise between the two companies.

This business model innovation not only became a source of value creation, but also a source of differentiation for the company, thereby proving it a competitive advantage. As far as the company side is concerned, it locked down the customer from two perspectives - first the data services and second, the antivirus, meaning to say that if a customer wants to switch after some time, he/she has to look for two different companies to satisfy his/her two different needs. This increased the switching cost for the customers, prompting them to stay with the company instead of looking for the available substitutes.

Conclusion

The study highlights that despite the huge surge of academic and non-academic literature on business models, the concept is still at a budding stage. Researchers have no common ground in explaining what a business model is and what are its various components because the bulk of studies are based on case studies, while some are theoretical, and others are based on previous literature reviews without any adequate empirical support.

The study gives conclusive insights on how imperative it is for the companies to change and align their business models before launching any new product or service. No matter how good a product or service is, if the company doesn't give it a supportive business model, it is bound to fail and the much anticipated success, which the company had anticipated out of it, cannot be achieved. Companies need to support their products and services by setting up business models which are complimentary and supportive in nature.

The study provides empirical evidence to support the claim about how business model innovation can be a source of both external and internal value creation. The internal value proposition for customers improved as customers not only got a broadband connection, but also an antivirus solution having a multi user interface. The external value for the company also increased as their penetration rate increased from less than 8% to almost 50%. Furthermore, in today's competitive world, with rapid technological developments, any innovation, no matter how novel and efficient, can be imitated in no time and that too at a lower cost, particularly from countries like China, India, and other emerging markets. The study also concluded that business model innovation can be a source of competitive advantage which the rivals will find difficult to imitate.

Managerial Implications

The study emphasizes that business model innovation is not only about technology. In fact, managers can innovate their business models without technologies by simply changing their value mechanisms. Second, the study highlights that no matter how good a product or service is, if it is not supported by a sound business model, it is bound to fail and the much-anticipated success around it cannot be achieved. Third, the study further highlights that business model innovation has a positive correlation with firm performance. Lastly, one of the other implications of this study is that business model innovation can act as a source of sustainable competitive advantage.

Limitations of the Study and Scope for Future Research

This study has some limitations, which demand attention. First, the findings derived out from this study are limited to specific company settings, therefore, the findings cannot be generalized. Second, the findings of this research are based on qualitative data derived out from the in-depth interviews and secondary data without having ample empirical support. Therefore, in the future, researchers can conduct empirical studies to study the impact of business model innovation on the firm's value creation efforts. Third, it is very likely that there can be other factors which would have helped the firm to enhance their value proposition, which have not been highlighted in this study.

Several implications for further research flow from this study. As the construct of business model innovation is still very thin, and many researchers are explaining it only with the help of case studies, an empirical study can be conducted across many industries involving many companies to establish the relationship of business model innovation with firm performance. The pace of technology is so robust and swift that firms have to analyze and streamline their business models from time to time. So, a future study can be conducted to study the influence of technological changes on business model innovation by studying the individual influence on the components like firm's value proposition, assets and capabilities, cost and revenue, and lastly, the actors in business networks.

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