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Business Model Adaptation to a New Digital Culture

Paola PISANO\textsuperscript{a*}, Marco PIRONTI\textsuperscript{a}, Alison RIEPLE\textsuperscript{b} and Ioannis CHRISTODOULOU\textsuperscript{b}

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New business models are emerging in the international business environment. The reasons for this include the changing of business’ attitude in favour of transparency and openness, to the massive increase in the use of easier and collaborative technologies: Quirky is producing new products developed by the community and manufactured using 3D printing technology, Google gives its glasses to different developers who create their own applications based on the Google glass; meanwhile Kickstarter attracts funds through crowd sourcing, paying them back with the promise of future sales of the products they fund. Employees, investors, customers and partners do not follow a predictable rule of conduct with the organization but revolve around it using different form of collaborations related to the organization’s needs.

Moreover the final product is customized in a reverse Pareto principle where the business does not focus only on the top selling products but sells lot of different ones. It’s in this scenario that businesses like Amazon discover that their achievement is being able to respond to different customers’ needs. Our work is placed in this framework in focusing on defining an emerging business model where the open collaborative way of creating, developing and manufacturing products is addressed to a large number of different market niches. Data from practice cases is used to provide support to the theoretical evidence.

**Keywords**: economic accessibility; economic feasibility; 3-D printing; manufacturing industry; open long tail model.

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Introduction

Living with global instability and uncertainty is fast becoming a way of life for organizations. While some corporations seem to respond reactively and revert back to fixed strategies, resisting change, using high control whilst basing their business on fixed and standard business models, others seem to be more open to accepting and embracing the change. These organizations are looking for the opportunities that may exist within this chaos and disorder by seeking to create business models and strategies that proactively work with the speed and scale of change. In this framework new business models are being established based on the culture of sharing new ideas, and on the ability to collect more and more collaborations in order to build the skills and resources needed to grow and develop. One example of this new category is based on internet platforms that gather, collect and sell ideas and concepts ‘posted’ by external designers and consumers, used crowdfunding resources to select the right concept, build up the idea and finally raise the funds to produce it. Finally the idea takes shape through powerful software tools such as those used in the 3-D printer manufacturing process.

These new technologies accelerate innovation in the manufacturing process whilst decreasing the potential limitations of its physical constraints. This results in a more economically attractive business model. The digital manufacture allows for the production of innovative and/or customized products and to respond to the dynamics of the competitive environment. The 3D technology expands the number of products available and thanks to digital distribution is also convenient in terms of the ability to reach the consumer. This trend is in line with a new economy that is shifting away from a focus on a relatively small number of hits and moving toward a huge number of niches. The previous trend is amplified by another tendency defined as a “true economic force” (Anderson, 2013). The market movement, a term coined by Dougherty of O’Reilly Media in 2005, that identify a web generation creates physical things rather than just pixels on screens. MIT Media Lab define the maker movement as people that are treating atoms like bits using the powerful tools of the software and information industries to revolutionize the way we make tangible objects (Anderson, 2013). While the new digital tools enable product flexibility, the internet platform model gives companies the opportunity to collaborate and decrease physical constraints like shelf space and other distribution bottlenecks. The objective of this paper is to structure a series of propositions to formulate an innovative business model emerging from a
new culture and new technology trends. Three cases will be used as illuminatory examples.

**Literature review: the two major frameworks**

In this part of the paper the authors review the most relevant and important parts of the literature on the open business model and the long tail model. From these two the open long tail model emerges.

An open system model is one in which the firm creates and captures value to take advantage of both internal and external resources. In his book “Open business model: how to thrive in the innovation landscape,” Chesbrough (2006a) analyzed the characteristics that a firm should exhibit to create an open organization. According to the author in the old model of “closed organization”, companies had to generate their own ideas that they would then develop, manufacture, market, distribute and service themselves. In contrast, the open organization model involves organizational characteristics that are suitable for managing creativity innovations, including the process of acquiring and integrating new ideas into the organization and marketing them. As ‘valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well’ (Chesbrough, 2006b), in the open organization model, firms commercialize external (as well as internal) ideas by deploying outside (as well as in-house) pathways to the market. Specifically, companies can commercialize internal (external) ideas through channels outside (inside) of their current businesses to generate value for the organization.

The vehicles for accomplishing this goal are related to the organization’s ability to create connections with external actors to absorb different types of knowledge (Ahuja, 2000), improve survival rates (Baum, & Oliver, 1991), increase innovativeness (Baum, Calabrese, & Silverman, 2000; Stuart, 2000), improve performance (Hagedoorn, & Schakenraad, 1994; Shan, Walker, & Kogut, 1994) and grow faster in general (Powell, Koput, & Smith-Doerr, 1996; Stuart, 2000).

There are plenty examples of organisations structured in an open model: InnoCentive, an Eli Lilly spin-off, manages a platform where organizations can post the technical issues that need solving on a scientists’ community board, will explain the unsolved problems by using the internal R&D of the pharmaceutical organizations; Fold.it, a revolutionary new computer game enabling everyone to contribute to important scientific research.
The long tail concept was created by Chris Anderson (2006) to describe a shift in the media business from selling a small number of “hit” item in large volumes toward selling a very large number of niche items each in relatively small quantities. Anderson (2006) believes three economic triggers gave rise to this phenomenon in the media industries:

- the democratization of tools of production: falling technology costs gave individuals access to tools that were prohibitively expensive just a few years ago. Million of passionate amateurs can now record music, produce short films, design simple software with professional results and create object with 3-D printer technology;
- the democratization of distribution: the internet has made digital content distribution a commodity and dramatically lowered inventory, communications and transactions costs opening up new markets for niche products;
- falling search costs to connect supply with demand: the real challenge of selling niche content is finding interested potential buyers. Powerful search and recommendation engines, user ratings and communities of interest have made this much easier.

For many product categories smart technology is transforming mass markets into millions of small niche markets. Although each of these niche markets may be small when all the various niches are combined the volume of business is actually greater than the traditional mass market successes. But simply offering more variety alone won’t generate greater demand. Instead, consumers need to have tools which will help them find product niches which match their tastes and interests. These tools act to simplify the finding process thanks to the filters usage. An example of an organization that uses this business model is the online video rental company Netflix or Lulu.com, a multi-sided platform serves and connects authors and readers with long Tail of user-generated niche content.

In the following section we describe the methodology and the case studies.

The case studies’ methodology

Scholars have used case studies to develop theories about topics as diverse as group processes (Edmondson, Bohmer, & Pisano, 2001), internal organizations (Galunic, & Eisenhardt, 2001; Gilbert, 2005), and strategies (Mintzberg, & Waters, 1982). Building theories from case studies is a
Business Model Adaptation to a New Digital Culture

research strategy that involves using one or more cases to create theoretical constructs, propositions and/or midrange theories from case-based, empirical evidence (Eisenhardt, 1989b). Case studies are rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources (Yin, 1994).

The literature on new forms of entrepreneurship based on creativity and design (Abecassis-Moedas, Mahmoud-Jouini, Dell’Era, Manceau, & Verganti, 2012) lays the foundation for exploratory research that builds propositions and turns them into initial statements to be used as triggers in future research. The central notion in our analysis is to use cases as the basis from which theory can be built inductively. The theory emerges by recognizing patterns of relationships in constructs and cases. The theory building process occurs via recursive cycling in the case data, emerging theory, and later extant literature (Eisenhardt, 1989a; Mintzberg, 1979; Pettigrew, 1988; Yin, 2008).

The selection of case studies was carried out in line with the criteria of extreme exemplars, as underlined by Yin (1994). We decided to select not only one case but three because while single-case studies could richly describe the existence of a phenomenon (Siggelkow, 2007), multiple-case studies would typically provide a stronger base for theory building (Yin, 1994).

As case studies can accommodate a rich variety of data sources we decided to include three semi-structured, in depth interviews with the professors of Technology Management at Stanford University, Westminster University of London and the University of Turin, to view the phenomena from different perspectives and make a more confident selection of the cases.

We ended up investigating three case studies. The first case is Quirky, a new venture firm created around the potential of 3-D printing in order to develop ideas and concepts suggested by users and designers. The second is I-Materialize, an incumbent company specialized in prototyping services that uses 3-D printing to create a digital connection platform between creative communities and users. The third is Fab-Lab, a new global network of design shops based on 3-D printing technology that works with small businesses, users and craftsmen in the production and sales of their products.
The open long tail model in practice

In this section we will briefly describe three cases: Quirky, I-Materialize-Fablab.

Quirky is a company of consumer products that turns crowd-sourced inventions into retail products with a manufacturing process based on 3-D printing technology. Since its launch in 2009, Quirky has changed the way that product development happens.

The process, which goes from an idea to a final product, involves a plethora of different types of actors. Each week different ideas are submitted by dozens of amateurs such as kitchen workers, technology experts, jewelers, etc.; then, hundreds of online community members (or “Quirks”)—mainly made of hobby inventors, students, retirees and product-design enthusiasts—weigh in on the products and vote for their favourite submissions. The two most popular ideas are sent to an in-house team of engineers and designers to research, render and prototype. Ben Kaufman (Quirky’s founder) and his team cull the results, sort out potential patent conflicts or production problems, then make the final call on the week’s winner. At every stage—design, colours, naming, logo—the community chimes in. The best suggestions are incorporated, earning secondary “influencers” a portion of future sales revenue.

Even if a product gets community approval, it will only make it to market if enough Web surfers pre-order it to cover production costs. “This is where we find out if a good idea is a good product,” Kaufman says. “The world doesn’t need more junk.” In fact, less than a third of Quirky’s products are actually produced in the end.

Thanks to the community, Quirky collects a wide range of multidisciplinary skills needed to turn an idea into something tangible. A background in design, electrical engineering, marketing, fund raising and access to retailers and manufacturers are all required skills that can be found inside the sourcing community in order to complete and sell a product. Thus, the community members that participate in many aspects of product creation, from design to naming and coming up with a tagline for a piece (“Protect Your Produce” is the Mercado slogan) will receive a small share of the profits.

The manufacturing process includes a small factory with 3-Dprinters, a laser cutter, milling machines, a spray-painting booth and other bits of equipment. This prototyping shop is central to Quirky’s business of turning other people’s ideas into products: Quirky’s product-development team makes a prototype. Users review this online and contribute towards its final
design, packaging and marketing, and help set a price for it. Quirky then looks for suitable manufacturers. The product is sold on the Quirky website and, if demand grows, by retail chains. Quirky also handles patents and standards approvals and gives a 30% share of the revenue from direct sales to the inventors and others who have helped.

By using its community as a strong base, Quirky can quickly establish if there is a market for a product and set the right price before committing itself to making it in bulk. Moreover, the speed with which Quirky turns designs into products (thanks to 3-D printing technology) is remarkable, “The amount of creativity that happens when you are standing next to a machine that’s making hundreds of thousands of things is much greater than when you are working 4,000 miles away,” says Mr Kaufman. “Your mind is spinning as to what else you can design for the machine to make.” Kaufman calls this process the “social product development.”

“We bring at least three brand new consumer products to market each week, by enabling a fluid conversation between a global community and Quirky’s expert product design staff”.

Our second case company, I.materialize is an online 3-D printing service which is based in Belgium and was formed in 1990 as a spin-off of Materialise, a product development company. I.materialize, is premised on the belief that people have an inherent need to express themselves, more than ever before, in this world where standardization has become the rule. its business focuses on allowing consumers the possibility to turn their ideas into reality. I.materialize provides designers and inventors with access to higher quality materials and greater choice. I.materialize gives designers the chance to demonstrate their talent and sell their products thanks to a worldwide distribution network, on the other the potential buyer can access a collection of different products that can be built on demand.

First, the user uploads a project file, then he/she selects material, size and quantity with the aid of a template. After that, a quote will appear and, upon receiving confirmation of the online payment, the product will be manufactured and delivered. It is also possible to sell the design projects and earn a percentage if the user doesn’t want to manufacture it .

A set of 3-D software is used- by the user -to create files up loadable to I-Materialize platform: Tinkercad, 3-D Tin, 123 autodesk and Google sketch up enables amateurs to design 3-D printable products without any previous expertise: the maker can just open the browser and start creating in a very intuitive way. I-Materialize supplies over 20 different 3-D printing materials:
users can sell their design, choose the fee to apply over the production price and manufacture the item in 5 to 15 business days.

Our third case example is not a single organisation, but a network of organisations. Fab labs (fabrication laboratory) are small-scale workshops offering (personal) digital fabrication facilities. Fab Labs have opened around the world from Italy to Spain, from California to Finland. A fab-lab is generally equipped with an array of flexible computer controlled tools that cover several different length scales and various materials, with the aim to make “almost anything”. This includes technology-enabled products generally perceived as limited to mass production. Each fab lab includes:

- A computer-controlled laser-cutter, for press-fit assembly of 3-D structures from 2D parts.
- A larger (4’x8’) numerically-controlled milling machine, for making furniture- (and house-) sized parts.
- A signcutter, to produce printing masks, flexible circuits, and antennas.
- A precision (micron resolution) milling machine to make three-dimensional moulds and surface mount circuit boards
- Programming tools for low-cost high-speed embedded processors

Fab labs allow individuals to create smart devices for themselves. One important benefit of this network of organizations is the ability to diffuse education, business and research about a world where almost anyone can make almost anything, anywhere. Fab labs share an evolving inventory of core capabilities, people and projects that can be shared – and promoting these is an explicit part of their ethos.

The San Diego Fab Lab’s pre-college Maker Learning programs for middle and high school students are held in partnership with the University of California at San Diego. These classes are based on the ‘Maker’ philosophy that San Diego’s Fab Lab has developed in response to the need to inspire students while engaging them in learning next generation technology.

The Fab Lab curriculum includes hands-on and experience-driven activities that are standards based, as well as fun and relevant: Fab Foos is an open source Table Soccer Game, opening in Amsterdam featuring 2 web cams, an audio response, an electronic counter system and vga out. The Fab Lab House comes from the Institute of Advanced Architecture of Catalonia (IAAC) is an example of eco-living house. This Madrid-based project generates three times the energy it consumes and also houses an orchard in order to produce food. The shape of this house was dictated by its purpose: a
sustainable, self-sufficient construction whose “form follows energy”. All the characteristics of its environment were carefully studied and taken advantage of, such as the wind or the solar rays.

**Data analysis and proposition development**

In this paper we collected qualitative information and data about the case companies’ business models from the companies’ websites, journal articles and special issues.

The companies analyzed originally offers services that are engaged all the phases of the innovative process, from the concept to the distribution where prototyping and materializing concepts are used to provide input and feedback on the quality and characteristics of products. Such organizations, by materializing objects, provide companies’ designers and R&D offices with the input and the insight that they need for the revision of engineering and conceptualization phases of their process, thus strengthening the relationship between “thought” and “practice” typical of creative processes (Shon, 1984).

3-D printing is among a spectrum of technologies being developed as a way to make easier and more cost efficient to create parts and products in a “personalized” way. The running of a 3-D printer starts from a software technique aimed at helping designers to create shapes of parts in three dimensions on computer screens and then transfer the instructions for making them to production machines. Such software is being used to make products on this basis in a range of industries from aerospace engines to jewellery. Laser scanning systems - made by companies such as the US’s Faro Technologies - can be used to measure the dimensions of items that need to be replicated or modified. Such items could be anything from products or parts made by competitors - in so-called “reverse engineering” - to parts of the human body. The information can then be converted into computer codes and sent to a production machine for turning into a solid object.

The new technology is changing many aspects of the manufacturing industry:

- The relationships between designers and production players. The designer will have the chance to do not only the scratch but also the prototype of the product or, better, the final product as it happens in Quirky or Fablab. This change will allow the designer to acquire a part of the value chain belonging to the manufacturing organization.
The personalization of the product as Fablab, Quirky or I materialize. A key attribute is that the technology makes it possible to produce “one-off” or highly personalised parts more easily than other manufacturing methods. This advantage will have an impact on the reduction of the relevance of inventory risk and management connected to the opportunity to print on demand the desired artifacts;

The intrinsic characteristics of 3-D printing technology enable to produce different categories of products, in limited quantities and, above all, without a technological complementary relationship among them.

In fact in all of the cases studied, there is an extremely high heterogeneity of produced and sold categories of goods. Fashion accessories, jewels, toys, shoes, musical instruments, lamps, interior design products are indistinctively found in all product portfolios managed by 3-D printing companies. In fact, the major problems connected with this technology concern the different exploitable materials. The absence of links and technological complementary products together with the absence of large production scale and volume economies – as found in several cases – lead to a wide and diverse portfolio management. The profitability logic is founded on generating profits as well as on a number of product lines with low product volumes(Kekre, & Srinivasan, 1990; Osterwalder, & Pigneur, 2010; Amit, & Zott 2001). This characteristic founded in “long tail model” introduced the first proposition:

1st proposition: the emerge of digital tools for design and manufacturing includes the 3D printer the laser cutter and the 3D scanner and CAD software gives leads / is positively correlated to a diverse variety of customized and low volume products with no technological complementarities

Based on the development of the web 2.0 technologies, the advent and the growing of a global creative class (Florida, 2003), and the evolution of a more educated and sophisticated user (Von Hippel, 2009), the crowdsourcing represents a new source to manage the innovation process leveraging on external creative sources an collaboration. As the tools of creation become digital so do the designs which are now just files that can be easily share online. Manufacturers and organizations can thereby take advantage of the web’s collaborative innovation, tapping into open source
practices and all the other social forces that have emerged on line. The old model of toiling allows space to a global movement of people working together online in a “crowd sourcing collaborative way”: crowd sourcing is used to connect labour demand and supply (cloud labour), to develop aggregate and share knowledge and information (collective knowledge), to increase audience engagement and build loyalty through online dialogue with costumers (community building) and finally to raise capital for a new projects and business by soliciting contribution from a large number of stakeholder.

Collectively a large pool of costumers will have virtually unlimited time and energy an important detail related to the long tail model where capacity need to be extended a very long way (Anderson, 2013). In fact, the increase of the human resource vote to create and make, are shifting away from a focus on a relatively small number of hit (mainstream products and markets) at the head of the demand curve and moving towards a huge number of niche in the tails (Anderson, 2006). Fablab, Quirky and I-materialize make up an example of producing different category of products as art, fashion, gadgets, games, jewelry, toys, etc... The capability of producing different products for different niches thanks to the costumers that “do the job” turned the unprofitable products and markets into profitable ones.

Platform like Quirky gathering, collecting and selling ideas and concepts that are posted by external designers and consumers.

These platforms are mainly supported by two types of makers: (i) designers who propose their own products to market them on the platform (market-oriented designers); (ii) users looking for products that are not standardized or sold in great volumes not event in an industrial scale (customization-driven users).

This new customers have affected the world of manufacturing through (?) self-production and creating a “making culture” where users with different tools and technology (among these the 3-D printing technology) are able to build up personalised products supported by new forms of craftsmanship (Friedman, 2010; Senneth, 2009; Micelli, 2011; Yair, Tomes, & Press, 1999):

We, therefore, suggest the following second proposition:

2° proposition: the new business model organization based on outside resources involved costumers in the R&D and prototype process as a key source of skill and competence
Furthermore this model not only helps to increase the number of the products sold and the niches discovered but also gives boost to the collaborative behaviours between the member of the community and the organization. For example, Quirky has 8 designers on staff for a total of 40 people in the team, and hundreds of community that interact with the platform; the ideas submitted received a more than one evaluation both from the community's member staff (both in Quirky, and I materialize). This collaboration involves the costumers in a new model where is not the organization that meet the needs of the costumers but is the costumer that in collaboration with the organization find the way to answer to the other costumer needs.

The essence of a business model defining a fresh way by which the enterprise delivers value to customers, entices customers to pay for value and converts those payments to profit do not seem to reflect any more the management’s hypothesis. The last one could be about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit but the hypothesis that come from a collaboration between makers and organization. In this collaboration the organization supports and participates to the maker process of creating developing and producing their ideas. The customer is not only involved in the creation and production but also in the profit share. These users give design advice on the product idea, the brand name, packaging and so on and will receive a percentage of the 30% profit generated by that specific product idea. Of course also the actual designer of the product will get a share of this profit once the product has made actual sales. To lower the risk, Quirky will only start to produce and sell a product in their webshop once 500 people made a pre-sale of it.

The availability of the organization tools of production (as the tool to draw and produce the object) improve the odds to produce goods and the subject who can do it reduced the time to make the product. for example, Fab-lab lends 3-D printing (and other technological devices) to those inventors who can prove their ability, or who have been educated by the Fab Lab Academy, to use these technologies properly. Quirky, I-materialize and Fablab offer digital fabrication as a service so anyone can effectively rent time on high end industrial 3D printers or computer controlling milling machines. Quirky and I materialize produce using their own 3D printer or hire them. This way to collaborate introduces the last proposition:

3° proposition: the business value proposition is defined by costumers and reach through a platform which enabling the relationship
between customers expands the potentiality and profitability of the both organization and makers.

Inventing something new isn’t enough: it has got to get to market too, ideally in economically sustainable way. This means mass production, and traditionally that’s been reserved for people who either own a factory or can afford to commission the service of one. That used to involves months or years of negotiations with different country and culture. But today the word factory is increasingly accessible on the web, open to orders of any size from anyone at any scale. Thanks to the digital production and design, factories in China are flexible enough to take order online by credit card for small as well as large quantities.

Finally, the acceleration in the production seems to be sustained by the e-commerce in the distribution.

Discussion and Conclusion

The business model that comes out, is based on different type of users becoming designers and makers of small quantity of different product selling to few costumers thanks to digital platform as Quirky and I materialize. The underpinning process, is based on the concept that a collaborative community outside the organization can develop an idea into a product ready to be sell

The new model balance the open innovation model and the long tail model: The disintegration of the conception-conceptualization-engineering-production-sales activities chain of business processes and the breakdown of integrated value chains (Porter, 1980) gave rise to companies specialized in micro-activities.

Moreover a number of “knowledge brokers” and “bridging ties” link actors who propose new knowledge in the form of new ideas and products with actors who are able to accomplish, implement and sell these ideas and products. This business model supported by the new digital technology and in general the improvement of the technology that enables company to carry far more product items in their catalogs, (because most of the item exist solely as descriptions in an electronic databases and are digitally distributed) permits to define a long tail model too: as Anderson said (2006): “the mass of niche has always existed but the cost of reaching it falls now”.

Since the first industrial revolution the power to make things at scale has belonged to those who own the means of production, which as meant big
factories, big companies and the mass-market good they were built for (Anderson, 2013). But now we can imagine an open long tail model where the web digital instruments make the diffusion of the objects of the community: the consumers finding niche products and niche products finding consumer (Anderson, 2006) and consumer create niche products for other consumers.

This could potentially change everything because will create an era of unprecedented choice for consumers and organization together that collaborate to increase their opportunities and profit(Micelli, & Rullani, 2011). All this process is creating an opportunity for an emergent business model that makes possible a bottom up transformation of the manufacturing following the democratization of its trajectory. It is still in its early days but the potential is immense because manufacturing is one of the biggest industries in the world (Anderson, 2006).

This new niche market is not replacing the market of top selling but it start to redefine the ways we design, buy and distribute product complemented the other models.

References


