SMecoMP

WP2 Project dissemination and communication

Del. 2.2.3 (Π.1.6.1 1st Article)

August 2019

FEDERATION OF INDUSTRIES OF GREECE

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Project co-funded by the European Union and National Funds of the participating countries

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Project co-funded by the European Union and National Funds of the participating countries

Title: Eco-Innovation and Business Models [1]

Emerging markets for greener products and services on the one hand and the rise of sustainability and green growth agendas in corporate management on the other are increasingly leading firms to integrate non-financial metrics into their decision-making processes, to revisit the concepts of value and profitability that drive their business models, and to reconsider the balance between the dual objectives of short-term profitability and long-term sustainability.

Looking into how business opportunities will be developed in the long-term future, the World Business Council for Sustainable Development (WBCSD) developed the Vision 2050 [2] jointly with member multinational companies (see Figure 1). The expected economic transformations represent opportunities in a broad range of business segments as the challenges of growth, urbanisation, resource scarcity and environmental change become key strategic drivers for business in the coming decades. Opportunities range from developing and maintaining low-carbon, zero-waste cities and infrastructure to improving and managing ecosystems and lifestyles. Enabling these changes is also considered to be creating opportunities for the finance and ICTs sectors.

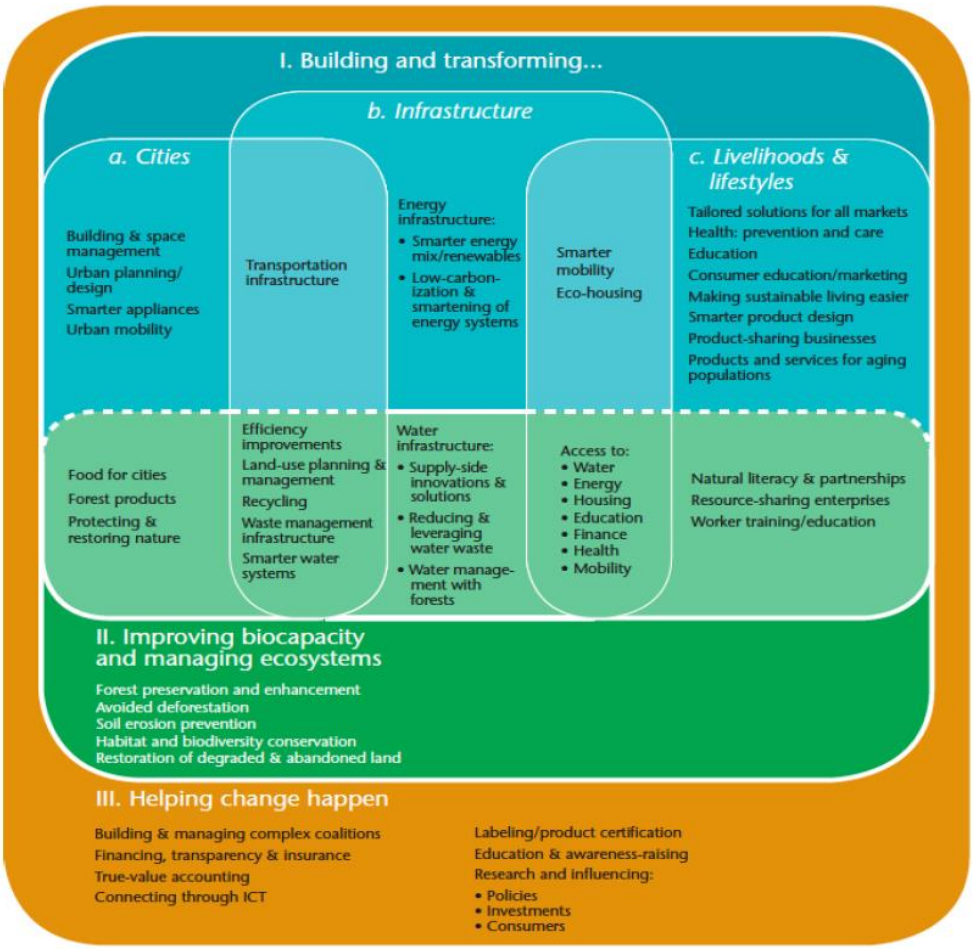


Figure 1. WBCSD's Vision 2050

Overall there are a wide range of economic opportunities for leveraging eco-innovation by placing it at the core of business strategies. To capture such future opportunities, make them into a commercial success and disseminate good practices, both industry and policy makers need to better understand the social, technical and political factors enabling or obstructing eco-innovation (see Figure 2). Among the key elements in determining the success of eco-innovation, a special focus needs to be on the business model, which brings out eco-innovation to the market and promotes its dissemination. According to Osterwalder et al. (2010) [3], "a business model describes the rationale of how an organization creates, delivers, and captures economic, social, and other forms of values". A business model is also understood as a holistic approach towards explaining how firms conduct business.

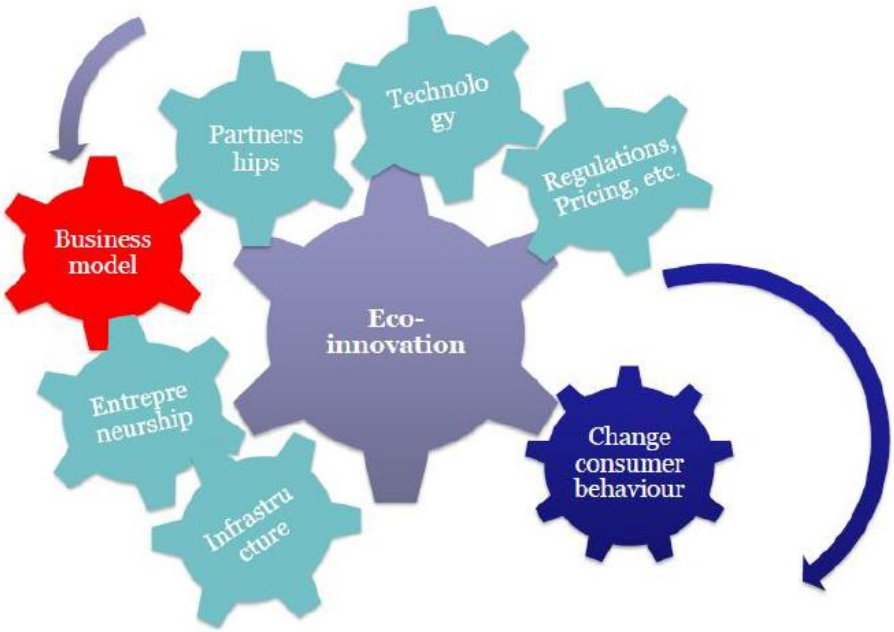


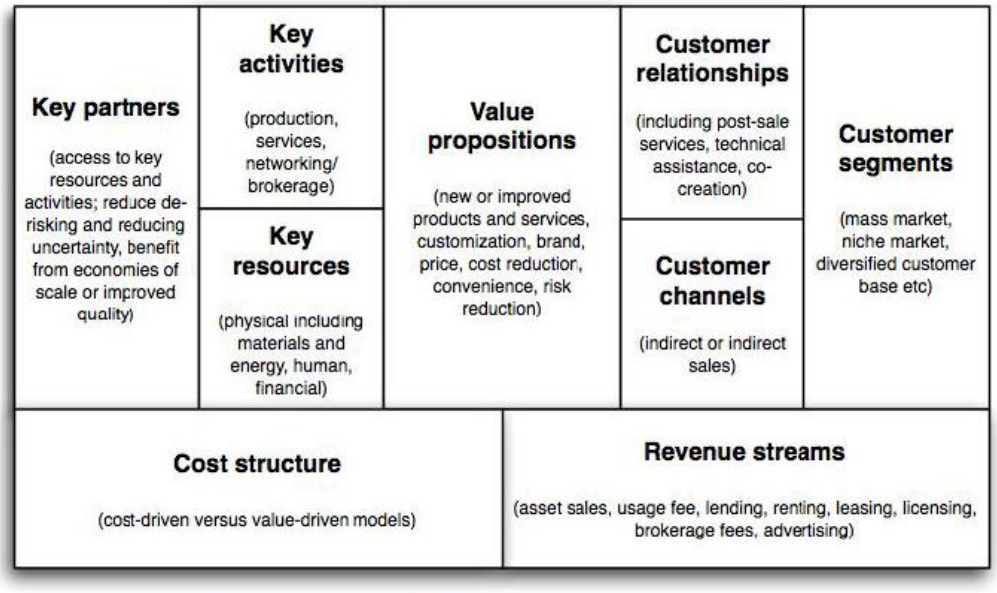
Figure 2. Various factors surrounding eco-innovation

The business model approach offers a comprehensive way to understand how value is created and distributed. Eco-innovation aims to create both economic and environmental value, and business models act as a value driver and enabler of green technologies and solutions. The focus on business models allows for a better understanding on how environmental value is captured, turned into profitable products and services, and delivers convenience and satisfaction to users. In concrete terms, the analysis of eco-innovation cases can shed light on whether, to what extent and how environmental values are reflected in firm's value propositions, customer segmentation, use of resources, collaboration patterns and the management of cost and revenue streams.

By replacing old business practices, innovative business models also allow firms to restructure their value chain and generate new types of producer-consumer relationships, and alter the consumption culture and use practices. The business model perspective is therefore particularly relevant to radical and systemic eco-innovation, including how business models and strategies can induce and help diffuse radical eco-innovation and enable systemic changes and transformation. Moreover, it is important to understand better how policy can influence and facilitate the emergence of new business models that are effective in driven eco-innovation.

The importance of business models for understanding and promoting radical and systemic eco-innovation is increasingly recognised. However, a comprehensive understanding of this concept and structured knowledge about it are still lacking. Although the majority of the eco-innovation studies still focus on incremental innovations such as green products and eco-efficiency improvements, the focus on "radical", "systemic" and "transformative" innovation concepts has recently picked up and is discussed extensively, especially in the theoretical discourse. Systemic and transformative change is also reflected in the growing number of case studies analysing innovative solutions based on new systemic thinking like "cradle to cradle" and "industrial symbiosis".

Business models combine all the core components of business strategies and operations that create and deliver value to the customers as well as to the firm. The components of business models typically include strategic decisions on customer segmentation, products and services (or value propositions) to offer, business and research partners to engage with, resources to create and channels to deliver value, as well as the underlying cost structure and revenue streams to ensure economic viability of business (see Figure 3).



Source: Osterwalder and Pigneur (2010).

Figure 3. Main components of business models

Business models, whether explicit or implicit, underlie all business plans and ventures. In order to strengthen or retain their market position, firms have to continuously rethink and reinvent their business models. Business models innovation is relevant for all firms and organisations as it is about staying in the game or being at the forefront of competition while assuring economic viability or sustainability of their operations. Radical changes in business models imply revisiting the customer base and value chain or redefining products and services. Such changes may involve high risk and include a degree of uncertainty, which make them difficult to pursue for most companies. Business models often change gradually and do not necessarily imply fundamental revisiting of value propositions. Instead, the changes could also focus on improving production processes or reconfiguring organisational structures.

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