The Next Wave of Business Models in Asia

There’s a new generation of sophisticated entrepreneurial growth companies in Asia — and they’re competing by reconfiguring business models.

Asher Devang
Christian Kruse
Andy Parker
Pontus Siren
The South Korean television drama “My Love From the Star” features a dashing, 400-year-old alien who falls in love with an actress. The plot isn’t difficult to grasp. It’s essentially a boy-meets-girl story with an interstellar twist. The global appetite for such Korean entertainment — movies, TV shows, and music videos — has exploded in recent years. For non-Korean-speaking viewers, subtitles are crucial to the experience. Enter Viki Inc., a company that hosts content for streaming and provides subtitles and closed captions. Viki both eliminates language barriers and introduces the content to an otherwise unserved audience.

Traditionally, subtitles are created by a bilingual translator hired by the producer or broadcaster. But the process is expensive and slow to scale. To overcome these challenges, Viki developed a business model leveraging a community of more than 150,000 volunteers. This model allows Viki to crowdsource subtitles for Asian content in numerous languages. Viki rewards volunteers with...
gamified badges, the ability to view videos not otherwise available in their region, early access to new shows, and an advertising-free, high-definition experience of the content.

As it happens, the market is ripe for services like Viki’s. In fact, the combination of rapidly increasing internet video adoption rates and a greater appetite for foreign content — both in Asia and globally — has become a big opportunity for Viki, which was acquired by Tokyo-based Rakuten Inc. for a reported price of $200 million in 2013.²

Two Business Model Waves
From our perspective, as a consultancy that analyzes business model innovation across the globe, Viki’s story exemplifies a larger trend playing out in Asia. We see Viki as an archetype of a new generation of companies emerging in Asia and leveraging business model innovation to drive growth in the region. But to understand this type of business model innovation in its proper context, it’s important to understand Viki’s forerunners. Our research into business model innovation in Asia uncovered two distinct, yet overlapping, waves of innovation: one decades old and still going, and one that includes Viki and is evolving now. (See “About the Research.”)

The first wave, as we call it, primarily exploited differences in labor and other input costs between developed and developing markets. By contrast, the second wave is driven primarily by business model innovation and typically leverages new technology. These companies are characterized by extensive and often radical reconfigurations of the profit formula, resources, processes, and relationships within a broader stakeholder ecosystem. They may have a sophisticated global orientation from the start; for example, in Viki’s case, the company was “born global,” beginning as a class project by graduate students who were studying in the United States but who later moved the company to Singapore.³

The First Wave
The first wave of contemporary business innovation emerged in Asia during the post-World War II era. It became a tidal wave from China following Deng Xiaoping’s 1978 “open door” policy, which changed the competitive landscape of global manufacturing. Another sea change involved opening and deregulation in India in the 1990s, which transformed the global services industry. These changes have been explored before. For example, C.K. Prahalad and Stuart L. Hart pioneered research on the opportunities at the “bottom of the pyramid” in emerging markets.⁴ John Seely Brown and John Hagel III also investigated product and process innovation practices from Asia.⁵ In a similar vein, Vijay Govindarajan and Chris Trimble’s

ABOUT THE RESEARCH
To chart the emerging wave of business model innovation in Asia, we applied a four-step process. First, we reviewed 27 lists of the most innovative global companies, compiled during the past year in publications such as Forbes, MIT Technology Review, and Fast Company. These lists emphasize measures such as patents filed, revenues, and spending on research and development. To complement the lists, we sought input from our venture capital arm, Innosight Ventures, on relevant startups. In addition, we reached out through our networks to identify other innovative companies. All told, this resulted in a list of roughly 200 companies operating in Asia.

In step two, we filtered this list based on business models. We evaluated the business models on several parameters, including the extent to which they address important and unmet customer jobs to be done; the complexity of resource and process configuration; the novelty of the profit model; the leveraging of technology; the reduction of barriers to adoption through simplicity, convenience, accessibility, and affordability; and the applicability to emerging market circumstances. We also gauged the business models by the companies’ demonstrated growth so far and by their potential, in our view, to become globally disruptive.

In step three, we synthesized these findings and categorized the companies based on their business models. In step four, we selected representative companies for both waves, and we interviewed company executives to develop further insights into their business models. An overwhelming majority of the companies we reviewed were incumbents or low-cost innovators that we categorized as first-wave innovators. However, we saw evidence of a distinct category that we subsequently labeled second-wave innovators. The success of these companies is built upon the reconfiguration of their business model components. From the second-wave companies, we selected two illustrative examples out of a handful.
work on reverse innovation⁶ argued that business model innovations can flow from developing markets to developed markets.

China, India, and other emerging economies in the region have long relied on what we refer to as first-wave innovation, which is predicated on competitive advantage derived from lower factor costs. This decades-old trend gave rise to the term “the China price.” We expect the first wave to continue rolling on, as it has for decades, given the inherent structural advantages of a lower-cost model.

However, even within first-wave companies that leverage cost differentials, we see subtle changes taking place. These changes are illustrated by BGI, one of the world’s largest genome-sequencing companies⁷ and a leading example of a sophisticated first-wave innovator. BGI’s core offering leverages a low-cost, assembly-line business model to deliver specialized research services. Founded in 1999 and headquartered in Shenzhen, China, BGI has a staff of more than 5,000 who collectively produce a quarter of the world’s genomics data.⁸ The company clones up to 500 pigs a year to use for medical research.⁹ In addition, BGI’s large DNA database can be mined to aid new drug discoveries. BGI has reported that 17 of the world’s 20 largest pharmaceutical companies have partnered with the company.

While BGI has commoditized the genome-sequencing business, it is also preparing to move upmarket by developing value-added, cloud-based bioinformatics and analytics services — thereby deepening its relationships with research institutes and pharmaceutical companies. BGI has built an impressive business on a low-cost model, and its prospects to move upmarket look promising. Yet, despite its notable success, we would argue that BGI’s future success will increasingly depend on its ability to innovate new business models and technologies — in other words, on its ability to become a second-wave innovator.

The Second Wave

We argue that, increasingly, to succeed in Asian markets, companies will need to master the second wave of innovative business models. The future of business model innovation in Asia belongs to companies like Viki and OYO Rooms, an asset-light, name-branded, digital aggregator of budget hotel rooms in India. OYO’s original model was similar to Airbnb Inc.’s, but OYO pivoted to offer something better suited to the Indian market. Using quality inspectors, OYO promises hotel room consistency and value for money, unlike numerous Indian budget hotels that provide substandard experiences to their guests. Many budget hotel rooms in India lack comfort, cleanliness, convenience, and even basic customer service. According to OYO chief operating officer Abhinav Sinha, Indian consumers are not getting the level of quality in a budget hotel that they expect. OYO is in the business of changing that.

OYO delivers on its brand promise by using a 150-point checklist to regularly inspect more than 5,000 hotels in 169 cities. Its claimed objective is standardizing what it calls “essential” features, such as air conditioning and Wi-Fi, in select rooms within the hotel. OYO typically seeks to onboard 40% of the rooms in a partner hotel onto the OYO platform. It generates revenue by charging the hoteliers a commission for each OYO-vetted room they sell. OYO’s focus is managing quality standards, providing 24/7 customer service, and building the OYO brand. Hotels also benefit from the systems and training OYO provides to manage daily operations, including reservations and customer-request management. In addition, OYO helps optimize costs in areas such as electricity, toiletries, and linen. It has entered into an agreement with the Tourism and Hospitality Sector Skill Council in India with the stated aim of training 300,000 workers for the industry before the end of 2018.¹⁰

In addition to supporting the quality improvement of their establishments, hoteliers, through
KEEPING UP WITH EMERGING MARKETS: BUSINESS MODELS

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OYO, can increase asset utilization and reduce the commissions and finder’s fees they have typically paid to online booking engines, hotel touts, and taxi drivers. OYO employs a dynamic, algorithmically determined pricing model; hoteliers can decide how much of their inventory they want to offer at that given price. The algorithm seeks to optimize profitability by balancing inventory and cost and taking market demand into account. OYO plans to become the largest supplier of budget hotel rooms in India. In the summer of 2015, OYO raised $100 million from Softbank Group Corp., Sequoia Capital, and other investors to help fund growth plans. The company also recently made its first foray into Malaysia.

Despite its rapid growth, OYO has faced challenges, including some hotels that have cut ties with the service. Sinha is aware of such challenges; he aspires to hit Six Sigma levels of quality across front- and back-end processes. Meanwhile, OYO’s value proposition and business model have inspired imitation, as evidenced by a number of new competitors (including Rocket Internet’s ZenRooms and MakeMyTrip’s Value+) that have entered the fray. Customers will ultimately flock to whoever manages to offer the most consistent and reliable experience.

Catching the Second Wave

The first wave of innovation from emerging markets in Asia has been predicated on the replication of existing business models at lower cost. As the model has evolved, it has become increasingly sophisticated, as demonstrated by BGI offering competitively priced yet highly sophisticated genomics services. Nonetheless, we believe the second wave could be even more disruptive than the first wave was. There are three reasons why, all of which reveal the ability of second-wave companies to achieve scale while remaining nimble.

The first reason is that second-wave companies fundamentally reimage various facets of the business model. The second is that second-wave companies find new, often digitally enabled, ways in which resources and processes can be leveraged, as demonstrated by OYO’s booking and quality systems. The third is that second-wave companies identify creative ways for partners, stakeholders, and customers to be involved in value creation and capture, as evidenced by Viki’s digitally connected army of volunteers.

The second wave will create new opportunities and challenges for established players. While most incumbents have chosen defensive strategies, some have embraced the second wave as an opportunity for business model innovation, assertively reimagining their processes for a new era. One of these incumbents is our client Medtronic Inc., the global medical devices and technologies company based in Dublin, Ireland. In 2010, Medtronic launched a new business model in India to radically increase access to pacemakers. Its “Healthy Heart for All” business consists of an installment-based, noncollateralized financing program for implantable pacemaker devices. This integrated program includes a care network with diagnostic outreach, health hotlines, financial counselors, heart screenings, and device implantation. As of May 2016, approximately 167,000 consumers in India had been screened and 15,000 patients had been treated. Medtronic is now bringing the model to other Asian markets and to the United States.

If you want to reimagine your own business model, the first step is challenging the fundamental assumptions about what it means to be a business, employee, partner, or customer. For example, Viki has reimagined how the company finds, compensates, retains, and motivates people who, in more traditional businesses, would be employees or contractors, and OYO has reimagined what it means to be in the hospitality industry by disintermediating branding, operations, and quality assurance.

But all of that is easier said than done, since most established companies lack experience in developing and testing new business models. One way to start
The future belongs to those who learn quickly. The companies that can test new business models typically pivot several times before finding a formula that gains traction. The companies that can test new business models with focus and discipline are the ones that are most likely to develop successful new models.

Asher Devang is an associate, Christian Kruse an associate, Andy Parker a principal, and Pontus Siren a partner in the Singapore office of the growth strategy consulting firm Innosight LLC. Comment on this article at http://sloanreview.mit.edu/58217, or contact the authors at smrfeedback@mit.edu.

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The discussion about business model innovation within an organization is to organize a workshop or brainstorming session in which participants are asked to radically reconfigure your current business model. The workshop should bring together both senior leaders in your organization and external experts from organizations such as research institutions, universities, consultancies, and startups. Several teams should be given the task of developing a new business model that could challenge your company’s existing model — using an imaginary $10 million in seed capital. Without access to your talent, resources, or existing brands, the teams will have to completely rethink some of the assumptions that underlie your business in order to organize a new business model. After compiling ideas, workshop participants should discuss which new model has the highest potential — and how the new models could be further tested and developed.

An alternative approach is to launch an internal accelerator program or innovation lab. Through this approach, the core business gains exposure to alternative ways of addressing the specific challenges the leadership team is grappling with. Singapore-based DBS Bank Ltd. has launched a “pre-accelerator” program aimed at promoting an entrepreneurial ecosystem in the region. Through a competitive selection process, the bank works with startups to gain early customer validation of their business models and provides mentorship from a diverse network of experts. The startups ultimately selected for funding get a chance to pitch to DBS executives. Likewise, New York-based MetLife Inc., one of the world’s largest life insurance companies, has launched an innovation center in Singapore called LumenLab, whose mandate is to create new businesses that are related to health, wealth, and retirement and that are targeted to Asian consumers.

Once you’ve hit upon how you could reconfigure your business model, you must test and refine your ideas in a rigorous, structured way. Testing the assumptions around a new business model is the most important capability that successful business model innovators possess. And that makes a great deal of sense, given that new business models typically pivot several times before finding a formula that gains traction. The companies that can test new business models with focus and discipline are the ones that are most likely to develop successful new models.