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Department of Business and Management, Chair of Creative Industries and Business Model Innovation

Business model innovation and the Lean startup.

An empirical investigation in the rental business:

The Case of Flashrent

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Summary

The creation of new businesses in recent years is experiencing a process of streamlining and simplification significantly, compared with the previous years. Nowadays put into practice the business idea of entrepreneurs can be much more easily using the formula of the lean startup coming from United States.

The aim of the thesis is to show the basic components in the development of an idea and innovation of business model linked to the creation of a new startup in the field of renting of technical material for dance competitions.

The first chapter illustrate the generation of the business model, and business model innovation. Starting from the first definition given by Osterwalder in 2010, that the Business Model describes the rationale of how an organization crates, delivers, and captures “value”; the business model is a simplified representation of its business logic.

Today the type of businesses models might depend on how technology is used: for example, entrepreneurs on the internet have also created entirely new models that depend entirely on existing or emergent technology.

Going deeper, it’s important to explain the three major characteristics of a considered “good” business model, which are: coherence, the proposal of competitive advantage, and the delivery of some form of economic leverage for the firm. The creation of a business model framework, which involves internal and external factors, attempt to define a rigorous approach to defining business value streams, and it represents the core aspect of any company. They involve the totally of how a company selects its customers defines and differentiates offering, define the tasks it will perform itself and those it will outsource, to capture profits.

Some example of frameworks are the V4 Business Model Framework, Business reference model and the Business model canvas, which involve the creation of nine building blocks that will constitute the basis of the firm's model of operation in the industry, through customers, partners, plans and goals. It's very important to understand how in recently years the business model canvas has evolved due to innovation. For a starting business, the business model generation will include choices for strategic decisions, which consists of: identity, core resources, target costumers, channel strategy, customer offers, and supply chain strategy. A start up's business plan essentially documents these key decisions, adding information that supports the alternatives chose and demonstrating a viable business model.

In a way to gain more competitive advantage, firms usually innovate their business model, which is a form of revolution superior to the other forms; such as product/service or process innovation. The heart of the business model innovation process is corporate experiments, conducted in the real world using prototypes, simulated user experiences and short trials; these experiments are designed to provide enough insight to allow entrepreneur to validate, or to invalidate, a crucial assumption and reduce the risk associated with it.

Many past business model innovations have come as a result of taking advantage of new technologies to make fundamental changes to one or more of the key strategic decisions.

An example was Apple, that evolved its customer offers of personal computers to music delivery devices and service that ultimately included cellular phones.

In real life an innovation at the business level is crucial for the development of the success, and it is very difficult to achieve The barriers to changing the business model are real, and tools such as maps, are helpful, but not enough; organizational processes must also change. Companies must adopt an effectual attitude toward business model experimentation; some experiments will fail, but so long as failure informs new approaches and understanding within the constraints of affordable loss, this is to be expected, even encouraged. With discovery driven planning, companies can model the uncertainties, and update their financial projections as their experiments create new data. Effectuation creates actions based on the initial results of experiments, generating new data, which may point towards previously latent opportunity.

Organizations will need to identify internal leaders for business model change, in order to manage the results of these processes and deliver a new, better business model for the company. The discretion and judgment of middle managers must be subjected to empirical data, if local objectives are to be subordinated to those of the overall organization. At the same time, the organization's culture must find ways to embrace the new model, while maintaining the effectiveness of the current business model until the new one is ready to take over completely. Only in this way can business model innovation help companies escape the 'trap' of their earlier business models, and renew growth and profits.

The heart of the business model innovation process is business experiments, conducted in the real world using prototypes, simulated user experiences and short trials; these experiments are designed to provide enough insight to allow entrepreneur to validate (or invalidate) a crucial assumption, and reduce the risk associated with it (Innovation-management.org, 2015).

They model their experimental efforts on the body of work that has become known as the "lean startup" approach Lean startup, a method for developing businesses and products first proposed by Eric Ries in 2011; The Lean startup provides a scientific approach to creating and managing startups and get desired product to customers' hands faster; the method teaches how to drive a startup, how to steer, when to turn, and when to persevere and grow a business with the maximum acceleration.

Ries claims that startups can shorten their product development cycle by adopting a combination of business-hypothesis-driven experimentation. This explains why he favours experimentation over elaborate-planning, customer feedback over intuition, and iterative design over traditional “big design up front”. Although the methodology is just few years old, its concepts (MVP, Pivoting), have quickly taken root in the startup world.

Moreover he claims that if the startups invest their time into iteratively building products or services, to meet the needs of early customers, they can reduce the market risks and sidestep the need for large amounts of initial project funding and expensive product launches and failures.

Startup are not smaller versions of large companies, they do not unfold in accordance with master plans. One of critical differences is that while existing companies execute a business model, startups look for one. This distinction is at the heart of the lean startup approach; it shapes the lean definition of a startup: a temporary organization designed to search for a repeatable and scalable business model.

The founders of leans startups don’t begin with a business plan, they begin with the search for a business model. Only after quick rounds of experimentation and feedback reveal a model that works do lean founders focus on execution.

Similar to the precepts of lean management, Ries’ lean startup philosophy seeks to eliminate wasteful practices and increase value producing practices during the product development phase so that startups can have a better chance of success without requiring large amounts of outside funding, elaborate business plans or the perfect product; he introduce the concept of: Minimum Viable Product, the product with the highest return on investment versus risk; Pivoting, the way to test the viability of different hypothesis about the product; Split testing, (also named A/B), observing differences in behaviour between the two groups of costumer, giving them different version of the same product; Build Measure Learn, and the continuous deployment.

Just like all “new concepts”, the approach has its fair share of critics also; an example of critic is Ben Horowitz, the co-founder of venture capital firm Andreessen. He claims that the lean startup approach is not science, thanks to the “hypothesis approach”, that’s not properly scientific.

Before talking about the Flashrent startup, about the renting of technical wear for dance; it’s important to understand the industry, the customers and the competitors of the fashion-rental business.

The Fashion industry, despite the current global economic downturn, continuous to grow at a healthy rate and this, coupled with the absence of switching costs for consumers and great product differentiation, means that rivalry within the industry is no more than moderate. The apparel industry is of great importance to the economy in terms of trade, employment, investment and revenue all over the world. To better understand the dynamic around this industry, the SWOT analysis it's a tool that gives you a way to see how your start-up fashion brand stands up against the competition. In a larger sense, SWOT will help you understand the fashion marketplace and your brand's place within it. SWOT stands for "Strengths," "Weaknesses," "Opportunities" and "Threats." This particular industry has short product life cycles, vast product differentiation and is characterise by great pace of demand change coupled with rather long and inflexible supply processes; it gains about $2.560 trillion in revenue a years. The fashion industry is huge and continuous to grow rapidly, according to current growth projections, it will double in the next 10 years, generating up to $5 trillion annually.

For how it concerns the e-commerce industry, there is a strong technological evolution in devices in the last 10 years, so that smartphones and tablets have themselves become instruments of payment. Consumers now are showing confidence in this type of device, even to make their purchases, up to the point that in one year there was an increase of 165% of e-commerce transactions.

Clothing is the category most purchased online, in Italy and in all the other countries surveyed: they are 4.2 million in Italy, namely 16% of the total regular internet users, the online shopper of products of fashion, which last year spent online for their fashion purchases on average €500. In particular there is a strong propensity of *Italians* to the use of e-commerce portals multibrand specialized for their fashion purchases, as well as the site of the manufacturer. The same predilection it is also found in Spain and Great Britain. In France, it is appreciated the purchase by private sales sites.

In Italy the online shoppers of fashion products, rely more often on the private sales sites (in 23% of cases) than the online shopper in general (14%); at European level the channel is used more often in France and Spain, very little in Germany.

The rental business is huge and well known in the World Wide Web; so it's important to divide the competitors into direct and indirect.

An example of indirect is the rental site "Rent the Runaway"; in this context FR should be diversify on three points: first of all, the supply of clothing, only dancing dress for competition and for training, RTR instead deal with different kind of apparel, for every occasion (wedding include); second the online renting together with the selling on demand of the dresses; and last but not least the Catchment area: FR wants to be a reality participating throughout the Italian area, it wants to become a reference supplier for the Italian's dancers.

The direct competitors instead, are mainly from United States, and are sites for dance-wear rental that shipping only in the nation, which are:

- Crystal's creation;
- Rhythmic Rentals;
- Ballroom Dress Rental;
- Encore Ballroom Couture;
- DAZZLE, Dance Dress Rental.

Flashrent is a fashion startup with a technological soul, powered by a transformative business model, proprietary technology, a unique reverse-logistics operation, it's in a position to challenge old systems and rewrite new rules for the rental business. It's the first online dance-rent-a-dress platform in the Italian peninsula; FR allows dancers to rent the perfect dancing dress for every competition. The idea was born since there wasn't any kind of online renting for the dancing dress, and for people who can't afford (or simply they didn't want) to spend a heavy amount of money for a dress they'd only wear for few competitions.

Flashrent exists because a beautiful product should not only be experienced by owning it.

The site will provide the rental of dancing dresses but not only, there is also a particular space for the selling or leasing of accessories and training outfit.

FR stands as channel between the customer and the fashion house, in a way to fulfil the customer's dream of being always original and unique on the dance floor; it offers two kind of leasing: the basic and the premium, the last one foresee a monthly fee independently from the renting, but provides many privileges.

Applying the business model canvas, and filling up all the 9 building blocks that characterized the model, it's possible to make a forecast.

Probably the first year would be critical; the idea is innovative and may even be revolutionary, but dancer must adhere. Following the plan suggested, the company has a good shot at developing brand awareness. However, it is essential that the company take advantage of channels to create valuable relationships with its consumers because it is the only way to guarantee survival and success.

It will be an intense 12 months, the small team will feel overworked but it is crucial to implement the plan with motivation and follow through with monthly check-ups to certify that it is well implemented.

This group believes that due to the crisis, the company has a wide audience of dancer that will be curious to try out the service. However, the adaption process from buying to renting, a cultural factor, will be length and may leave the company tight for cash. It will take some time for the company to break-even and it may be forced to expand even while in the red.

Two related problems are the impossibility of trying on dresses prior to renting and the successive fact that a customer cannot return a dress and get her money back. The only possibility offered to an unhappy customer is the return within 14 hours for a 25€ fee. This is understandable as an attempt to curb customers using dresses and not paying for them. It is suggested that showrooms be set-up in Milan and Rome, where dancer can go and try on dresses without the risk, the choice of Milan it’s done overall for the renowned importance that the city has for the fashion industry and for a future enlargement of the company; Rome for a logistic reason. Another suggestion would be to refund returns on the same postage day the garment was received by the customer.

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