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Note on Business Model Innovation: It Can Be as Critical to New-Business Success as Technology Innovation

An Unexpected Starting Point for a Hot Business Concept

Let's go back in history a bit, since, every once in a while, we find a story that uniquely illustrates a powerful point. In the late 1980s, a pair of young and inexperienced Boston entrepreneurs, who happened to be married to each other, launched a business that conventional wisdom considered doomed to a quick and painful death. Linda Mason and Roger Brown started the daycare enterprise Bright Horizons Family Solutions, Inc. (Nasdaq: BFAM), and along the way built a company with over \$600 million in annual revenue and a market cap of over \$1 billion. (Note: In May 2008, BFAM merged with an affiliate of Bain Capital Partners, LLC.)

As Brown explained in his fascinating *Harvard Business Review* article, "How We Built a Strong Company in a Weak Industry" (February 2001), smart business folks, including venture investors, thought the original Bright Horizons business concept was unappealing for the most obvious of reasons: pre-school childcare, though laudable and needed, was an absolutely terrible way to make money. The margins were razor-thin. The most basic of business practices were often missing. Daycare was brutally labor-intensive – the nearly all-female caregiver workforce was hard to attract and turned over constantly due to the poor wages and benefits – making it difficult to operate even a single-location center, so forget a multi-location chain. The industry was so fragmented that branding made little difference; marketing was nearly entirely by word-of-mouth (the mom-to-mom network, if you will), and you saw repeat customers only when a center's young charges had younger siblings. Those few chains that did exist at the time were applying commodity-service, fast-food-franchise thinking to the very different challenge of taking care of our precious individual little ones. The business was not only heavily regulated, but worse yet was ruled by a maddening patchwork of state-by-state or even municipal-level licensing regulations. And, to top it all off, there was no sustainable technological product or service advantage. (Can you imagine getting a patent issued for your unique method of diaper-changing or strained-pea-feeding?)

Turning Problems into Opportunities

So think about it: Having read the last paragraph, would *you* have been eager to start a multi-location daycare business (or invest in one) back then?



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This note was prepared by James D. Price, Adjunct Lecturer of Entrepreneurial Studies of the Ross School of Business at The University of Michigan. ©2009, James D. Price.