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## A CASE STUDY OF BUSINESS MODEL INNOVATION: BUILDING VALUE THROUGH GAMIFICATION

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### Abstract

Innovation is a complex activity that can be implemented at different levels, such as product, process, marketing or business innovation. Since the outcome is generally positive for all stakeholders, organizations globally research this field and one innovative strategy that gained popularity in recent years is gamification. Gamification refers to the use of gaming techniques in non-gaming contexts. From education to economy, health and wellness, or public defense, this tool has the potential to captivate users and guide behaviors towards achieving a goal. From a user perspective, it can bring intrinsic benefits such as psychological well-being, in addition to the rewards defined in the system, whereas at organizational level, activity is improved, businesses can enhance their income, retain clients and consolidate their position on the market. The purpose of this paper is to analyze a business operating in online retail that improved its recent results through implementing gamification as an innovative strategy and to propose a series of guidelines on how to implement gamification as an innovative business model.

### Keywords

business model, innovation, IT, gamification

### JEL Classification

O30, M10

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### Introduction

In the context of a growing e-commerce environment, companies are looking for innovative solutions to increase the loyalty of their clients, improve revenue and gain a higher market share. Even more so today, when, due to global health risks, companies need to adapt and the struggle to remain profitable is harder. Consumers today are familiar with innovative IT

products, both hardware and software; they are used to accessing the internet daily and most understand the gaming elements, such as a hierarchy system based on levels and rewards, as well as the social component, developed with the growing popularity of social networks, thus making gamification a popular tool for organizational innovation.

This method implies using strategies particular to the gaming industry in a context not related to gaming, in electronic commerce, in the analyzed case, with the purpose to interact or change the habits of users.

This paper aims to present an analysis of how the adoption of innovative techniques specific to gamification can impact business performance. The method of research chosen is a case study of a top retail site in e-commerce, specialized in selling clothing goods. Particular emphasis is placed on the implications of the gamifications techniques applied and conclusions are drawn regarding guidelines on building an innovative business model based on gamification.

### **1. Innovation through gamification**

In this ever changing economic and social environment, innovation should be an essential part of the culture of an organization. The process of innovation can refer to different stages of novelty, such as new to the firm, new to the market, new to the world (Kim, Tae-Yong and Byung-Yoon, 2020) thus on an organizational level, innovation can contribute to the development of a new product, process, to marketing innovation or to a model of organizational innovation.

Innovation can take place internally within a company or from outer sources, such as researching market leaders in the field, following the newest IT and scholastic publishing, as well as monitoring input from customers. Analyzing results of the innovation process should be possible through observing the development of the organization: from launching new products, to entering new markets, opening new offices, or enhancing income and so on (Bowman, Nikou and De Reuver, 2019).

The increased access to the internet on a global level as well as the enhanced use of mobile technology by consumers worldwide has determined organizations to rethink their business models and move more and more towards digital tools. The cutting edge technology is almost a basic need for the modern consumer and guaranteeing consumer loyalty is a test for businesses everywhere in this online environment, where competition is more and more intense. A progressive concept in business model innovation is gamification: the utilization of game components in a non-game setting so as to motivate users and guide behavioural changes in members. Drawing its inspiration from online gaming mechanics, the gamification model has become increasingly popular in recent years, being used in fields such as training and education, health or economy (Procopie et al., 2015). This business model is requiring knowledge of psychology, casual gaming mechanics, online marketing and information technology, along with establishing a coherent plan of goals, motivations and rewards.

Gamification has been found to have a significant and positive influence on online consumer decisions, its main factor that is driving it being the existence of a reward system (either symbolic, in the form of products, or real, in the form of money), whilst other forms of symbolic recognition like badges and leaderboards are facilitating the immersion of the consumers in the brands' universe through its online communities (Tobon, 2020).

The rise in popularity of gamification is also linked to the increased access to social networks, Facebook as the most renowned, as well as mobile technology, developers creating applications for different existing application stores such as iTunes, Google Play. In these online environments, users can share their progress within the gamification system with their online social group, thus satisfying the need of group recognition and also promoting the system to the rest of the social network (Smajlovic, Umihanic and Turulja, 2019).

Gamification is considered to be built on three concepts: mechanics, dynamics and emotions (Robson et al., 2014); mechanics referring to how the game is built: the goal, the rules, the game sequences, dynamics is referring to how the results of human interaction during the use of game mechanics happen, and emotions relate to what players feel while playing (Robson et al., 2014).

Gamification proves to be a great improvement to traditional loyalty programs, as Hwang and Choi (2020) showed that gamified loyalty programs result in significantly greater consumer loyalty to loyalty programs. And, again, it was the rewards that were more experiential and effective when gamification was used that made those loyalty programs more efficient and appealing.

Some reports, such as the New York Stock Market Nasdaq report, estimate that innovation through gamification trend is upward and more and more organizations will apply it in the following years, as the market was estimated at 5.5 billion in 2018 and the compound annual growth rate is estimated to be around 30% per year until 2024, according to the same report. Given that one aspect is common to all gamified activities: they aim towards achieving a goal by using a set of challenges and a reward system, some concerns did arise regarding its efficiency and ethics.

However, for those organizations that want to adapt to the requirements of the global market, the need to innovate through gamification could be a trend to adopt in the coming years.

## **2. Case study: online retail site Shopbop.com**

An essential purpose for a gamification model is to generate motivation for its users. In the increased competition environment that companies operate nowadays, as well as in the online space where users can be distracted by various stimuli, the gamification model must be catchy in order to build emotional attachment and motivate the individual to remain inside and "play". This "playful" concept has proven to be efficient in improving consumer retention as well as consolidating sales also in the online clothing retail domain. The online clothing and accessories dealer shopbop.com started its activity in 1999 as a physical store, later closed, and is now part of Amazon.com, as of 2006, catering for the fashion needs of consumers in over 100 countries, according to the official site. Since 2017, the revenue of the organization has increased from one year to another, according to eCommerce Revenue Analytics (2020) and one of the innovative marketing tools implemented by the business is the gamification model.

The user experience on the site contains certain specific gamification elements, such as: users can choose an avatar to represent them, they can share their experience with their social group through a social network, like Facebook. There is also a system of achievements related to the number of purchases and the amount of money spent. Each user receives points depending on his activity, he can advance through levels, named after precious metals, from 'Bronze', continuing with 'Silver', 'Gold' to 'Platinum' as the top level. Consumers gain badges for recognition and are awarded benefits such as surprise discounts, first-to-know sale access, and birthday treats, according to the site information. Furthermore, one can check his information at any time, track his progress and see how much more he has until the next level and compare it to his friends', thus satisfying also intrinsic needs of belonging to a group or recognition. The implementation of this innovative marketing tool has led to an increase in revenue for the fashion retailer during the past years, reaching \$187 yearly revenue in 2019, according to e-commerce revenue analytics.

## **3. Defining essential elements of a gamification business model**

In the case of the analyzed site, the main customer and user of the gamification system can be characterized as a woman, Generation Y or younger that has a high level of education, is computer-savvy and has a medium towards high income. Hence, the need for a higher level

of service, for receiving improved value for purchases and the positive view towards the characteristics of the gamification system, as an innovative marketing tool.

Based on the gaming techniques identified in the shopbop.com business model analyzed, this study proposes a model for the basic elements in the user experience of gamification in an e-commerce organization. Building a game-specific architecture can be applied to any online organization, from tourism to goods, health or wellbeing services as long as the model includes game-specific elements and features of the gamification concept, such as: benefits, hierarchy, effort, rewards, leaderboard, social network, as seen in Figure 1. These can be further split into game related elements such as avatar, challenges, points, badges, etc.



**Fig. no. 1 Elements of a gamification system**

*Source: own representation*

Defining the benefit system is another milestone that should be addressed in accordance to the business objectives of the organizations. These can be extra rewards related to the internal environment, participation in events, products or services, discounts or vouchers from partners, etc. The marketing strategy should be adapted to the overall company strategy and the domain of activity, as in the case of shopbop.com, the main concept was that of rarity, hence the names of precious metals attributed to the levels. As communication is an important part of the activity, it can be done through useful online tools such as social media, product placement through influencers, e-mails and mobile techniques, etc.

Analyzing the effects the gamification model has on consumer behavior can be done through qualitative research using questionnaires to determine the efficiency of the project, how to further adapt and to improve it.

For our paper we use the Baden-Fuller and Haefliger (2013) definition of a business model as “a system that solves the problem of identifying who is (or are) the customer(s), engaging with their needs, delivering satisfaction, and monetizing the value”. By analyzing these before mentioned elements of gamification and the problems that a business model solves one can observe gamification delivers on the following levels: the social network helps identifying the customer, benefits fulfill the role of engaging with the customer’s needs, hierarchy, effort,

rewards and leaderboard are delivering satisfaction, while the rewards received by the customers are methods to monetize the value.

Nowadays, achieving business performance is increasingly difficult, though the development of the Internet has brought a number of advantages, but has also raised challenges to the field of business making innovative tools such as gamification a real engine for growth.

### **Conclusions**

Global social trends show an increase in use of the internet as well as a higher number of consumers with access to digital technology. Mobile provider application stores offer a multitude of IT applications and users are increasingly used to the mechanics and effort versus reward system of online gaming. In this context, businesses from retail to services focus on building their online marketing strategy, to gain a bigger share of the market and increase their results and are searching for innovative ways to attract clients. Gamification is one solution, inspired from the mechanics of online gaming. Used by organizations in diverse fields, from education, to health, or commerce, there is evidence that this innovative strategy can guide behaviours, and offer intrinsic and extrinsic motivations to users. Online retail site shopbop.com has successfully implemented gamification as an innovative marketing model and has improved its efficiency and results. Analyzing the site's strategy, a few conclusions were drawn regarding the main elements of a gamification user interface. The model should present a system of effort and rewards built according to the organization's marketing strategy. These can be real rewards or emotional rewards related to intrinsic motivations. Regardless of the choice, the consumer needs to be informed about his position in the hierarchy and to have available a social online group to communicate his progress and share information. This innovative strategy caters to the human need of leisure and fun while bringing positive results to all stakeholders, especially to organizations implementing it.

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