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COMPONENTS AND BENEFITS OF BUSINESS MODEL INNOVATION SUPPORTED BY EMPIRICAL EVIDENCE FROM THE IT INDUSTRY IN NORTH MACEDONIA

Abstract: We live in a rapidly changing environment where every company faces challenges to keep up with the changes. In recent years, there has been a significant shift in the way businesses operate, driven by advances in technology, changes in consumer behavior, and global economic trends. As a result, traditional business models have become increasingly outdated and companies that do not adjust to changing market conditions run the risk of losing their market position. Business model innovation (BMI) is the primary focus of managers on the path to achieving a company's competitive advantage, growth, and increased revenue. This scientific paper emphasizes the importance of BMI as a critical driver of progress and competitiveness for companies in the 21st century.

The primary objective of the paper is to identify the components of BMI and explore its potential benefits for companies. The study contributes to the body of knowledge on the topic by exploring the potential benefits of BMI in general with an accent on Macedonian IT companies and offering insights into how companies in emerging markets can leverage BMI to compete successfully in the global marketplace. By examining the experiences of these companies, the paper highlights the advantages and opportunities associated with the implementation of BMI.

Keywords: Business Model Innovation, Business Model, Innovation Management

JEL Classification: O10, O21, M15

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Introduction:

Companies have been in existence for centuries, yet every decade introduces new changes in the corporate and business world. The 20th century, in particular, witnessed significant changes in business models and their evolution, especially in the last 50 years. The need for the development of business model innovation (BMI) arose progressively due to the ever-increasing competition, the need for marketing, the evolving demands of consumers, and the emergence of new forces that put pressure on companies.¹

The traditional business models, as well as innovative approaches, are facing changes in order to keep up with current business trends and developments. These dramatic changes are forcing company managers to reassess their core goals and focus on creating new ones, redefine their markets, restructure their internal forms of management, and change their business models. The most successful companies of the XXI century have already accepted the fact that innovation is the main driver of the company's progress and that the ability to continuously innovate has become a major source of competitive advantage.²

BMI has a comprehensive use and therefore it is valuable to be considered from the perspective of each industry and category. Business models don't apply only to companies but also to non-governmental organizations, schools, social enterprises, and government departments.³

This research highlights the critical role of business model innovation in the company's success. The working hypothesis of this paper is that companies that embrace innovation and continuously develop their business models are better positioned to achieve long-term success and competitive advantage and thrive in the dynamic business environment today.

The subject of this research is to examine the importance of BMI use for companies and the advantages it provides. The primary objective of this paper is to identify the components of business model innovation and explore its potential benefits for companies, with a particular focus on Macedonian IT

¹ Hague, Paul, *The Business Models Handbook, Templates, Theory and Case Studies*, Kogan Page Limited, UK, 2019, crp. 1-2

² Kuratko, F. Donald, Goldsby, G. Michael, Hornsby, S. Jeffrey, *Corporate Innovation, Disruptive thinking in Organizations*, Routledge Taylor & Francis Group, New York and London, 2019, crp.3

³ Brem, Alexander, Viardot, Eric, *Revolution of Innovation Management, V2, Internationalization and Business Models*, Palgrave Macmillan, 2017, p.108

companies which is particularly relevant as it offers insights into how firms in emerging markets can leverage BMI to gain a competitive edge in the global marketplace. By examining the experiences of these companies, this study provides valuable insights into the advantages and opportunities associated with the implementation of BMI.

1. COMPONENTS OF BUSINESS MODEL INNOVATION

Business model innovation is a powerful tool that can increase market value by attracting new customers or empowering existing ones to buy more. By definition BMI “does not require the discovery of new products or services, or new technology, but rather the redefinition of existing products and services and how these are used to create value.”⁴ From that point, BMI often refers to internal changes that are invisible to the competitors and is very difficult to be copied. That is the advantage that comes with BMI that the company can use to build its competitive advantage.⁵

Each BMI has four main components and value proposition is one of the key components. A change to any one of the four affects all the others and the system as a whole. BMI requires modifying at least two of them. The Business Model Navigator graphically demonstrates four elements in a magic triangle, using four simple questions that help managers easily design the company’s innovative business model. Those questions begin with the following question words: WHO, WHAT, HOW, and WHY. Using these four question words, the company should define WHO are the target customers, WHAT is offered to them, HOW the product/service is produced and HOW the value proposition is created, and WHY all these components generate profit for the company. Specifically, WHO and WHAT refer to the external aspects, while HOW and WHY refer to the internal aspects related to the company’s business model.⁶

The customer component. The studies related to the customer component show that significant innovations are not only developed using internal

⁴ Markides, C., Disruptive innovation: in need of a better theory. *Journal of Product Innovation Management*, 2006, 23, 19–25; (2004) *Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate, New Markets*, Jossey Bass, San Francisco
⁵ Tidd, Joe, Bessant, John, *Managing Innovation, Integrating Technological, Market and Organizational Change*, 4th Edition, John Wiley and Sons Ltd, England, 2009, p. 207

⁵ Girota Karan, Netessine Serguei, *Four Paths to Business Model Innovation*, Harvard Business Review, Jul-aug 2014

⁶ Grassmann, Oliver, Frankenberger, Karolin, Csik, Michaela, *The Business Model Navigator, 55 Models That Will Revolutionize Your Business*, Pearson, India, 2015, p. 6-10

company factors, although there is a trend of close cooperation with external factors affecting business models like customers, partners, and competitors. It should be kept in mind that the focus should remain not only on current customers but also on potential and future customers.⁷

The value proposition component. A value proposition outlines what a company does and how it solves customer problems in a unique way. The value proposition focuses on the customers and how the product or service meets their needs, requirements, or desires. There are external factors that help to create the value proposition component. This group of external factors represents the BMI ecosystem and includes suppliers, distributors, and other service providers, as well as factors with indirect influence, such as researchers and consultants.⁸

The value chain component - resources and processes. Resources like people, technology, products, equipment, space, channels owned by the company, as well as the brand itself, are considered key resources. Another part of this component are processes. Production, development, recruitment and training of employees, planning, budgeting, and sales, as well as the approach and implementation of rules, regulations, and norms, are considered key processes. The company's success relies on the coordination and integration of all resources and processes with the same goal of creating an innovative value proposition.⁹

The profit component. The profit mechanism makes clear what makes a business model financially viable by addressing elements like cost structures and revenue-generating methods. BMI requires identifying new ways to generate revenue. This may involve identifying new customer segments, developing new products or services, or finding alternative ways to monetize existing offerings. The company should provide a quality product or service at a reasonable price that will satisfy the customer's needs and bring profit to the company.¹⁰

Designing a business model innovation involves four key components that are interdependent and work together to create a desired value proposition for customers. To achieve success, managers must have the ability to adapt,

⁷ Ibid 33-37

⁸ Ibid 39-40

⁹ Johnson, Mark W., Christensen, Clayton M., Kagermann, Henning, Reinventing the Business Model, Harvard Business Review Press, Boston, Massachusetts, 2019

¹⁰ Grassmann, Oliver, Frankenberger, Karolin, Csik, Michaela, The Business Model Navigator, 55 Models That Will Revolutionize Your Business, Pearson, India, 2015, p. 6

combine, and think creatively in order to effectively develop a unique and effective value proposition. By doing so, they can create a competitive advantage that distinguishes their business from others in the market.

2. BENEFITS OF BUSINESS MODEL INNOVATION

Several research studies have analyzed the transformation of the traditional innovative approach, which typically focuses on product and process innovation, into the development of BMI as a new approach. These studies have confirmed the benefits that BMI offers, indicating that it has the potential to significantly enhance a company's overall competitiveness and long-term success. According to the study, during the period of five years, the companies gained 6% more profit than those that did not implement BMI. Other research shows that BMI is the main success driver that can facilitate sustainable innovations. More than 60% of the company's profit growth resulted from BMI use. Therefore, the trend that the competitive market enforces is based on the BMI and the ability of companies to implement it. Only those companies that use the model will differentiate themselves from the competition.¹¹

A successful business model innovation can result in increased revenue and profitability for a company. By finding new ways to generate revenue, reduce costs, and increase efficiency, companies can increase their profitability and make new investments. The power of BMI is evident and confirmed, especially in retail as demonstrated by the following:

“BMI has reshaped entire industries, redistributing billions of dollars of value. In retail, discounters that, like Target, Walmart, and Amazon, entered the market with innovative business models accounted for 93 percent of the total industry market capitalization by 2016, having seized more than \$300 billion of value from their old-line competitors”.

Another research from the same author shows that more than half of the 39 companies that used BMI and that were funded after 1984 are part of the Fortune 500 list of companies in the period between 2006 and 2016.¹² Both studies indicate that the design of BMI ensures a company's profit increase.

By embracing BMI, companies can develop a culture of agility and adaptability. This strategic flexibility can help them respond more quickly to

¹¹ Grassmann, Oliver, Frankenberger, Karolin, Csik, Michaela, *The Business Model Navigator, 55 Models That Will Revolutionize Your Business*, Pearson, India, 2015, p.4-6

¹² Johnson, W.Mark, *Reinvent Your Business Model, How to Seize the White Space for Transformative Growth*, Harvard Business Review Press, Boston, Massachusetts, 2018, p. 20

changes in the market and stay ahead of competitors. Business model innovators indicate strategic flexibility as one of the major benefits of BMI.¹³ Other studies show that as a result of BMI and strategic flexibility, companies with a better absorptive capacity or ability to use external knowledge are superior in the sense of sustainable competitive advantage. In this context, companies are focusing on the acquisition and assimilation of external knowledge as a number one priority, apart from knowledge transformation and exploitation, in order to gain a competitive advantage. Logically, redesign, recombination, adaptation, and integration of knowledge in the company's business model are crucial elements for the creation of BMI and strategic flexibility.¹⁴

According to studies, a well-executed BMI can create a significant competitive advantage for a company. By introducing new products or services, changing the pricing structure, or redefining target customers, a company can differentiate itself from competitors and attract new customers. Managers' awareness of the importance of IBM began to grow after 2000. In fact, the research conducted by the Economist Intelligence Unit in 2005 shows that out of 4000 surveyed managers, 54% favor the implementation of a new business model rather than the development of a new product or service as a method of achieving competitive advantage.¹⁵

Business model innovation can help companies enter new markets, expand their end users, and grow their businesses. By exploring new sources of revenue and business models, companies can create opportunities for growth and expansion. Another survey shows that from 1500 companies, 1400 had implemented BMI in some part of their growth strategy process.¹⁶

It is important to mention the survey result that 37% of European SMEs are innovating their BM and use BMI as a tool for improvement. The survey shows that BMI affects almost all components of the company's business mod-

¹³ Pohle, G., Chapman, M., IBM's global CEO report 2006: business model innovation matters. *Strategy & Leadership*, 2006, p. 34–40.

¹⁴ Miroschnychenko, Ivan, Strobl, Andreas, Matzler, Kurt, De Massis, Alfredo, Absorptive capacity, strategic flexibility, and business model innovation: Empirical evidence from Italian SMEs, Elsevier, *Journal of Business Research*, Volume 130, June 2021, P. 10-11, 670-682

¹⁵ Amit, Raphael, Zott, Christoph, *Creating Value Through Business Model Innovation*, MIT Sloan Magazine <https://sloanreview.mit.edu/>, Apr, 2012

¹⁶ Lindgardt, Zhenya, Ayers Margaret, *Driving Growth with Business Model Innovation*, BCG [Boston Consulting Group] Perspectives, October 8, 2014, bcgperspectives.com/content/articles/growth_innovation_driving_growth_business_model_innovation in Johnson, W.Mark, *Reinvent Your Business Model, How to Seize the White Space for Transformative Growth*, Harvard Business Review Press, Boston, Massachusetts, 2018, p. 20

el and depends on the strategic aim of the companies if they are profit-seekers, growth-oriented, or start-ups.¹⁷

Only a few studies have been conducted on the advantages of BMI for organizational performance; this may be because it is challenging to establish a relationship between BMI and performance.¹⁸ In conclusion, business model innovation offers numerous benefits to companies including profit growth, increased revenue, competitive advantage, strategy flexibility, sustainable benefits, company growth, and expansion.

3. USE OF BMI BY IT COMPANIES IN NORTH MACEDONIA

The following data presents the results of a survey conducted on the implementation of BMI in the IT industry in North Macedonia.¹⁹ In addition, this paper presents selected survey results relevant to the topic, such as the usage of BMI in North Macedonia, its advantages for companies, new benefits, HR changes, types of BMI used and the benefits from BMI.

The primary objective of the survey is to analyze and assess the extent to which innovative business models are being implemented in N. Macedonia and the level of awareness among companies regarding the significance of business model innovation and the potential benefits they can derive from it. The survey was conducted online by distributing a questionnaire to respondents. The questionnaire was divided into two groups of questions. The first group consisted of general questions that aimed to gather the main characteristics of the companies. The second group, focused on determining the relationship between the implementation of BMI and its implications. In total, 42 IT companies answered the questionnaire.

In terms of the diversity of survey participants, the majority of companies (78.5%) have been operating in their respective markets for over six years, from which a significant proportion of 45.2% has been operating in the market for over a decade. Additionally, 88% of respondents indicated that they operate

¹⁷ Heikkila, Marikka, Bouwman, Harry, Business Model Innovation in European SMEs – Descriptive analysis of quantitative survey and case survey data, Bled eConference Digital Transformation-Meeting the Challenges, Conference paper, June, 2018, p. 14,15

¹⁸ Foss, Nikolai J., Saebi, Tina, Fifteen Years of Research on Business Model Innovation: How Far Have We Come and Where Should We Go?, *Journal of Management*, vol. 43, 2017, p. 200-227, p.13

¹⁹ Krstevska, Bojana, Business model innovation as a key tool of the contemporary innovation management, Institute of Economics, University Ss. Cyril and Methodius, Skopje, The Republic of North Macedonia, 2022

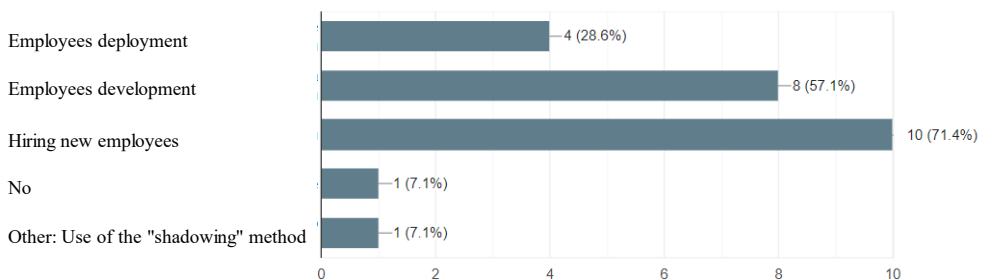
either exclusively in the international market or both in domestic and international markets. Furthermore, the majority of the companies (64.3%) belong to the Software and IT services sector. Based on the survey results, 26.2% of the companies are micro and medium-sized companies, 33.3% are small companies, and only 14.3% are large companies.

The survey findings indicate that BMI has been applied by 33.3% of the sample (14 companies), while the remaining 66.7% (28 companies) have not implemented BMI. It should be emphasized that these outcomes solely relate to the participating companies and can not be generalized to the wider business segment.

According to the survey results, the use of IBM is not limited to the development of new products alone. The answers to the question "What are the additional benefits that consumers receive from the implementation of BMI?" shows that 92.9% of respondents created new services that offer additional benefits to their consumers. Out of this group, 46% of companies reported that they created the benefits of both new products and services.

Moreover, changes in HR may be significantly impacted by BMI implementation. Only one company reported that they did not require any changes in their HR practices. Changes are mostly recognized in hiring new employees and investing in employee training and development (71.4% and 57.1%, respectively).

Did the implementation of BMI require changes in HR?

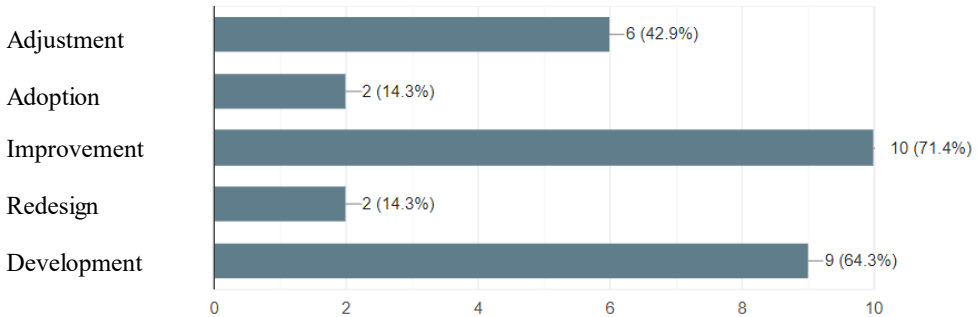


The next question refers to the classification of BMI based on Schaltegger's²⁰ categorization. The categorization includes four types of BMI: adjustment, adoption, improvement, and redesigning of the model. Adjustment refers to minor changes made to the business model, often to only one element.

²⁰ Marolt, Marjeta, Lenart, Gregor, Maletic, Damjan, Borshtinar, Mirjana K., Pucihar, Andreja, Business Model Innovation: Insights from a Multiple Case Study of Slovenian SMEs, August 2016, <https://www.researchgate.net/publication/307546403>

Adoption refers to changes made according to the competition. Improvement of the business model includes changes in almost all elements of the model, while redesigning the model implies a complete change of the offered value, offering a new product, service, or system.

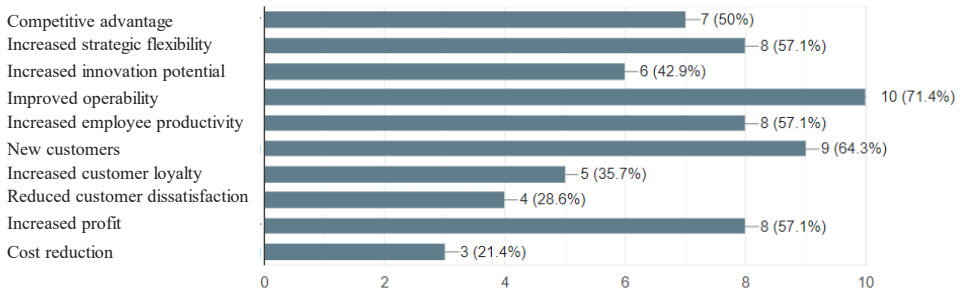
What is your company's BMI (Business Model Innovation) type?



According to the chart, it is evident that only a small amount of companies have applied the adoption of a new business model or redesigned their business model, with a percentage of 14.3%. Meanwhile, the majority of the companies have selected improvement or development of their business models, with a percentage of 71.4% and 64.3%, respectively.

A survey was conducted to examine the impact of implementing BMI as a tool for improvement in companies in N. Macedonia. The findings revealed that 71.4% of the companies reported improved operational performance, including efficiency and effectiveness, as the primary benefit of BMI implementation, compared to other benefits. Moreover, 64.3% of the companies considered new customer attraction as a key benefit. Additionally, an equal number of companies (57.1%) identified increased strategic flexibility, employee productivity, and profit as important BMI benefits. Furthermore, 50% of the companies recognized the competitive advantage as a benefit of BMI use.

What are the benefits of BMI?



Each company provided multiple responses to the question, highlighting three to four benefits resulting from the implementation of BMI. It is crucial to note that none of these companies have reported any negative effects of BMI implementation to date.

In conclusion, based on the findings mentioned above, it can be inferred that the research conducted on the benefits of BMI implementation in North Macedonian companies aligns with the results from previous quantitative research on the topic.

Conclusion:

In summary, business model innovation is a powerful tool that can help companies gain a sustainable competitive advantage, strategy flexibility, increase profitability, and respond quickly to changes in the market. Through BMI, companies can find new ways to generate revenue, reduce costs, and increase efficiency, which can lead to increased profitability and new investments.

The success of a BMI depends on the company's ability to create and deliver value that meets the needs of its customers. The survey results show that companies have effectively identified distinctive value propositions that align with their customers' needs and desires. This highlights a strong connection between the value proposition component and the implementation of BMI, as companies that have used BMI have reported an enhanced ability to attract new customers (64.3%). The resources and processes incorporated in the value chain component play a critical role in designing an impactful value proposition for customers. According to the survey findings, the implementation of BMI requires modifications in HR practices, such as recruiting new staff (71.4%) and investing in employee training and development (57.1), emphasizing the need for adequate resources and processes to generate a unique

value proposition. The survey results demonstrate another positive correlation between BMI implementation and the profit component. This suggests that the successful implementation of BMI requires the identification of new revenue streams, and companies that have effectively implemented BMI have successfully identified these opportunities, resulting in improved profitability (57.1%).

In conclusion, the survey results conducted in IT companies from N. Macedonia show that BMI has been implemented by 33,3% of participating companies, while the remaining 66,7% have not yet adopted it. The survey findings provide empirical evidence to support this paper hypothesis. Specifically, was found that the implementation of BMI has several benefits for the companies surveyed. The majority of the companies (71.4%) reported improved operational performance, including efficiency and effectiveness, 57.1% identified increased strategic flexibility and employee productivity, as important BMI benefits. Moreover, half of the companies recognized the competitive advantage as a benefit of BMI use.

Furthermore, the finding that 33.3% of companies used BMI demonstrates that North Macedonia is not falling behind global trends and modern advancements in the area of innovation management.

The findings of this paper demonstrate that companies that do not implement BMI may struggle to differentiate themselves from their competition and may miss out on potential growth opportunities.

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ANNEX

Questionnaire

A: Basic data

1. How long has the company been on the market?
 - To 5 y
 - From 6 to 10 y
 - More than 10 y

2. According to the number of employees, which category does the firm belong to?

- Micro (from 1 to 9)
- Small (from 10 to 49)
- Medium (from 50 to 249)
- Large (more than 250)

3. What is the ICT subsegment of the company?

- Telecommunication
- Software and IT services
- Other IT services _____
- ICT Trade
- ICT Manufacturing

4. What is the primary market where the company sells its products/services?

- National
- International
- Both

5. How do you evaluate the company's performance? (in terms of income)

- 1 (lowest)
- 2
- 3
- 4
- 5 (highest)

B) Implementation of Business model innovation (BMI)

1. Which BMI are you familiar with?

2. Has the company implemented any innovative business models so far?

- Yes
- No

3. What are the reasons for using BMI?

- Internal opportunity
- External opportunity
- Internal threat
- External threat

4. a) Did the company change the market area by BMI implementation?

- No, didn't change the market
- Yes, expanded to a new market
- Yes, expanded to the international market for the first time

4. b) What market segment did the company operate by BMI implementation?

- Business market
- Customer market
- Governmental market

5. What is the new benefit for customers?

- Product
- Service
- Other _____

6. a) Did the company make changes in the use of resources by BMI implementation?

- No
- Yes, in-house resources
- Yes, outsourcing

6. b) Did the implementation of BMI require changes in HR?

- Employee deployment
- Employee development
- Hiring new employees
- No
- Other _____

6. c) What IT functions have been improved by BMI implementation?

- IT as a product/service enabler
- IT as a promotion/sales channel
- Other _____

7. What is your company's BMI type?

- Adjustment
- Adoption
- Improvement
- Redesign
- Development
- Other _____

8. What other tools did you use for the development of BMI?

- Canvas model
- Lean Canvas model
- SWOT analysis
- PEST analysis
- Other _____

9. What tools did the company use for market research?

- Phone and online surveys
- Interviews
- Focus groups
- Panel discussions
- Other _____

10. What are the benefits of BMI?

- Competitive advantage
- Increased strategic flexibility
- Increased innovation potential
- Improved operability (efficiency and effectiveness)
- Increased employee productivity
- New customers
- Increased consumer loyalty

- Reduction of consumer dissatisfaction
- Increased profit
- Cost reduction
- Other _____

11. Does the use of BMI have any negative effects on the company?

- No
- Yes

Please describe the negative effects.

12. Is the development of BMI included in the company's innovation budget?

- No
- Yes, up to 10%
- Yes, from 11% to 30%
- Yes, more than 30%
- There is a separate budget for BMI development