

## Business Models by Susan Lambert

### What is a business model and what does it consist of?

The business model concept is frequently referred to in annual reports and newspaper articles and it is used by business professionals to describe the way their enterprise 'does business'. However, managers and researchers use the term to mean different things and it is not always clear what they mean.

Although the concept has been around in management literature for many decades, it came to prominence during the 1990's and the 'dotcom boom'. Suddenly everyone was talking about 'new' and 'Internet' business models and business models for electronic commerce. The Internet and the World Wide Web enabled businesses to reconfigure supply chains and networks in ways that were not previously possible, to earn revenue from advertising that permitted enterprises to offer products or information free of charge to customers (for example social networking websites, free online news services) and to engage in previously unheard of alliances, even with competitors. The business model became a unit of analysis for explaining new ways of doing business.

### Some definitions

A multitude of definitions are offered, each taking a slightly different perspective however there are similarities that are worth noting. Figure 1 includes some of the more useful definitions but there are many more if you care to look.

'...a business concept that has been put into practice'(Hamel, 2000, p.66).

'...a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network' (Shafer, Smith, & Linder, 2005, p.202).

'A business model describes the rationale of how an organization creates, delivers, and captures value' (Osterwalder, 2009, p.14).

'The business model concerns how a firm creates value, the internal source of the firm's advantage and how the firm will capture value' (Brink & Holmén, 2009, p.109).

### Figure 1: Business Model Definitions

From the point of view of the individual firm, the business model should describe how the firm does business and what makes it a bit different from its competitors.

Of course everyone will approach this task differently depending on their own interest and role in the business, depending on the type of business and industry in which it operates and depending on what they want to achieve by describing their business model.

For example, a marketing manager in the media and telecommunications industry is likely to focus on the products and value adding services offered that sets them apart from the competition and maybe the unique pricing and revenue models that are associated with those offerings. The production manager of the same firm might tend to describe the firm's business model in terms of production model adopted, for example, mass customization or mass production, or the extent and nature of outsourcing that provides the firm with flexibility to adapt to a rapidly changing market. Each view says something about the business model, each is a valid description but each describes only an aspect of the business model.

Considerable academic research has been devoted to scoping the business model concept, deciding on the components of business models and describing relationships between components but it helps to know what the business model is *not* too.

### **The business model is *not* strategy**

The business model can *include* strategy (Hamel, 2000), it can *reflect* the strategy of the enterprise strategy (Casadesus-Masanell & Ricart, 2010; Dahan, Doh, Oetzel, & Yaziji, 2010), it can be used to *analyse and communicate* strategic choices (Shafer, et al., 2005), but it is *not* strategy. The business model goes to the heart of the business concept – it is 'a business concept that has been put into practice' (Hamel, 2000 p. 66).

### **The business model is *not* a process model**

In the information systems literature the term *business modelling* is often used interchangeably with the term *process modelling* but in the wider management sense *business modelling* is not *process modelling* (Gordijn, Akkermans, & Vliet, 2000a). A process model depicts exactly *how* value-creating activities are performed, the sequence of activities and the detail of the workflows whereas the business model 'states *what* is offered *by* whom *to* whom' (Gordijn, et al., 2000a) and in broad terms *how* it is created and offered. A business model is more abstract than the process model.

### **The business model is *not* a business plan**

A business plan is 'a written summary of an entrepreneur's proposed business venture, its operational and financial details, its marketing opportunities and strategy, and its manager's skills and abilities' (Zimmerer & Scarborough, 2002, p.337). It is a lengthy, detailed document.

The business model is more abstract than the business plan and a good starting point for developing a business plan is to define the business model of the enterprise and then flesh out the detail to form the business plan.

### So what is in a business model?

Many business model frameworks and lists of components exist in the literature. They are all designed to aid the articulation of specific business models and to show relationships between business model elements. The table below includes some of the major contributions to this area of research and provides a list of the components that are included in their business model frameworks. The frameworks vary in terms of complexity and they are derived from varying researcher perspectives however each has merit and potential as a starting point for illustrating an actual business model. The original publications that describe the frameworks are referenced at the end of this page for interested readers. A detailed analysis of the frameworks is provided by the author in a recent conference paper (Lambert, 2010a).

<b>Osterwalder &amp; Pigneur (2009)</b>	<b>Hedman &amp; Kalling (2003)</b>	<b>Gordijn &amp; Akkermans (2001)</b>	<b>Bouwman et al. (2005)</b>
Customer Segments	Customers	Value in	Service domain
Value Propositions	Competitors	Value port	Technology domain
Channels	Offering	Actor	Organization domain
Customer Relations	Activities & organisation	Value activity	Finance domain
Revenue Streams	Resources	Value exchange	
Key Resources	Supply of factor & production inputs	Value object	
Key Activities	Longitudinal process component	Profitability calculation	
Key Partnerships			
Cost Structure			

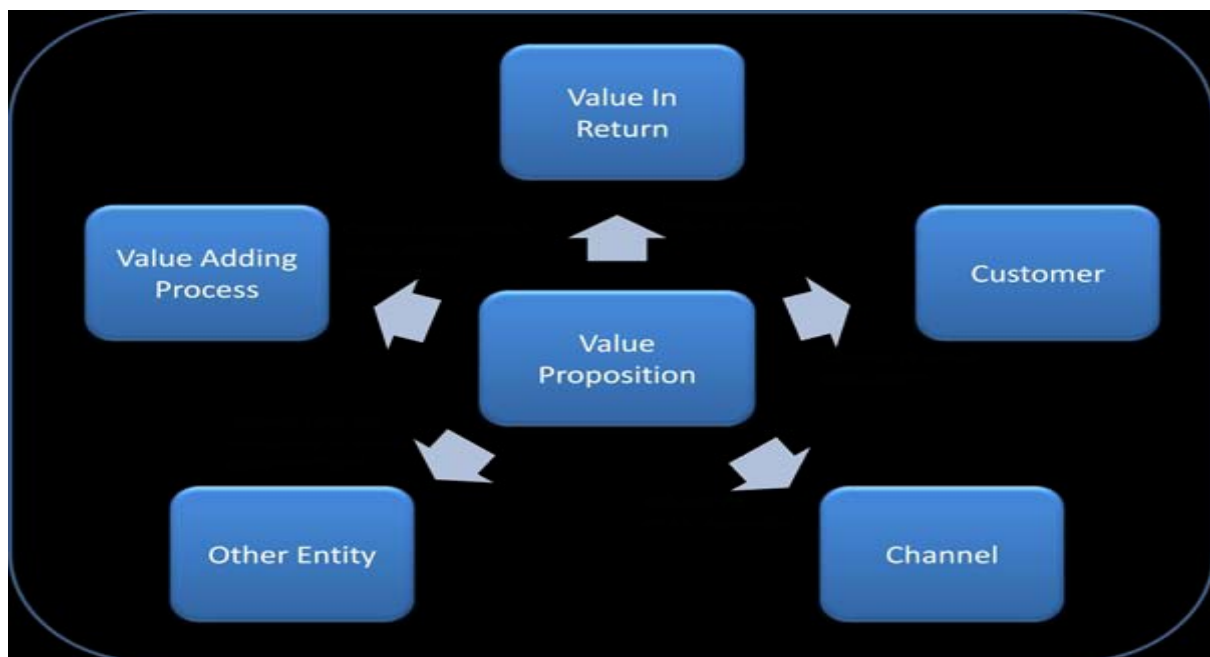
**Table 1: Table of Business Model Components**

What *is* present in all business model frameworks and definitions is the concept of *value*.

- What the enterprise offers its customers in terms of value and how it is delivered; be it products, services or information or a combination of all three. The transactions might take place in person, or over the Internet or both.
- What value the enterprise gets in return, in terms of revenue and pricing models.

- The whole value network also features to some extent in all frameworks; the customers, competitors, partners, suppliers and other entities that assist or impact on the enterprise.
- Many include an element of value creation; the activities that make up the value-adding process, or the resources or competencies required to produce the value.

For an enterprise wishing to define its business model, the above list is probably a good start. A synthesis of the existing frameworks is depicted in Figure 2 below which identifies 6 basic building blocks of the business model. Each building block can be analysed at multiple levels of detail depending on the user's needs.



**Figure 2: Basic Business Model (Source: Lambert (2010b, p.101))**

## **How can you use the business model concept to improve your business?**

### **Understand your business**

Osterwalder and Pigneur (2009) point to numerous testimonies as to the usefulness of their business model 'Canvas' (their framework). The most overarching benefits of using the business model concept and the 'Canvas' in particular, are to encourage clarity of thought about and communication of, otherwise complex business configurations and issues.

### **See if relationships exist between business models and enterprise success**

Lots of case studies and surveys are aimed at determining if there is a relationship between the business model and the success of the enterprise.

Critical success factors of e-business models (Horsti, Tuunainen, & Tolonen, 2005), the impact of business models on profit and other financial performance (Fetscherin & Knolmayer, 2004; Malone, Weill, Lai, D'Urso, Herman, Apel, & Woerner, 2006). The relationship between the business model and service network performance (Maitland, Van De Kar, Montalvo, & Bouwman, 2005) and firm survival (Kauffman & Wang, 2008, p.229) are the subjects of case studies and surveys that have been conducted and published.

### **Compare business models in the same industry**

Some of the industries that have been the subjects of detailed studies are banking (DeYoung, 2005), biotechnology firms (Bigliardi, Nosella, & Verbano, 2005; Glick, 2008), airlines (Flouris & Walker, 2007) open source software firms (Feller, Finnegan, & Hayes, 2008), digital audio distribution industry (Arampatzis, 2004). Studies of the success or otherwise of different business models within industries can help managers decide the most appropriate business model for their venture.

### **Identify different types of business model**

There is no shortage of classifications of business models. Some classifications are industry specific, some relate only to electronic commerce and others try to be all inclusive. To date there is no general classification of business models although there are many that are useful for particular purposes. The tables below provide some examples of business model classifications that are present in the literature. Table 2 shows 3 e-business model classifications, Table 3 shows 2 classifications that aim to accommodate all business models and Table 4 shows 3 industry specific business model classifications.

The Rajala and Westerlund (2007) classification relates to business models in software provider enterprises. Bigliardi et al (2005) produce a classification of business models in the Italian biotechnology industry and the Eriksson et al (2008) classification relates to online-mobile newspaper services

<b>E-Business Model Classifications</b>	
<b>Timmers (1998)</b>	<b>11 Types</b> <ul style="list-style-type: none"> <li>• E-shop</li> <li>• E-procurement</li> <li>• E-malls</li> <li>• E-auctions</li> <li>• Virtual communities</li> <li>• Collaboration platforms</li> <li>• Third-party marketplaces</li> <li>• Value-chain integrators</li> <li>• Value-chain service provider</li> <li>• Information brokerage</li> </ul>

	<ul style="list-style-type: none"> <li>Trust services</li> </ul>
<b>Weill &amp; Vitale (2001)</b>	<b>8 Types</b> <ul style="list-style-type: none"> <li>Content provider</li> <li>Direct to customer</li> <li>Full-service provider</li> <li>Intermediary</li> <li>Shared infrastructure</li> <li>Value net integrator</li> <li>Virtual community</li> <li>Whole-of enterprise/ govt</li> </ul>
<b>Eisenmann (2002)</b>	<b>8 Types</b> <ul style="list-style-type: none"> <li>Online retailers</li> <li>Online brokers</li> <li>Internet access providers</li> <li>Online portals</li> <li>Online content providers</li> <li>Online market makers</li> <li>Networked utility providers</li> <li>Application service providers</li> </ul>

**Table 2: E-Business Model Classifications**

<b>Non-Industry Specific Business Model Classifications</b>	
<b>Morris et al. (2006)</b>	<b>4 Types</b> <ul style="list-style-type: none"> <li>Clusters – technical</li> <li>Standardized producer</li> <li>Product Franchiser</li> <li>Customized Service</li> </ul>
<b>Malone et al. (2006)</b>	<b>16 Types</b> <ul style="list-style-type: none"> <li>Entrepreneur</li> <li>Manufacturer</li> <li>Inventor</li> <li>Human creator</li> <li>Financial trader</li> <li>Wholesaler/retailer</li> <li>IP trader</li> <li>Human distributor</li> <li>Financial landlord</li> <li>Physical landlord</li> <li>Intellectual landlord</li> <li>Contractor</li> <li>Financial broker</li> <li>Physical broker</li> <li>IP broker</li> <li>HR broker</li> </ul>

**Table 3: Non-Industry Specific Business Model Classifications**

<b>Industry Specific Business Model Classifications</b>	
<b>Rajala, &amp; Westerlund (2007)</b>	<b>4 Types</b> <ul style="list-style-type: none"> <li>• Software tailoring</li> <li>• Applied formats</li> <li>• Resource provisioning</li> </ul> Standard offerings
<b>Bigliardi et al. (2005)</b>	<b>4 Types</b> <ul style="list-style-type: none"> <li>• Service companies</li> <li>• NBF</li> <li>• Industrialized integrated companies</li> <li>• Traditional integrated companies.</li> </ul>
<b>Eriksson et al. (2008)</b>	<b>3 Types</b> <ul style="list-style-type: none"> <li>• Ubiquitous</li> <li>• Local</li> <li>• Prestige</li> </ul>

**Table 4: Industry Specific Business Model Classifications**

### **Adopting new business models and changing existing ones**

It is all very well to understand what a business model is and to understand the underlying business model of the enterprise, but what if it needs to be changed? And even if you recognise that there are 'better' business models being used in your industry, should your enterprise adopt them and if so how?

These are important management questions that need to be addressed before any gain can be made from business model reinvention. Fortunately there is a body of research, both conceptual and empirical, that focuses on the dynamics of business models. It draws on existing management and entrepreneurial theory.

The conceptual research builds frameworks of change and adoption factors (Chaharbaghi, Fendt, & Willis, 2003; Elliot, 2002; Linder & Cantrell, 2000; Samavi, Yu, & Topaloglou, 2009; Voelpel, Leibold, & Tekie, 2004). The existing practice of business model change and innovation is explored using surveys and case studies and seeking opinions of practitioners and consultants (Elliot, 2002; Giesen, Berman, Bell, & Blitz, 2007; Mitchell & Coles, 2004; Pohle & Chapman, 2006).

### **Where to from here?**

If your interests are mostly academic then the references provided on this site are a good starting point for further research. If your interests are more practical, like applying some of the theory to your own business then you might want to try defining your business model, read up on any industry based research that might be relevant and perhaps have a look at the very practical, user oriented book by Osterwalder and Pigneur (2009).

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