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Business Model

Robert H. Desmarteau[1], Anne-Laure Saives[2] and W. David Holford[2]
[1]Département de stratégie, responsabilité sociale et environnementale, École des Sciences de la gestion, Université du Québec à Montréal, Montréal, Québec, Canada
[2]Département management et technologie, École des Sciences de la gestion, Université du Québec à Montréal, Montréal, Québec, Canada

Synonyms

Economic model; Strategic system

Definition

A business model is the representation of a given firm's market strategy which, in the image of a sketch, specifies how the firm organizes its human, physical, and financial resources to create, capture, and deliver value relative to the choice of stakeholders made. As to the "how tos" and the "whys" of organizing, a consensus emerges toward identifying four specific logics to be considered: "customers," "expertise," "network," and "revenues." Given this descriptive consensus, practitioners face five challenges throughout the business modeling process: namely, three strategic challenges of which one is teleological (the "for whom" to create value?) and two are praxeological (implying choice making) in nature linked to innovation and networking. The remaining two are operational challenges: "digitalization integration! and performing."

The Concept

During the financial bubble of 2000, a proliferation of the term "business model" as symbolized by the "*startups.com*" first found its origins within an accounting dissertation published by Bellman in 1957. This up-until-recently forgotten or orphaned notion is best characterized by its conspicuous absence within the classical literature or as Teece (2010) stated: "The concept of Business Model has no established theoretical grounding in economics or in business studies.*"* In parallel to this epistemological vacuum, one single click on the Google search engine generates 300 million-plus listings. In short, one is faced with the flagrant academic obligation to examine both the significance and scope of the concept of business model. What utility does the concept provide? How does one represent the concept? What is its relationship to business strategy?

According to Magretta (2002), a good business model is above all a good narrative tool (*good story*) on how a firm functions (e.g., Walmart founder Sam Walton, in his words "*Put good sized stores* kind of into little one-horse towns which every body else was ignoring! story from

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which one can then judge its capacity to respond to Peter Drucker's age-old questions (Magretta 2002): (1) Who is the customer? (2) What does the customer value? (3) How does one make money in this activity? (4) What is the underlying economic reasoning that justifies the firm's ability to provide value for its customers in a cost-effective manner? For many, it is the art of design or, again, the architecture as proposed by Teece (2010) to describe the explicit or implicit concept of the business model: "Whenever a business enterprise is established, it either explicitly or implicitly employs a particular business model that describes the design or architecture of the value creation, delivery, and capture mechanisms it employs. [. . .] In essence, a business model embodies nothing less than the organizational and financial architecture of a business.*"* In other words, the "blueprint" image ingeniously proposed by Osterwalder (2004) captures the essential concept of business model.

A History of the Concept of Business Models

Circumscribing the historical origins of the concept of business models is an audacious exercise which emphasizes a filiation of principal ideas so as to generate new understandings across the proposal of sensible linkages which are more or less expected. The first point of reference among the historical foundations of business model concepts can be revealed across Ansoff's (1965) bidimensional conceptualization of corporate strategy whereby the product and the market are combined: "the product-market scope, the grow vector, and the competitive advantage – describes the firm's product-market path in the external environment*"* (p. 99). This resolutely deterministic approach was to guide the development of several instruments to strategically "position" firms. Among the most well known are (1) "Portfolio Analysis" from the Boston Consulting Group Perspective created by Bruce Henderson in 1968; (2) "Profit Impact of Market Strategy Project" ((PIMS) Schoeffler et al. 1974); (3) Market Attractiveness/Business Position Assessment (Rothschild 1976); and General Electric's Strategic Business Unit (SBU) (1971, Hall 1978). The years which followed this effervescence led toward a third dimension – of a voluntary nature – embodied within competencies related to organizational strategic practice. "We want a concept which includes not only ideas about the market and the role of the company in the external environment (i.e. what is to be dominated), but also what is to be done to transform these ideas into concrete arrangements". [. . .] "The business idea expresses the unifying principle of such a system". [. . .] "A description of the business idea involves description of: the niche in the environment dominated by the company, in other words the company territory; the products of the 'system' that are supplied to the territory; the resources and internal conditions in the company by means of which dominance is acquired" (Normann 1977, p. 34, 37 and 38).

Closely following the pronouncement of this new paradigm, the tridimensional representation of strategic practice took shape across the work of Buzzell (1978) involving the definition of the notion of the market, and materialized itself at the level of the firm across Abell's (1980) reflections: "I shall make the working assumption that the market will be redefined in terms of customers groups, customers functions, and technologies as individual businesses are redefined in these dimensions" (Abell 1980, p. 25). During the 1980s, the "function, client and technology" tridimensional representation of corporate strategy became an epistemological rallying point. As an example, Thompson and Strickland's (1983) understanding can be mentioned: "The three dimensions of defining "What Is Our Business?" Derek Abell has expanded on the importance of a customer-focused concept and suggests defining a business in terms of three dimensions: (1) customers groups, or who is being satisfied, (2) customers needs, or what is being satisfied and (3) technologies, or how customer's needs are satisfied" (Thompson and Strickland 1983, p. 62). Finally, in a convincing and concluding manner, Ansoff, in 1987, recognizes the advantage of the tridimensional model: "Instead of the two dimensions of the original matrix it is more realistic to describe the geographic growth vector along the three dimensions which the firm can use to define the thrust and the ultimate future scope of the business: dimension of the market need, dimension of product technology, and the market geography which defines the regions or nations states in which the firm intends to do business" (Ansoff 1987, p. 84). Since the beginning of the 1980s, the conceptualization of corporate strategic practice has multiplied the tridimensional representation. Examples such as Johnson et al.'s (2008b) SAD (strategic activity domain) and Allaire and Firsirotu's (1993, 2004) "strategic system" both combine the "market need, market geography, technology" triad and, by integrating the "value-network" dimension, pave the way toward the notion of business models.

To materialize the transition from the tridimensional vision of corporate strategic practice to the representation of the business model concept, one must recognize two emblematic contributions: Chesbrough (2003) and Osterwalder (2010). The first one is Chesbrough's (2003) representation of the concept of business model within a construct which breaks down the value creation process into six key functions: (1) define a customer proposition based on specific value-carrying benefits; (2) identify a target market encompassing the given customers; (3) define a value chain based on necessary complementary assets; (4) describe the revenue generating mechanisms based on cost structure and anticipated production margins; (5) after having identified potential competitors, specify the firm's position within a value-network linking suppliers, customers, alliance, and collaboration partners; and (6) formulate a competitive strategy which will allow the innovating firm to gain a competitive advantage over its rivals. In the ensuing years, the literature on business models provided an abundance of contributions whereby diverse epistemologies confronted one another in their attempts at apprehending the object of study. The second emblematic contribution is Osterwalder's famous canvas introduced by Chesbrough (2010, p. 359) as follows: "One promising approach is to construct maps of business models, to clarify the processes underlying them, which then allows them to become a source of experiments considering alternate combinations of the processes. One example of this mapping approach has comes from Alex Osterwalder who, following his dissertation at Lausanne, has consulted and spoken widely on business models and business model innovation. His empirical focus utilizes a 9 point decomposition that characterizes a business model: (1) value proposition, (2) client relationships, (3) client segments, (4) distribution channel, (5) revenues flows, (6) key activities, (7) key resources, (8) partner network and (9) cost structure" (Chesbrough 2010, p. 359). Within these two in vogue modelization approaches, a better understanding of the meaning and impact of the BM concept is in itself required. Based on specific dominant contributions, a consensual thread emerges across authors such as Magretta (Drucker) (2002), Chesbrough (2003, 2006), Morris et al. (2005), Johnson and Christensen (2008), Bouwman et al. (2008), Al-Debei and Avison (2010), Casadesus-Masanell and Ricart (2010), Dahan et al. (2010), Demil and Lecocq (2010), Osterwalder (2010), Teece (2010), Yunus et al. (2010), Zott and Amit. (2010), Porter and Kramer (2011), Amit and Zott (2012), Chanal and Le Gall (2014), and Lambert and Schaeffer (2014). These authors integrate the definition of the business model within an exercise which eventually translates a firm's strategic choices "into acts of creating, capturing and delivering value." To fulfill this value trilogy, strategists from IBM's "Institute for Creation Value" (Giesen et al. 2009) defend the consensual notion of business model across the aid of four elements which can didactically be associated to articulated and evolving logics: (1) "customer" logic in which the firm conceives a value-laden proposal by exceeding their expectations within a framework of sustained relationships; (2) "expertise" logic, in which the firm combines key necessary resources, processes, and competencies to create/capture/deliver value; (3) "network" logic which relies on a network of partners to seize upon conjoint opportunities of value creation and sharing by exploiting Chesbrough's notion of "Open Innovation:" 'Open Innovation' means that valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well" (Chesbrough 2003, p. 43); and (4) a "revenue" and "economic value-added" logic (Stewart 1991) whereby the firm conceives revenue generating mechanisms as well as a cost structure of its resources by relying on capital cost overruns. During the last 10 years, the multiplication and diversity of publications on the BM concept revealed an inevitable truth: several truths coexist to guide value creation, value capturing, value delivering, and even value sharing. Concretely, depending on the choice of beneficiaries, the four (4) logics of the BM (customer, expertise, network, and revenues) are ideologically shaped in an ineluctable fashion by a transversal teleological challenge that strategists must face so as to give meaning to and reflect on the value of their BM.

Among those ideological orientations, one can identify on a continuum (see Fig. 1): on the extreme right side, BM shaped by Friedman (1970)'s credo "The business of business is business"; on the extreme left side, BM as shaped by Yunus et al. (2010) is dedicated to social business models; at the center stand three schools of thought; on the right, the school of Magretta (2002), Teece (2010), and Osterwalder and Pigneur (2010) for whom the client comes first; and on the left, the ideal of capitalism reinvention with the notion of "shared value" coined by Porter et Kramer (2011) and Bocken et al. (2013). In the center, approaches integrating the Stakeholder Theory (Freeman 1984) and the idea of social reciprocity (Tocqueville 1840) with the works of Jouison and Verstraete (2008), Demil and Lecocq (2010), Zott and Amit (2010), Boons and Ludeke-Freund (2013), and finally Rhodes et al. (2014).

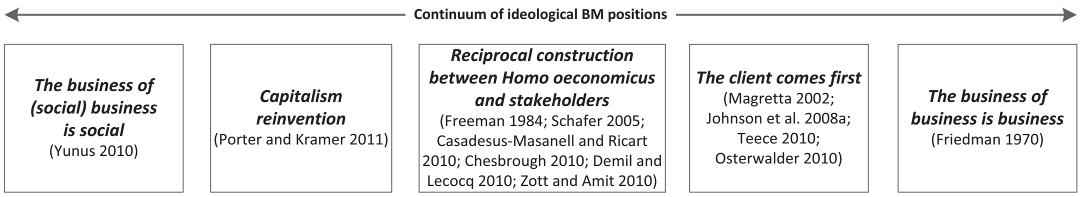
Among the five strategic challenges revealed by the literature (Desmarteau and Saives 2016), aside from the previous ideological one, two are of a praxeological nature in which the BM becomes a canvas: (1) for innovation (creative inspiration) and (2) for building networks while the strategist thinks and articulates his BM by combining the economic, environmental, and social dimensions. In addition, two operational challenges are also identified: one regarding the capacity of a firm to perform while constantly dialoging with its stakeholders and the other (Reuvers and Haaker 2009; Allal-Chérif and Favier 2012; Verstraete 2015) regarding the challenge of integrating the digitalization trend at the service of the BM to create, capture, and deliver or even share value-creating benefits.

The Strategic Energizing of the Concept

The market strategy energizes the business model or more specifically its underpinning in action. In other words, the creating, the capturing, and the delivering of value are induced by the driving of one or of all of the logics across energizing properties related to innovation, inimitability, and renewal. Innovation implies access to market. Starting from Schumpeter's (1942) teachings, Baumol (2002) distinguishes innovation from invention in that innovation constitutes an opportunity for change whereby all means and resources are implemented toward the successful introduction of an invention to market. As for periodic renewal, it rests on the firm's capacity to change the dynamics of a business model, this, by reason of time's irreparable erosion of any given competitive advantage and on the need to concretize change so as to construct a lasting advantage and durability of the firm (Demil et Lecocq 2010). Finally, inimitability is based on the firm's capacity to combine rare resources so as to construct its distinct identity and on its capacity to institutionally lock these same resources (Hamel 2002; Teece 2010) by means, among other things, of patents or again, distinctive partnerships.

Conclusions and Future Directions

In summary, the concept of business model is the representation of a given firm's markets strategy which, in the image of a "blueprint" (Osterwalder 2004), specifies how the firm organizes its human, physical, and financial resources to create, capture, and deliver value. As to the "how tos" of



Business Model, Fig. 1 A continuum of ideological BM positions

organizing, a consensus emerges to identify four elements which can be associated with specific logics: "customers," "expertise," "network," and "revenues, economic value-added." Not long ago suspected, today an ever-present fact, the ideological position, i.e., the "why" explaining the strategist's value choices ("to whom shall the BM create value"?) must be explicit in the BM representation. In concrete terms, it results from an epistemological arbitration between the economic, social, and environmental dimensions. Hence, across the exercise of representation, the concept of business models poses numerous questions which remain unanswered (Saives et al. 2012, 2013, 2014). At the epistemological level, does the business model require a theory of the firm? And conversely, in a somewhat provocative manner, does the firm require a theory of business models? Subsequently, can the instrument of the business model successfully inscribe itself within the management system ("dispositif de gestion") (Moisdon 1997)? Does this constitute an opportunity to seize and/or an instrument to surpass?

Cross-References

▶ Business Start-Up
▶ Creative Destruction
▶ Entrepreneurial Opportunity
▶ Entrepreneurship in the Creative Economy
▶ Innovation Opportunities and Business Stat-Up
▶ Open Innovation and Entrepreneurship
▶ Partnerships and Entrepreneurship
▶ Schumpeterian Entrepreneur
▶ Social Entrepreneurship
▶ Spin-Off
▶ Start-Up
▶ Strategic Thinking and Creative Invention
▶ Venture Capital and Small Business

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