

Business Models

Networking, Innovating and Globalizing

Christian Nielsen; Morten Lund (Eds.)



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Business Models: Networking, Innovating and Globalizing

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1 An introduction to business models

(Written by Christian Nielsen, Associate professor, PhD, and Morten Lund, MSc., PhD-fellow)

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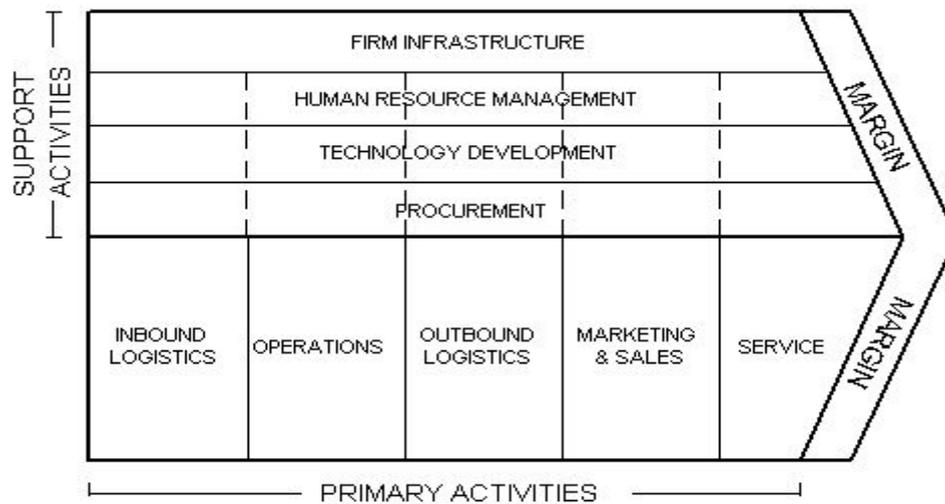
A business model is a sustainable way of doing business. Here sustainability stresses the ambition to survive over time and create a successful, perhaps even profitable, entity in the long run. The reason for this apparent ambiguity around the concept of profitability is, of course, that business models apply to many different settings than the profit-oriented company. The application of business models is much broader and is a meaningful concept both in relation to public-sector administration, NGO's, schools and universities and us, as individuals. A recent contribution in this latter realm is the book *Business Model You* by Clark *et al.* (2012), which translates the ideas of Osterwalder & Pigneur's (2010) business model canvas into a personal setting for career enhancement purposes.

Whether, in the case of the privately owned company, profits are retained by the shareholders or distributed in some degree to a broader mass of stakeholders is not the focus here. Rather, it is the point of this book to illustrate how one may go about conceptualizing, analyzing or communicating the business model of a company, organisation, or person!

Sustainability is here interpreted as the propensity to survive and thus also the ability to stay competitive. As such, a business model cannot be a static way of doing business. It must be developed, nursed and optimized continuously in order for the company to meet changing competitive demands. Precisely how the company differentiates itself is the competitive strategy, whilst it is the business model that defines on which basis this is to be achieved; i.e. how it combines its know-how and resources to deliver the value proposition (which will secure profits and thus make the company sustainable).

In the last decades, the speed of change in the business landscape has continuously accelerated. In the late 1990's, the e-business revolution changed global competition, and during the early years of the new millennium the knowledge-based society along with rising globalization and the developments in the BRIC economies ensured that momentum continued upwards. As new forms of value configurations emerge, so do new business models. Therefore, new analysis models that identify corporate resources such as knowledge and core processes are needed in order to illustrate the effects of decisions on value creation. Accordingly, managers as well as analysts must recognize that business models are made up of portfolios of different resources and assets and, not merely traditional physical and financial assets, and every company needs to create their own specific business model that links its unique combination of assets and activities to value creation.

The rising interest in understanding and evaluating business models can to some extent be traced to the fact that new value configurations outcompete existing ways of doing business. There exist cases where some businesses are more profitable than others in the same industry, even though they apply the same strategy. This illustrates that a business model is different from a competitive strategy and a value chain. A value chain is a set of serially performed activities for a firm in a specific industry.



The Generic Value Chain

Figure 1: Porters Generic Value Chain, Porter 1988

The difference thus lies in the way activities are performed (strategic and tactical choices), and therefore a business model is closely connected to a management control agenda. The business model perspective has also been found useful for aligning financial and non-financial performance measures with strategy and goals. In addition, communicative aspects from executive management to the rest of the organization, and also to external stakeholders such as bankers, investors, and analysts, are also facilitated by a business model perspective.

1.1 Overview of the book

The field of business models is becoming a core management discipline alongside accounting, finance, organization etc. and we soon expect to see teaching modules on business models entering leading Masters and MBA programmes. This development is taking place as we speak, and at Aalborg University, this curriculum is already a mandatory part of several Masters level courses. This movement is in the coming years expected to be driven forth, partly by a call for greater interdisciplinarity within the core management disciplines and across the natural sciences, and partly because business model optimization and commercialization will become a politically driven issue in the light of innovation and sustainability pressures. At CREBS we believe that the focus on Business Models in policy-making and the business environment should be equally as important as the present focus on innovation and technology development and will become a focal point of support for entrepreneurs and small and medium sized companies.

The “Vision” of this book is to be the most accessed and read book on business models by students, teachers and practitioners, and in due course to strengthen the relationship between innovation and commercialization activities and to make an impact on growth and sustainability of businesses.

The “Mission” of this book is to constitute an internationally renowned platform that accompanies leading experts world wide and to affect business-related policy-making on regional, national and transnational levels.

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This book is structured so that the first 4 chapters give a basic introduction to the field of business models. Then we illustrate how the three main tendencies in business – networking, innovation and globalizing – are achieved through a business model perspective. Finally, we explore the links between business models and profitability to greater extent.

1.2 Networking, innovating and globalizing

Organizational survival has been stressed several times in the introduction to this book. Why? Because it is adamant. Of course, some companies and organizations are situated in sweet spots, with lacking competition, lots of funding and market growth in terms of customers to serve. This is, incidentally, regardless of whether the organization is in the public sector or the private sector. However, the situation is more often than not one of competition, constant change in markets and demand and fights for resources, competences and capital. Especially in the western world this is inherent.

Whoever thought that the financial crisis, which started back in 2007, was over has during the second half of 2011 been proven wrong. National banks, governments and corporations world-wide have continuously smaller room for maneuver and weaker tools for creating financial stability and growth as the crisis moves into new phases. As such, more citizens will in 2012 be questioning not just the future of the financial sector of the western world, but also the sustainability of the industrialized western society as a whole. On the one hand, pressure from under-burdened western society taxpayers (voters) who crave an average working week of 35-37 hours and retirement 40-50 years prior to their death will be on the rise.

On the other hand, eager hardworking Asian and Indian consumers with surprisingly well-educated workforces will lead us to be questioning our chances of economic survival in a truly globalized world all throughout 2012. One possible answer to this problem is that we to a greater extent need to rely on human capital in the quest for private sector value creation and competitiveness. However, human capital will not make the difference alone. Only when complemented by triple-helix based innovation structures, creativity and unique business models that commercialize innovation and human capital will this be an avenue to future sustainability of these societies.

So you see: business models are not only important; they are crucial! Henry Chesbrough, Professor at University of California, Berkeley, has at several occasions stated that he would rather have part in a mediocre invention with a great business model, than a great invention with a mediocre business model. It is in this light that the keywords networking, innovation and globalizing are brought forth. These are the key success factors for sustaining business growth moving forward and hence also society as we know it.

The title of this book specifically emphasizes the three aspects networking, innovating and globalizing. We view these aspects as key success factors for sustaining business growth and thus they become cornerstones of the successful business models of the future. Networking and the ability to collaborate with key strategic partners in win-win based relationships will become even more vital for companies in the next years and decades. Building and encompassing e.g. win-win based relationships with strategic partners will require dedicated business model innovation and these aspects will be under severe pressure from the rising degree of globalization we are seeing in these years.

In the end the three success factors for sustaining business growth together have the potential to produce a whole new array of business model archetypes. The world has already seen the birth of the so-called *Born Globals* (REF here) and we expect to see other archetypes like *Growth-symbioses* and *Micro-multinationals*¹ emerge in the near future.

1.3 Value configuration

New value configurations such as those born out of the three success factors for future growth highlighted above reflect changes in the competitive landscape towards more variety in value creation models within industries. Previously the name of the industry may have served as a recipe for addressing customers. It doesn't any more. Already in 2000, leading management thinker, Gary Hamel, quoted that competition now increasingly stands between competing business concepts. If firms within the same industry operate on the basis of different business models, different competences and knowledge resources are key parts of the value creation, and thus comparison of the specific firms even within peer groups now requires interpretation based on an understanding of differences in business models.

If firms only disclose accounting numbers and key performance indicators without disclosing the business model that explains the interconnectedness of the indicators and why the bundle of activities performed is relevant for understanding the strategy for value creation of the firm, this interpretation must be done by someone else. Currently, there does not exist much research based insight into how this reading and interpretation may be conducted, and it is very likely that this understanding of the value creation of firms would be facilitated if companies disclosed such information as an integral part of their strategy disclosure. We attempt to address these issues in detail in chapter 9.

1 At Center for Research Excellence in Business models we are currently working on series of research projects that map out the attributes of the two new business model archetypes Growth-symbioses and Micro-multinationals.

1.3.1 (One possible) verbal definition of a business model

A business model describes the coherence in the strategic choices which facilitates the handling of the processes and relations which create value on both the operational, tactical and strategic levels in the organization. The business model is therefore the platform which connects resources, processes and the supply of a service which results in the fact that the company is profitable in the long term.

This definition emphasizes the need to focus on understanding the connections and the interrelations of the business and its operations so that the core of a business model description is the connections that create value. This can be thought of e.g. by contemplating the silos by which the management discussion in the annual report normally is structured. By themselves, endless descriptions of customer relations, employee competences, knowledge sharing, innovation activities and corporate risks do not tell the story of the business model. However, if we start asking how these different elements interrelate, which changes among them that are important to keep an eye on and what is the status on operations, strategy and the activities initiated in order to conquer a unique value proposition are effectuated, we will start to get a feeling for how the chosen business model is performing.



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