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BUSINESS MODELS IN CONTEMPORARY STRATEGIC MANAGEMENT

Abstract: The business model concept is a relatively new and not clearly defined phenomenon in economic literature. However, the term business model is currently researched a lot, and it is gaining attention in the literature. The goal of the paper is to clarify what a business model is and how it is connected to strategic management. The research method used is systematic literature review.
A business model is a concept that shows how the components of a system fit into the system of processes, showing how an organization work. By other words, the business model is the relationship between strategy and business processes. Defining and using a business model is an important managerial task, but the company strategy is also needed as this deals with external environment as well, such as industry competition.
The paper groups business model definitions into two main categories: (1) business models based on the value chain of the organization and (2) business models based on the value proposition of the organization. Those business models that are built on Porter's value chain theory, examines how value can be created for the customers through the operation activities of the organization. These business model definitions describe the logic of a business system behind the actual processes of value creation. In many cases, where the value proposition is the main part of the business model, the way how profit is generated is the most important element of the business model. This can be considered as a financial perspective, while the previous one is an operations management perspective.
The Business Model Canvas is one of the most popular business model design tools today, used primarily in the technology sector. This tool simplifies the definition of the business model of an organization by making visualizing the parts of the business model.
Keywords: business model, strategic management, value chain, value proposition, Business Model Canvas

1. INTRODUCTION

The **problem** if the research is that the business model concept is not clearly defined phenomenon in economic literature. However, the term business model is currently researched a lot, and it is gaining attention in the literature.
The **purpose** of the paper is to clarify what the term business model is and what they have in common. The research method used is literature review.
The **object** of this paper is to give an insight into the business model literature for scientific researchers to conduct further research, and for managers to formulate the business model of their businesses.
Tasks of the research is to show examples of value chain-based and value creation-based theories of business model definitions.

2. THE EVOLUTION OF BUSINESS MODELS IN LITERATURE

The term business model is relatively new phenomenon regarding to the economic scientific literature. It was mentioned first by Drucker (1954), later by Bellman et al (1957), who firstly mentioned it in a scientific research article. Business model, as a topic of a scientific research first appeared in 1960 (Jones 1960). For a prolonged period in the 20th century there was a common, and well-operating business model in each industry, which cased low interest in research on new models and business model innovation. This industry-specific business model was used commonly by companies in each industry. Tapscott (2011) identified common characteristics of these similar, early business models: commonly these models included vertical integration. Business models used success factors which were changed several times in the last century.

Early business models from the beginning of the 20th century were built on cheap labor costs, which are still happening regarding outsourcing to commonly Asian countries (Fryman et al 2019). Later economies of scale were given as the most important issue, which got outdated by IT technologies (Hermant & Kevin 2018). Flexible manufacturing systems changed the common idea of production, which allowed different products to be made on the same production line. This allowed the way to mass customization. (Kaplan & Haenlein 2006, Kumar, 2007, Salvador et al 2020). In the 1990s the theory of core competences became primary (Barakonyi 2000, Porto et al 2017). According to this theory the company can be competitive if its strategy is built around its core competences (Hamel & Prahalad 1989).

The term business model became popular with the spread of personal computers. Computers can store a lot of data and the use of computer software also gives the opportunity to model possible outcomes of decisions. This allowed business modelling to come to reality (Magretta 2002). Business model planners need to find the balance between the domination of IT and other approaches in the formulated business models (Chen et al 2020).

3. THE DIFFERENT APPROACHES TO BUSINESS MODELS

Business models are examined in the literature in many different ways. Zott et al (2010) analyzed 103 publications about business models and found the following:

- 37% of them did not define the phenomenon,
- 19% referred to other authors,
- 44% defined business models with mentioning at least one of its components.

In this paper the components of business models are examined in more details. While the literature is far from consistent about the term of business models, there are several mentionable researches about it. Different researchers defines the term differently. According to Linder and Cantrell (2000) not only researchers are unable to define the term, but also managers can hardly define their own business models. They also have issues in communication. According to Rappa (2002) business model is a very much used, but less understood idea. In many cases business models are simply equated to marketing channels (Linder & Cantrell 2000). This is caused by the fact, that the business model research increased a lot with the spreading of the internet. Some state business model as a general used “miracle word” without actual meaning (Osterwalder & Pigneur 2002, Schmuck 2021).

3.1. Business models built around the value chain

Several of the business model definitions are built around Porter’s value chain theory (Porter 1985). These definitions are concentrating on how to create value thought the operations of an organization. Such business models describe the business operation logic based on the value creation process (Petrovic et al 2001).

Magretta (2002) describes on of the most well-known and easiest to understand business models definitions. Regarding to her idea, business models are simple stories telling how a business works. As stories are easy to recall and tell, these stories can be used to communicate the business model with the employees. Employees understanding the business model can be more motivated. New business models are based on old ones, each of them modifying an older story in the view of Magretta (2002). Business models are making different combinations of the value chain, which consists of the following two parts:

- Produce a product or give a service: this is product innovation,
- Sell what we have created: this can be considered as a process innovation (Verhoeven & Johnson 2017).

In reality, business model is helping to plan the value chain, telling it as a story. The same business model can be implemented by many companies, but as the business model does not cope with competition, strategic management approach is also necessary. Strategy copes with the competition (Jarjabka 2001), however strategic management should also take into consideration the business model used (Bao 2015, Globocnik et al 2020).

Timmers analyzed e-commerce business models, correctly anticipating the growth of importance of such e-business models. Timmers use the approach of the elements of the value chain where the business model contains:

- the product or service,
- the structure of the internal information flow,
- including the stakeholders and their roles,
- the revenue resources (Timmers 1998).

The business model will only reach its goals with the help of a marketing strategy. These two – the business model and the marketing strategy – make up the marketing model (Timmers 1998). The idea of Timmers can be used well in the anticipated post-pandemic situation where:

- users can create a network effect with their interactions,
- a marketplace can connect the sellers and the buyers,
- an artificial intelligence-powered system gives customized offer (Napier et al 2020).

Linder and Cantrell (2000) uses a value chain approach as well. The basic logic of a company by their research is to define how a company can make profit. The business model consists of the following:

- income,
- value creation,
- organization structure,
- internal rules,
- commercial partners (Linder & Cantrell 2000).

However, the above listed parts of business models only make up a business model together, not separately. A good business model can lead to higher competitiveness of the company (Linder & Cantrell 2001) and have to offer longevity in operations (Mansfield & Fourie 2004).

3.2. Business models built for value creation

While several business models definitions are built around the value chain, the other main approach is to consider the way value is created. Teece (2010) defines business model as a logic to create value, including:

- data,
- facts,
- income,
- expenses (Teece 2010).

Johnson et al (2008) have a value creation view on business models. According to their theory, the business model consists of the following four main ideas:

- Value creation, where the company defines a work to solve and give a solution for that,
- Profit formula describing the profit on the activities of the company,
- Key resources, including people, technologies, products, infrastructure, etc,
- Key processes, that can be operational and management processes.

Defining the customers and their needs is a critical part of a good business model (Ritter & Lettl 2018). While value creation defines how the company creates value for the customers, the profit formula shows the value creation for the owners of the company. Key resources and key processes are used in the value creation process (Johnson et al 2008, Nielsen et al 2017).

Amit and Zott (2001) describes the elements of business models in a similar way with the focus in value creation. According to their approach the business model consists of the following parts:

- Processes,
- Structure,
- Coordination (Amitt & Zott 2001).

Good business models are scalable to multiple segments (Teece 2018). Giving further experience to the customers that surround the product make the business model better (Halligan 2020). The revision of business models and restructuring relationships can enhance the value capturing activity of an organization (Teece et al 2020). The modern approach to create circular business models also need the view of value creation, capture and delivery (Frishammar & Parida, 2021). The layers of business are built from these parts in the above mentioned theories. These can be visualized in Figure 1, where the strategy, the value creation (business model layer) and the processes and build on each other, such as different layers.

Planning level	**Strategic layer**	vision, mission, goals
Structural level	**Business model layer**	value creation
Implementation level	**Processes layer**	structure and processes

Figure 1: Layers of business
Source: Osterwalder, 2004 p. 14.

3.3. Business models built for value creation

The Business Model Canvas is a framework simplifying the creation and understanding of business models. It can visualize the elements of existing and potential business models (Hora et al 2016). The Canvas model consists of nine distinguishable elements:

- Value proposition,
- Customer segments,
- Customer relationships,
- Distribution channels,
- Key resources,
- Key activities,
- Key partners,
- Revenue streams,
- Cost structure (Osterwalder & Pigneur 2010).

The Business Models Canvas can be categorized into those business models which have value creation in the center of the theory. While the Canvas can be well used and very popular nowadays, it has some critics as well. The approach does not explain the interconnections between the parts of the model. Furthermore it does not care about the characteristics of networks which can potentially create more value for the customers (Klimanov & Tretyak 2019). Modern IT solutions change how companies work (Ruzsa 2018), in such an environment, a tool like the Canvas framework can be considered useful to visualize new business models.

4. CONCLUSIONS

The business model literature is not consistent. The goal of this paper was to show the main approaches. There are several different ways of defining business models, however these can be categorized into two main approaches:

- business models built around the value chain,
- business models showing how to create value.

The two different ways are showing what is the main structure of the business model. In general, business models cope with the internal operation of a company, while the task of strategic management is to cope with the environment and the competitors. Telling a business model as a story makes it easier to understand and communicate the business model. The Business Model Canvas is a visual way to show the nine main parts of business models. It can also help to create new business models.

While the literature is very wide on business models, this research is limited to highlight some definitions of them which the author considered important based on literature review. Future research may include more definitions from the literature and can discuss business model innovations in a deeper way.

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