

# A Research on the Development of a Business Model

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## Abstract

**The term "business model" has been misinterpreted and misused over the years, and has consequently been inadequately understood and applied by both practitioners and scholars. It has been frequently confused with other popular terms in the management literature such as strategy, business concept, revenue model, economic model, or even business process modeling. This paper aims to contribute to the clarification of the meaning and use of the business model image, as well as to theorize on its logical underpinnings that we find rooted in the resource-based view and in the transaction cost economics. This paper identifies new avenues for further research, such as the investigation of path dependency in a business model and the meaning of business model innovation.**

## Keywords

**Business model; concept of modeling business; modern trends in the development of business models.**

## 1. Introduction

In modern conditions, when there are permanent appearance of new technologies, changing consumer preferences, the formation of new social trends, the main key factors of success in the competition becomes the correct definition of current business model for the company. Successful innovative products are no longer a guarantee of success in the market. Integrated innovation that moves to the level of permanent monitoring of the adequacy of the business model changing circumstances and design of its improved version is a determining factor in the success of regional and international competition. My position is supported by the views of the other researchers, since according to PhD Strekalova "The fate of the company's business depends on the proper selection and implementation of business models".

## 2. Literature Review

Since around the turn of millennium, the research has moved from a general focus on the context of e-business to a more generic and comprehensive approach of the notion of a 'business model', relevant also to other types of organizations. From basic definitions and taxonomies, scholars have moved to more articulated definitions and began to identifying the model's building blocks and components (Onetti et al., 2012: 342; see also Section 2.1 on the levels of business model conceptualisations). Hedman and Kalling (2003: 51), for example, identify the company's customers, its competition, its value offering, the activities and the organization, the resources, the suppliers, and the management processes as business model components (see Table 1 of Appendix 2 for more on business model components).

### 2.1. Technology and Innovation Management Literature Stream

Many studies assess the relationship between technology innovation and business models or the change in business models. This perspective frames business models within an innovation

context, defining it as ‘a coherent framework, which takes technological characteristics and potentials as inputs and converts them through customers and markets into economic outputs. The business model is conceived as a focusing device that mediates between technology development and economic value creation. What is communicated effectively is a story that translates technology into value and into profit. Business models are often necessitated by technological innovation, which creates both the need to bring discoveries to market and the opportunity to satisfy unrequited customer needs. At the same time, new business models can themselves represent a form of innovation. The business model is thus mainly seen as a mechanism that connects the firm’s (innovative) technology to customer needs, and/or to other firm resources (e.g. technologies). The business model is conceptually placed between the firm’s input resources and market outcomes, and ‘embodies nothing less than the organizational and financial ‘architecture’ of the business’. According to this more functionalist, firm-centric perspective, the business model can be a vehicle for innovation as well as a source of innovation<sup>24</sup>. Baden-Fuller and Haeflinger also claim that strategy scholars have underplayed the role of business model choice in their search for a link between technology innovation and competitive advantage. The typical assumption that offering a radically improved product or service will over time automatically lead to increased profits for the innovating firm(s) ignores the enormous problems that firms face in working out the interdependencies between business model choice and technology effectiveness. Business model choice determines the nature of the complementarity between business models and technology and the paths to monetization. A poor choice can lead to low profits, a good choice to superior profits.

## 2.2. Strategic Issues Literature Stream

Within the strategy literature, research on business models has mainly revolved around three aspects a) the networked nature of value creation, b) the relationship between business models and firm performance, and c) the distinction between the business model and other strategy concepts. Since strategy scholars are generally interested in the firm’s activities (as these help explain, for example, how a firm distinguishes itself from its competitors), it is not surprising that many of the business model conceptualizations proposed in this literature stream centre on (or at least include) the notion of activities or activity systems. A business model can be a source of competitive advantage, as it emphasizes the importance of activities centred on the customer needs, a perspective that is relatively rare within the strategy literature. It is worth noting the observations of Keen and Qureshi (2006) and DaSilva and Trkman (2013) that the term business model is frequently confused with other popular, well-established management terms such as ‘strategy’, ‘competitive positioning’, ‘organisational design’, ‘revenue model’, ‘economic model’<sup>25</sup>, ‘business concept’, ‘business process modelling’<sup>26</sup> and ‘value chain’<sup>27</sup>. Stefanovic and Milosevic (2012) argue that the terms ‘strategy’ and ‘business model’ are among the most heavily used terms in the field of business and management, and claim that both terms are sometimes even used interchangeably<sup>28</sup>. When people are asked ‘What is a strategy?’, most give an answer that includes the words ‘business model’ note that it is difficult to clearly distinguish business model components from the strategy it supports or represent. The overlap, however, leads to confusion and makes the business model notion rather vague.

## 3. Concept of Business Model

Analysis of the literature shows that the authors often understand the business model in different ways, and their studies are carried out in several directions. Within the first direction researchers use a business model as an abstract concept to a very general way to describe a way to create, sale and delivery of value to customers (Chesbro, 2008; Markides, 2010; Ostervalder & Penye, 2013). The second trend is characterized by the primarily emphasis on

the concept of business (Slivotsky, 2006). This approach allows researchers to overcome the complexity of the object under study and reduce it to a level acceptable to the perception and understanding. All this helps to selection and study of the basic elements of the business model, as well as the relationships between them, which generally characterize the company's business. For example, in Kristensen (2009); A.Slivotsky (2006), along with the definitions of business model elements that must be present in it are specified. The quantity and composition of selectable items different authors vary and their number ranges from 4 to 9. In general, they may be presented as a list of basic elements of a business model. The third line of research examines specific situations and analyzes the business models of real companies. The authors use a business model to describe and analyze business successful companies such as Xerox, Zipcar, Lego, Dell, Innosentive, Toyota, Wal-Mart and others. It should be noted that the descriptions of business models in the literature by various authors often differ in the terminology used in conceptualizing and how they formalize these business models real companies.

### **3.1. Using the Business Model**

Business models have been widely used in the era of technological entrepreneurship and venture capital investment. Since this tool provides the opportunity for a short period of time to compare several projects and startups. Assessing the short and capacious view of the company as a business model, managers become widely use business modeling for strategic and operational management. This tool has become a tool for reflection and study business. At the moment, the business model is used in a broad range of tasks, among which are:

- Understanding of the business logic;
- The design of forms of adaptation to external changes;
- The basis for strategic planning and business modeling, conducting strategic experiments;
- The development of new conceptual solutions in the product line and the form of business organization;
- The creation of a single communication space with respect to the logic of business organization and management;
- The training of professional managers in the style of highly successful adaptive companies

### **3.2. Experimentation of Business Model**

Where scientists have labs where they can manufacture and run experiments. Entrepreneurs have the real world as a way to measure their assumptions. Designing and executing business models for an entrepreneur is like designing and running experiments for scientists.

However, where a scientist might be looking for lasting truth, an entrepreneur searches for a business model which will work in the marketplace in that particular point in time. Indeed, one of the common beliefs is that business models can be sketched on a piece of paper and they will work in the real world.

That (almost) never happens. Before a business model does work in the real world that will require a lot of strategic and deliberate thinking, experimentation, and tinkering. Thus, a successful business model is usually the fruit of this process. That implies that often an entrepreneur has to design multiple variations of the same business model and test those in the marketplace. For instance, if you've built a company which offers software but you positioned yourself with a freemium model. You might realize that model won't work in your case, so you will need to move the revenue generation back to a premium model, where your target customers willing to pay more and you move the needle from B2C to B2B. Thus, cutting yourself space within a specific niche. That will, of course, limit the number of customers you might be able to reach; at the same time, it will enable you to find product/market fit.

### 3.3. Primary Components and Classes of Business Model

Although there is not a single way to define a business model, there is a standard called “business model canvas” which is a good way to start to understand what are the pieces and moving parts of a company value creation chain. As highlighted in the business model canvas there are seven key ingredients for any business model to succeed:

- Key partners
- Key activities
- Value proposition
- Customer relationship
- Customer segment
- Key resource
- Distribution channel
- Cost structure
- Revenue stream

However, in a world where information technology has become predominant, being agile becomes critical. In that context, an evolution of the business model canvas, the lean startup canvas has become more accurate to design a business model for a startup. The key difference is how a startup “behaves” compared to a corporation. We can classify business models in several ways. For instance, based on how companies and startups monetize their business, how they deal with their suppliers, customers and the value proposition those companies can offer to several stakeholders.

Some business models have always existed, some others are new, others yet innovate by bringing old business models to a new industry (take the Netflix business model case study as an example).

In this guide, we’ll see several business models based on successful companies, tech startups and also more traditional organizations. The aim is to give you an overview of all the different moving parts that comprise a business model.

In some cases – take Microsoft or Amazon – there isn’t a single way to describe a business model, as some companies have been able to diversify so much their operations to be able to generate value propositions across several stakeholders across many industries.

For instance, Microsoft isn’t just the company selling Microsoft Office products. True, that is still an essential part of the business, as of 2017. Yet, Microsoft has many other segments that are independent of others, and some others that are complementary

### 3.4. Technological Innovation and Modern Developments in Business Model

The misconception starts from the fact that nowadays, technological advancement is pushing toward new ways of doing business. The Internet is still enabling new, untested models to pick up. For instance, business models of companies like Netflix would not be possible if the Internet didn’t allow new ways of content delivery, and so also of how those same companies make money. However, technological innovation is wholly different from business innovation. That’s because technological innovation often happens in labs or research centres (take the internet) rather than just companies, or in a business context. In short, technological innovation requires a massive amount of resources upfront and researchers, which might not follow business objectives, but rather experiment freely with ideas that take time to work out.

In addition, even when a specific technology becomes commercially viable that might also be soon commoditized. Thus, technology itself hardly becomes a competitive advantage.

Technology coupled with new ways of serving customers, a powerful distribution strategy and creative monetization strategies might create lasting competitive advantages. That is when the business model innovation kicks in. In a memo dated September 26th, 2001 Warren Buffet highlighted the importance of building moat. For financiers, a moat is a lasting competitive advantage. However, the digital era, dominated by platform business models, taught us that competitive advantages sit outside the company's boundaries.

And the ability of digital businesses to take advantage of those external resources, also wrecked those barriers, making competition way more fluid, unpredictable and hard to build with the old business playbook. Therefore, companies like Amazon have learned to take advantage of network effects, and rather than follow a linear logic, designed business models with built-in flywheels focused on customer obsession.

The point here though is not that you have to build a tech giant like Amazon. Instead, you need to realize that the Internet and the digital era enabled new ways of doing business. Thus, they are not just new distribution platforms, but they require a new business playbook altogether. This business playbook revolves around business model innovation.

### 3.5. The Evolution

The history of the development of business models has just over 100 years. According A.Ostervalderu first transformation of the classical business model shop began in 20-30s years. Classical model includes placing the store at the location of potential buyers and demonstration for them goods or services for sale. Business model, which is called "bait-hook" (also known as "razor-blade" or "related products") began to be used at the beginning of the 20th century. This business model is to sell the basic product at a very low price, sometimes below cost ("bait"), then the main profit is earned on the sale of spare Parts, consumables or other associated with the use of "bait" of goods or services ("hook" ). For example, razors and blades, mobile phones and communication services, printers and cartridges, cameras and photography. In the 1950s, new business models based on organizational, managerial and marketing innovations developed by McDonald's and Toyota. In the 1960s, the innovators were Wal-Mart. 1970 brought new business models from FedEx and Toys R Us; 1980 Blockbuster, Home Depot, Intel and Dell; 1990s from Southwest Airlines, Netflix, eBay, Amazon.com and Starbucks. Modern companies use the transformation of business models to reduce costs and improve business efficiency, including through outsourcing, new forms and quality of service, new forms of organization of work. Among such companies can be identified manufacturers of clothing, food, cosmetics. However, the vast majority of critical innovations in business models seen in IT companies. And one of the leading trends can be called the change and transformation of business models based on the capabilities of IT convergence technologies (off line IT) and virtual space (on line). The authors conducted a study to identify new solutions to companies in five kinds of business models Osterwalder and identification of innovative business models, modern successful companies. Let us consider company and the decisions they have made based on transformation of their existing business models.. a. Separation This business model assumes division the business model in order to create a well-functioning individual units or individual companies. Here you can allocate the company Zara, which is divided into separate business areas clothes and household goods. The company Compass Health, which produces functional food only from natural ingredients, forms a plant for the production of natural cosmetics. Novosibirsk city site (NGS) began to deepen thematic division on the site in a separate section tourism, business, real estate, labor and others. RelateIQ startup company that has developed a tool for sales management aimed at "smart relations" with the client. b. «Long tail» According to the business model long-tail the company is focused on attracting a large number of buyers niche products. n the basis of this principle, were developed specialized platforms, such as a forum of young mothers Sibmama, which was transformed into a platform



for buying - selling children's clothes, and then to implement a wide range of consumer goods. And similar business models use such platforms as Pulsken.ru, Price.ru and Avito.ru, which are engaged in the realization industrial and household goods. Similar companies in the auto market is Drom.ru. Lilu.com - Publishing, which is implementing printing of books to order. Zipcar company based on our platform provide a complete cycle of services for travel planning and for renting a car. c. Multilateral platforms The essence of the multilateral platforms is that they are of interest to customers, the company's revenue only, when this resource uses a wide range of potential customers of these companies. Internet resource SurveyMonkey.ru allows all, involved in sociological surveys and investigation public opinion, to create their profiles and conduct surveys among the general population of the Internet. Company 2do2go and Afisha.ru for everyone provides a selection of interesting events and activities in the city on the basis of defined filters. Company Kursera - a project in the field of mass education online, allowing all Internet users to develop different courses and disciplines based on leading professors in the world. Eventbrite - service ticket sales organization and marketing activities. All of these companies are united by the fact that they do not get the revenue from those customers who use their merchandise. d. FREE In these business models, at least one significant consumer segment for a long time can obtain the benefit of the free sentences. 2GIS can be attributed to such companies, which has been actively developed as an advertising platform when the majority of the population actively use this service. It is worth noting that the company is actively working to expand the revenue stream. At the initial stage the company must pay for an additional advertising and the release of information about the company in the top 10, but now they offer a wide range of additional services, including an increase in traffic on the company's website and increase the conversions.

## 4. Development of Business Model

### 4.1. Development Process

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 program mmes. 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 the Business Model Design Center 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 term did not see widespread use for decades. The number of peer-reviewed journal papers on "business model" remained low until the 1990s, with only five papers containing the words "business model" in their title over the whole decade - as reviewed by Osterwalder, Pigneur, and Tucci (2005). With the development of information and communication technologies (ICT) and the emergence of Internet companies, the term quickly gained prominence among both practitioners and business scholars. Congruently, the use of the term "business model" in academic papers closely followed the trend of the NASDAQ index from the early 1990s to the dot-com bubble burst. Ghaziani and Ventresca (2005) further acknowledge that, during this period, the business model terminology spread to various communities (such as marketing, management, banking and ICT) and has been used within various frameworks (such as business plan, business strategy, value creation.

## 4.2. Forecast of Development of Business Model

Forecast of development of business models for the future. The formation of the companies of the future impact the set of factors: technological development, depletion of natural resources, social trends, environmental safety, and others. In the current situation formed technological trends, mainly in IT that will have a major impact on changes in the business models of the company in the short and medium term. On the basis of the emerging powerful potential in the field of IT technologies and new management tools became possible develop networks of business models, when the company will create service division for several companies - partners. For such companies, a number of business functions may be available for sharing. With the use of multilateral platforms and open innovation model can be created based on network interactions dynamic teams, which are combined to implement a single idea can be transformed into a startup company to develop on its basis a new business line. Moreover, in this direction is possible to change the roles of customers and performers, at certain stages when the customer takes over the individual works, and artist creates for him a job.

## 5. Conclusion

Haven considered the new trends in the development of certain types of business models and emerging companies should be noted that new technological solutions have a significant impact on the transformation of the institutional architecture of the companies and their business model. In the future, is expected to increase diversity in the economic space based on the new business model of the company and the creation of new companies based on innovative business models.

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