

The Business Model Concept

Zeenat Hameed

Department of Business Administration, University of Lucknow, (India)

ABSTRACT

The business model concept is becoming increasingly popular within management and strategy literature. It is used within many fields of research and is characterized by numerous fields of application which are promising in business practice. Despite its recurrent use by academicians and managers, the business model concept remains rarely studied. Consequently, the concept of business models has recently attracted increasing attention in the research world. Thus, this paper conducted a comprehensive and up-to-date literature analysis examining relevant literature sources focusing mainly on business model research. This paper attempts to systematically and objectively describe deeper into the research area and thereby generate novel insights for researchers, managers and investors. The review depicts that scholars do not agree on what a business model is and that the literature is developing according to the interest of the respective researchers. The business model concept is often used separately from theory, i.e. model components and their interrelations are relatively uncertain. This paper offers description for business model concept, and proposes that it should include customers, competitors, partners, business resources, offerings, processes and organisation. However, for its optimal utilization, the immensely-criticized lack of theoretical consensus in this field of research needs to be overcome.

Keywords: Business Models, Business Model Concept, Literature Analysis

I. INTRODUCTION

The popularity of the term "business model" is a relatively young phenomenon. Though it appeared for the first time in an academic article in 1957 and in the title and abstract of a paper in 1960 it rose to prominence only towards the end of the 1990s. The term was most frequently but not only used in relationship with the Internet from the 1990s onwards.^[1] Part of the relationship between technology and business models stems from the business model concept's roots in transaction cost economics (TCE). The sharp rise in cheap information technology, bandwidth, and communication possibilities made it much easier for companies to work in so-called value webs because coordination and transaction costs fell substantially.^[2]

In recent years, the business model has been the focus of substantial attention from both academics and practitioners. Since 1995, there have been at least 1,177 articles published in peer-reviewed academic journals in which the notion of a business model is addressed. The business model also has been the subject of a growing number of practitioner-oriented studies. While there has been an explosion in the number of articles published, and an abundance of conference sessions and panels on the subject of business models, it appears that researchers (and practitioners) have yet to develop a common and widely accepted language that would allow researchers who examine the business model construct through different lenses to draw effectively on the work of others.^[3]

II. RESEARCH OBJECTIVES OF THIS PAPER

- Provide an up-to-date overview on business model literature covering the last two decades of research.
- Point out what seems to be the current understanding of the concept and examine whether a change in the understanding of the concept has occurred during the last decade.
- Uncover existing research gaps in this field of research.

III. METHODOLOGY FOR LITERATURE CLASSIFICATION

A broad foundation of journal and conference papers was built up towards a classification and analysis of business model literature. This was achieved by performing a search on the literature databases such as Google Scholar using the search term "business model(s)". Thereafter, literature which mainly emphasised on business model research was chosen and screened to further shortlist promising literature which is provided in the references section. As a result, around a hundred papers could be identified focusing on the field of business models.

In order to screen the most relevant papers within business model research during the last two decades, the selection of literature had to meet some criteria. As such, the literature which was highly-considered among scientists and researchers as reflected in the citation frequency on Google Scholar as well as those with more recent date of publication were included.

However, the drawback of this technique was that the most actual literature might not have been selected if it did not satisfy the requirement of citation frequency. To overcome this problem, the recent and promising, but low cited papers were manually selected

An initial analysis of these articles, performed by reading research paper titles, journal names, abstracts, and methodology revealed that not all the articles identified by our search would be useful for the purpose of writing this review. As many of these articles were case studies, reviews of research papers published elsewhere, these were not the subject of our analysis.

The proposed methodology is adopted to study the origin of the concept and aims to define the concept from related fields of research. Reviewing the literature reveals similarities and differences as well as existing research gaps in business model research.

IV. BUSINESS MODEL LITERATURE

Despite the fact, that business models have been addressed by researchers for more than a decade now, the concept still lacks a theoretical consensus and reveals several research gaps, which is criticized throughout the scientific literature.^[4]

Timmers defines a business model as including an architecture for the product, service, and information flows, a description of the benefits for the business actors involved, and a description of the sources of revenue. While Timmer's definition does not limit the notion of a business model to e-commerce, he applies business models to that domain, using two dimensions 1) functional integration (number of functions integrated) and 2) degree of innovation (ranging from simply translating a traditional business to the Internet, to creating completely new ways of doing business) resulting in eleven distinct Internet business models.^[4]

Business model definitions and descriptions have proliferated since Timmers. A business model as consisting of two elements: (a) what the business does, and (b) how the business makes money doing these things.^[5]

Magretta argued that the strength of a business model is that it tells a story about the business, focusing attention on how pieces of the business fit together - with the strategy describing how the firm differentiates itself and deals with competition. Business models have the added attraction of being potentially comparable across industries.^[6]

The business model starts by creating value for the customer and constructs the model around delivering that value.^[7] A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.^[1]

The expression 'business model' stands for various things, such as parts of a business model (e.g. auction model), types of business models (e.g. direct-to-customer model), concrete real world instances of business models (e.g. the Dell model) or concepts (elements and relationships of a model). The authors writing about business models can be classified in three different categories that can (but do not necessarily have to be) hierarchically linked to one another.

1. Authors that describe the business model concept as an abstract overarching concept that can describe all real world businesses.
2. Authors that describe a number of different abstract types of business models (i.e. a classification scheme), each one describing a set of businesses with common characteristics.
3. Authors presenting aspects of or a conceptualization of a particular real world business model.

All three categories can vary in their modelling rigour, ranging from simple definitions, over the listing of elements to a set of related, defined and conceptualized elements. The three categories are not mutually exclusive and they all make sense and they must be distinguished conceptually in order to achieve a common understanding of business models. Furthermore, the three levels make the most sense when they are hierarchically linked to each other through a comprehensive approach.^[1]

A review of the literature using the term business model shows that a continuum between authors using the term to simply refer to the way a company does business and authors that emphasize the model aspect. These two viewpoints

differ because the former generically refers to the way a company does business, whereas the latter refers to a conceptualization of the way a company does business in order to reduce complexity to an understandable level. Proponents of the latter viewpoint propose meta-models that consist of elements and relationships that reflect the complex entities that they aim to describe. In other words, for business models, the quest is to identify the elements and relationships that describe the business a company does. Thus, the business model concept can best be understood as a conceptual view of a particular aspect of a specific company. The meta-model then defines the words and sentences that we use to describe this view.^[1]

Osterwalder propose five phases in the evolution of business model literature. During the first phase, when the term business model started to become prominent, a number of authors suggested business model definitions and classifications. In the second phase, authors started to complete the definitions by proposing what elements belong into a business models. At first, these propositions were simple "shopping lists", just mentioning the components of a business model. Only in the third phase did detailed descriptions of these components become available. In a fourth phase researchers started to model the components conceptually. This work led to the proposition of business model meta-models in the form of reference models and ontologies. In this phase models also started to be evaluated or tested more rigorously. Finally, in the on-going fifth phase, the reference models are being applied in management and in IS applications.^[1]

A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences. This definition is sufficiently broad to embrace the different reflections on business models that sprung up in different fields such as e-business, IS, computer science, strategy, or management.^[8]

CONCLUSION

Over the previous two decades, research in business models has developed. Many research gaps are still existent in the field of business model research which need to be addressed to achieve a successful usage of the business model concept. Although scholars do not agree on what a business model is, a certain progression can be observed. The research on business models is much unstructured and as a whole advances slowly. The business model concept still needs more explanation. The insufficient knowledge on business models is primarily caused by the small quantity of large-scale empirical studies.

This paper focused on improving the current situation in the research field by structuring the literature to attain a more holistic view of the concept. Further research should be promoted in the field of business model representation. Large-scale empirical analyses on existing business models are also required. The work we have done so far is only the beginning and a small part of the systematic study of business models. It will provide a foundation for future work on this important topic. A common language and understanding of the concept is still needed to consolidate the work of different research streams.

REFERENCES

- [1] Osterwalder, A., Pigneur, Y., & Tucci, C. L. (2005). Clarifying business models: Origins, present, and future of the concept. *Communications of the association for Information Systems*, 16(1), 1.
- [2] Amit, R., & Zott, C. (2001). Value creation in e- business. *Strategic management journal*, 22(6- 7), 493-520.
- [3] Timmers, P. (1998). Business models for electronic markets. *Electronic markets*, 8(2), 3-8.
- [4] Weill, P., Malone, T. W., D'Urso, V. T., Herman, G., & Woerner, S. (2005). Do some business models perform better than others? A study of the 1000 largest US firms. MIT Center for coordination science working paper, 226.
- [5] Al-Debei, M. M., & Avison, D. (2010). Developing a unified framework of the business model concept. *European Journal of Information Systems*, 19(3), 359-376.
- [6] Magretta, J. (2002). Why business models matter.
- [7] Chesbrough, H., & Rosenbloom, R. S. (2002). The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin- off companies. *Industrial and corporate change*, 11(3), 529-555.
- [8] Pateli, A. and G. Giaglis (2003). "A Framework For Understanding and Analysing e-Business Models. "Proceedings of the Bled Electronic Commerce Conference.