

# Strategic Development of Business Models

## *Implications of the Web 2.0 for Creating Value on the Internet*

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There is virtually a consensus that, to remain competitive, firms must continuously develop and adapt their business models. However, relatively little is known about how managers can go about achieving this transformation, and how, and to what extent, different types of business models should be adapted. To illustrate the differential effect of environmental changes on different business model types, this article draws from the '4C' Internet business model typology to elaborate on how a recent wave of changes on the Internet – the emergent Web 2.0 phenomenon – is affecting each of its four business model types. We argue that Web 2.0 trends and characteristics are changing the rules of the 'create and capture value' game, and thus significantly disrupt the effectiveness of established Internet business models. Since systematic empirical knowledge about Web 2.0 factors is very limited, a comprehensive Web 2.0 framework is developed, which is illustrated with two cases and verified through in-depth interviews with Internet business managers. Strategic recommendations on how to what extent different Web 2.0 aspects affect each business model type are developed. Executives can use the ideas and frameworks presented in the article to benchmark their firm's efforts towards embracing the changes associated with the Web 2.0 into their business model.

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## Introduction

Developing and adapting their firm's business model has become a major task for many executives in their efforts to cope successfully with technological progress, competitive changes, or governmental and regulatory alterations.<sup>1</sup> So researchers are increasingly interested in how environmental turbulence interacts with business model change, and in investigating the effect of volatile markets on the processes by which firms seek to adjust their operations and adapt their product portfolios to remain competitive.<sup>2</sup>

As one of the most influential environmental changes within the last two decades, the introduction and proliferation of the Internet provides an ideal setting for studying business model development. Although research on the effect of Internet developments on business model change is still in its infancy, a key insight from this literature is that the Internet is prototypical of the kind of 'high velocity environment' in which successful business models need to be frequently adjusted to new challenges.<sup>3</sup> Despite this important finding, guidance for managers on how to go about assessing the relevant aspects of environmental change, and their specific effects on their own business models, has been very limited. Most extant studies have remained rather abstract in their recommendations on how to approach environmental analysis and how to match it to firms' business models: this is where our article aims to make its contribution. We discuss the relative impact of various Internet changes for different types of business models, providing concrete managerial implications on how various Internet business models are affected by specific shifts in the competitive and technological landscape.

As an empirical context, we focus on the Web 2.0 phenomenon, a new wave of Internet developments that is likely to lead to fundamental changes in how both Internet and traditional business models function. Recent Web 2.0 developments include, for example, the increased pervasiveness of social networks and relevance of user-generated content, facets on which this article elaborates. A reconfiguration of established Internet business models seems advisable in order to meet the needs of new and radically shifting Internet user behavior.<sup>4</sup>

This paper seeks to address this managerial challenge by developing a comprehensive framework of Web 2.0 characteristics and success factors that allows managers to identify key trends for their own Internet business model. In order to provide more fine-grained and managerially useful findings, the main objective of this article is to illustrate the differential effect of the Web 2.0 on various Internet business model types, and to give managers clear guidance on how to adapt them in response to changing technology and user behavior.

## Conceptual background

Firms are increasingly confronted with fundamental environmental alterations, such as new competitive market structures, governmental and regulatory changes, and technological progress, which often require managers to significantly adapt one or more aspects of their business models. Successful adaptation of an established business model to new environmental conditions closes the gap between the organization's existing resources and capabilities and the basis of its competitive advantage in the industry as it evolves.<sup>5</sup> The strategic renewal of business models in response to environmental shifts has a substantial effect on the long-term prospects of the firm. While such transformations are associated with many difficulties - including sensing the need to change, identifying adequate approaches to revamp the business model, and overcoming inertia in implementing and accepting new structures - numerous authors have noted that being unable to adapt in the face of significant environmental change has proved deadly for many firms.<sup>6</sup>

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