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From Strategy to Business Models and onto Tactics

Ramon Casadesus-Masanell and Joan Enric Ricart

Strategy scholars have used the notion of the Business Model to refer to the 'logic of the firm' – how it operates and creates value for its stakeholders. On the surface, this notion appears to be similar to that of strategy. We present a conceptual framework to separate and relate the concepts of *strategy* and *business model*: a business model, we argue, is a *reflection* of the firm's *realized* strategy. We find that in simple competitive situations there is a one-to-one mapping between strategy and business model, which makes it difficult to separate the two notions. We show that the concepts of strategy and business model differ when there are important contingencies on which a well-designed strategy must be based. Our framework also delivers a clear distinction between *strategy* and *tactics*, made possible because strategy and business model are different constructs.

Introduction

The field of strategy has evolved substantially in the past twenty-five years. Firms have learned to analyze their competitive environment, define their position, develop competitive and corporate advantages, and understand better how to sustain advantage in the face of competitive challenges and threats. Different approaches - including industrial organization theory, the resource-based view, dynamic capabilities and game theory - have helped academicians and practitioners understand the dynamics of competition and develop recommendations about how firms should define their competitive and corporate strategies. But drivers such as globalization, deregulation and technological change (to mention only a few) are profoundly changing the competitive game. Scholars and practitioners agree that the fastest growing firms in this new environment appear to be those that have taken advantage of these structural changes to innovate in their *business models* so they can compete 'differently'. IBM's *Global CEO Studies* for 2006 and 2008, for example, show that top management in a broad range of industries are actively seeking guidance on how to innovate in their business models to improve their ability to both create and capture value.[1]

In addition to the business model innovation drivers noted above, much recent interest has come from two other environmental shifts. Advances in ICT have been a major force behind the recent

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interest in business model innovation. Many e-businesses are based on new business models — Shafer, Smith and Linder find that eight of the twelve recent business model definitions they present relate to e-business.[2] New strategies for the 'bottom of the pyramid' in emerging markets have also steered researchers and practitioners towards the systematic study of business models. Academicians working in this area agree that firms need to develop novel business models to be effective in such specific and challenging environments (see work by Thompson and MacMillan, as well as by Yunus et al. in this issue), and socially motivated enterprises constitute a second important source of recent business model innovations.[3]

Advances in ICT and the demands of socially motivated enterprises constitute important sources of recent business model innovations.

While it has become uncontroversial to argue that managers must have a good understanding of how business models work if their organizations are to thrive, the academic community has only offered early insights on the issue to date, and there is (as yet) no agreement as to the distinctive features of superior business models. We believe this is partly because of a lack of a clear distinction between the notions of *strategy, business models* and *tactics*, and the purpose of this article is to contribute to this literature by presenting an integrative framework to distinguish and relate these three concepts. Put succinctly:

- *Business Model* refers to the logic of the firm, the way it operates and how it creates value for its stakeholders; and
- *Strategy* refers to the choice of business model through which the firm will compete in the marketplace; while
- *Tactics* refers to the residual choices open to a firm by virtue of the business model it chooses to employ.

To integrate these three concepts, we introduce a *generic two-stage competitive process framework*, as depicted in Figure 1. In the first stage, firms choose a 'logic of value creation and value capture' (i.e., choose their business model), and in the second, make tactical choices guided by their goals (which, in most cases, entail some form of stakeholder value maximization). Figure 1 thus presents our organizing framework: the object of strategy is the choice of business model, and the business model employed determines the tactics available to the firm to compete against, or cooperate with, other firms in the marketplace.

The article is organized as follows. In the next section we define and discuss the notion of *business models* and present a tool to represent them, while the following section considers the stage two 'choice' in our framework, presenting and discussing the notion of *tactics* in relation to that of business model. The following section then moves back to examine the first — *strategy* — stage, after

Figure 1. Generic two-stage competitive process framework