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The entrepreneur's business model: toward a unified perspective

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Abstract

Highly emphasized in entrepreneurial practice, business models have received limited attention from researchers. No consensus exists regarding the definition, nature, structure, and evolution of business models. Still, the business model holds promise as a unifying unit of analysis that can facilitate theory development in entrepreneurship. This article synthesizes the literature and draws conclusions regarding a number of these core issues. Theoretical underpinnings of a firm's business model are explored. A six-component framework is proposed for characterizing a business model, regardless of venture type. These components are applied at three different levels. The framework is illustrated using a successful mainstream company. Suggestions are made regarding the manner in which business models might be expected to emerge and evolve over time.

Keywords: Activity sets; Architecture; Business model; Strategy; Model dynamics

1. Introduction

Ventures fail despite the presence of market opportunities, novel business ideas, adequate resources, and talented entrepreneurs. A possible cause is the underlying model driving the business. Surprisingly, little attention has been given to business models by researchers, with much of the published work focusing on Internet-based models. The available research tends to be descriptive in nature, examining approaches to model construction, noting standard model types, citing examples of failed and successful models, and discussing the need for new models as conditions change. Yet, no consensus exists regarding the definition or nature of a model, and there has been no attempt to prioritize critical research questions or establish research streams relating to models. The purpose of this study is to review existing perspectives and propose an integrative framework for characterizing the entrepreneur's business model.

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2. Literature review

2.1. What is a 'business model'?

No generally accepted definition of the term "business model" has emerged. Diversity in the available definitions poses substantive challenges for delimiting the nature and components of a model and determining what constitutes a good model. It also leads to confusion in terminology, as business model, strategy, business concept, revenue model, and economic model are often used interchangeably. Moreover, the business model has been referred to as architecture, design, pattern, plan, method, assumption, and statement.

It is possible to bring order to the various perspectives. A content analysis of key words in 30 definitions led the authors to identify three general categories of definitions based on their principal emphasis. These categories can be labeled economic, operational, and strategic, with each comprised of a unique set of decision variables. They represent a hierarchy in that the perspective becomes more comprehensive as one progressively moves from the economic to the operational to the strategic levels.

At the most rudimentary level, the business model is defined solely in terms of the firm's economic model. The concern is with the logic of profit generation. Relevant decision variables include revenue sources, pricing methodologies, cost structures, margins, and expected volumes. Hence, Stewart and Zhao (2000) approach the model as "a statement of how a firm will make money and sustain its profit stream over time." At the operational level, the model represents an architectural configuration. The focus is on internal processes and design of infrastructure that enables the firm to create value. Decision variables include production or service delivery methods, administrative processes, resource flows, knowledge management, and logistical streams. Mayo and Brown (1999) refer to "the design of key interdependent systems that create and sustain a competitive business." Definitions at the strategic level emphasize overall direction in the firm's market positioning, interactions across organizational boundaries, and growth opportunities. Of concern is competitive advantage and sustainability. Decision elements include stakeholder identification, value creation, differentiation, vision, values, and networks and alliances. Slywotsky (1996) refers to "the totality of how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers and captures profits."

Among the available definitions, strategic elements are most prominent. Further, an analysis of models frequently cited as being well conceptualized (e.g., Dell, Nucor, Wal-Mart, IKEA, Walgreen) suggests that the elements making these models unique transcend the architecture of the firm or how it makes money. More than the sum of its parts, the model captures the essence of how the business system will be focused. Accordingly, the following integrative definition is proposed: "A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets."

To illustrate the distinction between a business model and related concepts, consider Dell Computer, a firm that has grown to over US$32 billion in annual sales in just 20 years. The company's products include a mix of PCs, notebooks, workstations, servers, and software products. Their business concept involves selling customized computer solutions directly to customers at competitive prices. However, the Dell business model integrates strategic considerations, operational processes, and decisions related to economics. It is designed around elimination of intermediaries, systems built to order, highly responsive customer service, moderate margins, rapid inventory turnover, speedy integration of new technologies, and a highly efficient procurement, manufacturing, and distribution process. Adherence to these elements guides operational decision making and the firm's ongoing strategic direction.

The business model is related to a number of other managerial concepts. It captures key components of a business plan, but the plan deals with a number of start-up and operational issues that transcend the model. It is not a strategy but includes a number of strategy elements. Similarly, it is not an activity set, although activity sets support each element of a model.

2.2. What do we know about business models?

Interest in business models is relatively recent, with much of the research appearing in the past decade, a time period associated with the "new economy." The popularity of the term is evidenced in a keyword search using the Google search engine and the ABI-Inform database. Results from these two sources indicated 4,326,812 and 2387 entries, respectively, for "business model."

The largest volume of research has come from electronic commerce (Mahadevan, 2000). Early work focused on capturing revenue streams for web-based firms. Subsequent efforts identified model types based on product offerings, value-creating processes, and firm architecture, among other variables. For a detailed inventory of these models, see http://digitalenterprise.org/models/models.html. As it became evident that the number of potential models was limitless, researchers began focusing on model taxonomies.

In spite of this foundation, progress in the field has been hindered by lack of consensus over the key components of a model. Table 1 presents a synopsis of available perspectives regarding model components. The perspectives are notable both for their similarities and differences. The number of components mentioned varies from four to eight. A total of 24 different items are mentioned as possible components, with 15 receiving multiple mentions. The most frequently cited are the firm's value offering (11), economic model (10), customer interface/relationship (8), partner network/roles (7), internal infrastructure/connected activities (6), and target markets (5). Some items overlap, such as customer relationships and the firm's partner network or the firm's revenue sources, products, and value offering.

This lack of consensus has hindered progress on a number of related issues. Few insights are available regarding the conditions that make a particular model appropriate, ways in which models interact with organizational variables, existence of generic model types, and dynamics of model evolution, among other questions. Attempts at model decomposition acknowledge the existence of interdependencies among components but shed little light on the nature of the relationships. Limited progress has also been made in establishing methodologies for evaluating model quality.

2.3. Theoretical underpinnings of business models

Issues of theory represent another area receiving scant attention. A notable exception can be found in Amit and Zott (2001), who approach the business model construct as a unifying unit of analysis that captures value creation