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The plurality of co-existing business models: Investigating the complexity of value drivers

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Business models are key tools to provide a means of operationalizing theories about firm and industry level strategies, and to understand the nature of value drivers and the role of marketing in these processes. In this paper we assess empirical evidence for a plurality of co-existing business models within firms by developing a typology of business models in a single industry, the New Zealand Wine industry. We examine the co-existence of the types of models using in-depth analysis of seven case firms that vary in size and ownership. Our findings show how value creation is done in the context of interactions and they provide support for multiple business models that co-exist alongside each other with varying degrees of separation. Plurality better explains the complexity of value drivers and strategies for firms in this rapidly changing industry environment, where businesses are under extreme financial pressure. Our findings challenge assumptions that firms have (or should have) a single business model thus allowing a plurality of approaches within a single firm or industry that shifts the focus from implementing strategy A or B or C, to implementing strategy A and B and/or C.
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1. Introduction

Business models provide a practical way of operationalizing theories about firm and industry level strategies, and of understanding the nature of value drivers and the role of marketing in these processes (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002). Rather than assuming that firms have a single business model, a pluralistic perspective of business models may offer further insight into the complexity of value creation (Nenonen & Storbacka, 2010). Value creation is done in the context of interactions, and there are multiple ways to configure and manage interactions (Beverland, 2012; Lindgreen, Hingley, Grant, & Morgan, 2012). A pluralistic approach allows for dual (Heracleous & Wirtz, 2010; Markides & Charitou, 2004) or multiple business models (Casadesus-Masanell & Tarziján, 2012), and challenges orthodox strategic thinking that competitive advantage and value creation should build on only one generic strategy (Heracleous & Wirtz, 2010; Porter, 1980). Porter (1980) describes approaches that fail to choose one single generic strategy (cost, differentiation or focus) as 'stuck in the middle' (Porter, 1980: 41). Attempts to mix approaches in a 'composite strategy' (Dess & Davis, 1984) are described as confused, ill-conceived, lacking internal consistency and doomed to poor profitability and failure (Dess & Davis, 1984; Segev, 1989). However, new theorising and empirical evidence shows that 'stuck-in-the–middle' strategy designs, that involve two or more dimensions of competitive strategy, 'may be superior to strategic specialization' (Campbell-Hunt, 2000: 149), suggesting positive effects from the simultaneous application of multiple strategy designs.

Our paper challenges the single model approach to strategy by providing empirical evidence for the co-existence of multiple business models that operationalize pluralistic strategies for firms. By pluralistic we mean the co-existence of multiple approaches to value creation and capture within one business or business unit, rather than complexity within singular business models designs. Thus, we extend Mason and Mouzas (2012) description and explanation of six alternative types of business model in relation to flexibility to respond to end-customers. Firms face structural and contextual value drivers that result in multiple business models, not just multiple strategies or parallel products, markets, technologies or resources (Smith, Binns, & Tushman, 2010). Our investigation uses a single industry context, the New Zealand Wine industry. This industry is striving to maintain market positions and survival, 'tough times' in which it faces high potential for closures, shutdowns, rationalizations, cost cutting, and consolidations, caused by financial pressures and consumers being less prepared to buy the premium high-quality wines it produces (Adams, 2012; Deloitte, 2012). To allow for the co-existence of different business models we develop a typology (Doty & Glick, 1994) and explore the co-existence of the types (Casadesus-Masanell & Tarziján, 2012; Heracleous & Wirtz, 2010; Nenonen & Storbacka, 2010). This shift to dual or multiple purpose approaches to strategy (Helfat & Winter, 2011) allows new business models to co-exist that better fit the complexity of value creation in a rapidly changing industry environment.

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Our objectives are to link the theory and practice of business models in three ways. First to investigate how business models enable firms in an industry handle plurality in strategy to create and capture value (Zott, Amit, & Massa, 2011). We show how dynamic market change, rather than the traditional Porterian assumption of relatively simple oligopolistic conditions of competitive strategy (where the focus is on out-performing the competition in terms of absolute measures (Zott & Amit, 2008) such as growth in sales, market share, stock market price), drives responsive industry- and firm-level learning in the New Zealand Wine industry to adapt their business models to incorporate plurality. Second we show that business models have dual importance for marketing: as a new unit of analysis, between firm and industry level strategies (Zott et al., 2011), and as the practices of co-creation of value in marketing strategy. A third fundamental objective is to develop a middle-range theory of business models to connect marketing theory and practice, since they are a new distinct concept for academic study and relevance for practice (Zott et al., 2011). We do this by developing a typology that bridges theory and practice, demonstrating both the dynamics of business models and industry equifinality (Doty, Glick, & Huber, 1993) to provide a link between empirically-observed business models and theoretical explanations of those business models (Ehret, Wirtz, & Kashyap, 2010).

The paper proceeds by first setting out our conceptualization of business models and the link to strategy selection by firms. We then explain the development of the typologies to position our case studies. The next sections outline the cases and findings. We use qualitative business-to-business data on how firms structure their value-creating activities within the context of interactions to verify that the typology captures evidence of parallel business models within the same organizations. The final section explores implications, including suggestions for further research.

2. Theory and practice of business models

2.1. Interface with strategy and value creation

The literature on business models is “conceptually blurred and ambiguous” (Mäkinen and Seppänen (2007: 745) and conceptualizations are poor because they remain largely descriptive and lacking clarity (Zott et al., 2011). Business models are highly significant but: “rarely analyzed: therefore, they are often poorly understood” (Teece, 2010: 192), and the term ‘business model’ used and abused (Magretta, 2002). Thus there is a need to move beyond mere description of the components of business models, though a sound understanding of one's business system is useful (Teece, 2010), towards causal explanation to achieve an understanding of “the interplay between strategies and actions at the operational level” and thus of strategy implementation (Mäkinen & Seppänen, 2007: 745). This recognizes that a business model is not a strategy: it describes how the parts of the business system fit together, though it may take competition into account (Magretta, 2002; Mason & Mouzas, 2012).

While there is a lack of research consensus on the components of a superior business model, the wider management discipline focuses on the business model as a determinant of a firm's value-creation processes (Nenonen & Storbacka, 2010; Sánchez & Ricart, 2010; Zott & Amit, 2008), and the firm's ability to achieve its value-creating objectives. Interactions are key to value-creating business models as they form the basis for “the organization of a focal firm's transactions with all of its external constituents in factor and product markets” (Zott & Amit, 2008: 1). Value-creation is central to marketing theory and practice (Beverland, 2012) and there remains much to discover in marketing research about how firms analyze, create and deliver value (Lindgreen et al., 2012) whether in the context of dyads (Dwyer, Schurr, & Oh, 1987), networks, goods or service (Ford, 2011; Wirtz & Ehret, 2013).

The dominant paradigm (Campbell-Hunt, 2000) in strategy research is Porter's structure-conduct-performance approach (Porter, 1980) in which a firm chooses an attractive industry, deters entry and holds a competitive position. Three generic strategies (Porter, 1980), focus, differentiation and cost leadership, remain current as strategy-in-use (Jarzabkowski, 2004) and, while the traditional Porterian view is based on a rational quantifiable sustainable competitive advantage and long-run profitability, recent views emphasize responsiveness to dynamic high velocity environments (Eisenhardt, 2000), flexibility (Rajala, Westerlund, & Möller, 2012) and tacit knowledge and routines as capabilities (Helfat & Winter, 2011). Campbell-Hunt's (2000) extensive review of generic strategy research confirms: “that cost and differentiation do play a high-level role in discriminating between competitive strategy designs” and the prevailing view that strategy designs that mix the two are rare (p. 149). Strategy research has failed to identify ‘one universal explanation’ and thus contingency theories “may now offer more powerful insights” (p. 149), supporting:

A reconceptualization of the no-distinctive-emphasis design, from its current status as the ‘lemon’ of competitive strategy to an ‘all-rounder’ design that is well adapted to a specified set of competitive conditions (Campbell-Hunt, 2000: 149).

Campbell-Hunt argues for a richer and more fine-grained descriptive system and for: “a more complete, and possibly different, specification of the link between competitive strategy and firm performance” (Campbell-Hunt, 2000:150). In complex value-creating business models (Smith et al., 2010), performance is relative to the value-creation objectives, and understanding the plurality of ways in which firms achieve this can be done through identifying industry equifinality (Doty et al., 1993). Equifinality is an important construct as it clarifies the boundaries of a phenomenon, namely the choice set currently available to (or created by) the players (Whittington, 1988). The equifinality assumption, which Doty et al. (1993) theorize as the multiple equally effective organizational forms through which: “a system can reach the same final state [e.g., the same level of organizational effectiveness] from differing initial conditions and by a variety of paths” allowing a “feasible set of equally effective, internally consistent patterns of context and structure” (p. 1199). Business model research will further the objective of understanding the plurality of value-creating strategies within one contingent context.

2.2. Working definition of business models

Our working definition of a business model reflects their multifaceted nature, with a focus on value, and comes from Zott et al. (2011):

> …a systemic perspective on how to “do business,” encompassing boundary-spanning activities (performed by a focal firm or others), and focusing on value creation as well as on value capture (p. 1038).

These factors point to the activities and roles that change the conditions for new business models, though some outcomes of business models may actually be drivers of business model change, including industry structure, rules of competition, value capture, value creation and competitive advantage (Zott et al., 2011: 1036). In positioning the business model as a new unit of analysis, Zott et al. (2011) identify a range of views that see them as: closer to the firm, closer to the network (industry context) or between the two. Business models are a systemic phenomenon, activity focused or oriented, and emphasizing both value creation and capture. Value co-creation is done in the context of interactions which may take multiple forms.

We articulate the dimensions of this working definition and relate them to the functions of a business model from Chesbrough (2007) namely: the value proposition of the offering, the market segment it addresses, the value chain structure, the revenue generation mechanism, the value network context and the competitive strategy

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