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THE ESSENTIALS OF COMPETITIVE BUSINESS MODELS FORMATION

The aim of the research was to identify the elements of business models. The literature research studies allow us to state that the researchers assume one of three business models formation concepts: creating the value for customers, creating and supplying values, creating, providing and capturing values. Each of these ideas implies the necessity of applying different set of elements. The economic reality is best described by a business model which is based on CROLVS construction.

Key words: business model, business model CROLVS structure, creating the value for customers, providing the value to customers, capturing the values.

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ОСНОВНІ ЕЛЕМЕНТИ ФОРМУВАННЯ КОНКУРЕНТНИХ БІЗНЕС-МОДЕЛЕЙ

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Мета статті – визначити елементи бізнес-моделей. Дослідження літератури свідчить, що дослідники приймають одну з трьох концепцій формування бізнес-моделей: створення вартості для споживачів, створення і споживання вартості, розподіл і споживання вартості. Кожна з цих ідей свідчить про необхідність використання різних елементів. Економічна реальність найкраще описана в бізнес-моделях, заснованих на CROLVS конструкціях.

Ключові слова: бізнес-модель, структура бізнес-моделі CROLVS, створення вартості для споживача, розподіл вартості споживачам, споживання вартості.

The definition of the researched problem. Nowadays, more and more countries wish to join the European Union. Among many others, there is Ukraine which has been declaring its will to access the EU. Functioning within an economic community involves the decrease of administrative barriers which protect national enterprises. It means that foreign enterprises are allowed to enter the home market. In the result we can observe the increase of competition. In the conclusion, it is possible to state that modern enterprises function within the increasing international and home competition. They operate using their competences, resources, processes, relationships and organizational structures. The configuration of all these elements comes as an important issue of management, as it decides about economic benefits of the enterprise, gained from the business operation. This configuration can be comprised in a business model.

The products bought by the customers are the value these customers want to pay for. Growing competition makes the enterprises increase the values they provide to the customers as this is the way they can win the competition war. The current but also future direction of the entrepreneurs' competition is to compete on the basis of value. To meet this challenge the enterprises should:

§ constantly improve forms of running the business – this comes as the result of the continuous necessity of modifying the values provided for the customers;

§ look for new ways of running the business – to have a possibility to generate new values for the customers.

These kinds of activities are often connected with the risk of failure. Therefore, it is worth using business models to carry out some experiments with changes referring to the ways in which the business is run. These models can be used to try out any changes in the elements of business activity. This approach offers some possibilities to experimentalise at a low cost and with the limited risk of failure. It also allows us to think and draw conclusions about the current form of business activity.

Summing up, business models let us describe current business activities and experimental changes in the current elements of a business enterprise. They also offer possibilities to look for new ways of generating values for the customers. Such aims cannot be reached without an answer to the following question: what do business model consist of? In this context, an important issue appears, namely, how to define the elements of business models.

To solve this problem, we will need to involve: inductive and deductive methods of reasoning, the analysis of subject literature, the synthesis of the research done, the author's own knowledge and business experience.

The research and publications about business models. According to D. J. Teece [2010]¹, business models appeared the moment people started to run business activities. During the industrial era, the enterprises used to practise a business model focused on the product (product-centric model). Today the economic conditions lead us to the conclusion that a business model should be focused on the customer (customer-centric model).

The beginning of business model research can be referred to R. Bellman and C. Clark publication, who used this term there in 1957². J. Magretta [2002]³ connects the interest evoked around the business models with the development of the spread sheet and common use of the Internet. These two factors allowed the managers to achieve innovative configuration of business activities. R. Amit and Ch. Zott [2001]⁴ stated that the fact of business models greater popularity in the second half of the nineties of the XXth century is connected with the use of the Internet in the commercial operations. In the consideration of their work, it is possible to state that the e-commerce development (which makes it possible for commercial networks to develop, to cross geographical borders, to cut down the transactional costs and to increase the information access) has generated a strong impulse leading to some changes in the methods of running a business. This, in turn, resulted in some innovation in business models. The increased interest brought more publications on business models. Ch. Zott, R. Amit and L. Massa [2010]⁵ presented a thorough review of the subject publications. Their research comprised the time period, starting from January 1975 until December 2009, which is 35 years all together. They found (using EBSCO data base which includes publications presented in over 1 300 magazines) 1272 articles published in scientific magazines, where the term of "business models" appears in the titles, abstracts or key words. Considering this, the researchers concluded that starting from 1995 there has been a dynamic increase of publications on business models issue. The primary interest for business models used in e-commerce has turned into the studies of these models in all fields of business operations.

¹ Teece D. J.: *Business Models, Business Strategy and Innovation*. Long Range Planning 2010, Vol. 43

² Bellman R., Clark C.: *On the Construction of a Multi-Stage. Multi-Person Business Game*. Operation Research 1957, No. 4.

³ Magretta J.: *Why business Models Matter*. Harvard Business Review 2002, Vol. 80, No 5

⁴ Amit R., Zott Ch.: *Value Creation in e-Business*. Strategic Management Journal 2001, Vol. 22

⁵ Zott Ch., Amit R., Massa L.: *The Business Model: Theoretical Roots, Recent Developments, and Future Research*. Journal of Management 2010

In Poland, one of the first publications on business models was the publication by R.E.S. Boulton, B. D. Libert and S.M. Samek [2001]¹, in which the authors referred to the problem in the light of assets. Also in Poland K. Obłój [2002, p.97]² developed this idea and described business models as a total concept of an enterprise operations.

In spite of numerous cases of theoretical and empirical research on business models, the researchers have not come up with one definition of this term. To reach the aim of the following work, it is necessary to present some significant suggestions of business models understanding:

- P. Timmers [1998]³ sees a business model as the product architecture and a stream of information referring to the description of: business actors and their roles, potential benefits and income sources.

- G. Hamel [2000, p. 74]⁴ defines a business model as a composition of key strategy, strategic resources and the network of values that comes into the relationship with customers

- R. Amit, Ch. Zott [2001] think that a business model presents the essence, the structure and management of business transactions in such a way that it is possible to create value by the use of business opportunities.

- J. Linder, S. Cantrell [2001]⁵ describes a business model as core logic of value creation in an organisation.

- H. Chesbrough, R. S. Rosenbloom [2002]⁶ point out that business models articulate the proposition of value; they identify the market segment and the mechanism of income generating. They also define the structure of the value chain that is needed to create and distribute values. Moreover, they describe the structure of costs and income potential, together with the position of the company in the value network. They also formulate the competition strategy.

- J. Magretta [2002] states that a business model describes the history of how the company operates and makes money, what is the value for its customers and the basic logic of providing these customers with values, considering appropriate costs, and finally, who the customer is. All the business models are variations in the general value chain.

- K. Obłój [2002], defines business models as a total concept of the company operation. In this approach, a business model is a combination of the strategic concept of the company and the technology of its practical realisation, understood as the construction of a value chain which lets the entrepreneur efficiently use and regenerate its resources and skills.”

- A. Afuach, Ch. Tucci [2003]⁷ defined a business model as a method to increase and use the resources to present a product and service offer to the customers, which is more attractive than the competitors’ offer and brings in the income.

- M. A. Rappa [2004] assumed that a business model describes a method of doing business. He lists the following points: what a company does to create values, what its place is in the value chain and describes the relationships with its customers that are required to generate income.

- For P. B. Seddon et. al. [2004]⁸ a business model describes the basic details of the values offered by a company to its stakeholders, together with the applied value system used to create and provide values to the customers.

¹ Boulton R. E. S., Libert B. D., Samek S. M.: *Reading the Value Code*. WIG-Press, Warszawa 2001

² Obłój K.: *The Elements of Efficient Strategies. On the Border of Old and New Competition Rules*. Polskie Wydawnictwo Ekonomiczne, Warszawa 2002, p. 97-98

³ Timmers P.: *Business models for electronic markets*. Electronic Markets 1998, Vol. 8, No. 2

⁴ Hamel G.: *Leading the Revolution*. Harvard Business School Press, Boston 2000, p. 74

⁵ Linder J., Cantrell S.: *Changing Business Models: Surveying the Landscape*. Institute for Strategic Change, Accenture 2001

⁶ Chesbrough H., Rosenbloom R. S.: *The role of the business model in capturing value from innovation: evidence from Xerox corporation’s technology spin-off companies*. Industrial and Corporate Change 2002, Vol. 11

⁷ Afuach A., Tucci Ch.: *Internet Business Models and Strategies. Text and cases, 2001*. Polish edition Oficyna Ekonomiczna, Warszawa 2003, p. 20

⁸ Seddon P. B., Lewis G. P., Freeman P., Shanks G.: *The Case for Viewing Business Models as Abstraction of Strategy*. Communications of the Association for Information Systems 2004, Vol. 13

• S. M. Shafer, H. J. Smith, J. C. Linder [2005]¹ defined a business model as a representation of the company core logic and its strategic choices to create and capture values in the value network.

• O. Lisein, F. Pichault, J. Desmecht [2009] assumed that a business model presents a simplified conceptualisation of the way of “doing business”. It also explains the choices made within the frames of the applied competition strategy. A business model can be presented on three axes: a) the identification of the customers and the choice of their particular type; b) the identification of the company products and the recognition of the customers’ demand; c) the identification of the methods in which the products are offered and delivered better than these used by the competitors.

• T. Gołębiowski et. al. [2008, p. 57]² state that a business model comes as the characteristics of the values offered to the customers, the description of basic resources, processes and external relationships of the company. All these are used: a) to create, to offer and to deliver the value to the customers, b) to provide the company with competitiveness on the specified field, c) to increase the company value.

• L. Bossidy i R. Charan [2010, p. 9] present the opinion that „a business model shows how to understand the way of making money³”.

• A. Osterwalder i Y. Pigneur [2010, p. 14], in their research, assumed that a business model rationally describes how a company creates, provides and captures the values.⁴

• D. J. Teece [2010] states that a business model describes the architecture of creating and delivering values together with the mechanisms of its capturing.

Considering all the approaches to the term of „a business model” presented above, it is possible to define a basic idea that can be used for the conceptualization of business models. Using deductive methods of reasoning, it is possible to state that the basic matrix of business models is the value, in particular, the value for customers.

The aim of the article. The problem presented in the introduction forces us to define the elements of business models. The identification of business models construction matrix gives us the base for further research. Considering the thorough analysis of the quoted publications and using deductive methods of reasoning, it is possible to define three main approaches to the conceptual essence of business models. The first approach presents a business model which is constructed around the problem of creating values for customers. The second approach a business model constructed around the problem of creating and providing values to customers. The third approach is based on creating and providing values to customers and also on capturing values for an enterprise. In this perspective, the aim of this research article is to define the elements of a business model in the light of each conceptual approach presented above.

The definition of a business model. Considering the ways of understanding the term of “a business model” presented above and the author’s own conclusions, his 26 years of business experience and deductive methods of reasoning, it is possible to present the author’s own definition in which a business model is defined as a multi-element conceptual object. The structure of such an object lets us describe the processes of creating, delivering and capturing the values by the company.

The formulations used in the definition require some more explanation. This definition complies with a widespread opinion, shared by numerous researchers [for example: D. Kindström 2010]⁵, stating that the operations of modern enterprises should have customer-centric character. The value mentioned in the definition is identified a) in the first approach, with creating the value for customers⁶, b) in the second

¹ Shafer S. M., Smith H. J., Linder J. C.: *The power of business models*. Business Horizons 2005, Vol. 48

² Gołębiowski T., Dudzik T. M., Lewandowska M., Witek-Hajduk M.: *The Business Models of Polish Enterprises*, Warsaw School of Economics, Warszawa 2008, p. 57

³ Bossidy L., Charan R.: *The Sixth Sense of Company Management*. MT Biznes, Warszawa 2010, p. 9

⁴ Osterwalder A., Pigneur Y.: *Business Model Generation*. John Wiley & Sons, Inc. Hoboken, New Jersey 2010, p. 14

⁵ Kindström D.: *Towards a service-based business model – Key aspects for future competitive advantage*. European Management Journal 2010, Vol. 28

⁶ In the behavioral approach – each of us can say that we buy these products and not the other ones because in particular circumstances they meet our own and our families’ needs to the highest possible extend. So, the value for customers is described by the extend to which the customers’ needs are satisfied. In commercial transactions this value is usually measured in money.

approach, with creating the value for customers and providing it to customers, c) in the third approach with creating the value for customers, providing it to customers and capturing the economic benefits earned from the created value for an enterprise. A business model structure describes, in a simplified way (resulting from the modeling requirements), an internal construction of running economic activities to earn money. Therefore, it defines the elements of business relationship and the relationship among these elements. These relationships are established to create the value for customers, to provide the customers with the value and to capture the most part of economic benefits which result from the created value for the enterprise. A clear definition of “a business model” term gives us an opportunity to identify its elements.

The elements of a business model. The assumed definition lets us state that a business model is not a monolithic one. This issue was aptly presented by A. Afuah and Ch. L. Tucci [2003]¹ who wrote that: a business model is a complex system of mutually related elements which affect each other in time.” J. Magretta [op. cit.] claimed that all the business models are actually variations in a general value chain. Considering the analysis of the subject literature which describes business models, there are no doubts that the value for customers is the first element of a business model. As far as other elements of a business model are concerned, there is no agreement among the researchers. They recognise three to ten elements and recently a suggestion of sixteen elements all together has appeared. While identifying the approaches to the elements of business models, it is worth pointing out, for example, that²:

- K. Obłój [2002, p. 97] suggests three elements: strategic resources, key competences and the value chain as a vehicle of the strategy realisation, the essence of which is „the arrangement of assets, skills and processes in a repeatable and understandable chain”.

- A. J. Slywotzky, D. J. Morrison, B. Andelman [2000]³ suggest four elements of a business model, including: the choice of customers, the value captureion, strategic control and the scope of activities.

- T. Gołębiowski and other authors [op. cit., p. 62] support the idea of five elements in a business model, namely: the proposition of the value for customers, resources, competences, the place taken in the delivery chain and income sources.

- H. Chesbrough [2007]⁴ identifies six elements of a business model: the proposition of value, the target market, the value chain, the mechanism of obtaining income, value network, the competition strategy.

- An interesting suggestion was presented by A. Osterwalder i Y. Pigneur [14, p. 16 – 17]. Their business model consists of nine elements: the customer segment, the proposition of value, distribution channels, relationships with customers, the income stream, key resources, key activities, key partners and the structure of costs.

- Board of Innovation Team [2011]⁵ suggests a business model constructed from ten elements which are arranged in three groups. In the first group there are the players, namely, the enterprise and the customers. The second group includes the streams flowing from the enterprise to its customers and has four factors: the product, the service, the experience offered to the customers (for example, car fleet management), reputation (connected with brand). The third group includes the streams flowing from the customers to the enterprise. Here there are also four factors: money (regular amount that ensures the income), less money (the amount smaller than regular, which does not cover the costs and income), attention (the customers pay with their attention, giving their opinion for the products provided for free), disclosure (in some cases the popularization of the product and the brand value in the peer environment is

¹ Afuah A., Tucci Ch. L.: *Internet Business Models and Strategies. Text and Cases*. Polish edition by Oficyna Ekonomiczna, Kraków 2003, p. 20

² See, Falencikowski T.: *Business Models in Tourism Sector – relation approach*; in *Competition and Competitive Predominance of small and medium-sized enterprises*; Authorial team, edited by A. Adamik, Wydawnictwo C. H. Beck, Warszawa 2011, p. 252

³ Slywotzky A. J., Morrison D. J., Andelman B.: *The Profit Zone. How Strategic Business Design Will Lead You to Tomorrow's Profits*. Polish edition by Polskie Wydawnictwo Ekonomiczne 2000, p. 26

⁴ Chesbrough H.: *Business model innovation: it's not just about technology anymore*. *Strategy & Leadership* 2007, Vol. 35, No 6

⁵ *How to build any business model with only 10 blocks*. <http://www.boardofinnovation.com> in time 20. 01. 2011.

much more important than the immediate profits in money [for example: Red Bull]. Additionally, Board of Innovation Team informs that they have been developing a business model consisting of sixteen elements.

To finish this review of the approaches to the elements of a business model, it would be useful to present the results of Benoît Demil & Xavier Lacocq [2010]¹ research. They developed the RCOV structure as a construction which can be of versatile use in the description of business models. The authors assumed two levels of business models understanding. The abstract level refers a business model to a general representation of a business, which can be used in all the sectors. On the individual level a business model defines the way of earning money in a particular company and is related in a certain way to the abstract level. On this level it comes as a photograph – a picture presenting the state of running the business in a defined time period. Generally, the authors claim that a business model consists of three components: a) R – resources and C – competence, b) O – organisation structure which is to combine and use the resources and competences, c) V – the proposition of the value for customers. However, first an objection should be made against a cumulative approach of the resources and competences. In a modern resource approach to the enterprise management, the competence is of much more significance than the resources. Moreover, there are also some doubts concerning the following question: can business be described only with the use of these three elements? Apart from this, however, the thought is worth of attention and development.

Considering the recent results of the research work, it is possible to state that the identification of the matrix and the definition of a business model, together with the presentation of the elements of this conceptual object comes as a basis for reaching the aim of this work.

I) The elements of the „creating the value” business model

As it has been mentioned, the value for customers is the first element of a business model. M. E. Porter [1985]² as the customers willingness to pay for what the company provides them with. Considering his value chain, R. Amit and Ch. Zott [2001], who can be regarded as the representatives of the discussed business model concept, claim that the entrepreneurs should: 1) strategically define their business, 2) identify the key activities, 3) define their products, 4) define the value provided by the business. It seems that the sequence assumed by these authors is inappropriate. In my opinion, the first element should be defining the values required by the customers. Next, it should be necessary to define these products which will provide the value to the customer. The next step should come as the strategic definition of the business. The last stage would be identifying the activities which are required to produce the value. To define which activities are going to be considered as key operations we need two criteria – the extend in which these activities participate in producing the value for customers and the strategic definition of the business.

If we want the value for customers to appear, there must be some sources of this value. R. Amit and Ch. Zott [2001] assume that any element which improves the value of the provided product can come as the source of producing the value. They name four such sources: efficiency, complementarity of products and services, location and novelty. It is worth mentioning that this last source of value for customers can come as the product innovation or a new way of running the business.

Continuing our research in the light of R. Amit and Ch. Zott [2001] and also B. Demil and X. Lacocq [2010] publications, it is possible to identify the following elements of a business model which is based on “creating the value for customers”:

§ Competence – C – defining the competence as the first element of a business model is justified by the fact that to identify the value for customers we need a person who has already gained the competence to do it. Using the research results gathered by D. Miller, R. Eisenstat and N. Foote [2002]³, it is possible to state that the competence include abilities and skills. In the discussed case, these are the abilities and

¹ Demil B., Lacocq X.: *Business Model Evolution: In Search of Dynamic Consistency*. Long Range Planning 2010, Vol. 43

² Porter M. E.: *Competitive Advantage: Creating and Sustaining Superior Performance*. Free Press, New York 1985, p. 38.

³ Miller D., Eisenstat R., Foote N.: *Strategy from the Inside Out: Building Capability–Creating Organizations*. California Management Review 2002, Vol. 44, Issue 3.

skills to select, identify and describe these values which are required by customers and for which customers will want to pay for.

§ Resource – R – to provide products and services it is indispensable to have tangible and intangible resources and this fact justifies their place in a business model.

§ Organisation – O – includes the company structure, the internal value chain, the relationships between the company and other companies used to join and use the competence and resources (the external chain or network of creating the value for customers).

§ Value for customers – V- it comes as a proposition to meet the identified needs of the customer. Its form can vary from the form which the customer would want to get.

Summing up, a business model based on “creating the value” is a four-element construction which can be described with the CROV structure.

II) The elements of the „creating and providing the value” business model

Some researchers (for example: O. Lisein, F. Pichault, J. Desmecht [2009], P. B. Seddon et. al. [2004], J. Linder, S. Cantrell [2000]) state that a business model should, apart from creating the value, include providing this value to the customers. This approach comes as the result of the fact that it is possible to notice a significant source of the value in the forms and methods of providing the products and services to the customers. This source is connected with offering some comfort to the customers while they purchase the goods (the shop nearness, home deliveries, easy communication with the shop assistant, etc.).

This approach allows us to assume that there are: the competence (C), resources (R), the organisation (O), the logistics of product delivery (L), the value for customers (V). In this construction a new element appears, namely: logistics – L. It comprises the issue of the delivery of the produced value to the customer. Subsequently, there appear the issues of cooperation and product flow between the producer and the customer. A number of enterprises producing goods do not want to resign from the contact with their customers because this is an important source of information about their customers’ needs. In this context, the issue of the communication between the commercial transaction parties also appears.

To sum up, a business model based on the CROLV structure is a five-element construction.

III) The elements of the „creating, providing and capturing the value” business model

A number of researchers shares the opinion that, apart from the functions listed above, a business model should also describe how the company captures economic profits for itself. Some of these researchers write about capturing income which comes from the sale of the value created for the customer. For example, M. Morris, M. Schindehutte, J. Allen [2005]¹ wrote about a competitive location of the company and the instruments used for capturing the economic profit from the created value. A. Osterwalder and Y. Pigneur [2004, p.14] state that „a business model rationally describes how the organisation creates, provides and captures the value“ D. J. Teece [2010] claims that a business model articulates the logic of creating the value for customers, it defines the structure of income and costs involved in the enterprise which provides the value for customers. It also describes how it can capture the value it has provided to its customers. Considering these (and some others) statements, it is possible to claim that in the discussed approach there is a new element, apart from the elements mentioned above (CROLV), namely: the competitive strategy –S. M.E. Porter [1980] wrote that the competitive strategy is a combination of the aims of the company and the means used to reach them. In this case, the aim of such a strategy is to capture the most part of the value created for the customers, that is: to capture maximal economic benefit in a given moment.

To sum up this stage of the research, it is possible to state that a business model based on “creating, providing and capturing the value” appears to a six-element construction comprised by CROLVS structure – competence, resources, organisation, logistics, values and strategy.

Conclusions and guidelines for further research. Ch. Baden-Fuller and M.S. Morgan [2010]² claim that business models can come as scale models, role models, scientific models or as recipes for

¹ Morris M., Schindehutte M., Allen J.: *The entrepreneur’s business model: toward a unified perspective*. Journal of Business Research 2005, Vol. 58

² Baden-Fuller Ch., Morgan M. S.: *Business Models as Models*. Long Range Planning 2010, Vol. 43

success. Presented in this research article, three approaches toward business models have been constructed as scientific models. Considering their characteristic features, their form shows some limitations and simplifications in relation to the real companies.

The aims of this research article have been reached. The article presents three bases of business models, such as creating the value for customers, creating and providing the value, creating, providing and capturing the value. On each basis there is a structure which describes the elements of a business model. The most realistic image of business can be obtained with the use of the CROLVS structure. However, it also introduces many variables which affect the business. The analysis of this influence, however, is complicated. The advantage offered by business models is the possibility of an integrated analysis of the forms in which business is run and organized. This approach allows us to perform a multi-aspect analysis of the planned or already run business. It makes entrepreneurs take numerous economic, social and even political aspects in their thorough consideration.

Further research should be performed to study the cohesion of the presented constructions. It comes reasonable to base them on the CROLVS construction, as this one is the most developed. Further research should be also needed to prove that cohesive business models seriously affect economic results obtained by companies. Such an element, which allows us to assess business models, will come as contribution to the subject science.