14 Strategic Management
Competitive Session

Business Model versus Strategy: Articulating the different role of 'business model'

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ABSTRACT: *This paper synthesises existing views on the difference between 'strategy' and 'business model' for developing two complementary conceptual frameworks that help better articulate the role of business model. It is claimed that the strategy frameworks, 'market-based view' and 'resource-based view', focus on value-capturing and value-creating activities within firms' internal level, whereas 'business model' predominantly focuses on value creation and value capture in the interfaces/collaborations between units within value networks. In effect, functional-level and business-level strategies act as components of business model, whereas business model itself is subservient to corporate-level strategy. This conceptual clarification helps to build a common language, and serves as a departure point for facilitating further research and theory building efforts in the business model area.*

Keywords: business model, strategy, competitive advantage, value creation, value network

INTRODUCTION

Since the the emergence of e-commerce or internet-based businesses, there have been significant shifts in the way businesses organise themselves for creating and delivering value to their customers. The existing strategy frameworks, both market-based and resource-based views, have found to be insufficient for explaining these new ways of value creation and delivery. In response, the 'business model' first emerged as a new construct for explaining the alternative ways in which value is created, delivered and captured, mainly in the context of e-commerce (Stähler and Zollenkop, cited in Sommerrock, 2010). With the expansion of the so-called new economy, during the 1990s, the term business model extended from the domain of information technology into other disciplines and is now used widely both in academia and practice (Sommerrock, 2010). However, review of contemporary literature shows that business model research is in an early stage of development and that most studies are largely focused on the conceptualisation of the business model construct (Lambert, 2006). One research area that was explored by a number of researchers is the differentiation between 'strategy' and 'business models'. However, there is no consensus on the difference between these two constructs

(Seddon and Lewis, 2003). This paper aims to synthesise the existing views on the differentiation between strategy and business models for developing two complementary conceptual frameworks that clarify the different role of business model when compared to that of strategy.

This paper is organised into six sections. The introduction is followed by a section on methodology, and two sections summarising the literature review on definitions of strategy and business model. These are followed by a synthesis of the existing views on differences between strategy and business model. In order to better articulate the different role of business model, two conceptual frameworks representing strategy frameworks and strategy levels are presented in the next section, followed by conclusions.

METHODOLOGY

This paper is based on a systematic review of extant literature on the two related topics, business strategy and business models. The main purpose of this literature review is to synthesise the existing views on the difference between 'strategy' and 'business model' for developing two conceptual frameworks in order to better articulate the different role of business model. Thus, the following guidelines were applied in scoping the selection of relevant articles for review:

1) Only articles that have been published in fields related to business management were selected. This is because these articles were found to have the highest value for this research, and therefore would return the more useful results.

2) Articles were selected from Scopus, which included Science Direct. The following search criteria were used:

- Document type: only journal article or conference paper
- Published: from 1990 to Present
- Language: English
- Subject area: business management
- Sort on: cited by count (this is used to determine the quality of the article)

- Containing the key terms of: 'business model' and 'strategy' in the title, abstract, keywords

3) Implementation of steps 1 and 2 yielded 253 articles. A final selection of the most relevant articles was made by completing a more rigorous and comprehensive selection phase:

- First scan criteria: Evaluation of article titles, journal names, and abstracts. Selection was determined based on the assessed significance of the target topic (i.e. Business Models).
- Refining criteria: Analysis of abstracts to ensure that these articles engaged with business models as a concept which was related to Business.
- Focusing criteria: Analysis of abstracts to ensure that these articles discussed the 'differences' between strategy and business models.

A total of 43 articles, including 16 articles which focus directly on the differences between strategy and business model and 8 articles which focus directly on business model innovation were identified as being suitable for the review. Additionally, four books that related to 'business model' and 'strategy' were included in this review.

STRATEGY

In a business context, Porter is one of strategy's primary spokespersons. He defined strategy as a core of general management: 'general management's core is strategy: defining a company's position, making trade-offs, and forging fit among activities' (Porter, 1996, p.77). Additionally, Porter's works are summarised by Seddon and Lewis (2003, p.240) as:

> 'strategy involves defining a company's long-term *position* in the marketplace, making the hard *trade-offs* about what the company will and will not do to provide value to customers, and forging hard-to-replicate *fit* among parts of the "*activity system*" the firm constructs to deliver value to customers, all with a view to making a superior *return on investment'*

Strategy can be defined as a source of competitive advantage as Barney (1991, p.102) states that 'a firm is said to have a competitive advantage when it is implementing a value creating strategy

not simultaneously being implemented by any current or potential player'. Sources of competitive advantage can be viewed at two different **'strategy frameworks'** which are *market-based view* and *resource-based view*.

1) ***Market-based view:*** According to Porter's five-forces diagram (1979), strategy is viewed as thinking about competitive market positioning. Many different sources of competitive advantage fall into two categories which are low cost and differentiation (Porter, 1980).
2) ***Resource-based view:*** Powell (2001) views strategy as a tool for manipulating the internal resources of a firm to create a sustainable competitive advantage. Instead of looking at the market positioning, the resource-based view turns to focus on a firm and looks for competitive advantages that can be derived from the firm's resources, capabilities, and core competencies (Hax and Wilde, 2003).

In another aspect, strategy can be viewed at different three levels. These are: 1) **Corporate-level strategies** which are concerned with defining how the business will remain sustainable in the long term, 2) **Business-level strategies** which are used to determine a business' competitive advantage and include specifics about positioning, and responding to market changes, and 3) **Operational strategies** (functional-level strategies) which are concerned with making improvements to business functions (Johnson et al., 2011).

BUSINESS MODEL

Business model definition

The concept of the business model has been interpreted in quite diverse terms. Some researchers describe a short definition of the business model as the way a business makes money and profit or connects activities/technical capabilities with appropriate economic value (Betz, 2002; Chesbrough and Rosenbloom, 2002; Björkdahl, 2009). Brandenburger and Stuart (1996) claim that a business model is about how a firm will create and capture value, it represents a firm's approach to

generate revenue at a reasonable cost. Teece (2010, p.179) claims that 'a business model is about the benefit the enterprise will deliver to customers, how it will organize to do so, and how it will capture a portion of the value that it delivers'. Osterwalder et al. (2005) define a business model generally as the blueprint of how a company does business. Although the concept of business model has been interpreted in quite diverse terms depending on the contexts in which it has been used, there appears to be a good deal of consensus among researchers and practitioners alike that a business model articulates the way businesses create, deliver and capture value for customers, partners and the incumbent organisation itself (Magretta, 2002; Chesbrough, 2010; Johnson et al., 2008; Teece, 2010; Smith et al., 2010; Sorescu et al., 2011, Ucaktürk et al., 2011).

Additionally, a number of researchers defined a business model concept along the lines of value network perspective. For example, Dubosson-Torbay et al. (2002, p.7) define a business model as 'the architecture of a firm and its network of partners for creating, marketing, and delivering value and relationship capital to one or several segments of customers in order to generate profitable and sustainable revenue streams'. Shafer et al. (2005) claim that a business model represents a core logic and strategic choices for firms' value-creating and value-capturing within a value network. Doz and Kosonen (2010) explain that a business model is a set of structured and interdependent operational relationships among firm's internal units, and between a firm and its partners, suppliers, customers, and other stakeholders. Similarly, Brettel et al. (2012) define a business model as the architecture of a firm's boundary-spanning transactions with other participants. Lechner and Hummel (2002) regard a business model as a composition of different combinations of value chain elements of a whole industry. Ripsas (cited in Sommerrock, 2010) claims that a business model is a simplified abstract image of the real-life mechanisms and methods of how a business, a network of businesses or a whole industry creates value.

It can be seen that there is no consensus on what exactly a business model is. There are two common perspectives identified above. One states that the business model focuses on the internal value chain that the firm creates, and the other states that the business model focuses on the value

network that a firm participates in. By synthesizing multiple definitions available above, the authors have attempted to consolidate these two views into one integrated and holistic definition. A 'Business Model' is defined as:

> *"the way value is created, delivered, and captured within a firms' internal value chain and external value network comprising interactions between a firm's internal units and between a firm and its value-creating partners and customers"*

Business model role

Many researchers have also highlighted the role of the business model as a conceptual framework and a unit of analysis for understanding and studying the sources of competitive advantage and collaboration at the level of value networks. For instance, there is an emerging body of literature on **business model innovation** aimed at identifying the sources of competitive advantage that have not been captured through research in other more established areas such as technological innovation and organisational innovation. Some authors argue that, in order to commercialise new ideas or technological innovations, the business model is a pathway for converting these ideas and technologies into an economic success (Teece, 2010; Chesbrough, 2010). Teece (2010) claims that technological innovation by itself does not automatically guarantee business or economic success, and having an effective business model, which is sufficiently differentiated, is important to the establishment of competitive advantage for economic success. Chesbrough (2010) claims that two different business models will return two different economic outcomes, although they are used with the same technology. These claims support the notion that business models play a differentiated role in identifying and explaining sources of competitive advantage at the level of value network.

The summary of literature review on definitions of strategy and business model are followed by a synthesis of the existing views of differences between strategy and business model as presented in the next section. This paper is positioned as a comparison between a business model and the two aspects of strategy, which are 'strategy frameworks aspects' and 'strategy levels aspects'.

DIFFERENCE BETWEEN STRATEGY AND BUSINESS MODEL

Business model versus Strategy frameworks aspects

The existing strategy frameworks, **'*market-based view*'** and **'*resource-based view'***, are capable of explaining only the ways value is created, delivered and captured within a firms' internal level. It can be explained that, for the market-based view, a low cost strategy or cost leadership can be achieved through the pursuit of economies of scale or high volume production, and product and process simplification, whereas differentiation can be achieved through creating products which customers perceive as unique and/or highly valuable. For the resource-based view, a firm's ability to generate competitive advantage depends upon firm's resources, capabilities, and core competencies. For example, if the firm has strong research and development capabilities, it can gain a strong competitive advantage by leading the market with product and/or process innovations.

However, in today's highly competitive markets, firms cannot achieve a sustainable competitive advantage by focusing only on their own internal value-creating activities. Hax and Wilde (2003) developed the **'Delta Model'**, which focuses on not only a firm itself, but also on the value-creating activities that the firm operates within a value network including those of upstream suppliers and downstream customers. In this model, the term **'business model'** is used to refer to the adaptive processes for linking strategy with execution (Hax and Wilde, 2003), and as discusses above a large amount of researchers have defined the business model concept along the lines of a value network perspective. These suggest that the business model plays an important role of explaining the ways value is created, delivered and captured at the level of value networks.

It can be summarized, as shown in Figure 1, that the strategy frameworks, **'*market-based view*'** and **'*resource-based view'***, focus on sources of competitive advantage within firms' internal levels. These existing views do not discuss value creation in the interfaces/collaborations between units within the value network, whereas ***'business model'*** focuses on value-creating and sources of competitive advantage in the collaborations which exist at the level of value networks.

Insert Figure 1 about here

Business model versus Strategy levels aspects

It can be synthesised that researchers' summaries on the differences between strategy and business model can be separated into two groups. One states that business model can be built by creating/selecting strategies or by combining strategies, and the other states that strategy can be built by creating/selecting business models or by combining business models. These two groups are discussed below.

Group 1: Business model can be built by creating/selecting strategies or by combining strategies

Some researchers conclude that a business model can be built by creating/selecting strategies or combining strategies. They suggest that business models focus on value proposition, value creation and cooperation within value networks, whereas strategy focuses on value capture and competitive advantage or strategy is one of components of the business model (Zott et al., 2000; Betz, 2002; Chesbrough and Rosenbloom, 2002; Keen and Qureshi, 2006; Aziz et al., 2008; Zott and Amit, 2008; Giesen et al., 2010; Teece, 2010; Zott et al., 2011). For example, Teece (2010, p.180) states that 'a business model is more generic than a business strategy, selecting a business strategy is a more granular exercise than designing a business model'. Smith et al. (2010) claim that, due to globalisation, firms need a higher competitive advantage by adopting a complex business model which can be built from creating paradoxical strategies (multiple strategies, especially about markets and customers, that are contradictory, yet interrelated). In other words, they summarise that strategic analysis is an essential step in designing a competitively sustainable business model and this makes business models difficult to imitate, such as the use of innovative products/services and/or processes/systems. In conclusion, it can be seen that this group of researchers views strategies as **functional-level strategies and business-level strategies** that act as components of business model.

Group 2: Strategy can be built by creating/selecting business models or by combining business models

Some researchers conclude that strategy can be built from creating/selecting business models or combinations of business models. They suggest that a firm's realized strategy is reflected by its business models. Different business models represent strategic choices, in other words, strategy is a plan of which business models will be adopted (Weill and Vitale, 2001; Magretta, 2002; Seddon and Lewis, 2003; Shafer et al., 2005; Wang et al., 2009; Casadesus-Masanell and Ricart, 2010; Hacklin and Wallnöfer, 2012). For example, Seddon and Lewis (2003) and Stefanovic and Milosevic (2012) view a business model as an abstract representation of a firm's strategy and strategy can be represented by any number of business models. They also conclude that business models come before strategy, strategies for both new and existing firms could be created from combinations of business models. Richardson (2008) claims that the business model bridges strategy formulation and implementation, it explains how the activities of the firm work together to execute its strategy. In a similar meaning, Sorescu et al. (2011) claim that strategy articulates a firm's goals, whereas a business model translates strategy into specific mechanisms that moves the firm towards that goal. The transitional stage from business strategy to business model was described as 'the business organisation translates its broad strategy into more specific business architectural, co-operational, value propositional, and financial arrangements' (Al-debei and Avison, 2010, p.370). Further, Sommerrock (2010) summarises that a business model facilitates the implementation of strategy into structures and processes. In other words, they summarised that business models are like patterns, different combinations of business models will present different strategies. In conclusion, it can be seen that this group of researchers views strategies as **corporate-level strategies** that concern strategic questions at a corporate-level.

These two groups of the differences between strategy and business model show that there is no consensus of the differentiation between them. However, when combining these divergent conceptualisations of business model versus strategy, it can be synthesised by the authors that the strategic level should be specified when making a comparison between strategy and business model.

Different strategic levels also play different roles. Functional-level and business-level strategies act as components of the business model, which help to answer the question of how values are captured in order to improve competitive advantage. Whereas business model represents the corporate-level strategy that helps to answer questions of how values are created for achieving and sustaining competitive advantage at the level of value networks, how to manage the businesses we are in, and what types of relationships we want with others within the value network. The differentiation between strategy and business model can be summarised with a conceptual framework as shown in Figure 2.

Insert Figure 2 about here

Business model versus Strategy: Business model innovation aspects

Voelpel et al. (2005) claim that most business models lead to incremental change in the nature of business and industry practices, because they are based on traditional methods of strategy implementation. Johnson et al. (2008) present that the old business model will work when the firm can fulfill the new customer value proposition with its current profit formula, using most, if not all, of its current key resources and processes, and continuing to run the business with its old rules and norms. This means that the new business model is presented when the firm needs a new profit formula, new key resources and processes, and new rules and norms in order to fulfill the new customer value proposition. Literature shows that re-defining a business model is more disruptive and more challenging than re-directing competitive strategy (Keen and Qureshi, 2006).

Business model innovation is one of the research areas where researchers study business model change or reinventing business models. For example, Pohle and Chapman (2006) presented that there are three types of innovation which consist of: 1) business model innovation, 2) operational innovation, and 3) product, service and markets innovation. They defined the business model innovation as innovating in the business structure and/or financial model of the business. Gambardella and McGahan (2010) state that “business model innovation will occur when a firm adopts a novel approach to commercializing its underlying assets” (p.263). A conceptual framework of business

model innovation based on open innovation, created by Wang and colleagues, presented the possibilities of business model innovation which consist of: expansion of existing business model, combination of several business models, and coexistence between old and new business models (Wang et al., 2009). Mitchell and Coles (2004) identify the levels of business model change as business model improvement, business model replacement, and continuing business model innovation. The business model improvement is defined as any successful change in any business model element (who, what, when, why, where, how, and how much), whereas the business model replacement is defined as successful change in four or more business model elements, and the continuing business model innovation is defined as process of developing and introducing improvement and replacement of business model. Additionally, Giesen et al. (2007) identify three main types of business model innovation which consist of: 1) industry model innovation, innovating the ‘‘industry value chain” by moving into other industries, redefining existing industries, and developing entirely new industries or industry segments, 2) revenue model innovation, innovating how firms generate revenues, and 3) enterprise model innovation, innovating the role firm plays in the value chain and value network.

In summary, the differences between **firm’s re-directing of business-level and/or functional-level strategies and firm’s re-defining of business model** can be summarised by the authors as shown in figure 3.

Insert Figure 3 about here

CONCLUSION

The synthesis of the existing views of differences between strategy and business model, and the conceptual framework of the differentiation between them can provide a better articulation of the different role of the business model. The existing strategy frameworks, **‘*market-based view*’** and

'resource-based view', focus on value capture and value-creating activities within firms' internal levels, whereas ***'business model'*** focuses on value creation at the level of value networks. For the strategy levels aspect, it shows that strategy levels should be specified when making a comparison with business model. Functional-level and business-level strategies act as components of business model, which help to answer the question of how values are captured in order to improve competitive advantage. Whereas a business model represents the corporate-level strategy that helps to answer questions of how value is created at the level of value networks, what types of relationships a firm wants with others for achieving and sustaining its competitive advantage. Thus, based on the synthesizing multiple definitions available in literature, a business model can be defined as:

> *"the way value is created, delivered, and captured within a firms' internal value chain and external value network comprising interactions between a firm's internal units and between a firm and its value-creating partners and customers"*

In order to make disruptive changes in the nature of business and industry, a change in business models is needed. The criteria that differentiate the firms' re-defining business model from the firms' re-directing business-level and/or functional-level strategies were examined and identified by the authors as:

> *"the firms' re-directing business-level and/or functional-level strategies refers to product/service, market changes and/or operational changes, which could lead to the firms' re-defining business model that refers to industry value chain changes and/or financial model changes"*

Overall, this paper has consolidated the varied conceptual understandings of the 'business model' construct. This outcome will help to facilitate further research and theory building efforts in this theoretical area of the business model. The conceptual clarification provided here is critical to the progress of this emerging research area. It helps to build a common language, and serves as a departure point for further research.

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FIGURES

Figure 1: Conceptual framework of difference between strategy and business model: strategy frameworks aspect

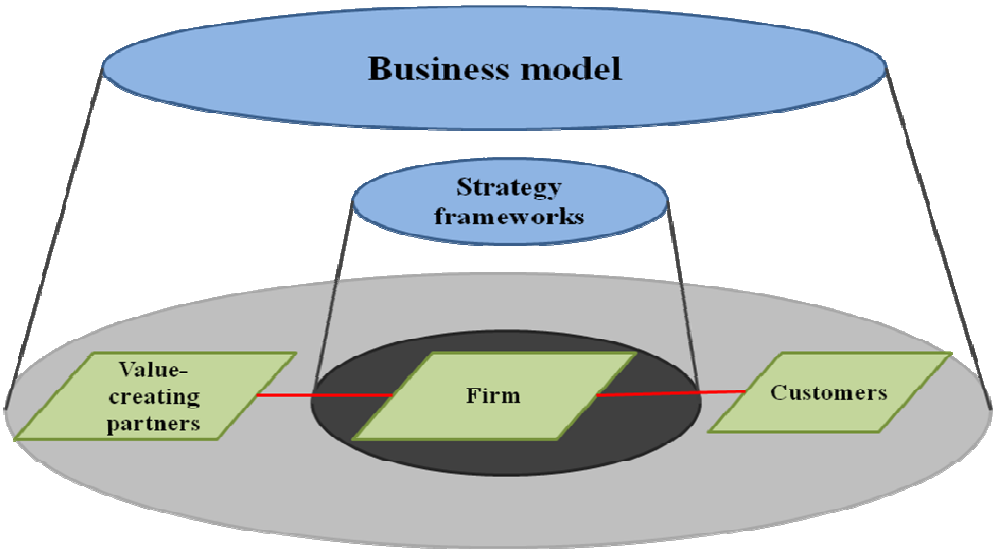


Figure 2: Conceptual framework of difference between strategy and business model: strategy levels aspect

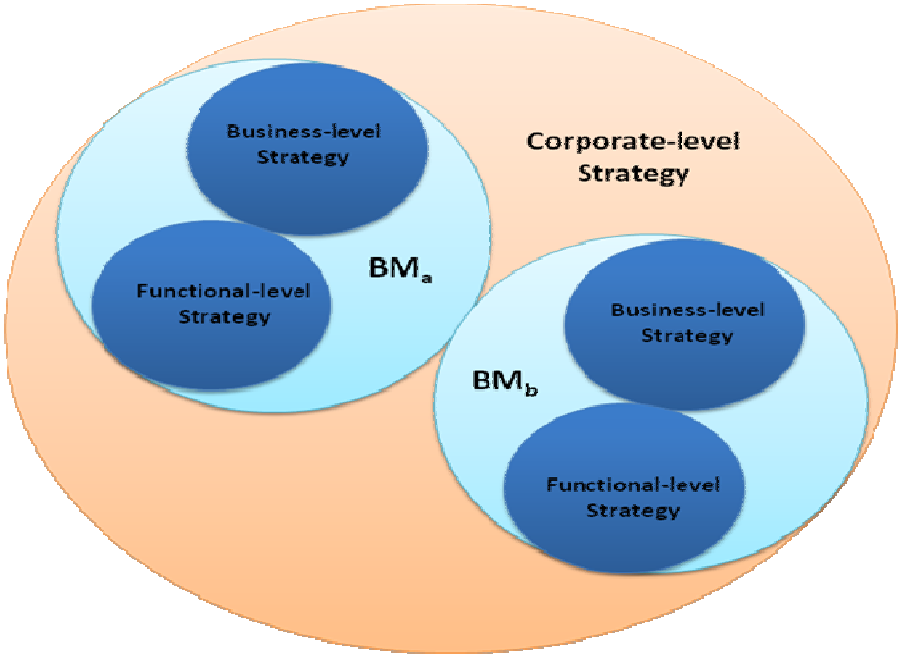


Figure 3: Firm's re-directing of business-level and/or functional-level strategies and firm's re-defining of business model

