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What is a business model?

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With the advent of the internet, the term 'business model' became a ubiquitously used (and misused) terminology in today's business world. Often not clearly defined and confused with a firm's strategy, this paper gives a short introduction to the definition of business models, its components to facilitate practical application, and its relationship towards strategy.

Definition of business models

As attributes of real firms (Massa, Tucci, & Afuah, 2017), the business model can be defined as firms' "…architecture of the value creation, delivery, and capture mechanisms…" (Teece, 2010: 172). As a system-level concept centered around a company's activities to deliver value to (and to capture value from) the customer (Zott, Amit, & Massa, 2011), a business model constitutes a unit of analysis that is often dissected into inter-connected components (Demil & Lecocq, 2010; Osterwalder & Pigneur, 2010).

Business model components

Following the practitioner-oriented approach of Gassmann, Frankenberger, and Csik (2014), a business model consists of four central dimensions: its target customers (Who?), its value proposition for this customer group (What?), the involved activities to deliver the proposed value (How?), and the revenue logic to appropriate value for the firm (Value?). Answering the four questions enables managers to adequately verbalize a firm's business model:

- **Who?**: Every business model serves a certain consumer group (Chesbrough & Rosenbloom, 2002; Priem, Wenzel, & Koch, 2018). Drawing on the argument from Morris, Schindehutte, and Allen (2005: 730) that the "…failure to adequately define the market is a key factor associated with … failure…", consumers are central to the architecture of a business model.
- **What**?: The second dimension describes what is offered to the target customer, i.e. what the customer values. This notion is commonly referred to as value proposition (Johnson, Christensen, & Kagermann, 2008; Teece, 2010) and represents a holistic view of a company's bundle of products and services that are of value to the customer (Osterwalder, Pigneur, & Tucci, 2005).
- **How?:** Delivering the value proposition, a firm conducts several processes and activities. Involving both resources and capabilities (Barney, 1991; Morris et al., 2005), their orchestration in the focal firm's activity system constitutes the third dimension within the business model logic of Gassmann, Frankenberger, and Csik (2014).
- **Value?:** The fourth dimension explains why the business model is financially viable. Unifying different financially-oriented aspects, such as the business model's involved costs and the applied revenue mechanisms, the revenue logic depicts how a firm appropriates shares of the value its business model has created (Amit & Zott, 2001; Teece, 1986).

Business models and strategy

Porter (1996: 61) defines strategy as "…the creation of a unique and valuable position, involving a different set of activities." Often equated to the strategy of a firm, the business model constitutes a subordinated concept. Elaborated on by Casadesus-Masanell and Ricart

(2010: 196), a company's "…strategy refers to the choice of business model[s] through which the firm will compete in the marketplace…". In contrast, business models represent a distinctive "…way it operates and how it creates value…" (Casadesus-Masanell & Ricart, 2010: 196). While companies have only one strategy, this strategy can involve a cluster of activity systems (i.e. business models). In other words: business models are the realized strategy of a firm.

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