

# A Primer on Theoretically Exploring the Field of Business Model Innovation

BY OLIVER GASSMANN, KAROLIN FRANKENBERGER  
AND ROMAN SAUER

Companies like Amazon, Uber, and Skype have become business strategy icons and the way they transformed industries can hardly be explained with classic strategy research. This article explores the field of Business Model Innovation which has become the cornerstone for the competitiveness of many successful firms.

**A**mazon became the biggest bookseller in the world without owning a single brick-and-mortar store. Uber revolutionised the taxi industry without owning a single car. Skype is the largest telecommunications provider worldwide without having any network infrastructure at its disposal.

Although all of these firms have become strategy icons, the way they transformed industries can hardly be explained with classic strategy research. To understand the scale and speed of such transformations, the concept of the business model has emerged. It is defined as “the logic of the firm, the way it operates and how it creates and captures value for its stakeholders” (Baden-Fuller & Morgan, 2010; Casadesus-Masanell & Zhu, 2013). The innovation thereof, business model innovation (BMI), refers to a significant change of this logic and studies have shown, that BMI positively affects firm performance (BCG, 2009).

Meanwhile, the ability to develop innovative business models has become the cornerstone for the competitiveness of many successful firms. BMI appears even more important as digitalisation is placing substantial stress on firms. As a consequence, business models and BMI have become buzzwords and their use is inflationary. Thus, it is about time to structure the field and ask



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questions as to: “How has academia approached the business model concept to understand the phenomenon?”, “How is the business model conceptually distinct from strategy?” In an attempt to answer these questions, we have identified seven schools of thought that have attained hearing.

### 1 Activity System School

**A business model is a set of interdependent activities spanning firm boundaries.** The activity system perspective stresses that a business model is the formal portrayal of a firm on the level of specific activities. It creates a holistic view on how firms are creating value and how they are performing the activities needed to do so. The school suggests three design elements to this end. The design elements are the structure, content, and governance of transactions. The first, content, refers to the activities being performed by the firm in order to deliver a value proposition. The second, structure, describes how these activities are performed and interlinked with each other. This dimension is closely related to the organisational set-up of the firm and its value chain. The last dimension, governance, defines who is performing the activities. These three design elements are complemented by four design themes which can be seen as the main sources of a firm’s value creation. They are summarised by the acronym NICE: (N) novelty, (I) lock-in, (C) complementarities, and (E) efficiency. Overall, the activity systems school is a widely accepted framework that is based on renowned economic theories and integrates aspects from value chain analysis, the resource-based view, strategic networks, and transaction cost economics. The notion of activity systems puts forward a new understanding of firm boundaries and broadens the scope of a “focal firm” considering it as a network of activities including external resources. As external resources are taken into consideration, they help to explain the sources of competitive advantage. The business model is thus a new unit of analysis in strategy research. (main literature: (Amit & Zott, 2012))

### 2 Cognitive School

**A business model is a “model” or the “logic” of how firms do business.** The Cognitive School regards the business model as a construct residing in a manager’s head. It is a comparably young literature stream within business model research, being still in its infancy. It puts the term “model” in the center of its reasoning. A model structures the managerial

understanding of a firm and helps employees to make sense of the competitive environment. As a consequence, the business model is a recipe that explains how a specific type of firm is doing business. These models can also be seen as blueprints or templates that can be imitated and used across a variety of firms. For instance, McDonalds may be studied based on its specific elements of value creation such as the value chain, operations, and so forth. The cognitive school, however, views McDonalds as a template of doing business based on the franchise model, representing this entire genre of firms. The school does a thorough job in demarcating the business model concept in relation to the field of strategic management. The focus on the cognitive perspective and business models as schemas differentiates the research from classic strategy literature. For instance, the school attempts to explore why some managers are more prone to *break out of cognitive barriers and disrupt the dominant logic*. (main literature: (Baden-Fuller & Morgan, 2010))

### 3 Process School

**A business model is a dynamic process of balancing revenue, costs, organisation, and value.** The Process School regards the business model as a dynamic firm process. It structures the business model of a firm in resources and competencies, organisational structure and the value proposition. This definition is also known as the RCOV framework. Changes to the model may occur within or between the components. On the one hand, each of these three components can individually become objects to change. On the other hand, the relations between these elements can also become objects to change. Thus, the RCOV framework emphasises the importance of dynamic changes within or between business model components. Moreover, the environment can be regarded as an exogenous factor to the RCOV framework with an influence on either of the core components. Significant changes in the business model, BMI, may happen on purpose and voluntarily or as an unintended emerging change. Its relation to strategy is that the school provides a dynamic view on strategy opposing the view that competitive advantages must be protected (“i.e. there should be no major changes in an operating BM” (p. 244) (Demil & Lecocq, 2010)). (main literature: (Demil & Lecocq, 2010))

### 4 Technology-driven School

**A business model is a way to commercialise novel technology.** For the Technology-driven School, a business model is a way to commercialise novel technologies. The research group is interested in building the bridge to technology management. Chesbrough and Rosenbloom (2002) were among the first scholars to advance the field by presenting a classification of a business model. They define six functions of a



business model, namely, *value proposition, market segment, value chain, cost structure and profit potential, value network, and competitive strategy*. The school also brings in the central element of collaboration and openness to enhance technology and business model innovation by putting forward the concept of open business models. An important notion of this group is to distinguish a business model from strategy. Whilst the latter focuses on the way of how to achieve competitive advantage, the first puts the way of creating value for customers in the center of attention. Thus, the business model differs from strategy in several ways. “Firstly, the business model starts by creating value for the customer, and constructs the model around delivering that value (...) A second difference lies in the creation of value for the business, versus creation of value for the shareholder. (...) A final difference (...) lies in the assumptions made about the state of knowledge held by the firm, its customers and third parties.” (Chesbrough & Rosenbloom, 2002, p.534ff). (main literature: (Chesbrough & Rosenbloom, 2002))

## 5 Strategic Choice School

**A business model is a result of strategic choices.** This school contributes to business model research by focusing on disentangling the concepts of strategy, business model and tactics. The authors argue, that a business model is the result of a stream of strategic decisions. As a consequence, there are strategic business model choices to be made. These relate to tactics. Sustainable competitive advantage is only achievable when managers prioritise the business model as the focus of their strategic choices. The authors additionally emphasise the importance of innovating business models when changes on market environment occurs. To conclude, the school argues that “strategy refers to the choice of business model through which the firm

will compete”, The business model refers to the logic of the firm, the way it operates and how it creates value for its stakeholders? (Casadesus-Masanell & Ricart, 2010, p. 196). (main literature: (Casadesus-Masanell & Ricart, 2010))

## 6 Recombination School

**A business model is a recombination of patterns for answering the who-what-how-why questions of a business.** The recombination school regards the business model as subject of innovation itself. First, it contributes to business model research by presenting a framework based on four dimensions to explain a value creation and capturing mechanism: Who? (who is the customer), What? (what does the customer value), How? (how is profit generated) and Why? (why is it profitable). Second, the core philosophy of this school of thought is that BMI relates to a recombination of existing business model patterns. The core assertion is that 90% of all business models are built on the basis of 55 repetitive patterns. This research approach to BMI is in line with other current endeavours which try to develop archetypes, categorisations, or morphologies in BMI (such as the Cognitive school). In striving to establish a link to strategy, the school argues that strategy refers to the choice of business model patterns from other industries which will be adapted to the own industry. (main literature: (Gassmann, Frankenberger, & Csik, 2014))

## 7 The Duality School

**A business model does coexist with competing business models and requires ambidextrous thinking.** The Duality School introduces the aspect of exploration versus exploitation to research on business models. According to the school, BMIs are explorative by nature and as a

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consequence, the question of how firms manage the trade-off between exploitation and exploration has to be addressed. For instance, the Duality school recommends to categorise the conflict between exploitation and exploration along two dimensions – the nature of conflicts as well as the similarity between the established business model and the BMI to be implemented. For each of the resulting four natures of conflicts, the duality school recommends a distinct strategy. The school deeply interlinks the concept of business models with strategy. The uniqueness of this school rather lies in how firms organise the configuration and implementation of novel business models once they strive to compete with multiple/dual business models, i.e. pursuing two strategies simultaneously. (main literature: (Markides, 2013))

Albeit in different veins, all schools attempt to make a demarcation from the field of strategic management or a justification in the field of strategic management. Common to all is the focus on the central question as to how firms create and capture value. One key argument expressed by business model scholars is that the concept of business models has a greater explanatory power to explain this very question compared to previously adopted concepts in strategic management research in several ways:

First, the business model adopts a perspective on firms that is boundary-spanning and explains how the focal firm is embedded in and transacts with its surrounding ecosystem. In this vein, all schools of thought give impetus on the emerging concept of joint value creation and business ecosystems. Second, by modelling the boundaries of the firm especially with regards

to the customer, business models extend the locus of attention compared to classic strategy research. Compared to the classic resource-based view of strategists, the business model incorporates the demand-side holistically. Third, although in different degrees and ways, all schools put an important focus on the implementation part.

Future research on business models tends to focus on precisely these three topics: “How do firms engage with other firms in platform ecosystems to spur BMI?”, “How do firms engage with consumers to create and capture value?”, and “How do firms conceive and implement BMIs organisationally?” Even though, these schools of thought present avenues for exploring these aspects, they have only just emerged. The book *Exploring the Field of Business Model Innovation – New Theoretical Perspectives* presents 50 theories in management which offer proving questions on the three research topics and provides a comprehensive basis for exploring and advancing this vibrant field (Gassmann, Frankenberger, & Sauer, 2016). For instance, to tackle the implementation aspect of business model innovation, scholars could adopt a Stakeholder Theory perspective and explore: “Which internal and external stakeholders and by what means should these be managed to achieve success in business model innovation projects?” In a rather unorthodox way, they could adopt an Experiential Learning Theory perspective and strive to better understand the *learning-by-doing* processes of BMI projects. This would bring scholars to a highly relevant field of research as the importance of experimenting with *minimal viable products* and *rapid prototyping* is gradually gaining more attention

in business, however, systematic findings and deeper insights of how business model innovation happens along these lines in this regard has been mostly neglected. 

### About the Authors



**Oliver Gassmann** is a full professor at the University of St. Gallen, Switzerland, where he is also Managing Director of the Institute of Technology Management.



**Karolin Frankenberger** is an Assistant Professor for Strategic Management at the University of Lucerne, Switzerland.



**Roman Sauer** is a Research Associate at the Institute of Technology Management, University of St. Gallen, Switzerland.

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