The Beacon: A New Framework For Business Model Reconfiguration in Complex Enterprises

Excerpt: Chapter 5: The Beacon; Chapter 7: Conclusions

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Chapter 5 THE BUSINESS MODEL 'BEACON'

Strategy lies at the core of the fundamental choices of a business (M. E. Porter, 1996). According to Teece (2010), "strategy analysis is thus an essential step in designing a competitively sustainable business model. Unless the business model survives the filters which strategy analysis imposes, it is unlikely to be viable, as many business model features are easily imitated." Hence, I put forward the proposition that the strategy lies at the core of the design of the business model, and must respect its directionality, motivation, and constraints.

There is a school of thought presented by Seddon et al. (2004) that business models are higher-level abstractions of the strategy of a firm. M. E. Porter (1996) mentions that "competitive strategy is about being different. M. E. Porter (1996) focuses on the 'strategic choices' that enable a firm to be different or offer a unique value proposition (whether differentiated or low-cost, and whether broad or focused). It means deliberately choosing a different set of activities to deliver a unique mix of value." This description of a strategy as an activity system enables a strategy to include any and all activities (lower-order) to be contained within its fold, making it holistic on one hand, but also, on the other hand, making it a somewhat unwieldy concept, with no bounds. Further, whereas the linkages between activities are defined, the mechanics are not explicit. It also forces the user of this method of creating a strategy to commit to a single way of doing things as opposed to decoupling the higher order choices from the mechanics and linkages. "The definition of a business model is murky at best. Most often, it seems to refer to a loose conception of how a company does business and generates revenue. Yet simply having a business model is an exceedingly low bar to set for building a company. Generating revenue is a far cry from creating economic value …" (Michael E Porter, 2001). The reason for this negative perception of business model definitions might have been that earlier definitions of business models were too narrow in comparison to his holistic description of strategy. I propose that Michael E Porter (2004) included components of business models as part of his definition of strategy, and hence had a negative view of why the concept of business models even exists since it appeared vacuous in comparison to his holistic view of strategy. He ignores the fact that there are many ways to implement a "generic strategy" (Michael E Porter, 2004), through different configurations (linkages and nodes) of the components of a business model.

Chun and Lee (2013) also highlight that "competitive strategy is a prerequisite to the business model and plays a significant role in its success".

Based on my research on 72 relevant papers on business models in reputable academic journals, only 15 mentioned the term 'competition' (or some variation on the word). Most of the papers about business models are devoid of the notion of competitive dynamics. I propose that the business model is 'wrapped around' the business strategy and is integrally built on its core assumptions and direction. I seek to explain my reasons behind this proposition in the paragraphs that follow.

5.1 Business Strategy, Business Models, and Business Processes

Extending this notion further, I propose that the business model is the translation between the transformational notion of 'strategy', to the transactional notions of 'business processes' (Pateli, 2004; A. G. Pateli & G. M. Giaglis, 2003) and can be depicted as shown in Figure 21, completing the chain of logic that the differentiating mechanisms for business models to realize their competitive strategies lie in the "supporting processes" (Teece, 2010).

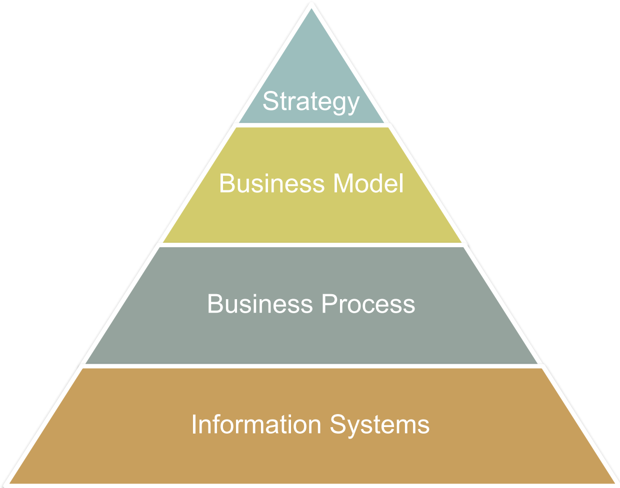


Figure 5.1: Business Model Definition Framework (source: A. Pateli and G. Giaglis (2003))

Further, "business models implicate processes and incentives" (Teece, 2007), and so there is a logical connection between the strategy, business model, and business processes. The business model contains elements of both strategy as well as operations, and in a way, uses the well-established boundaries of these concepts to clarify the scope of the business model (Morris et al., 2005). A. Pateli and G. Giaglis (2003) share their business model definition framework as a traditional pyramid structure, with strategy at the top, followed downward by business model, and then business processes, followed by information systems. Other scholars share this view of the business model being the logical link between strategy and business processes (J. C. Linder & Cantrell, 2001; Petrovic et al., 2001a; Timmers, 1998). The business model is "considered as the conceptual and architectural implementation of a business strategy and represents the foundation for the implementation of business processes" (A. Pateli & G. Giaglis, 2003).

In light of the definition of strategy (M. E. Porter, 1996; Michael E Porter, 2001), Seddon et al. (2004) suggest that business models are abstractions of strategy. In their view, the business model is at a higher level of abstraction of a strategy, which, in a sense, is yet another level of abstraction above the actual firm in real life. In their interpretation, several business models can be contained within the strategy layer, which is unique at the firm level. Business models are seen as more generic in nature than the business strategy. However, they draw an interesting and important distinction: that business models do not contain the blueprint for competitive action, which is the principal objective of a strategy. Aligned with this interpretation Christoph Zott and Amit (2010) describe business models as 'activity systems.'

One cannot talk about business models in any depth without the strategic context. The business model must be tailored to the business strategy of an enterprise. Moving upstream, I see that the strategy is a consequence and manifestation of the vision and mission, which provide the enterprise with an aspirational goal and direction, and lay out the broad principles by which the enterprise will conduct business within its commercial ecosystem. Figure 5.2 shows that there is a two dimensional hierarchy within enterprise definition. First, there is a scale that measures the *impact of decisions or choices*, which ranges from *lower* to *higher*. The other axis measures the *scope of decisions or choices*, which ranges from *strategic* to *tactical* (and if extended further, to *operational*). Whereas this is a conceptual and qualitative framework, it provides me insight as to the hierarchy of decisions or choices, in terms of their scope and their impact on the business.

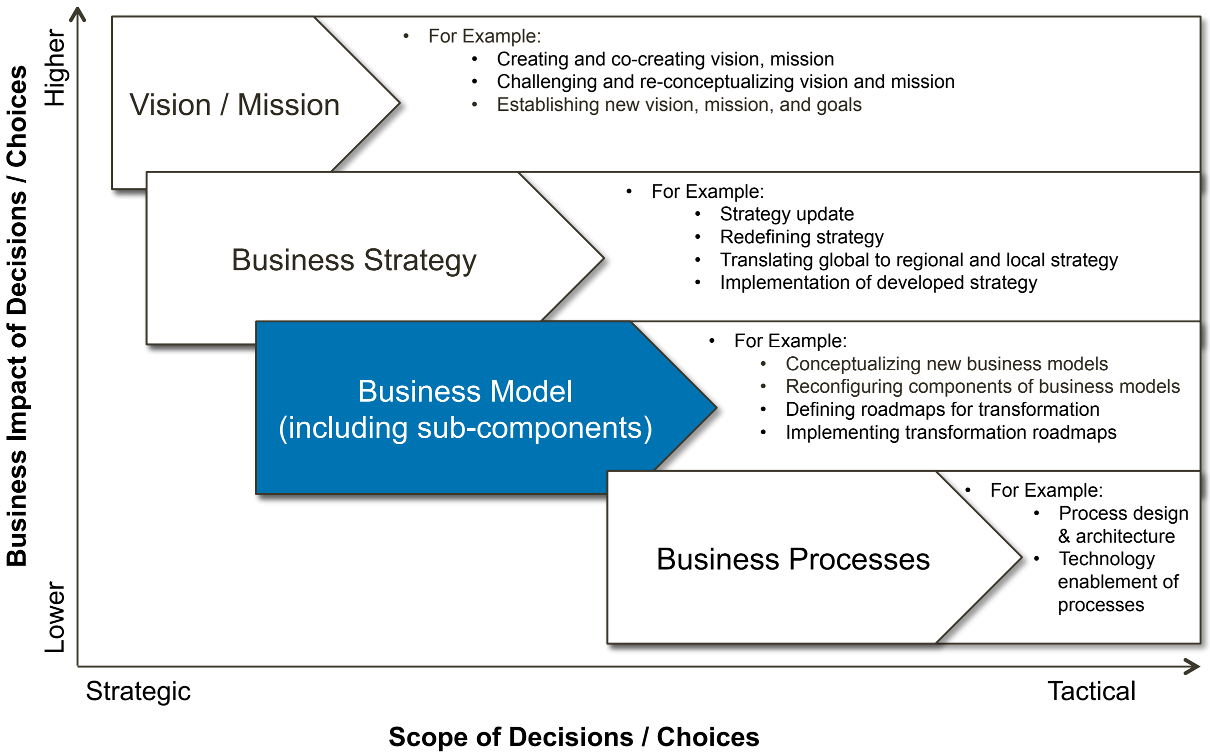


Figure 5.2: Decision scope differences between notions of strategy and business model

As previously mentioned, the business leadership articulate the *vision and mission* to state the aspiration of the business and provide the broad principles by which the business will operate. The enterprise must then use the *strategy* to build on this vision and mission, and lay out in more depth what it will sell, how it will compete, and what markets and customers it will do business with. The enterprise must then define the *business model* to translate the guidance from the *strategy* into more depth and richness, considering the broader requirements in terms of the components of the business model (and which I shall come to in more depth in the next chapter). The *business model* translates the business strategy (a 'transformational' concept) into the functional business processes (a 'transactional' concept). The enterprise must then develop detailed *business processes* that will be used as guidance for day-to-day business operations, after being transformed into *activity and task routines*, which form the scope of tactical choices and have a lower impact on the business than concepts like the *business model* or the *strategy.*

I propose a different lens for the co-habitation of these concepts, illustrating the position of Teece (2010), in his view that "coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models." My diagrammatic representation extends the current portfolio of notions of 'fit' between these concepts, as seen in Figure 19.

This figure differs from depiction E in figure 18 because the concept of strategy is not 'embedded' or 'within' the concept of a business model, they are two standalone concepts, but they are concentric, i.e. there is a radial notion of 'core' and 'periphery', with an implied outward directionality from the 'core'. "The separation of business model from strategy has far-reaching impacts" (Keen & Qureshi, 2006).

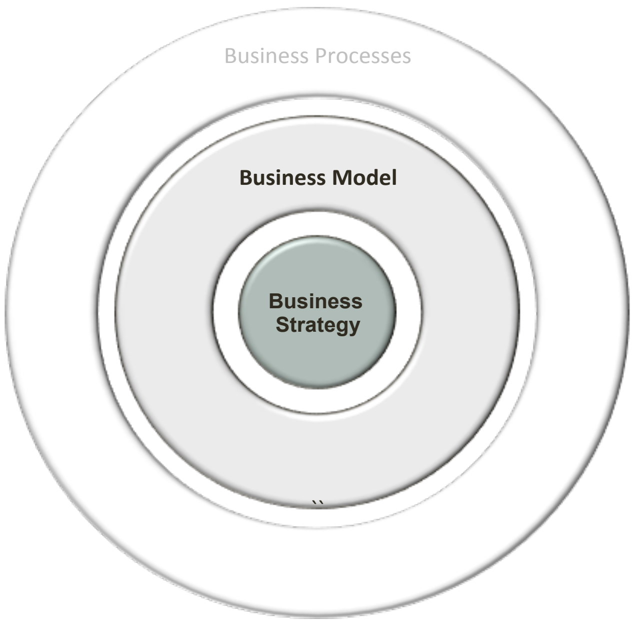


Figure 5.3: Proposed relationship between strategy, business model, and business processes

I represent the two concepts in a concentric 'ring-like' manner to convey the notion that you can have interchangeable business models, around the strategy 'core', without impacting the strategy, but also the notion that the evolution of the business model itself into a competitive weapon may imply that you can replace the strategy 'core' while leaving the business model in place. Clearly both must be present but they can be interchanged with different strategies (keeping business model constant) or different business models (keeping strategy constant).

5.2 Conceptual Framework of a Business Model

Consolidating and arranging the aforementioned concepts into a single conceptual framework, I present my conceptual model of an enterprise in Figure 5.2:

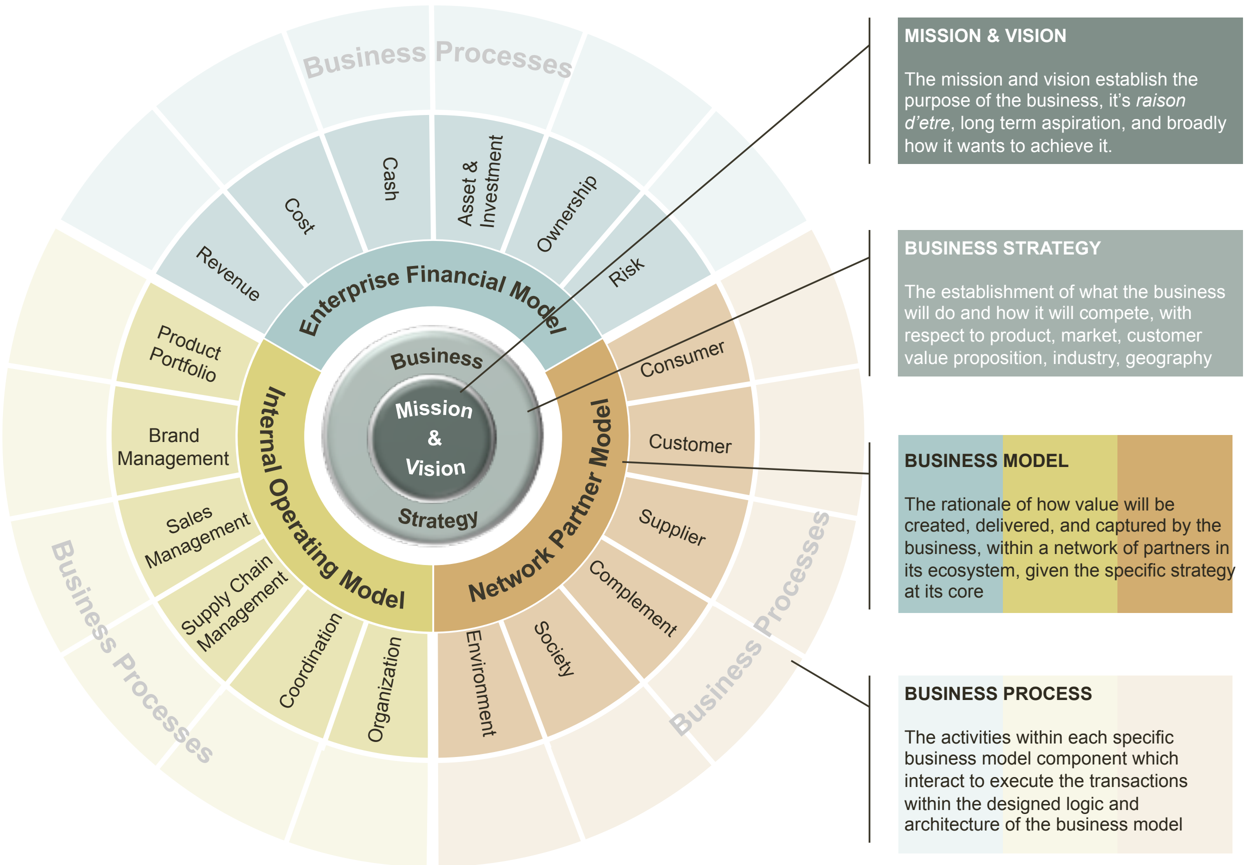


Figure 5.4: Strategy and Business model framework

Within the core of the business (the innermost circle) lies the vision and mission of the business (it's core purpose), without which a business will be lost as to what it aspires to be and the broad principles by which it will conduct business. Without a vision and mission, a company risks being a sailboat without a sail, floating in the waters, at the mercy of the waves that carry or sink it, without the ability to steer and move deliberately in any direction.

The next circle in the core represents the *business strategy* that uses this mission and vision to determine the product or service that it will sell, the markets where it will operate, the type of customers or industry segment that it will cater to, and how it will compete. It also includes decisions such as how the business will organize into product categories and customer channels and choices of what vertical stages of production (if a manufacturing business), or what part of the value chain it will participate in (if a service business). One of the key elements of the strategy is the value proposition of the business to the customer, i.e. what customer 'need' (articulated or not) will be fulfilled by what the enterprise does and on what dimension(s) will it compete (e.g. cost, quality, speed, flexibility, price, product characteristics, etc.).

Encompassing the *strategy* circle is the *business model*. Keep in mind that the choices that are relevant to the product, market, customer type, industry, competitive context and value proposition have been made through the *strategy*. What has <u>not</u> been hitherto decided upon are the 'mechanics' by which the *strategy* will be realized. The business model therefore is all about the *mechanics* of how the strategy will be transformed into action by which it will be operationalized. There are specific decisions to be made in the choice of *business model* and this is what I will focus on now.

There are three key *dimensions* to the business model: (1) the *enterprise financial model*, (2) the *internal operating model*, and (3) the *network partner model*. I will discuss each in a summarized manner here, and in more depth in the next chapter.

The *enterprise financial model* discusses the mechanics of the financial aspect of the business and addresses how the business will make money, what costs are involved in order to generate the revenue, what assets the business will control or have access to, whether the business will own these assets or will 'rent' them. Further, it will address what type of ownership model is in place, and what is the profile of risk that the business is willing to undertake as part of its mission to compete through it's strategy.

The *internal operating model* is an intuitive view of the business looking from outside in. It describes the operational, functional, and organizational mechanics of the enterprise and how it operates with the strategic paradigm. The *internal operating model* addresses the product portfolio and how that portfolio is segmented, what the product mix is, and also articulates the different parameters of quality, safety, regulatory, and use that enable the product or service to be a positive value delivery mechanism. It articulates what is the sales approach and how the sales function operates to meet customer requirements. It also looks at the marketing approach (including innovation) and how the business markets to its relevant stakeholders. Further, it also examines the supply chain operations of the business, in terms of how the four key pillars of *Plan, Source, Make, Deliver*, based on the SCOR model (Stephens, 2001). In addition, the *business model* also describes the organizational structure, span, and incentive schema. The organizational mechanics are particularly important as they describe (especially in larger and more complex organizations, such as matrix based multi-category, multi-channel, multinationals) the interaction touch-points between different 'slices' of the organization, whether they are functional, category, or channel oriented. This component also includes the skill-base and competencies of the resources within the organization and the capabilities of the organization as a whole to operationalize the strategic guidance. This brings another component to the forefront: coordination. The business needs to coordinate in some manner, and the systems and interfaces that the organization needs in order to do so, from the communication and transformation aspects to the mundane transactional aspects.

The *network partner model* is oriented towards an inside-out view of the business. It focuses on different components such as the *customer* and *consumer* component, which address how the business interacts with customers, how it organizes them (e.g. a channel approach), how it manages to keep up in the dynamic environment of the customers. Further, it also encompasses the final value delivery to the end-consumer (albeit via the customer in many cases) who might be purchasing the product from an intermediary. Further, the external model also addresses the suppliers, in terms of how they are organized to interact with them, with what frequency, and by whom, and with what frequency and level of transaction. The business model also addresses the *complementor* in terms of what products or services are supplied by another organization (internal or external) in the business ecosystem that aggregates value to the end-customer through a set of complementarities in terms of products or services. In addition, the business model needs to include the *society/community* and the *environment* in terms of the business' interactions with people at large such as in terms of their corporate social responsibility programs, their interactions with communities and society as a whole, as well as with environmental groups. Supplementary to this, I also include the enterprises safeguards to protect the environment, and include the manners of organization and control to leverage environmental factors and work within the strict guidelines of safety and natural habitats.

Finally, the *business process* circle encompasses the business model layer, and describes in further depth the manner in which the mechanics of the strategy will be implemented through transactions and business routines. The business process layer includes the specifics around people, activities and systems that will enable the operationalization of the business model (once again, converting transformational concepts into transactional activities such that value is created, delivered and captured, the central theme and requirement of business models). The process layer describes the key activities that must occur, the sequence of these key activities along a time dimension, specifying the interactions between internal and external business partners within the commercial ecosystem, the technology enabler interactions in terms of inputs, outputs, formats, reports, and validation.

The performance metrics are embedded within each layer of the conceptual framework. There needs to be an organized and logical hierarchy of performance metrics to measure business and operational performance for each of the components of the business model, ordered and linked to the financial model and its associated financial performance metrics.

5.3 Congruency with Deliberate and Emergent Strategies

Mintzberg and Waters (1985) discuss the bidirectional forces of strategy development in their paper on 'deliberate' and 'emergent' strategy. They discuss a perfectly 'deliberate' strategy as one that the actions performed are exactly per the intended strategy, following 'precise intentions' articulated in a fairly rigorous level of detail, meant to impact the organization as a whole and indiscriminately across all functions, and that no external influence was taken into account while implementing the strategy. This is fairly high bar for 'deliberateness' of a strategy, for which leaders may be accused of being to rigid in the implementation, and perhaps turning a deaf ear to the voice of the organization as well as to the market (and customers). On the other hand, a perfectly 'emergent' strategy is one where there is consistency of action without making it so in an intentional manner. This too, forms an extreme case, equally unlikely as the perfectly 'deliberate' strategy. In reality, most strategies lie somewhere in between the perfectly 'deliberate' and perfectly 'emergent'.

Strategy	Major features
Planned	Strategies originate in formal plans: precise intentions exist, formulated and articulated by central leadership, backed up by formal controls to ensure surprise-free implementation in benign, controllable or predictable environment; strategies most deliberate
Entrepreneurial	Strategies originate in central vision: intentions exist as personal, unarticulated vision of single leader, and so adaptable to new opportunities; organization under personal control of leader and located in protected niche in environment; strategies relatively deliberate but can emerge
Ideological	Strategies originate in shared beliefs: intentions exist as collective vision of all actors, in inspirational form and relatively immutable, controlled normatively through indoctrination and/or socialization; organization often proactive *vis-à-vis* environment; strategies rather deliberate
Umbrella	Strategies originate in constraints: leadership, in partial control of organizational actions, defines strategic boundaries or targets within which other actors respond to own forces or to complex, perhaps also unpredictable environment; strategies partly deliberate, partly emergent and deliberately emergent
Process	Strategies originate in process: leadership controls process aspects of strategy (hiring, structure, etc.), leaving content aspects to other actors; strategies partly deliberate, partly emergent (and, again, deliberately emergent)
Unconnected	Strategies originate in enclaves: actor(s) loosely coupled to rest of organization produce(s) patterns in own actions in absence of, or in direct contradiction to, central or common intentions; strategies organizationally emergent whether or not deliberate for actor(s)
Consensus	Strategies originate in consensus: through mutual adjustment, actors converge on patterns that become pervasive in absence of central or common intentions; strategies rather emergent
Imposed	Strategies originate in environment: environment dictates patterns in actions either through direct imposition or through implicitly pre-empting or bounding organizational choice; strategies most emergent, although may be internalized by organization and made deliberate

Figure 5.5: The 8 Different Types of Strategy (Mintzberg & Waters, 1985)

Mintzberg and Waters (1985) propose 8 types of strategies ordered from most 'deliberate' to most 'emergent', as shown in the table below. In my quintessential notion of strategy development in large organizations, the leaders of an organization create a 'Planned' strategy, in the form of budgets, organizational form, structure, and routines that can be governed and measured with performance indicators, which is then executed. As discussed in their paper, I can also imagine the 'Umbrella' or 'Process' type of strategy development occurring. Using the commonly occurring theme of fundamentals of the strategy moving in the 'deliberate' direction from the 'inner circle' of leadership to the 'outer circle' of the organization or even the market, with some 'emergent' ideas and reactions feeding back into the mostly 'deliberate' strategy.

While Mintzberg and Waters (1985) discuss the extent of the push that the 'leaders' of the organizations make in developing strategy (vs. allowing it to emerge from the environment), they do not explicitly mention from where the 'emergent' strategy would come from (within the organization), or what path the 'emergent' new knowledge would take to reach the leaders. I propose that the strategy development exercise outlines the business model options and constraints, logically translating the high level aspirations such as vision and mission into informed choices and decisions about the business model, which in turn spawns the logical business processes, which form the basis for the execution of the strategy and foundation stones of day to day operations of the enterprise. These same processes are the touch-points of the organization with the 'network ecosystem' (A. Afuah & Tucci, 2001) of business partners, and are the mechanisms by which the organization develops the 'emergent' elements to the 'deliberate' strategy in order to respond to the marketplace. These 'emergent' elements take place in the form of decisions made in specific settings and for specific 'arenas' (McGrath, 2013) or combinations of products, markets, customers, and geographies. These 'emergent' elements may not enable the business to shift away from the macro-objectives outlined by the 'deliberate' strategy, but may reconfigure the business model to work around specific constraints or restrictions that the market imposes.

For instance, an agrochemical company, FMC Corporation (EMEA division) had a single Planned strategy for EMEA, but because the German market environment differs radically from the Ukraine market environment, the business model for these two geographies was forced to be different – regulation in Germany allowed FMC a direct B2B access market whereas Ukrainian protectionism oriented regulation forced FMC to work with 1 local primary distributor only. The marketplace influenced these changes, and FMC EMEA leadership accepted these as deviations from the template business model that the strategy outlined, and made an adjustment to the strategic elements (budget, profit margin, etc.) to take into account these 'emergent' factors.

In conclusion, the characterization of the relationship between business strategy within the Beacon framework, process is a loosely coupled and modular one, originating with the creation of a strategy, followed by a business model, to enable the strategy to be implemented, and finally the business processes that can execute the requirements of the business model.

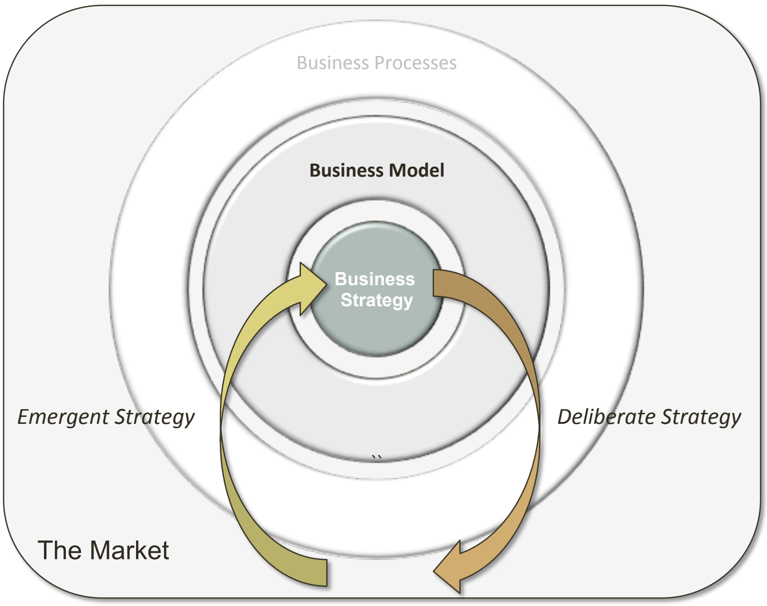


Figure 5.6: Relationship between core concepts in context of emergent and deliberate strategy

5.3.1 The Accelerated and Temporary Nature of Strategy

It has been claimed that companies compete on the basis of their business models (Ramon Casadesus-Masanell & Ricart, 2007). Successes (e.g. FreshDirect) and failures (e.g. WebVan) of companies have been attributed to the design of their business models; the failure of competitors to reconfigure their business models to compete effectively (e.g. Netflix vs. Blockbuster), and companies not adapting their business models to emerging externalities (e.g. Barnes and Noble booksellers) fast enough have also been attributed to their success or failure. Existing research proposes the notion of a business model as being dynamic rather than static (R. Casadesus-Masanell & Ricart, 2010), in order to be able to effectively deal with demand and supply uncertainty, market variability, competitive actions, technological evolution, and other externalities.

This idea of a business model having to be dynamic requires that the business model be flexible on its different components. For instance, in a new firm, where there is no incumbent business model, this notion implies that it should build in some type of structural flexibility so as to adequately respond to internal and external factors, as well as to enable future reconfiguration as needed. For existing firms, it implies that a business model reconfiguration exercise should be facilitated through the flexibility of the dimensions of the business model. This is reflected by R. Amit and Zott (2012)'s activity system perspective which claims that BMR fundamentally consists of adding and dropping activities within the business, which is aided by the inherent flexibility of the business model due to the flexible interdependencies between the components of the business model (Siggelkow, 2002).

McGrath's perspective on strategy is that traditional approaches such as the five-forces analysis (Michael E Porter, 1985) were valid for a different time period when business was less global and more stable, when I did not witness the degree of industry convergence and corporate merger and acquisition activity that I do today. The holy grail of sustainable competitive advantage was long sought after by businesses, crafting strategies that promised to deliver such advantage. McGrath's postulates a change in such thinking by introducing the notion of 'transient competitive advantage', where companies need to "win in volatile and uncertain environments," where executives must have the ability to sense and seize often short-lived opportunities in the marketplace and transform their business (models) in an agile manner in order to do so. McGrath argues that "deeply ingrained structures and systems" will potentially hold back a company from being agile enough to adapt to rapidly changing environments to take on competitive forces from different directions (industries, companies, markets, customer segments, geographies). Further, McGrath considers business model innovation one of the keys to keeping up with this competitive velocity, to gain this transient competitive advantage (preface xv).

The BCG growth-share matrix added the perspective of 'lifecycle' to strategy, which introduced the notion that there is no one-size-fits-all strategy for a business, but it should be tailored to the specific phase of the lifecycle of the product portfolio or business portfolio. Chun and Lee (2013) provide empirical evidence to show that "success of a sustainable business model depends on a mixture of pertinent generic business strategies from the life-cycle perspective." McGrath (2013) translates the traditional lifecycle stages of 'introduction', 'growth', 'maturity', and 'decline' (Carl R. Anderson & Zeithaml, 1984; Barksdale & Harris Jr, 1982; Hambrick et al., 1982) as 'waves', with stages referred to as 'launch', 'ramp up', 'exploit', 'reconfigure', 'disengage'. This notion of 'waves' is a "shorthand way of thinking about the lifecycle of competitive advantage" (Leavy, 2013). Using the seminal perspective that the purpose of a business is to create a customer (Drucker, 1992), the stages of the 'wave' interpretation of a lifecycle symbolize the introduction of a product through some sort of (continuous) innovation process ('launch' and 'ramp up'), the growth in market position vis-à-vis competitors and the leveraging of market arbitrage opportunities ('exploit') to reap the rewards of the investment in innovation, the mindful, planned, and intentional ramp-down of the innovation ('disengagement') so as to reallocate resources, assets, or business capabilities to new innovations, markets, 'arenas' ('reconfiguration'). Being mindful of the fact that the opportunities being hunted by businesses are 'transient' in nature, combined with the explicit lifecycle stage of 'disengagement', a business will need to structure itself differently from a traditional business that does not think in these terms (have a different business model, in other words).

In conclusion, the notions of 'strategy' and 'business model' are not overlapping but complementary. To create a 'deliberate' strategy (Mintzberg & Waters, 1985), an enterprise must begin with a strategy, and craft a business model on the basis of the configuration of the strategy. The business model is the enabler of the strategy, and is one conceptual level more granular than a strategy. It contains the information about the 'architecture' of the content of business functions and relationship with business partners within their ecosystem. To create an 'emergent' strategy (Mintzberg & Waters, 1985), an enterprise must look outward, to its customer base. These customer-centric changes to the business outcome will impact it's business model (because the architecture and relationships between the functions will change). This business model shift will become incompatible with the strategy that it was designed for, and hence will influence the shift in strategy. Either way, deliberate or emergent, the strategy and business model are regarded as distinct and separate notions, with an inextricable relationship of complementarity.

I have provided the overall framework of how I characterize the business model. I now focus on the components of the business model to explain them in more depth. I provide a summary of the business model framework with its components in the figure below. The three primary elements of the business model are the Enterprise Financial Model, the Internal Operating Model, and the Network Partner Model. The secondary components are highlighted in the tables surrounding the circular framework diagram. I have intentionally depicted each of the elements at the same level of consideration and without any apparent hierarchy because the relative importance of each element varies by company and cannot be generalized. Further, this same reasoning of abstaining from hierarchy applies to the components within these principal elements.

I will focus on the business model elements and components and not pay much attention to the business strategy because I am not changing the meaning, definition, or context of the strategy. I simply take it as a given and build my research on business models around the central notion of the business strategy.

The Business Model Beacon ©

Component	Description
Product	What will you sell?
Aspiration	What is the winning aspiration
Market	What is the market?
Customer	Who is the customer?
Value	What is the value proposition?
Competition	How will you win?

Component	Description
Revenue	The revenue generating mechanism from value creation
Cost	The costs associated with value creation, delivery, and capture
Cash	The working capital model and the mechanism by which free cash is generated and used
Asset & Investment	Fixed, tangible, and intangible assets; Investments in innovation and adjacent spaces
Ownership	Stakeholder mapping; decision rights
Risk	Mechanism to cope with / leverage different types of risks and market uncertainty

Component	Description
Product Portfolio	Product variety, quality, design, features, packaging, sizing, service, warranties
Brand Management	Price, Promotion, Placement; Including R&D, brand development, activation
Sales Management	Customer acquisition, retention, relationships, assessment, deletion
Supply Chain Management	PLAN, SOURCE, MAKE, DELIVER
Coordination	Framework for information exchange, decision-making, transacting within and outside the business
Organization	Strategic capabilities, people, rewards, structure, and process

Component	Description
Consumer	Model for value creation, delivery and capture with end-user
Customer	Model for value creation, delivery and capture with first order intermediary
Supplier	Strategic sourcing considerations for secure, reliable, quality, flexibility in supply
Complement	Appropriability, complementarity regime, co-specialization
Society	Corporate social responsibility and ethical behavior
Environment	Sustainable ecological and environmental practices

Figure 5.7: Business model 'Beacon' framework

In an effort to respect and leverage existing research and best-of-breed approaches, I propose the Beacon as an overarching business model framework, combining existing frameworks of functional subject matter to look at the focal firm in a holistic manner. I use some of the most recognized and well-published frameworks for each of the business model sub-components, and assemble them under one umbrella framework. The purpose of this umbrella concept is threefold: (1) to include all the possible functional areas covered by literature and not make exclude any component through ex-ante assumptions about which components are relevant, (2) the functional lenses of these sub-components have already been researched thoroughly and sufficient dominant expertise exists within these functional silos, and (3) my focus is on the configuration of these different components in relation to each other and not the in-depth configuration of the specific components in and of themselves. Scholars in different particular areas of specialty have studied the different components of the business model in great depth. The components deal with a wide range of topics in the areas of organization (organizational, coordination), functional areas (marketing, sales, supply chain, finance), community and sustainability (society, environment), management of external partners (suppliers, customers, consumers, complementors). The contribution of the Beacon framework is to pull together these disparate functional, organizational, social, and environmental topics under one umbrella at the same level of abstraction, and look at the interdependencies between these components, as well as to enable one to determine which components drive the configuration of other components.

5.4 The Beacon : Business Strategy

The Business Model Beacon – Business Strategy

Component	Description
Mission/Vision	What is the winning aspiration
Product	What will you sell?
Market	What is the market?
Customer	Who is the customer?
Value	What is the value proposition?
Competition	How will you win?

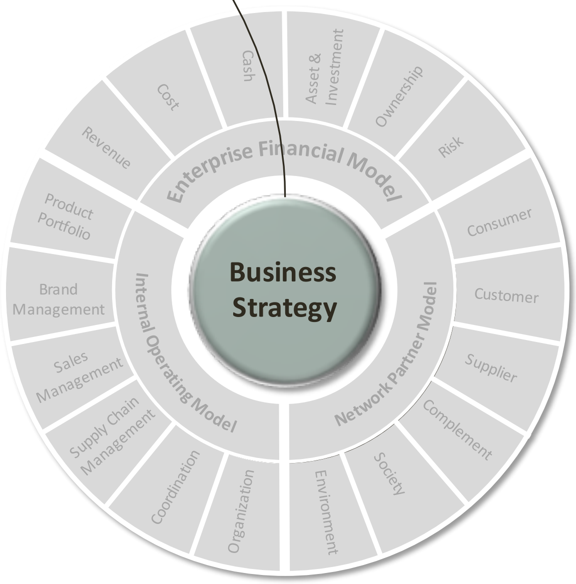


Figure 5.8: The Business Model Beacon: Business Strategy

I have used a simplified characterization of the business strategy as described by Lafley and Martin (2013) in order to remain faithful to my aspiration of writing in a manner that is accessible to the practitioner community, yet maintaining academic rigor. Lafley and Martin (2013) describe their view of strategy in practical terms: a formulaic articulation of the "winning aspiration" which provide guidance and direction for a business; defining the "playing field" which provides the business direction as to where it will compete in terms of geography, product range, market segments, customer channels, and production stages. In addition, and aligned with other strategy scholars, there is a unique value proposition and a distinct competitive advantage. I am using the Lafley and Martin (2013) 'waterfall' framework of defining a strategy. They start with the 'winning aspiration', then define 'where I will play', which embodies the purpose of the enterprise, encompassing the specific business choices of product, market, geography, and customer, and then defining 'how I will win', which defines the value proposition to customers as well as what the competitive differentiator is. I describe each of these strategy components below:

Vision / Mission: The purpose of a business is the first thing to be established in terms of the vision and mission of the business. It is the winning aspiration that a business must have in order to have a clear and deep sense of purpose for the business.

Product: The broad selection of product family that the business will be involved with, which also outlines what it will **not** be involved with, since strategy implies choices for engagement or disengatement, keeping the business focused. The product selection is at the level of 'category' or some other broad selection at a product family level. An example is 'packaged foods' or 'personal care' or 'universal retail'.

Market: The choice of the geographic territory, market segment, and market channels through which the business will operate. The market choice is critical because it will also have organizational implications in terms of size, scope, and range of the responsibilities and roles of the resources.

Customer: The choice of customer segments, sales channels, and consumers that the business wants to target. This choice has to also specify exclusions so that the business is clear as to where to invest customer development funds and have a confident sense of which segments are oriented towards what business objective (profit, sustainable revenue, competitive dissuasion, etc.)

Value Proposition: The clarity on what value the business is providing the customer or consumer via the products that the business is selling in the marketplace. The value can take many forms, in terms of specific product functional attributes, but also in terms of status, sentiment, or complementarity.

Competition: How the business will compete in the marketplace, and what it will do to win the market share for the product / market / customer combination. The competition component specifies what axes the business might compete on (price / quality / availability / attributes / other), and how the business will differentiate itself in the marketplace.

5.5 The Enterprise Financial Model

The enterprise financial model consists of 6 key components:

The Business Model Beacon – Enterprise Financial Model

Component	Description
Revenue	The revenue generating mechanism from value creation
Cost	The costs associated with value creation, delivery, and capture
Cash	The working capital model and the mechanism by which free cash is generated and used
Asset & Investment	Fixed, tangible, and intangible assets; Investments in innovation and adjacent spaces
Ownership	Stakeholder mapping; decision rights
Risk	Mechanism to cope with / leverage different types of risks and market uncertainty

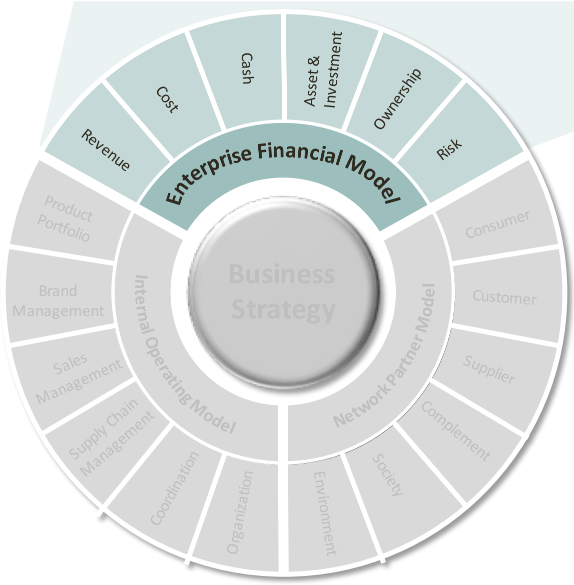


Figure 5.9: The Business Model Beacon: Enterprise Financial Model

5.5.1 Revenue:

This component describes how the business generates revenue. There are a few primary considerations to articulate this. One of them is to catalog the revenue streams, which are linked with the product / service portfolio. The revenue model is also a reflection of how the business has determined to generate value for the customer. It is important to keep in mind that revenue is nothing but a multiplier of product (service) units with pricing over a period of time. In order to modify the revenue model, one must alter one of the following attributes of the revenue model: volume, location, quality, pricing, or time. Some common revenue models include: 1) *Standard* – monetary exchange of cash (credit) for a product / service; 2) *Price Promotion* – same as *standard* but with a monetary discount (e.g. x% discount on standard product); usually connected with an expiration date (also see *exploding* offer further in this section); can also be used within a specific locational context (e.g. discount at a new store to gain traction); 3) *Volume Promotion* – same as promotion but with discount in terms of additional product volume for standard price (e.g. buy 1 get 1 free); can also be used with a specific location context; 4) *Freemium* – giving away a 'lower quality' of standard product for free, and charging for 'standard quality' features / functionality (e.g. used in the web-based software offerings); 5) *Exploding* – giving away full features and functionality of a product for a limited period of time at some form of advantage (price / volume) after that the offer expires and the user / consumer must purchase at regular price or abandon the product (e.g. used in the software industry); 6) *Yield* – based on demand and supply differentials in relation to time (e.g. the airline industry uses this for different routes and seat types and locations within a network); 7) *Location Driven* – in order to drive sales at specific locations to gain more than others within a given network; and 8) *Complementarity* – Selling complementary product with main product, in order to drive a lower overall system cost for the customer, and driving sales of secondary products (e.g. selling pumps with valves)

5.5.2 Cost:

The cost component encapsulates the elements of monetary cost (vs. opportunity cost or other intangible costs) for the business, and typically includes what appear in the expense related line items of a financial statement (e.g. the Profit and Loss or Income statement). The sources of cost for a business are typically found on a P&L under the following 5 categories (*Schmidt, 2003*):

The first category is ***Expenses for Cost of Goods Sold*** *(COGS* for product-related businesses*)* – sometimes also referred to as *Cost of Services* or *Cost of Sales* (for service-related businesses) – these are typically the expenses that are directly connected with the production of goods or delivery of services. Some of the core cost elements in this category include the following: 1) *Direct materials cost for manufactured products* – this encompasses the cost of the materials (which may include sub-components) that are used as an input into the product that is produced (regardless of whether or not the manufacturer owns the manufacturing assets); 2) *Direct cost of service delivery* – this includes the direct labor costs in the delivery of a service (e.g. cost of the consultant who delivers a service); 3) *Purchase of finished goods inventory to be sold* – if the business is involved with the resale of products (e.g. an electronics retailer), then the cost of these products falls under this category; 4) *Direct labor for manufacturing* – this includes the cost of the labor that produces the product (e.g. workers in a factory); 5) *Manufacturing overhead expense* – this typically includes indirect labor, production equipment depreciation expense, and other manufacturing or delivery overhead (e.g. repair staff from the company that supplied a part of a machine that comes to do service on that machine, but who is not a part of the manufacturer's organization); 6) *Indirect costs of service delivery –* this typically includes the costs incurred by the individual delivering the service (e.g. the rental cost of special equipment that the maintenance person uses as part of his / her service delivery)

The second category is ***Operating Expenses (Selling)*** – this category of expense includes the cost of selling the products or services, and typically includes the following: 1) *Retail fees, maintenance, rental* – includes the expense required in order to place a product on a retailer's shelf (e.g. slotting fees), or the rental of a shelf for the stock of the product; 2) *Sales salaries and commissions* – if the enterprise uses a sales force, then the salaries and commissions for the sales team is included here; 3) *Advertising and promotion* – the cost of creating and displaying an advertisement or running a campaign and the cost of promoting product (e.g. discounts, additional volume bundled at a discounted price); 4) *Depreciation for the assets used in the selling process* – this could include things like a bar-code scanner in a retail environment, or the printer used to print coupons and advertising material for the campaign.

The third category is ***Operating Expenses (General and Administrative)*** – this category of expense includes all the costs of actually running the business on a regular basis (with exception of special and non-recurrent items such as those exceptional costs associated with an acquisition for instance), such as the following: 1) *Salaries and wages* – this includes the salaries and wages for those not already included in activities directly associated with production or selling, and also includes the compensation for the business' leaders and executives; 2) *Research and development* – this includes the costs associated with activities associated with research and development and may include items such as clinical trials (for the pharmaceutical industry), or equipment for production, or also user-testing costs for new software, for instance; 3) *Technology support costs* – the costs associated with information technology related support, where the IT organization supports the whole enterprise; 4) *Depreciation costs* – this includes the depreciation costs for plant, property, and equipment (PP&E) assets and also other assets that might not directly be associated with sales or manufacturing activities, such as 3-D printers for testing and demonstration of a concept for sales internally within the organization

The fourth category is ***Financial Expenses*** – this category includes the costs that are incurred as a result of borrowing money or gains from financial investments. Typically, these may include the following: 1) *Loan related fees* – this includes the fees in relation to the sourcing and arranging (i.e. origination) of loan obligations; 2) *Interest paid on borrowed funds* – this includes the interest on the amount borrowed in order to invest (i.e. the base interest rate for borrowed money that is then invested in other higher yield investments). For instance, banks pay consumers x% for their money on fixed income accounts and then invest this money into higher yield investments, but still need to pay back consumers the x% that the borrowed from the consumers at.

The last category is ***Extraordinary Expenses*** – these are the costs for exceptional or non-recurring events in the business' existence, such as a restructuring, acquisition, or divestiture typically. These expenses are typically "not a part of the company's normal business operations" (Schmidt, 2003), and may include the following: 1) *Restructuring expenses* – this can include items such as the cost of consultants to develop the new structure and workflows, the reduction of the workforce and layoffs of employees enabling one-time payouts; 2) *Property transactions* – sale of, land, buildings, properties, and other physical possessions; 3) *Disposals or asset sales* – sale of plants, brands, or other properties regarded as significant assets; 4) *Business (lines) sale* – divestiture of business lines or of the business as a whole.

These five categories of expenses (cost) form the bulk of the cost items that a business will encounter in its existence, and may be catalogued qualitatively or quantitatively for the purposes of the business model articulation, depending on the use of the framework.

5.5.3 Cash:

This component of the *financial model* offers insight into the balance of cash in the enterprise, and includes the traditional cash aspects of the business such as *debtors, creditors, and inventory*. It provides insight into the terms of trade with customers and suppliers, as a proxy for relative negotiating power of the business. The *inventory working capital* is a manifestation of the degree of synchronization within the business.

The cash model is important because it also describes the relative power of the focal firm vis-à-vis its customers and suppliers and to understand whether it has the power to dictate payment terms. Further, it also implies the valuation of the business, and gives a better understanding to the motivation of the underlying business strategy. For instance, private equity firms focus mostly on increasing the cash flow so as to inflate the valuation of the business, aligned with the insight that "operating cash flows are better than accounting earnings at explaining equity valuations"(Liu, Nissim, & Thomas, 2007).

5.5.4 Asset and Investment:

This component of the *financial model* includes the assets that the business has acquired or developed, and also the investment in other technologies, businesses, and companies that might provide a better understanding as to where the business is headed in the long term.

The *Asset Model* consists of three broad categories of assets: *fixed (capital) assets*, *tangible assets*, and *intangible assets*, which may be described as follows: 1) *Fixed or Capital Assets* – These are typically the productive assets of a business, including factories, distribution centers, machinery, heavy equipment (e.g. power generation), and other non-human physical resources that add value to their product; 2) *Tangible Assets* – This category of assets typically includes the physical assets of a company not used for production directly (e.g. computers, printers, fleet vehicles). In accounting, this category also includes cash and working capital but for my purposes, I have created a separate component of the *financial model* that deals specifically with the *cash model*; 3) *Intangible Assets* – This category of assets includes the non-physical assets of a business such as patents, intellectual property, trademarks, specific knowledge of formulations, and copyrights.

The *Investment Model* encompasses the portfolio of investment that the business has made for the future. The investment profile may provide indication of the long-term motivations of the business and the strategic considerations and directions of the business. Whereas the business model reflects the current manner in which the strategy is being executed, enterprises typically have a forward view of where they are headed and this often reflects in their investment portfolio. One would find generally items in the details of the R&D spend that demonstrate the investment in the 'ideation' through 'development' sections of the funnel, but this is more exploratory than the 'ideation' section, which already articulates a product and associated vision. The *investment model* gives me rare insight into the mind of the leadership team to understand what directions the company might go into. The investment model might give me insight into some of the following aspects of strategic interest: 1) *Efficiency* – these types of initiatives or technologies might help lower the cost-base of the business, enabling it to invest more in growth and innovation; 2) *Responsiveness* – these types of initiatives or technologies might enable the business to cater more to customer needs, accelerate speed to market, and enable growth through these channels; 3) *Adjacent Business Models* – exploring adjacent business models might enable an enterprise to leverage this knowledge to morph into new spaces before the competition; 4) *Growth* – initiatives oriented towards growth such as investing in capabilities, new markets, new product platforms, or new technologies may give me indication of the direction in which the company plans to grow in the future

5.5.5 Ownership:

This component of the *financial model* describes what form of ownership the business currently has; the implications of form of ownership are that they describe the 'boundary conditions' of the current business models in terms of how it operates and how it can be leveraged, the time frame of potentially transforming the business model, and the extent and degree to which other parties are involved in the potential transformation of the business model. The typical forms of ownership include: 1) *Private* – this can be the description of a business if it is family-owned, or owned by a small group of investors or business leaders (or even one owner); 2) *Public-Limited* – this is a hybrid company with mostly private owners and limited public subscription, where decision-making is driven through the private ownership, but the public shareholders must also be on board to potentially raise even more funds for specific changes to the business model; and 3) *Public* – this can be typical public companies, which may require shareholder approval on big shifts within the business. The board of these companies can typically support decision-making efforts on this level

5.5.6 Risk:

This component of the *financial model* is in fact not restricted to just the financial model but the risk appetite for the business as a whole. It calibrates the risk tolerance for the culture of the business. The *risk model* deals with not only how the enterprise perceives risk, but also how it mitigates the specific risk. I refer to the Miller (1992) "framework for integrated risk management in international business", which categorizes the *uncertainties* and *responses* of businesses to risk. There are 3 sources of uncertainty: *general environmental uncertainty, industry uncertainty,* and *firm-specific uncertainty.*

General Environmental – these are the risks that impact business regardless of industry or product focus. They typically include political, macroeconomic, social, and nature-related uncertainties. The Miller (1992) framework catalogs these risks as: 1) *Political risks* – including and ranging from the more extreme, such as risks of war, revolution, coup d'état, to the more moderate changes such as democratic changes in government or other political turmoil such as scandals and other disruptive events; 2) *Regulatory or policy risks* – including risks around trade restrictions, tarrifs, nationalization, regulatory changes, fiscal and monetary reforms, nationalization of specific sectors, barriers to repatriation of profits, and inadequate provisions of common public services (e.g. power); 3) *Macroeconomic risks* – these include risks such as trade terms changes, interest rate shifts, inflation, price changes, and exchange rates; 4) *Social risks* – these include, on one end of the spectrum, terrorism-related, to the more moderate, such as social unrest, riots, and demonstrations to the other end of the spectrum, as changing social concerns; 5) *Natural risks* – these include the more perceivable changes in climate (e.g. due to global warming), such as variations in rainfall, changes in climate, incidence of hurricanes, as well as more unpredictable varieties of variation such as earthquakes and tsunamis to other national disasters

Industry-Specific – these risks are more specific to the industry profile, but generally include uncertainties related to production inputs, product markets, and competitive dynamics, described in more depth as follows: 1) *Input market risks* - factors such as quality risks, changes in market supply, and changes in volume intake of other procurers of specific materials or resources; 2) *Product market risks* – generally include changes in the susceptibility of the business to the changes in consumer tastes, available of substitute products, and dearth of complementary products (which might be essential for the sale of products, e.g. protective covers for phones); 3) *Competitive risks* – includes the typical dimensions of competition between existing competitors, the degree to which the business witnesses new entrants into the market, and the technological shifts of product and process innovations

Firm-Specific - these risks include specific risks that the firm may face during its existence. These risks are categorized in the following manner: 1) *Operating risks* - These risks encompass factors such as union issues, labor uncertainties, and employee issues (including safety, sexual harassment, treatment, perquisites, etc.). These factors also include input supply risks such as material constraints, quality shifts, and constraints on parts and repair. Further, this category also includes production uncertainties such as machine failure and the emission of pollutants (the latter two are addressed in more depth within the supply chain aspect and the environmental aspects of the business model respectively); 2) *Liability risks* - this includes the potential liability for products in the market already as well as liability stemming from other firm activities, such as potential damages to the environment or communities; 3) *Innovation risks* – this addresses the potentially negative results that the business might encounter in the spheres of research and development, and market commercialization; 4) *Credit risk* – the firm generally assumes that customers will pay and that it can pay suppliers itself. However, there might be situations where the customers' credit is risky and in turn, make the enterprise itself at risk by being unable to pay its own debts; 5) *Behavioral risk* – this encompasses the risk of “managerial or employee self-interested behavior” (Miller, 1992), which may lead to a spiral of payouts for compensation for issues that arise, as a result.

5.6 The Internal Operating Model

I now turn my focus to the *internal-facing* view of the "focal firm" (C. Zott et al., 2011). The internal facing view allows me to examine the different components within the enterprise and its direct control, allowing me insight into the decision-making processes, authorities, and interactions of the constituents and its indelible factors.

The Business Model Beacon – Internal Operating Model

Component	Description
Product Portfolio	Product variety, quality, design, features, packaging, sizing, service, warranties
Brand Management	Price, Promotion, Placement; Including R&D, brand development, activation
Sales Management	Customer acquisition, retention, relationships, assessment, deletion
Supply Chain Management	PLAN, SOURCE, MAKE, DELIVER
Coordination	Framework for information exchange, decision-making, transacting within and outside the business
Organization	Strategic capabilities, people, rewards, structure, and process

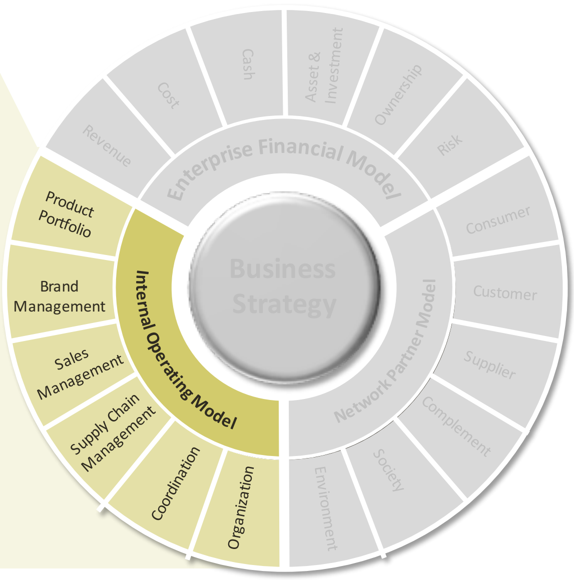


Figure 5.10: The Business Model Beacon: Internal Operating Model

There are 6 main components of the *Internal Operating Model*:

5.6.1 Product and Portfolio:

This component describes the product model and the portfolio model in more depth. The Product attributes are adopted from the classic 4P model (Kotler, 2012), and are referred to commonly by the different functional (Marketing, Sales, Supply Chain) models.

The *Product Base* sub-component encompasses the different choices in terms of the product characteristics and attributes, and consists of the following considerations: 1) *Product Variety* – this attribute refers to the diversity of products that the business sells, and can refer to the application or use of these products or also the assortment or breadth of products that is made available in the marketplace; 2) *Quality* – taken at face value, this attribute refers to the conformance to standards of the given product. The standard most commonly refers to manufacturing standards (Garvin, 1984), and is one of the easier to define and measure ways of considering product quality. Other ways, not explicitly implied here but could possibly play a role from the consumer perspective are the value based perception of quality, the user-based perception, or the market-accepted perception of quality; 3) *Design* – this attribute refers to the aesthetic of the product and it's appeal to the consumer or user in terms of 'how a product looks, feels, sounds, tastes, or smells' (Garvin, 1984; Ulrich, 2003); 4) *Features* – this attribute refers to the characteristics that enable the product to be attractive to a consumer, such as usability, styling, accessorizing, duration of product life, upgradability, complementarity, and other such features (Nowlis & Simonson, 1996); 5) *Brand Name* – this attribute refers to the strength of the brand name in terms of its image that triggers a sense of endearment with the consumer and its ability to guide decision-making for the consumer. This attribute envelops several of the other aforementioned notions of quality, reliability, features, design, aesthetic, etc.; 6) *Packaging* – this attribute refers to the manner in which the product is displayed for sale, in terms of its 'shell', it's look-and-feel, the print characteristics, materials for packaging, color, graphic design elements, and demonstration of use, shape, ingredients, and other representative attributes or characteristics (Underwood, 2003); 7) *Sizes* – this attribute refers to the variety of sizes that the product is made available in. The physical dimensions of the packaging or the magnitude of the contents of the product contained therein (Kotler, 2012); 8) *Services* – often product purchases include a service component, such as I commonly see with automobile purchases that include parts and servicing of the vehicle for a certain duration of time or mileage (Kotler, 2012); 9) *Warranties* – similar to the *services* attribute above, this attribute refers to the warranties of quality, service, duration of product life, and assurances of repair or maintenance as a part of the product purchase (Kotler, 2012; Petersen & Kumar, 2009); 10) *Returns* – this attribute discusses the ability, ease, and necessity of products to be returned to the manufacturer, distributor, or retailer by the consumer (Petersen & Kumar, 2009).

The *Portfolio Base* discusses the product considerations at a different level of abstraction and encompasses the interactions between the products. There are certain dynamics that are contained in this 'basket' concept which include the following: 1) *Product portfolio hierarchy* – this consists of the logical groupings or 'families' of product and what characteristics that grouping is based on; 2) *Schema for segmentation* – what type of method is used for segmenting the products and how is this segmentation used for differentiating in how the different constituents of the business deal with the products; 3) *Pricing structure* – here I review what is the logic of pricing, whether there is a tiered approach or a price-point grouping for different logic-trees; 4) *Product-Market mapping* – here I review how the market is structured for this product portfolio and in what ways the product portfolio is used to compete in the market place; 5) *Product-Customer mapping* - further, it is important to understand how the product portfolio meets the customer needs (or consumer needs, but I come to that in a different section), in terms of differentiation, price points, and target value proposition for each segment of the portfolio.

5.6.2 Brand Management:

This is the description of the marketing function broadly, and understanding its structure and organization in terms of how it approaches the market, how it targets different segments, how it structures the approach to innovation, and what dimensions it innovates on. Understanding the interaction between the marketing model and the internal capabilities and constraints of the organization (i.e. the rest of the business model) is critical and not sufficiently done in practice (Bonoma, 1985). There is a risk that conventional approaches to marketing strategy development create somewhat of a dichotomy between the strategy development and the implementation (Cespedes & Piercy, 1996) and so developing a marketing model based on a holistic framework of components or variables is important. Using the classic 4P model (Kotler, 2012) as a basis, I decompose the marketing model into its components: Product, Price, Promotion, and Place. However, since the Sales Model, and the Supply Chain model will also include the Product component, I will treat the Product as a separate subcomponent of the Internal Model that has the characteristics that can supplement the individual aforementioned functional models.

Price – The pricing model generally refers to the pricing structure as a whole and not just the product price, and it includes the policies and governance around the whole mechanism of pricing. This component discusses the pricing model for the business and is comprised of 5 attributes: List Price, Discounts, Allowances, Payment Period, and Credit Terms (Kotler, 2012), each of which I discuss in more depth as follows: 1) *List Price* – this attribute refers to the initial price point at which the business decides to sell the product. The list price is dependent on a variety of parameters such as geography, competitive positioning, pricing objective, cost, demand forecasted, and lifecycle; 2) *Discounts* – this attribute refers to the reduction in price in order to achieve a specific objective, and can be managed in a variety of ways; through *cash discounts* for customers who pay their bills on time or early, *quantity* or *volume discounts* as a method of tiered pricing for customers who purchase higher quantity of product, *functional discounts* for business partners who will perform certain functions on behalf of the business (e.g. a distributor who performs a marketing function for a manufacturer), *seasonal discounts* for customers who concentrate their procurement in specific times of the year; 3) *Allowances* – this attribute refers to the additional incentives provided to the customer to participate in promoting product or in terms of trading in old product for new product, or extra payments to incentivize sellers to participate in special programs to enhance sales to consumers; 4) *Payment Period* – this attribute refers to the time period given by the business to customers to settle their accounts, and can depend on the relative power position of the business in reference to the seller and buyer; 5)

Credit Terms – this attribute refers to the terms of payment between the buyer and seller of the product, and can be a useful lever to provide incentives (longer payment terms) to sellers to buy more products.

Promotion – the promotion component of the marketing model examines the different ways in which to communicate, engage, incentivize, and interact with customers in an effort to enhance sales, and encompasses: 1) *Sales Promotion* – this attribute looks to perform three functions: communicate, incentivize, and invite the customer to purchase the product through an array of tools such as coupons, premiums, contests and other means by which to perform these functions (Kotler, 2012); 2) *Advertising* – this attribute examines how a business communicates (one way) to the community of customers about its products, and can be done through a variety of media, across geographic boundaries, and in a multi-lingual format, and can be managed to achieve either short-term or longer-term objectives (Kotler, 2012); 3) *Sales Force* – this attribute is about personal selling through a sales force, typically used for industrial goods or services, and consists of 3 steps: personal interaction (between the customer and the business representatives), cultivation (of a relationship between the two, to foster business opportunities), and response (in terms of a reaction from the customer) (Kotler, 2012); 4) *Public Relations* – this attribute is about publicity for the product with the customer base, through techniques that lend high credibility, catch the customer unaware that they are being sold to, and to dramatize the features of the product (Kotler, 2012); 5) *Direct Marketing* – this attribute is about the different forms of direct marketing, which can communicate with customers in a manner which is non-public (addressed to a specific person), customized (prepared for a specific person), current (up-to-date, and can be prepared at short notice), and interactive (can be changed based on customer response) (Kotler, 2012).

Place – this component of the marketing model refers to the physical and virtual places that the customer will encounter the product. Traditionally this would be a physical location (retail store, catalog, distributor, etc.) but increasingly can be virtual (web store, link, embedded product, etc.). This component includes the following considerations: 1) *Channels* – this attribute refers to the channels through which the business can interact with the target customers, through *communication channels* - unidirectional (monologue channel), bidirectional (dialogue channel), *distribution channels* through which the product moves through the supply chain from the supplier to the end customer including the intermediaries such as contract manufacturers, wholesalers and distributors, and *trade channels* where the product is made available for sale, such as retail outlets (Kotler, 2012); 2) *Coverage* – this attribute focuses on the expansiveness of accessibility of the communication and availability of product in terms of channels, virtual spaces, and physical locations; 3) *Assortments* – this attribute refers to the product variety available to the customer so that they may select something that most closely suits their needs and requirements (Kotler, 2012); 4) *Locations* – this attribute describes the breadth of places at which the product is accessible to the customer, and may be physical or virtual; 5) *Availability* – this attribute refers to the right product being available at the right place and at the right time that the customer wants it, and alludes to the inventory that must be made available for the customer at the point of sale.

5.6.3 Sales Management:

The sales model is the description of the role of the sales organization vis-à-vis the customer. It focuses on the customer in the center and the different ways in which the sales force must interact with the customer in order to create, build, consummate, maintain, and nurture, and grow the business relationship. The key components of the sales model framework are based on the 'evolved selling process' by Moncrief and Marshall (2005), who highlight the high frequency of usage of this model in multinationals and Fortune 500 companies. They present this framework as a step ahead of the traditional model of 7 steps of selling because of its more modern nature (in terms of sophistication of the seller and customer markets) and it's assumption of non-linearity, thus being somewhat of a stark departure from its predecessor.

Figure 5.11: Sales model (source: Moncrief and Marshall (2005)

Marketing the Product – this attribute of the sales model includes the expanded role of the sales organization in more 'upstream' activity from designing the product to collaboratively developing customized marketing approaches for segmented markets and customers. The role of the sales organization in 'presenting' the product to the customer is still maintained, but takes on more of a consultative approach rather than an information sharing approach, since much of the product information including features and other relevant information can be gleaned on-line instead of face-to-face through the sales person.

Problem Solving – this attribute of the sales model focuses on the consultative sale with the customer to not simply overcome objections but to collaborate with the customer to find the best solution, even if means a different solution from what the seller is selling, in a longer-term effort to be a trusted partner of the customer, which may lead to a sale of a different solution down the road.

Adding Value / Satisfying Needs – this attribute refers to the tandem win of the sale in satisfying mutual needs of both the seller and the customer. The value-add factor focuses not on the product itself but the value that it generates for the customer, and the benefit that the customer may gain from it, thereby moving it from a transactional exercise to a benefit-aggregation exercise.

Customer Relationship Maintenance – this attribute refers to the ongoing exercise of engaging with the customer to further the development of mutual trust and confidence, in order to explore further value-added and needs-fulfilling opportunities rather than just address post-sale problems that may crop up from time to time (Moncrief & Marshall, 2005).

Customer Retention and Deletion – this attribute refers to the proactive segmentation and monitoring of the customer base, and creating a program to retain the customers that are performing up to par, and to increase performance for the underperforming customer groups. Further, it also necessitates migrating relationships of non-performing customers to third parties so that the business is not burdened with the cost of servicing under-performing customers (Moncrief & Marshall, 2005).

Database and Knowledge Management – with the days of Rolodexes left in the past, this attribute refers to the new and modern capabilities and requirements of sales organizations to be able to mine customer data, create visualizations to enhance sales effectiveness, and manage and govern information about the sales process, customer, product, and historical outcomes, projections, assumptions, and other such relevant information. They need to have a focus on knowledge management in order to leverage it during their other activities outlined here (Moncrief & Marshall, 2005).

Nurturing the Relationship (Relationship Selling) – This attribute refers to the increasing role of the sales organization to nurture and grow the relationship with the customer through various means and not just direct approaches and face-to-face interactions. This attribute calls for constant engagement with the customer, whether it be through messages, news flashes, sending or sharing interesting content, making the customer aware of new solutions and technological advances, and generally being the 'thinking partner' of the customer (Treacy & Wiersema, 1997).

5.6.4 Supply Chain Management:

The supply chain component consists of four key blocks based on the SCOR (Huan, Sheoran, & Wang, 2004) model, and outlines how the business is setup to operate along the four dimensions of PLAN, SOURCE, MAKE, and DELIVER:

PLAN – this block consists of the setup and workings of the demand and supply planning models. The demand side includes how the business is able to shape historical demand into patterns that can be predicted in the future in order to project what customers will require. The unit of analysis is critical because each level of abstraction requires different knowledge of the functional areas of the business. The supply side has a similar scope wherein the business needs to understand its past ability to have product ready for the anticipated customer demand, and includes the predictability of manufacturing, sourcing, and distribution. This model component also has some organizational implications in terms of whether or not parts of this organization are centralized or de-centralized, and also in terms of coordination, i.e. how the centralized an de-centralized organizations coordinate their efforts in terms of sensing and seizing market opportunities. The specific sub-components within PLAN includes two areas – *Demand Planning* and *Supply Planning*:

Demand Planning – this sub-component consists of the capability of the business to assemble the various 'streams' of demand related information and aggregate / disaggregate them at the different levels of product and business hierarchy, for sense-making and evaluation purposes to ensure that the historical patterns and forward projects are sensible and auditable. Business may plan a multitude of market related activity in order to stimulate sales and market interest in their products, as well as to fight the competition and gain market share. Market activity planning may consist of advertising, promotions, other events at different marketing outlets, and consists, in large part, of the competitive motivations and plans behind these activities, including the efforts to synchronize them and time them for maximum impact. Furthermore, the business needs to include the metrics behind the activities, in order to ensure that the spend and investment in each of these activities or the group of activities is being optimized for the outcomes anticipated, in terms of sales lift. *Innovation Planning* – the business must be tightly knit in terms of how innovations are managed from the ideation stage to the post-launch stage in the innovation funnel. These planning efforts will describe the validity of the assumptions behind the new product, the coupling of decision-making mechanisms cross-functionally, and the eventual efficacy of the innovation plans.

Supply Planning – This sub-model consists of 5 different components, and encompasses, as the name suggests, the supply side of the business. The demand components are aggregated into a total demand signal for the business, which is then broken down into supply requirements in a time-phased manner. The supply planning model consists of: *Inventory Planning* – This area describes the function of setting inventory policy in terms of the following elements and defines the rules by which the business will set the policy, including at what locations (directionally, i.e. closer to the customer vs. closer to the supplier vs. closer to the factory); *Distribution Requirements Planning* – this area describes which overall distribution policy the business operates on a *Push basis* (when the business runs based on economic or maximum production quantities and drives products to the market through its sales force), a *Pull basis* (when the market demand dictates what the enterprise makes at its production facilities, and the factory optimizes based on the demand-based run strategy), and a *Push-Pull basis* (when there is a combination of the above two models, so as to optimize the business operations); *Production Planning* – this sub-model is about the policy by which the business produces product.

SOURCE – this block consists of the model by which raw materials, components, sub-components, and packaging materials are conceptualized (i.e. in a vertical integration sense), how the business leverages scale and centralization of global procurement operations. This sub-component of the business model is a level of abstraction above what is typically thought of as the 'process' level. It does not so much concern the transactional steps to procure material but more the conceptual model of who procures material, where it is procured (i.e. considering tax implications, freight implications), how it is procured (e.g. electronic system, manually, semi-automated, etc.), when it is procured (working capital and cost implications). Sourcing competence has many dimensions, from a flexible supply base, business continuity enablement, supply responsiveness, acquisition cost, quality, reliability, and backward / forward integration into process and product innovation. One of the core components within sourcing is Materials Requirements Planning, which is the process by which the business plans materials (ingredients, raw materials, packaging materials) on the basis of its production quantities. Competence in this space implies that there will be few stockouts of finished goods due to unavailability of raw and / or packaging materials. This topic has other business implications of business flexibility and working capital management through optimized inventory planning of raw and / or packaging materials.

MAKE – This multidimensional component discusses the manufacturing capabilities of the focal firm within the business model context. This is the component that encompasses the transformation of raw materials into finished products. There are four types of manufacturing schemas: which can be *Make to Order (*the business makes the finished product only upon the receipt of a customer order), *Make to Stock (*the business makes the finished product based on a forecast and stocks it), or *Engineer / Customize to Order (*the business configures the product specification to the need of the customer before making it, using a standard model of product but just configuring it in a custom manner) or *Design to Order (*the business designs the product based on customer needs, a more basic step than engineer to order). It is the component that takes into account the following attributes (G. Stewart, 1997): 1) Manufacturing Profile (Number, size, and capabilities of factories); 2) Production Profile (Production efficiency, effectiveness, accuracy, and quality); 3) Manufacturing Infrastructure (Engineering, facilities and equipmnent, and labor management); 4) Capacity Management (Line flexibility and configuration, production scheduling, labor configuration, long-term and short-term changeover planning); 5) Production Control (Shopfloor control, process control)

DELIVER – This component includes the operational execution of the supply chain. It includes the point-of-sale signals that give a business a near-real-time view of product sales or order-closure and enables the business to react accordingly. This enables a business to promote products, manipulate pricing to influence demand, and execute a efficient customer response. Further, the order management element enables the business to generate quotations, orders, maintain the customer database, pricing balance, allocate product to customers, and invoice customers. In addition, the component also includes warehouse management, which deals with receiving and stocking both raw / packaging material as well as finished goods. Lastly, there is the transportation element, which ensures products are delivered to the right customer and arrive at the right time and date, including areas such as freight management, load building on trucks, optimized routing for the transportation. The Network Design consists of: 1) *Sourcing Network* – this defines the core decisions about where and how to source product from suppliers; 2) *Production Network* – this defines the core decisions about where to make the product, and consists of two options - *Single-source model* – focused factory model, where each product is made in only one location or site within the production network, enabling scale and lower costs, or *Multi-source model* - each product is made at more than one location or site in the production network, enabling flexibility and greater responsiveness to customer demand. The *Distribution Network* can be configured in two ways: 1) *Centralized distribution model* – one source centrally located within the distribution network, from where all products are sourced directly to customers, which maximizes flexibility and lowers inventory (due to risk pooling); 2) *Hub-and-spoke model* – one main source of all products, from which products are drawn to be stocked at regionalized distribution locations, closer to the customer; 3) *Cross-dock model* – the model by which there is limited or no stock in the warehouses, but is transferred at cross-dock locations between the source and destination. Trucks may transport product from the source to a point between the source and destination, in bulk, where it is transferred either in full bulk quantities or is broken down ('break-pack') into smaller units to be shipped to the final destination; 4) *Regionalized distribution model* – when the business transports its products from a single source to a regional distribution network, and then ships to customers from these regional distribution locations so as to reduce lead-time of orders. This is typical for single-source factories with national distribution in a reasonably large country like the ME or Brazil.

5.6.5 Coordination:

This model component outlines how the business coordinates information and decision-making across the extents of the enterprise. Sanchez (1995) defines the *coordination flexibility* of a business as its ability 'to assemble chains of tangible and intangible resources needed to carry out the organization's strategic logics for creating value through its product offers.' Building on that notion, Sanchez (2004) further enriches the notion by proposing that 'coordination flexibility depends on the ability of a firm's managers—in this case, usually the midlevel managers of larger firms, but also top managers of smaller firms—to acquire or access, configure and deploy chains of resources for leveraging product offers capable of creating value in the markets targeted by the firm.'

Practically, this refers to the mechanisms for businesses to coordinate their plans and actions through the use of: 1) *Enterprise Systems*: such as *Enterprise Resource Planning (ERP)* systems enable the business to standardize the work-flow for transactions in functions such as Finance, Human Resources, and Supply Chain. They form the transactional, planning, and master-data backbone of an enterprise, which enables the business to communicate plans, budgets, financials, and transactions on a global basis; 2) *Functional Systems*, such as *Advanced Planning and Scheduling (APS)* systems enable a business to carry out critical supply chain planning and transaction-based activities. These systems allow the planning (short and long term) of resources and enable the coordination between resources, assets, plans, and financials across all the business units (ideally) or *Customer Relationship Management (CRM)* systems that enable the sales team to interact with, plan for, budget activities and events, plan trade spend, enable business unit allocations across different channels and customers, enabling coordination of activities, budgets, events, and resources between the 'focal firm' and the customers; 3) *Cross-Functional Mechanisms:* Business functions (e.g. sales, marketing, supply chain, finance) need to communicate with each other about the business, specifically about in-year activities that drive performance, and out-year activities that drive the budget, mid-range and long range plans.

One such process is called the Integrated Business Planning (IBP) or Sales and Operations Planning (S&OP) process. This is a process by which the business can consolidate perspectives, opinions, facts, and actual performance of the business, and review it together in a cross-functional forum at different levels of the hierarchy of the organization, and drive decisions about the business on a periodic manner.

5.6.6 Organization:

I use the classic Star Model (Kates & Galbraith, 2010) as my guide for my components for the organizational model, which include *Strategic Capabilities, People, Rewards, Structure,* and *Process*. The organizational model defines how the 'focal firm' must be organized internally in order to enable the business model deliver the defined business strategy.

Strategic Organizational Capabilities – Based on Kates and Galbraith (2010), this attribute refers to the unique capabilities that enable a business to retain competitive advantage that the core strategy calls for and seeks as a differentiator. These organizational capabilities are typically a combination of skills, processes, and people's abilities that are difficult to replicate by the competition. They are also created by and housed within the business and not procured from the outside.

Structure – this attribute refers to the organizational structure that defines the basis of power and authority within the business. The objective of the structure is to create a logical framework for management and decision-making, and defines the power structure, reporting relationships, communication channels, and coordination touch-points. It is typically based on and defined by the dimensions of *product, function, geography,* and *customer* (Kates & Galbraith, 2010), discussed below in more depth: 1) *Product* – typically businesses with multiple product lines may find it useful to adopt a product-based structure, and organize functions by product, promoting strong team identity by product or brand, and may yield benefits such as accelerated time to market, greater rate of innovation and freedom to pursue business development opportunities that may meet financial thresholds more sharply for the specific product or business unit; 2) *Function* – typically organized around major groups of activity such as marketing, sales, supply chain, finance, this type of structure in order to enable greater knowledge-sharing and to promote specialization to increase functional scale and avoid duplication. This type of structure is suitable to small businesses and to large companies that have a single line of business (promoting economies of scale, expertise, and efficiency); 3) *Geography* – typically used when the culture, language, regulation, or politics influence buying patterns or when consumer behavior differs significantly from one location to another, in order to be more relevant and cognizant of local values. This structure can also be used when a business expands to other territories once it's 'home' territory is saturated. Products can be tailored to local tastes with this structure, and battles with local competitors can be waged more precisely and competitive battles can occur in more of a real-time manner, increasing the chances of success in these battles; 4) *Customer* – whereas product, functional, or geographic structures can be beneficial to businesses and their managers in decision-making and governance, they may not provide ease-of-relationship for customers, not a single point of contact, compromising customer intimacy and increasing frustration. The customer structure may resemble the product structure in its framework, substituting product lines by customer segments (groups of customers based on similar need profiles). This type of structure is beneficial to a business where the customer has significant buying power, where customer relationships are the key to successful value generation, where in-depth customer knowledge provides a competitive advantage, and where product lines can be mapped more directly on top of (and not across) customer segments, providing a unique set of product for a unique segment of customers.

Process – this attribute refers to the series of connected activities that traverse organizational boundaries both vertically (across hierarchies) and horizontally (across the logical boundaries of the organization, whether they be functional, geographic, product, or customer). Processes enable a business to break down organizational 'silo' behavior and mindset. In addition to processes, *lateral structures* can be used to bridge the organizational gaps and silo mentality. Lateral structures can include *Networks*, *Teams*, *Integrative Roles*, and *Matrix*, being ordered from least formal and complex to most formal and complex. *Networks* are informal structures that enable working relationships to be fostered by individuals through their own personality traits. They are simple and intuitive, but difficult to predict since they are overly personality-dependent. *Cross-Functional Teams* are more formal in nature, and with mandates to plan, execute, and monitor end-to-end processes such as order-to-cash, or forecast-to-fulfillment. *Integrative Roles* provide a greater degree of coordination than teams, and this role is charged with the responsibility of managing across teams or organizational boundaries such as a brand manager or a customer service manager. Most complex are the *Matrix*, which is 'a set of dual-reporting relationships used to balance two or more dimensions of an organization' (Kates & Galbraith, 2010). This structure enables people to take a broader view and ownership of the business than just their 'primary orientation' be it function, product, geography, or customer.

Typically they have one primary orientation and one secondary orientation, be it network, cross-functional team or integrative role.

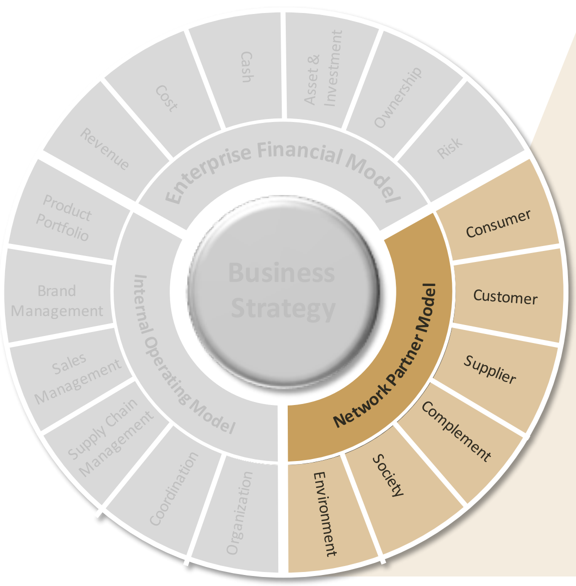
People – this attribute refers to the 'the human resource policies for selection, staffing, training, and development that are established to help form the capabilities and mind-sets' (Kates & Galbraith, 2010) that are needed in order to execute on the business model selected. The implication of selecting the right people for their roles is vital to an organization gaining its competitive advantage outlined in the strategy, and can mean the difference between success and failure of an organization in its quest for excellence (Peters, Waterman, & Jones, 1982). Specific competencies sought by businesses for their people to be successful in managing the business through the processes and lateral structures include: 1) to consider and manage issues in a holistic manner, from a cross-functional and cross-cultural perspective and way of working; 2) to use strategic influencing in lieu of direct line management power or formal authority; 3) to build formal and informal networks throughout the organization and use them to influence the organization; 4) use advocacy and collaboration as tools; 5) outline and collaborate with peers on decision rights; 6) to be able to resolve conflicts in a proactive and professional manner; 7) to create and maintain discipline in projects; 8) to cope with ambiguity and change and make objective decisions.

Rewards – this attribute refers to the metrics and reward systems to measure, govern, and align individual and groups' behavior and performance with common business goals and objectives. Metrics are the measures or indicators used to evaluate performance of individuals and teams. The reward system is the framework used to motivate employees and reinforce behaviors that are necessary for and aligned with the business to achieve its goals. These may take form of bonuses, salaries, stock options, or other financial or non-financial incentives. The reward system needs to take into account the complexity of the organization and balance rewards for individual behavior and performance with that of teams or larger groups across business units whether they be oriented by function, product, geography, or customer. Further, it also needs to account for firm performance as a whole as a factor in the group reward schema, and not just focus on the performance of the individual or team.

5.7 The Network Partner Model

I now turn my focus to the *external-facing* view of the "focal firm" (C. Zott et al., 2011). The external facing view allows me to examine the different components outside the enterprise and not its direct control, allowing me insight into the decision-making processes, authorities, and interactions of the constituents within and between the partners in the network of the business ecosystem.

The Business Model Beacon – Network Partner Model



Component	Description
Consumer	Model for value creation, delivery and capture with end-user
Customer	Model for value creation, delivery and capture with first order intermediary
Supplier	Strategic sourcing considerations for secure, reliable, quality, flexibility in supply
Complement	Appropriability, compl-ementarity regime, co-specialization
Society	Corporate social responsibility and ethical behavior
Environment	Sustainable ecological and environmental practices

Figure 5.12: The Business Model Beacon: Network Partner Model

There are 6 main components of the *Network Partner Model*:

5.7.1 Consumer Management:

This component refers to the connection between the consumer and the business. Consumers are the eventual *value consumer* of the Company, and in many cases via the Customers, such as in a traditional retailer context. In the context of my research, I assume that the shopper is also the consumer. Whereas further value creation can be enabled after a consumer acquires a product (e.g. the case of a consumer purchasing flour at a retail store, to make cakes which they might sell as a finished product in a retail store), I will assume that the Consumer is the end of the value exchange chain for the purposes of my research. Consumers can be an important stakeholder in the business model transformation of a Company because they might not only drive the need for the change, but are also at the receiving end of this change, once it occurs. One such case is that of organic produce in the ME. Whereas there has been no formal legislation in place for organic food requirements, it was consumers who first initiated the demand for organic produce. The food industry responded and created a change in its business model to accommodate this through alternative suppliers, a new selection of products, and dedicated retailers like Whole Foods. However, the price of organic food, the inferior visual appeal of the produce (smaller, not quite as colorful), and the paucity of choice is something that the consumers had to deal with on the receiving end. However, it may not always be the case that the Consumer is both the instigator and final recipient of the change. In many cases, technological, regulatory, or structural innovation may spur change in an industry, which the consumer may be at the receiving end of. One such case is that of the lighting industry – previously dominated by the candle industry, when electricity and the light bulb were invented, Consumers were at the receiving end of this innovation that changed the business model of the lighting industry in a fundamental manner. This example also highlights that changes in business models are not a recent phenomenon but one that has occurred through the ages. Another example that highlights this is the canning industry, which enabled preservation of products, which changed the landscape and business model of the food industry in a profound manner.

In conclusion, the Beacon offers a unique and holistic framework for mapping and articulating the current and future state of the enterprise business model; for mapping the relationships and inter-dependencies between the different components of the business mode; for characterizing the 'central' and 'peripheral' components vis-à-vis the different units of analysis of the enterprise's business model. The Beacon framework encompasses not only the exhaustive list of sub-components of the business model that have ever been published by other scholars on this topic, but also characterizing the link between the business model and the core strategy that it is built around. Both of these are contributions to the existing literature on business models.

5.7.2 Customer Management:

This component describes the manner in which customers are acquired, the process by which they are maintained, and the process and conditions by which they are terminated (Reinartz, Krafft, & Hoyer, 2004). The process of customer acquisitions is dependent on many factors such as lifetime value, strategic value, and growth potential. The maintenance phase is where most effort is spent, in order align sales incentives, to leverage positions and competitive strengths, and gain market share (share of market and share of shelf) for the 'focal firm'. This is where sales people spend most of their time and planning effort. The termination process is a gradual phasing out or de-emphasizing process of the customer from the product portfolio, if the business is changing focus, branding, or target segment.

5.7.3 Supplier Management:

This component describes the strategic sourcing considerations that the business most undertake in order to setup a mechanism for secure, reliable, economic, quality supply of raw material and intermediate products. This component focuses on the selection, contracting, and maintenance of a supply base for the materials required for the finished products. Supplier selection can be an important business consideration since in many industrial and consumer products, materials cost makes up about 70% of a cost of a product (Şen, Başligil, Şen, & Baracli, 2008). In addition, suppliers have a substantial and often direct impact on the manufacturers' timelines of new product launches, customer service, quality output, and regulatory compliance (Ragatz, Handfield, & Scannell, 1997). This implies that the selection of supplier is an important decision that a business must undertake, with a multi-criteria approach, in order to take into account the various factors that are necessary and important for this type of decision. Based on a broad empirical study, Handfield, Ragatz, Peterson, and Monczka (1999) provide a list of supplier selection criteria for businesses for consideration, ordered by factors considered 'more important' to 'less important' (scores range from a high of 6.07 to a low of 4.59 out of a maximum of 7).

Product Knowledge – this attribute refers to the supplier's knowledge of the product that needs to be manufactured by the business (the customer), and may have implications for the supplier in understanding and recognizing the impact of their internal factors on the customer's business. Knowledge of the product may also enable the supplier to consider better ways of satisfying the materials needs through better ingredients and different production techniques.

Process Knowledge – this attribute refers to the supplier's knowledge of the production process into which their materials or components are being fed. Again, this knowledge may enable the supplier to improve their techniques or component / material specification so that the business (customer) can gain better yield or a lower cost.

Quality – this attribute refers to the supplier's quality equation and the governance processes surrounding the assurance of quality material or components being delivered. The quality component is critical as it directly impacts the cost of the materials and the impact on the downstream business (customer) output. In the case of lower than expected conformance to quality standards, the supplier may risk legal ramifications and financial penalties for failing to meet these standards.

Trust – this attribute refers to the level of trust between the business (customer) and supplier. In dynamic markets, the level of trust required between the business and the supplier will be greater than those where there is adequate tolerance for committed quality, delivery times, and supply quantities to be made up within a defined limit.

Communication – this attribute refers to the willingness and the ability of the supplier to communicate in adequate detail, with the right tone, and within a timely manner, and in a reliable / consistent manner. Failure to do these may result in lowering trust and increased costs between the partners.

Communication also enables both parties to maintain their cost and service base, and forms the foundational basis of the partnership.

Innovativeness – this attribute refers to the ability of the supplier to innovate on the materials and components themselves (i.e. the 'ingredients' to a finished product that the business makes) or to the production process of the materials and components that results in an improved cost-basis, quality-basis, or to the product attribute basis (durability, time to manufacture, other relevant characteristics).

Design Flexibility – this attribute refers to the flexibility of the supplier to respond in a quick and timely manner to respond to design changes in the finished product (implying changes to the specification of the ingredient materials or components). This implies supplier capabilities in electronic databases of product specifications, one-line linkages to libraries and regulatory or governmental teams, which may facilitate such changes.

Continuous Improvement – this attribute refers to the ability and willingness of the supplier to invest in continuous improvement activities and initiatives on their own accord, with the objective of being world-class and innovating on improvement methods for their product (materials and components) portfolio, in order to remain competitive in the marketplace.

Business Experience – this attribute refers to the previous relationship between the supplier and the business. Past knowledge of, and experience with, the business that the supplier is dealing with may enable the supplier to better and more precisely determine tolerances for ambiguity. Further, this previous experience between the business and supplier builds greater trust and mutual respect, an important ingredient in the longevity of the relationship.

Output Flexibility – this attribute refers to the ability of the supplier to quickly ramp up (and down) to required output level. In businesses where the product sales are highly predictable this might not be as important as those cases where sales are unpredictable due to a combination of a highly volatile marketplace with highly innovative products, where sales are unpredictable. Suppliers are tasked with a difficult job of being not only efficient (to deliver low cost of components or materials) but also responsive to the changing demand of the final product.

Qualification / Certification – this attribute refers to the qualification process of the business and the official certification required in order to supply the product as necessary. The qualification criteria are defined on the basis of the business' specific needs and requirements in terms of the product base, the market, the region, and the customer groups. The certification criteria may be based on a different group of requirements (e.g. government, industry association), and may be equally important or stringent as the qualification criteria.

Goal Alignment – this attribute refers to the degree of alignment of goals between the business (customer) and supplier. This alignment may be on the basis of environmental factors (e.g. carbon emissions), corporate social responsibility (e.g. jobs for different demographics of people or minority contractors, or community development), or cost reduction (lowering the cost of inputs, production).

Culture Alignment – this attribute refers to the degree of alignment between the cultures between the supplier and the business (customer). This may be that based on core organizational values or business culture. Where culture comes into play is in influencing informal relationships between the representatives for the business and the supplier, and may enable to have a closer level of understanding and trust, which may enable better communication and better alignment of goals.

Suppliers can also imply 'collaborators' - meaning strategic partners such as suppliers, contract manufacturers, or operational enablers such as logistics service providers (LSP), outsourced service providers (e.g. accounting, recruiting). These 'collaborators' are generally value creators or value enablers for the Company. Collaborators such as suppliers and suppliers' suppliers form the origination of value creation upstream from the Company. Contract manufacturers are also value-creators for the Company as they enable this process when the Company either runs out of capacity or does not possess the expertise to produce a particular product or configuration of product.

5.7.4 Complementor Management:

This component discusses the role of complementary assets in the business (the 'focal firm'), and the interlinkages between the players providing these complementary assets in the network of business partners in the business ecosystem and the core business. Complementarity, as defined by Milgrom and Roberts (1995), means 'doing more of one thing increases the returns to doing more of another.' For instance, selling more printers means selling more cartridges, or selling more razors implies selling more blades, both being examples of sets of complementary products. In his seminal paper on the theme of *Profiting from Innovation* (PFI), Teece (1986) connected the area of strategy with the subject of complementary assets. In his 'reflections' paper, Teece (2006) comments on the lack of sufficient connection between business model configuration and complementary assets: 'PFI somewhat narrowly defined the business model decisions around complementary assets (make or buy) according to the appropriability regime and cospecialization and (static) capability considerations.' For lack of a more robust framework than Teece's, I will use these two decision points as my attributes within this component of the business model, described more in depth below:

Appropriability Regime – this attribute refers to 'the environmental factors, excluding firm and market structure, that govern an innovator's ability to capture the profits generated by an innovation' (Teece, 1986). The two elements of this attribute include the imitability of the technology and the degree to which legal mechanisms can protect the innovation.

Complementary Assets and Cospecialization – going back to the root question of '*why do firms exist*?' the popular and proven response is that firms exist because they believe they are more efficient than the market or there is no other provider in the market that can supply the firm in question. Along these lines, complementary assets exist because firms decide to be in a specific business and decide not to own the upstream and downstream value generation of the business. Other firms thus fill this gap by adding the value aggregation activities in the form of complementary assets. Some common examples may include hardware and software, container systems and port / terminal systems, and automobiles and repair / service facilities. There are generally known to be three types of complementary assets (Teece, 1986): 1) *Generic Assets* – these are 'general purpose' assets that are not specific or customized to an innovation; 2) *Specialized Assets* – these are assets that have a 'unilateral dependence' between the complementary asset and the innovation (but the dependence could be in either direction); 3) *Co-specialized Assets* – these are assets with bidirectional dependence between the innovation and the complementary asset.

I consider Complementors a value-exchange partner of the 'focal firm'. Complementors enable value creation through value aggregation to the Company's product, but may not necessarily play a role in the value capture. Complementors can be spare parts manufacturers for the Company's machine sold to a Customer. Complementors can also be accessory manufacturers to a Company's electronic, for instance a cover or protector for a mobile device. Complementors can also be 'catalysts' - Just as in a chemical reaction, Catalysts may enable or accelerate value exchange by participating in the particular exchange process, without being exposed to the business change themselves. Infrastructure providers, capital markets, and commercial exchange forums are typical Catalysts where Companies can exchange value without the particular Catalysts participating in the value exchange.

5.7.5 Society (Corporate Social Responsibility):

This component was discussed in depth by Carroll (1991) in his paper *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders*, and for the first time demonstrated how the responsibility of a business was not only to its shareholders, but to a wider group of 'stakeholders', which included the employees, the community, and society as a whole. He presented his framework in a pyramidal format, with philanthropic responsibilities at the top, followed by ethical responsibilities, legal responsibilities, and finally economic responsibilities at the bottom. This framework was later attacked and modified by Schwartz and Carroll (2003) so that the framework was no longer a mutually exclusive 'layering' of responsibilities, but an overlapping set of three 'domains' of ethical, legal, and economic responsibility, in the form of a three-part Venn diagram, creating 7 categories of different combinations of these responsibilities: 1) Purely Economic; 2) Purely Legal; 3) Purely Ethical; 4) Combination Economic / Legal; 5) Combination Legal / Ethical; 6) Combination Ethical / Economic; 7) Combination Economic / Ethical / Legal.

Companies also play a role in serving the Community through the creation of jobs or the development of schools, public infrastructure, and safety protocols near factories. In exchange, the Community provides permission for their existence and enables 'goodwill' for the Company, another form of value exchange. If Companies disregard safety rules for waste treatment; for instance, they can quickly find themselves at a value deficit with the Community, which may move to prosecute the Company through legal means. Value creation by the Company to the Community will also enable organic growth for the Company, as the Community will talk about the Company's positive activities and generate.

5.7.6 Environment (Sustainability):

I have decided to separate the environmental sustainability component from the social responsibility component in spite of the popularity of the 'triple bottom line' (TBL or 3BL) first introduced by Elkington (1997) because of the hitherto ambivalent reception from management scholars in terms of its apparent lack of sufficient definition and its over-eager reception by management practitioners to make it just another 'checklist' of things that a company needs in order for Wall Street to approve, and get on with business-as-usual (Hubbard, 2009; Norman & MacDonald, 2004).

Chapter 7 CONCLUSION

7.1 Contribution

I propose four primary contributions to the extant knowledge on business models, and specifically, business model (re)configuration:

1. **New / extended ontology of business models:** I have extended the dominant ontology of business models (A. Osterwalder, 2004; A. a. P. Osterwalder, Yves, 2010; Alexander Osterwalder et al., 2005) to a more expansive set of business model components. I have reviewed and included all the dominant components mentioned in literature between 2009 and 2014 with a logical aggregation into three primary components of a business model, in conformance with the holistic definition of business model that I am using (Massa & Tucci, 2012). The implication for incumbent firms is that they can map all of their components on the Beacon framework, and be able to articulate their models in a more holistic manner.
2. **Multidimensional unit of analysis of business models:** I extend the notion that a complex business can have a 'portfolio of business models' (Sabatier et al., 2010) to my empirically-supported proposition that in complex enterprises, not only are there the aforementioned portfolio of business models, but that there are, in fact, multiple units of analysis required to (re)configure them: I introduce a case where an incumbent firm uses the 'product category' (where the strategy is defined) as well as the geographically oriented 'business unit' (where the mechanism for the P&L is defined and executed) as the relevant units of analysis to (re)configure the business model. More generally, I introduce the idea that business models are defined at the unit of analysis (or intersection of multiple units of analysis).
3. **New relationship between the notion of strategy and business model:** Hitherto, scholars have debated heavily the relationship between strategy and business models, generally establishing themselves in the camp that these concepts are either completely overlapping, intersecting (to varying degrees, between minor, major), embedded (strategy within business model or vice-versa) or completely separate (Seddon et al., 2004). The intertwining relationships that these scholars propose forces one to abandon or redefine the scope of what is well-established as 'strategy' (Grant, 2010; M. E. Porter, 1996; Michael E Porter, 1985; C. K. Prahalad & Hamel, 1994; Rumelt, 1979). I offer an alternative and complementary perspective on the relationship between the two notions as mutually dependent and complementary, where each notion is com-

pliant with its traditional definition but there is an interrelationship between the two that I highlight.

4. **Business model archetypes by strategic context:** Based on my research of strategy literature from the 1970s and 1980s on lifecycle management and product portfolios, the BCG matrix of growth / share (Hedley, 1977) introduced the notion that business strategies are contingent on the competitive variables of growth and relative market share. Using my newly defined relationship between strategy and business models, I propose the extension of this hitherto accepted notion of competitive or 'strategic' context to the notion of business models, if strategies are dependent on their competitive context, so must be their business models. Using the four quadrants in the growth / share 2x2 matrix, I propose (with empirical validation) that this is a valid concept, and that lends support to the proposition that complex enterprises can segment their business models based on their differentiated strategies for each quadrant. Keeping in mind that complex enterprises cannot operate in completely differentiated ways for each segment, I offer the concept of a 'master configuration' of the business model for specific components that remain common throughout the matrix, but that there are contingent factors (business model components) that can be (re)configured in order to be aligned with the specific strategic context.

7.2 Summary

My research objective was to bridge the gap between academia and practice on the subject of the dynamics of business model (re)configuration in complex enterprises. I designed my research output using the *design science* framework (Aken, 2004; Åkesson et al., 2010; Hevner, 2007; Holmström et al., 2009; Hovorka, 2010). Using this research design framework, I summarize the *Environment* as one where practitioners and senior leaders in *complex* enterprises (Brews & Tucci, 2007) share ambiguity as to how to configure and reconfigure their business models. I see how simple and complex enterprises are quite different and how complex enterprises are in fact made up of *fractals* of business models that represent facets of the whole, through different units of analysis. I also see that strategy literature is giving way to business model research in the number of searches on the Internet regarding this topic. Within this, I also see that areas such as *business model innovation* and *business model design* have been well studied but *business model reconfiguration* is an area that is relatively unexplored but of great interest to the practitioner community from complex enterprises. In the *Knowledge* section I observe that academia has sought to respond to these ambiguities, but find that there is much confusion as to what the definition of a business model is, how they are used, and how to apply them in a practical framework. I highlighted the extant literature on business models, demonstrating the *white space* in business model research that is both relevant and important to complex enterprises. In response to the research question regarding the business model components, I study the literature and propose an extended ontology for business models in complex enterprises, including all the components that have hitherto been mentioned in literature and introduce a holistic framework called the *Business Model Beacon*. In response to the second question about the appropriate unit of analysis for business model configuration in complex enterprises, I show how the common view of analyzing business models at the 'firm' level may be inappropriate and in fact I need a multi-dimensional unit of analysis to understand and configure business models in complex enterprises. On the third research question, I propose that there is a new relationship between strategy and business models that describes the two in a complementary and symbiotic relationship. I then describe an in-depth case study of Unilever, where I interview 35 people across different functions, levels of hierarchy, and geographic businesses to gain a better understanding of how they configure their business models. I describe how each component of the business model is configured. I then describe the different units of analysis used by the business to make decisions about the configuration of the business model(s). I discover that in fact there is not only a portfolio of business models (Sabatier et al., 2010) but also distinct units of analysis based on product logic and geographic business units that drive the configuration of the business model. Further, in the third question, I find that I can create 'archetype' business models based on the competitive context, using the BCG growth / share matrix (Hedley, 1977).

7.3 Generalizability

I have designed my case study as one to be used for 'analytic generalizability' and not 'statistical generalizability' (Yin, 2009). I have already claimed that I am studying complex enterprises and so I cannot extend my findings nor my conclusions to simple enterprises. However, using the dimension of *firm location* and my discussions with executives other industry verticals I may propose that the generalizability of my findings may be valid for *complex* enterprises (Brews & Tucci, 2007) in the product-based or servitized (vs. purely service- or IP-based) companies. I see the Beacon framework easily applicable to companies in the consumer products sector, but also to enterprises in the chemicals, and industrial products companies, as well as the white goods / durables industry.

The detailed single case study on Unilever and the embedded cases within the context of Unilever categories and business units has supported the use of the Beacon as an appropriate framework to study and explore the business model of Unilever North America, and possibly extend the boundary conditions to the fast-moving consumer goods industry or packaged foods industry. However, the lack of further study on different types of companies and industries disallows speculation as to the greater generalizability and limitations of the Beacon framework. In order to shed some light on this specific point, I introduce the additional two sections below where I explore the use of the Beacon on other companies and industries. The first discusses the retail industry business model, with two specific companies, Walmart and Amazon, both global retailers that need little introduction. I will note, however, that these illustrations are more anecdotal and informal in nature and have not been put through the same level of rigor as the main case and embedded cases in the scope of this dissertation.

7.3.1 Application of the Beacon Framework to the Retail Industry

Retail Business Strategy

Using the fast-moving consumer goods industry as a starting point, I explore within this sector; moving down the value chain, towards the retail sector, I will explore the strategies and business models of two big retail players in the same markets as Unilever: Walmart and Amazon. Using the Beacon framework, I illustrate a summarized characterization of the strategies for these two businesses as follows, in Table 7.1:

Table 7.1: Walmart vs. Amazon Strategy

Strategy Component	Strategy Component Description	Walmart Strategy Summary	Amazon Strategy Summary
Mission/Vision	What is the winning aspiration	We save people money so that they can live better	To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices
Product	What will you sell?	Wide range of consumer products	Wide range of consumer products
Market	What is the market?	Global	Global
Customer	Who is the customer?	Value-driven customers	Value-driven and product range driven customers
Value	What is the value proposition?	Every day low price	Every day low price
Competition	How will you win?	Low cost	Low cost, product range, pure-play web retail

The mission and vision are taken directly from their respective investor relations websites, and provide a sense of their key differences. Whereas Walmart wants people to save money so that they can live better (a living-centered mission), Amazon wants to be a customer-centric company that focuses on the ease of shopping for the consumer (a shopping-centered mission). Amazon wants to change shopping from being an event to making shopping a non-event by integrating it into the course of everyday living, no different than consuming any utility that is currently supplied in a household (e.g. electricity, water, gas, internet). The two factors at play, based on the strategies highlighted above, appear to be cost and range of products. In the sections below, I will highlight how these strategies drive the configuration of the business model in each of these businesses.

Business Model Dimensions of Analysis

The two companies have different dimensions of analysis. Walmart being a physical-asset based business (local retail stores, local / regional distribution centers), the business can be said to have a *local execution* component which conforms to a *global strategy* of brand building, triple bottom line policies, coordination systems and processes, organizational design, and enterprise financial management. The supply chain design is a global strategy policy question with significant local execution configuration implications and is one of the main overlaps between global and local remits. In summary, the Walmart business model has two dimensions of analysis: *Global Strategy* and *Local Execution*.

If I only consider Amazon's online retail business (ignoring the kindle ecosystem and amazon web services, to compare like-for-like), then the entire basis of the model is global for global. That is, the user experience is designed globally, with the same functionality, policies, templates, screens, and offerings (not specific products but choice of categories of products) across the world. Since execution (fulfillment) is based on global logistics providers (postal services, couriers) and last-mile resources (delivery service contractors) based on systems coordination from regional distribution centers, it does not have a need to be as local-centric as Walmart. This enables Amazon to have a global framework for local execution. In summary, Amazon also has two dimensions of analysis: *Global Strategy* and *Global Execution*.

Central vs. Peripheral Business Model Components

Whereas the strategies of these businesses look somewhat similar, their business model configuration reflects the differences in their strategies; different components are central and peripheral, and the configuration decisions about each component has been driven by the decision of the central and peripheral components. I highlight in Figure 7.1, the side-by-side comparison of the two business models' central and peripheral components, using the Beacon framework, based on the two dimensions of analysis in each case. The connecting lines through the middle of the Beacon framework characterization indicates the interdependencies between the central and peripheral components. These are illustrative to show some of the interdependencies as the dependencies can be viewed in both dimensions (i.e. global and local).

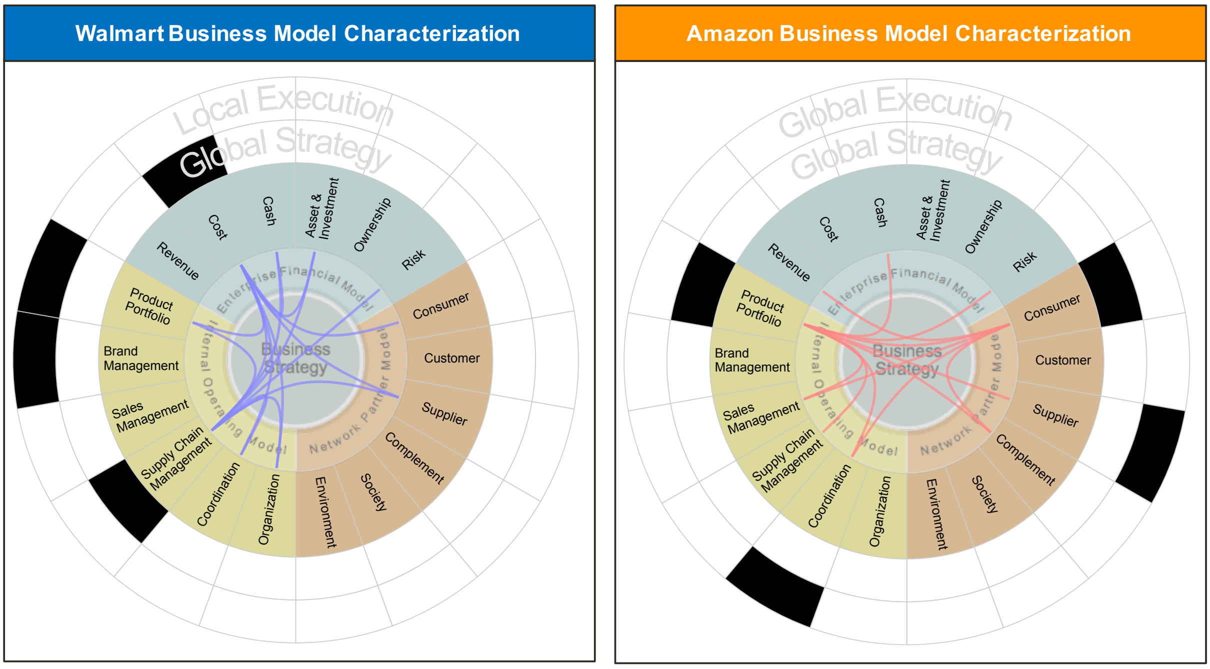


Figure 7.1: Business Model Characterization using the Beacon Framework

The Walmart Business Model

At Walmart, there are two central business model components at the *global strategy* dimension of analysis: *Cost* and *Supply Chain Management*. The *Cost* component refers to the disproportional bargaining power that they wield against the product manufacturers. The business is adept at driving efficiency throughout the value chain, with industry-leading initiatives to drive costs out of the retail supply chain towards the route to market. This global competence in cost is mirrored in its efforts towards optimizing the supply chain, once again a global reference for efficiency in the go-to-market approach. The *supply chain management* component is one that has won several accolades in the industry world wide in the way that the global supply chain aligns with its strategy in delivering low-cost product to end-consumers. Specifically, since it does not manufacture product, it excels in the other supply chain elements of PLAN, SOURCE, and DELIVER. There are global initiatives that have been implemented in the global headquarters in Bentonville, Arkansas (USA) that enable the business to work collaboratively with the major vendors such as Unilever, Proctor & Gamble, Nestle, and Danone, in driving this efficiency in demand and supply planning (PLAN) through advanced planning systems (APS) and enterprise resource planning (ERP) processes and technologies. In the SOURCE space, they have dominated in efficient procurement processes so as to collaborate with manufacturers in driving optimal combinations of cost, quality, speed-to-market, and inventory. In the DELIVER space, they have excelled in driving down distribution costs and closing the windows of deliveries to their distribution centers and warehouses, as well as the efficient handling and stocking policies within their warehouses. They have further driven this excellence through their dedicated efforts in coordination and analytics towards the end point of sales within their retail stores.

The *Local Execution* dimension of analysis has two components that are considered central to the business model: *Product Portfolio* and *Brand Management*. In terms of the *product portfolio*, the Walmart business has spent a great deal of resources on range planning and merchandising excellence so as to make sure that the shelves are stocked with the products that consumers want to purchase in each of their stores around the world. The restrictions are shelf-space and the business charge the manufacturers to list on their scarce shelf-space and for presence in the aisle where customers shop for categories of products. The *brand management* component is responsible for driving placement of the product in the optimal shelf-space with respect to aisle facing area, height (eye-range being most expensive and scarce). Further, the brand model optimizes the number of items in the aisle with the same brand, and negotiation power of the manufacturer depends on how many products they have within the parameters of the same aisle, which represents and is the manifestation of the notion of 'category management'.

The Amazon Business Model

The Amazon business model has two central components in its *global strategy* dimension of analysis: *Consumer* and *Product Portfolio*; and two central components in its *global execution* dimension of analysis: *Supplier* and *Coordination.* In terms of the *global strategy* dimension of analysis, the *consumer* component refers to the focus on the consumer that Amazon has created, and how the customer-centricity thrust is really at the core of the business model. The whole Amazon shopping experience is built around knowing the consumer and their likes and preferences, and dynamically aggregating products based on product complementarities and selections from other customers who chose similar products. The user profile is a global one, no matter which domain the consumer shops at (i.e. amazon.com, .de, .fr, .ch, etc.; even though the different sites use local suppliers, the profile of the consumer is never forgotten, and the algorithms make choices based on global profile matching with local products). The other central component is the *product portfolio.* With no restriction on shelf-space, Amazon can provide a virtually infinite selection of product regardless of how fast or slowly it moves (in terms of inventory turns). Suppliers that want to sell product that does not move quickly have to store their own inventory of product and is shipped directly from them to the consumer.

In terms of the *global execution* dimension of analysis, the *supplier* component refers to the fact that he supplier base is a combination of suppliers who ship globally and those that only ship locally; The supplier offers their own selection based on the concept of 'store-fronts', which enables the local supplier to promote their own products but the store-front is the basic amazon store-front with the supplier product selection embedded within it. This means it is very difficult to tell whether it is Amazon who is selling the product or the vendor, but may make no difference to the consumer at the end. The *coordination* component refers to the fact that Amazon greatly leverages technology in terms of coordinating its operations, and sells that same technology to independent providers or vendors to manage their businesses, thereby creating a massive network of vendors that are fully incorporated into the Amazon domain. The coordination technologies enable Amazon to sense opportunities to sell more product or service to the consumer, seize these opportunities through different offer mechanisms, and transform the sale into a future knowledge object for the automated algorithms to learn from this experience for a future sale opportunity.

Business Model Characterization using the Beacon Framework

I have mapped out the business model characterization of both Walmart and Amazon using the Beacon framework in Table 7.2 and Table 7.3. This characterization outlines the configuration of the resources and business parameters for each of the 18 components of the business model, highlighting where they are different (e.g. central components), and where they are similar (e.g. the *Social* and *Environmental* components). Further, this framework allows one to understand on what dimension the business models are different (i.e. global strategy or global / local execution) so as to gain a better understanding of how the business is structured and the interactions between the different components.

Table 7.2: The Walmart Business Model

Walmart Business Model Characterization		
Component	**Central Component**	**Dimension of Analysis**
Revenue		The revenue model is a basic model that is based on every-day low price, essentially eliminating activities such as promotions in order to attract customers. The main revenue stream for Walmart is the physical retail stream.
Cost	Global	The cost basis is one of Walmarts core strengths, insomuch as they pressure their supplier base (i.e. fast moving consumer goods manufacturers) to sell in greater quantities at a greater discount than with other retailers, keeping the cost base low for Walmart.
Cash		Working captial terms for suppliers are stringent at 90 days whereas for consumers is immediate on purchase or in 30 day credit allowance period; inventory is kept to a minimum, with manufacturers having to absorb the cost of working capital based on demand volatility and supply reliability; Walmart stock is distributed based on a dynamic sourcing strategy between the retail depots (back-room) and centralized distribution hubs
Asset & Investment		Assets are mostly physical assets; the model was to have the single largest store and selection within a geographic radius of a second-tier city and its surroundings so as to stifle any rival competition in the general retail category; investments are done based on specific parameters of geography, demographics, logistics costs, and real-estate costs, as well as retail potential.
Ownership		Family owns more than 50% of equity, with institutional investors holding 30%; the rest is traded on the stock market (20%); decisions are mostly internally sourced (vs. shareholder decided)
Risk		Walmart is subject to all three: environmental, industry, and firm-specific risk.
Consumer		The consumer is oriented to the every day low price (EDLP) program and does not wait for, nor expect promotional offerings. There is a different sister store (Sam's Club) for procuring large quantities or items in bulk formats. There is no specific consumer model that differentiates Walmart from other retailers except for the fact that in many Walmart stores, they also include other value streams within the ecosystem of 'leaving the home' such as a health care professional for basic illnesses and ambulatory care as well as a pickup location for local postal or courier deliveries
Customer		For the purposes of the retailer, the consumer is the same as the customer
Supplier		Manufacturers often have (based on request) Walmart-specific packages that target the specific price-point x size optimality for the Walmart consumers. The relationship with Walmart is focused on two factors: cost and service, i.e. supply chain oriented discussions.
Complement		Walmart spends a great deal of resources on analytics in terms of complementary products; in a published study, Walmart analysts found that sales of milk were correlated with sales of bananas; putting the two items next to each other, sales of both items increased.
Society		The global sustainability initiative ensures that Walmart drives inclusive economic mobility, worker dignity in supply chains, food security, and community resilience; these programs are focused on both individuals as well as communities as a whole
Environment		Walmart is driving initiatives on climate change, natural resource sustainability, waste reduction, and animal welfare; these initiatives on the global sustainability charter are outlined to focus on traditional 'triple bottom line' aspects of public companies
Product Portfolio	Local	The brand image and message is constantly pushing the notion of 'everyday low price' (EDLP) so that the promotion aspect is no longer relevant in the purchase process in the mind of the consumer, who believes that they are getting the best possible deal on price that they can.
Brand Management	Local	Local retail stores constantly review the data on sales on the different combinations of products, placement, promotions, and pricing, and adjust these four elements to continuously make sure that the product portfolio is relevant, constantly turning stock, and combinatorially appealing to customers.
Sales Management		Amazon leverages sales personalization algorithms to directly target consumers based on their specific choices, preferences, trends, and similar users. They store these data, modify them with each new shopping experience, and enable auto-recommendations based on artificial intelligence.
Supply Chain Management	Global	The legendary supply chain is one of the recognized competitive fronts for the business model at Walmart. The business is constantly looking for ways to optimize their supply chain, extracting efficiency gains year after year using sophisticated supply chain planning and execution systems, methods, algorithms, and a world-class organization.
Coordination		Walmart is one of the best-in-class retail operations that focuses on coordination capabilities through its information technology and business management systems, investing heavily in these areas to coordinate the supply chain and operations within and across different business units, enable functions to perform intelligent business analytics, and aggregate information to be able to track, predict, and drive different actions dynamically
Organization		The Walmart organization is focused in Arkansas and drives many global decisions from the center. Local business units internationally report to someone in Arkansas, and generally are center led, but locally execution oriented based on the blueprint strategy from the center.

Table 7.3: The Amazon (Online Retail Only) Business Model

Amazon Business Model Characterization		
Component	**Central Component**	**Dimension of Analysis**
Revenue		The revenue model of Amazon has three main revenue streams: on-line retail (58%), web services (3%), and the kindle ecosystem (39%); the revenue model is diversified, and efforts are being made to push the web service revenue to more equanimity with the other streams.
Cost		Amazon has used low-cost to drive customers into its ecosystem, and convinced manufacturers to provide products at a competitive offering price, and making a loss for several years. Once customers were drawn into the ecosystem, it began renegotiating costs for logistics, products, and complementary services. Pushing costs back onto the customer for shipping (non-Prime) and gaining clout over manufacturers, Amazon has now repelled many of the costs that it began with, currently being profitable.
Cash		The working capital model is interesting and different from traditional retail where the product is first purchased (on well negotiated, long payment terms) and then stocked in inventory, waiting for the customer to purchase the product. For many of the products, Amazon uses the notion of 'storefronts' for other vendors to sell product. Hence, Amazon has the option of pushing inventory to the vendors who are using its storefront, thereby reducing working capital needs, risk of product obsolescence, damage, shrinkage, and other risks.
Asset & Investment		Amazon's assets are focused on technology and distribution that enable it to be a virtual presence in retailing. The capital expenditure is focused on making distribution centers more efficient and making them 24/7 operations globally. The technology investment in the online retail store was leveraged into creating AWS or Amazon Web Services, whose services are also sold independently, and is one of the largest technology providers in the world today.
Ownership		Ownership is 2/3 held by institutional investors and mutual funds and 1/3 by insiders and founders. There has been no challenge to the ownership structure nor to the leadership from active shareholder activitists
Risk		Amazon is subject to all three: environmental, industry, and firm-specific risk. However, due to the fact that they do not own physical retail stores and have relatively few employees in each country, Amazon is able to de-risk its global operations. Further, due to the virtual nature of the business, it is feasible to optimize taxes and allocate different assets to different parts of the world in order to further de-risk.
Consumer	Global	The whole Amazon shopping experience is built around knowing the consumer and their likes and preferences, and dynamically aggregating products based on product complementarities and selections from other customers who chose similar products. The user profile is a global one, no matter which domain the consumer shops at (i.e. amazon.com, .de, .fr, .ch, etc.; even though the different sites use local suppliers, the profile of the consumer is never forgotten, and the algorithms make choices based on global profile matching with local products).
Customer		For Amazon, the customer and consumer are the same for the online retail. However, customers of the 'Amazon store-front' are other vendors who are selling their products through the front-end of Amazon.com online retail. This is a typical multi-sided platform type of structure.
Supplier	Local	The supplier base is a combination of suppliers who ship globally and those that only ship locally; The supplier offers their own selection based on the concept of 'store-fronts', which enables the local supplier to promote their own products but the store-front is the basic amazon store-front with the supplier product selection embedded within it. This means it is very difficult to tell whether it is Amazon who is selling the product or the vendor, but may make no difference to the consumer at the end.
Complement		Amazon embraces complementarity in two distinct ways: 1) in the product portfolio options, where complementary products are regularly highlighted to the consumer in order to secure further share of wallet, and 2) in the other two business units (i.e. web services and kindle ecosystem), where web services are provided to vendors who use the amazon store-front, thus guaranteeing the same level of uptime and service on the hardware and technology basis, but also in terms of the kindle ecosystem whose products are readily available on the online retail store.
Society		Amazon is active in supporting community development and improvement initiatives based on not only sponsorships but also donations of products within their ecosystem and with their web services to enable communities to connect.
Environment		Amazon is active in environmental initiatives and sustainability through a variety of thrusts.
Product Portfolio	Local	With no restriction on shelf-space, Amazon can provide a virtually infinite selection of product regardless of how fast or slowly it moves (in terms of inventory turns). Suppliers that want to sell product that does not move quickly have to store their own inventory of product and is shipped directly from them to the consumer.
Brand Management		Amazon delivers a consistent brand experience across its service lines, revenue streams, global storefronts, and user interaction. The price promise is maintained no matter where you use Amazon, as is the place, promotion, and placement promises. Other services are all framed with the Amazon prefix so that brand recognition is maximized.
Sales Management		The sales model is built largely on consumer customization using technology and algorithms to record preferences, match user types, purchase patterns, and trending topics so as to automatically develop the perfect proposition every time for each consumer individually. They have used the low price not as the ends but the means to sell more to consumers based on different value propositions.
Supply Chain Management		Amazon has developed a sophisticated supply chain infrastructure and leveraged state of the art technology in terms of picking and packing processes and systems to keep the logistics operations operating 24/7 in their main distribution centers. They have also successfully integrated third party logistics providers (postal company, couriers), as well as 'last mile' delivery resources (for same-day deliveries within certain cities).
Coordination	Local	Amazon greatly leverages technology in terms of coordinating its operations, and sells that same technology to independent providers or vendors to manage their businesses, thereby creating a massive network of vendors that are fully incorporated into the Amazon domain. The coordination technologies enable Amazon to sense opportunities to sell more product or service to the consumer, seize these opportunities through different offer mechanisms, and transform the sale into a future knowledge object for the automated algorithms to learn from this experience for a future sale opportunity.
Organization		The Amazon organization is a less complex one than it's counterpart Walmart; Like Walmart, however, it is organized around business lines and countries which are distinct P&L units.

The illustrative characterizations on Walmart and Amazon also show how these business models can be compared and contrasted on each of their strategic and business model components side by side in order to extract the similarities and differences, in order to build a case for their moderating influence on the firm's performance.

7.3.2 Application of the Research and Framework in Other Industries

In order to fully explore (once again through anecdotes and illustrative examples) the generalizability of the research, the findings, the propositions, and the Beacon framework, I have also undertaken the characterization of the following companies and industries: 1) Hilti (Construction); 2) Dell (High Tech); 3) FMC Corporation (Agrochemicals); and 4) Credit Agricole Financement (Banking / Financial Services). Using a similar analysis and approach to the retail examples in the previous section, I have been able to highlight their core and peripheral components, the respective dimensions of analysis, the relationship between the strategy and business models, and their moderating relationship between their competitive strategy and firm performance. I have further taken the step to review these characterizations with the senior executives in a strategy-oriented function in each of these companies, and they have all found these results useful and are willing to go further to spend more time to provide me additional data and access to gain a better understanding of their business models.

7.4 Limitations

The limitations of this body of research is that in order to study it effectively, one needs access to the very inner workings of corporations, and in great volume. I can only produce such rich results when I have access to in-depth knowledge from business practitioners in different functions, in different business units, and in different geographies, which requires a great deal of funding, time, effort, and topical latitude.

The conclusions that I come to will be mediated by cultural norms, command-and-control vs. dispersed management structures, governmental regulations and constraints, legal environment, risk environment, ownership profiles, and competitive pressures.

7.5 Avenues for Future Research

I can think of several avenues of future research that may stem from such a body of work. I can take the direction of developing different and more specific business model frameworks by (convergent) industry groups, or adapted to different lifecycle models through a firm's existence, different ownership structure, risk profiles, governmental and regulatory environments, and of course, across different geographies.

One of the research questions discussed but deferred was *what makes the multitude of business models within an enterprise hang together?* This could be an interesting an illuminating avenue of research that would help me understand the phenomenon underlying the portfolio concept of business models. Another is to understand the *dynamic capabilities* that are needed in order to enable business model reconfiguration on a continual basis.

7.6 Conclusions

I present three 'first-order' conclusions based on the body of research that I have presented:

Business models have several components. I have highlighted 18 components within three key elements – the enterprise financial model, the internal operating model, and the network partner model. There is a great attraction to creating simple representations of just a few elements to characterize the business model of an enterprise, but I risk doing an injustice to the high degree of complexity of this topic, and perhaps even unintentionally mislead an enterprise into making decisions that are based on incomplete information.

Complex enterprises are fundamentally different from simple businesses, and must be treated as such. In such enterprises, there are several units of analysis that need to be considered in the determination of the (re)configuration of their business models. They must have several business models and these business models may be embedded or 'nested' into one another. Any framework that is used must take into consideration this complexity and multi-layered, multi-dimensional environment.

Strategy and business models are notions that are different, symbiotic, and complementary. A business needs to have a core strategy that the business models can be developed around, in order to enable and execute these strategies. Further, the business model in and of itself does not have a strategic component, but it needs a strategic context. In other words, the competitive context of the strategy will determine how the business model needs to be configured. Based on the widely used growth/share matrix, one can define 'archetype' business models that can be used by enterprises as guidance towards the state that the business models need to be configured to.

The first order conclusions offer high level insight into the thematic of the body of research performed. The second order conclusions offer more in-depth insight into the nature of business model configuration and business strategy of the focal firm.

Whereas simple business model frameworks with few components may be adequate to conceptualize some of the dynamics by which companies can transform, they are inadequate to comprehensively characterize the business model for purposes of strategic transformation. The holistic set of components enable the transformation team to accurately map and characterize the business model at the different dimensions of analysis and at a uniform level of granularity across functional, business unit, and geographic boundaries. Further, the simpler and more aggregated frameworks make ex ante assumptions of the business' motivations and strategic thrusts in a way that could lead a transformation team to inaccurately characterize the business model with material consequences in terms of the risk and success of the business transformation exercise. The holistic set of components enable the transformation team to not have to make ex ante assumptions and allow the decisions to be made for transformation in a comprehensive manner.

Consequently, it implies that whereas less complex companies may be able to effectively use simpler business model frameworks, larger and more complex enterprises need a more holistic and comprehensive framework, such as the Beacon, to adequately model the multidimensional nature, the functional diversity, the multi-category nature of the product portfolio, and geographic reach.

Another second-order conclusion is that business model reconfiguration can occur due to exogenous factors (such as disruptive market forces, technology, process, or product innovation related disruptions or the dynamic nature of consumer demand) or internal decisions of businesses to shift the firm toward a different strategic objective (such as gaining market share, changing the product portfolio, targeting a new market, or consolidating a market position). The case of the Personal Care business shifting to a model of collaboratively-outsourcing the entire special pack business is based the combinatorial effect of market pressures of greater product packaging variety at short lead times and a shift of internal objectives towards both growth and margin. The case of the Baking, Cooking, and Spreading (BCS) Company spinout was also based on the combinatorial forces of a declining market for margarine and an internal shift towards reinvesting profits from the business into innovations for market extension and higher growth purposes. The case of the duality of the Ice Cream business model reflects an industry nature of in-home and out-of-home consumption, a more market-oriented dynamic than an internal one. However, the configuration of the business model is setup to optimize common resources, a common face-to-market, common branding, and other internal operating model related factors.

The theory building implications of this research focus on the suggestion that business model configuration is the moderator between firm strategy and firm performance. De-coupling the notions of strategy and business model can help an enterprise take on the exercise of business transformation in a layered manner. Using the metaphor of the compass (strategy) and map (business model), if the enterprise doesn't have a compass, the map may be of limited use, and without the map, the enterprise may head in a general direction but may not be aware of the terrain and surroundings and may have a harder time navigating towards the destination. The map and compass are complementary and non-overlapping tools, as are the notions of strategy and business models. Other commonly used frameworks confuse the notions of strategy and business models and firms looking to transform who use these frameworks can be misguided about what actually needs to change, the strategy or the business model. It is legitimate to keep the strategy constant and change the business model around the strategy by pivoting on a different business model component. It is also legitimate to change the strategy and then as a result change the business model so as to be consistent with what the strategy is aimed at achieving.

In addition, establishing the complementarity between the notions strategy and business models implies that the firm can articulate the competitive strategy based on known and widely used constructs such as the growth / share matrix and use the notion of business model archetypes to predetermine the configuration of the different components of the business model on the basis of the strategic context. This could enable enterprises to careful articulate the risks associated with a business model transformation and create mitigation contingencies for these specific transformation risks by component and by dimension of analysis (e.g. geography, business unit, and decision framework). This has potentially significant implications in that enterprises can transform more assuredly, knowing where the risks are at a level of detail not easily accessible earlier within the thematic of business model transformation.

Lastly, the Beacon introduces complex enterprises to a new, holistic framework for mapping and characterizing the business model at the level of the functional components, at the multiple dimensions of analysis in terms of geographic representation, business unit levels, as well as strategic or tactical decision-making, providing enterprises with a blueprint of archetypes based on strategic context, surpassing the applicability and relevance of other competing frameworks. The Beacon's intuitive graphical illustration makes it easy for transformation leaders and teams to finally articulate the business strategy and business model in a manner that is visually understandable and communicable, yet allowing the dense content of component-level configuration to be mapped and presented in a categorized manner such that transformation actions can be easily assigned by function, business unit, category, geographic unit, and decision-rule compliant. The framework validated through the overall case study and embedded cases as well as other exemplar usages in other industries enables one to confidently use this framework in many applications across industry.