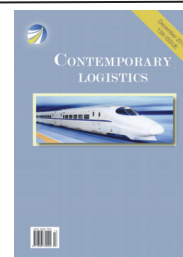




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Research on the Nature of Business Model Based on the Perspective of Value Chain

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Value chain,
Business model,
Frame

ABSTRACT

Under the background of business model, this paper takes the logical structure of going from the easy to difficult and complicates of the theme in descending order. First, it summarizes and sorts out the theoretical logic of the views of domestic and international major contributor to the research areas of the business model. Second, it gives a further summary and analysis of the business model research related to the theory of value chain. Last, it takes the retail industry as the main areas of industrial research, selects an inspectional perspective of combing the value chain and business model and analyzes the existing research results. Meanwhile, it aims to explode the business model of retail business from the perspective of the value chain and to establish a general analytical framework.

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1 Introduction

The term business model appeared in the body of the paper as early as in 1957, but business model was concerned by many scholars as an independent field of study after the rise of the network economy in the nineties of last century, and it mainly concentrated on the business model of e-commerce and other IT industry. With the integration of the global economic and the increasing of market competition, academia and even the business community gradually comes to understand the business model as “organizational value-creating core logic (Linder, the Cantrell, 2000)” plays a vital role in the success of an enterprise.

In recent years, some scholars at home and abroad have given much attention to the business model, and tried to broaden the research to other fields out of IT so as to establish an analytical framework with universal significance. However, the business model itself is very broad and heterogeneous, so scholars have different opinions on the business model, which can be described as divergent! Domestic scholars, such as Zhong Gengshen etc., proposed on the basis of many domestic and foreign researches that as a new point of view of corporate inspection, the business model is still an emerging and developing theory and operating system in which many of the concepts and content has not yet been accurately positioned.

2 The Nature of Business Model

The fundamental purpose of the business model is to create value, the theoretical and practical basis for its generation is the

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opportunity to create and obtain the value of the market available for use, while the opportunity is the possibility to deliver higher value through the creative combination of resources to meet market demand (Schumpeter, 1934). In other words, opportunity refers to the uncertainty of market demand, or untapped resources or capacity (Kirzner, 1973). With the market demand becoming increasingly clear and resources increasingly precisely defined, the opportunity transcends its basic form and gradually is evolved into a business concept, including core program such as how to meet the market demand, or how to allocate resources. With the upgrading of the business concept itself, it becomes more complex, including product / service concept (i.e. supply what), market concept (i.e. supply to whom), supply chain / marketing / concept of operations (how to promote the product / service to market) (Cardozo, 1986). Furthermore, this accurate and differentiated business concept gradually matures and combines the market needs and resources and it is eventually evolved into the perfect business model.

Other scholars have also expressed a similar view. Gray Hamel considered that the business model is the business philosophy which has already put into practice, while business philosophy is the idea or concept existed in the minds of the operators on how to run, how to meet customer needs. No matter how the call (such as the concept of originality, commercial concept or business philosophy), originality, after all, is the product of the rationalization and logicalization of the chance, and the differentiated originality is the business model (Wang Weiyi, Li Qianwen, 2005). However, the formation process of the business model is not only to experience pure, static thinking, but also be approved by the digital test and logic test and a preliminary test of market, and finally it gradually stereotypes after trial and error (J.Magretta, 2002).

The author believes that the nature of the business model is to establish a value delivery chain between market demand and the resources and capacity. The enterprise takes an integration of the internal and external resources through the operation of the business model and supplies the needed products or services for market so as to achieve the goal to meet market demand. In this process, the efficiency of the value is the effect for the business model to achieve and the success of value creation is the foundation of the success of the business model as well as the foundation of enterprises.

3 Different Perspectives and Status Quo of Domestic and Foreign Scholars on the Business Model

Although the domestic and foreign scholars generally recognized that the business model is “organizational value-creating core logic” (Linder, the Cantrell, 2000), business model covers almost all business activities that is companies from access to resources, organization of production, product marketing, after-sales service to the research and development, partner, customer relations and revenue methods etc, so the research point of view of business model is very broad. Researchers mostly studies the business model form their familiar territory and angle, which leads to a complex point of view of researches on business model. Therefore, it is necessary to subtotal the existing research results and to sort out the logical structure of its theory.

Michael Morris et al (2003) pointed out that the definition of business models can be divided into three categories, namely economic class, operating class, the strategy class by analyzing the keywords of more than 30 definitions of business model. The definitions of economic class define the business model as the economic model of enterprises, that is “How to make money” logic and the relevant variables include revenue sources, pricing methods, cost structure and profit, etc. The definitions of operational class concern internal business processes and structural problems, and the relevant variables include the product or service delivery, management processes, the flow of resources, knowledge management, etc. The definitions of strategy class refers to the company's market positioning, organizational boundaries, competitive advantage and its relevant variables include value creation, differentiation, vision, and network, etc. In these three definitions, the variables that the value, the economic model, the customer interface, or contact network of partnerships or the role of internal infrastructure or related activities, target market and so on are repeated again and again, and play a significant role as a strategic element.

Based on reference to Morris, etc. (2003) about the categorization for many business models, combining the understanding for the diversified definitions of business models at home and abroad, the domestic scholar, Lei Yuan holds the opinion that the present definition of foreign business model is wholly advanced from economy to operation, strategy to integration. Zhong Gengshen, Sun Xiaojing think that so far people have conducted research for business model mainly from six perspectives, which are system theory, description and simplification of reality, general value creation, technology development and value creation, transaction and value creation, enterprise performance and finance, respectively, research from different perspectives indicated characteristics for different aspects and elements of business model.

Foreign scholars classified and gathered the current research results of business model from different point of views, but there is no reason to doubt that business model should belong to the conceptual category of enterprise, the ultimate goal of current research results is based on the concept of enterprise organizations. Different researchers just focus on different aspects of enterprise organization to carry out research for business model. Therefore, the author made some simple modifications on the basis of research conducted by Morris (2003) and other scholars, and roughly divided the current research results into: enterprise finance, enterprise operation, and enterprise strategy.

3.1 Enterprise finance and profit

The visual angle of enterprise finance and profit take the business model as logic for enterprise's profit, which is the ways and

methods that the enterprise adopted to create value and profit, the main research achievements are:

Hawkins (2001) described business model as the business relationship between product and service that provided for the market, he thought that business model defines a feasible cost/income structure, which makes the enterprise could survive and develop with its own income. Rappa's (2001) research perspective is similar to it; he defined the business model as the enterprise how to make money by clarifying its position in value chain. Afuah and Tucci (2003) believed that the determinant factors for achievements of business activities are business model, environment and change of business operation. Thereinto, business model is the first important factor affecting the enterprise performance, and business model is the order for enterprise operation, it is a basement for enterprise establishment, and enterprise utilizes resources, surpasses the competitors, and provides greater value for customers, gains profit in accordance with the business model. Business model specifically presents how the enterprise gain profit, and the profit-making plan in the future long time, "business model based on internet is how the enterprise gain profit by utilizing internet". Following elements in their definitions to business model are included: profit point, customer value, scope, pricing, revenues sources, associated activities, implementation, strength, capability, persistence. The research based on enterprise finance and profit is helpful for people to judge the enterprise's profit prospects in a specific and accurate way.

3.2 Enterprise operations

Such researches pay attention on the constitute factors of the business model and its internal structure problems, whose main research results are the definition of business model structure using a systematic approach by Timmers (1998), the view of taking the business model as an organic system constituted by products, service and information, the definition of business model of "a frame of products, service and information". The business model includes "the description of business activities and its function", "the description of different business participants' potential profits" and "the description of source of revenue". As one of the first definition of business model, the definition of "a frame of products, service and information" reflects the essential elements in the analysis of business model, which are products, service, information, business participants, value and sources of revenue etc.

Based on Timmers' definition, Weill and Vitale (2001) introduce market factors, and take the market participants' roles and relationships into consideration. They believe that "the business model describes the roles and relationships of customers, consumers, alliances and suppliers, and defines the main product flow, information flow, cash flow and the major interest of participants".

Amit and Zott's (2001) research of virtual market created by IT indicates that there is no enterprise theory or strategic management theory which can reveal the mechanism of value creation in the virtual market, however, as an analysis unit, the business model framework integrated existing theoretical perspectives can replace the traditional strategic analysis unit. Amit and Zott believe that "business model is the compound mode of business activities designed for value creation in the process of developing business opportunities". Their research frame describes how to realize trade by network collaboration among companies, suppliers, channels and customer, and think that the designation of the business model should include three parts, which are transaction contents, transaction structure and transaction management.

3.3 Enterprise strategies

Researchers adopted strategic perspective focus on how to mold enterprise core competence and maintain its competitive advantages. Their main research achievements are: Morris defines the business model as following—business model reflects how to create sustainable competitive advantages in certain market by using a series of internal related, representative decisive variables in enterprise strategies, technical and economic fields.

Applegate (2001) defines business model as "the description of a complicate enterprise" [18], through which they can study the relationship of enterprise's structure and essential elements and enterprise's reaction pattern for the real world. The business model suggested by Applegate includes three interrelated elements: idea, competence and value. Business idea defines market opportunities, products and services, dynamic competition and strategies developed for achieving the dominant position. Competence refers to the organizational ability which is built and transmitted through the following factors: personnel and collaborators, organizational structure, culture, business model, marketing model, management model, development model, as well as other sub-structure model. Value is the measurement scale for business model, which can be measured by shareholder returns, corporate returns, market share, brand and reputation, as well as financial performance. The three factors are related to each other. This frame covers various aspects from strategies to operations and value, provides a general description and analysis tool, by which enterprise can have an understanding of the existing model, analyze the new technical conditions and competitive situation's influences to the three factors and their constituent part, and make appropriate adjustments by finding improvement and innovation opportunities.

Scholars generally consider business model as a research subject which has a wide range and covers every aspects of enterprise, hence, there are broad research perspectives. Many researches basically focus on the systematicness of business model and stretch the researches through the attention to different emphasis. According to different scholars' emphasis, the above classifications are about rough summary and logic understanding of theories.

4 Research Achievement of Business Model Related to Value Chain Theory

Essentially speaking, business model is the enterprise's logic to create value. The management guru Michael Porter argued that,

“Every enterprise is a collection of various activities in the process of design, production, sales, delivery, and supporting its products. A value chain can be used to all these activities.” According to Porter’s value chain theory, we can divide the enterprise value-creation process into a series of different but mutually interrelated economic activities, which we can also call “value-added activities”. The whole activities form “value chain” of the enterprise. If we consider business model as the core logic of enterprise value-creation, then “the core logic” should consist of a series of value-creation and value-added activities, and the arrangement and description of financial, operational and strategic aspects. The discussion of business model from the point of value chain not only conforms to the core logic, but also can integrate the activities covered by business model through the principle line of value-creation, value increment and value-capture.

Using Michael.E.Porter’s value chain, Paul Timmers deconstructs and reconstructs parties involved in e-commerce value chain. He said, “The deconstruction and reconstruction of the value chain can provide a systematic investigation to identify the business model structure, including recognition of the value chain elements, as well as to identify the possible integration methods of information on the value chain.” The system analysis method used by Timmers is widely recognized later. The classifications of business model based on value chain also provide a general idea of business model innovation. However, Rappa (2000) believed that the most fundamental meaning of the business model is to sustain itself, that is, to operate to make profits, which clearly shows enterprises how to locate the value chain (value system), and make profits. Magretta combines business model innovation and value chain theories together, believing that new models are the adjustment of existing value chain, that is, the innovation of the two basic activities (related to production and sales).

Shafer et al classify the elements of a variety of business model proposed by different scholars by cluster analysis. They find that different business models focus on strategic choice, value networks, value creation and value capture. Therefore, they define business model as enterprise’s strategic choice and the embodiment of core logic to create and obtain value from value network. Although Shafer et al don’t combine business model and Porter’s value theory together explicitly, their essence is to make and choose strategies based on the explicit value network in order to create and obtain value. Therefore, this paper also considers it as a research of business model in the respective of value chain.

Schweizer points out that a successful business model need to the following questions: First, how to locate the position in the value network to create value? Second, where competitive advantages come from that enterprise can protects their profits running away. Third, can the enterprise achieve enough profits finally? Based on Schweizer’s research, Chinese scholar Zeng Chuhong applies value chain theory to the study of business model. He measures business model from three dimensions, which are enterprise location, competitive advantages and the obtained potential profits in value chain or value network. Hence, the concrete business models can fall into four types: focus type, integrated type, coordination type and core type. Zeng points out that the four types tend to evolve regularly with the industrial life cycle.

However, value chain not only exists in the internal development design, purchase of raw materials, production, selling and other value-added process, but also connected with upstream value chain of suppliers, the downstream value chain of channels, and value chain of the customers, forming a whole industrial value chain; the industrial value chain of various stakeholders closely connected with businesses also interweaved, forming a value net (Gulati et al, 2000). Therefore, value chain is everywhere to be seen in economic activities.

5 Conclusion

Basing himself on the research findings of many scholars, the author thus defines business model as follows: business model is a system which set the resources owned by the enterprise and the external constraints as the starting point, position itself from value chain and value network, constantly create and make achievement, establish competitive advantages so as to maintain the existence and development of the enterprise. This definition has several implications, firstly, the resources owned by the enterprise and the external constraints are the basis and starting point of the enterprise’s value chain and value network positioning, since the utilization and development of opportunities can only be realized by combining the resources the enterprise owns and the external constraints. Secondly, the exact positioning of the enterprise in value chain and value network is the basis of constant creating and obtaining of value, and it changes with the industrial environment. Such positioning will change to some extent, in order to adapt to the changes. Thirdly, the constant creating and obtaining of value is the basis of the enterprise’s establishment of competitive advantages. Also, the key to evaluate a business model is whether the enterprise owns competing advantages. Fourthly, business model is a system which keeps the existence and development of an enterprise, including various aspects of the enterprise’s operating management.

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