Communications of the Association for Information Systems

Volume 13 Article 25

March 2004

The Case for Viewing Business Models as Abstractions of Strategy

Peter B. Seddon
The University of Melbourne, peterbseddon@gmail.com

Geoffrey P. Lewis
Melbourne Business School, g.lewis@mbs.edu

Phil Freeman
Swinburne University of Technology, pfreeman@it.swin.edu.au

Graeme Shanks
University of Melbourne, Graeme.Shanks@infotech.monash.edu.au

Recommended Citation
Seddon, Peter B.; Lewis, Geoffrey P.; Freeman, Phil; and Shanks, Graeme (2004) "The Case for Viewing Business Models as Abstractions of Strategy," *Communications of the Association for Information Systems*: Vol. 13 , Article 25.
DOI: 10.17705/1CAIS.01325
Available at: https://aisel.aisnet.org/cais/vol13/iss1/25

Communications of the Association for Information Systems

THE CASE FOR VIEWING BUSINESS MODELS AS ABSTRACTIONS OF STRATEGY

Peter B. Seddon,
The University of Melbourne
p.seddon@unimelb.edu.au

Geoffrey P. Lewis,
Melbourne Business School

Phil Freeman,
Swinburne University of Technology

Graeme Shanks
Monash University

ABSTRACT

This paper examines in detail the meaning of two frequently used terms, namely, "business model" and "strategy". It is argued that as used by leading thinkers these two terms might reasonably be interpreted as being roughly equivalent in meaning. However, we argue that the term "business model" can serve another distinct and potentially useful role. In this role, a business model is viewed as an abstraction of a firm's Porter-1996 strategy. It outlines the essential details of a firm's value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers. However, unlike strategy, business models do not consider a firm's competitive positioning; they potentially apply to many firms. Such abstractions, it is argued, attracted the attention of many researchers because they are useful for evaluating alternative possible future ways of building profitable businesses.

Keywords: strategy, business model, competitive advantage, eBusiness

I. INTRODUCTION

> *"Today, "business model" and "strategy" are among the most sloppily used terms in business; they are often stretched to mean everything—and end up meaning nothing. But as the experience of companies like Dell and Wal-Mart show, these are concepts of enormous practical value." [Magretta 2002, p.8]*
>
> *"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 …" [Porter 2001, p.73]*

The term "business model" has been used with rapidly increasing frequency since the mid-1990s as more and more businesses asked if they, too, can make money using the Internet. A web search using Google in mid-2003 found one million web pages using the term "business model", and 19 million using the closely related term "strategy". However, as Joan Magretta and Michael Porter make clear in the quotations above, although both terms are widely used, they are often poorly defined. Since we, our students, our colleagues, and our business acquaintances use these terms quite frequently, it is frustrating to have to admit that we don't clearly understand the differences between these terms.

A thorough review of the literature, examining leading authors' definitions of both terms shows a lot of overlap between these two terms. Therefore, the initial question one is tempted to ask is: "In terms of the Venn diagrams in Figure 1, which is more correct: A, B, C, D or E?"

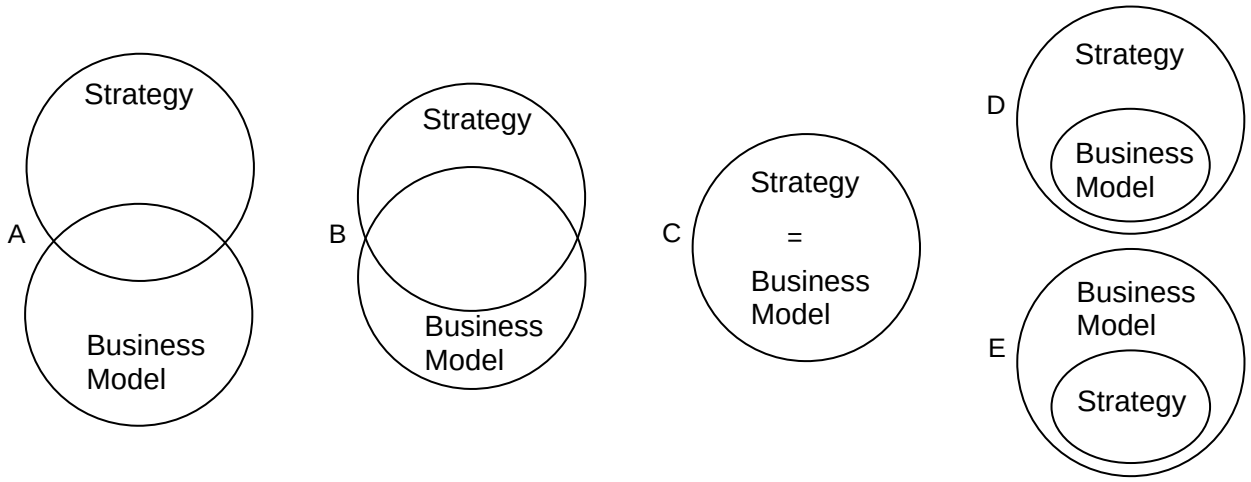


Figure 1. Possible Overlap Between the Concepts "Strategy" and "Business Model

Our purpose in this paper, however, is to argue that the question posed above is not helpful. It is not helpful because the more carefully one compares the sets of concepts discussed by the experts on business models and the experts on strategy, the more one concludes that the two sets of concepts are substantially the same. Yes, there are nuances of difference. Yes, as the terms are commonly used, strategy seems more concerned with competitive positioning, whereas business models are more concerned with the "core logic" [Linder and Cantrell 2000] that enables firms to create value for their customers and owners. In addition, it may be the case that people with an information technology (IT) background tend to use the term "business model" more often than those from a management background (who use "strategy"). But across a broad range of papers, the concept-by-concept mapping[1] is so close that one would feel justified in concluding that business models and strategy are just two sides of the one coin, i.e., that Figure 1C is correct. If this perspective is correct, the term "business model" really adds no value; it should be consigned to the trash-can along with the other "hype" terms of the late 1990s, such as "new economy" and "the internet changes everything".

Although the terms "business model" and "strategy" are quite similar in meaning, particularly if one uses Porter's [1996, 2001] papers to define strategy, it seems to us that there is a possible view of business models, consistent with the usage of many of the experts who have used the

[1] By "concept-by-concept mapping" we mean that when author A says business models are about x, y, and z, one then asks if author B says that strategy is also about x, y, and z. If all concepts match, the situation shown in Figure 1C would describe the relationship between the terms.

term, that is different from strategy, and therefore does add value. Under this view, business models are abstractions of strategy, capturing aspects of individual-firm strategy that can be applied to many firms. Business models are also more inward looking than strategy, focusing more on the activity-system side of how a firm creates economic value, whereas strategy is more outward looking, focusing more on competitive positioning.

This potentially more meaningful view of the relationship between business models and Porter's [1996, 2001] conception of strategy is illustrated in the three-dimensional diagram in Figure 2. In

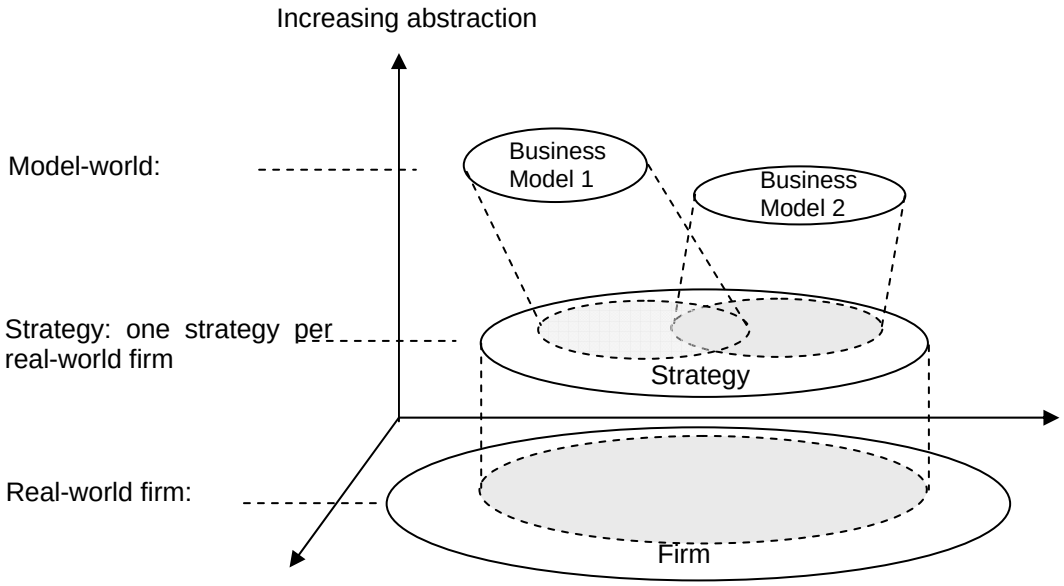


Figure 2. The Relationship Between the Concepts "Business Model", Porter's [1996, 2001] "Strategy", and a Real-World Firm

Figure 2, a vertical axis, labelled "increasing abstraction" is added to the two-dimensional Figure 1, and the Venn-diagram ellipses are drawn in different parallel planes. Our goal in drawing this diagram is to suggest that it might be helpful to view the difference between a business model and a strategy as a difference in the level of abstraction. In words:

> *A business model outlines the essential details of a firm's value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers. If Porter [1996, 2001] is used to define strategy, a business model may be defined as an abstract representation of some aspect of a firm's strategy. However, unlike strategy, business models do not consider a firm's competitive positioning.*

When Figure 2 is presented to our colleagues, they generally ask two questions:

1. "Why view business models as abstractions of strategy?" Our answer is that the concept-by-concept overlap between the concepts "strategy" and "business model"—at least as they are defined and used by leading authors in the two fields—is so great that if the abstraction idea is not adopted, there is no point having two terms. However, if business models are defined as abstractions of strategy, which we show in this paper is consistent with the existing literature, then there is a useful reason for separate terms.

2. "Why is there a one-to-one mapping between a firm and its strategy? Why can't many firms have the same strategy?" Our answer here is that—at least as defined by the latest thinking of the Harvard school of strategy—a firm's strategy is deeply rooted in that particular firm's

competitive environment. When one thinks of, say, Dell's strategy, one is immediately placed in a highly-situated context, with particular competitors, particular customers, particular suppliers, particular ways of assembling, delivering, and charging for computers, particular ways of responding to market changes, and so on. As Porter [1996] points out, all aspects of the business must fit together, to reinforce each other, if the company is to make money. By contrast, the goal of business models—at least as we are proposing it here—is to abstract from much of this detail[2]. By suppressing irrelevant detail, it is possible to say that many firms follow the same business model, or to make high-level comparisons between the models of different firms. It is in this sense of being abstractions from any particular firm's strategy that the concept "business model" can provide a useful extension to the current bundle of concepts associated with the word "strategy".

In Figure 2, the real-world firm is represented by the largest ellipse, and strategy by a smaller ellipse, because many things about a firm are ignored in defining its strategy[3]. Business models are represented by even smaller ellipses, because even fewer details are required to specify a business model than to represent a firm's strategy[4]. Figure 2 also illustrates two business models, representing two different views of the one firm's strategy, because the number of different abstractions that can be build based on one particular firm's strategy is almost limitless. Based on our reading of the literature, one other common feature of business models is that they tend not to consider competitive positioning.

The remainder of this paper is devoted to explaining why it might be useful to view the relationship between business models and strategy shown in Figure 2, with business models focusing on the less competitive aspects of strategy. Although we summarize some of the literature on strategy and business models, our goal is not to do that. Others, e.g., Grant [1996] for strategy, and Pateli [2002] for business models, do a much better job than we do. Our goal is simply to explain why it might be useful to use the term "business model" to mean an abstraction, not specific to any one firm, and "strategy" to mean a particular firm's plan for making a superior return on investment.

II. THE HARVARD SCHOOL'S LATEST CONCEPTUALIZATION OF STRATEGY

In this paper we use Porter's [1996, 2001] conceptualization of strategy as our definition of strategy. Porter's conceptualization is used because it represents the latest and best of the Harvard school's thinking of strategy. By the "Harvard school", we mean the work of a series of thought leaders, including academics and consultants, such as Christensen [Learned et al. 1965], Andrews [1971], Porter [1980, 1985, 1996, 2001], Ghemawat [1991], the Boston Consulting Group, McKinsey and Company, associated with Harvard. We do not argue that the Harvard-school conceptualization of strategy is the only possible interpretation, but we do believe it is a good one. Since our goal is to compare many definitions of "business model" to strategy, adoption of a single, recent, widely accepted definition of strategy, namely that of Porter [1996, 2001], reduces a many-to-many analysis (many definitions of strategy to be compared to many definitions of "business model") to a one-to-many analysis (one definition of strategy to be compared to many definitions of "business model"), which is more manageable in a single paper.

---

[2] The reason for wanting to abstract from the detail is the reason for all abstractions, namely, to draw attention to the factors of interest to the modeler, and to suppress extraneous information.

[3] Of course, a firm with a number of strategic business units (SBUs) would have different strategies for each SBU.

[4] Since business models are defined as a subset of strategy in Figure 2, we are at this point implicitly proposing a Figure 1D definition of the relationship between business models and strategy.

Definitions of strategy other than those of Porter [1996, 2001] might well lead to different conclusions than those drawn in this paper. For example, Porter's [1980] definitions of three generic strategies, namely, cost leadership, differentiation, and focus, are high-level abstractions (i.e., business models, as defined in this paper) that are inconsistent with the definition of strategy used in this paper. We used Porter's latest work in defining strategy for this paper because the Harvard School's understanding of what is important in defining strategy has evolved considerably since 1980.

The evolution of Harvard school's thinking on strategy is depicted in Figure 3. The pairs of arrows numbered 1a&b and 2a&b show two "mutations" in the evolution of the Harvard school's current conceptualization of strategy. As shown at the bottom of Figure 3, the early SWOT conceptualization of strategy—which developed at Harvard in the 1960s—was essentially descriptive. SWOT analysis was both inward and outward looking in that it considered both a firm's internal capabilities (its strengths and weaknesses), and external competitive forces (opportunities and threats). As indicated by the arrows 1a and 1b in Figure 3, in the late 1970s

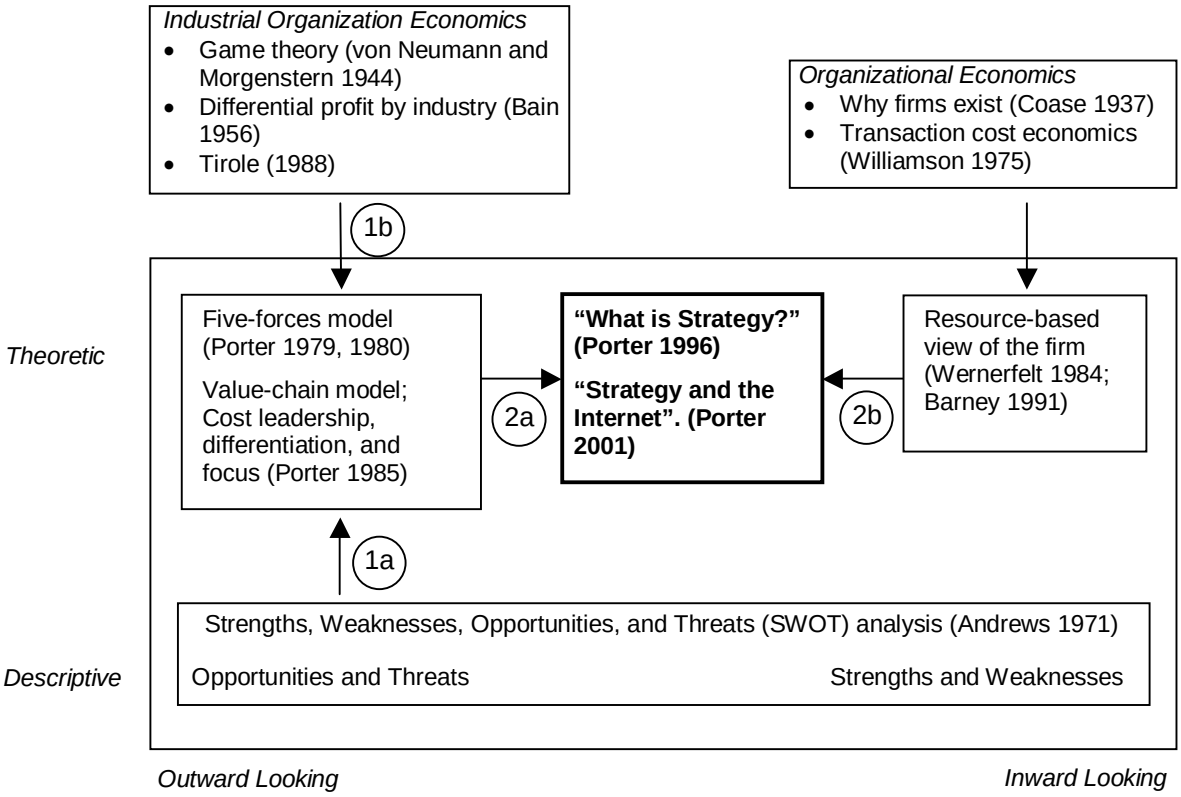


Figure 3. Evolution of "Harvard School" Thinking on Strategy

insights from both SWOT analysis and the Industrial Organization Economics (IOE) literature led Porter to define his five-forces model, and later, his value-chain model [Ghemawat 2002]. In Figure 3, these models are classified as "theoretic" because they provide explanations of why some industries and some firm's strategies are more successful than others.

The forces in Porter's [1979] famous five-forces framework are shown in Figure 4. This model describes the forces governing competition in an industry, not the strategy of an individual firm. Its focus is on the factors that enable different industries to obtain quite different returns on equity (ROE) over long periods, e.g., ROE of 21% for drugs versus 4% for iron and steel in the US during the twenty years 1971-1990 [McGahan 1992].

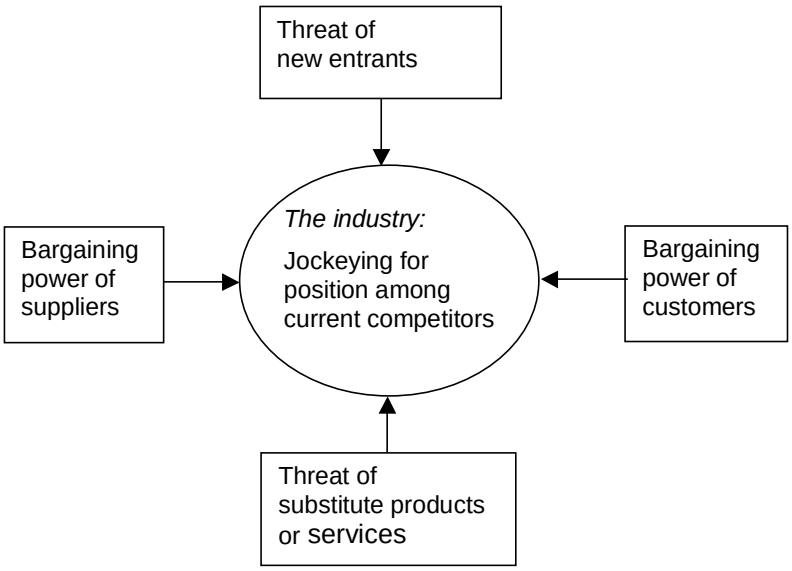


Figure 4. Porter's (1979) Five Forces Model: Forces Governing Competition in an Industry

Because of its focus on industries, not firms, the five-forces model does not, however, explain differing returns for different firms in the one industry. For example, although McGahan [1992] found the US iron and steel industry average annual return on equity was 4% over 20 years, Collis and Ghemawat [1994] found that 20-year returns on assets (ROA) in the steel industry ranged from 13% for Oregon Steel Mills to –2% for Bethlehem Steel.

What explains these large differences in ROA between firms in the same industry? Porter and Millar's [1985] paper begins to answer this question. Their value-chain diagram, the essential structure of which is reproduced in Figure 5 (and which is based, on earlier work at McKinsey and Company) [Ghemawat 2002], shows "nine generic categories" of value-creation activities in a firm's value chain. By this stage in the evolution of conceptualization of strategy, i.e., 1985, the Harvard school was beginning to show an awareness that the internal workings of individual firms could be an important source of competitive advantage, and therefore an important factor to consider in development of firm-level strategy.

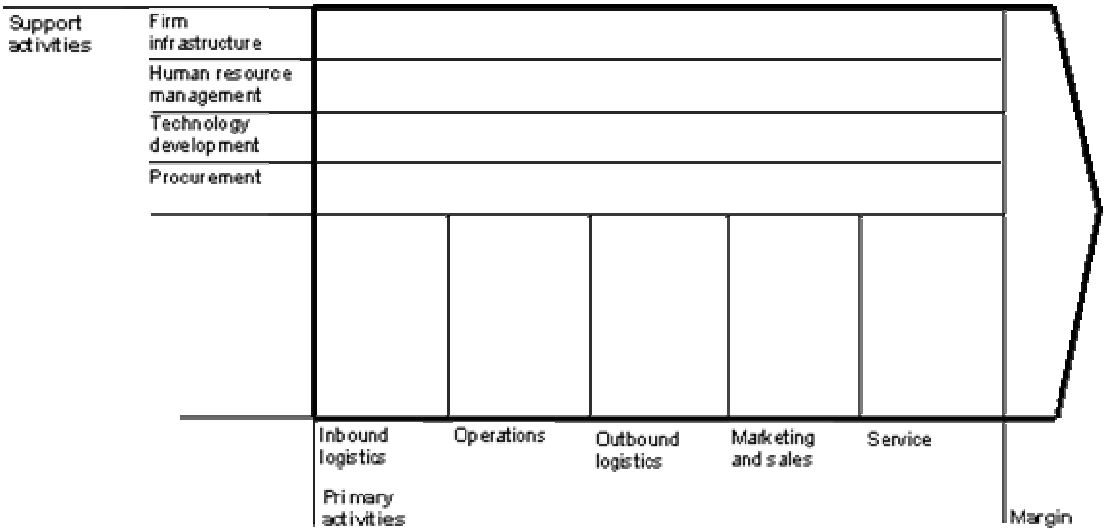


Figure 5. Structure of Porter and Millar's (1985) Value Chain Diagram

Independently of the above stream of literature, another body of literature, that of Organizational Economics [Coase 1937, Williamson 1975] was also developing ideas that were to become important to the Harvard school's current conceptualization of strategy. Ideas from Organizational Economics (OE) led to the development of the resource-based view of the firm [Wernerfelt 1984, Barney 1991], which paid far more attention to the inner workings of firms. The resource-based view of the firm suggests that firms compete based more on their internal capabilities than the market environment and specific products and services [Grant 1991]. The resource-based view of the firm encompasses the notions of core competency [Prahalad and Hamel 1990], organizational learning [Teece et al. 1996], and resource commitment [Ghemawat 1991] as sources of competitive advantage.

Recognizing the strength of OE insights, particularly those of the resource-based view of the firm, led to the second mutation in the Harvard school's conceptualization of strategy. As indicated by arrows 2a and 2b in Figure 3, the school's latest conceptualization of strategy is well represented by Porter [1996] "What is Strategy?" and Porter [2001] "Strategy and the Internet". As indicated by the placement of the 1996-2001 box (in bold in Figure 3), midway between outward looking (competitive positioning) and inward looking (activity system) conceptualizations of strategy, this latest conceptualization is much more firm-specific than Porter's earlier generic thinking on strategy, e.g., cost leadership, differentiation, and focus.

The following eight quotations from Porter [1996, 2001] capture the gist of the Harvard school's latest thinking on strategy. They also provide a reference point for the comparison of business models and strategy in the next section:

1. *"The goal of strategy is to achieve a "superior long-term return on investment." "Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it." [Porter 2001:71]*
2. *"Competitive strategy is about being different." [Porter 1996: 64]*
3. *"Strategy is the creation of a unique and valuable position, involving a different set of activities…. different from rivals" [Porter 1996: 68]*
4. *"Strategy is making tradeoffs in competing" [Porter 1996: 70]*
5. *"Strategy defines how all the elements of what a company does fit together." [Porter 2001:71]*
6. *"Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in different ways." [Porter 1996: 61]*
7. *"Operational effectiveness means performing similar activities better than rivals perform them." [Porter 1996: 62]*
8. *"Strategy involves continuity of direction." [Porter 2001: 71]*

In essence, Porter [1996, 2001] argues that strategy involves defining a company's *long-term position* in the marketplace, making the hard *trade-offs* about what the company will and will not do to provide value to customers, and forging *hard-to-replicate fit* among parts of the *"activity system"* the firm constructs to deliver value to customers, all with a view to making a superior *return on investment*. The five terms in italics are key to this latest Harvard-school conceptualization of strategy. Note that this conceptualization is a much more operational, capabilities-based, and firm-specific view of strategy than high-level, generic view presented in the earlier five-forces and value-chain conceptualizations.

Towards the end of his 1996 paper, as part of a five-page discussion of fit (developing point 5 above), Porter presents a diagram that he calls an "activity system map". Figure 6 shows an example activity system map that we have drawn for a hypothetical online publishing company.

> *"Activity system maps,… show how a company's strategic position is contained in a set of tailored activities designed to deliver it. In companies with a clear strategic position, a number of higher-order strategic themes (in dark purple) can be identified and implemented through clusters of tightly linked activities (in light purple[5])."* [Porter 1996] (p. 71

Activity system maps are so close to what many people call business models that it is not clear how Porter's conceptualization of strategy differs from what others call business models. Given this similarity, it is easy to understand why Porter's [2001] opinion of the business model literature is so poor. However, as discussed below, the "business models as abstractions of strategy" idea advocated in this paper may provide a useful new way of approaching the comparison of business models and strategy.

Summarizing, the definitions of strategy in Porter [1996, 2001] represent the current end point of a fifty-year evolution of thinking on strategy by people who belong to what we term the Harvard school. The current Harvard conceptualization of strategy includes all the prior thinking (e.g., the five-forces model and value chain model) firmly embedded in its DNA. Key points from the current conceptualization are summarized by the eight points listed above and activity system maps like that in Figure 6. As noted earlier, we do not argue that the latest Harvard-school conceptualization of strategy is the only possible interpretation, but it is widely accepted. It is therefore this latest Harvard-school conceptualization of strategy that we use in the next section as our reference when comparing various authors' conceptualizations of "business model" with strategy.

III. BUSINESS MODELS AS ABSTRACTIONS OF PORTER'S CONCEPTUALIZATION OF "STRATEGY"

How do business models compare to Porter's [1996, 2001] definition of strategy? The difficulty in answering this question is that although business models have not been discussed for as long as strategy, so much is already written, from so many different directions, that (as with research on strategy) it is impossible to capture the totality of different views on business models in a single paper.

Given the huge diversity of opinions about various aspects of business models, how is one to decide if business models are different from Porter's [1996, 2001] strategy? Our approach to answering this question is similar to our approach in searching for a definition of strategy. Specifically, we decided to examine in depth a small number of documents that present clear, strongly-argued points of view on business models. Overall, the selected documents are, we believe, broadly representative of much of the literature on business models. From the many possible documents available, the four we selected for this paper are: Magretta [2002], Weill and Vitale [2001], Applegate [2000, 2003] and Linder and Cantrell [2000]. In this section we examine each one in turn. The questions we ask of each document are:

- *How, if at all, is this conceptualization of a business model different than Porter's [1996, 2001] conceptualization of strategy?*
- *Is this document's view of business models consistent with our suggested approach of treating business models as abstractions of Porter's [1996, 2001] conceptualization of strategy (particularly abstractions that are less concerned with competitive positioning than strategy)?*

[5] Dark and light purple are shown as solid and dotted lines, respectively, in Figure 6.

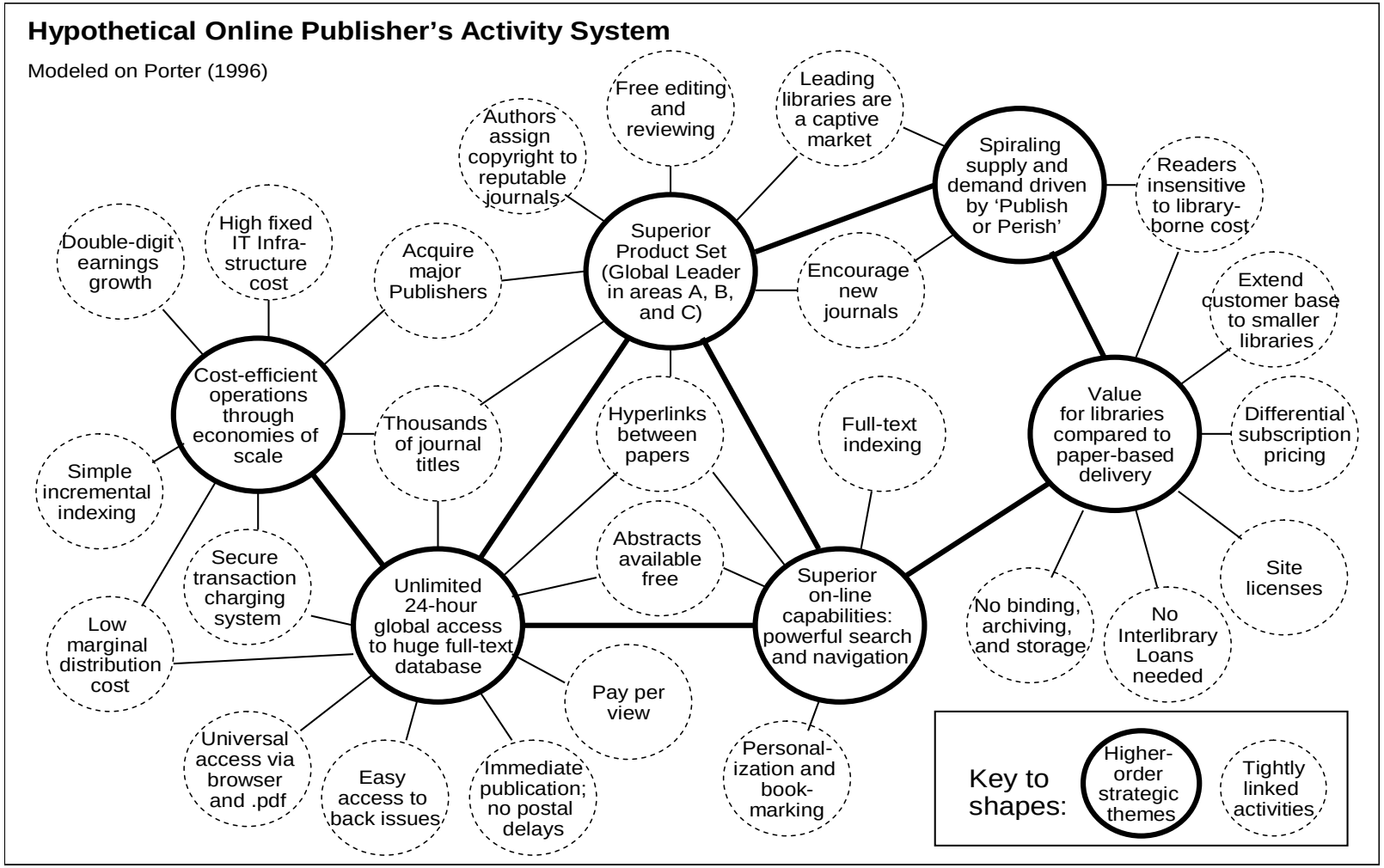


Figure 6. An Example of Porter's [1996, p.73] Activity System Map

MAGRETTA [2002]

Magretta [2002] describes both business models and strategy as being of "enormous practical value". Using examples like the traveller's check business model (which led to the creation of American Express), the Dell Computer business model, and the Wal-Mart business model, she argues that thinking at these high levels of abstraction enables managers to first, conceive, and second, test out, the viability of possible new ways of doing business. Business models:

> *"are, at heart, stories – stories that explain how enterprises work. A good business model answers Peter Drucker's age-old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?"* [Magretta, 2002] *p.92*

Few would disagree that these same questions could be asked of a firm's strategy, which suggests that, for Magretta, business models and strategy are conceptually very similar. But Magretta goes on to say:

> *"But a business model isn't the same thing as strategy, even though many people use the terms interchangeably today. Business models describe, as a system, how the pieces of a business fit together. But they don't factor in one critical dimension of performance: competition. Sooner or later—and it is usually sooner—every enterprise runs into competitors. Dealing with that reality is strategy's job…. A competitive strategy explains how you will do better than your rivals."* (p.94)

The first sentence in this quotation from Magretta [1992, p.94] still does not help. Saying that "business models describe, as a system, how the pieces of a business fit together" is so close to point 5 from the summary of Porter [1996, 2001] in Section II, i.e., "how all the elements of what a company does fit together" as to be indistinguishable. However, Magretta also says that business models do not consider competition. Combining these two ideas, Figure 1D would appear to be the best description of Magretta's view of business models: a business model is a subset of Porter's [1996, 2001] conceptualization of strategy.

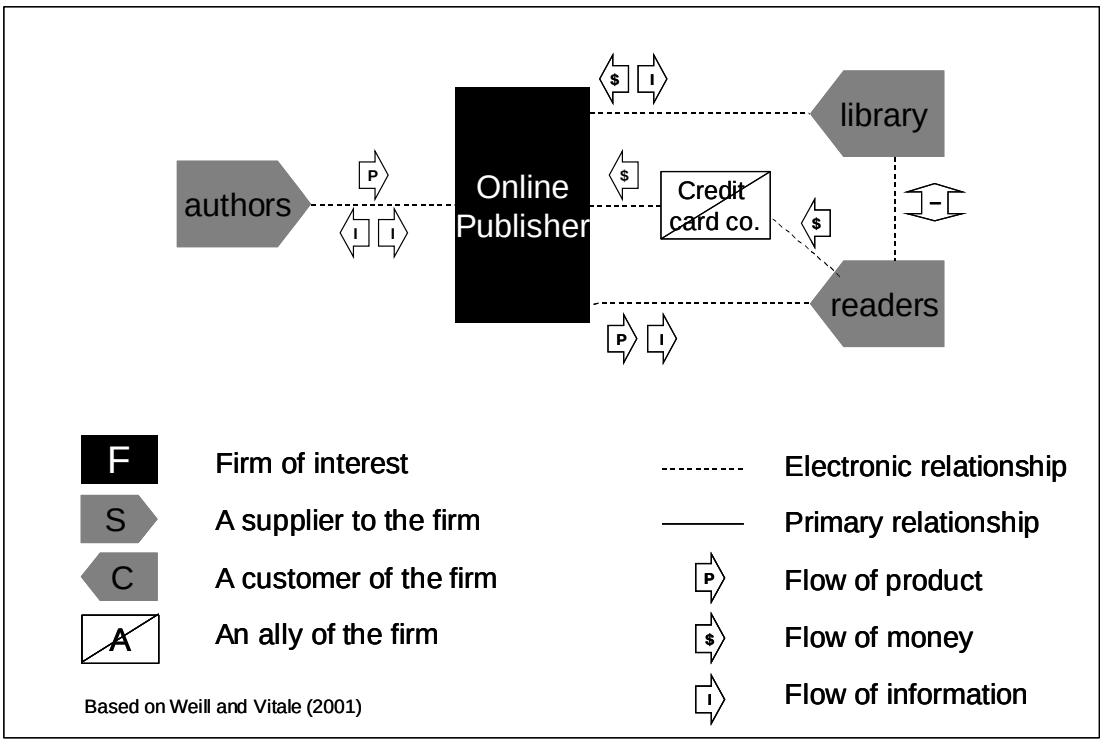
But Figure 2 is also consistent with Magretta. In Figure 2, business models are also subsets of strategy. In the Figure 2 view, one simply chooses not to model the firm's competitive-position information (and possibly many other details as well) in constructing Magretta's interpretation of a business model. For reasons that will become clearer as we work through the next three examples, we believe that Figure 2 is the more helpful view.

WEILL AND VITALE [2001]

Weill and Vitale's [2001] book on eBusiness models presents much more detailed descriptions and examples of business models than most authors. Weill and Vitale explain their eight atomic e-business models using a specially-developed diagramming technique called e-business model schematics, such as the example in Figure 7 (which is a model we have drawn for the online publisher depicted in Figure 6). In their diagrams, Weill and Vitale [2001] focus on stakeholders and product and information flows, but make no mention of strategy. Combining atomic models into molecular models, they suggest, provides a convenient shorthand for quickly considering a wide range of possible e-business opportunities

.

Figure 7. Example e-Business Model Schematic



What is important here is that, consistent with Magretta [2002], neither this definition, nor any of Weill and Vitale's diagrams, make any mention of either strategy or competition. Weill and Vitale focus on the *who* (consumers, customers, allies, suppliers, and of course, the firm's employees and owners) and the *what* (major flows of product, information, and money). Also important is the observation that their business models are not specific to any firm, and are much more process and stakeholder focused than Porter's [1996, 2001] conception of strategy. Clearly, though, strategy is important to Weill and Vitale's [2001] conceptualization of a business model. Evidence for this conclusion is that

> (a) "strategic objectives" appears as a column heading in their key Table 12-3 (pp.265-7), where they summarize and contrast attributes of their eight atomic e-business models, and
>
> (b) they include a three-page section on "E-Business Strategizing" in the subsequent chapter (pp.298-300).

Thus, for Weill and Vitale [2001] one might well conclude that Figure 1A describes the relationship between business models and strategy. In other words, there is some overlap between the terms, but not a lot.

Again, however, we argue that Figure-1 thinking is not helpful. If one steps back from concept-by-concept comparisons, it is apparent that that the whole idea of "atomic business models" is that they can be applied to many different businesses. What Weill and Vitale describe are abstractions, not the strategies of any particular real firm. Therefore, we argue, Figure 2 is a more helpful way of viewing Weill and Vitale's conceptualization of the relationship between business model and strategy than any diagram in Figure 1.

APPLEGATE [2000,2003]

Applegate's work provides two different descriptions of the term "business model". In her 2000 chapter, Applegate [2000] asks "What is a model?". She answers by saying that in the world of business a model is:

> *"A description of a complex business that enables study of its structure, the relationships among structural elements, and how it will respond in the real world."* [Applegate 2000] p. 53

She then goes on to say that one of the properties of models is that they

> *"can be built before the real system to help predict how the system might respond if we change the structure, relationships, and assumptions."* [Applegate, 2000] p. 53.

These two sentences make it clear that for Applegate [2000], a business model is just that, a model. Although she does not discuss how business models compare to strategy, her view here is clearly more consistent with our Figure 2 than any of the possibilities in Figure 1.

However, the preceding distinction between model and strategy is not as clear in Applegate et al. [2003]. In their 32-page Chapter 2, "Crafting Business Models", six tables contain many detailed examples of different business models—focused distributor business models (e.g., retailer, marketplace, aggregator, infomediary, exchange), portal business models (e.g., horizontal, vertical, and affinity portals), producer business models (e.g., manufacturers, service providers, educators, advisors, information and news services, producer portals)—plus examples of actual companies that have used each business model. For example, eBay.com and Freemarkets.com are firms using what Applegate et al. describe as the "Exchange" "focused distributor" business model.

The common characteristics of all these Applegate et al. [2003] models are summarized in their Figure 2.1 (p.47), which describes a business model as having three components:

- the *concept*, which "describes the opportunity and strategy";
- *capabilities*, which "define resources necessary to execute strategy";
- the *value proposition*, which explains "the benefits to investors and other stakeholders".

Note that the notion of business model, as model, is absent from these component descriptions. Note also that in a concept-by-concept comparison, little distinguishes Applegate et al.'s [2003] "business model" from Porter's [1996, 2001] "strategy". In fact, the two definitions correspond so closely that we seem to have a Figure 1C situation.

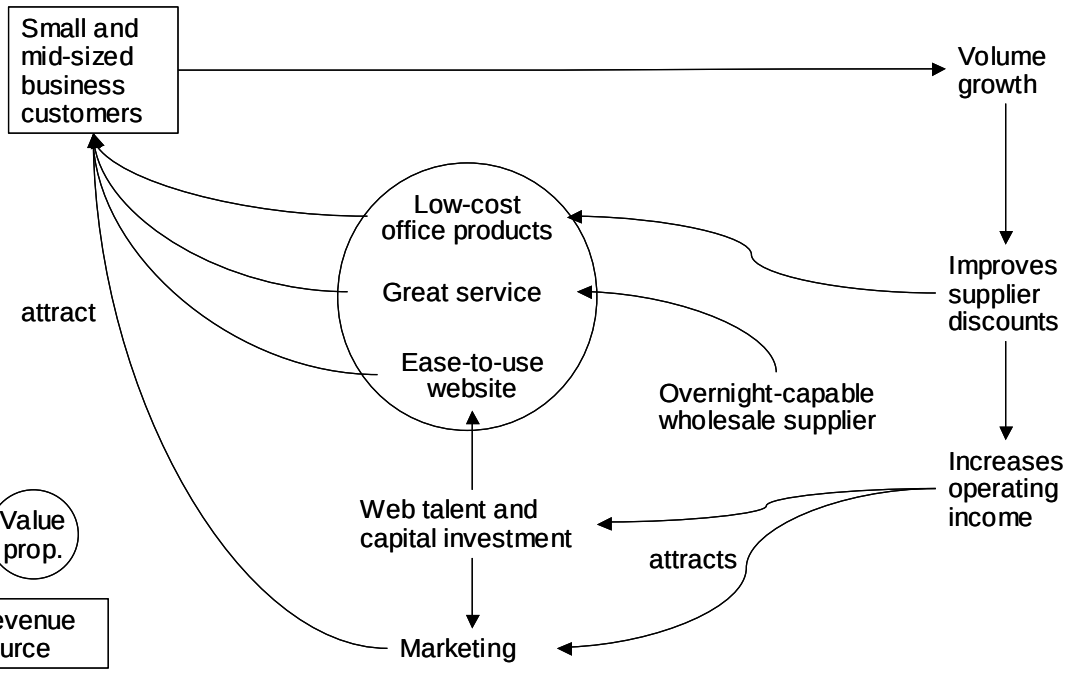
Again, however, we argue that the concept-by-concept approach to understanding the relationship between business model and strategy, as depicted in Figure 1, is not helpful. Rather, Figure 2 provides a much more helpful perspective. From a Figure 2 perspective, the close correspondence between Applegate's definition of "business model" and Porter's definition of "strategy" is because one is just an abstraction of the other. What Applegate et al.'s [2003] tables provide are groups of abstractions of various organizations' core logics for creating value [Linder and Cantrell 2000]. We know from data modeling [Simsion, 2000] that hierarchies of abstractions are always linked by the term "is-a" relationship. For example, a researcher is-a person, and a person is-a living thing. Similarly, in Applegate's example of eBay above, the business model of eBay.com is-a Exchange business model, which in turn, is-a "Focused Distributor" business model. These is-a relationships are simply signals of increasing levels of abstraction.

LINDER AND CANTRELL [2000]

> *"When people say 'business model', they're really talking about three different kinds of things: components of business models, real operating business models, and what we call change models."*
>
> *"Operating business models are the real thing. An operating business model is the organization's core logic for creating value. The business model of a profit-oriented enterprise explains how it makes money."* Linder and Cantrell [2000]

An example of one of Linder and Cantrell's [2000] "operating business models" is shown in Figure 8, where the oval identifies the value proposition, and the rectangle identifies the revenue source. The similarity between Figure 8 and Porter's [1996] activity system maps (Figure 6) is striking. It seems that Linder and Cantrell's [2000] business models are little different than Porter's [1996] strategy, i.e., we have a Figure 1C situation! But a more thorough reading of Linder and Cantrell [2000] shows that they, too, are looking for common patterns. Their pricing models, experience models, and channel models, etc. are, like Weill and Vitale's [2001] atomic business models, components of various ways of doing business. It is therefore valid to view Linder and Cantrell's [2000] business models as abstractions of what Porter [1996, 2001] calls strategy. Figure 8 is simply drawn at a very similar level of abstraction to one of Porter's activity system maps.

SupplyGenie.com Operating Business Model



Linder and Cantrell [2000]

Figure 8. Operating Business Model for Supply Genie.com

Summarizing, provided one accepts Porter [1996, 2001] as the definition of strategy, all four examples in this section are compatible with the idea that a business model is an abstract representation of some part of a firm's strategy. Some authors' business models are more abstract than others, and most are not much concerned with competitive positioning, but all can be viewed as abstractions from what Porter [1996, 2001] calls strategy.

IV. CONCLUSION

The terms "business model" and "strategy" are being used by millions of people but definitions of these terms are fuzzy. If one

> (a) accepts Porter's [1996, 2001] definition of strategy as the most up-to-date and theoretically-justified product of 50 years of thinking from the Harvard school of strategy, then

(b) compares definitions of "business model" from a broad cross-section of the literature with Porter's conceptualization of strategy,

it is really quite hard, from a Figure-1 perspective, to distinguish between the terms. Porter's [2001: 73] condemnation of the term "business model", quoted in the Introduction, suggests that he, too, came to the same conclusion.

However, there is an alternative view of business models that makes the term different than Porter's [1996, 2001] definition of strategy, and therefore useful. Under this alterative view, business models are viewed as abstract representations of some aspects of various firms' strategy, as depicted in Figure 2. To understand Figure 2, one has to accept that a firm's strategy is unique to that firm because it is always firmly anchored in its own particular competitive environment. By contrast, a business model can then be conceived as an abstraction of a firm's strategy that applies to more than one firm. In addition, and consistent with Magretta [2002], most business models are more focused on how businesses create value, whereas strategy is more focused on competitive positioning.

These arguments are summed up in the following definition:

> *A business model outlines the essential details of a firm's value proposition for its various stakeholders and the activity system the firm uses to create and deliver value to its customers. If Porter [1996, 2001] is used to define strategy, a business model may be defined as an abstract representation of some aspect of a firm's strategy. However, unlike strategy, business models do not consider a firm's competitive positioning.*

Editor's Note: This article was fully peer reviewed. It was received on August 24, 2003 and published on April 25, 2004.

REFERENCES

EDITOR'S NOTE: The following reference list contains the address of World Wide Web pages. Readers who have the ability to access the Web directly from their computer or are reading the paper on the Web, can gain direct access to these references. Readers are warned, however, that

1. these links existed as of the date of publication but are not guaranteed to be working thereafter.
2. the contents of Web pages may change over time. Where version information is provided in the References, different versions may not contain the information or the conclusions referenced.
3. the authors of the Web pages, not CAIS, are responsible for the accuracy of their content.
4. the author of this article, not CAIS, is responsible for the accuracy of the URL and version information.

Andrews, K.R. (1971). *The Concept of Corporate Strategy*, Homewood, ILL: Dow Jones-Irwin.

Applegate, L.M. (2000). E-Business Models: Making sense of the internet business landscape, in Dickson, G. and DeSanctis, G. (eds.) *Information Technology and the Future Enterprise, New Models for Managers,* NJ.: Prentice-Hall (49-101).

Applegate, L.M., Austin, R.D, and McFarlan, F.W. (2003). *Corporate Information Strategy and Management: Text and Cases*, 6th edition, New York: McGraw-Hill Irwin

Bain, J.S. (1956). *Barriers to New Competition,* Cambridge, Mass: Harvard University Press

Barney, J.B. (1991). Firm Resources and Sustained Competitive Advantage, *Journal of Management* (17)1, pp. 99-120.

Coase, R.H. (1937). The Nature of the Firm. *Econometrica* (4) 386-405.

Collis, D. and Ghemawat, P. (1994). Industry Analysis: Understanding Industry Structure and Dynamics, in Fahey, L. and Randall, R.M., eds., *The Portable MBA in Strategy,* New York: John Wiley and Sons, 1994.

Ghemawat, P. (1991). *Commitment: The Dynamic of Strategy*, New York: The Free Press

Ghemawat, P. (2002). Competition and Business Strategy in Historical Perspective. *Business History Review* (76) Spring pp.37-74. http://www.hbs.edu/bhr /PDF/760102.pdf (viewed April 2004)

Gordijn, J. and Akkermans, H. (2001) Designing and Evaluating E-Business Models, *IEEE Intelligent Systems* (16)4 July-August, pp. 11-17.

Grant, R. M. (1991). The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation. *California Management Review* (33)3, pp. 114-135.

Grant, R.M. (1996). *Contemporary Strategy Analysis: Concepts, Techniques, Applications*. 3rd edition, Cambridge: Blackwell Publishers.

Learned, E.P., Christensen, C.R. Andrews, K.R. and Guth, WD. (1965). *Business Policy: Text and Cases*, Homewood,ILL: Irwin

Linder, J.C. and Cantrell, S. (2000). *Changing Business Models: Surveying the Landscape*, Institute for Strategic Change, Accenture. May 24 http://www.accenture.com/xd/xd.asp?it=enweb&xd=_ins\researchreportabstract_47.xml (viewed April 2004)

Magretta, J. (2002) Why Business Models Matter, *Harvard Business Review* (80)5 May, pp. 3-8

McGahan, A.M. (1992). Selected Profitability Data on U.S. Industries and Companies, Boston, MA: *Harvard Business School Publishing*, No.792-066

Osterwalder, A. and Pigneur, Y. (2002). An e-Business Model Ontology for Modeling e-Business, *Proceedings of the Bled Electronic Commerce Conference 2002*, Bled, Slovenia

Pateli, A. (2002). *A Domain Area Report on Business Models*, Athens, Greece: Athens University of Economics and Business, http://www.eltrun.aueb.gr/ whitepapers/ ada_2002.pdf (viewed April 2004)

Porter, M.E. (1979). How Competitive Forces Shape Strategy *Harvard Business Review,* (57)2, pp. 137-145

Porter, M.E. (1980). *Competitive Strategy*, New York: Free Press.

Porter, M.E. and Millar, V.E. (1985). How Information Gives You Competitive Advantage. *Harvard Business Review* (63)4 pp. 149-160

Porter, M.E. (1996). What is Strategy? *Harvard Business Review* (74)6, pp. 61-78.

Porter, M.E. (2001). Strategy and the Internet, *Harvard Business Review*, (79)3 pp. 63-78

Prahalad, C.K., and Hamel, G. (1990). The Core Competence of the Corporation, *Harvard Business Review* (68)3, May-June pp. 79-91.

Simsion, G. (2000). *Data Modeling Essentials 2nd Edition: A Comprehensive Guide to Data Analysis, Design, and Innovation*, Scottsdale, AZ: Coriolis Technology Press

Teece, D.J., Pisano, G. and Shuen, A. (1992). Dynamic Capabilities and Strategic Management, *Strategic Management Journal*, (18)7 pp. 509-533.

Timmers, P. (1998) Business Models for Electronic Markets, *Journal on Electronic Markets*, 8(2) pp. 3-8.

Tirole, J. (1988). *The Theory of Industrial Organization*, Cambridge, MA: MIT Press

von Neumann, J. and Morgenstern, O. (1944). *Theory of Games and Economic Behavior*, Princeton, NJ: Princeton University Press

Weill, P. and Vitale, M.R. (2001) *Place to Space: Migrating to eBusiness Models*, Boston, MA: Harvard Business School Press.

Wernerfelt, B. (1984). A Resource-Based View of the Firm. *Strategic Management Journal*. (5)2 pp. 171-180.

Williamson, O.E. (1975). *Markets and Hierarchies*, New York: The Free Press.

ABOUT THE AUTHORS

Peter Seddon is Associate Professor in the Department of Information Systems at The University of Melbourne, Australia. His teaching and research interests focus on helping people and organizations gain greater benefits from the use of Information Technology. His major publications are in the areas of Evaluation of Information Systems success, Packaged Enterprise Application Software, IT Outsourcing, and Accounting Information Systems. Peter is an Associate

Editor for Communications of the AIS and the Journal of Information Technology, and recently retired as an Associate Editor for Management Information Systems Quarterly.

Geoffrey Lewis is Professorial Fellow at The Melbourne Business School, The University of Melbourne. After completing a PhD at the London Business School, Geoff joined the faculty at the International Management Institute–Geneva. Three years later, he returned to Australia and joined the faculty of Melbourne Business School. In 1988 Geoff joined the faculty at the Darden School, where he taught strategy in the MBA program and executive education courses. In 1992, he returned to Australia to take up his position at Melbourne Business School where he teaches Business Strategy and Corporate Strategy. Geoff returned to the Darden School as Visiting Professor during 2000-2002.

Phillip Freeman is Senior Lecturer at Swinburne University, Melbourne, Australia. Phillip has over 20 years experience consulting and working in the IT industry. Prior to joining Swinburne, Phillip was the e-business principal for the IBM Consulting Group and IT strategy competency leader for IBM and IBM Global Services in Australia. In these roles Phillip assisted many global and local corporations develop and implement their IT strategies and solutions to achieve value from their IT investment. Phillip also held senior IT technical and product management positions servicing clients both within and outside Australia.

Graeme Shanks is Professor in the School of Business Systems at Monash University, Australia. He previously held academic positions at the University of Melbourne and Chisholm Institute of Technology. Before becoming an academic, Graeme worked for a number of private and government organizations as a programmer, systems analysts and project leader. His teaching and research interests include information quality, conceptual modelling, implementation and impact of enterprise systems, and decision support systems. Graeme's research publications appear in over 100 refereed journal and conference papers. He is on the editorial boards of several journals, a member of the College of Experts of the Australian Research Council, and a Fellow of the Australian Computer Society.

Communications of the Association for Information Systems

ISSN: 1529-3181