

Chapter 2.4

The Role of Business Models in Developing Business Networks

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ABSTRACT

Business models have received a substantial amount of interest recently. Also, various research studies have discussed business models, especially in the context of a single company operating in mass markets. Unfortunately, these models often are not applicable for complex products or services that build on long-term knowledge about customer tastes, facilities, and skills. Especially on global markets, the asset specificity and vast geographical distances make it difficult for any single company to provide this kind of service cost-efficiently on a large scale. Instead, it calls for cooperation among multiple firms. Creation of a joint business model for a collaborative network is a necessary means by which companies can coordinate cooperation in practice. The CSOFT metamodel proposed in

this chapter provides guidance for joint business model development by emphasizing customer relationship and adjustment processes needed within the network.

INTRODUCTION

Business models have recently been a hot topic. Since the end of 1990s, there has been a vivid research stream proposing differing definitions, lists of components, taxonomies, change methodologies and evaluation models for business models (Bouwman, 2003; eFactors, 2002; Faber et al., 2003; Osterwalder & Pigneur, 2002). In essence, the topics discussed in the business model literature are not new; the components of business models have been recognized, at least to

some extent, in business strategies and business planning for decades. But the need for explicit analysis and description of the business model has become more inevitable as the introduction of information and communication technology has enabled completely new ways of making business.

To synthesize, a business model to tell us how strategy is implemented by describing, for example, its product, infrastructure, financials, technology, and customers and their relationships: “A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit & Zott, 2001, p. 493). In addition, this implementation is related to its upstream and downstream business environments.

Most often, business networks are formed in order to make the existing supply chains more efficient (Van de Ven, 1976). However, the networks between partners and even competitors also can be seen as not only a means of cutting costs, but also as a source for new innovative business ideas, where the network provides the customer with more added value than if the companies were operating independently (Nalebuff & Brandenburger, 1996).

In these business networks, independent companies form consortiums or alliances in order to jointly serve customers with new offering and even to jointly develop the underlying business models. This calls for reconsideration of each component of the business model, especially the revenue sharing and roles of each participant. The new business models, therefore, must describe in sufficient detail the value created to the customer and the income generated to each participant. In addition, each partner’s role in producing the output has to be explicit.

The most prominent examples are found in mobile and Internet businesses, where telecom operators aim at producing by themselves a very wide range of services and content. However, the operators soon find out that they cannot compete

with specialized and established media houses in content production. The media houses have similar plans to find a direct access for their content in the Internet by circumventing the middlemen. In both cases, there have been a number of failed business models. The success stories, however, have been networks of operators and content/service providers, where some of the parties moved to the middle of their value chain (Clemons et al., 1993). For example, the Japanese operator, NTT DoCoMo’s i-mode product successfully mediates the output of a network of content providers to customers and serves as a good example of the possibilities of win-win business models in networks (Saarinen et al., 2002).

Building upon Faber et al. (2003) and Osterwalder and Pigneur (2002), we propose a metamodel for joint business model development that differs from the previously mentioned models in that it considers joint produced services that require long-term relationships. This puts an emphasis on the customer relationship and adjustment processes needed within the network to enable the joint service concept in the first place. The metamodel starts with the definition of ontology, defining the most important factors in the joint business model (i.e., customer relationship, service, organization of the network, finance, and technology). It then guides the analysis, negotiations, and change processes needed and points out customer- and case-specific limitations affecting the business model. Finally, by taking into account the limitations of the network, we end up with a feasible, networked business model.

THE TRADITIONAL VIEW OF BUSINESS MODELS

Traditionally, a company’s business is built on strategy, which is typically reflected at operations-level business plans for specific products or product groups. However, there often is quite a substantial gap between these two levels. In

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