

## PROBLEMS OF EFFECTIVE ENTERPRISE'S BUSINESS MODEL DEVELOPING IN CURRENT MARKET CONDITIONS

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The concepts of a business model and an innovation business model are specified. The factors that influence business models development in current market conditions are examined. The main approaches to effective innovation business model elements classification are analyzed. The basic components that ensure success of innovation business models in modern dynamic markets are determined.

**Key words:** business model, innovation business model, proposition of value, key resources, key processes, profit model.

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## ПРОБЛЕМИ РОЗРОБЛЕННЯ ЕФЕКТИВНОЇ БІЗНЕС-МОДЕЛІ ПІДПРИЄМСТВА У СУЧАСНИХ РИНКОВИХ УМОВАХ

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Уточнено поняття бізнес-моделі та інноваційної бізнес-моделі. Досліджено чинники, що впливають на розроблення бізнес-моделей у сучасних ринкових умовах. Проаналізовано основні підходи до класифікації елементів ефективною інноваційної бізнес-моделі. Виокремлено базові складові, що забезпечують успішне функціонування бізнес-моделей в умовах сучасних динамічних ринків.

**Ключові слова:** бізнес-модель, інноваційна бізнес-модель, пропозиція цінності, ключові ресурси, ключові процеси, модель прибутку.

### Statement of the problem

Competition exasperation, changes in consumer behavior, increased availability of information resources, information and communication technologies development and the risks' level growth we observe today, cause the usual market impact and profit models change. Stable long-term competitive advantage creation under the influence of these factors is the exception rather than the rule. Today market leader's competitive advantage in most cases is replicated by followers throughout the year. Market introduction of the new, yesterday unknown player who makes the market leaders change work practices, review the structure of the value propositions for consumers etc., has become common in many industries. This phenomenon, american scientists Adrian Slyvotsky and David Morris called the value migration. Namely, the traditional methods of doing business obsolescence is accelerating the value migration from old to new business models, designed in accordance with the requirements of time so as to provide maximum value to customers and the company's profit.

According to a study conducted by a group of Economist Intelligence Unit, 50 % of CEOs of leading companies in the world believes that the prosperity of the company's innovative business model is more important than innovative products or services. Survey conducted by IBM demonstrates similar results [1]. Almost all respondents expressed the need for adjusting business models to reflect the new conditions. In today's business environment leading companies consider business models as an important factor in achieving competitive advantage in rapidly changing conditions. That actualizes the subject of this article.

### **Analysis of recent research and publications**

Studies related to the delineation of the concept of business models, features of their development and operation, in scientific literature has started relatively recently – in the 90<sup>th</sup> years of the twentieth century. However, to date these researches have proliferated. According to A. Ostervald's research [2, p.100 – 101], the number of scientific papers on the topic of business models in the early twenty-first century magnitude more three orders the number of publications in the mid-90<sup>th</sup> of XX century. Such a rapid interest growth to the matters, relating to business models, indicates the relevance of the problem.

Today, extremely large number of publications are dedicated to problems of business models definition and development. Among them such influential works as papers of A. Slyvotsky [3], M. Johnson, K. Christensen [4] G. Hamel, A. Ostervald [1], V.N. Kotyelnykov, V.D. Markova [5] should be mentioned. Despite the large number of studies of this issue in scientific literature, still no single approach to the concept of business models interpretation and the components that ensure the successful operation of the business model in the current market conditions determination. Clarification of these issues the paper will be devoted.

### **The formulation of objectives**

The objectives of this study is to clarify the concepts of business model and innovation business model, to identify factors that influence the development of business models in the current conditions and the determination of components that ensure innovation business model successful operation in modern dynamic markets.

### **Presentation of main materials**

The scientific literature does not have a unified approach to the definition of the business model. In popular business literature as this concept understood some analytical technique that gives an opportunity to understand the processes by which companies manage to make profits. A. Slywotzky defines business model as how the company chooses the consumer, defines and differentiates its offer, allocates resources, determines which tasks it can perform on their own and for which will have to involve experts from the outside, enters the market, creates value for the consumer and receives income as the result of those operations [1]. According to A. Ostervald [5, p.160], a business model describes how an organization creates and delivers economic, social or other values. V. Kotelnykov [1] defines a business model as a method of sustainable business which converts raw data – the resources, competences and innovation – in economic performance.

The above definitions serve as proof that all the existing definition of “business model” can be generalized in two main approaches. As stated in [2, p. 101–102], the first approach (the so-called “Value-oriented approach”) – focused on the process of value creation for consumers and the enterprise. This approach describes the business model as a process of creation and delivery of value to customers and acquisition cost of the organization (economic, social, etc.) through this process. The second approach (the so-called “Cost-oriented approach”) defines a business model as a method of doing business by which a company can secure the effective operation, namely to generate income. However, analysis of currently successful business models of existing enterprises and their components shows the need to integrate the above approaches. For a definition of the term “business model” in the paper we'll use the definition, which combines both approaches. This definition is proposed by N.V. Revutska [5, p.150]. Business model is a combination of elements that characterize fundamentally different from competitors logic of its operation on the basis of the core competencies to maximize the strategic allocation of resources in business processes in order to create a product (service) that meets the consumers priorities.

Of course, over time, any business model needs to be revised. It used to be that any approach in the business after 20 – 30 years of its application loses its relevance [6, p. 25]. Today analysts [7] noted a dramatic decline in the period 's of most successful business models profitable functioning. A vivid illustration of this trend is the change in position of Dell in the marketplace. In its early days the company has offered extremely effective at that time business model in their field: the use of direct distribution and individualization in selecting the final product. Through the Internet consumers could request a computer's configuration to match their individual needs. Today computers' parameters do not have special meaning

for the consumer. Most modern computers successfully cope with any tasks, and direct distribution via the Internet has lost its popularity. The world has changed so that competitive advantage Dell has ceased to represent the highest level of value to the customer and the company became a par with conventional market players. In the online business processes of business models obsolescence occur rapidly. With that faced such a successful companies in due time as AOL, Yahoo! and others.

However, a timely review of the functioning business model is able to provide the company a long and profitable life. An example of this is the company Google, which has become a leader in the online advertising offers based on a simple and effective web search. Today, the company is actively looking for new ways to monetize online services, always offering customers new communication services. In other words, Google is looking for ways to modernize the existing business model or to create the basis for the fundamentally new business model development, despite the fact that the main source of it's income (search engine) is currently dominating the market.

It should be noted that the new business model is not just some organizational innovation. In modern terms an innovative business models are becoming a major source of the value and competitiveness of businesses growth. In this business model may serve as integrating innovation that combines (in various combinations) innovation processes (technology), products and methods of business organization. Innovative business model – it's not just the way of factors in the value chain of an innovative product combination, but also innovative approaches to the development of existing products as well as innovative approaches to product selling. Innovative business models involve the use of radical and open innovation. Traditional ways of innovation emergence (as a result of scientific discovery and/or understanding of consumer needs) are now supplemented with the opportunities of demand management and consumer's needs modeling. Innovative competition is enhancing in almost all industries. It can be argued, that the identification and application of different forms of innovation is imperative to some extent the structure of the strategy, as well as operations management in XXI century [1].

The change of traditional and the emergence of innovative business models is particularly conducted with the development of the Internet. The Internet allows companies to shape their competitive strategy on the basis of partnership with consumers, to dialogue with them, to discuss new products and services and so on. Value migration within the business sector also contributes to the pursuit of the leading companies around the world to change existing business models and the emergence of new competitive strategies.

Building an effective business model innovation requires identifying its components. Indeed, the unique way in which these elements are combined, creating value for both the consumer and the enterprise, is the essence of competitive advantage.

According to A. Ostervald [8], a successful business model should combine customer segments, the proposed benefits, distribution channels, customer relationships, flows, key resources, the main activity of the company, partner network and cost structure.

According to A. Slywotzky [3, p. 90] the elements of successful innovative business models include: customers choice, unique proposition of value, profit model and strategic control.

B. Kotyelnikov [5, p. 161] offers the following components of innovative business model: the proposition of value, the structure of the value chain model, profit model, growth strategy, competitive strategy, market segment, innovation.

S. Finkelstein, Ch. Harvey and T. Lotton [9, p. 223] to the components of successful innovative business models include value, innovation, reliability, relationships, distribution channels and brand.

According to the approaches of different authors the list of components varies. Many of the proposed components can be generalized. Depending on the sector, for which the business model will be developed, its components will also change. However, we believe it is necessary to distinguish the basic components that make up the foundation of any successful business model, regardless the industry it's created for, able to serve as the starting point of the process of developing a new business model.

The approaches of different authors to determination of successful innovative business models components (some of them are given above) shows that the process of new business model development begins with the creation of value propositions for consumers. This component is critical to the successful implementation of business models in the market. There is no conflict in the second mandatory component

of effective business model identification – a reasonable mechanism for profit obtaining. As providing an appropriate level of profitability is the goal of developing a new business model. The remaining components of the business model may vary, depending on the impact of various factors. For example, in the business to consumer market brand will play an important role while in the business to business market – rather a network of partners will. Therefore, all the variety of offered successful business model elements should be combined into meaningful homogeneous blocks, within which one can choose the appropriate modification of the component depending on the requirements of the environment. Among the analyzed classifications of a successful business model components, best suited to requirement formulated above is one offered by M. Jonson and K. Krystensen [4, p. 21], which we propose to use as the base while developing new business model. List and the content of the successful business model elements in accordance with this approach is shown in Figure 1.

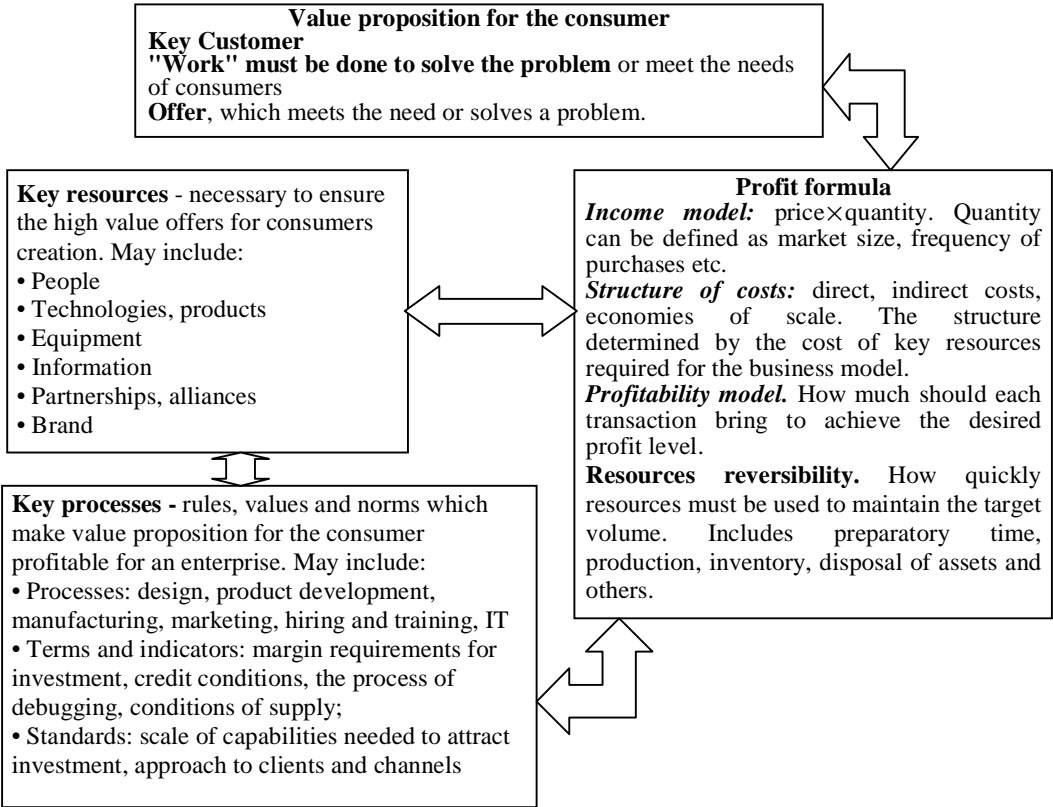


Fig. 1. Elements of a successful business model  
 Source: [4, p. 21]

Restrict in the process business model developing with only on two key components: the proposition of value and the profit model, which tend to advocates of “Value-oriented approach” described above, is not enough. Companies opportunities to create value for consumers is largely determined by its existing resources and competencies that help enhance the value of the offer or restrict that possibility, holding company of the transition to the new business model. A situation where a large number of resources limits the progress of the enterprise is usual especially for large companies. To illustrate the role that the availability of resources and the company’s ability to control key processes of value creation play in the development of an effective business model, we present a comparison of business models of companies Apple and Nokia in the segment of mobile phones [6, p. 25]. Apple uses a single phone model – iPhone, variations of which are in constant software updates. In contrast, Nokia is changing the product itself and constantly expanding range of phones. Apple’s advantage is no need of domestic production – it just orders a large consignment of outsourcers. Nokia has its own production facilities and only a third of its products are made according to the scheme of outsourcing. Losing market share, Nokia starts to refuse service contractor and tries to upload their own capacities totally. Thus the constant expansion of the model range

is not a marketing solution of the company. It is a necessity dictated by the features of the company's business model, within which a crucial role is played by the scale of investment in one's own production.

Thus, a new business model developing process is advisable to start relying on those of its basic elements: an offer that has a high value to the consumer, key resources and processes that the company have to combine to create value and profit model. The unique way in which these elements are combined, creating value for both the consumer and the enterprise, are the source of competitive advantage, which is difficult to for competitors to copy in today's turbulent market conditions.

### Conclusions

The rising popularity of business modeling today is coursed by increasing dynamics, complexity and difficulty of the company's environment. Long-term projections are increasingly giving wrong results, which reduces the effectiveness of strategic planning. Instead of having to act according to carefully developed strategic plan, the world's leading companies are moving to a rapid response to changes in external factors in accordance with the strategic guidelines of the company. Today the business models of enterprises require constant revision and update, as there is a rapid reduction in the period of their profitable operation. The practice of leading companies in the world shows that the search for ways to modernize the existing business model or basis for the development fundamentally new one is advisable to start at the peak yield of current business model. Building an effective innovation business model requires identifying its components. Successful companies business model analysis same as a number of scientific approaches to successful innovative business model components determination analysis show that the new business model developing is advisable to start relying on those of its basic elements: an offer that has a high value to the consumer, the key resources and processes that the company have to be combined to create value and profit model. The unique way in which these elements are combined, creating value for both the consumer and the enterprise is a source of competitive advantage, which is difficult to for competitors to copy in today's turbulent market conditions.

### Prospects for future research

At the same time approaches to the mechanisms of interaction between the elements of a business model, that can take into account a wide range of constantly changing environmental factors, construction remain poorly investigated. This will be the subject of further research of the authors.

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