

BUSINESS MODEL DIMENSIONS AND THEIR IMPACT ON COMPANY

DIMENSIUNILE MODELULUI DE AFACERE ȘI IMPACTUL LOR ASUPRA FIRMEI

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Abstract. *The business model explains how to create economic value. Any business model indicated key resources and core competences. Company fails to obtain necessary resources and powers only if it has enough appeal and credibility (reputation). The business success is reflected in increase the market value of the company. We propose a modality of analysis of the business model based on the identification of the distinctive competencies which, in our conception, may facilitate the optimization of the processes of creation of the economic value.*

Key words: business model, core competences, economic value, reputation.

Rezumat. *Modelul de afacere explică modul de creare a valorii economice. Orice model de afacere indică resursele și competențele cheie ale afacerii. Firma reușește să procure resursele și competențele necesare numai dacă prezintă suficientă atractivitate și credibilitate (reputație). Succesul afacerii se concretizează în creșterea valorii de piață a firmei. Propunem o modalitate de analiză a modelului de afacere fondată pe identificarea competențelor distinctive, care, în concepția noastră, poate facilita optimizarea proceselor de creare a valorii economice.*

Cuvinte cheie: model de afacere, competențe cheie, valoare economică, reputație.

INTRODUCTION

One of the integrative paradigms in management may be considered the idea of business model. In foreign specialized literature, the concept of *business model* has met lately an intense debate. The most recent and relevant aspects of these debates appear in the works of Gentor and Duplaa (Gentor D., Duplaa C., 2009) or in Lequex and Saadun (Lequex J.-L., Saadun M., 2008).

The purpose of the paper is to present my own „model“ of the business model.

A business model refers to the system of essential and sustainable factors which configure the distinctive competencies and the competitive advantages of the business, determining thus the strategic positioning, the financial performances and the market value. Indisputable, the business model is the materialization of a theory or a philosophy of the business (Drucker P., 2007). According to Drucker, the business philosophy consists of a series of

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„presumptions“ on which the organisation of business – the firm is built and run. These presumptions shape the reactions of the organisation, determine its decisions on what it should do and what it shouldn't do and explains what does it mean for the organisation significant results. The presumptions that outline the business philosophy aim at the environment of the organisation, its mission and its key competencies necessary in order to achieve the organisational mission.

MATERIAL AND METHOD

The role or the function of the business model consists in selecting and securing on long term the network with material, financial, informational, knowledge and work flows through which the economic value will be extracted. More precisely, the business model shows on which offer, processes and infrastructure, finances, way of relating to the market and human competencies will count the firm on in order to create the economic value. The business strategy is the tool (mean) of implementing a determined business model. Here we consider appropriate the following shadings: the strategy must be understood as a systematic process and oriented by organizational changes through which a well-defined business model is translated into practice and, consequently, is transformed into a functional chain of economic value creation; the more complex the business model, the more numerous the strategic alternatives it may open, so that to a business model is usually associated not a single strategy, but a family of strategies. In this way, we can discuss the following successive causality:

Business philosophy → Business model → Business strategies

The work hypotheses that we considered in order to underlie this model are as follows:

- 1) The main mission of a business consists in creating the economic value.
- 2) To create economic value means to offer, by means of the market, something for which the clients are willing to pay.
- 3) The economic value is generated by exploiting some resources furnished by the business environment that represent, at the same time, the market for the products/services realised within the business.
- 4) The environment provides the firm with the necessary resources and accepts its products only if the firm has a sufficient degree of attractiveness and credibility.
- 5) The most reliable index of the business success is the increase of its market value.

RESULTS AND DISCUSSIONS

The business model, being a complex intellectual construction, may know not one, but several levels of integration. Thus, in our opinion, may be distinguished the following plans of approaching the business model: 1) The simple business model (basic), 2) The expanded business model, 3) The complete business model.

The simple business model (basic) may be described as that fundamental combination of the business aspects, which produces the distinctive competencies and the competitive advantages. We consider that these fundamental aspects are the following: the offer; the basic operations and assets; the staff management; the financial management; the market management and, finally, the overall management infrastructure. The distinctive competencies of the business result from the way in which these aspects interact (fig. 1). Therefore, the business model

indicates the source of the competencies. Subsequently, through the valorization of the competencies are created and consolidated the competitive advantages, and their exploitation determines, as a consequence, the strategic positioning, the financial performances and the market value of the firm.

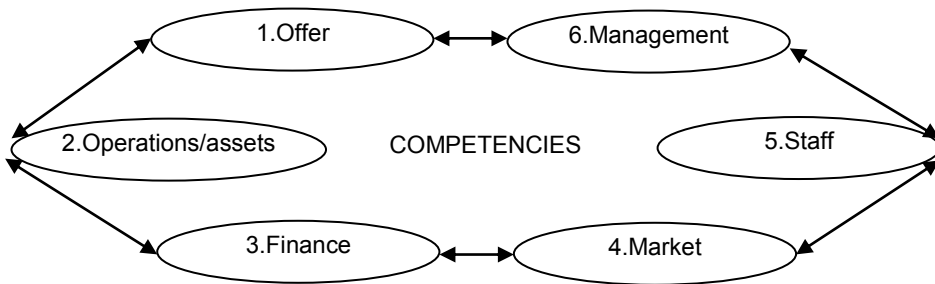


Fig. 1 - The simple business model (basic) (Own elaboration)

Each of the six fundamental aspects of the business may be decomposed in a reduced number (we opted for four) of background problems, that set out, practically, the structuring and functioning of the company. Explaining these aspects, as well as the problems that configure it, is crucial to understand the way in which the business will develop and the money will be earned (Phillips J., Phillips Pulliam P., 2007).

Further, we propose the following basis for identifying the fundamental aspects: 1) *The offer* is defined by the answers to the following questions: What specific benefits the products/services of the firm provide to the customers and what differentiate these from the products/services of the competition?; Who are the customers and which of their needs are satisfied?; What is the ratio quality (functionality)/price?; How is it realised the adaptation of the offer (product innovation) according to the market dynamics? 2) *The operations and basic assets*: Which are the real processes that produce the economic value?; Which are the essential technologies and work processes?; What activities will the firm realise in the interior and what activities will outsource?; Which assets the firm must necessarily possess and what assets may be rented, acquired by franchise, lease or concession etc.? 3) *Financial management*: What minimum ratio between the economic profitability and the minimum average weighted cost of the capital is desired?; What minimum ratio will be maintained between the variable expenses and the fixed expenses?; What is the minimum total capital necessary for the normal functioning of the business?; What regularity, consistency and structure will the financial flows have (the entry ones – payment collecting, as well as the exit ones – payments)?; 4) *Market management*: How do the markets find out about the firm's offer?; How do the firm's products reach the consumers?; How does the firm inform itself about the market's evolution?; What pairs product/market?; 5) *Staff management*: What competencies and professional expertise are essential for the business success?; Which is the ideal human profile for the business?; What

minimum effective staff are necessary?; How will the staff be motivated?; 6) *General management infrastructure*: How will the activity be divided into distinct tasks and what integration mechanisms will be used for their coordination?; How will the decisions be taken and the activities planned?; How will the operations and the people be controlled?; What configuration of the internal and external communication system is necessary in order to furnish/disseminate vital information?

Closer examination of these dimensions leads to the conclusion that these are not only technical matters, but represent magisterial options of the managers/entrepreneurs regarding the conception, organisation and functioning of the business, options that point out their business philosophy. We suggest that the configuration effort of the business model must begin with a very precise explanation of the offer. This because the offer is that fundamental aspect of the business model which summarizes the economic value that the business intends to provide the customers with. „Proposal of economic value for the customer“ (Ridderstrale J., Nordstrom K., 2007), as the offer was named by the authors of the inspired *Karaoke Capitalism*, constitutes the core of the business, representing, at the same time, the starting point in the selection and adaptation of all the elements of the business system.

The extended business model is based on the idea that the impact of the competencies on the strategic position, the financial performances and the market value of the business is interceded by the reputation that the firm enjoys. The reputation (as well as the image) reflects the system of perceptions and impressions which different external and internal audiences have about the firm. Only that, unlike the image, which is the result of communications (marketing, financial, social, internal), the reputation is the consequence of the actual experiences and of the direct contact which the audiences have had with the firm (Davis A., 2008).

Thus, if the strategic position, the financial performances and the market value are internal dimensions of the business, the simple business model represents the synthesis of the internal aspects. The relation between the „interior“ and the „exterior“ is arbitrated by reputation – the totality of the representations and evaluations of the firm formed by various actors on the inside and outside. In order to generate results, a „business device“ must be „well seen“ by the public, in the broadest meaning of the term. The reason is quite simple – both resources and the positive effects of the business (sales, earnings, profits, etc.) are extracted from the firm’s environment. A business with a good reputation will get a little bit of each, while one with a fragile reputation – will not. If the business is attractive and reliable for different segments of the public (clients, shareholders/investors, employees, suppliers, partners, community, etc.), they will buy its products and will provide the necessary resources. The strategic position, the financial performances and the market value of the firm represents „the mirror image“ of the business model, image projected through reputation.

The complete business model details all the elements that interfere between the simple business model (basic) and the market value of the firm:

- 1) The simple business model, representing the generic way of supply, combination, use and management of the business resources in order to create economic value.
- 2) The essential competencies (key) are those dimensions of the business model that have a major importance in assuring the continuity and consistency of the processes of generating economic value.
- 3) The competitive advantages constitute effects of the key competencies in which the firm excels, manifesting itself as a support of the business efficiency.
- 4) The reputation may be understood as the way in which the competitive advantages are perceived and appreciated by the socio-economic environment of the firm.
- 5) The strategic positioning is the place regained or assigned to the firm in its „ecosystem“ as a result of exploiting the competitive advantages. The interface between the competitive advantages and strategic positioning is the reputation of the firm.
- 6) The financial performances and business' risks represent „the return effects“ generated by the quality and the amplitude/extent of the strategic positioning. The risks reflect the volatility of the financial performances.
- 7) The market value of the business reflects the overall assessment, both quantitative (financial) and qualitative of the business force, being, in this manner, the synthetic expression of the success and attractiveness of the firm for different segments of the internal and external public.

The completely business model suggests that any business has four defining elements: 1) The definition of the economic value which the firm intends to provide the customers with; 2) The key competencies which, constituting the support for the internal efficiency, produce economic value; 3) The reputation, which preserves, consolidates, amplifies and refines the economic value generated by competencies, through the external recognition of the internal efficiency, as a result of satisfying the expectations formulated by different groups interested from the business environment. The reputation acts as a „relay-transmitter“, converting the competencies in business value; 4) The market value of the business, being the final overall effect of the way of origination, structure and functioning of the business model.

CONCLUSIONS

1. The mission of a business model is to highlight the strategic capital of the firm, as a source of the created economic value. In a business, may be involved and exploited the following three types of capital: *the technical capital*, *the financial capital* and *the intellectual capital* (the reputation itself may be regarded as an element of the intellectual capital).

2. The business represents a mix consisting of elements of the three types of strategic capital. But in any business there may be identified a dominant type of

strategic capital, which will determine the practical way to extract the economic value.

3. We consider that the business models may be classified according to the dominant strategic capital:

- Business models based on the technical capital in which the economic value is produced especially with the help of the technical resources and competencies.
- Business models based on the financial capital, that generate economic value, using, mainly, financial resources and competencies.
- Business models based on the intellectual capital, which extract the economic value by valorifying the intangible resources and the intellectual competencies.

4. Within each class of the business models the dominant strategic capital will determine the key-competencies of the business, the kind of reputation that the firm will benefit of and, finally, the structure of the market value of the firm.

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