CLARIFYING THE BUSINESS MODEL CONSTRUCT

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Abstract

Several prior studies have attempted to characterise the firm's business model but there is little consensus on frameworks or the essential elements of the business model for the emerging firm. In this paper we identify fifty-four elements of the business model from the literature and perform exploratory factor analysis of these elements. We identify four separate factors that constitute a parsimonious description of the business model for the nascent entrepreneur. This set of factors has value for entrepreneurs, advisors, policy makers and educators as it will facilitate and illuminate their discussions about entrepreneurship and the creation of new business ventures.

Introduction

Before starting a new business venture, and indeed before solidifying the intention to start a new venture, the nascent entrepreneur must formulate a business model for the new venture. The business model identifies what is being offered by the new venture, who the target customers are, how the new venture will acquire and organise resources to serve the target customers, and how it will be paid for its products and services such that financial success of the new venture seems to be assured. There are many ways that a given new product or service might be produced and marketed to customers. For example, production might be done in-house, outsourced, or manufactured under licence by a specialist firm. Marketing activities might be undertaken by the firm itself, or delegated to others, and might involve retail shopfronts, Internet-based direct marketing, or rely solely on customer word-of-mouth endorsements. Distribution might be done via wholesalers, direct to customers, or via Internet sales and delivery. Transportation of raw materials, inventories and finished goods might be accomplished using one's own system, combinations of supplier delivery and/or customer pick-up, or via outsourced delivery services. Each of these alternatives will have different cost and revenue implications and therefore will have different implications for the survival and profitability of the new venture. It is clear that selection of an appropriate business model is critical for the survival and ongoing success of the new venture.

A new business model might be a disruptive innovation – for example Dell Inc. eliminated the middleman and built its competitive advantage through superior supply chain management. When they receive orders by phone or internet, contract manufacturers instantly view the order information and ship component parts. Dell assembles computers from the component parts as they arrive, and the computer is shipped to the customer via UPS or FedEx. While several other firms have attempted to imitate Dell's business model, no company has been able to come close to doing so (Barringer and Ireland, 2006, p. 100). Thus an innovative business model can form the basis for a new venture's strategic competitive advantage and underpin its chances for survival, growth, and profitability.

Various authors have discussed the business model of the entrepreneur (see for example, Amit and Zott, 2001; Morris, Schindenhutte, & Allen, 2005; Barringer & Ireland, 2006) with divergent opinions and results. A survey of these studies indicates that over fifty different issues might be involved in the selection of the business model for a new venture. Surprisingly there is relatively little agreement across these studies, although they are all describing the same thing from different vantage points (like the proverbial blind men touching an elephant). Concepts like 'value creation,' 'innovation,' and 'profitability' arise in most of them, but often the same words mean different things and the same things are described by different terminology. The number of distinct factors that comprise the business model is also in dispute, ranging from four to eight. It is vitally important that entrepreneurs, their advisors, policy makers and educators understand what is meant by the term "the business model of the entrepreneur". Without a common understanding of this, these parties might be talking at odds with each other with little comprehension of the viewpoints of others on issues that confront the new venture.

In this paper we distil the multitudinous elements of the business model down to a more fundamental framework of main elements, each representing many constituent issues. We subsequently compare these key factors with existing business model frameworks. In doing so, we make the following main contributions. First, we bring order to where there was chaos by providing a concise set of factors that parsimoniously characterise the business model of the new venture. Second, we ground this categorisation of the essential components of the business model in the understanding of nascent entrepreneurs, Third, we provide a parsimonious method for describing the essential nature of the new business venture, which is likely to prove useful in analytical discussions, in research and in public discourse concerning entrepreneurs, new business ventures, and the commercialisation of new technology.

In the following sections we first review the literature on business models, both in the general context and in the context of e-businesses and of new ventures more specifically. We then describe our sample and method, before revealing the results of our investigation. This is followed by a discussion of the results, and in the final section the implications for teaching, practice and further research are considered.

Literature review

The discussion of business model has gained considerable attention from business scholars as well as practitioners since the emergence of the 'dot.com' businesses. The term 'business model' has become increasingly popular within information systems, management, and strategy literature (Hedman and Kalling, 2003). This literature refers to the concept of the business model as "the ways of creating value for customers, and the way in which a business turns market opportunities into profit through sets of actors, activities, and collaboration" (Rajala and Westerlund, 2007). Due to the importance of having a clearly articulated business model as early as possible in the new venture creation process (Barringer and Ireland, 2006), the business model is now being emphasized in the entrepreneurship literature.

The term 'business model' is used to "describe a company's unique value proposition (the business concept), how the firm uses its sustainable competitive advantage to perform better than its rivals over time (strategy), and whether, as well as how the firm can make money now and in the future (revenue model)" (Morris, Schindehutte, Richardson and Allen, 2006, p. 28). The models implicitly or explicitly address the internal competencies that underlie firms' competitive advantages. The business model of a firm is inherently dependent on the collection of resources it controls and the capabilities it possesses (Barringer and Ireland, 2006). This is consistent with resource-based theory, where the firm is viewed as a bundle of resources and capabilities (Barney, Wright, & Ketchen Jr.,2001).

The business model is an important element of the new venture creation process. Morris et al. (2005) referred to the business model as the architecture, design, pattern, plan, method, assumption, and statement (p. 726). The business model describes possible futures for a firm or company (Osterwalder and Pigneur, 2005) and juxtaposes market needs and resources (Ardichvili, Cardozo and Ray, 2003). Thus, a "complete business model includes not only the detailed and differentiated business concept, but also a financial model, which estimates the value created and how that value might be distributed among stakeholders" (Ardichvili, Cardozo and Ray, 2003, p. 109).

Most business model discussions begin with the definition of what a business model is and normally these definitions lead to the discussion of what appears to be the core components of the business model. There are several definitions of the business model existing in the literature and Table 1 provides several sample definitions of the term "business model". Since most of the scholars' discussion on business models relates back to where it is applied (i.e., e-business, strategy, technology, and information systems), the definitions appear to be derived from the authors viewpoint: they are seeing it through different lenses and seeing different things (Shafer, Smith and Linder, 2005) .

[Table 1 near here]

Some authors simply define the business model as the statement of how a firm makes money and sustains its profit stream over time. (Stewart and Zhao, 2000) focus on financial/revenue side only, while some argue that there is a clear distinction between business model and revenue model (see Amit and Zott, 2001 for a complete review), and others appear to integrate revenue/profit as part of the discussions of their business model (Barringer and Ireland, 2006; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Morris, Schindehutte and Allen, 2005; Osterwalder, 2004; Timmers, 1998).

Shafer et al's (2005) review of the relevant literature uncovered 12 definitions in established publications during the year 1998-2002 catalogued 42 different business model components, building blocks or elements. They developed an affinity diagram to categorize the business model components that were cited twice or more and found four major categories, viz: strategic choices, creating value, capturing value, and the value network (Shafer, Smith and Linder, 2005, p. 200). The complete affinity diagram is shown in Figure 1.

[Figure 1 near here]

Based on the affinity diagram, (Shafer, Smith and Linder, 2005, p. 202) define the business model as "a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network" This definition leads raises the question of what are the core elements of the business model from the different perspectives of previous authors. Some of the core elements, dimensions or components of the business model discussed in the literature is shown in Table 2.

[Table 2 near here]

One of the most common elements discussed in each business model is the value network (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Hedman and Kalling, 2003; Hoque, 2002; Kim and Mauborgne, 2000; Timmers, 1998; Vorst, Dongen, Nouguier and Hilhorst, 2002). Hamel (2000b) includes suppliers, partners and coalitions in his value network concept of business model and he stressed that the company boundaries serve as a 'bridge', linking strategic resources and this value network. As a bridge, company boundaries will determine the role of outsourcing. The firm must decide on what are the activities to be conducted in-house and what are those that need to be outsourced to the value network. Outsourcing also can be categorized as an activity that the firm may consider in order to reduce the cost. Firms should possibly eliminate, reduce and outsource high cost, low value-added activities in the value chain in order to minimise costs (Kim and Mauborgne, 2000). The discussion of the value network as one of business model component cannot be separated from the discussion of costs (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Kim and Mauborgne, 2000; Magretta, 2002; Morris, Schindehutte and Allen, 2005) involved in constructing the business model since cost reduction can be achieved if some of the firm's activity is shifted to other firms which are more efficient in handling those activities. By shifting some activity to others, risk involved in the business is also shifted but at the same time, but the risk of dependency upon others increases.

It is evident that partnering is another form of value network components. Partnering is a form of cooperation that exists between company/companies which are technologically advanced and normally results in a win-win situation (Wucherer, 2006) and the common form of these partnerships include joint ventures, networks, consortia, strategic alliances and trade associations (Barringer and Harrison, 2000). Firms need to consider partnering with others if that strategy seems likely to increase their chances of achieving, and the size of, the value proposition (Chesbrough and Rosenbloom, 2002; Kim and Mauborgne, 2000; Shafer, Smith and Linder, 2005). "Firms partner with other firms to obtain access to critical resources and to increase their power relative to other organizations" (Barringer and Harrison, 2000). Lack of resources at the beginning stage of new venture creation might push new ventures to consider partnering with others in order to perform the key roles (Barringer and Ireland, 2006) so that the new venture can fully concentrate on performing activities which relate to building the company's competitive advantage and creating value to customer. However, there are also risks involved in partnerships. The risk is higher if the new venture becomes too dependent upon the partner and if a single partnership is a key component of a firm's business model (Barringer and Ireland, 2006).

Another important element of the business model relates to the customer and more specifically involves discussion on the target market and scope (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Hoque, 2002; Kim and Mauborgne, 2000; Magretta, 2002; Morris, Schindehutte and Allen, 2005). Identifying who is your target customer and what is your scope at the start-up stage can be crucial. This component can be discussed by looking at type of person or organization a firm chooses to pursue (i.e. B2B, B2C or both), whether to compete as a local/regional/national/international firm, who and where is the customer/final consumer, and the type of the market chosen (broad versus niche market) (Morris, Schindehutte and Allen, 2005, p. 730). The process of identifying the market focus is needed especially when your product offering relies heavily on specific technological attributes to target in the development and this relates back to the discussion of cost and architecture of revenue, including the customer payment mechanism and pricing strategy (Chesbrough and Rosenbloom, 2002). The scope of the product/market for new ventures should be kept manageable. New ventures should be careful and more focused rather than expanding the product/market offering beyond their capabilities in the earlier stage (Barringer and Ireland, 2006). To tie the discussion of target and scope of the market into the risk discussion, it is suggested that going for a broader or general market at the beginning stage of new venture is more risky compared to finding a niche or more segmented market to enter (Barringer and Ireland, 2006). It is argued that "failure to adequately define the market is a key factor associated with venture failure" (Morris, Schindehutte and Allen, 2005, p. 730).

Next, the value proposition is commonly described as one of the business model's important elements (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Kim and Mauborgne, 2000; Magretta, 2002; Morris, Schindehutte and Allen, 2005; Vorst, Dongen, Nouguier et al., 2002). Value proposition is best described as "an overall view of a company's bundle of products and services that are of value to the customer" (Osterwalder, 2004, p. 43). Dubosson-Torbay et al. (2002) focus the value proposition elements to the value that the firm offers to a specific target customer segment. Chesbrough and Rosenbloom (2002) place emphasis on the value created to users by the offering based on technology (p. 533), and Morris et al (2005) relate the discussion to the nature of the product/service mix, the firm's role in production or service delivery, and how the offering is made available to customers (p. 729).

The next key component of business model refers to the firm's capabilities or competencies (Amit and Zott, 2001; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Hedman and Kalling, 2003; Kim and Mauborgne, 2000; Morris, Schindehutte and Allen, 2005). These are best described as "the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer" (Osterwalder, 2004, p. 43). This includes the firm's internal capabilities such as supply chain management, production, networking, selling/marketing, information management, technology, and financial transactions (Morris, Schindehutte and Allen, 2005).

The discussion of key components in business model continues with the cost elements (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Kim and Mauborgne, 2000; Magretta, 2002; Morris, Schindehutte and Allen, 2005). This element measures all the costs incurred in order to create, market, and deliver value to customer (Dubosson-Torbay, Osterwalder and Pigneur, 2002), operating leverage or the extent to which cost structure is dominated by fixed versus variable costs (Morris, Schindehutte and Allen, 2005) and cost target (Kim and Mauborgne, 2000). Cost and profit are of course related and relate to the financial aspect of the business model (Dubosson-Torbay, Osterwalder and Pigneur, 2002). The business model describes the ability of a firm to create positive cash flow (Dubosson-Torbay, Osterwalder and Pigneur, 2002, p. 11) and relates the pricing strategy to the creation of greater profits (Kim and Mauborgne, 2000). Profit is very important if a firm is to sustain itself and to generate positive cash flow and profits.

Strategy describes how the firm translates its mission and values into concrete action (Hoque, 2002). This includes the business mission, product/market scope, and the basis for differentiation (Hamel, 2000b), goals, timeframe for achieving the stated goals, the resources that are required, and custom performance indicators (Hoque, 2002), core internal competencies such as product or service quality, low cost/efficiency, and so on (Morris, Schindehutte and Allen, 2005). Strategy and the next components, processes/activities (Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Hedman and Kalling, 2003; Vorst, Dongen, Nouguier et al., 2002) are closely related. Osterwalder (2004) classifies activities and resources as the value configuration block in the business model development, which describes the arrangement of activities and resources that are necessary to create value for the customer. Resources/assets (Amit and Zott, 2001; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Hedman and Kalling, 2003; Hoque, 2002) are important too in determining related processes/activities in a firm. Hamel (2000b) places core processes together with core competencies and strategic assets under the strategy resources section of his business model framework and argued that "dramatically changing the resource base for competition can be a source of business concept innovation" (p. 75).

Other components of the business model discussed by scholars include revenue and pricing considerations (Chesbrough and Rosenbloom, 2002; Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b; Kim and Mauborgne, 2000; Timmers, 1998), output or offering, (Amit and Zott, 2001; Chesbrough and Rosenbloom, 2002; Hedman and Kalling, 2003; Morris, Schindehutte and Allen, 2005), competitors (Chesbrough and Rosenbloom, 2002; Hedman and Kalling, 2003; Hoque, 2002), branding (Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hoque, 2002), customer information and customer relationship (Dubosson-Torbay, Osterwalder and Pigneur, 2002; Hamel, 2000b), differentiation and mission (Hamel, 2000b; Hoque, 2002), creation of value (Amit and Zott, 2001; Morris, Schindehutte and Allen, 2005) and economic logic (Magretta, 2002; Morris, Schindehutte and Allen, 2005).

But it does not end there. Even more issues have been introduced by scholars in their discussion of business model. These include customer interface and fulfilment and support (Hamel, 2000b), information flows (Amit and Zott, 2001; Timmers, 1998), product/service flows (Amit and Zott, 2001; Timmers, 1998), business opportunities, transaction content, governance and structure to suit e-business creation (Amit and Zott, 2001), financial aspects, infrastructure management, and product innovation (Dubosson-Torbay, Osterwalder and Pigneur, 2002), functionalities, infrastructure applications, and specific characteristics (Vorst, Dongen, Nouguier et al., 2002), management (Hedman and Kalling, 2003), customer benefits, and the entrepreneur's time, scope, and size ambition (Morris, Schindehutte and Allen, 2005); the environment, firm identity and firm reputation (Hoque, 2002) and the firm's value chain (Chesbrough and Rosenbloom, 2002).

This multiplicity of business model definitions and of claimed core components of the business does not help in understanding the business model concept better. This is because the available academic research on the business model tends to be descriptive, and it is more conceptual in nature (Morris, Schindehutte, Richardson et al., 2006). More progress is needed due to the diversity in the classification schemes and in the underlying variables that define the various schemes. "In particular, the ability to generalize a given scheme to different types of industries and ventures is limited" (Morris, Schindehutte, Richardson et al., 2006, p. 32). Accordingly, we set out to seek order from chaos by distilling the multiplicity of business model components into a more parsimonious framework that succinctly characterizes the new firm's business model.

Sample and Method

From the many papers dealing with the business model we compiled a comprehensive list of the components mentioned in each of these papers. Many of these components were mentioned more than once and in several cases the concepts were very similar to each other. In these cases we combined these terms into a common component. The subsequent list consisted of fifty-four distinct components of the firm's business model. The analysis was aimed at reducing the fifty-four components into a smaller set of factors related to the firm's business model. To do this we made use of factor analysis with the primary goal to uncover a smaller more parsimonious set of factors related to the business model.

A questionnaire incorporating each of the components of the business model was prepared. For each item on the questionnaire respondents were asked to rate the importance of that component to the firm's business model on a five-point Likert scale ranging from "1" being not important to "5" being extremely important.

Our sample for the investigation was eighty-seven students undertaking the entrepreneurship and business planning units of the MBA program. These students were approaching the end of their MBA program and can be considered sufficiently knowledgeable about business processes and business model development to be able to make informed choices in the survey questionnaire (Shepherd and DeTienne, 2005). A web based survey was completed by the students in these units.

Results

A total of forty-one unique responses were received representing a response rate of around 47%. A summary of the importance ratings of the components is shown in Table 3. A preliminary analysis showed that the components identified as being most important to the respondents related to concepts related to customer relationships and core competencies and value creation.

[Table 3 near here]

The responses from the questionnaire were then factor analysed to uncover the underlying structure of the items. A four factor solution was selected which explained around 46% of the variance in the responses. The results of this analysis are shown in Table 4.

[Table 4 near here]

These factors represent the underlying themes related to the firm's business model. Items loading on the first factor included elements relating to the suppliers to the firm, stakeholders and stakeholder networks as well as customer value and relationships with the customer. Overall, these factors were strongly related to the stakeholders of the firm and consequently we termed this factor "Stakeholders".

Items loading on the second factor related to the organisational characteristics, firm culture, management and the sources of resources required. In addition, this factor included elements related to the infrastructure of the firm and infrastructure management. These items seemed to relate to the organisational strengths, valuable resources and knowledge in the firm. This factor was termed "Competencies".

The third factor was clearly identified as "Value Creation" and covered items related to the firm's value proposition. Items loading onto this factor included value proposition, value model, value creation and differentiation. The identification of this factor underscores the importance of the creation of value in the firm's business model and for the purposes of the study we termed this factor "Value creation".

Lastly, the fourth factor encompassed items related to the firm's competitive strategy. Items loading on this factor included competitors, competitive strategy, how the firm creates profits as well as costs and cost structures. This factor was termed "Value Capture"

Together these four factors represented the unique business model of the firm and summarises the key factors underlying the value creation and appropriation for the firm. These factors are summarised in Table 5.

[Table 5 near here]

Discussion and Limitations

The items included in the survey covered the range of elements of business models discussed in the literature on the topic of business models. The range of elements uncovered in the literature review demonstrated the diverse thinking on what the key issues involved in the business model are and significant disagreement over what the business model actually entailed. While the range of business elements discussed in the literature is diverse, there is considerable overlap in many of the models as to key elements of the firm's business model. In considering the relative importance of these elements our findings suggested that three broad elements related to the customer, core competencies and value creation were strongly identified by respondents as being of utmost importance to the firm's business model. This also highlighted the fact that the firm's business model should be based around a unique capability of the firm with the key focus of value creation in the customer's eyes. These elements also figure prominently in the literature on business models.

Our results find four key factors related to the firm's business model related to stakeholders, competencies, value creation and value capture. We find these factors to overlap with several of the theoretical frameworks developed in the literature. Shafer et al. (2005) for instance, identified four main components of the business model, viz: Strategic choices, value network, value creation and value capture. We find the value network factor to overlap with our "Stakeholders" factor with several items including customer relationships and suppliers being common. Likewise, our factors related to "Value Creation" and Value Capture" overlap with those of Shafer et al (2005).

Hamel (2000a) also identified four major components, viz: customer interface, core strategy, strategic resources, and value network. We find three of the factors that we identified to be consistent with this framework. The first of these is our "Stakeholders" factor which agrees with the value network factor of Hamel (2000a) which relates to the network of suppliers and customers. We also find our factors related to "Value Creation" and "Value Capture to be consistent with the strategic resources and core strategy factors of Hamel (2000a). These factors relate to the firms core competencies and strategic assets which are the source of value creation and secondly the core strategy the firm adopts to capture that value.

In comparing the frameworks of Shafer et al. (2005) and Hamel (2000a), they both appear to agree on value network and strategy as core elements, but Hamel isolates 'strategic resources' separately from the value network, which others might regard as a strategic resource. And whereas Shafer et al. separate value creation from value capture, Hamel seems to combine those aspects in his 'customer interface' component. Dubosson-Torbay et al. (2002) also identified four major components, viz: product innovation (comparable to our value creation factor), customer relationships (similar to the Hamel (2000a) customer interface factor), infrastructure management (similar to strategy, or strategic resources in the Hamel (2000a) model) and financial aspects (similar to our value capture factor).

We also find support for the business model framework of Morris et al. (2005) which identified six main aspects of the entrepreneur's business model, viz: value creation, target customer, core competencies, differentiation, revenue model, and the entrepreneur's aspirations concerning size, time and scope. The Morris (2005) factors related to who the firm creates value for, how do we create value and how we are differentiated as being consistent with our value creation factor. Likewise, their factors related to sources of internal advantage and entrepreneur's aspirations are consistent with our "Competencies" factor. Lastly, their economic model factor contains elements related to pricing and revenue generation as well as volume and margin considerations. We find this factor consistent with our "Value Capture" factor explaining how the firm that has created that value can succeed in capturing that value. Thus, we find support for this framework.

Overall, we validate several of the factors identified by other researchers. The first of our four factors "Stakeholders" was identified by Shafer et al. (2005) through their value network factor while Hamel (2000a) identifies this factor as partnership network. Our second factor "Competencies" was identified as strategic resources by Hamel (2000a) and by Morris et al. (2005) as internal capability factors. Thirdly, our "Value Creation" factor was identified by Shafer et al. (2005) as well as the factors related to the offering and market factors identified by Morris et al. (2005). Lastly, our "Value Capture" factor was identified by Shafer et al. (2005).

Understanding how these four factors interact in the development of the firm's business model can provide a greater understanding of how the firm can create and appropriate the value they create for customers. In general, all business model contain variations on the generic value chain underlying all businesses Magretta (2002). Therefore a greater understanding of how these key business model components interact with the processes involved in the firm activities related to logistics marketing and customer service as well as support activities can enhance the firms ability to compete in the marketplace.

Implications for Teaching, Practice and Further Research

In teaching entrepreneurship we are concerned with educating people to better understand the entrepreneurial process, such that they might either enter this process on their own behalf, advise others involved in this process, formulate policy to facilitate this process, or evaluate new venture concepts that are about to enter, or which have entered, the entrepreneurial process. To avoid injecting further noise and confusion into a process already replete with uncertainty, it is imperative that educators speak clearly about the essential elements of the entrepreneur's business model and the relationships between and among these constituent elements. Too often in the educational process students are confronted by a new instructor who brings with him/her a new set of terms and jargon for essentially the same concept of phenomenon that has previously been encountered under another rubric. The same goes for nascent entrepreneurs who seek advice from incubators and other advisers and mentors. When individuals, all acting in good faith, have different names for entities, phenomena, or processes, or different breadth of definition for the same items, confused communication is the inevitable result. By utilising a common yet simple set of terms to describe and analyse the business model of the entrepreneur, educators and advisors can better communicate with, and thus teach, entrepreneurs about the entrepreneurial process, all the way from the major issues down to the finer nuances.

Practitioners will also benefit from a simplified articulation of the business model. Entrepreneurs will be better able to explain their new venture to potential investors and bankers, and those parties will be better able to understand the value creation and value capturing aspects of the new venture and thus how they will benefit by involvement in the new venture. Similarly, in 'selling' their new venture concept to other stakeholders, such as other top management team members, potential employees, suppliers and customers, the entrepreneur can better communicate the value proposition offered by the new venture and the residual benefit to each of the stakeholder groups. Advisors, mentors and consultants will also be able to become more effective in helping entrepreneurs build and grow their new ventures.

Several implications for further research flow from this study. First, does the simplified framework provided here apply for all firms (i.e. a generic business model) or is it necessary to modify this framework to suit different industrial sectors or different kinds of businesses (e.g. Internet dot.com businesses)? Second, does this framework apply across different political, economic and cultural systems, where some elements of the business model (such as private ownership of resources, or interest-bearing loans) may be unacceptable politically or socially? Third, does this 'boiled-down' version of the business model adequately convey the finer details of the new venture concept, or does it require further work on the categorisation of the 'tacit knowledge' invariably involved in new ventures before it is of significant value to the improvement of communication among entrepreneurs and other stakeholders in the entrepreneurial process? These and other issues provide much scope for further research.

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Table 1: Sample definitions of the term "business model"

Author(s)	Definitions
Barringer and Ireland (2006)	"A firm's plan or diagram for how it competes, uses its resources, structure its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profit its earns" (p. 100)
Morris (Morris, Schindehutte and Allen, 2005)	"A concise representation of how interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets" (p. 727)
Shafer, Smith, and Linder (2005)	"A representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network" (p. 202)
Dubosson-Torbay, Osterwalder, and Pigneur (2002)	"The architecture of a firm and its network of partners for creating, marketing, and delivering value and relationship capital to one or several segments of customers in order to generate profitable and sustainable revenue streams" (p. 7)
Osterwalder (2004)	"A conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams" (p. 15)
Timmers (1998)	"An architecture for the product, service, and information flow, including a description of the various business actors and their roles, the potential benefits for the various business actors, and the sources of revenue" (p. 4)
Amit and Zott (2001)	"A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities" (p. 511)
Stewart and Zhao (2000)	"A business model is a statement of how a firm will make money and sustain its profit stream over time" (p. 290)

Figure 1: Components of Shafer et al's (2005) business model affinity diagram

Components of a Business Model

Strategic Choices

Customer (Target Market/Scope)
Value Proposition
Capabilities/Competencies
Revenue/Pricing
Competitors
Output (Offering)
Strategy
Branding
Differentiation
Mission

Create Value

Resources/Assets
Processes/Activities

Value Network

Suppliers
Customer Information
Customer Relationship
Information Flows
Product/Service Flows

Capture Value

Cost
Financial Aspects
Profit

Table 2: The business model components identified by several authors

Author(s)	Components
Timmers (1998)	Value network (suppliers), revenue/pricing, information flows, and product/service flows
Kim and Mauborgne (2000)	Value network (suppliers), customer (target market/scope), value proposition, capabilities, revenue/pricing, cost, and profit
Hamel (2000b)	Four major components: customer interface, core strategy, strategic resources, and value network. The subcomponents are as follows: 1) Customer Interface: Fulfillment & support, information & insight, relationship dynamics, and pricing structure. 2) Core Strategy: Business mission, product/market scope, and basis for differentiation. 3) Strategic Resources: Core competencies, strategic assets, and core processes. 4) Value Network: Suppliers, partners, and coalitions.
Amit and Zott (2001)	Resources/assets, capabilities/competencies, information flows, output (offering), product/service flows, business opportunities, create value, transaction content, transaction governance, and transaction structure
Dubosson-Torbay et al. (2002)	Four principal components: Product innovation, customer relationship, infrastructure management, and financial aspects. The subcomponents are as follows: 1) Product Innovation: Value proposition, target market, and capabilities. 2) Customer Relationship: Get a feel for the customer, branding, and serving the customer. 3) Infrastructure Management: Resources/assets, activity and processes, and partner network. 4) Financial Aspects: Revenue, cost, and profit.
Magretta (2002)	Customer (target market/scope), value proposition, cost, profit, and economic logic
Van der Vorst et al. (2002)	Value network (suppliers), value proposition, processes/activities, functionalities, infrastructure applications, and specific characteristics
Hoque (2002)	Value network (suppliers), customer (target market/scope), resources/assets, competitors, strategy, branding, differentiation, mission, culture, environment, firm identity, and firm reputation
Chesbrough and Rosenbloom (2002)	Value proposition, offering, target market, revenue, value network, value chain, cost structure, profit, competitive strategy, competitors, create value
Hedman and Kalling (2003)	Value network (suppliers), resources/assets, capabilities/competencies, processes/activities, competitors, output (offering), and management
Morris et al. (2005)	Customer (target market/scope), value proposition, capabilities/competencies, cost, offering, strategy, create value, economic logic, and time, scope, and size ambition, pricing and revenue sources

Table 3. Highest-rated business model elements

Item	Average Rating
Customer (Target Market, Scope)	4.29
Customer Understanding	4.27
Competencies / Core Competencies	4.24
Customer Value	4.12
Capabilities/competencies	4.1
Relationships with the customer	4.1
Value Offering	4.1
Target Market	4.07
Value Creation	4.07
Customer Information	4.05

Table 4. Factor Analysis Results

Rotated Component Matrix[a]

	Component			
	1	2	3	4
Marketing Strategy / Tactics	.790			
Branding	.658			
Suppliers to the firm	.649			
Customer (Target Market, Scope)	.620			
Fulfillment and Support	.608			
Stakeholders / Stakeholder Network	.582			
Processes / Activities	.572			
Technology Advantages	.528			
Customer Value	.523		.355	
Relationships with the customer	.480			
IT Infrastructure	.477			.388
Value Chain	.408		.394	
Product / Service flows	.330			.303
Information Flows		.823		
Organisational Characteristics		.794		
The sources of resources required		.700		
Culture		.653		
Management		.647		
Infrastructure / Infrastructure Management	.491	.645		
Understanding the technology involved		.559		
Distribution	.405	.550	-.320	
Strategy / Strategic Objectives		.535		
How revenue is created	-.457	.527	.340	.358
Commerce Process Model	.406	.489		.303
Products		.487		.370
Partner Networks		.407		
Market Model		.337		
Product Innovation		.335	.329	
Value Proposition			.736	
Value Model			.700	
Value Offering			.637	
Value Creation			.604	
Value Exchanges	.365		.575	
Capabilities/competencies			.551	
Target Market	.437		.536	
Customer Information	.364		.529	.381
Being different from others in the industry	.375		.503	
Products / Services offered		.456	.472	
Customer Understanding			.448	.399
Firm Identity / Reputation	.401		.410	
Costs / Cost structure				.714
Legalities				.656
Competitors / Competitive strategy				.617
Business Opportunities				.601
Economics related o how the firm makes money				.538
Distribution Model			-.330	.537
Production Model				.530
Organisational Form			-.456	.487
Financial Aspects or Model				.448
How the firm creates profits		.346		.444
Capital Structure (Debt / Equity)		.430	.334	.444
Competencies / Core Competencies			.337	.411
Corporate Governance		.386		.397
Mission	.303	.370		.381

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 21 iterations.

Table 5. Business Model Factors

Factor	Name
1	Stakeholders
2	Competencies
3	Value Creation
4	Value Capture