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Business Model: What It Is and What It Is Not

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The term "business model" has been misinterpreted and misused over the years, and has consequently been inadequately understood and applied by both practitioners and scholars. It has been frequently confused with other popular terms in the management literature such as strategy, business concept, revenue model, economic model, or even business process modeling.

This paper aims to contribute to the clarification of the meaning and use of the business model image, as well as to theorize on its logical underpinnings that we find rooted in the resource-based view and in the transaction cost economics. This paper identifies new avenues for further research, such as the investigation of path dependency in a business model and the meaning of business model innovation.

> *"While the term 'business model' has gained widespread use in the practice community, the academic literature on this topic is fragmented and confounded by inconsistent definitions and construct boundaries" (*George and Bock, 2011*, p. 83).*

Introduction

Over the past two decades, the term "business model" has frequently been misused by both academics and practitioners. It is common to hear the term being used by managers, consultants or scholars from diverse fields and even in the popular media. The term's pervasiveness and use suggest that business models are extremely important; however, no consensus regarding its meaning has been established. At times, it seems the term's main purpose is to help consultants sell their services, and for scholars to write case studies attributing the failure of e-business companies to "improper business models". The term "business model" often appears to encompass everything from, among others, strategy, economic model, and revenue model. Although several papers have critically examined certain aspects of business models (Casadesus-Masanell and Ricart, 2010; Morris et al., 2005; Zott and Amit, 2008; Zott et al., 2011), the strategic management community has ultimately struggled to agree on a clear role for the business model in theory and practice.

Several important aspects require further investigation. First, the reasons that the term "business model" has gained prominence with regard to Internet companies are unclear; another closely connected question is the relevance of the business model terminology to brick-and-mortar companies. Second, the relationship between business model and other similar terms (e.g., strategy, economic model, revenue model) remains fuzzy at best. A clear distinction between business model and other terms is required in order to demonstrate whether the term is simply a management fad or has a firm place in the management literature and practice. Third, the connection of the term "business model" to the theories most often used in management (e.g., the resource-based view, or RBV) also seems unclear. Hence, the term's validity and its role in the strategic management literature can only be vaguely explained.

Over time, the term "business model" has suffered in two main ways: first, it has evolved into an unclear idea with a cannibalizing tendency towards other management terms, such as "strategy"; and, second, several companies in the 1990s were led to a poor performance and ultimately bankruptcy as a result of following what were presumably innovative business models. It is time to relearn what the term "business model" encompasses and prove its relevance and utility to both the academic and the business community.

Our paper thus examines the business model terminology through four main lenses. First, we focus on the term's historical development ranging from its origins, developments and the hype that has distorted its meaning. Second, we provide a theoretical foundation for the business model using the resource-based view and transaction cost economics as its basis. Third, a consistent statement is made as to what a business model is and is not, as well as the conditions in which a business model is an attractive and meaningful managerial philosophy. Fourth, implications for further research are outlined based on our analysis and findings.

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Business model – the origin

The term “business model” was first mentioned in an academic article in 1957 (Bellman et al., 1957). The article investigates the construction of business games for training purposes. The term is mentioned just once: “And many more problems arise to plague us in the construction of these business models than ever confronted an engineer” (p. 474). The meaning of business model seems intrinsically connected with a representation of reality, a simulation of the real world through a model.

Jones (1960) wrote the first academic article using “business model” in its title. The article raises questions about how college students from the business field should be trained and how technologies should be introduced to them. No mention of the term “business model” is made in the text itself, revealing the term’s arbitrary use in the title. Thus, the origin of the term reflects a simplification of reality aimed at educating future managers on technology.

The term did not see widespread use for decades. The number of peer-reviewed journal papers on “business model” remained low until the 1990s, with only five papers containing the words “business model” in their title over the whole decade - as reviewed by Osterwalder et al., 2005. With the development of information and communication technologies (ICT) and the emergence of Internet companies, the term quickly gained prominence among both practitioners and business scholars. Congruently, the use of the term “business model” in academic papers closely followed the trend of the NASDAQ index from the early 1990s to the dot-com bubble burst. Ghaziani and Ventresca (2005) further acknowledge that, during this period, the business model terminology spread to various communities (such as marketing, management, banking and ICT) and has been used within various frameworks (such as business plan, business strategy, value creation, globalization and organization design).

Figure 1 shows the number of papers with “business model” in either the title or as a topic appearing in journals indexed in Web of Science. Web of Science was chosen because it offers a reliable coverage and historical overview at the journal, article and cited-reference level (Norris and Oppenheim, 2007).

In a nutshell, the widespread use of the business model terminology seems to be intrinsically connected with technology-based companies. Business models seemed to be the answer for explaining how innovative undertakings dealing with technology or any other form of unclear but potentially profitable concepts, foreign to the logic of traditional industries, were materialized in business terms. In fact, Internet companies could not be valued based on their past performance since there were no precedents. As a result, investors speculated about the compelling future promise based on innovative business models (Thornton and Marche, 2003). An emblematic example is Pets.com. While its huge spending on advertising brought enormous brand awareness, it became a company everyone knew about but nobody was interested in what it was selling. It

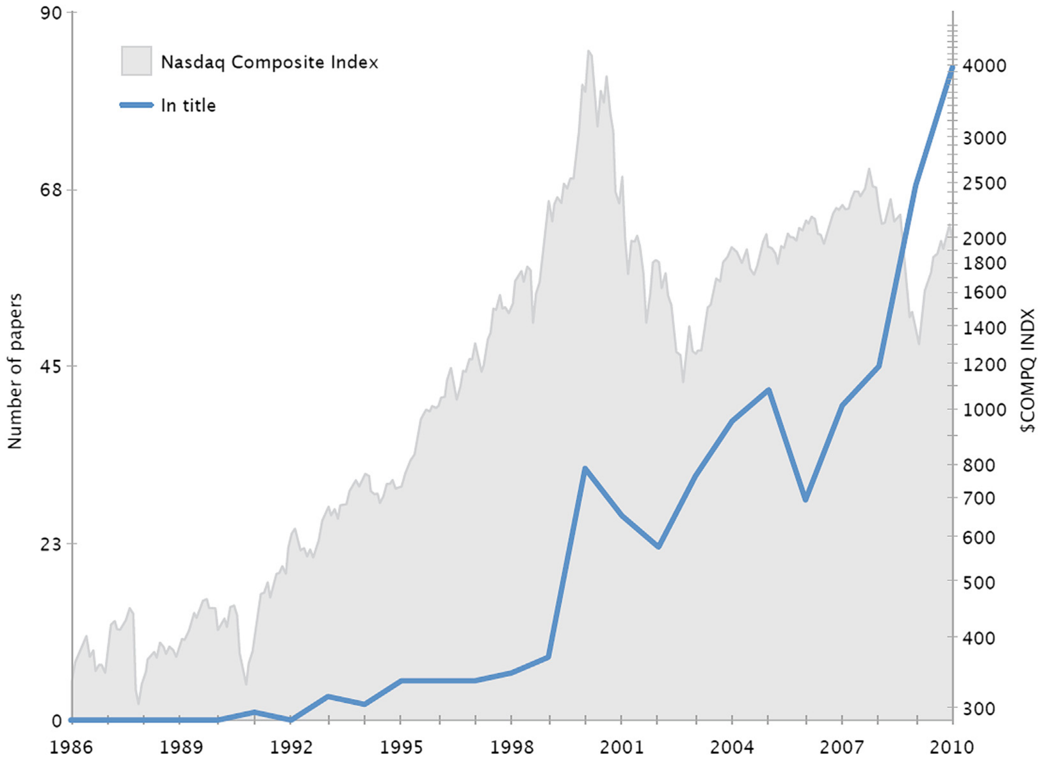

Figure 1. Number of papers published on business models vs. the NASDAQ trend

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overestimated the market trend and assumed its spending would be followed by astonishing revenues. Despite the lack of financial soundness, the company attracted investments amounting to USD 300 million in less than two years. Expenses rapidly overwhelmed the company and investors demanded a return. Stock prices went from USD 11 per share in February 2000 to USD 0.19 on the day of its liquidation a few months later. This example clearly demonstrates how the company's business model was used as a justification for its stratospheric valuations, a mistake common to several other dot-com companies of the time (Garfield, 2011).

Another example is the company Kozmo.com, which guaranteed its customers free delivery with no minimum purchase amount for all sorts of items ranging from Starbucks coffees, DVDs, to a pack of gum. They believed the expensive delivery costs would be offset by the savings they would gain from not having a retail space open to the public. In 1999, one year after its launch, the company had USD 3.5 million in revenue and a net loss of USD 26.3 million. Despite this apparent discrepancy, the company was able to raise USD 280 million from investors throughout the two and a half years of its existence before its eventual bankruptcy (Ackman, 2011).

The fact that the term "business model" propagated together with the rise of NASDAQ stocks may show that (innovative) business model was initially just a buzzword. The business model terminology hid the otherwise evident lack of strategy and poor revenue models of companies with fast growing stock prices but low or even non-existing profits.

However, the term "business model" survived the dot-com bubble. The number of papers with "business model" in their title remained relatively stable between 2004 and 2007 at 25–42 papers annually. Interestingly, it began to grow again with 45, 68 and 83 papers, in 2008, 2009 and 2010, respectively. A closer look at this trend reveals that the 2004–2007 stream of papers was characterized by a change in focus from the business model of Internet companies to the analysis of business models in "general business". As the Internet and ICT had revolutionized the way companies do business in virtually all industries, the business model term quickly spread to the analysis of brick-and-mortar companies. Companies from industries such as airlines (Lawton and Solomko, 2005; Procter, 2005; Tretheway, 2004) and music (Manafy, 2006; Procter, 2004; Swatman et al., 2006) are some of the most-thoroughly analyzed cases.

Furthermore, the growth of business model literature in recent years can also be attributed to papers on business models outside the business sphere. The term has also been used as a buzzword to analyze basically any kind of human endeavor with a wide range of interpretations (Ghaziani and Ventresca, 2005). Authors have discussed the business models of terrorist organizations such as Al-Qaeda (Vardi, 2010); political parties such as the Labour Party in the UK (Faucher-King, 2008); the possibilities to preserve nature (Sovinc, 2009); and the development of rare diseases (Ferry, 2010). The term is even used in macroeconomics to discuss the model of the US economy (Cappelli, 2009).

The question remains whether business model can become a defined and established concept in the literature in the long term. What now follows is an assessment of whether the term "business model" provides relevant insights to both business scholars and practitioners.

Why does the term "business model" exist?

Understanding how business works and how value is created for different stakeholders has become the grail quest of management scholars in recent years. Millions of dollars were raised to fund flawed "business models" during the dot-com era (Shafer et al., 2005). However, the problem does not lie with the term itself but with its lack of understanding and misuse. If a business model's core stands on untested or speculative assumptions about the future, the firm is doomed to an uncertain outcome. For example, Pets.com assumed its extravagant marketing expenses and consequent brand awareness would be offset by large amounts of purchases. Such efforts reached a certain mass and the general public was aware of the Pets.com brand, but only a fraction of those were pet owners and, of those, only a few were willing to order pet-related products online. In addition, several products which the company sold were retailed at a price lower than the acquisition costs. As a result, Pets.com was losing money on nearly every order. It believed that by building a large customer database, it could raise prices later in order to offset its initial losses. The reality was that customers were price-sensitive and could easily drive to their local grocery store and buy pet-related products there, instead of ordering them online and waiting several days for delivery. Those assumptions took the company from being IPO-listed on NASDAQ to liquidation in less than nine months. Non-targeted marketing allied with bad management, high transaction costs and poor strategic decisions led the company to excessive debt and consequent closure. CNET even considered this to be one of the greatest dot-com failures in history (Wolverton, 2000).

A milestone in the proliferation of the term's use was the disruptive changes motivated by new technology, such as ICT in general and the Internet in particular. The sophistication of technical and organizational networking enabled not only a broader range of business networks and business strategies to emerge, but also faster adaptation to innovations. As a result, the Industrial Age way of doing business became woefully inadequate to meet the imminent challenges of the Information Age (Skerlavaj et al., 2007; Venkatraman and Henderson, 1998). Hamel (2002) even attributed the high capitalization levels seen in Silicon Valley throughout the 1990s to the emergence of innovative business models more than to the talent of their brilliant visionaries. Further, Afuah (2004) perceives business model as the core reason behind the creation and success of corporations, such as Microsoft, Walmart, eBay or Southwest Airlines.

Likewise, many consultants and business publications have adopted the business model terminology in reference to firms' ways of doing business (see Gilbert et al., 2003; Johnson, 2010; Kim and Mauborgne, 2005; Schwalm et al., 2009). Finally, a growing number of consulting companies have been offering services in the field of business model innovation and creation, such as McKinsey & Company, Bain & Company and the Boston Consulting Group. Congruently, in its 2008 “Global CEO Study” IBM revealed that companies from a broad range of fields and industries were actively seeking advice on how to innovate their existing business models (IBM Global Business Services, 2008).

Thus, it is clear that there is a large discrepancy between the high level of importance attributed to the term “business model” by practitioners, consultants and researchers and the low level of clarity of its meaning. The fuzziness associated with the term led renowned scholars to even question its added value within the management literature. For example, Porter (2001) described the business model approach to management as an “invitation for faulty thinking and self-delusion” (p. 73). Is “business model” simply a term to explain the high capitalization of dot-com companies, justify new consulting projects, and enable the easier publishing of academic papers, given its hype nature? Or does it have a legitimate place in the management literature? We thus attempt to sharpen the conception of what a business model is not - and what it is.

Theoretical grounding

The business model term may have gained predominance among the academic and business communities, yet this does not prove its added value for research and practice. Dozens of definitions and component breakdowns of the business model have been proposed over the last decade (Amit and Zott, 2001; Casadesus-Masanell and Ricart, 2010; Chesbrough and Rosenbloom, 2002; Johnson et al., 2008; Magretta, 2002; Morris et al., 2005; Osterwalder and Pigneur, 2010; Teece, 2010; Zott and Amit, 2010). Thus, our aim is not to provide yet another business model description or a more precise identification of the components that form a business model. Rather, we propose a theoretical grounding focused on understanding the practical nature of the business model term and the conditions in which the business model terminology is appropriate.

Any theoretical grounding should be able to explain both the observed trends receiving scholarly attention as well as establish a clear distinction among existing terms within the literature. Common ground for business model research is necessary due to the current disparity of approaches in terms of the concepts used and phenomena explained (Zott et al., 2011). Unspecified theoretical expectations or a lack of theoretical knowledge may otherwise lead researchers to replicate pre-existing findings, adding little to existing theoretical knowledge, or to produce massive amounts of data without any clarity with respect to how that data can lead to novel insights (Andersen and Kragh, 2010).

The resource-based view and transaction cost economics perspective

While the resource-based view (RBV) has permeated much of the research on business models, most articles published on the topic framed within the RBV do not delineate how the business model terminology differs from other popular terms such as strategy (George and Bock, 2011). Models of any kind (including business models) implicitly or explicitly address the internal competencies that underlie a firm’s competitive advantage (Morris et al., 2005). This line of thought is consistent with the RBV where the firm is viewed as a bundle of resources and capabilities (Barney, 1991). A typical example of using the RBV to explain the business model term is presented in Hedman and Kalling (2003) where IKEA’s business model is exposed through resources such as design skills, supplier relations, sourcing networks, and cultural factors like strong commitment and leadership.

While relevant, the RBV alone cannot explain the complexity of business models or its prominence in recent years. Resources *per se* do not bring any value to customers; value is generated through the transactions made with the use of resources. For example, a technology (resource) alone has little to no value (Chesbrough, 2007). Firms are required to deploy such technology through transactions in order to create value. We thus agree with McIvor (2009), who emphasized the importance of combining the RBV and the transaction cost economics (TCE) theories. As business value is created from unique combinations of resources, TCE identifies transaction efficiency as a source of value (Morris et al., 2005). Supporting these findings, we argue that business models represent a specific combination of resources which through transactions generate value for both customers and the organization. Ergo, Ryanair’s business model can be interpreted as a combination of resources (e.g., non-unionized workforce, standard-plane fleet) and the way they are deployed through transactions (e.g., online ticket bookings).

The logic behind our choice of those two theories follows Schumpeter’s (1934) theory of economic development which argues, among others, that value is created from a unique combination of resources, while TCE recognizes transaction efficiency and boundary decisions as a source of value (Morris et al., 2005). Similarly, previous research has revealed that the theoretical underpinnings of the RBV and TCE are common among practitioners for the purpose of creating a business model (Amit and Zott, 2001; George and Bock, 2011).

This theoretical grounding provides us with a strong background for assessing how the understanding of a business model has formed and been shaped over time. For example, it explains why the term “business model” was originally prominent among Internet companies. Since one of the main roles of the Internet and e-business was to dramatically reduce transaction costs (Bunduchi, 2008; Mahadevan, 2000), several competing ways of organizing a business were made possible at similar costs. Thus, with the advent of the Internet the choice of a suitable way of organizing business activity is much wider these days than ever before. For example, Nokia’s telecommunication business model in the early 1990s was straightforward. As the first handheld phones came out, the company focused on organizing its key resources in order to manufacture Nokia devices on a large scale. At the time, the possibilities of partnerships and additional revenue streams were limited and standard among the industry.

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Today, business model possibilities within the telecommunication industry are enormous. New and innovative ways of doing business are being discovered at a faster pace than ever before. Thus, advances in technology allow mobile phone manufacturers to generate revenues not only from the sale of their handsets and associated accessories, but also from several other sources. As the marginal costs of conducting transactions in a digital world are close to zero, mobile phones have become a billion dollar distribution channel where thousands of digital products such as music, movies, photos, software and games are purchased and consumed instantaneously.

The inherent advantages of the Internet (a dramatic reduction of transaction costs) have progressively spread into virtually all industries, including traditional brick-and-mortar companies. Ryanair, for example, took advantage of the existing technology to eliminate intermediaries in ticket sales while acting as an intermediary in hotel and rent-a-car bookings. Not long ago, it was essential for a customer to walk into a travel agency to book their travel arrangements. The price the customer paid would reflect multiple fees ranging from the travel agency commission to the actual airfare. Airline companies depended on agencies to sell their tickets and vice-versa. The revenue distribution and stream were set and only limited possibilities for innovation and growth were available. These days all of this can be done at home with the click of a mouse or touch of a screen. Airlines can even go to the extreme case of selling plane tickets below their marginal cost as they have established alternative revenue streams through online sales that compensate for that loss (i.e., the online sale of hotel rooms, car rentals, city-airport transfers). Without the Internet, the cost of doing so would be prohibitively high.

In a nutshell, the way companies operate in the 21st century is open to an unprecedented range of possibilities. The term “business model” has accompanied this evolution and gradually found its place among the academic literature. By studying the roots of the terms and building upon the RBV and the TCE, we argue the core of a business model is defined as a combination of resources which through transactions generate value for the company and its customers.

While theoretically grounded, our rationale for the business model does not distinguish it from other popular terms within the management literature (George and Bock, 2011). In the following sections, we will reveal how our theoretical underpinning of the term “business model” relates, complements or even substitutes other concepts.

Strategy

Porter (2001, p. 71) describes strategy as “how all the elements of what a company does fit together”. On the surface, this definition appears to be parallel to that of business models: “A system, how the pieces of a business fit together” (Magretta, 2002, p. 6). Indeed, several scholars have dwelled upon understanding the difference between strategy and business models, with several opinions emerging (Casadesus-Masanell and Ricart, 2010; Ghaziani and Ventresca, 2005; Magretta, 2002; Porter, 2001; Seddon and Lewis, 2003). We argue that business model differs from strategy in two different ways.

First, by building on Casadesus-Masanell and Ricart (2010) who state, “business models are reflections of the realized strategy” (p. 204), we argue that strategy shapes the development of capabilities that can alter current business models in the future. Strategy is about building dynamic capabilities aimed at responding efficiently to future and existing contingencies (Ambrosini and Bowman, 2009). Dynamic capabilities are defined as the capacity to anticipate, shape, seize opportunities and avoid threats while maintaining competitiveness by improving, combining, protecting and, when deemed necessary, rearranging the company's intangible and tangible assets (Pavlou and El Sawy, 2011; Teece, 2009).

Figure 2 represents our framework. We argue that strategy (a long-term perspective) sets up dynamic capabilities (a medium-term perspective) which then constrain possible business models (present or short-term perspective) to face either upcoming or existing contingencies. Thus, strategy entails devising dynamic capabilities able to respond to contingencies through the organization's business model. Business models are then bounded by the firm's dynamic capabilities.

For example, a contingency Ryanair might consider is the possibility of a major European airline going bankrupt in the near future. As a result, Ryanair could strategically prepare itself for this contingency not by changing its current business model but by developing the dynamic capabilities required to take advantage of that opportunity, should it arise.

This argument is in line with our theoretical grounding, where the TCE offers a rationale for the potential benefits associated with acquiring excess resources and highlights the circumstances in which such resources can be better spun off from the company (Silverman, 1999). Clearly, Amazon and its cloud computing business can explain such a rationale. While developing the best possible dynamic capabilities to service its present and future needs (computing capabilities able to support its growing online retail business and associated peaks in demand), Amazon saw a strategic opportunity to build upon its overcapacity in order to service other companies. The development of excessive dynamic capabilities represented a strategic decision to move away from its initial business model. This resulted in a new set of strategic options and visionary business opportunities that led Amazon to become one of the key players in the cloud computing industry (Clayton, 2011).

Second, while we concur that “every organization has some business model” and “not every organization has a strategy” (Casadesus-Masanell and Ricart, 2010, p. 206), we further emphasize that strategy reflects what a company aims to become, while business models describe what a company really is at a given time (Figure 3).

To cement all three concepts, consider once again the low-cost airline Ryanair. The company's strategy is clear: reduce the perceived fare price to the lowest possible compared to other airlines, in order to attract customers. This strategy has led the company to carefully devise dynamic capabilities such as strong bargaining power with airports (Barrett, 2004), aircraft suppliers (Ruddock, 2007), and staff (Hoffmann, 2007); and, an experienced legal department able to respond to lawsuits associated with their strategic goal (Carey, 2011). As a result, Ryanair's existing (or lack of) dynamic capabilities allow (or restrict) the company's ability to take advantage of opportunities through the transformation of its business model. Thus,

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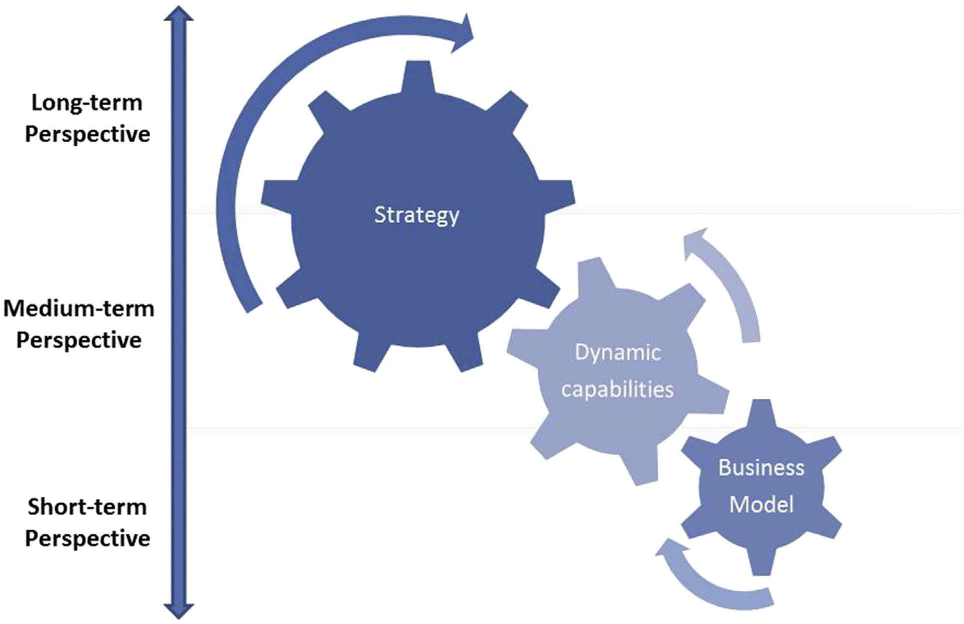

Figure 2. Generic Framework 1

Ryanair's business model refers to the combinations of resources (i.e., a standardized airline fleet) and consequent transactions (i.e., bookings not allowed though third-party websites to minimize transaction costs) that generate value for both customers (i.e., low fare prices) and the company (i.e., low variable costs).

Business concept

The academic community has acknowledged that the status and origin of the whole idea of a business concept term is ill-defined, calling for greater conceptual clarity and rigor (Lindman, 2007). A review of the literature reveals several similarities between the terms "business model" and "business concept" (see, e.g., Hedman and Kalling, 2003). In fact, earlier authors used both terms as synonyms without bothering to clarify the distinction between them. Business model is described as the "way of doing business" or its "business concept" (Hamel, 2002; Voelpel et al., 2005). Others would argue the business concept precedes the business model without giving a clear explanation: "…the development of new business concepts and the establishment of corresponding business models" (Lindman, 2007, p. 196).

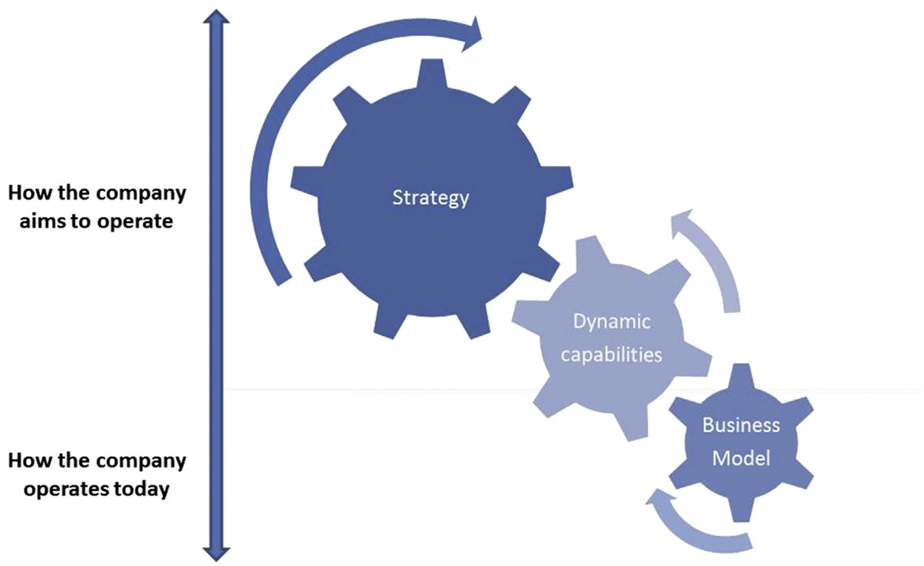

Figure 3. Generic Framework 2

We argue that the business concept is any conceptualization of business reality, such as the business itself along with a company's strategy and business model. This is in line with Applegate (2001), who defined "business concept" as any of the following: 1) a business market opportunity; 2) the products and services offered; 3) competitive dynamics; 4) a strategy to obtain a dominant position; and 5) a strategic option for evolving the business.

Ryanair's business concept could be defined as: "A no-frills airline company that offers point-to-point flights and aggressively lobbies in order to offer the lowest possible fares to its customers while maximizing its income through ancillary revenues."

While researchers seem to be approaching a consensus on what a business model is, the business concept seems to remain fuzzy exactly due to its broadness. A typical example is the paper by Pynnonen and Kytola (2008) which somewhat hazily exposes the "business concept innovation process".

Against this backdrop, we believe the term "business concept" will progressively disappear from the academic literature and make way for an increasingly more rigorous alternative term – the business model.

Revenue model

The term "business model" has often been confused with "revenue model" (George and Bock, 2011). Defined as the specific mode in which a business model enables the generation of revenue, a revenue model describes the revenue sources, their volume and distribution (Amit and Zott, 2001; Ibrahim, 2006). A revenue model is viewed as an important element of a business model, defined as the means by which value is captured by a firm (Zott and Amit, 2006). Therefore, a revenue model alone does not define how a company creates value in its entirety, but solely how revenue is appropriated by the firm through the sale of its goods or services. Put briefly, having a revenue model does not in itself define a company's business model, although it is clearly an important component of a business model.

Ryanair's revenue model involves not only charging customers their advertised base fares, but also charging a large number of miscellaneous charges and fees. Its sources of revenues are as diverse as checked baggage fees of up to 150 euros, to re-editing fees of up to 160 euros for a misspelled name change ("General Terms & Conditions of Carriage," 2011). In addition, it also has a series of ancillary revenues such as: in-flight food, beverages, merchandise and third-party advertising on seats and lockers; a car-hire partnership with Hertz; travel insurance packages; transfer services; and a mobile-phone roaming service (Air Scoop Report: Ryanair Business Model 2011, 2011)

Economic model

An "economic model" is defined as a mathematical description of both the determinants of behavior and the jointly observed outcomes of this behavior at a given point in time (Cicchetti et al., 1973). It represents a tool to analyze any kind of behavior and its outcomes in economic terms using different kinds of economic and mathematical modeling. This encompasses everything from a simple supply-demand model in an introductory microeconomics course to the economic model of moral motivation (Brekke et al., 2003).

While Teece (2010) states that business models have not been sufficiently considered by economists, we argue that historically economics often used the term "economic model" to describe what is nowadays considered to be a "business model." For example, Hansen and Wernerfelt (1989) used the term "economic model" to explain the performance of companies.

The term "economic model" was often used as a buzzword in the past. A typical example is that several papers in leading economics journals in the 1970s (e.g., El-Hodiri, 1971; Newhouse, 1970) used the term "economic model" in the title but did not mention it a single time in the text. However, the term "business model" has conquered some of the economic model literature and was used as a means to characterize topics such as nature preservation (Sovinc, 2009), the situation of the US national economy (Cappelli, 2009), or in a comparison of Asian and US economic models (Singh and Zammit, 2006).

While business models provide a richer logic of the firm and the way it operates within an industry or economy, economic models provide an economic and mathematical rational specific to a firm (i.e., profit functions of a firm), industry (i.e., the market structure of the US airline industry; Ciliberto and Tamer, 2009), or an economy as a whole (Casadesus-Masanell and Zhu, 2010).

In the case of Ryanair, the firm uses economic models in order to set flight prices through an analysis of the elasticity of demand. Economic models thus allow airlines to, for example, draw mathematical correlations between their customers' expenditure on air fares, and expenditure on non-fare items (for a similar model, see Njegovan, 2006).

Business process modeling

Since the business process hype preceded the business model hype, several authors in the late 1990s and early 2000s used the terms "business modeling" and "business process modeling" interchangeably (Akkermans, 1995; Dave, 1998). While the importance of business process modeling may grow conjointly with e-business models (Wang and Wu, 2011), the two terms no longer overlap in the research community. Although the distinction in the management literature seems to be clear by now, some misuses still exist in the information system and computing fields, as well as in some conference proceedings (Ouyang et al., 2009; Pavlovski and Zou, 2008; Sukaviriya et al., 2007). To clearly state the distinction: business process modeling is an approach to describing how businesses conduct their operations and typically includes graphical depictions of activities, events and control flow (Recker et al., 2009). Process modeling thus enables a more structured identification of the means by which transactions are executed within an existing business model. Figure 4 presents a simplified business process model of an airline company.

Implications

Unfortunately, many scholars have seen business models as something managers should use to explain various phenomena (Zott et al., 2011). Accordingly, when the limitations of doing so are recognized, the term "business model" is criticized when it would be more appropriate to criticize the way in which it is implemented.

Porter notes that taking the business model in isolation from the company's strategy may hinder the firm's most important advantages. Numerous cases supporting this view can be found in the mobile application industry. When companies launch a successful mobile application on the market, one thing is certain: copycats are just around the corner. The initial business model may prove successful, meaning the decisions made and consequences of such decisions generate a positive outcome within a certain timeframe. However, contingencies such as copycats (competitors) force the company to have a plan of action for the different eventualities that may arise. Without a clear strategy ready to modify the existing business model, the competitive advantage may soon be offset. This view is congruent with Porter (1980) who contends that a firm must keep on innovating as it is constantly exposed to new competitors and substitute products. As an example, Rovio, the company that launched Angry Birds, the famous game for mobile phones, has constantly updated its business model. Since it was launched in December 2009, the company has offered several free updates of its existing games in order to keep its audience engaged. Angry Birds also launched special editions of the game, such as Angry Birds Rio and Angry Birds Seasons, as well as a large array of clothing and toys in order to strategically increase its revenue streams by upselling its existing happy customers as well as by reaching new customers (Mangalindan, 2011). By strategically upgrading its business model by nurturing its dynamic capabilities (Figure 5), it has been able to grow its revenue streams. Angry Bird is among the most downloaded mobile applications in the Apple App store (Baker, 2012) and aims to become one of the world's largest entertainment franchises (Wingfield, 2011).

Rather than describing business model as an inadequate management "approach", it is better to describe it as an "incomplete approach". A business model focuses the attention of the strategist on decisions that have short-term consequences. However, a business model does not tell the strategist to disregard the company's strategy when deciding how the company should react to upcoming contingencies. In order to outperform competitors in the long run, strategists must consider three important steps. First, they need to not only choose the right combination of resources (in line with the resource-based theory) but also the most efficient transactions (in line with the TCE) at a particular time. Second, they must be able to renew their distinctiveness as competition threatens, through the constant development and nurturing of dynamic capabilities. Third, they must be able to redefine their business model in a quick and effective manner in accordance with the strategy and the contingencies presented along the road. Thus, a business model does not by itself give strategists all the answers for how to operate a business and generate a sustainable competitive advantage. Instead, it paints a picture of the company and reveals how the various elements of the business work together at a certain moment in time.

Conclusion

Two main topics have been addressed. First, we aimed to improve understanding of the business model term through a theoretical analysis. Second, we attempted to define the business model's distinctiveness and its connection with other popular management terms. Our research revealed that the business model terminology has been criticized from three main perspectives. First, it was defined as the management philosophy of the future during the dot-com era when, due to its incomplete nature, it was revealed to not necessarily be so. Second, the dot-com bubble provided several examples of poor management practices that had been adopted in the name of a company's business model. Third, the fuzziness associated with its meaning has divided opinions among scholars concerning its value and usefulness in the management field.

This paper sheds light on the distinctive character of the term and the need for it to be complemented with a clear and operational strategy. Hence, managers seeking to outperform their competitors in the long run need to focus on: 1) choosing the right business model (selecting the right combination of resources and associated transactions) for the present circumstances; 2) executing their business model in an excellent manner; 3) continually developing and strengthening their company's dynamic capabilities; and 4) being able to effectively and timely modify their business model when an opportunity or threat arises.

Avenues for further research

Our findings suggest several avenues for further research. First, a topic closely connected to the common understanding of the term "business model" involves the question of what does the frequently-used term "business model innovation" mean?

Figure 4. Simplified business process model of Ryanair (based on the work of Ploesser et al., 2009)

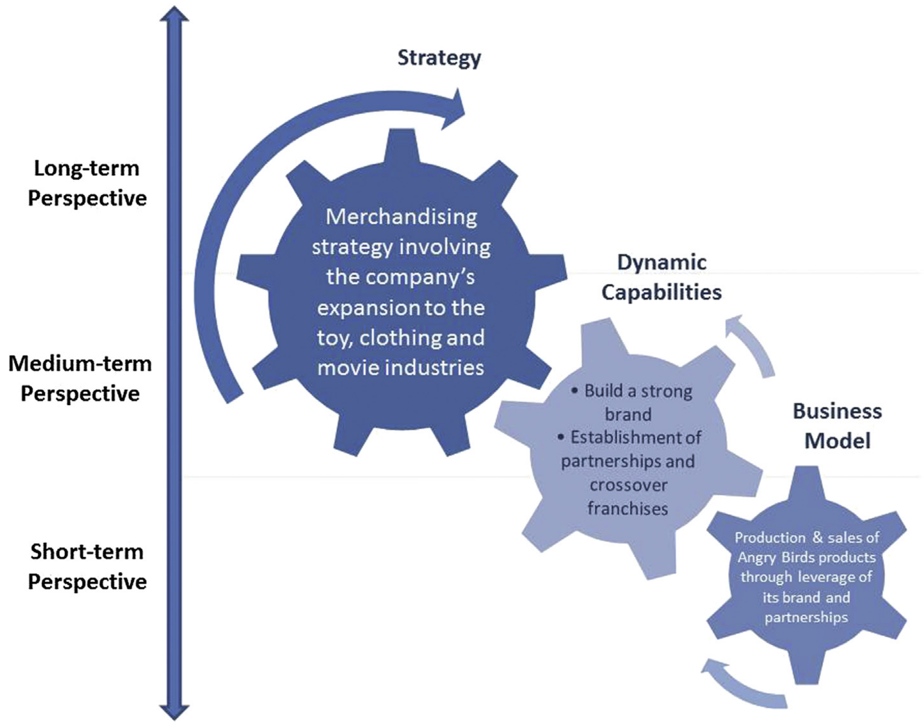

Figure 5. Framework applied to the Angry Birds case

Specifically, which elements of a business need to be altered in order for a change to be considered a business model innovation? Currently, business model innovation is often used by consulting companies for marketing changes that rarely go beyond a "simple" process improvement. Thus, a business model innovation should involve more than a simple business process redesign.

Change and innovation in business models bring us to the second important topic: how are business model changes path-dependent? Path dependency explains how the set of decisions one faces for any given circumstances is limited by the decisions one has made in the past, even though those past circumstances may no longer be relevant (Pierson, 2000). The importance of path dependency in the accumulation of firm-specific technological competencies, and how managers are heavily constrained in the directions of their technological search, was well explained 15 years ago (Patel and Pavitt, 1997). Therefore, the question is first if and then how path dependency constrains future changes in a business model. For example, Ryanair may not have certain strategic choices available as a result of its current and past business models (e.g., being a no-frills airline).

Lastly, how can a business model become a source of competitive advantage? While most components of the business model can likely be "bought" on the market or "implemented", this can hardly be the case of their interplay. In that respect, an important question concerns when one can argue that the competitive advantage of an organization is due to its business model. Furthermore, can a business model become a powerful tool for planning and predicting upcoming forms of competitive advantage and, if so, how?

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