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Some Reflections on Business Models, Organising and Strategy[1]

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How should scholars integrate the idea of business models into traditional strategy thinking, and how does thinking about business models give us new insights into the challenges of organising the firm, creating competitive advantage, and anticipating competition?

In this excellent special issue edited by Christian Nielsen (2023), there are three contributions that I draw upon to indicate how we can answer the above questions and move our thinking forward about business models, their use and how to research them. First, there is the contribution of Nicolai Foss (2023), who so aptly reminds us of three important characteristics of business models: they are about choice, they are about relationships between activities and organising, and they have a cognitive element. The second contribution by Joan Enric Ricart (2023) builds on these insights by emphasising that there is a relationship between business model choices and strategy, where the business model is both a key element of strategy and not just another dimension of strategy. Third, there is the contribution of Xavier Lecocq, Benoit Demil and Vanessa Warnier (2023), who remind us that we need to model much more explicitly the relationship between business model choice and the key elements of the organisation that include: resources and competencies, customer value creation and capture, and ways of organising.

The great strategy thinkers such as Drucker, Ansoff, Bower, and more recently Rumelt (2011) recognised that strategy was about making choices, and related to choices was the idea of "focus". In classical strategy thinking, the focus was principally on the firm and its supply chain and what was in and what was not in the firm – as identified by Coase and Williamson. These ideas manifest in journals and, of course, in textbooks, where the strategy toolkit is filled with supply-side concepts such as resources and capabilities, identifying rare and inimitable ones, and looking at the pathways to success through managing competition. We owe a great tribute to those who penetrated deep into these processes, in particular Nelson and Winter, who explored the idea of routines being the fundamental element for our thinking of the firm, as well as Porter, who elaborated traditional industrial economic thinking into a valuable strategy framework for thinking about competition. These writers emphasised how difficult it was for a firm to build long-term advantages and how decisions on organising the firm were critical for success.

Few, if any, of these thinkers thought that bringing the customer into the firm was relevant, for they followed Marshall and the classical economists in thinking that we can understand the customer by researching their preferences and modelling these and, from these models, plot our strategies. Teece (2010) was among the first to engage in this challenge. He recognised that firms could engage more dynamically with customers. And as the digital age has progressed, it has become very clear that firms could shape customer values in a very instrumental manner. This means that to make progress in thinking about strategy in this 21st century, we can no longer exclude the customer (particularly the consumer) from the strategic framework. We must consider whether the firm believes it should accept the Marshallian idea of fixed customer preferences or whether it should incorporate the

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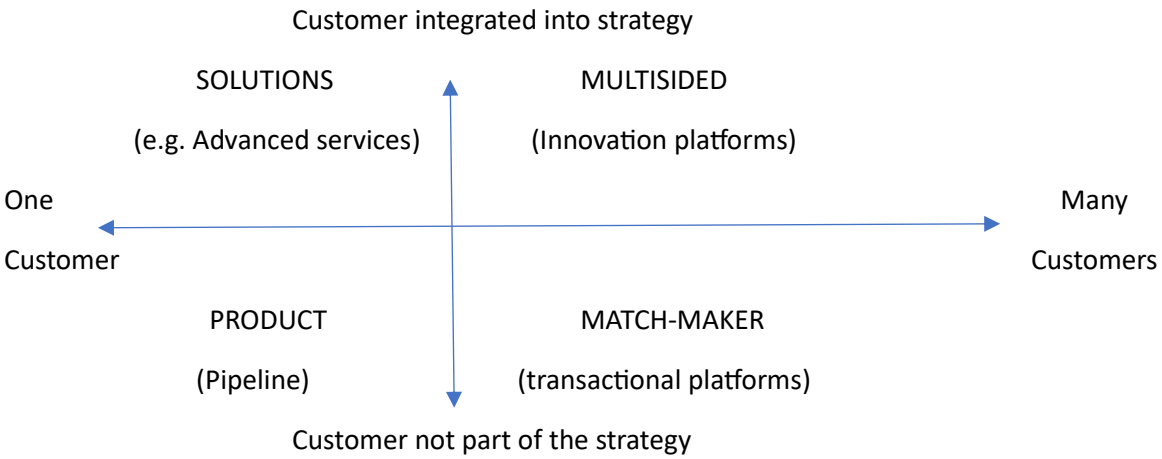
customer (particularly the consumer) into the strategic processes of the firm and recognise the possibility that interactions between the firm and the customer may unlock new value.

Here, I set out some ideas that bring these thoughts together, and I do this building on my work with Mary Morgan, that business models can be seen as models and that we need to categorise business models to make progress (Baden-Fuller and Morgan, 2010). I also draw on my work with Stefan Haefliger on different kinds of business models that engage with customers and my work with Vincent Mangematin that business models are cognitively useful to managers as well as representing real actions (Baden-Fuller and Haefliger, 2013 and Baden-Fuller and Managematin, 2013).

To make progress, let us think about how a firm builds its business model to engage with its customers (particularly the consumer) and ask: Does the firm's business model bring them into focus and put them into the strategic mix or leave them apart? Using the terminology of Amit and Zott (2010) and of Casadesus-Masanell and Ricart (2010), this question can be seen as asking if the customer (consumer) is part of the formally modelled business-model configuration, that is, does the customer (as something that can be influenced) explicitly appears in the value-creation - value capture?

Modelling the firm's business model very simply recognises that real firms rarely face such simple situations but that modelling highlights issues previously ignored. Here, I model the challenge of putting the customer into the firm's business-model thinking and firm strategy, and we are examining two dimensions. The first dimension is whether the customer is "in" or "out" of the strategic decision-making process, that is, whether the customer is treated as a static actor to be satisfied or one that is to be brought into the whole strategy equation and to be managed dynamically. We can label these two choices as "pipeline" or "solutions" business model choices. A solutions business model is much more than selling services; it is dynamic involvement between the firm and its customer, such as we find when a firm offers "advanced services" that seek to involve the customer deeply in the design and delivery of value. On the other axis, let us ask the classic question,, as to whether we are in the business of connecting multiple customer groups – either by running an "exchange" (a transactional platform) or connecting them and exploiting these connections through manipulations (an innovation platform), Gawer (2014).



Combining this typology with traditional theory, we can bring several useful insights for strategy research and strategy thinking.

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Dynamics of building advantage: First, we consider moving up and down the chart. Complex business models that bring the customer into the equation will have extra costs due to the need to coordinate more activities. To create profit, the firm must create more value in the eyes of the customer. This is unlikely to come from static configurations; rather, the firm will need to have an even greater stress on innovation, and the innovation needs to exploit the very feature of the organisation. That is, the innovations will lie along the boundaries between the firm and the customer and exploit knowledge at this boundary that other business models have ignored because of the high transaction costs of accessing the requisite information and exploiting it efficiently. We see this being exemplified by the work of successful servitized firms such as Rolls Royce. Unfortunately, the literature has very little work comparing the innovation pathways of different business models and comparing the outcomes. This kind of work would bring great insights to strategy research and practice and build on existing work on innovation and advantage.

Second, we consider moving from left to right. Engaging with customers will only create advantages if the markets are not efficient. Matchmakers know this and recognise that the harder they work, the more they eliminate their potential source of profit. The very thin margins of Amazon Marketplace testify to this, and the strategies that Amazon Marketplace follows seek to create lasting differentiation by adding non-matchmaking services. Google, an innovation platform, has found it much easier to create and maintain a good margin because innovation is the heart of its strategy.

Organising: It is suggested that each business model requires quite different kinds of architectures of linkages, and these also bring different cognitive ways of thinking, especially in a firm that produces physical goods. For firms involved in physical goods, different kinds of business models are best grouped into different divisions within the firm. That is, the firm that has both solutions business models and pipeline business models in its portfolio needs to organise them into separate parts of the firm. Of course, as noted in the literature by writers such as Visjnic, Jovanovic & Raisch (2022) and Snihur, Thomas and Burgelman, 2018) suggest there will be linkages, but these are linkages between different units. I suggest that the optimal arrangement will be to avoid having more than one kind of business model within a single business unit. We observe firms such as Axel Springer organising their portfolios along these lines of thinking and creating great synergies within each division between businesses that do not seem to have any other connection except the fact that they share the same business model. Unfortunately, there is very little in the literature on organising, and I fully agree with Nicolai Foss (2023) that this area needs attention. Hopefully, the above framework will stimulate some new thinking. And more work here would also help fill our understanding of the cognitive challenges posed by business model thinking, another area in need of work.

Competitive Dynamics: Each of these business models exhibits different competitive dynamics. The solutions business models are associated with explicit and implicit customer lock-in and muted short-term competitive forces. In the long term, as noted by many, the multisided platform exhibits "winner takes all" dynamics. No such benefit accrues solutions, but when the value proposition is good, solutions (with the right innovations) will drive out the product business model. On the other hand, the solutions approach will remain a niche in the competitive landscape without good innovation. Unlike the first two themes, work here looks at competitive dynamics, particularly for digital businesses. But more must be done, especially looking across all four business model types.

All of these tentative propositions need more work, theoretical and empirical. But we suggest they represent a research agenda and an agenda for managers to consider.

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