UNDERSTANDING BUSINESS MODEL AND BUSINESS MODEL RISKS (SUMMARY)

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SUMMARY

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Principal Topic

A majority of the business model literature focus on definitions and typologies, while only a handful of the studies address performance issues (Malone et al 2006, Zott and Amit 2004, Chesbrough and Rosenbloom 2002). Their conclusions, however, offer limited help, individually or together, in making a broad set of guidelines for business model design and performance assessment, especially by those that are in greater need, the entrepreneurial firms. We develop a functional framework to describe a business model, and use the framework to introduce a set of risks associated with a single business model as well as with multiple, coexisting business models.

Method

We develop our business model framework through identifying common substances and features among the various business model definitions in the literature, and then connecting them in a way that is both coherent with the key strategic management perspectives and conducive to management practice. Our proposed structure for classifying business model risks is derived from the business model framework. A variety of business model risks are introduced based on that structure and key theories of profit under competition.

Results and Implications

Our functional framework of business model includes four basic and interrelated elements: Value propositions, delivery systems, enabling resources, and value configurations. In a nutshell, value propositions describe the added values that a firm offers to the other economic actors in its market. Delivery systems incorporate the roles and responsibilities, the activities, the processes, and the relationships of the firm and other economic actors, which allow the flow of product, information, and money to actualize the value propositions. The enabling resources encompass the firm’s resources and capabilities that mobilize and energize the delivery systems. The value configurations define the firm’s objective functions that collate the other three elements. The business model risk structure is a three-by-three matrix that covers risks at the element, relational and system levels, and addresses three types of risks concerning value of market, firm’s share of the value, and competitive sustainability.

The proposed business model framework and business model risk structure are useful tools for business model design and performance assessment. Our hope is that business models in management practice would play a role beyond business story telling, with the help of those tools.

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