Business Models in Context:

Some biased reflections

Michael G. Jacobides
London Business School
and Advanced Institute of Management Research

AoM Meetings – Chicago, IL, August 11, 2009
Why should anyone bother with business models?
And what can we do to help the field progress?

• Business models, to be interesting, *must* become susceptible to study
  - The “it” is important – need to go beyond the Judge Stewart definition
  - **Agree on what part of reality to “fix” & focus on**

• If business models are important, other abstractions must be less so
  - Focus on “usual suspects”. Explain why studying “industries” don’t make sense, e.g., but studying *varieties of business models* do
  - **Identify regularities (sectors?) that are outdated, where BM help**

• To make the effort worth its while, link to existing & ongoing research
  - E.g., how do business models link to intra-firm relation portfolios? How do they map to industry architectures, boundary choices, vertical architectures?
  - **Identify promising areas of overlap with current / ongoing work**
Business Models and their Context

(or; BM meet Industry Architectures)
But first, some background:

Why are we so much into Business Models – *now*?

- Because there is something they explain, that people “get”
  - And a clumsy clumsy effort of the literature to catch up
  - Definitional mess... Frustrated efforts to fit to existing constructs...

- This is part of the crack to the current paradigm in strategy
  - But it is a *symptom* of the underlying issues of our theories
  - So, we should first consider the *causes* -- lack of reality-theory fit

- Basic building blocks: Firms (& strategies); and sectors
  - Firm makes money (SBU, Corporate), operating in sectors (=> profit)
  - ....really? We may be well forgetting some important things
What is *really* wrong with our conceptions in strategy

- Firms make money in many ways – not just by summing up profits
  - Financial structure and capitalization is key – and we’re becoming clueless
  - Game-plan includes not only profits, but asset windfalls (JW, JMS,07; JWK,09)

- Firms design their boundaries and activities in a permeable way
  - The logic of your activities is systemic (e.g., boundary setting a la JB, OS,06)
  - There is a story which transcends individual SBU’s out theories ignore

- Sectors, too, are surely *not* fixed. And firms *try to re-shape them*
  - Many “BM innovations” are either changes within IA; or changes of IA
  - Sadly, our conception of industries as given assumes it away (JKA, RP,06)
What BM research tries to do (unwittingly?)

• Redress the inherent limitations in existing conceptions of *firms*
  – Getting back to the logic with which you make money as the core
  – And then suggesting the other stuff follows

• Consider the choices a firm has to revisit its role within the IA
  – It is about finding new configurations in the way it makes money
  – But, disconcertingly, this too done clumsily- the context was absent

• And re-think the very structure of the IA – shaping new ecosystems
  – Need to revisit the structure of several sectors... But it’s not *just* the BM
  – Research that confronts reality and considers how BM links to IA
Back to the Yin and the Yang:
Business Models and Industry Architectures

• Industries, as we saw, are not given: Industry Architectures matter
  – IA prescribe the contours within which BM operate
  – Individual BM innovation (or *change*) consists of changing IA position

• Innovations in BM can also push the limits/ change the IA
  – Inasmuch as new (to the world) rules and roles are devised
  – Research should consider BM innovation *in its broad sectoral context*

• Bring back the context: BM outside the researchers’ lab
  – Choices in terms of BM cant be understood in isolation; IA/ competition key
  – IA and BM co-determination explains what is new and when / how it works
Conclusions and ways forward

- Study BM to help revisit the nature of the firm
  - Explicit focus on how BM relate to the firm and to how it makes money
  - Consider how the structure of the firm and BM interact

- Study BM in the context of their Industry Architecture
  - Look at whether BM are changes within or of their IA - implications?
  - Clearly link design of BM and re-design of IA. Cross-germinate!

- Focus on the context of BM, and build theory from the ground up...
  - Multiple BM co-existence within one IA? BM incompatibilities or rival IA’s?
  - ...and start exploring profitability implications. Demography of profit migration!

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