

Business Models in Context:
Some biased reflections

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AoM Meetings – Chicago, IL, August 11, 2009

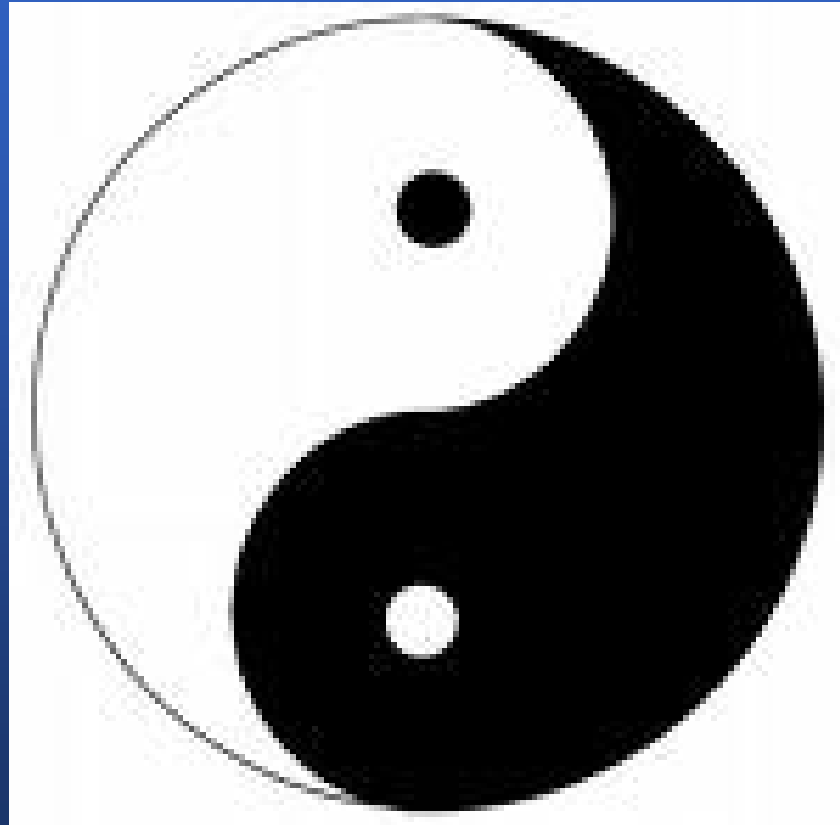
Why should anyone bother with business models?

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” dont 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 that are outdated, where BM help**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!