



Department of Management, Chair Management of Innovation

Start-ups and Business Model Design

A Multiple Case Study Investigating Business Model Design in Swedish IT Start-ups

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Abstract

The business model concept has received high praise in management literature for the last two decades. While scholars identified the concept with incumbent organizations during the 90s, it has since gained traction within the entrepreneurial community. Although successful in practice, however, it has yet to gain significance in academia.

This study identifies a gap in business research between two heavily studied subjects, business model design and entrepreneurship. It combines academic research with empirics to assess its research questions.

The findings indicate that start-ups are well aware of business model design. It further identifies which components of the business model that are of high value to new venture and which components are down prioritized. The findings further supports the idea of trial-and-error experimentation as a natural process for entrepreneurs.

This study advances the research of business model design for start-ups, by adding new findings to existing literature. Moreover, it creates a framework for studying the topic of business model design within new ventures, which can be further developed by scholars.

Keywords: *Business Model Design, Business Model, Entrepreneurship, Entrepreneurial Processes, Trial-and-Error Processes, Business Model Components*

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1 Introduction

Starting a company is an intricate and challenging task. During the early years of an organization, the entrepreneur has to make many decisions that will influence both the business and the product. Moreover, the decision-making has often to be done within the constraints of money and time. Studying business model design in entrepreneurship could facilitate these decisions.

It was not until the 1990s that the concept of business models and business model design gained traction in academia, with the emergence of Information and Communications Technology - companies reshaping business making. It has since been thoroughly researched for larger organizations, and scholars have found strong links between companies' competitive advantage and their business models. Recent research has found a link between value creation and change in business model components, further highlighting the value of business model in both research and practice. Following these studies, Osterwalder (2004) has created a framework, explaining the components of a business model. While this framework has received high praise in academia, it has yet to be applied in practice.

Macroeconomic changes such as globalization, deregulation and technological change create possibilities, and does not only drive change in the business model components of incumbent firms (Casadesus-Masanell & Ricart, 2010), but also presents opportunities for new ventures. Alrich and Fiol (1994) argues that new technology is both volatile and unpredictable, and entrepreneurs are constantly struggling to create business models to cope with these challenges. It is in this context the concept of business model design has had recent, practical success with blockbusters such as *The Lean Startup* (Ries, 2011) and *The Business Model Canvas* (Osterwalder & Pigneur, 2010), among other business model design-frameworks. While students and soon-to-be entrepreneurs at business schools all over the world are currently being educated in these models, its real breakthrough has yet to be studied.

It is in the context of a fast-paced, uncertain, ever-changing world that the business models for entrepreneurial companies operates, and where business model design serves a purpose. Furthermore, Amit & Zott (2007) has managed to show that business models create large values for entrepreneurs. Based on this, it is easy to argue for the value of business model research in an entrepreneurial context.

Yet, despite the importance of the topic, combining business models and entrepreneurship have been a topic conspicuously absent in business research. While the business model concept is highly prioritized by the entrepreneurial community, it has yet to be acknowledged by the scholars to the extent it ought to be. While studies have concluded that the characteristics of new ventures differ from incumbent organizations in several ways, the implications for the business model design process has largely been ignored.

To address this gap, this study draws on current business model design literature and apply it to an entrepreneurial setting. Understanding how entrepreneurs approach business model design, and what areas of the business model they focus on, will assist in filling this research gap. Moreover, it could serve as support for both future research, as well as for entrepreneurs engaging in business model design.

1.1 Research Question

The researcher's interest and experience, in start-ups and business model design led to the wide research scope of business model design in new ventures. Understanding the process of business model design in start-ups, would not only shed some light on the process itself but also facilitate for start-ups in the future. While all businesses has a business model, the business model design is not necessarily a structured process. Hence, this generates the first research question:

- *How do Swedish IT start-ups design their business models?*

Consciously working with business model design, especially when using renowned frameworks, would lead to similar areas of the business model being prioritized in the design process. However, as the business model concept was not introduced into academia until recently the researcher argues that there is a possibility that when start-ups are involved in business model design, conscious or not, they are focusing on different things. From this idea, the second research question emerges:

- *What are the focus areas of the business model when Swedish IT start-ups engage in business model design?*

By answering these research questions, using a multiple-case study approach, the researcher aims to shed light on the business model design process of Swedish start-ups. The thesis aims to not only enrich academia, but also ensure relevance for entrepreneurs interested in business model design.

1.2 Thesis outline

The structure of this master's thesis is presented as follows:

Theoretical Framework

The second chapter reviews relevant research on business models, business model design, entrepreneurship and entrepreneurial processes. Its purpose is to enhance the readers understanding of the topic and to develop a business model framework that is used to answer the research question.

Methodology

The methodology chapter discusses the purpose and process of this thesis. Moreover, it investigates pros and cons of decided research method and research design, including choices made such as selection of study objects, gathering of information and research process, and how these choices impact validity, reliability and credibility.

Empirical findings

This chapter presents the viewer with empirical findings from the case studies. The case studies presents the views of the entrepreneurs regarding business model design. The empirical findings will then be analysed in order to be able to draw conclusions.

Analysis

The chapter discusses the empirical findings from the analysis chapter in contrast to the theoretical framework.

Future Research

The sixth chapter provides ideas for future research, based on the research committed in this thesis.

Conclusion

In the conclusion, the answers to the research questions are presented. The conclusion chapter further discuss the implications of the findings for managers and entrepreneurs. Moreover, findings either supporting or discouraging other scholars research are highlighted.

2 Theoretical Framework

This section reviews research on business models, business model design and entrepreneurship. It aims to increase the readers understanding of the topics examined in the thesis in order to answer the research question.

2.1 Business Models

The concept business model is a rather new topic within business research. Emerging from the dotcom era, the term “new economy” was introduced to describe how Information and Communications Technology (ICT) companies reshaped the business environment, with impacts well outside their own markets (Amit & Zott, 2001). With new technologies, new possibilities opened up, hence, leading the way to a dramatic increase in research concerning business models. Even though the dotcom bubble burst in 2000, business models as a research topic has only kept gaining traction since (Zott, Amit, & Massa, 2011). While ICTs introduced the concept of business models, it has been separated from ICTs since, and is now studied within all forms of organizations (Osterwalder, 2004; Amit & Zott, 2012). The main explanation to the interest in business model stems from research finding correlation between companies’ competitive advantage and its business model (Hamel, 2000; Morris et al., 2005; Amit & Zott, 2008).

2.1.1 The Aspects of Business Models

While the emergence of the business model concept has led to a large increase in research, studies show it often has been studied without defining the concept itself (Zott, Amit, & Massa, 2011). Yet, the importance of a clear definition, to increase scientific consistency, should not be overlooked. Table 1 summarizes common definitions of business models by renowned scholars during recent years:

Author(s)	Year	Definition
Timmers	1998	The business model is “an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues” (p .2).
Amit & Zott	2001	The business model is “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (p. 511).
Chesbrough & Rosenbloom	2002	The business model is “the heuristic logic that connects technical potential with the realization of economic value” (p. 529).

Amit & Zott	2007 2008 2010	Developed the idea of business models as boundary-spanning systems of transactions and activities
Johnson et al.,	2008	The business model “consist of four interlocking elements, that taken together, create and deliver value” (p. 52). The four elements referred to are: value proposition, profit formula, key resources and key processes.
Casadesus-Masanell & Ricart	2010	The business model is “the reflection of the firm’s realized strategy” (p. 195)
Osterwalder & Pigneur	2010	“A business model describes the rationale of how an organization creates, delivers, and captures value” (p. 14).
Amit & Zott	2015	“The business model is an activity system that is designed and enabled by a focal firm in order to meet perceived market needs and thereby create value for all stakeholders involved: customers, strategic partners, suppliers, and, of course, the focal firm” (p. 3).

Table 1. List of Business Model Definitions (Author’s own)

As can be seen in above table, the definition of business models has developed over the last 15 years. This study will adopt the definition introduced by Amit & Zott (2015), defining the business model as:

“The business model is an activity system that is designed and enabled by a focal firm in order to meet perceived market needs and thereby create value for all stakeholders involved: customers strategic partners, suppliers, and, of course, the focal firm”(p. 3).

Scholars have reached consensus on the fact that the business model concept consists of a set of components (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Johnson et al., 2008; Osterwalder & Pigneur, 2010). However, what components the business model consist of has been a widely discussed subject. By reviewing literature Osterwalder (2004) managed to create an ontology, or an “agreement about shared conceptualizations”, concerning the components included in a business model. By dividing the business model into four pillars, and dividing each pillar into sub-components, mentioned ontology manages to create a framework supported by many prominent scholars. Not only does this categorization integrate important business research, but also provides a concrete description of the business model components. The research of Osterwalder (2004) was later developed into the Business Model Canvas (Osterwalder & Pigneur, 2010), creating a buzz for business models well outside the business research community (Blank, 2013).

This study will adopt business model components stemming from the research of Osterwalder (2004), and further enrich it with additional literature when necessary. Table 2 summarizes these business model pillars and its sub-components:

Pillar	Sub-component	Description
Product	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A Capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

Table 2. Business Model Ontology (Osterwalder, 2004)

2.1.2 Product

The business model pillar Product includes everything a company offers to its customers (Osterwalder, 2004). It includes all aspects of products and services the firm produces as well as the way the company diffuses itself from its customers. The element composing this pillar is Value Proposition.

2.1.2.1 Value Proposition

Customer value proposition has been a trending term in business research during recent years (Carter & Ejara, 2008). The value proposition defines how a firm's offer, and as such its product/service perceived customer value, differs from its competitors (Lindic & Marques da Silva, 2011). It revolves around perceived customer value, existing of two variables, perceived benefits and perceived costs. Perceived benefits are correlated with characteristics, features and functionalities of the product or service (Afuah & Tucci, 2003). Perceived costs are not only the actual price of the product, but also other additional costs such as time, search and effort (Slater & Narver, 2000). Chesbrough & Rosenbloom (2000) defines the value proposition as a description of core customers' problem, and a proposed solution to mentioned problem that generates value to the customers.

While research is clear concerning what the value proposition entails, studies have shown that companies have found it complex adopting it (Christensen & Overdorf, 2000). Tailoring the value proposition is not always easy, and scholars have shown that companies often designs value propositions revolving around what is offered to the customers, rather than how the offer creates value for the customers (ibid). However, a clear value proposition should not focus on the products features or offerings, but rather on the customer experience concerning needs and wants (Barnes, Blake, & Pinder, 2009).

2.1.3 Customer Interface

The business model pillar Customer Interface revolves around Customer Relationship Management (CRM). It includes three sub-components, namely, Target Customer, Distribution Channels and Relationship. As such, the Customer Interface pillar focuses on all touchpoints a company has with its customers. The development in ICT during later years has speeded up all customer relations processes (Osterwalder, 2004). Moreover, new technologies enables companies to gather more information, and as consequence, a higher degree of collaboration to enrich the value proposition (Evans & Wurster, 1997).

2.1.3.1 Target Customer

Identifying the target customer is key in a business model and this sub-component focuses mainly on segmentation. Efficient customer segmentation is key when allocating resources, to target customers in line with the company's value proposition (Osterwalder, 2004). The sub-component has traditionally been further divided into business-to-business (B2B) and business-to-customer (B2C). However, companies implementing new innovative business models, mainly driven by ICT companies, has led to a new layer of customer segmentation and targeting (ibid). For instance, eBay enabling customer-to-customer (C2C) business for customers to create business for themselves and interact with each other.

2.1.3.2 Distribution Channels

Distribution channels are the connection between a company's target customers and its value proposition (Osterwalder, 2004). It does not focus on how to distribute goods or services to customers, as could be misinterpreted by its name, but rather on how communication is committed concerning marketing and sales, endorsing the business model (ibid).

There is a wide variety of distribution channels for a company to incorporate. Historically, the element being divided into either direct or indirect contact with customers. Direct customer contact indicating the use of a sales force to establish connection with customers, and indirect customer contact using intermediaries. However, research show that the landscape is changing with the implementation of ICT into business models (Wyner, 1995; Porter, 2001). Yet, the new possibilities created from new communication technologies are immense, and are key drivers in the recent increase in business model research.

2.1.3.3 Relationship

The fourth business model element, and the third sub-component for Customer Interface, is relationship. It concerns the connections a firm creates with its customers. Customer relationships are of immense importance for any corporation as it is core in profit creation (Osterwalder, 2004). Grant & Schleesinger (1995) divides profits streams from customer relationships into three categories: new customer acquisition, increased profitability from existing customers and increased duration of customer relationships. These parameters will hereafter be discussed as customer acquisition, add-on selling and customer retention.

All firms face the complexity of customer acquisition, as new customers are constantly needed to increase profits. Moreover, as no (or at least few) firms manages to retain its complete customer base over time, new customers are needed to retain the firm's market

share. Research show that customer acquisition is an expensive activity (Reinartz et al., 2005) and it has therefore to be done in a strategic manner.

Research suggests that the cost of customer retention, is considerably lower than customer acquisition (Reinartz et al., 2005; Chintagunta, 1993). There are many ways of increasing customer retention. Scholars suggest that the following parameters are highly correlated with customer retention: the perceived value of the product, customer expectation in contrast to delivered good or service, uniqueness and suitability, ease of purchase, loyalty mechanism, customer service and exit procedures (Blattberg, Getz, et al., 2001).

Add-on selling concerns getting additional profit streams from the existing customer base by offering additional products or services (Blattberg, Getz, et al., 2001). There are several ways to be successful in add-on selling, one of the most common strategies being to increase the perceived value of the existing good by adding additional services to the initial offer. For instance, Apple selling additional features to its iPhone customers through the app store, added storage capacity, iTunes etc.

Defining what customers to target, how to reach them, and how to maintain them as customers all boils down to Customer Relations Management (CRM). CRM can be described as the process in which companies separates high-value and low-value customers for the purpose to profit on different segments in different ways (Blattberg & Deighton, 1996).

2.1.4 Infrastructure Management

The pillar named Infrastructure Management concerns how a firm creates value to its customers. It consists of three sub-components: Capabilities, Value Configuration & Partnership. Allee (2000) defines the infrastructure management pillar as a value network generating economic value through exchanges between enterprises, its customers, suppliers, partners and community. The infrastructure management is centred around the key activities to deliver the firms value proposition (Osterwalder, 2004).

2.1.4.1 Capabilities

The business model element Capabilities refers to the set of assets and resources a company possess to provide products and services to its customers (Wallin, 2005). The capability element can be controlled by a company in several different ways, and does not have to stem from in-house activities. Moreover, what set of capabilities a firm needs to possess differs to a high extent between different industries, making generalization complex (ibid).

Capabilities does also refer to the set of resources needed for a company to be profitable. It can further be divided into tangible, intangible and people-based assets (Grant, 1991). Osterwalder (2004) divides aforementioned capabilities in the following way: tangible resources refers to production plants, equipment and cash. Intangible assets refers to intellectual property rights, trade secrets, brand value and reputation. People-based assets refers to human resources.

To sum up, capabilities could be described as key resources enabling the company to offer its value proposition to its customers. These key resources can be physical, financial, intellectual and/or human (Osterwalder & Pigneur, 2010).

2.1.4.2 Value Configuration

The Value Configuration element of a business model describes how inside and outside activities and processes creates value for the customer. This business element stems from research on *the value chain* (Porter, 2001) as well as for the *value shop* and the *value network* (Stabell & Fjeldstad, 1998). The value configuration element can further be described as key activities the companies must perform for their business model to create value for the customer. These key activities differs between companies and industries. Osterwalder & Pigneur (2010) argues that platform development, service provisioning and platform promotions are the main activities for platform/network companies as studied in this research.

2.1.4.3 Partnership

The business model element Partnership refers to the network of partners a company aligns itself with. Moreover, it is argued that a company does not necessarily be perfect in all dimensions, as long as it manages to have partners assisting them in economies of scale, reduction of risk and uncertainty, and acquisition of resources (Osterwalder, 2004).

Osterwalder & Pigneur (2010) distinguishes four types of partnerships important for a successful business model

- Strategic alliances between non-competitors
- Strategic partnerships between competitors
- Joint ventures
- Buyer-supplier relationships

2.1.5 Financial Aspects

The financial aspects is the last pillar on which the business model sits. It consists of two different sub-components: cost structure and revenue models. This pillar is dependent on all other sub-components in the business model, as they will influence the financial aspects (Osterwalder, 2004).

2.1.5.1 Revenue Models

The revenue model is the sub-component in which customer value transforms into money. The internet revolution has put increased pressure on pricing as transparency has increased (Kocas, 2002). However, this has led to an increased number of pricing mechanisms (Klein & Loebbecke, 2000). Osterwalder & Pigneur (2010) provides a list of the most common pricing mechanisms being:

- Asset sale
- Usage fee
- Subscription fees
- Lending/Renting/Leasing
- Licensing
- Brokerage fees
- Advertising

2.1.5.2 Cost Structure

The last sub-component is cost structure. It concerns all costs that are generated from the other sub-components. Osterwalder (2004) defines the cost structure as “all cost the firm incurs in order to create, market and deliver value to its customers” (p. 101). The importance of low cost structures are different between business models. Osterwalder & Pigneur (2010) suggests that business models can be reviewed on a spectra ranging from cost-driven to value-driven. Cost-driven business models focuses on minimizing cost, so that the company can increase the perceived customer value with a low price. Value-driven business models on the other side of the spectra, focuses on maximizing the value for the customers, often by increasing personalization. A lean cost structure is more important for cost-driven than value-driven business models.

2.2 Business Model Innovation

The idea that business models can be reinvented, or innovated, is straightforward if aforementioned definition of business model components is accepted. However, business research has not noticed the subject until recent years (Frankenberger, Weiblen, Csik, & Gassman, 2013). Research suggests that business model innovation (BMI) involves changes to business components, when striving to achieve a competitive advantage (Amit & Zott, 2001; Chesbrough, 2010; Demil & Lecocq, 2010; Teece, 2010). A wide range of researchers has since accepted this definition. However, the debate on which components the business model entails has been ongoing, as previously mentioned.

Casadesus-Masanell & Ricart (2010) argue that main drivers of BMI are globalization, deregulation and technological change. They further argue that these drivers have reshaped the competitive landscape, forcing firms to seek new ways to increase competitive advantage. The second phenomenon driving BMI are organizational efforts to enter new markets in emerging economies, targeting customers with low purchasing power, commonly referred to as “the bottom of the pyramid” (Prahalad, 2010). Innovation was for long an activity solely performed as product or service innovation. However, as the perceived value of business models has increased, developing a business model that maximizes the company’s competencies is now a top priority (Anthony, 2012).

2.3 Business Models and Entrepreneurship

The business model concept has received high praise recently in entrepreneurial practice (Morris, Schindehutte, & Allen, 2005). However, the topic of business models and entrepreneurship has yet to gain the same importance within business research. While business models, business model innovation, and business model design are applicable to all companies, this thesis focuses on business models in start-ups. While aforementioned concepts and models indeed are relevant, both for entrepreneurs and multi-national enterprises, there are several differences between them in the processes concerning business models.

2.3.1 Entrepreneurship

Entrepreneurship can be defined in a variety of ways. One of the most common definitions of entrepreneurship is the one coined by Howard H. Stevenson in 1983, when developing a framework for understanding entrepreneurship, entrepreneurs and their constant pursuit of

opportunities. Stevenson (1983) defined entrepreneurship as “Entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control”. This definition has three key components, namely: *pursuit*, *opportunity* and *resources* (Eisenmann, 2013). *Pursuit* denotes the focus of the individuals involved, the entrepreneurs, towards a specific target (ibid). Eisenmann (2013) further suggest that the word *opportunity* indicates a novel offering in one or more of four ways:

- A completely innovative product
- A new business model
- A better or cheaper version of an already existing product
- An already existing product, targeted at a different customer segment.

Lastly, the term *resources* introduces a constraint into the definition. It indicates that entrepreneurs themselves rarely possess the resources needed to seize the opportunity identified, but pursue it nevertheless.

2.3.2 The Entrepreneurial Process

New venture creation includes many different aspects, processes and challenges. Further developing the works of Timmons (1977), Gartner (1985) divides the entrepreneurial process into three main elements: the recognition of an opportunity, the team, and the resources needed to exploit the idea. Moreover, Stinchcombe (1965) reasons that new venture creation leads to the build-up of both resources and commitments. During later years, business researchers has argued for the importance of intellectual capital, organizational learning and networks to create successful start-ups (Fuentes Fuentes 2010, Iebra Aizpurua 2011; Hormiga 2011).

Churchill & Lewis (1983) argue that start-ups goes through up to five growth stages: *existence*, *survival*, *success*, *take-off* & *resource maturity*. In the first phase the companies existence is in focus, and the company’s main goal is to find customers, and deliver the company’s product or service. Customer acceptance is key in the existence-stage, the authors argue, as the alternative would be closing the business. The second growth stage, survival, is characterized by generating enough cash flows to stay in business (ibid). Furthermore, the organization can be described as simple, with few employees and low degrees of system development and planning. Churchill & Lewis (1983) divide the third stage, success, into two strategic options to the entrepreneur, *success-growth* or *success-disengagement* (ibid). In this

stage, the company's performance is positive and the entrepreneur can choose to either grow the company or disengage. In the success-growth stage, profitability is important, as well as developing and recruiting employees with a vision for the future (Churchill & Lewis, 1983). A company with healthy economic performance, but without plans for future growth characterizes the success-disengagement stage. In the last two stages, take-off and resource maturity, the entrepreneur's role diminishes and a professional leader is necessary to grow the firm (ibid).

More recent research has concluded that the environment in which the entrepreneurs operate is moving at an ever faster pace, and as the expiration date for innovation shortens, the entrepreneurial requirement specification increases (Sarasvathy 1998). Moreover, Aldrich and Fiol (1994) show that as new technology is unstable and erratic, developing a firm that manages to handle these challenges involves uncertainty.

2.3.3 The Business Model in New Ventures

The business model has received little focus in business research compared to the high praise it has received in entrepreneurial practice (George & Bock, 2011) and research has often been committed studying business models and entrepreneurship as separate topics (Trimi & Berbegal-Mirabent, 2012). While there is an arguable gap in business research, the importance of business models for entrepreneurial firms is large (Amit & Zott, 2007).

Early research on entrepreneurship shows the flexibility of start-ups, being less controlled by earlier decisions and resources, than more established firms (Stinchcombe, 1965). This has implications for business models of entrepreneurial firms as they can construct the business models from scratch. Brown & Gioia (2002) argue that an advantage for start-ups is that the companies can try multiple business models simultaneously, opposite to larger firms.

Hite & Hesterly (2001) show the value of business model design for entrepreneurial firms and argues that the performance of the entrepreneurial firm is critically reliant on boundary-spanning organizational activities, an antecedent to the business model. Ireland, Hitt & Sirmon (2001) further emphasize these findings when arguing that early business model design in entrepreneurial firm is the main reason for the firm's existence, as the entrepreneur's agenda is to change industries by introducing new ways of doing business. Aldrich (1999) introduces the idea that start-ups replicate business models of existing firms, further emphasized by Zott (2003) showing that imitative business models often are centred

on minimized costs. McGrath and MacMillan (2000) propose that while this might be the case, even imitative entrepreneurial firms adapt their business models to fit market needs.

As scholars have agreed upon the importance of the business model for entrepreneurial ventures, research has focused on more aspects of the business model of the new firm. As the entrepreneur constantly wants to innovate and grow the company, it creates new problems, and Chesbrough (2006) concludes that one issue that new firms face is business model information management. Entrepreneurs often lack the capital to be able to grow fast (Cassar & Holmes, 2003; Thornhill, Gelatly and Riding, 2004) and as few entrepreneurs are able to generate the capital needed themselves, they will need to search for external financing (Storey, 1994). However, external financing often demands a high business model transparency to be able to attract venture capital (Johansson & Malmstrom, 2013). Scholars argue that the business model transparency is hazardous to the young organizations, as it exposes the core of the business, as well as decrease competitiveness (Ireland and Webb, 2007). To be able to attract external financing, however, the entrepreneur would not have another option than transparency. As such, one of the main weapons for competitive advantage, trade secrets, is lost in the entrepreneurial ventures strive for external financing (Berger & Udell, 1998).

2.3.4 Business Model Practices

The recent increase in research concerning the business model has introduced several practices for business model design that has gained widespread attention. Trimi & Berbegal-Mirabent (2012) argue that the entrepreneurial business model design process can be divided into two main phases. The first phase is characterized by trial-error dynamics and is called the business model design step. During the first step the entrepreneurial venture tests several hypotheses regarding its product/service, or its internal processes, to formulate a robust business model. The second phase concerns application of the business model being designed in the first phase.

Organizational theory argues that organizations remember by doing (Nelson & Winter, 1982) and the most efficient way for an organization to change, and learn, according to Sosna et al. (2010), is by trial-and-error experimentation. Research on similar concepts, such as experimentation (Ahuja & Lampert, 2001), improvisation (Moorman & Miner, 1998) and learning-by-doing (Minitti & Bygrave, 2001) has further fuelled the concept as key in handling changing demands. A study by Sosna et al. (2010) highlights the value of trial-and-

error processes in business model innovation, arguing that it is key lever for successful business model innovation.

While aforementioned studies has mostly focused on larger firms, the link to new ventures has not been researched to the same extent. Churchill & Lewis (1983) argue that start-ups are more likely to improvise than incumbent organizations, as they are used to “fire-fighting”. Furthermore, young companies will face many challenges they have not faced before, and as young organizations lack resources and experience, forcing them to improvise (Zahra, Sapienza and Davidsson, 2006). Hence, it is easy to argue that the extended agility of the start-up would further enhance the possibilities for trial-and-error experimentation, and the value stemming from it. This idea is further encouraged by the research of Nicholls-Nixon, Cooper & Woo (2000), who argue that not only is strategic experimentation a natural part of entrepreneurship and that learning from mistakes is inhibited in the DNA of entrepreneurship.

2.3.5 Differences Between Entrepreneurial and Incumbent Organizations

The differences between entrepreneurs and incumbent organizations are many, and this paragraph does not in any way attempt to count them all. However, several aspects would have a major implication on business model design worth mentioning. The increased agility of the entrepreneurial venture enables it to adapt quickly to changing market needs (Sarasvathy, 2004). Moreover, as mentioned by Brown and Gioia (2002), the entrepreneurial company can test several business models simultaneously. It is easy to argue that the increased organizational learning from business model experimenting and improvising, in line with the ideas of Nelson and Winter (1982), further differentiates the entrepreneurial venture from the incumbent organization. However, the entrepreneurial venture inhibits a financial constraint in its nature, leading it to apply to external financing. Yet, this financing results in an increased business model transparency for the entrepreneur, decreasing competitive advantage (Berger & Udell, 1998).

3 Methodology

This section discusses the purpose of the thesis and describes the research process.

Moreover, this section discusses pros and cons of decided research method as well how choices made impacts research quality.

3.1 Research Purpose

The purpose of this study is mainly exploratory, as it aims to increase the understanding of the Business Model Design process within Swedish start-ups. Exploratory studies look for new insights into yet unexplored charters of its research (Saunders et. al, 2015). Since the fundamental concepts in this essay are rather newly developed, with Business Model research gaining traction within business research in the 1990s combined with the introduction of the Internet to the larger mass (Osterwalder, 2004), there are many areas that has yet to be discovered. By applying the relatively new concepts of Business Models and Business Model Designs to new ventures within a specific industry, IT, and a specific location, Sweden, this thesis targets to shed some light on the relatively new phenomena of Business Model Design within IT start-ups.

The research is designed as a multiple case study, studying companies from a similar setting, namely software start-ups in Sweden. Yin (2009) defines a case study as an “empirical inquiry that investigates a contemporary phenomenon [...] in depth and within its real-world context” (p. 16). Moreover, it is argued to be a suitable research design when answering questions of “how” and “why” as well to develop theories in new areas (ibid).

3.2 Selection of Study Objects

The study objects of this thesis are the business models employed by innovative new ventures. Yin (2009) argues that it is essential when arranging multiple case studies, to follow a replication logic. Hence, the companies chosen in this study were carefully selected based on a set of pre-requisites. These pre-requisites were created in order to have an as homogenous selection as possible to yield relevant insights. The following evaluation pre-requisites were used in when assessing the companies:

1. Companies from Sweden
2. Companies in line with the definition of entrepreneurship by Stevenson (1983):

“Entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control”

3. Companies working with IT solutions/tools

The final sample of companies were all based on above mentioned criteria. However, the final selection was also based on non-probability convenience sampling. Bryman & Bell (2011) describes convenience sampling as the selection being based on accessibility.

The following table shows a short overview of the companies in this study:

Company	Industry	Main product
Adfenix	IT	Online advertising tool for real-estate agents
ImBox	IT	Chat window for website owners
VNU	IT	Measuring of customer flows for nightclubs
Iplay	IT	Online platform for athletes to build personal brand

Table 3, Overview of companies (Authors own)

3.3 Selection of Interviewees

The selection of interviewees was based on finding the person at every company most suitable and probable to give elaborative answers to the questions asked, as recommended by Denscombe (2000). In order to do so founders of the companies chosen were decided to be most suitable. The interviewer contacted the interviewees directly to set up the interviews. The following table shows a short presentation of the interviewees of this study, as well as their title.

Company	Name	Title
Adfenix	André Hegge	Founder/CTO
ImBox	Joakim Rosén	Founder/CEO
VNU	Andreas Rolén	Founder/CEO
Iplay	Carl Sjöholm	Founder/COO

Table 4, Overview of respondents (Authors own)

3.4 Gathering of Information

3.4.1 Primary Sources

The primary sources used in this thesis are solely based on the outcome of semi-structured interviews with the aforementioned respondents, as well as a follow up email asking one additional question regarding milestones in their business model design.

3.4.1.1 Semi-structured Interviews

Semi-structured interviews can be reviewed as a trade-off between structured interviews (e.g. surveys), and unstructured interviews (e.g. conversation) (Bryman & Bell, 2011). While it would indeed have been possible to gather the same information without structuring the interviews, semi-structured interviews were appropriate taking into account the time constraints in addition to enhanced replicability. In addition, information could have been gathered by structured interviews; however, Bryman & Bell (2011) argue that structured interviews are inappropriate when information such as new ideas are sought. The interviewees were invited to elaborate freely on their answers. Moreover, the interviewer tried to avoid leading questions as well as body language impacting the interviewees answers in certain ways, as encouraged by Denscombe (2000). All interviews were performed at the companies' offices in order for the interviewees to not be influenced by new environments. Also, after all interviews were committed a follow up email with a question regarding important milestones for the business model design process was sent to the interviewees in order to further enrich the empirical findings.

3.4.1.2 Interview Guide

An interview guide was created in order to certify that important aspects were discussed, as well as to maintain focus of the researched subject, see exhibit 9.1. The author let the questionnaire guide the interviews but let the interviewees elaborate freely upon their answers in order to not let the questionnaire limit the findings, as encouraged by Harrell & Bradley (2009). When deemed necessary, the interviewer asked follow up questions, in order to capture more aspects of the topic. The interview guide was created in several steps. Firstly, a draft was created based on the theoretical framework of the thesis. The draft was then revisited several times in order to certify that important topics to answer the research question was included. Moreover, remarks from both colleagues and supervisors were collected. Furthermore, a pilot interview was conducted and the interview guide was once again revisited and reviewed before the final version was created.

3.4.1.3 Transcription

All interviews were firstly recorded digitally and then later transcribed. Bryman and Bell (2011) argues that a downside with recording interviews is that the interviewees can be alarmed by the fact that their answers will be recorded. However, as a single researcher the benefits of recording widely outweigh the downsides. The interviews were transcribed fully including follow up questions and similar. Small talk and discussions before and after the questions of the interview guide has not been transcribed. All transcription was made in connection to or maximum within a couple of days from the recording of the interviews.

3.4.2 Secondary Sources

In order to conduct decided research in a satisfactory manner, an initial descriptive analysis including theoretical studies was conducted as a first step towards a theoretical framework. The theoretical analysis was later developed into a literature review in to make sure all important aspects of the topic was covered.

3.4.3 Literature Review

The research question that decides the direction of this thesis is as follows:

- *How does Swedish IT start-ups design their business models?*
- *What are the focus areas of the business model when Swedish IT start-ups engage in business model design?*

The aim of the literature review is to construct an understanding of the topic being investigated, and what theory suggests are acceptable/suggested ways of designing a business model. Moreover, research has been committed on Business Models, Business Model Design, Entrepreneurship and Entrepreneurship Processes to increase the authors understanding of the topics. To identify relevant literature, in an efficient manner, the author created the following inclusion and exclusion criteria:

Inclusion criteria:

- Articles discussing the origin, definitions, and the concept of Business Models
- Articles discussing the origin, definitions, benefits and drawbacks of Business Model Design
- Articles including concrete guidelines of how companies can design its business models

- Articles that document previous examples of Business Model Design, both successful and less successful, that provides insights or recommendations.
- Articles discussing the origin, definitions, and the concept of Entrepreneurship
- Articles discussing Entrepreneurial Processes within the scope of the research question, such as change, trial-and-error learning & experimentation

Exclusion criteria:

- Articles that have not attained public recognition
- Articles that do not stem from credible sources
- Articles focusing solely on the concept of business model innovation

3.4.3.1 Key Words

The following key words have been used when finding relevant literature for the theoretical framework:

Business model, Business model design, business model innovation, disruptive innovation, business model process, business model development, entrepreneurship, entrepreneurial processes, trial-and-error learning, entrepreneurial experimentation, entrepreneurial change

3.4.3.2 Databases

The following data bases has been used to gather relevant literature for this study: Google Scholar, GUNDA, Emerald Insight and EBSCO Information Services

3.5 Research Process

There are two separate research strategies to commit business research, namely, quantitative research and qualitative research (Bryman & Bell, 2011). The qualitative research method aims to answer research questions such as “how“ and “why”, while quantitative research methods targets questions such as “what” to a higher extent (Saunders et. al, 2015). While qualitative research methods focuses on analysing information gathered from in depth interviews, discussions or likewise, quantitative research emphasizes numerical data to answer the research questions (Bryman & Bell, 2011). While both quantitative and qualitative research has its advantages as well as disadvantages, the quantitative research approach was chosen as it was deemed most appropriate to answer the exploratory research question.

This thesis use the qualitative method to understand the attitude of the study group towards business model design. Moreover, as the qualitative research method is used to identify opinions, beliefs and behaviours concerning a specific topic, it should be considered appropriate to answer previously mentioned research question. Bryman & Bell (2011) propose the normal way of conducting qualitative research as a six-step process:



It describes the fundamental stages in the process of qualitative research. The research initiates by finding a focus area and creating a research question. Secondly, a literature review is committed to gain knowledge in the area studied. As the researcher's knowledge has increase of the subject, the research question is refined. When the research question is refined, the researcher collect data by interviews. The empirical findings are linked to theory and conclusions can be drawn. This thesis uses abovementioned process proposed by Bryman & Bell (2011) to answer its research question. To get an increased understanding of the research procedure for this thesis, please see the steps presented beneath:

Step 1. Literature review searching for interesting subjects

Step 2. Brief analysis of literature for business model design and start-ups

Step 3. Literature review of methodology

Step 4. Decision taken for area of interest and study purpose

Step 5. General research question created

Step 6. Extensive literature review (See 4.4.3)

Step 7. Development of theoretical framework

Step 8. Refined research question

Step 9. Development of interview guide (See 4.4.1)

Step 10. Identification of relevant case companies and interviewees (See 4.4.1)

Step 11. Collection of primary data by interviews with case companies

Step 12. Transcription of interviews

Step 13. Established empirical findings

Step 14. Analysis of collected primary data

Step 15. Analyse empirical findings and compare to theoretical framework

Step 16. Conclusion

Qualitative research considers the relationship between theory and research to be inductive, so that research generates theories (Bryman & Bell, 2011). Moreover, its epistemological approach should be considered as interpretivist, indicating that the focus of the research is on understanding the social world by reviewing events occurring as an interpretation of the events through its participants (ibid). Its ontological position can be considered constructionist, as mentioned method reviews social events as created by the participants, rather than phenomena happening out of nowhere. Furthermore, the research design can be considered as a comparative research design, as it compares several cases with each other (Bryman & Bell, 2011). Since the comparative research design allows the researcher to derive patterns and theories from the similarities and differences between the cases (Yin, 2009), it has been often used in business model- and business model design research.

3.6 Research Quality

In this thesis multiple cases are studied, in order to somewhat neutralise the weakness of the case study concept, consider favourable by Yin (2009). However, the nature of the case study concept, as well as limitations in time and resources, imposes several problems discussed hereafter that limits the findings of this thesis.

First, one must be aware that business model design is a process rather than an occurrence. This implies a problem for the interviews as the companies could be in different stages of the business model process. To ensure the highest possible comparability between the studied cases, it was ensured that all companies was in the same start-up stage. This thesis uses a renowned framework by Churchill & Lewis (1983), to do so. Moreover, the interviews study occurrences in the past. Therefore, when the interviewees are asked questions such as “Have you been actively working with business model design?” the interviewees could refer to

different timeframes. Hence, the researcher introduced the timeframe of three months into the questions, in order to increase comparability between the findings.

Reliability concerns whether or not the measuring procedures chosen would produce the same outcome consistently (Neuendorf, 2002). Semi-structured interviewing as method in its nature makes reproducibility low; hence, reliability weakens (Bryman & Bell, 2011).

Moreover, as this study focuses on a social phenomenon, decided by people, one must be aware that such processes are constantly changing (ibid). As the concept of business model design has not been introduced into business research until recently, there is a risk that a replicated study in the future might produce different results, as the concept is developing.

The author have attempted to be as clear as possible when describing how the study has been committed, as well as using renowned definitions for all debated topics, in order to enhance reliability in every way possible. All interview questions were recorded in the interview guide and the interviewees answers are recorder and documented.

Research validity relates to what extent the research measures what it intends to measure. Yin (2009) divides validity into three categories:

- Construct validity – To what extent the research design is appropriate to investigate the research question
- Internal validity – Investigating the causal relationships between the events studied and the findings
- External validity – Refers to generalizability of the results

Construct validity is hard to attain in qualitative research as it is easily harmed by subjectivity and researcher bias as well as respondent bias. To avoid subjectivity to the greatest extent as possible the interview guide was created to keep all interviews on the same path. Moreover, examples and definitions were used to certify that the interviewees did understand every business model sub-component in the same way.

Although Yin (2014) argues that internal validity is not a major problem for studies of exploratory nature, all facts that has been mentioned by the interviewees has been double-checked to the highest possible extent.

As all main arguments driven in the study are based on theories from other scholars with strong research acumen, possibilities for analytical generalization should be regarded high. Hence, increasing external validity. In addition, companies with different backgrounds were

interviewed in order to increase variety and apply a replication logic as recommended by Riege (2003), all factors contributing to an increased external validity. However, as the sample size of this study is small, as a consequence of the time frame and resources of the researcher, external validity weakens.

The credibility of this study is limited to the time allotted by the respondents and the sample size. As mentioned by Bryman & Bell (2010), credibility is correlated to the width of the study, and the extensiveness of individual perspectives. A wider set of respondents would increase the credibility of this study. While the results of this study is limited to the time, setting and number of companies being studied, the results can be assumed to complement further research in the field.

4 Empirical Findings

The following section presents case empirics in order for the reader to understand what information can be derived from the interviews. It will first introduce every company participating in the study, and later present the empirical findings for the companies.

4.1 Case Study: Adfenix

4.1.1 Company Background

Adfenix is a start-up founded in 2014, residing in Gothenburg and Doha. It currently employs 16 persons, with a majority in Gothenburg. Its Adfenix platform directs to real-estate agents in order to maximize the potential of social media advertising. Adfenix has three main products, the Home Booster, the Agent Booster and the Facebook Chat Bot with the Home Booster being their most valuable product at the moment. The company has quickly grown since the beginning and is still experiencing strong growth figures. Its intelligent algorithms analyses customer data points in order for the real estate agents to understand the behaviour of potential buyers.

The founder and CTO, André Hegge, was interviewed for this study. He describes Adfenix's business as being a partner to the real estate agents. By having a broad perspective on advertisement within real estate, Adfenix manages to guide real estate agents through the ongoing digital transformation in the industry, he says. Adfenix's primary business objective is to connect the real estate agents to potential buyers and sellers through social media. Currently, a large focus for the company is on Facebook advertisements. However, Adfenix is also looking at broadening its offering to include more aspects of social media, Mr. Hegge says.

4.1.2 Business Model Design According to Adfenix

When discussing business models with Adfenix's founder the discussion focuses on the revenue creating part of the business model. Adfenix's business model is described as "finding large real estate agencies, in need of an edge in the new digital world, and to offer them the best Facebook advertisement, charging them a fixed amount per transaction". Moreover, Mr. Hegge mentions that Adfenix not currently is working consciously with business model design since it is easy to deprioritize in favour of other activities. Furthermore, the interviewee says that Adfenix has been investigating the possibility to amass capital from venture capitalists or business angels and that this activity has been a

large priority lately. As Adfenix is preparing for venture capital, it has touched upon many of the parts of the business model lately, he argues.

4.1.3 Value Proposition

When discussing the value proposition of Adfenix, the interviewee states, “to us it is important to be aware of the fact that we have several target customers [...] but the most important target customer being the individual real estate agent”.

Adfenix’s value proposition divides into two different value propositions for two main target customers, the real estate agent and the real estate seller. Mr. Hegge states, “For [the real estate agent] the most important thing is to get less dependent of the online real estate portals, since the possibility to stand out of the crowd is very small there. In these portals everyone is the same”.

For the other target customer, the real estate seller, Adfenix has another value proposition where the main points are to increase people visiting the open house, and to bring up the value of the real estate, the interviewee states. Moreover, he discusses the possibility of driving sales via the real estate seller, but having the real estate agent pay for it key in Adfenix’s whole value proposition.

Adfenix is constantly working to increase their value proposition Mr. Hegge says, not only by adding more features to the offering, but also by highlighting the offering they possess and packaging it in an attractive way to the customer.

4.1.4 Customer Interface

One of Adfenix’s biggest strengths, Mr. Hegge argues, is their ability to know their target customer very well. Moreover, he says, “Since the market is highly structured, we can create a spreadsheet with all the customers we want in a country by writing a script, taking only a couple of hours”. Moreover, highly developed data analysis enables Adfenix to control who are their target customers to a very high extent, making it a key competitive advantage, he argues.

The communication with their key customers is mainly committed via a traditional salesforce reaching out to headquarters for large real estate agencies. By communicating directly with the headquarters, Adfenix manages to reach a wide array of potential customers without contacting every real estate agent individually, Mr. Hegge states. Moreover, the contact with existing customers is described as “it is mainly about the platform interface really, where we

mediate information”. When getting asked the question “Have you been actively working with the channels in which you have customer contact during the last three months?” Mr. Hegge answers that communication with customers pose challenges when the company grows. He argues that when attracting more customers, face-to-face contact becomes inefficient. Hence, Adfenix is currently developing means of mass communication channels for activities such as support and education.

When discussing relationship to customers Mr. Hegge states that Adfenix aims to position themselves as an innovation partner to their customers. As their main customers does not have the time nor the competence to keep up with the latest digital trends, Adfenix assists them with their digitization journey. Mr. Hegge emphasizes that creating strong relationships to the customers has been high on the agenda. Moreover, he describes the relationship to their customers as personal, however, he is also aware that as it will be hard to uphold such personal relationship with all customers when the company grows further.

4.1.5 Infrastructure Management

When discussing the value configuration of Adfenix, and how the company certify that it has the right resources and activities in place to create value for the customer, Mr. Hegge states that they certify that by looking at the results. He argues that as long as the company performs as expected, key resources and activities are in place. If something is not working properly, Adfenix reverse engineer to find the core problem, and correct it. For instance, he mentions that for a while a problem for the company was expectation management, and that the salesforce of Adfenix was over promising their customers. When Adfenix identified this problem, they changed the process to assess the problem.

Mr. Hegge also discusses infrastructure management from a more holistic perspective, stating, “We start with assessing what we are promising to deliver, then we just have to figure out what pieces of the puzzle are needed in order for that to happen”. Also, he mentions the possibilities of trial-and-error as a start-up and that when too many problems occur simultaneously, prioritization skills becomes important. A constant process focus is key in ensuring that the company always improve, but that a large problem could be having too few employees in the company to cover all areas needed. Additionally, it is stated that Adfenix has prioritized infrastructure management during the last three months.

When discussing partnerships, the interviewee mentions Facebook as being the key partner for Adfenix. However, he mentions that the partnership with Facebook is completely one-

sided, as Facebook is not aware of its relation to Adfenix. The company does not have any official partners. According to Mr. Hegge partnership are not necessarily a positive thing for start-ups stating that very often, early start-ups seek to find the perfect partnership. However, according to him it rarely works stating “I have seen 30-40 failures and barely any successes, you have to be able to control your own business before a partnership can be successful”. Based on aforementioned quote he further argues that while Adfenix has been approached by several companies that wants to initiate partnerships, but the answer has so far been no. However, he also admits that there are potential partnerships being interesting to Adfenix. Yet, it is an effort making a partnership work and no potential partnership has been worth the effort, according to the interviewee.

4.1.6 Financial Aspects

When discussing financial aspects, Mr. Hegge states that Adfenix is well aware of the cost structure and key cost drivers. However, he also admits it being worrisome from time to time. Moreover, he admits that Adfenix has been working consciously in the last three months to minimize costs.

Mr. Hegge describes Adfenix’s revenue model as fairly simple, stating, “A real-estate agent choses to boost a real-estate with Adfenix, then pays a prefixed sum between 300 to 1000 SEK”. Moreover, they offer a set of add-on products ready from a technical perspective, however, all market processes are not in place and the products has therefore not been introduced to the market yet. Moreover, he also mentions that the company is constantly looking at ways to innovate the revenue model in order to create new value.

4.1.7 Milestones for the Musiness Model of Adfenix

The interviewee argues that Adfenix has had many changes in its business model over the years. However, he mentions three major milestones. The first milestone Mr. Hegge mentions is the change in target customer from real estate portals into real estate agents. The second is a cost structure change that happened as a natural step when the company transitioned from a one employee firm with few large customers into many employees and many small customers. The third and last milestone mentioned by Mr. Hegge, is a partnership change the company did in Australia. Adfenix made an attempt of partnering with a reseller in Australia, however, as it did not work out as planned Adfenix ended the partnership and recruited an employee in Australia instead.

4.1.8 Importance of Business Model Components According to Adfenix

When asked to prioritize the sub-components of the business model, from highest to lowest, Mr. Hegge responded that customer relationships was most important and that partnerships was least. Below table shows the full sub-component prioritization of Adfenix's, according to the interviewee.

Pillar	Adfenix priority	Sub-component	Description
Product	5	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	6	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	7	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	1	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	2	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	4	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	9	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	8	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	3	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

Table 5. Business Model Ontology (Osterwalder, 2004)

4.2 Case Study: ImBox

4.2.1 Company Background

ImBox is a company founded in 2013, with offices in Gothenburg, currently employing 12 people. ImBox's product is a chat window for companies to embed into their websites. The chat window, ImBox online, provides companies with the possibility to perform instant

communication with their customers in order to enhance customer service. ImBox is providing more services than the chat window to their customers, however, mostly as extra features created around the chat window. The company has grown quickly since its beginning and is still experiencing rapid growth.

The founder and CEO, Joakim Rosén, was interviewed to gather information for the thesis. He describes the company as being built revolving the chat function. Moreover, he emphasizes the fact that ImBox is currently not financed by venture capital stating “There are two different alternatives, either you get backed by venture capital, or you put in some extra effort to create your own success”. Currently, 350 websites/companies are using the ImBox online tool, mainly in Sweden, as that has been the main target of ImBox so far. Mr. Rosén states that ImBox is targeting larger firms that values having a Swedish contact person at Imbox. In addition, he describes new features the company is offering, such as a dynamic FAQ, as a product of the agile processes at the company.

4.2.2 Business Model Design According to ImBox

When discussing business model design at ImBox, Mr. Rosén focuses on the pricing strategy of the company stating, “We have no fixed prices, but our pricing is dependent on our delivery”. For instance factors such as company size, number of agents, volume of traffic, complexity etc. can all be factors decisive when it comes to price. Moreover, he emphasizes the importance of setting up pilots at companies as a gateway to business. A quote by the founder describes well his view on how the pricing at ImBox is set, when stating, “We are not selling a litre of milk, but adapt to our customers”.

ImBox is currently not working actively with business model design, but Mr. Rosén argues that it is impossible not to work with it, as the company always attempts to make it easier for the customers to buy the service. Mr. Rosén argues “We are very agile in this company and everything we do we do so quickly that we barely have time to think about it. We do something, and then we evaluate it. [...] trial-and-error, that is how we work”.

4.2.3 Value Proposition

ImBox’s value proposition is described as a “security for our customers” according to Mr. Rosén. As its main competitors are mainly US based, ImBox has a large competitive advantage in having presence in the market they are targeting. Furthermore, Mr. Rosén highlights the possibilities to tailor their solution to the customers as key success factor for ImBox. The close connection ImBox manages to tie to their customers further enhance their

products, as witnessed by the founder's statement "We are often able to meet our customers demand in a way few others are".

As ImBox has so far been targeting Sweden only, its proximity to the market has been elemental in succeeding. The interviewee states that while ImBox's goal is to expand its geographical boundaries, targeting customers outside of Sweden, presence in the markets ImBox is targeting will keep being key, and that ImBox aim to have representatives in the markets it is targeting.

ImBox is constantly working with developing its value proposition, Mr. Rosén states, bringing up an example of a conference ImBox had a couple of months back where developing the value proposition was prioritized.

4.2.4 Customer Interface

ImBox target customer is described broadly as "Everyone who has a website with some kind of business – either seeking interaction with its customers, e-business or customer service", Mr. Rosén states. Furthermore, he states that ImBox is not targeting a specific industry, but rather anyone applicable to the aforementioned description. However, he admits that while ImBox is not explicitly targeting specific industries, there are industries that are easier to target and therefore prioritized, when stating, "When we have managed to get a number of customers within the same industry, we contact more companies within the same industry to show them what we have done and the effect of our product".

The target customer segmentation of ImBox has been an ongoing process and ImBox has picked "the low hanging fruits" first, companies with a distinct need, the interviewee states. Moreover, He further suggests that it is vital for ImBox to keep developing the target customer segmentation as it does not only provide ImBox with more potential customers, but also helps the company to develop its offering as it provides a constant feedback loop.

Moreover, the interviewee states that the target customer is developed in an analytical manner as ImBox has the opportunity to measure the impact of its product in different industries, enhancing the company's ability to target customers where the impact of the product is large.

ImBox's main channel for contact with its existing and potential customers is via telephone. Mr. Rosén states that ImBox is working with outreach sales to a high extent. The company is also using social media to be visible to its customers; however, as the marketing director is on maternity leave, it has been down prioritized lately. From the interview, it stands clear that ImBox has a clear vision on what channels to use when contacting its customers and that

developing the channels is not the most important. However, the company has been recruiting two new members to the sales team, leading to more communication within existing channels, mainly via phone.

The relationship ImBox manages to create with its customers, is described by the founder as “friendly and very good [...] I am friend with several of [ImBox’s] customers on Facebook for instance, and meet them not only for professional purposes but also outside of work. For a lunch, golf, or whatever”. He further emphasizes the value of customer relationships as he says that ending contracts becomes more complicated for ImBox’s customers when the relationship exceeds only being professional.

ImBox is constantly working to create closer relationships with their customers, in the last three months the company has recruited a Customer Success Manager in order to further create closer bonds to the customers, by acting as a pro-active customer service.

4.2.5 Infrastructure Management

On the topic of value configuration, Mr. Rosén says that ImBox certifies having the right resources and activities in place by listening to the market. According to him, the market decides what ImBox needs to create and ImBox then creates what the customers demand. He also highlights having a constant feedback loop from the customers, in order to develop the company’s products, as a key process. As ImBox is currently launching a new software to its customers, it has prioritized streamlining processes to be able to supply and develop this software.

ImBox certifies that they have the capabilities necessary to provide their customers with their service by using aforementioned feedback loop. By being very responsive to customer feedback, ImBox has managed to build such capabilities that they are now sought after in their market, Mr. Rosén suggest. Furthermore, the CEO discusses what capabilities ImBox prioritizes by assessing its recruitment. If ImBox would identify a lack of capability or competence in a certain area, the company would recruit persons with the specific expertise, he says.

ImBox welcomes partnerships, and the company is currently collaborating with several IT-companies, web agencies and platform agencies. However, Mr. Rosén highlights the importance of not creating dependencies when stating that when creating dependencies, a company miss its own sales, putting the company’s sales in the hands of someone else. The trial-and-error process ImBox is applying to many parts of the company is also applicable to

its partnerships, and the company has been experimenting with different partnerships structures. All partnerships ImBox currently employs works as “only based on recommendations, no sales of our products or demonstrations”, Mr. Rosén says. Moreover, the CEO is currently focusing on extending its partnerships and are having discussions with several potential partners.

4.2.6 Financial Aspects

ImBox is well aware of its cost structure, which Mr. Rosén describes as, “We sell software, so our key cost drivers are recruiting. We have other costs as well as server costs, advertising and rent. But we know our costs well”. The interviewee states that while ImBox is concerned of its costs, the company is currently increasing its costs as it has been recruiting during the last three months.

Mr. Rosén describes ImBox’s revenue model as subscription based. While initially customers does not necessarily provide any revenues for the company, as pilots often are provided at no cost, existing customer pays on a yearly basis. Mr. Rosén describes this cash flow stream, as “It is comforting to know that we have already earned this sum next year. Therefore, we do not have to re-sell all the time. [...] We need to take care of our existing customers, but we are not forced to sell”. Mr. Rosén further states that ImBox is constantly working to develop its pricing strategy, and is currently working to make sure all salesmen provides the same price to its customers.

4.2.7 Milestones for the Business Model of ImBox

Mr. Rosén argues that ImBox has had a few milestones that has influenced the company’s business model. The decision with the largest impact, the interviewee argues, is transitioning from a Sales as a Service (SaaS) revenue model, with a fixed price ladder, into personal pricing quotes to all potential customers. The change enabled ImBox to raise its prices tenfold, Mr. Rosén states. In addition, Mr. Rosén mentions an increased offering of services such as a desktop client, and man powering the chat window as milestones as well as the recruitment of a Customer Success Manager to improve customer relations.

4.2.8 Importance of Business Model Components According to ImBox

When asked to prioritize the sub-components of the business model, from highest to lowest, Mr. Rosén responded that customer relationships was most important and that the target customer was least important to ImBox. Below table shows the full sub-component prioritization of ImBox’s, according to the interviewee.

Pillar	ImBox priority	Sub-component	Description
Product	2	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	9	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	5	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	1	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	7	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	3	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	8	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	6	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	4	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

4.3 Case Study: VNU

4.3.1 Company Background

VNU is a Gothenburg based start-up, founded in 2016. The company currently has five employees and was started as a result of a successful final project at the entrepreneurial school of Chalmers University. VNU's product is a hardware, a clicker, and a combining software package to, with high precision, analyse customer flows. The company has grown fast since its introduction and is currently targeting a variety of customers, with a focus on Swedish nightclubs.

The founder and CEO Andreas Rolén was interviewed to gather information for the thesis. He describes VNU's unique selling point as being able to analyse customer flows with much

higher precision than competing solutions such as sensors, or traditional clickers. The VNU solution enables its customers to increase understanding of their businesses to make them more efficient with the help of a data driven approach.

4.3.2 Business Model Design According to VNU

When discussing the business model of VNU, Mr. Rolén focuses mainly on pricing and lock-in factors. Mr. Rolén describes VNU's business model as a standard subscription model. Its customers pay on a monthly basis for the analysis tool, the software, and get to borrow the hardware as long as they are paying customers. Moreover, he emphasizes that VNU is having many add-on features to increase its offering, with an increased price. The company's extra features, Mr. Rolén says, are mainly extra analytical parameters such as gender split, and benchmarking possibilities.

VNU has been working actively with business model design in the past, as a consequence of the company initially being a university project, Mr. Rolén argues. Furthermore, he states that while the company is not actively working with business model design now, there are constant tweaks to the business model along the company's journey. The main focal points of the business model for VNU currently, is its value proposition and financial aspects.

However, he also admits that working strategically with these components loses focus, as it is a lot of firefighting at the company, stating, "It is hard to see the value of taking the time to investigate [business model components] more thoroughly". However, he also admits that the company has had meetings with its steering committee to identify its target customer, in which the company has done a thorough job.

4.3.3 Value Proposition

The interviewee describes the value proposition of VNU as twofold. It is not only the product the company delivers, but also the value of the product for the customers, according to Mr. Rolén. He describes the value as giving the opportunity for companies to minimize costs with a data driven approach. In addition, the customers of VNU can increase revenues as the data driven approach can give them increased insights. Mr. Rolén exemplifies aforementioned with a nightclub being able to see what DJ would increase revenue flows the most. Moreover, the possibility to see the number of guests in real time for a nightclub owner is a valuable insight, according to Mr. Rolén.

VNU is constantly working to improve its value proposition. A key driver for constant improvements, according to the interviewee, is the price sensitivity of its customers. As

VNU's customers are highly price sensitive, the company is always work to improve its offering to incentivize its customers to pay a higher price. In addition, as a cheaper substitute for VNU's products exists in the market, in the form of sensors, VNU is working to become a complement to sensors rather than a supplement.

4.3.4 Customer Interface

The target customers of VNU were initially nightclubs, and nightclubs are still purchasing the lion's share of VNU's products. Hence, Mr. Rolén describes its target customer as the manager of the nightclub. However, as VNU has identified the nightclub industry being limited in size, the company is working to identify other industries where its product can provide value, the interviewee states.

The interviewee describes the nightclub industry as "everyone knows everyone", therefore it has been key to create strong relationships to its customers. VNU is working both with social media as well as with direct communication to existing and potential new customers.

However, as the price of VNU's product is steep in contrast to its traditional competitors Mr. Rolén has lately been working to find new ways to approach with its customers. He mentions one of these initiatives being partnership negotiations with a famous beverage distributor to be able to scale its business and reach more customers faster. The idea being that the beverage distributor can communicate VNU's value proposition to their existing customers, the nightclubs, to drive VNU's sales.

The relationship VNU aims to establish with its customers, Mr. Rolén describes as "We try to keep them very close, to get to know them [...] I try to become friends with everyone I meet to the extent that I can add them on Facebook.". This tight relationship, the interviewee argues, makes it easier when converting its non-paying customers into paying customers.

4.3.5 Infrastructure Management

Mr. Rolén describes VNU as poor at certifying that the company has the right resources and activities in place to create value for the customer. He discusses having a feedback loop with the users of its products as key for certifying that VNU's hardware is good. However, for software VNU does not possess this feedback loop, hence, the interviewee admits that the company could become better at it. VNU constantly work to become more efficient in order to know what to develop and how. Mr. Rolén argues that one of VNU's bottlenecks is the lack of human capital; therefore, the company constantly tries to improve in how they spend its employee's hours.

When discussing VNU's capabilities, Mr. Rolén argues that it is not a large focus area for VNU. He discusses it from both a hardware and software standpoint. VNU's hardware production could be outsourced, as production is not VNU's main competence, Mr. Rolén argues. Moreover, the interviewee argues that if VNU would not possess a capability the company would simply recruit someone possessing that capability. He further exemplifies this when discussing a recent recruit strengthening VNU's sales capabilities.

VNU does not have any partnerships today, even though Mr. Rolén argues that its position as a customer to a design firm as well as to a circuit provider could resemble partnerships. However, it is highly prioritized by VNU to find profitable partnerships as it would extend VNU's offering Mr. Rolén argues. Moreover, Mr. Rolén pinpoints three focal points for the future when it comes to partnerships, namely, beverage distributors, cashier providers and taxi companies as being potential profitable partners.

4.3.6 Financial Aspects

VNU is well aware of its cost structure, the interview argues. However, he also admits that there always is room for improvement when it comes to cost reductions. Moreover, Mr. Rolén states that while it could be an idea to reduce company costs, VNU focus more on optimizing priorities for the employees as lack of time is a bottleneck. Furthermore, he argues that some areas in the company are not large enough to cost optimize.

The revenue model of VNU is directed towards nightclubs, paying a monthly fee. However, VNU works with optimizing its revenue model by extending its offering. Mr. Rolén discusses the difference between being a "nice to have" and "need to have" product, expressing an optimism to transition its products into "need to haves" with new analysis tools. VNU is currently prioritizing its revenue model as a focal point for improvement, mainly driven by the urge to find financial support, as well as more customers transitioning into paying customers. However, he also admits that the revenue model of VNU still highly resembles its initial one.

4.3.7 Milestones for the Business Model of VNU

While there has been few large changes to the business model of VNU, Mr. Rolén mentions one large change in the sub-component partnership. VNU has recently initiated a partnership with the Swedish beverage producer Spendrups in order to reach more customers. Mr. Rolén further suggests that this partnership will affect VNU largely; Mr. Rolén expresses it as, "We

will now focus on developing our product in line with Spendrup’s wants, as they have the resources needed to excel our company from a start-up to something larger”.

4.3.8 Importance of business model components according to VNU

When asked to prioritize the sub-components of the business model, from highest to lowest, Mr. Rolén responded that the value proposition was most important and that customer relationship was least important to VNU. Below table shows the full sub-component prioritization of VNU, according to the interviewee.

Pillar	VNU priority	Sub-component	Description
Product	1	Value Proposition	A Value Proposition is an overall view of a company’s bundle of products and services that are of value to the customer
Customer Interface	2	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	6	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	9	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	3	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	8	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	6	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	4	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	5	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

4.4 Case Study: iPlay

4.4.1 Company Background

Karl Sjöblom and Per Malmqvist founded Iplay in 2015, and the company released its product in 2016. Currently, the company has 13 000 users in 105 different countries. Iplay

has seven employees, situated in Gothenburg. Iplay's business idea is to offer a unique social platform, for top athletes in order for them to connect the players with fans, clubs, agents, and other intermediaries worldwide. The product is supposed to be a tool for the athlete both before, during and after his/hers sporting career as the large variety of services provided in the platform is applicable to athletes during different periods in their careers. The founder and COO Karl Sjöblom was interviewed to gather information for this study.

4.4.2 Business Model Design According to iPlay

Mr. Sjöblom describes Iplay's business model as multi-sided. He suggests that one side consists of the athletes, and the other side is the companies and institutions with products and services directed to the athletes. The original design of Iplay's business stems from a questionnaire directed towards its key customers, the top athlete. The questionnaire helped the founders to understand the needs of the athletes, and they constructed the business model accordingly, Mr. Sjöblom suggests. Moreover, the interviewee highlights that Iplay has not been listening to others but states, "we have completely ignored what other people have told us, but started with our primary customer in focus, the athlete".

4.4.3 Value Proposition

Iplay's value proposition is "A platform where we help [the athletes] to build their brand. With a variety of services assisting them, and maximizing the possibilities to profit on the personal brand we help them create" according to Mr. Sjöblom. Moreover, he highlights that Iplay has been working with its value proposition recently, by changing the company's by-line from "the social platform for sports" to "where athletes build their brand". This change has enabled Iplay to change focus from being a substitute to other social platforms, to instead being a tool for athletes to build the personal brand, the interviewee argues. Moreover, he argues that while the company is not working with any large changes, small changes can have large impacts as well.

4.4.4 Customer Interface

Iplay's target customers is a two folded, Mr. Sjöblom argues. The company's main customer is the athlete. However, all the companies and institutions with offers to the athletes are also Iplay's customers. This side includes advisors for capital, insurance and career questions; moreover, it includes mental coaches, personal trainers and educational institutes. The initial questionnaire that was sent out has assisted Iplay greatly in identifying the target customers in an early stage, the interviewee says. The questionnaire included more than 30 questions with

questions such as “if XXX would be included in the platform, would it be interesting to you?”, Iplay then quickly implemented the suggestions receiving the highest praise, while the company down prioritized other areas receiving worse response. Mr. Sjöblom reasons that Iplay is working actively with identifying its target customers. The company is currently starting an initiative where it aims to use its customers as a feedback-loop, by including them into the development process for their upcoming products.

The company is using existing social media as its main communication channel with its customers, as “that is where our athletes are, and our customers – the fans”, Mr. Sjöblom states. Moreover, the company has managed to find direct communication channels, by the help of retired athletes, which assist them in getting in contact with the top athletes. The company aims to have one retired athlete employed, for every new sport launched in the platform, in order to increase credibility and networking.

The interviewee describes Iplay’s relationship to its customers as close, and the founder himself is following all Iplay users to keep track of user patterns and to see what they post in the platform. Moreover, there is a built in chat where Iplay’s users can contact the employees. Iplay is constantly emphasizing that the users are the most valuable aspect of Iplay, and Mr. Sjöblom consider this key for development. Moreover, Iplay has manage to tie a number of its athletes into the company as investors, to improve the relationship between Iplay and its athletes. The company sends out emails to all of its users to update them of changes in the platform. This is one of the things Iplay does to constantly improve its relationship with customers and users, Mr. Sjöblom argues.

4.4.5 Infrastructure Management

The value configuration of Iplay is fairly simple according to the interviewee. Iplay has outsourced its platform development to a company in Poland. In this way, Mr. Sjöblom argues, Iplay certifies that it always possess the resources necessary to develop its platform. The interviewee describes this professional relationship as key in explaining the fact that there has been few changes made in recent times. However, he mentions one recent change concerning how Iplay works with recruiting companies as an example of a recent minor change.

The company uses sprint planning for both development, as well as business, in order to ensure the company possess the capability necessary to provide its customers with its product. Sprint planning facilitates visualizing resource allocation and assists Iplay. Also, the

company to which development is outsourced, certifies that the resources needed exists as part of the contract with Iplay. Mr Sjöblom states that Iplay constantly work to maximize its output from the capabilities it possess. He further mentions that Iplay has created a project group in order to assess possibilities to become more agile, as a recent example of this.

Iplay is partnering with a wide array of companies to extend its offering, and Mr. Sjöblom argues that this is of large importance. Moreover, he argues that collaborating with other companies, in order to not reinvent the wheel, but rather to build on existing solutions has been key for Iplay. Mr. Sjöblom also emphasizes the importance of long-term partnerships rather than short-term deals, mentioning that Iplay is currently developing a new version of its platform, and has invited its partners to collaborate in the development process, as an example of this.

4.4.6 Financial Aspects

Mr. Sjöblom is well aware of Iplay's cost structure, as the founder states "painfully aware sometimes, and thankfully aware sometimes". Moreover, he argues that the fact that Iplay is backed by venture capital creates a responsibility to its owners to be aware of the cost structure. The decision to outsource development to Poland, was a decision based on minimizing costs, Mr. Sjöblom argues, as the cost of IT development in Poland is a third of Swedish development costs.

Mr. Sjöblom states that the revenue model of Iplay consists of four different revenue streams:

- Sales of licences to managers, agents and sport clubs
- Sales of information
- Sales of advertising space
- Marketplace for companies

Moreover, the interviewee states that the company is currently assessing more potential revenue flows, and that the revenue model constantly gets re-engineered and improved.

4.4.7 Milestones For the Business Model of Iplay

Mr. Sjöblom argues that Iplay's business model has been more or less the same since the company started and states that the reason to the few changes, according to him, is that the company has been lucky. Moreover, he states that he and his co-founder had put in a lot of thought to the project before starting the company as another reason for the few changes. In addition, he argues that the questionnaire that the founders sent out to athletes before starting

the company could be an explanation to the few changes. However, he admits that Iplay's primary plan was to target football athletes as its first target group, however, as one of the first investors in the company was a former professional handball player, the founders pivoted and chose handball as its first sport.

4.4.8 Importance of business model components according to Iplay

When asked to prioritize the sub-components of the business model, from highest to lowest, Mr. Sjöblom responded that the value proposition was most important and that the distribution channels was least important to Iplay. Below table shows the full sub-component prioritization of Iplay's, according to the interviewee.

Pillar	iPlay priority	Sub-component	Description
Product	1	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	6	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	9	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	3	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	4	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	5	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	8	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	7	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	2	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

5 Analysis

The analysis section will compare and analyse the empirical findings with support from the theoretical framework in order to present its findings to the reader.

All companies studied in this thesis qualifies as entrepreneurial, by the definitions of Eismann (2013), as they are bringing innovative products to their markets. Moreover, Eismann (2013) argues that entrepreneurial firms are facing resource constraints. The empirical findings show that all companies has faced resource constraints in different ways during its life span. Besides, all companies in this study has either received, or thought of receiving financial support from venture capitalists, indicating that the financial constraint heavily effects the companies. The empirical findings show, in line with the research of Churchill & Lewis (1983), that the entrepreneurial companies are all in the same growth stage – success-growth. This stage involves profitability, recruiting and developing employees (ibid). All of the companies interviewed discussed recruiting the right personnel as a key activity, further supporting the theory.

5.1 Product

The empirical findings show that all companies, in this study, are prioritizing the value proposition high. None of the companies show any signs of having a problem adopting the concept, as suggested by Christensen & Oversdorf (2000), but rather are very knowledgeable in the subject. All the companies interviewed states that they are constantly working to improve the value proposition, to various degrees. Moreover, as proposed by Afuah & Tucci (2003) and Slater & Narver (2000), the respondents mainly discusses perceived benefits and perceived costs in connection to describing the value proposition. When asked to prioritize the value proposition in regard to the other business model components, two companies regard it as the most important, one company regards it as second to most important while one company regard it as fifth most important.

5.2 Customer Interface

While the respondents have widely different target customers, ranging from nightclub owners to real-estate agents and athletes, all the companies studied are very well aware of its target customers. The Adfenix founder even argues that one of the main competitive advantages of the company is its ability to target its customers. The companies are all working actively to

extend its offerings to its target customers, and many have used data analysis to find new customers, as argued by Osterwalder (2004), to be efficient customer segmentation and targeting. However, it stands clear from the empirical findings that a majority of the companies are not prioritizing the target customer higher than other business model components, but rather the other way around.

Though recent research indicates that ICT is changing the communication channels of companies (Wyner, 1995; Porter, 2001), the empirical findings show that this is not the case for the studied companies. On the contrary, seventy-five percent of the companies are using direct communication as its main communication method, and the telephone as a key tool to communicate with its customers. One of the studied companies, Iplay, use social media as its main communication channel, as the product of this company could be considered a social media platform. While three out of four companies states that they are actively working to improve their communication channels, none consider it important compared to the other business model components.

All companies studied describes the relationship they have to its customers as close, and multiple companies mention that they strive to become friends with the customers. One of the companies has managed to turn customers into investors. Moreover, several of the studied companies mentions availability, as well as personalized customer contact, as being key for strong relationships. These traits, as highlighted by the empirical findings, are in line with the loyalty mechanisms suggested by Blattberg, Getz et al., (2001). However, no company mentions the problem of costly new customer acquisition, but focus on customer retention, further supporting the findings of Chintanuga (1993) and Reinartz et al., (2005). The empirical findings further suggests that the relationship component, of the business model, is of high importance, as two out of the four companies studied suggest it being the most important component of all.

5.3 Infrastructure Management

All companies studied in this thesis are producing an IT service, rather than an actual product. Therefore, tangible assets, as highlighted by Osterwalder (2004) decreases in importance. However, the empirical findings indicates that listening to the customers is key in assessing capabilities, according to the companies.

The theoretical findings further suggest that the importance of creating a feedback loop, involving customers, is further applicable to other parts of infrastructure management, to the value configuration as well. Several of the companies studied uses its customers and results to make sure that they have the right activities and resources in place. All in all, capabilities is regarded as a less important component of the business model to the start-ups involved in this thesis, and it is suggested that it can be solved by outsourcing and recruiting according to the respondents.

The empirical findings concerning partnerships could be considered a double-edged sword. On one hand, many of the interviewees welcome partnerships and argues that it could extend their offering. On the other hand, the findings of this study implies there is risk to partnerships, as it creates dependencies and one interviewee reviewed partnerships as a risk rather than opportunity. As a whole, the interviewees consider partnerships to be one of the least important business model components.

5.4 Financial Aspects

The empirical findings show that all companies studied are well aware of the cost structure of their companies. However, cost reduction is not necessarily something the companies strive to achieve. While the companies in this study are using different kinds of revenue models, all companies in this study prioritize the revenue model as one of the more important components of the business model. Moreover, it is mentioned by several companies that they are working to constantly develop many aspects of the revenue model, such as pricing strategy and finding more potential cash flows.

5.5 The Business Model Design Process

The findings support the studies of Alrich & Fiol (1994), suggesting that the entrepreneurial setting is uncertain as the innovation pace is high. The uncertainty could give an explanation to the pivoting some of the interviewee companies has done, as changes to the business model could be a result of changing market conditions. This theory would also be supported by other scholars findings, such as McGrath & Macmillan (2000) theory that entrepreneurial firms adapt to market needs and Brown & Gioia (2002), arguing that an advantage the entrepreneurial firms possess is the possibility to try multiple business models at the same time. However, there are nothing in the empirical findings indicating that the interviewees

have tried several business models simultaneously, but rather the opposite, as the companies have only made what should be considered as minor changes to their business models in the context.

The theory that business model information management is elemental when it comes to the competitive advantage of entrepreneurial firms, as proposed by Ireland & Webb (2007) and Berger & Udell (1998) cannot be confirmed by the findings in this thesis. The sheer fact that the companies, nevertheless backed by venture capital or not, agreed to be part of this research indicates that they do not consider business model transparency playing a large role in their competitive advantage. The competitors to the interviewees could, according to the theories of Ireland & Webb (2007) and Berger & Udell (1998), increase the competitive advantage by reading this thesis.

The empirical findings further supports the theory that entrepreneurial companies would increase business model transparency in the process of acquiring external financing, as suggested by Johansson & Malmstrom (2013). The interviews with Adfenix and VNU indicates that the companies have been putting more work into explaining the business model as the companies are looking for venture capital. One possible reason to this could be that venture capitalists consider explaining the business model to be more important than the entrepreneurs do.

The empirical findings show that the interviewee companies' business models have evolved in different ways. On one hand VNU has constructed its business models from intricate groundwork, involving tools such as the business model canvas and questionnaires. On the other hand, the empirical findings for Iplay, ImBox and Adfenix show only minor signs of such activities, but rather the interviewees argued the business models being a result from trial-and-error experimentation, similar to the results from the research of Trimi & Berbegal-Mirabent (2012). The companies has begun with different starting points, but only VNU, being a company started as a university project, has focused on business model tools such as the business model canvas when designing the business model. This finding further supports the research of Nicholls-Nixon, Cooper & Woo (2000) stating that strategic experimentation and trial-and-error learning comes natural to the entrepreneurs. As all companies studied should be deemed successful, it cannot be argued the use of tools for business model design would be superior to the other.

6 Future Research

This chapter presents the reader with possible ways in which future research can be made, in order to extend and validate the findings of this thesis.

As business model design within new ventures is a relatively new field of interest in academia, there exists multiple possibilities for future research. The following paragraphs highlights possible paths, recommended by the author, in order to validate and extend the findings of this study.

Firstly, this study has presented a couple of ideas worth further research as well as validation:

- Entrepreneurs engage in business model design both with a structured and unstructured approach.
- The value proposition, customer relationships and revenue models are the business model components of highest value to the entrepreneurs.
- Entrepreneurs does not consider business model transparency as part of competitive advantage

Validating the findings of this thesis, using a quantitative approach and a larger sample size would be highly valuable both for academia and for the entrepreneurs.

Secondly, extending the findings in this study can be done in more ways than imaginable to the researcher. While this study concludes that entrepreneurs are approaching business model design in several different ways, it does not try to answer which path is the most profitable. Future studies should hence attempt to answer whether structured or unstructured business model design is most successful, valuable and profitable. Arguably, this should be done with a quantitative approach testing hypotheses such as:

H1 – Companies working with structured business model design are more profitable than companies working with unstructured business model design

This study has neither tried to provide a value to the different business model components, as it has been outside the scope of this thesis. However, it concludes that entrepreneurs are favouring the value proposition, revenue model and customer relationship as key sub-components. Future research are welcome to assess the value of business model components in order to enrich academia and add value to the entrepreneurial community.

I have confidence that other scholars will challenge, explore and test these ideas.

7 Conclusion

This chapter provides an answer to the research questions, as well as discussing the implications of the findings for managers and entrepreneurs.

This thesis has identified a knowledge gap between business model design and entrepreneurship. By using a renowned framework, based on the research of Osterwalder (2004), and applying it to new ventures, it has addressed the following research questions:

- *How do Swedish IT start-ups design their business models?*
- *What are the focus areas of the business model when Swedish IT start-ups engage in business model design?*

The research put together in this thesis found that the business models of the firms studied have evolved in two separate ways, either by trial-and-error, or as a result of a structured effort using renowned methods and models. Furthermore, the results suggest that entrepreneurial ventures from a university setting are involved in structured business model design to a higher extent than companies from other backgrounds.

The results of this study further emphasizes the idea of trial-and-error experimentation as a part of the entrepreneurial DNA, as proposed by Sosna et al. (2010) and Cooper & Woo (2000). Moreover, the results of this thesis indicate that companies preparing for external funding by venture capital are focusing more on explaining their business models, further supporting the findings of Johansson & Malmstrom (2013). However, the empirical findings contradict findings of earlier scholars such as Ireland & Webb (2007), which suggests that business model transparency is negatively correlated with competitive advantage. On the contrary, the interviewees are interested in describing their business models thoroughly, indicating that they do not consider limited business model transparency as part of competitive advantage.

To address the second research question, the theoretical framework identified four pillars and nine sub-components of a business model, based on the research of Osterwalder (2004), presented in the table below:

Pillar	Sub-component	Description
Product	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

The findings in this study further indicates that out of the sub-components in the aforementioned framework, value proposition, together with relationship and revenue models are regarded as the most important aspects, while partnership is regarded as the least important aspect of the business model for Swedish start-ups within the IT industry.

The empirical findings further suggest that, in contradiction to recent research presented by Christensen and Overdorf (2000), the companies have found it effortless to adopt the concept of value proposition. Furthermore, the value proposition is a component that is highly valued by the companies, and all ventures in this study are constantly working to develop their value propositions. While recent research indicates that ICT is changing the communication channels of companies (Amit & Zott, 2001), the empirical findings of these e-business firms suggest otherwise. Although the start-ups studied are working in the frontline when it comes to software development, the empirical findings suggest that a strong majority of the respondents prefer traditional communication means, such as telephone, to newer ICT tools for direct communication with its customers.

This thesis has also presented findings that further support and emphasize the work of other scholars, concerning the importance of customer retention (Grant & Schleesinger, 1995; Reinartz et al., 2005), and the findings suggest that personalization and “becoming friends with your customers” are key components for a higher customer retention for e-business start-ups.

Business model design in practice is a highly complicated task, characterized by many different focal areas (Osterwalder, 2004) and is of importance for the success of companies (Amit & Zott, 2007). Yet, scholars have not managed to provide early stage practitioners with guidance. This study attempts to address this issue, with a framework based on renowned literature to address the issue at hand. The findings can be useful to entrepreneurs in several ways. Firstly, it provides the entrepreneur with insights into other firms in the same stage of the lifecycle. This enables possibilities for benchmarking as well as best practices. Moreover, familiarizing with existing business model design-practices would serve as useful knowledge for the entrepreneurial community.

8 References

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9 Appendix

9.1 Interview questionnaire

To certify that all aspects of the theoretical framework was covered as well as providing clarity in the interview process an interview questionnaire with the following questions has been designed:

Number	Topic	Question
Q1.	General	How would you describe what is your company's business?
Q2.	General	How would you describe your company's business model?
Q3.	General	Have you been working with business model design during the last three months?
		If yes - How have you designed your business model?
		If no – Why has not business model design been on your agenda?
Product Pillar		
Q5.	Value Proposition	How would you describe your Value Proposition?
Q6.	Value Proposition	How have you been working to develop your value proposition during the last three months?
Customer Interface Pillar		
Q7.	Target Customer	Are you aware of who is your target customer?
Q8.	Target Customer	How have you worked with identifying your target customers during the last three months?
Q9.	Distribution Channel	How would you describe your direct communication with customers?
Q10.	Distribution Channel	How would you describe the channels providing indirect contact with customers?
Q11.	Distribution Channel	How have you, actively, been working with the channels in which you have customer contact during the last three months?
Q12.	Relationship	How would you describe the relationship you have with your customers?
Q13.	Relationship	Have you been actively working with creating strong relationship with customers during the last three months?
Infrastructure Management		
Q14.	Value Configuration	How do you certify you have the right resources and activities in place to create value for the customer?
Q15.	Value Configuration	Have you been working actively with these activities to maximize value during the last three months?
Q16.	Capability	How do you ensure that you have the capability to provide the customer with your product or service?

Q17.	Capability	Have you been actively working to ensure you possess these capabilities during the last three months?
Q18.	Partnership	Are you partnering with any other companies?
Q19.	Partnership	Have you been actively working with partnerships to extend your offering/create additional customer value during the last three months?
Financial Aspects		
Q20.	Cost Structure	Are you aware of your cost structure? Key cost drivers?
Q21.	Cost Structure	Are you actively working to minimize costs during the last three months?
Q22.	Revenue Models	How does your revenue model work?
Q23.	Revenue Models	Have you actively been working with your revenue model during the last three months?

9.2 Prioritization of subcomponents

Pillar	Sub-component	ImBox priority	VNU priority	iPlay priority	Adfenix priority
Product	Value Proposition	2	1	1	5
Customer Interface	Target Customer	9	2	6	6
	Distribution Channel	5	6	9	7
	Relationship	1	9	3	1
Infrastructure Management	Value Configuration	7	3	4	2
	Capability	3	8	5	4
	Partnership	8	6	8	9
Financial Aspects	Cost Structure	6	4	7	8
	Revenue Models	4	5	2	3

Table 6. Presentation of empirical findings (Author's own)

Summary

Introduction

Starting a company is an intricate and challenging task. During the early years of an organization, the entrepreneur has to make many decisions that will influence both the business and the product. Moreover, the decision-making has often to be done within the constraints of money and time. Studying business model design in entrepreneurship could facilitate these decisions.

It was not until the 1990s that the concept of business models and business model design gained traction in academia, with the emergence of Information and Communications Technology - companies reshaping business making. It has since been thoroughly researched for larger organizations, and scholars have found strong links between companies' competitive advantage and their business models. Recent research has found a link between value creation and change in business model components, further highlighting the value of business model in both research and practice. Following these studies, Osterwalder (2004) has created a framework, explaining the components of a business model. While this framework has received high praise in academia, it has yet to be applied in practice.

Macroeconomic changes such as globalization, deregulation and technological change create possibilities, and does not only drive change in the business model components of incumbent firms (Casadesus-Masanell & Ricart, 2010), but also presents opportunities for new ventures. Alrich and Fiol (1994) argues that new technology is both volatile and unpredictable, and entrepreneurs are constantly struggling to create business models to cope with these challenges. It is in this context the concept of business model design has had recent, practical success with blockbusters such as *The Lean Startup* (Ries, 2011) and *The Business Model Canvas* (Osterwalder & Pigneur, 2010), among other business model design-frameworks. While students and soon-to-be entrepreneurs at business schools all over the world are currently being educated in these models, its real breakthrough has yet to be studied.

It is in the context of a fast-paced, uncertain, ever-changing world that the business models for entrepreneurial companies operates, and where business model design serves a purpose. Furthermore, Amit & Zott (2007) has managed to show that business models create large

values for entrepreneurs. Based on this, it is easy to argue for the value of business model research in an entrepreneurial context.

Yet, despite the importance of the topic, combining business models and entrepreneurship have been a topic conspicuously absent in business research. While the business model concept is highly prioritized by the entrepreneurial community, it has yet to be acknowledged by the scholars to the extent it ought to be. While studies have concluded that the characteristics of new ventures differ from incumbent organizations in several ways, the implications for the business model design process has largely been ignored.

To address this gap, this study draws on current business model design literature and apply it to an entrepreneurial setting. Understanding how entrepreneurs approach business model design, and what areas of the business model they focus on, will assist in filling this research gap. Moreover, it could serve as support for both future research, as well as for entrepreneurs engaging in business model design.

9.3 Research Question

The researcher's interest and experience, in start-ups and business model design led to the wide research scope of business model design in new ventures. Understanding the process of business model design in start-ups, would not only shed some light on the process itself but also facilitate for start-ups in the future. While all businesses has a business model, the business model design is not necessarily a structured process. Hence, this generates the first research question:

- *How do Swedish IT start-ups design their business models?*

Consciously working with business model design, especially when using renowned frameworks, would lead to similar areas of the business model being prioritized in the design process. However, as the business model concept was not introduced into academia until recently the researcher argues that there is a possibility that when start-ups are involved in business model design, conscious or not, they are focusing on different things. From this idea, the second research question emerges:

- *What are the focus areas of the business model when Swedish IT start-ups engage in business model design?*

By answering these research questions, using a multiple-case study approach, the researcher aims to shed light on the business model design process of Swedish start-ups. The thesis aims

to not only enrich academia, but also ensure relevance for entrepreneurs interested in business model design.

Theoretical Framework

This section reviews research on business models, business model design and entrepreneurship. It aims to increase the readers understanding of the topics examined in the thesis in order to answer the research question.

9.4 Business Models

The concept business model is a rather new topic within business research. Emerging from the dotcom era, the term “new economy” was introduced to describe how Information and Communications Technology (ICT) companies reshaped the business environment, with impacts well outside their own markets (Amit & Zott, 2001). With new technologies, new possibilities opened up, hence, leading the way to a dramatic increase in research concerning business models. Even though the dotcom bubble burst in 2000, business models as a research topic has only kept gaining traction since (Zott, Amit, & Massa, 2011). While ICTs introduced the concept of business models, it has been separated from ICTs since, and is now studied within all forms of organizations (Osterwalder, 2004; Amit & Zott, 2012). The main explanation to the interest in business model stems from research finding correlation between companies’ competitive advantage and its business model (Hamel, 2000; Morris et al., 2005; Amit & Zott, 2008).

The definition of business models has developed over the last 15 years. This study will adopt the definition introduced by Amit & Zott (2015), defining the business model as:

“The business model is an activity system that is designed and enabled by a focal firm in order to meet perceived market needs and thereby create value for all stakeholders involved: customers strategic partners, suppliers, and, of course, the focal firm”(p. 3).

Scholars have reached consensus on the fact that the business model concept consists of a set of components (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Johnson et al., 2008; Osterwalder & Pigneur, 2010). However, what components the business model consist of has been a widely discussed subject. By reviewing literature Osterwalder (2004) managed to create an ontology, or an “agreement about shared conceptualizations”, concerning the components included in a business model. By dividing the business model into four pillars, and dividing each pillar into sub-components, mentioned ontology manages to create a

framework supported by many prominent scholars. Not only does this categorization integrate important business research, but also provides a concrete description of the business model components. The research of Osterwalder (2004) was later developed into the Business Model Canvas (Osterwalder & Pigneur, 2010), creating a buzz for business models well outside the business research community (Blank, 2013).

This study will adopt business model components stemming from the research of Osterwalder (2004), and further enrich it with additional literature when necessary. Table 2 summarizes these business model pillars and its sub-components:

Pillar	Sub-component	Description
Product	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A Capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	Cost Structure	The Cost Structure is the representation in money of all the

		means employed in the business model.
	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

Table 7. Business Model Ontology (Osterwalder, 2004)

9.5 Business Model Innovation

The idea that business models can be reinvented, or innovated, is straightforward if aforementioned definition of business model components is accepted. However, business research has not noticed the subject until recent years (Frankenberger, Weiblen, Csik, & Gassman, 2013). Research suggests that business model innovation (BMI) involves changes to business components, when striving to achieve a competitive advantage (Amit & Zott, 2001; Chesbrough, 2010; Demil & Lecocq, 2010; Teece, 2010). A wide range of researchers has since accepted this definition. However, the debate on which components the business model entails has been ongoing, as previously mentioned.

Casadesus-Masanell & Ricart (2010) argue that main drivers of BMI are globalization, deregulation and technological change. They further argue that these drivers have reshaped the competitive landscape, forcing firms to seek new ways to increase competitive advantage. The second phenomenon driving BMI are organizational efforts to enter new markets in emerging economies, targeting customers with low purchasing power, commonly referred to as “the bottom of the pyramid” (Prahalad, 2010). Innovation was for long an activity solely performed as product or service innovation. However, as the perceived value of business models has increased, developing a business model that maximizes the company’s competencies is now a top priority (Anthony, 2012).

9.6 Business Models and Entrepreneurship

The business model concept has received high praise recently in entrepreneurial practice (Morris, Schindehutte, & Allen, 2005). However, the topic of business models and entrepreneurship has yet to gain the same importance within business research. While business models, business model innovation, and business model design are applicable to all companies, this thesis focuses on business models in start-ups. While aforementioned concepts and models indeed are relevant, both for entrepreneurs and multi-national

enterprises, there are several differences between them in the processes concerning business models.

9.6.1 Entrepreneurship

Entrepreneurship can be defined in a variety of ways. One of the most common definitions of entrepreneurship is the one coined by Howard H. Stevenson in 1983, when developing a framework for understanding entrepreneurship, entrepreneurs and their constant pursue of opportunities. Stevenson (1983) defined entrepreneurship as “Entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control”. This definition has three key components, namely: *pursuit*, *opportunity* and *resources* (Eisenmann, 2013). *Pursuit* denotes the focus of the individuals involved, the entrepreneurs, towards a specific target (ibid). Eisenmann (2013) further suggest that the word *opportunity* indicates a novel offering in one or more of four ways:

- A completely innovative product
- A new business model
- A better or cheaper version of an already existing product
- An already existing product, targeted at a different customer segment.

Lastly, the term *resources* introduces a constraint into the definition. It indicates that entrepreneurs themselves rarely possess the resources needed to seize the opportunity identified, but pursue it nevertheless.

9.6.2 The Entrepreneurial Process

New venture creation includes many different aspects, processes and challenges. Further developing the works of Timmons (1977), Gartner (1985) divides the entrepreneurial process into three main elements: the recognition of an opportunity, the team, and the resources needed to exploit the idea. Moreover, Stinchcombe (1965) reasons that new venture creation leads to the build-up of both resources and commitments. During later years, business researchers has argued for the importance of intellectual capital, organizational learning and networks to create successful start-ups (Fuentes Fuentes 2010, Iebra Aizpurua 2011; Hormiga 2011).

9.6.3 The Business Model in New Ventures

The business model has received little focus in business research compared to the high praise it has received in entrepreneurial practice (George & Bock, 2011) and research has often been committed studying business models and entrepreneurship as separate topics (Trimi & Berbegal-Mirabent, 2012). While there is an arguable gap in business research, the importance of business models for entrepreneurial firms is large (Amit & Zott, 2007).

Early research on entrepreneurship shows the flexibility of start-ups, being less controlled by earlier decisions and resources, than more established firms (Stinchcombe, 1965). This has implications for business models of entrepreneurial firms as they can construct the business models from scratch. Brown & Gioia (2002) argue that an advantage for start-ups is that the companies can try multiple business models simultaneously, opposite to larger firms.

Hite & Hesterly (2001) show the value of business model design for entrepreneurial firms and argues that the performance of the entrepreneurial firm is critically reliant on boundary-spanning organizational activities, an antecedent to the business model. Ireland, Hitt & Sirmon (2001) further emphasize these findings when arguing that early business model design in entrepreneurial firm is the main reason for the firm's existence, as the entrepreneur's agenda is to change industries by introducing new ways of doing business. Aldrich (1999) introduces the idea that start-ups replicate business models of existing firms, further emphasized by Zott (2003) showing that imitative business models often are centred on minimized costs. McGrath and MacMillan (2000) propose that while this might be the case, even imitative entrepreneurial firms adapt their business models to fit market needs.

As scholars have agreed upon the importance of the business model for entrepreneurial ventures, research has focused on more aspects of the business model of the new firm. As the entrepreneur constantly wants to innovate and grow the company, it creates new problems, and Chesbrough (2006) concludes that one issue that new firms face is business model information management. Entrepreneurs often lack the capital to be able to grow fast (Cassar & Holmes, 2003; Thornhill, Gelatly and Riding, 2004) and as few entrepreneurs are able to generate the capital needed themselves, they will need to search for external financing (Storey, 1994). However, external financing often demands a high business model transparency to be able to attract venture capital (Johansson & Malmstrom, 2013). Scholars argue that the business model transparency is hazardous to the young organizations, as it exposes the core of the business, as well as decrease competitiveness (Ireland and Webb,

2007). To be able to attract external financing, however, the entrepreneur would not have another option than transparency. As such, one of the main weapons for competitive advantage, trade secrets, is lost in the entrepreneurial ventures strive for external financing (Berger & Udell, 1998).

9.6.4 Business Model Practices

The recent increase in research concerning the business model has introduced several practices for business model design that has gained widespread attention. Trimi & Berbegal-Mirabent (2012) argue that the entrepreneurial business model design process can be divided into two main phases. The first phase is characterized by trial-error dynamics and is called the business model design step. During the first step the entrepreneurial venture tests several hypotheses regarding its product/service, or its internal processes, to formulate a robust business model. The second phase concerns application of the business model being designed in the first phase.

Organizational theory argues that organizations remember by doing (Nelson & Winter, 1982) and the most efficient way for an organization to change, and learn, according to Sosna et al. (2010), is by trial-and-error experimentation. Research on similar concepts, such as experimentation (Ahuja & Lampert, 2001), improvisation (Moorman & Miner, 1998) and learning-by-doing (Minitti & Bygrave, 2001) has further fuelled the concept as key in handling changing demands. A study by Sosna et al. (2010) highlights the value of trial-and-error processes in business model innovation, arguing that it is key lever for successful business model innovation.

While aforementioned studies has mostly focused on larger firms, the link to new ventures has not been researched to the same extent. Churchill & Lewis (1983) argue that start-ups are more likely to improvise than incumbent organizations, as they are used to “fire-fighting”. Furthermore, young companies will face many challenges they have not faced before, and as young organizations lack resources and experience, forcing them to improvise (Zahra, Sapienza and Davidsson, 2006). Hence, it is easy to argue that the extended agility of the start-up would further enhance the possibilities for trial-and-error experimentation, and the value stemming from it. This idea is further encouraged by the research of Nicholls-Nixon, Cooper & Woo (2000), who argue that not only is strategic experimentation a natural part of entrepreneurship and that learning from mistakes is inhibited in the DNA of entrepreneurship.

9.6.5 Differences Between Entrepreneurial and Incumbent Organizations

The differences between entrepreneurs and incumbent organizations are many, and this paragraph does not in any way attempt to count them all. However, several aspects would have a major implication on business model design worth mentioning. The increased agility of the entrepreneurial venture enables it to adapt quickly to changing market needs (Sarasvathy, 2004). Moreover, as mentioned by Brown and Gioia (2002), the entrepreneurial company can test several business models simultaneously. It is easy to argue that the increased organizational learning from business model experimenting and improvising, in line with the ideas of Nelson and Winter (1982), further differentiates the entrepreneurial venture from the incumbent organization. However, the entrepreneurial venture inherits a financial constraint in its nature, leading it to apply to external financing. Yet, this financing results in an increased business model transparency for the entrepreneur, decreasing competitive advantage (Berger & Udell, 1998).

Analysis

The analysis section will compare and analyse the empirical findings with support from the theoretical framework in order to present its findings to the reader.

All companies studied in this thesis qualifies as entrepreneurial, by the definitions of Eismann (2013), as they are bringing innovative products to their markets. Moreover, Eismann (2013) argues that entrepreneurial firms are facing resource constraints. The empirical findings show that all companies has faced resource constraints in different ways during its life span. Besides, all companies in this study has either received, or thought of receiving financial support from venture capitalists, indicating that the financial constraint heavily effects the companies. The empirical findings show, in line with the research of Churchill & Lewis (1983), that the entrepreneurial companies are all in the same growth stage – success-growth. This stage involves profitability, recruiting and developing employees (ibid). All of the companies interviewed discussed recruiting the right personnel as a key activity, further supporting the theory.

9.7 Product

The empirical findings show that all companies, in this study, are prioritizing the value proposition high. None of the companies show any signs of having a problem adopting the

concept, as suggested by Christensen & Oversdorf (2000), but rather are very knowledgeable in the subject. All the companies interviewed states that they are constantly working to improve the value proposition, to various degrees. Moreover, as proposed by Afuah & Tucci (2003) and Slater & Narver (2000), the respondents mainly discusses perceived benefits and perceived costs in connection to describing the value proposition. When asked to prioritize the value proposition in regard to the other business model components, two companies regard it as the most important, one company regards it as second to most important while one company regard it as fifth most important.

9.8 Customer Interface

While the respondents have widely different target customers, ranging from nightclub owners to real-estate agents and athletes, all the companies studied are very well aware of its target customers. The Adfenix founder even argues that one of the main competitive advantages of the company is its ability to target its customers. The companies are all working actively to extend its offerings to its target customers, and many have used data analysis to find new customers, as argued by Osterwalder (2004), to be efficient customer segmentation and targeting. However, it stands clear from the empirical findings that a majority of the companies are not prioritizing the target customer higher than other business model components, but rather the other way around.

Though recent research indicates that ICT is changing the communication channels of companies (Wyner, 1995; Porter, 2001), the empirical findings show that this is not the case for the studied companies. On the contrary, seventy-five percent of the companies are using direct communication as its main communication method, and the telephone as a key tool to communicate with its customers. One of the studied companies, Iplay, use social media as its main communication channel, as the product of this company could be considered a social media platform. While three out of four companies states that they are actively working to improve their communication channels, none consider it important compared to the other business model components.

All companies studied describes the relationship they have to its customers as close, and multiple companies mention that they strive to become friends with the customers. One of the companies has managed to turn customers into investors. Moreover, several of the studied companies mentions availability, as well as personalized customer contact, as being key for strong relationships. These traits, as highlighted by the empirical findings, are in line with the

loyalty mechanisms suggested by Blattberg, Getz et al., (2001). However, no company mentions the problem of costly new customer acquisition, but focus on customer retention, further supporting the findings of Chintanuga (1993) and Reinartz et al., (2005). The empirical findings further suggests that the relationship component, of the business model, is of high importance, as two out of the four companies studied suggest it being the most important component of all.

9.9 Infrastructure Management

All companies studied in this thesis are producing an IT service, rather than an actual product. Therefore, tangible assets, as highlighted by Osterwalder (2004) decreases in importance. However, the empirical findings indicates that listening to the customers is key in assessing capabilities, according to the companies.

The theoretical findings further suggest that the importance of creating a feedback loop, involving customers, is further applicable to other parts of infrastructure management, to the value configuration as well. Several of the companies studied uses its customers and results to make sure that they have the right activities and resources in place. All in all, capabilities is regarded as a less important component of the business model to the start-ups involved in this thesis, and it is suggested that it can be solved by outsourcing and recruiting according to the respondents.

The empirical findings concerning partnerships could be considered a double-edged sword. On one hand, many of the interviewees welcome partnerships and argues that it could extend their offering. On the other hand, the findings of this study implies there is risk to partnerships, as it creates dependencies and one interviewee reviewed partnerships as a risk rather than opportunity. As a whole, the interviewees consider partnerships to be one of the least important business model components.

9.10 Financial Aspects

The empirical findings show that all companies studied are well aware of the cost structure of their companies. However, cost reduction is not necessarily something the companies strive to achieve. While the companies in this study are using different kinds of revenue models, all companies in this study prioritize the revenue model as one of the more important components of the business model. Moreover, it is mentioned by several companies that they

are working to constantly develop many aspects of the revenue model, such as pricing strategy and finding more potential cash flows.

9.11 The Business Model Design Process

The findings support the studies of Alrich & Fiol (1994), suggesting that the entrepreneurial setting is uncertain as the innovation pace is high. The uncertainty could give an explanation to the pivoting some of the interviewee companies has done, as changes to the business model could be a result of changing market conditions. This theory would also be supported by other scholars findings, such as McGrath & Macmillan (2000) theory that entrepreneurial firms adapt to market needs and Brown & Gioia (2002), arguing that an advantage the entrepreneurial firms possess is the possibility to try multiple business models at the same time. However, there are nothing in the empirical findings indicating that the interviewees have tried several business models simultaneously, but rather the opposite, as the companies have only made what should be considered as minor changes to their business models in the context.

The theory that business model information management is elemental when it comes to the competitive advantage of entrepreneurial firms, as proposed by Ireland & Webb (2007) and Berger & Udell (1998) cannot be confirmed by the findings in this thesis. The sheer fact that the companies, nevertheless backed by venture capital or not, agreed to be part of this research indicates that they do not consider business model transparency playing a large role in their competitive advantage. The competitors to the interviewees could, according to the theories of Ireland & Webb (2007) and Berger & Udell (1998), increase the competitive advantage by reading this thesis.

The empirical findings further supports the theory that entrepreneurial companies would increase business model transparency in the process of acquiring external financing, as suggested by Johansson & Malmstrom (2013). The interviews with Adfenix and VNU indicates that the companies have been putting more work into explaining the business model as the companies are looking for venture capital. One possible reason to this could be that venture capitalists consider explaining the business model to be more important than the entrepreneurs do.

The empirical findings show that the interviewee companies' business models have evolved in different ways. On one hand VNU has constructed its business models from intricate

groundwork, involving tools such as the business model canvas and questionnaires. On the other hand, the empirical findings for Iplay, ImBox and Adfenix show only minor signs of such activities, but rather the interviewees argued the business models being a result from trial-and-error experimentation, similar to the results from the research of Trimi & Berbegal-Mirabent (2012). The companies has begun with different starting points, but only VNU, being a company started as a university project, has focused on business model tools such as the business model canvas when designing the business model. This finding further supports the research of Nicholls-Nixon, Cooper & Woo (2000) stating that strategic experimentation and trial-and-error learning comes natural to the entrepreneurs. As all companies studied should be deemed successful, it cannot be argued the use of tools for business model design would be superior to the other.

Conclusion

This thesis has identified a knowledge gap between business model design and entrepreneurship. By using a renowned framework, based on the research of Osterwalder (2004), and applying it to new ventures, it has addressed the following research questions:

- *How do Swedish IT start-ups design their business models?*
- *What are the focus areas of the business model when Swedish IT start-ups engage in business model design?*

The research put together in this thesis found that the business models of the firms studied have evolved in two separate ways, either by trial-and-error, or as a result of a structured effort using renowned methods and models. Furthermore, the results suggest that entrepreneurial ventures from a university setting are involved in structured business model design to a higher extent than companies from other backgrounds.

The results of this study further emphasizes the idea of trial-and-error experimentation as a part of the entrepreneurial DNA, as proposed by Sosna et al. (2010) and Cooper & Woo (2000). Moreover, the results of this thesis indicate that companies preparing for external funding by venture capital are focusing more on explaining their business models, further supporting the findings of Johansson & Malmstrom (2013). However, the empirical findings

contradict findings of earlier scholars such as Ireland & Webb (2007), which suggests that business model transparency is negatively correlated with competitive advantage. On the contrary, the interviewees are interested in describing their business models thoroughly, indicating that they do not consider limited business model transparency as part of competitive advantage.

To address the second research question, the theoretical framework identified four pillars and nine sub-components of a business model, based on the research of Osterwalder (2004), presented in the table below:

Pillar	Sub-component	Description
Product	Value Proposition	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer
Customer Interface	Target Customer	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	Value Configuration	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	Cost Structure	The Cost Structure is the representation in money of all the means employed in the business model.
	Revenue Models	The Revenue Model describes the way a company makes money through a variety of revenue flows.

The findings in this study further indicates that out of the sub-components in the aforementioned framework, value proposition, together with relationship and revenue models are regarded as the most important aspects, while partnership is regarded as the least important aspect of the business model for Swedish start-ups within the IT industry.

The empirical findings further suggest that, in contradiction to recent research presented by Christensen and Overdorf (2000), the companies have found it effortless to adopt the concept of value proposition. Furthermore, the value proposition is a component that is highly valued

by the companies, and all ventures in this study are constantly working to develop their value propositions. While recent research indicates that ICT is changing the communication channels of companies (Amit & Zott, 2001), the empirical findings of these e-business firms suggest otherwise. Although the start-ups studied are working in the frontline when it comes to software development, the empirical findings suggest that a strong majority of the respondents prefer traditional communication means, such as telephone, to newer ICT tools for direct communication with its customers.

This thesis has also presented findings that further support and emphasize the work of other scholars, concerning the importance of customer retention (Grant & Schleesinger, 1995; Reinartz et al., 2005), and the findings suggest that personalization and “becoming friends with your customers” are key components for a higher customer retention for e-business start-ups.

Business model design in practice is a highly complicated task, characterized by many different focal areas (Osterwalder, 2004) and is of importance for the success of companies (Amit & Zott, 2007). Yet, scholars have not managed to provide early stage practitioners with guidance. This study attempts to address this issue, with a framework based on renowned literature to address the issue at hand. The findings can be useful to entrepreneurs in several ways. Firstly, it provides the entrepreneur with insights into other firms in the same stage of the lifecycle. This enables possibilities for benchmarking as well as best practices. Moreover, familiarizing with existing business model design-practices would serve as useful knowledge for the entrepreneurial community.