

LUISS



Undergraduate School

Degree Program in Economics and Business

Course of Management

Business Models in Strategic Management: An Integrated Analysis of Design, Performance and Adaptation with a Case Study of Amazon

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Abstract

The purpose of this thesis is to synthesise key definitions, factors, and consequences of the concept of business model. By combining various academic papers that focus on each of the above-mentioned ideas, a valuable literature review will be conducted. The study will also include a real-life example that illustrates the business model of Amazon's e-commerce business activity.

The objectives of the study arise from the lack of systematic single papers that analyse business models fully. Even though there are a great number of studies that define and assess business models, most of them mainly link business models with strategy, explain briefly what a successful business model is like or explore the contemporary approach to business models, based on technology and innovation. This study aims to link all those ideas in a single analysis and provide more in-depth explanations on the factors that drive a business model, namely the ability to create, deliver and capture value, based on a customer-oriented approach; maintain consistency among all elements of the business model; enable a strategic approach; manage human capital productively; consider corporate social responsibility (CSR); plan and execute; account for adaptation and innovation. By completing such a synthesised study, emerging firms can use it as a tool to implement a successful business model and sustain a competitive advantage.

Some key research questions are the following: Are business models useful management tools? Why do some business models succeed while others fail? How are business models and strategy connected? Why is people management valuable when a firm creates value through its operations? To what extent should CSR be considered when implementing a business model? How does Amazon implement its customer-oriented approach in its business model? How can firms react to changes and modify their model accordingly? What challenges do multinational firms face due to fluctuating customer preferences?

When it comes to the methodology used, the thesis will be based on a literature review of academic papers, journal articles and related books. The Amazon case study will provide an insightful illustration of the theoretical frameworks reviewed. Sources for the case study will be Amazon's financial statements and its official website. Apart from the review of the sources mentioned, I will derive links between all concepts and will also rely on my knowledge, acquired from the courses taken throughout my Bachelor's degree in Economics and Business.

My findings provide an understanding of the complexity and the importance of the business model as a tool for managers and leaders to start, manage and modify their business in a systematic and structured way, without omitting key aspects that are crucial for the success of the company. The analysis leads to identifying key aspects that drive a particular business model's success, apart from simply defining business model elements. When done properly and not easily imitable, the business model can be a source of competitive advantage.

Introduction

The Business Model theory is surely one of the most misunderstood but still widely discussed managerial tools. The term tends to have various definitions, all being complementary to each other. The business model's effectiveness is key to the successful running of a business and to turning the model into a competitive advantage. This framework is influenced by various factors such as the ability to plan, manage people, innovate, adapt, sense and seize opportunities, develop the right set of strategies, and integrate corporate social responsibility (CSR). All these affect the firm's stakeholders. It is also very important to draw the line between business model and strategy, as they are not interchangeable. A business model is the foundation for developing a strategy, but it focuses more on value creation and links the strategy formulation with strategy creation. In contrast, strategy is used mainly to keep abreast of competitors, that is, to capture a competitive advantage. Nowadays, the business field is very dynamic and with technological progress, business models can be easily replicated, but not always successfully. It is important to understand what makes a business model viable and to implement changes when a business model hinders a firm's performance.

Once a business model is established, firms have a tool that, regardless of what direction the business goes, they can always refer to it as the basis for all elements constituting the company. In other words, a business model puts into perspective the various complexities to which leaders are exposed. The simplification of the tool is also a requirement that is useful, as the business model is not used only by managers, but also by all stakeholders, some of whom may not be familiar with specific terms.

The Business Model definition and evolution of the concept are vital to set out before running any further analysis. Due to the availability of many definitions, firms may find it confusing to implement a management tool that has ambiguous advantages. Through this research, I aim to persuade firms of the usefulness of the business model and its correct implementation. Indeed, what should be noted is that a business model is a theoretical framework that accounts for previous, current and future market conditions, economic and world events. It can be treated more as a hypothesis for the realisation of a business. It is important that companies that formulate a business model, regardless of whether they are a startup or an established company, should modify it continuously. The evaluation of a business model and its alteration are key processes that are part of the business model formulation. Simply adapting the concept does not result in automatic gains.

Tying business models with strategy is necessary in the context of an industry where competition is present. Firms should be aware of the strategic foundations of the business model and its relationship with strategy; even if ambiguous, it is present. Further establishing connections between all elements of the business model is crucial for the utilisation of the tool. A company does not function solely based on elements it controls. It engages with a

system of stakeholders. The value the firm creates is not simply value for the firm. It is also a value shared among all stakeholders included in the business model.

Placing customers on top of the stakeholder pyramid is preferred by a lot of firms. By doing so, they implement customer-centred business models and excel at serving their customers.

A key feature of business models is their reinvention. On the one hand, firms alter their business models because they are facing environmental changes. On the other hand, they explore opportunities.

Finally, this thesis also examines one of the most widely discussed aspects of the business model concept, namely business model innovation. Various scholars consider the need for business models as central in innovation facilitation. Companies may be endowed with superior resources, knowledge, technology and human minds that enable innovation. However, the right implementation of the innovation is also necessary. Understanding where and how to introduce innovations can be done by looking at the business model.

Chapter 1 - Analysis of the Business Model Canvas

1.1 Definition and Background of the Business Model Concept

Identifying what a business model is seems to have been an issue ever since the term became a topic of discussion. There are various definitions, some of which are overlapping and are complementary to each other. There are cases in which no definition is provided, and the studies circulate linking a company's stakeholders and activities. The reason behind such discrepancies is the diverse functions of a business model and its implementation.

Most of the definitions reach the conclusion that a business model is a tool for creating and capturing value for customers, resulting in profits. However, they concentrate on different aspects of possible success for the business, coming from its business model. Examples of such aspects are: technological potential, economic value, pure profit, customer identification, value proposition, key resources and processes, strategy, etc (Zott et al., 2011). A business model simply sets the organisation of a firm, in terms of human capital, technology, finances, resources and operations. One thing that should be outlined is that by simply implementing a business model, a company does not have a guarantee of sustaining a competitive advantage. The business model itself provides a set of aspects that should be considered when analysing the functions of a company. The rest (the implementation) is upon the executives.

A successful business model embodies both complex guidelines on how business should be conducted and actions taken for its implementation. In order to achieve a competitive advantage, a company should combine its business model with strategy, which is a complement, rather than a substitute. Taking that into consideration, the enterprise should design a business model not only based on its primary aim (profit maximisation) but also on differentiation. A business model that is effective and hard to imitate can be a key performance driver.

The business model concept emerged at the beginning of the 90s with the rise of the Internet. The introduction of the Internet shifted the previously established understanding about how a company should create value and satisfy its customers' needs. According to Zott et al. (2011), this is the reason that pushed enterprises to realise the importance of implementing a business model. Being abundant in efficient human capital, technology and leadership is not enough for sustaining profitability in an emerging world. The formula for success becomes complex, and the Internet can be seen as a threat as much as an opportunity. Only companies that can adapt and modify their business models accordingly can take full advantage of the introduction of such a breakthrough technology.

Another takeaway that accounts for the lack of a clear definition of the business model is the tendency to exclude business models from economic and business studies (Teece, 2010). What such fields consider is the market prices and the economic conditions that enable

trade between customers and suppliers. It is sufficient for both sides to be monetarily remunerated (customers willing to pay up to their reservation price and producers willing to sell output at a price that surpasses their costs) in order for suppliers to create and deliver value to consumers. But in reality, an equilibrium of supply and demand is not the only thing that enterprises should consider. Customers will buy products if they perceive actual value from them and can always switch to competitors when dissatisfied. In addition, with the rise of entrepreneurs and start-ups, for many of which no markets are yet established, firms cannot rely on economic terms when pioneering. Establishing a business model is the main guideline when starting or reinventing a business.

Going back to the attempt to find a clear definition of what a business model is, I concluded that the most precise description is: an architecture or set of all the underlying activities, objectives and resources that drive a firm, whose aim is to create and deliver value to the customers, and subsequently make profits (capture value). It is a tool that links all the elements and players of a business and treats them as a whole. Additionally, business models can be fully new or reinvented. Generally, all businesses consider two aspects when creating their business model: creating a service or a product and then selling it. A breakthrough product can be offered, or a new selling strategy can be introduced.

A business model is often compared to a scientific method - it starts with a hypothesis that should be tested, and conclusions can be drawn afterwards (Magretta, 2002). When managers form a business model, they apply only theoretical and economic frameworks that provide general insights but might not be applicable in the context of the firm's activity. That is why a business model implies continuous improvement that starts once the model is implemented. The executives can evaluate the model based on financial and performance metrics or collect feedback from all the stakeholders. If those components are not satisfying, the model should be modified. An important part of the business model formulation is the consideration of the narrative (whether the model makes general sense) and the numbers (whether the financial performance is substantial) test. If a model fails either one or both of them, this is an indicator for the need to reformulate the model.

Various aspects of the concept of business model can be considered when attempting to define it. Due to this, many scholars and managers tend to work with the concept without clearly understanding it. According to Osterwalder et al., 2005, a definition that includes all elements of the term is the following: "A business model is a conceptual tool containing a set of objects, concepts and their relationships to express the business logic of a specific firm. Therefore, we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with what financial consequences." Osterwalder et al., 2005 were some of the first authors to provide a conceptual framework on the business model elements, which was later named the Business Model Canvas.

The same paper also assesses the roots of the business model concept by comparing the work of several authors and dividing them into three types of authors with regard to their way of defining the concept. In particular, the first group is authors who generalise the business model as a tool applicable to all firms conducting a business activity. The second group describes the notion by distinguishing between different types of business models and linking common features between companies implementing the same model. The third group focuses on analysing different dimensions of actually existing business models and conceptualising them. All three ways of defining the term are not interchangeable but rather useful when links between them are drawn to establish a broad definition of what a business model is.

According to Shafer et al., 2005, business models are defined by two main aspects: what the aim of a successful business model is and in what time dimension it is conceptualised. Based on this, a definition follows: "A business model is a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network". This definition is well-founded because a company functions by creating value for its customers, either through tangible or intangible resources. This is the basis that defines a business activity. However, to benefit from it, a company should deliver this value and satisfy its customers' needs. In a market with competitors and changing economic conditions, this aim may be hindered. The only way to benefit from value creation through a return in monetary terms is to achieve competitive advantage, i.e. to be different from rivals. Differences arise in many dimensions, but uniqueness in any aspect is a success driver. The business model concept captures all these elements and is directly connected to the value meaning to a firm. The network also plays a key role in the business model, as a company is an open system. It is impacted by all its stakeholders, and a company cannot function without its stakeholders. These relationships are key components of the business model. It should also be noted that this definition applies to all types of business models.

Following all these definitions, I can conclude that every company can define what a business model is for them. They can concentrate on different aspects of the concept. What is essential is to define the model and understand it. The connection between all stakeholders is highly valuable, and it can be treated as a building idea when formulating their business model. Before defining who the stakeholders are and including them in an interconnected system, the firm should decide what its operations and value proposition would be. The last element of a business model should be linking it with strategy, in order to differ from competitors, who might adapt the same model. At the end of this chapter, I will include a table that illustrates the most notable definitions provided by various scholars over the years (Figure 1).

1.2 Pillars of the Business Model

The concept of the business model is used to analyse three main phenomena: "(1) e-business and the use of information technology in organisations; (2) strategic issues, such as value creation, competitive advantage, and firm performance; and (3) innovation and technology management" (Zott et al., 2011). The rise of the Internet is considered to have started the interest in business model analysis among many scholars. The Internet as a technology enabled a new type of business - the electronic business, the definition of which is allowing online trade and for transactions to be carried out electronically. Businesses that simply display online information about their products or services are excluded from the definition. Technological progress has allowed for new ways of conducting business, standing out with the possibility of lower costs and new ways of capturing and delivering value to customers.

As Zott et al. (2011) explain, e-business models are analysed based on two takeaways: description and categorisation of e-business models and elements of e-business models. Both ideas are identified in different ways by scholars, but no precise conclusion has been reached. The main objective when analysing the e-business model is to understand why the business model definition started appearing in the literature after the surge of Internet technologies. According to Amit & Zott (2001), the use of the Internet pushed the boundaries within which a firm can reach its customers. The Internet provides an "infinite" geographical reach and affects one of the elements of the competitive advantage of a firm - its customer base. This provoked reflection on the formulation and modification of an effective business model that sustains the threats that arise from the electronic conceptualisation of the business. Value creation becomes a challenge, and enterprises face the need to rethink their value capture mechanisms. Virtual business implies a serious concern about information and data collection, which should be considered and embedded in the business model structure. Other aspects, such as transaction cost economies and the role of strategic networks, indicate the change in value drivers with the virtualisation of businesses. All these shifts cast doubt on the previously established norms about value creation and created a need for a further analysis of the e-business model. One fourth of the literature that defines the business model concept starts by examining the shift of the standard business model, not fully understood in the past, to the e-business model that created a strong interest in the scholars (Zott et al., 2011).

Moving to the second pillar of the concept - strategic issues - as mentioned above in the definition of Shafer et al., 2005, a company can fulfil its strategy and succeed in terms of value delivery by formulating and implementing its business model successfully. However, strategy is distinct from business model, but they are interconnected, and the presence and success of one affects the other. As Zott & Amit (2009) confirm, an enterprise must function in a network in order to create value. When it comes to the value itself, some papers (Thompson & MacMillan, 2010; Seelos & Mair, 2007) introduce different types of value - such as economic or social, e.g. business models that consider and try to influence poverty,

social status, equality, etc. Value can be created in many ways, such as value chain optimisation, innovation, exploitation of core competencies, outperforming rivals, etc.

Amit & Zott (2001) suggest four drivers of value: novelty, lock-in, complementarities, and efficiency, as the presence of each one of them escalates the positive role of the other on the value. Value creation and delivery are connected to the firm's performance, which is once again based on the business model implementation.

Focusing on the connection between business model, technology and innovation, it can be emphasised that companies can use their business model to deploy a new technology or that the business model can be reinforced based on the introduction of new technologies that are driven by innovation (Zott et al., 2011). However, with the surge of innovation and with consumers' changing needs, in order to take full advantage of the benefits of a new technology, a firm needs to design a successful business model. Innovation can be subject to opening up a company's mindset and relying on external sources of innovation. This aligns with the concept of open innovation (external sources of ideas) or collaborative entrepreneurship (collecting revolutionary ideas about business conduct from entrepreneurs brainstorming together). These innovation-enhancing tools can be implemented if the business model allows it, which can include sharing physical assets, such as technologies, with external individuals or firms. To fully leverage innovation, firms should possess the following capabilities: strategic sensitivity, leadership unity, and resource flexibility (Doz & Kosonen, 2010). The ability of the leader to adapt quickly, make unbiased decisions, consider all stakeholders and improve with the process is vital. Overall, a business model links technology and innovation with value creation and enables enhanced value for customers.

The Business Model concept is based also on key frameworks, among which the value chain analysis (Porter, 1980) - following a sequential process of value creating activities, and the resource-based view of a company (Barney et al., 2001) - a company is represented by its bundle of resources and capabilities, and a firm's competitive advantage can be driven by the right combination of such and their superiority. Both of these theories are encompassed in the business model, and excelling at them is key to the success of a business model.

According to Morriss et al. (2005), a general framework for the business model can be developed, considering existing theoretical frameworks that are embedded in the concept and extending it to the other pillars of the model. The authors underline the simplicity needed for such a framework, so it is accessible to individuals from any background. The framework is based on three levels of decision-making, and at each level, specific questions must be asked. Starting from the lowest level - 'the foundation' - a toolkit for defining the scope of a business and taking basic decisions that every manager faces. At this level, a manager should ask themselves the following questions: "How will the firm create value? To whom will it deliver the value? What is the firm's internal source of advantage? How will the firm position itself in the market? How will the firm make profits? What is the entrepreneur's time, scope and size ambition?"

Answering the first five questions guides an entrepreneur on the core competencies that their company should deploy, and are key to how the company will be positioned in the market. These are initial goals that can be generalised to every business model. The final question is based on the entrepreneur's personal characteristics and endowment and sets out aspects that can draw the differences between business models.

The second level of the framework is the "Proprietary level". Here, entrepreneurs decide how to distribute resources and competencies among the six areas analysed at the first level, in order to create and deliver value. This is the point at which strategy should be formulated and implemented. The main difference between the proprietary and the foundation level is that the latter is applicable to every business model, and it can be easily imitated. The former is the main source of competitive advantage, and if achieved, the company's business model cannot be easily replicated by another firm.

The third level of the framework - "Rules" - encompasses the execution of the business plan, i.e. the activities, processes and operations that should be managed by the leadership and executed by different functions of the business. This is the part in which an idea becomes reality. The rules are aligned with the previous two levels and play the role of guidelines for the actual value proposition. In addition, in this part, the position of a firm in the network is decided as well, i.e. what relationships with stakeholders will be established. Coherence between all levels of the framework is required, and if the three-level decisions are taken properly, the firm can formulate a successful business model.

According to Review et al. (2019), a business model consists of four elements - customer value proposition, profit formula, key resources and key processes. Customer value proposition (CVP) is key to meeting customers' needs and delivering value for them. What is important here is to identify the aspects of a job that customers need to have done. Once a company understands what customers need, it can design a solution and offer a product or a service that outperforms the competitor's. A reason for underperformance is the inability to understand customers' needs. In evolving industries, entrepreneurs can identify opportunities and create value through different strategies. It is important to identify the right customer segment and concentrate on them, rather than trying to capture the whole market. In addition, specialisation in only one direction in terms of product offering is advisable.

The research (Review et al., 2019) also offers insight into how customers can be reached. A firm should consider the following barriers: insufficient time, wealth, access, skill, or time. By overcoming these common barriers, a company can ensure that it will reach its customers and possibly sustain a competitive advantage if it has continuous performance. Specialising in customer value proposition is the most important element of the business model concept. The profit formula tends to be mistaken as an equivalent of the business model. The former is an element of the latter. Authors (Review et al., 2019) suggest that the price of the product or service should be first set and then the associated costs and margins should be worked

out. In this way, an enterprise can ensure that it will prioritise CVP and choose its scale based on its resources and capabilities. Indeed, profit is a powerful aim, so a good strategy should be based on the firm's ability to deliver value at a minimal cost.

The third element - key resources - tangible or intangible resources, combined to produce an output, i.e. deliver value to customers. The right combination and utilisation of resources is key in a business model. The last element - key processes - refers to all the operations undertaken in a company to create and deliver value for customers. Here, the rules and guidelines for these processes are also included. Such rules may not be initially developed, as they are usually established once the operations process is in action, and this is not a hindrance. Rules and understanding of the pillars of a business model should be flexible and modified when needed. Both key resources and elements themselves can be non-unique. What can drive differentiation is the combination and compatibility between them. Using the first two elements of the business model as a base, the right bundle of inputs and operations can be chosen in order for the firm to fulfil its goal.

1.3 Business Model Canvas and its Evolution

The Business Model Canvas divides a business into nine building blocks that characterise its business model. Osterwalder and Pigneur (2009) were the first scholars to create a structured approach to the business model concept and define its elements. It is the most widely used representation of the business model, and it is generally applicable to any firm. Indeed, modifications can be implemented for specific industries, but the idea is that companies should design their business model around the three activities in which they engage - value creation, delivery and capture. The whole thesis will prioritise the Business Model Canvas as a tool to analyse the business model concept. Each element of the canvas is called a building block, and there are nine in total.

The first building block is the customer segments. Identifying the customers that the company aims to serve is what characterises this block. Without its customer base, a company cannot function. Different segments are distinguished from one another based on customer preferences, willingness to pay, behaviours, classes, lifestyles and other features. The company should decide on which segment to concentrate, so it can specialise in the concrete market and fully utilise the consumer group. For companies designing a new business model, starting the business model design from the customer segments block is advisable. The different customer segments differ from one another if each segment is internally homogeneous, i.e. all consumers inside the segment represent it; big enough and different from the others. Examples of customer segments are the mass market (treating the whole market as one segment; having similar needs), niche market specialising in one or a few customer segments), segmented (serving customers from highly varying segments), diversified (serving two unrelated customer segments) and multi-sided platforms (serving independent customer segments based on interdependence between them).

The second block is the value proposition (VP). The value comes from the use of a product or a service offered by a particular company. As the authors of the research define VP - “an aggregation, or a bundle, of benefits that a company offers customers”. Value can be driven by uniqueness, newness, performance, customisation, brand recognition, price, design, accessibility, cost and risk reduction or problem-solving capacity. When a company creates a new business model, if it does not start from the customer segments block, it may start from the value proposition block. Either one of them provides the basis for the Business Model Canvas.

The third building block is channels - how customers are reached and how the firm communicates with them. Channels can be owned or partner, as the latter's incentive is cost reduction but may be limited to the partner's control. This block divides channel phases into awareness, evaluation, purchase, delivery and after-sales. It is important that there is consistency with the previous two blocks and that customers' needs are the main driver of the decisions taken in this block. An emphasis should be placed on the after-sales options provided by the company, such as offering guarantees, returns, exchanges, reliable customer service, etc.

The fourth building block is customer relationships, which are decided by the company and define the way in which the company will communicate with its customers. These relationships are a key feature of the customer experience. We differentiate between self-service, automated services, personal and dedicated personal assistance, co-creation (involving customers in the product creation and development) and communities (customers providing service to customers through sharing more about their experience or knowledge about the product or a service they acquired throughout its usage). Each one of the proposed relationships is suitable for a different customer segment and must be highly evaluated by the company when choosing how to engage with its customers.

The fifth building block - the key resources - are all the inputs that are utilised by the company for the creation of the final output. Resources are categorised as physical (require initial capital investment and could be buildings, equipment, plants, etc.), intellectual (company-specific and could be intellectual property, knowledge, trade secrets, brands, etc.), human (human capital can be a key resource when a business activity is highly dependent on unique human characteristics, connected to their mental abilities, studies or research) and financial (such as cash and equivalents, equity, bonds, etc.). All types of resources can be a source of competitive advantage, but as the resource-based view of a firm suggests, the intangible resources, i.e. the intellectual resources, are the least likely to be imitated and are responsible for the success of the firm, compared to its rivals (Barney et al., 2001). In addition, a resource is considered a potential source of differentiation when it is valuable, rare, inimitable and non-substitutable, a concept introduced by the VRIN framework (Barney, 1991).

The sixth building block - key activities - refers to every process or operation that a firm executes to create, deliver value for its customers and make profits subsequently. These are dependent on the type of business model and are divided in production (including all activities from the entry of the inputs in the value chain, to their storage and transformation into outputs), problem solving (a critical activity that is required to a different degree depending on the business model and industry) and platform/network categories (applicable to business models that function as multi-sided platforms and such activities ensure the management of the platform, the interdependence between all sides, etc.).

The seventh building block - key partnerships - introduces the relationships of the company with suppliers or any other partners, without which the business model cannot function. The main incentives for entering a partnership is cost minimization (driven by economies of scale and optimal access to resources), risk reduction (by forming a joint venture or a strategic alliance, firms can join forces against unexpected market conditions or competitors' pressure) and wider access to resources, channels, and customers (some companies gatekeep vital resources and clients, so gaining access to those through the partnership can benefit the firm taking advantage of the already established connection by the other firm).

The eighth building block - cost structures - is a key profit-related feature that explains how a company incurs costs and how it manages them through its business model. Expenditures are sustained in any type of business model and are managed by companies in different ways. Some firms are mainly focused on cost minimisation and design their business model around this. We distinguish between two types of cost structures: cost- or value-driven. The former is relevant to cost-minimising companies, and the latter concentrates on value proposition and quality, above cost minimisation. Correspondingly, both types of cost structures imply different customer segments, so once again, there is a clear relationship between all blocks of the canvas. In addition, cost structures have some key features, such as fixed and variable costs, as well as efficiency drivers such as economies of scale and scope.

The ninth building block is revenue streams, which outline a firm's revenue-making strategy. It is vital to choose the right revenue stream based on customer segmentation and to meet value expectations with actual performance for a sustained, continuous user base. Different revenue streams are asset sale, usage fee, subscription, lending/renting/leasing, licensing, brokerage fee and advertising. Each one of them is defined by price mechanisms which can be fixed or dynamic.

When it comes to the evolution of the Business Model Canvas, according to Spieth et al. (2014), there has been a surge in the Business Model evaluation as a source of competitive advantage. More research has been conducted since the introduction of the business model concept in the 90's, but there is still more to be done. The evolution of the canvas is mainly driven by innovation and technology, which in turn motivate companies to rethink their business strategy and connect it to their business model. The research in the area still tends to be fluctuating due to the lack of a clear definition of the term and the direction in which

the business model is analysed (Foss & Saebi, 2016). According to a survey conducted in another research study (Wirtz et al., 2016), experts in the field were asked to express their opinion on the future research priorities of the business model canvas. The survey participants highlighted the implementation of the business model as an important area of research due to vast discrepancies in the explanation of the feasibility of different models in different environments. The business model concept is a tool that, if further analysed and conceptualised, would be of great benefit to the business and economic world. There is merit in tracking the evolution of the concept from its appearance with the Internet involvement, to its framework recognition as a Business Model Canvas, to its current challenges arising from the digital transformation.

1.4 Business Model vs. Strategy

According to Magretta (2002), the terms strategy and business model are not equivalent. They are rather complementary to each other. The business model explains what the organisation of the business activity is going to be, by including customers, partners, resources, costs and value proposition. Any of the business model segments can be a source of a competitive advantage. What is excluded here is the role of competitors. Strategy is the tool that factors in competitors' position and the general feature of the competitive advantage, on which the company's success depends, namely, inimitability. Strategy is defined as a set of goals that exploits the company's competences and differentiates it from its competitors. The essence of the role of strategy is for the firm to find a way to be unique in the way it creates and delivers value for its customers. Companies can have the same business models. If they do not implement a set of strategies on how to distance themselves from their rivals, destructive competition may be a consequence. Porter defined this term as a lack of differentiation between competitors, which leads to a decrease in the overall price level. At some point, prices will fall to a threshold that is below costs, and returns will be affected negatively.

According to Casadesus-Masanell and Ricart (2010), we can determine that understanding the differences between strategy and business model is a complicated task. The authors claim that in established business models, each term leads to the other one, i.e. strategy is embedded in the business model concept. However, when a company has to reinvent its business model, strategy diverges. In the occurrence of unexpected situations out of the control of a firm, the business model alone cannot be used as a tool to cope with the change. By looking at a currently existing business model, executives can only analyse the current strategy. The term strategy, in general, includes plans of action in the event of changes coming from outside the firm. Where the difference in both concepts lies is in the broader aspect of strategy as a tool to adapt to current or future challenges. "An organisation's business model is the reflection of its realised strategy." (Casadesus-Masanell & Ricart, 2010).

Teece (2010) suggests that interconnecting business model formulation with the strategic management process is essential for avoiding imitability by competitors. Strategy should be used as a base for defining a competitive business model. Once a firm determines that through its business model, it can implement the set of strategies it planned for, only then can the business model turn into a performance driver.

It can be concluded that there is no right way to determine whether strategy and business model are the same concepts. What the different authors' explanations have in common is the fact that one does not need to draw the line between the two terms. As long as companies treat strategy as a separate element of their business model, they can exploit the advantages of the strategic management process. Strategy is also required in every step a firm takes in its value chain. However, strategy is indeed more than a set of goals connected to any current business model of a company. What makes managers exceptional is their ability to prepare their company for sustaining any external challenges. Without analysing the internal and external environment - anticipation of potential threats - executives cannot tailor their actions to the best interest of the company. Such analysis is part of the strategic management process. I see strategy and business model as two terms that have some common characteristics but tend to differ in reality, when factoring in rivals and changing environments. Consequently, both should be considered by companies.

Figure 1: Definitions of Business Model (Andreini et al., 2017)

Author(s)	Definition
Zaltman et al. (1982)	A concept is a bundle of meanings or characteristics associated with certain events, objects, or conditions and used for representation, identification, communication, or understanding.
Timmer (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.
Afuah and Tucci (2000)	A system that is made up of components, linkages between the components, and dynamics.
Magretta (2002)	Business models are “stories that explain how enterprises work.”
Afuah (2003)	A business model is a framework for making money. It is the set of activities which a firm performs, how it performs them, and when it performs them so as to offer its customers benefits they want and to earn a profit.
Morris et al. (2005)	A concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.
Osterwalder et al. (2005)	A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore, we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.
Zott and Amit (2007)	The business model is a structural template that describes the organization of the focal firm’s transactions with all of its external constituencies in factor and product markets.
Zott and Amit (2008)	The overall gestalt of interlinked boundary-spanning transactions and interdependent activities that enable value creation and capture.
Demil and Lecocq (2010)	The resources and competences of a firm, its organizational system and the value propositions it offers are permanently interacting, in ways that increase or decrease its performance.
Teece (2010)	A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value.

Chapter 2 - Strategic Foundations of Business Models

2.1 Strategic Management and Business Model Development

In the previous chapter, I examined the relationship between strategy and business model and concluded that both terms should be treated as two separate tools that a company can use to excel at its performance. They overlap in some characteristics, and developing an interconnection between both is a requirement for sustaining competitive advantage. When designing a business model, a firm should meet three criteria: desirability, feasibility and viability. Desirability means ensuring that the value proposition of a business interests someone, i.e. evaluating the potential customer market. This is directly connected to the first two building blocks of the Business Model Canvas (Osterwalder & Pigneur, 2009). Feasibility is linked to the company's ability to deliver value and execute its business plan. Viability concerns the economic sustainability of a business driven by the business model, i.e. the firm's profits. Only after the three criteria are combined will a firm have a strong incentive to formulate a performative business plan, factoring in its and its stakeholders' interests.

In this chapter, I will look at the stronger relation between the Strategic Management process and the Business Model development. I will start by defining strategy, a definition around which the chapter will be organised. "Operational effectiveness is not strategy" (Porter, 1996, pp. 61–78). Operational effectiveness is based on the performance of different operations from rivals or performing similar operations to rivals but in a different way. Any firm's objective is to operate better than other companies. Operational effectiveness can be replicated, and this creates the problem of a lack of competitiveness. Only with the availability of a strategy can a company differentiate itself from its competitors. Strategy is about making unique choices. In a broader context, it is about being unique in every aspect and, very importantly, being inimitable. Porter sets these definitions based on spectating the market conditions and firms' decisions on how to outperform in the 90's.

The research of Ansoff, I. (1965) on Corporate Strategy; Porter, M. (1980) on the Five Forces Model and the Value Chain and general strategy; Barney, J. (1991) on the resource-based view; Mintzberg, H. (1987) on the emergence of strategy, provided a basis for the Strategic Management framework. The strategic management process is composed of three steps: analysis, decisions and actions. The first one aims to analyse the internal and external environment and set the strategic goals of an organisation. The second one is based on the decision-making process of where and how the firm will compete. The third one combines allocation of resources and realisation of strategy. When looking at these three elements, it becomes clear that the Business model is closely related to them. It can be directly linked to the "Actions" part as it provides an architecture of the goals, stakeholders, activities and value delivery features. Even though the business model concept goes beyond strategy, its organisation is a tool through which strategy can be implemented. The "Analysis" and "Decisions" elements are building blocks for the formulation of the business model. They

should be conducted before the business model is established. The logic behind this assumption is that a successful business model is compatible with the strategic goals of a company, and it will benefit from an initial analysis. In addition, the value proposition in the business model is based on the industry and customer segments that are decided in advance. Without analysing stakeholders, a firm may make uninformed choices about how to compete. In conclusion, the strategic management framework is a tool that precedes the business model and is unable to be executed unless the business model is implemented.

When starting with the initial step, Analysis, the company should firstly define its strategic goals by setting its mission, vision and strategic objectives. The mission defines the purpose and scope of the organisation's operations and mentions the basis of its competitive advantage. It is specific and should be constantly updated to represent any changes that may occur. The vision captures the ideal for the organisation of a business, as well as its future direction. Once set, it should not be modified.

Apart from the strategic goals, the internal and external environments have to be analysed as well. The external environment consists of general and competitive environments. The general external environment has the power to influence a firm's strategy drastically. A framework companies use for such analysis is the PESTEL analysis, developed by Aguilar (Yuksel, 2012). This tool takes into consideration various political, economic, sociocultural, technological, environmental and legal aspects, with which firms should "comply" in order to survive in the concrete industry. The competitive environment affects companies based on the fact that they conduct business in competitive structures and are dependent on buyers and suppliers as well. Porter's Five Forces (Porter, 2008) is a tool that drives this analysis. It analyses the external environment and its determinants. The five forces that define it are: threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and competition between existing firms. Through this framework, a company can understand an industry's competitive structure and make assumptions about its profits, influenced by the five forces. A clear timeline should be set when running this analysis, as a stable timeline is between 3 and 5 years. Another external factor that plays a role in organisations' strategies and consequently their business models is institutions. The institutions-based view of a firm states that companies are influenced by formal and informal institutions. Executives should be wary of the role that institutions play, so they satisfy their own and society's rules and expectations.

The internal environment is analysed by two very powerful frameworks: the Value Chain Analysis (Barney, 1991) and the Resource-based view (RBV) (Barney et al., 2001). The first tool defines the consecutive set of value-creating activities, divided into primary and secondary activities. The former enables the physical creation of a product or a service, sales and after sale. The latter add value by themselves or support primary activities. This framework is related to the key activities building block of the Business Model Canvas, and both overlap. The value chain activities can be set in the Strategic management process or in

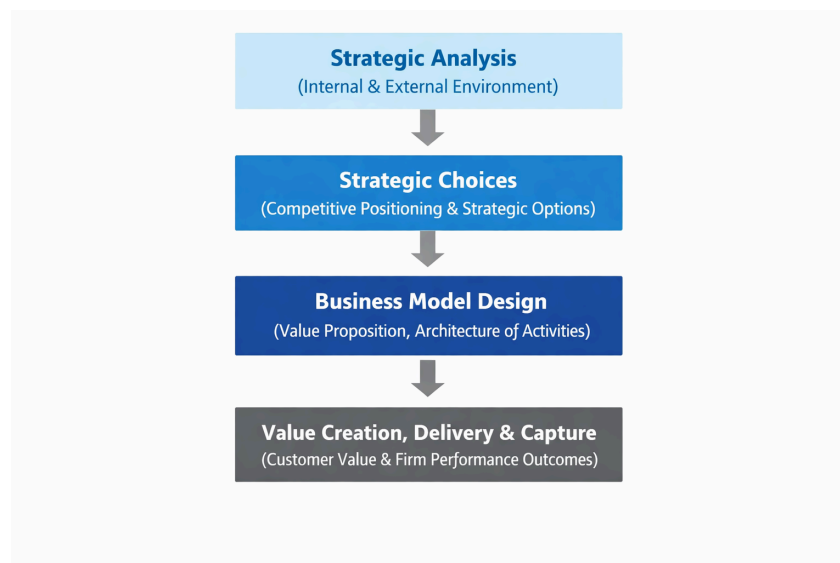
the Business Model first, depending on the sequence the executives have chosen and also on whether the firm is designing a fully new Business Model or is reinventing a former one. Consistency is essential in every aspect in which the Value Chain Framework is applied.

The RBV draws differences between companies based on their resource profile and usage. A company can profit when its resources are superior and efficiently managed. In addition, the VRIN framework can be viewed as a supplement to the RBV. It defines a resource as a source of competitive advantage when it is valuable, rare, inimitable and non-substitutable. An extension of the VRIN framework - the VRIO framework - can be used as an alternative and updated tool. It preserves the three former characteristics and exchanges the fourth one with organisation. An emphasis should be put on the core competencies of a firm and the ability to be distinguished by them.

The internal environmental analysis helps business entities to map their emphasis on value creation and delivery. Companies are more likely to improve performance when they invest in intangible resources, facilitate knowledge and appreciate human capital. They should work with both frameworks to choose their activities based on resource abundance. An organisation can sustain its operational effectiveness if it develops a feasible connection between inputs, activities and outputs. Another widely used tool that provides insights into both the internal and external environment and serves as the basis for decision-making is the SWOT analysis, developed by Andrews, K. R (Hill & Westbrook, 1997). It provides a direction to companies' characteristics and potential challenges by grouping them into strengths, weaknesses, opportunities and threats. Understanding each one of the categories in depth can drive a successful value proposition strategy and its clear positioning in the business model.

Once the strategic management analysis is concluded, informed choices are made based on what all analytical tools suggest. After companies decide where and how to position themselves, they should design a more detailed plan that captures their decisions and expands to other aspects. The business model's goal resembles such a plan. Additionally, the decisions phase translates into the development of some initial strategies. After a business model is formulated, it should be implemented, which concludes the strategic management process. It is assumed that with the business model realisation, the strategies are also applied. The sequential steps can be seen in Figure 2.

Figure 2: Steps connecting Strategic Management Process and Business Model Development



A further evaluation of all the steps of this process follows. In reality, strategic management is based on a continuous assessment. The initial process is run when a firm creates a new business model or enters a new market in terms of what it offers or to whom it offers it. However, when a firm exists and already has an established business model, it should not practically conclude its strategic management process once the implementation phase has ended. It should be prepared to reanalyse, rethink, and redesign its business model. This is required because the internal and external environment evolve constantly, and a firm should be able to adapt to any changes. “Business model design is a key decision for a new firm entrepreneur, and a crucial - perhaps more difficult - task for managers charged with rethinking an old model to make their firm fit for the future.” (Zott & Amit, 2010)

Overall, it can be observed that the business model and strategic management are correlated concepts. Whether a company should start from the strategic management process and formulate its business model during it, or the other way around, is a subject to further evidence. Indeed, the interpretation at this point of the chapter suggests that the former is more logical. Yet, the latter is no exception.

2.2 Activity System Perspective on Business Models

According to some research (Zott & Amit, 2010), a business model evolves around the activity system of a business. Authors start by analysing the main aim of an organisation - to create and deliver value to all stakeholders engaged while benefiting from a profit itself. In this turn, a business model should serve the same purpose. But what defines the activity system of a company? Let's start by determining what an activity is. Zott and Amit (2010) define activity as “the engagement of human, physical and/or capital resources of any party to the business model (the focal firm, end customers, vendors, etc.) to serve a specific purpose toward the fulfilment of the overall objective”. An activity system combines all

activities taking place within a firm's scope and executed by the firm itself or by its stakeholders. It is based on the fact that all stakeholders are connected in a network and are expected to exchange resources with the firm and with one another, in order for everyone to be included in the value creation. The interconnections in this network are established by entrepreneurs and managers who develop or modify a particular business model. An activity system represented by everyone's role (mainly suppliers, partners, customers and competitors), in combination with resource transformation into outputs through activities, sets the main idea of a business model - value proposition that translates into profits for the company and its stakeholders. Additionally, when resources are utilised within a complementary group, an organisation can benefit from synergistic effects and turn this into a distinctive capability.

Authors determine that what is produced as an output from the activities and brought in terms of value to all parties included in the process defines the upper bound of the value "pie" capture. There is also a positive relationship between the value capture potential and the bargaining power of the firm. The higher the former, the higher the latter. However, bargaining power makes sense only when it is tied to the revenue model, through which firms exploit the benefits of their value delivery. The correct revenue model, i.e. pricing strategy, can be crucial for the effect of a firm's efforts on performance.

The taxonomy of activities is another concept that has been explained differently by various scholars. The main idea circles around the extent of aggregation of the activities. The higher the aggregation, the more general each activity is and the more it is comparable to a function of the company. The less the aggregation, the more specific the activities are. As a result, many more distinguished activities will appear, and managers may face challenges with their control. Defining activities is a core concept when designing the business model if one accepts the activity system as the main pillar of the business model.

A further extension of the activity system is its parameters: design elements and design themes. Design elements are content (identification and classification of activities performed), structure (establishment of links between activities) and governance (performers of the activity). These elements are interconnected and establish the conduct of a business. The themes are drivers that can increase the performance of the design elements, once again by relying on the relationship between the three elements. The first design theme is novelty, which is crucial when innovative solutions should be implemented. It is about the introduction of newness in all or any of the elements and transforming the way they used to contribute to each other's success. The second theme is lock-in. It applies features that prevent the stakeholders in the activity system from substituting. A business model is exposed to a higher risk when the players in the network of value-creating and capturing activities are likely to exit. A company should be able to keep them through lock-in mechanisms, such as switching costs and network effects. Another theme is complementarities.

The availability of complements is usually a highly appreciated attribute by entrepreneurs, and it is considered a key aspect when entering a new market. Complements in activity systems play the role of bundling activities that are more valuable in this way, rather than being independent. This is one of the characteristics that defines the activity system as a network at the base of the business model. The last theme is efficiency. Efficiency means full utilisation of all inputs in the creation of outputs, which should be reached at the lowest cost for a firm. All four themes can be seen as guidelines that managers should actively acknowledge when creating or reinventing their business model around its activity system.

In summary, an activity system perspective on the formulation of a business model is justified. If the activity system is seen as the aggregation of the whole business conduct, it is logical to base the business model on it. This concept suggests that executives would be focusing on the whole picture instead of breaking their business model into blocks that are too specific. The activity system contains all the answers from which the firm should start when building its business model. Once the whole architecture of activities and stakeholders is understood, additional optimising details can be introduced. Comparing the activity system framework with the Business Model Canvas, it should be noted that the former is not a substitute for the latter. The activity system framework is useful as a strategic foundation of a business model, but it does not constitute all aspects that should be considered when implementing such.

2.3 Stakeholder Theory and Value Networks

As discussed in the previous chapter, all stakeholders are part of the activity system, and their interconnectivity is vital for the efficient utilisation of resources. In this part, I will deepen the analysis, focusing on stakeholder theory and its placement in the business model. It is a common misunderstanding that many firms prioritise their profits and the increase in shareholder value in terms as core incentives for a firm to perform. However, creating value for all stakeholders as part of the value chain is equally important. Without customers purchasing the goods and services offered by a company or third parties enabling particular activities, an enterprise cannot function (Freeman et al., 2007). What is central in stakeholder theory is that a firm should treat its primary stakeholders as equals and deliver value for them all. Creating synergies between the distinctive groups is a prerequisite for an effective organisation.

Stakeholder Theory divides stakeholders into primary and secondary groups. The former has a direct effect on an organisation's conduct, and it is included in the company's activities. The latter exerts indirect control by influencing the primary stakeholders or governing a company by means of rules and norms. According to Freeman et al. (2007), the primary group is represented by: customers, suppliers, employees, financiers and communities. The secondary group is represented by: government, media, competitors, consumer advocate groups and special-interest groups. Depending on the industry, the secondary stakeholders

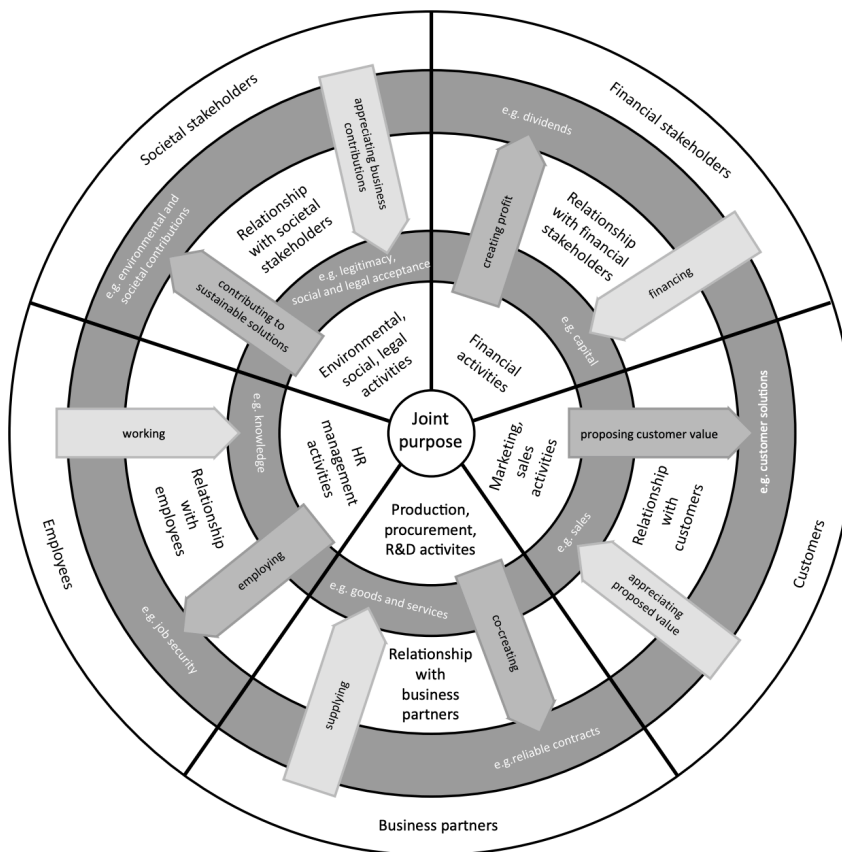
can become primary if the industry is highly regulated, such as environment-complying industries.

When examining the significance of stakeholders in the business model, most concepts circle around value creation. It is important to define what value is and how value is delivered in the stakeholder theory. According to Freudenreich et al. (2020), value for customers comes in the form of the products and services they consume, as it can be derived based on usage or ownership. Apart from customers as stakeholders, value is delivered to financial stakeholders as well (shareholders and investors). Value can be generated through a sustainability and society perspective. The authors note that a clear understanding of how value is created is also needed.

The activity system framework proposed by Zott and Amit (2009) explains well that activities are carried out by a firm itself and its stakeholders that aim at value delivery for every player in this system. However, a further investigation of the relationships between all stakeholders is necessary. The paper (Freudenreich et al., 2020) indicates that every stakeholder has an incentive to participate in the system and contribute to the value creation. Nurturing such interconnections between stakeholders reinforces the long-term performance of a firm. Indeed, stakeholders are willing to contribute to the activity system of a company if they obtain benefits. An organisation should design its business model so it profits from the network of stakeholders, through which it conducts business, but also shows its appreciation for them. Therefore, a firm needs to understand each stakeholder's needs and treat those as core elements when building its business model.

The framework developed in the research (Freudenreich et al., 2020) regards business models as tools that engage not only with a customer-oriented value proposition but also include further stakeholders as well. The findings suggest that the stakeholders not only support organisations but also their profits. They are players who take an active part in the value creation, seen as a "joint purpose". Contrary to what many scholars think, stakeholders can have both functions: "stakeholders are both recipients and co-creators of value" (Schaltegger & Figge, 2000). Authors divide the framework into 5 key stakeholders: societal stakeholders, financial stakeholders, customers, employees and business partners. Under each stakeholder, the type of activity they take part in is present, as well as the type of value transferred from a company to the stakeholder or the opposite (Figure 3).

Figure 3: Stakeholders grouping graph (Freudenreich et al., 2020)



Starting with the customers, being the main focus of many companies, they are usually seen only as recipients of value. However, it should be noted that customers provide insights to firms and enhance the value creation process by sharing their preferences, personal data, participating in surveys, etc. All these data-based sources help organisations collect information about customers, so that they can target them with corresponding marketing and sales strategies.

The business partners' two-way exchange value system tends to be clear in most business designs. Suppliers, distributors and other partners contribute in many steps of the value chain - from the input acquisition and procurement to the actual delivery of the output to customers. In turn, they get paid for their services. The employees participate directly in the value delivery process by employing their skills, knowledge and capabilities. In exchange, they are financially remunerated in terms of wages and experience personal and professional development, fostered by their employers.

Societal stakeholders are formal and informal institutions or bodies that govern business conduct to protect society. Firms affect societies in many ways, and their compliance is regulated by these types of stakeholders. A firm profits from this relationship through its reliance on these partners to ensure that it is sustainable in every sense. If so, firms benefit from brand recognition, image and reputation among customer groups. The societal

stakeholders also value their relationship with a company because they are able to fulfil their purpose as a societal structure that is mainly driven by a “people-perspective”. In addition, they may collect fees or taxes from companies or benefit from donations that once again facilitate their purpose of existence. Financial stakeholders provide financing options to companies without which a firm cannot function, unless internally financed, but even then, financial management is required. Firms offer a stake in the company or payment of fees, as well as intangible benefits for investors, based on risk-decreasing factors.

The above-described framework is a workable guideline for understanding how stakeholders constitute their placement in the business model. As takeaways, it can be inferred that all groups of stakeholders, together with the firm, work in one direction towards a joint purpose, which is the creation of value in a way that benefits everyone. Value itself can be seen as an aggregation of all particular values among stakeholders that they receive or contribute to. Another aspect of the framework is its sustainability-enhancing power. This topic was also discussed by Stubbs and Cocklin (2008). A company can successfully modify its business model only by including all its stakeholders in the change. Sustainability can be implemented in different ways, but the main objective is to deliver a social, economic and environmental impact.

The study analysed key factors that play a role and concluded that across companies, one common factor is the engagement of all key stakeholders in the path toward sustainability. A firm should understand all its stakeholders’ views and needs and consider them when accomplishing sustainable objectives. It can be highlighted that the role of stakeholders is crucial for any business model, and they are an equal part of the success of a company, together with its managers and shareholders. Once these perspectives are aligned, an organisation can build upon its stakeholder relationships and emphasise the importance of loyalty, honesty and integrity.

2.4 Dynamic Capabilities and Business Model Adaptation

In the previous chapter, I discussed Barney’s Resource-based view and the VRIN/VRIO framework. It should be further elaborated that a firm owning particular tangible, intangible resources, or organisational capabilities is only part of a broader picture. Firms should know how to orchestrate these resources effectively and build a business model that is consistent with their result-oriented usage. This is the role of the dynamic capabilities of a firm. The term is defined as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece, 1997) or “the sensing, seizing, and transforming needed to design and implement a business model” (Teece, 2007). Such capabilities are connected to the ability of a company to adapt to any challenges imposed by the internal or external environment.

Additionally, in order for a business to grow, it should successfully build upon its established structures and ideas, while considering current trends and events. After all, the firm profits

by selling its products or services to consumers, whose needs tend to evolve together with the external changes that affect a company. Executives should keep in mind that the obstacles they face on behalf of the company in economic, social, political or other terms can affect the consumers as individuals. On the one hand, organisations should be able to react correspondingly to such changes from a company-based view. On the other hand, they should be able to meet the new customers' needs that are reshaped by the same events.

A further aspect analysed by Teece (2018) is the ability of an enterprise to take full advantage of its dynamic capabilities. The author outlines the importance of alignment between seeking and finding new strategic possibilities and the modification of a business model that will allow for the former to be implemented. Another aspect examined is the source of the dynamic capabilities. Such stem from "non-routine managerial interventions", i.e. from the competencies of managers and entrepreneurs. This is reasonable as business models are formulated and reinvented by humans, and their organisational control is what shapes a business model. Without such supervision, even with the abundance of superior resources, strong stakeholder relationships and inimitable activities, none of these performance drivers will be utilised. Since such dynamic capabilities are individual- and firm-specific, they can be a source of competitive advantage. Firm-specific because the working environment, a firm's culture and strategic goals foster managers' competences. Such experiences are difficult to replicate by competitors.

The connection between strategy and business model is a concept analysed with dynamic capabilities as well. Dynamic capabilities can serve as the unifying element between the two. In order to create and redefine a business model or formulate a good strategy, the dynamic capabilities of executives should be present. Before doing any of these, entrepreneurs or managers should be able to sense opportunities and get an idea for their business. Once they do, they can decide to start from the strategy or business model as tools to make a possibility real and sustain its performance when faced with rivals. Teece (2007) characterises this concept as dynamic capabilities enabling "sensing", "seizing" and "transforming". Indeed, without the ability to identify opportunities or react to challenges that in turn facilitate new prospects, executives would not be able to support their company's growth.

According to Helfat & Peteraf (2003), an extension of the Resource-based view is intuitive when dynamic capabilities are considered. Scholars propose the Dynamic Resource-based theory, which has two grounds. The first one is that Barney's RBV fails to establish why firms differ in terms of resources and what their source is. The second ground is that dynamic capabilities not only support direct change but also influence the non-dynamic capabilities. Non-dynamic capabilities are also called operational capabilities that are linked to the production of the product or the service. Dynamic capabilities tend to have no direct connection to output. They would rather influence the operational aspects and develop them further when challenges arise.

The authors claim that all types of capabilities can be useful when a company needs to adopt changes. The main idea on which these assumptions are based is that all capabilities have a lifecycle. Their lifecycle can be seen as different stages of founding, development and maturity. In between those phases, certain peculiarities may arise - such as retirement, redevelopment, recombination, among others. This extended framework answers the question of why firms are heterogeneous in terms of their resources. Intangible resources are indeed firm-specific. The emphasis is on the tangible resources that can be the same across companies. The operational and organisational capabilities make a distinction when comparing different firms. By tracking the lifecycle, one can understand where some capabilities originated from, as well as the impact of dynamic capabilities on non-dynamic ones.

The main takeaway is that resources themselves are useless if not utilised. They should be utilised, and this is possible only when combined with capabilities. Even though organisational capabilities are seen as resources, they differ in terms of functionality from tangible and intangible forms of resources. For every capability, two sets of actions are required: a set responsible for the execution of the capability and a set for the organisation of the capability. Such coordination arises from the managing executives of a company. It can be inferred that the lifecycle of the capabilities is determined by individuals' skills as managers. Combining all the above-mentioned aspects of the Dynamic RBV, it can be concluded that in reality, firms should take into account external factors when organising their business model. The inclusion of dynamic capabilities in the RBV framework is vital for sustaining competitive advantage in a fastly evolving world.

This final part of the chapter is intended to examine an important aspect of business model development and to link it further with strategy. Dynamic capabilities can be considered a strategic foundation for the establishment of a sustainable business plan, in which innovation is accounted for. Such capabilities are upon executives to be developed and used in a performative way. The emphasis on resource utilisation is highly useful as a competitive advantage driver. Furthermore, it can be concluded that without dynamic capabilities, entrepreneurs and managers would not be able to turn their business idea into reality or implement a change in their existing business model.

Chapter 3 - Determinants of Business Model Success

The purpose of this chapter is to outline the key variables in Business Model success. It will build further upon the strategic foundations analysed in the previous chapter, and it will demonstrate their applications. The set of determinants of success is extensive, but I will focus only on the main ones. In addition, business model success should be defined.

According to Lambert and Davidson (2013) and their conclusion based on other papers, business model success translates into an increased or stable performance of a firm, measured by some factors: financial ratios and performance drivers, as well as the ability to adapt to changes and consider stakeholders in value creation. Overall, success across companies looks different. Additionally, the primary aim of every business, which is profit maximisation, is an identical goal among revenue-based firms. The contribution of the Business Model concept is based on its broad function as an aggregation of all important elements for a company, combined with strategy, which later results in positive outcomes for the company. Such outcomes can be not only profit-oriented, but also society and environmentally beneficial. Companies have a social corporate responsibility that, when taken into account, reputation advantages follow as well as the fulfilment of strategic objectives.

3.1 Customer-Oriented Value Creation

Customers are a primary stakeholder for companies, and their satisfaction is a driving force for the success of the business model. The fundamental relationship is such that customers pay for the output provided by the firm. However, this concept has extensions that will be further examined. What is challenging is to sustain a customer base and keep profiting from the value proposed to customers. As previously discussed, any business model development or modification may start from deriving customer segments to which an enterprise is to provide value. When offering a product or a service to customers, it is of great importance to understand what function customers are in need of. Solutions to their problem may arise in many forms and from many competitors. Once a company comprehends this, it can outperform rivals.

In order for a company to target its customers, it should gain an understanding of how customers react to any new technology introduced. The term technology is defined as a set of techniques, skills and knowledge that enables the production of goods and services by a firm. Technologies are also considered enablers of innovation. No firm and its business models remain “stuck” during their existence due to the constantly developing world that affects them. Such changes alter customer needs and expectations. When an organisation forms its business model or modifies it, it should acknowledge the current state of consumption, which is based on the phase in which a given industry is. This is why a tool that can be borrowed from entrepreneurship studies can help understand what technology to use in order to serve clients efficiently.

Many entrepreneurship concepts suggest that the lifecycle of a new technology follows a curve. In addition, every group of customers included in this lifecycle are distinguished based on their own adoption cycle. The groups are innovators (first to try out a new technology without value justification), early adopters (likely to adopt when they understand what problem the technology can solve for them), early majority (adopt when they see a proven value), late majority (adopt when the technology becomes widely used) and laggards (highly resistant to change and may never adopt). The hardest transition is between early adopters and early majority, also called the “chasm” phase. It is recognised as a challenging time in which companies aim to persuade the market that what they offer can solve an actual problem and result in value.

The usual curve of a new technology starts with a slow acceleration as the expectations tend to be low at first. After some efforts on the part of a company, a newly introduced technology becomes more recognisable, and there is a fast growth of the customer's expectations. Afterwards, a maximum point is reached. Once such a level of interest is achieved, two scenarios may follow: the company remains stable, also seen as a plateau, or the curve starts decelerating and reaches a point of disillusionment. The reason for such a decline is customer disappointment, caused by a company's inability to compete effectively or satisfy customer needs. If a firm surpasses this low point in its cycle in terms of the technology it offers, it gains power to some extent. Such power derives from the management of a challenge that may have threatened the existence of the firm. On the one hand, overcoming such a phase means that the management function is efficient. On the other hand, company executives gain further experience coping with such obstacles. If the firm is not able to recover from the point of disillusionment, it usually exits the market. The plateau level should not be undermined by organisations, and they should be wary of possible fluctuations if they do not keep evolving together with the internal and external environment.

Indeed, not all technologies follow the same curve, but the connection between this entrepreneurship concept and business model will be derived based on the above-described assumption for the lifecycle of a new technology. Business models represent a tool that develops at the same pace as a product or a service of a company does. The main focus here is on the ability of a company to either establish a business model that engages all groups of the customer segments it approaches or the ability to redesign its business model once a point of stability or disillusionment is reached and alterations may be necessary.

Customer value proposition (CVP) is a term that captures the already defined customer segment and what their needs are. When working on a business model, CVP is one of the main elements on which organisations should focus. According to Review et al. (2019), “A successful company has found a way to create value for customers—that is, a way to help customers get an important job done”. The authors outline the importance of concentrating on one customer's problem that needs to be addressed. Becoming proficient in it is vital for

the preservation of a customer base. CVP is built on three elements: target customer, job to be done and offering (Review et al., 2019). A combination of all three is required and is essential for the right placement of CVP in the business model.

Customers are usually simply considered receivers of value and sources of revenue for an enterprise. In the Stakeholder Theory in Chapter Two, it was concluded that customers are part of a bigger stakeholder network that implies a two-way exchange of value. In other words, customers not only receive value but also provide insights to companies that are useful for guidance on efficient value delivery. A particular framework developed by Demil and Lecocq (2010) places customers in a similar position, considering them as value contributors, not simply receivers. The RCOV framework proposed in this study captures resources and capabilities (RC), organisation (O) and value proposition (P). According to researchers, the RCOV framework can be an approach that depicts the business model concept. Once again, similar to the activity system concept, these elements are connected in a network and interact with one another. They are seen as a flow, starting from the resources and capabilities, managed and utilised by organisations in terms of processes and management by executives, and ending with a value proposition, which is the output.

The dynamics in this model should be emphasised, as this is the main feature that outlines the usability of such a business model concept. Consequently, an enterprise can redesign its business model when changes arise. The interconnectivity of all four elements implies that a modification in any of them leads to an adjustment in the rest. It can be seen as an automatic process; however, it is executed by managers and entrepreneurs. What differentiates this framework is that the placement of customers is not only at the end of the value chain. Customers take part in the resource element, and this further extends the analysis of firms as open systems. PLÉ et al. (2010) advocate for this phenomenon being partially recognised by many scholars. This research highlights the importance of further customer integration in the business model. This perspective is grounded in the customer-integrated business models (CIBM).

The CIBM approach is a tool that aims at explaining how firms can build customer-oriented business models and what advantages there are to this. Such a business model is built based on the exchange of communication between various stakeholders of the business. The main actors in this process are the employees who engage directly with customer communication. Conversely, customers can be perceived as employees in a company as they enhance the processes and the profits of the firm and benefit through elevated value delivery for them (Mills & Morris, 1986). Another actor is the customers themselves, and the other customers who take part in the process as well. This relationship is vital for open innovation. When an organisation facilitates connection between all customers, it can benefit from open ideas that arise from the exchange of insights between customers and collaborative feedback. The last player is the firm itself. It facilitates the communication between the rest of its stakeholders through its business model elements' interconnectivity. Indeed, the CIBM

approach can be treated more as an extension of a business model. It brings an additional focus on customers, but in order for a business model to be successful, it should maintain its focus on the rest of the elements as well.

Customer participation (CP) is a behavioural concept that refers to the actions and resources supplied by customers for service production and/or delivery. Following this notion, further questions should be analysed that give answers to when, how, by which activities and to what extent customers contribute to the value creation and delivery. Customers provide insights into both products and services, and they can participate in any of the value chain activities. Most commonly, they take an active part in the design definition, prototype testing and after-sales. The after-sales activity tends to gain more attention after the introduction of the internet and multi-sided platforms. The reason is that networks effect that further supports the company through an expansion of the range of its customer base.

When it comes to the inputs of customers, Rodie and Kleine (2000, pp. 111–125) define them as “mental, physical and emotional”. If customers are regarded as labour (abstractly), they commit to cognitively understand the product or service offered, connect with it on a physical or emotional level, and evaluate their experience. Finally, the magnitude of customer participation should be outlined. Firms should decide to what extent they will rely on customer assistance in their business models. Their role depends on whether the output supplied by the company is rather easy to consume or its value is controversial and customers should put additional effort into understanding it.

The CIBM revolves around the same concept of customers being not only a target of the value proposition, but also central in the path that a firm, along with all its elements, takes before it delivers value. If a business model is based on the RCOV framework and customers are considered resources, their contribution to the rest of the elements is explicit and two-sided. They foster the value proposition through feedback and information provision to a firm, but at the same time receive the same value. Customers influence organisations through their inclusion in particular activities and interaction with other stakeholders along the way. Value proposition and organisation interact through the opportunity for boosted VP through well-informed activities and execution of organisation activities based on customer-centred VP. Finally, companies benefit directly through cost efficiency and revenue maximisation, both led by the elements in the RCOV framework.

A further investigation of the customer role in business models linked with innovation should be conducted. Business model innovation (BMI) is a term directly connected to customer experience (CX). “BMI gives firms the ability to alter various business elements at the same time, in a coordinated manner. This ability gives BMI the potential to impact the customer experience to enhance competitiveness in fast-changing environments.” (Keiningham, 2021) The importance of innovation is reinforced every time a change emerges from the external or internal environment. Whether customers are part of the former or the latter is a subject of business model development. When clients are not only end users but are involved in the

activity system of a company, they are treated as an internal factor. When a firm does not engage with its customers apart from supplying an output to them, they tend to be an external force. I argue that treating customers as an internal element provides the enterprise with less exposure to risk. Why separate customers and neglect them, when the relationship with them can be turned into a source of competitive advantage?

The research of Keiningham et al. (2017) suggests that CX can be analysed through cognitive, physical, sensory, emotional and social dimensions. Firms specialising in customer experience can respond proactively to changes and redesign their business model accordingly. Positioning customers and their experience centrally in the business model enables managers to fully grasp consumer surplus, not only in economic terms but also in social long-term aspects. Human beings are complex, and combining economic, marketing, management, and behavioural theories is essential when conducting business.

The inclusion of CX in business models and incorporating innovation in it is a framework that captures the aspects suggested in the previous paragraph. Keiningham (2021) proposes such a framework and divides it into three steps. The first one is the definition of customer experience profile, which includes developing an understanding of what customers' needs and expectations are. In order to successfully draw such a profile, firms should consider their rivals. CX is impacted by a comparison of customers between what the company offers them and how they can substitute it. Such insights are collected by asking customers to express their opinions on the dimensions of CX (Keiningham et al., 2017) and rate competitors and the focal firm. Managers can leverage this data by defending, improving, building and ignoring. Defending relates to preserving the dimensions that currently account for most of the CX and have little to no room to be upgraded. Improvement can be applied to such dimensions that currently perform well but still have great potential if further engaged by the company. Building occurs when the current point of the dimension does not contribute to the CX and requires a full modification or addition of new elements to be fully exploited by the company. Ignorance of some dimensions is facilitated when the dimension is not of great importance to the CX and cannot be further refined. Relying on these mechanisms, executives can build a strong customer experience profile and take full advantage of this examination.

The second step of the framework is strategic orientation profiling (SO). Once a customer profile is set, the value proposition should be initiated as well. Its formulation should take place before the CX analysis. In this part of the framework, strategies are defined. The main business level strategies are cost leadership, differentiation and focus, as Porter outlines that the first two are the main competitive advantage drivers. Variations of those can follow, and a hybrid set of strategies can be developed. However, the core idea is that customers, based on their CX, will decide to purchase a good or service either from a company that offers a lower price or from a company that offers superior value.

The final step of the framework concentrates on aligning CX profiling with strategic alignment. This task requires consistency and understanding of the dynamics of the field in which a firm operates. Coherence between the two aspects can be fulfilled only with the effort of executives to analyse customer segments in their business model beyond their typical characteristics that differentiate them from one segment to another. Customer experience constitutes various elements that, if a company becomes familiar with, it can successfully align them with its strategy. Strategic planning is not based only on how a company can achieve profits through the way in which it approaches its customers and by minimising its costs. It should derive its performance from a customer-centric approach that can prove to be sustainable in the long term, when customer needs change.

Combining all the factors interpreted in this first section of the chapter, it can be summarised that a customer-oriented business model development can mainly benefit any given firm. The main takeaway is that customers are recipients and contributors in terms of value creation and delivery. In order to form a value proposition strategy, executives should fully understand customer needs, but in particular, the function that they need a product or service to support. The existence of a problem for customers gives rise to entrepreneurial and refinement opportunities. Such are expressed through the development of a business model that enables a structured set of all elements that constitute a business idea and its realisation. When building or refining a business model, companies may decide to implement features of customer-integrated and innovative business models. Being able to include these aspects may be a guarantee for sustaining competitive advantage. Consistency between customer experience and interconnectivity between all elements of a business model is essential for efficient value capture. Customers can provide insights that should be highly appreciated by the enterprise.

3.2 Human Resources and Organisational Capabilities

Human resources are key enablers of value creation and delivery, apart from technology. However, technology cannot be established, maintained or managed without people engaging with it. Human capital is seen as a resource in the business model and defined as a primary stakeholder in the stakeholder theory. Simply finding and hiring employees is not sufficient. People should be trained, managed and further supported in any aspect by the company. The proposition that employees' needs should be addressed in the same way as customers' needs is sustained as well. Treatment of human resources and their retention is vital for the assessment of the success of the business model that enables the strategic management process implementation. A company can benefit from having a stable employee base, as stable means employing the same people for at least three to five years. Such a setup facilitates knowledge inquiry, experience, expertise, long-term prospects and more efficient management of obstacles.

Nielsen and Montemari (2012) identify human capital as more than intermediaries between a firm's business model idea and implementation. The authors set a very important question: "It might be counter-argued that human resources are in fact the true value drivers of business models while other "drivers" merely are the key resources?" The idea behind this assumption is that all elements of a business model have a role, and every function of a company is composed of different-level employees. All employees have a specific task, and they are considered the main drivers of the whole network in which the activity system functions. In addition, general management is also considered part of the human capital. However, it has a more sophisticated task, which is to oversee and lead the rest of the employees towards the fulfilment of the strategic goals of the company. In its function, general management can be seen as the forefront driving force of any business model.

Further examination suggests that the resource-based view (RBV) of a firm builds upon the strategic human resource management (SHRM) (Wright et al., 2001). Wright et al. (1994) argue whether human capital as a resource itself can be a source of competitive advantage or the human resource practices that manage human capital. The RBV suggests that the former is more likely to be true. Hiring employees that stand out in terms of skills, knowledge and capabilities can be a performance driver. Lado and Wilson (1994) are proponents of human resources management being responsible for the success of a business.

What should be really analysed in this section is the placement of human resources in the business model and their role in its success. Even though human resources are not distinguished as a separate block in the Business Model Canvas, they should be considered with greater attention when forming the resources block of the business model. The previous two paragraphs outline the reasons for that. Resources that constitute the business model are divided into four categories: physical, intellectual, human and financial. It should be noted that all of them require supervision by leaders.

Knowledge management (KM) can be defined as the process of facilitating, acquiring and maintaining knowledge. It includes the transfer of knowledge and its utilisation to achieve competitive advantage. There are two types of knowledge - internal and external. The former stems from the internal environment of the company that is mainly influenced by the organisational structure and the combination of all elements of the business model. The main pillars of the internal KM are culture, structure and technology (Gold et al., 2001).

Hock-Doepgen et al. (2020) describe the three elements as essential for the KM. Culture introduces what the company values and how it treats knowledge. Structural characteristics facilitate the relationships between all employees who exchange knowledge. The more openly such an exchange takes place, the better innovation and new ideas can be fostered. Technology, more particularly information technology, stores knowledge and ensures its persistence in the firm.

External knowledge is determined by external factors, such as competitors' influence, market conditions and any challenges that can heavily impact the firm's well-being, unless it can reformulate its business model accordingly. The capability to acquire such knowledge is based on the ability to anticipate changes. In addition, the dynamic capabilities of a firm are highly correlated with the external knowledge objective. Business model innovation stems mainly from such external events and provides opportunities for grasping insights that arise only from the fact that the firm is part of an industry and serves customers.

Acquisition of external knowledge is driven by analysis of the external environment or by investment in knowledge assets. A way to acquire external knowledge that is proposed by the study of Hock-Doepgen et al. (2020) is the spectatorship of the processes within the internal network in the business model. Emphasis is placed on the interaction between all stakeholders, including customers, if they are considered as value contributors. Even though this method includes an internal analysis, it applies to external knowledge since the company will be anticipating the reaction of the stakeholders to the external factors. Once again, this proves that the business model creates a prerequisite for the exchange of knowledge among stakeholders, based on the common activities in which they take part.

This subchapter outlines the role of human capital in business model redesign, which is represented by knowledge management. Knowledge is an important source of competitive advantage and can be turned into such only if the business model allows for it. Sufficient emphasis should be put by firms on human resources development and their superiority in the first place. Hiring exceptional individuals who have an objective to remain in a company on long-term contracts is highly beneficial for the stability of the company. In addition, investing in human resources management is essential for the utilisation of these resources. A company cannot function without its employees. Their tasks go beyond the standard execution of operations. They have mental tasks that include contribution and engagement with the rest of the stakeholders and maintaining relationships that enable the exchange of insights. The placement of human capital in the business model is key to its success.

3.3 Corporate Social Responsibility (CSR) Integration

With the surge of global issues related to sustainability, natural catastrophes, mental health, human rights, equality and inclusivity, companies started shifting their performance drivers in different directions. In the last decade or so, the above-mentioned topics have become central objectives for many organisations. One of the reasons is that enterprises have an objective to take such matters into account due to reputation and brand recognition. This idea is embedded in the institution-based view of companies that suggests that informal institutions govern their decisions. The framework suggests that factors such as culture, religion, trust, social networks and corruption provide a guideline for firms to follow in order to perform well. If companies fail at assessing such ethical subjects in their business model, they might face social rejection and loss of customer base. In addition, the consideration of

such topics constitutes responsible usage of resources, sustainable process optimisation and contribution to all stakeholders' values. This section will concentrate on the definition, implementation and purpose of corporate social responsibility (CSR) in the business model. The section will not provide specific examples of CSR.

There are various definitions of CSR, and every company can develop their own understanding, based on the industry in which it operates and the customers it serves. For example, for production-engaged companies, CSR has a strong emphasis on sustainability in environmental aspects. The definition that the European Commission provides is: "The responsibility of enterprises for their impact on society and, therefore, it should be company-led. Companies can become socially responsible by integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations following the law."

The research of Witek-Hajduk & Zaborek, 2016 suggests four pillars of CSR: "(1) value chain relations (entailing conscientious attitude in interactions with suppliers, customers, and other supply chain partners); (2) community relations (communication, cooperation, and support for local and wider social partners); (3) natural environment (commitment to running business operations with the smallest possible negative impacts on the environment); and (4) employee relations (all corporate socially responsible activities aimed at employees)". The first aspect overlaps with the activity system and stakeholder framework, which indicates that all stakeholders are connected in an activity system. They interact with the firm and also with one another. Respect and mutual understanding are necessary in order to build such relationships that facilitate the success of the firm's business model. These theories are concentrated mainly on mutual value creation and satisfying the needs of all players in the activity system. The CSR framework extends these concepts to further acknowledge the harmony in such relationships that depends on social and behavioural factors as well.

The discussion of such topics formed a new business model, called a sustainable business model (SBM). The definition of such deals with the inclusion of sustainability elements (environmental, social, economic, legal) in the business model, the decision-making process and strategy formulation. The relationship between business models and CSR has two sides (Witek-Hajduk & Zaborek, 2016). On the one hand, a company can outperform its competitors based on the fact that it integrates CSR into its business model. On the other hand, CSR can be successfully implemented by firms when incorporated in their business model. What can be certainly deduced is that the presence of CSR in the business model is a characteristic that should be assessed. The consequences of the opposite may be the following: legal consequences as sanctions by formal institutions; reputational damage; lower profits resulting from a decline in customer base.

The importance of the shift to SBMs constitutes a full reorganisation of previously established norms and reconstruction of the decision-making process (Stubbs & Cocklin,

2008). According to the authors, the main driver of such business models is the “ecological modernisation (EM) perspective of sustainability”. This concept implies that profitability for an organisation goes beyond shareholder value maximisation. A firm is considered profitable when it delivers long-lasting value that sustains growth not only for the company but also for society. It is not only current generations who can benefit from the current abundance of resources that are transformed into outputs. Future generations should be accounted for as well. What should be noted is that the EM is a term that constantly keeps evolving. Once a company embeds it into its Business Model, it should constantly engage with updating the values EM promotes and align with them. The firm cannot go back to a standard business model that focuses mainly on financial performance through a combination of all components in an activity system. If the concept is applied correctly, a company can only benefit from EM.

Nowadays, when enterprises aim at transforming their business model and turning it into a sustainable one, they can use the stakeholder theory as a tool to guide them. Consistency among the different social aspects that every stakeholder has should be reached. Sometimes it is possible that stakeholders’ views on the company’s CSR do not align. In this case, executives should prioritise the legally binding responsibility that they have and the primary stakeholders’ beliefs. In addition, the strategic objectives of an organisation should be coherent with the CSR it is to carry out.

The main question is how a company implements CSR in its business model and potentially turns it into SBM. According to the literature review of Bocken et al. (2014), the main determinant and enabler of CSR’s incorporation is business model innovation (BMI) for sustainability. The authors emphasise the different definitions of the term. The definition they propose is: “Innovations that create significant positive and/or significantly reduced negative impacts for the environment and/or society, through changes in the way the organisation and its value-network create, deliver value and capture value (i.e. create economic value) or change their value propositions”. This concept is consistent with Osterwalder and Pigneur’s (2009) Business Model Canvas, in which the nine building blocks are divided into three main aims (value proposition, creation and delivery and capture).

When companies innovate, their main focus is usually on the value proposition (VP). As already discussed, the value proposition is based on established interconnections between the rest of the eight elements of the canvas. VP is not a two-way concept that resonates with what a firm offers to its customers. The whole business model should be adjusted to account for sustainability. Most importantly, the synergy between all stakeholders and the elements connecting them should be preserved or rebuilt in case of such implementation. An enterprise, represented by its management, along with all its stakeholders, should work together to achieve sustainability-oriented innovation. Indeed, at first, firms may not be as profitable when prioritising sustainability over pure instant financial return (Bocken et al., 2014). However, the objective for SBM is still overarching in terms of long-lasting success.

Boons and Lüdeke-Freund's (2013) research advocates the importance of introducing CSR business model changes that stem from two main reasons, around which the paper's idea revolves. On the one hand, firms face environmental challenges that affect their resources and processes. Companies might need to reallocate their resources or utilise them in a more sustainable way if the resources are rare. Indeed, by excelling in optimal deployment of resources that are a source of competitive advantage, firms will continue to enjoy better performance when compared to rivals. Eco-friendly operations that transform inputs into outputs and ensure delivery to customers decrease the overall harm to the planet and, in turn, to humanity. Moreover, such operational improvements often lead to increased labour and technology productivity. Organisations not only decrease their footprint but also discover new ways of leveraging their human and physical capital.

On the other hand, the paper (Boons & Lüdeke-Freund, 2013) proposes an economic approach to the incentive to implement SBM. This concept was developed by Hart and Milstein (1999), who recognise three economies that enterprises serve globally: consumer, emerging and survival economies. The first one can be found in well-developed countries, where consumers' demand is influenced by standard economic factors. Consumers have bargaining and purchasing power. They can be well-informed and well-educated, which indicates that their needs go beyond basic consumption of goods and services. They consider responsible, healthy and sustainable consumption as well, i.e. customers tend to be more sophisticated. The company's production process is something that shapes the customers' interest in a company's value proposition, apart from prices and performance.

The emerging economies are distinguished by a relevant field for innovation. Consumers in such economies experience a shift in their financial capacity to consume and are yet to adapt. Firms can exploit these opportunities to experiment with new value offerings, while no expectations are formed. In turn, SBMs are easier to implement in such an environment, and they can lock in customers who have not been exposed to similar value propositions before. Survival economies emerge in developing countries, where the population is big, and its needs are basic. An enterprise should account for the lower income of such nations and develop a business model that results in cost-minimisation and mass production of necessities. It may be counterintuitive to think that in such economies, sustainability is neglected. This is not always the case.

One factor that enables low-cost strategies is the location of production close to the consumer base. If firms were to locate their physically related value chain activities in those countries, they would face infrastructural challenges and a lack of electricity. However, they may encounter an abundance of natural resources. Firms' main solution to such problems is to develop ways of production that are different from the widely used ones. This gap paves the way for innovation to take place. Organisations survive in such economies by being sustainable and radical in their way of thinking. In addition, the firms support the economic growth in those locations that further increase the customer purchasing power - a trend that

supports the value capture. Identifying the two core objectives that drive companies to account for sustainability - both environmental and social - determines an important element of the Business Model theory development.

Another concept that Boons and Lüdeke-Freund (2013) focus on is classifying the “archetypes” of SBM that highlight the way in which CSR can be implemented. The authors attribute this process to business model innovation. They regard three types of BMI: technological, organisational, and social innovation. It should be noted that they are treated as separate categories but can influence one another. Understanding these innovations will provide an explanation of how SBMs can be applied.

Technological innovation refers to the introduction of new technology in an existing or a new business model. The scholars underline the two-way changing mechanism between business models and technology. A business model can be modified through new technological tools, or technology can shape a business model. In any of these cases, persuasion of the customers about the solution that the product or service offers is necessary. The main takeaway is that technological progress is fostered by business models. At the same time, business models cannot function without technology for their creation and delivery of value. Linking technology with SBM implementation is essential for the enablement of sustainable behaviour, especially when it comes to its role in operations.

Organisational innovation refers to the ability of managers to integrate external socio-cultural, environmental and economic perspectives in the activity system of the business. While working towards building CSR, executives should consider the internal responsibilities that they have towards all direct stakeholders who participate in the business conduct. SBM comprises all these perspectives, and its success from an organisational standpoint is dependent on the management of the organisation.

Social innovation is a complex term that has many determinants. One perspective is that firms have social responsibility towards everyone, regardless of whether they are part of the firm’s stakeholders. Every business activity impacts a whole range of humans who are not engaged with the value the organisation offers. They can be directly influenced by how a company operates or by its economic impact. An emphasis is also put on how individuals can be positively affected by an organisation through its initiative to support a group in need. Such initiatives arise through donations, gifts, community work, and volunteering. Reputational and moral gains drive such ambitions of a company.

In addition, motivating employees to take part in the above-mentioned initiatives can have a direct effect on their personal development. In turn, the enterprise will benefit from a friendlier working environment and can foster employee relationships. Going back to the social responsibility of the company toward its stakeholders, all of their needs should be addressed. An emphasis on being socially aware towards customers is placed. Apart from extracting consumer surplus, firms should offer feasible prices and satisfactory performance.

It should be reinforced that even though companies are investing and raising awareness for their social impact, their primary aim is still profits. So, they will achieve social innovation in their business model, while still not exceeding costs for doing so. Indeed, the returns of this type of innovation are not easily observable, but tracking the rise of substantial benefits is important for the success of social responsibility application.

To sum up, CSR is a source of competitive advantage that has many pillars and ways of implementation. The creation of the SBM is a framework that guides both new organisations and already established ones. It can be deduced that investing in CSR understanding and awareness spreading in the activity system of the business model may seem a complex task, one that can be undermined. However, the risk of not accounting for CSR can cause unnecessary obstacles for firms. Setting the incentives that will drive sustainability incorporation is vital for the results of CSR. And finally, innovating in the right way, specializing in one or a combination of innovations, is fundamental in the value proposition towards customers, society and stakeholders.

Chapter 4 - Determinants of Business Model Failure

In this chapter, I will further establish what can cause a business model to fail. I will focus on the most commonly mentioned reasons in the literature. Of course, exceptions are always present; however, what will be vital in this chapter is to understand how companies face challenges and provide a guide on factors about which to be cautious. Business model failure can be considered as failure in creating a workable business model in terms of feasibility, viability and structure. Alternatively, failures arise from an inability to adapt to the pace at which the external and internal environments are developing. Offering outdated value and, in turn, not competing effectively is the reason for that. Various papers regard underperformance as a result of an inability to incorporate business model innovation. Apart from that, discrepancies between business model elements and strategic goals can affect the success of the company negatively. What remains crucial for business model success is the ability to anticipate changes in advance, which is a capability driven by good leaders. Organisations tend to start designing solutions once the threat is present. However, a period of difficulty can be destabilising for some but also an opportunity for others. Recovering from failure and learning from it is essential for any company and its elements.

4.1 Misalignment Between Strategy and Business Model

In the previous chapters, I defined what strategy is, how it is different from the business model and how they are interconnected. Misalignment between both elements can derive from a lack of consideration of either one of them, i.e. treating them as equal concepts. It was concluded that strategy and business model can be viewed as distinct steps of the strategic management process. Once an analysis of the internal and external environment is concluded, firms make decisions about the scope of their business conduct and define their strategies. Once defined, they are implemented, as the implementation is enabled by the business model. A company can set its strategies excellently, but if it does not use the right combination of elements to utilize those strategies, its aim becomes of no value.

The first strategic objectives are set by firms through outlining their missions and visions. Both of these terms are initial and constant guidelines for companies. When I say guideline, I treat vision as the basis that steers an organisation throughout its whole lifecycle, because the vision of a company should remain unchanged. It can be regarded as the promise a firm makes towards its stakeholders that it will be consistent in its actions and will not underdeliver. Conversely, a mission is a set of goals that reflects the ability of the company to incorporate any firm-specific changes that will alter the business conduct. Vision is vital for any new business model, whereas mission is a tool that proves that firms evolve in order to compete effectively. Such evolution is possible only through business model innovation and superior leadership that recognises opportunities. The business model should align firstly with the strategic objectives and provide for fulfilment of the promises a company makes. If

a firm fails at that, its reputation can deviate and result in a lack of trust among customers and lower interest.

It is natural for all stakeholders, led by customers, to decide whether they will engage with a particular firm, based on comparing their vision and mission with their actual business conduct. Enterprises' value proposition is the element that helps customers discover any discrepancies between the two of them. In turn, value proposition is one of the main elements in the business model, around which the organisation of the rest depends. If companies are unable to achieve alignment between strategic objectives and value proposition, their business model can potentially fail.

According to Casadesus-Masanell and Ricart (2011), "no three concepts are of as much use to managers or as misunderstood as strategy, business models, and tactics. Many use the terms synonymously, which can lead to poor decision-making." The authors use the three terms to form a concept on how all three are interconnected. It is important to note that when differentiating between the three, it is discovered that one should be present in order for the others to make sense. This one is the business model. Companies may operate without strategies or tactics, even though they will not compete successfully. However, no company can create, deliver, propose or capture value without a business model, i.e. a structure of all elements that enable the four value objectives.

Strategy is seen as a "contingent" plan on how to compete, and tactics are the strategic actions taken once the strategy and the business model are formulated. Indeed, a company can operate by simply creating a product or a service and selling it to a range of customers, without any further "complications", such as consideration of rivals, customers' preferences, market conditions, resource abundance or formula for obstacles. The former two operations - creating and simply selling - are enabled by the business model. What such a firm would lack is its strategies for gaining a competitive advantage or how to act according to the set of strategies. In the real world, such organisations that operate without strategies rarely exist due to the competition in any industry. No company can conduct its business in a vacuum or remain in a market with no rivals. Any firm should be equipped with a workable business plan, strategies and tactics. Consistency among the three of them is what drives the company towards success.

Business models can be viewed as contingencies that shape strategy and its implementation (Zott & Amit, 2008). Many scholars define strategy differently, and the determinants of strategy tend to be various. These determinants are called contingencies. Business models fall into this category due to their aggregation of a structure that combines organisation, transactions, stakeholders and value proposition of the firm. The paper (Zott & Amit, 2008) further analyses the relationship between strategy and business model, a relationship on which the success of a company relies. The strategies that have a direct connection with the business model are the product-market strategies (strategies that position the firm in the

market among competitors and customers). They are referred to as business-level strategies that mainly guide the company on how to attract its customers.

The two main business-level strategies that companies pursue are cost leadership and differentiation. Apart from that, a company should face another important decision, which is when to enter the market. This concept can be analysed by using entrepreneurship tools as the one introduced in chapter two, about the lifecycle of the technology. Companies entering a new market can compare the lifecycles of existing companies and can also refer to the industry lifecycle that shows the stage of development. If the industry reached its maturity stage and is led by conglomerates with stable positions, it may not be the right moment to enter such an industry due to the high barriers to entry.

Another aspect that Zott and Amit (2008) outline is the role of the business model as an enabler of strategy implementation. The right “fit” between both should be present. The authors developed a framework that establishes this alignment. This concept includes the number of transactions a firm completes, the costs associated with those transactions and the price it charges for the value it delivers. These factors make up the total value appropriated (TVA). It is considered that if both the business model and the strategy have the same marginal effect on TVA by the firm, then they are matching accordingly. The analysis is set by distinguishing between two main business models - novelty and efficiency-centred.

A novelty model aims at proposing value to customers through innovation and overall locking in its stakeholders through high switching costs due to the rareness of what it offers and how it offers it. Such a business model is expected to provide for a positive TVA when implemented successfully. When combined with a differentiation strategy that targets customers through uniqueness and higher prices that are fully acknowledged by customers, TVA is expected to grow. Such an increase is due to the higher prices charged by the company, and those prices offset the rise in costs. Firms that implement a differentiation strategy can still benefit from efficiency-drivers and minimise their costs, even though this is not their main aim. A cost-leadership strategy impacts TVA positively through its offering of lower prices but with a reasonable incentive, which is the ability to reduce costs due to efficiency-drivers. Such a strategy may be appealing to more customers, so the output of the firm is expected to increase as well.

As mentioned above, strategy is not only about how customers will be attracted but also when. So, choosing the right time to enter a market is crucial for the competitive position of an organisation. It can be distinguished between three main types of firms - first movers, early followers and late entrants. The first ones enjoy high market share, set the market standards, benefit from scarce resources preemption and set higher prices due to the lack of expectation among customers. However, such firms bear a hundred per cent of the risk, face high R&D and Marketing costs, and their mistakes help competitors learn. The early followers enter the market when the first movers are struggling or when the demand is growing. They benefit from the experience of the innovators, have easier access to capital, face lower initial

costs and can offer better complements. The late entrants penetrate a market when it is already concentrated. They can develop business models by using the rivals' as templates but add features that are lacking and try to steal market share. However, in most cases this is very challenging due to the established reputation and lock-in effects of the present market enterprises.

When determining which category is most likely to maintain success in the long run, the literature concludes that the early followers have the biggest advantage. However, early entrants, if designing an initial business model that is not easily replicated and redesigning it constantly, might sustain competitive advantage. So, early entry in the market combined with a novelty-oriented business model that incorporates innovations constantly, is most likely to result in positive TVA.

Moving to the efficiency-centred business models, their difference stems from the fact that they promote efficiency for all stakeholders, i.e. to all parties with which the company undertakes transactions. Efficiency is recognised as the ability to complete something at minimum cost, by full utilisation of all resources and no waste. With such a business model, firms can attract any stakeholders, with an emphasis on customers, to engage with them. The amount of TVA will likely rise. Implementing a differentiation strategy together with such a business model has an ambiguous effect on TVA. Indeed, the price will increase, but the costs and the output depend on further factors. If customers engage with a company that operates an efficiency-centred business model, their reaction cannot be fully anticipated as it depends on the exclusivity of the products or services offered. Costs associated with a differentiation strategy seem not to align with the efficiency-oriented business model. Firms that employ such a strategy usually are willing to bear higher costs to deliver overperformance. When implementing a cost-leadership strategy, the effect on TVA is clearer as the objectives of the strategy and the business model correspond to one another. An increase in TVA is expected. Timing of the entry of a firm with an efficiency-centred business model is also open to interpretation.

Zott and Amit (2008) successfully highlight the link between business model design theme and strategy. The analysis above shows that choosing the right combination of both is what executives should do before defining the elements of their business model. This is assumed to be reasonable, but in many cases firms tend to have confidence that combining several strategies and implementing features of different business models will grant them a competitive advantage. Many scholars, including Porter, argue that if companies do so, they might be "stuck in the middle", i.e. overcommit and underdeliver.

To sum up, starting from the great importance of treating strategy and business model as complementary is the first thing that companies should be aware of. Further alignment between any strategic choice a company makes is essential. Choosing the right bundle of business model and strategy is an aspect that should not be undermined. An emphasis should be placed on the ability to balance sticking to the initially set standards of the firm

but also the constant evolution of the business model. By being able to propose a value that proves stability and promise for performance in the long term, along with innovative ways of proposing this value, the firm is more likely to sustain competitive advantage.

4.2 Inability to Adapt to Environmental Change

As already discussed, the ability to adapt to environmental changes is crucial for the performance driven by any business model. This capability is mainly used for existing business models that are later modified. However, when creating a fully new business model, entrepreneurs and managers should account for structuring the business model's elements in a way that changes can be accommodated, i.e. offering flexibility. The activity system framework provides for such a basis and ensures smooth transformation of the business model due to the interconnections between all elements. Additionally, stakeholder theory further supports this conclusion. This section will focus on presenting the main reasons for inability to adapt, as well as mechanisms that can be employed by leaders to overcome such obstacles.

Starting with Saebi et al. (2017)'s proposition that just as strategy and business model should be compatible, the same holds for the environment in which the business model's elements thrive and the business model itself. The authors argue that the responsibility to respond to environmental changes lies within the management of a firm. A further analysis is conducted on how executives react to such challenges and how they recognise them as such. In order to assess this, the role of risk should be examined, as risk is the factor that leads firms to experiment and facilitate adaptation. Managers make decisions about business conduct and, in turn, about business model alterations without being certain that their decisions will impact the company positively. However, without risk-taking and opportunities for exploration, companies cannot grow. It should be noted that risk-taking does not account for a direct redesign of the business model. These are two distinct processes, and the latter follows the former. It happens often that executives have ideas and plans, but they are unable to implement them successfully.

The connection between risk preferences and alterations in the business model is central to the ability of managers to anticipate changes (Aarøen & Selart, 2025). Two theories account for this relationship. The Prospect theory suggests that executives are more willing to take risks when exposed to threats rather than opportunities that may bring gains. In other words, firms that reach a stable position - they have a constant revenue stream, have locked in their customers, have strong relationships with third parties, can rely on employees and face certainty when it comes to resources - are more risk-averse. They prefer to maintain their current returns and not risk foregoing them. However, endowed with such a cognitive bias, firms will be constrained and may start failing due to their resistance to change. Conversely, when they are faced with threats, they recognise that taking risks is their only

solution and become more creative. Having a real push that leads enterprises to change or fail is what initiates risk-taking behaviour.

The second theory that gives more insight about risk-taking is the threat-rigidity theory. It suggests that individuals have adverse behaviour when exposed to challenges. They tend to “capsulate” themselves and avoid facing the fact that a threat is present. Executives do so by relying on habits, patterns, prior knowledge and path dependencies. Instead of broadening their perspective, they take a very centralised position in terms of control and become resistant to change. In contrast, people have a higher risk appetite when facing opportunities. The logic behind this is that threats are connected with uncertainty and higher pressure. When dealing with those, executives feel trapped, and their natural solution is to turn to the routines that bring them certainty. When opportunities are recognised, they approach them with higher confidence due to the possibility to exercise free control over them, without being pressurised by finding an instant solution to a problem.

A more extreme theory suggests that managers are resistant to any risks, regardless of whether they derive from threats or potential gains (Aarøen & Selart, 2025). This is based on emotional factors. People who are characterised by higher emotionality are less willing to adopt changes to their business model. Such bias stems from previous experiences, sentimental value, lower confidence in itself and other factors. It is often considered that individuals can distance themselves from their personal characteristics when in a professional environment. However, emotionality may be a self-reinforcing mechanism that is quite hard to overcome. This is why every business model depends highly on the minds that control it.

After having described how the management of a company impacts business model adjustments based on risk taking, it is time to define what business model adaptation is. “The process by which management actively aligns the firm’s business model to a changing environment, for example, changes in the preferences of customers, supplier bargaining power, technological changes, competition, etc.” (Foss & Saebi, 2017). Foss and Saebi (2017) imply that business model adaptation is a phenomenon that results from changes in the external environment. In addition, when comparing adaptation with innovation, it should be noted that both terms are not equivalent. The former can exist without the latter. Firms can adapt to external conditions without being innovative. They can apply the right combination of strategies, as well as benefit from organisational capabilities. Innovation is more about standing out by being disruptive, i.e. winning a market share by offering new value in a breakthrough way. Moreover, innovation stems from both the external and internal environment.

The paper (Foss & Saebi, 2017) further examines the business model adaptation drivers. The scholars name three such drivers that stem from external stakeholders, competitive environment changes and technology-driven advantages. All these factors derive from the external environment. The business model as a tool itself has the capacity to overcome any

of these challenges. Its complexity and interconnectivity between all elements provide higher control over external stakeholders and easier application of their inquiries when the activity system inside the business model is initiated. Reacting to market conditions can also be a smooth process when the firm has strong relationships with its internal environment, in the face of suppliers, customers, and employees. By simply acknowledging such changes and relying on the insights of the mentioned players in the business model, executives can react accordingly. After all, exchange of communication with all third parties and customers provides a direct connection with the competitive environment. When it comes to technology placement in the business model, designing a model that allows for novelty and facilitates technological progress is vital for exploiting all benefits that such changes provide.

An important aspect that can hinder adaptation to environmental change is the influence on the way of perceiving and the ability to adapt to the organisational structures of a firm. The main idea is that people are generally resistant to change. Any level employees from which the company consists, together with the general management and third parties that assist in the operations, should embrace change. Stated differently, the rigidity of the business model comes firstly from its human capital. An extension of this proposition is suggested by Doz and Kosonen (2010), who propose a strategic-agility framework that enables leaders to reform their business model, based on adaptation-enhancing capabilities. The first capability is strategic sensitivity, which is, namely, the business acumen that leaders possess on the one hand to sense opportunities and exploit them promptly by embedding them in their business model. On the other hand, sensing threats and mitigating their effects.

The second capability - leadership unity - is regarded as taking decisions according to strategic sensitivity. The decision process should be guided by awareness, consideration of all stakeholders, being timely and unbiased. The third capability is connected with resource fluidity, which translates into being flexible when it comes to resource allocation. An emphasis is placed on human resources that should be used to their full potential. When an employee is not proficient in their task, instead of firing them, managers can redeploy them and develop their strong competencies. Good leaders are able to unite people and motivate them to strive to become the best version of themselves in order to contribute to the company's success. By following this framework, the first two steps are based on the dynamic capabilities of the leaders. The last step is based on their organisational capabilities. As already mentioned, changing the workforce's way of thinking and motivating them to accept change is vital for the success of the business model adaptation. Many business models fail at adjusting because the general management does not prove the value of such developments. Change is about aligning every aspect of the business model to exhibit strategic flexibility.

All things considered, the ability of firms to adapt to environmental challenges by redesigning their business models is a complicated process. It is upon the leaders to navigate such changes. Managers' characteristics such as risk preferences, organisational and dynamic

capabilities are the main facilitators of business model reconfiguration. Even though it seems that leaders' role in adaptation is solely embedded in them, reliance on the activity system in the business model proves otherwise. Executives can exchange information with their internal and, in turn, external stakeholders to assess the right contingency plan when it comes to anticipated or unanticipated changes. Designing solutions that meet everyone's needs is in favour of the company. The importance of the ability to retain human capital by investing in their capabilities is also key for the flexibility of the business model. Leaders should always keep in mind that change and adaptation to change is a process that requires not only operational modifications, but also company cultural ones. The latter represents the perspectives of the workforce and their acceptance of being included in the change process.

4.3 Governance and Activity Configuration Failures

Companies function in an environment in which they are not the only players. They interact with competitors and internal and external stakeholders. Essentially, firms' conduct has its own boundaries that are imposed by the stakeholders. The decisions that organisations take have consequences that directly affect the scope of the business and the profits. After Zott and Amit (2010) introduced the activity system framework, additional extensions of the theory emerged. They build upon the usefulness of the interconnections between activities and, in turn, the stakeholders associated with them that the activity system facilitates. One of the elements of the activity system framework is governance, which captures who performs the activities in the system. Governance extends beyond the internal stakeholders who take an active role in the value creation and delivery. External stakeholders, with an emphasis on institutions - formal and informal - affect the company to the same extent. When designing or redesigning a business model, companies should be familiar with the boundaries that are imposed through external legal, environmental and reputational control. This idea has similarities with the corporate social responsibility that firms carry. However, a legal context is also considered.

Ocasio and Radoynovska (2016) research the connection between institutional pluralism and heterogeneity of firm responses, embedded in their organisational structure and strategy. In other words, the scholars state that business models differ based on the fact that firms face different constraints from institutions controlling them. Acknowledging this, it is well-founded to assess possible failure of the business model due to unsuccessful governance application and conduct of activities that go beyond the legal and societal boundaries of the company. Institutional pluralism derives from the fact that several institutions govern firms. Every industry is controlled by institutions, and throughout its value chain, companies interact with different industries. For example, starting from resource allocation to production and delivery, firms face norms to which they should comply in every field of activities. Positive and negative externalities are present along the steps of the value chain. Apart from binding obligations, enterprises consider environmental, fairness and equality-associated rules.

Institutional complexity is another term defined by Greenwood et al. (2011) as “the experience(s) of organisations confronted with incompatible prescriptions from multiple institutional logics”. Firms decide themselves how to incorporate these prescriptions in their business models. Complexity stems from the fact that it is challenging to navigate multiple institutional views when they contradict one another. Ocasio and Radoynovska (2016) point out in their review of the literature that companies that do not deal with such complexity may still be exposed to uncertainty arising from external environment changes. So, even if a single institutional logic dominates the field of a firm, this may not hold forever. Executives should be prepared to cope with possible future complications. This idea once again leads to the concept of designing a business model that offers flexibility.

Companies strive to combine their strategic management process, which should result in a business model formulation, with governance principles. Ocasio and Radoynovska (2016) argue that firms’ strategies should be based on the demands of the institutions in the field as well as commitments that the firm obliges itself to deliver. Going back to the strategic management process analysed in Chapter 2, it starts with environmental analysis, part of which is devoted to the institution-based view of a firm that distinguishes between the formal and informal institutions that govern the firm. Once these are taken into account, the firm can successfully set its strategies. As a final step, it proceeds with actions that are enabled through its business model. The incorrect consideration of the institutions is a prerequisite for incorrect strategy formulation and, in turn, inconsistencies between the value proposition and the boundaries of the company.

Governance in business models is a broad concept. It captures the set of activities that the company carries out, together with the players included and the relationships between them. Apart from that, any stakeholders' needs and views should be factored into the governance definition. A company that does not account for the demands of all its stakeholders may fail its business model. In addition, the availability of various stakeholder standpoints that are expressed by them helps the company maintain a business model that appropriates value for everyone. A firm’s aim diverges from pure maximisation of profits. A strategy that places the firm in a market and attracts customers is successful only when all stakeholders, part of the activity system, gain a part of the “value capture pie”.

A remark proposed by Ocasio and Radoynovska (2016) follows: “The greater the degree of field-level pluralism, the greater the heterogeneity in organisational commitments to a subset of logics informing their business models and their governance strategies.” Pluralism of views, with which the company should comply, is a prerequisite for the formulation of a complex business model that excels at accounting for its stakeholders' needs. This is a valuable characteristic of the business model that provides an additional layer of protection against external legal pressure that may hinder the company from performing. Making conscious decisions about how to compete is vital for the existence of the firm. When embedding the relationship between governance that stems from stakeholder theory, the

business model as an activity system is fully utilised. It can be viewed how different theories and concepts about the business model's role can contribute to one another, and when linked, they provide stability for the enterprise.

Another proposition that the same scholars assert is that governance strategy should be preserved throughout the lifecycle of a company and its business model even when the business model is refined. As indicated above, external views are likely to be contradictory. The authors argue that instead of trying to prioritise some of them, enterprises can integrate an approach that satisfies all of them. In order to do so, the business model of the firm should allow for such applications. It is suggested that a firm that updates its organisational structures constantly in order to meet the needs of all stakeholders can sustain long-term success when exposed to other challenges that require business model modifications. Going back to the first sentence of this paragraph, firms are expected, if not even required, to apply governance strategies before the design of a business plan. By being able to preserve the basis of those while still developing with the emergence of additional views, a firm gains experience with how to modify its business model constantly due to various factors.

It can be concluded that governance is enabled partially through the activity system upon which a business model is built. Defining governance as a broad term enables firms to account for any stakeholder views. Inability to do so may result in challenges arising from stakeholders that may have been avoided. It should also be noted that the heterogeneity of institutional and non-institutional principles can be embraced rather than treated as an obstacle. Companies benefit from such complexities when they engage with them rather than ignoring them. Developing a high-functioning business model that is not rigid lays the foundation for future anticipation of challenges and sustaining competitive advantage.

4.4 Innovation and Market Dynamics Challenges

Dynamic capabilities are an essential foundation for overcoming any challenges. Without them, managers and employers cannot build or redesign their business model, nor can they implement a successful strategy. This is connected to the fact that firms do not operate in a single market. They are exposed to exogenous conditions. The only way to overcome this is to first of all sense them and then adapt to them, as they are beyond the control of the executives. A skill that good leaders nowadays are expected to excel at is being ambidextrous, i.e. reinforcing the business model as it is, but also embracing and exploiting changes that modify their business model.

In order to succeed in utilising the above-mentioned concepts, leaders should acknowledge two important terms - business model innovation and dynamic capabilities. In chapter two, I assessed the importance of the dynamic capabilities framework, proposed by Teece. I have also defined business model innovation (BMI) in customer-centred business models and explored its importance. I will further link both frameworks and prove that undermining any of them, or being unable to combine them, could result in business model failure.

Chatterjee et al. (2023) develop a dependency concept between innovation capabilities, resources and dynamic capabilities. The authors of the paper mentioned start with Barney's RBV. They extend the framework to the organisational capacity theory of the firm to deploy those resources. Even though organisational capabilities are part of RBV, a more sophisticated understanding is necessary in order to exploit the abundance of tangible and intangible resources. A reason for an extension is also the exclusion of market dynamics from Barney's RBV. A complete setup of the concepts mentioned translates into resource allocation, their management and utilisation through dynamic and organisational capabilities. The dynamic capabilities introduce innovation initiatives as an essential part of the productive resources management. Once a firm understands the connection between the concepts and implements them all, it can leverage its business model. And a particular business model can be regarded as the tool that enables the implementation of all those interconnections.

Even though a firm may establish all the above-mentioned relationships, its success is not guaranteed. The dynamics of the business environment can be complex and beyond the managers' control sometimes. In such situations, temporary setbacks may be present. A vital factor that distinguishes companies that acknowledge BMI and its implementation thanks to dynamic capabilities is how they perceive temporary failure (Chatterjee et al., 2023). Failure is not necessarily irreversible. How organisations respond to obstacles and, most importantly, how they learn from them is what develops firms in the long run. It would rather be considered a definite failure if a firm fails twice, i.e. if it has faced the same challenges in the past, has overcome them, but has not sustained this competence and has failed again. In order to prevent this, leaders should embrace initial failure and always treat it as an opportunity to learn. The most valuable experience often derives from personal development of a solution to an existing problem.

Chatterjee et al. (2023) further suggest a proposition that establishes a positive relationship between organisational innovation capability (OIC) and commercial viability (COV), operational performance (ORP), and technological feasibility (TEF). This concept aligns with a conclusion that was reached in chapter two on the three main objectives of the Business Model Canvas - desirability, feasibility and viability. Starting from the right, with assessing the desirability of a potential business idea or an adjustment through customer segmentation analysis and further value proposition. Moving on to determining the feasibility of the idea through resources, activities, partners and channels (main enablers of the value transformation). The final step is analysing the viability of a business, represented by the cost structures and revenue streams. Chatterjee et al. 's (2023) proposition on determinants of BMI is clearly linked with this conclusion, as the business model is an aggregation of the leaders' ability to develop a structural approach to their business idea. Their organisational capabilities can be pointed out in the business model design and then later assessed through its implementation. In other words, without a business model formulation, leaders cannot apply their organisational competencies and enhance the business model objectives.

When assessing the COV of a product or a service, firms should start by looking at their cost structures and revenue models. Price, performance and customers' income are the main factors that companies can focus on. Indeed, external market and economic factors are present that further cause prices, income levels and customer preferences to fluctuate. This is why executives should account for both current and future market conditions. Alternatively, performance and ability to meet customer needs drive customer demand as well. In order to perform well, enterprises should be able to plan sufficiently. This includes correct resource allocation and activity support. These two processes are possible only if organisational capabilities are used and dynamics are accounted for. Chatterjee et al. (2023) conclude that increased COV influences innovation capabilities positively. On the one hand, financial returns can be invested in innovative methods, knowledge acquisition and market analysis. On the other hand, the more experience companies gain in how to boost their COV, the more they pave their way to the innovation continuum. Viability in a fast-paced field is achievable if companies adapt to changes.

Technological feasibility, which is embedded in the business model, is an enabler of value creation and capture. This performance driver is impacted by innovation, investments, strategy and organisational competencies (Chatterjee et al., 2023). Technology appears in multiple building blocks of the business model. It can be seen as a resource, it can be shared and contributed to by partners, it is part of the activities, and it can be proposed as a competitive advantage when superior and customer-appealing. Technology is a fast-developing aggregation of techniques, physical technologies and knowledge. In order to utilise it sufficiently, a firm should have an innovative approach toward it. Constant R&D costs, early engagement with stakeholders that work with the technology or benefit from it and strategic usage are vital for technological feasibility and business model success.

Organisational performance is considered to be an enabler but also a result of the commercial viability and technological feasibility. These two determinants of business model success depend on how executives will orchestrate their business model elements in order to achieve them. Conversely, if a firm fails to stay profitable or to leverage technology, it will not be able to improve its organisational capabilities, as they depend on investments.

Looking at the bigger picture and concluding from Chatterjee et al. (2023)'s framework, innovation seems to be the foundation that links all three determinants of a business model. Additionally, innovation is a construct and an opportunity. However, firms are not naturally endowed with it. They need to sense it, explore it and realise it, which is enabled through dynamic capabilities. Once dynamic capabilities are developed, leaders should use them in order to link their business model with the objectives of the business model. Each one of the objectives is represented in the business model building blocks. In summary, failure of business models can be avoided when dynamic organisational capabilities are the main drivers of management. Finally, it should be outlined that failure is sometimes an indispensable part of success.

Chapter 5 - Platform Business Models and Internationalisation

This chapter will focus on analysing platforms as business models, and it will explore the relationship between business model formulation and internationalisation of the business. I particularly examine those concepts because they will provide grounds for understanding Amazon's business model, which will be the subject of the next chapter.

5.1. Platform Business Models

Zhao et al. (2020) analyse previous literature and come up with the following definition for a platform: "Prior literature characterises multi-sided platforms as hubs or intermediaries for value exchanges between two or more markets of users and producers". Firms that function as platforms do not create value by the manufacture and/or sale of products or services. They serve as an intermediary that connects different sides of marketplaces, as the main focus is on creating an ecosystem where supply and demand meet. The platform owner does not carry out transactions with end-customers. The suppliers who pay for using the platform are the ones who directly conduct business with the end customers.

In this section, an emphasis will be placed on the digital platforms, i.e. platforms that rely on digital technologies to connect different sides of a marketplace. This analysis is once again directly linked to Amazon's e-commerce nature of business, which will be later assessed. According to Täuscher and Laudien (2018), a digital platform that functions in a marketplace is recognised as such when it connects individuals and organisations, as the former represents demand and the latter represents supply. However, a remark is made - individuals can also be suppliers on digital platforms. Another characteristic is that there are complex interactions between all sides of a platform.

Further, a platform regulates the transactions carried out between a supplier and their customer. By providing a path for the transfer of payment, platforms carry the responsibility to conduct safe transactions. Lastly, digital platforms do not produce or sell any products. Indeed, there are some hybrid examples, such as Amazon, whose main platform activity is to act as an intermediary, but it also manufactures and sells its own products via the same platform. However, the focus is on the fact that the core platform function is to facilitate trade between different parties.

Täuscher and Laudien (2018) further analyse the digital platforms in marketplaces and how executives form suitable business models (Figure 4). The authors focus on the three dimensions proposed by Teece (2010) - value creation, value delivery and value capture - and propose attributes to the platform business models. Their framework is different from the Business Model Canvas building blocks, but there are still some overlaps between them. I will build upon the proposed framework to understand how a business model is utilised as a tool that complements the complex structure of the digital platforms.

Figure 4: “Key business model attributes of marketplaces” (Täuscher & Laudien, 2018)

	Business Model attributes	Specifications						
Value creation dimension	Platform type	Web-based platform			Mobile app			
	Key activity	Data services		Community building		Content creation		
	Price discovery	Fixed prices	Set by sellers	Set by buyers	Auction	Negotiation		
	Review system	User reviews		Review by marketplace		None		
Value delivery dimension	Key value proposition	Price/Cost/ Efficiency		Emotional value		Social value		
	Transaction content	Product			Service			
	Transaction type	Digital			Offline			
	Industry scope	Vertical			Horizontal			
	Marketplace participants	C2C		B2C		B2B		
	Geographic scope	Global		Regional		Local		
Value capture dimension	Key revenue stream	Commissions		Subscriptions		Advertising		Service Sales
	Pricing mechanism	Fixed pricing		Market pricing		Differentiated pricing		
	Price discrimination	Feature based	Location based		Quantity based		None / other	
	Revenue source	Seller	Buyer		Third party		None / other	

The first dimension concerns value creation in digital platform marketplace business models. In order to create value, a platform needs to reach its customers, which is done through channels that enable this. Usually, due to the digital nature of a platform, clients can access the platform through the web or through an app. After choosing the platform type, the key activities should be defined as well. The key activity of a platform is decided with regard to the problems that it aims to solve for its customers. The most common activities are data services, community building and content creation. Platforms can engage in a single one or in a combination of all. The other two elements in the value creation process are price transparency and trust. In a marketplace, the two main factors that induce customers to make a purchase are affordability and quality. The possibility for customers to compare prices and choose the product or service that meets their budget is a vital feature. Trust is built on truth, whose validation is facilitated by feedback sharing. This is why a review system is necessary in marketplaces. Customers can refer to those reviews when they are assessing the quality and functionality of a product or a service. Indeed, some platforms lack review

sections, but they find different ways to gain trust in the marketplace. The authors of this framework argue that reviews tend to be the most useful tool for ensuring trust.

The value delivery dimension is the section in which the value proposition is defined, and it is tailored towards the platform users. The authors distinguish between three types of values that a platform can offer - utilitarian (based on price, cost, efficiency), emotional (based on the personal experience of the customer with the marketplace mechanisms and what they demand, i.e. the "pains and gains" that stay present in every individual's mind), and social (based on the interactions with other sides of the platform). The nature of the transaction in terms of content and type is also shaping the value delivered. In this dimension, the platform owners should also define their industry placement, i.e. formulate their corporate-level strategies, as an emphasis is placed on vertical and horizontal integration. They should also decide their geographical scope. Lastly, the marketplace participants should be identified. This resembles the customer segmentation, but is more different due to the role of the platform mainly as an intermediary.

The third dimension - value capture concerns the process of turning value delivered into profits. The platform establishes its revenue streams and pricing mechanisms that are identical to the Business Model Canvas ones. Additionally, price discrimination is a feature that is very common among platforms to capture more consumer surplus. Some platforms control the price setting, whereas some let the sellers do so. Pricing strategies are to be established, and the business model should account for them. Failure in defining the right price strategy can result in inconsistency between all dimensions and loss of customers. Revenue sources are also separately reviewed. Due to the complexity of platforms and the multiple sides that serve, each group of users should be individually assessed when it comes to gaining revenue from them.

To sum up, platforms are highly complex and understanding what their structure is is vital from a managerial point of view. The business model is the tool that collects and illustrates all elements that form the platform as a business. Managers can always refer to the business model when they have to make unbiased decisions and run day-to-day tasks. It helps them maintain perspective when feeling adrift. The business model formulation proposed in this chapter is tailored to the specificities of the platform businesses that are intermediaries in marketplaces. Some leaders may find this business model more sufficient when compared to the most widely used one - the Business Model Canvas. However, most business models are centred around value creation, delivery and capture. Different elements in these three aggregated processes, with which every business engages, can be proposed. All things considered, platforms are one of the types of businesses that should prioritise the use of the business model as a useful tool to track the progress of their firm and grasp opportunities. Indeed, sensing of opportunities can be achieved without an established and constantly updated business model. Nevertheless, without correctly exploiting an opportunity and

finding the proper element of a business in which to introduce it, growth potential cannot be reached.

5.2. Business Models and Internationalisation

In this section, I will explore how a company can use its business model in order to expand its business activity internationally, i.e. gain market share in foreign markets. Firms usually enter international markets by maintaining the value they create. However, they may have to propose the same value differently due to the different characteristics of the foreign customers. Business model replication is considered one of the ways through which an organisation can internationalise. However, leaders should be cautious when doing so. No two markets are identical. Even though an enterprise should preserve its strategic objectives, it should tailor the business model elements that are more flexible towards its new customer base. When an enterprise expands globally, it becomes a multinational enterprise (MNE). Large and successful companies strive to grow abroad, so they can increase their profits, innovate and exploit growth opportunities. Some of them start as MNEs, others turn into an MNE along their path.

According to Dunford et al. (2010), when a firm becomes an MNE, it should rely on two main resources - knowledge and intra-organisational capabilities. On the one hand, a firm that is “stuck in the middle” can internationalise based on its excellence in knowledge transfer and organisational capabilities. On the other hand, these two resources are treated as shared competencies between the domestic and the foreign entities. It is considered that firms can start a new venture in multiple locations, i.e. have a broad geographical scope that covers multiple countries. By doing so, a company can leverage the different sources of experience and achieve a competitive advantage. In terms of dynamic and organisational capabilities, MNEs are regarded as generally more successful than firms that conduct business only in one country. The rest of the benefits of the MNEs are related to cost minimisation through efficiency drivers, stronger brand reputation and higher differentiation.

The combination of knowledge utilisation, dynamic capabilities and organisational capabilities defines replication as a strategy to exploit the opportunities of becoming an international entity. According to Winter and Szulanski (2001): “Replicators create value by discovering and refining a business model, by choosing the necessary components to replicate that model in suitable geographic locations, by developing capabilities to routinise knowledge transfer, and by maintaining the model in operation once it has been replicated. The formula or business model, far from being a quantum of information that has been revealed in a flash, is typically a complex set of interdependent routines that is discovered, adjusted and fine-tuned by doing.” The authors also highlight the fact that no firm can form an initial perfectly working business model that also promotes coherence between its elements. Companies would rather refine their business model when they are faced with actual challenges and gain hands-on experience. Without exposure to real-world

complexities, the concepts upon which a business model is formed are beliefs, rather than expertise (Dunford et al., 2010).

Another remark that the authors Dunford et al. (2010) make is that the literature mainly emphasises the importance and advantages of an internationalisation strategy. The same reference is made about the business model literature - most of it focuses on the definitions, significance of the business model as a core management tool and the critical adaptation capability of the business model. In both concepts, there is a large gap that fails to account for the processes that enable the implementation. Dunford et al. (2010) explore this limitation in the existing literature and propose a case study that can be generalised. Through this research, the scholars came up with four processes that enable the replication of the business model. Their proposition is based on the transformation of an existing business entity into an MNE. This is a non-exhaustive list of processes that enable successful replication of the business model.

The first process is clarification. The authors regard it as a process in which executives can evaluate their understanding of their business model elements. In a previous chapter, I assessed the risk appetite, which is one of the drivers for business model evolution. It was concluded in one of the concepts that when leaders maintain their routines and turn to them when uncertainties arise, they are less likely to explore opportunities. When they come across an opportunity in a positive context, they are more likely to grasp it. Indeed, this can be rather subjective and always depends on the psychological reaction to particular events. I made this reference to risk appetite that is dependent on the context of events, because business model evolution is not only about implementing changes corresponding to the dynamic environment.

In order for managers to modify their business model, they should know its elements well. It is a common cognitive bias that the more you work with some framework, the more proficient you should be with it. I argue that from a management perspective, this could have the opposite effect as well. My argument is that routines can lead to a lack of attention to detail and taking the business model for granted. The replication of the business model in a foreign market is a process that can show managers whether they actually know their business model. In many cases, leaders realise that they have neglected comprehension and are allowed to change that internally, rather than being exposed to an external challenge that is less favourable and failing at facing it.

The second process - localisation - is a key identifier of a successful internationalisation strategy. As already discussed, MNEs should keep their core business model elements when replicating, but they should react locally to the customer preferences. In this process, the initial domestic leaders should outsource and hire local managers who will tailor the firm's business model to the particular country. They should keep all core elements that identify the company and modify the ones to which local markets are more sensitive. In order to do so, the local executives can rely on their professional expertise or innovate. An emphasis is

placed on the latter. The innovative approach is more sustainable for the whole company rather than only finding a solution for the local market. The innovative idea is more likely to be implemented internationally.

The third process is experimentation. A firm can internationalise if it fosters a culture within which all-level employees and leaders are entitled to speak up. Experimentation has a likelihood of turning into a successful innovation. This process can take place at any level in the company, in any function and can be initiated by anyone. It may be causal or consequential. In any case, an enterprise that promotes the ability to voice opinions and proactiveness is a step closer to a successful replication. The internationalisation process as a whole requires a lot of teamwork and collective decision-making, so all markets are aligned.

Sometimes some experiments might turn out to be unsuccessful, but this should be treated as an opportunity for collective learning. The open communication culture is usually more common in startups, where entrepreneurs are the leaders. When a company becomes established and starts building more sophisticated hierarchical structures, managers take the position of the leaders. They give a systematic approach to the firm and manage procedures and processes. There is this trend that the more the firm grows, the more it relies on its core operations and processes rather than experimenting. The dynamic capabilities may start being neglected. This is why a firm that can combine in its leadership both managerial and entrepreneurial contexts, i.e. form a team of doers that fulfil strategies and go-getters that have visionaries. In this way, the company can successfully facilitate experimentation on all its hierarchical levels. Indeed, this experimentation is a vital process in any firm, not only in an MNE. However, in MNEs, adopting the same culture in all countries where it operates is of great importance for the collective growth of the company as a whole.

The fourth process - co-option - is the productive utilisation of the previous two processes. Co-option is about the information exchange enablement across all entities and countries. This is crucial for the exploitation of the internationalisation advantages. All countries should collaborate and provide reports to the whole network on meaningful, innovative and extraordinary challenges that they faced and also explain how they faced them. The lessons learned, or the key takeaways, should be embraced by the whole network and all executives across locations should feel obliged to supply such.

It can be concluded that internationalisation is a complicated strategy that can be fulfilled successfully if a company's business model allows for a replication. Additionally, expanding abroad may be the solution for an outdated and no longer well-functioning business model. The flow of new ideas and experience may be what a company needs to outperform. The most important takeaway for successful internationalisation is for managers to understand their business model and know which elements should be altered when entering new markets, while still preserving the identity of the company.

Chapter 6 - Case Study: Amazon

After having derived a detailed analysis on defining the business model and its determinants, I shall move on to applying the concepts and assessing how real companies employ them. I will explore Amazon's customer-oriented business model and further elaborate on the usability of the business model concept. This chapter aims to prove the effectiveness of the business model theory by linking the theoretical frameworks with practice. I will focus on the Business Model Canvas as a tool to define Amazon's Business Model and explain what guided my decision to choose it for my analysis. I will rely on available data to back up my conclusions by establishing mindful links between the concepts introduced in the previous chapters and Amazon's business model.

6.1 Introduction of Amazon

Amazon is one of the biggest multibusiness companies in the world. It was founded by Jeff Bezos in 1994. The company conducts business in multiple areas. According to Amazon.com, Inc. (2025), Amazon's main source of revenue stems from its e-commerce business. It manufactures and sells products online through a website or an app. Among these products, the company offers technologies such as Alexa, Kindle, etc., that are Amazon-owned but further integrated with other ecosystems. The enterprise plays an important role as an intermediary between third parties and their potential customers by allowing such parties to sell their products on the Amazon platform.

Furthermore, the firm has a network of physical stores that customers can visit to access some of the products sold online, as well as specialised Amazon grocery and book stores. Additional services offered to third-party sellers and utilised for Amazon's needs are delivery, storage and logistics of products. The firm owns and operates a wide network of fulfilment centres and similar facilities, where the main operations, inbound and outbound, take place.

Amazon's second major business field that accounts for its profits is cloud computing. Amazon Web Services (AWS) provides cloud infrastructure for clients and enables computing, storage, database, analytics, machine learning, and other services. Additionally, the company is present in the content creation field by providing online space for individuals to advertise Amazon services and products, which serves as an advertisement service offered to third parties and enjoyed by Amazon products. Amazon has also entered the entertainment field through Amazon Prime Video, Music, etc. It offers access to media, music and other content through its own platforms.

My decision to choose Amazon as a company to link the concept I examined with a real-world example is based on Amazon's complex customer-centred business model that is internationalised and constantly evolving. As seen before, there are many papers that outline the characteristics, determinants and theories that conceptualise the business model as a useful tool for managers and entrepreneurs.

I contend that Amazon's business model successfully combines the various perspectives I discussed in the previous chapters. The company was created around the same time when the term business model started emerging. In the first chapter, I concluded that due to the surge of technologies and the Internet, business models have become of interest to many researchers. Amazon started as an e-commerce business, which is a pillar of e-business. Designing a workable business model is crucial for success in such a competitive industry that is characterised by fast-paced technological progress, constantly changing customer preferences, rapid innovation, high regulation and complexity of multi-sided business. Taking into consideration all of the above-mentioned reasons, I argue that Amazon's business model analysis will provide an insightful illustration of the theoretically covered topics till now.

6.2 Overview of Amazon's Business Model

Before I proceed with constructing the Business Model Canvas for Amazon, I intend to follow the strategic management steps, in order to derive the firm's business model. I will adhere to the proposition I made in Chapter Two that business model formulation and implementation is a complement of the final step of the strategic management process. In my attempt to do so, I will focus only on the e-commerce business of Amazon. Even though AWS is the most investment-intensive division of the company, I argue that the e-commerce industry provides more insights into the complexity of the illustration of the pillars of business models. Some aspects of the firm's cloud computing services may arise solely for the purpose of explaining how Amazon functions as an atypical conglomerate, whose activities are actually interconnected.

6.2.1 Strategic Management process - Environmental analysis

I will start by outlining the strategic objectives of Amazon. The company has not outlined a clear vision and mission. Their strategic objectives are represented by their core values, leadership principles and long-term goals. Both terms tend to be blended. "Amazon is guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. We strive to be Earth's most customer-centric company, Earth's best employer, and Earth's safest place to work." (Amazon, 2025).

The founder's vision from the start of the company was to always treat its customers with priority when placed among other stakeholders and when conducting business. This has not changed throughout the years; it was only extended by accounting for employees' job satisfaction and safety. Amazon's Shareholder letter (Amazon.com, Inc., 2025) can also be used to further assess the company's vision and mission, as the document has not been changed since 1977. The executives continue pursuing the same objectives in order to maximise value for shareholders. There is a present emphasis on long-term sustainability rather than short-term gains, and a decision-making process that is centred firstly around

customers, then around legal compliance, smart investments, controlled cash flows, self-consciousness, growth and employee well-being.

The mission is more clearly stated, but once again it overlaps with the vision of the enterprise. "Amazon's mission is to make customers' lives better and easier every day by relentlessly inventing on their behalf. We work to provide broad selection, value, and convenience across a range of customer experiences, including online shopping, cloud computing, streaming entertainment, consumer electronic devices, advertising, healthcare, AI services, and more." (Amazon, 2025). From the strategic goals of the firm, it can be deduced that Amazon profits by serving its customers and its competitive advantage is based on a wide customer base that is aware of that.

I will briefly conduct an external environmental analysis. In order to analyse the general external environment, I will use the PESTEL analysis. From a political and legal standpoint, Amazon has to obey government regulations with an emphasis on differences in local and global regulations; economic restrictions imposed by the government that concern trade, tariffs, quotas, customs, etc.; data protection laws; geopolitical events, such as wars and terrorism; cybersecurity due its major global presence; tax liabilities; labor laws; unions and others (Amazon.com, Inc., 2025). In terms of economic factors, the firm is highly impacted by monetary instruments controlled by banks and governments, foreign exchange rates, interest rates, stock market fluctuations, debt and equity issuance, foreign investments, etc. The company's stock price is highly volatile and is governed by the economic and political events that happen worldwide. It bears additional risk due to its international operations and markets. Societal variables determine Amazon's presence at a global scale. Understanding all the cultural differences and preferences of the markets in which the enterprise operates is a complex task due to language, distance and cognitive bias barriers. In terms of demographic aspects, the firm approaches a wide range of customers with no age limit or religious limitations.

The firm offers an extensive set of products and services that can be standardised and cover basic customer needs, as well as more niche ones. When considering demand based on socio-cultural aspects, Amazon should be wary of the income differences across countries. The technological factors are driven by rapid technological progress that, when embraced accordingly, can be a source of competitive advantage. It also presents a risk due to the open access to technological perks that intensify competition in an already concentrated industry. Finally, environmental aspects shape Amazon's conduct as well, mainly in its e-commerce value chain. Inbound, storage, preparation and outbound activities represent an obstacle due to the footprint the firm has. All those activities result in waste generation, emissions and enormous energy consumption. The enterprise has a strong incentive to be sustainable, but its strong impact cannot be fully offset by its environmental strategies.

Concluding the PESTEL analysis, it can be inferred that Amazon is exposed to constantly changing external environmental factors that impact the business conduct of the firm. By

being internationalised, it is crucial for the company to acknowledge all the local regulations and still benefit from the advantages of global-scale operations. Innovation and business model evolution are key terms that govern Amazon's strategies towards external environment risks.

Additionally, the firm recognises that it may be unable to face all challenges properly. It approaches such obstacles with curiosity and a "Day 1" mindset, i.e. nobody is perfect and fully proficient in what they do. Instead, it is important to embrace changes and treat them as an opportunity to learn. "Day 1" mindset refers to the concept that all-level employees and leaders should treat their job with enthusiasm and ambition that resembles the excitement of starting something new and unknown. Additionally, such a mindset helps executives and the workforce to constantly look for improvements and have an exploratory approach to any obstacles they face. It is never too late to learn more, and nobody has learned everything that there is to learn. Regardless of how long a person has worked in a particular environment, they should never stop developing. Executives at Amazon attribute the company's success to this way of thinking and constant knowledge-seeking behaviour that is promoted throughout the whole hierarchy of the company.

Moving on to the competitive external environmental analysis, I will implement Porter's Five Forces framework. Competitive rivalry tends to remain high due to the e-commerce industry's appealing aspects. The industry is characterised by opportunities for strategic alliances and rather easily influenced customer preferences. The threat of new entry is considered high. Internet technologies and the increasing role of Artificial Intelligence (AI) are prerequisites for easier entry. The threat of substitutes is rather moderate. Customers can substitute due to the concentration of the market and the similarity of products. However, due to the scale of Amazon, it can offer larger benefits to companies and more promotions.

The firm exploits economies of scale to their full extent. Supplier power is also significant. Amazon places great importance on relationships with suppliers. The firm has single-source suppliers and prefers to rely on a limited number of suppliers. When the suppliers encounter issues with delivering inputs and goods, Amazon's supply chain operations are directly influenced. Once again, the emphasis is on the firm's e-commerce business. The buyer power represents a big share of the enterprise's priorities. By regarding customers and buyers highly, the company attributes their power to some extent. However, this power tends to be limited due to network effects that are significant for platforms, lock-in mechanisms, practicality, simplified solutions, discounts and loyalty programs. When accounting for AWS, it is able to decrease buyers' power by excelling in performance, reliability and innovative solutions.

It can be concluded that in terms of the competitive external environment, Amazon faces challenges in terms of pressure exerted by competitors, which in turn can lead the company

to experiment more and potentially deliver insufficient value. However, Amazon's customer-centred business model allows it to be a leader in e-commerce and web services.

Additional tools can be used to further analyse the environment, but I will not focus on them, since the emphasis will be on the business model itself. The previous two tools used for the external environment analysis were only briefly introduced in order to provide a clearer illustration of how the firm designs its business model by accounting for the environmental factors. After all, a performative business model factors in all obstacles that could affect the structure of the firm's elements.

6.2.2 Strategic Management Process - Strategies Definition

The next step of the strategic management process is taking decisions about where and how to compete. In this section, I will briefly assess Amazon's business and corporate-level strategies. Understanding how the company proposes value is a key foundation for building a corresponding business model that includes the elements that enable the strategies' implementation. I will not assess the firm's strategies in depth. In order to define the strategies, I will mainly refer to Amazon.com, Inc. (2025). The set of strategies is not explicitly outlined in the firm's Annual report. However, the activities, accomplishments, success drivers and risks are included, and I will derive the strategies from them. The analysis will also draw on Amatanweze et al. (2025).

Starting with the business level strategies, Amazon takes a hybrid strategic position. The firm fulfills cost leadership and differentiation strategies. The enabler of the cost leadership strategy is the economies of scale. Generally, international companies can deploy economies of scale more efficiently due to the high spread of fixed costs among more units, higher learning experience, strategic choice for the location of the production and distribution channels, and standardisation opportunities. In terms of its e-commerce business, the firm has developed an extraordinary supply chain and logistics management. What makes Amazon unique is its extensive network of worldwide hubs, namely its fulfilment centres, delivery and sortation stations, Inbound Cross Dock (IXD) facilities and Air hubs. All these hubs are located in multiple locations around the world, in the countries where the enterprise serves the e-commerce market. Every country where Amazon is present has various such facilities, which are strategically located close to customers, suppliers and vendors.

On the one hand, the company minimises logistics and delivery costs by operating closer to customers and third parties. On the other hand, the processing of the products offered is streamlined and fast. This appeals to all stakeholders, as sellers rely on Amazon for responsible storage and fulfilment of their goods, forgo particular transportation costs when located close to an Amazon hub and benefit from the brand awareness of the related conglomerate. Customers and buyers enjoy fast delivery, reasonable prices and guarantees.

The guarantee aspect is crucial for the role of Amazon as a platform that connects vendors with customers by facilitating safe transactions, quality assurance and provision of goods that are rather difficult to obtain (for products that are produced abroad, ordering them online imposes a long delivery, uncertainty and higher prices).

Combining all these factors, together with the unique relationship that Amazon forms with customers, the firm is differentiated as well. The above-mentioned cost-minimisation enablers, provided the enterprise's superiority in them, are difficult to replicate or at least to do so successfully. The company offers a set of benefits for all its stakeholders, and the role of its reputation locks in the relationships with them. Indeed, Amazon does not implement a standard differentiation strategy, where high prices and superior quality are present. In fact, the firm followed a cost leadership strategy initially, and with the growth of its scope, it started experimenting with differentiation tools. These tools are seen as complementary to the cost minimisation and lower price offering for customers.

Indeed, in order to enhance customer retention, Amazon cannot rely solely on being a price leader and offering practicality. By introducing its loyalty program, subscription offers and quality assurance, the firm achieves a competitive advantage. Additionally, Amazon profits by being a multi-business company whose businesses are related. An example of the benefits of such interrelations is the joint subscription to Amazon Prime that enables access to a platform for entertainment and media, but also adds additional value for customers who purchase products from Amazon's website. By subscribing and paying a particular monthly-based fixed fee, customers enjoy entertainment and free delivery or additional promotions for online shopping.

Moving on to corporate-level strategies, Amazon is recognised to have implemented backwards and forward vertical integration. The firm controls its suppliers and buyers and owns various parts of its supply chain when it comes to its e-commerce business. Vertical integration means internalising the value-adding activities. The firm controls its inputs and output and benefits from lower transaction costs, organisational improvements and increased market power.

The company prioritises supplier and third-party vendor relationships and enters contracts with them that allow it to maintain quality and variety. As mentioned before, the company offers handling of the products that third parties sell on Amazon's platform not only as a marketplace but also as storage, logistics and delivery. In this sense, the enterprise has full control over the supplies coming from external sellers. Buyers' dependency is fostered through Amazon's cost leadership, customer priority, excellent customer service and practical aspects. In terms of horizontal integration, the firm expands its value chain by mergers and acquisitions with competitors as well. This strategy can be inferred from the wide range of businesses that the firm engages with.

Amazon is quite diversified, and it has entered many different industries throughout its lifecycle. It can be argued that the firm fulfils a rather related diversification, as all its businesses are interconnected and benefit from one another. Indeed, they are relatively independent from one another, but by being owned by the same company, they result in positive externalities. Customers stick to all of Amazon's businesses due to brand awareness and a proven customer-oriented value proposition.

Amazon fulfills other corporate-level strategies as well. One of them is internationalisation, and it is a key identifier of the firm. It serves many countries around the globe and is a leader in most of the e-commerce markets where it operates. Compared to the analysis conducted in Chapter Five, I argue that Amazon successfully explores the business model replication as a tool to internationalise. At the same time, the enterprise relies mainly on localisation, experimentation and co-option.

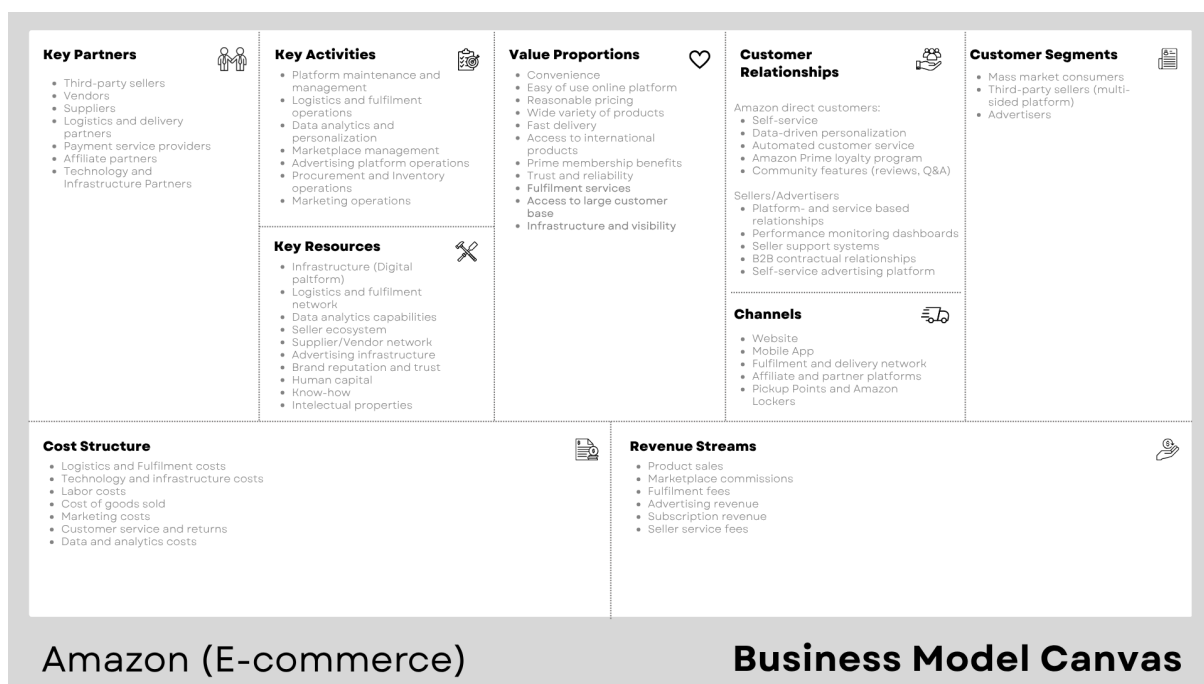
The firm successfully tailors the local offering of products towards the customer segments it serves as a platform. Additionally, it promotes an open culture where everyone is entitled and motivated to speak up. This is one of the Amazon Leadership Principles - "Have Backbone; Disagree and Commit "(Amazon, 2025b). When executives refer to this perspective, they also encourage the employees that they lead to do the same. In this way, experimentation is supported and may arise at any level from the hierarchical structure of the company. Co-option is highly prioritised within Amazon, as the firm manages its whole network that enables the facilitation of transactions on the platform, in a way that all teams communicate with one another. The firm uses its own tool where the different participants in the Amazon network upload written reports on operational changes they underwent, how they handled them and what the takeaways are.

Concluding Amazon's strategy analysis on how and where to compete, this analysis can be used as a basis for forming the firm's business model. The company mainly competes through cost advantages and price leadership, but also embraces differentiation strategy aspects. When it comes to corporate-level strategy, Amazon concentrates on growth strategies, combining diversification, vertical integration and strong internationalisation ambitions.

6.2.3 Amazon's Business Model Canvas Formulation

Having analysed Amazon's external environment, strategic goals and set of strategies, I aim at developing the firm's business model. I will include only the e-commerce business in it. I will first develop a graphical illustration of the model (Figure 5) and then continue with an elaborative description. I will refer to Amazon.com, Inc. (2025) and Amazon (2025) when constructing the nine building blocks of the Business Model Canvas. I will also explore characteristics of Amazon's business model. By doing so, I will introduce some new terms and connect them to the business model theory.

Figure 5: Amazon's Business Model Canvas



I will assess Amazon's Business Model in terms of the firm's e-commerce business, which includes the sale of products online. These products are obtained through three main sources: third-party sellers who use Amazon's online marketplace; vendors who sell their products to Amazon, and they become part of Amazon's inventory; Amazon manufactured products (devices and Amazon Basics). The company engages with the first type of sellers in two ways - by only providing them the platform for them to manage their sales, or by conceiving the former and offering an additional fulfillment service, which includes entering the Amazon supply chain system. If third-party sellers opt for the additional service offered, they let Amazon handle their items, keep them in their inventory and fulfill them upon demand. However, Amazon does not gain ownership over the items; it just charges the sellers for the additional service and decreases logistics costs for them.

With vendors, once the products are sold to Amazon, they change ownership and become part of the firm's inventory. The enterprise treats them as its own, sets their prices and fulfills them through all its supply chain operations. The items manufactured by Amazon represent a small share of online sales. The greater share is composed of externally produced products. Additionally, it should be noted that Amazon's business model follows characteristics of a multi-sided platform. A definition is provided in Chapter Five. In its relationship with third-party sellers and end customers, the firm plays the role of an intermediary between both users and treats them as separate customer segments that are highly interconnected. Other users of the platform are the advertisers who benefit from the platform infrastructure to promote their products.

One of the most notable characteristics of the multi-sided platforms is the network effects. Such effects are defined as an increase in the supply volume that results in corresponding

demand effects. The network effects can also be treated as a membership externality: the value one group of end users obtains from the supply of a service increases with the number of users on the other side of the market. In other words, when more products are supplied on the platform, more customers' needs can be satisfied, which increases the end-user base. The opposite effect is present as well - the higher the customer demand, the higher the profits for sellers and the higher the incentive they have to increase supply.

Factoring in advertisers, they benefit from advertising on multi-sided platforms as any positive externalities, such as network effects, increase the traffic of users who acknowledge their advertisements. Additionally, network effects are present when end-customers consciously or unconsciously impact the interests of other individuals with whom they interact. By successfully doing so, the end-customer base grows, and once again, all sides on the platform react. Multi-sided platforms are enabled through a business model that accommodates their characteristics. A key concept of the business model - the activity system theory - facilitates multi-sided platforms' features (Zhao et al., 2020). The interconnections between all business model elements are linked to the multi-sided platform peculiarities.

6.2.4 Amazon's Business Model Canvas Analysis

- **Customer segments**

Starting the Business Model Canvas analysis, I will first refer to customer segments. As already defined in chapter one, in order to define different customer segments, they should be different from one another, internally homogenous and big enough. I argue that all the customer segments that I am going to refer to are consistent with those characteristics. The major customer segment is represented by the mass customers who purchase products from the Amazon channels, namely through the website and the app. Another group of customers, with whom the company engages, is third-party sellers who use Amazon as an intermediary and sell their products independently to end customers. They also have the option to pay for a fulfillment service. The third customer segment is advertisers. It is represented by external third parties that do not sell on Amazon and by the third-party sellers who use the Amazon platform. The former offers services or products that may or may not be treated as complementary to the products that can be found on the website or the app. The latter are overlapping with the second customer segment. This can be seen in a way as a violation of the customer segment's characteristics; however, I argue that the case of Amazon is an exception.

Since the company operates its e-commerce business as a platform, the value delivered to one side of the platform users can derive from different forms. The third-party sellers receive value from the firm through sales enablement and additional marketing exposure. This is why I place third-party sellers in two different customer segments. Their main value extraction derives from the sale of their items. This sale can occur without additional

advertisement on the Amazon platform. However, some sellers try to maximize their profits by spending on advertising campaigns or priority placement on the platform. As such, they extract another type of value that is connected to online presence and falls under another category of customers, together with non-Amazon-related sellers.

- **Value Proposition**

The second segment I will examine is the value proposition. The value proposition, simply described, is what appeals to customers. Through its value proposition, the firm can deliver and capture value. Value proposition is a crucial building block of the business model that is closely connected with the strategies the firm implements. To build a customer-centred value proposition, which is Amazon's strategic objective, the company should prioritise customer needs. This is why I will first develop the customer segments' needs and tie them to the value proposition elements.

The mass market's needs are mainly connected to accessing any type of item easily. Additionally, every rational customer tries to maximise their consumer surplus and therefore pursue lower prices. This need is satisfied by Amazon through convenience, easy-to-use platform development and reasonable price setting. Customers make use of the Internet by shopping online. What makes a difference for them is decreasing the time they spend finding the things they are looking for online. Additionally, due to fraudulent activities, customers are wary of making purchases on any website or app. Amazon solves these problems by combining all kinds of products in a single marketplace and ensuring safe online transactions. The convenience for end-customers to simply type their desired product in a search bar and browse through different options is one of the main value-drivers that the company enables.

The online platform that Amazon developed is also quite user-friendly. The interface is simple, and it includes all the necessary tools for a quick and effective online search of products. Customers can easily access their profiles, track or cancel their orders, contact customer support when needed, initiate returns and exchanges, etc.

In terms of the affordability of items, Amazon is able to negotiate better prices for its customers when provided by external vendors. The incentive for this is the ability of the firm to purchase products from vendors at lower prices due to high quantities or strong relationships. In turn, Amazon can transfer this benefit to customers by offering them lower prices, while still profiting. Products manufactured by Amazon can be subject to promotions, such as the common "Prime Days" campaigns that take place in specific periods of the year, and most of the items sold by Amazon are discounted. Additionally, the enterprise benefits from cost advantages in its production of items by exercising bargaining power over input suppliers and embracing efficiency drivers. Pricing Amazon's manufactured items at an affordable price is a result of these activities.

End customers who purchase products on the platform benefit from fast delivery, trust and reliability, variety and access to rather hard to consume due to a lack in domestic markets.

The firm is a leader in fast and reliable delivery. It was one of the first companies to offer same-day delivery. Amazon prioritises delivery assurance and flexibility. Customers can choose among different delivery methods, Amazon lockers and pickup points. The large assortment of products, all found in the same marketplace, is directly connected to the convenience aspects, as well as diversification. Customers enjoy access to international products that they cannot otherwise access if they can order them online; the delivery takes quite a long time and tends to be expensive. Amazon's global presence and tactics enable the sourcing of foreign products that can be delivered to Amazon fulfilment centres and stored there. The fulfillment network and its closeness to customer locations support fast delivery and optimal dispatch upon demand.

Additionally, Amazon places great importance on customer safety. The online marketplace can be a facilitator of fraud, impersonation and data theft. The Amazon platform protects against those through strong regulations and law enforcement. Moreover, the company stakes its reputation on product quality and performance. The products that are dispatched by the Amazon fulfilment centres and similar facilities undergo additional checks. The rest have to obey particular criteria in order for the transaction to be carried out through the Amazon platform.

Another important value proposition description is the loyalty program the firm offers, called Prime membership. Through the provision of such a paid subscription, the company achieves a competitive advantage. Customers pay a fixed monthly subscription fee that lets them enjoy Prime benefits. Such are free and faster delivery, additional discounts on products and location-based Amazon services such as Prime Video access. Through this strategic value proposition bundle, the firm locks in customers, and they extract value through a set of benefits and savings. Amazon is a pioneer in the development of such a program among its competitors. This idea was introduced throughout the lifecycle of the firm and can be regarded as business model innovation. The success of the Prime subscription advocated for the ability of the enterprise to change correspondingly to the needs of the customers. The firm acknowledged the fact that convenience and competitive pricing of some of the products sold are not sufficient for retention of a customer base due to emerging competitors and industry shocks. Amazon consolidated its market position by exploring solutions to the set of problems it solves for its customers. In a customer-centred business model, this is a key capability.

Moving on to the needs of sellers and advertisers as clients, the value proposed to them is directly connected to the value proposed to end-customers. If Amazon retains consumers, the other two of its customer segments will benefit as well. Once again, the significance of the platform network effects can be assessed. Apart from access to a customer base that these third parties enjoy, the usability of the platform and its placement in the industry are vital factors for the decision of third-party customers to choose the Amazon marketplace to sell their products. The platform's infrastructure enables fast and simple sales uploads,

tracking, dashboard and performance features. Advertisers benefit from a visibility standpoint and ad metrics provided by the platform. The fulfilment service offered to third-party sellers allows more productive management of the products sold. On the one hand, it may be less costly for sellers to pay for the additional service offered by Amazon, rather than keeping its own inventory, bearing warehousing costs and risking long delivery times. Amazon succeeds in fulfilling operational cost minimisation due to its scale. On the other hand, sellers who do not have the capacity to invest in developing their own logistics system can be integrated into the marketplace by using Amazon's fulfillment service. The combination of those aspects places the firm in a more competitively advantageous position and proposes unique value to the other side of the platform.

- **Customer relationships**

Customer relationships dictate the way of communication between customers and the company. Amazon communicates with its end-customers through a self-service system due to conducting business in an online environment. Customers can choose what to purchase, when to browse and complete a transaction. Their decision is based on their preferences and needs. No consultations with sales representatives are available. Indeed, consumers can reach out to customer support agents for any questions or issues. However, the company relies on automated replies and an Artificial Intelligence Chatbot as primary sources of customer care. If customers opt for speaking with a representative, they still have this opportunity.

Another aspect of the communication between the firm and its end-customers is data-driven personalisation. Customers who agree to have their activity on Amazon tracked for marketing purposes and share their personal data with the firm can enjoy ads and a feed with offers that are compatible with their previous searches or overall pattern of searches. The Amazon Prime loyalty program is also a way for the enterprise to communicate with its customers on a more sophisticated level. The firm offers this program to all its customers; however, only some subscribe to it. Once subscribed, users enjoy various benefits, and this is Amazon's way to show its appreciation for its customers. The firm delivers an exceptional performance towards its customers by offering beyond what they signed up for. Discounts and additional services are constantly updated. Through this program, along with personalisation, customer relationships are strengthened.

Apart from a standard online platform self-service relationship, Amazon developed community features in its business model. Customers are able to gain more insights about the quality, performance or characteristics of a product by referring to the public reviews published by other users. Consumers can also address some concerns in the Q&A section.

For sellers and advertisers, as customers, the relationship is facilitated through platform-based communication. No physical contact is usually facilitated. For both customer segments, the relationship is strengthened through dashboards incorporated in the online

system. Additional services and consultations are available online for third-party sellers upon request. Once a relationship between sellers and the firm is established, it is governed by contracts and agreements. For advertisers, the relationship is based on a self-service model. They can upload their content on the platform once paid for the service, and they can control, but are limited to certain rights that are agreed upon entering the relationship.

- **Channels**

Channels are the means through which the firm reaches its customers. For Amazon's e-commerce business, the initial communication with all sides of customers is carried out on the platform. The platform is accessed through a website or an app. End customers find information about the products offered and can evaluate them themselves. Once deciding what to order, the consumers make a purchase, pay online and expect delivery. The delivery is enabled through the company's fulfilment network and further delivery services. The fulfilment network can be treated as a channel. It enables the delivery of the physical items to the customers. However, without supply chain management and inbound to outbound activities, the delivery cannot be conducted. Finally, customers are reached through distribution and delivery channels that may be owned and controlled by the firm or by its carrier partners. When it comes to Amazon's own delivery channels, apart from delivery services to the door, the company placed Amazon Lockers close to customers. The lockers can be accessed freely, just by entering a code that opens the lockers' doors. Amazon Pickup Points are also available, but they differ based on the region. Developing more innovative delivery methods than typical ones is proof of the prioritisation of customer convenience.

Additionally, as already mentioned, Amazon communicates and negotiates with its sellers and advertisers through the platform. For third-party sellers who opt for a fulfilment service, the channels extend to the fulfilment network of Amazon, as they have to deliver their supplies to Amazon warehouses where they are to be stored, sorted, picked, packed and delivered. For advertisers, the platform and additional affiliate and partner platforms are the means of communication.

- **Key resources**

Amazon's key resources are divided between tangible and intangible resources and organisational and dynamic capabilities. The most important resource that the company utilises is its multisided online platform, through which it conducts its business and connects the customer segments it serves. The platform can be regarded as an intangible asset that is an aggregation of the rest of the resources (technologies, licences, knowledge) and capabilities the firm deploys. Another aggregated resource is Amazon's logistics and fulfilment network, which is the fusion of all technologies, buildings, equipment, organisational capabilities and human capital that enriches the enterprise's business model. Indeed, the firm can function without such a sophisticated network and rely on external

logistics and storage partners. However, Amazon has integrated these operations internally due to scalability, customer satisfaction, cost minimisation and further revenue increase.

Human capital is one of the most valuable resources, according to many scholars. Apart from the employees who contribute to the technological and digital offering of the platform and the associates who are engaged in the fulfillment network, the firm values its managers and senior executives. Amazon's strategic objective implies that the firm "strives to be the Earth's best employer". In order to align with its mission, the company seeks to hire extraordinary personnel and offer them a competitive salary, a safe environment, growth opportunities and personal development. The firm's focus is on retaining its workforce but also investing in its development. This is reasonable as the business model's adjustment entails human resources progress that moves at the same pace. Additionally, the company acknowledges the need for high-skilled employees in specific industries that complement its business. An emphasis is placed on the appreciation of Information technology (IT) staff and senior management representatives due to the high demand for such employees in any industry and their significant role. The loss of such vital personnel can impact the firm's operational effectiveness.

From a seller's and advertiser's perspective, an ecosystem that fosters their connection to the end clients is crucial. Such is built into the platform and can be recognised as a digital asset. An advertising infrastructure is also required, as this is an additional service from which Amazon can earn more, but it was not originally embedded in the business model. The platform's core function is to facilitate sales transactions. In order to enable advertisement revenue, Amazon had to build supplementary online services that are accessed outside the platform.

Under the supplier/vendor network resource, I refer to the ability to communicate, partner and sustain relationships with external suppliers that either provide raw materials or resell items to Amazon. This consolidated resource is composed of executive capabilities and inputs that are either used for production (raw materials) or used for resale (manufactured goods, provided by vendors). The latter constitutes a larger volume. Therefore, the ability of Amazon to store and fulfil these products is crucial for effective asset turnover.

Data analytics capabilities are separated from the sub-capabilities mentioned in the previous sections due to Amazon's business focus. Since the firm is digitalised and conducts most of its e-commerce business fully online with no direct contact to customers, its main source of feedback comes in the form of customer reviews or the data that customers share about their preferences and online experience. In order for Amazon to build a customer-centred, data-driven business model, it should be able to analyse these insights. In addition, the fulfillment and logistics operations depend on technologies, but manual labour is also present. The firm invests in data analysis, so it can also optimize its processes based on performance metrics, associate productivity and results.

Intellectual properties are widely used by Amazon as a unique intangible asset. “We regard our trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technologies, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade-secret protection, and confidentiality and/or license agreements with our employees, customers, partners, and others to protect our proprietary rights.” (Amazon.com, Inc., 2025)

Brand reputation and trust are some of the most important intangible assets, and Amazon acknowledges their role accordingly. In the course of time, the enterprise has proved its mission and vision alignment and fulfilment and has gained the trust of its customers. Amazon is known worldwide, and millions of end customers choose to shop online on Amazon rather than its rivals. The firm is recognised for its reliability, wide variety, discounts, fast delivery and easy platform operations. Among its sellers and advertisers, Amazon is a safe partner that enables them to make profits, while paying a fair price for this service. Moreover, the benefit of access to a large customer base is one of the key reputational aspects that appeals to the two customer segments.

Know-how is a source of competitive advantage for Amazon due to the way in which the company fosters it. Know-how is usually the mix of acquired, potential, abstract, technological and operational knowledge that is used by the workforce and leaders on a daily basis to contribute to the firm’s success. The main drivers of know-how for Amazon are the following: technological investments, why-culture, Day One mindset and leadership principles. The first driver is a natural prerequisite for any digitalised company. Investments in modern equipment, AI, robotised machines and personnel that maintain them are a crucial enabler of operational effectiveness for the fulfilment and logistics network of the enterprise.

The why-culture is highly fostered at Amazon. “If we want to have a chance at succeeding in our mission, we have to constantly question everything around us” (Andy Jassy, President and Chief Executive Officer). In order to innovate constantly and excel at what you do as a company, it is of great importance to solve problems. In a why-culture, the leaders question every new opportunity, established routine or obstacle. By doing so, they can deconstruct problems and face them informed about the consequences of tackling them in one way or another. Andy Jassy gives an example of how the firm would not have extended its business in the entertainment industry or would not have started its Fulfilment Service if it had not asked itself, “Why do we not offer complementary services to our main activities?” It is a fact that the more complementary services a company offers to its customer base, the more lock-in effects will be induced.

The Day One mindset, i.e. “Every day is day one.”, is regarded as a “motto” for any level of Amazon employees. This simple sentence has a lot of meaning behind it. The main idea is that even large multinational corporations should be able to operate as a startup if they strive to exploit the benefits and energy of startups. Most newly-founded businesses are full

of motivation, passionate about their goals, focused and efficiently-driven. Amazon maintains such a mindset in many ways. Its customer approach concentrates on providing customers only with solutions to their problems. It is often the case that companies overdeliver in a way that is unnecessary for customers and do so because of their drive towards innovation.

The enterprise also fosters ownership and invention as skills that are rewarded in employees. It is crucial for everyone in the company to constantly question the performance of their tasks and also act as if they were the owners of the business. The latter is mentioned in the context of delivering projects that are excelling in alignment with the mission of the firm. Employees are not just human resources; they are active contributors to the success of the company and should not care only about their remunerative benefits. Speed is also recognised as a characteristic of the company's business model. Once a firm reaches a stable state, it should not undermine the fast-developing internal and external environment. Decisions should be taken promptly. Otherwise, competitors will start stealing market share if they offer innovative enough solutions. Finally, a firm has to be open to taking risks. Regardless of what pushes it to do so, it should acknowledge the value of risk-taking behaviour. Amazon's CEO recognises this capability as an innovation driver: "If your Whys take you down an invention path that delivers an experience that doesn't look like what's been done before, let customer obsession be your compass."

The last known driver is Amazon's leadership principles, that are quoted by any level employee. These principles help leaders keep their motives in check and gain motivation. For the rest of the workforce, the leadership principles are like governance for informal conduct. As such, the principles foster the Day One mindset and the why-culture, and they connect Amazon's business model as a whole system, in which all stakeholders are aligned with the firm's culture.

To sum up, all Amazon's resources are organised in a system of utilisation. The company serves all sides of its platform while offering complementary services that boost their retainment. The orchestration of the resources is accompanied by the capabilities of leaders and executives. The know-how of the firm tends to be one of the most distinguishable resources that is a prerequisite for the dynamic capabilities among managers and entrepreneurs. Amazon's culture fosters evolving business model opportunities.

- **Key Activities**

Amazon's key activities are connected to platform maintenance and management, so it can fulfil its role as an intermediary. Apart from that, as already mentioned, the firm started its own logistics and fulfillment service that is used by third-party sellers and by Amazon itself for its manufactured and resale items. In the logistics part of the service, the firm uses its own trucks or partner ones for transportation of the products from one Amazon facility to another. Among the facilities, the most common ones are IXDs, fulfillment centres, delivery

stations and sortation centres. In all of them, different operations take place, such as inbound, receiving, sorting, outbound, storage, picking and packing. In most of the facilities, the operations tend to be robotised, but manual labour is also present.

Data analytics and personalisation are activities that take place on the platform and are done in favour of the focal firm and the platform users. By excelling in data analysis, firms can tailor their offerings based on the customers' preferences. All sides of the business benefit - sellers and advertisers by increasing their revenue, and end-customers by spending less time to find what they are looking for. The data analytics is conducted by Amazon employees, and some of the insights are visible to sellers and advertisers. Data analysis is highly useful in supply and value chain operations that take place in the fulfilment network, where process optimisation is the main cost minimiser.

Additionally, the platform and its marketplace should be regulated. Compliance with Amazon rules, regulations, laws, data privacy and the Digital Markets Act (DMA) should be considered. The DMA is enforced by European law, and its scope is to prevent large digital platforms from misconduct in terms of antitrust regulations, fairness and market contestability. Amazon is one of the gatekeepers that should comply with the DMA. The definition of a gatekeeper is a platform that provides core services and has an obligation as such to prevent unfairness when faced with competitors. There is an extensive set of rules that Amazon has to consider when being an intermediary in a marketplace. One of the issues that the company faced with this law is its attempt to favour its own products on its platform and advertise them more than the third-party sellers'. Indeed, the processes that the firm undergoes should be consistent with laws and the dominant market position that the firm takes.

Other processes among support and primary activities are the advertising platform operations, procurement and inventory activity and marketing operations. Strategic decisions have to be taken when combining inventory tactics with marketing operations. Amazon's e-commerce activity tends to be seasonal and affected by some events and holidays. In such periods, demand for specific products is higher, and the company should be able to align its marketing campaign with its inventory planning capabilities. If it fails in doing so, customer demand may not be met, which in turn affects third-party sellers' profits negatively.

- **Key Partners**

Due to Amazon's platform nature, some of its customer segments are also treated as partners. Third-party sellers use the firm's service as an intermediary that sells their products but does not gain ownership of them. In turn, Amazon benefits from increased variety, higher end-customer satisfaction and brand reputation. In this sense, third-party sellers are also partnering with the enterprise.

Vendors, as already mentioned, sell manufactured goods to Amazon, and it treats them as its own. Vendors do not carry out transactions with end-customers. Once bought in, the

company controls the items' listings, prices, quantities and inventory. Suppliers are the third main partner of Amazon. They provide raw materials for Amazon-produced products, machinery, packing materials and many other supplies that are physically needed throughout every step of the value chain.

Logistics and delivery partners are a major group of partners who engage with Amazon around the inbound and outbound operations. These partners enable transportation of supplies and products that either enter the Amazon fulfillment network or exit it in the form of ready-for-delivery packages that are to reach the end customers. Amazon's transportation services are enabled through external carriers (Delivery Service Partners (DSP)) or by in-house transportation networks. The partnership with DSPs allows Amazon to control this part of its value chain without being burdened with ownership.

The firm does not rely only on big national networks in the countries where it operates, but it also supports startups and smaller carriers. Amazon concentrates on the latter through its DSP Programme, which enables business enthusiasts without any delivery experience to start their own company while relying on Amazon's support and volume. "With low startup costs, built-in demand, and access to Amazon's technology and logistics experience, this is an opportunity to build and grow a successful parcel delivery business." (Amazon.com, 2017) This partnership allows Amazon to tightly control its delivery partners and benefit from their enthusiasm, professionalism and customer-centred approach that complements Amazon's business model. Moreover, the company exercises a strong bargaining power over its DSPs and negotiates lower delivery fares and prompt delivery - benefits that are passed to all customer segments.

In terms of payment services, the enterprise does not integrate fully either. It owns part of the payment option infrastructure and also partners with payment service providers (PSP). The latter is the main provider of payment options. Amazon offers different payment options to its end customers - credit card, debit card, credit accounts (including promotional financing), gift cards, direct debit from a customer's bank account, consumer invoicing, checks, and payment upon delivery. The partnership with PSPs is less flexible, and reliance on it is not fully under Amazon's control. The firm and its clients are exposed to a risk of fraudulent activities. Amazon attempts to minimise this risk but acknowledges its limitations due to the independence of the PSPs. This tends to be a common obstacle in the e-commerce field.

Affiliate partners promote Amazon's products separately from the Amazon channels that the firm uses to communicate with its end customers. This group of partners includes social media and content creators, websites that provide general media content or specialise in offers. The company establishes such partnerships so it can diversify its marketing function and reach a bigger customer base. The content promoters earn a fixed fee or a commission from Amazon. Amazon still attributes its success to its brand recognition and product variety, rather than leveraging marketing strategies. Based on this argument, affiliate partners have a

rather simple relationship with the platform-based business and do not hold great bargaining power.

When it comes to technology and other infrastructure providers, the firm relies on them for external software tools, hardware provision, network carriage, etc. It should be noted that Amazon's core platform features are handled internally by AWS. The firm manages its cloud infrastructure, internal systems, AI and analytics in-house. Amazon has a strong benefit compared to other competitors in the e-commerce field, as it is also a tech company. This factor is a key competitive advantage that adds to the enterprise's business model.

- **Cost Structures**

Starting with fulfillment and logistics costs stemming from Amazon's fulfillment network operations. Those costs include transportation of the products and materials to and from fulfillment/sortation centres to delivery stations to end-customers; facility maintenance and ownership or renting of the facility; and capital costs. Amazon has a complex fulfillment network structure and faces various costs, whose control is vital for profit maximisation. The strategic allocation of the workforce and the operations managers' skills in all such facilities are leveraged by Amazon. A further increase in fulfillment costs is anticipated as the company plans to invest more in its fulfillment network, so it can maintain its customer prioritisation. This is possible when customers receive their deliveries promptly, which is enabled by the wide range of facilities close to end-customers and the availability of inventory in those facilities.

Technology and infrastructure costs include "payroll and related expenses for employees involved in the research and development of new and existing products and services, development, design, and maintenance of our stores, curation and display of products and services made available in our online stores, and infrastructure costs". Infrastructure costs also include AWS costs, external servers and network providers' remuneration. Amazon prioritises innovation and customer satisfaction above everything and constantly invests in technological advancements.

Labour costs tend to be huge as well. The company employs millions of people on a worldwide basis. It has a reputation for fair wages and has to comply with local wage rules. In its fulfillment network, the firm can reduce its labour costs due to automation and investment in technology and AI. The enterprise places a strong emphasis on senior management, upon which it relies strongly for in-house control of part of the primary value chain operations. This is why the remuneration for the high-skilled personnel is more competitive, and Amazon's main goal is to retain its executives. Additionally, the firm controls labour costs by investing in a lower-wage workforce from developing countries.

Cost of goods sold or cost of sales are connected to the volume of sales on the Amazon platform of Amazon-owned products. Such costs represent the purchase of products from vendors; inventory-associated costs; incorporation of the external products within the

Amazon network; and production of Amazon items. The firm's strategy for the minimisation of these costs is the increase of sales. By doing so, more efficiencies can be reached.

Marketing costs are treated separately by Amazon, and they consist of "the advertising and payroll-related expenses for personnel engaged in marketing and selling activities". Amazon treats its marketing costs as "highly variable" due to the different sources of advertising channels, enabled by partners of the firm itself, and due to the fluctuations in sales.

The final two cost structures are customer service, returns, and data and analytics costs. The former represent the after-sales costs, and Amazon places a strong emphasis on them. The customer experience achievement does not end with the sale of the product. Customer service expenses are accounted for by additional workforce payroll, channels for communication and constant improvement. I view the customer service workforce's labour cost and the rest of the labour costs separately, as the customer support personnel is rather optional in general for companies. Indeed, most of the firms invest in this department, but they can choose to provide customer service differently - by Q&As, chatbots, written or oral communication. A firm that specialises in all is able to boost customer satisfaction more, and this is Amazon's case. The latter costs - data and analytics - include the investment in tools through which skilled employees or systems visualise results based on various types of data. Amazon is a very data-driven company, and it leverages this competence by tailoring its offerings towards customer preferences and achieving operational efficiency.

- **Revenue Streams**

The revenues from Amazon's e-commerce business derive mainly from its product sales (Amazon-owned or manufactured products). Marketplace commissions are the second revenue stream, and it represents the role of the platform as an intermediary between end-customers and third-party sellers. These fees are paid by third-party sellers. Fulfilment fees are also paid by third-party sellers, who opt to use Amazon's Fulfilment network for storage and dispatch of their items. The advertising revenue stems from charging the third customer segment that the firm serves - external and internal sellers. They enjoy the placement of advertisements on Amazon's platform that generates high traffic. Subscription revenue is a different type of revenue stream that is closely connected to the sales of products. End-customers who purchase the Amazon Prime membership pay a fixed monthly fee, and in exchange, they benefit from free delivery, discounts and additional Amazon services. Finally, seller service fees are paid by third-party sellers that use additional services, apart from the fulfillment and advertisement ones. Examples of such are data analytics, performance evaluation, customer service control, quality assurance, etc.

Concluding Amazon's Business Model Canvas Analysis, I argue that the company has a working business model that has a complex structure due to the platform nature of the business. The Canvas is only a representation of the elements. However, it is upon the managers to establish connections between all and facilitate innovation and adaptation. Still,

the Business Model Canvas is a simple illustration that the executives can utilize when they are making decisions and implementing changes. The various relationships between all stakeholders part of the business model are a prerequisite for the exploitation of the advantages of the business model as a tool. Such advantages are discussed in the previous chapters.

Conclusion

The scope of this thesis was to dive deep into the business model concept. With this objective in mind, I delivered a comprehensive multi-aspect analysis. Each of the chapters and subchapters was structured in a way that justifies how a business model can be utilised in a wide range of directions. It is noteworthy that the use of this powerful tool continues to be questionable. On the one hand, this is the case because the definition and objectives of a business model are too broad and general. On the other hand, firms do not really know how to build a business model and how it would contribute to the success of their business. Fortunately, over time, with the development of the concept and the research of many notable scholars, the term business model has become more and more discussed and implemented.

Nowadays, the vast majority of companies worldwide acknowledge the role of business models, and they define one for their firm. Some of them do it explicitly, i.e. managers and entrepreneurs form a board on which they draw the elements of their business model and design their approaches and ways of thinking around this visual illustration. It is often claimed that, for flexibility, executives use “post-it notes” for describing the different dimensions of each element. This raises the idea that leaders recognise the extent of flexibility that every business model has to be equipped with. Most of the elements of the business model undergo changes once adapted, and for practical reasons, sticky notes are the best way to draw a business model illustratively. Other enterprises do not design such visualisations. They make sure that the leadership of the company is familiar with their business model, which is mainly present mentally. In other words, when executives are expected to make decisions and manage processes, they just always ask themselves whether their behaviour is consistent with the overall business model. I argue that this way of recognising a business model could be less efficient due to the complexity of the tool.

As I see it, firms should explore every aspect of their business model and prioritise both its illustrative usage and awareness. The leadership of the company is responsible for forming this concept and facilitating its application. Once done, the whole staff of the company should be aware of what the firm does, how it treats its employees and how it depends on these parties and resources. All levels of human resources are usually considered by managers when particular decisions are taken. Additionally, the behaviour of the employees should be governed by their self-control. When they are familiar with how the firm they work for functions, in terms of what is included in the business model, they would be able to work in a direction that delivers performance. Nevertheless, simplicity is what many scholars mention as a vital characteristic of a business model, so it can be understood by people from different backgrounds.

Defining the term business model has been a difficult task over the years. There is no right or wrong definition of the term. No definitive definition has been set. Every company decides how to tailor the term based on the way they want to use it. In my view, all definitions

grouped could, to some extent, cover every aspect of the term business model. However, even then, the definition might be incomplete, as with the ongoing research in the area, new aspects keep appearing. For this reason, managers and entrepreneurs should understand that, despite the fact that a business model can come in various forms, it is still a useful tool. It is a common misperception that when a framework is widely discussed and no definite findings are present, it is rather unreliable. It is more important that the practical contribution of an existing business model to a business organisation is a fact.

The pillars of business model management set out the directions in which the tool is utilised in different aspects. The connection between e-business and business models is of great importance. It provides an explanation and justification of how a concentrated industry can still be profitable and achieve competitive advantage based on the recognition of the tool. In addition, many frameworks seem to provide a basis for the business model concept. For some, this may be confusing, and some could ask themselves why one explores a new framework when separate ones already exist. The answer lies somewhere between the practicality of working with a single framework that combines many other ones and filling the gaps in terms of possible relationships between the separate frameworks.

The formulation of the Business Model Canvas contributed highly to the evolution of the term. Maybe the graphical representation of the tool has helped firms start realising its usability, or maybe it was high time for them to come up with a more sophisticated management tool. Having said that, in my opinion, a simple explanation of what a business model is tends to be a tool that gives structure. It contains all aspects that enable a firm to make a profit. Going back to the widely accepted three main aggregated activities in which a company engages - value creation, capture and delivery. Regardless of what business model and how a firm uses it, as long as it explains how the three processes are enabled, it can be a working business model.

Now, the biggest mistake that leaders could make when using a business model is to confuse it with strategy. Before designing a business model, every leader should draw the line between the two terms. For some enterprises, there are more overlapping elements between them; for others, fewer. But distinctions are always present. Treating strategy and business model as complementary notions and the result of one another is the most important ability among executives. No business model can survive without a strategy, and no strategy can be implemented efficiently without a business model. Misalignment between them has also been defined as a possible business model failure determinant.

Understanding the strategic foundations of a business model has also been a complicated task for scholars. I concluded that the most important strategic frameworks that support the tool are the activity system, stakeholder theory and dynamic capabilities that result in business model adaptation. All three promote consistency between all processes, people, needs, aims, resources and skills that are present in any business ecosystem. It was determined that interactions between all stakeholders are vital. The activity system

framework builds upon the stakeholders' relationships and tracks the value movement from one point to another. Scholars were fascinated with how many different exchanges of value could happen along a value chain that is enabled through the activity system in the business model. Finally, dynamic capabilities should be present in every good leader, helping them to "sense, seize and transform" opportunities. Such capabilities help firms to recognise challenges and embrace them, while also sensing growth opportunities and exploring them. Adaptation should be highlighted as one of the most important features of a business model which is controlled by company executives.

Business model success is explored in the literature in many forms. I streamlined these explanations and came up with three key determinants. The first one is customer-oriented value creation. The main profit-enabler for companies is to understand customer needs and prioritise them. Once the "job to be done" is identified, the market can be found, as long as technology is available, and firms can start building a business model. Secondly, human resource management and organisational capabilities are another source of competitive advantage. Culture is one of the hardest things to change in a company, because changing individuals is a highly complicated task. Leaders who know how to motivate and retain their employees are highly appreciated. Organisational skills are about efficiency and effectiveness. Finally, CSR integration is a great obstacle for firms nowadays. The consideration of the concept is relatively new and challenging. However, firms that have or develop working business models, i.e. such that rely on an activity system and are adaptable, can incorporate CSR more easily.

The introduction of the term business model failure is something rarely explored by scholars. Nevertheless, business models are not formulated only to promote success. Firms cannot be perfect in what they do and never fail. On the contrary, they should embrace failure and learn from it. Misalignment between strategy and business model, inability to adapt, governance and activity system challenges, and lack of innovation are the main reasons for failure, in my opinion. The first three were mainly discussed in separate subchapters. Innovation is linked to adaptation, but requires a different approach. In very competitive industries, innovation is what helps a firm become a market leader. An interesting thing to note is that innovation in companies starts from strategy. Strategy is about change, and strategy already has an innovative element in itself. This shows once again how interlinked business models and strategies are.

The last two chapters discuss a more practical implication of the business model in the context of Amazon. To fully grasp Amazon's business model, I introduced the terms platforms and internationalisation. The former is a complex type of business, and the latter is a corporate-level strategy that can be enabled by the replication of the business model. In both terms, the importance of a business model as a tool for firms to navigate platforms and a sophisticated global expansion is crucial. The case study on Amazon provides a practical illustration of how a firm can draw a business model and explores its elements.

All things considered, the term business model deserves a place in management and economic studies, and further research aims to prove this. More aspects of the concept will continue appearing. The points I covered in my analysis explore a combination of structural aspects, taxonomy and implications of the concept to validate its relevance.

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