



# P2E2

*Our Approach*

# Introduction

What is a business model?

This question is of relevance for anyone considering applying the business model construct. Although the business model idea addresses general, fundamental and familiar challenges of strategic nature, there is still discussion about what business models are and consequently their usefulness.

The business model concept was initially important for understanding e-business and commercialization of technology and innovation. However, Porter described the unclear nature of the business model as an “invitation for faulty thinking and delusion” as he analysed unhealthy business practices related to the internet. On the other hand, many have found that business model innovation, i.e., defined as innovation incorporating both product and service generated comparatively better returns than isolated initiatives.

**“A business model is a representation of a business’s underlying core logic and strategic choices for creating and capturing value within a value network”**





## Position

Position is a pragmatic view that assigns value to concepts by their successful practical application. It is used in a business model to denote how a solution to a problem could be arrived at through entrepreneurial activity. This is further reinforced by the activities of entrepreneurs in the process of taking an idea and turning it into a new business. The emergent business model circulates in various and shifting manifestations (business plans, elevator pitches, budgets etc.) among different stakeholders. Positioning works both as a narrative and calculative device, thereby linking sense-making literature and stakeholders (e.g., entrepreneurs, managers) providing three core roles of convincing, legitimizing, and guiding action. This is also an important aspect in periods of significant change in established organizations and could be linked to the field of “strategy-as-a-practice”.

**“Position is essentially birthing a business model which then begins to take shape through analysing applicable information both at macro and micro level”**



## Plan

Literally a “model” is a representation of reality or an example to follow. A model can be expressed more or less accurately, with different levels of details, as a pattern, image, physical, descriptions, mathematical formulas etc. Planning helps with communication as business models are not physical objects, but constructs which may be represented in words or images. As business models are embedded in a company “The actual business model is a highly complex entity that can only be represented through abstraction – so when we talk about a real, objective business model, we are really working with its abstraction”. In order to understand a model, we apply words such as, frameworks and tools, grounded in specific disciplines or contexts and we use different levels of aggregation depending on the purpose and the intended target audience. At the highest level and without the possibilities to see the details and specification this may only make sense to a few. On the other hand, a very detailed level may result in a very precise and exhaustive model at the risk of losing the overview of the model. Models are the outcome of the activity of modelling. This particular aspect is important as modelling begins with an idea which is articulated in the modelling process. Modelling, especially in unknown areas, may also contain an element of learning – some parts may not be possible to realize or define like stakeholder relations which might be different from what was first anticipated. These processes may actually send feedback into the original idea of the model, and as a result the model changes during configuration. Planning alludes to the detailing of thought and the documentation of all known constrains.

**“Planning ensures that business models can therefore be seen as both static and dynamic entities”**



## Execute

In the early entrepreneurial phases, it is evident, that the emergent business model changes significantly as a result of learning, new customers, changes in power balances etc. The current debate across the financial community on the use of narratives and business models in reporting can also be seen as an attempt to “repair” on the shortcomings of a single perspective providing a “true and fair view” of a business.

New knowledge is created on top of existing in a cumulative way, and builds on an advanced, consistent and stable system of language and methods which emphasize generalizations / de-contextualization, validity, rigor, causality, validity and replication. This process is linear and constructs are determined before data collection.

Execution specifically assigns the following roles to business models:

- ☒ Articulate the value proposition, that is, the value created for users by the offering.
- ☒ Identify a market segment, that is, the users to whom the offering is useful and for what purpose.
- ☒ Define the structure of the value chain required by the business to create and distribute the offering, and determine the complementary assets needed to support the businesses position in this chain.
- ☒ Specify the revenue generation mechanisms for the business, and estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen.
- ☒ Formulate the competitive strategy by which the innovating business will gain and hold advantage over rivals.

**“Execution thus helps business models in commercializing technology and ideas into a new business”**





As we have seen above the purpose for establishing a proper business model construct sound obvious, but reflections on deeper aspects and observing current practices, reveal that they are related to issues of general validity and generalization, i.e., whether these apply at a local level, within related disciplines etc. A large part is centred on how business models relate to stakeholders, processes, and outcomes. For purposes of better understanding and analysis it is useful for this to be more holistically explained. Business model dynamics may change from being dependent on a visionary entrepreneurial leader to being embedded and institutionalized in organizational structures and processes.

Elevating the business model brings stability. Businesses change both in terms of resources, relations and logic. This challenges the possibility of having an accurate depiction of reality. A too narrow construct may not be able to capture empirical observations and therefore not be able to explain cause and effect. A broader construct will generally be able to capture a significant scale of change and define the dimensions of business model change.

**“Elevating a business model to gather multiple perspectives generates more complete knowledge, as it is more than just the sum of its parts”**

## Conclusion

The relevance of the business model concept must be judged on its ability to reflect the real world of business in a better way. At the highest level we find that 'Positioning' provides an overview to the domain of the business model. 'Planning' helps define various business model components and their potential linkages, thereby sharing an understanding of critical elements of the logic in value creation, value delivery and value capture and the ways these are organized in a stakeholder network. This leads to the 'Execute' phase where depending on perspectives such as context, element of process, outcome etc helps to build and elaborate on the core business model. Finally, the 'Elevate' stage provides an understanding on the "what, why, how and when" of business models as a holistic and dynamic concept.

**The P2E2 approach provides sufficient understanding for most business cases; however, the real value of the business model construct lies in between different disciplines and thereby understanding its theoretical significance to unlock practical gains.**