

## 【論文】

# Intersections between strategy and business models

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### **Abstract:**

This paper explores the relationship between strategy and business models. I review major researches on strategy and business models to provide a viewpoint to consider the intersections between them. The theory of strategy shifts the focus from visible competitive advantage to its internal managerial resources. The concept of business models has been discussed because a business model is considered to be a combination of internal and external business processes; it clarifies how to effectively employ internal managerial resources. As a conclusion, the paper suggests that customer value is the core of a business model and that business model innovation is implemented by reconsidering business processes from the viewpoint of customer value. Moreover, the paper points out the fact that customer value is an origin of the theory of organization and management.

### **Key words:**

Strategy, internal competitive advantage, business model, customer value, base of pyramid (BOP), creation of customers

### **Introduction**

Business models have been discussed since the mid-1990s. This trend has accelerated because new types of e-business have been established as a result of the widespread use of the Internet (Zott *et al.*, 2010). Moreover, business model innovation has been recently addressed by scholars such as Chesbrough (2006), Johnson (2010), Nonaka and Tokuoka (2009), and Teece (2010). Thus, “business model” has been one of the most popular buzzwords since the 1990s (Magretta, 2002). Business models are considered fundamental to a company’s success; therefore, it is assumed that business models and strategies are deeply related. However, the relationship between them is not necessarily clear. Therefore, it is useful to provide a viewpoint to consider the intersections between them.

### **Development of the Theory of Strategy**

Theories of strategy have flourished since Porter's influential book, *Competitive Strategy*, was published in 1980. Porter provides a theoretical framework for evaluating an industry structure by a five-forces analysis. Porter also shows three generic strategies: cost leadership, differentiation, and focus. On one hand, he insists that cost leadership and differentiation are mutually incompatible when addressing an industry-wide market target. On the other hand, he suggests that a company focusing on a narrow market target ensures compatibility between cost leadership and differentiation.

In *Competitive Advantage*, Porter (1985) argues that internal competitive advantage can be achieved by using value chain analysis. In the 1990s, some scholars such as Hamel and Prahalad (1994), and Barney (1996) also find an origin of competitive advantage in internal managerial resources. Hamel and Prahalad argue on core competence, whereas Barney develops a resource-based view. The importance of internal competitive advantage is emphasized because imitating it is more difficult than visible competitive advantage.

### **Increasing Attention to Business Models**

Afuah wrote a textbook on business models (Afuah, 2002) because until then there had not been one, despite the fact that such models are widely accepted in the business world. In his textbook he defines a business model as a framework for making money. A business model is a set of components such as activities, positions, resources, industry factors, and costs. Activities combine other components to produce profits. Johnson (2010) suggests that a business model comprises of four factors: customer value proposition, profit formula, key resources, and key processes. Moreover, Osterwalder and Pigneur (2010) provide a useful tool called "business model canvas" to visualize a business model by referring to customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. Thus, a business model is regarded as a combination of business processes.

Internal competitive advantage is invisible and inimitable. However, to achieve a strong competitive edge, it is necessary to clarify its components. A business model connects internal managerial resources with internal and external business processes. Consequently, a business model makes visible a company's internal competitive advantage.

### **Creation of Customer Value**

How are business strategies and business models innovated? The importance of creating customer value is emphasized from the viewpoints of both strategy and business models.

Kim and Mauborgne (2005) refer to one of the most commonly accepted dogmas of competitive-based strategy: value-cost tradeoff. Kim and Mauborgne argue that this tradeoff can be overcome by focusing on customer value. Cost savings are made by reducing or eliminating factors on which an industry competes. Buyer value is enhanced by creating elements that the industry has never offered. Kim and Mauborgne call this strategy value innovation. Additionally, eliminating and reducing unnecessary functions and services can avoid the innovator's dilemma proposed by Christensen (1997).

Johnson (2010) argues that focusing on customer value is the core of business model innovation. Nonaka and Tokuoka (2010) also emphasize that the starting point of business model innovation is to redefine customers' needs. Once customer value is redefined, internal and external business processes have to be thoroughly reviewed. Improving internal business processes bring about high efficiency of operation and motivation of employees, whereas rethinking external business processes leads to rebuilding a relationship with other stakeholders by searching for new suppliers and investors. Thus, business model innovation is also expected to increase employees' and other stakeholders' value.

### **Business Model Innovation in BOP Business**

Business model innovation is also applied to developing countries' markets. These are called base of pyramid (BOP) markets by Prahalad and Hart (2002). In a BOP market, the business environment is completely different from those in the mature and ever-changing markets of highly developed countries.

To succeed in a BOP business, Prahalad (2005) points out that it is important to clarify what people really want. All business processes such as price, product quality, sale strategies, and payment methods are completely rethought from the viewpoint of customer value. Moreover, a BOP business covers both the formal and informal economy; therefore, multinational companies form new alliances with diverse stakeholders such as local firms and corporations, local and international NGOs, and governments.

In a BOP business, discovering what people need is not enough. It is necessary to create a new market by embedding value proposition into people's ordinary lives.

Consequently, it takes time and patience to have a successful BOP business. However, when a value proposition is accepted by people, a new business model can flourish in a developing country.

### **Conclusion**

In this paper, I explored intersections between strategy and business models. First, the core of a business model and strategy is customer value; therefore, a business model and strategy are innovated by thoroughly reviewing them. Second, from the viewpoint of a customers' value proposition, a company must rethink and improve all business processes. Third, when a company does not have the internal managerial resources to change its business processes, its best course is to search for partners and build new alliances. In fact, Huang and Isomura (2013) examine that Nishimatsuya Chain innovates its business model by rethinking business processes, internal and external management resources, and profitability from the value proposition. Moreover, Huang, Kobayashi, and Isomura (2014) argue that UNIQLO evolves its business model through enhancing its value proposition.

Finally, I point out that the conclusion takes us back to the origin of the theory of organization and management. Barnard (1938, 1948) insists that the actions of customers or clients are included in a formal organization and that the organization comprises of many other stakeholders' contributions, such as those from investors and suppliers. Drucker (1958) clearly defines business purpose as creating customer. Customer value is ever changing and never satisfied; therefore, more the customer value is pursued, the more strategy and business models are innovated and diversified.

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## 戦略とビジネスモデルの交差点

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### 要 旨：

本稿の目的は、戦略とビジネスモデルの関係を明らかにすることにある。二つの概念がどのように交差するかという観点から、戦略とビジネスモデルに関する主要文献をレビューする。戦略論の焦点は、可視的な競争優位から内的な経営資源へとシフトしていく。ビジネスモデルは内的な経営プロセスと外的な経営プロセスが結合したものと考えられ、内的経営資源をどのように効果的に活用するかを明らかにしているため、ビジネスモデルの概念が次第に議論されるようになってきたといえる。結論として、本稿は、顧客価値がビジネスモデルの中核にあり、ビジネスモデル・イノベーションが顧客価値という観点からビジネス・プロセスが見直されることで実行されることを示唆する。また、顧客価値は、組織論と管理論の起源に立ち返ることを意味することを指摘する。

### キーワード：

戦略、内的競争優位、ビジネスモデル、顧客価値、BOP、顧客の創造