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Framing Business Relationships: The Role of Business Models

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Abstract

Companies face difficult decisions regarding their management of business relationships; how much resource should they commit, when and with whom? The decisions managers make about these issues provide a 'frame' for their business relationships and thus a structure for their surrounding business network. Research has shown that the way problems are framed, affects the decisions managers and executives make (Bazerman 1984; Fiss and Zajac 2006; Tversky and Kahneman 1981). Similarly, the way business relationships are framed affects both the decisions and actions that companies take. Companies usually frame their business relationships by developing business models. In this way they conceptualize their relationships with other firms and aim to achieve higher levels of performance in the market place. This article describes role of business models in framing business relationships. We consider a business model as a 'frame' that includes structural elements, such as the selection and integration of a) network influence b) transactional relationships and c) corporate ownership, as well as procedural elements of how to 'focus on the market' such as a) customers, b) competitors and c) how to achieve inter-functional coordination of activities. We argue that companies select and integrate various configurations of these inter-related, and often overlapping, elements in response to end customers' constantly evolving demands. This study examines real-world episodes using a cross-sectional investigation of a matched pairs sample of twenty high performing and twenty low performing UK firms. The study draws conclusions on the importance of scrutinizing business performance and the consequential re-adjustment of business models.

Key words: Market Focus, Business Models, Performance, Framing, Business Relationships

Framing Business Relationships: The Role of Business Models

1. The Problem that Companies Face

Many US and European companies, such as Ford, GM, Boeing, DuPont, Coca Cola, Siemens, Volkswagen and BASF, that produce, distribute or sell products, are confronted with two distinct challenges. The first challenge is how to deal with the enormous growth in production capacity, especially in the Far East, which has led to an increasing number of industries operating with excess capacity (DuBois, Toyne and Oliff, 1993). Production skills and resources, once seen as the heart of a firm's core capabilities, are no longer sufficient by themselves to create sustainable competitive advantage. In many industries, organizations nowadays need to combine the efficiency advantage gained through careful management of capabilities and resources with the achievement of market effectiveness (Möller and Törrönen, 2003; Piercy and Rich, 2004; Walters and Rainbird, 2004; Mouzas, 2006). Therefore companies evaluate market opportunities to grow their customer equity. When operating in industries with excess production capacities, the problem that companies face is to keep in touch with changing customer needs. For example, companies operating upstream within a supply chain, providing raw materials, manufacturing or assembly capabilities to other firms, may find themselves distanced from end customers downstream. Often these companies find themselves faced with the need to increase their knowledge and understanding of not only their customers, but their customers' customers; and ultimately end consumers (Cairncross, 2002). For this reason, understanding and managing downstream activities has become a prominent issue (Langabeer and Rose, 2001; Pereira, 2001).

The second challenge that companies face is how to utilize opportunities presented by the technological revolution in computing and the internet. Information technologies have reduced transaction costs of integrating and coordinating activities performed by the different businesses constituting a supply chain (Sharma, 2002). These technologies have become increasingly attractive for achieving control or influence over a business network without taking corporate ownership (Mahoney, 1992; Quinn, 1999, 2000). Web-like structures of firms are formed through complex technological links with multiple firms and individual actors. These have developed from linear supply chains to complex business networks; integrated through seamless information exchanges (Dyer and Hatch, 2004; Hammer, 2001; Thorelli, 1986; Williams, 2005). This has important implications for manufacturers and suppliers. The interconnectivity that business networks imply, suggests opportunities for direct contact with end customers. Examples of firms forming direct relationships with end customers are numerous. Consider the case of a producer of industrial sewing thread supplying a manufacturer for two leading US sports shoe companies (Doyle, 2000). The thread manufacturer's direct contact with end users revealed customer dissatisfaction was invariably due to poor stitching caused by breaks in the thread during sewing operations. The thread manufacturer solved this problem by working with the shoe manufacturer to create better machine maintenance and sewing practices. These changes resulted in fewer thread-breaks, operating costs substantially reduced, and customer satisfaction increased.

These two distinct challenges capture the significant impact of the companies' context. Contextual forces, such as existing overcapacity in a number of industries and regions, or rapid development in information technology, affect customer needs and often cause a significant restructuring of business relationships.

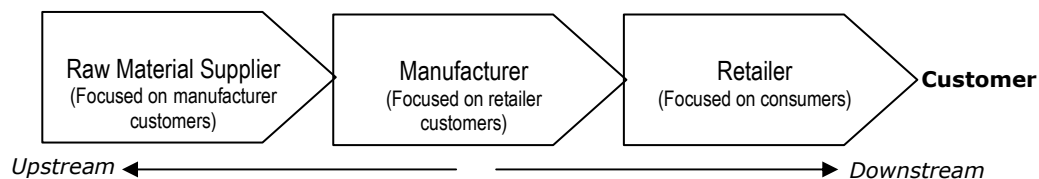
2. Dealing with Problems: The Role of Business Models

To address these two challenges, companies attempt to frame the structure of their business relationships and the way of adapting quickly and seamlessly to changing customer needs. In other words, companies use business models as frame for their decision making. Companies face difficult decisions with regard to the management of their business relationships; they need to decide how much resource they should commit, when and with whom. The decisions managers make about these issues provide a 'frame' for the structure of their business relationships and the way of how to address customer needs. Research has shown that the way difficulties or problems are framed, affects the decisions managers and executives make (Bazerman 1984; Fiss and Zajac 2006; Tversky and Kahneman 1981). Similarly, it might be argued that the way business relationships are framed affects

both the decisions and actions that managers take regarding their business network and, more specifically, their business models.

While companies frequently use the term ‘business model’, this term rarely appears in academic research (Schweizer, 2005). Researchers invariably describe ‘business models’ from a structural perspective. They often circumscribe a business model as an ‘economic model’, ‘revenue model’, ‘design’, ‘concept’, or ‘architecture’ (Morris, Schindehutte and Allen, 2005). In keeping with many economists, Maddigan (1981) explores business models through an investigation into corporate ownership of supply chain stages. Similarly, Harrigan (1986) recognizes the multidimensionality of corporate ownership, identifying five dimensions of the construct: direction, stages, breadth, degree and form. A key reason why researchers studied corporate ownership emerges from the failing business models of the 1950’s and 1960’s. At that time, firms protected themselves from uncertainty of supply and sought economies of scale through corporate ownership of the entire supply chain (Chandler, 1969). By the 1980’s the business environment had become increasingly competitive. Firms explored cost cutting and efficiency drives by reducing corporate ownership of supply chain stages. This resulted in a dramatic shift towards de-integrated supply chains. Companies started to pursue outsourcing policies (c.f. Earl and Khan, 2001; Porter, 2001) and develop transactional relationships with firms. This de-integration resulted in sequential business models (Harrigan, 1983, 1984, 1985, 1986) which organize added value processes through a carefully timed sequence of events (see Figure 1). Lee et al. (1997) describe the significant difficulties associated with sequential business models as ‘the bullwhip effect’. The bullwhip effect is the result of distortion caused by changing information passing along the supply chain, causing high variability in demand upstream, despite the downstream, end customer demand, remaining comparatively constant.

Figure 1: The Sequential Business Model

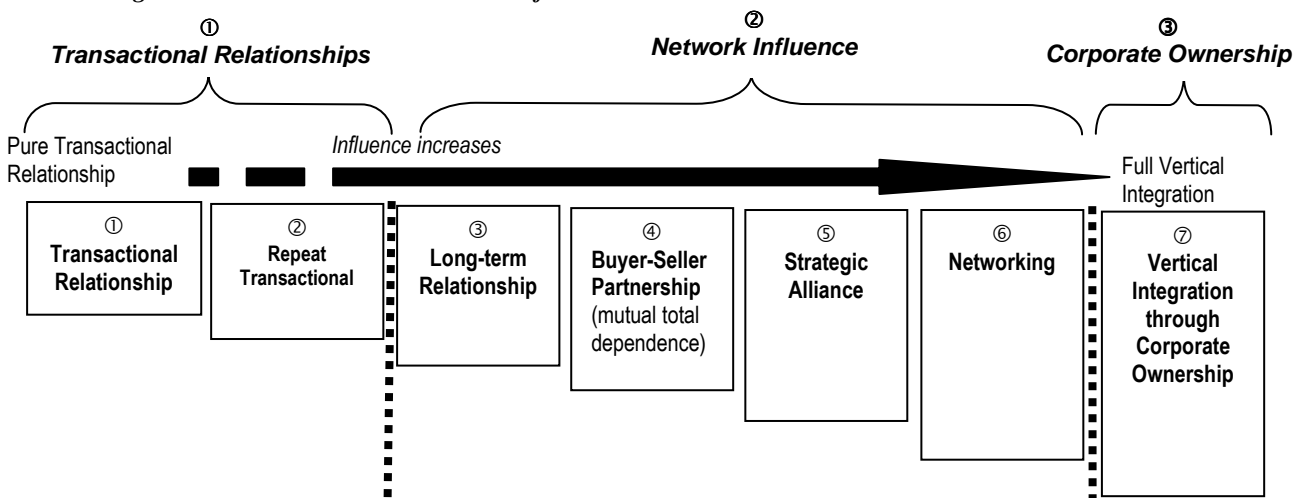


More recently, companies have attempted to overcome the problem of bullwhip upstream by intensifying interaction and information sharing with multiple actors (Håkansson and Ford, 2002). Hewlett Packard (HP), for example, recognized the duplication and poorly coordinated efforts of companies, and attempted to integrate the surrounding business network to provide a single unified process (Hammer, 2001). In this way, timely and coordinated information exchange regarding end customer behavior helped HP to transform quickly. The HP case illustrates that in dealing with business problems, companies take a network perspective. Moreover, the case demonstrates that companies recognize resources are not available in a concentrated form. Resources that companies need usually reside within other companies in their surrounding networks and companies can only access these resources through business relationships (Barney, 1986; Denrell, Fang and Winter, 2003; Ford and Håkansson, 2006). The case also demonstrates that over the past decade the availability, affordability and versatility of information technology has pressured companies to rethink their existing business models as they seek to become more effective in the market place. This requires the development of business models that allow companies to respond to rapidly changing customer needs. The underlying assumption for this observation is the belief that companies must continually realign to evolving markets; and thus keep pace with rapid changes in customer demands (Kohli and Jaworski, 1990). In other words, companies need to identify their customer needs and source suppliers in such a way as to best satisfy those needs (Baker, Simpson, and Siguaw, 1999; Deshpandé and Farley, 1999; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992). Consider for example a supplier of raw materials for laundry and cleaning products operating upstream of the supply chain, and a distributor of fast-moving consumer goods that operates downstream of the same supply chain. Do these two companies need to develop different business models? Can we identify a link between the way firms structure their business relationships and the way they satisfy customer needs?

3. Structural Dimensions of Business Models

The structural dimensions of business models, identified in this paper provide three distinct ways of framing business relationships, as: i) transactional relationships, ii) network influence or as iii) corporate ownership. In this regard, the structural dimensions are used to explore how business relationships are framed to form the foundation of business models. The three ways of framing business relationships share similarities with Webster’s ‘relationship continuum’, from pure transactions to full vertical integration (Webster 1992). Webster’s seven relationship types are grouped into three categories: specifically, pure transactions and repeat transactions are described as ‘transactional relationships’; long term relationships, buyer-seller partnerships, strategic alliances and networking as ‘network influence’; and vertical integration through corporate ownership as ‘corporate ownership’. This classification allows analysis of how companies frame business relationships upstream and/or downstream within their business networks (see Figure 2).

Figure 3. The Structural Dimensions of Business Models

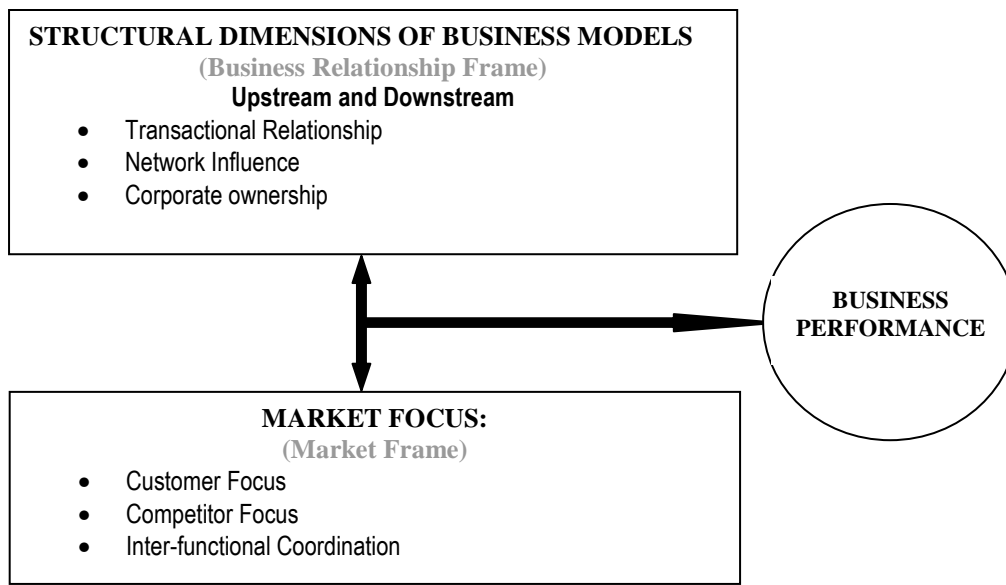


The structural dimensions are conceptualized to show an association with the way of how companies frame their approach to markets (market focus) and the outcomes of these frames in terms of business performance. The three dimensional construct of market focus shares similarities with the ‘market orientation’ approach (Kohli and Jaworski, 1990; Narver and Slater, 1990). However, our conceptualization recognizes that companies seek to align not only their own organization with the immediate market demands but also their organization’s web of business relationships with suppliers and customers. Using the concept of ‘framing’ (Bazerman 1984; Fiss and Zajac 2006; Tversky and Kahneman 1981), we consider the structural dimensions of business models as the ‘business relationship frame’ and the market focus elements as the ‘market frame’ (Figure 3).

Our conceptualization emerges from a direct conflict between theoretical concepts and empirical observation, and attempts to fill existing gaps in the body of knowledge. The outcome of applying the interaction between the business relationship frame and the market frame is expressed in terms of companies’ business performance. Starting from the premise that, “what you measure is what you get” (Kaplan and Norton, 1992:71), we acknowledge that no single measure can provide a precise picture of business performance. Invariably companies use objective measures of assessing their business performance. Many companies, for example, use accounting-based indicators such as ratio or cost analysis, or focus on an investment valuation method (Kaplan and Cooper, 1998; Mouzas, 2006). The majority of studies interpret and measure business performance in terms of financial performance (Greenley, 1995; Narver and Slater, 1990; Pitt, Caruana, and Berthon, 1996; Siguaw, Simpson, and Baker, 1998; Sin, Tse, Yau, Chow, and Lee, 2003). This study follows the example of Narver and Slater (1990) and uses ‘return on assets’ as a measure of business performance. Return on assets is consistent with companies’ efforts to achieve a balance between market effectiveness and operational efficiency (Mouzas, 2006).

In sum, the study explores business models as the emergent outcome of preconceived network structures. Business models frame and thus support problem solving for firms. They represent how firms frame their position and activities within business networks. In this way, business models represent stories that explain how companies work. A business model has therefore a specific morphology (structure of relationships), a number of focal dimensions (market focus) and outcomes (business performance) that describe how value is created and reconciled (Magretta, 1998).

Figure 3: Structural Dimensions of Business Models and the Association with Market Focus and Business Performance



4. Research Methods

We adopted an exploratory-descriptive research design using semi-structured interviews as the primary form of data collection. We used a cross-section of sectors, with a bias towards larger companies. Larger companies appear to experiment more with developing business models – relevant to the focus of this study. In this way, we designed a matched pairs sample of twenty high performing (taken from the Financial Times 1,000 list) and twenty low performing firms in the United Kingdom (see Table 1.). After selecting twenty high performing firms, we identified a corresponding, competing low performing, firm for each high performing firm.

In-depth interviews facilitated the main data collection. In each organization, at least two separate interviews were undertaken; the number of interviews totalling 101. Each interview typically lasted one hour, although one interview was six hours. We recorded and transcribed each interview. The analysis of data collected placed a significant emphasis on informants' verbatim quotations. All recorded interviews were analysed via methods of inductive reasoning and comparative methods.

At the beginning of each interview we used the Narver and Slater (1990) scale to ascertain the perceived level of market focus. On the basis of this scale, we classified firms as having high, medium or low levels of market focus. We also collected data about each firm's business performance relative to its competitors. This enabled us to classify companies as high or low performing. A high business performance usually reflects higher levels of operational efficiency and market effectiveness (Mouzas, 2006).

The remainder of the interview consisted of open questions to identify the structural components of firms' business models and their ability to deliver 'market focus'. By using the Narver and Slater (1990) scale, we could identify the relevant dimensions of market focus as well as the achieved level of market focus. Nonetheless, the scale does not reflect how practitioners associated the development of their business model with the need to be market focused. The interview aimed to bridge this gap and generate insights into how and why business models emerged.

We paid particular attention to key issues regarding judgment sampling; identifying and gaining access to key informants who provided genuine insights into the research issue. In this regard, a requirement of the research design was to discover who was responsible for the design, development, and implementation of business models with regard to subsequent mechanisms to capture required data. Middle managers and executives were relevant sources for achieving this objective, as their day-to-day involvement with strategic development cast them in this role.

Table 1: Sample by Industry Sector

Industry Sector	No. of Firms by Industry Sector	Interviewees
Pharmaceuticals	6	General Managers
Aerospace	2	Business Managers
Food Manufacturers/ Provider	8	Key Account Managers
Apparel Manufacturer	4	Purchasing Managers
Retail	4	Category Managers
Construction	6	Marketing Managers
Health and Beauty Products	4	Trade Marketing Managers
Industrial Parts/ Electronics	6	Sales and Marketing
		Directors
		Managing Directors/CEO's
TOTAL	8	101

5. Empirical Study: Overview of empirical findings

The following section presents an overview of empirical findings for the matched pairs sample of twenty high performing and twenty low performing firms. We review six business models: Network Influence Model, Transactional Model, Franchise Model, Agent Model, Sales-Led Model, and Retail Model. These business models and their corresponding business performance are detailed in Table 2. We categorized firms according to 'majority usage' of network influence, transactional relationship or corporate ownership in the business model. This approach provides the scope to investigate the types of relationship that might be most conducive to a stronger customer focus, competitor focus, inter-functional coordination (Table 3) as well as business performance.

Table 2: A Summary of the Business Models Identified

Type of Business Model	Structural Components of Business Models		Business Performance		Total No. of firms adopting each Business Model Type
	Upstream	Downstream	Level	No. of firms	
Network Influence Model	Network Influence	Network Influence	High	1	18
			Low	2	
Transactional Model	Transactional Relationship	Transactional Relationship	High	0	3
			Low	3	
Franchise Model	Network Influence	Corporate Ownership	High	7	8
			Low	1	
Agent Model	Network Influence	Transactional Relationship	High	1	4
			Low	3	
Sales-Led Model	Transactional Relationship	Network Influence	High	2	4
			Low	2	
Retail Model	Transactional Relationship	Corporate Ownership	High	1	3
			Low	2	
Total					40

Our findings suggest that the greater the level of integration downstream, whether that integration was achieved through corporate ownership or long-term relationships, then the greater that firm's market focus. This suggests that corporate ownership and long-term relationships might be considered as isomorphic (Mahoney, 1992). Furthermore, downstream integration, most probably because of positive association with market focus, is associated with increased network influence. For this reason, a firm demonstrating strong market focus is also likely to benefit from increased business performance. In the majority of cases investigated for this study, such firms had high performance within their matched pair. Conversely, firms that pursued transactional relationships downstream fared less well on the market focus and business performance criterion. They demonstrated distance from the market place, having a poor knowledge of their customer base (and subsequent consumers). This lack of knowledge often resulted in dissatisfaction with the supplier performance by downstream network members.

Table 3: Customer Focus, Competitor Focus and Inter-functional Coordination

Type of Business Model	Structural Components of Business Models		Market Focus			
	Upstream	Downstream	Level	No. of firms		
				Customer Focus	Competitor Focus	Inter-functional Coordination
Network Influence Model	Network Influence	Network Influence	High	11	8	6
			Medium	5	4	8
			Low	2	6	4
Transactional Model	Transactional Relationship	Transactional Relationship	High	0	0	0
			Medium	1	1	3
			Low	2	2	0
Franchise Model	Network Influence	Corporate Ownership	High	5	7	6
			Medium	3	1	1
			Low	0	0	1
Agent Model	Network Influence	Transactional Relationship	High	1	1	0
			Medium	1	2	3
			Low	2	1	1
Sales-Led Model	Transactional Relationship	Network Influence	High	2	2	2
			Medium	1	1	1
			Low	1	1	1
Retail Model	Transactional Relationship	Corporate Ownership	High	2	2	1
			Medium	0	0	1
			Low	1	1	1
Total				40	40	40

Upstream, the distinction between the integration approach and the level of market focus and business performance achieved was less clear-cut. Firms adopting long-term and transactional relationships upstream were in both the high and low performance groups. Interviewees emphasized outsourcing as a primary reason for cost savings, and suggested that this was likely to increase with the business model's development. None of the cases adopted ownership upstream. The findings suggest that transactional relationships upstream are strongly link with the traditional efficiency perspective of networks. Upstream transactional relationships were linked with some high performing firms. High performing firms adopting transactional relationships upstream tended to be firms that were purchasing commodities. Six firms in the sample adopted transactional relationships

downstream. Only one was a high performing firm. This unexpected finding was explained by the firm as being a peculiarity of the industry sector.

Some of our low performing firms were not necessarily low performing firms but rather lower performing firms when compared with the market leader matched pair. This, however, did not conflict with market focus findings.

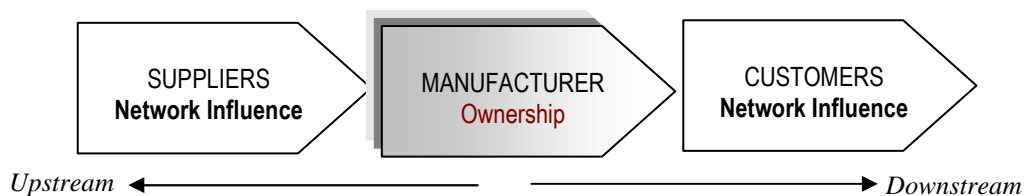
6. Discussion of Empirical Results

The following discussion addresses the six business models identified within the matched pairs of twenty high performing and twenty low performing firms. We describe the structural components of each business model in-turn and examine their link with a) customer focus, b) competitor focus and c) inter-functional coordination, as well as business performance.

6.1 Network Influence Model

The structural components of the Network Influence Model include network influence upstream and downstream within the business network. Empirical findings indicate that upstream network influence exists with raw material and component suppliers despite a tired supplier system to priorities some relationships. All firms developing this business model are involved with manufacture and/or assembly of products and have downstream relationships with wholesalers and/or retailers (see Figure 4).

Figure 4: The Network Influence Model



The objectives of delivering customer satisfaction, monitoring customer needs, and creating customer value are fundamental to creating customer focus. One of the ways in which firms sought to be customer focused was by building relationships directly with end customers. They used customer information to create and propose new solutions to end customer needs. Consider the case of the leading cereal manufacturer Kellogg. The company is aware of the added value derived from their brand and the leverage this gives them within downstream inter-firm relationships. The way that the manufacturer targets key customer groups demonstrates this. The manufacturer first defines the market and then focuses resources in developing solutions to serve customers. Consumer information sharing between manufacturer and retailer has led the cereal manufacturer to identify new opportunities in the business of 'Ready to Eat Cereals', resulting in the introduction of Frosties, Snacks and Coco Pops bars.

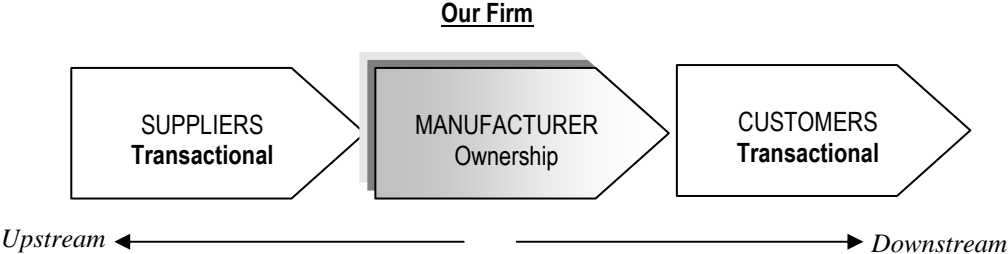
High performing firms that had developed a Network Influence business model provided greater evidence of inter-functional coordination than low performing firms. Low performing firms were particularly poor at sharing information on customer experiences between other functions. They also had little understanding of how the different functions within the firm could contribute to improvement of product and service offerings. The high performing firms that were developing this business model reported high levels of new product success, sales growth, customer retention, and brand equity. Returns increased largely through cost saving and efficiency exercises, which frequently involved business model considerations that included increased outsourcing and higher margins on products. Firms cited specific examples of business performance improvement exercises. The cereal supplier-manufacturer-retailer network supports relationships with Electronic Data Interchange (EDI) systems to facilitate efficiency and visibility. EDI shares information between network members that influence operating decisions. This illustrates one way in which firms sought to leverage business performance by building influence within their business network.

6.2 The Transactional Business Model

Structural components of the Transactional Business Model include transactional relationships upstream and downstream. Firms in this group buy and sell on the basis of price, quantity and

delivery agreements. Upstream transactional relationships included raw material and component suppliers. As with the Network Influence business model, downstream customers included retailers and wholesales. All cases in this group involved manufacture and/or assembly (Figure 5).

Figure 5: The Transactional Business Model



Three out of the forty firms interviewed were developing this business model. No common industry sector existed amongst them. However, the products purchased in all cases included commodities (milk, sugar, fabrics, cotton, and chemicals, salt). All firms adopting this business model were low performing (Table 2). Managers and executives were aware that their organisations had business performance problems. More surprising was their willingness to link their business model to poor business performance, customer focus, competitor focus, and inter-functional coordination. All three firms demonstrated poor market focus; specifically poor competitor focus and inter-functional coordination. They were production-led. Consider the case of a manufacturer of slippers. The seasonal nature of their key product range (slipper sales are very seasonal, peaking in autumn and Christmas) required that they outsource the sales function to agents. This enabled them to control the sales function as a variable cost rather than a significant fixed cost. Managing the agents was ‘a real problem’. Sales agents proved difficult to monitor and control. Sales agents had limited motivation and their priorities differed from those of the supplier. However, the slipper manufacturer felt trapped into using sales agents in order to reduce costs. Cheap imports have flooded in and shrunk the slipper manufacturer’s traditional marketplace. The mismatch between the perceived and actual needs of the end-customer, have created a significant problem for the slipper company. Forming long-term relationships with their downstream customers could have helped predict this change in the marketplace. The use of a transactional relationship downstream appeared to have prevented customer focus.

Difficulties experienced with implementing new technology and the lack of existence of technology seemed to be hampering inter-functional coordination. BMS, the largest SAP customer in the world, for example, introduced the software application suite to their purchasing department. Their objective was to gain visibility between functions of stock, work in progress and material requirements. Automated stock-ordering required regular amendments by phone or fax. Customers pressed for shorter lead times and changes to methods of transaction, as well as changes to quantities and packing requirements. SAP gradually facilitated these improvements and this resulted in identification for downstream long-term relationships between BMS and their immediate customers. In this regard, identifying the need for market focus represents a need to develop a business model.

All firms in the sample that adopted the Transactional Business Model appear as low performing firms; being reflected in the self-reported business performance results within this group. All three firms reported that their return on assets, return on equity, new product success, sales growth, customer retention, and brand equity were no more than 25 per cent better than their competitors. The matched pairs typically reported between 41 per cent and 55 per cent improvement over competitors’ performance. Only one firm reported high levels of customer satisfaction.

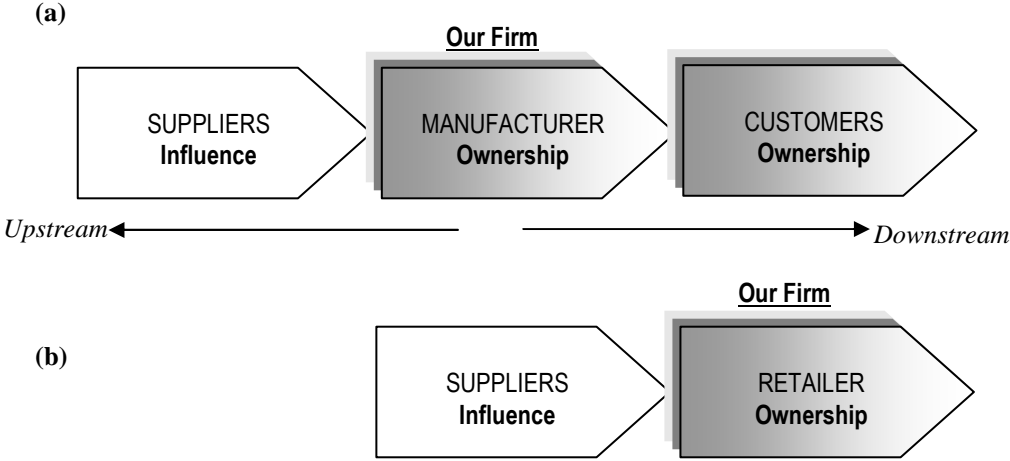
6.3 The Franchise Business Model

The structural components of the Franchise Business Model include network influence upstream and corporate ownership downstream (Figure 6). Eight firms adopted this business model. Seven of the eight firms identified at the sampling stage had high performance. Seven of the eight were involved in manufacture of goods. Two of the seven manufacturers in this group had integrated into retailing downstream (Figure 6a); one high performing retailer who had no history of manufacture

(Figure 6b) also adopted this business model. The firms in this group were not specific to a single industry sector or product type; they ranged from pharmaceuticals to footwear.

Consider the case of a traditional British shoe manufacturer. The company boasted a 175 years history of manufacturing, but over the past fifteen years had increasingly outsourced manufacturing. The shoe manufacturer now focuses on retailing through a series of high street shoe shops which trade under their own brand name. As recently as six years ago 70 per cent of manufacturing output came from their own factories and 30 per cent was sourced off-shore. Today, that situation had almost completely reversed.

Figure 6: The Franchise Business Model



Firms adopting the Franchise Business Model had a high level of market focus and in particular customer focus. They had awareness of the need to understand end customer needs and with the exception of one oil company, had monitoring systems in place. The loyalty card is one of the most complex examples of monitoring; recording every item sold to individuals each time the card is used. In exchange, the program has incentives that benefit purchasing habits.

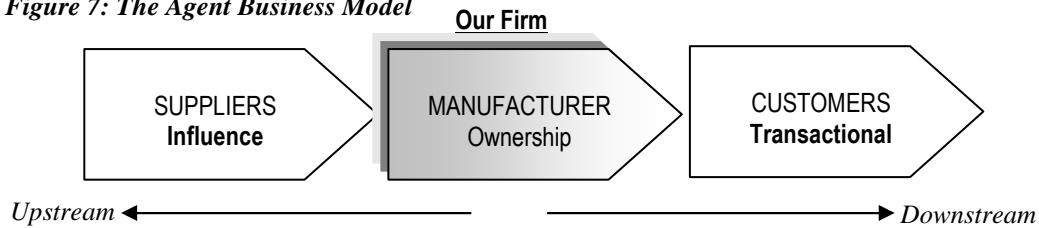
Managers consider that downstream ownership increases market intelligence. This in-turn affects inter-functional and inter-firm coordination. This group of firms demonstrate a high level of inter-firm coordination (Table 3). The retailer Tesco, for example, specifically identified this area as being ‘critically important’, stressing the significance of managers regularly visiting customers. Equally, the importance of all firms within the supply network understanding the end customer needs was emphasized. For example, Tesco worked in partnership with a manufacturer of fruit drinks. The manufacturer managed to persuade Tesco of an identified gap in the market for a new product that looked like a fresh juice drink (to appeal to the health conscious purchasing parent) but being really a squash (to appeal to the fashion conscious, taste conscious child). The retailer helped market-test the fruit drink. The fruit drink resulted in becoming one of the most successful new product launches that year.

The business performance data collected during interviews confirmed the matched pairs divide on high and low performance. All seven high performing firms in this group, reported return on assets, return on equity, new product success, sales growth and customer retention to be higher than their competitors. No firm considered the development of business models to improve business performance. Specifically, firms did not consider developing network influence downstream.

6.4 The Agent Business Model

The structural components of the Agent Business Model included network influence upstream and transactional relationships downstream (Figure 7.). This group of firms could usefully be described as ‘supplier focused’ firms. These firms formed long-term relationships upstream that resulted in the creation of network influence, but sold their products downstream through transactional relationships on the basis of price, quantity and delivery agreements. In all cases firms had been involved with the manufacture and/or assembly of products.

Figure 7: The Agent Business Model



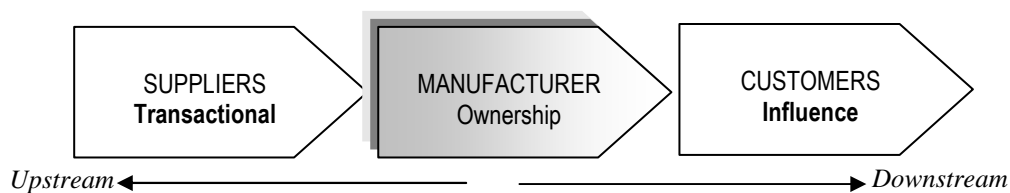
Four of the forty firms examined adopted this business model. Three of the four formed part of the low performance sample. Overall, the companies in this group viewed transactional relationships downstream negatively. Managers were aware of the potential advantages of developing business models that would incorporate long-term relationships with their customers. However, the study identifies two inhibitors. First, in order to develop market focus, the activities of firms within this group were directed at the consumer (or end customer) and not the immediate customer. In this way, the market intelligence generated by firms represented ‘snap-shots’ of consumer needs. Furthermore, consumer insights generated by the downstream organisation who continuously managed the consumer interface, were not shared or used to inform business or market strategy upstream. Second, managers perceived that they simply did not have the resources to do more for customers.

The low levels of customer focus found in downstream transactional relationships (Table 3) confirmed a problem with generating market intelligence. For example, a manufacturer of vitamins had a consumer helpline that was their only contact to the outside world. In the group of companies that used the Agent Business Model, customer contact was generally restricted to the relationship between sales representatives and buyers. The firms in this group were aware of significance of creating customer value, but with limited sharing of information between firms and functions, they had little notion of how to deliver value. Competitor focus was low in all cases except for one pharmaceutical company. Similarly, levels of inter-functional coordination were typically low for firms in this group. Low performing firms reported low levels of business performance compared with their competitors for return on assets, return on equity, new product success, sales growth, customer retention, and brand equity.

6.5 Sales-Led Business Model

The structural components of the Sales-Led Business Model included firms with transactional relationships upstream and network influence downstream (Figure 8). In all cases, firms undertook manufacture and/or assembly of products; and as such were labelled as having corporate ownership of that supply chain stage.

Figure 8: The Sales-Led Business Model



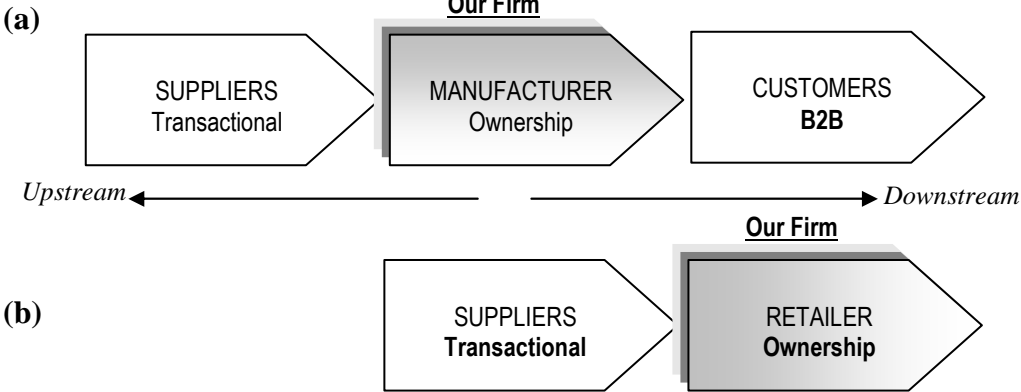
Four firms that purchased commodities adopted this business model. Two of the firms had previously been identified as high performance firms and two as low performers. The high performing firms in this group had a higher level of market focus than the low performing firms. Two firms reported particularly high levels of customer focus, and both claimed that their strategies were driven by a belief in creating value. The high performing firms reported higher levels of inter-functional coordination compared with the low performing firms in this group. Consider two high performing manufacturers Mallinckrodt and Tate and Lyle. Both companies attached significant importance to managers regularly visiting customers, and the need to share customer information between functions within their organisations. The business performance data confirmed the split between high and low performing matched pairs. Mallinckrodt and Tate and Lyle reported significantly higher returns on

assets and sales growth than their competitors. The development of the Sales-Led Business Model is associated with fostering relationships with customers while sourcing supplies to service, identified customer needs as quickly and efficiently as possible. For this reason companies adopting this business model are likely to achieve higher business performance if they operate in industries purchasing commodities.

6.6 The Retail Business Model

The structural components of the Retail Business Model included transactional relationships upstream and corporate ownership downstream (Figure 9). Downstream customers of firms in this group included retailers, wholesalers, and business-to-business customers. In all these cases firms manufactured and/or assembled products having ownership of that supply chain stage as well as customer facing stages.

Figure 9: The Retail Business Model



Three firms in the study adopted this business model. They operated in industries such as oil/construction, aerospace and retail. One firm was a high performing firm; the other two were low performing firms.

Consider the case of two companies with strong market focus: Aerospace company Avico and oil/construction company Shell. Both Shell and Avico demonstrated strong customer focus; and customer satisfaction guided their business objectives. Shell and Avico had customer service monitoring systems in place and systematically measured customer satisfaction. Nonetheless, Shell was a high performing firm while Avico was a low performing firm. This was surprising because we expected that the high performing firm (Shell) would have a strong market focus while low performing firms would have a much lower market focus. Although we consider Avico a low performer compared to their matched pair firm (Silicon Systems), Avico performed moderately well when compared with other competitors. Avico had a clear approach to creating shareholder value through a programme of new product development, market penetration and cost reduction. Avico’s managers stressed the importance of market intelligence, which they considered a significant factor in creating shareholder value and reducing risk to the organisation.

Consider also the case of a retailing company with weak market focus. Retailer Sunnyfields demonstrated low business performance. The study provides some evidence of customer focus. For example, the retailer bought consumer research information from professional research institutions and managed to run their own customer focus panels. This involved customers invited to comment on product lines, merchandising techniques and pricing policy for stores at the local level. Nonetheless, the company admitted they gave little attention to after sales service and had not developed any competitive strategies around customer needs. Hence, the retailer demonstrated low levels of competitor focus and inter-functional coordination. We may describe Sunnyfields’ actions as ‘fire fighting’ because they were not responsive to competitors’ actions and were not targeting customers to gain competitive advantage. The case provides an example of problems typically experienced when firms fail to develop strong inter-functional coordination. Firms such as Sunnyfields have two key difficulties: a) making information available across functions; this means the information is not easily accessible, relevant or in a useable format; and b) dedicating the necessary resources to support

business operations. Hence, duplication of work is common; and this provides extensive opportunities for error.

Both poor performing firms, Avico and Sunnyfields had a low level of inter-functional coordination. This is perhaps more surprising in a downstream vertically integrated firm where one might expect information sharing and communications to be easier within a firm, than between firms coordinating information sharing across enterprise boundaries.

The data collected verified the divide between high performer and low performer in the matched pairs sample for this group. Shell performed better than their competitors in the bitumen sector. Shell's managers considered that they had extremely satisfied customers. They believed their ability to deliver shareholder value to be high, and had a comprehensible approach, with two key objectives driving this: namely, new product development and cost reduction. The retailer had the poorest performance in this group. Considering the retailer's low level of market focus this was not surprising.

7. Conclusions and Implications

Building on an empirical investigation of a matched pairs sample of twenty high performing and twenty low performing firms in the United Kingdom, the present study generated some useful insights into the role of business models in framing business relationships. Analysis of empirical findings reveals the existence of six distinctive business models that differ in their ability to provide a new response to a continuously changing environment. The identification of these business models contributes in five key areas.

First, the present investigation demonstrates that companies seek to align not just their own organizations with the immediate market demands, but also their organizations' web of business relationships with suppliers and customers. This two tiered approach adds to the existing theories of market orientation (Helfert, Ritter, and Walter, 2002; Narver and Slater, 1990), as well as to current network theory (Gadde, Huemer, and Håkansson, 2003; Gnyawali and Madhavan, 2001; Ford and Håkansson, 2006).

Second, the present study shows that business models require downstream integration to enhance business performance. The empirical observation that integration can be achieved through either corporate ownership or the development of network influence downstream, is consistent with earlier theories which suggest that well managed inter-firm relationships and corporate ownership are isomorphic in nature (Mahoney, 1992). This study reveals that positioning of network influence or corporate ownership downstream facilitates and promotes a vital interface with the end customer. The need for integration has implications for the way managers conceive and manage their network relationships downstream. In this regard, identifying and working with key customers to create a new ethos of cooperation that seeks to maximize the creation of joint gains amongst firms, will form a central part of the development process of business models.

Third, downstream integration within a business model needs to be accompanied by inter-functional coordination. While existing theories consider inter-functional coordination at the level of the individual firm (Narver and Slater, 1990), this study demonstrates that inter-functional coordination goes beyond the boundaries of the firm into the wider business network. For this reason, business models provide a new mindset that conceptualizes inter-functional coordination not only at a firm level but also at business network level.

Fourth, business models are usually initiated when firms avoid corporate ownership upstream. We may attribute this to transactional relationships and network influence upstream. Transactional relationships upstream offer firms the opportunity to source the most cost efficient supplies. Maximum cost efficiency appears to be linked with the sourcing of commodities; especially when firms buy on quality and price. The need for upstream cost efficiency through transaction relationships has implications for companies where the supplies sourced are commodities. Here, companies could seek to map these markets and reach purchase decisions based on cost and quality criteria. In commodity markets, usually switching cost is low and competition is high. Therefore, companies need to review regularly the efficiencies created through these transactional relationships.

Network influence upstream towards sources of supply, offers firms the opportunity to identify technological innovation through a process of intensified interaction with suppliers. Such product innovations may open the doors to business opportunities and drive market change. This may

provide opportunities for companies to develop innovation through an enhanced involvement of suppliers in generating customer solutions. In this regard companies need to identify and develop network relationships that allow them to leverage more effective customer solutions.

Fifth, developing business models requires a) structures that define the connectivity among network members, and b) routines and processes developed to support the structures. In this way, routines and processes, such as the collection, sharing and dissemination of market data among network members, constitute the pumping of blood into the veins that structurally connect the firms comprised in a business model.

Business models deliver a useful mindset for how companies frame their 'business relationships' and 'market focus' as they seek adapt to continuously changing customer needs. Further research in this area would enrich our knowledge about how companies initiate, test and implement business models. Such a research endeavour would require further investigation of the following areas: first, business models often crossover national boundaries. The influence of country culture is likely to affect the implementation of business models. In this regard an exploration of business models that incorporate firms from more than one national base is likely to be informative. Second, understanding is required about the inherent processes and routines developed to bring business models to life. Such an inquiry might be most effective through an in-depth, longitudinal examination of the implementation of a single, business model. Third, as companies develop business models and experiment with their implementation, we may investigate the learning process that organizations go through when frame business relationships and seek to align to their markets. Of course, we can investigate many additional areas with regard to the development of business models and the number of new challenges that organizations face. The ideas and topics that wait for exploration are indeed unlimited. The present study has, hopefully, provided a platform to start this new exploration.

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