

## **LINKING BUSINESS MODEL AND MARKETING RESEARCH FOR SUCCESSFUL BUSINESS MODEL INNOVATION**

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### **ABSTRACT**

#### **Introduction**

Business model (BM) research currently represents rapidly developing area of knowledge that helps businesses in finding new sources of competitive advantage and growth drivers. Multiple studies demonstrate that BM studies are multidisciplinary by their nature as this helps better understanding complex processes happening in real life that are described by BM research (Zott, Amit, Massa, 2011; Tikkanen et al, 2005). This means that BM research is built on a basis of strategic management, marketing, sociology, psychology, logistics, institutional economics and other disciplines. Regardless the growing amount of publications in this area (more than 6 times growth for the last 15 years reaching 2100 publications per year according to Scopus) the amount of successful BM in practice remains low. BM studies are primarily linked to the notion of value that is jointly created for the final consumer by multiple participants of the value chain (suppliers, manufacturers, distribution channels). Within the interaction of BM participants the key role is played by their orientation towards the interests of the final consumer who makes the decision on whether to acknowledge or not the created value. As value chain generally consists of multiple commercial organizations, their major interest is in making profits as a result of joint value creation activities. Therefore the key role in BM analysis is played by marketing that helps searching and offering such values for the customer that enable satisfying his needs. Multiple research in marketing confirms that long term customer orientation, cooperation of value chain actors offer companies better development opportunities and lead to better financial results as well as help increasing value generated for the final consumer. However, the current level of marketing involvement into the BM research remains low. This, in turn, significantly limits the opportunities of creating successful and sustainable BM that bring profits to the commercial units of the value chain and satisfy the needs of the final consumer. To address the existing gap the current paper explores the links between BM research and marketing which are then used to develop a new approach to BM innovation. The approach is based on value chains and interfirm relationships.

#### **Literature review**

Regardless large and steadily growing amount of BM publications the questions related to building a unified theoretical basis for BM research are still under discussion (Teece, 2010; Zott, Amit, Massa, 2011; DaSilva, Trkman, 2014; Baden-Fuller, Mangematin, 2015). There is a lack of alignment between the researchers on a broad spectrum of questions (such as BM definition, BM components, the relation between BM and company strategy, BM boundaries, the impact of various BM types

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on company performance etc). At the same time some consolidation of researchers' positions can be observed in relation to the domination of a value component within BM definition.

The questions related to BM analysis that enable to evaluate the current state of a BM, understand its key components (Hamel, 2000; Johnson, Christensen, Kagermann, 2008; Teece, 2010) and find better opportunities for BM improvement (Osterwalder, Pigneur, 2010; Girotra, Netessine, 2014) are actively researched. Many authors come to a conclusion that a BM spans the boundaries of a single firm and includes a whole complex of interaction participants – suppliers, distribution channels, final consumers. This is because cooperation of various market participants enables to significantly increase jointly created value for the customer (Nenonen, Storbacka, 2010; Zott, Amit, Massa, 2011). This understanding of a BM also leads to the need of thorough analysis of mismatches and inconsistencies between value chain participants that regularly appear in the business (Gassmann, Frankenberger, Csik, 2013; Girotra, Netessine, 2014).

Regardless the existing variety of BM studies, most of the papers draw the attention to the process of value creation for the final consumer, which is a zone of marketing interests, as marketing studies the directions of identifying and satisfying customer's needs. Therefore it is hard to imagine building successful BM oriented on the final consumer and bringing stable income to the companies participating in the BM without organic inclusion of the customer into the value chain by using methods and tools from marketing. These questions are studied within multiple relationship marketing papers (Parvatyar, Sheth, 1995; Gumesson, 1999; Juttner, Christopher, Baker, 2007; Tretyak, 2013). However, nowadays the involvement of marketing researchers in BM studies is low (only 5% of BM studies are published in marketing journals (Coombes, Nicholson, 2013)) which is also confirmed by the current study.

Despite the very broad spectrum of studied questions, the importance of value acknowledgement by the customer is neglected by BM researchers. At the same time in case the value is not acknowledged, the BM loses its commercial value for the other participants as it stops bringing them profits. Therefore there is a growing need to incorporating the final consumer into the value chain, understanding its interests. This is possible in case of using the results of marketing research which is demonstrated in the current study.

### **Research design**

To explore the link between marketing and BM research we review the literature on relationship marketing that is specialized on the value creation process for the customer, inclusion of the customer into the value chain, cooperation and coordination of value chain participants (Parvatyar, Sheth, 1995; Gumesson, 1999; Juttner, Christopher, Baker, 2007; Tretyak, 2013).

The similarities between BM research and marketing were examined from two sides. The first examination analyzes the publications statistics of BM papers. We particularly look at the amount of BM publications in marketing journals. The classification of journals by different categories is conducted according to Scientific Journal Rankings (SJR) list. For the purpose of this analysis we use Scopus publications database and all the available articles with "business model" in title published before 2018. The relative "typicality" of these papers and journals is evaluated using citation index (number of citations per article/journal divided by total number of citations). Along with this we analyze not only journals which publish BM

articles, but also the journals referring to them. The second examination looks into the actual similar attributes of marketing and BM research.

The BM literature is studied through the prism of seven schools of thought that are recently proposed by (Gassmann, Frankenberger, Sauer, 2016): Activity system school (Zott, Amit), Process school (Demil, Lecocq), Cognitive school (Baden Fuller, Morgan), Technology-driven school (Chesbrough, Teece), Strategic choice school (Casadeus-Masanell, Ricart), Recombination school (Gassmann, Frankenberger, Csik), Duality school (Markides, Charitou). These seven schools provide a comprehensive outlook on major BM research tendencies that help in understanding of BM essence, structure, components, goals and objectives, BM performance evaluation, and the directions of future BM studies. Additionally to better understand BM key research trends we analyzed top 25 most cited publications according to Scopus and Ebsco publication databases (the publications with “business model” notion in title were selected). For the purpose of theoretical analysis we applied the methods of comparison, generalization, methods of grouping and classification. The basis of the current research is formed by value chains studying methods that are used in both BM and marketing studies.

### **Results and conclusions**

The analysis of BM research demonstrated that BM spans the boundaries of a single firm and includes the whole complex of interaction participants that jointly create and deliver value to the final consumer - suppliers, manufacturers, distribution channels. Because of that multiple BM research papers focus on the analysis of the value chains and intercompany networks. Understanding of these specifics formed the basis of a new approach to BM innovation.

It is demonstrated that the existing approaches to BM analysis and improvement don't include the final consumer as a specific BM component, and don't focus the attention on fulfilling his needs as well as building the mechanism of BM actors' interaction in accordance with customer's needs. At the same time the acknowledgement of the value by the customer defines the financial wellbeing of BM actors. Addressing these questions can significantly improve BM performance and can be done through building a link between BM research and marketing.

The analysis demonstrated that only 6% of BM papers are published in marketing journals, and only 8% of studies that are citing BM research are published in marketing journals which confirms limited involvement of marketing scholars in BM research. The following similarities between BM and marketing studies were identified and explored: value chains and interfirm networks (examples of marketing studies: Tretyak, 2013; example of BM studies: Nenonen, Storbacka, 2010; Zott, Amit, Massa, 2011), cooperation and partnerships between value chain participants (examples of marketing studies: Parvatyar, Sheth, 1995; example of BM studies: Zott, Amit, 2008), coordination of value chain participants (examples of marketing studies: Juttner, Christopher, Baker, 2007; example of BM studies: Girotra, Netessine, 2014), customer orientation and customer involvement (examples of marketing studies: Gumesson, 1999; example of BM studies: Johnson, Christensen, Kagermann, 2008; Teece, 2010), long term orientation of relationship marketing and sustainable BM (examples of marketing studies: Parvatyar, Sheth, 1995; example of BM studies: Girotra, Netessine, 2014).

To close the existing gap a three-level conceptual model (1<sup>st</sup> level – structure of the BM, 2<sup>nd</sup> level – mechanism of BM participants' interactions, 3<sup>rd</sup> level – results of their interactions) and new approach to BM innovation are offered within the current study.

The approach demonstrates a step-by-step sequence of actions within three previously highlighted levels and is targeted on increasing the jointly created value for the customer by the BM by eliminating mismatches and inconsistencies between BM participants. Comparing to other approaches, the new approach allows orienting BM participants towards the interests of the final consumer, acknowledges different abilities of BM actors to influence the value creation process and proposes analyzing the ways of coordination of other BM actors by the dominating actor in order to improve the results of the BM. The practical implementation of the approach demonstrated that its key provisions could be successfully applied within different market conditions and lead to improved BM performance (Klimanov, Tretyak, 2016; Lyashchuk, Sterligova, 2016). The following sequence of actions is proposed within the approach: 1<sup>st</sup> level - structure of the BM (a. Visualization of intercompany network with its key actors and description of their roles; b. Defining and highlighting the dominating actor (hypothesis); c. Analysis of BM variety, their classification), 2<sup>nd</sup> level - interaction mechanism (a. Defining the mechanism (concrete forms) and coordination directions that are applied by the dominating actor and other BM actors; b. Definition and analysis of mismatches and inconsistencies that appear between various BM actors, and also the ways to overcome them; c. Identifying the most critical inconsistencies, their ranking (where there is the biggest gap between the value created for the customer and the value captured by other BM actors)), 3<sup>rd</sup> level - results of BM actors' interaction (a. Analysis of the indicators that characterize BM on various levels; b. Analysis of the impact of mismatches and inconsistencies between the BM actors on the flows' characteristics: material, financial, customer flow).

The new approach to BM innovation has multiple similarities with Activity system school that is based on the approach offered in (Zott, Amit, 2010), which views BM as a system of interdependent activities conducted by the focal firm and other value chain participants in order to create value for the customer and generate profits. The approach assumes that it is possible to analyze or develop a BM by considering the components, structure and control mechanism of the activity system. However, the approach offered in the current study is different from the Activity system perspective at the level at which the activity system is analyzed - these are components of a whole value creation system, rather than a single focal firm. Thus, the proposed approach develops the Activity system perspective by proposing the use of a marketing scheme that integrates certain aspects of BM analysis into an organic whole and offers a three-level analysis of a BM. Considerable attention in the Activity system perspective focuses on the activities of BM participants and their interaction. The activity system design element related to transaction management also reflects one of the key elements of the new approach proposed in the current study - BM participants occupy different positions in the value chain and have different opportunities to influence the value creation process for the consumer. The highlighted similarities demonstrate that the new approach to BM innovation developed in the study is organically linked to the Activity system perspective proposed by Zott and Amit and elaborates on it.

**Keywords:** business model, marketing, comparison, generalization, Activity system

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