BUSINESS MODEL COMPONENTS & THEIR INTERRELATIONS

- A study of understandings and interpretations of business models and a single case study of Liz Claiborne

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The master thesis in front of you is the result of hard work, fun, and curiosity.

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ABSTRACT

PURPOSE: In theory are business models a popular phenomenon, though lacking and not having a general accepted conception or definition. In practice are business models significant and possibly one of the most widely discussed and yet least understood terminologies in the business world (Teece 2010). This, firstly reflects a theoretical problem that complicates the design and implementation of business models for companies, resulting in a practical problem (Bitsch Olsen, Pedersen 2008). Therefore is there a need to clarify the terminology (Shafer, Smith & Linder 2005). The purpose of following research is to outline the numerous proposed business model conceptions and move towards a renewed and collating understanding and interpretation of the business model, its components and their interrelation. Firstly, to clarify the terminology, and secondly, in an attempt to bring about some new understanding and insight on business model components and their interrelations.

APPROACH: This thesis originates from answering the problem statement through a conducted study of three compiled research questions. This research is taking a philosophic approach in the hermeneutics dominated by a methodology in the systems approach.

FINDINGS: Business model definitions have been criticized for not taking the same starting point and neither coming to same conception nor definition. Authors tend to propose meta-business models that fit their own perspective and research. But quite a few of them are similar in “what story they want to tell”, as Magretta (2002) would have said. This is regardless of whether it is from the perspective of e-business, innovation or strategy. The overall conception and definition of a business model, is therefore not that divergent as proposed in literature. Business model components and its interrelations are not well explored or defined in literature, but within the last few years, has a focus on approaching the business model dynamically been emphasized. This has though not solved the problem of understanding interrelations between the business model components; so that companies can be better prepared to the environmental changes they constantly meet. The case study of this research emphasizes a need to rethink the business model framework and incorporate the external environment, since a global economy is not increasing the dynamic environment

KEYWORDS: Structured and systematic literature reviews of business models, its components and their interrelation – finalizing with a single case study of Liz Claiborne
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This introductory chapter will set out relevant perspectives to the foundation of the research. The purpose of this chapter is to create an overall framework and structure of the thesis, starting with an introduction and problem identification, followed by the problem statement and three research questions. This chapter is further discussing the underlying reflections behind the methodic framework from under which this thesis has been produced.

1.1. Introduction and Problem Identification

The way companies nowadays make money is rather distinct from the industrial era, where scale was important in creating and capturing value (Teece 2010). Since then, and especially through the last decades, the internet has been a great source for the increasing interest in business models. It has even been argued that the internet, at some point, has been a game changer that has altered the possibilities of constructing businesses differently and way more differentiated (Amit, Zott 2001, Demil, Lecocq 2010). The increasing interest in business models is shown in figure 1.1, illustrating the number of published articles with the notion ‘business model’ from 1990 till 2009. Figure 1.1 obviously indicates an increase in publications occurred just about when the internet had its advent in the market economy in the mid 1990’s, and the figure overall highlights an increasing interest in the business model terminology (Zott, Amit & Massa 2011). With having that said, it deserves notice how publications of non-academic journals have exploded compared to academic journals, which have a more stable increase over the years. This difference is basically rooted in academic literature, in general, is slower to reflect new terminologies from practices, and the business model terminology is somewhat new in practice and, therefore, also new in theory (Chesbrough, Rosenbloom 2002). This research later reveals that the business model terminology is further evolving and therefore still confused and reflecting a theory that is yet in its early years of founding.
The business model terminology actually had its first appearance in literature in the 60’s, though its strongly increasing popularity is only a recent phenomenon (Osterwalder 2004). Today’s definition of a business model is widely discussed among scholars who tend to adopt their own definition that fits in their specific context. Furthermore, the business model terminology has even been criticized for; being a loose conception of how companies do business and generate revenue, an invitation for faulty thinking and theoretically not being grounded (Zott, Amit & Massa 2011, Hedman, Kalling 2003). These points of view appear frequently in the academic environment, and it obviously reflects a business model terminology that is not well-explored, and neither well-understood, nor well-defined. Zott & Amit have, among others, been significant contributors to the literature, and in 2011, they reviewed the business model literature with Massa, where one of their main findings exactly was that there is no dominant or consistent theoretical agreement on a business model conception or definition. Zott, Amit & Massa (2011), therefore, call for consistency in order to strengthen the business model framework, and also because there is a need to simplify the terminology so companies can successfully design and implement the concept of business models (Shafer, Smith & Linder 2005, Casadesus-Masanell, Ricart 2010). Linder & Cantrell (2002) further argue that business models themselves are complex and not well understood – they lack any formal basis that would facilitate both description and comparison. To this criticism Hedman & Kalling
(2003) agree, and they criticise the business model concept for often being used in inconsistent, non-theoretical contexts, which makes it very difficult to advance the definition. Because of the proposed divergent conceptions in published academic journals, it is impossible for me, as a researcher, to find a common accepted conception and definition of the business model in the existing literature (Zott, Amit & Massa 2011). This problem is recognized by David Teece (2010) that in a recent published paper can be quoted by the following:

“The concept of a business model has no established theoretical grounding in economics or in business studies.” (Teece 2010) (174)

The concept of business model is most often used interdependently from theory, which properly is among reasons why research on the business models’ components and their interrelation have been given very little academic research (Hedman, Kalling 2003). The existing literature on components in business models have previously been criticized for being a simple “shopping list” that only mentions the components and has yet as divergent definitions as the business model (Osterwalder, Pigneur & Tucci 2005). Maybe it is the divergent definitions on business models that are causing even more divergent suggestions on business model components because of an overall lacking theory (Shafer, Smith & Linder 2005, Hedman, Kalling 2003, Osterwalder, Pigneur & Tucci 2005).

The paper of Chesbrough & Rosenbloom (2002) has, to me, been the catalyst to the thoughts and the wonders that have been fundamental to the problem statement of this thesis. The case example of Xerox illustrates how Xerox commercialized a previously rejected technology through a completely different business model with great success. They, therefore, emphasize that it is the business model more than the technology applied that is essential to success. This made me wonder how this conception has significance in the context of how a business model is compiled and interrelated between its components. The following quotation from John Seely Brown (Chief Scientist at Xerox) illuminates how the company struggled to understand how the business model components were interrelated, and not least, how to propose a value proposition that also would fit a market segment:

“Not everything we start ends up fitting with our business later on. Many of the ideas we work on here involve a paradigm shift in order to deliver value.”

(Chesbrough, Rosenbloom 2002) (529)

Chesbrough (2010) later on extends this conception with ‘ideas’ as supplement to the technology focus, because business model analysis is no longer concerned with only dealing with e-business. This further strengthens the value of applying the right business model, is far more
important than the technology or idea itself. This made me wonder how, and if understanding of the interrelation between business model components is essential to successful business models. Therefore, it is to me very interesting that it has been acknowledged that a product can be deployed through different business models. It is dependent upon how a company chose to compile its business that will determine the company’s success. Exactly, therefore, should the understanding of interrelations between business model components, in my opinion be more emphasized, because this problem later highlights a need for dynamic thinking in business modeling (Demil, Lecocq 2010, Hedman, Kalling 2003).

I believe it could be interesting to examine how the business model components are vulnerable to internally, externally, voluntary, or emerging changes, because the vulnerability will maybe, be more appearing, if there is a flawed understanding of the interrelations. Can a company be less vulnerable if they know which components in the business model are interrelated and, therefore, are able to react faster when the environment changes? Based on the preliminary investigation for this thesis, I will argue that understandings of interrelations between business model components have not theoretically been well explored. This could therefore be an interesting research, since there is no clear definition on business models, its components and their interrelations.

I find this problem interesting and inspiring, and the scientific purpose of the thesis has been to bring about some insight on business model components and its interrelation to come to a better understanding. The objective of this thesis has been to provide results which are applicable to strategic and operational management of the business world. Furthermore, can the results of this thesis, to some extent, give inspiration to the academic environment, the supervisor, censor, CBS etc. To me the strongest motivator has been my personnel interest in the theoretical field, which is why the purpose from the beginning has been to strengthen my theoretical and practical knowledge to become a better researcher.
1.2. Problem Statement and Research Questions

Preliminary considerations and perspectives described above have lead me to following problem statement:

| How can interrelations between the components in a business model be understood? |

To answer the problem statement, the following three research questions have been compiled:

RQ1. How has the business model been defined and conceptualized in literature?

RQ2. How has the understanding of interrelations between the business model components and its effects on the company been proposed in literature?

RQ3. How are two business model frameworks solving the interrelation problem between the business model components in the case of Liz Claiborne?

The two first research questions will be answered though the theoretical framework, whereas the third research question will be answered through the analytical framework, exemplified by a secondary data case study of Liz Claiborne (Siggelkow 2001) analyzing through two dominant business model frameworks by Demil & Lecocq (2010) and Osterwalder & Pigneur (2010).

1.3. Structure and Instructions for Reading

This master thesis is overall structured into seven chapters as listed below:

- Chapter 1. Introductory Section
- Chapter 2. Business Models
- Chapter 3. Components & Interrelation
- Chapter 4. Liz Claiborne Inc.
- Chapter 5. Concluding Section
- Chapter 6. List of Appendices
- Chapter 7. Bibliography

This first chapter is a general introduction to the thesis. It sets the stage by introducing the problem statement and three research questions. Furthermore, it is discussing the methodological reflections; including the philosophy of science, the selection of paradigm, the method approach, the case study considerations, the data collection and limitations faced in this thesis. These methodical choices affect how the theoretical framework and the case study of Liz Claiborne has been processed, composed and analyzed. Chapter two and chapter three represent the theoretical framework, where each chapter seeks to answer a separate research ques-
tion. **Chapter two** can be regarded as a literature review which seeks to examine the business model terminology, including a search for its definitions and conceptions through research question one. **Chapter three** seeks, through research question two, to examine business model components and their interrelations as they have been proposed in the business model literature, both as meta-models and through case examples. Each research question will separately, in the end of their respective chapters, be discussed before being summarized in partial conclusions. These two chapters represent the theoretical argumentation and assumptions underlying this thesis. **Chapter four** constitutes the analytical framework which seeks to examine research question 3 through a case study of Liz Claiborne. The case study has been added to further strengthen the theoretical argumentation that has been built through the theoretical framework. Chapter four is structured to firstly discuss the relevance of the case selection, secondly, to bring a brief historical company overview to the reader, and thirdly, to present the problem through research question three. Before the two business model frameworks are applied, it will be argued, why these two approaches have been selected. The two business model frameworks are then applied to the case study of Liz Claiborne in an analysis that will be finalized with a discussion and reflection of this research question. To round-off the research, a final discussion will compare and discuss the conclusions of the three research questions and discuss if possible solutions could be found outside the business model literature. **Chapter five** de-briefs the thesis by gathering the essential conclusions that will answer the problem statement and subsequently discuss the post-rationalization of the findings and methods in this thesis in both a critical and a future perspective. **Chapter six** contains the appendix of the thesis including the case of Liz Claiborne. **Chapter seven** lists the bibliography in web pages and journal articles.

1.4. **The Methodical Reflections**  
The fundamental assumption behind any research is founded in the methodical reflections and choices. Within the terminology of methods exists two main areas; the philosophy of science and the methodology. Philosophy of science deals with what knowledge is and how it is understood as ultimate presumptions in scientific work, whereas methodology is about creation of knowledge. The purpose with the following part is to examine and discuss these two concepts, because these considerations underlie the answer to the problem statement and its research questions (Arbnor, Bjerke 1996). The philosophy of science and the methodology is important in any research process to achieve consistency and alignment, which is essential in ensuring the solution to the problem statement will be neither random nor chaotic (Fuglsang,
This part, therefore, creates the overall methodological framework, where
the philosophy of science first will be discussed, and then a choice of paradigm will be pro-
posed. The paradigm choice is anchored in the research philosophy, which reflects my funda-
damental assumptions as a researcher in relation to the specific problem statement. Subse-
quently, a selection of method will be made; this choice is derived from the chosen paradigm
to the research (Arbnor, Bjerke 1996). Figure 1.2 details the coherence in the methodological
approach that has been used in this research.

![Methodological Approach Diagram](source: Arbnor & Bjerke (1996) (15))

1.4.1. Philosophy of Science

Philosophy of science illuminates the basic understanding of what knowledge is and how
knowledge is obtained. The objective of any research is to process knowledge, which empha-
sizes why the understanding of how knowledge is created is very important (Fuglsang, Bitsch
Olsen 2004). Conflicting schools of philosophies of science represent different fundamental
assumptions and perspectives on nature, knowledge, its creation and the universal truth. The
constraint of choosing one working paradigm can limit the research, since different paradigms
represent alternative perspectives in a research study. I will argue, that even though this re-
search is taken the hermeneutic paradigm, elements from social constructivism can absolutely
be identified. Nevertheless, a research philosophical standing point is essential when writing a
thesis, since these reflections indicates the fundamental assumption of the opinion formation.
Thomas Kuhn defined the basic philosophy of paradigms in 1962 with his major work “The
Structure of Scientific Revolution”, though without proposing a specific definition (Arbnor,
Bjerke 1996). An overall definition of paradigms has, on the contrary, been proposed by
amongst others, Egon Guba (1990):
“... a basic set of belief that guides actions, whether of the everyday garden variety or action taken in connection with a disciplined inquiry” (Guba 1990) (17)

Another paradigm definition has been proposed by Arbnor & Bjerke (1996):

"A paradigm is any set of general and ultimate ideas about the constitution of reality, the structure of science, scientific ideals, and the like”

(Arbnor, Bjerke 1996) (26)

These definitions specify that a paradigm is about ideas and beliefs on reality, its nature and the universal truth, and therefore, can be accepted as a set of general assumptions. These general assumptions can be considered of three levels of abstraction as the ontology, the epistemology and the methodology (Fuglsang, Bitsch Olsen 2004). A choice of paradigm is based on the considerations on the levels of abstraction in order to be able to identify a philosophical research paradigm (Fuglsang, Bitsch Olsen 2004). With the objective of choosing a standing point of philosophy of science, the research questions of this thesis are considered and elaborated on at the three levels of abstractions. This is outlined in table 1.1, defining the technique, ontology, epistemology, methodology and the quality behind the three research questions:

<table>
<thead>
<tr>
<th>Research Question</th>
<th>Methodical Design of the Thesis</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How has the business model been defined and conceptualized in literature?</td>
<td>Literature review of conceptions and definitions Secondary data</td>
<td>Literature represents a broad range of well-known authors</td>
</tr>
<tr>
<td>2. How has the understanding of interrelations between the business model components and its effects on the company been proposed in literature?</td>
<td>Review of business model components and its interrelations Secondary data</td>
<td>Literature represents a broad range of well-known authors</td>
</tr>
<tr>
<td>3. How are two business model frameworks solving the interrelation problem between the business model components in the case of Liz Claiborne?</td>
<td>Case study of Liz Claiborne on Secondary data</td>
<td>Single case study as a secondary data analysis. Scientifically accepted as research method</td>
</tr>
</tbody>
</table>

Table 1.1
Source: Own creation, inspired from Fuglsang & Bitsch Olsen (2004)(46)
Given the outlined methodical design of the thesis in table 1.1, the fundamental assumptions place the philosophically mindset of this research in the hermeneutic paradigm as presented in Fuglsang & Bitsch Olsen (2004) (46). The hermeneutics are related to social constructivists, who also believe that perception of nature is subjective, which also is the case of this research. Therefore, it can also be argued this thesis contains some elements of the social constructivism, especially in research question three that actively tries to solve the problem statement.

1.4.2. Applied Research Paradigm

The hermeneutical approach is part of the interpretivism, which is an epistemological position that seeks to grasp the subjective meaning of social actions (Bryman 2008). The hermeneutics approach is basically a learning process of understanding and interpretation, and is a general description of how the nature and the universal truth are understood through an interpretation. According to Gadamer, the hermeneutical interpretation is the key to knowledge creation (Fuglsang, Bitsch Olsen 2004). The problem statement is answered by approaching the research questions through the hermeneutical circle, going from parts to a whole and back to the parts, because it is the coherence that creates the opinion formation. Figure 1.3 illustrates the knowledge creation in the hermeneutics; going from understanding to research, from research to interpretation, from interpretation to new understanding and from new understanding to renewed interpretation, to then start over with understanding. This illustrates the author’s understanding of nature depends on understanding in a larger perspective.

![Hermeneutic Circle of Understanding](image)

This is exactly how the hermeneutical circle describes a researcher’s movement back and forth between parts and a whole in a research study, and the process is known to be an encounter between the author and the author’s understanding (Fuglsang, Bitsch Olsen 2004).
This is because it is considered to be the researcher’s tool for understanding objects and ideas used for understanding the surrounding world, which has also been the tool for understanding in this research. The acknowledgement of belonging to the hermeneutical paradigm influences this thesis in two ways. First, it affects how I have chosen to examine the problem statement and research questions, and second, it affects how I interpret and understand the selected literature. The three level of abstraction can be comprehended as three phases in the analysis towards a given object, which, in this research, are both the theoretical and the analytical framework. The ontological level describes the first phase, dealing with how I, as the understanding subject, relate to the investigating object. The epistemological level reflects the second phase, which concerns the understanding and interpretation of the object in the research through the hermeneutical circle. The methodical level is the third phase, seeking suitable analytical approaches.

My perception of nature is grounded in these basic assumptions, which is why the basic assumptions are the reason behind my thinking and my ability to understand reality. This thesis has the endeavor to conduct as unbiased research as possible, since I acknowledge the importance of a consciously critical approach towards the research. The assumptions and conclusions from research question one and research question two are founding for the philosophy of science of the author.

1.4.3. Applied Research Method

According to Arbnor & Bjerke (1996), is it the philosophy of science behind the problem statement and the research questions that determine the method applied to a research paper. Arbnor & Bjerke (1996) propose three methodological approaches, known as the analytical, the systems and the actors approach, which is derived from the applied paradigm. These three approaches operate within either an explanatory or an understanding paradigm, having respectively an objective or a subjective approach, as illustrated in figure 1.4. I will now shortly introduce the 3 research methods:

**The analytical approach** is taking the basic assumptions about nature that it can be described objectively and characterized as a whole that equals the sum of its interdependent parts.

**The systems approach** is assuming nature is objective, though dependent of the system it is being analyzed in. The whole can be summed, but it is different from the sum of its parts, because the parts are mutually independent. The focus is on the relationship between the different parts.
**The actors approach** assumes there only exists wholes as structures of meanings, and nature is therefore a social construction. Knowledge is dependent on individuals, where knowledge is obtained through dialog. The overall reality is subjective and a social construction.

Based on these arguments, the research method of this thesis is positioned mainly in the actors approach, but with elements from the systems approach as illustrated by the black circle in figure 1.4. This choice is based on the fact that this research mainly is the actors approach, but though analyzed through a system of selected conceptions with application of a case study. The consequence of the paradigm and the method selection is that this approach to understanding and interpreting data always will be subjective. This means that the interpretation I have done on existing literature, to some degree, cannot avoid being biased.

![Figure 1.4](image)

Figure 1.4 indicates this research takes a method combination, though mainly the actors, which is in alignment with the hermeneutic paradigm (Arbnor, Bjerke 1996). This basically reflects a natural consequence of the choice of the hermeneutic paradigm to answer the problem statement and following research questions. The reason I argue both approaches is because of the choice of case study as research design. The method applied is though still in the hermeneutics, which is why the answer of the problem statement is a continual process that has leaded to a streamlined conclusion.

As previously mentioned, the purpose of this thesis is to outline different dominant researcher’s conceptions on business models and, furthermore, come to a better understanding of the interrelations between the components in the business model. The overall chosen method gives an opportunity to search for alignment and consistency within the literature and further understand how the interrelations between components can theoretically be explained, explored and maybe even further developed through interpretation.
1.4.4. Research Approach and Design

At the preliminary stage of this research project, a specific problem had not been chosen and as a researcher, the constantly new gained knowledge was disturbing to the actual formulation of the problem statement. This complicated things because of the many approaches to the business model that has not been well explored, therefore could be interesting. Eventually, I did sense a gap in the business model literature on business model components and their interrelations. The main scientific goal of this research is to conduct a study on how the components in a business model are interrelated. The research approach is broadly divided into three main parts, each seeking to answer a separate research question. The purpose has been to develop some research questions that produce problem orientated knowledge to answer the problem statement. This thesis can be regarded as a literature study, where the research seeks to answer the problem statement through three compiled research questions. The master thesis is interdisciplinary, and primarily knowledge arises from my minor degree in Process- & Innovation Management, but it also includes theory and knowledge from both my master- & bachelor degree.

1.4.4.1. Case Study as Research Design

A research design is the logic that links the data to a conclusion, through the research questions of a study (Yin 2009). When searching for an appropriate research design, Yin (2009) is explaining three conditions that have to be considered. 1. the ‘form of research question’, 2. the ‘requirement of behavioral event’, and 3. the ‘focus on contemporary events’. These all together determines which research strategy to adapt (Yin 2009) (a matrix has been enclosed in appendix 1). Based on these arguments, this research takes the case study as research design. A case study is one amongst many research designs in social science research and, according to Yin (2009); the case study is an empirical research that tries to create correlation between an identified problem and the reality, also defined as following:

“A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” (Yin 2009) (18)

Overall Yin (2009) is dividing case studies in single case studies and multiple case studies, whereas this research takes the single case approach. This research design is used to answer the research objectives, and it is the structure and framework to solve the problem statement, because it gives direction and systematizes the research.
1.4.4.2. Coding in Qualitative Research

Coding is a central process in qualitative research, and has been characterized as following:

“A code in qualitative inquiry is most often a word or a short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data.” (Saldaña 2009) (3)

Coding is a method to organize data in relevance and in proportion to the research that data is being collected for. This type of coding is essential in the qualitative research to produce a theoretical context (Bryman 2008). Coding can be approached as open, axial or selective coding. Open coding means that data is being broken down, categorized and conceptualized. In axial coding, the data is being put back together, and the coding lies within the pattern. In selective coding one main category is chosen based on the categories in the data (Bryman 2008). This research takes the open coding approach, using coding to interpret and thematize both the business model papers and the case study of Liz Claiborne. The respective use and purpose is different for each research question illuminated below:

RQ1. Coding will be used through research question one to highlight the business model definitions to make them comparable.

RQ2. Through research question two the coding approach been used to mention how the various authors presents perspectives on interrelations in business models.

RQ3. Research question 3 uses coding to firstly justify the selection of case study and its relatedness to the business model literature, through quotation from the case of Siggelkow (2001). Coding is also used to emphasize the problems of Liz Claiborne.

1.4.5. Literature and Data Collection

This thesis is based on a qualitative research approach, and as figure 1.1 shows many papers have been published, but the academic literature on business models is not yet well-established. I have chosen to include a few older papers, amongst an article from Zott and Amit from 2001, because the paper have been very popular and cited in many other papers over time. I also chose to include a few non academic-journals in this thesis, not to be limited in the knowledge creation. Articles from Long Range Planning1 are representing a large number of selected data, which is explained by a special issue of the journal exactly on business model. Since the literature search was affected by the fact that there is great lacking in the academic literature, it was natural to base the thesis on articles from this special issue. After having examined the literature, I have to admit that the special issue from Long Range Plan-

1 http://www.lrp.ac/ - a leading international journal in the field of strategic management.
ning has turned out to be not as theoretical informative or valid as I was hoping for. I did originally assume that this special issue from Long Range Planning would be a good selection of papers. An error has been discovered in David Teece’s (2010) business model, proposing the component “design mechanisms to capture value” twice in the approach. This has been corrected in my illustration put forward. Furthermore, a more intense research has revealed, that the authors within existing literature are quite self-referring which narrows the validity of their research. This questions the overall quality of the special issue, even though it has been said it is some of the “best” that has been published. In addition, I have discovered contradictory listings of the functions of a business model, as proposed by Chesbrough & Rosenbloom (2002). This will be explained in the context when it is relevant. The chosen literature is therefore absolutely not reflecting a random selection within the business model literature, but the literature in itself is not very broad or varied, which is why it could seem like the choices of articles have not been made with awareness, though it has.

It has therefore been challenging to create a "valid" research, because of the self-referential approach, errors in the existing literature and trying to interpret how a business model is inter-related. Especially because not many researchers touch this topic, and they do not take their own standing point, but instead they refer to each other, which makes it very challenging. Literature has been criticized for being an exclusive group of researchers², and one has to have that in mind when doing a research. The choice of literature can be justified in that many of the articles are among the most cited³, and the business model special edition from LRP is more focused on the dynamic approach to a business model.

An existing case study has been chosen for the analytical framework. Originally the case is used in the context of organizational theory, but this case is now being re-analyzed in a new perspective of the business model terminology. Further elaboration on case selections and relevance will be introduced in the beginning of chapter four, which performs the case study. The chosen method and data means that some other consideration, theories etc. has been deselected. This is a difficult process, understanding and accepting that you have to stop researching and accept your knowledge, which was difficult for me personally. But one has to accept that research can continue forever, and that one has to stop researching, and start analyzing.

³ http://www.journals.elsevier.com/long-range-planning/most-cited-articles/
1.4.5.1. Case Study Based on Secondary Data

The research carried out in this thesis is based on a secondary data analysis, which is defined as following:

“Secondary analysis is a research strategy which makes use of preexisting quantitative data or preexisting qualitative research data for the purposes of investigating new questions or verifying previous studies.” (Heaton 2004) (16)

Secondary data analysis is best known in the research of quantitative research, but secondary data analysis within qualitative research is a new and emerging methodology that is being used more frequently (Heaton 2004). The analytical framework of this research illuminates a more in-depth analysis of a former case study of Liz Claiborne. The case study performed by Siggelkow (2001) is originally in the perspective of organization literature, whereas my approach is in the perspective of the business model literature. Based on these arguments this study can be categorized as mainly a supplementary analysis but with elements from the re-analysis (Heaton 2004) (38). There exist conflicting opinions on the use of qualitative secondary data, and it does raise some perspectives arguing that the analysis will be limited in its general perception that qualitative data cannot be reused to the same extent as quantitative. Though it has been argued that secondary analysis can valid data for investigation of new research question in a more in-depth analysis with a new focus(Heaton 2004)

1.4.6. Delimitations

A number of limitations are present in the research carried out. The first limitation is in regards to the selection of papers for the theoretical framework and thereby also selection of business model frameworks for the case study. A more extensive coverage in the literature review could have been done to enhance the theoretical framework, but one has to limit oneself in this process, and I will, though, argue that the chosen papers are the most acknowledged. Secondly, there is a limitation in the research by choosing only to deal with components of the business model, but I see it as a necessity to be able study the subject in depth to limit oneself. Thirdly, the inclusion of a single case study based on secondary data rather than a multiple case study based on primary data can be seen as a limitation, but as I have argued, this can be justified due to the emerging methodology of qualitative secondary analysis. The fourth limitation is in regards to the financial aspect in the analytical framework, where financial reports have been excluded, because I could not access them. Business models are most often approached as a conceptual rather than a financial model (Teece 2010), and to be able to retain the focus on the interrelations between business model components, the financial aspect
has been eliminated. Fifthly, it can be argued the choice of only applying and testing two business model frameworks is a limitation. This will be further elaborated on during the research, because I argue that within the business model literature, there just is not that many visualized approaches that was suitable both for the theoretical and for the analytical framework.

1.4.7. Reflections of Applied Philosophy of Science and Method
Given this is a master thesis, I will argue the amount and chosen data is fundamentally valid, but will agree that an even broader aspect on the literature could strengthen the theoretical argumentation. Though as mentioned, there is limitations in the existing business model literature since it is not being not well established, being self referring, and also limited in the amount of published and valid papers. As mentioned is the hermeneutic paradigm the strongest contrast to the positivism (Fuglsang, Bitsch Olsen 2004), and this choice implicates the possibility of bias.

1.4.8. Other Clarifications
When examining and discussing the business model ontology and the business model canvas by Osterwalder, it is in a combination of his PhD thesis from 2004 and the book “Business Model Generation” from 2010. This is because the PhD thesis is theoretical grounded whereas the book is a commercial strategic management tool.

The selected literature to answer research question two, has been made with awareness. And in my opinion is it only the most popular and defining business model approaches I have chosen to present and examine in this chapter. And the choice of business model to be applied in the case study reflects a final elimination of the business model framework that I as researcher do not find suitable to answer the problem statement.
BUSINESS MODELS

“The important thing is not to stop questioning - Curiosity has its own reason for existing”

Albert Einstein

This chapter outlines the first part of two which constitutes the theoretical framework. The purpose of the following is to conduct a structured literature review that will examine and discuss the existing literature, concentrating on the conceptions and the definitions of the business model.

2.1. Literature Review of the Business Model

To answer the problem statement, a clarification of the business model terminology is necessary in order to understand the cornerstones of the literature and its suggested diversifications. This to eventually be able to understand how interrelations are between the business model components. I will, in the following research question, elaborate on the business model conceptions founding this theoretical framework by conducting a structured literature review of well-known authors’ conceptions and definitions of the business model by answering following:

How has the business model been defined and conceptualized in literature?

Linder & Cantrell (2002) approach the business model cognitively, identifying its purpose to be recognition and understanding of the core logic of the company. They propose that business models can be changed fluidly without affecting the structure of the organization, by acknowledging that business models are in the mind (sets), illustrated by following quotation:

“...Working business models aren’t embedded in organizational structures – rather they’re organizational mind-sets.” (Linder, Cantrell 2002) (38)

A business model is not “a simple theory”; it is rather a tacit understanding of how a company is linked through different units that, when all joined together, creates value. They also emphasize, that successful fluid organizations are not trying to force their units to manage multiple mindsets, which leads to successful business models (Linder, Cantrell 2002).
Another author who seeks to define the business model terminology is Joan Magretta, who places the business model in close relation and context to value creation. She does not propose an explicit definition; instead she emphasizes that business models are about telling stories - good stories:

“Business Models, though, are anything but arcane. They are, at heart, stories - stories that explain how enterprises work.” (Magretta 2002) (87)

The business model will answer questions about who your customers are, what customers do value, and overall explain how a company can deliver value at a reasonable cost given the surrounding environment. She distinguishes the notion business model from the concept of strategy and argues strategy describes how a company deals with competition and business models describe how a company actually does business. She identifies profit as in indicator for success, if a company is generating profit – then the business model is telling a good story. In her terminology, a business model is more specifically one that carefully explains how the company’s value chain is structured, and therefore, she equates successful business models with great insight and understanding of the value chain and value creation in a company. She believes that all new business models, whether they are brand new or a remodeled business models, are all variations of a generic value chain underlying the business. Concluding it should be mentioned that she points out that success is very dependent and linked to management’s ability to design, adjust and communicate the business model and its purpose (Magretta 2002).

The increasing interest in business models and its relation to the advent of the internet is to some extent reflected in most of the papers on business models from ‘earlier’, were written exactly in relation to e-business. Amit & Zott’s article “Value Creation in E-Business” from 2001 has been rather popular as reference work, and they argue that business models span firm and industry boundaries by including the following theoretical perspectives; the value chain framework (Porter, 1985), Schumpeter’s theory of creative destruction (Schumpeter, 1942), the resource-based view of the firm (Amit and Shoemaker, 1993), strategic network theory (Gulati, 1998), and the transaction cost economics (Williamson, 1975). In this paper, they quite simple explain e-business to be business conducted over the internet, with the following business model definition:

“A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit, Zott 2001) (511)
According to them, the business model is basically describing how the company operates and creates value through exploitation in a system of transactions. The value is created through four mutually dependent dimensions: efficiency, complementarities, lock-in and novelty (Amit, Zott 2001). They point out that a consistent usage of the business model terminology is crucial in the search for a common understanding and a consistent approach to the business model. This is important, since a good business model performance can create better opportunities to outperform and do better than competitors (Amit, Zott 2001). They perceive the business model to be the locus of innovation, which is why it makes sense they propose a meta-business model focusing on value creation and exploitation. This paper also highlights that value creation is not well-defined in literature, and they therefore build the foundation to a network-focused approach to the business model. This framework is further developed, structured and well-defined by Zott & Amit in their business model research over the next ten years.

Chesbrough and Rosenbloom (2002) identify the business model to be a conceptual framework that mediates between technological development and economic value creation. Their business model definition is proposed, detailed and divided into 6 components defining the main function and purpose of a business model to be:

1. Articulation of the value proposition.
2. Identification of a market segment, as well as the revenue generation mechanism for the firm.
3. Definition of the structure of the value chain
4. Estimation of cost structure and profit potential
5. Description of the position of the firm within the value network linking suppliers, customers, complementors, and competitors
6. Formulation of a competitive strategy

This detailed approach is Chesbrough & Rosenbloom’s (2002) interpretation of how technology is latent but only valuable when it has been commercialized through the process of the business model. To be successful and profitable, it is important that a company considers and sees the value creation process as an opportunity to create new businesses. Instead of rejecting a technology that does not fit the business model, the company should propose a different business model that does fit the technology (Chesbrough, Rosenbloom 2002). This is also strongly reflected in Chesbrough & Rosenbloom’s (2002) perspective of the importance of understanding the cognitive role of the company. This is, later on in literature, in alignment with newer published papers that also acknowledge that understanding of the cognitive role of
a company, or understanding the core logic of a company, is essential. Chesbrough & Rosenbloom (2002) are further emphasizing that an approach to a static model, has to be made with awareness, since the company is operating in a dynamic environment, which can and most likely will change – maybe even radically. According to Chesbrough & Rosenbloom (2002), management theories are mainly concerned with value capture, and the business model emphasizes the significance of understanding value creation in a company. As a company, it is important to understand what value you are creating, and then adjust your business model to be able to capture the value created; this is especially necessary if the value creation and value proposition does not fit. Accepting and understanding that it is the business model more than the technology applied that is crucial to commercialization of new technology, have showed fatal to some companies, and it is therefore strongly emphasized by Chesbrough & Rosenbloom (2002).

With the paper “The Era of Open Innovation” from 2003 Chesbrough is coining the term of open innovation. It was at that time, an alternative perspective in not only the business model literature but also in the business environment. Chesbrough discusses it pays off better to build a strong business model rather than being first to market, since many of the successful business models today are not new, but spinoffs, which is in alignment with Magretta’s (2002) point of view. With this article, Chesbrough (2003), theoretically and practically, differentiates himself in his business model view by introducing the concept of open business model. He has not compiled a definition of the open business model, but I have chosen to include the paper, since it is an interesting perspective that takes a different approach to value creation, and value creation seems to be important in literature around the years of this publication. The paper also emphasizes that companies furthermore spans the company boundaries, which, later in literature is also emphasized to be a characteristic of business models. Overall Chesbrough (2003) believes that success and profit comes from understanding value creation, value capture and by employing the right business model.

Hedman & Kalling (2003) define the business model to be in the theoretical context of the resource based view, organizational theory and strategy, and they consider the business model to be a generic conceptual model that can be regarded as a tool to construct the broader context of information systems and strategy. They are not proposing their own business model definition; instead they rely on previous definitions proposed by among others Amit & Zott (2001). Hedman & Kalling (2003) put strong emphasis on the components in the business
Shafer, Smith & Linder (2005) acknowledge that there, to date, generally is no accepted business model definition. They argue that the purpose of a business model fundamentally is linked to the value creation and value capture in a company. Their research paper examines previous research on business models and recognizes that 12 definitions have been proposed from 1998-2002 in established literature as e-business, strategy, technology and information systems. These 12 definitions originate from quite different literature perspectives, which furthermore results in 42 different proposed business model components. Since there is no accepted definition, Shafer, Smith and Linder (2005) propose following business model definition based on their review of previous literature:

“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”
(Shafer, Smith & Linder 2005) (202)

They emphasize that a business model is not strategy, since the business model embodies a set of choices, and outlines a company’s strategy through analyzing, testing and validation (Shafer, Smith & Linder 2005). They address 4 potential bottlenecks when using business models as a unit of analysis in companies:

- Flawed assumptions underlying the core logic
- Limitations in the strategic choices considered
- Misunderstandings about value creation and value capture
- Flawed assumptions about the value network.

They highlight that a business model must never be accepted or regarded as being complete, because all strategic choices are being deployed through the business model, which should be a continuous and ongoing process because of the dynamic environment (Shafer, Smith & Linder 2005).

Chesbrough’s paper from 2007 takes a specific view of the function of the business model, but from an innovative and open business model perspective. Chesbrough (2007) acknowledges that companies possess different qualities and resources, wherefore they also do see different opportunities, I do see this limitation described by Chesbrough to be just like Teece (2010), who acknowledges management can be limited from bounded rationality. Chesbrough
address this problem from a different perspective – How many employees know the business model? He assumes employees do not take responsibility of challenging the business model because businesses today are very profit-orientated, and a bad decision can affect badly (Chesbrough 2007). In alignment with his previous work from 2002 and 2007 is Chesbrough (2010), emphasizing that companies commercialize their ideas and technologies through the business model and the six same main functions. Chesbrough (2010) again argues that the business model is crucial when adding value to a product or a service with following quotation:

“... a mediocre technology pursued within a great business model may be more valuable that a great technology exploited via a mediocre business model”
(Chesbrough 2010) (354)

This emphasizes that it is the foundation and strength of your business model that adds value, and he argues that the product value is added because of the business model, through the value chain, in alignment with what Chesbrough and Rosenbloom (2002) have previously proposed. Chesbrough (2010) argues it is just as important and valuable to develop and experiment on the company’s business model as its ideas and technology. He acknowledges the importance of mapping the business model, where he referees to the business model canvas by Osterwalder & Pigneur (2010). Chesbrough (2010) as other authors, separates the term of strategy and business models, but opposite from others, he believes it is the business model which defines the company strategy. This could lead to a further discussion on business models versus strategy in relation to the hen and egg.

In 2007, Zott & Amit conducted a research study on performance implications of business model design in entrepreneurial firms. They came from the same perspective and definition of the business model as in 2001, but this time they focused on the need of boundary spanning transactions of the company, where they defined two performance designs, either an efficiency centered or a novelty centered design of the business model. The following quotation is reflecting a renewed focus on transactions in the business model from Zott & Amit:

"We focus on the design of an organization’s boundary - spanning transactions as business model design" (Zott, Amit 2007) (181)

Their conception on business models explains how the value creation stems from the business model level analysis and value capture is from the focal firm level analysis (Zott, Amit 2007).
Zott & Amit (2008) believe the business model is the source of value, and therefore acknowledges the value creation to be reasons why some companies outperform others. As other authors have previously mentioned, they also distinguish business models and strategy, but they further emphasize that they are complements rather than substitutes. They argue the business model is a new unit of analysis, including several theoretical perspectives approaching the business model differently (Zott, Amit 2008). This is in alignment with their previous conception from 2001 that included five different theoretical perspectives to understand the circumstances from under which a business model is designed.

David Teece (2010) recognizes that there so far have been proposed several diverse definitions, but a solid theoretic understanding of business modeling is lacking, and the terminology is not yet having any established theoretical grounding in neither economics nor business literature. Teece (2010) attached importance to the significance of a business model, to be management’s hypothesis about how to create and capture value of a business, which also is reflected in this definition of a business model:

“... how enterprises creates and delivers value to customers, and then converts payments received to profits” (Teece 2010) (173)

Teece’s (2010) business model conception also highlights that the customers are essential, since they are affecting and defining the successfulness of the business model. Teece (2010) argues that a business model is the logical way of doing business – since business models are generic and can be associated with several strategies and even different industries. Teece (2010) is just like Chesbrough & Rosenbloom (2002), listing what to consider when approaching a business model, though he proposes it as questions one has to consider. For a business model to be successful, it must be more than just a logical way of doing business. And as everyone else argues, so does Teece; agreeing that business models and strategy are not substitutes, but rather complements. In addition, Teece (2010) does emphasize the importance of building a business model differentiated to create viability, which is harder for competitors to imitate.

Understanding a business model and its purpose can be challenging, which is why Teece (2010) just for clarification, argues price dumping, for instance, is not business modeling. Price dumping is not about creating a value proposition, architecture of revenues and costs or about mechanisms to capture value. Instead, he acknowledges that today’s competition is
much more differentiated and complicated, and business models are sophisticated and can be crucial and an effective mechanism in a global competitive world.

Teece (2010) also argues why economic theory, to some extent has been outdated; because today buyers will not just buy if the price is less than utility yielded and producers will only supply if price is at or above all costs including a return on capital. This implies that the power balance between supplier and customers has shifted and the way companies do business is rather different today compared to 50 years ago (Teece 2010). He views the business model as a conceptual tool, which leverages value both implicitly and explicitly, with the purpose to visualize the company from both an internal and external point of view. Therefore, it is important to be able to adjust value creation and value capture to fit its surroundings, since environments most likely will constantly change. For that reason, the biggest challenge for companies is to compile a business model that dynamically supports all activities and processes. Creation of business models requires creativity and insight; therefore a company should take a starting point from a provisional business model, then validate, revalidate and revise (Teece 2010).

The objective of any company is to exploit business opportunities and create value, and Zott & Amit’s article from 2010 reflects a theoretical framework that has been developed over the years throughout their previous research papers. The purpose of the business models is to solve the problem of what to sell and how to do it, which is in alignment with Magretta’s (2002) proposed purpose. Zott & Amit (2010) define the business model to be a set of activities, wherefore the business model can be seen as an activity system, still with the same backbone and thoughts from their research paper from 2001, but this new proposed activity system perspective could be argued to be more sophisticated. With an activity system perspective, they provide a framework that separates the approach into two categories, namely considerations of design elements and considerations of a design theme. The design elements are content, structure and governance, as they have been proposed as part of the definition in 2001. The design elements are novelty, lock-in, complementarities and efficiency (NICE), which describe the source of value creation within a company, which also was proposed in their paper from 2001. The origin definition of a business model from 2001 has previously been mentioned, and it is also used in this paper, though this paper is taking a more dynamic approach to the business model, which terminates a different conceptualization that is more dynamic:
“a system of interdependent activities that transcends the focal firm and spans its boundaries” (Zott, Amit 2010) (217)

Their main pointes that; how you choose to invent, produce and sell your product, or service will always determine how your business model will be designed and constructed. One choice can implicate another, and in alignment with Chesbrough & Rosenbloom (2002) and Teece (2010), so does Zott & Amit (2010) acknowledge that the design of a business model can limit profit, if management does not know how to adjust the design of the business model. They argue transactions and activities basically are the same, arguing from Williamson’s (1983) perspective on transaction cost, and the business model can be regarded as a system of activities. This system depicts how the company creates and captures value and the business model design will therefore answer questions about how your system, also known as the business model, is constructed. The boundaries are beyond the organization, which emphasizes, that this is a system-level holistic approach towards explaining why and how businesses operate, which is important since the business model seeks to explain both value capture and value creation. A strategy is not the same as a business model, but to achieve the competitive advantages, you need to understand the interrelation between the business model and the strategy. They also argue the business model is an independent variable that has to fit the environment, and the purpose of the business model is to create value for the customer. Business model innovation is a pathway to competitive advantages, because when the business model is differentiated, it is harder to imitate (Zott, Amit 2010).

The Long Range Planning special issue on business models includes more authors’ conceptions, where a few only shortly will be mentioned, since there, to a large extent, is a linkage between their papers in references etc. McGrath (2010) argues that the business model is the logical way to approach a business and create awareness of business opportunities in a fast-moving and uncertain environment. And others do not even bother defining the business model (Baden-Fuller, Morgan 2010) instead they are refereeing to Casadesus-Masanell & Ricart’s (2010) proposed definition.

Casadesus-Masanell & Ricart (2010) is focusing on strategy and the business model, explaining that a business model is how a company deploys its strategy to be able to compete. They further argue that, even though strategy and business models are distinguished, there is a relation between these two that cannot be separated (Casadesus-Masanell, Ricart 2010). They
emphasize this because they also want to discuss the notion of tactics, which they conclude can be distinguished from strategy. They present the business model definition as following:

“Business model refers to the logic of the firm, the way it operates and how it creates value for its stakeholders...” (Casadesus-Masanell, Ricart 2010) (196)

This can be interpreted as other authors have, that a business model is how you deploy your strategy. They further argue that business modeling is closer to art than science, indicating that it can be very challenging to build business models, and then further create alignment to strategy and tactics to be successful.

As described by Demil & Lecocq (2010) the business model is taking the Penrosian view of the company, seeing the business as a bundle of resources. Its purpose is two-fold, whereas it, first of all, can be seen as a static model that links the core business and its business model components. Second, it can be regarded as a transforming approach and a conceptual framework that facilitates changes and innovation in the organization or in the business model itself. They emphasize the importance of regarding the business model as a dynamic constant, to sustain performance, and this two-fold approach is exactly what creates understanding of the business model evolution (Demil, Lecocq 2010). They do not propose an explicit definition; instead they describe the business model and its purpose as follows:

“...the business model is considered as a concept or a tool to address change and focus on innovation, either in the organization, or in the BM itself” (Demil, Lecocq 2010) (228)

The business model describes how a company operates, which is in alignment with Shafer, Smith and Linder (2005) and Casadesus-Masanell & Ricart (2010), who argue the business model is how you deploy your company strategy. They also argue that a business model refers to the articulation between different areas of a firm’s activity designed to produce a value proposition to customers as Zott & Amit (2010) and Chesbrough & Rosenbloom (2002) also have. Their business model approach furthermore contributes to understanding the functioning and architecture of the specific organization.

Alexander Osterwalder’s PhD thesis from 2004 notes the divergence in literature, and as everyone else concludes, a more rigid approach to business models is necessary, emphasizing the need to talk about the same thing. As almost every other author, Osterwalder (2004) distances the business model from the term strategy, arguing the business model is a blueprint of the strategy; of the company’s logic of earning money. He, though, places the business model
between strategy, information communication technologies and business organizations. The title of his thesis is: “The Business Model Ontology – a proposition in a design science approach”, and the thesis outlines a specific business model template in an attempt to create business model ontology. Osterwalder’s (2004) thesis is building the theoretical foundation for the later proposed business model canvas by defining the nine business model components. Osterwalder (2004) is not proposing his own business model definition, but instead mentioning previous proposed definitions.

As described several times in literature, so does Osterwalder, Pigneur & Tucci (2005) emphasize that business models are lacking basic understanding of its purpose and use, and they also acknowledge that design and implementation of business models is neither simple nor easy. Furthermore, they also agree with other authors, that strategy and business models are distinct, whereas strategy includes execution and implementation, as the business model is more concerned with how the organization works as a system. The business model is an important and conceptual tool, which is defined in the following:

“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.” (Osterwalder, Pigneur & Tucci 2005) (5)

Osterwalder, Pigneur & Tucci (2005) further acknowledges the relation between the technology and the business model is strongly founded in the transaction cost economics.

Osterwalder & Pigneur (2010) acknowledge that value creation is important in a global competitive world, and therefore the crafting of business models is essential. The business model canvas was originally proposed in Osterwalder’s (2004) PhD thesis, and later on Osterwalder & Pigneur (2010) commercialized it in co-creation with 470 practitioners into a strategic management template where they propose a more simple definition of a business model:

“A business model describes the rationale of how an organization creates, delivers, and captures value” (Osterwalder, Pigneur 2010) (15)

Today business models are not only popular in the area of e-business, but also within strategic management and information systems (Osterwalder, Pigneur 2010). They argue the business
model canvas is a visual design that simplifies the understanding and approach to business model analysis.

2.1.1. Discussion on Business Model Definitions and Conceptions

There have been literature reviews done over the years, but I have chosen to take a critical and investigating approach, and re-examine the literature independent from previous research. This first part of the theoretical framework has sought to answer research question one through a structured literature review, and it has so far revealed that authors in the business model literature acknowledge and agree, that a common accepted theoretical definition of the business model does not exist. Therefore, is it also thought-provoking, considering every author is calling for a consistent definition, that almost everyone proposes their own definitions and conceptions of the business model. But, more interesting is, that research question one has revealed that there, to a large extent, is consistency in literature when it comes to definitions and conceptions of strategy versus the business model, its purpose and the explicit business models definition, and that, they to a large extent, reflects the same. So, even though there are proposed many definitions and conceptions on business models, I do not see them being that divergent. Even though there is not a common definition on business models, they are addressing some of the same purposes of a business model, namely to create and capture value.

Magretta’s (2002) and Linder & Cantrell’s (2002) definitions and conceptions appear to have all the right intentions of trying to illuminate the business model and its purpose. Though they do come out vague and reflecting, the papers are written in the early stages of its theory foundation. So, even though they are touching some interesting issues, their papers are not really going into depth. Through the literature review, it has also been interesting to observe Amit & Zott’s (2001) paper, not only because their business model definition often has been referred to, by amongst others Hedman & Kalling (2003), but also because of its evolvement through their own papers from 2007, 2008 and 2010. Both Magretta (2002) and Amit & Zott (2001) are putting lots of emphasis on the value creation in a company, explaining that the value chain has to be differentiated and independent from others. Chesbrough & Rosenbloom (2002) also emphasize value creation though, interestingly, are they already in 2002 starting to create awareness on the business model being static, which is a problem when using the business model framework in analysis. The approach to open business models is interesting because it provides the literature with different thinking in the value creation process, and that
was exactly what Chesbrough & Rosenbloom (2002) also described. Value can be added in many different dimensions, from both internal and external resources.

The paper of Hedman & Kalling’s (2003) did, at first, seem very suitable for this thesis, but I have to admit that even though it wants to take a dynamic approach to business modeling, it is not working for me. With the seventh component it looked promising, but when getting deeper into the paper, to me it is more a listing of components than an actual model describing a business. Their proposal does come out as quite a static approach, not further elaborating, which is why this paper has been excluded from the next research question.

Osterwalder, Pigneur & Tucci (2005) and Shafer, Smith & Linder (2005) all investigate the business model components, and all come to the conclusion that there are too many different proposals on which components a business model consist of, which does not make the job of business modeling any easier. Evolution in literature shows that literature around this time is staring to put more emphasis on the business model components. Today, the newest literature is no longer about business model definitions or overall conceptions, now it is on definitions of the components and dynamic approaches. There has been put emphasis on the problem of the business model being static, operating in a dynamic environment, which is why a company continuously has to assess the business model to perform the best. To me, this is a very interesting point of view, since the overall literature research in relation to this research has shown that authors most often do approach the business model statically with no considerations of this to be a problem. Only within the last few years, a vague interest shift towards this problem has appeared, and more authors now focus on describing the business model in context to the dynamic environment.

The newest literature (Teece 2010, Demil, Lecocq 2010, Zott, Amit 2010, Casadesus-Masanell, Ricart 2011) argues for dynamic business model approaches, but they are not concretizing, only emphasizing a business model constantly should be mapped to avoid the static approach. Zott & Amit’s (2010) approach is interesting because it sees the business an activity system, where transactions and activities basically are the same. Demil & Lecocq (2010) take the Penrosian view, and see the business model as a bundle of resources, and these two approaches, are the only ones that theoretically decide on interactions in the business model.

When discussing strategy versus business models, the authors have so far argued the terms to be distinct, only Chesbrough (2010) thinks the strategy is forming a competitive strategy,
whereas the other authors believe the business model is how you deploy your strategy, and Chesbrough & Rosenbloom’s indirectly define them to be the same. For instance Casadesus-Masanell & Ricart (2010) explain that a business model is how a company deploys its strategy to be able to compete; whereas Teece (2010) argues that business models translate leaders’ anticipations, which I believe could be understood to be the same as strategy. I think this could be a discussion on the hen and the egg, and some has argued the terms not to be substitutes, but rather complements (Zott, Amit 2008).

Teece’s (2010) conception on economic theory is interesting, because the business landscape has been argued to have changed and Teece (2010) acknowledges and argues that economic theory to some extent has been outdated. This is interesting and maybe this can be seen in relation to the boom in focus on business models as a tool to compete, Osterwalder (2004) did also argue that business models today are a tool for competition. Price dumping is a strategy and in Teece’s (2010) opinion is that not business modeling, which is one argument toward the notions are distinct.

The overall purpose of the business model is to create profitable and viable revenues, and they all do agree that a common term is needed. There are proposed many different definitions, and even though they are not coming from the same starting point, they all very much agree. The following table 2.1 illustrates the evolvement in business model literature and its highlight reflected as the researchers observed pattern.
To round of the discussion, I will argue that definitions and conceptions on business models to a high extent are comparable, even though previous work have argued differently. The literature is at first appearing to be challenging to conceptualize, because of divergent emphasis, notions, and use of language, but I argue that definitions and conceptions overall are not that divergent, because they are highlighting much of the same to be important. As Magretta (2002) could have expressed it; ‘they basically want to tell the same story’. The business model is a tool that helps a business navigate in its environment and over the years the terminology has evolved from focusing on the internal factor of value creation to embrace the whole organization, including the external environment. The next chapter will reveal that business model frameworks today are proposed and illustrated, including both the internal and external environment in one, which is why I find it very interesting to examine how business model components are proposed to interrelate in literature.

2.1.2. Partial Conclusion on Research Question One

This partial conclusion is summarized to create an overview and, as a researcher, I accept the following theoretical argumentations and assumptions that have been discussed on business model conceptions and definitions.

<table>
<thead>
<tr>
<th>How has the business model been defined and conceptualized in literature?</th>
</tr>
</thead>
<tbody>
<tr>
<td>– This literature review reveals that business model theory overall is unified.</td>
</tr>
<tr>
<td>– The terminology were in the beginning used in the context of e-business but is today used in context of many literature perspectives.</td>
</tr>
<tr>
<td>– The emphasis was with adherent of business models much on value creation and about proposing business model definitions.</td>
</tr>
<tr>
<td>– In the early year business model approach were relatively cognitive.</td>
</tr>
<tr>
<td>– Business models and strategy is considered to be strictly distinct, and most believe the business model is how you deploy your strategy.</td>
</tr>
<tr>
<td>– Business models spans the company and industry boundaries.</td>
</tr>
<tr>
<td>– Business models should understand the core logic of company, because it is equal to understanding of the underlying value chain.</td>
</tr>
<tr>
<td>– Literature evolvement from considering the business model in a static perspective to realizing the need to approaching it dynamic.</td>
</tr>
</tbody>
</table>
Chapter three constitutes the second part of the theoretical framework, with the purpose to examine the business model components, in an attempt to understand how interrelations between these affect a company. This chapter furthermore outlines and proposes the theoretical argumentation that underlies the analytical framework in the following chapter four.

### 3.1. Business Models Components and its Interrelation

Research question one has, through a literature review, revealed that 10 years ago, when the business model terminology had its first advent in management literature, the focus on components were minimal or even absent. The business model components were, most often just included in the overall business model definition, and therefore referred to as one (Hedman, Kalling 2003). Research question one has further revealed the increasing focus on the dynamics in the business model has only recently appeared in literature. To come closer, a solution to the problem statement, a structured literature review focusing on the business model components and its interrelation will be conducted. This chapter will investigate selected authors’ papers, and in some instances, selected case examples from the authors’ papers. This second part of the theoretical framework seeks to answer research question two:

**How has the understanding of interrelations between the business model components and its effects on the company been proposed in literature?**

Linder & Cantrell (2002) are neither concretizing nor visualizing the business model components of a company. Instead they argue that business models cannot be approached as simple theories because they are tacit understanding of how all the pieces in a company interacts to create value. Magretta (2002) simplifies and as previous mentioned, she is comparing the construction of a business model with writing a story. She divides the components of a business model into two parts, where the first part is linked to the creation process of the design, the purchase and the manufacturing, and the second part is linked to the selling process as
segmentation, the transacting of sales and the distribution. Magretta (2002) does not go into depth and define the components further or explain how they are interrelated, though she does describe the business model as a system:

“A business model's great strength as a planning tool is that it focuses attention on how all the elements of the system fits into a working whole.” (Magretta 2002) (90)

With the case of Disney, Magretta (2002) illustrates a flawed understanding of the interrelation between two components, the value proposition and the market segment, was challenging the company in its new European environment. Disney was assuming Europeans would have the same consumer behavior as the Americans, and therefore, they were duplicating the successful business model directly from the United States to EuroDisney Paris. As it turned out, the basic assumptions about the company’s core logic were quite different, because Europeans had a completely different eating culture and guests had to queue for hours to get their food. The Americans were used to hanging around the dining places all day, eating at very different times, which kept a steady flow. This created great dissatisfaction among its European customers, and EuroDisney had to adjust this and several other business model components (which she does not mention though) before it became a success. This case highlights the importance of understanding the interrelation between its business model components, since lack of understanding will not ‘tell a good story’.

Chesbrough and Rosenbloom (2002) are referring to the business model components to be a renewed understanding of Kenneth Andrews’s (1971) “classic definition of the strategy of a business unit”. This is in contrast since most authors in research question one argued the terms strategy and business model to be distinct. Chesbrough & Rosenbloom (2002) argued that the business model mediates between technological input and economic output and the business model contains of six components who’s main functions were listed as purpose and functions in previous research question one. These are also listed in the illustrative approach, as seen in figure 3.1. To clarify, the following describes the steps in business modeling, as mentioned and listed chronologically in the previous chapter, which is identical to the listing in their original paper. Figure 3.1 is differing a bit, where ‘market’ and ‘value proposition’ has switched positions, as has ‘cost and profit’ and ‘value network’. I though, use the ‘listing’ approach from the original paper, since it mentions this as the chronological approach in business modeling.
The first step in business modeling is articulation of the value proposition latent in the new technology and, secondly, to identify a market segment to buy the product or service. The market identification is important because it defines the architecture of revenues, and, if there is no market for the product or service, the value of the technology will remain latent. Thirdly, it is necessary to identify the value chain to address whether the processes should be performed internally or externally, in order to understand the value creation and value capture. Fourthly is positive alignment with the value network mentioned as important because it can increase the supply of complementary goods and network effects. The obtained knowledge on the product and the market will now fifthly indicate what cost structure is suitable for the chosen value proposition and market segment, which is emphasized with the following quotation:

“Targeting a specific market with a clear value proposition informs choices of what must be done and what can be omitted in the technical domain. This gives scientists and engineers signals on where to focus their activities. This focus is crucial for on-time delivery and achieving competitive cost structures.” (Chesbrough, Rosenbloom 2002) (535)

All together, this constitutes the competitive strategy of a company, which is the sixth purpose of a business model. Chesbrough & Rosenbloom (2002) demonstrate with the case of Xerox, the significance of applying the right business model to a specific product, and it once again indicates how important the interrelation between the components of especially the value proposition and market segment is, and just as essential as the value creation itself. Xerox adapted a technology that had been rejected by other leading companies, and commercialized it through a new and different business model, which turned out to be a great success. Instead of selling the expensive copy machines to their customers, they remodeled the value proposition, so that a company could lease the machine at a reasonable cost, which was an attractive deal for everyone. In that way, Xerox adjusted its business model to fit the external environ-
ment, in which companies did not want to buy the expensive copy machines. Instead Xerox did have success because they thought differently and creatively in the creation process of a value proposition.

Shafer, Smith & Linder’s (2005) review of the business model literature has revealed that proposed definitions stem from different perspectives, which moreover, results in a large variety of proposals on business model components. Shafer, Smith & Linder (2005) divide the components into four primary categories: strategic choices, the value network, creating value and capturing value, as illustrated in figure 3.2. Their paper is a literature review that is gathering what, so far, has been proposed in the literature on business model components. This model, though, is not considering how the components are interrelated; it only lists them.

![Components of a Business Model](image)

With the case of Sun Microsystems, Shafer, Smith & Linder (2005) illustrates how interrelations between the business model components can be complicated and affect the business, when selling two different products, with different value propositions through the same business model. Sun Microsystems’ choice of moving towards the trend in the industry of standardizations of chips and software was profitable for many years. However, the market power and evolution equalized the overall product difference, and Sun Microsystems lost market shares and revenues. They, therefore, decided to introduce a low-end product line which eventually cannibalized revenue from their premium product line. This strategic shift added a new value proposition and the business model change did not impact the company’s revenue positively. Instead, Shafer, Smith & Linder (2005) claims that it basically ruined their business
model. The problems arose internally because there was misdirection and confusion in the engineering and sales department. This case demonstrates that external changes, in this case competition and technology development, affected internal components in the business model, which affected the business model negatively, because the response to the changes had not been facilitated carefully throughout the organization. Shafer, Smith & Linder (2005). They are as Magretta (2002) and Chesbrough & Rosenbloom (2002), neither deciding whether nor how the business model components theoretically could be explained to be interrelated. Instead these authors are with their case examples indirectly indicating this as a problem.

A theoretical underdevelopment of the business model terminology is criticized by Teece (2010) because the literature lacks dynamic approaches. Teece (2010) proposes the following architecture of the business model design, as illustrated in figure 3.3.

![Elements of Business Model Design](image)

Teece’s (2010) business model design has no explicit mentioned components, but instead illustrates the product or service in its cycle in an attempt to describe how the company creates value, receive its payments and convert the payments to profits, just as their business model definition were proposed in previous research question one. And, as mentioned in the preliminary chapter, I have modified the model, due to the fact that the paper contained two of the elements ‘Design mechanisms to capture value’ which I have put together in one. Since Teece (2010) does emphasize the business model leverages value both internally and externally, is this approach to span the firm boundaries within the terminology of business models. Teece
emphasizes the business model components must be designed referring to each other, the business environment, its customers, and the technology development in the industry. Teece (2010) describes the dynamic business model approach:

“A provisional business model must be evaluated against the current state of the business ecosystem, and also against how it might evolve.” (Teece 2010) (189)

He further emphasizes that management has to continuously refine the business model and evaluate each business model component to be able to be predictive about the future, and in that way, understand how your business model components will evolve (Teece 2010). Good business model design is therefore determining a market segment, the benefits of the product or service, deciding on features or technology, deciding how this can be offered to the customer, and final, how the value capture of revenues and costs shall be structured (Teece 2010).

Amit & Zott (2001) have developed the “Value Creation model”, which is a conceptual business model framework, visualizing the relatedness in value creation. The model is depicted as the locus of innovation and illustrated in figure 3.4. It illustrates how transactions are structuring the network of firms, suppliers, complementors and customers, and they therefore argue the business model is a configuration of the transactions in the exploitation. They are not proposing overall business model components. Instead this business model framework emphasizes the value creation process is dependent of four elements: efficiency, complementarities, lock-in and novelty. This paper is based on an analysis of value creation in 59 e-companies, where one of their main findings is that value creation in e-business lies within the structure and systems of the transaction. This framework has mostly been suited for analyzing in e-business, but the paper has overall gained great acceptance in literature. Through their papers published in 2007 and 2008 they further develop this idea, and in 2010 they are ready to introduce the activity system perspective (Zott, Amit 2010), which is based on the same foundation as their article from 2001. The design elements are still content, structure and governance, and the design themes are novelty, lock-in, complementarities and efficiency, also known as NICE. The difference between the paper from 2001 and 2010, lies within the new paper having evolved towards a more systematic approach to the business model, and not only focusing on e-business. The activity system perspective proposed by Zott & Amit (2010) acknowledges that activities and transactions are the same and what links a business model together. They also argue that interdependencies among the activities are central in this activi-
ty system, because insight into the interrelations enables the company to respond to changes and be able to re design and maximize profit (Zott, Amit 2010). Just as Chesbrough & Rosenbloom (2002) argued with the Xerox case, Zott and Amit (2010) stresses with the FriCSo case, that a company has to be flexible and adjust its exploitation to fit the value proposition in order to profit from the business model applied. FriCSo possessed a significant technological breakthrough product that they knew would have different success depending on the business model they would chose to deploy it through, and this was also what the case was for Xerox.

Transaction costs are overall linking the skeleton of the business model together (Amit, Zott 2001, Zott, Amit 2010), and they acknowledge in the perspective of Williamson (1981), that activities and transactions, can be accepted as one. This transaction cost economics perspective on activities in a company, is one of the only theoretical perspective on interrelations I have come across in literature.

Demil and Lecocq (2010) takes a two-fold approach to the business model from a Penrosian view, arguing that a company is a bundle of resources. It is the interaction and articulation between these resources, also known as components that facilitate growth, and more importantly also makes a company able to propose new value propositions. The RCOV framework is abbreviated from ‘Resource & Competences’, ‘Organization’ and ‘Value’, including both a static and a dynamic approach, and they argue the dynamic approach generates the revenues.
**Resources & Competences:** The resources can come from both developed internal resources or come from the external market. Competences refers to managers ability to develop the resources the company provide.

**Organizational Structure:** Includes the activities and the relations that are established within the organization. It is the value chain of the activities and the value network.

**Value Propositions:** Value propositions is being delivered to the customers

Figure 3.5 illustrates the business model framework as proposed by Demil & Lecocq (2010). The business model framework is proposing five main business model components, illustrating the necessity of understanding the dynamic interrelation between the diverse components. They argue that changes in the business model are seen in a cost versus revenue perspective (Demil, Lecocq 2010).

![The RCOV Framework](image)

The RCOV framework is as Zott & Amit (2010), taking a structured and formalized approach to the business model framework, focusing on value creation and value capture through the virtuous circle in the middle. The RCOV components in the model do I presume is the value creation in the company, whereas the revenue and cost structure is an indicator for the value capture of the company. This model implicates the value proposition is providing the volume and structure of revenues and the internal and external organization is providing the volume and structure for the costs. The value proposition and the internal and external organization are though also mediating with resources and competences. This dynamic approach illustrates business model components do interrelate as a bundle of resources, though this is, together with the transaction cost economies perspective, the only theoretical proposals on interrelations that I have come across. Demil & Lecocq (2010) further argues that changes in the business model components either are voluntary or emergent, and a company has to consider what and how to solve problems depending on the change.
Osterwalder & Pigneur (2010) are proposing a structured, formal and conceptualizing approach to business modeling, which they define as the business model ontology. The business model is illustrated in figure 3.6, showing the nine business model components and how they are the logic of how a company intends to earn money. This framework is to some extent, appearing to be acknowledging the interrelations between some of the components of the business model. But having said that, this model is not properly proposing interrelation between business model components, though they do emphasize, that the business model framework is a tool to constantly interpret and renew the business. According to Osterwalder & Pigneur (2010) the business model canvas is a visual design that simplifies the understanding and approach to business model analysis.

![The Business Model Canvas](source: Osterwalder & Pigneur (2010) 42)

Osterwalder & Pigneur (2010) agree on the confusion in the literature and underlines we need to talk about the same in order to understand that even small changes in maybe only one component of the business model will have great impact on every component. Osterwalder & Pigneur (2010) (16-17) very specifically define a business model to consist of following nine components with different purposes:

**Value Proposition:** It seeks to solve customer problems and satisfy customer needs with value propositions.

**Customer Segment:** An organization serves one or several customer segment.

**Channels:** Value propositions are delivered to customers through communication, distribution and sales channels.

**Customer Relationships:** Customer relationships are established and maintained with each customer segment.
Revenue Streams: Revenue streams result from value propositions successfully offered to the customers.

Key Resources: Key resources are the assets required to offer and deliver the previously described elements…

Key Activities: … by performing a number of key activities.

Key Partnerships: Some activities are required outside the enterprise.

Cost Structure: The business model elements result in the cost structure.

Osterwalder & Pigneur (2010) acknowledge that value creation is important in a global competitive world, and therefore, is it essential to understand the crafting of a business model. Business models can quickly be outdated, but according to Osterwalder & Pigneur (2010), there are some precautions one can take. Though there is uncertainty about the future, assumptions on market development and environmental changes can be identified through analysis. Even though there is acknowledgement on the business model as an evolving tool, there is no emphasis on how the effects are on the different business model components. Though did Osterwalder (2005) previously argue that technology development and business model relationships have its roots in the transaction cost economies.

The Nespresso example illustrated by Osterwalder & Pigneur (2010), is yet a good example, illustrating the same problem as for the case of Sun Microsystems by Shafer, Smith & Linder (2005). Deploying two products through the same business model confuses the interrelation between the internal components, which eventually will affect the company. It demonstrates the difficulties to obtain success when selling two products from the same business model, because there clearly is a differentiation in the core logic of the two underlying value chains and value propositions.

3.1.1. Reflections on Components and its Interrelations

The second part of the theoretical framework has sought to answer research question two, by examining the business model literature, focusing on the business model components and how they are proposed to interrelate. It has been shown very clearly that this part of literature is even less grounded than the overall conception and definition on business models. The business model components have, though attracted more awareness within the last few years, with authors acknowledging that business models have to be approached dynamically. Based on the knowledge obtained in both research questions, I argue that there, throughout the years, has been an unconscious attention to the business model components and its interrelations. Even Magretta (2002) demonstrated 10 years ago, that flawed understanding between busi-
ness model components was close to being fatal to EuroDisney, though she mentioned it unconsciously in the perspective of interrelations. Newer literature is now focusing on the dynamic approaches to the business model, which has been verified through not only the meta-business models, but also through the case examples. These dynamic approaches are, though still not theoretically explaining how the components in a business model are interrelated, except from Demil & Lecocq (2010), Zott & Amit (2010) and to some extent Osterwalder (2005). Demil & Lecocq (2010) proposes the business model to be linked through the resources from the Penrosian view. Zott & Amit (2010) argue through both this paper, and their previous, that a business model is linked through transactions. This literature research on business models and its components is clearly emphasizing a lack in literature. Everyone agrees, business models are fundamental to performance, and it does appear through several examples that it can be costly if companies do not understand their business model and how the components are interrelated, and thereby how they are vulnerable to environmental changes.

Linder & Cantrell (2002) and Magretta (2002) is in the context of research question two once again reflecting a vague business model approach that, in some ways, are aware of the difficulties the business model meet, but yet is not taking any approach that concretizes nor visualize their business model reflections. With the case example of Disney, the paper acknowledges that different environments have great impact on the success of a business model (Magretta 2002). This though, is not very concrete, because it is an unconscious example. Chesbrough & Rosenbloom (2002) acknowledges that business models are operating in dynamic environments. Their proposal to business modeling are, in some way, similar to the hermeneutical circle, in the way that it constantly shall renew itself and identify possibilities in the environmental changes through chronologically remodeling. This business model approach is interesting because it demonstrates how technical input and economic output both can impact and be impacted by the business model and its functions. I do wonder, if the paper and case on Xerox from 2002 was foundation for knowledge creation, on how obstacles in value creation can limit profit negatively. Did his 2002 paper inspire Chesbrough (2003) to think ahead in business modeling and further learn how a company is not always benefiting from the value creation, if the business model is not capable of adjusting to capture the value from the product.
Neither Magretta (2002), Chesbrough & Rosenbloom (2002), nor Shafer, Smith & Linder (2005) touch or propose how the business models could be interrelated theoretically, this only comes later in literature. What has seemed to be most important in literature within the last few years is the focus on dynamic approaches to business modeling (Teece 2010, Demil, Lecocq 2010, Casadesus-Masanell, Ricart 2010, Zott, Amit 2010, Osterwalder, Pigneur 2010). Environmental changes are now considered to have an effect on a company, and therefore, it is important to constantly validate, revalidate and revise the business model, as both Teece (2010) and Magretta (2002) have proposed to capture the most of the value creation.

According to Zott & Amit (2001; 2007; 2008; 2010), the business model is a system, and thereby, the components are related through an activity system perspective, which is based on transactions.

Osterwalder & Pigneur (2010) are neither defining the interrelation between the business model components, even though the business model is carefully described. Furthermore, the business model components of ‘customer relationships’ and ‘channels’ are illustrated by arrows going from the value proposition to the customer segment. To me, these arrows should go both ways, because a company cannot just be sure that their proposed value will fit a market segment. They have to develop their value proposition to fit consumer behavior. Both Chesbrough & Rosenbloom (2002) and Zott & Amit (2010) are, with their cases of Xerox and FriCSo, acknowledging, that not knowing how to handle the exploration in the company can be fatal. In these cases it did show, because the value proposition was extremely hard to define. These viewpoints can be in alignment with Demil & Lecocq (2010), who stresses the importance of knowing your business model is static, but operating in a dynamic environment that will change, either voluntary or emergent. Or maybe these cases have demonstrated that the business model is the practical tool that will visualize how changes in your strategy will fit the business both internally and externally.

It seems like the business model has evolved to put more focus on components of the business model, and cases as Xerox and FriCSo show that a flawed understanding of the interrelation between the business model components influenced profits negatively. Though, one has to bear in mind that both companies are high technologic companies, and maybe that has an influence. Knowing from research question one, that authors overall distinct business models from strategy, it has come clear through research question two how this can be explained. The cases have shown that a business models fail to succeed if strategic shifts have not been care-
fully considered and incorporated in the business model, because the business models are a visualization that shall help managers understand what implications a strategic change has on a company.

This research has so far learned that companies fail to succeed because they lack understanding of their business model components and its interrelation. This research has clearly shown that research from the beginning of the 00’s is only mentioning the business model components, and only a few years back do we see research that is more detailed and focused on the components and its composition.

Table 3.1 illustrates the evolution in the literature on business model components and its highlight reflected as the researchers observed pattern.

<table>
<thead>
<tr>
<th>Literature Evolution on Business Model Components &amp; Causality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Author</strong></td>
</tr>
<tr>
<td>Shafer et al. (2005), Osterwalder et al. (2005)</td>
</tr>
</tbody>
</table>

To round off the discussion and reflections on how business model components have been proposed to interrelate, I will argue this part of literature is lacking even more than the basic conceptions and definitions. Research question two highlights that the coherence of a company can be defined as successful the better understanding of the business model, its purpose, its components and its interrelation. The literature has, though so far, only proposed that business models are either linked through resources or transactions cost. Other proposals on interrelations in business models are not theoretically supported. I therefore, believe that a common used and accepted business model ontology is the only way to be able to investigate this topic further. Since business model literature is not supplying knowledge on interrelations between the components to understand the dynamics of a business and continuously benefit from, there is a need to extend the approach to other literatures.
3.1.2. Partial Conclusion on Research Question Two

This partial conclusion is summarized to create an overview, and as a researcher I accept these theoretical argumentations and assumptions that have been discussed on business model components and its interrelation.

<table>
<thead>
<tr>
<th>How has the understanding of interrelations between business model components and its effects on the company been proposed in literature?</th>
</tr>
</thead>
<tbody>
<tr>
<td>– A business model is proposed to consist of very different defined components.</td>
</tr>
<tr>
<td>– Though overall they are not that divergent, they are basically covering the same areas of a business model, though seems like they are trying to differentiate themselves.</td>
</tr>
<tr>
<td>– There is only theoretical interrelation between the components proposed by a few different authors. Either as transactions or resources.</td>
</tr>
<tr>
<td>– The case examples from the business model authors’ papers reveal, that lack in understanding the interrelation between business model components creates a business model that is not well integrated.</td>
</tr>
<tr>
<td>– With the dynamic approaches, awareness about the external environment is created.</td>
</tr>
<tr>
<td>– Dynamic business model are yet not explaining how to solve interrelation problems.</td>
</tr>
</tbody>
</table>
Previous chapters have firstly outlined the problem identification and the methodic reflections, whereas chapter two and three together have presented the theoretical framework and the argumentation underlying this research. This fourth chapter constitutes the analytical framework, which carries out a case study of Liz Claiborne. This, to validate the theoretical argumentation and assumptions founded in research question two, by applying two well-known business model frameworks followed by a partial discussion. This chapter will round of the analytical framework with a final discussion.

4.1. Case Study of Liz Claiborne

4.1.1. Selection and Relevance of Case

“Change in the presence of fit: the rise, the fall and the renaissance of Liz Claiborne”\(^4\), is a case study that has been published in Academy of Journal Management\(^5\) in 2001, written by Nicolaj Siggelkow. It is written in the context of organization literature, analyzing how Liz Claiborne is dealing with interrelations in its organization, proposed by management and organization literature, as the internal and external fit of an organization in relation to respectively strategy and environmental changes. Even though Siggelkow’s (2001) case study is not written from a business model perspective, it is yet very interesting to this research and problem statement. His case study is considering and dealing with the issue of interrelations in organizations and the effects on a company affected by environmental changes. The business model literature has only recently put stronger emphasis to this issue, especially in the Long Range Planning special issue. In this issue, many of the authors highlight that business model approaches have to be dynamic, to be less vulnerable to environmental changes (Teece 2010, Demil, Lecocq 2010, Zott, Amit 2010, Casadesus-Masanell, Ricart 2011). In alignment with the discussion and conclusion from research question two, determining that a business model

\(^4\) Case paper has been enclosed in appendix 2
\(^5\) http://aom.org/AMJ/
can be coupled through transactions and resources as a system of activities, Siggekkow (2001) in a way agrees and acknowledges that a business model, at some point is interrelated, though he is presenting the interrelations as choices that link an organization:

“...one must analyze the firm as a system of interconnected choices: choices with respect to activities, policies and organizational structures, capabilities and resources.” (Siggekkow 2001) (838)

Furthermore is Siggekkow (2001) arguing that good internal fits can lead to organizations that are difficult to imitate, which is in alignment with the mindset of Teece (2010) and Zott & Amit (2010), who argue that business models have to be build differentiated so that they are harder to imitate. The term “fit” is originally used in configurations literature to describe internal relationships among activities and in contingency literature to describe a firm’s choices in its environment (Siggekkow 2001), which is in good alignment with Siggekkow’s point of using this term in his case study. Moreover, this is very much in alignment with the business model literature, which over the years, has sought to span firm boundaries with the business model approach, trying to include the external environment. Siggekkow (2001) more importantly acknowledges that failure to react rapidly to environmental changes can decrease company value and the external fit. Several business model authors also acknowledge that static usage of business model frameworks can be critical (Teece 2010, Shafer, Smith & Linder 2005, Chesbrough, Rosenbloom 2002). So, where Siggekkow (2001) is working from an organizational perspective with internal and external fits trying to explain interrelation, the business model literature has, within the last years, unconsciously sought to examine this theoretical gap by proposing dynamic business models that span the company and even industry boundaries (Amit, Zott 2001, Demil, Lecocq 2010, Chesbrough, Rosenbloom 2002, Ostewalder, Pigneur 2010). Though, it seems like the business model approach has not yet been able to identify and explain these interrelations other than by simple arrows, wherefore it is even more difficult to understand this in relation to its acting in both the internal and external environment.

This paper further depicts the value chain as the structure of the analysis, which is in alignment with the business model literature, which also tends to put stronger emphasis on value creation before value capture. The focus on ‘fit’ makes Siggekkow’s (2002) case study very appropriate as a case study in this master thesis. In the light of these similarities, I argue this case study is relevant and well-founded, and it could definitely be an added dimension to this research and the business model literature.
This research is an attempt to bring about some new insight to the unsettled, though very popular theory and conceptualization on business model, its components and their interrelations. This analytical framework applies two different business model frameworks proposed by Demil & Lecocq (2010) and Osterwalder & Pigneur (2010) to the case of Liz Claiborne, to examine and clarify if interrelations between the business model components can be identified through business model analysis. The selection of business model frameworks will be discussed and argued in one of the following partial chapters.

4.1.2. Brief Company Overview
Liz Claiborne was founded in the United States in 1976, experiencing immediate success approaching a new customer segment, namely the “professional women” that had just entered the job market. The company was having great success, with a continuously increasing net income. The company even became part of the Fortune 500 in 1986, with Liz Claiborne as the first woman ever to gain such an accomplishment. Liz Claiborne knew they were a successful business, but with trade-offs, given the chosen business model. Though, because of the overall market competition, the company did not consider this inflexibility in the external fit to be an issue of concern:

“In sum, Liz Claiborne's choices showed high internal fit and - given the environmental conditions at the time - high external.” (Siggelkow 2001) (849)

In the late 80’s and the beginning 90’s, Liz Claiborne was starting to face some significant changes in customer demand, retailers’ economic health, and technological advancing, which gradually reduced the company’s external fit. At first, Liz Claiborne did not react to these changes, but when net income decreased heavily, they were forced to make some changes if they wanted to stay in business. A new CEO, Paul Charron, was hired to implement and boost a new business model. Charron had previous success as CEO for, amongst others Procter & Gamble, and as a response to the environmental changes, he had to perform some organizational changes, to get the company back on track:

“Not until a new management had changed a whole series of choices in the design, distribution, and production set-up, moving Liz Claiborne to a new peak, did performance improve.” (Siggelkow 2001)(851)

The essential changes performed are listed below:

1. A shift in product portfolio
2. Revitalization and modernization of choices within presentation and design that had been neglected over the previous years. Including different terms for retailers.
3. A wide-ranging restructuring of the company's production and distribution set-up. These changes overall reflect, as just mentioned, the company's response to the environmental changes that had challenged Liz Claiborne. Further elaboration on the identified problems behind these choices, will be presented in the following parts.

4.1.3. Further Presentation and Clarification of the Problem

Liz Claiborne was experiencing great success that over a few years changed to the reverse, which had economic consequences reflecting in a seriously declining net income. Liz Claiborne had not realized, or at least not responded to, the fact that the industry they were competing in had undergone some significant changes, which eventually resulted in an outdated business model.

First of all, work clothes had become more casual and Liz Claiborne’s value proposition was not matching the new and different customer demand, which implied Liz Claiborne’s original market segment basically did not exist anymore. Secondly, were the department stores undergoing significant changes. The retailer supports were cut back; the department stores were claiming larger discounts and demanding to be able to reorder. Thirdly, was the industry technologically advancing, which lead to shorter response time and reordering cycles for their competitors. One could argue these changes were not sudden and could to a large extent have been predicted, if Liz Claiborne firstly had understood the market they were proposing the value proposition to, and secondly if they had paid attention to the relationships they were having to their cooperative partners. This seems very obvious, but companies apparently fail to understand the interrelations between the business model components. This was discussed throughout research question two, which revealed that interrelation between business model components, have not yet been explored nor defined in the business model literature, besides when discussing dynamic approaches. This leads me to the construction of the third and final research question. From a business model perspective, what was it that changed in the business model of Liz Claiborne, and could a business model analysis to some extent have predicted these changes, so that the economic decline could have prevented. The following chapter four will further investigate this problem in a case study of Liz Claiborne, clarifying if the business model frameworks are identifying these problems of interrelation between its components by answering research question three:

How are two business model frameworks solving the interrelation problem between the business model components in the case of Liz Claiborne?
This final part of the chapter is based on the obtained theoretical knowledge in the thesis so far and then from a conceptual business model perspective testing if the business models can be used to identify interrelations between its components by applying the case of Liz Claiborne.

4.1.4. Selection of Business Model Frameworks for the Analysis
The search for fitting business models that I could consider valid and appropriate for this research is exactly the reason for the inclusion of two and not more business model frameworks. Originally I wanted also to include the business model frameworks by Chesbrough & Rosenbloom (2002) and Zott & Amit (2010), but as I progressed I realized these models for various reasons did not fit into this research. The business model of Chesbrough & Rosenbloom (2002) was very much focusing on a company with a strong technological value creation process, which is not the case of Liz Claiborne. The same is the case of Zott & Amit (2010), since their paper is based on their well-known paper from 2001 written on value creation in e-business. Furthermore, Zott & Amit’s (2010) business model approach just did not make sense to me. Therefore and based on my understanding and interpretation of the business model components and its interrelation, I will now argue why the following two business model frameworks have been selected to be applied to the case study of Liz Claiborne.

Demil & Lecocq (2010) are by far the ones proposing a business model framework that is in closest alignment with the purpose of this thesis, therefore it was a natural selection. Furthermore, this business model is based on the old Penrosian view of the company, arguing a business model is a bundle of resources, which is a theoretic added dimension. The RCOV framework is very interesting in that it takes a dynamic approach to business modeling, focusing on resources as being what couples the business model components. The dynamic approach is important, since this business model framework demonstrates how the interactions between its components as sources for growth are rooted in the Penrosian view of the company. Nicolaj Siggelkow is in addition cited in Demil & Lecocq’s (2010) (231) paper:

“the advantage of an ex ante specification of core elements is that changes in these elements can be measured consistently across firms. The disadvantage of this approach is that it assumes that the same elements are equally central or core in all the firms.”

This comment is in relation to whether it is advantageous that business models ontology’s are being used in companies, because it might limit some companies, if they only focus on one
business model approach. Maybe that is one of the problems with business models, that they are not being redesigned to fit the company, instead the company has to fit in the business models, and this could be a limitation.

The business model framework by Osterwalder & Pigneur (2010) has been included because of its frequent appearance, in the literature and the business environment, wherefore I find it impossible to leave out in an analysis like this. The business model canvas has been extremely popular, and one can argue pretty strongly, since its commercial publication in 2010, but it is still very suitable for this research, and also because the business model canvas theoretically is supported by Osterwalder’s PhD thesis from 2004. Osterwalder (2004+2005) actually do acknowledge that business models and its relationship with technology is rooted in the transaction cost economies. Osterwalder & Pigneur (2010) has also considered the business model to operate in a dynamic environment with key trends, industry forces, macroeconomic factors and market forces as the environmental factors.

Both models are ontological perspectives, though different in some ways. For example are Osterwalder & Pigneur (2010) defining two components, value proposition and market segment, whereas Demil & Lecocq (2010) includes the customer in the value proposition.

The selection of these business models lies within their contribution as different approaches, and yet embraces the research focus. Before getting to the case study and business model analysis, a further elaboration of the problems of Liz Claiborne will be outlined.

4.1.5. Applying Business Model Frameworks to the Case of Liz Claiborne

The rise of Liz Claiborne happened due to different factors. Firstly, the management was quite experienced in the industry and, secondly Liz Claiborne hit a new market segment that turned out to have a great potential and be highly profitable. Given the environmental conditions at that time, this business model turned out to be a great success and was reflected in the strong and steady increasing net income. From a business model perspective it is interesting to analyze if the two selected business models applied to this case study do acknowledge and identify these changes, and furthermore, understand the importance of identifying the interrelation between the business model components. In the case of Liz Claiborne, several components seemed to be strongly interrelated, and the lack of understanding the interrelation between the business model components was costly. The business model components that turned out to be vulnerable to environmental changes are illustrated in the following:
1. The proposed value proposition did eventually not fit a fast evolving market segment. It was new times, a different buyer demand and there were overall a change in customer demand.

“One of the study's findings was that customer confidence about picking outfits had risen considerably. In the early 1980s, Liz Claiborne's function had been to show what apparel was suitable for the workplace; now, customers asked to be presented with options.” (Sigelkow 2001) (852)

2. The retailers were demanding better contracts and influence in their co-operation.

“First, the stores cut down the retail support....Secondly, department stores demanded larger discounts from their vendors....Third, to alleviate their liquidity problems, department store aggressively pursued inventory reduction.” (Sigelkow 2001) (850)

3. The technological development changed the competitive conditions, and Liz Claiborne was late to respond to these.

“In other words, technological changes had created a new peak in the performance landscape that required a different set of choices.” (Sigelkow 2001) (850)

The changes in the business model components described above are the main reasons why Liz Claiborne could not maintain its success and went from the rise to fall. The following partial chapter will describe and analyze how a specific business model applied to the case of Liz Claiborne, can help to solve the problem statement. This will be done through an examination of how the business model proposes and identifies the interrelation between its business model components.

4.1.5.1. The RCOV framework By Demil & Lecocq (2010)

The case of Liz Claiborne has highlighted from an organizational perspective, flawed understanding of the interrelations between the external and the internal fit in the organization. The purpose with the following analysis of Liz Claiborne in the RCOV framework is to clarify if the business model literature could have identified and predicted these environmental changes, so that Liz Claiborne could have been able to react sooner and avoid the strongly decreasing net income. For convenience, the RCOV framework has been included again in this chapter in figure 4.1.
The following analysis will map the components in the case of Liz Claiborne in the RCOV framework in matrices of before and after, which respectively means before and after the changes were implemented in the organization. Afterwards the changes will be discussed respectively for each component, and finally then be shortly discussed in a broader perspective of the business model as a whole.

<table>
<thead>
<tr>
<th>Resources &amp; Competences</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NY showroom</td>
<td>NY showroom + 2 smaller showrooms</td>
</tr>
<tr>
<td></td>
<td>150 retail specialist</td>
<td>125 sales associate</td>
</tr>
<tr>
<td></td>
<td>20 consultants</td>
<td>Liz&amp;Learn, LizRim, Lizfirst &amp; Liz shapes</td>
</tr>
</tbody>
</table>

The changes in resources and competences of Liz Claiborne clearly reflect an increased awareness of the company’s relations to its cooperative partners. The original business model did not focus on the relation to its retailers, and these changes therefore reflect, a different demand from the retailers that Liz Claiborne had adjusted to. What is interesting is, that the retailers in the RCOV framework are a component in the external organization, which despite the arrows and the virtuous circle, did not understand the changes in the external organization should affect the resources and competences.
### Internal and External Organization

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Upscale department stores</td>
<td>– Department stores</td>
</tr>
<tr>
<td>– Demanding minimum orders</td>
<td>– Online sales</td>
</tr>
<tr>
<td>– 500 Suppliers in 38 Countries</td>
<td>– Flagship store 5th Avenue</td>
</tr>
<tr>
<td>– Overseas production =&gt; 60 days respond time</td>
<td>– Domestic production =&gt; response time 20-25 days</td>
</tr>
<tr>
<td>– Producing less than ordered, to create “fear of missing out effect”</td>
<td>– Reordering possible</td>
</tr>
</tbody>
</table>

These changes reflect the technological changes and the new retailer demand they were meeting. These changes reflect both the changes in the customer segment, and the changes in their value chain. With having not said too much, the original business model did indicate Liz Claiborne was taking a dominant attitude, but at the given time, the external organization adjusted to Liz Claiborne’s rules. I see this among reasons why the business was successful for a number of years, but also as reason why they experienced the fall.

### Volume & Structure of Costs

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Minimum orders</td>
<td>– Department stores</td>
</tr>
<tr>
<td>– Upscale department stores</td>
<td>– Selling to smaller retailers</td>
</tr>
<tr>
<td></td>
<td>– Selling through online store</td>
</tr>
<tr>
<td></td>
<td>– Selling through Flagships store</td>
</tr>
</tbody>
</table>

The internal and external organization provides the volume and structure of the costs. The business model of Liz Claiborne were in the beginning focusing on keeping costs as low as possible, but it had consequences to the cooperation with the department stores. Liz Claiborne was not making flexible contracts and the contracts were much on their own terms. Besides that were their choices of how to structure the value chain to some extent limiting the company from being flexible in regards to their retailers being able to reorder etc.

### Value Proposition

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– New demographic segment</td>
<td>– More confident customers</td>
</tr>
<tr>
<td>– The professionals</td>
<td>– Multiple segment</td>
</tr>
<tr>
<td>– Six seasons</td>
<td>– Four seasons</td>
</tr>
<tr>
<td>– Mix &amp; match</td>
<td>– Mix &amp; match between collections</td>
</tr>
<tr>
<td>– Same colors over seasons</td>
<td>– More casual</td>
</tr>
<tr>
<td></td>
<td>– Spanning product portfolio</td>
</tr>
<tr>
<td></td>
<td>→ Budget</td>
</tr>
</tbody>
</table>
The changes within the value proposition are interesting in this component, because it includes both the value proposition and the market segment in one. Therefore, it is clear that this component, since it basically includes two elements, have difficulties indentifying the interrelation between the value proposition and the market segment, which is essential to the volume and structures of revenue.

<table>
<thead>
<tr>
<th>Volume &amp; Structure of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before</strong></td>
</tr>
<tr>
<td>– Sales through department stores</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The value proposition provides the volume and structure of the revenues. The proposed value proposition did not adjust to the changing market segment, which affected the revenues negatively.

<table>
<thead>
<tr>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before</strong></td>
</tr>
<tr>
<td>– Decreasing growth in net income</td>
</tr>
</tbody>
</table>

As illustrated in figure 4.2, the revenues are minus the cost,s equal to the margin. To Liz Claiborne did the margin decrease strongly over a year from 1993 to 1994. The year of 1994, is by far the worst financial year.

Having applied the RCOV framework to the case of Liz Claiborne, I have to admit this model did not facilitate the changes as obviously as I had hoped for. The RCOV framework is due to its dynamic approach at first very suitable, though this model also lacks in the clarification of explaining the interrelations. Especially, because it incorporates the value proposition and the market segment in one component, which from research question two appears to be the most vulnerable interrelation. This analysis also illustrates that even though it is indicating with arrows, there should be focus on interrelations between the business model components, is it not very clear in the analysis. Therefore, I cannot argue the RCOV framework is solving the problem of interrelations between business model components to an acceptable degree.
4.1.5.2. The Business Model Canvas by Osterwalder & Pigneur (2010)

After having validated the RCOV framework in relation to research question three, the business model canvas will, in the following, map Liz Claiborne in the respective components of the framework. The model has been illustrated once again, and is shown in figure 4.3. As for the RCOV framework, it is almost the same, as for the business model canvas; the components indicate either value creation or value capture. The left side of the model indicates the cost structure of the company, and the right side indicates the revenue streams. This is quite similar to how the value creation and value capture were explained in research two on the RCOV framework. As previously mentioned, the business model canvas is proposed to contain nine components.

The following analysis will map the components in the case of Liz Claiborne in the business model canvas in matrixes of before and after, which respectively means before and after the changes were implemented in the organization. Afterwards the changes will be discussed respectively for each component, and finally then be shortly discussed in a broader perspective of the business model as a whole.

<table>
<thead>
<tr>
<th>Value Proposition</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Six seasons</td>
<td>Four seasons</td>
</tr>
<tr>
<td></td>
<td>Mix &amp; match</td>
<td>Mix &amp; match between collections</td>
</tr>
<tr>
<td></td>
<td>Same colors over seasons</td>
<td>More casual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Spanning product portfolio</td>
</tr>
</tbody>
</table>
The changes in the value proposition, reflects an adjustment to the changes in customer segment. Therefore is it also interesting that the business model canvas is linking the value proposition to the customer segment through one-way arrows. With the new value proposition, Liz Claiborne is taking a more humble approach meeting the end-customers at different economic levels, but also through a broader range of channels.

<table>
<thead>
<tr>
<th>Customer Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
</tr>
<tr>
<td>– New demographic segment</td>
</tr>
<tr>
<td>– The professionals</td>
</tr>
</tbody>
</table>

As just mentioned, in the component of the value proposition. The customer segment is not through the business model, identifying that the value proposition is much dependent on the customer segment and its changes. Therefore is there no interrelation that can explain how this should be understood.

<table>
<thead>
<tr>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
</tr>
<tr>
<td>– Upscale department stores</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The shift in channels reflects a company trying to embrace a broader customer segment and consumer demand.

<table>
<thead>
<tr>
<th>Customer Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
</tr>
<tr>
<td>– ?</td>
</tr>
</tbody>
</table>

This component is not making sense to me. Is this the component that should have facilitated the interrelation between the value proposition and the customer segment? Again it is a one-way arrow, which illustrates a company are not adjusting to its segment. Liz Claiborne was taking quite an arrogant attitude, but as mentioned, in the beginning there was a strong fit in the environment, and they therefore, did not experience this lack as vulnerability.
### Revenue Streams

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Sales through department stores</td>
<td>– Sales through department stores</td>
</tr>
<tr>
<td></td>
<td>– Sales though Flagship store</td>
</tr>
<tr>
<td></td>
<td>– Sales through online store</td>
</tr>
</tbody>
</table>

The revenue streams were in the beginning constantly increasing, reflecting a god fit in the external environment. The new revenue streams is a result of changing sales channels, and also changes in the value proposition of offering four instead of six seasons.

### Key Resources

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– 500 Suppliers in 38 Countries</td>
<td>– Domestic production =&gt; response time 20-25 days</td>
</tr>
<tr>
<td>– Overseas production =&gt; 60 days respond time</td>
<td>– Reordering possible</td>
</tr>
</tbody>
</table>

The upstream value chain was not being very flexible, which resulted in inflexible contracts downstream, towards the retailers.

### Key Activities

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Producing less than ordered, to create “fear of missing out effect”</td>
<td>– Advertising</td>
</tr>
<tr>
<td>– 150 retail specialists</td>
<td>– Buying of Russ Togs</td>
</tr>
<tr>
<td>– 20 consultants</td>
<td>– Designer meetings</td>
</tr>
<tr>
<td>– NY showroom</td>
<td>– 125 sales associates</td>
</tr>
<tr>
<td></td>
<td>– Information, design and technology im-</td>
</tr>
<tr>
<td></td>
<td>provements</td>
</tr>
<tr>
<td></td>
<td>– Liz&amp;Learn, LizRim, Lizfirst &amp; LizShapes</td>
</tr>
</tbody>
</table>

The activities also had to change because of the change in retailers demand, but also due to changes in the external environment, the end-users. The more awareness about fashion challenged the designers and several concepts as LizRim etc.

### Key Partnership

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Upscale department stores</td>
<td>– Department stores</td>
</tr>
</tbody>
</table>

The relationship to the retailers was dominated by Liza Claiborne, and it was not till they demanded better contracts, that Liz Claiborne changed the attitude in the cooperation.
### Cost Structure

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Minimum orders</td>
<td>– Department stores</td>
</tr>
<tr>
<td>– Upscale department stores</td>
<td>– Selling to smaller retailers</td>
</tr>
<tr>
<td></td>
<td>– Selling through online store</td>
</tr>
<tr>
<td></td>
<td>– Selling through Flagships store</td>
</tr>
</tbody>
</table>

The cost structure reflects a change in the retailers demand.

After having applied the business model canvas to the case of Liz Claiborne, I can neither argue this business model framework is facilitating the interrelations between business model components. This model is not considering the interrelations, and the one way arrows are not providing theoretical argumentation. The business model canvas, is though composed of more components that the RCOV framework, which eliminates the risk of having to element in one component.

4.1.6. **Discussion on the Problem of Interrelation between Components**

The discussion from research question two clearly emphasize, that lack in understanding of the business model components and their interrelations can be crucial to a company’s profit maximization. And what happened in the case of Liz Claiborne, they did not understand the interrelation between the business model components, which in my opinion is why they failed to react to the environmental changes. They simply did not see the changes coming - put together with a bigheaded attitude towards the external environment. Both research question two and the analytical framework have revealed that the relation between the value proposition and the market segment is a very vulnerable interrelation, and the one that perhaps mostly is responsible for the decreasing net income in the case of Liz Claiborne. This, to me is not chocking, because as Teece (2010) argued, the customers will define the successfulness of a business model. And no matter how your business model is composed, if the value proposition does not fit the market segment, then the company will not have any customers. This also turned out to be one of the vulnerable components in the case of Liz Claiborne, and eventually, they did realize they needed closer contact to their end-customers.

Business models are not just successful because they, at one given time, are performing well. The dynamic approach to business modeling is definitely one step in the right direction towards creating awareness of how to understand the interrelation between business model components. Liz Claiborne mentions itself, that they did not have any contact with, or feed-
back from the end customer. This relation clearly demonstrates that a company must know its end user and maybe constantly conduct customer surveys to be able to understand and react to segment changes.

The search for theoretical explanation behind interrelation, in this analytical framework has been challenging. Demil & Lecocq (2010) argues their business model is based on the Penrosian view; this has through the analysis though not been very clear. Osterwalder & Pigneur (2010) is neither facilitating any theoretical perspectives on the interrelations. But, overall there is interrelation between the business model components, though the business model literature is not obviously trying to neither identify nor include them in their business model frameworks. There clearly have been some missing understandings between the business model components of Liz Claiborne that resulted in a rapid decreasing net income.

The case of Liz Claiborne clearly demonstrates that not responding to environmental changes was close to being fatal, even though it was not impacting the internal factors of the company. This highlights that business model approaches which span the firms’ boundaries are useful, because the environmental changes are an important factor. The reason to Liz Claiborne’s fall, one could argue, is because of the bigheaded attitude they were taking in the begining, but over the years, they did realize that, with so many suppliers these days, they cannot demand their customers to do what they want them to. Instead they should listen carefully and model their business around a value proposition that is very attractive, proposing what the customers value.

Based on this, I argue that either the RCOV framework or the business model canvas, explains the interrelations in the business model.
### 4.1.7. Partial Conclusion on Research Question 3

How are two business model frameworks solving the interrelation problem between the business model components in the case of Liz Claiborne?

- The RCOV framework is the business model framework that to some extent identifies the interrelation the best.
- The resources perspective is though not facilitated in the analysis.
- Because some of the components include more elements, it can be difficult to identify interrelations internally in a business model component.
- Despite of the arrows, and the virtuous circle, is this not

- The business model canvas is neither identifying the interrelations.
- Instead it illustrates arrows, which are only confusing.
- With more components is it though perhaps more suitable for application and identification.
4.2. Final Discussion
This research has in many ways been challenging, and throughout the process I have several times not been sure whether or not there actually is a reasonable or logical solution to the problem statement. The preliminary research was interesting. Firstly, because the literature did not turn out to be as divergent as claimed, and secondly because a clear tendency in literature appeared. Figure 4.3 illustrates how I as a researcher have perceived the overall business model terminology has evolved through the last 10 years. In the beginning literature was simpler, only seeking for definitions and overall conceptions within e-business. Today it has evolved to appear in many other literature perspectives, and further has become more sophisticated focusing on dynamic business model approaches, including the external environment. The literature review in research question two, on business model components and their interrelations, has shown theoretically vague and only in newer literature has a dynamic approach to business modeling been emphasized. The dynamic approach is though not examining the interrelations further in depth, only two suggest interrelations as either resources or transactions cost.

![Evolvement in Business Model Literature](source: Own creation)

The globalizations of markets, the rapid technological changes, the shortening of product life cycles and the constant aggressiveness of competitors are affecting companies; and even though these factors have always existed, companies still fail to adapt and respond rapidly to changes (Teece 2010). These factors require that companies are able to respond quickly to changes, and even to be prepared, a company has to make presumptions on the future and how changes affecting in one component, maybe can affect another component.

The business model literature has so far not been able to solve this problem of interrelation, therefore could it be interesting to turn to Siggelkow (2001), and further investigate his proposed ‘Change framework’. Siggelkow (2001) introduces “The Change Framework”, which is classifying changes within an organization depending on the internal and external fit as illus-
trated in figure 4.4. This model is assuming that a company is achieving high performance through high variety and flexibility in the organization, also presented as a peak in the performance landscape (Siggelkow 2001) (840).

According to Siggelkow (2001) are the future challenges to understand what the impacts are when changes happen in the external environment, because managers tend to react very differently. This is actually also what I as a researcher acknowledges as the actual heart of the problem, and as Siggelkow (2001) argue, is the’ Change Framework’ illustration and mapping, how the value chain can be helpful to identify and explain changes. Siggekow (2001) has in his case study mapped the business model of Liz Claiborne, defined by his own categorization. Siggelkow (2001) map the interactions between Liz Claiborne’s choices of five stages in the company’s value chain. His way of mapping, though written in an organization perspective, very well illustrates how the interactions were both before and after the changes in the company. What I find interesting in his approach, is that the interrelations are not determined beforehand, instead the business remodeling, emphasizes new interrelations that Liza Claiborne has to consider.

To use the term fit from Siggelkow’s paper, a business is cohering when there is understanding of the interrelations between its business model components. Siggelkow (2001) argues the changes in the external environment created a different peak that required a different set of choices. I will argue that Liz Claiborne could have avoided most of these obstacles if they earlier on had been able to identify the interrelations between the business model components, and rethought their choices. If they had created awareness to the environment and how the business model was interrelated, they could maybe have been able to react way faster.
His model is either proposing theoretical explanations of the interrelations, though it does carefully consider how the business model can react to changes, because the interrelations are carefully mapped. Therefore, one could wonder if the “Change Framework” at any point could be united with the resource and transaction cost economies, to propose the solution.

Considering the business model framework Siggelkow (2001) mapped to the case of Liz Claiborne, is that maybe indicating that business model frameworks have to be modeled individually, depending on the business and its purpose? I did have to eliminate Chesbrough & Rosenbloom’s (2002) business model framework, because it was very much considered for companies with high technological development. Did Siggelkow (2001) have a point, saying that business models are quickly defining a business through the proposed framework, and that challenges the companies to use the business model approaches because they limit themselves?

These thoughts even make me wonder if a general accepted business model conception and an overall accepted meta-business model is needed. Of course there is a need to have a theoretical framework, but will there have to be many different frameworks? As Teece (2010) also argued, businesses today are much differentiated, and maybe that is one of the obstacles to actually come to united definition and conception.
The purpose of this master thesis has been to investigate a problem statement through a conducted study of three research questions. This final chapter will round off and de-brief the research by coming to a conclusion and a post-rationalization of the thesis.

5.1. Conclusion

Based on the theoretical and the analytical framework, this thesis has sought to answer following problem statement:

How can interrelations between the components in a business model be understood?

The research carried out has lead to the conclusion that business model components in literature today vaguely are theoretically interrelated through either a resource or a transaction cost perspective. This, is though, not properly incorporated in the business model frameworks, which could be an explanation to the company failures.

Different authors have different conceptions and definitions of business models and its components, but most important in this finding, that the literature overall is not as divergent as stated. The literature is still in its theoretical grounding, both for overall definitions and conceptions, but also for covering the interrelation problem that companies experience when lacking in the understanding.

The business model definitions and conceptions are many, but independent from their literature perspective, are they overall seeking to define value creation and value capture in companies. The evolvement of the business model literature is oddly enough no longer focusing on...
the definitions. Instead they are focusing on dynamic business model approaches that span the firm boundaries.

The business model literature is not solving the problems of interrelations, when viewing the business model in an external environment of changes, because it is perspective the business model literature, so far, has not included. The RCOV framework is visually trying to solve this problem with arrows, but this is not helpful when using the business model in an analysis, because there exist no theoretical approach to these. The business model canvas is despite of its inclusion of more components, lacking even more than the RCOV framework in explaining the interrelations. Both the RCOV framework and the business model canvas are therefore not solving the problem of explaining interrelations in business models. Though has the organization literature and Siggelkow (2001), contributed to this research, considering the external environment. The final discussion wonders if the change framework, together with resources and transaction costs, could bring new insights to the business model literature in how it embraces and spans the firm boundaries. In addition, the final discussion further reflects on the need for only one business model framework.

5.2. Post-Rationalization
The development of this thesis has been characterized by several topic shifts due to a continuously new gained knowledge, which constantly has contributed to a further development of the problem area. This development as a reflective practical researcher kept giving me new insights and has been an important determinant in shaping the thesis and not least the problem statement and research question (Bitsch Olsen, Pedersen 2008). Doing a research for a master thesis is a long and tough process of thoughts and ideas, and as mentioned this thesis has undergone a lot of topic changes, before finally settling with the problem statement. Therefore I have to acknowledge that the choices I have made through the thesis including the methodic approach and the choice of analytical framework have been an important determinant to the conclusion of the research. I further have to acknowledge that the literature has been challenging because of its lack in theoretical grounding, and the chosen literature reflects the most cited and known, which can have limited me in my research. Today there is not explicit criticism of business models as a theory, except from different authors pointing out the theoretical lacking as being a weakness, and at the same time are these authors contributing very differently to literature. This is properly a reflection of the lack in theoretical grounding, also is present when it comes to criticism of the theory. I still recognize the finding of this research
and conclusion to be satisfying, given the conditions and choices I have made throughout the whole process. This research has to some extent challenged the existing business model literature, and I am therefore as a researcher deeply satisfied with results.

5.3. Future Research
Evidence from the research carried out, shows that the business model literature is not theoretically grounded. Instead it is strongly conceptualized and lacking actual grounding and mutual recognition. Therefore, could a future research be an even broader approach in collating and interpretation of the business model definitions, especially because as I have read this thesis through I acknowledge some parts could have been even further elaborated. This again is a reflection of me as researcher being reflective, and knowledge creation is an infinite process (Bitsch Olsen, Pedersen 2008). A further in-depth investigation into business model components and its interrelation could definitely be interesting, since this research has shown evidence that knowledge on interrelation could have an effect on a company, and it has not been well-explored in literature. Whether this includes a new and larger inclusion of perspectives from the organization literature, as discussed in previous chapter, or a multiple case study to develop new theory are questions I have only put thought into in the aftermath.
6 BIBLIOGRAPHY

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6.2. Journal Articles and Books


Osterwalder, A. 2004, The business model ontology : a proposition in a design science approach, [s.n.].


LIST OF APPENDICES

7.1. Appendix 1 – Selection of Research Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Relevant Situations for Different Research Methods</th>
<th>Requires Control of Behavioral Events</th>
<th>Focuses on Contemporary Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>how, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival</td>
<td>who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>how, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case Study</td>
<td>how, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Case Study research, Design and Methods by Yin (2009) (8)

7.2. Appendix 2 – The Case of Liz Claiborne

The case of Liz Claiborne is enclosed on the following pages.