Business Model Innovation and Value Co-Creation - based on a single case study on Liz Claiborne -

Master’s Thesis

Lelia-Ecaterina Basceanu
Supervisor: Adela Michea
MSc Business, Language and Culture

Business and Development Studies
No. of pages: 80 (without cover, references and annexes)
Characters (without tables): 140.762
Date: 29.04.2014

Copenhagen Business School, 2014
I would like to begin by conveying my appreciation for the continuous support received from my thesis supervisor, Adela Michea. Without her guidance and input, the writing process would have been much more difficult and strenuous. Secondly, I would like to thank Claus Varnes, who has been my professor for two of my Minor in Process Management and Innovation courses at Copenhagen Business School. His teaching and our ulterior discussions on the topic have inspired me to choose this particular field of research, even though my Master in Business and Development Studies had overall a different focus. Lastly, I would like to show my appreciation towards my parents, who have always encouraged me to do my best and approach the world with a critical mind.

Lelia-Ecaterina Basceanu
Abstract

The business environment has evolved nowadays towards a more connected and coherent setting, which seeks to establish customers and companies as equal partners. As such, the locus for value creation was extended outside the boundaries of the company, and into the reality of company-customer interactions. The new paradigm poses both an opportunity and a challenge for the traditional business setting, but the progress towards it ‘cannot be stopped’ (Prahalad & Ramaswamy 2004).

The aim of this thesis is, on the one hand, to provide a holistic perspective on the business model and value co-creation concepts. On the other hand, this thesis aims to reveal and analyze the relations established between these two concepts and concepts which, one way or another, influence the understanding of value co-creation and/or business models. The literature review and the subsequent analysis include some of the most popular and relevant perspectives in the field. The theoretical part of the thesis is, moreover, geared towards providing both a thematic review and an illustration of the historical evolution of the concepts.

The thesis is divided into two main parts: a literature review meant to clarify and provide insights into the business model and value co-creation notions, and an empirical part based on the analysis of a single, longitudinal case study on Liz Claiborne. I have constructed the analysis of the case study based on the implementation of the Business Model Canvas (Osterwalder & Pigneur 2010) and the DART model (Prahalad & Ramaswamy 2004).

The findings resulted from my research and analysis highlight that there is still a lack of consensus on the definitions and components of business models and value co-creation. From an academic perspective, the reviewed theories have different terminologies, but they do, to some extent, tell the same story (Magretta 2002). From a managerial perspective, companies tend to misuse the concepts due to a lack of understanding, coupled with a fear of change (Siggelkow 2001). There is a need to reach a common ground and integrate the two concepts in order to reach a fit between the external and the internal environment, at the same time allowing for flexible changes and innovation.

Key words: business model innovation, value co-creation, strategy, innovation, business model canvas, DART model
# Table of Contents

Acknowledgements ............................................................................................................................................ 2

Abstract ....................................................................................................................................................... 3

Table of Contents ........................................................................................................................................ 4

1. Introduction ..................................................................................................................................................... 6
   1.1 Problem identification .......................................................................................................................... 7
   1.2 Problem statement and research questions ......................................................................................... 9
   1.3 Structure ................................................................................................................................................. 9

2. Theoretical approach and methodology ..................................................................................................... 11
   2.1 Research philosophy and research approach .................................................................................... 11
   2.2 Methodological views ......................................................................................................................... 13
   2.3 Research strategy and design ............................................................................................................ 15
      2.3.1 Case study research .................................................................................................................... 16
      2.3.2 Sources and type of data ........................................................................................................... 18
      2.3.3 Using and interpreting qualitative data ...................................................................................... 19
      2.3.4 Addressing issues of reliability and validity ............................................................................ 20
   2.4 Delimitations .......................................................................................................................................... 21

3. Literature review .......................................................................................................................................... 23
   3.1 Review of the Business Model literature ............................................................................................ 23
      3.1.1 Business model definition .......................................................................................................... 23
      3.1.2 Business model components ..................................................................................................... 31
      3.1.3 The relation between business models and strategy .................................................................. 33
      3.1.4 Business Model Innovation ...................................................................................................... 35
      3.1.5 Discussion and conclusion ......................................................................................................... 38
   3.2 Review of the Value Co-Creation literature ......................................................................................... 42
      3.2.1 Value creation and its relevance .................................................................................................. 42
      3.2.2 Value co-creation at the center of the company-customer relationship ...................................... 46
      3.2.3 Value co-creation and co-innovation ......................................................................................... 49
      3.2.4 Value co-creation and Business Model Innovation ................................................................... 51
      3.2.5 Discussion and conclusion ......................................................................................................... 54
4. Liz Claiborne Inc. ........................................................................................................57

4.1. Considerations on the selection and relevance of the case study..........................57

4.2.1 Introduction to the case company ........................................................................58

4.2.2 Industry overview ...............................................................................................59

4.3. Clarification of the problem ....................................................................................59

4.4. Selection of the Business Model and Value Co-Creation Frameworks..................60

4.5. Implementation of the business model and co-innovation frameworks ...............62

4.5.1 Business Model Canvas .....................................................................................63

4.5.2 DART Model .....................................................................................................69

4.6. Discussion on the Business Model Canvas and DART Model............................71

4.7. Sub-conclusion and discussion ............................................................................73

5. Final discussion .......................................................................................................75

6. Conclusion ..............................................................................................................79

6.1. Concluding remarks ..............................................................................................79

6.2. Managerial implications and further research .....................................................80

References ..................................................................................................................82

Annexes ......................................................................................................................95
“The end is in the beginning and lies far ahead.”

-Ralph Ellison-
1. Introduction

This introductory section will present the foundations on which the thesis has been constructed. To begin with, a problem statement will be presented, followed by a main research question and three sub-questions, aimed at framing and deconstructing the identified research problem.

1.1. Problem identification

The transition from a traditional value chain perspective to a more knowledge and resource intensive value network paradigm has been driven by a series of factors, amongst which the rise of the Internet, an increase in ICT\(^1\) and changing customer behavior. This called for new conceptualizations on business models, and on their relation to value co-creation. The boundaries of the company and the traditional roles played by the company and the customer have shifted as well, and up to now there is not enough research on this phenomenon and its implications.

This thesis aims to present in a new light and provide relevant insights on the conceptualization of business model innovation, where value is co-created among the company and the consumer in a networked setting. As highlighted by Prahalad and Ramaswamy (2002, 2004), and Christiansen et al. (2010), co-creation can happen between different actors, be it companies, consumers, employees or other involved organizations. Nevertheless, this thesis will focus primarily on the direct and indirect interactions between the company and its end-consumers.

The business model and the value co-creation constructs are relatively new, and in many ways they are considered to be a buzz word (Magretta 2002). It is, therefore, understandable that the theories on the two constructs are also new and prone to continuous change and evolution. It is particularly challenging to analyze the two in a dyadic relationship, when the literature on business models focuses on value chain analysis, whereas the literature on value co-creation calls for a network approach. There have been, however, several attempts to provide a dynamic understanding and implementation of business models. Demil and Lecocq (2010) proposed the Penrosian-view inspired RCOV framework, which takes into account the dynamics of business model components’ interaction. Chesbrough (2010) & Osterwalder and Pigneur (2010) argued as well for the need to have a good interaction between business model components, while Nenonen and Storbacka (2010)

---

\(^{1}\) Information and Communications Technologies
pointed out that there can be several configurations of business models, as long as there is a fit between the components.

Most authors tend to propose their own definitions for business model and co-creation. Some opt for a conceptual definition (Prahalad & Ramaswamy 2004; Teece 2010; Osterwalder & Pigneur 2010), while others prefer more detailed and operational definitions (Chesbrough & Rosenbloom 2002; Vargo & Lusch 2008 a+b). The call for a mutually understood conceptualization of the two constructs has been met with more seemingly divergent definitions. At a closer look, though, there are more similarities than differences in the proposed conceptualizations:

At some level, all new stories are variations on old ones, reworkings of the universal themes underlying all human experience. (Magretta 2002)

The lack of a unified framework for interpreting and applying the concepts has led as well to a superficial and unclear empirical use of the constructs. Nevertheless, the two concepts have consistently evolved since their first appearance in the literature. The reason for the surge in interest, manifested through articles in both academic and non-academic sources, can be explained through their attribute of integrating disparate theories (Hedman & Kalling 2003; Vargo, Maglio & Akaka 2008).

The articles proposed by Nenonen and Storbacka (2010) & Storbacka et al. (2012) were quintessential in shaping my perspective on how business models could be understood and designed for value co-creation. Most of the literature analyses the constructs independently from each other, but the two recently mentioned articles are among the few aimed at constructing a business model ontology which enables improved value co-creation. The authors argue that business model design and practices should be the main units of analysis, and that co-creation should be introduced from an actor network perspective. Moreover, they recognize that transparency between the involved stakeholders has to be ensured above all. From this point of view, their research is in line with the arguments provided by Prahalad and Ramaswamy (2002, 2004), Vargo, Maglio and Akaka (2008) & Vargo and Lusch (2012).
1.2. Problem statement and research questions

Given the recognized importance and utility of business models and value co-creation, and the scarcity of formal studies geared towards considering the academic and empirical implications of their dyadic relationship, I propose the following research question:

How can the relation between business model innovation and value co-creation be understood?

In order to answer it, the research agenda will include three other sub-questions, intended to deepen the theoretical understanding and to provide insights following the empirical implementation of the concepts. The chosen sub-questions are presented below:

1. How have business models been defined and conceptualized in the literature?
2. How has value co-creation been defined and conceptualized in the literature?
3. How has business model innovation generated value co-creation in the case of Liz Claiborne?

The last question will be addressed at the end of the analysis, through the implementation of a business model framework, the Business Model Canvas (Osterwalder & Pigneur 2010), and a value co-creation framework, namely the DART model (Prahalad & Ramaswamy 2004). The other two questions will guide the theoretical research, which represents as well a literature review of the current perspectives on business models and co-creation.

1.3. Structure

The thesis will be structured into six chapters, with each chapter addressing specific research objectives. The contents of each chapter will be briefly explained below, in order to allow the reader to follow the structure with easiness as it progresses through the thesis.

The first chapter will provide the introductory setting, presenting the research problem and the research field. Based on that, three research sub-questions will be formulated in order to guide and frame the theoretical (first two) and empirical research (last question).
The second chapter will contain methodical reflections, and will present the way in which the research will be conducted. The methodological approach will be constructed following a chosen research strategy, design and specific data collection methods.

The third chapter will outline the main theoretical approaches to the concepts of business models and co-creation. Furthermore, it will elaborate on the provided definitions, components, relations to other concepts and to each other. Thus, the literature review will be structured according to themes of interest, and will be finalized with a conclusion and partial discussion on the first and second research sub-questions.

Chapter four follows in and focuses on the analysis of a single case study, Liz Claiborne. The purpose of this chapter is to provide empirical insights that will complement the theoretical review proposed in the previous chapter. More precisely, it will allow for the implementation of two frameworks considered to be essential in the joint analysis of business models and co-creation at Liz Claiborne.

Chapter five presents the findings derived from the literature review and the case study analysis. Emphasis will be placed on the relation between the two concepts, and the chapter will end with a final discussion on business models and co-creation.

The last chapter will conclude the thesis, and it will serve as well as a point of reference for further research opportunities. Additionally, chapter six will present as well several managerial implications derived from the proposed research.
2. Theoretical approach and methodology

This chapter will contain information regarding the philosophy of science and methodological approach employed, the type of data to be analyzed, its sources, relevance and the general structure of the research to be conducted.

2.1. Research philosophy and research approach

The chosen philosophical and methodic stance will play an essential role in guiding through the research process and afterwards the analysis of the findings. Saunders, Lewis and Thornhill (2003) posit that the chosen research philosophy mirrors the researcher’s way of understanding and pursuing knowledge development, while Ghauri, Kristianslund and Grønhaug (1995) highlight that research in a business context is similar to ‘practical problem solving’ (p.5).

Identified and described as ‘the progress of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge’ (p.47) by Hussey and Hussey (1997), the concept of paradigm is tightly connected to the concept of research philosophy, and it describes how research should be done. Arbnor and Bjerke (2009) bring forth a new perspective for looking at paradigms. According to them, a paradigm is a bridge between the researcher’s ultimate (philosophical) presumptions and methodological views. By choosing a specific paradigm, the researcher limits in a way his or her approach to solving a problem. In other words, each main research paradigm is connected to specific research questions, designs, methodologies and methods (Ghauri, Kristianslund & Grønhaug 1995; Hussey & Hussey 1997; Saunders, Lewis & Thornhill 2003; Easterby-Smith, Thorpe & Jackson 2012).

I found the social constructionist paradigm particularly suitable for my research, as it acknowledges the uniqueness and complexity of business situations, at the same time accepting the ever-changing nature of the business environment. The implications of this choice are highlighted in Table 2.1.
Table 2.1: Implications of social constructionism

<table>
<thead>
<tr>
<th></th>
<th>Social constructionism</th>
</tr>
</thead>
<tbody>
<tr>
<td>The researcher</td>
<td>Involved</td>
</tr>
<tr>
<td>Human interests</td>
<td>Main drivers of science</td>
</tr>
<tr>
<td>Explanations</td>
<td>Used to increase the general understanding of the situation</td>
</tr>
<tr>
<td>Number of case studies/data</td>
<td>Small number of cases chosen for specific reasons</td>
</tr>
<tr>
<td>View on reality</td>
<td>Socially constructed</td>
</tr>
<tr>
<td>Unit of analysis</td>
<td>Could include the complexity of ‘whole’ situations</td>
</tr>
<tr>
<td>Generalization</td>
<td>Theoretical abstraction</td>
</tr>
</tbody>
</table>

Source: Adapted from Easterby-Smith, Thorpe and Jackson (2012)

Easterby-Smith, Thorpe and Jackson (2012) consider that there are four levels of analysis connected to a paradigm: ontology, epistemology, methodology and methods. Creswell (1994) and Hussey and Hussey (1997) provide instead five assumptions of a main paradigm, divided into ontological, epistemological, axiological, rhetorical and methodological. According to Hussey and Hussey (1997), the ontological assumption relates to the researcher’s view and interpretation of reality. The epistemological one is concerned with the relation between the researcher and the object of his or her research, and ultimately with the study of knowledge. Axiology is concerned with values, and whether the researcher involves his or her values in the research process. With the rhetorical assumption, the researcher must decide on a research language and style to match the chosen paradigm (ibid.). Lastly, methodology refers to the research process, and it should be distinguished from the concept of methods, which refers to ‘the various means by which data can be collected and/or analyzed’ (Hussey & Hussey 1997, p.19). Table 2.2 illustrates the main assumptions that guided the research approach employed in this thesis.
Table 2.2: Main assumptions of the thesis

<table>
<thead>
<tr>
<th>Main research assumptions employed in this thesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontology</td>
</tr>
<tr>
<td>The reality depends on the researcher’s perspective</td>
</tr>
<tr>
<td>Epistemology</td>
</tr>
<tr>
<td>The researcher is involved</td>
</tr>
<tr>
<td>Methodology</td>
</tr>
<tr>
<td>• Single case study over a longer period of time</td>
</tr>
<tr>
<td>• Looking for patterns which could be repeated in other related situations</td>
</tr>
<tr>
<td>Axiology</td>
</tr>
<tr>
<td>Data interpretation might be influenced by the researcher’s values</td>
</tr>
<tr>
<td>Rhetoric</td>
</tr>
<tr>
<td>• Writing style appropriate for an involved approach</td>
</tr>
</tbody>
</table>

Source: Own creation, inspired by Hussey and Hussey (1997)

Equally important as the guiding paradigm is the chosen research approach. Taking into consideration the aforementioned research assumptions, I chose to use a deductive approach, instead of choosing an inductive approach, which is normally associated to social constructionism. Saunders, Lewis and Thornhill (2003) note that labeling research approaches and methods as appertaining to one or another paradigm can be misleading, and furthermore it adds no extra value to the research outcome. Similarly, Easterby-Smith, Thorpe and Jackson (2012) consider that even though the distinction between research philosophies seems clear at first, when choosing specific methods, it is common to mix between them to some degree. By employing a deductive approach or a ‘top-down’ logic, I will firstly consider theories that are relevant for this investigation, and afterwards I will use the most relevant ones in analyzing a single case study and presenting the final conclusions.

2.2. Methodological views

Arbnor and Bjerke (2009) have a different perspective on what methodological views imply, and on what constitutes their connection to a researcher’s ultimate presumptions. According to the authors, ultimate presumptions about the object of study can be deeply influenced by one’s methodological views. Therefore, choosing the most appropriate methodological view is not without conflict, and it requires a strong understanding of what each methodological position implies. Figure 2.3 depicts the chain connection between ultimate presumptions, methodological view
Arbnor and Bjerke (2009) have identified three main methodological views which are considered to be the middle link between a researcher’s ultimate presumptions and his study area, namely:

- The systems view: It considers that the reality is composed of objective system-like structures, at the same time acknowledging their ‘subjective opinions […] treated as facts as well’.
- The analytical view: It sees reality as being filled with facts which can be objectively analyzed by an impartial researcher. The researcher will base his work on previous concepts, which are part of a dominant theory.
- The actors view: It considers that the reality is unique and chaotic. Therefore, the researcher’s task is not only to describe, but to engage in active change.

The present thesis has been constructed mostly from a systems view, with some elements of actors view. Figure 2.4 shows my methodological choice and places it in the overall theoretical approach adopted.
The systems view will allow me to both explain and interpret the models used in the analysis of a chosen single case study. In other words, not only will I realize a synthesis of the business case proposed, but I will also divide it into systems and subsystems of analysis, which will be interpreted not as stand-alone structures, but as interrelated parts of a larger context. By employing elements from the actors view, I acknowledge that, as a researcher, I am not completely objective and detached, and that, to some extent, my own perspective on the object of interest has influenced the findings. I consider that the main advantage of the above mentioned two methodological views relates to their holistic perspective on both systems and actors as connected and dynamic parts of a larger context.

### 2.3. Research strategy and design

The research strategy is very important, as it will determine the overall plan for answering the thesis’s research question. Considering my research goals, data sources and study limitations, the research design envisioned for this thesis is case study research.

I will start from the constructionist assumption that there is no absolute truth, and that my perspective on the case study, together with the identified relevant literature, will be instrumental in fulfilling my research objectives.
2.3.1 Case study research

There will be only one single case study, which will be introduced in the analysis part of the thesis, and which will allow me to answer my third research sub-question. Furthermore, the case study will be instrumental in solving the main research question, which has been constructed in a structured and well-defined way, based on a clear understanding of the problem to be solved.

The chosen case study—written by Siggelkow (2001)—is *longitudinal*, which means that the data compiling it has been collected over a larger amount of time, in this instance over 21 years. According to Yin (2009), following the change incurred in time by one or more units of analysis constitutes one of the rationales for single case studies. Following Siggelkow (2007), every case study has the potential of being valuable for specific research questions, for reinforcing certain concepts or generating new ideas. Furthermore, a case study is particularly important during the incipient phases of a project or when new points are sought after for an area already researched (Eisenhardt 1989).

Considering the aforementioned problem structure, the case study research approach to be employed is *illustrative*, following Scapens’ (1990) typology, and *embedded*, following Yin’s (2009) typology. In other words, the chosen case study attempts ‘to illustrate new and innovative practices’ (Scapens 1990) by focusing on multiple units of analysis (Yin 2009). The latter identifies the following elements of a case study:

- Its questions and propositions;
- Its unit(s) of analysis;
- The logic that connects data and questions/propositions;
- The criteria for data interpretation.

Table 2.5 illustrates the chosen case study design, following the above typology.
Table 2.5: Elements of the Liz Claiborne case study

<table>
<thead>
<tr>
<th>Liz Claiborne case study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research question</td>
</tr>
<tr>
<td>How has business model innovation generated value co-creation in the case of Liz Claiborne?</td>
</tr>
<tr>
<td>Units of analysis</td>
</tr>
<tr>
<td>• Business model components;</td>
</tr>
<tr>
<td>• Company-consumer interaction.</td>
</tr>
<tr>
<td>Logic that connects data and questions</td>
</tr>
<tr>
<td>• Business Model Canvas</td>
</tr>
<tr>
<td>• Dialogue-Access-Risk/Benefits-Transparency Model</td>
</tr>
<tr>
<td>Criteria for data interpretation</td>
</tr>
<tr>
<td>• Relevance</td>
</tr>
<tr>
<td>• Reliability</td>
</tr>
<tr>
<td>• Validity</td>
</tr>
</tbody>
</table>

Source: Own creation, inspired by Yin (2009)

As argued before, it can be beneficial to mix methods in order to analyze one situation or event (Ghauri, Kristianslund & Grønhaug 1995; Hussey & Hussey 1997). Thus, I will use triangulation as a means to cross-check the results and corroborate the findings. Triangulation can be, from Ghauri, Kristianslund & Grønhaug’s (1995) perspective, very important in the process of gaining insight from multiple perspectives and enhancing the validity of the research. Easterby-Smith, Thorpe and Lowe (1991) identified four types of triangulation in the study of a phenomenon:

- **Data triangulation**: different dates and/or sources of data;
- **Investigator triangulation**: different researchers that collect data independently;
- **Methodological triangulation**: the use of both quantitative and qualitative research methods;
- **Triangulation of theories**: theories from one field could be used in explaining
a phenomenon in another field.

In this thesis, even though the dominant research method is based on qualitative data collection, I am also taking into account quantitative data, which is essential in indicating the financial performance of the chosen company during business model change. Moreover, I will be analyzing data from different sources, collected at different times during the thesis writing process. Some of the reviewed theories pertain to marketing, strategic and organization management, but I have applied them as well to the field of operations management. Thus, I intend to ensure greater validity and reliability of my findings through data and theory triangulation.

2.3.2 Sources and type of data

The data collected will be of secondary nature, both quantitative and qualitative, although the latter will be dominant. The reason for choosing to focus on secondary, qualitative data is ingrained to the choice of research paradigm. Thus, the main concern relates to the quality and depth of the data, which is perceived as being rich and nuanced (Hussey & Hussey 1997). The main source of information for the case study is Change in the Presence of Fit: The Rise, The Fall and The Renascence of Liz Claiborne (Annex 11) by Siggelkow (2001) – a peer-reviewed article, written from an academic perspective. I will use as well other online articles found in economic journals and magazines such as The Wall Street Journal and Forbes, but they will not form the basis of my research. The reason for that relates to issues of quality and overall suitability of secondary data; considerations which will be further developed in the following sub-section.

Considering the theoretical part of the thesis, I endeavored to include only peer-reviewed articles (selected through the Libsearch database) from economic and business journals such as The Journal of Product Innovation Management, Journal of management studies or Long Range Planning. I used as well a few books and annual reports issued by the case company, which I considered to be essential in the development of my main arguments. In order to decrease the risks associated to this particular research source, I employed only books which have been reviewed and cited by other academics, and which have been written by authors to which I have already familiarized myself due to their previous articles. The use of external online
databases\(^2\) has been minimal, and the only thesis or dissertation that I have used (and to an extensive degree), has been *The Business Model Ontology: A Proposition In A Design Science Approach* by Osterwalder (2004).

### 2.3.3 Using and interpreting qualitative data

Saunders, Lewis and Thornhill (2003) acknowledge that using secondary data is not usually the first choice for students that aim to complete their studies. Nevertheless, it is possible to reanalyze secondary data (written for different purposes) in order to answer or to begin answering one’s research question. The case study *Change in the Presence of Fit: The Rise, The Fall and The Renascence of Liz Claiborne* by Siggelkow (2001) has been written having in mind the change framework and the way in which a mismatch between the *internal* and the *environmental fit* of Liz Claiborne had led to drops in performance. Yet, the data compiled in this case study allowed for a re-analysis based on other concepts and objectives.

Some of the immediate advantages of using a case study that I was familiar already with related to *fewer resource requirements* and *durability of data*. Firstly, it allowed me to focus on my research question and better define my theoretical objectives. Secondly, it is much easier for those interested in my thesis to directly consult the case study and thus gain a more critical insight into my findings and overall approach. Additionally, using published data eludes the necessity of having to sign a confidentiality agreement, and therefore it allows my thesis to be made public for others’ inspiration and reference. Lastly, it would have been really difficult for me to create a longitudinal case from scratch, and thus I consider that using a case already compiled was a useful source for generating a better understanding of the concepts of business model innovation and value co-creation.

#### 2.3.3.1 Coding qualitative data

Both qualitative and quantitative data require different approaches to coding, understood as:

> [...] the work with materials for generating concepts and for allocating excerpts of the material to categories. This is then followed by interpretation:

---

\(^2\) Libsearch is the internal online database available for CBS students (at the time that this thesis was written)
how we understand and explain what the coding has revealed about the views in the field, their links among each other, their ties to context conditions, and the like. (Flick 2014, p.373)

The need to code data stems from a researcher’s necessity to conceptualize, group, synthesize, analyze and present it in a way which is understandable and logic. Special attention should be given to coding qualitative data, as it is usually associated to theory building (Ghauri, Kristianslund & Grønhaug 1995). The two orientations to coding mirror the previously identified and discussed main paradigms: positivism and social constructionism. The first one is concerned to coding data so that it allows ‘categorization and quantification’ (p.96), whereas the second one suggests that ‘individual cases are meaningful in their own right’ (p.96).

Strauss and Corbin (cited in Ghauri & Grønhaug 2002) identify three main approaches to coding: open coding as ‘the process of breaking down, examining, comparing, conceptualizing and categorizing data’, axial coding as ‘a set of procedures whereby data are put together in new ways after open coding’ and selective coding as ‘the procedure of selecting the core category, systematically relating it to other categories’ (ibid.). My first two research sub-questions relate to open coding, whereas the last sub-question relates to axial coding. Building on the above, solving the main research question will require selective coding, as it will validate and further develop all the categories previously identified and linked into patterns of interaction through open and axial coding.

2.3.4 Addressing issues of reliability and validity

Underpinning reliability and validity to research credibility has been a long-standing issue in economics and business studies. It is, therefore, also the aim of this thesis to be as accurate and genuine as possible, given the chosen methodological perspective. Easterby-Smith, Thorpe and Jackson (2012) consider that ensuring validity, reliability and generalizability depends on the chosen research epistemology. Taking this viewpoint into account, the following constructionist perspectives are summarized below:

Reliability: The analyzed secondary data has been processed and interpreted in a transparent and logical manner.
Validity: The findings match the goal and point of interest of the thesis. Even though based on previous compiled data, the thesis benefitted from a well-written academic case study, which served as a point of inquiry into the concepts of business models and value co-creation.

Generalizability: The aim of this thesis is not focused on the degree to which it matches previous findings in this area, but on providing a better understanding of the main concepts. Thus, this research and the concepts underpinned here might be relevant in other environments as well.

2.4. Delimitations

As a researcher, even though I would have preferred to expand the theoretical and the empirical analysis of this thesis, I had to stop at some point due to external time and content-length constraints. Thus, one of the delimitations of this thesis is related to the narrow time-frame allocated to refine the research question, find significant data and analyze it using a relevant and meaningful framework.

Another limitation of the current thesis relates to the choice of using a case study based on secondary data. The case study was not initially written having in mind business models and co-creation, and therefore it was not visible at first whether the concepts could have been analyzed in this context. Moreover, some of the definitions used in the case study were not relevant for the current research, which made it difficult to reclassify the available data. Thus, a combination of primary and secondary data could be suggested for further studies of the proposed issue.

Continuing in the same line of thought, there are several issues connected to interpreting secondary data. To begin with, the main disadvantage would be the biased nature of such a research. The chosen research paradigm weights as well on the design of the initial research and on the design of the current research, and given the innate level of subjectivity associated to qualitative methods, it can be difficult to ensure the credibility of the research. If using secondary data is considered advantageous, then the researcher has the responsibility of cross-checking the initial source for internal validity and consistency (Ghauri & Grønhaug 2002).
Conversely, as long as this type of data is from a verified quality source, it aids in answering the research question and is permissible according to faculty regulations, it is considered to be suitable for the purpose of the research (Saunders, Lewis & Thornhill 2003).
3. Literature review

As outlined in the previous chapter, the theoretical part of this thesis will form the starting point for creating valid knowledge and for generating new insights for the chosen research problem. The research process has been gradual and non-sequential, meaning that I went back and forth between empirical and theoretical data several times. The research design employed is further explained through the visual illustration available below (Figure 3.1).

Figure 3.1: Research design ‘wheel’

Source: Own creation, inspired by Ghauri and Grønhaug (2002)

My intended contribution is geared towards extending the current cognitive perception and understanding of the concepts of business model and value co-creation through the below questions, which will be answered by the end of this chapter:

Q1: How have business models been defined and conceptualized in the literature?
Q2: How has value co-creation been defined and conceptualized in the literature?

3.1. Review of the Business Model literature

3.1.1 Business model definition

Mentioned for the first time back in 1957 in an academic article by Bellman et al. (Nenonen & Storbacka 2010), the business model concept has enjoyed increased popularity and recognition starting with the 90s (Amit & Zott 2001; Demil & Lecocq 2010). There are several definitions of a business model and no clear universal description accepted by both practitioners and academics (Perkmann et al. 2010). The
concept has attracted the attention of both researchers and managers that have identified it as an innovation means together with the more popular product, service and process innovation (Johnson, Christensen & Kagermann 2008; Teece 2010). Unfortunately, there does not seem to be enough empirical evidence to form a clearer image of the business model foundations. This makes it difficult to draw clear delimitations between this concept and other similar ones like strategy and business plans. Authors such as Perkmann et al. (2010) have concluded that business models are artificial representations rather than actual firm characteristics. Moreover, they believe that business models are meant to mediate between new firm organizations and technologies, given the fact that the latter are devoid of any value without proper input from companies and entrepreneurs. Three of the most important problems associated with the concept of business model, according to Perkmann et al. (2010) are:

- Ambiguity and polysemy of the term;
- Ambiguity regarding its actual existence;
- Over-flexibility of the concept in terms of its purpose.

Doganova and Eyquem-Renault (2009) & Perkmann et al. (2010) have suggested taking a more pragmatic approach to business model analysis, replacing thus the essentialist (business model as a description of an objective reality) and the instrumental view (business model functions are predetermined, and its performance is measured against its functions). From Doganova and Eyquem-Renault’s (2009) perspective, a business model should be seen as a ‘market device’ that can help entrepreneurs develop networks of innovation. The authors’ main argument is that the business model is ‘a narrative and calculative device’, and a ‘boundary object’ in its own way (p.1560). The focus should be, according to them, not on what is a business model, but on what it can do. In contrast, Hacklin and Wallnofer (2012) argue that there are too many variables and unanswered questions when considering the pragmatic approach and that its validity is questionable, especially since previous research was not conducted from a micro-level perspective. They suggest a more thorough investigation of the pragmatic validity of the business model, which is envisioned by Linder and Cantrell (2000) as an ‘organization's core logic for creating
value’ (p.1), whereas Cavalcante, Kesting and Ulhøj (2011) define it as a ‘systemic analythical device’ (p.1328).

The business model is further defined by the *relation between its components* (Magretta 2002; Hedman & Kalling 2003; Baden-Fuller & Morgan 2010; Casadesus-Masanell & Ricart 2010). From this perspective, the component with most weight and which appears in the majority of business model studies is the *value proposition* (Chesbrough & Rosenbloom 2002; Johnson, Christensen & Kagermann 2008). In recent studies, the value proposition, previously known also as ‘customer value creation’³ or ‘value creation design’ (Nenonen & Storbacka 2010) has been analyzed from the point of view of value co-creation (Prahalad & Ramaswamy 2000, 2004). This relatively new concept is aiming to revolutionize the way in which value is created, transmitted, and captured. In others words, if up to now customers were almost never involved in the service or product creation process, by adopting co-creation of value companies move towards better *customer-company synergies* and a *new role of the market*. A more detailed explanation of value co-creation and its coverage in relevant literature will be provided in the second part of this chapter.

Following my research on business models through the Libsearch⁴ database, I have found that there are some common points associated to all business model conceptualizations:

- They describe how value is created, delivered and captured in a company;
- They are closely related to firm strategy and tactics;
- They aim to represent a comprehensive approach regarding the organization of a company’s activities with respect to revenue generation;
- Together with firm strategy, business models are an important unit of analysis for company behavior with implications for both academics and managers.

Moreover, by accessing the Libsearch database I have compiled an area chart (Figure 3.2) that clearly shows the surge in interest in the business model concept. The figure

---

³ Following a firm-centric approach (Prahalad & Ramaswamy 2004)
below depicts the increase in both peer-reviewed and non peer-reviewed articles over 54 years.

Figure 3.2: Evolution of the business model concept in terms of articles published

Source: Own creation, following a ‘business model’ search on Libsearch on December 13, 2013

Meyer (2007) sees the business model as describing how a company \textit{intends to make money}. Moreover, he indicates that innovating a company’s business model is just as essential as any other aspect when considering company development. Osterwalder and Pigneur (2010) develop on it by defining the business model as ‘the rationale of how an organization creates, delivers and captures value’ (p.14). They consider that business models can make the difference between the offering of a company and that of its current or future competitors. Building on the same logic, a recent insight into business model dynamics (Chesbrough 2010) has revealed six features of a business model, namely:

- Formulation of a value proposition;
- Identification of relevant market segments and of a revenue model;
- Formulation of value chain structure;
- Articulation of profit and cost estimation;
• Positioning of the company within the value network connecting suppliers and consumers and last, but not least,
• Formulation of a competitive strategy.

Tikkanen et al. (cited in Aspara et al. 2011) conceptualizes the business model as a linkage between ‘firm related materials and processes that exist “objectively in the world”, on the one hand, and intangible cognitive meaning structures that exist in the minds of people at different levels of the organization, on the other’ (p.623). Through their study of the business model transformation of Nokia from 1987 to 1995, Aspara et al. (2011) have successfully managed to use the concept of business model in order to look at business performance and evolution. Moreover, unlike Siggelkow (2001) and Siggelkow and Levinthal (2003), that considered the incremental and risky nature of business model transformation, Aspara et al. (2011) suggested that business models can also go through manageable radical changes ‘if strong trajectories of continuity are involved’ (p.643).

After input from Mintzberg (1979) regarding firms’ capability to manage extra businesses and their actions under imperfect information, Chesbrough and Rosenbloom (2002) & Chesbrough (2007) have developed the concept of business model as a link between technological development, on the one side, and economic value creation, on the other side. The authors claim that the business model concept is the direct result of the lines of research listed above and that it can be used as a strong theoretical framework that treats technologic advances as inputs, whereas customers and markets are the resulting economic outputs (Figure 3.3).

Figure 3.3: Business model framework
Zott and Amit (2008) build on the business model theory by relating it to the work of Chandler (1962), who analyzed the contingency relation between the corporate strategy of a firm and its ‘internal administrative structure’ (p.1). Thus, for them the business model is a ‘structural template that describes the organization of a focal firm’s transactions with all of its external constituents in factor and product markets’ (p.1). Just like Geoffrion and Krishnan (2003), they too recognize that the ever-changing Internet and broadband technologies are one of the main triggers of business model dynamics. Moreover, they identify the essence of a business model as being orchestrated by four main design elements: novelty, lock-in, complementarities and efficiency (NICE) (Zott & Amit 2010).

Demil and Lecocq (2010) suggest a unique perspective on analyzing business models, emphasizing on two approaches: static and transformational. A business model, understood as ‘the articulation between different areas of a firm’s activity designed to produce a proposition of value to customers’ (p.227), can be seen either as a blueprint that enables classification, description and visualization of a successful correlation between its core elements (static approach), or as a concept or tool that aims to tackle innovation and change either for the organization as a whole or for the business model itself (transformational approach). Here is where innovation is possible and welcomed, according to the authors.

Teece’s (2010) rationale is that a business model is building on ‘management's hypothesis about what customers want, how they want it, and how an enterprise can best meet those needs, and get paid for doing so’ (p.172), while Gambardella and McGahan (2010) consider that a business model reflects how an organization can establish itself and obtain returns at a reasonable cost, at the same time providing suppositions about how the organization can best generate and capture value. Contrary to Gambardella and McGahan (2010) and Teece (2010), Casadeus-Masanell and Ricart (2010) seem to operate with a business model concept that is not restrained by variables related to its success or efficiency. Their approach envisions the business model as a result of an organization’s choice (s) and their consequences.

The first one is the *abstract* business model, which presents itself as a ‘generic model for business model of elements, components, and relationships. The second one, the *operating* business model, refers to all the business models employed or existing at the firm level up to now. The last type, the *scenario* business model, is harder to grasp and it pinpoints to a virtual business model, which has never existed in the real world and which can be used to support different purposes like innovation or educational purposes. Other business model classifications describe usually only one characteristic of the business model (e.g. the revenue model). Some practical examples of business models are bricks-and-mortar, bricks-and-clicks, the Freemium business model (when the customers get the basic products for free, but they have to pay for the advanced and improved version) and various other distribution business models (*How to build revenue: 24 types of business models with examples*).

Today, some of the most famous and used representations of a business model are the Component Business Model (Annex 2) and the Business Model Canvas (Figure 3.4).

---

*Figure 3.4: The Business Model Canvas*

---

The Business Model Canvas (BMC) has been proposed by Osterwalder et al. (cited in Nenonen & Storbacka 2010) and by Osterwalder and Pigneur (2010) and it is a graphical representation of the underlying logic and processes of a business model. By using it, managers can be more effective at taking decisions in real time and visualizing the concept and relationships between the different business model components. Trimi and Berbegal-Mirabent (2012) suggest to group the nine building blocks of the business model canvas according to an ontological criterion. Therefore, they propose four main areas of interest: customers, products, organization, and finance.

Regarding the building blocks comprising the four areas of interest, Osterwalder and Pigneur (2010) define:

...**customer segments** as a group of people or organizations to which a company wants to propose its value offering, also ‘the heart of any business model’ (p.20);

...**value proposition** as the value offering consisting of a combination of different products and services aimed at specific customer segments;

...**channels** as the sales, communication and distribution means to reach customer segments and deliver the company’s value offering;

...**customer relationships** as relationships established between different customer segments and the company, extremely important for customer experience maximization;

...**revenue streams** as money obtained from the customer segments, calculated before cost deduction;

...**key resources** as the main financial, intellectual, physical or human assets that a company requires to create a value offering, market and deliver it to the consumers;

...**key activities** as the main activities required to create and deliver the value proposition, and afterwards obtain revenues from the exchange;

...**key partnerships** as the main partnerships with different suppliers or partners needed in order to sustain the business;

...**cost structure** as the sum of variable and fixed costs incurred when engaging in value creation, delivery and capture.
This business model representation is still widely used by managers and several extensions have been formulated, among which the most famous one is probably that of Hulme (2011). His business model framework proposes two more blocks in addition to the original business model canvas, thus adding extra focus on the growth and competitive strategy. The business model framework developed by Hulme is extremely useful for startups and other small businesses that need to improve their learning cycle (Trimi & Berbegal-Mirabent 2012) (Annex 3).

3.1.2 Business model components

On the one side, Johnson, Christensen and Kagermann (2008) think that a business model must have three components: ‘customer value proposition’, ‘profit formula’ and ‘key resources and processes’. On the other side, Demil and Lecocq (2010) identify the same number, but different business model components: ‘resources and competences’, ‘organizational structure’ and ‘value delivery propositions’. The latter make a clear distinction between the core components and their elements, which can be more varied and numerous. To begin with, the resources-competences matrix is essential and it is listed as the first level of analysis for the architecture of any business model. Barney (cited in Barney, Ketchen & Wright 2011) defined resources as being rare, non-substitutable, valuable, and in-imitable, while Peteraf (1993) highlighted that they have to fulfill the conditions of heterogeneity and imperfect mobility in order to lead to competitive advantage. Good competences are just as valuable as good resources, according to Demil and Lecocq (2010), who define competences as ‘abilities and knowledge managers develop, individually and collectively, to improve, recombine or change the services their resources can offer’ (p.231).

The second component and level of analysis of a business model, the organizational structure, is formed, according to Demil and Lecocq (2010), of the value chain of activities of a firm and of its value network. The first is seen as the discrete activities of the firm, while the latter is based on the established relations to other external stakeholders. Overall, the organizational structure of the firm is supposed to capitalize on the available resources and capabilities.
The third mentioned component, the value delivery propositions, refers to the product or service that is delivered to the customers. In the case of a firm branch, it encompasses as well to who and how will the value delivery proposition happen. A multinational company may have different target customers in different countries, which means that the content of the transaction and the delivery method can differ. Together, the components of a business model, as envisaged by Demil and Lecocq (2010), form the basis for the Resources & Competences-Organization-Value propositions (RCOV) framework, illustrated below (Figure 3.5).

Figure 3.5: RCOV framework

Unlike Demil and Lecocq (2010) & Johnson, Christensen and Kagermann (2008), Morris, Schindehutte and Allen (2005) come up with a business model framework that includes not three but six components: ‘factors related to the offering, market factors, internal capability factors, competitive strategy factors, economic factors and personal/investor factors’ (p.730). Just like in the case of the business model definition and business model evolution, there seems to be no clear consensus regarding the components of a business model or their precise number. Furthermore, it is interesting to note that sometimes one component of the business model is much more visible than the rest. Osterwalder (2004) draws attention to this matter and
postulates that a business model, or ‘the money earning logic’ (p.18) of a company, should not be mistaken with one campaign or activity in the company’s chain.

Casadeus-Masanell and Ricart (2010) seem to use the concepts of business model and business model components interchangeably. They are seen both as actual choices that the management has to make in order for the organization to function properly, and as consequences of those choices. They further develop their argument by dividing these choices into three areas: ‘policies’, ‘assets’ and ‘governance structures’ (p.204). Policies refer to ‘courses of action that the firm adopts for all aspects of its operations’, assets refer to ‘choices about tangible resources’, while governance structures refer to ‘contractual agreements that grant power over policy choices or assets’ (p.198). Noteworthy are as well the ‘virtuous cycles’, which are not by themselves business model elements, but can strengthen business model components after every iteration. This notion is in connection to the component description of Demil and Lecocq (2010), who see resources and competences, internal and external organization and value propositions as being interconnected in a ‘virtuous cycle’ (p.199).

### 3.1.3 The relation between business models and strategy

Andrews (cited in Chesbrough & Rosenbloom 2002) was among the first ones to differentiate between corporate strategy and business strategy, the latter being a subset of the first.

> Like business strategy, [corporate strategy] defines products and markets—and determines the company’s course into the almost indefinite future... A company will have only one corporate strategy but may incorporate into its concept of itself several business strategies (cited in Chesbrough & Rosenbloom 2002, xi).

The subsequent literature has focused on how business strategy can influence a company’s development and on how managers could capitalize on existing and underused firm resources in order to expand to new businesses. Moreover, business strategy has been shown to have a significant impact on a company’s innovation success and technological and network competence (Ritter & Gemünden 2004).

In what concerns the definition of strategy, Porter (1991) posits that strategy refers to integrating the diverse activities of a company towards a common goal. Chandler (1962), views strategy as ‘the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals’ (p.13). Nevertheless, the field of strategy is fragmented and there is no one single view on what strategy entails.

Osterwalder (2004) conceptualizes business models as being the middle layer between business strategy and business organization. Business models are seen as the financial transposition of the business strategy- the implementation of the company vision and strategy into value propositions. Similarly, Meyer (2007) sees the business model as being the middle link between strategy and financial statements and outcomes. Therefore, strategic business model decisions can have a huge impact on both innovation investment and financial outcomes associated with the launch of a new product or service. Morris, Schindehutte and Allen (2005) acknowledge that business models contain components from both business strategy and operational effectiveness. While strategy is concerned with performing different things or in a different way than one’s competitors, operational effectiveness is concerned with performing as good as possible given the competition (ibid.).

The concepts of business model and strategy differ in three main ways (Chesbrough & Rosenbloom 2002). First, strategy is more holistic and describes better the way in which value will be captured and rendered sustainable. The business model is concerned more with efficiently delivering value propositions to customers, while value capitalization comes in second place. Second, Chesbrough and Rosenbloom (2002) identify the dichotomy between value creation for the business and value creation for the shareholder. In this respect, the business model depicts very little of the financial aspect of the business, as it tends to assume that most of the financing is done internally. Third, the authors aknowledge that from a cognitive point of view, strategy assumes en enlarged knowledge spectrum as compared to business models,
which are operating under limited information with respect to the company, its customers and other stakeholders.

Notable is the framework developed by Casadeus-Masanell and Ricart (2010) to distinguish between strategy, tactics and business model, the latter being a ‘reflection of the firm’s realized strategy’ (p.195). Their approach starts by assuming that every organization has to have a business model, but not necessarily a strategy, defined as ‘a plan of action for different contingencies that might arise’ (p.200). Therefore, the difference between strategy and business model is sometimes ambiguous, but it becomes more visible when contingencies take place, and the company’s action plan requires modifications of the business model. As mentioned by Andrews (cited in Chesbrough & Rosenbloom 2002) and more recently by Baden-Fuller and Morgan (2010), a company can have several business models, but it has only one corporate strategy. With respect to business models, strategy and tactics, Casadeus-Masanell and Ricart’s (2010) framework shows how strategy determines business model choice and how afterwards the business model determines the ‘residual choices open to a firm’ (p.196), also known as tactics. They call it a ‘generic two-stage competitive process framework’ that is formed of the strategy stage and of the tactics stage (Annex 4).

3.1.4 Business Model Innovation

The past few years have seen an increase in the attention given to business model innovation as an active trigger for value creation and firm performance (Park 2011). Teece (2010) envisions business model innovation as ‘a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for incumbents and new entrants alike’ (p.173), whereas Park (2011) postulates that business model innovation ‘involves new business systems and revenue streams that are different from existing paradigms’ (p.133). Furthermore, Meyer (2007) argues that business model innovation, understood by him as a major change to a company’s current business model, is extremely important for the company’s growth and for creating shared value and competitive differentiation. However, the author draws attention to the fact that many times, innovation team leaders do not consider business model innovation as being important.
Unlike Meyer (2007), Cavalcante, Kesting and Ulhøj (2011) argue that not all major changes lead to a new business model, as business models have a degree of flexibility that allows to add some new processes without modifying the core processes of the business. The authors link business model change to the innovation degree, and following their business model change typology (creation, extension, revision and termination), they associate business model revision to radical or disruptive innovation (McDermott & O’Connor 2002, Osterwalder & Pigneur 2010), whereas business model extension is associated to incremental innovation. Regarding the conditions that foster business model innovation, Bock et al. (2011) think that firms that promote a creative culture have a tendency towards adapting resources and capabilities and engaging in structural change, features which might be needed during business model innovation. On the same topic, Chesbrough (2010) adds that business model innovation is not about having ‘superior foresight ex ante’ (p.356), but more about trial and error and sometimes adapting the new business model after its adoption.

Business model innovation can be divided into four types following Meyer’s (2007) taxonomy: ‘premiumization’, ‘plug-in modules’, ‘new channel choice’, and ‘manufacturing and supply’ (p.6). The first type refers to repositioning products and services on the price-quality matrix, the second refers to creating a business model that allows that adding on of auxiliary sources of revenue over the base service or product, the third one refers to discovering new business channels that are more profitable and the last one makes reference to innovation in the traditional area of manufacturing and supply in order to gain financial profits.

An important issue when analyzing business model innovation is how to decide when is the right moment to reinvent a business model, especially when considering moving away from an established one (Johnson, Christensen & Kagermann 2008). In case of incumbent firms, this happens seldom and that is partly due to managers’ inability to fully grasp the existing business model, which therefore makes it hard to see the need for change or the type of change required (ibid.). Meyer (2007) suggests that although innovation teams are good at visualizing the prototype, they are also responsible for helping decision makers see the business model behind the prototype. Johnson, Christensen and Kagermann (2008) recommend a three steps approach in order to
determine when and how a company should alter its existing business model. According to the authors, the first step is to identify the success drivers of the current business model, e.g. its money earning logic or its customer proposition. The second step is to look for signs whether the business model needs a change or not. Last, but not least, managers should be able to decide on whether the effort to change to a new business model is likely to pay off. If the advantages do not overcome the drawbacks, then a decision should be made against adopting a new business model.

Another cause that might explain managers’ difficulty to chose the right moment to alter a business model is the lack of sufficient formal study of the dynamics of business model innovation. Even when they do realize that a change is needed, the new business models usually start off as unappealing to both internal and external stakeholders. Johnson, Christensen and Kagermann (2008) propose that companies use a road map that follows the change road from the current business model to the new one (Annex 5).

Nevertheless, business model innovation should not be adopted by established firms just for the sake of changing something (ibid.), especially if they are already benefitting from a successful business model. Complimentary changes that are not justified can lead to meager results. It is more advisable, therefore, to search to disrupt the competition through products and service offerings within the original business model framework. Johnson, Christensen and Kagermann (2008) identify five main strategic situations in which business model innovation is required:

- To address through disruptive innovation the needs of a large group of customers that find the product too expensive or complicated to use;
- To combine an innovative business model with state-of-the-art technology;
- To create a niche for an undiscovered need;
- To keep away low-end disruptions, and
- To address a change in the competition dynamics and avoid commoditization.

Another aspect that is important and has been covered by the business model innovation literature refers to the barriers to business model innovation. On the one hand, according to Johnson, Christensen and Kagermann (2008), there are four barriers that hinder a perfect match between customer needs and the value proposition
offered by the company: not enough money, time, lack of accessibility and skills. In order to reach the customers, companies have to design a profit formula that will create shared value for both them and the customers. On the other hand, Christensen (1997) & Amit and Zott (2001) have identified the conflict with the existing business model as the main barrier to the development of a new business model. From their perspective, even though managers are able to find the right business model, they have difficulties in putting aside the old one, whereas Chesbrough (2010) believes that managers have difficulties both in finding the right business model and in managing the old prevailing model (with its current assets configuration). The novelty of Chesbrough’s (2010) research is brought by the discovery that companies have a specific business logic, which guides their choice of assets and strategic decisions. This logic can be seen, from a business model innovation perspective, as a limit to how and if a company decides to change the way in which it operates its business.

The way forward is, following Chesbrough (2010) & Osterwalder and Pigneur (2010), through business model mapping, process which should highlight the business model’s main components and the processes underlying them, ultimately leading to alternative business models.

Meyer (2007) hints at the importance of considering business model innovation and value co-creation at the same time, stating that business model innovation has to take place ‘early or in parallel with the user-centered design and prototype development’ (p.2). Therefore, many times the business model has to be changed completely after market testing. In the end, the rationale when considering business model innovation is to create something that maximizes value for both shareholders and customers.

3.1.5 Discussion and conclusion

The business model concept has been gaining more and more attention in the last years, but nevertheless, there is no clear and generally agreed upon definition of what a business model entails (Nenonen & Storbacka 2010; Perkmann et al. 2010; Teece 2010; Trimi and Berbegal-Mirabent 2012). Some of its early conceptualizations present it as an ‘organization's core logic for creating value’ (Linder & Cantrell 2000), while more recent conceptualizations define it as a ’systemic analytical device’ (Cavalcante, Kesting & Ulhøj 2011). Authors such as Aspara et al. (2011), Bock et al. (2011), Casadeus-Masanell and Ricart (2010), Nenonen and Storbacka (2010) &
Perkmann et al. (2010) do not propose their own definition, as they focus instead on the functionality and utility of the concept. Even though it is acknowledged that a common definition would aid in the analysis of the concept, it was still interesting to discover that most authors chose to develop their own. Nonetheless, taking a closer look at the proposed definitions reveals that, to a large extent, they all refer to the same thing.

The components of a business model has been as well a point of interest for many authors, and regardless of the number of components identified, all classifications seem to have in common the value proposition. I found particularly thought-provoking the classifications proposed by Demil and Lecocq (2010) & Osterwalder and Pigneur (2010). The former considers the RCOV framework as way forward in starting a dynamic analysis of business model evolution, based on the Penrosian view of the company as a bundle of resources. Their focus in on analyzing both the interaction between core elements, and the changes occurred at the level of a single business model component. The problem is, in my view, that their framework does not take into account another crucial aspect previously discussed by them and Siggelkow (2001), namely the fit or consistency between the internal and external environment of the company. This is highly important as the business model development is influenced by both internal and external elements.

Considering Osterwalder and Pigneur’s (2010) popular BMC and going beyond the surface, I really appreciated the authors’ intention to make things simple and understandable, at the same time not oversimplifying them. Even though their framework is not visually focused on interactions between business model components, the BMC is intended to be used in a dynamic and innovative way. Moreover, the authors touch upon the relation between business models and strategy, which has been a point of interest for other authors as well, namely Demil and Lecocq (2010) & Casadeus-Masanell and Ricart (2010). The former does not make a clear distinction between the terms, which are sometimes used interchangeably. Conversely, the latter describes the business model in connection to strategy and tactics, which gave me a more holistic perspective on the differences and propinquities of the aforementioned concepts.
Within the business model literature, the articles proposed by Zott and Amit (2002, 2008, 2010, 2013) throughout the last 10 years have been a notable and robust contribution to the development of the concept. It is remarkable that while analyzing the role of business models in e-commerce, they opened that path for further investigation on business model innovation, strategy, value creation and firm performance. Their latest article on business models (2013) is in itself a critique of their earlier work, and it draws attention away from the traditional value chain perspective attached to business model analysis, and onto external stakeholders as sources of competitive advantage and firm differentiation. They claim to employ a holistic perspective, but I argue that they first and foremost employed an analytical perspective for looking at the activity system of the focal firm, for which they developed the NICE system of evaluation.

In parallel with Zott and Amit’s draw on value creation drivers in business models, Magretta (2002) & Chesbrough and Rosenbloom (2002) propose their own conceptualizations. Magretta (2002) emphasizes the importance of value creation for the right kind of customers, and the complementary role of business models and strategy in this process. Unlike Casadeus-Masanell and Ricart’s (2010) understanding of strategy, she sees it as being completely different from business models, and more related to a company’s attitude towards its competitors.

Contrary to Zott and Amit (2013), Chesbrough and Rosenbloom (2002) consider value creation and capture as being the responsibility of the firm. I would argue that Zott and Amit’s (2013) perspective is more complex, but that could also be explained through their access to more recent streams of research and approaches to value creation. The following articles proposed by Chesbrough in 2007 and 2010 are great opportunities to understand the need, advantages and obstacles associated to business model innovation, albeit from a static perspective. He suggests experimenting and then deciding on the business model to be used, but this approach is not taking into account the dynamic consistency of a company, that is, the managers’ ability to go beyond the current situation and foresee future changes in the market.

Another aspect which I found interesting relates to the frameworks proposed to discover or establish a company’s business model. Thus, Teece (2010) offers a
functional depiction of how a business model should work, based on the presumption that customers are interested in solutions to their perceived needs, and not in products or services as such. Moreover, his assumption that business models are more general than business strategies seems to come in direct contrast to Casadeus-Masanell and Ricart’s (2010) argument that business models are actual representations of a chosen strategy. From my point of view, and based on the research which I have conducted so far, I consider that business models are indeed blueprints of a chosen strategy, and not the other way around. As Osterwalder (2004) suggested, both strategy and business models seek to answer similar questions, but on different levels of analysis.

Lastly, I would like to wrap up the discussion on business models by bringing forth business model innovation. The primary arguments for innovating the business model relate to necessity (Meyer 2007; Teece 2010; Osterwalder & Pigneur 2010; Park 2011) and timing (Johnson, Christensen & Kagermann 2008; Chesbrough 2010). The company usually goes through business model innovation as a result of external pressure from competitors, or due to internal reconfigurations. It is often the case that this kind of innovation is not as popular as product or service innovation. Yet, Chesbrough (2010) goes as far as saying that a unique business model can be a better match for a mediocre product than the other way around. The articles by Johnson, Christensen and Kagermann (2008) & Chesbrough (2010) developed an overview on the right moment to innovate a business model, while Cavalcante, Kesting and Ulhøj (2011) made the association between business model change and the degree of innovation. In trying to understand the concept, it became obvious in the early stages of research that innovation in itself is not the goal, but rather the means for attaining a sustainable competitive advantage. Either by adapting new features to an established business framework, or by re-inventing the business model through radical innovation, managers are faced with different choices which aim to improve, in the end, the company’s performance. Therefore, it is important to understand the challenges associated to business model innovation, and in order to do so one must start by studying its dynamics.

All in all, the above discussion and literature review on business models was geared towards answering the following question: How have business models been defined
and conceptualized in the literature? In order to conclude this part of the research, I would like to highlight again that:

• Although all definitions have common elements and there is a call for a generally accepted definition, so far authors prefer to either develop their own, or pinpoint to those definitions which they find most suitable;
• From an ontological perspective, business models are explained through their main components, whose number changes according to the framework proposed by each author;
• The emphasis seems to have shifted from what business models are, to what they can do. This phenomenon is doubled by a shift in focus from an ontological approach, to a managerial one;
• Business models are becoming more and more recognized as the unit of analysis for value creation and innovation studies;
• Business models are tightly coupled with strategy and tactics, but there are many contrasting views regarding their interplay and actual differences between the concepts;
• There are contrasting views regarding senior management’s role in business model innovation (e.g. Chesbrough’s (2010) *trial and error* approach vs. Demil and Lecoq’s (2010) *dynamic consistency*).

3.2. Review of the Value Co-Creation literature

3.2.1 Value creation and its relevance

The concept of value has been investigated and defined starting with Aristotle, who was the first to distinguish between ‘use value’ and ‘exchange value’ (Vargo, Maglio & Akaka 2008). In contrast to Aristotle’s view on value, Smith (1776) distinguishes between different meanings for ‘value-in-use’ and ‘value-in-exchange’:

*The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other, 'value in exchange.' The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use.* (Smith 1776, p.81)
The modern approach to value has lead to a more extended and diversified classification of value types. Miles (cited in Lindgreen & Wynstra 2005) distinguished between \textit{use value}, \textit{esteem value}, \textit{cost value} and \textit{exchange value}, whereas Kotler (2009) looked at value from a customer’s perspective, thus dividing value into \textit{total customer value}, \textit{total customer cost} and \textit{customer-delivered value}. Furthermore, several researchers, among which Ulaga and Chacour (2001), have endeavored to explore the complexities of customer satisfaction, retention, and customer perceived value. This view of the customer as a target for a company’s value offering has become known as the \textit{traditional or goods dominant logic} (GDL) \textit{approach} to value creation, in which firms are responsible for proposing, developing and delivering the value proposition to the customers, with little or no interaction from them (Prahalad & Ramaswamy 2004). This approach is in line with previous research sustained by Porter (1991), who introduced the notion of value chain analysis, which presents clear and separate roles for producers and consumers at opposite ends of the value chain. Thus, the firm is responsible for production, while the end client is involved solely in consumption activities. In connection to value chains, Porter (1991) developed as well the competitive advantage concept, which is created through the company’s ability to propose and deliver customer value that exceeds the overall cost of doing so. Bowman and Ambrosini (2007, 2010) draw attention on the meaning of value, the value creation process as ‘the outcome of a bargaining process’ and the issue of ‘value destruction’ (p. 479), encountered when resource-endowed companies engage in value destroying activities.

Nevertheless, in the field of marketing, the traditional approach to value creation has been challenged by the emergence of the concept of the customer as ‘co-producer of value’ (Normann & Ramirez 1993a; Prahalad & Ramaswamy 2000), followed by the development of the customer involvement approach (Prahalad 2004; Vargo & Lusch 2004). Both are consistent with the service dominant logic (SDL) view (Figure 3.6), which always sees the customer as a value co-creator (Vargo & Lusch 2004; Vargo & Lusch 2006). Conversely, Gronroos and Voima (2013) consider that the customer is not always a value co-creator, but rather value creator.
Central to the SDL perspective is also the idea that service is ‘the common denominator in exchange, not some special form of exchange’ (Payne et al. 2009, p.379). Thus, exchanging goods entails as well, to a higher or a lesser extent, associated services. Prahalad and Ramaswamy (2004) & Payne et al. (2009) are amongst the only researchers that have tried to connect SDL, value creation and co-creation of brands with enhanced customer experience. The latter have developed a three phase theoretical model for co-creation, focusing on customer experiences as a source for brand co-creation (Annex 6).

Choi and Burnes (2013) identify the first change in the customer involvement process as the action initiated in the ‘90s by Microsoft, which allowed its customers to test, debug and modify the beta software released by the company. Following this approach, Prahalad and Ramaswamy (2000) estimate that Microsoft has managed to reduce costs by $500m for its release of Windows 2000. In an effort to explain the merits of value co-creation, Ramirez (1999) compared the whole process to a gateway to rethinking the meaning of value creation. Similarly, Ueda et at. (2009) consider that in order to find a balance between the needs of the society and those of the individual, more emphasis should be put on ‘value creation mechanisms’ (p.682). Moreover, this requires an integration of different viewpoints on sustainable value creation (ibid.). For example, a product is only valuable if it can be exchanged on the market, otherwise it is just an artificial product with no value for the society. Considering this approach, Ueda et at. (2009) have identified three value creation models for ‘provided value’, ‘adaptive value’ and ‘co-creative value’. The first model describes a closed environment, in which the customers and the companies evolve

---

**Figure 3.6: Value-in-use in a SDL**

<table>
<thead>
<tr>
<th>Value-in-use in a SDL</th>
<th>Value is determined by and can only be created with the customer in the consumption process through use</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Involves customer participation in the creation of the core market offering itself</td>
</tr>
</tbody>
</table>

Source: Witell et al. (2011)
independently of each other, and in which all the goals are clearly established.

The second model is an open model, since although the customer goals are known, the environment conditions are dynamic. Last, but not least, the third model or the co-creation model depicts a situation in which both the customer needs and the environment conditions are ambiguous. Thus, producers and consumers are interdependent in the value creation process.

Choi and Burnes (2013) suggest that the value creation paradigm shift has been identified under different names such as ‘co-creation experience’ (Prahalad & Ramaswamy 2000, 2002), ‘user led innovation’ (von Hippel 2005), ‘open innovation’ (Chesbrough 2003), ‘wikinomics’ (Tapscott & Williams 2006) and last, but not least ‘service-dominant logic’ (Vargo & Lusch 2004, 2006). Cova and Dalli (2009) bring to light the fact that although customers are active participants with respect to value creation, they do not usually benefit monetarily from their socio-economic or cultural contribution. Therefore, their involvement does not start from the same premises as that of the producers, fact which is often neglected in the customer development studies. Building on the consumer-producer relationship, Cova and Dalli (2009) state that company brands no longer belong just to the company, as consumers feel entitled as well to cultural property. Moreover, personal and affective interaction with the customers has a direct effect on their perceived satisfaction. Likewise, positive customer-to-customer relations represent an increase in customer satisfaction, and thus, an increase in their loyalty and willingness to purchase goods or services (Moore, Moore & Capella 2005). Additionally, customer-to-customer relations can improve the consumer experience beyond firm offering or environment (ibid.). After an in-depth analysis based on input from owners of different hair salons, Moore, Moore and Capella (2005) have developed a theoretical model of service outcomes, which centers around customer-customer, customer-environment and customer-provider interactions (Figure 3.7).
Contrary to Prahalad and Ramaswamy (2004), Cova and Dalli (2009) consider that consumers are not partners, and that they do not co-produce, ‘but perform immaterial work’ (p.333), while adding ‘cultural and affective value to the market offerings’ (p.315). Thompson and Fine (1999) consider that the information assessment process of the consumers is based on a cognition-affect-behavior approach, whereas Prahalad and Ramaswamy (2004) & Payne et al. (2009) point out that this approach might be too narrow when taking into consideration the experiential behavior of the consumer. Moreover, the experience that a consumer associates to a product or service provides also a source of learning, which leads to better informed and more capable consumers (Payne et al. 2009). Their individual or community shared experiences due to third party or supplier factors can modify for the better or for the worse consumer behavior (ibid.).

### 3.2.2 Value co-creation at the center of the company-customer relationship

There is a widespread consensus among scholars agreeing that end-users can contribute dramatically to the creation of goods and services. In that sense, there is a shifting from a firm-centric view of the world to a new, networked reality where the consumer’s role is moving ‘from isolated to connected, from unaware to informed, form passive to active’ (Prahalad & Ramaswamy 2004). Companies can obtain benefits from the involvement and participation of customers in the innovation
process. Some of the identified benefits are exploitation of small niches, faster and more accurate product development, potential cost reductions, reduction of information asymmetry between companies and customers (Henkel & Von Hippel 2004). Nonetheless, Desarbo, Jedidi and Sinha (2001) postulate that in order for a company to deliver the optimal value proposition and to capitalize on its customers’ skills by engaging them in the value co-creation process, it must firstly analyze and evaluate what exactly do the customers want. Moreover, the authors consider that a Customer Value Analysis is essential in order to analyze systematically ‘the perceived drivers of customer value (typically quality and price)’ (ibid., p.846). Nevertheless, market oriented companies should keep in mind that customer needs can be both expressed and latent (Ngo & O’Cass 2012), and that they have to find optimal solutions for both. The authors maintain a rather static and unidirectional approach regarding customer involvement, attributing improved firm performance solely to firm efforts in terms of customer ‘satisfaction’, ‘relationship’, ‘attraction’ and ‘retention’.

Many firms are starting to see users as co-creators able to participate actively in the production of new products and services, however it is not always evident or helpful for firms to engage customers in effective co-creation relationships (Payne et al. 2008; Nambisan & Baron 2009; Oliveira & Von Hippel 2011). The reason for that lies also in the fact that value expectations can be different for the involved stakeholders (Bowman & Ambrosini 2010). One the one end, the company has been used to focus on cost efficiency and quality when defining its business strategy and business model. On the other end, the customer has other expectations, which are not always translated through the price of the acquisition. Prahalad & Ramaswamy (2002) pinpoint to the fact that customers are interested in cost efficiencies only when that is directly related to their overall experience with a product or service. They suggest that the traditional view on customer involvement has been challenged by the fact that nowadays, the consumer can influence the value creation chain before the ‘point of exchange’ when the ownership of a product has shifted from the company to the consumer. Additionally, this empowerment of the customer is directly related to the rise of the Internet, which encourages fast, stable and dynamic relations (ibid.). Consumer and consumer communities are most likely nowadays to engage in a dialogue with the company (Ramaswamy 2009), dialogue which is based not only on communication
from the company, but also on consumer experience. The very concept of market is re-considered and re-defined as a ‘locus of value creation and value extraction’ (Prahalad & Ramaswamy 2004). This perspective challenges the traditional view of the market, seen as a ‘locus of exchange’ or as an ‘aggregation of consumers’ (Kotler, cited in Prahalad & Ramaswamy 2004), disconnected from the value creation process.

In this context, it is no longer a choice to move towards co-creation, but a necessity. The alternative is that if one chooses not to capitalize on the vast pool of consumer value creation, its competitors might. Prahalad and Ramaswamy (2004) criticize though the firm-driven take on co-creation, and they postulate that most of the co-creation experiences are controlled and staged by the company, fact which limits the success of the approach. Conversely, Christiansen et al. (2010), consider that the firm should facilitate co-creation by allowing and creating co-creation friendly environments. Building on the typology of Boztepe (cited in Christiansen et al. 2010), Christiansen et al. (2010) differentiate as well and further define four dimensions of value creation in the field of innovation: firm perspective, consumer perspective, co-creation perspective and co-construction perspective.

In light of the research of Prahalad and Ramaswamy (2004) & Christiansen et al. (2010), co-creation should not be about modifying slightly the firm-centric traditional approach, nor about customization or activity outsourcing to customers. Such an approach would still treat the customer as a passive party and that is no longer a satisfying approach (Prahalad & Ramaswamy 2004).

Despite the significant number of studies on co-creation, Payne, Storbacka and Frow (2008) concur that there is not enough information regarding how exactly do customers engage in the co-creation of value. The authors consider that the concepts of value co-creation and SDL are interlinked, as SDL bases its main premises on the fact that the value-creation circle is complete only when the customer uses the service (or product), and not when the service is being offered or created.

Another notable contribution regarding the proposal of a value co-creation framework is the one developed by Aarikka-Stenroos and Jaakola (2012). The authors agree with Skarp and Gadde (2008) that although there is emphasis on solution process
management, most of the times the viewpoint is the one of the seller and not a joint perspective between the seller and the consumer. Following their research in the context of knowledge intensive services, Aarikka-Stenroos and Jaakola (2012) propose a framework which capitalizes on both supplier and customer resources, with the purpose of achieving a collaboration between the two parties on problem and solution identification, implementation and value-in-use, understood as the manner in which the value offering is used (Annex 8).

### 3.2.3 Value co-creation and co-innovation

Doepfer (2013) considers that the co-innovation competence refers to a ‘specific development process of corporate resources and capabilities to implement interorganizational value creation’. The author’s perspective on value co-creation as co-innovation in the field of knowledge intensive companies helps bridge the gap between innovation strategy and value generation. Similarly, Booney et al. (2007) define co-innovation as the opportunity for innovation between companies. They apply a supply chain perspective to the concept, meaning that for them, co-innovation is a process outside the boundaries of the companies. Based on commitment and mutual understanding, co-innovation is one of the possibilities that firms have to improve their value chain and obtain sustainable competitive advantage.

Bossink (2002) considers as well that either by choice or by constraint companies choose to capitalize on co-innovation. As a result, he identifies four stages for the development of the co-innovation strategy. Firstly, companies will try to develop their own strategies, and afterwards they will orient themselves to find collaborative opportunities for innovation with other companies. Thirdly, the partner companies will create a joint organization responsible for co-innovation projects. Lastly, the companies will engage in idea generation programs, based on co-innovation strategies and processes previously identified. Bossink’s stage model is in line with previous research proposed by Keiner and Schultz (cited in Bossink 2002) & George and Farris (1999) on co-innovation strategies for corporate networks.

An important aspect of successful co-innovation initiatives refers to finding the right organization to co-innovate with. Bossink (2002) pinpoints that the involved parties have to assess the costs and the benefits of such collaboration, keeping in mind that it
has to be effective and sustainable. Moreover, he suggests that once the results are satisfactory, the newly instated co-creation organizations should be dismantled. Thus, companies will now focus their effort and new capabilities in drafting themselves innovation strategies and solutions.

Conversely, Reay and Seddighi (2012) do not limit the co-innovation and value creation experience to business-to-business. For them, the individual customer has a special role in enhancing company capabilities with respect to co-creation activities. The authors identify dialogue, risk assessment, transparency and access as ‘the key building blocks for co-creation experiences’ (p.260). According to them, innovation via co-creation is possible due to the increasing significance of ICT, which supports the formation of business processes that change the role of the customer. ICT is responsible as well for generating the drivers that connect together business models, strategy and daily operations. Based on their theoretical and empirical research, Reay and Seddighi (2012) have developed a model for co-creation as a source for innovation (Figure 3.8).

Figure 3.8: Joint co-creation and innovation model

![Joint co-creation and innovation model](image)

Source: Reay and Seddighi (2012)

Similarly, Ueda et al. (2009) highlight that co-creation can be a critical ‘innovation management’ for both customers and companies. Narver et al. (2004) bring forth lead users, together with market experiments as means for companies to unravel future customer needs. They also make the distinction between reactive and proactive market orientation, the latter being associated in this case with dynamic and active consumers. Nonetheless, most of the contemporary market research techniques
(interviews, surveys, focus groups etc.) are focused on getting input from customers with respect to their previous experience with a product or service, which is not necessarily relevant for predicting future needs or usage (Witell et al. 2011). Additionally, unexpressed needs are hard to be captured through the above-mentioned methods (Lilja & Wiklund 2007), and therefore Witell et al. (2011) suggest that the lead user method is more proactive, ‘because the user is actively engaged in creative problem-solving at the location where needs are present’ (p.141). Nevertheless, employing research methods that allow customers to take initiatives is not nearly enough, unless they are correlated to a corresponding market orientation (Narver et al. 2004).

**3.2.4 Value co-creation and Business Model Innovation**

In recent years, there have been an increased number of firms adopting new business models or drastically modifying their current ones. Previously, companies used to seek for innovation within their boundaries only, following a closed innovation model, where the knowledge flow as source of *new product development, design and production* was *limited to* the boundaries of the firm (Ramaswamy & Gouillart 2010). Supporters of a more open flow of knowledge, such as Prahalad and Ramaswamy (2000, 2004) argue that, in order to strength their innovation capability, firms need to follow new innovation models involving capable players outside the firm as much as inside the firm. The authors (2002) think that the emphasis has moved from ‘managing efficiencies’ to ‘managing experiences’, and that customers are nowadays much more active and involved than ever before. Following the same approach, Xie et al. (2008) postulate that current market research is wrongfully separating consumption from production research.

Witell et al. (2011) suggest that consumers should be seen more as active participants that are willing to influence the market offering and thus lead to new opportunities for both companies and themselves to capitalize on improved value offerings. The difference between passive and active customers has been researched as well by Narver et al. (2004), who suggest, as mentioned before, that the differentiation is conditioned by the company’s ‘responsive’ or ‘proactive’ market orientation. On the one hand, in the case of a responsive market orientation, the company aims to address customer needs that are expressed and known. On the other hand, in the case of a
proactive market orientation, the company has to discover and then address those customer needs that are hidden and unknown to the market (Witell et al. 2011). Nevertheless, Ueda et al. (2009) draw attention on the fact that even expressed customer preferences can easily be influenced through web surfing and through interactions with other customers. That increases the difficulty of addressing customer preferences, especially when considering the shortened life cycle of products and services due to world globalization. Therefore, value creation is no longer firm-centric, as it is customer-centric or ‘customer-driven’. Following a SDL viewpoint (Vargo & Lusch 2004), the focus should be on the customer’s value creation process and not on the offered product or service. Even though interaction with the customers can happen at different stages of the value chain, the most common point of interaction is the so-called ‘point of exchange’. Prahalad and Ramaswamy (2002) envision co-creation as being driven by four pillars that aim to simplify the co-creation process, namely: dialogue at each point of the value chain, risk reduction regarding customer awareness on potential product and service risks, and transparency of information (DART). Witell et al. (2011) agree as well that an interactive dialogue between the company and the customer is necessary in order to understand the latter. This process, called ‘prosumption’ (Toffler 1980, cited in Witell et al. 2011), means that ‘consumers co-design and co-produce their own products and services’ (Witell et al. 2011, p.143). Still, the co-creation process can also include ‘co-creation for others’ (as opposed to ‘co-creation for use’), which is more meaningful than customization due to its higher degree of customer involvement (ibid.). Additionally, implicating customers in the early stages of product or service development has the potential of being more relevant than capitalizing just on R&D employees’ skills (Kristensson et al. 2008).

Hienerth, Keinz and Lettl (2011) propose integrating co-creation into the core business activities of a company, thus promoting user-centric value creation. There are several challenges associated to business model innovation though co-creation integration, and one of them is management’s internal resistance. The ‘not created here’ manifestation, coupled with a fear of control loss a psychological barriers which hinder the integration of co-creation. The authors suggest employee empowerment, a system of incentives for users, continuous learning and a clear intellectual property policy as means to address management’s inertia and attract users into core business
processes. Moreover, they admit that incumbent firms find it more difficult than younger firms to move to such a user-centric business model. Storbacka et al. (2012) consider that the shift towards a user-centric business model is mirrored by a shift towards a ‘collaborative value network’ (p.52). Depending on the type of co-creation envisaged, there will be different business model configurations. Furthermore, the authors posit that the business model concept is essential in revealing how co-creation occurs. They identify the intra- and inter-actor configurational fit as an essential part of business model design for co-creation, and they highlight that actors must integrate resources into activities in order to allow co-creation.

Ford et al. (2012) view value as being determined not by what a service or product is, but by the experience that the customer associates to it. From a SDL perspective, ‘all organizations, manufacturing and service, are actually service providers as they co-create value with their customers’ (p.281). Moreover, today’s companies try to enhance their customer range and shareholder value by finding and implementing radical or incremental innovations. Whether it entails an extension to previous innovations, or whether it is disruptive and radical in its nature, the envisioned change can be nevertheless applicable to both the organization and the customer. In this sense, Ford et al. (2012) have devised a framework that illustrates the co-creation of successful innovation. The four cells depict the degree of innovation from the customer and from the company’s point of view, capitalizing on examples from IKEA and Disney (Annex 8). According to Ford et al. (2012), their framework is unique in the sense that it simultaneously considers both the customer and the company’s learning needs in terms of achieving innovation.

The authors contend that the effort to coordinate between the company and the customer’s capabilities and resources to innovate should be integrated into the corporate strategy of the company, thus affecting not only current, but also future actions. By doing this, the company ensures that it allocates enough time and resources to the learning experience that will guide the implementation strategy. From a different standpoint, Bowman and Ambrosini (2000) suggest that any strategic change should start first with the individual, as real changes are triggered by non-routine activities. They warn, however, against implementing a change of personnel as the only way forward towards exercising strategic change. Moreover, they suggest
to implement only models of action that were tested before, and with positive results.

3.2.5 Discussion and conclusion

The concept of value has been explored and discussed starting with Aristotle, and Smith reintroduced and redefined it as value-in-use and value-in-exchange. The two value types were further developed by a series of authors, among which Miles (1961) and Witell et al. (2011). Vargo and Lusch (2004, 2006, 2008a, 2008b, 2010) built upon the relation between value creation and SDL, which sees the consumer as a co-creator, and services as the main unit of exchange. Focused primarily on the attributes of the SDL, the authors discuss as well the notion of value co-creation, seen as the main driver for firm-consumer relational exchanges and co-production. Moreover, Vargo and Lusch (2008) propose in their article Competing through service: Insights from service-dominant logic that co-creation and co-production are two distinct notions, and that both are necessary for firm-consumer collaboration. The authors view co-creation fundamental for the development of a value proposition and service offering and for the establishment of a stakeholder network through dialogue.

I consider the above approach to be a significant step forward for the development and understanding of co-creation, described by Normann and Ramirez (1993a) as co-production, in which the customers would tailor their own offerings based on the ones given by the firm. Nevertheless, Normann and Ramirez’s contribution to the development of the concept is undeniable. They were among the first to call for a reconfiguration of roles and acknowledge that better relationships and increased knowledge would lead as well to superior value creation. Moreover, they introduced the notion of fit between competences and customers, and they postulated that only by increasing the complexity of the offering and company-customer relationship that the company could enjoy a better competitive advantage.

From a holistic perspective, the historical literature review above revealed a series of gaps regarding co-creation. One of the identified problems relates to the fact that there is no clear discourse on what co-creation means, or on what are its aspects. As highlighted above, even though is it not new, co-creation is still a blurred concept. From co-production to customer involvement and finally, to one of its most developed conceptualizations, offered by Prahalad and Ramaswamy (2004), co-creation has
evolved in parallel with customer experience, increased customer involvement, customer voice, customer innovation, company-consumer communication and collaboration. The articles proposed by Prahalad and Ramaswamy (2002, 2004) on co-creation were particularly interesting and useful in framing the concept, and moreover, in differencing it from other similar concepts as the ones recently mentioned. As such, the customer should not be used as an innovator, nor should normal firm activities be outsourced to the customer. Mass customization, rigorous market research techniques or staged experiences do not form part of the co-creation experience either. The shift to a more informed and empowered customer, who values an offering according to its utility, and not its production costs, has been at the core of the co-creation paradigm. Internal efficiency, per se, is not actually one of the perceived customer needs, not unless it translates as well into visible attributes that increase the value-in-use of a product or service.

There is a very diverse spectrum of co-creation conceptualizations, and some of them come into direct contrast with the perspective depicted by Prahalad and Ramaswamy (2002, 2004). For instance, Ford et al. (2012) & Reay and Seddighi (2012) supported the idea of customers as innovators, suggesting that co-innovation is achievable and that both companies and customers should aim towards it. Moreover, according to Ford et al. (2012), the co-creation process is not limited to co-produced personal experiences, but can take a number of collaborative forms, amongst which customer surveys, analysis and data mining for customer behavior.

The aspects pertaining to co-creation have also undergone several changes along the years, and from a more recent perspective Christiansen et al. (2010) and Gronroos & Voima (2013) identify co-creation as the locus for value creation, marked by direct or indirect interactions between the company and the consumer. Offering a more complex view on co-production and co-creation than Vargo and Lusch (2008), Gronroos and Voima (2013) point out that the consumer is not always a co-creator of value, but rather a value creator. I tend to agree more with this view, as Prahalad and Ramaswamy (2004) highlight as well customer’s decision right as to where in the value creation process he wants to get involved. Customer experiences are particular to every customer, and the customer becomes a co-creator only when both he and the company reach out to a joint sphere, and decide to co-define and co-create solutions.
To sum up, I have identified the following characteristics as being fundamental to the value co-creation notion:

- Co-creation refers to the collaborative process which engages companies and customers into joint problem definition and solution search. It is based on transparency, dialogue and risk sharing, with both partners having equal roles;
- Co-creation is at the heart of SDL, and it posits that value creation can happen at any point in the value chain. Nevertheless, even though both the company and the customer can collaborate to create value, only the customer can determine the actual value of the resulting product or service;
- Customers are seen as collaborators, not as targets. The company-customer direct and indirect interactions will lead to the creation of a particular and unique experience which will dictate the evolution of the dyadic company-customer relationship;
- Following the advances in ICT and changing customer behavior, it is no longer an option, but a necessity to move towards co-creation;
- The various frameworks depicted above contain different aspects of co-creation, as until now there is no generally accepted expression of the concept;
- There are no clear specifications regarding what is required from the company, and what is required from the consumer in terms of a joint co-creation effort.
4. Liz Claiborne Inc.

Previous chapters have presented the key research questions and methodical reflections associated to this inquiry, followed by a comprehensive literature review on the main concepts of the thesis. The forth chapter will capitalize on the sub-conclusions proposed at the end of the third chapter, and it will allow for the implementation of identified key frameworks for business model and value co-creation analysis. The chapter will conclude with a partial discussion and conclusion on the third proposed research question.

4.1. Considerations on the selection and relevance of the case study

Change in the Presence of Fit: The Rise, The Fall and The Renascence of Liz Claiborne is a 2001 case study written by Siggelkow, published in The Academy of Management Journal, Vol.44 (4), and aimed at developing a new framework for analyzing the tight ‘fit’ between the internal and the external environment of a firm. Through a longitudinal case study on Liz Claiborne, starting from its debut in 1976 until 1997, Siggelkow presented and analyzed different management decisions and strategic choices which impacted the fit of the firm, and ultimately the business model (Figure 4.1).

Figure 4.1: The Change Framework

![Change Framework Diagram]

Source: Siggelkow (2001)
Although not written from a business model or a value co-creation perspective, I argue that the case study is highly relevant for investigating the interplay between business model elements, value creation, co-creation and innovation. Furthermore, the case study by Siggelkow presents important aspects from a buyer-seller relationship perspective, depicting the evolution of the relationship between Liz Claiborne and its retailers, and between Liz Claiborne and its end customers. By applying the BMC proposed by Osterwalder and Pigneur (2010), and the DART Model for co-creation proposed by Prahalad and Ramaswamy (2004), I will analyze the development of Liz Claiborne’s business model, the challenges encountered and the key drivers of change. This analysis will be mirrored by an empirical investigation of the buyer-seller relationship, and of the extent to which the whole process was geared towards value co-creation and improved customer experience.

4.2.1 Introduction to the case company

Liz Claiborne, Inc. was founded in 1976 by Art Ortenberg, Leonard Boxer, Jerome Chazen and fashion designer Liz Claiborne, who remained to oversee the company’s development until 1989. In five years since its inception, the company had obtained revenues of $116 million, and another five years later it was listed on Fortune 500 ‘as the first company started by a woman’ (Siggelkow 2001, p.843). In the early 1990s, at the height of its success, the company reached revenues of over $2 billion in annual sales. Moreover, according to Fortune Magazine, Liz Claiborne generated the highest average return on equity from all the other Fortune 500 listed industrial companies (40.3%).

Nevertheless, sales began to slowly decline after 1992, fact which Siggelkow (2001) attributed to deeply ingrained performance problems. The company hired in 1994 Paul Charron—who used to work for the VF Corporation as Executive Vice President—as the new CEO of Liz Claiborne. His implementation of several operational, structural and marketing changes, mirrored by an acquisition of 46 brands during his tenure (Dodes 2010), gave Liz Claiborne a new start, supported by a market capitalization of $3.2 billion in 1997.
Once its core strength, Liz Claiborne’s decision to address the growing customer group of 25-34 professional women was challenged by a customer change in taste, and by increased competition from both luxury and private brands.

4.2.2 Industry overview

Liz Claiborne managed to become an immediate success due to its unique value proposition and strong business case. The company aimed to address the needs of the typical American businesswoman, considered by the lead designer to be ‘pear-shaped’. Other companies in the apparel, accessories & luxury goods industry were targeting as well the growing consumer segment of professional women, but although their products were of similar quality, the proposed high price was not (Dodes 2010). Luxury brands by Calvin Klein, Ralph Lauren and Bill Bass were much more expensive, and they could be afforded only by upper class women. The Jones Apparel Group, however, proved to be a direct competitor to Liz Claiborne in terms of price, distribution strategy and products. Year after year, department stores such as Macy’s, May Company, JC Penney and The Broadway were competing to obtain the rights to distribute brands owned by Liz Claiborne or The Jones Apparel Group (Loeb 2013).

4.3. Clarification of the problem

Despite its original success, Liz Claiborne faced serious financial problems at the beginning of the ‘90s. By 1994, its sales and net revenue have decreased by 35% due to changes in the retail channel, changes in consumer demand and technological advances (Siggelkow 2001). The company had invested virtually nothing in retailing directly to its end customers, and it based most of its marketing efforts on its strong brand image:

*Due to its high name recognition and extensive coverage in the editorial coverage in the editorial pages of many fashion magazines, Liz Claiborne was able to refrain from running expensive corporate advertising campaigns* (Siggelkow 2001, p.847).

In spite of its original strategy and unique business model, the company’s subsequent problem emerged from a lack of sustained investment in business model innovation or
value co-creation. As a measure to address the latter, the company extended its mix-and-match strategy across divisions, and arranged ‘LizWeeks’ to complement the daily contact between end customers, retail specialists and consultants. The so-called LizWeeks were addressed to professional women and included in-store shows of 25-30 outfits, together with presentations of the newest Liz Claiborne collections, available for women to attend and shop before starting their working day (Siggelkow 2001). Notable is Liz Clairborne’s initiative of establishing in 1985 a ‘Point-of-Sales data collection system’, responsible for the collection of data regarding the sale of Liz Claiborne products in 16 key stores in the US. This feedback system allowed the company management to assess and predict its future sales pattern for a specific period. Nevertheless, as mentioned before, Liz Claiborne’s fall at the beginning of the ‘90s was not due only to its choices regarding customer management, but also to its inflexibility in terms of other business model components, such as production and distribution channels, resources, key partners and activities.

Considering the context of Liz Claiborne’s internal structure choices, and the external environment constituted by the fashion industry and overall economic situation, the following research question has been proposed:

*How has business model innovation generated value co-creation in the case of Liz Claiborne?*

### 4.4. Selection of the Business Model and Value Co-Creation Frameworks

This section will provide clarifications regarding the choice of frameworks used in the analysis of the Liz Claiborne case study. Moreover, it will present as well the reasoning behind discarding other frameworks, which although relevant, would not have matched to the same degree the analysis of this specific case study.

To begin with, the first proposed framework, the BMC, was developed by Osterwalder and Pigneur (2010), based on previous work by Osterwalder (2004) during his PhD degree on Business Model Ontology. Promoted as a strategizing and entrepreneurial tool, the BMC has received positive reviews from both practitioners and academics, and it is now one of the most used and recognized visual models
around the world. Therefore, it seemed as a logical choice to include the BMC as one of the two frameworks to be used in the analysis of the case study.

Due to the relative easiness of using the BMC (available as well as an online-based software), many high level managers choose it over other options when in need to map their business model (Figure 4.2).

Figure 4.2: Main Areas of the Business Model Canvas

<table>
<thead>
<tr>
<th>Structure</th>
<th>Value offering</th>
<th>Customers</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Key Activities</td>
<td>• Offer</td>
<td>• Customer</td>
<td>• Revenue</td>
</tr>
<tr>
<td>• Key Resources</td>
<td></td>
<td>• Relationships</td>
<td>Streams</td>
</tr>
<tr>
<td>• Key Partners</td>
<td></td>
<td>• Customer Segments</td>
<td>• Cost Structure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Channels</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own creation, adapted from Osterwalder and Pigneur (2010)

Other business model frameworks which I found interesting—but not better suited for the case study analysis than the BMC—are included in Annex 9, which illustrates the main concepts developed in these frameworks, and the limitations that prevented me from choosing one of them as the main blueprint for the Liz Claiborne case study analysis.

The second framework that I will use is the DART model, proposed by Prahalad and Ramaswamy (2004). This framework brings forth the four key building blocks for co-creation, and identifies them as necessary for firms that aim to create and benefit from enhanced customer experiences (Figure 4.3). According to the authors, this framework is useful in both guiding the co-creation process and in shifting it away from product or customization. Thus, genuine value co-creation means more than allowing customers to choose from a limited set of options, it means supporting them in creating their own experiences with respect to the value proposition.
Figure 4.3: The DART model


The reasons for considering the DART model as the main co-creation framework are complemented as well by a series of limitations posed by other frameworks previously identified during my theoretical review (Annex 10). One of the main drawbacks related to the field of applicability of the frameworks, which comprised knowledge intensive technological companies.

All in all, the DART model is a good choice of framework in analyzing the case study of Liz Claiborne, as it complements the BMC through its emphasis on the interaction of the building blocks that facilitate value co-creation. Just like in the case of the BMC, the DART model builds as well on the interplay of its elements. A good fit would suggest increased opportunities to foster value co-creation as the main form of value creation.

4.5. Implementation of the business model and co-innovation frameworks

One the one hand, part of the literature on innovation (Smith 2007) and business model dynamics (Linder & Cantrell 2000; Tikkanen et al. 2005; Cavalcante, Kesting & Ulhøj 2011) regards the interplay between business model components as one of the main sources for innovation. On the other hand, Siggelkow (2001) highlights the notion of ‘choice’ as the main unit of analysis for managerial cognition and business model change, emphasizing that the firm has to be analyzed ‘as a system of interconnected choices’.
choices with respect to activities, policies and organizational structures, capabilities and resources. Even though each individual part of a firm’s system might have an intrinsic value, it is only in the interaction with the other elements that we can understand the full benefits of each part. (p.838)

By making the right combination of choices, managers guide the firm on the way to achieving competitive advantage. Nevertheless, Siggelkow (2001) thinks that the sustainability of a competitive advantage is being challenged in the presence of environmental change, variable considered representative by a series of other business model and value creation theoreticians such as Prahalad and Ramaswamy (2004), Teece (2009), Cavalcante, Kesting and Ulhøj (2011) & Lee, Olsen and Trimi (2012).

Another element which might ‘require a firm to modify many choices simultaneously’ (Siggelkow 2001, p.838) is a tight internal coupling. Additionally, it can hinder all forms of business model change, previously divided by Cavalcante, Kesting and Ulhøj (2011) into business model creation, extension, revision and termination.

4.5.1 Business Model Canvas

Table 4.4: BMC Implementation

<table>
<thead>
<tr>
<th>Initial business model</th>
<th>New business model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key activities</td>
<td></td>
</tr>
<tr>
<td>• Creating clothes for the modern woman</td>
<td>• Reordering for items in the casual division=&gt;quick-response strategy</td>
</tr>
<tr>
<td>• Production outsourced mainly to Asia</td>
<td>• Shifting back production</td>
</tr>
<tr>
<td>• Manufacture 5% less than demanded</td>
<td>• New sales training program-Liz&amp;Learn</td>
</tr>
<tr>
<td>• Lizweeks</td>
<td>• Regular monthly meetings for all company designers</td>
</tr>
<tr>
<td>• Systematic Updated Retail Feedback (SURF)</td>
<td>• A different brand ‘for every retail channel and every price point’ (p.852)</td>
</tr>
<tr>
<td></td>
<td>• National advertisement campaign</td>
</tr>
<tr>
<td></td>
<td>• LizFirst program (1995), aimed at increasing</td>
</tr>
<tr>
<td><strong>Key resources</strong></td>
<td><strong>Key partners</strong></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
| • More than 120 consultants  
• 150 retail specialists  
• Lizworld shop  
• 80-90 sales representatives  
• Liz Claiborne brand | • Upscale department stores:  
Dillard’s May, Macy’s Federated Department Stores  
• More than 500 suppliers in 38 countries | • ‘[…] presenting lines of apparel as entire collections and enabling customers to mix and match within its collection’ (p.843)  
• Six seasons instead of four |
| | | • Mix-and-match possible across divisions too  
• Change from six to four production seasons |
| **Customer relationships** | • ‘the company garnered the loyalty of customers’ (p.843)  
• Department store managers ‘visited several times a year’ and they personally met with Liz Claiborne management  
• No-cancelation policy | • The firm initiated a closer relationships to some of the retailers, by automatically restocking their basic inventory |
| **Customer segments** | • Department stores  
• Business women (end customer) | • A larger segment of customers, based on the ‘casualization of the workplace’ |
| **Channels** | • Upper scale department stores | • Upper scale department |

**Operating efficiency**

- Paul Charron was hired as the new COO (Chief Operating Officer)
- First key production enterprise in Augusta=>better response time
- ‘new in-store marketing department’ (p.851)-LizEdge
- Shops with new presentation styles-LizView
- Russ Togs, Inc.
- Flagship store at 650 Fifth Avenue
- 50% less factories

**Key partners**

- 50% of the production was moved to the West

**Value proposition**

- Mix-and-match possible across divisions too
- Change from six to four production seasons

**Customer relationships**

- The firm initiated a closer relationships to some of the retailers, by automatically restocking their basic inventory

**Customer segments**

- A larger segment of customers, based on the ‘casualization of the workplace’
Source: Own creation

Considering that Liz Claiborne’s business model encompasses the ‘rationale of how an organization creates, delivers and captures value’ (Osterwalder & Pigneur 2010), the above table brings front the initial business model, and the changes entailed in the new business model, which took shape starting with 1994. Contrary to Chesbrough’s considerations (2007), in this case the business model change followed financial difficulties, rather then being the result of a continuous innovation effort. Many of the identified changes are associated with the hiring of Paul Charron, who brought a new vision with respect to the firm’s positioning and performance on the market. It is highly important to pay attention to the fact that the nine blocks of the BMC, presented above, should not be seen as self-standing structures, but as interrelated parts of a system of choices.

Table 4.5: Evolution of the building blocks

<table>
<thead>
<tr>
<th>Key activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liz Claiborne differentiated itself by its choice to address the growing niche market of</td>
</tr>
</tbody>
</table>
businesswomen, who lacked affordable, yet quality office clothes. The key activities of the firm focused on efficient production, given the initial and then changed internal and external fit. I considered the SURF system to be as well a key activity, because it provided the company with vital information regarding consumer preferences and it helped in predicting future fashion trends. Moreover, it was an innovation at the time due to its level of detail and increased usability.

The transition to a new business model brought about shifting back production to USA (about 50%), the Liz&Learn department, the implementation of monthly designer meetings, a focus on national advertising through the use of a public celebrity (Niki Taylor) and the decision to produce or acquire brands that match different customer segments. Perhaps one of the most important choices was the one with respect to re-ordering, which did not match the previous company fit, but was not required by substantial changes to the retail system.

### Key resources

Strongly connected to the key activities, value proposition and key partners, the key resources employed at the firm were either owned (e.g. own domestic production factories) or leased (e.g. overseas production factories). Intellectual resources as the Liz Claiborne brand, and later the affordable woman sportswear Russ Togs and The Villager labels played a crucial role in the promotion of the company as a ‘trusted friend’. In order to gain new insights, Liz Claiborne appointed a new COO, responsible for modernizing the presentation choices through the installation of 200 LizView shops (soon to be followed by 400 more by the end of 1997), the opening of a 19,000 square foot ‘flagship store’ and the implementation of a new marketing department. Another important change with respect to the physical capital is the reduction to half of the production factories.

### Key partnerships

The key partnerships established with ‘better department stores’ were challenged by Charron’s vision that discount stores were slowly taking over department stores in consumers’ preferences. More importantly, the firm was facing though competition, with its major competitors already offering the possibility to re-order. Siggelkow (2001) highlights that due to Liz Claiborne initial set of choices and its tight internal fit, it was hard for the company to shift overnight to a re-ordering policy. When it did so, the problem arose from its single element change. The firm did not acknowledge
initially that just offering department stores the possibility to re-order, without coupling it, for example, with changes in production, would not be sustainable in the long run. Eventually, Liz Claiborne shifted from six seasons of production to four, which allowed its products to be made-to-order, and thus reduce both inventory and lack of merchandise risk.

Another important change to the business model was the decision to move some of the production from East Asia to USA. Some of the consequences included a quicker response to market demands and better utilization of emerging ICT technologies.

Value proposition
Perhaps one of the most important business model elements according to both academics and practitioners, the value proposition of Liz Claiborne was an innovation in itself. The designer understood that non-model women are usually ‘pear-shaped’, and thus she targeted this market niche with ‘moderately priced’ and high quality apparel items. The mix-and-match within a collection, and the extended six season production were completely different offerings from those of the competition.

Due to changing customer needs and due to a casualization of the workplace, the customer offering has been changed to include more casual clothing. Additionally, the four season presentation style has been readopted, and the mix-and-match strategy extended between collections as well.

Customer relationships
Liz Claiborne has always placed great value on customer satisfaction and loyalty. By expanding its customer segments, the firm aimed for both customer retention and customer acquisition. There is evidence of the beginning of a co-creation relationship with its end customers, encouraged to mix-and-match themselves the outfits that they desire. The company has placed more effort into its relationship with department stores, strengthening the buyer-seller relationship through automatic restocking of inventory deals.

Customer segments
The initial market segment was comprised of professional women, who at the time lacked high quality, yet moderately priced clothes. Starting with the 90’s, the business apparel requirements stopped being so rigorous, and more casual clothes were preferred by the customers. This brought about the possibility of targeting not only professional women, but also a younger customer base.
Before the launch of the first Liz Claiborne flagship store at 650 Fifth Avenue, the company had preferred upper scale department stores as intermediaries. With the implementation of the new business model, Liz Claiborne became responsible of providing sales expertise to department store people, as compared to previous arrangements when they had to finance themselves the sale and presentation of the Liz Claiborne collection.

**Channels**

As ‘a company’s interface with its customers’ (Osterwalder & Pigneur 2010), the channels used by the firm are both direct and owned (flagship store) and indirect and partner (stores within department stores). By focusing on partner channels, the company has diminished its costs and it has tapped into the benefits presented by upper scale department stores: high transit, affordable prices and a diversified pool of end customers.

**Revenue streams**

The revenue streams are different according to the different customer segments. The main differentiation is based on pricing, as Liz Claiborne’s new COO matched labels and department stores based on price. Thus, the budget line from Wal-Mart included the Russ label, the moderate line from Sears was comprised of Villager and First Issue, the upper moderate line from Federated Department Stores included Emma James, the better segment from Dillard’s included the iconic Liz Claiborne and LizWear, while the bridge segment from Saks Fifth Avenue was comprised of the famous Dana Buchman label (Charron, cited in Siggelkow 2001).

**Cost structure**

I see the initial business model of Liz Claiborne being mainly cost-driven, as the designer herself explained that no item should be purchased for more than $100. The outsourcing of 86% of the production to East Asia, and the lack of focus of its suppliers on ICT or R&D development, coupled with a long production cycle strategy, support this scenario.

The new business model, on the other hand, although focused on minimizing the costs, was more value-driven, partially matching a production-to-order strategy and acknowledging changing end customer needs. Mirrored by additional investments in advertising, marketing and sales training, the company changed its approach to costs in order to gain more revenue and keep the momentum.
### 4.5.2 DART Model

#### Table 4.6: DART Model Implementation

<table>
<thead>
<tr>
<th>Initial business model</th>
<th>New business model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dialogue</strong></td>
<td></td>
</tr>
<tr>
<td>- Department stores presidents would come to Liz Claiborne’s headquarters several times a year to see the new collection and discuss with the management</td>
<td>- Department stores presidents would come to Liz Claiborne’s headquarters several times a year to see the new collection and discuss with the management</td>
</tr>
<tr>
<td>- Feedback from end customers</td>
<td>- Feedback from end customers</td>
</tr>
<tr>
<td><strong>Access</strong></td>
<td></td>
</tr>
<tr>
<td>- Department stores presidents would come to Liz Claiborne’s headquarters several times a year to see the new collection and discuss with the management</td>
<td>- Automatic restocking for loyal customers</td>
</tr>
<tr>
<td>- No ‘direct retailing contact with its end customers’</td>
<td>- Specialized marketing department</td>
</tr>
<tr>
<td>- LizWeeks</td>
<td>- New presentation angles through 200 LizView shops =&gt; 19% increase in average sales</td>
</tr>
<tr>
<td>- ‘breakfast clinics’</td>
<td>- Training program for department store sales representatives (Liz&amp;Learn)</td>
</tr>
<tr>
<td>- ‘expert sales force’</td>
<td>- Flagship store at 650 Fifth Avenue</td>
</tr>
<tr>
<td>- Stores in department stores</td>
<td></td>
</tr>
<tr>
<td><strong>Risk-benefits</strong></td>
<td></td>
</tr>
<tr>
<td>- Mix-and-match within the collection</td>
<td>- Mix-and-match across collections</td>
</tr>
<tr>
<td>- Department stores were ‘forced’ to present full collections, which meant increased perceived value and brand trust for end customers</td>
<td>- Retailing support</td>
</tr>
<tr>
<td>- Focus on large buyers</td>
<td>- Marketing department</td>
</tr>
<tr>
<td>- No retailing support</td>
<td>- Partial production-to-order</td>
</tr>
<tr>
<td>- No discounts</td>
<td>- Reordering for the casual line</td>
</tr>
<tr>
<td>- No production-to-order</td>
<td></td>
</tr>
<tr>
<td>- No cancelling policy</td>
<td></td>
</tr>
<tr>
<td>- No reordering</td>
<td></td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td></td>
</tr>
<tr>
<td>- Public company since</td>
<td>- Public company since</td>
</tr>
</tbody>
</table>
Table 4.7: Evolution of co-creation aspects

<table>
<thead>
<tr>
<th>Dialogue</th>
<th>Access</th>
<th>Risk-benefits</th>
<th>Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is clear that Liz Claiborne wanted to establish a closer relationship with the retailers, but its approach to end customers was still from a traditional value chain perspective. Thus, end consumers were seen as targets, whose needs had to be discovered and satisfied through the right value proposition. The new business model does not indicate any change regarding the firm-customer communication.</td>
<td>The key changes in terms of access brought by the new business model included better presentation, marketing, Liz&amp;Learn and a stand-alone flagship store. Some choices are complete opposites compared to the initial business model, but nevertheless better suited for increasing customer access and improving the buyer-seller relationship.</td>
<td>Liz Claiborne’s managers finally understood that they have to adapt to the new market conditions, and that in order to be profitable again, they have to take some risks. This translated into a business model that allowed them to go against their main competitors and change the game. Among others, their reduced lead times (by 40%), excess inventory (by 47%) and operating costs (by $82 million). Moreover, they got involved directly in establishing a relationship with their end customers.</td>
<td>I did not find enough information in order to engage in a discussion on transparency changes. Being a publicly traded company, it has made available a series of disclosures on financial statements and management organization, but there is no indication on whether the transparency level is higher or lower than that of competing firms.</td>
</tr>
</tbody>
</table>
4.6. Discussion on the Business Model Canvas and DART Model

I found the BMC a good choice for analyzing and comparing the old and the new business model. The elements found on the right side of Table 4.4 include implemented changes, rather than all the identified key elements. The elements that are not mentioned, and which have not been changed, are assumed to be the same as in the initial business model.

The framework assisted me in visually mapping the business model evolution incurred at Liz Claiborne, and one dimension which I found to be lacking was the one of key processes, presented in the framework proposed by Johnson, Christensen and Kagermann (2008) and introduced as key drivers of business model change by Cavalcante, Kesting and Ulhøj (2011). Nevertheless, I tried to incorporate it in the key activities area, even though according to Johnson, Christensen and Kagermann (2008), the key processes component could include as well ‘a company’s rules, metrics, and norms’ (p.4), dimensions which were not explored by Siggelkow (2001) or myself.

Following the visual mapping of the nine building blocks, I have noticed that there is a strong connection between the key elements, and that a single change in one area has generated a string of changes within other areas as well. By playing an incomplete game (Siggelkow 2001), the Liz Claiborne management wanted to regain its old performance peak, without understanding very well the elements of its business model or their interaction, which should have been one of their priorities. Both Siggelkow (2001) and Johnson, Christensen and Kagermann (2008) support the idea that individual resources and activities are not as important as their interplay. Furthermore, a good fit between the building blocks of the business model has lead to competitive advantage (peak sales growth 71.1% in 1984), while a fit-conserving change has lead to a performance decrease (-1.9% sales growth in 1994).

The implementation of the DART Model, on the other hand, has not yielded the expected results. There is not enough information regarding the firm-customer dialogue following the new business model, nor is there enough information regarding the transparency of the company. That is explained through the fact that the case study has been focused on describing the idea of fit, on the one hand, and
because the company itself seems to have been adopting a firm-centric view on value creation, on the other hand.

Liz Claiborne strived to understand the needs of its end customers through its comprehensive SURF program, and through a study on their traits and shopping behavior. These choices show that the company tried to improve its value proposition, and that it acknowledged the fact that its customer base was changing:

*In the words of Charron, the customer “has gained confidence to *<put it together>* be herself if she is provided with cues”* (Siggelkow 2001, p.864)

Nevertheless, the only choice consistent with co-creation (as defined by Prahalad & Ramaswamy 2004) is the decision to allow the end customers to mix-and-match their outfits. Firstly within the same collection, and afterwards across collections, customers were encouraged to co-create their own personalized experiences, and Liz Claiborne’s highly skilled sales force was there to directly interact with customers at various in-shop presentations, at the flagship store or during ‘breakfast clinics’ (morning presentations of the new collection, where business women could purchase clothes before heading to their office). According to Prahalad and Ramaswamy (2004), this *staged* experiment was still firm-driven, and it did not count on the *pull* strength of the consumers. Conversely, Christiansen et al. (2010) consider that the firm is responsible for mobilizing customers and facilitating experience environments appropriate for value co-creation.

In my view, the role of the firm proposed by Christiansen et al. (2010) has more practical substance. Thus, even though the events organized by Liz Claiborne were firm-driven, the mix-and-match strategy and the ‘breakfast clinics’ are still valid examples of co-creation, and they should be seen as a step forward in terms of customer-company interactions. It is very hard to leave behind the value chain perspective (Porter 1991) and emerge completely into co-creation, especially since it is still a field which needs further empirical investigation (Payne et al. 2009; Vargo et al. 2008). Following the DART framework, both partners should be equal in order to engage in co-creation. Nonetheless, there is one firm, but there are several customers (and several customer communities), which are themselves responsible for the degree of co-creation that they want to achieve. According to the literature on co-creation, its
benefits seem obvious, but acknowledging that customers are not passive targets, but informed, empowered and dynamic decision-makers should be reflected as well by letting them choose the complexity of their co-creation experience.

The radical business model innovation encountered at Liz Claiborne has opened the way for better relationships between the company and its direct clients (the retailers), and to a lesser extent between the company and its end customers. The incremental changes in terms of co-creation were outnumbered in terms of major business model changes. Nevertheless, the new system of choices seemed better suited for developing a higher degree of co-creation. Before, end customers could not mix-and-match between divisions, and retailers did not receive any support from the company in terms of sales training, production-to-order or reordering. In line with previous research from Lindgreen and Wynstra (2005), Liz Claiborne’s decision to enhance end customer interaction with its sales force (LizEdge, Liz&Learn) and overall end customer experience (mix-and-match strategy, LizView), has lead to customers attributing a higher value to the Liz Claiborne labels.

4.7. Sub-conclusion and discussion

Chesbrough (2007) advises against changing a business model only after the company registers negative performance. In the case of Liz Claiborne, this scenario became real when a new business model emerged after the company had encountered record losses of -3.8% in 1995. In line with previous research from Siggelkow and Levinthal (2003) & Nenonen and Storbacka (2010), my analysis revealed that a mismatch between the internal organization of Liz Claiborne and its external environment has lead to the development of a new business model, as opposed to a genuine drive for development and innovation. Value co-creation has not been one of the aims of the company, but my analysis indicates that through business model innovation—especially in the building blocks of customer segments and customer relationships—Liz Claiborne has, in fact, encouraged its customers to co-create.

The findings of the case study reveal that:

- Business model innovation was triggered not by management’s cognition on the right moment or need to further develop the company, but by a disequilibrium with the external environment’s configuration;
• The new business model changed the value proposition to include mix-and-match across collections, thus acknowledging a growing customer base with a different set of characteristics and needs;

• Liz Claiborne’s initial approach to innovation and co-creation argues once again for the idea that incumbent companies are more focused on maintaining an old business model, instead of foreseeing the need for change and providing alternative paths of development;

• Without envisioning co-creation as one of the main results, the new fit configuration, together with the new business model, have deepened previous co-creation relationships and have opened the path for even stronger interactions.
5. Final discussion

The rise of the Internet, an increase in the amount and quality of information and telecommunication services, and the numerous changes incurred by company-customer interactions have lead to a change in the business model and co-creation paradigms. The two concepts are inextricably linked, and almost all business model definitions include components such as ‘value proposition’ and ‘customers’, whereas co-creation has been described as the developing relationship between ‘customers’ and ‘companies’. It was, therefore, peculiar to notice not just a lack of solid theoretical grounding on each concept, but also a scarcity of formal studies on the relationship between business models and co-creation.

My focus, as a researcher, has been on investigating the evolution of the two concepts in terms of their terminology and dynamics. My intention was to deepen the understanding of their conceptualization not only separately, but also jointly, underlying their interplay. The scarcity of academic studies on the joint dynamics of business models and co-creation has made my task difficult and challenging at the same time. Figure 5.1 highlights the main recurring aspects discovered during my study on the evolution of the two concepts in the literature.

Figure 5.1: Recurring research aspects for business models (BM) and co-creation (VCC)

Source: Own creation

To begin with, the definitions for business models and co-creation differ from author to author, and although we can recognize a set of common features present in all conceptualizations, it is still confusing that there is no one single definition (Magretta
Thus, the area remains fragmented and contextual, despite the recognized importance and utility of the two concepts. Moreover, the aspects pertaining to co-creation (actors’ roles, depth of the relationship, risk sharing) and business models (interrelations between components, connections to strategy and firm performance) are still blurred and unclear. Due to the polysemy of the terms, their over-flexibility and ontological ambiguity, it has been suggested that business model change requires more pragmatic approaches (Doganova & Eyquem-Renault 2009; Perkmann et al. 2010).

In view of that, the Liz Claiborne case study analysis was constructed considering the practical implications of business model change and value co-creation. Following a literature review on the two concepts, I found several frameworks which underscored the mapping of either business models (Chesbrough & Rosenbloom 2002; Demil & Lecocq 2010; Osterwalder & Pigneur 2010; Teece 2010), value co-creation (Prahalad & Ramaswamy 2004; Aarikka-Stenroos & Jaakola 2012) or both (Nenonen & Storbacka 2010; Hienerth, Keinz & Lettl 2011; Storbacka et al. 2012). Nevertheless, considering as well the limitations of each framework, and their fit with the Liz Claiborne case study, I decided to implement in the analysis the BMC and the DART Model.

My findings confirmed the hypothesis formulated by Siggelkow (2001), according to which the company was playing an incomplete game. Drawing from the organization and management literatures, Siggelkow (2011) employed the Change Framework in his assessment of the impact of external factors on the tight-coupled system at Liz Claiborne. Considering the Change Framework, the company was in a fit-conserving stage, which meant that the management was not ready or flexible enough to understand that their business model had to be changed. Small-impact changes were not only not enough, but they were actually detrimental. According to Siggelkow (2001), the mismatch between the internal choices and the external environment led to a decrease in performance. From a business model change perspective, I would argue that the management at Liz Claiborne lacked dynamic consistency, and therefore could not foresee or act upon external changes. Moreover, Liz Claiborne did not choose a trial and error strategy either, and it did not alter its business model until the decrease in profit was undeniable.
With respect to the company’s approach to value co-creation, I would argue that, perhaps even involuntarily, it has managed to move towards better company-customer relationships. It is hard to pinpoint, exactly, the elements which indicate such a change in attitude, as there are several contrasting views on co-creation aspects. The starting point would be their thorough market investigation on changing customer preferences, considered by Ford et al. (2012)-contrary to Prahalad and Ramaswamy (2004)- a form of co-creation. Secondly, the company encouraged its customers to create their own personalized experience, through the mix-and-match across divisions strategy, and through the so-called ‘breakfast clinics’.

The business model innovation incurred at Liz Claiborne was just as important, if not even more important than the technological improvement necessary to match the technological development of the competition. A similar conclusion was drawn by Chesbrough and Rosenbloom (2002), who studied the success of several Xerox spin-offs, and argued that the difference in performance was due to the choice of a business model. By improving its value proposition and its customer relationships, Liz Claiborne challenged the way in which it created and captured value. As Hienerth, Keinz and Lettl (2011) recognize, it is more difficult for incumbent firms, such as Liz Claiborne, to innovate their business and to make it more user-centric. Liz Claiborne was one of the first companies to co-create in terms of a mix-and-match strategy, but it required more insight and effort to integrate users to core business activities.

Furthermore, the company could have tried earlier to discover alternative solutions to reaching a new performance peak, instead of going straight for hiring a new CEO. The chosen solution seems to highlight the heuristic logic employed at Liz Claiborne, where the focus had ebbed away from learning about the customer, and moved towards maintaining a status quo.

Siggelkow (2001) acknowledges that the question of change is dynamic, whereas the traditional approach to it has been static. In that light, could managers ever map the interconnectedness of their choices in a dynamic way? In terms of business model innovation and value co-creation, if managers could map the dynamics of their choices, they could perhaps also discover recurring patterns of interaction. That achievement could lead, in its turn, to long-run sustainable competitive advantage.
The six areas of change proposed by Siggelkow (2001) (product portfolio, presentation, design, marketing, selling process, production and distribution) could have also been attractive for user involvement. Nevertheless, despite the high-impact business model change incurred, Liz Claiborne was still operating from the traditional company-centric perspective, focusing on push factors, inflexibility in terms of power relations and limited transparency.
6. Conclusion

6.1. Concluding remarks

The purpose of this thesis has been to deepen the understanding on co-creation and business model dynamics, by bringing forth acknowledged theoretical approaches and my own empirical research on the topic. I commenced by inquiring into the conceptualizations of business models and value co-creation, and afterwards I applied two of the identified frameworks on the Liz Claiborne case study, written by Siggelkow (2001) on the notion of fit. The overarching goal was to answer the initial problem statement:

*How can the relation between business model innovation and value co-creation be understood?*

This prompted me to employ three additional research sub-questions, to whom I provided an answer and a discussion either at the end of the theoretical chapter (for the first and the second question), or at the end of the analysis chapter (for the third question). Going backwards on my research, I realize now that there are parts that I would have liked to explore more, but the limited amount of time and writing space prevented me from doing so.

Considering the findings of this thesis, the most unexpected one was the vast and diverse amount of information on what constitutes a business model or co-creation of value. Perhaps in future studies the focus will be more on the functionality of the two concepts, or on their interplay. Nevertheless, I argued that most definitions follow the same pattern, and thus they describe similar notions, but with different terminologies. Interesting was as well the fact that most authors propose their own set of components, which in the case of business models tends to include invariably the *value proposition*. Some authors draw on the resource based view, while others focus on strategic management literature when conceptualizing business models. The underlying theories used to describe and frame the concept have an impact as well on the developed frameworks.
In this light, it was a challenging moment to select the appropriate frameworks for the analysis of the case study. My choice was influenced by the degree to which the authors’ perspectives on co-creation and business models was translated in the proposed frameworks. In the end, the BMC and the DART Model were the most suitable frameworks for interpreting the dynamic challenge addressed by Siggelkow (2001) with respect to how a company could surpass management’s inertia and respond to environmental changes.

On the one hand, it would be simpler and more efficient to refer to one framework for business models, one for co-creation and one for their interplay. On the other hand, the fast pacing of today’s business world requires a dynamic approach, which seems to be difficult to capture into a ‘one size fits all’ kind of framework. Nevertheless, the shift towards networked business models and co-creation, and away from the traditional value chain approach, is more and more evident.

6.2. Managerial implications and further research

Customers are nowadays more informed, empowered, and capable of making valuable contributions in terms of design, actual value offering or distribution possibilities. In this light, managers could benefit from integrating co-creation to core business activities, and thus triggering business model innovation, and long-run sustainable competitive advantage. In order to do so, new managerial practices could be required, coupled with a better and more transparent relationship between stakeholders. Dialogue, resource integration and collaboration are essential for establishing the most appropriate configurational fit. Managers could benefit from understanding its dynamic nature and the challenges associated to fostering purposeful co-creating within core business activities.

So far, the literature has demonstrated focus on business model design, but considering the shift towards the new paradigm of co-creation, further research could focus on business model innovation and dynamic management. Deciding to engage in co-creation could be a major change to a company’s business model, and it would be interesting to research the innovation process. Furthermore, the scope of the research
could be expanded to include case companies from different industries, in order to analyze similarities and differences in their evolution to a more user-centric business model.

Other investigation avenues could involve performance assessment in terms of configurational fit, value co-creation and the effectiveness of the co-creation linkages established between different actors in co-creation networks. The literature mentions new company borders, but where are they exactly? Who establishes them? Are they the same for all the actors? How can a company find the right configurational fit, not too tight, nor too loose in terms of component interrelations? These are some of the research questions which could be proposed in order to create additional knowledge on the relation between co-creation and business models.
References


Bowman, C. & Ambrosini, V. 2010, "How value is created, captured and destroyed",
*European Business Review*, vol. 22, no. 5, pp. 479-495.

Bowman, C. & Ambrosini, V. 2007, "Firm value creation and levels of strategy",


Cavalcante, S. et al. 2011, "Business model dynamics and innovation: (re)establishing the missing linkages", *Management decision*, vol. 49, no. 8, pp. 1327-1342.


Chesbrough, H. 2010, "Business Model Innovation: Opportunities and Barriers",


Ford, R.C., Edvardsson, B., Dickson, D. & Enquist, B. 2012, "Managing the innovation co-creation challenge: Lessons from service exemplars Disney and IKEA: Lessons from service exemplars Disney and IKEA", *Organizational dynamics*, vol. 41, no. 4, pp. 281-290.


Leavy, B. 2012, "Collaborative innovation as the new imperative – design thinking, value co-creation and the power of “pull”", *Strategy & Leadership*, vol. 40, no. 2, pp. 25-34.


Ramaswamy, V. 2010, "Competing through co-creation: innovation at two companies", *Strategy & Leadership*, vol. 38, no. 2, pp. 22-29.


Ramaswamy, V. 2009, "Leading the transformation to co-creation of value", *Strategy & Leadership*, vol. 37, no. 2, pp. 32-37.


Варго, С.Л. & Лужч, Р. 2012, *Toward a better understanding of the role of value in markets and marketing*, Special issue, Bingley, U.K.


Annexes

Annex 1: Business model differentiation and change perspective


Annex 2: IBM’s Component Business Model

Source: Chesbrough (2010)
**Annex 3:** Hulme’s Business Model Framework

Source: [http://www.memonic.com/user/ludwiglingg/id/1qjFt](http://www.memonic.com/user/ludwiglingg/id/1qjFt)

**Annex 4:** Strategy, Business Models and Tactics

Source: Casadeus-Masanell and Ricart (2010)
Annex 5: Business model change road map

Consider customer needs, not the Business Model

Connect revenue generation to addressing customer needs

Compare the new Business Model to the existing one

Source: Adapted from Johnson, Christensen and Kagermann (2008)

Annex 6: A theoretical model for value co-creation

<table>
<thead>
<tr>
<th>Pre-understanding</th>
<th>Analysis</th>
<th>Model development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Literature review on value creation, co-creation, value chains, SDL, marketing, branding, consumer behavior</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Framework for understanding the co-creation of value based on the literature review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Interactive workshop with top managers based on the proposed framework</td>
<td>• Development of a theoretical model based on an in-depth literature review, interviews, workshop and secondary data analysis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Second workshop</td>
<td>• Synthesis of the results from the second workshop</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Final components of the model established through a third and last interactive workshop</td>
</tr>
</tbody>
</table>

Source: Payne et al. (2009)

Annex 7: Framework for value co-creation as a joint problem solving process

Source: Aarikka-Stenroos and Jaakola (2012)
Annex 8: Co-creating innovation at Disney and Ikea

![Innovation from the Company's Perspective](image)

| Source: Ford et al. (2012) |

Annex 9: Business Model Frameworks

<table>
<thead>
<tr>
<th>Key words</th>
<th>Originality/Value</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chesbrough and Rosenbloom (2002)</td>
<td>Value capture, business model innovation, technology spin-off company</td>
<td>Research on successful Xerox spin-offs which developed their own business model, completely different from the business model of the ‘mother’ company</td>
</tr>
<tr>
<td>Johnson, Christensen and Kagermann (2008)</td>
<td>Business model definition and components, reinvention, innovation, management cognition, interplay of elements</td>
<td>Considerations on the right time to reinvent a business model, and whether it should be though radical or incremental innovation</td>
</tr>
<tr>
<td>Casadeus-Masanell and Ricart (2010)</td>
<td>Strategy, business model, tactics, stage process,</td>
<td>Considerations on the interplay between strategy, business models and tactics</td>
</tr>
</tbody>
</table>
management choices in a two stage process model and tactics, without including business model elements

Demil and Lecocq (2010) RCOV framework, static vs. dynamic approach, Penrosian view Considerations on the static and transformational approach to business models, the latter capitalizing on resources as main drivers for company performance Even though it claims to be focused on change, I do not see it clearly emphasized in the framework

Nenonen and Storbacka (2010) Business model design, value co-creation, internal and external configurational fit Business model framework based on four dimensions and 12 interrelated elements The framework does not show how exactly how this particular design integrates or can lead to co-creation

Source: Own creation

Annex 10: Value Co-Creation Frameworks

<table>
<thead>
<tr>
<th>Key words</th>
<th>Originality/Value</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aarikka-Stenroos and Jaakola (2012)</td>
<td>Co-creation, SDL, solution marketing, knowledge intensive company</td>
<td>Framework for understanding value co-creation by analyzing supplier resources, consumer resources and the collaborative process of suppliers and consumers</td>
</tr>
<tr>
<td>Vargo and Lusch (2012)</td>
<td>Service ecosystems, SDL, co-creation, value-in-use</td>
<td>Networks as mediating factors for value co-creation through increased access to resources</td>
</tr>
<tr>
<td>Lee, Olson and Trimi (2012)</td>
<td>Co-innovation, co-creation, organizational value, innovation,</td>
<td>The concept of co-innovation is presented as the convergence</td>
</tr>
</tbody>
</table>
shared value | point for decisions on customers, suppliers, value chain architecture and innovation efforts | value

Source: Own creation

**Annex 11**: Change in the Presence of Fit: The Rise, the Fall, and the Renaissance of Liz Claiborne (attached as a separate case study)