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The History of the Business Model

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Abstract

The chapter gives a historical review of the business model literature. The purpose of this chapter is to describe how different academics have thought about the business model (BM) through history. A very detailed story of the business model literature can be found in many of the sources referred to in the chapter.

Previous BM concepts and related academic ideas on what a BM looks like are compared.

2.1 Introduction to the Business Model Approach

The first discussion on BMs can be traced back to an academic article in 1957. However, the concept did not gain acceptance until the mid-1990s (Fielt 2011). In Figure 2.1 an overview is given of some of the important contributions and developments in BM literature since the mid-1990s.

The question “What is a BM?” has been raised, discussed and answered by many researchers in the last decade (Fielt 2011). Porter argued that a “definition of a BM is murky at best. Most often, it seems to refer to a loose conception of how a business does business and generates revenue” (2001, p. 73). Morris et al. (2003), after reviewing existing theory on business models during the late 1990s to 2003, concluded that a business’s potential creation of value cannot be explained from the BM model theory, and that “a general accepted definition has not yet emerged” (p. 8; see also Fielt 2011). However, Osterwalder et al. (2005) summed up academic work on BMs from the past 20 years, and stated that a definition of a BM broadly related to a blueprint of how an organization should conduct its business (Osterwalder et al. 2005). They further argue that a BM is a set of elements which can be referred to as building blocks that, by their interrelation, express the logic of how a business earns money (Osterwalder et al. 2005).

Many academics have, in the past, been widely recognized for their approach to the BM concept (Fielt 2011). Important to note is the distinction

The Evolution of Business Model literature

Activity	Define and classify Business Models	List Business Model components	Describe Business Model components	Model Business Model components	Apply business model concept	Define and classify multi business model concept	Define and classify Business model ecosystem concept
Outcome	Definitions and taxonomies	“shopping list” of components	Components as building blocks	Reference model and ontologies	Applications and conceptual tools	Definition and taxonomies	Definition and taxonomies
Authors	Rappa (2001), Timmers (1998)	(Linder & Cantrell 2001), (Magretta, 2002) (Amit & Zott 2001)	(Afuah & Tucci 2001), (Afuah & Tucci 2003) (Hammel 2000) (Weill & Vitale 2001)	(Gordijn 2002), (Osterwalder & Pigneur 2004) (Lindgren, et al., 2011) (Johnson, 2010)	(Osterwalder, et al., 2010) (Lindgren, 2011)	(Casadesu-Masanell R., Ricar J.E. 2010, Lindgren 2012)	(Lindgren 2012)

Inspired and developed on behalf of Osterwalder, Pigneur and Tucci 2004)

- **‘Taxonomies’** – which business models resemble each other?
- **‘Reference Models’** – an abstract template for the development of more specific models in a given domain, and allows for comparison between complying models
- Organized according to some underlying common building blocks.
- **‘Ontology’s’** – seeks to describe or hypothesize basic categories relationships within the BM framework.
- **‘Applications’** – BM’s are *stories that describing how enterprises work*.
- **‘Conceptual tools’** – BM building blocks are both physical and conceptual elements (‘Meta-Model’).

Figure 2.1 The evolution of business model literature up to 2012.

between business (Abell 1980) and BMs, as a business is considered in our framework to have one or more BMs, i.e. the multi business model approach (Lindgren 2012). Furthermore, all BMs can be referred to either as “as-is” BM – already operating in the BMES – or “to-be” BM – being innovated or preparing to be introduced into the BMES (Lindgren 2012).

From its infancy until today, it can be documented that the BM concept has naturally evolved and changed in relation to the BM context (Zott et al. 2010). Globalization and the internet have increased businesses’ interdependency and today businesses are connected in physical, digital and virtual networks (Choi published in Turban 2003; Daft 2010; Peng 2010). Thereby, it is possible to utilize competences across businesses’ BM and BM boundaries in order to strengthen the BMI (Daft 2010; Lindgren 2012) of businesses. This tendency can be argued to have influenced the BM literature. For example Chesbrough (2007) suggests that BMs should be open (Open Business Model (OBM)), so that businesses can utilize the dimensions and components of BMs of other businesses within their own BMs.

It has been argued that until 2007 the BM literature primarily concerned closed BMs (CBMs), where BMs were bound to the focal business and thereby not open to other businesses (Lindgren 2011). The CBM argued by Chesbrough (2007) was not deemed to fit in the global business model ecosystem (BMES) (Lindgren 2016b), which requires openness and interfaces being able to comprehend interfacing with other businesses’ BMs. Chesbrough (2007) further claims that CBMs delimit the potential value and effective use of BMI. BMI refers to the reinvention of current BMs’ dimensions or creation of new dimensions in order to create advantages to the business. Thus, Chesbrough’s (2007) way of thinking of BMIs, as being open, has become the foundation of the development of a new and open network-based BM innovation concept (see also Daft 2010; Lindgren 2011). BMs are becoming more dynamic in their construction and today’s BMs may easily be outdated tomorrow. Lindgren (2011) suggests that new BMs should serve as platforms for continuous BMI – and development of other BMs. Any business model is proposed as a platform for other BMs and BMI – and thereby the development of a multitude of BMs.

2.2 The Background of the Business Model Approach

Today, the term “business model” is used every day by those in business and by business model academics. Even national governments (including the US government) and the European Commission use the term “business model”. The increased awareness of BMs (Casadesus-Masanell and Ricart 2010;

Teece 2010; Zott et al. 2010; Kremer 2011) have intensified the search for a generic business model language. However, with increased use of and research in BMs the fuzziness on how the BM really is constructed has increased even more.

The focus on being first with a generic and commonly accepted BM language has increased drastically in recent years (Taran 2009; Zott et al. 2010; Fiel 2011). The emphasis on the BM's dimensions has been the topic of much academic work (Magretta 2002; Osterwalder and Pigneur 2002; Johnson et al. 2008; Chesbrough 2010; Kremer 2011; Osterwalder 2011). Many theorists have focused on the question of how many dimensions the BM really consists of. Some propose four, while others propose six, nine and twelve dimensions. This raises the question of how a business model is really constructed and whether we will ever be able to find the generic dimensions and construction of the BM. Further, can we distinguish one BM's construction from another or are they really built around the same generic dimensions?

These questions imply the increasing importance of thoroughly knowing and finding the dimensions of the BM. They are also related to the question of when can we talk about a new BM and its incremental and/or radical changes (Peng 2010; Lindgren 2011), and whether that influences the generic construction of the BM.

The focus is therefore primarily on the dimensions and construction of any BM, although this is no longer deemed sufficient to cover the whole BM theory framework as it is just one focus of many – a fragmented part of the whole business model environment, research and discussion. Today, the focus of the BM seems to be changing towards a more holistic discussion, taking in the BM's relations to other BMs and the BM's Ecosystem – leaving the basic BM dimensions and constructions behind. The focus of the OBM (Chesbrough 2007; Daft 2010) and the innovation of BMs (Osterwalder 2011) seems to have taken nearly all research attention.

In an ever-changing and increasingly global competition, which according to Friedman (2007) is a result of the ongoing process of globalization and business model change, Chesbrough (2007) emphasizes the need for even more BMs, including developing open and different businesses models. But how can a business follow this advice without knowing the basic construction of the BM? As the basis of any BM discussion we must begin by understanding, defining and testing the generic construction of the BM – what we could call the generic dimensions and questions of a BM, as shown in Table 2.1 as our proposal to these.

In Part 2 of the book we will take up some of the new evolutions and trends in academic business model and business model innovation literature.

Table 2.1 The generic dimensions and questions of a BM

Dimensions in the BM (physical, digital and virtual)	Core questions related to BM dimensions
Value proposition/s (products, services and processes) that the business offers	What are our value propositions?
Customer/s and users (users, customers, target users and customers, market segments that the business serves – geographies as well as physical, digital, virtual)	Who do we serve?
Value chain (internal) configuration	What value chain functions do we provide?
Competences (assets, processes and activities, e.g. technologies, human resources, systems and culture) that translate business's inputs into value for customers, users and networks (outputs)	What are our competences?
Network: network and network partners (strategic partners, suppliers and others)	What are our networks?
Relation/s (e.g. physical, digital and virtual relations, personal, tangible and intangible)	What are our relations?
Value formula (profit formulae and other value formulae)	What are our value formulae?

