essentials

Oliver D. Doleski

Integrated Business Model

Applying the St. Gallen Management Concept to Business Models

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This 'Essential'

- Presents the conceptual basis of the business model debate
- Introduces a comprehensive approach to business models
- Details the components of the Integrated Business Model
- Provides guidance on business model development

Preface

This volume is based on a chapter of *Smart Market—Vom Smart Grid zum intelligenten Energiemarkt* by Christian Aichele and Oliver D. Doleski, published by Springer Vieweg in 2014. *Smart Market…* is an examination by the two editors and other contributing authors of key areas for action on tomorrow's energy market, in the light of the current debate on Germany's energy transition.

The following pages are a translation of the fully revised and updated version of the chapter by Oliver D. Doleski entitled 'Entwicklung neuer Geschäftsmodelle für die Energiewirtschaft – das Integrierte Geschäftsmodell'. For publication in the 'Springer Essentials' series, the focus of the original article has been changed: this volume takes a broad, cross-sector approach rather than concentrating on the energy market. As well as broadening the proposed business model approach to cover all industries, this volume also modifies and expands each of the five phases of business model development.

Ottobrunn, June 2015 Oliver D. Doleski

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About the author

Oliver D. Doleski is a cross-sector business and process management consultant. He has previously held a number of executive posts in the public sector, and at the German world market leader in the semiconductor sector. Mr. Doleski is currently working on smart markets in the energy industry; the focus of his research is business model development.

Mr. Doleski is actively involved in shaping changes on the German energy market. As editor and author of a wide range of literature in the field, he draws on his expertise and experience in business practice, politics and research.

1 Introduction

Enterprises throughout the ages have always had to deal with processes of change. The invention of printing with movable type almost wholly superseded the medieval business model of—usually monastic—scriptoria in the space of just a few decades. Change, therefore, is not a modern phenomenon. Yet what is new is the number and growth of influencing factors that now determine business actions. Increasing globalization, more intense competition, ever shorter innovation cycles and growing expectations on the part of stakeholders are just some of the parameters that have a decisive effect on the success of business players.

Change, and increasingly dynamic change, is now more than ever the key factor in management decisions. The complexity arising from this very dynamism is becoming a defining characteristic of today's markets. Traditional methods and business models can deliver less than ideal results in this difficult environment.

Such a situation places the enterprises of today under direct pressure to act. There is now a much greater need for flexibility and innovation, and for effective solutions that fully equip an enterprise to meet political, legal, economic, sociocultural, technological and ecological challenges.

New approaches to business development are needed. To master complexity, these approaches must fully integrate all of the many and diverse aspects and demands of normative, strategic and operational management. The practical St. Gallen Management Concept offers a good conceptual framework for development: the St. Gallen Concept could be termed the DNA of the Integrated Business Model that is developed and detailed on the following pages.

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2 Conceptual Framework and Understanding Business Models

The brief section below outlines the conceptual framework for the sections and chapters that follow. This standard frame of reference should establish a common understanding of the general concept of the business model, before a comprehensive definition of the term is given in Sect. 2.2.

2.1 Origins and Use of the Term 'Business Model'

The term *business model* originated in the information and communications technology (ICT) sector, where it was originally used to map business processes documented as part of the introduction of data processing systems (cf. Kley 2011, p. 1). Literature in the field often links the concept of the business model to the *new economy* of the years 1998 to ca. 2001. However, the term is in fact older, and was already being discussed and applied in business and above all information technology literature even before the emergence of the Internet economy. 'Surprisingly, the query shows that the popularity of the term "business model" is a relatively young phenomenon. Though it appeared for the first time in an academic article in 1957 (Bellman et al. 1957) and in the title and abstract of a paper in 1960 (Jones 1960) […]' (Osterwalder et al. 2005, p. 6).

The term 'business model' would therefore appear to have emerged not with the new economy, but with the dawning popularity of *business computing* and with the information system architectures of the 1970s and 1980s. Nonetheless, the new economy without a doubt successfully translated to a wider business context a concept that had initially been restricted primarily to the information and communications industry (IC) (cf. Becker et al. 2011, p. 12). However, Porter in particular criticizes the close association between the business model concept and the new economy particularly common in the late 1990s. He believes that the business

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model should be extended beyond the Internet economy to embrace the economy as a whole, and should above all include the fundamental aspects of strategy and value chain as significant business management factors (cf. Scheer et al. 2003, p. 14). This approach is addressed in more detail in Chap. 3 below.

In the late twentieth and early twenty-first century, therefore, the business model was narrowly understood as a concept for designing information systems. Use of the term has now broadened and it has largely lost its original IC connotation (cf. Stähler 2002, p. 39). Yet despite this significant shift in meaning, a critical look at the applicable literature would still fail to discover a standard definition of the term. So far, there have been numerous and varying views in the field on what specifically the term covers. The popular understanding of the constituent elements of a business model is moreover equally varied, and indeed in some cases contradictory. Such scope and inherent diversity of the 'business model' has so far shaped the academic debate and prevented a common and universal definition of the term.

2.2 Definition of the Business Model

A clear explanation of the business model concept is offered by the etymology of its two constituent words, 'model' and 'business'. Considering these two elements separately offers a better understanding of the content and nature of the concept of the business model.

A *model*[1] is generally understood as a simplified representation of a defined aspect of reality or of the real world. Models always focus on selected and relevant aspects of that reality. A useful model will provide an overview and thus a useful approach to potential solutions to the underlying problem; models are particularly useful for visualizing and structuring complex economic situations (cf. Becker et al. 2012, p. 13). Models can present the real on a large, small or at least simplified scale. They can also—as for example in the fields of business and economics—be wholly abstract in nature. One feature of models worth highlighting is their ability to reduce complexity, and this is discussed in detail in Sect. 3.1.

In the context of business models, the 'model' is the abstract representation of how the business activities of an organization function in reality. Yet what exactly do we mean by 'business'? In principle, *business* can refer to commercial transactions designed to generate revenue and to all operations involving money. In everyday usage, the term can be applied both to the commercial exchange of goods and

[1] The word *model* comes from the Latin *modulus* meaning measure, via the Italian *modello* (pattern or draft).

services between business partners (*business* transactions, *business* deals), and the activities of commercial enterprises designed to generate profit (cf. Nemeth 2011, p. 89). 'Business' in a commercial organization can therefore also be understood as covering the structured transformation of input factors into products and services, and the management of interactions with the relevant environment.

If we now combine the implications of 'business' and 'model', this takes us a step closer to understanding the content and nature of a business model. A business model is a simplified, representative description of the following fundamental principle: how an economic system creates value through the transformation of resources and special exchange relationships with other economic entities. A business model, therefore, is a comprehensive, schematic presentation of all of an enterprise's value creation activities and procedures that generate customer value added and long-term revenue. In other words, a business model details an underlying business idea.

As already outlined, literature in the field contains many and in some cases very different definitions of business model. Although the term has been defined many times, a common, precise and universal definition has yet to be established. As the potential scope of the business model is so broad, many authors define the term with a specific focus in mind (cf. Weiner et al. 2010, p. 16). Extensive examinations of the concept have already been published and an explanation of the various definitions will therefore not be undertaken here.

In the absence of a standard definition, the following pages propose a comprehensive, universal definition of the business model that covers all aspects of management. A distinction is drawn between a business model that is not yet to be implemented, which we will refer to as a *business concept*, and an existing business model that is already in place in practice (cf. Stähler 2002, p. 42). However, this distinction is only made in passages where a conscious, methodological differentiation between concept and model is required. In the interests of simplicity, the two terms are otherwise used synonymously.

► A **business model** is an applied business concept for describing, analyzing and developing the fundamental procedures underlying business output. A model provides a simplified representation of value creation processes, functions and interactions for creating customer value, securing competitive advantage and generating revenue. A business model is a comprehensive, aggregated picture of reality that can integrate political and legal, economic, socio-cultural, technological and ecological conditions into the transparent architecture required for managing complexity. Alongside normative and strategic parameters, a business model also covers operational and dynamic aspects. The Integrated Business Model ensures that all factors critical to success are considered in full, with clearly defined, structured components.

As the definition proposed here indicates, it is essential for a business model to cover the diverse aspects of production. This point is addressed in detail in Chap. 3 below.

3 The Integrated Business Model: An Applied Approach

One factor that has defined the world of the twenty-first century is undoubtedly the significant increase in complexity, and this applies equally to all sectors and industries. The introduction in Sect. 3.1 addresses the complexity issue and finds that established business model concepts are in principle suited to reducing complexity, but in practice insufficient in an increasingly difficult environment. A more extensive, comprehensive concept is therefore required for output design. An integrative approach is proposed here as a suitable method for managing complexity in a business context. Before we introduce and detail the idea of the Integrated Business Model, however, Sect. 3.2 outlines the underlying theory: the St. Gallen Management Concept that provides the conceptual basis for the new approach. Section 3.3 outlines the design of the new integrated model and the two sections that follow detail the characteristics and components of that model. If a business model is to be successful in the long term, it cannot be developed or operated in isolation from its environment. Section 3.4 therefore details a method for defining the relevant creative and decision-making scope; Sect. 3.5 then describes the ten core elements of the Integrated Business Model.

3.1 The Business Model: A Tool for Managing Complexity

Growing complexity in almost all areas of the economy is a phenomenon caused by a multitude and variety of influences and environmental factors. Intricacy, diversity and dynamic development are just some of the now common characteristics of the modern business environment. Complexity is in some respects the defining,

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universal feature to which all market players must adapt their business operations. Any enterprise that ignores the complexity of conditions in its sector or industry does so at its peril. In short, the ability to manage complexity is what distinguishes the successful from the unsuccessful enterprise.

Business Models Are the Right Tool

There is now a greater need than ever for innovative *complexity management* solutions and methods to ensure that enterprise value creation does not become a *complexity trap*. A tried and tested approach to dealing with complexity is to present complex relationships in a structured and abstract form. In economics and in the social sciences, the purpose of models is to reduce complexity to provide a simplified picture of the real world. Models are designed to help deal with complexity. In simple terms, a business model is therefore a complexity management tool (cf. Nemeth 2011, p. 80). The ability of business models to describe business activities as discussed in Sect. 2.2 can enable decision-makers in enterprises to cope with a complex business environment, and to make and implement robust decisions on the basis of the overview provided. In particular, models' inherent ability to translate real phenomena into simplified, realistically structured maps of a section of reality is a great complexity management resource for business practice.

The Limits of Traditional Business Models

In the light of the enormous growth in the complexity and dynamism of modern business environments, enterprises need powerful tools that consider, balance and translate all relevant aspects into a comprehensive solution. Traditional approaches to the business model have in the past proved effective in their various areas of application. However, they sometimes fail to offer the extensive solution required for integrating and examining so many different, complex and often changing conditions. Classic business models generally focus on individual issues and at best a reduction of complexity in isolation. Such approaches do not sufficiently integrate complex conditions and environments effectively to manage complexity. There is often no overarching consideration of relevant influencing factors, with the result that strategic processes do not systematically factor in future issues (cf. Hahn and Prinz 2013, p. 47)—hence the author's attempt here to offer a comprehensive reference model irrespective of sector.