

The Beacon: A New Framework for Business Model Reconfiguration for Complex Enterprises

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ABSTRACT

During the last twenty years I have witnessed the steady rise in academic research and practitioner interest and inquiry on the topic of business models. The topic is still in its infancy, and thus a lot of literature hitherto has focused on the basics: definitions and conceptualizations have dominated in academic literature, providing little support to practitioners who are trying to design, develop, and deploy new business models. Whereas innovative market entrants have grabbed the limelight for academics and business leaders, incumbent firms have had scarce attention, especially large, complex multinationals. There is much to be learned from these businesses in terms of the nature of the components of a business model, the dimensions of analysis, and the relationship between their strategies and business models.

The goal of this body of research is to shed light on the mechanics of business model reconfiguration in complex enterprises. As its main research contribution, this dissertation introduces the Business Model Beacon: a new framework with which to characterize business models: defining the complementarity of the strategy and business model, mapping the central and peripheral components of the business model at different dimensions of analysis of the firm. To understand the mechanics of business model reconfiguration, this dissertation presents a case study on the North American unit of consumer products giant Unilever, portrayed through the lens of the Beacon framework.

KEYWORDS

Business Strategy, Business Model, Reconfiguration, Components, Dimensions of Analysis

ZUSAMMENFASSUNG

In den letzten zwanzig Jahren konnte ein stetiger Anstieg sowohl in akademischer Forschung als auch in der Nachfrage nach praktischer Anwendung zum Thema Geschäftsmodelle beobachtet werden. Das Thema ist noch in seiner Anfangsphase, und darum fokussiert sich ein Grossteil der Literatur auf die Basisthemen: Definitionen und Konzeptualisierung haben in der akademischen Literatur dominiert. Sie bieten wenig Unterstützung für Praktiker, die versuchen neue Geschäftsmodelle zu entwerfen, zu entwickeln und anzuwenden.

Während alle auf die innovativen Markteinsteiger sowohl bei den Akademikern als auch bei den erfolgreichen Firmen schauen, wird etablierten Firmen - besonders den grossen und komplexen multinationalen Firmen – kaum Aufmerksamkeit zuteil. Es gibt viel zu Lernen von diesen Firmen in Bezug auf die Art und auf die Zusammensetzung der Komponenten eines Geschäftsmodells, den Dimensionen der Analyse und der Beziehung zwischen ihrer Strategien und der Business Modelle.

Das Ziel von diesem Teil der Forschung ist es die Mechanismen der Geschäftsmodellrekonfiguration in komplexen Unternehmen zu beleuchten. Der Hauptforschungsbeitrag dieser Dissertation ist die Einführung des Geschäftsmodell Beacon's: eine neue Rahmenstruktur um Geschäftsmodelle zu charakterisieren: um die Komplementarität der Strategie und Geschäftsmodelle zu definieren und um die zentralen und die peripheren Komponenten des Geschäftsmodells in unterschiedlichen Dimensionen bei der Analyse der Firma aufzuzeigen. Um die Mechanismen der Rekonfiguration von Geschäftsmodellen zu verstehen wird in dieser Dissertation die Fallstudie der nordamerikanischen Einheit des Konsumgüterriesen Unilever verwendet, dargestellt durch die Linse des Beacon's.

SCHLÜSSELWÖRTER

Geschäfts-Strategie, Geschäftsmodell, Rekonfiguration, Komponenten, Dimensionen der Analyse

FOREWORD

The inspiration and starting point of this thesis is bridging the gap between theory and practice. Having worked in a variety of roles in different industries for the last 23 years, both as a practitioner and consultant and more recently as a doctoral researcher in academia, I have experienced first-hand the chasms between the 'distinct forms of knowledge' (Van de Ven, 2007), gleaned from *The Nicomachean Ethics* (Aristotle & Thompson, 1955): *techne* or applied technical knowledge, *episteme* or basic knowledge in the pursuit of theoretical or analytical questions, and *phronesis* or practical knowledge on how to react correctly and prudently to immediate issues (Van de Ven, 2007). True to the idea of 'reflective practicum' (Schon, 1987), defined as 'the capacity to reflect on action so as to engage in a process of continuous learning', my thesis is the necessary and deliberate reflection on my experiences, combined with the injection of knowledge from theoretical perspectives, to enrich and provide greater insight into the topic which I am researching and practicing: **business model dynamics**. In the spirit of Kondrat (1992), through this thesis, I am trying to 'elevate the epistemological status of 'practical knowledge' as a distinct mode of knowledge in its own right, taking it's place alongside the formal-technical as constitutive elements of professional knowledge' (Kondrat, 1992; Van de Ven, 2007).

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Chapter 1 INTRODUCTION

Research on business models has blossomed over the last twenty years, since it's first general use in the early days of internet related businesses in the 1990s (Allan Afuah & Tucci, 2000). In a case where, upon coinage, usage spread faster than research and specific definitions, the term business model came to mean anything and everything between strategy and a revenue model (Shafer, Smith, & Linder, 2005). Over the past decade, scholars have strived to 'reign in' the usage of the term and converge on a definition and establish boundaries around the concept, with some success. Through my research on extant literature, I see that scholars have duelled over definitions and characterizations more than on the actual usage of the notion in trying to explain business model configuration in terms of the relationship between the different components of a business model (Demil & Lecocq, 2010), determine what is the appropriate unit of analysis or level of abstraction (Massa & Tucci, 2013) at which to configure or reconfigure business models, establish the relationship between the notions of 'strategy' and 'business model', vis-à-vis the nature of the competitive dynamics (Magretta, 2002; Mansfield & Fourie, 2004), or develop cause-and-effect relationships between business model configuration and firm performance (Chesbrough & Rosenbloom, 2002).

However, first, I must make clear the definition of the term 'business model' that I use in this thesis. For my purposes, I will use the generally inclusive, established definition of a business model: "the business model may be conceptualized as depicting the rationale of how an organization (a business firm or other type of organization) creates, delivers, and captures value (economic, social, or other forms of value) in relationship with a network of exchange partners" (Massa & Tucci, 2012).

I will first discuss the problems in practice that have motivated this research. Business leaders and company executives are aware of the basic notion of business models but are unable to do anything substantial with them in order to actually conceptualize how to configure the business models of their enterprises. I will then dive into the existing academic literature on the topic and demonstrate where the research has been focused hitherto. Through this section I do an in-depth literature review along different dimensions to demonstrate where the critical mass of research and scholarly insights are being generated and where there is opportunity to explore. I will then take the reader through a theory discussion to explore the literature in the context of the specific four aforementioned topics of interest, where I introduce and explore the research questions. I then discuss a case study with Unilever to apply these research questions and report the findings. In the next section, I will propose a new framework called the business model 'Beacon', which enables us to put together

these research questions and explorations into a single framework. In the *Discussion* section I provide some insights based on the case study, and develop the propositions through the use of the 'beacon' framework. I then conclude with a summary and further directions and avenues for this research.

In this monograph, I will present and discuss the research opportunities and explore four key topics highlighted in more depth, highlighting the main contributions to the extant body of literature on this topic: (1) **Business model components**: I have researched literature between 2000 and 2014 and developed a holistic set of components based on what scholars have deemed relevant in this topic, segmented these components and offered a mechanism of heterogeneous prioritization of the components; (2) **Unit of analysis**: based on established definitions of the 'firm' and determining at what levels business compete, I have developed some alternate perspectives into how to configure business models; (3) **Strategy vs. Business Model**: there is much debate about the definition and degree of overlap between these two notions, and I have developed a modified way to view these two notions in a symbiotic and complementary relationship; (4) **Competing with business models**: extending the notion of strategy through its competitive element, I have adopted the use of a well-known framework and extended its usage to create 'archetype' business models that may help a business compete effectively.

1.1 Problem in Practice

Executives Question the Basis of Business Models

"It is exceedingly difficult to say something meaningful about the real world without starting in the real world. Observation and description of the real world are the essential points of origin for theories in applied areas" (Dubin, 1976).

This thesis has its starting point in a set of workshops accompanied by a series of conversations with senior executives in the field. These executives were sampled in a non-systematic manner, but rather stem out of the network of the author's prior consulting engagements. What all of this had in common, however, was a shared interest in, yet at the same time a fatigue about the business model concept in helping them to run their businesses. Consider for example Tom Wood, CEO of FMC Corporation (EMEA), an agro-chemicals company, says: "I don't know how to evaluate whether I have the right business model." He has read much on business models in the industry and whereas he acknowledges that he has something similar to competitors, he doesn't know if it is the right one for his specific business because no two businesses (even competitors) are alike, especially when it comes to divisions of multinational enterprises. Kathryn Fair, a Senior Director at Unilever (North America), the consumer products and packaged foods giant, expressed something different: "given a particular strategy, how do you define the business model?" For Kathryn, it was unclear as to how the strategy translates into a business model, and what the interaction is between

the two. Further, she was unclear as to actually define the model when she said: “what are the specific components that I need to define?” Meanwhile, Jaime Ochoa, a Vice President and Board Member in the Latin American division of SABMiller voiced: “how do I know whether my business model is right to compete in my market? Do I need to have the same business model as the global parent company or do I change that to compete locally?” Jaime’s question is a relevant one especially in complex enterprises such as large multinationals that operate with different products in different markets with different sets of target consumers for a portfolio of global and local brands. In a discussion with Ian Roberts, former head of innovation at Nestle and now CTO at Buhler Group, he asked: “how does one reconfigure a business model? What are the mechanics?”

These informal discussion quotes are some of the reactions and questions that I received, which I found was both interesting and surprising. Some knew what their strategy was but not their business model; some described their business model just in terms of their revenue model; some described it as a comparison to popular and intuitive notions like ‘razor-razor-blade’; some compared their model to another company in the same industry; some just described the structure of their business; and some described their business process framework. However, ex-ante these executives all thought they knew what a business model was, through intuition and tacit knowledge. These executives all manage different functional teams or a division of the business or some logical grouping of processes, all of which are components of the firms’ business models, but none of them knew how to articulate what the business model was, as a whole.

It is interesting to note that none of these senior level executives could clearly articulate their business models, in spite of acknowledging reading about them in popular practitioner-oriented strategy journals like the *Harvard Business Review*, the Booz Allen (now Strategy&) journal *Strategy & Business*, and the *McKinsey Quarterly*. When asked about the clarity of definition of business models in these popular journals, the broad consensus was that the definitions were either non-existent or not explicit enough. I was reminded of the phrase ‘that which I know but cannot tell’ (Polanyi, 1967) because it appears that these executives have read about this notion of a business model, it is discussed on television business news shows, in book-titles, and thrown around in casual conversation that they feel as though they know much more about this concept than they actually do, let alone articulate it clearly without exemplars or popular aphorisms.

Three observations emerge from these discussions: firstly, that the plethora of literature being published in academic channels is not being ‘translated’ into practitioner-speak sufficiently; secondly, that academia appears to be ahead of the curve in defining, theorizing, studying, analyzing, and disseminating knowledge about business models; and lastly, there is insufficient knowledge about business model in more complex businesses.

When questioned about transforming their business models, these business leaders immediately went to strategy, and tied in their business model transformation with a new strategic direction.

Many also gravitated toward business process transformation. Few were aware of innovating their business models as a source of competitive strength and advantage.

In general, there seems to be a lack of understanding in the practitioner community (leadership teams) of multinational enterprises of how to articulate their business models, how they fit with strategy and business process concepts, and how to transform them to weapons of competitive advantage. I will endeavor to cover these topics in the course of this body of research and contribute to this sphere of knowledge not only in terms of conceptual clarity but also about practical implications and roadmaps for executives.

Some academia-rooted practitioner-oriented 'guides' to articulating and understanding your business model such as the 'business model canvas' (A. a. P. Osterwalder, Yves, 2010), have helped young companies and startups think about the dimensions of their business models, but the executives I spoke to, while agreeing that the 'accessibility' of the concept created by the 'canvas' for senior leaders to take a step toward a better understanding, it was too simplistic for their businesses, which are multi-category, multi-country, multi-brand, multi-channel businesses units of larger enterprises. To specifically address the needs of larger and more complex businesses, there are many practitioner-oriented case-study based frameworks such as the 'white space' four box framework (Mark W. Johnson, 2010), the 'navigator' framework (Gassmann, Frankenberger, & Csik, 2013), but these all regard the business in a single unit of analysis and do not provide sufficient detail in terms of the configuration of specific business model components as the 'canvas' (A. a. P. Osterwalder, Yves, 2010) does. Further, many of available notions of business models either ignored the competitive element or infused strategy-related components into the business model framework, creating a hybrid of sorts that is neither faithful to the strategy camp nor the business model camp.

1.1.1 Complex Enterprises Have Specific Issues to Consider

Complex enterprises show some interesting business model characteristics that have stimulated me to focus my research on them specifically:

- There are numerous components of a business model not all of which are discussed, nor are they all of equal importance
- Business models of complex enterprises need to be discussed / developed at multiple levels
- Competitive response is a critical part of strategy but the business model needs to be aligned with this

Kathy O'Brien, a Senior Vice President of the Personal Care (PC) category in the North American Unilever business discusses the components within a business model, in the context of the Personal Care category: *"So if I walk that through to special packs, we decided we are going to re-shape the portfolio, and PC is going to be a growth-driver. But the big change from pre-2012 to post-2012 is that NA would drive*

growth AND profit. Whereas previously we had been only profit-driven, now we need to be grow the top-line AND bottom-line. So if you take that down to PC – PC needs to be a growth engine. It needs to grow AND be profitable. You have to then look at the elements that drive that – you need to look at a couple of different ways: the granularity of growth – what are the pockets of growth (Hispanics, men, low income, etc.), then we also look at the portfolio (we decide we are going to drive Hair, Deodorant, Strategic and Skin) – then you dive deeper and deeper till you get to the [stock keeping units or] SKUs. Then we realize that bigger and bigger part of our portfolio are special packs, and special pack margin is below the category averages, so there must be a more efficient way to drive our special packs, which is an important driver of our strategy and our growth.” She inferred that there are several different components that need to be configured in order to achieve the objectives of growth, profit, based on the level of granularity at which you look at the business.

Doug Sloan, a Senior Director at Unilever North America, illustrates these points with his examples of within the business, where has has been in different functions throughout his 30 year career at Unilever. He discusses the perspective of having multiple business models within the enterprise that need to be considered and designed at different levels: *“I talk about business models at multiple levels. I am trying to fit multiple types of businesses into one model. I have the beauty brands (Tigi, Tressame, etc.), which tend to be generally smaller volume, high growth, and high margin. Then I have my high volume brands like Nexus, Suave, which are lower margin, higher volume, mass-market oriented. I have a singular model trying to service both of those distinct business requirements. They are different models by themselves, serviced by the same supply chain model.”*

Alan Raleigh, a Senior Vice President in the Global Personal Care business expressed his characterization of the relationship between the strategy and the business model of Unilever: *“I think with Tigi [a hair care brand] what we’d be saying is: is the strategy correct? Do we believe that the strategy of competing any certain way against other professional hair salon suppliers, is that strategy correct? Then I think what we would say is and is the business model correct? Then what we would say yes there are elements of the business model that are, and then there are elements of the business model that are not. Then we would intervene on those elements of the business model, but it would be the Tigi leadership that would do that so that I actually think is actually a very similar process in Tigi as the rest of Unilever and if we felt that the strategy was wrong, we would probably have intervened, and if we felt the business model was such that it could leverage the business model of the rest of our personal care or hair business or hair category, then we would have maybe had a different decision.”*

Illustrated in the examples above, I gather that there are two issues at hand: first, there is a problem in practice where the methods, applicability, and tools are insufficient to address the issues of practitioners in terms of dealing with characterising, changing, mapping, and modifying business models; second, there are issues that are more relevant to complex enterprises that must be addressed in order for the practitioners to make progress in the journey of business model reconfiguration.

1.2 Gap in Literature

I looked at the existing literature on the topic of business models through three lenses, in order to capture a multi-dimensional and enriched representation of the topic, as I will delve into each of these facets in subsequent chapters of the research:

- A general cross-section of the research on this topic
- Applying the lens of business model reconfiguration (BMR)
- Applying the lens of enterprise type so as to understand the BMR considerations for complex enterprises

1.2.1 Literature Review

The topic of business models is being widely explored and has been evolving over the last fifteen years. I have seen the emergence of business models as a much-discussed topic during the e-commerce boom in the mid-1990s (McGrath, 2010); (Teece, 2010); (Christoph Zott & Amit, 2010)). During the last few years, it has come into more prominence in the context of business outside of the e-commerce sphere (Sniukas, 2012) and several authors have discussed the topic with different perspectives.

In essence, a business model is the rationale by which a firm and its network of business partners create, deliver, and capture value (i.e. a value exchange mechanism) between the stakeholders of a network ecosystem of exchange partners (A. Afuah & Tucci, 2001; Alexander Osterwalder, Pigneur, & Tucci, 2005; C. Zott, Amit, & Massa, 2011). Business models are not a new concept or construct; they have existed since pre-classical times (Teece, 2010), but were never articulated as such until the mid-1990s with the age of the Internet (A. Afuah & Tucci, 2001); (Raphael Amit & Zott, 2001). In addition to e-commerce application of business models (Raphael Amit & Zott, 2001), industries such as software (Bonaccorsi, Giannangeli, & Rossi, 2006) and biotechnology (Patzelt, Zu Knyphausen-Aufseß, & Nikol, 2008) have helped to put the concept at the forefront of academic literature and management practices. Factors of increasing importance in recent years such as globalization, labor arbitrage situations, and currency fluctuations have made the study of business models even more critical in today's networked global economy (Voelpel †, Leibold, & Tekie, 2004). Innovative business models are being idolized and are taking the stage in various case studies and presentations (Gassmann et al., 2013; A. a. P. Osterwalder, Yves, 2010). The increasing speed at which new business models are being introduced into the world is shaping entire industries, and is being recognized by both academia and management (Baden-Fuller & Morgan, 2010).

In order to put some structure to the current literature, I have developed a matrix to categorize the work researched hitherto. I examine the literature along two dimensions, a descriptive dimension

and a methodological dimension, to broadly cover both the 'content' and 'context' perspectives, respectively. On the *Literature Motivation* axis, I have three categories:

Definitional, which offer insight on the different interpretations of what constitutes a business model (i.e. what it is).

Functional, which focus on the purpose of business models, in what context manner is it used or leveraged by the firm (i.e. what it does).

Operational, which provides perspectives into the means and mechanics by which the business model operates, how it is configured, and how it is transformed (i.e. how it works).

Along the *Enterprise Type* axis, I have three categories:

Exemplars, which relate specific (anecdotal) examples to make cases for or against specific descriptive, functional, or conceptual discussions of business models

Focused Enterprises, which are specific types of enterprises that are small or midsize enterprises (less than 5,000 employees) and are narrow in focus (single, focused domestic businesses with a few international customers), where the business model is relatively simple to describe and understand

Complex Enterprises, which are specific types of enterprises that are large in terms of employee count as well as in terms of global reach, with multiple divisions, multi-national footprint, and operations worldwide.

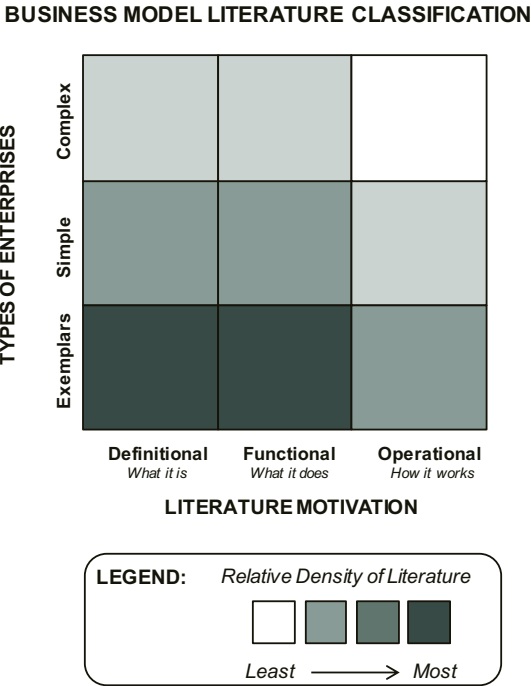


Figure 1.1: The Opportunity Space in Business Model Research

Based on my research, I have been able to develop a 'population density' matrix in Figure 1.1, which shows that there is ample literature on the definitional and functional aspects of business models, providing anecdotal examples and empirical studies, but there is still a relative "white space" or unexplored opportunities (Mark W. Johnson, 2010) in the *operational* literature and *complex* enterprise intersection space.

1.2.1.1 Definitional Literature on Business Models

Business models have been defined as "an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the source of revenues" (Timmers, 1998). Amit and Zott (2001) discuss how a business model portrays "the content, structure, and governance of transactions designed so as to create value through exploitation of business opportunities (Raphael Amit & Zott, 2001). The authors develop this definition further by characterizing it as a "system of interdependent activities that transcends the focal firm and spans its boundaries" (Christoph Zott & Amit, 2010). Chesbrough and Rosenbloom (2002) define it as "the heuristic logic that connects technical potential with the realization of economic value" (Chesbrough & Rosenbloom, 2002). It has also been argued that business models are "stories that explain how enterprises work" (Magretta, 2002). Other authors talk about a business model in terms of it being a "concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets" (Morris, Schindehutte, & Allen, 2005). Johnson, Christensen, and Kagermann (2008) discuss the definition in terms of the components of a business model: customer value proposition, profit formula, key resources, and key processes; "four interlocking elements that, taken together, create and deliver value" (M. W. Johnson, Christensen, & Kagermann, 2008). Casadesus-Masanell and Ricart (2010) argue that a business model is "a reflection of the firm's realized strategy" (R. Casadesus-Masanell & Ricart, 2010). Teece (2010) puts forward that "a business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value" (Teece, 2010).

1.2.1.2 Functional Literature on Business Models

The functional literature I found provides me a different perspective on business models. It is oriented more towards describing what a business model *does* as opposed to the definitional literature, which describes more what it *is*.

Mahadevan (2000) proposes that business models identify the value proposition for the buyer and seller; the schema for the revenue stream, and the basis of design for the supply chain (Mahadevan,

2000). Stewart and Zhao (2000) propose that the business model provides the structure of costs and revenue, and hence generates the profit stream (D. W. Stewart & Zhao, 2000). Alt and Zimmerman (2001) discuss that the business model provides the mission, structure, processes, revenues, technology, and legal framework for a business (Alt & Zimmerman, 2001). Afuah and Tucci (2001) propose that the business model generates the customer value, the revenue sources, and the linkages between the components of the business and the dynamics between them (A. Afuah & Tucci, 2001).

1.2.1.3 Operational Literature on Business Models

Conceptual papers that I read laid more emphasis on the *how* of business models, as in *how they work*. Most papers I came across invoked strategy research to discuss the inner workings of business models. Osterwalder, Pigneur and Tucci (2005) discuss the mechanics between the components of the business model and the dynamics between these components (Alexander Osterwalder et al., 2005). Amit and Zott (2001) researched a sample of 150 e-commerce firms in an empirical study to propose that value-creation is the mechanism by which the business model operates and that the sources of this value creation are novelty, lock-in, complementarities, and efficiency (Raphael Amit & Zott, 2001). It has also been proposed that companies' trading networks or "ecosystems" of suppliers, customers, partners, distribution channels create the mechanism for value creation and value capture, through which the business model operates (A. Afuah & Tucci, 2001).

1.2.1.4 Direction of Research Focus

In order to have a broad and inclusive definition for the purposes of this dissertation, I will use Massa and Tucci's definition of "the business model may be conceptualized as depicting the rationale of how an organization (a business firm or other type of organization) creates, delivers, and captures value (economic, social, or other forms of value) in relationship with a network of exchange partners" (Massa & Tucci, 2012).

Business models have been described in a variety of ways by different authors. Whereas most of these have merit, few describe the business model holistically. There is general agreement that a business model "may be conceptualized as depicting the rationale of how an organization (a business firm or other type of organization) creates, delivers, and captures value (economic, social, or other forms of value) in relationship with a network of exchange partners (Afuah & Tucci, 2001; Osterwalder, Pigneur, & Tucci, 2005; Zott et al., 2011)" (Massa & Tucci, 2012). I note that this general agreement is at a high level of abstraction, i.e. that of a 'rationale.'

I focus my efforts on bringing this notion of a business model down to the level of granularity where I can effectively discuss the specific attributes or characteristics that define its components or elements, in order to understand more thoroughly the mechanics through which a business model can be reconfigured. I will perform a decomposition of the definition so as to understand each element

in its entirety before combining them to paint a more holistic picture. I will focus on the following terms of the definition:

- The term *rationale* leads me to question the mechanics by which the organization creates and captures value, and for an incumbent complex enterprise how the business model is configured or reconfigured in order to do this.
- The term *organization* leads me to question what unit of analysis is appropriate to study an 'organization: the firm level, a business unit level, a brand level, or some other level.
- The phrase *create, deliver, and capture value* leads me to question whether this is included within the scope of a 'strategy' or that of a 'business model' of the firm
- The phrase *in relationship with a network of exchange partners* leads me to question whether this relationship is an inclusive one or an exclusive one; i.e. are these exchange partners outside the scope of the business model of a firm or whether they are an integral part of it.
- The phrase *create, deliver, and capture value* leads me to question what components of a business model are relevant, required, or how they interact in order to do this

1.2.2 Choosing Business Model Reconfiguration

Within business model research, I find that some of the key themes emerging are business model design, business model reconfiguration, and business model innovation. Massa and Tucci, in their book chapter (2012), have expanded on this notion. They define *business model design* (BMD) as "the entrepreneurial activity of creating, implementing and validating a business model for a newly formed organization." They characterize *business model reconfiguration* (BMR) as "the phenomenon by which managers reconfigure organizational resources (and acquire new ones) to change an existing business model." Finally, on *business model innovation* (BMI), they propose that "in principle business model innovation may result as the product of design and/or reconfiguration of new and existing business models, respectively, it constitutes a subset of the larger set comprising the whole product of business model design and reconfiguration activities." I visualize the relationship between BMD, BMR, and BMI as represented in Figure 1.2.

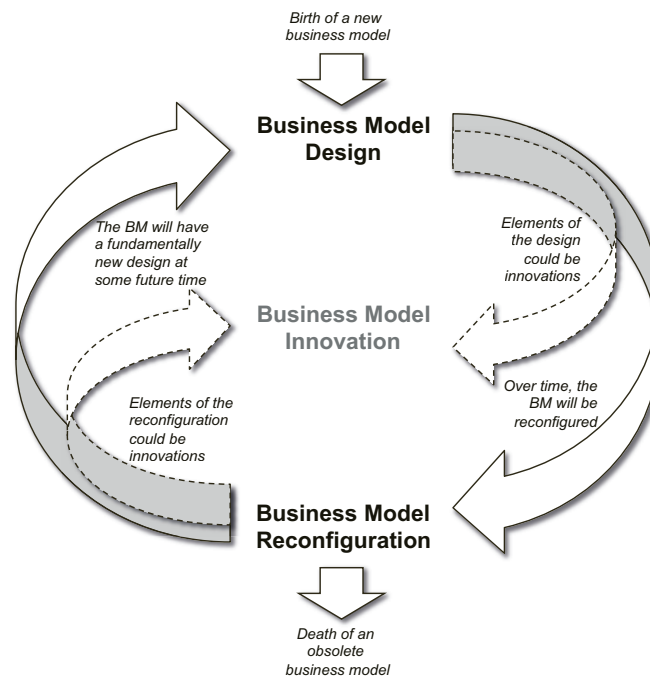


Figure 1.2: Relationship between Business Model Design, Innovation, and Reconfiguration

This is indicative of the paucity of research on this particular topic, and exemplifies an opportunity to contribute to this stream within the overall business model research context.

There seems to be general agreement that the motivation for Business Model Reconfiguration (BMR) is competition (as an external driver) and growth potential or market scalability (as an internal firm driver). According to Casadesus-Masanell and Ricart (2009), “there exist paths to competitiveness through business model reconfiguration.” They propose BMR as a vehicle with which to stimulate and enable innovation and internationalization. BMR can also be both the source and outcome of technology changes and innovations, as noted by Calia, Guerrini, and Moura (2007) in their case study on an aluminum manufacturer in Brazil. They call BMR a “re-birth” process, evoking the notion of fundamental shifts in the way in which a firm operates, as opposed to superficial changes.

I researched EBSCO and Google Scholar for the search terms ‘business model innovation’, ‘business model design’, and ‘business model reconfiguration’ (as terms in the title or abstract of the papers, researched in July 2015) in order to understand where the emphasis of extant research has been. I found that ‘business model innovation’ has the highest ‘density’ (i.e. highest number of papers in this topic space), followed by ‘business model design’, and then lastly by ‘business model reconfiguration’.

This is logical, since the study of business models began to gain traction during the introduction of Internet-based businesses in the 1990s, with the focus being on e-business and e-commerce (A. Afuah & Tucci, 2001; Allan Afuah & Tucci, 2000). This research was oriented towards ‘business

model innovation' in these industries. Once the powerful potential and anecdotes of startups overcoming traditional barriers to unseat incumbents using the vehicle of business model innovation (Raphael Amit & Zott, 2001; Cheng, Li, Love, & Irani, 2001; Lee & Whang, 2004; A. Osterwalder, 2004; Pateli, 2004; A. Pateli & G. Giaglis, 2003; O. Petrovic, C. Kittl, & R. D. Teksten, 2001b) had been published, the question arose of how does one design this type of business model through some sort of systemic and formal method (vs. fall into it accidentally or serendipitously), and scholars rushed to explain the inner workings of business models through their research on 'business model design' (Gassmann et al., 2013; A. a. P. Osterwalder, Yves, 2010).

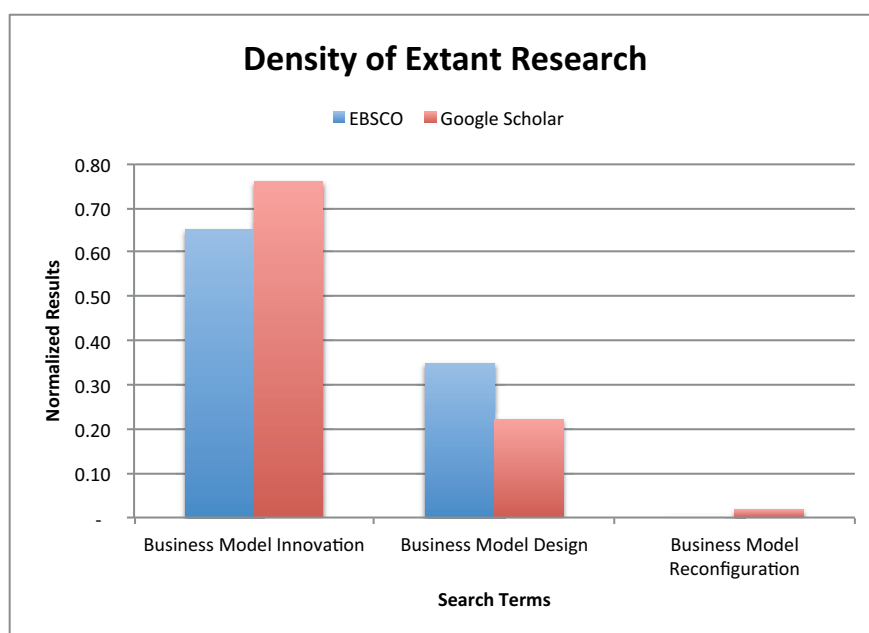


Figure 1.3: Density of extant research

Since business model reconfiguration assumes that there is currently an existing business model, it refers by default to incumbent firms, a boundary condition for my research.

1.2.3 Relevance of Business Model Reconfiguration

Some of the most important companies today in industry are large and complex incumbents, such as Unilever. This is a demographic that has been relatively ignored in terms of studying business models. There is a great advantage for these types of companies to better acquaint themselves with their business model so as to understand its limits, to understand under what competitive conditions the business model needs to be transformed, in which component(s), and how far to take the transformation. When incumbents are more aware and knowledgeable about the dynamics of their business models, the better they may be able to equip themselves to compete in the 'new economy' marketplace, potentially either saving their market value from erosion, or making it grow.

1.2.4 The 'Innovation' Research Perspective

Schumpeter (1939) introduces the notion of a 'model': "We must have them before we take hold of the material we wish to measure and to understand. A set of such analytic tools, if framed to deal with phenomena which form a distinct process, we call a model or schema of this process." I regard business *models* in this regard, in alignment with knowledgeable authors in this field, as representations or characterizations of businesses, and of a 'focal firm' (C. Zott et al., 2011), to be more exact. In addition, he goes on to define an 'innovation': "By changes in the methods of supplying commodities we mean a range of events much broader than the phrase covers in its literal acceptance. We include the introduction of new commodities that may even serve as the standard case. Technological change in the production of commodities already in use, the opening up of new markets or of new sources of supply, Taylorization of work, improved handling of material, the setting up of new business organizations such as department stores—in short, any "doing things differently" in the realm of economic life— all these are instances of what we shall refer to by the term Innovation."

It appears that this definition of 'Innovation' has been split up into several pieces, what is now being referred to 'design', 'innovation', and 'reconfiguration'. Through discussions with several scholars in the area, there is convergence that 'business model reconfiguration' belongs to the family of innovation, in general, of the business model, but more specifically addresses the context of incumbent firms. Hence, I conclude that whereas business model innovation includes 'reconfiguration', there is an overall trend, as the subject matter becomes more specific and targeted towards context-dependent audiences, that business model 'reconfiguration' of incumbents will gain more of a specific following in the years to come.

Business model reconfiguration represents a shift in mode of operation of the traditional industry norm or 'dominant logic' (C. K. Prahalad & Bettis, 1986). "To be industry leaders in today's turnaround world, companies are being told that they must reinvent and transform themselves, take quantum leaps to outpace the competition. The managing partner of a consulting firm told the Strategic Management Society that to reshape their industries, companies must become 'not only better but radically different'. Various business commentators have said that companies need to 'perpetually reinvent themselves' to bring about 'discontinuous shifts' in their industry." (Strebel, 1995). Whereas Strebel (1995) describes this phenomenon of 'industry breakpoint' as a specific point in the existence of the firm, my interpretation of it is the point at which the journey is recognized and embarked upon, recognizing that it may take time (in some cases years) to realize and be fully manifested in the firm. Nonetheless, this phenomenon is exactly what business model reconfiguration refers to, in that the business needs to transform the relationship between the components of the business model or the reassignment of what factors it considers as 'core' and 'peripheral' (Siggelkow, 2001).

Massa and Tucci (2013) create a relationship between product, process, and business model innovation with the lifecycle of the business in their recent research. They describe the parallelisms be-

tween a company in its seminal stages with product innovation, a company in mid-stage of evolution with process innovation, and in mature stage with business model innovation. My research takes this last stage in the incumbent complex firm in the stage of maturity and studies the phenomenon of business model reconfiguration, some of which may be innovative for the firm and some may not but be done just to maintain its competitive stance.

Turpin (2014) vividly illustrates in what he terms ‘the piano of innovations’ essentially what I am referring to as ‘business model reconfiguration’, whereby the focal firm innovates not just on its products but also in its segmentation of products, it’s sourcing and supply chain, its processes, its design and packaging, distribution, its after-sales support, its communications, and its customer experience. I will expound on all these factors, and more, in the context of a ‘complex enterprise’ where many of these factors, what I define as ‘business model components’ are reconfigured to drive differentiation in the firm’s journey to create an ‘industry breakpoint.’ In the words of McGrath (2010), “The concept of ‘the business model’ is appealing because it suggests a change to the way that strategies are conceived, created and executed against. In highly uncertain, complex and fast-moving environments, strategies are as much about insight, rapid experimentation and evolutionary learning as they are about the traditional skills of planning and rock-ribbed execution. Modeling, therefore, is a useful approach to figuring out a strategy, as it suggests experimentation, prototyping and a job that is never quite finished. This is what I also represent as ‘business model reconfiguration’, and I will develop further my research and original contributions to this topic.

1.2.5 Typology of Enterprises

I start with the definition of the typology of enterprises that I have developed using the guidance provided by Brews and Tucci (2004), who look at the criteria of Firm Size, Firm Location, Firm Global Reach to define their scales. I added a layer of color-coding to define the typology as indicated below in Figure 1.4:

Firm Size

Less than 100 employees	Between 100–500 employees	Between 501–1000 employees	Between 1001–5000 employees	Between 5001–25,000 employees	Between 25,000–100,000 employees	Greater than 100,000 employees
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Firm Global Reach

Single/focused business with no international customers or operations.	Single/focused national business with a few international customers.	Single/focused business with customers and operations worldwide.	Division/subsidiary/affiliate of a multidivisional, multi-national firm with customers and operations worldwide.
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Legend: ■ ‘Small/Midsize’ Businesses ■ ‘Large’ Enterprises ■ ‘Narrow’ Businesses ■ ‘Wide’ Enterprises

Figure 1.4: Categorization of businesses (source: Brews and Tucci (2007))

I use the scales for different purposes, however. I use the firm size and global reach and the firm location as the basis for the scope of my 'analytic generalization' (Yin, 2009). We have selected this scale because it is more precisely defined than many of the other similar scales using firm size and firm global reach as a measure of firm complexity (Coles, Daniel, & Naveen, 2008; Hermalin & Weisbach, 1988; Rose & Shepard, 1994).

Firm size is indicative of the complexity of the organization but also indicative in terms of the level of capabilities, developed functional organizations, established processes, a business strategy, have budgets for and commitments to society and the environment, are more adept at a wider range of alliance partnerships and complementarity-based relationships, with typically a diverse product base and not specialized (Bartlett, Ghoshal, Bartlett, & Doz, 1990; Bourgeois, 1981; Brews & Tucci, 2004; Cyert & March, 1963). Whereas we have arbitrarily selected 5,000 as the cutoff point between 'Small' and 'Large' enterprise, this point could as well have been the 25,000 point. Between the 5,000 and 25,000 employee point lie a range of companies that are in a growth phase and aspiring micro-multinationals or large domestic players, which would cause more confusion for my analysis.

Firm Global Reach is indicative of complexity in a different way from the size issue; its about coordination mechanisms, standardization of processes and communication protocols through organizational and systemic governance (Bartlett et al., 1990; Brews & Tucci, 2007; Subramaniam & Venkatraman, 2001). It is also indicative of a multi-dimensional structure in terms of managing different ranges of products (categories, brands, products), through a network of different business units by geography and trade structures (C. Prahalad, Doz, Bartlett, & Hedlund, 1990). The global reach also has implications in terms of how the organization must be layered, through hierarchies, reward systems and the like, across multiple geographies, by multiple product lines, and functional reporting structures (Kates & Galbraith, 2010).

Firm Location is indicative of where I may apply my insights gained from my questions, propositions, and validated through my case study. The research has been done in the context of multinational enterprises in global markets (developed and emerging). The case study is primarily based on the Unilever business in North America, but points to implications of how Unilever operates in other geographies as well, such as Latin America and Europe. Whereas I have not taken into consideration cultural, societal, or governmental constraints that may be prevalent in non-ME or non-OECD countries, it is logical to think that enterprises operate in countries where they are able to successfully navigate these considerations effectively to conduct business. Therefore we will not restrict the analytic generalizability of this case and the outputs of this research to these countries indicated.

Based on these scales, I introduce a typology of businesses, as illustrated in Figure 1.5 below.

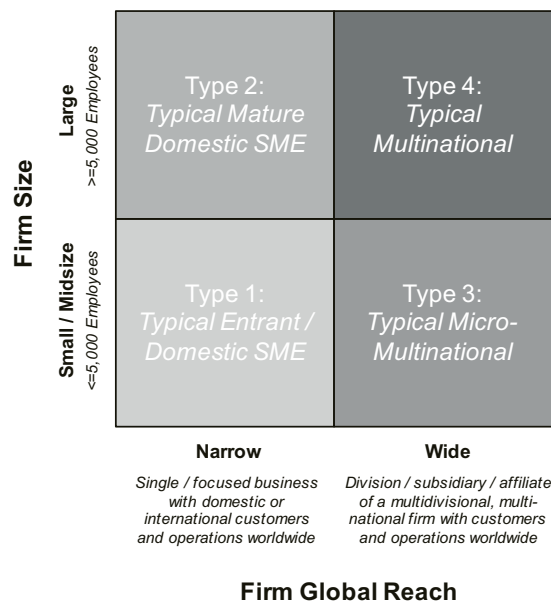


Figure 1.5: Typology of Firms

We use the two scales of firm size and firm global reach as the axes to create a 2x2 matrix to characterize 4 types of businesses. **Type 1** firms are single / focused businesses with a domestic or international customer base, and possibly operations worldwide, but with a low employee count, like *Ferrari*. These firms, while possibly large in terms of revenue, do not employ a lot of people (e.g. Ferrari has less than 3,000) and thus are not as labyrinthine to analyze as some of the others in the typology. The second is the **Type 2** firms who are just like the *Type 1* firms but with a larger organization to cope with the intricacies and multifaceted dimensions of more lines of business and a larger customer and supplier base, like *Emmi*, the largest milk producer in Switzerland, with 5,200 employees and an international sales operations in over 60 countries. This type of firm is typically one that started as a domestic operator and local success preceded its international expansion. The product base of these companies is generally restricted, and decisions are headquarter-based, with the international affiliates being little more than sales offices. **Type 3** firms are a 'division / subsidiary / affiliate of a multidivisional, multi-national firm with customers and operations worldwide' (Brews & Tucci, 2007), with less than 5,000 employees. These firms have chosen to expand their operations worldwide before scaling up on resources. The organizational structure is typically lean and tends to be flatter rather than hierarchical. There are not many instances of managing by matrix organization in this type of enterprise. **Type 4** firms are like *Type 3* firms, but are larger in terms of number of employees. These are the typical multinational enterprises that are known for their international brand names like *Unilever*.

In my research, I am focused on this last type of firm (*Type 4*), and will refer to these as 'complex' enterprises.

1.2.6 Firm Selection Considerations

1.2.6.1 Incumbent vs. New Entrant Firms

Another lens through which to look at firms is the traditional 'entrant vs. incumbent' lens, a relevant lens to conduct this type of research. New entrants typically are in the stage of designing their business models or innovating on an existing industry 'dominant design' business model. Many of the contemporary scholars in this topic focus on new entrants or innovative business models, and these are relevant for the progression of research on the topic, but these companies are not within the scope of my interest.

Since my research is primarily focused on business model reconfiguration, I will be focusing on incumbent firms, which are the primary group of companies that would be engaged in business model reconfiguration.

1.2.6.2 Product vs. Services Firms

Product manufacturing firms are different from service-based firms (notwithstanding the crossovers) in terms of their financial models, their reliance on brand / marketing, supply chain, environment regulatory conditions, and vendor management. I am more familiar with and have done more research on product manufacturing firms to understand the business and industry dynamics of these firms, and am much less familiar with service-based organizations.

Hence, the scope of this research is limited to business model reconfiguration in relation to product manufacturing firms.

1.2.6.3 Summary of Boundary Condition for Firm Type Selection

Considering the various lenses one can use to choose the type of firm for research purposes, for the reasons given above, I have limited the scope of the research and conclusions drawn to product manufacturing incumbent firms that are complex enterprises. When I refer to 'complex enterprises' I also include the limitation of product manufacturing based businesses that are incumbent firms and not new entrants.

1.3 Research Questions

From the literature review, the gaps in prior research are in the area of understanding the mechanics by which complex enterprises configure and reconfigure their business models, and how this is related to the exercise of developing and implementing a business strategy. This gap in research has stimulated me to ask some fundamental questions for understanding the configuration of business

models in complex enterprises. These questions, when answered, will enable me to then understand how the factors involved with defining the configuration help define the roadmap of a complex enterprise towards reconfiguration. The research questions also help answer the unasked question of whether and in what ways can incumbent complex enterprises reconfigure themselves to fight competition of startups and new market entrants who may be more nimble, but may lack the scope of options in flexibility in business model configuration that a complex enterprise may have.

My research questions were developed ex-ante, and I was open to being flexible to change them once I got more in depth with my research and my case study. These questions guided my research all throughout, and enabled me to keep my intended direction and not veer off-course (but not dogmatically). I elaborate further on my research questions below:

Research Question 1: What is the nature of the components of a business model?

Throughout the literature that I read on business models, aside from the fact that scholars differ on their definitions of what a business model is, its role in the business, and its ideal design, there appeared to be different components being considered by each. Some were at a higher level of abstraction than others, some included strategy within the realm of business models (more on this in a different research question). This leads me to question what the full range of components really are, that are required in order to define the configuration of a business model, and for a complex enterprise to understand what the components of it that can be reconfigured to gain a competitive advantage.

Research Question 2: What is the appropriate unit of analysis to (re)configure business model for complex enterprises?

In extant literature, the typical unit of analysis at which the business model is discussed is at the 'firm' level. To understand what this means, I go back to the management fundamentals, Penrose (1959) states the definition of the 'business firm': *The business firm, as I have defined it, is both an administrative organization and a collection of productive resources; its general purpose is to organize the use of its 'own' resources together with other resources acquired from outside the firm for the production and sale of goods and services at a profit; its physical resources yield services essential for the execution of the plans of its personnel, whose activities are bound together by the administrative framework within which they are carried on.*

This definition of the firm is broad enough to include the most complex enterprise as a whole (with all its business units, categories, brands, and technologies), to the single product or technology. The firm, in the words of Penrose (1959), 'may consist of no more than one or two men who divide the task of management; or it may be so elaborate that its complete ramifications cannot even be depicted in the most extensive chart.'

Further, as Sabatier, Mangematin, and Rousselle (2010) discuss in their research, a firm may actually consist of a 'portfolio' of business models. My inquiry goes further into this direction, towards un-

derstanding the mechanism by which the portfolio of business models is held together, and what components are involved in the process of reconfiguration.

Research Question 3: How does the strategic context shape the (re)configuration of a business model in a complex enterprise?

Strategy is about competition (M. E. Porter, 1996). Business models are the architecture of the firm (Teece, 2010) that will enable the strategy. Based on the BCG growth/share matrix (Hedley, 1977) and other literature on the role of strategy in product and business lifecycle (Barksdale & Harris Jr, 1982; MacMillan, Hambrick, & Day, 1982; Walker, 1984), I explore the relationship between the specific strategic context, using the contingent variables of growth and relative market share and the configuration of the business model. I ask the question whether a business model should be configured in the context of its competitive strategy.

1.4 Design Science Approach

1.4.1 Design Science Approach using the Building Blocks of Engaged Scholarship

I felt it was important to start this research endeavor with the anecdotes from practitioners because ‘grounding the problem or phenomenon in reality is a crucial step in any research study’ (Van de Ven, 2007). Whereas the typical form of engaged scholarship is a participative research form, obtaining insight from the important stakeholders to ‘understand and theorize about a complex problem’ (Åkesson, Kautz, & Eriksson, 2010), it goes beyond the scope of participatory design (Bjerknes & Bratteteig, 1995). I am more interested in the *Design Science* approach, which attempts to actively involve all the different stakeholders, but unlike the typical goal of engaged scholarship of theory building, aims to ‘develop and exploit new forms of knowledge production, which facilitate and leverage interactions between practice and theory to develop scientific as well as practical knowledge’ (Åkesson et al., 2010; Mathiassen & Nielsen, 2008). Among others, Van de Ven (2007) discusses design and evaluation research as a form of engaged scholarship that ‘focuses on normative knowledge related to design and evaluation of policies, programs, and models for solving practical problems within a profession’ (Åkesson et al., 2010). Mathiassen (2002) defined a similar form of engaged scholarship in the Information Systems (IS) area as ‘design research which focuses on designing various forms of artifacts with the purpose of supporting stakeholders engaged in IS practices’. Design science is gaining traction in the academic (Hovorka, 2010) and practitioner (Holmström, Ketokivi, & Hameri, 2009) communities.

Turning towards my topic of interest, I find that several scholars have turned to the paradigm of systems to define and conceptualize business models (A. Osterwalder, 2004; C. Zott et al., 2011; Christoph Zott & Amit, 2010), and so I see it fitting to adopt this lens for my research design.

1.4.2 My Conceptual Framework using a Design Science Lens

I am using the design science conceptual framework for my thesis. In the original IS research paradigm, the environment consists of 3 factors: People, Organizational Systems, and Technical Systems. From March and Smith (1995), I understand that 'a design science framework is composed of two axes, namely research activities (building, evaluating, theorizing on and justifying artifacts) and research outputs (constructs, models, methods and instantiations)' (Misuraca, Alfano, & Viscusi, 2011). I propose that the foundations of the 'inputs' in the lens of design science (comprised of people, organizational systems and technical systems) are simply components of a higher unit of analysis, i.e. the business model. Hence, I believe that the design science lens is an appropriate lens for my research.

A three-part framework, originally proposed by Hevner (2007) for IS research design, I have extended its application to my field of business model research. I maintain the basic tripartite framework of Environment, Knowledge Base, and Design Science Research. I propose a similar framework for my research design, extended towards my work around business models.

In the **Environment** section, I will discuss the application domain and where academia and practice has points of view that may or may not match, and which I hope to shed more light on through my research.

In the **Knowledge Base** section, I will discuss the extant literature through the view of what knowledge exists in abundance, where there is a paucity of knowledge, its relevance and importance, the various theoretical lenses that may be applicable to my research, the methods that I will use, the design artifacts that I have accessed, and generally how my knowledge base fits with the environment in order to highlight the gap and the relevant opportunities that may help me bridge the gap.

In the **Design Science Research** section, I will define my research questions, my propositions, and go through my case study to justify and evaluate the findings against my propositions and questions.

I illustrate my research design in the framework in Figure 1.6:

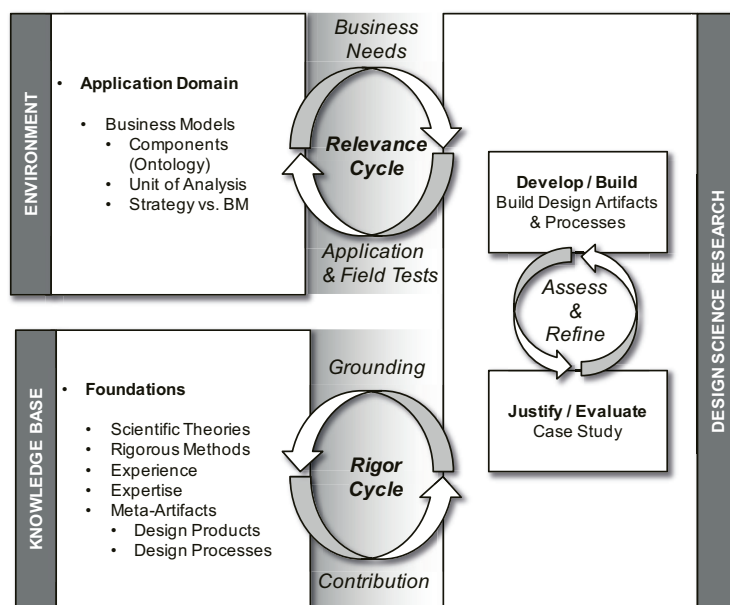


Figure 1.6: Research Design Framework

1.4.3 Environment

I propose to extend the ‘environment’ from its current restrictive inclusion of business model components of People, Organization, and Technology to include the entire problem and opportunity space of business model research that includes:

- Articulation of the components of a business model
- The appropriate unit of analysis of business models
- The relationship between ‘strategy’ and ‘business model’

I highlight what practitioners are saying about business models, how they lack the essential information, perspective, and tools that they need in order to actually articulate, visualize, and make sense of their business models. I also highlight the search trends from academic (EBSCO) and practitioner (Google) sources on the topics of ‘business strategy’ and ‘business model’ to indicate the shift of emphasis of searches from strategy towards business models, indicating a possible gap in guidance from traditional strategy literature, and a potential migration towards business models, which are perceived as more granular in nature, and more dynamic (Cavalcante, Kesting, & Ulhøi, 2011; De Reuver, Bouwman, & MacInnes, 2009; A. Osterwalder, 2004).

Throughout this section, I also introduce some practical insights drawn from my own relevant business experience as well, which stems from one of the principal motivations behind the devel-

opment of this thesis: a natural curiosity about the topic, having worked in practice on facets of it for over 15 years.

1.4.4 Knowledge Base

Thus far, I have seen business models defined in a variety of ways, some of them convergent, and others at different levels of abstraction. I discuss the various opinions offered by well-known scholars in the subject matter on what business models are, what their purpose is, how to describe them, and how they are used, in order to converge on a single definition of business model through my literature analysis on the topic. I will demonstrate the ‘white space’ and ‘adjacencies’ (Mark W. Johnson, 2010) in terms of the gaps in literature which are of interest and of relevance. By ‘white space’, Mark W. Johnson (2010) refers to the area of opportunity accessible by thinking in a fundamentally different way. By ‘adjacency’, Mark W. Johnson (2010); (Young-Ybarra, 1999) refers to the opportunity spaces that are ‘next to’ the current or core space of the business or the idea. I will provide insight into the extant literature, which I use as a foundation for my research, and highlight the literature streams that are definitional (what is a business model), functional (how does it work), and conceptual (what does it comprise of). I exit this general discussion on business models and highlight how business model reconfiguration is a less-known phenomenon, and the purpose of this thesis is to shed more light on this topic. In conclusion, I highlight my contribution to the literature and to the ongoing research field of business models, and specifically on business model reconfiguration.

Business model scholars have proposed a *mélange* of theoretical underpinnings, and it is commonly accepted that there is not one but several theoretical lenses through which to understand and explain business model dynamics (Raphael Amit & Zott, 2001; C. Zott et al., 2011; Christoph Zott & Amit, 2008). I provide some insight into the theoretical lenses that I have considered, and how I conclude that contingency theory is a good fit for looking at the dynamics of business model reconfiguration.

I then formulate my research questions and propositions, and expound on each of these questions in great depth. I discuss in some detail the three key themes of my research:

- Articulation of the components of a business model
- The appropriate unit of analysis of business models
- The relationship between ‘strategy’ and ‘business model’

Through this discussion, I present an updated ontology to regard the notion of a business model as a comprehensive listing of the essential sub-components or elements that have been covered in the relevant literature for the last 10 years, organized into three mega-components: the Enterprise Financial Model (EFM), the Internal Operating Model (IOM), and the Network Partner Model (NPM).

I also delve into the discussion about the appropriate unit of analysis of business models. Hitherto, scholarly and practitioner literature assumes, for the most part, that the only relevant unit of analysis for business models is the 'firm' level, as traditionally understood (Penrose, 1959). I argue that whereas this might be appropriate for a 'simple' business with a constrained geographic presence, a limited number of products and markets, it may not be appropriate for 'complex' enterprises (Brews & Tucci, 2007), where there are, for instance, a matrix organization and shared resources, where strategy is determined by one 'vertical' slice of the organization whereas the profit and loss is delivered by a 'horizontal' slice of the firm, with sometimes conflicting objectives between global and local business units. I offer alternate views of how to determine what levels of analyses may exist in complex enterprises through some test cases and some informal interviews and discussions with enterprises in different parts of the world.

I then delve into the contemporary debate between the boundaries and relationship between the notions of 'strategy' and 'business model'. A lot has been written about this (J. Linder, 2000; Magretta, 2002; A. Pateli & G. Giaglis, 2003; O. Petrovic, C. Kittl, & R. Teksten, 2001a; M. E. Porter, 1996; Shafer et al., 2005; Teece, 2007; Christoph Zott & Amit, 2008). I discuss the alternative relationships between these two notions, and offer a new relationship between them – a symbiotic and complementary relationship in which each notion has a clear role and both notions have a mutual dependency to exist and be operationalized.

I put together the output of these research questions into a comprehensive business model framework, that I call 'the Beacon'. The Beacon offers businesses and academia a way to articulate business models, and consider all the components that must be defined to properly explain the workings of the business model. In addition, it offers a way to map different 'layers' of the business model on the same map. It provides a tool to visualize the business model and annotate the differentiators. I provide examples of its usage to illustrate this in a manner that is simple and intuitive.

1.4.5 Design Science Research

In the design science research section, I present one main case study where I describe the business model of a complex enterprise, with three embedded cases to highlight the dynamics of business model reconfiguration (Yin, 2009). I have chosen one company (vs. several companies) because my research questions and propositions are explanatory in nature rather than quantitative. I wanted to explore my questions in great depth, with a lot of interaction with the employees of the company at different levels and across different functions and geographies. I conducted a hermeneutic circle (Matthew B Miles & Huberman, 1985) with highly reputable academic scholars as well as gaining insight from relevant literature (Baxter & Jack, 2008; M B Miles & Huberman, 1984; Sutton, 1997), to understand whether it would be better to do a multiple-case study with different companies at a superficial level (constrained by the duration of the PhD program and access to sufficient depth of knowledge in chosen companies) or a single, in-depth case that enables me to really understand with full knowledge of context, perspective, biases, organizational inertia, and other relevant factors,

the dynamics of business model reconfiguration. After much discussion, I concluded that doing a single-case study at one company (with embedded cases to bring out specific instances of reconfiguration) would enable me to gain the richness of understanding and insight into the business. I have interviewed 35 senior leaders of the USA business unit, a major part of the North American business division, across different categories and functional areas.

The company that I selected for my case study is one that is representative for many others, giving this thesis breadth of scope and applicability. The choice of the company was based on three factors:

- 1) **Industry and Enterprise Knowledge:** My high degree of familiarity with the industry composition, enterprise processes, systems, strategies, organization, and functional dynamics of fast-moving consumer goods (FMCG) through my 20 years of career experience in this vertical, through a number of different roles, both as an employee of this business as well as a consultant for them for 10 years. Considering that the focus of the thesis is on business model dynamics, it is useful to have a thorough understanding of the business, its competitors, its industry landscape, its product lines, its organizational makeup etc. in order to adequately focus on the unknowns, i.e. the dynamics of business model reconfiguration, without having to be concerned about sufficient background knowledge of the business.
- 2) **High Level of Access:** Since I have been a part of the organization and have consulted with them for a long period of time (10 years), I have access to a significant number of people across different parts of the business in terms of hierarchy, function, and geography. I have worked with senior leaders of the business (VP, SVP levels), middle management (Directors), and junior staff (Managers, Analysts) over this time period, and have open access to them.
- 3) **Trust, Candor, and Depth:** In addition to the number of interviewees, I also wanted to ensure the *quality* of the interviews; it is through the long-standing relationship that I can be assured to get honest responses, with no agenda, and with full disclosure, in order to ensure that I really understand the business model dynamics. I also have the advantage of knowing inherent bias (e.g. X doesn't get along well with the Sales team) of the interviewees, so that I can position questions that do not elicit the negative bias unnecessarily.

The goal of the case is to make an 'analytic generalization' and not a 'statistical generalization' (Yin, 2009), with the inherent aim of making it 'generalizable to theoretical propositions rather than to populations or universes' (Yin, 2009). Whereas I go down the road of developing some foundations for building a 'mid-range theory' (Merton, 1949) through this case (Kathleen M. Eisenhardt, 1989), I stop short of actually developing the theory, and will leave that for the avenues of further research that may be taken on by other researchers in the field.

The case study has been designed on the basis of ex-ante propositions and questions, based on my own thinking. I sought to validate and modify my thinking on the basis of this case. The case yield-

ed additional information that I was not specifically seeking, but which helped to illustrate even more than what I had hoped for in terms of business model (re)configuration.

In conclusion, I was able to lend support to all of my propositions through the case, and the company even complimented me on my field of study as one that will help them to understand business model configuration and reconfiguration in a more structured and visual manner, and help define the motivations, risks, and tradeoffs between different business models.

1.5 Overview of the Thesis

1.5.1 Contribution to Research on Business Models

This white space exists not because the space is unattainable or uninteresting, but because the research and analysis on business models has been largely driven by practitioners and that academia is still catching up to understand the concept better through empirical analysis and wider scopes of conceptualization. Creating the appropriate theoretical and conceptual bases of business models is the next step in this natural progression or evolution of this field, supported by empirical analyses. Researchers are already developing frameworks, ontologies, tools, and other supporting concepts (Bouwman & MacInnes, 2006; De Reuver et al., 2009; Morris et al., 2005; A. a. P. Osterwalder, Yves, 2010) that would be applied to developing a theory specifically oriented to business models and their impact on firm performance.

I propose four primary contributions to the extant knowledge on business models, and specifically, business model (re)configuration:

1. **New / extended ontology of business models:** I have extended the dominant ontology of business models (A. Osterwalder, 2004; A. a. P. Osterwalder, Yves, 2010; Alexander Osterwalder et al., 2005) to a more expansive set of business model components. I have reviewed and included all the dominant components mentioned in literature between 2009 and 2014 with a logical aggregation into three primary components of a business model, in conformance with the holistic definition of business model that I am using (Massa & Tucci, 2012). The implication for incumbent firms is that they can map all of their components on the Beacon framework, and be able to articulate their models in a more holistic manner.
2. **Multidimensionality of analysis of business models:** I extend the notion that a complex business can have a 'portfolio of business models' (Sabatier et al., 2010) to my empirically-supported proposition that in complex enterprises, not only are there the aforementioned portfolio of business models, but that there are, in fact, multiple units of analysis required to (re)configure them: I introduce a case where an incumbent firm uses the 'product category' (where the strategy is defined) as well as the geographically oriented 'business unit' (where the mechanism for the P&L is defined and executed) as the relevant units of analysis to (re)configure the business mod-

- el. More generally, I introduce the idea that business models are defined at the unit of analysis (or intersection of multiple units of analysis).
3. **New relationship between the notion of strategy and business model:** Hitherto, scholars have debated heavily the relationship between strategy and business models, generally establishing themselves in the camp that these concepts are either completely overlapping, intersecting (to varying degrees, between minor, major), embedded (strategy within business model or vice-versa) or completely separate (Seddon et al., 2004). The intertwining relationships that these scholars propose forces one to abandon or redefine the scope of what is well-established as 'strategy' (Grant, 2010; M. E. Porter, 1996; Michael E Porter, 1985; C. K. Prahalad & Hamel, 1994; Rumelt, 1979). I offer an alternative and complementary perspective on the relationship between the two notions as mutually dependent and complementary, where each notion is compliant with its traditional definition but there is an interrelationship between the two that I highlight.
 4. **Business model archetypes by strategic context:** Based on my reading of strategy literature from the 1970s and 1980s on lifecycle management and product portfolios, the BCG matrix of growth / share (Hedley, 1977) introduced the notion that business strategies are contingent on the competitive variables of growth and relative market share. Using my newly defined relationship between strategy and business models, I propose the extension of this hitherto accepted notion of competitive or 'strategic' context to the notion of business models, if strategies are dependent on their competitive context, so must be their business models. Using the four quadrants in the growth / share 2x2 matrix, I propose (with empirical validation) that this is a valid concept, and that lends support to the proposition that complex enterprises can segment their business models based on their differentiated strategies for each quadrant. Keeping in mind that complex enterprises cannot operate in completely differentiated ways for each segment, I offer the concept of a 'master configuration' of the business model for specific components that remain common throughout the matrix, but that there are contingent factors (business model components) that can be (re)configured in order to be aligned with the specific strategic context.

1.5.2 Flow of Thesis

I have organized this thesis in a logical and conventional manner for this type of dissertation that is typically seen in the social science sphere. I have used a lens of *design science research* simply as a framework of how to organize the thesis. I will commence with an *introduction* to the topic and discuss the *problems in practice* for the issue of how companies view the notion of the business model, and how they are unable to apply it through practical applications.

Chapter 2 THEORY

2.1 Theoretical Underpinnings of the Business Model concept

Business models have been discussed by academics and industry for some time now (A. Afuah & Tucci, 2001); (Alexander Osterwalder et al., 2005). Whereas there has been much debate about what a business model is (but all agree in that it is an important concept), many have argued that business model research has few, if any, theoretical underpinnings (Teece, 2010) (C. Zott et al., 2011) (Hedman & Kalling, 2003). There appears to be a dearth of literature in the more theoretical space insofar as establishing the theoretical underpinnings of business model research, but some empirical papers invoke theories such as the Resource Based View or RBV (Hedman & Kalling, 2003); (Melville, Kraemer, & Gurbaxani, 2004), Transaction Cost Economics or TCE (Christoph Zott & Amit, 2010); (Alexander Osterwalder et al., 2005), strategy theory (Christoph Zott & Amit, 2008); (Yip, 2004), and organizational sciences (Melville et al., 2004); (Tikkanen, Lamberg, Parvinen, & Kallunki, 2005).

Another lesser known but somewhat relevant avenue to go down is to use the core competence perspective (C. K. Prahalad, 1993; C. K. Prahalad & Hamel, 1990; C. K. Prahalad & Hamel, 1994), built up through the efforts of the development of concepts around Competence Based Strategic Management (Hamel & Heene, 1994; C. K. Prahalad, 1993; C. K. Prahalad & Hamel, 1994; Sanchez & Heene, 1997), as a theoretical foundation for business models, and then create constructs using the Five Modes of Competence (Sanchez, 2004) in order to lay the groundwork for future empirical testing of this theory in the context of business models.

Some authors favor a unifying, multi-theory perspective (Raphael Amit & Zott, 2001) claiming that no single theory can effectively explain the value creation potential of an organization. Morris, Schindehutte, Allen (2005) claim that business model research builds on the central themes of strategy research and its theoretical foundations (Morris et al., 2005). Porter's (1996) notion of value systems and strategic positioning appears to have some representation in business model research (M. E. Porter, 1996). It also draws on RBV and specifically the value creation elements of it (Raphael Amit & Schoemaker, 1993; Barney, 1991; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). In addition, claims have been made to also relate business model research to strategic network (Jarillo, 1988). Economic theory is also commonly cited in terms of decision making about vertical integration (Coase, 1937; Hart & Moore, 2008; Klein, Crawford, & Alchian, 1978), production and capabilities (Langlois & Foss, 1999), theory of the firm and of the growth of the firm (Raphael Amit &

Schoemaker, 1993; Coase, 1937; Nelson & Winter, 1982; Penrose, 1959), and transaction costs (Coase, 1937; Gibbons, 2010; Williamson, 1981).

This representation is entirely consistent with the Christoph Zott and Amit (2008) proposition of the underpinnings of contingency theory supporting the notion of business strategy, and in fact also with the systems theory point of view. In Petrovic et al. (2001a)'s representation of the business model, it lies at the top of the pyramidal framework, below which they represent business processes, resting on the foundation of information and communication systems at the bottom. Further, building on Petrovic et al. (2001a), I find Morris et al. (2005) characterizing a business model with systems theory, as an 'open system with varying levels of combinatorial complexity among subsystems and bounded by the environment and open information exchange.'

Much of strategy research uses contingency theory as a basis (Drazin & Van de Ven, 1985; Van de Ven, 2007), and I will use the lens of contingency theory based on the dynamics of business models and the relationship between business models and strategy that I will discuss in subsequent chapters. As I examine business models, I am reminded of Morgan, Gregory, and Roach (1997) that businesses are open systems that require diligence in managing and maintaining the balance between not only internal needs but also the tension between the business and its network of partners in the business ecosystem in dynamic market environments. Further, there are many different and disparate ways of creating a business model and that the appropriate depends on its purpose in context of the environment it is built for. Different types of business models may be needed for managing within different types of competitive or market environments.

"Contingency theory does not prescribe any one best way to organize, but rather suggests that organization design choices are contingent on both the strategy selected and the environment in which the business is operating. Contingency theory has been extended with complementary systems theory, which comes to organization design from the field of economics (Milgrom & Roberts, 1995). The notion of complementarity holds that design choices work as coherent systems and that the application of one practice will influence the results of a corresponding practice—whether positive or negative" (Kates & Galbraith, 2010).

"Research into complementary systems goes further, suggesting that in order to derive the full benefit of these choices, they should be employed as a system, and that negative consequences may occur if the practices are employed individually and not together (Whittington, Pettigrew, Peck, Fenton, & Conyon, 1999). This research confirms what many suspect: piecemeal adoption of management practices has little impact on business performance" (Kates & Galbraith, 2010). My motivation to holistically represent and articulate business models stems from this suspicion, and I will create the basis for testing propositions for the Beacon framework.

I introduce a nested view in which I can examine the theoretical underpinnings of business models:

- *Business Models as a contingency variable for a Business Strategy* - This perspective is more of a traditional one; even within the context of my research topic, Christoph Zott and Amit (2008)

have highlighted the business model as being 'in the forefront of strategic management thinking, and has become a particularly important new contingency factor.'

- *Business Model Components as contingency variables for the Business Model 'system'* – This is more of a nested hierarchical perspective, which examines the role of each business model component to the contribution of the performance of the overall 'system' which is the business model. Within this framework, I focus on the relationships between the components of the business model, to better understand how configuration of individual components drives the configuration of other related components, and subsequently of the business model as a whole.

2.2 RQ1: Business Model Components

Research Question 1: What is the nature of the components of a business model?

The plethora of theories selectively referred to in current research appears to characterize and perhaps begin to explain, at best, only some of the components of the business model independently, and not the business model as a whole, and nor its competitive dynamics. I find that the existing body of theory is unable to capture the full picture in terms of the mechanics of business model dynamics (BMD). A new conceptual framework needs to be developed in order to account for the cognitive, dynamic, holistic, and systemic nature of the transformation process.

In order to effectively understand the nature and composition of business models, it is essential to uncover the components of a business model. To this effect, I reviewed over 70 relevant papers between 2000 and 2014. The papers were selected using the Google Scholar web search engine for academic articles and papers in published journals, mostly those that are peer-reviewed or have a high impact factor. The total sample of papers that were reviewed was 122. I was looking for qualifying characteristics of relevance. Hence I reviewed and read all the papers published during this period that were found with the search term 'business model' in the title on Jun 23, 2014. I further culled the papers based on their contribution to literature on business models in terms of either definition, innovation, transformation, reconfiguration, not specifically using search terms for quick searches but through analog reading and discussing papers with authorities in the relevant subject matter, and debating whether papers would qualify or not for my further study and analysis. Whereas this process might be regarded as unusual or controversial, I believe the group work in reviewing the papers had a dramatic effect in the stringency of the inclusion process, potentially making it more difficult for papers to qualify to enter the desired sample (72 of 122, which is about 54%).

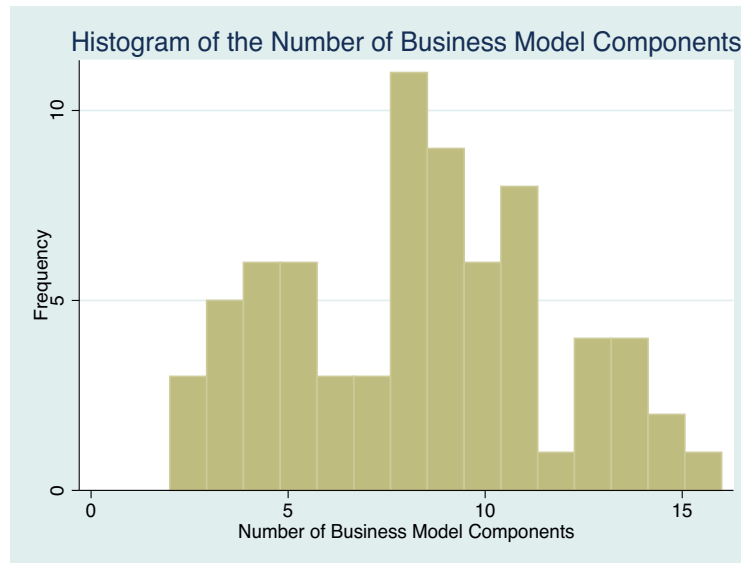


Figure 2.1: Number of business model components in different frameworks

I reviewed the papers to gain a better understanding of what components the authors had included in their framework of business model. The results were somewhat predictable but also somewhat exciting. A preliminary histogram shows the number of papers with numbers of components in business models. The histogram in Figure 9 shows that there is some diversity in the number of components that scholars use in their interpretations of what business models are and what they comprise of. My analysis shows that authors selected between 2 and 16 components to business models. There appear to be three local peaks, one with 4-5 components, one peak with 8 components and one peak with 11-12 components. This suggests that whereas there is no clear consensus on the number of components, there is a general bias towards parsimony. This is consistent with my literature review, which indicates that more of the literature is focused on definitional and conceptual characterization of business models and not so much on the operational usage of this concept.

2.2.1 Literature Analysis of Components

I researched 72 of the most relevant papers in depth for this analysis, and examined each of the components in the words of the original authors. I first ranked these business model components in terms of frequency of how often I encountered them in papers. Curiously, the authors whose papers I read never explicitly mention the relative importance of the components of the business model. There is therefore an implicit assumption that they all rank equally. However, when I look at the frequency of mention of these components, a somewhat different story begins to emerge.

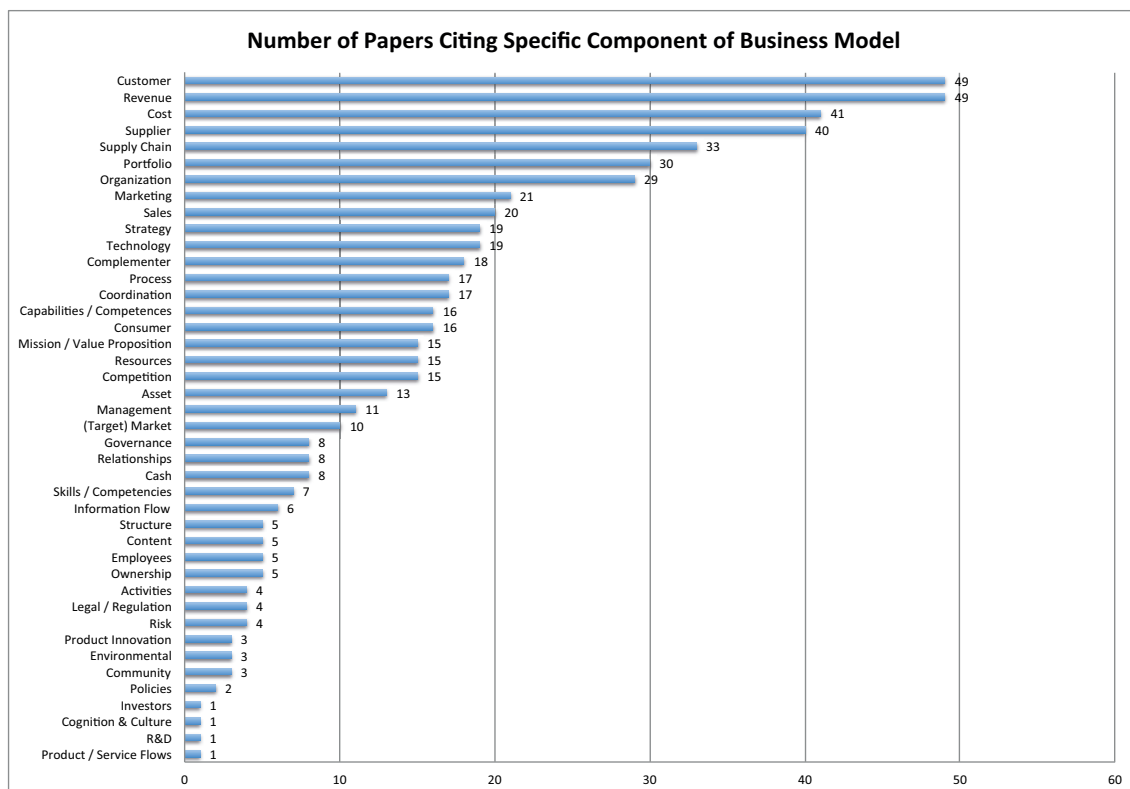


Figure 2.2: Number of mentions of business model components

The top 3 components that on average 65% of the papers mention in the research include Customers, Revenue, and Cost. Most scholars seem to agree that customers and profit are integral components of the business model. The high-ranking components follow, such as Suppliers, Supply Chain (including Manufacturing, Distribution, Planning, and Sourcing), Product Portfolio Organization, and Sales, all of which are somewhat intuitive as 'inner context' (Pettigrew, 1987) functional components from an enterprise perspective.

The middle-ranking components became a much more diverse set, with almost no apparent logic: Strategy, Technology, Complementary Assets (Complementers), Processes, Coordination, Capabilities / Firm Competences, Consumers, Mission / Value Propositions, Resources, Competition, Assets, Management, Target Market, Governance, Relationships, Cash, Skills / Competencies, In-

formation Flow. These suggest that the internal facing components are most intuitive, but then the list begins to wander about, somewhat lost between the areas of Strategy, Marketing, Organization, Information Systems, and Competence Based Strategic Management.

The lowest ranked components include Structure, Content, Employees, Ownership, Activities, Legal / Regulation, Risk, Product Innovation, Environment, Community, Policies, Investors, Cognition & Culture, R&D, and Product / Service Flows. These areas too, are somewhat offbeat in terms of typical business model research, although quite important in terms of the impact of these components on firms' ability to succeed and perform competitively.

From Figure 2.3, I see that authors have a tendency to keep a fairly restricted number of components. I wonder if this is in order to make it more convenient for researchers and practitioners to translate these concepts and ideas into practice or whether there is really some other logic behind the parsimony of components. In my view, it somewhat defies logic to claim a certain number or range of components in a business model without understanding how it will be applied (e.g. to design a model to innovate on it, to reconfigure it), and in what competitive context (e.g. emerging markets with local incumbents, or in a domestic market with a leading competitive position), or in what industry vertical (e.g. high tech or consumer goods), for instance.

Based on this perspective, I prefer to be on the cautious side, albeit at the risk of potentially making conceptualization and application more complex and heady. My intention is to create a framework for business models that is comprehensive, and agnostic to industry, strategic context, or stage of development of the model. I intend for my framework to be as holistic as possible, so that researchers and practitioners can ignore some of the components that might seem irrelevant for their purposes. Ex-ante, not knowing in what context this framework might be used, I would rather err on the side of caution and completeness. I will therefore include all of the components that I have found in the papers that I have reviewed.

However, I face two issues: (1) there are a high number of components notional repetitions or duplications, and (2) there are 42 components and there is no obvious ex-ante categorization of these components. So I reviewed the components in more detail, and went back to the frequency chart of the ranking of the components, in order to allow some aggregations and classifications to emerge.

Frequency	Components in Papers	Aggregated Components	Business Model Component
13	Asset	Assets & Investments	Enterprise Financial Model
8	Cash	Cash	
41	Cost	Cost	
5	Ownership	Ownership	
1	Investors		
49	Revenue	Revenue	
4	Risk	Risk	
4	Legal / Regulation		
19	Technology	Coordination	
17	Coordination		
6	Information Flow		
2	Policies		
1	Product / Service Flows		
21	Marketing		Marketing (Brand Management)
10	(Target) Market		
3	Product Innovation		
1	R&D		
29	Organization	Organization	
17	Process		
16	Capabilities / Competences		
15	Resources		
11	Management		
8	Governance		
7	Skills / Competencies		
5	Employees		
5	Structure		
4	Activities		
1	Cognition & Culture		
30	Portfolio		Portfolio
5	Content		
20	Sales	Sales	
33	Supply Chain	Supply Chain	
3	Community	Community	Network Partner Model
18	Complementer	Complementer	
8	Relationships		
16	Consumer	Consumer	
49	Customer	Customer	
3	Environmental	Environmental	
40	Supplier	Supplier	
19	Strategy	Strategy	Strategy
15	Competition		
15	Mission / Value Proposition		

Table 2.1: Business Model component listing and aggregation

When I reviewed the multitude of components in more depth, patterns and categories began to emerge. As I mentioned in an earlier paragraph, the frequency of components were higher ranked for the internal enterprise view of the business, or “inner context” (Pettigrew, 1987) and so I named my first category ‘**Internal Operating Model**’ (IOM). Among the diverse list of other components, I saw three other categories emerging: I saw themes emerging around financial elements, and an outward facing enterprise view of elements or ‘outer context’ (Pettigrew, 1987), and strategic elements. I have termed these ‘**Enterprise Financial Model**’ (EFM), ‘**Network Partner Model**’ (NPM), and **Business Strategy**, respectively. Within these categories (the rightmost column), I tried to consolidate the component list from the papers (second column from the left) into some aggregated component topics (resulting in the second column from the right). It might be correct to question why the financial components have been separated from the internal operating components of a firm’s business model; my logic for separating the financial components is to isolate cause and effect, i.e. the financial component configuration is a dependent function on the design or configuration of the internal operating model and the network partner model.

I can summarize my findings and conclusions in the table below, where I define the ‘categories’ of the business model components and then the aggregated components themselves, reducing the number of components from 42 to 18 (6 in each category).

Table 2.2: Summarized listing of business model components

Business Model Components	
Enterprise Financial Model	Revenue
	Cost
	Cash
	Asset & Investment
	Ownership
	Risk
Internal Operating Model	Portfolio
	Brand Management (Marketing)
	Sales
	Supply Chain
	Organization
	Coordination
Network Partner Model	Customer
	Consumer
	Supplier
	Complementer
	Society (Community)
	Environmental

This business model component listing includes all but the strategic components (as shown below), because there is confusion in current literature about the degree of overlap or exclusivity between the notions of ‘strategy’ and ‘business model’ are distinct, and mixing the components of notions can cause confusion and compromise clarity. I will tackle this topic under a different section in a subsequent research question.

Table 2.3: Strategy related components

Components in Papers	Aggregated Components	Business Model Component
Strategy	Strategy	Business Strategy
Competition		
Mission / Value Proposition		

One of the fundamental assumptions of my characterization of the business model is that I am doing it from the perspective of the ‘focal firm’ (C. Zott et al., 2011). The Internal Operating Model consists of the components that must be configured to enable the business to innovate and operate. The Network Partner Model spans the components that the ‘focal firm’ must engage with in its activities of value creation and capture (value exchange). The Enterprise Financial Model essentially consists of the components that drive the mechanism of value exchange, primarily through the revenue, cost, and cash models (profit model), the pricing model (part of revenue model), but also through ownership, assets and investment models and risk models.

Other business model frameworks like the Business Model Canvas (A. a. P. Osterwalder, Yves, 2010), the Activity Model framework (Christoph Zott & Amit, 2010), the Business Model Innovation Factory framework (Kaplan, 2012), Blue Ocean framework (Kim & Mauborgne, 2004), and others are

all single-dimensional or 'flat', offering little more than 'placeholders' to organize thoughts in an ordered, categorized fashion about the design or configuration of a business model. They offer no means to understand the full richness of a business model configuration in terms of its different units of analysis, or to understand the connections or dependencies between business model components.

Proposition 1: The components may have different levels of 'importance' or 'relevance' for the configuration of the business model, where some components' configuration drives the decisions for configuration of other components.

In this 'universal set' of factors determining the configuration of the business model of the firm, it is likely that they are not all at the same level of importance or relevance for a business (Hamel & Heene, 1994; C. K. Prahalad & Hamel, 1990). It is not a logical stretch to say that a firm cannot prioritize all components, but must choose some of these components as 'core' ('central') and 'peripheral' (Siggelkow, 2001, 2002).

2.3 RQ2: Level of Abstraction to (Re)configure Business Models

Research Question 2: What is the appropriate unit of analysis to (re)configure business model for complex enterprises?

I have divided this section into two parts: (1) a discussion about the traditional perspectives regarding the unit of analysis of business models, and (2) an emergent views discussion on what unit of analysis actual firms use when they discuss their business models. When I assembled the academic discussion about this topic, I found it too abstract to communicate without examples in real life instances. I wanted to bring the points that I discussed in the academic discussion more to life with the type of ‘complex enterprises’ that my research is based on. The practitioner perspective is not based on a formal case study or qualitative research effort, but more informal and anecdotal in nature, to just bring to life and ground my academic discussion in the practical business perspective.

2.3.1 Traditional Perspective

Scholars have hitherto discussed and written about business models at the ‘firm’ level or the ‘industry’ level. I believe that there are several issues with both these levels when I discuss the business model of complex enterprise. To adequately discuss this, I reiterate my earlier discussion about ‘simple’ vs. ‘complex’ businesses and their definition based on firm size and global firm reach, as introduced by Brews and Tucci (2007), that I have summarized in Figure 2.3:

Type of Business	Firm Size	Global Firm Reach	Examples
Simple Business	<ul style="list-style-type: none"> Less than 5,000 Employees 	<ul style="list-style-type: none"> Single / focused business with either no international customers or operations Single / focused national business with a few international customers Single / focused business with customers and operations worldwide 	<ul style="list-style-type: none"> Emmi
Complex Enterprise	<ul style="list-style-type: none"> More than 5,000 Employees 	<ul style="list-style-type: none"> Division / subsidiary / affiliate of a multidivisional, multi-national firm with customers and operations worldwide 	<ul style="list-style-type: none"> Nestle

Figure 2.3: Simple vs. Complex business qualifications

Let me discuss each of these levels of analysis in more depth.

2.3.2 ‘Firm’ Level as the Unit of Analysis

‘Has firm level analysis reached its limits? Time for a rethink’ is the title of a recent book Scott and Rosa (2002), and it resonates with me, from what I have seen in my work with multinational corporations such as Unilever, Starbucks, Danone, and other during the last 20 years.

Many focus on the ‘focal firm’ (C. Zott et al., 2011) and use the firm as the unit of analysis. Based on this definition, when I look at the qualifiers for a ‘simple business’, I am confident of being able to apply the ‘firm level’ unit of analysis adequately because these businesses are by-and-large single-

product (or product family / or product technology), with a single-unit (with simple organizations based on functional hierarchies), single-geography entities (one headquarters location, with possibly national or international 'sales offices' or dealerships).

"I view product market strategy as the way in which a firm chooses to position itself against competitors in its addressable market spaces" (Christoph Zott & Amit, 2008). In addition, Teece (2010) extends the discussion about combining strategy research with business model research: "Coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models." Considering that business strategy happens at a multitude of levels of analysis in a business (Grant, 2010; Harrell, O'Reilly III, & Tushman, 2007; Hofer, 1975; Lafley & Martin, 2013; Michael E Porter, 1985, 2004; Rumelt, 1979): from high level corporate strategy down to a category or business unit strategy, a brand strategy, and even a product / technology strategy. This logic suggests that business model can be defined at the same unit of analysis as the business strategy.

This subsequently suggests that for a 'simple' business, there may not be much variance between the 'firm' level vs. the 'category' or 'brand' level, and the 'country' level because of the large overlap between these domains. Thus, creating a strategy for a 'simple' business is not an easy exercise but it mostly involves a single unit of analysis, which is the 'firm' as a whole. Conversely, for a 'complex' enterprise, the unit of analysis may be the business unit (a geographic dimension), the category or brand or product / technology (a product dimension), and possibly even the functional (e.g. sales / marketing / supply chain / finance) dimension, or possibly a combination thereof.

Lafley and Martin (2013) also discuss the 'nested cascades' of strategic choices, from strategy elements to business model components, starting at the 'corporate-level', and driving down to the 'strategic-group' level and then down to the 'individual business' level. In the multinational-business setting of Proctor and Gamble, Lafley and Martin (2013) discuss how business architecture is a cascading set of choices from corporate / global level, which must also make sense at a business category / region level, and finally at the brand / country level. They provide a bi-directionality to this relationship between corporate / global level, category / regional level, and brand / country level, indicating that strategy and business model design decisions may occur at any level, and can be driven either top-down, bottom-up, or middle-out, depending on where the locus of competition lies.

2.3.3 'Industry' Level as the Unit of Analysis

Consider companies like Google: what 'industry' do they compete in? According to Hacklin (2007); Hacklin, Battistini, and Von Krogh (2013); Hacklin, Marxt, and Fahrni (2009), in the information and communications technology (ICT) industry, the convergence phenomenon is throwing off companies from the traditional path of 'strategic thinking'. Entire paradigms of strategy fo-

cused on industry-level competition, which in the last 10-15 years has been rendered of limited use due to the emergence of multi-industry companies. In a vivid description of an automobile's software being hacked remotely and wirelessly, I highlight the convergence story between automobile and the software industry through the experience of Greenberg (2015):

"I was driving 70 mph on the edge of downtown St. Louis when the exploit began to take hold. Though I hadn't touched the dashboard, the vents in the Jeep Cherokee started blasting cold air at the maximum setting, chilling the sweat on my back through the in-seat climate control system. Next the radio switched to the local hip-hop station and began blaring Skee-lo at full volume. I spun the control knob left and hit the power button, to no avail. Then the windshield wipers turned on, and wiper fluid blurred the glass. As the two hackers remotely toyed with the air-conditioning, radio, and windshield wipers, I mentally congratulated myself on my courage under pressure. That's when they cut the transmission. Immediately my accelerator stopped working. As I frantically pressed the pedal and watched the RPMs climb, the Jeep lost half its speed, then slowed to a crawl. This occurred just as I reached a long overpass, with no shoulder to offer an escape. The experiment had ceased to be fun."

One questions, "Is Ford an automobile company or a software company? Is Ford prepared to be a software company?"

The hitherto clear division within and between the traditional industry segments is collapsing, and industry convergence is all about (McGrath, 2013). Just think of telecommunications, entertainment, and photo-videography as an example. "In more and more markets, I am seeing industries competing with other industries, business models competing with other business models even in the same industry, and entirely new categories emerging out of whole cloth" (p.9). McGrath (2013) argues that in the high dynamism characterized by today's business world, I should develop and consider strategy not at the firm or industry level, but at a level at which the competition for individual 'arenas' is taking place. She describes 'arenas' as the "new unit of analysis that reflects the connection between market segment, offer, and geographic location at a granular level." An 'arena' is defined as an intersection of "a customer segment, an offer, and a physical or virtual space of some kind" (Leavy, 2013)

Whereas 'industry' has been a firmly entrenched unit of analysis (Gambardella & McGahan, 2010; Grant, 2010; Hambrick, 1983; Constantinos Markides & Daniel Oyon, 2010; Michael E Porter, 2008), I propose that it is time to reconsider this unit of analysis in the study of enterprises when discussing business models.

2.3.4 Emergent Perspectives

I polled executives from different firms that I regard as 'complex enterprises' by the definition given earlier, on the level of analysis of a business model of such an enterprise. I spoke specifically with the leadership team and middle managers of 2 businesses: Unilever (an Anglo-Dutch pub-

lic multinational consumer goods enterprise) and KSB (a German mostly privately held enterprise in the industrial equipment business making industrial application pumps and valves). These were informal discussions, without a formal protocol, just as a 'sensemaking' exercise (Siggelkow, 2002; Weick, 1995) to their perspective on the unit of analysis of business models.

I look closer to home (my research context) and look at the company that I did a case study about in this research output, Unilever. Let me examine what industry they are in. Their product portfolio includes personal care products, home care products, refreshment products, and foods. What is their industry? Their basis of competition is four-fold: they compete on the personal care portfolio with the likes of Proctor & Gamble, Coty, Estee Lauder, and L'Oreal. On the homecare portfolio, they compete with Reckitt Benckiser, Proctor & Gamble, Henkel, Church & Dwight, and the Clorox Company. On the refreshment portfolio (tea, ready-to-drink soy-based beverages, ice cream), they compete with Starbucks, Nestlé, Pepsi, Coca Cola, and others. On the foods portfolio (margarine, mayonnaise, soups, sides), they compete with Nestlé, Land-o-Lakes, Conagra, Campbell, and others). These product and industry base are completely different and so you cannot simultaneously plot your strategy and business model at the 'firm' level on aggregate and expect to be competitive across a 'general' strategy that amounts to addressing the 'lowest common denominator'. The businesses that I will deal with in my research are multinational enterprises with multiple business units, product categories, brands, and product technologies.

2.3.5 Unilever vs. Proctor Example

To illustrate this point, let's take the case of Unilever and Proctor and Gamble, fierce and fabled competitors in the consumer products industry vertical. When I review the products in each of the product portfolios, as explained earlier, I realize that the product categories are overlapping but only partially. Whereas Unilever has several packaged foods products, Proctor has none, and whereas Proctor has over-the-counter medication and baby products, Unilever has none. Further, the ME appears to be one of the only common battlegrounds, as the two companies' geographic spread and focus on emerging markets is quite different. On what unit of analysis can these companies be such fierce competitors with each other then? The only common product categories they have include Personal Care (personal-wash, hair-care, and skin-care) and Home Care (laundry detergent, household cleaning liquid, dishwashing liquid). Products from Unilever such as Axe, Dove and Lux competing with Proctor's brands such as Pantene, Olay, and Zest. Looking further into these brands, Axe shampoo doesn't compete with Olay's body wash, and so even within brands, the axis of competition is more oriented to the product technology or usage characteristics.



Figure 2.4: Partial portfolio of Unilever brands



Figure 2.5: Partial portfolio of Procter & Gamble brands

If I focus on the personal care category (personal wash, skin care, hair care, deodorants) of these two businesses as a locus of competition, I see that the businesses compete on different levels of analysis: of course there is the overall 'firm' business model (Unilever worldwide vs. Procter worldwide) but then where they compete is actually on the country level, where business units (e.g. North America) compete with each other (i.e. European business unit does not compete with a Latin American business unit!). In my example, looking further into the details of the business models, I see that they compete on the Personal Wash sub-category (bar soaps and shower gels), I see (using logic of reduction-ad-absurdum) that the competition within this sub-category occurs by brand (Dove vs. Olay), based on complexity and decision analysis studies done by the well-known and highly reputed

strategy consulting firm, A.T.Kearney (A.T.Kearney, 2004). So then this becomes a competitive strategy and business model between the brands within the category (sub-category); however, it is unlikely that a consumer thinking of buying a shower-gel will end up changing habits and buy a skin lotion instead, and so the brand level unit of analysis really narrows to a product/technology (shower gel vs. skin lotion) unit of analysis where competition is really happening, in which trade spend is occurring, where promotion dollars are being allocated, and where the consumer behavior is trying to be impacted.

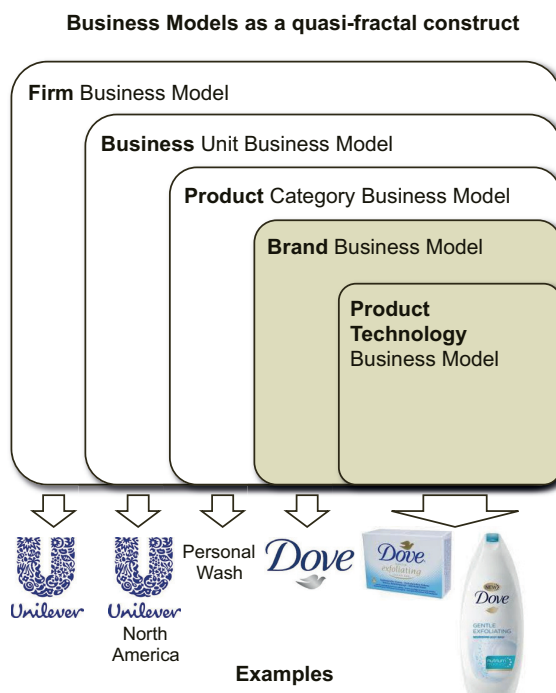


Figure 2.6: Business model units of analysis / fractals

The focal firm itself, which plays the role of the epicenter and *value coordinator* for its *network of exchange partners*, which may well overlap with the footprint of the network of exchange partners of its competitor – and in fact the degree of overlap may also define the degree of intensity of the competition between these Companies. The Company, or firm, hitherto, has been looked at as a distinct unit of analysis in business model research. However, I argue, that unless I am talking about single-product, single-geography, single-unit businesses, it is not firms that actually compete with each other but lines of business that are competing with each other, whether they be at the product-line or technology level, brand level, product category, or operating companies. Each of these levels can be considered as distinct units of analysis, and each is at a more granular level than the level of the firm. I introduce the idea that a business model is aligned with the notion of *fractals* (Hans-Jürgen Warnecke, 2012), where more granular units of analysis exhibit similar properties and characteristics as that of the firm as a whole. This idea is aligned with the notion that firms (as a whole) don't com-

pete with each other; it is their product technologies (platforms), brands, business units, and geographically oriented operating companies compete at that level.

Thus, I propose that the business model for complex enterprises can be configured at the vertex of product category or brand, or technology (usage), and geographic business unit, and functional domain. In multinational, multi-divisional, multi-category, multi-brand companies, it is not uncommon for the profit and loss (P&L) to be managed (or owned) at one axis of the organization level (and tradeoffs between the portfolio of brands at the category level) while the strategy be managed (or owned) by a different axis of the organization. Most business-specific assets (e.g. factories) may also managed at this level, and only common overheads (shared costs for administration, finance, Human Resources, Plant Property & Equipment of the headquarters, etc.) being managed at the total company level (Kates & Galbraith, 2010).

2.3.6 Business Model Units of Analysis as 'Fractals'

Organizational fractals were introduced as self-similar units of analysis in the context of the manufacturing enterprise where different units of the organization were termed as such (Hans-Jrgen Warnecke, 2011; H. Warnecke, 1991). I introduce the term 'fractals' as an appropriate term to be used in the context of the unit of analysis for Business Models configuration.

Every business must have a business model, whether explicitly designed or otherwise. However, since the scope of every business is different (some may be multi-product, others with only a single product, some global, some local, some multi-category, some multi-brand within one category, and yet others only one brand, some multi-technology, others more simple), my unit of analysis must be flexible to accommodate all these diverse characteristics. Based on several informal discussions with executives from 'complex' (Brews & Tucci, 2004) consumer products (Starbucks, SABMiller, Unilever), and industrial products companies (FMC Corporation, Bühler Group, KSB Group,), and others, and on the extant research mentioned above, I see practitioners defining the unit of analysis of a business model a company based on the following four attributes:

- Product / Service ("the offer")
- Geography
- Market Segment (which often intersects heavily with the Product offering because they are designed based on market characteristics)
- Customer Segment / Channel (which also often intersects with Product offering because of the orientation to a specific channel or consumer base, such as 'premium', 'value', or 'family').

As part of my exploratory informal interviews with practitioners regarding the unit of analysis, I performed an informal analysis of KSB Group, a pumps and valves manufacturer headquartered in Germany, and operating worldwide, conforming with my definition of 'complex' enterprise (Brews

& Tucci, 2007) to determine the appropriate unit of analysis for their business model. Based on the four aforementioned 'attributes' of the unit of analysis, I helped them plot the following hierarchical mapping showing the different 'dimensions by which they viewed their business model:

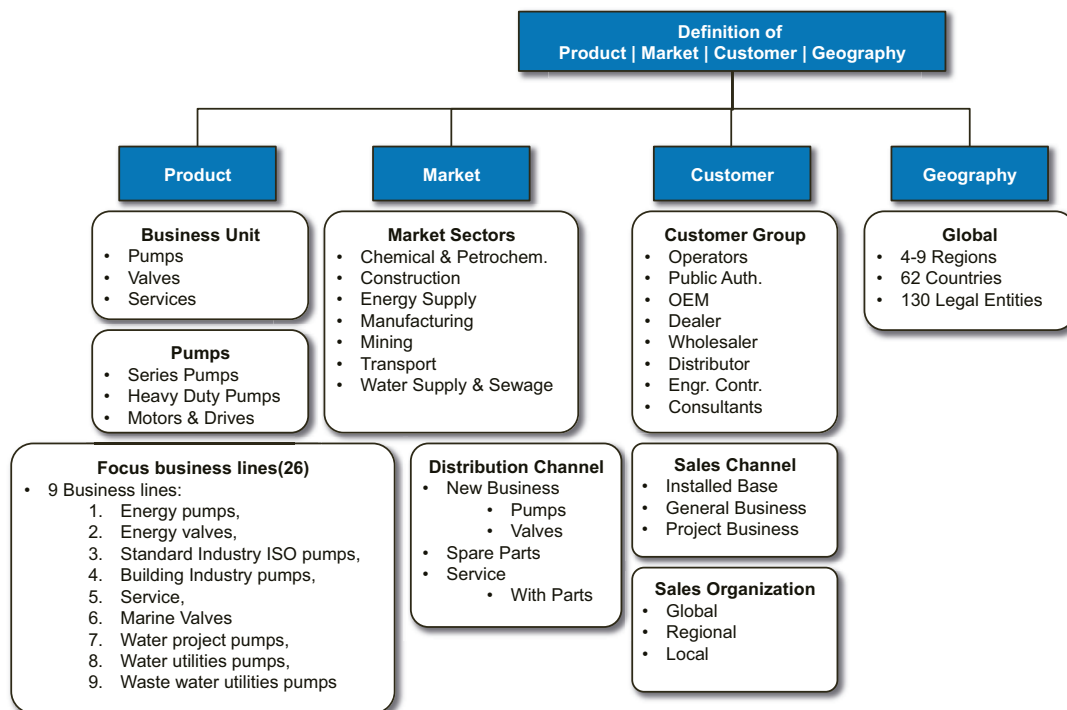


Figure 2.7: KSB business model dimensions (source: my presentation based on discussions with KSB, validated by KSB)

The **product** dimension was based first on business unit (the organization that was accountable for delivering the P&L) was divided by product line: Pumps, Vales, and Services. The 'pumps' business unit was segregated into 3 areas: series pumps, heavy-duty pumps, motors and valves. However, there were also 9 'business lines' that crossed pumps, valves, and services, where there was some sort of matrix organization, and functional reporting for sales cut across different 'lines' but aggregated reporting to a 'business unit'. These 'business lines' also intersected / overlapped with the 'market' dimension, based by-and-large on industry verticals (e.g. mining, construction, water supply and sewage)

The **market** dimension consisted of the market segments that KSB has defined for their business: chemical & petrochemicals, construction, energy supply, manufacturing, mining, transport, water supply and sewage. Whereas this is consistent with their marketing organization and market development budgeting process.

The market dimension is orthogonally aligned with the **customer** dimension: their sales and customer development organization is organized by the installed base, general business, and project-based business (which are essentially 'sales channels').

Their **geographic** dimension is divided into regions and countries. Each country has P&L responsibility, which aggregates to a regional P&L, and then finally to a global P&L. In the case of local customers, this works, but when there are multinational customers like construction companies (e.g. Holcim, LaFarge), or water companies (e.g. Nestlé), the landscape is less clearly defined.

I then worked with them to define specifically the options of the combinations of these business aggregation characteristics to configure their business model, and began mapping the options as illustrated in Figure 2.8:

Product	Market	Customer	Geography
• All Pumps	Chemical & Petrochem.	• Installed Base	• Global
• All Valves	Construction	• Operators	• Region
• All Services	Energy Supply	• Public Auth.	• Europe Central
• Pumps: Series	Manufacturing	• General Business	• Europe East
• Pumps: Heavy Duty	Mining	• OEM	• Europe West
• Pumps: Motors & Drives	Transport	• Dealer	• North Asia
	Water Supply & Sewage	• Wholesaler	• West Asia
		• Distributor	• South Asia
		• Project Business	• North America
		• EPC	• South America
		• Consultants	• Middle East & Africa (MEA)
			• Russia
			• Private Branding
			Local (Country)

BM₁

P|M|C|G₁

BM₂

P|M|C|G₂

Figure 2.8: KSB business model configuration level of analysis options (source: discussions with KSB, validated by KSB)

This table highlights the different possible combinations at which a company can articulate its business model using the 'arena' concept to determine the appropriate unit of analysis. The two examples indicated (BM₁ and BM₂) would entail fundamentally different ranges of strategic choices. BM₁ for instance, would represent the entire family of pumps as one unit in the product dimension, and would also not differentiate between sub-segments within the customer segments. In this example, the business model would treat all sub-segments within the customer segment *Installed Base* the same, without differentiating between the two sub-segments, *Operators* and *Public Authorities*. However, the market segments would be treated the same in both business models, as there is no sub-differentiation within the 'market' dimension. Furthermore, in the geographic dimension, there are 3 possible levels ('global', 'regional', and 'local'). Whereas the business thought it too abstract to create a business model at a 'global' level, they were debating whether to use the region or sub-regional level (BM₁) or the local / country (BM₂) level.

The leadership team of KSB has expressed a level of confusion in terms of trying to figure out what the right unit of analysis for configuring their business model is, with hitherto limited usable guidance from academic knowledge outlets. This exploratory analysis and interview section provided them some guidance in terms of why there was confusion and what the options were. Moreover, it confirmed the ambiguity with practitioners. There is also the perception that a company needs to choose one unit of analysis to configure the business model and understand dependencies between the components. I argue that the different units of analysis are necessary in order to configure the business model components specifically to those units of analysis. Hence, the recommendation to KSB would be to articulate their business model at multiple units of analysis.

I offer the general conclusion that businesses have multiple units of analysis, and the enterprises need to configure their business models using these multiple units of analysis. Specific components (e.g. Sales Management) might need to be configured at a more granular unit of analysis (e.g. Country) whereas more general components (e.g. the Environment) might need to be configured at a broader unit of analysis (e.g. Regional or Global). Hence, it is important to consider the enterprise as a complex model of multiple units of analysis with the business model of the enterprise as a whole configured at different levels.

Proposition 2: Business models of complex enterprises may be (re)configured using multiple units of analysis, and not just at the ‘firm’ level.

It seems unintuitive to think that the ‘firms’ at the ends of this spectrum from Penrose (1959) will be configured in the same manner. Granted, the dimensions along which they are configured (i.e. the business model components that need to be considered) may be the same, but how they are configured (i.e. what the components consist of and how they are determined) may have to be different since scopes of firm size, firm global reach (Brews & Tucci, 2004, 2007), and other material firm characteristics (e.g. product portfolio, functional capabilities, alliance partnerships, complementary assets, channel range, customer relationships, pricing models, revenue and cost models, etc.) may be quite disparate. Further, there may be specific dimensions (e.g. geography, product, business unit) that these business models may need to be configured on, which might belong to different organizational units and whose decision-making process about (re)configuration may be complex.

Further, it is not new that a complex enterprise may consist of a ‘portfolio’ of business models and not just one (Sabatier et al., 2010), but it may be that there are in fact ‘nested’ or ‘embedded’ or ‘conjoined’ relationships between business models (either conjoined in parallel to a degree or sequentially nested) when there may be more than one business model that exists within an enterprise. Whereas the notion of ‘nested strategies’ was discussed by Lafley and Martin (2013), it has hitherto not been discussed at the level of the business model.

2.4 RQ3: The Relationship Between Strategy and Business Model

Research Question 3: How does the strategic context shape the (re)configuration of a business model in a complex enterprise?

Much has been said in extant literature about the relationship (or lack thereof) between the field of strategy and that of business models. Michael E Porter (1985) introduced the notions of ‘corporate strategy’ and ‘business level strategy’ to bifurcate the concept of strategy into components that could be studied in separate streams. The subsequent literature dived into the notion of ‘business level strategy’ and studied it in great depth. I take this well-travelled road of literature and attempt to establish a relationship between the business level strategy and the business model.

It has been claimed that companies compete on the basis of their business models (Ramon Casadesus-Masanell & Ricart, 2007). Successes (e.g. FreshDirect) and failures (e.g. WebVan) of companies have been attributed to the design of their business models; the failure of competitors to reconfigure their business models to compete effectively (e.g. Netflix vs. Blockbuster), and companies not adapting their business models to emerging externalities (e.g. Barnes and Noble booksellers) fast enough have also been attributed to their success or failure. Existing research proposes the notion of a business model as being dynamic rather than static (R. Casadesus-Masanell & Ricart, 2010), in order to be able to effectively deal with demand and supply uncertainty, market variability, competitive actions, technological evolution, and other externalities.

This idea of a business model having to be dynamic requires that the business model be flexible on its different components. For instance, in a new firm, where there is no incumbent business model, this notion implies that it should build in some type of structural flexibility so as to adequately respond to internal and external factors, as well as to enable future reconfiguration as needed. For existing firms, it implies that a business model reconfiguration exercise should be facilitated through the flexibility of the dimensions of the business model. This is reflected by R. Amit and Zott (2012)’s activity system perspective which claims that BMR fundamentally consists of adding and dropping activities within the business, which is aided by the inherent flexibility of the business model due to the flexible interdependencies between the components of the business model (Siggelkow, 2002).

2.4.1 Characterizing Strategy

Strategy, Business Models, and Business Processes are presented as points along the same continuum of business operations between the conceptualization, planning and execution steps in an enterprise. I start with M. E. Porter (1996)’s perspective on competitive strategy as an organization’s choice of performing a specific set of activities to deliver a “unique mix of value”, in order to compete. A strategy describes the link between the firm and its industry environment, articulating how it will deploy its resources to achieve its long-term goals (Grant, 2010).

Lafley and Martin (2013) describe their view of strategy in practical terms: a formulaic articulation of the “winning aspiration” which provide guidance and direction for a business; defining the “playing field” which provides the business direction as to where it will compete in terms of geography, product range, market segments, customer channels, and production stages. In addition, and aligned with other strategy scholars, there is a unique value proposition and a distinct competitive advantage. I am using the Lafley and Martin (2013) ‘waterfall’ framework of defining a strategy. They start with the ‘winning aspiration’, then define ‘where I will play’, which embodies the purpose of the enterprise, encompassing the specific business choices of product, market, geography, and customer, and then defining ‘how I will win’, which defines the value proposition to customers as well as what the competitive differentiator is.

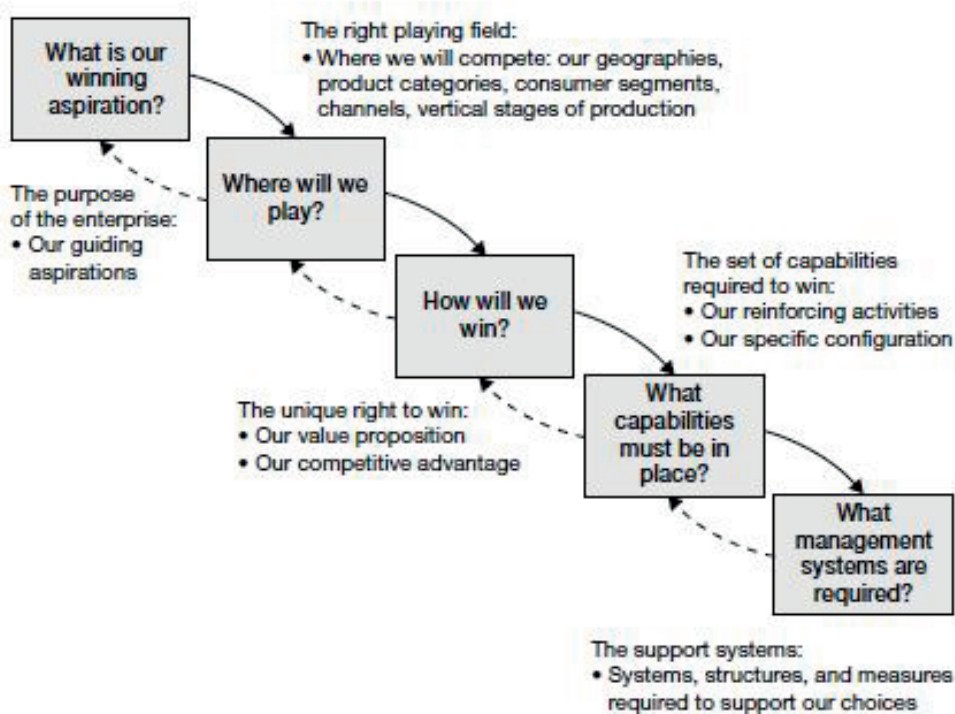


Figure 2.9: Cascading strategic decisions (Lafley & Martin, 2011)

2.4.2 Relating the Notions of Strategy and Business Model

Seddon et al. (2004) have provided some diagrammatic representations of the different schools of thought in relevant literature regarding the conceptual relationship between strategy and business models, with relevant literature searches. Firstly, I see in Figures 18A and 18B that the two concepts are linked to varying degrees, but retain their mutual distinction for the most part. Magretta (2002) and Mansfield and Fourie (2004) discuss that the role of the strategy describes the competitive advantage and play of a firm, the business model focuses more on the mechanism for value

creation of a business. A. Pateli and G. Giaglis (2003) and Al-Debei and Avison (2010) have presented the business model as the ‘missing link’ between business strategy and business processes, and have also been interpreted as different levels of abstraction of each other. They go on to state that conceptually both deal with the same issues, i.e. the logic of the business, but whereas strategy deals with the competitive aspect of the business, the business model deals with the logic of value creation and capture. Secondly, in Figure X_C, I see that the terms are used synonymously (Abd Aziz, Fitzsimmons, & Douglas, 2008; R. a. R. Casadesus-Masanell, J. E., 2009). Lastly, I see in Figure X_D and X_E, that, either the business model is assumed to be enveloped within the strategy concept (Michael E Porter, 1987), or the converse, where the strategy is included within the business model concept (A. Pateli & G. Giaglis, 2003).

In each of these relationships shown in Figure 2.13, the concepts of strategy and business model seem to be in competition over dominance or overlap, in a fight over ‘intellectual territory’ or relevance.

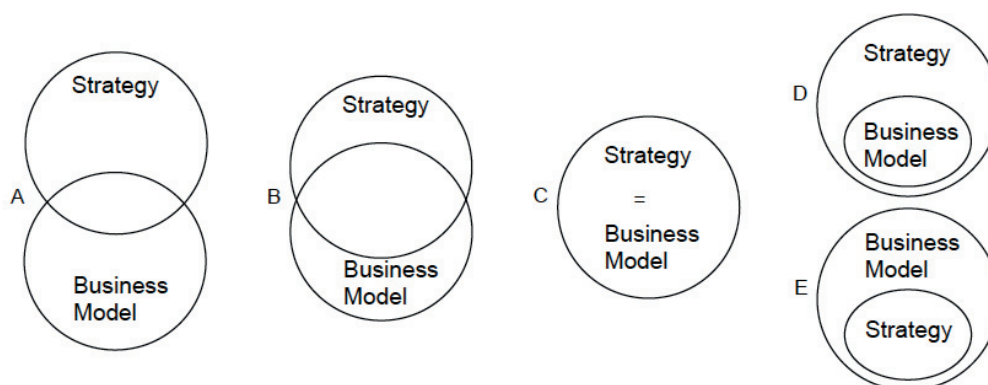


Figure 2.10: Different characterizations of the relationship between the notions of strategy and business model (source: Seddon et al. (2004))

2.4.3 Strategic Context of Business Models

In order to understand the strategic factors better, I reviewed the existing literature from the 1970s and 1980s when there was a business lifecycle and portfolio-oriented thrust in the study of competitive strategy. Some of the papers that stood out from that period were the conceptual and empirical papers linking lifecycle and market share with firm performance, authored by Carl R. Anderson and Zeithaml (1984); Hambrick (1983); Hambrick, MacMillan, and Day (1982); Hax and Majluf (1983); (Hofer, 1975); MacMillan et al. (1982). The constructs used to measure the firm characteristics were called ‘strategic attributes’. The attributes were said to be representative of the firm strategy. I have interpreted these attributes as business model components.

The data for the empirical research is drawn from the Profit Impact of Marketing Strategies (PIMS) database, a large ME-centric longitudinal database of performance of 200 firms, which measures at the business unit level (about 2,000 business units) over a multi-year period (Hambrick et al., 1982;

MacMillan et al., 1982). For more information on the technical nature of the database, see Schoeffler (1977). Any database of this nature will have strengths and weaknesses, which can be explored in more depth in Carl R Anderson and Paine (1978), and Hambrick et al. (1982).

Using growth and market share as independent variables, and firm performance as the dependent variable, Hambrick et al. (1982) proposed strategic attributes of the firm that impact performance. Performance was characterized by 4 measures (Hambrick et al., 1982):

- Return on investment (ROI) on average for 2 preceding years: pretax income minus allocated corporate overhead costs, as a percent of average investment including fixed and working capital at net book value.
- Cash flow on investment (CFOI) (average of last two years): After-tax income (estimated at 50 percent of pretax income) minus changes in net investment, as a percentage of average investment.
- Return per risk (RPR): Average ROI divided by the variability of ROI (calculated as the sum of the absolute differences between the four-year average ROI and each year's ROI).
- Market share change (MSC): The change (annualized via least squares) in this business's average share of the market (expressed as a percentage of the market) for the four-year period.

The strategic attributes are described below, with their rationale, and their statistical significance in terms of explaining firm performance:

Strategic Attributes	Rationale and Explanation	Strategic Attribute Description (implying basis of constructs)	Statistical Significance	
			Life Cycle (Low/High Growth)	Market Share (Low/High Relative Share)
Resources and Resource Usage	<i>It comes as no surprise that high share businesses have substantially more of their markets' production capacity than do low share businesses. High share businesses also utilize their capacity at a higher rate than do low share businesses, probably reflecting the leaders' relative ease in securing orders to fill capacity. The lower utilization rates of low share businesses indicate that those businesses either built capacity in earlier days when they held or anticipated higher shares or built capacity recently as part of a plan to gain share. That plant and equipment newness (net P&E/gross P&E) varies according to the product life cycle, but not according to market share, suggests that low share businesses typically have not engaged in recent capacity buildups, but rather they simply do not have the market power</i>	Investment / Revenue	***	**
		Plant and equipment newness	***	
		Capacity utilization	*	**
		Capacity / market size		***
		Sales / employee	***	**
Working Capital Management	<i>An indicting explanation for the relatively high inventories held by low share businesses is that these businesses are less adept at managing their inventories, which in turn raises the question of whether they are more poorly managed in general. Their low shares could prompt such a speculation, but the data from this study do not necessarily support it. Another, more charitable, explanation for the high inventories held by Wildcats and Dogfish is that they attempt to compete, using those inventories for ready delivery. This is another example of a relatively mundane competitive device, aimed at what Katz (1970) would call "going for the crumbs"-those customers in which the dominant players have little interest</i>	Receivables / revenue	**	
		Inventory / revenue		***
Domain	<i>The term "domain" is used as Thompson (1967) did, to refer to the array of products and markets a business stakes out for itself. Because the main domain variables in the PIMS data base are expressed in terms relative to the competition, no differences were expected across stages of the life cycle and, in fact, none were observed. Differences in the domain breadths of low and high share businesses were significant. Stars and Cash Cows reported more relative product line breadth, customer type breadth, and relative number of customers than did their low share counterparts. Because this is a cross-sectional study, there is no way of determining whether a broad domain is a means of gaining share, or whether domain is a means of gaining share or whether domain broadening is an activity typically pursued businesses that have already achieved dominance in a segment of a market.</i>	Relative product line breadth		***
		Relative customer type breadth		***
		Relative numbers of customers		***
		Customer fragmentation		
Vertical Integration	<i>Just as high share businesses have broader domains than low share businesses, so do they also tend to be more vertically integrated. Their value added/revenue figures are higher than for low share businesses. And they indicate significantly more vertical integration (both backward and forward), relative to their competition, than do low share businesses. As with domain breadth, there is no way of knowing from these data whether vertical integration is a cause or an effect of high market share. A reasonable speculation is that high share businesses tend to integrate vertically to perpetuate their growth and that they integrate because of their scale of operations makes it relatively difficult to be assured of outside supplies in the quantities and at the prices they desire (Williamson, 1975; Kreiken, 1980).</i>	Vertical Integration		**
		Relative integration backward		***
		Relative integration forward		**
Expense Structure	<i>Growth businesses tend to spend proportionately more on what might be called "future-oriented" expenses, that is, product R&D, process R&D, advertising, and sales force, than do mature businesses. Three factors may be creating this difference. First, managers of growth businesses may tend to view their businesses as having longer, brighter futures than do the managers of mature businesses, and thus they are more willing to incur costs that will have an impact only in the future. This is not a convincing rationale. Sales force and advertising expenses presumably have some important near and current term payoffs even for mature businesses. A second possibility is that many of these mature businesses are being managed for cash throwoff, according to BCG prescriptions, and therefore nondirect expenses are minimized. A third interpretation stems from the semifixed, rather than variable, nature of most of these "future-oriented" expenses. Thus, in growth businesses, which may have smaller revenue bases than mature businesses, these expenses take on disproportionate magnitude when expressed as a percentage of sales. This line of reasoning also may explain why low share businesses (with relatively small revenue bases) have higher sales force and advertising expenses than do high share businesses.</i>	Manufacturing / revenue	**	
		Product R&D / revenue	***	
		Process R&D / revenue	***	
		Sales force expense / revenue	**	*
		Advertising & Promotion / revenue	**	**
Competitive Devices	<i>High share businesses indicate the relatively low direct costs that should accrue to them due to their accumulated experience (Henderson, 1979; Hofer & Schendel, 1978). The typical prescription for high share businesses in the growth stage is for them to drive costs down and to price at discouragingly low levels. However, the Stars in the data base had relatively high prices, perhaps reflecting that they already were established leaders instead of struggling for leadership. More broadly, it warrants noting that both Stars and Cash Cows are reaping double benefits from their market power: relatively low costs and relatively high prices.</i>	Sales from new products	***	
		Relative sales from new products	***	
		Relative prices		***
		Relative direct costs		***
		Relative image		***
		Relative product quality	***	
		Relative services		***
		Relative advertising expenses		***
		Relative promotion expenses		***
Relative sales force expenses		***		

*p<.05 | **p<.01 | ***p<.001

Table 2.4: Strategic attributes of the growth/share matrix

As I can see, the different strategic attributes were able to successfully (in terms of statistical significance) explain performance of the firm in terms of either firm growth or firm market share or both. Going down one level in terms of granularity, the study also explains the significance of the strategic attributes in terms of performance in each of the four quadrants of the growth share matrix.

		Business Model Components																	
		Enterprise Financial Model					Internal Operating Model					Network Partner Model							
Strategic Attributes	Strategic Attribute Description (implying basis of constructs)	Revenue	Cost	Cash	Asset & Investment	Ownership	Risk	Portfolio	Sales	Marketing	Supply Chain	Organization	Coordination	Customer	Supplier	Complementer	Society	Environment	Consumer
Resources and Resource Usage	Investment / Revenue	X			X														
	Plant and equipment newness									X								X	
	Capacity utilization							X											
	Capacity / market size									X	X								
Working Capital Management	Sales / employee							X				X							
	Receivables / revenue	X		X															
Inventory / revenue	Inventory / revenue	X		X															
	Relative product line breadth							X											
Domain	Relative customer type breadth								X					X					
	Relative numbers of customers								X					X					
	Customer fragmentation													X					
Vertical Integration	Value added / revenue							X						X			X	X	X
	Relative integration backward										X				X	X		X	X
	Relative integration forward										X			X		X	X	X	X
Expense Structure	Manufacturing / revenue	X	X								X								
	Product R&D / revenue	X	X					X											
	Process R&D / revenue	X	X										X						
	Sales force expense / revenue	X	X						X										
	Advertising & Promotion / revenue	X	X							X									
Competitive Devices	Sales from new products	X						X	X	X									
	Relative sales from new products	X						X	X	X									
	Relative prices	X																	
	Relative direct costs		X																
	Relative image				X					X									
	Relative product quality										X							X	X
	Relative services							X								X			
	Relative advertising expenses		X							X									
	Relative promotion expenses		X						X										
Relative sales force expenses		X						X					X						

Table 2.5: Mapping of 'strategic attributes' to BM Beacon component framework

In order to bring this home in terms of my characterization of the business model, I mapped the strategic attributes to my business model components in the table below. I will stop short of trying to explain firm performance in terms of my proposed components of the business model, as the scope of this thesis will not go that far. However, this qualitative mapping suggests that the business model components can be used to determine the configuration of the enterprise in terms of each quadrant of the growth share matrix.

Proposition 3: Business model configuration is based on the competitive context (location on the growth / share matrix, as shown in Figure 2.11) of the business strategy. I can configure a specific 'business model blueprint' for strategies in each quadrant. I introduce the notion of declaring a business model 'archetype' for each of the competitive contexts (the four quadrants). Whereas it may sound complicated and may imply that for a given business having so many business models, but I must keep in mind that using my concept of the 'master configuration.' With this in mind, I can imagine some proportion of the business model components configured in the same way, and the rest being custom configured for the specific competitive or strategic context.

These archetype business models can then conceivably become the target 'future state' when the business needs to reconfigure the business model based on competitive dynamics or shifting marketplace. The advantage of this is that businesses don't have to figure out where they are going on the way there, they already have the destination mapped out and understood, and the roadmap is also something that can be created as a sort of contingency plan that can be implemented if such a reconfiguration needs to happen.

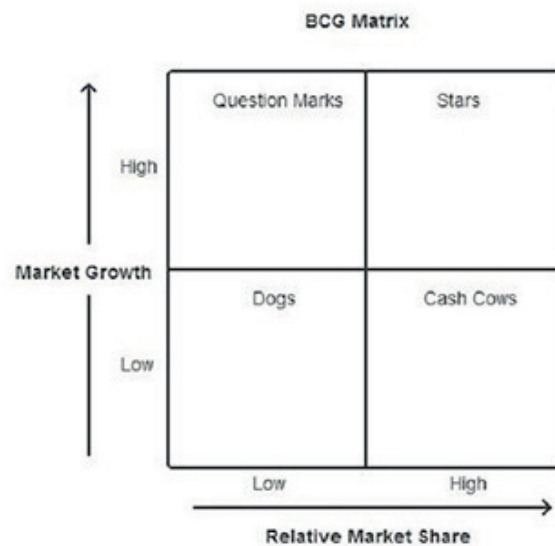


Figure 2.11: Growth / Share Matrix (Hedley, 1977)

Chapter 3 RESEARCH DESIGN

My goal is to test and validate my propositions through the case study method. My choice of method (Yin, 2009) is a case study because I am focusing on contemporary events within an enterprise (eliminating a Historical or even Archival Analysis methods), I do not require control of behavioral elements (eliminating experiments as a method), and the type of insight I wish to gain are not amenable to typical survey questions as they require more explanation with several follow ups or clarifications to really get to the bottom of what the business is doing. Hence the case study is the most appropriate method for my purposes.

3.1 Case Study Method

Yin (2009) defines a case study as (1) *an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident*, and (2) *coping with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis*.

According to Schramm (1971), *a case study is centrally concerned both with time and with description. It seeks to record why a given decision was taken, how it was worked out, and what happened as a result. The decision may be one to establish a project -- for example, carry out an educational reform. A case study of any size will deal with a number of decisions taken in the course of carrying out the original decision, will describe the situations in which they were taken and the procedures involved in carrying them out, aid the effects of doing so. It is therefore free to cover a wide time span and to describe a variety of situations and relationships. But (except as it reports survey data) it cannot describe with the controlled reliability of a survey, nor (except as it reports experimental data) establish causal relationships over time with the controlled rigor of an experiment.*

I have modeled my case based on the principles and framework provided by Yin (2009) as seen below. I have designed my case as a Single-Embedded Case Design (lower left in the framework shown in Figure 31), with multiple units of analysis. Since this is a case study based on a single enterprise, albeit different units within it, I aim to make it 'generalizable to theoretical propositions rather than to a populations or universes', i.e. make an 'analytic generalization' and not a 'statistical generalization' (Yin, 2009).

I have used my case study for multiple objectives:

- To validate my propositions based on my research questions
- To provide insight into the processes and mechanisms for business model reconfiguration within Unilever
- To lend support to the applicability of the choice of contingency theory as the appropriate lens for my propositions

In order to strengthen the case study, I have compiled a ‘full variety of evidence’ (Yin, 2009) as highlighted in the table below.

Evidence Category	Type of Evidence	Evidence Catalog
Documents	Reports Company Website News Articles Journal Articles Videos Executive Interviews	Annual Report Internal Strategy Documents Company Presentations Analyst Observations Consulting Firm Reports Recorded Third Party Interviews
Artifacts	Photographs Product Samples Videos Executive Interviews	Special Packs 3PM Flow Diagrams Recorded Third Party Videos
Interviews	Interview Recordings	40 recorded interviews conducted in person or over web-meetings
Observations	Participant Observation	Over 10 years of direct consulting experience globally

Table 3.1: Full variety of case study evidence (Yin, 2009)

3.2 Approach

I conducted the case study following an inductive approach, using the process of theory building from case study research, as developed by K. M. Eisenhardt (1989). Whereas this research does not culminate in the generation of a theory (Gersick, 1988; Harris & Sutton, 1986) per-se, it paves a path *toward* the generation of a mid-range theory (Merton, 1949) that business model configuration is a moderator between business strategy and firm performance, as illustrated in the conceptual framework below in Figure 3.1.

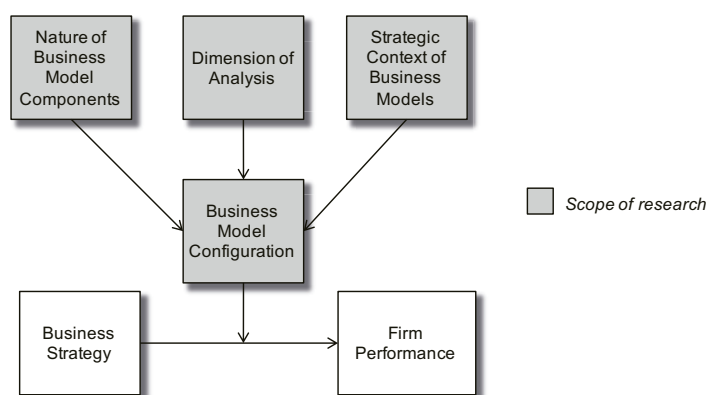


Figure 3.1: Conceptual framework of research

The case study, however, is designed to provide rich description (Kidder, 2011) of the mechanics of how business models are configured or reconfigured to achieve specific objectives. In Table 3.2, I highlight the procedure that was used to develop the case study and the thread of logic that drives me towards the theoretical objective.

Table 3.2: Roadmap for Theory Building from Case Studies

<i>Step</i> <i>Adtoped from (Eisenhardt, 1989)</i>	<i>Activity</i>	<i>Procedure Followed and Thread of Logic in this Resear</i>
<i>Getting Started</i>	<ul style="list-style-type: none"> • <i>Definition of research question</i> • <i>Possibly a priori constructs</i> 	<p>I used my three research questions as the basis of the case study, to provide me with an approximate framework and scope of topics that I would cover. Whereas the questions could have been posed to any business, I took advantage of my prior industry knowledge to select the organization to be approached, and prior insight as to who to ask the questions to in terms of levels of hierarchy, functional domains, locations, categories, and business units.</p> <p>Since I have conducted a variety of projects as a consultant at Unilever North America, I had a good sense of the company's structure and organizational dynamics, decision framework, and a variety of functional knowledge. I also knew many of the interviewees from my prior work with them so as to give me knowledge of the logic and tone of questions to pursue. Further, this experience gave me the approximate guidelines for the a priori constructs to use, having experienced the business first-hand.</p> <p>Further, the research questions led me to define a priori constructs that helped to shape the initial design of the research. Through triangulation using different sources of data specified herein, I was able to converge on the key themes, constructs (i.e. business model configuration) and variables (i.e. the specific configuration of business model components that are relevant to the business).</p>
<i>Selecting Cases</i>	<ul style="list-style-type: none"> • <i>Neither theory nor hypotheses</i> • <i>Specified population</i> • <i>Theoretical, not random, sampling</i> 	<p>The chosen population of data was the Unilever North America business, mostly consisting of the US business, a USD 15 billion annual revenue business with 3 of 4 categories (Homecare category was divested in the US many years ago), Personal Care, Foods, and Refreshments. The three embedded cases focused on each of the categories. I relied on <i>theoretical sampling</i> of these categories as they represent different aspects of the overall business in terms of growth and margin. The Personal Care business is a high growth / high margin business; the Refreshments business is low growth but both low margin (in-home) and high margin (out of home), and the Foods business is low growth and high margin. The only situation not covered was the high growth and low margin, which is where most of the innovations fall in their initial stages. Whereas this was not explicitly covered, there are elements of all the three categories which fit within this quadrant (innovations).</p>
<i>Crafting Instruments and Protocols</i>	<ul style="list-style-type: none"> • <i>Multiple data collection methods</i> • <i>Qualitative and quantitative data combined</i> • <i>Multiple investigators</i> 	<p>The case study included multiple data collection methods, including the traditional sources such as interviews, observations, and internal archival data. Triangulation was made possible through external sources such as third-party news articles, analyst reports, and former employees. Whereas most of the evidence and sources were qualitative in nature, I was able to collect quantitative data for the Personal Care business post-reconfiguration, lending support to the specific effects of the reconfiguration. I was the only one collecting and analyzing the data first-hand, but used my research colleagues at EPFL to review, question, discuss, interpret, and analyze the data collected, thereby conforming to broadly to the recommendation for multiple researchers analyzing the information. The instrument that emerged was a general framework for the business model components that was</p>

		corroborated from literature sources.
<i>Entering the Field</i>	<ul style="list-style-type: none"> • <i>Overlap data collection and analysis, including field notes</i> • <i>Flexible and opportunistic data collection methods</i> 	Since the interviews and data collection covered a period of several months, there was a chance to overlap data collection activity with data analysis activity, thus enabling me to fine tune the relevance of certain variables. Further, the interviews yielded data that was directly related to my research but also provided me background knowledge, historical shifts in the business, causal factors, longitudinal perspectives, corporate acquisitions and divestitures, and general personal views about the business through the lens of the interviewees. Opportunistic discussions with executives from other similarly sized businesses that were completely unrelated to the case study but from completely different industries allowed me to vet some of my analysis through the lens of seasoned, experienced leaders to validate what I was observing and analyzing.
<i>Analyzing Data</i>	<ul style="list-style-type: none"> • <i>Within-case analysis</i> • <i>Cross-case pattern search using divergent techniques</i> 	Over the course of the case study, I have gathered over 500 pages of interview notes, over 100 pages of archival data, and several relevant artifacts. Through articulate coding algorithms and coding techniques using technology, I was able to analyze these notes for patterns which emerged from within the data. Cross-case analysis from the embedded cases enabled me to extract patterns of business model reconfiguration across the different categories within the US business unit.
<i>Shaping Hypotheses</i>	<ul style="list-style-type: none"> • <i>Iterative tabulation of evidence for each construct</i> • <i>Replication, not sampling, logic across cases</i> • <i>Search evidence for 'why' behind relationships</i> 	The analysis enabled me to shape the constructs more accurately and enabled me to converge on the key components of business models that were relevant for Unilever North America, through an iterative process. Some components selected from within the body of literature were eliminated and others were added and aggregated or disaggregated through this hermeneutic process. The approach was to replicate the logic across the embedded cases to understand the 'why' behind the motivations of the business model configuration and the mechanics of business model reconfiguration.
<i>Enfolding Literature</i>	<ul style="list-style-type: none"> • <i>Comparison with conflicting literature</i> • <i>Comparison with similar literature</i> 	There is a sparse base of literature addressing complex enterprises, but a plethora of literature on the conceptual and definitional literature on business models and how they are configured. The case study adopted the published set of components of business models and how they were defined. There are also only a few empirical studies on business models that link the configuration of business models to firm performance (e.g. Cucculelli, Marco, & Bettinelli, Cristina. (2015); Frankenberger, Karolin, Weiblen, Tobias, & Gassmann, Oliver. (2013). There are no conflicting findings within extant literature that I was able to find. Whereas the research corroborates extant findings, the body of literature does not deal with complex enterprises and hence the findings in this case study suggest that the extant literature also supports the findings in this case study towards complex enterprises.
<i>Reaching Closure</i>	<ul style="list-style-type: none"> • <i>Theoretical saturation when possible</i> 	Whereas this case study was limited to one company, analyzing three embedded cases within the scope of the overall study, additional research was done on other companies in a different but related industry (retail; but not at the same level of academic rigor), in order to build a body of evidence that drives towards, but falls somewhat short of proposing conclusively the theory suggested.

3.3 Data

I conducted an empirical study at consumer products company, Unilever. I focused on the North American division, and interviewed 35 employees in a range of different functions such as Sales, Supply Chain, Finance, and Marketing, and with scope of responsibility across different categories and brands of the business. I selected Unilever as a case in point because of their maturity in understanding and articulating their own business model, as depicted in an entire dedicated section of their annual report for 2014. In addition, having worked with different functional teams all over the world with the company since 2002 on a consulting basis, I had a rare and intimate knowledge of the

business to have in-depth conversations with the interviewees and have first hand knowledge of their experiences in order to triangulate the findings through cross-referencing with other people as well as through publicly available information as well as internal company collateral.

3.4 About Unilever

Unilever is a consumer goods multinational business with a wide-ranging portfolio of products within the Foods, Refreshments, Home Care, and Personal Care categories, on a worldwide basis. According to their corporate website (www.unilever.com), *'from long-established names like Lifebuoy, Sunlight and Pond's to new innovations such as the Pureit affordable water purifier, my range of brands is as diverse as my worldwide consumer base. Unilever has more than 400 brands, 13 of which generate sales in excess of €1 billion a year. Many of these brands have long-standing, strong social missions, including Lifebuoy's drive to promote hygiene through hand-washing with soap, and Dove's campaign for real beauty.'* Some of their popular brands from their portfolio are depicted below.



Figure 3.2: Partial portfolio of Unilever brands

Unilever's 2014 annual revenue was €48.4 billion, and is on an upward trend, of which developing and emerging (D&E) markets now account for 57% of their business. Unilever has 13 brands with sales of more than €1 billion a year, and more than 172,000 people work for Unilever. The business is the number 1 fast-moving consumer goods employer of choice among students in 26 countries, and 43% of my managers are women, demonstrating a strong gender equality and diversity orientation. In terms of social responsibility, Unilever has reached about 303 million people by the end of 2013 through their programs on hand-washing, safe drinking water, oral health and self-esteem. In terms of environmental responsibility, Unilever has reduced their waste impact by around 11% since 2010. In terms of environmental sustainability, about 48% of their agricultural raw materials were sourced sustainably by the end of 2013 (Unilever, 2014).

3.5 Outline of Relationship With Unilever

I have had a long-term relationship with Unilever. I was once employed in a Supply Chain Capacity Planning Management role for their North American business unit between 1995 and 1997. I have also had Unilever as a global client for my consulting firm, Equus Group LLC between 2002 and 2010, when I disengaged from the consulting firm. There is no conflict of interest since there are no business or financial transactions that are based on this case study.

I have had a long consulting relationship with Unilever for its worldwide operations (including the North American business in great depth). I understand the political landscape, the decision-making processes, the organizational hierarchy, the characteristics of the individuals and teams involved, group dynamics between functional areas, and average capability levels (skills, competences) of individuals, teams, categories, and functional groups. This rich background knowledge serves me well to more confidently choose the right interviewees, and objectively frame the case study for Unilever.

I ensured that I steered clear of judgment and bias stemming from my relationship and privileged knowledge of Unilever by designing the interview and analysis protocol with mindfulness to avoid these pitfalls.

3.6 Main Case

The main case is about Unilever North America, and specifically about the United States country cluster, which dominates the North American business unit. The main case examines and maps at the Unilever business model, as viewed both globally as well as from the North American business lens. This study of the business as a whole helps me to understand the following aspects of the business model:

- The business strategy of Unilever and Unilever North America
- The relationship between the strategy and the business model of Unilever North America
- The various components of the business model and their interrelationships
- The units of analysis that the business model is comprised of

3.7 Embedded Cases

I am interested in three of Unilever's decisions about (re)configuration of their business model(s): to explore and explain why these decisions were taken, how the decision was transformed into operational reality of configuration or reconfiguration, and (when data was available), to explain what happened as the outcome. The decisions that I am interested in are to do with business model (re)configuration in an incumbent complex enterprise, and in this case are three specific decisions:

3.7.1 Special Packs

Two years ago, Unilever recognized that retailers were looking for more custom packs to differentiate themselves in the market, but the lead time on these for Unilever was not aligned with customer needs. This led to Unilever reconfiguring its business model for the Personal Care category by the creation of a *Special Packs* group, which is an integrated outsourcing relationship with the Menasha Corporation to accommodate this customer-driven need. This embedded case highlights the decision-process for the creation of this group, the business model components that were involved in this reconfiguration, and the ex-ante vs. ex-post configurations of the business model to highlight the shift. The *Special Packs* team is a specific cross-functional team within the Unilever North American business that handles all the categories and deals with only specific types of packs that are complex combinations of display, form, type, and size of primary finished goods. The unit of analysis for this embedded case is 'cross-functional team'.

3.7.2 Baking, Cooking, Spreading (BCS) Company

This embedded case describes the thought process from senior leadership in the form of an interview and analysis of the reconfiguration of the Unilever business in North America to accommodate the carving out of the *Baking, Cooking, and Spreading (BCS)* company from the fully embedded *Spreads* category to promote growth and innovation. This offers me a different perspective from the first embedded case of *Special Packs* because it is driven from within the organization vs. being driven from the external partners (e.g. customers). This embedded case is that of the Baking, Cooking, Spreading (BCS) company which is a standalone business within the Unilever worldwide business, of which I will look at the North American unit of the BCS company, with the unit of analysis of the business unit or division.

3.7.3 Ice Cream

There is a duality within the business model of the ice cream category, whereby for the same consumer, but based on different 'moments of truth' (Löfgren, 2005) of the usage of the product. Based on the two major usage 'moments of truth', of consumers either planning their purchases of ice-cream for anticipated consumption ('In-Home' moment) or impulse consumption ('Out-Of-Home' moment), I shed light on the convergence and divergence between the configuration of these two business models. This embedded case is being analyzed at the unit of analysis of 'Category'.

3.8 Components of the Research Design

Based on Yin (2009), a case study research design consists of the following 5 components:

- The questions of the case study
- The propositions
- The unit of analysis

- The logic linking the data to the propositions
- The criteria for interpreting the findings

3.8.1 The Questions of the Study and the Corresponding Propositions

The study had 3 main questions:

1. How is the Unilever business model configured currently? Which components of the business model are more central vs. more peripheral? Has this changed over time?

In this question, the idea was to obtain insight into the few components that were core to the business model, and were the drivers of the decisions to configure the other components. The new CEO has been at Unilever for about 7 years, and is the first CEO to be appointed from outside of the company. There have been several changes to the business made by him, and I hope to also gain insight into what might have changed during this period of transition.

2. How does the business make decisions in terms of reconfiguration? Who are the different stakeholders in the decision-making process? How does the (re)configuration occur? What are the results?

Unilever is a complex business; it operates with more than 400 brands within 4 main product categories (Refreshments, Home Care, Personal Care, Foods), with product sales across 190 countries, with 150 business units, and the normal functional verticals such as Research and Development (R&D), Finance, Sales, Supply Chain, Finance, Marketing, Human Resources, and Enterprise Technology. I want to gain insight into the unit of analysis of the business model(s) through the understanding of how different stakeholders make different decisions and what 'level' are these decisions made at.

3. How does the strategic context of different aspects (categories / brands) of the business influence business model (re)configuration?

This question helps me to gain further understanding of the relationship between strategy and business models, with examples from the business. It also helps me to drive towards a new framework for decision-support of how to configure business models.

The propositions have been included in Chapter 6: Discussion, and expounded upon with the findings and analysis through the framework introduced in Chapter 5: Beacon.

3.8.2 Case Study Unit of Analysis

The single case is that of Unilever North America, and embedded within are the three specific cases are that of (1) the Special Packs group, (2) the BCS Company, and (3) the occurrence of two distinct, different business models for the same category – i.e. Ice Cream.

The Special Packs group is a specific cross-functional team within the Unilever North American business that handles all the categories and deals with only specific types of packs that are complex combinations of display, form, type, and size of primary finished goods. The unit of analysis for this embedded case is 'cross-functional team'.

The second embedded case is that of the Baking, Cooking, Spreading (BCS) company which is a standalone business within the Unilever worldwide business, of which I will look at the North American unit of the BCS company, with the unit of analysis of 'firm'.

The third embedded case is that of the Ice Cream business; this category operates simultaneously with two distinct business models – one for the 'in-home' (IH) consumption (e.g. 1L tubs bought in grocery stores / supermarkets, suggesting a planned consumption at a future time period in one's home), and one for 'out-of-home' (OOH) consumption (e.g. cones, sticks, and bars, bought when one is outside the house, typically on impulse). These two distinct models operate with the same consumer and with the same 'back-end' supply chain, but otherwise distinct configuration of the remaining components.

3.8.3 The logic linking the data to the propositions

The aforementioned propositions are linked to the data in different ways. For the main case study, the questions posed were developed ex-ante, and I briefed the interviewees on the questions at the time of the interviewee, to give them the opportunity to respond. I was aware of the *special packs* group ex-ante, and developed specific questions for the particular interviewees that were involved with this reconfiguration exercise. However, I learned about the *Baking, Cooking, and Spreading (BCS) Company* after I had started the interview process, and developed specific ex-post questions in order to explore and explain this phenomenon in more detail. Similarly, the *Ice Cream Business duality* came to light in the analysis phase of my case study, and was important and relevant enough in terms of the dynamics of configuration of the business model that I wanted to highlight it as an embedded case.

I also ensured that the units of analysis of the case were aligned with the questions being posed to the interviewees, and the results were analyzed at the same unit of analysis, in order to ensure that the findings were valid and coherent vis-à-vis the case study design.

3.8.4 The criteria for interpreting the findings

The criteria for interpreting the findings were multi-layered. First, I wanted to look for bias in terms of cross-functional responses as well as organizational hierarchy in order to tease out whether level or function matters in terms of how the interviewees responded to the questions. Yin (2009) emphasizes that for case studies, an important criteria for interpreting findings is to address a rival explanation of one's findings, and how one should build in rival explanation into the case study design instead of addressing them ex-post (which starts to justify and design a *future study*). I have built in

the room for alternate explanations through my interview process, which was designed as a semi-structured interview with open-ended questions that did not prompt a pre-conceived, single line of reasoning but left it open to the interviewee to introduce rival explanations. In this, I have met the criteria for interpreting the findings.

3.9 Case Study : Interviews

3.9.1 Interviewee Selection and Profile

I interviewed 35 people across different categories of the Unilever North America (NA) business. I selected the interviewees based on my previous knowledge of them in the business consulting relationship I have had earlier (since 2002), and in most cases I have known the interviewees for at least 5-8 years. Based on this relationship, I believe that this group of interviewees is very knowledgeable about the business, and who would discuss the business model of Unilever with me with a great degree of trust and candor in their commentary.

Based on these criteria, most of the interviewees are in the North American business unit, and most of the interviewees are from the Supply Chain function, which includes 4 sub-functions of Planning, Sourcing / Procurement, Manufacturing, and Distribution / Customer Service, which are categorized based on the SCOR model (Stephens, 2001). I also selected the interviewees based the relative level of people interviewed within the hierarchy of the organizational structure, ranging from Manager through Senior Vice President. Most of my interviewees are Directors, many of who have climbed the ranks from the Manager (or even Analyst) position, which provides a depth of knowledge that might not otherwise be attainable. Similarly, the Vice Presidents that I interviewed also rose up the ranks from Managers through Directorships through to the Vice Presidency role, again affording them a unique perspective through different lenses over time. The same positional ascendance is seen with the Senior Vice Presidents that I have interviewed.

Interviewee Profile	Level	DIR	VP	SVP	Total
Scope & Function	MGR				
▼ NorthAm	9	14	1	2	26
Supply Chain	2	5			7
Coordination	2	3			5
Customer	2	2	1		5
Marketing	1			2	3
Supplier	1	2			3
Sales	1	1			2
Finance		1			1
▼ LatAm		2	3		5
Supply Chain		2	3		5
▼ Global			1	1	2
Supply Chain			1	1	2
▼ Americas			1		1
Supply Chain			1		1
▼ Europe			1		1
Supply Chain			1		1
Total	9	16	7	3	35

Figure 3.3: Interviewee profile

3.9.2 Interview Methods and Data

I reached out to the interviewees via electronic mail, in a letter describing the motivation of the interviews. The interviews were conducted as semi-structured interviews, and conducted in three locations – Englewood Cliffs, NJ (USA), Schaffhausen (CH), and over web-conferences, when the schedules or budgets did not permit travel. The letter of request was sent in February - March 2015, and the interviews were conducted in the March – May 2015 timeframe. In all cases, the interviews were recorded and transcribed. The agreed protocol with the interviewees was to send them a transcript of the discussion and allow them to advise me on what information was confidential and not to be published.

The interviews were conducted (in most cases) in two sessions, each of about 1.5 hours: one was a formal session where I sat at the Unilever offices, and the other in an informal setting (like a restaurant), where I could have a more open and unscripted discussion about the background information, politics, and interplays between parties.

The formal interviews were divided into three parts. During the first part of the interview, I went through the motivation and objectives of the interview, the confidentiality agreement, and the thesis objectives and topic. I also covered the definition of a business model and ensured that the interviewee had a clear understanding of my business model framework and components, and its relationship with the neighboring notion of ‘strategy’. Further, I also compared the components covered in the Unilever business model with my framework (the ‘Beacon’) to show the great degree of overlap and relevance of the topic. This also allowed the interviewee to ask questions to clarify the concepts and also comment on how the Unilever model may be different than what I had understood. The second part of the interview was the main section of engagement where I asked my aforementioned three questions, and gained their insight into the decision-making dynamics around the configuration of the Unilever business model. This section also included clarification questions and some tangential topics that were interesting to cover and which had an impact on how I interpreted the answers to the main interview questions. The third section of the interview covered some of my prior research on other companies’ business models and some preliminary emerging patterns on what I was seeing at Unilever. This section stimulated some additional thoughts and paved the way for some interesting anecdotes both from within Unilever as well as from the experience of some of the interviewees from their previous jobs at different companies, such as clothing retailer C&A and sporting goods retailer Nike.

3.9.3 Interview Protocol

I sent out interview requests to 40 candidates, selected on the basis that I have highlighted earlier. The requests were sent by email. Of the 40 candidates, I was able to schedule interviews with 35 people. Of the 5 that were not interviewed, none refused; these 5 were not interviewed because their availability did not meet my timing requirements. However, 35 interviewees, with most focused in

North America suggest a reasonable and significant number in terms of the validity of the findings. The interview occurred in person in most (28 or 35) instances, with the remainder (7) having to be done on-line through a web-meeting software application that enabled me to see the person online as well as share the interview presentation just as if I was face-to-face. The web-interviews were done because these individuals were not available at the specific location of Unilever that I was at, and because travel to the other locations would have not been feasible within the budget and timing considerations. However, it is important to note that the interview protocol and questions were maintained consistent throughout regardless of whether the interviews were done in person or on-line. Further, having full knowledge and relationship with the individuals from prior projects and working relationships and having done web-meetings with them on other topics before did not compromise the level of dependability on the content or response quality from them in the least bit (in my opinion).

The interview protocol was designed as follows:

- Briefing on my research topic and reason for the interview
- Permission to record on the basis of how the interview would be used
- Discussion of the topic in more depth, including:
 - Discussion of the *Environment* vis-à-vis the topic
 - Discussion of the extant *Knowledge* about the topic
- Posing the specific 3 interview questions in accordance with my research outline

Discussing findings to date from other companies and with Unilever interviews (this was done to extract further insight from them on these topics, and to get them to think of other examples, anecdotes, instances that I might be able to explore this topic in more depth or latitude).

The interview session took 1 hour to 1.5 hours in total, with the interviewee talking for about 40 to 45 minutes in response to the questions being asked and being prompted for feedback on findings. Further, I had an additional 1 hour session with each of them after the interview, in an informal setting over a meal at a restaurant, café, or bar, in order to get some more 'off-the-record' thoughts, anecdotes, and contextual highlights. This was done in order to ensure that there was no / minimal functional or positional bias, and that to reaffirm their responses more informally.

I also informed them that they would be sent a transcript of the interview notes once they were completed, as well as a chance to redact any of the statements that they did not want to be made public. However, neither anonymity nor confidentiality was offered, and nor was it requested. I have recorded all the interviews and maintain them for further analysis and validation if needed.

I have attached a copy of the interview presentation / questionnaire in Appendix A.

3.9.4 Interview Analysis

I first downloaded all the recorded interviews. I then proceeded to transcribe the interview notes, and also referred to my hand-written notes in order to ensure referential integrity and data accuracy for my coding software. I used the *Atlas.ti* software (<http://atlasti.com/>) for its superior user-interface and advanced functionality. I then uploaded all of my interview transcriptions into this software and commenced coding.

My coding structure was based on a multi-dimensional logic: because of the happenstance nature of the overlap of topics within the responses to the research questions, I used different codes with intentionally overlapping text passages to ensure that I could look at the interview data through different lenses. The list of codes is as follows:

■ BM - Financial Model
■ BM - Internal Operating Model
■ BM - Network Partner Model
■ Case1: Spreads BM
■ Case2: Special Packs BM
■ Core Component
■ Peripheral Component
■ EFM - Asset & Investment
■ EFM - Cash
■ EFM - Cost
■ EFM - Revenue
■ IOM - Brand Management
■ IOM - Coordination
■ IOM - Organization
■ IOM - Product Portfolio
■ IOM - Sales Management
■ IOM - Supply Chain
■ NPM - Complementor
■ NPM - Consumer
■ NPM - Customer
■ NPM - Environment
■ NPM - Society
■ NPM - Supplier
■ Strategy vs. BM
■ BM Archetypes
■ UofA - Global
■ UofA - Local
■ UofA - Regional

Table 3.3: List of codes assigned

The logic for the coding is to bring out revelatory comments about the core and peripheral components of the business model, comments regarding each component of the business model, themes of the three key business model elements, and about discussions regarding the strategic context of business models. I have also included the details on the codes, the algorithm for the auto-coding logic in Appendix B.

For purposes of better manipulation and fast retrieval, I exported the output of the coding to a spreadsheet, where I created a pivot-table where I was able to quickly retrieve quotes on the inter-

section of code and interviewee. I demonstrate a screen-shot of the multi-dimensional search database of quotes:

Chapter 4 FINDINGS

The findings have been organized by the interview questions, and provide insight into the main case on the Unilever NA business model configuration and then for each of the three embedded cases. I have mapped the interview questions for the case study to my three research questions, as demonstrated in the table below, so as to be able to understand the research context of each interview question:

Research Questions (RQ)	Interview Questions (IQ)
RQ 1: What is the nature of the components of a business model?	IQ 1: How is the Unilever business model configured currently? Which components of the business model are more central vs. more peripheral? Has this changed over time?
RQ 2: What is the appropriate unit of analysis to (re)configure business model for complex enterprises?	IQ 2: What is the appropriate level (unit of analysis) at which to (re)configure a business model in a complex enterprise? How does the business make decisions in terms of reconfiguration? Who are the different stakeholders in the decision-making process?
RQ 3: How does the strategic context shape the (re)configuration of a business model in a complex enterprise?	IQ 3: How does the strategic context of different aspects (categories / brands) of the business influence business model (re)configuration?

4.1 Unilever Strategy and Business Model Framework

Interview Question 1: How is the Unilever business model configured currently? Which components of the business model are more central vs. more peripheral? Has this changed over time?

I interviewed 35 people in different parts of Unilever, but mostly in the North American cluster (USA & Canada), with responsibility for the Americas (North & Latin America). Through these interviews, I was able to gain insight into how the business model is configured currently. One of the first insights gained was that it is difficult, if not impossible, to look at Unilever as **one** business model at the overall firm level. According to Doug Sloan, a Sr. Director for the North American business, *“when you say the business model for a complex business like Unilever, my first thought is that it’s an umbrella with several different business models in the organization; a portfolio of business models, so to speak.”* In accordance with Sabatier et al. (2010), Unilever is comprised of several business models working synchronously.

4.1.1 Unilever Strategy Components

Unilever articulated its strategy and business model clearly in 2014. I found Unilever to have a characterized strategy and business model. Their strategic focus is depicted in Figure 4.1.



Figure 4.1: Unilever Strategic Focus (Source: Unilever Annual Report, 2014)

The vision of the business is to double the size of the enterprise, while reducing overall environmental impact by half, and by increasing social impact. The purpose of the business (and its strategic differentiator) has been described within the program referred to as the 'Unilever Sustainable Living Plan' or USLP. The CEO, Paul Polman, the creator and steward of this program has created it using three pillars: improving health and wellbeing, reducing environmental impact, and enhancing livelihoods.

The *Mission / Vision* (the winning aspiration) to double the revenue of the business, cut its environmental footprint by half, and make a social difference to people around the world in terms of health and hygiene, as well as enhancing lives in terms of the sustainable livelihood of people. This is embodied in the *Unilever Sustainable Living Plan (USLP)*. The *Product* choices have been made as such to be in the personal care, beauty, and foods space. The *Market* choice has been global since its inception, being the union of British and Dutch companies. The business has focused, since its early days, on emerging markets, as well as on developed economies. The *Customer* base is varied, based on the product range, but generally appeals to different audiences for different brands within their respective categories. The *Value Proposition* is generally around 'feeling good by doing good', and is closely linked with the Unilever Sustainable Living Plan (USLP). Their *Competitive* axis is centered on battling products and companies at the consumer level, in terms of being able to take a consumer from their value brands up towards the prestige brands, and to touch the consumer several times a day.

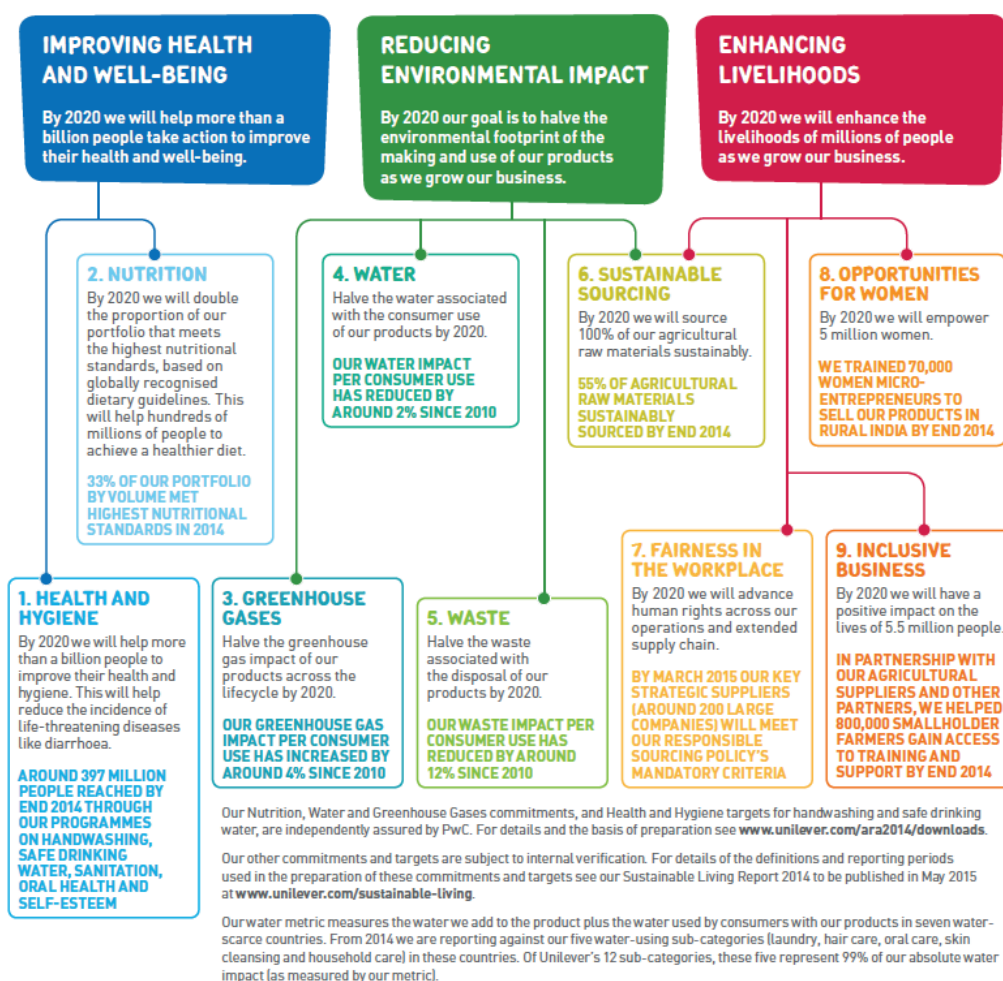


Figure 4.2: Unilever core strategic thrusts (Source: Unilever Annual Report, 2014)

The USLP is different from other corporate initiatives geared towards environmental sustainability and social impact in that this program is not run 'on the side' or as an adjunct to the 'business-as-usual' functional operations, but in fact these nine platforms shown in the diagram above are 'embedded' into the regular operations of the business so that the specific business model component is oriented to this at its core.

4.1.2 Unilever Business Model Characterization

The *business model* of Unilever is depicted below, and the business leadership has described the core mission as the USLP, essentially permeating these sustainability 'values' throughout each component of the business model.

OUR BUSINESS MODEL

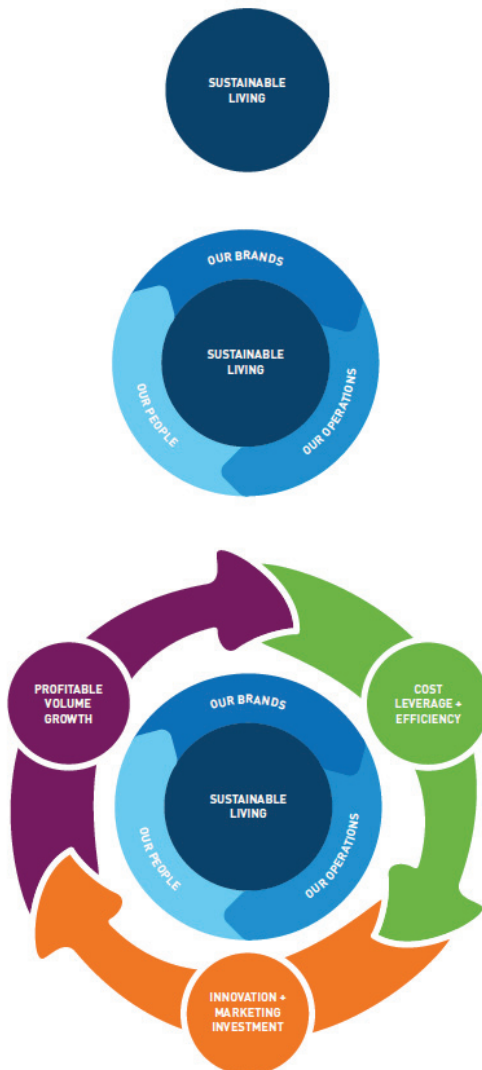


Figure 4.3: Unilever business model (source: Unilever Annual Report, 2014)

Unilever’s characterization of their business model, as shown in Figure 4.3, consists of Sustainable Living at the core, and broadly describes the inputs and enablers of value creation and value capture. The ‘inputs’ are essentially the value creation elements, and include the Brands, the Operations, and the People of the business. The value creation and capture elements are described in the graphic of ‘how we drive profit’, and include the mechanisms by which the business delivers profitable growth in product volume (number of units or cases sold), innovation through marketing investment, and cost leverage through efficiency.

OUR CORE PURPOSE

MAKING SUSTAINABLE LIVING COMMONPLACE

Our business model starts with our core Purpose which is a clear expression of what we believe to be the best long-term way for Unilever to grow. It is a simple Purpose to help us meet changing consumer preferences and the challenges of a volatile, uncertain, complex and ambiguous world.

KEY INPUTS

BRANDS, OPERATIONS, PEOPLE

Our business model works by combining three key inputs and filtering them through the lens of the Unilever Sustainable Living Plan (USLP). Our brands have significant value and succeed through products that meet the needs of consumers. Our people identify social and consumer needs to grow our brands, market them and manufacture and distribute them. Our operations are the essential supply chain functions and assets of raw material supply, factories, logistics, go-to-market expertise and marketing. We invest financial capital to support all these assets and activities.

HOW WE DRIVE PROFIT

PROFITABLE VOLUME GROWTH, COST LEVERAGE + EFFICIENCY, INNOVATION + MARKETING INVESTMENT

Unilever aims for a virtuous circle of growth. Profitable volume growth is driven by investment in innovation and brands to deliver products which 2 billion consumers use every day. We can leverage this scale to spread fixed costs and improve profitability while further investing in the business. This investment funds R&D and innovation to create new and improved products backed by marketing to create even stronger brands. This drives profitable volume growth and the virtuous circle continues.

4.1.3 The Central Business Model Component : Sustainable Living

Paul Polman, the CEO of Unilever describes the business logic of sustainable living in his interview with Rik Kirkland of McKinsey & Company: *“The Tropical Forest Alliance¹ is a good example of what can be done. If we keep going with deforestation, which accounts for 15 percent of global warming, our business model and, frankly, our whole society are at risk. On top of that, the consumer is saying, “I’m not going to buy products anymore created through deforestation.” So industry got together and said that we need to use combined scale and impact to create a tipping point. The Consumer Goods Forum (representing \$3 trillion in retail sales), which we helped to create, is one of these coalitions of the biggest manufacturers and retailers. When they said, “By 2020, we’re not going to sell any more products from illegal deforestation, whether soy, beef, pulp, paper, or palm oil,” that sent an enormous signal across the total value chain and generated action on the supplier side. Governments are now joining. We’re actually close to a tipping point to address these issues. That is the new world we have to learn to live in” (Kirkland, 2015).*

With sustainable living at the core, Unilever leadership has made the strategic choice about its central component of the business model. Explained in the interview that I conducted for the case study, in the words of Alan Raleigh, Senior Vice President of the Global Personal Care Category, *“At the core of our business model is sustainable living, and then everything else is around that business model. The core of it is independent. What I mean by that, I think sustainable living is what drives brands with a purpose, like Lifebuoy or Dove for example in perspective. I think sustainable living also drives having the future, the future conditions for under which Unilever can be a successful profitable business, which is access to water, access to consumers. It’s got money to spend because sustainable living is also about how you insure communities have employment, and therefore have funds to spend, or it’s about reduction in waste or it’s about sustainable agriculture, sustainable fisheries, and sustainable palm oil.”*

So actually at the very center of the model is recognition of the long term. Without sustainable living, Unilever will be a less successful business because the macro environment in which we operate will be less advantageous, or even completely disadvantageous to the kind of business and the product forms that we’ve got. At the heart of it is absolutely sustainable living for that reason, but then when you move out to the next level, how sustainable living impacts different brands will be different by those brands.”

From the above two descriptions of the business model, I find that the central component of the business model is not just what holds the business model together but appears to permeate the entire decision-making process of the business; its not just a choice of what to organize the business around, but in fact, *how* to do business. Nathan Walsh, a Senior Manager in the Procurement function pointed out to me that Unilever has specific procedures in place to audit the labor forces of two degrees of sourcing from the direct supplier, and gave me an example of a case where Unilever dis-

¹ *A public–private partnership created by the US government and The Consumer Goods Forum to decrease tropical deforestation undertaken to source commodities, such as palm oil and soy. The alliance now consists of multiple non-governmental organizations and national governments, including those of the Netherlands, Norway, and the United Kingdom.*

continued use of a supplier when they discovered (during a routine audit) that the supplier of one of the ingredients of the input required by the direct supplier was using questionable labor practices. Similarly, Alexandre Eboli, a Senior Vice President in the Refreshments category pointed out that his ice cream production processes are much more expensive with sustainable sourcing than without, but the fact is that customers are willing to recognize the value for sustainably sourced product, and it is a self-reinforcing loop that Unilever is capitalizing on.

4.1.4 The Brand Component

What Unilever has inserted into the Brand mix is the notion of 'purpose'; in developing brands with a purpose, Unilever has struck a chord with the consumers who view brands as simply representing a specific consumer profile or usage or image or quality. Having a purpose makes the brand stand out among the rest. Alan Raleigh, Senior Vice President, expressed: *"For some brands, maybe in our foods business, or in our personal care business, sustainable palm oil is really important. For other brands then maybe sustainable agriculture is important, maybe it's all for tomato based business for example. That sustainable living is actually there's a segmentation of that that then impacts our brands, but equally sustainable living also impacts our operations. The way in which we obtain sustainable palm oil, the way in which we go to zero waste to landfill, goes so far as to get to zero waste to landfill in Unilever factories, which saves two hundred million Euros of costs. Actually, that then drives savings, it drives margin to invest behind our brands. Equally, sustainable living makes Unilever the number three I think it is employer of choice in the world."*

The sustainable living central component therefore drives free cash flow, which is then invested into the brand component to drive further growth. Unilever has 13 brands that are over EUR 1 billion each, which are sizable in terms of growth opportunities.

4.1.5 The People Component

Once again, Alan Raleigh, Senior Vice President of the Personal Care category, expresses his perspective on the people component of the business model of Unilever: *"...which gets us access to top talent who want to work for a business with that kind of ethos or office in a way that we wouldn't either otherwise have. Then what you end up with is great people working on brands with a purpose behind sustainable living that have greater opportunities to grow because we have access to the materials we want, we have consumers who get more wealth than you would otherwise have, and because by reducing waste we save money."*

The people component also consists of elements of the organization and coordination of the business, as expressed by Mike Clementi, Global Vice President of Human Resources: *"How you organize is just simply how you get work done. Sometimes its implicit and sometimes its not. Sometimes its formalized in RACIs [Responsible, Accountable, Consulted, Informed] or other charts but it's about how you get work done. We are structured around our markets and our geographies, our categories, and then our support functions. This is the dominant logic on our organizational design."*

Mike discusses the organization in terms of 'what' and 'how' of the organizational element: *"For a company like Unilever, for example, to develop an organizational model, it needs to be driven from the top down because those decisions on how you structure the business are core to what you want to get done. Within those then you can make quite a number of different operating decisions. I think there's a real interesting thought here between the 'what' and 'how'. What we're trying to do is that the 'what' better be damn well be aligned, because otherwise we are going to have a lot of different brands and flavors and feels. Do I care so much about the 'how'? because the 'how' requires so much energy to govern that you did it this way vs. you used everything we said and did it in an [localized] context.*

I do think some of the struggle is – where is the power struggle in the organization? Who's running the business and who's calling the shots. That can get confusing. One of the ways is that if you crack this is to give people more freedom to get it done in the way that works for them, so that they empowered but still not disobeying the mother-ship. I just don't think that businesses can afford the control mechanism – where they can say "I told you to do something, and here's the playbook" – I mean the amount of coordination is impressive.

I think what we do generally is prescribe the framework and allow people to have the freedom to operate how they like within the framework. I think we have a false belief – it may be a desire at times to control more than we need to. Some things are critical to control, like safety standards in place, audited, and checked, or the code of business principles, audited and checked – that's the 'what' and the 'how'."

So, a perspective on the organization emerges as one which lays out the guidelines of how to organize and the means by which the layers of organization will govern the business, but there is also a latitude of freedom at the local level, without which the coordination efforts might seem Herculean.

4.1.6 The Operations Component

The operations component consists of the architecture and linkages between the four main functions of supply chain (manufacturing, planning, distribution, sourcing), marketing, sales, and finance. The Unilever annual report from 2014 describes the investment in assets and resources to develop these functions further in terms of operational efficiency and efficacy. Brian Nussbaum, Director of a Foods category in the North American business discusses the Unilever operations doctrine of 'design once, deploy everywhere': *"if we look at our margarine technology, it comes from Europe; it's already deployed in all the factories there, the technical expertise resides in Vlaardingen, on the R&D side."* Having the necessarily skilled resource pool in one location ensures continuity, centrality of operations insights, and expertise focus by category. Increasingly, centralized focused teams are being leveraged within Unilever, such as in technology, analytics, supply chain, and marketing. Dee Fitzgerald, a Director in the Technology group discusses: *"the business operations team is responsible for understanding which business process should be common across the globe for supply chain, so lets say for demand planning – we look to ensure that similar processes are implemented globally, so that [for example] India is not going towards a different direction for demand planning than North America, and therefore the underlying enabling capabilities can be leveraged and synergized as a result of that".* This indicates a diligent and sys-

temic means of operating in a sustainable and standardized environment of processes, technologies, and practices across the world.

4.1.7 Unilever Business Model – Internal Operating Model

In terms of the other components of the business model, I go through each of the components in more depth to characterize the Unilever business model further. The **Internal Operating Model (IOM)** is comprised of the components shown below. I will describe the components of Unilever's Internal Operating Model:

Product Portfolio: The *Product Portfolio* component describes the range of products that Unilever sells. Across the business, this consists of 400 brands, across 4 *Categories* (Personal Care, Home Care, Refreshments, and Foods), sold across the world. The product hierarchy starts at the *Category* level, a global construct of how the business innovates and organizes their product portfolio. The *Categories* are the level at which product strategy is developed and disseminated to the countries. Below the *Category* level is the *Sub-Category* level. For instance, under the Personal Care Category are Sub-Categories like Hair-care, Deodorants, Personal Wash. Related to *Categories* and *Sub-Categories* but both hierarchical and orthogonal, is the concept of *Brand*. The *Brand* can run across different *sub-categories*. For instance, Axe is a *brand* that exists within the Personal Care *category*, but runs across different *sub-categories* like shampoo (hair-care), spray (deodorant) and shower gels (personal wash). Another way to look at the product portfolio is between 'global brands' and 'local jewels'. There are global brands like Dove, which are marketed everywhere around the world, and leverage the same brand equity and story behind them all over. For instance, Dove is known for social standing of women everywhere, and about a well-crafted personal care image whether it be in shampoos and conditioners (hair-care), or stick or spray body odor inhibitors (deodorants and antiperspirants), or shower gel, bar soaps (personal wash), or face foams, skin creams and lotions (face-care / body-care). I then introduce the concept of *product technology*. Whereas the sizes and formats may be different (product technology level), the product technology is the form in which the product is sold to the consumer (e.g. shower gel or bar soap), within the brand structure.

Brand Management: The *Brand Management* component consists of the 2 distinct elements: the *Brand Building (BB)* organization, which is a local, business unit based organization with P&L responsibility, that is accountable for brand activation and execution of marketing activities. The BB organization is based on category and brand. This group also develops the brand strategy but only for 'local jewels' and not for the global brands. The *Brand Development (BD)* organization is a global one that is based on category. This team extracts consumer insights globally and develops the overall category strategy and brand strategy for global brands. The BD and BB organizations interact with each other through periodic, category-planning driven meetings and interact at different levels within the organization. The product for global brands is developed by the BD team globally and executed by BB locally, and for local brands, by BB itself. The BD function includes the R&D activities as well as the Consumer Insights related activities.

The BB team is the sole organization that has responsibility for building the category and brand related market activities and deciding budgets for advertising and promotions, since they directly impact the local business unit P&L, but have global brand equity standards and norms that they must operate within. Where product is sold (placement) is also entirely up to the BB teams in local business units because that is where the customer contact and responsibility lies. The same holds for pricing, which the BD group plays no part in. The BB team has full authority for the time horizon of months 4 to 24, and BD looks out even further, through month 36 or even 60, since it has the leadership role in global innovations, many of which can take up to 5 years to bring to fruition. The BD function is accountable for global strategy, advertising and innovation.

Sales Management: Whereas there is a global sales capabilities group which is tasked with developing sales related capabilities, models, and systems, the power and critical mass lies in the local business units, which control all sales related activities operationally, and have P&L responsibility for customer acquisition, development, maintenance, and termination. The sales team is referred to as *Customer Development (CD)*, and is fully empowered in the business units to make tradeoffs regarding sales activities, segment the customer base, develop a channel strategy, determine the market mix of product that will get slotted into each customer, and accountable for trade spending activities at various accounts. Besides the headquarters team which is tasked with developing sales plans at the account, territory, region, and national levels, they are also tasked with interacting with marketing, supply chain, and finance, to update the business and plan the business as a whole cross-functionally, the CD team also has people staffed directly at the customer sites for the key accounts, which provides then consistent, timely, and reliable sales intelligence and treats customer relationships more like 'collaborative partnerships'. They have *joint business planning (JBP)* meetings both at the leadership levels ('top-to-top' meetings), as well as at the operational execution levels. The CD team owns the short-term planning horizon, i.e. from the weeks 0 to 13, and has full authority to make decisions within this period of time.

Supply Chain: The supply chain is organized in a multi-dimensional manner: there is a local team that manages local business unit based planning (demand and supply) for the short (13 weeks) and mid-term (in-year), but long term planning is done at the regional level, in Schaffhausen (Switzerland). The local supply chain organization has full responsibility for the distribution element, and customer service management, and the third-party distributors are managed locally, but are procured through a global procurement organization, which negotiates the service level agreement, and terms. The factories and third party manufacturers (3PM) relationships are all 'owned' regionally, by a team that is based in Schaffhausen. The regional organization effectively makes the product and 'sells' it to the local business units, securing some of the profit in a tax-efficient region. The chief supply chain officer and the executive committee of the global Unilever organization review large capital expenditure initiatives. The supply chain is considered to be a Global Business Service (GBS), a group of 'support services' that is essential for the operating of the 'core' functions of sales

and marketing. There is also a global team that is mostly for capability building, process stewardship, and systems configuration.

Organization: Unilever is a typical matrix organization with several business units that manage the P&L and with global category teams that drive the market and product strategy. There is built into the organization several tension points, which ensure the 'checks and balances' process. There are two main organizational constructs: 'core' functions and 'support' functions. The 'core' functions are those of sales and marketing (brand building or BB), which are situated in the local business unit and bear P&L responsibility and the global brand development (BD) team that is accountable for global strategy. The 'core' functions report to the local business unit CEO. The 'support' functions include the spectrum of the 'global business services' teams: supply chain, finance, human resources, and enterprise technology services (analytics, IT, infrastructure, and facilities management). These support functions have solid reporting lines to the regional and global functional leaders (Chief Supply Chain Officer, Chief Technology Officer, Chief Human Resource Officer, etc.). The bulk of people are within either the local organization or global organization, and very few in the regional organizations.

Coordination: Unilever is a strong supporter of systems and technology to enable processes and business decisions. They use SAP as the global ERP for all transactions, financials, and supply chain related information. They also use SAP-APO as the advanced planning and scheduling (APS) system. Their CRM systems are combinations of legacy home grown systems as well as professional software. They have a dedicated IS / IT group for the rollout of these systems and the management and maintenance of these systems, some of which is outsourced to third party companies such as IBM and Accenture. The business invests heavily in training and calibrating users of systems across all the systems, worldwide, with heavy emphasis of system usage, leverage, and advantage.

4.1.8 Unilever Business Model – Network Partner Model

The Unilever Network Partner Model can be described as follows:

Consumer: The consumer, to Unilever, is of supreme importance, and many people of the organization are dedicated to determining consumer needs through research and market insights, since this is the root of all their innovation. The consumer behavior is tracked through Nielsen data analytics that capture store level scanned purchases. Unilever is also partnering with next generation retailers like Amazon to bring the consumers more ‘point of purchase’ recommendations and product knowledge. The global team on consumer insight brings to light the perceived consumer needs and preferences, based on which brand development (BD) discusses innovations to be developed and put into the pipeline. There is also another facet to the consumer – the local business unit facet, which must interact with the local consumers not the ‘generic’ consumer that the product was designed for, to ensure that the innovation is to the specific taste of the local consumer that buys the product. There are anecdotes that I heard from some of the consumer related teams in local business units in Latin America, about how consumers from different countries preferred their mayonnaise slightly different but were highly sensitive to the taste, texture, look, coloring, and consistency.

Customer: The local business unit sales or customer development teams handle Customers. For instance, Unilever North America organizes their customers by regions within the country (e.g. Northeast / southwest), and then by territory and account. There is the concept of key accounts, where Unilever sends their sales teams to be co-located with the customer teams, in order to interact in a more real-time basis, and to ensure that the customer gets the service that they require. These teams ensure that innovations get launched smoothly and promotions get activated and deactivated within the scheduled promotion window. The relationship with customers is a complex one, and one which Unilever dedicates a lot of time and effort for. *Joint Business Planning (JBP)* activities align strategic interests of the company with their customers. For instance, since Unilever is heavily into the notion of *sustainable living* as is Walmart, the two have teamed up to partner on further declaration of higher standards of business conformance to this goal.

Supplier: Suppliers are also treated as partners for Unilever, who is interested in getting them to higher quality levels, reliability levels, and with reduction of waste and improvement of business standards and ethical sourcing. Unilever negotiates with suppliers globally for most of their raw and packing materials, from the identification stage, through qualification, site visits, testing, and contract. The execution interaction occurs between the local business unit contact points with local supplier contact points to manage day-to-day operational business needs, within the framework of the contractual agreement. Suppliers are held to the high standards of the *Unilever Sustainable Living Plan (USLP)* that calls for sustainable sourcing, ethical work standards like fair-trade, and non-child labor practices worldwide. There are dedicated teams to ensure that suppliers are conforming to

standards, and action is swift and significant when they find violations, which implies strong and meaningful governance.

Complementor: Unilever does not have much complementarity in the product portfolio, and there is a recognized opportunity to do more on this. There is no formalized program for complementarities, that I learned of, outside the business, and even those that are within the business are not leveraged sufficiently, based on comments from the interviewees for my case study. There are, however, category and brand-based complementarities being promoted (i.e. buying shampoo of the same brand as your shower gel or deodorant brand, like Axe or Dove).

Society & Environment: Unilever has a very strong sustainable living core in its strategy. The *Unilever Sustainable Living Plan (USLP)* is one of the core values of the business, shaping every aspect of the business model in subtle and not-so-subtle ways. Unilever is procuring more expensive materials for their products because they can assure and prove that these materials were sustainably sourced. Unlike many other companies, Unilever combines their actions on sustainable living for people of the world along with environmental sustainability into one robust framework that enables the business to view their entire company's activities through this lens. This core value is embedded throughout the components of the business model, and is convergent with the long-term view that this value will enable growth while helping raise living standards and protect the environment.

4.1.9 Unilever Business Model – Enterprise Financial Model

The Unilever Enterprise Financial Model can be described as follows:

Revenue Management: Unilever's revenue model is based on basic volume and promotion activity. The mechanism is tightly controlled through studies on price elasticity, but local business units, and an integrated view on macro-economic conditions, currency exchange value factors, and competitive dynamics. Decisions about pricing are managed at the local business unit, which has accountability for the P&L. The pricing model is also developed at the local P&L level, with the finance team, the brand building team, and the customer development team leading the discussion.

Cost Management: Besides local headquarters and people costs, most other costs are product-based, which the supply chain owns. These costs are owned partially regionally and partially locally. The regional cost elements include the materials inputs, the production costs and distribution up until the country warehouse or distribution facility, from where it is a local charge for in-country distribution and sales. Using coordination systems, the business keeps a tight control of costs across the business. Costs are function-based as well, such that the brand and sales teams are accountable for their trade spend and promotion spend as well as market development costs. Supply chain is accountable for distribution costs, and the finance team is accountable for overheads and allocated fixed costs.

Cash Management: The supply chain and finance teams working together manage working capital tightly. Unilever holds the business units accountable for trade working capital. Unilever also has a good handle on trade terms with suppliers and customers and uses this to its advantage in managing working capital. Through processes like Sales and Operations Planning (S&OP), the business has been able to harness its spend on trade working capital significantly, taking out over EUR 1 billion over the last 5 years. Inventory is controlled by the local business units, with input from the regional supply chain teams on targets and policies, based on supply chain considerations such as lead times, as well as sales considerations such as sales volatility and consumption/shipment biases.

Assets & Investment: Unilever has regionalized assets, and there is a trend to outsource more production and distribution assets over time. Factories are all owned by *Unilever Supply Chain Companies* that are based in Schaffhausen, Switzerland, and are staffed with senior leadership teams who manage the strategic capacity utilization and expansion of these production sites. Tradeoffs are made regionally and globally as to what innovations will launch and how much capacity expansion will occur, based on rolled up local business unit plans and global category overlays on growth objectives and pipelines of innovation. Growth through M&A has become a routine means of expansion and gaining footholds in several categories. Investment in new technologies for R&D, production, and innovation are common and well-accepted by the business. Unilever invests heavily in

intellectual property assets as well as tangible assets, and drives industry leading ROA figures in their use and leverage of their assets.

Ownership: Unilever is a publicly held company co-listed on the stock exchange both in the Netherlands as well as London, with an ADR listing on the New York Stock Exchange (NYSE). There is an active shareholder base, with occasionally substantial influence on the Board and subsequently the decisions that the Board takes.

Risk: Unilever actively manages risk in its portfolio of brands and categories, customers, and consumers. They also have a good handle on risk in terms of business and market uncertainties, commodity pricing fluctuations, governmental regulations, and competitive movements. They tabulate their risk profiles from time to time in internal meetings, to ensure that they have the right 'basket' of risk portfolios so that they can operate in a non-interrupted manner.

4.2 Business Model Unit of Analysis

Interview Question 2: What is the appropriate level (unit of analysis) at which to (re)configure a business model in a complex enterprise? How does the business make decisions in terms of re-configuration? Who are the different stakeholders in the decision-making process?

Unilever is a complex business; it operates with more than 400 brands within 4 main product categories (Refreshments, HomeCare, Personal Care, Foods), with product sales across 190 countries, with 150 business units, and the normal functional verticals such as Finance, Sales, Supply Chain, Finance, Marketing, Human Resources, and Enterprise Technology. I want to gain insight into the unit of analysis of the business model(s) through the understanding of how different stakeholders make different decisions and what 'level' are these decisions made at. I tackle this question along the four analytic dimensions of *structural, organizational, developmental, and environmental* (Blau, 1957).

4.2.1 Structural Dimension

The structural dimension represents the grouping of resources, the alignment of interests, the coordination between the functional areas, and how the totality of the organization drives the performance of the business.

Moez Miraoui, a Manager in the North American business talks about standardized configuration:

"There are global recommendations in terms of the structure; the processes are going towards global, the systems are more global; leveraging the scale, the expertise across the globe. One of the things I do is to standardize and harmonize globally. From a marketing perspective, I say it doesn't make sense, because each region or country has its own norms, expectations, typical requirements, but there are some recommendations – that maybe the structure should be this, but I can take care of the art work, what is appealing, celebrity pictures, whatever, but here is the standard structure, and you can leverage scale in using common standardized structures."

In the words of Mike Clementi, Vice President in the Global organization provided some insight in terms of the organizational dynamics:

“Highly differentiated companies, understand what their purpose is, which is a new thought, by the way; purpose isn’t in here [in the Beacon] – do you understand their purpose – why they exist; the strategy is how they compete, and the business model is how they organize – how they get at it; I am using four dimensions to define how I configure how I organize to get work done – customer, markets, geography, products. How you organize is just simply how you get work done. Sometimes its implicit and sometimes its not. Sometimes its formalized in RACIs² or other charts but it’s about how you get work done. I am structured around my markets or geographies, my categories, and then my support functions. This is the dominant logic on my organizational design.”

4.2.2 Organizational Dimension

The organizational dimension is all about the policies, governance, interaction, formal organizational structure, and roles of the different groups within the organization.

Brian Nussbaum, a Director of the Spreads category in the North American business describes the decision-making process for the configuration of the business model as:

They have a lot of direction handed down from the global category teams, but then also the Mike Fahertys [CEO of the new Baking, Cooking, Spreading or BCS business] of the world have to make local decisions about local strategy based on the local market needs.”

Mark Dolan, a Director of the Supply Chain of the North American business reflects on the decision-making of the configuration of the business model from a Regional Operations perspective:

“It’s clear to me that those strategic decisions will be and are made in Schaffhausen. That that does though is to create a time lag and layer of complexity, with no doubt in my mind, but this time lag also creates time to think and the geographic difference away from the daily churn, creates a certain sense of objectiveness and to do things strategically. And to their credit, they’ve taken the money that I’ve gained from this model, and in my category, an unprecedented level of investment (and I’m originally from Thomas J. Lipton 20 years ago) – we are really doing everything – brand new factories; we are now creating a business case for transforming other aging manufacturing facilities.

Michael Faherty, the CEO of the BCS business, and formerly the Senior Vice President of the Spreads category for the North American business explains the configuration for the different components:

² RACI is an acronym commonly used within Unilever (and other businesses) to define who are Responsible, Accountable, Consulted, and Informed about a specific work stream of activities.

“From a marketing plan standpoint, these are done locally. So, the jobs to be done, like the consumer strategies are determined locally, and the marketing plans are done locally. The creative assets, and what the brand means, are done globally for global brands, and locally for local brands. In terms of whether a brand is global or local, I have different people who determine the specific packaging for a country. So, for instance, Club packs – I have a gigantic Club Channel here in the mid-atlantic region – my Club Channel is bigger than some entire Unilever countries – and so this idea of playing in larger packs or dual packs that are large would happen locally. I have a gigantic I Can’t Believe it’s Not Butter [a margarine product] brand here, and all those brand decisions happen locally.”

4.2.3 Developmental Dimension

The developmental dimension encompasses the interdependence between organizational bodies, the decision rights, and the dynamic capabilities of sensing, seizing, and transforming of the business (Teece, 2007).

I also heard from Alvaro Mejia, a Director for the Lipton brand at the North American business, who tells me about ‘master brands’, and the complexity of the configuration at different levels:

“The decisions that are driven globally / locally / category / business unit perspectives changes depending on whether they are about ‘master brands’. So you have the consumer as the core, but then when you start getting into your message from a master brand perspective, say Dove, you start looking at it from a global perspective – what is the strategy for Dove globally? How do you filter that down to the local level? If you have a ‘local jewel’ brand, say Skippy – it’s really not about global but more about local. The geography aspect of it will depend on the category – my brands are more on the global side now – this global category side will dictate to the local and regional units. It’s the global team who sets the direction on the consumer side. For instance, Lipton is also a master brand. It comes from the global messaging; you’re pushing the leaf tea or green tea because of its health benefits. When you have a master brand, you get the global messaging, but then you start getting into local specifics - you don’t have a regional structure anymore – its either global or local. The local business is planning the market, who’s the private labels of the world, who is promoting, is there brand loyalty as a consumer. A consumer doesn’t care too much about the brand equity, they try and buy the cheapest tea that’s out there – whether its Lipton or Walmart Store Label. When you get into brands like Lipton or Hellman’s you go from global to local for the most part.

In terms of the brand look and feel, brand equity is determined at global level, but at the local level, there are the degrees of freedom that you have (e.g. should you be in the ice tea vs. leaf tea business). It’s done at the cluster or region level. You have the global guys having to set the stage, and the cluster then says I should have this type of advertising, this type of marketing, this type of callout, and better tea bags, and more sustainable. Then you have the local guys as more of the implementers or

operators. They are the operator, then coming back with the hard facts from consumer feedback to correct the strategy because it's not working. For the categories, the local business will give feedback to say this is working or this is not working. The local guys alter the global strategy with the hard facts on the ground saying "I just lived this information", which then the global guys tweak the global strategy and then re-implement like an 'emergent strategy'."

All innovation start in local settings. If you look at liquid enhancers, or dispense K-cups (Figure 4.4 and Figure 4.5). You have these capsules – these are not globally pushed.



Figure 4.4: Close-up of 'capsule' for Keurig machine



Figure 4.5: Carton of k-cups for brand

This is sold in stores already. So, you look at this kind of Keurig stuff, it's not global, it's a locally developed product, within regional. The region comes back and says to North America (NA) that they are playing but not winning. Or the local guys are saying that I am losing in the specialty segment

because of these x reasons, and these factors are in this specific segment, and that information is transferred to local innovation teams to make them develop innovations for this segment to counter competition or to gain share in this space, as part of the emergent strategy. The decisions of the plant and distribution network is done from Schaffhausen [the base of the Unilever Americas Supply Chain Company or UASCC]- the strategy piece comes from Schaffhausen. You start looking at supply chain indirects based on turnover etc., they are X, and based on capacity and other factors, they start to consolidate sites or 3rd Party Manufacturers (3PM) or whatever, it's in Schaffhausen."

I asked Rob Lewis, a Director for the North American business about the decision rights in the configuration of the business model, to which he responded:

We've eliminated regional brand development, we've eliminated regional innovation, and we are focusing on big global brands like Dove, Axe, Lux, these big global brands are driving the innovation and a one brand platform based message, where things look and feel the same around the world, and we leverage that scale, so I am really moving towards that, but then; we are making those decisions locally with global assets and such. But they kind of meet in the middle, and if they're aligned it works. Some of my big global brands are managed that way, but others are absolutely left to a local level. Like Qtips is completely the domain of the local business unit."

4.2.4 Environmental Dimension

The environmental dimension consists of the factors that are exogenous to the business, but impact the business nonetheless; these can be macroeconomic situations, geo-political circumstances, customer specifics, and market landscapes.

Alexandre Eboli, a Vice President for the Latin American business in the Refreshments category explained in more depth the configuration decisions that occur in each of the units of analysis: global, regional, and local / cluster:

"There are things that are decided at the global level – at that level there is the first idea of (in terms of technology) – what technology are I going to use, what technologies to invest in, and what are going to do with it.

For instance, extrusion-based technology like Magnum, Cornetto: I need to figure out how to make it, where to invest, where to grow, how to grow, etc. - all that about technology. The other one is the prioritization of investments – I get my share after the SVP of the category makes his first cut. In all of these categories there is a lot of debate, negotiation, influencing, etc. After you get to the idea that Ice Cream is about cash, it's about technology convergence, so that I'm able to quickly roll out innovation. This technology convergence drives to this type of investment. Then start framing an initial concept, that says that high-end product like Magnum and Cornetto should exploit as much as possible inter continental or inter country flows. So if possible, I should have one factory of Cornetto or magnum

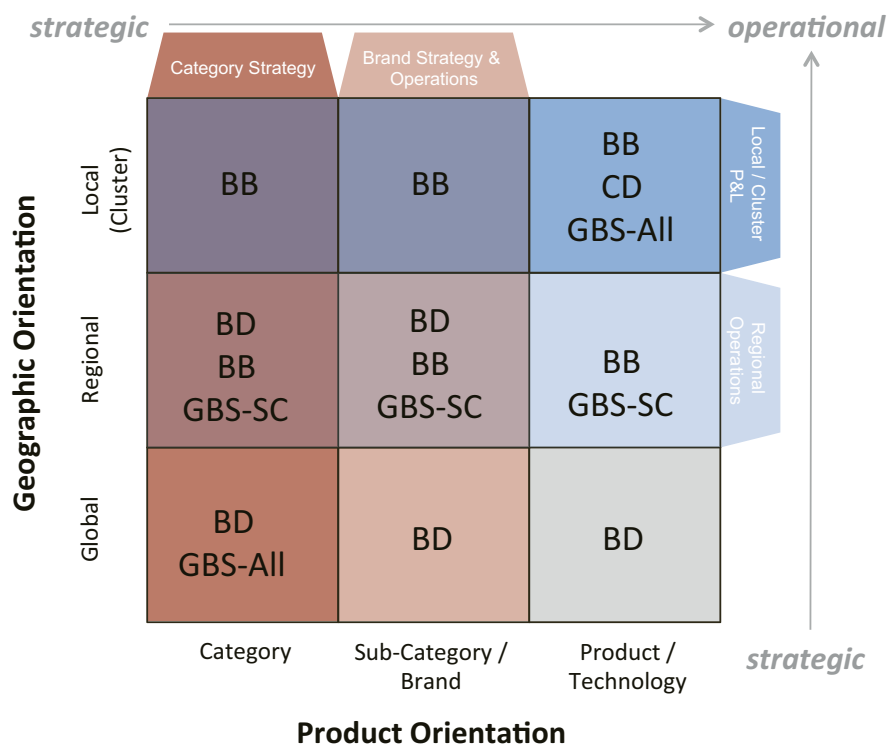
shipping to the world. On the other hand, the 2-liter boxes that I sell in supermarkets are 50% air. These are as much locally sourced as possible. So that sort of general framework comes from the global part.

Then when it gets to me, I start looking at the specifics of the region. I can't go with Magnum to Mexico City because at that altitude the chocolate cracks. But I translate that general idea into the region. I can't import into Venezuela so I must make locally in Venezuela. My contract manufacturer in Chile is a competitor today, so I need a factory there longer term. In Brazil, the situation of my factory requires investments. So, what I do is translate that global / general picture into the needs of the market I see, in terms of what to produce, how to produce, where to produce, where to invest, how much risk to take, what and how much contingency to build.

Then at a country level, there are a lot of execution considerations. Such as how much do I produce in inventory vs. how much to risk in a sales forecast, what is the service policy of customer x vs. customer y, and how often should I ship to each location. Should I run the warehouse aligned to my factory schedule or not? For the manufacturing part, I also have the low level decisions such as do I add a new line or should I run my factory on Sundays?"

4.2.5 Summarizing the Dimensions of Analysis

Using my case study interviewee notes, I find that three units of analysis emerge: (1) the **geography** oriented unit of analysis (global, regional, local / cluster); (2) the **product** oriented unit of analysis (category, brand, product technology); and (3) the **function** oriented unit of analysis (core vs. support), which somewhat overlaps with the geography and product units of analysis and will be considered separately for the sake of clarity, but super-imposed on the prior two units of analysis. The functional and geographic aspect covers the customer dimension that Mike Clementi, Vice President at Unilever's global leadership team refers to, since the customer dimension is addressed by the *customer development (CD)* function in the specific *Local / Cluster* geographic unit of analysis. The *Market* aspect is covered by both, the *Geography* unit of analysis as well as embedded within the *Brand* component of the business model (Internal Operating Model), since Brands are constructed to address specific market segments (e.g. the Suave brand addresses the lower end / value segment of the market, whereas the Dove brand addresses the mid-to upper-end of the market, while Axe targets men specifically).



LEGEND:

- BB – Brand Building (Marketing)
- BD – Brand Development (R&D, Finance)
- CD – Customer Development (Sales)
- GBS – Global Business Services – Finance (FIN), Human Resources (HR), Enterprise Technology Services (ETS), Supply Chain (SC)

Figure 4.6: Units of analysis of BM at Unilever

The two dimensions of the matrix represent the units of analysis of geography (Y-axis) and product (X-axis), the two primary units of analysis as mentioned above. Within this selection of 9 ‘intersections’, there are two primary anchor points of the business models. One is the intersection *Global / Category*, oriented to the fact that the *category* develops, manages, and is accountable for the strategy, and the other is the intersection *Local (cluster) / Product Technology* because the local country / cluster plans, manages, and is accountable for the profit and loss (P&L) statement, the financial ramifications and manifestation of the category strategy.

This is not a simple matter of aggregation or disaggregation of a hierarchical schema. These interviewees characterized these as distinct units of analysis of the business model within a complex enterprise. The business strategy core notion of growth aspiration drives the category strategy globally. This global category strategy drives the design or configuration of specific components and dimensions of components of the business model (highlighted in detail in the next section). Keeping in mind that global category organization is not accountable for the P&L, the reach of this organization to dictate the configuration of globally / regionally defined elements is stronger than local / cluster oriented elements. For instance, whereas Unilever configures the global innovation agenda,

supply chain capacity capital expenditure budgets, organizational structure, financial governance, and product portfolio range at the global / category unit of analysis, it cannot configure customer relationships, product logistics, nor brand activation at this level: the business needs the local / cluster unit of analysis to define / configure and manage these elements correctly.

I have intentionally color-coded the two dimensions separately in red and blue. I have also intentionally created a 'lighter' version of the two dimensions as they spill-over to the next level: from Category to Sub-Category or Brand on one dimension, and from Global to Regional in the other. There are similar business model configurations for some of the components of the business model. These are discussed in the next section in more detail.

In the previous section, I described the different dimensions in defining or configuring the business model at a generally high level. In this section, I discuss the dive into the detail of each business model component to define what configurations of the business model are performed at which unit of analysis.

I look at the two primary units of analysis, the Global / Category (strategy) unit of analysis the Local / Cluster Business (P&L) unit of analysis and the hybrid Regional Operations (strategic capacity) unit of analysis.

I synthesized my interviews and have summarized my findings in Table 4.1; the different components of the business model are configured using different units of analysis. The 'X' marks indicate that it is a relevant component of differentiation. It is interesting to see that my intuition of the different units of analysis as well as the multi-dimensionality of the units of analysis in a complex enterprise is quite apparent and evident in this summarized table. While interviewing the Unilever managers, I had to be careful to understand clearly from what perspective they saw the unit of analysis because it was quite different when talking with an operations person in a business unit vs. a senior leader in a global capacity vs. an executive in the regional operations. It is a sign of a well-designed and well-run business model that my findings about these dimensions and units of analysis all seems cohesive and convergent to a common business goal.

Business Model Components		Unit of Analysis and Drivers of the Business Model					
Model	Component	Global / Category Relevant? How?		Regional Operations Relevant? How?		Local / Cluster Business Relevant? How?	
Enterprise Financial Model	Revenue	X	Master revenue mechanisms			X	Custom local revenue generating mechanisms
	Cost	X	Cost policy, limits, range of outcomes	X	Production costs	X	Distribution costs Market development costs
	Cash			X	Working capital targets (inventory)	X	Working capital policy (debtors, creditors, inventory)
	Asset & Investment	X	Global capital expenditures > \$ 5M Innovation prioritization	X	Manufacturing capacity strategy Innovation management		
	Ownership	X	Ownership structure, shareholder management, board decisions				
	Risk	X	Global risk and uncertainty identification and mitigation			X	Local risk and uncertainty identification and mitigation
Internal Operating Model	Product	X	Product range choice, value proposition, usage	X	Product range by brand	X	Product range and format, size, occasion of usage
	Brand Management	X	R&D, Technology platforms Brand range choice by category, innovation development			X	Brand range, brand management, innovation activation, trade marketing
	Sales Management					X	Channel segmentation, sales planning, promotion planning, trade marketing, service management
	Supply Chain			X	Supply network configuration, strategic Capacity management	X	Supply chain planning and execution; materials planning and releasing, distribution, customer service, tactical production planning, line scheduling
	Coordination	X	Master configuration of Enterprise Technology, Systems Landscape, Communication & Coordination Protocol	X	Regional analytics and configuration of systems and technologies	X	Local customizations
	Organization	X	Role description, organizational structure, compensation, benefits, and rewards schema,.			X	Local customization
Network Partner Model	Consumer	X	Global consumer insight, innovation targeting, brand hierarchy			X	Local customization
	Customer					X	Channel definition, customer management, promotion management
	Supplier	X	Negotiation, supplier relationship management, strategic sourcing management, governance			X	Local supplier management, negotiation, sourcing, relationship management, governance
	Complement	X	Innovation complementarities, strategic partnerships			X	Local coordination
	Society	X	Platform development, partnership management, policy decisions, coordination, governance			X	Local interpretation of global goals into specific local policies, execution management, governance
	Environment	X	Platform development, partnership management, policy decisions, coordination, governance	X	Regional interpretation of global goals into specific local policies, execution management, governance		

Table 4.1: Units of analysis at Unilever by dimension

4.3 Strategic Context of the Business Model

Interview Question 3: How does the strategic context of different aspects (categories / brands) of the business influence business model (re)configuration?

The purpose of this question was to establish the nature of the linkage between the strategy and the business model of Unilever, to extract insights that could be analytically generalized. In order to do this, I used the framework of the growth/share matrix, which was made popular by the Boston Consulting Group (BCG) (Hedley, 1977; MacMillan et al., 1982). It is one of the few strategic frameworks that have survived the test of time, and that is an accepted way of understanding the competitive landscape. Considering that the strategy is all about competition, and that the business model has no components that deal directly with competition, I wanted to understand how Unilever relates their business model to their business strategy.

I used this matrix to map some of the distinctive Unilever brands through the interviews I conducted, as demonstrated in Figure 4.7. The X-axis represents the relative market-share of the brand. The mid-point indicates equal market share to the next competitor, with the right side of the middle indicating greater market share than the biggest competitor and the left side indicating less market share than the biggest competitor. The Y-axis indicates the market growth or market attractiveness. It is a relative axis indicative of whether the growth of the particular brand is at par with competitors' brands (mid-point) or higher / lower.

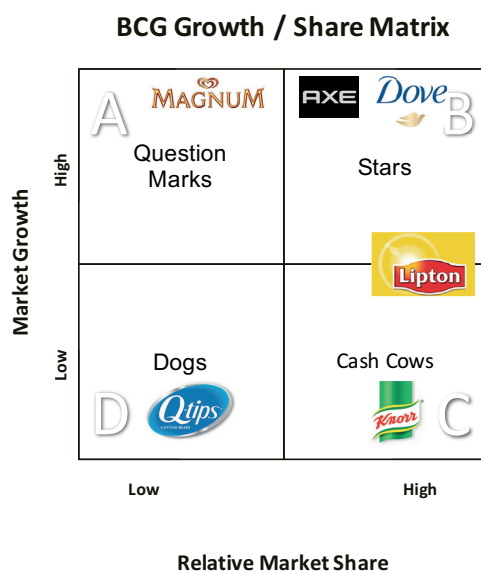


Figure 4.7: The BCG Growth / Share Matrix with Unilever brands mapped

The question resonated with the interviewees, and forced them to think about their brands and product portfolios in a different way, to question whether the business can have one single business model while the brands have markedly different strategies, based on their competitive context, characterized by the quadrant that they occupy within the growth / share matrix.

Doug Sloan, a Senior Director in the North American business has a clear perspective of differentiating business models to deal with the different strategies of the quadrants of the growth / share matrix using the graphic in Figure 4.7.

“I think logically yes, the business models for each quadrant should be different, and that’s the challenge – and then the question is which parts of the BM – some components can be common across the board, but some components might need to be different. I am positioned at one end of the spectrum, where I am trying to force the whole business into one model, because that’s what most people know, and are comfortable with, and is perceived as cheaper, and I have financial guidelines and the concept of the extreme of a totally separate models is going to inherently be more expensive because of economies of scale. But the pragmatic side of it is that how do you take research and make it into something pragmatic, because you can start to segment your business models and say, well, do I sell the same way across all quadrants, do I treat the financials the same way, do I produce the same way? And I don’t think it’s ever been looked at in this way. I think this is the inherent challenge of a complex organization that it’s not consciously going about it.”

This raises an interesting question of which components need to be configured based on overall business strategy (i.e. some sort of ‘master configuration’) whereas which components need to be configured based on a brand strategy. I will now delve into each of the business model components described earlier, to understand the impact of the strategic context on the configuration of these components. The interviewees discussed different components that would be configured differently for different strategies within the growth / share matrix.

4.3.1 Financial Components

In the course of my interviews, I came across specific perspectives encompassing the configuration of the financial components of the business model.

Alvaro Mejia, Director for the Tea category expresses how the level of investment is different by categories in each quadrant of the growth / share matrix:

“Investment is different between the categories. If you have the money to say here’s your brand marketing index, and here’s your money, and they hold back and say where are my A B C categories; the B categories get a little more money, because you’re going to drive share and margin. You don’t treat them the same and shouldn’t treat them the same. In the amount of marketing spend, trade spend, for advertising, because it’s about the return you give me on this spend. If it’s 1 for 1 maybe, but if it’s a better deal then I’d rather give to the higher return. Unless there is a significant change in how you’re going to get return I’m going to stick to higher returns as a yardstick for how much to invest. Its like

a capex exercise. This is how I've seen these decisions being taken. Innovation process is the same regardless of category. You have some hot innovations that are 'gold' and some are not as critical, but it's still the same. The process is managed through the same gate-keeping processes. Certain BM components which are more 'infrastructure' related, like methodologies, systems infrastructure, organizational infrastructure, but the way in which you deploy assets, the way in which you allocate resources in terms of different categories might be different."

Reflecting on this theme of different configurations for different quadrants, Andrew Yang, Manager in the North American business says:

"I would say generally, from a financial model, the assets and Investments are different. So if you go to Dove, there's a lot of money being put into the factories from an operational supply chain side, there's always a lot of advertising dollars and trade funds being invested into the market towards growing that brand. But if you compare that with a brand like Toni & Guy, there is a smaller budget because the volume and revenues are much smaller. So in that sense, I am still playing the same game – the value of this is X so I'm not going to go higher than that, and even if I do, it's such a small percent of a big brand like Dove, how do you grow everything at the same time."

4.3.2 Functional Components

In terms of the functional components of a business model, I summarized my findings from the case study and my propositions as follows.

Mark Dolan, a Director with the North American business comments on the different spend on Brand Building:

"I handle mayonnaise (spoonables), savory (soups, sides, sauces), and margarine. If you talk at the Category level, Marketing has made those decisions in terms of where you're going to promote, where you will use advertising, where the investment is going to be; but in factory logistics, I would answer no, I treat them all equally."

In terms of procurement, Nathan Walsh, Senior Manager for Procurement in North America says,

"If you have a winning category, I would try to spend more money to ensure that the products are available, and it's going to have a higher return on your investment. So definitely when you look at my products, there's some stuff that is going to fall into quadrant C or D. For procurement A and B have much more focus than C or D. It's not category specific but more brand and product specific. We are not killing ourselves on the 99c stuff, but I am focusing on the high margin / premium products. So there are differences behind resourcing, spend, and focus between the different quadrants."

To understand whether this perspective from the interviewees in the headquarters was different from those in the field, I also interviewed Whitney Price from the frontlines of the Sales team, a Manager from the account team of Kroger, the biggest grocery chain in the Midwest:

“Quadrant B has hair-care; I am competing very heavily in the marketplace today. Qtips is a C or D, but probably C (else it would be divested) since it’s somewhat a lower margin business, but has significant market share. When I look at time spent and level of effort, it’s very different between B and C. Mens Shaving (sub-category) is in A. I don’t own razors but I recognize that men’s grooming is a great development opportunity. From a perspective of the relative size of the business, it will not occupy my time like haircare (quadrant B).” Asked about whether the business models had a similar configuration across the four quadrants, Whitney said, *“I think they are similar [in terms of the components they all have], but I think the way I manage some of the pieces [components] is different. Like I will have less resource allocated for Men’s Shaving; I outsource a lot of production to Germany, which generates complexity and creates a longer lead-time, and less resources focus on it. The number of people, the amount of time and money spent managing business in each quadrant is different.”*

I also asked Tony Patrignelli, a Vice President in the Sales organization in the North American business, whether any specific component might be weighted higher or lower in order to be an appropriate configuration for each quadrant of the growth / share matrix, to which he responded:

“In every one of these components, there might be weighted higher or lower between the 4 quadrants. So, build the market might be more about brand management; generating cash would be more about supply chain management to make sure you’re cost effectively getting it out in the marketplace. So in spreads, I just closed the Baltimore factory, so that was a producing factory for me for spreads. Now, I also invested in the supply chain at Olathe, which is making all of my spreads. So, generate cash in spreads, I am doing exactly what you’re talking about, we are going to really try to squeeze out every last dollar out of the supply chain because the growth on this category is low or declining. So how do you take a smaller pie and make the profit bigger. So generate cash is much more focused on supply chain, instead of brand management. Gaining leadership is all about brand management, product portfolio, sales management, really working with your customers to get a fair share on shelf; also about society and environment.”

4.3.3 Components External to the Business

I also tried to understand the perspective of the stakeholders outside of the business to get a better understanding of what factors contribute to a different business model configuration based on the strategic quadrant context; I have summarized my findings as follows.

Speaking of the Supplier component, Beth Coppinger, a Director for the North American business gives me insight into the configuration differences between the quadrants for some components of the business model in reference to the stakeholders external to the business:

“The consumer is definitely different because their preference is for what they are looking for are different. That’s why you have different brands. You are supposed to be targeting different consumers. Customers are the same for the most part. In terms of the Personal Care business, when you are the

market leader, when you go in with Dove I won't say body wash or the bar you are the one who gets to sit at the table with the customer and make the strategic decisions not only about your brand and how you want that brand marketed at that account that you attempt to influence but you also get into a larger table. I can say it that way where you are also providing influence and guidance's to how you believe the category should be sold within that particular outlet. You get input into how the products get organized on the shelf. Which products should be placed at eye level, which product should be placed adjacent to each other? How your products within a certain category what should they sit next to as the next category? How you co-merchandize and co-market all that kind of stuff. You get a seat at the table and trying to influence and speak to your customer about that you don't get it when you are not the market leader. It will also then starts to impact your spend. If I am looking to extract cash, I'm going to do things that will make my supply chain more efficient to an extent but I am not going to be actively seeking to make investments ahead of innovations. The innovations even in the extract cash are more to do, they are not going to be your ... It is more a renovation innovation and keeping the idea fresh but as opposed to a line extension for a brand new ingredient that you believe will add value to the consumer for that particular brand. In certain cases you are making investments ahead of growth and you are driving all of your investment decision it is not just your supply chain decision. It's the money that you will invest in marketing and advertising. It is the money that you are willing to allow your sales guys to use to fund different events. The whole thing shifts."

4.3.4 Conclusions and Learnings – Main Case

The interviews yielded a plethora of findings regarding this question of how the business model is configured with respect to the strategy. Firstly, none of the interviewees invoked the overall Unilever strategy but gravitated towards the brands as the primary unit of analysis. Secondly, based on the consensus of using the brands as the reference points of discussing competitive strategy, the interviewees generally agreed that the business model must be configured around the brand strategy, but acknowledging that there is a 'master configuration' for the business as a whole, but that the different components of the business model should be configured based on the strategic context (quadrant within the growth / share matrix). Thirdly, when asked about the specific deviations in configuration from the 'master configuration' of the business model, interviewees brought up three broad categorizations: the financial components (the components that are about the revenue, cost, investments), the functional components (how the business functions internally), and the environmental components, or those that impacted the business from the outside, i.e. the stakeholders such as customers, suppliers, and complementors.

From the different interview excerpts above, I learned that the strategy is very tied to the business model. The different 'lifecycle' stages or strategic contexts had a direct implication on the configuration of the business model of each brand that I discussed with the interviewees. There was a general consensus that the business model configuration is dependent on the strategy for that brand, which,

in turn, is dependent on the strategic competitive context of the particular brand. There was also consensus on the fact that if the business model is configured differently then it would not work or be appropriate for the particular brand requirement. Some of the interviewees expressed frustration with a 'one-size-fits-all' strategy and business model.

4.4 Reconfiguration Dynamics – the Embedded Cases

The main case findings gave us insight on three topics:

- The nature of the business model components and how they are linked with each other
- The unit of analysis of the business model
- The relationship between the strategy and the business model

In this section, we explore the embedded cases within the Unilever business that can shed light on specific instances of business model reconfiguration. These embedded cases provide us insight on the mechanics of business model reconfiguration, and help us contrast the states of before and after reconfiguration or of simultaneously existing dualities in the business model.

4.4.1 Embedded Case 1: Reconfiguration of the Business Model for Special Packs

This embedded case highlights the motivation, mechanisms, risks, and outcomes of a business model reconfiguration within the category of Personal Care in the North American business.

I commence with a definition of a ‘special pack’. It is a specially designed and constructed standalone module that can house products, but also contain advertising, messaging, and convey the image and feel (attributes such as quality, class, other intangibles) of the product that it is displaying. Defined by Unilever, *“Special Packs are classified as items that require extra process outside of the open stock Distribution Units (DUs). Special Packs can be packs (Gifting, Free Samples) or displays (Floorstands, Pallet Displays) and promotional versus everyday (Club, Twin Packs). Special Packs can be produced either in-house or at Menasha [a third party].”*

In the case of the Personal Care (PC) category, there was a bi-directional call to action, both from within the business as well as from the customers. From within the business, the motivation was a strategic shift. As Kathy O’Brien, Senior Vice President for the North American business, and responsible for the Marketing of the Personal Care category explains it:

*“PC is going to be a growth-driver. But the big change from pre-2012 to post-2012 is that NA would drive growth **and** profit. Whereas previously I had been only profit-driven, now I need to be grow the top-line **and** bottom-line. So if you take that down to PC – PC needs to be a growth engine. It needs to grow **and** be profitable. I realized that a bigger and bigger part of my portfolio are special packs, and special pack margin is below the category averages, so there must be a more efficient way to drive my special packs, which is an important driver of my strategy and my growth.”*

Based on my findings, Unilever was unable to meet the rapidly changing demands from the customers who were at the frontlines sensing changes in consumer preferences through the normal channels due to timing (not technical capability), leaving Unilever at a competitive disadvantage. Unilever sensed that they must do something different: change the business model in terms of how special packs were dealt with from start to finish, in order to meet these dynamic customer needs. I obtained from Unilever an artifact of these special pack types, and illustrate them below, along with the volume of each of the packs, to give a sense of where the business is focused:



Figure 4.8: Embedded Case 1 - Special Pack descriptions (source: Unilever presentation)

From an external perspective, the customer needs also drove this decision, as illustrated by Doug Sloan, Senior Director for the Special Packs group at Unilever North America,

“It was a recognition that I don’t have the capability within my existing model to create the special packs, generically speaking. That was both a base capability but also from a speed point of view. Special packs in my environment, is a relatively quick turnaround. A customer needs this developed from idea to in-store in 6-8 weeks. That doesn’t fit the model at all, so it was a recognition that I was trying to fit a square peg into a round hole. So it was conceived that I should just segment it, and take it out of the mainstream model.”

So, aligned with my earlier proposition, the strategy change led to a reconfiguration of the business model in terms of how the business was going to deal with special packs. In the words of Doug Sloan, Senior Director for the Special Packs group at Unilever North America:

“I say strategy comes first, and then I need to figure out what business model we need to utilize to drive that strategy...so two questions come up – do I develop the capability or do we find this capability outside. We chose the latter because the former didn’t make economic sense. We have the ideas,

customers have the slots, and I needed someone to take it from design to materials manufactured to consolidation of my products in those vehicles”

That partner who could fulfil this was the Menasha Corporation, since their capabilities ranged from package and product design, through to manufacturing, distribution, and customer service.

Moez Miraoui, Manager for North America special packs group talks about the ex-ante and ex-post business model configurations:

“I used to have nine 3PMs that used to produce products for me, and now I have 1 – Menasha Corporation. They are also vertically integrated so they do the fulfillment of packaging, design, artwork, doing the packaging, and the result is reduced inventory, less waste, faster speed to market.

Further, he stresses on the benefits of having a strategic partner within the business that fully vertically integrated:

“Since Menasha is vertically integrated, all the way to the retailer. They also work with the retailer to know what Walgreens and Walmart want, what type of design, what type of instructions they have on the display and the modules, like where to put the pricing label, and other details – so they understand this very well. Also, Menasha does research with the customers to improve the look and feel of these special packs based on consumer feedback. So in the future I will get that feedback straight into the manufacturing area. In the past I would do it differently – I would sit with the agency and approve of the pack look, but the signal from the consumer could be different. This takes out the agency out of the loop and I get direct feedback from consumers and not only that but it’s automatically transmitted within Menasha to the manufacturing division, that that iteration brings me closer to the consumer directly. So that’s some of the benefit that I get.”

Business model reconfiguration can lead to shifting bottleneck problem: as in any system, when you solve the first bottleneck issue, the constraint shifts to another point within the system. Unilever’s special packs reconfiguration is no different, as Moez Miraoui describes:

“From my two years in this new group, this process is much faster now. The biggest business case is reducing lead-time significantly. I have dedicated sites for this. I have more agility and flexibility, and quicker reaction to do / change things. But of course there is a limitation in capability. I can run much smaller batches than in my own factories. So it gives more flexibility, but still under the phase of integration to merge different cultures, different systems, different mindsets.”

In terms of the hazards and difficulties involved with the actual reconfiguration process, Moez explains it as follows:

“I think as in any project, the challenge is change management. You can make systems work, you can integrate processes, but the process of managing change for both Menasha and at Unilever. Relationships are established between Unilever and other vendors, and now I have a different contacts and different relationships with Menasha. Old ways did not have a solid process, no formal change structure

or governance model. Supplier would try to provide that structure and governance, but when you have multiple vendors there can exist many idiosyncrasies.”

The Personal Care category in Unilever North American business unit reconfigured its business model, and incorporated Menasha Corporation’s special pack capabilities into their business model. Co-located at the Unilever headquarters, Menasha and Unilever integrated their capabilities into a reconfigured business model, as shown in Table 4.2:

Business Model Components		Reconfiguration of Business Models within the Personal Care Category			
	Component		Original / Base Pack Business		New Special Packs Business
Enterprise Financial Model	Revenue	O	Traditional brand / product revenue stream	O	No change from base business
	Cost	X	Based on high efficiency lines, bulk manufacturing of base packs	X	Menasha optimizes cost for special pack design, planning, production, and distribution
	Cash	X	Inventory working capital policy optimized for predictable demand streams (base packs)	X	Inventory working capital policy optimized by special packs
	Asset & Investment	X	Investment in special packaging equipment, materials, capabilities, lines for only base packs	X	Menasha invests in assets, lines, and capabilities for special packs
	Ownership	O	Wholly owned category within Unilever	O	No change from base business
	Risk	X	Well understood risk and mitigation plans for base packs	X	New profile of risk and limited mitigation plans on special packs
Internal Operating Model	Product	X	Small range of Special Packs	X	Wide range of Special Packs, with continuous innovation
	Brand Management	X	Base packs & special packs run by Unilever teams	X	Brand management, R&D performed specifically for special packs by Menasha Corporation, but integrated into Unilever Brand Management functions
	Sales Management	X	Sales functions spend a lot of time coordinating special pack activity and details with customers	X	New functional touch-points between Menasha and Unilever; Menasha direct touch-points with Unilever customers for special packs
	Supply Chain	X	Same functional scope for base and special packs	X	Clear functional division between special packs and base packs and defined dedicated processes for such
	Coordination	O	Original systems for base packs	X	Shared systems between Unilever and Menasha; Menasha coordinates with third party manufacturing, distribution, customer, suppliers
	Organization	X	Organization handles only base packs and no special packs	X	Different but integrated organizations, different goals and metrics, dedicated structures and scope
Network Partner Model	Consumer	O	Original targeting of consumers with original value proposition and value delivery model	X	Greater variety of special packs being offered, with high churn rate in product portfolio
	Customer	O	Original targeting of customers with original value proposition and value delivery model	X	Greater responsiveness, innovation scope, faster time to market, more variety; Menasha takes on customer coordination and distribution
	Supplier	O	Original relationship with suppliers but now accumulated demand for items that Menasha does not negotiate, or that Unilever gets a better rate	X	Greater responsiveness, innovation scope, faster time to market, more variety; Menasha takes on supplier coordination, negotiation, orders, and sourcing
	Complement	O	Direct relationships with complementors	X	Menasha is the customized complementor in terms of services and capabilities
	Society	O	Unilever sustainable living plan (USLP)	O	No change from base business
	Environment	O	Unilever sustainable living plan (USLP)	O	No change from base business

Table 4.2: Embedded Case 1 - Special pack related business model reconfiguration by component

The indicators on the table of ‘X’ and ‘O’ have special significance: the ‘O’ indicates that the original model was left unchanged; the ‘X’ indicates that the specific component was changed, and the description outlines what the change was.

The benefits of this reconfiguration have been quite significant already within this 2-year period since the reconfiguration launched. Manifestations of operational improvements can be seen in the service level to the customers for both the special packs as well as the base packs (because of the separation of focus of the planners between everyday / base packs and special packs), the speed to market, as well as complexity reduction in terms of number of re-packers, sites, and suppliers. I illustrate this in Figure 4.9:

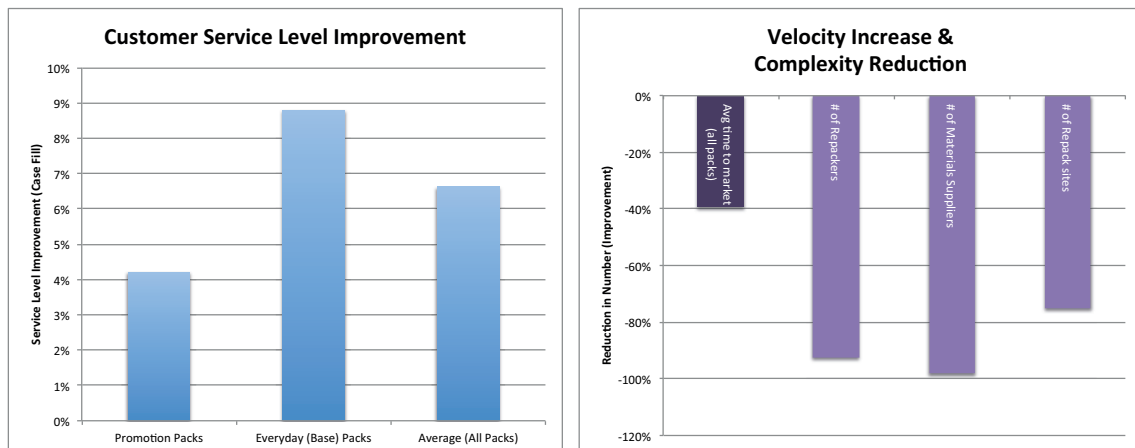


Figure 4.9: Embedded Case 1 - Business performance impact of BM reconfiguration

Conclusions of Embedded Case 1: Personal Care Special Packs

This embedded case gives us some insight into the motivations, mechanics, risks, and outcomes of business model reconfiguration. In this case, the motivation came from two sides: a) the Customer, an external stakeholder to the business, who was trying to keep up with dynamic Consumer demand, and b) the business itself, who was trying to grow both profit and revenue, and for whom simply changing processes did not yield the desired results and turned outward to a third party, Menasha Corporation, as more of a Complementor than a Supplier. The mechanics appear to be one of trial and error, search for the right partner, and contracting based on the partner's capabilities. But the mechanics seem to also shed light on the risks: this type of transformation is different from a traditional outsourcing process because it is much more integrated, and less common to find. There are several touchpoints for coordination and not just a handoff at the transactional level. This truly is a rethink of the architecture of the business in terms of not only vertical integration but also of horizontal functional integration across different functions within Marketing, Sales, Finance, and Supply Chain. The risks come to light through the transformation efforts, which required a significant amount of change in the culture, processes, and mindset of the business, invoking trust elements all along the way. The outcomes of the reconfiguration have been positive and the effort has proven successful, as the business has captured greater market share at increased profit and revenues.

4.4.2 Embedded Case 2 : The Spin-Out of the BCS Business

This embedded case highlights the decision variables and decision-making process of reconfiguration ex-ante and provides insight into the strategic and business model components that are central and drive the configuration of the other (peripheral) components.

4.4.2.1 Background

Unilever's roots lie in the margarine business as far back as 1929, when the Dutch margarine company, Unie, merged with the British soap-maker, Lever Brothers, resulting in the name of the company. Through the interviews, I learned that the Margarine business has always been used as a cash-generating category for the business. During the 1970s and 1980s Margarine enjoyed healthy growth, as consumers switched from butter to margarine. However, two factors in the 1990s and 2000s resulted in the slowdown and eventual decline of growth: first, the link between hydrogenated oils (the core component of margarine) and cancer, and second, the reduction of intake of carbohydrates (e.g. bread) had a direct impact on the consumption of margarine. Whereas Unilever maintained its market leadership, the category as a whole saw decline. This indicates a significant market shift.

4.4.2.2 The Previous Wave of Business Model Reconfiguration

From the interviews, I gathered that the first wave of business model reconfiguration was focused on efficiency gains and cost-reduction so as to maintain the generation of cash to fuel the innovations in other growth-oriented categories. The business model reconfiguration focused on the Supply Chain component, optimizing on production costs and manufacturing and distribution network configuration to reduce the number of factories and pushing distribution centers closer to the customer delivery points. Further, the interviews revealed that the category made significant innovation gains in manufacturing technology, which doubled production quantities and capacity, which further drove down production costs and increased production efficiency. However, this also means that the capacity available outstripped the required utilization for the market demand, leaving room for new products to be produced. Whereas this reconfiguration exercise successfully enabled the margarine business to generate cash, the size of the shrinking market hampered its ability to generate sufficient cash and the margarine business itself began to be jeopardized in its ability to innovate in order to sustain itself over the long term. Something else needed to be done.

4.4.2.3 The Current Wave of Business Model Reconfiguration

Having exhausted the cost optimization gambit, and having optimized the supply chain network and developed a breakthrough manufacturing technology that resulted in increased capacity for new products, the interviews reveal that Unilever saw a growing interest in consumers' interest in cooking and baking, made ever-more popular by food-related shows and programs on mainstream media and the explosion of cooking-related products which are of great purchase interest to con-

sumers. This stimulated a decision to shift the strategic focus from only margarine products to other cooking related products such as butter and other derivatives, resulting in the renaming of the erstwhile margarine category to the Baking, Cooking, and Spreading (BCS) business.

Reporter Peter Evans reported in the Wall Street Journal in December 2014:

“Unilever PLC intends to separate its struggling spreads division into a stand-alone company, potentially the first step toward the sale of a legacy business founded in 1872. Unilever said Thursday the separation would help it stabilize sales in a business that has become a drag on overall growth as margarine has fallen out of favor with shoppers. Consumers in the developed world are eating less bread than ever before and, when they do, are increasingly choosing to use butter instead of margarine. Americans in 2013 bought more butter than margarine for the third straight year, according to IRI, a market-research firm. Unilever’s spreads division, which includes brands such as Flora and Bertolli margarine, will have a separate management team, be able to set its own strategy and will report its own earnings, Unilever Chief Financial Officer Jean-Marc Huët said at an investor conference Thursday. The new business doesn’t include Hellmann’s Mayonnaise or Marmite sandwich spread. The company will operate in developed markets only and will be called Baking, Cooking & Spreading Co. It will be 100%-owned by Unilever and “continue to benefit from Unilever’s scale,” Mr. Huët said. Unilever expects the new business to start operating by the middle of 2015.” (Evans, 2014).

4.4.2.4 Business Model Reconfiguration Dynamics

I thought this would be an excellent opportunity to explore the birth of a new business model out of the reconfiguration of the existing Spreads category; carving out the butter / margarine products and reconfiguring the business model yet again. I spoke to my interviewees about this type of model, to get a better understanding as to the reason for the reconfiguration as well as the method in which the business is being reconfigured.

4.4.2.5 Business Model Reconfiguration Mechanics

To get a better perspective from someone who works within this category, I interviewed Vishal Patel, Manager for the supply chain for the Spreads business. I asked him about the rationale and the manner in which the business model for spreads will be reconfigured when it transforms into the BCS company:

“It’s a concept that has been done in Homecare in other markets, and has also been done for Ben and Jerry’s. The idea is to give the company their own P&L to manage, so now Spreads is no longer tied to the overall Foods P&L. If the Mayonnaise business needs \$10M so it’s taken from Spreads typically. So now, Spreads has freedom to act under your own business model to develop and achieve their own P&L, so that they can make their tradeoffs regardless of the overall business. This way, they can make faster decisions for BCS (Baking Cooking, and Spreading Company). Mike Faherty is responsible for the marketing side of things. I am basically not just a spread business, there are 3 key areas, spreading is quite familiar for people already, Baking is where I have cooking sticks; but Cooking I haven’t really touched. I have competitive action in this area, where competitor Land-o-lakes came out with ‘sautee

starter' – a spread with a flavor like a boullion. I haven't tapped all these types of different areas, and this is what I need to go after to make sure that I have products in this space. I can drive current products through different configurations to use in cooking applications."

Looking toward the future, and reminding me about the business conditions and how Unilever has had experience in this type of reconfiguration exercise, Vishal continued his commentary:

"They haven't defined the BCS structure fully yet, which will come out in Q2 / Q3 2015. Sales and Marketing is pretty easy because they have defined roles, but for instance customer development or supply chain are responsible across different categories including spreads, so would they be committed to just spreads, or do they continue doing what they're doing. In BCS, you've given the category their own P&L to manage, and let them figure out how they're going to grow. Remember, though, Unilever has done this before – you have the Ben & Jerry's business exists already, they did it in homecare latam, where the homecare business was declining, but by building this type of model they were able to turn it around. You bring the same in the ME for Spreads, and hopefully have the same, since for the last 10-15 years, the category has been declining annually by 2% to 5%."

I was also privileged to have access to Michael 'Mike' Faherty, the new CEO of the BCS company for North America. I provide the findings below organized by interview topic:

4.4.2.6 Business Model Components to be Reconfigured

The interview with Mike Faherty suggests that the core components and peripheral components are still being worked out since this is a business model reconfiguration in progress currently. However, the direction seems to be that the newly created BCS business would like to operate "like a typical Unilever category is run, because we are going to be plugging into the larger Unilever system to sell the product and to do cash-management to deal with supplier", but the key difference will be in terms of the ownership and financial components. For the future, Faherty thinks "sustainable sourcing" will be a component that plays a larger role. He views complementarities to also play a larger role in the business going forward. Since baking, cooking, and spreading has an ample scope of complementarities, the view is that this is a latent asset component that can be leveraged to be of advantage.

There appear to be plans to reconfigure the supply chain network, so this becomes an important component in the mix. The environment is an underlying core component, and the BCS business will be aligned with this core component through sustainable manufacturing practices and LEED certification of facilities. Further, Faherty indicates that the brand management and customer / consumer components are also core, aligned with the rest of the Unilever business.

There is a notion of 'master configuration' that Faherty conveys, where most of the business will leverage the standard Unilever business model, but some components will be configured for the BCS business. By continuing to leverage the Unilever sales force, the BCS business will be tied to this component as part of this 'master configuration'.

4.4.2.7 Unit of Analysis

Mike Faherty conveys that there is a negotiation in decision rights about the marketing component of the business model. He says, “for instance, Club packs – I have a gigantic Club Channel here – my Club Channel is bigger than some entire Unilever countries – and so this idea of playing in larger packs or dual packs that are large would happen locally.” However, there are decisions that are made globally as well, and the business has the obligation to comply with some of the branding standards like the ‘heart brands’, which are the health-oriented products, which use a common technology globally, as well as a common marketing message.

4.4.2.8 Strategic Context

Faherty insists that viewing through the lens of the growth / share matrix, the brands must be treated differently in each quadrant of the matrix based on the strategic context and intent. He says, “in the context of spreads right now, it’s been a Quadrant C [low growth / high share] business, but I would like it to be a Quadrant B [high growth / high share] business, and so that’s why I am looking at adjacencies but still in the same market fast growth segments.

He believes that he has an advantage in terms of brand equity and cost in comparison to butter products in the market. He believes the reconfigured business must compete on product functionality, complementarities, and new technology formats to win in the marketplace.

I conclude with a summary of the reconfigurations from the ex-ante model that are happening when the BCS company actively goes into operational mode after mid-year 2015 in

Table 4.3, where the ‘X’ indicates that there is a notable observation on the state of the business model:

Business Model Components		Reconfiguration of Business Models in the Spreads Category / BCS Company	
	Component	Original Spreads Business (Ex-Ante, 2014)	Spreads Business (Ex-Post, >2015) – BCS Company
Enterprise Financial Model	Revenue		X Alternate revenue streams from baking and cooking
	Cost	X	Same cost base, recent drastic reduction of base through new manufacturing technology, leveraging scale effect and common supply chain infrastructure for distribution, sales, procurement, and planning
	Cash		X Working capital in inventory will be increased due to a sourcing network restructuring
	Asset & Investment		X New plant using cutting-edge technology, with more capacity to meet new demands of new products
	Ownership		X Whereas still owned by the parent company, it will be a standalone unit, with an independent CEO
	Risk		X Higher risk profile in terms of
Internal Operating Model	Product		X Extended product portfolio for baking and cooking
	Brand Management		X New ways to market to consumers ; redefining consumers; new streams of R&D
	Sales Management	X	Same customer base, with same sales force as current model
	Supply Chain	X	Same supply chain base, recent drastic reduction of base through new manufacturing technology, leveraging scale effect and common supply chain infrastructure for distribution, sales, procurement, and planning
	Coordination	X	Same mechanisms for coordination in terms of systems, processes, communication streams, forums
	Organization	X	Same organization design with same / similar hierarchies and roles and responsibilities as current case
Network Partner Model	Consumer		X New clean label technology and reduction or elimination of artificial ingredients
	Customer	X	Same customer base as current case
	Supplier	X	Same supplier base as current case
	Complement		X New complementary assets that are aligned and incremental to the baking and cooking sub-categories
	Society		X New clean label technology and reduction or elimination of artificial ingredients
	Environment	X	Same organization design with same / similar hierarchies and roles and responsibilities as current case

Table 4.3: Embedded Case 2 - Reconfiguration of BCS business by BM component

4.4.2.9 Conclusions for the Embedded Case 2: The Spin-Out of the BCS Business

This embedded case sheds light on the motivations and decision considerations by the BCS leadership team in the reconfiguration of the business model. This case reveals that business model reconfiguration involves different components of the business model, and that the unit of analysis is at the category level, leaving unchanged the configuration of the categories that are not within the fold of the one being configured. This finding also provides support for the notion of a ‘master configuration’ of the business as a whole, within which the BCS category is specifically reconfigured. Further, this case lends support to the notion that the strategic decision of product choice comes before the decision of how to reconfigure the business model. The embedded case also provides the idea of the timeline of the business model reconfiguration, which, for an enterprise the size of Unilever, can take 2-3 years. Lastly, the case lends support to the notion that business model reconfiguration occurs on a continuous basis, and can be led by market forces or by internal motivation of a business.

4.4.3 Embedded Case 3: The Dual Business Model: the case of the Ice Cream business

Willem Uijen, Vice President for the Refreshments business highlights how Unilever configured its business model differently within the same category (Ice Cream) based on very different business needs. The Ice Cream business is split into two fundamental groupings, based on where product is consumed: (1) The planned or anticipated consumption of ice cream in one's home (as dessert), that is previously purchased from a refrigerated section of a retailer (In-Home or 'IH'), and (2) The unplanned or impulsive purchase of an ice-cream as a snack or dessert while one is outside one's home (Out-Of-Home or 'OOH'). He highlights the differences in the configuration of the business models in these two groupings with examples:

“So, Magnum is a typical OOH product, and you take the in-home products tubs of 1L of ice cream, the biggest difference that you have between those two is firstly, where are they sold? OOH is typically sold into the smaller stores or directly from a cabinet in store or shop; the IH product is typically sold in traditional channels like supermarkets. So the sales model is different, because the consumption is different. In the end, OOH is all about on-the-go consumption; the IH model is all about buying it, taking it home and consuming at your discretion; so for that the delivery model is different. With that, the innovation portfolio is very different. You have much more innovation in Magnum for instance or Cornetto, or sum it all up – in OOH. You have the management of supply chain completely different. In Mexico, for instance, you have a DSD [direct shipment delivery, i.e. from the factory directly to the retailer] model for delivery of OOH ice cream, whereas you have a normal centralized delivered to the warehouse of Walmart or whoever for the IH model. Sales is totally different – door to door for OOH, but through key accounts for IH. Brand management – there is a difference but it's more similar – in the end there's a brand strategy in place, there's a brand key. Product Portfolio I already discussed. Of course if you look at Revenue and Cost model, the Revenue per ton or 1000L is much higher for OOH than IH, but the cost for OOH is a factor different as well as for IH. Cash is completely different. If you look at the cash delivery of IH business, it's much more in line with what I have in other categories and brands. OOH is where you need to invest in cabinets, which changes your cash model completely. Assets and Investment, if you take away cabinets, not much different than other brands. Big difference is those cabinets. Consumers – not completely different, but the moments of when they buy, where they buy, are completely different. Customer are completely different – mom and pop stores vs. Walmarts of the world. Suppliers, not so different. Complementors, Society, Environment – not so different. Organizations are very different – you have completely separate organizations to manage IH and OOH. So you have one category with two completely separate business models.”

I summarize the differences in the business model in Table 4.4, to illustrate on how many dimensions these business models are unique to the category.

Business Model Components		Master vs. Custom Configuration of Business Models				
Component	Master Configuration		Ice Cream In-Home (IH) Business Model		Ice Cream Out-of-Home (OOH) Business Model	
Enterprise Financial Model	Revenue		X	Profit model is based on relatively low-profit per liter	X	Profit model is based on relatively high profit per liter
	Cost					
	Cash		X	Minimize inventory	X	Ensure inventory is available when consumers want the product
	Asset & Investment		X	None required	X	Refrigerated cabinets
	Ownership	X	Common for both			
	Risk		X	Low risk model	X	High volatility oriented model due to customer traffic, weather, temperature
Internal Operating Model	Product		X	Large volume product	X	Snack sized product
	Brand Management		X	Messaging on quality, low advertising	X	Messaging on novelty, lot of advertising
	Sales Management		X	Retailer oriented sales force	X	Outlet oriented sales force
	Supply Chain		X	High volume, low variety oriented	X	Low volume per cabinet, high variety oriented
	Coordination	X	Common for both			
	Organization		X	Dedicated organization	X	Dedicated organization
Network Partner Model	Consumer		X	Planned usage at home	X	Unplanned purchase (impulse) while outside the home
	Customer		X	Large and mid-sized retailers	X	Small stores with ice-cream cabinets
	Supplier	X	Common for both			
	Complement	X	Common for both			
	Society	X	Common for both			
	Environment	X	Common for both			

Table 4.4: Embedded Case 3 - BM configuration differences within Ice Cream category

4.4.3.1 Conclusions for the Embedded Case 3 – the Ice Cream business

This embedded case provides us with three main insights : firstly, to provide evidence empirically that more than one business models can co-exist simultaneously within the same category ; secondly, the same brand (e.g. Ben & Jerry’s) can have multiple business models operating in cohesion and synchronously; and thirdly, that this category has a ‘master configuration’ that holds the two disparate business models together that consists of the common ownership by Unilever, coordination mechanisms, common suppliers, complementary products, and the societal and environmental components.

Chapter 5 THE BUSINESS MODEL 'BEACON'

Strategy lies at the core of the fundamental choices of a business (M. E. Porter, 1996). According to Teece (2010), “strategy analysis is thus an essential step in designing a competitively sustainable business model. Unless the business model survives the filters which strategy analysis imposes, it is unlikely to be viable, as many business model features are easily imitated.” Hence, I put forward the proposition that the strategy lies at the core of the design of the business model, and must respect its directionality, motivation, and constraints.

There is a school of thought presented by Seddon et al. (2004) that business models are higher-level abstractions of the strategy of a firm. M. E. Porter (1996) mentions that “competitive strategy is about being different. M. E. Porter (1996) focuses on the ‘strategic choices’ that enable a firm to be different or offer a unique value proposition (whether differentiated or low-cost, and whether broad or focused). It means deliberately choosing a different set of activities to deliver a unique mix of value.” This description of a strategy as an activity system enables a strategy to include any and all activities (lower-order) to be contained within its fold, making it holistic on one hand, but also, on the other hand, making it a somewhat unwieldy concept, with no bounds. Further, whereas the linkages between activities are defined, the mechanics are not explicit. It also forces the user of this method of creating a strategy to commit to a single way of doing things as opposed to decoupling the higher order choices from the mechanics and linkages. “The definition of a business model is murky at best. Most often, it seems to refer to a loose conception of how a company does business and generates revenue. Yet simply having a business model is an exceedingly low bar to set for building a company. Generating revenue is a far cry from creating economic value ...” (Michael E Porter, 2001). The reason for this negative perception of business model definitions might have been that earlier definitions of business models were too narrow in comparison to his holistic description of strategy. I propose that Michael E Porter (2004) included components of business models as part of his definition of strategy, and hence had a negative view of why the concept of business models even exists since it appeared vacuous in comparison to his holistic view of strategy. He ignores the fact that there are many ways to implement a “generic strategy” (Michael E Porter, 2004), through different configurations (linkages and nodes) of the components of a business model.

Chun and Lee (2013) also highlight that “competitive strategy is a prerequisite to the business model and plays a significant role in its success”.

Based on my research on 72 relevant papers on business models in reputable academic journals, only 15 mentioned the term ‘competition’ (or some variation on the word). Most of the papers about business models are devoid of the notion of competitive dynamics. I propose that the business model is ‘wrapped around’ the business strategy and is integrally built on its core assumptions and direction. I seek to explain my reasons behind this proposition in the paragraphs that follow.

5.1 Business Strategy, Business Models, and Business Processes

Extending this notion further, I propose that the business model is the translation between the transformational notion of ‘strategy’, to the transactional notions of ‘business processes’ (Pateli, 2004; A. G. Pateli & G. M. Giaglis, 2003) and can be depicted as shown in Figure 21, completing the chain of logic that the differentiating mechanisms for business models to realize their competitive strategies lie in the “supporting processes” (Teece, 2010).

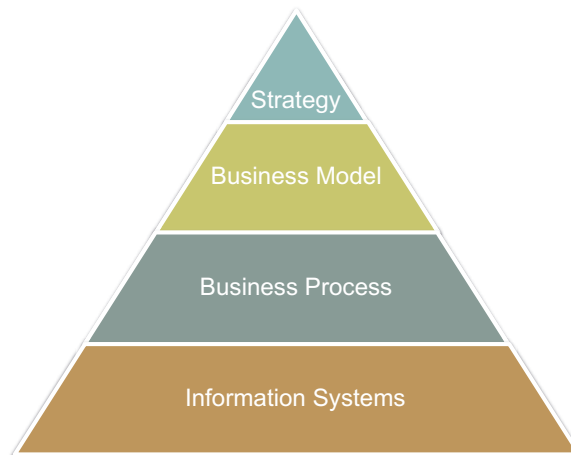


Figure 5.1: Business Model Definition Framework (source: A. Pateli and G. Giaglis (2003))

Further, “business models implicate processes and incentives” (Teece, 2007), and so there is a logical connection between the strategy, business model, and business processes. The business model contains elements of both strategy as well as operations, and in a way, uses the well-established boundaries of these concepts to clarify the scope of the business model (Morris et al., 2005). A. Pateli and G. Giaglis (2003) share their business model definition framework as a traditional pyramid structure, with strategy at the top, followed downward by business model, and then business processes, followed by information systems. Other scholars share this view of the business model being the logical link between strategy and business processes (J. C. Linder & Cantrell, 2001; Petrovic et al., 2001a; Timmers, 1998). The business model is “considered as the conceptual and architectural implementation of a business strategy and represents the foundation for the implementation of business processes” (A. Pateli & G. Giaglis, 2003).

In light of the definition of strategy (M. E. Porter, 1996; Michael E Porter, 2001), Seddon et al. (2004) suggest that business models are abstractions of strategy. In their view, the business model is at a higher level of abstraction of a strategy, which, in a sense, is yet another level of abstraction above the actual firm in real life. In their interpretation, several business models can be contained within the strategy layer, which is unique at the firm level. Business models are seen as more generic in nature than the business strategy. However, they draw an interesting and important distinction: that business models do not contain the blueprint for competitive action, which is the principal objective of a strategy. Aligned with this interpretation Christoph Zott and Amit (2010) describe business models as ‘activity systems.’

One cannot talk about business models in any depth without the strategic context. The business model must be tailored to the business strategy of an enterprise. Moving upstream, I see that the strategy is a consequence and manifestation of the vision and mission, which provide the enterprise with an aspirational goal and direction, and lay out the broad principles by which the enterprise will conduct business within its commercial ecosystem. Figure 5.2 shows that there is a two dimensional hierarchy within enterprise definition. First, there is a scale that measures the *impact of decisions or choices*, which ranges from *lower* to *higher*. The other axis measures the *scope of decisions or choices*, which ranges from *strategic* to *tactical* (and if extended further, to *operational*). Whereas this is a conceptual and qualitative framework, it provides me insight as to the hierarchy of decisions or choices, in terms of their scope and their impact on the business.

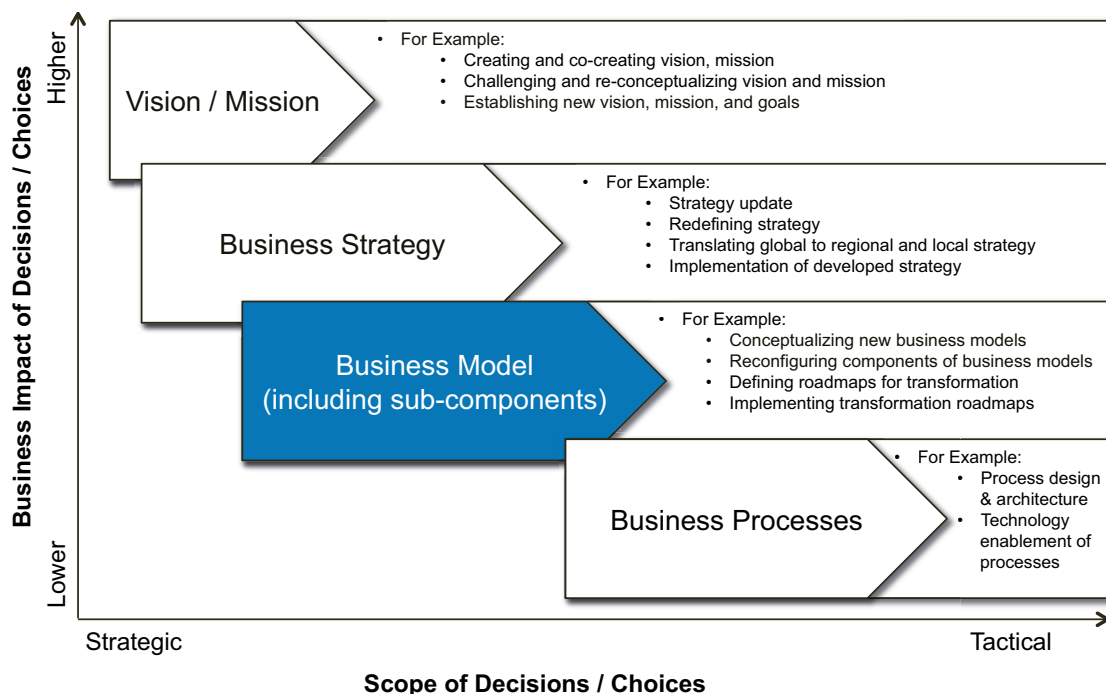


Figure 5.2: Decision scope differences between notions of strategy and business model

As previously mentioned, the business leadership articulate the *vision and mission* to state the aspiration of the business and provide the broad principles by which the business will operate. The enterprise must then use the *strategy* to build on this vision and mission, and lay out in more depth what it will sell, how it will compete, and what markets and customers it will do business with. The enterprise must then define the *business model* to translate the guidance from the *strategy* into more depth and richness, considering the broader requirements in terms of the components of the business model (and which I shall come to in more depth in the next chapter). The *business model* translates the business strategy (a ‘transformational’ concept) into the functional business processes (a ‘transactional’ concept). The enterprise must then develop detailed *business processes* that will be used as guidance for day-to-day business operations, after being transformed into *activity and task routines*, which form the scope of tactical choices and have a lower impact on the business than concepts like the *business model* or the *strategy*.

I propose a different lens for the co-habitation of these concepts, illustrating the position of Teece (2010), in his view that “coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models.” My diagrammatic representation extends the current portfolio of notions of ‘fit’ between these concepts, as seen in Figure 19.

This figure differs from depiction E in figure 18 because the concept of strategy is not ‘embedded’ or ‘within’ the concept of a business model, they are two standalone concepts, but they are concentric, i.e. there is a radial notion of ‘core’ and ‘periphery’, with an implied outward directionality from the ‘core’. “The separation of business model from strategy has far-reaching impacts” (Keen & Qureshi, 2006).

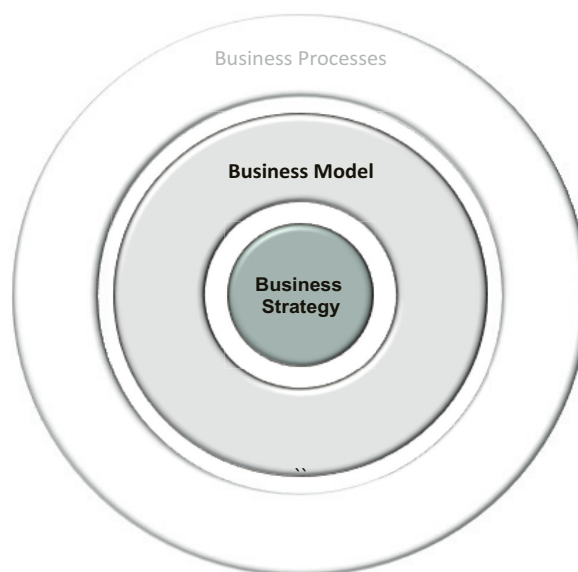


Figure 5.3: Proposed relationship between strategy, business model, and business processes

I represent the two concepts in a concentric 'ring-like' manner to convey the notion that you can have interchangeable business models, around the strategy 'core', without impacting the strategy, but also the notion that the evolution of the business model itself into a competitive weapon may imply that you can replace the strategy 'core' while leaving the business model in place. Clearly both must be present but they can be interchanged with different strategies (keeping business model constant) or different business models (keeping strategy constant).

5.2 Conceptual Framework of a Business Model

Consolidating and arranging the aforementioned concepts into a single conceptual framework, I present my conceptual model of an enterprise in Figure 5.2:

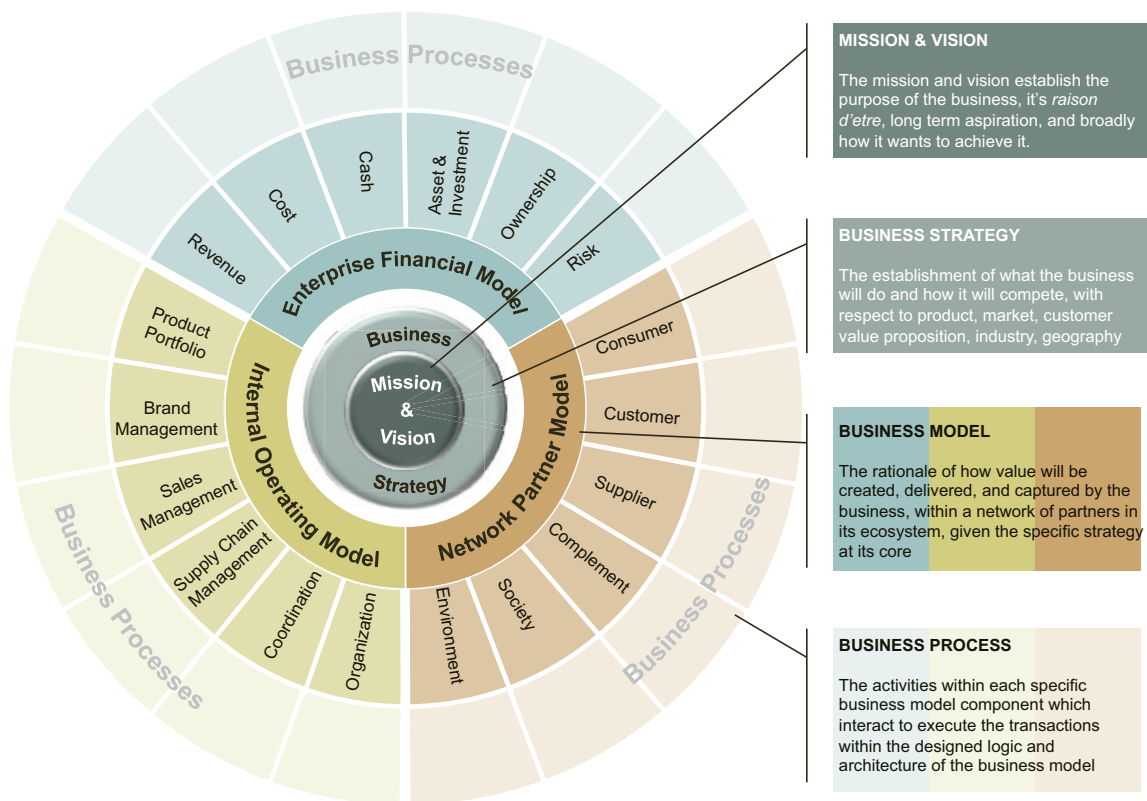


Figure 5.4: Strategy and Business model framework

Within the core of the business (the innermost circle) lies the vision and mission of the business (it's core purpose), without which a business will be lost as to what it aspires to be and the broad principles by which it will conduct business. Without a vision and mission, a company risks being a sail-

boat without a sail, floating in the waters, at the mercy of the waves that carry or sink it, without the ability to steer and move deliberately in any direction.

The next circle in the core represents the *business strategy* that uses this mission and vision to determine the product or service that it will sell, the markets where it will operate, the type of customers or industry segment that it will cater to, and how it will compete. It also includes decisions such as how the business will organize into product categories and customer channels and choices of what vertical stages of production (if a manufacturing business), or what part of the value chain it will participate in (if a service business). One of the key elements of the strategy is the value proposition of the business to the customer, i.e. what customer 'need' (articulated or not) will be fulfilled by what the enterprise does and on what dimension(s) will it compete (e.g. cost, quality, speed, flexibility, price, product characteristics, etc.).

Encompassing the *strategy* circle is the *business model*. Keep in mind that the choices that are relevant to the product, market, customer type, industry, competitive context and value proposition have been made through the *strategy*. What has not been hitherto decided upon are the 'mechanics' by which the *strategy* will be realized. The business model therefore is all about the *mechanics* of how the strategy will be transformed into action by which it will be operationalized. There are specific decisions to be made in the choice of *business model* and this is what I will focus on now.

There are three key *dimensions* to the business model: (1) the *enterprise financial model*, (2) the *internal operating model*, and (3) the *network partner model*. I will discuss each in a summarized manner here, and in more depth in the next chapter.

The *enterprise financial model* discusses the mechanics of the financial aspect of the business and addresses how the business will make money, what costs are involved in order to generate the revenue, what assets the business will control or have access to, whether the business will own these assets or will 'rent' them. Further, it will address what type of ownership model is in place, and what is the profile of risk that the business is willing to undertake as part of its mission to compete through its strategy.

The *internal operating model* is an intuitive view of the business looking from outside in. It describes the operational, functional, and organizational mechanics of the enterprise and how it operates with the strategic paradigm. The *internal operating model* addresses the product portfolio and how that portfolio is segmented, what the product mix is, and also articulates the different parameters of quality, safety, regulatory, and use that enable the product or service to be a positive value delivery mechanism. It articulates what is the sales approach and how the sales function operates to meet customer requirements. It also looks at the marketing approach (including innovation) and how the business markets to its relevant stakeholders. Further, it also examines the supply chain operations of the business, in terms of how the four key pillars of *Plan, Source, Make, Deliver*, based on the SCOR model (Stephens, 2001). In addition, the *business model* also describes the organizational structure, span, and incentive schema. The organizational mechanics are particularly important as they de-

scribe (especially in larger and more complex organizations, such as matrix based multi-category, multi-channel, multinationals) the interaction touch-points between different 'slices' of the organization, whether they are functional, category, or channel oriented. This component also includes the skill-base and competencies of the resources within the organization and the capabilities of the organization as a whole to operationalize the strategic guidance. This brings another component to the forefront: coordination. The business needs to coordinate in some manner, and the systems and interfaces that the organization needs in order to do so, from the communication and transformation aspects to the mundane transactional aspects.

The *network partner model* is oriented towards an inside-out view of the business. It focuses on different components such as the *customer* and *consumer* component, which address how the business interacts with customers, how it organizes them (e.g. a channel approach), how it manages to keep up in the dynamic environment of the customers. Further, it also encompasses the final value delivery to the end-consumer (albeit via the customer in many cases) who might be purchasing the product from an intermediary. Further, the external model also addresses the suppliers, in terms of how they are organized to interact with them, with what frequency, and by whom, and with what frequency and level of transaction. The business model also addresses the *complementor* in terms of what products or services are supplied by another organization (internal or external) in the business ecosystem that aggregates value to the end-customer through a set of complementarities in terms of products or services. In addition, the business model needs to include the *society/community* and the *environment* in terms of the business' interactions with people at large such as in terms of their corporate social responsibility programs, their interactions with communities and society as a whole, as well as with environmental groups. Supplementary to this, I also include the enterprises safeguards to protect the environment, and include the manners of organization and control to leverage environmental factors and work within the strict guidelines of safety and natural habitats.

Finally, the *business process* circle encompasses the business model layer, and describes in further depth the manner in which the mechanics of the strategy will be implemented through transactions and business routines. The business process layer includes the specifics around people, activities and systems that will enable the operationalization of the business model (once again, converting transformational concepts into transactional activities such that value is created, delivered and captured, the central theme and requirement of business models). The process layer describes the key activities that must occur, the sequence of these key activities along a time dimension, specifying the interactions between internal and external business partners within the commercial ecosystem, the technology enabler interactions in terms of inputs, outputs, formats, reports, and validation.

The performance metrics are embedded within each layer of the conceptual framework. There needs to be an organized and logical hierarchy of performance metrics to measure business and operational performance for each of the components of the business model, ordered and linked to the financial model and its associated financial performance metrics.

5.3 Congruency with Deliberate and Emergent Strategies

Mintzberg and Waters (1985) discuss the bidirectional forces of strategy development in their paper on 'deliberate' and 'emergent' strategy. They discuss a perfectly 'deliberate' strategy as one that the actions performed are exactly per the intended strategy, following 'precise intentions' articulated in a fairly rigorous level of detail, meant to impact the organization as a whole and indiscriminately across all functions, and that no external influence was taken into account while implementing the strategy. This is fairly high bar for 'deliberateness' of a strategy, for which leaders may be accused of being too rigid in the implementation, and perhaps turning a deaf ear to the voice of the organization as well as to the market (and customers). On the other hand, a perfectly 'emergent' strategy is one where there is consistency of action without making it so in an intentional manner. This too, forms an extreme case, equally unlikely as the perfectly 'deliberate' strategy. In reality, most strategies lie somewhere in between the perfectly 'deliberate' and perfectly 'emergent'.

Strategy	Major features
Planned	Strategies originate in formal plans: precise intentions exist, formulated and articulated by central leadership, backed up by formal controls to ensure surprise-free implementation in benign, controllable or predictable environment; strategies most deliberate
Entrepreneurial	Strategies originate in central vision: intentions exist as personal, unarticulated vision of single leader, and so adaptable to new opportunities; organization under personal control of leader and located in protected niche in environment; strategies relatively deliberate but can emerge
Ideological	Strategies originate in shared beliefs: intentions exist as collective vision of all actors, in inspirational form and relatively immutable, controlled normatively through indoctrination and/or socialization; organization often proactive <i>vis-à-vis</i> environment; strategies rather deliberate
Umbrella	Strategies originate in constraints: leadership, in partial control of organizational actions, defines strategic boundaries or targets within which other actors respond to own forces or to complex, perhaps also unpredictable environment; strategies partly deliberate, partly emergent and deliberately emergent
Process	Strategies originate in process: leadership controls process aspects of strategy (hiring, structure, etc.), leaving content aspects to other actors; strategies partly deliberate, partly emergent (and, again, deliberately emergent)
Unconnected	Strategies originate in enclaves: actor(s) loosely coupled to rest of organization produce(s) patterns in own actions in absence of, or in direct contradiction to, central or common intentions; strategies organizationally emergent whether or not deliberate for actor(s)
Consensus	Strategies originate in consensus: through mutual adjustment, actors converge on patterns that become pervasive in absence of central or common intentions; strategies rather emergent
Imposed	Strategies originate in environment: environment dictates patterns in actions either through direct imposition or through implicitly pre-empting or bounding organizational choice; strategies most emergent, although may be internalized by organization and made deliberate

Figure 5.5: The 8 Different Types of Strategy (Mintzberg & Waters, 1985)

Mintzberg and Waters (1985) propose 8 types of strategies ordered from most 'deliberate' to most 'emergent', as shown in the table below. In my quintessential notion of strategy development in

large organizations, the leaders of an organization create a 'Planned' strategy, in the form of budgets, organizational form, structure, and routines that can be governed and measured with performance indicators, which is then executed. As discussed in their paper, I can also imagine the 'Umbrella' or 'Process' type of strategy development occurring. Using the commonly occurring theme of fundamentals of the strategy moving in the 'deliberate' direction from the 'inner circle' of leadership to the 'outer circle' of the organization or even the market, with some 'emergent' ideas and reactions feeding back into the mostly 'deliberate' strategy.

While Mintzberg and Waters (1985) discuss the extent of the push that the 'leaders' of the organizations make in developing strategy (vs. allowing it to emerge from the environment), they do not explicitly mention from where the 'emergent' strategy would come from (within the organization), or what path the 'emergent' new knowledge would take to reach the leaders. I propose that the strategy development exercise outlines the business model options and constraints, logically translating the high level aspirations such as vision and mission into informed choices and decisions about the business model, which in turn spawns the logical business processes, which form the basis for the execution of the strategy and foundation stones of day to day operations of the enterprise. These same processes are the touch-points of the organization with the 'network ecosystem' (A. Afuah & Tucci, 2001) of business partners, and are the mechanisms by which the organization develops the 'emergent' elements to the 'deliberate' strategy in order to respond to the marketplace. These 'emergent' elements take place in the form of decisions made in specific settings and for specific 'arenas' (McGrath, 2013) or combinations of products, markets, customers, and geographies. These 'emergent' elements may not enable the business to shift away from the macro-objectives outlined by the 'deliberate' strategy, but may reconfigure the business model to work around specific constraints or restrictions that the market imposes.

For instance, an agrochemical company, FMC Corporation (EMEA division) had a single Planned strategy for EMEA, but because the German market environment differs radically from the Ukraine market environment, the business model for these two geographies was forced to be different – regulation in Germany allowed FMC a direct B2B access market whereas Ukrainian protectionism oriented regulation forced FMC to work with 1 local primary distributor only. The marketplace influenced these changes, and FMC EMEA leadership accepted these as deviations from the template business model that the strategy outlined, and made an adjustment to the strategic elements (budget, profit margin, etc.) to take into account these 'emergent' factors.

In conclusion, the characterization of the relationship between business strategy within the Beacon framework, process is a loosely coupled and modular one, originating with the creation of a strategy, followed by a business model, to enable the strategy to be implemented, and finally the business processes that can execute the requirements of the business model.

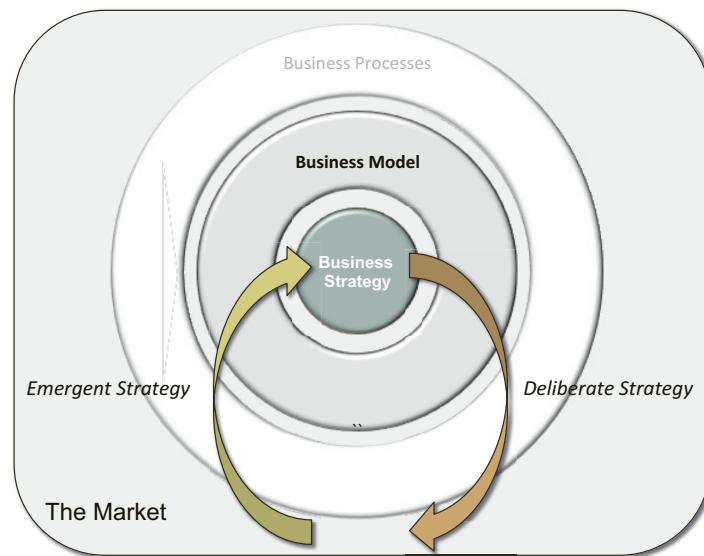


Figure 5.6: Relationship between core concepts in context of emergent and deliberate strategy

5.3.1 The Accelerated and Temporary Nature of Strategy

It has been claimed that companies compete on the basis of their business models (Ramon Casadesus-Masanell & Ricart, 2007). Successes (e.g. FreshDirect) and failures (e.g. WebVan) of companies have been attributed to the design of their business models; the failure of competitors to reconfigure their business models to compete effectively (e.g. Netflix vs. Blockbuster), and companies not adapting their business models to emerging externalities (e.g. Barnes and Noble booksellers) fast enough have also been attributed to their success or failure. Existing research proposes the notion of a business model as being dynamic rather than static (R. Casadesus-Masanell & Ricart, 2010), in order to be able to effectively deal with demand and supply uncertainty, market variability, competitive actions, technological evolution, and other externalities.

This idea of a business model having to be dynamic requires that the business model be flexible on its different components. For instance, in a new firm, where there is no incumbent business model, this notion implies that it should build in some type of structural flexibility so as to adequately respond to internal and external factors, as well as to enable future reconfiguration as needed. For existing firms, it implies that a business model reconfiguration exercise should be facilitated through the flexibility of the dimensions of the business model. This is reflected by R. Amit and Zott (2012)'s activity system perspective which claims that BMR fundamentally consists of adding and dropping activities within the business, which is aided by the inherent flexibility of the business model due to the flexible interdependencies between the components of the business model (Siggelkow, 2002).

McGrath's perspective on strategy is that traditional approaches such as the five-forces analysis (Michael E Porter, 1985) were valid for a different time period when business was less global and more stable, when I did not witness the degree of industry convergence and corporate merger and

acquisition activity that I do today. The holy grail of sustainable competitive advantage was long sought after by businesses, crafting strategies that promised to deliver such advantage. McGrath's postulates a change in such thinking by introducing the notion of 'transient competitive advantage', where companies need to "win in volatile and uncertain environments," where executives must have the ability to sense and seize often short-lived opportunities in the marketplace and transform their business (models) in an agile manner in order to do so. McGrath argues that "deeply ingrained structures and systems" will potentially hold back a company from being agile enough to adapt to rapidly changing environments to take on competitive forces from different directions (industries, companies, markets, customer segments, geographies). Further, McGrath considers business model innovation one of the keys to keeping up with this competitive velocity, to gain this transient competitive advantage (preface xv).

The BCG growth-share matrix added the perspective of 'lifecycle' to strategy, which introduced the notion that there is no one-size-fits-all strategy for a business, but it should be tailored to the specific phase of the lifecycle of the product portfolio or business portfolio. Chun and Lee (2013) provide empirical evidence to show that "success of a sustainable business model depends on a mixture of pertinent generic business strategies from the life-cycle perspective." McGrath (2013) translates the traditional lifecycle stages of 'introduction', 'growth', 'maturity', and 'decline' (Carl R. Anderson & Zeithaml, 1984; Barksdale & Harris Jr, 1982; Hambrick et al., 1982) as 'waves', with stages referred to as 'launch', 'ramp up', 'exploit', 'reconfigure', 'disengage'. This notion of 'waves' is a "shorthand way of thinking about the lifecycle of competitive advantage" (Leavy, 2013). Using the seminal perspective that the purpose of a business is to create a customer (Drucker, 1992), the stages of the 'wave' interpretation of a lifecycle symbolize the introduction of a product through some sort of (continuous) innovation process ('launch' and 'ramp up'), the growth in market position vis-à-vis competitors and the leveraging of market arbitrage opportunities ('exploit') to reap the rewards of the investment in innovation, the mindful, planned, and intentional ramp-down of the innovation ('disengagement') so as to reallocate resources, assets, or business capabilities to new innovations, markets, 'arenas' ('reconfiguration'). Being mindful of the fact that the opportunities being hunted by businesses are 'transient' in nature, combined with the explicit lifecycle stage of 'disengagement', a business will need to structure itself differently from a traditional business that does not think in these terms (have a different business model, in other words).

In conclusion, the notions of 'strategy' and 'business model' are not overlapping but complementary. To create a 'deliberate' strategy (Mintzberg & Waters, 1985), an enterprise must begin with a strategy, and craft a business model on the basis of the configuration of the strategy. The business model is the enabler of the strategy, and is one conceptual level more granular than a strategy. It contains the information about the 'architecture' of the content of business functions and relationship with business partners within their ecosystem. To create an 'emergent' strategy (Mintzberg & Waters, 1985), an enterprise must look outward, to its customer base. These customer-centric changes to the business outcome will impact its business model (because the architecture and rela-

tionships between the functions will change). This business model shift will become incompatible with the strategy that it was designed for, and hence will influence the shift in strategy. Either way, deliberate or emergent, the strategy and business model are regarded as distinct and separate notions, with an inextricable relationship of complementarity.

I have provided the overall framework of how I characterize the business model. I now focus on the components of the business model to explain them in more depth. I provide a summary of the business model framework with its components in the figure below. The three primary elements of the business model are the Enterprise Financial Model, the Internal Operating Model, and the Network Partner Model. The secondary components are highlighted in the tables surrounding the circular framework diagram. I have intentionally depicted each of the elements at the same level of consideration and without any apparent hierarchy because the relative importance of each element varies by company and cannot be generalized. Further, this same reasoning of abstaining from hierarchy applies to the components within these principal elements.

I will focus on the business model elements and components and not pay much attention to the business strategy because I am not changing the meaning, definition, or context of the strategy. I simply take it as a given and build my research on business models around the central notion of the business strategy.

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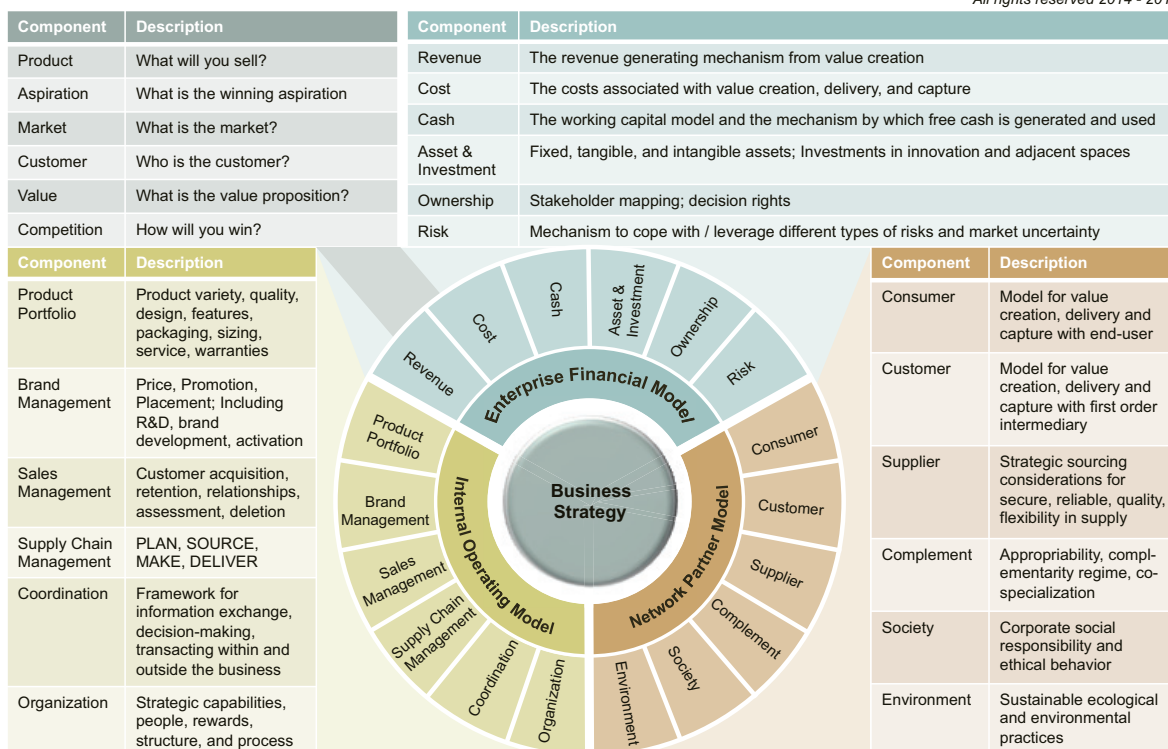


Figure 5.7: Business model 'Beacon' framework

In an effort to respect and leverage existing research and best-of-breed approaches, I propose the Beacon as an overarching business model framework, combining existing frameworks of functional subject matter to look at the focal firm in a holistic manner. I use some of the most recognized and well-published frameworks for each of the business model sub-components, and assemble them under one umbrella framework. The purpose of this umbrella concept is threefold: (1) to include all the possible functional areas covered by literature and not make exclude any component through ex-ante assumptions about which components are relevant, (2) the functional lenses of these sub-components have already been researched thoroughly and sufficient dominant expertise exists within these functional silos, and (3) my focus is on the configuration of these different components in relation to each other and not the in-depth configuration of the specific components in and of themselves. Scholars in different particular areas of specialty have studied the different components of the business model in great depth. The components deal with a wide range of topics in the areas of organization (organizational, coordination), functional areas (marketing, sales, supply chain, finance), community and sustainability (society, environment), management of external partners (suppliers, customers, consumers, complementors). The contribution of the Beacon framework is to pull together these disparate functional, organizational, social, and environmental topics under one umbrella at the same level of abstraction, and look at the interdependencies between these components, as well as to enable one to determine which components drive the configuration of other components.

5.4 The Beacon : Business Strategy

The Business Model Beacon – Business Strategy

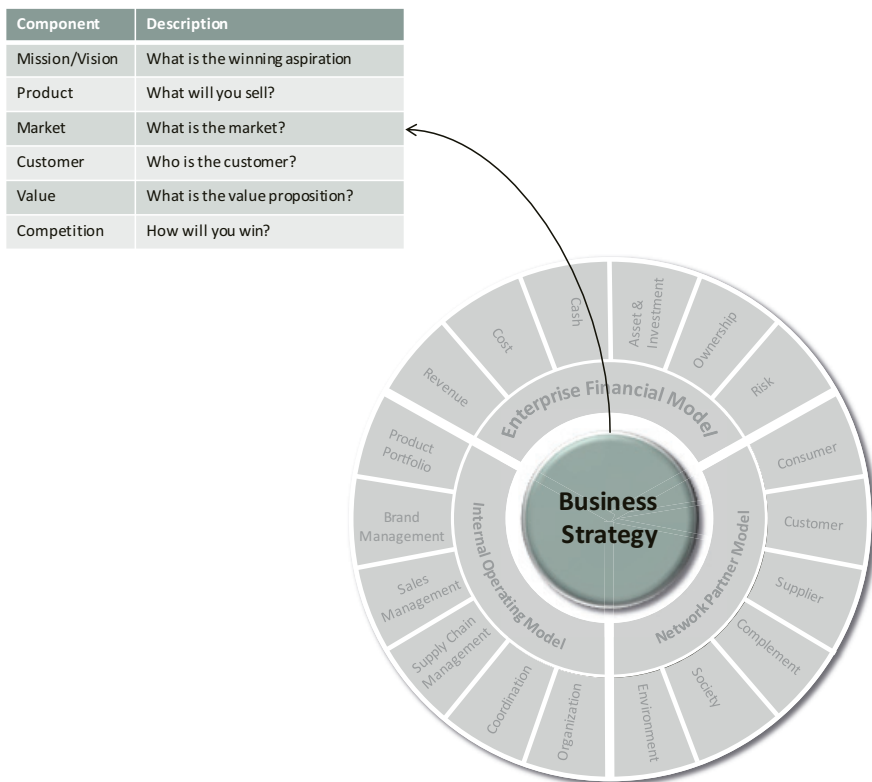


Figure 5.8: The Business Model Beacon: Business Strategy

I have used a simplified characterization of the business strategy as described by Lafley and Martin (2013) in order to remain faithful to my aspiration of writing in a manner that is accessible to the practitioner community, yet maintaining academic rigor. Lafley and Martin (2013) describe their view of strategy in practical terms: a formulaic articulation of the “winning aspiration” which provide guidance and direction for a business; defining the “playing field” which provides the business direction as to where it will compete in terms of geography, product range, market segments, customer channels, and production stages. In addition, and aligned with other strategy scholars, there is a unique value proposition and a distinct competitive advantage. I am using the Lafley and Martin (2013) ‘waterfall’ framework of defining a strategy. They start with the ‘winning aspiration’, then define ‘where I will play’, which embodies the purpose of the enterprise, encompassing the specific business choices of product, market, geography, and customer, and then defining ‘how I will win’, which defines the value proposition to customers as well as what the competitive differentiator is. I describe each of these strategy components below:

Vision / Mission: The purpose of a business is the first thing to be established in terms of the vision and mission of the business. It is the winning aspiration that a business must have in order to have a clear and deep sense of purpose for the business.

Product: The broad selection of product family that the business will be involved with, which also outlines what it will **not** be involved with, since strategy implies choices for engagement or disengagement, keeping the business focused. The product selection is at the level of 'category' or some other broad selection at a product family level. An example is 'packaged foods' or 'personal care' or 'universal retail'.

Market: The choice of the geographic territory, market segment, and market channels through which the business will operate. The market choice is critical because it will also have organizational implications in terms of size, scope, and range of the responsibilities and roles of the resources.

Customer: The choice of customer segments, sales channels, and consumers that the business wants to target. This choice has to also specify exclusions so that the business is clear as to where to invest customer development funds and have a confident sense of which segments are oriented towards what business objective (profit, sustainable revenue, competitive dissuasion, etc.)

Value Proposition: The clarity on what value the business is providing the customer or consumer via the products that the business is selling in the marketplace. The value can take many forms, in terms of specific product functional attributes, but also in terms of status, sentiment, or complementarity.

Competition: How the business will compete in the marketplace, and what it will do to win the market share for the product / market / customer combination. The competition component specifies what axes the business might compete on (price / quality / availability / attributes / other), and how the business will differentiate itself in the marketplace.

5.5 The Enterprise Financial Model

The enterprise financial model consists of 6 key components:

The Business Model Beacon – Enterprise Financial Model

Component	Description
Revenue	The revenue generating mechanism from value creation
Cost	The costs associated with value creation, delivery, and capture
Cash	The working capital model and the mechanism by which free cash is generated and used
Asset & Investment	Fixed, tangible, and intangible assets; Investments in innovation and adjacent spaces
Ownership	Stakeholder mapping; decision rights
Risk	Mechanism to cope with / leverage different types of risks and market uncertainty

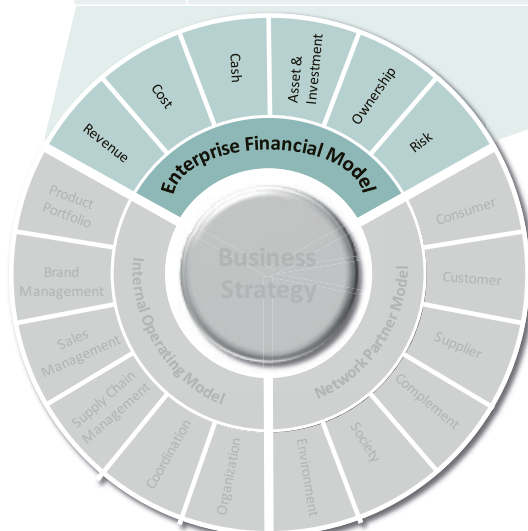


Figure 5.9: The Business Model Beacon: Enterprise Financial Model

5.5.1 Revenue:

This component describes how the business generates revenue. There are a few primary considerations to articulate this. One of them is to catalog the revenue streams, which are linked with the product / service portfolio. The revenue model is also a reflection of how the business has determined to generate value for the customer. It is important to keep in mind that revenue is nothing but a multiplier of product (service) units with pricing over a period of time. In order to modify the revenue model, one must alter one of the following attributes of the revenue model: volume, location, quality, pricing, or time. Some common revenue models include: 1) *Standard* – monetary exchange of cash (credit) for a product / service; 2) *Price Promotion* – same as *standard* but with a monetary discount (e.g. x% discount on standard product); usually connected with an expiration date (also see *exploding* offer further in this section); can also be used within a specific locational context (e.g. discount at a new store to gain traction); 3) *Volume Promotion* – same as promotion but with

discount in terms of additional product volume for standard price (e.g. buy 1 get 1 free); can also be used with a specific location context; 4) *Freemium* – giving away a ‘lower quality’ of standard product for free, and charging for ‘standard quality’ features / functionality (e.g. used in the web-based software offerings); 5) *Exploding* – giving away full features and functionality of a product for a limited period of time at some form of advantage (price / volume) after that the offer expires and the user / consumer must purchase at regular price or abandon the product (e.g. used in the software industry); 6) *Yield* – based on demand and supply differentials in relation to time (e.g. the airline industry uses this for different routes and seat types and locations within a network); 7) *Location Driven* – in order to drive sales at specific locations to gain more than others within a given network; and 8) *Complementarity* – Selling complementary product with main product, in order to drive a lower overall system cost for the customer, and driving sales of secondary products (e.g. selling pumps with valves)

5.5.2 Cost:

The cost component encapsulates the elements of monetary cost (vs. opportunity cost or other intangible costs) for the business, and typically includes what appear in the expense related line items of a financial statement (e.g. the Profit and Loss or Income statement). The sources of cost for a business are typically found on a P&L under the following 5 categories (*Schmidt, 2003*):

The first category is *Expenses for Cost of Goods Sold* (COGS for product-related businesses) – sometimes also referred to as *Cost of Services* or *Cost of Sales* (for service-related businesses) – these are typically the expenses that are directly connected with the production of goods or delivery of services. Some of the core cost elements in this category include the following: 1) *Direct materials cost for manufactured products* – this encompasses the cost of the materials (which may include sub-components) that are used as an input into the product that is produced (regardless of whether or not the manufacturer owns the manufacturing assets); 2) *Direct cost of service delivery* – this includes the direct labor costs in the delivery of a service (e.g. cost of the consultant who delivers a service); 3) *Purchase of finished goods inventory to be sold* – if the business is involved with the resale of products (e.g. an electronics retailer), then the cost of these products falls under this category; 4) *Direct labor for manufacturing* – this includes the cost of the labor that produces the product (e.g. workers in a factory); 5) *Manufacturing overhead expense* – this typically includes indirect labor, production equipment depreciation expense, and other manufacturing or delivery overhead (e.g. repair staff from the company that supplied a part of a machine that comes to do service on that machine, but who is not a part of the manufacturer’s organization); 6) *Indirect costs of service delivery* – this typically includes the costs incurred by the individual delivering the service (e.g. the rental cost of special equipment that the maintenance person uses as part of his / her service delivery)

The second category is *Operating Expenses (Selling)* – this category of expense includes the cost of selling the products or services, and typically includes the following: 1) *Retail fees, maintenance, rental* – includes the expense required in order to place a product on a retailer’s shelf (e.g. slotting fees), or

the rental of a shelf for the stock of the product; 2) *Sales salaries and commissions* – if the enterprise uses a sales force, then the salaries and commissions for the sales team is included here; 3) *Advertising and promotion* – the cost of creating and displaying an advertisement or running a campaign and the cost of promoting product (e.g. discounts, additional volume bundled at a discounted price); 4) *Depreciation for the assets used in the selling process* – this could include things like a bar-code scanner in a retail environment, or the printer used to print coupons and advertising material for the campaign.

The third category is *Operating Expenses (General and Administrative)* – this category of expense includes all the costs of actually running the business on a regular basis (with exception of special and non-recurrent items such as those exceptional costs associated with an acquisition for instance), such as the following: 1) *Salaries and wages* – this includes the salaries and wages for those not already included in activities directly associated with production or selling, and also includes the compensation for the business' leaders and executives; 2) *Research and development* – this includes the costs associated with activities associated with research and development and may include items such as clinical trials (for the pharmaceutical industry), or equipment for production, or also user-testing costs for new software, for instance; 3) *Technology support costs* – the costs associated with information technology related support, where the IT organization supports the whole enterprise; 4) *Depreciation costs* – this includes the depreciation costs for plant, property, and equipment (PP&E) assets and also other assets that might not directly be associated with sales or manufacturing activities, such as 3-D printers for testing and demonstration of a concept for sales internally within the organization

The fourth category is *Financial Expenses* – this category includes the costs that are incurred as a result of borrowing money or gains from financial investments. Typically, these may include the following: 1) *Loan related fees* – this includes the fees in relation to the sourcing and arranging (i.e. origination) of loan obligations; 2) *Interest paid on borrowed funds* – this includes the interest on the amount borrowed in order to invest (i.e. the base interest rate for borrowed money that is then invested in other higher yield investments). For instance, banks pay consumers x% for their money on fixed income accounts and then invest this money into higher yield investments, but still need to pay back consumers the x% that the borrowed from the consumers at.

The last category is *Extraordinary Expenses* – these are the costs for exceptional or non-recurring events in the business' existence, such as a restructuring, acquisition, or divestiture typically. These expenses are typically “not a part of the company's normal business operations” (Schmidt, 2003), and may include the following: 1) *Restructuring expenses* – this can include items such as the cost of consultants to develop the new structure and workflows, the reduction of the workforce and layoffs of employees enabling one-time payouts; 2) *Property transactions* – sale of, land, buildings, properties, and other physical possessions; 3) *Disposals or asset sales* – sale of plants, brands, or other proper-

ties regarded as significant assets; 4) *Business (lines) sale* – divestiture of business lines or of the business as a whole.

These five categories of expenses (cost) form the bulk of the cost items that a business will encounter in its existence, and may be catalogued qualitatively or quantitatively for the purposes of the business model articulation, depending on the use of the framework.

5.5.3 Cash:

This component of the *financial model* offers insight into the balance of cash in the enterprise, and includes the traditional cash aspects of the business such as *debtors, creditors, and inventory*. It provides insight into the terms of trade with customers and suppliers, as a proxy for relative negotiating power of the business. The *inventory working capital* is a manifestation of the degree of synchronization within the business.

The cash model is important because it also describes the relative power of the focal firm vis-à-vis its customers and suppliers and to understand whether it has the power to dictate payment terms. Further, it also implies the valuation of the business, and gives a better understanding to the motivation of the underlying business strategy. For instance, private equity firms focus mostly on increasing the cash flow so as to inflate the valuation of the business, aligned with the insight that “operating cash flows are better than accounting earnings at explaining equity valuations”(Liu, Nissim, & Thomas, 2007).

5.5.4 Asset and Investment:

This component of the *financial model* includes the assets that the business has acquired or developed, and also the investment in other technologies, businesses, and companies that might provide a better understanding as to where the business is headed in the long term.

The *Asset Model* consists of three broad categories of assets: *fixed (capital) assets, tangible assets, and intangible assets*, which may be described as follows: 1) *Fixed or Capital Assets* – These are typically the productive assets of a business, including factories, distribution centers, machinery, heavy equipment (e.g. power generation), and other non-human physical resources that add value to their product; 2) *Tangible Assets* – This category of assets typically includes the physical assets of a company not used for production directly (e.g. computers, printers, fleet vehicles). In accounting, this category also includes cash and working capital but for my purposes, I have created a separate component of the *financial model* that deals specifically with the *cash model*; 3) *Intangible Assets* – This category of assets includes the non-physical assets of a business such as patents, intellectual property, trademarks, specific knowledge of formulations, and copyrights.

The *Investment Model* encompasses the portfolio of investment that the business has made for the future. The investment profile may provide indication of the long-term motivations of the business and the strategic considerations and directions of the business. Whereas the business model reflects

the current manner in which the strategy is being executed, enterprises typically have a forward view of where they are headed and this often reflects in their investment portfolio. One would find generally items in the details of the R&D spend that demonstrate the investment in the 'ideation' through 'development' sections of the funnel, but this is more exploratory than the 'ideation' section, which already articulates a product and associated vision. The *investment model* gives me rare insight into the mind of the leadership team to understand what directions the company might go into. The investment model might give me insight into some of the following aspects of strategic interest: 1) *Efficiency* – these types of initiatives or technologies might help lower the cost-base of the business, enabling it to invest more in growth and innovation; 2) *Responsiveness* – these types of initiatives or technologies might enable the business to cater more to customer needs, accelerate speed to market, and enable growth through these channels; 3) *Adjacent Business Models* – exploring adjacent business models might enable an enterprise to leverage this knowledge to morph into new spaces before the competition; 4) *Growth* – initiatives oriented towards growth such as investing in capabilities, new markets, new product platforms, or new technologies may give me indication of the direction in which the company plans to grow in the future

5.5.5 Ownership:

This component of the *financial model* describes what form of ownership the business currently has; the implications of form of ownership are that they describe the 'boundary conditions' of the current business models in terms of how it operates and how it can be leveraged, the time frame of potentially transforming the business model, and the extent and degree to which other parties are involved in the potential transformation of the business model. The typical forms of ownership include: 1) *Private* – this can be the description of a business if it is family-owned, or owned by a small group of investors or business leaders (or even one owner); 2) *Public-Limited* – this is a hybrid company with mostly private owners and limited public subscription, where decision-making is driven through the private ownership, but the public shareholders must also be on board to potentially raise even more funds for specific changes to the business model; and 3) *Public* – this can be typical public companies, which may require shareholder approval on big shifts within the business. The board of these companies can typically support decision-making efforts on this level

5.5.6 Risk:

This component of the *financial model* is in fact not restricted to just the financial model but the risk appetite for the business as a whole. It calibrates the risk tolerance for the culture of the business. The *risk model* deals with not only how the enterprise perceives risk, but also how it mitigates the specific risk. I refer to the Miller (1992) "framework for integrated risk management in international business", which categorizes the *uncertainties* and *responses* of businesses to risk. There are 3 sources of uncertainty: *general environmental uncertainty*, *industry uncertainty*, and *firm-specific uncertainty*.

General Environmental – these are the risks that impact business regardless of industry or product focus. They typically include political, macroeconomic, social, and nature-related uncertainties. The Miller (1992) framework catalogs these risks as: 1) *Political risks* – including and ranging from the more extreme, such as risks of war, revolution, coup d'état, to the more moderate changes such as democratic changes in government or other political turmoil such as scandals and other disruptive events; 2) *Regulatory or policy risks* – including risks around trade restrictions, tariffs, nationalization, regulatory changes, fiscal and monetary reforms, nationalization of specific sectors, barriers to repatriation of profits, and inadequate provisions of common public services (e.g. power); 3) *Macroeconomic risks* – these include risks such as trade terms changes, interest rate shifts, inflation, price changes, and exchange rates; 4) *Social risks* – these include, on one end of the spectrum, terrorism-related, to the more moderate, such as social unrest, riots, and demonstrations to the other end of the spectrum, as changing social concerns; 5) *Natural risks* – these include the more perceivable changes in climate (e.g. due to global warming), such as variations in rainfall, changes in climate, incidence of hurricanes, as well as more unpredictable varieties of variation such as earthquakes and tsunamis to other national disasters

Industry-Specific – these risks are more specific to the industry profile, but generally include uncertainties related to production inputs, product markets, and competitive dynamics, described in more depth as follows: 1) *Input market risks* - factors such as quality risks, changes in market supply, and changes in volume intake of other procurers of specific materials or resources; 2) *Product market risks* – generally include changes in the susceptibility of the business to the changes in consumer tastes, available of substitute products, and dearth of complementary products (which might be essential for the sale of products, e.g. protective covers for phones); 3) *Competitive risks* – includes the typical dimensions of competition between existing competitors, the degree to which the business witnesses new entrants into the market, and the technological shifts of product and process innovations

Firm-Specific - these risks include specific risks that the firm may face during its existence. These risks are categorized in the following manner: 1) *Operating risks* - These risks encompass factors such as union issues, labor uncertainties, and employee issues (including safety, sexual harassment, treatment, perquisites, etc.). These factors also include input supply risks such as material constraints, quality shifts, and constraints on parts and repair. Further, this category also includes production uncertainties such as machine failure and the emission of pollutants (the latter two are addressed in more depth within the supply chain aspect and the environmental aspects of the business model respectively); 2) *Liability risks* - this includes the potential liability for products in the market already as well as liability stemming from other firm activities, such as potential damages to the environment or communities; 3) *Innovation risks* – this addresses the potentially negative results that the business might encounter in the spheres of research and development, and market commercialization; 4) *Credit risk* – the firm generally assumes that customers will pay and that it can pay suppliers itself. However, there might be situations where the customers' credit is risky and in turn, make the enterprise itself at risk by being unable to pay its own debts; 5) *Behavioral risk* – this encompasses

the risk of “managerial or employee self-interested behavior” (Miller, 1992), which may lead to a spiral of payouts for compensation for issues that arise, as a result.

5.6 The Internal Operating Model

I now turn my focus to the *internal-facing* view of the “focal firm” (C. Zott et al., 2011). The internal facing view allows me to examine the different components within the enterprise and its direct control, allowing me insight into the decision-making processes, authorities, and interactions of the constituents and its indelible factors.

The Business Model Beacon – Internal Operating Model

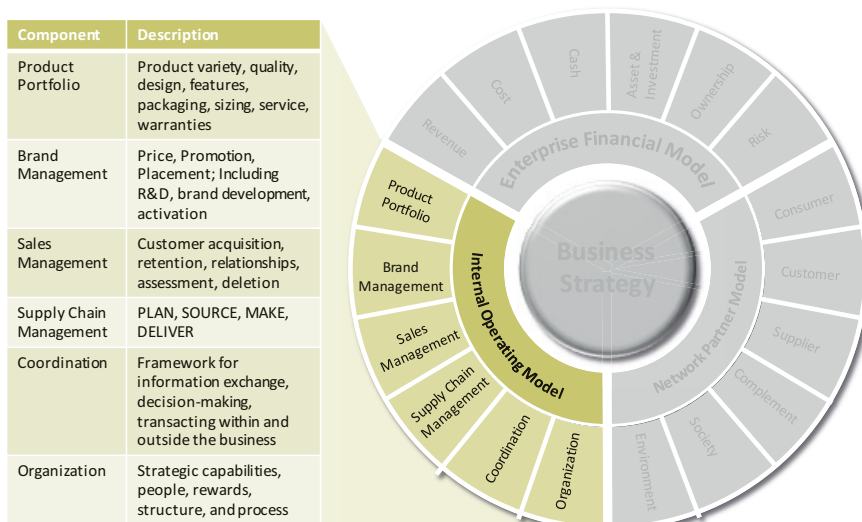


Figure 5.10: The Business Model Beacon: Internal Operating Model

There are 6 main components of the *Internal Operating Model*:

5.6.1 Product and Portfolio:

This component describes the product model and the portfolio model in more depth. The Product attributes are adopted from the classic 4P model (Kotler, 2012), and are referred to commonly by the different functional (Marketing, Sales, Supply Chain) models.

The *Product Base* sub-component encompasses the different choices in terms of the product characteristics and attributes, and consists of the following considerations: 1) *Product Variety* – this attribute refers to the diversity of products that the business sells, and can refer to the application or use of these products or also the assortment or breadth of products that is made available in the marketplace; 2) *Quality* – taken at face value, this attribute refers to the conformance to standards of the given product. The standard most commonly refers to manufacturing standards (Garvin, 1984), and is one of the easier to define and measure ways of considering product quality. Other ways, not explicitly implied here but could possibly play a role from the consumer perspective are the value based perception of quality, the user-based perception, or the market-accepted perception of quality; 3) *Design* – this attribute refers to the aesthetic of the product and its appeal to the consumer or user in terms of ‘how a product looks, feels, sounds, tastes, or smells’ (Garvin, 1984; Ulrich, 2003); 4) *Features* – this attribute refers to the characteristics that enable the product to be attractive to a consumer, such as usability, styling, accessorizing, duration of product life, upgradability, complementarity, and other such features (Nowlis & Simonson, 1996); 5) *Brand Name* – this attribute refers to the strength of the brand name in terms of its image that triggers a sense of endearment with the consumer and its ability to guide decision-making for the consumer. This attribute envelops several of the other aforementioned notions of quality, reliability, features, design, aesthetic, etc.; 6) *Packaging* – this attribute refers to the manner in which the product is displayed for sale, in terms of its ‘shell’, its look-and-feel, the print characteristics, materials for packaging, color, graphic design elements, and demonstration of use, shape, ingredients, and other representative attributes or characteristics (Underwood, 2003); 7) *Sizes* – this attribute refers to the variety of sizes that the product is made available in. The physical dimensions of the packaging or the magnitude of the contents of the product contained therein (Kotler, 2012); 8) *Services* – often product purchases include a service component, such as I commonly see with automobile purchases that include parts and servicing of the vehicle for a certain duration of time or mileage (Kotler, 2012); 9) *Warranties* – similar to the *services* attribute above, this attribute refers to the warranties of quality, service, duration of product life, and assurances of repair or maintenance as a part of the product purchase (Kotler, 2012; Petersen & Kumar, 2009); 10) *Returns* – this attribute discusses the ability, ease, and necessity of products to be returned to the manufacturer, distributor, or retailer by the consumer (Petersen & Kumar, 2009).

The *Portfolio Base* discusses the product considerations at a different level of abstraction and encompasses the interactions between the products. There are certain dynamics that are contained in this ‘basket’ concept which include the following: 1) *Product portfolio hierarchy* – this consists of the logical groupings or ‘families’ of product and what characteristics that grouping is based on; 2) *Schema for segmentation* – what type of method is used for segmenting the products and how is this segmentation used for differentiating in how the different constituents of the business deal with the products; 3) *Pricing structure* – here I review what is the logic of pricing, whether there is a tiered approach or a price-point grouping for different logic-trees; 4) *Product-Market mapping* – here I review how the

market is structured for this product portfolio and in what ways the product portfolio is used to compete in the market place; 5) *Product-Customer mapping* - further, it is important to understand how the product portfolio meets the customer needs (or consumer needs, but I come to that in a different section), in terms of differentiation, price points, and target value proposition for each segment of the portfolio.

5.6.2 Brand Management:

This is the description of the marketing function broadly, and understanding its structure and organization in terms of how it approaches the market, how it targets different segments, how it structures the approach to innovation, and what dimensions it innovates on. Understanding the interaction between the marketing model and the internal capabilities and constraints of the organization (i.e. the rest of the business model) is critical and not sufficiently done in practice (Bonoma, 1985). There is a risk that conventional approaches to marketing strategy development create somewhat of a dichotomy between the strategy development and the implementation (Cespedes & Piercy, 1996) and so developing a marketing model based on a holistic framework of components or variables is important. Using the classic 4P model (Kotler, 2012) as a basis, I decompose the marketing model into its components: Product, Price, Promotion, and Place. However, since the Sales Model, and the Supply Chain model will also include the Product component, I will treat the Product as a separate subcomponent of the Internal Model that has the characteristics that can supplement the individual aforementioned functional models.

Price – The pricing model generally refers to the pricing structure as a whole and not just the product price, and it includes the policies and governance around the whole mechanism of pricing. This component discusses the pricing model for the business and is comprised of 5 attributes: List Price, Discounts, Allowances, Payment Period, and Credit Terms (Kotler, 2012), each of which I discuss in more depth as follows: 1) *List Price* – this attribute refers to the initial price point at which the business decides to sell the product. The list price is dependent on a variety of parameters such as geography, competitive positioning, pricing objective, cost, demand forecasted, and lifecycle; 2) *Discounts* – this attribute refers to the reduction in price in order to achieve a specific objective, and can be managed in a variety of ways; through *cash discounts* for customers who pay their bills on time or early, *quantity* or *volume discounts* as a method of tiered pricing for customers who purchase higher quantity of product, *functional discounts* for business partners who will perform certain functions on behalf of the business (e.g. a distributor who performs a marketing function for a manufacturer), *seasonal discounts* for customers who concentrate their procurement in specific times of the year; 3) *Allowances* – this attribute refers to the additional incentives provided to the customer to participate in promoting product or in terms of trading in old product for new product, or extra payments to incentivize sellers to participate in special programs to enhance sales to consumers; 4) *Payment Period* – this attribute refers to the time period given by the business to customers to settle their accounts, and can depend on the relative power position of the business in reference to the seller and buyer; 5)

Credit Terms – this attribute refers to the terms of payment between the buyer and seller of the product, and can be a useful lever to provide incentives (longer payment terms) to sellers to buy more products.

Promotion – the promotion component of the marketing model examines the different ways in which to communicate, engage, incentivize, and interact with customers in an effort to enhance sales, and encompasses: 1) *Sales Promotion* – this attribute looks to perform three functions: communicate, incentivize, and invite the customer to purchase the product through an array of tools such as coupons, premiums, contests and other means by which to perform these functions (Kotler, 2012); 2) *Advertising* – this attribute examines how a business communicates (one way) to the community of customers about its products, and can be done through a variety of media, across geographic boundaries, and in a multi-lingual format, and can be managed to achieve either short-term or longer-term objectives (Kotler, 2012); 3) *Sales Force* – this attribute is about personal selling through a sales force, typically used for industrial goods or services, and consists of 3 steps: personal interaction (between the customer and the business representatives), cultivation (of a relationship between the two, to foster business opportunities), and response (in terms of a reaction from the customer) (Kotler, 2012); 4) *Public Relations* – this attribute is about publicity for the product with the customer base, through techniques that lend high credibility, catch the customer unaware that they are being sold to, and to dramatize the features of the product (Kotler, 2012); 5) *Direct Marketing* – this attribute is about the different forms of direct marketing, which can communicate with customers in a manner which is non-public (addressed to a specific person), customized (prepared for a specific person), current (up-to-date, and can be prepared at short notice), and interactive (can be changed based on customer response) (Kotler, 2012).

Place – this component of the marketing model refers to the physical and virtual places that the customer will encounter the product. Traditionally this would be a physical location (retail store, catalog, distributor, etc.) but increasingly can be virtual (web store, link, embedded product, etc.). This component includes the following considerations: 1) *Channels* – this attribute refers to the channels through which the business can interact with the target customers, through *communication channels* - unidirectional (monologue channel), bidirectional (dialogue channel), *distribution channels* through which the product moves through the supply chain from the supplier to the end customer including the intermediaries such as contract manufacturers, wholesalers and distributors, and *trade channels* where the product is made available for sale, such as retail outlets (Kotler, 2012); 2) *Coverage* – this attribute focuses on the expansiveness of accessibility of the communication and availability of product in terms of channels, virtual spaces, and physical locations; 3) *Assortments* – this attribute refers to the product variety available to the customer so that they may select something that most closely suits their needs and requirements (Kotler, 2012); 4) *Locations* – this attribute describes the breadth of places at which the product is accessible to the customer, and may be physical or virtual; 5) *Availability* – this attribute refers to the right product being available at the right place and at the

right time that the customer wants it, and alludes to the inventory that must be made available for the customer at the point of sale.

5.6.3 Sales Management:

The sales model is the description of the role of the sales organization vis-à-vis the customer. It focuses on the customer in the center and the different ways in which the sales force must interact with the customer in order to create, build, consummate, maintain, and nurture, and grow the business relationship. The key components of the sales model framework are based on the 'evolved selling process' by Moncrief and Marshall (2005), who highlight the high frequency of usage of this model in multinationals and Fortune 500 companies. They present this framework as a step ahead of the traditional model of 7 steps of selling because of its more modern nature (in terms of sophistication of the seller and customer markets) and its assumption of non-linearity, thus being somewhat of a stark departure from its predecessor.



Figure 5.11: Sales model (source: Moncrief and Marshall (2005))

Marketing the Product – this attribute of the sales model includes the expanded role of the sales organization in more 'upstream' activity from designing the product to collaboratively developing customized marketing approaches for segmented markets and customers. The role of the sales organization in 'presenting' the product to the customer is still maintained, but takes on more of a consultative approach rather than an information sharing approach, since much of the product in-

formation including features and other relevant information can be gleaned on-line instead of face-to-face through the sales person.

Problem Solving – this attribute of the sales model focuses on the consultative sale with the customer to not simply overcome objections but to collaborate with the customer to find the best solution, even if means a different solution from what the seller is selling, in a longer-term effort to be a trusted partner of the customer, which may lead to a sale of a different solution down the road.

Adding Value / Satisfying Needs – this attribute refers to the tandem win of the sale in satisfying mutual needs of both the seller and the customer. The value-add factor focuses not on the product itself but the value that it generates for the customer, and the benefit that the customer may gain from it, thereby moving it from a transactional exercise to a benefit-aggregation exercise.

Customer Relationship Maintenance – this attribute refers to the ongoing exercise of engaging with the customer to further the development of mutual trust and confidence, in order to explore further value-added and needs-fulfilling opportunities rather than just address post-sale problems that may crop up from time to time (Moncrief & Marshall, 2005).

Customer Retention and Deletion – this attribute refers to the proactive segmentation and monitoring of the customer base, and creating a program to retain the customers that are performing up to par, and to increase performance for the underperforming customer groups. Further, it also necessitates migrating relationships of non-performing customers to third parties so that the business is not burdened with the cost of servicing under-performing customers (Moncrief & Marshall, 2005).

Database and Knowledge Management – with the days of Rolodexes left in the past, this attribute refers to the new and modern capabilities and requirements of sales organizations to be able to mine customer data, create visualizations to enhance sales effectiveness, and manage and govern information about the sales process, customer, product, and historical outcomes, projections, assumptions, and other such relevant information. They need to have a focus on knowledge management in order to leverage it during their other activities outlined here (Moncrief & Marshall, 2005).

Nurturing the Relationship (Relationship Selling) – This attribute refers to the increasing role of the sales organization to nurture and grow the relationship with the customer through various means and not just direct approaches and face-to-face interactions. This attribute calls for constant engagement with the customer, whether it be through messages, news flashes, sending or sharing interesting content, making the customer aware of new solutions and technological advances, and generally being the ‘thinking partner’ of the customer (Treacy & Wiersema, 1997).

5.6.4 Supply Chain Management:

The supply chain component consists of four key blocks based on the SCOR (Huan, Sheoran, & Wang, 2004) model, and outlines how the business is setup to operate along the four dimensions of PLAN, SOURCE, MAKE, and DELIVER:

PLAN – this block consists of the setup and workings of the demand and supply planning models. The demand side includes how the business is able to shape historical demand into patterns that can be predicted in the future in order to project what customers will require. The unit of analysis is critical because each level of abstraction requires different knowledge of the functional areas of the business. The supply side has a similar scope wherein the business needs to understand its past ability to have product ready for the anticipated customer demand, and includes the predictability of manufacturing, sourcing, and distribution. This model component also has some organizational implications in terms of whether or not parts of this organization are centralized or de-centralized, and also in terms of coordination, i.e. how the centralized and de-centralized organizations coordinate their efforts in terms of sensing and seizing market opportunities. The specific sub-components within PLAN includes two areas – *Demand Planning* and *Supply Planning*:

Demand Planning – this sub-component consists of the capability of the business to assemble the various ‘streams’ of demand related information and aggregate / disaggregate them at the different levels of product and business hierarchy, for sense-making and evaluation purposes to ensure that the historical patterns and forward projects are sensible and auditable. Business may plan a multitude of market related activity in order to stimulate sales and market interest in their products, as well as to fight the competition and gain market share. Market activity planning may consist of advertising, promotions, other events at different marketing outlets, and consists, in large part, of the competitive motivations and plans behind these activities, including the efforts to synchronize them and time them for maximum impact. Furthermore, the business needs to include the metrics behind the activities, in order to ensure that the spend and investment in each of these activities or the group of activities is being optimized for the outcomes anticipated, in terms of sales lift. *Innovation Planning* – the business must be tightly knit in terms of how innovations are managed from the ideation stage to the post-launch stage in the innovation funnel. These planning efforts will describe the validity of the assumptions behind the new product, the coupling of decision-making mechanisms cross-functionally, and the eventual efficacy of the innovation plans.

Supply Planning – This sub-model consists of 5 different components, and encompasses, as the name suggests, the supply side of the business. The demand components are aggregated into a total demand signal for the business, which is then broken down into supply requirements in a time-phased manner. The supply planning model consists of: *Inventory Planning* – This area describes the function of setting inventory policy in terms of the following elements and defines the rules by which the business will set the policy, including at what locations (directionally, i.e. closer to the customer vs. closer to the supplier vs. closer to the factory); *Distribution Requirements Planning* – this area describes which overall distribution policy the business operates on a *Push basis* (when the business runs based on economic or maximum production quantities and drives products to the market through its sales force), a *Pull basis* (when the market demand dictates what the enterprise makes at its production facilities, and the factory optimizes based on the demand-based run strategy), and a *Push-Pull basis* (when there is a combination of the above two models, so as to optimize the business

operations); *Production Planning* – this sub-model is about the policy by which the business produces product.

SOURCE – this block consists of the model by which raw materials, components, sub-components, and packaging materials are conceptualized (i.e. in a vertical integration sense), how the business leverages scale and centralization of global procurement operations. This sub-component of the business model is a level of abstraction above what is typically thought of as the ‘process’ level. It does not so much concern the transactional steps to procure material but more the conceptual model of who procures material, where it is procured (i.e. considering tax implications, freight implications), how it is procured (e.g. electronic system, manually, semi-automated, etc.), when it is procured (working capital and cost implications). Sourcing competence has many dimensions, from a flexible supply base, business continuity enablement, supply responsiveness, acquisition cost, quality, reliability, and backward / forward integration into process and product innovation. One of the core components within sourcing is Materials Requirements Planning, which is the process by which the business plans materials (ingredients, raw materials, packaging materials) on the basis of its production quantities. Competence in this space implies that there will be few stockouts of finished goods due to unavailability of raw and / or packaging materials. This topic has other business implications of business flexibility and working capital management through optimized inventory planning of raw and / or packaging materials.

MAKE – This multidimensional component discusses the manufacturing capabilities of the focal firm within the business model context. This is the component that encompasses the transformation of raw materials into finished products. There are four types of manufacturing schemas: which can be *Make to Order* (the business makes the finished product only upon the receipt of a customer order), *Make to Stock* (the business makes the finished product based on a forecast and stocks it), or *Engineer / Customize to Order* (the business configures the product specification to the need of the customer before making it, using a standard model of product but just configuring it in a custom manner) or *Design to Order* (the business designs the product based on customer needs, a more basic step than engineer to order). It is the component that takes into account the following attributes (G. Stewart, 1997): 1) Manufacturing Profile (Number, size, and capabilities of factories); 2) Production Profile (Production efficiency, effectiveness, accuracy, and quality); 3) Manufacturing Infrastructure (Engineering, facilities and equipment, and labor management); 4) Capacity Management (Line flexibility and configuration, production scheduling, labor configuration, long-term and short-term changeover planning); 5) Production Control (Shopfloor control, process control)

DELIVER – This component includes the operational execution of the supply chain. It includes the point-of-sale signals that give a business a near-real-time view of product sales or order-closure and enables the business to react accordingly. This enables a business to promote products, manipulate pricing to influence demand, and execute a efficient customer response. Further, the order man-

agement element enables the business to generate quotations, orders, maintain the customer database, pricing balance, allocate product to customers, and invoice customers. In addition, the component also includes warehouse management, which deals with receiving and stocking both raw / packaging material as well as finished goods. Lastly, there is the transportation element, which ensures products are delivered to the right customer and arrive at the right time and date, including areas such as freight management, load building on trucks, optimized routing for the transportation. The Network Design consists of: 1) *Sourcing Network* – this defines the core decisions about where and how to source product from suppliers; 2) *Production Network* – this defines the core decisions about where to make the product, and consists of two options - *Single-source model* – focused factory model, where each product is made in only one location or site within the production network, enabling scale and lower costs, or *Multi-source model* - each product is made at more than one location or site in the production network, enabling flexibility and greater responsiveness to customer demand. The *Distribution Network* can be configured in two ways: 1) *Centralized distribution model* – one source centrally located within the distribution network, from where all products are sourced directly to customers, which maximizes flexibility and lowers inventory (due to risk pooling); 2) *Hub-and-spoke model* – one main source of all products, from which products are drawn to be stocked at regionalized distribution locations, closer to the customer; 3) *Cross-dock model* – the model by which there is limited or no stock in the warehouses, but is transferred at cross-dock locations between the source and destination. Trucks may transport product from the source to a point between the source and destination, in bulk, where it is transferred either in full bulk quantities or is broken down ('break-pack') into smaller units to be shipped to the final destination; 4) *Regionalized distribution model* – when the business transports its products from a single source to a regional distribution network, and then ships to customers from these regional distribution locations so as to reduce lead-time of orders. This is typical for single-source factories with national distribution in a reasonably large country like the ME or Brazil.

5.6.5 Coordination:

This model component outlines how the business coordinates information and decision-making across the extents of the enterprise. Sanchez (1995) defines the *coordination flexibility* of a business as its ability 'to assemble chains of tangible and intangible resources needed to carry out the organization's strategic logics for creating value through its product offers.' Building on that notion, Sanchez (2004) further enriches the notion by proposing that 'coordination flexibility depends on the ability of a firm's managers—in this case, usually the midlevel managers of larger firms, but also top managers of smaller firms—to acquire or access, configure and deploy chains of resources for leveraging product offers capable of creating value in the markets targeted by the firm.'

Practically, this refers to the mechanisms for businesses to coordinate their plans and actions through the use of: 1) *Enterprise Systems*: such as *Enterprise Resource Planning (ERP)* systems enable the business to standardize the work-flow for transactions in functions such as Finance, Human Re-

sources, and Supply Chain. They form the transactional, planning, and master-data backbone of an enterprise, which enables the business to communicate plans, budgets, financials, and transactions on a global basis; 2) *Functional Systems*, such as *Advanced Planning and Scheduling (APS)* systems enable a business to carry out critical supply chain planning and transaction-based activities. These systems allow the planning (short and long term) of resources and enable the coordination between resources, assets, plans, and financials across all the business units (ideally) or *Customer Relationship Management (CRM)* systems that enable the sales team to interact with, plan for, budget activities and events, plan trade spend, enable business unit allocations across different channels and customers, enabling coordination of activities, budgets, events, and resources between the 'focal firm' and the customers; 3) *Cross-Functional Mechanisms*: Business functions (e.g. sales, marketing, supply chain, finance) need to communicate with each other about the business, specifically about in-year activities that drive performance, and out-year activities that drive the budget, mid-range and long range plans.

One such process is called the Integrated Business Planning (IBP) or Sales and Operations Planning (S&OP) process. This is a process by which the business can consolidate perspectives, opinions, facts, and actual performance of the business, and review it together in a cross-functional forum at different levels of the hierarchy of the organization, and drive decisions about the business on a periodic manner.

5.6.6 Organization:

I use the classic Star Model (Kates & Galbraith, 2010) as my guide for my components for the organizational model, which include *Strategic Capabilities, People, Rewards, Structure, and Process*. The organizational model defines how the 'focal firm' must be organized internally in order to enable the business model deliver the defined business strategy.

Strategic Organizational Capabilities – Based on Kates and Galbraith (2010), this attribute refers to the unique capabilities that enable a business to retain competitive advantage that the core strategy calls for and seeks as a differentiator. These organizational capabilities are typically a combination of skills, processes, and people's abilities that are difficult to replicate by the competition. They are also created by and housed within the business and not procured from the outside.

Structure – this attribute refers to the organizational structure that defines the basis of power and authority within the business. The objective of the structure is to create a logical framework for management and decision-making, and defines the power structure, reporting relationships, communication channels, and coordination touch-points. It is typically based on and defined by the dimensions of *product, function, geography, and customer* (Kates & Galbraith, 2010), discussed below in more depth: 1) *Product* – typically businesses with multiple product lines may find it useful to adopt a product-based structure, and organize functions by product, promoting strong team identity by product or brand, and may yield benefits such as accelerated time to market, greater rate of inno-

vation and freedom to pursue business development opportunities that may meet financial thresholds more sharply for the specific product or business unit; 2) *Function* – typically organized around major groups of activity such as marketing, sales, supply chain, finance, this type of structure in order to enable greater knowledge-sharing and to promote specialization to increase functional scale and avoid duplication. This type of structure is suitable to small businesses and to large companies that have a single line of business (promoting economies of scale, expertise, and efficiency); 3) *Geography* – typically used when the culture, language, regulation, or politics influence buying patterns or when consumer behavior differs significantly from one location to another, in order to be more relevant and cognizant of local values. This structure can also be used when a business expands to other territories once it's 'home' territory is saturated. Products can be tailored to local tastes with this structure, and battles with local competitors can be waged more precisely and competitive battles can occur in more of a real-time manner, increasing the chances of success in these battles; 4) *Customer* – whereas product, functional, or geographic structures can be beneficial to businesses and their managers in decision-making and governance, they may not provide ease-of-relationship for customers, not a single point of contact, compromising customer intimacy and increasing frustration. The customer structure may resemble the product structure in its framework, substituting product lines by customer segments (groups of customers based on similar need profiles). This type of structure is beneficial to a business where the customer has significant buying power, where customer relationships are the key to successful value generation, where in-depth customer knowledge provides a competitive advantage, and where product lines can be mapped more directly on top of (and not across) customer segments, providing a unique set of product for a unique segment of customers.

Process – this attribute refers to the series of connected activities that traverse organizational boundaries both vertically (across hierarchies) and horizontally (across the logical boundaries of the organization, whether they be functional, geographic, product, or customer). Processes enable a business to break down organizational 'silo' behavior and mindset. In addition to processes, *lateral structures* can be used to bridge the organizational gaps and silo mentality. Lateral structures can include *Networks*, *Teams*, *Integrative Roles*, and *Matrix*, being ordered from least formal and complex to most formal and complex. *Networks* are informal structures that enable working relationships to be fostered by individuals through their own personality traits. They are simple and intuitive, but difficult to predict since they are overly personality-dependent. *Cross-Functional Teams* are more formal in nature, and with mandates to plan, execute, and monitor end-to-end processes such as order-to-cash, or forecast-to-fulfillment. *Integrative Roles* provide a greater degree of coordination than teams, and this role is charged with the responsibility of managing across teams or organizational boundaries such as a brand manager or a customer service manager. Most complex are the *Matrix*, which is 'a set of dual-reporting relationships used to balance two or more dimensions of an organization' (Kates & Galbraith, 2010). This structure enables people to take a broader view and ownership of the business than just their 'primary orientation' be it function, product, geography, or customer.

Typically they have one primary orientation and one secondary orientation, be it network, cross-functional team or integrative role.

People – this attribute refers to the ‘the human resource policies for selection, staffing, training, and development that are established to help form the capabilities and mind-sets’ (Kates & Galbraith, 2010) that are needed in order to execute on the business model selected. The implication of selecting the right people for their roles is vital to an organization gaining its competitive advantage outlined in the strategy, and can mean the difference between success and failure of an organization in its quest for excellence (Peters, Waterman, & Jones, 1982). Specific competencies sought by businesses for their people to be successful in managing the business through the processes and lateral structures include: 1) to consider and manage issues in a holistic manner, from a cross-functional and cross-cultural perspective and way of working; 2) to use strategic influencing in lieu of direct line management power or formal authority; 3) to build formal and informal networks throughout the organization and use them to influence the organization; 4) use advocacy and collaboration as tools; 5) outline and collaborate with peers on decision rights; 6) to be able to resolve conflicts in a proactive and professional manner; 7) to create and maintain discipline in projects; 8) to cope with ambiguity and change and make objective decisions.

Rewards – this attribute refers to the metrics and reward systems to measure, govern, and align individual and groups’ behavior and performance with common business goals and objectives. Metrics are the measures or indicators used to evaluate performance of individuals and teams. The reward system is the framework used to motivate employees and reinforce behaviors that are necessary for and aligned with the business to achieve its goals. These may take form of bonuses, salaries, stock options, or other financial or non-financial incentives. The reward system needs to take into account the complexity of the organization and balance rewards for individual behavior and performance with that of teams or larger groups across business units whether they be oriented by function, product, geography, or customer. Further, it also needs to account for firm performance as a whole as a factor in the group reward schema, and not just focus on the performance of the individual or team.

5.7 The Network Partner Model

I now turn my focus to the *external-facing* view of the “focal firm” (C. Zott et al., 2011). The external facing view allows me to examine the different components outside the enterprise and not its direct control, allowing me insight into the decision-making processes, authorities, and interactions of the constituents within and between the partners in the network of the business ecosystem.

The Business Model Beacon – Network Partner Model

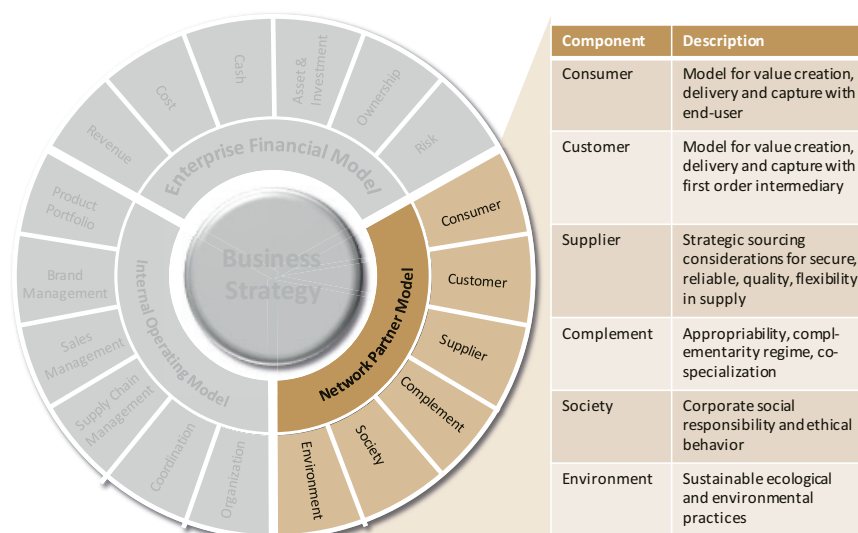


Figure 5.12: The Business Model Beacon: Network Partner Model

There are 6 main components of the *Network Partner Model*:

5.7.1 Consumer Management:

This component refers to the connection between the consumer and the business. Consumers are the eventual *value consumer* of the Company, and in many cases via the Customers, such as in a traditional retailer context. In the context of my research, I assume that the shopper is also the consumer. Whereas further value creation can be enabled after a consumer acquires a product (e.g. the case of a consumer purchasing flour at a retail store, to make cakes which they might sell as a fin-

ished product in a retail store), I will assume that the Consumer is the end of the value exchange chain for the purposes of my research. Consumers can be an important stakeholder in the business model transformation of a Company because they might not only drive the need for the change, but are also at the receiving end of this change, once it occurs. One such case is that of organic produce in the ME. Whereas there has been no formal legislation in place for organic food requirements, it was consumers who first initiated the demand for organic produce. The food industry responded and created a change in its business model to accommodate this through alternative suppliers, a new selection of products, and dedicated retailers like Whole Foods. However, the price of organic food, the inferior visual appeal of the produce (smaller, not quite as colorful), and the paucity of choice is something that the consumers had to deal with on the receiving end. However, it may not always be the case that the Consumer is both the instigator and final recipient of the change. In many cases, technological, regulatory, or structural innovation may spur change in an industry, which the consumer may be at the receiving end of. One such case is that of the lighting industry – previously dominated by the candle industry, when electricity and the light bulb were invented, Consumers were at the receiving end of this innovation that changed the business model of the lighting industry in a fundamental manner. This example also highlights that changes in business models are not a recent phenomenon but one that has occurred through the ages. Another example that highlights this is the canning industry, which enabled preservation of products, which changed the landscape and business model of the food industry in a profound manner.

In conclusion, the Beacon offers a unique and holistic framework for mapping and articulating the current and future state of the enterprise business model; for mapping the relationships and interdependencies between the different components of the business mode; for characterizing the ‘central’ and ‘peripheral’ components vis-à-vis the different units of analysis of the enterprise’s business model. The Beacon framework encompasses not only the exhaustive list of sub-components of the business model that have ever been published by other scholars on this topic, but also characterizing the link between the business model and the core strategy that it is built around. Both of these are contributions to the existing literature on business models.

5.7.2 Customer Management:

This component describes the manner in which customers are acquired, the process by which they are maintained, and the process and conditions by which they are terminated (Reinartz, Krafft, & Hoyer, 2004). The process of customer acquisitions is dependent on many factors such as lifetime value, strategic value, and growth potential. The maintenance phase is where most effort is spent, in order align sales incentives, to leverage positions and competitive strengths, and gain market share (share of market and share of shelf) for the ‘focal firm’. This is where sales people spend most of their time and planning effort. The termination process is a gradual phasing out or de-emphasizing process of the customer from the product portfolio, if the business is changing focus, branding, or target segment.

5.7.3 Supplier Management:

This component describes the strategic sourcing considerations that the business must undertake in order to setup a mechanism for secure, reliable, economic, quality supply of raw material and intermediate products. This component focuses on the selection, contracting, and maintenance of a supply base for the materials required for the finished products. Supplier selection can be an important business consideration since in many industrial and consumer products, materials cost makes up about 70% of a cost of a product (Şen, Başligil, Şen, & Baracli, 2008). In addition, suppliers have a substantial and often direct impact on the manufacturers' timelines of new product launches, customer service, quality output, and regulatory compliance (Ragatz, Handfield, & Scannell, 1997). This implies that the selection of supplier is an important decision that a business must undertake, with a multi-criteria approach, in order to take into account the various factors that are necessary and important for this type of decision. Based on a broad empirical study, Handfield, Ragatz, Peterson, and Monczka (1999) provide a list of supplier selection criteria for businesses for consideration, ordered by factors considered 'more important' to 'less important' (scores range from a high of 6.07 to a low of 4.59 out of a maximum of 7).

Product Knowledge – this attribute refers to the supplier's knowledge of the product that needs to be manufactured by the business (the customer), and may have implications for the supplier in understanding and recognizing the impact of their internal factors on the customer's business. Knowledge of the product may also enable the supplier to consider better ways of satisfying the materials needs through better ingredients and different production techniques.

Process Knowledge – this attribute refers to the supplier's knowledge of the production process into which their materials or components are being fed. Again, this knowledge may enable the supplier to improve their techniques or component / material specification so that the business (customer) can gain better yield or a lower cost.

Quality – this attribute refers to the supplier's quality equation and the governance processes surrounding the assurance of quality material or components being delivered. The quality component is critical as it directly impacts the cost of the materials and the impact on the downstream business (customer) output. In the case of lower than expected conformance to quality standards, the supplier may risk legal ramifications and financial penalties for failing to meet these standards.

Trust – this attribute refers to the level of trust between the business (customer) and supplier. In dynamic markets, the level of trust required between the business and the supplier will be greater than those where there is adequate tolerance for committed quality, delivery times, and supply quantities to be made up within a defined limit.

Communication – this attribute refers to the willingness and the ability of the supplier to communicate in adequate detail, with the right tone, and within a timely manner, and in a reliable / consistent manner. Failure to do these may result in lowering trust and increased costs between the partners.

Communication also enables both parties to maintain their cost and service base, and forms the foundational basis of the partnership.

Innovativeness – this attribute refers to the ability of the supplier to innovate on the materials and components themselves (i.e. the ‘ingredients’ to a finished product that the business makes) or to the production process of the materials and components that results in an improved cost-basis, quality-basis, or to the product attribute basis (durability, time to manufacture, other relevant characteristics).

Design Flexibility – this attribute refers to the flexibility of the supplier to respond in a quick and timely manner to respond to design changes in the finished product (implying changes to the specification of the ingredient materials or components). This implies supplier capabilities in electronic databases of product specifications, one-line linkages to libraries and regulatory or governmental teams, which may facilitate such changes.

Continuous Improvement – this attribute refers to the ability and willingness of the supplier to invest in continuous improvement activities and initiatives on their own accord, with the objective of being world-class and innovating on improvement methods for their product (materials and components) portfolio, in order to remain competitive in the marketplace.

Business Experience – this attribute refers to the previous relationship between the supplier and the business. Past knowledge of, and experience with, the business that the supplier is dealing with may enable the supplier to better and more precisely determine tolerances for ambiguity. Further, this previous experience between the business and supplier builds greater trust and mutual respect, an important ingredient in the longevity of the relationship.

Output Flexibility – this attribute refers to the ability of the supplier to quickly ramp up (and down) to required output level. In businesses where the product sales are highly predictable this might not be as important as those cases where sales are unpredictable due to a combination of a highly volatile marketplace with highly innovative products, where sales are unpredictable. Suppliers are tasked with a difficult job of being not only efficient (to deliver low cost of components or materials) but also responsive to the changing demand of the final product.

Qualification / Certification – this attribute refers to the qualification process of the business and the official certification required in order to supply the product as necessary. The qualification criteria are defined on the basis of the business’ specific needs and requirements in terms of the product base, the market, the region, and the customer groups. The certification criteria may be based on a different group of requirements (e.g. government, industry association), and may be equally important or stringent as the qualification criteria.

Goal Alignment – this attribute refers to the degree of alignment of goals between the business (customer) and supplier. This alignment may be on the basis of environmental factors (e.g. carbon emis-

sions), corporate social responsibility (e.g. jobs for different demographics of people or minority contractors, or community development), or cost reduction (lowering the cost of inputs, production).

Culture Alignment – this attribute refers to the degree of alignment between the cultures between the supplier and the business (customer). This may be that based on core organizational values or business culture. Where culture comes into play is in influencing informal relationships between the representatives for the business and the supplier, and may enable to have a closer level of understanding and trust, which may enable better communication and better alignment of goals.

Suppliers can also imply ‘collaborators’ - meaning strategic partners such as suppliers, contract manufacturers, or operational enablers such as logistics service providers (LSP), outsourced service providers (e.g. accounting, recruiting). These ‘collaborators’ are generally value creators or value enablers for the Company. Collaborators such as suppliers and suppliers’ suppliers form the origination of value creation upstream from the Company. Contract manufacturers are also value-creators for the Company as they enable this process when the Company either runs out of capacity or does not possess the expertise to produce a particular product or configuration of product.

5.7.4 Complementor Management:

This component discusses the role of complementary assets in the business (the ‘focal firm’), and the interlinkages between the players providing these complementary assets in the network of business partners in the business ecosystem and the core business. Complementarity, as defined by Milgrom and Roberts (1995), means ‘doing more of one thing increases the returns to doing more of another.’ For instance, selling more printers means selling more cartridges, or selling more razors implies selling more blades, both being examples of sets of complementary products. In his seminal paper on the theme of *Profiting from Innovation* (PFI), Teece (1986) connected the area of strategy with the subject of complementary assets. In his ‘reflections’ paper, Teece (2006) comments on the lack of sufficient connection between business model configuration and complementary assets: ‘PFI somewhat narrowly defined the business model decisions around complementary assets (make or buy) according to the appropriability regime and cospecialization and (static) capability considerations.’ For lack of a more robust framework than Teece’s, I will use these two decision points as my attributes within this component of the business model, described more in depth below:

Appropriability Regime – this attribute refers to ‘the environmental factors, excluding firm and market structure, that govern an innovator’s ability to capture the profits generated by an innovation’ (Teece, 1986). The two elements of this attribute include the imitability of the technology and the degree to which legal mechanisms can protect the innovation.

Complementary Assets and Cospecialization – going back to the root question of ‘why do firms exist?’ the popular and proven response is that firms exist because they believe they are more efficient than the market or there is no other provider in the market that can supply the firm in question. Along these lines, complementary assets exist because firms decide to be in a specific business and decide not to

own the upstream and downstream value generation of the business. Other firms thus fill this gap by adding the value aggregation activities in the form of complementary assets. Some common examples may include hardware and software, container systems and port / terminal systems, and automobiles and repair / service facilities. There are generally known to be three types of complementary assets (Teece, 1986): 1) *Generic Assets* – these are ‘general purpose’ assets that are not specific or customized to an innovation; 2) *Specialized Assets* – these are assets that have a ‘unilateral dependence’ between the complementary asset and the innovation (but the dependence could be in either direction); 3) *Co-specialized Assets* – these are assets with bidirectional dependence between the innovation and the complementary asset.

I consider Complementors a value-exchange partner of the ‘focal firm’. Complementors enable value creation through value aggregation to the Company’s product, but may not necessarily play a role in the value capture. Complementors can be spare parts manufacturers for the Company’s machine sold to a Customer. Complementors can also be accessory manufacturers to a Company’s electronic, for instance a cover or protector for a mobile device. Complementors can also be ‘catalysts’ - Just as in a chemical reaction, Catalysts may enable or accelerate value exchange by participating in the particular exchange process, without being exposed to the business change themselves. Infrastructure providers, capital markets, and commercial exchange forums are typical Catalysts where Companies can exchange value without the particular Catalysts participating in the value exchange.

5.7.5 Society (Corporate Social Responsibility):

This component was discussed in depth by Carroll (1991) in his paper *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders*, and for the first time demonstrated how the responsibility of a business was not only to its shareholders, but to a wider group of ‘stakeholders’, which included the employees, the community, and society as a whole. He presented his framework in a pyramidal format, with philanthropic responsibilities at the top, followed by ethical responsibilities, legal responsibilities, and finally economic responsibilities at the bottom. This framework was later attacked and modified by Schwartz and Carroll (2003) so that the framework was no longer a mutually exclusive ‘layering’ of responsibilities, but an overlapping set of three ‘domains’ of ethical, legal, and economic responsibility, in the form of a three-part Venn diagram, creating 7 categories of different combinations of these responsibilities: 1) Purely Economic; 2) Purely Legal; 3) Purely Ethical; 4) Combination Economic / Legal; 5) Combination Legal / Ethical; 6) Combination Ethical / Economic; 7) Combination Economic / Ethical / Legal.

Companies also play a role in serving the Community through the creation of jobs or the development of schools, public infrastructure, and safety protocols near factories. In exchange, the Community provides permission for their existence and enables ‘goodwill’ for the Company, another form of value exchange. If Companies disregard safety rules for waste treatment; for instance, they can quickly find themselves at a value deficit with the Community, which may move to prosecute

the Company through legal means. Value creation by the Company to the Community will also enable organic growth for the Company, as the Community will talk about the Company's positive activities and generate.

5.7.6 Environment (Sustainability):

I have decided to separate the environmental sustainability component from the social responsibility component in spite of the popularity of the 'triple bottom line' (TBL or 3BL) first introduced by Elkington (1997) because of the hitherto ambivalent reception from management scholars in terms of its apparent lack of sufficient definition and its over-eager reception by management practitioners to make it just another 'checklist' of things that a company needs in order for Wall Street to approve, and get on with business-as-usual (Hubbard, 2009; Norman & MacDonald, 2004).

Chapter 6 DISCUSSION

In this chapter, I will use the lens of the Beacon framework to provide more insight into the findings, in an effort to lend support to the propositions put forward for each of the research questions. Using induction, I will attempt to create and validate my propositions through the case study. I stated earlier that I would use a 'layered' contingency theory as a basis of explaining how firms reconfigure their business models. The Beacon framework enables me to articulate the different elements in each of the different core model components (the Internal Operating Model, Network Partner Model, and Enterprise Financial Model). The Beacon framework also enables me to encapsulate my research questions and gives me a way to describe what I see in the case study in the last chapter, so as to extract more insights and expand on the propositions.

6.1 Unilever Business Model – Beacon Perspective

Since my characterization of a *business model* is different from what the Unilever *business model* has been shown as, I decided to perform a factorial decomposition on the Unilever *business model* elements to map these elements of value creation and value capture to my own 'Beacon' business model component framework as follows:

Unilever Business Model Value Creation and Capture Elements		Business Model Beacon Components	
Value Creation Elements	Brands	Internal Operating Model	• Brand Management Model
	Operations		• Supply Chain Model
	People		• Organizational Model
Value Capture Elements	Profitable Volume Growth	Internal Operating Model	• Supply Chain Model • Sales Model • Coordination Model
		Financial Model	• Revenue & Cost Model (Profit Model) • Asset & Investment Model • Cash Model
		Network Partner Model	• Customer Model • Consumer Model • Supplier Model • Complementor Model
	Innovation through Marketing Investment	Internal Operating Model	• Brand Management Model (including R&D) • Customer Model • Sales Model • Supply Chain Model
	Cost Leverage through Efficiency	Internal Operating Model	• Supply Chain Model
		Network Partner Model	• Supplier Model • Complementor Model
		Financial Model	• Cost Model • Assets & Investment Model

Figure 6.1: Mapping of Unilever business model to BM Beacon framework

As one can see from the Figure 6.1, I have been able to successfully map most of the Unilever business model onto the Beacon framework. The *Society* and *Environment* components are not directly mapped because they are embedded within each of the other components (i.e. *Brand Management* includes innovation that is sustainably compatible, *Sales Management* incorporates environmental and social messages through co-selling operations with the customer, supply chain – factories are working towards zero-landfill initiatives within their models, etc.). *Ownership* is not directly addressed in the Unilever business model because the business takes their public ownership for granted and a fundamental assumption. Further, *Risk* is not specifically addressed within the diagrammatic framework the Unilever Business Model as an explicit component, but is again embedded within different components of their model, and is highlighted below.

Risk Category	Summary Description
Brand Preference	The risk that Unilever brands remain relevant in a perpetual change environment of behaviors and preferences of consumers, who are demanding more and different innovation to shape their purchase and consumption habits
Portfolio Management	The risk that Unilever's investment portfolio (categories, geographies, and channels) does not deliver expected growth and profits in the long term.
Sustainability	The risk of not finding sustainable solutions in terms of long term growth in terms of strong relationships with consumers, as well as with trading partners within the Unilever network ecosystem of business partners.
Customer Relationships	The risk that relationships with customers (not consumers), such as retailers, wholesalers, and other intermediaries may not always be harmonious, and could impact eventual choice, selection, and sale of product to consumers.
Talent	The risk that Unilever may not be able to attract, contract, or maintain the right level of qualified people in the right positions in the right geographies and business categories.
Supply Chain	The risk of physical disruptions to the supply chain in terms of procuring materials, manufacturing, and distribution chains, extending from the raw materials to the finished products.
Safe & High Quality Products	The risk that raw materials are contaminated throughout the supply chain or the risk of failure or defects in the products.
System & Information	Since Unilever is a global operation, across several business units, operating companies, coordination and communication through systems and information becomes more critical and increasingly, a risk factor.
Business Transformation	Unilever anticipates changing its business model from time to time, and restructuring through absorption of other businesses, and divestitures of different business units, hence transformation is perpetual and becomes a risk to the business in terms of effective restructuring and business continuity.
External Economic and Political Risks & Natural Disasters	Adverse economic conditions, operating in regions with political volatility, or natural disasters that loom ahead are all risks that Unilever must account for.
Treasury and Pensions	The risk of exposure to financial risks in terms of currencies, exchange controls, liquidity risk, financial market volatility, and committed and funded pension plans.
Ethical	Risk of violating ethical behavior of individuals in spite of commitment to ethical principles and codes of conduct for the corporation.
Legal & Regulatory	Risk of compliance failure to local, regional, and global laws and regulations in areas of product safety, claims, trademarks, copyrights, health, safety, and environment.

Table 6.1: Unilever risk description (source: Unilever Annual Report 2014)

When I examine the differences in characterization of the business model between my Beacon lens and Unilever's lens, I find that Unilever's lens leaves out some elements such as the ones mentioned above and does not connect them to other components in terms of relationship or dependency.

6.2 The Nature of Business Model Components

From all 35 the interviews, none of the interviewees said that all the business model components were the same in importance. They picked one, two, or three components of the business model as 'core' or 'central', and defined them as those components that drove the decision-making for configuration of the other components. In the words of Anthony 'Tony' Patrignelli, Vice President for Customer Development (Sales) at Unilever's North American division, *"you can't have all the components with equal weight because you'd never be able to focus on anything – they're [the components] all necessary, but they're not all equally important."* Further, Mark Harrahy, a Functional Director in the Americas, while referring to my *Business Model Beacon* framework, describes the relationship of the components in a different way: *"I don't think one is actually hierarchically above the other, but about the interdependencies and relationships between the components; it's not about equal or unequal, it's an equation; the Financial Model is the outcome of the relationship between the Internal Operating Model and the Network Partner Model."*

In order to answer this question effectively, I defined the terms 'core' and 'peripheral'. Translating from the organizational context to the business model context, I invoke Siggelkow (2002) in terms of the concept of 'fit' of components within an organization; whereas there is no generally accepted definition of what is (i.e. which component) 'core' to an organization, the characteristics of what is 'core' have been defined with two specific attributes: (1) *a high interdependency with other current organizational elements* and (2) *a large influence on future organizational elements* (Siggelkow, 2002). According to Hannan, Burton, and Baron (1996), and evoking an image of a tangled web, changing a 'core' element requires changes in many of the other interconnected components, whereas changing a 'peripheral' element does not require so many other collateral changes in other components.

When asked this about the Unilever business, interviewees gravitated very quickly to three components of the business model – **brand management, consumer, and society & environment** (considered as one combined component by the interviewees). However, these components are not viewed as independent, and most of the interviewees stressed the deep interdependence between these three components, which I have attempted to capture in Figure 6.2:

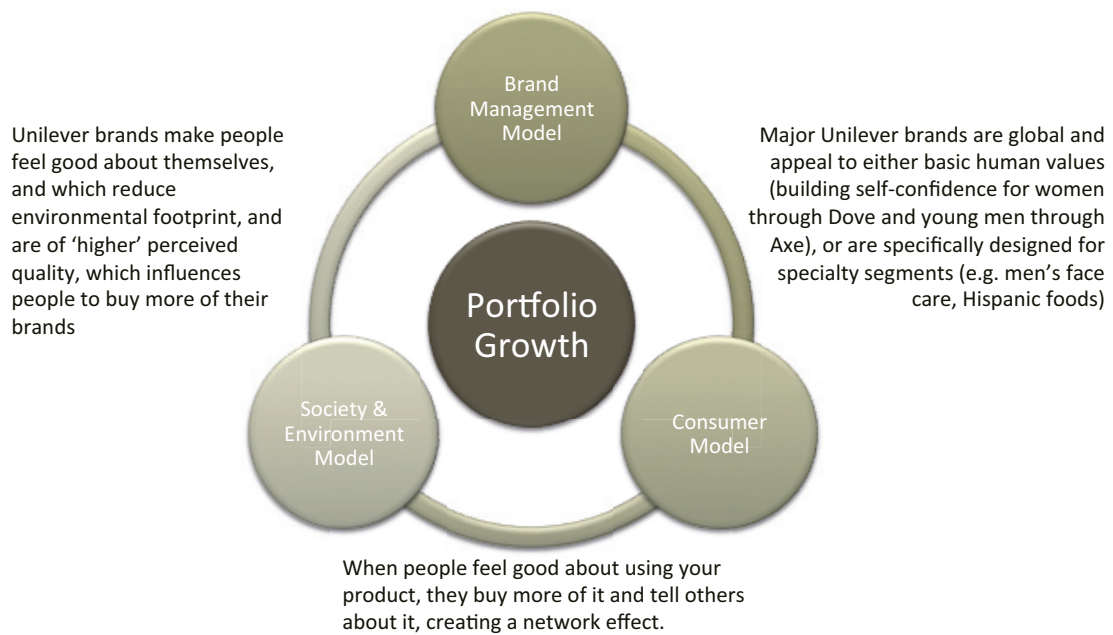


Figure 6.2: Strategic context of Unilever business model

For most of the interviewees, whereas the Unilever CEO, Paul Polman, has declared the core of the business model as the *Unilever Sustainable Living Plan (USLP)*, which maps to my components of **society & environment**. They appeared to struggle with this because whereas it was viewed as a 'core value', not necessarily a business model component, yet impossible to ignore as a business model component as well. It was not viewed as a component that the business could not do without, as had been the case before the current CEO took charge and influences the decisions and configurations of the other components, but it was a component that the previous CEO had done without, while managing the business quite effectively (based on growth and share of market). It is viewed as much more difficult to manage the complexity of changing the brand management or consumer component without upsetting the whole apple cart, so to speak. Hence, interviewees struggled to place this specific component in terms of core and peripheral, something I will explore further. I have provided below the summary table which depicts the output of the interviews in terms of the question of which BM component(s) is (are) core to Unilever.

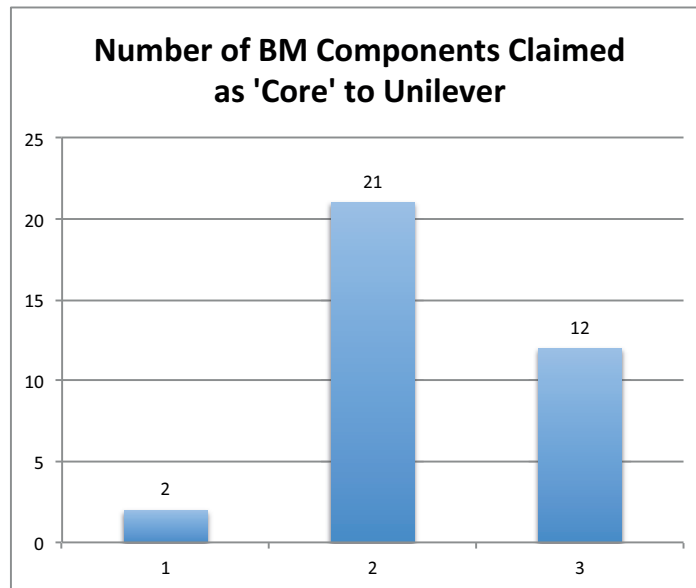


Figure 6.3: BM core elements for Unilever

Firstly, as we observe in Figure 6.3, the interviewees chose not more than 3 components, with 21 choosing two BM components as 'core' or 'central' to the enterprise business model and 12 choosing 3 components.

Most of the interviewees selected the Network Partner Model (NPM) components as 'core' or 'central', followed by Internal Operating Model (IOM) components, and lastly Enterprise Financial Model (EFM) components, as shown in Figure 6.4. The Unilever business, it appears, holds components external to the business, i.e. market players and forces such as customers and consumers, as well as society and environment at the highest level of importance.

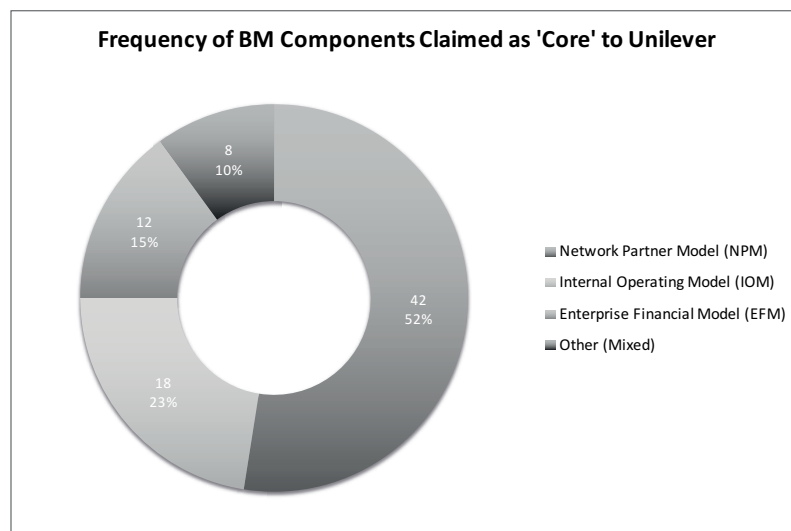


Figure 6.4: Frequency of Sub-Models as 'Central' to the Unilever Business Model

To get to the next level of detail, I then analyzed which components were of most interest to the interviewees. In terms of which components were selected, of the 35 interviewees, 70% indicated to me that the Society & Environment component, Brand Management, and Consumer Models were 'core' or 'central' to the Unilever business model, as illustrated in Figure 6.5:

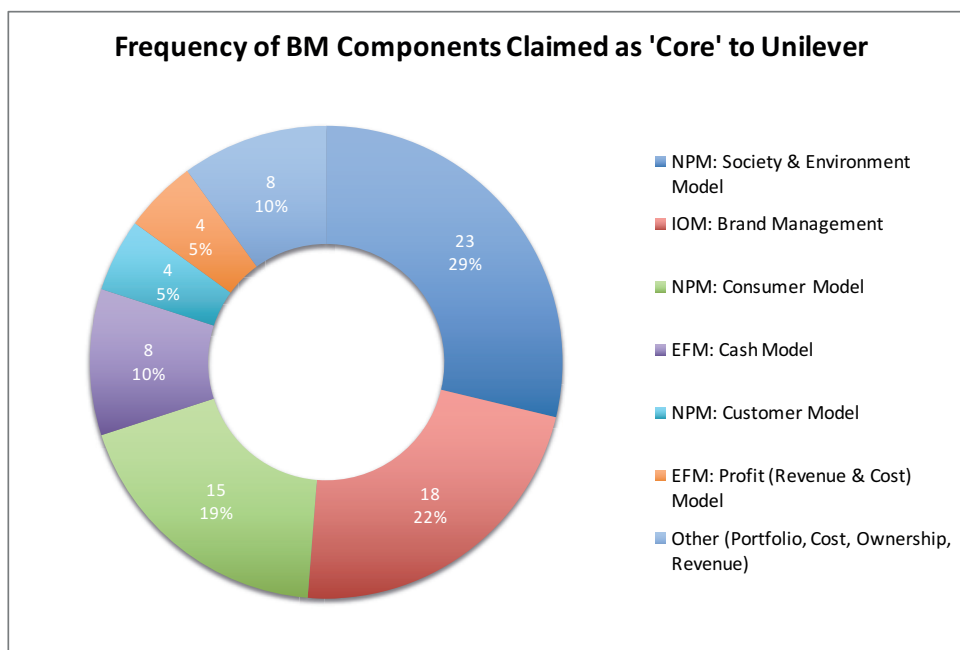


Figure 6.5: Types of BM components as Core to Unilever

Brand Management component was one of the most important and 'central' components of the business. Whereas Brand Management is an Internal Operating Model (IOM) or internally facing component, the corresponding Network Partner Model (NPM) or external facing component was Consumer, which is the target of the Brand Management component (i.e. to influence purchase behavior of the consumer).

Further, I analyzed the interview data to check whether there was any relationship between the selection of 'core' components and interviewees' profiles in terms of function or level. As I see the results in the table below, there does not appear to be any obvious bias in terms of the selection of the 'core' components (e.g. functional team members selecting their own functions). Further, I also see that the average number of components selected by any function is about the same (2.3 components), with not significant variation around that, except for Finance, where I only had 3 interviewees, indicating the likelihood of a spurious anomaly.

Core Component by Function	Functions							Grand Total
BM Core Component	Supply Chain	Coordination	Customer	Marketing	Supplier	Sales	Finance	Grand Total
Society & Environment	11	4	2	2	2	2		23
Brand Management	10	1	3	1		2	1	18
Consumer	7	3	1	1	1			13
Cash	5	1	1	1				8
Customer		2	1		1			4
Profit (Revenue & Cost)	3		1					4
Product Portfolio			1		1		1	3
Consumers	1					1		2
Cost	1				1			2
Ownership				1			1	2
Revenue				1				1
Grand Total	38	11	10	7	6	5	3	80
Number of Interviewees	16	5	5	3	3	2	1	35
Components / Interviewee	2.4	2.2	2.0	2.3	2.0	2.5	3.0	2.3

Table 6.2: BM component deemed 'core' by profile of interviewees

To better analyze the bias, I also converted the above table into percentage of interviewees within the functional vertical. I see that overall, 29% of interviewees' responses named Society & Environment as a core business model component. Departing from this average, 36% interviewees' responses in Coordination related functions named this component as 'core', whereas only 20% of interviewees' responses in the Customer related functions named this component as 'core'. Similarly 33% and 40% of Supplier related and Sales related interviewees' responses cited this component as 'core', the sole Finance interviewee did not view this as 'core' at all.

Core Component by Function	Functions							Grand Total
BM Core Component	Supply Chain	Coordination	Customer	Marketing	Supplier	Sales	Finance	Grand Total
Society & Environment	29%	36%	20%	29%	33%	40%	0%	29%
Brand Management	26%	9%	30%	14%	0%	40%	33%	23%
Consumer	18%	27%	10%	14%	17%	0%	0%	16%
Cash	13%	9%	10%	14%	0%	0%	0%	10%
Customer	0%	18%	10%	0%	17%	0%	0%	5%
Profit (Revenue & Cost)	8%	0%	10%	0%	0%	0%	0%	5%
Product Portfolio	0%	0%	10%	0%	17%	0%	33%	4%
Consumers	3%	0%	0%	0%	0%	20%	0%	3%
Cost	3%	0%	0%	0%	17%	0%	0%	3%
Ownership	0%	0%	0%	14%	0%	0%	33%	3%
Revenue	0%	0%	0%	14%	0%	0%	0%	1%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%

Table 6.3: BM components deemed 'core' by percentage

Similarly, deviating from the average of 23% of interviewees' responses naming Brand Management as 'core' or 'central', I see that on the lower side of the spectrum, 9% of Coordination related interviewees' responses named this component as 'core', whereas 30% of Customer related interviewees' responses and 40% of Sales related interviewees' responses named this component as 'core.' Interestingly, only 15% of Marketing related interviewees' responses thought this component was 'core', which appears almost like a 'self-directed bias'. **One of my key insights from this analysis that not all functional areas appear to select the same 'core' components of the business model and if they do, it may not be in the same order or ranking.**

I also checked the components selected by the level of the interviewee, to see whether certain levels of the organization chose more often a specific component of the business model as 'core'. The results in the summary table below indicate the number of interviewees' responses, as well as the percentage of responses within each level of hierarchy.

Core Component by Level	Level					
BM Component	MGR	DIR	VP	SVP	Total	
Society & Environment	5	10	6	2	23	
Brand Management	4	7	5	2	18	
Consumer	6	4	2	1	13	
Cash	1	4	2	1	8	
Customer	3	1			4	
Profit (Revenue & Cost)	1	3			4	
Product Portfolio		3			3	
Consumers	1		1		2	
Cost		2			2	
Ownership		1		1	2	
Revenue	1				1	
Total	22	35	16	7	80	
Number of interviewees	9	16	7	3	35	
Components / interviewee	2.4	2.2	2.3	2.3	2.3	

Table 6.4: BM components deemed 'core' by level

Core Component by Level	Level					
BM Component	MGR	DIR	VP	SVP	Average	
Society & Environment	23%	29%	38%	29%	29%	
Brand Management	18%	20%	31%	29%	23%	
Consumer	27%	11%	13%	14%	16%	
Cash	5%	11%	13%	14%	10%	
Customer	14%	3%	0%	0%	5%	
Profit (Revenue & Cost)	5%	9%	0%	0%	5%	
Product Portfolio	0%	9%	0%	0%	4%	
Consumers	5%	0%	6%	0%	3%	
Cost	0%	6%	0%	0%	3%	
Ownership	0%	3%	0%	14%	3%	
Revenue	5%	0%	0%	0%	1%	
Average	100%	100%	100%	100%	100%	

Table 6.5: BM components deemed 'core' by level (as percentage)

The summary seems to lend support to the another insight that not all levels within the organization appear to choose the same business model components as 'core' and if they do, it may not be in the same order of ranking.

One of the managers who believes in the consumer being at the core is Alvaro Mejia, a Director in the North American business, who says,

“Consumer is the core component of my business model – in terms of their behavior, their trends, their habits – that’s what forms the central pillar of the business model – it’s what drives me to innovate, to modify my strategy or my business model. It’s about what the consumer wants. I can sit here and say it’s about USLP, but it’s more about the consumer – if you don’t have a consumer, you don’t have a business model.”

Kathryn Fair, Sr. Director offered a different perspective on what is core for the Unilever business model in the North American business:

“It’s interesting because I think that the easy answer would be [sustainability – i.e. society & environment] USLP, but I think that we are still evolving where this can truly be at my core. The reality is that everything we do is centered on growth. There’s this evolution happening, where the USLP got introduced, and the PR perspective says the USLP is the core of my business; I know internally, that it’s all about growth, and we are trying to find ways in which to bring USLP in. There’s going to be these parallel paths, until they actually converge to being where Society and Environment is in fact my central component as the means of growth. I just don’t think we are quite there in the ME, but perhaps its there for Developing and Emerging (D&E). But the core is really 100% centered on growth.”

Asking further about growth, Kathryn indicated that it was primarily the Brand and the Consumer that formed the critical part of this equation for growth, the Brand looking at it from a market perspective, and the Consumer from the consumption perspective.

However, some of the more senior leaders think somewhat differently, but are fully aligned with the view that the sustainable living plan (USLP), which corresponds to the Society and Environment components, is at the core of the Unilever business model. One such executive, Alexandre Eboli, a Vice President for the Refreshments business says:

“I think that the core is to secure that I have the ability to deliver the broader portfolio – that’s how I will grow and stay in the longer term. I don’t have any business where I play at the core in any one category, because that’s not who I am. And during the last 5 years, sustainability is beginning to be at the core, for sure. I am starting to buy more expensive chocolate because it is sustainably sourced. I am not launching certain types of ice cream with fruits because I am unable to buy from suppliers that are sustainable. There are some suppliers who say I will not plant sustainable plants because you will buy from me for 6 months and then what do I do with a much higher cost base. That’s a fair point. I would say that the portfolio game plus the sustainability part, translated into effective operations, is the core.”

Although there were differing points of view on the degree to which the Brand, Consumer, and Society & Environment are the core or central components of the Unilever business model(s), the interviewees were able to converge on some combination of these three, the most common being the first two with or without the third (combined), respectively. Let me tackle each of the core or central components one at a time.

Brand Management: In order to bring out the complexity and the richness of the insights, I will highlight that whereas the Brand Management is not just a function, but also an organizational construct. The Unilever business model is a complex one – there are three layers of organization: global, regional, and local. The brand management function traverses all three. At the global level, the Brand (through the Brand Development or ‘BD’ structure) is responsible for developing innovation and driving the growth strategy. In the North American context, the regional organization was described to me as not so much of a formal organization as an aggregation of local representation of a specific ‘cluster’ of countries. The interviews suggest that the regional team chooses or rejects the global innovation from a ‘catalog’, so to speak, that the global organization provides (not the same catalog globally, as not all brands are global and not all global brands apply to all regions). The local organization (also called Brand Building or ‘BB’) is responsible for executing the global strategy for the portfolio selected by the local representation to the ‘regional’ team.

Growth plans are generated at the global category level and driven down to local brand levels. This multidimensional core component then drives the decisions about the configuration of the other components within the **Internal Operating Model (IOM)**, such as:

Product Portfolio: what products will be launched as innovations in a specific country or region

Sales Model: what customers and channels will the growth be driven through (e.g. a ‘value’ brand such as Suave deodorant and shampoo are sold in channels like Mass Merchandise customers like Walmart and Club, like Sam’s or Costco) whereas the more premium brands are sold through premium channels like Drug or E-commerce.

Supply Chain: the brand team communicates the long term (36 month) forecast at the brand / national level to the customer development (sales) team, who then develops a short-term (3 month) forecast at the promotion family (price point oriented) at the customer level and communicates it to the supply chain planning organization, who converts this to a stock-keeping-unit (SKU) at a distribution center / factory level, and transmits this signal to the respective sub-organizations within the supply chain (manufacturing, distribution, sourcing / procurement). The brand drives the decision of how the supply chain needs to be configured in order to meet value and service criteria, as well as innovation bandwidth (uncertainty around the product consumption). The brand directly drives the decisions on a strategic perspective, to ensure that future growth objectives are met, and influences tactical decisions through the sales and operations planning (S&OP) forums that are held on a monthly basis.

Organization: the brand management model drives the organizational design, as the other functions are hinged to it on all three levels – local, regional, and global, as well as from a different perspective that I introduce now – i.e. ‘direct’ or ‘support’. The brand drives the decision of configuration of the organization for other functions in terms of the fact that it determines what is a ‘local’ function vs. a ‘support’ function. The sales organization is a ‘local’ function in the country (who has P&L responsibility for the category strategy), but the supply chain, finance, HR, and IT functions are all ‘global support functions’. The brand management model dictates directly the organizational models for the global support functions that ‘service’ it.

Coordination: since the organization is structured based on the Brand management model, it drives the configuration of the coordination mechanism. Category meetings, brand meetings, and sales and operations planning (S&OP) meetings drive how the business must coordinate across functional, category, and geographic boundaries. Teams are centered on the brand operations in the local business unit; regionally, the local brand representatives attend the category forums where they interact with the global category (and brand) teams. The information systems are also centered on the brand operations and planning. Whereas the most granular unit of planning is a product (item) at a location (stock keeping unit or SKU), the sales teams aggregate or disaggregate from a customer or channel perspective (SKU at customer or promoted-family at customer or channel level), but all this information always aggregates to (and disaggregates from) the brand level, where funds are allocated for marketing, advertising and promotions, for media, and for other campaign related market development funds.

The Brand Management influences the configuration of the components of the **Network Partner Model (NPM)** in the following ways:

Consumer: the brands are organized and structured to engage different types of consumers and the portfolio approach to the brands to cover different segments of population dictates how the business seeks to obtain consumers, influence usage by those consumers, and the upsell between brands to move the consumers to higher margin products over time. There is, of course, a bi-directionality between the consumer model and the brand management model, since brand identities and attributes are based on consumer preferences. As Patricia Verdejo, a Marketing Manager for the North American business says, *“Knorr Latin was created as a brand extension in North America to tap into the Hispanic community in the ME, and to connect the Hispanic consumer with legacy products from their country of origin in Latin America.”* The configuration of how the brand is managed has a clear bi-directional relationship with how the consumer is defined and engaged with.

Customer: the value proposition of the brand drives where the brand is marketed and sold, in terms of the geographic reach, the medium through which the brand message is communicated, and the customer whose shelves on which this brand is sold. As Nathan Walsh, a functional Manager in the North American business says, *“my power with my customers is that people want to buy my product.”*

They are motivated to work with Unilever because they have people coming into their stores demanding my products."

Complementor: The brand model drives my relationship with and configuration of the product / brand complementors. For instance, Unilever partnered with Schick, the shaving razor company, to market a new men's shaving gel and razor product. As Rob Lewis, a functional Director in the North American business explains, *"I launched a new Axe razor in partnership with Schick at Walmart last year."* This decision and choice of Complementor was based on the brand image, the brand value (strength), and the synergy of the complementary product image (shaver) to that of the shaving gel (Axe). This is a case of the brand driving the configuration of both the customer and the Complementor.

Supplier: There are two levels of influence by the brand component in terms of the configuration of the supplier model: one is at the Unilever level as a whole (corporate brand), and the other is at the level of product brands. In terms of the corporate brand, Unilever is on a journey towards working only with suppliers who source their ingredients, raw materials, and fuel sustainably, ethically, and with fair trade. Nathan Walsh, a Manager in the Global Procurement team recounts a recent story that embodies this claim:

"Its very much an end-to-end model. If it comes down to a deal if I can only get cheaper costs by doing child labor or unfair practices, then I am clearly not going to do that. I as a company cannot do that, whether it's my own labor or that of contractors, and I take that very, very seriously. It's a big risk from a business standpoint that I am not willing to take. I know of a good example that came up in Q3 in 2014. It was my source of prawns. If you go down the value chain for my source of prawns, they were using forced labor to get trash fish to create the fishmeal to feed the prawns. Even though it was not my supplier but the person who was supplying them. There was a Guardian article on this company, which didn't mention Unilever at all, because I was something like 3 steps removed from this company and also I was a very small buyer of that particular prawn source, but my CPO immediately stopped all business with that company until they could certify that they were fully compliant. So that's going 3 steps beyond my primary suppliers."

From a product brand perspective, the product brand also determines which supplier Unilever will work with.

Society: Considering the Unilever Sustainable Living Plan (USLP) is at the center of the business strategy, just like the consumer component, has a bi-directional relationship with the brand model. Brand Management influences the configuration of sustainable living component, and vice-versa. I see this well articulated in the story I heard from Anna McGovern, a functional Director for the North American business:

"We are doing good and it's good for business. Women suffer poor self-esteem. They were hard on themselves, the teen years for girls. You're a father of a daughter, so this is going to be near and dear

to your heart. These girls that are in that pre-teen or teenage years, where self-esteem is really questionable and they are the most vulnerable. "I'm fat. I'm ugly. I'm this. I'm that." You're creating this concept about real beauty through Dove. You're doing these police sketches. A police sketch artist is asking women behind the curtain to describe themselves and he's sketching them. They give him a description of themselves. He sketches the picture and he hangs it up. Someone that they just met earlier in the afternoon comes in and that person now has to describe this person. You put this picture side by side. "Here's the picture you described for me of yourself. Here's the picture of how someone else described you." You see a startling difference in how women just don't see themselves as beautiful. Dove is trying to say, "Look, it's all about the beauty that you have. Be proud of it. It's inner beauty, but it's also your outer beauty. You're more beautiful than you think.

Brands are really embracing this. You've got the sustainability. You've got brands like Ben & Jerry's who live this mantra. You could put Ben & Jerry's along with Whole Foods and companies like Seventh Generation and Method. All of these environmentally savvy companies, Tom's of Maine, where it's part of their DNA. The bottom line is it's been part of Unilever's DNA for a long time. It's just that I never leveraged it or marketed it."

Environment: Again, with the Unilever Sustainable Living Plan (USLP), the Unilever brand drives the configuration of how the business will interact with environmental issues. Moez Miraoui, functional Manager in the North American business says:

"Unilever evolved in the last 5-6 years. As you can see, Environment and Society became part of the core. If you look at any initiatives at Unilever, these are the key drivers. I embed this concept into the new product, the warehouse supply chain. Part of new projects is now how I can contribute to these two components. This is what I like about Unilever – it's not just propaganda but they really embody it in everything that I do. Zero waste to landfill has been achieved at all the factories and warehouses. It's across the Americas already. Renewable resources in fishing industry, packaging, there is a huge initiative. Cutting environmental impact in half while doubling the business is the core of the strategy."

The global corporate brand thus drives the configuration of how they want to interact with environmental variables.

The brand model also drives many of the **Financial Model** components. One of the key insights on this front I gained was from Alexandre Eboli, a Vice President for the Refreshments business, but based in Schaffhausen, Switzerland. He had an interesting perspective in terms of the overall business, and whereas most other interviewees shared his view, he was most articulate about it. His perspective was that Unilever corporate brand is actually marketed to investors (owners as shareholders of the business) as a mixed basket of brands and operating companies in terms of the revenue model, the cost model (together forming the profit model), the cash model, as well as the ownership and risk model. His view was that:

“Unilever is about that complementarity of portfolios. At the end of the day, I don’t have an owner; I have only shareholders in general. What I offer to the market is a company that will give you a stable, and modest growth rate / cash flow / dividends / whatever, in a wide range of categories and geographies; In some way, I do your portfolio management. Whoever buys my shares, should not buy L’Oréal, Nestlé, Reckitt Benckiser, I do that for them! That then translates into each category doing their bit to make the portfolio aggregation that reduces overall risk and return as well. Personal care is about growth and margin; homecare is all about scale, so that I can ship the smaller stuff and not spend too much money; Foods is about penetration – how you secure that you have one part of my portfolio in everyday life of people; Refreshment is all about cash generation. So, if you think about that, Unilever is about that composition. The biggest concern is that if someone comes in and asks me to split, I would not have ‘Unilever’ anymore – because Unilever is about the portfolio – it’s what I do. While I was having crisis in the ME and Europe, I was growing in emerging markets; now that I have volatility in emerging, I am growing in other geographies. The chance of everyone doing well at the same time is zero; that’s why I grow between 3% and 5% and that’s it – don’t expect me to do more because something bad will happen to some business in some region to offset the positives in another business in another region.”

The **Consumer** characteristics were quoted as another ‘core’ or ‘central’ component. This component is also viewed as a driver of the other components. Of course, as explained earlier, there is a strong interplay between the Brand component, the Consumer component, and the Society & Environment component. This interplay marries and co-reinforces these three components: one where the consumer insight drives the brand positioning and marketing messages, which in turn drive both social and environmental configurations, which also resonate with consumers, and therefore the relationship is reinforced. The society and environment element also influences brand messaging, which in turn also turns into consumers ‘feeling good’ about their purchases, a self-reinforcing mechanism. Best articulated by Anna McGovern, a Director for the North American business:

“Everybody is now trending towards these emotional advertising campaigns. Dove has been fantastic at leading the charge, where they’re tugging at your heartstrings, and they’ve been doing it for a long time. You look at the latest and what’s happening, and now you’re starting to see many more videos. I’m on my Facebook feed everyday. Somebody in my Facebook network will post yet another video, “Look at this very sweet advertisement.” You’re realizing that brands are starting to catch on to the emotional heartstrings. I can’t even remember what the last one that I saw. I can’t remember which brand it was. There’s been several. Coke is doing it. Budweiser is doing it with the Super Bowl ad. Unilever has been doing it, as I said, for a while.

Lifebuoy, driving child mortality rates up higher, getting a child to live to the age of five and beyond, simply because of a hand washing campaign. What’s happening is you’re creating this brand equity that’s about doing good. The underlying message is by doing good, it’s good for business.

If I take the Lifebuoy example, we are going in these small villages in India and Indonesia, and through ... Because of diarrhea and because of pneumonia and other things, there's just a tremendous high mortality rate, especially among children. I put together a video, which you can go on You Tube and find, if you just put Lifebuoy and age of five, basically. The idea is with simple hand washing, if you simply wash your hands, you're essentially washing away the bacteria that creates these horrible diseases and allows you to live. Now, is this going to sell me more soap? Of course, it is. It's also educating parents and children that hand washing prevents disease and we are getting these children to live beyond the mortality rate of five. At the same time, it's selling your soap."

The Consumer component drives the configuration of many of the other business model components. As I mentioned earlier, Unilever has three key strategic objectives: (1) the growth agenda, i.e. to double the size of the business (revenue), (2) to halve the environmental footprint, and (3) to increase their positive social impact. The business model component of Consumer plays a vital role as a core of this, as everything about these strategic objectives is connected with the Consumer.

The growth agenda clearly is a calling to put the consumer up front and center in purchasing and using more Unilever products. As Alvaro Mejia, a Director for the North American business pointed out:

"Consumer is the core component of my business model – in terms of their behavior, their trends, their habits – that's what forms the central pillar of the business model – it's what drives me to innovate, to modify my strategy or my business model. It's about what the consumer wants. I can sit here and say it's about USLP, but it's more about the consumer – if you don't have a consumer, you don't have a business model."

This means that the consumer focus drives the configuration of the **Product Portfolio** component. As Kathy O'Brien, a Senior Vice President in the North American business states,

*"I decided that Personal Care is going to be a growth-driver. But the big change from pre-2012 to post-2012 is that North America would drive growth **and** profit. Whereas previously I had been only profit-driven, now I need to be grow the top-line **and** bottom-line. So if you take that down to Personal Care – Personal Care needs to be a growth engine. It needs to grow **and** be profitable. You have to then look at the elements that drive that – you need to look at a couple of different ways: the granularity of growth – I ask what are the pockets of growth – I look for the opportunities - Hispanics, men, low income, etc., then I also look at the portfolio (I decide I am going to drive Hair, Deodorant, Strategic and Skin) – then you dive deeper and deeper till you get to the SKUs."*

This structured approach looks at the two core components of the business model simultaneously and with complementarity – the brand (category) component and the consumer component. Referring to the 'granularity of growth', the consumer component drives the value proposition configuration for the **Sales** model, which needs to sell the product into the **Customer** teams, and to design the right types of promotions through to the consumers.

6.2.1 Discussion Conclusions on the Nature of the Business Model Components

In this research question and its corresponding interview question, I questioned three facets of the nature of the business model components; firstly, in terms of their relative level of importance, secondly, the nature of the interrelationships between the components ('central' or 'core' vs. 'peripheral'), and lastly, the mechanics of the dependency in the configuration of the components (i.e. how central component configuration drives the configuration of the peripheral components). The aforementioned conclusions lend support to three main propositions:

In terms of the relative importance of the different components, the interview output showed that in Unilever, the business model components carry different weights. The Network Partner Model (NPM) components carried the most weight, whereas the Enterprise Financial Model (EFM) components carried the least, with the Internal Operating Model (IOM) being in the middle. This indicates that the business looks towards its consumers and customers, society and environment as the core components of its business model. Only a distant second come the Brands. This is aligned with the logic of the business' strategy and focused purpose of sustainable living. These findings establish a firm notion that business model components are not at the same level of importance, a refinement of the published perspectives that the components form a non-hierarchical 'network' and have no specific order even when used in specific enterprise contexts (Demil & Lecocq, 2010; A. a. P. Osterwalder, Yves, 2010; C. Zott et al., 2011).

Proposition 1A: Not all business model components are equal in importance

Following from the support for the first proposition, the interviews' output shows that Unilever considers that the business model components are ordered in a manner of sorts, but not hierarchical. There appears to be agreement that all the components are required for all business models, but that some components are more linked with the definition of the strategy than others, and that some of these components drive how the others are designed. In other words, these findings lend support to the notion put forth by Siggelkow (2001) that there is a sense of 'central' components and 'peripheral' components in the design and configuration of the business model. What components are deemed as 'central' may vary by category or business or industry, as would the 'peripheral' components. In addition, there may be more than one 'central' component. The interviews suggest that Unilever has 3 'central' components, at different levels of analysis, Brand Management and Consumer Management (at the local cluster level), and Society & Environment (at the global category level). Further, whereas these are consistent across categories within Unilever, they may be completely different in other companies or industries.

Proposition 1B: Business Model Components are not structured in a hierarchical order, but more associated with concepts of 'Central' and 'Peripheral'

Following from the support of the first two propositions, the interviews shed light on the decision prioritization order or sequencing for the configuration of components of the business model. As the interview output reveals, the Society and Environment components drive global decisions for procurement (such as which suppliers to do business with, driven by their triple bottom line orientation), supply chain carbon footprint and emissions record, and how to position the brands locally. Whereas this analogy has been made for a business strategy (Paroutis & Pettigrew, 2007), I am introducing this notion at the level of abstraction of the business model.

Proposition 1C: ‘Central’ components drive the configuration decisions of the ‘Peripheral’ components.

6.3 Unit of Analysis of a Business Model

There are two distinct but related conceptual lenses through which I have to look at the business model(s) of a complex enterprise. There is the well-described notion of businesses having a ‘portfolio’ of business models (Sabatier et al., 2010). This is echoed by Doug Sloan, a Senior Director in the North American business, *“when you say BM for a complex business, my first thought is that it’s an umbrella with several different business models in the organization, a portfolio of business models, so to speak”*. The typology of the business models described by Sabatier et al. (2010) is oriented towards a combination of ways of working (virtual, collaboration for discovery), objective (repurposing, technology brokering), and functional design (technology platform, and contract manufacturing), which can be construed as somewhat inconsistent and arbitrary. Alexandre Eboli, a Vice President for the Latin American business describes Unilever as:

“If I had to answer the question of describing the business model related to refreshments, it’s completely different from that of homecare. Personal care is about growth and margin; homecare is all about scale, so that I can ship the smaller stuff and not spend too much money; Foods is about penetration – how you secure that you have one part of my portfolio in everyday life of people; Refreshment is all about cash generation. So, if you think about that, Unilever is about that composition. Unilever is about the portfolio – it’s what I do. While I was having crisis in the ME and Europe, I was growing in emerging markets; now that I have volatility in emerging, I am growing in other geographies. The chance of everyone doing well at the same time is zero; that’s why I grow between 3% and 5% and that’s it – don’t expect me to do more because something bad will happen to some business in some region to offset the positives in another business in another region.”

In my view, the business model ‘portfolio’ of Unilever has an orientation towards growth (an objective), with the portfolio components as shown below, and it is this aggregative growth agenda

through a portfolio balanced across the different levers of growth that holds these business models together, making them somewhat symbiotic or fractals, which are similar in many respects, but not the same. Mark Dolan, a Director for the North American business says, *“There are higher levels of accountability in Brand than I’ve seen before, in terms of growth. In all my major transformation initiatives I have to link them to growth”*.



Figure 6.6: Orientation of category objectives to central objective

This is but one lens to look at the portfolio of business models within Unilever. Another lens takes into account the competitive dynamics as well, but I will leave this notion to be addressed in more depth, by my discussion around the third research question. Central to this discussion is whether the ‘firm level’ is the only unit of analysis for configuring a business model as I have been led to believe by the literature so far. The most representative papers on the topic of business model refer to business models a ‘firm-level’ concept (A. Afuah & Tucci, 2001; Allan Afuah & Tucci, 2000; R. Amit & Zott, 2012; Raphael Amit & Zott, 2001; Baden-Fuller & Morgan, 2010; R. Casadesus-Masanell & Ricart, 2010; R. a. R. Casadesus-Masanell, J. E., 2009; Ramon Casadesus-Masanell & Ricart, 2007; Chesbrough, 2006, 2007, 2010; Chesbrough & Rosenbloom, 2002; Demil & Lecocq, 2010; Doz & Kosonen, 2010; Gambardella & McGahan, 2010; Magretta, 2002; Mansfield & Fourie, 2004; C. Markides & Charitou, 2004; C. Markides & D. Oyon, 2010; C. C. Markides, 2013; Constantinos Markides & Daniel Oyon, 2010; McGrath, 2010; Sosna, Trevinyo-Rodríguez, & Velamuri, 2010; C. Zott et al., 2011; Christoph Zott & Amit, 2007, 2008, 2010).

This then leads me to question what is ‘the firm’ in the context of complex enterprises. Is a firm a collection of functions bound together by some sort of organizational model? Is ‘a firm’ a geographic notion, a business unit, or a collection of business units? Is it a group of outputs being produced by

the same set of resources? Generally in simpler firms, with a short range of products, a narrow geographic scope, and a single P&L, the firm is quite well established, and can be studied as a single unit of analysis. But does Unilever compete at the 'firm' level as I traditionally define it? Rob Lewis, a Director for the North American business says:

"There are certain places, and this is one of them, where I just go head to head with P&G. Olay & Dove is a great example. Axe vs. Old Spice is another example. Pantene, Head and Shoulders, are their key brands, and my Tressame, and other powerhouse hair brands from Alberto Culver, I took over hair leadership and there's a big battle, and we are losing again, they're all in personal care. This is where there is an absolutely fierce battle. Secret is a brand in deos where I am also fighting. I don't compete anywhere on foods brands with P&G, but I battle with Kraft. Where I do compete it's fierce for sure, but if you talk to any one in my ice cream division it's all about Nestle. It's interesting – I had a Joint Business Planning (JBP) meeting with Target for the Ice Cream team – they started out by saying by saying they are competing with the snack group – nowadays, when someone wants to indulge in a snack, I might be competing with peanuts. You want to have something at 3pm and just a snack and just the right size."

If Unilever were to compete at the 'firm' level and this is the level at which the business model was being defined, it would need to have a configuration that makes sense for all the different categories, to fight against different types of competitors who are focused on specific industry / business verticals. This is clearly impossible to do successfully, and yet Unilever has been successful in growing revenue by 25% within a 5 year span. Hence, using the logic of *reductio-ad-absurdum*, I can conclude that the business model for complex enterprises cannot be configured at the 'firm' level as a whole, but must be some level(s) below that of the 'firm' level, which leads me to the proposition in connection with this topic:

Proposition 2A: Business Models for complex enterprises have multiple units of analysis and cannot be defined or discussed just at the 'firm' level.

6.4 Strategic context of Business Models

In the previous section, I explained that a business strategy has a competitive context, based on the BCG growth / share matrix (Hedley, 1977). However, as I explained in an earlier section, that strategies share a symbiotic relationship with business models, by this relationship, a strategy specific to a competitive context (quadrant of the growth / share matrix) must have a specific business model that forms the architecture of the business such that the specific strategy can be executed. This is a logical extension of what I have said earlier. I now turn my attention to the significance of this in

terms of the configuration of the business model. In order to understand how business model is configured, I need to establish a logical connection between the relevant strategic factors that have been studied in the context of the connecting business performance with the growth share matrix.

Proposition 3B: Based on the ex-ante strategic context, I can define business model *archetypes* that are ex-post templates for business model reconfiguration.

The proposed relationship between the business model components and the growth share matrix suggests that I may be able to create business model 'archetypes' as shown in the graphic below.

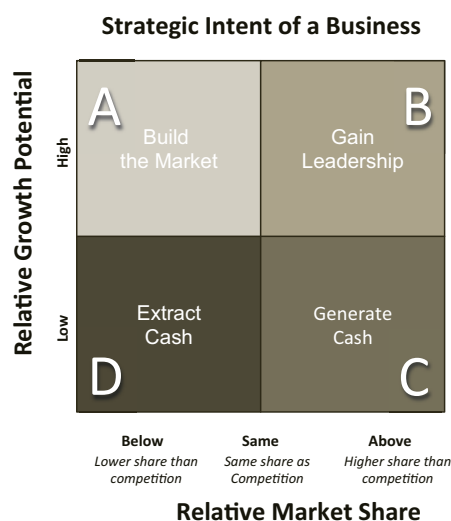


Figure 6.7: Simplified growth / share matrix

This question helps me to gain further understanding of the relationship between strategy and business models, with examples from the business. It also helps me to drive towards a new framework for decision-support of how to re-configure business models.

I have proposed the unique symbiotic relationship between the strategy and the business model of a business, whether that business be a unit of a complex business, a category, or a brand, whether it be global, or regional or local / cluster. Originally proposed by the Boston Consulting Group (Hedley, 1977), I have re-interpreted its use for my research and propositions for business models and not just strategies.

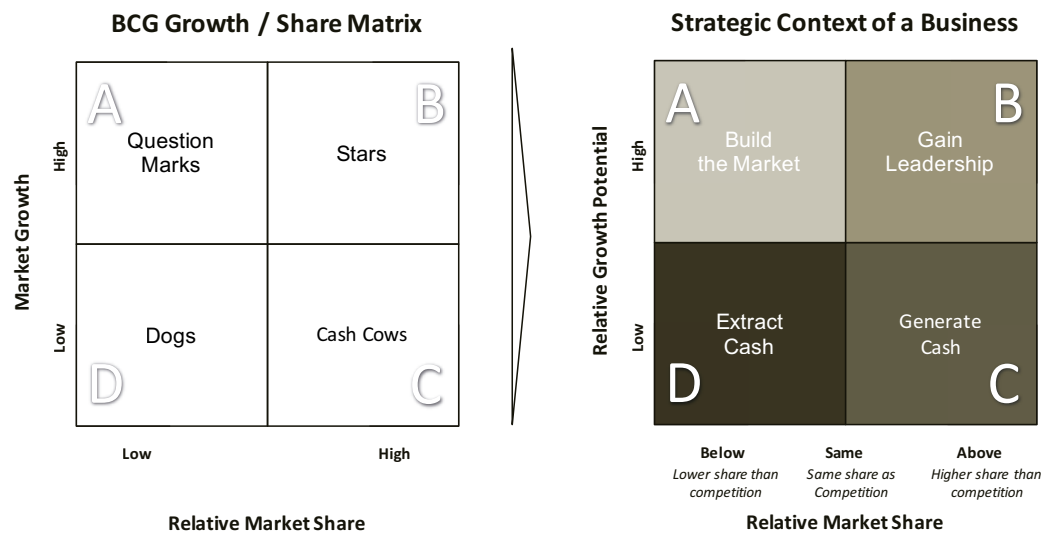


Figure 6.8: Reinterpretation of BCG matrix (left side diagram source: Hedley (1977))

From this relationship, and from the literature on the growth/share matrix, it would be a logically consistent to suggest that since each quadrant has a specific strategy in alignment with the context of the quadrant (e.g. 'build from a small position', 'generate cash'), each specific strategy has a business model configuration around it, since the requirements of each quadrants are different, with different objective functions. I propose that each quadrant should have a specific business model that is optimized to enable the strategy for that specific context.

Since growth and competition drives much of the basis of business strategy (M. E. Porter, 1996) I have used the two drivers of growth (market attractiveness) and relative market share as the basis of a new typology for characterizing Business Model Reconfiguration (BMR). I propose to define BMR along the *arcs* of transformation, and the business model itself on the *nodes* or 'states'. However, in divergence from 'typifying' business models as has been done in the past based on business or industry, such as e-shops or e-procurement, third party services, etc. (Timmers, 1998) or based on business' locus of control (Tapscott, Lowy, & Ticoll, 2000), I will do so with the notion of a generalizable business lifecycle. I adapted the much-published Boston Consulting Group (BCG) 2x2 matrix framework for mapping product portfolios (Hedley, 1977) to fit my context. The original matrix had a similar structure to mine, but was applied to product portfolios within a company. There were four 'labels' based on the quadrant: "stars", "cash cows", "dogs", and "question marks". I have reversed the order of the X axis values (low to high vs. original high to low). My proposed typology is based on different 'states' in the lifecycle of a business, and can be visualized as shown in the Figure 55.

The typical entry point of a new company into the market would be the *Build the Market* quadrant, where their business model is oriented towards responsiveness, innovation, speed to market, and

building market share (this shares the notion of business model design (BMD) as well). This state is unsustainable in the longer term because of the intensive capital requirements, and so at some point a business will be forced to reconfigure its business model so as to operate in the *Gain Leadership* state. This state is oriented to improving asset efficiency, product proliferation, innovating, and using pricing as a competitive weapon to gain a stronger competitive position. However, market leadership is a temporary state unless there is consistent innovation and invigoration of the business. The market as a whole at some point will be saturated and the growth potential will slow down, forcing the company to reconfigure its business model once again to focus on the *generate cash* state, which scales back innovation, consolidates the portfolio, seeks to maximize asset efficiency and return on assets, and stop any aggressive pricing dynamics. As the market undergoes a change, or new technology or internationalization change the market dynamics, the business must reconfigure once again to deal with new competitors entering the market place. They give up market share to competitors and therefore fall below their competitors in terms of share. This state is called *extract cash* and is all about extracting value from the current business model. This is also short-lived as the business must reconfigure its business model to transform to a new growth cycle in the industry / market.

The dimensions that determine these archetypes should be the enablers of value creation, value delivery, and value capture mechanisms of a business model, and are aligned with the definition of a business model that I am using. This characterization of archetypes of business models is a heuristic one, one that I find convenient in terms of modeling and relatively accurately representing what business models are defined as, in terms of value creation, value delivery, and value capture. These archetypes are holistic in nature and can capture the general situation in which a business model of an organization is. This framework is transferrable to higher levels of aggregation such as full company or industry and also to the geographic location (country, cluster), or product (category or brand) levels.

Brands Within the Strategic Context of a Business

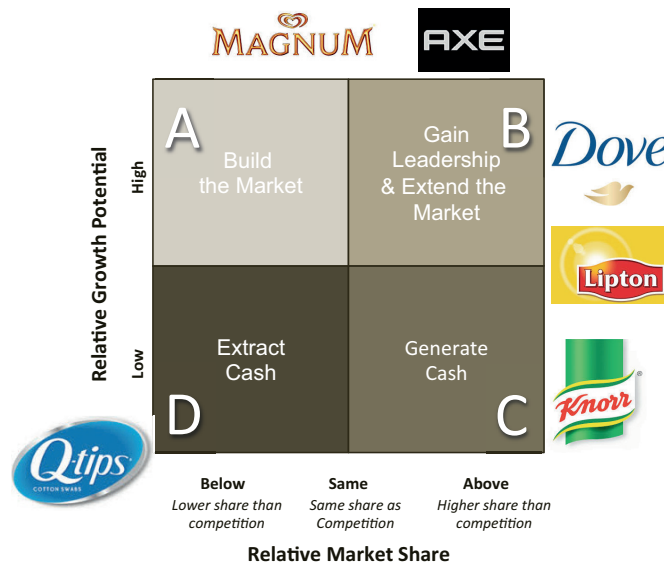


Figure 6.9: Strategic context of brands in Unilever

Each of these brands in Figure 6.9 has a specific strategy that enables the business to define how it will compete in the marketplace. As discussed earlier, the business strategy concerns primarily the 5 factors of product choice, market choice, customer choice, customer value proposition, and competitive differentiation. Since this strategic context implies a different business strategy (competitive strategy) for each quadrant, it also implies an archetype business model for each competitive state, characterized by each of the four quadrants. In the quadrant demonstrated in Figure 6.9, we see that the Magnum brand is characterized as a brand that is on its way to growing market share in a growing market. On the other hand, Dove is a market-leader in the personal wash category, both in terms of its shower gel as well as its bar soap, where the growth differs greatly between the shower gel (high growth) and the bar soap (low growth). Lipton tea represents a declining market but persistent share market leadership for bagged tea in favour of ready to drink teas and out-of-home tea applications (e.g. Starbucks); Knorr brand bullion stock cubes represent growing niche consumption by specific groups like Latin consumers (in the US), where the growth is modest, but there is relative market share leadership; Qtips represents a loved and recognized brand of a commoditized products of ear-cleaning cotton-buds, which is mostly store-branded these days.

The interviews reveal that the business models are configured based on the strategic choices, and whereas there is a 'master configuration' for the business in terms of core and peripheral components, the specific configuration of the components is different based on the significance of the four quadrants of strategic context. Using the output of the interviews, I have been able to develop an archetype configuration for each of these four quadrants (A,B,C,D) and specify this configuration at the level of detail of the components of the Enterprise Financial Model (EFM), the Internal Operating Model (IOM) and the Network Partner Model (NPM). I discuss each of them in the sections that follow:

6.4.1 Configuration of the Enterprise Financial Model (EFM)

The EFM components are configured differently across the four quadrants: the revenue basis is more biased towards selling in the specific markets of choice vs. across the board and focused on generating market share and not profit in Quadrant A; the Cost base is not so much a priority in Quadrant A, but becomes a priority in Quadrant B, where profit is imperative for the longer term sustainability of the brand. Further, assets and investments in the category are more targeted for Quadrant B towards expanding its manufacturing capacity and distribution network, whereas in Quadrant A, it is more about driving investment more towards advertising and promotions, and customer co-branding programs that win market share. In Quadrant C, the profit model (revenue – cost) is more a focus, in order to maintain the generation of cash for the business itself, and to fund more innovation in this space, which also ties into the Cash or working capital element. The Risk profile in each quadrant is also different; in Quadrant A, the risks are more along the lines of market risk and product risk, whereas in Quadrant D, the risks are more about the risk of disruption in terms of innovations in the attributes, scope or usage of products. In Unilever, we observe the common theme amongst interviewees of brands in Quadrant D being spun off, divested, or just scrapped, impacting the motivation of the employees who are working on these brands. I have expanded more on each of these components within the EFM, in Table 6.6.

6.4.2 Configuration of the Internal Operating Model (IOM)

The IOM is also one that is shaped by the strategic context of the business. The interviews shed light on the how the components within the IOM are configured differently based on the archetypes. In Quadrant A, the brands tend to launch with a limited portfolio of products that may have broad appeal to gain market share and a foothold in the market, before launching niche products (e.g. Dove Men, Knorr Hispanic) in Quadrant B, where they may have the wherewithal to experiment with different customer bases, channels, and markets. In Quadrant C, the sales efforts are reduced for niche channels and are more set on a reorder point basis with less customized promotional activities with customers. Innovations leading to portfolio proliferation are more likely when the brand is in Quadrant B than in Quadrant C, where innovation is more of the ‘renovation’ flavor rather than breakthrough innovations. The supply chain is more responsiveness-focused in Quadrant A and B rather than efficiency-focused in Quadrant C and D. The organization is also differently shaped in each quadrant, where it is more diverse in terms of roles and responsibilities in Quadrant A, not unlike a startup company where employees are expected to take on different roles, as opposed to in Quadrant B and C where the organizational responsibilities are more focused and the scale is ramped up with a higher span and more focused roles. It should be noted, however, that the brand positioning dictates the configuration of the other components within this model, since it is a central component. I have expanded on each of these components in Table 6.7.

6.4.3 The Configuration of the Network Partner Model (NPM)

In the NPM, the Society and Environment components remain generally the same across the archetypes, since these are the central components for the business model. However, the other components are configured differently across the quadrants. The Consumer component was also deemed a central component, and should dictate more difference between the archetypes. However, as I saw in the interviews, the relative over-representation of Walmart on the revenue generation of the business biases the central component more towards the Customer configuration rather than the Consumer configuration. The Supplier component is focused more on cash leverage and responsiveness in Quadrant A whereas it shifts to a more long-term relationship with a focus on cost in Quadrant B in order to generate higher profits, a significant rationalization exercise in Quadrant C to focus on core suppliers, and more of a 'vendor' relationship with a cost focus in Quadrant D. More details are provided on each component for the NPM in Table 6.8.

6.4.4 Conclusion – the impact of Strategic Context on the Business Model Configuration

As the interviews and discussion suggests, the strategic context of the product or brand or category drives the configuration of the business model. Through the leaders of the spectrum of brands and categories that I interviewed, I am able to lend credence to the notion that the business model is oriented towards the strategic context of the business. Given the 4 quadrants of the growth/share matrix, each quadrant appears to typify a specific configuration of business model. This 'archetype' configuration can enable a business to know ex ante what the 'future state' configuration needs to be while the market or business conditions internally change so as to have a 'destination' in mind and not have to figure it out while it is trying to transform to be aligned with that specific strategic context.

Business Model Components		Strategic Context of the Business Model			
	Component	Build from a Small Position & Establish Leadership Quadrant A	Strengthen Leadership & Grow the Market Quadrant B	Defend Leadership & Generate Cash Quadrant C	Extract Cash & Develop Exit Strategy / Inflection Point Quadrant D
Enterprise Financial Model	Revenue	Capture new market with traditional revenue stream but done better / smarter and more effective, and explore new revenue streams to capture more share of market	Explore new revenue streams through product extensions and innovative complementary products and services; consider setting up revenue streams as independent business lines; focus on profitable streams only; test different pricing mechanisms and understand elasticity	Consolidate revenue streams and spin-off complementary revenue streams if not part of core; push elasticity to their limit to extract more value; push pricing as high as possible without losing share; leverage brand image as much as possible to bolster pricing and margin.	Focus only on profitable revenue streams that are aligned with remainder of business and where value extraction potential exists; do not enter into pricing offensives and defend margins to the extent possible.
	Cost	Explore innovation techniques, develop market, evangelize customers and consumers; explore new channels; grow market share and steadily increase supply chain resilience.	Optimize costs to maximize the margin; scale the business, extend scope to broaden the product portfolio to capture greater share and maintain share.	Spend carefully as growth slows down; rapidly shed spare capacity if there is evidence that market is shifting; Maintain bandwidth to deal with competitive dynamics.	Keep only necessary costs to maintain the business, but with an eye towards cheaper and faster technology to reduce variable costs. Efficiency and productivity focus.
	Cash	Inventory: build sufficient pipeline and safety stock to ensure high service levels from launch through growth phase with sufficient bandwidth for spikes. Trade Terms: Negotiate terms to include inventory holding and other deals as necessary.	Optimize working capital; keep tight control on receivables and as you gain more share, you can better negotiate payables; employ inventory segmentation by demand pattern and use <i>available to promise</i> policy for most important customers.	Focus on sustainable cash flow; inventory at optimized levels; strict governance on receivables and prolong payables as much as possible for positive cash flow; no trade term negotiations are beneficial at this point.	Fixed inventory limits to preserve working capital allocations to higher margin products and innovations; leverage portfolio to extend payment terms to suppliers; shift portfolio towards more cash purchases with minimal credit terms usage.
	Asset & Investment	Investing heavily in assets before knowing steady state of innovation and market response is risky; leverage available assets or innovation platforms for low risk; else if innovation is breakthrough then use third parties as much as possible.	Invest heavily in R&D and brand development; step change asset investment as volume increases; may need to invest in new technologies but preserve flexibility; accept incremental investment in growth projects; cap-ex focused on innovation.	No further large cap-ex investment; valuable business, requiring periodic investment to keep pace with market developments; capital expenditure focused on maintenance and cost savings to increase margin.	Very selective investment, minimum investments necessary with very short paybacks; outsource as much as possible; lower variable costs; leverage existing assets for production and distribution; use product as 'filler' for spare capacity on production and distribution.
	Ownership	Ownership is typically undervalued here since market potential is not established; information asymmetry is prevalent and decisions must be made carefully.	Ownership is typically overvalued as the potential is being exploited and there is more hype than what the business can finally deliver sustainably; the valuation peak will be reached in this stage.	Ownership value has peaked; look to maintaining ownership and make large positive cash-flow the driver of ownership and valuation; consolidate ownership if diverse and distributed.	Focus on brand or category divestiture or consolidation with other similar platform brands or categories; use divestiture as means to pay for further acquisitions.
	Risk	Risk profile is high; uncertainty is high about market and innovation; since risk is mostly unavoidable, focus on mitigating major risks only.	Use tools to actively manage dynamic risk; quality of strategy and innovation is key; few big bets are best; new entrants change the rules of the game.	Risk of new entrants is imminent danger; too much profit taken out of category impacts the competitiveness; Risk of managing for short term and of doing nothing in the face of opportunities.	High risk of market fragmentation; demotivation of staff due to short-term management of the business and potential rumors and history of divestiture.

Table 6.6: BM 'archetypes' for BM Beacon components – Enterprise Financial Model

Business Model Components		Strategic Context of the Business Model			
	Component	Build from a Small Position & Establish Leadership Quadrant A	Strengthen Leadership & Grow the Market Quadrant B	Defend Leadership & Generate Cash Quadrant C	Extract Cash & Develop Exit Strategy / Inflection Point Quadrant D
Internal Operating Model	Product	Focus on a range of 'base' products that the market needs; Don't over-extend the portfolio now; wait to get traction in the market and consumers familiar with the basic innovation.	Segmentation is key; choose and push strongly the breakthrough products while protecting base; hold a number of sharply differentiated brands and consumer segments; cover full consumer space.	Seek to cover all bases and leave no gaps for entrants; expect to deal with regular challenges to leadership; seek tactical opportunities to use existing assets to generate cash; be clear on retention value and manage to this benchmark.	Unsustainable position; aim to take the cash while you can; may be disposal candidate that may be unable to sell; be clear on retention value and manage to this benchmark.
	Brand Management	Educate the consumer and the market place. Evangelize, educate, engage with consumers; Pricing needs to be very competitive; promotions need to be timed correctly to take advantage of competitive action; placement is critical to gain eyeballs and adoption.	Look to optimize the total, not individual brands; adequately fund activity plans behind share gain; grow market if leader already; both advertising and promotion have a key role; focus on share of shelf and share of market; brand health is key for long term sustainable growth.	Absolute spend must be greater than nearest competitor; maintain brand health as critical barrier to entry and to support pricing; rigorous use of ROI to ensure effectiveness; creative use of social media and tactical spend on point of sale; viral web activity a must to maintain buzz and volumes.	Mainly promotions; no theme; tactical point of sale activity; rigorous use of ROI to ensure effectiveness; migration of brand equity to other remaining brands within portfolio.
	Sales Management	Explore the channels that get most traction quickly and at least cost of evangelization, education, and engagement; clearly position price point, USP, competitive stance. Offer in-store promotions to drive more traffic.	Work towards category captaincy; recruit trade to support plans; incumbent must be displaced; increase category size and profit pool to reduce attractiveness to competitors; strongly resist terms and market value erosion.	Leverage category captaincy; manage sharing of cash generation with trade to ensure relevance in marketplace; spend sufficiently and target winning partnerships; focus on large categories with high absolute spend.	Explore all relevant potential channels, routes to market may be extended to non-traditional channels (e.g. distributors); maximum impact from limited funds; spend efficiently and target winning partnerships with customers.
	Supply Chain	Responsiveness rules while building market share; tolerate inefficiency, process deviations, low productivity while market share builds while keeping service levels high. Rapidly build analytics to sharpen and optimize supply chain as market share grows.	Leverage scale to reduce costs in step-change manner; set rules for innovation – one platform rolled out everywhere; accept value-added complexity; preserve flexibility for volume growth and product portfolio extension; look for new business models to extend the business portfolio.	Aggressive focus on lowest cost structure including consolidation and alternate sourcing; begin eliminating non-value-added complexity; exploit tax advantaged business models; focus on low cost structuring of sourcing deals with suppliers; optimize formulations and harmonize packaging.	Aim for third party sourcing and other factors that reduce asset-base (unless used for other profitable product, in which case fill capacity at incremental variable cost); accept tactical complexity only if demonstrable positive ROI and no risk to more profitable products.
	Coordination	Invest in coordination systems and structures in order to rapidly scale the business once market share trajectory takes hold.	Leverage large scale enterprise systems to coordinate across business units, functions, brands; slow down new investments as payback periods will be longer.	Leverage systems to reduce costs further; look to process automation; focus on analytics to extract more cash from business and highlight potential business opportunities.	Leverage systems to automate processes as much as possible; no building of new capabilities; explore smaller system alternative.
	Organization	Multi-functional, lean and flat structure; market-share linked reward program; create foundation for long term growth	Add organizational layers to increase market responsiveness; make jobs more standardized; add scale vs. customization.	De-layer organization for ongoing business; reduce spare 'bandwidth' required for a growth business and focus on base business; consider outsourcing 'variable' opportunities.	Step-change to small organization with minimal layers; multifunctional team with flexibility to take on different roles; re-adjust reward system towards maintaining business vs. on growth.

Table 6.7: BM 'archetypes' for BM Beacon components - Internal Operating Model

Business Model Components		Strategic Context of the Business Model			
	Component	Build from a Small Position & Establish Leadership Quadrant A	Strengthen Leadership & Grow the Market Quadrant B	Defend Leadership & Generate Cash Quadrant C	Extract Cash & Develop Exit Strategy / Inflection Point Quadrant D
Network Partner Model	Consumer	Targeted approach for fast buildup and capture of market share; focus on specific channels, geographies, and price-points, with a smaller range of products.	Target usage increase for consumers; expand product portfolio to capture adjacent consumer groups; focus on profitable consumer segments.	Shift focus to specific consumer groups in order to maximize profit; migrate consumers to higher-margin products; re-emphasize brand value and differentiation.	Maintain loyal consumer base; try to migrate consumers to new innovations; maintain brand image to generate margins; upsell through aggressive use of portfolio and cross-selling.
	Customer	Channel specific programs to target specific consumer groups; make data and analytics part of the deal for specific channels.	Expand to new channels; gain market leadership across different channels; partner with customers in promotion activity and share profits.	Shift focus to profitable channels and customers; target specific events to grow business within category and price point; leverage category strategy to play at different customers with different portfolio models.	Leverage use of 'underdogs' in portfolio for specific channels and markets; shift customer base towards lower-end aspirational consumers while simultaneously creating inflection bridge towards new innovations and next generation products.
	Supplier	Flexible supplier relationships in terms of quantity, timing, but with strict service levels; tradeoff higher material pricing for needed flexibility and reliability.	Renegotiate supplier contracts with increased scale with potential for growth; build service level commitments into contracts and make less tradeoffs.	Govern contracts with focus to ensure sustainable supplier relationships; shift towards more efficiency (vs. responsiveness) oriented suppliers for long term relationships.	Leverage existing supplier relationships to extract better deals on materials; quantum shift towards zero flexibility and fixed volume commitments.
	Complement	Encourage dependence on complementary assets to share risk and costs; more advantageous to give away profit in exchange for market share.	Consider acquiring complementary assets to preserve margins in-house; use complementary assets for further growth into new markets and new segments of existing markets.	Reduce complementary asset dependence; consider reverse consolidations (or divestitures) to complementary asset owners.	Reduce complementary asset dependence; consider reverse consolidations (or divestitures) to complementary asset owners.
	Society	Identify whether society is core to business model or a peripheral factor for specific brand.	Leverage society benefits to attract more consumers; use communities to spur growth.	Leverage society benefits to attract more consumers; use communities to spur growth.	Leverage society benefits to attract more consumers; use communities to spur consumption and cash generation.
	Environment	Identify whether environment is core to business model or a peripheral factor for specific brand.	Expand environmental benefits through scale; create new programs to have a greater environmental impact through existing business.	Maintain environmental benefits through scale; create incremental programs to have a greater environmental impact through existing business.	Maintain environmental benefits but de-emphasize contribution.

Table 6.8: BM 'archetypes' for BM Beacon components – Network Partner Model

The notions of 'strategy' and 'business models' have been a focal point of many representative scholarly articles (Seddon et al., 2004; Teece, 2010; Christoph Zott & Amit, 2008), but none has gone far enough to describe the specific relationship that establishes the complementarity between the two notions due to the relative infancy of this topic of research. Since this case of Unilever has validated this complementarity, using existing and established frameworks like the growth/share matrix from the Boston Consulting Group (Hedley, 1977), it is logical to pursue it further and establish the fact that it is possible to establish the business model archetypes through this relationship, which represent the configuration of the business model for each quadrant, leading to a further proposition:

Proposition 3A: Strategic context drives decisions about how to configure the components of the business model

6.5 Embedded Case 1 : Business Model Reconfiguration for Special Packs

What we can see in the Special Packs case is an example of the ‘deliberate’ strategy (Mintzberg & Waters, 1985) inducing changes in the business model. Initially, the business tried to reconfigure the process by which they dealt with special packs by trying to optimize the transaction processes. Through my interviews with Doug Sloan, the Director of Special Packs, Beth Coppinger, the Director for Supply Chain, and Katherine O’Brien, Senior Vice President for the Personal Care category, we find that the process changes did not work, and they realized that structural changes needed to be made. It was only through a significant change of the business model of how they deal with special packs that this was turned to a success story, and continues to impact the business results positively today.

Based on the Beacon framework in Figure 6.10, we mark the consumer and brand **components** highlighted in black as the central components of the business model, and the customer as an important component as well (coded in gray color), since this is the intermediary / retail point of contact between Unilever and the end consumer. The unit of analysis is the local country cluster. We can map the relationships between the components with the blue lines. The consumer desires impacted the customer requests from Unilever, who had to change their traditional supplier relationships and their supply chain configuration, invest in assets in flexible packaging through Menasha Corporation, which also impacted their cost model, which had to be revised so as to account for an in-house third party. There is also the connection between the brand management and coordination components, since the business needs to coordinate the entire business infrastructure with the third party, Menasha Corporation, who is responsible for design through manufacturing of the special packs.

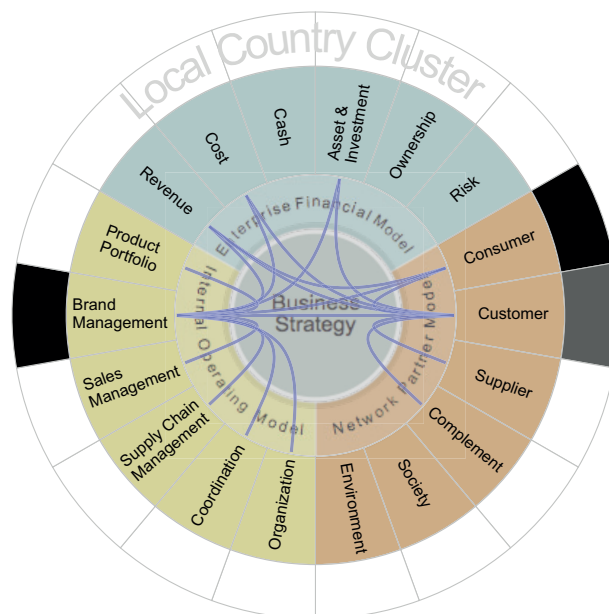


Figure 6.10: Embedded Case 1 - Special Packs BM Reconfiguration

In terms of the **unit of analysis** of the business model, we look at this through two lenses : 1) a proces lens and and 2) a strategy lens :

- 1) The change in the business model is restricted to a single category : Personal Care. The processes changes that attempted to compensate for the lack of such a business model shift ex-ante did not work, based on the interviewee perceptions. However, once the business model shift had occurred, the processes were restructured based on the new business model, and these transactional processes are what has enabled the business to make such significant gains as described in an earlier chapter, from what I understood from the interviewees.
- 2) Through the strategy lens, we observe that the business model change does not require any change in the strategy for the business because it is restricted to the Personal Care category. Further, we also observe that the Personal Care category is not impacted either because the strategy is an a level of abstraction enough to not entangle itself in business architecture dependencies at the level of the business model. The business model can freely be modified without any strategic implications in terms of the business strategy as a whole, for the category, even though many of the components in the business model are being changed and dependencies and coordination mechanisms between components such as Brand Management, Supplier Management, and Supply Chain Management are being changed dramatically.

It has also become clear that at the level of analysis of the category (Personal Care), the business is operating on dual business models : one to deal with 'everyday packs', and one to deal with 'special packs.' The way this appears to work synchronously is through the notion of a 'master configuration' and a 'variant configuration'. In this case, the 'variant' is the specific case for special packs for the Personal Care category.

In conclusion, the Beacon framework is validated in terms for this specific case in terms of the confirmation of the adquacy of the universal set of business model components and the inequality of the components of the business model. In addition, we see that the Beacon is able to model the different units of analysis of the business (category vs. full busines), as well as describe appropriately the relationship between the business strategy, business processes, and business model. The notion of the 'portfolio' of business models (Sabatier et al., 2010) appears not only to 'occur', but in fact to be necessary for the successful operation of the business. Further, the Beacon framework holds up to the dynamics of the bi-directionally oriented 'deliberate' strategy and 'emergent strategy' (Mintzberg & Waters, 1985), but also to the framework and relationship between business strategy, business model, and business process as proposed by A. Pateli and G. Giaglis (2003). This leades to another proposition :

Proposition 4A: Business model reconfiguration can occur in complex enterprises due to market factors in a specific market

6.6 Embedded Case 2 : The Wholly Owned Spin-Out of the BCS Business

The issue with the Spreads category appears to be the lack of sufficient funds to grow the business because it was relegated to the 'low growth / high share' quadrant of the growth / share matrix, a position where it had to play a specific role for the overall business: to generate cash for growth in other categories and to fund new acquisitions. With the eventual realization that the business was in decline and that something very different needed to be done about it, the business decided to spin-out the business as the 'BCS business', which could fund it's own growth and not be boxed into funding other non-BCS business initiatives.

The discussion with Mike Faherty sheds light on the fact that complex enterprises can reconfigure different components of the 'master configuration' in order to face-off against new entrants in the category or marketplace, or to even re-invent the category or marketplace and make it more difficult for potential newcomers to enter the business. Suddenly, freeing up cash from a massive cash-generating business and redeploying it towards growth, innovation, and business acceleration seems like it would deter a lot of competitive actions from outside.

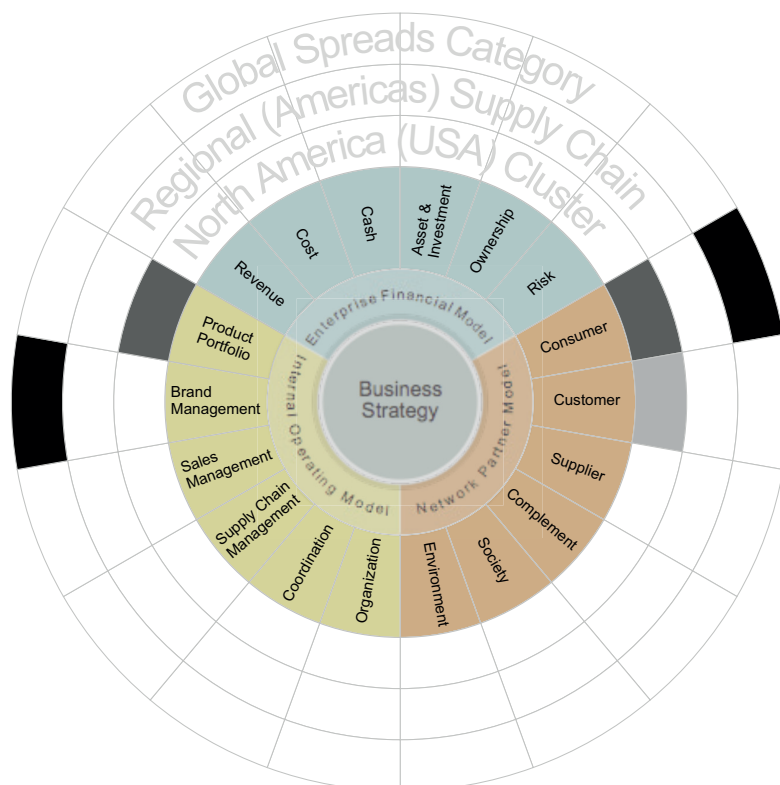


Figure 6.11: Embedded Case 2 - The Configuration of the BCS Business

The BCS business model configuration is shown in Figure 6.11. The core components are indicated in the black color at the different units of analysis. The dark gray indicates the secondary components at the appropriate unit of analysis, and the light gray indicates the tertiary importance of the business model component. The customer is impacted by the consumer component at the local level, because the Unilever BCS business is attempting to reach out, in part, directly to the consumer.

This embedded case also sheds light on the mechanics and decisions about reconfiguration. As Faherty highlights, things are going to have to change for the *Spreads business*, a collection of brands, to transform into the *BCS business*. As we see in Figure 6.12, this strategic shift refers to the migration from the brands being low-growth / high share, i.e. from Quadrant C, to a position where the growth is activated once again, in Quadrant B.

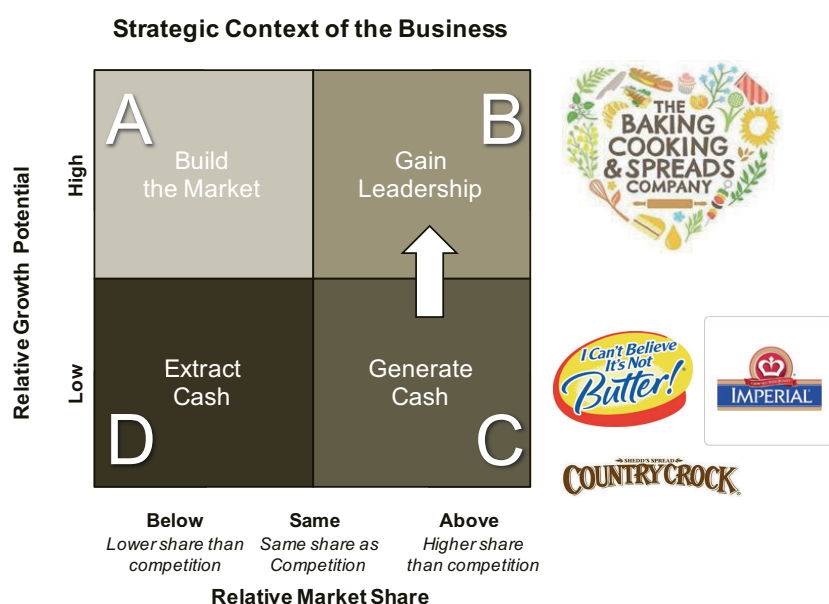


Figure 6.12: Embedded Case 2 - The Strategic Contexts of the BCS Business

We can examine the implications of this proposed shift in business models required through the lens of the strategic context that the Beacon framework provides:

In terms of the *Enterprise Financial Model*, this shift implies that new revenue streams need to be created based on the current brands in addition to costs being optimized, an action already underway with the consolidation of manufacturing facilities and the migration to a new technology that greatly increases throughput and therefore also dramatically increases scale potential. The asset and investment implications are a greater focus on R&D investment and technological innovations. The overarching shift in ownership will have the biggest implication, in that the business operating independently can sow the rich cash returns of the business back into growing the business. “Growth remains our highest priority,” said Mr Huët, the global president of the BCS business, in an interview with the Financial Times on December 4, 2014. In the same article, Unilever deems the spreads

business “to be profitable and highly cash-generative. Core operating profit margins of 20 per cent are higher than the group average of 14 per cent.” We can see in Figure 6.13 the full extent of the business model transformation required by component.

Business Model Components		Strategic Context of the Business Model	
Component		Defend Leadership & Generate Cash Quadrant C	Strengthen Leadership & Grow the Market Quadrant B
Enterprise Financial Model	Revenue	Consolidate revenue streams and spin-off complementary revenue streams if not part of core; push elasticity to their limit to extract more value; push pricing as high as possible without losing share; leverage brand image as much as possible to bolster pricing and margin.	Explore new revenue streams through product extensions and innovative complementary products and services; consider setting up revenue streams as independent business lines; focus on profitable streams only; test different pricing mechanisms and understand elasticity
	Cost	Spend carefully as growth slows down; rapidly shed spare capacity if there is evidence that market is shifting; Maintain bandwidth to deal with competitive dynamics.	Optimize costs to maximize the margin; scale the business, extend scope to broaden the product portfolio to capture greater share and maintain share.
	Cash	Focus on sustainable cash flow; inventory at optimized levels; strict governance on receivables and prolong payables as much as possible for positive cash flow; no trade term negotiations are beneficial at this point.	Optimize working capital; keep tight control on receivables and as you gain more share, you can better negotiate payables; employ inventory segmentation by demand pattern and use <i>available to promise</i> policy for most important customers.
	Asset & Investment	No further large cap-ex investment; valuable business, requiring periodic investment to keep pace with market developments; capital expenditure focused on maintenance and cost savings to increase margin.	Invest heavily in R&D and brand development; step change asset investment as volume increases; may need to invest in new technologies but preserve flexibility; accept incremental investment in growth projects; cap-ex focused on innovation.
	Ownership	Ownership value has peaked; look to maintaining ownership and make large positive cash-flow the driver of ownership and valuation; consolidate ownership if diverse and distributed.	Ownership is typically overvalued as the potential is being exploited and there is more hype than what the business can finally deliver sustainably; the valuation peak will be reached in this stage.
	Risk	Risk of new entrants is imminent danger; too much profit taken out of category impacts the competitiveness; Risk of managing for short term and of doing nothing in the face of opportunities.	Use tools to actively manage dynamic risk; quality of strategy and innovation is key; few big bets are best; new entrants change the rules of the game.

Figure 6.13: Embedded Case 2 - The Enterprise Financial Model Transformation

The *internal operating model* also needs to be transformed, in order to activate the vision of the BCS business, as shown in Figure 6.14. The future state business model calls for a strong focus on break-through products and a clear differentiation between the brands so as to cover the spectrum and segments of the consumer preferences. One of the other important targets is to achieve category captaincy, so that the BCS business becomes the reference point for competitors, and the battle occurs against the BCS business as a whole and not with individual brands that may be less well-funded than the category umbrella brand. I expect that the supply chain scale will be an influencer in terms of being able to react rapidly to shifting demand in the marketplace, and having a focused manufacturing facility will enable optimal leverage of resources.

Business Model Components		Strategic Context of the Business Model	
	Component	Defend Leadership & Generate Cash Quadrant C	Strengthen Leadership & Grow the Market Quadrant B
Internal Operating Model	Product	Seek to cover all bases and leave no gaps for entrants; expect to deal with regular challenges to leadership; seek tactical opportunities to use existing assets to generate cash; be clear on retention value and manage to this benchmark.	Segmentation is key; choose and push strongly the breakthrough products while protecting base; hold a number of sharply differentiated brands and consumer segments; cover full consumer space.
	Brand Management	Absolute spend must be greater than nearest competitor; maintain brand health as critical barrier to entry and to support pricing; rigorous use of ROI to ensure effectiveness; creative use of social media and tactical spend on point of sale; viral web activity a must to maintain buzz and volumes.	Look to optimize the total, not individual brands; adequately fund activity plans behind share gain; grow market if leader already; both advertising and promotion have a key role; focus on share of shelf and share of market; brand health is key for long term sustainable growth.
	Sales Management	Leverage category captaincy; manage sharing of cash generation with trade to ensure relevance in marketplace; spend sufficiently and target winning partnerships; focus on large categories with high absolute spend.	Work towards category captaincy; recruit trade to support plans; incumbent must be displaced; increase category size and profit pool to reduce attractiveness to competitors; strongly resist terms and market value erosion.
	Supply Chain	Aggressive focus on lowest cost structure including consolidation and alternate sourcing; begin eliminating non-value-added complexity; exploit tax advantaged business models; focus on low cost structuring of sourcing deals with suppliers; optimize formulations and harmonize packaging.	Leverage scale to reduce costs in step-change manner; set rules for innovation – one platform rolled out everywhere; accept value-added complexity; preserve flexibility for volume growth and product portfolio extension; look for new business models to extend the business portfolio.
	Coordination	Leverage systems to reduce costs further; look to process automation; focus on analytics to extract more cash from business and highlight potential business opportunities.	Leverage large scale enterprise systems to coordinate across business units, functions, brands; slow down new investments as payback periods will be longer.
	Organization	De-layer organization for ongoing business; reduce spare 'bandwidth' required for a growth business and focus on base business; consider outsourcing 'variable' opportunities.	Add organizational layers to increase market responsiveness; make jobs more standardized; add scale vs. customization.

Figure 6.14: Embedded Case 2 - The Internal Operating Model Transformation

The transformation of the *network partner model*, as depicted in Figure 6.15 will involve multiple constituent stakeholders of the Unilever BCS business model. For instance, the consumers will be targeted for greater usage and consumption of products through different applications, in order to drive demand, testing, and further acquisition. One of the necessary challenges that Faherty sees is the expansion of channel dynamics, and reaching out to consumers directly as well as through the traditional retail channels. Further leverage of scale will occur through the strategic suppliers. For instance, Faherty discussed using the same tubs used for spreads products also for the new category extensions such as side dishes. In contrast to the Quadrant C strategic context, in Quadrant B, the business will have to increase scope of complementarities to build greater product application, usability, and scale. This can be done through complementary relationships, with an eventual goal to internalize these complementarities through competence building or through acquisitions. Complements include a spice-based business that can be used to add into the butter-based products so as to create functional breakthroughs like the product offered by a competitor called 'sautée starters', which enable the rapid start for sautéing with a spice blend built into the fat medium.

Business Model Components		Strategic Context of the Business Model	
	Component	Defend Leadership & Generate Cash Quadrant C	Strengthen Leadership & Grow the Market Quadrant B
Network Partner Model	Consumer	Shift focus to specific consumer groups in order to maximize profit; migrate consumers to higher-margin products; re-emphasize brand value and differentiation.	Target usage increase for consumers; expand product portfolio to capture adjacent consumer groups; focus on profitable consumer segments.
	Customer	Shift focus to profitable channels and customers; target specific events to grow business within category and price point; leverage category strategy to play at different customers with different portfolio models.	Expand to new channels; gain market leadership across different channels; partner with customers in promotion activity and share profits.
	Supplier	Govern contracts with focus to ensure sustainable supplier relationships; shift towards more efficiency (vs. responsiveness) oriented suppliers for long term relationships.	Renegotiate supplier contracts with increased scale with potential for growth; build service level commitments into contracts and make less tradeoffs.
	Complement	Reduce complementary asset dependence; consider reverse consolidations (or divestitures) to complementary asset owners.	Consider acquiring complementary assets to preserve margins in-house; use complementary assets for further growth into new markets and new segments of existing markets.
	Society	Leverage society benefits to attract more consumers; use communities to spur growth.	Leverage society benefits to attract more consumers; use communities to spur growth.
	Environment	Maintain environmental benefits through scale; create incremental programs to have a greater environmental impact through existing business.	Expand environmental benefits through scale; create new programs to have a greater environmental impact through existing business.

Figure 6.15: Embedded Case 2 - The Internal Operating Model Transformation

Having this target 'future state' business model insight can enable this transformation roadmap to occur with greater velocity and with less testing and risk. Michael Faherty agreed that such an archetype schema of business models can make it easier to make decisions for the business and can enable strategic decision making to occur at lower levels of the organization without over-relying on experience of individuals in the business.

This embedded case demonstrates that the business model reconfiguration may occur over several months and years in the life of the firm. The interviews reveal that the entire business model may not have to be reconfigured, but components specific to the category or business unit may be reconfigured within a framework of a 'master configuration', leading me a further proposition:

Proposition 5A: Business units or sub-units of 'the firm' may reconfigure partially, without impacting other units of the business, including spin-outs.

6.7 Embedded Case 3 : The Dual Business Model - the case of Ice Cream

Ice Cream is one of the cornerstones of the Refreshments category, one that is focused on the consumer in two distinct ‘moments of truth’: one in the home (In-Home or IH) and one outside the home (Out-Of-Home or OOH), where consumers can take a break and indulge themselves in these products in different circumstances. The business model in the two cases is different, as demonstrated in an earlier section, but the two business models exist in harmony, and even leverage each other in gaining traction and sales promotions in the marketplace.

One of the other elements that lends Unilever advantage in this type of arrangement is that it can still leverage its massive scale and keep the costs down, quality high with global supplier relationships, and keep things running smoothly in terms of distribution due to its size and commitment to vendors like third party logistics providers. So even through the reconfiguration exercise, the sub-category would stay competitive with minimum disruption, whereas one cannot likely say that about a newcomer to the market with less scale and reach than Unilever.

An interesting question that did not comprise a core part of my dissertation, but was nonetheless an interesting one and one that nagged me throughout this research. It has been well established that businesses can consist of a ‘portfolio’ of business models (Sabatier et al., 2010), but the question for me was ‘how do these different business models hang together?’ Under what conditions do these business models stay together loosely coupled as a ‘portfolio’ of business models, coherent within an overall business? To answer this, I refer to Figure 6.16 for the discussion. I have organized the information into three columns: the first column indicates the ‘master configuration’ which is either the same for both (In-Home and Out-Of-Home); the second column describes the configuration of the In-Home (IH) product segment; the third column describes the configuration of the Out-Of-Home (OOH) segment. I have described earlier in the *Findings* chapter the description of the IH and OOH business models. In this section, I will focus on the first column, the *master configuration*.

I start with the many components of the business models that are common: there are common elements in each of the components of the business model, perhaps one of the underpinnings for the two models to hang together. The *enterprise financial model* has two components that are common between the two business models: the production assets as well as the overall ownership model, i.e. owned by the same shareholders. The *internal operating model* has common coordination infrastructure, a common supply chain from vendor to production facility to distribution facilities; only in the ‘last mile’ are the distribution routes different. One of the important components holding the two business models together is the Brand component. The brands, such as Magnum, are shared between the two business models and represent a product continuum in terms of brand equity, image, reputation, quality, taste, range, and availability. The *network partner model* is also has some shared

elements such as the consumer primarily: the two business model caters to the same consumer, in two distinct instances or moments of usage (one in the home and one while on the go). Further, the supplier base is common, and source to the common manufacturing plant network; the complementary products are somewhat common, i.e. ice cream is viewed as a refreshment, and non-food products may be complementary to this food product. In addition, the society and environmental components are shared not only across these two business models but also across the larger business and across all categories, brands, and product technologies.

Business Model Components		Master vs. Custom Configuration of Business Models		
	Component	Master Configuration Model	Ice Cream In-Home (IH) Model	Ice Cream Out-of-Home (OOH) Model
Enterprise Financial Model	Revenue		Profit model is based on relatively low-profit per liter	Profit model is based on relatively high profit per liter
	Cost			
	Cash		Minimize inventory	Ensure inventory is available when consumers want the product
	Asset & Investment	Shared production assets	None required	Refrigerated cabinets
	Ownership	Same for both		
	Risk		Low risk model	High volatility oriented model due to customer traffic, weather, temperature
Internal Operating Model	Product		Large volume product	Snack sized product
	Brand Management	Common brands with common messaging on enjoying product 'at home' or 'on the go'	Messaging on quality, low advertising	Messaging on novelty, lot of advertising
	Sales Management		Retailer oriented sales force	Outlet oriented sales force
	Supply Chain	Shared manufacturing assets	High volume, low variety oriented	Low volume per cabinet, high variety oriented
	Coordination	Shared communication, data infrastructure, accounting, financial systems		
	Organization	Same leadership team, brand team, supply chain, R&D, finance	Dedicated sections of organization such as sales, customer planning	Dedicated sections of organization such as sales, customer planning
Network Partner Model	Consumer	Common consumer; different usage points	Planned usage at home	Unplanned purchase (impulse) while outside the home
	Customer		Large and mid-sized retailers	Small stores with ice-cream cabinets
	Supplier	Common for both		
	Complement	Common for both		
	Society	Common for both		
	Environment	Common for both		

Figure 6.16: Embedded Case 3 - Ice Cream Dual Business Models

In conclusion, I find that there is much in common across these two very differently configured business models. There are many components across the different aspects of the business models that they share or are in common. The key take-aways are that the business model can exist in a duality based on a master-configuration of some of the components of the business model. The supplier-base, ownership, societal and environmental values, managing organization, and brand structure hold the sub-category together while exploiting differences in the sales model, customer and consumer bases, and product basis to generate the growth and profit that is necessary to grow the business.

The ice-cream category case demonstrates that the Unilever business can manage two business models within the same global category (strategy responsibility) and local cluster (P&L responsibility) simultaneously. Further, it leads to the final proposition :

Proposition 6A : A business can have more than one business model configuration, but held together by a 'master configuration' that has common component configurations across the two business models.

Chapter 7 CONCLUSION

7.1 Contribution

I propose four primary contributions to the extant knowledge on business models, and specifically, business model (re)configuration:

1. **New / extended ontology of business models:** I have extended the dominant ontology of business models (A. Osterwalder, 2004; A. a. P. Osterwalder, Yves, 2010; Alexander Osterwalder et al., 2005) to a more expansive set of business model components. I have reviewed and included all the dominant components mentioned in literature between 2009 and 2014 with a logical aggregation into three primary components of a business model, in conformance with the holistic definition of business model that I am using (Massa & Tucci, 2012). The implication for incumbent firms is that they can map all of their components on the Beacon framework, and be able to articulate their models in a more holistic manner.
2. **Multidimensional unit of analysis of business models:** I extend the notion that a complex business can have a 'portfolio of business models' (Sabatier et al., 2010) to my empirically-supported proposition that in complex enterprises, not only are there the aforementioned portfolio of business models, but that there are, in fact, multiple units of analysis required to (re)configure them: I introduce a case where an incumbent firm uses the 'product category' (where the strategy is defined) as well as the geographically oriented 'business unit' (where the mechanism for the P&L is defined and executed) as the relevant units of analysis to (re)configure the business model. More generally, I introduce the idea that business models are defined at the unit of analysis (or intersection of multiple units of analysis).
3. **New relationship between the notion of strategy and business model:** Hitherto, scholars have debated heavily the relationship between strategy and business models, generally establishing themselves in the camp that these concepts are either completely overlapping, intersecting (to varying degrees, between minor, major), embedded (strategy within business model or vice-versa) or completely separate (Seddon et al., 2004). The intertwining relationships that these scholars propose forces one to abandon or redefine the scope of what is well-established as 'strategy' (Grant, 2010; M. E. Porter, 1996; Michael E Porter, 1985; C. K. Prahalad & Hamel, 1994; Rumelt, 1979). I offer an alternative and complementary perspective on the relationship between the two notions as mutually dependent and complementary, where each notion is com-

pliant with its traditional definition but there is an interrelationship between the two that I highlight.

4. **Business model archetypes by strategic context:** Based on my research of strategy literature from the 1970s and 1980s on lifecycle management and product portfolios, the BCG matrix of growth / share (Hedley, 1977) introduced the notion that business strategies are contingent on the competitive variables of growth and relative market share. Using my newly defined relationship between strategy and business models, I propose the extension of this hitherto accepted notion of competitive or 'strategic' context to the notion of business models, if strategies are dependent on their competitive context, so must be their business models. Using the four quadrants in the growth / share 2x2 matrix, I propose (with empirical validation) that this is a valid concept, and that lends support to the proposition that complex enterprises can segment their business models based on their differentiated strategies for each quadrant. Keeping in mind that complex enterprises cannot operate in completely differentiated ways for each segment, I offer the concept of a 'master configuration' of the business model for specific components that remain common throughout the matrix, but that there are contingent factors (business model components) that can be (re)configured in order to be aligned with the specific strategic context.

7.2 Summary

My research objective was to bridge the gap between academia and practice on the subject of the dynamics of business model (re)configuration in complex enterprises. I designed my research output using the *design science* framework (Aken, 2004; Åkesson et al., 2010; Hevner, 2007; Holmström et al., 2009; Hovorka, 2010). Using this research design framework, I summarize the *Environment* as one where practitioners and senior leaders in *complex* enterprises (Brews & Tucci, 2007) share ambiguity as to how to configure and reconfigure their business models. I see how simple and complex enterprises are quite different and how complex enterprises are in fact made up of *fractals* of business models that represent facets of the whole, through different units of analysis. I also see that strategy literature is giving way to business model research in the number of searches on the Internet regarding this topic. Within this, I also see that areas such as *business model innovation* and *business model design* have been well studied but *business model reconfiguration* is an area that is relatively unexplored but of great interest to the practitioner community from complex enterprises. In the *Knowledge* section I observe that academia has sought to respond to these ambiguities, but find that there is much confusion as to what the definition of a business model is, how they are used, and how to apply them in a practical framework. I highlighted the extant literature on business models, demonstrating the *white space* in business model research that is both relevant and important to complex enterprises. In response to the research question regarding the business model components, I study the literature and propose an extended ontology for business models in complex enterprises, including all the components that have hitherto been mentioned in literature and intro-

duce a holistic framework called the *Business Model Beacon*. In response to the second question about the appropriate unit of analysis for business model configuration in complex enterprises, I show how the common view of analyzing business models at the ‘firm’ level may be inappropriate and in fact I need a multi-dimensional unit of analysis to understand and configure business models in complex enterprises. On the third research question, I propose that there is a new relationship between strategy and business models that describes the two in a complementary and symbiotic relationship. I then describe an in-depth case study of Unilever, where I interview 35 people across different functions, levels of hierarchy, and geographic businesses to gain a better understanding of how they configure their business models. I describe how each component of the business model is configured. I then describe the different units of analysis used by the business to make decisions about the configuration of the business model(s). I discover that in fact there is not only a portfolio of business models (Sabatier et al., 2010) but also distinct units of analysis based on product logic and geographic business units that drive the configuration of the business model. Further, in the third question, I find that I can create ‘archetype’ business models based on the competitive context, using the BCG growth / share matrix (Hedley, 1977).

7.3 Generalizability

I have designed my case study as one to be used for ‘analytic generalizability’ and not ‘statistical generalizability’ (Yin, 2009). I have already claimed that I am studying complex enterprises and so I cannot extend my findings nor my conclusions to simple enterprises. However, using the dimension of *firm location* and my discussions with executives other industry verticals I may propose that the generalizability of my findings may be valid for *complex* enterprises (Brews & Tucci, 2007) in the product-based or servitized (vs. purely service- or IP-based) companies. I see the Beacon framework easily applicable to companies in the consumer products sector, but also to enterprises in the chemicals, and industrial products companies, as well as the white goods / durables industry.

The detailed single case study on Unilever and the embedded cases within the context of Unilever categories and business units has supported the use of the Beacon as an appropriate framework to study and explore the business model of Unilever North America, and possibly extend the boundary conditions to the fast-moving consumer goods industry or packaged foods industry. However, the lack of further study on different types of companies and industries disallows speculation as to the greater generalizability and limitations of the Beacon framework. In order to shed some light on this specific point, I introduce the additional two sections below where I explore the use of the Beacon on other companies and industries. The first discusses the retail industry business model, with two specific companies, Walmart and Amazon, both global retailers that need little introduction. I will note, however, that these illustrations are more anecdotal and informal in nature and have not been put through the same level of rigor as the main case and embedded cases in the scope of this dissertation.

7.3.1 Application of the Beacon Framework to the Retail Industry

Retail Business Strategy

Using the fast-moving consumer goods industry as a starting point, I explore within this sector; moving down the value chain, towards the retail sector, I will explore the strategies and business models of two big retail players in the same markets as Unilever: Walmart and Amazon. Using the Beacon framework, I illustrate a summarized characterization of the strategies for these two businesses as follows, in Table 7.1:

Table 7.1: Walmart vs. Amazon Strategy

Strategy Component	Strategy Component Description	Walmart Strategy Summary	Amazon Strategy Summary
Mission/Vision	What is the winning aspiration	We save people money so that they can live better	To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices
Product	What will you sell?	Wide range of consumer products	Wide range of consumer products
Market	What is the market?	Global	Global
Customer	Who is the customer?	Value-driven customers	Value-driven and product range driven customers
Value	What is the value proposition?	Every day low price	Every day low price
Competition	How will you win?	Low cost	Low cost, product range, pure-play web retail

The mission and vision are taken directly from their respective investor relations websites, and provide a sense of their key differences. Whereas Walmart wants people to save money so that they can live better (a living-centered mission), Amazon wants to be a customer-centric company that focuses on the ease of shopping for the consumer (a shopping-centered mission). Amazon wants to change shopping from being an event to making shopping a non-event by integrating it into the course of everyday living, no different than consuming any utility that is currently supplied in a household (e.g. electricity, water, gas, internet). The two factors at play, based on the strategies highlighted above, appear to be cost and range of products. In the sections below, I will highlight how these strategies drive the configuration of the business model in each of these businesses.

Business Model Dimensions of Analysis

The two companies have different dimensions of analysis. Walmart being a physical-asset based business (local retail stores, local / regional distribution centers), the business can be said to have a *local execution* component which conforms to a *global strategy* of brand building, triple bottom line policies, coordination systems and processes, organizational design, and enterprise financial management. The supply chain design is a global strategy policy question with significant local execution configuration implications and is one of the main overlaps between global and local remits. In summary, the Walmart business model has two dimensions of analysis: *Global Strategy* and *Local Execution*.

If I only consider Amazon’s online retail business (ignoring the kindle ecosystem and amazon web services, to compare like-for-like), then the entire basis of the model is global for global. That is, the user experience is designed globally, with the same functionality, policies, templates, screens, and offerings (not specific products but choice of categories of products) across the world. Since execution (fulfillment) is based on global logistics providers (postal services, couriers) and last-mile resources (delivery service contractors) based on systems coordination from regional distribution centers, it does not have a need to be as local-centric as Walmart. This enables Amazon to have a global framework for local execution. In summary, Amazon also has two dimensions of analysis: *Global Strategy* and *Global Execution*.

Central vs. Peripheral Business Model Components

Whereas the strategies of these businesses look somewhat similar, their business model configuration reflects the differences in their strategies; different components are central and peripheral, and the configuration decisions about each component has been driven by the decision of the central and peripheral components. I highlight in Figure 7.1, the side-by-side comparison of the two business models’ central and peripheral components, using the Beacon framework, based on the two dimensions of analysis in each case. The connecting lines through the middle of the Beacon framework characterization indicates the interdependencies between the central and peripheral components. These are illustrative to show some of the interdependencies as the dependencies can be viewed in both dimensions (i.e. global and local).

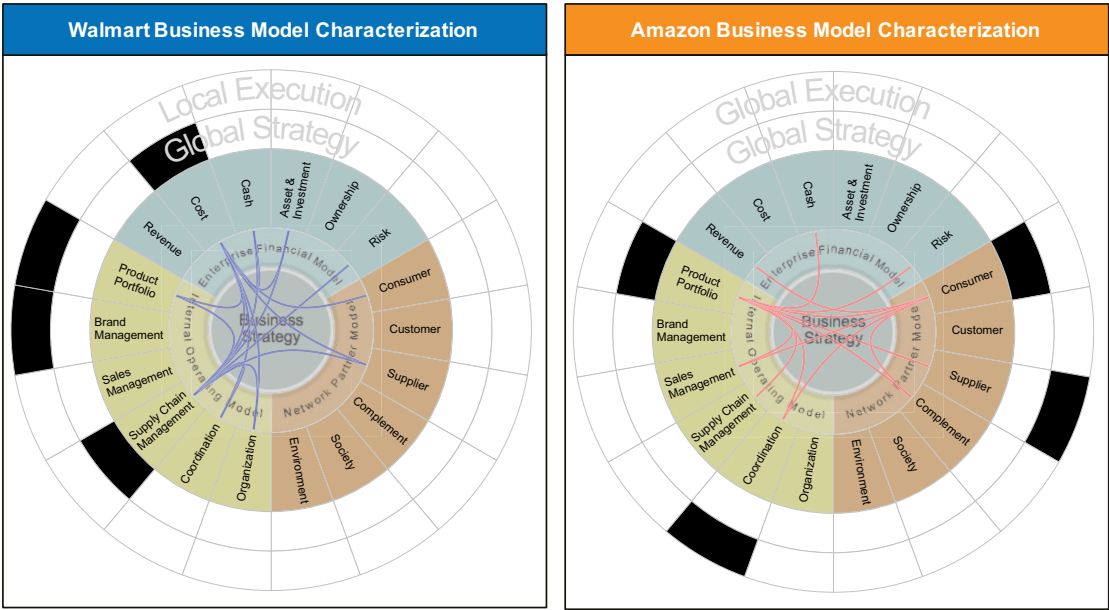


Figure 7.1: Business Model Characterization using the Beacon Framework

The Walmart Business Model

At Walmart, there are two central business model components at the *global strategy* dimension of analysis: *Cost* and *Supply Chain Management*. The *Cost* component refers to the disproportional bargaining power that they wield against the product manufacturers. The business is adept at driving efficiency throughout the value chain, with industry-leading initiatives to drive costs out of the retail supply chain towards the route to market. This global competence in cost is mirrored in its efforts towards optimizing the supply chain, once again a global reference for efficiency in the go-to-market approach. The *supply chain management* component is one that has won several accolades in the industry world wide in the way that the global supply chain aligns with its strategy in delivering low-cost product to end-consumers. Specifically, since it does not manufacture product, it excels in the other supply chain elements of PLAN, SOURCE, and DELIVER. There are global initiatives that have been implemented in the global headquarters in Bentonville, Arkansas (USA) that enable the business to work collaboratively with the major vendors such as Unilever, Proctor & Gamble, Nestle, and Danone, in driving this efficiency in demand and supply planning (PLAN) through advanced planning systems (APS) and enterprise resource planning (ERP) processes and technologies. In the SOURCE space, they have dominated in efficient procurement processes so as to collaborate with manufacturers in driving optimal combinations of cost, quality, speed-to-market, and inventory. In the DELIVER space, they have excelled in driving down distribution costs and closing the windows of deliveries to their distribution centers and warehouses, as well as the efficient handling and stocking policies within their warehouses. They have further driven this excellence through their dedicated efforts in coordination and analytics towards the end point of sales within their retail stores.

The *Local Execution* dimension of analysis has two components that are considered central to the business model: *Product Portfolio* and *Brand Management*. In terms of the *product portfolio*, the Walmart business has spent a great deal of resources on range planning and merchandising excellence so as to make sure that the shelves are stocked with the products that consumers want to purchase in each of their stores around the world. The restrictions are shelf-space and the business charge the manufacturers to list on their scarce shelf-space and for presence in the aisle where customers shop for categories of products. The *brand management* component is responsible for driving placement of the product in the optimal shelf-space with respect to aisle facing area, height (eye-range being most expensive and scarce). Further, the brand model optimizes the number of items in the aisle with the same brand, and negotiation power of the manufacturer depends on how many products they have within the parameters of the same aisle, which represents and is the manifestation of the notion of 'category management'.

The Amazon Business Model

The Amazon business model has two central components in its *global strategy* dimension of analysis: *Consumer* and *Product Portfolio*; and two central components in its *global execution* dimension of analysis: *Supplier* and *Coordination*. In terms of the *global strategy* dimension of analysis, the *consumer* component refers to the focus on the consumer that Amazon has created, and how the customer-centricity thrust is really at the core of the business model. The whole Amazon shopping experience is built around knowing the consumer and their likes and preferences, and dynamically aggregating products based on product complementarities and selections from other customers who chose similar products. The user profile is a global one, no matter which domain the consumer shops at (i.e. amazon.com, .de, .fr, .ch, etc.; even though the different sites use local suppliers, the profile of the consumer is never forgotten, and the algorithms make choices based on global profile matching with local products). The other central component is the *product portfolio*. With no restriction on shelf-space, Amazon can provide a virtually infinite selection of product regardless of how fast or slowly it moves (in terms of inventory turns). Suppliers that want to sell product that does not move quickly have to store their own inventory of product and is shipped directly from them to the consumer.

In terms of the *global execution* dimension of analysis, the *supplier* component refers to the fact that the supplier base is a combination of suppliers who ship globally and those that only ship locally; The supplier offers their own selection based on the concept of 'store-fronts', which enables the local supplier to promote their own products but the store-front is the basic amazon store-front with the supplier product selection embedded within it. This means it is very difficult to tell whether it is Amazon who is selling the product or the vendor, but may make no difference to the consumer at the end. The *coordination* component refers to the fact that Amazon greatly leverages technology in terms of coordinating its operations, and sells that same technology to independent providers or vendors to manage their businesses, thereby creating a massive network of vendors that are fully incorporated into the Amazon domain. The coordination technologies enable Amazon to sense opportunities to sell more product or service to the consumer, seize these opportunities through different offer mechanisms, and transform the sale into a future knowledge object for the automated algorithms to learn from this experience for a future sale opportunity.

Business Model Characterization using the Beacon Framework

I have mapped out the business model characterization of both Walmart and Amazon using the Beacon framework in Table 7.2 and Table 7.3. This characterization outlines the configuration of the resources and business parameters for each of the 18 components of the business model, highlighting where they are different (e.g. central components), and where they are similar (e.g. the *Social* and *Environmental* components). Further, this framework allows one to understand on what dimension

the business models are different (i.e. global strategy or global / local execution) so as to gain a better understanding of how the business is structured and the interactions between the different components.

Table 7.2: The Walmart Business Model

Walmart Business Model Characterization		
Component	Central Component	Dimension of Analysis
Revenue		The revenue model is a basic model that is based on every-day low price, essentially eliminating activities such as promotions in order to attract customers. The main revenue stream for Walmart is the physical retail stream.
Cost	Global	The cost basis is one of Walmarts core strengths, insomuch as they pressure their supplier base (i.e. fast moving consumer goods manufacturers) to sell in greater quantities at a greater discount than with other retailers, keeping the cost base low for Walmart.
Cash		Working captial terms for suppliers are stringent at 90 days whereas for consumers is immediate on purchase or in 30 day credit allowance period; inventory is kept to a minimum, with manufacturers having to absorb the cost of working capital based on demand volatility and supply reliability; Walmart stock is distributed based on a dynamic sourcing strategy between the retail depots (back-room) and centralized distribution hubs
Asset & Investment		Assets are mostly physical assets; the model was to have the single largest store and selection within a geographic radius of a second-tier city and its surroundings so as to stifle any rival competition in the general retail category; investments are done based on specific parameters of geography, demographics, logistics costs, and real-estate costs, as well as retail potential.
Ownership		Family owns more than 50% of equity, with institutional investors holding 30%; the rest is traded on the stock market (20%); decisions are mostly internally sourced (vs. shareholder decided)
Risk		Walmart is subject to all three: environmental, industry, and firm-specific risk.
Consumer		The consumer is oriented to the every day low price (EDLP) program and does not wait for, nor expect promotional offerings. There is a different sister store (Sam's Club) for procuring large quantities or items in bulk formats. There is no specific consumer model that differentiates Walmart from other retailers except for the fact that in many Walmart stores, they also include other value streams within the ecosystem of 'leaving the home' such as a health care professional for basic illnesses and ambulatory care as well as a pickup location for local postal or courier deliveries
Customer		For the purposes of the retailer, the consumer is the same as the customer
Supplier		Manufacturers often have (based on request) Walmart-specific packages that target the specific price-point x size optimality for the Walmart consumers. The relationship with Walmart is focused on two factors: cost and service, i.e. supply chain oriented discussions.
Complement		Walmart spends a great deal of resources on analytics in terms of complementary products; in a published study, Walmart analysts found that sales of milk were correlated with sales of bananas; putting the two items next to each other, sales of both items increased.
Society		The global sustainability initiative ensures that Walmart drives inclusive economic mobility, worker dignity in supply chains, food security, and community resilience; these programs are focused on both individuals as well as communities as a whole
Environment		Walmart is driving initiatives on climate change, natural resource sustainability, waste reduction, and animal welfare; these initiatives on the global sustainability charter are outlined to focus on traditional 'triple bottom line' aspects of public companies
Product Portfolio	Local	The brand image and message is constantly pushing the notion of 'everyday low price' (EDLP) so that the promotion aspect is no longer relevant in the purchase process in the mind of the consumer, who believes that they are getting the best possible deal on price that they can.
Brand Management	Local	Local retail stores constantly review the data on sales on the different combinations of products, placement, promotions, and pricing, and adjust these four elements to continuously make sure that the product portfolio is relevant, constantly turning stock, and combinatorially appealing to customers.
Sales Management		Amazon leverages sales personalization algorithms to directly target consumers based on their specific choices, preferences, trends, and similar users. They store these data, modify them with each new shopping experience, and enable auto-recommendations based on artificial intelligence.
Supply Chain Management	Global	The legendary supply chain is one of the recognized competitive fronts for the business model at Walmart. The business is constantly looking for ways to optimize their supply chain, extracting efficiency gains year after year using sophisticated supply chain planning and execution systems, methods, algorithms, and a world-class organization.
Coordination		Walmart is one of the best-in-class retail operations that focuses on coordination capabilities through its information technology and business management systems, investing heavily in these areas to coordinate the supply chain and operations within and across different business units, enable functions to perform intelligent business analytics, and aggregate information to be able to track, predict, and drive different actions dynamically
Organization		The Walmart organization is focused in Arkansas and drives many global decisions from the center. Local business units internationally report to someone in Arkansas, and generally are center led, but locally execution oriented based on the blueprint strategy from the center.

Table 7.3: The Amazon (Online Retail Only) Business Model

Amazon Business Model Characterization		
Component	Central Component	Dimension of Analysis
Revenue		The revenue model of Amazon has three main revenue streams: on-line retail (58%), web services (3%), and the kindle ecosystem (39%); the revenue model is diversified, and efforts are being made to push the web service revenue to more equanimity with the other streams.
Cost		Amazon has used low-cost to drive customers into its ecosystem, and convinced manufacturers to provide products at a competitive offering price, and making a loss for several years. Once customers were drawn into the ecosystem, it began renegotiating costs for logistics, products, and complementary services. Pushing costs back onto the customer for shipping (non-Prime) and gaining clout over manufacturers, Amazon has now repelled many of the costs that it began with, currently being profitable.
Cash		The working capital model is interesting and different from traditional retail where the product is first purchased (on well negotiated, long payment terms) and then stocked in inventory, waiting for the customer to purchase the product. For many of the products, Amazon uses the notion of 'storefronts' for other vendors to sell product. Hence, Amazon has the option of pushing inventory to the vendors who are using its storefront, thereby reducing working capital needs, risk of product obsolescence, damage, shrinkage, and other risks.
Asset & Investment		Amazon's assets are focused on technology and distribution that enable it to be a virtual presence in retailing. The capital expenditure is focused on making distribution centers more efficient and making them 24/7 operations globally. The technology investment in the online retail store was leveraged into creating AWS or Amazon Web Services, whose services are also sold independently, and is one of the largest technology providers in the world today.
Ownership		Ownership is 2/3 held by institutional investors and mutual funds and 1/3 by insiders and founders. There has been no challenge to the ownership structure nor to the leadership from active shareholder activists.
Risk		Amazon is subject to all three: environmental, industry, and firm-specific risk. However, due to the fact that they do not own physical retail stores and have relatively few employees in each country, Amazon is able to de-risk its global operations. Further, due to the virtual nature of the business, it is feasible to optimize taxes and allocate different assets to different parts of the world in order to further de-risk.
Consumer	Global	The whole Amazon shopping experience is built around knowing the consumer and their likes and preferences, and dynamically aggregating products based on product complementarities and selections from other customers who chose similar products. The user profile is a global one, no matter which domain the consumer shops at (i.e. amazon.com, .de, .fr, .ch, etc.; even though the different sites use local suppliers, the profile of the consumer is never forgotten, and the algorithms make choices based on global profile matching with local products).
Customer		For Amazon, the customer and consumer are the same for the online retail. However, customers of the 'Amazon store-front' are other vendors who are selling their products through the front-end of Amazon.com online retail. This is a typical multi-sided platform type of structure.
Supplier	Local	The supplier base is a combination of suppliers who ship globally and those that only ship locally; The supplier offers their own selection based on the concept of 'store-fronts', which enables the local supplier to promote their own products but the store-front is the basic amazon store-front with the supplier product selection embedded within it. This means it is very difficult to tell whether it is Amazon who is selling the product or the vendor, but may make no difference to the consumer at the end.
Complement		Amazon embraces complementarity in two distinct ways: 1) in the product portfolio options, where complementary products are regularly highlighted to the consumer in order to secure further share of wallet, and 2) in the other two business units (i.e. web services and kindle ecosystem), where web services are provided to vendors who use the amazon store-front, thus guaranteeing the same level of uptime and service on the hardware and technology basis, but also in terms of the kindle ecosystem whose products are readily available on the online retail store.
Society		Amazon is active in supporting community development and improvement initiatives based on not only sponsorships but also donations of products within their ecosystem and with their web services to enable communities to connect.
Environment		Amazon is active in environmental initiatives and sustainability through a variety of thrusts.
Product Portfolio	Local	With no restriction on shelf-space, Amazon can provide a virtually infinite selection of product regardless of how fast or slowly it moves (in terms of inventory turns). Suppliers that want to sell product that does not move quickly have to store their own inventory of product and is shipped directly from them to the consumer.
Brand Management		Amazon delivers a consistent brand experience across its service lines, revenue streams, global storefronts, and user interaction. The price promise is maintained no matter where you use Amazon, as is the place, promotion, and placement promises. Other services are all framed with the Amazon prefix so that brand recognition is maximized.
Sales Management		The sales model is built largely on consumer customization using technology and algorithms to record preferences, match user types, purchase patterns, and trending topics so as to automatically develop the perfect proposition every time for each consumer individually. They have used the low price not as the ends but the means to sell more to consumers based on different value propositions.
Supply Chain Management		Amazon has developed a sophisticated supply chain infrastructure and leveraged state of the art technology in terms of picking and packing processes and systems to keep the logistics operations operating 24/7 in their main distribution centers. They have also successfully integrated third party logistics providers (postal company, couriers), as well as 'last mile' delivery resources (for same-day deliveries within certain cities).
Coordination	Local	Amazon greatly leverages technology in terms of coordinating its operations, and sells that same technology to independent providers or vendors to manage their businesses, thereby creating a massive network of vendors that are fully incorporated into the Amazon domain. The coordination technologies enable Amazon to sense opportunities to sell more product or service to the consumer, seize these opportunities through different offer mechanisms, and transform the sale into a future knowledge object for the automated algorithms to learn from this experience for a future sale opportunity.
Organization		The Amazon organization is a less complex one than it's counterpart Walmart; Like Walmart, however, it is organized around business lines and countries which are distinct P&L units.

The illustrative characterizations on Walmart and Amazon also show how these business models can be compared and contrasted on each of their strategic and business model components side by side in order to extract the similarities and differences, in order to build a case for their moderating influence on the firm's performance.

7.3.2 Application of the Research and Framework in Other Industries

In order to fully explore (once again through anecdotes and illustrative examples) the generalizability of the research, the findings, the propositions, and the Beacon framework, I have also undertaken the characterization of the following companies and industries: 1) Hilti (Construction); 2) Dell (High Tech); 3) FMC Corporation (Agrochemicals); and 4) Credit Agricole Financement (Banking / Financial Services). Using a similar analysis and approach to the retail examples in the previous section, I have been able to highlight their core and peripheral components, the respective dimensions of analysis, the relationship between the strategy and business models, and their moderating relationship between their competitive strategy and firm performance. I have further taken the step to review these characterizations with the senior executives in a strategy-oriented function in each of these companies, and they have all found these results useful and are willing to go further to spend more time to provide me additional data and access to gain a better understanding of their business models.

7.4 Limitations

The limitations of this body of research is that in order to study it effectively, one needs access to the very inner workings of corporations, and in great volume. I can only produce such rich results when I have access to in-depth knowledge from business practitioners in different functions, in different business units, and in different geographies, which requires a great deal of funding, time, effort, and topical latitude.

The conclusions that I come to will be mediated by cultural norms, command-and-control vs. dispersed management structures, governmental regulations and constraints, legal environment, risk environment, ownership profiles, and competitive pressures.

7.5 Avenues for Future Research

I can think of several avenues of future research that may stem from such a body of work. I can take the direction of developing different and more specific business model frameworks by (convergent) industry groups, or adapted to different lifecycle models through a firm's existence, different ownership structure, risk profiles, governmental and regulatory environments, and of course, across different geographies.

One of the research questions discussed but deferred was *what makes the multitude of business models within an enterprise hang together?* This could be an interesting and illuminating avenue of research that would help me understand the phenomenon underlying the portfolio concept of business models. Another is to understand the *dynamic capabilities* that are needed in order to enable business model reconfiguration on a continual basis.

7.6 Conclusions

I present three 'first-order' conclusions based on the body of research that I have presented:

Business models have several components. I have highlighted 18 components within three key elements – the enterprise financial model, the internal operating model, and the network partner model. There is a great attraction to creating simple representations of just a few elements to characterize the business model of an enterprise, but I risk doing an injustice to the high degree of complexity of this topic, and perhaps even unintentionally mislead an enterprise into making decisions that are based on incomplete information.

Complex enterprises are fundamentally different from simple businesses, and must be treated as such. In such enterprises, there are several units of analysis that need to be considered in the determination of the (re)configuration of their business models. They must have several business models and these business models may be embedded or 'nested' into one another. Any framework that is used must take into consideration this complexity and multi-layered, multi-dimensional environment.

Strategy and business models are notions that are different, symbiotic, and complementary. A business needs to have a core strategy that the business models can be developed around, in order to enable and execute these strategies. Further, the business model in and of itself does not have a strategic component, but it needs a strategic context. In other words, the competitive context of the strategy will determine how the business model needs to be configured. Based on the widely used growth/share matrix, one can define 'archetype' business models that can be used by enterprises as guidance towards the state that the business models need to be configured to.

The first order conclusions offer high level insight into the thematic of the body of research performed. The second order conclusions offer more in-depth insight into the nature of business model configuration and business strategy of the focal firm.

Whereas simple business model frameworks with few components may be adequate to conceptualize some of the dynamics by which companies can transform, they are inadequate to comprehensively characterize the business model for purposes of strategic transformation. The holistic set of components enable the transformation team to accurately map and characterize the business model at the different dimensions of analysis and at a uniform level of granularity across functional, business unit, and geographic boundaries. Further, the simpler and more aggregated frameworks make ex ante assumptions of the business' motivations and strategic thrusts in a way that could lead a transformation team to inaccurately characterize the business model with material consequences in terms of the risk and success of the business transformation exercise. The holistic set of components enable the transformation team to not have to make ex ante assumptions and allow the decisions to be made for transformation in a comprehensive manner.

Consequently, it implies that whereas less complex companies may be able to effectively use simpler business model frameworks, larger and more complex enterprises need a more holistic and comprehensive framework, such as the Beacon, to adequately model the multidimensional nature, the functional diversity, the multi-category nature of the product portfolio, and geographic reach.

Another second-order conclusion is that business model reconfiguration can occur due to exogenous factors (such as disruptive market forces, technology, process, or product innovation related disruptions or the dynamic nature of consumer demand) or internal decisions of businesses to shift the firm toward a different strategic objective (such as gaining market share, changing the product portfolio, targeting a new market, or consolidating a market position). The case of the Personal Care business shifting to a model of collaboratively-outsourcing the entire special pack business is based on the combinatorial effect of market pressures of greater product packaging variety at short lead times and a shift of internal objectives towards both growth and margin. The case of the Baking, Cooking, and Spreading (BCS) Company spinout was also based on the combinatorial forces of a declining market for margarine and an internal shift towards reinvesting profits from the business into innovations for market extension and higher growth purposes. The case of the duality of the Ice Cream business model reflects an industry nature of in-home and out-of-home consumption, a more market-oriented dynamic than an internal one. However, the configuration of the business model is setup to optimize common resources, a common face-to-market, common branding, and other internal operating model related factors.

The theory building implications of this research focus on the suggestion that business model configuration is the moderator between firm strategy and firm performance. De-coupling the notions of strategy and business model can help an enterprise take on the exercise of business transformation in a layered manner. Using the metaphor of the compass (strategy) and map (business model), if the enterprise doesn't have a compass, the map may be of limited use, and without the map, the enterprise may head in a general direction but may not be aware of the terrain and surroundings and may have a harder time navigating towards the destination. The map and compass are complementary and non-overlapping tools, as are the notions of strategy and business models. Other commonly used frameworks confuse the notions of strategy and business models and firms looking to transform who use these frameworks can be misguided about what actually needs to change, the strategy or the business model. It is legitimate to keep the strategy constant and change the business model around the strategy by pivoting on a different business model component. It is also legitimate to change the strategy and then as a result change the business model so as to be consistent with what the strategy is aimed at achieving.

In addition, establishing the complementarity between the notions strategy and business models implies that the firm can articulate the competitive strategy based on known and widely used constructs such as the growth / share matrix and use the notion of business model archetypes to predetermine the configuration of the different components of the business model on the basis of the stra-

tegic context. This could enable enterprises to carefully articulate the risks associated with a business model transformation and create mitigation contingencies for these specific transformation risks by component and by dimension of analysis (e.g. geography, business unit, and decision framework). This has potentially significant implications in that enterprises can transform more assuredly, knowing where the risks are at a level of detail not easily accessible earlier within the thematic of business model transformation.

Lastly, the Beacon introduces complex enterprises to a new, holistic framework for mapping and characterizing the business model at the level of the functional components, at the multiple dimensions of analysis in terms of geographic representation, business unit levels, as well as strategic or tactical decision-making, providing enterprises with a blueprint of archetypes based on strategic context, surpassing the applicability and relevance of other competing frameworks. The Beacon's intuitive graphical illustration makes it easy for transformation leaders and teams to finally articulate the business strategy and business model in a manner that is visually understandable and communicable, yet allowing the dense content of component-level configuration to be mapped and presented in a categorized manner such that transformation actions can be easily assigned by function, business unit, category, geographic unit, and decision-rule compliant. The framework validated through the overall case study and embedded cases as well as other exemplar usages in other industries enables one to confidently use this framework in many applications across industry.

CURRICULUM VITAE: DEEP RAMNIK PAREKH

INDUSTRY EXPERIENCE

EQUUS GROUP, LLC – NEW YORK | SAO PAULO | LONDON | LAUSANNE

MAR'02 – MAR'15

CO-FOUNDER | MANAGING PARTNER

- FOUNDED AND EXPANDED COMPANY TO A GLOBAL SCALE
- P&L RESPONSIBILITY FOR \$5 MILLION BUSINESS AND 25 EMPLOYEES
- EMPLOYEE MOTIVATION AND CULTURAL LEADERSHIP
- ACCOUNT MANAGEMENT RESPONSIBILITY FOR ANCHOR CLIENTS
- INNOVATION LEADERSHIP AND STRATEGIC GUIDANCE FOR THE BUSINESS
- SPEARHEADING EUROPE EXPANSION AND PRESENCE CURRENTLY
- FOUNDED COLLABORATIVE PARTNERSHIP WITH SWISS UNIVERSITY SYSTEM & LEADING 1.3 MM PROJECT
- ADVISORY BOARD OF SEVERAL BUSINESSES IN SWITZERLAND AND EU

PLANCENTRAL, INC. – NEW YORK, NY

JAN'00 – FEB'02

FOUNDER AND CHIEF EXECUTIVE OFFICER

- FOUNDED THE WEB-BASED SUPPLY CHAIN PLANNING SOFTWARE AND SERVICES COMPANY
- CONCEPTUALIZED THE SOLUTION, THE BUSINESS MODEL, AND THE DEVELOPMENT STRATEGY
- RAISED VENTURE CAPITAL FUNDING AND HELD FULL P&L RESPONSIBILITY
- MANAGED OUTSOURCED TEAM OF 11 FUNCTIONAL PEOPLE IN US AND 25 PEOPLE IN AN OFFSHORE DEVELOPMENT CENTER
- DEVELOPED AND MANAGED IT, SALES, MARKETING, AND FINANCIAL FUNCTIONS
- DEVELOPED STRATEGIC ALLIANCES AND PARTNERSHIPS AND RECRUITED KEY LEADERSHIP AND ADVISORY BOARD

ERNST & YOUNG LLP - PHILADELPHIA, PA

AUG'97 – DEC'99

MANAGER, SUPPLY CHAIN CONSULTING SERVICES

- MANAGED IMPLEMENTATION OF PACKAGE-ENABLED REENGINEERING PROJECTS USING MANUGISTICS AND I2 ENABLERS

- LED TEAMS OF 9-12 PEOPLE ON PROCESS & TECHNOLOGY IMPLEMENTATION PROJECTS FOR FORTUNE 500 CLIENTS
- DEVELOPED NEW SOLUTION DESIGN & DELIVERY METHOD FOR IMPLEMENTATIONS, SPEEDING TIME TO BENEFIT BY 40%
- DESIGNED TRAINING COURSE AND TRAINED CONSULTANTS AND MANAGERS ON ADVANCED SUPPLY CHAIN CONCEPTS
- LED AND MANAGED MANUGISTICS DEMAND-SUPPLY/NETWORK OPTIMIZATION PROJECTS TO ACHIEVE DELIVERABLES
- LED GLOBAL LEAD LOGISTICS PROVIDER PROJECT WITH 5 CROSS-FUNCTIONAL AND CROSS-ENTERPRISE REPORTS
- DESIGNED AND DEVELOPED A SUPPLY CHAIN VALUATION TOOL TO ESTABLISH VALUE ADDITION IN TERMS OF FREE CASH FLOW

UNILEVER NORTH AMERICA - NEW YORK, NY

JUN'95 – JUL'97

CAPACITY PLANNING MANAGER

- MANAGED SHORT AND LONG TERM PRODUCTION AND MATERIALS PLANNING FOR 16 BRANDS ACROSS 15 FACTORIES
- IMPLEMENTED AND INTEGRATED MANUGISTICS DEMAND-SUPPLY PLANNING IN THE HOME & PERSONAL CARE BUSINESS
- EVALUATED IMPACT OF MANUFACTURING CONSTRAINTS ON MARKETING/SALES PLANS AND RECOMMEND ALTERNATIVES
- CREATED MATHEMATICAL MODELS FOR RISK ANALYSIS OF NEW PRODUCT LAUNCHES, REDUCING UNNECESSARY COMPLEXITY
- LED TEAM FOR *SUPPLY CHAIN NAVIGATOR (SCN)* SOFTWARE CO-DEVELOPMENT PROJECT WITH MANUGISTICS

UNILEVER RESEARCH, U.S. - EDGEWATER, NJ

JAN'93 – MAY'95

PROJECT ENGINEER

- PLANNED AND EXECUTED ARCHITECTURAL/ENGINEERING PROJECTS WITH BUDGETS RANGING FROM \$100K TO \$1MILLION
- LED PROJECT TEAMS OF 3-4 ENGINEERS AND 14-16 CONTRACTORS ON OVER 20 ENGINEERING PROJECTS
- DESIGNED AND DEVELOPED AN APPLICATION FOR REAL-TIME PROJECT TRACKING, FORECAST CASH FLOW, AND PERFORM RISK

EDUCATIONAL BACKGROUND

- PHD – BUSINESS MODEL DYNAMICS (ANTICIPATED JUNE 2016) – EPFL, LAUSANNE, SWITZERLAND
- M.S. - STATISTICS & OPERATIONS RESEARCH (*WITH DISTINCTION*) - STERN SCHOOL OF BUSINESS, NEW YORK UNIVERSITY (DECEMBER 1997)
- B.S. - INDUSTRIAL ENGINEERING - UNIVERSITY OF WISCONSIN-MADISON (DECEMBER 1992)

TECHNOLOGY SKILLSET

- ANALYSIS: STATA
- SUPPLY CHAIN: JDA (MANUGISTICS, I2), LOGILITY, JD EDWARDS (NUMETRIX), FORECAST PRO, JOHN GALT
- ERP: SAP (R/3 & APO), ORACLE
- OPERATING PLATFORMS FAMILIARITY– UNIX, AIX, WINDOWS NT, WEB
- DATABASE FAMILIARITY– ORACLE, DB2, MS ACCESS, SQL SERVER
- PC SOFTWARE - MICROSOFT CONSUMER AND BUSINESS APPLICATIONS

LANGUAGE SKILLSET

- ENGLISH (WRITTEN & FLUENTLY SPOKEN)
- PORTUGUESE (CONVERSATIONAL & BUSINESS – WRITTEN & FLUENTLY SPOKEN)
- SPANISH (CONVERSATIONAL & BUSINESS - SPOKEN)
- FRENCH (BASIC – SPOKEN)
- HINDI (WRITTEN & FLUENTLY SPOKEN)
- GUJARATI (CONVERSATIONAL - SPOKEN)
- MARATHI (CONVERSATIONAL - SPOKEN)

WHITE PAPERS & PUBLICATIONS

WHITE PAPERS:

- PAREKH, D., SILVEIRA, P. “EVOLVING SKU RATIONALIZATION INTO COMPLEXITY MANAGEMENT”, MARCH 2004
- PAREKH, D., DE-PETRIS, E. “ENTERPRISE-WIDE PRODUCT SEGMENTATION METHODS”, JANUARY 2004
- PAREKH, D., DE-PETRIS, E. “SKU RATIONALIZATION – METHODOLOGY & RISK MITIGATION”, JANUARY 2003
- PAREKH, D. & DWYER, J. “ENTERPRISE SUPPLY CHAIN INTEGRATION SOFTWARE COMPARISON”, JUNE 1999
- PAREKH, D. & THAMRIN, B. “SCN VS. LINX - A COMPARISON”, OCTOBER 1998

- PAREKH, D. "SUPPLY CHAIN CONSULTING IN INDIA", JANUARY 1999
- PAREKH, D. "CUSTOMER SEGMENTATION AND PRIORITIZATION USING AHP CONCEPTS", NOVEMBER 1998
- PAREKH, D. "STRATEGIC SOURCING USING MANUGISTICS' *SUPPLY CHAIN NAVIGATOR*", MAY 1998

PUBLICATIONS:

- MONTHLY COLUMN "THE STRATEGIC VIEW", *AMERICAN SHIPPER*, OCT 2007 – DEC 2009
- PAREKH, D., "THE FUTURE OF THE LINER-CARRIER INDUSTRY", *AMERICAN SHIPPER*, JULY 2007
- PAREKH, D., "STRATEGIC INFERENCES O THE BREAK BULK INDUSTRY", *AMERICAN SHIPPER*, MAY 2007
- PAREKH, D., "PARADOX OF SPECIALIZATION", *AMERICAN SHIPPER*, DECEMBER 2005
- PAREKH, D., "IS CHINA RIGHT FOR YOU?", *AMERICAN SHIPPER*, OCTOBER 2005 (COVER STORY)
- PAREKH, D., "CORPORATE STRATEGIES AND LOGISTICS", *AMERICAN SHIPPER*, SEPTEMBER 2005
- PAREKH, D., "CHALLENGES & OPPORTUNITIES IN SCM IN LATIN AMERICA", *AMERICAN SHIPPER*, JUNE 2005
- PAREKH, D., "IT'S NOT JUST ABOUT SOFTWARE – A HOLISTIC APPROACH TO SUPPLY CHAIN MANAGEMENT IN THE CONNECTED ENTERPRISE", *ITTOOLBOX.COM*, JULY 2001.
- PAREKH, D. & SENGUPTA, S., "CONSTRAINED RESOURCE INTEGRATED SUPPLY PLANNING (CRISP) - A PARADIGM SHIFT IN PLANNING FOR THE CONNECTED ENTERPRISE", *SUPPLY CHAIN MANAGEMENT REVIEW*, JUNE, 1999

PUBLIC SPEAKING ENGAGEMENTS

- **CEO COLLABORATIVE FORUM**
 - OCT'13 & MAR'14 – BUSINESS MODEL INNOVATION
- **BUHLER GROUP – ANNUAL LEADERSHIP MEETING**
 - MAY'13 – THE INNOVATION CHALLENGE – REDEFINING YOUR BUSINESS MODEL
- **HR MATCHING – ENTREPRENEURSHIP CHALLENGES**
 - OCT'11 – DISCUSSION ABOUT THE CHALLENGES OF ENTREPRENEURSHIP
- **SUPPLY CHAIN MARATONA / IMBRASC – SAO PAULO, BRAZIL**
 - MAY'11 – COLLABORATIVE STRATEGIC PLANNING (EQUUS & STARBUCKS) – AN INTERNATIONAL CASE STUDY
- **INDIANA SUPPLY CHAIN HEALTH CARE FORUM – INDIANAPOLIS, INDIANA**
 - MAY'11 – BRINGING SUPPLY CHAIN EXPERTISE TO THE HEALTHCARE INDUSTRY
- **CALIFORNIA STATE UNIVERSITY – MIHAYLO BUSINESS SCHOOL – FULLERTON, CALIFORNIA**

- SEP'10 – INTEGRATING BUSINESS STRATEGY WITH SUPPLY CHAIN STRATEGY
- **IBMEC / INSPER BUSINESS SCHOOL – SAO PAULO, BRAZIL**
 - FEB'09 – RETAIL COMPLEXITY MANAGEMENT PRINCIPLES
 - AUG'07 – SEGMENTATION PRINCIPLES AND APPLICATION
 - MAR'05 – THE CHALLENGES AND SOLUTIONS OF BUSINESS & SUPPLY CHAIN COMPLEXITY
 - SEP'04 – CASE STUDIES IN SUPPLY CHAIN STRATEGY AND TECHNOLOGY MANAGEMENT
 - MAY'03 – ENABLING SUSTAINABLE BUSINESS PROCESSES THROUGH TECHNOLOGY
- **COPPEAD – INSTITUTE OF LOGISTICS AT THE UNIVERSIDADE FEDERAL DE RIO DE JANEIRO**
 - AUG'08 – NEXT GENERATION SALES & OPERATIONS PLANNING (S&OP)
 - AUG'07 – SEGMENTING YOUR WAY TO SUCCESS – A NEW CONCEPT IN PRODUCT SEGMENTATION
 - NOV'04 - LOGISTICS INDUSTRY CHALLENGES & OPPORTUNITIES IN LATIN AMERICA
 - AUG'04 - ANNUAL CONFERENCE - SUPPLY CHAIN CHALLENGES IN LATIN AMERICA
- **DUKE UNIVERSITY (FUQUA SCHOOL OF BUSINESS)**
 - APR'03 – ENTREPRENEURIAL STUDIES
 - FEB'02 – ENTREPRENEURIAL STUDIES
- **NEW YORK UNIVERSITY (STERN SCHOOL OF BUSINESS)**
 - APR'03 – SUPPLY CHAIN TECHNOLOGY INNOVATION, TECHNOLOGY, AND LEADING FRAMEWORKS
 - OCT'99 – OPERATIONS MANAGEMENT LEADING PRACTICES
 - MAR'98 – SUPPLY CHAIN MANAGEMENT INNOVATION
- **UNIVERSITY OF WISCONSIN – MADISON**
 - SEP'98 – PRACTICAL APPLICATIONS OF OPERATIONS RESEARCH IN SUPPLY CHAIN MANAGEMENT
- **INSTITUTE FOR OPERATIONS RESEARCH & MANAGEMENT SCIENCE (INFORMS)**
 - ANNUAL CONFERENCE - SALT LAKE CITY, UTAH, MAY 2000 – NEW TECHNIQUES OF SUPPLY CHAIN PLANNING
 - SPECIAL SYMPOSIUM - CINCINNATI, OHIO, MAY 1999 – CONSULTING AND OPERATIONS RESEARCH

OTHER PROFESSIONAL ACTIVITIES

- BOARD OF ADVISORS, GLOBOND – NETWORKING AND GLOBAL OUTREACH ORGANIZATION
- MEMBER OF THE COUNCIL OF ADVISORS, GERSON-LEHMAN GROUP

- MEMBER OF THE INSTITUTE OF INDUSTRIAL ENGINEERS (IIE)
- MEMBER OF THE COUNCIL OF SUPPLY CHAIN MANAGEMENT PROFESSIONALS (CSCMP)
- MEMBER OF TIE-NY CHAPTER (THE INDUS ENTREPRENEURS)

OTHER ACCOMPLISHMENTS AND PERSONAL INTERESTS

- HIKED YOSEMITE NATIONAL PARK – JUL'10
- CLIMBED MOUNT KILIMANJARO, TANZANIA – SEP'03
- COMPOSED ORIGINAL SCORE FOR SOUNDTRACKS FOR INDEPENDENT FILMMAKERS – '99 - '02
- CERTIFICATE IN MOUNTAINEERING (HIMALAYAS), NEHRU INST. OF MOUNTAINEERING, INDIA – JUN'88
- CERTIFICATES OF MERIT FOR GRADES 1, 2, 3 FOR PIANO, ROYAL SCHOOLS OF MUSIC, LONDON –'84-'87
- DIPLOMA IN PUBLIC SPEAKING, NAZARETH SPEAKERS ACADEMY, BOMBAY, INDIA –'88

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APPENDICES

APPENDIX 1: INTERVIEW PROTOCOL DOCUMENT LINK

<https://www.dropbox.com/s/j9jewt57p773lh8/UL%20Interview%20Guide%2024Apr2015%20Executive.pdf?dl=0>

APPENDIX 2 : CODING ALGORITHM

Codes	Keywords for Coding	Search Algorithm	Application of Code
BM - Financial Model	<ul style="list-style-type: none"> • Finance • Financial • Revenue • Cost • Cash • Working Capital • Assets • Investment • Ownership • Risk • Public • Private 	Fi-nance* revenue* cost* cash working capital WC asset* invest* owner* risk* public private	Paragraph
BM - Internal Operating Model	<ul style="list-style-type: none"> • Product • Portfolio • Marketing • Brand • Sales • BB • CD • BD • Supply chain • Manufacturing • Factories • Distribution • Sourcing • Procurement • Organization • Org • Coordination • IT • Systems 	Prod-uct* portfolio* brand* market* sales BB CD SC BD supply chain manufactur* factor distribut* sourc* procure* org* coordinat* system*	Paragraph
BM - Network Partner Model	<ul style="list-style-type: none"> • Procurement • Supplier • Customer • Consumer • Complementor • Society • Environment • USLP 	Pro-cure* supplier* customer* consumer* complement* society environment* USLP sustainab* living community*	Paragraph

Codes	Keywords for Coding	Search Algorithm	Application of Code
	<ul style="list-style-type: none"> • Sustainable • Living • Sustainability • Community 		
BM Archetypes	<ul style="list-style-type: none"> • Quadrant • Growth / share • Q1/Q2/Q3/Q4 • Archetype 	Quad-rant* Q1 Q2 Q3 Q4 gro-wth share archetype*	Paragraph
Case1: Spreads BM	<ul style="list-style-type: none"> • Spreads • Olathe • BCS • Baking • Cooking • Spreading 	Spread* margarin* butter olathe BCS bak* cook*	Paragraph
Case2: Special Packs BM	<ul style="list-style-type: none"> • Special Packs • Raptor 	Special pack* raptor	Paragraph
Case3A: IC - Out of Home	<ul style="list-style-type: none"> • Ice cream • Out of home • OOH 	Ice Cream out of home OOH	Paragraph
Case3B: IC - In Home	<ul style="list-style-type: none"> • Ice cream • In home • IH 	Ice Cream in home IH	Paragraph
Core Component	<ul style="list-style-type: none"> • Core • central 	Core central	Paragraph
FIM - Asset & Investment	<ul style="list-style-type: none"> • Asset • Factory • Plant • Olathe • Investment • Innovation 	As-set* factor* plant* olathe invest* innovat*	Sentence
FIM - Cash	<ul style="list-style-type: none"> • Cash • Working capital • Inventory • Terms 	Cash working capi-tal inventory terms	Sentence
FIM - Cost	<ul style="list-style-type: none"> • Costs • Resources • Material • Transportation • Production • Overheads 	Cost* resource* material* transport* packag* prod-uc-tion produced overhead*	Sentence

Codes	Keywords for Coding	Search Algorithm	Application of Code
FIM - Ownership	<ul style="list-style-type: none"> • Shareholders • Public • Private • Carve • BCS 	Sharehold-er* public proviate carve BCS	Sentence
FIM - Revenue	<ul style="list-style-type: none"> • Revenue • NPS • NSV • Turnover 	Reve-nue* NPS NSV turnover	Sentence
FIM - Risk	<ul style="list-style-type: none"> • Risk • Uncertainty 	Risk* uncertainty	Sentence
IOM - Brand Management	<ul style="list-style-type: none"> • Innovation • Brand • BB • BD • Category • Marketing • R&D • Research 	Innova-tion* brand* BB BD cate-gor* market* research R&D	Sentence
IOM - Coordination	<ul style="list-style-type: none"> • Coordination • IT • Information • System • SAP • APO • Mechanism • S&OP • Enterprise Technology Solution (ETS) • Analytics 	Coordi-nat* system technology SAP APO mechani* S&OP technology analytics ETS enterprise	Sentence
IOM - Organization	<ul style="list-style-type: none"> • Organization • Structure • People • Team • Group • Global • Local • Regional • Function • geography 	Org* structure* people* t-eam* group categor* bra-nd* global* local* region* function* geograph*	Sentence
IOM - Product Portfolio	<ul style="list-style-type: none"> • Product • Portfolio • SKU 	Prod-uct* portfolio* brand* ca	Sentence

Codes	Keywords for Coding	Search Algorithm	Application of Code
	<ul style="list-style-type: none"> • item 	tegor* SKU* item*	
IOM - Sales Management	<ul style="list-style-type: none"> • sales • customer • development • CD • Sell • Top-to-top • Joint business plan (JBP) 	Sales sell CD customer* develop-ment forecast* top-to-top JBP joint plan	Sentence
IOM - Supply Chain	<ul style="list-style-type: none"> • Supply chain • Plan • Source • Make • Deliver • Service • Distribution • Production • Factory • Manufacturing • Quality • Reliability • Inventory • forecast 	Supply chain supply* plan* sourc* make deliver* service distribut* production facto-ry manufactur* quality r eliabil-ity inventory forecast*	Sentence
NPM - Complementor	<ul style="list-style-type: none"> • Complementor • Complementary asset • Alliance • Partner 	Comple-ment* alliance* partner s chick	Sentence
NPM - Consumer	<ul style="list-style-type: none"> • Consumer • User 	Consumer* user*	Sentence
NPM - Customer	<ul style="list-style-type: none"> • Customer • CD • Walmart • Kroger • Channel • Value • Drug • Grocery • Mass • Club 	Custom-er* CD walmart kroger chan-nel value drug grocery mass club	Sentence
NPM - Environment	<ul style="list-style-type: none"> • Environment • Sustainability • Green 	Environ-ment* sustainab* green	Sentence

Codes	Keywords for Coding	Search Algorithm	Application of Code
	<ul style="list-style-type: none"> • USLP 	USLP	
NPM - Society	<ul style="list-style-type: none"> • CSR • Social • Responsibility • Corporate • USLP • Sustainability 	CSR responsib* social* corporate* USLP sustainab*	Sentence
NPM - Supplier	<ul style="list-style-type: none"> • Supplier • Supply • Vendor • Procurement • Sourcing • Material • Packaging • NPI 	Suppl* vendor* procure* material* packag* NPI raw	Sentence
Peripheral Component	<ul style="list-style-type: none"> • Peripheral 	Peripher*	Paragraph
Strategy vs. BM	<ul style="list-style-type: none"> • Strategy • Strategic 	Strat*	Paragraph
UofA - Global	<ul style="list-style-type: none"> • Global • Strategic • Strategy • Category • Center 	Global* categor* strateg* BD center	Sentence
UofA - Local	<ul style="list-style-type: none"> • Local • NA • Cluster • US • Execution 	Local* cluster NA US* execution*	Sentence
UofA - Regional	<ul style="list-style-type: none"> • Region • LatAm • NA • Tactical 	Region* latam latin NA America* tactic*	Sentence