BUSINESS MODEL V. ENTERPRISE VALUE

Creating enterprise value is a management approach focused on maximizing value for the shareholders\(^1\). The primacy of shareholders’ interest results from the fact that they are company owners, and as contributors of the capital they expect to derive profits from it. Shares in dividends and gains arising from increases in stock prices constitute measurable benefits for the shareholders. It is on this basis that the degree to which their investment allocation has been successful is measured. We could discuss—and there is room for that in the literature—whether the value for shareholders is the only possible point of view as regards the motives for enterprise management (in the case of joint-stock companies) and whether the value management process brings the best possible effects for the company\(^2\).

It is not the aim of this paper to refer to the concept of enterprise value or its determinants, or to elaborate on various opinions on this issue that may be encountered in the literature on the subject. For the purposes of our reasoning we assume the concept and essence of company value as given. What we will try to do is answer the question: How does enterprise value relate to its business model? As the value principle for stakeholders is that the business is managed in a way which generates maximum return on the shareholders’ investments, the first issue that arises from this principle is: How to achieve this in practice? Can the answer to this question follow from the essence and construction of the business model?

Formulating an unambiguous definition of a business model on the basis of the existing economic literature is very difficult, if it is possible at all. Some authors\(^3\) try to define it, others\(^4\) endeavour to establish its structure, still others\(^5\) emphasize the criteria for allowing us to isolate such a model.

Assuming that a “model” is to be understood as a simplification description and representation of a complex entity or process, and the word “business” should be interpreted as the activity of providing goods and services involving financial, commercial and industrial

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\(^1\) P. Doyle, Value-Based Marketing, John Willey and Sons, 2008, England, p. 15.


aspects, according to the quoted authors a business model may be defined as a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm; therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.

In their review of existing opinions on business models the authors compare individual approaches to the use of this term and come to the conclusion that a business model is treated either as a way of running a business or as a model approach. In the second instance the problem consists in establishing the elements and relations of which a business model is composed.

Even though they have a considerably short history, deliberations on business models have evolved in a certain direction, which is worth noting at this point.

### Table 1. Evolution of the concept of a business model

<table>
<thead>
<tr>
<th>Authors</th>
<th>Content</th>
<th>Stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rappa (2001)</td>
<td>Definition and measures</td>
<td>Definition and classification of business models</td>
</tr>
<tr>
<td>Timmers (1998)</td>
<td></td>
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<tr>
<td>Magretta (2002)</td>
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<tr>
<td>Amit, Zott (2001)</td>
<td></td>
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<tr>
<td>Hamel (2000)</td>
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<tr>
<td>Weill, Vitale (2001)</td>
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<tr>
<td>Gordijn (2002)</td>
<td>Reference and ontological models</td>
<td>Model business, model elements</td>
</tr>
<tr>
<td>Osterwalder, Pigneur (2002)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Applications and tools</td>
<td>Application of the business model concept</td>
</tr>
</tbody>
</table>

Source: based on Clarifying Business Models..., op.cit., p. 11.

A business model combines the external circumstances and internal capacities of a company and answers the question: How (on what) does the company earn money? The place of a business model within a company is between its organizational structures, resources, processes and strategy.

Osterwalder and Pigneur prepared a comprehensive paper in which they laid out the elements of a business model and what types of such models exist. Their starting point was the concept of business model understood as a rational structure whose purpose is to create, deliver and intercept value. This is thus a value-customer orientation. The authors assumed that their task was to build a schema: a methodological model composed of elements which would allow any given business to be characterized with its use. Perceived from this point of view business models, and thus enterprises, become comparable.

In effect, according to their concept a business model description is composed of nine building blocks pertaining to four main business areas: customer, offer, infrastructure and

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7 Ibidem, p. 5.
financial viability. Their reasoning contains the key sentence allowing us to conceive what a business model is: *The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.*

The aforementioned nine blocks are as follows:

a) customer segments,
b) value propositions,
c) channels (of physical distribution, communication and sale),
d) customer relationships,
e) revenue streams,
f) key resources,
g) key activities,
h) key partnerships,
i) cost structure.

Osterwalder and Pigneur divide business models according to cost structure into cost-driven and value-driven. Models from the first category focus on minimizing costs wherever possible. This consequently leads to selecting such business models that propose low price value propositions (mass production, automated production, sale and delivery, anonymous communication with customers, etc.).

The second type of business models, i.e. value-driven business models, involve a specific choice: the business model itself constitutes value delivered to customers; the offer is highly customized and includes almost rare goods.

Application of the business model concept in various forms of enterprises allows us to pose the question: Is it thus possible to talk about a standardized business model? Do the blocks listed above render it possible to perceive a business model in the standardized dimension?

In their deliberations the aforementioned authors also took up this issue proposing business model patterns and various techniques describing it, as well as explaining relations between business model and strategy.

The table below demonstrates that in reality various authors take into account these nine elements, which Osterwalder and Pigneur refer to as the Canvas.

*Table 2. Nine Building Blocks of a Business Model*

<table>
<thead>
<tr>
<th>Business Model Pillar</th>
<th>Business Model Building Block</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Value proposition</td>
<td>Most important block; provides an overview of the entire product offer of the company</td>
</tr>
<tr>
<td>Customer contact platform</td>
<td>Target customer</td>
<td>Describes market segments in which the company wants to deliver value</td>
</tr>
</tbody>
</table>

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9 Ibidem, p. 15.
10 Ibidem, p. 15.
11 Ibidem, p. 41.
12 Osterwalder, Pigneur, Tucci, op.cit., p. 18.
<table>
<thead>
<tr>
<th>Customer contact platform</th>
<th>Distribution channels</th>
<th>Describes various tools and means of contacts between the company and the customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer contact platform</td>
<td>Relations</td>
<td>Explains the types of ties that a company builds with various market segments</td>
</tr>
<tr>
<td>Infrastructure management</td>
<td>Value configuration</td>
<td>Describes compositions of actions and resources</td>
</tr>
<tr>
<td>Infrastructure management</td>
<td>Key competences</td>
<td>Identifies competences necessary to carry out the company’s business model</td>
</tr>
<tr>
<td>Infrastructure management</td>
<td>Partnership network</td>
<td>Presents the network of joint undertakings carried out in cooperation with other organizations necessary to offer and commercialize the value</td>
</tr>
<tr>
<td>Financial issues</td>
<td>Cost structure</td>
<td>Summarizes financial consequences of instruments engaged in the business model</td>
</tr>
<tr>
<td>Financial issues</td>
<td>Income model</td>
<td>Describes ways in which a company earns money with the use of various revenue streams</td>
</tr>
</tbody>
</table>

Source: Osterwalder, Pigneur, Tucci, op.cit., p. 18.

Not all authors perceive the structure of business model elements in this way. Some (Peterovic, Kittl, Chesbrough, Rosenbloom) also include the capital model and the market model as elements which are not strictly business model components, but which affect it. All authors, however, agree that the idea of business model should be comprehensible as to its definition, construction and components.

M.W.Johnson, C.M.Christensen and H.Kagerman\(^{13}\) name four main blocks constituting a business model, even though for them the value delivered to customers also serves as the starting point. This business model looks like this:

a) Block I: customer value proposition, which encompasses:
   - defining target customer,
   - actions to be taken in order to solve an important problem or fulfil the most important need of the target customer,
   - offer prepared in such a way as to respond to the needs of the customer or from the point of view of the customer’s problem which the offer is supposed to solve,

b) Block II: profit formula, which encompasses:
   - revenue model (income that may be generated, where income is understood as the product of price and volume),
   - cost structure: where and how costs are allocated; it includes costs of key assets, direct costs, indirect costs and economies of scale,
   - margin model: how to achieve the desired profit on each transaction,
   - resource velocity: how fast resources need to be turned over to support the enterprise’s expected offer level.

c) Block III: key resources; they arise from the necessity to reach the customer, de-

liver the value to the customer and achieve the projected profit; they encompass:

- people,
- technology,
- equipment,
- information,
- distribution channels,
- partnerships,
- brand.

d) Block IV: key processes; as well as rules, metrics, and norms, that make the profitable delivery of the customer value proposition possible; they encompass:

- processes: product design, product development, manufacturing, supply, marketing, hiring, training, IT,
- rules and metrics: margin requirements for investment, credit terms, delivery times,
- norms: investment norms, approach to customers and distribution channels.

When all stakeholders (authors, companies) take into consideration all basic variables (as structural elements of a business model) it is possible to compare business models over time and in space and to analyze premises for changes.

In essence, a business model answers the question of what to earn money on, i.e.: what value to deliver to the customer, who is supposed to be that customer (i.e. which customer will allow the enterprise to acquire optimum income), how to proceed in the process of creating value for the customer and how much can be earned as a result.

This means that—within the framework of translating the concept of a business model into the functioning of an enterprise—a company must take decisions in the following areas:

- building market offer; market offer may consist of goods (or a single item), services (a service), benefits that the customer acquires upon purchase (measurable and immeasurable, financial and non-financial benefits); these decisions translate directly into value delivered to the customer; in this area the enterprise decides not only what to offer, but also how to win against market competitors;
- building and maintaining customer relations: this includes target customer selection, ways of communicating with the customer, minimizing customer risk, maintaining continuous contacts, readiness to provide individual service (even to a mass customer);
- management of infrastructure components: streams of resources, types of activity, relations with business partners which are indispensable for the implementation of the selected business model;
- financial aspects: whose derivative are the company’s pricing decisions, decisions in the areas mentioned above determining the model’s income results.

The most important issue within a business model and its pivot is delivering value to customers.
the customer. At the same time economists\textsuperscript{16} point out that value has its own life cycle. They list the following five stages:

- **Value creation**: this first stage is of fundamental importance; with the passage of time it itself modifies the business model: although not so long ago the customer was excluded from the value creation process, the development of electronic means of communication (in particular the Internet) has made the customer participate in the value creation process; this is a result of product personalization, mass customization, communication between customers and companies and customers with customers via Internet; these processes result in new business models such as C2B (customer-to-business) and C2C (customer-to-customer)\textsuperscript{17}; these new business models based on the use of new trends (engaging the customer in the value creation) are starting to establish themselves; the main advantage of such models is the opportunity to make relations independent from time (contacts via the Internet are possible around the clock) and reduce the significance of distance (thanks to the Internet it is possible to place orders and communicate over long distances practically without any connection downtime);

- The second stage—**value appropriation**—means that in the course of the offer’s existence on the market, as a result of experience and changing opportunities, the offer becomes better adapted to the needs of customers; very frequently this only encompasses distribution channels, sales modes, ways of approaching the customer, etc., but sometimes results in a product modification;

- Third stage—**value consumption**—takes place when the enterprise’s offer is actually purchased; the dominant part of the “value proposition” is often found at this stage, as it is at this point that the customer acquires the value and familiarizes himself with the useful value arising from the offer;

- Fourth stage—**value renewal**—takes place when the value changes its features due to the product becoming obsolete, when it loses its attractiveness compared with competitors’ offers, when new solutions or inventions emerge, etc.

- **Value transfer**: the last stage consists in transfer of value after the customer loses his interest in the value proposition; it may still be offered on the market, but with a different aim than before\textsuperscript{18}.

Realizing these stages of value life cycle enables a company to take further decisions:

- in the area of content; what and at which stage should be the value competing on the market;

- what value level and at which stage the company may (wants to) deliver the value to the customer „for free”, as there is also competition in this field;

- what and at what stage will constitute the so-called elementary value proposition, as companies also compete on the market on this plane.


\textsuperscript{17} H. Tcheng, I. Denervaud, J. M. Huet, C2C, B2C: new business models or the ubiquity 2.0 paradigm. Univ. Lausanne 2003.

\textsuperscript{18} A. Osterwalder, Y. Pigneur, Modelling value propositions in e-business. Univ of Lausanne; ICEC 2003, p. 7.
Pricing decisions, i.e. how to measure the elementary value proposition and at which stage and whether it should be governed by a different pricing policy, are derivatives of the aforementioned decisions\textsuperscript{19}.

A special factor which has changed the view on the business model was the introduction of information technologies, resulting in virtual companies and the dissemination of network enterprises. Because of this some authors are of the opinion that a business model fulfils the role of the engine of network-based strategies\textsuperscript{20}.

The authors elaborate on this idea; they believe that traditional views on value creation (without network connections) strengthens and stabilizes inter-enterprise ties, but hinders changes, whereas a network facilitates initiative and creates new opportunities for the transaction mechanism. This is because a business model is a structural outline describing an organization from the point of view of its central exchange along with all external relations, with regard to both manufacturing factors and the market.

A business model is established on the basis of criteria\textsuperscript{21} formulated by the U.S. Patent Office: \textit{usefulness, novelty and non-obviousness}. This is a very interesting aspect of how new theories force their way into management, but also knowledge-based development. In the USA business models are patentable; there are four patent categories, i.e. machines, manufactured goods, compositions of actions and business methods, and business models are classified to the latter category. Business models have been patented since the 90s, i.e. the period when business application of the Internet exploded. The argument in favour of patenting a business model is that it is in fact equivalent to patenting intellectual property. This demonstrates the weight of the entire concept of business model, its development and the protection of business models, whose owners came to the conclusion that they constitute a market force which may serve as a competitive advantage.

Zott and Amid conclude that the more novel and effective the business model, the greater the value appropriated for the firm\textsuperscript{22}.

Authors studying business models\textsuperscript{23} distinguish three main factors triggering changes in the concept:

- internet expansion: as the factor providing new opportunities, bringing about new opportunities to do business and altering the horizons as regards business connections;
- changes concerning dissemination of knowledge with regard to its manner, directions, channels, territorial and temporal space through the support of new technologies;
- changes as regards behaviours of all participants of business and market connected with the availability of new technologies; connecting partners into a network pro-

\textsuperscript{19} Modelling value proposition, op.cit., p. 9.


\textsuperscript{22} P.Keen, S.Quereshi, op.cit. p. 6.

\textsuperscript{23} T.Nagumo, Innovative Business Models in the Era of Ubiquitous Networks, Nomura research Institute papers, 49/2002 p. 3.
vides new opportunities as regards streams of information and new initiatives.

These changes within the business model are a consequence of changes in the enterprises’ environment, but through innovations they also affect, if not trigger, changes in enterprises as such.

Chesbough and Rosenbloom\(^ {24} \) asked the following question: Why are companies which contribute to the creation of new technologies unable to appropriate the value of the new technology? Johnson, Christensen and Kagerman are of the opinion that organizations do not make the effort to amend their business models by launching new products which would surprise their competitors. However, the authors believe that it is exactly then that thorough and immediate changes to the business model are necessary.\(^ {25} \) As a company intercepts all signals from the market, it should watch out for the appropriate moment to introduce such changes. When delineating new development and growth proposals, an enterprise should not only take the risk associated with a new market, but also—if not first of all—a new business model. Asked “when this happens” the said authors answer: “when significant changes are needed to all four elements of your existing model”\(^ {26} \).

A traditionally managed company (i.e. not focused on value creation) goes through the following actions in this order:

- Selection of strategic objectives, i.e. answering the question: Where will the organization be in 3-5 years and which principles will allow it to get there?
- Selection of business model, i.e. answering the question: What should the enterprise earn money on and how is this choice correlated logically with its strategic objectives?
- Developing operational activities, i.e. answering the question: What factors determine implementation of the business model allowing it to achieve the strategic objectives?
- Implementation of the choices made and their management, i.e. answering the question: How to manage the enterprise and how to carry out the actions appropriate for the selected objectives?

A value-oriented company:

- Places value at the core of its strategic objectives and answers the question: How will the organization look in 3-5 years, what will then be the strategic value and what means allow its achievement?
- Places value proposition at the centre of its business model, i.e. answers the question: What is the value proposition and does it correspond to the strategic objectives?
- Directs its operational activity towards value by answering the question: What factors determine actions aimed at execution of the value proposition in connection with the strategic objectives?
- Carries out management and implementation processes which are focused on value creation.


\(^ {25} \) Johnson, Christensen, Kagerman, op.cit., p. 61.

\(^ {26} \) H.Chesbrough, R.S.Rosenbloom, op.cit., p. 61.
Not all business models need to be concentrated on value creation. In this case we talk about a business model whose planning itself is based on the value to be delivered. However, it is possible to imagine business models based on low costs, on the optimal exploitation of the time factor, etc.

A business model encompasses the strategic intentions of a company concerning value creation and its delivery within the framework of the company’s functioning and utilization of market opportunities. Thus, a business model combines the external circumstances and internal capacities of each enterprise.

Within the framework of its strategic thinking a company must not only prepare itself for functioning in the future from the point of view of market offer and combat with competitors, but also perceive its own transformation arising from the environment in which it will function. Future market offer and future means of competing with other market players are subjects of strategic decisions. However, strategic decisions also concern changes within an entire company resulting from modifications in the business model.

A strategic change should be understood as „an organization transformation between two points in time as regards the manner in which it engages its current and future resources. The manner in which the resources are utilized should affect the possibility of achieving organizational objectives”27.

Even though a change is in nature dynamic, as a continuous process it means organization transformation. The simple definition of a strategic change cited above becomes complicated when we take into consideration the definition by M. Parker, according to which „a strategic transformation is a process aimed at regaining balanced competitive advantage by redefining business objectives, creating new competences and using these skills to embrace new market opportunities; whereas choosing a new direction involves the intellectual component, a strategic transformation requires organizational and behavioural changes in order to determine and implement the new strategy in an efficient manner (as the old one should be abandoned and new competences need to be developed)”28. This is a clear reference to those authors who perceive organizational and behavioural changes as business model modifications.

The effort to introduce changes may be taken when a company is in a crisis, but also when it wants to improve its market position in relation to its competitors.

In these two cases the company transformation has a different character, as it is driven by different motives and creates various challenges for the managers, depending on how and when strategic issues are to be solved29.

Strategic capabilities determine the future offer of the enterprise, which will be valued by future purchasers.

Strategic capabilities of an organization are determined by:

- the ability to satisfy future needs of future purchasers, which means the ability to prepare a competitive offer exhibiting features which are the key to success;

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28 M.Parker, Strategic transformation and information technology, Prentice Hall, NY 1996, p. 393.

29 M.Parker, op.cit., p. 396.
• the ability to win new customers and enter new markets, which requires allocating new resources and new competences;
• the possibility of creating key competences and unique resources, which provides the opportunity to maintain competitive advantage and stay in business

Strategic changes in organizations take place when there need arises for redefining the organization in the face of turning points caused by various changes in the enterprise’s environment, which however must be permanent.

Strategic ties in business create strategic interdependence, which means that when changes are introduced to an organization its partners may not stay on the sidelines. This considerably complicates the management of strategic changes.

To sum up, the concept of value creation applies to the value of the enterprise itself (goodwill, value for stakeholders or only shareholders), in which case it has capital or financial dimension, as well as value for customers, in which case we may talk about delivering customer value. These two value-oriented approaches are interdependent.

The core of the business model is the customer and value proposition, which not only includes the product itself. On the other hand, without customers and actions aimed at enterprise expansion through customers, there is no possibility to achieve higher profits and thus increase share prices.

When an enterprise is perceived as expansive, operating on an attractive market and having a strategy which allows it to achieve a relatively permanent competitive advantage, the company value increases. Satisfied customers are the first link in this process.

The second link connecting company value with the business model is the strategic orientation of the business model. The enterprise management process—with the reservation that a company’s future does not mean „the past, only a bit further ahead”—consists in a conscious shaping of long-term decisions and predicting their outcomes as well as making choices as to the results for the enterprise, its customers, stakeholders, shareholders and the market. The business model contains the following elements: structures, processes and relations in the operational and strategic dimension.

Company value is thus created by making choices appropriate for the objectives and realized always through a specific business model (or many models applied within the same enterprise); the said model is changed and adapted so as to bring higher profits, improve the company’s position on the market and increase its value.

Literature


31 P.Doyle, Value-Based Marketing, op.cit., p. 15
Summary

Creating enterprise value is a management approach focused on maximizing value for the shareholders. A business model answers the question of what to earn money on, i.e.: what value to deliver to the customer, who is supposed to be that customer (i.e. which customer will allow the enterprise to acquire optimum income), how to proceed in the process of creating value for the customer and how much can be earned as a result.

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Keywords: business model, enterprise value, customer value, strategic decission, management orientation choice.

MODEL BIZNESU A WARTOŚĆ PRZEDSIĘBIORSTWA

Budowanie wartości przedsiębiorstwa jest orientacją zarządczą nastawioną na maksymalizowanie wartości dla akcjonariuszy. Model biznesu odpowiada na pytanie na czym zarabiać pieniądze, to znaczy: jaką wartość dostarczyć klientowi, kto ma być tym klientem, (który pozwoli przedsiębiorstwu osiągnąć optymalne dochody), jak należy postępować w procesie wytwarzania wartości dla klienta, oraz – ile w rezultacie można na tym zarobić. Nie każdy model biznesu nastawiony musi być na budowę wartości. W tym przypadku mówimy o modelu, którego samo planowanie opiera się na bazie wartości, jaka ma być dostarczona. Można wyobrazić sobie modele biznesu bazujące na niskich kosztach, na wykorzystaniu optymalnym czynnika czasu, i in.

Model biznesu obejmuje intencje strategiczne firmy dotyczące tworzenia wartości i jej dostarczenia w procesie funkcjonowania firmy i wykorzystywania przez nią szans rynkowych. Łączy zatem uwarunkowania zewnętrzne i możliwości wewnętrzne każdego przedsiębiorstwa.

Tworzenie wartości odnosi się zarówno do wartości samego przedsiębiorstwa (wartość firmy, wartość dla interesariuszy czy tylko dla akcjonariuszy) – i wówczas ma wymiar kapitałowy, czy zgoła finansowy, jak do wartości dla klienta – i wówczas można mówić o dostarczaniu wartości klientowi. Te dwa podejścia zorientowane na wartość są od siebie zależne.

Wartość przedsiębiorstwa więc tworzy się poprzez stosowne do celów wybory i realizuje zawsze poprzez konkretny model biznesu (lub wiele modeli w tym samym przedsiębiorstwie); model ten ulega zmianom, dostosowaniom aby przynieść większe zyski, poprawić miejsce przedsiębiorstwa a rynku, podwyższyć jego wartość.

Słowa kluczowe: Model biznesu, wartość przedsiębiorstwa, wartość klienta, decyzje strategiczne, zarządzania wybór orientacji.