

Business Model Innovation through Value Delivery Differentiation: Multiple Case Studies

Kang Daeyoup¹ and Kim Jaeyoung^{2*}

¹School of Business, Korea University, Anam Campus, Seoul, South Korea; kangd@korea.ac.kr

²School of Business Administration, Korea University, Sejong Campus, Sejong – 339770, South Korea; korean4u@korea.ac.kr

Abstract

There are many highlights on value creation and value capture in the field of business model research since these are traditionally considered as core components of a business model. However, the concept of value delivery is open to question what does value delivery play a role in the concept of business model. In our research, we examined the roles of value delivery in a business model. Using multiple case studies of firms and its business model, we found evidence that differentiation of value delivery would impact business model innovation. This research proposes a theoretical framework for organizational capabilities to achieve successful value delivery differentiation. The results have implications for business model establishment practices.

Keywords: Business Model, Organizational Capabilities, Value Capture, Value Creation, Value Delivery

1. Introduction

The core object of business model is to make profits harvesting business value from what it creates. Previous studies suggest business model to have organized strategies for monetizing business value through value creation and value capture. To list, concept of open business model highlights on value creation through opening firms intellectual resources¹, business ecosystem argues importance of capturing values from co-created values from industry² and attention to technology that can change process of value creation such as e-business, internet and so on³.

As sub-concepts of business model, topics of value creation and value capture are common in business model innovation research. Rather, the topic of value delivery has not been elucidated although the value delivery takes an important role to convey business values providing value capturing channels. However, these days, some companies are emerged in various industries which achieved business model innovation through changes of value delivery. For instance, Apple entered smartphone market with iPhone in 2007. Considering

the fact that smartphones were already manufactured by major device manufacturers, Apple created a similar type of business value that other competitors have created for around 10 years. However, according to Bloomberg and Nelson Media Research, Apple took around 16.9% of market share but achieved 71% of total market revenue in 2012. On the other hand, Samsung only took 37% of total market revenue and 32.6% of market share in the same year.

This result indicates that Apple has different business model although the created values are similar with other competitors. The most highlighted differentiation is that Apple possesses unique value delivery to compare with other manufacturers. Instead of selling its devices through the service provider, Apple promotes products using own distribution channel. Apple also establishes an application platform, which can directly mediate value exchanges between Apple user and content provider. Eventually, Apple achieved new revenue sources from content sales. Not only making revenue through values of products and service, value delivery differentiation has brought an innovation of business model.

*Author for correspondence

In this sense, we highlight on the issues that how a business model can be innovated through different way of conducting value delivery. Firstly, we figured business model innovation which is based on differentiation of value delivery by examining trigger cases of mobile telecommunication and integrated loyalty program service. We finally propose a conceptual framework that argues required organizational capabilities for the business innovation.

2. Conceptual Background

2.1 Business Model

As the variety form of products and services are appeared, the means of planning for its value, producing and delivering with efficiency are being complicated and diversified³. Accordingly, they are needed to supervise the business idea, method and process in a general perspective. Hence, the concept of business model has been introduced which mainly studies on the necessity of structuralizing business idea and processing for creating business value.

Nevertheless, the business model has not been fully understood in both academia and business practices⁴. As Teece⁵ have mentioned, economic theory implicitly assumes that trades take place around create competitive products, and also it is hard to find a designated place in the field of organizational science, strategy, products and marketing. The ambiguity of the concept and theoretical foundation becomes an obstacle to drawing generally accepted terms for discrete members of academia. Although there is no comprised definition of business model^{3,6}, the fundamental aspect of business model is a combination of business activities that shows the blueprint for how an organization makes profits.

A typical depiction of business model is value creation, value delivery and value capture in a value network^{5,7}. Value creation means to create a business value from the needs of the customer which comes from the desire to use the value⁸. The concept of value delivery is mainly about the process of the floating value in a value network. Value delivery refers to outlines of the architecture of revenue costs and profit associated with the business enterprise delivering that value⁵. Finally, value capture comprises how business model establishes revenue streams through value creation and delivery⁷. Value capture is an activity of making profits and appropriating from the value what floats on the process of value delivery. However,

value delivery has been neglected since the conventional literature focuses on a process of value creation in business model taking a perspective of connected activities that are confined in operation and marketing.

2.2 Business Values

Literature conceptually depicts business value comes from inanimate resources purchased as inputs to the production process⁸. Business values encourage firms to enhance customer satisfaction, understand customer preferences, reduce inventory, increase inventory turnover, decrease stock-out situations and improve time-to-market, which may eventually lead to financial benefits. By adapting the environmental resources and economic rents, value creation can be also made by co-operation and co-created values⁹. Moving the locus of value creation from an exchange to use, or context, means transforming our understanding of business value from based on units of firm output to one based on processes that integrate resources¹⁰.

In this sense, the idea of value delivery argues architecture of value traveling from one to another based on the theoretical foundation of value network. Once a business creates subsystems for each input, transformation process and output, the process should be involved to capture the products through each process of inputs, transformation processes, and output involving the acquisition and consumption of resources - money, labor, materials, equipment, buildings, land, administration and management¹¹. Value delivery may be involved with strategic behavior on cooperative relationships, alliance-ships and even competitors.

Finally, firms may capture the values that are floating in the process of value network. When a business creates a business values, it is inefficient to capture all the values that the business created because of agency cost. For the efficient management, the business should float the values to the value network and the participants of the value network capture the values through outsourcing, affiliate and open innovation.

Although there are many theories and concepts to understand the interaction mechanisms between organization, value creation and value capture, the topic of value delivery is not common in the field of academia. However, maybe, examination of value delivery would offer a perspective to see which value is less delivered to some stakeholders because of what market governance,

market economics and stakeholders. In addition, it also offers a perspective which values are more accepted by customers, market participators and suppliers under what traits of products and service, perceived benefits of stakeholders and so on.

3. Trigger Case

3.1 Mobile Telecommunication Service

The mobile telecommunication service market consists of three major groups of player: Service provider, Content provider and Device manufacturer¹². The Service provider provides physical telecommunication network and carrier service to its subscribers. Device manufacturer refers mobile device manufacturer that provides devices to communicate between the subscribers. Content provider provides mobile application and content for the subscribers. In a traditional structure of the market, the service provider had higher market power to compare with other two entities in the market since it owns and operates physical network and distribution channel. The typical business model for device manufacturer in this structure was to create business value through investment in R&D and marketing for device. The business model captures values through device sales mainly through the service providers. The value delivery is also monotony that the device manufacturers cannot have direct relationship with content provider and user. There is no sustainable value delivery that secures additional revenue opportunities for device manufacturer such as content sales – the service provider monopolize all consequent additional revenues.

However, the typical business model has changed when Apple's iPhone introduced to the market. When Apple exclusively introduced iPhone with AT & T, Apple took 10% of the monthly service fee as a commission. Apple also earns sales from mediating content sales through iTunes as a platform which directly connects subscriber and content provider¹³. Moreover, Apple sells iPhone through its own distribution channels such as Apple store and online shopping mall. This phenomenon implicates that Apple initiated the changes in traditional industry structure which device manufacturer cannot directly connect to the subscribers. Somehow, Apple created a business model that brings more sustainable and efficient revenue stream overcoming the market governance although Apple creates and captures similar business values like as other device manufacturers.

3.2 Integrated Loyalty Program Service

The essential purpose of loyalty program is a marketing method for revisit and repurchase, rather than revenue creation. Although the customer can enjoy utilities from a lower price and loyalty service, the mileage points cannot be used in wide arrange of stores. Because of this, many customers felt frustrated to save points individually and discontinue being loyal. The integrated loyalty program is a service, which comprises various stores' points and its customers can use the points without any obstacles in any member stores. As one of the services in SK planet, OK Cash bag is an integrated loyalty program service used by approximately 64% of Korea's total population (32M). As a key of the integrated loyalty program service in Korea, through which points can be accumulated and spent in all member stores. Every transaction that subscriber made in the member store is saved 0.1~15% of the total spends to their deposit and the OK Cash bag points is used like a real cash in member stores¹⁴.

OK Cash bag becomes a principle agent in the marketing industry by leveraging transaction data comes from the integrated loyalty program that other competitors cannot have. OK Cash bag launched extent marketing information system that provides transaction data sets from member stores, B2B marketing and affiliate promotion program with the member stores. In the marketing information system, the member stores can easily analyze its customer segments based on the information such as ethnicity, location, purchasing habits and so on. In the traditional marketing industry, this type of information is stored independently and considered as private business values. However, OK Cash bag encouraged member stores to participate in OK Cash bag value network by sharing the business values. Escaping from the conventional value delivery logic, somehow, OK Cash bag proposed a new business model that involves co-created values in its value network.

3.3 Analogy of Trigger Case

The two business models in above trigger cases have been distinguished in value delivery from conventional rules of industries. The comparison of value delivery is depicted in Table 1. For an explanation, Apple innovated a business model by having unique value delivery instead of following existing market rules that the device manufacturer should be under strong

influences of service provider. In addition, OK Cash bag was successful to innovate business model creating additional revenues through marketing platform. Figures 1 and 2 depict differences of value delivery comparing traditional business model and trigger case companies' business model.

Table 1. Comparison of value delivery

Trigger Case	Traditional value delivery of the industry	New value delivery
Mobile Telecommunication Service	Device manufacturer makes revenue by selling an entire quantity of manufactured device to service provider. The service provider sells the device through its distribution channel. Device manufacturer invests in R & D and manufacturing facilities for advance device.	Apple has own distribution channels and receives 10% of service fee from service providers as a compensation for additional subscriber using Apple devices. Apple provides a platform, iTunes, which directly connects to content providers. Content providers share the content sales revenue with Apple. This ensures sustainable revenue sources.
Integrated Loyalty Program Service	Stores issue promotion, mileage and advertise promotion programs to the subscribers. Stores achieve business values through customer loyalty, reputation and brand name.	OK Cash bag provides integrated loyalty program to the subscribers; collects revenue from member stores by transactions. OK Cash bag collects transaction data from member stores. OK Cash bag processes the data and productizes it as a marketing solution.

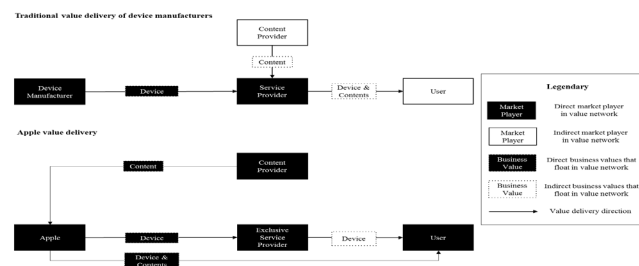


Figure 1. Compare value delivery of traditional device manufacturers and Apple.

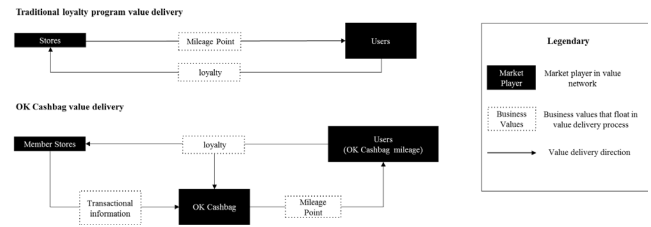


Figure 2. Compare value delivery of traditional loyalty program and OK Cashbag.

4. Organizational Capabilities to Successfully Differentiate Value Delivery

4.1 Capability to Ideate Business Model

In order to conduct a value delivery differentiation, an organization may need the capability to ideate a profitable business model utilizing the economics and technologies. Since value delivery ultimately determines what the values are floating and who is going to capture, ideation of business model is quintessential. The ideation is a part of business model innovation challenging market orthodoxies to excavate new available business value into profit⁷.

For instance, Apple leveraged economics in the mobile telecommunication service market. It is hard for a runner-up service provider to become a market leader because of the cost leadership from network externality. However, iPhone offers an opportunity to runner-up to become a market leader. Apple attracted the runner-up leveraging Apple's large pool of customers, love marks and content providers. Working exclusively with the runner-up around the world, Apple earned commission for new subscribers from the service providers.

Because of traditional market structure, the traditional device manufacturer focused on value creation by developing and proposing advanced cellular technologies. Not many considerations have made to capture economic surplus that the advanced cellular technology could create. On the other hand, Apple built a business model that creates business value through open application market based on the new market structure that Apple brought. The technologies, such as SDK (Software Development Kit), UX and UI, enabled Apple to initiate value delivery differentiation by having lock-in effects in both customer and content provider. If Apple adopted the conventional business model without adequate ideation for smartphone technology, there would

be no chance to have favorable value delivery to create additional revenue streams.

4.2 Capability to Conduct Strategic Agility

Although an organization has insights on business model through benchmarking, imitating and R & D, the insights solely may not offer direct success in value delivery differentiation. Turbulent market and market dynamics would radically impact on the validity of insights and planned value delivery differentiation. In this sense, strategic agility, which is thoughtful and purposive interplay¹⁵, would offer some guidance to achieve successful value delivery differentiation.

The strategy of OK Cash bag was to affiliate with major conglomerates in Korea to access large customer pools. However, many conglomerates started to build own integrated mileage program while a cost of VAN and e-commerce becomes lower. The conglomerates usually affiliate with OK Cash bag only for some periods, leave the affiliation, and then launch own membership program. This cherry-picking phenomenon becomes a threat since it affects the total quality of mileage service.

OK Cash bag quickly amended its strategy to expand the pool of member store from conglomerates to SME (Small-Medium sized Enterprises). In fact, the small enterprise and midsize franchise perceived a threat to the emergence of integrated mileage services of conglomerates since the parent-subsidiary model would possibly inhale loyal customer. The small enterprise and midsize franchise willingly participate the value delivery differentiation of OK Cash bag, and the participation offers sustainable business opportunity making market power balance between conglomerates and SME.

4.3 Capability to Manage Ecosystem Healthiness

A healthy ecosystem may attract participators into value delivery differentiation and its value network. The health can be measured by biological metaphors such as productivity, robustness, and niche creation^{16,17}. Productivity refers to the efficiency of business ecosystem in converting raw business value into operational value such as lower cost and new products^{17,18}. Robustness refers to the ability of a network to withstand perturbation¹⁹ such as socio-political issues, technologies and competition. Finally, niche-creation means to create new

business opportunities²⁰ and to absorb external shocks²¹ in the diversity of an ecosystem¹⁷.

For instance, OK Cash bag attracted potential member stores by providing them with an opportunity to promote their products and services through the cumulative loyalty points of all subscribers in the SK Group – which is mother conglomerate of OK Cash bag. The member stores could access the subscribers of the SK Group. OK Cash bag successfully attracted potential member stores by providing a productive environment that reduces burdensome and uncertainty of potential member stores.

OK Cash bag is recently threatened by competitors which endeavor to imitate the business model. Any of 46 conglomerates in Korea has the potential to run a business model similar to OK Cash bag. In fact, many conglomerates already launched own loyalty program. In addition, the status of OK Cash bag business model has been also threatened by new marketing technologies such as mobile, SNS and social commerce which may deliver private, direct and personalized promotion information. The customer behavior has radically influenced industries and it became a threat to marketing platforms of OK Cash bag.

OK Cash bag endeavors to overcome the threats through robustness and niche creation of the network. OK Cash bag exploited mobile marketing areas by launching new services that enabled the sharing of offline merchant visit history and commercial offers through social commerce. OK Cash bag introduced integrated commerce platform Syrup in June 2014. Syrup, as a new platform of OK Cash bag, is linked to services offered by SK Groups such as electronic wallet (Smart Wallet), mobile navigations (T-Map), mobile coupon service (Gift icon), open market (11th) and so on. With a one-time of promotion in Syrup, the promotion of the member store is exposed to the subscribers when the subscriber uses any services of SK Groups. Through the platform, the subscriber easily transfers the loyalty points from one to another store and easily accesses commercial information based on personal information such as location, time and consumption habit. These features have brought greater lock-in effects of subscribers and member store. As a result, OK Cash bag successfully keeps 1.71 million offline merchants and new 1.3 million subscribers after launch of Syrup while creates higher entrance barrier to potential competitors.

Building a plan for a new type of value delivery would be an ideal sketch if the business model cannot attract

potential actors such as stakeholders and subscribers. Securing a safe, productive and attractive environment for the participators are quintessential to deploy value delivery and to build an adequate business model. A durable environment should be provided for a network operation so that the actors can continuously excavate the business value and sustainably seek new business opportunities.

5. Closing Remarks

The value delivery differentiation is not confined in special occasion cases, but it actually addresses common business model innovation as well. Free message services such as WhatsApp, Line and Kakaotalk established a platform that other content providers can link to messenger's users. The message service made direct links between content provider, the subscriber and device manufacturer. The advance internet and communication technologies offer many chances to innovate the value delivery. Merging the social networks and mobile technologies, Uber innovated the business model from conventional transportation value delivery to a shared economics. Airbnb innovated conventional value streams in accommodation and travel networks earning the profits for connecting householder and traveler. The innovation of value delivery becomes more frequent, disruptive and destructive to propose a new way to create business value.

By examining two trigger cases, the research offers theoretical evidence to build a unique strategy through value delivery differentiation. The competitors in the cases employed R & D, operation and marketing as core methods for value creation and capture. The strategy offered superior advantages period times, but the strategy turned out that it has been defeated by a new business model with different value delivery. As seen in the case studies, the business model under differentiated value delivery offers a unique strategy for value creation and capture. The values are created by value delivery differentiation may lead new value creation in business model and an emergence of creative value capture. For instance, if Apple had entered the mobile market only with a competitive technology, it would have merely remained as one of the many device manufacturers. If OK Cash bag projected a simple loyalty service that only provides promotion information, it would not have obtained the market effects that OK Cash bag currently has.

This research also offered evidence for practitioners to realize what the capabilities are required for

differentiation of value delivery. Hastily rushing into the market with traditional capabilities and typical business model is not wise. Discovering and exploiting new working principles with an adequate business model is the key to the success of value delivery differentiation. Any company that wants to differentiate value delivery must diagnose itself to see if the business model ideation were readily feasible to be implemented, accurately addressed turbulence of the market, and being ready to foster ecosystem healthiness.

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