

A Conceptual Business Model to Improve the Environment for Small and Medium Businesses

Shiva Shabani*

Sama Technical and Vocational Training College, Tehran Branch (Tehran), Islamic Azad University, Tehran, Iran

Abstract

Given that one of the prerequisites for improving business in the country is efforts to stabilize the economy and over 95% of the economy agencies in the world consist of small and medium businesses, these firms can be a good option. In this regard, a proper competitive position for the company can be achieved only with the help of a suitable business model. A successful business model represents a better path than the other options that can offer more value to a distinct group of customers and bring greater benefits to the company. The ability of a business model can be a powerful tool for analyzing, testing and evaluating of strategic choices facing an organization. Testing and evaluation of models should be carried out constantly and repeatedly and it should be the basis for continuous improvement of the business model and lead to serious and innovative changes in the model. Rapid changes in the economic, cultural, political and technological environment resulting in a complex operating environment and the instability of organizations and brought about dynamic evolution of businesses. This led to unstable situation of business models and its modification over the passage of time. In this study, research background, business models, business indicators, differences between small and medium enterprises with large firms, a variety of business models in various industries, business model evaluation and modeling are analyzed by using library resources through analytical-descriptive framework and at the end, the conceptual model is presented due to factors affecting the business environment.

Keywords: Business Environment Improvement, Business Model, Business Model Evaluation, Business Model Innovation, Modeling

1. Introduction

By establishing any business agency, a business model is applied whether clearly (concrete, legislative) or covertly (mental, developmental) to design the interactions structure. If we consider the business model as the main logic of the company and its strategic options to create and capture value within a value network, failure to recognize an appropriate business model hinders the chances of reaching the objectives. Since the inception of business model literature, many a great researchers have tried to provide definitions for business models and its sizes and components. However, a standard definition of business model has been formed up to now. Having a good business model at the beginning of a company is not important, what

matters the most is maintaining an optimum business model during the life of the institution (Teece D.j, 2010). Therefore, the ability to design and implement an innovative business model is seen vital for growth and continuity of an organization's activity (Scott-Kemmis D, 2012). A proper business model has the ability to answer questions with regard to customer, customer value and how to make business, explain the logic of economic activity and describe how the customer value can be provided at a reasonable cost (Magrett J, 2002). Thus, if organizations do not have a proper business model, they will not be able to capture a significant portion of the market (Scott-Kemmis D, 2012). Hence, along with reviewing ways of assessing the business models, the innovation concept of business model will also be reviewed.

*Author for correspondence

2. Research Basics

2.1 The Emergence of Business Models

Although business models had not been apart from trade and economic behavior since classic era, the concept of business model became widespread in the mid-1990s with the advent of the Internet and then it had a rapid acceleration. Ghaziani and Ventreska (2005) had been searching for the use of the term in public administration from 1975 to 2000. Among these numbers, only 166 were published in the period of 1975-1994, the rest (1563) belonged to the period 1995 to 2000 that had dramatic increase in the incidence of this term. Zott and Amit (2011)¹⁰ had a similar search by using the EBSCO host database. They found out that the business model was included in 1202 articles in scientific journals until December 2009. Non-academic articles have followed a similar trend. From 1975 to December 2009, the term had been mentioned in the 8062 document. As Figure 1 shows, interest in the concept actually belongs to a 15-year period between 1995 and 2010 that is consistent with the findings of Ghaziani and Venterska (2005). Figure 1 also shows that academic researches on business models seem to linger in practice.

Some researchers have guessed that the emergence of business models and widespread use of this concept since mid-1990 was triggered by the advent of the Internet (e.g. Amit and Zott, 2001), the rapid growth of emerging markets and interest in “bottom of the pyramid” issues and expansion of industries and organizations dependent on postindustrial technologies.

2.2 Business Model Definitions

In general, the business model is defined as a statement, an explanation, a reagent, a structure or a utility model, a method, a frame, a template and a set. However, surprisingly, business models have been often studied without any explicit definition of the concept. Among 103 studied business model publications, more than one-third (37%) does not define the concept, considered the definition more or less than what has been said. Less than half (44%) clearly conceptualize or define business model. For example, by pointing out its main components. The remaining publications (19%) have pointed other researchers' works. This lack of transparency in definition, a potential source of confusion, shows increased fragmentation rather than convergence of landscape and hinders progress of cumulative research regarding the business model. Further investigations showed that the business model is mainly used in an effort to address or explain the three phenomena:

- Internet business and use of information technology in organizations;
- Strategic issues including the creation of value, competitive advantage and firm performance;
- Management of innovation and technology.

2.3 Business Models and Strategies

Mechanism of creating a value often goes beyond the value that can be created by establishing cliché innovation, value chain configuration (Porter 1985) and formation of

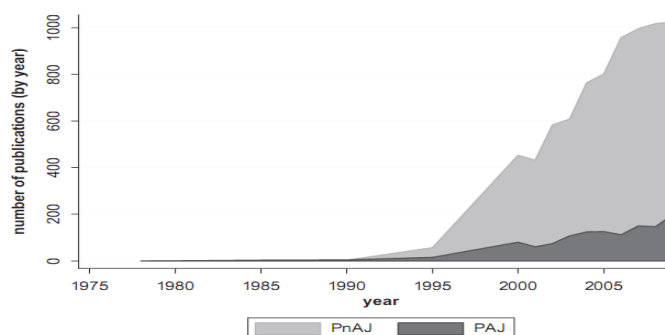


Figure 1. Business model articles in the Business/Management field.

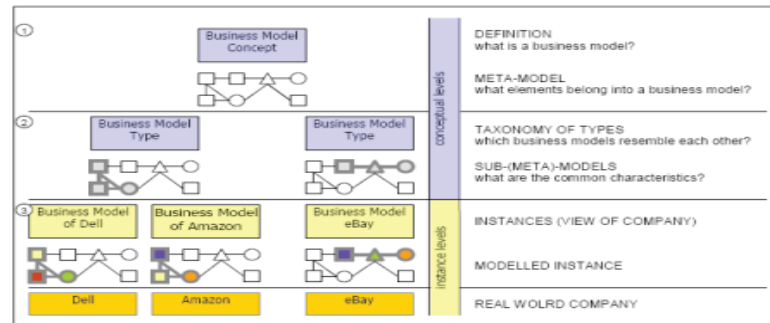


Figure 2. A hierarchical business model–Osterwalder (2005).

strategic networks among companies and exploitation of the companies' main and specific competencies.

They suggest four potential sources of value creation through business models: 1. Infancy, 2. Limiting, 3. Supplementation and 4. Exploitation.

According to Hamel (2000), progress in “Revolutionary Era” companies must develop new business models where value creation and value capture occurs in a value network which includes suppliers, partners, distribution channels, business model and the company's performance. Jerryson, Berman, Bell and Blitz (2007) identified three types of new business models known as the industry models (innovation in the supply chain), revenue models (innovation in companies that are creating value) and big corporate models (new or existing innovations in the value chain structure).

2.4 Strategy and Business Model

Business model develops main ideas in business strategy and is related to its theoretical traditions. Researchers claim that the business model can be a source of competitive advantage that is distinguished from the product's market position. In the strategy background, the research about business models focuses mainly on three aspects:

- The nature of value-creating network.
- The relation between the business model and the company's performance.
- The distinction between business model and strategy concepts.

2.5 Basics of Business Model

Despite the importance of this concept and a large number of scientific articles, definition of the term “Business

Model” remains vague. To date, no universally accepted definition has been coined. This led to a large number of definitions in the scientific and practical literature. With regards to Timerz (1998), a “business model is a structure of product, service and information flow including a description of the business and their roles, potential benefits for various factors of business, sources of income”. According to the origin of the Internet business, the definition extends to a leading network characteristic of a product, service and information flow among agents of cooperation to provide value to the consumer. As a result, Timerz does not clearly explain about aspects of content and business model. Johnson et al. (2008) argue that the business models are formed of four interlocking elements. Compared with other definitions, this is a new definition that the authors include resources in it. As a literature review, Zone et al. (2010) showed that about one-third of the articles lack definitions and they made up the meanings. Kasadus-Munsell and Rykart (2010) understood business model as “a reflection of the detected strategy”. They further defined business model as “enterprise logic, the way it works and how to create value for its shareholders”. In literature, the concept of the business model has been paid a great deal of attention at different abstract levels ranging from the general definitions of the concept, to describe the general types of business models and ultimately to draw different samples. Instead of different abstract levels, Osterwalder (2005) showed a hierarchical business model which is shown in Figure 2.

2.6 Research on Business Model Flow

Zott et al. (2010) have done a comprehensive review of literature on business models. Among 1200 articles, 103 cases have been found that focused on the business model. As described in the schools of thought, they can

be distinguished in three major research streams (krcmar, 2011).

2.6.1 School of Internet Commerce

Tology (BMO) Osterwalder (2004), proposed a more structured approach to show business model. Moreover, Gardyjan and Akermenz developed a methodology for describing and analyzing the value of transactions in the Internet businesses which is known as value methodology 3E.

2.6.2 Strategy School

Weil et al. (2011) carried out a stock market analysis of more than 10,000 companies. They have developed a framework that highlights business models along with a variety of assets (financial, physical, intangible and human) and asset rights (creator, manufacturer, owner and actor).

2.6.3 School of Management of Innovation and Technology

Two mainstream of the research can be identified in the School of Management of Innovation and Technology. One of the streams focuses on the commercialization of innovative ideas and technological deals. The other stream considers business model as a new dimension of innovation, development of traditional understanding of product innovation, process and organization.

Johnson and Saskovich (2009) expanded a vision of the company to the entire industry. Jason et al. (2007) showed three types of innovative business models: innovation in the supply chain, innovation in revenue streams and innovation in value chain position. Chesberg (2010) investigated and analyzed 2 types of barriers to business model innovation in organizations. Dosse and Kasnown (2010) show that people in charge of organizations need to develop some kind of agility.

2.7 Business Model Definition

Regarding the studies carried out about the definitions of the business model, resource-based, activity-based, knowledge-based economy, strategy and network approaches can be extracted. Some by relying on resource-based, activity-based and economy views limited their definition of business model to a unit company (Afuah A, Tucci C, 2003).

2.7.1 Resource-based Approach

Some argue that the business model is based on the company's internal operations and with a resource-based approach emphasized the organization's internal capabilities and competencies. For example, Afua and Tachi (2001) consider business model as "the way in which a company begins to manufacture and use their resources through which they can provide better value to their customers than their competitors" (Afuah A, Tucci C, 2003).

2.7.2 Activity-based Approach

Activity-based approach is the second approach identified in this section. The definitions in this section focus on the process or activity (as a set of activities). For example, Petrovic, Kittel and Teksten (2001) considered business model as "the logic of a business system to create value under the influence of real processes" (Petrovic O, Kittl C, Teksten D, 2001).

2.7.3 Economic Approach

In an economic approach, the business model is considered as the logic for creation of profits in the company. These definitions include the concepts of capital, profits and income. For example, the definition of Stewart and Zhao (2000) can be pointed out here that the business model is how to make money and keep profits flowing over time" (Stewart DW, Zhao Q, 2000).

2.7.4 A Network Approach

In today's world, since the value creation process is beyond company's boundaries and takes place within a network, the organization is in interaction with various actors in its businesses. Actors include factors that are involved with tasks which are linked with creation, marketing, and value-presentation including shareholders like suppliers and vendors.

2.7.5 Strategic Approach

In a strategic approach, in addition to the internal environment, the emphasis is on the competitive environment, competitive strategy and strategic options with regard to opportunities in the market and a variety of solutions for mobility in a competitive environment. "Integration of the organization can be reflected in three main directions: customer engagement, configuration of assets and

penetration of knowledge” (Venkatraman N, Henderson JC, 1998).

2.7.6 Knowledge-based Approach

Venkatraman and Henderson (1998) used knowledge-based approach in their definition. Lambert (2003) argues that all different descriptions by researchers consider business model as “the way business is carried out” and “a description of how the company is waiting to make a profit and how to deal with others in a valuable network communication”.

2.8 Components of Business Model

A review of the business model literature, it can be seen that different researchers regard different parts and aspects of the business model. Finding information on the formation of business model is necessary in order to identify and summarize the sufficient yet comprehensive dimensions and components of business model. A business model, like any other conceptual structure takes shape based on an original concept (Lambert SC, 2012). Without this concept, business model structure cannot be formed and other concepts would be meaningless. Thus, to identify the preceding concept, the concept with high priority should be considered. (Lambert SC, 2012), no other issue can be felt in a business model without men-

tioning the proposed value (Lambert SA, 2008). Priority value proposition is due to the fact that all the other components of a business model follow this concept and would not exist without it or at least there would be no reason for their existence (Lambert SC, 2012). In Lambert’s opinion (2008), elements that are derived directly from the questions of the proposed values are regarded as basic elements of the business model (Lambert SA, 2008). Therefore, one of the most important components of any business model is “suggested value”. Suggested value describes the packaging of goods and services that the company offers to the market (Tavakoli et al. 1391). Creation, deliverance and capturing value does not occur in a vacuum (Shafer S. M., Smith H. J., Linder J, 2005). Many of the resources and activities that are critical for the success of a company are outside its direct control (Hamel G, 2000; Afuah A, 2004). Thus, a company requires interaction with suppliers, partners and other allied that each has their own business system; however, they expand the company’s resources and activities. These various elements that appear in any business model are called organizational actors and their role (Ballon P, 2007; Weill P, 2001) and system consisting of their business system is called value system (Afuah A, 2004). Entity or entities targeted by the suggested value (Chesbrough H, 2002) are the customers. The result of success in delivering value to customers is economic output that under the name of “return/value” is the nature

Table 1. Questions relating to the proposed value element

Graph indicating the relation between business model components	Business model components	Questions regarding organization
	Proposed value	What is proposed value?
	Value transmission through channel	How is proposed value presented?
	Customers	Who is the proposed value presented for?
	Suppliers and contractors	Which organizations help in providing proposed value?
	Added-value process; related resources, capabilities activities, strategies, organizational structure	How is proposed value created?
	Return of value	What is obtained in returned?

and prerequisite of the company's existence. The return value is whatever that the company receives in exchange for value proposition whether monetary or non-monetary values. A review of the literature of business model, the size and components of the business model is summarized in Table 3.

Overall, six major components of a business model are:

2.8.1 Value Position

After describing the customer problem, product or service that can respond to this problem is called value. The value of the product or service from the customer's perspective is the criterion used to determine the position value.

2.8.2 Market segment

Group of customers who are targeted. It should be noted that different market segments have different needs. Sometimes innovation in a business model flourishes after a change in the market.

2.8.3 Value Chain Structure

Business activities in the value chain and how to obtain part of the value chain generated by the company make up the structure of the value chain.

2.8.4 Production and Profit Margins

How to profit? (Through sale, rental, subscription, support, etc.) What is the structure cost and how is the profit margins obtained?

2.8.5 Place in the Value Network

Identifying competitors, complementary companies and the effects that network cooperation can bring to customers. This definition describes the position in the value network.

2.8.6 Competitive Strategy

How the company tries to build a long-lasting "competitive advantage". This advantage may be in the form of fees

management or in the Niche Strategy or the hidden, cozy and inaccessible market by competitors. In any case, competitive advantage is necessary.

2.9 How to Design a Business Model?

A business model can be designed by one of the following methods:

2.9.1 Innovation

A business model is designed with an innovative idea for the first time.

2.9.2 Restoration

An old business model is restored again.

2.9.3 Change

An existing business model with little change in one of the six principles to become a new business model.

2.9.4 Adoption

A business model to be used in full for another job or another country.

2.10 Business Model Elements from Experts View

In this section, various elements of the business model will be identified from experts' view.

- Elements of the business model from the perspective of Osterwalder. In Osterwalder's view, business model consists of four segments; product, customer interface, infrastructure management and financial resources. He also names some components for each of these elements. Product element contains the provided value, the client interface contains the target customer, distribution channels and relationships, infrastructure management contains value configuration, ability and cooperation and financing contains cost and revenue model (Osterwalder, 2004).

Table 2. Assessment of the Business Model

Collectivity of business model components	1
Performance assessment of each dimensions and components of business model	2
Compatibility (External and Internal Proportion)	3
Unity of business model concept	4

- Elements of the business model from Mahdavan's view
- Mahdavan regards business model a combination of three vital elements; value, income and support. The value stream is the value presented to business partners and customers. The income stream is the income plan for stakeholders involved in the business. Support covers issues related to business supply chain design (Osterwalder, 2005).
- Elements of the business model from Tukey and Afaua's view. In Tukey and Afaua's view, business model includes customer value, range, pricing, revenues, activities, implementation, features and functionality. They believe that the business model must answer the following questions: What kind of value is provided to customers? To what kind of customers is this value delivered? What is the value of presented price? Who are Involved / stakeholders who provided these values? What strategies should be considered to provide value? How value should be provided? How should this value = provide specific functionality? How should the benefit from the value be preserved?

2.11 Business Models Assessment

Since the business model describes the implementation of business deals, many believe that the success or failure of a business is due to its business model. That is why the business model is regarded as a single structure to explain the competitive advantage and performance. Moreover, the business model is a powerful tool for analyzing, testing and evaluation of strategic options that an organization is facing. Therefore, regular assessment of business model could be the basis for continuous improvement of business model and provides a stimulus for serious and innovative changes in the model. A review of the literature as how to evaluate the business model is summarized in the following table.

3. Methodology

In this study, business model evaluation and modeling are analyzed by using library resources through analytical-descriptive framework and at the end; the conceptual model is presented due to factors affecting the business environment.

4. Findings

4.1 Conceptual Model of Business

After the surveys on design patterns of business model by experts, the following table is obtained by pros and cons of each one (Zafryan et al., 1390).

According to the above table, the weaknesses of the models SOFT, MAPIT, IDEA and FBBM are common in one item and that is disregarding the changes affecting business. The author now presents his concept model regarding deficiencies of previous models. Market survey section and section of technological, political, social and economic changes that influential factors on customers and their needs, market segmentation, market volume, competitors, how to make money, financing, potential and actual ability of foreign and domestic competitors, foreign markets and.... Are for keep the company's business model up to date in order to survive in global competition.

The proposed business model includes the following components:

- Customers' Section.
- Proposed Value.
- Distribution channel.
- Communication with Customers.
- Revenue Streams.
- Main Sources.
- Main Activities.
- Key Partners.
- Fee Structure.
- Market Overview.
- Examination of technological, political, economic, social, cultural and anthropological changes.

In this section, changes and the factors affecting the company's performance should be constantly examined. Moreover, practical and appropriate strategies should be applied and operated to each of these changes. Reviewing changes and behaviors of customers, competitors and market performance due to the listed changes helps the company constantly monitor different parts of the business model and perform necessary changes in order to update the business model. Each of these changes can be identified as 4 different types of business model change:

Table 3.

Cons	Pros	Dimension/ Design Domain	Model	Experts	Row
Disregarding designing model phases, changes of effective factors on business model	Regarding Value-based partnership, Different aspects of the business model, Market design, Environmental factors in designing model	Services / Organization / Financial / Technology	SOFT	Faber	1
Disregarding designing model phases, business model risks, changes of effective factors on business model	Regarding trading value chain, different aspects of business model, the ability to identify and compare business model, different impacts of value network on each other	Market / agents / product / area of impact/ Interactions	MAPIT	Metli and Pederson	2
Comprehensive Disregarding of elements and dimensions of business model designing, effective environmental factors in model design	Regarding value-based ownership, designing model phases, potential changes and features of the technology, the ability to identify and compare models	Identification / design / assessment / collection and integration	Idea	Slotzky, Frank Stahler, Afua and Tukey and Porter	3
Comprehensive disregarding of designing business model phases	Regarding customer-orientation, size and dimension of model designing, the ability to integrate different approaches for business model development, user's experience and alternative factors	value / interface / service / organization / income	VISOR	Emral Savi	4
Disregarding designing model phases, environmental factors	Regarding value-based partnership, flexible value networks instead of traditional, static and linear value chains, -the relation between dimensions of organization, technology, and service, designing model phases, reliability and validity of the business model before the development of the network	organization / technology / service / financial	FBBM	Hary Boeman et al	5
Disregarding designing model phases	Regarding orientation and mobility, elements and dimensions of model design, different aspects of value	Service Design (Value) / organizational design (factors) design / engineering / design	Dynamic	Kajel, Bowman, hacker and Faber	6

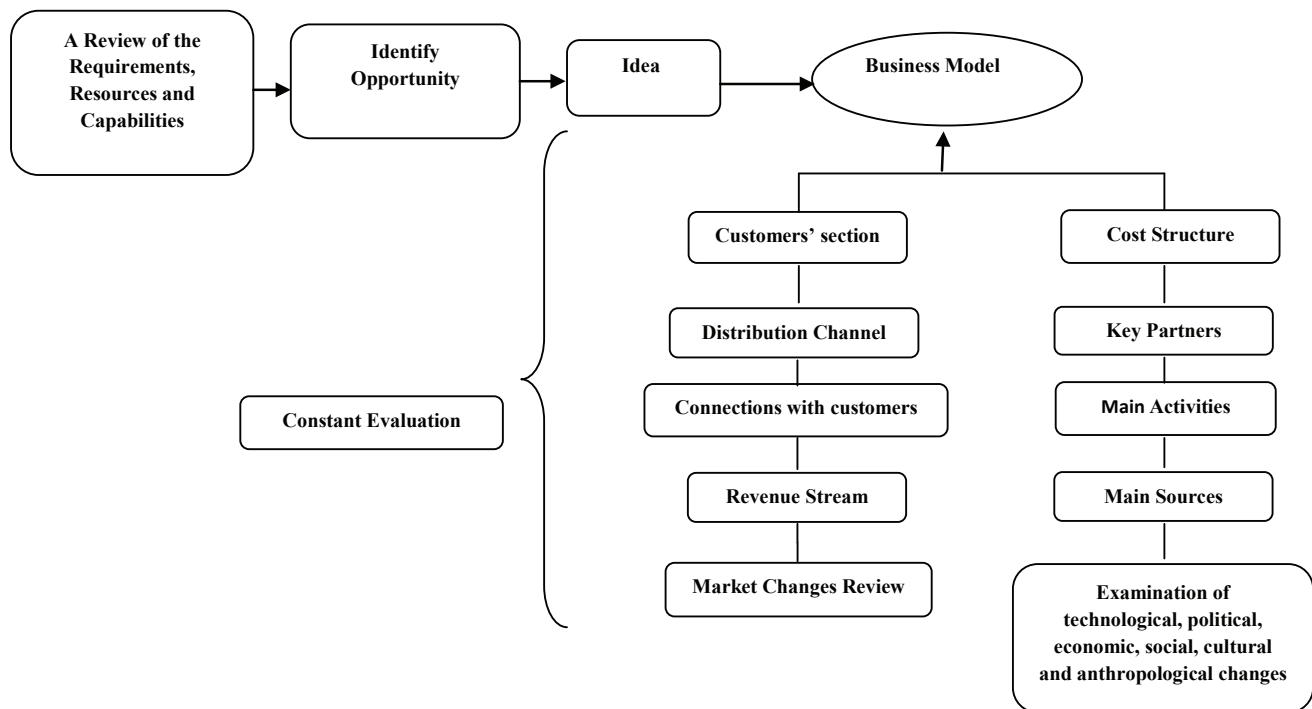
- Business Model Creation.
- Business Model Expansion.
- Business Model Overview.
- Business Model Finalization.

Any change includes the challenges and specific problems, but relying on pros and cons and the opportunities and threats created by environmental business, we can

make decisions and make the necessary changes in the business model.

4.2 Conceptual Model Business (Shabani, 2015)

- A Review of the Requirements, Resources and Capabilities.



At the first stage, you need to have a logical and sensible understanding of your available resources, capabilities of individual and team.

- **Identify Opportunity.**
At this point, you need to identify opportunities in every industry according to your needs, adverse conditions, problems and conditions that can change the behavior of the market and create favorable conditions.
- **Ideas.**
At this stage, according to identified opportunities, you need to create an idea to meet the needs, problems, etc., which can be in the form of setting up a business.
- **Business Model.**
Components and factors affecting the proposed business model are what follow:

4.2.1 Customers' Section

Who do we create value for? Who are our most important customers?

4.2.2 Communication with Customers

What type of relationship and its maintenance the customers expect from us? Which of these relationships have been established? How are relationships integrated with the rest of our business model? How much would they come to?

4.2.3 Proposed Value

What value should we offer to our customer? To which one of our customers' issues we assist? What is our offer (mix of products and services) to each segment of our customers? Which one of our customers' need do we satisfy?

4.2.4 Main Activities

What main activities does our proposed value need? What are distribution channels, customer relations and revenue streams?

4.2.5 Key Partners

Who are our key partners? Who are our key suppliers? What are the main sources we obtain from our partners? What main activities do our partners do?

4.2.6 Distribution Channel

Through which channels do we reach to our customers? How do we have access to them now? How are our channels integrated? Which one works better? Which ones are the most expensive? How do we match them with the needs of customers?

4.2.7 Main Sources

What main sources do our proposed values need? How about distribution channels, customer relationship and revenue stream?

4.2.8 Revenue Streams

To what price do our clients really pay? How much do they pay now? How do they prefer to pay now? How does any revenue stream help the total revenue?

4.2.9 Cost Structure

What are the most important costs in business model we have? What are the most expensive main sources? What are the most expensive main activities?

4.2.10 Evaluation of Market Changes

What part of the market currently is considered to offer products and services? What other parts of the market do you intend to get? What innovative strategy do you have to increase your stake from the current market? How should we keep the current market share and think of its expansion with regard to market changes?

4.2.11 Examination of Technological, Political, Economic, Social, Cultural and Anthropological Changes

Each of these changes can affect our business and sometimes they determine its survival or destruction, you should always review these changes and make the best decisions adopt the best strategies. What changes do these environmental changes have one various parts of the business like revenue stream, communication with customers, distribution channels and.....? How do we use internal strengths and weaknesses in order to exploit threats and opportunities outside the business to provide benefit for our business?

4.2.12 Constant Assessment

Ongoing assessment of the environmental components of the business model and reviewing factors affecting it would lead to implementation of constant changes and innovative strategies for improvement of the business.

5. Discussion and Conclusion

A business model is a conceptual model. The primary objective of a conceptual model is identifying analytical aspects of business model, distinguishing the main com-

ponents of each dimension and presentation of an image for each level. Hence, a business model is the result of a conceptual modeling process. A conceptualization is a model of business' logic and fact that describes a Meta model or reference model in a particular industry and provides description of unlimited number of possible business models. Business modeling by showing a visual representation of business logic helps companies to develop business vision and strategy, redesign and alignment of business operations, share knowledge about business and its prospects and ensure the adoption of business decisions through the commitment of stakeholders in decisions. The business model of an organization cannot be complete as a strategic decision-making process and testing and evaluation of the business model has to be done frequently due to environmental changes and internal changes in the organization. Therefore, regular assessment of business model could be the basis for continuous improvement of business model and can become a serious impetus for change and innovation in the model.

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