

The Elements of the Business Model Based on Value Theory

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Abstract—On the basis of business model research in the domestic and foreign scholars, this combined with the value of the theory of strategic choice, in-depth discussion of the elements of the business model. Based on the analysis of business model for the complex reality, this paper puts forward a comprehensive business model elements of the model, which including value proposition elements – differentiation and positioning; value creation elements - internal management and product innovation; value delivery elements - channel construction and customer relationship; value capture elements- price and cost, there is about four major elements and eight subsystems elements.

Index Terms—business model, constituent elements, value

I. INTRODUCTION

With the rapid development of the Internet economy, the traditional mode of production and operation can not explain the development of the contemporary economy. As a result, the importance of the business model has gradually become prominent. It has become a research hotspot in the management field and has aroused widespread concern in the academic community. Research results at home and abroad are mainly divided into theoretical research and empirical research. Theoretical research focuses on concepts, elements, and classifications. Empirical research focuses on the performance of companies. At present, theoretical research is still in preliminary exploration, and theory is the basis for guiding practice. Therefore, theoretical research on business models is of great significance. In the current theoretical research, a large number of scholars are trying to explore the constituent elements of the business model, but they have not formed a unified opinion. At present, the academic community has not yet established a comprehensive, clear, practical and convincing business model composition system. There are two main reasons: First, the content of the business model is too broad. When researchers study the constituent elements of the business model, it is difficult to consider all relevant factors. Second, in the rapidly changing market environment, new difficulties and new problems emerge in an endless stream. In order to design

universal components, it is almost impossible to achieve in the current environment. Based on a comprehensive survey of existing researches, this paper uses comparatively mature value theory to further explore the constituent elements of the business model, and conducts in-depth analysis of relevant structures under each value component, and proposes a Table and the constituent elements of the business model.

II. LITERATURE REVIEW

The current literature is combed and the elements of the business model are roughly divided into three categories according to the evolution of time. First, from the economic perspective, the early business model is understood as the “profit model” of an enterprise. The relevant components include income sources, pricing methods, cost structures, marginal costs, and expected benefits. Second, from the perspective of operations, with the impact of information technology on traditional industrial enterprises, the business model has begun to be accepted by traditional enterprises. However, most of the research focuses on the internal processes and infrastructure design of the company. The constituent elements mainly include product services, management processes, and resources. Flow, knowledge management, logistics, etc. Third, from the perspective of value, which is currently the more popular research direction. Because the value comes from the customer's demand, the customer is the source of the company's survival and development, so the value must be permeated in the development of the business model. This paper selects representative scholars from three perspectives to further study the process of the constituent elements of the business model.

A. Economic perspective

The business model is accompanied by the Internet economy. Because the profit-making method of the Internet era has a completely different process from the traditional economic profits, there has been a number of researches on corporate profit models under the Internet age. Its main representatives are Timmers, Morris and others.

1. Timmers was one of the earliest scholars to study the business model, but he did not give a clear concept of the business model[1]. He believes that the business model contains mainly in three aspects. The first is about the product, service, and information flow architecture, including a description of the participants in various business activities and the roles they play. The second is to describe potential relevant interests of participants in various business activities. The third is to describe the sources of income of various participants. Therefore, its constituent elements are broadly divided into participants and their roles, potential benefits, and sources of income.

2. Morris and others believe that the initial stage of the emergence of the business model is understood as the "profit model" of the enterprise, and that the business model refers to the positioning and integration of the strategic orientation, operational structure, and economic logic of the enterprise to gain competitive advantage. Finally gaining economic profits, pointed out that its main components include income sources, pricing methods, cost structures, marginal costs, expected returns, and so on[2].

B. Operation perspective

With the steady development of the Internet economy, the impact of the information economy on traditional industries has become increasingly apparent, and business models have gradually been accepted by the traditional industries. In this period, the business model was seen as an operating model, mainly focusing on internal processes and In the related operational structure, Zott and Amit, academics who proposed the business model for the operation of the business model in the early stage, later studied Osterwalder's operation process in an in-depth and detailed analysis.

1. Zott and Amit proposed the business model operation system model for the first time[3]. In this model, two scholars believe that the business model mainly contains two parameters of "design element" and "design theme". The design element belongs to the constituent elements of the business model, including the three elements of content, structure and governance; the design topic belongs to the driving factor of the value creation of the business model, including the themes of novelty, locking, complementarity and efficiency. In Zott and Amit's view, the business model is an operating system that is interdependent with each element that goes beyond the core enterprise and crosses its borders[4][5].

2. Osterwalder proposed a set of assessment methods for business model ontology[6]. The scholar believes that the business model is based on the ten major elements of customer, product, finance, and internal management. The customer dimension mainly includes three elements: customer segmentation, distribution channel, and customer relationship; the product dimension includes the value proposition element; the internal management dimension includes three elements: capability, partnership, and value structure; and the financial dimension includes income, cost, and profit. The element model reflects the overall concept of the production and

operation of the enterprise. The four major dimensions of the ten dimensions have detailed descriptions of the various elements of the business model, and basically cover all aspects of the company's operations.

C. Value perspective

Slywotzky was the first scholar to propose a value transfer and profit zone. The scholar believes that the transfer of value means that income, profits, and market value are constantly transferred between industries, enterprises, and even within the enterprise. Enterprises must design new business models in order to bring high profits for themselves. Therefore, the value comes from the customer's needs and is the source of the company's profit. It must be the value throughout the business model. After 2005, the concept of "value" was gradually accepted by related theories of business models. Value proposition, value creation, value chain, value network, and value acquisition have gradually become the key elements of the business model. A large number of studies have been made, of which the representative scholars include Shafer, Chesbrough, and Teece.

1. Shafer applies the business model to the value network for the first time[7]. He believes that the business model is a basic assumption that reflects entrepreneurs' causality and believes that business models include strategic choices, value networks, value creation, and value acquisition. First, the business model reflects the strategic choice of the internal consistency of the company in the customer value proposition; Second, value creation and value acquisition are two basic functions that any company must perform. Most successful companies adopt the difference. The value of the company's production capacity is closely related to the ways in which it creates value, obtains value, and realizes profitability. Finally, all value processes are connected to the value network. Enterprises must be connected to the value network. All members and even customers establish a unique relationship, and companies play an important role in the value network. Therefore, Shafer believes that the business model is the underlying logic and strategic choices that companies follow to create and acquire value in a value network.

2. Chesbrough has long been engaged in business model research from a technology-related perspective and believes that regardless of whether there is a clear model, each company has its own business model and believes that the business model is the potential economic value embodied in the technology and its own[9]. The process of linking and translating the potential value of technology to customer value, including value proposition, identifying market segments, detailing revenue generation mechanisms, defining the value chain structure, revenue acquisition mechanisms, estimating cost structures, and profit potential.

3. Yuan Lei proposed the "3-4-8" structure system of business model[20]. Among them, "3" represents the contact interface, including customer value, partner value, and enterprise value; "4" represents constituent units, including value proposition, value network, value

maintenance, and value realization; “8” represents constituent factors, including target customer and value. Content, network form, business positioning, partnership, isolation mechanism, income model, cost management. The “3-4-8” composition system of the business model is essentially an all-dimensional three-dimensional architecture that is far and near.

4. Teece proposes a circular model of business models[10]. He believes that each company has a business model that reflects the design of its value creation, delivery, and access mechanisms. Business model actually describes is the way to determine the value that is delivered to the customer, make the customer pay the price, and ultimately make a profit. The model puts forward the importance of customers in the business model, and elaborates the logic factors, data, and other basis of the customer value proposition, the feasibility of the income structure, and the value transmission cost. In short, the business model is the process of how companies deliver value to customers and benefit from it.

5. Zhang Jingwei and Wang Yingjun proposed the value triangle logic business model model, and highly summarized the business model[11]. The three basic dimensions of the business model are described, namely, market positioning, operating system, and profit model. The corresponding value triangle from value definition to value creation and transmission to value acquisition can express the complete logic of business operations. Among them, the definition of value clarifies what value the company provides to customers, reflects the company's commitment to customer value; value creation and delivery is the process of establishing partnerships and transferring resources; value acquisition is the process of achieving a certain share of total economic value or mechanism.

In general, from the enterprise's orientation to production, and finally to the final profit, this is the core law in which the business model has always remained unchanged. However, each phase has its own different emphasis. From the previous period, only the economic efficiency was emphasized. From then on, the operational process, customer value, and current sustainability value, the business model constitutes constant improvement. The relevant content of the constituent elements of the business model mentioned above is summarized below.

III. THE ELEMENTS OF BUSINESS MODLE UNDER VALUE THEORY

From the conclusions of the above literature research, it can be seen that early studies on business models focused on the discussion of profit models, and that companies can survive and develop as long as they make profits. At this time, the research only stays at the value acquisition, and how to obtain profits have not been explored in depth. As the theory advances, people are more interested in understanding the way companies make money. As a result, scholars further explore the company's operating systems and find that companies are

profitable because they have the ability to create value. Do not stay on the results of profit, more explore the process of profit. Whether from an economic perspective or an operational perspective, it is all about how the company itself should produce and develop. They overlook the most important factor in the development of the company—customers. Customers are fundamental to the survival and development of a business. Whether or not a product can be profitable depends on whether or not it can be accepted by customers. Only by understanding customer needs and creatively producing products in accordance with their needs can the company ultimately gain considerable profits. This article will use more mature value theory, and from the perspective of four universally recognized elements, in-depth exploration of the sub-elements under each major element. Figure 1 can clearly see the circular logic from value proposition to profit acquisition.

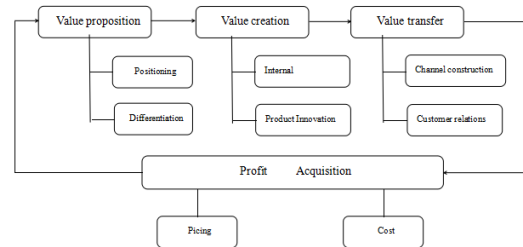


Figure 1. Circular logic diagram of business model components

A. Value proposition

Afuah who an assistant professor at the University of Michigan, believes that value proposition is the first question that a company must ask itself[12]. That is, what resources the company uses can produce clear value for the customer. Hamel believes that value proposition refers to the specific benefit combination that the company actually provides to the customer, that is, what benefits the company provides to the customer[17]. This article thinks that the so-called value proposition can be answered by two simple questions: (1) What kind of product will the customer use to solve the problem? (2) How much impact will these issues have on customers? The specific content is shown in Figure 2.

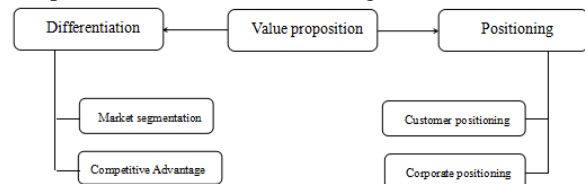


Figure 2. Business Model Value Proposition Diagram

B. Value creation

Early value creation represented the business model of the entire enterprise, and it believed that the business model was equal to the business system of the company. Management system is the operating system that companies create value and transmit value to each customer. Among them, Zott and Amit consider this system to be a value activity system for enterprises[5];

Santos believes that it is a combination of several systems and relational systems[15].

This article believes that value creation refers to the use of the company’s unique ability to transform all resources into a series of business activities and their corresponding cost structures that produce products or services that meet the needs of target customers. Therefore, the value creation of enterprises must not only pay attention to the innovation of external management, but also the proper management of internal resources, so as to produce products with good market quality and good quality. The specific content is shown in Figure 3.

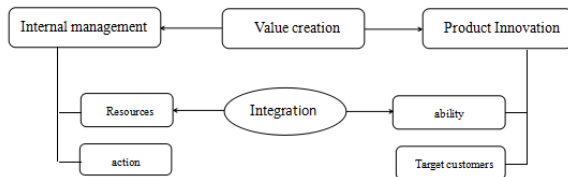


Figure 3. Business Model Value Creation Diagram

C. Value transfer

Many scholars believe that creating value and passing it on to customers is a complete operating system. Most people focus their attention on the creation of value. In fact, only by delivering the value created to the customer can the value be realized. Afuah believes that proper positioning will enable the value to be transmitted to the correct market segment[12]. This means that companies can deliver value-added activities through a business system. Therefore, how to communicate and whom to deliver becomes an important value realization. During the process, this article sums up the important content of value transmission in two aspects. One is that the transmission path is the construction of the channel; the other is the construction of the customer relationship. The specific content is shown in Figure 4.

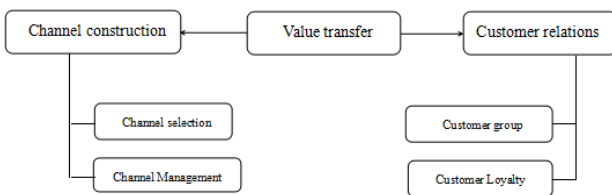


Figure 4. Business Model Value Transfer Diagram

D. Profit acquisition

Hamel believes that in addition to describing the company's strategy, customer interfaces, resources, value networks, and interconnections, the business model has an important focus on how the company makes its due profits[17]. Stahler believes that when determining the cost structure and profit model of a company, it also determines how much value the manufacturer can have, and this is also a key factor in determining whether the business model exists[18]. This article believes that the company's profit acquisition mainly comes from two aspects: (1) Cost. The level of cost determines the size of

the company's profit, and the appropriate reduction of costs can bring greater profits to the company. (2) Pricing is also called price. Companies should provide the appropriate price and profit from it. The specific content is shown in Figure 5.

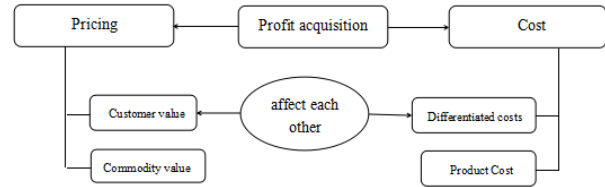


Figure 5. Business Model Profit Acquisition Diagram

IV. CONCLUSION AND OUTLOOK

Business model components are the basis for further research on the business model. This paper analyzes the elements of business model, from value propositions to profit acquisition, and conducts in-depth two-level sub-element research under each layer of elements. In fact, the constituent elements of the business model should not be the only constitutional method. Subsequent investigators can propose different constituent elements according to the research needs. Specifically, the interpretation of business model components can be applied to the following two aspects: (1) Selection and use of business models. Each company's development direction and development path is not the same, each company has its own choice of development focus. Such as custom-made enterprises, such enterprises attach more importance to value propositions, and follow-up value creation and transmission are all services for value propositions. (2) Change and development of business model. Each enterprise has its own life cycle, and it will inevitably experience a recession period. Therefore, enterprises will need to constantly carry out business model changes in accordance with changes in the external environment. At this time, companies must understand the elements of the business model. In fact, the transformation and improvement of existing business models by enterprises is a process of moving from one factor model to another.

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