

CHAPTER 15

Strategic Business Model

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LEARNING OBJECTIVES

- *To appreciate why the concept of strategic business model has become important in the new economy.*
- *To understand the process of constructing and developing a strategic business model.*

INTRODUCTION

Traditionally, the disciplines of strategic management and business policy were somewhat demarcated. Strategic management is a newer discipline focused on discovering better arenas to perform, while business policy is the older discipline more concerned with operational effectiveness, or discovering better ways to perform in an arena. According to Michael Porter (1996), strategy involves committing to undertake one set of actions rather than another and, in the process, creating a unique and valuable position that allows the firm to perform better than its competitors. On the other hand, operational effectiveness entails performing similar activities better than rivals perform them.

In the new economy, this distinction between strategy and business policy is becoming blurred. There is a common thrust on the value-oriented approach, encompassing both strategic choices and operational development. A firm's integrated framework for making strategic choices and operational development is referred to as its 'strategic business model'.

Unlike the concept of "strategic business model", the concept of 'business model' focuses on articulating only the specific strategic choices and operational development as have been decided by a firm. Let's first clarify the meaning of the term 'business model.'

What is a business model? A *business model* is the method of doing business, which spells out how a company will generate profits, and using what value configuration activities. At a basic level, business model specifies the cost model, revenue model, and the profit model. Chesbrough and Rosenbloom (2002) identify six elements of a business model: