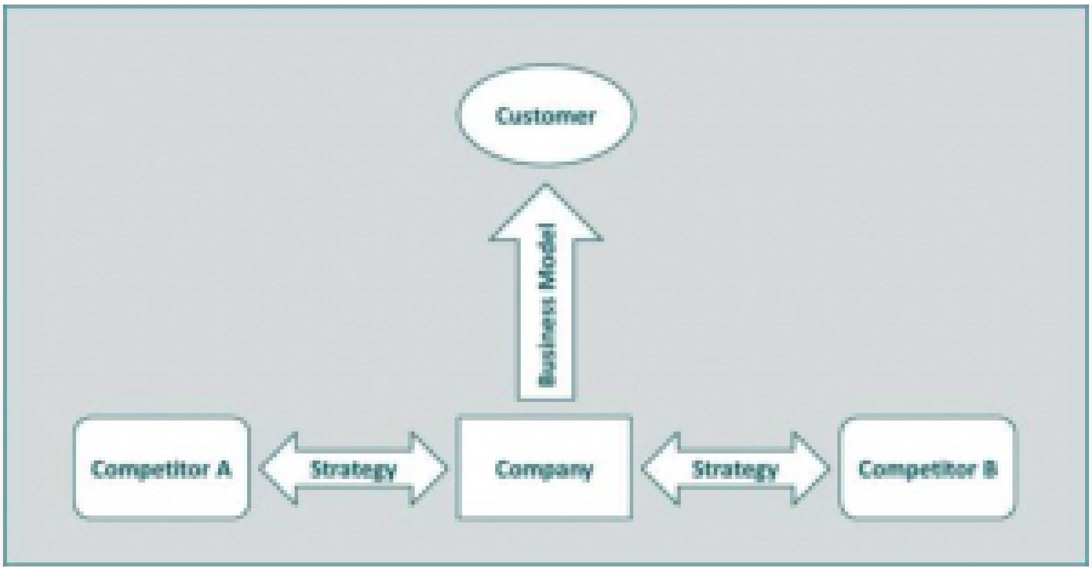
Business models matter

Originally posted on LinkedIn

Sustainable business models as the holy grail of entrepreneurship

Business models are imbued within the very fabric of every enterprise, whether known or not. Often enterprises display several business models at once (think Amazon, Google etc.). Unfortunately, often enterprises are not aware or clear what their business model is. Somewhat of an ill-defined term, with a multitude of definitions, a business model is best thought of as an abstract construct that provides a holistic, systems-level view of the business logic, i.e. how an enterprise goes about its business (Zott & Amit 2011, Teece 2017, Magretta 2002). It seeks to explain what the value proposition is, how value is created, captured, delivered (Lüdeke-Freund et al. 2016) and destroyed (Yang et al. 2017)

This week it was reported the mass culling of Business models describe how an enterprise generates value. Some scholars argue this is akin to strategy and indeed represents the '*other side of the same coin*' (Braun et al. 2019). Others disagree, stating that business models fail to capture the effects of competition (Porter 1996), or that strategy entails a choice in the business model (Casadesus-Masan 2010). In essence, business models are seen as inward-facing, whereas strategy is outward-facing. I propose that business models, as a unit of analysis, should do both in its service to society and the environment. Importantly, business models should capture both the supply and value delivery chain, and thus explain the positioning of the enterprise within the greater sustainable value network (Evans et al. 2017). Here again, a number of approaches exist and tools have been developed to describe business models and categorize the same. Descriptive tools include the business model canvas (BMC) (Osterwalder & Pigneur 2010) and the flourishing business canvas (FBC) (Upward & Jones 2016).



How do we determine which combination of business model patterns are likely to succeed? What strategy makes a business sustainable? What is known is that alongside product and process, innovations of the business model – known as business model innovation – towards sustainability does lead to sustainable business models (Schaltegger et al. 2016). Successful business model innovation is a process of ideation, implementation, and impetus towards sustainable business models (Breiby & Wanberg 2011). Thus measuring and reporting the effects of business model innovation holds the key to understanding long-term sustainable business success.

BMP Id	Name	Group	Source
P1.1	Differential Pricing	Pricing & Revenue Patterns	Clinton & Whisnant, 2014
P1.2	Freemium	Pricing & Revenue Patterns	Clinton & Whisnant, 2014
P1.3	Innovative Product Financing	Pricing & Revenue Patterns	Clinton & Whisnant, 2014
P1.4	Subscription Model	Pricing & Revenue Patterns	Clinton & Whisnant, 2014
P2.1	Crowdfunding	Financing Patterns	Clinton & Whisnant, 2014
P2.2	Microfinance	Financing Patterns	Clinton & Whisnant, 2014
P2.3	Social Business Model: No dividends	Financing Patterns	Michelini & Fiorentino, 2012
P3.1	Hybrid model / Gap-exploiter model	Ecodesign Patterns	Planing, 2015
P3.2	Maximise material productivity and energy efficiency	Ecodesign Patterns	Bocken et al., 2014
P3.3	Product Design	Ecodesign Patterns	Kiørboe et al., 2015
P3.4	Substitute with renewables and natural processes	Ecodesign Patterns	Bocken et al., 2014
P4.1	Co-Product Generation	Closing-the-Loop Patterns	Albino & Fraccascia, 2015
P4.2	Industrial Symbiosis	Closing-the-Loop Patterns	Beltramello et al., 2013
P4.3	Online Waste Exchange Platform	Closing-the-Loop Patterns	Albino & Fraccascia, 2015
P4.4	Product Recycling	Closing-the-Loop Patterns	Planing, 2015
P4.5	Remanufacturing / Next Life Sales	Closing-the-Loop Patterns	Planing, 2015
P4.6	Repair	Closing-the-Loop Patterns	Kiørboe et al., 2015
P4.7	Reuse	Closing-the-Loop Patterns	Kiørboe et al., 2015
P4.8	Take Back Management	Closing-the-Loop Patterns	Bisgaard et al., 2012
P4.9	Upgrading	Closing-the-Loop Patterns	Planing, 2015
P5.1	Green Supply Chain Management	Supply Chain Patterns	Bisgaard et al., 2012
P5.2	Inclusive Sourcing	Supply Chain Patterns	Clinton & Whisnant,2014
P5.3	Micro Distribution and Retail	Supply Chain Patterns	Jenkins et al., 2011
P5.4	Physical to Virtual	Supply Chain Patterns	Clinton & Whisnant, 2014
P5.5	Produce on Demand	Supply Chain Patterns	Clinton & Whisnant, 2014
P5.6	Shorter Supply Chains	Supply Chain Patterns	The Crowd & Fishburn, 2014
P6.1	Buy One, Give One	Giving Patterns	Clinton & Whisnant, 2014
P6.2	Commercially Utilized Social Mission	Giving Patterns	Dohrmann et al., 2015
P7.1	Building a Marketplace	Access Provision Patterns	Clinton & Whisnant, 2014
P7.2	e-Transaction Platforms	Access Provision Patterns	Jenkins et al., 2011
P7.3	Experience-Based Customer Credit	Access Provision Patterns	Jenkins et al., 2011
P7.4	Last-Mile Grid Utilities	Access Provision Patterns	Jenkins et al., 2011
P7.5	Value-for-Money Degrees	Access Provision Patterns	Jenkins et al., 2011
P7.6	Value-for-Money Housing	Access Provision Patterns	Jenkins et al., 2011
P8.1	Expertise Broker	Social Mission Patterns	Zeyen et al., 2014
P8.2	Market-Oriented Social Mission	Social Mission Patterns	Dohrmann et al., 2015
P8.3	One-Sided Social Mission	Social Mission Patterns	Dohrmann et al., 2015
P8.4	Social Business Model: Empowerment	Social Mission Patterns	Michelini & Fiorentino, 2012
P8.5	Two-Sided Social Mission	Social Mission Patterns	Dohrmann et al., 2015
P9.1	Pay for Success	Service & Performance Patterns	Clinton & Whisnant, 2014
P9.2	Product-oriented Services	Service & Performance Patterns	Planing, 2015
P9.3	Result-oriented Services	Service & Performance Patterns	Planing, 2015
P9.4	Use-oriented Services	Service & Performance Patterns	Tukker, 2004
P10.1	Cooperative Ownership	Cooperative Patterns	Clinton & Whisnant, 2014
P11.1	Sharing Business	Community Platform Patterns	FORA, 2010

A range of reporting standards exists from simple disclosures through to context and science-based assessments, onto modelling systems by metrics platforms like THRIVE (Fedeli 2019). The key question still remains as to how to determine, categorize and classify sustainable business models which often appear in the form of narratives in corporate reporting. Complex modelling platforms like THRIVE use machine learning to help discover long-term trends, whereby certain types of business model innovation strategies – within certain industries or sectors or regions – are found to perform better than others (Maltz et al. 2018).

Given the vastness of datasets requiring interpretation and sense-making and the complexity and wickedness of the real-life challenges we face, a sophisticated simulation system with backcasting targets is paramount. Antony Upward, Acting Director of Practice and Research for the Planetary-wide FEI Network, sees this as necessary to avoid the '*dangerous over-simplification*' problems faced by many traditional business modelling systems. One thing we do know is that there is no sustainable enterprise in an unsustainable world (Baue & Thurm 2018), thus the future of successful entrepreneurship must include a deliberate emphasis on positive social and environmental impact over and above economic profitability.

As a result of being a serial entrepreneur in the innovation space for thirty years, I am often asked what is the next big thing: the next innovation. My feeling is that all enterprises should be social enterprises engaging in, or transforming to business models with a track record of success (Fedeli 2019). So if you are a new entrepreneur, what business model should you consider for your industry? Based on future backcast targets and all the available data worldwide, which business models are deemed to be more successful than others? Such an answer could well represent the "*holy-grail*" of business entrepreneurship. Drop-in at THRIVE project and find out for yourself.