

# Classifying the Business Model from a Strategic and Innovation Perspective

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## Abstract

This study explores the relationship between business model, innovation, and strategy. Through a systematic literature review and deductive analysis, it classifies business models according to the degree of innovation, and strategic focus, hence providing a framework to evaluate and improve business models. The research outline suggests a practical application.

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## Introduction

Despite the increasing relevance and importance of business model within the business and academic literature, (Casadesus-Masanell & Ricart 2010; Magretta 2002; Osterwalder & Pigneur 2010; Osterwalder et al. 2005; Teece 2010; Zott et al. 2011; Spieth et al. 2016), there is still a lack of appropriate frameworks, tools, and conceptual guidelines for assessing business models from the perspective of innovation, and strategy (Cortimiglia et al. 2016; Mezger 2014; Sako 2012). Therefore, this study identifies and explores the relationship between

these concepts through a systematic literature review, and reduces it into a classification of the business model according to the degree of innovation and strategic focus. The aim of this study is to provide an assessment tool that could help to evaluate and improve the business models. The article ends with a research agenda to find theoretical and practical implications, and in the future, validate the framework with an empirical data. Due to a large number of academic resources, it is possible that relevant articles were discarded in this study.

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Keywords: Business Model Innovation (BMI), business strategy, business model classification

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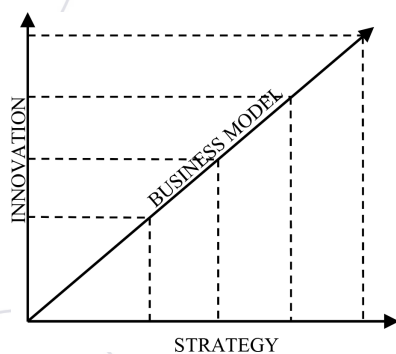
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## Approach

A systematic literature review was conducted to identify the most relevant business model approaches within the innovation and strategic management literature. The literature review consisted of the following three phases: Firstly, explore developments and recent findings regarding the business model concept. Secondly, identify and classify the main definitions of the business model based on its ontological and conceptual point of view, and finally, analyze the relationship between business model, innovation, and strategy to identify emerging concepts, produced by these interrelations. A confirmatory analysis was made using a bibliometric analysis of the co-occurrence of keywords and the most cited authors. This method helped to explore, to organize and to analyze the amount of data obtained (Daim et al. 2006) from the business model to obtain patterns and visualize the future development of the concept. In total 140 articles were reviewed using EBSCO host, Google Scholar, Scopus and Web of Science computed the keywords of business model, business model innovation, and business model strategy with and without quotes. Articles, in English, were chosen within the subject areas of business management, accounting, economics, econometrics, and finance, selected according to its relevance, the most popular authors, and year of publication, using a “snow ball” technique. Based on this literature-based investigation, a classification of the business model was made through a deductive analysis. A Venn diagram was developed to illustrate the relationship between business model, innovation, and strategy. Then, a tri-dimensional representation was created which help to identify the different combinations involved. For an easier understanding of these interrelations, it was analyzed in a two-dimensional model (See Figure 1).



**Figure 1: Two-Dimensional Analysis of Innovation and Strategy on Business Model**  
Source: Author's illustration

The two-dimensional analysis shows that innovation and strategy influences business models in low and high degrees. The combinations of high and low degrees produce four main categories which can be represented by a matrix classifying business model in four different types according to its purpose:

1. Business Models for Validation (BMV), in which the firms validate their business model in the early stages of their business' lifecycle (e.g. start-ups), or when they launch new ventures.
2. Strategic Business Models (SBM) the business model is used as a strategy to achieve a sustainable competitive advantage.
3. Business Model Innovation (BMI) consists in the process to improve or renew the business models throughout radical or incremental innovation.
4. Strategic Business Model Innovation (SBMI), the process of innovate strategically the business models to improve competitiveness and enhance business performance (See Figure 2).

The Strategic Business Model Innovation (SBMI) matrix allows the development of a conceptual framework to assess innovation success, and strategic decision-making effectiveness on business models in which firms restructure their business models at different degrees, which also helps the firms to make strategic decisions at different levels producing different business model approaches.

Degree of innovation on business model	High	<p><b>Business Model Innovation</b></p> <p><i>Incremental or radical innovation on business models.</i></p>	<p><b>Strategic Business Model Innovation</b></p> <p><i>The business model is used to conduct innovations and innovate the business model itself in order to achieve a sustainable competitive advantage.</i></p>
	Low	<p><b>Business Model for validation</b></p> <p><i>The configuration of business models with few or without any innovation or strategic focus.</i></p>	<p><b>Strategic Business Model</b></p> <p><i>Business model focuses strategically in order to achieve a sustainable competitive advantage.</i></p>
		Low	High

**Figure 2: SBMI Matrix, Classification of the business model according to its purpose (Based on the degree of Innovation and strategic focus).** Source: Author's illustration

## Key insights

The paper explores the relationship between business model, innovation, and strategy, identifying four main categories of business models. Based on this relationship, the paper develops a matrix to classify the business model according to the degree of innovation and strategic focus. It could also serve as a framework to assess the innovation success and strategic decision-making on business models. The study provides a managerial tool to evaluate and improve business models, allowing the firms to identify its strengths, its opportunities, and its critical issue. This conceptual framework can be a useful guide to identify either internal or external factors so firms can consider during the process of business model design. For the scholars, it provides insights concerning the development of the topic in the management, business and economics academic literature.

## Discussion and conclusions

The business model has become a new way to conduct innovation (Demil & Lecocq 2010), run strategies and even being a subject of innovation by itself (Chesbrough 2007). The relationship between the business model with innovation and strategy (Teece 2010) has produced emerging concepts such as Business Model Innovation (BMI), Strategic Business Model (SBM), and Strategic Business Model Innovation (SBMI). This paper analyses the business model, innovation, and strategy from a holistic approach. It provides a self-assessment tool to help firms to improve or renew their current business model. This study may suggest conceptual insights to further develop the concept of Strategic Business Model Innovation (SBMI), and a guide to its practical application. Nevertheless, it will be necessary conduct empirical research to validate the framework. Further research, quantitative and qualitative studies, is needed to validate and to get a better understanding of Strategic Business Model Innovation (SBMI) process.

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