



## The Effective Business Model: some Theoretical and Practical Considerations

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### Abstract

*Companies operating in the modern era must continuously adjust their activities in response to the ever-shifting reality of the market. This includes the effects of competition, customer demand for new products and services, and other factors. Under these conditions, it is of utmost importance to analyze the distinctiveness of business models. This study provides an overview of the most important methodological and practical components of business models that are used in the contemporary management of companies.*

*This paper presents an overview of the business model, detailing its fundamental characteristics. It seeks to clarify the interconnections among business models, strategies, tactics, and operations in business development management. Finally, the paper focuses on factors that delineate a successful business model within the competitive landscape of complicated product offerings.*

**Keywords:** *Business Model, Business Model Context, Business Model Content, Business Model Success*

**JEL Classification:** M21

### Introduction

In recent years, there has been a growing interest in utilizing a variety of business models to reflect the operations of enterprises with the ultimate goal of achieving value creation and profit realization. There are many facets to the concept of a business model and the selection of each component is extremely important in terms of its practical application. Because of this, there is a growing interest in the academic world, and it is desirable to investigate contemporary interpretations of business modeling. Additionally, it is necessary to investigate the similarities and differences that exist between a business model, the strategy and tactics of an organization.

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This research aims to clear up the fundamental methodological and practical attributes of business models within the framework of contemporary organizational management through analysis. The initial phase of the study presents a succinct analysis of the characteristics associated with the business model as an economic category, together with its most significant and prevalent components. The second part seeks to elucidate the interconnection of management categories, including strategy, tactics, operations, and the business model. The paper examines a competitive environment characterized by product and service complexity, delineating the attributes of an effective business model within that context. The final half of the paper discusses certain advancements pertaining to business modeling. The objective is to substantiate the prior theoretical synthesis with pertinent examples from Bulgarian and international reality.

### **1. The business model as an economic concept**

The business model is a notion that is progressively utilized in both theoretical and practical contexts. Despite the numerous definitions, it would be challenging to provide a concise perspective on its nature and attributes.

The linguistic construction “business model” makes it apparent that it is about business. In the market terminology, a business is a system that converts resources into a finished product, which is then marketed outside the company. The funds generated from the sale of the product ensure the simple and extensive reproduction of business components (markets, products, and resources) and its characteristic processes (supply, manufacture, and distribution) in dynamic terms. [Papazov & Mihaylova, 2023].

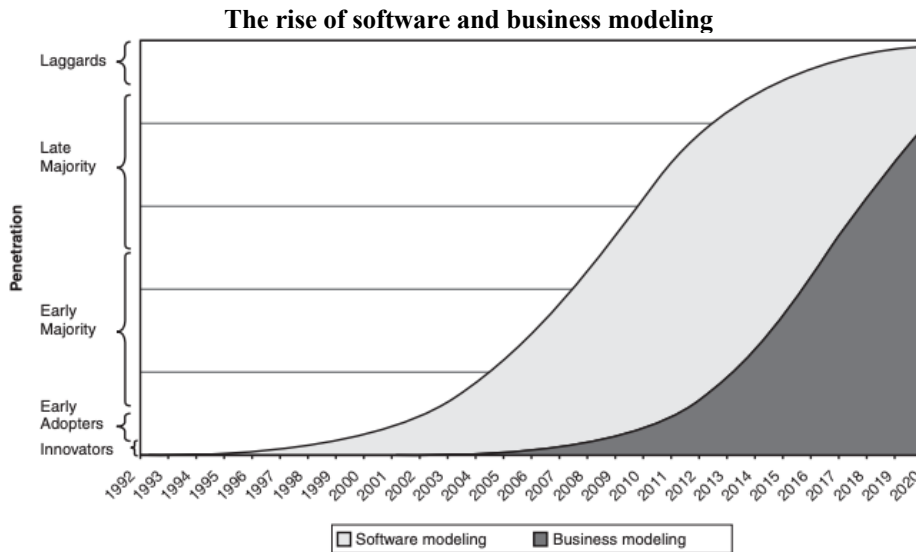
A business model (like any model) simplifies the complicated reality of a business organization by incorporating its components (all or part of them) and their relationships. The “soldering” between the components of a business occurs through its management, which is why two main streams in business modelling can be distinguished: business technology (component and process) models – they describe how a company creates, delivers, and captures value [Colasante, 2023] and business management models – they present how a company’s management plans (“motivates”), organizes, runs (“rules”), and controls the development of a business organization [Bridgeland, D., Zahavi, R., 2009, p. 23].

Generally, a business model can be defined as a series of actions that a firm takes to achieve its primary purpose of creating revenue and profit, as well as how businesses arrange themselves. While individual scholars may have differing ideas on this question, their views are mostly nuanced rather than fundamentally conflicting, as evidenced by Florina Puie’s systematic examination of several business model definitions [Puie, 2019].

Models that express synthesized basic notions about business and management have been known for a long time (process maps, organizational charts, accounting templates). However, the general interest in business modeling grew with the emergence of the information technology (IT) sector in the world’s economies, particularly with the development of the software industry. Organizations have been the most active in implementing business models to connect IT initiatives with business needs. The following figure (Figure 1) summarizes the tendencies in this direction. The relationship between the development of the software sector and the use of business models presented in Figure 1 by analogy with the technology adoption lifecycle of Geoffrey Moore [Moore, 1991] is obvious, with a clear lag of about 10 years between the two phenomena.

Solid theoretical and methodological investigations establish a foundation for characterizing the components of a business model. The complexity of business models as an economic and management concept, which has gained prominence in recent decades, cannot be fully comprehended from merely one or two perspectives. Osterwalder [2004], for example, discusses nine principal elements of a holistic view of a business finding generalization in his famous Business Model Canvas.

Figure 1.



(Source: Bridgeland, D., Zahavi, R., [2009, p. 4])

Moreover, developing a business model is considered integral to a broader comprehension of the functional dynamics of the company organization. As such, it must encompass the following critical elements:

- the array of values offered by the firm to its stakeholders;
- the operational processes associated with the execution of the firm's value offerings to its stakeholders;
- the proactive utilization of assets, potential opportunities, and interrelationships within the enterprise to generate supplementary value;
- the planning of operational processes as a cohesive system.

A business model can consist of more concrete elements, which are often (not correctly!) defined as complete business models in themselves. These elements relate to different aspects of the operation and management of the business organization, and those most commonly analyzed in practice can be summarized in the following Table 1. The systematization contains some of the most popular business model elements and specific interpretation of theirs.

The scope of business models encompasses a spectrum from straightforward constructs to intricate, multidisciplinary frameworks that illustrate the interconnections among entrepreneurship, finance, marketing, and strategic management. Business models elucidate the rationale behind business management and delineate the operational mechanisms via which firms generate value.

## 2. Business models in-between strategy, tactics and operations

Analyzing business models can be used to support management decision making. In today's complex and dynamic environment practice shows that organizations have a range of strategic, tactical and operational options that they can implement in a variety of ways. A business model is frequently regarded as a category interconnected with these options.

Nevertheless, an unresolved question persists: How can the ideas of strategy, tactics, operations, on the one hand, and business model, on the other, interrelate within the context of business management?

Table 1.

**Some Characteristics of the Business Model**

BUSINESS MODEL ELEMENTS	EXAMPLES
Pricing	<ul style="list-style-type: none"> <li>• Cost-plus method</li> <li>• Comparative method</li> <li>• Balancing method</li> <li>• Integrated quality assessment method</li> <li>• Correlation method, etc.</li> </ul>
Sales revenue accumulation method	<ul style="list-style-type: none"> <li>• Payment of the sale value of products or services purchased;</li> <li>• Payment of a fee for a service rendered;</li> <li>• Subscription;</li> <li>• Barter transactions, etc.</li> </ul>
Organization of sales	<ul style="list-style-type: none"> <li>• Direct sales</li> <li>• Internet trade</li> <li>• Consignment</li> <li>• Distribution networks, etc.</li> </ul>
Way of carrying out commercial relations	<ul style="list-style-type: none"> <li>• Virtual association for selling products and services</li> <li>• Trade links along the value chain</li> <li>• Electronic marketplace, etc.</li> </ul>
Organizational form of the activity	<ul style="list-style-type: none"> <li>• Operation of an independent business unit</li> <li>• Merger on the basis of contractual relations</li> <li>• Unification based on the potential of Internet-based communication technologies, etc.</li> </ul>
Way of forming the value of products or services	<ul style="list-style-type: none"> <li>• Low value at very low cost to create the product or service</li> <li>• Higher value for the same cost of creating the product or service</li> <li>• Much higher value for more cost to create the product or service</li> </ul>

*(Sources: Osterwalder [2004]; Papazov, E., Mihaylova, L. [2010])*

Researchers hold divergent viewpoints on this subject. Some assert that business model precedes strategy, tactics, and operations [Rybicki, 2023]. Others argue that strategy plays a dominant role, with other statements conforming to the strategic judgments made [Afuah, 2019, p. 19]. The authors of this paper align predominantly with the second stance, providing the following arguments:

- Among researchers of strategies related to business development, it is widely believed that strategy has the task of determining the way or working out the course of action, including allocation of resources, mapping out policies, drawing up plans to realize the purpose of the organization and its long-term goal(s) [Chandler, 2003, p. 13].

- As an operationalized concept, business strategy should clarify in summary form (within the framework of the company's mission and vision for development) the most important components of a business, including its future markets, products, production technologies and resources. In this context, strategies for components (market, product, and resource) are formulated inside the overarching company strategy, alongside plans that delineate the interconnections among these fundamental business elements – market-product, product-resource, and resource-supply strategies.

- Resource-related strategies, in turn, could be specified in terms of individual resource areas, including real resources and financial resources. The latter are justified through financing and investment strategies.

- Once the real resources are identified, operational and marketing strategies are developed which give an idea of how the desired products will be produced in practice and how these products will find their way to the market.

- The business strategy as a combination of all the sub-strategies listed above is implemented once the necessary money (financing) has been secured and the latter has been converted into real assets (investments) as a pre-condition for the future production and sales of the desired product. Financing and investment signify the commencement of the initial phase of executing a business strategy. This, in turn, requires making another type of decisions, i.e. tactical decisions.

- The second stage of the implementation of the business strategy involves the proposition of the product defined by the strategy (i.e. manufacturing and marketing operations). The decisions taken within this stage can be defined as operational.

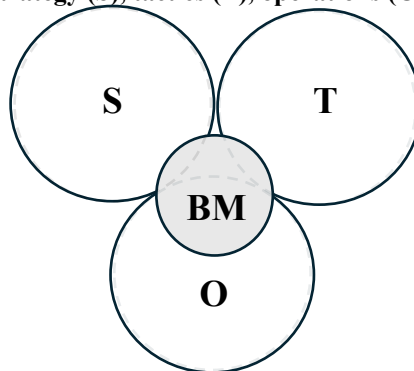
Regarding the previously discussed topics of business strategy, tactics, operations, and business model, it can be inferred that the business model mostly pertains to operations management. It delineates, primarily, the processes of production and sale of goods, establishing the groundwork for a new cycle of iterations, augmenting the strategic pursuit of corporate advancement. Tactical decisions concerning financing and investment in business are not the primary focus of business modeling, particularly within the Business Model Canvas created by Osterwalder and Pigneur [2010]: The emphasis is on the connections among value proposition, client segmentation, channels, critical resources, activities, partnerships, and their effects on revenues, costs, and profits, rather than on financing or investment specifically.

The relationship between strategy, tactics, operations, and the business model can be examined as follows: strategy and tactics pertain to the selection of a business model for market competition; the business model encompasses the delineation of actions necessary to execute strategy and tactics; operations signify the particular actions undertaken by the firm within the selected business model. This comprehension indicates that the implementation

of various business models in practice results in the adoption of distinct techniques [Casadesus-Masanell & Ricart, 2010] and can be exemplified by the subsequent Figure 2:

Figure 2.

**Subordination between strategy (S), tactics (T), operations (O) and business model (BM)**



*(Source: Author's own elaboration)*

An apparently simple example explains the relationship between strategy, tactics, business model, and operations. Before purchasing a vehicle, people often think about its design, power, fuel efficiency, seating capacity, and safety features. As a result, they make a strategic decision. A certain vehicle category is then chosen based on management's strategic decision. The precise car that will be purchased and the specifications picked reflects the decision makers' investing mindset. The investment aim must also be "backed up" by enough money (both investment and financing are tactical decisions). The actual use of the bought vehicle at a later point is dependent on operational considerations. Before beginning operations, a (business) model can be created to outline the specific steps required in the operational process. The implemented strategic and tactical decisions will "shine through" behind this model, but its goal will be to portray the vehicle's use in a straightforward and simplified manner.

### **3. Characteristics of a successful business model in a competitive environment**

The findings of research conducted by many companies indicate that no single business model is universally effective (profitable) and ensures the implementation of the company's ambitions. However, certain more significant features are associated with successful business models. In a nutshell, the following is an outline of them:

- Business models provide distinct value, occasionally manifesting as an innovative concept. Typically, the enhanced value is presented through a combination of novel product or service features, a reduced price for identical consumption qualities, or price maintenance while augmenting the consumption attributes of the product or service. Example: Christo (Javacheff) and Jeanne-Claude (Denat de Guillebon), also known simply as Christo and Jeanne-Claude (Bulgarian and French by descent), are world-renowned for their spatial art installations, which include wrapping objects and buildings (e.g., the Reichstag), connecting islands via floating piers (e.g., the Italian island of Iseo), and other. However, these installations are part of a distinct economic strategy in which they market

their artworks (like sketches, drawings or sculptures) in a non-traditional manner. Later, as the IT industry evolved, such a construction became known as “freemium” model.

As is well known, the freemium model (derived from the words “free” and “premium”) provides a basic product or service for free, but money (a premium) is paid for additional services (Kumar, May 2014). Thus, by constructing the installations on local sites for free and providing open access to them, the two artists are advertising their artworks (the preliminary sketches, drawings, and designs of future large projects) while also attracting a large number of tourists to the locations where their installations are displayed. Furthermore, the building of the facilities generates valuable contracts for local firms, reinforcing public and municipal interest in such projects. For example, the wrapped Reichstag attracted 5 million visitors in two weeks and generated \$300 million in revenue for local companies. Among other things, such programs bring global attention and future growth for the region after the event. The execution of such initiatives generates long-term interest from museums, dealers, and collectors in the two artists’ earlier works. For example, there are 43 original drawings created till the completion of floating piers on the island of Iseo in Italy, with prices ranging from 120 thousand euros for the smallest to 1.6 million euros for the largest [Stoilova, 2016].

- Successful business models are challenging to replicate, because essential characteristics are established that render the practical implementation of a business model distinctive inside the particular organization. These parameters can pertain to both the customers and the model’s implementation. Such models create obstacles to entry for competitors in the market, hence maintaining a profitable trajectory for the firm. Example: The Starosel Winery’s products are difficult to imitate because the production technology is unique, and the machinery used to make them is expensive and it is very difficult for a competitor to purchase it to make cheap imitations of the products. In addition, the company is constantly updating the basic elements of its products, which makes them even more difficult to imitate. For example, VINTAGE 2017 is a super-premium investment wine. The series is made with precise technology and recipe in a run of 2,000 bottles. It will not be replicated once it runs out. This ensures that this high-end product, with proper storage, will increase in value over time [Starosel Special Selection, 2024].

- Models that are successful in business are based on truth and are supported by genuine study investigation into customers' behavior. These models explicitly consider the impact of uncontrollable external factors, such as seasonal variations and fashion trends. Additionally, the correlation between pricing and sales is taken into consideration. Example: The transmission of television programs under the “reality” format, which rose to prominence all over the world in the 2000s. Television programs that are referred to as “reality” often focus on genuine events that are marked by exciting moments that are intended to engage audiences and generate cash from advertising. “Reality” shows have seen a surge in popularity in recent years because their production costs are significantly lower in comparison to those of “scripted television”. Additionally, they have the ability to attract a greater number of sponsors, which has led to a rise in revenue and profit, which in turn has enhanced the return on investment [Nussbaum, 15 June 2024].

These examples do not exhaust the characteristics of winning business models. Rather, they have the character of key points on which further research should be carried out and their role in the strategic management of organizations analyzed.

## Conclusion

Developing a successful business model is equally important for both existing and start-up businesses in a competitive environment. A business model can be considered a complex, boundary spanning concept that shows the relationship between strategy, tactics, and operations of an enterprise. The purpose of any business model is to represent such a configuration of elements and relations that leads to the achievement of a competitive advantage of the organization. Its successful application is usually influenced by the change of the environment and for this reason it can be said that its time frame is indefinite.

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