

The brief section below outlines the conceptual framework for the sections and chapters that follow. This standard frame of reference should establish a common understanding of the general concept of the business model, before a comprehensive definition of the term is given in Sect. 2.2.

2.1 Origins and Use of the Term ‘Business Model’

The term *business model* originated in the information and communications technology (ICT) sector, where it was originally used to map business processes documented as part of the introduction of data processing systems (cf. Kley 2011, p. 1). Literature in the field often links the concept of the business model to the *new economy* of the years 1998 to ca. 2001. However, the term is in fact older, and was already being discussed and applied in business and above all information technology literature even before the emergence of the Internet economy. ‘Surprisingly, the query shows that the popularity of the term “business model” is a relatively young phenomenon. Though it appeared for the first time in an academic article in 1957 (Bellman et al. 1957) and in the title and abstract of a paper in 1960 (Jones 1960) [...]’ (Osterwalder et al. 2005, p. 6).

The term ‘business model’ would therefore appear to have emerged not with the new economy, but with the dawning popularity of *business computing* and with the information system architectures of the 1970s and 1980s. Nonetheless, the new economy without a doubt successfully translated to a wider business context a concept that had initially been restricted primarily to the information and communications industry (IC) (cf. Becker et al. 2011, p. 12). However, Porter in particular criticizes the close association between the business model concept and the new economy particularly common in the late 1990s. He believes that the business

model should be extended beyond the Internet economy to embrace the economy as a whole, and should above all include the fundamental aspects of strategy and value chain as significant business management factors (cf. Scheer et al. 2003, p. 14). This approach is addressed in more detail in Chap. 3 below.

In the late twentieth and early twenty-first century, therefore, the business model was narrowly understood as a concept for designing information systems. Use of the term has now broadened and it has largely lost its original IC connotation (cf. Stähler 2002, p. 39). Yet despite this significant shift in meaning, a critical look at the applicable literature would still fail to discover a standard definition of the term. So far, there have been numerous and varying views in the field on what specifically the term covers. The popular understanding of the constituent elements of a business model is moreover equally varied, and indeed in some cases contradictory. Such scope and inherent diversity of the ‘business model’ has so far shaped the academic debate and prevented a common and universal definition of the term.

2.2 Definition of the Business Model

A clear explanation of the business model concept is offered by the etymology of its two constituent words, ‘model’ and ‘business’. Considering these two elements separately offers a better understanding of the content and nature of the concept of the business model.

A *model*¹ is generally understood as a simplified representation of a defined aspect of reality or of the real world. Models always focus on selected and relevant aspects of that reality. A useful model will provide an overview and thus a useful approach to potential solutions to the underlying problem; models are particularly useful for visualizing and structuring complex economic situations (cf. Becker et al. 2012, p. 13). Models can present the real on a large, small or at least simplified scale. They can also—as for example in the fields of business and economics—be wholly abstract in nature. One feature of models worth highlighting is their ability to reduce complexity, and this is discussed in detail in Sect. 3.1.

In the context of business models, the ‘model’ is the abstract representation of how the business activities of an organization function in reality. Yet what exactly do we mean by ‘business’? In principle, *business* can refer to commercial transactions designed to generate revenue and to all operations involving money. In everyday usage, the term can be applied both to the commercial exchange of goods and

¹ The word *model* comes from the Latin *modulus* meaning measure, via the Italian *modello* (pattern or draft).

services between business partners (*business* transactions, *business* deals), and the activities of commercial enterprises designed to generate profit (cf. Nemeth 2011, p. 89). ‘Business’ in a commercial organization can therefore also be understood as covering the structured transformation of input factors into products and services, and the management of interactions with the relevant environment.

If we now combine the implications of ‘business’ and ‘model’, this takes us a step closer to understanding the content and nature of a business model. A business model is a simplified, representative description of the following fundamental principle: how an economic system creates value through the transformation of resources and special exchange relationships with other economic entities. A business model, therefore, is a comprehensive, schematic presentation of all of an enterprise’s value creation activities and procedures that generate customer value added and long-term revenue. In other words, a business model details an underlying business idea.

As already outlined, literature in the field contains many and in some cases very different definitions of business model. Although the term has been defined many times, a common, precise and universal definition has yet to be established. As the potential scope of the business model is so broad, many authors define the term with a specific focus in mind (cf. Weiner et al. 2010, p. 16). Extensive examinations of the concept have already been published and an explanation of the various definitions will therefore not be undertaken here.

In the absence of a standard definition, the following pages propose a comprehensive, universal definition of the business model that covers all aspects of management. A distinction is drawn between a business model that is not yet to be implemented, which we will refer to as a *business concept*, and an existing business model that is already in place in practice (cf. Stähler 2002, p. 42). However, this distinction is only made in passages where a conscious, methodological differentiation between concept and model is required. In the interests of simplicity, the two terms are otherwise used synonymously.

► A **business model** is an applied business concept for describing, analyzing and developing the fundamental procedures underlying business output. A model provides a simplified representation of value creation processes, functions and interactions for creating customer value, securing competitive advantage and generating revenue. A business model is a comprehensive, aggregated picture of reality that can integrate political and legal, economic, socio-cultural, technological and ecological conditions into the transparent architecture required for managing complexity. Alongside normative and strategic parameters, a business model also covers operational and dynamic aspects. The Integrated Business Model ensures that

all factors critical to success are considered in full, with clearly defined, structured components.

As the definition proposed here indicates, it is essential for a business model to cover the diverse aspects of production. This point is addressed in detail in Chap. 3 below.

Integrated Business Model

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