



DOMINO

Dynamic Organisational
Management for Interfirm
Network Orchestrations

IST-2000-29545



Network business model configuration –

Understanding incentives of configurations

Claas Müller-Lankenau

Stefan Klein

Agenda



1. The Domino Micro Project

2. Business Models

3. Case Study: Opel (CH)

4. Conclusions and Outlook



Research challenges



- ▶ The **proliferation of EC** coincides with a steep increase in partnerships/ networking arrangements.
- ▶ **Network business models** refer to complex and precarious organizational arrangements in a volatile business environment.
- ▶ Hence, there is a need to describe, map and scrutinize those models in order to understand the **design principles**, the dynamics and success factors.
- ▶ The notion of "**configuration**" is adapted to address complex patterns, gestalts or archetypes or network business models (e.g. value Webs, value networks, business webs...).



Research questions of the Micro Project – as tackled so far...



- 1. How can the business model concept be applied to business networks?**
- 2. Is the concept of business model useful to describe configurations of has to it be expanded to a network business model? This covers:**
 - a. network architecture: structure & roles**
 - b. value propositions**
 - c. revenue models/ interest balancing and management among partners**
 - d. partner relations**
- 4. Which special roles can be identified in business networks and which role does a facilitator play in the configuration of a network and the related network business model?**
- 5. How do different business model configurations affect incentives for different players?**
6. How do business network model configurations emerge?
7. What are typical stages and phases of a configuration process?



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a. Introduction to (Network) Business Models

b. The Role of Business Models

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What is a business model?

- ▶ The phrase "business model" has become popular only since the mid 1990ies.
- ▶ The discussion about business models has emphasized business innovation (value maps etc.) and structural design issues (network design, interorganizational division of labor).
- ▶ Related terms are e.g.
 - ▶ business idea or business plan (entrepreneurship)
 - ▶ (inter-)organizational models (management, organizational science)
 - ▶ business modelling (information systems)



Various perspective on business models



- ▶ The core **business idea** mostly enabled by ICT.
- ▶ The model for an **enterprise** or a part thereof.
- ▶ A model for collaborative, **interorganizational value generation**, e.g. business web.



An early and seminal definition ...

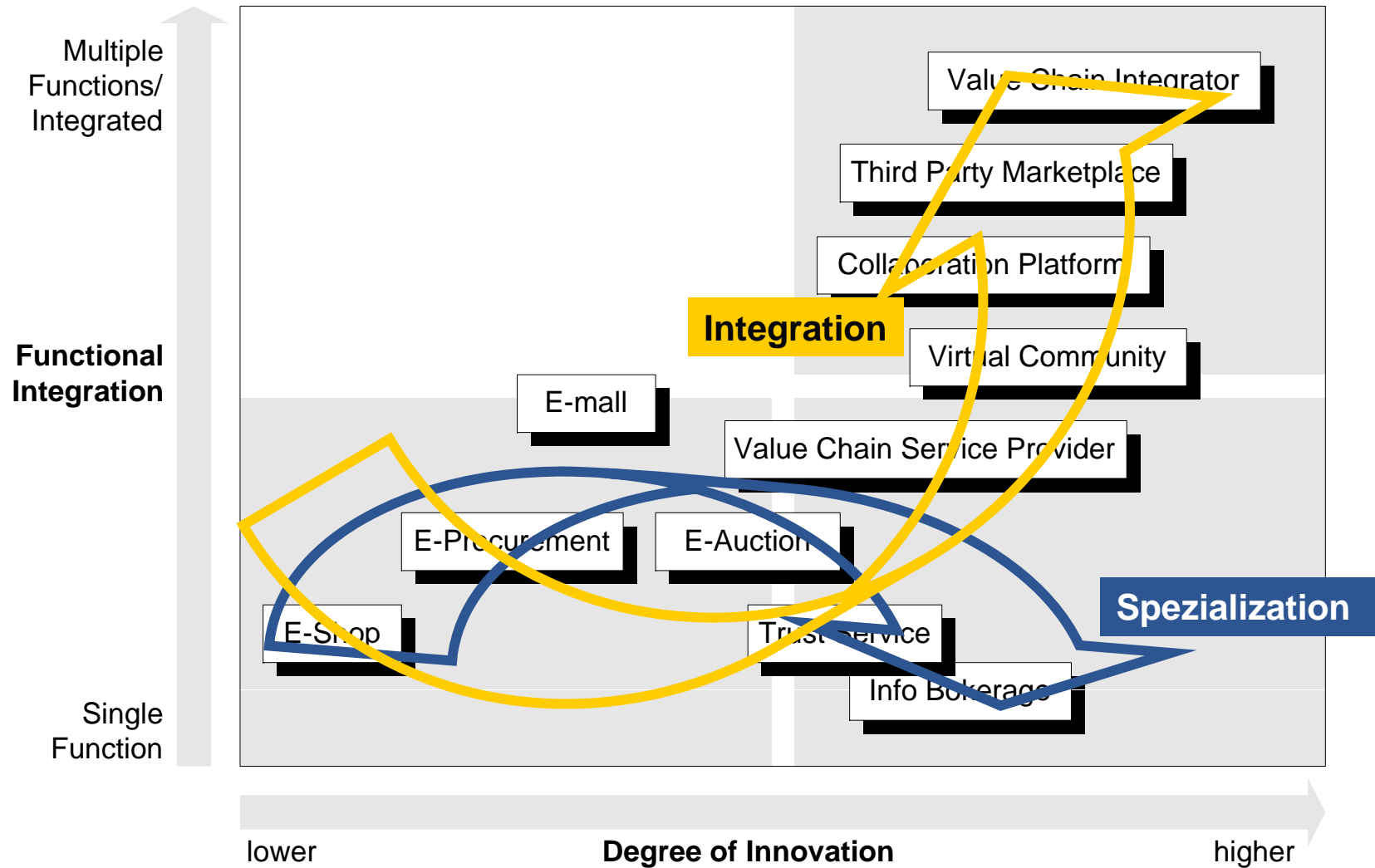


- ▶ An architecture for the product, service and information flows, including a description of the various business actors and their roles; and
- ▶ A description of the potential benefits for the various business actors; and
- ▶ A description of the sources of revenues.

Source: Timmers 1998



Timmers: Business models



Source: Timmers, P. 1998



A more recent definition

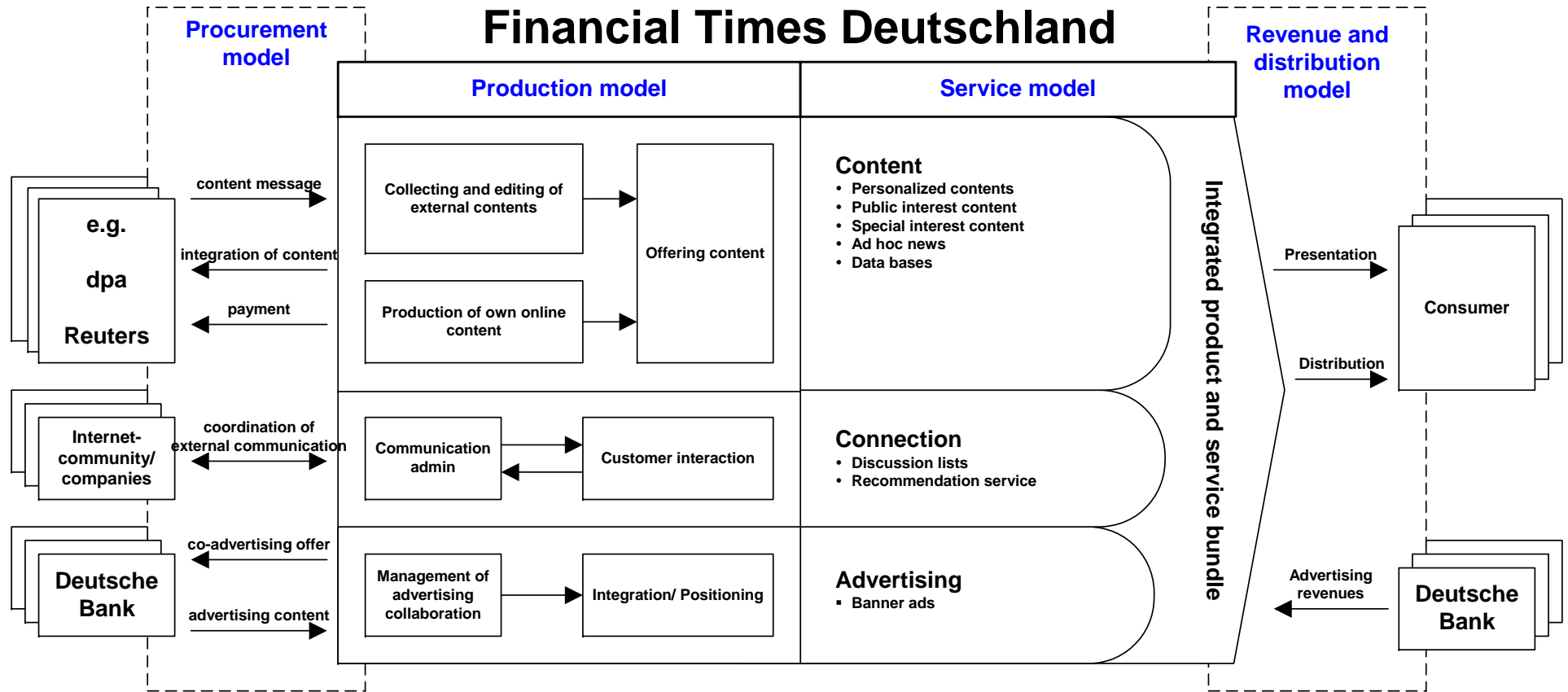


- ▶ ...a definition which emphasizes on the following issues that a business model has to address:
 - ▶ **[Product innovation]**: What business the company is in, the product innovation and the value proposition offered on the market.
 - ▶ **[Customer relationship]**: Who the company's target customers are, how it delivers them the products, and how it builds a strong relationships with them.
 - ▶ **[Infrastructure management]**: How the company efficiently performs infrastructure or logistics issues, with whom, and as which kind of virtual enterprise.
 - ▶ **[Financials]**: What is the revenue model (transaction, subscription/membership, advertising, commission, licensing) and the cost model (cost of goods sold, operating expenses for R&D, sales and marketing, general and administrative)?

Quelle: Osterwalder, Pigneur (2002)



Business model: FTD.de



adapted from: Wirtz 2000, p. 90



Research on business models (examples)

- ▶ Gordijn; Akkermans (2000): formal modelling/ "the logic of value"
- ▶ Pigneur (2002): e-business model ontology, actor networks and value configuration
- ▶ Telematica Instituut, GigaTS project: handbook for e-business engineering, reference models and patterns for e-business, best practices
- ▶ EU IST "eFactors" a thematic network in e-business models: factors of broad and sustainable adoption of new business models based on e-Business practices and research expertise across Europe



Towards a Network Business Model



	E-business model (Timmers 1998)	E-business model (Osterwalder, Pigneur 2002)	Network Business Model
Market	A description of the sources of revenues	Product innovation	Value proposition: offering (products and services) to customers
		Customer relations	
Benefits	A description of the potential benefits for the various business actors	Financials (cost / revenue)	Incentives/motivation: Determines attractiveness of a network BM for participants
Organization	An architecture for the product, service and information flows, including a description of the various business actors and their roles	Infrastructure Management	Network Structure: Roles & Linkages, Players & Network Resources
			NW Processes: processes & interactions (standardization)
			Partner Relations: dyadic relations (attitude towards partners)



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Porters's verdict: "The Internet's Destructive Lexicon"

"Instead of talking in terms of strategy and competitive advantage, dot-coms and other Internet players talk about 'business models'. ...

The definition of a business model is murky at best.

...

The business model approach to management becomes an invitation for faulty thinking and self-delusion."

Porter, Strategy and the Internet, HBR March 2001, 73



A different opinion: Why business models matter



- ▶ „...the fault lies not with the concept of the business model but with its distortion and misuse“
- ▶ Business models are „stories that explain how enterprises work.“
- ▶ Business models address the two main parts of the value chain underlying all businesses:
 - ▶ The activities associated with making something
 - ▶ The activities associated with selling something

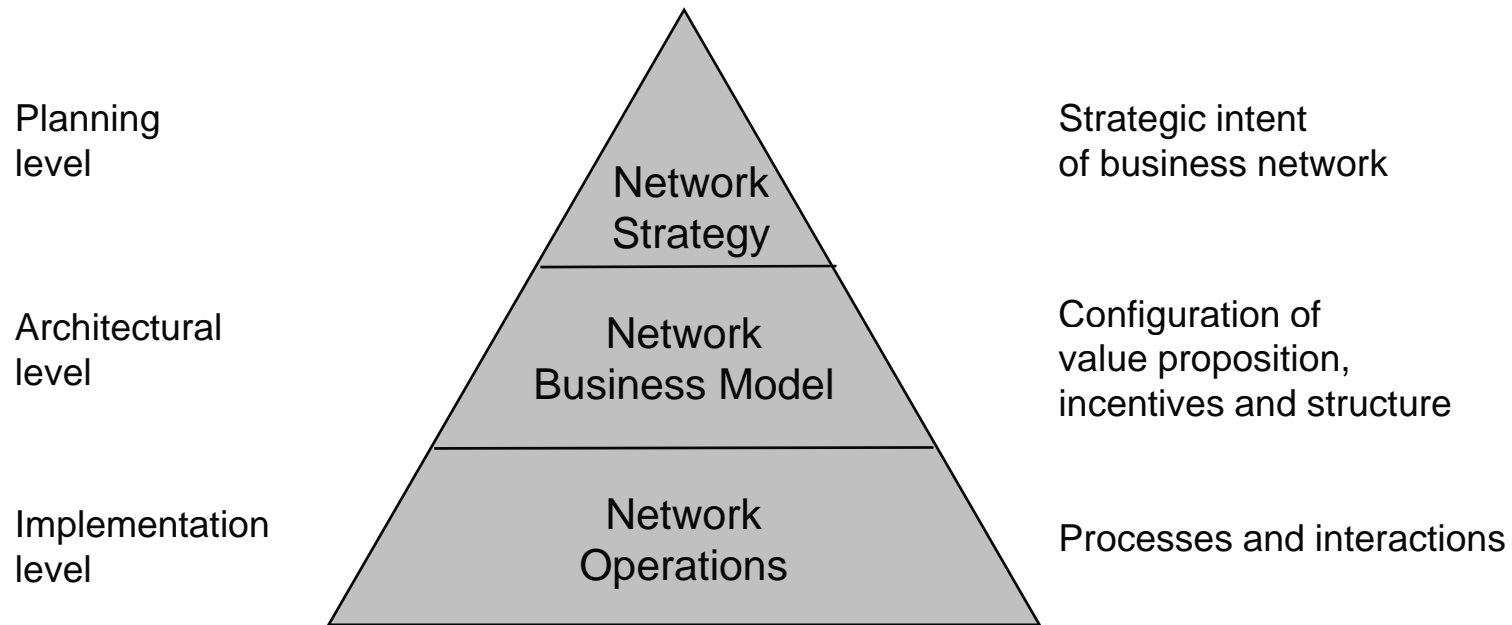
Magretta, J.: „Why business models matter“,
Harvard Business Review, May 2002



Network business models as link between strategy and implementation



- ▶ BMs complement strategy, they don't substitute them!



Based on Osterwalder, Pigneur (2002): An eBusiness Model Ontology for Modelling eBusiness, Proceedings of 15th Bled Electronic Commerce Conference



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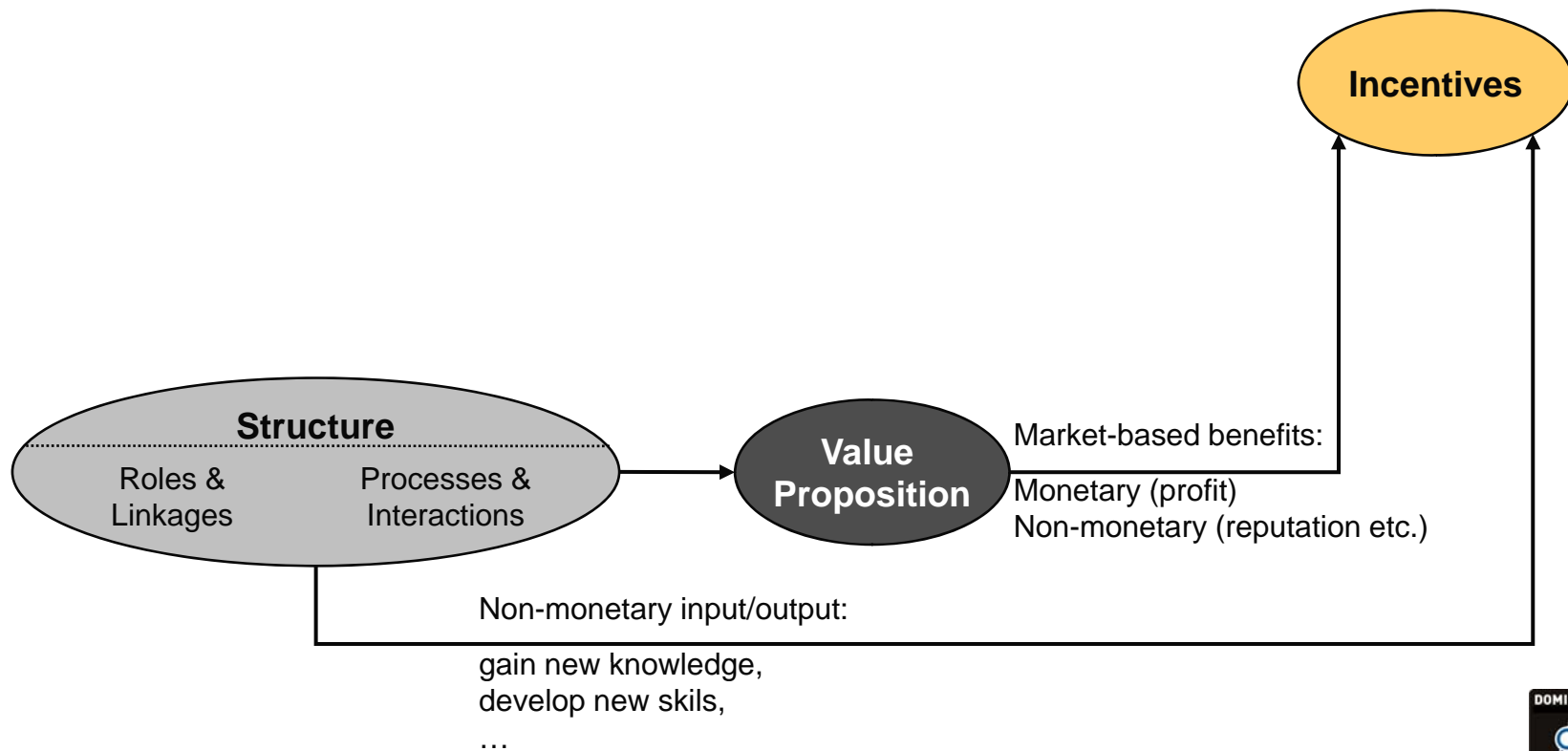
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Incentives of business model configurations: „single firm“ business models



Adding the network dimension to business models

- ▶ Central issues of BM configurations remain important:
 - Value proposition
 - Revenue streams / incentives
 - Organizational architecture

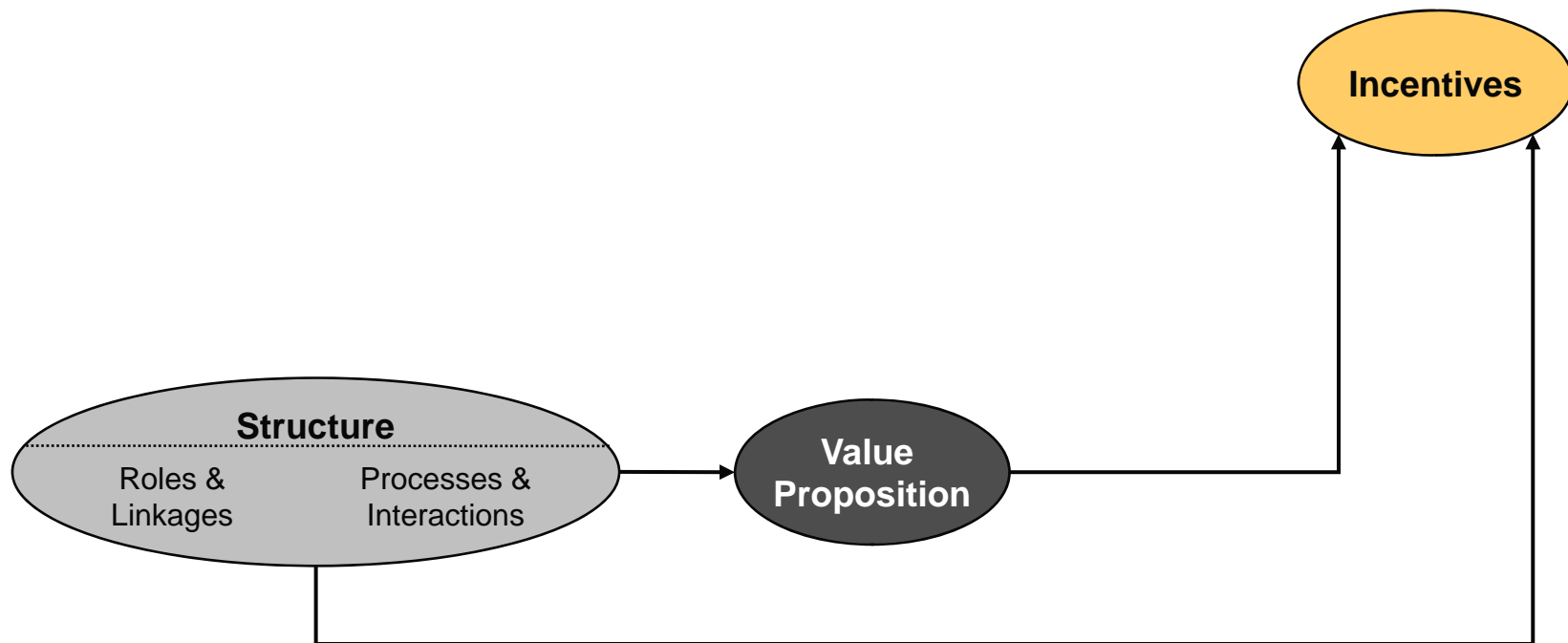
- ▶ However, an additional dimension has to be considered when analyzing network business model configurations:
 - Configuration attractiveness for network participants

- ▶ Reason:
 - Each network configuration consists of roles and linkages, and players assigned to roles
 - Each configuration is of varying attractiveness to each player
 - Players assess the attractiveness based on their resources & capabilities, relations, and motives

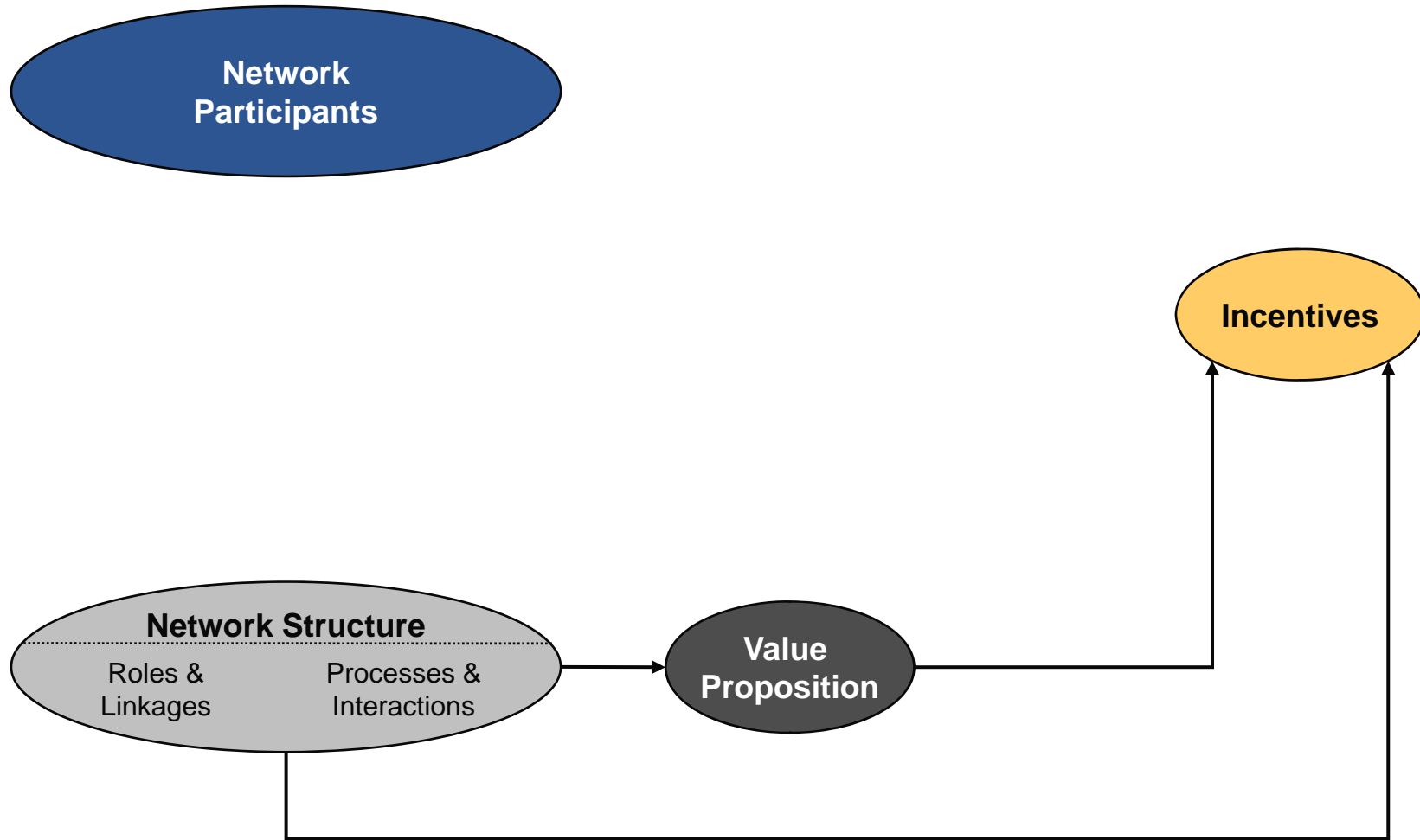
- ▶ Incentives for participants have to match each participants motives



Incentives of business model configurations: Network business model



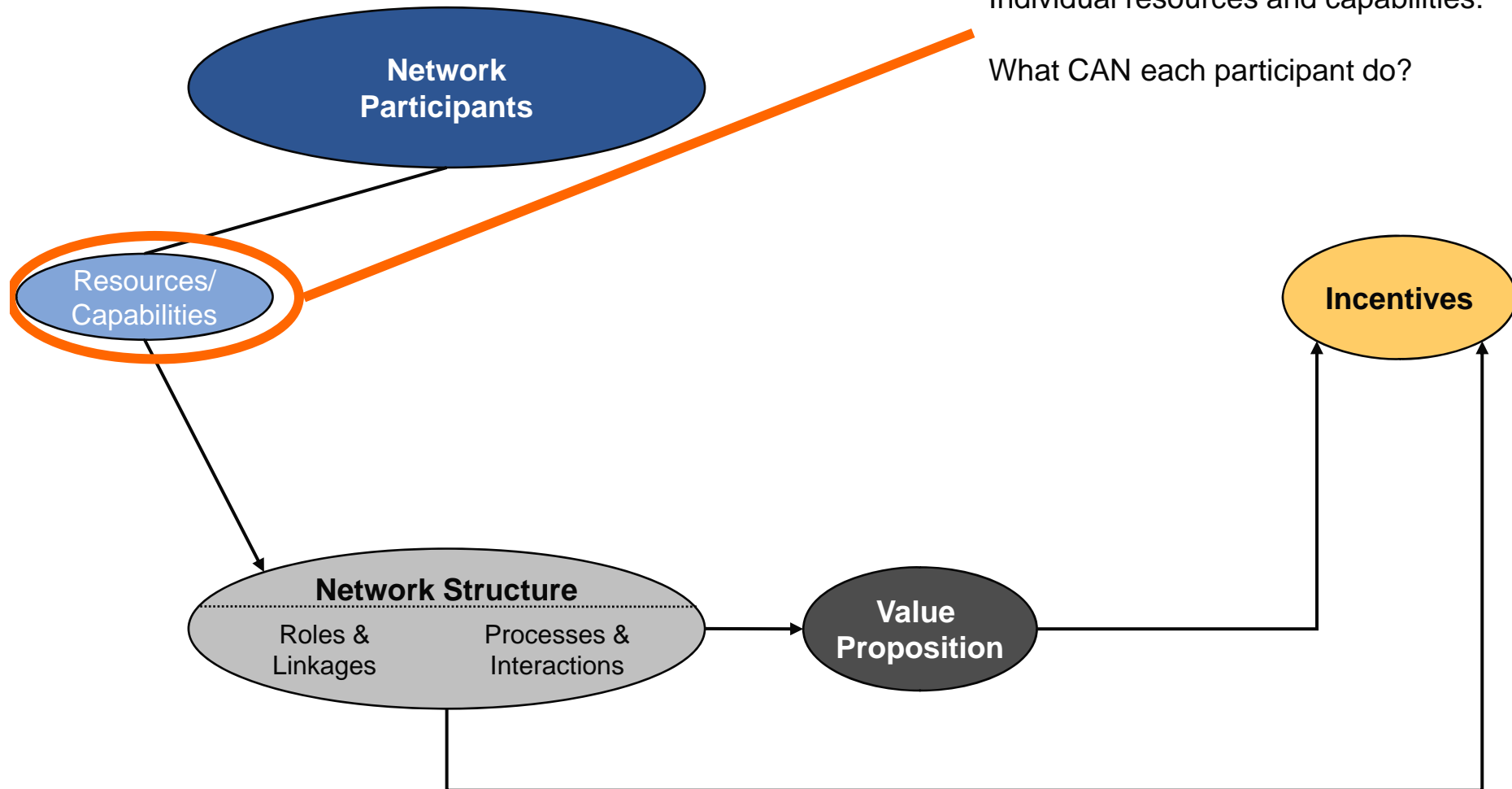
Incentives of business model configurations: Network business model



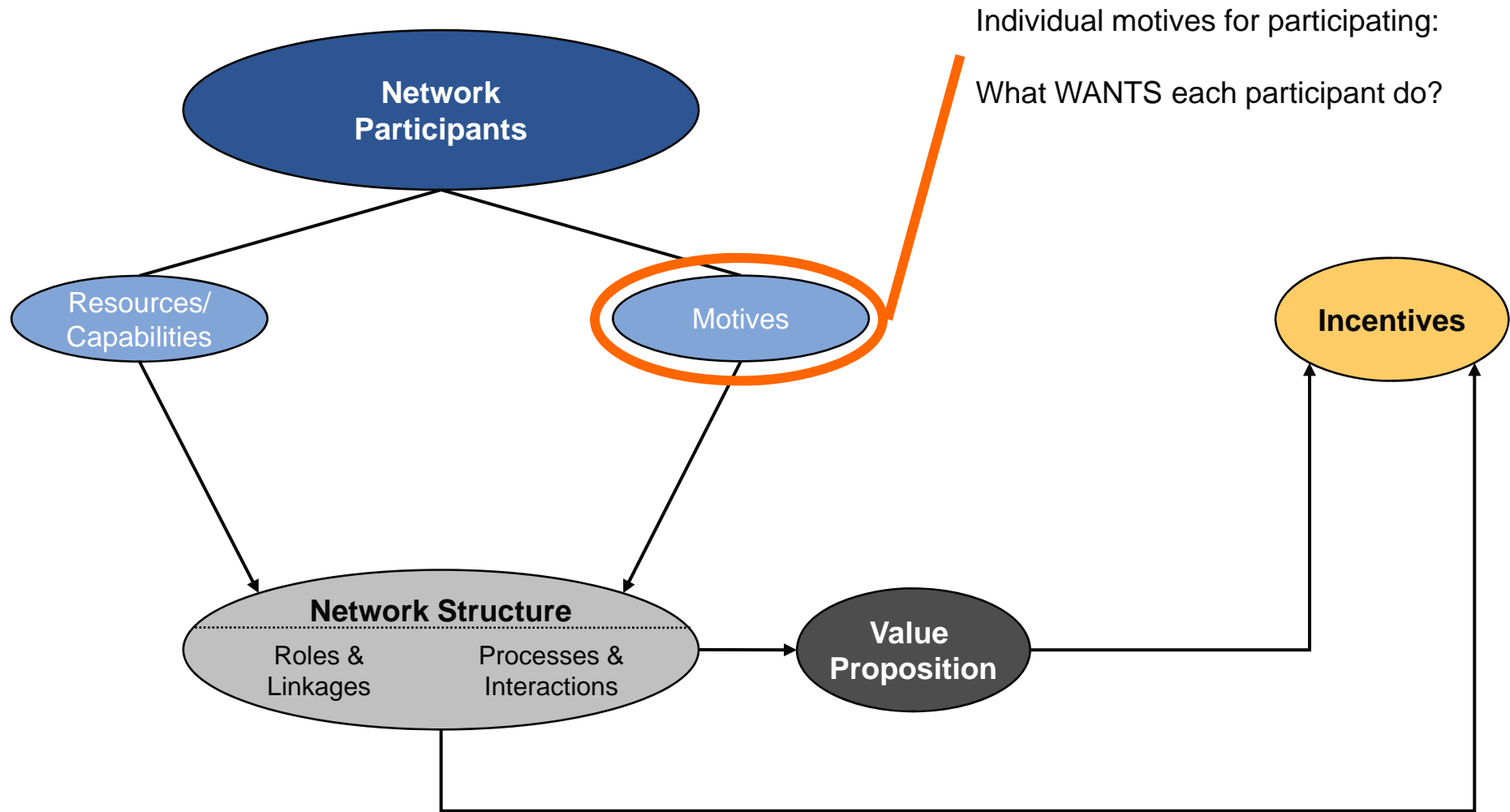
Incentives of business model configurations: Network business model



Individual resources and capabilities:
What CAN each participant do?



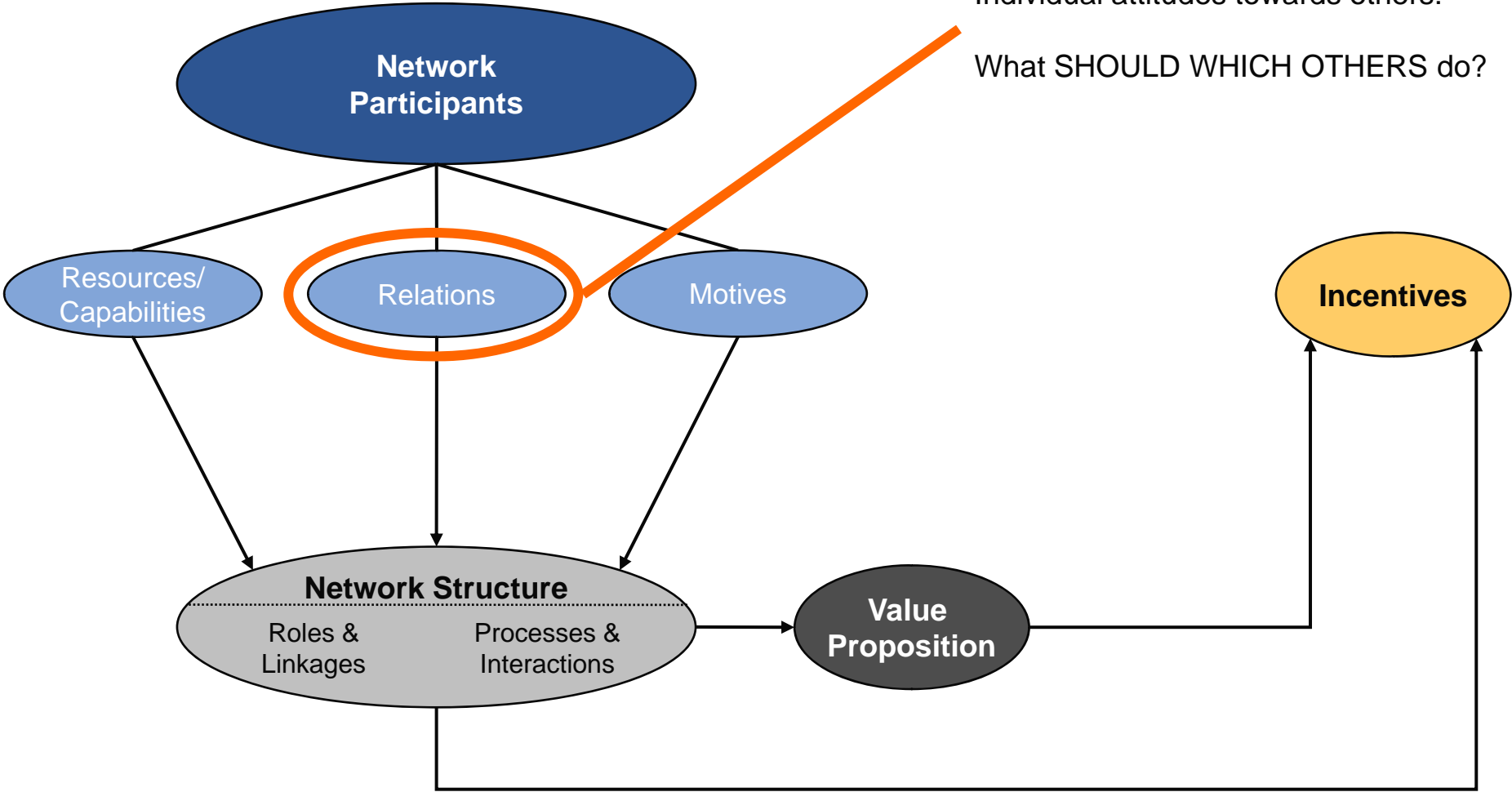
Incentives of business model configurations: Network business model



Incentives of business model configurations: Network business model



Individual attitudes towards others:
What SHOULD WHICH OTHERS do?

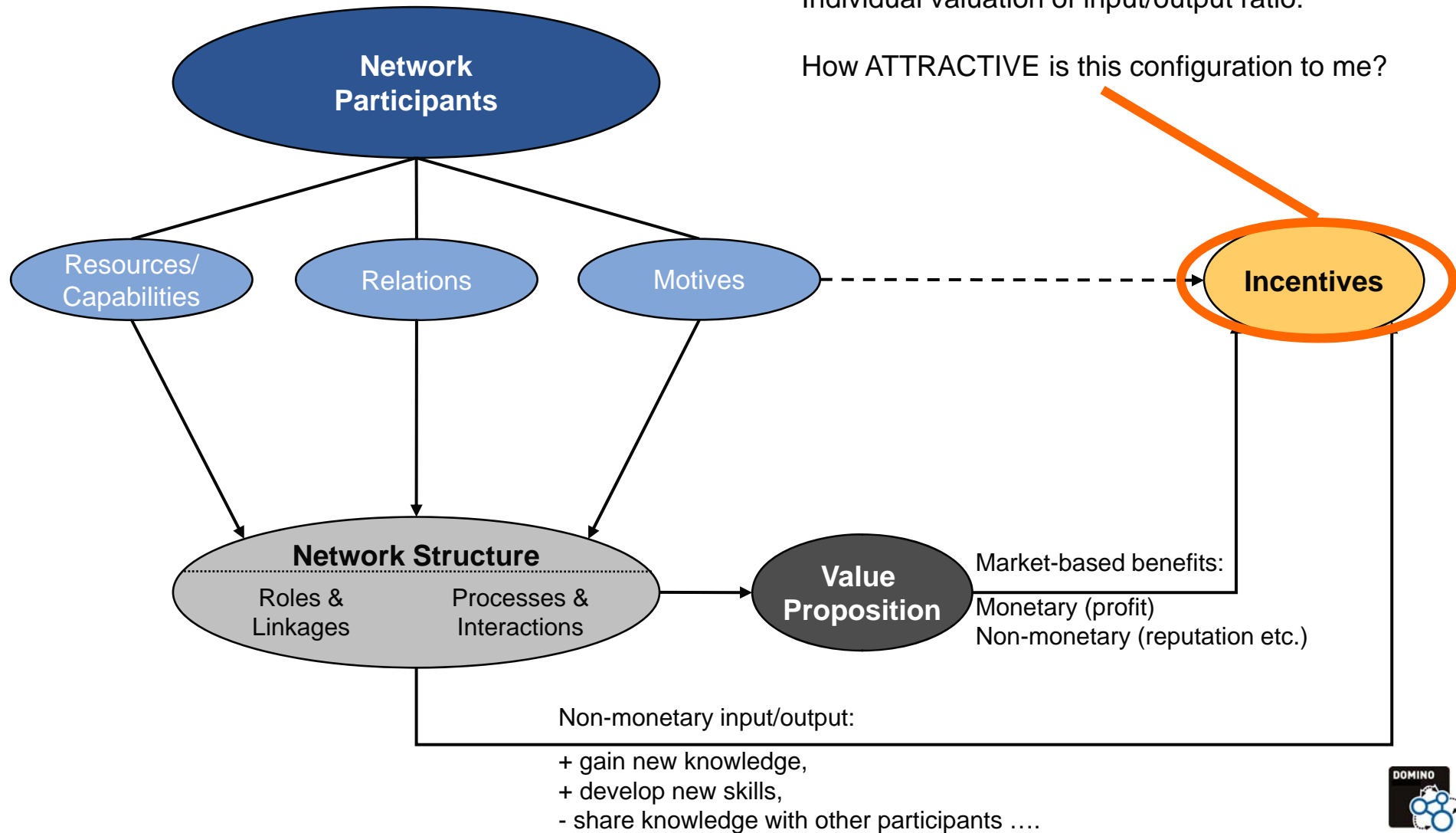


Incentives of business model configurations: Network business model

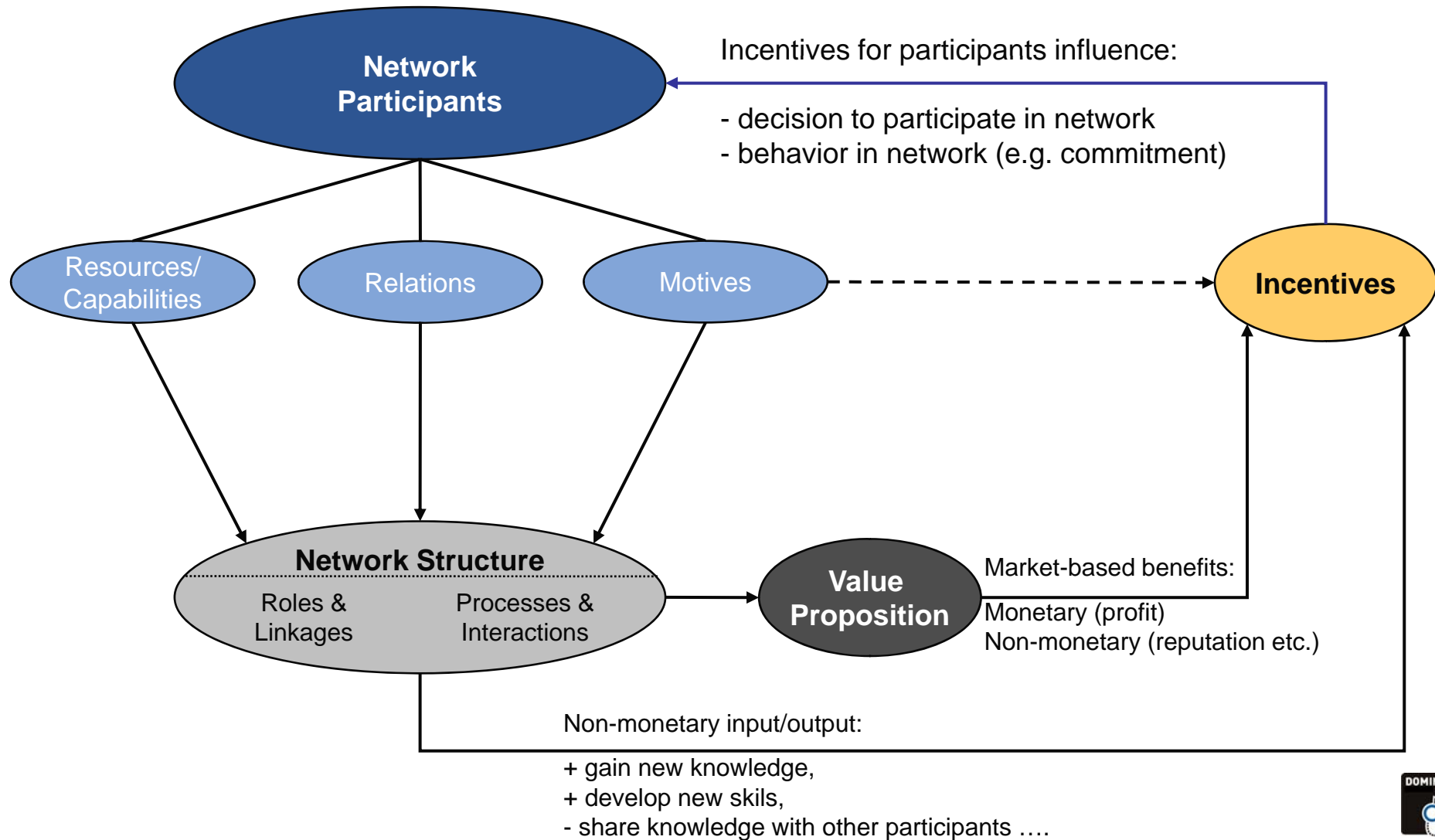


Individual valuation of input/output ratio:

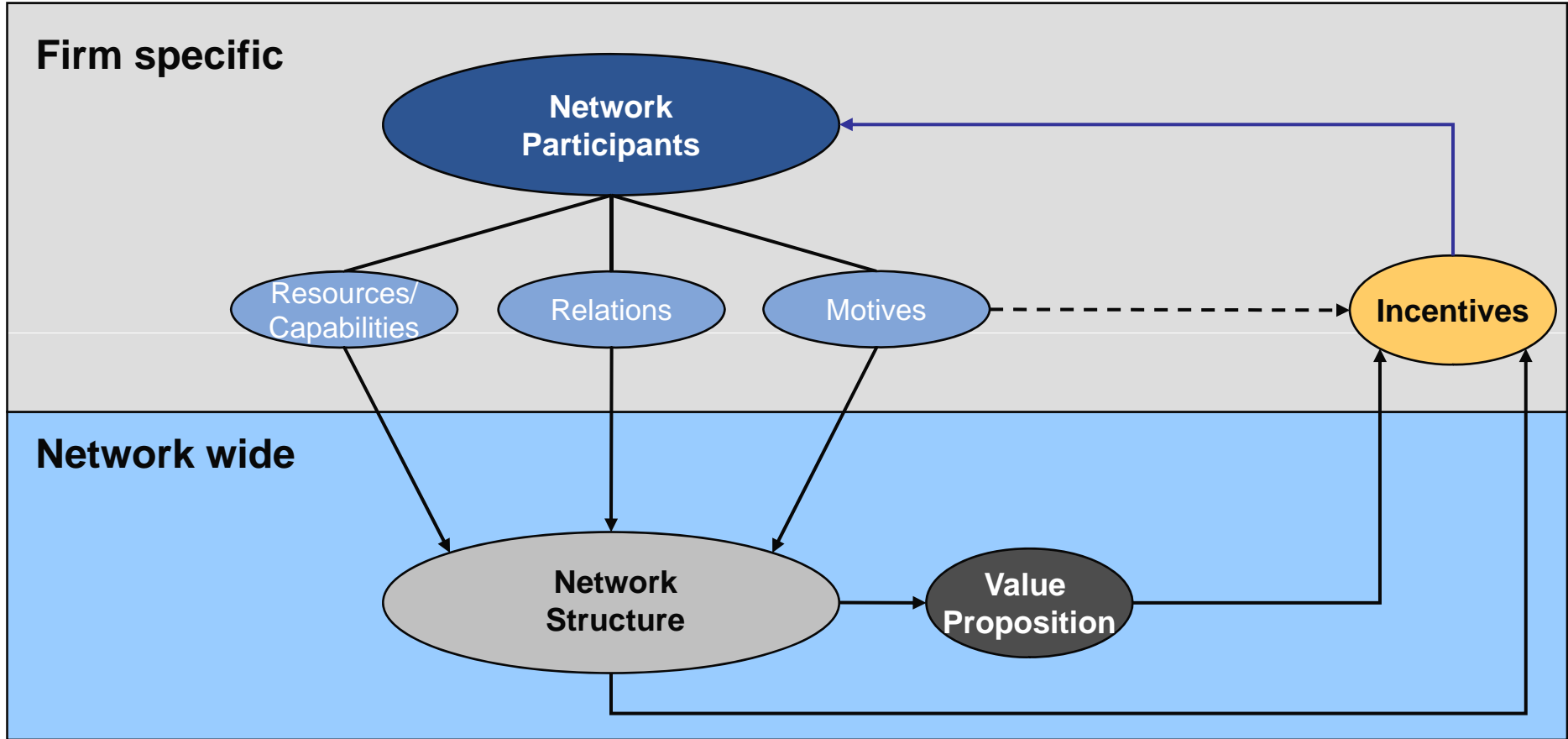
How ATTRACTIVE is this configuration to me?



Incentives of business model configurations: Network business model



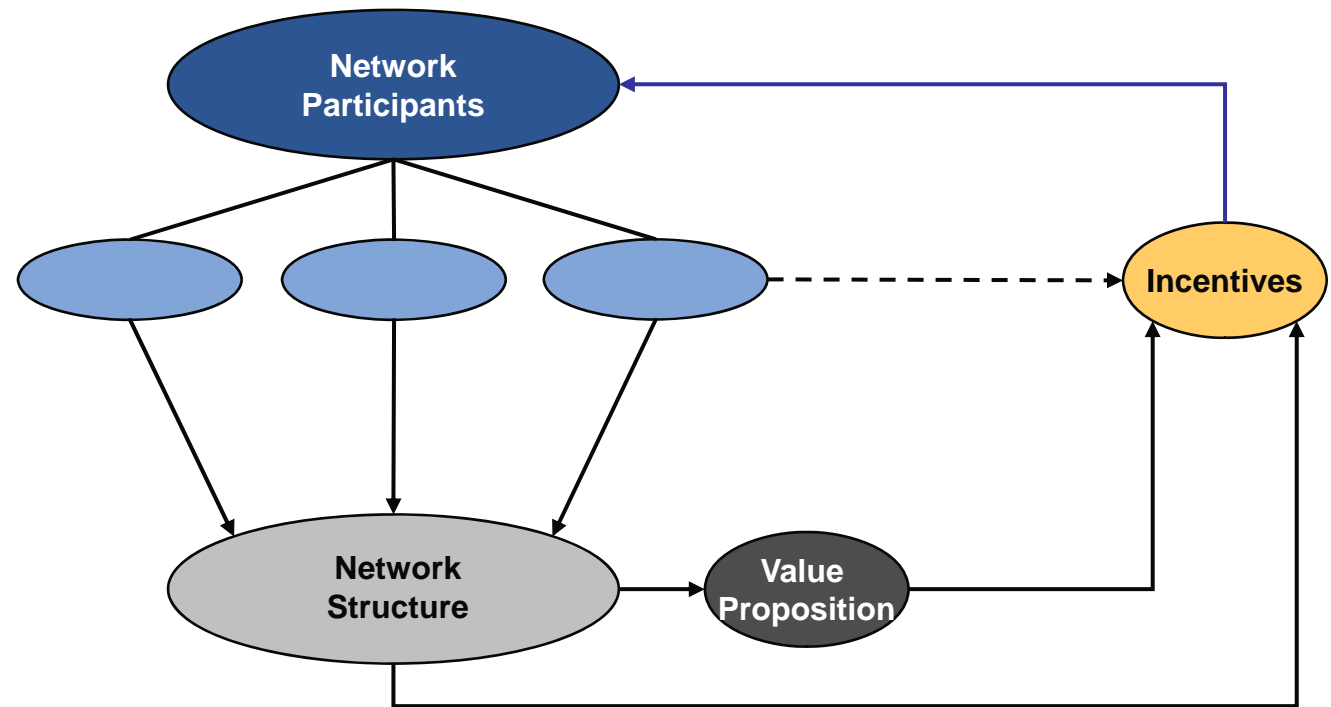
Incentives of business model configurations: Network business model



Incentives of business model configurations: Network business model



Network Business Model
Partner Relations: dyadic relations (attitude towards partners)
Network Structure: Roles & Linkages, Players & Network Resources
NW Processes: processes & interactions (standardization)
Value proposition: offering (products and services) to customers
Incentives/motivation: Determines attractiveness of a network BM for participants



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Case Introduction



- ▶ Web-based value creation network:
 - ▶ Example of a virtual value chain network
 - ▶ typical for the Internet domain
- ▶ Organizational network configured to provide information and services for the second hand car sales via the Opel.ch Web site.
 - ▶ It integrates the services of Car4you, a Swiss second hand e-market platform provider.
 - ▶ Syndication of information and services
- ▶ Case is interesting not because of complexity, but the opportunity of learning about the functioning of organizational arrangements behind more-or-less technical Web-based services



Aim of presenting this case



- ▶ learn about
 - ▶ the roles and network configurations as well as business models
 - ▶ and the importance of incentives in network business model configurations,
 - ▶ in this new and less documented Internet domain
 - ▶ and also about the importance of social relationships as informal and flexible mechanisms to coordinate mutual adaptation and the stabilization of relationships in a dynamic domain.

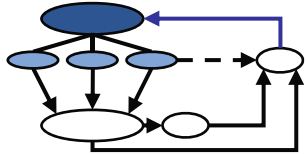


Case Opel (CH): Players and Customers



- ▶ OPEL (CH)
 - Swiss national sales organization
 - Super ordinate entity: GME (General Motors Europe), which belongs to GM Worldwide
- ▶ Car4you.ch
 - Classical new economy start-up company
 - Originally spin-off of Eurotax Switzerland, no independent company
- ▶ Namics:
 - Internet Service Consultancy
 - Focuses on Realization of Complex Internet/Web projects
- ▶ Customers: Opel (CH) Garages
 - 90-100 A-garages (bigger, with stronger links (contracts) to Opel (CH))
 - Greater number of B-garages (only loosely linked to Opel(CH))



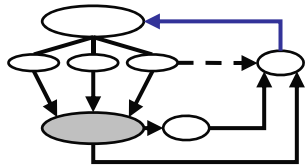


Players' individual motives, resources and relations



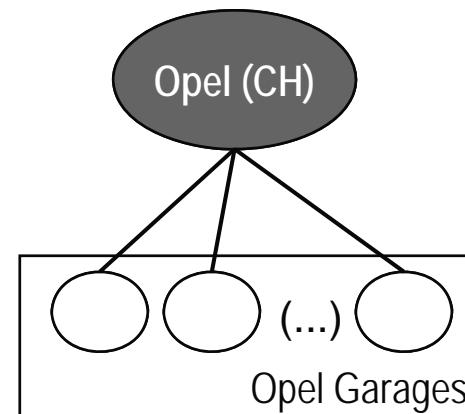
	Opel (CH)	Car4you.ch	Namics
Motives	Offer attractive Web-based services to Garages; ensure consistent communication; share cost w/ garages	Increase # of cars offered; gain additional customers (garages); widen service portfolio	Strengthen ties with other partners; gain additional business (solution implementation); reputation from success story
Resources/ Capabilities	Specialized in sales and marketing; Web policy: no sales of new cars	WWW core business: Infrastructure, SW, customer base; some Opel garages were customers before,	Web solution consultancy, IT development and consulting capabilities, knows both other partners
Relations	Namics has been partner before (set up website), no objections against car4you.ch	Knew namics before, positive attitude towards partners (both no competitors)	Interested in further/ intensified collaboration with both partners

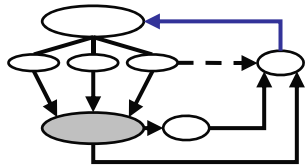




Opel Switzerland manages a network of independent sales&service units (garages)

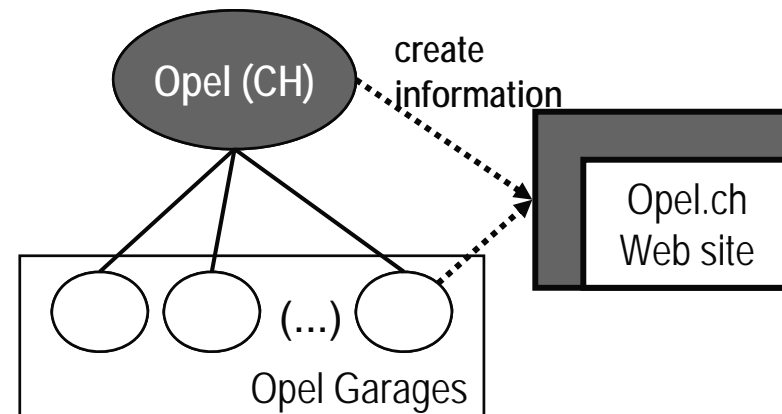
The Opel.CH web-based value creation network

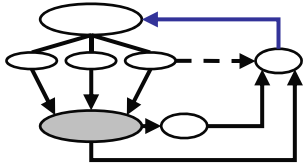




Opel aims at integrating all web activities of the garages to its Opel.ch site (brand management)

The Opel.CH web-based value creation network

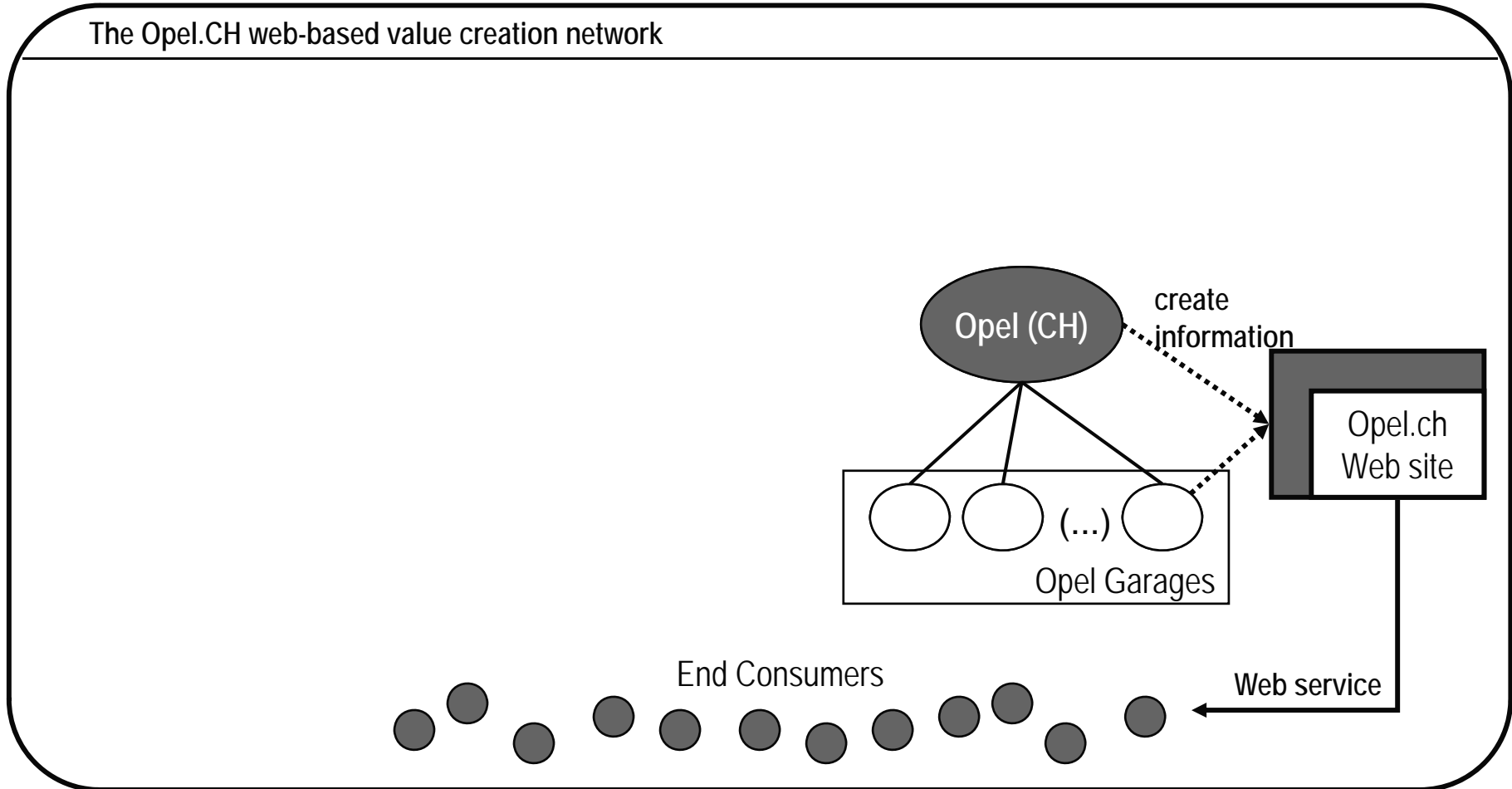


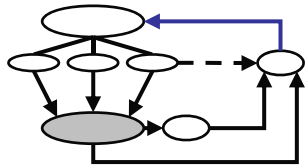


Besides, it is of interest to deliver superior value to the end customers.



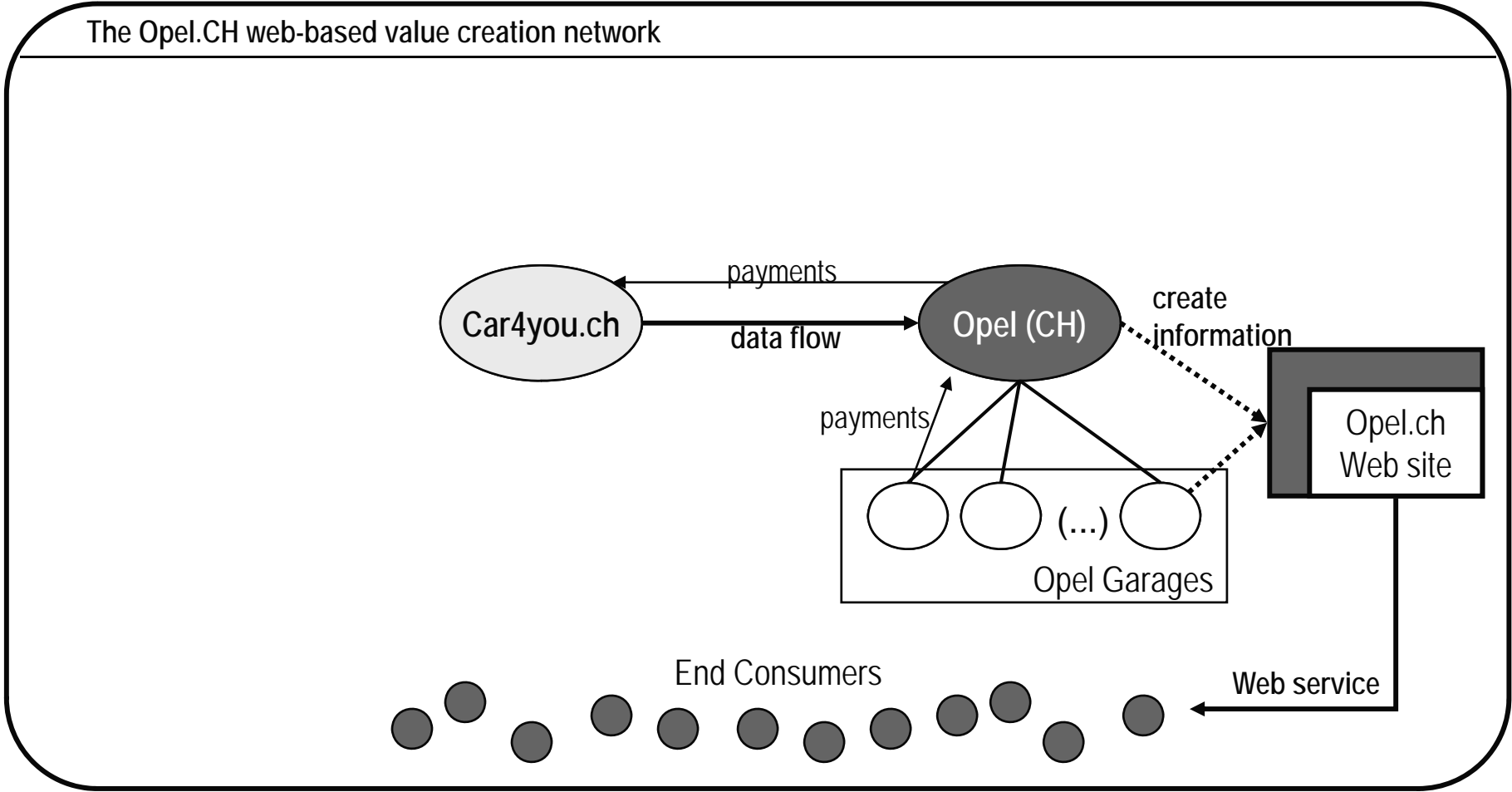
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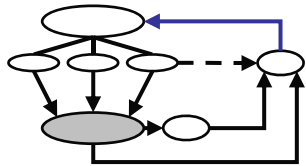




In doing so, Opel arranged a partnership with Car4you to integrate its services to Opel.ch.

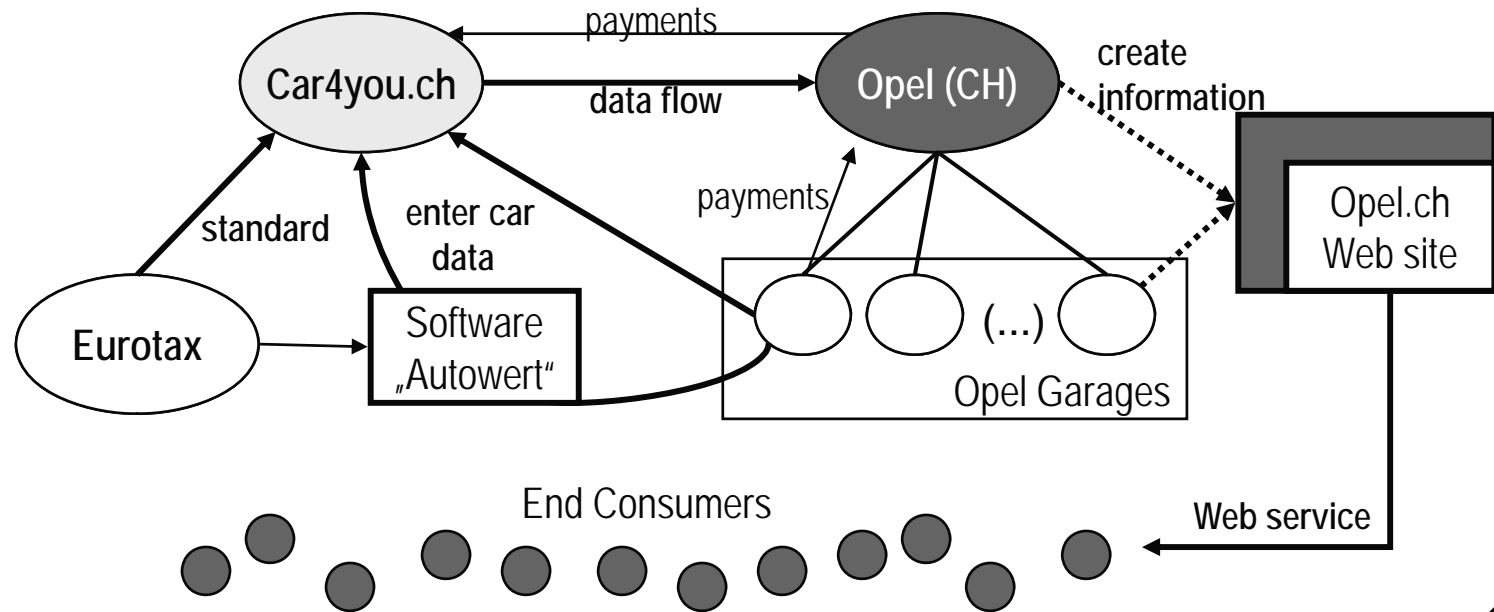
The Opel.CH web-based value creation network

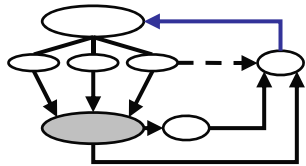




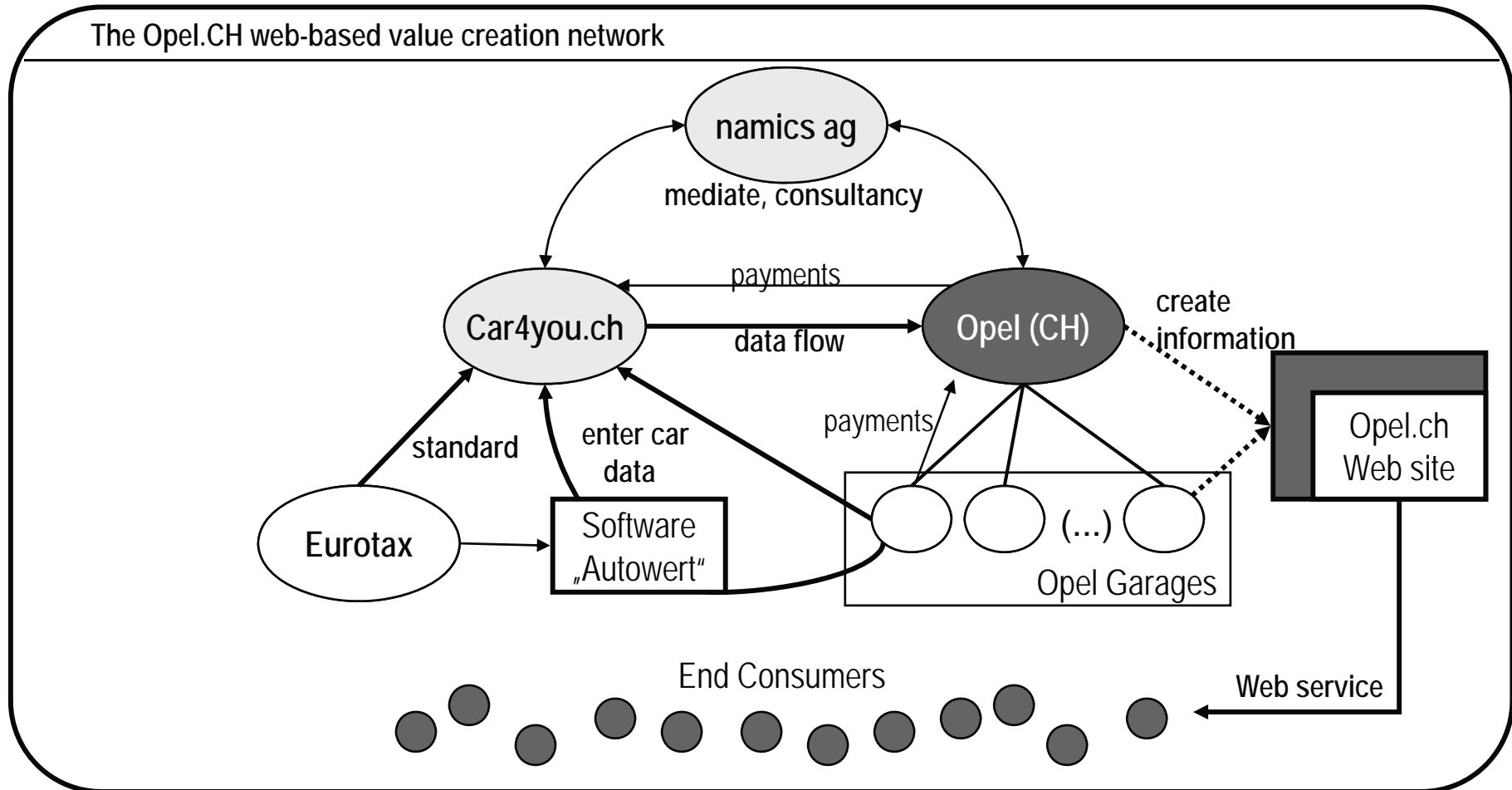
Used car data, originated by the garages via Car4you have been integrated („near-time“)

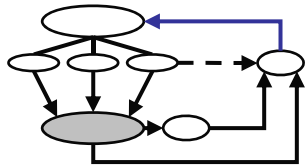
The Opel.CH web-based value creation network



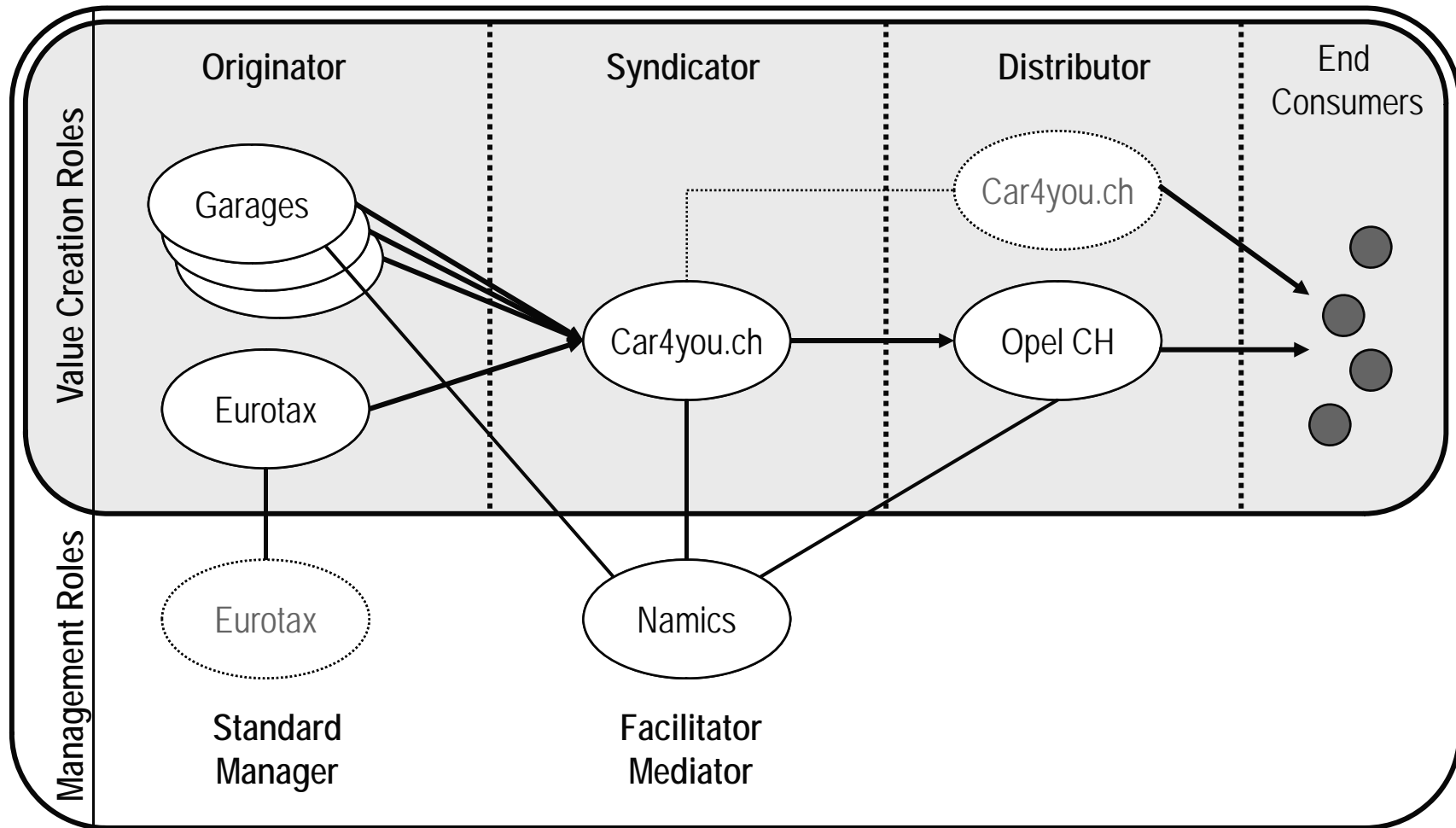


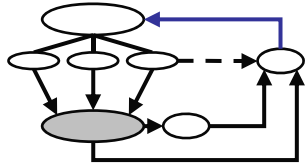
Arrangement configuration and relationship stabilization have been/are facilitated by Namics





Network Roles: Simplified value creation chain and visualization of roles



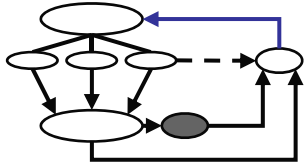


Network linkages and interactions: contractual issues vs. social interactions.



- ▶ Relations are not (and cannot be) fully described and stabilized by contracts (non contractable issues, complexity and dynamics of the domain)
- ▶ Thus, it is the triadic social relationship between the three representatives Michael Abegglen (Opel), Phil Büchler (Car4you) and Dorian Selz (Namics) that stabilizes and runs the network arrangement on an inter-personal level.
- ▶ These relationships ground in a stable trustworthy relationship which has been build up over time.
- ▶ The social relationships allow on the one hand to flexibly react to unforeseen incidents with innovative and flexible solutions, but they bear on the other hand also some risks
→ lack of documentation, dependence on involved people etc.



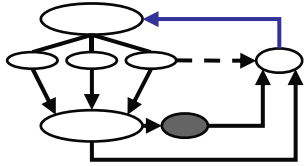


Value proposition for the garages



- ▶ Second hand car sales is very important for the garages.
 - ▶ Opel Web service is an additional service within Opel's service portfolio for the garages.
- ▶ It is cost beneficial for the garages to use the Opel solution resp. to join the Car4you service via the Opel Web services,
 - ▶ Car4you was able to grant special conditions because of the bundling effect of the Opel solution.
- ▶ Opel allows a certain degree of individualization for the garages to present themselves within the Opel.ch platform.
- ▶ The usage of the Opel services is easier for the garages than to set-up Web services on their own purpose.





Value proposition for the end customers



- ▶ An integrated web service with information and used car sales under the Opel.ch domain.
 - ▶ Whereas Opel supports only the customer's search/information phase in the new car business,
 - ▶ it enhances this service for the second hand business: the customer is able to inform himself about offerings and prices.
- ▶ The service to search for both – second hand cars on a Swiss-wide basis – or for a preferred garage and their offerings.
- ▶ Loyal customers, interested in Opel cars, can search for second hand cars directly via the Opel Web services and not only by using third party services.



car4you - Fahrzeugmarkt - Detailsuche - Microsoft Internet Explorer

Adresse http://www.car4you.ch/sea_det.cfm?vehicleid=100222336&sort1=VehicleSellingPrice&sort2=VehicleMileage&status=

car4you. PALMSHOP NR. 1 PALMS & ZUBEHÖR

Home Fahrzeugmarkt Händler & Services Shops Info & Community Reisen car4me Finanzieren & Versichern

Montag, 29. April 2002 weitere Sprachen FR

Detailsuche

Neuwagenkonfigurator
Oldtimer
Inserat aufgeben
Inserat bearbeiten
Fahrzeugbewertung
Landmaschinen

Detailsuche
Gesamtliste Fahrzeugvergleich Detailansicht

Probefahrt gefällig? Hier können Sie sofort mit dem zuständigen Händler in Verbindung treten.


14 Gefunder
vorheriges nächstes

Neue Suche • Fahrzeug zu den Favoriten hinzufügen

OPEL Astra 1.8i 16V GSi

Marke	OPEL
Typ	Astra 1.8i 16V GSi
Fahrzeugart	Gebrauchtwagen
Kilometerstand	165500 Km
Verkaufspreis	CHF 3'900.00 EUR 2'644.00

Händler
Waldronal Automobils GmbH



<http://www.car4you.ch/index.cfm?language=de&country=ch>




Opel - Microsoft Internet Explorer

Adresse <http://www.opel.ch/occasions/index.cfm?lang=de>

OPEL Home > Gebrauchtwagen

Showroom Händler Gebrauchtwagen Zubehör Dienstleistungen Opel Suisse Kontakt

Angaben zum Fahrzeug

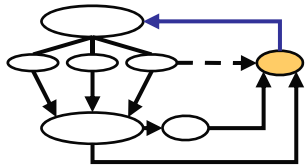
Marke	OPEL	
Typ	Astra 1.8i 16V GSi	
Erstzulassung	Juli 1994	
Kilometerstand	165'500 km	
Verkaufspreis	CHF 3'900.-	Fahrzeug-ID (FID) 100222336 Typenscheinnummer 105153
Aufbauart	Limousine	Garagen
Farbe	Weiss	
Polster	Stoff anthrazit	
Letzte MFK	Februar 2000	
Garantie auf Leistung	0 km	

Serien- und Sonderausstattung

Kontakte

<http://www.opel.ch/contact/page90000.cfm?lang=de>

**Same car,
same data,
different Web sites!**



Incentives for individual players



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Motives	Offer attractive Web-based services to Garages; ensure consistent communication; share cost w/ garages	Increase # of cars offered; gain additional customers (garages); widen service portfolio	Strengthen ties with other partners; gain additional business (solution implementation); reputation from success story
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Relations	Namics has been partner before (set up website), no objections against car4you.ch	Knew namics before, positive attitude towards partners (both no competitors)	Interested in further/intensified collaboration with both partners
Incentives	Solution in line with motives, however does not touch core business („nice to have“); incentives positive but low	Solution generates extra revenue, brings new customers and ads, but main business b2c; incentives positive but low	Integration solution was implemented by namics, interested in potential future projects: incentives positive and medium



Discussion of case Opel (CH)

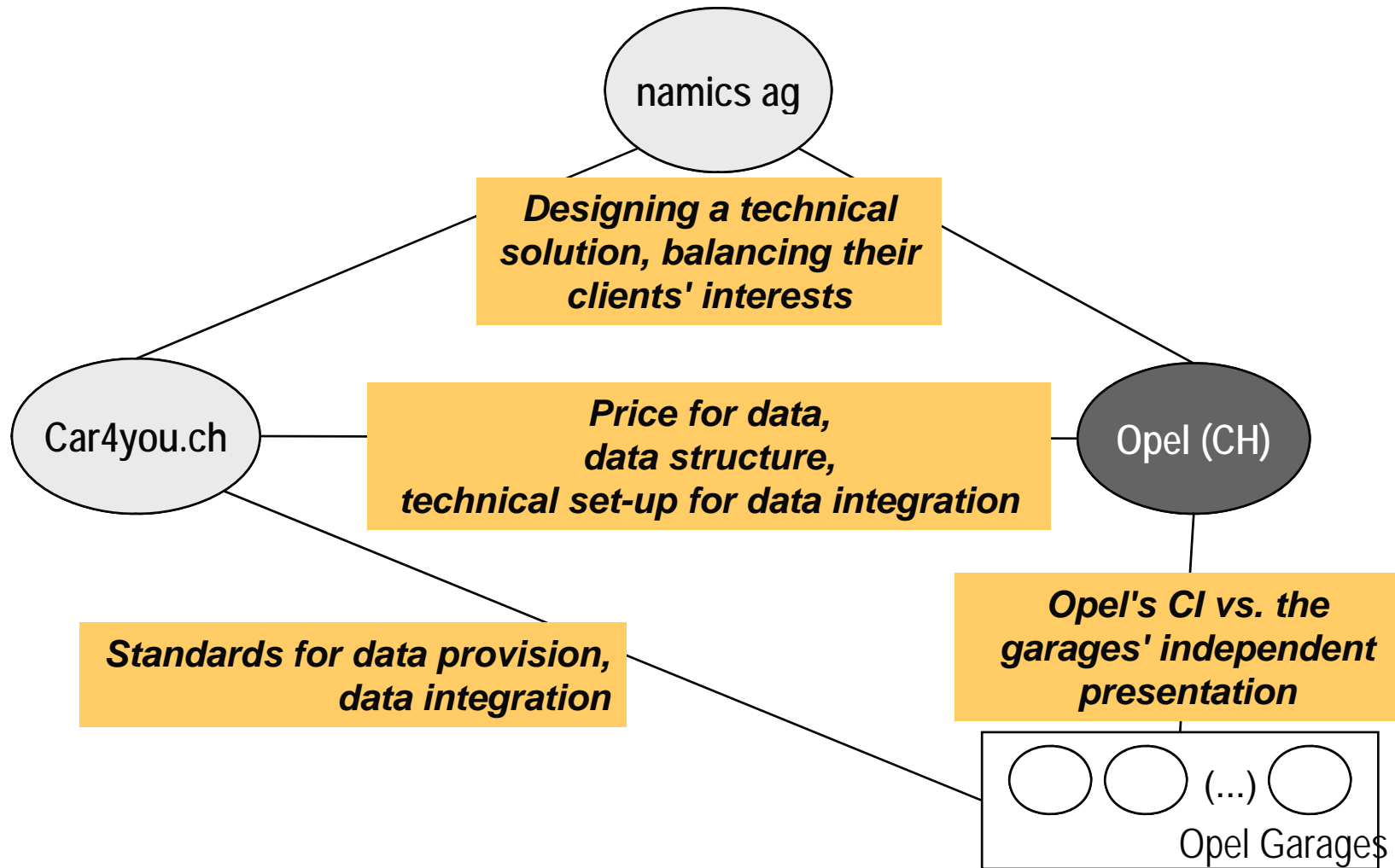


- ▶ Diadic relationship plus facilitator/mediator
- ▶ Driver: IT enabled opportunity in a peripheral area (to augment Opel's Web activities) -> delicate balance of interests
- ▶ Facilitator resolves conflicts on an ad hoc basis.
- ▶ Solution not core, commitment remains low
- ▶ Namics maintains personal network

- ▶ Risks:
 - ▶ High dependency on personal, social ties
 - ▶ Nor clear processes and responsibilities defined
 - ▶ No clear documentation of the solution
- ▶ Several potential sources for conflicts/problems



Negotiation issues, potential areas of conflict



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Conclusions



- ▶ Theoretical and case based (inductive) development of Network business model schema:
 - ▶ Value Proposition,
 - ▶ Network structure,
 - ▶ Processes and interactions
 - ▶ incentives,
 - ▶ Partner relations

- ▶ Generalizable managerial roles have been identified (standards manager, facilitator, mediator)



Premises and alternative applications of approach

- ▶ Premises
 - ▶ Win-win situation for individual players is intended
 - ▶ Value proposition has been defined / is not focused on

- ▶ Alternative applications of findings:
 - ▶ Identification of strengths and weaknesses in configurations
 - ▶ Evaluation of alternative configurations
 - ▶ Alignment of strategy and organization

- ▶ Limitations of approach
 - ▶ Requires knowledge and experience



Actionable results



- ▶ Reconstructing and describing (mapping) network business models.
- ▶ Integrating multiple perspectives: the organizational structure, the economic rationale and social facilitation and mediation mechanisms.
- ▶ Structural deficits and necessary areas for intervention become visible.



Further research



- ▶ Verification of identified managerial roles / Identification of further managerial roles
- ▶ Identification of „configuration typologies“
- ▶ Research of the „evolution“ of network business model configurations
- ▶ Application of approach to further cases
- ▶ ...

