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A two-tier business model and its realization for entrepreneurship ☆

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ABSTRACT

Entrepreneurs are important to economic development. Business model design is critical to assist entrepreneurs. This study proposes a two-tier business model for entrepreneurs, consisting of a conceptual model and a financial model. The conceptual model describes the idea of a new business which is useful to explain a business. The financial model provides the numbers of the new business which makes the business model accountable and measurable. The two-tier business model is more applicable in that on one hand, the model addresses the conceptual and financial issues separately to avoid confusion; on the other hand, the model integrates both the conceptual and financial models to provide a complete view of the business. Each of the conceptual and financial models provides the relationships among their components. In addition, the two-tier business model shows the relationships between both models. This study realizes the business model by the application of Internet. In addition, two real cases, including Apps and one million dollar home page, exemplify the practices.

1. Introduction

Entrepreneurs play an important role in economic development (Acs, 2006; Acs & Amoros, 2008; Ribeiro & Montoro-Sánchez, 2011b), and entrepreneurship is essential for the growth of both businesses and overall economies (Libecap, 2003). Entrepreneurship is an activity that involves the discovery, evaluation, and utilization of opportunities to introduce new products and services (Shane, 2003).

Business model design is important for entrepreneurs (Zott & Amit, 2010). Trimi and Berbegal-Mirabent (2012) point out that the study of business model design for entrepreneurs is new and attractive. Business models can act as various forms: to provide means to describe and classify businesses; to operate for investigation; and to act as recipes for management (Baden-Fuller & Morgan, 2010). However, there is no consensus regarding the definition, nature, structure, and evolution of business models (Morris, Schindehutte, & Allen, 2005; Tikkanen, Lamberg, Parvinen, & Kallunki, 2005).

There are two major types of business models, including static and evolving ones (Demil & Lecocq, 2010). The static model describes the target business, while the evolution model describes how a business evolves from one static model to another. Applegate, Austin, and McFarlan (2003) introduce four approaches for evolving a business, including enhancing, extending, expanding, and exiting. Business models continue to evolve from their initial states and throughout repeated application (Dunford, Palmer, & Benveniste, 2010) for survival and success (Javalgi, Todd, Johnston, & Granot, 2012). Dunford et al. (2010) exemplify the concept by the case of ING Direct.

Regarding the static models, Morris et al. (2005) illustrate the business model further by relating the concept of the business model to management concepts: a business model captures the key components of a business plan. Itami and Nishino (2010) consider that a business model contains what the business does and how the business makes profit. Yu and Huarng (in press) focus on how to create wealth for entrepreneurial firms.

To better capture all the important factors, this study proposes a two-tier business model to assist entrepreneurship, consisting of a conceptual model (the first tier) for describing the business idea and a financial model (the second tier) for discovering the financial concerns. Each model consists of components and linkages between the components. The two-tier business model is different from the previous models in that, first, the two-tier business model clearly separates the components of the conceptual and financial models to prevent the confusion of examining both at the same time. In addition to listing the components as in previous studies, the business model specifies the relationships (linkages) among the components, which helps to explain entrepreneurship (Ağca, Topal, & Kaya, 2012; Amorós, Fernández, & Tapia, 2012; Anderson, Dodd, & Jack, 2012; Baba & HakemZadeh, 2012). Further, the two-tier business model clearly explains the relationships between the components of the two models. To that end, Section 2 introduces the two-tier model. Section 3 provides some practices to realize the new model for entrepreneurship. Section 4 exemplifies the practices by two real cases and Section 5 concludes this study.

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2. The two-tier business model

2.1. The conceptual model

The conceptual model aims to describe a business, comprising of key components, including innovation, resource, market, and value, as in Fig. 1. The model starts with the innovation. Innovation is one of the key elements for entrepreneurship (Audretsch, 2012; Kim & Huarng, 2011; Stearns & Hills, 1996; Workman, 2012). Chaston and Scott (2012) manifest the relationship between innovation and business performance. “Each new venture is an innovation” (Vesper, 1994). An innovation can be an innovative idea, business concept, or any one of the 12 dimensions of business innovation (Sawhney, Wolcott, & Arroniz, 2006). The business concept may derive from the analysis of market opportunity, product and services, competitive dynamics, or strategies (Applegate et al., 2003).

Firm resources and sustainable competitive advantages have strong links (Barney, 1991; Wernerfelt, 1995). Hence, resource is another component in the conceptual model (Canina, Palacios, & Devece, 2012; Huarng, Mas-Tur, & Yu, 2012; Ribeiro & Montoro-Sánchez, 2011a). The resource shows how a business must align its internal systems to deliver the benefits of the value (Rayport & Jaworski, 2001). The more the entrepreneurs' resources, the greater the willingness for external partners to cooperate (Wu, 2007).

Opportunity recognition is an important aspect on entrepreneurship and studies emphasize the importance of market knowledge in opportunity recognition (Bettiol, Di Maria, & Finotto, 2012; Eggers, Hansen, & Davis, 2012; Siegel & Renko, 2012). Market is always a concern (Rayport & Jaworski, 2001), revealing why a business operates in a specific environment with the given legal framework, technology, (potential) customers, competitors, and resources (Petrovic, Kittl, & Teksten, 2001).

The overall objective of a firm's business model is to exploit a business opportunity by creating value for its stakeholders (Zott & Amit, 2010). Value creation is the ultimate goal of a business model (Afuah & Tucci, 2001; Applegate, 2001; Huarng & Yu, 2011b; Petrovic et al., 2001).

In summary, the innovation describes what a business will do; the resource addresses how a business will fulfill the innovation; the market specifies who will become the target customers; and the value represents why a business can survive and sustain.

The conceptual model also specifies the relationships between these components. In Fig. 1, the solid line from one component to the other represents the latter follows from the former in interpretation. For example, the innovation explains the necessary resource and the potential market. The resource supports the market. Both the resource and the market affect the final value proposition. The conceptual model serves as the first tier of the two-tier business model.

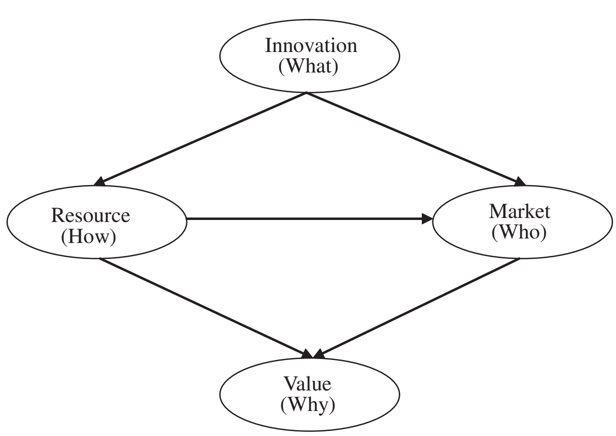

Fig. 1. The conceptual model.

2.2. The financial model

The essence of a business model is in defining the manner where a business delivers value to customers, entices customers to pay for the value, and converts those payments to profit (Teece, 2010). Hence, only the conceptual model cannot fully describe the real situations or reflect the sustainability of a business. A business model should be able to reflect financial conditions in a business (Dubosson-Torbay, Osterwalder, & Pigneur, 2001). In other words, a business model should be able to translate the conceptual model into numbers (Meyer & Crane, 2010). Hence, a financial model, consisting of cost, revenue, and profit, serves as the second tier of the two-tier business model, as in Fig. 2.

The cost (Chesbrough & Rosenbloom, 2002) monetizes all kinds of resources that need to realize and support the innovation. How much capital does a new business require (Shane, 2008)? Christensen, Parsons, and Fairbourne (2010) show that startup capital recovery time is a critical factor for a successful entrepreneurship, which confirms that the cost is an important financial component. The revenue (Afuah & Tucci, 2001; Alt & Zimmerman, 2001; Applegate, Austin, & Soule, 2009; Applegate et al., 2003; Betz, 2002; Zott & Amit, 2010) includes all possible incomes from the products or services a business supplies.

Simply put, the profit is equivalent to the revenue minus the cost. Or the profit can be the financial performance for subtle analysis. In the analysis of a business, the profit often gains higher profile (Itami & Nishino, 2010). The solid line in Fig. 2 shows that both the cost and the revenue affect the profit (Betz, 2002; Chesbrough & Rosenbloom, 2002).

2.3. The two-tier view

The cost and revenue are the other (monetary) side of a coin for resource and market, respectively. When a business delivers the value to

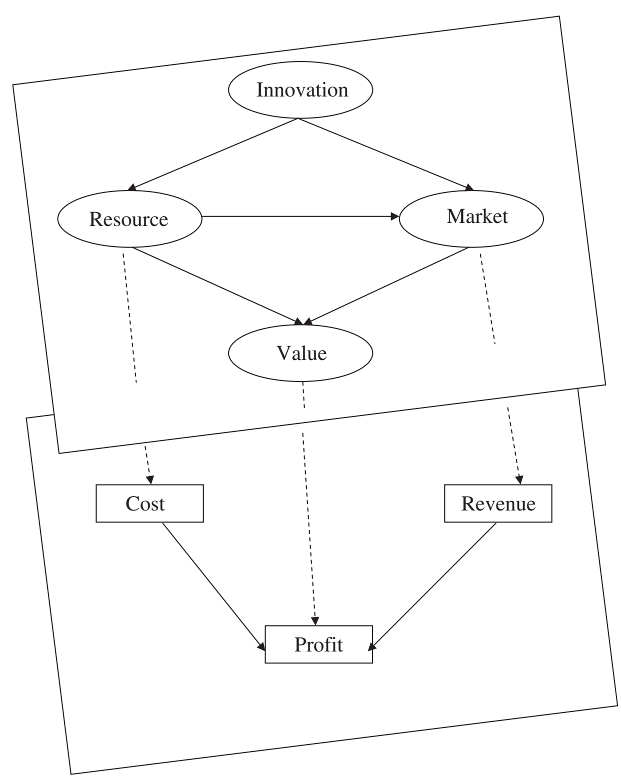

Fig. 2. The two-tier business model.