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# The sites and practices of business models

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ABSTRACT

This paper examines the concept of business models. Drawing on the business model literature, we first identify technology, market offering and network architecture as the three core elements of business models. The theoretical routes of each element are then examined through the associated literatures: technology and innovation studies, industrial marketing, operations strategy, and evolutionary economics. Multiple dimensions of each element are identified and the resultant framework is used to explore developments within the recorded music market across three centuries.

Through changes in the recorded music market since the 1870s, we explore how business models emerged, took on multiple sites and evolved through their practice over time. We look at how interlinking business models become spread out across the business network as different network actors play their part. The recorded music market generates important insights into how business models are created, developed and practiced. We suggest that firms, business networks and markets form embedded systems within which multiple overlapping business models can be considered as constituent parts. In this way, the business model is understood as having agency to shape action; but in turn actions (of others in the business network as well as within the firms themselves) also shape the business model.



## 1. Introduction

Until 2000, the notion of business models was largely the preserve of internet-based businesses. In early internet-based manifestations, business models were only meaningful at a network level. Often the business model notion was invoked to explain how novel types of business (like e-marketplaces, aggregators or online content providers) would actually make money. This was vital in an industry unfamiliar to would-be investors. Writers at that time saw business models as the descriptions of the roles of various network actors (Timmers, 1999: 63) and the flows between the actors of product, service, information and revenue (Weill & Vitale, 2001). In other words, firms were being understood *from the outset* in terms of their position and role in business networks (Axelsson & Easton, 1992; Håkansson, 1982).

As the idea of the business model became more widely adopted, it has come increasingly to be applied only at the firm level: the business model is seen as a property of the firm. Consequently, and regrettably, some of the flexibility and creative ambiguity of the business model notion has been lost. Once it had seemed simultaneously to be useful both at firm level and network level; both as a broad organising concept and as a rather specific statement of revenue, product and service flows. Now, in many cases, it has become reduced to a rather static concept, often difficult to distinguish from Porter-esque competitive strategy and increasingly only applied at the level of the firm. It is perhaps understandable that consultants and their like (Casadesus-Masanell & Ricart, 2010; Magretta, 2002) should be mainly interested in working at firm level; likewise, for different reasons, strategic management scholars (Zott & Amit, 2008). However, we suggest, that maintaining a more open mind about the business model concept and, in particular, about the relevant level of analysis – firm, network, industry or market – generates new insights for academics and managers alike. Taking a network perspective, our question is 'how are business models created and practiced?'

In order to say how business models are created and practiced, we first need to say what they are. The paper begins with a review of some prominent contributions to the business model literature and discusses some of its shortcomings. We present a business model framework that emerges from this literature and examine the underlying theoretical ideas behind it.

Our approach then is to take a cue from an archetypal contemporary instance of business model change. The recorded music industry has recently been disrupted and transformed by the advent of downloaded MP3 files and the rise of Apple iTunes. We suggest that, although this is a recent phenomenon, and was widely discussed as an instance of business model innovation, the early efforts to make money out of sound recording in the late 19th century were just as much about the development of novel business models as the innovations of the 21st century. We present episodes in the 120-year-long evolution of sound recording and recorded music business

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models as a way to illustrate and explore the framework. Using aspects of practice theory, we examine the multiple and changing sites of the business models, and the various combinations of practices through which this happens. We argue that a multi-level, multi-site approach to business models is useful in helping managers understand how to frame and co-ordinate collective action.

## 2. The business model literature

The value of business models lies in their ability to capture important elements of organisational strategy and make them form a coherent and compelling whole (Timmers, 1999). To date, the vast majority of research on business models has treated them as descriptions of how business is done (Chesbrough & Rosenbloom, 2002; Magretta, 2002), identifying the underlying elements or components that detail what the business model is at the level of the firm (Osterwalder, Pigneur, & Tucci, 2005; Zott & Amit, 2007). The three key elements consistently identified as the cornerstones of business models can be summarised as 1) technology (or the technologies that make up the product/service offering, its delivery and management), 2) market offering (what is actually offered to the customer and how) and 3) network architecture (the configuration of buyers and suppliers that make the market offering possible). The extant research understands a business model as an objective representation of the reality of the firm and its markets. In this way the business model is understood to represent a truth, describing the way a particular business works. But we know from the industrial marketing literature that any change in a firm's business network can have implications for the firm itself (Håkansson & Snehota, 1995). In this sense an important limitation of the business model literature is that it only creates a description of the firm at a single point in time and in so doing, fails to take account of the influence of the business network on the business model and vice versa. Taking a network perspective on business models and their creation and practice suggests that the business models of networked firms, must in some way be overlapping or complementary. Similarly, business models must have multiple sites.

If business models are to exist in multiple sites, where are they to be found? The concept of business models has been applied at three levels: by Doganova and Eyquem-Renault (2009) to understand how individuals (entrepreneurs) interact to develop their business model; by Chesbrough and Rosenbloom (2002) at the firm level; and by Mahadevan (2000) to understand e-commerce at an industrial or market level. What is consistent across the business model literature is the recognition that business models evolve through the interactions of individuals in social groups, both within the firm and within the wider business network. Schatzki (2005) argues that as individuals are embedded in the social lives of both firms and markets, we need multiple sites of analysis when trying to understand organisations and what they do. Similarly, Nicolini (2010: 1391) discusses the connectedness of these levels recognising the need for *"zooming in and zooming out"* in order to generate insights into such phenomena. Yet despite these valuable observations, we know little about the way business models are created and evolve at multiple levels and perhaps in multiple forms in these embedded systems. Understanding something about the sites of business models seems relevant and pertinent to generating deeper insights into their creation and practice.

How then do managers *practice* business models; how do they make them happen? If business models are to be understood not as descriptions of reality, but rather as frames for action, then we can see how the network perspective and the firm perspective might be linked in a system of firms, networks and markets. We need to understand more about how managers conceptualise, theorise and enact the modelled changes in organisations and markets. Birkinshaw, Hamel, and Mol's (2008: 825) work represents one of the first attempts to systematically examine *"the invention and implementation of management practice, process and structure… intended to further organizational goals"*. By focusing on the specific actions individuals take in order to lead to the emergence of management innovation, Birkinshaw et al.'s (2008) research makes two important contributions. First, it suggests that both internal and external actors have a significant influence on the emergent management practices of a firm; and second, it suggests that the process of management innovation does not always proceed as a linear sequence of activities from motivation through to theorization and labelling (also see, Pfeffer & Sutton, 2000). This is consistent with the descriptions of how business models are developed, presented and divulged to different stakeholders for different purposes (Doganova & Eyquem-Renault, 2009). In this way, the *business modelling* process can be understood to be both influencing and being influenced by not only internal actors within the firm developing the business model, but also by external actors within the business network – because of this complexity it seems unlikely that a linear sequence of activities could ever exist. Doganova and Eyquem-Renault (2009) show how the business model of an entrepreneur evolved and changed over time as the different stakeholders commented on, bought into and disengaged from their original business model. By divulging different parts of the business model to investors, suppliers and customers, the business model (or fractions of it) becomes sited in the business models of others. Thus, the sites of business models tell us something of how they happen. However, Doganova and Eyquem-Renault (2009) focus on the materiality of the business model; the form it takes in formal documentation, PowerPoint slides and targets. They pay far less attention to the management practices that perform, realise and evolve the business model as it happens (Schatzki, 2006). This has implications for the practice of business models, as it suggests that they are necessarily dynamic in nature (Mason & Leek, 2008) and that business models and their practices might interact in an iterative and evolutionary way. Business models are not first designed and then implemented, but are more usefully thought of as strategy-as-practice; incrementally emergent and ever-changing.

We take recorded music as a business context (see Dowd, 2002), within which to explore the creation and practice of business models in times of change. We draw on three business model elements consistently identified in the business model literature; (i) technologies, (ii) market offering and (iii) network architecture to explore this historical account; tracking how new business models emerged and old ones changed as new actors entered the network and did new things. We study business models in action (Latour, 1987). By 'zooming in' we explore business models as frames for action; allowing front-line workers to translate, adapt and act in contextually appropriate ways. By 'zooming out' we explore the *practice of business models*; how these frames are created and transformed by enrolling actors in the business network, and shaping and making the markets within which they act.

## 3. The theory behind business models

The business model literature as such came out of empirical settings in e-business and entrepreneurship, and has found its most stable home in the strategy literature (Amit & Zott, 2001; Zott & Amit, 2008). This means that the unit of analysis is driven toward the firm, and the business model's multi-level implications can become lost. Some strands of business model literature has, however, concentrated more on technology (Chesbrough & Rosenbloom, 2002) and has maintained an inter-firm perspective (Chesbrough & Schwartz, 2007). This section explores the theory behind the business model elements and, where applicable, draws attention to the management practices that are discussed in the extant literature. We draw parallels between the theory and the examples from the sound recording market. The