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"Global Challenges and Prospects of the Modern Economic Development"****EXPLORING A BUSINESS MODEL AND ITS PRACTICAL
IMPLEMENTATION BASED ON CASE STUDY**

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Abstract

Changes in the external environment and the digital transformation of the business lead to changes in companies' business models. However there is still insufficient attention to studying the business models of existing successful companies and the processes of their formation and updating despite the significant increase of interest to the business models within the academic and practical environment. The ideas of management practitioners about existing business models are often fragmented and can vary significantly, which makes it difficult to use the business model as a modern conceptual and analytical tool for the strategy. The methodological basis of the study includes the business model concept, case study design and also strategic, process and situational approaches. Based on the testing of the integrative framework, our study provides a holistic view of the business model. We have studied the key business model characteristics through the case study of an existing successful Russian company operating in the building materials market. The paper presents the results of the company's business model analysis and the processes of its updating based on innovations. The paper is practice-oriented. The results obtained in our research can be useful for management practices in the field of strategic management, and for modern business education in to build managers' strategic thinking skills.

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Keywords: Business model, strategy, activity sets, model dynamics, case study.



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1. Introduction

Continuous changes in the external environment and the introduction of digital technologies lead to changes in business models. To succeed, companies often have to rethink the logic of the business, update their business models, change management approaches and build core competencies (Desfontaines, Korchagina, Varnaev, & Semenova, 2019; Korchagina & Shvetsova, 2018; Shvetsova, 2018; Shvetsova & Kuzmina, 2018). The starting point in this process is an understanding of the existing business model, its strengths and weaknesses.

Despite a significant increase in the number of publications on business models, the most part of them focuses on e-commerce and the development of business models for startups. At the same time there is a lack of knowledge about the business models of already established successful companies and the processes of their formation and updating. Business models of successful companies arouse keen interest among business practitioners and attract the attention of researchers and business consultants. However, some key questions are still unanswered, which makes it difficult to understand and practical use of the business model as a modern conceptual and analytical tool for strategic management.

2. Problem Statement

Most established companies operate within the framework of a specific business model, regardless of whether it is formulated in an explicit form or not. A business model can be formed by top management consciously or develop spontaneously as a result of the implementation of previous management decisions. However the company needs to update its business model regularly due to the variability of the external environment or under the influence of internal factors.

Experience shows that managers of many companies often have little idea of the existing business model and its features. Their ideas, as a rule, are fragmented and can vary significantly (Strekalova, 2018). The lack of a single holistic view of the current business model and its characteristics makes it difficult to develop decisions about how it can be changed in it in order to obtain and strengthen company competitive advantages.

3. Research Questions

What are the existing approaches of understanding the essence of a company business model and how to present it holistically? What are the main characteristics of the business model of a successfully operating Russian company? How did changes in the external environment and/or significant events within the company influence decision-making process about changes in the business model? What are particular strategic decisions and innovations that impact on the company business model?

4. Purpose of the Study

The purpose of this paper is to give a holistic view of a business model, identify its main characteristics and analyze the processes of its updating on the basis of a case study of the successful Russian company. The main objectives of the study are follows: to study and identify key characteristics

of a business model using the example of the successfully operating Russian company on the basis of well-known approaches of understanding and presenting a business model; provide an overview of the main results of an event-structural analysis of previously adopted strategic decisions related to the business model formation and updating, and strategic innovations implementation. The empirical basis for the study was the Russian company Pobeda LSR JSC (part of the LSR Group), which successfully operates in the construction materials market of the North-West region of Russia.

5. Research Methods

The methodological basis of the study includes the business model concept, event-structure analysis, case study design, and strategic, process and situational approaches. The study has a practice-oriented character and corresponds to the “Strategy as Practice” research direction (Tambovtsev, 2011). The study of the Pobeda LSR JSC covered a ten-year period (1997-2007) of the LSR Group’s leadership strategy in the Russian building materials market. A specific situation based on the case study is presented in (Strekalova, 2014; Strekalova & Kaisarov, 2014). In order to collect and analyze data, the following methods were used: structured interviews of top managers, employee surveys, included monitoring, analysis of primary documents and other company materials. A longitudinal study (case study) was carried out during the periods 2006-2008 and 2013-2014.

The work of many authors have reflected issues of the business model concept (Zott & Amit, 2007; Teece, 2010), approaches to the study and updating of business models (Morris, Schindehutte, & Allen, 2005; Johnson, Christensen, & Kagermann, 2008; Strekalova, 2009). Over the past two decades, a certain level of understanding of the business model essence has been achieved, which generally reflected the logic of the business regarding the creation and appropriation of value. In the literature, there are three main positions of the authors, reflecting the economic, operational and strategic levels of understanding the essence of the business model. The first group of authors focuses on the economic aspects of activity; the second one concentrates on the internal business processes and operations. We adhere to the third (strategic) position, which focuses on the strategic aspects of the company’s business. Its basis can be described in the following way: “A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets” (Morris, Schindehutte, & Allen, 2005, p.727).

We introduce the definition of a business model based on the system approach. A business model is primarily a conceptual and analytical tool for the study of a complex object (business unit), reflecting the logic of the business. It characterizes the main factors and components of the business, their internal relationships and also relationships with the external environment, which allows a company to give a simplified holistic view of the business, reflect its most significant characteristics: what consumer value does the company produce and how is it created; to whom and how is it delivered; what are key competencies, resources and opportunities for value creating, a sustainable competitive advantage, income and profit generating.

To reflect the business model construct, different authors consider a different number of components: from four to eight. In our study, we used an integrative framework of six components proposed by the authors in (Morris, Schindehutte, & Allen, 2005). These six components reflect sets of

decision making at three specific levels: the “foundation”, the “proprietary,” and the “rules” level. If the first foundation level reflects what the company does, then the second proprietary level characterizes how it does it. The first level is sufficient to represent the essence of the business model of any company, the second is used to reflect the characteristics of the business model of this particular company. At the third level (“rules”), a set of guidelines and rules can be given that govern the execution of decisions made at the levels one and two of the model.

The first component of the business model reflects the factors associated with the value offering of the company and answers the question: how will the company create value? The second component describes market factors. Its main question is: for whom will the company create value? The third component characterizes the internal capability factors and answers the question: what is the company’s internal source of advantage? The fourth component reflects factors related to competitive strategy: how will the company position itself in the marketplace? The fifth component characterizes economic factors: how will the company make money? The sixth component reflects factors related to the goals and ambitions of business owners: what are the entrepreneur’s time, scope and size ambitions? A well-formulated business model should answer six key questions (Morris, Schindehutte, & Allen, 2005).

6. Findings

The table 01 below describes the Pobeda LSR business model. The analysis shows that the Pobeda LSR JSC has a robust, sustainability and effective business model that allows it to maintain high business growth for many years. The company has become a leader in the regional market with 69% market share after ten years of work in the building materials market. It was able to overcome the difficulties of the economic and financial crises in 1998 and 2008, and the crisis in the construction industry in 2004, which became a serious test of survival for many other Russian companies. The basis of the Pobeda LSR JSC business model are: the leadership strategy, focus on the use of growth opportunities that are consistent with business model, including mergers and acquisitions, focus on value proposition, broad market and innovations.

The first (foundation) level of the model in the table gives a general description of what the company does with its resources and capabilities. To diagnose the components of the foundation level model, we used a special questionnaire with a standard set of questions related to the six components of the model and a list of alternative answers. Let us consider the characteristics of the components of the foundation level model.

The first component reflects the factors associated with the value proposition: specific products / services, the offered assortment, used distribution channels, etc. The table shows that the company offers a product (ceramic brick) and services (brick delivery) with a prevailing focus on the product (95% income). A wide assortment of products with a deep coverage is offered to customers. The company uses different sales channels: direct sales (mainly) and sales through intermediaries.

The second component describes market factors: the nature and scope of the market, types of customers, their place in the value chain, service approaches to the client. The table shows that the company operates in the both regional B2B (80%) and B2C (20%) markets with the broad market

coverage. Its target segments include construction companies (large and medium) and individual developers. The prevailing approach to the client is building relationships (especially for B2B market).

The third component reflects the factors of internal capabilities that may be associated with: value chain, production / operating system, technology development /innovation, marketing / sales experience, business network management skills, management competence, etc. Analysis shows that the company has its own mass production, access to sources of raw materials, uses modern equipment and technology, a developed network of cooperation and partnership, in which it plays a key role, etc.

The fourth component (factors of competitive strategy) provides the view of the key competencies of the company, which allow it to differentiate itself, or produce something perceived to be unique in the marketplace. The basis for the differentiation and stable strategic position of the Pobeda LSR is associated with: high quality products with a wide range of assortment; stability, reliability and uninterrupted supply, strong relationships with customers, the image of "a company with which it is convenient to work".

The fifth component (economic factors) describes the economic model of the Pobeda LSR, which is characterized by a fixed revenue source, high volumes of production, a flexible prices, high operating leverage, and medium margins. The sixth component reflects the choice of a business growth model.

The second (proprietary) level in the table reflects the specific features of the Pobeda LSR business model related to innovation, key competencies and other opportunities. It characterizes the company's ability to create and use unique combinations and approaches to one or more components of the model, which provides it with a competitive advantage. Thus, innovations in value proposition ensured the production of high quality products and on-time delivery, a wide range of assortment (over 40 types of bricks and ceramic products of various profiles, sizes, grades and colors). The unique characteristics of the operating system, due to the introduction of a number of process innovations, have led to stability, reliability and uninterrupted supply, a significant increase in product quality, optimization of operational and production planning, acceptance of orders on the Internet, etc. Marketing innovations related to market segmentation have allowed company to develop differentiated service functionality and unique offers for each target segment. Brick brand development, the introduction of two brands ("Ceramics", "Rauf"), organizational and process innovations in the field of marketing and sales contributed to a flexible pricing policy, improving the quality of customer service. All factors mention above led to economies of scale, increased product profitability and sales.

Table 01. Characterizing the business model of JSC “Pobeda LSR”

| Components | Foundation level | Proprietary level |
|---|---|--|
| Component 1. Factors related to value offering | Product manufacturing (Ceramic Brick); Standardized offer; Broad range of assortment; Deep assortment coverage; Direct sales; Sales through intermediaries | Product with delivery (on orders, just in time); High quality product; Over 40 types of bricks and ceramic products; Direct Sales (B2B): construction companies; Sales through intermediaries (B2C): construction bases, hypermarkets, dealer clubs, retail chain “The Brick Center” |
| Component 2. Market factors | B2B and B2C market (corporate and individual clients); Regional market (St. Petersburg and Leningrad region); Broad market: -construction companies, -individual developers; Relationship building (B2B) | Managed development (growth): retention of regional market share and seizing opportunities for growth (regional expansion) B2B (80% of the market), B2C (20% of the market); Close trusting relationships on a long-term, mutually beneficial basis (for corporate clients) |
| Component 3. Internal capability factors | Own production / Operating systems; Mass production; Modern equipment; Advanced technology | Production specialization (in factories); Total capacity - 290 million bricks per year; Innovation in operating systems; High efficiency of factories capacity utilization; Production planning optimization; Effective marketing and sales system; Accepting orders on the internet |
| | Raw material base; Intangible assets; Investment resources | Own clay quarry ; Brick brand, trademarks ("Ceramics", "Rauf"); Access to corporate investment sources; Administrative resource |
| | Developed network of cooperation and partnership; Key role in business network | Joint implementation of orders for complex projects; Complete set with various types of building materials |
| | Strong corporate culture; Personnel motivation systems | Promoting innovations and entrepreneurship (at all levels); Provision of employees: - professional career growth, - social protection programs, - salary is above industry average |
| | High professionalism of management; Qualified engineering staff | Sharing knowledge, information and best practices; Policies for the hiring and retention of valuable employees |
| Component 4. Competitive strategy factors | High quality product; Broad range of assortment; Image of the “company with which it is convenient to work”; Stability / reliability | Differentiation is achieved through: - high quality product; - variety of assortment; - stability, reliability, uninterrupted supply; - offer a comprehensive solution to customer problems (a wide range of building materials) |
| Component 5. Economic factors | Fixed revenue sources; Flexible prices; High operating leverage; High production volumes; Medium margins | Product sales (95% of revenue); Delivery and related products (5% of revenue); Price level (between high and medium); Economies of scale; Profitability growth |
| Component 6. Growth/exit factors | Growth model | Focus on growth opportunities that are consistent with business model |

Source: authors on the basis of (Morris, Schindehutte, & Allen, 2005).

A strong corporate culture ensured the implementation of certain values of the company: the desire for leadership, the introduction of innovation and the promotion of entrepreneurial initiative at all levels. Human resources management included: employee wage systems (above the industry average), professional and career growth, and different social protection programs.

Sustainability depends on how well the components of the business model demonstrate consistency (“fit”), which is considered at two levels: internal and external. The table shows that the factors of the economic model are well coordinated among themselves, which characterizes its internal consistency. The analysis also shows the internal consistency between the sets of solutions embedded in all six components of the business model, as well as the external consistency between the sets of solutions embedded in each of the six components and environmental conditions. In general, the business model can be described as quite sustainable and effective.

The process of forming and updating the business model was dynamic, which was due to both the variability of the external environment (economic crises, ups and downs of the construction industry), and the inevitable intra-company dynamics. An event-structural analysis of real chains of events over a ten-year period showed that the strategic decisions that generated them were focused, proactive, and the implementation of various types of innovations provided the company with competitive advantages.

We would like to give an example that illustrates innovation in value proposition. Entering the market of building materials (1997), the company was able to significantly increase the value of its offer to customers (construction companies) due to the timely need for brick delivery services and quick response to customer requests. The company noted that the rhythm and timeliness of deliveries play a very important role for customers. Without delay, a strategically correct decision was made at that time about the organizing the own company transport department, purchase trucks and develop logistics flow patterns. Many customers were pleasantly surprised and satisfied when their orders began to arrive on time. Customers bought a package (brick and its delivery), and the company received the additional profit. Note that in those years it was a significant innovation for the construction industry as a whole, since competitors did not deal with delivery issues at that time. The company was able to create a competitive advantage for itself and was ahead of its closest competitors. Subsequently, competitors began to copy this innovation, which led to the diffusion of innovations and to a change in the standardized offering in the construction industry.

Over the ten years of operation, Pobeda LSR has shaped the image of “a company that is convenient to work with”. This was largely due to its commitment to a well-designed, constantly updated, and effective business model.

7. Conclusion

The paper presents and informally discloses the main components and key characteristics of a business model using the example of the Pobeda LSR which is successfully operating in the North-West building materials market of Russia. The event-structural analysis of the company's experience has shown that the basis of its success is meaningful purposeful formation of the sustainable and effective business model, its regular updating on the basis of innovation, which ensured its competitive advantages.

The practical use of the business model as the conceptual and analytical tool for strategy allows managers to apply new approaches for understanding the logic of business, designing strategic innovations, and creating value. Therefore the business models can become one of the distinguishing managerial practices of our time due to their importance and usefulness.

The studying of the business models of the successful Russian companies and their updating processes provides useful factual material that is relevant to Russian business practice and useful for Russian managers training and developing their strategic thinking skills. It provides them with a unique opportunity to understand the essence of innovations, analyze their impact on value creation and the formation of economic results.

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