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From Strategy to Business Models and to Tactics

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From Strategy to Business Models and to Tactics*

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Abstract

The notion of business model has been used by strategy scholars to refer to "the logic of the firm, the way it operates and how it creates value for its stakeholders." On the surface, this notion appears to be similar to that of strategy. We present a conceptual framework to separate and relate *business model* and *strategy*. Business model, we argue, is a reflection of the firm's realized strategy. We find that in simple competitive situations there is a one-to-one mapping between strategy and business model, which makes it difficult to separate the two notions. We show that the concepts of strategy and business model differ when there are important contingencies upon which a well-designed strategy must be based. Our framework also delivers a clear separation between tactics and strategy. This distinction is possible because strategy and business model are different constructs.

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I. Introduction

The field of Strategy has evolved substantially in the past twenty-five years. Firms have learned to analyze their competitive environment, define their position, develop competitive and corporate advantages, and understand threats to sustaining advantage in the face of challenging competitive threats. Different approaches including industrial organization, the resource-based view, dynamic capabilities, and game theory have helped academicians and practitioners understand the dynamics of competition and develop recommendations on how firms should define their competitive and corporate strategies.

However, drivers such as globalization, deregulation, or technological change, just to mention a few, are profoundly changing the competitive game. Scholars and practitioners agree that the fastest growing firms in this new environment appear to have taken advantage of these structural changes to compete "differently" and innovate in their *business models*. IBM's 2006 and 2008 "Global CEO Study," for example, show that top management in a broad range of industries are actively seeking guidance on how to innovate in their business models to improve their ability to both create and capture value.[1]

Advances in information and communication technologies have driven the recent interest on business model innovation. Many e-businesses constitute new business models. Shafer, Smith, and Linder present twelve recent definitions of business model and find that eight are related to e-business. Of course not all business model innovations are IT-driven; other forces, such as globalization and deregulation, have also resulted in new business models and fed the interest on this area.[2]

New strategies for the bottom of the pyramid in emerging markets have also steered researchers and practitioners towards the systematic study of business models. Academicians working in this area agree that for firms to be effective in such unique environments, they need to develop novel business models. In fact, socially motivated enterprises that aim to reach the bottom of the pyramid constitute an important source of business model innovations.[3]

Although it is uncontroversial that for organizations to thrive managers must have a good understanding of how business models work, the academic community has, so far, only offered early insights on the issue. In truth, there is not yet agreement on what are the distinctive features of superior business models. We believe that the dispute has arisen, in part, because of a lack of a clear distinction between the notions of strategy, business model, and tactics. *The purpose of this paper is to contribute to this literature by presenting an integrative framework to distinguish and relate the concepts of business model, strategy, and tactics*.

Put succinctly, *business model* refers to the logic of the firm, the way it operates and how it creates value for its stakeholders. *Strategy* refers to the choice of business model through which the firm will compete in the marketplace. *Tactics* refers to the residual choices open to a firm by virtue of the business model that it employs.

To integrate the concepts of strategy, business model, and tactics, we introduce the *generic two-stage competitive process framework* depicted in **Figure 1**. In the first stage, firms choose a "logic of value creation and value capture" (choose their business model). In the second stage, firms make tactical choices guided by their goals (in most cases, goals entail some form of stakeholder value maximization).

Insert **Figure 1** around here

Figure 1 presents our organizing framework: the object of strategy is the choice of business model, and the business model employed determines the tactics available to the firm to compete against, or cooperate with, other firms in the marketplace.

The paper is organized as follows. In Section II we define and discuss the notion of *business model* and present a tool to represent business models. In Section III we study the second stage of the framework. Specifically, we present and discuss the notion of *tactics* and relate it to that business model. In Section IV, we move on to discussing the first stage, the *strategy* stage. Section V revisits the generic two-stage competitive process framework to integrate the three notions: strategy, business model, and tactics. We discuss the connection between strategy and business model and argue that both notions can be clearly separated. We develop a detailed example in Section VI. Section VII concludes.

II. Business model

Defining business model

The origins of the expression business model can be traced back to the writings of Peter Drucker, but the notion has gained prominence only in the last decade. While business model has been part of the business jargon for a long time, Markides points out that there is no widely accepted definition.[4]

Magretta defines business models as "stories that explain how enterprises work." This author goes back to Peter Drucker and defines "a good business model" as the one that provides answers to the following two questions: Who is the customer and what does the costumer value? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost? Magretta's implicit idea is that business model refers to the logic by which the organization earns money. While not formal, Magretta's approach highlights two fundamental questions that any business model should answer, one related to the value provided to the customer and the other to the organization's ability to capture value in the process of serving customers.[5]

While Magretta's definition is broad but imprecise, Amit and Zott's is less ample (as it focuses on e-businesses) but precise. These authors review the contributions of several theories including virtual markets, Schumpeterian innovation, value chain analysis, the resource-based view of the firm, dynamic capabilities, transaction cost economics, and strategic networks. As they point out, every theory contributes elements to the notion but none, by itself, explains completely the nature of business models. Amit and Zott (2001) analyze a sample of U.S. and European e-business models to highlight the drivers of value creation and present the following integrative definition: "A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities." Transaction content refers to the goods or information being exchanged, as well as to the resources and capabilities required. Transaction structure refers to the parties that participate, their links, and the way they choose to operate. Finally, transaction governance refers to the way flows of information, resources, and goods are controlled by the relevant parties, the legal form of organization, and the incentives to the participants.[6]

Building on their original definition, Zott and Amit (2010) propose an activity system perspective for the design of business models. They argue that activity systems capture the essence of business models and propose two sets of aspects that business model designers need to consider: *design elements* (content, structure, and governance) that describe the architecture of the activity system, and *design themes* (novelty, lock-in, complementarities, and efficiency) that describe the sources of value creation of the activity system.[7]

The common thread across all of these approximations to the notion of business model is captured well by Baden-Fuller, MacMillan, Demil, and Lecocq when they define *business model* as "the logic of the firm, the way it operates and how it creates value for its stakeholders." We adopt their definition as the starting point for our argument.[8]

To make progress, we find it helpful to use the analogy of a machine.[9] Any given machine has a particular logic of operation (the way the different components are assembled and related to one another), it runs in a particular way and, in operating, it creates value for whomever uses it. For concreteness, consider an automobile. Every automobile has a particular logic of operation. For example, conventional automobiles operate quite differently than hybrids, and standard transmission automobiles operate differently than automatic transmission automobiles. Different automobile models create different value for their "stakeholders," the drivers. Some drivers may prefer standard transmission. Others may prefer a small car that allows them to easily navigate the streets of a congested city. Yet others may prefer a large SUV with a powerful explosion engine to enjoy the countryside to the fullest. Different automobiles correspond to different business models in our analogy. Different automobiles have different particular logics of operation and create different value for their drivers.

Automobiles are made of parts such as wheels, engines, seats, electronics, windshields, and the like. To create a new automobile and/or to make an assessment of how well a particular automobile works, one must consider its components and how they relate to one another. Likewise, to better understand business models, one needs to look at their component parts and understand how they relate to one another. The question arises: What are business models made of? We contend that business models are composed of two different sets of elements: (a) the concrete *choices* made by management on how the organization must operate, and (b) the *consequences* of the choices.

Choices include, but are not limited to, compensation practices, procurement contracts, location of facilities, assets employed, extent of vertical integration, or sales and marketing initiatives. Every choice has some consequence. For example, the provision of high-powered incentives (a choice) has implications regarding the willingness to exert effort or to cooperate with coworkers (consequences). Likewise, pricing policies (choices) have obvious implications regarding sales volumes, which in turn, affect the economies of scale and bargaining power enjoyed by the firm (two consequences).

We distinguish three types of choices: policies, assets, and governance structures. *Policies* refer to courses of action that the firm adopts for all aspects of its operation. Examples of policies include opposing the emergence of unions, locating plants in rural areas, encouraging employees to fly tourist class, providing high-powered monetary incentives, or flying to secondary airports as a way to cut expenses. *Assets* refer to tangible resources such as manufacturing facilities, a satellite system for communicating between offices, or the use of a particular aircraft model by an airline. *Governance* of assets and policies refers to the structure of contractual arrangements

that confer decision rights for policies or assets. For example, a given business model may contain as a choice the use of certain assets such as a fleet of trucks. The firm can own the fleet or lease it from a third party. Transaction cost economics suggests that seemingly innocuous differences in the governance of assets and policies may have dramatic effects on their effectiveness.[10]

In summary, we follow Baden-Fuller, MacMillan, Demil, and Lecocq and define *business model* as the logic of the firm, the way it operates and how it creates value for its stakeholders. To make the notion operational, we argue that business models are composed of *choices* (policies, assets, and governance) and the *consequences* derived from the choices.

Example: Ryanair

To illustrate our notion of business model and introduce a tool to represent business models, consider the famous case of Ryanair. Important choices in its business model include: flying to secondary airports, lowest ticket prices, low commissions to travel agents, standardized fleet of Boeing 737s, treating all passengers equally, high-powered incentives, no meals, nothing free, Spartan headquarters, and no unions.[11]

Consequences of these choices are:

- Secondary airports → low airport fees.
- Lowest ticket prices → large volume.
- Low commissions to travel agents → low cost.
- Standardized fleet of 737s → bargaining power with suppliers.
- All passengers treated equally → economies of scale.

- High-powered incentives → attracts combative team.
- No meals → faster turnaround.
- Nothing free → additional revenue.
- Spartan headquarters → low fixed cost.
- No unions → flexibility.

A useful way to represent business models is by means of a causal loop diagram: choices and consequences linked by arrows representing causality (based on theories, as discussed above).[12] **Figure 2** is a representation of Ryanair's business model.

Insert **Figure 2** around here

Figure 2 has choices underlined. The non-underlined elements are consequences. Consequences in boxes are "rigid," those not in boxes are "flexible." A consequence is *flexible* if it is sensitive to the choices that generate it. For example, "large volume" is a consequence of a policy of low prices. If the policy changes to high prices, volume is likely to fall rapidly. In contrast, a *rigid* consequence is one that does not change rapidly with the choices that generate it. For example, a "reputation for 'fair' fares" is a consequence that changes only slowly with the choices that generate it.[13]

Recall the analogy of a business model and a machine. **Figure 2** is a representation of how the Ryanair "machine" is assembled and how it works. There are many ways in which a machine to perform a given task can be designed and assembled: different levels of redundancy, specific mechanisms, quality of components, *et cetera*. Different machine configurations have different direct consequences affecting the overall level of efficiency of the machine (speed, input

efficiency, noise, quality of output, and so on). Other airlines are "assembled" differently than Ryanair, they have a different logic, a different way to operate and to create value for their stakeholders. These different ways to "put together" airlines correspond to different business models.

Business models often generate *virtuous cycles*, feedback loops that strengthen some components of the model in every iteration. In the case of Ryanair, examples of virtuous cycles are:

- Virtuous cycle 1: lowest fares → large volume → bargaining power with suppliers → [low fixed cost] → lowest fares → …
- Virtuous cycle 2: lowest fares → large volume → high aircraft utilization → [low fixed cost/passenger] → lowest fares → …
- Virtuous cycle 3: lowest fares → low quality service expected → no meals → low variable cost → lowest fares → …

While virtuous cycles are not part of the definition of a business model, they are crucial in their evaluation. As the cycles spin, rigid consequences become larger. If those rigid consequences are valuable, virtuous cycles develop valuable resources and capabilities. For example, as Ryanair's volume increases (because of its low fares), bargaining power with its suppliers (airport authorities, Boeing, Airbus...) grows, resulting in improvements in Ryanair's advantage.[14]

We should point out that the interconnection between elements in a business models is central also in Lecocq, Demil, and Warnier (2006). These authors develop a dynamic view of a business model focused on value creation/capture that they refer to as the RCOV Model. Their model has three interrelated components: **R**esources and **C**ompetences (RC), internal and external **O**rganization (O), and **V**alue propositions (V), connected in a virtuous cycle. The value propositions provide the volume and structure of revenues, while the internal and external

organization provide the volume and structure of cost, thus jointly explaining margins. The authors emphasize the permanent interactions between the components of the business models.[15]

Simplifying business model representations

Complete business model representations are often too complex to write down and work with. As a consequence, the analyst is often forced to simplify when representing business models. There are two main ways to simplify to move from the full, true detail of a business model to a tractable representation: aggregation and decomposability.

Aggregation. Aggregation works by bunching together detailed choices and consequences into larger constructs. For example, specific incentive contracts (which may be unique to every individual in the organization) may be bunched together into a choice called "high-powered incentives." This captures the idea that, on average, contracts impose high-powered incentives onto the workforce. In the business model representation, instead of detailing every possible contract that the organization may offer, we simply write: high-powered incentives. This allows a simplified representation that enhances our understanding.

We think of aggregation as "zooming out" and looking at the (real) business model from the distance. As the analyst zooms out, details blur and larger objects (aggregations of details) become clear. If one keeps his nose close to every choice and consequence, it is impossible to see the larger picture and understand how the business model works. On the other hand, if one looks at the business model from very far away, all interesting details are lost. It is more an art than a science to find the "right distance" from which to assess a given business model. **Figure 3** shows a highly aggregated representation of Ryanair's business model.

Insert **Figure 3** around here

Decomposability. Sometimes business models are decomposable in the sense that different groups of choices and consequences do not interact with one another and thus can be analyzed in isolation. In this case, depending on the question to be addressed, representing just a few parts of an organization's business model may be appropriate.

Discussion

Two aspects of our development deserve further discussion. First, note that our approach implies that *every* organization has some business model. This is because every organization makes some choices and these choices have some consequences. Of course, this does *not* mean that every business model is satisfactory or even viable in the long run. Other authors define business models normatively, implying that a business model has to consider particular aspects. For example, Johnson, Christensen, and Kagermann argue that business models consist of four elements: a customer value proposition, a profit formula, key resources, and key processes. Likewise, Chesbrough and Rosenbloon, to offer a "detailed and operational definition," state that

> "the functions of a business model are to: articulate the value proposition, identify a market segment, define the structure of the value chain, estimate the cost structure and profit potential, describe the position of the firm within the value network, and formulate the competitive strategy."[16]

Following a similar approach, Teece states that "[b]usiness model design involves assessments with respect to determining: (1) the identity of market segments to be targeted; (2) the benefit the enterprise will deliver to the customer; (3) the technologies and features that are to be embedded in the product and service; (4) how the revenue and cost structure of a business is to be 'designed' (and, if necessary, 'redesigned') to meet customer needs; (5) the way in which technologies are to be assembled and offered to the customer; and (6) the mechanisms and manner by which value is to be captured, and competitive advantage sustained. These issues are all interrelated. They lie at the core of the fundamental question asked by business strategists – which is how does one build a sustainable competitive advantage."[17]

By defining business model normatively these authors offer valuable guidance on what managers should be thinking about when designing their business models. At the same time, the normative approaches are implicitly imposing bounds on what a complete business model is. Our notion is less demanding. We define business models independently of any features of goodness and/or effectiveness. We do not consider any *a priori* categories or variables.

Second, according to our conceptualization, an organization's business model is an objective (real) entity: choices are made in every organization and the choices have consequences. The particular set of choices (policies, assets, and governance) made by the organization and the associated consequences *are* the organization's business model because they determine "the logic of the firm, the way it operates and how it creates value for its stakeholders." An analyst that studies a particular organization's business model, however, will generally be unable to process the complete business model because it is often too complex (there are too many choices and consequences). Given this, the analyst proceeds by selecting what he or she believes are the

key choices (a subset or the complete set of choices). The analyst then observes (or conjectures) the main *consequences* that are derived from those choices. In connecting consequences to choices, the analyst is effectively making use of *theories* (assumptions or beliefs) that provide a rationale for the links between choices and consequences. The resulting map of a subset of choices and consequences connected by the theories is a *business model representation*, i.e. the analyst's (best) guess of how the actual business model works.[18]

III. Tactics

Defining tactics

Tactics refers to the residual choices open to a firm by virtue of the business model that it employs. Consider Metro, the world's largest newspaper measured by circulation. It is free and ad-sponsored and it is published in more than 100 cities in 18 countries. In each city it enters, it competes with local newspapers sold at positive prices. Being ad-sponsored, Metro chooses the advertising rates that it will charge to firms that wish to advertise in Metro. Metro also chooses: the precise number of pages that each edition of the newspaper has, the precise number of ads, the precise balance between news and opinion pieces, and so on. All of these choices are part of Metro's tactics. Metro, however, cannot change "price of the newspaper" because its business model is ad-sponsored and the newspaper *must be sold at zero price*. Put differently, Metro's business model precludes Metro from using "price of the newspaper" as a variable that can be changed depending on the intensity of competition and other external factors. Therefore, "price of the newspaper" is not part of Metro's set of tactics.[19]

Or consider the case of the competition between Harvard Business School (HBS) and Stanford

Graduate School of Business for MBA students. In the past few years, Stanford has initiated the offering of a "tailored MBA:" every student gets a personalized MBA curriculum, depending on his or her background and professional goals. There is essentially no core curriculum. Given HBS's business model, with classes of over 900 students, and sections of more than 90 students, with a strong core curriculum where new teaching materials are developed that end up being used in many of the school's executive education programs, with several faculty members co-teaching the core courses, and with assets such as classrooms with layouts set up for case discussions for large groups, it is just *impossible* for HBS to offer a personalized MBA similar to Stanford's. HBS's business model does *not* have as an element in its tactical set the offering of a "tailored MBA." HBS could *modify* its business model so that this tactical choice would become available, but with the current business model it is not possible for HBS to match Stanford on this dimension. We conclude that different business models give rise to different tactics available for competition and/or cooperation.

Why are tactics important?

Tactics play a crucial role in determining how much value is created and captured by firms. In the case of Metro, for example, advertising rates and the precise number of ads displayed in the free newspaper end up affecting the readership and advertising revenues. Indeed, as more and more ads are included in Metro, readers become increasingly irritated and less willing to read the newspaper. Likewise, as the advertising rate increases, fewer advertisers will want to advertise in Metro and this will affect Metro's revenues, profit, and value capture. Therefore, not only the business model employed by the firm determines tactics but also tactics play a central role in how much value the firm will be able to create and capture at the end of the day.

To illustrate this point, let's bring back the analogy between business models and automobiles introduced above. In that analogy the automobile was the business model. Of course, the way the automobile is built places constraints on what the driver can do (it determines the action set for tactics). For example, a large, powerful SUV makes it hard for a driver to maneuver on the narrow streets of Barcelona's Gothic Quarter. A small, powerless compact car would make this task far less cumbersome and would create more value for the driver. As a matter of fact, there are tactics that are possible with the compact car (such as driving through a really narrow street) that would be *impossible* (not in the action set) with the large SUV (just as in the example of HBS and Stanford GSB). The SUV would create little value for the driver in this case. The shape of the automobile (an element on how the machine is built – its business model), places constraints to what the driver can do.

Tactical interaction

We answered the question "why are tactics important?" by arguing that, at the end of the day, tactical choices determine how much value is created and captured by the firm. But there is more to tactics than the effect that they have on value creation and value capture to the firm employing them. In reality, tactical choices also affect value creation and value capture of *other* firms with which the focal firm interacts. *Tactical interaction* refers to the way organizations affect each other by acting within the bounds set by their business models.

Using the imagery of business model representations, tactical interactions occur when one firm's business model is in contact with that of another firm. When this happens, there are consequences in both firms business models where feedback to the rest of the system is determined not only by the focal firm's choices, but by the choices of the other firm as well.

To illustrate this point, consider the following example. When a discount retailer competes with the local mom-and-pop store, both firms engage in a tactical pricing battle to win customers. The interaction between the discounter and the mom-and-pop is captured in **Figure 4**, which displays both business models connected at market share.

Insert **Figure 4** around here

As the diagram shows, the discount retailer's prices affect value capture for both the discounter *and* the mom-and-pop, and *vice versa*.[20]

The business model employed by a firm determines the tactics available to the firm to compete against, or to cooperate with, other firms in the marketplace. Therefore, business model and tactics are intimately related. In the example of the discount retailer and the mom-and-pop, while both firms use prices in their tactical interaction, the discount retailer brings superior weapons to the fight because of the business model that it employs to compete. Specifically, the range of prices it can profitably set is much broader than that of a competitor laden with a high-cost operating model. The battle is over before the combatants even engage – it is won at the business model level.

IV. Strategy

Defining strategy

Strategy is often defined as a contingent *plan of action* designed to achieve a particular goal. As Caves and Ghemawat (1984) and Ghemawat (1991) point out, an essential element of strategy is

the set of "committed choices" made by management. Similarly, Porter (1996, p. 68) states: "strategy is the *creation* of a unique and valuable position, involving a different set of activities" (emphasis added). The word "creation" implies *choice* of the particular way in which the firm competes. Moreover, the resulting activity system that is "created" is a *reflection* of the firm's strategy. Strategy proper, however, is *not* the activity system itself but the *creation* of the activity system.[21]

Consistent with this notion, *strategy* refers, in our development, to the contingent *plan* as to what business model to use. Strategy is a high-order choice that has profound implications on competitive outcomes. Choosing a particular business model means choosing a particular way to compete, a particular logic of the firm, a particular way to operate and to create value for the firm's stakeholders.

Consider Ryanair once again. When Ryanair was at the brink of bankruptcy in the early 90s, their *strategy* was a plan of action to transform their business model from that of a standard full-service (though small) airline to a radically different one by adopting the Southwest's no-frills business model. In the mid 1990s, after the transformation had taken place, Ryanair had a new business model (a reflection of their strategy). Jan Rivkin vividly describes how in 1991, Ryanair's top management considered four alternative *plans of action* to come out from near-bankruptcy: (1) become the Southwest of Europe, (2) add business class, (3) become a "feeder" airline operating from Shannon's airport, or (4) exit the industry. Each of the first three options entailed a different business model, a different "logic of the firm, the way it operates and how it creates value for its stakeholders." The high-level election of "becoming the Southwest of Europe" (as opposed to adding business class or operating as a feeder airline) was *strategy* (a

plan of action to create a unique and valuable position, involving a different set of activities). Furthermore, the particular way in which Ryanair executed such plans was its realized strategy. The resulting new Ryanair, with its new logic, new way to operate, and new way to create value for its stakeholders, was *business model*.[22]

In summary, *strategy* refers to the contingent plan as to what business model is to be used. The word "contingent" is of great importance. It means that strategies contain provisions as to what to do even for contingencies that may end up not taking place. For example, an incumbent firm facing a potential entrant in the industry will typically have as a strategy a plan as to what to do if the potential entrant enters the market and what to do if the potential entrant decides not to enter. Of course, only one of the two possibilities will end up happening: either the potential entrant enters or it stays out. An outside observer looking at the incumbent will only be able to observe the *realized* strategy. If the potential entrant stays out, the observer will see what the incumbent strategy prescribed as to what to do in the case of no entry. However, the observer will *not* be able to observe what the strategy prescribed in the case that the potential entrant actually entered. What is observable is the *realized* strategy, not the entire strategy.

V. Integrating strategy, business model, and tactics: The generic two-stage competitive process framework

Having introduced the notions of strategy, business model, and tactics, we use the generic two-stage competitive process framework to integrate and relate them. **Figure 5** presents a more nuanced version of the generic two-stage competitive process framework (compared to **Figure 1**).

Insert **Figure 5** around here

The figure shows that the notion of business model is related to but different than strategy. A strategy is a contingent plan of action as to what business model to use. The available actions for strategy are *choices* (policies, assets, or governance structures) that constitute the raw material of business models. Thus, strategy entails designing business models (and redesigning them as contingencies occur) to allow the organization to reach its goals. Business models are *reflections* of the realized strategy. Similar to strategy, *tactics* are also plans of action. Tactics are courses of action that take place within the bounds drawn by the firm's business model.

To cement the three notions, consider once again the automobile analogy. Recall that the automobile corresponds to the business model and that driving the automobile corresponds to tactics. Imagine now that prior to operating the automobile, the driver could modify the features of the car: shape, power, consumption, seats, A/C system… Such modifications would constitute "strategies" because they would change the machine (the "business model"). Thus, the design and building of the car is strategy; the car itself is the business model; and the driving of the car is tactics.

<u>*Discussion*</u>

(A) *Strategy vs. Business model*

We have argued that a firm's business model is a reflection of its realized strategy. If this is the case, why do we need two separate notions? What do we gain from having two separate

concepts? Specifically, if in the situation captured in **Figure 5** we see that the firm competes through business model D, we then know the obvious fact that the firm's strategy is to compete through business model D. In this case, it appears that little is gained from separating the two notions.[23]

Indeed, there is little to be gained from separating the two notions when there are no contingencies upon which to base the choice of business model because, in this case, there is a one-to-one mapping from strategy onto business models. This means that by looking at the business model, an outside observer knows the firm's strategy. Essentially, strategy coincides with business model in this case.

The substantive difference between strategy and business model arises when the firm's plan of action calls for modifications to the business model (changes in policies and/or assets and/or governance) when particular contingencies take place. When this is the case, strategy and business model do not coincide – regardless of whether these modifications to the business model are minor or substantial.

There are many possible sources of contingencies upon which strategies may be based. One such source is the realization of an event outside the control of the firm. For example, one contingency that many firms are currently considering is the possibility of a recovery from the recession. Firms have plans as to how their business models must be tweaked in the event of a strong economic recovery (changes in policies, assets, and/or governance). Such plans are part of the firms' strategies. Note that by observing the *current* business model of a firm we do not know how that business model will be changed (as prescribed by the firm's strategy) if the economy recovers. All that we observe is the current business model, which is what the firm's strategy

prescribes for the current state of the economy. Therefore, business model and strategy do not coincide in this case.

Another source of contingencies upon which strategies may be based are actions by other industry players (competitors, complementors, buyers, or suppliers). Actions by other firms are generally outside of the control of the focal firm. Consider **Figure 5** and suppose, for concreteness, that the firm is an incumbent that has chosen to compete through business model A. Suppose that the firm becomes aware of the possibility that a potential entrant enters the market to become a competitor. Suppose that it is not known for sure whether the potential entrant will enter or not. In this case, there is an important contingency upon which the incumbent's plan of action (strategy) may be based. The contingency is whether or not the entrant enters.

What is a strategy in this situation? A strategy is a contingent plan of action as to what business model to use depending on the resolution of the contingency. One possible contingent plan of action is: "if the potential entrant stays out, then I should stay put with business model A but if the potential entrant enters, then I should reconfigure my business model to B."[24] Suppose that the potential entrant stays out. Then, an external analyst *will observe* that the incumbent competes through business model A (as that is what the incumbent's strategy prescribes when the potential entrant stays out). And as long as the potential entrant stays out, the analyst will *not* observe the incumbent's full strategy because the contingency where the entrant enters and the incumbent responds by reconfiguring the business model to B has not occurred.

To summarize, one crucial difference between strategy and business model is that business models are observable while strategies are not fully observable, unless the competitive situations

are trivial (there are no contingencies upon which to base strategy choices). In the simple situations where strategy is fully observable, strategy "coincides" with the organization's business model and little is gained from separating the two notions. An organization's business model is the reflection of its *realized* strategy. Strategy is much more than the mere selection of a business model; it is a contingent plan as to how the business model should be configured, depending on contingencies that might occur.

As a corollary, a second difference between strategy and business model is that while *every* organization has some business model (because every organization makes some choices and the choices have consequences) *not* every organization has a strategy. An organization has no strategy when it has no plan of action for the different contingencies that may arise.

(B) *Strategy vs. Tactics*

An issue that requires additional discussion is the difference between strategic choices (those choices that in the generic two-stage competitive process framework of **Figures 1** and **5** occur in the "Strategy Stage") and tactical choices (those choices that occur in the "Tactics Stage").

As mentioned above, we follow Caves and Ghemawat in their observation that an essential element of strategy is the set of "committed choices" made by management. Strategy choices, those that set the business model up, are often not easily reversible. This is *not* to say that strategy choices cannot be reversed or changed, but doing so is generally costly. We have distinguished three types of choices that fall into the category of strategic choices: policies, assets, and governance structures of assets and policies. Tactical choices, on the other hand, are relatively easy to change. Examples include: prices, advertising intensities, R&D intensities,

minor modifications to products, and so on.

Policy choices identify the particular way a firm intends to focus a particular activity or function. Walmart's price policy is described by the motto "Every Day Low Prices." However, the particular implementation of this policy in pricing decisions is tactical. Each store, depending on the local market conditions sets prices, coherent with the established policy, in a particular way. Asset choices identify the way the firm intends to invest and, therefore key organizational commitments. For instance, Walmart is committed to large investments in information technologies and distribution centers. The particular timing of the investments, the particular ways in which they are financed, *et cetera*, are tactical aspects to be decided later on in the game. Governance choices are the third category of business model choices. The use of high-powered incentives for store managers at Walmart, for example, is a strategy choice. The specific contract for a particular store manager is tactical.

Consider the example of Metro. We have argued that choices such as the precise advertising rates, the precise number of pages that each newspaper edition has, the precise number of ads, the precise balance between news and opinion pieces, and so on, are all *tactical* choices. These are all choices that are adjusted (within the limits imposed by Metro's business model), depending on market conditions. Examples of *strategic* choices include: being ad-sponsored and charging zero price for the newspaper, general policies (but not the exact number) as to how many ads Metro newspapers will carry, general policies (but not the exact ratio) on the balance between news and opinion pieces, general policies (but not the exact prices) on the rates that advertisers are charged, the choice of whether to own paper printing facilities or to outsource this function, *et cetera*. Strategic choices set up the business model. The business model places

constraints on the tactics available to Metro to compete in the marketplace.[25]

To further illustrate the distinction, consider Teece's description of Blockbuster's reaction to Netflix's entry as an online DVD rental service. Blockbuster eventually realized that to fight Netflix effectively, it had to go beyond simple tactical moves as enabled by its original business model and change the way the Blockbuster "machine" was set up to allow online rental combined with opportunities to return DVDs in the stores.[26]

In the analogy of the automobile, strategy is about changing features of the automobile such as shape, engine power, wheels, seats, *et cetera*. Tactics, however, are about what one does with the automobile, such as driving it fast or slow or with the windows down. Reconfigurations to the car are possible, but costly. Tactical changes are often easy to implement in the short term.

VI. An Example: TDC vs. Telmore[27]

In this section, we use the case of TDC vs. Telmore to illustrate our framework. For clarity, we divide the exposition into subsections.

Telmore entered the Danish mobile telecom market in October 2000 as a no-frills Mobile Virtual Network Operator (MVNO). The company was founded by a team around Frank Rasmussen and was located on the outskirts of Copenhagen. Prior to its launch, Telmore had struck an agreement with TDC, the largest network operator in Denmark, to act as a service provider on TDC's network. TDC would charge Telmore DKK 0.50 per minute for using TDC's network.[28]

(A) *Illustration of the notion of business model: TDC and Telmore.*

TDC was the largest network operator in the Danish market when Telmore entered the market.

The most important choices in TDC's business model are given in **Table 1**.

Insert **Table 1** around here

Figure 6 puts together these choices and their most important consequences to represent TDC's business model at a high level of aggregation. The figure shows how the TDC's "machine" was set up, the logic of the firm.

Insert **Figure 6** around here

There were many alternative business models available to Mr. Rasmussen when considering his entry into the Danish mobile telephony industry. **Table 2** shows the most important business model choices made by the top management team at Telmore.

Insert **Table 2** around here

The representation in **Figure 7** puts together all these choices and shows Telmore's logic, by making explicit the most important consequences and the feedback loops.

Insert **Figure 7** around here

Telmore's business model resulted in a rock-bottom cost structure and a formidable competitive advantage for the segment of customers who looked for low price, transparency, a simple offering, and no commitments (customers who despised being locked into long-term agreements).

(B) *Illustration of the notion of tactics: Telmore.*

As a no-frills competitor, an important choice in Telmore's business model was its policy of "low prices." Note that the policy does not prescribe a specific price, it just says that prices should be low. We do know, however, that the rate that Telmore paid TDC for the usage of its network was about DKK 0.50 per minute. This put a bound on how low Telmore's prices could go. The implication is that Telmore's MVNO business model prevented the company from setting prices below DKK 0.50 per minute; as such prices would be lower than marginal cost. This illustrates the crucial point that *the tactical set was constrained by the business model*. The precise rates charged by Telmore to its customers were *tactics*, the policy of low prices was a business model choice.

(C) *Illustration of the notion of tactical interaction: TDC and Telmore.*

TDC and Telmore's business models were interdependent. **Figure 8** shows the many points of contact between TDC and Telmore's business models. The arrows connecting both business models show the places where they affect one another.

Insert **Figure 8** around here

The most important points of contact were:

1- *Volume*. Telmore stole customers from TDC. Thus, Telmore's presence decreased TDC's customer base. Likewise, TDC's acquisition of new customers decreased Telmore's customer base (this effect was likely weaker that the former, however).

2- *Handsets*. The existence of a large number of TDC customers with handsets was a necessary condition for Telmore's business model to function properly, as this group of users represented part of Telmore's pool of potential new customers. This is because Telmore did not provide (nor subsidize) handsets for its customers.

3- *Willingness to pay*. Telmore's low price and simple offering decreased willingness to pay for some of TDC's customers (for those customers that preferred an offering with features closer to Telmore's).

4- *Network*. TDC's investment in setting the network up was a necessary condition for Telmore's ability to operate as an MVNO. By purchasing wholesale minutes from TDC, Telmore lowered TDC's costs as TDC was able to increase its network utilization rate and spread its fixed costs among a larger user base.

Because both business models were connected, *tactical actions by one firm would affect how well the <u>other</u> firm's business model worked*. For example, the more TDC subsidized the acquisition of new handsets, the better Telmore's business model would work because the pool

of potential subscribers expanded. Likewise, Telmore's low prices would attract customers from incumbents other than TDC and that would benefit TDC because Telmore paid TDC a per-minute rate for the calls made by Telmore customers. And so on.

(D) *Illustration of the notion of tactics: TDC.*

How could TDC react to the negative effects that Telmore's presence had on TDC's business model? There are two ways: tactical changes and strategic changes (business model reconfigurations). A few examples of tactical moves by TDC include:

1- *Lower prices*. TDC could lower its prices, hence reducing its contribution margin. Lower prices would translate into a smaller loss of customers to Telmore, and could possibly expand the market as a whole.

2- *Reduce subsidies for handsets*. TDC could reduce handset subsidies. However, such a move would go against the company's goal of providing premium services. Enjoyment of such services required customers to own advanced handsets.

3- *Reduce investments in network infrastructure*. The problem with this tactical move was that new network infrastructure was needed to offer the latest digital services, which was necessary to keep up with TDC's policy of multiple products, plans, and services.

4- *Reduce TDC's cost structure*. TDC could decrease its advertisement costs, distribution costs, after-sale costs, and other costs in order to match the actual added-value provided to its customers in this new competitive environment.

5- *Raise prices and offer more value-added services*. TDC could focus on serving higher-value

customers and extracting more value from them. This response would let the price sensitive segment to be served by Telmore. TDC would earn money from this segment through Telmore (wholesale minutes).

We note that none of these actions by TDC entails a change in business model. The logic of the firm does not change with tactical moves.

(E) *Illustration of the notion of strategy: Telmore.*

There were many alternative business models that were available to Mr. Rasmussen when considering his entry into the Danish mobile telephony industry. **Table 1** lists the actual choices. Interestingly, many of Telmore's choices were 180 degrees away from those of TDC. **Table 3** shows some of the differences.

Insert **Table 3** around here

This illustrates the notion that there are many different ways to compete in an industry and that business model innovation can pay off handsomely.

As argued above, all that we can observe is the *realized* strategy; we do not observe the complete plan of action as to how Telmore's business model was to be reconfigured contingent on actions by TDC and other industry players. However, *with the benefit of hindsight*, we know that Telmore never changed its business model at a time when there were many changes the industry. In all likelihood, there was little contingent planning at Telmore and **Figure 7** (Telmore's

business model) coincided with its strategy.

(F) *Illustration of the notion of strategy: TDC*.

Telmore's business model attracted a great deal of attention and new low-cost players entered the market soon after Telmore's disruption. Entry triggered a ferocious price war. TDC rapidly lost subscribers and prices went into a downward spiral. Equity analysts came to the conclusion that TDC's mobile business was under serious pressure and adjusted their expectations downward in anticipation of declining EBITDA margins. TDC knew it had to react.

The range of tactical moves allowed by TDC's business model (some of which we have described above) was not sufficient for TDC to effectively confront the no-frills entrants. Indeed, TDC eventually created a "no-frills" service provider. And in 2003, TDC acquired Telmore for about DKK 400 million. Telmore continued to be run as a separate brand within TDC. Most importantly, control over pricing was now in TDC's hands. This was a fundamental change in TDC's business model. From that moment on, TDC had a *dual* business model, in the terminology introduced by Markides.[29] Note that this is a change in TDC's business model as it entails a new, different set of choices (policies, assets, and governance). The key point here is that TDC confronted the new competitors through *strategy* rather than (or in addition to) tactics, by modifying its business model.

VII. Concluding Remarks

We have presented a framework that allows a simple integration of the notions of strategy, business model, and tactics. In our formulation, strategy and business model, though related, are different concepts. A business model is the direct result of strategy but it is not strategy itself.

Our framework distinguishes between tactics and strategy. This separation is possible because strategy and business model are different constructs. Tactical interaction (organizations affecting each other when acting within the bounds set by their business models) has well-defined rules of play (action sets are well-understood, the mapping from actions to payoffs are easy to discern, and best responses can be easily figured out) because business models constrain the tactical sets and game theory can be easily applied to predict competitive dynamics and outcomes. Strategic interaction (organizations affecting each other through strategy; that is, by changing their business models) is more complex. First, the rules of the game are not well-defined in this case as there are few constraints as to how business models can be assembled. Second, the mapping between strategic choices and payoffs are much more complicated than in the case of tactics because for every modification in the business model, the designer needs to assess the effects that it will have on tactics (as the final payoffs are always determined as the outcome of tactical interaction). Finally, it is usually hard to predict how a rival will react to a particular set of strategic moves as, for all practical purposes, best-responses become impossible to pin down.

The proliferation of managerial books on strategy innovation is related to the difficulty in deriving best responses for strategy. Much of the recent managerial literature on innovation is concerned with altering business models (even as it often refers to business models superficially). Yip claims that strategy practice can gain light by understanding business models. Recent authors such as McGrath and McMillan or Govindojaran and Trimble develop techniques to help companies come up with such strategies. Even authors from operations management such as Hau L. Lee point out that radical changes in some parts of a firm's business model can have tremendous performance implications.[30]

We conclude that the exercise of designing new business models is closer to an art than to a science. From an academic point of view, we believe that having clear definitions of the constructs that we employ and analyze is a necessary condition for progress in the field. From the practitioners' perspective, it is our hope that having an integrative framework that cleanly separates the realm of strategy, business models, and tactics will help guide the search of novel, interesting, and profitable new ways to compete.

Tables and Figures

Table 1. TDC's business model choices.

Choice	Explanation
Heavy network/infrastructure investment.	• TDC acquired bandwidth rights granted by national regulators and constructed a national cellular network which TDC operated and maintained. The cost of building a greenfield network infrastructure was estimated to be between DKK 2bn and DKK 3bn.
Multiple products, plans, and service offerings.	• TDC offered its customers a vast number of products and plans. A large number of plans and products permitted TDC to capture more users as more customer segments could be effectively targeted. Additionally, this approach allowed TDC to extract more value from each customer by engaging in price discrimination.
Subsidized handsets.	• Since the cost of new handsets was relatively high, TDC subsidized the cost of new handsets for its customers in order to encourage increased adoption. TDC locked its handsets to prevent customers from using them on different networks, however, at the time it was relatively easy to unlock the phones in Denmark.
Long-term contracts.	• TDC required its customers to sign long-term contracts in order to obtain subsidized phones. However, due to Danish law, the length of such contracts could not exceed six months.
Extensive retail distribution and heavy advertisement.	• TDC distributed its handsets and service plans through an extensive retail network of shops, including TDC-owned shops, third-party exclusive shops, and third-party non-exclusive shops.

Table 2. Telmore's business model choices.

Choice	Explanation
No infrastructure investment.	• Unlike a traditional network operator, Telmore didn't invest in its own infrastructure, acting instead as an MVNO, or service provider. This decision allowed Telmore to operate at a much smaller scale than traditional operators; by not incurring the huge investment costs that were required to set up a network, Telmore effectively transformed a large amount of fixed costs into variable costs. Telmore negotiated a wholesale rate to utilize TDC's network. The average wholesale cost per minute for Telmore was DKK 0.50. The wholesale cost per text message was DKK 0.18.
One simple plan.	• Telmore offered only one very simple plan, making its single offering extremely transparent to customers.
Low price.	• Telmore offered a single plan, charging DKK 1.25 per minute for all national calls (to any network) at any time of the day and DKK 0.25 per text message, without charging the typical monthly subscription fee.
No handset subsidies.	• By relying on customers to utilize the phones that they already owned, Telmore was able to eliminate the need to provide subsidies on handsets. This choice drastically lowered the company's customer acquisition costs, making new customers profitable since day 1. Additionally, by not providing handsets, Telmore eliminated the necessity to have a distribution channel as all of the company's sales were through the web.
No long-term contracts.	• Telmore did not require its customers to enter into long-term contracts partly because it did not subsidize handsets. This resulted in high customer satisfaction, but possibly higher levels of customer churn.
Little advertisement expense / guerilla marketing.	• Telmore utilized simple ads emphasizing the simplicity of its model, trying to leverage the confusion created by the complexity of the plans offered by incumbents. Telmore also engaged in guerilla marketing tactics obtaining significant free press coverage and publicity. All of this resulted in significant word of mouth, increasing brand awareness.
Only pre-paid plans offered.	• By not offering post-paid plans, Telmore was able to eliminate not only customer credit risk, but also collection costs, credit checks costs, and billing costs, resulting in considerable lower overall costs. Additionally, by receiving payments before actually providing services, Telmore's working capital requirements were significantly reduced.
Web-only sign up and no distribution network.	• Telmore decided against utilizing the traditional route of having an extensive retail distribution network. Customers could only sign up through the web and would then receive a new SIM card through the mail. Additionally, customers could only recharge their balance online and did not have the option to purchase vouchers at retail locations.
No paper bills.	• Telmore did not send clients traditional paper bills. The only way customers could check their statements was online.
Customer service pushed to the web, limited off-line customer service.	• Telmore's customer service center opened only during dedicated hours instead of being functional 24 hours a day / seven days a week. Customers were funneled to use email or the company's website for problem resolution.
Non-unionized students hired as customer service representatives.	• Telmore's customer service operators were 24 years old on average and were given bonuses to ensure friendly, attentive, and fast customer service.
High-powered incentives for employees.	• 5% of Telmore's profits were distributed equally among all employees, encouraging employees to increase productivity and profitability, building a sense of community and ownership, and creating flexibility in the company's cost structure.
Flat structure and generalist employees as opposed to specialists.	• Telmore employees did not tend to specialize and rotated through various functions and projects. The organization was mostly flat and was characterized by several cross-functional projects. In addition, call center operators were generalists and Telmore cross-trained its staff to provide customer service in the event of a spike in demand (even the CEO would answer phones), allowing the company to achieve its desired service level with fewer customer service operators.
Simple IT systems.	• Operating as an MVNO, Telmore's operations were reduced to customer acquisition, billing, and after-sale service. As a result, Telmore's IT needs were simpler than those of TDC. In addition, Telmore's simple plan offering further diminished the company's IT needs.

Table 3. Salient differences between TDC and Telmore's business models.

TDC	Telmore
• *Heavy network/infrastructure investment*	• *No infrastructure investment*
• *Multiple products, plans, and service offerings*	• *One simple plan*
• *High price*	• *Low price*
• *Subsidized handsets*	• *No handset subsidies*
• *Long-term contracts*	• *No long-term contracts*
• *Extensive retail distribution and heavy advertisement*	• *Little advertisement expense / guerilla marketing*

Figure 1. The generic two-stage competitive process framework.

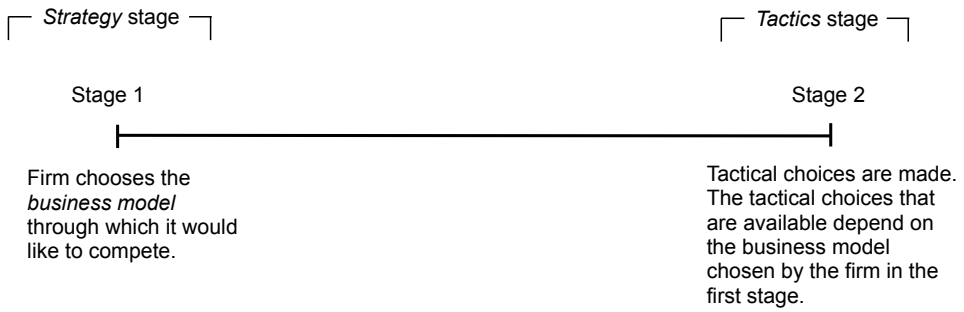


Figure 2. Ryanair business model representation.

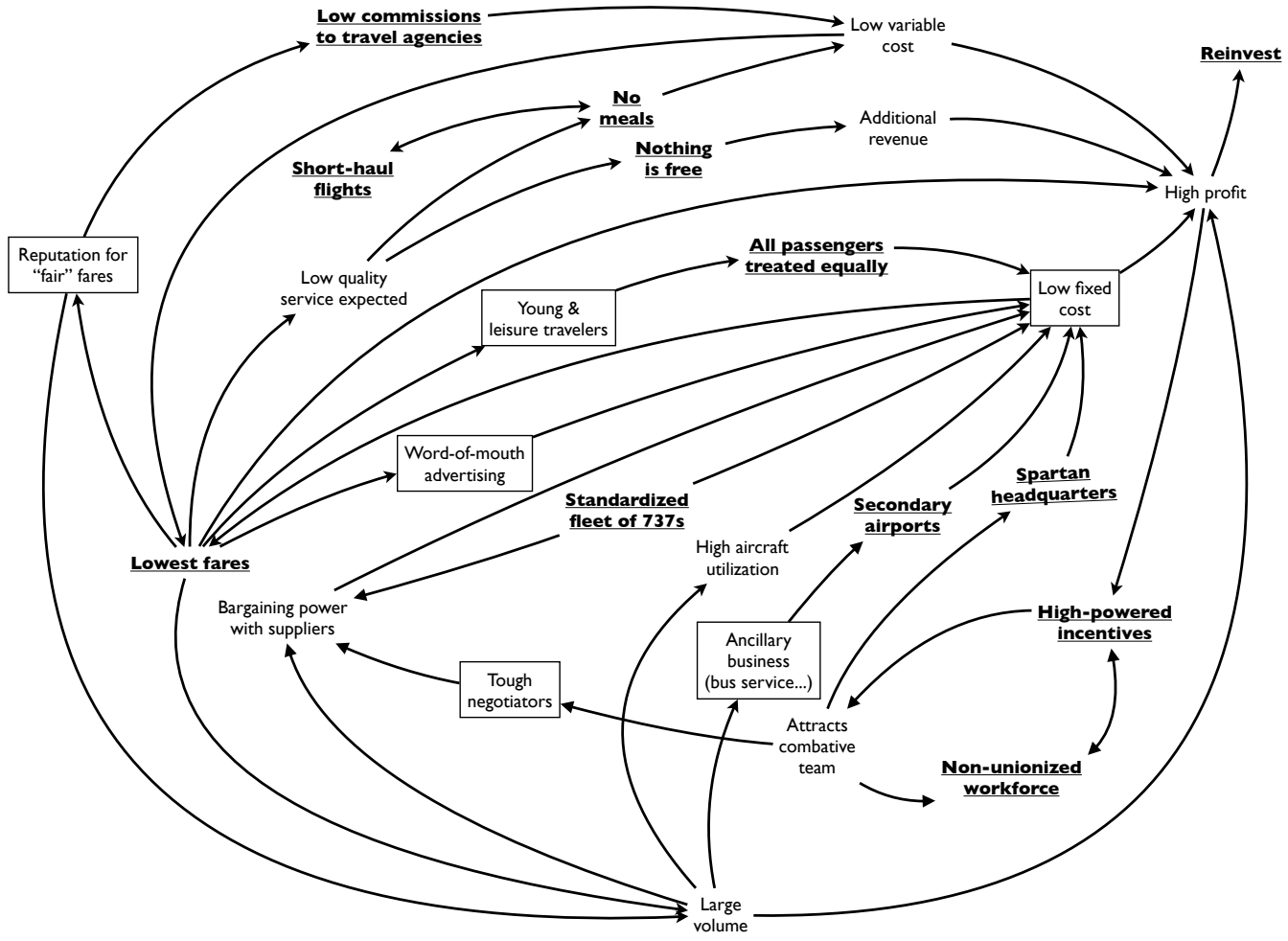


Figure 3. Ryanair simplified business model representation.

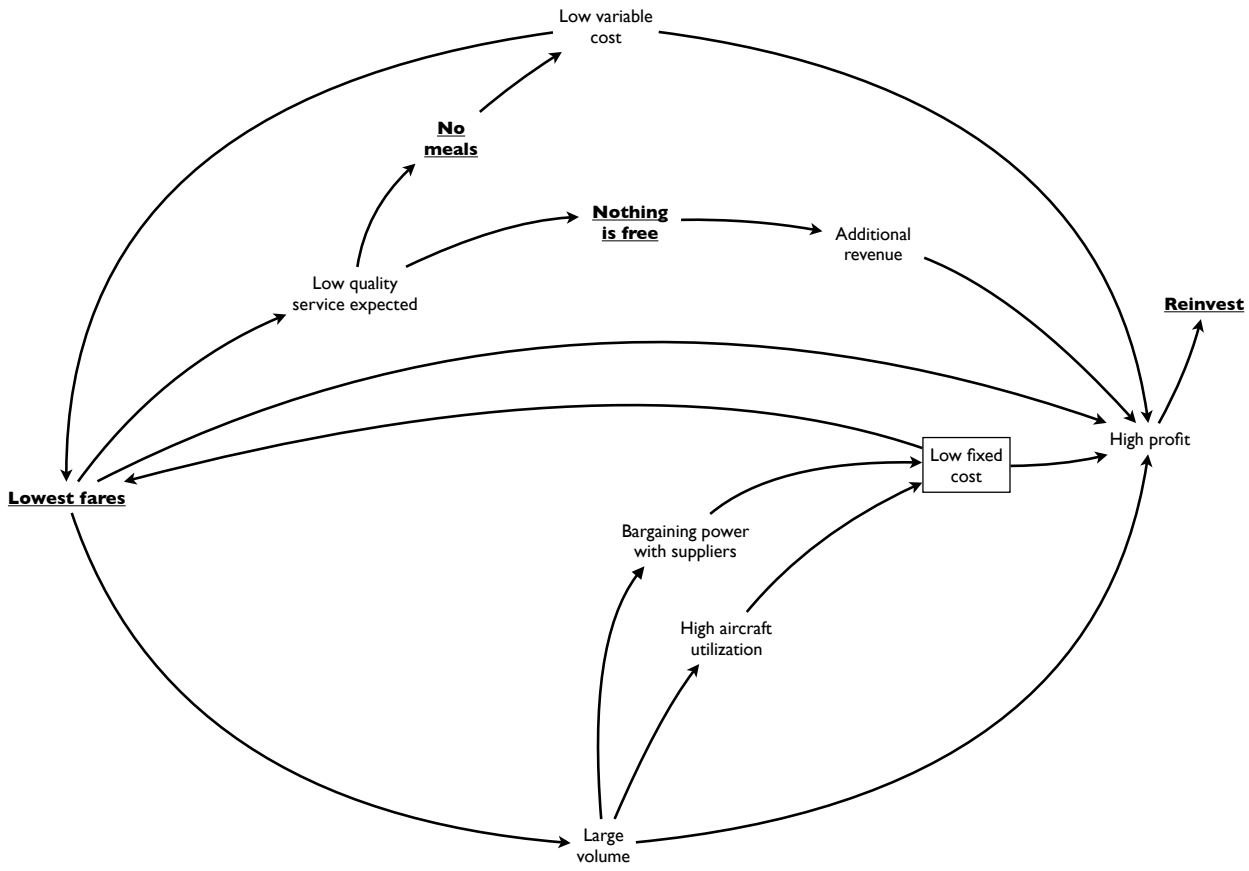


Figure 4. Interaction between a discount retailer and a mom-and-pop store. Tactical price interaction is denoted by the double blue arrow.

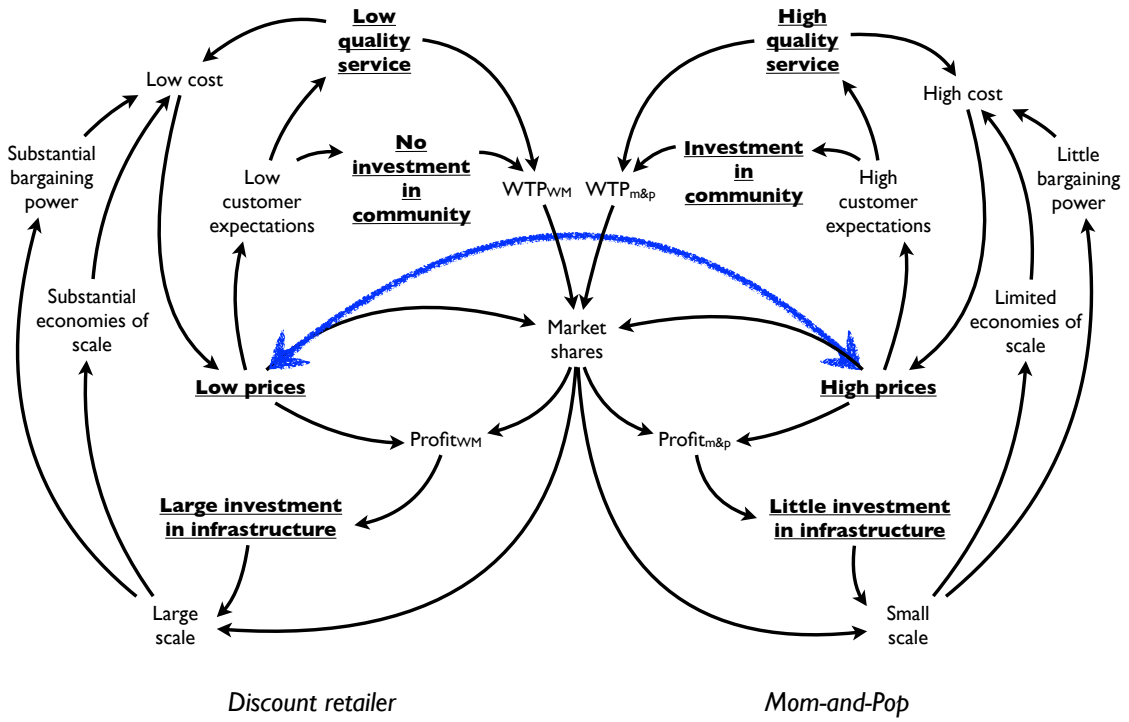


Figure 5. Strategy, business model, and tactics.

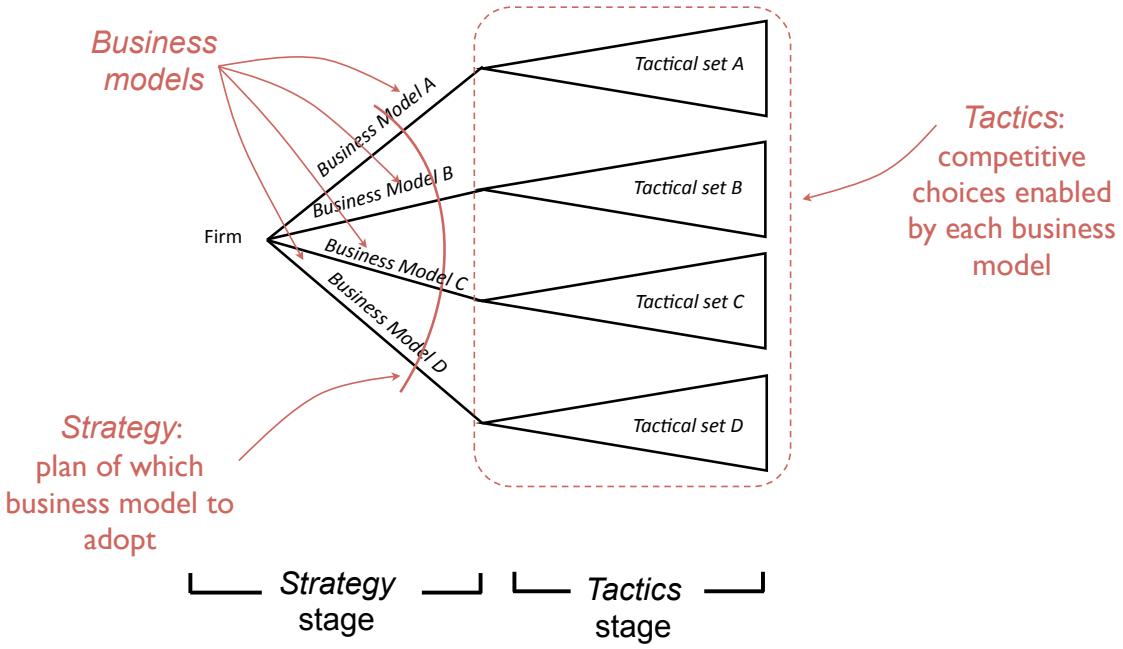


Figure 6. TDC's business model representation.

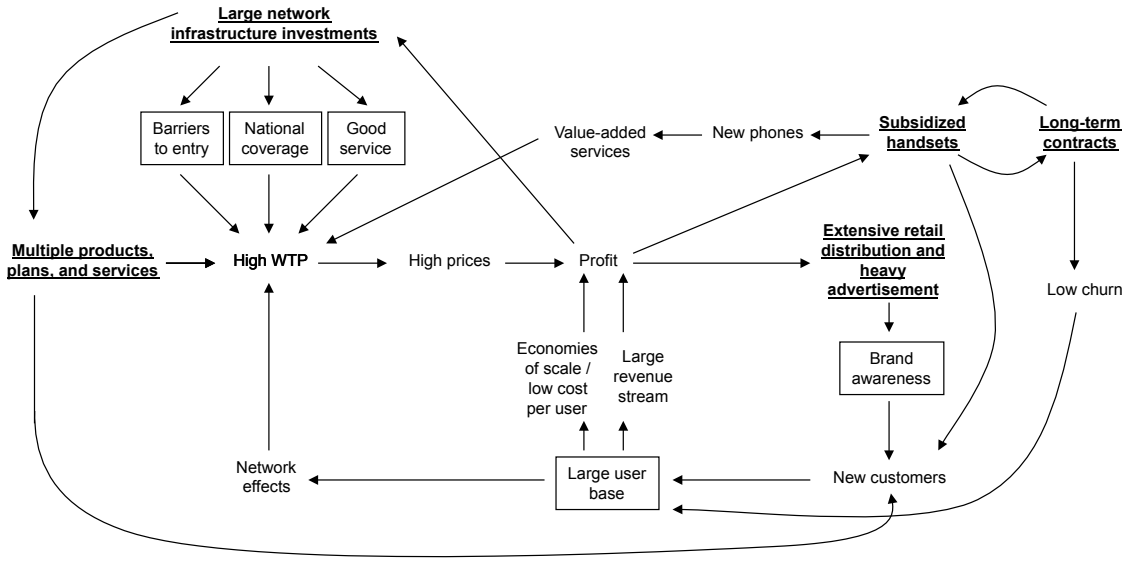


Figure 7. Telmore's business model representation.

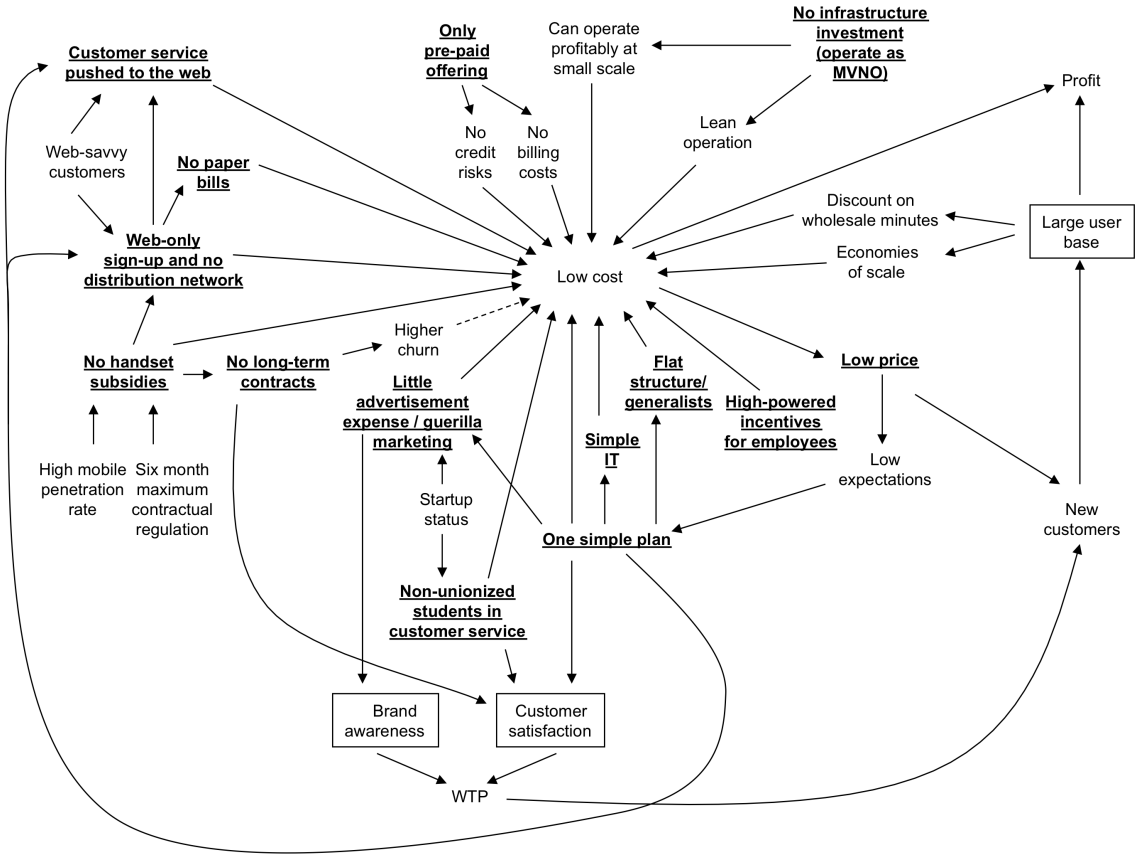
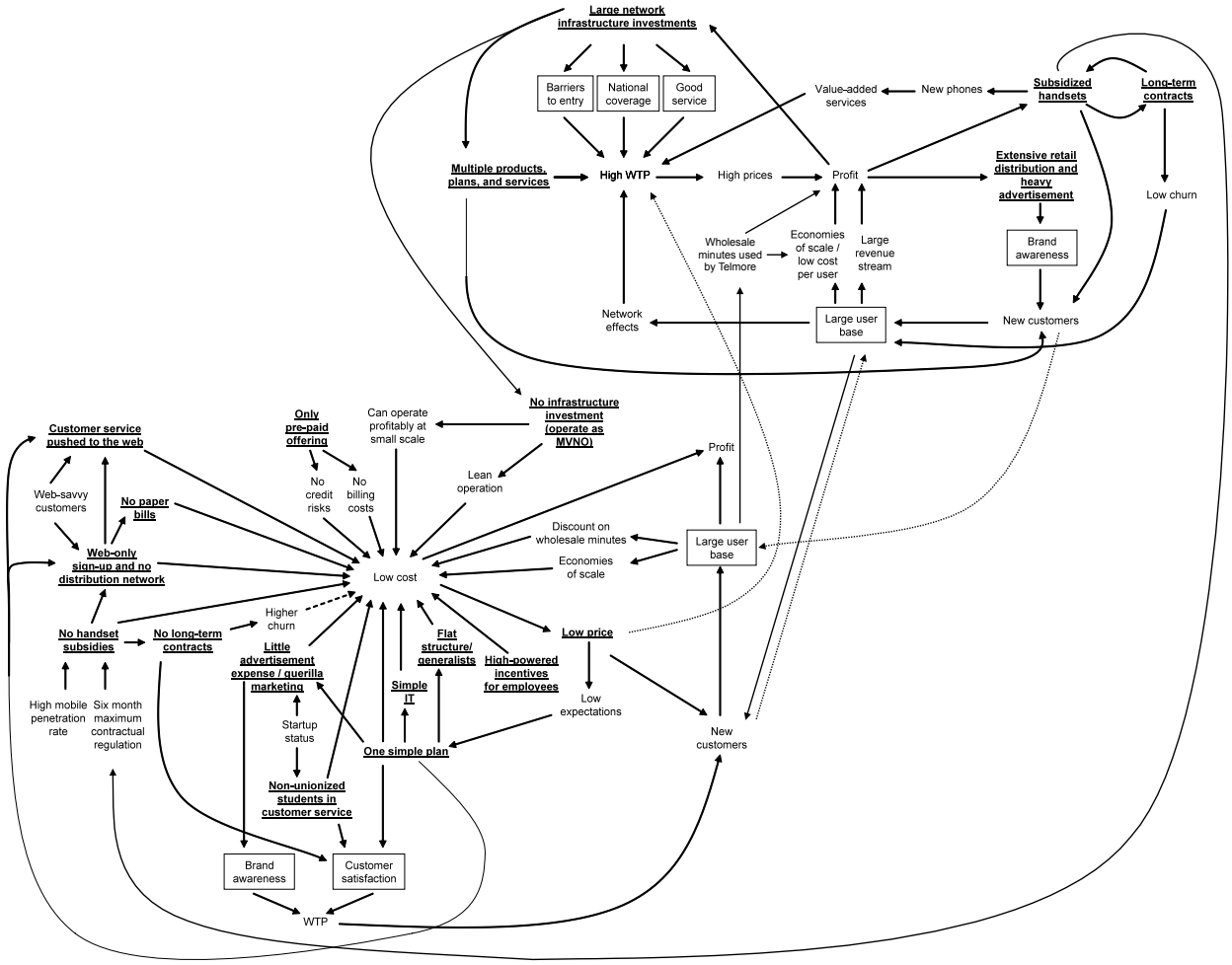


Figure 8. Interaction between TDC and Telmore.



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[7] Zott, C. and R. Amit, "Designing Your Future Business Model: An Activity System Perspective", *Long Range Planning,* 2009, this issue.

[8] See *Long Range Planning* call for papers for the Special Issue on "Business Models" by Charles Baden-Fuller, Ian MacMillan, Benoît Demil, and Xavier Lecocq.

[9] By *machine* we mean a mechanical device that transmits energy to perform tasks. Of course, real organizations are different from machines in many important respects but the comparison is helpful (especially when we contrast the notion of strategy to that of business model).

[10] Notice that intangible assets such as experience, brand equity, or even the value of patents are consequences (generally rigid), not choices. On transaction cost economics, see Oliver E. Williamson, *The economic institutions of capitalism: firms, markets, relational contracting*. New York : Free Press ; London : Collier Macmillan, c1985.

[11] Rivkin, Jan W. (2000) "Dogfight over Europe: Ryanair (C)," *Harvard Business School* case 700-117.

[12] Baum, JAC. & Singh, JV. 1994. "Organization-Environment Coevolution." Chapter 18 in *Evolutionary Dynamics of Organizations*, Baum, JAC. and Singh, JV. (eds). Oxford University Press, N.Y. There are many other ways in which business models may be represented. Standard tools in Strategy such as Andrews' Strategy Wheel, Porter's Value Chain and Activity System, McKinsey's Business System and Value Delivery System are some of the most

prominent examples. While these tools are truly helpful to understand competitive advantage, complementarities, and barriers to imitation, they are not ideal for our purpose. The reason is that it is hard to study tactical interactions between two particular firms by use of these tools.

[13] Perhaps a more tangible example is an "installed base of PCs" which is (partly) a consequence of prices set by Intel and Microsoft for the microprocessor and the operating system, respectively. As prices change, the installed base changes slowly: it is a rigid consequence. Clearly, no consequence is purely flexible nor purely rigid. All consequences are somewhere in between, it is a matter of degree.

[14] Technically, pathways of cause and effect can be vicious as well as virtuous. These synergetic relationships become negative when they are interrupted or, worse, reversed. For example, a low cost virtuous cycle could become vicious if Ryanair's employees unionized and it could no longer offer the lowest fares. It would then lose volume, and its aircraft utilization would fall. Since Ryanair's investment in its fleet is based on the assumption of high utilization, such a change could have a magnified effect on the firm's profitability. In this case the synergy works in the opposite direction, quickly eroding competitive advantage. The possibility of virtuousness turning into viciousness is particularly important in competitive analysis because it is often the case that interaction with a competitor, such as another low cost airline challenging Ryanair's pricing dominance, disrupts the pathway of cause and effect that the incumbent has established.

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[17] Teece, David, "Business Model, Business Strategy, and Innovation," *Long Range Planning*, 2009, this issue.

[18] For convenience, we make a slight abuse of language and refer to the *business model representation* as the *business model* of the organization. We should emphasize, however, that the actual business model is a highly complex entity that we can only represent through abstractions. Therefore, in the examples that we present below, when we talk about the organization's business model, we are really working with our representation of the real, objective business model.

[19] Khanna, Tarun, Felix Oberholzer-Gee, Anders Sjoman, Ane D. Jensen, Vincent Dessain. 2007. "Metro International S.A." *Harvard Business School* Case 708-429.

[20] It is worth noting that at this level of aggregation the business models of the discounter and the mom-and-pop are composed of parallel but opposite choices. The discounter has made little investment in quality service and the community but has emphasized infrastructure, whereas the mom-and-pop has emphasized service and the community at the expense of infrastructure. Of course, a less aggregated depiction would show that the business models are not entirely parallel. The differences in this case, however, clearly illustrate how firms use different strategic choices to compete in the same marketplace, leading to profit in different ways. The discounter's choice to reinvest profits to attain large scale leads to purchasing power and low cost, enabling low prices that drive greater market share and profit. The profit is again reinvested in scale, and the value loop continues virtuously. The mom-and-pop has a distinct strategy based on high-quality service and commitment to the community. These choices lead to high labor costs, driving a high cost structure, and high costs constrain the mom-and-pop's ability to compete on price. But at the same time, the mom-and-pop derives some benefit from its commitment to the community (i.e., people are willing to pay a slight premium for shopping there), which may or may not be enough to overcome its cost disadvantage.

[21] Caves, Richard E., "Economic Analysis and the Quest for Competitive Advantage," *American Economic Review*, Vol. 13, Jan. 1984: 127-132. See also Pankaj Ghemawat, *Commitment: The Dynamic of Strategy*, Free Press, August 15, 1991. Porter, Michael. 1996. "What Is Strategy?" *Harvard Business Review*.

[22] Rivkin, Jan W. (2000) "Dogfight over Europe: Ryanair (B)," *Harvard Business School* case 700-116.

[23] While our focus has been on the deliberate aspects of strategy, the business model as reflection of realized strategy leaves the door open to consider the impact of emergent strategy on the configuration of a business model. A route we have only implicitly followed but clearly coherent with our proposed framework.

[24] As argued above, the difference between business models A and B may be minor or substantial. This is unimportant for our development. What is important is that there is at least one difference in policies or assets or governance between business models A and B.

[25] While the distinction between strategy and tactical choices is clear in each particular example that we have presented, the level of aggregation that we use for a particular purpose can affect the conceptual separation about these two notions. This provides flexibility to the use of the framework. The analyst must use judgment in her choice of the right level of aggregation and her determination of the natural frontier between strategic and tactical choices.

[26] Teece, David, "Business Model, Business Strategy, and Innovation," *Long Range Planning*, 2009, this issue. For additional examples, see: Markides, Costas. 2008. *Game-Changing Strategies: How to Create New Market Space in Established Industries by Breaking the Rules*, Published by Jossey-Bass.

[27] For a detailed description and analysis of this case, see Casadesus-Masanell, Ramon, Celso Fernandez, and Moritz Jobke. 2007."Launching Telmore (A)." *Harvard Business School Case 708-414 and Teaching Note 708-520*. Telmore, is a "library" case (meaning that the main source of information are publicly available materials). The teaching case version was co-written by Ramon Casadesus-Masanell, Celso Fernandez, and Moritz Jobke (two HBS graduates). Moritz Jobke had consulted a German network operator that was considering entering the Danish mobile telephony market (were Telmore competed) at the time of Telmore's successful entry. Therefore, even if we did not have access to management at Telmore, that case has an element of "field" research as Mr. Moritz interviewed several of the players and had deep knowledge of the issues faced by Telmore and the incumbents at the time of the case.

[28] With 42% market share of subscribers, TDC was the dominant player in the Danish mobile market. It was the mobile communications business of the former state-owned Tele Denmark. TDC provided primarily fixed-line and wireless communication services in Denmark and possessed a sizable international business, which accounted for 41.5% of its revenues in 2000.

[29] A *dual* business model refers to a situation where a firm offers two products each through a different business model. See Markides, Costas. 2008. *Game-Changing Strategies: How to Create New Market Space in Established Industries by Breaking the Rules*, Published by Jossey-Bass. Market analyst speculated that it was less the acquisition of additional revenue and/or cash flow that prompted TDC to take action, but rather the urge to stop the decline in prices and revenue that threatened to destroy its business models.

[30] Yip, George S., "Using Strategy to Change your Business Model," *Business Strategy Review*, Vol. 15, #2, Summer 2004. McGrath, Rita Gunther, Ian C. Macmillan, *MarketBusters: 40 Strategic Moves That Drive Exceptional Business Growth*, Harvard Business School Press, 2005. Govindajaran, Vijay and Chris Trimble, *Strategic Innovation and the Science of Learning*, MIT Sloan Management Review, Winter 2004. Lee, Hau L., "The Triple-A Supply Chain," *Harvard Business Review*, October 2004.