Redesign of enterprise business model from structure perspective

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Abstract: This article mainly expounds how to design the model of enterprise business on the basis of the general theory on enterprise business. The analysis of design structure and constituent elements enable us to have a basic design for innovative model or transformation of the existing enterprise business model so as to avoid business operation failure resulted from lack of constituent elements.

Key words: enterprise business model; structure; methods analysis

1. The connotation of enterprise business model

Enterprise business model design is a process under the system of business model, with the understanding of the true nature of enterprise business model, which is formed by dividing enterprise business model evolution. The design of enterprise business model is centered on value, which makes a complex combination including two mechanisms value creation and value acquisition. Therefore, enterprise business model is a comprehensive concept, it doesn’t mean a simple profit model, or discard value acquisition either, but a perfect combination of value creation and value acquisition. And then within the enterprise, the balance will be formed between the two, on which the design will also be stressed. In designing process, one important consideration is that the innovation ability of the enterprise and the competitive power won’t be stable, but will be formed by the knowledge accumulation from “learning by doing”. For this reason, the enterprise business model itself is dynamic, to cope with the changes of enterprises interior or external environment, we should adjust, amend, innovate the model constantly in order to provide the enterprise with sustainable, rapid and healthy development.

2. Design process of enterprise business model

After a careful analysis of every kind of enterprise business models, we can see some similarities demonstrating some common characteristics of enterprise business models. Through further analysis on development process of enterprise business model, we can find the inherent laws of the business model evolution.

2.1 Creativity of enterprise business model

The value which enterprises participate in about each part of the chain value creation is not equal. In fact, only specific value activities can create the true value. If the enterprises want to remain competitiveness, they will give full scope to their advantages on these specific parts of the value chain to create new value. Therefore, entrepreneurs and administrators should think of design and business model innovations correspond with the value chain. A new model may begin with an idea, but the idea could not take place of the business logic, it must be
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developed into a practical frame for enterprise. This process is not just to fine-tune for enterprise business models, but to rethink the model in non-traditional way basically, in order to design a new business model. The corporate, for example, Dell, Starbucks, Wal-Mart, Focus Media etc., select a new enterprise business model, and bring them a huge return. The reason that few people can have a creative and dimensional view on enterprise business model design in real-world business is that few administrators are able to give a specific description of enterprise business model for their corporate. Normally, there will be several or even dozens programs of business ideas for implement, not all of them can become enterprise business model, the real innovative model is by screening many different kinds of business ideas. For businesses, the most important issue is not what they are now, but what they will be in the future. A business idea comes from entrepreneurs and administrators’ more keen awareness of opportunity, acknowledgement about the existing model and judgment of potential demand of the market.

2.2 Form of enterprise business model structures

The model developed from the ideas must form the new structure scheme—any ideas must be tested in practice. Hamel (2002) said: new wealth and opportunity are in direct proportion to the model having been created and model combination having been tested. The form of business model structures is a process by which an innovative idea becomes structure formation, there are so many combinations of models, so the corporation needs to examine structure design in practice, and then the innovative model will become a practical structure and process. However, not all of the innovative models can be designed, and the structure design is much more than the innovative ideas, which are concerned about the needs of their customers, supplier organization form, value distribution of stakeholder and resource allocation, etc. As the most important innovative action, there are five basic steps to form the enterprise business model. The first step is producing innovative idea, which is on the foundation of the model, and business innovation represents the nursery of model innovative idea; The second step, structure design, describes creativity as a structural blueprint matching a perfect business idea, structure organization process and the way to coordinate each part; The third step is model running, the model adjusts to the external environment and creates value for enterprise, customers and other stakeholders in the use of corporation internal resources and external environment; Fourthly, evaluation and amendment, it is the further improvement of business model, and it will indicate the model whether to have continued profitability and potential, and in addition to feasibility based on performance of enterprise business model running; The last step is about how large scale the model will be, through test structure and improvement, the model will be developed into the sum of model and support of business operations, as shown in Fig. 1.

![Fig. 1 Formation of enterprise business model structures](image)

2.3 Development of enterprise business model

Enterprise business model is not static but develops constantly. Because of the uncertain enterprise environment, the competitive advantage obtained from the new model will be further strengthened, to maintain the stability of model structure and against other competitors’ innovative model, and the enterprises tend to develop their own enterprise business model by various means. During these means, internalization model have become the main path of model development due to many advantages within itself. On one hand, internalization model provides a bigger value for the customer; On the other hand, enterprises can improve the model of barriers and strengthen the competition. Internalizing make disordered organizational elements to be re-integration, enhance the matching of internal elements
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in enterprises and environmental elements, and the system lock-in to get the elements and environmental elements of organizations solidify at a value network, so that the value from a linear plane is a three-dimensional network, at last patterns of the main companies will receive a wider range of competitive advantages (Peter, 2007).

3. Enterprise business model structure design

Through the all-wave review and abstract summary of enterprise value creation activities and based on many foreign enterprise business reference model elements, this paper provides a new framework for enterprise business mode—four components and nine elements. Four components are units value proposition, value network, value protection and value actualization; Nine elements are target customer segments, value intension, web form, business line, partnerships, control mode, prevention mechanism, revenue model and cost control, which are interconnected with each other. In essence, component system of enterprise business mode is a kind of the three-dimensional structure to comprehensive review of enterprise business mode, as shown in Fig. 2.

![Fig. 2 Structural system of enterprise business mode](image)

4. Analysis of enterprise business model

Component system of enterprise business mode is a logical concept, which can give a comprehensive idea on enterprise value creation activities, however, the problem is that enterprise business model is very complicated. The limitation of a conceptual framework could cause them difficulty to grasp it well, and then reduce the practicality of corporate business model system. To have a better understanding and good usage, this paper made the following interpretations.

4.1 Basis of enterprise business model structural design

(1) External reality and assumptions. Accurate analysis and grasp of the external environment condition, can make the enterprise find opportunities and threats in market, also can be more clearly about whether the enterprise's resources and ability respond to market demand, as well as the trend of the market. External assumptions based on knowledge of some basic issues and assumptions, which are the basis of enterprises in business activities, must be known clearly (Bossidy & Charan, 2005). In concrete contents, external reality and hypothesis can be divided as the external reality and assumptions in two parts.

(2) Internal resource and competence. Resource and competence is the base of business, as well as the most
fundamental for the construction of enterprise business model. It contains wealth, assets and human resources of the enterprise, research and development ability, and integrates capabilities, particularly in the enterprise’s core competitiveness. To make the selection of enterprise business mode, one must be clear about the enterprise’s own resources and competence—there is constraint in enterprise business model, which is the precondition. From the concrete contents, internal resources and abilities can be divided into two parts—internal resources and core competence.

4.2 Value composition
(1) Customer value. It is a particular alignment of interests which the enterprise delivers to the customer, and formed by value proposition and value network. It is value of the enterprise to achieve the prerequisite and basis for customer value, enterprise should around value proposition construct value network, which serves for value proposition. As while as the enterprise put forward the value proposition, the feasibility of value network is also considered (Kotler, 1999).
(2) Partners’ value. It is a particular alignment of interests which the enterprise delivers to the partners, and formed by value network and value maintenance. Only by creating and sharing values with partners, one can achieve the efficient functioning of the value network to achieve “win-win”; However partner’s value of high or low depends on the role of both the value network and value maintenance.
(3) Enterprise value. That is the ultimate profit of enterprises, and formed by value realization and value maintenance. Corporate earning ability is resulted from the combination of corporate itself, partners and competitors. To obtain a higher profit level, in doing its own operations, we must also note these two aspects.

4.3 Inscape
(1) Value proposition. A successful enterprise business model should be a clear, unique and consistent value proposition which should match strategic resources and core competencies, through new elements combination and application to achieve value innovation. At the same time, enterprises also must pass the value innovation, for their own core competencies and strategic resources to strengthen continuously and re-training (ZHANG, 2007). Value proposition can be divided into two elements—the target groups and the value of content.
(2) Value network. It constructs the rational value network to ensure enterprise to deliver value content to target customers efficiently, according to well-designed value proposition. When the enterprise constructs the value network, it should at first, act upon the principle of giving priority to efficiency to design the network morphology, and then, determine its business orientation based on the enterprise’s core competence of strategic resources. Value network can be divided into two elements: network morphology and scope of business.
(3) Value maintenance. After enterprises design value proposition and value network, it should also maintain the value of customer, partners and enterprise. Enterprise business model will have a result of the rapid loss of value, or even a complete failure, because of lack of strong support from partner or imitate of competitor. A large number of cases at home and abroad show that failure of many enterprise business model is because that there is no establishment of effective value maintenance, as a result, creation value activities can not be sustained. Maintenance can be divided into three elements of the partnerships, management and control model and precautionary mechanism.
(4) Implementing value. Through the creation of business value, enterprise business model achieves customer value, and any enterprise business model must eventually focus on the most original subject about how corporate earns profit? Why Chinese enterprise has short life cycles? With a large number of enterprises being established, at the same time, there are a large number of enterprises have been eliminated? The root reason for the failure is the absence of a complete, effective enterprise business model or ignoring implementing value factors of the
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enterprise business model. Implementing value can be divided as income pattern and cost control.

4.4 Analysis on elements

On the basis of enterprise business model in cell division, this paper defines the key elements constituting each unit, the relationship between the unit and elements can be seen in Table 1. The constituent elements of enterprise business model is formed by the further division to unit of enterprise business model, so that people may have a deeper and more clearly understanding about enterprise business model design. The nine key elements of enterprise business model design are focal point which should be given a clear definite and exclusive attention as companies building enterprise business model. There is interrelation between the nine key elements. The good function of enterprise business model runs, benefits from the various elements of the corporate business model to play their own role as well as synergies, because the company’s business model is a system, the function of there are the results of working between the various elements and various units.

Table 1  The elements of enterprise business model meaning

| Unit             | Element            | Content                                                                 |
|------------------|--------------------|-------------------------------------------------------------------------|
| Value proposition| Target group       | Company’s products or service target, the segmentation of the market, to determine which target markets, and then focus on target customers. |
|                  | Embedded value     | Enterprises through which products and services to create value for customers, corporate prepared to deliver what kind of the value to the target customers. |
| Value network    | Network type       | To realize resource combination and ability which are necessary for value proposition, enterprises should build what kind of networks to make the value creation activities in the most efficient way. |
|                  | Business scope     | Description for scope of business enterprise networks, enterprises should distinguish which services should be outsourced and which should be completed by the enterprises themselves. |
| Value maintenance| Partnerships       | The overall arrangements of the product flow, revenue flow and information flow between enterprise and partner, and how enterprises deal with cooperation to achieve “win-win situation” in the value creation of enterprises and partners. |
|                  | Management control mode | Enterprise to realize the organizational structure and governance model established by strategies and modalities for the operation, the enterprise how to optimize process, and how to improve their management ability and executive level. |
|                  | Prevention mechanisms | The value proposition and value network from erosion and damaging makes institutional arrangements, how isolated saboteurs and imitators, in order to protect the value creation activities from being damaged by external factors. |
| Value realization| Revenue model       | Enterprises income approach, which is how companies callback the created value. |
|                  | Cost control       | The approach of business management costs, that is how companies conduct cost-layout and cost control. |

It should also be noted that obviously, the enterprise business model design is affected by a number of other factors, such as macroeconomic operation, the behavior of competitors and the market structure and others. However, the impact of the enterprise business model is shown through a variety of factors, because the effect factors are the elements of enterprise business model structure, it is not as the main structure of enterprise business model. Business formation and operation of business model is a dynamic process, which is not only matching market changes, but also optimizing enterprise business model, improving and inaugurating those which determine the structure of the enterprise business model design to be a loop upgrading process. This is shown in Fig. 2, the value of enterprise business model is used to provide direction for other elements of comprehensive reform as feedback, while other elements of enterprise business model innovation will further promote the improvement of value generation.

5. The core strategy of the enterprise business model design implementation

5.1 Value innovation is the soul of the design

The soul of enterprise business model is value innovation. Taking advantage of the enterprise business model
enterprise ought to create, maintain and provide value, so as to realize the maximization of enterprise value. Successful enterprise business model should answer the following questions: What kind of customers may provide value? How to provide value to customers? How to achieve business value? We should pay attention to three facets to enhance innovation capability, that is, firstly, pay attention to soft power of companies, and then structure enterprise value networks and the last is to create value for the broad customers.

5.2 Winning over the customer is the center of the design

Business model design must depend on customer focus, from enterprise-based to customer-based, from the occupation market of the occupation customer, at last, from creating value to customer. Give serious consideration to customer expectations, and make the perspective of competition deep into the level of the create value for users, so that they can enter competition room with skill and ease (QIAN, 2007). By implementation of customer focus, we should focus on three main points, well-researched customer needs, the implementation of customer interaction management and to create new added value.

5.3 Economic union is a vehicle/carrier of design

According to statistics, 1/3 of the value curves of enterprises are from enterprises’ interior, and 2/3 from business to business. The enterprise already from strove for the survival to fight single-handedly moves towards altogether sought the livelihood, the business model must be based on alliance, continues the develop economy. By working together, polymerization of core competencies in the value chain of each other to create greater value and stronger competitive groups (WU, 2007). We should keep in mind three primary points to develop union economic, that is, strengthen the supply chain management, build enterprise’s core competitiveness and outsource non-core businesses.

5.4 Flexibility is the key to the design

If the enterprise business model determines the success or failure of enterprises, then adaptability is the key to success or failure of enterprise business model. Strain capacity is the foundation for competitiveness, which is adaptability and consistency strategy facing the complex and changeable market. Adaptability and strain is competitive. Enterprises need to focus on three points to enhance adaptability, stressing the concept of time, JIT being changed with demand and design of personal customization.

5.5 Information network is a platform of design

The new enterprise business models must pay attention to the power of information networks, in the age of information economy. Enterprises will be uncompetitive without the information network platform. Network platform can bring up countless myths. Enterprises must possess good business acumen, seize business opportunities, and gallop in the online world, and relates to the reality. Enterprises need to build superior, agile, and innovative flat of “dynamic network” structure, and set up learning organizations. Taking information network as a platform, we should take the following measures—constructing virtual economic competitiveness, accelerating the pace of e-commerce and promoting process reengineering.

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