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Conceptualizing, Analyzing and Communicating the Business Model

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Abstract
A business model is a sustainable way of doing business. Here sustainability stresses the ambition to survive even harsh business landscapes and create profits in the long run. Whether profits are retained by the shareholders or distributed in some degree to a broader mass of stakeholders is not the focus here. Rather, it is the point of this paper to illustrate how one may go about conceptualizing, analyzing and communicating the business model of a company. A business model describes the coherence in the strategic choices which makes possible the handling of the processes and relations which create value on both the operational, tactical and strategic levels in the organization. The business model is the platform which connects resources, processes and the supply of a service, which results in the fact that the company is profitable in the long term. Conceptualizing the business model is therefore concerned with identifying this platform, while analyzing it is concerned with gaining an understanding of precisely which levers of control are apt to deliver the value proposition of the company. Finally, communicating the business model is concerned with identifying the most important performance measures, both absolute and relative measures, and relating them to the overall value creation story.

Keywords: Business models, value creation story, value proposition, performance measurement

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Introduction

A business model is a sustainable way of doing business. Here sustainability stresses the ambition to survive even harsh business landscapes and create profits in the long run. Whether profits are retained by the shareholders or distributed in some degree to a broader mass of stakeholders is not the focus here. Rather, it is the point of this paper to illustrate how one may go about conceptualizing, analyzing and communicating the business model of a company.

Sustainability is the propensity to survive and thus also the ability to stay competitive. As such, a business model cannot be a static way of doing business. It must be developed, nursed and optimized continuously in order for the company to meet changing competitive demands. Precisely how the company differentiates itself is the competitive strategy, whilst it is the business model that defines on which basis this is to be achieved; i.e. how it combines its know-how and resources to deliver the value proposition (which will secure profits and thus make the company sustainable).

In the last decades, the speed of change in the business landscape has continuously accelerated. In the late 1990's, the e-business revolution changed global competition, and during the early years of the new millennium the knowledge-based society along with rising globalization and the developments in the BRIC economies ensured that momentum continued upwards. According to Sweet (2001, 71) these changes in the business landscape and society have had major implications for firm-level demands such as how value is configured.

As new forms of value configurations emerge, so do new business models. Therefore, new analysis models that identify corporate resources such as knowledge and core processes are needed in order to illustrate the effects of decisions on value creation. Accordingly, managers as well as analysts must recognize that business models are made up of portfolios of different resources (also denoted assets) and not merely traditional physical and financial assets. Therefore, "every company needs to create a business model that links combinations of assets to value creation" (Boulton, Libert, & Samek 1997, 33).

The rising interest in understanding and evaluating business models can to some extent be traced to the fact that new value configurations outcompete existing ways of doing business. There exist cases where some businesses are more profitable than others in the same industry, even though they apply the same strategy. This illustrates that a business model is different from a competitive strategy and a value chain. A value chain is a set of serially performed activities for a firm in a specific industry (Porter 1985). The difference thus lies in the way activities are performed (strategic and tactical choices), and therefore a business model is closely connected to the management control agenda.

The business model perspective has been found useful for aligning financial and non-financial performance measures with strategy and goals. In addition, communicative aspects from executive management to the rest of the organization, and also to external stakeholders such as bankers, investors and analysts, are also facilitated by a business model perspective.

Three empirical research projects inform the basis of the rest of this article:

1) A research project concerned with understanding the basics of the business model; characteristics and elements as well as tools for conceptualizing business models
2) A research project focusing on the analysis of the business model and the application of a series of analysis techniques
3) A research project focusing on the communication of business models

The rest of the paper is structured as follows: The following section introduces the business model concept and provides a helpful definition. The next section, '*Conceptualizing the business model'*, looks at which parameters and characteristics we need to understand in connection with the business model. In the section *'Analyzing the business model'*, the reader is introduced to the analytical guideline and the important aspects of relative and absolute business model evaluation, including the strengths of evaluation across time. In the section *'Communicating the business model'*, a series of cases and examples are presented, and the relationship between a business model description and an equity story is clarified. The article is concluded by a series of good advice on conceptualizing, analyzing and communicating the business model.

The business model concept and a definition

In the late 1990's, the 'business model' concept became almost synonymous with e-business and the emergence of the so-called new economy. The Internet had in essence created an array of new business models where the major focal point of the literature on business models from an e-business perspective became how to migrate successfully to profitable e-business models. See e.g. Hedman & Kalling (2001) for a comprehensive review. Therefore, much of the business model literature focusing on the e-business context concerns how such organizations can create value in comparison to their bricks and mortar counterparts (cf. Alt & Zimmermann 2001, Rappa 2001, Pigneur 2002).

However, far from all ways of doing business through the Internet have proven to be profitable, and accordingly there has been a substantial interest in explaining how the new distribution and communication channels form new business structures. One way of approaching this issue is through Amit & Zott's (2001) four dimensions of value-creation potential in e-businesses that have to be in place for an e-business model to be profitable: It must create efficiencies in comparison to existing ways of doing business (see also Farrell 2003, 107), and it must facilitate complementarities, novelty or enable the lock-in of customers (cf. Porter 2001, 68). For example, the creation of efficiencies is by DeYoung (2003) seen as the underlying notion of Internet based business models in the banking industry, while Gallaugher (2002) in general illustrates how e-commerce as a new distribution channel has created efficiencies, thus enabling new business models to emerge.

It should be noted that "[m]uch of what is being said about the New Economy is not that new at all. Waves of discontinuous change have occurred before", as Senge & Carstedt (2001, 24) state. Just think of how Henry Ford's business model revolutionized the car industry almost a century ago, or how Sam Walton revolutionized the retail industry in the 1960s with his information technology focus and choice of demographic attributes for store locations, thus creating an immense cost structure focus along with a monopolistic market situation.

According to Chesbrough & Rosenbloom (2002, 530), the origins of the business model concept can be traced back to Chandler's seminal book 'Strategy and Structure' from 1962. Strategy, Chandler states, "can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (1962, 13). Further developments in the concept travel through Ansoff's (1965) thoughts on corporate strategy to Andrews' (1980) definitions of corporate and business strategy, which, according to Chesbrough & Rosenbloom (2002), can be seen as a predecessor of and equivocated to that of a business model definition.

Child's (1972) paper on organizational structure, environment and performance, incidentally to a great extent influenced by Chandler's work, is, however, among the earliest to gather and present these thoughts diagrammatically. Although he does not explicitly refer to his schematization of "the role of strategic choice in a theory of organization" (Child 1972, 18) as a business model representation, the thoughts presented here incorporate many of the central elements presented within the recent literature on this emerging concept. For instance, Child's term 'prior ideology' covers the aspects of an organization's vision and value proposition, objectives, and strategy, while 'operating effectiveness' is viewed as an outcome of the organizational strategy and the elements: scale of operations, technology, structure, and human resources.

The recent research interest for new value configurations (Ramirez 1999; Stabell & Fjeldstad 1998; Sweet 2001) reflects a change in the competitive landscape towards more variety in value creation models within industries where previously the "name of the industry served as shortcut for the prevailing business model's approach to market structure" (Sandberg 2002, 3), competition now increasingly stands between competing business concepts (Hamel 2000). If firms within the same industry operate on the basis of different business models, different competencies and knowledge resources are key parts of the value creation, and mere benchmarking of intellectual capital indicators does not provide insight in the profit or growth potential of the firm. A comparison of the specific firm with its peer group requires interpretation based on an understanding of differences in business models.

If firms only disclose key performance indicators without disclosing the business model that explains the interconnectedness of the indicators and why the bundle of indicators is relevant for understanding the firms' strategy for value creation, this interpretation must be done by the analysts themselves. Currently, there exists no research based insight into how this reading and interpretation are conducted, and it is very likely that this understanding of firms' value creation would be facilitated if companies disclosed such information as an integral part of their strategy disclosure. From Nielsen (2005) the following definition of a business model is rendered:

> *A business model describes the coherence in the strategic choices which makes possible the handling of the processes and relations which create value on both the operational, tactical and strategic levels in the organization. The business model is therefore the platform which connects resources, processes and the supply of a service which results in the fact that the company is profitable in the long term.*

Conceptualizing the business model is therefore concerned with identifying this platform, while analyzing it is concerned with gaining an understanding of precisely which levers of control are apt to deliver the value proposition of the company. Finally, communicating the business model is concerned with identifying the most important performance measures, both absolute and relative measures, and relating them to the overall value creation story.

Conceptualizing the business model

A business model is not merely a value chain, nor is it a corporate strategy. There exist many value configurations that are different to that of a value chain, like e.g. value networks and hubs (Stabell & Fjelstad 1998, Mintzberg & Van der Heyden 1999). Rather, a business model is concerned with the unique combination of attributes that deliver a certain value proposition. Therefore, **a business model is the platform which enables the strategic choices to become profitable**.

In some instances it can be difficult to distinguish between businesses that succeed because they are the best at executing a generic strategy and businesses that succeed because they have unique business models. This is an important distinction to make, and while some cases are clear-cut, others remain fuzzier.

One of the best examples of a business model that has changed an existing industry is Ryanair, which has essentially restructured the business model of the airline industry. As the air transport markets have matured, incumbent companies that have developed sophisticated and complex business models now face tremendous pressure to find less costly approaches that meet broad customer needs with minimal complexity in products and processes (Hansson et al. 2002).The generic strategy of Ryanair can be denoted as a low-price strategy. This option is open to all existing airlines, and many already compete on price. However, Ryanair was among the first airline companies to mould its business platform to create a sustainable low-price business. Many unique business models are easy to communicate because they have a unique quality about them; i.e. either a unique concept or value proposition. This is also the case for Ryanair. It is the "no-service business model". In fact, the business model is so well thought through that even the arrogance and attitude of the top management match the sleaziness and inconsideration of the rest of the business. But they can make money in an industry that has been under pressure for almost a decade, and for this they deserve recognition. Ryanair's business model narrative is the story of a novel flying experience. No other place in the world is it possible for humans to feel so much like livestock waiting for the butcher to arrive. It is only a shame that some of the customers are captive customers in the sense that they cannot afford to travel with an ordinary airline even if they wanted to.

A much applied example in the management literature is Toyota. However, Toyota did not really change the value proposition of the car industry. They were able to achieve superior quality through JIT and Lean management technologies, and they may have made slightly smaller cars than the American car producers, but their value proposition and operating platform were otherwise unchanged. The same can be said for Ford in the early 20^{th} century. Ford's business setup was not really a new business model. It sold one car model in one colour, but so did others at the time. Ford was able to reduce costs through a unique organization of the production setup, but the value proposition was not unique.

In the 1990's, Dell changed the personal computer industry by applying the Internet as a novel distribution channel. This platform as a foundation of the pricing strategy took out several parts of the sales channel, leaving a larger cut to Dell and cheaper personal computers to the customers. Nowadays this distribution strategy is not a unique business model anymore as many other laptop producers apply it. Therefore, it is also a good example of the fact that what is unique today is not necessarily unique tomorrow.

According to Hamel & Skarzynski (2001), innovation is an important mechanism with respect to ensuring wealth creation, but it is also a prerequisite for sustainable development because "today's competitive advantage becomes tomorrow's albatross", as Christensen (2001, 105) expresses it. Having the right business model at the present does not necessarily guarantee success for years on end (Linder & Cantrell 2001) as new technology or changes in the business environment and customer base can influence profitability (Delmar 2003). The point to be made here is that if the value proposition is not affected in some manner, then it is most likely not a new business model. However, it could be the case that the value proposition is not affected, but the business' value generating attributes are radically different from those of the competitors. Three examples of this are:

1. The value proposition of two companies producing kitchen appliances. One may be more high-end than the other, but this is a part of the competitive strategy, not the actual business model
2. The value proposition of two companies producing laptops. One may be priced lower because the range is smaller and the design kept to one colour etc. This is not equivalent to different business models, but also a question of competitive strategy and customer selection. However, if one of the producers decides to alter the traditional distribution model, cutting out store placement and setting up technical support as local franchisees only, that could be a new business model
3. Two hair salons will both be performing haircuts, but their value propositions may be vastly different according to the physical setup around the core attribute

Which parameters do we need to understand?

Remembering that the business model is the platform which enables the strategic choices to become profitable, then it is clear that a business model is not a pricing strategy, a new distribution channel, an information technology, nor is it a quality control scheme in the production setup. A business model is concerned with the value proposition of the company, but it is not the value proposition alone as it in itself is supported by a number of parameters and characteristics. The question is here: how is the strategy and value proposition of the company leveraged?

To understand the foundations of the business model, metaphorically speaking, the pillars on which the platform rests, it is necessary to look at the organizational attributes of the company. In doing so, the focus should not be on the elements themselves, i.e. organizational structure, alliances, management processes, customer types, but rather on the characteristics of the links between them. A model that provides a good overview of the elements which need to be taken into account when conceptualizing the business model is provided by KPMG's Strategic-Systems Auditing (SSA) framework (Bell et al. 1997).

Bell & Solomon define the business model as: "a simplified representation of the network of causes and effects that determine the extent to which the entity creates value and earns profits" (2002, xi). Compared to the suggestions by Bell et al. (1997), the recent framework focuses more narrowly on value creation and has predominately internal focus incorporating the elements of value drivers, value creation, and representation. As a distinctive feature, the SSA model departs from an auditing perspective where Bell et al. (1997) argue for the importance of gaining an understanding of the client's strategic advantage. This is, however, not only a necessity from an auditing perspective since understanding a company's strategic advantage is the prerequisite for understanding how it creates value.

Gaining an understanding of key value creation processes and related competencies that enable the company to realize its strategy is an essential element of such an analysis. By measuring and benchmarking the performance of core business, management and support processes, the 'KPMG Business Measurement Process', depicted in figure 4, facilitates and enhances an understanding of the risks that threaten the attainment of the company's business objectives. The following of this framework is argued to lead to an understanding of the client's business model and a documentation of the company's ability to create value and generate future cash flows through depiction of the company's specific process analyses, key performance indicators, and business risk profile. Thus, a similar procedure could potentially form the foundation for external communication more generally.

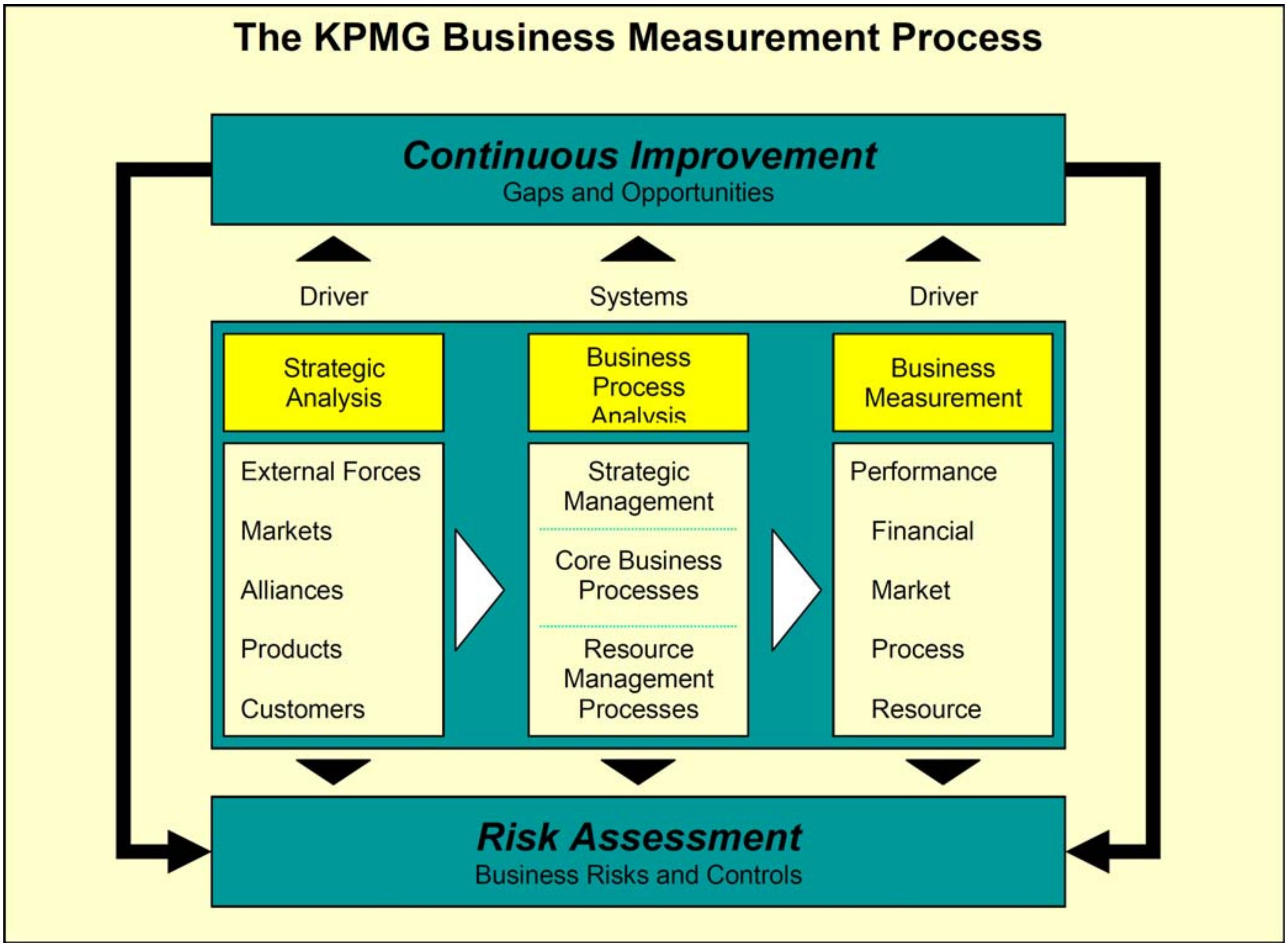

Figure 1: The KPMG Business Measurement Process

The SSA model is based on an analysis procedure that departs in the strategic analysis of the external forces affecting the company and the markets on which it operates, along with an analysis of its alliances, products, and customers. Next, an analysis of the business processes regarding strategic management processes, core business processes, and resource management processes leads to a so-called Entity Level Business Model and the identification of key business performance measures.

SSA gives an idea of the parameters that make up and define the outskirts of a business model. Through the strategic analysis, the following aspects of the organization are described: external forces, markets, alliances, products, and customers. Next, the SSA model includes a process analysis tool which helps the analyst from a risk based perspective to find the most appropriate KPI's and controls of key risks for the company to be able to deliver the value proposition and through this identify the characteristics and key aspects of the links between organizational elements. The business process analysis is applied on three archetypes of processes, namely: strategic management processes, core business processes, and resource management processes. Finally, the first two steps lead to the actual business performance measurement including the identification of performance KPI's according to the four dimensions: financial, market, process, and resource.

Another more recent contribution to the field of business model conceptualization is Osterwalder et al. (2010). Here the value proposition links the company's infrastructure (down-stream activities and management to execution) with the customer (distribution and after sales relationships). In comparison to Bell et al. (1997), Osterwalder et al. (2010) get somewhat closer to the goal of identifying the 'how' of the business model because they place the value proposition at the centre of the model as an aligning feature between infrastructure interrelations such as competences, partner network and value configuration, and customer interrelations such as customer relationships, distribution channel, and target customers.

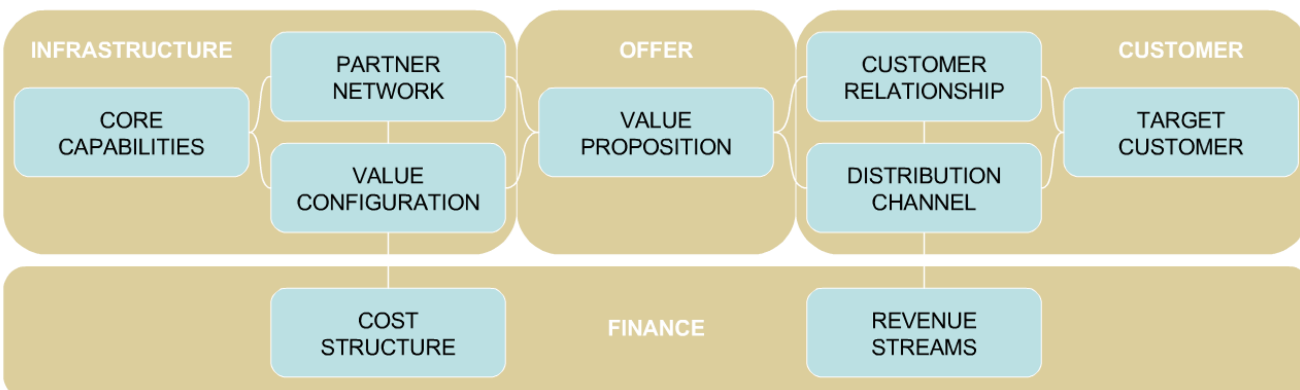

Figure 2: Business model design template (Osterwalder et al. 2010)

Despite these developments, the ideas put forth here come short of illustrating how the specific linkages of value creation work.

The two models described above illustrate two different ways of approaching the generic parameters of a business model. Together they provide a good overview of the elements that may affect the uniqueness of a business model. **However, both models have weaknesses when it comes to highlighting the platform for success**. How to avoid this will be illustrated in the analysis and communication sections below in this article.

Analyzing the business model

In the section above, it became evident that a business model potentially consists of the interaction between many different parameters of the organization. Some unique business models thus involve extremely complex interdependencies, whereas, in other cases, it can be extremely simple to understand the specifics of a business model. An example of a company where a complex set of interdependencies create a unique business model is the Danish medico-technology company, Coloplast. For Coloplast the platform for a long-term sustainable business rests on the interaction between the ability to integrate the ideas and requests of the decision-making nurse-groups into product development without renouncing the product quality perceptions of end-users. Measuring the performance and development of these interdependencies is extremely complex. An example of an easy to understand business model is Ryanair's: "a ticket includes no service whatsoever. If you require any extras or have physical handicaps, then remember your credit card".

The notion put forth here is that if it is difficult for the company to conceptualize the business model, then it may be even more difficult for external parties to analyze it. At present there exists very little literature on the aspects of analyzing business models. However, several management and performance measurement models can be mobilized to some extent in the understanding of business model performance. Below, four perspectives of analysis are identified, each with differing ambitions and therefore also with different theoretical underpinnings, namely: processes, causality, quality and competences.

It is widely accepted that intellectual capital, strategy and other drivers of value creation constitute strategically important elements for the future profitability and survival of companies. Many firms already disclose much supplementary information in their management commentary regarding strategy, market competition, technological developments and products in the pipeline. Also, in the Nordic countries and more recently in a number of other European countries, companies have been experimenting with disclosing such voluntary and forward-looking disclosures through intellectual capital statements.

The problem - as well as the prospect - with strategy is that it is about being different. Hence, the bundle of indicators on strategy, intellectual capital etc. that will be relevant to disclose will differ among firms. For such information to make any sense at all, it should be communicated in the firm's strategic context as this would show its relevance in relation to the company's value creation process. In other words, it does not make sense to insert such information into a standardized accounting regime.

The SSA framework applies a risk-based perspective on value creation and combines the analysis of strategic and business related processes with risks and risk-controls to the identification of key performance indicators (KPI's). Thus, the process analysis template of the SSA framework helps the analyst to conceive how the underlying aspects of performance are related to each other via a risk-based approach.

The Balanced Scorecard's strategy map analysis is another methodology that helps to integrate KPI's and illustrates their interconnectedness. The Balanced Scorecard takes its point of departure in a cause-and-effect approach on competitive strategy. The strategy map methodology helps the analyst to link KPI's through the four perspectives of the Balanced Scorecard. The Business Excellence model is a quality-based perspective to identifying KPI's. Unlike the Balanced Scorecard, the Business Excellence model does not assume causal links, but rather a milder form of relatedness between measures.

In the section below, a fourth model for the analysis of performance measures is applied. It is a model developed for the analysis of the intellectual capital value proposition by Mouritsen et al. (2003). In its original presentation, the model was proposed to help create a set of rules for the analysis of intellectual capital statements that allowed the reader to appreciate the content of an intellectual statement in such a way that he or she could make an independent judgment of it. Later, it has been proven applicable to the analysis of many types of strategy-related disclosures, including voluntary CSR-reports, IPO prospectuses as well as the management review sections of traditional financial reports.

The analytical guideline

The idea of the analytical guideline was to develop analytical rules for voluntary information which paralleled the analytical concerns of the financial statement. According to Bukh et al. (2005) insight into financial assets could be translated to insight into the constellation of knowledge and value creation resources; insight about investments could be translated into insight about upgrading competences and resources; and finally, insight into performance could be translated into insight about the effects of knowledge, innovation and strategic choices.

The information 'input' for the analytical model can be derived from the information channels of the company which is to be analyzed; e.g. from the annual report, corporate website, management interviews or reports of financial analysts. In the case where an annual report is the supplier of information, the input thus becomes the specific indicators representing value creation, management challenges and the activities that the company performs. The indicators are disentangled from the text of the annual report through the analytical model that organises the indicators according to three general problematisations of the firm (similar to the problematisations of the financial statement): What is the composition of value creation resources (what is the composition of assets)? What are the activities made to upgrade competences and resources (which investments are made in the firm)? What are the effects of knowledge, innovation and strategic choices (what is profitability)? These questions are concerned with the assessment of the firm's business model.

Figure 3: The analytical model (Mouritsen et al. 2003b)

Unlike an accounting system, the analysis model is *not* an input/output-model. There is no perception that any causal links between actions exist to develop employees and the effect in that area – e.g. increased employee satisfaction. The effect of such an action may appear as a customer effect: The employee becomes more qualified and capable of serving the customers better. The task of the analysis is thus to explain these 'many-to-many relations' in the model. The classification itself does not explain the relations, just as increased expenses for R&D alone do not lead to increased turnover in the financial accounting system.

From Bukh et al. (2005) the assessment criteria of the analysis model based on indicators attached to the three main questions of the analysis are illustrated:

Resource indicators concern the portfolio of the company's resources, i.e. the company's stock and composition of resources within the areas of employees, customers, processes and technologies, and illustrate a starting point from which action can be taken. The indicators deal with relatively stable units such as e.g. ‘a customer’, ‘an employee’, ‘a computer’, ‘a process’ etc. They answer questions such as ‘how many?’ and ‘which share?’ and thus illustrate how big, how varied, how complex and how correlated the resources are. The managerial actions related to these resources are portfolio decisions; i.e. decisions on how many of the different types of knowledge resources the company wants.

Activity indicators describe the company’s activities to upgrade its resources; i.e. activities initiated to upgrade, strengthen or develop its resource portfolio. The indicators illustrate the direction in which the organization is working and help to answer the question ‘What is being done?’; e.g. what does the company do to develop and improve its knowledge resources through e.g. continuing education, investments in processes, activities to educate or attract customers, presentations etc. The attached management actions are thus upgrading activities.

Effect indicators reflect the consequences or the total effects of the company’s development and use of resources. As with an accounting system, the model only shows the effects; it does not seek to explain from where they arise. The analyst may seek such explanations on the basis of the model, but not within the model itself. These indicators help us to establish whether we are arriving where we expected to.

Thus, when analyzing the interrelations of the business model it is possible to apply the ideas of a strategic narrative. Like all other stories, this narrative has a beginning, an action and an ending. So does the strategic narrative, It has resources, activities and effects. Together with an understanding of the company’s strategy and the key management challenges facing the executive management, it is possible to mobilize the questions of analysis illustrated above to identify the key indicators of the business model. Evaluating the business model can therefore be done in a series of steps.

A first step could be to evaluate the identified indicators in a scorecard-like fashion in relation to a set of expected targets for each indicator. Thereafter the indicators can be evaluated in the analysis model by asking which indicators affect each other. This analysis can be completed by asking whether some of the 12 boxes have missing indicators. Together with the indicators at hand, management should ask themselves how they fit into the story of what the company does and how it is unique. In this manner, management is gradually moving closer to its business model narrative supported by performance measures. In order to assess if the composition, structure and use of the company resources are appropriate, it is necessary to consider the development of the indicators over time, and finally the company may pursue relative and absolute measures for benchmarking across time and across competitors.

Communicating the business model

The point of departure for many of the recent developments in voluntary reporting, especially the so-called narrative models, is to illustrate the flows of value creation by linking indicators to strategy and supporting an understanding of them by providing a context giving narrative (Nielsen, Roslender & Bukh 2009). Mouritsen and Larsen (2005) label this a process of "entangling" the indicators, arguing that individual pieces of information and measurements by themselves can be difficult to relate to any conception of value creation. As such, this "flow" approach is concerned with identifying which knowledge resources drive value creation instead of assigning a specific dollar value to those resources (Bukh 2002).

Hägglund (2001) and Mouritsen et al. (2001) accentuate that the understanding of the firm's value creation would be facilitated if companies disclosed their value drivers as an integral part of the strategy disclosure in the management review. Further, this communication would be even more effective if the framework for disclosure was based on a common understanding of the company's value drivers (Bukh & Johanson 2003, Osterwalder 2004). Along these lines, Bukh (2002) and Kozberg (2001) suggest that the business model can enable the creation of a comprehensive and more correct set of non-financial value drivers of the company, thereby constituting a useful reference model for disclosure.

The problem with trying to visualize the company's "business model" is that it very quickly becomes a generic organization diagram illustrating the process of transforming inputs to outputs in a chain-like fashion. The reader is thus more often than not left wondering where the focus is in the organization, and key differentiating aspects of the business model are drowned in attempts to illustrate the whole business. This is why the communicative aspects are so important.

From a narrative perspective, business models can be a support mechanism for projection of management's view to the organization through e.g. storytelling. The organizational narrative is also a kind of abbreviation supporting the ability of remote control, in essence constituting a representation of the business through a description; i.e. a story of how it works (Magretta 2002b) and the relationships it is engaged in. Very much in line with Hamel's (2000) ideas, Morris (2003) conceptualizes the business model as a "comprehensive description of the business". A business model, according to Morris, is therefore a description of the system, including how the experiences of creating and delivering value may evolve along with the changing needs and preferences of customers (Morris 2003, 17). As Sandberg states, "business models describe and explain" (2002, 4), and Magretta argues that business models are merely "stories that explain how enterprises work" (2002a, 4). Such a narrative is an explanation of how the organization intends to implement its value proposition, much like the function of the knowledge narrative of an intellectual capital statement (Mouritsen et al. 2003a).

The business model may potentially constitute a platform for the company's supplementary reporting (cf. Nielsen & Bukh 2011), for example, concerning strategy, value creation processes, knowledge resources etc. Generally seen, it is about communicating the company's strategy, critical success factors, degree of risk, market conditions etc. in such a way that the investors realistically can assess how the company is actually doing and which expectations they may have to the future development. In practice, it has proven fairly difficult to do this in a way which is not too comprehensive and complicated, and which does not in an inappropriate way go too close to information which cannot be published, e.g. for the sake of legal requirements, partners or competitive conditions.

Internationally, several committees, commissions and groups of experts have during the past ten years worked on the development of guidelines and recommendations. For example, Blair & Wallman (2001, 59) have argued that the company's supplemental reporting should reflect the dynamics which drive the company's value creation. The company's communication and reporting should ultimately constitute a representation of the company's business model "by describing the relationships among the various input measures and outcome measures, and to link the primary inputs to intermediate inputs and, ultimately, to financial performance and other measures of total value creation" (Blair & Wallman 2001, 43).

In relation to the communication and Investor Relations work, the business model may thus be perceived as a model which helps the company's management to communicate and share their understanding of the company's business logic with external stakeholders (Fensel 2001). This is often described as "equity story" in finance circles. These stakeholders do not only comprise analysts and investors, but also partners, the society and potential employees. This business model-bound equity story is related to the business-oriented tendencies within corporate branding, which for example Hatch and Schultz (2003) are exponents for. The main point here is that corporate branding is about rendering visible the interaction between the company's strategy, internal company culture and image. Thus, corporate branding is an interconnected practice for the whole organization and not only an expression of the marketing department's perspective. In this way, the notion branding becomes a question of explaining how the company earns money rather than an explanation of responsibility towards internal and external stakeholders.

The idea of equity story communication is thus that the uniqueness of the company's value creation is taken as the starting point in relation to external parties. Sandberg (2002) formulates this in the following way: "Spell out how your business is different from all the others." Osterwalder & Pigneur (2003) consider the process which the management is going through in connection with a modelling of the company as an important tool to identify and understand central elements and relations in the business, for example value drivers and other causal relations.

Together with consistency, a firm structure for the communication of information and the very information may help the company's external stakeholders to understand how new events affect its future prospects. In this way, the company can minimise the spread in the analysts' estimates which affect the uncertainty about the "real" price determination which, as discussed above, affects the capital costs.

Good advice on conceptualizing, analyzing and communicating the business model

On the basis of the discussions above and a recent research project covering the communicative and analytical aspects of business models, ten pieces of advice for the successful explanation of the business model have been prepared. These guidelines express what is believed to be the easiest way of explaining and communicating a business model in practice.

1. Describe the strategy platform

A business model describes the platform by which the company puts its strategy into practice. This platform may differ significantly between companies. In the case of Danske Bank, the IT platform is the key that enables a smooth M&A. In Coloplast, the customer feedback platform is leading the company to innovative products. B&O's products are based on a design-, functionality- and lifestyle-platform. In A.P. Møller, it is their cultural and financial platform that makes the company unique. And Bavarian Nordic's technological platform may in time blaze the trail for new market segments.

The business model framework provides the companies with a tool to structure their information and communication – their supplementary report/management review/non-financial reporting and the investor site on the company's homepage.

2. Create a connecting story of value creation

It is crucial for the readers' understanding of the business model that the company presents a coherent picture of the company's value creation; e.g. by providing an insight into the interrelations that induce value creation in the company. Moreover, the non-financial reporting should follow up on the strategy plans and development in the business model in order to ensure consistency over time. A business model can be seen as a regression of the company's value creating elements, where the elasticities belonging to the identified variables are explained in words or by figures, and where the connections between the value creating elements are explained. However, a business model should not necessarily be understood as a value chain, and it should therefore not necessarily be reported as one. An alternative way of looking at the business model is through the so-called onion metaphor. Here, we start by describing the core, namely the company's cash flow, and then we move outwards through the different layers of the company. The further away from the core (cash flow), the better view of the size of the onion we get. We will fairly quickly be informed of the most important aspects of the company's value creation, and we may stop when we feel that we have gained sufficient knowledge about the company

3. Focus on the connections and the interrelations

The core of a business model description is the connections between the different elements that we traditionally divide the management review into. Companies often report a lot of information about e.g. customer relations, employee competencies, knowledge sharing, innovation and risks, but this information may seem unimportant if the company fails to show how the various elements of the value creation interrelate and which changes we should keep an eye on.

4. Be explicit about the organisation's whereabouts in the value chain

Place the company in the industrial value chain and use this as a basis for comparing the company with its closest competitors. What are the advantages of the different ways of controlling resources and customers both upstream and downstream in the value chain? An example of this could be a comparison of LM Glasfiber and Vestas' different perspectives on the value chain in the wind energy sector, or DLH's approach to import of wood.

5. Avoid empty expressions and buzz-words

Avoid empty expressions such as: ”We are innovative”. What is really interesting is why and how the company is innovative. The reader wants to know in what way the company differs from its competitors. Other empty expressions could be: "We want to be market leaders" and "knowledge is our greatest asset". Furthermore, it is important to avoid buzz words, especially if the company has many private investors.

6. Be aware that transparency has different meanings

Transparency means being able to see through and in relation to the business model, it is more precisely concerned with the ability to explain the different aspects of value creation across the value chain, and how these aspects affect the company's bottom line. However, it is important to note that transparency varies according to the time horizon. In the short term, creating transparency is concerned with accessibility and news flow, whereas in the long term, transparency is concerned with creating an understanding of strategy, access to resources and market developments. Transparency also differs between private and institutional investors. For private investors, transparency is about creating a simplified understanding of the company's concept. For institutional investors, transparency is about filtering and structuring the massive amounts of information available for their decision-making. In both instances, the company's business model is a good point of departure.

7. The broad information channels have the highest influence on transparency

The wide information channels still have the greatest influence on transparency. Communication via the company's homepage thus proved to have the most significant influence on transparency. The paramount factor correlating with the use of homepages was the size of the company. Thus, large companies use homepages to a much larger extent than small companies, which is quite a paradox since the internet is one of the cheapest ways to mass-communicate with the capital market.

8. Use the spread in consensus estimates as a measure of IR success

Use the spread in consensus estimates as a useful indicator when the company is followed by more than five analysts. There is a positive, significant correlation between the company's IR activities and the consensus estimates for the coming year. This could indicate that if the company intensifies its IR activities, then the standard deviation for the consensus estimates will grow. This may be due to information overload.

Consensus estimates with a time horizon beyond one year will give a negative correlation. This means that companies with higher information levels may have lower standard deviation levels in the long term. The information that is conveyed through IR is of a more strategic and market-oriented type and therefore concerns the long-term perspective. Companies with a large amount of shares tied in strategic investments, i.e. less free float, had a higher level of information. This result is quite interesting since companies with a large free float typically are associated with high levels of information.

9. Explain the business model as a forward oriented statement

A business model is a forward-looking statement which goes beyond an identification of the company's immediate cash flows. In capital market language, one would say: It is a statement on how the company will survive longer than till the end of the budget period. This means that when describing one´s business model, it is not enough to talk about the company's historic development, not even if it includes an account of the company's historic value creation, the company's concept and how the company's objectives and strategy have turned out.

10. Establish trust in the communication through the use of performance measures

Another central tool when describing a company's history is to support facts by non-financial performance measures. One thing is to state that one´s business model is based on mobilizing customer feedback in the innovation process, another thing is to explain by what means this will be done, and even more demanding is proving the effort by indicating: 1) how many resources the company devotes to this effort; 2) how active the company is in this matter, and whether it stays as focussed on the matter as initially announced; and 3) whether the effort has had any effect, e.g. on customer satisfaction, innovation output etc.

Conclusion

Disclosure of information on strategies, business models, critical success factors, risk factors and value drivers in general has gained importance in recent years. Policy makers and academics have argued that the demand for external communication of new types of value drivers is rising as companies increasingly base their competitive strengths and thus the value of the company on know-how, patents, skilled employees and other intangibles.

In parallel with the focus on disclosure of value drivers, the concept of business models has also gained popularity. However, business models in terms of "ways of doing business" have always existed. The business model reflects the company's way of competing, whether it concerns being unique or being the most cost-efficient company in the industry. The supply of information on firms' value creating processes and value drivers has actually been increasing in various reporting media such as annual reports, IPO prospectuses and the reports of financial analysts. Furthermore, some firms, especially in the Nordic countries, have started developing Intellectual Capital (IC) reports that communicate how knowledge resources are managed in the firms within a strategic framework, and new models for reporting on stakeholder value creation and CSR are gradually emerging. Despite this, an explicit recognition of value creation as a central part of a business model is generally lacking in this literature.

It is also noticeable that even though disclosure of information from companies has been increasing, there are no clear signs that the particular information demands of investors and analysts have been met. The paradox is therefore that while there are well-developed arguments for disclosure and evidence indicates that companies are disclosing more and more information, there are also indications that disclosure is insufficient. This leads us to consider whether we, as often stated, are facing a reporting gap, or rather an understanding gap. This is where the business model can be applied.

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