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Business Models and Competitive Advantage

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Abstract

Firms in the emerging markets are striving to gain sustainable competitive advantage. There is a strong relationship between the business models and the competitive advantage. An effective business model is a combination of deliberate alignment of resources and capabilities to strike competitive advantage. This paper makes an attempt to study business models from the emerging markets and emphasizes on emergence of multiple business models employed by the firms. It employs multiple case studies which are developed in different time periods. It is understood that the choices which firms make in selecting the components of business models determines the success. Firms with multiple business models demonstrated higher chances of gaining competitive advantage.

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1. Introduction

Participants in the emerging markets have always had a problem in common. It was not just about competitive advantage, but it was about sustainable competitive advantage. Business strategy of a company is strongly influenced by the way in which a company develops its business model. Soundness of a business model rests on its ability to propel growth. This paper makes an attempt to identify the fit between business models and successful business strategies of select participants from the emerging market.

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Business models are firm's theory of competitive advantage, and above all it creates value to its shareholders. Drucker was the initial writer on business models, he asks fundamental questions like, who is our customer? what do they want? Whereas Magretta (2002) asks two questions. What value the firm has created for the customers and what value it has created for itself when it serves a customer, and how it differentiates itself from the competitors.

2. Objectives and Methodology

The objective of this paper is to examine the interrelationship between business models and business strategies. It also examines the possibilities of firms incorporating multiple business models. Focussing on two organisations, an attempt is made to study the relationships between business model and business strategies. Evidences of firms using multiple business models are the questions probed qualitatively. To facilitate the causal relationship between business models and competitive strategy, two cases are selected based upon the robustness of the content. Two successful business models are deliberately selected to establish the above relationships. Based upon the documented evidences of firms using multiple business models, three cases on Arvind Eye Hospital, (Rangan, 2003), (Kumar, 2009), (Prahalad, 2004) and one case on Maruti Driving School (Ranjith and Bijuna, 2005) representing business models of Maruti Udyog Limited were selected.

3. Business Models and their components

Everything in marketing starts with identifying customer needs, and thinking of innovative methods to address those needs effectively. Profits are arrived as cost and revenues interact. Superior business models have the ability to offer value proposition, stronger competitive positions compared to rivals, and ability to sustain profitability (Newth, 2012). A business model creates value when it uses resources, with which it develops capabilities, to explore the revenue sources and to be financially viable. The value proposition, strategic resources and dynamic processes are integral part of a business model. This qualitative relationship between the variables propels profitability. Value proposition is associated with the ability of the firm to fill the gap between customer experiences. Capabilities are built in the company's value chain using strategic assets/strategic resources. There are four basic business models which are identified by the researchers, and 16 specialised variations of these models according to a study by MIT-Sloan researchers by taking a sample of largest 1000 firms from United States (Peter Weill et al., 2005)

4. Business Model Typology

The essential qualities of a good typology includes their ability to intuitively visible in the sense it should capture the essence of the business model by grouping businesses together and ungrouping unrelated businesses separately. Further it must be comprehensive, it must classify all the businesses separately. The rules for determining the business model should not be highly subjective and conceptually elegant.

5. Analysis of Cases

Two organisations namely, Arvind Eye Hospital and Maruti Udyog Limited were selected to facilitate analysis of business models deliberately as performance and market related information of these companies are developed by them.

5.1 Arvind Eye Hospital

Arvind Eye Hospital was found with a mission to eradicate needless blindness. It was commissioned as 11 bed hospital in Madurai. Its founder felt that the 80% of the blindness can be cured as 20% of the cases were non-curable. It is considered as the largest eye care facility in the world performing around 200,000 surgeries each year, which is considered as several times higher than the national average.

Every patient who pays covers the cost of two patients who are unable to afford the cost. This leads to two different business models, where one business model works with collection of fee for surgery and treatment and the other one being charitable model. Due to volumes Arvind generates surplus funds, which are used for expansion. Doctors and

other medical staff visit villages and they organise eye-camps, refer those patients to Arvind hospital for further surgical procedures to cure blindness. Surgery/treatment post-operative care, food, medicine and lodging facilities, and return trip to their village are free of cost.

The intraocular lens which acts as a replacement to natural lens was very costly, as they were imported. Arvind established an intraocular lens manufacturing facility soon. It started exporting the lens to several developing nations. This helped the hospital in reducing the cost per cataract surgery. This is one way to align resources deliberately to create competitive advantage. The business model with payment complements the other business model with charity. Arvind Eye Hospital has developed a sustainable business model under the leadership of Late. Dr. Venkatappa Govindaswamy.

5.2 *Maruti Udyog Limited*

The fear of driving has made many uncomfortable while driving. The beginner's nightmare begins when he/she start driving a car, even after attending 25 stipulated test classes leading to award of a license. The neighbourhood driving schools cheat the customers and fail to teach the nuances of driving which enhances the confidence to drive. Even after clearing the license test the perpetual fear of driving hunts the beginner. Most of Indian cities are flooded with mushrooming driving schools belonging to both organized and unorganized category. The number of road accidents have increased. In 2004 alone, nearly 90,000 fatal accidents are reported on the roads in India.

MUL was established as a collaborative venture between Government of India and Suzuki Corporation, Japan. The company was established to satisfy the need for a small affordable car for Indian masses. MUL started with a basic Maruthi-800, which became a runaway success. Over the years it expanded its product portfolio with luxury cars and multi-utility vehicles. Maruti Udyog Limited is one of India's largest car manufacturer with significant market share has entered in to a new business folio of driving schools. Maruti Driving School, (hereafter known as MDS) was established with a view to impart valuable information and educating the customer to drive their respective cars safely. The ignorance of road rules, lack of technical knowledge about automobiles and awareness of road manners have only deteriorated traffic condition in the country. MDS claims to teach the finer aspects of driving to its aspirants. It offers three types of courses which includes learner's course, advanced level course and refresher course and defensive driving course. Each of these courses have duration of twenty, eight and four hours respectively. Students have to obtain 60% marks in the written and practical tests to proceed from a learner's course to advanced level. The learner's course has a duration of twenty hours which consists of seven hours of theory, Ten hours of practice class and two and half hour computer based simulation.

Maruti Suzuki limited, clearly has multiple business models. One of its business model concentrates on manufacturing of cars, whereas other two models concentrate on Driving school business and pre-owned car business. MDS is miles apart from its competitors because it encourages the learner to know more about technical and maintenance related issues of the vehicle. MDS started its operations by establishing three driving schools at Bangalore, Kollam and Chandigarh. MDS later expanded to 15 more major cities. Earlier it took an initiative with setting up Institute of Driving Training and Research (IDTR) to train commercial drivers and conduct research on road safety related issues. The female learners always had difficulty with male instructors in terms of convenience and comfort, which are attributable to social customs and norms. MDS has more number of lady instructors to resolve this issue. More than 800 students are enrolled in 2005 alone. The professionally managed MDS is going to attract more number of learners who lack confidence in driving. MDS charges Rs.3800 for 20 day course. This appears to be high compare to Rs 2500 charged by neighbourhood driving school. MDS's partners in this venture are its dealers who will manage the school on behalf of MUL. MDS assumes that the customers do not mind paying for quality education. As of 2015 it operates in 347 offices in 178 cities. The commercial hub of India, Bangalore city alone has more than 24 driving schools, belonging to organized and unorganized sector. Organized driving schools have reputation in terms of number of years of operation and satisfied customer base. But driving schools have miserably failed in their mission. They think moving the car for less than a kilo-meter to obtain a license is all their objective. Moreover the independent driving school operators had investment constraint which forced them to use old model cars to teach driving to their patrons. Customers looked for number of new cars which are used by the diving school, quality of instruction and capability of the school to obtain driving license as major parameters while approaching a school for learning. This made them myopic.

Unorganized schools are basically one-man show type of setup, which suffers from inherent disadvantages of coordination and professionalism. The traditional driving school business is poorly organized in India. MDS, after expansion, may wipe off the competitors in traditional driving school business segment. Local driving schools will survive only when then develop superior service delivery model. MDS has well defined number of hours dedicated to class room training, sophisticated simulation training is offered to familiarize the learners the difficulties of night driving, as per international standards. MDS also helps with the procedures involved with obtaining license. Equipped with the world class driving school environment and trainers, the school is expected to delight many customers who complain about their neighbourhood driving schools. The value proposition created by the firm supports its ability to generate revenue.

6. Discussion

When we examine the above cases it is quite evident that even in emerging markets multiple business models exist and they will continue to co-exist. The synchronization of various components of a business model will further help the firms to sustain their competitive advantage. Two business models are not same. A business model will be dynamic when it facilitates exploitation of organizational resources for developing capabilities. A business model without above fits/ synchronization is bound to fail in the market place. An operating business model satisfies the test of creating value proposition, builds barriers to entry through efficient use of bundle of dynamic capabilities, and by aligning cost structure to revenue. Both Arvind Eye Hospital and Maruti Driving School cases illustrate the innovation embedded into the value chain. Arvind Eye Hospital case illustrates the ability of the hospital to offer technologically superior services at lower costs. The second case on Maruti Driving School identifies new customer group and makes an attempt to offer unique technologically superior experience of learning driving. The common denominator of both cases examine the ability of the firms to attract mass market through their superior cost effective services, which creates a value proposition to the customer. Success of a business model depends on its ability to generate revenue streams successfully over a future horizon.

Some firms do have a single business model which facilitates the journey towards competitive advantage. Such firms limit their competitive advantage compared to firms with multiple business models. The drivers of value proposition changes significantly when a firm uses multiple business models to strike competitive advantage. Firms with single business models will have difficulty during turbulence. There is a need to innovate a business model. Business models are not static, but they are dynamic and ever changing. Revisiting business models is a notable exercise to safeguard the competitive health of a corporation.

7. Limitations and the scope for further research

This study uses select case studies to establish the causal relationship between business models and the competitive advantage. There is a need to conduct the study of business models by taking a larger sample of cases from emerging markets as limited number of cases challenges generalisation of causal relationship between variables used in the study. Industry wise analysis can be one option which is capable of generating answers for questions related to strength of relationship between business models designed by the incumbent firms and their competitive advantage.

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