

EVOLUTION OF BUSINESS MODELS DURING THE COVID-19 PANDEMIC

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ABSTRACT

Purpose - The purpose of this study is to propose a comprehensive definition for business models, reviews and summarizes the findings of a previous work by Guckenbiehl and Corral de Zubielqui (2022) about how business models have evolved by providing insights from reshaped businesses during the COVID-19 pandemic.

Methodology - In this study, an extensive literature review is followed to learn about definition of business models and how business model have been adapted or even innovated during the times of the COVID-19 pandemic.

Findings - Construction of a well-planned business model is a requirement for an organization to reach success. In the times of disruptive events, business models go through adaptive or innovative changes which is a necessity for survival and further success. It is observed that organizations generate different responses to crises (e.g., the COVID-19 pandemic) in means of business model changes. The understanding of these differences is facilitated by the aforementioned work through grouping organizations in six different clusters.

Conclusion - The structure of a business model prior to the COVID-19 pandemic was also one of the determinants of a business's response to the pandemic. Businesses either made no changes in their business models, or made notable innovations, or little adaptations in response to the disruptive environment.

Keywords: Business models, adaptation, innovation, COVID-19, pandemic.

JEL Codes: M10, M15, M20

1. INTRODUCTION AND DEFINITION OF BUSINESS MODELS

Business models have been studied through researches since the mid-1990s (Massa et al., 2017). Innovation of business models requires solid changes in business models instead of products or processes (Clauss, 2017). This approach can be achieved through adopting a strategic focus built upon managerial proactiveness and systematic strategic processes in ideating and designing business models (Martins et al., 2015).

Crises (e.g., the COVID-19 pandemic) and technological revolutions (e.g., the Industrial Revolution) are described as highly striking, unexpected, and disruptive events (Bundy et al., 2016), which encourage businesses to transform (Roux-Dufort, 2007) in order to survive. Peter Drucker points out the importance of awareness and adaptation in professional world: "A time of turbulence is a dangerous time, but its greatest danger is a temptation to deny reality." ("Did Peter Drucker Say That?", 2022). This adaptation requires adoption of strategic changes both for short-term and long-term – eventually causing changes in business models.

A business plan could be defined as "a plan for running a business, identifying where the money will come from, who the customers are, how they will be reached" ("business-model noun - Definition, pictures, pronunciation and usage notes | Oxford Advanced Learner's Dictionary at OxfordLearnersDictionaries.com", 2022). As an even shorter definition, business models establish how value is created for customers and an organization's strategy (Shanker, 2012). Regarding the earlier works of Osterwalder et al. (2010), a comprehensive definition of a business model should include;

- The value proposition of the business: e.g., higher quality for lower prices,
- Key partners of the business: e.g., suppliers,
- Key activities of the business: e.g., production,
- Key resources of the business: e.g., intellectual resources,

- Sales channels of the business: e.g., online sales,
- Customer relationships of the business: e.g., personal assistance,
- Customer segments of the business: e.g., Gen Z interested in gaming,
- Cost structure of the business: e.g., CAPEX, OPEX,
- Revenue generation of the business: e.g. sales, commissions.

This article suggests a definition for business model as below:

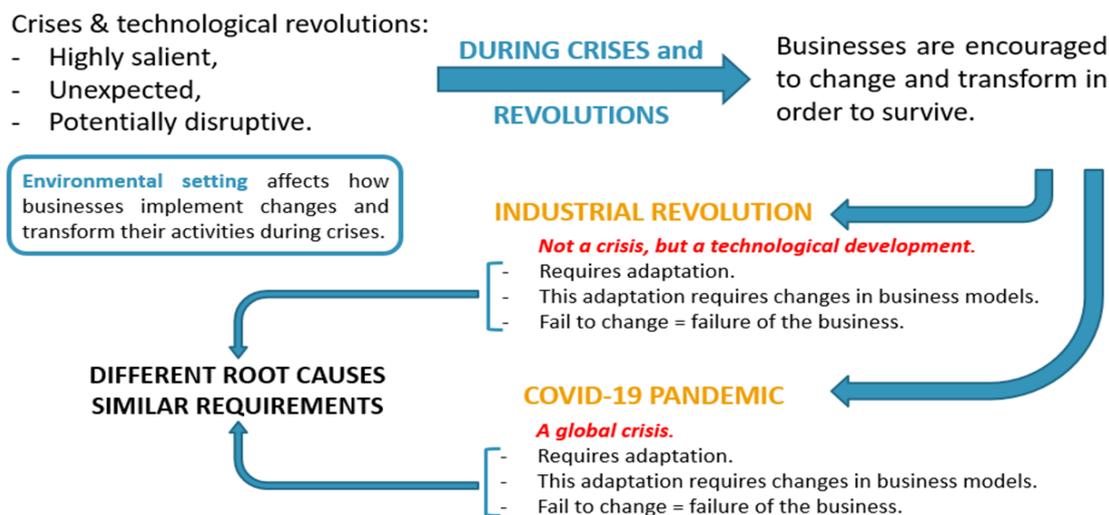
A business model is a framework that constructs how an organization delivers its products by identifying the most fundamental elements of the business such as value proposition, key activities, key resources, key partners, customer segments, customer relationships, sales channels, cost structure, and revenue streams.

2. INSIGHTS ON POST-PANDEMIC BUSINESS MODELS

Business models that adopt agile characteristics have the capability to adapt themselves quickly and generate responses to the changing environments rapidly which leads to a competitive advantage in the times of uncertainty ("5 Business Strategies for Surviving the Pandemic | ESEI Business School in Barcelona", 2022). While right implementation of business model innovation promises numberless benefits, the sought innovation is not always reached easily (Landry, 2020).

Researches on business models have been growing since the mid-1990s (Massa et al., 2017). Business model innovation considers the business model instead of products or processes as the subject of innovation (Clauss, 2017). This approach involves a strategic focus that can be achieved through managerial proactiveness and systematic strategic processes in ideating and designing business models (Martins et al., 2015). In times of crisis, the approach refers to undertaking long-term strategic changes (Kraus et al., 2020).

Figure 1: Stimulants of Changes in Business Models



Guckenbiehl and Corral de Zubielqui (2022) conducted a study in which 32 Australian startups are analysed regarding the impact of the COVID-19 pandemic and their responses in means of the type and the extent of business model alterations. It is essential to understand that there is not a single route to follow for business model innovations ("Business Model Innovation", 2022). The work of Guckenbiehl and Corral de Zubielqui (2022) shows how changes in business models in response to the COVID-19 pandemic are clustered in multiple different groups:

Stable Beneficiaries

- They either did not report any evolutions in their business models or were only engaged in business model adaptations of small scale, but not business model innovation.
- It was observed that these organizations carried their operations similar to their approach prior to the COVID-19 pandemic while profiting from the opportunities occurred.
- One example is the increased demand for online gambling due to travel restrictions during the COVID-19 pandemic.

Business as Usual Continuers

- They either did not report any evolutions in their business models or were only engaged in business model adaptations of small scale, but not business model innovation.

- These organizations continued their operations almost unchanged in spite of the difficulties arose.
- They neither found any need for changing the value proposition nor reported any new opportunities.
- Both businesses placed in this category was from the BioTech industry.

Digital Adjusters

- They reported either only business model adaptations or business model innovations in addition to business model adaptations.
- These organizations already had digital offerings (e.g., software) prior to the pandemic helping their value proposition to be compatible with a remote environment.
- They also adjusted their internal operations to benefit opportunities flourished with the crisis.
- Some businesses from FinTech, AgTech, LawTech, e-learning industries were placed in this category.

Adversity Survivors

- They went through severe disruptions and declines but survived through the crisis by adapting themselves.
- These organizations reacted by different means which include severe cut of costs, change in fundraising strategies and raise of relatively lesser investment rounds from existing investors to gain immediate financing so that they could reduce the risk of bankruptcy.
- They mainly focused on surviving and also reaching customers in new ways.
- Travel sector was one of the startups' domain falling into this category.

Opportunity Graspers

- They made business model adaptations of small scale to improve their internal processes.
- They recognized opportunities and were engaged in business model innovation to entertain these opportunities.
- These organizations were already operating in fields that benefited from the COVID-19 pandemic and/or experienced emerging opportunities by the courtesy of shifting markets.
- They reported additional growth since the beginning of the pandemic by improving their offered value and/or adding new additional services.
- Some businesses from immersive technology sector and robotics were placed in this category.

Lemonade Makers

- All of these organizations were in the early stages of their businesses and none of them experienced rapid growth.
- The changes in the market challenged their value proposition but these organizations achieved pivoting their business models by innovating their value propositions.
- Some businesses such as marketplaces and community platforms were in this category.

3. CONCLUSIONS

COVID-19 crisis has widened the gap between the winners and the losers like any other crisis would do. Every organization needs to become digital to an extent in the sense of being software and data-driven but not everything needs to be digital. Effective new business models strike the right balance and integrate the digital, physical, and human world into one and another. Smart leaders make sure that their transformation initiatives are focused on new business models.

Both calamities and opportunities encourage organizations to change their business models. Successful organizations convert adversity into resilience by shifting their business models. Depending on the crisis-induced opportunities and adversities along with the size of the organization, organizations focus on business model innovation or business model adaptation, or a combination of both.

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