

## **The Business Model in the New World of Digital Business**

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### **Abstracts**

In the era of digitalization, manufacturing firms find it difficult to assess what is “the right” digital business model. To avoid common digitalization traps, company leaders and managers need to carefully assess each business model opportunity before committing to implementation and commercialization. I present the paper diverse and complex issues related to digital business models. I have highlighted the digital business models and its impact of technologies on businessmodels.

**Keywords:** Digital servitization, Risk management, Business model innovation.

### **Introduction**

The business model is an essential intermediate layer between business strategy and business processes in this new world of digital business. The business model is derived directly from the business strategy, and on which the business processes should be derived. For business organizations to survive and to succeed, a well-designed business model that ensures the alignment between business strategy and business processes is needed. Moreover, a business model for a digital business should be reviewed continually to ensure its fit with the complex, uncertain and rapidly changing external environment.

The business model is an abstract representation of an organization, be it conceptual, textual, and/or graphical, of all core interrelated architectural, co-operational, and financialarrangements designed and developed by an organization presently and in the future, as well as allcore products and/or services the organization offers, or will offer, based on these arrangements that are needed to achieve its strategic goals and objectives.

The Business Model (BM) concept has become one of the most important domains in the field of Information Systems (IS), thanks to recent rapid advances in Information and Communication Technologies (ICTs). Unlike the previous traditional world of business which is characterized by stability and low levels of competition, the emerging world of digital business iscomplex, dynamic and enjoys high levels of uncertainty and competition. For instance, designing a business model for a Cellular Network and Telecommunication Operator (CNTO), as a part of a value network, is a complex undertaking and requires multiple actors to balance the varied and often conflicting requirements (Haaker et al., 2006). Moreover, rules that governed the traditionalworld of business are questioned in this emerging world of digital business. For example, a huge investment was needed to establish a traditional business. Traditionally, this investment was considered a strategic barrier to entry. However, Internet and mobile technologies have offered new ways of

doing business, such as e-commerce and m-commerce, which do not have such a high barrier to entry. The need for physical assets, to give just one example, is far less evident. Porter (2001) argues that a flood of new entrants has come into many industries since the Internet has reduced barriers to entry.

The urgency of marketplace competition has long been the driver for making digital transformation a priority for enterprise organizations both large and small, in basically every industry. In recent years, the need for cloud-based digital transformation has even created a bit of frenzy, with new products and systems showing up every week and organizations even going as far as to create a new C-suite position, the chief digital transformation officer. In a recent IDC Info Brief, the firm found that 54% of business owners admit the No. 1 challenge when it comes to meeting digital transformation goals is braiding all of these new solutions and projects into their everyday business.

In modern conditions, when there are permanent appearances of new technologies, changing consumer preferences, the formation of new social trends, the main key factors of success in the competition becomes the correct definition of current business model for the company. Successful innovative products are no longer a guarantee of success in the market. Integrated innovation that moves to the level of permanent monitoring of the adequacy of the business model changing circumstances and design of its improved version is a determining factor in the success of regional and international competition. This author's position is supported by the views of the other researchers, since according to PhD Strekalova "The fate of the company's business depends on the proper selection and implementation of business models" (Strekalova, 2009)<sup>1</sup>

#### **The History of the Business Models**

Designing a business model as a tool for strategic and innovative management appeared relatively recently. The first steps in the direction of business modeling have been made in the 70 years of the twentieth. According to the needs of top-management large-scale projects methodology of structural analysis and design systems SADT had appeared (Structured Analysis and Design Technique). It was developed by the American Douglas Ross in 1973. One of the subsets of the SADT, methodology for functional simulation IDEF0, an extraordinarily wide application had obtained. This direction has been developed on the basis of a separate direction programotekhniki CASE-technologies (Computer-Aided Software/System Engineering) in the 80 years. After that programs designed to address organizational issues management or business modeling, was detached into separate class, which in the western market was named BMS (Business Modeling Software).

In the 2000s, business modeling, supported by appropriate software, gradually has evolved to a separate management methodology - Business Engineering. The basic content of which is to analyze and improve the company's activities through the wide application of its business model, created using a process approach.

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<sup>1</sup> Strekalova, N.D. (2009) Business model as a useful concept of strategic management - problems of Modern Economics, N 2 (30)

At this stage, comes the understanding that business modeling is a tool that allows you to determine the correct direction of change, to form the concept of change and facilitate their implementation.

**The Business Model Concept**

The digital era has meant that the availability of appropriate levels of information and knowledge have become critical to the success of the business. Organizations need to adapt in order to survive and succeed as their business domains, processes and technologies change in a world of increasing environmental complexity. Enhancing their competitive positions by improving their ability to respond quickly to rapid environmental changes with high quality business decisions can be supported by adopting suitable business models for this new world of digital business. However, the business model concept is still considered an ill-defined ‘buzzword’ (Timmers, 1998; Seppänen and Mäkinen, 2005). In this section we attempt a first level of clarity by presenting a classification of selected definitions of the business model concept along with their basis.

<b>Author</b>	<b>BM Definition</b>	<b>Basis of the BM Definition</b>
Timmers (1998: 4)	<ul style="list-style-type: none"> <li>➤ An architecture for products, services and information flows, including a description of various business actors and their roles;</li> <li>➤ A description of the potential benefits for the various business actors; and</li> <li>➤ A description of sources of revenues.</li> </ul>	Product architecture, Value proposition, Revenue sources.
Venkatraman and Henderson (1998: 33-34)	Strategy that reflects the architecture of a virtual organization along three main vectors: customer interaction, asset configuration and knowledge leverage.	Organization architecture, Organization strategy
Rappa (2000: Online)	A BM is the methods of doing business by which a company can sustain itself, that is, generate revenue. The business model spells out how a company makes money by specifying where it is positioned in the value chain.	Revenue sources
Linder and Cantrell (2000: 1-2)	The organization’s core logic for creating value. The business model for a profit-oriented enterprise explains how it makes money.	Value proposition, Revenue sources.
Petrovic et al. (2001: 2)	A business model describes the logic of a “business system” for creating value that lies beneath the actual processes.	Business logic, Value proposition

Analysis of the literature shows that the authors often understand the business model in different ways, and their studies are carried out in several directions. Within the first direction researchers use a business model as an abstract concept to a very general way to describe a way to create, sale and delivery of value to customers (Chesbro, 2008; Markides, 2010; Ostervalder & Penye, 2013). The second trend is characterized by the primarily emphasis on the concept of business (Slivotsky, 2006). This approach allows researchers to overcome the complexity of the object under study and reduce it to a level acceptable to the perception and understanding. For example, in Kristensen (2009); A.Slivotsky (2006), along with the definitions of business model elements that must be present in it is specified. The quantity and composition of selectable items different authors vary and their number ranges from 4 to 9. In general, they may be presented as a list of basic elements of a business model. The third line of research examines specific situations and analyzes the business models of real companies. The authors use a business model to describe and analyze business successful companies such as Xerox, Zipcar, Lego, Dell, Innosentive, Toyota, Wal-Mart and others. It should be noted that the descriptions of business models in the literature by various authors often differ in the terminology used in conceptualizing and how they formalize these business models real companies.

Many industrial firms use digital technology to innovate their business models and explore new innovative offerings (Sjödin et al. 2020). These digital business models typically add service elements to physical products so that companies can provide customized solutions (Kohtamäki et al. 2020). The proliferation of digital technologies points to radical changes at the core of business activity and a significant transformation across all dimensions of the business model— namely, value creation, value delivery, and value capture (Sjödin et al. 2020)<sup>2</sup>.

#### **IMPORTANCE OF DIGITALIZATION**

##### **To Meet Competition**

The commercial banks have increased their services to the rural poor, because of RBI's push for financial inclusion and lending for priority sectors. Due to the intense competition from the commercial banks, the MFI's (Micro Finance Institutions) can survive by using digital services, additionally. MFIs can provide, microfinance plus add-on services such as imparting best business practices, entrepreneurial skilling and financial literacy training more effectively for the rural poor to use the digital banking.

##### **Protection against Policies**

Digitalization and the use of technology will streamline processes and reduce reliance on cash for disbursement and collections and serve to protect MFIs against external shocks such as demonetization as well as make them more agile and adaptable to growing market Changes.

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<sup>2</sup> Sjödin, D., Parida, V., Jovanovic, M. and Visnjic, I. 2020. Value creation and value capture alignment in business model innovation: A process view on outcome-based business models. *Journal of Product Innovation Management* 37(2): 158–183. doi:10.1111/jpim.12516.

### **Cost and Process Effectiveness**

The adoption of digital solutions assist MFIs in cutting costs such as quicker processing times for loan approval and disbursal. There are also intangible cost reductions such as the reduction in risk associated with use and transportation of cash.

### **RESEARCH METHODOLOGY**

The study is about the digitalization of financial services in Business. The study also includes how income levels play a major role in using financial digital products. The data is collected from secondary data like international journals, NABARD and RBI Annual reports.

### **Objectives of the study**

1. To study the digitalization of financial services in the business.
2. To study the Impact of digital technologies on the company's business model

### **Review of Literature**

Dr. Mrs. Manisha and Vikas Jagtap 2018, “The Impact of Digitalization on Indian Banking Sector” in their study found that through digitalization banks can provide enhanced services to the customers and human errors also will be less and also builds customers loyalty they also emphasized on time saving aspect of the customers and also helps in connecting all kinds of customers.

Dr. Rajeshwari M. Shettar 2019 “DIGITAL BANKING AN INDIAN PERSPECTIVE” studied the scope of digitalization and operating costs reduced by the banking sector in India. The study also found that with digitalization there is an enormous opportunity for financial inclusion of unbanked economy.

Axelina Boström, Joakim Andersson “Digitalization Strategies in the Banking Industry: A study among Swedish banks” 2019 in their thesis expressed a view of better understanding of customers will happen with digitalization of banks. They also speak about how internet has drastically changed the business world.

Digitalisation can also be driven by businesses through developing digital products and business models that are close to the core business. For a organization to be product-centric, strong alignment is required between the business and the IT department in order to harmonies business and IT decisions. Thus, the dominant logic of the IT department has to be changed from a project to a product perspective with the customer firmly in mind (Urbach *et al.*, 2019). Khin and Ho (2019) concur, stating that by transforming IT projects into digital products or solutions allows for the transformation of other traditional products and services. This can, in turn, create completely new businesses. Digitalisation is intertwined with digital transformation, which is discussed in the following section.

### **Improving the digitalization of a business model<sup>3</sup>**

Every industry has technology leaders who have already digitally transformed their businesses. Consumers, using their services, have time to get used to the convenient interface of information resources and mobile applications, the presence of a website and an online chat, the ability to quickly place an order and track the process of its packaging, assembly and delivery in real time, and get quick feedback. It has already become the norm

to minimize the need to visit an office (store) when submitting a service request, ordering goods, processing a request to provide access to information or some kind of digital resource. At the same time, consumers' expectations in relation to other companies on the market naturally grow, even if they operate in a different industry and market segment. Consumers value their time, want to receive services quickly and conveniently, and expect companies to satisfy their needs. To do this, companies need to accelerate the digitalization of their business processes. Every company that is going to change its business model to digital must first have a strategy that will guide the analysis and change of the current business model.

There are three groups of strategic directions for digital transformation of the business model:

- ❖ operational and technological excellence (shifting focus to improving the efficiency of the value chain and the introduction of new production technologies);
- ❖ excellence in solutions for clients (shifting focus to the formation of a high level of products and services provided);
- ❖ Proximity to the customer (shifting focus to presenting value to the customer).

When digitalizing business processes, people remain the center of the transformation strategy. Decisions need to be assessed in terms of how they affect the company's customers, employees, business partners, society, or other key groups. You need to know the key target groups for the company and how they interact with the company. Digital technologies are opening up new forms of interaction, so creative vision and thinking are needed to innovate. For the digital transformation of a business model, it is not enough to limit ourselves to the introduction of modern information technologies and the automation of existing business processes. This will ensure the implementation of the company's processes on the basis of modern information technologies, but will give it little for the growth of competitiveness [11-12]. A company needs to creatively analyze existing business processes and essentially redesign them in an attempt to achieve the following goals:

- ❖ reduction of the execution time of the decision-making loop;
- ❖ orientation of business processes to the characteristics and needs of their consumers;
- ❖ reduction in the number of employees involved in each business process.

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<sup>3</sup> <https://doi.org/10.1051/e3sconf/202124410002>



**The Journey of business model components**

Author's	components
Mahadevan (2000, 59)	“A business model is a unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyers, the revenue stream, and the logistical stream.”
Voelpel, Leibold, and Tekie (2004, 40)	“new customer value proposition(s); a value network configuration for that value creation; and sustainable returns that ensure the satisfaction of relevant stakeholders”
Chesbrough (2007, 1)	“A business model consists of two essential elements—the value proposition and the operating model—each of which has three sub elements, value proposition: target segment(s), product or service offering, revenue model and operating model: value chain, cost model and organization”
Osterwalder and Pigneur (2010, 29)	“Four integrated business model components: - Your customers - Your value proposition - Your infrastructure - Your cost/revenue structure”
Zott and Amit (2010, 216)	“...we suggest two sets of parameters that activity systems designers need to consider: design elements - content, structure and governance - that describe the architecture of an activity system; and design themes - novelty, lock-in, complementarities and efficiency - that describe the sources of the activity system’s value creation.”
Abdelkafi and Täuscher (2016, 76)	“Recapitulating, we use a business model framework that consists of three components: value proposition, value creation, and value capture.”

**Source:** Adapted from Peric *et al.*, (2017:5)

It can be seen that the most common business model elements that have been repeatedly cited in the literature are value offering, value proposition, value creation, profit, customers, strategy, resources, processes and cost structure. Matt *et al.*, (2015) explain that the value offeringelement captures the value proposition of the business that is responsible

for its competitive positioning in the market. Value creation refers to how the organisation will realise the value offering by pinpointing the core competencies and resources of the business. Moreover, value creation focuses on the organisational structure, distribution channels, internal activities and the value chain. The revenue streams explain how the business generates profits in terms of the cost structure.

### **The impact of technology on business models**

Technology is changing business models in financial organisations in two main ways. Within internal operations, it is leading to disintermediation between front, middle and back offices. Within commercial operations, it is changing consumer behaviour and so forcing adaptation by providers. These trends are already evident in other financial institutions but they are likely to affect pension providers in the future. De Nederlandsche Bank suggests how insurers might be faced with new types of competition for certain parts of their business, making them less able to bear the cost of their legacy books (DNB, 2016<sup>4</sup>.)

Incumbent pension providers may be at a disadvantage to newer players in exploiting new technologies, because they are constrained by existing IT infrastructure that is expensive to change or replace. This could enable new entrants with lower costs to enter some areas of pension provision, as has already been seen in the area of advice. As an example of the potential costs of upgrading legacy systems, UBS is reported to have invested USD 1 billion in redesigning processes across its wealth management operations to introduce robo-advice in the UK. Fintech is bringing increased transparency and a greater use of comparison sites. This trend could lead to pressure on pension providers to provide more granular reporting on their cost structures and the fees they charge, ultimately leading to a drop in pricing.

Digitalization is a structural change for industries and the main effects of digitalization can be seen as four channels that change: physical goods become digital services; digital platforms are simplified and optimized; local services goes global; and digitalization streamlines traditional production. Research by Breman and Fellander (2014) shows that many jobs are at risk of being digitalized within a period of twenty years. This will change the markets drastically and requires companies to integrate innovational solutions and an entrepreneurial mindset in order to adapt. Many companies are trying to use digitalization in their businesses and it is seen to be more companies to follow these actions, but most industries and their market actors are in general not using digitalization to its full potential.

Finance is a field that is concerned with the allocation (investment) of assets and liabilities over space and time, often under conditions of risk or uncertainty. Finance can also be defined as the science of money management. Market participants in the market aim to price assets based on their risk level, fundamental value, and their expected rate of return. Finance can be broken into three sub-categories: public finance, corporate finance and personal finance.

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<sup>4</sup> DNB (2016), *Technological Innovation and the Dutch financial sector*.



If we trace the origin of finance, there is evidence to prove that it is as old as human life on earth. The word finance was originally a French word. In the 18th century, it was adapted by English speaking communities to mean “the management of money.” Since then, it has found a permanent place in the English dictionary. Today, finance is not merely a word else has emerged into an academic discipline of greater significance. Finance is now organized as a branch of Economics. Hence, Finance has now become an organic function and always together part of our day-to-day lives. Today, it has become a word which we often run on our daily basis.

The digital transformation that has upended industries from retail and media to transport and business-to-business commerce is now sweeping the financial services industry. This was inevitable, as ubiquitous computing power, pervasive connectivity, mass data storage, and advanced analytical tools can easily and efficiently be applied to financial services. After all, money was already extensively (though not exclusively) created, used, stored, processed, and delivered electronically. Technology has transformed business-to-business and within business interactions, too, enabling reconfiguration of design, production, marketing, delivery, and service functions through distributed supply chains, freelance design, outsourced manufacturing, and contract warehousing and delivery. These reconfigurations are mediated by online marketplaces and distributors, and assisted by back-end support operations and data analysis that together drive better risk assessment, faster fulfillment and more efficient customer service<sup>5</sup>.

**Conclusion:**

Digitizing finance will be a multiyear effort for many countries but the sooner they start, the faster the rewards will come, in the form of higher growth, greater innovation, and more inclusion. While digital innovation can provide a significant boost to financial inclusion, digital finance also presents regulators with new challenges. They are charged with protecting consumers in a rapidly changing and increasingly complex supply-side ecosystem, as well as dealing with the growing risks related to data governance.

These findings will provide to for digital financial solutions could play a significant part in closing gaps in financial inclusion. There are several digital services have been launched over the last few quarters that have seen significant adoption Public policy will play a vital role in consumer education and protection, by articulating the responsibilities of supply-side participants through suitable policies and regulations, as well as ensuring compliance.

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<sup>5</sup> International Journal of Business and Management Invention (IJBMI) ISSN (Online): 2319-8028, ISSN (Print):2319-801 X  
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Adapted from Peric *et al.*, (2017:5)

DNB (2016), Technological Innovation and the Dutch financial sector.

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