What constitutes a business model: the perception of financial analysts

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Abstract: In this paper, we review the literature on the business model concept. We distinguish between the various business model frameworks according to whether they concern generic descriptions of the business or whether they are more specific in their descriptions. The empirical part of the paper is a case study of financial analysts' perceptions of the term business model and how they describe a specific firm's strategy in relation to the business model frameworks. The analysis indicates that the particularities of strategy and competitive strengths mobilised by the analysts in their understanding of the case company can be seen as elements of a business model. It is concluded which business model typologies are most similar to the analysts' understanding and how these incorporate elements of both a narrow and a broad comprehension of the concept.

Keywords: business models; disclosure; communication; intellectual capital; IC; financial analysts.

Reference to this paper should be made as follows: Nielsen, C. and Bukh, P.N. (2011) 'What constitutes a business model: the perception of financial analysts', *Int. J. Learning and Intellectual Capital*, Vol. 8, No. 3, pp.256–271.

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1 Introduction

Disclosure of information on strategies, business models, critical success factors, risk factors and value drivers in general has gained importance in recent years. Several reports (e.g., Blair and Wallman 2000, Eustace 2001; Upton, 2001; Zambon, 2003) and researchers (e.g., Lev, 2001; Beattie and Pratt, 2002) 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 businesses 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. Therefore, from an external perspective, the business model is also what should be understood, e.g., in the market for information by investors and financial analysts.

The supply of information on firms' value creating processes and value drivers has actually been increasing in various reporting media such as annual reports (Williams, 2001), IPO prospectuses (Bukh et al., 2005) and analysts reports (Meca et al., 2004). 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 (Mouritsen et al., 2001; Bukh, 2003), and new models for reporting on stakeholder value creation are gradually emerging (GRI, 2002; Elkington, 1997). But 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 investors and analysts' particular information demands have been met. Eccles's et al. (2001, p.189) conclusion that managers "genuinely believe they try hard to give the market the information it wants. But most analysts and investors believe managers could try harder" still seems to be valid. Further, the literature is abundant with arguments for improved disclosure, and empirical studies document that improved disclosure is related to e.g., increased analyst interest in the firm (Barth et al., 2001; Wyatt and Wong, 2002), lower cost-of-capital (Sengupta, 1998; Botosan and Plumlee, 2002) and decreased bid-ask spreads (Jensen et al., 2003).

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, is facing a reporting gap, or rather an understanding gap. Thus, the research is motivated by a hypothesis that the explicit notion of a business model could be the bridging element between the company and the capital market.

The empirical part of the paper is based on a case study of the Danish medical device firm, Coloplast. The analysis is based on qualitative interviews with financial analysts that follow Coloplast on a regular basis. We examine the financial analyst's way of thinking about strategy and business models in terms of the techniques, methodologies, procedures, systems, presentations, frameworks etc. as they are expressed when the analysts' articulate their understandings of the strategy of this specific firm. On the basis of the financial analysts' description of Coloplast's strategy we analyse how they conceptualise strategy and how their perceptions might be compatible with a specific ways of understanding the elements of a business model. The aim of the paper is thus to explore what elements a business model framework could comprise if it should be developed as a vehicle for communication in the financial market.

In the next section, we introduce the business model concept and discuss various business model framework presented in the literature. We distinguish here between generic descriptions of the business, narrow descriptions of the internal functioning of the firm and broad descriptions that also comprise external elements. Section 3 describes the case firm and the research methodology and Section 4 analyses the analysts' perceptions of the term business model and how they describe the case firm's strategy in relation to the categories of business model frameworks. Finally, Section 5 concludes the paper.

2 Business model frameworks

In the late 1990s, 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 and Kalling (2001) for a comprehensive review. Therefore, much of the business model literature focusing on the e-business context concerns how such organisations can create value in comparison to their bricks and mortar counterparts (cf. Alt and 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 nature of the new distribution and communication channels forms part of new business structures. One way of approaching this issue is through Amit and Zott's (2001) four dimensions of value-creation potential in e-businesses that has 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), p.107], and it must facilitate complementarities, novelty or enable the lock-in of customers [cf. Porter, (2001), p.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.

In the late 1990s, the mere naming of companies as 'dot-com' was enough to signal that the company's business model was potentially profitable (Lee, 2001a, 2001b) or at least attractive for investors. However, after the tech stock crash, analyst and investor behaviour might have changed possibly so radically that the signalling has the opposite effect, as is suggested by Bukh et al. (2005) in an analysis of disclosure in Danish IPO prospectuses. Now it is no longer viable just to imitate an internet-company. Feng et al. (2001) endorse this view, declaring that just operating with a certain business model is no longer enough to please investors; now profit generation is required regardless of this. However, it should actually, as stated by Magretta (2002) (see also Linder and Cantrell, 2002), be an essential feature of the business model to specify how profit is generated.

Also, 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 and

Carstedt (2001, p.24) state. Just think of how Henry Ford's business model revolutionised the car industry almost a century ago, or how Sam Walton revolutionised 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.

Although, the present focus on business models within academic and practitioner circles to a great extent can be related to their discussion within an e-business context, the importance of the business model perspective is far from only relevant in certain distribution channel structures. Thus, Schmid (2001, p.46) states that "the evolutionary transformation of the inter-company value chain today is ongoing in almost all areas of the economy and this considerably challenges the markets and its enterprises".

As indicated above, "much talk revolves around how traditional business models are being changed and the future of e-based business models" [Alt and Zimmermann, (2001), p.1] but this is merely half the story. Business models are perhaps the most discussed and least understood of the newer business concepts. Thus, Alt and Zimmermann (2001) conclude that there is at present an incomplete and confusing picture of the dimensions, perspectives and core issues of the business model concept.

According to Chesbrough and Rosenbloom (2002, p.530), the origins of the business model concept can be traced back to Chandler's seminal book *Strategy and Structure* from 1962. Strategy, Chandler (1962, p.13) 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". 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 and Rosenbloom (2002), can be seen as a predecessor of and equivocated to that of a business model definition.

Child's (1972) paper on organisational 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 schematisation of 'the role of strategic choice in a theory of organisation' [Child, (1972), p.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 organisation's vision and value proposition, objectives, and strategy, while 'operating effectiveness' is viewed as an outcome of the organisational strategy and the elements: scale of operations, technology, structure, and human resources.

Sweet (2001) acknowledges the intricate connections between value creation, business models and strategy, and argues that the management of fundamental strategic value configuration logics such as relationships to suppliers, access to technologies, insight into the users' needs etc., are far more relevant than inventing new revolutionary business models, an opinion accentuated by Ramirez (1999) and Stabell and Fjeldstad (1998). It is in these connections and interrelations that value creation can be found. Value creation can e.g., be related to 'solving a problem, improving performance, or reducing risk and cost' [Sandberg, (2002), p.4], which might require specific value configurations (cf. Sweet, 2001) including relationships to suppliers, access to technologies, insight in the users needs etc. Therefore, and following Stabell and

Fjeldstad (1998), we do not restrict our understanding of value configuration to the classical value chain.

It is evident that there exists a substantial amount of literature on business models, with varying perspectives, including strategy, value configurations, and components of business models and frameworks of business models. However, there is no generally accepted definition of what a business model is and the theoretical grounding of most business model definitions is rather fragile. Furthermore, business model definitions vary significantly as they are derived from a number of different perspectives.

We will in this section review those parts of the literature that we have found most relevant in developing a business model framework useful in corporate communication. Although, we have chosen to structure our review around three types of perceptions of business models, this can only be a crude classification, as there exists a great deal of overlap between business models and other concepts such as value chains and strategy.

We have chosen to classify business model frameworks according to whether they concern generic descriptions of the business or whether they are more specific in their descriptions. The latter category is segregated according to whether the definitions solely consider elements inside the company (narrow) or also consider elements outside (broad). It has not been our attempt to cover everything that has been written on business models in the review rather we have focused on the literature or perspectives most typical for the three types of business models.

2.1 Generic business model definitions

A generic business model can be perceived as a meta-model or ontology for business models. In the context of so-called highly turbulent and competitive business environments, Chaharbaghi et al. (2003) identify three interrelated strands which form the basis of a meta-model for business models: characteristics of the company's way of thinking, its operational system, and capacity for value generation. Although, being very general notions, the three elements above are expressible in more concrete terms. For instance, the characteristics of the company's way of thinking essentially pertain to a strategic conception, while capacity for value generation is very much in line with a resource-based perspective. Finally, the element 'operational system' hints to the inclusion of processes and a value chain perspective.

Traditionally, business models have been associated with industry models (Hamel, 2000), where certain factors are likely to improve an organisation's chance of success almost in such a way that "[t]he name of the industry served as shorthand for the prevailing business model's approach to market structure, organisational design, capital expenditures, and asset management" as Sandberg (2002, p.3) provocatively states. This is i.e., seen in the airline industry, where Hansson et al. (2002) illustrate how the traditional airline companies are presently in a competitive situation where they must change their business models in order to remain profitable, and the pharmaceutical industry where Burcham (2000) accentuates that companies must acknowledge that information technology not only is changing their business models but the entire pharmaceutical value chain. Thus, from this perspective, the business model relates to general industry attributes. These industry attributes are at the same time determinative with respect to common organisational aspects, i.e., which components that constitute a profitable business in the respective sectors.

As an example of a generic business model definition Hedman and Kalling (2001) propose that a business model is composed of the causally related components:

a customers, competitors, the company offering, i.e., the generic strategy

b activities and organisation, human, physical and organisational resources

c production factors and inputs.

These notions are very much in line with Porter's (1991) causality chain model, which can be considered an account of a business model. Somewhat related to Porter's ideas are also the causal modelling of the service-profit-chain (Heskett et al., 1994, 1997; Rucci et al., 1998) that can be seen as a kind of general business model for the service sector.

Thus, mobilising a generic understanding of the business model means that the storyteller (executive, analyst, investor, journalist etc.) is interested in placing the company into an industry-type relation with other companies. This can e.g., be useful if one is trying to conduct a comparative valuation based stock price and accounting multiples.

2.2 Narrow business model definitions

The narrow business model definitions are characterised by focusing only on aspects internal in the organisation. As an exponent for this view of the business model, Petrovic et al. (2001) argue that a business model ought not to be a description of a complex social system with all its actors, relations and processes. Instead, they contend, it should describe a company's value creating logic (see also Linder and Cantrell, 2002), the processes that enable this, i.e., the infrastructure for generating value and constitute the foundation for conceptualising the business strategy.

Similarly, Boulton et al. (2000) emphasise the need to create a business model that links combinations of assets to value creation. Having defined a business model as "[t]he unique combination of tangible and intangible assets that drives an organisation's ability to create or destroy value" [Boulton et al., (1997), p.244], these author's definitions can be seen as a detailed account of the internal prerequisites for value creation. Their focus on key measures of the value creation process, i.e., the value drivers, in this manner describes the uniqueness of internal aspects.

Another example of a narrow business model definition, Sandberg (2002) elaborates on how a business model can be an account of the links, processes, and networks of causes and effects that create value by arguing that a business model must: identify the customers you want to serve, spell out how your business is different from all the others – its unique value proposition, explain how you will implement the value proposition, and finally also describe the profit patterns, the associated cash flows, and the attendant risks within the company. In summary, the narrow definitions predominately focused on details regarding the internal prerequisites for profitability and business models as systems of representation.

2.3 Broad business model definitions

The second type of specific business models are the ones that we have termed 'broad' business models. They incorporate precise suggestions with respect to the elements and linkages that enable value creation and they are broad because their focus is on the whole enterprise system, including how the firm is positioned according to its partners in the value constellation.

Typically, a value chain perspective is adopted and relationships to suppliers and customers and other external forces are taken into account. An example is Lev's (2001, p.110) company 'fundamentals', where he emphasise that the "information most relevant to decision-making in the current economic environment concern the enterprise's value chain (*business model*, in analysts' parlance)" [Lev, (2001), p.110; original emphasised].

Furthermore, this way of conceptualising the business model focuses on describing the company's method of doing business. This is in accordance with KPMG's (2001, p.3, 11) definition of a business model as "The fundamental logic by which the enterprise creates sustained economic value – the organisation's business model". Here, the terms 'fundamental logic' and 'value configuration' resemble Stabell and Fjeldstad's (1998) value configuration logics.

As a typical example of a broad business model definition, Marrs and Mundt (2001) sees the business model as designed to compile, integrate, and convey information about an organisation's business and industry. Further, in the context of the so-called strategic-systems auditing framework, Bell et al. (1997, pp.37–39) identified six components of a business model: external forces, markets/formats, business processes, alliances, core products and services, and customers. In essence, this framework focuses on describing "the interlinking activities carried out within a business entity, the external forces that bear upon the entity and the business relationships with persons and other organisations outside of the entity" [Bell et al., (1997), pp.37–39].

In comparison to the generic business model definitions, this broad specific understanding comes closer to treating 'how' the relationships are organised, rather than merely 'which' objects should be included, as is the case in the generic business model definitions. Furthermore, the broad business models act as representation of the central roles and relationships of the firm, whereas, the generic definitions were are focused on resources necessary for value creation.

2.4 Summary of the review

Generally, the business model can be conceptualised as the foundation of the company's strategy. In order to explain the strategy and its particular qualities to stakeholders, including especially the financial market participants, the description must provide a clear and explicit account how the company creates value and how the operational and tactical strategies complement each other. To conclude the review of the different types of business model frameworks, the attributes of the three typologies of business model definitions along with possible strengths and weaknesses are listed in Table 1.

3 Data and research methodology

In the empirical part of the paper, we will examine financial analyst's way of thinking about strategy and business models in terms of the techniques, methodologies, procedures, systems, presentations, frameworks etc. that are used when they articulate their understandings of the strategy of the specific firm, Coloplast. In addressing this issue, a qualitative research approach will be used.

Financial analysts that regularly analyse the firm, participate in corporate presentations etc. and thus, have a detailed knowledge about the firm, its strategy and the industry, have been interviewed and the interviews have been analysed using a content analysis approach where the elements identified in Section 2 have been used as a starting point for the coding of the data.

Table 1 Attributes and possible strengths/weaknesses of the three types of business model definitions

Typology	*Attributes*	*Possible strengths*	*Possible weaknesses*
Generic business model definitions	• Components that constitute the business • General industry attributes • A meta model or ontology for business models	• The advantages of aggregation, i.e., gaining an understanding of the basics of the companies value creation	• Picture conveyed becomes too general to convey anything relevant about the specific business
Broad business model definitions	• The method of doing business • Focus on the whole enterprise system • The architecture for generating value • Description of roles and relationships	• Value creation must be understood across the whole value chain in which the company participates	• Not sufficiently focused on the core value creating processes • Includes factors not completely controlled by the company
Narrow business model definitions	• Describe the uniqueness of internal aspects • Infrastructure for generating value • Detailed accounts of links, processes, and networks of causes and effects	• The level of detail regards the functioning of the specific firm • Precise and relevant descriptions	• Accounts may become too specific to make sense • Loss of overall understanding

3.1 The case firm

The case firm, Coloplast (2003) (www.coloplast.com), was founded in 1957 and has since then grown to a worldwide provider of high quality and innovative healthcare products and services. The firm is represented in 30 countries, its revenue amounted to around 970 million Euros in the fiscal year 2005/2006, and the group profit before tax was approximately 130 million Euro. The company employs more than 6,000 people, 2,500 of them working in Denmark and the firm has production facilities in six countries with approximately 75% of Coloplast's products being produced in Denmark.

Coloplast's vision is to be the preferred source of medical devices and associated services, contributing to a better quality of life for the users of its products. Via close customer relationships, Coloplast aims at fulfilling the customer's needs with innovative, high quality solutions. Further, Coloplast seeks to earn customer's validity through responsiveness and dependability.

Since 1998, the company has published a supplementary section on IC, shareholders and other external stakeholders as an integral part of its annual report. In Denmark, Coloplast's business reporting is generally regarded as a best-practise case. The firm was i.e., used as one of the main cases in the first Danish guideline for IC reporting (DATI, 2001), and suggested by DiPiazza and Eccles (2002, p.126) as the main example of disclosing information on 'how the company creates value'. Furthermore, in October 2005 the firm won the Danish Financial Analyst Associations prize for best financial report for the second time in three years.

3.2 The interview data

The data collection was based on semi-structured interviews covering four themes each with a number of associated questions according to an interview guide. The respondents were allowed to talk freely and the questions were adjusted according to that. The form of interviewing chosen was based on the principle of dialogue between the interviewer and the respondent [cf. Kvale, (2000), p.123] and has some similarities with the type of interview that [Yin, (1994), p.84] calls 'focused interviews'.

We interviewed all but one of the sell-side analysts that follow Coloplast on a regular basis. The contact information of 13 analysts in total was attained from the firm and the analysts were contacted by the researchers after have received a letter-of-recommendation from Coloplast's Chief Financial Officer. All analysts confirmed that they performed regular analyses of Coloplast including the dissemination of these through analyst reports and all were willing to participate in the research project. However, one analyst had later to cancel his participation due to unforeseen circumstances. Thus, the paper is based on interviews with 12 analysts from different banks.

Of the 12 analysts actively following Coloplast eight were Scandinavian while four were large European investment banks located in Copenhagen, Stockholm or London. The typical analyst specialised in four to six companies within the medico-technology sector and sporadically followed four to six major competing firms. However, there were also analysts with a broader focus, and two analysts were actively following up to 15–20 companies. All analysts were interviewed in December 2003, a few weeks after Coloplast's annual earnings announcement.

Our focus, when conducting the interviews was on the general building blocks or elements that constitute a business model from the analysts' point of view. The interviews were structured around three themes. First, we focused at the *analyst's* background, experience and specialisation. Next, we shifted focus to the analysts understanding of the concept of *business models*, and finally, we questioned them more specifically about Coloplast, the firm in general, its management, strategy, value creation and what they considered as critical information to consider. The themes and questions were kept as close to the daily routines of the analysts as possible and we attempted to avoid referring to specific notions from the literature on business models. As a structuring device, we used an interview guide with a number of pre-determined questions or sub themes for each interview theme. Not all questions were necessarily brought up in every interview and as far as possible we let the analysts create their own structure during the interviews. In our analysis below, we have chosen to cite the analysts on an anonymous basis, numbering them consecutively as they appear in the text below.

4 The analysts' perception of the business model concept

As a starting point our aim was to explore whether the analysts' perceptions were in line with narrow, broad or generic definitions of the business model that stem from the literature review, i.e., the suggested 'typologies'. Surprisingly, most of the analysts initially had great difficulties in expressing not only what the business model of Coloplast was, but also what a business model in itself was. In some cases, the analysts questioned whether the phrase business model was appropriate to apply at all.

4.1 The analysts' initial perception: rather strategy than business model

Often the respondents seemed to be focussing on marketing via the internet and were in this sense unable to put Coloplast into a distinct 'medico-tech' model of doing business as Coloplast is not in the internet business. One analyst commented, "I think the term business model is a clichéd term – wasn't it one of those empty terms that came along with the IT-bubble? And what does a business model mean. Personally, I don't like that term. I think it is a terrible phrase that you can put any meaning into, really" (Analyst 1), while yet another stated that, "I don't know if [Coloplast] follow any particular business model", and continued, "I have some difficulty in pressing Coloplast into some sort of business model as such" (Analyst 2). This indicates that the business model is thought of in terms of industry structures and particular ways of doing business within a specific industry or sector. The business model is conceptualised as a distinct way of competing, almost as a generic industry way of competing that cannot be departed from. One respondent specifically emphasised that it was very difficult to position Coloplast in what he understood as the 'med-tech business model'.

The respondents also had difficulties in explicitly defining Coloplast's business model when asked directly. During the interviews, we found that applying the term 'business model' to some extent represented a hurdle in getting the respondents to talk about how Coloplast's value creation processes were configured, i.e., that which is in line with our initial understanding of the term business model. Therefore, we shifted emphasis to asking: "How would you describe Coloplast's competitive strengths?" When asked specifically about how Coloplast competes, the analysts however often mentioned the same elements as identified in the literature review.

The inability to specifically identifying Coloplast's business model is probably related to the fact that the medico-tech industry is a relatively dispersed industry, i.e., different types of customers, inputs, distribution methods etc. Apparently, the analysts are thinking about the business model in generic terms and Coloplast does not fit into a specific generic category. Further, the medico-tech industry is especially difficult to categorise generically, thus, applying the term business model was difficult for the analysts to comprehend.

4.2 How do the analysts describe the case firm's strategy?

When asked about Coloplast's way of doing business, competitive strengths, strategy etc., the analysts actually spoke, however, in great detail about elements of Coloplast's business model. They were e.g., easily able to describe Coloplast's value proposition and how this correlated with their unique value creation logic and marketing strategy etc. Rather than confirming that the concept or the elements of a 'business model' is an obstacle, we see this as an indication that the analysts' are unfamiliar with this way of coherently describing a strategy.

The analysis of the interview data rendered a very broad-based perception of the business model. In the following, we will summarise the different aspects of Coloplast's way of doing business and competitive strengths that were emphasised in the interviews. Often, the descriptions were very detail, indicating an in-depth understanding of the mechanisms by which competitive advantage and future prospects and results are created. It was in most of the interviews clear that the analysts to some degree structured their thinking about Coloplast according to a value chain structure or at least according to functional areas, e.g., production, marketing, R&D etc.

The R&D department was mentioned as a central notion of Coloplast's efforts to differentiate themselves from competition by being among the most innovative firms in the industry. The effort to be innovative was together with quality aspects of production a major part of what was described as Coloplast's strategy of 'excellence'. Excellence was attributed as a major value driver of Coloplast. One respondent explained why the excellence strategy was such a vital value driver for Coloplast:

> "We are all interested in being able to cope with our handicaps, illnesses, and deficiencies in better ways and are always interested in receiving better medication, better pills, and better devices to help us. We are willing to pay almost anything to get he best when it concerns our health and quality of life, and it is precisely that which separates health care from so many other sectors" (Analyst 3).

Production facilities, apart from playing a logical role in the effectuation of the excellence strategy in terms of production quality, were also drawn forth in a number of other instances. Continuously mentioned in connection with the question of whether Coloplast had changed its strategy in some manner over the previous years, was the fact that Coloplast now have set their sights on establishing production facilities outside Denmark. Production plant has been set up in Hungary and China and this was seen as a major part of a cost reduction strategy. With respect to production, it was noted by a number of the respondents that Coloplast's strategy of running operations quite close to maximum capacity only applying small steps in capacity expansion could be drawback for the company.

Marketing and distribution also were perceived as cornerstones of Coloplast's business model. Most of the analysts agree that marketing is a major value driver in the case of Coloplast and that the distribution strategy is unique, and therefore highly valuable. One analyst commented that the major strength of Coloplast's business "lies in their understanding of the market and their ability to manage relationships with central decision-makers, rather than the products themselves" (Analyst 4). Another analyst explains why managing these relationships are so important: "An ostomy patient that has just undergone a cancer operation has an average remaining life-span of seven years, and once they have chosen their brand of ostomy-bag, they seldom change. This is why it is so important to get hold of them from day one, i.e., at the point in time where they receive their first such bag at the hospital" (Analyst 5).

Coloplast's marketing strategy is clearly to establish close relationships with the people who influence these so-called first time patients most, the nurses. Through cooperation with the nurses and by actively applying the feedback and first hand knowledge received from them through focus groups, Coloplast ensures that their products come closest to their preferences, which in the case of the first time use probably also are equal the patients preferences. Through this utilisation of cooperation and close relationships, Coloplast is able to influence the end-users of its products. This combination of marketing and innovation is by some of the analysts following Coloplast labelled as nothing short of a stroke of genius in comparison to its nearest competitors.

Furthermore, Coloplast seeks to enhance their user focus through a strategy of forward-integration with respect to distribution, by entering into the home care sector in a number their European markets, predominately England and Germany. Finally, with respect to marketing, Coloplast's market penetration of new products is also considered as a unique characteristic. Coloplast utilises a strategy of gradual introduction of new products onto the different markets which in turn minimises fluctuations in sales, producing stable results. Promoting stability and minimising risk is a core management philosophy at Coloplast. Although, most of the analysts agree that Coloplast is a somewhat boring company[1], they also tend to emphasise this aspect of stability and track-record as a major strength.

4.3 How does the analysts' perception reflect a business model?

The interview with the analysts revealed some of the key aspects of Coloplast's business model and a number of key value drivers and causal connections were mentioned. The interviews also gave some indications of the complexity of Coloplast's business model. For example, it was by several analysts' emphasised that the relationship creating distribution strategy, for the most part applied in European ostomy and continence markets, is not directly applicable in the USA. Neither is this model directly applicable within the product segments skin care, wound care and breast care. Therefore, when talking about Coloplast's business model, one must be weary of the necessity to distinguish between both product and market segments.

As stated by one of the analysts, arguing that Coloplast's business model is hooked up segment-wise and largely related to the distribution strategy, "If they are able to refine the model [home care model applied in England] to fit the German market, then I think that in due time there will be an interesting possibility to replicate this business model in other of the European markets. In the long run, there are great possibilities in that home-care model, if it is refined" (Analyst 4). The above analysis points towards the fact that the analysts have quite a nuanced understanding of Coloplast's business model.

The initial remarks in this section indicated that a generic business model typology was not rendered useful by the respondents. The results of this analysis point towards the more specific business model typologies, but are not decisive with respect to whether a narrow or a broad comprehension of the business model is the most applicable to encompassing Coloplast's business model.

5 Concluding discussions

The new types of disclosure and reporting that are argued to be so vital for conveying transparent pictures of the corporate well-being are unfortunately not without problems, as these types of information are somewhat more complex than traditional financial information. It could very well be a problem that the capital market agents simply do not understand non-accounting information. Our initial hypothesis was therefore, that the concept of a business models enable the creation of a comprehensive and more correct set of non-financial value drivers of the company and, moreover, can provide a structure that is able to create relationships and links between these drivers. In this case, the business model would be a useful reference model for disclosure.

In the interviews with the analysts, we found considerable evidence that the analysts had difficulties in expressing what a business model was. The fact that the analysts seemed primarily to comprehend the business model in generic terms might explain some of this. Because Coloplast does not fit into a specific generic box, coupled with the fact that the medico-tech industry is especially difficult to categorise generically, applying the term business model becomes awkward. Categorising companies generically is an important part of the analyst's work. It is through this mechanism that they can construct peer group valuations, e.g., through P/E, P/BV or debt to equity ratios and thus, constitutes a central role in the recommendation of equities to investors. Therefore, it seems to be a paradox for the analysts that they must understand specific company attributes but afterwards categorise companies generically.

When asked in a direct manner, the respondents had difficulties in explicitly defining Coloplast's business model. However, they showed detailed understanding of the characteristics and importance of e.g., R&D and innovation, production and logistics, marketing and market penetration strategy, and finally distribution methods. These business model elements were all mobilised in the analysts' descriptions of Coloplast's competitive strengths and strategy.

The results indicate that the specific business model typologies were closest to the analysts' understanding, incorporating elements of both the narrow and broad comprehensions of the business model. For example, the analysts described the method of doing business; focussing on the whole enterprise system and the company's architecture for generating value as well emphasising roles and relationships, describing the uniqueness of the value generating infrastructure, links, processes, and causal relationships.

Although, the term business model initially was found to be a misunderstood concept, and in fact rendering mainly negative associations amongst the analyst community, our analysis indicates that the particularities of strategy and competitive strengths mobilised by the analysts in their understanding of the case company in fact comprised a very comprehensive description of the business model when pieced together. The fact that we received rather vague answers on the direct questions regarding Coloplast's business model might suggest that the analysts are more interested in the specifics of individual strategies, rather than understanding the whole. This could be because it is easier to link individual strategic options to cash flow models and price/earnings estimates. Therefore, further research should consider how the analysts can be helped in their piecing together of the multitude of information they have at hand.

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Notes

1 Several analysts called Coloplast a boring company. This did not so much refer to the fact that Coloplast was easy to understand and analyse, but rather to the fact that there were not many annual stock price triggers and that the liquidity of the stock was relatively small.