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BUSINESS MODEL AS A SUCCESS FACTOR FOR THE COMPANIES GROWTH

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Abstract: In the last few decades, the influence of the Small and Medium size Enterprises (SMEs) of the economic development is more evident than before. This role of the successful, growth SMEs have become very important creator of new jobs, innovations and economic growth. Every successful company (even small or medium size) is already fulfilling a real customer need with an effective business model, whether that model is explicitly understood or not. The focus of this paper is set on the influence of the business model's elements on the success of the company with small or medium size, analysing the value proposition, target customer segments, customer relationships, partnerships, resources, cost structure, and channels. In second part of the paper presents the methodology and the results of the survey conducted in Macedonian companies.

Keywords: success factors, company growth, business model

1. INTRODUCTION

Very little formal study has been done into the dynamics and processes of business model development. Little number of companies understand their existing business model well enough behind its development, its natural interdependencies, its strengths and limitations. So they don't know when they can leverage their core business and when success requires a new business model. One study [1] of the Harvard Business School determined that no more than 10% of innovation investment at global companies is focused on developing new business models. From other site, a survey by the Economist Intelligence Unit from 2010 [2] reported that over 50% of executives and CEOs believe business model innovation will become even more important for company's success than product or service innovation.

1.1. Business model review

According to the literature review [1,3,4], a business model consists of four basic elements that, taken together, create and deliver value. **Customer value proposition (CVP)**. A successful company is one that has found a way to create value for customers, that is a way to help customers get an important solution done. **Profit formula (PF)**. The profit formula is the blueprint that defines how the company creates value for itself while providing value to the customer. It consists of the following:

- ≡ *Revenue model*: price x volume.
- ≡ *Cost structure*: direct costs, indirect costs, economies of scale. Cost structure will be predominantly driven by the cost of the key resources required by the business model.
- ≡ *Margin model*: given the expected volume and cost structure, the contribution needed from each transaction to achieve desired profits.
- ≡ *Resource velocity*: how fast it need to turn over inventory, fixed assets, and other assets and how it need to utilize resources, by supporting the expected volume achieving the anticipated profits.

Key resources (KR). The key resources are assets such as the people, technology, products, facilities, equipment, channels, and brand required to deliver the value proposition to the targeted customer. The focus is on the key elements that create value for the customer and the company, and the way those elements interact. **Key processes (KP)**. Successful companies have operational and managerial processes that allow them to deliver value in a way they can successfully repeat and increase in scale. These include such recurrent tasks as training, development, manufacturing, budgeting, planning, sales and service. Key processes also include a company's rules, metrics and norms, that make the profitable delivery of the customer value proposition repeatable and scalable. Might include: Processes: design, product development, sourcing, manufacturing, marketing, hiring and training, IT. Rules and

metrics: margin requirements for investment, lead times, supplier terms. Norms: opportunity size needed for investment, approach to customers and channels.

These four elements form the building blocks of any business. The customer value proposition and the profit formula define value for the customer and the company, respectively; key resources and key processes describe how that value will be delivered to both the customer and the company. Major changes to any of these four elements affect the others and the whole. Successful businesses devise a more or less stable system in which these elements bond to one another in consistent and complementary ways.

Successful new businesses typically revise their business models four times or so on the road to profitability. While a well-considered business model-innovation process can often shorten this cycle, successful incumbents must tolerate initial failure and need for course correction. In effect, companies have to focus on learning and adjusting as much as on executing.

1.2. Role of SMEs in economic growth

The importance of the SMEs for the growth of the economy is very important focus in the last two decades for both scientists and policy makers. Due to the crisis driven changes of the economic system, the SMEs' flexibility have been identified as a key generator of growth. Many researchers are trying to understand the SMEs by analysing the business model, defining different problematic areas and success factors. The lack of finances for SMEs have been treated by many authors [5,6], connecting the need of financing with growth of the SMEs. However, Vos at al. [7] have shown that only half of the examined SMEs seek for growth, uncovering that the owner planning is one of the most important factors for growth. Additionally, in 2008, Ghobadian at al. [8] have confirmed that the strategy planning among the SMEs has significantly grown in the last two decades. Based on these findings, it is evident that among the other growth determinants such as finances, human resources management, innovativeness, market and marketing and general factors, the elements of the strategy planning have to be included in the development of the company's success model. In this research we put the light on the strategic plans of the companies and addressed the strategic activities through the elements of the business model.

2. RESEARCH FOCUS

The focus of this paper is to present the findings from the research conducted on the high-growth SMEs in the Republic of Macedonia, conducted for the needs of the World Bank Office in Skopje, as a background study with aim to provide relevant information in the process of development of a new Country Partnership Strategy for Macedonia for the period 2014-2017. The Strategy is built around two focus areas: "growth and competitiveness" and "jobs and inclusion" with a cross cutting area of EU integration as a common goal. There were analysed the indicators for economic growth in order to recognize different success factors for company successes. The research team looked for a sample of successful companies which have demonstrated growth in revenues, jobs, exports and innovation and assess the factors that have contributed to their success on the domestic and international markets.

In the Republic of Macedonia there have been put a lot of effort on the improvement of the business environment in the last decade, with strong focus on the attraction on foreign direct investments. There have been introduced various measures such as: lowering tax rates, creating one-stop-shop for business registration, simplifying regulations and customs procedures, etc. which may be also noted by the high rank in the latest World Bank Doing Business 2014 [5] (25th out of 189 economies). Nevertheless, Republic Macedonia is a country with unemployment rate that is around 28% - 30% especially among youth, the rural population, ethnic minorities and less educated people. Because of that, one of the main challenges for the Republic of Macedonia is the employment creation. These challenges can be addressed the most effectively with the new jobs creation through increased entrepreneurial activities.

3. RESEARCH METHODOLOGY

In order to recognise different success factors, unique research methodology was developed [6], where the basic criteria for the selection of initial dataset of successful companies were:

- ≡ Companies that are at least 3 years active,
- ≡ Companies that are predominantly owned (>51%) by individuals or legal bodies from the Republic of Macedonia or companies that have now foreign investments because of theirs' success in the past, and
- ≡ Companies that are privately owned.

Figure 1 presents the methodology that was used for conducting the research for determination of the success factors of companies in the Republic of Macedonia in order to determine reasons for their success.

3.1. Criteria for company selection

In this research, main criteria for company selection was based on the data set from the Central Registry of the Republic of Macedonia for all companies registered in the country for the period 2011, 2012 and 2013 and have achieved:

- ≡ Revenue growth in last three years,
- ≡ Increase in the number of employees in last three years,
- ≡ Profit growth in last three years,
- ≡ Growth of annual investment in new equipment and processes in last three years.

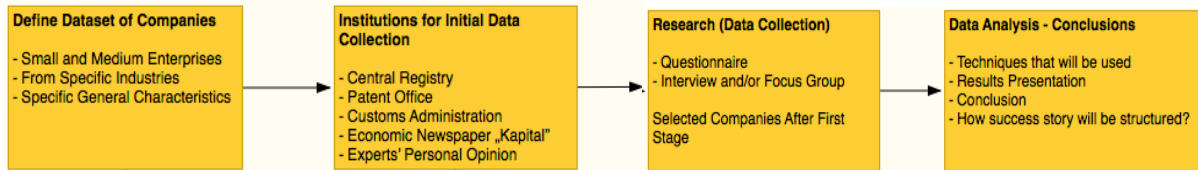


Figure 1. Research methodology

3.2. Data collection

In order to cover all relevant companies for the purpose of this research, the methodology included data from the Central Registry of the Republic of Macedonia for all companies registered in the country for the period 2011, 2012 and 2013 that have met the criteria for company selection.

In order to cover the innovative companies with registered patents, trademarks, or intellectual property, the methodology included data from the State Office of Industrial Property [11] and their public available database.

3.3. Data collection from companies

The third stage of the research methodology covered data collection from the companies based on the earlier prepared questionnaire related to all identified success factor groups based on the literature review. The questionnaire was structured in seven groups of questions, covering the success determinants.

On the Figure 2, success factors that are used for the research are presented, as a starting point in identification of additional possible factors from the field research.

3.4. Data analysis

The last stage of the proposed model was related to final analysis of the collected data from all sources and preparation of conclusions related to success factors, success stories, and presentation of research findings.

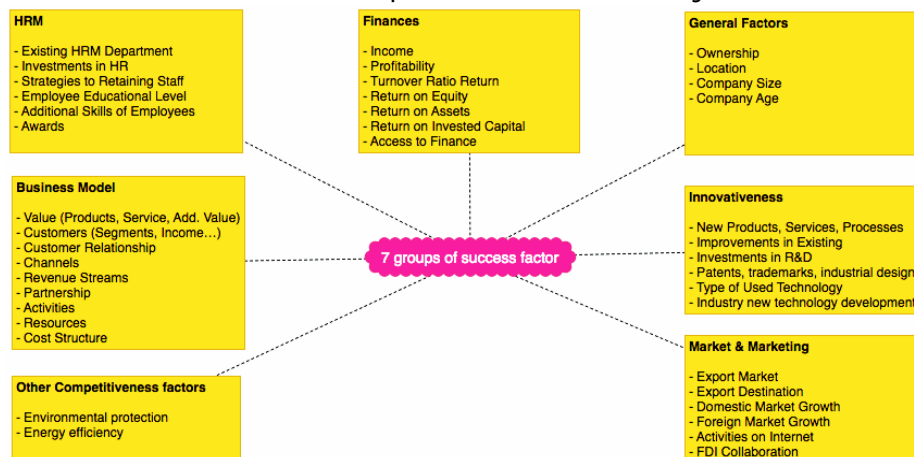


Figure 2. Success factors based on the literature review [6]

4. DUSSCUSION OF THE CANVAS BUSINESS MODEL ELEMENTS ANALYSED BY THE SURVEY

In order to explain the concept of Business model, it is necessary firstly to define the term *scalability*, a term which has large expanding in discussions when it comes to the literature related to the growth of the companies. According to Bondi [12], the scalability is desirable attribute of a network, system, or process that presents the ability of a system to accommodate an increasing number of elements or objects, to process growing volumes of work gracefully, and/or to be susceptible to enlargement. So, scalability will show the preparedness of a company to grow, or needs to ensure that the business model of the company will facilitate the growth of the company. Chesbrough and Rosenbloom [13] through analysis of many definitions related to business model offered a definition related to functions of the business model: articulation of value proposition, identification of a market segment, definition of the structure of the value chain, estimate cost structure and profit potential, description of the company's position within the value network and formulation of the competitive strategy. Osterwalder and Pigneur [14] on the other hand define business model as a rationale on how organization creates, delivers and captures the value. They have developed concept of business model canvas with nine elements of the business model that are similar to the functions defined by Chebrough and Rosenbloom [13]: value propositions, customer segments, channels, customer relationships, revenue streams, key resources, key

activities, key partnerships and costs structures. According to Teece [14], good business models achieve advantageous cost structures and generate value propositions acceptable to customers. So, it is obvious that the growth of the companies has an important relation to the ability of the companies to design and redesign effective business models. Conducting really extensive literature review related to business models and the success of the companies, it is evident that that the business model is fundamental to the success of the company and especially in creating the ability of the company to commercialize important innovations. Questionnaire that was used in the survey realized in this research is research is based on the business model canvas and its structure represents the elements of business model.

4.1. Value proposition

The first and one of the most important elements of company's business model is value proposition because according the Osterwalder and Pigneur [10] it is the reason why customers choose one company over the other. So, better, stronger, more useful for customers value proposition will help companies to ensure success and high growth, because it is the only thing that will be in the customers hands ready for valuation for the future relationship with the specific company. All other elements of the business model

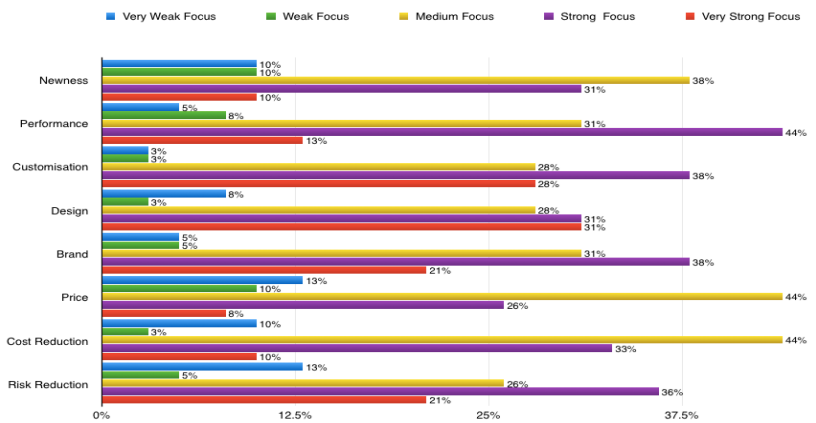


Figure 3. Elements that contribute to the value proposition

will exist to improve overall customers' satisfaction and ensure that the value as it is designed and produced will become available for the customers. The same authors propose a non-exhaustive list of elements that can contribute in the creation of the value to the customers: newness, performance, customization, design, brand, price, and cost reduction, risk reduction etc. Because all of these elements can have large influence on the customers' buying decision, having the right mix of these elements the larger likelihood will be for the success of the companies especially in their growth in revenue, profitability and employability. Figure 3 shows the focus of successful SMEs in the Republic Macedonia regarding elements that create value to customers.

4.2. Target customer segments

There can't be something worse than trying to sell products and services to the wrong customers, who most likely will not want or need the offered products and services. In the Business Model Canvas, the customers are the heart of any business model and without profitable customers the company can't survive for long. There can be different types of customers segments as: mass market (customers with broadly similar needs and problems), niche market (targeting specific requirements of a small group), segmented market (more segments with similar needs and problems), diversified market (more segments with totally different needs and problems), and multi-sided market (more independent customer segments where one of them will bring income to the company only because of the existences of other segments).

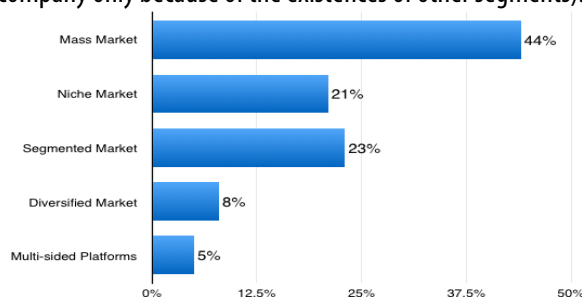


Figure 4. Customer Segments

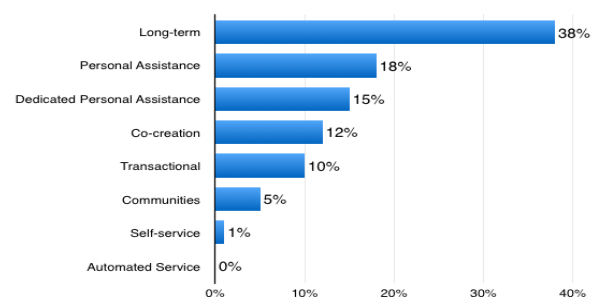


Figure 5. Customer Relationship

Figure 4 shows us that most of Macedonian successful SMEs are focused on customer segments on mass market (44%). On the other side, multi-sided market is not something represented in the country. Having in mind the development of multi-sided markets (especially in IT industry) and opportunities that comes from them (examples: Google, Facebook, Apple, etc.), it is important to bring these markets close to the SMEs in the Republic of Macedonia.

4.3. Customer relationships

The goal of diverse customer relationship as a part of business model is to attract new customers, increase the retention of current customers or simply increasing income through some types of up-selling. Osterwalder and Pigneur [10] distinguish several

categories of customer relationships as transactional, long-term relationship, personal assistance, dedicated personal assistance, self-service, automated services, communities and co-creation. Successful Macedonian SMEs are forcing long-term relationship with their customers (Figure 5).

4.4. Partnerships

When we look closely on the way how companies operate today, it is evident that they are not isolated “islands” depending on a strong network of suppliers and partners that simply make it possible for the business model to work as it is designed. Ron Adner [16] described this on the following way: „more and more, managers and executives are being pushed into a world of greater collaboration. The upside is that, by working in concert with others within and across organizations, you can accomplish greater things with greater efficiency than you could ever accomplish alone. The downside, however, is that your success now depends not just on your own efforts but on your collaborators’ efforts as well. Greatness on your part is not enough. You are no longer autonomous innovator. You are now an actor within a broader innovation ecosystem. Success in a connected world requires that you manage your dependence.” It is evident that in today’s connected and collaborated economy partnership with other domestic and foreign companies as other institutions is important to ensure that the right value will be in the hands of the right customers. Osterwalder and Pigneur [10] also talk about three motivations for creating partnerships: optimization and economy of scale, reduction of risk and uncertainty and acquisition of particular resources and activities that are also next elements of the business model. Figure 6 shows that successful SMEs in the Republic of Macedonia almost all have partners as foreign and domestic companies, while only 7% of them partnering with state or local institutions, while the motivation of partnership is mainly result of optimization and economy of scale.

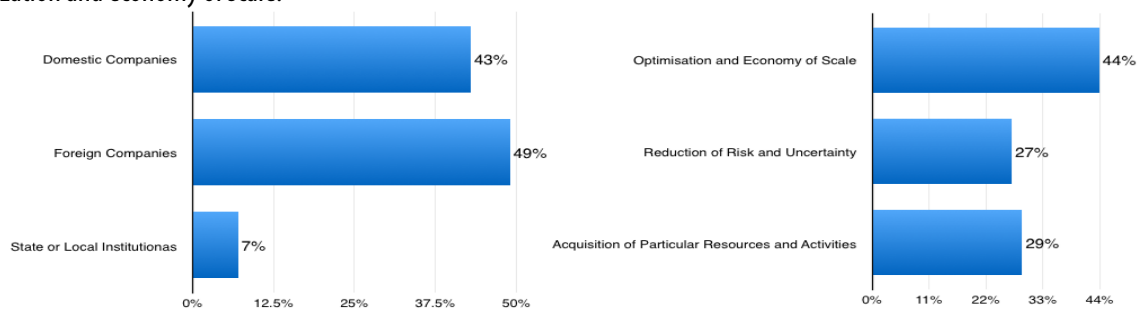


Figure 6. Type of Partnership and Motivation for Partnership

4.5. Resources

Everything based on paper as a business model, or business plan can’t become reality without necessary resources in form of important assets of the company. With these resources the companies can be able to create and deliver the value proposition, communicate with customers, and earn revenue to maintain high level of profitability and growth of the company. According to Osterwalder and Pigneur [14] key resources can be classified as: physical, intellectual, human and financial resources. All these factors are important in reaching success. Figure 7, shows that the most important resources for the successful SMEs in country are still human and financial resources. It is interesting that intellectual property is less represented in their focus. Having in mind today’s global battles between big companies especially in intellectual property rights, this area is also something that will need improvements, probably with the development of high value added products and services for the customers.

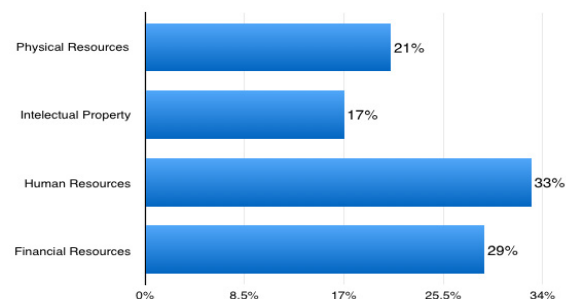


Figure 5. Most Important Resources for the Successful SMEs in Country

4.6. Cost structure

In order to enable everything designed into the business model to operate in the reality, companies are making costs. On the other side, costs have direct impact on the profitability of the company and possibilities to grow. Type of the cost structure that the business model will require is important determinant in reaching success. Osterwalder and Pigneur [10] say that even there are two broad classes of business models’ cost structures (cost-driven and value-driven), still many business models will fall in between these two extremes. So, they

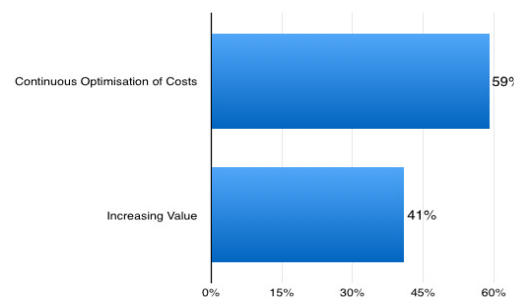


Figure 8. Cost structure

identify following cost structures: cost-driven, value-driven, fixed costs, variable costs, economies of scale and economies of scope. Our research showed that most of the successful SMEs are cost-driven companies (Figure 8), rather than value-driven. This also can be one possible area for improvements, if we take into consideration that developed markets needs more valuable products instead of cheap or low-cost products.

4.7. Channels

Channels as a part of a company's business model defines how company communicates and reaches its customers' segments in order to deliver the value proposition to them. Macedonian SMEs are using almost equally the mix of their own and partner channels.

5. CONCLUSION

This paper investigated the influence of the business model's elements on the company's success by selecting and analyzing the best examples of Macedonian high-growth SMEs. The research uncovered that the successful companies are maintaining long-term relationship with their customer base. In respect to partnerships, the successful companies collaborate with domestic, as well as with foreign companies, and use their channels in the same dose as their own to reach as many customers as possible. Most of the cases consider the human resources as the most important asset for company's success.

However, this type of analysis cannot result in a precise winning combination of factors for business growth and success, because there is a huge variety of influencing internal and external circumstances that should be taken into account. Therefore, based on these successful cases, a general lesson learned is that for business growth and success, a serious and mature approach for business model creation is crucial. Careful consideration and investigation of all influential factors will result in the right blend of elements comprising the most effective business model for the observed company.

The research is significant for the scholars studying the business model and factors for business growth with its theoretical contribution. Moreover, these findings have practical implications which are valuable for the policymakers and the managers of Macedonian companies. A limitation of this work steams from the fact that the research is based on quite small sample size, which is insufficient for development of established theory for all Macedonian companies. The outlined method and the results should serve as guidelines for further exploration of these important issues.

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