UNIVERSITY of NAVARRA
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ADAPTATION OF BUSINESS MODELS IN EMERGING MARKETS: THE CASE OF LATIN AMERICA

Dissertation

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ABSTRACT

This dissertation explores how firms from emerging markets adapt their business models to operate successfully using web-based strategies. In doing so, we developed in depth research on the characteristics of the business models of six Latin American companies, in an attempt to understand the strategies and factors that have driven success as a result of the processes of adaptation of their business models in this geographic context. This analysis led to the identification of common themes across the six cases. The main implications on value creation from these kinds of business models are discussed and success factors specifics are suggested. Finally, we propose a framework of strategic theories that best illuminate these realities in emerging economies. Considering that the aim of this study is to address a virtually unexplored research area, multiple case study methodology has been deemed the most appropriate approach for this purpose.

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CHAPTER I: INTRODUCTION TO THE STUDY

1. Background and motivation of the study

Much has been written about multinational companies entering emerging markets and the necessary adaptations they must make to their business models that already operate in developed markets. Much has also been written in academic management literature on emerging markets and context conditions that make them significantly different from developed world markets. There are also numerous studies that observe how emerging market economic groups gain competitive advantages based on remedying some of the institutional voids (Khanna & Palepu, 1999) inherent in these contexts because of their local size and influence. However, little is known about how these institutional voids affect local companies that perform their operations primarily thanks to the Internet and more relevant still, which are the strategies and factors that explain the success of these companies by adapting known and tested business models in developed markets to make them especially competitive in the particular conditions of these contexts.

To study the above we will use the business models perspective, more specifically we will use the framework developed by Osterwalder and Pigneur (2010) to analyze six successful companies born in Latin America and their on-line business models.

The perspective based on business models emphasizes the importance of interdependencies in the firm's performance and productivity and it allows us to examine the value created for all the actors involved in the business model (Sánchez & Ricart, 2010). In addition, the use of the Internet as a technological platform in business enterprises is prompting changes in business models. The Internet has considerably changed the costs of gathering information, as well as controlling and coordinating market transactions. Internet technology can be used

to streamline processes and reduce costs, but its impact on the business is so great that it can be used to change the business model itself. The Internet is prototypical of the kind of 'high velocity environment' in which successful business models need to be frequently adjusted to new challenges (Wirtz *et al*., 2007). These developments have opened new horizons for the design of business models by enabling firms to fundamentally change the way they organize themselves and engage in economic exchanges, both within and across firm and industry boundaries (Mendelson, 2000). In addition, strategies for effectively competing in this environment are just beginning to materialize. Firms are increasingly confronted with fundamental environmental alterations, such as new competitive market structures, governmental and regulatory changes, and technological progress, which often require managers to significantly adapt one or more aspects of their business models. This relative lack of academic work is particularly severe in the context of emerging economies.

Emerging economies constitute a significantly different business context from those of developed economies, owing largely to their less developed financial, legal, and physical infrastructures. Emerging economies also have different business philosophies and cultures, which influence the relationship between companies and the marketplace. Emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together (Khanna and Palepu, 2008). Precisely in this thesis we want to study how companies born in emerging markets with important institutional voids for business have solved their on-line business issues and today are successful. Local winners in emerging markets often incorporate the latest technologies (Bhattacharya and Michael, 2008), but there is little research into key success factors in their on-line strategies.

Emerging markets are becoming better known in the world economy as a result of the increasing levels of development and government policies that favor economic liberalization (Hoskisson, Eden, Lau, & Wright, 2000). Emerging markets are heterogeneous in their level

of development and environmental surroundings (Gaur & Kumar, 2010). This can lead to differences for business model adaptation to each country. In addition, the characteristics of virtual markets combined with the vastly reduced costs of information processing allow for profound changes in the ways companies operate and in how economic exchanges are structured. They also open new opportunities for wealth creation in emerging markets (Amit and Zott, 2001).

In order to contribute to a better understanding of Internet-based business models in emerging markets, the focus of our research is: ***What factors are influencing online strategies in emerging markets and how to adapt the business models that make an intensive use of the Internet for their business***. We intend to develop a framework that can extend the academic literature on business models as well as help practicing managers by understanding which sources of value are of particular importance for e-business[1] in emerging economies, and whether unique technological success factors can be identified in the context of e-business in emerging economies or, which is the same, what are the Internet drivers that can enhance current business models in emerging economies, giving a basis for analysis in order to make more informed investment decisions related with Internet-related technological innovation (mobile internet, cloud computing, social networking, etc.).

Finally, scholars in strategic management (Hoskisson, Eden, Lau, & Wright, 2000; Wan, 2005; Welsh, Alon, & Falbe, 2006) and international business (Peng, Wang, & Yi, 2008) have also called on researchers to consider how different theoretical perspectives can provide useful insights into strategy in emerging economies. In this research we will make a contribution in this regard.

[1] In this thesis the terms e-business, e-business models, on-line business and business models using the internet are used as synonyms unless otherwise specified.

2. Research Purpose

2. 1. Problem Statement

Adjusting products or lowering prices to local demands is not enough to succeed in unfamiliar emerging economies (Prahalad, 2010). Nichols-Nixon et al. (2011), in an important study on management research in Latin America, said that Latin America also presents an interesting context for the study of issues related to strategy formulation and implementation. The region has a long tradition of economic uncertainty and financial crises that suggests a need for flexibility and adaptability at firm level. Yet organizations are defined by attributes (e.g., hierarchical structure, paternalistic leadership styles, and loyalty and personal bonds between supervisors and subordinates) that seem at odds with the development of dynamic capabilities that underlie flexibility and adaptability. This research pursues this apparent contradiction by examining how institutional and cultural factors influence the nature and development of dynamic capabilities required for on-line competitive success and the implications for business models competing in these contexts.

The problem statement of this research is that companies in their online strategies aimed at applying business models of developed countries in emerging markets will not be able to compete successfully unless they have a clear understanding of their consumers and market conditions and adjust their business model accordingly.

2.2. Assumptions

The research is based on the assumption that organizations intending to enter or expand their businesses successfully in emerging economies have to innovate their business models (Eyering et al., 2011) and the Internet is a tool that, if properly used, would fill institutional gaps in these markets.

Consequently, the focus of this research is on companies born in emerging markets where the Internet is central to their business and how they adapt their business models to operate successfully in contexts of emerging economies. The business model canvas framework of Osterwalder & Pigneur (2010) will be used as an analytical tool. The business model canvas contains key elements and activities of an organization that create, deliver, and capture value. It comprises nine essential business components – customer segments, value propositions, channels, customer relationships, resources, activities, partnerships, revenue streams, and costs. The canvas was chosen as it covers the areas that are essential for answering the research question.

Secondly, it is assumed that a careful selection of well-known firms from various industries that were born in emerging economies and have developed successful business models would generate a representative sample for identifying and comparing common principles and activities.

2. 3 Aims and Contributions

The aim of this thesis is to understand how the context in emerging markets influences business model configuration using on-line strategies and examining successful business models and their primary success drivers. In addition, this thesis is intended to contribute to the literature on business models and strategy in emerging markets, by looking at whether and in which way a business model using web tools in emerging countries differs from those in developed economies, and how companies are creating value in this market using the Internet. Finally, the intention is to develop a set of theoretical propositions that will shed light on how established firms heavily based on an Internet strategy strategize in emerging markets. Such propositions may constitute a point of departure for further research on strategy in emerging markets.

Most of the previous work in emerging markets stresses the need of developing new strategies and capabilities (Dawar & Frost, 1999, London and Hart, 2004, Wright et al., 2005, Khanna et al. 2005, Hoskisson et al, 2013, Khanna and Palepu, 2013), and reshaping business models and business practices (Prahalad and Hammond, 2002; D'Andrea et al., 2004, Khanna & Palepu, 2006, Bhattacharya & Michael, 2008) as a way to succeed in a dynamic and uncertain environment. In other words, innovation is considered an imperative element for operation in emerging markets. However, a theoretical explanation that explores the nature of business models in this context and the underlying factors that explain the type of adaptation required, considering the possibilities offered by the Internet, has not yet been developed. A proposal is presented in this research on this subject.

In addition, emerging economy contexts challenge some of the assumptions of theories originally developed for markets that are relatively stable and efficient. With context typically characterized by, among other features, inefficient markets, active government involvement, extensive business networking, and high uncertainty, the efficacy of business models and theories is thus challenged (Xu & Meyer, 2013). After analyzing the cases chosen for this study and following many interviews with experts and academics on the matter, certain theoretical perspectives are proposed, which better enlighten the development of business models in emerging markets such as Latin America.

The unique attributes of the Latin American business environment suggest that more research is needed to enrich our understanding of how the Internet is helping to boost business models in this context as a tool that allows for a new sales channel or as a resource that can fill institutional gaps that usually exist in these economies. Latin America presents an interesting context for the study of issues related to strategy formulation and implementation. Strategy research has not yet gone deeper into how institutional and cultural factors influence the nature and development of dynamic capabilities required for

competitive success and the implications for the way the strategy is formed, executed, and adapted over time (Nichols-Nixon et al, 2011). This study also makes a contribution concerning what features are most important when innovating in the business model to address the institutional voids (Khanna & Palepu, 2010).

In summary, following a review of six successful business ventures in Latin America with intensive use of the Internet in their commercial operations, and after confronting the findings from the cases under study with academic experts and companies of similar characteristics to those chosen for the study, it is possible to identify the main factors that improve the results, the general principles that enhance the creation of value, and to determine which management theories can best illuminate these findings. Our analysis and findings contribute to the business model literature responding to the call to conduct more research on the adaptation of business modes (Aspara et al., 2011, Landau et al., 2016), complementing the much stronger developed literature on the innovation of business models. By doing this, we make two contributions to the literature. First, we provide insights to the very scarce literature on business models crafted and later on internationalized in emerging markets. While several studies have been researching the adaptation of business models to changed industry conditions, insights on the adaptation of business models to new contexts, in particular to emerging markets, are rather scarce, notably business models that use Internet strategies. We also address the suggestion to analyze business model innovation in specific contexts (Sánchez and Ricart, 2010, Schneider et al., 2013). Research on the adaptation of business models to the specific context of our study, that is, the specific setting of emerging markets, is called for (e.g., Demil et al., 2015; Landau et al, 2016) but so far only marginally addressed in the business model literature.

The business model literature has been criticized for a lack of theoretical depth (Teece, 2010; Schneider et al., 2013). By showing how institutions change business models and

certain adjustments, we are able to provide theoretical arguments for business model adaptation and we make a proposal of the theories that we understand best illuminate the adaptations of business models in emerging markets.

Figure 1-1: Companies selected for the research

2.4. Research Question

The following question will be researched in the following chapters to identify common principles from successful companies that already operate in emerging economies: **Which are the general principles and key success factors associated with on-line strategies in emerging markets?**

The challenge that companies in emerging markets face is how to design their business model using the Internet for this unexplored market opportunity. The research question will lead to the identification of common principles from companies that already operate in emerging economies and make intensive use of the Internet in their business. The outcome

will be of academic as well as practical interest for companies that need to design their business model for entering or expanding their businesses in emerging economies.

3. Outline of the study

Below is a description of the remaining chapters that comprise this study. Chapter 2 offers a literature review that covers the three main research fields employed in the study – strategic management, business models and emerging markets. Chapter 3 details the method employed in the study and the reasons that have led us to choose case study methodology for this research. Chapter 4 presents six case studies of Latin American firms. These cases help us gain a better insight into how they adapt their business models to firms that use the Internet as an important tool for their business. Chapter 5 offers a cross-case analysis and discussion of the business models detailed in Chapter 4. First, the main findings are summarized by developing general principles and success factors of on-line strategies, and a series of propositions are presented. Then a theoretical framework is presented, as well as the implications for practice. Finally, the conclusion in Chapter 6 gives a summary of the findings and a proposal for a future research agenda.

CHAPTER II: LITERATURE REVIEW

The purpose of this chapter is to look at the most important concepts of strategy and business model, by reviewing the literature and the most important open debates. This is intended as an approximation to the core subject matter which is business models in emerging markets and the use firms make of their online strategies to overcome the barriers of these markets.

1. Strategy

1.1. History and Definitions

The underlying principles of strategy were discussed by Homer, Euripides, and many other early writers. The word strategy comes from the Greek *strategos,* "a general," which in turn comes from roots meaning "army" and "lead." The Greek verb *stratego* means to "plan the destruction of one's enemies through effective use of resources." The concept of strategy in a military or political context has remained prominent throughout history, and has been discussed by such major writers as Shakespeare, Montesquieu, Kant, Mill, Hegel, Clausewitz, Liddell Hart, and Tolstoy.

The first modern scholars who linked the concept of business and strategy were Von Neumann and Morgenstern, in their work on game theory. They defined business strategy as a series of actions taken by a corporation, which are selected according to a specific situation. It is easy to see the origin of the emergence of this definition of game theory.

Many scholars agree that the first modern definition of business strategy is contained in the book written by Alfred Chandler in 1962 : "Strategy and Structure". In this book, Chandler carefully analyzed the activities of four giants of American industry in the early twentieth

century, DuPont, Standard Oil of New Jersey, General Motors and Sears, Roebuck. Chandler, building on this research , defined strategy as the element that determined the basic goals of a company in the long term as well as the adoption of courses of action and the allocation of resources necessary to achieve these goals. Seven years later, Kenneth Andrews, Chandler's colleague at Harvard, proposed a similar definition: " Corporate strategy is the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in, or is to be in, and the kind of company it is or is to be". In light of this definition, the strategist must design a series of goals and plans to reveal the field of activity of the company and how this activity is focused.

Between Chandler and Andrews, Igor Ansoff proposed, in 1965, a more analytical definition, shaped into action. Ansoff considered that strategy was a "thread" that ran between the activities of the company and the products / markets. Strategy thus becomes a rule for decision making, a thread with four components: the scope of the product / market (products offered by the company and the markets in which it operates), the growth vector (changes that the company plans to apply to its products/markets), its competitive advantage (the unique properties of an individual product / market which place the company in a strong position against its competitors) and synergy (the extent to which different parts of the company can work together properly to achieve more than what could be achieved if each operated on its own) .

In the essay "Strategies for Change" James Brian Quinn discusses the concept of strategist from a traditional perspective, including the use of military history, such as the actions of Philip and Alexander at Chaeronea (338 BC .), to illustrate his points. Quinne begins by noting the difference between strategy formulation and program planning,

Quinn says there is a good analogy between military strategy and business strategy. Just as military organizations have many levels of strategy, controls, war scenarios, areas, battles, infantry and artillery, complex organizations should also have a number of strategies, related by hierarchy, which would support each other. So, Quinn says that effective formal strategies have three essential elements: (1) goals, (2) policies and (3) programs. Second, effective strategies, like actual military plans revolve around a few key concepts and movements that give them cohesion, balance and focus. The third point is that strategy is not just about what is unpredictable but also about the unknown.

Porter (1996) says that strategy is an integrated set of choices that uniquely position the firm in its industry so as to create sustainable advantage and superior value as regards the competition. The essence of strategy is choosing to perform activities differently than rivals do. Strategy is making trade-offs in competing. Therefore strategy is also what not to do. Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea could and would be quickly imitated. Again, performance would once again depend wholly on operational effectiveness. Trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers (Porter, 1996). Markides agrees, saying that the essence of strategy is to choose one position that your company will claim as its own. A strategic position is simply the sum of a company´s answers to these three questions: Who should I target as customers? What product or services should I offer them? How should I do this? (Markides, 2000).

Lafley and Martin (2013) say that strategy is the answer to these five interrelated questions: 1. What is your winning aspiration? 2. Where will you play? 3. How will you win? 4. What capabilities must be in place? 5. What management systems are required. (Lafley and Martin, 2013).

Rumelt says that good strategy rests on a hard-won base of such knowledge, and any new strategy presents the opportunity to generate it. A new strategy is, in the language of science, a hypothesis, and its implementation is an experiment. As results appear, good leaders learn more about what does and doesn't work and adjust their strategies accordingly. In a changing world, good strategy must have an entrepreneurial component. That is, it must embody some ideas or insights into new combinations of resources for dealing with new risks and opportunities (Rumelt, 2011).

In general terms, strategy formation in most organizations can be thought of as revolving around the interplay of three basic forces: (a) an environment that changes continuously but irregularly, with frequent discontinuities and wide swings in its rate of change, (b) an organizational operating system, or bureaucracy, that above all seeks to stabilize its actions, despite the characteristics of the environment it serves, and (c) a leadership whose role is to mediate between these two forces, to maintain the stability of the organization's operating system while at the same time ensuring its adaptation to environmental change. Strategy can then be viewed as the set of consistent behaviors with which the organization establishes for a time its place in its environment, and strategic change can be viewed as the organization's response to environmental change, constrained by the momentum of the bureaucracy and accelerated or dampened by the leadership (Mintzberg, 1978).

The position taken here is that this definition is incomplete for the organization and nonoperational for the researcher. It conceals one important side of the decisional behavior of organizations that all the principal theorists would likely consider strategic (that is, important). And by restricting strategy to explicit, a priori guidelines, it forces the researcher to study strategy formation as a perceptual phenomenon, all too often reducing his conclusions to abstract normative generalizations (Mintzberg, 1978).

Mintzberg states that "defining strategy as we do enables us to consider both sides of the strategy formation coin: strategies as "intended", a priori guidelines as well as strategies as "evolved", a posteriori consistencies in decisional behavior. In other words, the strategy-maker may formulate a strategy through a conscious process before he makes specific decisions, or a strategy may form gradually, perhaps unintentionally, as he makes his decisions one by one." This definition operationalizes the concept of strategy for the researcher. Research on strategy formation (not necessarily *formulation*) focuses on a tangible phenomenon - the decision stream-and strategies become observed patterns in such streams (Mintzberg, 1978).

In Mintzberg's view, the fundamental difference between deliberate and emergent strategy is that whereas the former focuses on direction and control-getting desired things done- the latter opens up this notion of 'strategic learning'. Defining strategy as intended and conceiving it as deliberate, as has traditionally been done, effectively precludes the notion of strategic learning. Once the intentions have been set, attention is riveted on realizing them, not on adapting them (Mintzberg, 1985).

Mintzberg's conclusion is that strategy formation walks on two feet, one deliberate, the other emergent. As noted earlier, managing requires a light deft touch—to direct in order to realize intentions while at the same time responding to an unfolding pattern of action. The relative emphasis may shift from time to time but not the requirement to attend to both sides of this phenomenon (Mintzberg, 1985).

Porter (1996) notes that managers must clearly distinguish operational effectiveness from strategy. Both are essential, but the two agendas are different. The operational agenda involves continual improvement wherever there are no trade-offs. Failure to do this creates vulnerability even for companies with a good strategy. The operational agenda is the proper

place for constant change, flexibility, and relentless efforts to achieve best practice. In contrast, the strategic agenda is the right place for defining a unique position, making clear trade-offs, and tightening the fit. It involves the continual search for ways to reinforce and extend the company's position. The strategic agenda demands discipline and continuity; its enemies are distraction and compromise (Porter, 1996).

Strategy is a living blueprint of superior performance. The fact that uncertainty reigns today in the rapid changes does not mean that there is no reasonable basis for making assumptions. Strategy is critical to the performance of organizations. Strategic thinking starts with a good business model described as a system, which contains the main economic relations necessary to fulfill a particular purpose of the enterprise. But strategy goes further, becausethe business model does not itself consider the competition. Strategy is precisely how to help the company to face competition and obtain a competitive advantage. WalMart started as a store or supermarket with the same model as the one that existed in large cities, but applied it to towns that nobody took into account, with less than 25,000 inhabitants. The pattern was the same, but the strategy was different.

A clear strategy is a kind of draft design of an organization, where one of the most basic decisions being how to adjust the scale: how big we will, to the need to get our offers and activities, how we organize. Fixing the boundaries of the organization is the concrete answer to those questions (Magretta 2003).

A concept attached to Strategy is *Strategic Management*. This is the direct organizational application of the concepts of business strategy that have been developed in the academic sphere. That is, strategic management entails the analysis of internal and external environments of a firm to maximize the utilization of resources in relation to objectives. The major importance of strategic management is that it gives organizations a framework for

developing abilities for anticipating and coping with change. It also helps to develop the ability to deal with uncertain futures by defining a procedure for accomplishing goals (Braker, 1980).

1.2. Main Theories and Research Themes

1.2.1 Competitive Strategy

1.2.1.1. Competitive Forces

The fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage (Rumelt et al, 1994). Porter says that competitive strategy is a combination of the ends (goals) which the firm is striving to achieve and the means (policies) by which it is seeking to reach them. The essence of formulating competitive strategy is relating a company to its environment (Porter, 1980).

The huge number of proposals that have been presented in the literature of business strategy in the last two decades, have especially been two major paradigms that have caught the attention of specialists and have been influential in academia and put into practice by entrepreneurs: the model of the competitive advantage of Michel Porter and the Resource Based View popularized in the '90s.

From the perspective of Porter, the strategy should be to defeat the competitors through an intense rivalry, facing customers and suppliers bargaining power and creating barriers to new entrants in the industry. Porter's model proposes a simple approach to a successful business: select an industry in which to excel over competitors. According to Porter strategy is a war! (Hax and Wilde II, 2003).

This approach, rooted in the structure-conduct-performance paradigm of industrial organization (Mason, 1949; Bain, 1959), emphasizes the actions a firm can take to create

defensible positions against competitive forces. This type of strategic research has placed little emphasis on the impact of idiosyncratic firm attributes on a firm's competitive position (Porter; 1990). Implicitly, this work has adopted two simplifying assumptions. First, these environmental models of competitive advantage have assumed that firms within an industry (or firms within a strategic group) are identical in terms of the strategically relevant resources they control and the strategies they pursue (Porter, 1981; Rumelt, 1984). Second, these models assume that should resource heterogeneity develop in an industry or group (perhaps through new entry), that this heterogeneity will be very short lived because the resources that firms use to implement their strategies are highly mobile (i.e., they can be bought and sold in factor markets) (Barney, 1986a).

A second approach, referred to as a Strategic Conflict approach (e.g., Shapiro, 1989), is closely related to the first in its focus on product market imperfections, entry deterrence, and strategic interaction. The Strategic Conflict approach uses the tools of game theory and thus implicitly views competitive outcomes as a function of the effectiveness with which firms keep their rivals off balance through strategic investments, pricing strategies, signaling, and the control of information. Both the competitive forces and the strategic conflict approaches appear to share the view that rents flow from privileged product market positions.

Another distinct class of approaches emphasizes building competitive advantage through capturing entrepreneurial rents stemming from fundamental firm-level efficiency advantages. These approaches have their roots in a much older discussion of corporate strengths and weaknesses; they have taken on new life as evidence suggests that firms build enduring advantages only through efficiency and effectiveness, and as developments in organizational economics and the study of technological and organizational change become applied to strategy questions.

1.2.1.2. Resource Based View

One strand of this literature, often referred to as the Resource-Based Perspective" (RBV) emphasizes firm-specific capabilities and assets and the existence of isolating mechanisms as the fundamental determinants of firm performance (Rumelt, 1984; Wernerfelt, 1984). This model suggests that sources of sustained competitive advantage are firm resources that are valuable, rare, imperfectly imitable, and non-substitutable. These resources include a broad range of organizational, social, and individual phenomena within firms that are the subject of a great deal of research in organization theory and organizational behavior (Daft, 1983). Rather than being contradictory, the resource-based model of strategic management suggests that organization theory and organizational behavior may be a rich source of findings and theories concerning rare, non-imitable, and non-substitutable resources in firms. Indeed, a resource-based model of sustained competitive advantage anticipates a more intimate integration of the organizational and the economic as a way to study sustained competitive advantage (Barney, 1991). This perspective recognizes but does not attempt to explain the nature of the isolating mechanisms that enable entrepreneurial rents and competitive advantage to be sustained.

Prescription regarding competitive advantage itself, however, still is hindered because the criteria for value in the RBV remain, at present, in an exogenous "black box".

Yet, this static RBV argument has notable potential limitations for strategic management research. First, the static argument is descriptive: it identifies generic characteristics of rent-generating resources without much attention to differing situations or resource comparisons. In the Castanias and Helfat (1991) article, for example, although CEOs (as resources) are argued to have superior or inferior management skills, there is no basis for discriminating among superior and inferior CEOs, other than waiting for the performance

results. Second, the processes through which particular resources provide competitive advantage remain in a black box (Lawrence, 1997, provides a discussion of this issue in strategy research). We do not know, for example, how the resources generate sustainable rents, other than through their heterogeneity. Why is it that some heterogeneous resources generate value, whereas other heterogeneous resources do not? Third, some resources studied, such as tacit knowledge, are inherently difficult for practitioners to manipulate. Thus, these resources likely fail Thomas and Tymon's (1982) test of operational validity. Fourth, in static RBV studies researchers sometimes take a frequently researched strategy subject area, relabel the independent variables as "resources" and the dependent variables as "competitive advantage," and use measures common to much cross- sectional strategy research as operationalizations (e.g., Powell, 1992a). Such studies show that the resource-based labels are not necessary for much strategy research. Fifth, the static RBV arguments suffer from the In Search of Excellence (Peters & Waterman, 1982) problem in that it is quite easy to identify, a posteriori, many "valuable" resources in high-performing firms (Priem and Butler, 2001).

1.2.1.3. Evolutionary Perspectives

In the past few years there has been an increasing interest in using evolutionary and ecological perspectives in the domains of strategy and organization theory (The organization is as an ecological system purposefully designed to guide the evolution of strategy). Important intellectual foundations for this work include the seminal contributions of Nelson and Winter (1982) and Hannan and Freeman (1977), who were among the first to systematically use evolutionary and ecological perspectives to theorize about formal organizations. Evolutionary and ecological perspectives have been applied at many levels of analysis, including intra-organizational evolution, organizational evolution, population evolution, and community evolution (see Baum and Singh, 1994, for an overview).

A perspective inside this vision is the "model of guided evolution". That is the hypothesis that firms that are able to choose strategic initiatives which effectively exploit their existing human and social capital while, at the same time, facilitating the development of new, valuable human and social capital, will perform better in the long run than those that are not able to achieve this synergy between exploitation and creation. The model of guided evolution provides a link between strategy content and strategy process because of its focus on the coevolution of human and social capital and strategic initiatives. While the resource-based view of strategy initially shifted the focus of analysis from factors external to the firm (such as industry structure) to factors internal to the firm (i.e., resources), the initial conceptualization of resources was abstract (see Conner, 1991). Increasingly, however, there is recognition that many of the 'dynamic capabilities' (Teece, Pisano, and Shuen, 1997) that underlie a firm's competitive advantage are grounded in people and their relationships—i.e., in the firm's human and social capital (Lovas and Goshal, 2000).

1.2.1.4. Dynamic Capabilities

Another component of the efficiency-based approach is the 'dynamic capabilities' approach in order to stress exploiting existing internal and external firm-specific competences to address changing environments. Elements of the approach can be found in Schumpeter (1942), Penrose (1959), Nelson and Winter (1982), Teece (1976, 1986a, 1986b, 1988) and in Hayes, Wheelwright, and Clark (1988): because this approach emphasizes the development of management capabilities and difficult to imitate combinations of organizational, functional and technological skills, it integrates and draws upon research in such areas as the management of R&D, product and process development, technology transfer, intellectual property, manufacturing, human resources, and organizational learning (Teece et al, 1997).

The global competitive battles in high-technology industries such as semiconductors, information services, and software have demonstrated the need for an expanded paradigm to understand how competitive advantage is achieved. Well-known companies, such as IBM, Texas Instruments or Philips appear to have followed a 'resource-based strategy' of accumulating valuable technology assets, often guarded by an aggressive intellectual property stance. However, this strategy is often not enough to support a significant competitive advantage. Winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences. Not surprisingly, industry observers have remarked that companies can accumulate a large stock of valuable technology assets and still not have many useful capabilities (Teece et al, 1997).

Teece (Teece et al, 1997) refers to this ability to achieve new forms of competitive advantage as 'dynamic capabilities' to emphasize two key aspects that were not the main focus of attention in previous strategy perspectives. The term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets difficult to determine. The term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment. The dynamic capabilities approach seeks to provide a coherent framework which can both integrate existing conceptual and empirical knowledge, and facilitate prescription (Teece et al, 1997).

Leonard and Barton (1992) define dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic capabilities thus reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions.

Another debate concerns how organizations survive in the face of change. This fundamental question has engaged scholars from disciplines as disparate as management, history, strategy, organizational sociology, psychology, and economics (e.g., Chandler, 1990; Christensen, 1997; Hannan & Freeman, 1984; Nelson & Winter, 1982; Staw, Sandelands, & Dutton, 1981; Tushman & Romanelli, 1985). It has resulted in organizational theories as diverse as competitive advantage (Porter, 1980), strategic conflict (Shapiro, 1989), organizational ecology (Hannan & Carroll, 1992), punctuated evolution (Tushman & Romanelli, 1985), institutional theory (Meyer & Rowan, 1977), threat-rigidity (Staw et al., 1981), the resource based view of the firm (Barney, 1991), and, more recently, dynamic capabilities (e.g., Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997).

Underlying this research is a rich debate about a fundamental question: Can organizations adapt and change - and if so, how does this occur? There are two major camps in the research on organizational change: those that argue for adaptation (e.g., punctuated equilibrium, dynamic capabilities); and those that argue that firms are inert and change occurs through an evolutionary process of variation-selection-retention. This latter perspective suggests that as environments shift, inertial incumbent organizations are replaced by new forms that better fit the changed context (Barnett & Carroll, 1995).

The emerging research on dynamic capabilities, and how these provide firms with long-term competitive advantage, offers a promising way to explain organizational adaptation. Although in its early stages, studies have already illustrated how capabilities may be

developed (Ethiraj, Kale, Krishnan, & Singh, 2005; Subramanian & Youndt, 2005; Zollo & Winter, 2002) and provide some preliminary evidence for their long-term consequences on performance and survival (Adner & Helfat, 2003; Gulati, Dialdin, & Wang, 2002; Helfat & Raubitschek, 2000; Klepper, 2002; Macpherson, Jones, & Zhang, 2004).

As some firms, albeit not the majority, do survive in the face of change, the question is how they manage to adapt— and why are some firms able to accomplish this, while others cannot? Central to the adaptive process are the notions of a firm's ability to exploit existing assets and positions in a profit producing way and simultaneously to explore new technologies and markets; to configure and reconfigure organizational resources to capture existing as well as new opportunities (Helfat & Raubitschek, 2000; Teece, 2006). This capacity has been referred to either as exploration and exploitation (March, 1991) or ambidexterity (Duncan, 1976; Tushman & O'Reilly, 1997). Exploitation is about efficiency, increasing productivity, control, certainty, and variance reduction. Exploration is about search, discovery, autonomy, innovation and embracing variation. Ambidexterity is about doing both. In March's terms, this is the fundamental tension at the heart of an enterprise's long-run survival. "The basic problem confronting an organization is to engage in sufficient exploitation to ensure its current viability and, at the same time, devote enough energy to exploration to ensure its future viability" (1991, p. 105).

From a strategic perspective, achieving long-term success requires that firms possess not only the operational capabilities and competencies to compete in existing markets, but also the ability to recombine and reconfigure assets and organizational structures to adapt to emerging markets and technologies. In this sense, Teece (2006) characterizes dynamic capabilities as the distinct skills, processes, procedures, organizational structures, decision rules and disciplines that enable the senior leaders of a firm to identify threats and

opportunities and to reconfigure assets to meet these. "Winners in the global market place have been firms that can demonstrate timely responsiveness and rapid flexible product innovation, coupled with the management capability to effectively coordinate and deploy internal and external competencies” (Teece et al., 1997).

What are the capabilities required for firms to be successful at ambidexterity? Consistent with Teece's tripartite taxonomy of sensing, seizing, and reconfiguring (Teece, 2006), ambidexterity requires a coherent alignment of competencies, structures and cultures to engage in exploration, a contrasting congruent alignment focused on exploitation, and a senior leadership team with the cognitive and behavioral flexibility to establish and nurture both.

The idea of ambidexterity challenges the widely held assumption that innovation and efficiency are orthogonal and trade-offs must always sacrifice one for the other. Just as the old assumptions about the trade-offs between cost and quality were overturned by the quality movement, ambidexterity suggests that under certain well-specified circumstances, it may be possible for organizations to pursue both exploitation and exploration (O´Reilly III and Tushman, 2008).

1.2.1.4. Diversification and performance

Despite nearly 30 years of academic research on the benefits of related diversification, there is still considerable disagreement about precisely how and when diversification can be used to build long-run competitive advantage (Markides and Williamson, 1994).

A fundamental part of any firm's corporate strategy is its choice of what portfolio of businesses to compete in. According to the academic literature, this decision should reflect the 'superiority” of related diversification over unrelated diversification (e.g., Ansoff, 1965; Bettis, 1981; Lecraw, 1984; Palepu, 1985; Rumelt, 1974; Singh and Montgomery, 1987).

This is because related diversification presumably allows the corporate center to exploit the interrelationships that exist among its different businesses (SBUs) and so achieve cost and/or differentiation competitive advantages over its rivals. But despite 30 years of research on the benefits of related diversification, there is still considerable disagreement about precisely how and when diversification can be used to build long-run competitive advantage (e.g., Hoskisson and Hitt, 1990, Ramanujam and Varadarajan, 1989; Reed and Luffman, 1986). Markides and Williamson argue that the disagreement exists for two main reasons: (a) the traditional way of measuring relatedness between two businesses is incomplete because it ignores the 'strategic importance' and similarity of the underlying assets residing in these businesses, and (b) the way researchers have traditionally thought of relatedness is limited, primarily because it has tended to equate the benefits of relatedness with the static exploitation of economies of scope (asset amortization), thus ignoring the main contribution of related diversification to long-run, competitive advantage; namely the potential for the firm to expand its stock of strategic assets and create new ones more rapidly and at lower cost than rivals who are not diversified across related businesses. They explain that the long-run value of a related diversification lies not so much in the exploitation of economies of scope (asset amortization) - where the benefit is primarily short-term -but in allowing corporations to more cost efficiently expand their stocks of strategic assets. Relatedness, which opens the way for asset improvement, asset creation and asset fission, holds the key to the long-run competitive advantages of diversification. This means that in most cases, similarities in the processes by which strategic assets are expanded and new strategic assets are created are more important than static similarities between the strategic assets that are the outcome of those processes. Firms that are diversified across a set of 'related markets' where the strategic assets are either few, or the processes required to improve and create them are context- specific cannot be expected to

out-perform unrelated diversifiers. But simply exploiting existing strategic assets will not create long-term competitive advantage. In a dynamic world, only firms that are able to continually build new strategic assets faster and more cheaply than their competitors will earn superior returns over the long term. Core competences have a pivotal role to play in this process. By transferring core competences between its SBUs, a corporation is able to accelerate the rate and lower the cost at which it accumulates new strategic assets. These opportunities for benefitting from core competences underpin the dynamic advantage of related diversification and define the types of relatedness that a firm should seek to exploit (asset amortization, asset improvement, asset creation and asset fission) (Markides and Williamson, 1994).

In some studies, when examining accounting-based measures of performance, diversification appears to be positive for firms up to a point. Past a certain level, however, diversification seems to cause performance problems. When examining market-based measures of performance, diversification also seems to be positive for firms up to a point. Past a certain level, it appears to cause performance problems.

This pattern emerges as a positive diversification-performance relationship in samples that do not include firms with high levels of diversification, and as a negative relationship in samples that do not include firms with low levels of diversification. (Palich et al, 2000)

1.2.2. Corporate Strategy

Corporate strategy is defined as the relationship between business units that deal with policies and plans for the aims of the company (Apigian, 2003). Corporate strategy deals with the ways in which a corporation manages a set of businesses together (Grant, 1998).

Corporate influence on profitability results from factors associated with membership of multiple businesses within individual corporations. Of the many corporate-level factors that

theoretically affect profitability, much research has focused on scope of the firm, including selection of industries in which to operate. Building on the work of Rumelt (1974), research has analyzed the link between relatedness in diversification and firm performance. A large amount of research also has investigated the consequences of vertical integration for firms, including the seminal work of Williamson (1975), who pointed to the advantages of vertical integration when transactions costs are high.

1.2.2.1. Parenting Advantage

An important concept within the corporate strategy literature is the concept of *parenting advantage* (Campbell et al.,1995). Companies with sound corporate level strategies create value from a close fit between the parent´s skills and the business needs. The best companies, however, do more. They strive to be the "best parents" for the business they own - to create more value than rivals would. They are on a quest for parenting advantage. Parenting not only drives planning; it also helps executives take decisions. Campbell et al, propose a framework focus on the competencies of the parent organization and on the value created from the relationship between the parent and its business. Companies without sound corporate level strategies gradually lose strength and fall prey to hostile predators or become emaciated from periodic downsizing and cost cutting. The best parent companies create more value in their business than rivals would (Campbell et al., 1995).

1.2.2.2. Corporate headquarters in multi-business firms

An issue which is very related is the functions of the corporate headquarters in multi-business firms. The functions of the headquarter (HQ) unit in the multi-business firm is indeed a basic question for the understanding of the operations of modern business enterprises. The basic functions of the corporate headquarters (HQ) in multi-business firms are both entrepreneurial (value-creation) and administrative (loss prevention). The

development and implementation of these HQ functions reflect the industries in which the firms operate. Historically, the ability of the headquarters to carry out these functions has determined both the successful paths to growth for a multi-business enterprise and the limits to that growth. The decisions made by the senior executives at their headquarters have been absolutely critical to the performance of such multinational and multiproduct companies (Chandler Jr., 1991).

1.2.2.3. Cross-business synergies

Multi-business organization is a phenomenon of considerable theoretical and practical importance (Galunic & Eisenhardt, 2001). By multi-business organization (often termed "M-form organization"), I mean the structuring of a corporation into modular business units (BUs) that are focused on particular products, customers, or geographies (Chandler, 1962). From a practical perspective, multi-business organization is widely acknowledged to have been one of the most significant organizational innovations (Freeland, 1996). From a theoretical perspective, multi-business organization is a focus of theories including information processing (Chandler, 1962; Galbraith, 1973), transaction cost economics (Williamson, 1975), and social networks (Hansen, 1999, 2002). These theories suggest several reasons why firms utilize multi-business organization, such as better decision making (Chandler, 1962; Galbraith, 1973), superior control of opportunism (Williamson, 1975), and enhanced value creation through cross-business-unit collaboration (Helfat & Eisenhardt, 2004).

Martin and Eisenhardt (2010) analyzed cross-business-unit collaboration and define cross-business-unit collaboration as collective activity by two or more business units within a multi-business organization to create economic value. They address a research gap about a process theory of how executives create high-performing cross-BU collaborations. A key

insight is that high-performing multi-business organizations operate as complex adaptive systems. That is, effective collaborations emerge from small events within BUs, are honed by self-interested BU managers, and implemented via loosely coupled modules. This BU-centric process (i.e., led by a multi-business team of BU general managers), which they call rewiring, is likely to yield high-performing cross-BU collaborations. Another insight into this issue is a theoretical framework for the rewiring process that enables prediction of how high-performing cross-BU collaboration occurs.

The concept of cross-business synergy is central to the performance of multi-business firms with diverse business portfolios (Goold and Luchs. 1993). Despite some inconsistent findings, the overall conclusion of nearly four decades of diversification research is that firms whose businesses are resource related achieve superior value whereas firms whose businesses do not share any resources - except maybe financial ones - destroy value (Rumelt. 1974; Hoskisson and Hitt. 1990; Palich, Cardinal and Miller. 2000). Resource relatedness among business units is assumed to be a source of cross-business synergy that improves the corporate value of the firm (Chatterjee and Wernerfelt, 1991; Farjoun. 1994; Markidcs and Williamson. 1994; Robins and Wiersema. 1995). The most widely studied source of synergy in multi-business firms is the 'resource relatedness' of businesses. Resource relatedness refers to the 'presence of similar activities and shared resources' across business units of the firm (Davis and Thomas, 1993).

Most prior studies focused only on the similarity (relatedness) of resources as a source of cross-business synergy, but more recent studies recognized that the complementarity of different resources can also serve as an important source of synergy (Milgrom and Roberts, 1995), and an important basis for differentiating a firm's corporate strategy (Porter, 1996). The complementarities view of resource-related diversification developed by some studies extends the resource-based view of related diversification (Robins and Wiersema, 1995).

While the resource-based view recognizes that the exploitation of common product, customer, or managerial knowledge resources across multiple businesses can respectively create product knowledge synergies, customer knowledge synergies, and managerial knowledge synergies, it does not recognize the synergies arising from the complementarity of different types of knowledge relatedness. With its second-order, multidimensional conceptualization of cross-business knowledge synergy, some studies synthesized the resource-based view of diversification and the economic theory complementarities to conceptualize cross-business knowledge synergies of a multi-business firm in terms of the relatedness and the complementarity of knowledge resources used across business units. It also assessed performance effects of knowledge synergies using multiple objective measures of market-based and accounting-based firm performance (Tanriverdi and Venkatraman, 2005).

1.3. Strategy, Technology and Internet

While the Internet is not a source of competitive advantage, when used as a tool with other business strategies, it may enable firms to craft innovative business models leading to the development of new competitive advantages. The Internet includes e-business, e-commerce, and the Web, in addition to Internet technology, such as electronic mail, wireless technology, peer-to-peer networks, file transfer protocol (FTP), XML technology, and other devices used to deliver information or data (Apigian, 2003). Since the Internet has no territorial boundaries, businesses are able to transmit information by computer networks from place to place (Gordon, 2000). Porter (2001) asserts that the Internet economy provides buyer bargaining power, reduces barriers to entry, and reduces variable costs. Internet marketing service and customer support occur 365 days a year, 7 days a week, 24 hours a day. Managers need to use the Internet to support their business strategy

(Porter, 2001). A firm cannot be successful without strategic support of certain technology capabilities such as Internet business capabilities (Tallon & Kraemer, 2005). Firms can use Internet technology to enhance a core competency, business strategy and competitive advantage. Internet business can offer firms a considerable advantage over their competitors. The Internet facilitates cost and price advantages that help companies operate efficiently; that is, to do better than a competitor does, and to achieve strategic positions that "deliver a unique type of value" to its customers (Porter, 2001). Collins points out that outstanding companies conceive technology so differently from the rest: they never use it as a means to begin the transformation. They are pioneers in the application of carefully selected technologies (Collins, 2001). Digital technology creates the miracle of mass customization for a nominal initial cost and then a marginal cost approaches zero, even globally. Furthermore, customers begin to reveal proprietary information that marketing departments would be willing to pay for. When customers see a direct and immediate exchange for his cooperation benefit, they are delighted for the benefit of all. Technology can be used to create unique products and services, and make each transaction a unique event (Downes and Mui, 1999).

The networks have allowed such a great relationship with customers, suppliers and complementary companies that they have changed the fundamentals of profitability and therefore the field of strategy. When the economy is connected within networks it opens new opportunities based on the structure of the relationship with that customer, regardless of the product competitive positions. Therefore, competition based solely on the product does not detect the fundamental strength of the profitability of a company. The link to the client emerges as the central force shaping strategy. Whether the company is in the "old" or in the "new" economy, the client and additional companies should always be at the center of its strategy. The company starts to consider the whole architecture of the system: in

addition to the buyers, suppliers and distribution channels and sales and business that are likely to enter the industry, the company should think in a special way about attraction and retention of complementary companies. With more participation and more value of the system it enters an economic zone of increasing returns (Hax and Wilde II, 2003).

We move towards a world in which value is created by an instant consumer co-creation : Prahalad and Krishnan (2008) call this phenomenon N (customer) = 1 (single) and R (resources) = G (global). In the mid-90s firms began to abandon the model of vertical integration to change towards global supply chains, having access to specialists and low cost producers. This trend toward resources from multiple sources -whether global or local, and not only from the firm and its subsidiaries is called: R = G. This is the second pillar of innovation in every business. No need now to own all the resources they need. What they should have is the ability to access resources scattered around the world and available at low cost networks. (Prahalad and Krishnan, 2008)

Porter (1980) stated that strategy involves different sets of activities to create a valuable position. Strategies are designed to achieve a firm’s long-term goals and objectives. Garden (2000) stated that a company does not have a business strategy if its plans do not include using the Internet. Today, firms use the Internet to support their business strategies and to achieve a true competitive advantage, which is reflected in their long- term profitability. The Internet itself is neither a competitive advantage nor a distinct business strategy, but it is a method that can enhance a firm’s business strategies and create economic value (Apigian, 2003). It is important for firms to create a competitive advantage, a basic factor used to create economic value and improve performance. Internet business is fundamentally changing the way business and the economy is conducted (Shin, 2001). A strategy supported by the use of Internet business is stronger than one without such support

(Porter, 2001). Therefore, it is necessary for a more successful firm to use competitive strategies and to integrate Internet business.

A company's sustainable competitive advantage is a key for its long term success and improves the company's performance (Porter, 1985). A company that introduces new abilities and innovations before its competitors has a competitive advantage in the marketplace, at least until its competitors acquire the same abilities (Porter, 1985). Porter (1985) indicated that competitive sustainability was certain when the challenger was going to close the market share gap before the leader could respond. The sustainable competitive advantage was achieved by the firm's capabilities to make defensible niches (Veliyath & Fitzgerald, 2000). Strategic positioning companies select and implement strategies that can ensure a sustainable competitive advantage (Schermerhom, Cattaneo & Templer, 1995). Of the businesses that use the Internet routinely, many gain traditional competitive advantages (Porter, 2001). The use of Internet business can create economic value and determine a company's sustainable competitive advantage (Porter, 2001). Porter (2001) asserted that businesses need to develop strategies using the Internet to obtain a sustainable competitive advantage. Porter (1998) indicated that business strategies using the Internet become the source of sustainable competitive advantage. Porter (2001) introduced a business strategy that used the Internet to enhance a company's ability to create competitive advantage. Porter stated that the Internet provides a better opportunity to establish strategic positioning for companies that makes strategy more essential than ever. This conceptualization identifies the Internet as a powerful tool to influence industry structure and enhance a company's sustainable competitive advantage. Porter's theory explained that industry structure and sustainable competitive advantage can be used to create economic value. Porter (1985, 2001) indicated that the most important factor for strategy planning is how industry trends affect industry structure. Porter (1985, 2001) claimed that an industry

consists of five competitive forces and a value chain. Porter introduced his theory of five competitive forces, based on his qualitative, phenomenological studies on industry environment. Over the years, the five forces model has been adapted to integrate technology into business strategy (Ghemawat, 2002) Porter (2001) proposed that five forces determined competitive advantage. The theory has been adapted to new (high technology) and old (traditional) organizational situations and populations. Porter (1985) stated that business strategy is embodied in the five competitive forces. Determining the five competitive forces in an industry may contribute to a company's success (Porter, 2001). Value chain was used to identify competitive advantage by companies (Evans and Smith, 2004). The value chain is a framework for analyzing the effect of a company's "costs and the value delivered to buyers" (Porter, 2001) and for understanding the influence of the Internet (Porter, 2001). Porter (2001) stated that the Internet is the "latest stage in the ongoing evolution of information technology" and will ultimately affect the value chain. The value chain with the three generic strategies of a) low cost, b) differentiation, and c) focus (Porter, 1985) can create a sustainable competitive advantage. According to Porter (2001), there were five stages in the evolution of information technology. The first stage was the earliest Information Technology systems which automated transactions such as order entry and accounting (Porter, 2001). The second stage involved functional achievement of individual activities such as sales force operations, human resource management, and product design (Porter, 2001). The third stage involved the implementation of cross-activity, such as linking sales activities with order processing (Porter, 2001). The fourth stage was the implementation of the value chain and entire value system in an entire industry, including those of tiers of channels, suppliers, and customers (Porter, 2001). The fifth stage, information technology, connected these activities in the value system and in real time (Porter, 2001). According to Porter (2001), companies

develop their strategies and Internet business adoption as a strategic decision to create a competitive advantage to allow them to perform more effectively, ensuring sustainability and financial profitability.

1.4. Strategy Implementation

Inseparable in many senses from the structure, behavior and corporate culture in which it takes place, corporate strategy is an organizational process. However, it is possible to abstract from the process two important factors interrelated in real life, but likely to be isolated for analysis purposes (K. Andrews, 1980).

Strategy without measurements is like poetry, it is wonderful but it is not a very practical way to communicate. In implementing the strategy you need to carry out huge amounts of detailed work. The operational side of the job may be what at first appears as detail, but it is inevitable that collective work which makes the organization successful (Hax -Wilde II, 2001).

To generate a strategy, one must put aside the comfort and security of pure deduction and launch into the murkier waters of induction, analogy, judgment, and insight (Rumelt, 2011).

The implementation of the strategy requires an architecture that integrates strategies and operations of different units scattered throughout the company. However, research shows that over 60 percent of organizations do not have a holistic perspective, the strategy and the functional units such as human resources, information technology and finance are not related to the strategy of the business units and corporate strategy (Kaplan and Norton, 2008).

Implementing a new strategy takes time. One reason is that any new strategy must be *sold* (not just communicated) to all the employees. Selling the new strategy to employees so as

to win their emotional commitment is probably one of the most demanding and time-consuming tasks of leadership. Without the employees' emotional commitment to the new strategy, it is destined to fail. In addition, the firm must develop the appropriate organizational environment to support the new strategy. The organizational environment is composed of four elements: culture, structure, incentives, and people. Not only must each element support the selected strategy, but each element must also support and reinforce the others. Finally, implementation can take time because experimentation may be necessary to determine if some of the decisions made actually work in the marketplace. From experimentation comes additional information that can help management decide whether its choices are working well or whether it needs to modify them (Markides, 2000).

The evaluate/experiment/learn/modify stage can be time-consuming, but in many instances it is an absolute necessity if the firm is to avoid making costly mistakes. In crafting and implementing a new strategy, the firm's goal should be to create a number of "fits" The four elements that make up the firm´s organizational environment must fit with and reinforce one another, while at the same time supporting and promoting the firm's chosen strategy. In addition, the choices the firm makes in determining its strategy (what customers to target, what product to sell, what activities to perform) must support and reinforce one another while at the same time allowing the firm to do exactly what is needed in its industry environment. The difficulty lies not so much in designing the pieces of elaborate mosaic but in assembling them in a manner that will achieve and sustain these internal and external fits (Markides, 2000).

Simultaneous with creating the requisite fit with its current industry environment the firm must build in enough flexibility to respond to changes in that environment. The firm's agility in that regard generally hinges on three things: its ability to identify the changes early enough to do something about them, its cultural willingness to accept change, and its

possession of the competencies necessary to compete in whatever environment emerges after the change.

A firm must institutionalize this kind of flexibility because the environment around it is continually changing, requiring continual responses and adjustments from the firm. Nowhere is this flexibility more needed than when the firm is confronted with a strategic innovation in its business - that is, the emergence of a new strategic position. A new strategic position is a new who/what/how combination that surfaces because of changing customer preferences, changing technologies, changing competitive moves, and so on. New strategic positions constantly emerge on the periphery of industries. These entrants have the potential to grow and to erode the profitability of existing strategic positions. Thus, while vying with competitors in its current position, an established firm must also be on the lookout for new strategic positions it can and should colonize (Markides, 2000).

1.5. Strategy and Emerging markets

Because of the widespread liberalization and adoption of market-based policies by most developing countries, the term "newly industrializing countries" has now been replaced by the broader term *emerging market economies* (Hosskinson et al, 2000). An emerging economy can be defined as a country that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system (Arnold and Quelch, 1998). Emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together (Khanna and Palepu, 2008). Moreover, the recent idea that frontiers are subsiding and creating a flat world in which people find work and opportunity without being constrained by their location is far from the real economic and political world. Ghemawat´s notion of “semi-globalization” is nearest to today’s reality and the near future of business.

Frontiers matter. Levels of cross-border integration are generally increasing. Differences between countries are greater than generally acknowledged (Ghemawat, 2007).

There is no standard list of countries agreed to be emerging economies, partly because the terminology itself is recent, and partly because the countries may have had different starting points and have arrived at different stages in the process at any one point in time.

The rapid and widespread adoption of market-based policies by emerging economy governments raises important issues for the strategies adopted by private enterprises, both domestic and foreign. In addition, privatization is one means of placing pressure on former public enterprises to effect major changes in their strategies as they adapt to the competitive pressures of a market-based and open economy (Rondinelli, 1998). Privatization also means an increasing number of joint ventures with or acquisitions by foreign firms, with subsequent restructuring, downsizing, and adaptation to Western practices (Hoskisson et al. 2000).

At the same time as domestic policies are becoming more market-oriented, emerging economy governments are opening their countries to foreign markets and joining regional trading associations. New relationships between foreign and domestic enterprises are emerging as strategic alliances replace export-processing zones and subcontracting arrangements. Enterprise strategies in emerging economies are therefore facing strong environmental pressures for change, yet this change is neither smooth, automatic, nor uniform across different markets.

Emerging markets have conditions which differ significantly from those of the developed world markets (Frazier, Gill and Kale, 1989, Khanna & Palepu, 2006, Xu & Meyer, 2013, Liu & Zhao, 2013, Markins & Rainard, 2015). Emerging economies provide a social context for examining how institutional changes provide opportunities for probing how competitive

advantage changes. At the beginning of the transition period, resources that are valuable in a market context are likely to be scarce, yet the available resources are not necessarily inimitable. Managerial expertise derived from previous experience under a Communist system seems unlikely to provide a resource in an emerging economy environment (Lyles & Baird, 1994), and financial resources are also generally scarce (Filatotchev Hoskisson, Buck, & Wright, 1996). As competitive markets develop, the acquisition of resources becomes more important (Hosskinson et al, 2000).

The high growth potential of emerging markets is associated with substantial risks and emerging market characteristics challenge the efficiency and effectiveness of business models that firms had originally designed for their home markets, requiring firms to innovate and adapt their business models Landau et al, 2016)

Based on extant literature, we conclude as Landau et al (2016) that emerging markets have been found to present three key challenges to Western firms, often requiring adjustments in the way they conduct business: (1) Emerging markets are characterized by institutional environments that are different to those in developed countries and hinder efficient and effective market transactions. (2) The number and quality of external value creation partners for firms to support business operations often do not exist to the same extent as in developed economies. (3) Emerging markets exhibit different market segment compositions and characteristics to developed markets.

In emerging markets, institutions are often assumed to be less developed and sometimes even inexistent, leading to the existence of institutional voids (Khanna et al., 2005). Institutional voids hinder transactions or increase the cost of performing transactions (Khanna and Palepu, 1997; Khanna and Palepu, 2010). A lack of specialized intermediate companies or deficiencies in regulatory systems and contracted forcing mechanisms can

hamper internationalization to these markets, since organizations tend to underappreciate the role such infrastructural aspects play in their business models. The different institutional environments of emerging markets represent significant challenges for firms that have designed their business models in the context of efficient and effective home country institutions. Based on these seminal pieces, it is widely accepted that transnational corporations have to adapt to the institutional environment and overcome institutional differences to achieve competitive advantage (Landau et al, 2016).

Institutional voids[2] invariably challenge the execution of business models in emerging markets. Businesses need to determine the extent to which business models can be replicated in emerging markets or adapted to fill institutional voids. Multinationals need to weigh the extent to which they can transfer business models cultivated in developed markets to emerging economies rife with institutional voids or determine how they should adapt (Khanna and Palepu, 2008). Institutional development is a complex and lengthy process shaped by a country's history, political and social systems, and culture. Absent or unreliable sources of market information, an uncertain regulatory environment, and inefficient judicial systems are the three main sources of market failure, and they make foreign and domestic consumers, employers, and investors reluctant to do business in emerging markets. Institutional voids, however, are not only roadblocks. They are also palpable opportunities for entrepreneurial foreign or domestic companies to build businesses based on filling these voids.

The development of business strategy in any economy is driven by three primary markets - product, labor, and capital - and institutional voids can be found in any, or all, of these markets in developing countries. Void-filling businesses can change the context of

[2] Institutional voids: the absence of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms.

emerging markets, but they are also dependent on an ecosystem that cannot be transferred overnight. Firms targeting these businesses need to audit the local business context and institutional voids to understand that ecosystem, adapt their models to that context, work to fill those other voids where possible - and otherwise be patient and manage expectations and organizations accordingly. Multinationals need to determine which pieces of their business models are sacrosanct and manage any modification of the pieces that are not. Developed market-based multinationals need to consider not only adapting their offerings to local needs and preferences in emerging markets but also adapting their organizations to the business demands and institutional contexts of the emerging markets in which they operate. The leadership of multinationals that invest and operate in emerging markets needs to think clearly about what in the company's business model is open for modification and what is off the table - while understanding that the first time is very rarely lucky in these markets. The absence of these contextual features in emerging markets challenges the company's ability to replicate its business model. In emerging markets with poorly developed capital markets, for example, the company might not have been able to use employee stock ownership as a compensation tool (Khanna and Palepu, 2008).

1.5.1. Corporate Strategy in emerging economies

A business group is a "collection of firms bound together in some formal and/or informal ways" (Granovetter, 1995: 95). Business groups in emerging economies result when entrepreneurs and firms accumulate the capability for repeated industry entry. Such a capability, however, can be maintained as a valuable, rare, and inimitable skill only as long as asymmetric foreign trade and investment conditions prevail.

Students of organization and management have long been interested in finding out why firms diversify into new product lines and what forms of control are best suited to manage such diversified businesses (Hoskisson & Hitt, 1990; Ramanujam & Varadarajan, 1989).

Historically, the rise of the large modern corporation in the United States and Western Europe followed a pattern of specialization in a core technology family and subsequent related diversification (Chandler, 1990). By contrast, diversified business groups operating in a collection of unrelated activities are typical of the capitalist countries that industrialized after World War II—the emerging economies of Southern Europe, Latin America, and Asia (Amsden & Hikino, 1994; Granovetter, 1995; Khanna & Palepu, 1997).

Although the resource-based view has offered a compelling theory of diversification in the advanced countries (Markides & Williamson, 1996; Peteraf, 1993), researchers have devoted little effort to understanding the rise of business groups in emerging economies in terms of resources and capabilities. Yet business groups are becoming major players in the world economy.

Diversified business groups in emerging economies are also different from the conglomerates of the advanced countries in that they did not grow out of a search for financial diversification, but instead grew out of the ability to set up new business ventures across a variety of industries quickly and at low cost. This ability was based on proprietary resources and coordination skills (Amsden & Hikino, 1994; Miller & Shamsie, 1996).

A resource-based view of business groups implies a managerially oriented perspective in the argument that the inimitability of the set of rare resources that enable entrepreneurs to diversify is only guaranteed under certain development circumstances (Barney, 1991), According to the resource-based view the importance of business groups will be greater in emerging economies with asymmetric trade and investment conditions because they allow few entrepreneurs and firms.

The resource-based view needs to be complemented with an understanding of the political and economic context in which entrepreneurs and firms accumulate capabilities. Business

groups will become more important in an economy when such asymmetries persist long enough to allow entrepreneurs and firms to develop and maintain an inimitable capability to combine foreign and domestic resources that encourages them to enter multiple industries. (Guillén, 2000).

2. Business Model

2.1. Introduction

The birth of the concept of "business model" (BM) goes back to the 1960s but it has actually emerged since the mid-1990s with the development of Internet services, information and communication technology and more generally of the "new economy". The mutations that were responsible for its development are not only technological, but also related to economic factors such as the search for shareholder value creation, and also regulatory factors, especially the deregulation of the telecom sector, which had a significant influence and led to the emergence of new businesses, creating new revenue models and more complex inter-firm relationships (Redis, 2007). Therefore, these changes have required new analytical frameworks and concepts including the business model analysis, so as to better understand them and integrate them into the strategy of firms (Sahut, Hikkerova, & Khalfallah, 2012).

While scientific papers mentioning the term "business model" had already been published in 1957 (Bellman et al. 1957) and 1960 (Jones 1960), the concept of business models can be considered as a rather recent one, since an actual consideration did not start before the commercial Internet boom in the late 1990s (cf. (Hedman & Kalling, 2003); Magretta 2002, p. 3 et seq.; Osterwalder et al. 2005, p. 6 et seq.; Rappa 2004, p. 35; Teece 2010, p. 174). The growing usage of modern information and communication technology based on the Internet infrastructure led to altered economic and social conditions as well as drastic changes in the nature of competition (cf. Sampler 1998). As a result, this new situation has

been frequently described as the “new digital competitive landscape” (cf. Bettis and Hitt 1995). To emphasize this new business orientation of companies and to differentiate them from traditional competitors, the term “business model” was very often used in a lurid style (cf. Stähler 2002, p. 37, who mentioned e.g. 'Killer Business Model'). Consequently, everybody, even practice-oriented journals, referred to business models and thus the term emerged as a buzzword during the Internet boom (cf. Magretta 2002, p. 3). Due to the hype related to dot-com ventures, emerging companies neither needed a particular strategy nor any promising revenue sources to look attractive for investors (cf. Teece 2010, p. 174). The key to success appeared to be to have any kind of Internet-based business model to be considered as strategically well placed (cf. Earle and Keen 2000, p. 7; Magretta 2002,p. 3; Stähler 2002, p. 49). The consequences of this strategic "short sightedness" was the burst of the so-called dot-com bubble. However, the collapse was not due to the business model concept, but due to its ill-conceived usage (cf. Magretta 2002, p. 3; Rappa 2004, p. 35). Hence, scholars renewed their interest in the study of business models in order to be able to explain why many ventures had failed, while others have been successful (cf. Dubosson-Torbay et al. 2002, p. 5). Since scientific research often emerges because existing knowledge is not enough for solving new problems (cf. Bunge 1967), the events mentioned above can be considered as the origin of the business model concept as a field of research (Baden-Fuller & Morgan, 2010).

What is so distinctive about the business model concept is its potential value in providing an integrated and systematic perspective of the key activities of a firm and its interdependencies. Then, the business model is not just a simple mechanistic combination of the different functional modules. For the business model to be cohesive and effective in achieving its purpose, the constituent functional modules and the associated processes must exhibit a high level of complementarity or synergy (Morris, 2005, 2013).

Key to the concept of business model is its holistic perspective on a variety of aspects and actions of the firm and their interactions. This view reflects the idea in strategic management that the resources, capabilities, strategy, and organizational structure of the firm must fit with each other as well as with the demands of the industry environment and the needs of customers to create competitive advantage (Tallman, 2014).

The concept of business model was constructed through successive additions and sedimentation of numerous articles, reports and books that came to clarify its meaning over time. While some works are interested in formalizing and defining the business model and its application fields, the business model transcends a purely descriptive or ontological dimension (Lecocq et al., 2010). Indeed, its emergence is linked to the need to explain how firms are able to create and capture value in an integrative approach (Sahut et al., 2012).

The business model of a firm can then be defined as 'the structure, content, and governance of transactions' between the focal firm and its exchange partners (Amit & Zott, 2001). It represents a conceptualization of the pattern of transactional links between the firm and its exchange partners. Business models can be characterized by their design themes, which capture the common threads that orchestrate and connect the focal firm's transactions with external parties. The design themes describe the holistic gestalt of a firm's business model, and they facilitate its conceptualization and measurement. A firm with a distinct business model that creates more value than that of its rivals holds a potential advantage. All other things being equal, it has the possibility to capture more value for its shareholders. Consequently, a business model may affect a firm's performance outcomes, as does a firm's product market strategy, and therefore its contingent effects on product market strategy need to be considered. Product market strategy differs from the business model mainly through its focus on the positioning of the firm vis-a-vis its rivals, whereas the business model is a

structural construct that centers on the pattern of the firm's economic exchanges with external parties in its addressable factor and product markets (Christoph Zott & Amit, 2008).

Teece (2010) notes that business models have been an integral part of economic behavior since pre-classical times. Indeed, firms have always operated according to a 'business model', but until the mid-1990s, firms traditionally operated following similar logics, typical of the industrial firm, in which a product / service- typically produced by the firm (and its suppliers) - is delivered to a customer from which revenues are collected. Even if instances of firms and organizations adopting innovative BMs have been recognized in business history (e.g., see Osterwalder & Pigneur, 2010), it is only recently that the scale and speed at which innovative business models are transforming industries and, indirectly, civil society, has attracted the attention of scholars and practitioners. Thus, business models seek to make sense of these novel forms of 'doing business'. According to Magretta (2002), the business model is a story that answers Peter Drucker's age-old questions: (1) who is the customer, (2) what does the customer value, (3) how do we make money in this business, (4) and what is the economic logic that explains how we can deliver value to customers at an appropriate cost? The emergence of novel logics employed by firms in doing business as they go to market has increasingly popularized the notion of business model.

The diffusion of the Internet in the mid-1990s and advances in ICTs have opened up new opportunities for organizing business activities, providing entrepreneurs and managers with the possibility of experimenting with radically new ways of doing business. Entire industrial sectors have evolved along radically new trajectories of innovation and offered new logics of value creation not seen in recent business history (e.g., see Patzelt, Knyphausen-Aufseβ, & Nikol, 2008). Some speak about "Internet business models", some others about "eBusiness models" or "Business models on the Web", and others speak generally about business models. Regardless of the term used, most scholars agree that the

accelerating growth of Information and Communication Technologies has raised the interest in transforming traditional business models or developing new ones that better exploit the opportunities enabled by technological innovations. (Pateli and Giaglis, 2003a Geoffrion and Krishnan, 2003; Mendelson, 2000; Normann, 2001).

Casadesus-Masanell and Ricart (2010) have observed that two other phenomena have been accompanied by considerable innovation in the way firms 'do business'. These are: (1) the advent of post-industrial technologies (Perkman & Spicer, 2010), and (2) efforts of the corporate sector to enter new markets in developing or underdeveloped countries, and reach customers at the bottom of the pyramid (Prahalad & Hart, 2002; Prahalad, 2005).

Amit and Zott note that a firm's business model is an important focus of innovation and a crucial source of value creation. It goes beyond the value that can be realized through the configuration of the value chain (Porter, 1985), the formation of strategic networks among firms (Dyer and Singh, 1998), or the exploitation of firm-specific core competencies (Barney, 1991). Amit and Zott labeled as a "value driver" a factor that enhances the total value created by a business model. Total value created is the sum of all the values that can be appropriated by the participants in a business model, the firm, its partners, and its customers (Brandenburger and Stuart, 1996).

2.2. Definitions and Functionality

A business model is a conceptual tool that contains a set of elements and their relationships and allows the expression of the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and

relationship capital, to generate profitable and sustainable revenue streams (Osterwalder, Pigneur, & Tucci, 2005).

Some researchers perceive the Business Model as a purely business concept that explains the logic of doing business for a firm (Timmers, 1998; Linder & Cantrell, 2001; Petrovic et al., 2001; Rappa, 2001), while some others consider it as a link between strategy, business processes, and information systems (Osterwalder & Pigneur, 2002). The difference between these two interpretations of Business Models concerns the relationship of Business Model with the concepts of Strategy, Business Processes, and Technology. While in the first interpretation the three concepts are included in the description of Business Model, the second interpretation considers them as inter-linked components set in different levels of a pyramid construct. In this case, a business model is considered as the conceptual and architectural implementation (blueprint) of a business strategy and represents the foundation for the implementation of business processes and information systems.

Table 2.1. summarizes some of the most prevalent definitions suggested for the business model and shows which articles have adopted these definitions (C. Zott, Amit, & Massa, 2011).

Table 2-1: Selected Business Model Definitions

Author (s), Year	Definition
Chesbrough & Rosenbloom, (2002)	"A Business model is a description of how your company intends to create value in the marketplace. It includes that unique combination of products, services, image, and distribution that your company carries forward. It also includes the underlying organization of people, and the operational infrastructure that they use to accomplish their work'. "The heuristic logic that connects technical potential with the realization of economic value"
Amit & Zott (2012)	"As a system of interconnected and interdependent activities that determines the way the company "does business" with its customers, partners and vendors. In other words, a business model is a bundle of specific activities – an activity system -- conducted to satisfy the perceived needs of the market, along with the specification of which parties conduct which activities (a company or its partners), and how these activities are linked to each other".
Afuah (2004)	"A business model is a framework for making money. It is a set of activities which a firm performs, how it performs them, and when it performs them so as to offer its customers benefits they want to earn a profit"

Xiang & Yin, (2013)	"the intrinsic business logic that completely describes value proposition, value creation, and value capture."
Shafer et al.(2005)	"a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network"
Mahadevan(2000)	"is a blend of three streams which are critical to the business. These include the value stream for the business partners and the buyers; the revenue stream and the logistical stream"
Osterwalder et al. (2005)	«A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.»
Teece (2010)	"A business model defines how an enterprise creates and delivers value to customers, and then converts payment received to profit (p.173)"
Casadesus-Masenell & Ricart (2009	"A business model refers to the logic of the firm, the way it operates and how it creates value for its stakeholders (p.2)"
Johnson (2010)	"A business model, in essence, is a representation of how a business creates and delivers value, both for the customer and the company (p.22)"

Functionality

The business model literature reveas that the concept of business model has been employed mainly in trying to address or explain three phenomena (Zott et al, 2011):

- e-business and the use of information technology in organizations;
- strategic issues, such as value creation, competitive advantage, and firm performance; and
- innovation and technology management.

Beyond this, on the basis of the definitions mentioned above (Table 2.1), the principal functions of a business model are:

1. Articulate the value proposition, that is, the value created for users by the offering;
2. Identify a market segment, that is, the users to whom the offering is useful and for what purpose;
3. Define the structure of the value chain required by the firm to create and distribute the offering, and determine the complementary assets needed to support the firm's

position in this chain. This includes the firm's suppliers and customers, and should extend from raw materials to the final customer;

4. Specify the revenue generation mechanism(s) for the firm, and estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen;
5. Describe the position of the firm within the value network (also referred to as an ecosystem) linking suppliers and customers, including identification of potential complementary elements and competitors;
6. Formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals (Chesbrough, 2007);
7. Help in understanding, capturing, visualizing and distributing business strategy of organization (Krstov, 2011).

2.3. Theories applicable to business model research

No single entrepreneurship or strategic management theory can fully explain the value creation potential of a business model. Rather, each of the theories offers important insights into different aspects of the business model of a firm. Our analysis of the literature suggests that no single theoretical framework discussed in this chapter (i.e., value chain analysis, RBV, strategic network theory, transaction cost economics) captures the whole phenomenon of the value creation potential of business models or e-business. In other words, our analysis calls for integrating different theoretical approaches in particular for the linking of strategic management and entrepreneurship theories of value creation (Hitt and Ireland, 2000; McGrath and MacMillan, 2000). In fact, scholars in both fields have made considerable progress in advancing this idea. For example, Gulati (1999) and Afuah (2000) have successfully begun to integrate RBV and strategic network theory, emphasizing the

importance of resources and capabilities of network partners for a firm's performance. Similar multi-perspective views are offered by Child and Faulkner (1998) on networks in general, and by Amit and Zott (2001) on e-business value creation in particular (Amit & Zott, 2001).

The Internet has considerably changed the costs of gathering information, as well as controlling and coordinating market transactions. Electronic marketplaces, electronically connecting buyers and sellers through a central database, reduce transaction costs for both buyers and sellers. Transactions are transferred from internally coordinated activities to market exchanges (Malone et al., 1987). Value chains are disintegrated by outsourcing activities (Evans and Wurster, 1997), and distribution channels dis-intermediated by eliminating intermediaries or re-intermediated by existing intermediaries migrating to the electronic market places as market makers (Amit and Zott, 2001). The thorough understanding of value creation in this business environment, calls for a theoretical foundation building on several perspectives. (Christensen & Methlie, 2003)

The focus of organization design seems to have shifted from the administrative structure of the firm to the structural organization of its exchanges with external stakeholders. Echoing this shift, researchers have observed that the locus of value creation increasingly extends traditional firm boundaries (Dyer and Singh, 1998; Gulati, Nohria, and Zaheer, 2000; Normann, 2001), and they have therefore called for a broader conceptualization of organizational boundaries beyond the legally relevant demarcation of the firm from its environment (Santos and Eisenhardt, 2005). They also open new opportunities for wealth creation. Thus, conventional theories of how value is created are being challenged. Value creation in e-business goes beyond the value that can be realized through the configuration of the value chain (Porter, 1985), the formation of strategic networks among firms (Dyer and Singh, 1998), or the exploitation of firm specific core competencies (Barney, 1991).

Internet-based firms often innovate through novel exchange mechanisms and transaction structures not present in firms that are more traditional (Amit-Zott, 2001).

Institutional Theory (IT): From the institutional perspective, organizations are the way they are for no other reason than that the way they are is the legitimate way to organize (Meyer & Rowan, 1977). The key idea behind institutionalization is that much organizational action reflects a pattern of doing things that evolves over time and becomes legitimated within an organization and an environment (Pfeffer, 1982). Therefore, it is possible to predict practices within organizations from perceptions of legitimate behavior derived from cultural values, industry tradition, firm history, popular management folklore, and the like. Things are done in a certain way simply because it has become the only acceptable way of doing them (Zucker, 1977). Much of the institutional literature emphasizes that organizational structures and processes tend to become isomorphic with the accepted norms for organizations of particular types (Di Maggio & Powell, 1983). Institutionalization occurs in part because people conform to taken-for-granted ways of doing things (Pfeffer, 1982). Such standard ways of doing things allow people to focus on new problems and to rely on experience for issues that are not pressing (Cyert & March, 1963). Moreover, organizational structures and processes become part of an integrated whole in which it is difficult to change any part without unraveling the whole (Clark, 1972). However, these arguments do not imply that institutional choices are necessarily irrational. Rather, the use of structures and processes that are legitimated by an environment can be sensible because it implies responsible management, pleases external others, and avoids potential claims of negligence if something goes wrong (Meyer & Rowan, 1977).

Transactions Cost Economics (TCE): Cost reduction is the major source of value creation in transaction cost economics. TCE focuses on minimizing costs for the two parties involved

in a commercial relationship. Cost reductions are achieved by lower search costs, less asymmetric information between suppliers and buyers, scale economies of production, etc. Moreover, reputation, trust, and transactional experience can lower the costs of idiosyncratic exchanges between firms (Williamson, 1985). Transacting over the Internet may have significant effects on transaction costs. Direct costs, such as search costs, and indirect costs, such as the costs of adverse selection, will decrease as a result of an increasing frequency of transactions (due to open standards), a reduction in uncertainty (by providing more transaction-specific information), and a reduction in asset specificity (lower site specificity) (e.g., Amit and Zott, 2001). TCE describes the firm in organizational terms as a governance structure where firm (hierarchy) and market are the two extreme modes. In e-business, however, we can observe new business models such as affiliate and associate programs, and syndication models (Werbach, 2000). Few of these models seem to be based on TCE. Rather, they are more easily explained by resource sharing objectives, where a firm maximizes its value by getting access to other firms´ valuable resources (Christensen & Methlie, 2003).

One of the main effects of doing business over the Internet, or in any highly networked environment, is the reduction in transaction costs it engenders (Dyer, 1997). In addition to decreasing the direct costs associated with economic transactions (such as customer search costs), e-commerce also holds the potential of changing several other types of transaction costs. These include a reduction in agency costs, such as the costs of opportunism, that results from the increased frequency of transactions (because of open standards, anyone can interact with anyone else), a reduction in transaction uncertainty (by providing a wealth of transaction-specific information), and a reduction in asset specificity (for example, through lower site specificity - the next site is only "one click away"). Under these circumstances, the implication of transaction cost economics is that transactions are more efficiently

governed by market-type institutional arrangements, and less efficiently governed within fixed firm boundaries (Williamson, 1975).

The Resource-Based View (RBV): assumes that the firm's ability to hold recoverable, rare, improperly imitable and sustainable resources is the source of sustainable performance (Barney, 1991). However, the business model takes into account the complementary dimensions to explain differences in how to exploit resources. In this respect, the business model explains firms' performance as resulting from their heterogeneity, which broadly paves the way for its implementation as an explanatory framework for this performance (Sahut et al., 2012). The resource-based view of the firm (RBV) explicitly looks at resources and capabilities as the principal basis for competitive advantage (Grant, 1998). While TCE emphasizes cost minimization in dyadic inter-firm relationships, RBV emphasizes value maximization through pooling of valuable resources.

RBV views the firm as a bundle of resources and capabilities. Firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate, will achieve a competitive advantage over competing firms (Barney, 1991). Hence, RBV postulates that the services rendered by a firm's unique bundle of resources and capabilities, may lead to value creation (Amit and Zott, 2001). A firm's resources and capabilities are valuable if, and only if, they reduce costs or increase revenues compared to what would have been the case if the firm did not possess those resources (Barney, 1997). The resource-based view can be extended to deal with inter-firm network relationships, especially resource complementarities. Das and Teng (2000) have developed a resource based theory of strategic alliances in which they suggest that the rationale for alliances is the value creation potential of firm resources that are pooled together. They note that certain resource characteristics, such as imperfect mobility, inimitability, and sustainability, promise

accentuated value creation, and thus facilitate alliance formation (Christensen & Methlie, 2003)

Dynamic Capabilities (DC): Building from the RBV, the dynamic capabilities perspective analyzes the sources and methods of wealth creation and capture by private enterprise firms operating in environments of rapid technological change. The dynamic capabilities perspective aims to explain the sources of a firm's success over time by focusing on difficult-to-replicate capabilities that enable the firm to change by shaping and adapting to the environment (Teece et al., 1997; Eisenhardt and Martin, 2000). Core elements of dynamic capabilities are organizational and managerial processes that support sensing and seizing business, technological and market opportunities as well as reconfiguring assets and organizational structures as the firm grows and markets change (Teece, 2007, p. 1330). It has been argued that the deployment of different capabilities creates value for customers. In highly uncertain environments, companies require continuously enriched and reconfigured capabilities, as well as new capabilities (Simon et al., 2008). Such intentional changes of capabilities are the essence of dynamic capabilities. Thus, the dynamic capabilities perspective holds that a firm's continuous success – in this paper understood as sustained value creation – requires more than selecting a business idea and leveraging resources and competences that are difficult to imitate. As dynamic capabilities are evolutionary, the perspective is well suited to analyze the necessary strategizing actions of changing business models over time. In this thesis we focus on critical capabilities, which conceptualize as those dynamic capabilities which enable a company to shape, adapt and renew business models to create value in a sustainable way (Achtenhagen, Melin, & Naldi, 2013).

Strategy as practice (SP): Activities and micro-processes are at the core of this perspective, which focusses on 'the close understanding of the myriad, micro activities which make up strategy and strategizing in practice' (Johnson et al., 2003, p. 3). The

strategy-as-practice perspective with its focus on micro activities helps grasp the actual strategic and organizational activities that facilitate the shaping, adapting and renewing of business models. Thereby, the strategy-as-practice perspective anchors the theorizing on business models into everyday praxis, which is beneficial as the business model is a concept originating from praxis (Johnson et al., 2007, p. 18). Recent literature has drawn attention towards the link between dynamic capabilities and strategy-as-practice. Johnson et al. (2003), for instance, emphasizing how the 'micro' perspective of strategy-as-practice can inform established 'macro' perspectives on strategy dynamics, and Regnér (2008) illustrates a number of key features of the strategy-as-practice approach that may fruitfully complement the dynamic capabilities perspective. These include a focus on strategizing actors at multiple organizational levels, and on strategy-making embedded in social and cultural contexts besides economic ones. So far, work on dynamic capabilities typically emphasizes the role of formal systems, while less work has been done on "how the more informal interaction between people, and the ensuing improvisation and experimentation, are an important constituent in dynamic capabilities" (Johnson et al., 2007, p. 18). Such interaction between people and the link between activities and outcomes are at the core of the strategy-as-practice perspective (Achtenhagen et al., 2013).

Strategic networks (SN): as the importance of information-based resources and capabilities increase within e-business firms, accessing such resources through partnering and resource sharing agreements is more viable (Amit and Zott, 2001). These resource sharing organizational forms are commonly denoted as "strategic networks". Strategic networks are "…stable interorganizational ties, which are strategically important to participating firms. They may take the form of strategic alliances, joint ventures, long-term buyer-seller partnerships, and other ties" (Gulati et al.,2000:203). Networks have been studied from several perspectives. Sociologists have focused on network structures in terms of density

and centrality (Freeman, 1979); strategic management has been concerned with trust (Lorenzoni and Lipparini, 1999) as well as resources and capabilities (Gulati, 1999); and economists have studied network effects such as indirect network externalities (Gupta et al.,1999) and direct externalities (Shapiro and Varian, 1999). Network effects and complementarities have been found to be important in the context of value creation through e-business (Shapiro and Varian, 1999).

The strategic network perspective is relevant for understanding wealth creation in virtual markets because of the importance of networks in this business space. According to Amit and Zott (2000), it is important to take network components (e.g., partners) and their configuration (e.g., the ties between them) into account when analyzing value creation in virtual markets. However, the strategic network perspective may not fully explain the value creation potential of organizations that operate in virtual markets and that enable transactions in new and unique ways within network structures.

Value Chain Analysis (VCA): Porter’s (1985) value chain framework analyzes value creation at the firm level. Value chain analysis decomposes the firm into its activities and then studies the economic implications of those activities. It includes four steps: (1) defining the strategic business unit, (2) identifying critical activities, (3) defining products, and (4) determining the value of an activity. The main questions that the value chain framework seeks to address are as follows: 1) what activities should a firm performs, and how? and 2) what is the configuration of the firm’s activities that would enable it to add value to the product and to compete in its industry? Value chain configuration includes primary activities that have a direct impact on value creation, while support activities affect value only through their impact on the performance of the primary activities. Value chain analysis can be helpful in analyzing value creation in virtual markets. For, example Amazon.com decided to build its own warehouses in order to increase the speed and reliability of the delivery of

products ordered on-line. By doing so, it was able to add value to sales and fulfillment activities. Rayport and Sviokla (1995) propose a “virtual” value chain that includes a sequence of gathering, organizing, selecting, synthesizing, and distributing information. While this modification of the value chain concept corresponds better to the realities of virtual markets, and in particular to the importance of information goods (Shapiro and Varian, 1999), it still falls short of fully describing e-commerce activity.

The product value chain is a flow concept that centers on the flow of products through an organization. It describes the processes by which value is added through activities that are performed on certain inputs to produce a desired output. In contrast, the business model is centered on transactions. That is, a business model does not follow the flow of a product from creation to sale, but describes the steps that are performed in order to complete a transaction (i.e., a set of economic exchanges). Another distinction between the value chain concept and the business model concept is that the value chain perspective is mainly concerned with how one particular firm adds value in the production of a product (Porter, 1985) while the business model perspective includes all the participants to a transaction, including final consumers.

Activity System Perspective (ASP): An activity in a focal firm’s business model can be viewed as the engagement of human, physical and/or capital resources of any party to the business model (the focal firm, end customers, vendors, etc.) to serve a specific purpose toward the fulfillment of the overall objective. An activity system is thus a set of interdependent organizational activities centered on a focal firm, including those conducted by the focal firm, its partners, vendors or customers, etc. The firm’s activity system may transcend the focal firm and span its boundaries, but will remain firm-centric to enable the focal firm not only to create value with its partners, but also to appropriate a share of the value created itself. Interdependencies among activities are central to the concept of an

activity system, and provide insights into the processes that enable the evolution of a focal firm's activity system over time as its competitive environment changes. These interdependencies are created by entrepreneurs or managers who shape and design both the organizational activities and the links (transactions) that weave activities together into a system. Such purposeful design - within and across firm boundaries - is the essence of the business model. Some activities relevant to the focal firm's business model will be performed by the firm itself, others by suppliers, partners and/or customers. The architecture of the firm's activity system - shaped by the choice of activities, how they are linked, and who performs them - captures how the focal firm is embedded in its 'ecology,' i.e., in its multiple networks of suppliers, partners and customers, as well as defining who are the firm's potential suppliers, partners and customers (and competitors) in the first place.

Zott and Amit (2010) argue that the activity system perspective on business models is consistent with the various approaches that have been advanced in the literature. A business model can be viewed as a template of how a firm conducts business, how it delivers value to stakeholders (e.g., the focal firms, customers, partners, etc.), and how it links factor and product markets. The activity systems perspective addresses all these vital issues, and gives managers and academics a language and a conceptual toolbox to address them and engage in insightful dialogue and creative design (Christoph Zott & Amit, 2010).

Summary: like some researchers we agree with the fact that each theoretical framework that might explain value creation in business model or e-business has limitations even when applied in the context of highly interconnected electronic markets (Amit and Zott, 2001). Precisely for this reason, as we said before, no single entrepreneurship or strategic management theory can fully explain the value creation potential of a business model. Rather, each of the theories offers an important insight into one aspect of business model. To all the above it is added that emerging economy contexts challenge some of the assumptions

of theories originally developed for markets that are relatively stable and efficient (Xu & Meyer, 2013).

2.4. Hierarchy

Awareness of the complexities associated with business model cognition— description of existing BMs (Business Models) or design of new ones—coupled with the increasing relevance of business models and business modeling for practice (cf. Zott et al., 2011), have led business authors—both academics and practitioners—to propose several avenues and tactics in support of business model innovation. Different tools such as **perspectives, frameworks, and ontologies** have been proposed that employ a mix of informal textual, verbal, and ad hoc graphical representations (see Amit & Zott, 2002; Casadesus-Masanell & Ricart, 2010) These tools ascribe, with varying degrees, to three core functions at the nexus between the theory and practice of business model innovation. First, they offer a **'**reference language' that fosters dialogue, promotes common understanding, and supports collective sense making (cf. Zott & Amit, 2012). Second, by offering scaled-down simplified representations of BMs, they allow for graphical representations that simplify cognition and offer the possibility of virtually experimenting with business model innovation (for example by supporting the formulation and elaboration of important 'what if' questions and the evaluation of strategic alternatives: Osterwalder & Pigneur, 2010). Third, they offer representations - both graphical as well as verbal - that allow managers and entrepreneurs to articulate and instantiate the value of their venture and to support the engagement of external audiences, so as to gain legitimacy, activate resources, and foster action (Massa & Tucci, 2013).

When different authors write about business models they do not necessarily mean the same thing (Linder and Cantrell, 2000). In the literature, the expression stands for various things,

such as parts of a business model (e.g. auction model), types of business models (e.g. direct-to-customer model), concrete real world instances of business models (e.g. the Dell model) or concepts (elements and relationships of a model). Authors writing about business models can be classified in three different categories that can (but do not necessarily have to be) hierarchically linked to one another.

1. Authors that describe the business model concept as an abstract overarching concept that can describe all real world businesses.
2. Authors that describe a number of different abstract types of business models (i.e. a classification scheme), each one describing a set of businesses with common characteristics.
3. Authors presenting aspects of or a conceptualization of a particular real-world business model.

All three categories can vary in their modelling rigor, ranging from simple definitions, through the listing of elements to a set of related, defined and conceptualized elements.

They are not mutually exclusive and they all make sense. However, Osterwalder et al. (2005) believe that they must be distinguished conceptually in order to achieve a common understanding of business models. In my view, the three levels make the most sense when they are hierarchically linked to each other through a comprehensive approach (Figure 2.1. and Table 2.2).

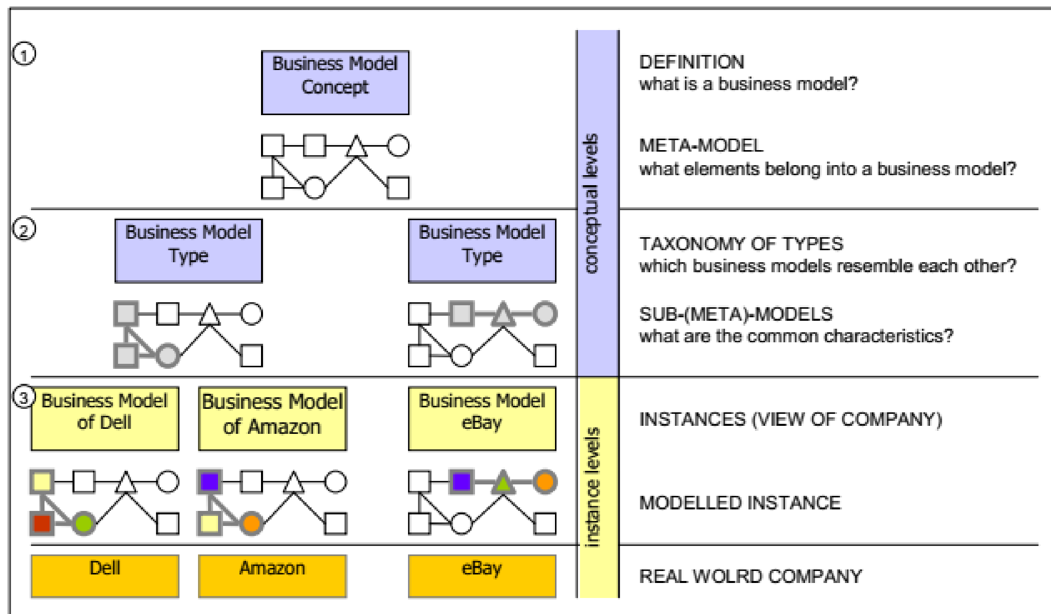

Figure 2-1: Business Model Concept Hierarchy
Source: Adapted from Osterwalder et al. 2005

Table 2-2: Levels of Hierarchy

Level 1	**Overarching Business Model Concept** This level is composed of generalized or narrative definition of what a business model is and the meta-models define what elements constitute a conceptualized business model
Level 2	**Taxonomies[3]** This level consists of grouping together different types of business models with common characteristics. In this context, the business model taxonomies refer to generalized industries rather than specific businesses. The Sub(meta)-models endeavor to model the common characteristics of that category.
Level 3	**Instances** This level covers specific business model examples from the real world and permit an analysis of organization using the business model perspective.

At the highest level of abstraction is a view of the business model as a narrative (Perkman & Spicer, 2010). According to Magretta (2002), the Business Model (BM) is a story, a verbal description of how an enterprise works. It should be noted that business model narratives not only entail a descriptive function, but also a normative one. According to Brown (2000),

[3]Taxonomies: the science or technique of classifying information in ordered categories.

narratives represent an important way in which people seek to infuse ambiguous situations with meaning and persuade skeptical audiences that their account of reality is believable. Perkman & Spicer (2010) have suggested that because of their forward looking character, BM narratives play an important role in inducing expectations among interested constituents about how a business's future might play out. Higher descriptive accuracy, and perhaps a more rigorous approach to structuring and organizing plans for BMI (Business Model Innovation), are offered by graphical frameworks of the business model, which are conceptualization and formalization of the business model obtained by enumerating, clarifying and representing its essential components. A popular example among managers and practitioners is represented by the Business Model Canvas proposed by Osterwalder and Pigneur (Osterwalder, 2004; Osterwalder & Pigneur, 2002). The Business Model Canvas offers a scaled-down representation of the generic Business Model that is obtained by enumerating and visualizing what the authors consider to be the nine critical components of a business model (see Figure 2.3). Similarly Johnson and colleagues (C. M. Christensen & Johnson, 2009,) Johnson, Christensen & Agermann, 2008; Johnson, 2010) have proposed a simple framework comprising four interdependent elements; customer value proposition, profit formula, key resources and key processes. By focusing on these elements the framework offers a synthetic 'representation of how a business creates and delivers value, for both the customer and the company' (Johnson, 2010: p. 22). Meta-models of the business model may initially be known as the 'Business Model Ontology', the framework developed by Osterwalder and Pigneur is nowadays increasingly popular with managers under the label 'Business Model Canvas'. The recognition of patterns in the structure of BMs has led to the introduction of business model archetypes or taxonomies of types. An archetype can be understood as an ideal example of a type, in this case a business model. A well-known example is the Freemium BM, adopted by firms such as Acrobat: its core logic is based on

delivering a basic version of the product for free, and charging for a premium version. Gillette popularized what today is known as the Razor and Razor Blade business model, which rests on 'selling cheap razors to make customers buy its rather expensive blades' (Zott & Amit, 2010, p. 218). This model is now popular in other industries and products such as printers (and cartridges) or game consoles (and software games), which are brought to market relying on a similar logic. Archetypes are often presented with an identifying label (a "title" that identifies the BM type) followed by a short description of the core essence of the business model. Archetypes perform several functions, including offering descriptions of "role models", i.e. models to be followed and imitated (Baden-Fuller & Morgan, 2010). While narratives and archetypes may serve several important purposes, they tend to be difficult to manipulate and maneuver (e.g., it is difficult to evaluate the likely consequences for changes in one part of the BM on the entire system on the basis of a narrative or an archetype).

Casadesus-Mansanel and Ricart (2010) have built on system dynamics (Sterman, 2000) and offered a way to conceptualize and represent business models based on choices and consequences, and on an evaluation of the degree to which consequences are flexible vs. rigid (an important aspect to consider in dealing with BM reconfiguration). Causal loops (both damping and self-reinforcing) support understanding of how the architecture of choices drives the overall behavior of a business model and leads to a configuration of consequences. This perspective allows for a more fine-grained description of existing BMs supporting the use of 'theories' in order to describe and understand the link between choices and likely consequences. Gordijn and Akkerman (2003) have proposed a conceptual modeling approach that they call the 'e3-value ontology', designed to help define how economic value is created and exchanged within a network of actors. This modelling technique takes a value viewpoint, unlike other traditional modelling tools that take either a

business process viewpoint (typical of operations management) or a system architecture viewpoint (typical of the information systems literature). The proposed meta-model borrows concepts from the business literature such as actors, value exchanges, value activities, and value objects, and uses these notions to model networked constellations of enterprises and end-consumers who create, distribute, and consume things of economic value. In a similar vein, Zott and Amit (2010) have proposed an **activity system** perspective for supporting the design of new business models. This perspective relies on an understanding of the BM as a system of interdependent activities (rather than choices and consequences) centered on a focal firm, and including those conducted by the focal firm, its partners, vendors or customers, etc. As such, it allows describing and conceptualizing BMs with considerable depth and accuracy (Massa & Tucci, 2014).

2.5. Components

It is not always obvious why a particular kind of business model is successful. For example, what elements are the real keys to the success of South West's low cost airline model or Google's internet model, which details have to be exactly so to make it work, and which are irrelevant and just happen to be present in the particular firm that is studied, rather than true of all firms of that type? (Baden-Fuller & Morgan, 2010).

Because of this the emphasis in more recent literature is gradually shifting away from Business Model definitions, and instead focuses on decomposing business models into their "atomic" elements, also referred to as "components", "functions", "attributes", or "pillars" of business models (Afuah & Tucci, 2001; Hamel,2000; Petrovic et al., 2001; Weill & Vitale, 2001; Rayport et al., 2001). Unfortunately, the differences in terms used propagate a multitude of approaches towards identifying Business Model components, thus not contributing to an overall progress of knowledge generation in this domain (Pateli and Giaglis, 2003a).

Business model components range from revenue models and value propositions to organizational structures and arrangements for trading relationships. Each may be an important part of a business model, but not the whole thing. Since the Internet has dramatically impacted the way firms reach customers, price, and tailor the commerce experience, "e-watchers" have paid a great deal of attention to new value propositions, new channel configurations, and new revenue models (Linder & Cantrell, 2001).

Every successful company already operates according to an effective business model. By identifying systematically all of its constituent parts, executives can understand how the model fulfills a potent value propositions in a profitable way using certain key resources and key process. With that understanding, they can then judge how well the same model could be used to fulfill the radically different customer value propositions and what they´d need to do to construct the new one to capitalize on that opportunity.

However, different approaches to business model description vary greatly regarding their depth and rigor, ranging from simple enumerations to detailed descriptions. In this section we list and describe the business model components as described by several scholars

Mahadevan (Mahadevan, 2000) affirms that a business model consists of a configuration of three streams that are critical to the business. Firstly, the Value Stream, which identifies the value proposition for the business partners and the buyers. Secondly, the Revenue Stream, which is a plan for assuring revenue generation for the business. Thirdly, the Logistical Stream, which addresses various issues related to the design of the supply chain for the business. Afuah and Tucci (2003), in contrast, explain that a business model should include answers to a number of questions: What value to offer to customers, which customers to provide the value to, how to price the value, who to charge for it, what strategies to undertake in providing the value, how to provide that value, and how to sustain any

advantage from providing the value. The business model approach they outline is value-centered and takes into account the creation of value through several actors.

In line with Timmers' business model description (1998), Stähler (2001; 2002) developed a network centric approach to business models and also excludes the marketing model from his business model framework. He identifies four components in a business model. Firstly, a business model contains a description of what value a customer or partner (e.g. a supplier) receives from the business. Stähler calls this the Value Proposition. It answers the question of what value the business creates for its stakeholders. Secondly, he introduces a link between the firm and the customer, which is the product. Thus, a business model contains a description of the product or services the firm is providing the market. It answers the question of what the firm sells. Thirdly, a business model contains the description of the architecture of value creation. The value architecture delineates the value chain, the economic agents that participate in the value creation and their roles. The value architecture answers the question of how the value is created and in what configuration. Finally, a business model describes the basis and the sources of income for the firm. The value and the sustainability of the business are being determined by its revenue model. This component answers the question of how a company earns money.

Chesbrough and Rosenbloom (2000) list six main functions of a business model. These are the articulation of the value proposition, the identification of the market segment, the definition of the structure of the value chain within the firm, the definition of the cost structure and profit potential, the description of the position of the firm within the value network, including identification of complementors and competitors and finally the formulation of the competitive strategy.

Unlike most other authors on business model components Alt and Zimmermann (2001) include elements such as mission, processes, legal issues and technology into their framework. The six generic elements they mention are outlined in Table 2.3.

Table 2-3: Business Model Elements

BM element	description
Mission	A critical part of the business model is developing a high-level understanding of the overall vision, strategic goals and the value proposition including the basic product or service features.
Structure	Structure determines the roles of the different agents involved and the focus on industry, customers and products.
Processes	Processes provide a more detailed view on the mission and the structure of the business model. It shows the elements of the value creation process.
Revenues	Revenues are the "bottom line" of a business model.
Legal issues	Legal issues influence all aspects of the business model and the general vision
Technology	Technology is an enabler and a constraint for IT-based business models. Also, technological change has an impact on the business model design.

Source: Alt and Zimmermann, 2001

Weill and Vitale (2001) have a slightly different approach. They provide a systematic and practical analysis of eight so called "atomic e-business models" as described in Table 2.4.

Table 2-4: Atomic Business Model

Atomic Business Model	Description
Content Provider	Content providers are firms that create and provide content (information, products, or services) in digital form to customers via third parties.
Direct to Customer	In this model, the buyer and seller interact directly often bypassing traditional channel members.
Full-Service Provider	Firms in this category provide total coverage of customer needs in a particular domain, consolidated via a single point of contact. Domain covers any area where customer needs cover, multiple products and services, such as financial services or health care.
Intermediary	The intermediary links multiple buyers and sellers. Usually the sellers pay the

	intermediary listing fees and selling commissions and it is possible that the buyer may also pay a purchase or membership fee. Advertisers also provide revenue for intermediaries. There are six major classes of intermediaries, namely electronic mall, shopping agents, specialty auctions, portals, electronic auctions and electronic markets
Shared Infrastructure	In this atomic business model, a firm provides infrastructure shared by its owners. The shared infrastructure generally offers a service that is not already available in the marketplace, and it may also be a defensive move to thwart potential domination by another major player.
Value net Integrator	The value net integrator coordinates product flows from suppliers to allies and customers. He strives to own the customer relationship with the other participants in the model, thus knowing more about their operations than any other player. His main role is coordinating the value chain.
Virtual Community	In this model the firm is in the center, positioned between members of the community and suppliers. Fundamental to the success of this model is that members are able to communicate with each other directly.
Whole of Enterprise/Government	The single point of contact for the e-business customer is the essence of the whole-of-enterprise atomic business model. This model plays an important role in public-sector organizations but also applies to the private sector.

Source: Weill and Vitale, 2001

These "atomic business models" can be combined to form an e-business initiative. Every one of these atomic e-business models is analyzed according to its strategic objectives and value proposition, its sources of revenue, its critical success factors and its core competencies.

In addition, the authors also outline the elements to analyze an e-business initiative which are a business model’s channels, customer segments and IT Infrastructure (Table 2.5).

Table 2-5: Business Model and e-business initiative elements

BM Element		Description
Business model summary	Strategic Objective and Value Proposition	Gives an overall view of the target customer, the product and service offering and the unique and valuable position targeted by the firm. It defines what choices and trad-offs the firm will make.
	Sources of Revenue	A realistic view of the sources of revenue is a fundamental question for e-business models.
	Critical Success Factors	These are things a firm must do well to flourish. There are a set of general critical success factors for every atomic business model.
	Core Competencies	These are the competencies necessary that should be created, nurtured, and developed in-house and contribute to the power of a business model.
Elements of an e-business initiative	Customer Segments	According to Weill and Vitale an e-business initiative should always start with the customer. This means understanding which customer segments are targeted and what the value proposition is for each segment.
	Channels	A channel is the conduit by which a firm's products or services are offered or distributed to the customer. Reaching target customer segments requires careful channel selection and management. Interestingly the authors add that in e-business the channel should be considered a feature of the product offer and thus part of the value proposition.
	IT Infrastructre	The IT infrastructure is used in to connect the different parts of the firm and link to suppliers, customers, and allies.

Source: Weill and Vitale (2001)

Compared to the previous authors Magretta (2002) has a very simple and pragmatic view on business models. She distinguishes between two elementary parts of a business model. On the one hand the business activities associated with making something (e.g. design, procurement, and manufacturing) and on the other hand the business activities associated with selling something (e.g. customer identification, selling, transaction handling, distribution and delivery) (Osterwalder, 2004).

2.6. Frameworks

Defining a business model by simply listing its main characteristics has its limitations (Casadesus-Masenell & Ricart, 2011). Several authors have attempted to represent business models through a mixture of informal textual, verbal, and ad hoc graphical representations (e.g., Amit & Zott, 2002; Chesbrough & Rosenbloom, 2002; Chesbrough, 2007b; Johnson et al., 2008).

The framework itself is intended to provide an explicit set of concepts and ties that can be used to design a system of variables and relationships for future empirical analysis. It takes the holistic approach of business models, but also offers a modular design so that portions of the model can be analyzed separately without losing sight of the whole pattern (Tallman, 2014).

Organizations need business model frameworks which are understandable and easily conceptualized. The academic literature contains a large number of different business model definitions and typologies. Academics have been pragmatic by developing frameworks to conceptualize their research (Rasmussen, 2007). However, Shi & Manning (2009) argue that business models are generated through managerial actions – either planned, emergent or realized (Mintzberg, 1979) and the frameworks provide the managers with the tools to apply the learning from the academic research. These include key component, categories and building block which can be used to define and explain a business model (Rasmussen, 2007).

In their book 'Business Model Generation' Osterwalder & Pigneur (2010) present a business model framework based on nine 'basic building blocks' which covers four main business areas:

(1) Customers;

(2) Offers;

(3) Infrastructure

(4) Financial viability

The building blocks and business areas as represented in Figure 2.2 and Table 2.6 below.

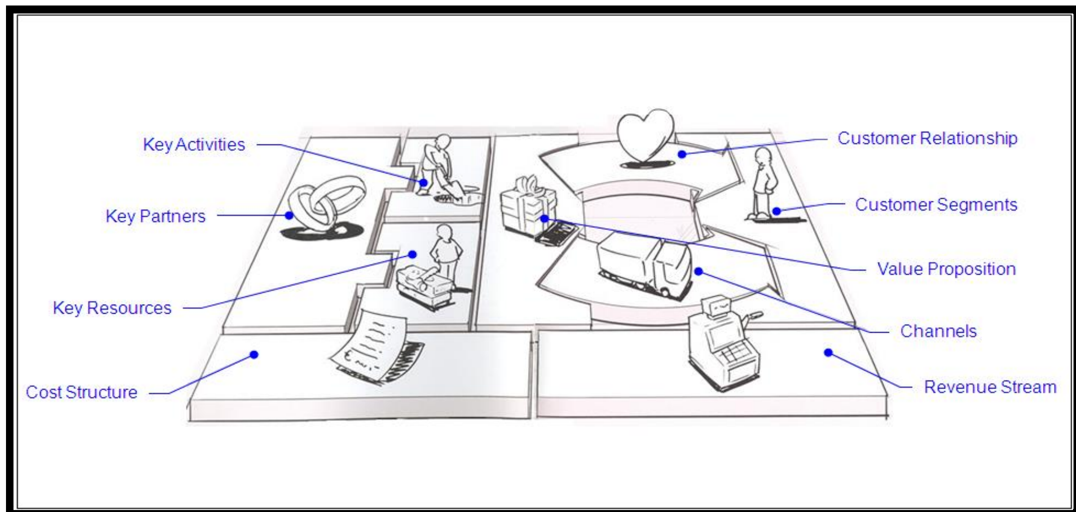

Figure 2-2: Nine Building Blocks Framework: Business Model Canvas.
Source: Osterwalder & Pigneur (2010)

Table 2-6: The nine business model blocks

Pillar	Building Block of Business Model	Description
Product	**Value Proposition**	A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer.
Customer Interface	**Target Customer**	The Target Customer is a segment of customers a company wants to offer value to.
	Distribution Channel	A Distribution Channel is a means of getting in touch with the customer.
	Relationship	The Relationship describes the kind of link a company establishes between itself and the customer.
Infrastructure Management	**Value Configuration**	The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer.
	Capability	A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial Aspects	**Cost Structure**	The Cost Structure is the representation in money of all the means employed in the business model.
	Revenue Model	The Revenue Model describes the way a company makes money through a variety of revenue flows.

The Business Model Canvas [4] aggregates many of the features offered by other frameworks and provides a narrative discussion as suggested by Margretta (2002).

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4 With reference to Osterwalder *et al.* (2005), the '*business model canvas*' framework can be described as an 'overarching business model concept which contemplates both the business and modelling aspects'. This tool enables managers and executives to map, design, discuss and invent new business models. In this context, the framework presented by Osterwalder & Pigneur (2010) is comprehensive – proposing a

Johnson et al. (2008) propose a business model framework around four interlocking elements. The 'Four-Box Business Model Framework' was developed further by the author in his book "Seizing the White Space" (Figure 2.3). Taken together, these elements can create and deliver value both for the organization and its customers.

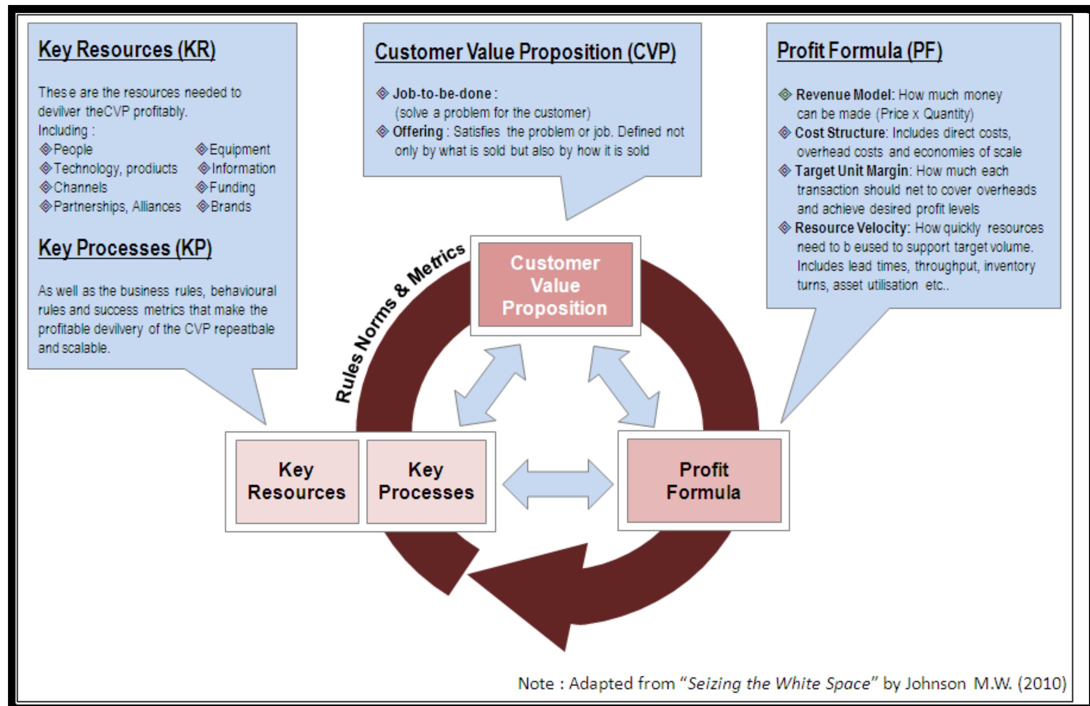

Figure 2-3: Four-Box Business Model Framework
Source: Johnson (2010)

According to Johnson et al. (2008, pp.61), the business model must have a strong 'customer value proposition' (CVP) which clearly identifies what the customer needs and the 'job which needs to be done[5]'.The profit formula (PF) defines how the organization creates value for itself whilst providing value to the customer. This creates a 'blueprint' of how value is created. The more the elements are 'consistent' and 'complementary' , the more stable the

systematic approach to the design, innovation and subsequent implementation of the business model concept.

5 Johnson et al. (2008) define the 'job' as the fundamental problem in a given situation for which there is a need for a solution.

business model will be. The key resources (KR) and key process (KP) are the instruments [6] used by the organization to deliver value to both the customers and to itself.

Casadesus-Masanell & Ricart (2010) proposed a comprehensive business model framework to link the various business model concepts within the conventional strategy domain. The rationale for the framework is based on the definition of strategy proposed by Porter[7] (1996). 'Strategy can be envisaged as being the result of a set of choices which the company must make' (Porter, 1996). From their perspective, strategy generates a particular set of 'choices' and resulting 'consequences' which, when aggregated together, form the business model (Casadesus-Masanell & Ricart, 2007).

The business model frameworks reflect the 'choices' made by the organization and the implications these have on the company's operations. This framework fits well with the 'backward-looking' strategy context proposed by Mintzberg[8] (1994) and is supported by Osterwalder &Pigneur (2010).

The main elements the business model framework proposed by Casadesus-Masanell & Ricart (2010) are the specific 'choices' made by management and the resulting 'consequences'. Value is created by the organization through the 'consequences' of 'choices' - which ultimately permit 'other choices' to be made. The elements of the business model promoted by these academics are shown in Figure 2.4 below.

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[6] In his book, Johnson (2010, p.44) raises a very important issue about what keeps the various elements of the business model together. He states that the '....business rules, behavioural norms and success metrics connect the elements of the business model and keep it in proper balance'. However, since these elements evolve primarily to optimise the existing business model, they are paradoxically a powerful barrier to any future business model innovation.

[7] Michael Porter in his seminal work published in the Harvard Business Review in 1996 (What is strategy?) suggested that strategy is the creation of a unique and valuable position in the market which involves a set of activities.

[8] In his book 'The Rise and Fall of Strategic Planning', Mintzberg (1994) suggests that strategy can be viewed from four different perspectives (eg. pattern; plan, position and perspective). In the forward-looking perspective, strategy can be conceived as being a plan that determines which choices need to be taken. By contrast, in backward looking perspective, strategy can be considered to be the consequence of a 'pattern of choices' made by the management over a period of time.

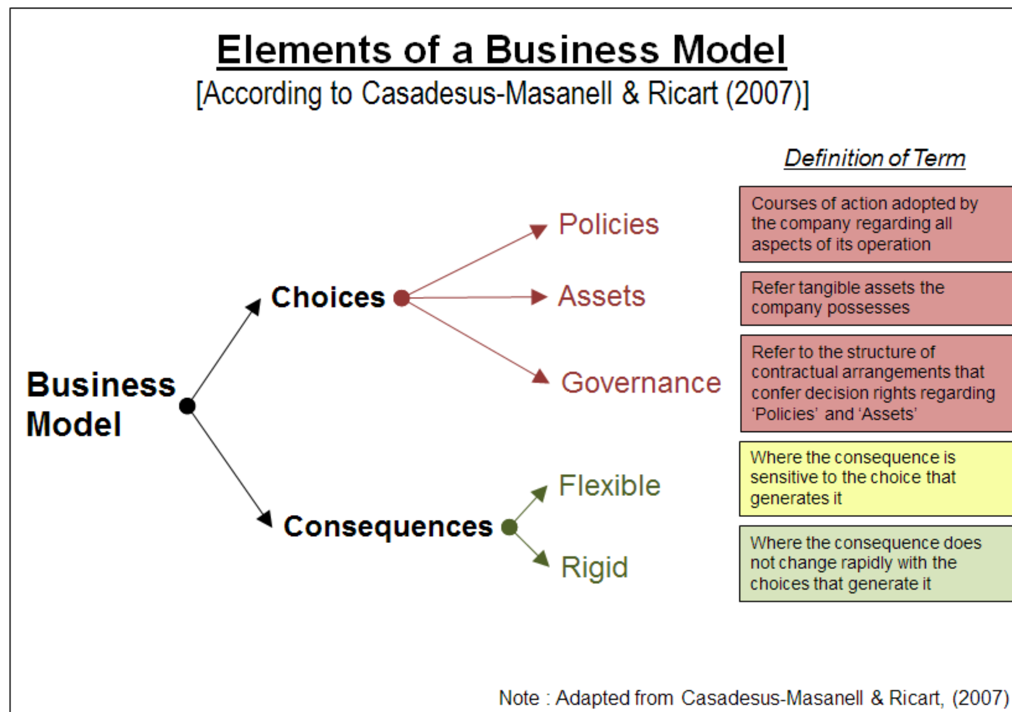


Figure 2-4: Business Model Elements
Source: Casadesus-Masanell and Ricart, 2007

Casadesus-Masenell & Ricart (2007, p.14) claim that a virtuous cycle consisting of flexible consequences can be more easily disrupted. By contrast, competitors wishing to enter the market find 'rigid consequences' more difficult to imitate. If the company makes the correct 'choices' and evaluates the 'consequences' (both internally and in the competitive environment), it can ultimately develop a business model which creates virtuous cycles which can strengthen its competitive position. The virtuous cycles resemble the 'dynamic characteristics/network effects' as proposed by Shafer, Smith & Linder, 2005 – where both 'virtuous cycles' and 'network effects' create positive externalities.

2.7. Typology and Taxonomies

This is a significant stream of work aimed at classifying business models and grouping them into specific categories. The business models belonging to the same category usually

share some common characteristics, such as the same pricing policy or the same customer relationship model.

There are two basic approaches to classification. The first is **typology**, which conceptually separates a given set of items multi-dimensionally. The key characteristic of a typology is that its dimensions represent concepts rather than empirical cases. The dimensions are based on the notion of an ideal type, a mental construct that deliberately accentuates certain characteristics and not necessarily something that is found in empirical reality (Weber, 1949). As such, typologies create useful heuristics and provide a systematic basis for comparison. Their central drawbacks are categories that are neither exhaustive nor mutually exclusive, are often based on arbitrary or ad hoc criteria, are descriptive rather than explanatory or predictive, and are frequently subject to the problem of reification (Bailey, 1994).

A second approach to classification is taxonomy. Taxonomies differ from typologies in that they classify items on the basis of empirically observable and measurable characteristics (Bailey, 1994, p. 6). Although associated more with the biological than the social sciences (Sokal & Sneath, 1964), taxonomic methods – essentially a family of methods generically referred to as cluster analysis – are usefully employed in numerous disciplines that face the need for classification schemes (Lorr, 1983; Mezzich & Solomon, 1980).

A taxonomy is understood as being the classes (or kinds) of things observed in the world, and as being developed from empirical work, bottom up. A typology is usually understood as delineating types of things (or events) where the types are decided theoretically or conceptually by the scientist, top down. However, Max Weber's **'ideal types'** - a highly influential notion in modern social sciences - are a bit of both. For Weber, ideal types are generalizations constructed from the facts of experience, yet they create abstract concepts that he described as 'pure fiction'. So ideal refers here not to the notion of perfection, but to

the adjectival form of 'idea' - and type refers not to a classificatory kind we meet in the world, but to a *'mental construct'*. The 'ideal type' notion is powerfully useful because, as he explained, it mediates between our ideas and theories on the one hand, and the things in the world.

Business models, too, might be understood as "ideal types", for they seem to have the characteristics and fulfill the roles that Weber associated with such types: they are based on both observation and theorizing (Baden-Fuller & Morgan, 2010).

The existence of multiple sets of criteria suggests (as in the case of BM components) that there are no established and commonly agreed to criteria for classifying business models, but some criteria, such as Value Integration, may be used in various taxonomy frameworks. Moreover, most taxonomy frameworks seem to be narrowly defined for Internet e-Business models. A notable exception is found in Tapscott et al. (2000), who introduced a rather generic taxonomy of Business Models that could apply not only to the Internet but also to any type of electronic business featured by a network structure (Pateli and Giaglis, 2003b).

Several scholars have attempted to classify e-business models by describing types. Tapscott, Lowy, and Ticoll (2000) propose a network- and value-centered taxonomy that identifies five types of value networks that they call b-webs (business webs), which differ in their degree of economic control and value integration. Rappa (Rappa, 2010) classifies companies according to the nature of their value propositions and their modes of generating revenues. Weill and Vitale (2001) describe eight so-called atomic business models, each of which describes a different way of conducting business electronically; e-business initiatives can be represented by pure atomic business models or by combining them (see Table 2.4). Applegate (2001) introduces the following six e-business models: focused distributors, portals, producers, infrastructure distributors, infrastructure portals, and infrastructure

producers. And Dubosson Torbay et al. (2002) identify the following principal dimensions for classifying business models: user's role, interaction pattern, nature of the offering, pricing system, level of customization, and economic control. What is common to all these approaches is an attempt to describe and organize around typologies and taxonomies the plethora of new perceived business archetypes enabled mainly by Internet technologies (C. Zott et al., 2011).

Timmers (1998) has a much more centered vision on the internal dynamics of e-BM and their interactions with the environment. As to Mahadevan (2000), he favors a "macro" vision in which the e-BM depends on the types of the relationships between actors in a given market. Neither author considers the generated income or incurred costs but they briefly tackle value creation. Similarly, studies that have investigated these aspects tend to be approached either separately or partially. Applegate (2001) provided a partial solution suggesting a classification of sources of income into four main categories: business, content, community, and infrastructure revenue. Applegate's classification of e-BM is very specific about the creation of value for the e-BM (sources of differentiation of revenue and incurred costs) but the customers' created value is not essential. The only approach that reconciles these different dimensions is that of Hoffman and Novak (2001). They define an e-BM as a combination of a revenues model and a model of customer value. In fact, Novak and Hoffman have presented a "Customer Model Integration" in which the definition of an e-BM is related to both "the value patterns for customers" (value model) and "revenue models" (revenue model). It is then possible to identify twelve model values (Table 2.7).

Table 2.7: Value model for customers

Value models	Value created for customers	Example of firms
Brokerage	Facilitate the contact between salespersons and buyers (B2B, B2C or C2C markets).	eBay Priceline.com
Content	Satisfy all information needs	About.com
Search	Target the needed information.	Google.com
Incentive	It has to do with offering points to customers, who at a certain threshold-value, may benefit from some products and services.	Mypoints.com Webmiles.com
Freeware	Customers have access to free and useful software.	Gratuiciel.com
Communication	A free e-mail and that service or online telephony.	Skype.com
Control	The pressure brought by groups of customers at the protection of privacy, property rights of the content and boycot unethical content is a contribution in value.	Anonymizer.com
Outsourcing	The client is directly connected to the Internet-ERP producer for greater control of their applications.	iprint.com
Entertainment	The concept is based on providing specific information to a particular area of interest, or an entertainment program.	M6.fr
Transaction	The customer has access to stores normally not accessible geographically, and this is through a theme collection.	Retromodern.com
Affiliate	This model is oriented towards SMEs which want to make themselves known on the web. The payment of advertising costs is limited to the number of clicks on the banner only.	Amazon.com Art.com
Community	Customers can identify users with whom they want to establish various types of relations based on affinity research tools.	Epinions.com

Source: Novak and Hoffman, 2001

The probably best known classification scheme and definition of electronic business models is Timmers's (1998). He distinguishes between eleven generic e-business models and classifies them according to their degree of innovation and their functional integration (see Figure 2.5). The models are e-shops, e-procurement, e-malls, e-auctions, virtual communities, collaboration platforms, third-party marketplaces, value chain integrators, value-chain service providers, information brokerage and trust and other third-party services.

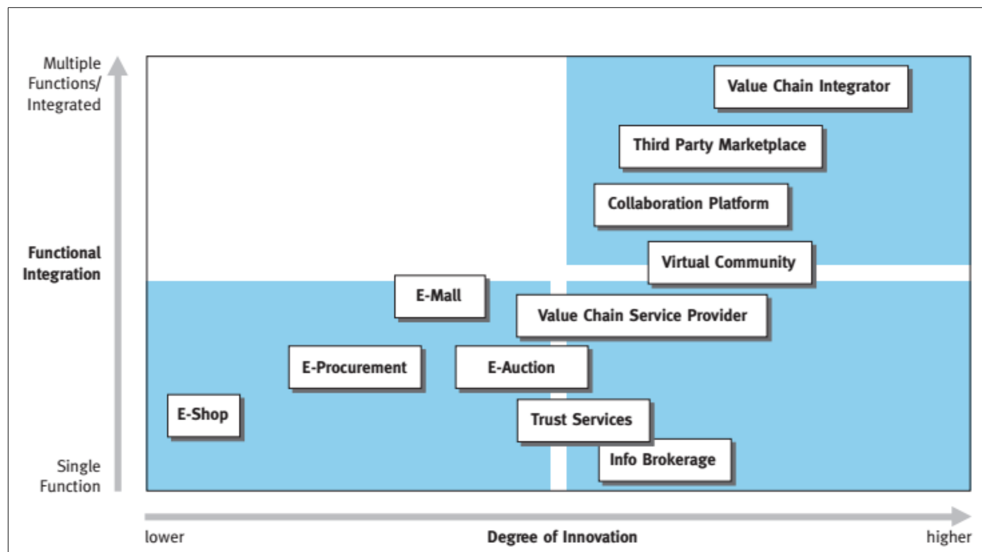


Figure 2-5: Classification scheme of electronic business models
Source: Timmers (1998)

It is important to note that many Internet ventures employ several of these types at once, in hybrid or integrated versions. Nonetheless, identifying these archetype Internet business activities is still useful, allowing managers of hybrid/integrated firms to appreciate their specific characteristics and to combine these insights to draw most suitable implications for their specific situation (Wirtz, Schilke, & Ullrich, 2010).

2.8. Value Creation, Value Capture and Value Drivers

Creating value is necessary, but not sufficient, for a firm to profit from its business model. Once the firm has identified the value chain needed to deliver its offering, it must then address how it will appropriate some portion of that value for itself. One mechanism for capturing some of this value is the use of complementary assets (Teece, 1986). Creating and appropriating value also involves third parties, both within the vertical value chain, and from the value network (Christensen and Rosenbloom, 1995). The value network created around a given business shapes the role that suppliers, customers and third parties play in influencing the value captured from commercialization of an innovation. The value network increases the supply of complementary goods on the supply side, and can increase the network effects

among consumers on the demand side. Positive alignment with the value network can leverage the value of a technology. Failure to align with a value network can dissipate potential value (Chesbrough & Rosenbloom, 2002).

This redefinition of value has attracted the attention of management scholars, who have employed the concept of the business model in their attempts to explain value creation in networked markets (e.g., Zott & Amit, 2009). However, in explaining value creation, the concept of the business model has been used beyond the context of the digital economy. Seelos and Mair (2005, 2007), for example, have studied value creation mechanisms in the context of deep poverty. They conceptualize a business model as a "set of capabilities that is configured to enable value creation consistent with either economic or social strategic objectives" (2007:53). Similarly, Thompson and MacMillan (2010) propose a framework for developing new business models that can lead to societal wealth improvements (e.g., reduce poverty and human suffering). Thus, value creation can refer to different forms of value (such as social or economic). Value creation mechanisms often go beyond the value that can be created through Schumpeterian innovation, the (re)configuration of the value chain (Porter, 1985), the formation of strategic networks among firms, or the exploitation of firms' specific core competencies. As Amit and Zott (2001) observe, the locus of value creation, and thus the appropriate unit of analysis for scholars interested in value creation, spans firms' and industries' boundaries. The authors conclude that prior frameworks used in isolation cannot sufficiently address questions about total value creation. Based on a sample of 150 firms, they propose four potential sources of value creation through business models: (1) novelty, (2) lock-in, (3) complementarities, and (4) efficiency. These value drivers can be mutually reinforcing; that is, the presence of each value driver can enhance the effectiveness of any other value driver.

Value can also be created through revolutionary business models. According to Hamel (2000), to thrive in the "age of revolution," companies must develop new business models- in which both value creation and value capture occur in a value network - which can include suppliers, partners, distribution channels, and coalitions that extend the company's resources.

The centrality of the notion of value in the business model literature is apparent from the various conceptualizations of the business model that have been discussed so far. For example, an analysis of the business model components reveals that the most prevalent component is related to the concept of value. The customer value proposition, for instance, is a recurrent component in the various definitions that have been provided. Even those business model scholars who tend to focus on how value is appropriated by the focal firm recognize that value is created through the focal firm in concert with its exchange partners (C. Zott et al., 2011).

However, focusing so much on the producer-side resource-based view (RBV), scholars may be missing opportunities for new knowledge creation that come from the consumer - or demand - side. When are strategic moves more likely due to path dependence, based on a firm's prior resources, or instead due to the pull of demand-based value creation opportunities? How important for value creation is attention to the utility functions of consumers? How do firms' business models and, more broadly, the ecosystems in which firms participate affect their strategic success and sustainability? To preview the fundamental demand-side argument for boundary expansion, value must be created for (or with) consumers before it can be captured by firms upstream in the value system (Priem, 2007). The value created then is captured by firms through their managers' skill in negotiating exchanges, given the particular characteristics of their transaction contexts (e.g., Williamson, 1985) and their resource portfolios (e.g., Makadok, 2001). Moreover, strategists

can improve their firms' contexts and resources and, thus, their positioning for capturing value relative to other firms in their value system. Indeed, this improvement in context and resources has been the focus of prescriptions from the transaction cost (Jones, 2001), firm positioning (McGahan & Porter, 1997), and resource based (Makadok, 2001) perspectives.

As an example of creating value but not capturing it, consider the online portal Yahoo! For many individuals, Yahoo!'s continuously expanding range of offerings, including searches of the Web, e-mail accounts, stock quotes and other financial information, greeting cards, maps, driving directions, and so on create a tremendous amount of value. The fact that Yahoo! is consistently among the top sites in terms of unique visitors per month is a further indication of its appeal. But, for many years, Yahoo! struggled to turn this value into profit; in fact, its net loss more than doubled from its fiscal year ending in 1997 to the one ending in 2001.

Shafer et al. (2005) argue that value creation requires more than simply understanding what the employer, customer, or society is willing to pay for. Instead, one must recognize the existence of multiple targets—whether intended as such or not—who exist in concert, not in isolation. One must also consider the knowledge of potential users and the context in which they make evaluations about the new value that has been created**.**

In conclusion, much like the value creation process, value capture varies considerably, depending on the particular source that directs the process and the level of competition and isolating mechanisms surrounding the value that is created (Lepak, Smith, & Taylor, 2007)

A business model perspective on value creation in virtual markets or more conventional business therefore seeks to answer the following questions: (1) How do the participants to a transaction, especially the firm, which is the reference point of a business model, enable transactions? and (2) How is value created in the process of enabling transactions?

As we said before, Amit and Zott (2001) say that each theoretical framework that might explain value creation has limitations when applied in the context of highly interconnected electronic markets. We believe that this reinforces the need for an identification and prioritization of the sources of value creation in e-business.

With the theoretical foundations of the business model construct anchored in the value chain framework, Schumpeter's theory of innovation, the resource-based view of the firm, strategic network theory and the transaction perspective, Amit and Zott (2001) give a definition of the value that is created through a business model. In doing so, they generalize from Brandenburger and Stuart (1996). According to these authors, total value created can be expressed as the sum of the values appropriated by each party. They extend these approach by positing that total value created through a business model equals the sum of the values appropriated by all the participants in a business model, over all transactions that the business model enables (Amit & Zott, 2001).

Value Drivers

The term "value driver" refers to a factor that enhances the total value created by a business model. Total value created is the sum of all the values that can be appropriated by the participants in a business model, the firm, its partners, and its customers (Brandenburger and Stuart, 1996).

Figure 2-6 depicts the value driver model developed for Amit and Zott (2000). The term "value" refers to the total value created for all parties involved in the transactions that a business model enables. This value can be measured as the sum of the values that can be appropriated over all participants in the business model and over all transactions enabled by the business model. Because the value driver model considers a firm's business model to be the unit of analysis, it facilitates an assessment of the value creating potentials of different e-commerce business models. Each of the four major value drivers that were identified in the

analysis – efficiency, complementarities, lock-in, and novelty – and the linkages among them, are discussed below. They suggest that the value creating potential of any business model is enhanced by the extent to which these factors are present.

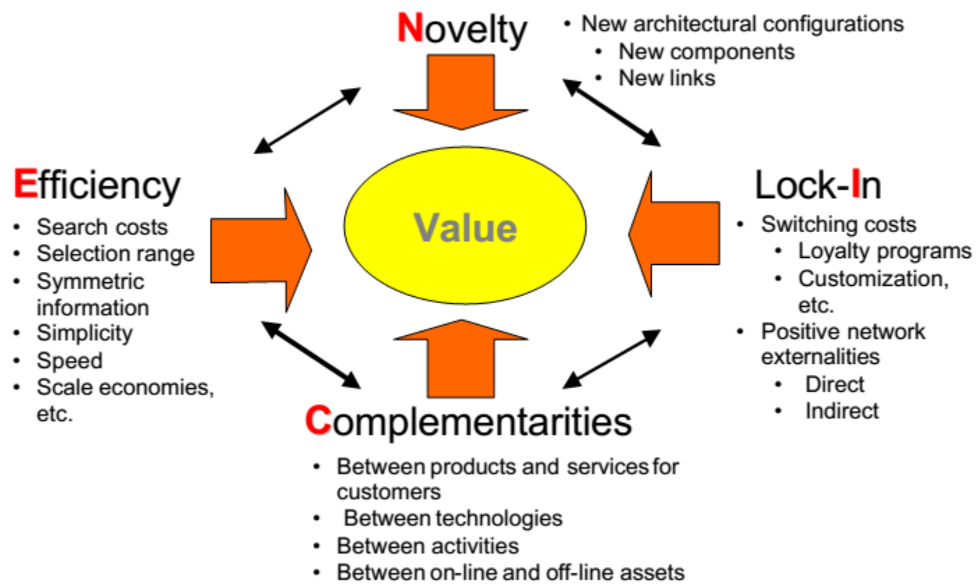


Figure 2-6: Value drivers of e-Commerce Business Models
Source: Amit & Zott (2000)

But how does a company increase the odds of developing "the right business model" for its situation? In their earlier work, they identified four major interlinked value drivers of business models: novelty, lock-in, complementarities, and efficiency. 1. Novelty captures the degree of business model innovation that is embodied by the activity system. 2. Lock-in refers to those business model activities that create switching costs or enhanced incentives for business model participants to stay and transact within the activity system. Consider for example Nespresso. Once a customer buys a Nespresso machine, the customer needs to use Nespresso coffee capsules - creating a lock-in enabling Nestle to profit from both the sale of the machine and the use of the machine by selling consumables that machine owners must

buy from Nespresso. 3. Complementarities refer to the value-enhancing effect of the interdependencies among business model activities. Consider, for example, eBay, which offers a platform to conduct sales over the Internet among individual buyers and sellers of used as well as new products. A key requirement for the platform to function properly is a payment mechanism, which allows buyers to make credit card payments, even when the seller does not have access to credit card services. PayPal, the online payment company that eBay acquired, offers such a function, facilitating trades that could not otherwise be completed. 4. Efficiency refers to cost savings through the interconnections of the activity system. Consider for example Wal-Mart, which designed an activity system that supports its low cost strategy. An important activity within this system is logistics. These processes help the company to keep its costs lower than its competitors, giving Wal-Mart an important competitive advantage.

Their research suggests that the presence of each of these value drivers enhances the value creation potential of a business model. Moreover, they find important synergies among the value drivers. Complementarities, for example, can be more valuable when supported by novel business model design. Without a business model perspective, a company is a mere participant in a dizzying array of networks and passive entanglements. Adopting the business model perspective can help executives purposefully structure the activity systems of their companies; the purposeful design and structuring of business models is a key task for general managers and entrepreneurs and can be an important source of innovation, helping the company look beyond its traditional sets of partners, competitors, and customers. Most importantly, perhaps, this approach encourages systemic and holistic thinking when considering innovation instead of concentrating on isolated, individual choices. The message to executives is clear: When you innovate, look at the forest, not the trees – and get the

overall design of your activity system right before optimizing the details (Amit & Zott, 2012).

2.9. Business Model and Firm Performance

The Business model (BM) has a cross-sectional and multi-faceted representation of the company's working and activity. What renders this concept reliable is its ability to provide an overview to the manager. However, the study of business model as an independent variable is uncommon (Malone et al., 2006). This is due both to the difficulty of operationalizing the models and explaining divergences in firms' interaction with the environment. Despite the scarcity of studies on the business model as a predictor of business performance, there is a growing interest in this concept as a result of debates on the determinants of firms' performance or "business specifics" (Nadler et al., 1997; Zaborek, et al. 2013; Hu, 2014). The objective is not so much to define what a business model in general is, as to focus on what makes the specificity of a particular business model, in order to make use of this concept in explaining firms' performance.

Performance is considered as a perceptible result of the company's strategy. Many researchers have emphasized the existence of several factors in explaining and estimating the firms' performance (Galbraith, 1977; Nadler & Tushman, 1997; Tosi & Slocum, 1984). These factors are related to both internal and external factors pertaining to the company (Kotey & Meredith, 1997). Numerous studies have shown a positive relationship between performance and certain variables such as entrepreneurial choices (Wiklund, 2005; Yusuf, 2002), strategic planning (Fossen et al., 2006) and innovation (Prajogo, 2006; Nilakanta & Subramanian, 1996), while other studies have focused on the business model to show its role in firms' performance (Malone et al., 2006; Zott & Amit, 2007). However, the findings of these studies strongly rely on the notion of performance used because its perception differs for different stakeholders. For this reason, many researchers have proposed

multidimensional approaches to firms' performance (Lumpkin & Dess, 1996; Venkatraman & Ramanujam, 1986; Walker & Ruekert, 1987; Wiklund & Shepherd, 2005). Particularly, Murphy et al. (1996) suggest that many measures including financial and non-financial objectives should be implemented to better estimate companies' performance. In particular, De Young (2005) has developed the profit efficiency model which became very common for comparing traditional activities business model to Internet activities. This method can differentiate the technology-based scale effects and the technology-based experience effects.

The first major study on business model as an operation of an asset which determines the performance of the company was conducted by Malone et al. (2006). Their empirical study is based on a business model typology that combines two criteria: the type of asset and the type of ownership held by the firm on that asset when operating it. However, their study lacks a theoretical framework on real resource operation. Indeed, their study considers that each type of asset can be used differently and that this leads to variations in performance, particularly financial performance, in terms of return on assets (ROA). In a similar way, based on a sample of 202 firms interviewed between July and November 2009, Aziz and Mahmood (2011) have attempted to explain the performance of manufacturing SMEs in Malaysia through their BM. The main objective of this study was to assess the relationship between the size of the BM (the part of stakeholders, skills, value creation and capture of value) and changes in SMEs performance. These authors suggest that "skill" is the only dimension of the business model that determines SMEs performance and success. Weill et al. (2006) also considered the assessment of this link out of a typology of BM on a sample of large quoted American companies. The authors have examined a possible relationship between the types of business model and the firms' performance. For this purpose, they have defined "four basic business models based on what asset rights are sold (Creators, Distributors, Landlords and Brokers) and four variations of each Stock based on what type

of assets are Involved (Financial, Physical, Intangible, and Human)". They approximate the performance by the following indicators: Operating Income Before Depreciation (OIBD), Market Capitalization (MC) and Operating Income (OI). Based on multiple regressions, they find that the business model can explain firms' performance more effectively than classification by industry (based on a two-digit code). Moreover, they conclude that market sectors classification can lead to a group of several business models in the same segment. They estimate that the segmentation of firms in the sample, according to the type of business model is more accurate because it captures the main activity of the company. In addition, they show that some business models such as "Broker" or "Landlord" are associated with better firms' performance compared to other business models (Sahut et al., 2012).

Business models can play a central role in explaining firm performance. Afuah and Tucci (2001) propose the business model as a unifying construct for explaining competitive advantage and firm performance and define it as "the method by which a firm builds and uses its resources to offer its customer better value and to make money in doing so".

Other studies on the performance implications of business model design come from business practitioners and consultants (e.g., Linder & Cantrell, 2001). Consultants at IBM, interviewing corporate and public-sector leaders worldwide, found that firms that were financial outperformers put twice as much emphasis on business model innovation as did underperformers (IBM Global Business Services, 2006).

2.10. Business Model and Internet

Garden (2000) stated that a company does not have a business strategy if its plans do not include using the Internet. Today, firms use the Internet to support their business strategies and to achieve a true competitive advantage, which is reflected in their long-term profitability. The Internet itself is neither a competitive advantage nor a distinct business

strategy, but it is a method that can enhance a firm's business strategies and create economic value (Apigian, 2003). It is important for firms to create a competitive advantage, a basic factor used to create economic value and improve performance. Internet business is fundamentally changing the way business and the economy is conducted (Shin, 2001). A strategy supported by the use of Internet business is stronger than one without such support (Porter, 2001). Therefore, it is necessary for a more successful firm to use competitive strategies and to integrate Internet business.

Many of the most significant environmental changes in recent decades can be related to the proliferation of the Internet, which has changed the way business is conducted in many ways, e.g. through disintermediation, the global distribution of digital goods and services, and computer-mediated communication with customers. As a result, many traditional brick-and-mortar businesses needed to adapt their value creation logic to remain competitive (Sampler, 1998). These developments have opened new horizons for the design of business models by enabling firms to change fundamentally the way they organize and engage in economic exchanges, both within and across firm and industry boundaries (Mendelson 2000). Moreover, the Internet has opened new horizons for the design and performance of strategic networks (Christoph Zott, 2002).

Internet technology can be used to streamline processes and reduce costs, but with even higher impact on the business in order, it can be used to change the business model itself - in effect, it changes the logic behind the processes (Petrovic et al., 2001.)

The Internet presents fundamental questions about how businesses deliver value to the customer, and how they can capture value from delivering new information services that users often expect to receive without charge. It has allowed individuals and businesses easy access to vast amounts of data and information, and customer power has increased as

comparison shopping has been made easier. In some industries, such as the recording industry, the Internet enabled digital downloads to compete with established channels (such as physical product sales) and, partly because of the ubiquity of illegal digital downloading, the music recording industry is being challenged to completely re-think its business models. The Internet is not just a source of easy access to digital data; it is also a new channel of distribution and for piracy which clearly makes capturing value from Internet transactions and flows difficult for recording companies, performers and songwriters alike. More generally, the Internet is causing many 'bricks and mortar' companies to rethink their distribution strategies - if not their whole business models (Teece, 2010).

Virtual markets refer to settings in which business transactions are conducted via open networks based on the fixed and wireless Internet infrastructure. These markets are characterized by high connectivity (Dutta and Segev, 1999), a focus on transactions (Balakrishnan, Kumara, and Sundaresan, 1999), the importance of information goods and networks (Shapiro and Varian, 1999), and high *reach and richness* of information (Evans and Wurster, 1999).

Reach refers to the number of people and products that are reachable quickly and cheaply in virtual markets; richness refers to the depth and detail of information that can be accumulated, offered, and exchanged between market participants. Virtual markets have unprecedented reach because they are characterized by the near lack of geographical boundaries. Any discussion of national markets and regional barriers to entry (Bartlett and Ghoshal, 1989) is thus less relevant in the case of businesses that allow instant access to customers and suppliers across regional and national borders. As an electronic network with open standards, the Internet supports the emergence of virtual communities (Hagel and Armstrong, 1997) and commercial arrangements that disregard traditional boundaries between firms along the value chain. Business processes can be shared among firms from

different industries, even without the awareness of the end customers. As more information about products and services becomes instantly available to customers, and as information goods (Shapiro and Varian, 1999) are transmitted over the Internet, traditional intermediary businesses and information brokers are circumvented, and the guiding logic behind traditional industries (e.g., travel agencies) begins to disintegrate. There are several other characteristics of virtual markets that challenge the conventional structure of industries. These include the ease of extending one's product range to include complementary products, the potential reduction of asymmetry of information among economic agents through the Internet medium, and the proliferation of innovative market exchange mechanisms (such as on-line auctions). Industry boundaries are thus easily crossed as value chains are being redefined (Sampler, 1998). These characteristics of virtual markets challenge conventional theories of how value is created, and hence call for a careful definition of the unit of analysis for investigating wealth creation (Amit & Zott, 2000).

From Business Model to e-Business Model

The research stream that has devoted the greatest attention to business models is e-business. E-Business means doing business electronically. It comprises Internet based business, "e-commerce", "e-markets", and "Internet-based business". It considers business that it conducted exclusively over the internet (e.g. Google) as business that exploits the potentiality of the internet as a complement to traditional firm operations, such as bricks and mortar-based business. (C. Zott et al., 2011)

Commercial development of the Internet has accelerated the creation of new BMs and redefined existing ones (Applegate, 2001). In fact, the Internet is not merely a new distribution channel, it affects all types of activities of the value chain and it has created "new ways of doing business" called "e-Business". For instance, Internet reinforces

Research & Development (a support activity following Porter's concept of value chain) assisting in the group design of products between the sites and participants in the value system, and by listing the concepts accessible to all branches of the company giving real-time access to all databases of sales and services. The Internet also helps reduce orders transmission time by automating both the relationship with customers and suppliers and by setting up an integrated real management. The impact of such practices over the efficiency of work is to create added value for the company (Porter, 2001). Similarly, the term "Electronic Business Model" (e-BM) has emerged in the literature to describe the BM of e-business. As it is a concept derived from that of BM, it is equally difficult to define it and to approach it differently. Therefore, many authors have tried to define a heuristic approach, that is to say one based on their own observations of the market. In practice, both terms are used interchangeably, mainly in the ICT sector (Sahut et al., 2012).

The Internet is an important driver of the surge of interest in business models and the consequent emergence of a literature that revolves around the topic (e.g., see Ghaziani & Ventresca, 2005; Magretta, 2002; Yip, 2004).

2.11. Business Models and Strategy

In the academic community an important discussion has taken place regarding the differences between the notions of business model and strategy (e.g., Casadesus-Masanell and Ricart, 2010; Teece, 2010) but the picture is much less clear and the authors debating the subject differ widely in their opinion. Some people use the terms "strategy" and "business model" interchangeably [Magretta 2002]. Often they use it to refer to everything they believe gives them a competitive advantage (Stähler, 2002). Yet, a review of the literature shows that the view that business models and strategy are linked but distinct is more common (Magretta 2002; Mansfield and Fourie 2004). A practical distinction

describes business models as a system that shows how the pieces of a business fit together, while strategy also includes competition (Magretta 2002). In contrast, others understand the business model as an abstraction of a firm's strategy that may potentially apply to many firms [Seddon, Lewis et al. 2004]. In general however, business model literature seems to fit the former definition better, because most of it focuses on describing the elements and relationships that outline how a company creates and markets value (Osterwalder et al., 2005).

The business model concept extends central ideas in business strategy and its associated theoretical traditions. Scholars contend that the business model can be a source of competitive advantage that is distinct from the firm's product market position (Christensen, 2001). Firms that address the same customer need and pursue similar product market strategies can do so with very different business models; business model design and product market strategy are complements, not substitutes (Zott & Amit, 2008). Despite the highlighted conceptual differences between business models and certain aspects of firm strategy, scholars have also emphasized that the business model can play an important role in a firm's strategy. According to Richardson (2008), the business model explains how the activities of the firm work together to execute its strategy, thus bridging strategy formulation and implementation. In a similar vein, both Shafer et al. (2005) and Casadesus-Masanell and Ricart (2010) view the business model as a reflection of a firm's realized strategy. According to Teece, the business model reflects a "hypothesis about what customers want, and how an enterprise can best meet those needs, and get paid for doing so" (2007: 1329). There is a strong consensus that the business model revolves around customer-focused value creation (Chesbrough & Rosenbloom, 2002; Mansfield & Fourie, 2004). Viewed from this perspective, the business model encompasses the pattern of the firm's economic exchanges with external parties (Zott & Amit, 2008); it outlines the essential details of a firm's value

proposition for its various stakeholders as well as the activity system the firm uses to create and deliver value to its customers (Seddon, Lewis, Freeman, & Shanks, 2004)

Business models describe, as a system, how the pieces of a business fit together. But they don't factor in one critical dimension of performance: competition. Sooner or later - and it is usually sooner - every enterprise runs into competitors. Dealing with that reality is strategy's job.

A competitive strategy explains how you will do better than your rivals. And doing better, by definition, means being different. Organizations achieve superior performance when they are unique, when they do something no other business does in ways that no other business can duplicate. When you cut away the jargon, that's what strategy is all about-how you are going to do better by being different. The logic is straightforward: When all companies offer the same products and services to the same customers by performing the same kinds of activities, no company will prosper

What often gets lost in Dell's story, though, is the role that pure strategy has played in the company's superior performance. While Dell's direct business model laid out which value chain activities Dell would do (and which it wouldn't do), the company still had crucial strategic choices to make about which customers to serve and what kinds of products and services to offer. In the 1990s, for example, while other PC makers focused on computers for the home market, Dell consciously chose to go after large corporate accounts, which were far more profitable. Other PC makers offered low-end machines to lure in first-time buyers. Michael Dell wasn't interested in this "no-margin" business. He staked out his territory selling more powerful, higher margin computers (Magretta, 2002)

For Chesbrough & Rosenbloom (2002) the concept of the business model differs from the focus of strategy in at least three ways. Firstly, the business model starts by creating value for the customer, and constructs the model around delivering that value. There is some attention on capturing a portion of the value created, but the emphasis upon value capture and sustainability is much stronger in the realm of strategy. There, the competitive threats to returns posed by current and potential entrants take center stage, whereas these are less central in the business model. A second difference lies in the creation of value for the business, versus creation of value for the shareholder. Oftentimes, the financial dimensions of a business are left out of the business model. The model is assumed to be financed out of internal corporate resources, so that financing issues do not figure prominently in the business model; or the model of a startup is to be financed through early stage venture capital. Clearly, though, the ability to translate value in the business into value for the shareholder requires the incorporation of the financial domain to the construct we offer here. A final difference lies in the assumptions made about the state of knowledge held by the firm, its customers and third parties. The business model construct consciously assumes that this knowledge is cognitively limited, and biased by the earlier success of the firm. Strategy generally requires careful, analytic calculation and choice, which assumes that there is a great deal of reliable information available. It similarly assumes that any cognitive limitations on the part of the firm are of limited importance (Chesbrough & Rosenbloom, 2002).

To summarize, strategy is much more than the mere selection of a business model; it is a contingent plan as to how the business model should be configured, depending on contingencies that might occur. An organization's business model is the reflection of its realized strategy. In simple situations (when there are no contingencies on which to base strategy choices, but merely competitive adjustments that can be handled via tactics),

strategy may 'coincide' with the organization's business model and little is gained from separating the two notions. As a corollary, a second difference between strategy and business model is that, while every organization has some business model (because every organization makes some choices and the choices have consequences), not every organization has a strategy - a plan of action for different contingencies that may arise.

2.12. Business Model, Innovation and Technology Management

Studies on business models, innovation, and technology management have asserted that technological innovation is important for firms, but it might not suffice to guarantee a firm's success (e.g., Doganova & Eyquem-Renault, 2009). This is because technology per se has no inherent value (Chesbrough, 2007a, 2007b). Besides embedding technology in attractive products and services, a firm needs to design a unique business model to fully realize its commercial potential.

In the past 15 years, the business model (BM) has become an increasingly important unit of analysis in innovation studies. Within this field, a consensus is emerging that the role of the BM in fostering innovation is twofold. First, by allowing managers and entrepreneurs to connect innovative products and technologies to a realized output in a market, the BM represents an important vehicle for innovation. Second, the BM may also be a source of innovation in and of itself. It represents a new dimension of innovation, distinct, albeit complementary, to traditional dimensions of innovation, such as product, process or organizational.

Business model innovation refers to the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners (e.g., Amit and Zott, 2001; Magretta, 2002; Zott and Amit, 2007, 2008; Baden-Fulleret al., 2008;

CasadesusMasanell and Ricart, 2010; Gambardella and McGahan, 2010; Markides, 2010; Teece, 2010). As a result, business model innovation often affects the whole enterprise (Amit and Zott, 2001).

According to Amit and Zott (2012) business model innovation can occur in a number of ways: 1. By adding novel activities, for example, through forward or backward integration; they refer to this form of business model innovation as new activity system "content." 2. By linking activities in novel ways; they refer to this form of business model innovation as new activity system "structure.” 3. By changing one or more parties that perform any of the activities; they refer to this form of business model innovation as new activity system "governance." Content, structure and governance are the three design elements that characterize a company’s business model. These elements can be leveraged to drive innovation in the business model. Managers can innovate in the three design elements of the business model (content, structure and form of management), even simultaneously. Thus, the innovative system design activities, describe new ways in which businesses make business and captures the essence of the business model innovation. Apart from interdependencies between activities in a business model, and the interdependencies between the design elements of the business model (content, structure and management), it is necessary to consider a third type of interdependence, namely the interdependence between the business model of a company and its revenue model (Zott & Amit, 2009). The revenue model refers to the specific ways a business model enables revenue generation for the business and its partners.

In addition to adopting business models to facilitate technological innovation and the management of technology, firms can view the business model itself as a subject of innovation (Mitchell & Coles, 2003). Chesbrough (2003) introduced the notion of open innovation as a mode of innovation in which firms, rather than relying on internal ideas to

advance business, look outside their boundaries in order to leverage internal and external sources of ideas. A concept similar to open innovation is collaborative entrepreneurship, which is “the creation of something of economic value based on new jointly generated ideas that emerge from the sharing of information and knowledge” (Miles, Miles, & Snow, 2006: 2). Open innovation requires the adoption of new, open business models designed for sharing or licensing technologies (Chesbrough, 2007b, 2010). The business model itself can become part of the intellectual property (Rappa, 2001; Rivette & Kline, 2000). Open business models, apart from being a subject of innovation, may prompt additional business model innovation in complementary markets as a consequence of the reconfiguration of downstream activities and capabilities (Gambardella & McGahan, 2010). From the point of view of the focal firm, the activities of external innovators can be organized as a collaborative community or as a market (Boudreau & Lakhani, 2009), which in turn implies different business model configurations: in the former (community), members are often willing to collaborate and work for free, while in the latter (market), innovators develop multiple competing varieties of complementary goods, components, or services, with little cooperation among them.

In the technology and innovation management field, the business model is mainly seen as a mechanism that connects a firm’s (innovative) technology to customer needs and/or to other firm resources (e.g., technologies). The business model is conceptually placed between a firm’s input resources and market outcomes, and it “embodies nothing less than the organizational and financial ‘architecture’ of the business” (Teece, 2010: 173). The business model, according to this more functionalist perspective, complements technology, but technology is seen as an enabler of the business model rather than as a part of the concept per se. Neither input resources nor competition in output markets is considered part of the business model concept. The core logic of a business model, instead, revolves around a

firm's revenues and costs, its value proposition to the customer, and the mechanisms to capture value. Thus conceived, the business model can be a vehicle for innovation as well as a subject of innovation (C. Zott et al., 2011).

Discussions of the effects of business models on performance do not always separate the effects of business model innovation from technological innovations (c.f. Zott and Amit, 2007; Casadesus-Masanell and Ricart, 2010). We know that technological innovation influences performance (cf.Bierly and Chakrabarti, 1996; Christensen and Bower, 1996; Zaheer and Bell, 2005; and reviews by Evanschitzky et al., 2012; Hauser et al., 2006). But, to improve our understanding, we need a more precise appreciation of how innovation links to performance through the business model, and how changes in the business model influence technological innovation. The fact that positive effects of technological innovation on business performance are easily observed has diverted attention from questions about how business models change in the wake of innovation. At the same time, management theory requires more precision concerning the means by which business model changes enable and foster innovation.

Baden el al. (2013) noted that choice of business model influences the way in which technology is monetized and the profitability for the relevant firms. They then noted that the business model frames managers, entrepreneurs, and developers hold in their heads also determine the way in which technology gets developed and that these connections are capable of being very powerful. This means that the connection between business model choice and technology is two-way. That technology will itself influence business model possibilities. This means that technology from other sectors such as information technology influences the way in which a business model can be created and adapted. The mobile phone application is one such technology that serves as a process innovation for gaming or navigation. For example, Waze and Zynga use app technology extensively. Waze relies

entirely on mobile phone applications, and Zynga needs application technology to work reliably on tablet computers such as the Apple iPad series of hardware. If performance improvements rely on both process innovation and business model changes the traditional S-curve in technology management needs to be revisited (Baden-Fuller & Haefliger, 2013)

At different stages in market development companies compete and innovate on different dimensions (see Figure 2.7).

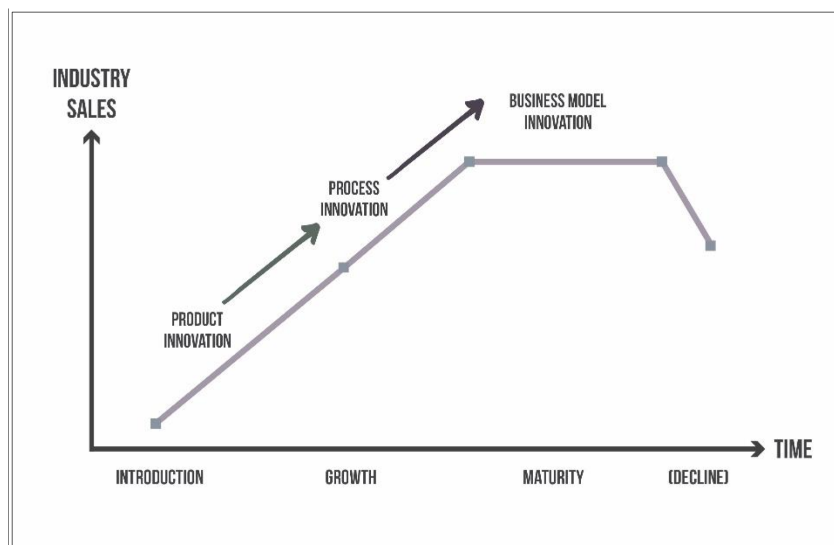


Figure 2-7: Market development and business model innovation

At the early stage of market development, companies compete on functionality, as customers' unsatisfied needs mostly relate to product features and functions. Companies focus on product innovation. When functionality-related needs are mostly fulfilled, the basis of competition shifts as customers require higher quality and reliability. In these cases, companies mostly innovate their processes. However, when quality and reliability have improved sufficiently, customer value is provided by convenience, customization and finally, when the market starts becoming commoditized, by lower costs. According to Johnson managers should focus on BMI at these stages in market evolution, in that innovative BMs may allow the development of new customer value propositions in response

to commoditization in a way that product and process innovation would not. Innovative business modes may allow the development of entirely new value propositions tailored to the customers' individual needs (convenience and customization), or may be able to significantly lower costs (Massa & Tucci, 2013)

A global survey[9] of more than 4,000 senior managers by the Economist Intelligence Unit found that the majority (54%) favored new business models over new products and services as a source of future competitive advantage. EIU analysts concluded that "the overall message is clear: how companies do business will often be as, or more, important than what they do."

Business model innovation matters to managers, entrepreneurs and academic researchers for several reasons. First, it represents an often underutilized source of future value. Second, competitors might find it more difficult to imitate or replicate an entire novel activity system than a single novel product or process. Since it is often relatively easier to undermine and erode the returns of product or process innovation, innovation at the level of the business model can sometimes translate into a sustainable performance advantage. Third, because business model innovation can be such a potentially powerful competitive tool, managers must be attuned to the possibility of competitors' efforts in this area.

2.13. Develop and Adapting Business Model

How do managers develop a good business model—one that creates value? Can we identify any overarching principles that lead to business model advantage? This question isn't easy to answer because operating business models are like insects - the diversity of shapes, colors, and sizes is stunning. One small difference in how a company attracts its customers or delivers on its value proposition can make its business model substantially different from

[9] "Business 2010: Embracing the Challenge of Change," Economist Intelligence Unit, 2005, p.9

that of another firm. (Figure 2.8 shows some of the many choices a firm has in constructing its business model.)

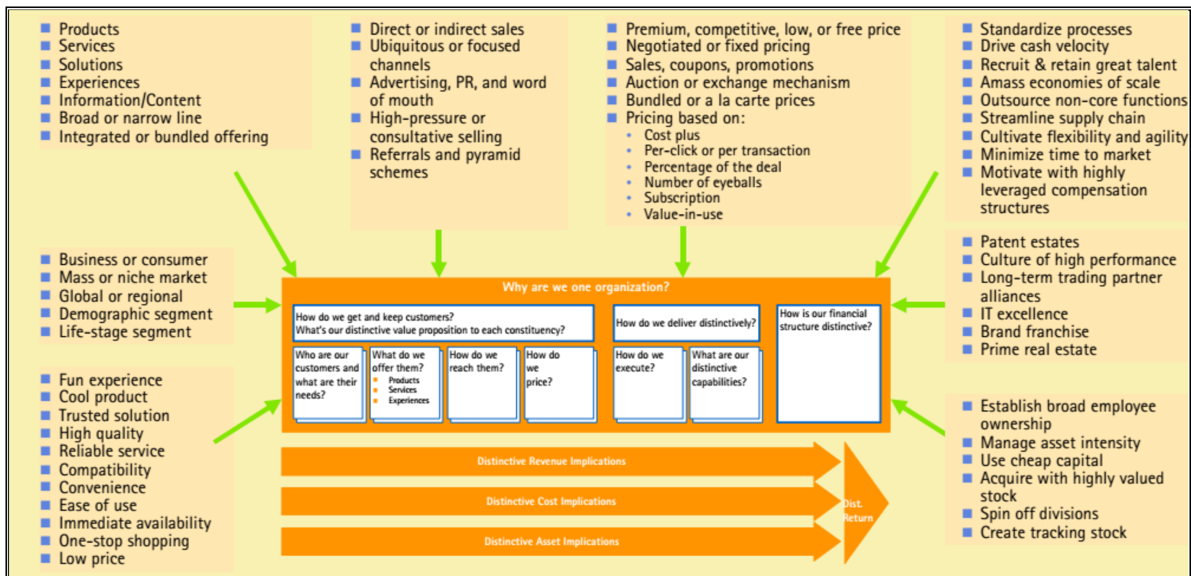


Figure 2-8: Business Model Choices
Source: Linder & Cantrell, 2001

The business model typology shows business models at a point in time. But most firms' business models are under constant pressure to change. Innovations in technology, changes in the law, competitive moves, or shifts in consumer tastes can sap an operating model's profitability. In response, firms tweak, twist, and totally revamp their business models in a wide variety of ways. (Figure 2.9 shows some of the many choices a firm has in innovating its business model.)

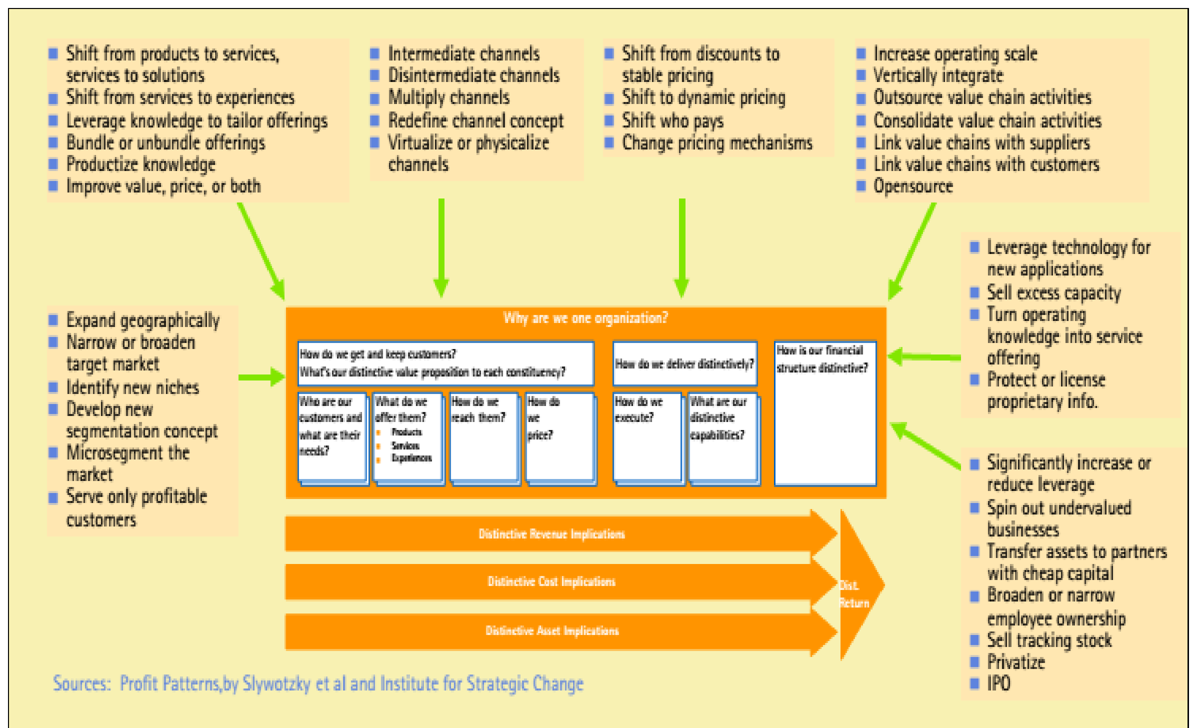


Figure 2-9: Business Model Innovations
Source: Linder & Cantrell, 2001

Sometimes the social environment and social mood can influence the business model of a firm. This kind of pressure is particularly studied in stakeholder theory (Friedman and Miles 2002). For instance, if a company's business model is centered around low cost production in developing countries it might draw the attention of militant non-governmental organizations that could mobilize public opinion against the firm. This happened to Nike regarding the ethics of its operations in Vietnam (Kahle, Boush et al. 2000). Besides ethics, changes in the social environment will also have an indirect influence on customer demand. This is the case for technology adoption, where the use and social acceptance of a specific technology by a broad majority opens up completely new markets and customer demands (Moore 1999).

Clearly, a firm's environment has a fundamental bearing on the kinds of business models that can create value in a given market context. As many industries continue to be in constant flux, it is important for managers to understand how they can address

environmental changes and adjust their business model so that their firm can gain - or sustain - a competitive advantage. A large body of academic literature has emerged devoted to improving our understanding of how environmental changes interact with business model modification.

Wirtz et al (2010) also provide some important general insights into how environmental changes necessitate business model modifications. First, their study highlights the importance of starting by gaining a detailed understanding of all relevant facets of environmental change. As each context differs, firms need to possess strong sensing capabilities to identify the relevant changes in their environments, which require both investment in research and business development as well as the routine evaluation of customer needs and of technological possibilities. This implies that the entire firm, and not just the top management, needs to be involved in constant environmental scanning. In fact, not only organization-internal resources can contribute to an improved understanding of technological changes, but the firm's customers are becoming an increasingly important source of information about these changes, as evidenced by the growing relevance of user-added value and interaction orientation identified in our study. Their findings thus lend further support to the concept of 'open innovation,' which emphasizes the benefits of openness as a means of expanding value creation for organizations.

Second, once detailed knowledge about relevant aspects of environmental change has been acquired, the next step is to match these facets with different domains of the firm's business model so that market opportunities and challenges can be translated into action plans aimed at modifying specific parts of the firm's business model. Finally, after successfully identifying important trends in their markets and redesigning their business model components accordingly, managers need to implement their new structure and establish modified organizational routines that best address the new environmental landscape. During

this phase, managers need to act as change agents, promoting a positive attitude towards change and motivating employees to think of it as an opportunity for improving the firm's business model and achieving differentiation from competition. Following these three general steps can provide a valuable structure to approaching business model adaptation, and thus help reduce the ambiguity associated with this managerial challenge (Wirtz et al., 2010).

The global marketplace challenges our concepts of all parts of the business model, yet business-model concepts tend not to consider the effects of location or geographical dispersion on the viability of business models. The value of resources and capabilities to customer needs vary from country to country, forcing strategies to adapt. Institutional factors limit structural possibilities in global, regional, and national markets. Currency values, tax regulations, consumer protection and the like make capturing value for the firm and its network much more than simply designing profit margins into pricing structures (Tallman, 2014).

The idea that strategic resources and capacities are uniquely identified with the firm implies that they are consistent across situations although subject to loss of value over time. However, international and global models raise many questions about the role of resources and capabilities in varied and dynamic international markets. Tallman (1992) established that resources that might provide a unique and valuable product in one market might not do so or might even destroy value in another - the lack of appeal of McDonalds' beef-based burgers in India, for instance. Differences or distances among multiple national markets clearly affect the value prospects for a multinational firm in multiple markets (Ghemawat, 2001), and the mechanism that drives most of these value differences is the relevance of firm-specific resources to local tastes, needs, and regulations.

The need to adapt concepts of value creation from market to market at regional, national and even subnational levels challenges the economics of global strategies. The international-strategy field has long understood that the efficiency and technological innovations that are supported by global markets for globally standard products conflicts with the customer satisfaction associated with extreme responsiveness to local demand (Prahalad & Doz, 1987). Levitt (1983) created considerable stir by stating that a global product, if priced right with world-class technology and quality, would attract customers away from locally adapted but less capable products. However, many marketing scholars were never convinced that ignoring local demand in creating value was an optimal solution since flexible production and information technologies have made possible many combinations of cost efficiency and product adaptation (Ghemawat, 2007). Therefore, the focus of strategy is no longer based on industry economics but rather is adapted firm by firm according to idiosyncratic views of both the global and the many local markets that multinational firms face. With the rise in importance of large and varied emerging markets, interpreting the input of international customers, both direct and inferred, is a much more complex concern today than it was a few decades ago.

2.14. Adaptation vs. Innovation Business Models

Increasingly, the literature about business models has been moving from conceptualizing, characterizing and explaining a business model at a given point in time, towards a more dynamic view that examines phenomena like business model innovation and adaptation (Morris et al., 2005, Zott et al., 2011, Saebi et al, 2017).

In particular in times of environmental change, continuous changes to and the development of business models are key aspects in sustained value creation and capture (Achtenhagen et al., 2013). Otherwise, the misfit between the new context and the firm’s business model would weaken the firm. Firms neglecting to adapt their business model in reaction to

changes in the competitive situation or new contexts run an increased risk of failure (Doz and Kosonen, 2010). From an evolutionary point of view, sustained superior performance of a firm depends on its ability to 'transform the elements of its business model in rhythm with, and towards a "fit" with its external business environment' (Tripsas and Gavetti, 2000; Siggelkow, 2007; Aspara et al., 2011). Interestingly, the adaptation of business models has been less empirically researched than fundamental business model innovation (Heij et al., 2014; Demil et al., 2015, Christian Landau et al, 2016). While there is a debate regarding how strong a change to a business model needs to be to be considered a fundamental business model innovation (DaSilva et al., 2013), business model adaptation is empirically equally important.

We define BMI as has been done by Bucherer, Eisert & Gassmann, 2013, p. 184 "as a process that deliberately changes the core elements of a firm and its business logic." Or also as indicated by Casadesus-Masanell and Zhu, 2013, p. 464 "new business logics of the firm and new ways to create and capture value for its stakeholders".

Although we agree with Wirtz et al. (2016) that BMI requires a crucial transformation of the existing value proposition and/or value constellation, the problem is that core characteristics, components or concepts of the value constellation are often ambiguously defined, depending on the specific ontology used (e.g., Hartmann et al., 2016; Souto, 2015). The disagreement about what a BM is reflects also on the definitions of what BMI entails, so definitions in empirical papers are unclear or not provided. Some authors even use revenue models as synonymous with BMs (Aspara et al., 2010; Aziz & Mahmood, 2011; Brettel et al., 2012).

Osterwalder et al. (2005) and Wirtz et al. (2016) define BMI as the result of the rearrangement of a BM's components. Some authors such as Bucherer et al. (2012),

Bonakdar (2015), Hartmann et al. (2016), and Frankenberger et al. (2013) also adopt this view and define BMI as the deliberate modification of one or more of a firm's core components, or the introduction of new components. Björkdahl and Magnus (2013) stress that BMI can be the result of new combinations of new and old products or services, as well as changes in the firm's market position and process management. Lindgardt et al. (2009) focus on value delivery and define BMI as the reinvention of two or more BM components that can lead to novel forms of value delivery. The definition of Amit and Zott (2011) suggests that BMI can be understood as the adoption of novel activities that defines the BM of a firm, the adoption of new linkages between existing activities, or the replacement of business actors in the firm's value network. It can be concluded that research is still rather scattered and sometimes lacks depth in understanding what BMI implies, what its antecedents are, and how it affects performance and innovativeness of firms. (Bouwman et al, 2017).

The business model innovation concept is used in a dynamic, transformational manner. Business model innovation requires successful integration of business model elements with the external environment and the firm's interfaces with customers and partners (Zott and Amit, 2010). The notion of Business Model Innovation frequently refers to the development of fundamentally new and sometimes disruptive modes of value proposition, creation and capture or to the response to disruptive business models introduced by competitors (Markides, 2006). However, modifications and reconfigurations as well as extensions and revisions of existing business models can also be considered business model innovations (Amit and Zott, 2012).

Landau et al (2016) points out that, research on business model innovation can be categorized into **two streams**: business model renewal, that is, the introduction of new business models beyond the scope of existing business models, and business model

replication, meaning the leveraging of existing business models via adjustments (Heij et al., 2014). Replication is the *adaptation* of a formally working business model to a new context in which the model does not work anymore. The need to adapt a business model can stem from transferring a business model to a new, different context or from change in the model's current context. In our thesis, we refer to adaptation as a form of business model innovation that addresses the development of a business model to better fit a new context, in our case emerging markets context, using web-based strategies.

We agree with T. Saebi et al. (2017) in defining business model adaptation as "the process by which management actively aligns the firm's business model to a changing environment, for example, changes in the preferences of customers, supplier bargaining power, technological changes, competition, institutional voids, etc". They point out that business model adaptation and innovation differ in the following important ways. First, while the kind of novelty implied by the notion of an "innovation" might be a likely outcome of business model adaptation, it is not a necessary requirement. Business model adaptation can be non-innovative. Second, while business model adaptation is a response to external causes, business model innovation may be driven by internal as well as external factors (Bucherer et al., 2012). This further highlights the difference in motivation between business model adaptation and innovation. In adapting the business model to changing external conditions, the firm aims to attain alignment with the environment (on strategic adaptation, cf. Frishammar, 2006; on organizational adaptation, see Chakravarthy, 1982; Hrebiniak and Joyce, 1985). In contrast, an important motivation for business model innovation is to shape markets or industries by means of creating disruptive innovations (cf. Markides, 2006; Saebi, 2015).

In spite of recent strides forward in the understanding of the drivers, processes, and facilitators of business model change (notably Achtenhagen et al., 2013; Andries and

Debackere, 2006, 2007; Andries et al., 2013; Bohnsack et al., 2014; Mason and Leek, 2008; McNamara et al., 2013; Willemstein et al., 2007), there is still little knowledge of *how* firms adapt their business models in response to external threats and opportunities. This is problematic because a contingency perspective would suggest that the fit between the firm's business model and its environment may influence profitability (Galbraith, 1973, 1977; Lawrence and Lorsch, 1967), and that timely response may be important (Saebi et al, 2017).

Adapting an existing business model is often not an easy task. Adaptation may imply changes of the firm's value proposition, market segment, value chain and value-capture, or how these are linked in an architecture (Saebi et al, 2017). Either way, adapting a business model is likely to involve some level of uncertainty with respect to the success of the outcome (Andries and Debackere, 2007; McNamara et al., 2013). Given organizational inertia and outcome uncertainty, firms are unlikely to change their business model unless they have rather strong incentives to do so. Even in cases where the need for adaptation seems evident, the firm's strategic orientation and the associated path dependencies are likely to impede the process of adapting an existing business model to new market demands or competitive threats (Bohnsack et al., 2014; Cavalcante et al., 2011; Santos et al., 2015).

Another stream of the literature on business model makes reference to *failures* to adapt to these threats. They agree mainly that such failures can occur for two main reasons. First, managerial cognition, in particular the interpretation of changes in the environment, can play a critical role in shaping organizational responses (Barr, 1998; Barr et al., 1992; Ginsberg and Venkatraman, 1995; Tripsas and Gavetti, 2000). Still, research is divided on whether the negative (i.e., a perceived threat) or positive (i.e., a perceived opportunity) framing of events is more likely to motivate organizational response. Proponents of threat-rigidity theory contend that perceptions of threat encourage managers to rely on existing routines, while perceptions of opportunity induce more risk-taking behaviour (Dutton and Jackson, 1987;

Staw et al., 1981). Interestingly, prospect theory makes exactly the opposite predictions: Under perceptions of threat, managers are more motivated to take risky action than under favorable conditions (Barberis, 2013; Kahneman and Tversky, 1979). Additionally, research also indicates that a firm's strategic orientation as it emerges from past experience, solutions and heuristics can result in path dependencies that influence organizational change and adaptability (Day, 1994; Gatignon and Xuereb, 1997; Lant and Mezias, 1992). In contrast, firms and managers that are oriented towards continually finding and exploiting new market opportunities might be more perceptive and better equipped to adapt their business model in face of emerging threats and opportunities than might firms with a more defensive posture (Teece, 2007).

Adaptation Business Model to emerging markets

Emerging markets offer a wide range of opportunities for firms from developed markets, especially in terms of high growth potential. However, business models that enable firms to achieve competitive advantage in their home markets are often challenged by the different nature of emerging markets. Firms, therefore, have to innovate and adapt their business models to better fit the specific context of these international markets. (Landau et al, 2016)

Despite the exiting studies on the process of business model innovation, scholars are calling for additional work in this area, in particular to determine the process and also the elements of business model innovation in specific contexts (Schneider et al., 2013). One specific context, which is important for business model adaptation (Johnson et al., 2008), but that has been largely neglected in the empirical literature despite specific calls for it (e.g., Demil et al., 2015), is the adaptation of business models to emerging markets. Little is known in the business model literature about the process and content of business model adaptation to emerging markets. In addition, less is known about the adaptation of business models using the tools that the Internet allows and how business models are using them in emerging

markets to be more competitive and overcome the institutional voids of these markets. Hence, research is required on the nature of the business model adaptation process in general and in particular in the context of emerging markets as well as on its content, that is, what changes firms make to their business model (Landau et al, 2016).

One of the few studies that exist can be found in the work of Dunford et al. (2010). The authors analyze the replication of the home country business model of a new venture in several developed international markets and propose that business model innovation in this context is of an evolutionally nature and driven by the four processes of clarification, localization, experimentation, and cooption. Another study is that of Casadesus-Masanell and Ricart (2010) wich analyze the reconfiguration of business models originally designed in the stable Catalonian context by what they call 'new generation companies' into new business model which can help firms coping with dynamic markets and internationalizing successfully. Also Sanchez and Ricart (2010) address business model innovation for low income markets.

Landau et al, 2016 find that firms adjust first value proposition and capture mechanism to emerging markets, followed by downstream as well as upstream value creation and delivery, finally continuously adjusting all components. While adjustments were necessary for all components of the business model, in particular value creation and delivery were subjected to change. However they found that when adjusting business models firms keep the fundamental design theme of their business model and the activities performed intact when adjusting to emerging markets. Within the activity system used to create and deliver value, the structure and governance of transactions in particular were adapted; the content of the activity system was changed to a lesser extent.

2.15. Business Models in Emerging Markets

Due to the fundamentally different social, economic, and cultural environments and institutional arrangements that characterize emerging markets, companies were urged to rethink every step in their supply chain and develop novel business models (Prahalad & Hart, 2002) because these conditions affect a company's strategies and performance (Terpstra and Sarathy, 1994, Wright et al., 2005, Khanna et al. 2005, Hoskisson et al, 2013). In addition, existing models may have limited applicability and need to be adapted (Seelos & Mair, 2007).

Emerging economies, specifically Latin American markets, present a significantly different business context, owing largely to their less developed financial, legal, and physical infrastructures. Latin American markets also have different business philosophies and cultures, which influence the relationship between companies and the marketplace. Emerging economies such as those of Latin American countries can be defined: countries that satisfy two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system (Arnold and Quelch, 1998). Emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together (Khanna and Palepu, 2008). Moreover, the recent idea that frontiers are subsiding and creating a flat world in which people find work and opportunity without being constrained by their location, is far from the real economic and political world.

A well-defined, internally consistent business model that is consonant with the market environment is said to be essential to any business seeking a sustainable competitive advantage. This is true in individual local or domestic markets, border-crossing international markets, and rising worldwide markets.

Approaches to “the Business Model” tend toward universalistic statements, with no recognition that different markets might require different resources, strategies, or organizational structure. For instance, of the studies cited above, only Casadesus-Masanell and Ricart (2010) even mention international considerations, and that is to note that business models for developed countries might need to be adapted for “Bottom of the Pyramid” markets. The possibility that every different national market might require multinational firms or national firms with business models similar to those of developed countries to adapt their business model to some extent is either not recognized or is considered so apparent as to need no mention. International-strategy studies make clear that the applicability of resources and capabilities, the possibilities of strategies and the demands for organizational structures do vary from market to market (Tallman, 1992). This is the case even for integrated global markets, that is, firms may function as global networks with global outlooks but they must still deal with variations in the business environment from place to place (Ghemawat, 2007).

Business models attempt to provide holistic pictures of how the firm plans to compete, how it will create, deliver, capture, and allocate value among customers, suppliers, and internal units. Latin American business models must do the same but within an environment that is much more complex and dynamic than any developed market. However management research is scarce in emerging markets in general and in Latin America in particular on the determining drivers for company performance and strategy implementation (Nichols-Nixon et al 2011, Xu and Meyer, 2013). Whereas scholarly approaches to business models tend to address how managers can identify opportunities and create business models to fulfill them, Latin American (whether Latin American companies or multinational companies) business models must have the flexibility across space to adjust to very different national-market conditions and the flexibility across time to adapt to a system that is constantly changing as

different national systems evolve and the ties that bind them continually adjust to these new stresses (Tallman, 2014). However scarcer is management research in emerging markets in general and in Latin America in particular on the determining drivers for company performance and strategy implementation (Nichols-Nixon et al 2011, Xu and Meyer, 2013).

CHAPTER III: RESEARCH DESIGN AND METHODOLOGY

1. Introduction

The following chapter describes the objectives, research design and methodology of the dissertation. The design methodology and data analysis of the research project have been structured around the research question. These provide a coherent link between the relevant academic literature, the research question and how the research was conducted. The following sections outline these aspects in more detail.

2. Research Design

Research design refers to the overall strategy which will be adopted to integrate the different aspects of the study. The correct design of the research strategy is essential to guarantee that the data collection and the analysis address the research problem in an unambiguous manner.

Given the objectives of this research, a decision was made to develop the empirical research of this dissertation using a qualitative case-study methodology (Yin, 1994). A design based on the study of multiple-case studies was chosen, based on the analysis of six firms.

A multiple case study methodology is adequate for this dissertation as it focusses on a phenomenon that is still quite unclear. A deeper understanding of the relationship between e-business models and context factors from emerging markets requires to focus on the questions “how” and “why” for which a multiple-case design is particularly well suited. This choice is supported by Yin (2012) based on the nature of the research question (‘how’ and ‘why’ events occur). This approach can be used to explain ‘why’ the case succeeded or failed. The author argues that the research can be kept focused by specifying the boundaries of the case study and its *‘unit of analysis’*.

According to Yin (1994), multiple cases should be chosen so that they replicate each other by predicting results or producing contrasting results for predictive reasons. The purpose of this study is to explore how business models develop and transform successfully in such a context.

The research aims will develop an understanding of the success factors and value drivers that are influencing on-line strategies and the impact these factors have on business models vis–à–vis a firm's capabilities and the value creation of six companies in Latin America. The research will focus on the compilation and examination of each business model and discerning in each component what online business strategy is used and how it is influenced by the emerging country context. The analysis will 'explain' what currently characterizes the on-line strategy of business models.

An inductive approach was followed to explore ways of strengthening the existing business model. 'Inductive' reasoning is generally more open-ended and 'exploratory' (Robson, 2011). This approach is supported by Gill & Johnson (1991, pp.33), who argue that explanations of social phenomena are worthless unless they are grounded in observations and experience.

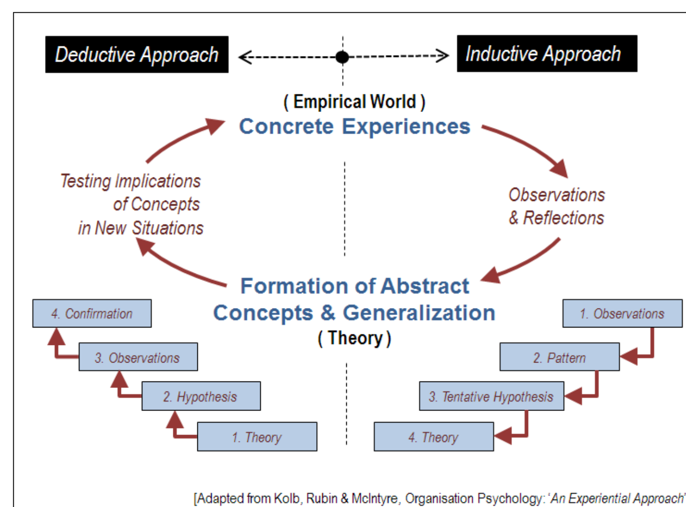


Figure 3-1: Experiential Learning Cycle
Source: Kolb et al. (1979)

The research design is therefore based on the study of multiple cases that allow for the development of a theory by conducting a comparative analysis and logical replications.

3. Qualitative Research Method Approach

Because business in emerging markets is a complex social phenomenon with multiple players involved and no clearly evident boundaries to its context, a qualitative approach seems to be appropriate to answer the proposed research questions (Yin, 1994). Qualitative research, rather than traditional quantitative empirical tools, is particularly useful for exploring implicit assumptions and examining new relationships, abstract concepts and operational definitions (Bettis, 1991).

Also, qualitative methods are particularly useful for deriving detailed information about a participant's thoughts and behaviors or experiences (Boyce & Neale, 2006). As Eisenhardt (1989b) puts it, "qualitative data is useful for understanding the rationale or theory underlying relationships revealed in the quantitative data" (p. 538). Qualitative data collected with these methods helps to "preserve the flow, see precisely which events lead to which consequences, and derive fruitful explanations" (Miles and Huberman, 1994).

Also, the inductive nature of a qualitative study (Merriam, 1988) allows us to explore, and build abstractions, concepts, propositions, and theories from details, as well as to partly explore the validity of the theories recently applied to emerging markets (cfr. Nichols-Nixon et al, 2011; Xu and Meyer, 2013).

Given its strengths, qualitative research is essential for uncovering deeper processes in individuals, teams, and organizations, and understanding how those processes unfold over

time. Additionally, qualitative research is critical for gaining an understanding both of what individuals experience and how they interpret their experiences (D. J. Bluhm et al., 2011).

In terms of theory advancement, qualitative research seeks to generate, elaborate, or test management theories (Lee et al., 1999). Theory generation is the qualitative creation of a new theory which results in testable research propositions. Theory elaboration occurs when the study design derives from a pre-existing model or conceptual idea in which formal hypotheses are not included. Theory testing utilizes formal hypotheses from extant theory to inform study design. A fourth and less common theoretical purpose in qualitative research is known as critical theory, which is an attempt at inducing radical change through an overt political agenda (Lee et al., 1999). The interest here is theory generation from case study evidence (Eisehardt, 1989).

4. Case Study Methodology

Case study is a qualitative method and is defined as “a research strategy which focuses on understanding the dynamics present within single settings” (Eisenhardt, 1989). The case study method offers the possibility to describe the processes that encompass an entrepreneurial strategy making mode and illustrate them in real-life context (Yin, 2003). Furthermore, case study allows researchers to cover contextual conditions intertwined with the phenomenon being studied, thus case study research, as a research strategy, is an all-encompassing method (Yin, 2003). Also, a lack of prior theorizing about a topic makes the inductive case study approach an appropriate choice of methodology for developing theory (Eisenhardt, 1989). According to Yin (1994), case studies are especially suitable when it is intended to understand contemporary complex social phenomena in their real-life context. Case study can answer "how" and "why" questions within real-world contexts and, so, it is recommended when the issues are complex and evolving. Therefore when the concepts

under study are abstract and when the boundaries between phenomenon and context are not clearly evident, the case study approach will be imposed (Yin, 1994).

Case study has two major designs. One of them involves a single case study where a single subject is examined in depth, and the other is a multiple case study where several cases or events are studied. A multiple case study enables the researcher to explore differences within and between cases. While single-case studies can richly describe the existence of a phenomenon (Siggelkow, 2007), multiple-case studies typically provide a stronger base for theory building (Yin, 1994). The goal is to replicate findings across cases. Because comparisons will be drawn, it is imperative that the cases are chosen carefully so that the researcher can predict similar results across cases, or predict contrasting results based on a theory (Yin, 2003). It is very important to realize in this step that if multiple cases are selected, each case must be treated as a single case. The conclusion of each case can be considered in light of the multiple-case phenomenon; however, each case must be examined on its own (Larry Dooley, 2002).

Yin (2003), argues that single and multiple case studies are two variants within the same methodological framework. The choice is considered one of research design. However, the multiple-case design has distinct advantages and disadvantages in comparison to the single-case study. For instance, evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust (Herriott and Firestone, 1983). However one must ensure that one is not trying to compare “apples” with “pears”. Consequently, a major insight, according to Yin, is to consider coherent replication logic through the process of data gathering. That is, each case should be selected so that it either predicts similar results **(literal replication),** or produces contrary results but for predictable reasons **(theoretical replication).** The former implies similar results among cases, while the latter assumes contrasting results among cases because of theoretical reasons (Yin, 2003:

47). Accordingly, the six firms were selected based on their successful, but still somewhat different, business model innovation experiences over the years so as to allow for literal replication. The cross-case analysis is therefore focused on the selection of categories or dimensions, and aimed at analyzing the similarities between the six case studies' business model innovation experiences.

Multiple cases also create more robust theory because the propositions that may emerge out of the study are more deeply grounded in varied empirical evidence than those resulting from a single-case design (Eisenhardt and Graebner 2007).

5. Theory Development Methodology

The theory allows for the explanation of what is of general relevance and interest. Without a theory, a case study would be little more than a story about a unique situation. With a theory, however, case studies can explain fundamental organizational or other processes. Cases have unique features and generalizable principles, and the theory allows for the case not just to be descriptive, but to have wider meaning (Hartley, 1994).

The research design based on multiple cases was designed for theory building (Eisenhardt 1989), mainly based on an ongoing comparison of the data and the theory, and is especially useful in the early stages of research on a topic (Brown and Eisenhardt, 1997). Theory building is a process in which research begins with observations and uses inductive reasoning to derive a theory from these observations. The methodology fits with the intention of our study: firstly, exploring what the emerging characteristics of on line strategies of business models are in emerging markets, and secondly, explaining how companies can create value in these markets.

Building theory from case studies is a research strategy that involves using one or more cases to create theoretical constructs, propositions and/or mid-range theory from case-based, empirical evidence (Eisenhardt, 1989b). The central notion is to use cases as the basis from which to develop theory inductively. The theory is emergent in the sense that it is situated in and developed by recognizing patterns of relationships among constructs within and across cases and their underlying logical arguments. Theory building from case studies is an increasingly popular and relevant research strategy that forms the basis of a disproportionately large number of influential studies (Eisenhardt and Graebner 2007).

Theory building occurs through the systematic piecing together of detailed evidence to generate theories of more general interest (Hartley, 1994). As a result, the analysis can be applicable to a wider basis than just the particular case(s). In theory building, the initial identification of research questions and the theoretical framework is usually tentative, and is then developed further as information is gathered and analyzed.

Theory building has been operationally defined as “the process of modeling real-world phenomena” (Torraco, 1997, p. 123). It has been argued that case study research has made a unique contribution to understanding real-world phenomena in the context of the case.

The process of building theory from case study research is a strikingly iterative one. While an investigator may focus on one part of the process at a time, the process itself involves constant iteration backward and forward between steps.

Theory building from case study research is particularly appropriate at the early stages of research on a topic or to provide freshness in perspective to an already researched topic.

Theory building requires the ongoing comparison of data and theory (Glaser & Strauss, 1967) and the continuous refinement between theory and practice (Lynham, 2000). Case study research has the ability to embrace multiple cases, to embrace quantitative and

qualitative data, and to embrace multiple research paradigms. Thus, case study research can contribute in a holistic way to all phases of theory development (Dooley, 2002).

Theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test (Eisenhardt 1989).

Theory developed from case study research is likely to have important strengths such as novelty, testability and empirical validity, which arise from its close linkage with empirical evidence (Gill, 1995).

6. Exploratory Case Study

Given the relatively new and unexplored nature of the phenomenon - the impact of the Internet on business models in emerging markets – this study has adopted an exploratory research strategy (Yin, 1984; Eisenhardt, 1989). Case studies may be exploratory, descriptive or explanatory in nature (Yin 1989). As the focus of study is on an emerging phenomenon, the current research is of exploratory nature. Indeed, one benefit of case study research is that it provides an opportunity for a deep understanding of relatively new phenomena, even if the theoretical foundation seems inadequate. An exploratory methodology such as this has been recognized as being particularly useful for researchers interested in examining strategies in emerging economies (Hoskisson et al., 2000).

Consequently, given the highly explorative nature of this study, it seems that the exploratory case study is the most suitable method to apply to this research. Accordingly, data was collected before propositions were formulated.

7. Research Process

Following the guidelines suggested by Eisenhardt (1989), the research phases were the following:

(i) Getting started; defining the research question

(ii) Selecting the case studies

(iii) Crafting instruments and data collection methods

(iv) Entering the field; data collection; data analysis

(v) Analyzing within-case data

(vi) Searching for cross-case patterns

(vii) Shaping hypotheses; the theory-data relationship

(viii) Enfolding literature: validation-generalization

(ix) Closure: empirical and general saturation

(x) Outputs: may be concepts; conceptual frameworks; propositions or mid-range theory

In a first step, a review of the existing literature on the field of business models and emerging economies has been conducted to ensure that there was sufficient and relevant information available to identify propositions supporting the research purpose. Based on this information and the formulated research question, suitable Latin America companies operating successfully in those emerging economies with innovative business models and meeting the specified criteria were selected.

All the information gathered from the literature review was applied to define relevant interview questions that would help to answer the formulated research question and sub-questions. Therefore, research has been done on publicly available information on the company's websites, annual reports, press releases, academic cases published in connection

with the selected companies and articles. All that gathered information was then analyzed and prepared to set up an open-ended questionnaire for in-depth interviews with persons currently responsible from middle- and upper management concerning each part of the business model. Semi-structured interviews for case study are used because, in applying this method to data collection, participants have the opportunity to respond in their own words, rather than being forced to choose from fixed responses, as quantitative methods require. In-depth, semi-structured interviews evoke responses that are unanticipated by the researcher and are rich and explanatory in nature. Finally, interviews are particularly useful for testing what people's responses might be to a particular issue, while revealing completely new issues that the interviewer might not have previously considered (Wimmer & Dominick, 1997). Eventually, semi-structured interviews with executives from the selected companies were conducted in relation to their intended and actual business model design, successes, challenges, and learning. These were one-hour-and-a-half to two-hour interviews with each executive. Typical key respondents were owners or senior managers of sectors mainly related to Internet business development, who provided insight into the overall initiative. The interviews were conducted in person, and were transcribed and coded. Subsequently, the findings were formulated and linked to the researched academic literature. All findings were collected and analyzed through the application of Osterwalder & Pigneur's (2010) business model canvas, as it allows the researcher to research into and specifically analyze the different elements of the business model design.

The interview consisted of 72 open-ended questions (cfr. Annex I). Following the methods of inductive research, these questions were supplemented with ones that seemed fruitful to pursue during the interview. The interview began with a request for a description of the firm's competitive strategy and business model. Each executive then described the functional strategy of his or her area in relation to the impact of on line strategies and the Internet.

Thus, a general view of the impact of the Internet on the business model of the firm emerged. In the second part of the interview, if a member of the company board was interviewed, they were asked in general about the main areas that were affected by the Internet and how the context conditions of emerging countries caused an adaptation in the business model. If they were a manager of a functional area, they were specifically asked about the online strategies within their department and also how the specific conditions of the emerging countries made them innovate in the on-line strategies of their areas of responsibility. Figure 3.2 graphically depicts the research process that was followed for the investigation of the selected Cases.

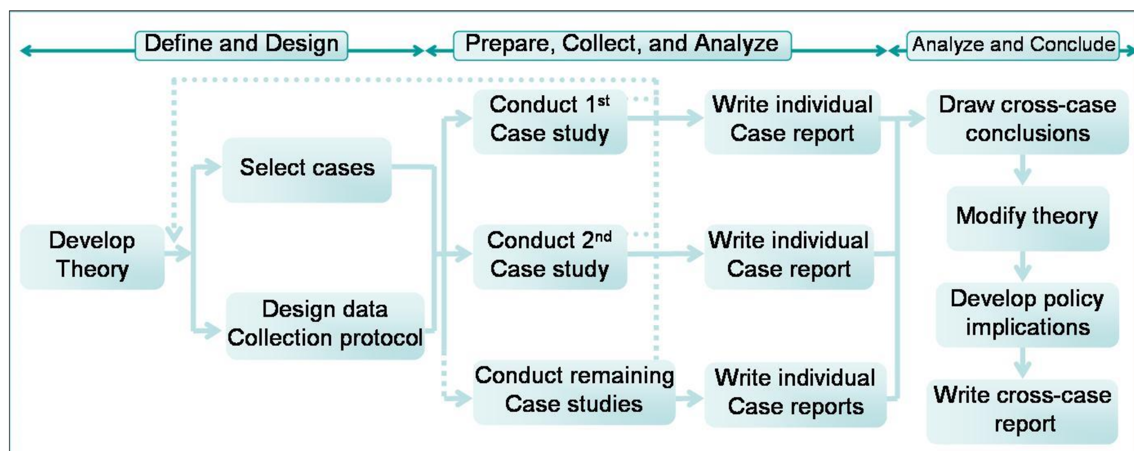


Figure 3-2: Research Process
Source: adapted from Yin, 1989, p.56

8. Selection of Case Studies

Selection of cases is an important aspect of building theory from case studies (Eisenhardt 1989). The selection of cases for a qualitative inquiry differs from a quantitative study. Miles and Huberman (1994) argue that, "The choice of cases usually is made on conceptual grounds, not on representative grounds" (p. 29). On the one hand, this means that the inclusion of multiple cases does not change the degree of generalizability of a study because

the researcher is generalizing from one case to another and not to a larger universe (Miles and Huberman, 1994). On the other hand, choosing the cases on conceptual grounds allows the implementation of a replication logic which makes the findings more robust and worthy of interpretation (Yin, 2003). The next decision to be made was to identify the sample of companies to include in the multiple case study. At this point, four fundamental decisions were made for this empirical part of our research:

- First, we decided to focus our empirical research on companies born in Latin America, from different industries, spread across several countries in this region, which have experienced significant international expansion, with more than ten years of operation, and recording the best performance in their industries in Latin America.
- Second, the cases should be those with learning potential and rich diversity, essential attributes when conducting explorative research (Eisenhardt, 1989).
- Third, we decided to choose companies that are leaders in the region in their industries and recognized internationally.
- Fourth, they had to be Internet-intensive companies for their businesses and have a high technological dynamism in their sector.

Table 3-1: Criteria to select cases to study

Criteria	Argument
Multinationals established in Latin America (Multilatinas) with more than 10 years of operation in the region	Greater possibility to see the development of the business model over time and its adaptation to the context of each country.
Diversity of industries	In order to be able to compare and expand the possibilities of the generalization of conclusions to different industries

Leaders in the region and in their own industries	Given that the study focuses on success factors and general principles, this criterion better ensures that it can answer the research questions
Intensive Internet use in their business	Due to the focus of the research that is placed on the impact of the Internet on business models

For this research project, six cases were selected for further in-depth analysis. Six retrospective case studies of business model adaptation (see Table 1.1) provide the first empirical basis for this thesis. We selected these companies based on their successful, yet somewhat different, business model innovation with internet business experiences over the years. The study began in early 2013 and finished in December 2016.

These cases include successful experiences: six multinational companies (called "multilatinas") from various sectors; four of them are "pure play" business models (Despegar.com, OLX, Mercado Libre and Globant), while the other two are "bricks and mortar" [10] business models (Falabella and Sodimac).

This sample is not random; a framework has been developed that allows for the selection of companies (Simon, 1978) and responds to the main purpose of the thesis (Glaser & Strauss, 1967). One of the basic conditioning factors for the selection of cases was the fact that the company conceived the development of businesses through the Internet as a priority and strategic activity, and in turn leads the area in which it competes. In this way, the cases offered a better chance of responding to the two research questions formulated at the outset. On the other hand, geographical and sectorial variety was sought in order to achieve a broader perspective that would generate a greater wealth of results. We are, therefore, faced

[10] Pure play refers to companies that sell only through the Internet and brick-and-mortar businesses are companies that have a physical presence (e.g., a retail shop in a building) and offer face-to-face customer experiences.

with a theoretical - not statistical - sample that allows us to discover categories and their properties, and to suggest interrelations of emerging theory (Glaser & Strauss, 1967).

Many business executives related to Internet businesses were also interviewed, as well as academic experts on the subject (Table 3.2). Without a doubt, the reading and knowledge of all these cases and the interviews with experts have also contributed to configure the main results that are offered in the thesis.

While in the cases of companies not included in the selected sample whose managers were interviewed, such an exhaustive analysis of their business models has not been carried out as in the main cases, the insight offered by them has nevertheless contributed decisively to the way of inferring, contrasting, validating or questioning the different results obtained. Table 3-2 describes the sources consulted for collecting data in each of the cases

Table 3-2: Sources of information for data collection

Case	Archive documents and public events	Interviews
OLX	• Internal documentation of the company • Specialized magazines and several daily articles from Argentina • Case Study of OLX from IMT (Ghaziabad) • OLX managers' conferences • Napsters Group Brochures • Many presentations to investors of the Napsters Group	• Interview with OLX Co-Founder • Interview with OLX Argentina General Manager • Interview with OLX Latin America Expansion VP • Interview with Argentina HR Director
Tiendas Falabella	• Case Study of Falabella from IBS (ICMR) • Case Study of Falabella from AMITY (Bangalore) • Many Presentations to investors	• Two Interviews with Head of Business Intelligence at Falabella & Marketing Falabella.com • Two Interviews with Manager of Business Development at Falabella.com • Two Interviews with director in Argentina of Falabella.com Argentina. • Interview with E-commerce Operations Manager at Falabella.com Argentina
Mercado Libre	• Interview with Marcos Galperín, Mercado Libre CEO, La Nación, 29-01-17 • Many Presentations to investors • Case Study of Mercado Libre (Standford) • Case Study of Mercado Libre (HBS) • Internal documentation of the company	• Two Interviews with Chief Financial Officer • Two Interviews with Investor Relations Manager • Interview with Customer Experience Director • Interview with Marketplace VP • Interview with Executive Vice President • Interview with Corporate Marketing Director

Despegar.com	• Case Study of Despegar.com (Fuqua B. S-Duke) • Specialized magazines and several daily articles from Argentina • Internal documentation of the company	• Interview with Co-founder and Chief Executive Officer • Interview with Product Management & UX Director • Interview with Director of Operations • Two Interviews with Head of Online Marketing
Globant	• Two Case Studies of Globant (HBS) • Many Annual Reports of Globant • Many newspaper articles and specialized magazines	• Interview with Co-Founder & CTO • Interview with Chief Financial Officer • Interview with Co-Founder and COO • Two interviews with Co-Founder and EVP CORP. AFFAIRS
Sodimac	• Financial statements 2015 and 2016 • Many newspaper articles and specialized magazines • Conference at the E-commerce day of General Manager Sodimac Argentina and Uruguay	• Two Interviews with E-commerce Manager • Interview with General Manager at Sodimac Argentina
Academic Experts		• Interview with Director of Corporate Strategy at IAE Business School (Austral University) • Interview with Prof. of Media Business Models Latin America (Austral University) • Interview with Director of Media and Entertainment Center Latin America (CIMEL) • Interview with Director of Latin American Institute of E-commerce • Interview with expert in new business implantation in Brazil
Corporate Experts		• Interview with President and CEO at Garbarino.com • Interview with President and CEO at Shopear.com • Interview with President and CEO at Bacan.com • Interview with E-commerce Director at Sony Argentina • Interview with General Manager at Cablevisión Argentina. • Interview with Director of Technology at Grupo Cencosud Argentina • Interview with E-commerce Manager at Walmart Argentina • Interview with Co-Founder and Director of Avenida.com, Founding Partner at Quasar Builders • Interview with E-commerce Director at La Anónima Supermarket Argentina • Interview with Argentine Electronic Commerce Chamber President • Interview with former E-commerce Director at Garbarino Argentina.

9. Validity and Reliability

While both qualitative and quantitative researchers need to test and demonstrate that their studies are credible (valid and reliable), the credibility in quantitative research depends mostly on some sort of instrument construction, while in qualitative research "*the researcher is the instrument*" to insure credibility (Patton, 2002). In other words, in quantitative research different researchers, using the same instruments/procedures, will arrive at similar

results. However, in qualitative research, where the research occurs in natural settings and involves the response of humans in the process of change, it is often difficult to replicate (Burns, 2000). For that reason, according to Patton (2002), reliability is restricted by the number of observers involved in the study, the response of informants who provide data, and the natural response and bias of the researchers as they are involved in the study for a lengthy period of time.

The power of case study research is the ability to use methodologies within the data-collection process and to compare within a case and across cases for research validity.

Yin (1994) helps us with these concerns and argues that there are three validity tests (excluding reliability) that are commonly used to establish the quality of any empirical social research:

- *Construct validity* - establishing correct operational measures for the concept being studied.
- *Internal validity* - establishing a causal relationship, whereby certain conditions are shown to lead to other conditions.
- *External validity* - establishing the domain to which a study's findings can be generalized.

To pass these tests of validity and reliability, explicit attention must be paid to the design of the research study and to the processes used in the collection of the data, the analysis of the data, and the reporting of the findings (Herling et al., 2000).

Based on Yin (1994) and Huber and Van de Ven (1990), Table 3.3 assesses the overall quality of the case studies performed.

Table 3-3: Quality of the six case studies research

Test	Method	Research Phase	Action Taken by author
Construct validity	Triangulation – use multiple sources of evidence	Data collection	Interviews (Face-to-face, with company executives and experts, usually from competing companies; documents (public; private)
	Establish a chain of evidence – tracing every step to a conclusion (citing)	Data collection	The research design has been the guiding principle to insure a fit between the research aims, the research question, and the consequent data gathered (and subsequently analyzed). The reader should be able to trace the steps in either direction (from questions to propositions developed and to conclusions - and vice versa)
	Have key informants review draft case study report	Composition	Both supervisors were informed on a monthly basis on the research progress, and they were also closely involved in the analysis process of the cases

Internal validity	Do pattern-matching (empirical to test predictions)	Data analysis	Cross-case analysis (Eisenhardt, 1989)
	Do explanation building (doing x leads to y)	Data analysis	Building propositions
	Address rival explanations (was a third factor involved)	Data analysis	Addressed in the Discussion section of the thesis (chapter 5)
External validity	Use theory in single case studies	Research Design	(not relevant)
	Use replication logic in multiple-case studies	Research Design	Data gathering and analysis were focused on similar criteria
Reliability	Develop case study database (documentation, narratives, notes, etc.)	Data collection	Most interviews conducted by the author were recorded. Several interviews have been partially transcribed for more in-depth analysis. Company documents have been received both electronically and physically (both of which have been saved in individual files)

It should be noted that, although we took into consideration some of the internal validity tactics, internal validity is not relevant for exploratory studies, but for explanatory or causal study only (potential confusion about cause and effect) (Yin, 1994, p. 35). Also, following Yin's recommendations, as well as Miller, Cardinal and Glick (1997), who reviewed methods for improving the validity and reliability of retrospective studies, four suggestions were taken (additionally) into consideration while performing the research (data gathering and analysis):

- Multiple informants were utilized as much as possible so that reliability could be assessed.
- During the interviews, we asked about past events or facts rather than have individuals try to recall the opinions or beliefs that they may have expressed or held at some time in the past. This is because events and facts are subject to less cognitive bias or to impression management than are personal points of view.
- Informants were not asked to recall events from the distant past (that they were not present at), in order to reduce the time span bias.
- Informants were motivated by ensuring confidentiality and minimizing the duration and inconvenience of data collection.

Using these methods to gather retrospective recall of events, according to Miller et al. (1997), can produce a reasonable substitute for continuous monitoring procedures. External validity, or 'generalizability,' addresses the problem "whether a study's findings are generalizable beyond the immediate case study" (Yin, 2003: 37). This does not imply statistical generalization, but theoretical. This study increases its external validity by means of doing cross-case analysis and detailing the context of the selected cases.

The purpose of reliability is to minimize possible errors and bias of a study (Yin 2009). Reliability can be enhanced by providing the reader the chance to follow up on research progress, from initial research questions to drawing conclusions. Hence, trustworthiness of qualitative research is generally commonly evaluated through the documentation of the research process (Creswell 1998). Reliability is "the extent to which [measurements] are repeatable and that any random influence which tends to make measurements different from occasion to occasion is a source of measurement error" (Nunnally, 196). The fact that an indicator is reliable does not mean it is valid. An instrument may be very reliable, i.e. it yields consistent results on repeated measurements, but the results may be incorrect all the time.

The research project involved the creation of a paper and digital database to allow the researcher to record, organize and retrieve research data relating to the study (Yin, 2012 pp.173). The database is made up of all the information gathered as part of the research and contains explicit footnotes (and references) to the sources of evidence. Although the database is not intended for public presentation, it remains available for subsequent researchers.

10. Data Collection

Given the exploratory nature of this research, multiple qualitative methods were used to gather the relevant data needed in order to ensure the validity and reliability of this part of the research. Data collection was carried out through both desk and field research. The desk research consisted of information gathered through books, articles, websites, as well as documents received from the six companies. The field research consisted of interviews (using a standard protocol), questionnaires, and company visits as we said above. We used a

semi-structured questionnaire in order to allow the managers maximum freedom to explain their views on the new business model and their understanding of the innovation process, and to enable us to collect the data we felt we needed for the purpose of our research at the same time.

Yin (2003: 97-106) recommends three principles of data collection. They are: (1) the use of multiple sources of evidence, (2) the creation of a case study database, and (3) maintaining the chain of evidence. We follow all these principles throughout the cases' data collection procedures and analysis. The first principle – use of multiple sources of evidence – allows "the development of multiple lines of inquiry" (Yin, 2003: 98), leading to more accurate and convincing conclusions because events and facts are supported by different sources of evidence. The second principle refers to the creation of a case database for organizing all collected data. This database is also essential for the third principle – maintaining a chain of evidence. An external observer should be able to follow how the evidence helps to buildthe conclusions in a logical manner, from the initial research questions to the last conclusions. All the principles mentioned above have an impact on the validity and reliability of this study.

The initial research questions provided guidance for this study and helped us to identify meaningful and relevant activities (Yin, 1981). More specifically, this included collecting data on the background and performance of each venture, strategies used to operate successfully in emerging market contexts, product design and development, knowledge transfer and sharing, the leveraging of existing capabilities, and inter-organizational relationships. The research was conducted over a period of 3 years and involved triangulation among a variety of different sources of data including analysis of archival materials, interviews with experts, interviews with managers of companies that compete with the companies chosen for the sample and academics, evaluation of both original and

existing case studies, and the conducting of formal and informal interviews with managers of the six cases selected and other companies that have developed similar business models that operate totally or partially on the Internet (Yin, 1984).

No single source has complete advantage over all the others. In fact, the various sources are highly complementary, and a good case study will therefore want to use as many sources as possible. For case studies, the most important use of documents is to corroborate and augment evidence from other sources, in verifying the correct spellings and titles or names of organizations, and in drawing inferences about the nature of the organization. We turn now to discuss how the case studies are analyzed.

11. Data Analysis

Detailed case analysis is essential to reduce volumes of data, create insight and become intimately familiar with the uniqueness of each case before comparisons are made across cases. When searching for cross-case patterns, we found it necessary to look at the data in divergent ways to avoid leaping to premature conclusions (Gill, 1995).

In qualitative research, the purpose of analysis is to provide an authentic understanding of the phenomenon. The aim of the data analysis is to generate empirical evidence to answer the research problem (Yin 2009). However, the challenge of qualitative analysis lies in making sense of massive amounts of data, which involves reducing the volume of raw information, sifting trivia from significance, identifying significant patterns, and constructing a framework for communicating the essence of what the data reveals (Patton, 2002, p. 432).. Therefore, analysis is an integral part of the research process, as it transforms the collected data into findings (Patton 2002: 432).

Abundant data from primary and secondary sources was collected to describe the strategy and operations of the selected cases. Therefore, secondary data on selected cases, from annual and investment reports, press articles, as well as internal data, were analyzed. In addition, transcripts from semi-structured in-depth interviews with middle and upper management were used to analyze their arguments and assumptions concerning on-line strategies and level of innovation in business models in emerging markets. The findings from those interviews concerning their intended and actual business model design, as well as in relation to their successes, challenges and learning, have been analyzed to find common principles and activities, and to highlight learning and propositions that can be of help in formulating generic recommendations for managers from different business models and industries in emerging markets. The following chapter provides an overview of the selected companies by analyzing their business model design and strategy for Latin American countries. All data was collected and analyzed under the lenses provided by Osterwalder & Pigneur's (2010) business model canvas framework, as it allows the researcher to research into and specifically analyze the different elements of the business model design. Hence the gathered information from the literature review, research on secondary data, and the conducted semi-structured interviews can be applied to the business model canvas, and the level of innovation that has taken place in the business model can be identified and analyzed (Mehler, 2014).

The analysis of the collected data is an iterative process that begins during data collection and ends with the case reports in Chapter 4. The other components of data analysis are data reduction and data displaying (Figure 3.3).

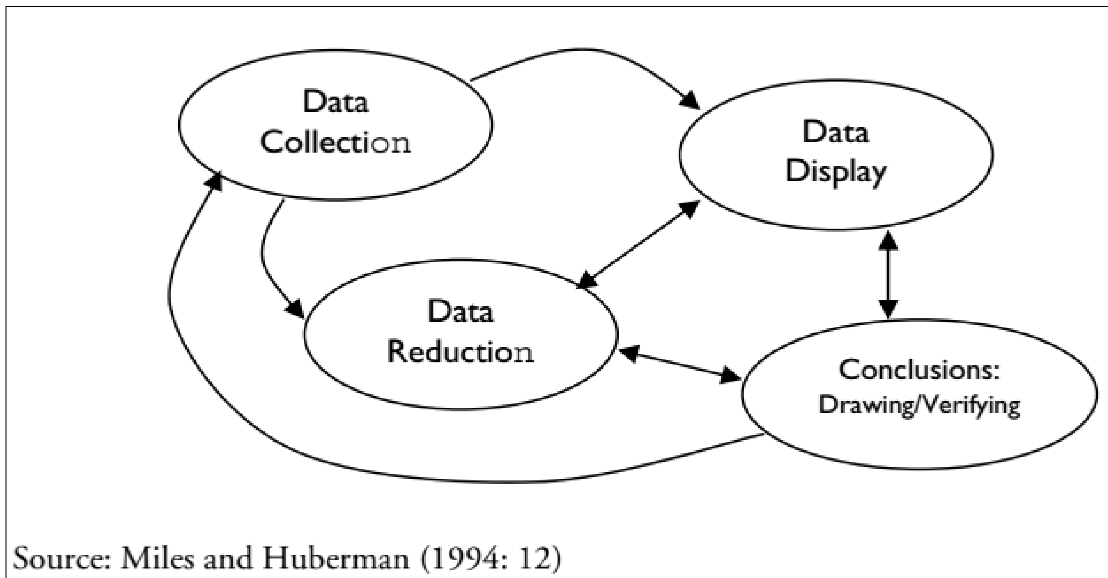


Figure 3.3: Data Analysis Process

All gathered information from the literature review, research on publicly available information and transcribed interviews, were analyzed separately. The challenge resulting from the various in-depth interviews was to make sense of the unstructured data, i.e. qualitative data in the form of interview transcripts. To identify common themes and principles or to highlight certain activities from the MNCs, codes and labels were used to assign relationships between the findings and the formulated research question and sub-questions. The coding focused on contents that:

- Were repeated by the respondents in several places
- Stood out and appeared surprising in relation to the literature review
- Were emphasized and described as important by interviewees
- Were different from concepts and ideas published in reports and scientific articles
- Reminded the researcher of theories or concepts of the literature review
- Were resultant from contextual factors typical of emerging economies

Through the coding process, it was possible to conceptualize underlying patterns and to make use of preconceived theories and concepts. The most important codes have been determined after a first analysis of the given data; they were grouped and assigned to certain categories, which were chosen in close relation to the research question. In a next step, the categories were labelled and prioritized according to their relevance for the research question and furthermore by considering the connection and relevance of the different categories to each other. Finally, the coded and labelled information was compared with supporting and conflicting literature to increase the generalizability and to support the findings with theoretical research and literature.

In Chapter 4, a brief description of each company included in the research and its main features is provided prior to the description of each block from the canvas developed by Osterwalder and Pigmeur (2010).

From within case analysis and from analysis across six case studies, a number of tentative themes and concepts began to emerge. In the course of the work, some were eventually rejected, while other new ideas emerged.

Annex. Interview Questionnaires

Research: Adaptation of Business Models in Emerging Markets

Motivation

- Emerging Markets are increasingly important in global economy (Hosskinson et al, 2000).
- Relative lack of research on business models and the Internet in emerging markets.
- Institutional voids invariably challenge the execution of business models in emerging markets (Kanna and Palepu, 2008).
    - Low penetration of banking services
    - Low level of infrastructure
    - Risk aversion to e-commerce
    - Low level of credit card penetration
    - Less sophisticated financial sector
    - Less rigorous adherence to contracts
    - Lower Internet penetration

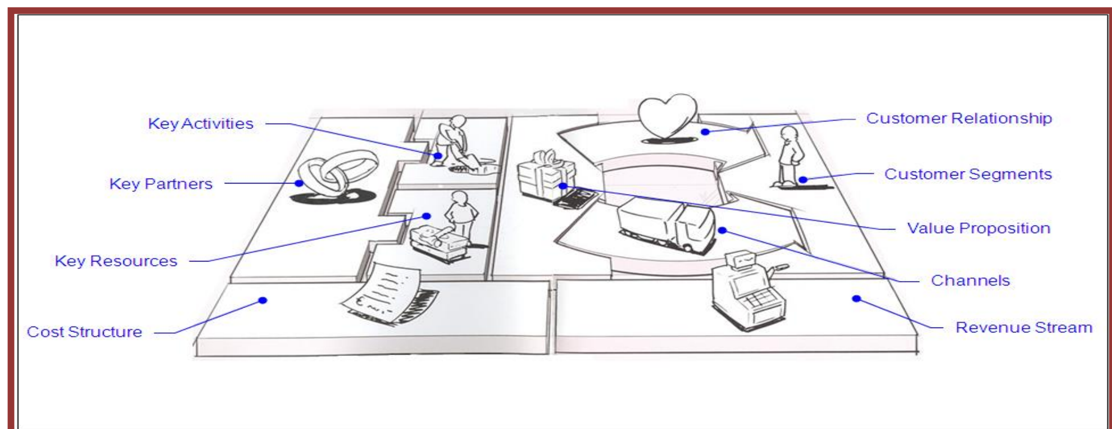
Research Focus

- How the e-Business Models in emerging economies have adapted to compete successfully
- Positive impact of Internet adoption on Business Model Innovation to compete in emerging countries.
- How the Internet can be used to transform industry and business structures, as well as to sustain firms' competitiveness
- Most important Internet value drivers in business models of emerging economies

Research Question

Which are the general principles and key success factors associated to on-line strategies in emerging markets?

Framework Business Model Canvas



QUESTIONNAIRE

1. Customer Value Proposition

a. What specific thing does the Internet offer its customers in emerging economies? Does the Internet alter the product or service mix that embodies the firm's products?
b. Can the Internet allow you to solve a new set of problems for customers in emerging economies?
c. How are customer needs different in emerging economies from developed countries?
d. How do you identify and design the CVP for each country in emerging markets?

2. Customer Segments

a. What is the scope of customers that the Internet enables your firm to reach?
b. What common principles could be adopted to capture value from a market whose characteristics differ from developed markets?
c. What segments in emerging markets are you focusing on?

3. Revenue stream

a. How does the Internet make pricing different?
b. What are the revenue streams which are derived through the Internet?
c. Who are the most important customers?
    - Mass Market
    - Niche Market
    - Segmented
    - Diversified
    - Multi-sided Platform

d. How would you describe the core business of your company in a few sentences? In how many markets are you active?

4. Key Activities

a. How many new activities must be performed as a result of the Internet? How much better can the Internet help you to perform existing activities?
b. What Key Activities do your Value Propositions require?
c. What are the key activities that emerging markets context adds?
d. Characteristics of Internet B. models that can be successfully employed in developed countries
e. In your opinion, are there certain activities or characteristics that organizations from different industries have in common when designing their business model for emerging markets?

5. Capabilities and distribution channels

a. Through which Channels do your Customer Segments want to be reached? How are you reaching them now? How are the Channels integrated? Which ones work best?
b. How are you integrating them with customer routines?
c. What new capabilities do you need to use the Internet to sell? What is the impact of the Internet on existing capabilities?
d. Are you primarily using direct or indirect distribution channels?

6. Customer Relationship

a. Does the Internet make sustainability easier or more difficult? How can your firm take advantage of it in emerging economies?
b. What type of relationship does each of your Customer Segments expect you to establish and maintain with them?
c. From your experience, is it possible to build up loyal relationships with customers in Emerging economies? If so, how do you build up the relationship? How does the Internet help to build this loyalty?
d. How does an e-business model gain regulative, normative and cognitive legitimacy in a developing country?

7. Cost Structure

a. What is the impact of the Internet on those cost drivers that underpin the components of a business model? What are the most important costs inherent in your business model?
b. Are cost sources different with the Internet? What is new?
c. Which Key Resources are most expensive? Which Key Activities are most expensive?

8. Key Partners

a. How important is collaboration with local partners for you in each country where you are working?
b. Who are your Key Partners? Who are your key suppliers?
c. Which Key Resources are you acquiring from partners?
d. Which Key Activities do partners perform?
e. What is the impact of the Internet on the firm's relative (dis)advantage over suppliers, customers, rivals, complementors, potential new entrants, and substitutes?

9. Key Resources

a. What relevant Internet resources and capabilities are required to exploit emerging market opportunities?
b. What was the impact of e-commerce on existing processes?
c. What are the Internet resources and capabilities needed by retailers in emerging markets to compete successfully?
d. What are the critical factors that should be given priority for the success of companies in Latin America? Internet factors? What do you consider from your experience the key factor to being successful in the long-run in emerging markets?

10. Business Model - General

a. Why is (the company) especially successful in Latin America?
b. What component(s) of the business model is/are crucial when designing business models for emerging economies?
c. How would you describe the core business of your company in a few sentences?
d. What are the e-value drivers or Internet drivers that Latin American companies should prioritize to adapt or enhance their existing business models? Think about innovation, lock-in, complements, ecosystem, first movers, etc.
e. Are there specific factors in Latin American companies that affect their Business Model? If so, what is the extent of these effects? Internet factors?
f. How would you describe briefly the process of assembling a successful Business Model on the Internet in Argentina/Latin America ?
g. How is the Internet affecting your Business Model and how might the BM effectively implement Internet capabilities?

11. Implementation

a. What does the Internet do to the strategy, structure, systems, people, and environment of your firm?
b. What Internet factors differentiate successful and unsuccessful business models in Latin America? How can these factors be measured?

c. What is the impact of an Internet strategy on the performance of established companies?
d. How do you ensure that you do not lose sight of your fundamental business model or strategy?
e. How do you test your business model before launching your offerings in a new market or new country?
f. Based on your experience in designing and implementing business models in emerging markets, what recommendations would you suggest in order to be successful?

12. Latin America or Emerging Countries

a. The fit among Internet strategy, structure and environment: Are there specific factors in the organizational structure and the environment that affect this relationship?
b. What component(s) of the business is/are in your opinion crucial when designing a business model for emerging markets?
c. In which way is what you do in Latin America different from Europe or the US? In relation to what things or issues?
d. What are the Internet resources and capabilities needed by retailers from emerging markets to compete successfully?
e. How does an e-business model gain regulative, normative and cognitive legitimacy in a developing country?
f. What is the optimum size of the Internet market for firms from developing countries to profitably exploit?
g. What factors differentiate successful and unsuccessful Internet business models in developing countries?
h. What are the decision criteria for your company to enter emerging markets or a new country?
i. How do you approach the business model design when you decide to enter a new emerging market?
j. What is the core of your business model and what is changeable when it comes to innovating on your traditional business model?
k. What characteristics of emerging markets influence the level of BM innovation?
l. Main barriers and challenges faced by the company at the time of formulating, implementing and developing its business model and/or executing and managing the business. Political, regulatory, infrastructure, financing considerations. From start-up to the present time: What are the main challenges that had to be overcome?
m. Are all of your operations in emerging markets successful? If not, in which countries are operations not successful and why?

13. Internet

a. What Internet factors influence the propensity of the firm to reconfigure its business model?

b. What are the most important Internet drivers in the business model in Latin American countries that are key for the implementation of a sound business model? (is there any difference between hard vs. soft assets?)
c. Which do you think is the most important factor in emerging countries when considering the customer and their use of ecommerce? Instantaneity, Security, Low Cost, Win/Win: customer and seller, Comparison, Returns, Community, Etc.
d. What are the context variables most affecting ecommerce in emerging countries? Legal, Cultural, Country, Etc.
e. What are the key indicators of an Internet-related business model in EC?
f. What Internet drivers enable internationalizing the business model?
g. What are the relevant characteristics of Internet-based Business Models that are different from those in developed countries?

14. E-commerce

a. What type of Internet innovations are a priority in Latin American business models for e-commerce?
b. Is the Internet-based business integrated to or separate from the B&M business? In full or in part? What is operated jointly and what is done separately? Why? (in the case of both Bricks and Mortar and Click and Mortar?)
c. Are there any e-Business capabilities with suppliers?
d. What factors are important for the success of e-commerce, and how do these factors correlate in multivariate space when clustered in groups?
e. What barriers are slowing your company's progress towards a more e-commerce driven organization?
f. What is the optimum level of involvement for government and private organizations in combating barriers for ecommerce?

15. Innovation

a. What is the core of your business model and what is changeable when it comes to innovating on your traditional business model?
b. What characteristics of emerging economies influence the level of business model innovation?
c. What common principles can be identified from successful B&Ms in emerging markets through the innovation of their business model?
d. How do you approach the business model design when you decide to enter a new emerging market?
e. What is the impact of an Internet strategy on the Business Model Innovation?
f. What type of Internet innovations are a priority in Latin American business models?
g. What is the core of your business model and what is changeable when it comes to innovating on your traditional business model?
h. To what extent is your company willing to change their operation model to meet the local criteria and conditions in emerging markets?
i. Would you say that your company innovates their business model from scratch when entering emerging markets?
j. To what level do you innovate the different components of your business model?

k. By innovating your traditional business model, with what component would you most likely start to innovate and to what extent?
l. Did you innovate a business model for specific emerging markets based on which knowledge and elements could be applied as well to developed markets?
m. What was your biggest learning curve when you designed and/or innovated a business model for an emerging market?
n. To what extent does the operation model in emerging markets change?

CHAPTER IV: DATA AND RESEARCH ANALYSIS

This chapter presents six case studies of companies operating in Latin America. Cases have been specifically selected in an attempt to include different business model types, using the Internet in various ways in their operations, and at all times considering Latin American industry leading companies.

This chapter is divided into eight sections. The first section analyzes the distinctive features of the Internet's impact in Latin American countries that are common to all cases; the following six sections comprise the six case studies that make up the sample of this research. Each of them is structured in the same way to facilitate comparison and analysis. This structure includes (1) the history and a general profile of the company (2) the characteristics of its business model using the Business Model Canvas Components (3) a short summary using Business Model Canvas framework, which is attached as an annex to this Chapter IV. Table 4.1 below shows summarized data for each company and their business models:

Table 4.1: Summary information of firms included in the research

	Sodimac	Falabella	Globant	Despegar	Mercado Libre	OLX
Employees	41.800	30.100	5.800	4.500	8.200	3.900
Revenues	u$s 5.650 Mill	u$s 4.100 Mill	u$s 323 Mill	u$s 400 Mill	u$s 844 Mill	u$s 75.000 Mill (Group)
Commercial Strategy	Brick&Mortar, BtoB and BtoC	Brick&Mortar, BtoC	Pure Play, BtoB	Pure Play, BtoC	Pure Play, BtoC, CtoC, BtoB	Pure Play, BtoC, CtoC
Industry	Retail Home Improvement	Retail Department Stores	Software	Travel and Tourism	Marketplace	Marketplace
Established	1952	1889	2003	1999	1999	2006
Publicaly Traded since	1996	1996	2014	2017	2007	1994 (NaspersGroup)
Nº de countries con oficinas comerciales en Latino América	6	4	7	21	14	15

Although the structure is the same for each case, given their idiosyncratic differences, each case will highlight the particularities of the firm considered identified during data collection. The next chapter offers a cross-case analysis, which seeks to define the main success factors in the cases studied and where the qualitative findings are integrated and discussed and where a series of propositions are presented in consideration of the success factors identified in the business model under study.

1. Latin America Overview

Latin America is comprised of nineteen sovereign states with a total population of approximately 626 million people[11]. Although divided by geographical and political boundaries, Latin Americans share many cultural affinities, including common languages and religions, as well as a similar heritage. A majority of Latin Americans speak Spanish or Portuguese, with only a small portion of the population being proficient in English. A substantial portion of the buying power in Latin America is concentrated within 20% of the population. This group of approximately 100 million people controls an estimated 60% of the overall buying power in the region and enjoys a standard of living comparable to the populations of Germany and Great Britain. As a result, the Latin American market represents a highly desirable demographic profile for businesses in general.

Latin America offers opportunities that developed countries are unable to pinpoint, and this must be reflected on the value proposals of the business models operating in the region, for example, installment financing, a buying culture involving a consumer mostly preferring personal or telephone contact, the work culture, the risks inherent in emerging economies that developed countries companies are not used to dealing with. There is little formality in

[11] (www.wikipedia.org)

institutions and limited stability in the laws of the game, and this is a substantial barrier for a developed country company. There is a varying Internet penetration rate in the region with an average 62 % rate, although in certain countries, like Argentina, it climbs to 79%[12]. This is a big opportunity of future growth for electronic commerce. Smartphone use has also increased substantially, with a high penetration rate in some countries like Argentina and Chile, where there is an increasing number of people transacting over their mobile phones.

In general terms, it may be said that everything that is done in developed country companies in reference to Internet use in their operations, e.g. e-commerce, can be replicated in emerging countries. Of course, certain adaptations will be required, although not to a great extent. In fact, most business models with an intensive Internet use in the region, as is the case with Mercado Libre or Despegar.com, have been replicated from business models already existing in the US or Europe. Regionalization does not involve the assortment of products or their presentation, but rather the ways of payment and all the aspects in connection with monetization, logistic systems, etc. The internalization of functions in Latin America in relation to complementary activities in other developed countries is subcontracted, but the model is essentially the same: the idea that they differ greatly is only myth. In the US, Amazon's business model does not include the on-line and off-line payment systems and delivery services offered by, to name but two of the cases studied, Mercado Libre or Falabella.

While supplementary elements, these are not minor features given that in many cases they can make the difference for a successful business model in the region.

Globalization leads to an increasingly reduced spread among the countries in the Latin American region. There are many differences in legal or local context aspects in each

[12] http://www.internetworldstats.com

country: trade union regulations or currency regulations in each country, cartelization of companies offering financing, structure or capabilities of logistics operators, etc. In addition, in the region there is a strong political interference from regulatory limitations imposed on the business models in general: for instance, in foreign exchange transactions or foreign currency remittances. In emerging countries, it is necessary to be patient and to wait for a shift in the economic policy, always considering the long run.

"Overall, it may be said that in an emerging region like Latin America, there is a more fragmented retail than in the developed world, and less concentration at the retail level. Moving away from the foodstuffs industry, there are no big domestic categories and, therefore, the scale effect is less significant, while the inefficiency of the brick and mortar (B&M) in emerging markets results in more opportunities for e-commerce. That is, there is less consolidation, there are no big categories, and there is a more diluted scale effect. In a developed market, competition with a B&M would be a lot harder on pricing because they have a big purchasing volume. In emerging markets, as many consumers have limited access to a large B&M that could have very good prices to compete with a business model like Mercado Libre, on-line business is a lot more relevant for consumers and offers bigger competitive advantages" (Pedro Arnt, personal communication, April 8, 2015).

Another key issue in the region is that the Internet has the manufacturer a lot closer to the customer, although emerging market manufacturers are still low technology players. As the manufacturer is closer, they question whether they should continue to offer such a big margin to retail and to distribution centers. In addition, the logistics cost to the manufacturer for direct sales is lower than offering margin to other retailers and points of sale. Therefore, the big challenge an emerging market manufacturer is faced with is how to improve their income through the Internet, how to take advantage of this opportunity. The manufacturer must consider in their revenue model and value proposal whether the product is to be offered

to the end customer at a lower price or be deducted from the retail margin. Thus, the Internet results in a redistribution of revenue in relation to the players –there is a redistribution of Internet-related margins. For this reason, at present there is a lot of debate in reference to the brand; right now, the manufacturer's biggest challenge is to think about how to take advantage of this transformation enabled by the Internet. Only ten years ago, people used to shop at a retailer like Falabella, Sodimac or Walmart, and the manufacturer had no alternative versus the retailer. Now that customers consider shopping directly from Samsung, Apple or Phillips, the industry's power forces are shifting. In technology, the trend is for the brand to outdo distribution and delivery models. Amazon is nevertheless challenging this fact; it is the exception to the rule, because Amazon sells it all: brand and no-brand products. This is so because Amazon takes advantage of the big transformations afforded by e-commerce in the physical world, and it excels at doing so: being an outstanding point of distribution and delivery and having an excellent operational system, excellent technology, excellent inventory handling, and excellent communication handling. It does it so well that it manages to outdo the competitive advantage it would enjoy today for having a strong brand and being able to sell directly. Amazon is an important link, not its brand, but this is seemingly an exception. Therefore, those who manage to excel at all four pillars (stock, communication, technology and operation) can attain the success enjoyed by Falabella or Sodimac in the region over 20 years ago. In the past, retailers would prevail over brands because of their physical presence, availability of a call center, better logistics, etc. In addition, a physical world retailer with a good location would make good sales, but now that the Internet has come into the picture the location factor loses relevance. A customer can now pick up the product anywhere; as long as there is a nearby point of delivery, an outlet is not that relevant. Therefore, as long as a country is unable to offer efficient logistic resources, it would be difficult for a company like Amazon to land with its

original business model, as is the case in Brazil right now. However, a bridge should be built between expectation and reality; the one who can do this faster and more efficiently will be the one winning the race. Retailers like Falabella or Sodimac, which have more points of sale, also have more pick-up points –additionally leveraging on all the companies within their ecosystems. Less strong brands will also be required to take action. For example, Rodo (a big retailer that is not so well-known and has fewer outlets in Argentina), having a weaker brand and less coverage, will be in trouble. Consequently, those who are unable to scale up physically in points of sale or who have weaker brands have no alternative but to offer very good logistics. For this reason, at present there is a redefinition under way of those selling merchandise to the point of delivery rather than to points of sale; and there is also a repositioning of those having many points of delivery, who are now strong logistics operators due to their greater coverage. This means that any retailer having many points of delivery comprising warehouses throughout the country to speed up delivery times, even if not a logistic operator, is a very important player thanks to its coverage; and a logistics operator that is able to distribute where no points of delivery exist now enjoys a substantial marketing advantage.

In the region, companies like Sony, Phillips, etc. start to have their own websites to sell their products, and so a new reality is shaped up in which the consumer, instead of shopping at a department store like Falabella, Waltmart, etc., thinks about buying directly from the manufacturer. This trend is starting to be seen in Latin America: products other than foodstuffs are sold directly by the manufacturer on the website of Waltmart, Falabella, etc., while these B&M contribute to the manufacturer a variety of products to customers. However, these B&M no longer tend to purchase to later sell; instead, they simply sell or exhibit the products offered by Sony or Phillips, and then retail B&M companies such as Falabella or Walmart are paid a commission on sales.

"There is a change of paradigm currently underway in Latin America. For example, in Waltmart Brazil, a large portion of the power enjoyed by Waltmart as an asset was its purchasing power, but in this new context this is not the case anymore. We still do not know what the outcome will be. It would seem that what the B&M will contribute to manufacturers is traffic, as is the case with a supermarket's physical store." (Gustavo Sambucetti, personal communication, July 17, 2015)

As a conclusion in this section, it may be said that there are currently three revolutions under way in emerging countries like those in Latin America: the manufacturer's, the logistics operator's, and the retailer's revolution (as experienced in Spain, Italy, France and the US over 10 years ago). Manufacturers must decide whether they will continue to offer retailers a portion of their margin, retailers must define what to do with their coverage and their pick-up points, and logistics operators must get ready to handle both large and small volumes (when at present they are primarily and almost exclusively handling large-volume transactions). It is not clear who will survive this battle. There are currently three revolutions under way and each one of them is taking a stand and believes they will play a prominent role in the future.

"I believe the winners will be those able to integrate a mixed supply model to the customer. This is not a fully virtual customer. Do I believe there will be direct sale manufacturers with a totally pure model taking full advantage of direct e-commerce to clients? Yes, I do. But Apple, for instance, is launching physical outlets; Amazon is doing so as well. Strictly speaking, the best approach is to move fast with your own model and to supplement what your model lacks. If Garbarino (leading electronic home appliance retailer in Argentina) or Falabella make big sales over the Internet and manage to offer a good pick-up solution, there will be high barriers to entry. If Mercado Libre manages to offer a payment system totally operational within its community and succeeds in turning Mercado Envíos into an

efficient solution for those seeking logistics support that cannot be found elsewhere, it will survive. If a large logistics operator in Argentina, like OCA, manages to establish a good e-commerce division and have coverage throughout the country so as to be competitive in retail commerce, it will beat its competitors Andreani or Román in retail commerce. And in case Román manages to set up its framework in such a way that even Garbarino or Falabella will delegate distribution on it, it will also have its share in e-commerce trading. Those falling behind will be the ones failing to redefine themselves within the next 5 years in relation to these three pillars. This is exactly what happened in the US and what is happening in Europe right now. Those falling behind, the losers, will be the ones failing to redefine themselves in relation to these (4) core pillars." (Carmelo Ferrante, Personal communication, Septembre 18, 2015)

Amazon's landing in Brazil was a very interesting case of how difficult it is for such a big, such an experienced marketplace, to break into the Latin American market. The primary incumbent Brazilian brick and mortar companies were ready to fight the battle, so it is being very hard for it to enter this market. This was not the case in the US or Europe, because it did not give them enough time. At present, knowing what Amazon represents and based on the experience from other US players, each player in Brazil has taken a stand, has built barriers ahead of time (as was the case with Uber in many Latin American and European countries when it attempted landing). Specifically, the problem faced by Amazon in Brazil is that Brazilian suppliers will not give Amazon the products to be carried on its platform and Brazilian commerce portals have incorporated Amazon's outstanding features, such as one-click shopping, good user experience, and good big data handling, to name only a few, so as to stay competitive. Therefore, it may be said that not every model from a developed country can be applied 'as is' in emerging countries, usually because competitors in these regions already know how to position themselves and how to build their barriers, and also because

there are technological, logistics and structural barriers in emerging countries that are different and require adapting or tropicalizing the original model to some extent. In any case, the race is for the incumbents to get adapted before a company like Amazon or Uber -with their big ecosystems- can wipe them out.

Thus, Garbarino, one of the largest retailers in Argentina, does not offer its products on Mercado Libre's ecosystem, does not showcase it as an official page, nor does it do so in another Argentine marketplace like Avenida.com, in an attempt to resist depending on someone else; it intends that shoppers will get to it directly and not through a third party. However, if it operated in the US, it would clearly have to resort to a company like Amazon to stay competitive, given that Amazon today is the standard. Even Apple will sell on Amazon –it just cannot avoid being there. However, some competitors still have no alternative. Those who have no option but to resort to a big marketplace in the region like Mercado Libre are those having limited coverage or a weak brand. The ones having insufficient traffic will sooner or later surrender to big marketplaces. On the contrary, those with a strong brand will not necessarily end up in a marketplace.

"A brand is an important element in emerging countries right now. At the end of the day, the digital model is the same as in the physical world: you need traffic to make sales. Just like a brand intending to sell and position itself cannot avoid being present in big shopping centers, it needs traffic, needs exposure, and needs what is offered by a shopping mall or a marketplace. What is going on right now in emerging markets is the convergence of both systems (B&M and Pure Play). Both of them are developing the elements they lack." (Carmelo Ferrante, Personal communication, September, 2015).

In general, it may be said that in an emerging region like Latin America there is a more fragmented retail than in the developed world, and less concentration at the retail level.

Moving away from the foodstuffs industry, there are no big domestic categories, and so the scale effect is more diluted, and the inefficiency of retail in emerging markets generates more opportunities for e-commerce.

The element that has been missing in Latin America is related to supply, that is to say, showcasing a greater variety of products; this results in the customer no longer shopping through e-commerce. The extent of Internet penetration in each country, bandwidth, and availability of smart phones are also relevant.

"What is required in these countries is to work more on the purchase intention. It is easier to sell in Latin America than in the US because there is less competition on the web. The different here lies with the product; as there are fewer competitors, there are fewer products, and so it depends on how well you handle it, that is to say that the problem in Latin America is one of supply, not demand." (Patricia Jebsen, personal communication, October 16, 2016)

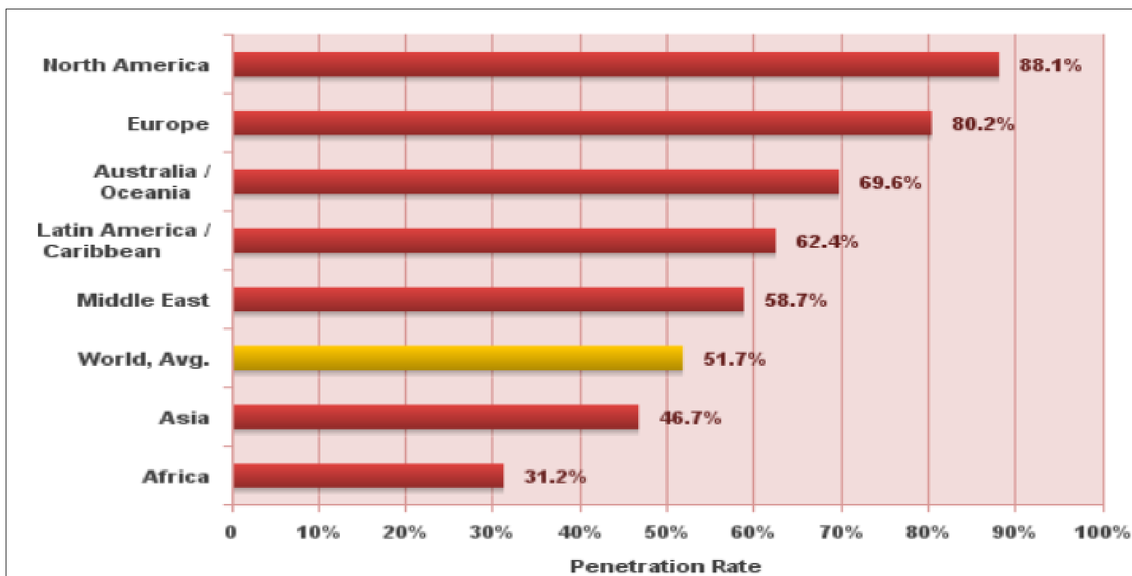


Figure 4.1: Internet World Penetration Rates by Geografics Regions
Source: Internet World Stats. June 30, 2017 .

During the interviews conducted for this research, it has been noted that what currently defines the growth rate of e-commerce in these countries is supply. Around 10 years ago, there was not a big demand for e-commerce; today, there is reasonable infrastructure and, in addition, in several countries in the region people already have extensive expertise from shopping abroad. There are virtually no social classes defined; initially these were ABC1 shoppers, but it is getting increasingly cross-cut in terms of purchasing power (Gustavo Sambucetti, personal communication, July 17, 2015).

It should be noted that there are two regional characteristics related to market education and maturity levels: on the one hand, in this region there are more people intending to deceive or prone to fraud. Therefore, an e-commerce model should work on tools to prevent fraud, at least to a somewhat greater extent than in developed countries. On the other, managerial staff in this region lack e-commerce expertise; and people need to be trained to work in this industry. This is a serious challenge. Additionally, there are important contextual barriers that are common to all business in Latin America: taxes, logistics, labor costs, country infrastructure, etc. One other relevant difference in the region is that customers prefer to deal in person, face to face; or they want a person to assist them either on the phone or by chat.

Additionally, in the region, there is a big portion of informal commerce. "*In contrast with more developed economies is the coexistence with a more widespread informal economy; indeed the advent of the Internet has facilitated this establishing a virtual marketplace for buyers and sellers to interact. One other important difference from developed economies is the ratio of capital costs to labor costs; capital costs are high - labor costs are low. In developed markets the opposite is the case, and this has to be considered when devising the website's economic balance.*" (López Conde, personal communication, August 3, 2015)

Finally, there are three big issues that should be taken into account in this region in connection with the impact of the Internet and technology on business models: 1. E-commerce adoption rates, also conditioned by differing Internet penetration levels. The region cannot be seen as something uniform: providers are different. 2. Mobile: this depends on each country, on the country's infrastructure being in line with Mobile. This will be a very fast race; Chile is standing very firmly, Brazil is making inroads; Argentina is lagging behind but Argentinians tend to adopt new trends quickly; Colombia, Ecuador and Mexico are one step behind. Bolivia, Peru and Central America are on a third level. 3. Cultural: trying to convey -through regulations, chambers, experiences, and from the State- the idea that e-commerce is safe. A medium-term approach is required. A good technical regulator is necessary here: one requiring Internet-based companies to fulfill certain quality and security standards that are to be published. Working to afford the customer improved security. This issue also varies from country to country: in Argentina, for instance, there has been a substantial delay in Mobile in recent years, no systematic Wi-Fi policy has been in place, and the contribution from regulatory chambers is still in its early stages.

2. Case Studies

2.1. MERCADO LIBRE

2.1.1. Company Overview

Mercado Libre was founded in 1999 and, through its website www.mercadolibre.com, it later turned into the main online business platform in Latin America with operations in 13 countries in the region, plus one country in Europe (Portugal). From the outset, its founders viewed Mercado Libre as a unified technology platform that was big enough to manage the needs of all markets in the region, knowing that electronic commerce platforms offer great advantages in terms of volume, availability of information and accessibility. In 2007, the

company went public successfully and, up until 2016, it experienced bi-annual growth at 35%. By December 2016, Mercado Libre had more than 4,000 employees in offices in Argentina, Perú, Brazil, Colombia, Chile, Mexico, Uruguay, the United States, and Venezuela and has business operations in 20 countries. Mercado Libre, Inc. is the eighth most visited retail site in the world, with its core business being e-commerce and related services. Its platforms are designed to offer users a comprehensive service portfolio that streamlines electronic commerce transactions. A technological and commercial solution that responds to differing cultural and geographical challenges like those found in Latin America. It is a market leader in e-commerce in Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, Bolivia and Venezuela, based on single visitors[13] and pages browsed. It also operates online trade platforms in the Dominican Republic, Panama and Portugal. Through its e-commerce platform, it offers sellers and buyers a sound online business environment that encourages the development of a big, growing e-commerce community in Latin America, a region with a population of over 605 million people and one with the fastest growth in worldwide Internet penetration rates. It offers an own ecosystem comprising six related e-commerce services: classified services (Mercado Libre Clasificados), payment solution (Mercado Pago), advertising program (Mercado Libre Publicidad), online shops (Mercado Shops), shipment service (Mercado Envíos) and credit for working capital (Mercado Crédito). Mercado Libre Clasificados features online classified ads for automobiles, real estate, and various kinds of services, where users can put things up for sale and generate potential customers in non-general category listings. Mercado Libre Publicidad enables companies to advertise their products and services on the site. Using Mercado Libre Publicidad, users and advertisers are able to place their banners and/or text ads on Mercado Libre web pages in order to promote their brands and offerings.

[13] This is a traffic indicator measuring the number of people visiting the website more than once within a specific period of time. These are users returning to the site.

Mercado Libre Publicidad offers advertisers an efficient, automated platform that enables them to acquire traffic through ads displayed on the platform. Based on a per-click cost, advertisers buy the advertising space appearing around product search results for specific categories and other pages. These ad placements are clearly differentiated from product search results and direct traffic either to or from the Mercado Libre platform, depending on the advertiser. This is an advertising service that offers advertisers strong exposure considering the millions of Unique Visitors (UV) accessing the site daily. At Mercado Shops, traders can set up, manage and promote their own online webstores. These webstores are hosted by Mercado Libre and offer integration with the rest of the marketplace, payments and advertising services offered by Mercado Libre. Users can choose between a basic free webstore or pay for monthly subscriptions for improved functions and added value services on their webstores.

Finally, following the launch of the Mercado Envíos shipment solution in Brazil, Argentina, Mexico and Colombia, efficient integration with logistics and shipping companies is offered to sellers on the Mercado Libre platform. Sellers choosing this solution are able to offer a uniform, thoroughly integrated shipment solution to buyers.

Mercado Libre builds its ecosystem in order to afford reliability to the model and enhanced interaction to promote the industry's growth. In addition, not all business units are necessarily tied up to one another. Mercado Pago can be used even if no sale is made on Mercado Libre. The Mercado Shops platform can be used even where no products are being offered for sale on Mercado Libre. That is to say, a seller may have its own e-commerce brand, using the Mercado Libre platform and technology, while not being featured on the Mercado Libre marketplace. This equates to having a sales outlet outside the shopping center (Mercado Libre).

Figure 4.2: Mercado Libre Business Ecosystem

In these markets, the learning process is very important, given that the key to success is precisely adapting the business model from what already exists in developed markets. Thus, Mercado Libre has gradually moved from a marketplace to what may be called an *Enhanced Ecosystem*. The IT department worked hard on assisting customers by supplementing the primary business with other business units that enabled it to overcome barriers like logistics and financing; it also enhanced its website for improved human interaction with the customer and improved processes to perfect the purchase experience, while being flexible to favor this experience, affording more personal interaction, taking into account that, on average, education levels are lower than in developed countries. It built more interactive communication channels, like telephone assistance, although it is important to find a way to resolve customer inquiries without increasing costs.

An important factor affecting the growth of a pure play model like Mercado Libre is Internet penetration level, which remains an issue in countries in the region. For this reason the site is available online to individuals with more limited technology, for example through special, lightweight web pages. Another factor limiting growth is the penetration of banking services among the population; such that new payment methods have been developed for customers without bank accounts. They work well in countries where there are no or not many credit card alternatives, such as Mexico. In Argentina, it is more usual for customers to have access to a debit if not a credit card; in less developed countries, this is not usually the case. Regulation levels and access to financing have an impact and vary between countries: Mercado Libre is present in 14 countries, but Mercado Pago is offered in only 5 countries. In emerging countries, monetization considerations have great impact, and this is especially so in Latin America.

2.1.2. Mercado Libre Business Model

Customer Value Proposition (CVP):

- **Servive Ecosystem:** Mercado Libre offers within its platform a service ecosystem supplementing the primary business, which enable buyers and sells to achieve their goals.

"There are three keys to guarantee a good e-commerce experience, and that is why Mercado Libre focuses on these: 1. Marketplace software: for customers to find quickly what they are looking for; 2. Payments: Customers should be able to use different payment methods and payments should be protected -this was the rationale for Mercado Pago; 3. Shipment: Products should be safely and quickly received –thus was born Mercado Envíos. These three pillars were gradually built upon by Mercado Libre, as the company leveraged its market experience to try to guarantee the customer's experience, following lots of testing and error." (D. Ferro, personal communication, June 15, 2015)

- **Long Tail:** Mercado Libre has achieved a very strong network effect, which makes it possible to offer a wide range of products in its marketplace. Usually, in the main countries where Mercado Libre operates, it is the first option for consumers to search for products or product prices. Due to its extremely extensive long tail, it has created the impression that "unless it is on Mercado Libre, the product does not exist.
- **Various payment methods:** Mercado Libre offers on its website over 64 payment methods or ways, which are offered in its marketplace including both on-line and off-line options. In the US, Amazon offers over 10 payment methods and it does not offer payment in cash or wire transfer, as does Mercado Libre.
- **Powerful product search engine:** Mercado Libre's platform search engine enables a quick answer to product-related inquiries, as well as a very detailed product list divided into categories that facilitates searches.
- **Credit:** among payment alternatives, Mercado Libre offers numerous installment financing options for sale transactions. In addition, its company Mercado Pago has enabled sellers to offer installment financing, so that sellers are able to offer buyers a comprehensive financing proposal within Mercado Libre, thus avoiding the need to resort to traditional credit card financing.

"*Another relevant theme in ´tropicalization´*[14] *is credit. Payment in installments is extremely popular in Latin America, and a failure to offer this facility has a negative impact on sales. For example, sales in installments in Brazil account for 70% of overall sales, while in Argentina they represent 50% of sales*."(Pedro Arnt, personal communication, April 24, 2016)

[14] Tropicalization: A term used in e-commerce jargon to refer to the required adaptation of a website, tool or strategy used in developed markets for it to be useful in emerging markets.

- **Prepaid Card**: For customers who do not have credit cards, Mercado Libre has created its own prepaid card, which has already been launched in Brazil and Mexico, to facilitate online electronic payment.
- **PhoneWallet**: Through its Company Mercado Pago, it offers Mercado Libre's customers the possibility to have a mobile application on their phones to pay for products and services and make person-to-person money transfers in real time.
- **Protected pages**: The Mercado Libre value proposal also offers Official Pages or *protected pages*, where well-known brands offer their products and differentiate themselves from other sellers.
- **Lightweight web pages:** Mercado Libre has also been adapted to the region by offering pages enabling access from less sophisticated telephone devices and by enabling

"Other regional adaptations include, for example, web pages developed by Mercado Libre that enable access from less sophisticated phones, or payment in cash in cases where the buyer does not own a credit card or owns a card but has insufficient credit." (S. Summers, personal communication, June 15, 2015)

- **Payment in cash:** Payment in cash (off line) where a customer has no credit card or the purchase exceeds the credit limit.
- **API**: The website's value proposition also includes APIs (Application Program Interfaces). The entire software platform is open; connection to the Mercado Libre system is thus enabled by APIs. For example, a developer can develop an API interacting with the Mercado Libre ecosystem and offering data to a specific seller by using the Mercado Libre platform data, making it very friendly to sellers. And then the developer will charge the seller per subscription.

"The entire ecosystem software in Mercado Libre is open; a marketplace seller can connect to the Mercado Libre system through the API (application program interface) and obtain data from the Mercado Libre platform that are valuable to its business." (Sean Summers, personal communication, June 15, 2015).

Customer Relationships (CR):

- **The Bar:** To improve confidence among Mercado Libre's customers, the company developed **"**the bar**"**, a color coded bar that appears underneath a seller's name and, somewhat like a traffic light, displays a color code on the rating given by customers to each seller (in relation to fulfillment of delivery terms, product characteristics, customer service responsiveness, etc.).

"Building customer confidence in purchasing online is already an issue in developed markets. In emerging economies – where trust is more fragile – it is even more of a challenge. However, as a result of the marketplace's evolution, "the bar" facet is now gradually being removed as Mercado Libre intends customers to envision the whole site as entirely reliable. The idea is that sellers can only sell products on the site provided they are trustworthy -this is the confidence image intended to be conveyed, by guaranteeing every purchase or sale made on the site." (P. Arnt, personal communication, April 8, 2015)

- **Over the phone assistance**: A further barrier to the spread of e-commerce is the traditional preference for personal contact within the sales process. In general, Latin American customers have a stronger preference for either face to face or telephone contact, even if they have to pay for it.

"This is especially true in countries on the Pacific, and Mercado Libre manages this by improving telephone assistance and personnel training. Taking into account customer characteristics, Mercado Libre attempts to be flexible, for example by enabling over-the-

phone inquiries or by offering tutorials for automated answer to inquiries. In spite of this, only 5% of purchases generate non-automated contact -everything else is automated." (López Conde, personal communication, August 3, 2015)

- **Special treatment for large vendors**: Mercado Libre also applies customer segmentation for the purpose of customer relations. Large sellers receive a differentiated treatment through dedicated account agents. As is the case in brick and mortar sales, the intention is to make sure frequent customers will feel properly treated. Some applications (apps) have been developed to track mobile buying trends.
- **Mobile solutions:** Mercado Libre offers an appealing app that is user-friendly and involves adequate customer care information. In addition, customers can register on a novel on-the-phone payment and transfer system (PhoneWallet).

Distribution Channels (DCH):

- **Delivery service:** In terms of product delivery many emerging markets, such as those in Latin America, have not passed the stage of making sure the product will arrive at destination and that the customer will not be charged a large percentage of a product's value for shipment. In many respects, logistics and distribution are what can make an online model non-viable compared to bricks and mortar. If the difficulty for the bricks and mortar retailer is the *first mile,* the problem in e-commerce is the *last mile*. A large retailer can ship a product to Latin America from China, but the problem is getting it from the port of arrival to the store. For the online retailer, the problem is getting the product from the distribution point to the customer – and in Latin America this last mile can be very expensive. As a result, so-called Click and Collect services – where a customer can purchase on line and collect the product from a delivery point- are a better

service differentiator in Latin America than in more developed markets where low cost and efficient logistics services are widely available.

Online marketplaces in developed countries – such as Amazon – have a variety of logistics providers to choose from to complement their offer, and they have no incentive to enter the parcel delivery business. By contrast, such services -where they exist in emerging markets- are relatively expensive. As a result, Mercado Envíos – the in-house delivery service - has been key for the development of Mercado Libre. Mercado Envíos does not own any trucks or product warehouses; its role is essentially based on selling services to those buying in Mercado Libre's marketplace and to subcontract with local carriers the shipment of the products to the customer, while using sophisticated software that allow it to properly track and monitor the service, also affording the customer the ability to track product delivery since the moment its leaves the vendor's facility.

"Mercado Envíos addresses inefficiencies in the delivery supply chain, and its parent, Mercado Libre, is more powerful negotiating with a carrier than an individual seller (because it sells 101 million items online annually), and it obtains better prices, demands higher quality, and charges for scale arbitration. The online buyer pays Mercado Libre and Mercado Libre withholds payment until the product is received by the buyer -this is when the transaction is closed between carrier and seller. In the US, for example, this is not the case." (P. Arnt, personal communication, April 8, 2015)

- **Mobile and Web:** In emerging markets, being able to easily access from a cell phone is highly differential given that many people do not have a PC.
- **Bikers:** One big difference with respect to developed regions is shipment logistics; in this region, logistics have always been poor, and customers find delivery slow and unreliable. Additionally, in order to replace the urgent or overnight shipment service

used in developed markets, instead of *drones*, Mercado Libre is developing “bikers” (motorcycle bikers that offer carriage of small packages for short distances, in general these are informal workers).

- **Advertising on social networks, banners, TV, street, newspapers:** Mercado Libre invests heavily on advertising, basically targeted at youths.

Customer Segments (CS):

- **Age Target selection 18-35:** This is their main customer target: customers that are technology-savvy today and that may continue to be so for many years.

“Today, Mercado Libre's user ages range from 18 to 95 years old, but the company strategy is to target the 18-35 years range, developing a value proposition specifically intended for this segment. This is because this is a large segment in the region and it has the characteristics most suitable for e-commerce. This segment consists basically of the so-called Millennial generation (born between 1980 and 1984) and subsequent generations given their intensive use of computers and other electronic media. This is so because, in the region, this is a large segment involving specific characteristics that are worth taking advantage of: 1. They are entrepreneurs. 2. Shifty, nomad individuals, who are less loyal to what they wear or where they live today, and are constantly thinking of new projects. 3. They want everything, now! 4. They are “tech friendly”. (D. Ferro, personal communication, June 15, 2015).

- **Grey Market:** A marketplace like Mercado Libre enables the existence of all kinds of sellers, both formal and informal ones, and therefore promotional action is also aimed at attracting all kinds of sellers to the site. This is especially useful given that there is a high rate of informal economy in the region.

"Mercado Libre and similar sites in the region include sellers and buyers, who would never operate in a completely legitimate market; many people sell on Mercado Libre from home, as part of an informal job. Selling on Mercado Libre involves no special legal requirements, and this customer profile finds many opportunities to sell on Mercado Libre or similar sites. For instance, it is common to run across an informal seller profile on the site similar to those selling cell phone chargers or batteries in the back of a legal clothes store -there are many examples of these. This greatly improves an informal worker's cost structure, reducing the tax burden on the average seller (salary vs. expenses), which in turn favors informality even more." (López Conde, personal communication, August 3, 2015)

- **Well-known brands:** Its Official Retailers section enables big brands to have their own page within the marketplace.

Key Activities (KA):

- **Cross-selling and up-selling**

"The big challenge of any e-commerce model is increasing purchasing frequency; this is why the Marketing Department at Mercado Libre is largely devoted to studying purchasing behaviors through cross-selling and up-selling. The aim is to forecast future purchases." (D. Ferro, personal communication, June 15, 2015).

- **Exploiting Big Data:** With over 40 developer engineers working in its Marketing department, Mercado Libre can actually tap into big data.
- **Multiple payment options**: Another core activity at Mercado Libre is processing payments and collections. The platform offers 60 payment options, which are certified and integrated into its systems. Coupled with this, there is continuous search for the best financing, which is then offered to buyers and sellers.

- **Obtaining financing**: Mercado Libre has started to offer credit to its sellers, so creating sources of financing to extend credit options is becoming key.
- **Innovations:** At the Mercado Libre headquarters, senior managers of the five business units meet quarterly in order to study and discuss new tools; they compete for engineers to write code, they "fight" to obtain more resources enabling improved technology developments in their units, for example software enhancing the collection experience on Mercado Pago.

"*Mercado Libre relies on technological innovation in more developed markets, and rather than being an innovation hub, it copies tools and practices developed elsewhere that are then adapted to its less sophisticated markets -in the words of its CFO, they are "tropicalized", as a result of benchmarking." (P. Arnt, personal communication, April 8, 2015)*

Innovation is also present in customer care protocols: managing emotions. Here, the customer is very emotional, and that is why over-the-phone assistants are trained on techniques intended for them to be more *empathic*, for example being able to deal with a very upset customer. Innovation also extends to sustaining front-line motivation: how to motivate them to be more resolved or nicer.

"In this, each country has its own peculiarities: in Argentina, staff in this position demand increased rotation; however, in Brazil they prefer stability. Innovation means that these talents should be constantly managed; work is being done to identify success drivers and this is sought for in employee recruitment." (H. López Conde, personal communication, August 3, 2015).

Key Resources (KR):

- **Software Engineers**: The competitive advantage of Mercado Libre from strategic resources is based on 600 engineers working on platform development, innovating and deciphering customer behavior. Out of these, only 40 engineers work in Marketing, but they have gained relevance in multiple countries thanks to software development, supporting the marketing strategy, primarily focused on raising brand awareness, and product positioning. At present, they have 120,000,000 registered users.

"Marketing staff is specialized in each channel, for each contact medium with present or future customers. The marketing leader receives data from all media or channels and then gathers them, studies and decides what to use and which medium to invest the most in." (D. Ferro, personal communication, June 6, 2015).

- **On-site processes for fraud prevention**: Another important resource is on-site processes for fraud prevention, although fraud levels in each country in the region are different. *"A site like Mercado Libre must have streamlined processes for fraud prevention. Specifically, neural networks are used to prevent fraud*" (D. Ferro, personal communication, June 6, 2015).
- **Platform:** Mercado Libre has a single technology platform that is big enough to manage the needs of all the markets in the region and the constant growth of all business units integrated into its ecosystem.
- **Payment Solutions and Shipment Service:** From the standpoint of strategic resources, the business units of Mercado Pago and Mercado Envíos are two tools contributing greatly to triggering sales.

"Mercado Libre has precisely developed Mercado Envíos due to the chain's inefficiencies, but also because it entailed a good business opportunity. A company like Mercado Libre is a

lot more efficient negotiating with a carrier than an individual seller, can get better prices and, of course, it charges for scale arbitration." (P. Arnt, personal communication, April 6, 2015).

KRs in Mercado Libre's business model are the ones contributing the biggest competitive advantage. In particular, its economic resources enable it to continue investing in a new national market until a network effect is achieved; its fraud-prevention technology development and its management with a solid international background. In addition to these characteristics, there is rapid internationalization, which has enabled it to be the first to enter into many countries and acquire valuable experience subsequently applied in other markets.

Key Partners (KP):

- **Logistics operators**: For Mercado Libre, logistics companies are important key partners, and they assist in the adaptation of the business model. In Argentina, for example, many people pick up products from a collection point, generally because buyer and seller are in the same city, but in Brazil there is no alternative but to accept shipments, given that the distance between both parties is usually longer.

"Mercado Libre has executed massive agreements with carriers, with its volume affording it strong negotiation power (in 2014, 101,000,000 items were sold), and it demands certain quality standards that no single vendor could match, irrespective of the number of items sold by them. The buyer pays Mercado Libre and Mercado Libre withholds payment until the buyer has received the product, and only then will the transaction be closed with the carrier and the seller. In the US, this is not the case." (P. Arnt, personal communication, April 4, 2015).

- **Governments:** Also important is Internet speed available in each country: as bandwidth and 3G/4G grow, so does Mercado Libre, and so it is important for Mercado Libre to do its best to encourage governments to promote their ongoing development.
- **Google and Facebook:** To a site like Mercado Libre, generating website traffic is key, from both new and returning customers. This requires effective arrangements with such platforms like Google and Facebook for marketing purposes and to direct audiences to the Mercado Libre website (D. Ferro, personal communication, June 6, 2015).
- **Banks and Credit Cards companies**: Given that in this region payment in installments is so important in order to multiply sales, financing providers like banks and credit cards are relevant key partners (O. Giménez, personal communication, July 2, 2015).
- **Silicon Valley Benchmarking:** Benchmarking contacts and partners in Silicon Valley are also, to some extent, strategic partners for the business of Mercado Libre.

Cost Model (CM):

- **Employees:** At present, Mercado Libre has 3,000 employees in 14 countries in the region. This represents the highest cost in its income statement.
- **Marketing and general expenses**: There are costs associated to Technology Development, Administration expenses, and Marketing expenses. In particular, marketing expenses are high, almost at the same level of the resources invested to generate sales. Having no street presence like a bricks and mortar retailer, brand presence is an essential tool to drive website traffic.
- **Acquisitions**: Mercado Libre has historically used acquisitions as a path for business expansion. But it has also acquired companies that do not match this criterion strictly. For instance, in 2012 it acquired Neosur. This enabled Mercado Libre to leverage the new technology acquired, for both its online platform and mobile devices, which now account for 7% of total transactions made. In April 2015, it acquired the corporate

capital of Metros Cubicos S.A., a Mexican company that operates an online classified ads platform for real estate purchase and sale, in an attempt to increase its e-commerce business share in the country. In the same month, it acquired KPL Solues Ltda, a company that develops ERP software for the e-commerce industry in Brazil. KPL Solues Ltda enables Mercado Libre to offer customers an even more transparent way to sell on its site.

Revenue Model (RM):

- **Fees**: At present, Mercado Libre derives income primarily from two sources: Insertion Fee (per publication) and Final Fee (per successful sale). Every customer can choose any combination of these.
- **Income derived from the ecosystem**: In addition to logistics, a fundamental difference in emerging markets from those developed in a business model like Mercado Libre is payment and collection, and this is the rationale for launching a business unit like Mercado Pagos.

"This is an adaptation of the business model (just like Mercado Envíos). There were too many issues concerning sending money from payer to seller and building confidence that once payment was made the product would be received in good order and as agreed. Initially, people were very uneasy about buying online for this reason. In order to improve this purchasing experience, a scheme was implemented for the buyer to send the money to Mercado Libre and, once the product is received, Mercado Libre releases the funds to seller. This has increased the site's reliability to a great extent." (P. Arnt, personal communication, April 8, 2015).

- **Protected pages or premium pages:** Official stores of Mercado Shops are another product enabling revenue generation in the Mercado Libre ecosystem; these are the

official stores from the big brands, which of course must pay a special fee for this service.

- **Payment processing service to sellers:** Collections service offered to marketplace vendors that lack their own electronic payment collection system. Mercado Libre takes care of the entire collection cycle offering multiple payment options, and then the funds are credited to the seller's bank account.

Notwithstanding the multiple characteristics of the Mercado Libre business model, there is a series of success factors that are worth highlighting in the model and that have enabled the company to position itself as a leading online business platform in Latin America. It may be said that the success of Mercado Libre in the region is primarily due to:

- A full ecosystem, allowing it to improve the customer shopping experience
- Strong brand investment
- Quick internationalization and network effect in most of the countries where it currently operates
- A great variety of payment methods
- Its own financing company -Mercado Pago
- Its own company for monitoring delivery to clients.

Annex I shows a summary of the characteristics of the Mercado Libre Business Model within the template developed by Osterwalder and Pigneur (2010).

2.2. OLX

2.2.1 Company Overview

OLX (an abbreviation for on-line exchange) was co-founded in 2006 by entrepreneurs from Internet Fabrice Grinda and Alec Oxenford in Argentina. Funded by risk companies based in the United States, including Bessemer Ventures and General Catalyst Partners, OLX sold a majority interest to the South African conglomerate Naspers in 2010.

In 2016, OLX was one of the leading free online classified ads platforms in the world, available in over 100 countries and 50 languages. It operates in 106+ local countries with local offices and operations in Argentina, Bangladesh, Brazil, India, Indonesia, Portugal, Poland, and many other countries.

Each day, millions of people around the world use OLX to purchase and sell goods or cars, find a job, or rent a house. The OLX platform has over 200 million single users per month, who generate traffic in more than 11 million web pages browsed monthly, or approximately 360.000 pages browsed per day. The group has 600 employees in offices in Buenos Aires, Cape Town, Delhi, Sao Paulo, Rio de Janeiro, Lisbon, and New York.

Naspers initially acquired a 67.8% interest in OLX.inc in August 2010, which later increased to 95%. As part of an initiative to turn OLX into the biggest consumer to consumer (C2C) trade brand in the world, Naspers recently consolidated its classified ads services in Philippines, Thailand, Poland, Bulgaria, Romania, and Indonesia, which are re-branded as OLX (Naspers.com).

Today, Naspers is a wide-based group with operations in electronic commerce (particularly online classifieds, eTail, markets, online services and payments) and other Internet-related services, video entertainment, and print media. Its primary operations are in high-growth potential markets –Africa, China, Latin America, Central and Eastern Europe, Russia, India,

Southeast Asia and the Middle East. Most of the companies in the group are market leaders in their sectors. Naspers is traded primarily in the Johannesburg Stock Exchange (JSE) in South Africa, where it is included in the Top 10 index.

OLX has quickly become a familiar name in emerging markets. In 2014, OLX reached a milestone that placed it in the same category of giants such as Instagram, Facebook, Messenger, and SNAPCHAT: reaching 200 million active monthly users. The Company has grown to 1,600 employees and operates in 40 countries. Having 11 million pages browsed, 25 million ads, and 8.5 million transactions per month, it is the biggest marketplace in India, Poland and, starting in 2008, Brazil.

OLX is free to use and its income is derived from giving prominence to the products offered on its website and companies' advertisements. Payments for transactions made by site users are performed privately between buyer and seller, which has enabled OLX to avoid the problems posed by a legal payment infrastructure in each market it operates in.

OLX Latin America: OLX has taken the "Martian approach"[15] to international expansion. In OLX's case, its founders decided to focus first on markets like India, far from their home country, because they represented the most fertile opportunity for growth and disruption. Business in their home market Argentina came a few years later. While most companies are launched in their home countries because that is what they understand best, OLX started with the biggest available market in terms of population: India. The company did not start operating in its home country, Argentina, until four and a half years later. In this country and in the Latin American region, OLX is still in its early stages. It may be said that the company actually started operating in Latin America in November 2013, and up until then

[15] This is defined as the expansion strategy of a new business, but looking at the world like a Martian would look at planet Earth from above and would decide where to expand based on the best location rather than the nearest one.

little had been done in the region. With headquarters in Buenos Aires, OLX has established marketing and sales offices in each country. Given that Latin America is a region in which 50% of the population is involved in the informal economy, a pure play CtoC business model is obviously required; a lot remains to be done in a place where people meet with other people and close transactions over the counter. “Internet has existed in emerging markets for only 20 years; there is still a lot to be developed”, said Agustín Garocoche, General Manager at OLX Argentina.

There are three global players with comparable business models: eBay, Classify, and Schibsted , but OLX is the only global brand operating in 40 markets.

As may be seen in Google trends –Google term search ranking- there are countries where OLX has already outdone the regional leader in online purchase and sale, that is to say, Mercado Libre.

Of course, structural difficulties exist in emerging countries for growth of a model like OLX, including bandwidth or the number of smartphone users, but OLX believes there is such a big market available that they are ready to move along smartphone or bandwidth development in each country.

The executives interviewed agree that the development of such a website involves learning a lot on a daily basis, and this should be capitalized on development. An example of this is the site of Alamaula.com, Ebay’s website in Latin America, where it is clear that they failed to understand how to play in underdeveloped markets. Alamaula.com has a value proposal identical to OLX’s, but OLX did it faster and better. At the end of the day, what enabled it to beat Alamaula.com was doing a good job, earning users and building confidence. Alamaula.com had twice as much market share and a better user experience than OLX, but OLX gradually acquired more experience and user registrations. In addition to being present

in over 40 countries, it has acquired a very important know-how that allowed it to outdo Alamaula.com in the region.

While it is not a standard in Latin America yet, it is clearly a reference when it comes to selling or buying used items (Google Trends[16] confirms this in August 30, 2017: OLX outdoes Mercado Libre)

"*In emerging markets, people are increasingly accessing through their phones, because a PC would be a lot more expensive; for this reason, there is great focus on the development of mobile technology*" (Agustín Garicoche, personal communication, August 28, 2015).

"OLX's daily challenge is for those who start selling to take care of collections, and vice versa. In Latin America, there is a cultural evolution under way. Today, the human being is a natural shopper, and we are working for them to set out to start selling as well." (Agustín Garicoche, personal communication, August 28, 2015).

OLX was a first mover in the world and this enabled it to quickly earn expertise. Present in over 40 countries, they have learned a lot about the business and the culture of each country. Its presence in so many countries has afforded it a great ability to develop attractive proposals for emerging market customers, due to the expertise acquired in each single market.

2.2.2. OLX Business Model

Customer Value Proposition (CVP):

- **Intermediation in informal purchase and sale of used products**. The value proposal is a digital platform for people to offer and buy any used item. OLX's model involves people selling to other people, an ecosystem individuals can be drawn to: here, an

[16] https://trends.google.com.ar/trends/

individual may either buy or sell; on the contrary, in a model like Mercado Libre or Amazon, sellers can only sell and not buy (BtoC).

"The basic proposal is that anyone who owns used items would be willing to put them up for sale and anyone interested in those items can buy them, and in turn this buyer may later become a seller himself. And the price can be negotiated; a buyer can take a look at the product before deciding to buy it, they can talk to the seller before the sale is closed." (Agustín Garicoche, personal communication, August 28, 2015).

OLX does not take part in the transaction (at least at this stage in the business model) as is in fact the case with Mercado Libre. This is only a platform for transactions to take place. The proposal is intended for buyers to buy what they are looking for, so that that they can find the item in their city, and that way it is easier for them to see the product before buying it or go and pick it up, etc.

"OLX's daily challenge is for those who start selling to take care of collections, and vice versa. In Latin America, there is a cultural evolution under way. Today, the human being is a natural shopper, and we are working to build a new culture for them to go and sell what they no longer need" (Jaime Macaya, personal communication, August 28, 2015).

- **Products on sale can be given prominence**. In addition, some products on sale can rank and be featured higher in OLX client searches for a fee.
- **No obligation to register or close an unwanted transaction**: The aim is to simplify the transaction; clients are not compelled to register or to close a transaction on the site unless they want to, or in case they have seen the product and have decided against buying it.
- **Clients can talk to and negotiate directly with seller:** *"In the case of OLX, there is not such a big difference in its value proposal in each country; what is different in each*

country is the manner in which a user gets in touch with another one"(Jaime Macaya, personal communication, August 28, 2015).

"Here, a buyer can simply speak directly with the seller, agree on all the terms and have the flexibility desired by them, with no system compelling them to do or not do something or in relation to the way of payment, product pickup, etc." (Agustin Garicoche, personal communication, August 28, 2015).

- **App for easy mobile access to the platform:** The focus of OLX is on enabling easy access to all site features from a mobile phone, and so the platform is very much adapted for this option.
- **Lightweight pages for countries with limited smartphone access:** The platform is of course adapted to each market so that it can be easily accessed through lightweight pages.

Customer Relationships (CR):

The facility offered by OLX for seller and buyer direct interaction and easy publication of a used item on sale have turned the OLX site very attractive when it comes to building customer loyalty.

"The aim is to simplify the transaction to the extent possible. Clients are not compelled to register, or to close a transaction unless they want to, or in case they have seen the product and have decided not to buy it. That is not what a used item client needs. Here, a buyer can speak directly with the seller, agree on the terms of the transactions and have the flexibility they may desire, with no system compelling them to do or not do something, or in relation to way of payment, product pickup, etc." (Agustin Garicoche, personal communication, August 28, 2015).

Distribution Channels (DCH):

- **Evangelism marketing:** Inside the company, they refer to this as "preaching". OLX focuses on each region where it starts evangelizing markets through a lot of marketing and advertising on street, TV, mobile and Internet, with the aim of encouraging people to put up for sale the used items they no longer use at home. This is especially true in markets like the African market, where there is not a long history of print classified ads, so they need to work harder to preach people into putting their old stuff up for sale. By contrast, in Latin American countries, where print classifieds are common, online services offer the added bonus of being able to browse photographs, check item colors, etc.

"While initially a lot of marketing investment is required to position the brand, it is even harder to cause a shift in habits for people to decide to put their old items up for sale." (Jaime Macaya, personal communication, August 28, 2015*)*

- **Mobile:** Today, OLX receives traffic from mobile phones, and for this reason lightweight pages are designed for non-smartphones. As the Internet has less penetration in emerging markets, a mobile phone is more essential than in developed markets. OLX's app is number one in 17 countries where OLX is present in the shopping/lifestyle category. There is a lot of advertising for the app to be downloaded and for people to get used to uploading their products or shopping from their mobile.

"Here, a mobile phone is more essential to access the Internet than the normal web access route. People are better at using mobile phones than the web. For this reason, the aim is to include lightweight images using up less mobile data resources from clients. In India, for example, as there are not so many smartphones, special developments are used for each market, adapting technology while keeping essentially the same model."(Jaime Macaya, personal communication, August 28, 2015*)*

- **Local marketing**: In each country, the local office is dedicated to marketing and sales, and then the elements that are common to all countries are developed at the headquarters in Argentina.

"The point is understanding in each market the needs of potential clients, but centrally developing the software tool. It is important to know in each market and country what should be prioritized, and for this reason local teams are important." (Jaime Macaya, personal communication, August 28, 2015*)*

- **Web, mobile, and app:** The channels used are the web, mobile, and the specific app for the cell phone. The essence of this model is for buyer and seller to meet, and for this reason there is no plan to set up any outlets.
- **Advertising:** There is a big investment in advertising, particularly targeted at prompting people to put their used items up for sale.

Customer Segments (CS):

- **The segment primarily targeted is the CtoC market**. Advertising is strategically targeted at 20-45 year olds because they are technology-savvy and also because they intend to encourage a shift in habits.

Key Activities (KA):

- **Platform development:** The platform is constantly adapted for simplified publication and use. A potential buyer should be able to easily find the desired product or seller. The platform, for a site like OLX, is the most important asset; for this reason, any enhancements made to it are key.
- **Exploiting big data:** It has over 60 development engineers in its headquarters in Buenos Aires, working to enhance the platform and take advantage of the data collected by it for segmented advertising. It should be noted that the OLX platform has 200 million

monthly single users who generate traffic for more than 11 million pages browsed per month or approximately 360 million pages browsed per day.

- **User acquisition and retention:** One of OLX's more fundamental activities is the acquisition and retention of users, which of course will be dependent on good user experience, but also on strong network advertising and drawing traffic to the site.

"We are achieving great brand awareness through advertising. In India, the brand has already been coined as a new verb: "to olxit" (a term that refers to selling or buying on the OLX platform)." (Jaime Macaya, personal communication, August 28, 2015)

Key Resources (KR):

- **Development engineers:** At present, they have 60 engineers working for the region (Latin America, excluding Brazil and Mexico) to develop the platform; in particular, mobile developers are a critical resource to OLX.
- **Capital for marketing investment:** A lot of resources are invested enabling or facilitating user activation; for instance, capital investment in marketing and information and data analysis in relation to client behaviors are key elements.
- **The platform:** A key tool at OLX due to the large number of daily visits and consistent growth in the region. For this reason, there is also a strong presence of platform development engineers working to improve it every day.
- **Local offices in each country:** OLX has its own offices in the main countries where it operates. By late 2016, OLX was present in 45 countries and had offices in 25 of them.

Key Partners (KP):

- **Google and Facebook**. Both platforms are key for new user activation. These partners allow the company to see investment being turned into new users.

Google's search engine, which today virtually monopolizes web searches, contributes two elements for OLX business viability. The first is its search algorithm, the mathematical formula allowing Google to decide which results to show first whenever someone enters a search term on its engine. This formula considers many elements related to page contents, but none of them is related to the size or brand of the content provider. Thus, someone selling bicycles at home has the same chances of being featured among the top results as a large multi-store chain or specialized store –provided that their webpage content has been properly designed (Search Engine Optimization or SEO, as is known in the industry). By making online searches more democratic, small classified ads increase their potential. The second element incorporated by Google is AdSense, the advertising system operated by Google, which enables sharing advertising income with host webpages. With this system, any website can receive advertising investment from small and large companies at no additional cost other than good content development.

- **Advertising agencies**: They help to position the OLX brand, which is essential to attract new users.

Cost Model (CM):

- **Payroll:** This is personnel-related costs from the central offices and being present in each country, where the developer team stands out.
- **Marketing of OLX's higher costs** –this is seen as a user acquisition cost; they are high because of the stage the company is currently in in Latin America: trying to position itself and build on the brand. They believe they will be reduced in the future once the network effect has been achieved.

Revenue Model (RM): OLX's formula involves three essential parts. Firstly, while the basic classified ads service is free of charge to both buyers and sellers, it is possible to generate

highlighted ads for a fee. Secondly, OLX derives income from the sale of advertising to third parties. And finally, it also sells contextual advertising through AdSense. Ninety five percent of OLX’s income is derived from AdSense. No additional effort being required and leveraging on Google’s commercial platform, OLX mainly generates traffic interested in opening and closing business transactions under various categories, which is best suited for the ad categories marketed by Google.

“Once the business matures, product-related services may be marketed. For example, in the car category, insurance will be offered. This is a pay-for-advertising model, while also offering a freemium model, where income is derived from charging a fee to anyone seeking to sell their product faster. Users are willing to pay for added value.” (Agustín Garicoche, personal communication, August 28, 2015).

Based on the peculiarities of the OLX business model described above, it may be said that OLX's success is primarily due to:

- Strong advertising investment
- Ongoing work on the platform and customer acquisition through the work of development engineers so as to exploit big data
- Strong development of strategy targeted at smartphone-enabled client contact.

Annex II shows a summary of the characteristics of the OLX Business Model within the template developed by Osterwalder and Pigneur (2010).

2.3. DESPEGAR.COM

2.3.1. Company Overview

Despegar.com was created in 1999. In 2016, it had commercial offices in 12 countries and operated in 21. In 2016, it had 3,500 employees and sales for over USD 4,000 million. The company started trading on the NASDAQ in September 2017. In 2016, Brazil accounted for 50% of the business in terms of sales. Despegar.com was the fourth tourism company in the world in terms of sales.

What is the reason behind Despegar.com's big success? According to one of its founders and CEO, *"there are two reasons: first, there is our technological platform –we are a software company; the second reason is online marketing: every day, we put up 2,000 million words to come up on search engines."* (R. Souvirón, personal communication, June 15, 2015).

Five strategies were identified to build Despegar: Regional expansion, local presence, brand awareness, integrated service offering, and new segment introduction.

(i) Regional Expansion - The regional scope was critical to obtain sufficient scale and thus operational synergies. A regional brand would create marketing synergies and facilitate the consolidation of regional alliances. From a technology perspective, development costs would be spread across different markets. (ii) Local Presence - Latin America is a very diverse set of countries. Local presence would allow a better understanding of specific needs in each country, such as local regulations, payment methods and ticket issuance. Additionally, local presence would enhance control of each operation and it would create awareness opportunities to obtain better tariffs from local suppliers. To support this strategy, each country would have a similar structure with a country manager, functional leaders and supporting services. (iii) Brand Awareness - A strong brand positioning and fast awareness

building was critical to generate the necessary traffic to the website. The promotion strategy would be a mix of aggressive presence in mass media (TV, radio and billboards), strong public relations (press coverage and special events), and alliances (travel suppliers, Internet sites and co-brandings). Current brand image levels are at 98%. (iv) Integrated Service Offering - A "One-stop Shop" site allows customers to find all the information and services they needed to plan and purchase their trip in a single site. This increased the ratio of site visits and turned them into actual sales, and it also constituted an important competitive advantage over niche travel sites (i.e. airline sites), allowing Despegar.com to gain preference and retain their customer base. In order to support the strategy, the site would have high quality content, virtual discussion groups, customer reviews, 24-hour customer service, and a user-friendly commercial fare searching system. (v) New Segments - To leverage the "one shop" concept and allow for synergies, the business traveling segment was developed. The corporate segment implied customizing the model to the specific needs of companies and businesses. Once the consumer segment was consolidated, the corporate segment was developed[17].

[17] Despegar.com Fuqua Case: Despegar.com : A start-up in Latin America (2006).

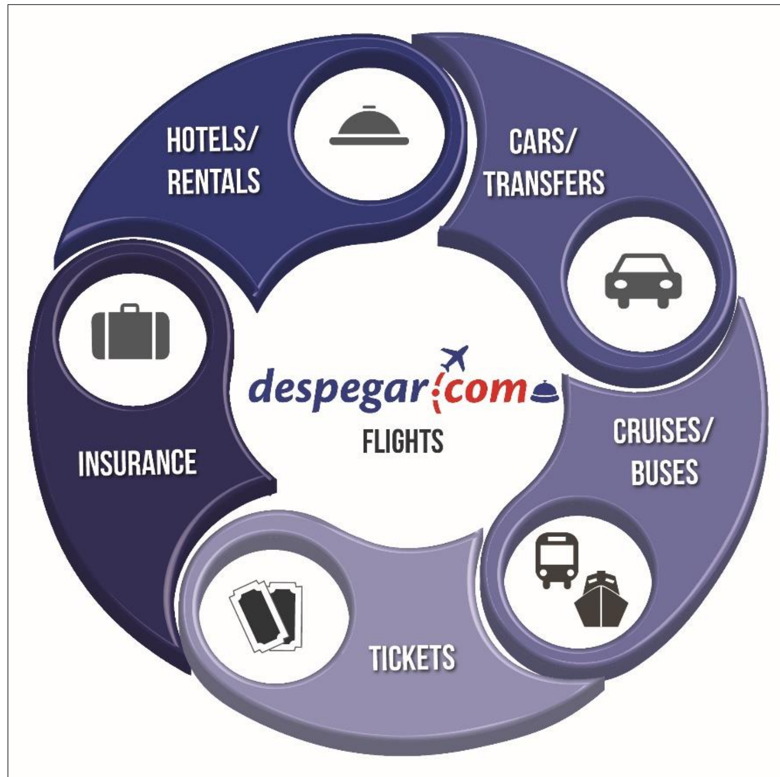


Figure 4.3: Despegar.com Business Ecosystem

When Despegar.com lands in a country, it attempts to work out two primary issues for its business model: on one hand, technology and marketing considerations, and on the other, the conditions existing in each country for financing. In their operations in each country, at present 80% is centralized and the remaining 20% is decentralized. For example, all call-centers and software development activities are found in a single location; each country communicates a need and then the product is centrally developed. However, there is a trade-off between centralized and decentralized activities, which makes it necessary to have staff in each country.

2.3.2. Despegar Business Model

Customer Value Proposition (CVP):

- **Service Ecosystem:** Despegar.com offers within its platform a service ecosystem supplementing the primary business, which enable buyers and sells to achieve their goals.
- **Lower price alerts:** Clients can register for the platform to alert them about special offers for the selected destinations.
- **Variety of payment methods:** Despegar.com offers various payment methods for both online and offline payment, enabling payment in cash and bank transfers.

"Payment methods in the region have their peculiarities. They are affected by the extent of bancarization. The lower the bancarization, the greater the need to look for alternatives. As opposed to brick and mortar, in a model like Despegar.com it is a lot more difficult to implement payment in cash. In addition, in the tourism industry there is high travel rate volatility, and so you need to sell and collect payment immediately. For this reason, payment methods should be immediate. In Peru, payment must be planned for especially in cash due to the country's peculiarities involving a highly informal economy." (Leandro Malandri, personal communication, June 19, 2015).

- **Financing**: There is a lot of client financing in the form of installments for credit card payments.
- **Telephone assistance**: While telephone assistance is being gradually eliminated, this is still important to clients in this region.
- **Company chat:** The company chat enables Despegar.com travelers to have available an aftersales service for any required ticket change or issues during the trip.
- **Search engine and platform**: The website's search engine is very fast and comprehensive; there is big investment in this differential factor.

- **Mobile app:** Despegar.com also has a mobile application enabling a quick and efficient interaction with clients, particularly in case they are on a trip and need to use the chat to contact the company for any inconveniences.

"Smartphones are gradually replacing computers, reason why the smartphone application is under constant development. The aim is to become local players in each country. The Internet enables applying N=1, selling to everyone, taking into account the habits and needs of each customer. Ads will eventually disappear, they are too much of a nuisance to be relevant." (A. Patteta, personal communication, July 6, 2015)

- **Constant promotions and alerts:** Despegar.com makes a very strong promotion of its offers in the main newspapers and magazines of the country. Clients can also subscribe to receive lower price or special offer alerts.

Customer Relationships (CR):

- **App development:** Smartphones are gradually replacing computers in the region, reason why a lot of development is going to the smartphone application.

"The aim is to become local players in each country. The Internet enables applying N=1, selling to everyone, taking into account the habits and needs of each customer." (A. Patteta, personal communication, July 6, 2015)

- **Big Data:** The company believes it is very important to study traceability, although according to company executives, sometimes it is simply impossible to deal with the amount of information to be processed.

"The three axes of online marketing are considered: big data that enables real time decisions concerning which ad is to be displayed to the client, Micro segmentation, and Omnichannel. In the latter case, it is not so important which channel has secured the sale, but which are the triggers or impacts on the client in any channel: channel focus is shifted

onto the client, because an individual always interacts with several channels before deciding on a purchase. The online relationship with the client is a lot more straightforward than offline; it is a lot more accessible to the client, it is bidirectional communication." (A. Patteta, personal communication, July 6, 2015).

- **Taking care of the brand and customer relationship on networks**: In the online world, monitoring the company's image requires mastery; in fact, there is a Community Manager, who takes care of brand presence, and a Reputation Manager, who is the person responsible for monitoring what is being said about the brand.

"We have a sustainability indicator: repeat purchase clients. For this reason, Despegar.com's successful ecosystem is based on: 1. An excellent search engine. 2. Brand positioning. 3. Purchase experience (Reemerie). In the online business, product and price tend to be a commodity, and therefore value is usually somewhere else. Today, Despegar.com has a lot of staff working on these issues, analyzing the purchase flow (3-5 steps are involved in purchasing a ticket); the client fallout ratio between one step and another is analyzed. This is the first big loyalty driver" (A. Patteta, personal communication, July 6, 2015).

- **Special customer protocols:** There are protocols in place intended for emotional customers, for example, upset callers; this is also more frequent in Latin America.
- **Constant marketing:** There is a constant reinforcement of the products and how easy it is to travel.
- **Anti-fraud prevention:** There are technology developments for fraud prevention in client purchases. Special work is being conducted on improving aftersales relations and quick response to travel-related issues.

- **Purchase experience:** Today, Despegar.com innovates by improving the purchase experience; particularly in relation to aftersales, so that the user may have no questions or find the purchasing process a lot easier. The aim is to devise disruptive solutions improving on what is currently available.

"In the online business, product and price tend to be a commodity, and therefore value is usually somewhere else. In fact, travel agencies are looking for ways to differentiate, for instance in relation to site usability -that is to say, how easy it is to buy a ticket. Today, Despegar.com has a lot of staff working on these issues, analyzing the purchase flow (3-5 steps are involved in purchasing a ticket); the client fallout ratio between one step and another is analyzed. This is the first big loyalty driver." (A. Patteta, personal communication, July 6, 2015).

Distribution Channels (DCH):

- **Mobile, web, telephone**: Everything is moving towards mobile today, so there lies a good portion of investment in technology development (Reemerie). The telephone is still important as a sales channel. Thus, contact with clients and sales are performed on the web, over the phone, or through Despegar.com's app.
- **Call center:** While there were several attempts to leave the call center behind for client communication to be restricted to the web, many customers still use the call center for shopping or submitting complains and inquiries.
- **Advertising:** It is primarily conducted on the street, in newspapers and magazines, television, and social networks.
- **Aftersales assistance:** Once registered on the site, Despegar.com's client can seek support during the trip for any inquiries, changing tickets, etc. over the phone, by chat on their mobile or directly on the web.

Customer Segments (CS):

- **No segmentation:** Traveling and tourism is one more consumer product, and for this reason there is competition for ShareWallet with home appliances companies –if a client decides to change their fridge or car, they will most likely not go on a trip.

"There is not so much segmentation, or there is increasingly less segmentation. This is based on the idea that we are all increasingly more prone to traveling. What is important is working on the N=1, that is to say, that each person can get an offer in line with their preferences, needs and profile." (Leandro Malandri, personal communication, June 19, 2015).

Business units (flights, packages, hotels, etc.) work as a team for the client to receive a specific banner.

Key Activities (KA):

- **Marketing**: Despegar defines itself as a technology company that decided to sell plane tickets and hotel accommodation. It is based on the idea that mass communication is key to the product, both online and offline, because in these regions "you have to do a lot of preaching for people to see that traveling is possible, easy, and affordable".

"Perhaps people today are traveling ten times more often than their parents, and our children will be traveling ten times more often than we do. In developed countries, this is not such a steep curve, while the penetration curve is substantially higher." (A. Patteta, personal communication, July 6, 2015).

- **Conversion and fidelization**: Serious work is done on conversion metrics: number of visitors/end purchasers. In addition, work is done on customer loyalty: turning a one-time shopper into a returning customer.

- **Platform innovation:** There is also daily innovation on the platform. Every day, 2,000 million new terms (key words) are added.

"In the region, the following are considered as drivers: a. Mobile b. Customization c. Fulfillment: aftersales -streamlining the shopping and aftersales experience d. Improving the conversion rate: it depends on traffic/prices –this last point is a more obvious one". (Leandro Malandri, personal communication, June 19, 2015)

Key Resources (KR):

"For a site like Depegar.com, the key resources are: 1. Infrastructure 2. Basic Internet providers 3. Mobile networks 4. State encouraging investment. On the other hand, what is needed is airlines, hotels, car rentals, etc. But whether these businesses will in turn be aligned in terms of automatization depends on each country. There are still small niches that are not moving so fast: car rentals/shipping companies." (G. Reemarie, personal communication, July 24, 2015)

- **Suppliers:** Good suppliers are key to a site selling trips.
- **Well-positioned brand**
- **Good aftersales**, particularly where the client encounters some inconvenience.
- **Search engine**: Search engine algorithm: the search engine is updated daily. (Reemerie)

"In Despegar, the resource-related competitive advantages are: 1. Good suppliers 2.Good aftersales, particularly in case the client has some inconvenience 3. Search engine: Search engine algorithm: the search engine is updated every day." (G. Reemerie, personal communication, July 24, 2015)

- **Engineering Team:** There are big software teams: engineers/mathematicians.

- **Platform:** An enhanced platform enables a better user experience and better product communication.
- **Local offices:** It is present in most of the Americas, with its own offices in: Argentina, Chile, Venezuela, Brazil, Mexico, Colombia, Peru, Uruguay, and the United States.

Key Partners (KP):

The Despegar.com business model has local suppliers in each country: airlines, hotels, insurance companies, car rentals, etc. It may be said that there are two fundamental partners:

- **Product suppliers**: hotels, airlines, car rentals, etc.
- **Payment methods:** banks and credit cards.
- **Google and Facebook**: They provide data improving website traffic, thus drawing new customers.

Cost Model (CM):

- **Advertising expense**: An important item under expenses.
- **Structure**: related costs in each country where it operates.

Revenue Model (RM):

- **Online sale of all products offered in the ecosystem of Despegar.com**: hotels, flights, cruise ships, insurance etc.
- **Advertising** from suppliers that are tour operators and would like to advertise on Despegar.com's page for more visibility.

In relation to the peculiarities highlighted on the Despegar.com business model, there is a series of factors that stand out and that have enabled the company to achieve a strong competitive advantage over similar business models in the region. These are:

- Strong advertising investment

- Quick internationalization
- Ongoing platform work for fraud prevention
- Multiple payment methods and small installment financing
- Flexibility to adapt the business model to each country where it operates.

Annex III shows a summary of the characteristics of the Despegar.com Business Model within the template developed by Osterwalder and Pigneur (2010).

2.4. GLOBANT

2.4.1 Company Overview

Globant was founded in 2003, devoted to corporate software development combining creativity, innovation, design, and technology, which has positioned the company as one the industry's global leaders. By late 2016, it had 14 offices in several cities in Argentina, and also in Colombia, Mexico, Uruguay, the United Kingdom and the United States.

From the very beginning, Globant needed to go global, but it is difficult to do so when all of its employees are Argentinian or Brazilian, so its founders realized that in order to go global, the company had to become transnational. Thus, they started to set up offices in several countries in Latin America: Uruguay, Colombia, Mexico (in two cities); they also bought a company in Brazil and, recently they landed in Chile and India. Argentina is the basis for 60% of Globant's personnel. In the US, they have over 300 employees. Upon the recent purchase of a company in India, they started playing the Indian game in relation to catering to developed countries, which also enables them to incorporate Indian talent. This global approach makes them highly competitive, but this is not done for cost arbitration (they are

not cheaper than Globant's competitors in developed markets). In revenue per head, they are second on the top tier of the most important companies in the world, which evidences that Globant is in fact more expensive, but clients prefer it because it stands out with its innovative products. It also has a very competitive service offer.

Globant was born at a time when there was a tendency towards outsourcing (IBM, Tag, etc.), but also a stronger offshoring trend (India, Ireland, Canada, Israel, etc.). Initially, its founders envisioned the opportunity to turn Latin America into a key player in IT services in competition with India, also leveraging on the great potential for a change of paradigm in the delivery of software services and products: the advent of data/image/video transmission allowed IT companies to work more closely with their clients, regardless of their geographical location. Connectivity already enabled working locally and separating the places where technology was consumed and where it was made or produced. The "*We work while you sleep*" argument lost relevance versus the new "*We work together*" standard. In addition, in reference to US clients, Latin America enjoyed several advantages as compared to India, and nobody was doing this in Latin American countries, while India had been at the forefront for a long time. Globant founders felt they had but one thing to offer: they were closer to US clients (in terms of time zone and culture) and they had a good dollar cost in the wake of the Argentine macro-devaluation in January 2002, although they knew this would not be a sustainable competitive advantage due to Argentina' economic volatility.

In time, Globant evolved from a leading company in offshore services from Latin America, to a global leader in software creation and emerging technologies. Today, reference is made to big data, mobile, cloud, gamification, everything in connection with customer-friendly design, design interfaces –all of these are emerging technologies that did not exist seven years ago, they started to be used only recently. All these technologies have triggered a big change in the way companies relate to their internal and external clients. Globant realized

about this at an early stage, and that is why it was able to build partnerships with such big companies like Google, LinkedIn, etc. This was a gradual process that started after the advent of other large companies like Coca Cola, Banco Santander, EMC, and Accenture.

Later on, big companies arrived in an attempt to acquire a portion of Globant's share stock, including Riverwood, which acquired a 26% interest in 2007, FTV Capital with 19%, and finally the advertising multinational WPP with 20%, thus leveraging company growth and improving its positioning in its global image network.

Were it not for technology innovation and the Internet, Globant would not be where it stands today. Technology innovation is its differentiating factor and the Internet has enabled it to multilocalize its software 'factories', located in many cities throughout Latin America, its Studios (actual innovation hubs for emerging technologies, distributed along all of Globant's offices –see table), and perform global delivery from Latin America to its clients primarily based in Europe and the US.

Figure 4.4: Globant Business Ecosystem

As explained by its executives, Globant is not involved in the technology business, but in the "fitness business", that is "we help our clients to 'stay in shape' to be able to constantly reinvent themselves, because the rate of change is dramatically fast."

Year after year, Globant has accumulated a lot of expertise and know-how, and this has contributed a lot of experience and capabilities. According to one of Globant's executives, "we are a project hub".

"Globant accumulates around 450 projects a year; it is a big radar on what is new in global technology, what is going on out there. They know at all times what is going on in terms of software innovation, and this enables them to think about other business models and evolve" (Guibert Englebienne, personal communication, September 14, 2015)

In summary, it may be said that Globant enjoys three competitive advantages:

- Good quality/price ratio.
- Creativity, innovation, ability to question the *status quo* in technology.
- Location advantage in relation to time zones and a culture that is more adaptable to the US and Europe.

The company's purpose is to become "the largest software company in the world". This gives a sense of purpose to everyone working at Globant and a desire to grow in a world where talent is sought after and heavily demanded.

2.4.2. Globant Business Model

Customer Value Proposition (CVP)

- Globant primarily develops software combining creativity, innovation, design, and technology for the company's revenue and its relationship with the client. It offers its

clients a comprehensive experience in emerging technologies (mobile, big data, cloud computing, etc.). Based on these combined characteristics, world-class software, time zone, a culture that is closer to the US and Europe, extensive experience in emerging technologies, it has a very competitive quality/price offer versus other global competitors.

- **Studies specialized in emerging technologies**: Fourteen studies that have enabled it to acquire substantial know-how and human resources that are well-trained on these tools. These studies make up a wide ecosystem of services that, together with its platforms, allows Globant to offer a very competitive assortment of developments to its clients.
- **Human resources**: Human resource availability in various countries enable a globalized resource offer with lots of talent and fast growth.
- **Time zone**: Having its offices located in Latin American countries affords competitive advantages versus similar services from Indian companies, not only because its culture is more adaptable to the US and Europe, but also because their respective time zones are a closer match.
- **Ongoing innovation**: Basically, Globant's competitive advantage is lots of innovation, design, and technology. To achieve this, developers and designers work hand in hand. At Globant, a digital designer works closely with developers; there is a Technology Designer, a Tech Master, a Project Master, and a Technology Architect. All of them will jointly release the product. In addition, whenever Globant must conduct an expansion involving new offices, this corporate culture is also expanded. When entering a new country or city, Globant will transfer staff living and breathing in this culture. For instance, when a new office was set up in Bahía Blanca (a medium-size city in the Province of Buenos Aires, Argentina), they transferred a manager that already had seven years of experience in another Globant center in Argentina. Thus, it makes sure that the

office head will hire staff with a suitable profile and will instill the corporate culture into the new center.

Customer Relationships (CR):

- **On-site Manager:** Globant not only works for its clients in its software production hubs throughout Latin America and India, but it also places within client companies managers trained in product development, thus offering the client differential proximity (nearshoring).

Furthermore, Globant seeks to assign key people to each client company, who have good skills and adequate technology expertise, in addition to interpersonal skills, so as to maintain a smooth company/client relationship and make sure they receive a service of excellence. The directors and senior managers at Global also pay frequent visits to client companies, even to the point that for the purpose of cutting on costs a travel division has been set up inside its offices as an independent business unit.

- **Culture and time zone**: When working with a Latin American supplier, the US client feels more comfortable than with an Indian one due to cultural differences, time zones, accent, etc.

"As compared to India, there are many advantages. For instance, in the past there used to be a software development model where time zone differences did not matter. An order would be received and subsequently delivered within one month. But the present model calls for same-day contact, and that is when time zone differences play a role. Back in 2003, this was not the usual scheme, but they were starting to realize they did not want to work with people who were so culturally different, not because of any human or technical concerns, but because there were great cultural differences between them and the Indians –they have a caste system, big hierarchical differences, and also the time zone consideration. That is

when Latin America started to play a lot harder. In Latin America there are many hierarchical differences, Mexico is a lot more hierarchical than Argentina, etc." (M. Umarán, personal communication, September 2, 2015)

- **Proximity**: Large clients are constantly being preached into the idea that with this new technology their business could be better developed. Globant works to serve its clients with multidisciplinary work teams combining technology and design.

Distribution Channels (DCH):

Sales force, on-site managers and recommendations: Most of Globant's sales representatives are located in the US and Europe. A sales rep's role is basically "opening doors". Sales are actually made by a Senior Technician, who knows all about the technological product that is being sold and will accompany the representative once contact has been established with the client.

In 2016, Globant operated with 40 sales reps, 35 of whom were in the US, its primary marketplace, 2 in Europe, and 3 in Latin American countries. This is the first sales channel, the entrance door, but it is not the most important one. The channel that will be actually selling to the account is the "technology channel", the on-site manager. This is in general the person working inside the company. Most sales are derived through this channel. Today, there is a cultural mix of people in these positions: out of the 300 managers in the US, 80 are Latin and 220 are American. Word of mouth also plays a role, as do company referrals. A recommendation by Google or LinkedIn, for instance, are very important to earn new clients.

The IPO has been of great help as well. This has afforded improved visibility to Globant – having a good reputation and large clients results in new clients. A client will initially start with something small, and later on dare to try new options.

- **Client proximity:** Managers travel frequently to maintain contact with the client. The key for growth, however, is for the manager inside the company to start talking to other site managers.
- **Advice on business integration**: More strategic dialogue exists with certain clients concerning the business as a whole; with these clients work is being done on specific projects.

Customer Segments (CS):

- **Companies in developed countries**: 90% of Globant clients are located in the US and the United Kingdom. At Globant, they were always clear about their target: selling to developed countries and, in particular, to the US.

"Right from the beginning, the owners knew they had to cater to developed countries, and particularly to the US, where there is a very clear supply chain. In the US, it is clear what should be contracted out, at what cost, etc. They are experts at doing this. Of course, this would not have been possible but for the Internet. The Internet is what enables us or the Indians to sell to the US. Globant's sales in Latin America are scarce. Why? Because there is a focus. Latin America and Europe are huge opportunities for Globant, but Globant would not have reached its current position there: growing at an annual 25%. In order to achieve this rate of growth, an organization must be gradually escalated under a specific structure. The growth achieved in the markets already captured is enough, but a focus is required to sustain this growth, affording professionalism and a robust structure to the organization so that it can sustain demand." (A. Scannapieco, personal communication, September 1, 2015).

- **Companies with potential:** A client is accepted not based on contract volume but on future expectations. Here, the strategic vision involves properly selecting clients based

on future development opportunities. The client sees Globant as a company contributing a portion of the present market's state of the art. This is Globant's position in front of clients. Globant intends to position itself as a company capable of transforming a business through the latest technology trends.

Key Activities (KA):

- **Training:** Training is conducted by each Studio, not Human Resources. For example, the Mobile Studio knows what level of training is required by an individual so that within a term of three months they will be properly trained to go to a client's site or work in a specific sector.

"Each Studio has different needs. They complement one another differently. Management makes sure they have available the resources necessary for training activities. Needs are different because technologies are too. In this way, HR has been freed from being present in so many areas. [...] A fundamental activity at Globant is being close to the clients, and a lot of time goes into this." (M. Umarán, personal communication, September 2, 2015).

- **Maintaining Globant's culture:** A very important activity involves maintaining Globant's culture in every place. As the company grew, this became increasingly important –if you must make a turn in time, this will be possible thanks to your corporate culture. This is achieved by constant communication, doing things that will be conveying the culture at all times. While the term "culture" may sound cliché, the message is showing that something different is being done all the time, and people believe that because they can actually see it in senior management and shareholders. *"There is an increasing number of companies worth over 1,000 million dollars where board members apply an open door policy in which everyone works behind a glass window. Breathing the culture is key. Globant's culture was developed from the top down.* (M. Umarán, personal communication, September 2, 2015).

- **Recruiting and staffing:** Taking into account that 80% of Globant's costs go to payroll, this is an important activity.

"Globant applies a two-fold focus: the people market, where money is spent on recruitment. Eighty per cent of Globant's costs go to its people. The second focus is on clients. We do not see ourselves as an offshoring, but as a nearshoring company, where a large portion of our people is at the client's offices." (Nestor Nocetti, personal communication, April 1, 2015).

- **Innovation on latest technology trends**: There has always been investment in the latest technology. They are very flexible to challenge the prevailing ideas. "Challenging the *status quo*", as Globant's managers put it. *"Nothing should be taken as fixed. Everything should be discussed, not only the current technology, but even items to be paid for or credit not granted to a client."* (M. Umarán, personal communication, Septembre 2, 2015).
- **Digital Journey**: Globant helps companies to create a digital journey for consumers, which constitutes a context-aware interaction between an end user and a brand in which technology establishes and builds a powerful experience with deep emotional connections. That is, creating relevant and memorable experiences that enrich the relationship between businesses and users.
- **Challenging culture**: Lots of work is done to promote a challenging atmosphere that is attractive to talent. Office spaces are especially conditioned and designed featuring legends on the walls about Globant's values, offering spaces that encourage creativity.
- **Dash board**: Every week, the company board and senior managers meet in front of a dash board and review how many people have come in, how many have left, which offices are having trouble, what fee is being charged on sales –there is a lot of ongoing learning.

*"It is sort of a big scrum, with the dash board right in the middle and a lot of learning around it. It is a big brainstorming of ideas. The company's situation is reviewed, considering both financial and qualitative variables. This is a learning process, with around twenty people present at each meeting and learning a lot." (*Guibert Englebienne, personal communication, September 14, 2015).

Key Resources (KR):

- **Development engineers:** At a software company, the main resource is software developers. For this reason, Globant settles down in cities where there are prestigious universities and makes a mid-term plan for the annual recruitment of new developers.
- **Agile Pods**: Agile Pods are cross-functional and multidisciplinary teams that bring together design and engineering in order to deliver the right products. Globant does it all, combining engineering and design into a single place.

"Our technology of agile pods is based on gathering around a table the tester, IS, product, and user designers all working together. In fact, pods are put together and their productivity is measured as a function of speed, quality, innovation, and autonomy. As productivity grows, the work hour rate increases, while at the same time the total cost of ownership decreases due to productivity. Pods are assembled to serve clients. Pod composition may vary according to the stage we are at in development for the client." (Guibert Englebienne, personal communication, September 14, 2015)

- **Accumulated expertise:** A strategic resource is gradually accumulated expertise. Accumulated joint expertise is substantial and clients like to know that there is the ability to resolve very complex issues. There are 500 projects at all times at Globant and the increasingly accumulated know-how is impressive.

- **Cutting-edge technology**: There has been investment in the development of certain technologies that are subsequently applied to solve clients' problems.

One other resource is organizational methodologies: The methodologies contributed by Globant to clients, including execution methods using Agil Pods or techniques on how to handle things inside the organization like Stermin up. Work is done with certain clients on how to become a more agile company, so that it may be more competitive versus the many startups that can take a portion of current revenues.

- **Recruiting**: There is an area of paramount importance: the Recruiting and Staffing department, which assesses how many people should be recruited for each division and how the different projects should be staffed.

At Globant, they know ahead of time how many engineers a year will be required for any given technology and there is a predictive model for this. This has assisted in decentralization to a great extent.

- **Offices in various countries:** As it is present in so many locations, the company assesses whether it should be more developed in India and slow down expansion in Colombia, for example. On the other hand, taking into account economic considerations, in case there is a strong devaluation in Colombia, it will be more convenient to hire more Colombians and discontinue the recruitment of Argentinians. Thus, having so many offices may be expensive, but there are also advantages.

"Being present in many countries, at the end of the day, is an important resource. In Argentina, for example, there is a software law granting substantial tax benefits to companies like Globant; in Uruguay there are tax-free locations that can also be enjoyed by

having offices there, and there are like situations in other countries." (A. Scannapieco, personal communication, September 1, 2015)

There are also three important resources that are the pillars supporting the culture and business of Globant. 1. The **Champion**, who supervises the Globant culture in each place. They are responsible for supervising the Globant culture in that site or office, making sure people will feel integrated into projects; this is a HR-oriented position. 2. The **Site Manager** is the mini General manager in that office; they do everything a Champion does, but adding the business profile. They are the ultimately responsible party on site, making sure the necessary resources are available and work will be completed in time, monitoring shifts, and in case an office leaves a place they should know why. This generation of talent will lose motivation if they stay too long in a position. They seek a dynamic environment, otherwise they will leave. A Site Manager should detect this. 3. The **Studios**, which are actually virtual spaces. People working at each Studio need not be in the same physical place. A person in Colombia, for instance, working on Project X will be integrated to Studio X. Studios work for all Business Units. There are five Business Units and each of them in related to a client, and that client is serviced through any number of Business Units according to their demand.

Key Partners (KP):

At Globant, there is virtually no work in association with partners. Only in some specific cases, they have approached a large consulting firm, but that is not the usual.

- **Partners**: WPP today owns 20% of Globant. This is a media conglomerate that acquired a 20% interest in the company in 2012.
- **Clients:** They work with large, well-known clients that will end up becoming good partners leading up to new clients. This was the case with Google, and it was key. They

helped Google to take things into the market, and then the company led Globant to new clients.

*"Today, as is the case with Mc Kinsey, we are witnessing a digital transformation in organizations. They have good contacts in the top management of companies and respect our ability to make changes happen. We have a lot of joint efforts. We are also working with WPP agencies, a stakeholder in Globant, which enables us to work more closely with agencies."***.** (Guibert Englebienne, personal communication, September 14, 2015)

- **Universities:** Everywhere Globant lands, it attempts to get associated to universities. Before setting up a subsidiary, they make sure there are two or three universities around that will contribute to their work force. (M Umarán, personal communication, Septembre 2, 2015).
- **State**: *"No business is done with governments, this is not a type of client specifically desired"* (M. Umarán, personal communication, Septembre 2, 2015). However, there are efforts intended to obtain laws favorable to the industry.

Cost Model (CM)

- **Development centers:** At a company like Globant, the most relevant costs are those related to personnel working at Globant's development centers: 60% in Argentina, 5% Mexico, 8% India, 8% Uruguay, 8% Colombia, 4% Mexico, 5% US, and the rest is from Peru, Brazil, and Chile
- **Hardware and Software**: Globant invests in people, salaries and related items, and makes a big investment in hardware and software, particularly in connectivity –the "tubes" enabling the best possible bandwidth. Connectivity to client is very important. A videoconference may be held connecting Colombians, Uruguayans, Argentinians, and a client based in San Francisco.

Standard platforms are frequently used to later develop products for various clients.

Revenue Model (RM):

- **Services and developments:** A client will be charged per hour, plus an additional fee for the platform used. They realized that using non-competition agreements was not a good idea for Globant, and therefore the company can use the same technology for different clients.

"Most of the time, there is a charge for software developments. There is no testing or maintenance, as is the case with many Indian companies. Clients are distributed as follows: 85% in the US, 5% Europe, and 10% Latin America. Ninety per cent of revenue is in dollars or euros (see investor presentation)." (A. Scannapieco, personal communication, September 1, 2015).

Globant has developed its business model in a world were, traditionally, work is done for a fixed price or charged per hour, an approach that is now gradually disappearing. Today, Globant's business model has turned it into the client's technology partner: both of them work hand in hand, and there is dynamic work in line with a shifty daily reality.

In relation to the peculiarities of the Globant business model described above, special attention should be paid to those that have enabled the company to position itself as a leader in emerging technology development and innovation. These are:

- Its fourteen studies on emerging technologies, making up a true ecosystem of customer services
- Placing a senior manager inside the client organization, who is constantly interacting with the client and implementing projects and developing new proposals
- Multiple locations for software development offices
- Constant innovation in new technologies and on its business model

- Accumulated technology expertise from numerous projects being under simultaneous development.

Annex VI shows a summary of the characteristics of the Globant Business Model within the template developed by Osterwalder and Pigneur (2010).

2.5. FALABELLA AND SODIMAC

2.5.1 Company Overview

The company is one of Latin America's largest, most competitive, and most diversified retailers and operates 479 stores[18] and 38 shopping centers, located in Chile, Uruguay, Argentina, Peru, Brasil, Mexico and Colombia.

Falabella has remained under the same family ownership for over 128 years, and family members still actively participate in executive roles. According to the owners, Falabella's main source of competitive advantage consists of developing permanent and consistent market research, which allows the retailer to provide middle-income consumers with access to a perfect combination of fashion, technology, merchandise and services. The company operates a successful corporate credit card (CMR), as well as financial services, travel agencies and an insurance company, among other services. Additionally, Falabella engages in the shopping center retail business by owning several centers in Chile, Peru and Argentina, as a way to secure the permanent presence of their stores in the selected locations.

Falabella has consistently demonstrated innovation and a first mover advantage compared to other local competitors. For example, Falabella was the first Chilean retailer to expand nationally and internationally, as well as the first retailer to launch its own credit card. This

[18] 110 Department Stores, 246 Home Improvement Stores, 123 Supermarkets

card has been a great aid in the development of retailing for middle and low-income consumers in Chile. It has also allowed consumers from four international markets to purchase items in any of Falabella's stores, as well as with their alliance partners. In fact, in 2007 Falabella was recognized as one of the ten leading Chilean banks (America Economia, 2007). Although 1997 was a year of crisis in Peru, the company introduced CMR and their insurance business through a partnership with a local agency. The role of this credit card in the internationalization process was crucial, because in addition to increasing sales and providing access to credit for consumers, it allowed the company to establish a closer link with customers and identify consumer purchase amounts, frequencies, and shopping preferences. In Colombia, even before opening a department store, the company introduced the CMR card in October 2005, followed by other services.

It should be noted that the main business of Falabella is detail sale of clothing, accessories, and home products through its department stores, malls, and specialty outlets, as well as foodstuffs through hyper- and supermarkets. Additionally, there are areas of Financial Services (credit card issue, insurance brokerage, banking and travel agencies) and textile manufacturing.

In the early 80's, detecting a niche in the market in connection with credit to sectors not catered to by the formal system, Falabella implemented its own credit card, CMR. This strategy afforded the company an increasingly bigger competitive advantage in possessing this "product" and satisfying an existing need. The company acquired a large database, obtaining a big client portfolio, which is Falabella's most valuable asset. Falabella succeeds in attracting, satisfying and retaining clients based on an integrated service scheme, using companies in the group that complement one another's services. This central competition and this business model have created value for over 30 years. This model is replicated by all the business units owned by Falabella. Banco Falabella offers financial product combos,

Viajes Falabella offers travel packages, Homecenter Sodimac -like Tiendas Falabella- conduct department sales and, in addition, the Mall Plaza concept also operates with competencies based on cutting costs and increasing client profits. All of these business units are tied up by the same valuable asset: the retailer's extensive client portfolio. Thus, they enable access to market segments that specialized competitors cannot access to, such as credit granted by the different business units to low-income sectors and for small amounts, thus resulting in constant consumption of the company's products.

An important factor is the increase in barriers to entry generated by Falabella, because it is present in various markets, and as it is well-known and has a valuable brand, it discourages other companies from competing with it.

In entering new countries, Falabella has decided to make alliances with new partners so as to exploit their capabilities and continue building on brand strength. Through managers' contact networks and the handling and marketing of a large client portfolio, it is constantly exploring new markets and growing internationally.

Falabella has multiple businesses, which are characterized by offering a wide range of items and supplier dispersion, client portfolio atomization and extension, present in all socio-economic segments.

Falabella segments its market according to consumption patterns, in an attempt to target the segment of frequent shoppers and to build their loyalty by satisfying their consumption needs, based on the company's strong brand. In order to be able to properly cover this segment, the company uses a differentiation strategy that can position the brand as a synonym for quality and security. Thus Falabella seeks to be at the forefront of technology and fashion, making sure its products meet the highest standards and satisfy the client in every respect.

To Falabella, the international area is one of the biggest interests it has to grow in retail. While Latin America has been affected by numerous economic and political crises in almost every country, they see an attractive potential for future growth and an opportunity for company growth, as they have the necessary capabilities and resources –both human and financial- to do so.

The big diversification carried out by Falabella in recent years has caused the company not to have yields much higher than those of its competitors; however, it got stronger by horizontally integrating with complementary companies, which in the short run will yield above-average returns, and it will be increasingly acquiring market share in each product division. Furthermore, corporate synergies have shown focus economies in all its sub-companies that have enabled new business and corporate functions.

Falabella evidences a Bonded Relationship diversification strategy, where businesses are related to one another through the underlying credit system, which contributes the client portfolio shared by these businesses. This credit system is shared by accepting the CMR credit card as an installment payment option in all transactions with the public. In addition, given the company's knowledge on financial processes, Falabella decides to take advantage of this core competency, diversifying itself in the field of financial systems through a bank, sharing existing processes and databases and thus lowering the learning curve. All diversification types mentioned above share Falabella's client portfolio, the company's core competency and its biggest asset, as they have the ability to properly manage this resource.

Falabella's proposal is mainly based on being an attractive company to consumers, a company worth working for or investing in. To this end, it has very ambitious goals on sales growth, productivity improvement, market domination and cost reduction. However, they realized that department stores were having increasingly demanding clients, more

competition, less product rotation, lower average prices, and similar profit at a higher level of sales. Hence, the Project 2000 was born, focusing on applying better worldwide retail practices, applicable to Falabella, both in Chile and in its foreign branches. Falabella uses a fundamental tool to enable integration with suppliers: the B2B. Using this tool, they have enabled over 200 suppliers to access privileged information on product performance, account status, payment and electronic purchase orders. As a resource, B2B has been an engine for Falabella's structuring, as it requires integration of the processes in all areas for good performance.

The international strategies chosen by Falabella have been primarily based on differentiation by company format and with characteristics similar to those in Chile, which is new in neighboring countries, with quality and high product variety, plus any financial facilities. Other determining factors for its strategy success involve scarce competition with similar companies, strategy patterns very similar to those in Chile, and demand conditions that are quite similar to those they were used to. One of the greatest advantages achieved by Falabella in the international market through diversification and extension is the testing of new innovative strategies, as a pilot market, to later transform the new strategy into reality in the global company with less associated risk. This has been possible primarily because of the scarce competition faced by the company abroad and high return on investment. The purpose of this international strategy is to achieve a standard international format, so that in the short run Falabella can use a global strategy to be recognized by potential customers throughout the Southern Cone and thus achieve increased market share in the countries it operates in, with a larger target market, so that it may be able to obtain higher yields for the company. This also enables having available resources supporting increased innovation with the respective large-scale development.

Having a brick and mortar business model contributes an advantage from client knowledge. This can be more easily achieved with this model both ways: the client recognizes the brand and the company can know the client better. For example, Falabella in Peru and Colombia tries to operate with a local partner precisely because of brand presence and knowledge of the local client. The underlying concept is "think global, act local", which enables increased customization.

Figure 4.5: Falabella Group Business Ecosystem

This research considers the two biggest companies in the Falabella group: Tiendas Falabella and Sodimac. The former is the largest department store in South America, with over 65,000 collaborators, with presence in Chile, Argentina, Peru, and Colombia. In the 1960's, Falabella initiated its expansion stage in Santiago de Chile and other regions in the country. Twenty years later, and with the aim of satisfying the increasing demand from its clients for a more comfortable and flexible payment system, the company endeavored into a new

business unit, launching its own credit card, CMR Falabella, with 5.5 million cards issued throughout Latin America. In the 1990's, Falabella started an internationalization process, extending its operations in Argentina and later in Peru, Colombia, Uruguay, Brasil and México.

In 2003, the group bought Sodimac S.A., a construction material and home improvement retailer. Sodimac S.A. and its subsidiaries developed their operations in Chile, Colombia, Uruguay, Peru, Brazil, Argentina and Mexico. Its primary activity is retail and wholesale sale of construction materials and products for home improvement and decoration, for a better quality of life. In addition, it operates through five formats: Homecenter Sodimac, Sodimac Constructor, Imperial, Homy, Dicico and Maestro. These formats' presence may vary according to the country. It is the largest home items and construction materials chain in Latin America, with over 200 points of sale throughout the main cities in Chile, Colombia, Peru, Brazil, Argentina and Uruguay.

Sodimac has more than 41,000 workers and USD 5,700 million sales. The company also has a Remote Sale and Service channel that in strategic terms is a supplement supporting the global business of Sodimac. This means that, in addition to the traditional sales process, there are rental, home delivery, and information and support services through the company's webpage and call center. The aim if for this area to facilitate client access to the largest variety of products and services offered by Sodimac.

Sodimac is included in the world home center top ten ranking. In Latin American countries, its competitors are Easy and Home Depot, Hornbach in Europe, and Lowe's in the US.

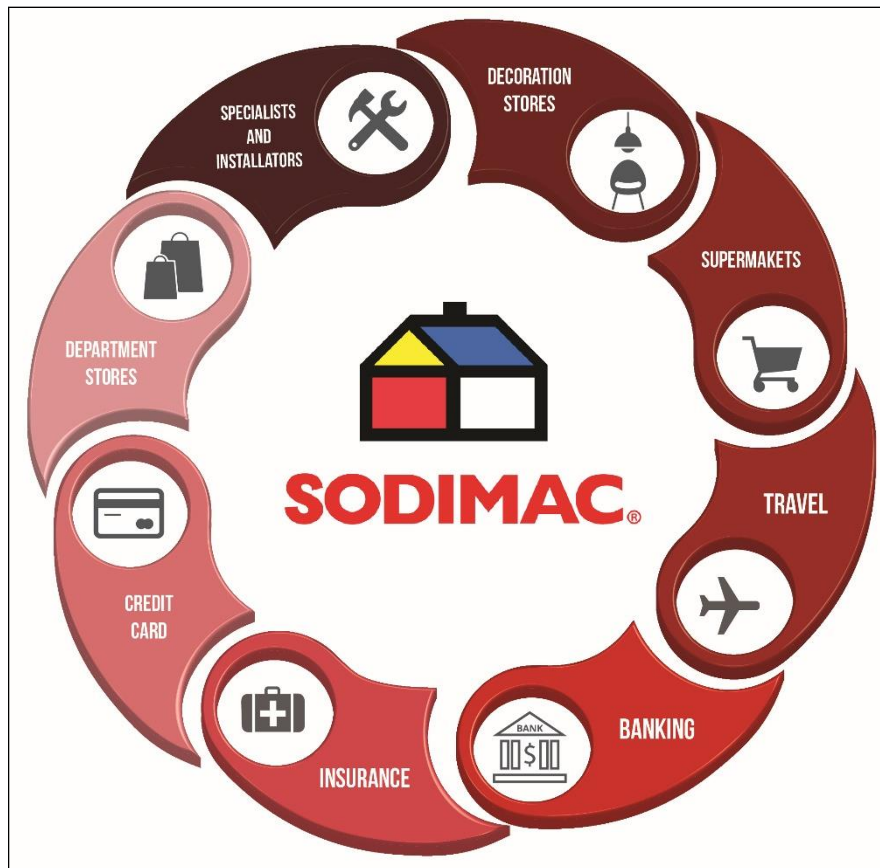


Figure 4.6: Sodimac Business Ecosystem

2.5.2 Tiendas Falabella Business Model

Customer Value Proposition (CVP):

- **Business Ecosystem:** provides within its site an ecosystem of related businesses that complement the main business, from the credit card to businesses as home improvement.
- **Product:** Physical and online stores offer a consumption product mix (clothing, electronics, décor, fitness, stationery, sport items, etc.) from top brands trending in each country. There is also permanent product renovation according to world fashion trends.
- **Location**: Physical stores strategically located in the main cities in the Latin American countries where they operate.
- **Reputable brands**: Falabella, targeting a medium and high-income client, offers reputable brands in its stores and website in each market it operates in. It is true that the

Internet opens up an important channel, but what actually makes the difference in a B&M like Falabella is the brands.

- **Web store:** While it cannot be argued that Falabella is omnichannel in all the countries where it is present, almost all the products offered in stores can be bought on Falabella's website. As an example, omnichannel is still hard to find today in Argentina. Today, in Falabella Argentina there are two systems recording sales and inventories: there is a system for remote sales and another one managing in-store sales.
- **Lower delivery costs:** Convenient agreements with carriers allow for lowering the cost of delivery to client.
- **Own credit card**: Stores offer clients their own credit card (CMR), which enables financing, affording better financing and discounts than other credit cards in the market.Falabella's own credit card (CMR) not only favors financing of purchases made at the stores, but it can also be used for other group businesses, while bringing the client closer and contributing more data on their behavior.
- **App:** There is a mobile app to transfer the online digital experience to the mobile channel, just like the online business attempted to replicate the magic of the physical store. Today, a customer may be in a store and use their mobile to check the opinions of other customers concerning a product. That is why there is a lot of effort to offer this possibility, extending product details and indicating at which stores the product is available. At the mobile level, it was one of the first national chains using a special app to offer the possibility to buy from a cell phone.
- **Various delivery or shipment systems**: Various delivery systems are part of the company's value proposal. Falabella department stores try to offer several alternatives to the client for product delivery: home delivery, pickup in store –not only in Falabella stores, but also in other group stores like Tottus, Sodimac or Homy-, pickup at a store of

logistics suppliers, pickup at lockers strategically distributed throughout the city, 24-hour delivery, scheduled delivery, and there is also the possibility to return a product in a store even if it was bought online.

- **Various payment systems:** The value proposal includes multiple payment options, for example offline payment for non-bancarized individuals or persons with reduced credit card limits, or installment financing. There is also telephone assistance over a toll free number to clients as part of the services offered.
- **Telephone sales:** There is a toll-free number enabling purchases over the phone.

Customer Relationships (CR):

- **Staff especially selected according to target client in stores**: Falabella department stores are assisted by properly trained staff according to their target clients (middle and upper-income in each country). Labor in Latin America is cheaper and therefore more commonly used.
- **Big data:** Online stores are working with big data (they understand how to deal in real time with the variety, volume, and speed of data) for improved offer customization.
- **App:** Falabella offers an app facilitating mobile shopping and inquiries.
- **Well-developed webpage:** Falabella's webpage is very well designed and easy to access by companies in its ecosystem: tourism, Falabella credit card, insurance, banking, supermarket, home décor and construction.
- **Toll-free customer support line**: In each country, there are toll-free numbers for clients to be able to submit inquiries or complaints. It also offers a toll-free number to users of its credit card, CMR.

Distribution Channels (DCH):

Clients are reached through physical stores, the online store and the mobile store.

There is online marketing, but there is also a lot of street, television and radio marketing activities, advertising both physical and online stores. In general, female models that are well-known around the world are used (including Valeria Mazza, Gisele Bündchen, Ricky Martin, Juanita Ringeling, and Paulina Vega).

- **Multiple shipment systems:** There is emphasis on offering the client quick product receipt and various alternatives. Not all products offered are in the stores –many products are sold at physical or online stores, but they are kept at suppliers' facilities and are then directly shipped to the client. In particular, this is the case with large-size products, like mattresses, fitness equipment, etc.
- **Pick-up Points**: Given that many logistics operators are not suited for e-commerce, pick-up points had to be set up at their facilities. At present, **lockers** are being set up at service stations or supermarkets. However, these lockers are still undergoing testing, given that the extent of vandalism or theft is a relevant risk in the region.
- **Pick-up in store**: A system for in-store pick up has also been implemented, where a client making a purchase through e-commerce can stop by the store 30 minutes later to pick up their product from the store's inventory. A step forward in the evolution of this involves buying through e-commerce directly from the warehouses, with the client being able to pick up the product from the store, thus offering a greater variety of products and of stores available for pick-up.
- **Delivery monitoring**: There is no interest in having their own fleet for logistics; what matters is being able to monitor each package, that is to say that these operators should be able to integrate their systems into Falabella's. Work is still being done to turn this into reality.

Customer Segments (CS):

- **Segmentation:** There is no special client segmentation for physical stores or e-commerce. However, this does apply to pricing and store decoration and marketing. The target is a medium/high-income customer with an emphasis on fashion. Segmentation is mainly done by the location of commercial stores.
- **Clients from cities where there are no stores**: Positioning is stronger where a physical store exists, but the aim is reaching other cities where there are no physical stores, attempting to improve freight efficiency to avoid losing a client on this cost. Special catalogs are also offered to this type of clients featuring products that are not available in small cities.

Key Activities (KA):

- **Fraud prevention:** This is an important activity for online or telephone sales, and therefore new tools are constantly implemented; however, the aim is to maintain a balance between improving the shopping experience and delaying the purchase in an attempt to prevent fraud.
- **New client acquisition**: There is a strategy for acquisition of new clients online. The aim is capturing customers that, so far, have only shopped at physical stores. The idea also involves reaching new clients that share similarities with the current ones, or capturing people using Google to search for a product carried by Falabella.
- **New tools**: It is important to attend international fairs to learn about products that can improve e-commerce tools. Similarly, traveling to China or India is useful to see what is being developed for e-commerce in technological terms.
- **Coordination with e-commerce**: Strategies are coordinated between B&M and C&M; these are different teams, but strategies are coordinated, particularly in relation to promotion, so that what is being promoted at stores may be in line with what is being promoted on the web.

- **Delivery control**: Controlling client delivery processes is important, as is avoiding out-of-stock situations, especially on the online channel.
- **Innovation**: Connecting all channels to inventory has been an important innovation concern, and they did this early at regional and global levels. There is no innovation for innovation's sake or simply for marketing; innovation is closely related to enhancing the shopping experience. This calls for lots of benchmarking, traveling to many developed countries. There is a team (Product Manager) trying to understand the client and their needs. This team takes all ideas, filters them up, and then suggests a plan of action.

Key Resources (KR):

- **Call centers:** They continue to be a necessary tool to assist clients.
- **Local partners:** In several countries where Falabella is present outside Chile, it partners up with local companies to enable quick learning on local clients' preferences and to earn customer confidence.
- **Own credit card (CMR):** It has become a key asset, not only for an improved value proposition by offering financing and improving client lock-in, but also to improve the client base and the data gathered in relation to them.
- **Other group stores**: Other group stores where Falabella.com products can be picked up are strategic resources to improve delivery to the client.
- **Special e-commerce warehouses:** As an additional effect from the Internet on stores, in some cities there are special warehousing facilities for web sales, which enable immediate delivery to the client from the warehouse once an order has been placed.

Key Partners (KP):

- **Google and Facebook**: There is a very close relationship; work is done to leverage on these tools for communication with Falabella clients.

- **IT Department:** A key internal partner.
- **Credit cards**: In countries outside Chile, credit cards are very strategic partners; however, in Chile, it is more strategic to have the Falabella (CMR) card.
- **In-cash payment suppliers**: In Peru, Colombia or Argentina, there are in-cash payment suppliers, offering payment points in various places in each city to facilitate no-credit-card payment for web-based sales.
- **Trending labels:** Local trending labels are key partners that make it possible to offer a good brand mix and adequate inventory.
- **Logistics companies**: Not only for home delivery, but also for product delivery to the facilities of the logistics company where the client will pick it up (this is due to the fact that the last mile is very expensive in these regions).

Cost Model (CM):

The costs of Logistics, Technology, and Marketing are important items in the list of costs.

The same applies to Working Capital in inventory management.

Payroll: In general in Latin America, talent is expensive and must be trained. There are different situations in each country: in Argentina –a special case- there is talent but it is expensive, and therefore companies tend to recruit inexperienced personnel to be later trained.

Revenue Model (RM):

Executives interviewed will say that sales through the ecommerce channel have been growing. For reasons of confidentiality we could not access the current percentage of sales by the e-commerce channel.

In relation to the peculiarities highlighted for each business model block, particular attention should be paid to the following, which has enabled the company to become one of the largest, most successfully expanded retailers in the region:

- The Falabella group company ecosystem enables leveraging for an enhanced customer shopping experience
- Its credit company (CMR) allows it to improve the financing offer to clients, usually in each single market
- Quick internationalization, which has enabled the company to earn market share for all companies in the group
- Flexibility to adapt the business model to each country where it operates.

Annex V shows a summary of the characteristics of the Falabella Business Model within the template developed by Osterwalder and Pigneur (2010).

2.5.3 Sodimac Business Model

Customer Value Proposition (CVP):

- **Ecosystem**: Sodimac's value proposition includes the Grupo Falabella company ecosystem, which allows the client to benefit from offers and saving advantages by using a single credit card (CMR) for all group companies, etc.
- **Stores:** For a home center, it is key to have physical stores, because this enables not only brand presence but also in-store pickup, and assisting the client with practical advice in relation to their needs for construction, home repairs, etc.
- **In-store and online assistance:** The client is assisted through additional web resources, for instance a video clip, an article concerning their hobby, an explanation given at a store –all of this is key in this line of business.

- **Omnichannel:** Everything someone buys from Sodimac can be bought on the web or at the store, although –as is the case with Falabella- the physical channel and online channel are not fully integrated yet**.**
- **Lowest price and financing:** As a penetration strategy for these markets, Sodimac offers the lowest price and installment financing, given that installments are very common in retail markets in Latin America. Sodimac offers the lowest price for both medium-quality items and premium items within the product range.
- **Aftersales services**: Clients receive offers for product installation, assembly, etc. This is an important supplement.
- **Inexpensive delivery:** Products are delivered in the store or home delivered at affordable freight costs because a portion of the cost is undertaken by Sodimac. This makes products more appealing, considering that freight is usually expensive due to trade union-related issues, etc. In addition, as Sodimac has agreements in place with very efficient and affordable carriers, freight costs are less expensive for clients.
- **Own credit card**: Clients can use the group's credit card (CMR) at Sodimac and benefit from the advantages offered at all Sodimac ecosystem companies.
- **Extended in-store pickup**: In-store pickup includes other companies in the group chosen by the client for proximity reasons.

Customer Relationships (CR):

- **Customer support:** The relationship with the client, irrespective of whether they will end up buying the product from Sodimac, is primarily based on supporting them through tips given on a product by showing video tutorials on the web and in-store assistance in the form of recommendations given by experts, courses, workshops, etc.

"For a home center, it is key to have physical stores because this enables not only brand presence but also in-store pickup, while assisting the client with practical tips concerning

their needs for construction, home repairs, etc." (Ana Laura Flava, E-commerce Manager for Argentina and Uruguay, personal communication, October 1, 2015)

- **Telephone assistance**: Sodimac offers telephone assistance for clients to have a personal conversation with a salesperson in relation to a product or claim. Telephone contact, rather than web-based communication, is still a differentiating factor for clients in Latin America.

Distribution Channels (DCH):

- **Four channels**: At present, Sodimac uses four channels: stores, web, mobile, and telephone. Everything is targeted at omnichannel, although certain adjustments are required today for this to come true in almost all countries. According to the company's executives, it is hard to align systems for web products to be available at stores. Online shopping still depends on a client willing to operate the system; it is necessary to streamline communication and coordination amongst the Distribution Center, the store and the web. In any case, it is still difficult to have a salesperson assisting a web shopper in the same manner as an in-store customer.

"Processes still require fine-tuning. They should be more automated and suppliers should be more professional. As an example: Home Depot (US) offers 700,000 products; today, Sodimac offers only 20,000. The difference lies on the fact that Home Depot uses suppliers whose products are not necessarily in the store. This is not possible in Latin America because suppliers are not that reliable." (Ana Laura Flava, E-commerce Manager for Argentina and Uruguay, personal communication, October 1, 2015).

- **Logistics integrated into other group companies**: Product distribution is leveraged on the same logistics from another store in the group: Falabella. This enables improving delivery logistics costs and increasing investment in improving delivery. Of course, there

is also the possibility for in-store pickup, and there is a gradual implementation of the possibility to pick up products from the outlets of other companies in the group.

Customer Segments (CS):

There are different segments targeted by the company's value proposal.

- **Hobbyist:** A person that uses to make repairs or improvements at home as a pastime or hobby.
- **Specialist:** A specialist is a person that makes a living from home improvements, repairs, etc.
- **Owners:** Home or office owners who seek to decorate the place, make repairs, etc.
- **Construction companies:** Medium or large construction companies looking for construction material. In some countries, there are store formats for each of these customer profiles.

The website has not been developed yet so as to cater to each of these customer profiles.

Key Activities (KA):

- **Checking order flow:** Main activities include having a good knowledge of the order flow, for orders received via store, telephone, or web.
- **Shipment monitoring:** Guaranteeing delivery to the client, whether it be by in-store pickup or home delivery.
- **Making sure shopping processes** are properly streamlined and that each purchase is correctly validated.
- **No out-of-stock**. Guaranteeing product availability.
- **Web traffic:** Studying web traffic, seeing what works and what does not; studying customer behavior.

- **Online marketing**: It is also important to monitor web-related marketing activities, drawing traffic to the site and developing attractive business proposals.

Key Resources (KR):

- **Platform:** For the Sodimac business, the e-commerce technology platform is very important to properly channel demand, and for processing and invoicing. In these latitudes, it is important for a brick and mortar to have at least one in-house software specialist managing the platform; they are hard to find due to high demand.
- **Customer care centers:** These are very important to enable quick answer times and to have returning customers.
- **Logistics**: Internal logistics support systems are important because this is a critical process for delivering on the promise made to the client.
- **In-house platform specialist:** This is a key resource for a more dynamic web-based product offer and to be able to quickly update product and service supply.

Key Partners (KP):

- **Platform develope**r: As regards the Internet, the developer hired is an important partner because the platform is constantly being updated.
- **Google/Facebook:** They are key for social network promotion and to draw customers to the Sodimac site.
- **Advertising agencies:** The advertising agency will be assessing the website's performance.
- **Products on sale suppliers**: Product suppliers, particularly those enabling direct delivery to the client.

- **Credit cards**: The payment gateway is very relevant, and therefore anything concerning credit cards or other payment methods will be very important.
- **Logistics operators**: OCA, Andreani, etc. are fundamental key partners for efficiency in delivery to the client.

Cost Model (CM):

- **Logistics to client costs:** In order to reduce logistics costs associated to product delivery to the client, a portion of the costs are paid for by the store; this does not have a great impact on the end price.

"In most countries in Latin America, logistics are expensive due to the extent of trade union involvement and applicable collective bargaining agreements. For this reason, part of the costs inherent in delivering the product to the client are undertaken by Sodimac; these costs are not transferred to the product so as to make the end price more attractive." (Ana Laura Flava, E-commerce Manager for Argentina and Uruguay, personal communication, October 1, 2015)

- **Counter-charges:** Usually, 1% on sales. This refers to individuals or organizations involved in fraudulent activities –products delivered and not paid for by the client.
- **Financing:** There is also a cost on financing granted by credit cards to clients, part of which is to be paid for by the seller. There are also credit card-related costs charged directly to the seller.

"The difference in Latin America in retailing as compared to developed countries is banking promotions (discounts, sales price promotions). In the world, discounts are paid for by the retailer, while here they are shared between the retailer and the bank and the credit card, that is to say they are split on a fifty/fifty basis on promotions." (Ana Laura Flava, E-commerce Manager for Argentina and Uruguay, personal communication, October 1, 2015).

- **Advertising:** The advantage with this item is that it is virtually the only one whose amount can be managed by the company.
- **Taxes and site infrastructure**: Their maintenance and development –servers, enhancements, etc.
- **Payroll:** A very important item is, of course, payroll and maintenance of the offices located in each city (cleaning, surveillance costs, etc.).

Revenue Model (RM): Under income, there are basically two items involved: Income on product sale and Income on aftersales services (such as installation, assembly, etc.).

In relation to the peculiarities mentioned concerning the Sodimac business model, the following factors have been key for the company to position itself as the main home improvement center in the region:

- The ecosystem surrounding its primary business
- Adequate management and control of product delivery to client
- "Best price" strategy
- Offer of multiple payment methods and extensive financing through the group's financing company (CMR)
- Adequate online fraud prevention management
- Internationalization strategy.

Annex VI shows a summary of the characteristics of the Sodimac Business Model within the template developed by Osterwalder and Pigneur (2010).

Annexes. Business Models Canvas of Cases Studied and Tables

I. Mercado Libre Business Model Canvas

II. OLX Business Model Canvas

III. Despegar.com Business Model Canvas

IV. Globant Business Model Canvas

V. Tiendas Falabella Business Model Canvas

VI. Sodimac Business Model Canvas

VII. Presence of success factors in each business model under study.

VIII. Compared characteristics for each block of the Business Model Canvas.

Annex I. Table 4.2: Mercado Libre Business Model Canvas

Key Partners	Key Activities	Customer Value Propositions	Customer Relationships	Customer Segments
• Large Logistics Operators • Internet Providers • Banks and other suppliers of payment financing, like credit cards • Google/Facebook/other providing data to increase website traffic • State: Policies for development of bandwidth and 3G/4G • Developments at Silicon Valley (benchmarking) that are later tropicalized in Mercado Libre	• Activities enabling monetization (via Bank, Mobile, Credit Card, etc.); 60 payment methods in Mercado Libre, which are certified and integrated into its systems • Quarterly Innovation Meetings with senior managers • Big presence in Silicon Valley to see what's new to be later "tropicalized" • Exploiting big data and deducing behaviors to target Marketing • Cross-selling, Up-selling, increases in shopping frequency • Offering financing to buyers and sellers	• Product selection, long tail • Powerful product search engine • Mercado Pago and other payment methods adapted to the possibilities of on-line and off-line customers • Credit solutions adjustable to customer's needs • Best price and improved image, resulting from Brick and Mortar inefficiencies in the region • Comfort: in logistics, payment process, credit facilities, APIs (development of software enabling sellers to use all of MERCADO LIBRE's big data on the website) • MERCADO LIBRE Ecosystem: Mercado Shops, Mercado Envíos, Mercado Pago, Mercado Publicidad, Mercado Libre • MERCADO LIBRE Prepaid Card in certain countries (Brazil, Mexico) • Off-Line Payment Methods for non-bancarized or limited CC expenditure individuals • Official Stores: for large brands • Country-adapted websites enabling access from less sophisticated phones • Installment Financing • Lighter pages for countries with few smartphones	• Premium pages • Account agents for big sellers • Buyer Protection Program • Mobile solutions • Seller rating bar • Over-the-phone assistance and training	• Specific target selection, 18-35 y.o., Millennials • Formal and informal sellers • Retailers • Well-known brands: may have a premium or official page • Grey market

Key Resources	Channels
• Mercado Pago and Mercado Envíos as main business engines • Marketing development engineers (40): exploiting behavioral data for marketing • Fraud-prevention neuronal networks • 600 website developers • Lots of human and professional talent in managers and technical staff • Platform • Very efficient, convenient contracts with carriers for sellers: Mercado Envíos	• Ecosystem: m. envios, m. pagos, m.publicidad, m. shops, Mercado Libre • Apps • Mobile Bikers • Web • Street advertising, TV, newspapers and magazines. Banners and social networks
Cost Structure	**Revenue Streams**
• Costs to facilitate payment methods • Payroll • On-line and off-line advertising • Purchases from companies favoring development of core business	• Insertion Fees: for product publication on site and for advertising • Final fees: for product sale intermediation, shipment, and financing • In many highly informal markets, the goal is not to collect, but only to create channels and generate traffic to enter into the country • Protected or premium stores • Payment processing service to sellers

Annex II. Table 4.3: OLX Business Model Canvas

<table>
<tr>
<td rowspan="2">Key Partners
• Internet Providers
• Google/Facebook/other providing data to increase website traffic
• Advertising agencies to achieve brand positioning</td>
<td>Key Activities
• Exploiting big data and deducing behaviors to target Mkt
• Cross-selling, Up-selling, increases in shopping frequency
• Ongoing platform update
• Activities targeted at client acquisition and retention
• Marketing and sales is done by the offices in each country; however, the platform's technology developments are centralized</td>
<td rowspan="2">Value Propositions
• Intermediation in informal purchase and sale of used products
• App enabling easy access to the platform from the cell phone
• Lightweight pages for countries with few smartphones
• No obligation to register
• No obligation to close a transaction unless client so desires
• Buyer can speak and negotiate directly with the seller
• Some products on sale can have preferential display for a fee</td>
<td>Customer Relationships
• Focus on a website that is user-friendly to search for and sell products</td>
<td rowspan="2">Customer Segments
• Mostly people intending to buy or sell used products
• Advertising is strategically targeted at 20-45 year olds because they are more technology-friendly and a change in habits is intended
• Advertising is targeted at encouraging people to sell</td>
</tr>
<tr>
<td>Key Resources
• Development engineers (60) for marketing and the platform: exploiting user behavior data for targeted marketing
• The platform
• Offices in each country for improved client capturing in that region
• Lots of capital supplied by Naspers group for investment in marketing</td>
<td>Channels
• Web, Mobile, and mobile app
• Constant advertising to induce sellers to put used things up for sale
• Local offices in many countries where they operate</td>
</tr>
<tr>
<td colspan="3">Cost Structure
• HR structure
• On-line and off-line advertising
• Taxes
• Branches in each country</td>
<td colspan="2">Revenue Streams
• Insertion Fees: for product publication on site
• Corporate ads on webpage</td>
</tr>
</table>

Annex III. Table 4.4: Despegar.com Business Model Canvas

Key Partners

- Internet Providers
- Banks and other suppliers of financing and payment methods, like credit cards
- Google/Facebook/other providing data to increase website traffic
- State: Policies for development of bandwidth and mobile networks
- Hotel business, airline, cruising, and car companies

Key Activities

- Exploiting big data and deducing behaviors to target Mkt
- Ongoing online and offline marketing development
- Daily platform innovation -Every day, 2,000 million words are placed.
- Lots of work on conversion ratio: site visitors/purchases
- Permanent innovation for an enhanced shopping experience

Key Resources

- Marketing software development enginee exploiting behavioral data for Mkt.
- Lots of human and professional talent managers and technical staff.
- The platform, software enabling traceability a N=1
- Very well positioned brand
- Local offices in most countries where th operate.

Value Propositions

- Lower price
- User-friendly platform. Very good site development for a good customer experience. Efficient, quick and complete search engine
- Online and offline payment methods
- Installment Financing
- Over-the-phone assistance
- Mobil application
- Offer banners
- Lower price alerts
- Corporate chat for any travel inconveniences

Customer Relationships

- Emotional customer protocols, e.g. assisting upset customers
- Over-the-phone assistance and training
- Technology developments offering customer security measures against fraud

Channels

- Products are offered through the web, app, or print newspapers and magazines
- Banners
- Call-Center
- Media
- Mobile
- Constant evangelism marketing on products and easy traveling
- Improvement in aftersales relation and quick response to travel-related issues

Customer Segments

- Anyone old enough to make travel decisions
- The aim is to reach N=1 through big data

Cost Structure

- Costs facilitating access to payment methods and client financing
- Payroll
- On-line and off-line advertising

Revenue Streams

- In relation to product sale intermediation, changes in reservations and financing
- Advertising

Annex IV. Table 4.5: Globant Business Model Canvas

Key Partners

- Internet Providers
- State: policies on development of engineering carriers
- State: legislation granting benefits to software companies
- Google and Mc Kinsey as new customer relationers and analysis of potential new developments in line with new trends
- Main stakeholders in earning new clients
- Universities in each city where they are based

Key Activities

- Training to personnel working in each Studio
- Recruiting and staffing departments
- Monitoring of latest trends launched into the market
- Weekly meetings (*"scrums"*) in front of dashboard
- All activities arising from organization framework developed by Globant

Key Resources

- Expertise accumulated from working on 450 projects per year
- Software developers. Development Engineers inside client companies.
- Lots of human and professional talent in managers and technical staff
- Organizational methodologies
- Globant culture maintained in each branch with the responsible parties (Champions and Site Managers): informal but challenging atmosphere, attractive to talent
- Company management: single glass-walled space with no enclosed offices
- Labs and Studios
- Branches breathe company culture fostered by Champions and Site Managers
- Technology developments increasingly growing for each project
- Own concept framework encouraging innovation among employees and clients

Value Propositions

- Combining creativity, innovation, design and technology
- Lots of expertise in emerging technologies
- Latin America -competitive advantages versus India due to culture and time zone
- Better quality/price ratio versus other global competitors
- Labs and fourteen Studios specialized in emerging technologies.
- Multidisciplinary work teams combining technology and design
- Assisting clients with corporate revenue and customer relations
- Technology managers working inside client companies (nearshoring)
- Human resources in many countries, which enables a global offer of resources with lots of talent and fast growth

Customer Relationships

- Developers at each client company with technology and personal relations skills
- Ongoing evangelism marketing with each client by suggesting technology innovations
- Proximity-to-client culture

Channels

- Forty sales reps, particularly in countries of particular interest (US and Europe)
- Technology managers working inside client companies (nearshoring)
- Website
- Media

Customer Segments

- Focus on US and Europe clients
- Latin American sales account for only 10% on turnover
- Clients are accepted in consideration of the size, with a view to ongoing future business

Cost Structure

- Employees
- Purchases from companies favoring development of core business
- Specific software and hardware
- Structure costs from the branches in each country
- Better use of tax advantages in each country based on multiple branch location

Revenue Streams

- Software development invoicing

Annex V. Table 4.6: Tiendas Falabella Business Model Canvas

Key Partners

- Large Logistics Operators
- Banks and other suppliers of financing and payment methods, like credit cards
- Google/Facebook/other providing data to increase website traffic
- In some countries, offline payment companies
- Local brands enabling good supply mix at online and physical stores
- IT Depos.

Key Activities

- Innovation
- Control over delivery to client
- Coordinating strategies among physical and online stores
- Exploiting big data and deducing behaviors to target Mkt
- Cross-selling, Up-selling, increases in shopping frequency
- Fraud prevention
- Benchmarketing with similar stores from developed countries

Key Resources

- Own credit card
- Call Centers
- Dedicated e-commerce warehouses
- BtoB tool for integration with supplier.
- Other group companies where items bought on line may be picked up.
- Local partners in each country enabling quick learning on client characteristics, shopping culture and supplier relations

Value Propositions

- Own credit card enabling purchase financing
- Mobile app that allows client to shop, check customer reviews, etc.
- Web store. There are limitations as to products versus physical store (difficulty to display color, size)
- Good brand mix
- Several delivery systems for online purchases: Delivery to client's home: Pick up in store. Last mile: Pick up at some logistics supplier's branch; pick up from service stations lockers, 24-hour delivery, and scheduled delivery.
- Off-Line Payment Methods for non-bancarized or limited CC expenditure individuals
- Installment Financing
- Over-the-phone Assistance
- Agreements with very efficient carriers to lower cost of delivery to far-away customers
- Stores located at strategic points throughout the city

Customer Relationships

- Well-developed web page
- Mobile application
- Over-the-phone Assistance
- Customized assistance in stores
- Carefully decorated stores according to client profile
- Customer offers using big data

Channels

- Mobile applications
- Several shipment methods are offered: in-store pickup, home delivery, shipment from distribution center to store and shipment from store to customer; pickup at logistics operator, or service stations lockers
- Stores
- Media
- Website
- Events

Customer Segments

- Trying to capture physical store customers in online store
- E-commerce capture strategies for remote clients drawn to places where physical stores are located
- Any person using Google to search for a product offered by the company

Cost Structure

- Costs to facilitate payment methods
- Payroll
- On-line and off-line advertising
- Shipment logistics
- Technology
- Working capital on warehoused merchandise

Revenue Streams

- Online and in-store product sale
- Financial gains on own credit card

Annex VI. Table 4.7: Sodimac Business Model Canvas

Key Partners

- Large Logistics Operators
- Internet Providers
- Banks and other suppliers of financing and payment methods, like credit cards
- Google/Facebook/other providing data to increase website traffic
- The platform was developed by a partner and requires constant updating
- Advertising agency (performance agency)
- Product suppliers

Key Activities

- Knowing the orders flow very well for both store and web orders
- Streamlined processes for web and telephone orders
- Processes for validation of each purchase
- Assuring availability and no out-of-stock
- Guaranteeing shipment and delivery. Logistics management: pickup in store, shipment
- Studying web traffic, seeing what works and what doesn't
- Marketing –drawing in traffic- and Commercial -appealing proposal-

Key Resources

- A platform that properly channels demand, processes it and invoices accordingly
- Customer support services are very important
- Internal support for logistics
- Software specialist managing the platform, a hard-to-find asset

Value Propositions

- Home Center -sales of all items necessary for construction, home decoration and repairs
- Ecosystem
- Own credit card
- Best price
- Sharing benefits with other group companies
- Support offered through website and physical store tips to customers, regardless of sale confirmation. Explaining the customer how a product should be used and maintained, and giving relevant tips for product use
- Installment financing
- Client aftersales services: installation, maintenance suppliers, etc.
- Pick up in store or home delivery
- Lower freight-related costs; partly borne by store. Very efficient, convenient contracts with carriers for buyers
- Branches strategically located in the main cities in each country

Customer Relationships

- Over-the-phone assistance and training
- Support through website and physical store tips to customers, regardless of sale confirmation.

Channels

- Call Center
- Physical stores
- Web
- Mobile application
- Media
- Integrated logistics with group companies

Customer Segments

- Hobbyist
- Property owners
- Specialists, contractors
- Medium and large-size construction companies

Cost Structure

- Logistics -a portion of freight-related costs is born by Sodimac and not passed through to client
- Counter-charges: usually 1% -This refers to individuals or organizations that are involved in this kind of activities: buying a product and then rejecting the purchase
- Financing: credit card interest rates and fees
- HR costs
- Advertising -an advantage with this is that it is virtually the only item the company can fully manage.
- Taxes
- Website infrastructure, maintenance and development: servers, enhancements, etc.

Revenue Streams

- Income on product sales
- Income on services sales

Annex VII. Table 4.8: Presence of success factors in each Business Model under study

Own Enhanced Ecosystem	• **Falabella/Sodimac** is supported by the ecosystem created by the Falabella group in order to strengthen supply; this includes a bank, insurance, tourism, other stores' distribution systems; picking up Falabella products from other group company's branches, using points cards from other group stores to shop at Falabella; the group card for financing purchases, a group decor company, a supermarket, and mobile telephone company. Integrated multiformat retailing model in every market. This model suggests that by operating different retail formats such as department stores, home improvement stores, and grocery stores, the company can achieve economies of scale in purchasing, distribution, marketing, and with the implementation of private label brands. Furthermore, the financial and real estate businesses binds it all together because it provides customers with credit to purchase goods and services from these retail formats. Overall, the model acts as a virtual cycle for obtaining synergies from purchases and customer intelligence to support further international growth. • **Mercado Libre:** The presence within its ecosystem of four own business units directly supporting the classifieds business affords Mercado Libre flexibility in each transaction, adapting it to each client, while powering up the entire model's performance. • **Globant:** It offers its clients twelve Studios specialized in emerging technologies, which enable offering the client a very extensive supply of technologies offered by a single company, and having available substantial know-how and human resources that are properly trained on these tools. • **Despegar.com:** Its ecosystem offers travel-related accessory products on a single web page, including insurance, car or home rentals, hotels, etc. It does not have its own companies working in these areas.
Customer safety and fraud prevention	• **Mercado Libre:** In order to improve the confidence of its customers, it developed the color bar that appears underneath a seller's name and, resembling a traffic light, displays the rating given by customers to each seller (in relation to fulfillment of delivery terms, product characteristics, time frames, responsiveness, etc.), and now it is migrating to an entirely reliable website. In addition, the price amount is not credited in favor of the seller until the buyer confirms receipt of the item in good order. Furthermore, its fraud-prevention technology development is worth of mention. Neural networks are used to prevent fraud. • **Falabella.com:** It guarantees customer transaction security using the SSL (Security Socket Layer) system, one of the most rigorous data protection standards in the world. Preventing fraud is an important activity for online or telephone shopping; for this reason, new tools are constantly being implemented, always considering the balance between enhancing the shopping experience and delaying a purchase to avoid fraud. • At **Despegar.com**, technology developments offering customer security measures against fraud are constantly carried out. • At **Globant,** this aspect is guaranteed by the involvement of a Senior Technician, who works inside the client company, whose profile includes good interpersonal skills for client relations. • At **Sodimac**, counter-charges are a relevant item: it is usually 1% on sales. This refers to individuals or organizations involved in fraud and, as a result, there are costs associated to products delivered and not paid for by the client. • **Expert opinion:** Fraud and system hijacking is getting more and more sophisticated. Hackers do a lot of planning -they are not just random, rare attacks. Today, there are hacker organizations. In the past, they used to target the financial industry, but today retailers are increasingly a target because they handle lots of information (Cencosud). • **Expert opinion**: In this region, there are more people prone to deception and fraud. Therefore, efforts should be focused on tools for fraud prevention, at least to a somewhat greater extent than in developed countries.
Strategic Flexibility	• Mercado Libre developed its own company to power up financing and delivery, two weak aspects in emerging markets • Falabella and Sodimac have their own company within the group (CMR) to finance their clients' purchases • Mercado Libre, Despegar, Falabella and Sodimac all have call centers in place for customer care • Mercado Libre uses motorcycle bikers, instead of drones, for immediate delivery • Almost all of the companies studies adapt their websites to each country's available bandwidth, particularly those where smartphone use is not widespread yet • Amongst the cases studied that have BtoC models, several payment methods are used, adapted for non-bancarized, no credit card customers • In very informal markets, Mercado Libre adapts its business model to facilitate website traffic, making it free to OLX: Many users in Latin American countries access the web through their mobile phones only, so this obliged OLX to rapidly adapt its pages for them to be easy to use from a cell phone • In all cases studied, the shopping experience is enhanced by increased personal interaction through call centers; it should also be taken into account that average education levels are generally lower than in developed countries. Pre-paid cards for certain countries in the region where bancarization is not widespread.
Control of logistics management	• At Sodimac and Falabella, internal logistics supports are important because this is a critical process to be able to deliver to the client as promised. The customer can track their purchase status on line. • At Despegar, in addition to online transmission of the electronic ticket, messages are sent to the passenger during and after their trip to check on any requirements and

	service satisfaction. There is also an app that enables the passenger to submit inquiries and requests during the trip. • The Mercado Libre platform includes a business unit (Mercado Envíos) responsible for monitoring product delivery and package tracking until their arrival at destination and payment to the seller is released once receipt is confirmed by the client.
Ongoing brand building / Reliability	• Sodimac: Constant Sodimac brand presence in media and street advertising. The customer receives in-store and online tips regarding use of materials, irrespective of whether the purchase is effectively made. • Falabella has substantial brand presence in the cities where it has outlets and a lot of advertising in media and the web. • At Globant, this is achieved through the permanent presence of experienced managers at the client's offices for the entire term of service provision, in addition to a history of services to global leading companies. • Mercado Libre: Strong media advertising, good positioning on the main Internet search engines, plus a robust management of buyers' and sellers' reputations all ensure the client a safe transaction or, failing this, recovery of the amount of money paid. • OLX: The site's increasing reliability is based on constant street and media advertising.
Persistence to achieve network effect and quick internationalization	• Two of the characteristics that have made Mercado Libre particularly successful in Latin America are Network Effect and Persistence. This is a very difficult region; new alternatives must be constantly tested in each sector, learning all the time, and many get frustrated along the way. Efforts must be concentrated in each country until the business model can be advanced (Lopez Conde, 2015). • In some countries in Latin America, Mercado Libre does not charge any fee until an adequate volume of transactions is attained. • OLX has not achieved the network effect yet in many countries in Latin America. So far, user acquisition costs remain high. They are at the investment stage intended to position the brand and thus achieve the network effect. • In Mercado Libre there is rapid internationalization, which has enabled it to be the first to enter into many countries and acquire valuable experience subsequently applied to other markets. Mercado Libre was founded in 1999 and by 2004 it already had affiliated companies in the following countries: Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Peru, Uruguay, and Venezuela. • Despegar.com was founded in 1999 and in its first ten months it set up offices in nine Latin American countries. • Falabella initiated its internationalization process in 1993, when it started opening stores in Argentina, then in Peru in 1995, and in Colombia later that year. • Sodimac has expanded to six countries in Latin America; while it was founded in Chile in 1952, it was not until 2003 that it was acquired by the Falabella Group. It first expanded into Colombia in 1994, Peru in 2004, Argentina in 2008, Brazil in 2013, and Uruguay in 2015. • OLX was founded in Argentina in 2006; it operates globally, with presence in twenty-five offices in over forty countries. In Latin America, it is present in Argentina, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Panama, Peru, Uruguay, and Venezuela. • Globant: While its Latin American offices are not primarily intended to sell in those countries but rather in the US, where more than 80% of its income is derived, they are useful to its business model by enabling the recruitment of specialized personnel. Since 2003, when it was founded, it has set up offices in Argentina (Buenos Aires, La Plata, Córdoba, Chaco, Tandil, Rosario, Bahía Blanca), Uruguay (Montevideo), Colombia (Bogotá), England (London), and the United States (Boston, San Francisco).
Monetization or payment method extension	• Falabella and Sodimac: Multiple payment methods are offered to clients, including a single Falabella/Sodimac credit card and shopping credit or financing granted by the Group's financial company. • Globant: The multiplicity of countries where the company is based contributes versatility to adapt financing and its invoicing structure to client's needs, while also improving product-related costs. • Mercado Libre: Through the group company Mercado Pago, the platform enables handling over 60 online and offline payment methods, while also offering its own installment financing system to both buyers and sellers. • Despegar does not have its own financing system, although it offers multiple online and offline payment options.
Extensive financing to buyers	• All sample companies with BtoC business models offer installment financing; three of them do so through their own financing systems. • Despegar is constantly offering extended financing to its clients.
Mobile strategy	• Given that in emerging markets like Latin America people are increasingly gaining access through their mobile phones because a PC is a lot more expensive, intensive Internet use companies -like those included in the sample- focus heavily on mobile technology development and have specific policies to adapt their e-commerce pages to each market, according to the extent of Internet and smartphone penetration.

Annex VIII. Table 4.9: Compared characteristics for each block of the Business Model Canvas

Canvas Block	Elements	Mercado Libre	OLX	Despegar	Globant	Falabella	Sodimac
CVP	Powerful product search engine	●	●	●		●	●
	Online and offline payment methods	●		●		●	●
	Credit solutions adjustable to customer's needs	●		●		●	●
	Best price	●		●			●
	Ecosystem	●		●	●	●	●
	Prepaid Card	●					
	API´s	●					
	Official Stores	●					
	Country adapted websites	●	●	●			
	Long Tail	●	●				
	Top featured products available	●	●				
	Telephone sales			●		●	●
	Lower price alerts			●			
	Pre-sale and aftersales chat			●		●	●
	On-site technology managers (nearshoring)				●		
	Ability to choose service supplier country				●		
	Multiple delivery options	●				●	●
	Lower delivery-related costs	●				●	●
	Adequate outlet distribution					●	●
	Phone Wallet	●					
	Prestigious brands	●				●	●
	Aftersales service						●
	Top featured products service	●	●	●			

Channels	Mobile	●	●	●	●	●	●
	Web	●	●	●	●	●	●
	Call Center	●	●	●		●	●
	Chat			●		●	●
	Web, street, TV, print advertising	●	●	●		●	●
	Physical stores					●	●
	Delivery Service	●		●		●	●
	Pick up in store					●	●
	Pick up in lockers					●	●
	Local offices	●	●	●		●	●
	Express delivery bikers	●					
	Sellers				●		
Customer Relationship	Account agents for big sellers	●			●		
	Buyer Protection Program Seller rating bar	●					
	Mobile solutions	●	●	●	●	●	●
	Over-the-phone assistance and training	●		●		●	●
	No obligation to register or close transaction		●				
	Pre-sale chat			●		●	●
	Buyer can speak and negotiate directly with the seller		●				
	Anti-fraud technology devices	●		●		●	●
	Pre- and post-sale product tips			●	●	●	●
	Aftersales service	●		●	●		●
	Permanent in-company service				●		
Customer Segment	Focus on Millennials	●	●				
	Grey Markets	●	●				
	Well-known brands	●				●	●
	General retailers	●					
	Used item buyers and sellers	●	●				
	US and Europe clients				●		
	Latam clients				●		
	Hobbyist						●
	Specialists, contractors						●
	Medium and large-size construction companies						●
	Any person using Google to search for a product offered by the company	●				●	

Key Resources	Ecosystem	●	●	●	●	●	●
	Marketing development engineers	●	●	●			
	Fraud-prevention neuronal networks	●	●	●		●	●
	Many website developers	●	●	●			
	Platform	●	●	●	●	●	●
	Very efficient, convenient contracts with carriers for sellers	●				●	●
	An office in each country	●	●	●			
	Huge capital investment in marketing	●	●	●		●	●
	Very well positioned brand	●	●			●	●
	Expertise accumulated from working on 450 projects per year				●		
	Own credit card					●	●
	Dedicated e-commerce warehouses					●	
	Local partners in each country					●	
	Customer support services, call centers			●		●	●
	Internal software specialist managing platform					●	●
	Labs and Studios			●			
	Champions and Site Managers			●			
	Own conceptual framework encouraging innovation			●			
	Dedicated desk managing delivery to clients					●	●

Key Activities	Activities enabling monetization	●	●	●		●	●
	Quarterly innovation meetings with senior managers	●					
	Exploiting big data	●	●	●			
	Cross-selling, Up-selling	●	●	●			
	Offering financing to buyers and sellers	●					
	Ongoing platform update	●	●	●		●	●
	Activities targeted at client acquisition and retention	●	●	●			
	Technology training	●			●		
	Weekly Board meetings ("*scrum*") in front of dash board				●		
	Frequent innovation on Business Model	●			●		
	Control over delivery to client	●			●	●	●
	Fraud prevention	●	●	●		●	●
	Benchmarketing	●	●				
	Good knowledge on order flow						●
	Processes for validation of each purchase						●
	Guaranteeing stock availability						●

Key Partners	Large Logistics Operators	●				●	●
	Google/Facebook	●	●	●		●	●
	Internet Providers	●	●	●	●		
	Banks and other suppliers of financing and payment methods	●		●		●	●
	State: Policies for development of bandwidth and 3G/4G	●		●	●		
	Advertising agencies	●	●	●		●	●
	Offline payment companies	●		●		●	●
	Local brands	●				●	●
	Platform developer					●	●
	Suppliers of products carried on website			●		●	●
Cost Model	Costs to facilitate payment methods					●	●
	Payroll	●	●	●	●	●	●
	On-line and off-line advertising	●	●	●			
	Purchases from companies favoring development of core business	●		●	●		
	Taxes	●	●	●	●	●	●
	Local offices	●	●	●	●	●	●
	Specific software and hardware				●		
	Shipment logistics					●	●
	Working capital on warehoused merchandise					●	●
	Advertising campaign-related costs		●				
	Credit card counter-charges			●		●	●
	Client financing					●	●
	Technology infrastructure of platform website	●	●	●	●	●	●
Revenue Model	Insertion Fees	●	●				
	For purchased item exchange			●			
	Final fees	●		●		●	●
	Protected or premium stores	●					
	Payment processing service to sellers	●					
	Corporate ads on webpage	●		●			
	For financing	●		●			
	Software development invoicing				●		
	Financial gains on own or pre-paid credit card	●				●	●

CHAPTER V: DISCUSSION

Much has been written on emerging markets and on how their context conditions differ significantly from those of developed world markets (Frazier, Gill and Kale, 1989, Khanna & Palepu, 2006, Xu & Meyer, 2013, Liu et al., 2013, Marquis & Raynard, 2015) and how these conditions affect a company's strategies and performance (Terpstra and Sarathy, 1994, Wright et al., 2005, Khanna et al. 2005, Hoskisson et al, 2013). But little is known yet about which precise factors are proving successful for local business models competing in these markets using the advantages provided by the Internet, and how they have adapted known and proven business models in developed markets to make them more competitive in these particular conditions present in emerging markets such as Latin America (Nichols-Nixon et al 2011, Wirtz et al., 2016).

Our sample included four of the six Latin American companies characterized as "Unicorns" (technological companies worth over USD 1.000 million) and two companies from the Falabella Group, which ranked fifth among the highest worth companies in Latin America in 2015. The six companies trade their shares on the stock market, three of them on the NASDAQ exchange.

Based on the comparative analysis of the cases of the firms studied in this dissertation, we can affirm that there are certain general principles affecting the success of an emerging market business model and key specific success factors associated with on-line strategies that may help firms to develop winning strategies, creating value for all business model stakeholders. This allows us to fully answer our research question and make a contribution to the literature of business models in emerging markets. Through this multiple case research we documented what strategizing actions and critical

abilities have been successful in shaping, adapting and renewingbusiness models that use the Internet for their e-business operation to create sustained value in emerging markets and the strategic theories that best highlight these success factors.

This cross-analysis enabled us to identify similarities and differences among the business models of the cases selected through the analysis of tables included in the annexes to Chapter IV.

The findings were analyzed through the lenses provided by the business model canvas focusing on the online strategies used by each model for its competitive positioning. Differences and emerging patterns are discussed separately.

Although emerging markets possess common characteristics that shape consumer behavior with an impact on the business model design, the research has shown that not all companies adjust the design of their business models or make innovations in their business model to meet the characteristics of local markets in the same way.

Taking into account the questions that have guided this research, as well as those answered during personal interviews, we first present and discuss general principles that guide the on-line strategies of the business models studied. Secondly, the key success factors that emerged from our analysis will be discussed and formulated in the form of nine theoretical propositions. These two sections of the chapter constitute the answer to our research question. We then discuss how extant theory relates to our findings. In the final part of the chapter, we discuss the implications of our findings for practicing managers.

1. General Principles for strategies of Business Models in Emerging Markets

The first part of the research question considered in this thesis is the following: ***Which are the general principles associated to on-line strategies of business models in emerging market?*** From our in-depth interviews and the tables analyzed in the previous chapter we see recurring strategies that guide the actions that are then implemented in the business model of the companies studied. Specifically, we found five that we call general principles. All companies displayed all of them (cfr. Figure 5.1).

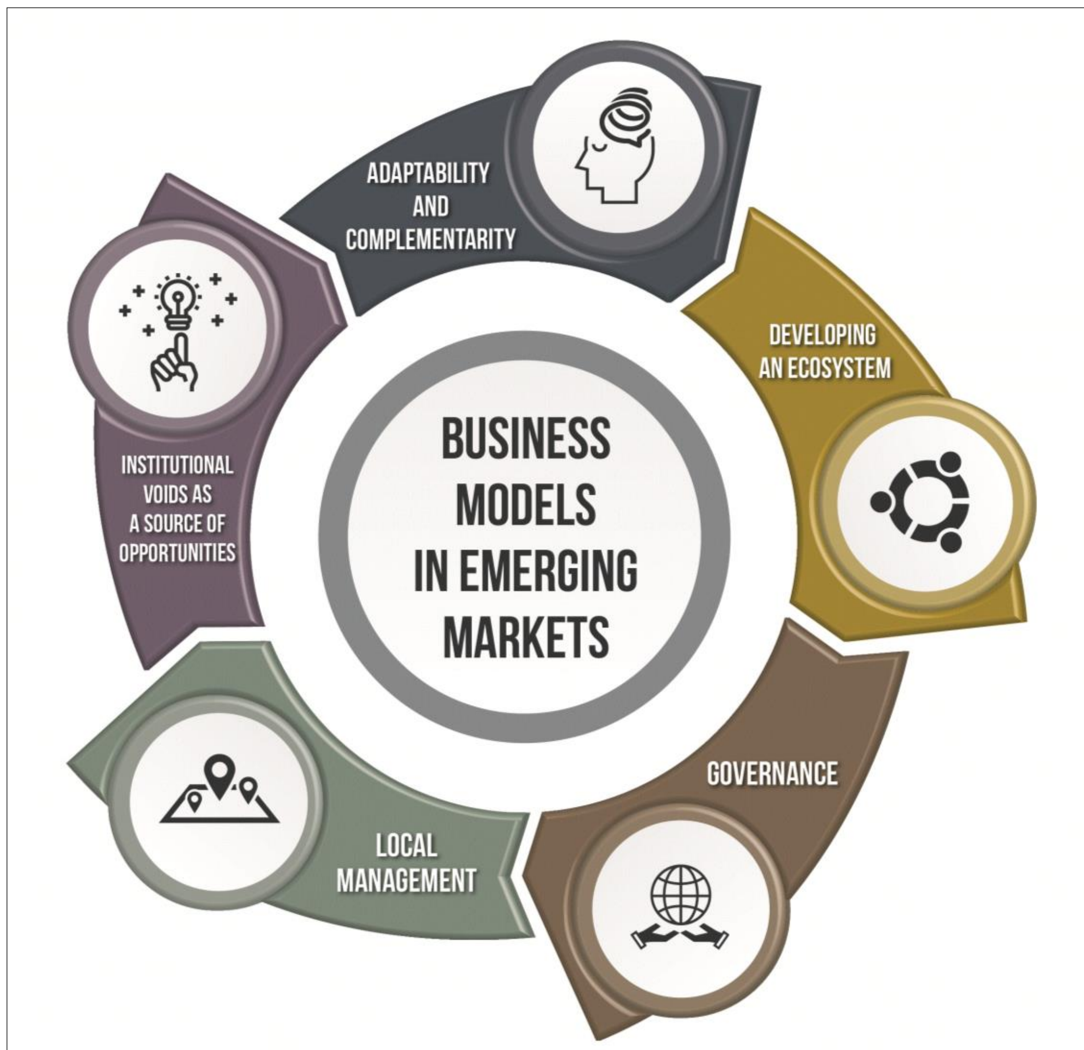


Figure 5.1: General Principles for e-business models in emerging markets

A. Adaptability and Complementarity

Unlike many quoted studies in the literature (Dawar & Frost, 1999, Khanna & Palepu 2006), one of our first findings is that the competitive advantages that drive them to success in their respective market segments derive basically from factors that, leveraging on the advantages provided by technology, are primarily based on knowing how to adapt the business model to the peculiarities of each market, and to build solid business models with operations which are complementary to the main activity, which will allow them to overcome the *institutional voids* inherent to emerging economies.

Some authors, such as Dawar and Frost (1999), Khanna and Palepu (2006) and Shankar et al. (2008), mark as competitive advantages for local enterprises over foreign companies the fact of having certain strategic assets such as contacts with local governments, a special knowledge of the market which could take years for a developed market competitor to acquire, or having a distinctive product based on very specific consumer tastes in emerging markets. Yet, our findings go beyond these aspects. The key factors that explain the success of the six cases studied stems rather from knowing how to execute the strategy effectively and how to innovate effectively in the business model inserted in each market or country where the company competes.

As mentioned above it is apparent that a substantial number of business models across several industries are being globally challenged by technological development and more specifically by the advances of the Internet (Afuah and Tucci, 2003). What is particularly relevant for developing countries is the fact that the transfer of information over the Internet operates largely irrespective of physical location and that basic hardware and software are widely available and relatively cheap. This situation creates a world of opportunities for emerging markets entrepreneurs with a global mindset.

Consequently, critical factors in these environments such as the impossibility to access certain markets due to lack of transport infrastructure and access to information from areas located far from trade centers lose their relevance in the business value through the Internet (Bhattacharya & Michael 2008). The costs and difficulties associated with bridging extensive physical distances just disappear or become much less relevant. However, “distances” become quite significant when dealing with administrative and legal issues or infrastructural weaknesses, given the need for companies that sell on the Internet to organize their payment methods, build their logistics infrastructure, contract providers of different services and obtain government approvals to operate.

In Latin America, the impact of the Internet is allowing manufacturers and intermediaries to gain access to population markets that in the past were harder or even impossible to serve due to institutional voids[19] inherent to these markets (Khanna & Palepu, 2010), at least directly and massively. This causes business models to multiply and expand, from a brick and mortar model like Tiendas Falabella to a marketplace as is the case with Mercado Libre or OLX. The existence of a global reach company in terms of technological developments born in Argentina, such as Globant, would be impossible without the Internet, which allows the development of complex equipment virtually grouped in twelve facilities across many Latin American countries and cities, an otherwise unfathomable task. It would also be impossible to have the fourth largest tourism company in the world located in Latin America, as Despegar.com is, without having the Internet, and it would have been impossible to develop Mercado Libre, the most important retailer in Latin America. It would also have been impossible to

[19] Institutional voids —the absence of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms—: corporations in emerging markets cannot access capital or talent as easily or as inexpensively as European and American corporations can (Khanna & Palepu, 2010).

establish OLX in Argentina, which - with just 1200 employees, 34 million average hits per day and operations in over 40 countries - has reached a milestone that places it in the same category as Instagram, Facebook Messenger, and Snapchat: 200 million monthly active users. All the cases quoted above and analyzed in this study are local companies from countries such as Argentina and Chile, but which compete with more experienced and established global peers. This finding is consistent with what has been said by several researchers in the literature on emerging markets (Ming Zeng and Peter J. Williamson, 2003; Tarun Khanna, Krishna G. Palepu, and Jayant Sinha, 2005; Arindam K. Bhattacharya and David C. Michael, 2008).

B. Developing an ecosystem

Thanks to the Internet, most have also expanded their focus from selling products to engaging and empowering customers, with the ultimate goal of creating a rewarding customer experience. In addition, in Latin America retailers today can no longer be accurately characterized as "merchant intermediaries" that buy from suppliers and sell to customers. Rather, they are best described as orchestrators or conductors of platforms (Amrit Tiwana et al., 2010) that serve as ecosystems in which value is created and delivered to customers and, subsequently, appropriated by the retailer and its business partners. Retailers in Latin America are becoming spaces (sometimes, only virtual ones like Mercado Libre, OLX or Despegar.com) for staging customer experiences, and thus their business models go beyond the traditional functions of procuring, stocking, and moving products. The important difference we see in our selected cases versus the similar business models of their peers in developed countries is that in emerging countries, companies initially tend to form an ecosystem of fully controlled companies, to later improve the buying experience weakened by institutional gaps, and then use those same companies to enhance the performance of the entire business model.

This is an important difference when compared to similar business models like Amazon or eBay in the USA. While in emerging markets, such as those in Latin America, the ecosystems of these business models tend to be complemented by companies that facilitate the purchase or sale within the marketplace, in developed markets, ecosystems tend to expand with unrelated products to extend product offerings. For example, Amazon has capitalized on its information and communication technology (ICT) infrastructure and now offers storage capacity (Amazon S3) and computing power (Amazon EC2) to other firms, whether they are partners or not. It has also recently added fresh food (Amazon Fresh) and tickets for sporting events (Amazon Tickets) to its business ecosystem.

C. Governance

Our research also suggests that, as Khanna & Palepu (2006) point out, excellent performance and good governance are particularly valuable in emerging countries. Much of this excellent execution has to do with the ability to be flexible within each country or region to adapt the business model to the peculiarities of that market. Following Casadesuss-Masaanel and Ricart's (2010) conceptualization of a business model as the particular set of choices an organization makes about policies, assets and governance - and their associated consequences (Cassadesus Masanell & Ricart, 2010) - we can conclude that in the cases we have studied governance has a great impact since resource providers cannot rely on the enforcement of contracts in emerging markets, and good governance – organizational mechanisms that ensure that a company lives up to its commitments to investors, customers, employees, and business partners – allows an organization to acquire a reputation that is invaluable in its dealings with its stakeholders. In other words, it is essential for these markets to include within its main

business management, control and governance of strategic complements to the main business, such as delivery in the marketplace or purchase and sale financing, public stock offerings if it trades in the stock market, to ensure that the client or the investor receive their order or the return on their investment. Therefore, we see that, for instance, Falabella and Sodimac have introduced in their environments purchase financing through their own credit card, Mercado Libre offers as an additional service in each purchase or sale the possibility to finance it through its own company Mercado Pago, or to undertake the product delivery service through its own company Mercado Envíos.

D. Local Management

We do find local management with a global vision, which was able to successfully "*tropicalize*" (adapt to the Latin American business landscape) business models proven in developed countries and to execute them exceedingly well, competing side-by-side with world class companies from developed countries; this finding is consistent with Bhattacharya and Michael's (2008) idea of developing business models to overcome obstacles. This specific capacity or talent in the local management of the selected companies is closely related to the notion of "strategic flexibility" (Garud & Kotha, 1994; Sanchez, 1995; Rindova & Kotha, 2001), defined as the ability to precipitate intentional changes and adapt to environmental changes through the continuous rethinking of current strategies, asset deployment, and investment strategies (Evans 1991; Bahrami 1992; Sanchez 1995) or the firm's ability to reallocate and reconfigure their organizational resources, processes, and strategies to deal with environmental changes (Zhou and Wu, 2010). Strategic flexibility is generated internally, inside the boundaries of the firm. Its intangible nature suggests that strategic flexibility is dynamic and firm-specific because related managerial and problem-solving skills are intrinsic to

firms and emerge within them (Chen et al., 2017). Strategic flexibility is an important dynamic capability that enables firms to achieve competitive advantage in turbulent markets (Teece et al., 1997; Zhou and Wu, 2010, Liu et al, 2013).

Smart local companies have taken advantage of the benefits of globalization to close the gaps in technology, capital, and talent with their rivals from the developed world and, contrary to popular perceptions, local winners in emerging markets often incorporate the latest technologies (Bhattacharya and Michael, 2008), as in the cases of Globant, Mercado Libre, Despegar.com, OLX, Sodimac and Falabella. Despite the fact that talent resources in emerging markets are scarce (Khanna & Palepu, 2006), in all cases researched local *management* is world class; several executives have left multinational companies or jobs abroad to join local leaders, although it is clear that they are familiar with the local context and know how to work around institutional voids, which in turn allows them to identify and meet customers' needs effectively. Managers at local companies know how to work around institutional voids because they have had years of experience doing so. Their familiarity with the local context enables them to identify and meet customers' needs effectively. This finding is consistent with Khanna & Palepu's (2006) idea about the emerging giants.

E. Institutional voids as a source of opportunities

We were also able to verify that the process of identifying the institutional voids of an emerging market is a source of opportunities for investors willing to contribute to filling those voids; this finding is also consistent with Khanna and Palepu's idea of exploiting institutional voids as business opportunities. We found that some companies exploited institutional voids to create a profitable business. Thus, Mercado Libre and Falabella have launched their own financing companies (Mercado Pago and CMR, respectively)

to offer credit to clients as well as to capture new clients and retain their loyalty towards their main activity. Mercado Libre also exploits within its ecosystem Internet publicity companies, delivery and e-commerce services for companies. These activities function as independent business units as well, but within the same Mercado Libre Marketplace platform. Recently it has launched credits for its marketplace sellers in several countries in which it operates. Sodimac, also within its ecosystem, has its own credit card, a bank, a travel agency, a supermarket and an interior decoration company. Consequently, it is also verified that in order to fully leverage the opportunities afforded by emerging markets, companies need special business model innovations to reach customers in the market and to offer them additional services that have the potential to justify a price or at the very least will build brand loyalty (Chakravarthy & Coughlan, 2012; Khanna et al, 2005; Eyring et. al, 2011).

SUCCESS FACTORS / COMPANY	SODIMAC	falabella	Globant	d (Despegar)	mercado libre	OLX
	B&M, BtoC	B&M, BtoC	Pure Play, BtoB	Pure Play, BtoC	Pure Play, Marketplace, BtoC, BtoB, CtoC	Pure Play, Marketplace, CtoC
OWN ECOSYSTEM AND PLATFORM	✔ (H)	✔ (H)	✔ (H)	✔ (M)	✔ (H)	✔ (L)
CUSTOMER SAFETY AND FRAUD PREVENTION	✔ (H)	✔ (H)	✔ (H)	✔ (H)	✔ (H)	✔ (M)
STRATEGIC FLEXIBILITY	✔ (H)	✔ (H)	✔ (M)	✔ (H)	✔ (H)	✔ (H)
CONTROL OF DELIVERY MANAGEMENT	✔ (M)	✔ (M)	✔ (M)	Does not use delivery services	✔ (H)	Does not use delivery services
ON GOING BRAND BUILDING	✔ (H)	✔ (H)	✔ (M)	✔ (H)	✔ (H)	✔ (H)
QUICK INTERNALIZATION AND PERSISTENCE TO ATTAIN NETWORK EFFECT IN EACH COUNTRY	✔ (H)	✔ (H)	✔ (L)	✔ (H)	✔ (H)	✔ (H)
MONETIZATION OR PAYMENT METHOD EXTENSION	✔ (H)	✔ (H)	✔ (L)	✔ (H)	✔ (H)	Does not engage in the economic operation between seller and buyer
EXTENSIVE FINANCING TO CUSTOMERS	✔ (H)	✔ (H)	✔ (L)	✔ (H)	✔ (H)	Does not engage in the economic operation between seller and buyer
MOBILE STRATEGY	✔ (H)	✔ (H)	✔ (M)	✔ (H)	✔ (H)	✔ (H)

(H): HIGH SUBSTANTIAL (M): MODERATE (L): LOW

Table 5.1: Success Factors for e-business models in emerging markets

2. Success Factors in on-line strategies

The second part of the research question considered in this thesis is the following: *What success factors are influencing on-line strategies of business models in emerging markets?*

Based on all of the above considerations, the extensive data collected during in-depth interviews and publicly available literature in relation to each of the companies under study, it may be concluded that there are nine differentiated common principles in Latin American business models, which enable us to explain most of the their current success in the region.

The findings clearly showed that one of the key success factors in emerging markets is offering consumers a supplementary services ecosystem (such as delivery, alternative online and offline payment methods, customized care, financing, etc.) in addition to the main offer, which will enhance the shopping experience and succeed in directly remedying the institutional voids inherent in the markets. Moreover, from a strategic perspective in connection with Internet-based business, it may be observed that quick internationalization and flexibility (Strategic Flexibility) have had great impact, as has management's ability to adapt the model to each market where they intend to operate.

In all the models analyzed, whether BtoC or CtoC, there is a great impact of promotional activities and the brand on the online business so as to afford the customer more confidence when it comes to online purchasing or selling. Additionally, due to the increasing use of smartphones in emerging economy countries as a primary and more accessible tool for online business for customers, the development of new applications also impacts on the performance of strategies intended to capture new clients. In this

connection, the strategies used by companies for online fraud prevention are also influential.

The previous narrative of six successful business models from Latin America illustrates how local pure play and brick and mortar business models have been capable of becoming leaders in the domestic market and important players in Latin America. We looked for recurring features in the business models and found nine. Not all the companies displayed all of them, but as we shall see, a greater number of these features usually correlated with higher performance. It may be concluded that there are nine differentiated common principles in Latin American business models related to on-line strategies, which allow us to explain most of their current success in the region (cfr. Table 5.1).

1. Own Business Ecosystem and online platforms

The business model describes how a focal firm taps into its ecosystem to perform activities needed to fulfill perceived customer needs (Amit & Zott 2015). The business model focuses on the activities performed by the subset of actors in the focal firm's ecosystem from which the company receives services that are intertwined within its own internal activity system (Casadesus Masanell & Ricart 2010, Demil & Lecocq 2010). The successful ecosystem is composed of multiple companies acting in concert – an ecosystem strategy can be thought of as one that takes a partner company's business model to be as critical to address as the focal firm's (Adner, 2017). A business ecosystem is defined as a collection of (many) companies engaged in joint production, whose choices and actions are interdependent (Boudreau and Hagiu, 2008). As an example of this, we can consider the business model of Despegar.com, which is very similar to other known travel agencies operating from a platform, such as Expedia.com or Lastminute.com. In each country or region where Despegar.com operates with its

business model is the same, although it changes its business ecosystem, since it has alliances in each country with partners offering travel services in that country that are partly the same as in the rest of the region, but there are many that are different. Business ecosystems are contexts where the success of a value proposition depends on creating an alignment of partners that need to work together so as to transform a winning idea into a market success (Priem et al. 2013, Adner, 2012). Similar to biological ecosystems, business ecosystems are also characterized by high complexity, interdependence, cooperation, competition and coevolution (Iansiti & Levien 2004). A clear understanding of the ecosystem configuration and its dynamics is critical to a successful strategy (Adner, 2012), as awareness of the ecosystem dynamics can help shape strategy and highlight future opportunities (Gobble, 2014). Moore (1993) asserts that companies create a new business ecosystem based on four evolutionary stages: birth, expansion, leadership, and self-renewal. Therefore, the variable of time is fundamental, as the relationships amongst the constituent elements may change the ecosystem structure. Subsequently, understanding the ecosystem means not only drawing the shape and relationships amongst the constituent elements in a certain moment in time, but understanding how it evolves over time (Battistella et al. 2013). Business ecosystems are focused on commonly created value, renewal and constant innovation in order to achieve a sustainable competitive advantage in a modern business environment (Ahokangas et al. 2015). Logically, as the business model is part of an ecosystem, it will also be affected by this evolution in time. Therefore, as explained below, in the light of the theoretical framework, more than one management theory is necessary to enlighten the value created by the business models in emerging markets and their evolution in time from their emerging state up to their consolidation.

When referring to own business ecosystem, what is meant is that the most solid models in the region are those that offer, within their value proposition, services which are complementary to the main business activity (delivery, financing, consulting, insurance, etc.) through companies which are independent of the main activity, but whose ownership or at least its governance and control has the same proprietor as the main business, thus greatly promoting the synergy among the businesses within the ecosystem. Since the systems are interconnected this means that the clients' purchase experience is enhanced, and sales are extraordinarily boosted. One known example of this is the Apple business ecosystem, which is an ecosystem of its own. Precisely because the emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together (Khanna and Palepu, 2008), the challenge in the emerging markets business models is to ensure efficiency for the client as much as possible in the purchase process. That is why it is necessary to have a strong alliance with all the intervening parties in the purchase process concluding at its maximum expression in ownership, internalizing the complementary service within the same focal firm in the business model. If it also tries to improve purchases over the Internet, the business model will be more successful as long as it manages to satisfy questions which in these markets are a determining factor :safety in handling data required from the client, brand reliability, secure delivery and purchase financing. For example, Mercado Libre exploits this need for safety for the customer to the maximum degree by depositing the money to the seller only when the buyer acknowledges receipt of the merchandise as promised, besides giving the buyer and the seller the opportunity to rate each other, and then everything is recorded in their purchasing history for future transactions. Accordingly, an effective business model in these markets, particularly if it does on-line web transaction business, needs to incorporate the complementary services

required to complete transactions, which in turn increases the value perceived by the user of the utility received (Dong et al., 2010).

All commercial transactions have three fundamental moments from the point of view of the client: assortment, or being able to find what we are looking for in a business or Internet site, payment, and delivery logistics. The better each one of these processes can be satisfied, the better will be the client's purchase experience. Based on the on-line business in the cases studied and the experts consulted, we can conclude that in these countries the logistics (including the sending of products to the customer) and payment play a more than relevant role: the purchase and sale experience becomes more important than the product itself. Therefore it is very important in emerging markets to at least be able to control these two fundamental moments. If a good payment service (including financing) and delivery logistics can be achieved, they will also operate as value drivers for the business model to reach a virtuous circle improving all three at once and, in turn, they will improve the purchase experience and thus cause the entire ecosystem to be more than merely the sum of its parts. If other complements such as consulting, personalized post-sales service, etc. can be added to the ecosystem, it is possible to continue boosting much of the value throughout the ecosystem. It can also be said that filling institutional voids represents an entrepreneur's opportunity, creating a company for a specific need or developing an agreement to allow for at least retaining control over the service that a client gets.

With an asset as important as having their own business ecosystem, the business models we analyzed exploit this by using technological platforms that promote value creation and capture in each ecosystem member and the ability to rapidly scale and dominate a market. This finding is consistent with Iansiti and Levien's (2004) idea of keystone organizations. Technological platforms are defined as the extensible codebase of a

software-based system that provides core functionality shared by the modules that interoperate with it and the interfaces through which they interoperate (Amrit Tiwana et al., 2010); a platform ecosystem consists of the platform, secondary applications developed for it, the actors providing, extending, and using the platform and applications, as well as their interactions and the effects of these interactions (S. Scholten and U. Scholten, 2010). Though they come in many varieties, all platforms have an ecosystem with the same basic structure, comprising four types of players. The owners of platforms control their intellectual property and governance. Providers serve as the platforms' interface with users. Producers create their offerings, and consumers use those offerings (Van Alstyne et al, 2016).

Due to open, standardized platforms, it is technically easy to link activities and integrate services across value chains on a web site (Christensen& Methlie, 2003). Globant, for instance, while having a BtoB model, has also developed a platform disrupting the digital consultancy marketplace with their Services over Platforms (SoP) offering. The central idea behind SoP is to leverage a core set of common platforms across different client engagements in order to provide rapid solutions. Such platforms will enable greater economies of scale as compared to entirely custom solutions, while passing along the resulting savings as well as the mature capabilities of the platforms to customers. Likewise, traditional pipeline giants such John Deere, Nike and GE are all scrambling to incorporate platforms into their business models (Van Alstyne et al, 2016).

"The intelligence of being able to match two interests makes our platform super powerful, and that's our challenge and our daily work" (Leo Rubinstein, CEO of OLX for Latin America[20])

The platforms of Falabella and Sodimac also offer within their services their own credit card, a logistics integrated service that goes from selecting the product chosen by the client on the web at the warehouse up to delivering the product. In turn, it allows the client to track the location of the purchase en route to its destination or the possibility of picking up the purchase at any branch of any company of the group or at a branch of the logistics operator. The same platform also provides tutorials on the possibility of consulting on the product or hiring installation services for the product purchased. They also offer within the same ecosystem financing purchases through their own credit card (CMR) and other services complementary to the retail through other companies from the same group: a bank, an insurance company, a travel agency, an interior decoration company, a supermarket and a mobile telephone company, where the client operating with one of the companies of the ecosystem finds benefits for purchases from the other companies in the group.

Within its own platform, Mercado Libre offers its own financing service (Mercado Pago) and its own delivery service (Mercado Envíos). Within the platforms, the salesperson can hire advertising services within or outside the marketplace (Mercado Publicidad), take loans for the working capital of their business (Mercado Crédito) and services to set up one's own e-commerce within or outside the Mercado Libre marketplace (Mercado Shops). And all of this lies in the same ecosystem, which gives the marketplace great capacity to generate and retain value with the different sub-groups

[20] http://insiderlatam.com/leo-rubinstein-de-olx-nuestra-plataforma-es-muy-poderosa/

operating with the platform. Thus, through its own five marketplace business units, it has created its own very solid ecosystem, offering the client key facilities for these markets such as purchase financing for buyers and sellers, and distribution logistics for the product purchased in the Marketplace, thus granting more safety for the purchase.

Summarizing, this success factor for these markets is obtained mainly, with the help of platforms, improving governance over complementary business models that are added to the platforms, starting by rights partitioning, what consumers, producers, providers, and even competitors are allowed to do there, through to having control and pricing policies of the entire business model ecosystem (Tiwana et al, 2010), and ensuring more service control for the client.

Table 5.2 below shows the business units (except for Globant, they are all independent companies) that are within the Business Ecosystem in the cases studied.

Table 5.2: Business Ecosystems, Platforms and Ownership

Company	Business Ecosystem or complementors	Complementors ownership	Digital Platforms?
Mercado Libre	Mercado Pago, Mercado Envios, Mercado Publicidad, Mercado Clasificados, Mercado Shops, Mercado Créditos	All of them	Yes
Despegar.com	Hotels, Cars and Transfers, Insurance, Tickets, Cruises and Transport	None of them	Yes
Globant	14 studies* in the company to develop emerging technologies	All of them	Yes
Falabella	Bank, credit card, Food retailing, Home Improvement, Real State	All of them	Yes
Sodimac	Bank, credit card, Food retailing, Department stores, Real State	All of them	Yes
OLX	None	None	Yes

*Business units within the company, each dedicated to the development of an emerging technology

Proposition 1: *the greater the number of complementary service offers in its business ecosystem and the greater the control afforded over them, the more successful a business model will be in emerging markets.*

2. Customer security and fraud prevention

In Latin America, a low rate of credit card usage can be attributed more to the "lack of trust in than lack of access to" the credit card system (Kshetri, 2007). It is tough to make money on the Internet in emerging markets because of consumer concerns about online theft and the lack of a credit card culture (Bhattacharya and Michael, 2008). The issue of trust, particularly consumers' perception of the lack of security in e-commerce, is one of the largest impediments to e-commerce growth. This mistrust stems partly from the lack of physical representation, since buyers cannot touch and feel products on the Internet, and partly from concerns regarding credit card abuse (Zott et al, 2000). A number of studies have found trust to be very important for e-businesses, especially if they are selling high value products and services (Brynjolfsson & Smith, 2000; Reichheld & Schefter, 2000; McKnight, Choudhury & Kacmar, 2002; Mahmood, Bagchi, & Ford, 2004). This is even more relevant in emerging markets where digital security and the habit of closing commercial transactions over the web are more recent than in developed ones (Kenpankho et al, 2005). Furthermore, online shoppers are likely to have a better quality perception of products and services (product value) offered by well-known retailers and, therefore, they will have greater confidence in these retailers (Somnath Mukhopadhyay et al. 2008). Anxieties about fraud and identity protection are high: Argentina 55 percent, Brazil 47 percent, and Mexico 56 percent[21].

[21] http://www.huffingtonpost.com/shane-happach/latin-america-internet commerce_b_2001245.html

The companies we analyzed have dealt with this issue differently: offering pre-paid cards, free shipping, multiplying the off-line payment systems, setting up call centers for clients to pose questions or queries to a person rather than a machine, acquiring world class software to prevent fraud, etc.

"The client has to feel cared for all the time, much more so in these countries where there is no remote purchase culture and in an Internet environment where, to close a sale, the client must post their personal and banking data; therefore, the companies of the sample and in general companies with a medium-to-high e-commerce use try to generate more client awareness and provide more information about their retail sites being more secure". (Marcelo Dalceggio, IT Director, Grupo Cencosud, 17/7/2015)

In markets like Latin America, these security and trust issues spread to the uncertainty in delivery logistics (uncertainty as to whether a purchase will arrive in time and the great difficulty in returning a purchase in the same manner) and the "*countercharges"* (affording - by law in several countries - the product purchaser the possibility to reject reception, in which case credit cards must then return the payment immediately without the need to verify the truthfulness of the complaint).

"An important characteristic that is still different in emerging markets is credit card inflexibility. Here it is relatively easy to file the countercharges with the credit cards for client's complaints, when there is some problem with a purchase, whether there is a suspicion of fraud or for another reason, the card does not pay that coupon to the seller, and the corresponding claim must be filed to receive the credit in the card. The credit card has no risk, for instance, if a client received the merchandise and signed the reception, he or she can still call the card, tell them that he or she has not received it and then the card immediately discounts the amount from the selling company,

deregistering the purchase and transferring the verification risk to the company. The card does nothing to verify whether there is fraud on the part of the client before deregistering". (Falabella.com)

As an example, in the cases we studied Mercado Libre has developed a color bar that appears underneath a seller's name and, resembling a traffic light, displays the rating given by customers to each seller (in relation to fulfillment of delivery terms, product characteristics, time frames, responsiveness, etc.), and now it is becoming an entirely reliable website. This rating system pushes sellers to comply more responsibly with what they say and to show more initiative towards the customers' orders. Falabella.com also guarantees the transactional safety of its clients, since it uses the SSL (Security Socket Layer) system, one of the world's most rigorous data protection standards.

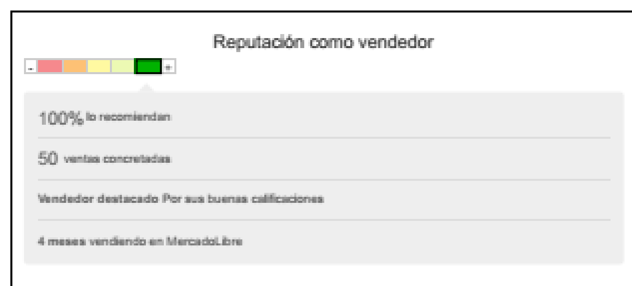


Figure 5.2: Color Bar on Mercado Libre reflecting the reputation of each seller in its marketplace

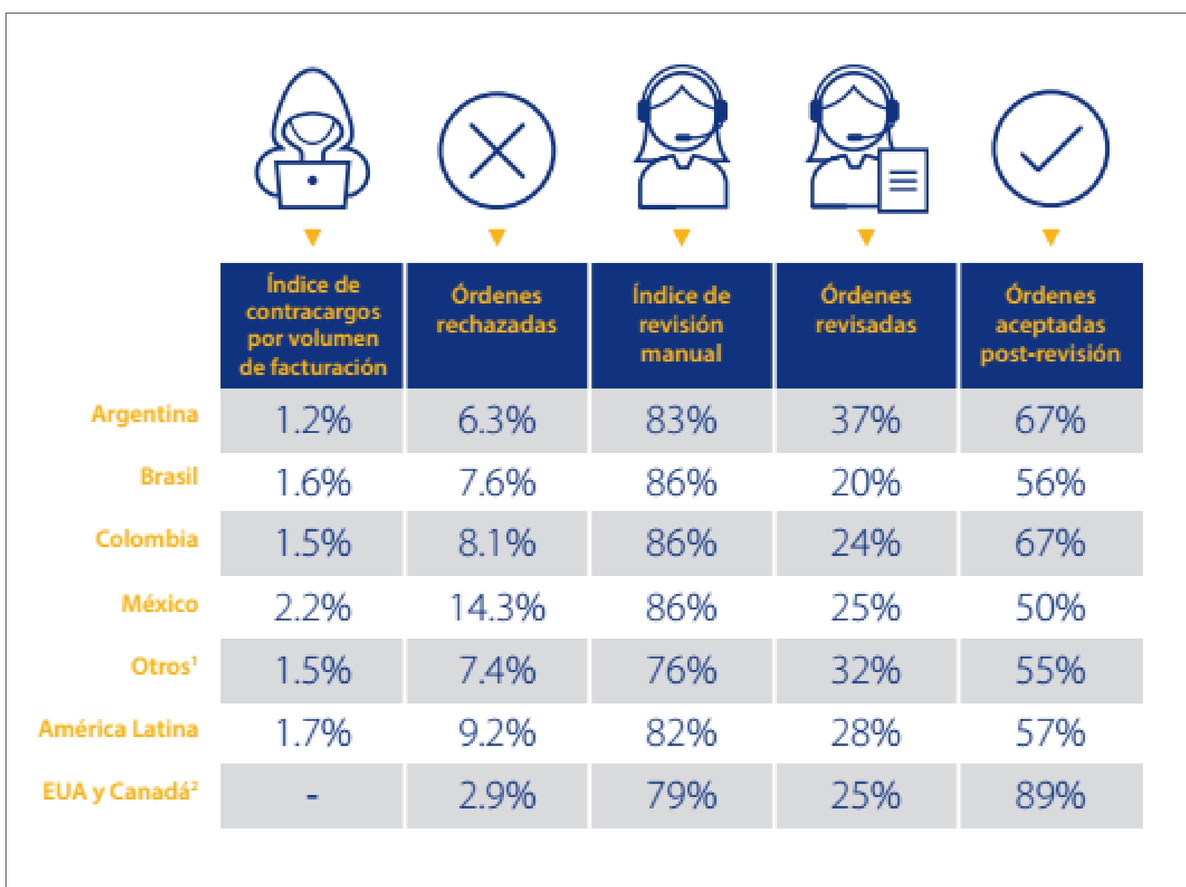
"In the region there are more people who try to deceive, who are prone to commit fraud. We need to work on tools to prevent fraud, at least a little more than in developed countries". (Santiago Bilinkins, personal communication, August 24, 2014).

Consumers may be afraid not only of payment security and logistics, but also of the misuse of their personal information. The companies studied explicitly guarantee the confidentiality of consumer information and state that they will not misuse it, for

instance by selling it to companies that send unsolicited e-mails. If users must register, they are often given a password so that others cannot enter the site under their name.

Either way, there is an improvement in the region regarding credit card security; this issue is now much more evolved. In the companies from the sample, there are processes audited by private companies that certify corporate site security. There are different fraud indexes in each country (see chart) and each one of them has different or specific rules in place, although fraud is getting more and more globalized and hence anti-fraud practices are generally global.

Table 5.3: On-line fraud index for 2017, some countries (linear averages)



	Índice de contracargos por volumen de facturación	Órdenes rechazadas	Índice de revisión manual	Órdenes revisadas	Órdenes aceptadas post-revisión
Argentina	1.2%	6.3%	83%	37%	67%
Brasil	1.6%	7.6%	86%	20%	56%
Colombia	1.5%	8.1%	86%	24%	67%
México	2.2%	14.3%	86%	25%	50%
Otros[1]	1.5%	7.4%	76%	32%	55%
América Latina	1.7%	9.2%	82%	28%	57%
EUA y Canadá[2]	-	2.9%	79%	25%	89%

1. The remaining countries of Latin America and the Caribbean. 2. CyberSource 2017 online fraud report for USA and Canada.
Source: Cybersource

"Fraud and system attacks are getting more sophisticated all over the world; hackers show more planning; there are no shots in the dark; previously, incidents were sporadic -now there are gangs. In the past, the financial industry was the most often attacked, but now it is retailers; and they are being targeted because they handle much more information. Bearing in mind that they are global gangs, because the most bulletproof are in the US and Europe, it is most logical for these gangs to act in emerging countries. In Latin America companies are not aware that it can happen, so we must work hard to raise awareness inside the companies" (Marcelo Dalceggio, IT Director, Grupo Cencosud, personal communication, July 17, 2015).

Proposition 2: *Business models in emerging markets are more effective if they offer the online customer more information about the transaction, electronic payment alternatives and the possibility of personal contact.*

3. Strategic Flexibility

Strategic flexibility represents one type of dynamic capability that enables firms to address discontinuities in the environment (Eisenhardt and Martin, 2000; Teece et al., 1997) or to alter their resources to adapt to environmental changes (Chen et al, 2015, Brozovic, 2016). Even though retail companies do exceptionally well in their domestic country, when they internationalize, many encounter difficulties in dealing with the complexities of differences in local regulations and consumer tastes. These obstacles hinder retailer international performance and in some cases lead the company to withdraw from certain foreign markets (Bianchi & Ostale, 2006). As a dynamic capability, strategic flexibility can facilitate resource configurations so that localized capabilities better fit the requirements of foreign markets (Augier and Teece 2009).

Internationalization requires firms to adapt to political, economic, and social circumstances in host countries (Ryans, Griffith, and White 2003), and evidence supports the positive association of adaptation related skills with successful internationalization (Dow, 2006). Several studies show that companies from emerging economies typically show flexibility characteristics (Wells, 1983; Liu et al, 2013). Prior studies have provided evidence that strategic flexibility contributes to competitive advantages in contexts such as hypercompetitive landscapes (Hitt, Keats, and DeMarie 1998) and high-technology industries (Nadkarni and Narayanan 2007).

In emerging countries the quality of the market infrastructure varies widely from country to country (Khanna et al. 2005). The emerging markets have voids regarding products, workforce and capital market. Each emerging market has its own void pattern. The politics, history and culture converge and build together the nature and weakness of the institutional voids. The companies must understand the role of these forces in the institutional context (Djankov and Murrell, 2002 E. Servan et al. 2012).

In particular, institutional theory suggests that every country has a set of relevant institutional norms to which retailers must conform to be perceived as legitimate by the relevant social actors (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Success depends on how well a retailer from an emerging market conforms to the salient institutional norms in each country in which it operates in order to obtain legitimacy from relevant social actors - in other words, how a retail company develops strategic isomorphism of best practices in each international market (Bianchi, 2011).

The companies which have the ability to understand the institutional differences between countries are the ones that choose the best developing forms, establishing key strategies and conducting business in different domains within the emerging markets

(Servan et al). The successful companies analyzed worked very hard on the institutional voids to improve the client experience. They developed strategies to design their business models in a context such as Latin America to be not only competitive but also better, helped by technology, than the multinationals operating in the region with similar business models. They also adapted the business model to each country context where they expanded. Thus, in the less banked countries in the region, Mercado Libre developed a pre-paid card to promote on-line purchases and microcredits for the salespeople in its Brazilian and Argentine marketplaces. In some countries, Falabella joined a prestigious local store to gain brand image and credibility in that country and get to know the local customer better. Engaging with local partners in Peru and Colombia allowed Falabella to adopt an appropriate business style in each market and avoid problems with nationalistic feelings from host consumers. Moreover, Falabella encouraged the hiring of local management in each international market, which again allowed the company to be perceived as legitimate among suppliers, competitors, and the general business community, even though there were nationalistic barriers within these markets (Bianchi, 2011).

*"What is really important compared to developed countries is that clients need to pay in installments. But in addition, if they lack a Credit Card, this gets really complicated. That is why Mercado Libre is moving on in some countries in the region with a pre-paid card" (*P. Arnt, personal communication, April 4, 2016)

A well-known case is Home Depot on its arrival in Chile and Argentina. Home Depot has its very successful business model set up in the USA based on three specific value propositions for the client: low prices, great service and good quality. To achieve this it relies on US institutions such as the excellent US logistics structure, which allows it to keep low inventories, on its employee payment policy using company stock, which

generates great motivation in local employees to offer outstanding customer service, and on the high labor costs which mean that many homeowners in the US do their own home maintenance work. In Latin America, almost none of these assumptions are true, since it is very difficult to be able to own a home, which lowers the interest of tenants in doing home maintenance in somebody else's home. Labor costs are also lower, which, in turn, increases the probability of hiring manual labor to do repairs at home, and also the stock market is hardly dynamic and very small so the tradition of compensating employees with stock as a motivating alternative is almost non-existent. This is aggravated by the deficient and expensive road infrastructure and logistics operators, which greatly drives up logistics services costs. Many of these factors caused Home Depot's failure in Chile and Argentina, and the subsequent sale of its assets in those countries resulted in enormous losses, which led to the company's exiting Chile and Argentina by late 2001 (T. Khanna et al. 2005; Bianchi and Ostale, 2005). Another example is that of Amazon and its incursion in Brazil, a gigantic market for electronic commerce players in view of the sheer size of the sector, with 120 million Internet users, the total population of Mexico. Brazil has great barriers for companies to commercialize imported products and Amazon is used to having import vendors, so this is a crucial weakness. Besides, traditional and on-line Brazilian retail is capable of blocking national vendors, and Brazilian commerce websites incorporate the same special functions as Amazon, such as one-click shopping, good customer experience and good big data handling, to mention just a few. The experience in other countries where Amazon had already entered was preparing Brazilian local competitors to devise schemes to block Amazon's main strategies. Something similar happened to Uber upon its arrival in Argentina: knowing the reality in other countries, local taxi drivers, highly unionized, not only took to the streets to strongly demand protection from the local

government, but also managed to obtain court injunctions to block Uber's app for a long time and substantially improved their collecting systems by digital means and taxi booking reception from the client's mobile phones (cfr. Wikipedia, Diario La Razón, 16/6/16).

Similarly, the Swiss company Le Shop, one of the main players in on-line sales in Europe and the first totally on-line supermarket in Argentina, had to close their operations in the country because it never reached the necessary sales volume to compete in purchasing power with local vendors like their brick and mortar competitors Carrefour, Wal Mart and Jumbo (Diario La Nación, 25/03/13).

"He who adapts best is the one most fortunat " (R. Souviron, CEO of Despegar.com, personal communication, June 15, 2015).

Many of the capabilities needed to compete in emerging economies are context-specific. Local companies and individuals develop their capabilities to suit the specific context, which may create major barriers to entry (Meyer and Tran, 2006), although with much initial investment companies can change their environments by developing responses instead of adapting passively (Oliver, 1991). Mercado Libre in Central American countries, where electronic commerce is little developed, keeps its platform open but does not charge a premium for each transaction like it does in the rest of the countries in which it operates, but simply seeks to foster traffic and get to know the client, until the market is ripe enough to implement its marketplace as it exists elsewhere . In less banked markets such as Venezuela, Mexico, Colombia and Brazil, Mercado Libre launched its own pre-paid card for on-line shopping. Hence, even though almost all business models in the region operating on the Internet are copies of existing models in the USA or Europe, it is necessary to adapt them to the regional characteristics in

general and the country or groups of countries in particular. For instance, there are differential characteristics regarding sales in emerging countries compared to developed countries which deserve much attention: the issue of financing purchases in installments and doing it with one's own financing system such as Falabella, Sodimac and Mercado Libre have done; the issue of using cash as a method of payment is something that clients often request and has to be considered in monetization systems; tax issues to take advantage of tax breaks in each country; and alternative sales channels such as the telephone, because Latin people prefer contact with another person rather than with a machine. Issues such as delivery or logistics - being able to deliver in the same store in some Latin American cities - are very different because of theft and fraud, as is being able to use motorcycles instead of drones for small packages for urgent delivery.

"….it must be taken into account that the consumer is very different in these countries. The Uruguayan is more relaxed, Argentines are more impulsive. The Uruguayan seeks the call center more often, while the Argentine seeks contact through the Web. Today it is not viable in Latin America to replace the chat system with call center commerce - the client wants to talk to a person, and it is not viable to replace customer service with an on-line chat. Neither can it be replaced by SMS or e-mail. It is more expensive, but it is what makes us more competitive at the end of the day" (G Sambucetti, Walmart Argentina, personal communication, July 25, 2016).

E-commerce web pages must also be adapted for the region. Mercado Libre, OLX or Despegar.com have websites that can be accessed via less sophisticated phones. Monetization systems have to be adapted as well, for instance, for cash payment when the buyer does not have a credit card, or has it with insufficient credit to close the purchase.

Consequently, we find that the main ability behind adapting each analyzed business model to the different markets is the highly professional management they have which, having a great talent component and an understandably extensive knowledge of the region, is able to implement innovations in the model rolled out in each market. Here, this is called Strategy Flexibility (Rindova & Kotha, 2001), which may be defined as a firm's ability to initiate strategic changes and adjust to unexpected consequences of predictable changes (Nadkarni and Herrmann, 2010) and it will be described in more detail under the Theoretical Framework. Many of the innovations are led by the owners of the companies who encourage and inspire their teams to achieve successful implementations, by means of trial and error.

Table 5.4: Examples of Market adaptation in the cases analyzed

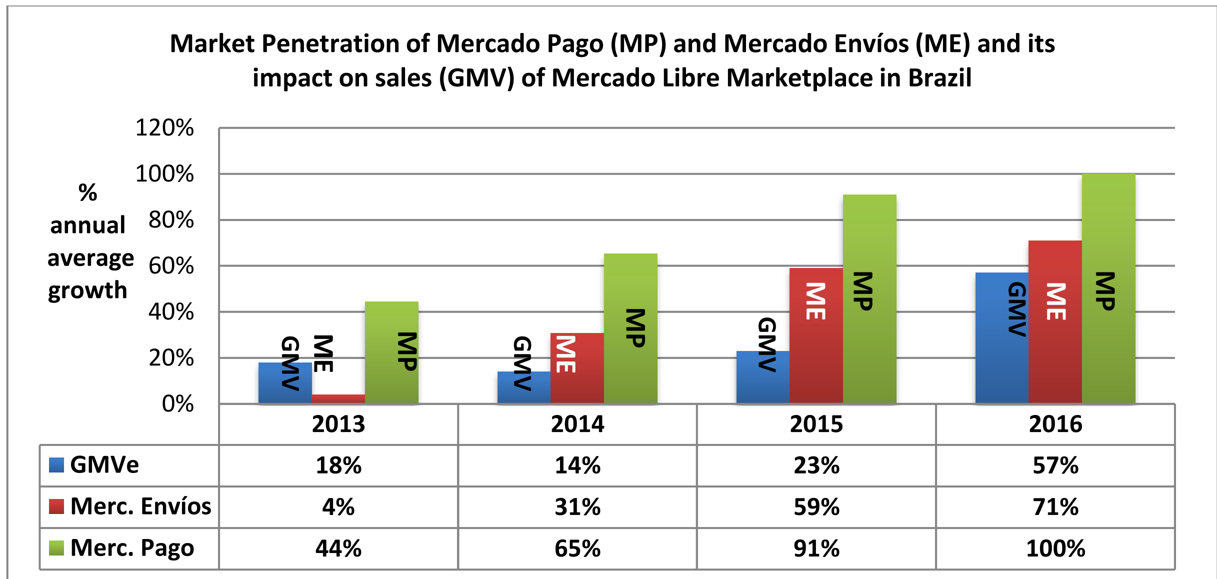
Company	Examples of market adaptation
Mercado Libre	Inside a single platform there are own service companies such as Mercado Pago, Mercado Envíos, Mercado Publicidad, and Mercado Shops. It also established a partnership with a credit company –Mr. Presta- in order to grant microcredits to its marketplace vendors. In some countries with no e-commerce tradition, it only operates its marketplace without charging fees for each individual transaction. Recently it has launched in Argentina its own company of credits for its customers of the marketplace: Mercado Crédito. In some countries Mercado Libre launched a prepaid card for unbanked customers. Express motorcycle delivery instead of drones in some countries in the region. Free Shipping in Mexico in order to compete with Amazon.
OLX	Light web pages for low bandwidth or smart phone penetration countries.
Despegar.com	Call-center services in countries that prefer to person-to-person business interaction. Multiple on-line and off-line payment methods and extensive purchase financing options.
Falabella	On-line and off-line payment methods to promote trading with unbanked persons. Own Credit Card for improved client financing in each marketplace where it operates.
Sodimac	E-lockers at service stations and supermarkets for improved distribution. Purchase financing in installments under multiple plans. Own Credit Card for improved client financing.
Globant	Multiple locations in Latin America and India enabling talent search in IT, and offering its US and UK clients assistance from the most suitable country for their time zone and culture.

Proposition 3: *Successful business models in emerging markets have developed a high degree of adaptability of the business model to each market in which they operate.*

4. Logistics management control

This is not a novelty issue. In studies on emerging markets, company performance has been associated with the coupling of ownership and control (Carney & Gedajlovic, 2002).In emerging markets there are few logistic services suppliers that can enable manufacturers to reduce costs or permit the transportation of raw materials and finished goods (Șerban et al, 2012). If we also add the different dynamics inherent in logistics related to e-commerce to heavy load logistics we find that in emerging countries there is a major difference as compared to developed countries, since logistics operators are poorly prepared to transport small packages across shorter distances. For this very reason the logistics service linked to each purchase is a great value driver for retailers in Latin America (Kshetri, 2007). Both in the interviews with corporate experts and the cases studied concerning delivery of a physical product, there are those who can choose to internalize the delivery service, like owners of a transport fleet or at least with control over the route so that the client can be informed of this situation using the same company responsible for the sale as part of the business model value proposition. Hence, Mercado Libre has established Mercado Envíos as its own company within its ecosystem and hires logistics operators for the deliveries but remains responsible for them up until the merchandise is received. Only when the client purchasing the item through the marketplace confirms reception will the seller's account be credited with the applicable amount. Something similar happens with brick and mortar models such as Falabella and Sodimac, which allow the client to monitor delivery or offer in-store pick up at any store of the company, or the group companies, and even in stores from the

same logistics operator or with lockers in different parts of the city such as hypermarkets, service stations, etc., besides having a special venue to control deliveries to personal addresses.



	2013	2014	2015	2016
GMVe	18%	14%	23%	57%
Merc. Envíos	4%	31%	59%	71%
Merc. Pago	44%	65%	91%	100%

Figure 5.3: Mercado Libre sales variation after enabling shipping service and purchase financing
Source: Mercado Libre

In this region, even when a business model has good brand recognition, if it wants to reach an entire country or region but does not have geographical coverage with physical stores, it must have an excellent logistics partner, a business partner, which allows integration to its platform to offer the client better delivery security, so retailers with less points of sale have less geographical coverage and, therefore, will lose out , unless they organize their logistics extremely well.

"Logistics in these markets is expensive and deficient and in general not prepared for e-commerce; in the US a product can be expected to be delivered overnight; that is very far into the future for this region. Besides, in general, companies in this region are not used to quality standards, which makes it difficult to demand delivery parameters from logistics operators. Also, if the business model is physical delivery, it gets complicated

because the scale is still small for some places. In sum, there are big gaps at the logistics growth level, road infrastructure level and security level." (G. Reemerie, Director of Operations, Despegar.com, personal communication, May 8,2015).

In these regions BtoB and product Long Tail are very complex. It is very complicated to set up a sale with a product located at the vendor's business instead of being at the retail store because there is a lot of unreliability and often manufacturers do not have systems connected to the marketplace or the local retailer who closed the sale. Vendors cannot be counted on to ensure that they will comply with the shipping terms agreed to by the client with a retailer or a marketplace. Culturally there is no preparation for this among manufacturers.

"There is insufficient commitment to the quality processes by many manufacturers when it comes to making delivery directly from the factory to the customer without going through the retailer. Amazon would have many problems with this issue to replicate its business as it is set up in the US" (Ana Laura Flava, e-commerce Manager, Sodimac. Personal Communication, November 12, 2015).

Some of the experts interviewed do not see it likely either that pick-up in store could be replaced by lockers at a gas station or at the logistics operator offices, for example, because of habit and security reasons.

An additional difficulty is that logistics is highly unionized in Latin American countries and volume makes competition shy away in each country; also, the operators are not prepared to handle special demands or seasonal high volume loads such as during Hot Sale or Black Friday. All of Latin America, to a greater or lesser extent, has the same problem.

"Generally, there are no good web tracking systems in Latin America to follow up on orders" (Patricia Jebsen, former e-commerce Manager of Falabella.com and former president of the chamber of electronic commerce of Argentina).

An example of this is Garbarino, a very large electronic goods retailer in Argentina, with over 110 stores country-wide and present in most provinces; 80% of its sales over the Internet are by in-store pick-up, and it has its entire logistics operation internalized.

"This is set up as it is because logistics operators are not good, the post does not work well because it fails, because the delivery company only stops by the client's house once - and if the client is not home, it does not go back; this does not happen in developed markets. This is also why e-commerce does not grow as much in these markets on average" (Carmelo Ferrante, former e-commerce Manager, Garbarino, personal communication, September 18, 2015).

Therefore, the implication for foreign models entering these markets is basically the need to accept that logistics is not configured for e-commerce. Clearly , the fact that companies themselves organize their own logistics operations , as is the case of Mercado Libre with Mercado Envíos or Falabella with a special help desk to follow up on logistics operators, or a very large retailer such as Garbarino in Argentina with its own fleet and more than fifty people working on clients' orders reveals the deficiencies that these markets face regarding logistics.

"At the corporate level, the leading companies in the region are working on Omni channeling. Omni channeling leads to having available services 24/7/365. And this impacts heavily on companies. There is systems support to solve, as well as the logistics challenge. To ensure that what is published today is available, the platform must be available 24/7 and the product must be in the warehouse of the store when it is

published, and delivery must be complied with in due time and in the appropriate manner" (Marcelo Dalceggio, IT Director, Cencosud Argentina. Personal Communication, July 17, 2015).

There are some new pure play business models in the region such as Avenida.com, a retail marketplace born in Argentina in 2013 with the main challenge of building an e-commerce business model with complete control over the delivery process to ensure the best quality service to the website users. It set up a pick-up space network in the main cities in Argentina in order to have a greater reach to consumers country-wide, and it has its own truck fleet as well as its own warehouses. So in these regions, while physical stores offer a powerful advertising medium, which can also help to boost online sales, they also allow retailers to generate more trust and to provide face-to-face interaction with their customers, who can come to the store and actually try out the products and take them home right away upon purchase.

Proposition 4: *The greater the control of logistics services for on-line and off-line sales, assuring the customer the receipt of the product in due time and manner, the greater the effectiveness of the business model in emerging markets.*

5. Ongoing brand building

Research studies indicated that favorable brand knowledge and store name recognition positively influence a consumer's intention to purchase online (Dodds, Monroe, & Grewal, 1991; Landon & Smith, 1997). This is boosted even more if there are street stores. This is because the consumer expects a good after-sales service from these stores since they are already known for having this kind of service and replacement policies in their brick-and-mortar stores. The not-so-well-known e-businesses, on the other hand,

will have to work hard to gain the consumers' confidence in their after-sales-service and return policies. The increase in quality expectation may increase the consumers' consideration of products offered by these unknown e-businesses (S. Mukhopadhyay et al, 2008).

"In these markets it is still necessary to deliver a great sermon or preaching to obtain more on-line purchases in more areas, not only the basics; the coupon sites or the on-line purchase campaigns such as Hot Sale, Cyber Monday, etc. considerably help this . Thus, brand presence is important. Customers still place great importance on the brand, and this impacts on e-commerce (Gustavo Sambucetti, e-commerce Manager, Wal-Mart Argentina, personal communication, July 17, 2015).

In these markets, the more on-line a business model is, the more brand communication it must do to gain intention to buy. The advertising expenses of Mercado Libre are high (sales and marketing expenses represent almost 50% of operating expenses), both on the Web and on the Street; the same happens with Despegar and Falabella, which have constant campaigns in the media. Thus, with much investment in advertising, Mercado Libre has created the impression that "everything can be found on Mercado Libre", a feeling that "unless it is available on Mercado Libre, it doesn't exist".

"*Having no street presence like a brick and mortar retailer, brand presence is an essential tool to generate website traffic and earn consumer confidence*" (D. Ferro, Marketing Manager Mercado Libre, personal communication, November 14, 2015).

When companies have been operating for a long time in a particular market, this investment in advertising can be reduced whenever it is applied to a better investment in the positioning in web searches and in the list of items offered online to the client.

Pure play models are not the only ones that have to invest in advertising in several media: brick and mortar companies have to do so as well. The President and CEO of Garbarino, one of the largest retailers in Argentina, tells us that the thing that most differentiates their business model from other famous ones in developed countries is their investment in advertising in newspapers, the street and television (Carlos García, personal communication, April 14, 2106).

OLX, the biggest classifieds site in India and Brazil, was founded in Argentina in 2006, when it started to operate for India, Brazil, China and Russia, but its income and platform traffic only took off in Argentina when it started to invest important amounts of money in advertising. As it does in India, OLX uses TV campaigns and social media to help post an ad and educate the audience, creating content to educate them. In each emerging country in which they establish a company , starting from the premise that what is natural for people is to buy something new or used rather than to sell, advertising has played a very critical role in changing consumers' behavior and mindset about how they perceive used goods.

"OLX's competitive advantage, what differentiates the OLX website from classified advertisements from others, is the brand. Our objective, which we are now starting to achieve, is to have people associating OLX with a category. As we see with Gillette, people buy several brands of razors but, at the end of the day, they will always say they bought a Gillette. Now if people want to buy something online, they will mention OLX. That is partially what we wanted and that is also our competitive advantage." (A. Garicoche, General Manager, OLX Argentina. Personal Communication, August 28, 2015).

In travel searches on Google, the offers from Despegar.com appear almost always as the first choice in the countries it operates in; in Google searches for any object other than real estate or vehicles, the products from Mercado Libre, OLX, Sodimac and Falabella are among the first options that appear on the list. Falabella, Despegar and Mercado Libre are among the main advertisers in newspapers in many of the countries where they operate.

In less developed countries, therefore, with less experience in on-line commercial transactions, trust in the brand also plays a more important role because often the purchase is linked to the need for complementary services such as financing and delivery logistics, where brand presence is also a factor in generating trust (S. Fraser, Global Development and Technology, 2005).

Falabella has been chosen three years in a row as the best e-commerce site in Latin America; it also constituted a joint venture with the prestigious SAGA retail chain in Peru for its international expansion, and operated from the beginning under the name Saga Falabella in that market, protecting the business from possible nationalistic demonstrations because of their well-known geographical disputes. Sodimac did the same in Colombia with a joint venture with the family conglomerate Corona, thus gaining validity in the market (Bianchi, 2011).

"What we did was work very hard to give the Falabella.com website an identity, beyond the brand as such. For us it was paramount to identify certain highly sensitive aspects for the online consumer, to aim to resolve them and then position these concepts

associating them with our brand in the digital arena" (Ricardo Alonso, e-commerce Corporate Manager, Falabella[22]).

Proposition 5: *In order to earn consumer confidence and trust that leads the customer to buy online, business models in emerging markets must make an important and permanent investment in the recognition of their brand.*

6. Quick internationalization and persistence to attain network effect in each country.

Barriers associated with the lack of economies of scale in small developing countries are widely recognized (Kshetri, 2007); therefore, in smaller emerging markets, companies that try to fill institutional voids try to grow by exploiting adjacent opportunities (Khanna & Palepu, 2006). Internationalization is an important growth strategy for entrepreneurial companies around the world (Beamish & Lupton, 2009; Lu & Beamish, 2001; Oviatt & McDougall, 1999; Peng, 2001; Ruzzier, Hisrich, & Antoncic, 2006; Yamakawa, Peng, & Deeds, 2008). Online business – both absolutely and relatively – is associated with economies of scope, that is, efficiency gains obtained by increasing the variety of goods and services offered by the company, or increasing the market size (Christensen & Methlie, 2003). This in turn impacts the company's profitability. In the Internet economy, companies that achieve higher "volume" than competitors offer a higher average value per transaction. That is because the larger the network, the better the matches between supply and demand, and the richer the data that can be used to find matches. Greater scale generates more value, which attracts more participants, which creates more value. This is called the network effect or network externality. An externality occurs when a transaction between two actors affects, as a

[22] http://amddchile.com/entrevistas/entrevista-ricardo-alonso-de-falabella-com/

side-effect, a third party that is external to the transaction. A product presents a network externality if the utility that a user derives from consumption of the good increases with the number of other agents consuming the good (Katz and Shapiro, 1985). Network effects gave us Alibaba, which accounts for over 75% of Chinese e-commerce transactions; Google, which accounts for 82% of mobile operating systems and 94% of mobile search; and Facebook, the world's dominant social platform (Van Alstyne et al., 2016). For the same reason, for business conducted totally and partially on the Internet in regions such as Latin America, it is essential to achieve sufficient market volume quickly to allow it to gain scalability. But scalability for business models that use the Internet to trade is more complicated due to the barriers on e-commerce set up by these countries such as lack of Internet penetration and credit cards, lack of logistics infrastructure, lack of Internet commerce culture, etc. However, with the right transferable assets (as in the cases studied,mainly the people, the business model and the technological platforms), they can use their success at home as a platform for expanding elsewhere (Dawar & Frost, 1999). Having the same general characteristics hindering the on-line business growth in emerging countries (Kshetri, 2007), it becomes necessary to invest a lot in each country (in brand development and innovative solutions to facilitate Internet commerce) until reaching the network effect (Van Alstyne et al, 2016), and then get sufficient market volume to pay for the structure expenses that any on-line business requires. From the outset, what helped pure play businesses suchas Mercado Libre and Despegar.com to be successful, leveraging the advantages of a pure play business model scalability, was reaching network effect in the short term, something that today would not be so easy to achieve in the countries within the region.

" A lot of capital must be invested in brand development and even with a lot of capital, today, when other competitors with similar business models operate in each

country, you can do "almost nothing" - it is necessary to invest a lot and for a long time until reaching network effect and you can never stop investing in marketing to sustain that take off" (Sean Summers, VP, Mercado Libre. Personal Communication, June 6, 2015).

That is why there are many pure play business models in the region which cannot reach economic equilibrium. Interviews with executives from startups in Argentina such as Avenida.com, Shopear.com and Bacan.com confirm this challenge that the most recent startups in the region must face. Scale is of great help, so the main pure play players are regional; when you are very small or are present in only one country other than Brazil or Mexico, which have large populations, there is not enough scale in those markets to sustain much advertising.

Precisely to gain market volume, in almost all the cases studied, internationalization was achieved in very few years, especially by those who most needed it , which are the pure-play businesses and, incidentally, it served to build entry barriers for other competitors as well. Falabella started its internationalization process in 1993, and within a few years it was already present in Argentina, Colombia, Peru and Uruguay. Mercado Libre, from its foundation in 1999, quickly escalated to 12 more countries. Despegar.com had offices in 12 countries and operations in 21 in just a few years. Founded in 1999 and in just 8 months, it already had offices in nine Latin American countries. Sodimac, since it started its international expansion in 1994, first set foot in Colombia, and then landed in Peru, Argentina, Brazil and Uruguay in the next ten years. Globant, the bottleneck of which is its programming engineers, made its expansion in a few years establishing offices in several provinces in Argentina and then expanding to other countries by founding development centers in Colombia, Chile, Mexico, Uruguay, Brazil, the United Kingdom, the United States and India. Since its foundation in 2006,

OLX operates with 25 offices in more than 40 countries. Although founded in Argentina, Brazil was the only Latin American country where it has operated since startup. It was only in 2013 that it began to focus on the region by quickly developing the business in Argentina, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Panama, Peru, Uruguay and Venezuela.

In addition to the scale, internationalization has allowed them to be first entrants in many countries, also offering the advantage of taking from each country what can benefit the rest of the countries or the company itself - tax, geographical, talent or time advantages to improve customer service and performance. For instance, Uruguay provides a great tax benefit to foreign companies settling in its customs-free zone; Argentine companies with presence in several countries found in this situation a chance to avoid the restrictions to currency transfers levied by the Argentine government for five years. Argentina also has an important law on tax benefits (Nº 25.922) for software development companies, which was relevantly harnessed by labor-intensive software developing companies. Globant, with offices in several countries in Latin America, from Mexico to Argentina and also in India, has many advantages for recruiting many developers as well as for offering suitable time zones to its customers in developed countries.

In sum, the companies studied demonstrate an eagerness for internationalization marked by the urgent quest to achieve market volume and the subsequent network effect leveraging on similarities between geographically proximate developing markets (Khanna & Palepu, 2006), their valuable learning experiences, and the possibility of putting technology to use in applying similar solutions in their own ecosystem already implemented in countries where they were already established.

Table 5.5: Internationalization of the sample companies

Company/ Founded	Countries with operations until June 2017
Mercado Libre **1999**	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Panama , Peru, Portugal, Dominican Republic, Uruguay, Paraguay, Honduras and Venezuela, Nicaragua.
Despegar.com **1999**	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain, United States, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Puerto Rico, Dominican Republic, Uruguay, Venezuela
Globant **2003**	Argentina, Uruguay, Chile, Mexico, Peru, United States, United Kingdom, Spain, Colombia, Brazil and India.
Falabella **1889**	Chile, Argentina, Peru, Mexico and Colombia
Sodimac **1952**	Chile, Colombia, Uruguay, Peru, Brazil, Mexico and Argentina
OLX **2006**	Germany, Algeria, Argentina, Australia, Belgium, Byelorussia, Brazil, Cameroon, Canada, Chile, Colombia, Ecuador, United Arab Emirates, Spain, United States, Russian Federation, Philippines, France, Hong Kong, India, Indonesia, Ireland, Italy, Malaysia, Mexico, New Zealand, Pakistan, Paraguay, Peru, Poland, Portugal, United Kingdom, Singapore, South Africa, Switzerland, Thailand, Taiwan, Tunisia, Ukraine, Venezuela and Zimbabwe.

Proposition 6: *Successful Business Models in emerging countries quickly internationalize to gain market volume in order to achieve network effects that are hard to achieve within their home market.*

7. Monetization or payment method extension

Emerging economies are characterized by widespread poverty, income inequality, and the prevalence of informal economies that operate outside the basic state infrastructure for compensation and benefits (Nicholls-Nixon et. al, 2011).

The more pure play a business is in Latin American countries, the more problems it will have to monetize its sales. This is because of the low banked index for the countries in the region, the large number of people who do informal transactions and the fear that customers feel about posting their data in a virtual environment (Nicholls-Nixon et al., 2011).

Monetization is difficult to achieve; it becomes very significant to attain capillarity with many payment systems allowing the collection per product or service both from banked and unbanked clients. Because there is a large percentage of unbanked people, new payment means need to be developed for this segment which is far from insignificant. Fintech is something that is still in its beginnings, but there are already some groups working hard to improve payment systems, especially those using smartphones.

In this connection, many business models generate their own cards to offer financing to their clients, or have devised a pre-paid card and multiple payment systems or on-line / off-line collection; this is what the companies in the cases studied, Despegar.com, Falabella, Sodimac and Mercado Libre, have done.

One characteristic that has been seen in all the business models studied using on-line and web payment systems, either BtoC or CtoC, is the great range of payment methods offered both on-line and off-line, from on-line credit cards methods to cash payment options through bank deposits. In the case of Mercado Libre, it offers 64 payment alternatives; with Despegar.com there are more than 35 payment alternatives. In the

case of Falabella and Sodimac, there are over 20 payment means available, in addition to all the benefits that payment means reward their clients with for using them.

"It is important to bear in mind that in many countries in the region the payment gateways are limited, and this favors oligopolies which provide credit cards and other financing systems. Besides, the conditions are usually unequal, charging high interest rates on the financed purchases where well developed consumer defense institutions are still lacking" (Ariel Diaz Ailán, CEO, Shopear.com, Personal Communication, October 15, 2016).

Proposition 7: *The number of alternative on-line and off-line payment methods offered by the firm is a strongly differential factor in the customer value proposition in emerging market business models.*

8. Extensive financing to customers

Another big issue in relation to which business models must create "tropicalization" is credit. In this region, installments are incredibly popular. In these markets, if payment in installments is not a possibility, the ceiling for sales is significant. "People buy discretionary items and low cost items in installments," says Alberto Serrentino, senior partner at retail marketing consultancy GS&MD-Gouvêa de Souza in São Paulo. This is true not only for lower classes, but also for middle or even high class business. For example, in Brazil, sales in installments amount to 70% of all sales, and in Argentina to 50% of the sales. But, in turn, it is a challenge when the client does not have a credit card, which is hardly uncommon in the region because of the low banked index. Therefore, some companies in the region and three of the ones chosen as case studies

(Mercado Libre, Falabella and Sodimac) have created their own pre-paid card and their own financing systems, which even facilitate several off-line payment venues.

Mercado Libre has recently launched a new microcredits business in Brazil and Argentina, with substantial acceptance among the sellers using the platform, and which promises to be another driver to multiply its financial performance.

Table 5.6: Financing systems for own clients

Company	Own financing system
Falabella	CMR credit card
Sodimac	CMR credit card
Despegar	None
Mercado Libre	Pre-paid card in Brazil and Mexico; microcredits for marketplace sellers and own payment system (Mercado Pago and Mercado Crédito)
OLX	Does not conduct web financing operations
Globant	Does not conduct web financing operations

Proposition 8: *The number of financing alternatives offered is a strongly differential factor in the customer value proposition in emerging market business models.*

9. Mobile Strategy

In the commerce business model (firm initiating, negotiating, and/or fulfilling online transactions), the ability of a firm to orient its value generation and distribution processes to interact successfully with its customers will be of paramount importance, so as to differentiate the firm from its competition. A superior interaction configuration and customer response capacity will help commerce firms to 'stand out', and also to

build long-term relationships with their customers. A strong emphasis on personalization/customization can be another valuable source of differentiation as part of the value offering and distribution model of commerce businesses (Wirtz et al, 2010). Furthermore, the premise behind new retail formats is going where the customers are, facilitating their purchase experience (Sorescu et al, 2011).

In Latin America and other developing markets, in addition to the trends mentioned above, there is the fact that many consumers connect to the Internet for the first time using their cellular phones, which represents a great opportunity for any company skilled in the environment. Urban users are radically changing their purchasing habits and they no longer sit in front of a computer to conduct a transaction, but rather they are willing to close it at their most convenient time from their smartphones. Non-urban users often do not even have a PC, just their smartphones to perform their transactions.

The regional differences in emerging markets extend to underlying technologies, with devices, wireless capabilities, and data coverage varying from market to market, country to country, and even within regions of a country. Each country has its own legends, folklore, and traditions that need to be accounted for when developing or marketing games or other goods or services - whether in India, various parts of Latin America, or elsewhere. Concentrating on the culture, language, available technology, and other unique attributes of the initial country (for example, Costa Rica) rather than strategizing for the region (Latin America) as a whole. Device sellers in some countries preload all or most apps on phones; in others, the consumer is more in charge. It is important to note, however, that consumers in emerging countries do not download as many apps as U.S. consumers do, so marketers have to make those apps very compelling, says Julie Ask, Forrester vice president and coauthor of The Mobile Mindshift.

Those days in the year with special offers such as Hot Sale or Cyber Monday in Argentina are when most of the sales are done using cellular phones (Argentine E-commerce Chamber, 2016).

"In emerging markets, increasingly more people access the Internet using their cellular phones because a PC is more expensive and so it comes as no surprise that retail companies focus particularly on the development of mobile technology to offer the right mobile experience" (Agustin Garicoche, General Manager, OLX Argentina. Personal Communication, August 26, 2015).

Despegar.com has a mobile application which offers a faster and more efficient link for customers, especially when they are on a trip, using the *Chat* for any inconveniences during their travels. Many companies place a large part of their investment in the technological development of these points. For example, Despegar.com's mobile application totaled 24 million downloads in Latin America in its first three years of life. It was launched in late 2012 and proved to be the first in the Latin American tourism market that allows users to purchase products and services, with the advantage of having more functionality than the company's website. With this application, 100% developed by its own IT team, Despegar.com becomes a benchmark for mobile commerce in the region, where 50% of the traffic now received by the company comes from mobile phones.

Falabella, for instance, offers a mobile app to transfer the Web digital experience to the mobile channel, just like on-line trading once tried to replicate the magic of a physical store. Today what is happening is that you are at the store and you can see from your phone what other clients have commented on the products, so the stores are more driven

to give clients this possibility, expanding the details for products and informing the client which stores have that item in stock.

"Many business models, and even more so the pure play ones, are noticing that most visits to their sites come from cell phones, so anything done on the Internet must be generated in a mobile-accessible platform that can offer the same layout on the Web and on the phone" (Ariel Diaz Ailán, CEO, Shopear.com, Personal Communication, October 15, 2016).

Companies with BtoB business also develop their own apps to have their employees better connected. For instance, among the cases considered for this study, Globant created an app through which people inside Globant award each other "stars", something like peer recognition for internal jobs, for any small or great achievements made in the company, showing the values of the company; this allows management to continuously know who is who inside the organization through the opinion of their employees, and each employee cannot use these "stars" more than 20 times in a year. Thanks to this app, Globant management knows who is doing what in the organization, spanning geographies and hierarchies.

Proposition 9: *On-line strategies that allow easy mobile access to customers improve the performance of a Business Model in emerging markets*.

3. Success Factors and Theoretical Framework

Very little is known about how unique attributes of the Latin American context influence the formation and management of inter-organizational relationships and organizational issues, such as the drivers of company performance, processes of strategy formulation and implementation, and factors affecting corporate governance (Nicholls-

Nixon et. al, 2011). Emerging economy contexts challenge some of the assumptions of theories originally developed for markets that are relatively stable and efficient. With context typically characterized by, among other features, inefficient markets, active government involvement, extensive business networking, and high uncertainty, they challenge the efficacy of business models and theories (Xu & Meyer, 2013).

Many researchers have coincided on the need to study business models from multiple perspectives, even more so if these are business models which operate totally or partially in an Internet environment (Child & Faulkner 1998, Amit & Zott, 2001, Christensen & Methlie, 2003, Hedman & Kalling, 2003; Achtenhagen et al., 2013). Moreover, as we mentioned earlier in this thesis, scholars in strategic management (Hoskisson et. al, 2000; Wan, 2005; Welsh, Alon, & Falbe, 2006; Hoskisson et al, 2013) and international business (Peng, Wang, & Yi, 2008) have called on researchers to consider how different theoretical perspectives can provide useful insights into strategy in emerging economies and explain how institutional and cultural factors influence the nature and development of dynamic capabilities required for competitive success and the implications for the way strategy is formed, executed, and adapted over time (Meyer et al, 2009, Nicholls-Nixon et al., 2011).

Based on the data collected during in-depth interviews, in addition to articles and brochures describing the company's history for the six cases studied for this thesis, and drawing on the literature on strategy, business models and emerging markets, it can be concluded that the theoretical perspectives which better enlighten the development of business models in emerging markets such as Latin America are Institutional Theory (IT), Transaction Cost Economics (TCE) and Dynamics Capabilities (DC). While the three theories are not applicable at the same time to the emerging stage of a business model, they can enlighten the workings of the model when it is in its developing and

mature stages. During the lifetime of a company, the initial design of its very first business model is based on a variety of external and internal factors (George & Bock, 2011); however, the ongoing search for a better competitive position often forces companies to change this model (Chesbrough & Rosenbloom, 2002; Markides & Sosa, 2013), and this is basically fueled by transaction costs and management decisions arising from operating in contextually diverse and changing environments, which are accentuated by the dynamism inherent to technological innovations.

According to Institutional theory, survival in international markets will be more likely when organizations achieve legitimacy from social actors or adapt their practices and structures to the relevant institutional norms of the foreign market (strategic isomorphism). In Latin America, there are a variety of market failures. For example, financial markets are characterized by a lack of adequate disclosure and weak corporate governance and control. Intermediaries such as financial analysts, mutual funds, investment bankers, venture capitalists, and financial press are either absent or not fully evolved. Securities regulations are generally weak, and their enforcement is erratic. Perceived corruption, inequitable income distribution and informality of the labor market are also a common problem in Latin American countries (Nicholls-Nixon Nixon, 2011).

Therefore, this institutional context influences the application of Transaction Cost Economics (TCE) in terms of the ownership modes (contracts, equity sharing agreements, etc.) used to govern transactions in Latin American countries (Nicholls-Nixon et. al, 2011). TCE is a framework for understanding when a company should internalize transactions, i.e. integrate or operate through contracts, “make or buy” (Williamson, 1975, 1985). If transaction costs are considered high due to high uncertainty and high asset specificity, then TCE recommends vertical integration or

internalization of the transaction, also referred to as a hierarchy rather than a market. On the other hand, if transaction costs are low because asset specificity is low, TCE recommends outsourcing through contracts; for example, transport services are fairly generic (Rickard Bergqvist, 2016). Transaction cost economics also suggests that seemingly slight differences in the governance of policies and assets can have dramatic effects on value creation and/or value capture (Casadesus-Masanell and Ricart, 2010). Transaction cost economics has been used to explain how different organizational structures emerge as a response to market imperfections (Jorgensen, Hafsi, & Kiggundu, 1986) and how contractual uncertainty is addressed by different types of exchange and transaction governance (Choi, Lee, & Kim, 1999). One of the main effects of doing business over the Internet, or in any highly networked environment, is the reduction in transaction costs it engenders (Dyer, 1997). In addition to decreasing the direct costs associated with economic transactions (such as customer search costs), e-commerce also holds the potential of changing several other types of transaction costs. These include a reduction in agency costs, such as the costs of opportunism, that results from the increased frequency of transactions (because of open standards, anyone can interact with anyone else), a reduction in transaction uncertainty (by providing a wealth of transaction-specific information), and a reduction in asset specificity, for example, through lower site specificity the next site is only "one click away" (Amit & Zott, 2000). Transaction cost theories (Goase, 1937; Teece, 1982; Williamson, 1975.1985) suggest that the optimal scope of a company is a function of ambient transaction costs and, hence, of the extent of specialized intermediation. However, TCT cannot fully explain the whole phenomenon present in these markets; for example, it does not cover evolving, dynamic relationships (Wilding & Humphries, 2006).

At company level, although resource-based theory (RBV) could be extended to explicitly address the nature of the resources and capabilities needed to overcome institutional voids and the implications for differences in company performance and sustainability of competitive advantage, we think that this theory cannot fully explain the resources and capabilities that are more necessary for these markets which are so changing and dynamic, especially when we add the challenges imposed by the Internet. As Auguier and Teece (2009) point out, if a company possesses resources/competences but lacks dynamic capabilities, it has a chance to make a competitive return for a short period, but superior returns cannot be sustained. Indeed, several scholars have questioned whether the RBV explains why companies obtain competitive advantages in fast and unpredictable market change situations (Teece et al., 1997; Zollo & Winter, 1999; Rindova & Kotha, 2001). In such markets, the mere existence of appropriate bundles of specific resources is not sufficient to sustain competitive advantage. If we add to the institutional voids specific to these markets the high velocity challenges inherent to business through the Internet (Wirtz et al., 2010), we find that Dynamic Capabilities may better enlighten certain success factors necessary for these markets, where just possessing heterogeneous and immovable resources does not guarantee a competitive advantage. The essence of the dynamic capabilities approach is that competitive success arises from the continuous development, alignment, and reconfiguration of company specific assets (Augier and Teece 2006, Teece et al. 1997). Dynamic capabilities are the company's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece et al, 1997). Precisely the term '*dynamic*' refers to the ability to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of

technological change is rapid, and the nature of future competition and markets difficult to determine, and the term '*capabilities*' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment (Teece et al, 1997; Daniel and Wilson, 2003). Dynamic capabilities are therefore the organizational and strategic routines by which companies achieve new resource configurations as markets emerge, collide, split, evolve and die (Eisenhardt & Martin, 2000). However, Teece et al. (1997) suggest that dynamic capabilities are unique to individual companies, reflecting their individual idiosyncrasies and their specific path-dependencies. While acknowledging that the details of dynamic capabilities are idiosyncratic, our research leads us to agree with Eisenhardt & Martin (2000), who consider that specific dynamic capabilities show considerable similarities across companies taking into account that core elements of dynamic capabilities are organizational and managerial processes that support sensing and seizing business, technological and market opportunities, as well as reconfiguring assets and organizational structures as the company grows and markets change (Teece, 2007, p. 1330). In particular, Eisenhardt & Martin (2000) find that there are similarities associated with the effective way of undertaking such activities, commonly termed *'best practice'*. They assert that in high-velocity markets, dynamic capabilities become highly experiential. In high-velocity markets dynamic capabilities become simple, experiential and fragile processes with unpredictable outcomes. The simplicity of these capabilities means that there is little structure or routine for managers to rely on.

Of the six cases studied for this thesis, from an IT perspective five fundamental factors can be identified for success of a business model exclusively mounted on the Internet or with intense Internet use for its business in Latin America: 1. The first success factor

involves improving on-site customer security and fraud prevention, for instance through neural networks created in its payment systems, which enable fraud-prevention with a high degree of success. 2. The second factor involves multiplying (on-line and off-line) payment options enabling inclusion of the highest possible number of customers. 3. The third is fast internationalization and persistence in each market or country until achieving client volume, especially for Internet business to allow the action of the network effect. 4. The fourth is strong brand presence for a region where e-commerce is still used far less than in developed markets, especially for pure play business models. 5. The fifth is having a digital strategy to facilitate the exchange between clients' cell phones and the platform, since the penetration of the bandwidth or the use of smartphones is still low and developing an app to improve the clients' experience is significant.

As this external legitimacy is achieved, it is necessary to know how to manage institutional voids (Khanna & Palepu, 1999), which may result in high transaction costs, so companies may choose to "internalize" their transactions instead of performing transactions in the marketplace, as would be the case in developed economies. Thus, three success factors have been identified from a TCE perspective: 1. the first is developing one's own ecosystem with complementary services to the main business, which allows companies to improve the purchase experience. For example, Mercado Libre is encouraged to create assets supplementing their core business, such as Mercado Envíos or Mercado Pago, which enable it to control two strategic tools in the core business, as is the case with shipment logistics and financing of each purchase or sale made, substantially triggering sales through these two assets. In turn, the property of these supplementary assets, in addition to Mercado Shops and Mercado Publicidad, makes up a very strong ecosystem that is hard to imitate, thus affording a better

competitive advantage (Teece, 1986). 2. An additional factor has been shipment control that in the case of Mercado Libre is done through Mercado Envíos, which makes it possible for the company not only to guarantee products will arrive at destination, but also to achieve an efficient system reducing the customer's freight-related costs. Falabella has special capabilities for sales logistics services, having mounted a special desk to control shipping for on-line and off-line purchases, and it has all of its own stores available to facilitate pick-up at the store for on-line sales. 3. Finally, being able to offer financing, allowing payment for any product in installments with a plan adjusted to the client's preferences is a very important success factor in these regions. This is intended to contribute to the gap in the literature concerning how the institutional context influences the application of transaction cost economics, in terms of the ownership modes (contracts, equity sharing agreements, etc.) used to govern transactions in Latin America (Nicholls-Nixon et al. 2011).

Having strong legitimacy in the principal markets and an ecosystem with important complementary services such as delivery logistics and financing, which improves and drives its original core business, Dynamic Capabilities now comes into the picture, because dynamic unpredictable contexts arising from the combination of characteristics specific to emerging markets (within the emerging setting, each market in turn has its own peculiarities), together with those specific to the dynamism imprinted by an Internet context on the distinctive abilities needed to obtain competitive advantages, put pressure on companies to constantly reconfigure, gain and dispose of resources to meet the demands of a shifting market. Precisely the latter has led to the concept of dynamic capabilities. Coordinating and adapting effectively to changing environments (Cyert and March 1963) is one of several elements of a company's dynamic capabilities. But these are not all the aspects covered by Dynamic Capabilities. They include proactive search,

selection, and subsequent implementation of particular courses of action critical to a company's business strategies, asset alignment, opportunity identification, and the creation of critical co-specialized assets, both tangible and intangible ones. These are all critical elements of management's dynamic capabilities, and are important to value creation (Augier & Teece, 2009). Amit and Zott, in a research on value drivers in e-commerce (2000), already foresaw that business-model innovation may require a parallel shift in strategic thinking towards more dynamic, adaptive, and entrepreneurial strategies. In the six cases studied, among others, a dynamic capability that contributes superlatively to success in companies was identified. This is management's quick adaptability in these companies, which has predominantly allowed them to lead in each country where they are present. This ability is called *Strategic Flexibility* (Garud & Kotha, 1994; Sanchez, 1995; Rindova & Kotha, 2001) and it is a source of competitive advantages for companies operating in turbulent or highly uncertain markets. Strategic flexibility emphasizes the flexible use of resources and reconfiguration of processes; it reflects one type of dynamic capability that enables companies to achieve a competitive advantage in turbulent markets (Eisenhardt and Martin, 2000; Teece et al., 1997). In particular, Rindova & Kotha (2001) find that dynamic capabilities generate "strategic flexibility", a prerequisite for companies competing in dynamic markets. Strategic flexibility describes generating and reconfiguring emergent strategy to deal with new and unanticipated situations, and it matches the functional requirement of dynamic capability (Evans 1991; Teece, Pisano, and Shuen 1997). Although companies can improve flexibility in many ways (Johnson et al., 2003), our interpretation of strategic flexibility focuses on the crucial role of strategic management (Liu and Zhao, 2013), which agrees with the underpinnings of the dynamic capability theory (Augiever and Teece 2009; Teece, Pisano, and Shuen 1997). It allows companies to identify major

environmental changes, respond quickly by committing resources to new courses of action, and recognize and act promptly when it is time to halt or reverse existing resource commitments (Hitt, Keats, and DeMarie 1998). Strategic flexibility overcomes organizational inertia in companies with a strong technology base (Zhou & Wu, 2010). Flexibility in its resource allocations and product designs allows the company to use new technologies and experiment with different product variations (Worren, Moore, and Cardona, 2002). In the cases studied, the models changing shape subject to the context in each country is what gives them a source of competitive advantages. Firstly, there is the need to adapt the business models as they are conceived for developed markets to the local market where it is beginning to develop (home country), then there is the need to adapt because of the urge to internationalize the model within the region to gain market volume (Augier and Teece 2009), and lastly there is the need to adapt the *tropicalized* model through time to continue adapting it to the changing rules in these markets and to gain competitiveness. Emerging market companies must deal with technological innovations, market upheavals, diversified cultures, and commonplace incidents in foreign contexts; hence strategic flexibility is underscored for each company, especially high-performance companies (Liu and Zhao, 2013). Although it could be argued that this flexibility is common to all companies in developed and emerging markets, in our opinion, as other researchers have studied (Eyring et al., 2011, Liu and Zhao, 2013), it is particularly essential in emerging markets. Because the venturing environment for Emerging Market companies is highly uncertain and turbulent, dynamic capability theory indicates that strategic flexibility should be very valuable for enabling them to sense and seize foreign market opportunities and reconfigure resources to embrace them (Augier and Teece 2009; Teece 2007, Liu and Zhao, 2013).

It could be said that the most important dynamic capability in these markets is management's ability to shape, adapt and renew the business model to each context where it operates, which is called Strategic Flexibility here. Coupled with such flexible mechanisms, companies with great technological capability are more likely to search beyond the domain of neighborhood knowledge and embark on a broader level of exploration that transcends existing technological and organizational boundaries. Therefore, strategic flexibility makes the positive linkage between technological capability and exploration stronger (Zhou & Wu, 2010). This, in turn, gives them a very hard to imitate ability (*path dependence*). This has been observed in all the cases, almost as a characteristic of corporate culture. Adaptation to local rules and customs is a factor that substantially impacts on achieving legitimacy in each market but also in performance. A retailer intending to expand and operate in such irregular markets (each country has substantially different rules, institutions, customs, payment instrument maturity levels, etc.) as those in Latin American countries should seriously consider this.

We can say that in contradistinction to some literature on emerging markets (Dawar and Frost, 1999; Khanna and Palepu, 2006; Shankar et al. 2008), in online businesses in these regions the ability to quickly adapt management in each market where they operate (strategic flexibility) has a great influence, but not so much as having certain strategic assets - such as contacts with local governments, a special knowledge of the market, or having a distinctive product based on very specific consumer tastes in emerging markets, as this is not what we found in the cases reviewed. Much of the literature on emerging markets refers to Resourced Base View as a theory that illuminates business models in these markets. We believe that this is not accurate for online business due to the Internet's own dynamic and also to the frequent change that

these contexts have, especially in the regulatory frameworks of private businesses. We conclude that Dynamic Capabilities has a greater relevance when analyzing the factors which are pertinent to Internet businesses in these markets. In addition, Nichols-Nixon et al. (2011), in an important study on management research in Latin America, said that future strategy research could pursue the apparent contradiction by examining how institutional and cultural factors influence the nature and development of dynamic capabilities required for competitive success and the implications for the way Strategy is formed, executed, and adapted over time. We think that with this research we have made a contribution in that sense.

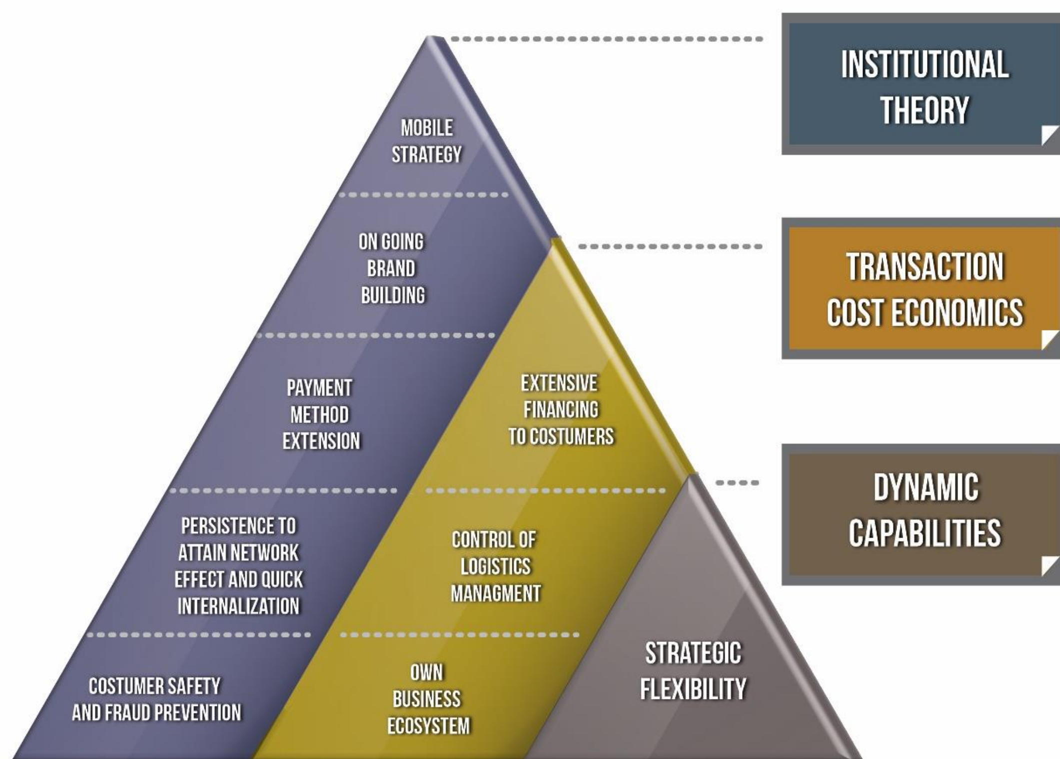


Figure 5.4: Theory connection to each Success Factor

Implications for practice

There is virtually a consensus that, in order to remain competitive, companies must continuously develop and adapt their business models. However, relatively little is known about how managers can go about achieving this transformation, and how, and to what extent, different types of business models should be adapted (Wirtz et al., 2010, Achtenhagen et al, 2013). The present study provides several insights for managers that may help them to reflect more systematically about strategic aspects relevant for business model development, implementation and change using the Internet in emerging markets.

The first thing that managers need to consider is that the Internet opens great opportunities associated to business models implemented in Latin America, since on the one hand it allows them to overcome many institutional voids that are obstacles for a brick and mortar business model, and on the other hand to efficiently multiply the public objectives, taking advantage of the penetration of the Internet into areas increasingly farther from urban centers which usually suffer from important lack of infrastructure, for example regarding roads or access to financing. It is thus that pure play business models such as Netflix and Uber can even operate from the Northern hemisphere and sell to clients in different Latin American cities without being subject to the difficulties inherent in these countries to develop and be able to monetize a business model. But beyond these models, where there is no need for financing and delivery logistics, which may be adjusted to the markets with average bandwidth and smartphone use, managers must know which the main factors influencing the success of a business model that is trying to do business on the Internet are. In this sense we can say that the successful e-business models in the region are developed mainly with five strategies when thinking about their businesses on the Internet: they think of each market in the

region where they land as a single one and then try to adapt the business model to that specific market; they contract local management to quickly gain client's confidence; if they discover institutional voids that hinder their specific businesses, they develop a company within its ecosystem that first helps them to fill or to overcome those voids but that can later be turned into a source of income; and finally they develop an ecosystem around the main business with complementary services for the client, maintaining control but not always the ownership.

The second thing is that eco-systemic thinking has risen as a way to understand modern business context, spurred by the powers of globalization, digitalization and shifting industry boundaries (Velu et al. 2013). Internet technology in itself is not useful to create value. Internet resources are not positively related to e-business value, but there is a positive relationship between Internet resources and e-business capabilities (Ravichandran and Lertwongsatien 2005, Bharadwaj, 2000 and Santhanam and Hartono 2003, Soto-Acosta & Meroño-Cerdan, 2008). What really creates value in these latitudes is a high integration level, infusing the business model with abilities that can fill institutional voids in each location or region where it operates and that act as barriers for e-businesses. This implies, as mentioned above, certain key factors such as implementing business model design strategies through time, as well as constant brand building because of the low e-commerce culture, having logistics control to ensure delivery to the client, procuring a platform that acts as an own ecosystem integrator for businesses related to the main business, offering a range of payment means taking into accountthe wide variety of client profiles that existin these regions where on average half of the work force is outside the formal employment system and is not banked. These considerations are not only relevant but also boost the positive effect on the sales from the main business. Local management talent is also important to constantly adapt

the business model (strategic flexibility) to the changing context circumstances which exist in emerging countries, and the need to internationalize the business to gain market volume is just as important.

Finally it is important for managers who are thinking of developing online businesses in emerging markets to know that there are currently three revolutions under way: the manufacturer's, the logistics operator's, and the retailer's revolution. Manufacturers must decide whether they will continue to offer retailers a portion of their margin or implement their own e-commerce channel; retailers must define what to do with their coverage and their pick-up points and whether or not to join the main marketplaces of the region; and logistics operators must get ready to handle both large and small volumes (when at present they are primarily and almost exclusively handling large-volume transactions). It is not clear who will survive this battle.

CHAPTER VI: CONCLUSIONS AND RESEARCH AGENDA

The aim of this thesis was to understand how the context of emerging markets influences business model configuration using on-line strategies. The research question posed at the beginning was the following: **Which are the general principles and key success factors associated to on-line strategies in emerging markets?**

Although much research has already been conducted on growth opportunities in emerging economies and the necessity for adaptation of business models to target those markets, only a few researchers have focused on the identification of strategies and success factors related to on-line strategies (even less so for Latin America), as well as on the level of innovation in business model design from a practical perspective that is based on successful companies born in emerging markets and developed in many other countries. Precisely, following several calls for research in emerging markets as a way to advance science (Burgess & Steenkamp, 2006; Wright et al., 2005; Nicholls-Nixon et al., 2011, Hoskinsson et al., 2013, Mehler, 2014), we believe that our findings from the interviews, case studies, and archive material seem to provide an important opportunity to extend the existing literature on business models in emerging markets. Important contributions are made in relation to certain strategies and success factors in on-line strategies of different business models from emerging countries, trying to contribute to the gap in the literature on insightful answers to new questions, such as 'How do organizations play the new game when the new rules are not completely known?' (Peng, 2003, p. 283), and adopting and implementing strategies to grow companies once they have entered an emerging economy, as well as the governance effects of companies' domestic strategies in emerging economies (Wright et al., 2005). We also make contributions on the strategic theories that best illuminate these success factors.

Figure 6.1: Business Models Canvas Framework and Nine Success Factors in Emerging Markets

Firstly, this study makes a relevant contribution concerning the strategies and success factors that emerging market business models should seriously take into account for their on-line strategies in order to capture value in their entire ecosystem. Here, five strategies and nine "practical" drivers have been identified, which are very important in this kind of markets.

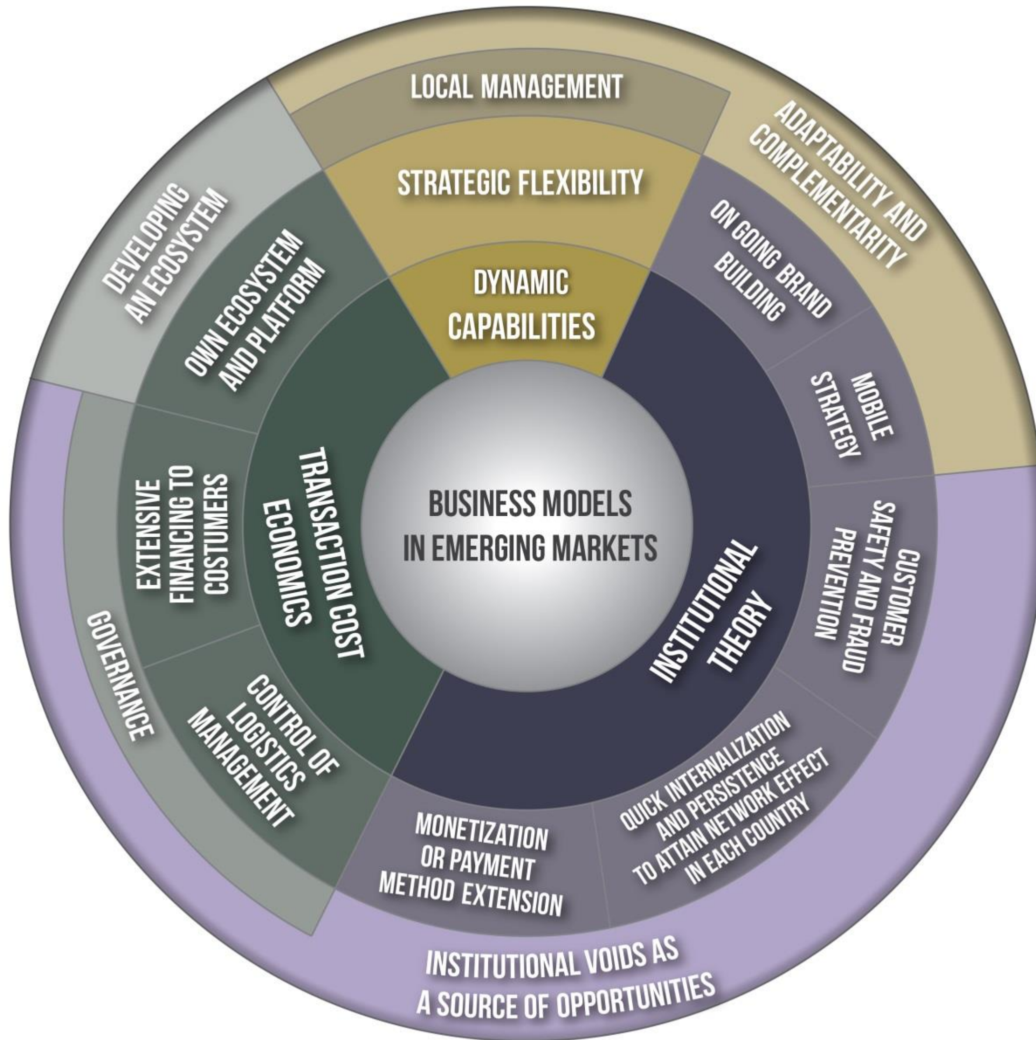


Figure 6.2: Theories, Principles and Success Factors for Business Models in Emerging Markets

Secondly, the analysis of six business models shows that e-business - especially the retailers' model - success depends primarily on how well they can adapt *(tropicalize)* their emerging market business model to the salient institutional norms in each country in which they operate in order to obtain legitimacy from relevant social players and develop specific value drivers enabling them to control the ecosystem that enhances core business, logistics, and financing to their clients.

Most of the environmental factors known in emerging markets, like less infrastructure, underdeveloped logistics, less Internet penetration, underdeveloped financial

instruments, cultural factors in purchasing, competitive factors, and social elements have all been dealt with by the business models studied through on-going innovation in their business models and persistent trial and error, until the blueprint that better adapts to each market could be identified. These findings support the notion that business models may be very successful in their home markets, but they must also acknowledge the environmental differences and barriers that can exist in other emerging economies, especially those related to the cultural and social environment, and properly implement solutions intended to overcome those barriers. The main issue for retail managers is that they must adapt their retail practices and formats to fit the needs and expectations of host consumers, suppliers, employees, families, and the business community, especially monetization skills (like multiple on-line and off-line payment systems and installment financing) and all those things connected with logistics. The main objective, therefore, is to implement this source of advantage effectively and to gain legitimacy from all key social players. Once these factors have been properly implemented, particularly enlightened by IT and TCE theories, it will be easier for a business model to leverage the competitive factors pointed out by Dynamic Capabilities theory, which in the cases studied is mainly proven by a constant innovation and business model adaptability capacity - the so-called Strategic Flexibility (Zhou & Wu, 2010) - essentially necessary for the dynamism inherent in these markets and the one inherent in technological innovation. In this regard, Dynamic Capabilities Theory is deemed to best explain how a deeper integration between IT and RBV is better achieved in these markets (Hoskinsson et al., 2013).

Thirdly, although much of the literary review in emerging markets has given relevance to the Institutional Theory, Transaction Cost Economics and Resource-Based View as the main theories used to analyze the performance of business models in emerging

markets (Hoskisson et al, 2000, Wright et al. 2005, Xu & Meyer, 2013), by focusing on this thesis on e-business in emerging countries where very few studies have been conducted to date, insufficient literature has been found highlighting the prevalence of the Dynamic Capabilities Theory to identify aspects impacting on business models such as high uncertainty and high speed in these markets. We concur with other researchers who have studied theoretical perspectives in emerging markets in that Institutional Theory and Transaction Cost Economics shed light on the analysis of the success factors in these kinds of markets (Hoskisson et. al, 2013), but we deem it necessary to stop considering RBV so much to afford more room for theories which focus more on constant model adaptation in each context. Hoskisson et al. (2000) admits that examining dynamic capabilities, such as the ability to learn continuously (Lei, Hitt, & Bettis, 1996), and the knowledge-based view of the company (Conner & Prahalad, 1996) will become more prominent in the study of emerging economies and that further research is therefore needed on how companies adapt and learn as markets emerge. It has been found in this study on Latin American business models that Dynamic Capabilities may better enlighten certain success factors needed in these markets, where only possessing heterogeneous and immovable resources does not guarantee a competitive advantage. There are already several companies which have tried to replicate business models in developed markets and were not able to withstand the Latin American market because they were unable to attain sufficient purchasing power to compete with other similar local models. Institutional factors and the environmental dynamics in emerging economies impact on strategic choices of managers in domestic companies, and it seems highly unlikely that a single theoretical perspective may be able to explain strategic decisions that are made in these 'high velocity' environments - an integrated approach that brings together various theories may be more fruitful

(Wright et al. 2005). The dynamic and unpredictable contexts arising from the combination between the characteristics inherent in emerging markets and those inherent in the dynamism infused by the Internet context onto the necessary distinctive abilities to obtain competitive advantages mean that the companies must constantly reconfigure, gain and dispose of resources to meet the demands of a shifting market. Domestic companies competing within emerging economies face a 'high velocity' environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets. These environmental uncertainties with which companies must deal if they want to survive in the long run, create the need for upgrading and re-configuring existing resources and capabilities. Within these dynamic abilities that the companies must develop, strategic flexibility stands out (Rindova & Kotha, 2001, Garud & Kotha, 1994; Sanchez, 1995) as a success factor in strategies in line with the business models operating in these markets.

Our results are subject to the limitations inherent in qualitative research. A second limitation of our study rests in its focus on the level of the firm. Future research could help in shedding further light on the propositions outlined in this dissertation by examining the managerial characteristics of business models necessary to increase the likelihood of success in local and foreign markets (Bianchi, 2011). Also the growth of new business models using e-business from emerging countries from their early stages of development. Likewise future research is recommended to investigate the experience of other emerging market business models, and also to identify aspects that are new and unique to emerging market companies. Thus, the themes identified in the data reviewed should be explored in more depth with different samples and formats, in order to develop broader theoretical frameworks of how business models using the Internet in emerging markets could improve their performance and discover whether there are

other success factors and drivers to reinforce their e-business in emerging markets. Additionally, this study is based on six cases from a few industries, which limits its generalizability. Several of the themes identified in the data should be explored in more depth and quantitatively with different industries. Our findings also need to be tested in a study of a broader sample of companies to find out whether the success factors and value drivers proposed actually hold up, and to search for possible patterns of strategizing actions, critical capabilities and activities for value creation in e-business in emerging markets.

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