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### **Beyond e-commerce: an entrepreneurial business modelling method for profitable e-venturing.**

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## **Title**

Beyond e-commerce: an entrepreneurial business modelling method for profitable e-venturing.

## **Abstract**

*E-business is used as a term that embraces e-commerce, its commercial exchange or transaction component. Both are subsets of a larger concept, e-venturing. E-business is a major disruptive innovation that is rapidly changing many of the accepted norms of effective management. So the paper revisits and reassesses several established principles of economics, strategy and entrepreneurship to place them in the context of the forces driving the emerging e-business economy. Entrepreneurship is applied as a 'framework enricher', model-building tool and critical organisational behaviour to guide integration of e-business strategy into the total organisational strategy of a profit-seeking firm. This permits development of a new business modelling process, labelled 'map and locate', that adapts a combination of entrepreneurial and strategic imperatives to the internet environment. The process assumes that value-generation, competitive distinction and profitability are the three essentials of any successful e-business strategy design and execution. Apart from its general conceptual role of linking strategic and entrepreneurial thinking, the 'map and locate' modelling process can be used as a practical tool for specific performance in a variety of circumstances. It focuses on learning and the development of metrics useful for measuring progress towards achievement of target outcomes.*

## **Key Words**

*e-commerce; e-business; e-venturing; business model; strategy; entrepreneurship.*

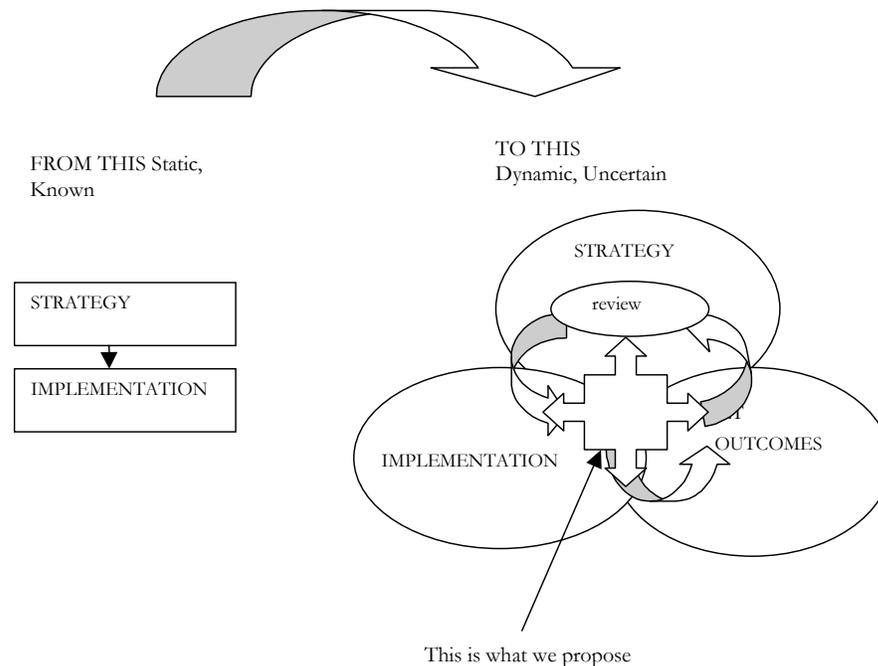
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# 1. Introduction: Objectives, Definitions and Assumptions

## Overview

This paper seeks two audiences: managers who might appreciate a systematic approach to using the internet to make profits for their firms and scholars in search of theoretical frameworks for understanding and researching the organisational, social and economic impact of the internet phenomenon. To both audiences it offers two things. First, the paper multiple perspectives for better understanding of the nexus between e-venturing, e-business and e-commerce and pre-internet modes of doing business. Second, the paper presents a specific new managerial tool; a process called the 'map and locate method of business modelling'.

The process is dynamic, iterative and derived from frameworks that provide understanding of what it takes to move, entrepreneurially, from strategy to implementation in a disruptive environment characterised by innovation and rapid change. Firms can use the process for designing business models appropriate to their circumstances and useful for effective implementation of their strategies. Though no two business models created by the process may ever be the same, every one of them will be focused upon practical and profitable integration of the radical possibilities of the internet phenomenon into the strategic operation of the total enterprise. Apart from its general conceptual role of linking strategic and entrepreneurial thinking, the proposed business modelling process can be used as a practical tool for specific performance in a variety of circumstances. It focuses on learning and the development of metrics useful for measuring progress towards achievement of target outcomes. This core intent of the paper is summarised in Figure 1.



**Figure 1 - Moving from a static and linear to a dynamic and iterative view of applied strategy**

As Figure 1 illustrates, the dominant agenda is to move from a static and linear strategic approach in which the current, limited notion of 'e-commerce' dominates, to a dynamism based on the

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broader notions of e-venturing and e-business. This demands iterative integration of strategy, implementation and outcomes and leads to development of a business modelling system derived from a synthesis of selected literature in the fields of strategy, economics and entrepreneurship and participatory action research in two organisations grappling with the need to integrate e-business into their current modes of operation. The method (provided in detail in section 5, below) is then applied to brief analysis of two illustrative cases in which the authors have been involved as practitioners. While the cases selected support the concepts put forward, the proposed process has not yet been research tested beyond those cases. The authors, however, intend using the concepts and tools developed in this paper as the basis for both future empirical research and present consultative practice.

### ***A trinity of objectives in a crowded field***

In seeking their audience and positing their process, the authors join a big crowd. There is a rapidly escalating literature purporting to advise managers on how to use the internet for organisational benefit. E-commerce courses (which embrace everything from cute graphic design of web pages, to re-badging of basically boring modules in computer programming courses, to elaborate prescriptions of formalised corporate strategy) are invading universities and workplaces. Every specialist is in on the action: marketers, information technology experts, consultants, accountants and a host of 'ists' including futurists, sociologists, economists and psychologists. But, above all, the field is packed with actual and would-be *strategists*. A multitude of well-motivated theorists and practitioners with a vast variety of core expertise all want to tell management how to develop and implement successful 'e-commerce strategies' – whatever they may be.

This general intent to provide guidance is laudable and necessary. However, good intentions do not always result in good advice. Given the revolutionary nature of the internet for the conduct of business and its importance to the development of human society – about which more will be said later in the paper – it might be argued that managers should welcome every bit of help they can get and be glad of its variety. However the quality of the rapidly growing and diverse advice on strategic conduct of e-business is highly variable, with bad far outweighing good. Superficiality and speciality are the main culprits. Many prescriptions lack sufficient depth and breadth of framework to embrace the sheer richness, pervasiveness and complexity of the organisational and strategic impacts of the internet.

Worse, the very nomenclature of the field is a big problem, with loose jargon racing ahead of precise definition. In particular, 'e-commerce' is a bad word for a good thing. Properly understood, 'e-commerce' is the transactional subset of a larger concept, 'e-business' and e-business itself is a subset of an even larger concept: 'e-venturing' (see the definitional framework, below). Unfortunately, the word e-commerce is rapidly becoming loosely used to embrace all three concepts. This sloppy use of terminology is a significant contributor to widespread misunderstanding of the strategic importance of the internet phenomenon – both commercially and for organisations in all their manifestations.

Accordingly, this paper has three aims:

- (1) to distinguish the larger fields of 'e-venturing' and 'e-business' from their transaction-focused subset called 'e-commerce';
- (2) to enrich the theoretical framework surrounding e-venturing by arguing for an entrepreneurial approach to strategic implementation and
- (3) to provide a process for creating business models aimed at successful implementation of competitive, value-generating and profitable e-business strategies.

### ***Definitional framework***

Three definitions are critical predicates of clear analysis.

- (1) ***E-venturing***. This is a very broad concept. *E-venturing is the application of all possibilities inherent in the internet phenomenon and its alliance with IT and communications*

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*technologies, to the quest for derivation of all forms of organisational benefit. A 'venture' may exist for profit or not for profit and may be a private or government enterprise. In short, a venture can be any organisation whatsoever with any mission however defined. And e-venturing can embrace any activity whatsoever that web technology is capable of providing. It might be thought that the introduction of such a broad construction does not add much to the field. The authors argue that the concept of e-venturing conveys two vital benefits. First, e-venturing denotes the importance of distinguishing truly generic aspects of the internet phenomenon – those that apply to all organisations and all possible e-activities – from aspects specific only to profit-oriented firms and more specifically yet to the transactional operations of profit oriented firms. Second, the e-venturing has strong connotations of entrepreneurship. The importance of that connotation will be addressed shortly.*

- (2) ***E-business.*** This limits the horizon to the profit motive. *E-business is the application of the principles of e-venturing to all activities of organisations whose mission includes the production of profits for their owners.* Here, type of organisation is limited but the range of e-activities is not.
- (3) ***E-commerce.*** This is a subset of e-business. *E-commerce is the use of the internet and related technologies to facilitate and execute transactions between a profit-seeking organisation and its suppliers, its customers and other stakeholders with whom it conducts commercial exchanges.* Here, both type of organisation and range of e-activities are clearly circumscribed.

### **Assumptions concerning e-business**

The following assumptions have been made about the environment and the motives or purpose of e-business:

#### **The strategic trinity: value generation, competitiveness and profit**

It is assumed that among the ultimate objectives and outcomes of all e-business strategies, three things will feature prominently: value generation; competitiveness and profit. The firm will seek delivery of value to customers and that the delivery is competitive (in the sense of being an offer distinct enough to be not easily replicable or beatable by a competitor) and that the delivery returns a profit.

Of course, it is possible to pursue e-business for multiple strategic outcomes such as, for example, a cost reduction. However, the typical competitive response to a cost reduction is a further cost reduction. The question then becomes, how sustainable is cost reduction as a competitive advantage when similar web-enabled cost reductions are available to competitors? Ultimately the success of all e-business strategies will be judged on their ability to deliver superior value or utility to customers along with profit for the vendor in difficult markets characterised by low barriers to entry and hyper-competition. These are the fundamentals of the e-business game.

#### **An environment of creative destruction prevails**

Many – a great many – implemented E-business strategies are disruptive innovations. They provide nearly perfect examples of the process that Joseph Schumpeter called 'creative destruction' and used as the seminal metaphor for his description of the entrepreneurship process, which has the entrepreneur, through profitable management of applied innovation, destroying the equilibria of established economic relationships (Schumpeter 1979/1942). More discussion of Schumpeter's thesis follows shortly but to illustrate the direct immediacy of his ideas, one only needs to look to General Electric, one the world's largest, most diversified and intellectually-admired companies. GE has recently launched a global initiative called 'destroyyourbusiness.com' to force GE divisional managers to imagine the sudden demise of their business as a catalyst for making them create something new and well-adapted to the e-venturing age (Kippenberger 1999).

The process of creative destruction due to e-business innovations has particularly obvious, short-term implications for established methods of transaction – the distribution channel of the marketing mix if you like – and this is why the subset of e-commerce is dominating the larger agendas of e-business and e-venturing. Over sixty years ago Ronald Coase identified transaction costs as a key

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factor causing markets to perform imperfectly and creating opportunities for firms to build organisational structures and processes that minimise or optimise transaction costs (Medema, 1996). The internet along with the ready acceptance of behaviours such as partnering and outsourcing is now providing dramatic evidence of the continued pertinence of Coase's analysis by dramatically altering the transaction cost rules and ratios that have impacted on organisations and the open market since at least the beginnings of the industrial revolution. Transaction costs – the domain of e-commerce – are as important as they ever were but the web impacts them in new ways.

However, when it comes to managing a profitable firm, the many strategic implications of the e-business revolution must not be neglected by over-concentration on one element: the transactions component. The main focus should be on the big picture, not the small: on creative destruction and entrepreneurship not transactions costs and neo-classical economics. Disaggregation, disintermediation, the location of boundaries for firms and industries are all signs of major disruption, creating a constant stream of disequilibria in markets and constituting a radically new environment dominated by innovation-driven, rapid change. The internet is as revolutionary as steam, railways, the motor car, and computers. To pretend otherwise is a delusion.

So the big managerial question becomes: how can an e-business strategy, which represents a disruptive innovation, be implemented to deliver defined outcomes when the best data on which to make decisions is unavailable or inadequate, and most of the market assumptions about customers and competitors are flawed? Radical transformational change adds to the complexity and difficulty. How can you iron your shirt while you are wearing it? The answer lies in the fact that all established managerial theory does not have to be thrown out but it does have to be carefully adapted to circumstances.

#### **Established wisdom is still relevant**

In this paper the view is taken that many established principles of economics, strategy and entrepreneurship are durable and can be usefully applied provided their frame of reference is aligned to the context of the new information-based economy. One of the drivers put forward for the rapid deployment and advancement of the web is not just rapid innovation in individual technologies such as bandwidth, computers and networking but the effect produced by their convergence. Other historical periods of disruptive innovation such as the industrial revolution (convergence of craft and mass production) or the emergence of the converged electricity and telephone networks, all produced rapid and frequent technological advances that seemed to destroy existing business models. Most of the basic laws of economics have nevertheless endured and those who prospered were those who understood how to apply relevant aspects of established wisdom in the new environments. In the whirlpool of the web revolution, entrepreneurship theory, which has always been concerned with management under uncertainty and the strategic exploitation of disequilibria, can prove particularly useful if context is respected.

#### **New rules are also being written**

Judiciously applied established wisdom is necessary but not sufficient. In addition to established principles, new laws and success rules are emerging for web-based strategies and economic performance. These are incorporated in the analysis which follows and include increasing returns (Romer 1986), laws of information (Shapiro and Varian 1999) and adaptations to the concepts of strategy as they apply to competitive and first mover advantage (D'Aveni 1994).

#### ***Format of the paper***

Given the objectives, focus, definitions and assumptions of the paper, the following format is used to develop and assess a proposed systematic regime for profitable e-venturing.

- The appropriate strategic approach
- The contextual and practical importance of entrepreneurship
- What is a business model and how do you create one?
- The 'map and locate' business modelling method
- A summary and case illustration of the method

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## 2. The Appropriate Strategic Approach

### *Conducting strategy in a turbulent environment*

The first problem encountered when confronting strategic issues in relation to e-business is that strategy as a subject has been in wide use and under active academic research for over 30 years, yet confusion and uncertainty about what it is, still seems to prevail.

The second problem is that many e-business practitioners, particularly those who combine youth with a heavily technology-centred view of the web and its possibilities, regard strategy as irrelevant to the development of their enterprises. Suggestions are often heard at e-business forums that strategy and e-business programs are oxymoronic. As an example, at the Asian Pacific regional meeting of the World Economic Forum held at Hayman Island, Australia, in September 1999, one of the authors was challenged by an internationally respected consultant, who loudly brayed that strategy and e-commerce were totally incompatible concepts. Certainly, the articulation of strategy and the design of a relevant business model seem to be much lower priorities for internet start-up CEOs than do activities such as hyperbolising new technologies, lionising strategic alliances and parading glossily-charted variants of the J- curve to argue that cash must be consumed before it is earned. Thanks for the wisdom.

Both problems – what is strategy? and is it relevant? – can be overcome by simple reflection on the *necessity* of strategy to the e-business process. Definitions of strategy by commentators and writers may vary considerably, but in essence, strategy answers two questions. Where do you want to go? How do you want to get there? These are fundamental questions for any shareholder or stakeholder. Even in gold-rush, land-grab, semi-articulate models of the internet, it is doubtful whether answering these questions by 'anywhere is good enough and any road can take us there' are likely to be entertained by any but the most cavalier of practitioners.

The question of relevance arises mainly because many internet-savvy practitioners are dimly or brightly aware that strategic principles and prescriptions, which seem dry, static and irrelevant, do so because their originators have assumed an environment of relatively slow-changing markets. The historically dominant prescriptive approaches to strategising have been nomothetic and linear. Mintzberg, Ahlstrand and Lampel (1998 *passim*) suggest that strategy as a teaching and management process has essentially been dominated by the 'Design, Planning and Positioning Schools' which provided popular prescriptions during the 1960s 70s and 80s. The famous construct of SWOT ('Strengths, Weaknesses, Opportunities and Threats') analysis is a common symbol of these schools and provides a good illustration of their limited capacity to provide tools and methods for coping with dynamic environments. Apart from SWOT's flawed, nomothetic, linear and static environmental assumptions, Hill and Westbrook (in Mintzberg, Ahlstrand and Lampel, 1998) found that 'no one subsequently used the outputs (of the SWOT) within the later stages of the strategy execution process'.

The companies which provide this paper's two case studies (to be discussed below) both initially attempted to develop a SWOT analysis for their e-business projects. Most of the features selected as strengths, weaknesses, opportunities or threats were found to be uncertain and continually evolving: they simply were not static enough to fit in the rigid SWOT framework. Strengths, for example, require deliberate enactment to fulfil their definition and in any event are only a strength if the market not you, rates them as such. For example, companies often define a specific piece of industry or business knowledge which they possess as a strength or core competency. Entries of this kind were common for both of this paper's case study SWOTS. However, the alleged competency so listed remains a dormant self-perception unless a customer regards it as important and is willing to credit it with value or pay for it. There is no doubt that the SWOT regime and most of the prescriptions of the 'old' schools of strategy can easily become sterile exercises in futility for firms engaged in dynamic environments.

But the old schools are not the only schools. Mintzberg (1994) switched focus to how strategies actually form in practice rather than how they should be formed by regimented procedure. He used concepts of Intended Strategy, Deliberate Strategy, Emergent Strategy and Realized Strategy to

describe this. These concepts move strategy away from paint-by-the-numbers prescriptions and are pertinent to the dynamic, transformational, uncertain environment associated with the web and e-business. Rather than sidetracking into the strategy debate Mintzberg's arguments have abundant critics, this paper has approached the strategic problem in e-business by recognising and accepting the fundamental differences between a mature, static or low rate of change prevailing in a relatively predictable market environment and a high-velocity, dynamic, uncertain environment such as the internet. This recognition clearly indicates a greater relevance for the 'new school' approaches to strategy described by Mintzberg, Ahlstrand and Lampel (1998). At the broad level 'new school' approaches are characterised by adjectives including 'entrepreneurial', 'learning', 'cultural' and 'environmental'. These are all terms which demonstrate more concern about *understanding* than *prescribing* ideal or appropriate behaviour.

Old school strategic analysis predicts what the market will demand, makes the product and then goes out and sells it. Essentially this is mainly product push with some secondary market pull. In e-business, this translates to build the web site, get a ritzy name, fill it with products and information and the customers will come. If the customers don't come, advertise like fury and try to develop a brand. This remains as the strategy for one of this paper's case study examples (to be described below).

This paper describes a preferred approach to strategising in an e-business context, which senses the market continually and responds to understood opportunities. The starting point here is to understand the market and what value you can deliver to customers in a way that is competitively superior. This is primarily market pull with some secondary push.

Stephan Haeckel (1999) defines these two approaches in terms of two strategic approaches - *Plan, make and Sell* and *Sense and Respond*. The major differences between the two approaches are summarised in Table 1, below.

In summary the strategic challenge must be met by adopting a sense and respond strategy. Before this can be translated into an appropriate business model through a deliberate process, it is necessary to consider both the contextual and practical importance of entrepreneurship in greater detail.

**Table 1 - The Contrast in Strategic Approaches**

	<b>TRADITIONAL STRATEGY – PLAN, MAKE, SELL</b>	<b>NEW E-BUSINESS STRATEGY- SENSE AND RESPOND</b>
<b>MARKET</b>	Mature markets. Minimal growth in demand. Market and competitive boundaries and rules are well understood.	Emerging markets. 100% plus compound annual growth rate in some sectors. Morphing of markets, products, vendors and customers - new definitions - new rules.
<b>FOCUS</b>	Competitive focus on cost and service. Product lines pruned or consolidated.	Competitive focus on value generation and innovation. Continual development of new products, new services, new channels. New competitors, customer coalitions, new forms of value, new opportunities

<b>KEY FACTORS</b>	Excess production. Market over-supply. Key factors of production are capital intensive.	Continual shortage of key factors of production - human skills, expertise and knowledge. Key factors of production are people intensive.
<b>INDUSTRY PROFIT-ABILITY</b>	Industry profitability falls. Mergers between competitors are a means to achieve cost reduction and growth. Industry consolidation results.	Industry profitability remains high but shifts quickly between sectors. Any merger objective is to gain skills, technology, market share or positioning. Industries and sectors with low barriers to entry remain highly fragmented.

(Adapted from Haeckel, 1999)

### 3. The Contextual and Practical Importance of Entrepreneurship

Typically, when it comes to strategic implementation under a *plan make and sell* strategic orientation, an extensive, rational plan is developed and rigorously followed (Mintzberg 1994). Unplanned events or changes are typically seen as undesirable threats to achievement of the destination set by the strategy. In contrast, the *sense and respond* strategic approach assumes uncertainty about markets and products along with pervasive change. There is no single right way forward. Here strategy is an evolutionary process, possibly fragmented, intuitive or even conversational with intended strategies routinely replaced by emergent strategies (Mintzberg 1994). However, once, as recommended in this paper, strategy is conceived as evolutionary learning with no immutable questions giving direction to corporate effort, then the issue for *implementing* strategy becomes an intriguing matter. If strategic implementation is *not* to consist of a series of defined action plans that all link into the solution of a pre-defined 'big question' then what will the implementation system be? From what field of knowledge can it seek guidance?

Fortunately, there is a behavioural field, supported by a vigorous research literature, which provides a knowledge base for dealing with just such situations. It is called entrepreneurship.

The sheer fluidity and multi-tasking nature of entrepreneurship ensures that there will always be debate about the precise wording of any attempt at succinct definition. This paper employs Hindle's definition: *entrepreneurship is the creation and management of a new organisation designed to pursue a unique, innovative opportunity and achieve rapid, profitable growth* (Hindle, 1999: 21). However, irrespective of the summary definition employed, what matters is its intent to convey entrepreneurship as a complex, plural and interactive network of behaviours comporting with established scholarship (see Jennings 1994: *passim*). The growing quantum of entrepreneurship research provides considerable consensus on the importance of many pertinent definitional ingredients. These include: creation of a new organisation to pursue an opportunity (Bygrave and Hofer 1991; Gartner 1989); innovation management (Schumpeter 1979/1942); speculation and risk bearing (Cantillon 1775 – quoted in Jennings 1994: 42-43); coordination of disparate elements (Say 1828 – cited in Koolman 1971); decision making in an uncertain environment (Knight 1921); leadership (Marshall 1949); arbitrage (Kirzner 1973); product development and ownership (Hawley - discussed in Jennings 1994: 56-57) and a focus on managing rapid growth in a volatile environment (Legge and Hindle 1997).

Once entrepreneurship and the knowledge derived from studying it are understood to embrace all these concepts in complex interaction, it is clear that entrepreneurship is the behavioural discipline most directly pertinent to the problem of building a business model capable of implementing e-

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business strategy. Entrepreneurs are not to be found in neo-classical economics. Neo-classical dynamics is basically represented as a moving equilibrium process. Entrepreneurs thrive best when knowledge and information are incomplete and dispersed, when the environment is in a non equilibrium state and non linear situations are the norm rather than the exception – exactly the conditions prevailing in the turbulent world of emerging e-business. Unlike an environment in equilibrium where predictions on future states are easier and more reliable, non equilibrium environments where the systems are operating closer to chaos and complexity are difficult and often impossible to predict (Beinhocker, 1999).

The paper has already introduced Joseph Schumpeter, the scholar who best understood both neo-classical economics and its limitations in dynamic environments. It is time to consider his ideas in greater detail. He believed entrepreneurship was *the* process by which change occurred and through which economic progress was achieved. In *Capitalism, Socialism and Democracy*, first published in 1942, Joseph Schumpeter's most famous paragraph – a long one – begins with the following sentence (Schumpeter 1979/1942: 132):

*'We have seen that the function of entrepreneurs is to reform or revolutionise the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganising an industry and so on'.*

The 'and so on' presents Schumpeter's essential thesis on the entrepreneurial process. Entrepreneurs are a breed who manage innovation to create new combinations of resources on a grand scale. His essential definition of entrepreneurship is 'neue Kombinationen machen'; 'creating new combinations'. Schumpeter described the essence of free market economies not by orderly progress to equilibrium but as characterised by a process of 'creative destruction' or the disturbing of an existing equilibrium situation. This provides the explanation behind market dynamics and business cycles.

In the e-business environment of today, the essence of 'creative destruction' might be interpreted as being a boundary rider near the edge of chaos. Creating competitive advantage is effectively disrupting what has been done in the past and creating a new future (Pascale, 1999). It is important to note that creating a new future should not be viewed as mere 'punctuated equilibrium' where the disruption is seen as rare, risky or even episodic but one where the disruption is seen as frequent, relentless and even endemic (Brown & Eisenhardt 1997).

Clearly the field of knowledge which studies these business environments, the field of entrepreneurship, is the right place to look for anyone desiring to create a model for strategic implementation of e-business. If you want to integrate e-business into a profitable organisation, you have to be an entrepreneur.

#### **4. What is a Business Model and How do You Create One?**

##### ***Distinguishing a 'business model' from the process that produces it***

The time has come to add an unambiguous definition of business model to the paper's definitional framework. The term 'business model' is very vexatious because it is both popular and imprecise. Venture capitalists are particularly fond of it but so are business media commentators, university lecturers and spin doctors of many persuasions. You don't have to be a mother to love it. But what does it really mean and is the concept useful?

Clearly, the major intent of all who use the term is twofold: to distinguish a particular company's way of doing business from everybody else's and demonstrate that the user understands all the critical factors affecting the company's ability to succeed in its industry or chosen market space. The essential idea is differentiation. The value of having a business model at the heart of your operations is that the very *way you do business in your chosen environment* can be a distinctive

competence and source of competitive advantage. So far, so good. However, closer scrutiny reveals many problems with the term if it is left loosely defined. For instance what actually is the 'model'? Is it a strategy? Is it a business plan? Is it a technology? Is it a product or service? Some of the above? All of the above? What?

At its most general, a 'model' is a symbol used as an instrument. A business model is accordingly a tool of understanding and a template for action. The symbolic component of a business model usually takes the form of flowcharts or similar ideographic devices summarising a complex network of internal and external realities, which describe the business's place and operation in the world. The instrumental value of this is to provide management with guidelines for effective and efficient action. The comprehensive definition which embraces all the ingredients that a business model should contain is supplied (Slywotzky 1996: 4), although he uses the term 'business design' rather than 'business model'. It is:

*'... the totality of how a company selects its customers, defines and differentiates its offerings (or responses), defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers and captures profits. It is the entire system for delivering utility to customers and earning a profit from that activity. Companies may offer products, they may offer technology, but that offering is embedded in a comprehensive system of activities and relationships that represents the company's business design.'*

So, a business model is an artefact that results from a process. You could produce a business model by a variety of means of various depth and intensity: you could copy a successful competitor; you could take a template from a textbook; you could have an inspiration in the shower; you could laboriously employ the linear techniques of the plan, make and sell school of strategy. Whatever. But what is strategically important and critical for successful e-venturing, is not that a business model is produced but *the way* it is produced. None of the previous possible production methods are recommended. This paper is about to present a better way. But first we ought to reflect on the impact of strategic orientation.

### ***How strategic orientation affects business modelling approach***

Thompson and Strickland (1998) argued that five strategy management processes together define any strategic focus. Table 2, below uses their five categories to contrast the different approaches to business modelling which are the logical corollaries of the two different approaches to strategy, previously outlined.

**Table 2 - The Contrast in Business Modelling Approaches Implied by Different Strategic Orientation**

THOMPSON AND STRICKLAND (1998) STRATEGY MANAGEMENT PROCESS	PLAN MAKE AND SELL TRADITIONAL STRATEGY ORIENTATION	SENSE AND RESPOND E-BUSINESS ORIENTATION
<i>Form a strategic vision</i>	Defining the business and the long-term strategic course for the organisation.	When change is turbulent and constant and the strategic course cannot be confidently foreseen, vision becomes a focal point and values define behaviour and the approach to goal achievement.

<i>Set objectives</i>	Financial and market objectives can be set, based with some certainty upon sources and estimates such as historic data and demographic market research.	Financial and market goals are susceptible to estimation, review, analysis and change as market dynamics change and information becomes available.
<i>Craft the strategy to achieve desired outcomes</i>	Can often use rationalistic strategy approaches. Industries and markets can be identified and defined. Market and product research data and experienced observation provide guide to competitive advantage factors.	Strategy is likely to be an evolving, learning process. Observation, review, learning and response become key activities.  Longer-term competitive advantage may lie in creating a well-conceived business model process which provides competitive advantage rather than in products or markets which are transient and easily replicated.
<i>Implement and execute the strategy</i>	Develop a structure and capability that can be executed i.e. strategy is likely to follow structure. Develop budgets, pass down objectives.	Often a combination of business model, structure and skills or competencies determine strategy.  Loose, flexible organisational structures and approach to resources. (Outsourcing is common)
<i>Evaluate performance, monitor new developments and initiate corrective action</i>	Respond to what happened. A stable environment can allow data to be collected, reviewed and uncertainty minimised before responding.	Respond to what is happening.  Dealing with uncertainties, unknowns and risks in 'real time'.

(Developed using categories created by Thompson and Strickland , 1998)

### ***Predicates to model building***

Clearly, a sense and respond approach to strategy has major implications and these, in their turn, establish four predicates for business modelling in an e-business context.

1. *E-business must be integrated not isolated.* You can't separate your e-business strategy or any implementation of it from the totality of operations. If you try to 'rope it off' (by, for instance, treating it as a speciality for your information technology experts to mandate), you will get it wrong.
2. *E-ventures demand development of a business model as a predicate to a business plan.* You simply can't make a meaningful plan if you have not first developed a thoroughly well-wrought sense of corporate persona as embodied in Slywotzky's definition of business design/model (above).
3. *An e-venturer's business model will require constant updating, adaptation and change.* This is why the *process* of model generation is more important than its current output. Organisations must continually re-design themselves. Yesterday's business model may not serve you well tomorrow.
4. *So, the key to success in e-venturing in general and e-business in particular is robustness of the process used to keep producing a stream of appropriate business models – plural!*

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## 5. The 'Map and Locate' Business Modelling Method

### *Overview*

A caveat is needed. The remainder of this paper will endeavour to sketch the *outline* of a business modelling method – not to provide every intricate detail of how to make it operational.

The business modelling method developed here begins with the belief that radical transformation of many currently well-accepted norms of doing business is likely to be as pervasive as the intrusion and influence of the internet. In this perspective, the internet is the fundamental determinant ('baseline rule-setter' if you prefer netspeak) for the transformation of the total economy and much of society. It will melt the glue that has held traditional value chains together and defined past product, market and industry boundaries. Apart from a de-construction/re - construction impact on definitions of boundaries and processes, it is anticipated that the internet will lead to new meaning for many established concepts such as 'sustainable competitive advantage', 'first mover advantage', 'barriers to entry', 'branding', 'market segmentation' and the 'total customer relationship process'.

This world-view results directly from the arguments developed so far:

- strategy must be created by sense and respond;
- entrepreneurship is the guide to both theoretical understanding and practical action;
- and process is more important than output in designing a business model.

Any given business model is a transient artefact. The method that creates it must be viewed as a continual, iterative process. The process builds a pattern. The pattern provides new knowledge, new understanding and is likely to be the key contributor to achievement of the profit-seeking firm's triple objectives: value provision to customers, continual competitive advantage and profitability.

The second concept of this trio of objectives is particularly important. Given the internet-dominated environment of constant turbulence, the whole thrust of this paper to date implicitly argues that *continual* competitive advantage must replace *sustainable* competitive advantage as the dominant competitive objective. It is time for this implicit argument to be overtly stressed. In turbulence there is no sustainability. As Jimmy Durante might have said, sustainability is an idea whose time has went. The price of competitive advantage is eternal self-reassessment. This imperative is the reason that what follows is so important.

The proposed method of business modelling provides the means of achieving *continual* competitive advantage despite the fact that sustainable competitive advantage is no longer available. Through use of the suggested process, the socially-responsible, environmentally-astute, strategically-oriented, entrepreneurially-acting, profit-seeking firm can create raised barriers to entry against competitors, supplier leverage and customer loyalty.

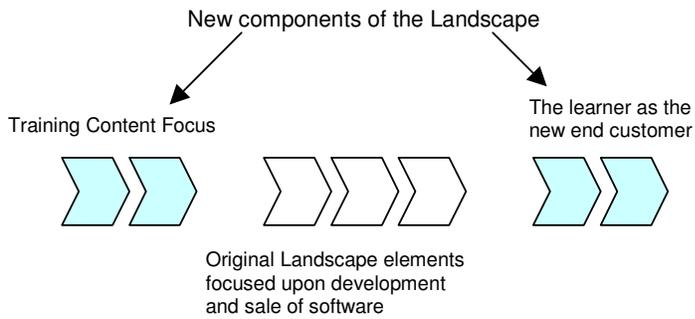
The following sections present the authors' four-stage method of business modelling. It is called the 'map and locate method' because, at every stage, the basic procedure is the same: first map the relevant environment then locate the points within it that impinge on the key trinity of value creation, competitive positioning and profitability. Each stage of the process has three elements: task, process and outcome/objective.

After the three elements of each stage are described, a case-study illustration of the principles is provided by showing how the process was applied in one or both of the two cases which the authors employed as the principal testbed of their ideas. 'Southrock' is the real name of an entrepreneurial, fast-growing software company. 'ResCo' is a nom-de-plume which the authors use to respect the privacy of the second company, a large, well-established organisation in the resource industry, which did not wish its name to be used in this paper.

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## **Stage One**

TASK	<i>Map the business landscape.</i>
PROCESS	<p>The landscape here is defined as the end-to-end business environment for the organisation. The objective of the process is to identify and describe all pertinent activities, linkages and parties involved from development and production of an offering to its sale to the end customer and beyond this to any warranty implications. Value chain charting (Porter 1985), logic and various process depictions can be used for this description. However, the danger is that traditional, value chain depictions are fixed-process focused: limited to improving the effectiveness and competitiveness of delivering <i>established</i> products and services to established markets.</p> <p>Here, we are not concerned with the traditional plan make and sell world but rather the invention of new products or services, new markets, new forms of organisation and process and particularly new forms of value that appeal to customers. In this situation, the one constant value point and focal purpose is the customer. So, the value chain framework analysis must be reversed from its traditional order of presentation. Start with the customer and work back to redesign your organisation and processes around this value point.</p> <p>An intense focus is given to change in the composition, use and value of information as the key linkage and flow element along the process.</p>
OBJECTIVE	<p><i>Locate where the money flow starts.</i></p> <p>With de-construction, re-construction, disaggregation and disintermediation as constants, it is important to remember to identify where the money flow starts. A key internet characteristic is that production and consumption merge, increasing the significance and difficulty of understanding these two processes. Eventually it is only the customer's money (representing consumption) that initiates and feeds any value process or design. The ultimate answer to the question – 'who is my customer?' – is: 'the person who ultimately pays for what we provide'.</p>
ILLUSTRATION	<p>In its traditional software licensing operating model, Southrock's landscape was focused on an end to end process that extended from design inputs for on-line training, to technology evaluation, to production of the software, to marketing the product, to training managers who would deploy it.</p> <p>A map and locate analysis, showed that the end customer (start of the money flow) was in fact some one currently not touched by Southrock. This recognition added new extensions to each end of the old landscape. This is shown in Figure 2 with the new extensions shown as shaded.</p>



**Figure 2 - Southrock Value Stream**

In the newly-mapped Southrock business landscape, the end customer was identified as a new priority. While the go to market implementation may well not involve direct negotiation with the end customer, the new business model does include important feedback links to ensure that the customer, as the primary source of value and money, is understood and receives rapid responses.

In stark contrast, ResCo and one of the authors had difficulty in agreeing on a map of its landscape and locating the start of the money flow. ResCo wanted to chart its landscape giving dominant focus to a mix of news and information and various products that were based on vendor priorities rather than on the basis of identified customers, a trucking/backloading information service and an auction site. The concept of money flow was loose and hypothetical. It was expected from many sources as a composite of advertising, fees and commissions. Attempts to break up this 'flea market - more is better' approach to pre-defined, well-established concepts of market segmentation (by conducting customer needs-and-value trials) were unsuccessful. Effectively, this failure to take an entrepreneurial approach right from the start defaulted the entire business modelling process to a technology focus and make/plan/sell strategy. The old world in the new age.

## Stage Two

TASK

*Map the composition of customers' value propositions.*

PROCESS

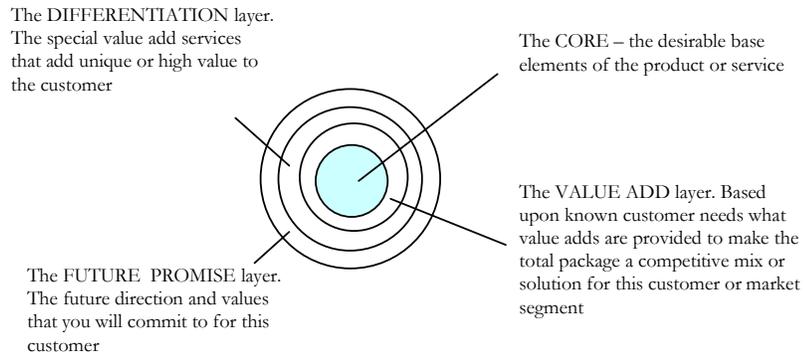
An item which has distinctive value today, may be a commodity by tomorrow. Value generation is a continuous process as e-business customers, empowered by the great potential of e-business, change the emphasis and importance they place on factors such as speed, convenience, personalisation, price and quality. Value as a concept - particularly in e-business - has moved from being associated with just the product or service to the total user experience.

A framework tool used to understand customer value points and their priority is an adaptation of the Levitt (1985:79) total product concept. This tool facilitates a design process around the ability of a product or service to meet individual customer or market segment needs as a total package of value satisfaction and is discussed in the illustration below.

**OBJECTIVE** *Locate what the customers think they are buying and assess the values placed on the total experience.*

**ILLUSTRATION** An adapted Levitt (1985) whole-product framework was used within Southrock to map and categorise, by value and importance, the components of the total solution package.

An example is shown in **Figure 3**.



**Figure 3 - A Map of the Customer Value Terrain**

Using the model in consultation with selected customers led to a more realistic view of priorities with the de-emphasis of certain previously highly-regarded features as important customer values and introduced new ones.

The redesigned, reassessed total value package offered to the customer is depicted and categorised by the four layers of the diagram. The high value components with the strongest competitive differentiation tend to reside in the outer layers .

### Stage Three

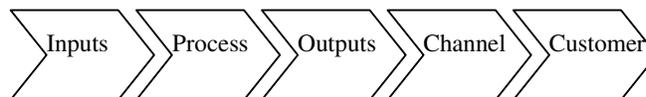
**TASK** *Map the value chains.*

**PROCESS** The landscape analysis in Stage 1 can be visualised as an end to end value stream. It is likely to identify a series of interlinked value systems where either significant value is generated, major costs are incurred or new information is added to the product or service that could transform it or create new opportunities.

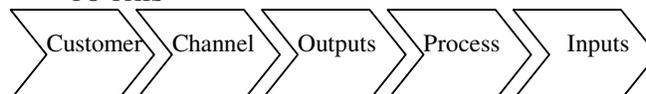
Value chain (Porter 1985) analysis is the recommended process with the following adaptations:

1. Reverse the value chain structure

FROM THIS



TO THIS



2. Recognise that the value chain will deconstruct and reconfigure constantly as *information* (one of major flow forces) constantly changes its role and nature.
3. Within the broad, high-level value stream, separate value systems can be identified where analysis can lead to an understanding of how value and costs and profits are generated.

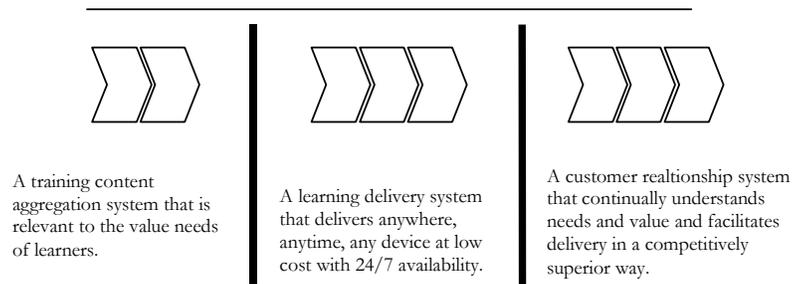
The case study illustration below elaborates on this.

OBJECTIVE

*Locate the critical cost and profit points.*

ILLUSTRATION

The Southrock value stream landscape identified three major value generating sub-systems. These are shown in Figure 4.



**Figure 4 - The Learning Value Stream**

(Delivering training content to learners to meet given learning outcomes)

When Southrock's – or any company's - end to end landscape is broken up into discrete but interconnecting value sub-systems, the value generated by each can be related to: customer values as identified in the Levitt (1985) whole-product framework; costs and revenues. These are then used to assess pricing and options for production and delivery.

This provides the desired outcome of the third step of the modelling process: location of the critical cost, profit and value points.

It is important to note that in the traditional plan-make-and-sell strategic process world, value chains tended to be integrated and averaged. That is, if the aggregate costs and values produced were competitive, this is deemed sufficient. In the sense-and-respond strategic framework, where the configuration and construction glue has melted, each process is under *individual* scrutiny and competitive threat. So, if value is not produced at any significant cost point in the overall value stream, that process or organisation will be made redundant or substituted by competitive forces.

#### **Stage Four**

TASK

*Map optimum achievement processes.*

PROCESS

So far, using the frameworks described in Stages 1 to 3 should have provided an understanding of the many key forces impacting the businesses and their interdependencies. This will have led to precise location of the points where costs and profits are most deeply affected

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by the dynamics of the business. While this deconstruction process may reveal serious threats, it can also highlight major opportunities for new forms and modes of market attack to emerge. So, in this fourth and final stage of the business modelling method, the task is to use the understanding provided by the first three stages to move from *vision* of the full range of available strategic options for organisational design and operations management to *selection*. When knowledge and understanding are linked to the desired outcomes of maximum customer value, minimal cost and maximum profit, it becomes surprisingly obvious that some business models are going to be far preferable to others. For example, we can explore the demand generation or customer relationship value system which represents the core of the Go To Market (GTM) process and provide a deeper analysis of the options. The disruptive innovation view of e-business potentially changes the rules for an organisation's GTM process. This process has historically been simply structured and dominated by a direct sales force or some mix with channels or resellers. Working initially at companies such as Apple and IBM, and later within industries such as textiles, insurance, office supplies and services, Moriarty and Moran (1990), well before the internet age, observed and documented the appearance of new channels of distribution and new communications methods with customers. The evolution of these new forms of channel and communications were linked to factors such as increased cost, increased product or service complexity and the ability to use and adapt new technology such as telemarketing. On the one hand they added important new coverage, but on the other increased conflict and diffused control.

From the work of Moriarty and Moran (1990), a hybrid matrix simply called the 'options grid' has been developed to incorporate current technologies and options such as the web. It is based on a fundamental shift in assumption. The basic building blocks for a GTM are not channels of distribution, sales forces or resellers but an understanding of the desired optimal sales and marketing processes. This is yet another illustration of the constant theme of e-venturing: understanding of durable process is more important than production of transient output. The options grid (or grids, plural, if your task might benefit from a great deal of subdivision) can be used as a worksheet to aid an analysis of an important value sub-system or sub-systems. It does this by starting with the target customer and working back. A sample options grid is shown in Figure 5.

Methods Processes	DEMAND GENERATION TASKS					
	Lead Generation	Qualify Sales	Presales	Close Sale	Post Sale Fulfilment	Account Managmt
Natl Accounts						
Direct Sales				●		
Tele Marketing		●				
Direct Mail						
Retail Store						
E - business	●					
Other Channels			●		●	●

Figure 5 - A Sample Options Grid

The basic tasks for the sales/marketing end to end process are shown across the top of the grid. The side column shows the optional methods that are available to fulfil the tasks. The grid is then used as a diagnostic tool to develop and continually refine a tactical, hybrid go to market scheme that identifies points of responsibility, value and cost and any potential overlap or conflict. In the example interest from the target market is generated by the internet, leads are seamlessly passed to a telephone call centre for qualification, then passed on to a channel for needs and solution matching before finally being closed by a direct sales process etc.

**OBJECTIVE**

*Locate maximum profit and minimum costs for us and maximum value for customers.*

**ILLUSTRATION**

In the Southrock case, two approaches to the provision of on line training to customers were defined for web-enabled delivery using an options grid. One provided on line teaching direct to selected customers and the other targeted customers who wished to integrate Southrock products into their own product or market strategies.

The critical cost and value points were almost identical for both target audiences. The key control points for cost, value generation and profit maximisation included an ability to maintain an awareness of learner needs and to monitor whether competencies were being achieved. This knowledge then provided direct input into the formulation of the customer relationship processes, identification of some mandatory costs, and significant opportunity for profitable value-adding to the core production processes of basic software provision and perfunctory training.

## 6 A Summary and Case Illustration of the Method

The four stage process of the map and locate method of business modelling is summarised in Table 3, below, which highlights the experience of its application in the contrasting cases, Southrock and ResCo.

**Table 3 - The Map and Locate Method in Action**

	<i>Case Study 1(ResCo) Views 'e-commerce' as 'strictly technology innovation'</i>	<i>Case Study 2 (Southrock) Views 'e-business' as 'disruptive, multi-faceted innovation'</i>
<p><b>STAGE 1</b></p> <p><i>Task: map the business landscape.</i></p> <p><i>Objective: locate where the money flow starts.</i></p>	<p>The underlying assumption in this case study was that e-commerce (there was no notion of e-business or e-venturing) was a technology innovation albeit more pervasive than most earlier innovations. The business landscape map was a technology-enabled portrait of existing commercial realities.</p> <p>Rather than contemplate changes to boundaries and rules, the emphasis was on being first with a technology enabled model of the current landscape.</p> <p>Neither the customer nor the source of the money flow were identified beyond generic summations.</p>	<p>The Southrock vision incorporates goals for a public stock listing and establishing a global presence in its selected markets. Long vision and multiple perceptions of unique opportunities helped generate an environment where continuation with current concepts, rules and operations were seen as unlikely to deliver the outcomes sought. The landscape mapping produced major shifts in the way the business was viewed and understood. This enabled further breakdown to develop key strategies for key purposes.</p> <p>The focus on the end customer as the source of the money flow changed a number of perspectives and relativities.</p>
<p><b>STAGE 2</b></p> <p><i>Task: map the composition of the customer's value propositions.</i></p> <p><i>Objective: locate what the customers think they are buying and assess the values placed on the total experience.</i></p>	<p>ResCo's assumptions are that customer value propositions will automatically flow from the self-evident technology enabled advantages of an e-commerce site. 'We have a web-page, a big product catalogue and good pricing - that's all we need.'</p>	<p>The importance of serving the real source of the money flow – willingness to pay for understanding how to use a tool for precise purposes rather than 'needing software' – became evident.</p> <p>Value as a heterogenous, moving concept is a powerful, well-understood concept.</p>

<p style="text-align: center;"><b>STAGE 3</b></p> <p style="text-align: center;"><i><u>Task:</u> map the value chains.</i></p> <p style="text-align: center;"><i><u>Objective:</u> locate the critical cost and profit points.</i></p>	<p>By eliminating geography restrictions and lowering cost of entry, e-commerce simplifies the process of accessing a new market. Competitive advantage will come from being first plus having the largest product range, most complete and most technologically advanced 'sexy' web-site. The technology advantages will produce desirable outcomes for vendor and customer i.e. the vendor will get lower costs and access to new markets and the customer will enjoy using this new facility to satisfy what has been assumed to be a dormant or previously unfilled need.</p> <p>E-commerce profitability will come from margins on products plus listing and advertising fees from suppliers.</p> <p>With this approach the critical cost and value points default to a strategy of being the lowest cost operator with the lowest price.</p>	<p>The fundamental objective is as clear as a compass needle pointing north in a snowstorm. It is to deliver, over the long haul, desired value and utility competitively to customers in a way that returns a profit.</p> <p>This provides both a filter against the distractions of a turbulent environment and a process for dealing with turbulence by questioning and understanding the environment as new or uncertain data is reviewed and decisions are sought.</p>
<p style="text-align: center;"><b>STAGE 4</b></p> <p style="text-align: center;"><i><u>Task:</u> map the optimum processes</i></p> <p style="text-align: center;"><i><u>Objective:</u> locate maximum profit and minimum costs for us and maximum value for customers.</i></p>	<p>ResCo regards the optimum process for integrating e-commerce into corporate operations as the completion of a successful technology project.</p>	<p>With the process, tools and frameworks of a comprehensive method of business modelling – the power to continually re-invent itself – Southrock is able to implement an entrepreneurial organisational structure and culture to achieve target outcomes with flair and initiative.</p> <p>It earns rates of return which exceed industry averages.</p>

## 7. Conclusion

The motive for this paper was the authors' concern about a misperception that has rapidly gained momentum among many constituents including: stock market analysts and investors; technology practitioners; media commentators; consultants; and among many 'how to' books. This is the insidious double-headed concept that running the internet component of a business is at once a

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fairly simple affair and simultaneously such a self-contained and novel phenomenon that it does not require any understanding of the concepts of strategy, economics, entrepreneurship or any other management discipline. Further exploration seemed to indicate that the reality is quite different and this drove a search for greater understanding which existing prescriptions failed to provide.

Amidst booming projections of trillion dollar turnovers in e-business in the near future, the profitability picture is still very unclear in most commentaries. A Ziff Davis (McCormick 1999) survey of the top 200 internet companies which included established organisations and e-business success stories such as Intel, Cisco, Dell and FedEx showed that money losers outnumber money makers two to one. For the first quarter of 2000, Amazon.com reported a loss of US\$308.4 million on revenue of US\$573.9 while its CEO, Jeff Bezos, believes it is more important to build a brand and market share than to focus on profit (McCormick 1999). This latest result brought the web retailer's losses to \$US1.2 billion in six years. The dramatic slashing of technology stocks' valuations in the market tumble of April 2000 will inevitably increase the focus by investment analysts on the recently unfashionable notions of profit and business models that lead to profit. However, much of the e-business and e-commerce literature, journalism and consultant-speak remains long on loose use of words and phrases such as 'vision', 'branding', 'market share', 'extracting cost savings from transaction costs' and 'supply chains' but short on detail about strategy, entrepreneurship, competitive positioning, customer value, and profitability. There is as yet no researched framework or theory on how e-markets evolve and how information-empowered customers really behave in an internet-connected, knowledge-based economy (Day & Montgomery 1999).

The authors are as excited as anyone else can be by the internet's possibilities as a radical, disruptive innovation for all businesses, organisations and consumers but believe it needs to be studied and handled with both enthusiasm *and* responsibility. Market share and branding – the most touted rationales in explanation of missing profits – are valid concepts but not in isolation. Two questions are both valid and urgent. First, how and when will Amazon and similar 'new economy' firms make a profit grounded on a well-fabricated business model rather than a business model that appears to be based upon selling \$1 notes for 85 cents? Second, could it be possible that 'old economy' profit-focused stalwarts such as IBM and GE might ultimately prevail as 'new economy' leaders. As IBM Vice-President, Harvey Thompson demonstrates powerfully, these firms do know how to build customer-centred enterprises based on provision of good value (Thompson 2000: *passim*). After instilling a Schumpeterian-like creative destruction with his *destroy your business dot com* initiative, referred to earlier in this paper, Jack Welch reports in the 1999 Annual Report of GE that '...e-business is the elixir that has changed the DNA of GE forever by revitalizing every corner of this company' (Scheffer, 2000). 'Old economy' and 'new economy' may be transient labels. The need to provide value at a profit is here to stay.

The business modelling method presented in this paper offers diligent managers in search of integrating e-business into the total business a path to delivery of value to customers, continual scrutiny of competitive distinction and that most important ingredient of all, profitability. By endeavouring to establish a hierarchy that embraces e-venturing, e-business, and e-commerce, the paper has tried both to broaden and to clarify the field of play. The focus on adapting principles of strategy, economics and entrepreneurship deliberately brings these previously low-priority, background disciplines into the foreground and enriches the theoretical framework of e-business analysis.

At its absolute core, the business modelling method presented in this paper is an attempt to adopt the philosophy of the great ice hockey player Wayne Gretzky, no stranger to skating at high speed on thin ice, amid vigorous competition. Gretzky claimed that the secret of his success was that he always aimed to be, not where the puck *is*, but where the puck is *going to be*.

The puck in the e-venturing, e-business, e-commerce hierarchy will eventually be where value is generated for customers, competitively and profitably.

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