

The Sub-layers of a Business Model for a Service Industry in the SME

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ABSTRACT: *Business, by its nature, is a term that encompasses a wide spectrum of verticals, sizes and natures. Although different in many ways, most businesses work towards a single goal of profitability. A set of defined or understood rules are utilized for the attainment of this goal. Operation becomes more objective and directional if these processes are laid out in a model structure. In this article, we shall be discussing a semantic business model for a service industry in the small and medium enterprise section. It is also explained that each of the processes followed can be further broken down into mathematical models and an example of a business model is also discussed.*

KEYWORDS: *Business models, modeling, business, corporate modeling*

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I. INTRODUCTION

The term model has substantially developed to be used across any strategy oriented project. Business is surely not away from this limelight and in today's time of dynamism, modeling all strategies for the corporate world has become a necessity. As the world gradually shifts towards optimization, aiming towards maximum output, models help in augmenting management such that the goal is reached without fail. There are numerous definitions that have been given for business models as elaborated in [1]. All these definitions can be more or less summarized as 'a layout of the company's activities and operations that are focused towards customer satisfaction in order to generate adequate profitability'.

Some authors give a very straightforward explanation of business models as 'a plan to generate money' [2]. This definition focuses on the overall aim of any business – profit. Combining these definitions into a model helps to reduce assumptions and guesswork, giving a clear picture of hypothetical results that are desired by the management team. Since all businesses are heterogeneous, there is no fixed theory that is used to design business models [3]. Business models are multivalent in nature and flexible to suit the current nature of business and/or target customers.

We shall consider a semantic model herewith for the service industry. The entire business troupe will be divided into groups and the series of actions and interactions that take place in the company shall be mapped as processes within the groups. It will be seen that each of these processes can form independent models. Considering a Small and Medium-sized Enterprise, the model will be divided in to two main sections:

1. Enterprise Operation: the in-house activities
2. Marketing: the activities that deal with selling

The Small and Medium-sized Enterprise has a limited number of operational groups and therefore it will be uncomplicated to formulate a model for the entire system. Of course this model can be later expanded and modified in order to fit into the larger corporate sectors.

II. BACKGROUND

According to Britannica, economics is divided into two categories: goods and services [4]. The businesses that are included in the goods category produce tangible products that can be utilized by their customers. Usually, these businesses are of the B2C (Business to Customer) characteristic whereby the output of their industry is directly consumed by the target customers. On the other hand, the service industry works towards outputs in the form of services and not tangible products. Although generally seen to be of the B2B nature (Business to Business), there are some examples where the service industry functions on the B2C platform as well.

Although growing vastly throughout the globe [5], the service industry has to put an extra step of effort in order to establish itself well due to the intangibility of the output. Human nature complies with goods that can be touched, felt, used and related to more than a service that will give you results after a pre-defined time period. Therefore, having a well established business model working for a service industry is of high importance and is expected to track the way to profitability in an organized way.

Organizations are defined based on three criteria [6]:

- Number of employees
- Types of positions in the organization
- Expertise possessed by the employees

Using the above division, enterprises have been categorized into three [6]:

- Small and Medium sized Business – part-time employees handling the managerial positions, usually handling the tasks on their own. These positions are also limited
- Small and Medium sized Enterprise – Has some part-time and some full-time employees, each manager handling a team of two to three and having expertise in at least one area.
- Large enterprise – contains dedicated full time employees with specific expertise. Each manager handles a large team and the business output is complex

We shall be considering only the SME in this article. Small and medium-sized enterprises have been described vividly by some authors. SMEs are a source of employment, competition, economic dynamism, and innovation; they stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution [7]. On the practical ground, SMEs are more widely described with respect to their constituents. This description varies geographically and therefore there is no declared determinant that defines an SME [8]. To reduce complexity, a simple definition of what the name directly suggests can be taken into consideration – A Small and Medium-sized enterprise is one that consists of a defined (usually fewer than 200) number of employees depending on the government rules laid out. Usually this class has a good fraction of the total employees as full-time who have the expertise to handle a certain level of complexity in tasks and each managerial position has at least two to three subordinates.

Building the model for an SME has been specifically chosen as it forms the bridge between the micro sized and the large sized enterprises. Also, SMEs have been chosen because it is well noted across the globe that this sector forms a significant fraction of any country's industrialization and economy [9]. This model consists of all the major panels that are essential for a business in the chosen category. If at all needed, addition or subtraction can be done on the groups or processes in order to fit into the required business. As mentioned above, business models are flexible by nature.

There have been many descriptions of models for individual business activities such as manufacturing, advertising, distribution, marketing, customer relations, affiliations/partner network, target markets and many more [10,11]. This work focuses on building a model that integrates all the basic processes together to form an overall working model for the entire enterprise. Definitely each of these processes can be elaborated to form independent working models, but from the managerial point of view, it is necessary to see how all the processes amalgamate in the business. This model integration and segmentation to describe each aspect of business independently has been motivated from previous works [12, 13] that have elaborated the importance of each sub-layer in a business model.

III. MODEL DEVELOPMENT

The need of an overall business model cannot be overlooked. Every entrepreneur has an instinctive comprehension of his/her business logic, value, goals and essence of working formats. Explanation and communication of this knowledge time and again to many others is an extremely difficult task and will surely end up with tweaks and missed points each time. This is where business models play their role.

In order to combine and summarize the activities that comprise of a business in the SME sector, the following model is formulated which describes the elements of a business and processes that connect these elements.

Each of the elements can be described as follows:

Managerial team: Considering an SME, there will be a top managerial level in the hierarchy. Although this team is dedicated to almost all the tasks happening throughout the enterprise, the major responsibility is to manage the pre-sales and the technical workforce. As seen from the figure 1, it is these two teams which more or less form the foundation of all corporate activities.

Pre-sales: This activity is dedicated to a team that works towards increasing the traffic of consumers to the business through various activities – the marketing process. Successful marketing results in potential traffic to the business.

Technical workforce: Technical panels in the service industry are the driving force of the business. This element needs to be strong and sustainable. It is similar to the factory and its workers in a product business. This team generates the services that the business is dedicated towards which uphold the business values. Without the technical workforce, the business identity would rather be a hollow space.

Services Provided: Services define the business of a service industry. What do you have to offer for the population in general or your target customers? This element is produced by the technical workforce and utilized by the customers that are generated by the sales element.

Sales: Marketing results is good sales, driving in potential traffic. The sales element is dedicated to extracting the actual consumers from this traffic that is generated through marketing. Customer relations are used to extract the actual consumers from traffic and also to maintain the existing ones.

Customers: These are the entities that eventually exploit the services and generate revenue, which drives the services to keep going, and also provides the profit of the business.

Profitability: This is the concluding element and basic goal of businesses. Whatever is left over after the revenues are handled is known as profit. Profit is produced by subtracting the overall expenses from the overall revenue and profitability is the capability of a business to breed enough profit for survival and innovation.

The processes which connect these business elements each represent an independent model on their own. They can be explained as follows:

Resource: Resource modeling is the process of selecting appropriate individuals to work in your business and delegating the tasks depending on their expertise. This model includes the human resource section which maintains the workers of the company.

Production: Production modeling includes the description and workflow of activities that are conducted in order to successfully provide the designated services as per business nature. It describes the types of work, time management and client relation management.

Finance: Finance models define how the workers of the business are provided financially. The funds that feed in the teams is generated through the services that the company provides and the revenue that is generated from the customers.

Marketing: Marketing models are crucial for the survival of any business because there will be no business without customers. Customers are attracted through marketing techniques and this model encompasses all the activities that involve advertising techniques.

Customer relation: This model includes the activities that are carried forward post the marketing procedures in order to extract and sustain the actual interested customers from the whole traffic that has been attracted through marketing. It comprises of convincing and regular communication as a main component.

Value: The value model is an important section of the complete business. It includes all the aspects of services that are produced by the business such as the process, the time, contract regulations, MOUs, client communication, client satisfaction and team integration. Value represents a nutshell of the business and has to be strongly formulated and implemented for successful business in the service industry.

Revenue: Revenue is what the customers give in return for your services, in monetary format. This feeds into the services and helps to enhance the services as well as provide for the finance model.

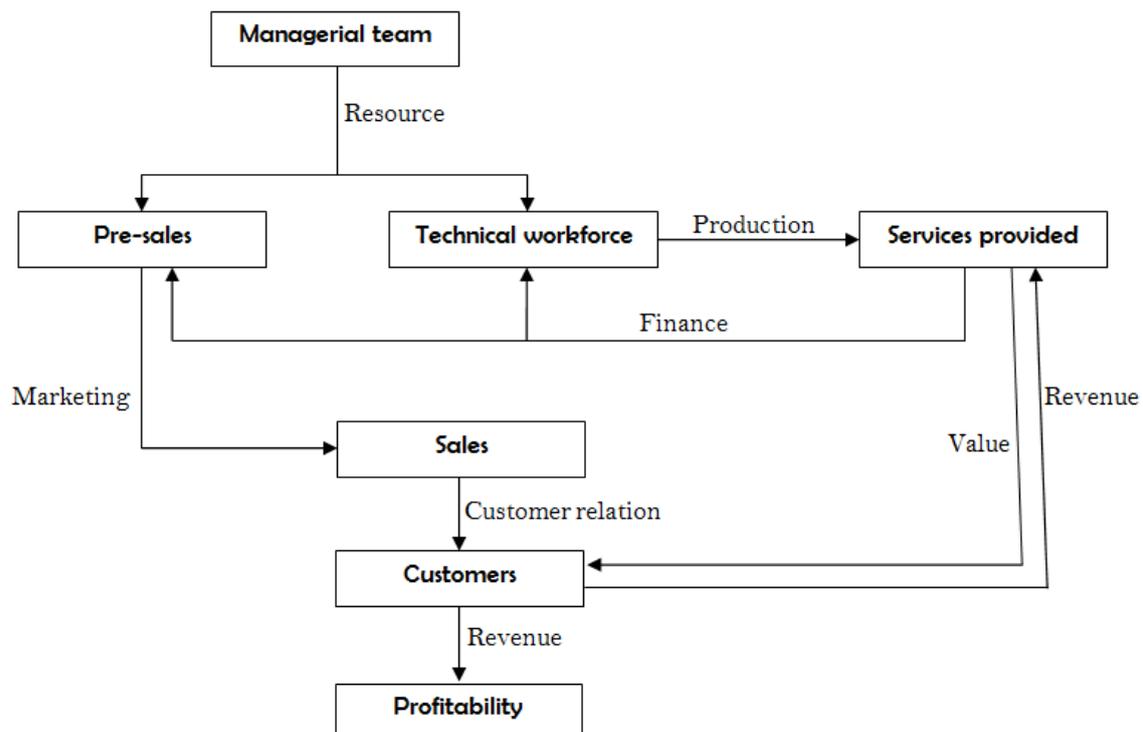


Fig.1 The Business Model

IV. IMPLEMENTATION AND DISCUSSION

In order to successfully implement the above described model, businesses usually resort to certain tools that help in automating the bulk of tasks. One such example of a tool is the CRM – Customer Relationship Manager. Since businesses ought to be customer centric for survival, this tool builds on a management that is directly related to the customers and ensures that customer service and relation are not hampered at any cost [14]. CRM is celebrated as a booming interface for corporate activities that offers a wide range of implementation opportunities [15, 16].

CRM is customized for each business that requires working on it to suit the requirements. We shall pick up an example of a SME [17] that works using the CRM interface for model implementation. An overview of the CRM interface is shown in figure 2.

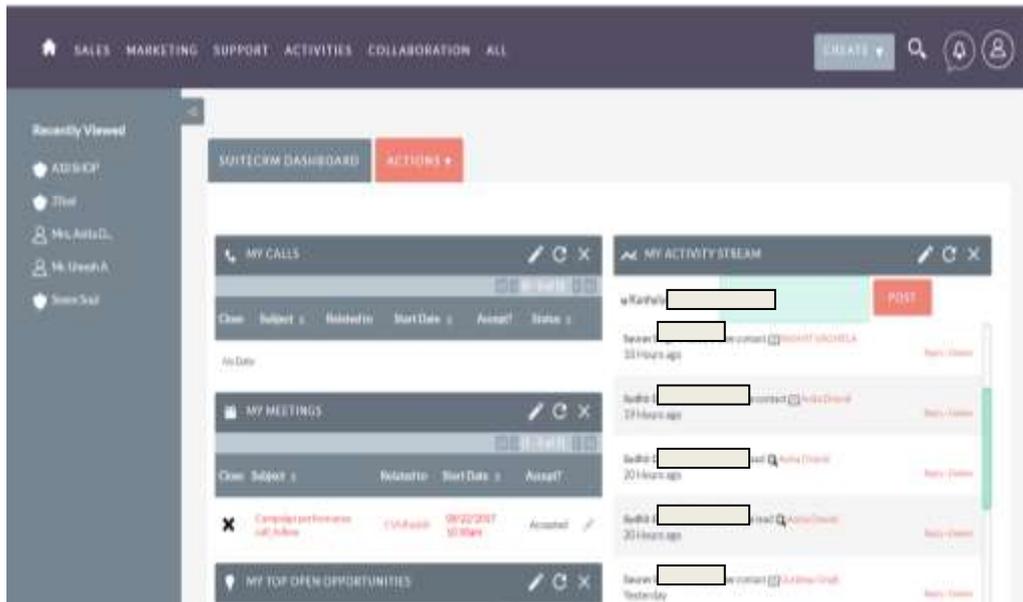


Fig 2 The CRM interface

If we look up the model elements, they can be matched to the components of the CRM as illustrated in table 1.

Table 1 Model implementation in CRM

CRM Component	Model Element
Managerial team	The user who uses credentials to login into the CRM system as an admin
Opportunities	Pre-sales: Opportunities are the people who are likely interested in the business
Contacts	Sales: These are the selected customers from the opportunities that have come through successful marketing
Activities	Services: How are the services eventually offered through the business working formats using the production model
Accounts	Customers: Who are now taking our services and are involved in a business relation and are maintained by the customer relation model
Users	The technical workforce: these are users created by the managerial team through the resource model.

Each of the processes are modeled independently and implemented through software on the CRM. In this way, it is clear that the model can be integrated with each sub-component vividly described so that the business runs in a smoother manner.

V. CONCLUSION

The above model incorporates all the important aspects that need to be considered for a service industry in the SME section. Although there have been many descriptions of models for business aspects individually [18, 19], each of these aspects needs to be connected with others so as to formulate a business working format. Studies also reveal that the concept of business models is slowly being narrowed down to single business aspects [20]. Therefore it is of utmost importance in the business world to have a working model that incorporates all the aspects in one. This article has taken a step to create an overall business model and also shown that such models are currently being used in different forms such as the CRM.

Future works for this topic can be expanded to wide ranges. Each of the processes can be defined as independent models. And additionally giving them a mathematical element by using mathematical modeling will make the business more quantified and focused on the goals.

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