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Exploring Business Models and the Role of Information Technology on Value Creation

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Abstract

A business model is the conceptual foundation that determines how an organization creates and captures value. Prior research suggests that three main types of business models exist--closed, open, and co-created. Central to each of these models is the role of the organizational boundary which can protect an organization's internal resources (i.e., closed), funnel knowledge from external resources into an organization (i.e., open), or act as a bridge between the organization and its environment (i.e., co-created). The purpose of this manuscript is to highlight the characteristics of each model and outline a research agenda which explores the role information technology plays in facilitating value creation.

Keywords: business model, value creation, user experiences, information technology

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Exploring business models and the role of information technology on value creation

A business model is the conceptual foundation that determines how an organization creates and captures value (Johnson et al., 2008). Prior research suggests that three main types of business models exist – closed, open, and co-created (Chesbrough, 2003, 2006; Prahalad & Ramaswamy, 2000, 2004; von Hippel, 2005). Central to each of these models is the role of the organizational boundary which can protect an organization's internal resources (i.e., closed), funnel knowledge from external resources into an organization (i.e., open), or act as a bridge between the organization and its environment (i.e., co-created). The purpose of this manuscript is to highlight the characteristics of each model and outline a research agenda which explores the role information technology plays in facilitating value creation.

Closed business models rely on internal resources (e.g., people and technology) to create products or services *for* users (Chesbrough, 2003, 2006). Value is captured through customers purchasing these products or services. Essentially, this model uses its organizational boundary as a barrier between its environment and the organization to create and capture value (Di Gangi & Wasko, 2009a, 2009b). While successful, the growth of information and communication technologies (ICTs) has enabled users to expand their role beyond the customer (Li & Bernoff, 2008; Tapscott & Williams, 2006).

Open business models are models designed around capturing and leveraging knowledge from both internal and external sources (e.g., users) to create value (Chesbrough, 2003, 2006; von Hippel, 2001, 2005). The organizational boundary becomes more permeable allowing knowledge from external sources to funnel directly into an organization. For instance, Dell IdeaStorm is an example of an open business model which leverage's user-generated content (UGC) for innovation purposes (Di Gangi & Wasko, 2009b). Dell gains insight into which products or services users are interested in purchasing by allowing users to post ideas, vote on ideas, and comment to influence Dell's research and development activities. However, an open business model still relies on the organization producing a tangible product or service *for* users.

While open business models increase the role users have within an organization's value creation process, co-created business models require a partnership be formed between the organization and users. In a co-created business model, value is derived from positive user experiences which are created through the technical platform developed by the organization (i.e., a UGC website) and UGC being shared by users (Prahalad & Ramaswamy, 2000, 2004). If an organization fails to provide a positive user experience, negative consequences can occur, such as loss of UGC contributions and user turnover. For instance, organizations such as Facebook, Digg.com, and Delicious all rely on users contributing UGC to sustain the value they provide. Failure from either party to contribute to the environment results in the deterioration of the user experience and ultimately the value created from the partnership.

What is next in this evolutionary path for business models is a question that many people, users and organizations alike, are interested in understanding. This research will hopefully foster discussion leading to the development of additional business models and help organizations understand the role of information technology to facilitate value creation.

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