How can Small and Medium Enterprise retail business in Thailand successfully compete through Business Model Innovation?

A thesis submitted to the University of Manchester for the Degree of Doctor of Business Administration(DBA) in the Faculty of Humanities

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LIST OF ABBREVIATIONS

BAAC	Bank for Agriculture and Agricultural Cooperatives
CEO	Chief Executive Officer
DBA	Doctor of Business Administration
GBP	Great British Pound
GP	Gross Profit
KCS	Khaochaison (name of a cooperative)
KPY	Khokpraya (name of a cooperative)
PB	Pabon (name of a cooperative)
PPY	Pakpayoon (name of a cooperative)
SME	Small and Medium Enterprise
THB	Thai Baht (currency)
TL	Tungliab (name of a cooperative)
TM	Tamode (name of a cooperative)
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

ABSTRACT

The abstract of the thesis submitted to the University of Manchester by Jirasak Janrattana for the Degree of Doctor of Business Administration and entitled "How can Small and Medium Enterprise Retail Business in Thailand successfully compete through Business Model Innovation?". June, 2016

Small and Medium Enterprise (SME) retail businesses in many countries, including Thailand, are facing challenges of high competition, as modern retail formats have grown rapidly in many Asian countries such as Singapore, Taiwan, China and Thailand (Howard, 2009). Thus, SME retail Businesses are facing an "innovate or die" situation, as non-adapting retail firms have always been and will continue to be driven out of the business (Evans, 2011). A new critical capability of retail business is the ability to configure and reconfigure its processes into a coherent blueprint – known in other words as a Business Model (Sorescu *et al.*, 2011). The research question becomes "How can SME retail Business in Thailand successfully compete through Business Model Innovation?"

Business Model Innovation requires system wide changes, since modifying one component always has network effects on other components (Tikkanen *et al.*, 2005). There is no fixed method or successful formula that all companies will adopt; therefore disciplined experimentation and adaptation is recommended (Berman, 2011; Chesbrough, 2010; McGrath, 2010; Mitchell *et al.*, 2003; Teece, 2010). However, most past studies on innovation are about large companies (Tim, 2004) and not many articles cover empirical studies on Business Model Innovation. In particular, few studies address the dynamic view (Demil and Lecocq, 2010; Svejenova *et al.*, 2010; Sosna *et al.*, 2010).

This research focuses on the implementation of Business Model Innovation within SME retail business. The research uses a methodology called Action Research, and was conducted within the researcher's organisation, which is a SME retail business in Thailand. This overcomes the practical challenges of studying SME business, which is related to limited opportunity to conduct empirical research. The study was conducted over the 4 year period from October 2010 to October 2014 by implementing Business Model Innovation in order to exploit opportunities in rural areas. Business Model concepts were employed as sources of innovation and units of analysis. Action Research consists of multiple cycles of changes and adaptation. It was found that Business Model concepts can be represented at different levels of abstraction from reality. At a high level of abstraction, the Business Model Canvas helps to understand the overview of the firm's business logic in a broad way, and provide ideas about what can be adapted. At the operational level, the Retailing Business Model provides a structural approach to the conceptualisation, planning and implementation of activities that support high level changes. In all, Business Model Innovation can be conceptualised as an ongoing learning process similar to the iterative cycles of Action research. These cycles consist of constructing actions, planning, taking actions and evaluating actions. The Business Model concepts at different levels of abstraction can be used for understanding and planning, as well as to capture learning experiences, both on the high level and on the operational level. Therefore, Business Model Innovation is a dynamic process where changes and learning happen continuously. Such a process enables SME retail businesses to improve their understanding of their Business Model and thus improve their chances of success.

DECLARATION

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CHAPTER 1

INTRODUCTION TO THE RESEARCH

Small and Medium Enterprise retail Businesses in many countries, including Thailand are facing an "innovate or die" situation as they are facing challenges of high competition from modern retail formats. Non-adapting retail firms have always been and will continue to be driven out of the business (Evans, 2011). Thus, a new critical capability of retail business is the ability to configure and reconfigure its processes into a coherent blueprint – known in other words as a Business Model (Sorescu *et al.*, 2011). Therefore, it is important to study this question – "How can SME retail Business in Thailand successfully compete through Business Model Innovation?" – which is the title of this research.

This chapter begins with an overview of the research (Section 1.1), including the challenges of Small and Medium Enterprise retail business and Retail Innovation. Barriers and Opportunities for Business Model Innovation are also discussed. Section 1.2 provides Research Motivations. Sections 1.3 and 1.4 describe Research Questions and identify the Scope of this study. Finally, the Structure of the thesis is given in Section 1.5.

1.1 Overview of the Research

In a highly competitive environment, it is generally accepted that firms need to continually find new ways to address customer needs and to capture value by providing new products and services (Teece, 2010; Reeves and Deimler, 2011). In other words, firms need to innovate to stay in business. Innovation is a broad concept and can span many disciplines. This research focuses on innovation that is central to growth of output and productivity

(OECD, 2005). Broadly defined, innovation means the application of new ideas that stimulate economic performance (Hristov and Reynolds, 2015)

Challenges of Small and Medium Enterprise retail business

Small and Medium Enterprise (SME) businesses are important because there are a large number of them, even though they are small in size individually. In Thailand, most companies are SMEs, forming 99.6 percent of all business enterprises contributing to 77.86 percent of overall employment. A similar pattern can be found in many countries. For example, 99.8% of businesses in Northern Ireland are SME (McAdam, McConvery and Armstrong, 2004). In addition, SMEs are mostly family-owned businesses where owners are family members. Family businesses represent the most common form of business organisation in most countries (Astrachan, 2010). Definitions of SME can be different depending on industries and countries; however, SMEs generally means smaller companies defined by parameters such as number of employees, revenue or assets. For Thailand, according to the Office of Small and Medium Enterprise Promotion, an SME retail business has fewer than 30 employees and owns fixed asset of less than 60 million Thai Baht (THB) (about 12 million GBP).

SME retail businesses are facing challenges of intense competition, which stem from changes in the retail landscape driven by foreign retailers. Walmart, Carrefour, and Tesco are examples of those foreign retailers who brought with them new formats and pricing structures, new marketing and merchandising methods and high investment capital (Coe and Hess, 2005). These challenges force SME retail businesses to change; otherwise they are most likely to be driven out of business. This is a problem in many countries including Thailand. In East Asia and Eastern Europe, a study has found that local independent stores have lost market share to foreign-owned supermarkets or hypermarkets (Coe and Hess,

2005). In the USA, most strategies undertaken by small-town independent retailers did not meet local consumers' expectations according to a study in three small Midwest communities in the USA (Lee *et al.*, 2008). Modern retail formats have grown rapidly in many Asian countries such as Singapore, Taiwan, China and Thailand (Howard, 2009). The ratio of traditional trade to modern trade which is SME retail business, has decreased from 75:25 in the past twenty years to 54:46 in 2011 (Kongarchapatara and Shannon, 2014). The trend still moves towards modern trade as modern trade retailers continue expansion. This trend is also taking place in other countries in Southeast Asia. The portion of Modern trade was 27% in 1999 and it is expected to increase to 57% in 2020 (Cheng, 2015). In short, SME retail businesses in many countries including Thailand are facing an "innovate or die" situation, as non-adapting retail firms have always been and will continue to be driven out of the business (Evans, 2011).

Retail Innovation

How retail business can innovate is an important question. A study of innovation in the UK retail sector (Hristov and Reynolds, 2007) mentions that the practice of innovation in retail is poorly understood, despite the fact that the retail sector is very important, as it is the 8th largest sector of the world economy. Past studies have mentioned that the nature of innovation in retail business is incremental, less technological and the changes are gradual (Hristov and Reynolds, 2015). A new critical capability of retail business is the ability to organise and reorganise its processes into a coherent blueprint – a Business Model (Sorescu *et al.*, 2011). Therefore, retailers today are required to do more than conventional retail businesses, which are the medium between suppliers and customers. Retail businesses are now increasingly including a wider range of activities as retailers develop new ways for interacting with their customers and channel partners in order to expand the boundaries of their target markets. More importantly, retailers also create and deliver value to

customers and at the same time appropriate value for retailers and their business partners (Sorescu *et al.*, 2011).

Barriers and Opportunities for Business Model Innovation

Business Model Innovation is on the top agenda of many companies, particularly in a highly competitive environment. This kind of innovation provides superior results to innovation of products and services or to process innovation alone (Lindgardt *et al.*, 2009). It is important to look at barriers that prevent firms, particularly SME retail business, from conducting Business Model Innovation. SMEs are normally operated by owner managers who both own and run the businesses. Since Business Model Innovation normally requires many changes in organisations, CEOs of small companies are suited to the task, especially if they are owners (Chesbrough, 2010). In addition, the leadership role is more crucial to the success of innovation than in larger firms (McAdam *et al.* 2010). Chesbrough (2010) mentions that there are three types of interrelated barrier – cognitive barriers, ideation barriers and implementation barriers. First, a cognitive barrier means that firms do not think about innovation. Secondly, firms may want to innovate, but they may encounter the second barrier of not knowing what to innovate. Thirdly, firms may want to innovate and have some ideas about what to innovate but they may face the third barrier of not knowing how to implement or make their ideas happen effectively.

The first barrier – the cognitive barrier - is mentioned by Chesbrough (2010) and is related to how firms receive and process information in busy daily life. For SMEs, owner managers have many roles in companies (Giroux, 2009). They are mostly engaged with day-to-day operational issues and spend limited time with strategic issues (Nordqvist and Melin, 2010). Firms normally operate within their current business logic and receive information at all times. Firms choose to focus on information that is suited to their current business logic

and discard anything that may conflict with this in order to stay focused on operation in a chaotic and busy environment. However, the current logic can become a barrier for the firm to innovate because it may be missing valuable information that can potentially be useful in the future. Firms can be ready to explore and exploit the unexpected by having an opportunity mindset (George and Bock, 2012).

The second barrier – the ideation barrier - is related to what to innovate. Firms want to innovate but they have no ideas about what to innovate (Friedrich von den Eichen *et al.*, 2015). As previously mentioned, with the broader definition of retail, retail business focuses more on how to sell or configure and reconfigure its Business Model. This is broadly defined as the logic of doing business, consisting of how a firm creates value, how it delivers value to customers and how it captures revenue from customers. A Business Model can be presented in graphical format, allowing a firm to understand and see its logic of doing business as a whole. Osterwalder and Pigneur (2010) proposes a Business Model Canvas which visually simplifies the reality of business into nine building blocks. Any business can be visually represented as a predefined set of nine building blocks. This allows firms to understand their logic of doing business and hence initiate ideas about what parts can be changed and its subsequent effects. Additionally, a predefined graphical format allows firms to compare how their Business Models change over a period of time. The Business Model can be conceptualised as a learning system in which a firm can experiment and learn from how changing the way its Business Model is configured can influence its possibility of success. Therefore, a Business Model can be a unit of innovation for retail business, which helps innovation on how to sell by configuring and reconfiguring its Business Model. This provides opportunities to overcome the ideation barrier.

The third barrier – the implementation barrier - is about how to make ideas happen. Business Model Innovation is related to the search for new logics for the firm and new

ways to create and capture value for its stakeholders (Casadesus-Masanell and Zhu, 2013). The concept of Business Model Innovation already embraces change in how a firm delivers value to customers, since a Business Model is a systemic demonstration of how developing one component always has network effects on other components (Tikkanen *et al.*, 2005). In short, Business Model Innovation requires system wide changes. Graphical representation tools like the Business Model Canvas is useful for understanding and generating ideas but it is not sufficient because organisational processes must also be changed and these are not mapped by the tool (Chesbrough, 2010). For business model innovation, there is no fixed method or successful formula that all companies will adopt. Therefore disciplined experimentation is recommended (Berman, 2011; Chesbrough, 2010; McGrath, 2010; Mitchell *et al.*, 2003; Teece, 2010). As a result, Business Model Innovation is an ongoing process as opposed to a one time project (Hinterhuber and Liozu, 2014). In effect, the Business Model is always changed, but the concept of a Business Model is static because it can only describe how firms do business at one point in time. Some research articles have recognised the importance of studying Business Model Innovation from a dynamic view, but there are still not many articles conducting empirical studies on this topic (Demil and Lecocq, 2010; Svejenova *et al.*, 2010; Sosna *et al.*, 2010)

In addition to those three barriers, most past studies on innovation are about large companies (Tim, 2004). A significant amount of research on small firms has clearly stated that small businesses truly differ from larger businesses in many aspects such as management style and process, environmental context, and the strategic decision-making process (Giroux, 2009). Consequently, there are questions on whether the management principles that can be applied to large companies can also be applied to small firms.

1.2 Research Motivations

In addition to the importance and challenges of SME retail businesses, this research study is conducted from two personal motivations. First, my current organisation is facing similar challenges, as it is a small retail business selling electrical home appliances such as televisions, refrigerators, washing machines, air conditioners etc. It is located in Hatyai city, which is the major business centre in the Southern part of Thailand. The competitive landscape in the electrical appliances market is very high, as there are many big discount stores in the city e.g. Tesco, Carrefour (now taken over by Big C), Makro and Big C as well as nationwide chain stores. In addition, the competition is growing, as the big chain stores keep increasing their branches in the city. Second, as a DBA student, my ambition is to be a bridge between the practical world and the academic world in that I would like to utilise academic knowledge to improve practical work within an organisation, while investigating real results and responses in order to provide feedback to the academic side.

1.3 Research Questions

This research studies the practical implementation of Business Model Innovation by applying the Business Model concept within the researcher's organisation, which is a SME retail business in Thailand." The research aims to focus on practice in order to study three main points:

- To what extent does Business Model thinking help SME retail business to innovate?
- What are the challenges of implementing business model innovation?
- How do Business Model components change and what learning can be captured from those changes?

From the aforementioned section, there are three barriers to Business Model Innovation. This study addresses the ideation barrier and the implementation barrier. The former is done by applying the Business Model concept as a source of innovation and observing the extent to which this concept helped innovation. The latter is tackled by conducting a study in the practice of implementing Business Model Innovation in order to understand the nature of Business Model changes and the practical challenges. The research does not focus on the cognitive barrier, as the researcher is already aware that innovation is necessary and also aims to conduct Business Model Innovation; therefore, the cognitive barrier is not relevant in this situation.

1.4 The Scope of this study

Although the research is related to Thailand, SME retail businesses in Thailand are facing similar challenges to those in many countries. Findings from this research can therefore be applied to other areas or used as examples.

The area of business model innovation is broad and can be extended to cover all aspects of business studies. Thus the research can be expected to demand all areas of business research if the scope of the research is not well-defined. Therefore, this dissertation focuses on the Business Model as a unit of analysis and on the process of changing the business model from the systemic point of view with an emphasis on the interrelated core activities of the business model.

1.5 Structure of the thesis

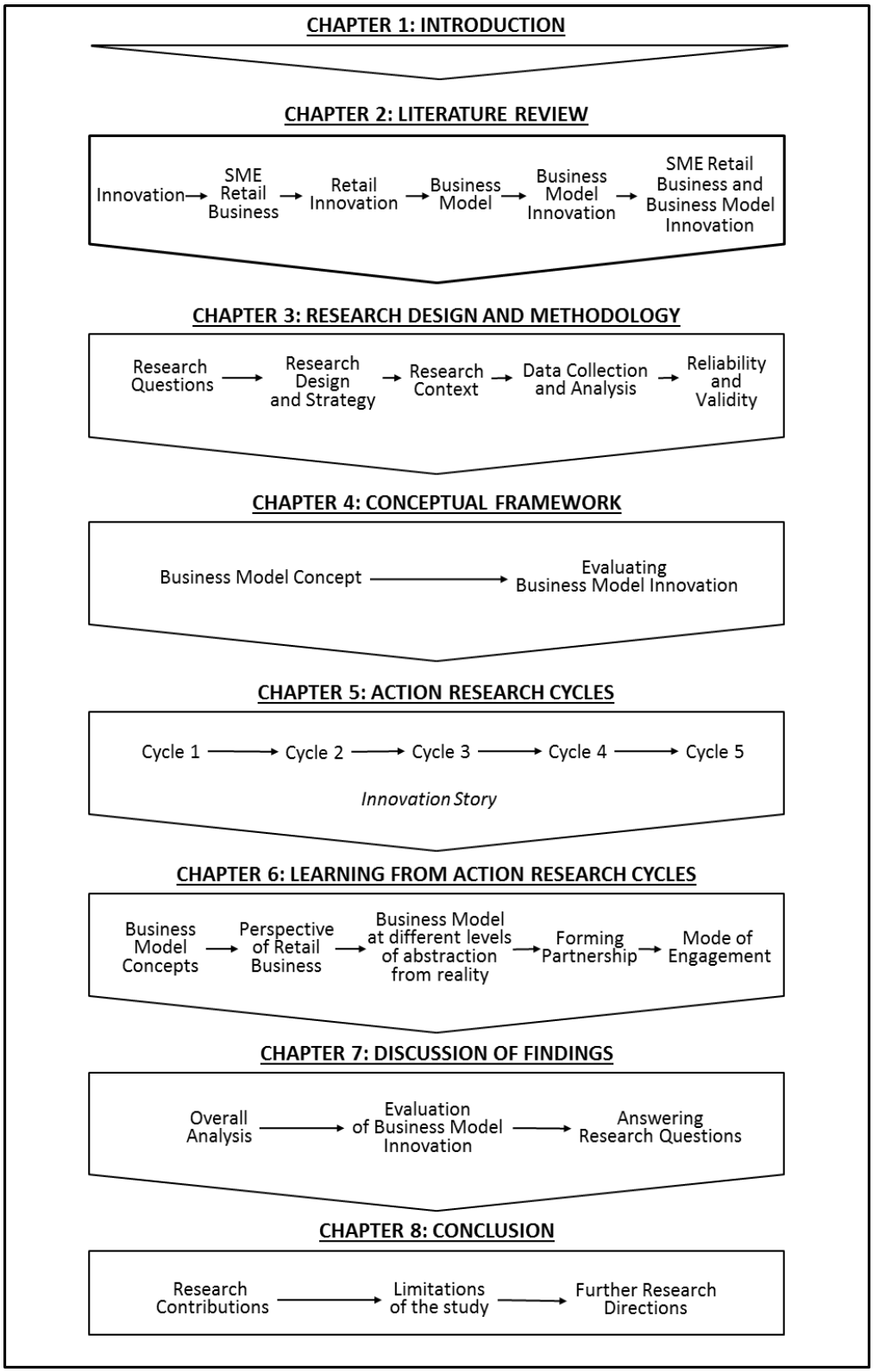


Figure 1.1: Structure of the thesis

To provide an overview of the thesis, its structure is shown in Figure 1.1. The thesis contains 8 chapters, which are described as follows:

Chapter 1 provides an overview of the research describing the situation and challenges faced by SME retail businesses, the nature of retail innovation, and the barriers and opportunities for business model innovation, particularly for SME retail business. The research motivation provides personal reasons to conduct this research. Then the Research questions and the scope of this study are identified.

Chapter 2 reviews the literature, starting with the innovation concept and elaborating on SME retail business regarding definition, importance and challenges. The next sections explain the nature of retail innovation and barriers. The last part identifies opportunities to innovate a Business Model by describing the concept of a Business Model. It goes on to describe Business Model Innovation in general as well as specifically for retail SME business. Research gaps are identifies in the last section.

Chapter 3 discusses research design and methodology. The research questions and objectives are addressed and the justification of the selected research design and methodology is then provided. An overview of the situation and challenges of my own organisation is presented in the research context section. The quality of the research is discussed in the Data collection and analysis section and in the Validity and Reliability section.

Chapter 4 describes the conceptual framework consisting of the Business Model Concept which is used in the study and the evaluation criteria for Business Model Innovation. The former explains the Business Model Canvas which can represent a Business Model visually, while the latter is for evaluating whether the Business Model is innovative and successful.

Chapter 5 provides the overall action research cycles consisting of 5 iterative cycles in an attempt to implement Business Model Innovation.

Chapter 6 discusses the learning process that took place while the Business Model Framework was used in actual practice.

Chapter 7 is related to the discussion of findings delineating the overall analysis of what was learned. This chapter also answer the research questions and responds to the research title. The modified framework that was synthesised from implementing the Business Model Innovation in 5 iterative cycles is identified and discussed.

Chapter 8 discusses the research contributions for both the academic and managerial domains. Limitations of the study and further research directions are also provided. The chapter ends with the researcher's reflection on conduction Action Research Thesis.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter describes a literature review which provides background and past studies related to the research. At the end of the chapter, research gaps are identified, which will be explored in the subsequent chapters. The literature review consists of six parts as illustrated in Figure 2.1.

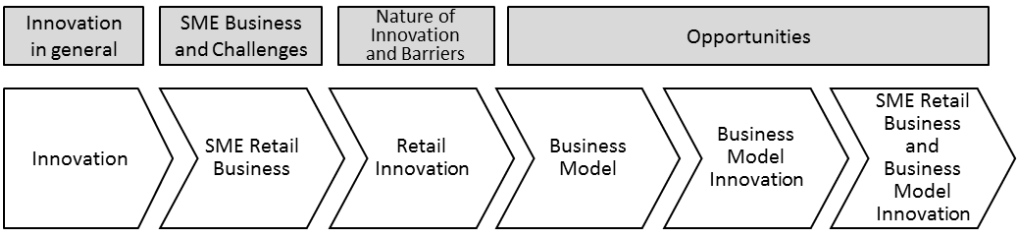


Figure 2.1: Structure of Literature Review

In the first section, the innovation concept as well as the importance of innovation to firms is explained in general. Importance of innovation to firms is also described. In the second section, the definition and importance of SME business is described and the challenges faced by SME retail business are also discussed. In the third section, innovation in retail business is elaborated and barriers to innovation are explained. The fourth section provides Business Model definitions. This section also shows that the Business Model concept is well aligned with the broader concept of retail and can be a unit of innovation. The fifth section provides definitions regarding the nature of Business Model Innovation which can be opportunities for SME retail business. The sixth section presents opportunities for SME retail business to achieve Business Model Innovation and identifies what further studies are

required. The last section of this chapter identifies research gaps concerning the areas to be studied.

2.2 Literature Review

2.2.1 Innovation

In the current business environment, competition is very high and it is likely to increase in the future. Companies in market leadership positions in their industries have been replaced more frequently in recent times (Reeves and Deimler, 2011). In order to stay in business, firms have to consider not only how to address customer needs in new ways, but also how to capture value from providing new products and services (Teece, 2010). Thus, it is widely accepted that companies need to innovate (Triase de Bes and Kotler, 2011).

Innovation is a broad concept and involves many disciplines; however, from an economic perspective, innovation is central to growth of output and productivity (OECD, 2005). It is broadly accepted that innovation is the application of new ideas that stimulate economic performance (Hristov and Reynolds, 2015). Many studies relate innovation with competitive advantage (Freel, 2000; McAdam *et al.*, 2004, McAdam *et al.*, 2010) and firms' competitive advantage result in improved economic performance. Thus, the ultimate reason why firms innovate is to improve firm performance (OECD, 2005).

However, when talking about innovation, many people think about technological innovation, which involves invention of new products or changes in the methods of providing services. This does not mean that product or service innovation has no value to companies. Technical innovation can provide benefit. However, its value can decrease very

quickly. Competitors can quickly match novel products and services either by copying those ideas or providing substitutes.

Sam Pamisano, CEO of IBM in Teece (2009, p.6) clearly supports the idea that technological innovation is necessary but not sufficient for success: "Innovation is about much more than new products – it is about reinventing business processes and building entirely new markets that meet untapped customer demand". Innovative products from technological innovation require ways to be commercialised in the markets otherwise technology alone does not have economic value Chesbrough (2010). Commercialising products is related to the concept of Business Model which is broadly about how firms design their business logics in order to create and deliver value to customer as well as capture value for the firms (Teece, 2010). In addition, there are many stories of companies who are not the first in the market to provide a novel product, but can become successful as market leaders (Markides, 2008). Examples include Apple with the portable digital music player Ipod, Dell with the personal computer, and Southwest with passenger airline services. Those companies deliver the same or similar products or services in new ways and become the successful in their industries. They employ different strategies and compete by changing the rules of the game in the industry and those are related to the concepts of Business Model (Markides, 2008). Therefore, innovation requires another important factor, which is the business model.

In summary, companies need to innovate to be alive in business today. Furthermore, innovation in products or services alone is necessary but not sufficient for success. Companies must also find ways to compete differently by both providing value to customers creatively and capturing value from those activities.

The next sections explain the challenges faced by SME retail businesses. This is followed by a description of the concepts of Business Model, Business Model Innovation and

innovation in retail, in order to understand how these concepts can be employed to help SME retail businesses, as well as to determine what further studies are required.

2.2.2 Small and Medium Retail Business

This section discusses SME retail business. First, the definition of SME varies for each country. Therefore this report will use the SME definition in Thailand because research will be conducted in the context of Thailand. Second, the nature of SMEs and their challenges will be described

There are many definitions of SME depending on which organisation or country is defining it; however, SMEs normally mean companies that are smaller regarding, for example, the number of employees, revenue, or assets. For Thailand, the Office of Small and Medium Enterprises Promotion, associated with the Thai government, has defined SMEs by number of employees and fixed assets. The criteria vary for each business sector – whether in Manufacturing, Wholesale, Retail or Services. For the retail sector, a small enterprise employs less than 15 persons and the fixed assets amount to less than 30 million Thai Baht (about 6 million GBP) while a medium enterprise employs 16 – 30 persons and fixed assets range between 30 – 60 million Thai Baht (about 6 – 12 million GBP).

Although SME size is much smaller compared to large enterprises, there are a large number of SMEs. In Thailand, most companies are SMEs, comprising 99.6 percent of all business enterprises. Furthermore, SMEs contribute to 77.86 percent of overall employment. A similar pattern can be found in many countries. For example, 99.9% of businesses in the Northern Ireland are SME (McAdam, McConvery and Armstrong, 2004).

SMEs are normally operated by owner managers who both own and run the businesses. Owner managers have many roles in companies (Giroux, 2009). They are mostly engaged with day-to-day operational issues and spend limited time with strategic issues. Therefore they do not normally have time for systematic, analytical and regular strategic planning (Nordqvist and Melin, 2010). In effect, SMEs are very different from large organisations.

SMEs are mostly family-owned businesses where owners are family members. Family businesses represent the most common form of business organisation in most countries (Nordqvist and Melin, 2010, p. 15) and they are among the longest-lived organisations in the world (Astrachan, 2010). Despite wide existence of SMEs, most strategic management research still focuses on non-family businesses (Astrachan, 2010, p. 7). Therefore, little formal study has been done on the challenges faced by SME retail businesses. In contrast, the stories of how Walmart and other successful well-known companies innovated their business models and changed the industry landscape have been mentioned, studied and analysed many times.

Sorescu *et al*. (2011) mentioned that retail business has two unique characteristics. First, retailers sell products manufactured by others. Retail business can be broadly defined as a medium between suppliers and customers – buying from suppliers and selling to customers. Second, retailers engage in direct interface with customers, so retailers can be increasingly aware of customers' trend. SMEs retail businesses have been adversely affected by drastic changes in the retail landscape driven by foreign retailers. Walmart, Carrefour, and Tesco are examples of those foreign retailers who brought with them new formats and pricing structures, new marketing and merchandising methods and high investment capital (Coe and Hess, 2005). SME retail businesses are declining. Therefore

they need to change how they operate; otherwise they are likely to be driven out of business. This happens in many countries. A study on small-town independent retailers in three small Midwest communities in the USA found that most strategies adopted by those retailers did not meet local consumers' expectations (Lee *et al.*, 2008). In addition, another study on East Asia and Eastern Europe stated that local independent stores have been adversely affected by loss of market share to foreign-owned supermarkets or hypermarkets (Coe and Hess, 2005). In the Asian market, modern retail formats have grown rapidly. Sales in the fast moving consumer goods market have increased from a third in 1999 to a half in 2009. A similar pattern took longer in Europe and America (Howard, 2009). As a result, Asian mass market shoppers' behaviour tends to switch from traditional retail, which is normally SME retail business, to modern trade retail. In Thailand, retail has changed a lot in a short time as small shop-houses have developed into world class shopping complexes (Feeny *et al.*, 1996). The overall situation of retail business in Thailand is described in Appendix 1.

Given the above mentioned challenges, how can retailers change themselves to become viable? A practical, typical suggestion is to compete with valued added services. Parnell and Lester (2008) did a study of retailers in the US to fight threats from Walmart and suggested three strategies. These are: low cost, differentiation, and value orientation. The first strategy, being high vulnerability, recommends that retailers should minimize their cost by offering specific product lines so that they can gain sufficient volume to be price competitive. The second one, being low vulnerability, advises them to focus their products or services on a particular market niche to avoid direct competition. The third strategy is to concentrate on value. This can mean offering the best quality at an acceptable price or offering the lowest price at an acceptable quality. A study on Thai retailers suggests that small retailers should form a community to gain bargaining power over suppliers so that they lower costs and boost profits (Saepaisan *et al.*, 2009). However, these studies only

provide recommendations for board directors and fail to mention implementation factors, which are the changes that should be made. In addition, none of them mention innovation.

The next section looks at innovation in retail business, specifically in SMEs. Using past studies, the section will describe barriers that prevent SME retail businesses from introducing innovation.

2.2.3 Innovation in Retail Business

2.2.3.1 What is Retail Innovation?

When looking at innovation in retail, it is important to ask what kind of innovation can be introduced. A study of innovation in the UK retail sector (Hristov and Reynolds, 2007) mentions that the practice of innovation in retail is poorly understood despite the fact that the retail sector is very important as it is the 8th largest sector of the world economy. The study reports the findings that retail innovation is non-technological and also easily copied. The latter causes innovation activities to be hidden and to be implemented incrementally before scaling up. By nature, innovation in retail is incremental. The study also mentioned that innovation in retail can be of two types – strategic innovation and operational innovation. The first one can be a radical departure from current business while the second one is likely to be incremental.

A study on successful retail innovation in Latin America (D'Andrea *et al.*, 2006a), which was conducted by The Coca-Cola Retailing Research Council and Booz Allen Hamilton, finds that traditional retailers can be successful by innovating in multiple dimensions of their

business in an environment of fierce retail competition. The study pointed out an interesting trend that international retailers who adopted or adapted imported formats are suitable for mid- to high-income consumers, thus leaving out low-income consumers which are served by traditional retailers with innovation. The article concludes that those retailers are not about novelties or radical innovations but are characterised by continuous, incremental improvements which require disciplined and structured implementation approaches.

From the aforementioned nature of innovation in retail, the common characteristic is that innovation is incremental, less technology focused, and more about continuous change (Hristov and Reynolds, 2015). The innovation happens incrementally as an experimental process. Collins and Hansen (2011) studied successful companies that beat their industry indexes at least 10 times over 15 years. Interestingly, the findings show that one of the common factors is experimental creativity, quoted with the phrase – "Fire bullets, then cannonballs".

Evans (2011) mentions that *"Weak or non-adapting firms have always been – and will continue to be – driven out of the marketplace".* The important characteristic is to be adaptive. Furthermore, a new critical capability of retail business is the ability to configure and reconfigure its processes into a coherent blueprint – known in other words as a Business Model (Sorescu *et al*, 2011). This links to a broader perspective of retail business. Conventionally, retailers are a medium between suppliers and customers. Their activities only involve procuring, stocking, and moving products. However, retailers today are required to do more than this. Sorescu *et al*. (2011) mentioned that *'retailing practice is increasingly encompassing a broader range of activities as retailers expand the boundaries of their target markets and develop new ways for interacting with customers and channel partners'.* Thus, with this broader concept of retail business, innovation, a Business Model is more importantly focused on how to sell as opposed to what to sell (Sorescu *et al*, 2011).

2.2.3.2 Barriers to Retail Innovation

In the current situation, it is widely accepted that firms need to innovate in order to stay in the market and grow profitably, but it is important to understand the barriers that prevent firms from engaging in innovation. Chesbrough (2010) have identified three interrelated barriers. These are the cognitive barrier, the ideation barrier and the implementation barrier. First, the cognitive barrier means that firms do not think about innovation. Secondly, firms may want to innovate, but they may encounter the second barrier of not knowing what to innovate. Thirdly, firms may want to innovate and have some ideas about what to innovate but they may face the third barrier of not knowing how to implement or make their ideas happen effectively.

Chesbrough (2010) provides an explanation of the cognitive barrier related to how firms receive and process information in busy daily life. Generally, firms operate in a chaotic and busy environment and continually receive new information regarding the business. Therefore, firms choose to focus on some information that may be suitable for their current business logic and discard information that may conflict with it. Firms follow a dominant business logic which helps them to stay focused in order to operate in a chaotic environment. However, this dominant logic can be a double-edged sword with regard to innovation. Firms may choose to focus and follow only what goes along with current logics, which mean that they may be missing valuable information that can potentially be useful. Although some information may currently seem not to fit with firms' dominant logic, it can be a starting point for firms to exploit the unexpected (George and Bock, 2012).

In addition to the cognitive barrier, firms are aware of the importance of innovation, but they do not know what kind of innovation to introduce or how to develop ideas for innovation (Freidrich von den Eichen *et al* 2015). As mentioned earlier, the critical capability

of retail business is to configure and reconfigure its Business Model. Hence, the Business Model can be sources of innovation for retail business. The next section will describe concepts of Business Model from past studies in order to explore how the Business Model concept helps retail business to innovate and thus allow them to overcome the ideation barrier. Additionally, Business Model Innovation will be elaborated on its definition, its effects on firm performance, and its characteristics. More importantly, Business Model Innovation requires implementation to realise ideas; therefore, previous studies relating to the implementation of Business Model Innovation will be described in order to understand how firms can overcome the implementation barrier (Chesbrough, 2010).

2.2.4 Business Model

This section describes the concept of a Business Model beginning with how the concept becomes a topic of interest for both academics and practitioners. Then the definition of a Business Model is given, along with an explanation of how a Business Model is presented. Different perspectives of Business Model are also mentioned. Thus, the aim of this section is to explore how the Business Model concept can be employed to help retail business to innovate.

a. Why did business models become popular?

The Business model concept has been broadly received with interest and has become one of the great buzzwords since the internet boom; however, it also disappeared quickly with the burst of dot-com bubble (Magretta, 2002). Osterwalder *et al.* (2005) found a correlation between interest in business models in business journal and the NASDAQ market index. As shown in Figure 2.2, the number of times the term "business model" appeared in a business journal (peer-reviewed and non-peer reviewed) follows a pattern that resembles the shape of the NASDAQ market index.

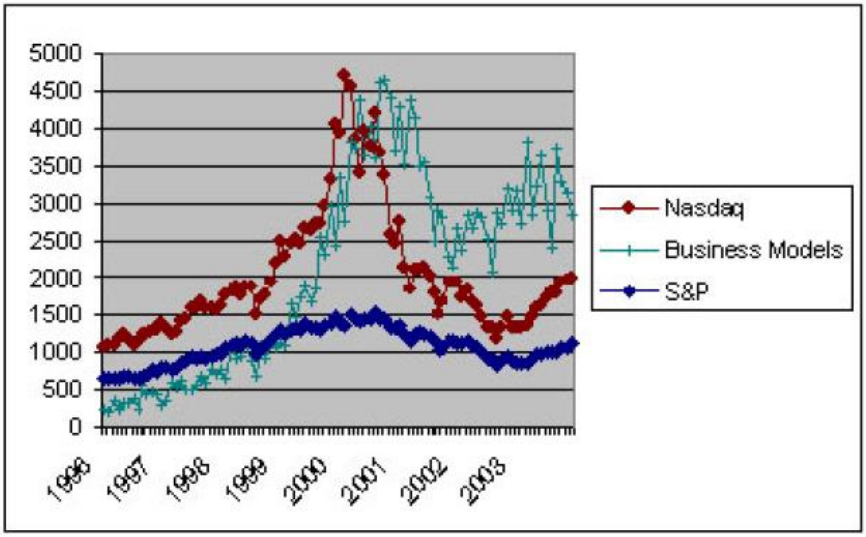


Figure 2.2: Showing the correlation between the term "business model" and Nasdaq market index.

Source: *Osterwalder et al. (2005, p. 4)*

However, when considering the bigger picture over a longer period of time, the business model has increasingly received attention from both the academic field and the non-academic field. As illustrated in Figure 2.3, Zott *et al.* (2011) performed a search of the "business model" term from the EBSCOhost database separating between academic and non-academic journals. They found the pattern of a sharp increase in the number of articles.

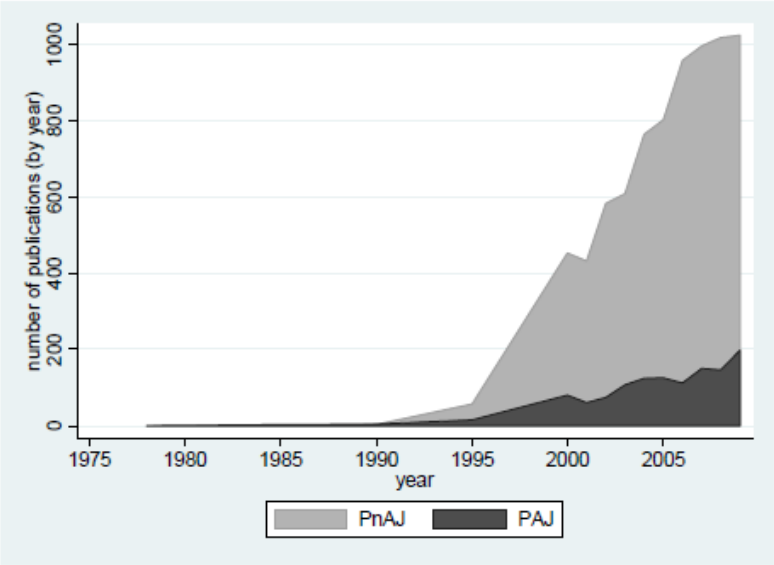


Figure 2.3: Showing increasing trend in number of business model articles both in academic journal (PAJ) and non-academic journal (PAJ).

Source: *Zott et al. (2011, p. 1023)*

The business model concept has been increasingly studied after the burst of the dot-com bubble, meaning that it has received interest for other reasons unrelated to e-business. Business models have been studied in a variety of fields such as innovation, strategy, and organisational change (Amit and Zott, 2010). The main driver is increasing competition in all industries requiring firms to compete differently from their rivals. Academic study is conducted to understand reasons why some firms perform better than others. For this purpose, business model concepts can provide explanations of new ideas which had not been considered in earlier studies (McGrath, 2010). For example, the business model is an outside-in concept that enables managers to continually engage with and adapt to changing customer values. In the past, managers have been advised to get to know their competences and to execute those relentlessly to compete in the market. However, this inside-out approach may not respond effectively enough to changing consumer trends. Furthermore, a business model evolves and matures. Therefore it helps managers to recognize model weakness and prompt for possible changes towards new models.

In addition to drivers related to firm performance, the business model has been frequently mentioned in firms entering emerging markets which provide huge opportunities but at the same time are very challenging. As mentioned in Eyring *et al*. (2011), Western multinational companies expect to find 70% of their future growth there, but they have to cut costs relentlessly and accept nearly zero profit margins. To exploit the opportunities for prosperity, companies need to creatively change the methods of providing and capturing value, meaning that they have to change their business model instead of either adopting or adapting their previous successful models. On the other hand, competitors can come from emerging market players and challenge established incumbents in developed markets (Williamson, 2010).

b. What are business models?

Although there have been many studies on Business Models, there is no consensus on its definition. Like other subjects involving many different areas, the business model is often mentioned but rarely analysed, therefore hampering its understanding (Teece, 2010). Past articles have attempted to analyse and reconcile different meaning of business model (Morris *et al*., 2005; Richardson, 2008; Fielt, 2011). Recent articles and books have mentioned the problem of diverse meaning of business model. Even some books about business models mention explicitly that they are not aiming to reconcile the different meanings in their books, but instead provide definitions that suit their purposes (Mullins and Komisar, 2009; Berman, 2011). This phenomenon is also observed in academic articles as mentioned in Zott *et al.* (2011, p. 1020): "researchers frequently adopt idiosyncratic definitions that fit the purposes of their studies, but that are difficult to reconcile with each other"

Broadly defined, a business model can be conceptualised as how firms do business. Almost all definitions agree that it determines how a firm creates value, how it delivers values to

customers and how it captures revenue from customers (Berman, 2011). In further detail, many previous studies have attempted to divide business models into various components as shown in Table 2.1 as an example.

Table 1
Perspectives on business model components

Source	Specific components	Number	E-commerce/ general	Empirical support (Y/N)	Nature of data
Horowitz (1996)	Price, product, distribution, organizational characteristics, and technology	5	G	N	
Viscio and Pasternak (1996)	Global core, governance, business units, services, and linkages	5	G	N	
Timmers (1998)	Product/service/information flow architecture, business actors and roles, actor benefits, revenue sources, and marketing strategy	5	E	Y	Detailed case studies
Markides (1999)	Product innovation, customer relationship, infrastructure management, and financial aspects	4	G	N	
Donath (1999)	Customer understanding, marketing tactics, corporate governance, and intranet/extranet capabilities	5	E	N	
Gordijn et al. (2001)	Actors, market segments, value offering, value activity, stakeholder network, value interfaces, value ports, and value exchanges	8	E	N	
Linder and Cantrell (2001)	Pricing model, revenue model, channel model, commerce process model, Internet-enabled commerce relationship, organizational form, and value proposition	8	G	Y	70 interviews with CEOs
Chesbrough and Rosenbaum (2000)	Value proposition, target markets, internal value chain structure, cost structure and profit model, value network, and competitive strategy	6	G	Y	35 case studies
Gartner (2003)	Market offering, competencies, core technology investments, and bottom line	4	E	N	Consulting clients
Hamel (2001)	Core strategy, strategic resources, value network, and customer interface	4	G	N	Consulting clients
Petrovic et al. (2001)	Value model, resource model, production model, customer relations model, revenue model, capital model, and market model	7	E	N	
Dubosson-Torbay et al. (2001)	Products, customer relationship, infrastructure and network of partners, and financial aspects	4	E	Y	Detailed case studies
Afuah and Tucci (2001)	Customer value, scope, price, revenue, connected activities, implementation, capabilities, and sustainability	8	E	N	
Weill and Vitale (2001)	Strategic objectives, value proposition, revenue sources, success factors, channels, core competencies, customer segments, and IT infrastructure	8	E	Y	Survey research
Applegate (2001)	Concept, capabilities, and value	3	G	N	
Amit and Zott (2001)	Transaction content, transaction structure, and transaction governance	4	E	Y	59 case studies
Alt and Zimmerman (2001)	Mission, structure, processes, revenues,legalities, and technology	6	E	N	Literature synthesis
Rayport and Jaworski (2001)	Value cluster, market space offering, resource system, and financial model	4	E	Y	100 cases
Betz (2002)	Resources, sales, profits, and capital	4	G	N	

Table 2.1: Presenting different perspectives of business models

Source: *Morris et al. (2005, p.728)*

A Business Model is a system consisting of different interrelated components where one element influences the other. This concept makes sense when considered as a whole. Osterwalder and Pigneur (2010) proposes a Business Model Canvas which visually simplifies the reality of business into nine building blocks. Any Business Model can be visually

presented using the predefined nine building blocks. This allows firms to understand their logics of doing business, which helps to generate new ideas about what parts can be changed and the subsequent effects. In addition, the predefined graphical format allows firms to compare how their Business Models change in a period of time. The concept of the Business Model Canvas will be explained in detail in Chapter4 (Conceptual Framework) as it will be used in this research.

Despite rich studies on the Business Model, its specific definition is still diverse. All of the definitions are based on an essentialist view, which tries to describe a business model as a representation of reality (Doganova and Eyquem-Renault, 2009). The concept of the Business model is often linked with that of Strategy. Both concepts are similar but they represent different things (see Box 2.1 for more detail on Business Model versus Strategy). In contrast, scholars in entrepreneurship consider business models from a functionalist view – "what do business models do?", instead of "what are business models?". Doganova and Eyquem-Renault (2009) mentioned that business models are part of the planning activities on how firm plan to make money. Thus the usefulness of a business model does not rely on its ability to accurately describe the firm. Rather, its value is from its ability to explain and predict the value created by firms.

Box 2.1: Business Model versus Strategy

A successful business model results in creating value or profitability to firms. Firms with decreasing economical performances can not only turn around but also thrive in their industries by successfully changing their business models. Due to the link between business model and firm performance, business model is often related to the term 'strategy'. Many people use the terms interchangeably without being noticed because the terms are stretched to mean everything and mean nothing at the end (Magretta, 2002). However, some articles have distinguished the meaning of the terms although both terms are highly related. Strategy is about making choices which is reflected by the business model and the fact that the business model reflects the choice helps the firm in analysing and communicating the choice (Shafer *et al*., 2005). Despite considering how pieces of business fit together, the business model does not entail one critical dimension of performance which is competition (Magretta, 2002). Strategy is about making choices and deciding on what business model to use is also one of the choices to be made (Casadesus-Masanell and Ricart, 2010).

Shafer *et al*. (2005) clearly states that a business model is not a strategy, but both of them are related. Strategy is about making choices and business models reflect those choices and their operating implications. Business models can also assist in analysis, testing and validating the strategic choices that have been made. In this sense, a business model provides the detail and operational implications of the selected strategic choices. Therefore, managers can see any conflicts or issues that may appear, so that they can revisit their original choices and make adjustments if necessary.

Markides (2015) presents 3 main differences between a business model and a strategy – granularity, interrelatedness and conflicts. First, strategy is conceptualised as the high-level choices that firms make while business models can be viewed as systems of activities that translate strategy into action. Second, a crucial feature of a business model is how to combine activities to perform as a system instead of choosing what activities to undertake. Third, the business model concept brings attention to conflicts or trade-offs between the activities of two business models. This prevent incumbent to innovate business model or respond to such innovation as most of new business models are brought to industries by start-ups.

In all, from previous studies, the concept of strategy differs from that of business model. Business model emphasises implementation and combining activities into interrelated systems in order to make selected strategy into reality. Therefore, implementing and operating business model is definitely crucial part for business models to be successful.

Some studies approach business models from different perspectives. For example, Baden-Fuller and Morgan (2010) proposes different views on various forms of business models functions using non-managerial disciplines such as economics and biology. The first perspective considers business models as classifying devices, and can be described as scale models and role models. The former provides a representation of things – which is in this case businesses, while the latter offer ideal cases to be copied. A second perspective considers business models as biological models which use models of organisms for experiment and to learn how they work. Business models are perceived as real laboratory experiments so that business persons can use their own firm as their model for experimentation in order to learn how changing parts of business models can influence the possibility of success. A third perspective considers business models as recipes which demonstrate how to do something in order to get expected results. Recipes include both ingredients, which are elements to be cooked, and instructions, which is how to cook them. From the perspective of recipe, business models consist of both ingredients and instructions. Ingredients are a variety of strategic elements such as resources, capabilities, products, customers, markets and etc. More importantly, instructions of how to arrange and combine those resources and activities provide many possibilities for managers to be innovative and creative.

Additionally, Itami and Nishino (2010) present another different concept of business models, which consist of two elements: a business system and a profit model as shown in Figure 2.4. The authors mentions that *'a business system is the system of works that a firm designs – within and beyond its boundaries – to delivery its products or services to its target customers' and a profit model is a pattern of the firm's intention about how it will make a profit in its given business'.* The important part is the business system which also has a key function as a learning system in addition to a delivery system of a mundane operation. Operation involves activities which allow a firm to learn and accumulate its capabilities, which can meet new challenges and be an asset for the future

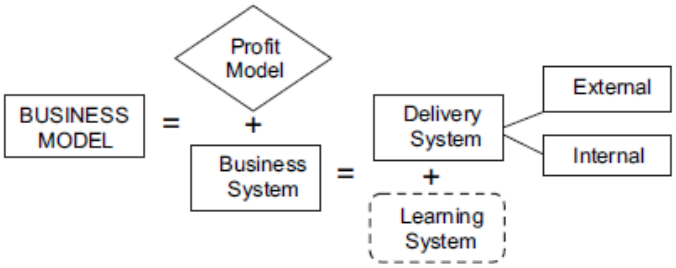


Figure 2.4: Business Model consisting of a Profit Model and a Business System

Source: Itami and Nishino (2010, pp. 365)

In short, a Business Model is broadly defined as the logic of doing business consisting of how a firm creates value, how it delivers values to customers and how it captures revenue from customers. A Business Model can be presented in graphical format allowing a firm to understand and see its logic of doing business as a whole. In addition, a Business Model can be conceptualised as a learning system in which owner managers can use their own firms for experimentation to consider how changing the configuration of Business Models can influence the possibility of the firms' success. Therefore, retail businesses can employ the Business Model concept in order to try out innovative configurations of the selling process, hence providing opportunities to overcome the ideation barrier. The next section will take a further look at Business Model Innovation and its characteristics.

2.2.5 Business Model Innovation

This section describes definitions of Business Model Innovation, and how such innovation affects firm performance and competitive advantage. Characteristics of Business Model Innovation are explained in order to provide understanding of implementation.

a. What is Business Model Innovation?

Trias de Bes and Kotler (2011) have provided an overview definition of innovation which is clear and concise. They state that there are essentially four innovation levels – Level 1: Business Model innovation, Level2: Process innovation, Level 3: Market innovation, and Level 4: Product and Service innovation.

> *Level 1: Business model innovation* is a type of innovation that involves fundamental changes in how firms create value and deliver value for customers. This change can range from establishing new business units to separate new companies. Famous examples of business model innovation are Dell, iTunes, and Amazon.
>
> *Level 2: Process innovation* means changes in how a firm operates its business, such as logistics, sales or productions.
>
> *Level 3: Market innovation* means targeting new groups of customers or meeting new needs. An example would be a bank that decides to provide a mobile service for customer payments by allowing payment on mobile phones.
>
> *Level 4: Product and Service innovation* involves new products, new models, and technological invention that improves performance and design. Those new products and services target the same customers on their current needs and situations. For example, a new model of iPhone is launched to the same group of customers.

One common word that arises from all four levels of innovation is "change" and each level requires different degrees of change. Level 1 entails the most changes and is also the most strategic. On the other hand, level 4 involves the least change and also the most tactical.

Business Model innovation also comes in multiple forms as defined by the IBM framework in the annual CEO study (Berman, 2011). As illustrated in Figure 2.5, there are 3 forms of

business model innovation; however, many business innovations often involve more than one form. Last, all three paths of business model innovation can lead to successful financial results (Giesen *et al.*, 2007).

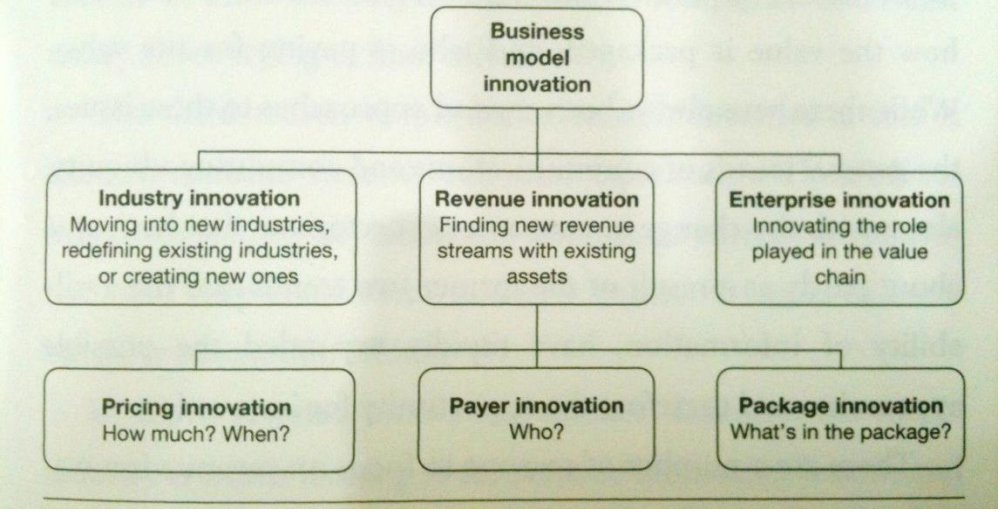


Figure 2.5: Showing IBM framework for business model innovation

Source: *Berman (2011, p. 17)*

The objective to discuss different types of innovation and multiple forms of business innovation is to present an overview picture of innovation from a general view to a specific view. In addition, this is to explain that innovation is not just one thing which is usually related to products and services. The term "innovation" has often been misunderstood as only breakthrough or radical invention e.g. iPhone. Google can be classified as innovation; therefore, firms can create innovation step-by-step over time and eventually lead to radical innovation (Trias de Bes and Kotler, 2011).

b. Business Model Innovation and firm performance

Business Model Innovation is increasingly receiving attention among practitioners, consultants and academics. From the 2010 IBM survey of 1511 CEOs, general managers and senior public sector leaders around the world, one of the primary findings is that leaders expect to make a business model change to realize their strategies (IBM *2010* Global CEO Study). Boston Consulting Group (BCG), one of the world leading strategy consulting companies, mentioned that Business Model Innovation is superior to process and product innovation due to higher performance and better sustainability as illustrated in Figure2.6 (Lindgardt *et al.* 2009).

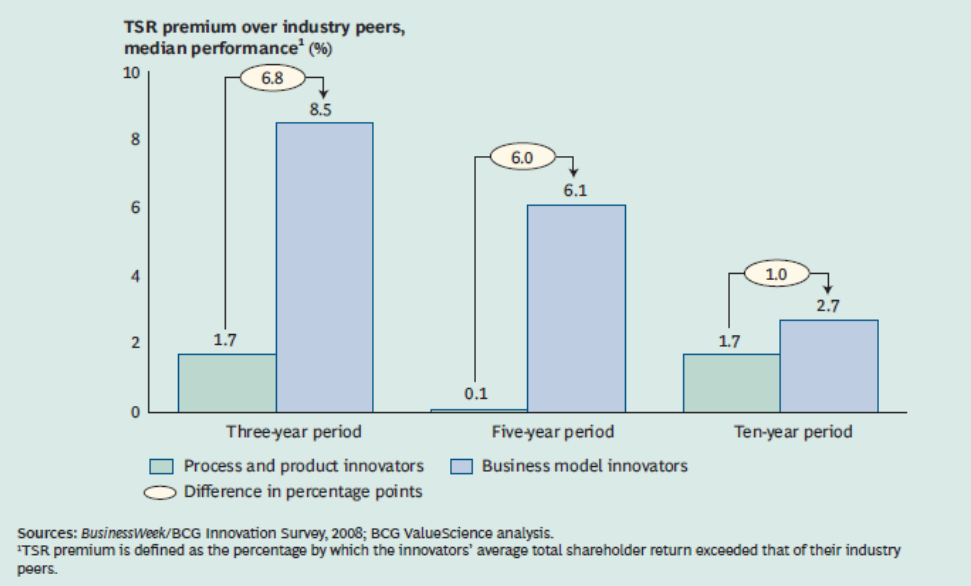


Figure 2.6: Showing that business model innovators outperform traditional innovators over time

Source : *Lindgardt et al. (2009, p. 3)*

In addition to surveys, previous studies show that many firms grow profitably through Business Model Innovation. There are many famous examples of big firms such as Fuji Xerox, Nespresso, Apple, Google, AirBnB and Low cost airline companies. Empirical studies

on business model innovation also shows similar results such as a healthcare company called NaturHouse (Sosna *et al.*, 2010), and Auto Insurance (Desyllas and Sako, 2013). In many cases, business model innovation is the source of industry change rather than the outcome (Martins *et al.*, 2015). Since a successful business model can increase firm performance, it is also related to another famous term - competitive advantage. The relationships between both terms are discussed in Box 2.2.

Box 2.2: Business Model Innovation and Competitive Advantage

In many occasions, business model innovation is presented with highly successful and game-changing companies. Therefore this can lead to an idea that firms can be successful by trying to creatively design and implement their business model innovation. Many articles do not mention this explicitly, but present ideas or stories about firms that become highly profitable or successfully turn around by innovating a business model (Sosna *et al.*, 2010). Therefore, business model innovation can be viewed as a firms' competitive advantage and then firms can compete successfully by innovating their business model.

However, Teece (2010) presents an opposite view that developing successful a business model no matter how novel is insufficient to assure competitive advantage mainly because of imitation. Business model innovation can lead to competitive advantage if it contains some elements that are sufficiently different and hard to copy.

Mitchell and Carol (2003; 2004a; 2004b) present another view that continuing business model innovation can result in firms' competitive advantage. The main idea is that when firms keep innovating their business model, competitors will hold actions to observe situation or some will try to copy old directions, therefore making competitors struggle. Since business model can be imitated, firms must keep altering their business model to sustain their competitive advantage.

In short, Business Model Innovation broadly refers to a search for new logics of business and new ways to create, deliver, and capture value for its stakeholders (Casadesus-Masanell and Zhu, 2013). Furthermore, successful Business Model Innovation increases firm performance. The next section provides characteristics of Business Model Innovation and how to make it happen.

c. Characteristics of business model innovation

Massa and Tucci (2014) mentioned that the Business Model is an important unit of analysis in innovation studies and that the role of the Business Model in relation to innovation can be of two types -- a vehicle of innovation and a source of innovation. The first role allows firms to realise the output of innovative products and technologies in a market. The second role means that the Business Model itself becomes a new dimension of innovation. For retail business, the Business Model can be a source of innovation because modern retailers – according to the broader definition of retail – focuses more on how to sell, not on what to sell. In addition, the nature of retail is less technology-focused.

Business Model Innovation requires changes in organisations and those changes are characterized as systemic because major changes in one part often lead to changes in the others and in many cases the whole business model (Liang, 2011). Business model innovation requires firms to increase, decrease, acquire, and adapt new resources and capabilities (Mezger, 2014). Those resources and capabilities can be achieved internally or externally. Firms can recombine their own resources in a novel way. On the other hand, firms can attain additional capabilities through external partners. Therefore, Business Model Innovation entails more systemic changes than product or process innovation (Velu and Jacob, 2014).

Martins *et al.* (2015) applies perspectives from strategy research to the business model innovation process and describes three views – the Rational Positioning view, the Evolutionary view, and the Cognitive view. The first (Rational) view considers a business model as a purposefully designed system. In such a system, highly rational managers scan and observe the environment in order to search for new optimal business model designs.

The second (Evolutionary) view emphasizes experimentation and changes that are generated by external uncertainty. Firms engage in experimentation until they find a system that can compete effectively. Business model innovation from the second view is evolved over time instead of being developed by a rational plan according to foresight ex ante. In the Evolutionary approach, firms need to try and do adaptation ex post. The third view is the cognitive view, which considers the business model as a cognitive structure of the owner manager; therefore, the cognition and sense-making of the owner manager is the most important input to business model innovation. From the cognitive perspective, Martins *et al.* (2015) also proposes that business model innovation can happen in the absence of exogenous changes by applying cognitive psychology research. However, the current environment is increasingly turbulent and competitive, meaning that Strategy, Business Model, and routines can become obsolete quickly and unpredictably (Reeves and Deimler, 2011) and ends the organisational comfort zone (Voelpel, Leibold and Tekie, 2004). Thus, many studies emphasise concepts similar to an evolutionary view and propose ideas of experimentation in real situations, involving learning and incremental changes (Berman, 2011; Chesbrough, 2010; McGrath, 2010; Mitchell *et al.*, 2003; Teece, 2010).

Mezger (2014) applies the dynamic capability view of business model innovation as an iterative process of sensing, seizing and reconfiguring. This capability based concept emphasises experimentation and learning. Firms need to gather external knowledge by sensing new technological ideas, changing customer demand, and possibilities of new business model ideas. Then firms seize opportunities by combining knowledge and focusing activities to derive the new business model. Last, firms not only shift resources, but also determine which resources are to be acquired and which existing facilities are to be replaced.

The need to continually innovate a business model is also critical to sustain competitive advantage. Therefore, the transformational process of the business model is important, but there is very little formal study on the dynamic process of business model development (Johnson *et al.*, 2008; Sosna *et al.*, 2010). The concept of a business model is static because it describes how firms do business at one point in time. When defined systematically, the business model concept can provide better understanding of the evolution of business models over time. Studies could be done on understanding interaction among business model components, particularly what components can ignite the change and how other elements are affected by that change. Some research articles have recognized the importance of studying business model innovation from a dynamic view, but there are still not so many articles conducting empirical studies on this topic (Demil and Lecocq, 2010; Svejenova *et al.*, 2010; Sosna *et al.*, 2010). Additionally, from an organisational perspective, business model innovation must be considered as an ongoing change process as opposed to a one time project. Hinterhuber and Liozu (2014) have described pricing innovation as "frequently require new capabilities, a new organisational structure, different goal and incentive systems, new processes and tools, and new organisational priorities". In all, this area definitely requires formal study to contribute to better understanding of business model innovation.

In summary, business model innovation is an ongoing process where firms particularly need to gather external knowledge, as well as to combine and acquire resources in order to iteratively experiment with business model alternatives. Therefore, business model innovation is highly related to organisational and individual learning (Sosna et.al 2010; Mikhalkina and Cabantous, 2015). Business model changes are driven by individual ability to recognise the need for change and to also implement such change. Trial-and-error experimentation requires analytical skills of individuals to find different alternatives (Cavalcante, Kesting and Ulhøi, 2011)

2.2.6 SME Retail Business and Business Model Innovation

SME retail business can be successful in spite of high competition. A study of Latin America shows that small retailers can be successful even after a decade of sustained growth of the modern retail sector in the region (D'Andrea *et al.*, 2006b). The key finding demonstrates that smaller scale retailers exhibit a sustainable business model by focusing on the needs of emerging customers or low income segments representing about 50 – 60 percent of Latin America's population. The article did not clearly state what it meant by the term "business model"; however, those smaller scale retailers understand the needs of customers and deliver better value to them in terms of store location, providing convenience, offering smaller quantities or a customized quantity, People, by delivering a personal touch, and Credit, by offering informal credit so that customers are allowed to pay next time when they are short of small amounts of cash. These values are not provided by large supermarkets or superstores. Therefore, opportunities exist for SME retail business, but the study did not mention or conduct an analysis from the Business Model perspective. Nor did it mention the implementation process or how those retailers adapt their Business Models.

For small firms, the leadership role is more important to the success of innovation (McAdam *et al.*, 2010). SMEs are normally operated by owner managers who both own and run the businesses. Business Model Innovation entails many changes across the whole enterprise, and owner-managers have authority to execute such changes. On the other hand, owner managers have many roles in companies (Giroux, 2009). They are mostly engaged with day-to-day operational issues and spend limited time with strategic issues. Therefore they do not normally have time for systematic, analytical and regular strategic planning (Nordqvist and Melin, 2010). Thus, owner managers may face the cognitive barrier and do

not think that innovation is necessary. A Business Model is a system that includes interrelated components and its concept becomes clear when considered as a whole. The ideation barrier can also occur with SME retail business, as it is difficult for owner managers to understand the Business Model and identify what should be changed. A graphical form of representation provides an abstraction level of all business activities supporting the logic of doing business and this also serves as a basis for considerations of further adaptation of Business Models (Wirtz, 2011). More importantly, Business Model implementation is important because the Business Model as a plan has to be translated into more concrete elements, such as a business structure, business processes, infrastructure and system (Osterwalder *et al.*, 2005). Business Model Innovation is an ongoing process of experimentation and it is very difficult to achieve (Chesbrough, 2010). In effect, SME retail business encounters implementation barriers.

In addition to those three barriers, most studies on innovation are about large companies. As mentioned in Tim (2004, p. 27), *"Most of what is written about innovation either focus on the hottest new start-up or the sleeping giant who suddenly awakened. Rarely, do stories of established SMEs in traditional industries make headlines ...".* A significant amount of research for small firms has clearly stated that small businesses truly differ from larger businesses in many aspects such as management style and process, environmental context, and strategy making process; therefore, there is criticism that management principles that can be applied to big firms can be applied to a scale down version to small firms (Giroux, 2009).

In summary, business model innovation is of interest among academics and practitioners. Successful business model innovation increases firm performance and in many cases, it changes the industry landscape. In addition, business model innovation entails changes that are systemic. Starting a change in one part may result in changes to other parts, and

in many cases the overall business is affected. Since firms face relentlessly changing external market conditions, business model innovation becomes an ongoing process of change. More importantly, firms must allocate as well as acquire resources in order to adapt and increase firms' capabilities. The idea of adaptation arises from the fact that firms must implement trial-and-error experiment in order to find an alternative business model. Therefore, a dynamic perspective of the business model is crucial for its innovation, as this can be used to facilitate understanding and learning from the evolving business model. More importantly, most business innovation studies involve large established organisations and the analysis is done after the fact on why it succeeds (Gerasymenko, De Clercq and Sapienza, 2015). Consequently, there is the question of management principles that can be applied to large companies that can also be applied to small firms.

2.2 Research Gaps

Small and Medium Enterprise (SME) retail business has been facing many challenges due to intense competition and rapidly changing environments. One of the main drivers of those changes is the emergence of large stores formats brought by foreign companies. Therefore, how SME retail business can compete successfully is an important strategic question.

From a review of the literature in the areas of business models, business model innovation, SME and retail business, the following gaps have been found. First, previous studies consider the business model from a static view instead of a dynamic view. Secondly, most studies are conceptual with few empirical studies. Thirdly, most are on successful stories of big firms. Fourthly, many cases involve learning only by studying cases in retrospect. Last, there is a lack of studies on the practical application of business model thinking to support SME retail business innovation.

2.3 Summary

This chapter has reviewed the literature in many areas including innovation, SME business, retail innovation, Business Model and Business Model Innovation. First, it was found that innovation is necessary for firms to be in the marketplace. The crucial capability for retail business is to find ways to innovate its Business Model – focusing more on how to sell in addition to what to sell. Business Model Innovation can increase firm performance, but it is difficult to achieve this successfully. The chapter also discusses three barriers that prevent firms from conducting Business Model Innovation. Such innovation is an ongoing process of experimentation and adaptation. It was also found in past studies that there is a need to study the dynamics of Business Models. In addition, most studies are conducted on large firms, which are fundamentally different from small firms. The chapter ends with identifying research gaps. These include the need to study the extent to which Business Model thinking helps SME retail business and also to identify challenges in conducting Business Model Innovation. In addition, there is a need to study the dynamic aspects of the Business Model to understand how the components of the Business Model are changing and what learning can be taken from understanding those changes.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

Research gaps have been identified in the previous chapter. This chapter describes research design and methodology for this study as shown in Figure 3.1. Section 3.1 provides research questions. Section 3.2 explains research design and strategy that is selected for this research. Section 3.3 elaborates on research context, which includes an overview of the researcher's organisation, competitive landscape and the researcher's roles. Section 3.4 describes data collection and analysis and Section 3.5 discusses reliability and validity for this study.

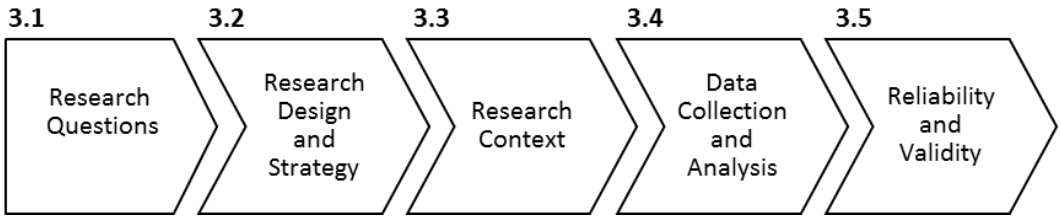


Figure 3.1: Structure of Chapter 3 - Research Design and Methodology

3.1 Research Questions

It is widely accepted that innovation is necessary for firms to stay in business. SME Retail businesses in many countries including Thailand are facing challenges from increasing competition, mainly driven by modern trade retail formats brought by foreign companies, as well as big nationwide chain stores. Thus, an important strategic question is how an SME retail business can compete successfully.

From the literature review, the crucial capability for retail business is the ability to innovate its Business Model. Three barriers have been identified in the previous chapter, which are the cognitive, ideation, and implementation barriers. It was found in past studies that most studies are conducted in large firms and lack a dynamic view of the Business Model which is important in studying the ongoing process of Business Model Innovation.

Therefore, the research title of this dissertation is "How can SME retail business in Thailand successfully compete through Business Model Innovation?" The research will apply the concept of the Business Model Canvas to conduct Business Model Innovation on the researcher's organisation. The Business Model Canvas is a visual format (further detail will be explained in the next chapter on conceptual framework). Two barriers are addressed, which are the ideation barrier and the implementation barrier. The Business Model Canvas – a graphical form of representation – provides overall understanding of a firm's Business Model and can be a source of innovation. The concept is applied in actual implementation in order to study the nature of Business Model changes and the practical challenges. Therefore, this approach tackles the implementation barrier. The cognitive barrier is not a focus of this research. As the researcher is already aware that innovation is necessary and plans to implement Business Model Innovation, the cognitive barrier is not relevant to this study. However, all three barriers are related so there might be possibility to get any insights regarding the cognitive barriers which is not the focus of this study.

To answer the question in the research title, three research questions are considered important:

a) To what extent does business model thinking help SME retail business to innovate? The aim is to provide fundamental understanding on whether the

business model concept helps SME retail Business to understand its business and enable it to innovate.

b) What are the challenges of implementing business model innovation? This will focus on implementation, which is the key process to make it a reality.

c) How do Business Model components change and what learning can be captured from those changes? This aims to understand how business models evolve and looks at the business model from a dynamic perspective. Retail innovation is incremental and requires adaptation through trial-and-error experimentation (D'andrea, Costa and Fernandes, 2006), which is also the ongoing process of business model innovation. Thus, learning from the dynamic perspective of the business model is important as it helps implement and also provide ideas for improvement in the future.

The area of business model innovation is broad and can be extended to cover all aspects of business studies. Thus, it can be expected from the research to demand all areas of business research if the scope of the research is not well-defined. Therefore, this dissertation focuses on the Business Model as a unit of analysis and on the process of changing the business model from the systemic point of view with an emphasis on the interrelated core activities of the business model.

3.2 Research Design and Strategy

This section explains the research design and methodology that will be carried out for the study. The methodology employed must enable the study of the dynamic view of business model innovation. The section begins by explaining the selected research method and research strategy. First, the qualitative research domain is discussed that it is suitable to

the research topic. Second, within the selected domain, a choice of research methodology will be made and an explanation given of why it fits the research.

3.2.1 Qualitative Domain

From the aforementioned research questions, a qualitative research approach is selected because the nature of this research domain is suitable for the research, as set out below.

The research aims to obtain insight as a result: the research questions concern how firms innovate and transform their business models to compete successfully. There have been some past studies that have sought to do this using quantitative approaches, for example Malone et al. (2006) and Zott and Amit (2008). These studies typically have to describe business models in terms of very few parameters and/or to classify them into a few specific types. The evolution of the model in individual firms is rarely treated, and the learning processes involved in the organisations are barely touched upon. These studies have provided some broad overview of the nature and results of business models and related innovations. Qualitative research can provide more depth as to how actors experience the social context reality they are situated in, and why they act in the way they do. The qualitative approach allows the researcher to be involved with the subject of study, so that results can arise from natural settings and from the point of view of participants - we can explore the meanings they attach to events and to their own actions. Qualitative research is well-suited to studying events that unfold over time, so as to examine the interconnections between people and social settings; this allows for the capture of dynamic perspectives on business model transformation.

In the version of qualitative research adopted here, we do not begin with a specific hypothesis or set of concepts to test, though we are in effect examining the usefulness of certain frameworks for explicating the issues confronting the object of study. As will be outlined later, the research approach actually required the researcher to identify additional frameworks that would prove useful for forwarding the action and analysis; and the flexibility of the approach allowed for this fruitful elaboration of the work. The qualitative research process can be loosely structured in data collection and investigation, so that theory and concepts will emerge from the data toward the end of the research.

The flexibility of qualitative research allows the researcher to change direction in the course of the research process so that additional areas can be opened for exploration as the learning gathered in the study leads to recognition of their relevance. This flexibility fits well with the research undertaken in this thesis, since the study involves many topics - such as strategic management, organisational learning, and innovation - that are only loosely connected together in the established literature. Flexibility enables interesting issues that arise to be investigated during the research process, and for the researcher to take on board additional perspectives and frameworks as and if necessary.

3.2.2 Action Research as an appropriate research strategy

Within the qualitative domain, there can be many research methodologies. The chosen methodology should be aligned with research questions so that knowledge and insight can be obtained effectively. Action research is selected for this dissertation. The following section explains the reasons and the characteristics of action research.

a) Why use action research?

In general, action research is an approach to research, which has both aims of taking action and creating knowledge about that action (Coghlan and Brannick, 2010). Therefore, the outcomes can be both an action and a research outcome. Action research is a generic term, meaning many forms of action oriented research. More importantly, Cassell and Johnson (2006) explains that diversity of action research does not mean that one is better than the others. Instead, they are different due to an underlying philosophical assumption. Action research is a methodological approach that can be applied to research in management and organisations (French, 2009). Action research works in an iterative cycle of (1) constructing an action (2) planning the action, (3) taking action, (4) evaluating the action. (4) leads again to construction of another action (1) and the cycle continues. Action researchers aim to study their own action so that they can change or improve situations and consequently learn from those actions. Action research is about experiential learning and reflective practice (Coghlan and Brannick, 2010).

The concept of action research is well aligned with the concept of business model innovation. Business model innovation is realised through changes in organisations by taking actions. Specifically, retail innovation is incremental and relies on trial-and-error experimentation so that firms have to learn from those actions. This fits well with action research, which in nature entails action in order to change situations and consequently learn from those actions. Business model innovation requires experimentation because uncertainty is too high to predict future outcomes (Chesbrough, 2007). In addition, the business model is discovered through a disciplined experimentation process which focuses on learning to create future changes when deviation occurs (Chesbrough, 2010). As mentioned in the previous section, the firm has to adjust and change activities from the initial plan in order to best capture opportunities. In summary, the aim is to learn from actions by studying practice. To capture learning, research methodology should include

active involvement of practitioners in research, in addition to typical methods such as observation and interview.

b) Why is it insider action research?

The previous section explains reasons why action research is an appropriate method for this research. However, there are two major challenges in conducting action research in SME business when looking at the practical issues. First, there are limited opportunities to conduct empirical research on SMEs because of restrictions in gaining access. Most SMEs are operated by owner-managers who perform many roles within organisations and they will not have time or interest in cooperation with external researchers. Second, there is a lack of data availability. Researchers also have difficulty in obtaining data because little or no secondary data can be found.

In action research, knowledge is obtained effectively from practice. To study business model innovation, doing business model innovation is therefore necessary. Conducting action research within my own organisation, which is a small retailer selling home electrical appliances, can overcome the aforementioned two challenges of access and limited data availability. In addition, my roles are well suited to the task, as mentioned in Chesbrough (2010): "CEOs of small companies may be ideally suited to the task of Business model innovation, especially if they are also owners of the business". More detail about my retail business will be elaborated in the next section.

In addition to overcoming practical challenges, insider action research is selected due to three factors that fit with my roles, research topics and preferences.

1) The first factor is my role within an organisation and my role as a DBA student. On the business side, I just started to work in my family business in September 2010 – which was 1 month prior to initiating this research. At that time, the owner manager, who was my father, was still in charge of the business, but he would retire as soon as I could handle the business. Hence, I am a successor of the company and my role is to create and initiate strategic changes, including business model changes, in order to stay successfully competitive in the dynamic and highly competitive retail environment. At the same time, I am also a doctoral student aiming to do business and management research which contributes to practical knowledge. Hence, change is my main goal and organisational change is the key issue for action research; therefore, action research fit well with my role. Additionally, according to characteristics of action research defined by many researchers and mentioned in Bryman and Bell (2007, p. 428), all of them are fully aligned with my roles, for example:
    - "Experiments on real problems within an organisation and are designed to assist in their solutions" – I can apply the action research well to my current work which is to solve real problems by innovating the business model.
    - "This involves an iterative process of problem identification, planning, action, and evaluation" – this process is exactly the same as each project I work on to improve organisation.
    - "It is intended to contribute both to academic theory and practical action" – this is my aim as a doctoral student and my current roles give me opportunities to achieve this.

2) The second factor is the fit with the research questions which is to get rich insights on how firms can design business model innovation and implement the required changes. Action research is useful in understanding process-related problems in

organisations, such as learning and change (Bryman and Bell, 2007, p.429). Therefore the method supports the objectives well. Additionally, the research goal is to contribute to knowledge that can be relevant to both academics and practitioners. For this purpose, action research provides outputs that are more readable, relevant and interesting to practitioners as well as to an academic audience.

3) The last factor is that my preferences match the key benefit from action research. My ambition is to be a bridge between the practical world and the academic world in that I would like to utilize academic knowledge to improve practical work within organisations while investigating real results and responses in order to feed back to the academic side. Action research in business and management plays exactly these roles in bridging the gap. This therefore provides motivation along the course of research.

c) Characteristics of action research

Action research starts with understanding "context and purpose" and involves cycles of 4 steps: constructing action, planning action, taking action and evaluating action. First, action research begins with understanding the context and purpose of the project in term of reasons for change and driving forces of change. The next steps are the four action steps, which form learning cycles. The core of this method is action, which creates experience. Experiences are transformed into interpretation and taking further action through reflection. The important step is evaluating the outcome of actions. Such outcomes consist of intended and unintended results. The results of evaluation is fed into the next cycle of constructing, planning, taking action, and evaluating. From this concept, the

process of action research becomes a continuous spiral cycle through life as shown in Figure 3.2.

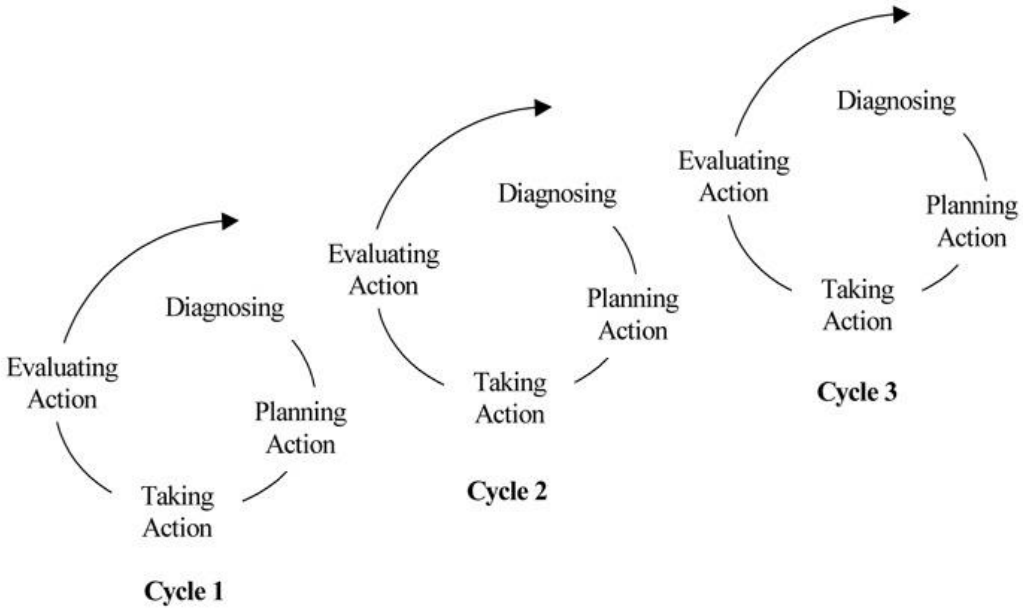


Figure 3.2: The spiral of the action research cycle

Source: *Coghlan and Brannick (2010, p. 10)*

An action research project consists of multiple action research cycles operating concurrently and those cycles normally have different time periods. Coghlan and Brannick (2010, p.10) make an analogy with a clock and mention that:

"The hour hand, which takes 12 hours to complete its cycle, may represent the project as a whole. In large complex project, it may take several years to complete its cycle. The minute hand, which takes an hour to complete its cycle, may represent phases or particular sections of the project. The second hand, which completes its cycle in a minute, may represent specific actions within the project. … the short-term action research cycles contribute to the medium-term cycles which contribute to the longer-term cycle."

Actually, there are two types of cycle concurrently occurring during the research – the core action research cycle and the thesis action research cycle (Cogland and Brannick, 2010). The first one is related to the organisational project of changing the business model and its cycle involves 4 steps iteratively as mention previously. The second cycle, which is reflection on the first cycle, consists of experiencing, understanding, judging and taking actions. Cogland and Brannick (2010, p.31) stated that the thesis action research cycle enables researchers to inquire about how they think, construct meanings and verify their understanding. The two types of action research cycles are shown in Figure 3.3. In addition, it is learning about learning or reflection on reflection enabling action research to be more then everyday problem solving.

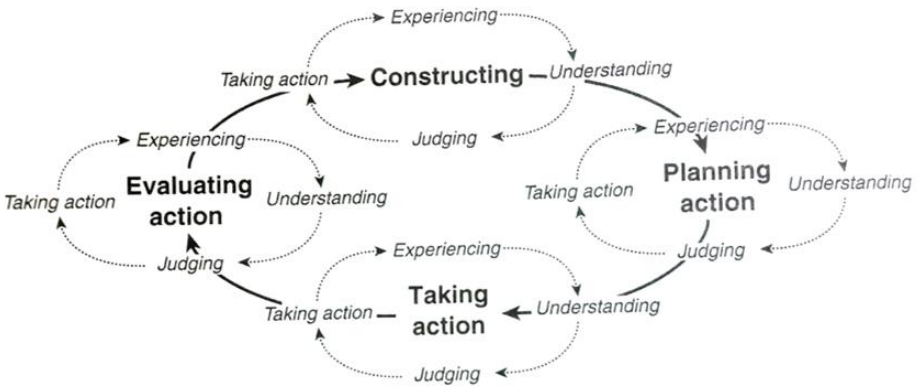


Figure 3.3: Showing the general empirical method of two cycles of action research.

Source: *Coglan and Brannick (2010, p. 24)*

3.3 Research Context

Most research studies are conducted by researchers who are external to the organisation. However, the practice of insider research, especially action research inside organisations, has been growing. As mentioned in Coghlan and Brannick (2005): *"the practice of insider action research has burgeoned. The consolidation of doctoral action research in universities*

around the world has contributed considerably to the legitimization of insider action research by practitioners in all sectors of organisational life – for example business…".

This section gives an overview of my own organisation and market situation. First, the section begins by explaining geographical information regarding Thailand and the province where the shop is located. Second, the market situation as well as the competitive landscape is described. The final part elaborates on my own organisation.

Researcher's organisation – Overview and Competitive Landscape

1. Geographical Location

Thailand is located in Southeast Asia. The country population is 67.73 million people with Gross National Income at 5,780 US$ according to 2014 data from the World Bank (The World Bank, 2014). Income inequality is one of highest in Asia, as the income of the 20% richest people is 15.1 times those of the 20% poorest people (The Economist, 2011).

The focal firm is situated in a city called Hatyai in the area of Songkhla province in the South of Thailand. Hatyai is considered the business centre of the Southern part of Thailand as described below.

- Gateway for the country: It is only 40km to Malaysia.
- Center of financial services: Regional headquarters of major financial services are located here.

- Center of transportation: with International Airport, Train station, Bus station and Sea port
- Center of Education: Prince of Songkhla University, one of the leading universities of the country, is located in Hatyai.
- Center of Healthcare : Many leading hospitals – private and government - are located in Hatyai
- Center of Commerce: All leading department stores, discount stores and nationwide chain stores have their branches in Hatyai. Many have two branches in the same city e.g. Tesco, Big C, Homepro, Central department store.

2. Electrical Appliances Competitive Landscape

Since Hatyai is one of the business cities in Thailand, there are all brands of electrical appliances available. These include Television, Home theatre, Washing machines, Refrigerators, Microwave ovens, Air conditioners, irons, vacuum cleaners, rice cookers etc. The leading brands are mostly from Asian countries and some brands from Europe. For example, LG and Samsung are from Korea. Daikin, Hitachi, Mitsubishi, Panasonic, Sharp, and Toshiba are Japanese brands. Philips, Electrolux, and Tefal are from Europe. In addition, brands from China are also well received in the market due to competitive pricing and acceptable quality. These include Haier and TCL. Example logos of leading brands are shown in Figure 3.4.

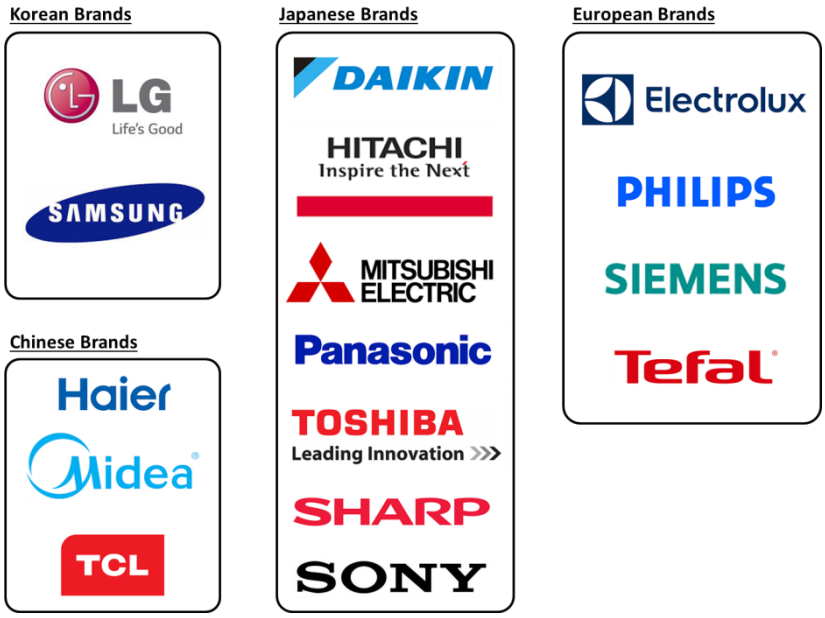


Figure 3.4: Showing examples of logos of leading brands.

Source: Author

There are two types of distribution channel for electrical appliances in Hatyai and also in Thailand. Those two types are modern trade like Tesco Lotus, Big C, Makro, and traditional trade which are mostly small and medium retailers.

Like other retail business in general, modern trade is expanding aggressively while traditional trade cannot catch up with the number of stores. Electrical appliances are products that most households require, so they are available in all leading modern trade channels. The number of modern trade stores was 6 at the beginning of research period in2010. This number has increased to 14 or it has doubled within 4 years as illustrated in Figure 3.5. The major main players in Hatyai city on the modern trade channel are as follows:

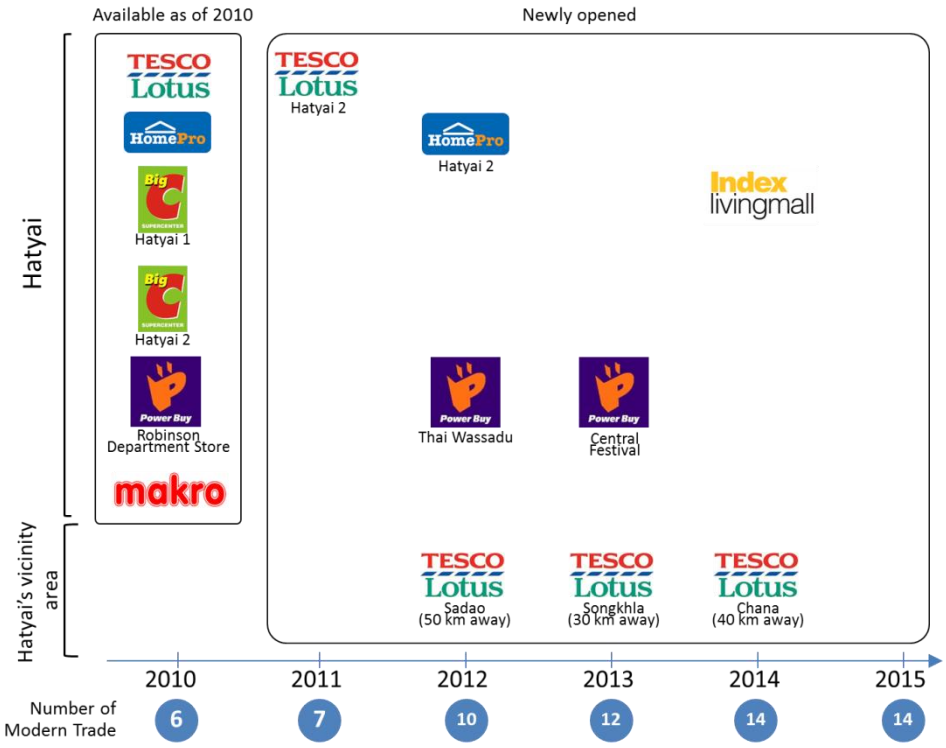


Figure 3.5: Showing increasing number of modern trade channels in Hatyai and its vicinity area

Source: Author

- Tesco Lotus: this is a hypermarket selling a variety of products for households. Electrical appliances are just a part of what Tesco Lotus sells. There are also food courts, bookstores, fast food chains e.g. KFC, Pizza Hut, as well as famous restaurant chains in the same buildings. Thus, people can go there to do many activities including one stop shopping.
- Big C: this also has a hypermarket format. It operates in exactly the same way as Tesco Lotus.
- Makro: this is a cash-and-carry providing household goods in large quantities, as a members-based wholesaler centre. Customers who purchase in large quantities or retailers normally visit Makro for shopping. However, electrical appliances can be purchased as a single item at a normal retail practice.

- Central Department Store: This has a department store format selling a variety of products. The Central group has introduced a shopping complex format called "Central Festival" consisting of the Central department store, shopping complex for all leading brands, dining, and entertaining with cinema and bowling. Electrical appliances are sold by a store named PowerBuy, which also belongs to the Central group. According to PowerBuy's website (http://www.powerbuy.co.th/en/content?banner=about-powerbuy), *"Power Buy Company Limited is Thailand's largest electronics retailer. We are part of the Central Group. We have more than 80 stores operated nationwide and is currently being considered as the largest technology and electrical appliance store with the widest selections"*.
- HomePro: According to its website (http://www.homepro.co.th/en/about), *"Home Product Center Public Company Limited (hereafter "HMPRO") was established on June 27th 1995 with the initial registered capital of 150 MB as a joint venture between Land and Houses Public Company Limited and Quality Houses Public Company Limited. It was established with an objective to operate in retail business, selling products and providing comprehensive services associated with home and building construction, expansion, renovation, and repair under the trademark "HomePro"* ". Electrical appliances are also one of the main product groups offered by HomePro, since people typically purchase electrical appliances after home construction or renovation. The format is in a large area, like Tesco Lotus and Big C, and provides restaurants in the same buildings. Thus customers can spend time all day browsing, selecting and shopping.
- Thai Watsadu: this belongs to the Central group and does the similar business to HomePro. Therefore, electrical appliances are operated by PowerBuy.
- Index Living Mall: this is a big mall for home decorative items and furniture. The main products are furniture with many designs for both home and office use. Electrical appliances are operated by a shop called "PowerOne" owned by the Index

group. Customers who buy new houses or renovate houses mostly require furniture and home decorating materials as well as electrical appliances. There are regular promotions of bundles including furniture and electrical appliances.

Traditional trade consists of mostly SME retail businesses which are in the business for more than 20 years. Many of them are operated by the 2nd generation or in the process of transferring from the 1st to the 2nd generation. They are direct dealers of the leading brands, meaning that products are purchased directly from suppliers who are subsidiaries of those leading brands. Being direct dealers provides benefits in term of support from suppliers e.g. store decoration, signboard in front of stores, product consultant staff, and rebate incentives. The amount of support depends on the amount of purchase. However, traditional trade, particularly SME retail businesses, do not have all of those leading brands in their shops because of sales capacity and barriers from existing dealers. The former is due to shop size, which can generate a certain number of sales. Becoming a direct dealer means accepting sales targets from suppliers in order to get rebate incentives. Therefore, the more brands those shops have in stores, the higher the sales those shops have to generate. Otherwise, overall products costs can be high if sales targets are not achieved or suppliers can consider closing those accounts in the case of consecutive poor performance. The other reason is opposite to the former one. Those shops have potential to generate enough sales to meet sales targets but suppliers cannot authorise those shops to become direct dealers because the existing shops do not allow this and put pressure on suppliers by retaliation. The existing dealers create barriers in order to keep competition as low as possible in the area.

Since Hatyai is the main business city of Songkhla province, the majority of traditional channels are in Hatyai and can be divided into two groups according to size.

- The first group is composed of large retail business and there are only two companies in this group. Their revenues are about 500 Million THB per year (or about 10 million GBP). The size of stores has over 1,000 square meters, which is a similar size or larger than the display area of electrical appliances in the modern trade. The stores are also decorated and set up like the leading modern trade. Only electrical appliances and consumer electronics products (such as notebooks, tablet computers, and mobile phones) are available. These two companies are long established for more than 40 years, so they have a large customer base for both retail and wholesale. Hotels and condominium projects in the local area mostly purchase products such as televisions, refrigerators and air conditioners from these two companies. Here is brief description of these two companies:
    - Vitchusin: there are 3 branches in Hatyai. The main store is in the standalone format in a 3 floor building. The other two are outlets in modern trade – one in Big C and the other in Central Festival.
    - Sanguan Panich: there are also 3 branches. The main store is in Hatyai with its second outlet in another city in Songkhla about 30 kilometers away from Hatyai. The third is in Central Festival as a Sony brand shop.

- The second group is considered SME retail business, of which there are 7 companies in Songkhla province. 5 companies are located in Hatyai including my own company. In the past, there were 4 more companies which have just recently closed down. These stores are also local shops which have been in business for 10 – 30 years, but their sizes are smaller with area around 50 – 500 square meters and they are not decorated nicely as in the previous two formats. The stores are open air, without air conditioners, as opposed to the two large companies and for modern trade. Their annual revenue is around 30 – 150 million THB. These stores offer only electrical appliances – with no consumer electronics such as mobile

phones, or notebooks. Prices are generally negotiable and can be reduced below the prices in the previous two shop formats.

For both modern trade and traditional trade, customers can make payment by either cash or credit card. Most customers in the city have credit cards and it becomes common practice for suppliers to provide 0% installment plans to promote particularly high price items. For example, a 55" inch Samsung television is priced at 30,000 THB and Samsung does 0% interest rate for a 6 months installment plan; therefore, customers pay by credit cards from participating banks. Afterwards, customers pay their respective bank 5,000 THB each month for 6 months. Samsung is responsible for paying interest rate for customers to the banks. For those who are not eligible for credit cards, this kind of promotion is not applicable.

In general, after-sales service is different between modern trade and traditional trade. Modern trade normally focuses only on sales and customers are asked to contact the suppliers' after-sales services directly. In contrast, traditional trade consists of a local shop operated by local people, so customers receive more convenience in this matter. If products have any problems, local stores typically provide suggestions over the phone and can dispatch staff to help customers if required. In case of major issues, local stores help customers to contact suppliers' after-sales service and follow up until problems are resolved.

3. Researcher's organisation – Hatyaisoundstar

My own organisation is a small retail business called Hatyaisoundstar. It was established more than 30 years ago by Mr.Ekkachai – my father. Mr.Ekkachai was initially a technician, specializing in repairing and servicing electrical appliances about 40 years ago. After many years in the servicing business, most customers trusted in Mr.Ekkachai's knowledge and often asked for recommendations on which products to purchase, because customers believed that service technicians knew products from the inside out. Recommendation from an experienced technician would suggest quality and a durable product. That was the turning point from a service business to a retail business.

At the beginning of this study – 2010, Hatyaisoundstar was located in Hatyai downtown with a display area of 50 square meters as shown in Figure 3.6. It was considered a small retail business with annual revenue of approximately 30 million THB in 2010. The financial results prior to 2010 were not accurate because many small businesses in Thailand do not report actual results in order to keep Tax at the lowest level possible. I have been involved in the business since the end of 2010 and I have started using accounting software for accounting and financial reporting. The business is operated by 4 persons, but mainly run by an owner-manager – Mr. Ekkachai. The additional 3 persons included Ms. Panadda – my mother who is responsible for accounting and cash handling, a female assistant to Ms. Panadda, and a male assistant to Mr. Ekkachai. Like other SME retail businesses, the management system is centralised, since an owner-manager operates, manages and controls all activities with help from others.

Figure 3.6: The Hatyaisoundstar display area (Left) and the front of shop building (right)

Source: Author

As a small retail business, Hatyaisoundstar is an authorised dealer of LG and Toshiba and Hatyaisoundstar has been doing business with these two suppliers for over 20 years. Both LG and Toshiba have a variety of products. Therefore Hatyaisoundstar has to focus on particular items so that the cost of purchased products for those items can be competitive. Otherwise, purchased quantities are not high enough for a volume discount or a rebate incentive. As a result, 90% of sales were from the LG brand and 10% were from Toshiba. Within LG sales, 60% were from air conditioning products and the other 40% were from washing machine and television. Sales of Toshiba were only 1 Door refrigerators. Product prices are negotiable and are mostly cheaper than those of modern trade. Customers are local people who received recommendations by friends who were customers of Hatyaisoundstar. In addition, air conditioners are sold to independent service technicians who buy in order to install for their own customers. Air conditioners demand extensive services (e.g. installation, maintenances) compared to other electrical appliances, which are just plugged in and switched on. A number of customers prefer to buy from local technicians and expect those technicians to be responsible for both installation and any issues related to after-sales service. Those service technicians do not keep stock and they

buy products whenever they receive orders from their customers. Although those technicians are not end consumers, their behavior is similar to end consumers.

In summary, Hatyaisoundstar is a small retail business in an intensely competitive market and the competition is continually increasing, particularly from modern trade. It has been a challenge for SME retail businesses like Hatyaisoundstar to survive and thrive in this situation.

Opportunities for Researcher's organisation

Targeting urban customers by competing with larger stores is definitely not an option. One of the business opportunities the firm sees is to target customers in rural areas; however, most customers in rural areas are agriculturists. They prefer to buy on credit or purchase on an instalment plan if possible. They are normally not eligible to apply for credit cards because credit card companies require proof of regular income such as salary. Mostly, they borrow a loan from a non-financial institution which could be from local shops or from people in their communities. However, the interest rate is extremely high – much higher than the one controlled by the Bank of Thailand.

Therefore, the goal is to find the way to exploit this opportunity. This customer segment is very large, as most Thai people are agriculturists and if the company can successfully target them, the firm can grow profitably without directly competing with the big discount stores. This segment of the population is not targeted by those big stores, as the big stores do not provide credit or instalment plans for this segment. However, the current business

model definitely cannot serve this group of customers. Therefore, changes in the business model are necessary to exploit this opportunity.

Researcher's roles

My role is to lead the change project by conducting experimentation to create changes in the current business model in order to capture the opportunity. The experimentation needs to be low risk and low investment because the goal is to create learning while limiting negative outcomes when any mistakes happen. This role creates change in the organisation and learning can arise from the change that I create. Therefore, on the academic side, I can be a researcher employing action research to collect data and perform analysis in order to gain knowledge which is in this case the dynamic perspective of business model innovation.

3.4 Data Collection and Analysis

In action research, data arise from active involvement in day-to-day activities in the organisation and through engagement with others in the action research cycles. Thus data are generated by myself rather than collected from observed system. There are many occasions to interact with others both formally and informally, for example, meeting with suppliers and partners, discussion with the team during breaks or interacting with customers. Data can be documented from private self-reflection or from reflective notes taken during a meeting while the feeling or thought is still fresh. Multiple sources of data include literature, conversation, meetings, proposals, presentations, observation, and reflection notes. Data collection methods can be participatory, or observational. They can involve general discussion, debrief meetings, review of the plan at each action research cycle and financial report.

As action research unfolds in real time, the main challenge is to adapt continuously as new issues arise. Hence, reflection on the outcomes which are intended and unintended is crucial for the subsequent decisions.

In this research, the unit of analysis is business model and its interrelated core activities. Data, which are generated from intervention, are analysed in order to understand how the business model is evolved as well as its dynamics of change.

3.5 Validity and Reliability

Action research typically starts with a "fuzzy" situation in the initial stage. ("Fuzzy" refers to the lack of clarity and definition of some key variables, uncertainties about their relationships and whether these are stable or changing, and so on.) After multiple cycles of research, the situation and the solution should have become less fuzzy to the researcher. The research involves an unfolding series of actions over time, where interventions and their results help to clarify affairs. The researchers study their own actions and their results, in order to change and improve the object of study, as well as to learn from the change process. Therefore, action research is about experiential learning and reflective practice (Coghlan and Brannick, 2010).

Reflection is the process of thinking about past or ongoing experience, in order to question it and understand issues, with a view to taking future actions (Reynolds, 2011). Thus, the process of reflection has important roles in action research, since this research has the characteristics of building on the past, and taking place in the present with the aim of shaping the future (Coglhan and Brannick, 2010).

The work of Schon (1983) on reflective practice has significantly influenced the thinking about, and practice of, professional development (Reynolds, 2011) Reflective practice concerns how individuals engage in critical reflection on their own action in order to improve their learning. Schon (1983) differentiated between two forms of reflection: reflection-in-action and reflection-on-action. As described by Schon (1983), reflection-in-action involves reflecting on the incidents while this can still benefit the situation, as opposed to reflecting on how to do it differently in the future. Reflection-in-action recognises the process of constantly interacting between thinking and doing, in order to modify ongoing practice in such a way that learning occurs (Leitch and Day, 2000). This is a process where professionals react to the events at the time they happen, as compared to thinking about what happened and make adjustments in the future. Schon (1983) describes reflection-on-action as reflecting after the events in order learn from retrospective analysis. The researchers can reflect, once the event has transpired, as to how their knowledge of similar experiences in the past may have led to particular expectations, and how it can help explain unexpected outcomes, and what needs to be changed in the future. Coglhan and Brannick (p. 25, 2010) conclude that reflection is the activity in action research that integrates action and research.

In an Action Research project of this type, there are actually two types of Action Research occurring at the same time, which Zuber-Skerritt and Fletcher (2007) term Core Action Research and Thesis Action Research. The interrelationship between those two types of Action Research is illustrated in Figure 3.7).

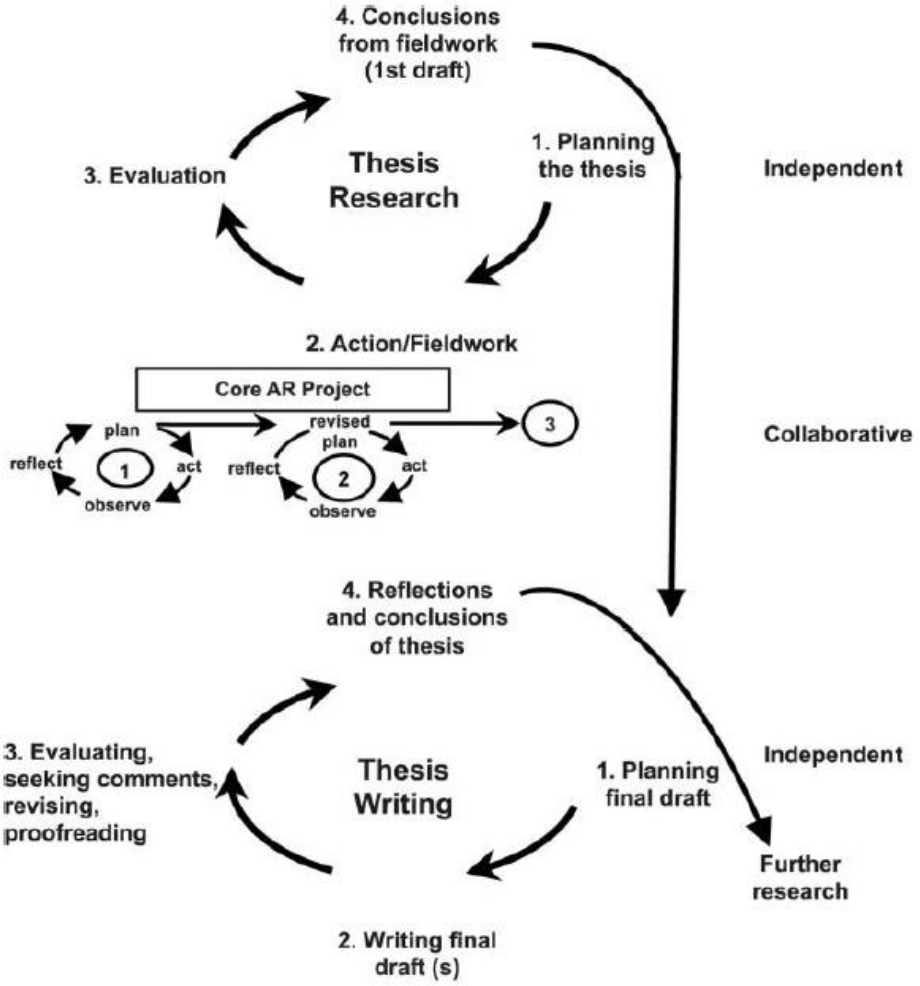


Figure 3.7: Conceptual model of Action Research – showing interrelationship between Core Action Research and Thesis Action Research

Source: Zuber-Skerritt and Fletcher (2007, p.421)

Core Action Research is a project of implementing changes in the organisation; therefore, in this study it is related to implementing Business Model Innovation in the researcher's organisation. Core Action Research consists of multiple cycles of Constructing, Planning Actions, Taking Actions and Evaluating Actions.

Thesis Action Research involves two major components: Thesis Research and Thesis Writing. Thesis Research consists of activities related to conducting research in practice

and includes four steps – 1. Planning the thesis, 2. Fieldwork (as shown in Figure 3.7 this is where the Core Action Research is located), 3. Evaluation, and 4. Developing conclusions from fieldwork. After completion of the Thesis Research, the second part of Thesis Action Research is Thesis Writing which consists of 4 steps – 1. Planning final draft, 2. Writing final draft, 3. Evaluating and revising the draft, and 4. Reflection and Conclusion of the thesis.

Reflection has crucial roles in learning within both Core Action Research and Thesis Action Research. Reflection takes place at three steps during the conduct of an Action Research Project, in order to gain learning from practice.

- First, reflection takes place at the Core Action Research as the researcher implement Business Model Innovation in practice. Both reflection-in-action and reflection-on-action occur while conducting Core Action Research, which consists of multiple cycles of actions. Reflection-in-action happens within each cycle, and involves reframing problems and taking actions on the spot so that experiences will be viewed differently and learning will occur (Leitch and Day, 2000). On the other hand, reflection-on-action happens at the end of each cycle, so that the researcher analyses the past actions retrospectively in order to understand them and take actions differently in the future. Chapter 5 deals with the Core Action Research, and elaborates it in a form of a narrative of how the researcher implemented Business Model Innovation. Reflection-in-action and reflection-on-action are implicitly described within this story, as the researcher conducted a series of activities and faced unanticipated challenges and problems.

- Second, after the implementation of Business Model Innovation, reflection-on-action can take place. This is effectively at conclusion of the fieldwork (step 4 of Thesis Research in Figure 3.7), as the researcher reflects back on overall multiple cycles of Core Action Research. Using an appropriate framework to view and

understand data, learning can be taken from past experiences. Chapter 4 will describe the framework related to Business Model analysis that has been employed in conducting Business Model Innovation as well as retrospective analysis of past experiences. Chapter 6 presents the learning derived from using the framework as a result of reflection-on-action.

- Finally, the third type of reflection occurs at the step 4 of Thesis Research, which develops the reflections and conclusions of the thesis (step 4 of Thesis Writing in Figure 3.7). Chapter 7 is the result of this third type of reflection, in which the researcher conducts overall reflection, drawing on both previously mentioned types of reflection, and setting out and analysing the overall learning in the light of the initial research questions and themes of the thesis.

The development of knowledge during the research process must be clearly articulated to demonstrate that the work has been rigorously conducted and that the conclusions are valid ones. In addition, rigour in the action research itself depends on how data are generated, collected, explored, and evaluated, as well as on how events are questioned and interpreted during the process (Coghlan and Brannick, 2010). The research employs the following methods to increase reliability and validity of the research:

- The research is not simply reliant on researcher experience. It also employs objective data on the company and its performance, such as financial results (which are the outcome of actions). Hence, this provides evidence going beyond the personal perspective.

- The research employs data triangulation, since data are generated and collected from multiple sources, including articles, observation, direct conversation, and financial reports. Assertions can be tested against these multiple sources.

- Multiple action research cycles are conducted - this allows comparison, evaluation and contrast of evidence and findings that have been developed from each cycle.
- The Action Research is conducted in a real-life setting, where learning is derived from the ongoing events and results. Therefore, the research covers both relatively successful and relatively unsuccessful events; learning are captured from both types of outcome (as opposed to basing retrospective analysis on solely on successful cases, which is not uncommon in management studies - whose findings may then be subject to survival bias, cf. Björkdahl and Holmén, 2013).

This study is properly described as insider action research, in which the researcher is conducting research within his own organisation. Conducting research in one's own organisation has both pros and cons. The researcher can gain full access to the organisation, which is difficult in many other situations. There is no political concern in such a small organisation, particularly in this case, where I occupy the top position. However, the dual role of the researcher as also being a member of the organisation in question can be problematic. Being an insider provides basic and background knowledge concerning the organisation; but being too close to the situation can make it difficult to stand back and look at the data in a detached way. This can be improved by enhancing reflective practice skill, and the researcher can analyse situations from different levels – with multiple types of reflection employed in this research as previously mentioned.

In addition, using objective data, as discussed above, and exposing the work to other people, allows the researcher to expose his own privately held perspective attaining some sense of objectivity. In this case, the researcher continually exposed the work to feedback from other people, from a range of backgrounds, at different occasions. His supervisors at MBS were able to provide critical perspectives relating to their own knowledge of business

studies (and their methodology), as well as their own experience of small firm development issues. Other people were additionally more intimately knowledgeable of the Thai situation. For example, a leading University based near the site of the research was designing courses to develop SMEs' business in the local area (following Thai government policy aimed at enhancing SMEs). The researcher participated in this programme, presenting the implementation of Business Model Innovation of his organisation, outlined in this thesis, as a case study. Most of the programme facilitators were academics, with some invited lecturers coming from business; they were able to discuss the case presented by the researcher. While this is not a systematic peer review, these people provided their input to the research ideas and their views as to whether the researcher's perspective is or is not highly plausible and aligned with their own experience. The positive reception the presentation secured is a source of confidence in the account provided here.

Moving on, the final chapter (Chapter 8) of this thesis provides some reflection of the whole process of conducting Action Research and writing this thesis. This section also reviews the researcher's experiences in the actual context of undertaking reflection in the ways described above.

3.6 Summary

In this chapter, research questions were presented. Insider action research is chosen as an appropriate method to conduct empirical study on business model innovation of SME retail business. This chapter also describes the research context, which explains details of the researcher's organisation and its competitive landscape.

CHAPTER 4

CONCEPTUAL FRAMEWORK

The chapter consists of two sections, which are 4.1 "Business Model Concept" and 4.2 "Evaluation of Business Model Innovation", as shown in Figure 4.1. Section 4.1 explains the concept of the Business Model Canvas that is used to generate innovation and to capture learning through enacting action research cycles. The framework focuses on the Business Model as the main unit of analysis for this research. Learning captured from this framework is expected to provide answers to the gaps in the existing Business Model innovation for SME retail business in this research. Section 4.2 elaborates on criteria to evaluate Business Model Innovation, focusing on 2 dimensions related to the research questions – degree of innovation and degree of success.

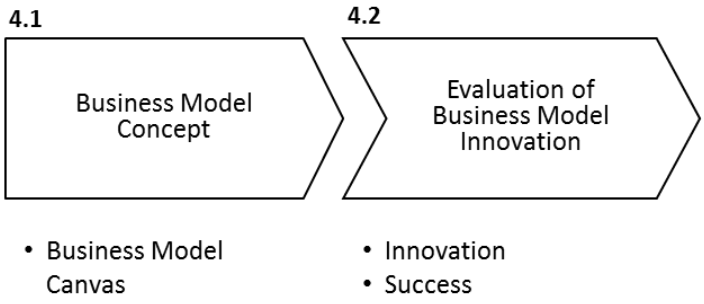


Figure 4.1: Structure of Chapter 4 Conceptual Framework

4.1 Business Model Concept

This section explains the Business Model Concept that is employed as a conceptual framework in implementing Business Model Innovation in the researcher's organisation. From the literature review, a Business Model is broadly defined as the business process of delivering value to customers, creating value and capturing value among stakeholders. A Business Model can be used to represent firms and there are different ways to use the

Business Model concept to simplify the logics of doing business, but it should not simplify too much. Otherwise, the concept fails to distinguish the main differences between firms (Baden-Fuller and Morgan, 2010) and cannot capture changes (Demil and Lecoq, 2010). On the other hand, it should not be so narrow that it covers every detail that is specific to a particular firm (Demil and Lecoq, 2010).

The Business Model Canvas proposed by Osterwalder and Pigneur (2010) represents a Business Model in a graphical format. It illustrates a firm's Business Model by using systematically defined components. Those interrelated components visually represent how the business works. This concept is applied in this research to study Business Model Innovation in practice. The goals are to study how much the concept helps a firm to understand its own business logic and to generate innovation. In addition, the study investigates how the concept helps to provide systematic structure during the process of Innovation. Such a process is complex and difficult to conceptualise (Wirtz, 2011).

The Business model canvas is depicted in Figure 4.2, followed by a brief description of each building block.

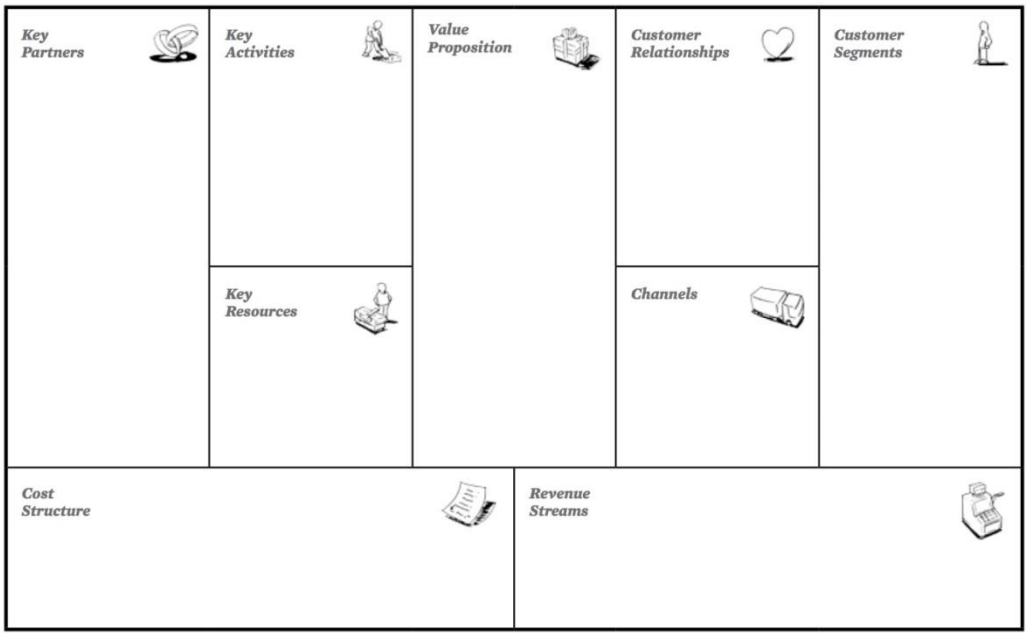


Figure 4.2: The Business Model Canvas consisting of 9 building blocks

Source: *Osterwalder and Pigneur (2010, p.44)*

Here is a brief description of each building block, taken from Osterwalser and Pigneur (2010, pp. 16 – 17)

- *Customer Segments*: An organisation serves one or several customer segments.
- *Value propositions:* It seeks to solve customer problems and satisfy customer needs with value propositions.
- *Channels:* Value propositions are delivered to customers through communication, distribution, and sales channels.
- *Customer Relationships*: Customer relationships are established and maintained for each Customer Segment.
- *Revenue Streams*: Revenue streams result from value propositions successfully offered to customers.
- *Key Resources*: Key resources are the assets required to offer and deliver the previously described elements.
- *Key Activities*: Key activities are performed by Key Resources

- *Key Partnerships*: Some activities are outsourced and some resources are acquired outside the enterprise.
- *Cost Structure*: The business model elements result in the cost structure.

The Business Model canvas fits well with the broader definition of the retail business concept, because it can show how such a business creates an ecosystem beyond the firm boundary, which can include suppliers, partners and customers in order to create and deliver value to customers as well as capture value for all related parties. In addition, the Business Model Canvas has been widely used by both academics and practitioners (Massa and Tucci, 2014). Therefore, the concept can be used as a communicative device to transfer knowledge and findings of this study to both academics and practitioners.

4.2 Evaluating Business Model Innovation

This section explains criteria to evaluate two key dimensions of Business Model Innovation which are (1) the changes that are considered as Business Model Innovation and (2) whether Business Model Innovation is successful.

First, the criteria to evaluating the innovation of a Business Model are discussed. In general, OECD (2005) divides innovation into 4 types: product innovations, process innovations, marketing innovations, and organisational innovations. The minimum requirement for an innovation is that those 4 types of innovation must be new to the firm or deliver significant improvements within the firm. Innovation is not necessarily new to the industry or new to the world as described in famous studies. However, Business Model Innovation is not mentioned in the OECD (2005), but the definition of organisational innovation is similar to Business Model Innovation. OECD (2005) mentions Organisational innovation as the

"implementation of business practices which is the implementation of a new organisational method in the firm's business practices, workplace organisation or external relations".

Previous studies on Business Innovation have mentioned the changes that can be considered as Business Model Innovation. Amit and Zott (2012) mentions that the Business Model can be innovated in three ways – Adding new activities, Linking Activities in novel ways, and Changing which parties perform activities. In other words, those changes are related to elements of Business Model Innovation, which are Content, Structure, and Governance respectively. Another study by Taran *et al* (2015) discusses criteria for Business Model Innovation as Innovation content and the degree of innovation of Business Model. Innovation content is related to the question: "What should we innovate?" and these are business model building blocks. Business Model Innovativeness provides answers to a question "How far do we go?" and this is associated with radicality, reach of the innovation, and complexity. Radicality is defined in terms of the extent to which Business Models are changed from prior states; therefore, it tries to identify whether Business Model Innovation is incremental or radical. The next element is the reach of the innovation which measures the newness of an innovation in term of "new to the company", "new to the market or industry", and "new to the world". The last element is complexity, which depends on how many building blocks of the Business Model are changed. Business Model Innovation happens with any change in any of building blocks. Thus, any change can be considered as Business Model Innovation with different degrees of radicality, reach, and complexity. Trapp (2014) also proposes a similar concept to justify Business Model Innovation; for example, "What is new?", "How new?", and "New to whom?". In addition, the degree of newness does not need to be new to the world or at a game changing level. Hence, the newness at "new to the firm" level can be considered as Business Model Innovation.

Therefore, according to the aforementioned studies, this research evaluates Business Model Innovation using 2 factors as follows:

- Innovation Content or "What is new?", which is related to Business Model building blocks and value propositions.
- Innovativeness or "How new?", which is an evaluation of whether there is any change in any building block resulting in a new value proposition. This research does not focus on evaluating the degree of newness because any "new-to-the-firm" change is considered Business Model Innovation according to Trapp (2014) and Taran *et al* (2015).

Second, the criteria to evaluate whether Business Model Innovation is successful are elaborated. Taran *et al* (2015) defines the success of Business Model Innovation in term of the extent to which the new model allows the company to generate revenue and help the company to increase competitive advantage. However, the study uses only the measure of revenue and does not clearly state the evaluation criteria of the degree of success. Trapp (2014) uses financial performance such as revenue, margin, growth of revenue and growth of margin to evaluate the success of Business Model Innovation. An example of empirical studies on Business Model Innovation (Sosna *et al* 2010) also uses revenue as an indicator of innovation success, by requiring that the firm's revenue should grow at a minimum of 10% for more than 10 years. Innovation can affect firm's performance by gaining competitive advantage or simply maintaining it. These can be achieved by:

- Shifting the demand curve, which means opening up a new market,
- Shifting the cost curve, which reduces the unit cost of purchasing
- Improving the firm's ability to innovate, which allows it to gain or create new knowledge. (OECD, 2005)

The last point relating to the firm's ability to innovate is aligned with the concept of the Business Model as a learning system (Itami and Nishino, 2010). This means that the firm does not just increase its profits but more importantly it can learn from the process. Learning allows the firm to exploit opportunities in the future. As mentioned in OECD (2005), *"an important aspect of all analyses of the impact of innovations is the time lag between an innovation and its impact".*

Thus, this research uses criteria to evaluate the success of Business Model Innovation by considering both monetary benefits and non-monetary benefits. The former are objectively evaluated and can be the revenue and profit margin of a new Business Model. The latter are difficult to quantify but they are worth specifying. These non-monetary benefits can be benefits related to an increase or maintenance in the firm's competitive advantage from opening up a new market, or reducing unit cost of purchase. The most important is gaining new knowledge.

4.3 Summary

This section provided the conceptual framework to be employed during the action research cycles in order to capture learning and to analyse the business model. However, an initial framework that is used at the beginning of the action research cycles is just a part of the framework presented in this chapter. As action research unfolds, other required frameworks emerge in order to suit further actions. This chapter also elaborated on criteria to evaluate Business Model Innovation and its success. The next chapter provides a narrative story of how a business model was changed, together with the emerging conceptual frameworks that resulted from the changes.

CHAPTER 5

ACTION RESEARCH CYCLES

This chapter is related to the action research project which describes the action of changing the Business Model of a firm, which is the researcher's organisation, over the 4 year period from October 2010 to October 2014. During that time, the firm implemented Business Model Innovation in order to exploit opportunities in rural areas. From Figure 5.1, this chapter consists of 2 main parts. Section 5.1 explains the initial Business Model of the retail business, which had been operating for many years before any changes were implemented. Section 5.2 elaborates the overview of the story of five cycles of change in the actual implementation during the 4 year period. Section 5.3, 5.4, 5.5, 5.6, and 5.7, which are the major part of this chapter, provides a story of action research cycles by explaining what actions were taken, what results were achieved, and what changes were made as well as how the Business Model was changed by using Business Model canvas mentioned in Chapter 4.

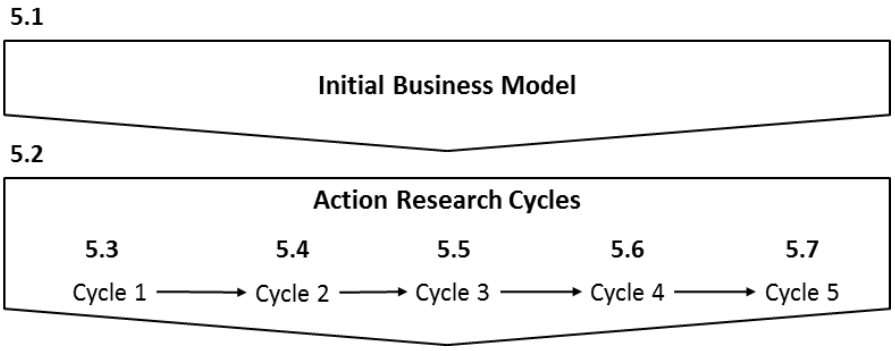


Figure 5.1: Structure of Chapter 5 - Action Research Cycles

5.1 Initial Business Model

Initially, the Business Model of the firm was very simple, and represented a traditional retail perspective – acting as a medium between suppliers and customers. The activities were simple: buying from suppliers and selling to customers through only one store (owner-managed). Most products are purchased using cash (to get a cash discount) and sold using cash to minimize the operating cost of collection and to eliminate the risk of bad debt. The firm is a small retailer and thus needs to focus on a particular product line in order to yield sufficient volume to be price competitive. The firm became a dealer of only LG and Toshiba, with a focus only on particular models. This strategy to fight the big retailers is called "Focus-Low Cost" and it is vulnerable to price competition (Parnell and Lester, 2008). The operation is run by the owner-manager with a team of only 4 people, but most operation is done by the owner-manager: purchasing, selling, delivering, after-sales servicing and even some accounting reports. This is to minimize the fixed cost of the business. With the focus on a product line and low fixed cost, the firm can set the price to be competitive with the big retailers, earning a fairly thin gross margin of around 7% on average.

The Business Model can be represented in graphical format using the Business Model Canvas as shown in Figure 5.2.

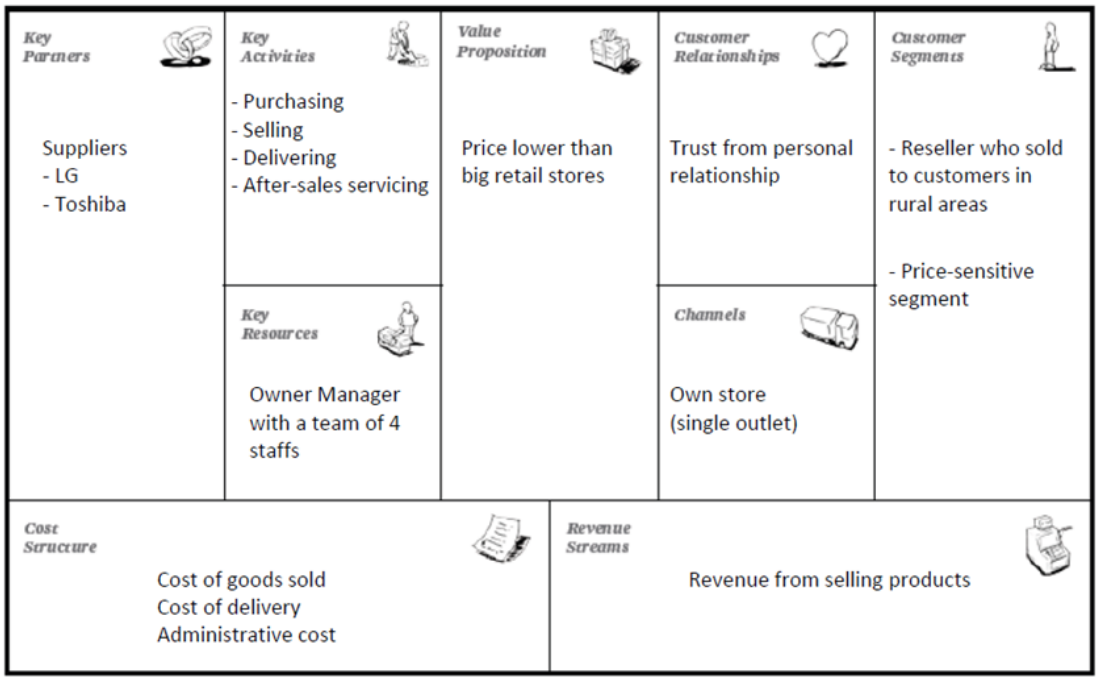


Figure 5.2: Showing the initial Business Model of the studied firm

Source: *Author*

The detail of each component is explained as follows:

- Customer Segments: Two customer segments were resellers and price-sensitive consumers. Resellers were shops located in rural areas. They bought products to sell to their customers who lived in their vicinity, mostly in the form of credit sales. Another segment was consumers who were price sensitive, who shopped around to find the best price.
- Value Proposition: The core value proposition was lower price compared to other stores, mainly big retail stores. This could be done by ordering the selected model in order to get a sufficient volume discount instead of procuring small quantities of a large variety of products.
- Customer relationship: This was based on trust from long established personal relationships, especially from the reseller segment. The end consumer segments were mostly suggested by friends who were previous customers.

- Channel: There was only a single channel which was the firm outlet located in Hatyai downtown.
- Key Partners: LG and Toshiba were the main suppliers. The firm ordered products directly from these two suppliers
- Key Activities: Activities involved normal retail operation – purchasing, selling, delivering and after-sales servicing.
- Key-Resources: The main resources were people consisting of an owner-manager and 4 staff – 2 administrators and 2 customer service staff - responsible for delivering products and after-sales servicing.
- Revenue Streams: This was mainly revenue from selling products
- Cost Structure: The majority of the cost was the cost of goods sold. The building was owned by an owner-manager. Therefore salary cost was the majority of fixed cost. The last component was delivery cost.

The initial Business Model was simple, and can be characterized as merchant intermediaries who buy from suppliers and sell to customers. In addition, key activities were executed by the firm and as a result, the value creation for the customer was mainly created by the firm.

5.2 Overview of 5 Cycles

The action research cycles consists of 5 cycles which took place from October 2010 to October 2014 as shown in Figure 5.3. The objectives were to study Business Model Innovation in practice by employing Business Model concepts as sources of innovation and units of analysis.

The timeline for each cycle represents major changes and learning; however, the processes of change and learning did not completely stop as most of results of changes have continued to operate until now (year 2016).

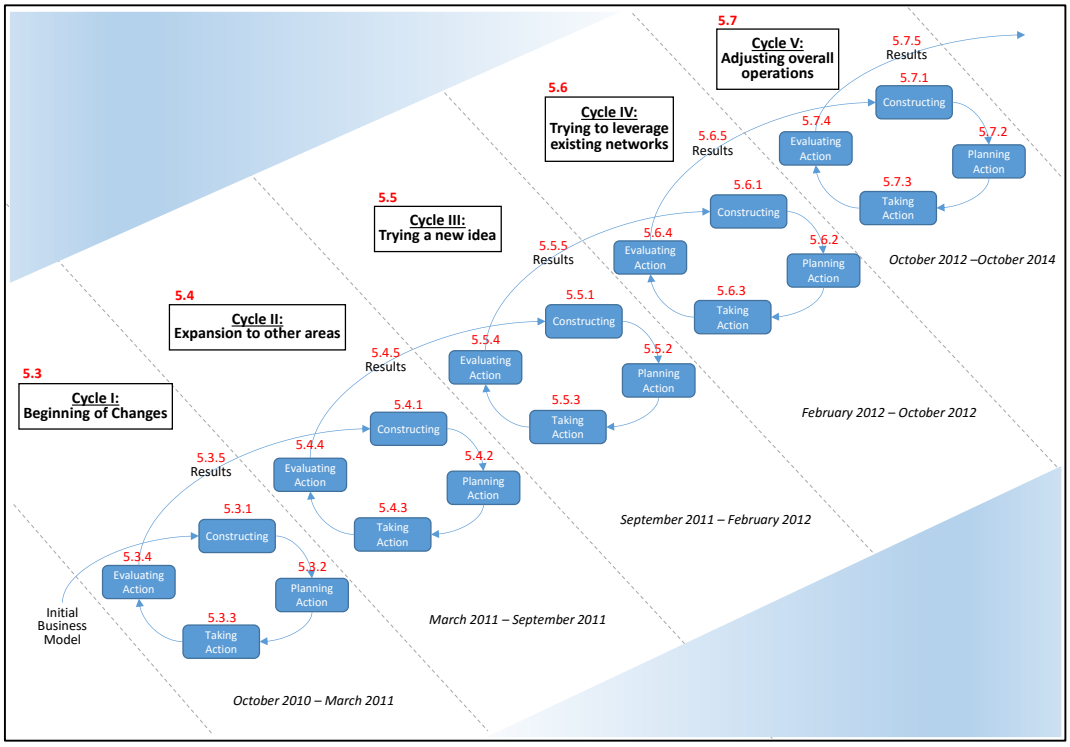


Figure 5.3: Showing 5 cycles of action research cycles in a timeline

This section discusses changes to the Business Model by telling a story of how the Business Model was changed from the initial one to the current one during the 4 year period. The period can be divided into 5 cycles which are described in section 5.3, 5.4, 5.5, 5.6 and 5.7. Each cycle of change is considered a main action research cycle. Thus, the story of each cycle is presented in 4 steps of action research cycle consisting of

- Constructing: explaining what changes or modification of Business Model is required in order to exploit opportunities or respond to issues.
- Planning actions: presenting action planning which is consistent with constructing of issues

- Taking actions: implementing the plan which can possibly require adjustment and adaptation.
- Evaluating actions: examining outcomes and actions taken with constructed issues.

At the end of each cycle, results of changes are described and discussed and this will be the starting points for the subsequent cycles. Therefore, there are 5 sub-sections in each cycle explaining four steps of action research as well as discussing the results. The overall of 5 action research cycles as well as timeline is illustrated in figure 5.3.

Action Research involves multiple cycles of change and the cycles can keep increasing. This research conducted 5 cycles because of time schedule and sufficient learning. First, this research is a doctoral study which has an inbuilt time schedule, so 4 years period is adequate for the fieldwork because time is also required for dissertation writing. Second, after 5 cycles, there are only slight adjustment because all the operations are settled. The research has yield sufficient learning.

In reality, these 4 steps do not occur in totally separated steps as there are overlap during transition between steps. In addition, each cycle can contain two or more concurrent action research sub-cycles which support the main cycles.

5.3 Cycle I: The beginning of changes

According to the research context described in 3.3, the firm was in the situation of innovate or die and the firm found an opportunity in rural which could not be exploited with its current Business Model. This section describes how the firm exploited the opportunity from

having an idea, while preparing for changes and executing changes to the initial Business Model.

5.3.1 Constructing

The initial Business Model was just a retailer acting as a medium between suppliers and customers. The competitive landscape for the electrical appliances market is very challenging, as there are many big discount stores in the city e.g. Tesco, Carrefour (recently taken over by Big C), Makro and Big C as well as a nationwide chain store. Customers also change their shopping habits towards these new channels and the young generation will never think about small electrical appliance retailers. Thus, the small retailers are facing a customer leakage problem, as both urban and rural customers move to the new channels. However, some rural people travel to the city to do shopping while some others purchase from local stores near their homes. In addition, the competition is growing, as the big chain stores keep increasing their branches in the city. Targeting the urban customers by competing with larger stores is definitely not an option.

Retailing businesses have one different characteristic from other businesses, which is close interaction with customers. Therefore one business opportunity for the firm is to target customers in rural areas; however, most customers in rural areas are agriculturists. They prefer to buy on credit or purchase on an installment plan if possible. They are normally not eligible to apply for credit cards because credit card companies require proof of regular income, such as salary. Mostly, they borrow money in the form of loans from non-financial institutions which could be from local shops or business people in their communities. However, the interest rate is extremely high – much higher than the one controlled by the Bank of Thailand. This customer segment is very large, as most Thai people are

agriculturists. This customer segment is not targeted by the big stores because they do not provide credits or installment plans for this segment. However, the current Business Model definitely cannot serve this group of customers and the firm does not have capability to sales on credits or instalment plans due to risks of bad debts.

Therefore, changes in the Business Model are necessary to exploit this opportunity. From Business Model Canvas, a new customer segment is targeted by providing new value proposition. The Business Model Canvas allows the firm to understand the overview of business logic as well as see the relationship among components. The canvas also includes key partners into the picture and this help the firm to get an idea of finding partners that can fulfil the required capability of providing loans to the agriculturalist segment.

With the ideas in mind, interacting with customers allowed me to find a possible solution to target rural customers. An idea was to expand the boundary of the firm by partnering with cooperatives. The International Cooperative Alliance defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. In Thailand, there are many types of cooperatives but the largest are the agricultural cooperatives where only agriculturalists can become members. Cooperatives provide loans to their members on certain rules and conditions. Members of agricultural cooperatives are exactly the target customers who live in rural areas and are not eligible to own credit cards. They also prefer to buy on credit or installments because their incomes are very seasonal.

The Business Model with cooperatives can be presented in narrative as follows. The firm works closely with a cooperative by displaying products at the cooperative's premises and providing sales staff. The cooperative provides loans to customers for purchasing products which are home electrical appliances. In return, the cooperative receives a revenue share of 3% from sales prices. The cooperative is not responsible for any operation and gains revenue from revenue sharing as well as interest from providing loans to their members. Customers also gain value from this Business Model because they can purchase products with credits or installment plans at favourable interest rates provided by cooperatives. The firm benefits from this Business Model because it can expand its customer base to the non-price sensitive segment. More importantly, the firm can avoid head-on competition on price with big retail stores in the city.

5.3.2 Planning Actions

Section 5.3.1 provided an idea of Business Model with cooperatives and the value creation is possible, but everything is just an idea. To make it a reality, the key activity was to make an agreement with a cooperative. Before I approached a cooperative, I had to think about three core factors – value, cost and risks - both for the cooperative and for me. The value must be significantly more than the cost. This had to be achieved with the lowest possible risk.

From the cooperative side, Electrical appliances were products that every household from time to time purchased as new sets or replacement for old ones. If its members could be convinced to buy from a cooperative, that cooperative would receive a revenue share as well as the interest from credit sales or loans when its members made purchases. Its members also gained value by lowering total cost of ownership, as they did not have to

travel to a city and transport products back to their homes. Additionally, they could make purchases on credit sales or on loans, which could be paid by installment plan. Normally, interest rates for members were lower than other financial institutions, whether banks or non-banks. From the cost side, cooperatives only provided their available spaces for displaying products, so that there was also no additional cost for them. The risk to them from this additional operation was very low. In particular, the monetary risk was zero. They did not have to carry the cost of inventory and they also had no risk from market price changes, which normally were lower for this type of product. They received a certain percentage from the sales value. In the worst case, if there were no sales at all, all items could be returned at no cost. I planned to ensure that a cooperative could realize value at low cost with almost no risk – at least monetary risk. This was done in the hope that cooperatives would agree to my proposed business idea without concerns.

For my side, it was obvious that additional sales would be the value that the firm would achieve. Most concerns were about cost and particularly risk because a little loss must be covered by many sales due to low margin. Without taking risk, opportunities could not be exploited. More importantly, doing nothing was also considered risky in a high competition business. As a small retailer, the firm needed to exploit the opportunity while mitigating risks that might occur. The cost included shelves and stands for displaying products, including signboards and banners for decoration. Also, a sales person was a major cost because it was a fixed cost. Those costs were supported by LG – the firm's major supplier. This was the benefit of being a dealer, as LG would also gain more product visibility and chances of sales growth. The cost of displayed products was considered an investment, not an expense, because all products could be taken back to be sold at the main store without price depreciation if well managed. The greatest concern was risk, particularly monetary risks. There were two types of risks that the firm was concerned about – cash handling and loss of displayed products as well as inventory. These two types of risk were

a significant concern for the firm, although it looked simple for a typical retail operation. The firm had been in operation for almost 30 years with a single outlet and most importantly all operations were handled by the owner manager. He was the single control point for receiving products to the store, delivering products out of the store, receiving cash from customers, and paying cash to suppliers. Expanding operation into other premises in which the control point was not the owner manager had never happened and the firm had no knowledge or experience of doing this. My thoughts in handling these issues were as follows:

- Cash handling: When a sales transaction happened, cash handling occurred. The price of electrical appliances was fairly high compared to the monthly salary of staff. For example, a 32" LCD TV was almost double the minimum wage. Typically, a standard operation was to have another person responsible for the cashier function in addition to the sales staff. However, this would add fixed cost significantly and the risk would still exist as the person was not fully trusted. That person could simply take the cash and disappear. Using sales staff for cash handling did not help, because LG had outsourced to another company to hire its sales staff. The aforementioned issue about cash could happen if the process was set in a way that the firm's staff received cash directly from customers, deducted an amount of revenue sharing to a cooperative and then sending the remaining cash back to the firm. As a possible solution, the process flow could be the other way round. A cooperative employee receives cash from customers, deducts the revenue sharing portion and transfers the remaining amount to the firm. This way, cash would not be handled by the firm's staff. Instead, cash is processed by the cooperative staff on behalf of the cooperative as an organisation which can be trusted much more than a newly hired staff member from the firm. Most long-term operating cooperatives have good governance; otherwise they would tend to collapse quickly. In addition, cooperatives are audited by an outside organisation of the government – the cooperative auditing department.

- Displayed products and Inventory: The firm was concerned about the loss of products for any reasons. All products – both displayed items and inventory, would be at the cooperative's premises. The best situation was that a cooperative would be fully responsible for all the products. If there was any loss, the cooperative would be responsible for it – i.e. paying for the loss. However, the firm was concerned that this agreement would not be made because the cooperative would feel that all risk was pushed toward its side. In addition, the cooperative would be liable for all products on its premises, but that may not happen in practice. It would be difficult to prove that any loss of products were exactly from its side, particularly when the cooperative was not aware of the movement of products. On the hand, instead of mentioning this explicitly, the firm planned to ensure it implicitly. On the accounting side, whenever products were delivered to the cooperative, the firm would consider selling those products to the cooperative. As a result, the cooperative would consider buying and recording those products as its stock in its system. For example, assuming that the revenue share was 3%, a cooperative could buy a product at the cost of 97 Baht and sell it at 100 Baht. In all, the cooperative would receive 3 Baht, which would be booked in the form of profit instead of revenue sharing. If the cooperative acknowledged only 3 Baht, which was booked as the revenue sharing fee, the cooperative would not be aware of inventory movement at all. Using the first method, a cooperative would know about product movement as well as inventory status. As a result, a cooperative would be held responsible for the products

After all the factors had been considered and prepared, the next step was to find a cooperative that agreed with the idea. The next section is about making the idea a reality and the adaptation that took place along the path.

5.3.3 Taking Actions

While preparing for the value, cost and risk, the firm was looking for a cooperative to approach. It was an opportunistic step that a regular customer has a good relationship with an agricultural cooperative named Pakpayoon (PPY). The PPY cooperative was located in a nearby province – Phattalung - and the distance was only 50 kilometer or an approximate one-hour drive from the firm. Figure 5.4 shows the map with the location of the PPY cooperative and the firm.

I searched and collected information about the PPY cooperative and found it was a good candidate to start with. It has been established for almost 40 years and has approximate 4,000 members.

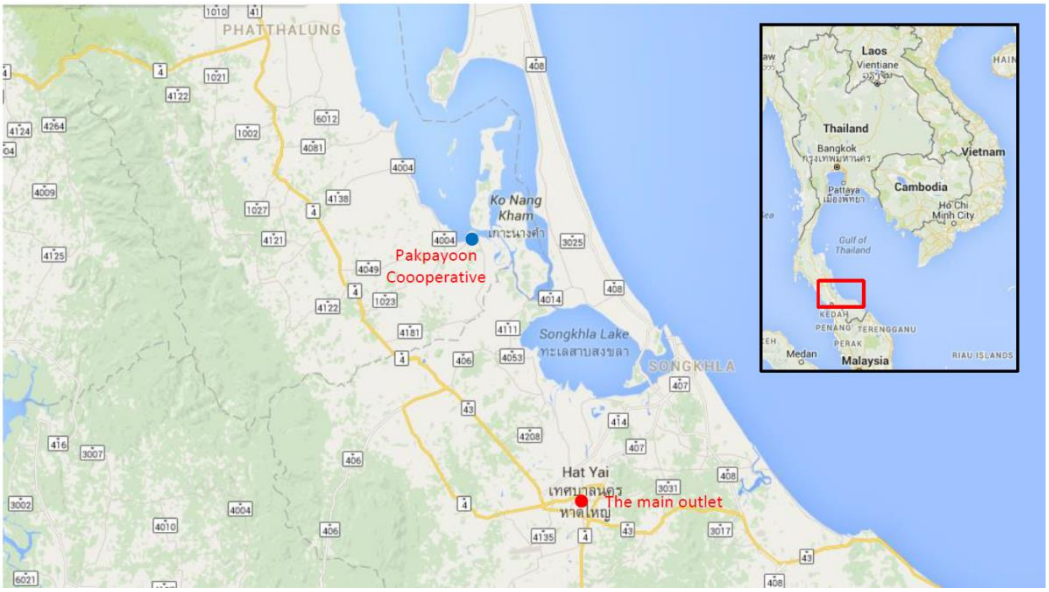


Figure 5.4: Showing the location of the main outlet and Pakpayoon cooperative on the map of Thailand

Source: *Illustration with map of Thailand (Google Map, 2015) by Author*.

Furthermore, there were no discount stores, department stores or electrical appliances shops in that area. I visited the PPY cooperative to present an idea to the head of the cooperative in November 2010 and we agreed to work together. After that, I went to the cooperative a couple of times to talk with its staff in order to set up a working partnership. I was able to gain support from the staff and they agreed with my preferred working methods mentioned earlier. As a result, we were able to start operation in the middle of December 2010. Figure 5.5 shows how we turned an empty space into a display area for electrical appliances.

Figure 5.5: Showing empty space turned into an area for displaying products.

Source: *Author*

The idea of bringing in key partners was from Business Model Canvas and the idea was realised into an actual business. The firm was able to establish a partnership with PPY cooperative and start to operate the new Business Model. However, there were a lot of

works to do in order to make the Business Model with cooperative operating. Many processes were created and then adjusted on ad hoc basis in order to operate effectively. Mainly, there were two series of adaptation which had effects to two major concerns – display product/inventory and cash handling.

Selling and Payment Format

Selling format

- Some items were displayed at the PPY cooperative premise.
- Others items can be ordered from brochures.
- A sales staff provided information and suggestion regarding the products selection as well as product usage.
- Ordered products were delivered at customers' places no later 1 week.

Payment format

Payment was made upon placing orders depending on 3 types of sales

1. Cash sales: Customers made cash payment according to the price of each item.
2. Credit sales: Customers made cash payment after 1 month from the purchased date, but there was 1% additional charge from the price of cash sales
3. Installment plan sales: Customers contact loan department to get installment plan loan. Interest rates were up to customers' credit rating.

Roles and Responsibilities

	Awareness and Interest	Purchase	Payment	Products Delivery	Aftersales services
Customer Buying Process	*Information gathering*	*Making decision to buy*	*Selecting payment options*	*Transporting products to customers' places*	*Getting support and services in case of any troubles*
The firm	Product displaying Marketing Customer inquiries responding	Product preparation (from inventory or from ordering from suppliers)		Products transportation	Supporting and Servicing in case of any troubles.
PPY Cooperative	Promoting through PPY cooperative network		Payment processing upon customers payment selection. Cash transferring to the firm (deduct revenue sharing)		

Figure 5.6: Showing initial activities of the Business Model with PPY cooperative

Source: *Author*

Initially, the selling format was designed so that customers can see products displayed at the PPY cooperative with sales staff available for providing information and answering any inquiries. However, the range of products was limited and additional items could be seen from the product brochure. It was the firm's intention not to place many items on display initially. Customers can make payment with 3 options – cash payment, credit payment or installment plan payment. The last two options were dependent on the customers' credit availability from the PPY cooperative. Since only one item per product was shown, customers' orders were delivered from the main store in Hatyai, so the firm has to wait for more orders to deliver all at once. This was to save delivery cost; however, the firm tried to manage delivery times of less than 1 week. The roles and responsibilities of the firm and PPY cooperative were described according to the customer buying process as shown in Figure 5.6. Most activities from awareness and interest, purchasing, payment, product delivery, and after-sales services were carried out by the firm with the support of sales staff from LG. The PPY cooperative just provided supports by informing its members about the sales of electrical appliances. In addition, it was simply responsible for the payment process and the transfer of money to the firm. These activities were handled by the PPY cooperative staff in the trading unit that was normally responsible for selling agricultural products. The extra tasks can be acceptably added to the routine of the staff in trading units because this operation of selling electrical appliances only slightly increased staff workload.

From the initial activities, the adaptation was firstly applied to the the selling format. The driver for the change was from customer feedback, both implicitly and explicitly. The first change was the quantity of each item displayed at the PPY cooperative. Originally, there was only one piece, which was the displayed item. Upon purchase, customers normally wanted purchased items right away or within that day at the latest. Our sales staff had to give the displayed item to customers in many cases. Customers took the purchased item

by themselves, as some of them owned pick up cars or we sometimes had to use the PPY cooperative's pick-up to deliver products for customers. In the latter case, we were responsible for the delivery cost, depending on the distance at the rate of 4 baht per kilometer. The negative result of this was that the displayed area looked quite empty, as customers took many displayed products. As a result, the firm decided to add 1 piece for each displayed item so that there were two pieces per item, thus preventing the display area from looking empty. The second change was from observing that customers were likely to purchase items that they could see in reality and they do not want to buy from looking at product brochures. For example, there were 5 types of twin-tub washing machines ranging by washing capacity from 6.8kg, 7.5kg, 9kg, 10.5kg, and 13kg. We only displayed 2 types – 6.8kg and 10.5kg. A few 13kg models were sold, as customers tended to delay their decision to buy or select the smaller one. As a result of this, the firm sent more product lines to the PPY cooperative both for display and inventory. It turned out that the 13kg model of the twin tub washing machine was sold the most. The third change was at the delivery activity. As the firm significantly added products, both in term of product lines and item per product line, the product delivery was carried out by the sales staff using the PPY cooperative's pick-up car. That was totally different from the original plan that products would be delivered to customers directly from the firm. Later, when the PPY cooperative moved the pick-up car to another location, the firm purchased a used tricycle, which was modified from a motorcycle, and this was normally used to transport products in that area. In all, the change in selling format was driven by customer requirements, and it was different from the initial designed format. The comparison of selling formats can be briefly presented in Table 5.1.

	Displayed items	Inventory	Product delivery
Initial operation	Displayed only selected items	No inventory	Customers waited no later than 1 week for products to be delivered from the main store.
The 1st change	(same as above)	Adding one piece per displayed item.	Products were delivered by the firm or customers could do their own delivery.
The 2nd change	Increase number of displayed items	Still keeping one piece per displayed item.	Products were delivered by sales staff using the PPY cooperative pick-up car.
The 3rd change	Increase number of displayed items	Keeping more than one piece per displayed item for the product lines that were sold often.	Products were delivered by sales staff using the firm's tricycle.

Table 5.1: A sequence of changes in selling format

In addition, there were also changes taking place in the payment activities stem from an issue related to Valued Added Tax (VAT). If this issue was not handled well, the operation of the Business Model would be much more difficult due to high risk in cash handling. The VAT became an issue because of the cash handling process, which was intentionally designed to be the responsibility of the PPY cooperative. Figure 5.7 illustrates two different types of handling of customer payments. The number in the picture was used as an example to help explanation. In option A, which was selected, products were sold by the

PPY cooperative. Therefore, the PPY cooperative had to recognise revenue as 100 Baht and receive 3 Baht revenue sharing in a form of profit. On the other hand, the PPY cooperative could recognize only 3 Baht as revenue sharing in case of option B. Products were sold from the firm at 100 Baht and the firm paid 3 Baht to the PPY cooperative. Option B was not chosen because the firm had to handle the cash. As previously mentioned, the risk was higher if the firm used sales staff to take care of cash. Adding another person as a cashier did not help and this also increased the cost significantly.

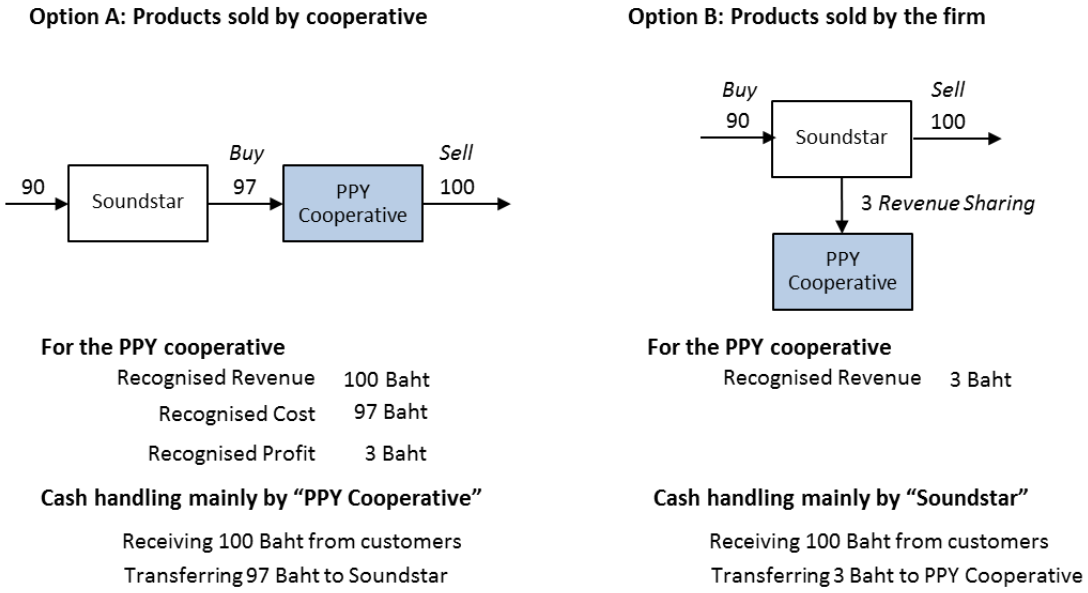


Figure 5.7: Showing two different models of handling payment activities

Source: *Author*

The PPY cooperative had to record the full selling price instead of only a small portion of revenue sharing. That made the accumulating sales reach 1.8 million baht within a couple of months. It was required by the law that an organisation with annual revenue exceeding 1.8 million baht must register into the VAT system. Normally, cooperative organisations do not have to be involved with the revenue department because cooperatives are exempted from income tax. In addition, agricultural products were excluded from VAT. Being in the VAT system, there were two main concerns. First, the 3% revenue sharing would be

reduced from 3 Baht to 2.80 Baht because a portion of this must be deducted for VAT as described in Figure 5.8.

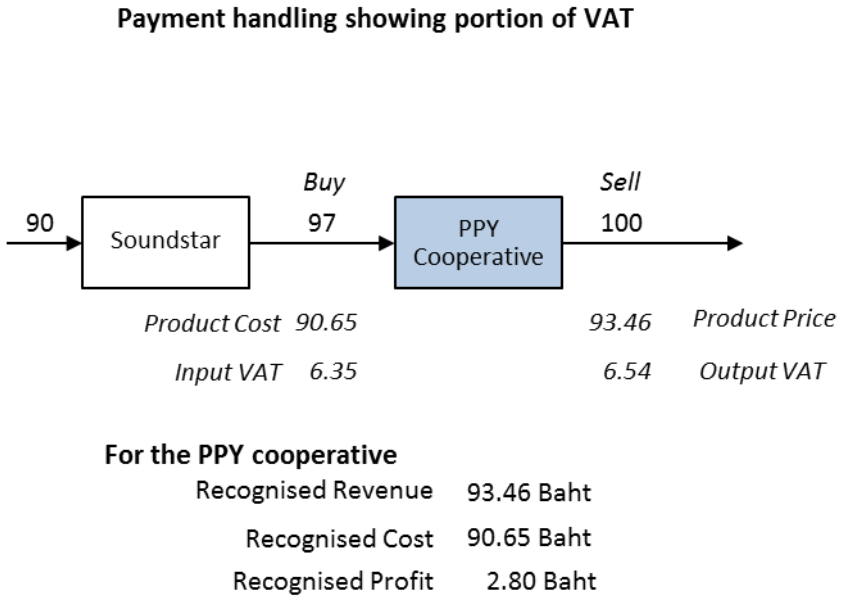


Figure 5.8: Describing a portion of VAT in buying and selling activity according to VAT system.

Source: *Author*

Second, stock reports of electrical appliances, including buying, selling and remaining in inventory, must be available upon request by the revenue department, which occasionally come to audit. For the PPY cooperative, entering into the VAT system caused significant concern for the staff and manager. The PPY cooperative could simply switch to option B in Figure 5.7 in order to avoid being in the VAT system. From the number of sales, recognising only a small amount of revenue sharing would not reach the limit of 1.8 million baht per year. However, the firm did not want this option, due to substantial increased risk of cash handling as previously mentioned.

To resolve this issue, the firm had to convince the PPY cooperative to stay with option A of payment handling and that registering into the VAT system was inevitable. The prime reason that the PPY cooperative agreed to continue with option A was that products were sold on behalf of the PPY cooperative. On the customer side, they acknowledged that they purchased directly from their cooperative. This provided customers with two major benefits, which were related to cash-back and credit sales. Normally, the quantity of purchased items from the cooperative was accumulated for each member so that the total amount was used to calculate cash-back at the year end. Option B – buying from the firm - did not provide this benefit because the sales amount was not registered to the member account. Option B payment handling did not allow credit sales. If customers were to purchase directly from the firm, there were only two options – paying their own cash or paying cash that was borrowed from the cooperative in the form of a loan. Credit sales were only available to members for the products that were sold directly from the trading unit of the cooperative. In many cases, customers just wanted to get the products first and then in one month later make payment. Because of these two reasons affecting their members, the PPY cooperative still operated in the same way. Regarding the first concern, the slight decrease in revenue sharing was not significant when considering the benefits that their members could receive and thereby increased opportunity to sell. The second concern was related to stock report and this could be solved by changing how the PPY cooperative purchased from the firm. Initially, when products were transported to the PPY, whether for display or for selling, the PPY cooperative handled them as if they were purchasing from the firm, so that those products were registered into the cooperative's inventory. This was intentionally designed so that the cooperative was in practice responsible for all the products at its location. There was another way that was easier for the cooperative, but could reduce the cooperative staff's incentive to take care of the products. In this alternative approach, all the products at the PPY cooperative could be recorded as the firm's inventory, which was just located at the PPY cooperative location. Whenever a customer purchased a product, the cooperative would just buy that particular

item and then sell it right away. Working this way, the PPY cooperative always has zero stock in its system, therefore reducing its concern about stock report. Consequently, all the products were out of its inventory system and the cooperative staff did not pay attention in practice to this group of products. Previously, the staff had to do stock-taking for all the products weekly and do the reconciliation with numbers recorded in the computer system. After the change, they did not do this for the electrical appliances products. In effect, it was better for the firm to accept higher risk on the product handling instead of the cash handling.

Many actions were taken in order to realise the idea of Business Model with the PPY cooperative as a result of broaden perspective of retail business stem from Business Model Canvas. However, the initial activities and all the adaptation were handled on ad hoc basis and these tasks were not captured by the Business Model Canvas.

5.3.4 Evaluating Actions

At the beginning of this cycle, the firm saw an opportunity in rural areas, but its initial Business Model was not capable of create values for that group of customers. Business Model Canvas broadened perspective of the firm and provided ideas to find key partners that can fulfil required capability. This section evaluates actions taken to changes Business Model as well as identifies a new Business Model.

From the perspective of the Business Model, the firm changed how it created value, delivered value by coordinating with external parties outside the firm. This can be presented in graphical format using the Business Model Canvas as depicted in Figure5.9.

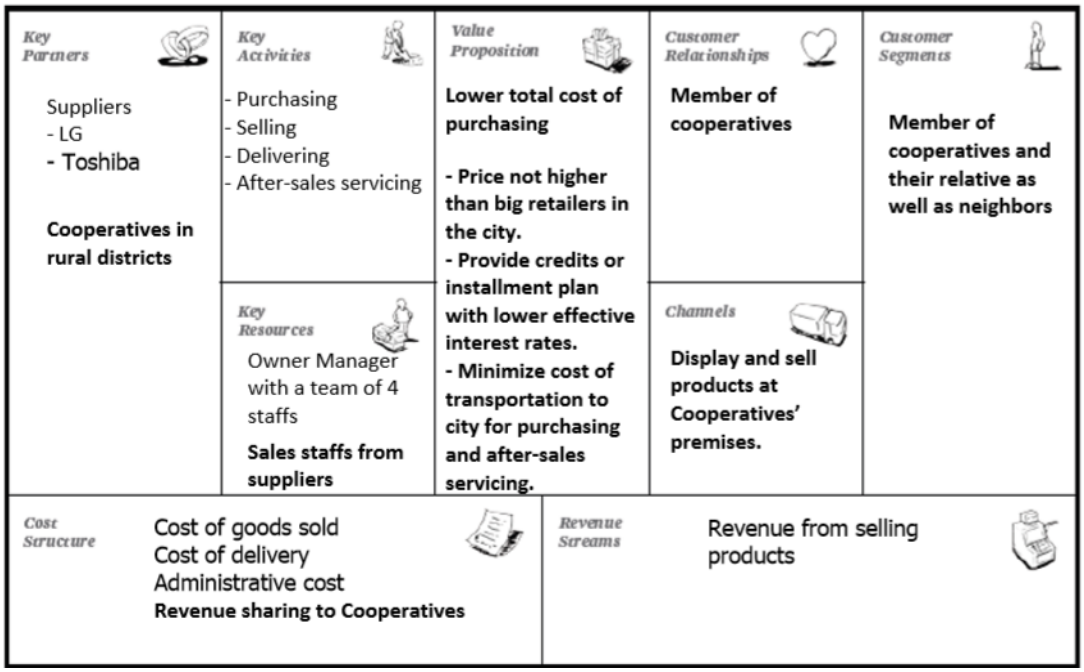


Figure 5.9: Showing a graphical presentation of the new Business Model using the Business Model Canvas

Source: *Author*

According to the Business Model Canvas in Figure 5.9, there are many changes in the Business Model components. All these changes originate from expanding the boundary of the firm to include partnering with a cooperative and gaining support from LG. The changes from the initial Business Model are presented in bold text and the detail of each component is explained below.

- Customer Segments: Mainly members of PPY cooperative are the target customers. As previously mentioned, their incomes are seasonal, so they do not want to pay significant amounts of money at once. Purchasing on credit or on loan are their preferred choices. Due to the closed relationship with relatives and neighbours, members who are eligible to apply for loans can also purchase electrical appliances for other people on their behalf.
- Value Proposition: The Business Model can lower the total cost of purchasing, including search cost, product cost, interest cost, delivery cost, and after-sales

cost. Search cost is reduced significantly as the customers do not have to travel a long distance to the city to look for the products. The price is set no higher than the price in big retailers in the city. The interest rate of a cooperative is more favourable than the market rate and a lot lower than the rate from an individual person. The delivery cost is cheaper due to the closer distance. For after-sales service, customers only bring their products to the PPY cooperative. The firm is then responsible for taking the defective products to service centers in the city and for bringing them back to the cooperative without any charges.

- Customer relationship: Members of the PPY cooperative have strong relationships and high levels of trust with their organisation. They are willing to support the business of their cooperative. As members, they also have ownership in the organisation, so they will receive money back at the end of the fiscal year, which is June of each year. This is in the form of dividends or cash back from the goods they purchased as well as the interest they paid.
- Channel: The main channel is the PPY cooperative's premises where products are displayed with sales staff that support any queries from customers.
- Key partners: The key partner is the PPY cooperative that agrees to provide space for displaying products and to offer loans or credit to customers. More importantly, the PPY cooperative shares its membership database and allows us to contact members for marketing purposes.
- Key activities: The activities are similar to the initial Business Model, but they have to take place at different locations. The other difference is the actors who perform the activities
- Key-Resources: The additional resource is only a sales person who is from LG. The other resources are shared with the main store.
- Revenue Streams: These were mainly revenue from selling products
- Cost Structure: The additional cost is revenue sharing to the cooperative at 3% of sales. The other cost is the transportation cost when delivering products from

the main store to the PPY cooperative. The firm normally manages to transfer a full-truck load at a time to minimise the cost, which is on average 0.5% of sales

Although there are many changes in the Business Model components, this is considered to be a low risk, low investment operation. Firstly, this project is implemented in a small city around 50km from its main store in Hatyai city, so there is no reduction in sales of the main store as a result of introduction of this new project. Second, there is no investment because all the shelves and stands for displaying products are from suppliers. In addition, nice decoration is not necessary in this situation. Third, there is no fixed cost of operation, since sales staff is also from suppliers. Last, revenue sharing limits negative outcomes because the company pays nothing when selling nothing. In effect, if the project happens to fail after testing for a period of time, the company just collects all displayed products back and incurs almost no cost.

5.3.5 Results

The results were mainly measured by the Sales and the Gross Profit. On average, the monthly sales of the main store was approximately 3 million Baht. The first 3 months average of sales, after deduction of 3% revenue sharing from the PPY cooperative, was about 400,000 Baht. That was a 13% increase of monthly sales. The Gross Profit (GP), which was calculated from sales price subtracted by cost of goods sold, grew more than sales. The average GP of the main store was 7% of sales while the average GP of the PPY cooperation was 10%. Therefore the GP increased from 210,000 (7% of 3,000,000) Baht to 250,000 (adding 10% of 400,000) – resulting in 19% growth of GP.

According to the sales data from the PPY cooperative, cash sales accounted for 20% of total sales, while the other 80% of total sales was from the PPY cooperative contribution – providing credits or loans to its members. As a result, this Business Model allows more customers to purchase products from the firm. The result satisfied all parties involved in this operation.

5.4 Cycle II: Expansion to other areas

The sales from the operation with the PPY cooperative increased significantly and the idea of targeting urban customers was proving viable. Therefore, the firm explored this opportunity further by expanding the Business Model to other cooperatives in the neighbourhood areas.

5.4.1 Constructing

Results from cycle I proved that the idea of Business Model with cooperative could create value to customers, suppliers, cooperatives, and the firm. The firm could apply this concept more widely. The overall Business Model was based on the same concept as the Business Model Canvas just added key partners. The other components on Business Model Canvas were still the same as the one with the PPY cooperative.

The cycle aimed to scale up the Business Model with cooperatives to other areas. The idea was to reduce transportation cost by working with more than one cooperative in the nearby locations, and thus achieve economy of scale. In addition, higher sales volumes also meant more frequent cycles of stock replenishment as the quantity of products could reach a full load of a pick-up car in a shorter time. Most importantly, the total sales could proliferate.

5.4.2 Planning Actions

Normally, cooperatives within the same province had good relationships as they shared activities regularly, e.g. sport day events, study trip visits, meetings etc. Additionally, they had good relationships between the cooperative management and staff. Therefore, the firm asked the manager of the PPY cooperative to introduce the idea of this model to other cooperatives. Two cooperatives, Tamode (TM) cooperative and Khaochaison (KCS) cooperative, were suggested. These two cooperatives were considered among the top five in number of members in Phatthalung province, and both were not far from the main store or the PPY cooperative as presented in Figure 5.10. The firm approached both cooperatives at the same time and all agreed to do business with the firm.

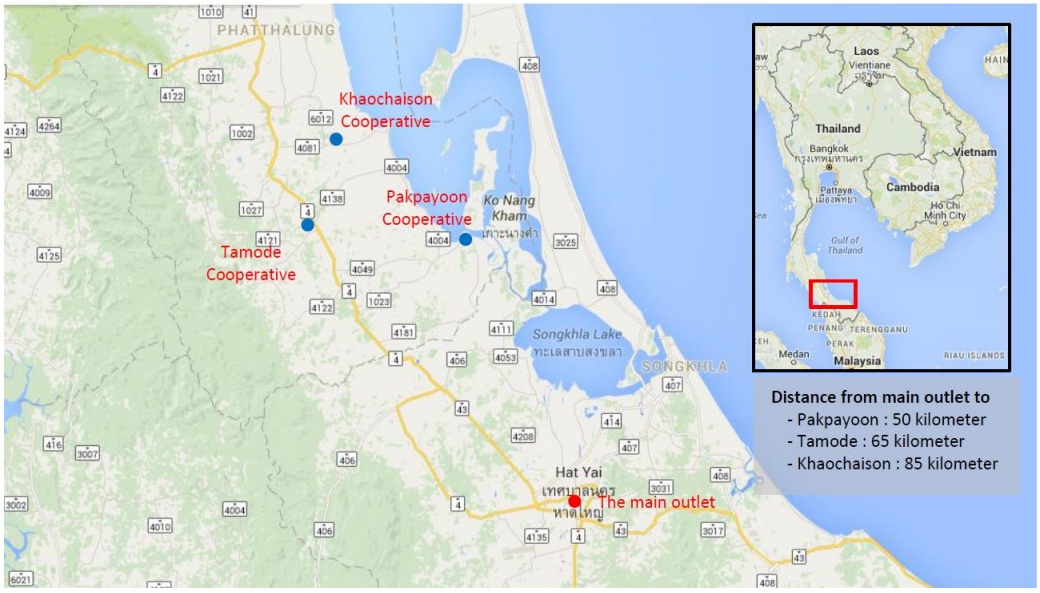


Figure 5.10: Showing the location of the main outlet and all three cooperatives on the map of Thailand

Source: *Illustration with map of Thailand (Google Map, 2015) by Author*.

From experiences with PPY cooperative, the firm was able to prepare all the supporting processes with both TM and KCS cooperatives in advance as opposed to ad hoc basis in case of the PPY cooperative. However, there were some differences in the retailing activities which referred to acquiring, stocking, selling, and delivering products. Two types of adjustment involved product delivery and VAT related issues, as shown in Figure 5.11, which summarises these two differences. The first difference was due to the firm resource constraints, as the firm did not want to invest too early in buying a vehicle for product delivery. For the TM cooperative, the firm chose to give a discount of 1 – 2% of the product price in order to encourage self-delivery. A sales person could come to customers' homes to help set up and explain how to use products if required. In some cases, the firm's pick-up car from the main store could be used for product delivery when it came to replenish inventory, but customers would usually have to wait no longer than 1 week. On the other hand, the KCS cooperative was able to handle product delivery by itself, because it had its own pick-up car for transporting its products to customers. Thus, electrical appliances could be delivered together. However, there was a delivery charge of about 100 – 200 baht and this was the same as its delivery charge for other products. A sales person could also visit customers to provide any support if required. The second difference was related to a VAT issue, as the firm discussed this in advance to prevent future difficulties. The TM cooperative explicitly mentioned that it did not want to be in the VAT system, so the firm decided to wait and monitor the monthly sales to see whether the total sales could potentially reach the limit of 1.8 million baht within a year. For the KCS cooperative, VAT was not an issue because it was already registered in the VAT system due to its diesel-fuel selling business.

Retailing Activities	Pakpayoon (PPY)	Tamode (TM)	Khaochaison (KCS)
1 Product Delivery			
1a) Persons	Delivered by LG sales staff	Delivered by LG sales staff	Delivered by the KCS cooperative's Staff with support from LG sales if required
1b) Vehicles	The firm's tricycle at the PPY cooperative	The firm's pickup car from the main store	The KCS cooperative's pickup car
1c) Delivery Cost	No	No – but providing Discount about 1 – 2% to encourage self-delivery	100 – 200 baht depending on the distance
1d) Delivery time	Mostly the same day of purchase	1 – 7 days depending on Which day the firm deliver products for stock replenishment	Mostly the same day of purchase
2 VAT	Register in the VAT system after selling electrical appliances	Not willing to be in the VAT system	Already register in the VAT system from selling car fuel

Figure 5.11: Summarising two main differences of retailing activities among those three cooperatives.

- Source: *Author*

Work with both cooperatives started about 10 –12 weeks after the work with PPY cooperative. The TM cooperative operation began at the end of February 2011 while the KCS cooperative operation started at the beginning of March 2011. In the big picture, the firm employed a similar Business Model for all three. Two additional sales staff, as well as shelves and stands for displaying products, were from LG.

5.4.3 Taking Actions

Actions were implemented as described in the previous sections, thus the new Business Model operated with 3 cooperatives. Overall, sales significantly increased from expansion to include these two cooperatives. However, the result was different from what the firm

had expected, as the firm made an assumption that sales for each cooperative should be in proportion to the size – the number of members. For the KCS cooperative, the average sales was 270,000 Baht per month which was about 60% of the PPY cooperative sales, while the KCS cooperative had 2,300 members which was approximately 60% of the PPY cooperative members. In contrast, the sales of the TM cooperative were only one third of that of the PPY cooperative although both of them had a similar number of members. Figure 5.12 shows the 3 months-average of sales per month for all three cooperatives as well as their sizes.

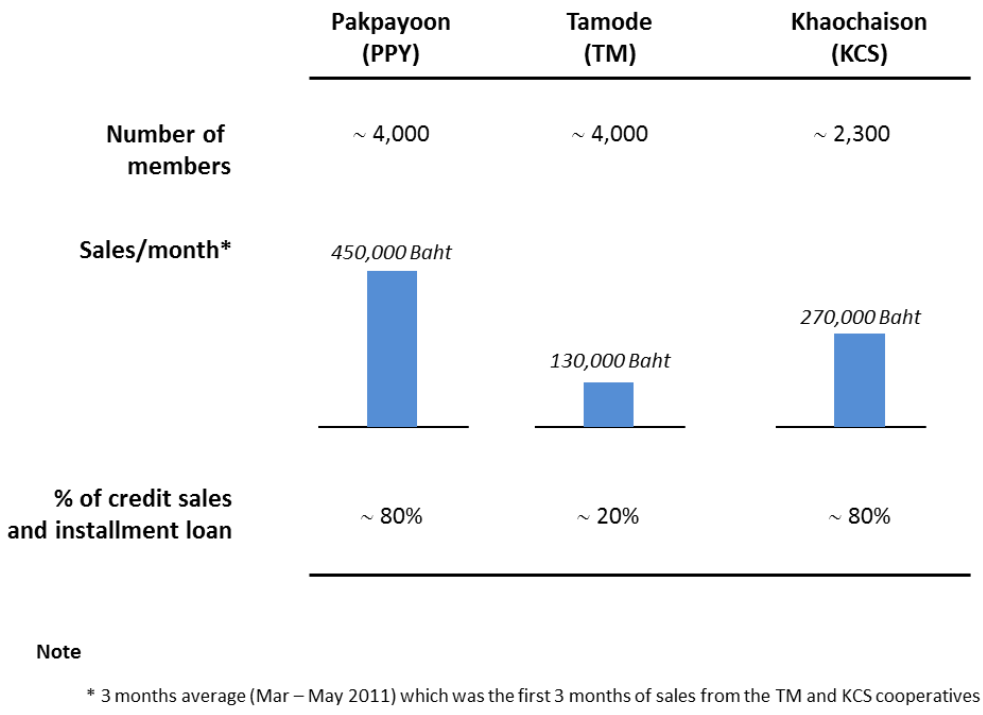


Figure 5.12: Showing comparison of sales and type of sales versus number of members from three cooperatives.

Source: *Author*

5.4.4 Evaluating Actions

The firm scaled up the Business Model with cooperative from working with only one to working with 3 cooperatives. The Business Model Canvas showed the same business logic with just adding 2 key partners which were TM and KCS cooperatives. However, the

operation at the TM cooperative did not perform as expected. For the TM cooperative, the firm looked further into the detail and found that the main difference was from non-cash sales. Most sales of the TM cooperative were cash sales – only 20% of sales were from credit or installment loan sales. In fact, the cash sales of the TM cooperative (80% x 130,000 = 104,000 baht) were similar to that of the PPY cooperative (20% x 450,000 = 90,000 Baht). The difference was the amount of non-cash sales, which was the main value creation of this Business Model. This was due to two key different characteristics of the TM cooperative compared to the other two. First, the TM cooperative's main business was providing loans and gaining interest as its income. Its trading department was a small unit selling only agricultural accessories. There were no credit sales, so members had two options for buying electrical appliances, which were on cash or on installment loan. The process of applying for a loan from the TM cooperative did not support trading business and this was the second reason for low sales. At the end of the buying process, when customers had finally decided which items to buy and how much they would pay, they had to apply for loans from the loan department. In the same situation, the loan approval process of the PPY and KCS cooperative was a one stop service and took a very short time. Therefore, sales could be completed and customers received the products immediately. In the case of the TM cooperative, customers had to contact the loan department and then go to their domicile to wait for acknowledgement from TM representatives, who subsequently were responsible for notifying, collecting and following up loan payment. This could take up to one week and customers decided not to wait. As a result, the value creation of this Business Model was not functioning well in the TM cooperative because the activities did not support the Business Model in practice. The firm had tried to discuss this with the management of the TM cooperative and even joined its monthly meetings with its committee, but there was no change. The firm decided to keep the TM operation as they still had sales, albeit at a lower level and this did not add significant cost to the firm. The firm has to pass the TM cooperative on the way to the KCS cooperative for stock replenishment. In addition, the sales staff was on LG cost; therefore, additional sales meant

extra profit. If the TM cooperative had been the farthest location, the firm would have to think about stopping the operation.

5.4.5 Results

In all, the additional two cooperatives were still considered to add value to the firm. However, there was an additional benefit from keeping the TM cooperative, which will be mentioned in the next section.

5.5 Cycle III: Trying a new idea

The Business Model operated with 3 cooperatives for 6 months – from March 2011 to September 2011. Adding the fourth cooperative was much more difficult compared to the previous ones. The main concern was twofold – diminishing opportunity and resource constraints. The first concern was due to the fact that the remaining cooperatives were smaller than these three current cooperatives. In addition, their locations were farther away from the main store. With smaller size and longer distance, the potential for sales was smaller while the transportation cost was higher; therefore, the net gain would be very little. The second concern was from resource constraints, as the firm had reached the maximum number of sales staff that could be supported from LG. On average, LG required sales of 1 million THB per month for each sales employee. The minimum sales were 80% of sales target and LG could withdraw a sales employee if monthly sales were under 80% of the target for three month consecutively. Therefore, the firm had 4 sales staff in total, resulting in the sales target of 4 million baht per month. The total sales were required to be higher than 3.2 million baht per month. On average, the total sales of LG for the firm were 3.7 million baht per month, which was 3.0 million from the main store and 0.7 million from all three cooperatives. Adding a cooperative would increase the total sales target to

5 million baht per month, hence minimum sales of 4.2 million baht. That required the monthly sales of a new cooperative to be at least 0.5 million baht per month in order to keep the fifth sales employee. It was most likely not possible to achieve, given that the size of the remaining cooperatives were smaller.

5.5.1 Constructing

Due to the diminishing opportunities and resources constraints, it was difficult for the firm to scale up by using similar the same approach. The firm had to find a different way to expand.

The TM cooperative was located on the main road used for transportation among major cities in the South of Thailand, so there were visitors from other cooperatives coming to visit. The displaying of electrical appliances was exposed to these other cooperatives. One cooperative – named Tungliab (TL) credit union cooperative was interested and approached the firm instead of being approached as in the previous cases. As a credit union cooperative, the TL cooperative normally did business by providing loans to its members, but it had just recently started in the trading business by selling agricultural products e.g. fertiliser, animal foods, etc. Electrical appliances were supportive to its trading business, as these types of appliances were used in most households. The firm had discussed a major constraint related to a sales staff member and a main concern regarding the responsibility of product losses at its premises. The firm and the TL cooperative agreed to a new operating model which had no sales staff. Most activities were the responsibility of the TL cooperative, including selling and delivering in exchange of 5% revenue sharing instead of 3% in the previous three cooperatives. As a result, there was a way to expand the Business Model, even with resource constraints as mentioned earlier.

The Business Model with the TL cooperative can be considered the same as the one with previous 3 cooperatives. On the broad level, TL cooperative was another key partner that was capable of providing loans to target customers that were agriculturalists, so the Business Model Canvas was mainly the same – just adding the TL cooperative as a key partner. However, there were many differences in activities supporting the operation of TL cooperative as described in the next section.

5.5.2 Planning Actions

After the agreement has been settled, the TL cooperative wanted to wait until its new building was finished. Shortly after discussions with the TL cooperative, a small sized cooperative named Khokpraya (KPY) wanted to do business with the firm. This cooperative was located between the TM cooperative and the KCS cooperative and it had about 200 members. The firm proposed 5% revenue sharing without sales staff and the KPY cooperative agreed with the following conditions:

- It was responsible for selling products by its own staff.
- Product delivery was also taken care of by its own staff using its own vehicle.
- The loss or damage of products, both in the display areas and inventory, were the KPY's responsibilities.

In addition to the above conditions, the firm collected 80,000 Baht as a deposit in cash on the first day of operation. The deposit amount was calculated as 80% of the total selling price of products delivered to the KPY cooperative at the start of the operation. The 100,000 Baht in total value of products was appropriate to start business with enough variety of products. The main reasons for asking for the deposit were threefold. First, this was to set a standard for future expansion if this Business Model was successful. The firm had to use higher working capital as it expanded this Business Model. Receiving a cash deposit could reduce the amount of working capital for the products kept at the

cooperative. The total value in the selling price of 100,000 baht was approximately 90,000 at cost. The firm invested only 10,000 baht to start the operation. If the firm had not asked for the deposit from the first cooperative, it would have been difficult to convince the next ones to pay. On the KPY cooperative side, it had less risk because it received products at the value of 100,000 baht by paying 80,000 baht. Second, the firm could deduct from the deposit if there was any loss or damage of the products. The deposit also ensured the cooperative's responsibility to take care of the products, since it had put its money into those products as well. Third, the deposit could reduce risk of cash handling in the case that it sold the products, but did not pay the firm. With a deposit, the exposure was only 10,000 baht. For example, if the KPY cooperative sold all the products and kept all the money, the firm would lose only 10,000 baht. However, that was the worst case and was also rare. In practice, if the firm managed to collecting cash successfully for the first couple of month, the gross profit from that period could be more than 10,000 baht, thus eliminating risk.

5.5.3 Taking Actions

The operation without a sales staff was from the agreement with the TL cooperative, but it was postponed until its new building was ready. As a result, the firm had added a new location at the KPY cooperative in September 2011. Later on, the firm started the same model with the TL Cooperative in October 2012 – about a year after starting work with the KPY cooperative. The firm has 5 cooperatives for this Business Model and all locations were shown in Figure 5.13.

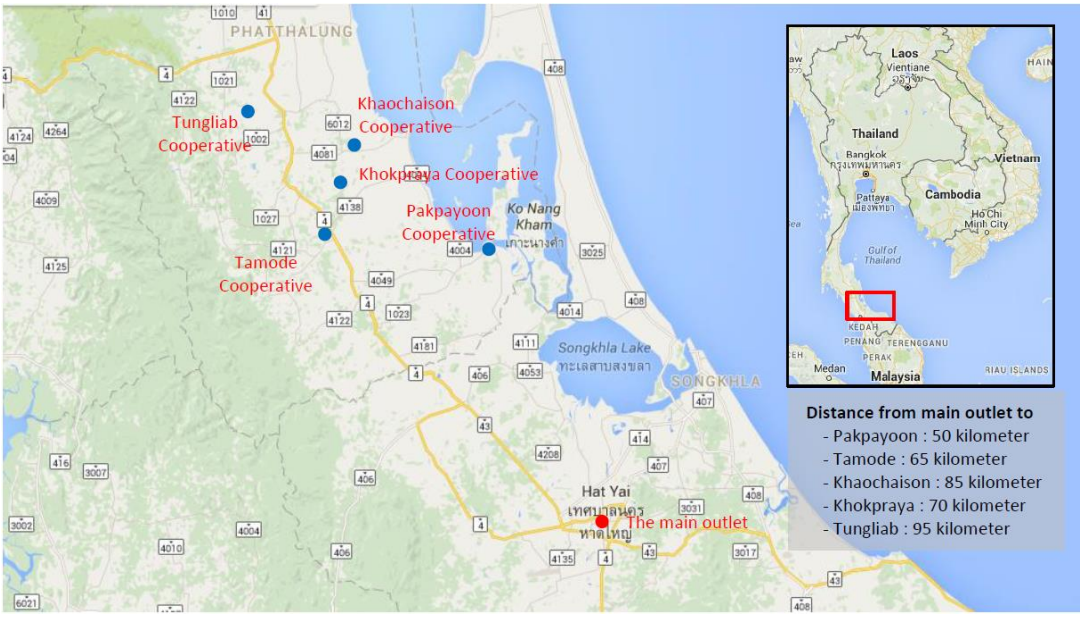


Figure 5.13: Showing the location of the main outlet and all five cooperatives on the map of Thailand

Source: *Illustration with map of Thailand (Google Map, 2015) by Author*.

5.5.4 Evaluating Actions

The Business Model presented in the Business Model Canvas was the same, but the retailing activities changed significantly for the KPY and TL cooperation as depicted in the Figure 5.14. The KPY and TL cooperative were involved more in the operation as their staffs had to be contact with customers in the entire customer buying process. The PPY, TM, and KCS cooperative were mainly responsible for handling customer payment which can be cash, credit or instalment loan.

At this point, the Business Model with cooperatives had five locations which could operate individually on their own. All of them were located not far from one another, as each of them could be reached within 2 hours by car. There were some benefits from having 5 locations. Sales staffs were able to support cooperatives without their own sales staff. In addition, products could be transferred between locations in case of product shortage

rather than waiting for delivery from the main store. This also helped the firm to add products with a variety of colors without keeping too many items in each location. For example, the Toshiba 1-Door refrigerator had three sizes coming in 5 colors, amounting already to fifteen stock keeping units (SKU). The firm did not have to put all fifteen SKUs in each cooperative. Instead, the firm could just ensure that all fifteen SKUs were distributed among five cooperatives. This could reduce the amount of inventory while reducing transportation cost from the main store. Most importantly, customers could select from the full variety and obtain the products in a shorter time – normally within a day.

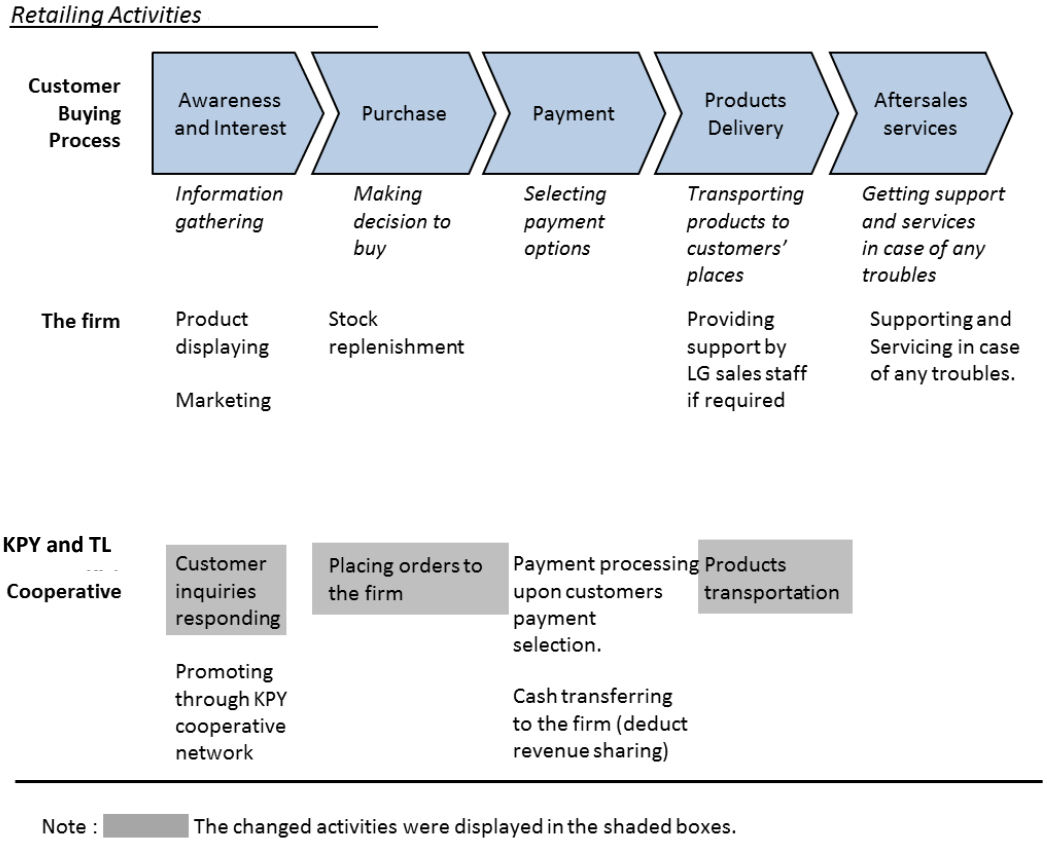


Figure 5.14: Showing retailing activity systems of the KPY cooperative

Source: *Author*

5.5.5 Results

For the KPY cooperation, the monthly sales were 90,000 THB on average for the first six months of the operation while the average sales from the TL operation were 130,000 THB per month. Thus, the result was significantly increased specifically using the same resources. In all, the firm had five cooperatives for this Business Model.

5.6 Cycle IV: Trying to leverage existing networks

The firm could keep increasing the number of cooperatives to increase sales, but the distance would be farther away, amounting to over 120 kilometers. The potential of sales was not enough to support additional sales staff from LG. Using an operating model without sales staff could not be a good option, as the firm was not able to provide support effectively. The benefits from close location, as previously mentioned, could not be realised. In addition, the cost of transportation from the main store would be increased with the longer distance. Due to low sales potential, concerns about support, and higher cost, the firm had to look for another option.

5.6.1 Constructing

When looking at the Business Model level, it was changed in order to target customers in rural areas by partnering with financial institutions – which were agricultural cooperatives, who added value in financing the product purchases. Therefore, the firm can look for other financial institutions that had the same capability. Alternatively, there was another financial institution whose customers were mostly agriculturalists. It was the Bank for Agriculture and Agricultural Cooperatives (BAAC), which provided financial assistance to agriculturalists and agricultural cooperatives. As a bank, it was not able to sell products, so there was a

cooperative backed up by the BAAC responsible for buying and selling products – mainly agricultural products but also other types of products. That cooperative was called the agricultural cooperative for the market of the BAAC's customers, which from here on will be shortened to the BAAC cooperative. The BAAC cooperative had a main office in each province as well as branches, which were distributed nationwide. The BAAC branches were its channels to contact its members. Its members could apply for loans to purchase products sold through the BAAC cooperative. The firm could leverage the available locations of the PPY, TM and KCS cooperatives because there was a branch of the BAAC located near each of them. The initial idea was that members of the BAAC cooperative could get loans from the BAAC and purchase products nearby from the firm's partnered cooperatives. The firm could increase sales by utilising the same resources.

5.6.2 Planning Actions

The firm contacted the Phattalung BAAC cooperative during February to May 2012. Finally, the firm agreed with the revenue sharing at 3% which was the same as the one for the cooperative with the firm's sales staff. On the cooperative side, the firm also had discussions with the management of the PPY, TM and KCS cooperatives regarding this new operation that could potentially increase sales. On the firm side, although the firm did not increase any resources, the firm's costs were increased because it was paying revenue-sharing twice – 3% for the partnered cooperative and another 3% for the BAAC cooperative. The firm had negotiated with those three cooperatives to reduce revenue sharing from 3% to 2% for revenues from the BAAC cooperative. All of them agreed because this did not reduce their benefits, as they normally had to pay cash back at 1% - 2% of the total amount of each member's purchase at the year end. Since sales to the BAAC cooperative was not counted in the cash-back calculation, that amount could be deducted without losing any benefits for the three cooperatives.

5.6.3 Taking Actions

All the benefits and operating procedures had been agreed with the office of the Phattalung BAAC cooperative located in the city centre of Phattalung. The BAAC cooperative was responsible for notifying all branches about this operation. At the start, June 2012, the firm began with the BAAC branch near the PPY cooperative because the firm expected that the sales potential would be as high as the sales of the PPY cooperative. It turned out in reality that nothing was sent from the main office of the BAAC cooperative and the firm had to introduce itself and explain everything to the branch's manager as well as all staff, particularly in the loan department. At the beginning, the firm started to communicate this to people who visited the bank using both signboards and brochures. A sales staff member of the PPY cooperative was assigned to be available at the bank for half of the day for the first two weeks in order to answer any inquiries.

5.6.4 Evaluating Actions

The result was totally opposite to what the firm had expected, as there were no sales at all from this operation. People who visited the bank were not interested, as only a few persons visited the PPY cooperative to look at the products and just disappeared. The firm tried many attempts in promoting this business with the BAAC cooperative at Pakpayoon, but it was not successful. Because of this, the firm learned the following lessons, especially when looking from the retailing activities point of view:

- Selling format and activities: The format did not stimulate customers to buy. First, it was a branch of a bank, and people normally did not expect to buy anything, particularly not electrical appliances. In addition, there was no display and only brochures and signboards could be seen. Thus, people who may have been

interested would have been very few. Second, it was difficult for customers to finally get to purchase products, as it was not a one stop operation. Customers had to visit the bank to be aware that they could buy electrical appliances on loan from the BAAC, and then they had to visit the PPY Cooperative to look at products. Next, customers had to go back to the BAAC branch to apply for the loan. If the loan was approved, customers had to visit the PPY cooperative again to present loan contracts in exchange of products they purchased. Therefore, among the very few persons who might have been be interested, none would finally make a purchase.

- Roles and Responsibilities: this was a critical factor in this Business Model. For the five current cooperatives, the management who made the agreement with the firm were the leaders of the organisation; therefore, staffs were assigned to perform activities that supported the Business Model. However, the BAAC case was different because the agreement was made with the BAAC cooperative in Phattalung city center, but the persons who performed the required tasks were staff of the bank in each branch. Thus, the bank staffs were not fully responsible for making this operation happen. In addition, they had no stakes in success or failure of the operation. They were already busy with their duties, particularly at this time when the BAAC was changing the IT infrastructure of its core banking system. Hence, all staff had to learn and adapt to this new system, which significantly changed the way things used to work.

As mentioned, the retailing format activities were significantly different although the Business Model represented in the Canvas was the same logic which was partnering with financial institutions that can provide loans to agriculturalist. Activities were complicated and required a lot of work on the customer side and assigned staffs were not supportive in this operation. As a result, this operation did not create value to stakeholders – which were the firm, the BAAC, the partnered cooperatives, suppliers, as well as customers.

5.6.5 Results

In effect, this Business Model with the BAAC did not work well although the idea of the Business Model was positive, as it was approved from the management of the BAAC cooperative. The firm gradually stopped activities of promoting this business at the BAAC and went back to operating with the five cooperatives as before. Nevertheless, the firm learned this lesson with very low cost, as the main invested resource was just time.

5.7 Cycle V: Adjusting overall operations

From the last quarter of 2012 to the end of 2013, the firm operated with five cooperatives. However, there were major changes in the level of retailing activities, although the Business Model was still the same.

5.7.1 Constructing

The dropping revenue had effects to value appropriation to all stakeholders. When value appropriation was decreased to a certain level, some key partners had to reduce resources, hence having consequent effects to other parts. All supporting activities were required to change in order to keep the Business Model in operation.

The main driver of change was dropping revenue, which was mainly caused by lower purchasing power. Most members were agriculturalists, so their incomes were related to the price of agricultural products. On the macroeconomics level, the growth rate of income was highest during 2010 when the firm started this Business Model. Then the growth rate

was decreasing until the end of 2011 and has been negative since 2012 as shown in Figure 5.15. The reason behind this incident was not the focus of this research so it was not explored because it is not related to learning of Business Model Innovation.

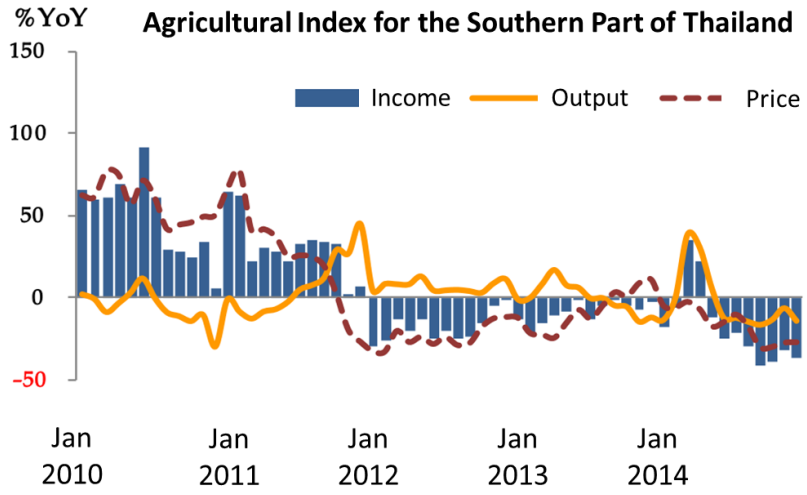


Figure 5.15: Showing negative growth rate of income of agriculturalists in the Southern part of Thailand.

Source: *Bank of Thailand (2015)*

5.7.2 Planning Actions

The adaptation started with decreasing the number of sales staff support from LG, then the firm need to adapt activities to suit the availability of resources. The firm need to plan and make modification on sales staff workforce in order to support all cooperatives effectively.

The total revenue had decreased while the sales target per sales staff from LG had increased; therefore, only two sales staff were allowed for the firm. The sales staff at the main store and the sales staff at the PPY cooperative remained the same. The one at KCS cooperative was returned to LG while another one at TM was recruited to work for the firm. In effect, the firm had three remaining sales staff – two from LG and one from the firm. At

the end of 2013, the PPY cooperative set up a new branch in Pabon (PB), which was not far from the TM cooperative, in order to serve their members around that area. In total, the firm operated at six cooperatives, which were supported by only two sales staff. The one at the PPY cooperative was mainly responsible for the operation of that location. One sales staff took care of three cooperatives which were the KCS, the TM and the PB cooperatives. The other two – the KPY and the TL cooperatives were designed to work on their own. The locations of six cooperatives were shown in Figure 5.16.

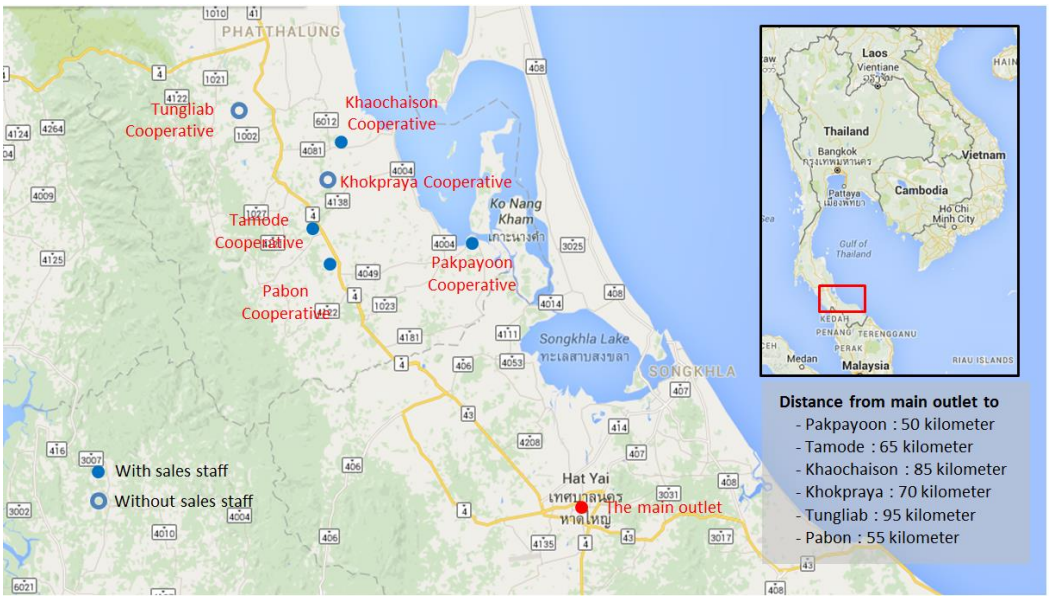


Figure 5.16: Showing all six locations of cooperatives

Due to the reduction of resources – which were the number of sales staff, key activities were required to change accordingly. The selling format – which determines how the operation acquires, keeps, display, sells, and delivers products – were adjusted. The selling activities – which are related to customers buying process – also changed. In addition, roles and responsibilities were made suitable to the number of resources and selling activities. The key characteristics of each interconnected component are described below.

- Selling format: There were three different formats. The first one was a format with a full-time sales employee who provided product information to customers, sold and delivered products, and responded to any inquiries after customer purchases. This format was only at the PPY cooperative. The second one was

similar to the first format, but one sales employee was responsible for supporting 3 cooperatives, which were the TM, the KCS and the PB cooperative. Cooperative staff were able to support product selling when a sales person was not available. The third one was a format without any sales staff, where cooperatives, which were the KPY and the TL, took care of all the sales except for after-sales services. Apart from the formats, another difference was the number of products displayed at each cooperative. The PPY cooperative had the highest number of displayed SKUs as well as the number of products kept as inventory because this location had the highest sales potential according to the figure of monthly sales.

- Selling activities: Selling activities were simple and straightforward, as the activities were carried out according to the customer buying process. Each format was different for persons who performed each task. Multiple locations provided the benefits of supporting each other with both product support and after-sales support. Products could be transferred among locations in case of shortage. Sales staff was able to respond to any inquiries after customer purchases, either by the phone or by visiting customers
- Roles and Responsibilities: This was related to the person who performs the tasks and the incentives to motivate them in their jobs. Therefore, this was also dependent on both selling format and selling activities. On the high level, there were three parties involved in this Business Model – the cooperatives, the supplier (LG in this case), and the firm. On the cooperative side, revenue sharing was 3% for the format with sales staff and 5% for the format without sales staff. In the latter format, the cooperatives had to do most activities, so providing them with additional benefits was reasonable. In fact, with additional benefits, cooperatives just utilise their current resources to handle activities related to electrical appliance products. On the supplier side, LG obviously gain from supporting this Business Model. By providing sales staff, there was a target that had to be achieved. Otherwise, LG could stop supporting the cost of sales staff. However,

with low sales, sales staff were not able to gain enough income because the incentive system was designed so that the majority of the income was proportional to sales. Most importantly, on the firm side, the additional gross profit was greater than the extra cost in order to operate this Business Model even in the time of unhealthy economic conditions. Additionally, there were non-monetary benefits. The cooperative side could increase member engagement, as electrical appliances were widely used in every household. This added activities and benefits to being members of the cooperative. LG also gained additional visibility, as LG products were displayed at multiple locations. The firm had an extra channel to distribute products and this brought two opportunities. First, the firm could bring this Business Model and implement it in other areas. Second, the firm could exploit this channel further by adding other type of product which could possibly fit both the firm capabilities and the demand from cooperative members.

5.7.3 Taking Actions

The firm had made adjustment according to the plan with agreement from all cooperatives. Therefore, the Business Model with cooperatives operated at 6 locations. Each location had different supporting processes as presented in Figure 5.17.

Figure 5.17: Illustrating different operations in all six cooperatives

5.7.4 Evaluating Actions

From the overview, the Business Model with each of 6 cooperatives is based on the same business logic, so the Business Model Canvas can be used to present the firm's Business Model by adding key partners. However, each of them operates differently in order to support the overall Business Model. From the 4 years period, the dominant logic of the Business Model with cooperatives has been the same, but what have been continually changed are the activities that support the Business Model. This cycle entailed many changes in how Business Model operates due to reduction in resources, but all changes were planed and implemented effectively. That was from the learning experiences that the firm has accumulated during the past years. In addition, when considering the overall changes from the beginning, the current operation was a result of changes and adaptation along the 4 years period.

5.7.5 Results

The firm started this Business Model with the PPY cooperative at the end of 2010. In 4 years, 2011 – 2014, the firm had expanded and adapted the supporting activities in order to keep this Business Model in operation. Overall, the firm operated with six cooperatives in total and the revenue from this Business Model was able to create value for the firm, which was more than the cost of running this operation.

5.8 What happened next?

After the Business Model with cooperatives had been settled, the firm changed the focus to relocate its main outlet to a bigger outlet in the newly busy area of Hatyai. The firm relocated to the new area in September 2014. From that time, the firm has mainly

concentrated on setting up the team and settling down all operations. The Business Model with cooperatives is still operating well involving existing partners until the time this time. (Middle of 2016)

5.9 Summary

This chapter describes the action research cycles consisting of 5 cycles during 4 year period. The objective was to implement Business Model Innovation in the researcher's organisation. The Business Model Canvas was initially employed as a conceptual framework and to provide sources of innovation. The main part of this chapter elaborates action research cycles by explaining how the Business Model was changed, what actions were taken, what outcome were achieved, what challenged were encountered, as well as what adaptations took place. In summary, this chapter presents a story of conducting Business Model Innovation and the next chapter will identify key learning captured from actual implementation.

CHAPTER 6

LEARNING FROM ACTION RESEARCH CYCLES

This chapter begins with Section 6.1 which describes the Business Model Concepts that will be used to capture learning from implementing Business Model Innovation. The section also explains how concepts are evolved as a result of actual implementation and action learning. The next 4 sections describe learning taken from conducting action research. Section 6.2 discusses how Business Model can broaden perspectives of retail business and then can be used for conducting Business Model Innovation. Section 6.3 explains the concept of Business Model at different levels of abstraction from reality which provide benefits of helping implementation and identifying learning. Section 6.4 and 6.5 discusses implementation issues related to forming partnership and mode of engagement respectively.

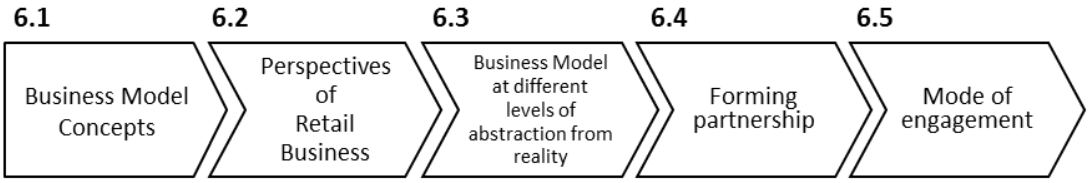


Figure 6.1: Structure of Chapter 6 Learning from Action Research Cycles

6.1. Business Model Concepts

Reflection has important roles in learning during conducting Action Research. In section 3.5, reflection can takes place at 3 different steps during the research. Reflection-*in*-action and Reflection-*on*-action were implicitly described as a story of conducting Business Model Innovation during 5 Action Research cycles. Learning occurred from actual implementation by doing and adaptation in practice in order to keep improving results.

This chapter elaborates on another learning which is from Reflection-on-Action by analysis retrospectively on the past 5 cycles. The learning starts with the main focus of the research which is Business Model concept. This section explains how Business Model concepts have evolved as a result of implementing Business Model Innovation in practice. Initially, Business Model Canvas was employed as an initial Business Model concept in practice of Business Model Innovation. During that time, the researcher has continually studied literatures related to Business Models in order to improve knowledge and understanding so that Business Model Innovation implementation can be improved. Thus, Business Model concepts has changed in 3 concepts as a result of action learning. In addition, the final Business Model concept will be used as a framework to capture learning from Reflection-on-Action of 5 cycles. There are 4 additional key learning which will be described in section 6.2, 6.3, 6.4 and 6.5.

The Business Model Canvas is initially employed as a Business Model concept for conducting the action research cycles. The concept is used to understand the firm's Business Model and to provide sources of innovation. In addition, the concept is in a graphical format, which can represent the Business Model in 9 predefined building blocks on the canvas as described in Chapter 4. Thus, the concept is also intended to be used for capturing changes during the implementation of Business Model Innovation.

After the initial Business Model concept – which is the Business Model Canvas – was used in practice during 5 cycles of action research cycles, the Business Model concept evolved as a result of self-reflection during the action research cycles. Actions always resulted in both intended and unintended outcomes. Those results (and reflections from results) created awareness of knowledge gaps and indicated when further action was required, such as additional literature searches. Therefore, the process of literature study was conducted during the implementation of action research. Information from continued

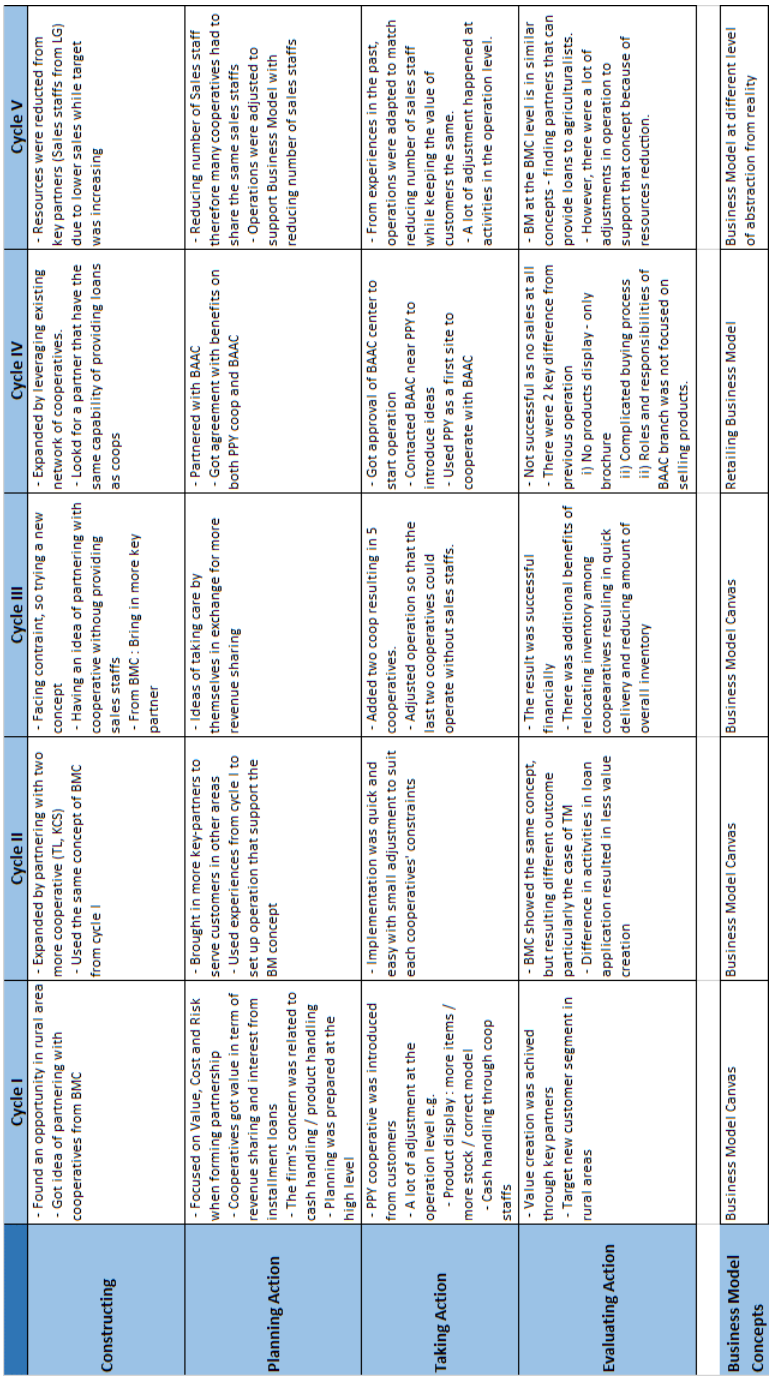
literature study and self-reflection allowed the researcher to understand the relationship between various concepts, and to synthesise Business Model Concepts as a result of the study. The Business Model evolved in 3 concepts as illustrated in Figure 6.2 which summarises key points from each step of all 5 Action Research cycles.

The 1st concept – Business Model Canvas representing the big picture

The Business Model Canvas helps the firm to understand its own Business Model, particularly interactions beyond firm's boundary because the Business Model Canvas brings in key partners. In addition, key partners come with key resources which can perform key activities. Thus, the firm can extend capability by finding key partners who bring other sets of capabilities. From Figure 6.2, Constructing of Cycle I mentioned that the idea of finding partners from Business Model Canvas. By improving understanding and extending the firm's perspective, the Business Model Canvas can also serve as a basis for consideration of further development and adaptation of the Business Model. Cycle II, Cycle III, and Cycle IV were conducted based on the idea from Business Model Canvas as can be seen in Constructing of those particular Cycles in Figure 6.2.

The Business Model Canvas worked well during the ideation on what to change. However, Business Model Innovation required the firm to change the way it performs tasks. The differences were from conducting different activities by using key resources belonging to different partners. The Business Model Canvas was not able to help the firm to structure and plan key processes systematically because those processes are not mapped by the Business Model Canvas. For example, Cycle I employed the concept of partnering with cooperatives to extend firm's capabilities; however, there were a lot of adaptation from initial planning as mentioned in section 5.3.2-Planning Actions and section 5.3.3-Taking Actions of Cycle I. In summary, Business Model Canvas allowed the researcher to

understand his own business and provide an idea of bringing key partner to extend the firm's capability particularly on providing loans. However, the Business Model Canvas can only provide idea in big picture level and cannot help designing and structuring supporting activities.



	Cycle I	Cycle II	Cycle III	Cycle IV	Cycle V
Constructing	- Found an opportunity in rural area - Got idea of partnering with cooperatives from BMC	- Expanded by partnering with two more cooperative (TL, KCS) - Used the same concept of BMC from cycle I	- Facing contraint, so trying a new concept - Having an idea of partnering with cooperative withoug providing sales staffs - From BMC : Bring in more key partner	- Expanded by leveraging existing network of cooperatives. - Lookd for a partner that have the same capability of providing loans as coops	- Resources were reducted from key partners (Sales staffs from LG) due to lower sales while target was increasing
Planning Action	- Focused on Value, Cost and Risk when forming partnership - Cooperatives got value in term of revenue sharing and interest from installment loans - The firm's concern was related to cash handling / product handling - Planning was prepared at the high level	- Brought in more key-partners to serve customers in other areas - Used experiences from cycle I to set up operation that support the BM concept	- Ideas of taking care by themselves in exchange for more revenue sharing	- Partnered with BAAC - Got agreement with benefits on both PPY coop and BAAC	- Reducing number of Sales staff therefore many cooperatives had to share the same sales staffs - Operations were adjusted to support Business Model with reducing number of sales staffs
Taking Action	- PPY cooperative was introduced from customers - A lot of adjustment at the operation level e.g. - Product display : more items / more stock / correct model - Cash handling through coop staffs	- Implementation was quick and easy with small adjustment to suit each cooperatives' constraints	- Added two coop resulting in 5 cooperatives. - Adjusted operation so that the last two cooperatives could operate without sales staffs.	- Got approval of BAAC center to start operation - Contacted BAAC near PPY to introduce ideas - Used PPY as a first site to cooperate with BAAC	- From experiences in the past, operations were adapted to match reducing number of sales staff while keeping the value of customers the same. - A lot of adjustment happened at activities in the operation level.
Evaluating Action	- Value creation was achived through key partners - Target new customer segment in rural areas	- BMC showed the same concept, but resulting different outcome particularly the case of TM - Difference in activities in loan application resulted in less value creation	- The result was successful financially - There was additional benefits of relocating inventory among coopearatives resuling in quick delivery and reducing amount of overall inventory	- Not successful as no sales at all - There were 2 key difference from previous operation i) No products display - only brochure ii) Complicated buying process ii) Roles and responsibilities of BAAC branch was not focused on selling products.	- BM at the BMC level is in similar concepts - finding partners that can provide loans to agriculturalists. - However, there were a lot of adjustments in operation to support that concept because of resources reduction.
Business Model Concepts	Business Model Canvas	Business Model Canvas	Business Model Canvas	Retailing Business Model	Business Model at different level of abstraction from reality

Figure 6.2: Illustrating evolution of Business Model concepts during 5 action research cycles

The 2nd concept – Retail Business Model representing the activities system

The 1st concept, which is Business Model Canvas, could not help the research to systematically work on supporting activities. Therefore, the researcher had to study the literature to find another concept that can be used for systematic structuring of activities that are required to implement change.

Morris *et al.* (2005) proposes a framework for representing Business Models as three increasingly detailed levels of decision making called the "foundation", "proprietary" and "rules" levels. The reasons for proposing 3 different levels are that the framework must be simple, logical, measurable, comprehensive, and operationally meaningful. In addition, the 3 different levels have different managerial purposes. The foundation level supports generic decisions about businesses that entrepreneurs must make. The proprietary level provides development of a unique combination and interaction of six decision areas. The foundation level can be fairly easy to imitate, but the proprietary level is not. The rule level establishes guidelines for governing execution, determined by the former two levels. Representing Business Models on three different levels provides benefits for guiding entrepreneurs to look at Business Models from the overview down to the execution level. The 3 different levels framework was a useful concept that covers the overview picture to execution level, but the article does not elaborate on the details, especially on the proprietary and rule levels. Only the foundation level is provided with six questions underlying a Business Model (Morris *et al.*, 2005, pp. 730).

Zott and Amit (2010) develop an activity system perspective on Business Models. An activity system is a set of interdependent organisational activities consisting of 3 elements as follows:

- Activity system content referring to what activities are performed,
- Activity system structure referring to how activities are linked, and
- Activity system governance referring to who performs the activities.

This article allowed the researcher to conceptualise the Business Model from an activity system perspective. The activity system concept proved the researcher's reflection on the implementation, specifically that implementing changes on the Business Model requires a framework focusing on activities. The article focuses on how the 3 elements are configured to create new value for customers in a significant different way.

Sorescu *et al.* (2011) has presented an activity system for the Retailing Business Model whose main idea is similar to that of Zott and Amit (2010). However, it is designed particularly for retail businesses based on the broader definition of retailers beyond merchant intermediaries. There are 3 core design elements that are interdependent and can be designed to optimise value creation and value appropriation for the firm. They are: retailing format, retailing activities and governance.

- Retailing format refers to the way in which activities are organised into coherent processes fulfilling customer experiences.
- Retailing activities mean the types of activities that are performed; for example, acquiring, stocking, displaying, as well as delivering goods and services.
- Retailing governance refers to not only actors that participate in executing activities, but also more importantly incentive structures that motivate them to successfully perform their responsible roles.

The researcher has implemented Business Model Innovation from Cycle I until the beginning of Cycle IV from the ideas based on Business Model Canvas concepts. The ideas

worked well at the big picture level and the researcher had to work on adjusting operations on daily basis. With Retailing Business Model, this concept provides the perspective of Business Model from activities level in a structure way and this perspective can support the big picture level in implementation. The Retailing Business Model is well aligned with experiences of the researcher that Business Model Concept can also be presented at the activities level as opposed to only big picture level. This concept helps the researcher to understand reason why the BAAC operation in Cycle IV was not successful as described in Evaluating Actions of Cycle IV.

The 3rd concept – Business Model at different levels of Abstraction from Reality

Both concepts – the Business Model Canvas and the Retailing Business Model – allows the researcher to understand the overview of the firm's business logic in a broad way, and provide ideas about what can be adapted. More importantly, it indicates what activities are to be changed in order to support high level modification. These two concepts also help the researcher to conceptualise and capture learning from earlier cycles as described in the next sections in this chapter.

After employing the concepts and a further study of the literature, the research found a relationship between both tools. This can be confirmed as proposed by Massa and Tucci (2014) that Business models can be used to represent firms at different levels of abstraction. The concept can be illustrated that tools supporting Business Model Innovation could be structured into different levels of abstraction from reality as shown in Figure 6.3

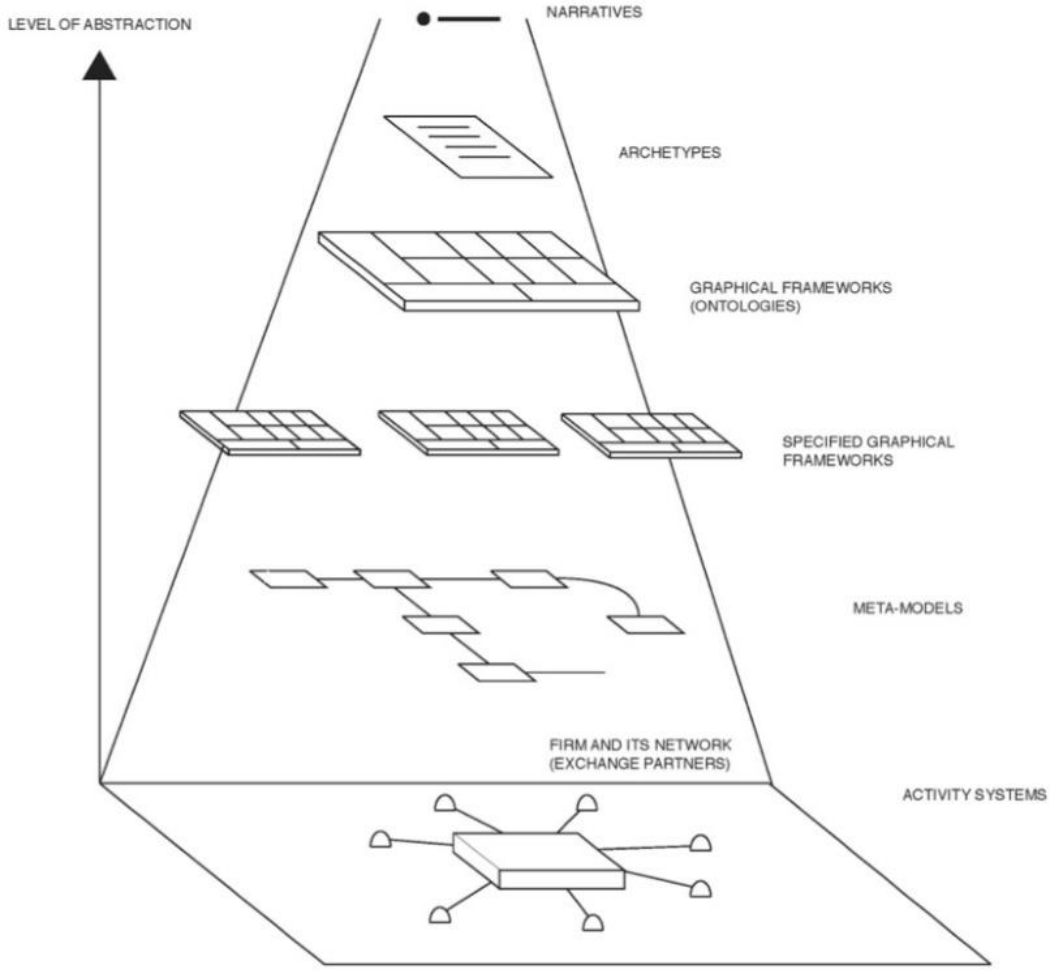


Figure 6.3: Illustrating the different levels of abstraction of a Business Model

Source: Massa and Tucci (2014, p. 433)

In accordance with Massa and Tucci (2014), each type of Business Model is briefly explained in order of levels of abstraction from high to low as follows:

- **Narrative:** This is the highest level of abstraction. The Business Model is presented as the stories which can be made by managers or entrepreneurs. It is used to simplify cognition and as a communicative device.
- **Archetype:** It represents a type of Business Model which is often used as a role model, followed by a short description of the main essence. An example of a well-known archetype is the Razor and Blade Business model, which represents a

concept of "selling cheap razors to make customers buy its rather expensive blades" (Zott and Amit, 2010, p. 218)

- **Graphical Framework:** The Business Model is illustrated by systematically defined components. These components are interdependent elements that give an overall representation of how the Business Model works. Osterwalder and Pigneur (2010) presented the Business Model Canvas consisting of 9 building blocks that can be used to explain a Business Model as well as to analyse and compare Business Models.
- **Meta-models:** This provides a more fine-grained perspective in order to describe the link between choices and consequences (Casadesus-Masanell and Ricart, 2011).
- **Activity Systems:** This perspective conceptualises the Business Model as an activity system, consisting of Content, Structure, and Governance (Zott and Amit, 2010). This perspective allows entrepreneurs or managers to conceptualise the Business Model of a firm with considerable depth and accuracy, as it describes how the firm engages human, physical and capital resources of related parties (the firm, end customers, vendor, etc.) to serve specific purpose toward the fulfilment of the overall objective (Zott and Amit, 2010, p. 217).

From the literature review, a Business Model can be presented from different perspectives. Since each levels of abstraction has limitations on helping to conceptualise and configure a Business Model, it is useful to employ various perspectives from different levels. From Massa and Tucci (2014), narratives and archetypes are difficult to manipulate and to evaluate the likely consequences of changes in one part of the Business Model on the entire system. The graphical framework can fill the gaps of those previously mentioned and allows entrepreneurs and managers to analyse and compare differences among Business Models as well as changes to a firm's Business Model over time. Meta-models provide dynamic

perspectives among components of a Business Model, particularly showing how components affect and reinforce each other in order to work as a system. Last but not least, an activity system helps to identify a practical viewpoint on what activities should be performed, who should do them and how should they be structured.

Therefore, in this research, various levels of abstraction perspectives are employed in order to represent and capture changes, as well as identify key learning ideas from the process of changing the Business Model of the firm. The Narrative, Graphical framework, and Activity system are mainly used as frameworks to present how the Business Model can be changed, especially from conceptual to practical perspectives. Archetype is not used because it can be considered as an ideal example of a Business or a role model to be followed and imitated. Thus, archetype is not suitable to represent specific Business Model in this study. Although Meta-models can be used to conceptualise Business Models with more descriptive depth than the Graphical framework and Narrative, Meta-models cannot describe what activities happen in reality. Therefore, to keep the Business Model Concept simple, 3 different level of abstraction from reality are employed:

- First, narrative is used both explicitly by telling a story of how the firm's Business Model was changed and implicitly by explaining the graphical framework and activity system.
- Second, this study chooses the Business Model Canvas (Osterwalder and Pigneur, 2010) as a graphical framework to represent the Business Model. The Business Model canvas fits well with the retailing Business Model concept, which is mentioned earlier, because the Business Model canvas can illustrate how retailers expand their boundary in order to develop new ways for interacting with their customers. This can include wider range of activities from business partners in order to create and deliver value to customers, as well as to appropriate value for all related parties.

- Third, the Retailing Business Model is used to represent the activity system level because it is particularly designed for retail business. The Retailing Business Model concept provided a structural approach to the conceptualisation, planning and implementation of changes of activities that support high level changes.

From implementation, the researcher found that Business Model Canvas provided big picture ideas but having limitation in structuring activities for implementation which could be supported by Retailing Business Model. This principle allowed the researcher to see relationship between the two concepts that a firm's business model can be represented at different level of abstraction from reality.

The Business Model concepts have evolved in 3 periods as a result of using them in practice and studying the literature for conceptualising the ideas. The 3rd concept, Business Model at different levels of abstraction from reality, will be employed in explaining and capture learning from changes in the Business Model in the next sections.

There are 4 key learning taken from 5 action research cycles. Section 6.2 explains that Business Model concepts can broaden perspectives to retail business. Section 6.3 discusses learning taken from Business Model at different levels of abstraction from reality. Section 6.4 and 6.5 elaborate on implementation issues.

6.2 Business Model Concepts and Perspectives to Retail Business

At the beginning, the seed of change of the Business Model with the cooperative stems from two main factors: the thinking about retailing business and a key difference in

characteristic of retail. Retail business can simply be seen as an intermediary between suppliers and consumers and a key activity is simply purchasing goods from suppliers and selling goods to consumers as described in section 5.1 which explains the firms' initial business logic. Thus, with that narrow perspective, it is difficult to do things differently due to limited choices. On the other hand, retailing business can be much more active in the value chain. The Business Model Canvas helps the firm to understand the business logic and broaden the boundary of the firm because the Canvas includes key partners in the picture; therefore, this provides ideas that key activities can be performed by using key resources from key partners in order to create and deliver value for customers. This perspective is well aligned with the broader definition of the retail perspective described previously by Sorescu *et al.* (2011). This different view broadened my thinking about retailing business and I started to look for alternative activities to grow the business rather than simple self-operating activities such as promotion, price-discount, advertising, adding new products, and adding outlets.

An important unique characteristic of retailing business is that retailers engage in direct interactions with end customers (Sorescu *et al.*, 2011). Particularly, my organisation is a small retailer, in which an owner-manager interacts with customers. According to this unique characteristic, section 5.3.1 Constructing of Cycle I mentions how an opportunity was spotted by talking to a few repeat customers to purchase from my shop and resell to others in a rural area on an installment plan. Unlike urban customers, they are not able to purchase on either cash or credit cards. On finding further information, I found that customers in rural areas are typically agriculturalists who are not eligible to apply for credit cards because they cannot prove regularity of income. Instead of having the discipline and the sacrifice to save for an extended period of time to buy electrical appliances, many people tend to pay higher on installment if someone can provide them with loans. If I was able to sell on an installment plan, I could grow more sales and have extra revenue from interest. However, that was not an option, as it requires a lot of working capital and involves

high risk. Within the broader retailing business perspective, I started to look for a partner who was capable of providing loans to rural people with irregular income. Again, from interacting with customers, I was introduced to agricultural cooperatives as appropriate organisations to work with. Another customer brought me to the Pakpayoon (PPY) cooperative to discuss business opportunities and that was the beginning of the new Business Model.

By having the PPY cooperative as a key partner, the firm was able to extend its capabilities so that customers could purchase on credit or installment plans, thereby adding another selling option for customers. That is also supported by the idea that a successful retailing Business Model should focus on how a retailer sells in addition to what it sells (Sorescu *et al.*, 2011).

After the Cycle I, the researcher has learnt from the Business Model Canvas and understands the business logic. The target customer was agriculturalists in rural area and value proposition to the segment was to bring products closed to where they lived and then provided credit or instalment loans. The firm had to extend capability on providing credits or instalment loans by finding key partners that possess such capability. The PPY agricultural cooperative was capable of providing credits or loans to their members who were agriculturalists. As illustrated in section 5.3.4 Evaluating Actions of Cycle I, the new business logic is presented in graphical format by using Business Model Canvas. The business logic proved viable from the PPY cooperative because the financial result was improved significantly as elaborated in section 5.3.5 Results of Cycle I. Thus, the firm can expand by partnering with other agricultural cooperatives. In Cycle II and III, the firm scale up based on the same business logic by having TL, KCS, KPY, and TL cooperatives as key partners and the expansion was based on the same business logic as described in section 5.4.1 Constructing of Cycle II and 5.5.1 Constructing of Cycle III. The firm also worked

with other type of financial institutions in addition to the agricultural cooperatives as an attempt to leveraging existing networks. In Cycle IV, the firm was able to get the agreement with the management of BAAC as mentioned in section 5.6 Cycle IV.

The Business Model Canvas allows the firm to understand the business logic and provide sources of adjustment. In addition, the Canvas can also be used to capture the changes of the Business Model components and this helps the firm to further understand its own Business Model. However, the result of TM cooperative and BAAC in term of revenue – which were mentioned in section 5.4.4 Evaluating Actions of Cycle II and section 5.6.4 Evaluating Actions of Cycle IV – were not successful as the other cooperatives although the business logic represented by the Business Model Canvas was the same. The reason can be explained by another learning which is described in the next section.

6.3 Business Model at different Levels of Abstraction from Reality

Business Model at different levels of abstraction from reality is employed as a framework to analyse the firm's Business Model from the past 5 cycles. There are two key findings which are related to implementation and learning from changing Business Model.

6.3.1 Implementation

Initially, the Business Model Canvas, which is a graphical mapping tool, was employed to explicate the initial Business Model. This tool resulted in an extension of thinking beyond the internal boundary of the firm as mentioned earlier. Value creation can be conducted in cooperation with partners' resources and activities. The Business Model Canvas can help the firm in identifying what to changes at the high level of abstraction. However, this

graphical framework alone does not guide thinking in implementation which is an important step in making the idea happen. Figure 6.4 illustrates how the researcher employed Business Model at different levels of abstraction from reality in conducting Business Model Innovation during the 5 action research cycles.

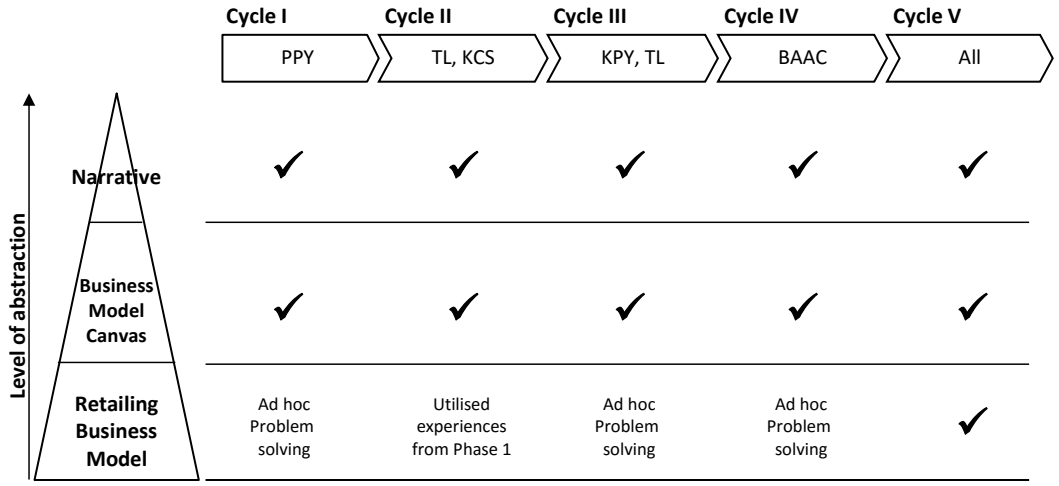


Figure 6.4: Illustrating how the firm employed Business Model at different levels of abstraction from reality at different cycles

At the Cycle I, the researcher began at the high the level of abstraction that the firm can target rural agriculturalists by partnering with the PPY cooperative that can provide credits or instalment loans to its members who are agriculturalists. Then, the Business Model Canvas can be used to represent the idea into nine building blocks by identifying value proposition, target customers, how to delivery values through channels and customer relationship, how to create value from activities by using resources from both the firm and key partners. Business model innovation requires changes in order to make an idea become reality. The firm started with an idea to serve customers in rural areas by partnering with agricultural cooperatives and map the idea on the Business Model Canvas. Many activities and processes had to be designed and implemented to realise this idea. The researcher determined only key processes as described in section 5.3.2 Planning Actions of Cycle I.

However, there were a lot of changes when implementing activities at the low level of abstraction or what happened in reality and more importantly those changes were on ad hoc and daily basis as elaborated in section 5.3.3 Taking Actions of Cycle I. The Cycle II which had similar nature of activities to Cycle I was set up and implemented in better structure as the firm can utilise experiences from the first cycle to structure and set up activities system that happen in reality. The key differences activities were product delivery and VAT handling as summarised in Figure 5.11 in section 5.4.2 Planning Actions of Cycle II.

At the Cycle III, there were significant changes in activity level due to the additional two partnered cooperative had to operate without sales staff. The idea at the abstraction was that the firm can set up the agreement with TL and KPY cooperatives and agree with them to be responsible for selling activities. The Business Model Canvas represented the same business logic. Many activities were required adaptation and handled on ad hoc problem solving again. The retailing activity systems of KPY and TL cooperatives were illustrated in Figure 5.14 in section 5.5.4 Evaluating Actions of Cycle III. What happen in the Cycle IV at the reality level had no structure in setting up activities system at the low level of abstraction because the nature of cooperation was different. The BAAC operation did not work well due to how activities system was set up and this will be discussed in the next section as another learning taken from the concept of Business Model at different levels of abstraction from reality.

The Cycle V was better although the nature of change included significant different type of operation from increasing a cooperative (the PB cooperative) while decreasing resources. The researcher employed the concept of Business Model at different levels of abstraction from reality by using Retailing Business Model to represent what happened in reality. All the changes were planned, implemented and made adjustment in structural ways and the

final operations of all six cooperatives were displayed in Figure 5.17 in section 5.7.3 Taking Actions of Cycle V.

The Business Model can be conceptualised as an interdependent system of activity that can be optimised to support the firm's value creation and appropriation. That system of activity can be done internally or externally with partners. With that concept, retail business can be conceptualised as a Retailing Business Model, which consists of 3 core elements of Retailing format, Retailing activities, and Retailing governance as describe previously. The Retailing Business Model concept supports the Business Model Canvas very well in the design process and the activities that transform the Business Model concept into reality. Most adaptation happens in the activity system, which is the level closest to reality according to Massa and Tucci (2014). Thus, the Business Model Canvas promotes thinking and supports design at the high level, while the Retailing Business Model provides structure to assist implementation and adaptation.

6.3.2 Learning from Changing Business Models

At the high level of abstraction, Narrative or Business Model Canvas provided the similar business logic for all 5 cycles. Most of the changes occurred at the activity system level which was what happened in reality. In general, activity system can be designed to be dominant value creation drivers. Zott and Amit (2010) mentioned that an activity system can be orchestrated and connect to establish 4 design themes: Novelty (linking, adopting, or governing activities in new ways), Lock-in (building elements to retain stakeholders), Complementarities (bundling activities to generate more values), and Efficiency (reorganising activities to reduce transaction costs). This section discusses the learning from the case of the TM cooperative and the BAAC cooperative from the Retailing Business Model perspective in order to understand the Business Model further.

The TM Cooperative at the Cycle II

The Business Model with cooperatives was implemented to exploit opportunities to customers in rural areas. On the customer side, electrical appliances can be purchased on credit or installment loan so that the customers do not have to sacrifice a large amount of their savings or wait until they have saved enough over a period of time, which requires discipline. In addition, interest rates from cooperatives are much more favourable than those of credit cards from both banks and non-banks. The rates are considerably less expensive than taking loans from individual persons, which could be as high as 36% per year. In summary, this Business Model has functioned well when customers purchase on credits or installment loans.

The sales of the TM cooperative was not at the expected level. The number of members of the TM cooperative is similar to that of the PPY cooperative, so the sales were expected to be the same. It turned out that sales from the TM cooperative were much lower than the sales of the PPY cooperative. Most sales at the TM cooperative were cash sales as opposed to credit sales at other cooperatives according to the financial results in Figure 5.12 in section 5.4.3 Taking Actions of Cycle II. When reflecting by using Retail Business Model, the key difference was due to retailing activities at the TM cooperative, which did not support installment loan sales. The process of applying for loan involved many steps as customers had to contact the loan department and then go to their domicile to wait for acknowledgement from TM representatives. This could take up to one week and customers decided to change their minds. As a result, the value creation of this Business Model was not functioning well in the TM cooperative because the activities did not support the Business Model in practice.

Although the Business Model is the same on the high level, minor differences in supporting activities resulted in deteriorating value creation. The case of low sales at the TM cooperative also proved the intended idea of this Business Model to serve rural customers who were likely to purchase on credit or loan installments.

The BAAC cooperative at the Cycle IV

From the idea to the setting up of partners, this Business Model was working well, as all partners agreed with the ideas. As mentioned in section 5.6, the result of this cycle was not successful in term of sales. The main reasons were the retailing format, retailing activities and the retailing governance.

The retailing format was different from most of the previous cooperatives. There was no electrical appliances display because it was a branch of a bank and people normally did not expect to purchase any products when visit the bank. First, customers needed to be aware of this operation when visiting a branch of BAAC. Second, customers travelled to the agricultural cooperative to look at products and get the price.

For the retailing activities, the loan application process was difficult because customers had to come back to the BAAC branch to apply for a loan and wait for the approval that could be granted in the same visit. After that, customers then travelled back to the agricultural cooperative with approval documents to receive goods. This was similar to the case of the TM cooperative that required its members to get approval from each local representative of the groups that the member belonged to. Thus, customers had to do multiple visits in order to make a purchase and in many cases they did not make a purchase, resulting in loss of sales.

More importantly, the factor of retailing governance has a crucial role in this operation. The BAAC cooperative did not have officers in each BAAC branch and normally the BAAC cooperatives worked through employees of the BAAC branch. Usually, employees at each branch were very busy with their own operational jobs. An additional task such as selling electrical appliances was not on their list of priorities, especially when there was no positive or negative effect on their performance. As a result, this operation was not successful financially, but the firm has learnt the drivers for value creation from implementing this operation, hence understanding its own Business Model further.

In summary, Business Model Innovation required changes on how the firm creates value, delivers value, and captures value. At the high level of abstraction, business logic can be represented from an overview perspective and only significant changes can be identified from representing at high level of abstraction. To realise the idea, Business Model Innovation requires actual implementation and adaptation to the unexpected because the firm cannot know the outcome until ideas are put into practices. At the activity system level, Business Model Innovation can be considered dynamic because changes can occur constantly. More importantly, those changes can be captured and evaluated in order to get lessons learned so that firm can better understand its Business Model better.

6.4 Forming partnership

Once the idea was initiated and a partner cooperative was identified, the next step was to set up the partnership. The benefits for all partners were obvious. The firm and LG could increase their customer base, hence growing revenue, while the cooperative would receive benefits from revenue sharing and interest. However, there were two additional important factors which needed to be managed – Cost of involvement and Risk of involvement.

Supplier (LG)

LG has no issue with cost and risk of involvement because LG normally sends sales staff to support dealers' sales activities. If monthly sales for that sales person was not able to reach the target for a period of time (normally 3 months), LG just removed that sales person. Therefore, cost and risk were limited and this activity was nothing new to LG. The main concerns were at the firm and the PPY cooperative. It was necessary for both to work closely together and they introduced a number of new processes.

The PPY, TM, and KCS Cooperatives

The PPY cooperative was approached by the firm to form this Business Model. In order to settle an agreement, the firm absorbed most of the cost and risk. The PPY cooperative only provided their unused space for the firm to display products and store inventory. The other cost of operating was trivial because current staff could be assigned to help with support functions such as issuing receipts, approving credit, and cash handling. The cost of setting up and operating this Business Model was on the firm side, and included sales staff, marketing cost, product delivery and after-sales services. In addition, products were sold on a consignment system. The PPY cooperative did not have to invest in buying products upfront and they only needed to pay the firm upon each product sold. The risk of price change was on the firm side, as the PPY cooperative received 3% of the selling prices no matter what the price was. Additionally, cash was handled through the firm and 3% revenue sharing was deducted upfront so that the PPY cooperative was exposed to no risk at all. However, it was unusual for the firm to do this because it usually sold on cash, meaning that cash was paid in exchange of goods immediately. The owner-manager mainly performed these tasks himself to avoid any mistake.

The positive side of this set up was that the PPY cooperative would agree with the idea comfortably due to low cost and low risk of involvement. The firm absorbed most of the cost and risk. These were the main reasons why the issues of cash handling and inventory become main concerns. Therefore, it was necessary to find ways to mitigate those risks. As previously described in section 5.3.2 Planning Actions of Cycle I, a number of options were carefully considered for cash handling and inventory. The subsequent partnership agreements with the TM and KCS cooperatives were much easier to conclude, as well as the setting up of supporting activities. The established relationship with the PPY cooperative provided the focal firm with a good reputation so that it could gain trust from other cooperatives.

The KPY and TL Cooperatives

From the aforementioned section, two important factors in setting up partnership are cost of involvement and risk of involvement. For the previous cooperatives, the firm accepted most of those two factors in exchange for the cooperatives' willingness to agree with the ideas without concerns. For this case, the TL cooperative and the KPY cooperative were the ones who approached the firm, so the cost of involvement and risk of involvement were partly pushed toward those two cooperatives. According to section 5.5.2 Planning Actions of Cycle III that was done by asking for a deposit, as this reduces the cost of inventory. It also reduces risk exposure to loss of inventory and cash payment for the cost of goods sold. In addition, the firm also had limited sales support staff. Therefore, cooperatives were required to handle selling and delivering products by themselves. However, this was compensated by an additional 2% of revenue sharing. These requirements were discussed and agreed before starting operation.

The BAAC cooperative

The firm tried to create value for customers by partnering with external organisations. However, this configuration was different from the previous one. For the previous five cooperatives, each of them worked independently while there was interaction between BAAC cooperatives and the existing cooperative partners. BAAC cooperatives used BAAC branches as contact points, so there were no spaces for us to display the products. More importantly, as a bank, explicitly selling products was not suitable, particularly electrical appliance products from a private firm. Therefore, the firm had to use existing cooperatives located near the BAAC branch. Potential customers could visit nearby cooperatives to choose products and then apply for loans from BAAC cooperatives.

With this configuration, three parties, including the firm, the agricultural cooperatives, and the BAAC cooperatives were partnered in order to serve customers. Each party had its own roles and responsibilities. I had approached the BAAC cooperative management and finally obtained the agreement after several meetings. The existing cooperative partners were also convinced and agreed with the ideas. At the end, each of us had roles, benefits, cost of involvement, and risk of involvement as shown in Table 6.1. For our two partners, benefits were obtained without increasing cost or risk of involvement. The firm was also able to benefit from this configuration without significant increase in cost.

	The Focal Firm	The Existing Cooperatives	The BAAC Cooperatives
Roles	Response to customers Inquiry, Selling Products, and Aftersales services.	No additional activities – Just displaying products, bookkeeping, delivering products	Provide loans to customers
Expected Benefits	Increase Sales and expand Customer base.	2% Revenue sharing and Increase traffic to cooperatives	3% Revenue sharing and interests
Cost	5% Revenue Sharing	No additional costs	No additional costs
Risks	No significant risks	No significant risks	No significant risks

Table 6.1: Explaining Roles, Expected Benefits, Cost, and Risks for each partner

Source: Author

From a broader perspective, retail business can create value by orchestrating resources from partners in order to form ecosystem; therefore, forming partnership is important in realising Business Model Innovation. Otherwise, the firm is just a medium between suppliers and customers, hence having limited opportunities to create values.

6.5 Mode of Engagement

This section describes learning according to experience from implementing Business Model Innovation. Setting up a new Business Model can be considered as engaging in a project in which there are two factors to be considered. The section explains that how the leader is important to the implementation which required many changes. The first one is related to a responsible person who leads the implementation of the Business Model Innovation. The second one is related to how the project is managed whether within the same firm or as a separate firm.

First, a responsible person for leading Business Model Innovation is important, especially for SME businesses because owner-managers typically work and control day-to-day operations. This provides both pros and cons in implementing innovation. On the positive side, owner-managers have full authority in organisations. This is beneficial for implementing Business Model Innovation because changes are most likely to happen in the whole organisation. On the other hand, problems can arise if an owner-manager leads the project. Owner-managers establish, grow, and operate their businesses with current Business Models, so they may feel unfamiliar with new potential opportunities, which require new activities (Chesbrough, 2010). In the firm study, the owner-manager operates the business mostly by the one-man operation concept. Most key activities are all done and controlled by himself to ensure 100% accuracy. Activities such as cash handling, receiving goods, and delivery of goods are all done by the owner-manager. In addition, there is only a single outlet, so other activities can be closely observed and monitored. The Business Model with cooperatives fundamentally changes the way the firm operates. Most activities have to be decentralised and operated by others who are not even the firm's employees. This can prevent the firm from changing to a new model due to unfamiliar operations and associated risks. Additionally, owner-managers (especially of SME businesses) are not familiar with decentralising or delegating work and this low level of trust can be a barrier to innovation (Freel, 2000).

In this research, I have dual roles – a successor of the business and a DBA researcher. These two roles allow me to overcome the challenge of the cognitive barrier (previously mentioned) when an owner-manager leads the project himself. My responsibility is to conduct Business Model Innovation in the firm. As a successor, I have full authority over all related aspects of the business. As a DBA researcher, I have to try and apply new initiatives to the current business. In addition, I have not been involved in managing and operating business apart from my family business. Therefore I have no preconceived ideas

on how the business is normally operated. The owner-manager has mentioned in conversation between us on many occasions that this is my project and I have full authority to make all decisions. The owner-manager has also stated that I am welcome to ask him anything about business, with the exception of businesses with many outlets which are operated by other persons. Inventory control and cash handling are the highest priority tasks in implementing this new Business Model. These two issues were both implicitly and explicitly discussed both when developing the partnership with cooperative and when supporting activities were designed and implemented so that risks can be mitigated or minimised as less as possible. The idea of getting a deposit from KPY and TL cooperatives was also based on the same concept.

Second, how the project is managed is also an important factor, in addition to the challenge of project leadership. The project can be conducted within the firm or outside the firm. As a SME business, resources are limited and business ideas are still at a preliminary stage, setting up a separate business would obviously consume many resources. Conducting business within the firm can provide benefit of sharing resources with the current Business Model. For example, the Business Model with the cooperatives can utilise administrative functions, logistic functions, and accounting functions of the firm. There is the possibility of a resource conflict, but this problem is considered to be manageable.

Business Model Innovation involves many changes within the organisation. The leader who implements the changes project is important to the success of implementation. This section discusses two important concerns regarding how the Business Model Innovation project is engaged.

6.6 Summary

This chapter provide and discusses findings from conducting multiple cycles of action research. The evolution of Business Model concepts is presented as a result of actual implementation which allows the research to reflect and realise that further literature studies are required. The Business Model concepts then are used to analyse learning identified from conducting action research. Two learning related Business Model concepts are presented. First, Business Model concepts can broaden perspective of the retail business hence increasing possibilities to create value by changing Business Model. Second, Business Model at different levels of abstraction from reality is explained that can provide benefits of implementation and learning from changes. The chapter also elaborates implementation issues which are related to forming partnership and mode of engagement. The next chapter will provide the overall analysis of findings and will evaluate the results of implementing Business Model Innovation in terms of the degree of innovation and the degree of success. Responses to research questions and objectives will also be discussed in the next chapter.

CHAPTER 7

DISCUSSION OF FINDINGS

This chapter describes an analysis of learning experiences as a result of overall reflection. Chapter 6 elaborates on learning captured from reflection-on-action by reflecting back at the overall 5 action research cycles by using Business Model Concepts as a framework to capture learning. This chapter provides overall analysis by reflecting on the learning from the first two reflections in light of research questions and research title. The chapter begins with presenting main findings from overall analysis. Then, evaluation of the Business Model Innovation is presented to discuss its characteristics on these dimensions: what is new, how is it new, to whom is it new? The analysis also considers whether this Business Model Innovation was successful. The chapter ends by answering to the research questions and responding to the research title.

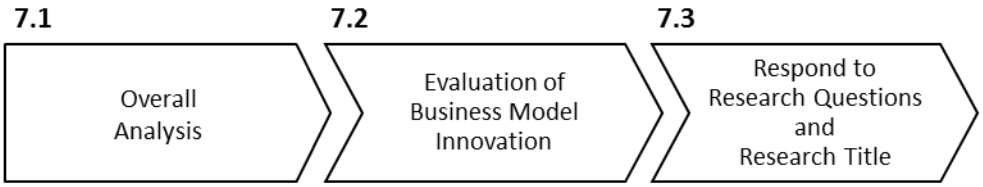


Figure 7.1: Structure of Chapter 7 Discussion of Findings

7.1 Overall analysis

From the learning experience captured during multiple action research cycles, there are 2 main findings. First, Business Model can be viewed from different perspectives at different

levels of abstraction from reality and these different perspectives help the firm to conduct Business Model Innovation – both in thinking and in implementation. Second, Business Model Innovation is conceptualised as an ongoing learning process.

7.1.1 Different perspectives of the Retailing Business Model

First of all, retailing business can be simply considered as a medium between suppliers and consumers. Simply, retailers just buy products from suppliers and sell to consumers. With this perspective of the retailing Business Model, opportunities to create value are limited. Modern retailers can do more than that. As mentioned in section 2.2.3, retail businesses are now increasingly including a wider range of activities as retailers develop new ways for interacting with their customers and channel partners in order to expand the boundaries of their target markets. More importantly, retailers also create and deliver value to customers and at the same time appropriate value for retailers and their business partners (Sorescu *et al.*, 2011). In addition, the Business Model represented by the Business Model canvas represents this broader perspective of retail concept effectively. The Business Model canvas can show how retailers as the orchestrators create an ecosystem beyond the firm boundary. This ecosystem can include suppliers, partners and customers. It allows value to be created and delivered to customers as well as appropriated for all related parties. Thus, this concept broadens thinking to include possibilities and options beyond firm's boundary.

The firm can enhance capabilities by working with external partners so that the partner's resources can be employed to perform value-creating activities, which could not be done by the firm alone. Particularly, as a SME retailer, the firm has limited resources and capabilities. In this case, the firm can exploit the opportunity to target rural customers who prefer to buy on credit or installment loans. This can be done by partnering with agricultural

cooperatives, which are capable of providing credit or installment loans to their members. Most members are agriculturalists and are not eligible to apply for credit cards. With this Business Model, they can purchase electrical appliances on credit or on installment plans with lower interest rates than those of credit cards and much lower than those offered by private loans. Apart from the interest rates, customers do not have to travel to cities to make purchases. Instead they can visit cooperatives, which are located in the areas where they live. In all, the total cost of product ownership is significantly decreased.

By partnering with cooperatives, a new value proposition is created. On the surface, it may be considered a simple change, since it only involves adding new channels with cooperatives. In order to implement the change, the Business Model is innovated by introducing the required system-wide changes. The Business Model Canvas can be divided into 3 sections apart from Value Proposition as shown in Figure7.2. (Günzel and Holm, 2013)

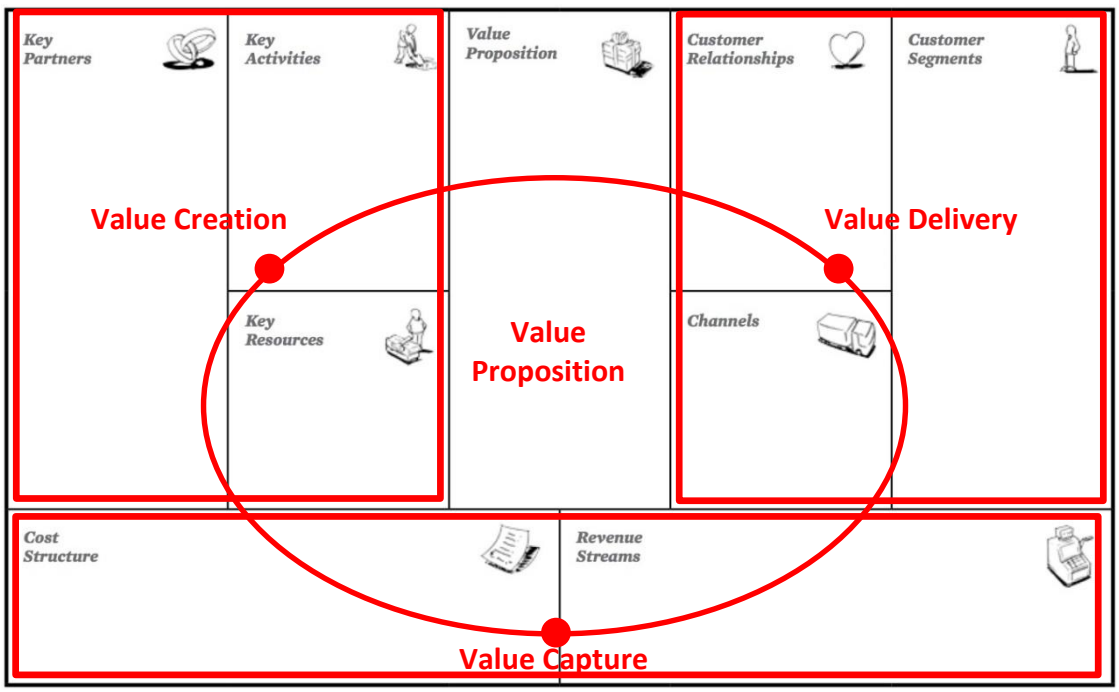


Figure 7.2:Business Model Canvas divided into 3 parts

Source: Concept adapted from Günzel and Holm (2013)

All three parts – Value Delivery, Value Creation, and Value Capture, must be changed in order to support the new Value Proposition. In this case, changes can be elaborated as follows.

- **Value Delivery:** How is the value proposition delivered to customers?
    - *Customer Segments*:
        - Current: Customers in urban areas
        - New: Customers in rural areas are targeted. Specifically, members of partnered cooperatives are the focal customer segments.
    - *Customer relationships*
        - Current: Personal relationship with local people
        - New: Relationships with members of partnered cooperatives.
    - *Channels*
        - Current: The firm's single outlet
        - New: Partnered cooperatives in 6 locations
- **Value Creation**: How is the value proposition created from activities using resources owned by the firm and partners?
    - *Key Activities*
        - Current: Typical retailing activities - Purchasing, Stock keeping, Selling, and Delivery at a single outlet. All are mainly driven and controlled by an owner manager.
        - New: Activities take place in all 6 locations. Activities are performed remotely by others.
    - *Key Resources*
        - Current: Owner manager and 4 staff (2 administrators and 2 logistic staff)

        - New: Sales staffs from LG are added.
    - *Key Partners*
        - Current: Only suppliers - LG
        - New: Cooperatives in 6 locations in addition to LG as suppliers
- **Value Capture**: How is the value proposition captured?
    - *Revenue Structure*
        - Current: Revenue from selling products paid by customers
        - New: Revenue from selling products paid by customers through cooperatives.
    - *Cost Structure*
        - Current: Cost of goods sold, Cost of staff.
        - New: Additional costs are revenue sharing and cost of logistics – transporting products from the main outlet to all 6 cooperatives.

The Business Model Canvas is used to represent the Business Model as a graphical map, but mapping tools alone cannot promote experimentation and innovation (Chesbrough, 2010). The Canvas helps to broaden thinking and can be used to compare changes on the big picture level. However, Business Model Innovation requires implementation, so different levels of Business Model representation can be beneficial to help with implementation and enactment of changes. The Business Model represented by the retailing activity system is at a level close to reality. At this level, the Business Model is defined as systems of interdependent activities that supporting value creation, value delivery and value capture. The Retailing Business Model consists of three core elements – Retailing Activities, Retailing Format, and Retailing Governance. These three core elements allow owner-managers or practitioners to implement changes, as these are the foundation of what actually happens to make ideas of the Business Model Innovation a reality.

7.1.2 Business Model Innovation as an ongoing learning process

Business Model Innovation entails changes in the Business Model which can be illustrated on a high level using the Business Model Canvas and can be described as activities using the Retailing Business Model. Conceptually, the Business Model Canvas represents the firm's Business Model in the big picture where changes can be compared and visualised easily. The lower level of abstraction is described as the Retailing Business Model. This model allows the firm to create and adjust interrelated activities in order to support Business Model concepts represented in the higher level. Paths to innovate the Business Model are dynamic. This means that it is difficult to thoroughly reason about and carefully scrutinise all related factors in order to create a clear plan. Business Model Innovation requires implementation and action, which results in both intended and unintended outcomes. These outcomes are subsequently evaluated in order to changes actions. The cycle continues and many cycles can take place concurrently.

Although the Business Model Canvas can be considered as only slightly changed with almost no significant difference, adaptation and adjustment will always happen, particularly at the lower level. During the 4 year period of study, the Retailing Business Model has been adjusted from time to time due to both internal and external factors. Changes happen at the activities level and these changes can be captured by the Retailing Business Model. The nature of changes during Business Model Innovation is similar to the characteristics of action research cycles. Each cycle consists of constructing, planning, taking action, and evaluating. The cycle continues and builds upon the result of previous cycles like a spiral. In addition, many action research cycles can occur at the same time and shorter period cycles may be parts of longer period cycles. In reality, it is difficult to represent these cycles graphically because there are many cycles happening at all times, depending on the level

of granularity of the firm's activities. In summary, the nature of changes can be simply illustrated by Figure 7.3

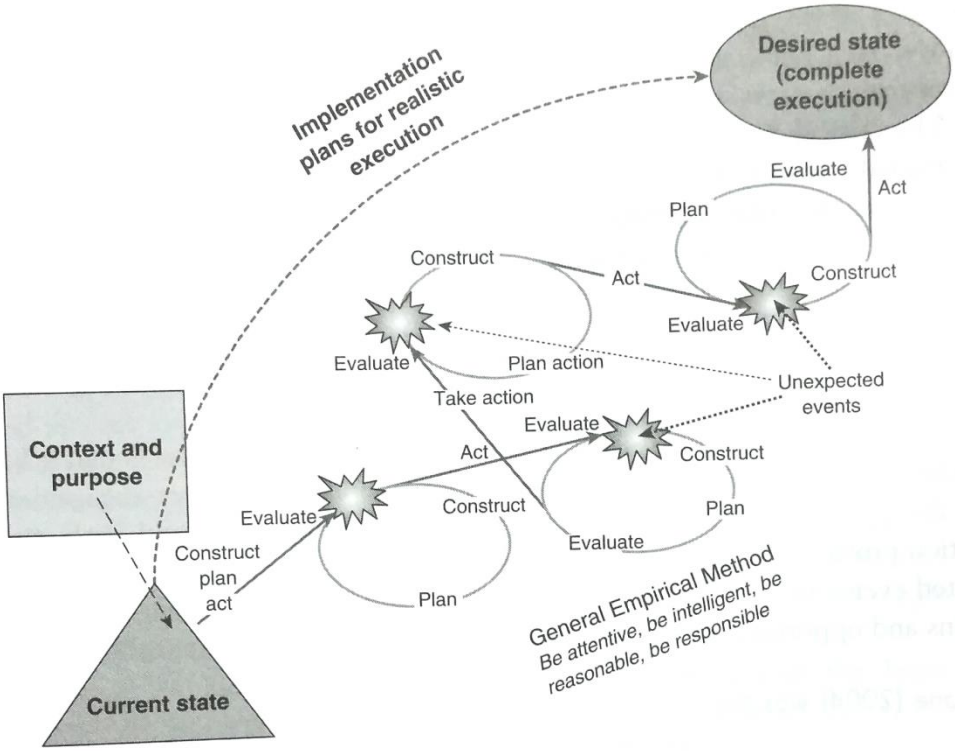


Figure 7.3: Showing dynamic nature of Action Research Cycles consisting of unpredictability

Source: Coghlan and Brannick (2010, pp. 69)

In addition, similarities exist between Business Model Innovation and Action Research Cycles; both consist of thinking periods and action periods. For the Business Model, the Business Model Canvas supports thinking while the Retailing Business Model helps implementation. On the other hand, for action research, Constructing and Planning requires thinking while Taking action and Evaluating are related to actions. From carrying out Business Model Innovation and conducting multiple action research cycles, overall learning can be combined into the conceptual framework of Business Model Innovation. This framework consists of an action part and a thinking part as well as two perspective of the Business Model – the Business Model Canvas and the Retailing Business Model. The framework is depicted in Figure 7.4. Narrative – which represent Business Models at the

highest level of abstraction is always used implicitly as it just contains description of how an enterprise work which can be put into a graphical format on the Business Model Canvas. Thus, Narrative is not explicitly mentioned in the framework.

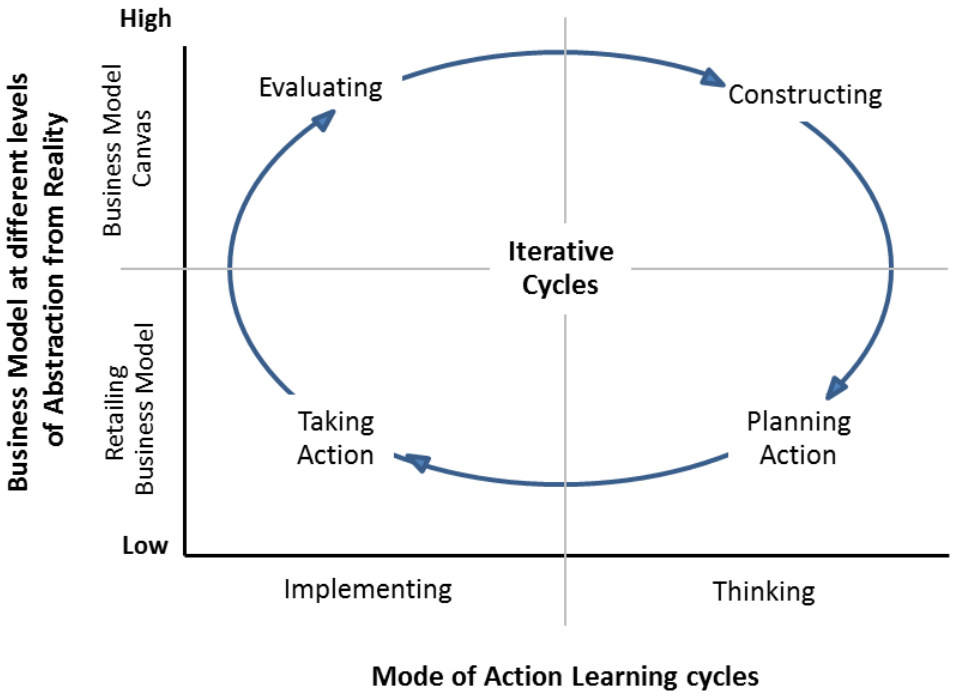


Figure 7.4: Business Model Innovation Framework as an ongoing learning process

Source: Author

This concept presents Business Model Innovation as an ongoing learning process. The concept employs 4 steps of action research cycles and combines with Business Model Concepts. The 4 step cycles include:

- Constructing: This step involves thinking about innovating the Business Model, so the Business Model Canvas is used to view and analyse possibilities and options from a high level.

- Planning Action: The next step is Planning Action which is still in the thinking mode of Action Research. The Retailing Business Model which represents the Business Model at the activity system level is appropriate because it brings high level thinking down to the level of actions. Thus, activities and resources can be well planned for the next step.
- Taking Action: This is obviously in the Action mode of Action Research. During implementation, the retailing Business Model is beneficial in focusing on activities and interdependency among them.
- Evaluating Action: After actions are taken, results need to be evaluated. This step is still in the Action Mode because outcomes should be evaluated while taking actions. Therefore, learning captured from the whole cycle can be used as input to the next one. To evaluate action, the Business Model Canvas is employed so that the evaluation is aligned with the big picture.

From the above concept, practitioners can use their own firm to make real life experiments and to consider how changing the way their Business Models works could influence the possibility of success. Baden-Fuller and Morgan (2010) present a Business Model as a biological model or organism, which is extremely complex. Such complexity can be managed if practitioners conduct experiments. This can broaden and deepen their understanding of their Business Models. In addition, the Business Model consists of the Profit Model and the Business System, which functions as a learning system because doing work involves learning about the work (Itami and Nishino, 2010).

In summary, Business Model Innovation can be conceptualised as an ongoing learning process occurring in iterative cycles. Each cycle includes both a thinking mode and an

action mode, while looking at Business Models from both a high level and an activity level during each step.

7.1.3 Implication of the framework – Business Model Innovation as an ongoing learning process

Business Model Innovation as an ongoing learning process is conceptualised as a result of conducting action research in – which is to study Business Model Innovation in practice. Therefore, the research did not utilise the framework in the study. However, if the framework would have been employed, the researcher can benefit from the framework.

Considering the case of the BAAC cooperative at the 4th cycle, the firm would not have made mistake by spending a lot of time and efforts to implement the idea and then get a result of no sales. Learning taken from the Retailing Business Model from previous cycles can be presented in Figure 7.5.

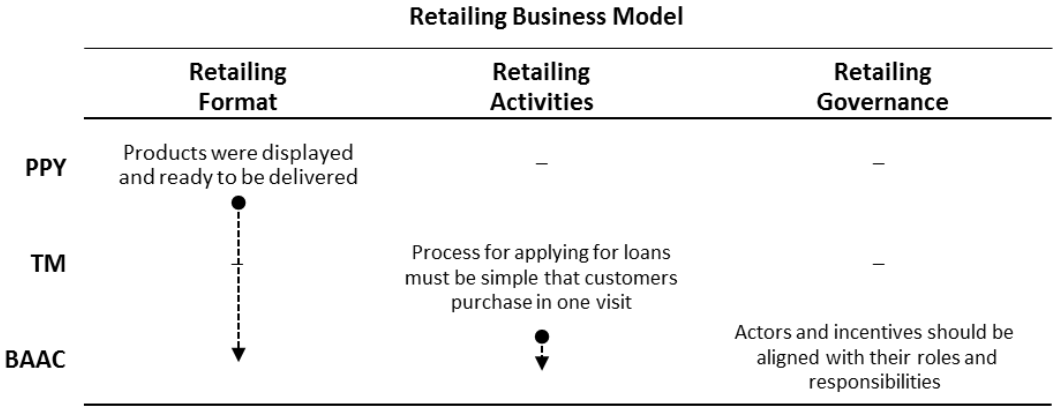


Figure 7.5: Identifying learning taken at the level of Retailing Business Model

The firm could learn from PPY on the Retailing Format that Products should be displayed and readily available for picking up or delivery because customers prefer to see actual products as opposed to brochure and customers want to get products upon purchasing. The BAAC's Retailing Format was totally different than that of the PPY cooperative as customers had to get awareness about this operation and travel to the PPY cooperative to see the actual products. In addition, the firm could also learn from the TM on Retailing Activities that customers can make purchase at one visit including applying for loans otherwise customers decide not to wait or change their minds if the loan application process is complex and require more than one visit to the cooperative. In case of the BAAC, if customers can agree on price and product selection, they have to travel back to BAAC to apply for loans and then come back to the PPY cooperative again to show approval of loan to pick up products or ask for delivery. In total, customers would have to make 4 visits in total in order to buy products as shown in Figure 7.6.

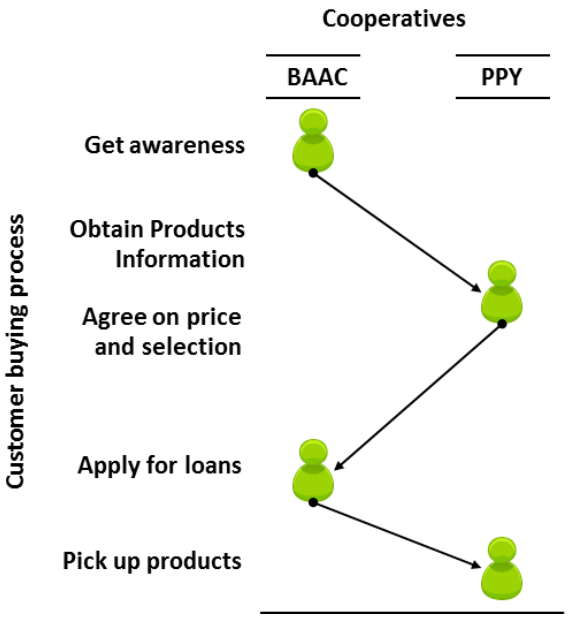


Figure 7.6: Showing complex buying process with 4 visits to buy a product for the BAAC cooperative.

The firm could do it differently or make decision not to start operation with the BAAC if the firm can plan and foresee the obstacles of making sales in advance. In reality, the firm implemented operation at the BAAC cooperative with no sales; however, the firm can still gain learning at the Retailing Business Model level on retailing governance. Roles and responsibilities of staffs and incentives should be aligned to motivate the staffs to perform required tasks.

In summary, the framework can be used to understand the firm's Business Model from the overview picture in order to understand its business logic and broaden perspectives and see possibilities to change Business Model. At the implementation, Retailing Business Model can be used to help planning implementation by determining Retailing Format, Retailing Activities and Retailing Governance. Then, after taking actions, results and actions can be evaluated and gain learning.

7.2 Evaluation of Business Model Innovation

This section elaborates on Business Model Innovation evaluation on two aspects using the criteria in section 4.2. First, Business Model changes are evaluated on whether they are actually innovation. Second, the results of those changes are evaluated on whether they are successful.

Firstly, the Business Model with the cooperatives is evaluated on degree of innovation. The new Business Model creates a new value proposition for customers in rural areas. They can purchase electrical appliances on an installment plan with a lower effective interest rate than from other financial institutions. In addition, customers can get better services, as

they do not have to bring their defective appliances to service centers that are mostly located in urban areas. On the firm side, new customer segments are exploited with the new Business Model. Starting with the new value proposition, other parts of the Business Model – value creation, value delivery, and value capture -- are also changed in order to support the new value proposition. Hence, a new value proposition is definitely created and there are clearly changes in many building blocks of the Business Model. In addition, those changes are new to the firm. Serving the new customer segment with a new value proposition had not been done previously by the firm. In all, the Business Model with cooperatives can be considered Business Model Innovation.

Secondly, Business Model Innovation is evaluated on whether it is successful regarding both monetary benefits and non-monetary benefits. For monetary benefits, results can be measured objectively by using revenue and profit margin from the Business Model with the cooperatives. Revenue is calculated by total sales to all cooperatives while profit margin is calculated by revenue deducted by cost of goods sold. Since the firm utilizes the available resources, other indirect costs such as rent and cost of staff are not significantly increased. Those costs exist, regardless of whether the Business Model with cooperatives is in operation. As previously mentioned, both revenue and profit margin are significantly increased. More importantly, the profit margin as a percentage of revenue is higher with the Business Model with cooperatives. Regarding non-monetary benefits, Business Model Innovation can be evaluated on whether the firm's competitive advantage is increased or at least maintained. According to OECD (2005), the effects on the firm's competitive advantage can be described in terms of the following characteristics:

- Shifting demand curve, which means opening up a new market – it is clearly exploiting opportunities in a new market.

- Shifting cost curve, which reduces unit cost of purchasing – additional revenue also means more unit sales. When the firm purchases in higher volume from suppliers, unit cost of purchasing is normally reduced.
- Improving the firm's ability to innovate, which allows the firm to gain or create new knowledge. This is difficult to define explicitly; however, the Business Model conceptualised as a learning system allows the firm to gain knowledge from operating with the new model. The firm has to construct, plan actions, take actions, and evaluate actions iteratively so that the Business Model with the cooperatives is implemented, adapted, and continuously operated. There is much practical learning involved as mentioned in the previous section. In addition, cooperatives can be perceived as the firm's channels, which can be leveraged in the future. For example, the firm can add new products other than electrical appliances to those channels.

In summary, the Business Model with cooperatives is evaluated as Business Model Innovation. The outcomes of the innovation are successful for both monetary benefits and non-monetary benefits.

7.3 Research Questions and Research Title

This section responds to the research questions and research title using the learning experience from the action research cycles and the discussion of findings. Three research questions are discussed and then the research title is responded.

7.3.1 Research Question 1 – To what extent does Business Model thinking help SME retail business to innovate?

In the big picture, the Business Model concept allows owner-managers of SME retailing businesses to look at how their businesses operate in this picture and understand how firms create, deliver, and capture value. In addition, the Business Model broadens perspectives so that owner-managers can look beyond the firm's boundary. Both internal and external resources are orchestrated to create value for consumers.

The nature of retail innovation is incremental and non-technological. Trial-and-error experimentation is therefore necessary to promote innovation so that ideas can be put into practice. The concept of Business Model Innovation as an ongoing learning process can help SME retailing businesses to learn and change their Business Models by real-life experimentation. Owner-managers can look at their Business Models from both the high level and the low level, and can use both the thinking-oriented mode and the action-oriented mode. Thus, through iterative cycles of action and learning, firms can deepen understanding and transform their Business Models over time.

7.3.2 Research Question 2 – What are the challenges of implementing Business Model Innovation?

Business Model Innovation requires changes in how firms do business and this means they must implement some new initiatives. For SME retailing business, resources are limited and businesses are typically managed and operated by owner-managers. There are two challenges in implementing Business Model Innovation – challenges related to forming partnership and challenges related to mode of engagement.

According to the broader concept of a retailing business, retailers are finding new ways to interact with customers by encompassing a wider range of activities in order to create and deliver value for customers as well as appropriate value for the retailers and their business partners. Business Model Innovation in SME retailing business involves new activities with the resources of existing or new partners in order to enhance capabilities. Therefore, the challenges related to forming partnerships include the cost of involvement and risk of involvement. These two challenges must be well handled and managed so that both factors do not become an excessive burden on the firms. However, firms may have to take both the cost and risk of involvement in order to form partnerships and test ideas to see if they work as expected. Later, when the firms learn from real implementation, the cost and risk of involvement may be better managed. In addition, when value creation and appropriation prove viable and more potential partners want to join, firms may be able to transfer some of the cost and risk to the partners.

SME retailing businesses are typically run by owner-managers who have established and grown businesses for years. On the positive side, owner-managers are able to implement Business Model Innovation because they have full authority to change any part of the organisation. However, owner-managers are familiar with current Business Models and may feel threatened by new approaches. Opportunities are not exploited with unchanging Business Models. Therefore, Business Model Innovation can be conducted as an ongoing learning process through iterative cycles of real-life experimentation to understand and learn about the business process.

In addition, implementing Business Model Innovation demands resources. Setting up separate business units that can operate independently consumes many resources and

entails high risks, especially when ideas are not proved viable. Instead, Business Model Innovation can be carried out within the same firm. Thus the resources of the current Business Model can be shared. One challenge is resource conflict because the same resources are sometimes required for both the activities of the current Business Model and those for the new Business Model. This situation will always happen, particularly if firms regularly experiment in order to learn and transform their Business Models.

7.3.3 Research Question 3 – How do Business Model components change and what learning can be captured from those changes?

The Business Model can be represented on multiple level of abstraction. The Business Model Canvas is used for representation at a high level of abstraction whereas the Retailing Business Model represents the business at a lower level close to reality. Business Model Innovation provides a new Value Proposition to customers. Once the Value Proposition is identified, other parts of the Business Model are required to change. Illustrated with the Business Model Canvas, the components of Value Delivery, Value Creation, and Value Capture are changed simultaneously. Changes can also be captured at the activities level and the causes of changes can be intended or untended. Intentionally, firms may try to experiment with Business Models to exploit opportunities. In contrast, firms may also have to adapt the Business Model according to unintended outcomes of previous experimentations. In addition, the Business Model is required to change in order to adapt to external circumstances. Although the Business Model Canvas only shows small changes in at a high level, there are continuous changes taking place in the Business Model components at the activity level. In particular, Business Model Innovation is conceptualised as an ongoing learning process where experimentation is always conducted, and changes always occurs at the lower level of abstraction, therefore this process allow the firm to understand its business logic in order to make better changes in the future.

7.3.4 Respond to the Research Title

This section combines all findings from the research and responds to the research title "How can Small and Medium Enterprise retail business in Thailand successfully compete through Business Model Innovation?"

SME retail business combines two unique characteristics from retail business and Small and Medium Enterprise. The important characteristic of retail is that retail business normally interacts with consumers, thereby having a closed relationship with them. In SME businesses, owner-managers typical operate and manage businesses themselves. Therefore, in SME retail business, owner-managers have opportunities to obtain information from consumers by interacting with them. That information is valuable and can provide insights to owner-managers to help them respond more effectively to those consumers.

Business Model Canvas can generally be applied for any business. In this research, from actual implementation, Business Model Canvas helps the firm to understand its own retail business in a big picture. The canvas brings in an idea that the firm's capabilities can be extended through resources of key partners. Thus, new value creation can occur and this value creation could not be done alone by the firm. Business Model Canvas broaden my perspective on retail to be more than just a simple medium between suppliers and customers. Thus, SME retail business can deliver value from the resources and activities of their business partners. This concept is in line with a broader perspective of retail concept (mentioned earlier in section 2.2.3.1) which mentioned by Sorescu *et al.* (2011) that *retailing practice is increasingly encompassing a broader range of activities as retailers*

expand the boundaries of their target markets and develop new ways for interacting with customers and channel partners'.

SME retail businesses can work with new business partners in order to extend the capabilities of the ecosystems, so that new value propositions can be delivered to customers. Forming partnership involves two factors – cost of involvement and risk of involvement. Business Model Innovation requires new activities which employ resources from both the firms and the potential partners. Therefore, there are costs for providing resources as well as risk involved in new activities. SME retail businesses may have to bear the cost and risk of involvement themselves in the initial stages of the partnership, so that new business ideas can be tested.

Retail innovation is incremental and non-technological by nature. In addition, trial-and-error experimentation is necessary to test whether ideas can work in a real situation. Business Model Innovation can be considered as both an outcome and a process. Due to the nature of retail innovation, Business Model Innovation is conceptualised as an ongoing learning process. Ideas taken from interacting with customers can be put into real experimentation. Business Models with different levels of abstraction are useful in both designing and implementing those changes. Iterative learning cycles of constructing, planning, taking action, and evaluating can be combined with the Business Model concept as a unit of analysis in order to develop Business Model Innovation as an ongoing learning process. Constructing and Planning actions are in the thinking mode of action. Constructing changes looks at the Business Model from a high level in order to understand business logics while Planning action employs the Business Model at the activities level in order to prepare the activities to be implemented. Taking action and Evaluating are in action mode. Taking action is implemented with the Business Model at the activities level perspective. Outcomes of actions occur and are evaluated by considering the Business Model at the

high level to relate to the big picture. Outcomes can be both intended and unintended; however, the learning and adaptation experiences which are captured in each cycle are more important. Business Model Innovation is therefore a dynamic process where changes and learning happen continuously so that SME retail businesses can understand their Business Models more clearly and influence chances of success.

Although the cognitive barrier is not focused in this study, the researcher has found relatively relevant aspect to it. First, Business Model Canvas helps firms to understand their own businesses better in a graphical format which provides big picture insights on how their businesses operate. The insights may stimulate their thinking to initiate changes particularly when combining the insights with information from interacting with customers. In addition, as previously mentioned, the learning occurs when unintended outcomes happen. When firms operate as they usually do, outcomes might not be what have normally occurred due to many uncontrollable factors external to the firms. These unintended outcomes might stimulate the firms to look into relevant factors and consider to do things differently.

7.4 Summary

This chapter discusses overall analysis of findings from conducting multiple cycles of action research. Then an overall evaluation of the new Business Model is presented, with regard to whether it is innovated and successful. This chapter ends with a response to the research questions and research topic.

CHAPTER 8

CONCLUSION

This chapter includes 4 sections serving as conclusions for this research. Section 8.1 recalls the key message of each chapter from the research process, empirical study, and discussion of findings. Section 8.2 elaborates on contributions for both academics and practitioners. Section 8.3 discusses the limitations of the study. Section 8.4 identifies further research directions.

8.1 Revisiting the Research Process and Empirical Findings

SME Retail businesses in many countries, including Thailand, are facing challenges from increasing competition, mainly driven by modern trade retail formats brought by foreign companies, as well as big nationwide chain stores. The strategic question is how SME retail business can compete successfully.

From the **Literature Review**, retailers can be much more active in the value chain than simply as intermediaries between suppliers and customers. The crucial capability for retail business is the ability to innovate its Business Model. Therefore, the main research question of this dissertation – which is the research title – is "How can SME retail business in Thailand successfully compete through Business Model Innovation?" Three barriers have been found from past studies, which are the cognitive, ideation, and implementation barriers. This research focuses on the ideation barrier - not knowing what to innovate, and the implementation barrier – not knowing how to make ideas happen. Three research questions were identified in order to answer question from the research topic:

- To what extent does Business Model thinking help SME retail to innovate?
- What are the challenges of implementing business model innovation?
- How do Business Model components change and what learning can be captured from those changes?

It was found in past research that most studies are conducted in large firms and lack a dynamic view of the Business Model, which is important in studying the ongoing process of Business Model Innovation.

From **Research Design and Methodology**, this study employs Action Research because Business Model Innovation is realised through changes in organisations by taking actions. This fits well with action research, which by its nature involves action in order to change situations and consequently learn from those actions. Action research is conducted within the researcher's organisation and this overcomes the practical challenges of studying SME business in which there is limited opportunity to conduct empirical research. In addition, the insider approach to action research also fits well with the research questions. This is due to its a focus on practice and on the researcher roles, which are dual roles – as a DBA student and a successor of the organisation.

The chapter related to **Action Research Cycles** explains 5 cycles of implementing Business Model Innovation. The Business Model Canvas, which represents the Business Model in a graphical format, is initially used to understand the Business Model and to serve as a basis for consideration of further development and adaptation. The story was presented in 4 steps of action research cycles consisting of constructing, planning actions, taking actions, and evaluating actions.

Learning from conducting Business Model Innovation through 5 action research cycles was discussed in the chapter related to **Learning from Action Research Cycles**. The chapter explained how the Business Model Canvas evolved in 3 concepts during the 5 action research cycles as a result of self-reflection during the action research cycles. The final concept was a representation of the Business Model at different levels of abstraction from reality. The Business Model Canvas represents the higher level of abstraction while the Retailing Business Model identifies activity systems at the operational level. The Business Model concepts then are used to analyse learning identified from conducting action research. Two learning related to Business Model concepts are presented. First, Business Model concepts can broaden perspective of the retail business hence increasing possibilities to create value by changing Business Model. Second, Business Model at different levels of abstraction from reality is explained that can provide benefits of implementation and learning from changes. The chapter also elaborates implementation issues which are related to forming partnership and mode of engagement. Most importantly, the findings are from an empirical study on Business Model Innovation which is mostly based on conceptual study in the past.

From the overall analysis in the **Discussion of Findings**, the learning experiences have led to 2 key insights as follows:

1. The Business Model concepts help to broaden perspectives of retail business and can be used to understand the firm's business logic as well as to generate ideas for adaptation. In addition, the Business Model is a system concept, which means that changes in one part have network effect on other parts.
2. Business Model Innovation is conceptualised as an ongoing process. Ideas taken from interacting with customers can be put into real experimentation. Iterative learning cycles of constructing (creating) action, planning action, taking action, and evaluating results can be combined with the Business Model concept as a unit

of analysis in order to form Business Model Innovation as an ongoing learning process. Constructing and Planning actions are in the thinking mode of action. Construction of planned changes involves looking at the Business Model from a high level in order to understand business logics. In contrast, Planning employs the Business Model at the activities level to prepare activities to be implemented. Taking action and Evaluating are in the action mode. Taking action is implemented with the Business Model at the activities level perspective. Outcomes of action occur and are evaluated by considering the Business Model at the high level to relate to the big picture. Outcomes can be both intended and unintended; however, the experiences of learning and adaptation captured in each cycle are more important. Business Model Innovation is therefore a dynamic process where changes and learning take place continuously. This means that SME retail businesses can have a better understanding of their Business Model and chances of success can be improved.

This chapter also discussed how the framework of Business Model Innovation as an ongoing process was used to reflect and capture learning from the past action research cycles. The framework allowed the firm to capture changes at the activity level which affected value creation. The Business Model with cooperatives was also evaluated whether it is innovative and successful. At the end, the chapter answered 3 research questions and respond to the research topic.

8.2 Research Contributions

This research has studied business model innovation in SME retail business in Thailand using Action Research methodology in a real life retail business. The study contributes to both academics and practitioners in a number of ways.

8.2.1 Academic Contributions

This research contributes to academic study in 4 main ways – Studying in a real world perspective, Focusing on a small firm, and Providing a dynamical view of a Business Model, as well as emphasising Business Model Innovation as an ongoing learning process.

First, this research is an empirical study from a real world perspective on how a SME retail business can innovate its business model. Previous studies on Business Models and Business Model Innovation are mostly conceptual studies and lack empirical evidence. These studies also conduct their analysis based on an ex post perspective (LaPlaca, 2013). The results and findings from this research contribute to academic knowledge in the field of Business Model Innovation, and is supported by an empirical perspective. In addition, study from a real world perspective allows insights and findings to emerge from real situations, in which there are both intended and unintended outcomes. This contrasts with studies that are conducted on famous firms from a retrospective standpoint. Findings from those studies can be subjected to survival bias (Björkdahl and Holmén, 2013). On the contrary, the learning in this research is taken from both relatively success and relatively failure cases. More importantly, this research employs Action Research in the study, which implements Business Model Innovation in a SME retail business; therefore, the academic contributions are based on a real world perspective.

Second, this research has involved the study of a SME retail business, whereas most other studies on Business Models and innovation have been conducted on large firms. The nature of large firms is significantly different from that of small firms. For example, small firms have limited resources, whether tangible ones (e.g. staff, money) or intangible ones (skilled

people, negotiating power, brand). In addition, small firms are typically operated and managed by owner-managers. It is difficult to study small firms because of lack of access and limited data availability. Owner managers of small firms are busy with their operational work, so they have no time and are not interested in working with researchers. In addition, the data of small firms are only available within the firms and the availability of secondary data is rare. In this research, an opportunity to conduct a real life study on a SME retail business was available. The focal firm belonged to the family of the researcher, so full access and overall authority to make changes was achieved, thereby supporting the research effectively.

Third, previous studies on Business Models and Business Model Innovation provide a static view of the Business Model (Willemstein, van der Valk and Meeus, 2007). As the nature of retail innovation is incremental and non-technological. Business Model Innovation in retail is therefore evolved rather than radical. This study conducted empirical research over a 4 year period and the business model was continually changed. A dynamical view of the business model allows the focal firm to understand how business models change and to realise the effects of those changes. This study employed different levels of abstraction of the Business Model, consisting of the Business Model Canvas and the Retailing Activities System. The first allows firms to look at their business models from the big picture and understand their business logic in value creation, value capture, and value delivery. The second represents the Business Model at the activity level and this helps firms to implement the changes. Business Model can be viewed from the perspective of building in learning system into the model as mentioned in section 2.2.4. Business Model is viewed as a biological model which uses model organisms to experiment and learn how they function proposed by Baden-Fuller and Morgan (2010) or Business Model can be consisted of Profit Model and Business System in which Learning system is located as described in Figure 2.4. More importantly, Business Model Innovation is an ongoing learning process that business persons can use within their own firms. Through this process, they can learn how changing

parts of business models can influence the possibility of success through iterative learning cycles of constructing actions, planning actions, taking actions, and evaluating actions.

8.2.2 Managerial Contributions

This research contributes three main principles to business practitioners in implementing Business Model Innovation. All of them are related and to be applied altogether. These are the perspectives of the Business Model, Implementing Business Model Innovation, and the Nature of Business Model Innovation.

First, this research shows that Business Model can be represented with the concept of Business Model at different levels of abstraction from reality in which a firm Business Model can be presented from both high level using Business Model Canvas and low level using Retailing Business Model. Business practitioners can employ different perspectives of Business Model from the high level to the activities level. The high level perspective of the Business Model allows business practitioners to understand how the business works overall. This study shows that the Business Model Canvas reflects the broader retail concept that perceives retailers as organisers of resources among business partners in order to deliver value to customers and capture value among business partners. Thus, the Canvas can broaden thinking about retail business so that new value propositions can be made by activities from resources owned by firms and their business partners. Every key task is not necessarily done internally. To make idea become reality, implementation is required. However, when applying in practice, there is a limitation that Business Model Canvas cannot help designing support activities. This is what this study found from the research as a result of action learning. In addition, Business Model can be also viewed from the activity level by using Retailing Business Model. This activity level helps implementing high

level idea from the canvas. In addition, learning can be taken from analysing how components of Retail Business Model are changed. These points are presented in section 6.2 and 6.3

Second, Business Model Innovation initially begins with ideas. Retail business has a unique characteristic which is direct interaction with customers. Particularly, SME retail businesses are operated by owner-managers and are therefore highly involved with customers, hence allowing many opportunities to gain customer insight. New ideas can be verified by real life trial-and-error experimentation and in retail business, owner-managers are most suitable for the tasks because they have full authority to make changes. In addition, this study also shows that Business Model Innovation in retail business can be created by forming partnerships with organisations that can fulfil the required capabilities (this is described in section 7.1.1 in detail). Forming partnerships requires consideration of two factors – cost of involvement and risk of involvement. The focal firms may have to take higher cost and risk of involvement at the beginning to verify new business ideas as described in section 5.3.2 when setting up the 1st cooperative. However, both of these can be transferred to business partners once new business ideas are proved and many organisations want to form partnerships and this is elaborated in section 5.2.2 when the firm try the new operation without sales staffs.

Third, this research also shows that Business Model Innovation is not a one-time event and is not an outcome of a one-time change. By applying the iterative learning process with the concept of Business Model at different levels of abstraction from reality, business practitioners can have their ideas to be tested by conducting real experiments by changing the business model in order to deepen understanding and to improve the organisation's chance of success. The perspectives of Business Model can be employed to capture learning

along the iterative 4-step cycles of constructing actions, planning actions, taking actions, and evaluating actions. Outcomes of each cycle can be both intended and unintended and those outcomes become the input for the next cycles. Thus, the Business Model is evolved using multiple iterations and can become significantly different from the initial one. By looking at Business Model Innovation as an ongoing learning process, owner-managers can start changes in organisations because new ideas can always be tested. However, owner-managers can be inhibitors of change, since they are familiar with current Business Models and may feel threatened by changes that may be required to implement a new Business Model.

8.3 Limitations of the study

This research has limitations in 3 main areas. First, the research is conducted within a single firm, which is a SME retail business in Thailand. The firm is an electrical appliance store. Other types of SME retail business or a similar retail business in a different location could have a different way of conducting business, which could result in different characteristics of Business Model Innovation. In addition, the idea of Business Model Innovation by partnering with cooperatives is just an example and there can be other possibilities for innovating Business Models. Second, the period of the study was 4 years and there were many changes and adaptations from both internal and external drivers. This 4 years period may not be sufficient to observe the whole life cycle of the Business Model from the start until its decline or renewal. Third, this study used Action Research in which the researcher conducted Business Model Innovation in the real setting. Results of the study of Business Model Innovation stay with the researcher and the focal firm. Although the findings and analysis have to be explicitly written, this written thesis has limitations in delivering every aspect of knowledge, particularly practical knowledge learnt by the researcher during the study.

8.4 Further Research Directions

While this research can provide both academic and managerial contributions related to Business Model Innovation and SME retail business by using an empirical study, there are a number of areas for further study.

1. Business Model Innovation for SME retail can be further studied on different sectors of retail business because each retail business can have particular characteristics and challenges, hence the process of Business Model Innovation may be different.
2. Business Model Innovation requires change and involves learning. Further study can look into how SME retail businesses learn from an organisational perspective as opposed to an individual perspective. This can be beneficial to SME businesses which are larger in size and operated by groups of people instead of effectively by owner-managers.
3. Further study can be conducted on measuring effectiveness of innovation in term of softer benefits such as organisational learning. This can measure the total impact on the business and can be used to evaluate effectiveness of innovation.
4. Further research can study how firms can promote innovation culture. As SME retail businesses become larger in size, more people interact with customers in addition to owner-managers. It is important that those insights gained from interactions with customers by many people can be combined and developed into ideas that can be tested in real experimentation.
5. Research on Business Model Innovation can look at the big picture of how government or policy makers can promote Business Model Innovation for SME business. New perspectives from external persons can be brought into firms in order to initiate changes and begin iterative learning cycles of innovation.

8.5 Reflection on conducting Action Research Thesis

The last section of this thesis is related to the reflection on experiences of conducting Action Research Thesis. The section begins with describing outcomes of the Action Research and then reflection on experiences of doing reflection in practice.

The approach of Action research is to take actions and create knowledge from those actions. Coghlan and Brannick (2010, p. ix) mentioned that *"The outcomes are both an action and a research, unlike traditional research approaches which aim at creating knowledge only".* At the end of the research, I agree with the statement that the outcome is more than creating knowledge. The action outcome includes both the result of action and the knowledge gained from the action. In this case, the result of action is the Business Model with cooperatives which is still under operation even after the research has finished. In addition, there is also knowledge gained as a result of action. Knowledge can be conceptualised and written into this dissertation; however, there is also tacit knowledge of the researcher from implementing Business Model Innovation. Hence, the outcomes of this action research include operating Business Model with cooperatives, knowledge in the form of dissertation and tacit knowledge from conducting Business Model Innovation. What I have learnt from doing this research in practice is that I gain experience during the path of implementing Business Model Innovation from an idea to Business Model in operation. Most of the articles both in academic and business describe successful cases of famous companies and analyse why those Business Models succeed. I always have questions in my mind that how those companies transform their Business Models and what happened during the transformation. More importantly, it is interesting to know whether there are any failure along the path of changes and what learning can be taken from that. Doing this research allows me to immerse myself in the path of Business Model Innovation. I have gained experience and leant along the changing processes which include both successful

cases and relatively failure ones. Those experiences and knowledge are described in this dissertation.

Reflection has important roles in learning from doing Action Research. There are 3 steps of Reflection taking place during the research – Core Action Research, Reflection on the overall 5 cycles, and Reflection on the overall analysis in light of research questions and research title. This part describes reflection on the experience of implementing those three steps of reflection in practice.

First, Core Action Research was implementation of Business Model Innovation. There are two forms of reflection – reflection-in-action and reflection-on-action. Reflection-in-action could be employed at any step during ongoing events as actions continually occur. This kind of reflection takes place on the spot in order to do things differently in the future. I realised that learning happened when unintended results occurred. It was that moment that thinking was applied on the spot so that ongoing actions were changed in order to get expected results. Each cycle of Action Research involves 4 steps: Constructing, Planning actions, Taking actions, and Evaluating actions. Reflection-on-action was applied by thinking retrospectively on the past actions of the whole cycle in order to improve action of the next cycles. In reality, within each cycle, there could be sub-cycles occurring concurrently. For example, within Cycle I, there were multiple of sub-cycles of changes which can be illustrated in Figure 8.1.

Cycle I: The Beginning of Changes

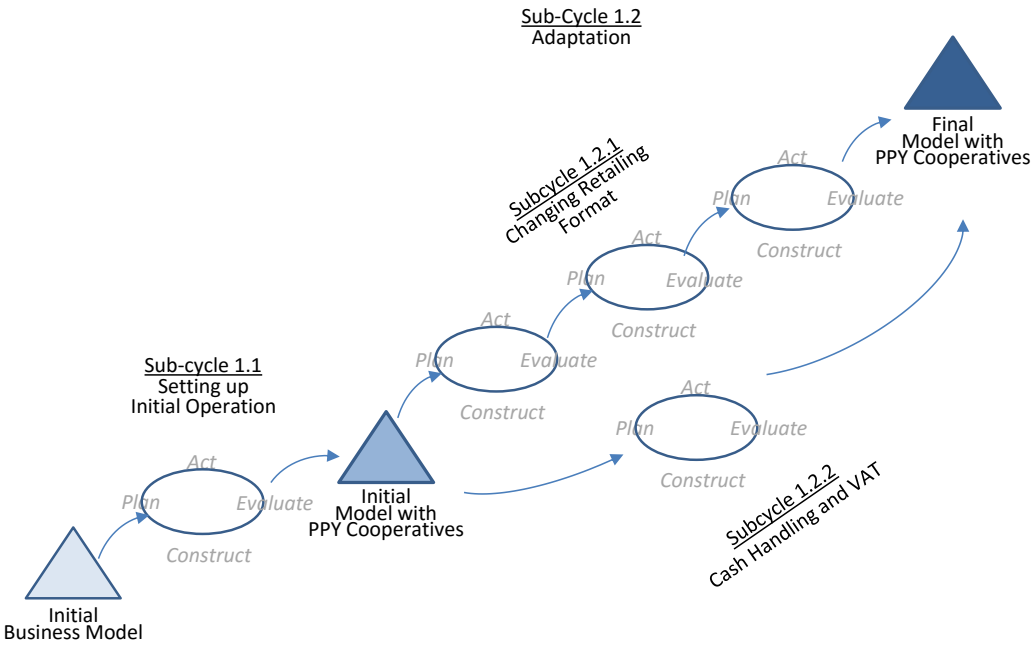


Figure 8.1: Illustrating concurrent multiple sub-cycles of changes from idea to reality of the Cycle I - Business Model with the PPY cooperative

Source: Author

The initial Business Model underwent two major sub-cycles of changes (sub-cycle 1.1 and 1.2 in Figure 8.1) until it became the working model as the end of Cycle I. The first major sub-cycle (sub-cycle 1.1) involved setting up the initial operation. This subsequently went through the second major sub-cycle (sub-cycle 1.2), which also had 2 minor sub-cycles (1.2.1 and 1.2.2). Sub-cycle 1.2.1 was related to changes in retail format which tried to adapted display product, inventory, and product delivery as mentioned in Table 5.1. While actions of sub-cycle 1.2.1 were ongoing, Sub-cycle 1.2.2 occurred to change VAT and cash handling issues as mentioned in section 5.3.3 – Taking Actions of Cycle I. There were more sub-cycles of changes and adjustment when looking deeper into the granularity of detail. These include price and promotion setting, product assortment etc. However, those events involved the same kinds of change and adjustment as major events. The final stage of Cycle I resulted from many incremental changes built upon one another, and consisting of

intended and unintended events. Hence, reflection-on-action takes place along the ongoing activities of changes during the Action Research implementation as there could be many sub-cycles within each main cycles.

Second, reflection on overall 5 cycles was carried out after finishing Core Action Research which is the fieldwork step of Thesis Research as described in Figure 3.7. This reflection allowed me to think retrospectively through the past actions in order to capture learning. From reviewing my experience at doing this step of reflection, this reminds me of the statement from Coghlan and Brannick (2010, p. 60) that *"action research begins with what we don't know and seeks to find what we don't know"*. I began the implementation of Business Model Innovation for the SME retail business by applying the concept of Business Model Canvas. From actual implementation, I realised that Business Model Canvas could help thinking in the big picture, but working on activities was required another perspective of Business Model. As a result, my perspectives of Business Model has evolved into 3 phases during 5 cycles of Action Research. The final perspective is Business Model at different level of abstraction from reality which describes a firm's Business Model at high level down to activities level. That perspective was also employed as the framework to analysis and capture learning from 5 action research cycles as described in Chapter 6. I have not aimed to understand or study this knowledge from the beginning and that knowledge was a result of making changes and realising learning from actual implementation. Thus, I began with what I do not know and then find what I do not know at the end.

Third, Reflection on overall analysis takes place at the Thesis Writing. The second type of reflection provided learning captured from 5 Core Action Research cycles with Business Model framework. This third type of reflection was conducted to capture learning in light of research questions and research title and this happened during writing dissertation. Action Research in reality was very messy and unstructured; however, it was presented in

dissertation in a structured way – elaborating in the form of story in Chapter 5, describing learning in Chapter 6, responding to research questions and research tile in Chapter 7, and concluding in Chapter 8. The dissertation was the outcome of actual implementing which can be considered as a messy journey and situations are unfold in real time.

In summary, this research is conducted by employing the insider Action Research. The researcher engaged in action inquiry process in order to improve professional practice and inquire into his own thinking and actions; therefore, reflection is central to the research process. Therefore, learning occurs from the process of reflection along the DBA journey and I continue to practice reflection in order to learn and improve my knowledge in a lifelong journey.

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Appendix I

Overview of Retail Business in Thailand

In this section, an overview of retail business in Thailand is given. A brief history of retail business in Thailand is explained, including the history of how modern retail business was brought into the country. Next, an overview of two types of retail channel is explained. Last, the section ends with an overview of SME retail business.

a) Retail business history in Thailand

There are 4 main periods of retail business development in Thailand as described in the following:.

1. *1964 – 1982 : Beginning of department stores*

In 1964, a Japanese department store – Daimaru was established in the Rajdamri area, which was the heart of Bangkok at that time. This area is still one of the famous shopping areas today. This brought a new shopping experience by introducing fixed pricing into the country. Selling prices were typically determined by haggling between sellers and shoppers. Daimaru was very successful at the beginning and it relocated to the outskirts of Bangkok. It then closed in 1998 (Tan, 2007).

Another popular department store – Central Chidlom - opened its doors in 1973 in the Chidlom area, which was in the heart of Bangkok. This department store is owned by a Thai family. It was a one stop shopping department store and it is still one of the most popular shopping destinations in Bangkok.

2. 1983 – 1989 : The rise of department stores

Bangkok, the capital of Thailand, expanded a lot during this time. New department stores opened in the outskirts of the area. For example, Central Ladprao was established in 1982 in Ladprao, which is now one of the crowded areas in Bangkok. Central Ladprao is still one of the most famous shopping destinations for both locals and tourists.

The 1980s saw a rapid rise in department stores in Bangkok. Newly opened department stores included the Mall, Robinson, Merry Kings, Banglampru, as well as department stores from Japan e.g. Yaohan, Sogo, Tokyu, Isetan . Currently, the Mall group and the Central group are the key players in the market. Tokyu and Isetan are still in operation while the other Japanese department stores have closed.

3. 1989 – 1996 : The coming of new retail formats

During this period, a number of new retail formats opened in Thailand. The convenience stores named 7-Eleven came to Bangkok in 1989. Makro, which has a cash-and-carry format, also began operation in 1989. In 1994, a hyper market format named Lotus had its first store in Thailand. During this time, other companies established their stores in Thailand e.g. Carrefour and Big C Supercenter.

4. 1997 – 2002 : The booming period of new store formats

In 1997, the financial crisis hit Thailand and negatively affected the Thai economy. During this time, many retail stores were transformed from joint ventures with Thai companies into foreign owned subsidiaries, because of the financial problems of Thai companies. The CP group, which was a Thai conglomerate, owned Makro and Lotus

in its portfolio. Makro shares were sold to SHV group from the Netherlands, while Lotus was sold to a UK company – Tesco. Lotus later changed its name to Tesco Lotus. 7-Eleven still belonged to CP. The Central group also sold some of its shares in Big C Supercenter to Casino Group from France. Carrefour, also initially majority owned by the Central group, was sold to Carrefour from France. The majority of new store formats belonged to foreign companies who had no financial problems, as opposed to Thai companies. Therefore, those new retail formats expanded very rapidly by opening new stores in many locations across Thailand.

b) The Situation of Retail business in Thailand

From that time, new retail formats continued to increase their branches aggressively in major cities all over Thailand. These new stores become a threat to the survival of local stores, so there was some resistance from local people in many areas; however, this had no significant effect on the expansion of new retail stores. On the government side, the Ministry of Commerce attempted to discuss the new Retailing and Wholesaling Act in response to continuous calls to protect small retail businesses, but this act has been under consideration for a long time. Those big store formats have already expanded all over the country; therefore, the act would have no effect in helping small businesses.

At present, retail business in Thailand can be divided into 2 groups – Traditional Trade and Modern Trade - described as follows (Siam Makro Public Company Limited, 2016):

1. *Traditional Trade consists of small retailers operating without a network with limited diversity of goods*

2. *Modern Trade refers to big retailers consisting of many branches. They have a diversity of products. This group can be sorted into 6 categories as shown in Figure A1.*

		Important Retailers (Number of Locations at End of 2015)	
1) Hypermarket	• Operating large retail stores, targeting middle and low income customers • Selling diverse goods for customers who focus on value for money	Tesco Lotus Big C	166 125
2) Department Store	• Operating large retail stores covering all target groups, depending on marketing position • Diverse high quality goods at affordable to high prices	Robinson Central The Mall	42 29 10[1]
3) Supermarket	• Operating middle-size retail stores • More selections than mom-and-pop but fewer than hypermarkets • Focusing on fresh foods, ready to eat foods, basic consumer products	Tesco Lotus TOPS Villa Big C Foodland MaxValu	187 114 31 55 18 38
4) Convenience Store	• Operating small retailer stores in densely populated communities, focusing on selling processed / ready-to-eat foods and basic necessities	7-Eleven Tesco Lotus Express Family mart Mini Big C MaxValu Tanjai 108 Shop TOPS Daily	8,832 1,429 1,235 391 47 230 39
5) Cash & Carry	• Operating large retail stores, targeting small retailers and households or professionals who need goods in large quantities • Selling diverse types of products	Makro	98[2]
6) Category killer	• Operating large retail stores, leader in their own category, specializing on a niche market	SUPER Sports HomePro Power Buy	72 76 101

ote : 1. Includes Siam Paragon, The Emporium and The EmQuartier (3 Locations)
2. Include seven Siam Frozen shops

eference : 1) Ministry of Tourism and Sports' website 2) IMF's website
3) Bank of Thailand's website 4) United Nations World Tourism Organization's (UNWTO) website
5) Information from the website of each retailer or other forms of public information
6) SCB EIC analysis from survey of social and economic conditions of households of National Statistics Office

Figure A1: Explaining 6 categories of modern trade

Source: Siam Makro Public Company Limited (2016, pp. 34)

The competition in retail business is very high, particularly among the types of modern store which have dominated the retail industry in Thailand for many years (Chaiyasoontorn and Sooksa-ngiam, 2011). Thus, traditional trade is threatened by the high competition, as modern trade continues to expand (Cheungsuvadee, 2006).

c) SME retail in Thailand

According to the Office of Small and Medium-sized Promotion, small retail businesses have fewer than 15 employees and an asset value (excluding land) of less than 30 million THB, while medium-sized retail business have fewer than 30 employees and an asset value (excluding land) not exceeding 100 million THB. Most retail businesses are small and medium-sized enterprises.

SME retail business is considered traditional trade. The ratio of traditional trade to modern trade has decreased from 75:25 in the past twenty years to 54:46 in 2011 (Kongarchapatara and Shannon, 2014). The trend still moves toward modern trade, as modern trade retailers continue their expansion. This trend also happens in other countries in Southeast Asia, as the portion of Modern trade was 27% in 1999 and it is expected to increase to 57% in 2020 (Cheng, 2015).