Tactical and strategic choices in business models: evidence from a Danish fashion outlet

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Abstract

Purpose – The purpose of this paper is to explain how tactical choices create value within a business model of a small company in the fashion outlet industry.

Design/methodology/approach – The generic two-staged competitive process framework from Casadesus-Masanell is used to analyze the fashion retailer MyFashionOutlet.

Findings – This paper argues that tactical choices made within a business model have a positive effect on the revenue of this company.

Originality/value – As to practice, the findings provide better insights into the levers of change within a constant business model. For academics, the authors provide guidelines for applying the framework to future research and identify potential limitations of the use.

Keywords Clothing, Strategic choice, Sales, Strategy, Business model, Tactical choice

Paper type Case study

1. Introduction

During the last two decades, the concept of a “business model” has gained momentum in both practice and academia (Osterwalder and Pigneur, 2005; Zott et al., 2011). The vast amount of literature includes topics such as strategy and business models (Seddon et al., 2004; Zott and Amit, 2008), business model innovation (Chesbrough, 2010; Mitchell and Coles, 2003; Teece, 2010), and proposals for business model frameworks (Casadesus-Masanell and Ricart, 2010; Johnson et al., 2008; Osterwalder and Pigneur, 2005). Several seminal articles stress the importance of business models for a company’s overall success (Brettel et al., 2012; Casadesus-Masanell and Ricart, 2010; Magretta, 2002; Morris et al., 2005). Yet, despite the alleged importance of business models, Shafer et al. (2005, p. 200) state that 62 percent (of the executives from 70 companies) had difficulties describing how their own company made money. This shows that many companies are not aware of what creates value in their business model. Casadesus-Masanell and Ricart (2010) suggest that the concept of a business model cannot be reduced to an arbitrary list of components. They argue that companies initially make strategic choices on some business model parameters and then succinctly adjust the existing business model through less significant, tactical choices. While a vast amount of literature makes cross-sectional descriptions of business model components (see e.g. the literature pointing to Osterwalder’s business model canvas), the long-term effect from strategic and tactical choices on performance is not sufficiently understood (Casadesus-Masanell and Ricart, 2010). In particular, this is true for small and medium enterprises (SMEs), as the business model literature prefers to showcase well-known global players (e.g. Chesbrough, 2010; Larsen et al., 2014; Magretta, 2002; Seddon et al., 2004). Therefore, the existing business model...
literature needs an extension toward tactical choices in SMEs to understand how these companies capture value from their existing business model. We pose the research questions:

**RQ1.** How do tactical choices within an existing business model add value in an SME?

In order to explain this, we conducted an interventionist single case study on an SME. The framework of Casadesus-Masanell and Ricart (2010) is suitable for our investigation as it differentiates between strategic and tactical choices. Our case company MyFashionOutlet (MFO) operates as a fashion outlet since 2005. The company offers a suitable revelatory case, because it has made several strategic choices on its business model between 2005 and 2009 without experiencing noticeable growth. From 2009 to 2012, MFO kept its overall business model constant and made more concrete, tactical choices while keeping the overall business model unchanged. We argue that the sum of the tactical choices led to a 250 percent increase in revenue between 2009 and 2012. Yet, we do not intend to generalize our findings but see our work as a pilot study for similar investigations. For practice, our findings provide more detailed insight into the levers of tactical choice within an existing business model. This revelatory case study can also serve as an inspiration to future research on how to apply a two-stage model of strategic and tactical choices on a business model.

The remainder of the paper is structured as follows: in Section 2, we introduce the theoretical concepts of business models and present the frameworks used in the paper. Section 3 describes the methodology. We analyze MFO’s strategic and tactical choices and relate these to the historical financial results in Section 4. In Section 5, we discuss the findings, the generalizability of these and the limitations of the study. Section 6 concludes.

2. Theoretical background

2.1 Defining business models

The term “business model” first appeared in the literature in the 1950s (e.g. Bellman et al., 1957). Business model as a concept was described in a much more sophisticated way in the mid-1990s when investors needed to understand the operations, revenue models, and development opportunities of internet start-ups. These companies had neither tangible assets nor physical products, and were targeting markets that were yet to be created. So their business model was the only value they had to offer. Since, then, the literature on business models has gained substantial momentum (Osterwalder and Pigneur, 2005; Zott et al., 2011). The literature offers several context-bound definitions of a business model. Zott and Amit (2007, p. 181) define a business model as the content, structure, and governance of transactions that jointly create value through exploiting business opportunities. The authors focus on the transactions with the stakeholders and seek to explain how business model design affects the performance of entrepreneurial companies. In Zott and Amit’s (2007) definition the focus is on the boundary-spanning transactions. In their terminology key activities, such as product development, can be outsourced to other firms. Yet, they still remain a central part of the firm’s business model (Zott and Amit, 2010).

Osterwalder and Pigneur (2005) and Casadesus-Masanell and Ricart (2010) offer two definitions that are more action-focussed. The two definitions differ. Osterwalder and Pigneur (2005, p. 10) defines a business model as a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of specific firm. Casadesus-Masanell and Ricart (2010) define a business model as the logic of the firm, the way it operates and how it creates value for its stakeholders. This implies an
operation- and action-based focus of the firm and not the transactions with the business partners as Zott and Amit suggests. The difference can also be seen as a question of semantics; actions and transactions can be viewed as two sides of the same medal, as transactions lead to actions and vice versa (Zott and Amit, 2010).

In the generic two-staged competitive process framework from Casadesus-Masanell and Ricart (2010) business models consist of two components; choices and their consequences. The choices are widespread and include, for example, location of facilities, assets employed, compensation contracts, extent of vertical integration. The choices can be split into three main groups: policies, assets, and governance structures. Policy choices refer to a broad set of guidelines used when guiding decisions in all aspects of operation. Asset choices refer to decisions about which tangible resources to employ. Governance structure choices refer to the contractual arrangements that give decision right over, for example, assets. The different types of choices have implications for the company. These implications are what the authors refer to as the consequences (Casadesus-Masanell and Ricart, 2010). The consequences are the goals of the choices. An example of a choice and a consequence is investing in efficient production facilities (an asset choice), so the company can enjoy lower production cost (consequence). There are consequences with all choices, but the proper design of a business model seeks to maximize the positive consequences by making the most profitable choices (Lueg and Nørreklit, 2012). We will use the definition from Casadesus-Masanell and Ricart (2010) that focusses on how internal processes create value for stakeholders. Furthermore, the action-focussed definition makes it possible to analyze the actions of MFO in-depth. Thereby, we can determine what causes the success of the company. The dimension of tactics relates to day-to-day decisions.

2.2 The relation of strategy and business models

The academic literature is often vague on the difference between a business model and a strategy (Seddon et al., 2004), and corporate practice uses the terms interchangeably (Magretta, 2002). However, several scholars have pinpointed the difference between the two concepts.

According to Zott et al. (2011) there are mainly two differentiating factors. The first is that strategy traditionally has an emphasis on markets, competitors, and competitive advantages. Business models emphasize internal managerial operations, cooperation/partnerships with various stakeholders, and networks. Competition and industrial economics are not a main focus. The second differentiating factor is that business models highlight the value proposition for the customer, which is not the main emphasis of the strategy literature (Zott et al., 2011). Magretta (2002) agrees that business models attempt to understand the components needed to run a business and how they fit together. She finds that the business model cannot, in itself, be the differentiating factor that makes customers choose one company over another. In her terminology, companies achieve superior performance when they pursue unique strategies. Business models are thought to be more generic and transparent than strategies (Teece, 2010). Therefore they can relatively easily be copied. Developing a sound business model is thus not sufficient for having success – it must be combined with a winning strategy (Magretta, 2002; Teece, 2010). Although strategy and business models differ, there are also similarities (Casadesus-Masanell and Ricart, 2010): the way business models are developed bears resemblance to the way strategies are developed. Both strategy and business models contain some committed choices made by management, and business models are reflections of the realized strategy (Casadesus-Masanell and Ricart, 2010, p. 204).
2.3 The notion of tactics
Casadesus-Masanell and Ricart (2010) explain that tactics are the residual choices open to a company that has committed to a business model and a strategy. While strategic choices determine the boundaries and shape of a business model (like setting the rules of a game), tactical choices accept the business model as a given and fill it with concrete contents (like deciding on moves within the game). Tactics are thus located on an operational and more detailed level within the set boundaries of the company’s business model. The authors argue that tactical choices will ultimately determine how much value a company can create using a generic strategy and a generic business model. The tactical choices can, for example, include advertising, policies for and staffing of the sales force, product customization, and enlarging the product range. Despite their assumed importance, the literature on business models has not paid much attention to the subject of tactical choice. In the marketing and management literature, however, several authors use the concept in a similar way as Casadesus-Masanell and Ricart (2010), Covin et al. (1994) introduce a similar notion of tactics and define tactics as plans within product price, sales force size, extension of customer credit, etc. Similarly, Rehman et al. (2012) stress the importance of tactics in relation to customer involvement. Furthermore, Welbeck (2013) reports that tactics influences customer loyalty. These notions do not differ greatly from Casadesus-Masanell and Ricart (2010), as many of the tactical aspects are centered on the contact with the customer.

3. Research design
3.1 Methodology: grounded theory with interventionist research
Different paradigms suggest multiple approaches of how to conduct research. These different paradigms are primarily focussed on verifying theories or hypotheses. This degrades the formulation and discovery of new theory (Glaser and Strauss, 1967). Our study intends to reveal new relationships of strategic and tactical choice around business models. To that end, we relate to grounded theory as a methodology. Grounded theory was initially developed to create systematic and practical guidelines for how to deduct theories from qualitative raw data in a sociological context (Glaser and Strauss, 1967). However, it has a wider range of use in contemporary research (Payne, 2007; Zarif, 2012). Grounded theory has developed in different directions, which has led to multiple perceptions of what it actually is (Dey, 2004). Some researchers continued the pure form of virgin research of Glaser (Dunne, 2011; Glaser, 2012; Zarif, 2012), whereas Strauss points to a more structured approach where knowledge on a subject is acquired prior to the investigation (Dunne, 2011). The benefit of not taking a purist point of view and instead conduct an early literature review is significant. It provides the researcher with a cogent rationale for a study (Dunne, 2011). Further, a basic level of knowledge ensures that the study has not already been conducted and that it will thereby contribute to the development of theory. Our research has been conducted in acknowledgment of a “Straussian” notion supported by McGhee et al. (2007) and Dunne (2011). We undertook a systematic review of the literature based on Zott et al. (2011) prior to the case study in order to; first, identify what research had already been conducted within the field and hereby clarify the relevance of the topic, and second, show the appliance/issue with existing theories in relation to the topic of business models. As this paper seeks to explore how small companies can be successful, Strauss’ view of grounded theory is used as a framework for identifying relevant theory on the subject. We acknowledge the different standpoints to use grounded theory, but like Dunne (2011), we make a liberal interpretation when exploring existing theory.
In addition to grounded theory, we employ interventionist research: one of the members of the research group is the managing director of the case company. This introduces some bias which has to be addressed proactively (Jönsson and Lukka, 2005, p. 38). Provided that the collection and analyses of data is performed in a rigorous manner, this emic connection to the case will, however, be a key strength of the research. By being involved in the case company, the research group can acquire a more emic understanding of the case company (Korhonen et al., 2013). We will address the limitations of interventionist research in Section 5.

3.2 Method and instruments: case study with interviews and archival data
We use a single, explanatory case study of the company MFO to address our research question. In line with prior research in this field, a single case study on a small company allows us to take on a holistic view and understand the business model in-depth (Albøge et al., 2015; Dalby et al., 2014; Friis et al., 2015; Lueg et al., 2013a, b, 2014, 2015; Malmmose et al., 2013). We seek to provide a most-plausible-explanation to the puzzle we have introduced. Yet, we acknowledge that this explanation may only be valid for this case and not in a more general setting (Ryan et al., 2002).

Our first main source of evidence is the managing director of MFO. He contributed to the writing process with in-depth knowledge from his long experience with MFO, an emic understanding of the business model, as well as selected information on otherwise confidential data. We also conducted a formal interview with him on issues that were not instantly clear to the rest of our team. This is in accordance with the guidelines of Yin (2009) and Turner (2010). This interview lasted about an hour and has been fully transcribed. Our second main source of evidence are archival data on MFO. These include: first, publicly available data, such as the web sites and Facebook profiles of Minimum and MFO; second, e-mails and reports exchanged between MFO and its parent company; and third, the financial statements of MFO. Due to confidentiality, we do not include MFO’s full financial reports in this paper. Yet, we are able to combine face-to-face interviews with analysis of some financial numbers (revenue). These sources of evidence are complementary, and the case study is stronger when it consists of more than one source of evidence (Yin, 2009). Our intention is to balance a rich emic description of the case with a comprehensive analysis of the etic perspective to give the study relevance in academia (Jönsson and Lukka, 2005; Lukka and Modell, 2010). By allowing contradicting explanations when appropriate, we seek to construct the paper’s internal validity (Yin, 2009). External validity is debatable in a case study like this, but by offering extensive documentation, we will let the reader determine if the explanations made in this paper are applicable in their circumstances.

4. Analysis
4.1 Case description of MFO
We conducted the case study at the SME MFO. MFO is a legal entity that functions as a retail outlet for the fashion company “Minimum.” The parent company Minimum Inc. (“Minimum”) was founded as a fashion brand in 1997 in Aarhus, Denmark. It designs and trades young, affordable fashion, launching about ten collections a year. Today, the company is still located in Aarhus and has 70 employees. Its products are available in retail shops in countries across Europe, North America, Asia, and Australia. Minimum operates the fully owned subsidiary Minimum Partner Ltd, which is the main shareholder of MFO. MFO was initially created in 2005 as a platform
for selling and handling outlet units (also referred to as outlet goods or outlet stock) that Minimum could not sell through its regular sales channels such as department stores. The outlet units include overproduction, surplus stock, returned goods, photo-samples, and collection samples.

MFO sells to end-consumers, called the business-to-consumer (B2C) channel, and to domestic and international wholesalers, called the business-to-business (B2B) channel. B2C sales are the most important ones. They are conducted by participating in collaborative outlet events in different parts of Denmark (external events) and self-arranged events in Aarhus (internal events). One of the major tasks of MFO is to select the external event it wants to participate in. Through the last few years, the market for outlet events has evolved rapidly from a few large events in major Danish cities once or twice a year, to ubiquitous fairs on any given weekend. This has made the consumers less receptive to outlet goods, and the expectations of consumers toward an outlet fair have increased noticeably.

B2B uses two sub-channels; domestic wholesale and international outlet chains, primarily from Eastern Europe. Sales to domestic wholesalers take place at extraordinary sales events. Domestic wholesale is preferred to the Eastern European wholesalers as pricing pressure is not as high, but it is still less profitable than B2C sales. As a consequence of the higher price, domestic wholesalers expect better and more differentiated products and a wider range of product groups. These domestic wholesalers are only allowed limited quantities of outlet goods from MFO:

We sit down and see if it's reasonable or not and if it can be supported by Minimum so we don't dilute the brand completely (Managing Director MFO).

Eastern European wholesalers are capable of purchasing an (almost) unlimited number of units and present the ultimate opportunity for Minimum to dispose of all excess units. Also, these units will not be for sale domestically, so the danger of diluting the brand is lower. But the low-unit price for these wholesalers makes business less lucrative.

Since 2005, Minimum has experienced growth in both size and brand awareness. The increased production has led to proportionally more overproduction, which increased the need for MFO to steadily increase its sales volume. However, until 2010, MFO did not succeed in increasing sales noticeably. Additionally, meeting intensified competition in B2C outlet sales, MFO has attempted to strengthen its profile and adjust its business processes since 2010. Registration, classification, and selection of goods have become a major concern. In order to ensure a price-optimization on both the B2B and B2C bases.

4.2 Analysis of the link from the business model to financial performance

According to the Casadesus-Masanell and Ricart (2010) framework, choices on the business model represent strategic choices. These choices can only be adjusted in the long run through decisions that are not operative and need approval from MFO's owner, the parent company Minimum. For MFO, these are: the fact that MFO belongs to a parent company; the at-cost supply contract from the parent; general pricing: the order to sell for volume instead of skimming the market; the prioritization of profitable retail customers at large events; the decision against broadly visible marketing; and the choice of asset structure. Adjustments made within this business model are categorized as tactical choices and can be fine-tuned by MFO's employees in the short-/mid-term without approval from the parent. These were: the possible methods of payment, bundling products, interior design of the point-of-sale, advertising within the confined marketing policy, and pricing individual products. We will first analyze the strategic choices made on the business model (mainly between 2005 and 2009) in more detail, then the tactical
choices within the business model (mainly 2009 to 2012), and finally relate these choices to the financial performance 2005 to 2012.

4.2.1 Business model (strategic) choices. The first choice in MFO’s business model is the governance structure of being owned by Minimum. This also includes the second choice, that is, the right to receive a supply of cloth from Minimum at marginal costs.

A third, related choice is the price-volume-policy. As a part of the Minimum group, MFO can buy the goods at a low price. This low-unit cost enables MFO to increase profits through pricing policies. Price elasticity is very high due to seasonality, coloring, trends etc., which is a challenge when determining prices. If prices are set too low, MFO sells high volumes with sub-optimal contribution margins. Also, overly low prices dilute the brand image of Minimum. If prices are set high, contribution margins improve, but volume drops instantly. This runs counter to the reason for MFO’s existence, which is the clearance of all excess stock of Minimum. MFO’s choice on this price-volume-policy is to set too low rather than too high prices to ensure that all stock is sold at the end of the season.

These low prices could lead to a dilution of the brand. MFO addresses this danger through a fourth choice, that is, prioritization of customers according to the sales channel. B2C customers often have the first pick on the excess stock as they are willing to pay the highest prices. Domestic B2B retailers are addressed next. The products that turn out to be almost unsellable are then sold in bulks to the Eastern European B2B customers at the lowest price. As MFO puts it:

These dealers come to Denmark and more or less buy everything we offer without further hassle (Managing Director MFO).

These outlet chains represent a vast network of stores and can consume (almost) unlimited number of units. Since the styles are often outdated or out of season, the bargaining power of MFO is limited, and the units are traded at a very low-uniform price. This B2B channel is the least preferable but represents an opportunity to dispatch whatever goods are left in stock of MFO, securing a continuous flow of goods. At the same time, the sale covers the direct costs of goods sold. Since the Eastern European wholesalers do not re-sell in Scandinavia, the danger of diluting the brand of Minimum is substantially reduced.

The B2C sales channels also belong to this fourth choice on sales channels. As mentioned above, there are internal, self-promoted events and external events where MFO participates in large outlet events around the larger cities in Denmark. MFO is selective regarding which external outlet events to participate in. As the Managing director explains:

When I only have 4 events during the year, I want a high customer flow [...] I seek events in the larger cities where the number of participants will typically be around 12,000 or more (Managing Director MFO).

The choice of participating in large events has been made in 2006 and came from the recognition that MFO could not generate a large enough customer volume by only hosting internal events. The participation in these events presents a trade-off: MFO is primarily supplied by outlet goods from Minimum, which can be difficult to sell because the remaining sizes of the cloth are quite limited. To accommodate this and increase revenue, MFO may supplement the outlet goods with styles from Minimum’s ordinary stock. The quantity of goods added represents the trade-off, as the supply deal with Minimum ensures MFO lower prices than ordinary wholesale customers, which can trigger dissatisfaction among regular wholesale customers of Minimum. Minimum is, however, compelled to allow this in order to obtain a sustainable outlet-channel through MFO.
A fifth strategic choice concerns the marketing policy. When MFO was initially founded, outlet sales were extraordinary events and could easily attract customers through word-of-mouth. Due to the increased number of outlet sales across Denmark, MFO’s attractiveness decreased, making the word-of-mouth insufficient to attract a satisfying number of customers. To accommodate this, MFO is now responsible for its own marketing of internal events. The marketing is restricted and prohibits overly “visible” types of advertising, such as radio spots or daily deal-sites:

I can’t go out and promote my products the way I want to, for example on city busses and such [...] I need to stay beneath the radar to avoid cannibalization by Minimum’s wholesale customers (Managing Director MFO).

Due to risk of damaging existing wholesale customer relationships, Minimum has dictated marketing of MFO only to include e-mail, Facebook, and customer loyalty programs. The consequences of these restrictions in choice of marketing policy are two-fold: on the upside, marketing costs are kept at an absolute low, on the downside, there is unrealized potential within the targeted segment of customers.

A sixth and last strategic choice on the business model is the asset structure. Minimum already owns a warehouse for stock, and MFO borrows excess space in order to reduce fixed cost for rent. As of 2007, MFO has chosen to prioritize inexpensive locations when arranging internal events. Prior to 2007, larger and more fashionable facilities where rented but was not aligned with the expectations of the customers: as MFO targets customers looking for high-quality cloth at low prices, the expensive locations did not add value for the customers. Likewise, customers do not expect a high degree of service from savvy sale-clerks.

4.2.2 Tactical choices. Once MFO had made its grand decisions on a generic business model between 2005 and 2009, (clearing Minimum’s excess stock by offering high quality at insurmountable low prices), the management of MFO had plenty of discretion to make tactical choices within the business model. These mainly took place from 2009 to 2012 where targets had reached the revenue levels Minimum expected from MFO. Many smaller tactical choices were made. We summarize them in categories:

A first tactical choice of MFO is to allow various methods of payments at the outlet events. MFO found that customers were sometimes hesitant to pay in cash, especially since Danes are used to settle even small amounts around 1 EUR with a debit card. MFO allowed the use of these debit cards and credit cards in combination or instead of cash payments after 2009. Due to card fees this has increased the cost of business, but the costs have been offset by the contribution margins of increased sales.

A second choice was to bundle products for B2C sales. In order to increase the volume, MFO offers large quantity discounts to encourage customers to buy a mix of in- and off-season styles. This bundling is an incentive for customers to buy more and enables MFO to increase the number of units sold. The negative consequence of the tactic is the lower unit price of the in-season style:

I work a lot with quantity discounts, in that way I can sell two nice items and one bad, or two bad and one nice item (Managing Director MFO).

A third choice was to improve the design of the stands at the external events in the beginning of 2010. MFO took several initiatives to present a more appealing stand that allows a quick overview overall offered products. First, the way products were displayed has been changed. Prior to 2010, the promotion was a mixture of cardboard boxes and big tables with piles of styles in different categories (shirts, knits, trousers etc.) and sizes.
Customers experienced a lack of clarity of what was on offer. MFO now puts around 80 percent of its cloth on these hangers. Hangers provide the opportunity to segment the styles into categories, sizes, and colors, which improved sales. As the Managing Director of MFO puts it:

[…] I use a lot of resources putting my goods on hangers […] I am convinced that this gives me a larger customer flow, because it is more simple and quicker to look through the goods.

Additionally, a fitting room now accommodates customers buying trousers, skirts, etc., hereby optimizing the sale process for the whole product portfolio. Second, preparing and sustaining an appealing stand has increased the requirement for employees. Employees are now hired on an event basis. A major criterion for hiring them is an extroverted personality; knowledge of the products is secondary. The cost connected with the new stand and the increased number of staff is outweighed by the additional sale as:

It was reasonable to increase our staff level, because without these new employees, I could not present and sell the cloth I want to (Managing Director MFO).

This choice of presentation is not one of the parameters used for differentiation from the generic business models of the other sellers at the external events:

What I do is to differentiate MFO from the other outlet companies at the events. I keep a product portfolio that consists of a new product and some older goods (Managing Director MFO).

The selection also relates to the number of styles brought to an event. As MFO has high ambitions for the revenue but does not attend many events, it is important to optimize sales each day at the events. In order to meet the customers’ expectations, MFO brings a surplus of goods:

If I sell a lot of jackets, I need to put more jackets on the stand, and if I don’t sell any jackets, then I need to replace them with something else that could sell more (Managing Director MFO).

A fourth choice has been to improve the advertising policy. MFO steadily has increased its activity level on Facebook. It has also introduced newsletters that are sent to frequent A-customers. MFO wants to retain these customers and send them special VIP-invites to the events. This tactic enables MFO to reach for the targeted segment while still ensuring that regular customers are not spammed by news and offers.

As a fifth choice, MFO started charging different prices for each item of clothes. Before 2010, MFO had a uniform price for each category, meaning that a fancy winter coat and a plain T-shirt were priced equally. In 2010, MFO started to categorize and register all units left in stock. The registration gives the opportunity to identify what can be offered to wholesalers and to differentiate prices for each category. MFO reduces the uncertainty of what is included in one of their shipments to these B2B customers.

4.2.3 The effect of strategic and tactical choices on financial performance. We now relate the strategic and tactical choices to the revenue from B2C sales; profits are not displayed due to confidentiality (cf. Figure 1). Revenue and decisions related to B2B are excluded from the graph in Figure 1 due to three reasons: first, B2B is only a secondary sales channel due to lower contribution margin per item of clothes compared to B2C. Second, MFO focusses their effort on the B2C market, in order to maximize profit. Third, success in B2C events reduces the quality and quantity of goods available to B2B sale, which leads to an adverse effect in revenue (but not profits). Due to these factors we limit the further analysis to only include the B2C channel.
The graph presented in Figure 1 illustrates the indexed revenue ($2005 = 100$) for the B2C sales between 2005 and 2012. Along with revenue, the vertical headings below represent the different strategic choices (white boxes, solid lines) and tactical choices (gray boxes, dashed lines). The graph shows a relative constant revenue development with only limited fluctuation from 2005 to 2009. Multiple strategic choices on the business model were made. From 2010 onward, revenue increased substantially. The timeline illustrates that only one strategic choice was made after 2012, but most of them were tactical choices.

The concentration of tactical choices made in 2010 suggests a relationship between the tactical choices and revenue growth. We find it evident that – if managerial choice has influenced revenues – the specific tactical choices appear to be the antecedent of increasing revenues.

One might hypothesize that several factors contribute to this revenue growth, such as: the increased number of goods pushed to MFO from Minimum, general increase in demand for outlet goods, and the impact of the tactical choices made. We elaborate on these rival theories in the following:

1. If we consider MFO as an alternative sales channel, Minimum could have had the intention to push more goods to MFO and exploit the opportunity to cut the retail-link, trading directly to consumers and obtaining a higher contribution margin. However, such business policy would undoubtedly result in reactions from wholesale customers and possibly damage both the core-business and brand value of Minimum. MFO only provides the possibility of selling outlet stock, which needs to be supplemented by a limited amount of excessive styles from the main stock. However, it is also recognized that Minimum effectively has reduced the costs associated with excessive production, which could motivate sale forecasters to be a bit more optimistic. Drawing on accounting numbers on purchased good, we cannot find evidence that Minimum increased its supply of clothes to MFO by a factor 3.5, which would correspond to the increase in revenue.

2. We acknowledge that arguments for both positive and negative macroeconomic effects on the sale of outlet goods can be presented. First, the economic crisis might have stimulate consumer behavior toward cheaper clothes and hereby...
increase the market for outlet goods. Opposite, it might have had an inhibiting effect as a consequence of the general reduction in private consumption and increased environmental uncertainty (Lueg and Borisov, 2014; Borisov and Lueg, 2012). Several other variables also might have had an effect. But it is not within the scope of this paper to elaborate further on these.

(3) When reflecting upon (1) and (2), we still cannot fully explain the increased revenue after 2010. The analysis indicates a relationship between the tactical choices made within the BM and the revenue increase. As shown, the initial business model has not been altered significantly since 2005. Right after the business model changes in 2006, 2007, and 2009, revenue did not change in a timely fashion. It should, however, be noted that the tactical changes in 2007, 2008, and 2009 did not change the revenue either. Furthermore, it is not possible to establish a connection between the individual choices made and the revenue, but it appears as if the sum of the choices has had a significant effect. We find it logical that initiatives such as making the clothes more available on hangers at events, advertising through newsletters and Facebook, selecting seasoned styles at events, etc., have contributed positively to the revenue.

5. Discussion

The paper contributes to the business model literature by presenting guidelines for the applications and limitations of the Casadesus-Masanell and Ricart (2010) framework on business models in SMEs. The finding of a possible relationship between tactical choices and an increase in revenue provides practitioners with a better insight on how to create more value in an existing BM. Similar companies could use the findings as a way of focusing their attention to value creation at events, or evaluate how they present and sell the goods.

5.1 Contribution to business model theory and practice

From the analysis of MFO, we can see that no changes in the business model have been made since 2009 – except the transfer of marketing responsibility to MFO. However, the financial data show a significant increase in revenue after 2009, which is partly contradictory with the general perception that change/innovation in the business model is vitally important to a company’s success (Chesbrough, 2010). Trying to explain the revenue increase ultimately led to the identification of three factors assumed to have an effect: an increase in the number of units pushed from minimum to MFO, the macroeconomic conditions, and the effect of the tactical choices made from 2009 onward. First, Minimum lacked the intention to push more units to MFO. Second, it was beyond the scope of the paper to deduce any definite conclusion as to the effect of the different contradicting macroeconomic conditions. Third, we were able to identify a series of tactical choices related to the operations in MFO made in spring and autumn 2010, which indicates a relationship between the choices and the growth of revenue.

Only a limited amount of empirical research has attempted to describe the direct relation between value creation, value capture, and the choice of business model (Amit and Zott, 2001). Business models are interconnected with the environment surrounding them, which makes them difficult to isolate and consider as an independent variable (Sahut et al., 2013). Yet, the findings of Malone et al. (2006) and Jasra et al. (2011) support our conjecture that tactical managerial choice has
substantially improved the effectiveness of the business model from a study on 520 SMEs, Jasra et al. (2011, p. 279) conclude that leadership skills, decision making skills, management skills, and professional affiliation with the business are very important in achieving success of the company.

This supports the findings of this research; namely, that a clear relationship exists between tactical decisions within a business model and value creation. At the same time, it supports the theoretical framework by Casadesus-Masanell and Ricart (2010), which highlights the importance of the tactical choices when competing in the market.

As MFO deals with retail on B2C-level, the tactical choices made in 2010 can be compared to the retail activities from the framework proposed by Sorescu et al. (2011). The framework proposes three core elements of retail; format, activities, and governance, which constitute a BM in retailing. Change to retailing activities, as it is done with the tactical choices in the case of MFO in 2010, can have significant effect if coupled correctly with the other elements of the retail BM (Sorescu et al., 2011). Tactical choices made by MFO enhance, for example, customer flow and sales within the boundaries of the retail activities. However, they do not change the business model in its core or its governance. The increase in revenue suggests synergies between tactical choices. Although his paper argues for more radical changes to the BM in relation to innovation, this statement still supports the notion that MFO increased their value captured in the BM. As a result, the tactical choices just refine the existing business model of MFO.

Even though the findings are supported by existing literature, it is important to acknowledge different views regarding what constitutes changes to a business model. Cavalcante et al. (2011) argue that business models are abstractions of the business on a conceptual level, not on a practical. A business model is defined by core competences, and changes in these competences should result in a revision and reformulation of the whole business model. According to their definition of revision, the tactical choices made would not have been anything but general dynamics of the BM, which contrasts the detailed analysis provided by Casadesus-Masanell and Ricart (2010).

5.2 Limitations of our approach and opportunities for future research

First, we present only a single case study in a specific context. Therefore, we do not want to generalize our findings. Instead, we see our work as a pilot study that can be the herald to a similar wave of work across SMEs. So far, only limited research focusses on the value creation in the business models of SMEs. This single case study has indicated a connection between tactical choices and performance, which could be supplemented by further research. A more in-depth analysis of the financial results on an event-based level could hopefully provide a more comprehensive explanation of the effect on revenue from tactical choices. Furthermore, a quantitative approach on a larger scale would enable us to give more specific guidelines for the practitioners of where to begin when configuring their existing business model.

Second, the theoretical distinction between BM and tactical choices is a question of definition (Casadesus-Masanell and Ricart, 2010; Cavalcante et al., 2011). A uniform definition is therefore a necessity in the analysis of the various strategic and tactical business model choices for obtaining validity. In the case of MFO, we have defined a tactical choice as one that was made by the parent, and a tactical one that has been made by the subsidiary.
Third, the lack of explanation and direct link between the individual tactical choices and the revenue increase complicates the comparability between MFO and other cases. As it is only possible to identify a link between the sums of choices, some choices may have a negative effect, but they are offset by other choices which have a positive effect. Applied to other business models, these tactical choices might have a more significant effect.

Fourth, one of the researchers was the managing director of MFO, which might have biased our interpretation toward presenting a success story. We have dealt with this bias in several ways: we draw our main conclusions on the effect of tactical choices on revenue on an objective, archival dependent variable (revenue) that cannot be biased by our intervening co-author. Moreover, the reality checks and balances of the co-authors during the writing process of this study have ensured that the intervening author could not enforce an unfiltered impression of his own work environment.

6. Conclusion
In this paper, we have applied the framework of Casadesus-Masanell and Ricart (2010) in order to identify how companies generate value within an existing business model. An interventionist single case study of MFO was used to explore how value was created in an existing business model of an SME. After identifying and separating the tactical choices from the business model choices, we found some indication of a connection between the tactical choice and revenue growth. We recognize that the effect on the revenue increase is explained by the sum of choices and not by the individual choices. The findings of this paper suggest that tactical choices can have a significant impact on the creation of value in a business model. Our conclusion is supported by existing theories on the subject, but we do recognize that different assumptions about the scope and level of details of a business model can lead to other results.

References


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