

BUSINESS MODEL INNOVATION AS A PATH TO OVERCOMING ENTREPRENEURIAL CHALLENGES

KOSTOV Ivaylo

ORCID: 0000-0002-1308-945X

Assistant Professor, The D. A. Tsenov Academy of Economics, Bulgaria, Department of
Industrial Business and Entrepreneurship, e-mail: i.kostov@uni-svishtov.bg

ABSTRACT. *Business model innovation (BMI) refers to the process of developing and implementing new, unique, and creative ways of creating, delivering, and capturing value. It involves rethinking and re-engineering the underlying logic and structure of a business, with the aim of unlocking new sources of revenue, reducing costs, and improving customer experiences. With the rapidly changing business landscape and increased competition, business model innovation has become a critical component of corporate strategy, allowing companies to stay ahead of the curve and achieve sustainable growth.*

In this regard, the article aims to present business model innovation as a way to deal with the problems faced by entrepreneurs and their enterprises in the conditions of an increasingly dynamic and uncertain environment. Several challenges facing modern business are indicated. The framework of business model innovation is outlined and the logic of their creation is traced. Finally, various methods and tools for developing original business models are suggested.

Whether it involves introducing new products or services, exploring new markets, or leveraging technology to transform existing business processes, the goal of business model innovation is to create value for customers and stakeholders, while differentiating the company from its competitors.

KEYWORDS: *business model innovation, business model, entrepreneurial challenges, entrepreneurship, innovation*

JEL CLASSIFICATION: *L26, O21, O31*

Introduction. Modern business organizations face a number of challenges and problems, including credit and financing access and equality, a lack of managerial experience, difficulties learning new technologies, a labor shortage and lower labor productivity, difficult access to international markets, and so on. These challenges are caused by a variety of global processes as well as various difficulties and problems of an objective nature (Varamezov, Panteleeva, & Nikolov, 2017). Simultaneously, today's continuous and dynamic market processes necessitate entrepreneurs adopting problem-solving approaches and solutions that aid in the growth of their businesses. These approaches and solutions are frequently associated with (The challenges of growing a business - and how to meet them, 2022), (Le, 2021):

1. Adaptability to market changes. Because market conditions are constantly changing, business organizations must conduct market research on a regular basis. Otherwise, it is possible to make decisions based on outdated information, which will lead to the business's decline or failure. As a result, it is critical to emphasize obtaining quality and reliable information from the company's key customers, suppliers, workers, employees, and so on, who are encouraged to share their market knowledge. Using IT systems to analyze such data aids in the prediction of consumer behavior and preferences.

2. Planning ahead. In dynamic conditions, business development entails the regular review and updating of the company's business plan and strategy with the goal of gaining new customers, a larger market share, and better market positions. The adoption of new strategies is accompanied

by the assumption of new risks that must be overcome. Forward planning is an approach in which every significant strategic move, such as starting a business, is accompanied by planning.

3. Financial management and cash flow. Good cash flow management and control are essential for business growth. Cash constraints can stymie growth by preventing you from taking advantage of promising business opportunities. To maximize free cash flow, each component of working capital must be carefully managed. Financial planning reflects the desire to attract external investors who can provide capital for future business expansion and innovation.

4. Attitudes and abilities. Entrepreneurs and their abilities and skills are central to the formation and growth of businesses. However, it is frequently these skills and abilities that stymie business growth, because the rapidly changing business environment necessitates constant upgrading. Delegating responsibilities to different specialists in specific areas is one option. When it comes to new business ventures and challenges, hiring people with experience can be critical.

5. Worker and employee requirements. The expansion of the activity is also linked to the expansion of the workforce in the organization. Recruiting new employees aids in the addition of new and more activities to the enterprise, but it can also be critical in acquiring the new skills that the business requires as it grows. Companies that hire new employees, on the other hand, face challenges related to the more complex management of human resources and meeting their needs and demands. The use of software systems and appropriate software for managing the remuneration of human resources in the organization, as well as their overall management, is one possible solution to such problems.

6. User needs diversity and business intelligence. A company's growth is accompanied by an increase in revenue and investment in new ventures. As a result, there will be a larger, more diverse range of customers, each with their own set of needs and expectations. As a result, the company must be aware of what these users want and require. Knowing them is linked to the implementation of the appropriate policies, activities, and technologies for collecting and analyzing various business data. The key point in this regard is to collect and analyze as much customer data as possible, as well as to build strong customer relationships based on communication.

7. Inventory management and control. The enterprise's increased customer base leads to an increase in stock. Inadequate availability for increased orders can lead to decisions that are extremely costly to the organization. Inability of a company to provide its products to customers when they want them may result in their loss, which will benefit competitors. Overstocking, on the other hand, reduces cash flow and ties up valuable working capital. Just-in-time inventory management, in which the company's financial data is linked with real-time inventory data, is a convenient solution. This allows stocks to be kept only when they are needed, lowering the costs of acquisition, maintenance, and control.

8. Maintaining the supply chain's functionality. A well-functioning supply chain is critical to any company's day-to-day operations. Otherwise, meeting customer demands becomes extremely difficult, especially as the business grows. In this regard, it is prudent to make medium- and long-term sales volume forecasts, as well as plan for how these forecasts will affect the supply chain. Maintaining contacts with a large and diverse network of suppliers as an alternative if one partner is unable to deliver what the company requires is a wise move.

Human resources, according to Anver Jan, are one of the major challenges confronting the development of modern business organizations (Jan, 2020). The increasing difficulty in finding quality labor has a significant impact on business. The search for and attraction of people who can accept challenges and adapt to changing conditions helps to create new business opportunities. Finding quality people is difficult but keeping them in the organization is even more difficult. A small business owner, for example, has a closer relationship with his employees, but as the company grows, the employees feel like they are part of something bigger, so they want to be paid more or have other non-monetary benefits. As a business grows, so does the number of daily activities. As a result, looking for individuals who can be trusted and who are capable of taking matters into their own hands is a sure way to ensure successful development.

In summary, three major groups of challenges in starting and developing business can be identified (Table 1): people, leadership, and business model (Kindström, Carlborg, & Nord, 2022).

Table 1. Challenges in starting and developing business

PEOPLE	LEADERSHIP	BUSINESS MODEL
<ul style="list-style-type: none"> • culture/values - enhancing company values and maintaining a culture conducive to the development of the activity; • culture/values - enhancing company values and maintaining a culture conducive to the development of the activity; • employees - development of internal skills and abilities, perception of changes in the business organization by all employees; • organization - expanding the organization, reducing reliance on individual employees. 	<ul style="list-style-type: none"> • vision, goals - "fixing" the vision among employees, establishing processes for the vision's development; • management - establishing clear managerial roles, launching active councils; • management control - determining key performance indicators, establishing processes for follow-up actions. • strategic development - the creation of a strategic development process, as well as the creation and development of future strategies. 	<ul style="list-style-type: none"> • business development - development of a platform for systematic business development, identification of growth niches; • value propositions - development of value propositions, customer segmentation in existing value propositions; • sales - expanding the customer base for new sales, shortening the time from idea to realization. • market - market position strengthening, more systematic monitoring of market activities.

Framing business model innovation. Modern organizations frequently use business model innovation (BMI) to achieve success. The application of BMI serves to increase value while also addressing the challenges of a more dynamic and uncertain business environment. Delineating the conceptual framework of the BMI clarifies its essence and significance, as well as its comprehension and perception by an increasing number of managers.

The framework for BMI is based on the definition of business models that has gained popularity in science and practice in recent decades.

In practice, a business model is a unit of analysis that describes how a company's operations work (Frankenberger, Weiblen, Csik, & Gassmann, 2017). More specifically, a business model is frequently portrayed as an overarching concept that unifies the various components that comprise a business. This model, to a large extent, is associated with an enterprise's revenue or production and is used to indicate how much potential a business idea has and how profitable it would be (Mahadevan, 2004). As a result, an business model innovation is one in which innovation occurs in one or more components of an already existing and adopted business model with the goal of creating new value, allowing the organization to compete successfully and effectively in a changing environment (Motjolo pane & Ruhode, 2021).

The conceptual framework of the BMI includes four components related to the four main questions confronting the company's activity: value proposition (Why), operational value (What?), financial value (How?), and human capital (Who?) (Ramdani, Binsaif, & Boukrami, 2019).

Value Proposition (Why?). Organizations today are preoccupied with value proposition innovation to attract and retain a large portion of their customer base. The development of new business models typically begins with the formulation of a new customer value proposition, which is accomplished by thoroughly researching the various alternatives to the basic offering, the type of offering, the main features and benefits of the product (service), the life span of the offering, and so on. This aspect emphasizes the cost structure and revenue mechanisms used to explain why the business model is financially viable (Frankenberger, Weiblen, Csik, & Gassmann, 2017)..

Operational value (What?). This part of the business model innovation is concerned with the sequential activities of delivering the value proposition, discovering the various channels

through which a company can reach customers, and establishing relationships with key partners and suppliers. In other words, the customer gets what he or she wants.

Financial value (How?). This area of business model innovation is concerned with how to capture value through revenue streams, changing pricing mechanisms, and assessing the business's financial viability and profitability (Ramdani, Binsaif, & Boukrami, 2019). The success of such a model can be attained by experimenting with new methods of generating cash flows, in which the organization must assess and, in practice, change when cash is collected: before the sale, at the point of sale, or after the sale (Sorescu, Frambach, Singh, Rangaswamy, & Bridges, 2011).

Human Capital (Who?). Each business model exists to meet the needs of specific users. As a result, when developing an innovative business model, one must consider who the user is (Frankenberger, Weiblen, Csik, & Gassmann, 2017). This component's key elements include experimenting with new business models and leveraging the skills and competencies required for the new business model by motivating and involving people in the innovation process. The ability and skills of managers to attract and use talented individuals who can carry out the relevant project or activity are characteristics here.

Development and logic of business model innovation. Whether the enterprise is starting a new venture, expanding its operations, entering a new market, or changing its strategy in the current one, developing a new and successful business model is critical. There are different types of business models created depending on the type of organization and the type of offering. Some of them are:

➤ Freemium business model: The core product is free, but the enterprise charges for additional services or features with the goal of getting customers to pay for a premium package (services) later.

➤ Free trial business model: Customers can try the product for free for a limited period of time.

➤ Licensing business model: Technologies or innovations are monetized by licensing them to other companies.

➤ Open-source business model: The company's product is free, but the company makes money in other ways, such as through crowdsourcing.

➤ Subscription business model: Customers pay a monthly fee to use the enterprise's product (service). It is appropriate for both business-to-business (B2B) and customer-facing (B2C) enterprises (Nieminen, 2020).

In practice, the business model must answer important questions for the organization and present a good and sustainable business vision. As a result, the key components in developing a new business model should include connection with target customers and the market, the organization's strengths and challenges, the main elements of the product (service), and how the product (service) will be sold.

As a result, developing an BMI necessitates the investigation and definition of several key components (How to build a business model, 2022).

1. Vision – a high-level overview of a company's product strategy, including what is being built and why.

2. Key objectives – defining the enterprise's most important goals and how they will be measured.

3. User targets and challenges – a description of the various types of target customers and their problems.

4. Solution – how the product (service) will solve the problems of the users.

5. Value – distinguishing characteristics of the enterprise's product (service).

6. Pricing – an examination of how much the solution will cost the organization and how it will be marketed.

7. Messages – an external explanation of a company's product (service) that communicates customers' key values.

8. Go-to-market channels, such as social media, will be used to reach and sell products (services) to customers.
9. Necessary investments – the expenses that the company must incur for the solution to be successful.
10. Growth opportunity – identified opportunities through which the business can develop in the future.

Another option for developing a BMI is to take a few basic stages (Cuofano, 2022):

Stage 1. Defining the problem to be solved. At this point, it is necessary to consider the nature of the problem. Depending on the product and business model the organization aspires to create, it can be both functional and emotional. It is beneficial for the company to limit the selection to three key problems that the offered product (service) can solve.

Stage 2. Identifying the customers who will be served by the solution. Users with similar characteristics can be divided into subgroups using demographic, geographic, behavioral, or other criteria. One option is to limit the number of customer types to three for the problems defined in step one. Each problem should ideally be tailored to each type of customer. A single client can have multiple issues at the same time. Alternatively, the same problem may be experienced by different types of customers.

Stage 3. Identifying the primary customer(s) and the primary problem(s). The organization will concentrate its efforts on one of the first three identified customer types and one or more of the first three identified problems. A business model can evolve in a variety of ways, and narrowing the course of action can lead to better business model execution and experimentation. As a result, the company's management will be able to focus on a single key customer or problem. In other words, this step is all about adding value to the customer's experience. This can be accomplished not only by solving users' problems, but also by offering the product (service) to specific generations, which allows them to identify with it, resulting in increased demand.

Stage 4. Creating a list of potential solutions. To solve the problem, a method of narrowing down different solutions is used. In general, three steps can be taken (Figure 1).

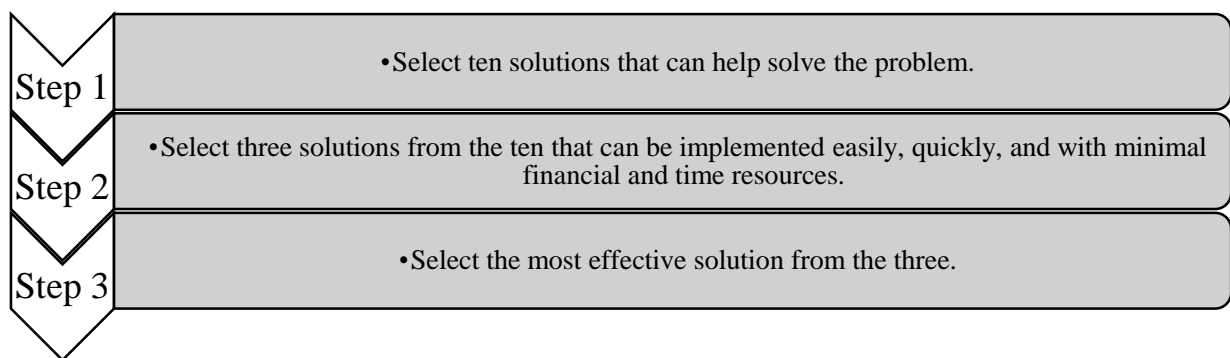


Figure 1. Narrowing down various solutions Method

Stage 5. Testing and selection. During this phase, the product and the chosen monetization strategy are tested using business experimentation to see how users react. Several options (hypotheses) are tested to assist the entrepreneur or organization's management in determining where success will be greatest.

Kavadias and colleagues identified six factors that increase the likelihood of transformation and success after analyzing forty new business models implemented in industrial enterprises (Kavadias, Ladas, & Loch, 2016). They are as follows:

Factor 1. A more tailored product or service. Providing products or services that are more tailored to individual and immediate customer needs than the dominant model.

Factor 2. Process with a closed loop. Recycling used products reduces the overall cost of raw materials.

Factor 3. Asset distribution. Sharing expensive assets reduces costs while increasing barriers to market entry.

Factor 4. Usage-based pricing. Customers prefer to be charged when they use a product rather than having to purchase it.

Factor 5. An ecosystem that is more collaborative. Collaboration with supply chain partners helps to spread business risks and save money.

Factor 6. Organization that is adaptable and flexible. Changes in the market, and thus in the wishes (needs) of users, necessitate making decisions in real time.

Tools and techniques for creating stable business model innovation. The development of stable BMI is linked to the selection of actions regarding three key organizational factors: policy, assets, and management (Casadesus-Masanell & Ricart, 2011). The actions that an organization takes in all of its operations are determined by policy choices, such as using non-union workers, locating factories in rural areas, or encouraging employees to travel by using cheaper transportation. The asset factor refers to the material resources available to the company (production facilities or satellite communication systems). Governance refers to how a company organizes decision-making rights for policy and assets, such as whether it should own machines or hire them.

Policy and asset management differences that appear innocuous have a significant impact on their effectiveness. The consequences can be flexible or rigid. When the underlying choice changes, a flexible consequence responds quickly. Increasing prices, for example, will immediately result in lower volumes. Hard consequences, unlike flexible ones, are difficult to imitate because companies need time to build them (Casadesus-Masanell & Ricart, 2011).

Business plans, which describe a company's problems, opportunities, and solutions in the context of a two- to five-year forecast of costs, growth, and revenue, are frequently associated with business models. Unlike a business plan, a BMI can be visually presented briefly, indicating the key elements of the company's strategy. Various platforms and tools are used for this purpose, which essentially aggregate and facilitate supply and demand processes, and more specifically, the moment when supply meets demand (Nieminen, 2020). These platforms and tools are distinguished by their distributed approach to value creation and are mostly digital these days, but it is important to note that BMI precede similar online services¹⁴.

The benefit of digital platforms is that they increase the profitability of BMI while achieving large economies of scale and low creation costs.

Aha! created one of the online tools for generating BMI, with the emphasis on capturing key elements such as why the solution is worth buying (messaging), buyers' pain points (customer challenges), and how the business can be developed (growth opportunities) (How to build a business model, 2022).

Another tool for developing BMI is the Lean approach, which is popular among start-up entrepreneurs. The emphasis is on developing a quick, concise, and effective one-page business model by documenting nine elements such as customer segments, channels used to reach customers, and how the company intends to make a profit.

Developing a BMI is a hypothesis that must be proven, which means testing the model to see if it adds value to users. The following steps can be taken to validate the BMI (How to build a business model, 2022):

1. Develop an approachable and collaborative business model that can be shared with all stakeholders who can provide feedback, such as customers, shareholders, team members, and so on. Using an online tool to create and share a business model encourages and facilitates collaboration.

2. Creating additional strategic models by answering the following questions: How will the product (service) be brought to market and reach the target customers?, Who are the main competitors?, What opportunities and threats do the organization face? A variety of modeling tools

¹⁴ Shopping malls and classified ads in newspapers are examples of this.

can be used to predict various market challenges that the business idea may face and thus identify any gaps in the innovation business model created for this purpose.

3. Translating BMI into measurable objectives and initiatives. In order to achieve the desired results, whether it is increased revenue or more users, objectives must be measurable, time-bound, and properly defined.

4. Determine how and when to present the business concept. At this point, the goals are transformed into actual features in the form of a demo or beta version of the product (service), which will be made available to a select group of users.

5. Gathering customer and stakeholder feedback. This is the most important part of the BMI validation process, in which surveys, interviews, and information about customer preferences and needs are gathered. In this manner, it is possible to determine whether the BMI achieves the desired results for the company. In other words, whether the business idea solves a user's problem(s) and has value. The feedback assists in determining which aspects of the BMI should be modified.

6. Refinement and Repetition. The information gathered allows the BMI to be adjusted or refined so that it produces better results when repeated.

Conclusion. Business model innovation (BMI) is an important strategy used by modern organizations to achieve success by creating new value and addressing the challenges of an ever-changing business environment. The conceptual framework of the BMI is based on four components: value proposition, operational value, financial value, and human capital. Developing an innovative business model requires addressing important questions such as the target market, strengths and challenges of the organization, the main elements of the product, and how it will be sold. Depending on the type of organization and the offering, various business models, such as freemium, licensing, and subscription models, are developed. To be successful, businesses must conduct extensive research and experiment with new methods of generating cash flows, while also involving and leveraging the skills of talented individuals to complete the relevant project or activity. Overall, developing a successful business model is critical for an organization's growth and sustainability in the dynamic and uncertain world of modern business.

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