Chapter 15

Technology-Based Scalable Business Models:

Dimensions and Challenges of a New Populist Business Model

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ABSTRACT

Technology based scalable businesses (TSB) have made a significant impact on our lives. The landscape change driven by TSBs has forced many well-established brick-and-mortar businesses to relook at their business models. Despite the influential strides made by TSBs in altering the business landscape the business literature on them is scant. This chapter is a modest attempt to examine TSBs. Scalable businesses could be broadly described as those that can achieve a disproportionate increase in sales/revenue/profits compared to the costs incurred, primarily aided by technology. Google and Uber are examples of how new industries get created and how existing industry landscapes get changed because of technology. Interlinking of technology has offered hitherto unexperienced growth opportunities to such companies. However, the uniqueness of these businesses leaves much to be desired from conventional metrics in adequately explaining the performance of technology-based scalable businesses.

1. TECHNOLOGY BASED SCALABLE BUSINESSES: AN INTRODUCTION

A scalable business can adapt itself with time and can attain increased profits with increased sales without increasing costs. When a business can add more customers and generate more revenues without proportionately increasing its costs, it is said to be a scalable business. Scalability could be achieved with the help of technology. Any business which could successfully integrate technology in its business model to

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attain exponential profits along with an increase in revenues could be called a ‘Technology based scalable Businesses’ (TSBs). Companies like Google, Facebook, etc. are technology companies that could amplify revenues and profits without proportionately increasing their costs. These companies scale up their operations by investing more in technology infrastructure compared to other resources which a traditional business invests in viz., land, labour, and capital. Google with an annual revenue of 305.63 billion USD, has around 271 Google products and around 8.55 billion searches a day manages all its activities with around 160,000 full-time employees approximately across the globe (Bianchi, 2024). The Gross profit margin of the company is around 50% which shows the scaling capability of the company. Facebook, another technology company, with around 3.0 billion monthly active users as of the second quarter of 2023, has a gross profit margin of around 63.79% for the year ended 2023 and manages its activities with merely 86482 full-time employees as of January 2024 (Dixon, 2024). The top five slots among the world’s most valuable brands for 2019-20 are held by GAFAM (Google, Amazon, Facebook, Apple, and Microsoft), all are technology based scalable businesses.

2. BUSINESS MODEL

A business model is a set of business processes that converts inputs to outputs while generating returns to the investors (Hoddinott, 2007). A strong business model can sustain these returns to the investors over a longer period. Blank (2010) explains that a business model is the one that helps a company to create, deliver, and capture value. A business model is the plan or strategy of a company for making a profit which includes the company’s products and services, target market, and expenses (Kopp, 2019). It is nothing but a story that explains how an enterprise function and also answers the fundamental attributes of a business viz., how people make money in business, who is the customer of a business, what the customer value, how value could be delivered to customers at an appropriate cost etc. (Every new business model comes up either to meet an existing unmet need or to make, sell or distribute an already existing product in a better manner. The advent of personal computers and spreadsheets helped firms to model their businesses even before they were launched. However, to be successful, the assumptions used in the model must align with the real-world scenarios. While the business model tells how to do business, strategy is the one that helps the business to gain a competitive advantage (Magretta, 2002).

2.1 Evolution of Business Models

Business models as well as entrepreneurs have changed with the changes in technology and customer preferences. Ingram (n.d) explains the evolution of business models starting from the production era after the Industrial Revolution to the marketing era of the 1950s to the relationship era of the 1990s the next year’s model of the 21st Century which is attributed to technological advancement (Codrea-Rado, 2013). Before the Industrial Revolution, agricultural and colonial models dominated the business world for centuries. With Industrial Revolution, the focus shifted to production based models. Increased competition paved the way for marketing based business models which further evolved into relationship based business models taking advantage of the development in ICT. Companies started to come up with customized products and services to solve the changing demands and needs of their customers. Gorevaya and Khayrullina (2015, p. 344-350) have explained in their research study how business models have evolved with time. The traditional or classical business model was focused on keeping the store near the

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