

How to expand: business models to grow

Say a discount supermarket wants to expand its business: how should it? By opening a higher-end supermarket or a discount garden center? According to an award-winning paper by Timo Sohl and Govert Vroom, crossing industry lines may end up boosting firm performance if the business model is similar. That means grocers might be wise to look to plants for pay dirt.



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Want to expand your business but not sure where to take it?

The winner of the 2014 Distinguished Paper Award from the Academy of Management (BPS Division) might offer some fresh ideas.

Research by Timo Sohl and [Govert Vroom](#) of IESE analyzes the performances of top global corporations like Wal-Mart, Carrefour, Amazon and 7-Eleven that operate multiple businesses under one corporate roof to offer insights into which kinds of offerings work best together.

By studying data from 84 leading companies in the retail and wholesale sectors, the co-authors find that business-model relatedness appears to be more important than industry relatedness when it comes to boosting overall firm performance.

Business model relatedness?

Sohl and Vroom review past research and interview retail and wholesale executives to best categorize the dominant business models in the sector. They boiled the business models down to four main types: non-store selling (including e-commerce and catalog businesses), discount, traditional small stores (including convenience stores), and traditional large stores (big box or hypermarkets).

Business models were considered similar if they fell within and dissimilar if they crossed over the four main types. And within each of the four main types, sub-categories of business models were considered. The retail- and wholesale-trade sectors were chosen as the focus of the study for the wide array of business-model types targeting various industries.

The authors analyzed data from 84 top players from 1997 to 2010, controlling for several factors that also impact firm performance — including firm size and economic conditions. The goal was to isolate business-model relatedness as a decisive factor in these multi-business firms.

Two conclusions

The data analysis yielded two conclusions with practical implications:

1. Business-model relatedness is positively associated with overall firm performance. The authors discovered that firm profitability increased when its management chose to diversify into related business models. That suggests discount stores like Kmart or Target should stick with the discount model and big-box chains like Carrefour or Kroger should stick with their format as well, even as they diversify their offerings.

2. Business model relatedness is more influential in determining firm performance than industry relatedness. Say a discount supermarket wants to expand. This research suggests it would be better off opening a discount garden center than it would be opening a higher-end supermarket, which crosses into another business-model logic. Industry expertise may be concentrated in certain key departments, but the dominant logic of a business-model type runs throughout a corporation.

The CEO of one hypermarket chain told the researchers about an unsuccessful foray into the discount model, which illustrated the line of research well. Moral of the story: Stick with your dominant logic — even as you expand.

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