

# BUSINESS MODELS OF MICRO BUSINESSES: EMPIRICAL EVIDENCE FROM CREATIVE INDUSTRIES

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## ABSTRACT

*Business model describes how a business identifies and creates value for customers and how it organizes itself to capture some of this value in a profitable manner. Previous studies of business models in creative industries have only recently identified the unresolved issues in this field of research. The main objective of this article is to analyse the structure and diversity of business models and to deduce how these components interact or change in the context of micro and small businesses in creative services such as advertising, architecture and design. The article uses a qualitative approach. Case studies and semi-structured, in-depth interviews with six owners/managers of micro businesses in Croatia provide rich data. Structural coding in data analysis has been performed manually. The qualitative analysis has indicative relevance for the*

*assessment and comparison of business models, however; it provides insights into which components of business models seem to be consolidated and which seem to contribute to the diversity of business models in creative industries. The article contributes to the advancement of empirical evidence and conceptual constructs that might lead to more advanced methodological approaches and proposition of the core typologies or classifications of business models in creative industries. In addition, a more detailed mapping of different choices available in managing value creation, value capturing or value networking might be a valuable help for owners/managers who want to change or cross-fertilize their business models.*

**Keywords:** *Creating and capturing value, Business model components, Business model commonalities, Business model diversity, Creative professional services*

## 1. INTRODUCTION

Creative industries have been recognized as a sector with the potential to drive the overall economic growth. The majority of commercial activities of the sector are

concentrated in micro and small businesses. Entrepreneurs in creative industries are three times more likely to start a micro business and remain small than in other more traditional industries (Baines and Robson, 2001).

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In order to seize the economic promises of creative industries, it seems worthy to give scholarly attention to the business model design and innovation.

Business model has been perceived as a reflection of entrepreneur's decision on what customers want, how they want it, what they will pay and how an enterprise can organize to best meet customers' needs and to be paid for doing so. Only very recently, the studies of business models within the creative industries have identified research paths and unresolved issues that prospective studies should focus on (Collins and Cunningham, 2017; Benghozi and Paris, 2016). However, scholarly research on how models can be measured and compared across micro and small businesses and within creative services industries is underrepresented. The purpose of this study is to explore: "How are business models in creative industries similar? If there is diversity of business models, what components contribute to shaping this diversity?"

The article uses qualitative analysis and semi-structured interviews with selected representatives of micro businesses in the segment of creative professional services. The data from the transcripts of the interviews are deductively coded into main themes (e.g. value proposition, market segmentation, customer relationships, key resources used, in-house activities, etc.). The results are compared to the similar studies and main implications related to the business model similarities are suggested. The contribution of this preliminary research is in exploring the measurement framework for comparison of the entrepreneur's business model that might reflect distinctiveness of creative services business model.

Firstly, relevant literature related to specific features of creative industries will be

reviewed and a selection of available frameworks of business models classifications and structural components or empirical evidence will be analysed. Secondly, the methodology will be described. Thirdly, the business model of creative services using the adapted measurement scheme will be described and discussed. Finally, the implications, identification of the limitation of the study and further research opportunities will be presented.

## 2. LITERATURE REVIEW

### 2.1. Creative industries features and managerial challenges

The creative industries comprise a range of diverse industries, including "advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer services, television and radio" (DCMS, 2001: 5). Taken together, these diverse industries are recognized as a sizeable part of economies, with significant contribution to GDP, employment, competitiveness, export earnings and innovation in other vital industries. There is a set of common attributes of businesses in the creative industries related to demand, production/delivery and products/services. The main outputs of creative industries are intangible, experiential, or symbolic. The utility and value of creative outputs are virtually unknown prior to purchase. Therefore, creative industries are marked with higher risks, unpredictability and uncertainty (Caves, 2000: 2-10). In order to manage the higher risks and small assets, businesses in creative industries tend to use project-based production, "which allow them temporary commitment of resources and an easier attribution of costs and surpluses" (Eikhof and Warhurst, 2012). Since the value of the products/services is not directly

linked to production costs, the prices are rather negotiated than fixed by the creative producer. In addition, the providers of creative output work with tight deadlines, and need to be available for extended working hours. The individual talents are subject to ranking according to their popularity, originality or star status (Puchta et al., 2010). The majority of the creative industries seem to be focused on art for art's sake (Caves, 2000) and "structures, practices and relationships are internationally ephemeral" (Eikhof and Warhurst, 2012). Even the privately held, profit-driven businesses in creative industries are rarely equipped with knowledge of how to conform simultaneously to both artistic and financial logics. Management expertise needed to integrate artistic intentions and market considerations of businesses in creative industries are recognized as major challenges of businesses in creative industries.

Creative professional services as one subset of creative industries are an expanding sector of all advanced economies. Advertising, architecture, or design agencies provide services that rely on both creativity and professional expertise related to a specific functional domain. They are primary sources of more sophisticated and more innovative outputs of manufacturing and other traditional sectors of economy (Abecassis-Moedas et al., 2012). The lack of managerial expertise among the entrepreneurs running micro and small businesses in the creative services is one of the barriers to seizing their full economic potential. Pick et al. (2015) emphasize the necessity of extending attention onto how managers and entrepreneurs can navigate through growing volumes of management challenges and how recent developments in management or strategy theories can be applicable to the creative industries.

Despite the importance of the business model concept for business performance, growth or competitiveness, little is known about the diversity of business models in creative industries. Recent research suggests that no creative industry has favoured any dominant business model the way other industries use to do (Baden-Fuller and Morgan, 2010; Teece, 2010). However, there are unresolved and clearly identified issues in the literature related to application of business models in micro business in the creative industries. Therefore, more evidence on the range of available business models may be necessary to demonstrate whether micro businesses within the same industry create and capture values similarly or that there is conceptual diversification.

## **2.2. Business model structural components, comparison analytics and classification**

The business model reflects the "entrepreneur's or manager's hypothesis about what customers want, how they want it, what they will pay and how an enterprise can organize to best meet customers' needs and get paid well for doing so" (Teece, 2010: 172). Business model describes how a business identifies and creates value for customers and how it organizes itself to capture some of this value in a profitable manner. It is a "conceptual toolkit that enables entrepreneurial managers to design their new, innovative future business model, as well as to help managers to improve their current design" (Zott and Amit, 2010: 217). It has been associated with firm's performance (Magretta, 2002), growth (Morris et al., 2013) and competitiveness (Johnson et al., 2008). Extant research explores business model frameworks, structural elements, internal balance or performance and evolution of business models. The focus has been shifting from understanding how business

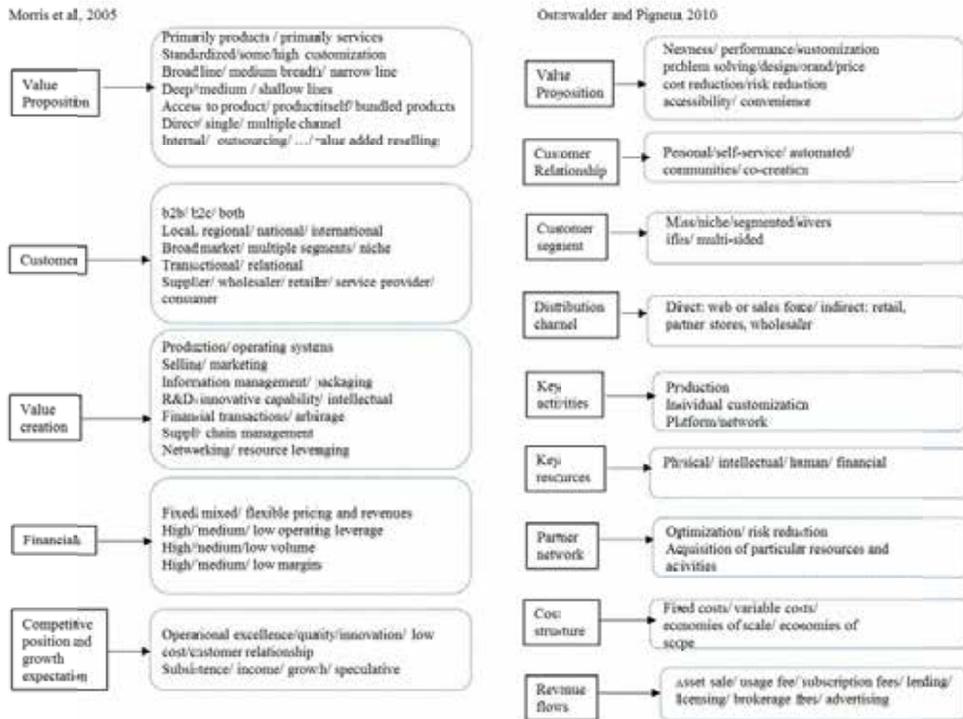


Figure 1. Comparison of the main components and characteristics of the business model  
Source: Adopted from Morris et al. (2005) and from Osterwalder and Pigneur (2010)

model design allows firm growth in the internet industry (Timmers, 1998) to study of value creation in any industry (Osterwalder and Pigneur, 2010).

“Whenever a business is established”, even a micro business, “there is explicit or implicit business model which explains how the business creates value, how it delivers value to customers, elicits customers to pay for value and converts those payments to profit” (Teece, 2010: 172). Micro businesses are frequently perceived as a rather homogeneous group with informal approach to management. In practice, micro businesses in creative industries might be a more heterogeneous group in which different sets of approaches toward ‘doing business’ can be identified. However, since they tend to stay

small, they receive little attention in scholarly management or strategy research.

### 2.3. Business model components

There is no consensus on the number of key components in the business model structure. A few frameworks are fitted to a particular industry such as e-business (Zott and Amit, 2006), whereas others are more general and applicable to various industries (Teece, 2010). However, the most frequently used frameworks are two integrative frameworks for characterizing business models, offered by Morris et al. (2005) and Osterwalder and Pigneur (2010). Figure 1 compares the main components of the business model and selection of characteristics related to each component.

Both frameworks for characterizing business models seem to target product-centred businesses. However, since the main components are multi-item constructs, we believe there is a way to adjust the measures and scales to reflect the nuances of service-centred businesses.

Empirical evidence on business models in creative industries is relatively scarce. The most recent scientific articles with empirical evidences on diversity and structure of business models in creative industries are presented in Table 1.

Case studies are the most common source of empirical data related to business models

in creative industries. More advanced statistical analysis of larger datasets is limited. However, empirical evidence relates primarily to creative content providers in the creative industries, such as publishing, music or audio-visual media production and broadcasting. The most recent overview of diversity and structure of online business models indicates the lack of a single dominant business model for content providers in creative industries. In addition, this study highlights that the number of significant relationships between variables indicates that the diversity of online models is somehow structured (Lyubareva et al., 2014).

*Table 1. Previous research on business models in creative industries*

	<b>Svejenova et al. (2010)</b>	<b>Coblence (2014)</b>	<b>Moyton and Lecocq (2015)</b>	<b>Lyubareva et al. (2015)</b>
Topic	BM origination and triggers to BM transformation	BM components evolution	BM Innovation	BM classification
Scope of industries	Haute cuisine	Arts museum	Record industry	Publishing, photo, music, radio, video, film web sites
Methods	Qualitative research. Longitudinal, in-depth case study of Ferran Adria (innovative chef and designer of the 'creative lab' culinary practices)	Longitudinal study of the Montreal Museum of Fine Arts.	Qualitative research. Longitudinal study of industry changes	Quantitative Cluster analysis
Data	Desk and field data on protagonist during 25 years of his career	Desk and field data, interviews with key informants.	Desk and field data. 28 professionals in record industry	34 web sites. 15 binominal variables of BM components.
Contribution	Extend the notion of BM beyond domain of organization to the unit of individual in creative businesses.	Describes three major periods in business model evolution. Unveils industrialization processes of an art museum.	Indicate three types of business model innovation	Indicate significant structural relationships between particular components of the model.

*Source: Authors.*

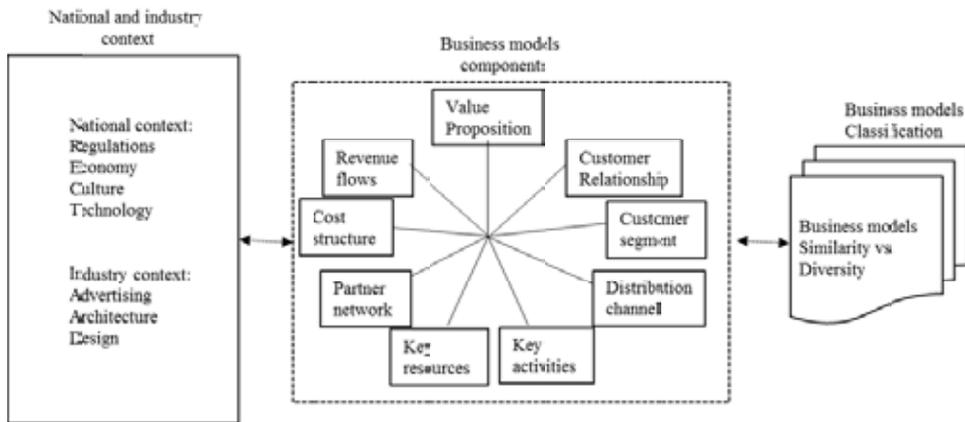


Figure 2. Conceptual scheme for analysis and comparison of business models  
Source: Authors

There is relative silence on how micro or small businesses in creative professional services develop and innovate their business models. Business models of creative professional services seem to be more elusive and less defined than those of creative content providers. The purpose of this article is to demonstrate how the structure of a business model can be analysed and compared in the context of creative services. How are business models of micro businesses in creative industries similar? If there is a diversity of business models, which elements contribute to structuring and shaping this diversity? In addition, the broader goal might be to explore whether a particular pattern of business models can be identified across micro businesses in creative services (see Figure 2 for the conceptual scheme of business model analysis and comparison).

### 3. METHODOLOGY

#### 3.1. Sample

For the purpose of analysing implicit business models present in the creative industries, the case study method was applied to three sectors within creative industries: design, architecture and advertising. Those

three sectors belong to the cluster of creative service providers (Crombie and Hagoort, 2010), are characterized by the predominance of micro SMEs, direct interaction with users' demands, and are under strong influence of technology and digitisation. Furthermore, all three sectors exhibit explicit profit orientation (by offering their time and intellectual property to other organizations) and are inclined to experiment with new and innovative business models. A group of six micro and small businesses was selected as a convenient sample that represents the population of micro businesses in the creative services. General information about the interviewed companies is provided in Table 2.

#### 3.2. Data collection and analysis

In order to reduce the influence of potential personal biases of researchers, an extensive review of literature preceded the process of collecting, categorizing and analysing the data. Furthermore, the study incorporates multiple sources of structured data, with the main database collected through structured interviews and complemented with the survey and general business information about the companies retrieved from the business portal Poslovna.hr. Semi-structured

*Table 2. Sample of micro businesses from creative professional services*

Case	Industry	Years in Operation	No. of employees (in 2015)	Revenues in 2015 (HRK)	Entrepreneur's educational background	Age of Ent
A	Design (web)	14	7	4,959,500	Master degree in business	38
B	Advertising	8	1	333,000	Master degree in business	43
C	Advertising	24	1	319,800	LL.B	59
D	Architecture	9	6	812,100	MA in architecture	39
E	Architecture	8	3	877,200	MA in architecture	36
F	Design (interior)	5	1	112,000	MA in interior design	41

*Source: www.poslovna.hr and transcripts of interviews*

interview was the main instrument used for collecting primary data. The structure of interview questions follows Osterwalder and Pigneur's (2010) framework and includes questions such as "What services do you provide?", "How are they different from services offered by your main competitors?", "Which customers are your main targets?", etc. In addition, entrepreneurs were asked to comment on the recent regulatory, economic, social or technological changes, their impact on the industry and changes in their business operations. Interviews were conducted between May and November 2016, then transcribed and analysed. Each interview lasted between 90 and 120 minutes and provided ample insights into entrepreneurs' perception of their business model configurations.

The deductive logic of this study implied several steps. First, the main components of business models were identified. Second, the attributes were coded and their main classes defined. To reduce the influence of personal bias, authors conducted the data analysis independently. The initial individual assessments of the main attributes of the key components in the business model were aggregated and discussed. In total, two additional rounds of discussions were necessary until the satisfactory level of refinement and core component saturation was achieved. Fi-

nally, the agreed-upon evaluation was used for comparison of the business model components across micro businesses in creative services.

The final framework for assessing business models, which reflects nuances of service-centred businesses, is described in Table 3. The components characterization describes how distinctive, complex, or high each of the nine components in the business model is.

The suggested framework includes a scale of characteristics, which indicates how strong or elaborated performance of a business is in terms of value proposition, target customer markets, channels of delivery (distribution), customer relations, etc. For example, value proposition associated with a more complex portfolio of customized services is evaluated as high and positioned at the end of the scale. In contrast, entrepreneurs who perceive their distinctiveness related to professional conduct in an unbundled and narrow portfolio of services have been positioned at the lower end of the value proposition scale. Similar logic applies to all core components of the business model.

The case study method is a widely used qualitative method within the management

*Table 3. Framework for characterization of the business model components in creative professional services*

Components of BM	Scale of characteristics				
	Low (1)	Middle (2-4)			High (5)
VP-Value Propositions	<i>Standardized</i>	<i>Professional</i>	<i>Semi-customized</i>	<i>Customized</i>	<i>Fully customized</i>
TC-Target Customer Segments	<i>Local</i>	<i>Regional</i>	<i>National</i>	<i>International customers in Croatia</i>	<i>International customers abroad</i>
CH-Channels	<i>Direct sale channel</i>	<i>Web sales</i>	<i>One intermediary</i>	<i>Partners and intermediary</i>	<i>Two or more intermediaries</i>
CR-Customer Relationships	<i>Depersonalized</i>	<i>Automated</i>	<i>Semi-personalized</i>	<i>Personalized</i>	<i>Distinctively personalized</i>
KA-Key Activities	<i>Distinctive activity in narrow domain</i>		<i>Few distinctive activities</i>		<i>Integrate broad scope of distinctive activities</i>
KR-Key resources	<i>Financial</i>	<i>Physical</i>	<i>Human</i>	<i>Intellectual</i>	<i>Organizational</i>
KP-Key partnerships	<i>Occasional subcontractors</i>	<i>Few contractual partners</i>	<i>Long-term partners</i>	<i>Formalized and unformalised agreements</i>	<i>Complex set or arrangements, open network</i>
CS-Cost structure	<i>Fixed costs driven</i>	<i>Variable cost driven</i>	<i>Economics of scale</i>	<i>Economies of scope</i>	<i>'Creative design process' and value driven</i>
RS-Revenue streams	<i>Transactional service sale</i>	<i>+ "pay per use/renting"</i>	<i>+ fee, in advance, premium access</i>	<i>+ after sale service or complementary products</i>	<i>+third party supported (bonus, bartering)</i>

*Source: Adopted and refined from Osterwalder and Pigneur (2010) and Morris et al. (2005)*

and entrepreneurship research community (Perren and Ram, 2004) and is especially suitable for studies focused on early stage of theoretical development (Yin, 2013), such as research on business models within creative industries. According to Eisenhardt and Graebner (2007), the case study method successfully bridges the rich qualitative evidence to mainstream deductive research.

**4. RESULTS - EMPIRICAL ANALYSIS OF BUSINESS MODELS**

Advertising, architecture and design industries have an increasing impact on the Croatian economic development and com-

petitiveness (Rašić Bakarić et al., 2015). Substantial regulatory, economic, social and technological changes drive the competition, volatility of demand and complex relationships within or outside the boundaries of the creative industries. These changes represent pressure on the ‘mainstream’ approach to ‘doing business’ and usually provide an incentive for changes in business models.

In order to explore what triggers particular choices in business model design, entrepreneurs’ perceptions of external trends in political, economic, technological and cultural contexts have been previewed.

Advertising regulatory framework is perceived as stable. The general regulatory framework, namely fiscal and legal frameworks that define the rules of economic

transactions (taxes, payment of receivables), are perceived as unstable and unfriendly to micro businesses. In contrast, weak regulation enforcement nurtures unprofessional behaviour in the industry. New technologies affect production, distribution and consumer behaviour, and have been perceived as both a threat and an opportunity. They open new markets, enhance the speed of communication and delivery, but they also enable non-professionals (amateurs) to produce and create almost 'professional-style' services, namely, advertising campaigns, and clutter the competitive space with unprofessional services. As a result, the interviewees perceive the competitive rivalry among incumbents and new entrants as a threat, which damages advertising standards and pressures profit margins of incumbents. In contrast, Internet-based communities, such as Facebook, have created a fast-growing market for advertisers. The interviewees have mixed feelings about digital media markets. Some micro businesses have been born digital. As "digital natives", they fully embrace new advertising markets, while others still enjoy positioning themselves as traditional and either specialized or full-service creative agencies. The prolonged six-year economic crisis in Croatia has contributed to significant losses in advertising revenues in regional and local markets (Rašić-Bakarić et al. 2015). Proximity of international customers and concentration of demanding domestic clients seem to be an important driver of the advertising industry in some regions of Croatia. Specifically, the area around the national capital – Zagreb – attracts the majority of international clients and the bulk of domestic industrial clients concentrate their operations and headquarters there, too. In addition, demanding customers seem to appreciate the higher professional standards in advertising. Adherence to the professional "rules of the game" is perceived as an

opportunity. In contrast, one of the major challenges in the local markets includes resolution of the client's demands that are incompatible with professional standards. The economic decline of local micro and small businesses during the economic crisis forced advertising businesses to search for new clients within regional and local markets and to transform their business models.

Case A is a small business that offers digital-campaign management services, web analytics and web design services. The entrepreneur perceives his or her business as differentiated from other similar agencies because of its transparency and expertise. The customers receive a bundle of services that allow them to cut their own expenses related to management of digital campaign portfolios. As one of those firms that were born as digital businesses, he was able to occupy a niche of several national and international companies from different traditional industries. His value capturing activities are well-balanced. Clients usually pay a fixed recurring fee to access the service. In addition, special client requirements entail offering an ad-hoc – 'pay per premium service' scheme. He or she has high control over his costs, but not every hour of service design or delivery needs to be attributed to a particular client since there is economy of scope. Namely, previous engagements provide the entrepreneur with knowledge that is to a certain extent useful in new and upcoming projects.

Case B is a micro business that offers services in digital campaign and media buying management. The entrepreneur is positioned in the downstream segment of the value chain, between creative agencies, larger networks of intermediary media agencies and large clients. The main point of differentiation is a high level of quality and professionalism. In order to deliver high quality

at affordable cost, the entrepreneur has been engaged in “value network ecology”. He is a part of a complex network of distribution intermediaries and supply partners. In addition, he has been able to capture value by finding multiple revenue streams which come from customers or third parties (large intermediary or media agencies), or from implementing economies of scope in pitching or selling his or her services.

Case C is an audio production and advertising agency that provides moderation services for various business or public events, as well as event management. During the last twenty years, the entrepreneur managed to survive establishing himself as a highly professional agency in the local and regional markets. Not long ago, his or her major revenue stream was based on recurring revenues from media buying for his clients. However, the increasing competition and economic decline forced media organizations to offer much of the same thing to clients directly. As a result, the loss of major clients and disintermediation (direct and self-service) forced him to reassess his or her market niche positioning. On the other hand, new Internet-based production and distribution technologies enabled him to enhance efficiency in production and speed of service delivery. However, in order to stay successful, he is very careful in designing value creation and value capturing activities. Currently, he is looking for new ways of value creation (new offering), value delivery (through network of referrals and personal contacts) or value capture (by more control over costs and revenues). In particular, he is planning to introduce an “employee” lending scheme in order to reduce costs, and use a narrow line of revenue streams, namely transactional and negotiated revenues on ‘pay per use’ or ‘pay per service’ basis. Bundling services, such as moderating events and renting “sound

surrounding” equipment, proved more challenging than expected.

Architectural activity in Croatia is characterised by a large number of unstable and poorly defined rigid regulations. For example, the two key institutions that define and regulate it (Ministry of Construction and Croatian Chamber of Architects) often have conflicting views and opinions on the same issues. Prolonged economic crisis resulted in the decreased demand for architects. Since the market is small, reduced domestic demand makes it impossible to pursue narrow specialization in this industry, unlike the traditional strategies in other developed countries. As a result, architectural firms need to provide the broad and complex services and involve various aspects of specializations. Recently, tourism, church buildings and public buildings have become three largest markets in this industry, of which tourism is the fastest growing, with domestic and foreign private investors and jobs of various sizes (from small structures to large hotels). It is important to mention the European funds, which also represent a new market: when applying for EU-funded projects, it is often necessary to enclose design documentation, which requires the services of architectural firms (e.g., clients who aim to finance construction of a farm, a public building, or renovations of a national park with EU funds, need to submit design documentation with their application, for which they need an architect). Professional support is needed in a wide range of services; from accounting and legal counselling to highly specialised services related to the profession itself, which are presently almost non-existent. Architectural services are very complex and deeply embedded in the local culture and other environmental conditions. In order to provide full service on large markets, architectural agencies need to have a large number of partners, suppliers and local

representatives. The arrangements between partners are carefully planned in project management schemes, and complemented with a variety of complementary services (architectural design audit, interior design, etc.). It comes as no surprise that these arrangements are open, based on trust, contract, and equity. However, managing these collaborative processes is very challenging, and only a small number of architectural firms accepts that challenge and targets national or international markets. Nonetheless, local architectural firms have the opportunity to run a successful business if they bundle their services, product management, post-service consultations, and control. Very small architectural firms, which are predominant in this industry, are associated with providing unbundled services, such as renovations of bars, apartments, offices, from which they can make a decent living. The industry of interior design services shares some commonalities with architecture in the sense that firms in both sectors provide a broad set of services due to reduced domestic demand and a lack of opportunities for market segmentation, and utilize professional support from many business partners. The lack of opportunities for market segmentation is especially emphasized in the interior design industry, as prospective customers are quite diverse in terms of their needs and often the market itself is not entirely familiar with the profession and specific services that interior designers offer.

Case D is a growing micro business offering the full set of architectural services that can be either bundled or unbundled. The entrepreneur positions his or her businesses as an agency, which provides fully customized service with an artistic twist in architectural design. His or her main strength in value creation is a team of highly creative and professional co-workers. The value delivery network relies on personal contact with

returning investors and referrals. She has been able to grow due to arrangements with a number of longstanding trusted partners in the industry, as well as outside of it. Bundling services and project management activities allows this micro business to collect revenue on a long-term basis. For example, full-service in architecture usually takes at least two years. The cost structure involves a lot of ‘sweat cost’, and has no tangible financial consequences. As a result, the micro business captures high profits, which allow it to offer some of the services free of charge in expectation of raising clients’ awareness of the micro businesses or widening bartering opportunities (with interior designers).

Case E is a micro business focused on fully customized architectural services on the local and regional market. The entrepreneur offers ‘avant-garde’ full service architectural solutions for prospecting investors. However, due to a small market, the micro business offers a variety of unbundled services for investors in cafés or restaurants, residential buildings, or similar. Two partners devoted to challenging mainstream solutions manage the micro business. The micro business value delivery comprises the sole direct sale channel and a network of trusted partners with whom the micro business has longstanding relationships. The micro business has registered a separate spin-off business, which entails offering a complementary service (such as furniture design and production). In addition, the cost structure is not burdened with high fixed costs and the costs of time spent to elaborate creative solutions are not tangible. Therefore, entrepreneurs have a large control over the costs and manage to capture profits from their activities.

Case F is a self-employed interior designer. She provides customized services in interior design. Her main challenge is the unawareness of local and regional clients of

the type and value of her services. She is currently offering her services on the local and regional market, which has proven troublesome. Her value creation scheme includes building a brand and sophisticated design service fully fitted to the needs of the clients, for which she relies on creativity-centred design processes. She uses sub-contractors for the more ambitious projects, and relies on the direct sales channel. Being creativity-centred, her major ‘costs’ are related to the time and brain power in the design process of her solutions, and these costs tend to be intangible. The revenues are mainly transactional and negotiated per service to reflect the aesthetic design sophistication and customer satisfaction. Recently, in order to add new revenue streams, the entrepreneur is experimenting by introducing a ‘pay per consultation’ revenue stream. Due to the nature of service provided at the local mar-

ket, there are not many recurring customers, which adds to high uncertainty in her mainly transactional revenue streams.

The entrepreneurs perceive regulatory, economic, social or technological changes as important drivers of customer demand and sales. Changes in their implicit business models are triggered or considered after macro trends have resulted in reduced sales, increased competition, decreased number of clients or increased costs for the micro business.

Figure 3 presents a comparison of the six business models. A similar scheme for mapping the differences between business models is suggested by Osterwalder (2004). A detailed description of business model components of each case is presented in Appendix 1.

*Figure 3. Comparison of the key components of business models across creative professional services*



*Source: Based on the analysis of transcripts of interviews*

The assessment of the six business models included in the sample is presented in Figure 3. The analysis of the choices made by micro businesses in each of the main components of the business model indicates two insights. Firstly, entrepreneurs' choices regarding customer relationships, key resources, and cost structure of micro businesses in advertising, architecture and design seem to be similar. Therefore, we assume those components contribute to the standardization and are the sources of similarity of business models in these industries. Secondly, entrepreneurs' choices related to value proposition, customer targets, channels of distribution, organization of key activities, partnership arrangements and revenue streams seem to be differentiated. We imply those are the components that shape and drive the diversity of business models in creative professional services.

## 5. DISCUSSION AND CONCLUSION

The main purpose of our study was to compare business models of micro businesses in advertising, architecture and design, and to deduce which components contribute to their similarity or diversity. Our findings indicate that micro businesses in creative services are in a state of experimentation with business model components. Diversity seems to be related to the changes in regulatory, technological, economic and social values, which are reflected in reduced sales, increased competition and more demanding customers. Interestingly, irrespective to the advertising, architecture and design context, there seem to be few similarities within business models. The results also pointed to the tentative evidence on variations in business models across creative services.

Personal and intensive relationship with the customer, intellectual capital as the main resource, and 'creativity or idea-centred' costs seem to be stable components of micro business models. These components reflect the standard or the mainstream business models of any service business that is mainly niche-oriented, differentiated and intensively immersed in relationships with customers. In contrast, entrepreneurs' choices related to value proposition, customer targets, channels of distribution, organization of key activities, partnership arrangements, and revenue streams seem to be differentiated. These components shape and drive the diversity of business models in creative services. The highest range of variation seems to be related to the selection of revenue streams and the configuration of key activities and key partnerships. A relatively lower diversity in configuration of value propositions, customer segmentation and service delivery or distribution channels is also evident. Interestingly, the choices in configuration of distribution channels seem to be polarized. There is a clear cut between avoiding intermediaries and engaging in a more complex network of intermediaries (distributors).

Our findings have implications that may be important for further advancement of business model research. There is an opportunity to explore or distinguish several "mainstream" models in the creative services sector. More consolidated components of the business model may reflect a certain level of standardization of the business model in these industries, while substantial variation of other components may indicate the scope of experimentation with the mainstream business model. Classification leading to taxonomies or typologies might have important theoretical underpinnings.

The scheme for measuring and assessing a business model, which reflects nuances

of creative services, may also contribute to the expansion of more robust empirical research. Our adaptation of the measuring scheme seems to reflect differences or similarities with ease and allows us to explore changes, compare or analyse business models across different businesses and across different service-centred industries.

Finally, the findings may be valuable for better understanding of managerial or strategic choices of micro businesses in this increasingly important sector. Despite the perception of micro businesses as homogeneous in their managerial and strategic choices, which are perceived as limited due to their small size, the analysed micro businesses in advertising, architecture and design seem to be characterized by diffusion of their implicit business models. Configuration of the business model is a managerial choice on value creation, value capturing and value networking mechanism. An insight into the

variety of business models raises opportunities for experimentation.

Given the relative early stage of measurement and comparison frameworks for business model characterization, it is not surprising that this research has relied on the case study approach. Therefore, we are aware of the limitation of such a small sample. It gives us no opportunity to generalize, but we believe that it has indicative relevance. The tentative implications of our findings can be further explored with a larger sample. Moreover, alternative methodologies, such as surveying and more robust quantitative methods might provide additional insights in our further research.

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### POSLOVNI MODELI U MIKRO PODUZEĆIMA: EMPIRIJSKI DOKAZI IZ KREATIVNIH INDUSTRIJA

#### Sažetak

Poslovni model opisuje kako poduzeće identifikira i stvara vrijednost za kupce te kako se organizira za profitabilno poslovanje. Prethodna istraživanja poslovnih modela u kreativnim industrijama su tek nedavno pokazala postojanje neriješenih pitanja u ovom području istraživanja. Temeljni je cilj ovog rada analizirati strukturu i različitost poslovnih modela te generalizirati interakciju i promjene njihovih komponenti u kontekstu malih i mikro poduzeća koje pružaju kreativne usluge, kao što su oglašavanje, arhitektura i dizajn. Pritom se koristi kvalitativni pristup. Studije slučaja i polu-strukturirani dubinski intervjui sa šest vlasnika/menadžera hrvatskih mikro poduzeća osiguravaju bogate podatke, čije je strukturalno kodiranje ručno obavljeno. Kvalitativna je analiza pokazala relevantnost podataka za

procjenu i usporedbu poslovnih modela. Također je utvrđeno koje su komponente poslovnih modela konsolidirane, a koje doprinose raznolikosti poslovnih modela u kreativnim industrijama. Rad doprinosi razvoju empirijskih dokaza i konceptualnih konstrukata, koji bi mogli voditi prema razvoju metodoloških pristupa i prijedlogu tipologija/klasifikacija poslovnih modela u kreativnim industrijama. Nadalje, detaljno mapiranje različitih izbora, raspoloživih za stvaranje vrijednosti i dobiti te suradnju s drugim poduzećima, moglo bi biti korisno za vlasnike/menadžere, koji žele mijenjati ili unaprijediti svoje poslovne modele.

**Ključne riječi:** kreiranje i prisvajanje vrijednosti, komponente poslovnog modela, sličnosti poslovnih modela, raznolikost poslovnih modela, kreativne profesionalne usluge

**Appendix:***Table 1. Summary of the case study data***Case****Component elements for characterization of the business model**

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**Case A**

**VP:** Main theme in value proposition is transparency and professional conduct in providing semi-customized services related to advertising planning, analytics, or web design; **TS:** Customers are segmented according to their size and national- or industry- affiliation, small or medium-sized national and international companies are the preferred targets; **CH:** The sale is achieved through sale personnel, referrals and occasionally through partner channels (usually partners need to outsource deals for which they do not have adequate resources); **CR:** The customer relationships are intensive particularly in the early stages of the service delivery. After sufficient trust has been established, relationship can be less personalized and semi-automated; **KR:** Elaborated scheme of internal monthly/weekly educational programmes; **KA:** Management of human resources and collaborative processes; **KP:** The micro business has several certificates and formalized partnership agreements with a few key partners, including Google; **CS:** The salaries of the employees are the main driver of the cost structure. Cost structure is related to the value of the service, some costs cannot be charged, but occasionally the micro business can save by tapping into economies of scale; **RS:** Revenues are a combination of the lump-sum per project, ad-hoc (pay per use) payments, and fixed payments. A variety of unbundled or bundled services can be charged. The revenues are predictable, recurring, and usually start prior to service delivery (advance payments).

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**Case B**

**VP:** Main theme in value proposition is expertise, high quality and professional conduct, and the agency provides semi-customized services related to planning and managing digital advertising campaigns and media buying services; **TS:** Customers are segmented according to their industry affiliation, large global companies with branches in the national market, as well as large national companies are the preferred target; **CH:** The sale is achieved through complex channels of interrelated partners and intermediary organizations; **CR:** Customer relationships are personalized; **KR:** Substantial investments in human and organizational intellectual capital; **KA:** Management of human resources and collaborative processes with partners; **KP:** The micro business has a network of market research, creative content providing, and public relationship agencies; **CS:** Cost structure is related to the value of the service, some costs cannot be charged but occasionally the micro business can save by tapping into economies of scale; **RS:** Revenues are a combination of the lump-sum per project, ad hoc (pay per use) payments, and negotiated payments. In addition, the partnering businesses arrange the agency value bonus. A variety of unbundled and bundled services can be charged for fee-based and recurring revenue streams.

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**Case C**

**VP:** Main theme in value proposition is professional performance related to audio and vocal production, event moderation and PR management services; **TS:** Customers are segmented according to their size and industry affiliation, investors in the hotel market are the prime targets; **CH:** The sale is achieved through direct contact with entrepreneur, and referrals are

important for raising awareness about the company's services; **CR**: The customer relationships are intensive and personalized; **KR**: Long-term expertise of the entrepreneur, licence for using sound backgrounds protected by intellectual property rights; **KA**: In-house vocal-production studio; **KP**: The micro business has a long-term contract with a music production studio; **CS**: Huge amount of "idea proposition or solution" costs are intangible, production costs are under control. These costs may not be billed to the client in anticipation of customer loyalty or referrals; **RS**: Revenues are mainly transactional, and rarely entail bundling service and equipment bundling (sound equipment for events and event moderation service). The revenues are highly unpredictable and the collection of receivables is troublesome.

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### Case D

**VP**: Main theme in value proposition are full service solutions for prospecting investors (from idea to idea project, main project, project implementation and project implementation audit); **TS**: Clients are segmented according to their legal status and the scope of their needs, the preparation of the project documentation for EU project applicants and investors in tourist facilities (hotels) are the prime targets; **CH**: Sales are achieved through direct contact with investors and referrals; **CR**: The customer relationships are intensive and personalized; **KR**: Team of talented employees, architectural design allows the protection of author's rights; **KA**: In-house integration of various activities necessary to provide architectural services, managing collective team processes and partnerships within and outside industry boundaries; **KP**: Contracts with a variety of partners outside industry boundaries, such as civil engineering, electricians, builders...; **CS**: Huge amount of "idea proposition or solution" costs are intangible, production costs are under control and can be attributed to each client; **RS**: Revenues are predictable and depend on the few fixed parameters: scope of architectural services (from idea to project implementation audit), square footage, purpose of the building (hotels require more sophistication in comparison to warehouses). Project management schedule allows for some of the revenues to be paid prior to the delivery of services. Pro bono services are used to raise awareness and bring referrals.

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### Case E

**VP**: Main theme in value proposition are 'avant-garde' full service solutions for prospecting investors (from idea to idea project, main project, project implementation and project implementation audit); **TS**: Clients are segmented according to the scope of their needs, investors in urban villas and family houses, as well as café and restaurant premises are the prime targets; **CH**: Sales are achieved through direct contact with investors and through referrals; **CR**: The customer relationships are intensive and personalized; **KR**: Architectural design allows the protection of author's rights; **KA**: In-house integration of various activities necessary to provide architectural services, managing collective team processes and partnerships within and outside industry boundaries; **KP**: Contracts with several reliable long-standing subcontractors; **CS**: Huge amount of "idea proposition or solution" costs are intangible, production costs are under control and can be attributed to each client; **RS**: Revenues are predictable and depend on the few fixed parameters: scope of architectural services (from idea to project implementation audit), square footage, purpose of the building (hotels require more sophistication in comparison to warehouses). Project scheme is applicable.

Case F

**VP:** Main theme in value proposition are ‘branded’ design solutions in interior or industrial design; **TS:** Clients are currently targeted on the regional market; **CH:** Sales are achieved through direct contact with clients, as well as through referrals; **CR:** The customer relationships are intensive and distinctively personalized; **KR:** Design allows the protection of author’s rights; **KA:** Creativity-centred part of the design process in interior or industrial design; **KP:** Contracts with several sub-contractors; **CS:** The cost of brainpower and time for production of “idea proposition or solution” is intangible, other production costs are under control and can be attributed to each client. **RS:** Revenues are predictable and depend on few fixed parameters: scope of services (sophisticated – branded solutions). Consultation fee is applicable.

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