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BUSINESS MODEL AND BUSINESS MODEL SOPHISTICATION: A CASE STUDY IN A SME.

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ABSTRACT

Purpose: The main objective of this study is to analyse which aspects of the business model theory are being applied within the firm, in which extent the innovation assures sustainability, and whether it is possible to create complementary opportunities to its main activity. We also explain how these factors can allow the firm achieves benefits derived from the efficient design and application of an unbreakable business model and a sophisticated strategy.

Design/Methodology: To reach these objectives, we made a research of the theoretical background that was tested out then in a Peruvian small-medium-sized company oriented to medical equipment sale: Global Business Healthcare SAC. For this, we carried out interviews for managers, use non-confidential firm's information, and search on internet all information about the business sector.

Findings: The results show that a SME that develops a Business Model and frequently innovate it, is more capable to identify and organise its key resources and capabilities, and therefore to improve its performance and get sustainable benefits. Also, it is noted that the firm has a potential to create a second-value through a sophistication strategy that identifies a profitable complementary activity. Innovation, sustainability, second-value creation are key elements that support an unbreakable business model.

Key words: business model, business model innovation, business model sophistication.

INTRODUCTION

Most small and medium-sized companies do not focus on developing a long-term strategy, they just start to develop their activities based on a general idea of how doing business, reacting systematically to the daily issues. That situation is changing now, entrepreneurs become aware about having a strategy, including a business model as a route to follow in order to know its strengths to create benefits not only for the enterprise also for customers, because their satisfaction will provide revenues. But it is not enough only covering the customer's needs, it is more important to make the business model unbreakable because if it becomes successful, a centenary of enterprises will copy it, risking the business sustainability. SMEs have some unique advantages, like moving faster and adapt more readily to emerging opportunities than large companies (Tossavainen et al., 2012).

SMEs also focus more on core competences and do not explore other opportunities their business can provide through complementary activities. That occurs because managers ignore the capabilities of their own business; or maybe they are afraid of taking risks in innovation or exploring new segments because their unique resources are invested in their business, preferring to thrive through known rivers.

In a competitive market, like the medical equipment sector in Peru, it is important that a company finds something that distinguish itself from its competitors to obtain customers preference. That is a reason why a company must transform, innovate and adapt its business model to the demand, or design one efficiently, in order to improve the profits.

Many companies of the sector consider only the medical equipment sale because it provides considerable benefits in less time with respect to other devices, high revenues that can be substantially multiplied in a tender. Even if it is a profitable side of this business, there is another growing side which also promises good profits. There are just some little enterprises, authorised by the Ministry of health, attending this business. This lack becomes an opportunity for the firm to take advantages in the sector.

It exists many definitions of business models and depending on the definition chosen, the corresponding approach is very different. The definition used in this work is the one proposed by Osterwalder and Tucci (2010) since it adequately responds to the business of the organisation to be studied.

This work has three phases: first, a theoretical analysis about business model concept; business model innovation and sophistication; second, the explanation of the methodology; finally, an empirical experimentation of a Peruvian SMEs. The objective is to capture complementary values of the company, and suggest a strategy found in the reviewed theories that the firm can follow to get the maximum profits as possible, which we expect to reach responding the following questions: does the business model Canvas allow the firm to recognise its key capabilities to become more competitive? it is possible to develop a BMS strategy and get a secondary revenue stream for this firm? does Canvas and BMS lead the firm to get an unbreakable business model and therefore long-term sustainable benefits? Acknowledging that organizations achieve superior performance when they are unique and do something no other business does in ways that cannot be duplicated.

I. THEORETICAL FRAMEWORK: BUSINESS MODEL

1.1. CONCEPT

There is not a precise concept about the term Business Model. By contrast, there are many researches about that in the literature in various domains, such as e-business, information systems, strategy, and management, each one different and related to other concepts about strategy. The concept appeared on management literature during the change of this century with the IT development, especially with the creation of the world wide web or dot-com boom and e-business landscape (Tossavainen, et al., 2012). Moreover, it got more interest recently.

It is important to point out that a business model is not a strategy (Porter, 2001 cited in Richardson, 2005, p. 4), but helps to link the firm's strategy to its activities, and think strategically about how the firm does business (Richardson, 2005). A business model is more generic than a business strategy but coupling both analysis is necessary to protect competitive advantage resulting from the design and implementation of new business models (Teece, 2010).

Amit and Zott (2001) consider that business model is a depiction of the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities, understanding the contents as the goods or information being exchange, resources and capabilities needed for that exchange; the structure as the participants, their relations and the way they operate; finally, the governance which refers to how the information flow, resources and goods, the legal forms of the organization, and the incentives involved are controlled by participants¹.

Morris et al. (2006) describe business model as the company's unique value proposition (business concept), how it uses its sustainable competitive advantage to perform better than its rivals over time (strategy), and whether and how the firm can make money now and in the future (revenue model). The terms business model, business concept, revenue model, and economic model are often used interchangeably when assessing the attractiveness of an opportunity or viability of a new venture.

¹ Ricart, J.E. 2009. Business Model: The Missing Link in Strategic Management.

Likewise, Teece (2010) says that business model replicates management's hypothesis about what customers want, how they want it, what they will pay, and how an enterprise can organize to best meet customer needs and get paid well for that. Moreover, Baden-Fuller & Morgan (2010) say that it defines the business characteristics and activities in a way that match the generic level that defines a kind of behaviour and suggests why it works, because it embodies the essential elements and how they are combined to make them work.

Business model definitions have been evolving with the years, such is the case that Osterwalder et al. in 2005 who consider it as a conceptual tool containing a set of objects, concepts and their relationships to express a firm business logic. But in 2010, he argued it describes the rationale of how an organization creates, delivers and captures value, proposing nine key elements to create a good business model, which will be explained later.

John Childa et al. (2017), Zot & Amit (2008) and Yip (2004) consider that business model represents how a firm configures its activities to create value, distinguishing it from the firm's strategy concept that concerns a firm's positioning in relation to external conditions. The essence of a business model design lies in its activity system (interdependent organizational activities) through which human, physical and capital resources are grouped to fulfil the firm's objective.

Similarly, Hyung Rim et al. (2014), consider that business model shows how companies perform their activities. A successful business is only possible through a well-designed business model. Based on Timmers (1998), they point it as a description of various participants in a business, including their roles, the flow of the goods and services, and the profit. They also consider Osterwalder's idea (2005) about that business models in general industries may refer to a concise description of methods to make the close relations of decision-making factors, the sustainable competitive advantage in the strategy, structure, and economy.

Business models generate virtuous cycles among their different components. They are feedback cycles that strengthen the value and position of its elements in each iteration and directly affect the profits evolution. Business Models are important strategic commitments because, if they are large, they cannot be stopped instantly. Different business models create different virtuous cycles. The success of a business models depends on the models used by competing firms (Casadesus-Masanell, 2004).

Furthermore, Magretta (2002) affirms that a good business model responds Peter Drucker's questions: who is the customer and what values?, how do we make money in this business?, what is the underlying economic logic which explains how we can deliver such value to customers at an appropriate cost?.

For Casadesus-Masanell and Ricart (2007, cited in Ricart and Mutis, 2008), business model is the set of company choices and their consequences. Choices can be the operating policy that indicates how things must be done; the physical assets in which to invest; and the governance structures that it creates to implement the policies and govern the assets. And consequences can either be rigid — accumulable and persistent over time, such as brand value, reputation, or installed base; or flexible — variable per period such as cost, income or sales volume.

All business models seem easy to imitate, but there are three factors to avoid it. First, systems, processes and assets hard to replicate. Second, opacity to difficult outsiders understanding in sufficient detail how a business model is implemented, or which is the key element for customer acceptability. Third, incumbents in the industry may be reluctant to replicate a pioneer's business model if it involves cannibalizing existing sales and profits or upsetting other important business relationships (Teece, 2010).

As it is seen, theories about business model are diverse and appear from its application to different fields. Moreover, one of the most important things perceived is that all academics commonly focus on how a business organise its activities, resources, processes, and its value-capturing strategy in order to create profits for an organisation. In sum, business models show how a business works, what kind of value is delivering and how it is communicated and transferred to the customers. For that, it must be carefully designed, considering all factors (internal and external) that could affect its activities in order to make a business sustainably successful, creating a unique business model which, according most researchers, is based on the capacity of being inimitable. That assures an organisation could enjoy the profits for long-time, but without forgetting that innovation is a key factor to keep those values.

1.2. BUSINESS MODEL PURPOSES

Casadeus-Masanell (2004) explains that business model role is not only to increase profits by directly affecting price, volume, or cost through the virtuous cycles it generates, but also creating new cycles, stimulating existing ones, and slowing down, deteriorate or destroy those of the competitors. Nonetheless, Osterwalder et al. (2005) consider that it serves as a building plan to design and realize the business structure and systems that constitute the company's operational and physical form, while Zott et al. (2011) arise that it serves as a new unit of analysis; emphasizes a system-level, holistic approach to explain how firms do business, and explains how value is created and captured.

Morris et al. (2005), group the purposes of business model in: economic, focus on profit generation through revenue streams, pricing models and cost structures; operational, focus on the architectural configurations of business models to create value; and strategic, focusing on the firm's positioning in the marketplace, managing interactions and exchanges across organizational boundaries and growth opportunities. In that way, the value offering and economic models are linked to the economic purpose, customer interface to the operational, and the partner network to the strategic purpose.

In 2006, the same author suggests five purposes. First, it makes entrepreneurs bring a logical and internally consistent approach to the design and operations of the venture, communicating it to stakeholders. Second, it can help identifying authentically combinable key variables, becoming an innovation platform. Third, it is a vehicle for demonstrating the economic attractiveness of a venture and a diagnostic tool for evaluating the implications of varying margins or costs. Fourth, it provides a guide to ongoing company operations for determining the appropriateness of various strategic or tactical actions. Five, it facilitates necessary modifications according to the conditions change.

Business models, by connecting choices and consequences, allow to integrate positioning and sustainability aspects into a single element, giving a realistic and dynamic vision of the competitive advantage development. They also allow integrating the programmed strategy with the emergent one, since the choices are made sometimes premeditated but other times emergent; and connect naturally the formulation with the implementation of the strategy as it is the reflection and projection of such. They integrate artificially separated aspects in the strategy field (Ricart, 2009).

1.3. BUSINESS MODEL COMPONENTS

Richardson (2005) cite several academics in this field. For instance, Hamel (2000) that names four components: core strategy, strategic resources, value network, and customer interface. Morris et al. (2002) and Peterovic et al. (2001) who found some components focused on the revenue sources, others on the means of delivering products and services, and others on the firm's value proposition, concretizing six components: the offering, market factors, internal capabilities, competitive strategy, economic factors, and personal/investor factors. Chesbrough and Rosenbloom (2002) that identify six elements: value proposition, target market segment and revenue sources, value chain and complementary assets, cost structure and profit potential, position of the firm in the value network, and the firm competitive strategy.

Santos et al. (2009) reveal four interrelated components: activities, organizational units –internal and external– that perform the activities; linkages between the activities (physical transactions and human relationships); and governance mechanisms for controlling the organizational units and its linkages.

John Childa et al. (2017) and Teece (2010) agree suggesting two big components: value proposition (market, customer and channel) and value creation (innovation, core competency and network). Also, Clauss (2017) coincide on this point but adding new offerings to value proposition group, and new capabilities, technology and processes to the value creation.

Teece (2018), based on Schon (2012), provide three components groups: Value Proposition (product and service, customer needs, geography); Revenue Model (pricing logic, channels, customer interaction); and Cost Model (core assets and capabilities, core activities, partner network). Whereas Rim Choi et al. (2014) divided the components mentioned by preceding studies into eight groups: customer value proposition, financial profit and loss, necessary resources for operation, business operation procedure, target customer, exterior cooperation, and logistical flow. These last two mentioned authors coincide with Osterwalder and Pigneur's (2010) proposal.

Ritter (2014) emphasizes that business model elements must be internally aligned and coherent with the company structure and management model.

1.4. BUSINESS MODEL FUNCTIONS

Chesbrough and Rosenbloom (2001) indicate that BMs articulate the value proposition, identify a target market, define the structure of the value chain, estimate the costs structure and the potential of profits, describe the firm's positioning in the value network and formulate the competitive strategy.

According to Baden-Fuller and S. Morgan (2010), BMs provides means to describe and classify businesses, operates as sites for scientific investigation and as recipes for creative managers. They show three main functions:

- BMs as descriptions of kinds in a taxonomy

BMs provide generic level descriptors of how a firm organises itself to create and distribute value in a profitable manner. They describe typical kinds of organisations and firms' behaviours, which enable classify individual firms into groups, being often linked to the names of firms – the “McDonalds business model” or the “South West Airlines business model”, or to a counterpart brief description – “the franchising model” or the “low cost airline model”.

- BMs as model organisms for investigation

BMs act as a type representative for the general kind to which it belongs, investigating each of them to take relevant information for the wider class. Each firm is studied not just as an exemplar, but as the type against which other firms following the same generic business model can be measured and compared. Being a scientific field, it may appear as schemas and representations; generate concepts and theories and investigate empirical domains.

- BMs as recipes

BMs allow to describe and distinguish the existing variety of types of business behaviour, offer a way to copy, and suggest that a business can make money from different ways. This includes the organisation and integration of the main elements of the firm's activity and provides rules that can produce outcomes, suggesting the existence of many possibilities to build a new business model or firm behaviour through innovation. Managers may follow several recipes at once for different markets or repeat the same.

1.5. TYPES OF BUSINESS MODELS

Academics consider several types of BMs such as opened and closed business models, free business models, internet-based business models, or multi-business models (Lindgren, 2012).

Morris et al. (2006) identify four type of models: subsistence model (seeks to survive and meet basic financial obligations); income model (looks for generate an ongoing healthy income stream for the principals); growth model (aims to increase the firm value); and speculative model (looks for demonstrating the potential of the venture to sell it).

They also found, through an empirical analysis in a cluster, four business models: a) the Focused Technical Service Model that offers a deep and narrow line of highly customized services, b) the Standardized Producer Model that offers a narrow but deep line of standardized products emphasizing quality over competitors, c) the Product Franchiser Model that offers standardized lines and licensing is its major value offering, d) the Customized Service Model that offers a narrow line of highly customized.

The fact of BM types is often linked to the firms names or to a brief description of the model kind, invokes two types of models: The Scale models that offer representations of existing things; and the Role models that offer ideal cases to be admired (Baden-Fuller and S. Morgan, 2010).

Osterwalder et al. (2010) recognise these types of business models: The Disaggregated that shows coexisting three types of business activities: customer relations, product innovation and infrastructure, with different economic, competitive and cultural imperatives. The Long tail that offers a wide range of specialized products which, separately, have a relatively low sales volume. The Multi-stakeholder platforms that brings together distinct but interdependent customers groups which, increasing and having interaction, create value. The Free business model that benefits a market segment with free offers at the expenses of another segment subscribed to a premium service, creating a “freemium” business model. Finally, Open business model that creates and captures value through systematic collaboration with external partners.

Yongho Lee et al. (2012), analysing Korean SMEs, determine four types: the global champion, characterized by high-speed globalization and well-balanced capability; the global infant that shows inertia without any innovation, neither superior capability nor

concrete strategy; the focused R&D, with next-generation technology and well-established high-quality production process; finally, the global niche market, that aims at not surpassing global leaders based on technological innovation but catching up with them by doing reverse engineering and building the complete line-up of products.

Even the way Uber does business is considered as a business model type because of its particular behaviour, bringing the company a share of revenue without keeping expensive assets. The platform, the driver contracts, and the brand are the key assets. Its technology and business model reflect the “coherence” concept between the business model and the strategy (Teece, 2018).

In spite of most generic business models are identified, there is no one unique existing model that describe a specific organisation activities because each firm has its particularities, reason why some existing business models are adapted and others are created according to the firm reality, the nature of its activities and its environment, etc.

1.6. BUSINESS MODEL EVALUATION

To identify the business model efficiency, the alignment of the business model with the organizational objectives must be first taken into account; then, evaluate the reinforcement (the redundancy and internal coherence between the different elements of the model) and the virtuosity (the existence of virtuous circles); and analyse the robustness, whether the business model responds better to threats against sustainability or its vulnerability to imitation (Ricart, 2009).

Frequent evaluation of the business model is crucial because it allows companies to assess their position in the market and adapt it according to the results, achieve a gradual improvement or encourage an innovation of the business model, and detect problems in time. Two types of evaluation are suggested: from a global perspective and from the perspective of a module since a weakness in one module could affect to the others or to the whole model. The SWOT analysis is very useful for evaluating the strengths, weaknesses, threats and opportunities of the business model and its different modules (Osterwalder et al., 2010).

1.7. BUSINESS MODEL TOOLS

Several business models tools, that aim to map and describe how companies should run and develop their operations exist. An interview to many SMEs in Austria and the Netherlands showed that most firms use Canvas and SWOT as these are conceptually simple, easy to use and suitable for group brainstorming. Moreover, other tools were less frequently presented like Blue Ocean, Business capability modelling, Excel, Five forces, Innovation Action Plan, Lean scientist toolkit, STOF method, VISOR, etc. These tools are generally used to formulate strategy, design business models and derive concrete actions (Reuver et al., 2016). The following table provides fourteen tools, according to the objectives the firm wants to reach.

Table 1: Instantiated tools

BMI phase	Purpose	Tools instantiated
Explore	Providing new insights on business and context to discover new BM opportunities.	SWOT Customer analysis Porter's five forces Wheel of skills
Design	Define or redefine how business creates, captures and delivers value.	Business model canvas STOF business model Business model patterns
Test	Verify and validate current or new BM.	Business model stress test Business case Success factors
Implementation	Realize BM design in practice.	Business plan Marketing mix
Grow	Plan how to grow business through innovation actions	Cash flow analysis Balanced scorecard

Source: Reuver et al. (2016).

This work will focus on Canvas, supported by SWOT analysis and Porter's five forces to develop the empirical analysis, because they will help to uncover and organise the main activities and resources of the firm.

1.7.1. BUSINESS MODEL CANVAS

The Canvas is a strategic management tool, which allows the development and design of new or existing business models, and can be used, for example, in internal discussions about maximizing revenues, or improving customer relations (Frick and Mikael Ali, 2013). It is a one-page pre-formatted visual map containing nine blocks of the business model, proposed by Osterwalder, that gives an overview of how companies operate and how their current strategies are outlined and allows business practitioners to analyse, manage, understand, share, prospect and patent a business better (Osterwalder et al., 2005).

Osterwalder et al. (2005) compared the most studied business models and their components, specifically elements considered as internal parts of a business model, to identify common building blocks, obtaining the nine building blocks shown in the table below and that cover the four main areas of business – customers, product, infrastructure and economic viability.

Table 2: The Nine Building Blocks of Business Model Canvas.

Pillar	Business Model Building Block	Description
Product	Value Proposition	Gives an overall view of a company's bundle of products and services
Customer Interface	Target Customer	Describes the segments of customers a company wants to offer value to
	Distribution Channel	Describes the various means of the company to get in touch with its customers
	Relationship	Explains the kind of links a company establishes between itself and its different customer segments
Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources
	Core Competency	Outlines the competencies necessary to execute the company's business model
	Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value
Financial aspects	Cost structure	Sums up the monetary consequences of the means employed in the business model
	Revenue Model	Describes the way a company makes money through a variety of revenue flows

Source: Osterwalder et al. (2005).

By identifying domains, concepts and relationships addressed in this field, Osterwalder expects to create a common language, a reference model shared among a specific community of practice or a more formal ontology of this domain. He argues that the best way to describe a business model is having it divided into these nine basic modules that reflects a firm's logic to get revenues and the strategy that will be applied in the firm structures, processes and systems (Osterwalder et al., 2010).

1.7.1.1. The nine modules of Canvas

1. Customer Segments

It defines the different groups of people or organisations a firm aims to reach and serve, that may be grouped into distinct segments with common needs, behaviours and other attributes to better satisfy them. Customers are the heart of any business model, because without them (profitable ones), no firm can survive for long. A business model must be designed based on the segment's choice which could be Mass market, Niche markets, Segmented market, Diversified market or Multilateral platforms; and understanding its specific needs.

2. Value Proposition

It is the set of products and services that creates value for a specific customer segment; its purpose is to solve a problem or satisfy a need. It makes a customer choose one company or another. Some value propositions may be innovative, while others may be similar to existing offers but including an additional attribute. Some elements can contribute to customer value creation: Newness, Improving product/service performance, Customization, Helping customers reduce costs or getting certain jobs done, Superior design, Brand/Status, Lower prices, Purchasing risk reduction, etc.

3. Channels

They describe how a company communicates and reaches its Customer Segments to deliver Value Proposition. Communication, distribution and sales Channels comprise a company's interface with customers. They play an important role in the customer experience, have five phases – Information, evaluation, purchase, delivery and post-sale

– and can be distinguished among direct or indirect channels, and own channels or those of commercial partners.

4. Customer Relationship

It describes the types of relationship a company establishes with specific Customer Segments that can be personal assistance, exclusive personal assistance, self-service, automatic services, communities, and joint creation. Relationships may be driven by customer acquisition, customer retention, and boosting sales (upselling). This factor deeply influences the overall customer experience.

5. Revenue Streams

It represents the cash a company generates from each Customer Segment. Each Revenue Stream has different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management; and several ways to generate revenue streams: Asset sale, Usage fee, Subscription fees, Lending/renting/leasing, Licensing, Brokerage fees, and Advertising. It exists two types of Revenue Streams: Transaction Revenues (one-time customer payments); and Recurring Revenues (ongoing payments to either deliver a Value Proposition or provide post-purchase support).

6. Key Resources

They describe the most important assets for a business model to work, enabling companies to create and offer a value proposition, reach markets, establish relationships with customer segments and earn revenues. They can be physical, economic, intellectual, human, and owned by the company, lease or obtained from key partners.

7. Key Activities

These are the most important actions a company must do to make its business model work. They vary depending on the business model; are necessary to create and deliver a value proposition, reach markets, establish customer relationships and earn revenue; and can be categorized in Production (manufacturing firms), Problem solving (service organisations), and Platform/Network (matchmaking platforms, software, etc.).

8. Key Partnerships

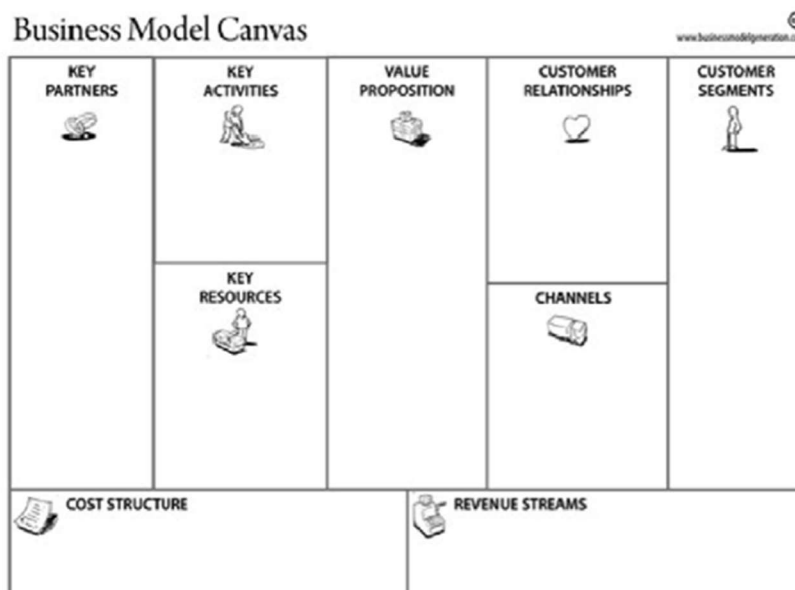
Those are the networks of suppliers and partners that make the business model work. Four types of partnerships are uncovered: Strategic alliances between non-competitors, Coopetition (partnerships between competitors), Joint ventures, and Buyer-supplier relationships. Alliances may be motivated for three reasons: optimisation and economy of scale (to reduce costs, outsource or share infrastructure), reduction of risk and uncertainty, and acquisition of specific resources and activities.

9. Cost Structure

It includes the most important costs incurred while operating under a particular business model to create and deliver value, maintain customer relationships, and generate revenues. Two types of cost structures are identified, those focused on costs that aims to create and maintain a cost structure as low as possible, with low price, the maximum use of automatic systems and a high degree of outsourcing; and others focused on value, centred on value creation, where costs are not a priority, offering Premium value propositions and customized services.

A simple version of the business model CANVAS is shown in in the following figure.

Figure 1: Osterwalder Business Model Canvas



Source: Osterwalder et al. (2010)

1.8. BUSINESS MODEL INNOVATION AND BUSINESS MODEL SOPHISTICATION

1.8.1. BUSINESS MODEL INNOVATION (BMI)

Since we live in a globalized world, the business field become more competitive and changeable. Customers' preferences vary quickly because new needs emerge as a consequence of technology advance, environmental and social changes, among other factors. That is why it is important to provide attention to innovation, aiming to be updated and cover those needs. All of that must be reflected on the business model to develop efficient strategies.

Companies make substantial efforts to innovate their processes and products aiming to achieve revenue growth and maintain or improve profit margins. Such innovations are often expensive and time-consuming, require a significant upfront investment, and as future returns on these investments are always uncertain, more companies now are turning toward business model innovation as an alternative or complement to product or process innovation. A global survey of the Economist Intelligence Unit to more than 4,000 senior managers revealed that the majority (54%) chose new business models over new products and services as a source of future competitive advantage (Amit and Zott, 2012).

The greater frequency of disruption and dislocation in many industries is shortening business model lifecycles. New global competitors, social and ecological constraints on corporate action are emerging, assets and activities are migrating to low-cost countries, and systemic risk is growing as global business are increasingly interconnected, requiring business to bolster and accelerate innovation. BMI offers a fresh way to think about renewing competitive advantage and reigniting growth in this challenging environment (Lindgart, et al. 2009).

Mitchell and Coles (2004 cited in Morris, et al., 2006, p. 32) talk about a need for continuous business model innovation, because it is possible that keener insights about sources of innovation or competitive advantage appear, as core competencies are developed within the venture.

BMI is the way organisations change their business logic when an idea is created, analysed, tested and adapted to form their business model (Heikkilä et al., 2010) in parallel with technological, social, product or service innovation (Bouwman et al., 2014).

Researches show that it increases a firm's performance and profit rates. For Chesbrough (2007, cited in Reuver, et al., 2016, p. 559), business model innovation can lead to sustained competitive advantage as long as other firms cannot replicate the business model.

While for Amit and Zott (2001, cited in Ricart, 2009, p. 23), BMI is how CEOs or entrepreneurs can create new revenue or preserve their margins in times of economic change and crisis, relies on recombining a firm's and its partners' existing resources, and does not require significant investments in R&D. For Baden-Fuller and Morgan (2010); and Teece (2010), it means innovating the firm's value creation, delivery, and capture mechanisms to persuade customers to pay for value and convert this into profits, leading to new customer offerings and revenue streams (Chesbrough, 2010; Massa et al., 2017)².

According to Lindgart et al. (2009), BMI means more than a brilliant insight coming at the right place and the right time, is more than mere product, service, or technological innovation, as Apple has demonstrated in 2001 when defined a workable business model for downloading music in all the innovating devices the firm created in parallel. So that, BMI goes beyond single-function strategies, such as enhancing the sourcing approach or the sales model. It is about more likely the reinvention of two or more elements of a business model to deliver value in a new way. Because of the multidimensional and orchestrated set of activities involved, BMI is challenging to execute and difficult to imitate. Although, to confer a reliable competitive advantage, BMI must be systematically cultivated, sufficiently supported, and explicitly managed.

Hacklin et al. (2018), based on the concept of value migration, understood as the shifting of value-creating forces that over time determine the profit level of firms (Jacobides and MacDuffie, 2013; Slywotzky, 1996), think that value can migrate between industries, between firms within the same industry (especially in industries with intense competition and innovation), and between different business units or products within a firm. It can also migrate from outdated business models to new ones that have a better product-market fit in relation to customers' priorities (Slywotzky, 1996). Some firms may achieve value inflow (firms absorb value from other firms) due to changes in their business models; others could experience value outflow (firms lose value to other firms) because the business models become less competitive, or outdated.

² Bockena, N.M.P., Geradtsc, T.H.J., 2019. Barriers and drivers to sustainable business model innovation: Organization design and dynamic capabilities.

Several reasons exist to be concerned about business model innovation. First, it represents an often overlooked and underutilized source of future income, an opportunity to create or increase revenues and profits at a relatively low cost. Second, these economic disadvantages could translate into a sustainable performance advantage since competitors may find it difficult to imitate or copy a whole new business system. Third, it allows to look beyond traditional sector boundaries to identify competitive threats or new competitors in many previously unrelated sectors. Finally, it allows having a systemic and holistic thinking to be able of changing the entire activity system rather than optimizing individual activities such as production (Zott and Amit, 2009).

An innovative business model can either create a new market or allow a company to create and exploit new opportunities in existing markets. Business model innovation can occur in different ways (Amit and Zott, 2012 cited in Swasty, 2015, pp. 86-87): (1) adding novel activities, considered a new "content" activity system, for example, through forward or backward integration; (2) linking activities in novel ways, known as the new activity system "structure"; (3) changing one or more parties that perform any of the activities, called new activity system "governance". Firms may use distinct business models if they want to outperform competitors, forestall potential disruptors, enter new markets, make more efficient use of resources, or develop new income streams (Casadesus-Masanell and Tarzijan, 2012).

The truth is that an organisation must avoid moving in a defensive way to defend its business against competitors and its innovations, but move proactively anticipating the market changes, having dynamic activities and capabilities that allows to adapt to the variable reality of the market and explore new ventures to grow, and become sustainable in time.

1.8.1.1. BMI Purposes

Business Model Innovation can help to break out of intense competition, under which product or process innovations are easily imitated, competitors' strategies have converged, and sustained advantage is elusive. Also, it can help address disruptions, such as regularity or technological shifts, that demand fundamentally new competitive approaches; and downturn-specific opportunities, enabling companies, for example, to lower prices or reduce the risks and costs of ownership for customers. Normally,

companies flourish in downturns by leveraging the crisis to reinvent themselves, rather than by simply deploying defensive financial and operational tactics. BMI is more challenging than product or process innovation, but it delivers superior returns. An analysis conducted by academics showed that even if both types of innovators – business model innovators and product/process innovators – achieved a premium, the first group earned a four times greater average premium and more sustainable than the second group (Lindgart et al., 2009).

Lindgart et al. (2009) argue that BMI can play a decisive role in a firm's success in different contexts, such as, beating back intense competition, creating efficient revolutionary approaches; extending a business model with current customers, offering a new value proposition; and extracting brand value by extending the business model, leveraging the existing assets and capabilities to experiment new business models.

1.8.2. BUSINESS MODEL SOPHISTICATION (BMS)³

Business model sophistication is the realization of secondary value-capturing opportunities beyond the main business. They cannot exist by itself without the core activity of the firm, actually they made it possible. Johnson (2010) named them as the adjacent possible, its boundaries grow as we explore them; each new combination opens up the possibility of other new combinations that ushers into the adjacent possible.

These secondary value-capturing opportunities are elements of the firm's business model and impact directly on its profits. Moreover, it is often challenging for firms to uncover and realize them, missing opportunities, mostly because entrepreneurs and managers tend to focus just on the main business, which is considered by Christensen (1997) as a limitation because it prevents successful firms from identifying necessary business model innovations and from exploring secondary value-capturing opportunities. Focusing solely on the main business can be a barrier to growth and expansion, while identifying secondary value-capturing opportunities can increase the pool of resources at hand and give momentum to an SME's or new venture's development.

SMEs and new ventures wrestle with resource constraints and depend heavily on the experience and intuition of management. Market environments are often new for

³ Kesting, P. et al. 2015. SMEs and new ventures need business model sophistication.

business founders; they tend to imitate existing industry business models or apply analogical thinking and reasoning (Enkel & Mezger, 2013). As a strategy to reduce complexity, market entrants often do not design business models that include secondary value-capturing opportunities.

Business model value capturing typically entails two basic dimensions: revenue and costs, and it is centred on a focal firm, but its boundaries are wider than those of the firm. The network between the firm and its exchange partners is important to create and capture value, focusing on stakeholder involvement.

Regarding the revenue dimension, business model sophistication does not equate to increasing revenue from sales in the main business, but rather identifying and realizing new revenue streams beyond that. For example, to generate revenues from AdWords, Google must continue its main business of providing an Internet search tool. Regarding the cost dimension, business model sophistication represents decreasing existing costs of the main business without any internal cost reduction, inducing stakeholders to participate in new activities in order to reduce extra costs of the business. For instance: sponsoring, crowdsourcing and the involvement of users.

On both dimensions, BMS has a strong element of stakeholder management, creating new or developing existing stakeholder relationships and converts them to valueholders in order to realize value-capturing opportunities. For example, advertisers enjoyed traffic from Google's search engine even before the introduction of AdWords, and silently benefited from positive externalities of the Google offer. So, Google involved these shareholders and starts a formal relationship with them.

The traditional business model receives all its revenue from the main business and covers all costs by itself. But, the 'free' business model—such as Google—receives all its revenues from secondary businesses; and 'freemium' business models, capture the value by the main business. There is no optimal sophisticated business model, it will depend on the structure of the business model and the opportunities that arise from it.

1.8.2.1. BMS Strategies

Kesting et al. (2015) point five BMS strategies, aimed at increasing the firm's revenue and/or decreasing their costs beyond the traditional business logic by including valueholders, and based on either the introduction of a new product/service, and/or the supply of a new customer need, and/or the introduction of new valueholders.

- Strategy N°1: Uncover potential functions of your products

Products often have an unused potential that can be sold to third parties. It leads to the supply of a new customer need, and the commercial involvement of a new valueholder, but not the introduction of a new product or service. For example, selling advertising space is a secondary business opportunity because it enables firms to capture value by generating a new revenue stream, typically with new partners. This BMS opportunity has already been realized to a large extent by SMEs and new ventures, online and offline.

- Strategy N°2: Identify strategic benefits for third parties

It recommends firms to investigate who is actually benefiting from their activities, and to charge these silent beneficiaries, if possible. This leads to the involvement of a new valueholder, but not the introduction of a new product/service nor the supply of a new customer need. The beneficiaries of a firm's activities are often municipalities, regions, or countries represented by public authorities. For example, Ryanair's strategy is to approach secondary airports in smaller cities in order to challenge traditional airlines' high fares. Public authorities subsidize these airports to have flight connections to their regions; so, landing fees are reduced, and ground costs partially absorbed. Other example in this field is the sponsorship.

- Strategy N°3: Take advantage of economies of scope

Panzar and Willig (1981) define economies of scope as the firm ability to produce two or more goods more efficiently, cost-wise, than it would be able to produce them separately. This strategy involves the introduction of a new product/service, the supply of a new customer need, and the involvement of a new valueholder. It is the most fundamental business model change of all sophistication strategies. Therefore, secondary value-capturing opportunities can result from combining resources.

To identify secondary business opportunities, firms must recognize which resources and capabilities they build up as a result of the main business, and where those create a potential cost advantage for additional products/services. For example, BookandSmile, a price meta-search engine specializing in flights whose main incomes come from booking provisions and advertisements, but that obtain rich data about flight prices and demand through its website traffic, which are no relevant to its primary business, but open up an attractive secondary value-capturing opportunity: market research.

- Strategy N°4: Utilize cross-selling opportunities

Byers and So (2007:1) say that cross-selling “involves selling some new service or product to existing customers”. Customers already exist and can be strategically used for secondary activities. It entails the introduction of a new product/service and the supply of a new customer need, but not the involvement of a new valueholder. For example, Ryanair’s revenues mostly came from cross-selling rather than ticket sales, because they use their customer presence at two points: on the Ryanair website, offering hotels, rental cars, and travel accessories; and on the air-plane, selling snacks and other goods. To identify cross-selling opportunities, firms must recognize their points of sale and how offers can be designed to customers can make optimum use of it.

- Strategy N°5: Involve users and the crowd or Crowdsourcing

Through this opportunity a company or institution takes a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call, encouraging them to contribute with no monetary compensation, which enables companies to capture value by reducing costs, and induces press attention and has brand-building effects. Users can be persuaded to contribute via their personal energy, expertise, creativity, and skills – even though they are not compensated. Customer engagement is an effective way of capturing value. For example, TripAdvisor and Trivago utilize social media to collect and display user evaluations, which are important to increase the attractiveness of the offer and the value proposition.

This strategy leads only to the involvement of a new valueholder as beneficiaries. To identify opportunities where stakeholders can take over costs, firms must classify which of its self-performed activities can be taken over by users/the crowd and how they can be incentivized to do so.

II. METHODOLOGY

This part will introduce the work methodology, which is similar to the case study method proposed by Yin (1989, p.23 cited in Martinez, P., 2006), defined it as an empirical research that studies a contemporary phenomenon in its real context, where the boundaries between the phenomenon and its context are not clearly evident, where there are many variables of interest, that uses multiple data sources and benefits from previous theoretical propositions.

2.1. DESCRIPTION OF THE CASE STUDY

The goal of this research is discovering how important a BM is and its impact on the business activities of a SME and its profits. For that, it is going to be shown how a business model tool like the Canvas can help a small firm to organise its resources and be prepared for any change without risking disappearing and acting proactively.

So, to develop the case study, a small Peruvian firm called Global Business Healthcare SAC, related to the medical equipment sales is chosen. Factors like its internal structure, strengths, weaknesses, strategies, business model and how they develop its activities will be analysed. Also, its external environment will be examined, focusing on the opportunities and treats it has, its competitors, and how the sector performs. Then, the business model canvas will be applied, explaining each block in relation to the findings of the firm resources and mapping them at the end.

Other point to explore will be business model innovation and sophistication, aiming to identify how the firm could innovate in an efficiently way, trying to find the potential of the firm and other possible secondary activities that allow to create value, providing some strategies, and choosing the best one that fits the firm. With all that information, the idea is to make the firm open its eyes to new opportunities and use its resources at the maximum level obtaining a second source of higher and sustainable revenues.

It is interesting to analyse SMEs because they have more possibilities to adapt fast to the market changes. Specially this firm has some unknown capabilities that could be exploited to obtain secondary values. We aim to provide them some tools to do it correctly.

2.2. DATA COLLECTION AND MEASURE

The case study is based on a deep analysis of the firm situation to understand how it performs its activities and what are the basis of its business. This is only qualitative, to which it has been used both primary and secondary sources.

To evaluate the current situation of the firm, two interviews of 25 minutes, through videoconference, were made to each founder who has the charge of CEO, Sales manager and Purchase manager, and to the Responsible of the technical department, getting first-hand information and their perception about how their business is performing, asking questions like: how they started? what are the steps they follow to develop their activities?, what things they consider as its strengths?, what are the main treats to the business?, if they recognise a non-satisfied need of customers?, if they consider themselves able to satisfied that need?, if they do business foreseeing possible changes in the market?, what networks they generate?, etc.

Then, a search on the internet is made to obtain more information about the firm, which was complemented with non-confidential information collected when working there, as well as to evaluate the sector and the Peruvian market through information obtained from economic forums and official websites, like the Commercial chamber, Economy minister, etc.

To be able to build a theoretical basis, an extensive online search in google scholar as well as other websites, blogs and forums was conducted, in order to get all the information as possible. Some researches linked us with others due to the bibliography and citations.

Primary sources: interviews.

Secondary sources: the company website, its social media accounts such as Facebook and LinkedIn; official institutional websites, economic forums, google scholar search, and other pages.

III. EMPIRICAL ANALYSIS

3.1. PRESENTATION OF THE FIRM

GLOBAL BUSINESS HEALTHCARE SAC, GBH SAC, is a Peruvian SME, established in Lima, and founded in May 2013 by Simon Tafur, Ketty Vasquez, and Alexander Tafur, as a consecutive of the enterprise ACG SOUTH AMERICA SAC with 14 years of experience in the health sector. It has only 12 employees, but it is in a growing process.

The firm's activities are based on the commercialization of medical equipment – imported from its different international suppliers. It also provides services of maintenance of medical equipment, has specialised technicians and engineers, and covers several specializations: Emergency Room, Surgical Room, Hospitalization, Occupational Health, Intensive Care, Central Sterilization, Endoscopy, Urology, Obstetric Gynaecology and External Consultants

Every year, the firm renovates the Good Practice of Storage Certification (GPS), issued by the Peruvian General Directorate of Medicines, Supplies and Drugs of the Ministry of Health which authorised it to develop its activities. And, aware of customers' exigencies and aiming to be more competitive, it got the commitment of having strategic partners certified by the ISO 9001 and 14000.



➤ Geographical Delimitation

Figure N°2 shows the firm headquarter located in Lima (blue point), from where it serves to different cities (red points), through direct sales and tenders.

Figure 2: Map of GBH SAC delimitation



Source: own creation.

3.2. RESULTS

3.2.1. Internal analysis

➤ **Mission**

Give integral solutions to the health professionals' needs, through the commercialization and technical service of medical equipment, providing well-being and development to their staff.

➤ **Vision**

To be a leading company in the sector of medical equipment, extending its offices throughout South America.

➤ **Values:** positive attitude, service vocation, respect, commitment, teamwork, trust, innovation and excellence.

➤ **General Objective of the firm:**

Accomplish the market needs and expectations providing high quality technology of medical equipment, a sustainable maintenance service of equipment, and a post-sale technical support, in order to become the main supplier.

➤ **Specific Objectives of the firm:**

- 1) Attempt the customers' requirements opportunely with the latest medical technology.
- 2) Contribute to the fulfilment of customers' objectives: to give good health services.
- 3) Have a good work environment, in the framework of social responsibility, security and health policies in the job.
- 4) Be competitive throughout the prices and quality, reducing costs and improving management system.
- 5) Make business trades with the worldwide well-known brands.
- 6) Offer training to the users of the equipment, aiming to get customers loyalty.

3.2.2. External analysis

➤ Macro environment

● PESTEL EVALUATION

• Political

Peru has been suffering a political crisis since 2017 with the fracture of the State in two: The Executive, led by Pedro Pablo Kuczynski, and the Congress, led by the Fujimorista party; and the renounce of the President Kuczynski to his charge. So, on July 2018 Martin Vizcarra took the charge. Since then he promoted reforms that caused confrontations with the Congress, who boycotted several attempts to modify norms and measures against the corrupts. [1]

Consequently, on September 30, he constitutionally dissolved Congress and on January 26, he called for elections to replace it, established also a new body selected on merit to oversee judicial appointments. Several measures approved by the outgoing congress aim at cleaning up and solidifying political parties. Additionally, the Government is trying to improve healthcare system and rural roads. [2]

In the external context, the country has diplomatic relations with the United States since the 19th century; and Japan since 1873 with the Treaty of Peace, Friendship, Trade and Navigation. It is member of the United Nations Organization since 1945; of the Organization of American States, the Andean Community, the Unasur, and Mercosur. [3]

While the country has international agreements with different countries, it would facilitate the medical equipment import with competitive prices, which joined to the government initiative to improve healthcare system, the business will remain profitable.

• Economic

The Peruvian economy is the fifth largest economy in Latin America, until 2017 it amounts 192,169 million dollars. [4]

It had two phases of economic growth. Between 2002 and 2013, Peru was one of the most dynamic countries in Latin America, with an GDP growth rate of 6.1% per year. Poverty and extreme poverty were considerably reduced. Between 2014 and 2019, that economic expansion slowed down to 3.1% per year, due to the correction in the international price of raw materials. However, the GDP continued increasing slowly by

4% in 2018, above the Latin American and Caribbean average (1.1%). The COVID-19 pandemic will cause a recession on the economy by 2020. It will decline the demand for commodities, reducing export volumes, private investment, and private consumption. The Government has assembled an economic relief and containment programme to protect the vulnerable population and support businesses. The economy is projected to recover strongly in 2021 [5]. The GDP places economic activities: fishing (5.04), services (4.47), manufacturing (2.16), mining (2.52), trade (2.82), and construction (3.51). [6]

Regarding inflation rates, Peru had 2.35% in 2018, among the lowest in the region. [7]. BBVA Research estimates that it will end around 2.0% in 2020 and 2.4% in 2021. [8].

Figure 3: Peruvian Inflation 2016–2019 and projection for 2020



Source: Situación Perú. Primer trimestre 2020 - BBVA Research.

The Medical Equipment Segment:

Between 2016 and 2017, Peru, Argentina, Brazil, Colombia, Dominican Republic, Mexico, Panama, etc. acquired Dialysis machines and derivatives; Respiratory devices; Infusion pumps; Endoscopic; Cardiac assistance devices; Electrosurgical devices; and Nuclear Medicine Radiopharmaceuticals. Thus, by 2021 the demand of these machines will grow. [9]

Global Health Intelligence (GHI) report points out a future massive increase in the elderly population, higher rates of obesity and non-communicable diseases, which joined to equipment purchases figures in Latin American hospitals during 2018, expect by 2023 in Peru an increasing demand of Ultrasounds, Endoscopes, Electrocardiograms; and Portable X-RAY. [10]

Peru is among the six Latin American markets with greatest potential for the medical industry, behind Argentina, Brazil, Mexico, Chile and Panama. According to the World

Health Organization Peru invest less than 4% of its GDP in health. Even so, the commercialization of medical equipment increased in 2018. The total value of medical equipment and devices imported was US\$389 million in 2017, with a 48% growth in the quantity that suggests a strong demand for medical equipment.[11].

- Socio-demographic context

Peru, located in South America, has an extension of 1'285,220 Km² and a population of 33'050,325 inhabitants (according to projections of the National Institute of Statistics and Informatics 2019). The 52,6% of its population live in the coast (7,5% of territory), the 38% in the mountain range (30,5% of territory), and only the 9,4% in the forest (62% of territory). The country has a literacy rate of 87.73%. and from the total population, the economically active population (EAP) represents 73.57% (22'668,626 inhabitants). Life expectancy for men is 72 years, while for women 77 years. People over 65 represent 6.4%. The infant mortality rate is 17.96%.

The most populated cities are Lima (8,574,974 inhabitants), Piura (473,025 inhabitants), Trujillo (919,899 inhabitants), Arequipa (1'008,290 inhabitants), and Cajamarca (201,326 inhabitants). The less populated departments are Madre de Dios, Moquegua, Tumbes, Pasco and Tacna.

Population has a mixed health system (public and private). The World Health Organization shows in 2018 that the Peruvian healthcare system covers 78% of the population with medical needs; and the Population and Housing Censuses 2017 reveal that only 75.5% of the population has some type of health insurance, with a 72.1% of men and a 76.5% of women, affiliated to the Seguro Integral de Salud-SIS (44.4%), EsSalud social insurance (24.8%), and private insurance companies (5.1%).[12].

According to the CENTRUM PUCP Social Progress Index (IPS) 2018 report that measures the performance of 146 countries in social and environmental dimensions, Peru got 70.09 of 100 points, showing an improvement in relation to the last five years and being considered within the High Medium Social Progress category. [13].

Aspects like the population growth or decrease and the current situation of the society mark the business success as long as they can affect positively or negatively the business activities. So that, it is necessary that the firm knows how many men, women and children exist, incomes, jobs, location, sickness, etc. in order to efficiently focus the business, determine the strategies and make good decisions.

- Technological context

The Peruvian digital transformation is not yet consolidated. The World Digital Competitiveness Ranking 2018 of the International Institute for Management in Switzerland ranked Peru in 60th place out of 63 countries, near to Venezuela, Mongolia and Indonesia [14]; and The Digital Revolution Facing the Great Challenges of the World report shows it outside the top 100 of the world's most digitized states (position 106).[15].

Moreover, nowadays, information technologies have been strongly incorporated to the Peruvian companies, favoured by the deep promotion of the digital transformation. The incorporation of ERP systems and customer relationship management (CRM) software, the development of communication networks and the cloud issue, the use of mobile applications, virtual reality and big data and analytics, become something natural in more organizations. The transformation of companies in the processes of supply chain management with technology will favour the development of the internet of things, leading towards companies 4.0. [16].

By 2020, many technology trends will emerge, directly affecting the way business are managed. Giving a look to Business Productivity, many companies will experience hyper-automation, that is, the joint use of robotic process automation and intelligent business management software. E-commerce will be transformed by the option to pay in physical stores with applications, such as Apple Pay and Google Wallet. The expansion of 5G network will speed up the information flow on Internet. Finally, the combination of the software-as-a-service (SaaS) business model with artificial intelligence assistance will bring digital tools closer to the masses.[17].

Healthcare technology improves the quality of life of patients and the absenteeism from work. In oncology, it has contributed to increase the possibilities of cure with imaging technology, ultrasound, radiotherapy, etc. In Nephrology, it has allowed to advance home dialysis. Big data provides immediate results in the laboratory to implement changes in clinical decisions.[18].

Knowing the latest technological advances and trends leads the firm decisions, activities and strategies. They become into new products, can be used to recognize the new customers' needs and as tools in business management, facilitating the development of activities and processes, and could ensure a good performance and profitability.

- Environmental context

According to the Second National Communication of Peru to the United Nations Framework Convention on Climate Change, Peru is one of the 10 mega diverse countries in the world, but its current environmental situation is worrisome, being a problem with a social and economic background. The sustainable exploitation of natural resources and the management of environmental quality are challenges that are being faced by the country.[19].

In cities like Lima, Arequipa, Pasco or Chiclayo, population can feel the consequences of low air quality caused by the vehicular pollution, and other reason. In 2012, The World Health Organization has estimated that cases of acute lower respiratory tract disease, chronic obstructive pulmonary disease, lung cancer, ischaemic heart disease and cerebrovascular accident have been consequences of the polluted air. These cases can increase if actions to protect the environment are not taken.[20].

The quality of water is other problem, pollution of the rivers and the sea is visible, noticing in their margins, drainpipes coming out from the houses. According to the National Water Authority, 21 rivers are contaminated by solid waste, wastewater, tailings from mines, and by industrial, mining and population liabilities. Fresh water for the largest proportion of the population depends on these polluted rivers.

The Peruvian diversity is threatened by climate change, which affects the existing infrastructure, fishing and tourism, agriculture, food security, public health, water availability, poor populations, etc. [21].

- Legal context

The 1993 Political Constitution of Peru is the fundamental norm of the Republic and the basis of the national legal order, from its principles derives all the laws. It controls, regulates and defends the rights and freedoms of Peruvians; and organizes political powers and institutions.[22].

Focusing on business, the law “LEY MARCO PARA EL CRECIMIENTO DE LA INVERSION PRIVADA – DECRETO LEGISLATIVO N°757” contains the required provisions for the private investments’ growth.[23]. The Law N°26887 “Ley General de Sociedades” explains the liners to create enterprises [24]; and the Legislative Decree N°1409 proposes the creation of Companies for Closed Simplified Stock (SAC) regime [25].

The Law N°28015 “Ley de Promoción y Formalización de la Micro y Pequeña Empresa” determines the national policies for the promotion of the SMEs, implementing some instruments: The National Plan for the Promotion and Formalization of Competitiveness and Development of the SMEs; The National Council for the Development of SMEs; The Center for the Promotion of SMEs, etc.[26].

On the health care sector, firms must have a health registration issued by the health authority DIGEMID to be authorised to import and commercialise medical devices within the Peruvian territory. To obtain it, a company must be constituted and declared in DIGEMID as a drugstore, obtaining the registration ownership, and the product representativeness and responsibility at a national level.[27].

➤ Micro-Environment Analysis

● PORTER'S Five Forces

✚ Competitive Rivalry

- Jaime Rojas, Tarrillo Barba S.A., Albuja Medica SAC, Roca and Cardiomed del Peru SAC are stronger firms in the sector.
- The high exit barriers and the inventory costs are considered huge.
- All have the same target group.

✚ Threat of new Entrants

- It is necessary to have investment capacity, because the products are expensive, and the main brands look for firms capable to make big purchases.
- Other limitations to operate with medical equipment includes drastic laws, special documents and increasing bureaucracy. Firms need to invest a lot of money and time in accomplish Ministry of Health requirements.
- It is not easy to contact to the main international suppliers because they already have official distributors worldwide, which complicates the sale of some products because they sell just to main customer and no other firms.
- The market is considered attractive because revenues are high and, even if there several barriers, there is always an opportunity for new entrants.

✚ Threat of Substitutes

- Selling medical equipment – a first need product – there is not substitutes.

✚ Buyer Power

- Buyers can easily search best prices because there are many companies and brands to choose.
- There is a high pressure of innovation in the market, because medical technology is continuously updating.
- GBH SAC offers a variety of prices based on the product, brand, origin, quality, time of guarantee and post-sale service.

✚ Supplier Power

- As there are too many medical equipment manufacturers worldwide, the offer is ample, reducing the suppliers' power because the firm can decide where to buy.

The following table shows the degree and profitability of each item of the Porter's five forces, concluding in a high level of attractiveness of the sector.

Table 3: Porter's five forces

PORTER'S FIVE FORCES	DEGREE	PROFITABILITY
Competitive Rivalry	HIGH	HIGH
Threat of new Entrants	HIGH	HIGH
Threat of Substitutes	HIGH	HIGH
Buyer Power	MODERATE	HIGH
Supplier Power	LOW	HIGH

Source: Own creation.

3.2.3. Diagnosis

- SWOT analysis of the company

- ✚ Internal analysis

- Strengths

- The firm is flexible to quickly adapt to customer requirements or market changes, because it has a wide range of brands adjustable to different budgets.
 - It has the Good Practice Storage certification, required by the Health authorities, to develop its business activities.
 - It has sales executives in different cities, allowing to be closer to customers, know them better, see in situ their real necessities, and attend them faster than competitors. It includes providing a pro forma in the right moment with good offers in relation to competitors that are not in the area, analysing equipment to determine the cost of maintenance, spare-parts or buying a new one, etc.
 - It has many years of experience and is well-known in many provinces.
 - Use of didactic materials for marketing like catalogues, envelops, guarantee stickers, pen and notebooks given in the hospitals' sales executives visit.
 - It provides support to customers through donations for charity activities, sponsoring their sportive teams, etc.
 - It has a fast-logistic process that allows to deliver the product immediately to different regions, even to the recondite villages, giving a good image and avoiding contract punishment.
 - It is connected all the time through calls, WhatsApp and e-mails to quickly attend customers' requirements and suppliers.
 - It has qualified technicians and engineers in charge of the technical support, who are always available to travel to any place at any time.
 - It also has in its team a pharmaceutical chemist and a customs officer, in charge of the warehouse management and international logistics respectively, and asses the company to avoid problems or delays.

- It offers high quality products with latest technology at reasonable prices supported by its good trades with its suppliers that have ISO certification 9000 and 14000, CE and other related, required according to the country.
- It promotes innovation, creativity, and initiative, allowing employees to improve, within the firm, work processes, customer service, contact with delivery agencies, etc.
- There is a good communication with employees aiming to avoid misunderstanding, and discomfort, also to meliorate their job performance and motivate them.
- They work in cooperation with some little enterprises to sell products they do not distribute.
- The use of Social Media like Facebook, YouTube, LinkedIn, WhatsApp, blogs, and the firm website allow being closer to customers and make free publicity.
- The manager vast experience, leadership, and motivation is a strong point, giving the employees confidence to look for excellence results and not give up.

➤ Weakness

- The firm is not considered official distributor of one exclusive brand, because they sell products of a variety of them, from different origins and prices.
- It cannot make trades with a specific international provider, because of the lack of enough economic capital to accomplish the fee required for some suppliers.
- It provides its service mostly in provinces and not in Lima, where everything is centralised, and the market is wider with big budgets.
- Its financial capacity in the banks is not enough to participate alone in big tenders.
- It does not have much human resources to cover a bigger market share and avoid overloading of work to its employees.
- It does not have a structured logistic system to deliver products that helps avoiding damages during the transport (even if this kind of problem are minimal).

- It does not have a structured products showroom as it is seen in some competitors. It has only some glass cabinets with little devices.
- As being independent and not included in payroll, technicians and engineers work for different firms at the same time, having problems of availability sometimes, risking a business. There is only one available all the time.
- Lack of enough stock in the warehouse. They just buy equipment when customer requires them, offering an ample delivery time.
- Lack of a CSR system which is important nowadays because customers focused on environmental responsible companies are increasing.
- There is not a strong connexion with innovation institutions, ignoring the opportunity to get new knowledge that allows the firm to improve, identify new trends, etc.
- It does not belong to any clusters related to the business sector.
- Lack of big data tools that hamper having a real information system to store, share and control business information, it still using excel to make these activities, finances reports and accounting.
- Lack of an official market research that provides an overview of the current situation of the market. Indeed, it is made by the CEO according to its needs, based on the Internet, but not hire a specialist for that.
- Lack of a strategic plan and a business model design, that can improve business performance and prevent market changes.
- Lack of publicity through Media that impede the company to reverberate its name.

🚩 External analyse

➤ Opportunities

- Increasing of people life cycle.
- Increasing fecundity rate.
- Increasing products demand.

- High customers purchasing power.
- Development of restrictions for new entrants to this sector.
- Increasing demography.
- Building more hospitals in recent years and future projects to continue building in various provinces.
- Creation of a hospitals networks system in charge of hospital implementation.
- Increasing rate about the use of social networking, which can be used as a free publicity channel.
- Increasing rate of people using the social health assurance.
- International agreements signed between Peru and other countries.
- Innovation and technological institutions closer to the firm, developing new ideas that can benefit it.
- Development of medical fairs in the country and worldwide that allows the firm to know new products and competitors and be closer to providers.
- Development of free-cost training courses about medical equipment, business management, regulations, tenders' processes, etc.
- Increasing projects for tenders.
- Creation of software and hardware to improve business management, performance and profits.

➤ Threats

- Political instability.
- Possible economic recession because of coronavirus.
- More specific law restrictions, special certifications, increasing taxes, etc.
- Customers asking for official distributors, generating a risk of monopolisation.
- Increasing exchange rate, raising the price of the products.

- Strong competitors with high financial capacity.
- Corruption in the institutions and illegal agreements.
- There is not much support and confidence of the financial institutions towards the SMEs.
- Lack of national infrastructure: roads in poor conditions; undeveloped areas that are difficult to connect; weak hospitals conditions that affect the equipment implementation or their performance (e.g. electric light flow); etc.

3.2.4. Business model of the firm

The company does not have designed a Business Model yet, reason why one based on Canvas is recommended here, determining in detail each key factor the firm must face its market. Then, they will be summarised in a map that could help the firm to act proactively. The first step is describing each block of the Canvas in relation to the firm.

1) Customers Segment

They have a “Niche market” because the activities are focused on the healthcare speciality, more specifically on the medical equipment segment. In this extent, the firm is willing to serve to all categories of the healthcare segment, to all the hospitals of the country as well as universities (School of Medicine, Nursing and Chemistry), retailers and whoever wants to buy medical products.

2) Value proposition

The company sales medical equipment with the latest technology and accomplish the quality and environmental protection standard (ISO certification and others).

It has a wide range of offers which adapt to customers’ requirements and budgets, trying to provide all characteristics in a unique equipment. It includes not only worldwide well-known brands, also good products from less known brands at good prices.

It has many years of experience in the sector, a vast knowledge about medical equipment, a professional team trained in management of companies, customers and medical equipment, and a group of specialised engineers and technicians who master this field.

Immediate availability for customers assistance. It includes a fast-technical service or post sale service, evaluation and maintenance of equipment, and technicians' availability to go evaluate in situ.

The firm offers the possibility to send a technician to previous evaluate equipment and give pro-forma with the budget and the job description, before to repair, in order to negotiate and agree a good deal.

3) Channels

The company serve directly to end-customers, which are mostly public hospitals, using to reach them, its own channels: website (giving the possibility to online purchase), social media like Facebook, corporate emails and WhatsApp, physical and virtual catalogues, callings, and internal sales executives team.

4) Customers Relationships

The relationship with customers is constant and direct, being defined as "personal assistance", because they can contact a firm representative without problems. Telephones, mails and WhatsApp are always available, and everyone is attentive to quickly respond. Customers can ask for prices, models, stock, products characteristics, guarantees or even give suggestions.

The firm also applies "collective creation" because through their social media and website customers can leave comments, ask for solutions or shows their concerns. The company does not have problems with that, by contrast they invite customers to do it in order to discover their satisfaction level about the service.

5) Revenue stream

The main source of income of the firm comes from a selling structure based on medical equipment to public and private hospitals, which purchase frequently. This is improved with the profits obtained from the maintenance and repairing activities. Both sources could be reached by direct sales or by tenders. These represent reliable sources of incomes, because as the products are latest technology and produced abroad, their prices are enough costly, and joined by tenders, assures the company high profits, provide resources for expansion and therefore for sustainability.

6) Key resources

The company has not only economical and physical key resources, also intellectual and human resources. The economical ones lie on their financial capacity and their capital. The physical ones include their buildings in two important cities, vehicles, computing devices, internet, and all the furniture. The intellectual ones consider a customer database, its website, email, and social media accounts. The human ones cover its founders (one of them as a CEO), a professional administrative team (sales director, sales executives, marketing, accountancy, IT technician), a staff of engineers and technicians specialised in medical, biomedical and electromechanical equipment, and a legal and pharmaceutical assessors.

7) Key activity

The core activity of the firm is selling and provide maintenance service to medical equipment in the Peruvian market. Also, to achieve business objectives, they develop other activities:

- Satisfy customer expectations and needs.
- Provide a good post-sale service and customer assistance.
- Have valuable contacts and maintain good relations with customers and partners.
- Build customer loyalty to assure future sales and be recommended to other users.
- To speed up the purchase process from suppliers and the import of the product, in order to provide a faster service and deliver the product on time.

8) Key partnerships

The main partners of the company that make possible the efficiently development of its activities are its suppliers mostly international, but there are also some national official distributors.

More than once, the firm made a joint venture with HTV GROUP BIOMEDIC SAC and TECNIMED SYSTEM SA, aiming to present a great offer in some tenders, because together they had most possibilities than each one by its own.

Other key partnerships are developed with little salespeople or little stores in order to get some scarce spare or accessories for exclusive equipment.

9) Cost structure

The cost structure of the company is mostly focused on costs than value because it is essential to reduce cost at the maximum possible in order to get competitive prices. Taking in account that the technology the firm sales are equipment for several treatments, produced abroad by the international suppliers, then shipped to Lima and from there delivered to other cities of the national territory. After that, they need to be handled and install on customers buildings by engineers, who at the same time provide training to users, and preventive maintenance to the equipment as part of the guarantee. It could be considered in the cost structure the followings:

- Product price
- Fees/taxes
- Import costs (assessment and logistic of custom agent)
- Shipping and handling costs (international and national)
- Setting up and customers training
- Maintenance

3.2.4.1. Company business model Canvas

<u>KEY PARTNERS</u>	<u>KEY ACTIVITIES</u>	<u>VALUE PROPOSITION</u>	<u>CUSTOMER RELATIONSHIPS</u>	<u>CUSTOMER SEGMENTS</u>
<ul style="list-style-type: none"> -International suppliers. -National official distributors. -Other SMEs of the sector. -Salespeople or little stores of scarce spares for exclusive equipment. 	<ul style="list-style-type: none"> -Import, sale and maintenance of medical equipment. -Satisfy customer expectations. -Provide a good post-sale service and customer assistance. -Keep good relationships with suppliers. -Build customer loyalty. -Speed up the import process to provide a faster service. 	<ul style="list-style-type: none"> -Latest technology equipment with high quality certification. -Adaptable offers to customers' requirements and budgets. -Many years of experience in the sector. -Immediate customers assistance. -Flexibility to negotiate a good deal. 	<p>"Personal assistance": customers can contact a firm representative without problems.</p>	<p>Medical equipment segment:</p> <ul style="list-style-type: none"> -Hospitals managed by the Health Ministry and the Social Insurance. -Private hospitals. -Universities. -Retailers.

KEY RESOURCES

- Financial capacity.
- Ample capital.
- Buildings, vehicles and Furniture.
- Computing devices.
- Internet.
- Customers database.
- Website
- Email and social media accounts.
- Founders and CEO
- Legal and pharmaceutical assessor.
- International Suppliers
- A professional administrative team and specialised engineers.

CHANNELS

- Website.
- Social media.
- Corporate emails.
- WhatsApp.
- Catalogues.
- Telephones
- Internal sales executives.

COST STRUCTURE

- Product price.
- Fees/taxes.
- Import costs.
- Shipping and handling costs (international and national).
- Setting up and training for customers.
- Maintenance.

REVENUE STREAMS

Incomes come mainly from selling medical equipment, then from maintenance and repairing activities.

Both provides high profits, resources for expansion and sustainability.

3.2.5. Analysis of business model sophistication strategies in the firm

After doing the analysis of the firm resources and capabilities, it was identified a BMS strategy that could be applied to improve the business, finding a potential opportunity for the firm to get second-value proposition. This sophistication strategy is the “cross-selling”, that will use the same points of sale and channels than the core business.

It involves selling to its actually existing customer (hospitals, universities and retailers) not only medical equipment (main activity) as it has been doing, but also in parallel its complements and others (secondary activities) that they don't sell now, such as hospital furniture like serum carriers, stretchers, wheelchairs, stairs, etc.; medical instruments like surgical scissors, thread and dressings, needle holder, scalpel, etc.; biosecurity elements like gloves, surgical blouse and pants, surgical cap, masks, shoes covers, etc.; healing material like gauze, bandages, sterile tweezers, etc.; and laboratory materials like tubes, pipettes, racks, etc. It is an increasing market, to which most firms of the sector do not pay enough attention.

The firm can take advantage of that Medical equipment are composed by several elements that can be sold. For example, a secretion aspirator machine needs cannula for adults or children. Normally, the firm sells only the equipment, but applying this sophistication strategy it will expand its focus to the sale of the cannulas too. Something similar happens with a centrifuge that needs slides to develop its function. The firm could see on the slide a potential product to sale.

This sector could be perfectly attended by each sales executive who must coordinate with the commercial director. First, they have to previously establish different prices lists (by sets or units and according to origin and type of material) and the conditions (minimum quantity depending on whether they are instruments, materials or furniture). Then, the offer will be designed as a joined sale of medical equipment and complements, allowing customers to optimise costs.

In its cross-sales, the firm could simplify the purchase procedures for customers because they could find, in the same place and at the same time, medical equipment and its complementary products, and everything they need to implement hospitals, avoiding to look for in other places wasting time; and gives the impression of an attractive offer (buying the equipment and accessories in the same purchase will have a better price). Thus, the firm could improve their revenues, increasing its profitability.

3.3. FINDINGS

The firm has not yet designed a business model nor a strategic plan to perform its activities. For that, the Canvas is a good tool for this firm to design its business model in the way that allows the recognition and management of the firm resources and capabilities and, based on these, consider future actions in the market.

Besides, the results revealed that the firm is not currently enjoying all the benefits that the sector offers, because of being focus on its main activity and not exploring new ventures. For years, they were a little bit unwilling of investing on something they consider that needs too much volume to be profitable.

Managers used to think that only the equipment sale worthy due to it has fast rotation and generates high profits. But a potential segment that allows them to create a secondary value-capturing activity: the sale of medical equipment accessories and complements, and hospital furniture, was found on the hospitals' requirements sent regularly throughout massive e-mails to all their suppliers. In this extent, it is assured that it is possible to apply the cross-selling business model sophistication strategy in this firm, which could multiply the revenue streams identified in the Canvas and increase its profits.

Both, core and complementary activities can coexist at the same time within the firm, using its same resources and optimising costs. Managers and their team are capable of supervise and control them in an efficiently manner. Results show that Canvas and BMS are tools that allow the firm to create an unbreakable business model and sustainable benefits.

3.4. LIMITATIONS

Despite my great effort to thoroughly and objectively analyse the literature on business models, including innovation and sophistication, this study has found diverse limitations. First, there is an evident scarcity on business model research based on SMEs, much of the reviewed literature is more focus on big companies. Second, the literature is widely divergent, finding difficult to concur in a single useful concept adjustable for everything. Third, there is not specific nor clear business model theories (antecedents, purposes, elements, functions, mechanisms, etc.) and its distinction from other business concepts like business strategy, value chains, strategic plan, economic model, etc. Forth, business model is an underdeveloped and overloaded concept, which may not facilitate empirical analysis.

IV. CONCLUSIONS AND RECOMMENDATIONS

The literature shows that it does not exist many studies and experimental cases about business models oriented to SMEs, which is a limitation for them to convincingly apply concepts or innovate, most of them talk about big companies. Moreover, they provide great tools for improving business performance that could be adapted to a SME reality.

The same situation appears when referring to BMI. Even so, innovate is not an unknown term. SMEs must clearly know that BMI is about updating its BM, making necessary changes in the business system, while BMS is about exploring and building secondary value-capturing opportunities, and consequently benefiting from them. Applying both could improve business performance, increase profits, and generate sustainable advantages for a long-term.

For achieving that, it is important to identify if the company is taking the maximum benefits its business is capable to provide, also the roll of the managers is vital, their implication must be integral, being responsible of seeking for new opportunities and develop strategies. There are many examples of firms (Google, Apple, Ryan air, Trip advisor, etc.) that prove that it is possible to manage a business developing secondary-value capturing activities in parallel to the core activity, creating two or more sources of revenues. Currently, several firms are changing their BM focus and are turning to look for BMS, for example Latam is now applying a similar BM than Ryan air.

It is also noted that a firm that designs a BM and frequently innovate it, is more capable to identify its strengths and weaknesses, and the opportunities and threats of the external environment, and hence to improve its performance and get sustainable benefits, optimising the use of its resources. The Canvas, SWOT analysis, Porter's five forces are efficient tools to design a BM.

Innovation, sustainability, second-value creation are key elements that support an unbreakable business model.

I consider that this research could be an example of the application of these concepts in SMEs and the profitability it has for them. This could become part of the scarce studies of BMs oriented to SMEs.

On the other hand, I could recommend the firm that now they know their strengths, they must reinforce them; and about their weakness, they need to work hard to improve it. Similarly, to the opportunities, they must try to take all advantages of them as possible; and about the treats, they must use their resources to break them.

Now the firm has a Canvas business model and a sophistication strategy designed, it must apply them to improve the decision-making, considering internal and external factors, and the way it can use its capabilities to perform well and obtain good benefits.

They must not forget to frequently evaluate and update the current model and strategies to avoid competitors breaking its sustainability, and to often analyse if they are taking advantages of all the benefits generated for their business.

They should create an ambitious offer and find the best way to deliver it to its customers, making customers aware of its value and that it is worthy.

The firm should improve and strengthen an innovative environment, allowing employees to think creative and suggest new ideas, and giving them all the resources needed to develop those innovative suggestions. This with the aim to make efficient changes in the business model. It is also important they look for innovative institutions, universities or clusters to work with that allow the firm to improve its performance.

They must offer a stable contract and career guarantees to their engineers and technicians in order to have them working only for the firm.

The applicability of these terms in a context of SMEs provides interesting results, reason why it may be essential to develop more experimental cases aiming to discover the distinct impacts they have in several kinds of firms, how positive could be their impact or the implications they could mean, because not all the firms perform in the same way.

It is important that the firm put special attention to the points analysed in this study, because those are key elements that lead to sustainable success.

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