

The importance of the business model in startups- Foundation Uber as an example

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Abstract:

Startups face numerous challenges in their business environment that threaten their survival and long-term sustainability. Consequently, they continuously seek effective approaches to overcome these challenges and enhance their chances of success. Among these approaches, the business model has emerged as a critical strategic tool for achieving organizational objectives.

This study aims to clarify the importance of the business model for startups by examining the global company Uber as a case study. The findings indicate that a well-designed business model serves as a fundamental mechanism for creating and capturing value, organizing business activities, and attracting strategic partners, thereby enhancing the competitiveness and sustainability of startups.

Keywords: model Business, startups, Foundation Uber

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1. INTRODUCTION

The new global trend in achieving economic development is to rely on emerging institutions, given the amount of creativity and innovation in this

type of economy, especially since it makes institutions adapt to the constant changes in the environment. Today, the view of achieving comprehensive development is no longer based on rent or huge institutions.

Due to the great importance of emerging institutions in developing and promoting the economic sector, new concepts have emerged that would contribute to understanding all the steps that an emerging institution takes to succeed, starting from knowing its strengths and weaknesses, opportunities and threats. Among these concepts, we find the business model.

Based on the foregoing, the research problem can be formulated in the following main question :

"Are there What is the importance of a business model in startups ?

To answer the research problem, the main hypothesis was formulated, which states the following :

"The business model is important in a startup."

- **Study objectives :** This study seeks to achieve a number of objectives, which revolve around :
 - ✓ Providing theoretical knowledge about business models and startups ;
 - ✓ Highlighting the importance of the business model in emerging institutions.
- **The importance of the study :** The topic of the business model and emerging institutions is a modern topic, and is under research and study due to the rapid developments in the business environment, which have affected the economic field with its various institutions and emerging institutions in particular. Therefore, the importance of this study lies in providing a scientific addition from a theoretical and applied perspective on the business model, as well as emerging institutions.

Foreword :

The business model is an important tool through which entrepreneurs can plan their small businesses and startups. It is a visual planning method used in the early stages of planning for the establishment of a startup.

Startups require more planning before reaching the stage of formulating the plan and conducting a feasibility study, relying on the business model as a very early stage that provides a detailed explanation of how to make a profit through different business activities. Without it, the entrepreneur cannot formulate a good, realistic business plan for his startup.

Therefore, this study will address the following :

I - Business Model

II - Emerging Companies

III - Uber 's corporate model in using the business model

I - Business Model

1- Definition of a business model :

The business model It is one of the oldest, most obvious and common business models, because it covers all areas of life work. It is based on the process of buying a product from the manufacturer or producer at a specific price, then re-offering it to the market and selling it to a specific segment of consumers at a price higher than the purchase price, with the aim of making a profit, after deducting other costs, such as the costs of transporting the product, distributing it, marketing it, and others (Omar, 2021).

A business model is also defined as : "The method an organization uses to create, achieve, and profit from value (monshaat, 2022)"

The business model is also defined as : "A set of steps that aim to show how to achieve added value for customers, and to use that to generate profits for the organization (4kotoob, 2022)"

From the definitions mentioned above, it can be said that the business model is one of the methods that an organization uses to achieve added value for its customers, and to benefit from it in achieving its profits.

The business model also saves the investor time in making the initial investment decision without needing to refer to the business plan, as anyone

who reads it can quickly form an opinion about the project and its economic feasibility. Hence the importance of the business model for entrepreneurs, and the importance of the business model can be summarized as follows (4kotoob, 2022) :

- It helps to identify gaps between available resources and required resources ;
- It helps in managing technology and operations ;
- It helps in identifying suitable suppliers and partners for the business project ;
- It helps in designing a go-to-market strategy ;
- It allows for added value to be provided to the customer ;
- It helps manage income and costs to achieve the highest profits for business projects ;
- It is considered a benchmark for the performance of the business project.

2- Building a business model :

A business model can be built using nine building blocks, which demonstrate how an organization operates to achieve success and generate revenue. These nine blocks cover the four fundamental areas of business (customers, supply, infrastructure, and financial capacity), and are thus divided into nine key components : value propositions, target customer segments, distribution channels, customer relationships, revenue streams, core resources, cost structure, and key partners (Omar, 2021). The following figure illustrates the basic components of a business model as follows :

Figure (1): Components of the business model



Source : Yahya Al-Sayed Omar, (2021) : Entrepreneurship between Talent and Practice, 1st Edition, Dar Al-Asala, Turkey, p. 335.

2-1. The proposed value refers to the intangible value expected from acquiring a project's products or services, and it is entirely different from the price of the product or service. The proposed value is the reason behind customers choosing one organization over another. This value either solves a problem the consumer is experiencing, or it fulfills a consumer need. It also includes a select package of products or services that meet the requirements of a specific customer segment. In this sense, the proposed value is a set of benefits that an organization offers its customers (Alexander & Yves , 2013).

There are several types of proposed values, which are as follows (Omar, 2021):

- **Unprecedented innovative values** : Any introduction of innovative products or services to the target market that meet new customer needs, or satisfy needs that were not met in the first place. This new value drives customers to buy this unique product, or to try the irreplaceable service.
- **High performance values** : If the new product is similar to other products on the market, the organization can offer high performance compared to competitors, so that this performance is reflected in higher quality, a more luxurious design, ease of use, or safety specifications ;
- **The value of personalization** : When a customer feels that the product or service is offered specifically to him and not to others, this motivates him to buy ;
- **The value of comprehensive service** : If the emerging institution aims to provide products that carry a high degree of risk for customers, such as : high price, or scarcity of spare parts, then the institution can offer great value to potential customers, by providing comprehensive service such as : transportation service, free shipping..., thus it can provide new values that are not offered by competing institutions that are satisfied with selling the product only ;
- **Price value** : This is the most common value among emerging institutions. It can be used when the new product or service is not innovative and does not stand out from competitors' products in either design or use. Here, the institution has no option but to offer a distinctive value in price. This is the trend adopted by Chinese smartphone manufacturing institutions, which provide many products at varying prices to suit divers segments of customers.

2-2- Target Customer Segments : Customers are at the heart of any business model. No organization can survive without them. To achieve the highest possible level of customer satisfaction, an organization can segment

its customers into distinct segments, each sharing common needs, behaviors, and other characteristics. A business model may define one or more small or large customer segments. Every organization must make a conscious decision about which segments it wants to serve and which it wants to ignore. Once such a decision is made, the business model can be carefully designed and based on a deep understanding of the specific needs of each customer segment. Some examples of different types of customer segments include mass markets, often used in the consumer electronics sector ; niche markets, which target specific and specialized customer segments ; and differentiation and diversification (Alexander & Yves , 2013).

2-3- Channels : Communication, distribution, and sales channels form the link between the organization and its customers. They serve as an interface that plays an important role in delivering the product to the end customer, and perform multiple functions, including : helping customers evaluate the organization's value proposition, communicating the value proposition to customers, and giving customers the opportunity to purchase a specific product or service(2020، مريم) .

2-4- Customer Relationships : The building block of customer relations outlines the types of relationships an organization establishes with specific customer segments. Organizations should clarify the type of relationships they wish to cultivate with each customer segment. These relationships can range from personal to automated and may be driven by the following motives : customer acquisition and retention, and sales promotion (Alexander & Yves , 2013) .

2-5- Revenue sources : These are the funds generated by the organization from customer segments. Profit is calculated after deducting costs from revenue. The revenue stream includes sales orders, receiving and processing, pricing credit verification, invoicing, and revenue recording. A business model can involve two different types of revenue (startupsfactory.zendesk, 2022) :

Transaction revenue : This is the revenue generated from one-time customer payments ;

Recurring revenues : These are revenues generated from continuous payments, either to achieve the suggested values, or to provide after-sales support to customers.

2-6- Core resources : Every business model requires core resources. These resources enable the organization to create and deliver value propositions, enter markets, maintain relationships with customers across different segments, and generate revenue. Different types of core resources are needed depending on the type of business model. These resources may be physical, financial, intellectual, or human, and may be owned by the organization, leased by it, or obtained from key partners.

2-7- Key activities : The process of creating value or the offering is a result of rotating and operating basic resources through the execution of core activities. Primarily, there are three types of core activities that are applied in business (Elias , 2017):

- ✓ **Production :** Production and all activities related to it, including marketing and sales ;
- ✓ **Problem solving :** This is in services, where the service is not produced but will be when users' problems are solved ;
- ✓ **Platforms :** where the primary function is limited to connecting two or more parties, and periodic activities related to this platform are carried out, such as development and security (مريم) (2020).

2-8- Key partnerships : The building block of key partnerships is the network of suppliers and partners that helps the business model succeed. Organizations form partnerships with other parties for many reasons, and partnerships have become a cornerstone in many business models. Organizations enter into alliances to improve the performance of their business models, to reduce risks, or to seek new resources. Four different types of partnerships can be distinguished : strategic alliances between non-competing organizations, strategic partnerships between competing organizations, organizations seeking to establish new joint ventures, and

cooperation between buyers and suppliers to ensure a reliable supply (Alexander و Yves , 2013).

2-9- Cost structure : This refers to the relative weight of fixed costs within the total assets of a project. It is also defined as the different types of expenses incurred by an organization or project (Al-Shaib ,2011) and it consists of fixed and variable costs. The cost structure illustrates all the costs resulting from operating a specific business model ; that is, it clarifies : What are the costs inherent in the organization's business model ? What are the most expensive resources (4kotoob, 2022)? And what are the most expensive activities ?

II - Emerging Companies

Technological development, which has impacted all aspects of life, has led to the emergence of what are known as startups. This section discusses the definition of a startup and its characteristics, the difference between it and traditional startups, its life cycle, factors for its success, and reasons for its failure.

1- Definition of startups :

Paul Graham knew Startups are defined as : "an organization designed to grow rapidly." The word (Start-up) consists of two parts : the first, "Start," refers to the idea of launching, and the second, "up," refers to the idea of strong growth. According to Paul Graham, startups operate only in the field of technology. According to Paul Graham, it is not related to age, size, or sector of activity ; what matters is growth, and everything else related to startups follows growth. According to Paul Graham, good growth is between (5 % - 7%) per week, and sometimes, exceptionally, it is (10 %). The four conditions must be met : strong growth potential, use of new technology, need for huge funding, famous fundraisers, presence in a new market, and a new market where it is difficult to assess risks (Kalthoum & Mufid , 2020).

The startup was also defined as : “An organization that seeks to market and launch a new product or innovative service targeting a large market,

regardless of the size of the organization or its sector or field of activity. It is characterized by high uncertainty and high risk, in exchange for achieving strong and rapid growth with the possibility of reaping huge profits if it succeeds. (Ben Ayad , 2022)”

It was also defined as : "An organization formed to search for a replicable and scalable business model. "

It is also defined as : "Newly established institutions, meaning young and emerging institutions in the business world," which confirms the term in the foreign language Start-up, meaning that every newly active emerging institution in the world is newly established and offers new products and services that rely on technology and innovation, which is the narrow concept of emerging institutions.

Based on the definitions mentioned above, emerging institutions can be defined as newly established institutions that aim to introduce new products and services to the markets.

2- Characteristics of emerging institutions :

Startups are characterized by a number of features, which are as follows :

- It is an ongoing project ;
- It is a legal entity, with private funds, shareholders, or stakeholders, etc.
- Startups require a period of several years between the launch phase and their ability to generate profits ;
- The responsibility for running the startup goes to the management team, which works in the short term : the need to master the beginning of the project, and in the long term : ensuring the development, growth and continuity of the organization.
- The startup does not rely on just one dimension, but focuses on all departments related to its activity, from developing and innovating the product or services, targeting customers, marketing and the business development plan ;
- Startups are characterized by a high degree of risk, which requires constant work to reduce it.

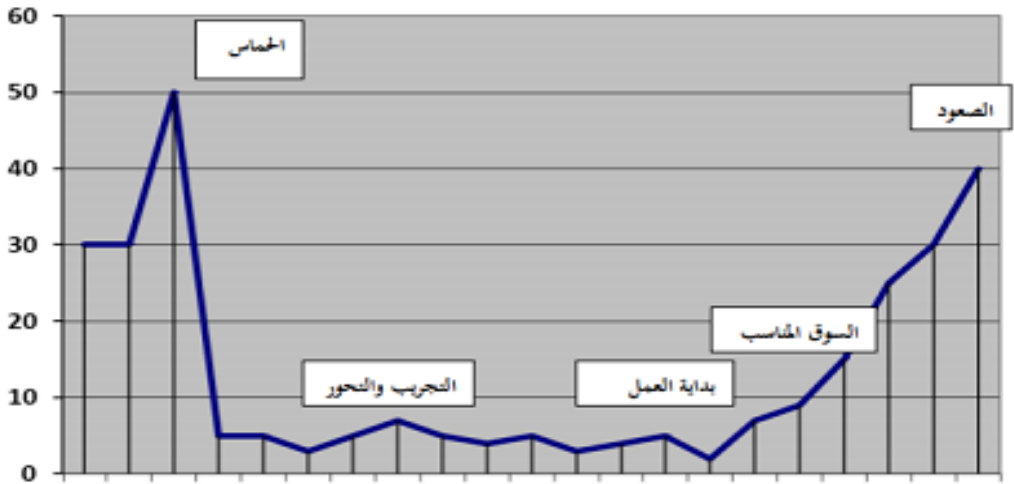
It also has many advantages, some of which can be listed below :

- Newly established companies : These are young, fledgling institutions with two options : either to develop and transform into successful institutions, or to close their doors and suffer losses.
- Companies with an opportunity for gradual and increasing growth : One of the characteristics that defines a startup is its ability to grow rapidly, generating revenue much faster than the costs required to operate ;
- Technology-related and technology-dependent institutions : These are institutions whose business is based on pioneering ideas and satisfying market needs in a smart and modern way. The founders of emerging institutions rely on technology to grow, progress, and find funding through online platforms and by winning help and support from business incubators.
- Low-cost organizations : These are organizations that require very small costs compared to the profits they receive, and these profits usually come quickly and somewhat suddenly.

3- The life cycle of startups :

What distinguishes emerging institutions is continuous growth, but the reality is different. These institutions often stumble, go through difficult stages and severe fluctuations before they find their way to the top. This can be illustrated by the following curve :

Stages of growth of emerging institutions :(2) Figure



Source : Paul Graham, Startup happiness curve, on the internet :
<http://t.co/PIFDcIMCUB>, view : 03/26/2022, at 17 :05.

From Figure (2), it can be said that emerging institutions go through six stages, which are (Haddadiya & Jumaa, 2021):

- 1- **Pre-launch phase** : A prototype of a creative, new, or even crazy idea is presented by someone. During this phase, the idea is thoroughly researched and studied, the market is studied, and the behavior and tastes of the target consumer are examined to ensure its feasibility, development, and continuation in the future. Funding is also sought, and in the early stages, it is usually self-funded with the possibility of obtaining some government support ;
- 2- **Launch phase** : In this phase, the first generation of the product or service is launched, where it is unknown, and perhaps the most difficult thing that the contractor can face in this phase is finding someone to adopt the idea on the ground and finance it financially ;
- 3- **Early stage of takeoff and growth** : The product reaches its peak, there is high enthusiasm, and at this stage the activity can expand beyond its initial creators, so negative pressure begins as the

number of exhibitors of the product increases, and failure or the emergence of other obstacles that may lead to decline begins ;

- 4- **The gradual decline phase** : Despite the continued funding of the project by venture capitalists, it continues to decline until it reaches a stage that can be called the "valley of sorrow" or the "valley of death," which leads to the project exiting the market if it is not addressed, especially since growth rates at this stage are low ;
- 5- **The climbing stage** : In this stage, the entrepreneur continues to make modifications to his product and launch improved versions, so that the startup can start to rise again thanks to the strategies implemented and the team's experience gained. The second generation of the product is launched, its price is adjusted, and it is marketed on a large scale ;
- 6- **High growth stage** : In this stage, the product is fully developed, exits the trial and testing phase, and is launched in the appropriate market. The emerging institution begins to grow continuously and the curve takes an upward turn, as 20 % to 30 % of the target audience has adopted the new innovation, thus beginning the stage of economies of scale and achieving huge profits.

4- The importance of a business model in startups:

Every startup must have its own business model, which helps it determine the approach it takes to create, achieve, and benefit from value in generating profits, through the nine building blocks that make it up (mentioned previously), which explain the following (monshaat, 2022) :

- Who are its clients ?
- What value does it offer to each segment of its customers ?
- What kind of relationships do you want to establish with your clients?
- Are customers willing to pay for this product or service ? And how will they pay ?

- How does it reach its customers ?
- What are the main resources it needs to create value for its customers ?
- What are the key activities you need to create value ?
- Who are the key partners you need to work with ?
- Finally, she understood the costs she needed to bear.

From this perspective, the importance of the business model in emerging institutions can be summarized in the following points :

✓ The organization avoided paying unnecessary costs. An example of this was a startup that had a service that conducted surveys of agricultural lands. Through image comparisons and several algorithms, it could predict certain diseases that might affect the crop. Thus, this prediction helped avoid disaster. In order to implement this service, it was necessary to obtain agricultural aircraft, on which specialized high-speed cameras were installed to take pictures from the sky. This meant the need to purchase one or more aircraft, which are high fixed costs that had to be included in the cost structure. While preparing the business model plan, they turned to the customer segments, which were farmers who owned lands that might be affected by diseases. Indeed, they had a need for such predictive information, regardless of how it was obtained. Here, they presented an important piece of information, which is that instead of purchasing an aircraft, they could rely on the aircraft of pesticide spraying companies and rent them from them. Thus, there was no need to incur all those high fixed costs (Elias , 2017).

✓ Meeting the needs and desires of customers : Through the business plan, the organization has identified its target customer segment, and thus directs its activities or services towards them, thereby meeting their needs and desires.

The organization distinguishes itself from its competitors. Through the business model canvas, the emerging organization can define the value proposition in its products or services and deliver it to its customers, which distinguishes it from other organizations, who are willing to pay a certain amount of money to obtain it. As an example, let's take the iPhone. Its outer

layer is the feeling of distinction from buying one of Apple's products. The middle layer is the technical characteristics of the product itself, such as the design, screen, and camera. The core layer is the mobile communication service, internet browsing, and use of applications. It is noted that the customer does not buy the iPhone just for distinction and a feeling of luxury, nor to buy a screen and a camera, but rather for communication. This is the core value that the iPhone offers, and it is supported by all the other layers and features to distinguish it from others (Elias , 2017).

After presenting concepts about the business model and the startup, and highlighting the importance of the business model in the startup, the next section will address the extent of the business model's contribution to the Uber startup, in support of what was discussed previously.

III - Uber 's corporate model in using the business model

Uber was founded in 2010 and launched internationally in 2011. It is an American multinational technology company on the Internet that developed marketplaces operating on the Uber mobile application. After continuing its work with diligence and perseverance, its services were available in 449 cities spread across more than 66 countries around the world in 2016.

The secret to its success as a startup lies in ... In being It is based on an innovative business model built on nine pillars, which are as follows :

- ✓ **Customer segment** : Uber has two customer segments : passengers and drivers ;

- ✓ **The proposed value** : For customers, the most important offer is the convenience of not having to search for a taxi ; prices are generally lower than those charged by taxi drivers. For the driver, it's a primary or supplementary source of income.

- ✓ **Distribution channels** : Oral communication from the beginning, in addition to social networking sites and applications.

Customer relations have three aspects : the customer, the driver, and regulatory bodies. The company's primary focus is on the passenger. If the company lacks credibility with the end user, there's no point in having relationships with others. Credibility pertains to punctuality, pricing, and trust in safety and privacy. While the driver is not an employee of the company, they are considered the second most important customer.

✓ **Sources of revenue** : Taking a percentage commission for each trip ;

✓ **Key resources** : Firstly, the platform that connects drivers and riders, with a focus on continuous improvement of resources and algorithms. Secondly, the strength of the Uber brand itself ;

✓ **Key activities** : developing and maintaining the application, maintaining and improving engagement among passengers, marketing and customer service ;

✓ **Key partners** : First, the driver, without whom the company cannot reach the end customer. It offers its own value propositions. Another important partner is the investors who allow the company to reach other levels of performance through funding rounds, and finally the technology providers through positioning, payment and connectivity systems, cloud storage, and data analytics systems ;

✓ **Cost structure** : Uber's costs consist of customer acquisition costs, customer support costs, insurance, legal costs, and research and development investments ;

✓ **Competitors** : Uber has many competitors, including :

- Lyft This is the company's main competitor. Founded in 2012, the company provides services throughout the United States and in more than 220 cities, offering 18.5 billion trips per month. It was offered to the public with a value of \$24 billions.

- OlaCabs started in Mumbai in 2010 as an online taxi aggregator. Currently, the network reaches Australia, New Zealand and the United Kingdom, and its valuation exceeded \$5

billion in 2015. At present, Ola owns more than 60 percent of the market share in India.

Uber 's business model was clear and simple, in terms of giving a comprehensive overview of the importance of creating the organization, its idea, the problem it addresses and in which the value lies, the target customer segment, the basic activities and resources, as well as the precise identification of its most prominent costs, competitors, relationships and how to achieve profits.

Based on the above, the main premise is accepted, which states that :
"The business model is important in the startup."

2. Conclusion :

The business model is of paramount importance to emerging institutions, from establishment to growth. It helps them understand the market and identify the market segment, and based on that, create value by maximizing sales, reducing costs and satisfying customer requirements, as well as attracting and convincing partners to work, and determining the strategy for managing relationships with customers and partners.

Identifying distribution channels, in addition to that, contributes In explaining the work and structure of the emerging organization, its division of functions, tasks and various activities, identifying its strengths and weaknesses, opportunities and threats.

Finally, this study concluded with a number of results, which are as follows :

- The business model is considered the cornerstone for launching a startup company ;
- The business model canvas allows for understanding aspects of the target market, how to enter it and gain a larger market share, as well as enhancing competitive advantage ;
- The business model allows for understanding how a startup adjusts its production or service strategies ;
- A business model is essential for creating and utilizing value, organizing work, and attracting partners.

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