Abstract. This article stresses the pivotal role of the theory of the business in the strategic decision network that media entrepreneurs and managers require for their business to survive and grow in the marketplace. A valid theory of the business is useful in the definition, choice and amendment of the vision, mission, strategy, objective and business model adopted. The theory of the business also orients the tactical decisions to be implemented. Because the lifespan of a theory of the business varies greatly, revisiting the theory is necessary in the life cycle of any organization. A conceptual framework is offered to help managers and entrepreneurs align their strategic and tactical choices. The approach used in this article is interpretive, and the tone retrospective, with select examples that have marked the history of the media industry.

Keywords: Business development, Theory of the business, Media industry, Strategic Market Management Framework, interpretive research
JEL classification: M13, L21, L26

1 Introduction

Upheavals caused by the development of information and communication technologies have surprised many media industry players, particularly owners of dailies (Doyle, 2013). For some newspapers, adaptation to new media consumption habits has proven to be impossible and fatal, despite their decades of industry experience (Bird, 2009). New business models adopted by online rivals have not always met expectations (Naldi & Picard, 2012). At the same time, new entrepreneurs have entered this business sector, and some have clearly changed the landscape (Safko, 2010). Drucker (1994) and Zenger (2013) contend that the theory of the business can explain these cases of failures and successes.

The purpose of this paper is to present the theory of the business as a managerial concept, and to describe its role within the set of organizations’ strategic and tactical decisions. The following questions will be answered: What should this theory contain? What does devising an enlightening theory entail? What place does this theory occupy in the strategic market management framework? When is it time to renew the theory of the business? To summarize, this article explains the role and benefits of this type of theory for businesses.

2 Theory of the business and strategic market management

In the business world, the theoretical, even ostensibly, is often excoriated for not being practical. This attitude is somewhat surprising given the fact that many business people conceive of their world as an entity that can be explained and even predicted. Actors in the media world must realize that by formulating a theory of the business of their organizations, they can harness the advantages the theory offers in strategic market management. With business sectors becoming increasingly complex and competitive and market approaches more elaborate, strategic market management helps managers and entrepreneurs identify, prioritize, implement and adapt their strategies and tactics to build a strong, coherent competitive position that is difficult to imitate.

Aaker (2011) argues that decision-makers must focus on answering two very simple but fundamental questions:
Where to compete: Choice of product-market and growth options.

How to compete: Value proposition, resources and skills needed to compete, and other function areas, strategies and programs.

A well-articulated business strategy should be viewed as the result of a well-thought out collection of answers to these two questions. Managers and entrepreneurs thus link various causes to possible commercial consequences. These links form working assumptions that, when organized in a set, form their theory of the business (see Figure 1).

![Figure 1. Strategic market approach
Source: Adapted from Turgeon (2014)](image)

3 Constructing a theory of the business

Vauvilliers (1992, p. 18) argues that “affairs’ are systems (or subsystems) that must be analyzed in themselves. They have their own logic, tacit codes, and rules of development.” Although the original context was political, this proposition transposes easily to the field of commercial business.

Drucker (1994) asserts that a theory of the business comprises three parts that consist of assumptions about the following elements:

- The organization and its environment, society and its structure, the market, the customer and the evolution of technology;
- The specific mission of the organization
- The core competencies needed to accomplish the organization’s mission.

The theory of the business serves as a guide to help decision-makers navigate in markets through the perspectives that these assumptions provide. Based on de Rosnay (1975) and Zenger (2013), we propose four such angles (see Figure 2):

- Macroscopic angle: In which business universe does the organization operate? What are the challenges? Actors? Market drivers?
- Microscopic angle: Who is this organization? What are its strengths? Weaknesses? Skills? Core competencies? Resources?
- Telescopic angle: Where does the organization want to be in its chosen future? What path can it take to reach this objective?
- Entropic angle: What business lifecycle is possible at this point in the organization’s existence? Which chaos will the forces of time impose on it? What are the instigators, strengths, scope and potential impacts of this chaos?

![Figure 2. For a 20/20 vision of markets
Source: Adapted from Turgeon (2014)](image)

It is from the synthesis of these angles that the organizational strategy takes shape and evolves. These angles let the organization capture the economic world around it and make choices from among various options related to creating, capturing and sharing of value (Saives, 2011).

A theory of the business is thus the rationale for an organization’s existence. It explains the company’s presence in the business network where consumers, competitors, facilitators and legislators are the major components of a dynamic ecosystem. Formulating such a theory thus entails explaining and predicting the organization’s potential interrelations with the market, namely the actors, modes, trends, constraints, obligations and drivers of demand. A theory of the business may be valid or invalid, therefore explain the market and the role the company wants to play either very well or very poorly, leading to a negative or positive outcome.
3.1 The benefits of a valid theory of the business

One example of a successful theory of the business is that of USA TODAY. Approved by the Board of Directors of Gannett Company in December 1981, it first appeared at a cost of 25 cents in September 1982 in the regional market of Baltimore-Washington DC, near the organization’s headquarters. It rested on a particularly audacious theory of the business at the time, that of being “The Nation’s Newspaper.” Notably, the following working assumptions were retained: 1) it must be an easy magazine to read; 2) colorful; 3) full of photos; and 4) standardized content, all to reinforce the attractiveness of this new journalism product. It is delivered to the home or office, and is available in newsstands from Monday to Friday. To achieve its goals, it needed the most sophisticated communication technologies available. Still topping the list of newspapers with the highest circulation in the United States thanks to its national distribution, it is also present abroad through foreign distribution and an international edition. It is available in an electronic format (e-newspaper), and offers a free application for more than one operating system, along with a website (in English only).

In its 30-year history, USA TODAY launched spinoffs, some of which are still available (including USA TODAY Sports Weekly). However, the efforts to spread the daily USA TODAY to television format did not last long: lackluster viewer ratings made this venture unprofitable. Another example of a successful theory of the business is that of Metro, the world’s largest global daily newspaper. This daily was founded by three journalists in Stockholm, Sweden, in 1994. Their theory of the business is encapsulated in this innovative idea: “news for free at the right place and at the right time.” After being rejected by bankers and financiers, the concept finally attracted an entrepreneur investor. The first issue was launched in February 1995; it was an overnight success. Copies are either hand-delivered or procured from a distribution box. Urban readers thus have access to a local newspaper offering global and local news. Hence, the daily Metro represents a new approach of doing business in an old industry. Although the idea of getting a free copy was already used by several weekly regional newspapers, offering such newspapers every day, on a global basis was a daring move. Almost 20 years later, the worldwide brand Metro has a circulation of nearly 10 million copies and a readership of over 22 million individuals, dispersed in 23 countries.

Another example of a successful theory of the business is that of Ted Turner and CNN. This entrepreneur hatched the idea of a television station broadcasting the news 24 hours a day from a singular experience: he resented being less informed than others because he did not have access to the late afternoon news on the major channels like CBS, NBC and ABC, simply because by the time he got home, after 7 p.m., he had missed the broadcast. He consequently coined the motto: “You can do so much more in 24 hours that you can in 24 minutes,” and launched the Cable News Network (CNN) on June 1, 1980. The assumption that enough viewers would be willing to pay monthly to subscribe to this type of channel in their cable package was seen by many as far-fetched (CNN, 2013). On the contrary, Ted Turner saw his theory of the business validated by the resounding success of CNN and the development of a media empire. It is widely recognized that the channel CNN has made history, creating a “new genre.” Its business model spawned a profusion of copies around the world.

3.2 The negative repercussions of an invalid theory

Created amidst the fervor sweeping Europe, triggered notably by the fall of the Berlin Wall and the disappearance of the Iron Curtain, Robert Maxwell’s theory of the business behind the daily The European can be expressed as: “The European’s name is a reflection of the feelings of pan-European unity which were brought on by the historic changes, an ideal which Maxwell wholeheartedly supported” (Cusack, 2008a). Launched in May 1990, it was withdrawn from
the market in May 1998 after eight difficult years. It did not enjoy the circulation success predicted by its founder, who sold it in 1992 to two entrepreneurs who had succeeded in non-media sectors. A sizable financial investment and major changes made to the product (from broadsheet to luxury tabloid magazine), to the target market and the editing team could not return The European to profitability. Cusak (2008b) deftly explained the daily’s downfall: “But besides all these there remained a never-solved existential dilemma at the heart of The European — ‘Europe’s national newspaper’ — that it was impossible to be the national newspaper of a nation that doesn’t exist.”

The case of Prisa in Spain is another telling example. Pushed to the wall notably because of its high debt following the takeover of Sogecable in 2007, soon after the international financial market collapse, the burst of the real estate bubble in Spain and the economic downturn that plunged the country into a seemingly endless recession, Promotora de Informaciones S.A. (Prisa) experienced dire times. It even considered applying for Chapter 11 bankruptcy protection in the United States (Glazer and Bjork, 2013). As owner of El Pais, the daily with the highest circulation in Spain, Prisa orchestrated a transformation, unsuccessful to date, of its media group based on the provocative theory of the business of CEO Juan Luis Cebrián Echarri: “He who has no Twitter account, has no business being here. Those over 50 don’t have the professional profile for our intended newspaper model” (Mediendatenkank, 2013). This evolution from traditional journalism to “Internet-based” journalism has not enticed advertisers or raised the media conglomerate’s advertising revenues; its success is yet unproven. Invalid theories are ineffectual and can lead to failure. A valid theory of the business is a necessary condition for organizational life, hence the importance of making the right decisions.

4 The pivotal role of the theory of the business in the decision making process

Even before a title is invented or modified and presented to a target audience, entrepreneurs and managers must put their decision skills to the test regarding each element of the conceptual toolbox presented in Table 1. Invariably, the business activities conducted in the market by daily publishers, based on their theory of the business, are subject to approval by customers. Subsequent demand for their newspapers may generate results ranging from profits to financial losses. For one, decision makers must generate options from which they will choose; this applies in particular to decisions belonging to the strategic block (Casadesus-Masanell and Ricart, 2010). These elements collectively make up the strategic market approach (see Figure 3). They are subordinate to environmental effects, to the business capacity and the luck factor (Barney, 1986), the forces of time (Fritsch, Brixy and Falck, 2006) and the market response functions (Urban and Star, 1992). In contrast, for decisions in the tactical block, choices follow decisions resulting from the strategy used and the business model retained (Casadesus-Masanell and Ricart, 2010). Decision makers must therefore make the best possible choices from among a panoply of options resulting from the strategic approach. This is particularly applicable to business process, business practices, business tactics and business activities. Decisions forming the tactical approach are subordinate to the various external elements of the model of strategic market management.

Lastly, the decision-making dynamics proposed in the strategic market management process is recursive: the two blocks regulate each other according to the gaps between strategic expectations and tactical results obtained from specific market segments or targets.
Table 1. The strategic market management conceptual toolbox

<table>
<thead>
<tr>
<th>Conceptual Toolbox</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Vision</strong></td>
<td>For Gayet (2010), vision is generally constructed based on strong intuitions and convictions. The vision must articulate the “ideal future” of the organization, which would come to pass if the strategic and tactical choices are sound (Smith, 2007).</td>
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<tr>
<td><strong>Mission</strong></td>
<td>The mission refers to the identity of the business, its general orientations. It must be well defined, realistic and understandable. It specifies the strategic orientations of business development (Meier, 2007).</td>
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<tr>
<td><strong>Strategy</strong></td>
<td>Echoing Porter (1996), Lafley and Martin (2013) propose what they consider to be the most judicious definition of this conceptual tool: “… strategy is an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to the competition” (p. 3).</td>
</tr>
<tr>
<td><strong>Strategic objectives</strong></td>
<td>A strategic objective influences the type of action to undertake; it is a source of motivation to attain a result whose attainment can be measured in a specific period (Meier, 2007).</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>A term that became fashionable again in the new millennium, the business model is an instrument of the modus operandi of organizations “…to sketch out its execution in business, by specifying where creating, capturing and sharing of value will come from” (Saives, 2011). A business model is made up of elements including the value proposition, resources required and the capacity to monetize and profit from the offering marketed (Johnson, Cristensen, and Kagermann, 2008).</td>
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<tr>
<td><strong>Business process</strong></td>
<td>Davenport (1993) describes business processes as a structured set of activities and tasks intended to produce a specific output, namely a product or service. Such processes can be visualized with a flowchart. Business process reengineering helps companies rethink how to do their work in the back, middle and front office.</td>
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<tr>
<td><strong>Business practices</strong></td>
<td>The waves of business practices that have surfaced in companies include total quality management, outsourcing, six sigma, benchmarking and empowerment. The best business practices become management modes at many companies.</td>
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<tr>
<td><strong>Business tactics</strong></td>
<td>Casadesus-Masanell and Ricart (2010) state that business tactics refer to residual choices subordinate to the strategy and business model retained. They are crucial in creating and capturing value in the market. Tactical choices are easily reversible, unlike strategic choices and the business model.</td>
</tr>
<tr>
<td><strong>Business activities</strong></td>
<td>Business activities are acts or gestures made daily resulting from business tactics retained. Whether for an SME or a giant like Walmart with 1 million employees, all interaction between companies and their suppliers or customers is considered a business activity. Therefore, hundreds, thousands or even millions of these acts are done daily. Such activities can be very commonplace or extraordinary, and their scope can cover the short, medium or long term. Business activities are the visible effort made by the organization in its market.</td>
</tr>
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*Source: Adapted from Turgeon (2014)*

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Figure 3. Strategic Market Management Framework for Business Development Strategy

*Source: Adapted from Turgeon (2014)*
5 Renewing a theory of the business

Validation of a theory of the business can occur over the long to the very long term. For example, Lloyd’s List, the oldest existing English-language daily newspaper, has published without interruption since 1734. Dedicated to providing news on the global shipping industry, it went all-digital in December 2013, a major transformation to its theory of the business that occurred after nearly three centuries. For other organizations, the theory of the business is valid only for the short or even very short term. Most often, organizations need to renew their theory of the business to varying degrees at different points, because very few theories can withstand the forces of time.

Drucker (1994) argues that renewing a theory of the business has become necessary because the theory can become obsolete in any of the following situations:
- The organization has fully exploited its target market according to its plans, and must redefine itself if it wishes to grow;
- It experiences overly rapid, unforeseen growth that causes fundamental disturbances and major risks;
- Competitors sustain failures or successes such that the dynamics of the sector are affected and the organization must react.

In fact, it is the success of competitors that conceived new business models based on innovative business theories that profoundly transformed the business sector of daily newspapers. As a result, some dailies disappeared while others were bought out, notably the Washington Post, acquired by Jeff Bezos as a personal investment. Journalists Farhi and Timberg (2013) describe Bezos’ potential new theory of the business for the daily in these terms: “…centers on recreating the ‘daily ritual’ of reading The Post as a bundle, not merely a series of individual stories.” Bezos’ main strategic orientations, purportedly based on this theoretical reasoning, are: “He was bullish about creating that experience on tablet computers, lukewarm about the prospects of doing so on the Web, and reassuring about the future of the old-fashioned newspaper itself — at least for the foreseeable future” (Farhi and Timberg (2013)).

Hence, a completely new theory of the business is sometime needed to successfully reposition a business; recent examples of such moves include Apple and Netflix. For organizations like Disney, Amazon and many more, timely renewal of the theory of the business is a recurrent task. Both cases demand hard work because one or more assumptions on which the organization's existence rests are probably no longer supported by the reality of the business world.

6 Conclusion

Given that a theory of the business underlies the generation of a set of assumptions, experimentation, namely “testing, analyzing, concluding, learning and applying” should be a preferred reinvention mode for businesses. Anderson and Simester (2011) maintain that experimentation is a skill that practically all decision-makers can master, yet the quest for value creation and capture often takes organizations into uncharted territory (Zenger, 2013), which makes the invalidation of assumptions very likely. The mental model inherent in the experimental mode thus lets organizations add to their repertoire of knowledge about what works or not (Davenport, 2009). This conception of the reality of business offers a clear advantage over the more traditional approach of “certainty – trial – error – punishment – oblivion,” still overly used today (Hess and Liedtka, 2012).

More than ever, growth is the credo of many media organizations subject to market forces. Day (2003) argues that it must even become an imperative. Although laudable, growth may engender myriad problems, some of which may be fatal to organizations. Gayet’s warning (2010) that growth is not development should be heeded. All development must be well thought out and structured. Thus, a theory of the business, as both a concept and tool, could allow media organizations to better direct and organize a set of managerial decisions to satisfy this growth imperative.
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