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Emerging Market Firms and Dual Business Models: An Indian Perspective

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Abstract

Managers in organizations face severe challenges and conflicts that arise from pursuing dual business models. Documented studies are available on how Western Multinationals operate in emerging markets, however, little evidence is available about how home-grown emerging market firms pursue this challenge in their home markets. With an ambidexterity perspective and activity systems approach, this study aims to offer novel insights into how Indian firms carry out organizational integration and separation—they focus on domains of expertise in organizational activities such as sales and marketing rather than on business units—as they pursue the challenges of dual business models, in contrast to the multinational corporation (MNC) approach.

Introduction

Because of the institutional, infrastructure, and resource constraints in many emerging markets, firms must create uniqueness for example through newer business models to meet the price-performance requirements of customers at the lower end of the pyramid (Luo and Child, 2015). Thus, launching products and services targeted at the broad middle to the lower end of the market is often the prerogative of firms if they have to successfully cater to emerging

markets (Luo, 2016). As a large part of the customers in many emerging markets are quite sensitive to price-performance requirements across product categories, it is observed that a 50% solution at a 30–40% price of the high-end offering is often a preferred option (Immelt, et al., 2009). Existing business models in emerging markets often attempt to address the needs of the top of the pyramid but fail to satisfy the needs of low-end customers (Seelos and Mair, 2007; George et al., 2012). Many multinational corporations (MNCs) have addressed this challenge

Keywords: dual business models; ambidexterity; domain separation; emerging markets; activity systems.

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by implementing business models catering to customers at the lower end alongside the existing business model of serving premium customers. The aspect of catering to customers on a differentiation plank in one business model (high-end customers) and another business model on a low-cost proposition (low-end customers) raise conflicts in many organizations regarding what they stand for or signal to customers (Markides and Charitou, 2004). Thus, the challenge of operating two different business models within a common product category raises conflicts in terms of how to handle the tensions of exploiting the current business model and attempting to explore the new business model. The tensions and conflicts can arise because (Markides and Charitou, 2004) (a) the two business models and their underlying value chains can conflict with one another, thereby alienating distributors, customers, and other stakeholders; (b) companies that have often positioned themselves on the differentiation plank through a culture of innovation and differentiation and thereafter make a foray into lower category products can damage their existing brands and find themselves diluting their culture for innovation, and (c) companies can face the risk of signaling to the market what they stand for, that is signaling that accrues to their reputation. Documented studies suggest that firms attempting new business models need to deploy them in separate organizational units (Markides and Charitou, 2004). The current study attempts to find how firms from emerging markets manage aspects of integrating or separating new business models from the existing business model (such as high-end versus low-cost) by following an ambidexterity activity systems perspective, which requires different sets of capabilities to compete in each market (Kachaner et al., 2011; Markides, 2013). Unlike typical studies that focus on MNCs operating in emerging markets, the current study looks at how home-grown players manage dual business models in their home markets in India.

Conceptual Anchor

A set of business model innovation studies have focused on the phenomenon of working around with dualities of business models (Markides and Charitou, 2004; Markides, 2013; Winterhalter et al., 2015), value

creation (Amit and Zott, 2012) as well as sustainable value creation (Lüdeke-Freund, et al., 2020). Although researchers have studied dual business models in terms of technological innovations like e-commerce and bricks-and-mortar models (Amit and Zott, 2001), here *dual business models* refer to newer low-cost business models that accompany existing high-end business models or vice versa (Winterhalter et al., 2015). As new markets present different sets of key success factors, they require different combinations of value chain activities, internal processes, structures, and cultures fine-tuned and tailored to the respective unit or division of the firm. Thus many organizations can assume a hybrid form of organizing activities, structures, processes, and meanings by which it can make sense of and combine aspects of multiple organizational forms (Earle et al., 2019). Thus, if the goal is to manage the conflicts, then key questions facing firms in adopting dual business models are, "Can we manage conflicts and how?" and "Which activities should we separate and when?" (Markides and Charitou, 2004.) With the above perspective, Markides (2013) called for adopting the ambidexterity lens that could provide explanations of how dual business models can be visualized and implemented. Thus firms can frame the challenge of managing two different and conflicting business models simultaneously as an ambidexterity challenge.

Organizational ambidexterity is a well-researched stream in the field of strategic management; less researched is how firms manage the dualities of exploitation and exploration from an ambidexterity perspective. Broadly, developments in the field of ambidexterity have identified at least three primary ways by which firms attempt to balance exploration and exploitation:

- structural mechanisms (Tushman and O'Reilly, 1996);
- temporal (Nickerson and Zenger, 2002);
- contextual arrangements (Gibson and Birkinshaw, 2004).

More recent research uncovered other solutions that could promote ambidexterity. Extant work also suggests that ambidexterity is the capability of a firm to

operate both in mature and emerging markets, where experimentation, speed, and flexibility are critical for success (He and Wong, 2004).

Recently, academic literature on ambidexterity has started to focus on the dynamics of ambidexterity that managers can exercise in discrete fields of organizational activity called *domains* such as production and sourcing, research and development (R&D), marketing, sales, and branding (Lavie et al., 2011). Accordingly, through domain separation, firms attempt to separate exploration and exploitation along the value chain—by exploring in one domain (e.g., in production and sourcing) while exploiting in another domain (e.g., R&D) (Winterhalter et al., 2015). We can visualize our notion of organizational ambidexterity as a tension between differing and conflicting business models.

Ambidexterity literature on domain function separation offers an appropriate lens to bridge this gap (Lavie et al., 2011; Winterhalter et al., 2015). Thus, with a value chain ambidexterity perspective, the current study aims to understand how firms attempt to address the dualities in business models through the following research questions:

1. How do emerging market players handle conflicts that arise by pursuing dual business models?
2. How do the firms in question manage to separate the two business models?
3. What is the sequence firms use to separate or integrate value chain functions?
4. How do firms reconcile to strategic similarities in the markets catered to as well as the conflicts of pursuing dual business models?

Methodology

The study focuses on 12 manufacturing firms representing different product categories. We sought to understand the complete value chain activities of these manufacturing firms. We selected our 12 firms based on their recent launch of distinct low-cost

versions of their mid-to-high-end offerings in the Indian market in similar product categories. We used a qualitative methodology (Eisenhardt, 1989), specifically a multiple case study approach with a cross-case comparison to understand the similarities and differences among firms in terms of markets and the degree of conflict between the two business models. We adopted an activity system perspective of business models to demarcate the findings on how the firms integrated or separated their new low-cost business model from their premium business model in terms of value chain activities (Zott et al., 2011). Refer to Table 1 for brief details of the twelve product industries.

All the different product industries were studied concerning the differences or similarities of the value chain for both the business models. Data was collected from a combination of various sources (case studies, media reports, websites of companies, product details, etc., to understand the granular aspects of the value chain, and a cross-case comparison was used. The available data were analyzed to understand how the activity systems approach for the dual business models catered to were different. The dimensions used for the studies were the degree of conflicts between the business models and the strategic similarities of the markets catered to. For conflicts between the business models, typical conflicts (Nine dimensions mentioned in Markides and Charitou (2004)) were used to demarcate between the activity systems. If more than five dimensions were reported, then the degree of conflict was reported to be high otherwise low.

For strategic relatedness between the markets catered to, three dimensions broadly grouped under customer assets, channel assets, and process assets were measured through five questions. Responses that showed positivity in more than three questions were considered high for strategic relatedness between markets, otherwise low. Thereafter plotting of the two dimensions was made (refer to Table III), and generalizations based on the insights provided were made.

Table 1.

Manufacturing Firm	Industry	Products
MF-1	Farm Equipment	Tractors for small farmers
MF-2	Watches	Low-end watches
MF-3	Consumer electronics	Low-end Television sets
MF-4	Water purification systems	Low-end water purification systems
MF-5	Cement	Low-end wall putty
MF-6	Branded luggage	Travel bags
MF-7	Optical Storage devices	Low-end floppy discs
MF-8	Health diagnostic equipment	Cheaper pulse oximeters
MF-9	Furniture	Mid- high-end furniture
MF-10	Hydrocarbons	Low-end polymer
MF-11	Cosmetics	Cheaper deodorants
MF-12	Branded Footwear	Cheaper sport shoes

Table 1: Brief details of the 12 product industries

Key Insights

Tensions and conflicts can arise in firms because of the simultaneous pursuit of two different business models. It was observed from the study samples (MF-4 and MF-12) that the underlying value chains conflicted with one another and had the potential to alienate distributors, customers, and other interested parties, as the similarities between the targeted markets were very low. So, the firms (MF-4 and MF-12) chose to separate the sourcing and production in both models to address the conflicts between the two models. The firms under study resorted to managing the conflicts by demarcating aspects of the value chain that were similar and dissimilar.

Also, conflicts arose in companies that had started on the differentiation plank through a culture of innovation and differentiation and then made a foray into lower category products. The positioning of the two different business models had the potential to damage and dilute its existing brands. As an example, the firms (MF-2 and MF-6) resorted to separate branding and marketing & sales from the value chains of the two business models and both the firms did not use their umbrella brand while promoting their low-cost brand. However, as the markets were quite different, MF-2 separated the sourcing and production activity (dissimilar markets), while MF-6 integrated the production of both the business models (similar markets). This aspect enabled both firms to exercise their choices in managing the conflicts.

Firms largely resorted to implementing dual business models by domain separation across value chain activities to handle tensions between exploitation and exploration. Through domain separation along the value chain, the firms under study helped them get into new customer segments while leveraging existing knowledge and know-how. Firms separated individual value chain activities to explore a new business model (e.g., a new low-cost business model) but kept other activities in the value chain integrated with the high-end business model to exploit synergies.

Findings suggest that the firms decided what to separate or integrate based on (a) strategic similarities of the two markets served and (b) degree of

organizational conflict between the two business models in terms of differences or similarities along the value chain while straddling two different value propositions like differentiation and low cost. All the firms in the current study chose to separate the branding of their low-cost business model from that of the high-end business model. At the same time, all firms integrated their R&D at the domain level. None of the 12 firms fully integrated its premium business model with its low-cost model across all domains of the value chain. Please, see Table 2 for details.

Similarly, none of the firms fully separated their dual models across the value chain, unlike many multinationals operating in emerging markets (Winterhalter et al., 2015). Major findings of the study reveal the following:

1. all the emerging market firms under study were found to have an integrated R&D for both their premium and low-cost models which is in contrast to multinational firms operating in emerging environments, where R&D is separated ;
2. the branding activity of the low-cost models is separated from the premium models in all the organizations under study;
3. only in the sourcing and production and the sales and marketing domains did all the firms separate exploration and exploitation activities to differentiate between their business models;
4. irrespective of conflicts in the business models, if the strategic relatedness (fulfilling different needs, differences in per capita consumption, etc.) in terms of similarities in the two markets catered to was low, then firms tended to keep sourcing and production separate;
5. irrespective of conflicts in the business models, if the strategic relatedness of the markets between both the models was high, firms tended to integrate sourcing and production;
6. in terms of the differences between the firms studied, all firms either separated the sourcing and production or the sales and marketing domains;

Table 2.

Firm	Research and development efforts	Sourcing and production approach	Sales and marketing approach	Branding	Degree of conflict between business models	Similarities between the two target markets
MF-1	Integrated	Integrated	Separated	Separated	High conflicts in the business model as a low-cost offering of smaller capacity posed challenges of cannibalization of the mid to high-end offerings. The trade-off was achieved through smaller size for the low-end with basic features only.	High similarities between the markets catered to as in both the models the targeted, the customer was the farmer.
MF-2	Integrated	Separated	Separated	Separated	High conflicts in pursuing a differentiated brand and making a foray into a low-cost brand. The low-cost brand was branded without the umbrella brand	Lower levels of similarities between customers of the differentiated brand and the value for money brand.
MF-3	Integrated	Integrated	Integrated	Separated	Lower levels of conflict as the low-end version was a stripped-down version of a high-end model with a separate brand	The similarities of the customers seeking entertainment were broadly the same.
MF-4	Integrated	Separated	Integrated	Separated	Very low degree of conflict between the business models, the trade-off was achieved by separating production and sourcing-, and branding.	Targeted customers were different in different segment
MF-5	Integrated	Integrated	Integrated	Separated	The Lower level of conflict between the business models as products were dissimilar and substitutable, yet catered to similar needs of the customers	High level of overlaps between targeted customers

Table 2: Integration and Separation Approaches of Low Cost and Premium Business Models

Table 2.

Firm	Research and development efforts	Sourcing and production approach	Sales and marketing approach	Branding	Degree of conflict between business models	Similarities between the two target markets
MF-6	Integrated	Integrated	Separated	Separated	As the products were differentiated with features only, a high degree of conflict was common. The umbrella brand was not put in the low-cost brand	The requirements of both the markets were relatively similar
MF-7	Integrated	Integrated	Separated	Separated	As requirements in both the markets catered to were the same, high degree of conflict separating the two models. Arose. The trade-off was achieved through differentiated features and the quality of components.	The Requirements of both the markets were similar
MF-8	Integrated	Integrated	Integrated	Separated	The Degree of conflict was low as differentiation between the business models was ensured by stripping down additional features in the low-cost segment	Very high similarities in both the segments in terms of the need to be fulfilled
MF-9	Integrated	Integrated	Integrated	Separated	Low conflicts were ensured through price point differentiation	High similarity with both markets
MF-10	Integrated	Integrated	Integrated	Separated	A very low level of conflict between the business models was ensured through different levels of quality of polymers	High familiarity with both the markets in terms of the need to be catered to.
MF-11	Integrated	Integrated	Separated	Separated	High conflicts resulted because of catering to differences between high-end and low-end customers.	High familiarity in terms of the markets catering to
MF-12	Integrated	Separated	Separated	Separated	High conflict because the company after making a mark through differentiation forayed into cheaper sports shoes	Lower levels of similarity between the markets catered to

Table 2: Integration and Separation Approaches of Low Cost and Premium Business Models (Cont.)

Strategic relatedness of markets served	High	Separate Branding	Separate Sales & Marketing Branding
		Integrate R&D Sourcing & Production Sales & Marketing	Integrate R&D Sourcing & Production
	Low	Separate Sourcing & Production Branding	Separate Sourcing & production, Sales & Marketing Branding
		Integrate R&D Sales & Marketing	Integrate R&D
		Low	High
Degree of conflicts between business models			

Table 3: Strategic Similarities between Markets vs. Conflicts in Business Models

Discussion And Conclusions

Successful emerging market firms follow a path different from that of MNCs in pursuing dual business models in their home markets. Thus, traversing the path of MNCs in emerging markets may not be a preferable solution nor a guarantee for success. Conflicts are inevitable in pursuing dual business models. Conflicts arise at every level of the hierarchy, from cannibalizing existing offerings at the business level to alienating existing customers at functional levels. Examples of conflicts could be that the two dual business models stand for different value propositions, giving confusing signals to customers or the new business model offer a better price-performance ratio with improved utility functions which can alienate another set of customers catering to the earlier business model.

All of these pose some form of risk to the management of companies and often lead to tensions about the company's way forward. However, domain separation of the value chain offers a novel way of either integrating or separating these functions to align with the functioning of the dual business models. Thus, firms in emerging markets decide whether to integrate or separate a function based on the strategic similarities of the markets served by both models and on the degree of conflict between the two business models (for a detailed understanding of conflicts that typically arises in business models, Markides and Charitou (2004) offer a good perspective). However, what distinguishes successful home-grown players is their decision-making and action-taking around what to separate and when pursuing newer business models.

If the strategic similarities of both the markets are greater, irrespective of the degree of conflicts in the business models, then firms integrate sourcing and production in the value chain. The observed pattern suggested that the degree of similarities in the different targeted markets was the deciding factor in separating or integrating value chain activities of production and sourcing. Higher market homogeneity in the sample aligned a firm to have integrated sourcing and production and vice versa. If the degree of conflict between the business models was higher, firms tended to separate sales and marketing and vice versa.

Thus, this observation suggests higher conflicts in business models are handled by separating the sales and marketing domains of the value chain. The probable reason for integrating R&D in all the sample firms under study was to share and spread the development costs across variants offered at different price points. It was also observed that the majority of the firms in the sample were in the developmental stage of coming up with new variants of offerings targeted at the lower end at incremental price increases to offer better features or performance of products. This ploy could further skim the market on one hand and further narrow the perceived differences between the variants on the other. Though there are risks of cannibalization of the existing product offerings, attempts to manage the dualities better and reduce market heterogeneity over the foreseeable future are likely. However, in emerging markets, the issue of catering to customers at the low end of the pyramid is going to be a sustainable issue in the foreseeable future. Thus the processes followed in managing business models in firms need to be highly resilient and adaptable to suit the changing dynamic contexts (Montemari and Gatti, 2022). Future research projects may test whether these tendencies apply outside manufacturing, in service firms, and other contexts.

Through the path of domain separation, many firms help themselves address new customers while leveraging existing knowledge. But does domain separation differ between emerging market firms and MNCs operating in emerging markets? Yes, in terms of the sequence. MNCs operating in emerging markets tend

to start by separating sourcing and production from their premium business model by transferring this domain into low-cost environments. This separation potentially allows MNCs to tap customers with products of lower cost than the ones produced in relatively costlier manufacturing sites in developed markets (Winterhalter et al., 2015). Next, MNCs tend to separate R&D, and then sales and marketing. In contrast, emerging market firms separate domains in no particular sequence. A nice parallel can be drawn from the example of GE Healthcare's foray into the medical diagnostic space in India with the introduction of low-end electrocardiogram (ECG) machines.

GE Healthcare operates in India through a joint venture with a leading industrial house, Wipro. The bottom of the pyramid (BOP) offering of Wipro GE Healthcare is not about developing high-end technological products, but about making the technology affordable and accessible to more people (Dutta & Snehrat, 2019). GE recognized that its bulky and expensive ECG devices were unaffordable for physicians in emerging markets like India, China, and Africa. The company also realized that these devices were impractical in these markets, as doctors could not carry them on their motorbikes or bicycles when visiting patients in far-flung villages. Also, villages often did not have electricity to power these ECG devices. Recognizing the problem and aware of the need for this device in rural areas, GE's researchers in India invented in 2008 the MAC-400, a portable ECG device that cost one-tenth and weighed one-fifth of its current equivalent in western markets (Dutta & Snehrat, 2019). The compact MAC-400 priced at \$1000 boasted of super-long battery life and used several off-the-shelf components. As a result, MAC-400 was easy to use and maintain in dusty rural environments and delivered more value at a lower cost. The entire value chain of this low-end offering developed in India was separate from the value chain of the high-end model.

GE India attempted to develop products and services with a frugal mindset in an emerging market to focus on products that were affordable and accessible. In terms of the ownership pattern of MNCs vis-à-vis the domestic players operating in emerging markets, the MNCs tend to have a separate unit

built from scratch for addressing BOP markets to separate the mid- high-end models. As the market stabilizes in terms of the adoption of both models, firms look at ways of integrating some aspects of both models. A contrasting viewpoint is provided by many of the emerging market players which tend to operate both models in parallel with some aspects only of the value chain either separated or integrated. The multinationals tend to go for JVs typically in emerging markets while for domestic players, it is largely wholly owned subsidiaries. As a broad way to understand the different patterns followed in developed markets and emerging markets, refer to Table 4 for details.

Future studies can look to reaffirm or contradict these findings from studies in different emerging markets. Accordingly, we can state the proposition as:

The higher the strategic similarities between the premium and low costs markets served by the business models, the lesser the amount of domain separation that emerging market firms seek to reach out to low-cost customers.

Thus, in response to the oft-repeated question, "Should we integrate or separate our business models?" companies have the option of separating domains rather than establishing separate business units. The current study provides evidence that the business model can serve as a valuable construct for firms to overcome the tensions of dualities if pursued through the ambidexterity lens by separating domains in the value chain.

Table 4.

Type of players	Developed Markets	Emerging Markets
MNEs	<p>Create a separate division for catering to BOP products and resort to importing from low-cost countries.</p> <p>Separate division/hiving off strategy</p>	<p>Create different value chains through collaborations that bear no similarity with each other.</p> <p>Joint venture strategy</p>
Domestic players	<p>Built the BOP product with added features to suit the advanced requirements of developed markets but at a lower price</p> <p>Import from low-cost countries strategy</p>	<p>Separating and integrating some aspects of the value chain</p> <p>Wholly owned subsidiary strategy</p>

BOP = bottom of the pyramid

Table 4: Ownership patterns and modes of operation

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