

BUSINESS MODEL

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Some definitions

- ***BM is the organisation's core logic for creating value... a good business model highlights the distinctive activities and approaches that enable the firms to success –to attract customers, employees, and investors, and to deliver products and services profitability***
(Linder & Cantrell 2000:2)

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More on definition

BM is “a blueprint of how a company does business. It is a conceptual tool that contains a set of elements and their relationships and allows expressing a company’s logic of earning money. It is a description of the value a company offers in order to generate profitable and sustainable revenue stream”.

Osterwalder et al. (2004)

Foundation level issues of a BM

How create value

- **For whom create value**
- **Internal source of advantage**
- **How position in marketplace**
- **How make money**
- **Time, scope, size ambitions
(entrepreneur)**
- **<http://www.slideshare.net/Alex.Osterwalder/business-model-template/12>**

Business model is about how to :

- **define markets/customers**
- **define and differentiate product offerings**
- **acquire and keep customers**
- **market activities (promotion and distribution strategy)**
- **define the tasks to be performed**
- **configure resources**
- **It is about (telling) a good story**

American Express

Consider the story behind one of the most successful business models of all time: that of the traveler's check. During a European vacation in 1892, J.C. Fargo, the president of American Express, had a hard time translating his letters of credit into cash. "The moment I got off the beaten path," he said on his return, "they were no more use than so much wet wrapping paper. If the president of American Express has that sort of trouble, just think what ordinary travelers face. Something has got to be done about it."¹ What American Express did was to create the traveler's check – and from that innovation evolved a robust business model with all the elements of a good story: precisely delineated characters, plausible motivations, and a plot that turns on an insight about value.

Magretta, J. 2002:86,
HBR, May.



Main elements of business model

- **Customers management**
- **Product and services portfolio**
- **Processes and activities**
- **Resources capabilities and assets**
- **Suppliers and business networks**
- **Financial viability**

Customers management

- **Customers identification.**
- **Value propositions**
- **Customer requirements**
- **Developing brand awareness – reaching the market**



Product and services portfolio

- **What does the organisation offer to its customers?**
- **Product life cycle (PLC)**
- **Two main components of PLC (the product position and its innovation)**
- **Where existing product/services are situated**
- **Innovation**
- **Future sustainability**

Processes and activities

- **Description of business model, business configuration**
- **Strategic domain (the high level in the organisation)**
- **Delivering of value propositions (e.g. Amazon :**
 - **Excellent search facilities**
 - **Large range of books**
 - **Accessibility**
 - **Fast delivery**
 - **Ongoing development of search techniques and technologies**

Resources capabilities and assets

- **Tangible (physical assets, financial assets), intangible (brand name, reputation, intellectual property)**
- **appropriate and timely access to resources of all types**
- **HR is a vital element – IT skills, recruitment, in-house training or outsourcing, motivation**
- **Questions:**
 - **What resources assets and capabilities we need to create value for our customers**
 - **Should it be built in house or provide from outside**



Suppliers and business networks

- **Organisations rely on other organisations to contribute in many ways to create values**
- **It is strategic business network (suppliers, outsourced activities, customers)**
- **For virtual organisations built its core competence and capabilities through strategic alliances and networking**
- **The key consideration for management:**
 - **To deliver values what kind of relationship we need with other org**
 - **How to find suitable partners and manage the relevant strategic business network**

Financial viability

- **Essential for any BM**
- **Four components of BM financial viability**
 - **Profitability and sustainability**
 - **Source of revenues (income streams)**
 - **Consideration of the costs incurred**
 - **An understanding of the risks associated with the BM**

E-business models

- **Emergence of the internet has fundamental influence on the organisation design**
- **Rethink of BMs and understanding of emerging BMs**
- **new and unfamiliar possibilities (business models) are opened:**
 - **New communication channels**
 - **New way of procurements of goods/services**
 - **New way of distribution (digital goods/services)**
 - **Emergence of new businesses did not exist before (Amazon, eBay)**



E-business model

refers to*adoption disciplines of successful management techniques to participate in online business on the Internet*

Typology of e-BMs

- **E-shop, e-retailing** www.lastminute.com
- **E-procurement –e-tendering & procurement**
- **E-malls** – www.indigosquare.com
- **E-auctions** – www.ebay.com
- **Virtual communities** – www.ivillage.co.uk , **Oprah** www.oprah.com/index
- **collaboration platforms (yahoo)**
- **Third-party marketplace (e-hub b2b)**
- **Value-chain integrators (range of services)** <http://www.e2open.com/>
- **Value-chain service providers (specific part of the value chain)** www.ups.com
- **Information brokerage** – provide info 4 customers
- **Trust and other services** – www.truste.org (authentication of services provided on the web)
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Revenue models

Methods of generating income 4 an org

- Sales
- Transaction fees
- Subscription fees
- Advertising fees
- Affiliate fees
- Other revenue sources

www.espn.go.com

Revenue models – publisher example

1. **Subscription access to content.**
2. **Pay-per-view access.**
3. **CPM on site display advertising.** Cost per thousand
4. **CPC advertising on site.** <http://www.adtoll.com/>
5. **Sponsorship of site sections, content...**
http://www.securityinfowatch.com/advertise/website_sponsorships.jsp
<http://www.oscar.org.uk/about/sitesponsor.htm>
6. **Affiliate revenue (CPA or CPC).** Costs per acquisition or cost per click
7. **Subscriber data access for e-mail marketing.**
8. **Access to customers for research purposes.**

different perspectives of alternative BM

- **Marketplace position perspective** (here publisher's manufacturer, Amazon's retailer & Yahoo! is retailer & intermediary)
- **Revenue model perspective** (publisher can use the web 2 sell direct and Yahoo! & Amazon can take commission-based sales. Yahoo! has advertising as a revenue model)
- **Commercial arrangement perspective** (all 3 offer fixed-price but in its place marketplace intermediary, Yahoo! offers alternatives)



For managers

- **There is an infinite number of ways to combine elements for a functional BM**
- **Sound BM does not guarantee business success**
- **BM must be implemented via particular strategy and managed effectively**
- **The main purpose of BM is to provide coherent framework for managers to think thorough main elements and to avoid overlooking something vital**
- **New technologies offer new possibilities**

www.digitalenterprise.org/models/models.html

<http://www.alis.gov.ab.ca/ce/cp/oi/video/video.html>

Business model vs. business strategy

- Strategy is the **direction** and **scope** of an organisation over **the long-term**: which achieves **advantage** for the organisation through its configuration of **resources** within a challenging **environment**, to meet the needs of **markets** and to fulfil **stakeholder** expectations
- Competitive strategy means doing better than your rivals
- Business model is **a story that explains how the organization works and how the different elements of the business fit together**
- Good BM does not necessarily mean a successful business
- What comes first?

In the nutshell

“Because a business model tells a good story, it can be used to get everyone in the organization aligned around the kind of value the company wants to create. Stories are easy to grasp and easy to remember. They help individuals to see their own jobs within the larger context of what the company is trying to do and tailor their behavior accordingly...”

**From: Magretta, J. (2002) “Why Business Models Matter.”
Harvard Business Review. May 2002.**