

# FUNDAMENTAL OF TECHNOPRENEURSHIP (UCSD2762)

## Chapter 5 Business Model

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FSKSM

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# Chapter Learning Objectives

1. Describe a business model.
2. Explain business model innovation.
3. Discuss the importance of having a clearly articulated business model.
4. Discuss the concept of the value chain.
5. Identify a business model's two potential fatal flaws.
6. Identify a business model's four major components.

# Chapter Learning Objectives

6. Explain the meaning of the term business concept blind spot.
7. Define the term core competency and describe its importance.
8. Explain the concept of supply chain management.
9. Explain the concept of fulfillment and support.

# Amie Street



# What is Business Model?

“ A business model is nothing else than a representation of how an organization makes (or intends to make) money ”



# Business Model

- ... is its plan or diagram for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it generates.
- The term “business model” is used to include all the activities that define how a firm competes in the marketplace.
- Spells out where the company is positioned in the value chain – activities the company adds value to the product/ service it supplies.
- Are a subset of business plan

# Traditional Business Model

- Wal-Mart, Tesco, Carrefour, etc: buys merchandise, sells it, and generate profit.
- TV station: free broadcasting to its viewer but survive upon a complex business model involving advertisers and content providers.

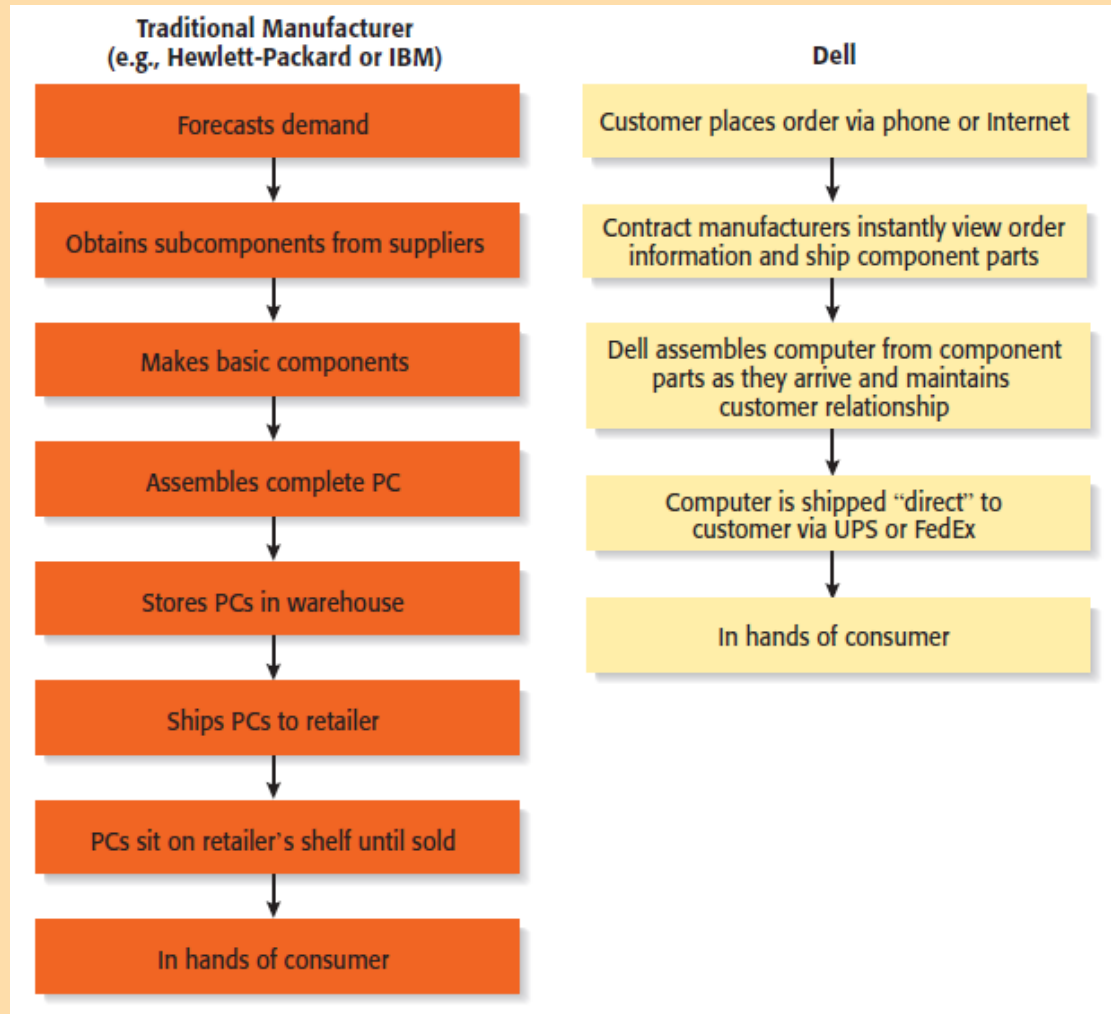
# Dell's Business Model

- It's important to understand that a firm's business model takes it beyond its own boundaries.
- Almost all firms partner with others to make their business models work.
- In Dell's case, it needs the cooperation of its suppliers, customers, and many others to make its business model possible.





# Dell's Business Model



# The Importance of Business Models

Having a clearly articulated business model is important because it does the following:

- Serves as an ongoing extension of feasibility analysis. A business model continually asks the question, “Does this business make sense?”
- Focuses attention on how all the elements of a business fit together and constitute a working whole.
- Describes why the network of participants needed to make a business idea viable are willing to work together.
- Articulates a company’s core logic to all stakeholders, including all employees.

# Diversity of Business Models

- There is no standard business model for an industry or for a target market within an industry.
- However, over time, the most successful business models in an industry predominate.
- There are always opportunities for business model innovation.

# Business Model Innovation

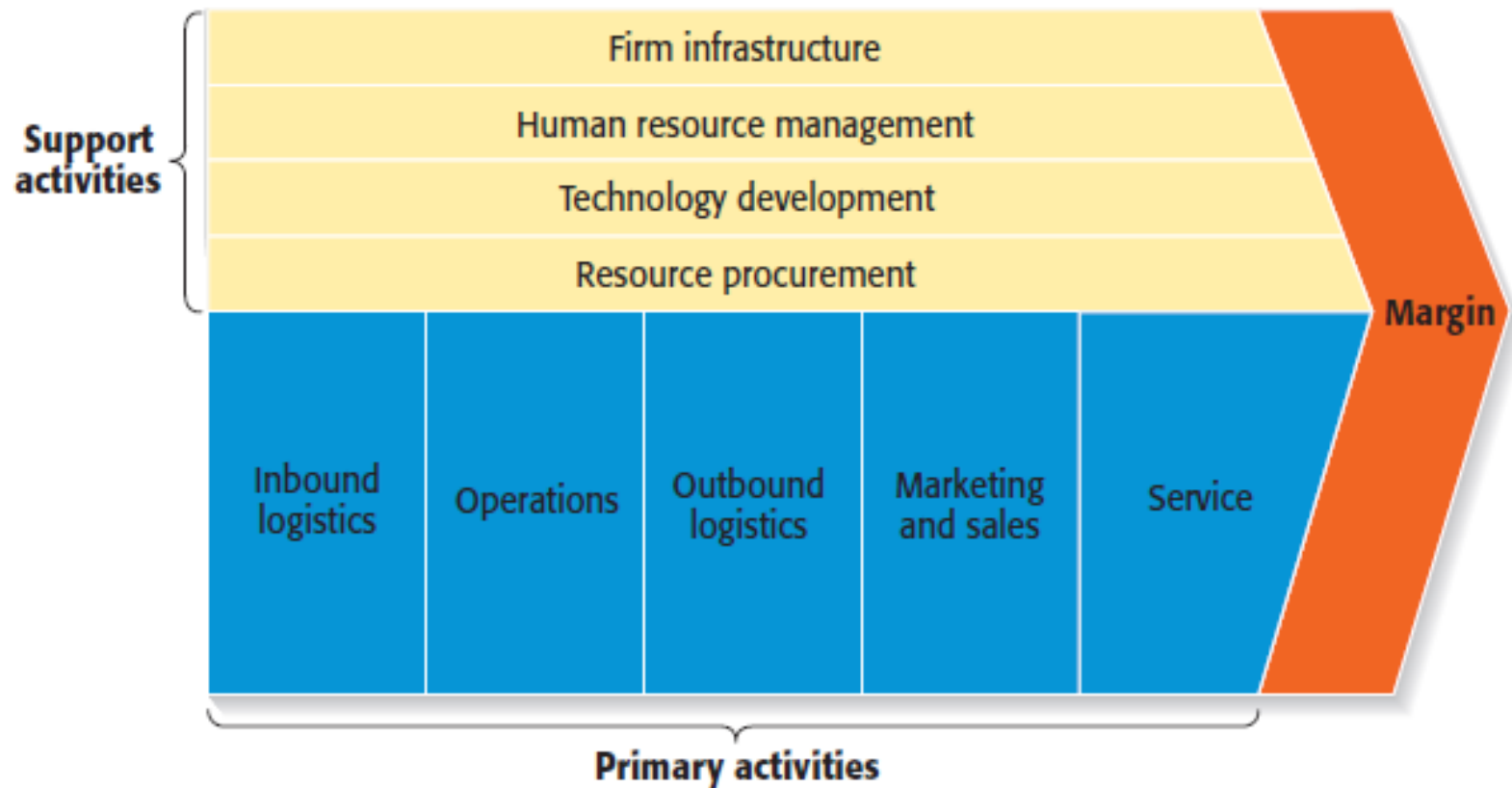


Netflix is an example of a business model innovator.

# The Value Chain

- ... is the string of activities that moves a product from the raw material stage, through manufacturing and distribution, and ultimately to the end user.
- By studying a product's or service's value chain, an organization can identify ways to create additional value and assess whether it has the means to do so.
- Value chain analysis is also helpful in identifying opportunities for new businesses and in understanding how business models emerge.

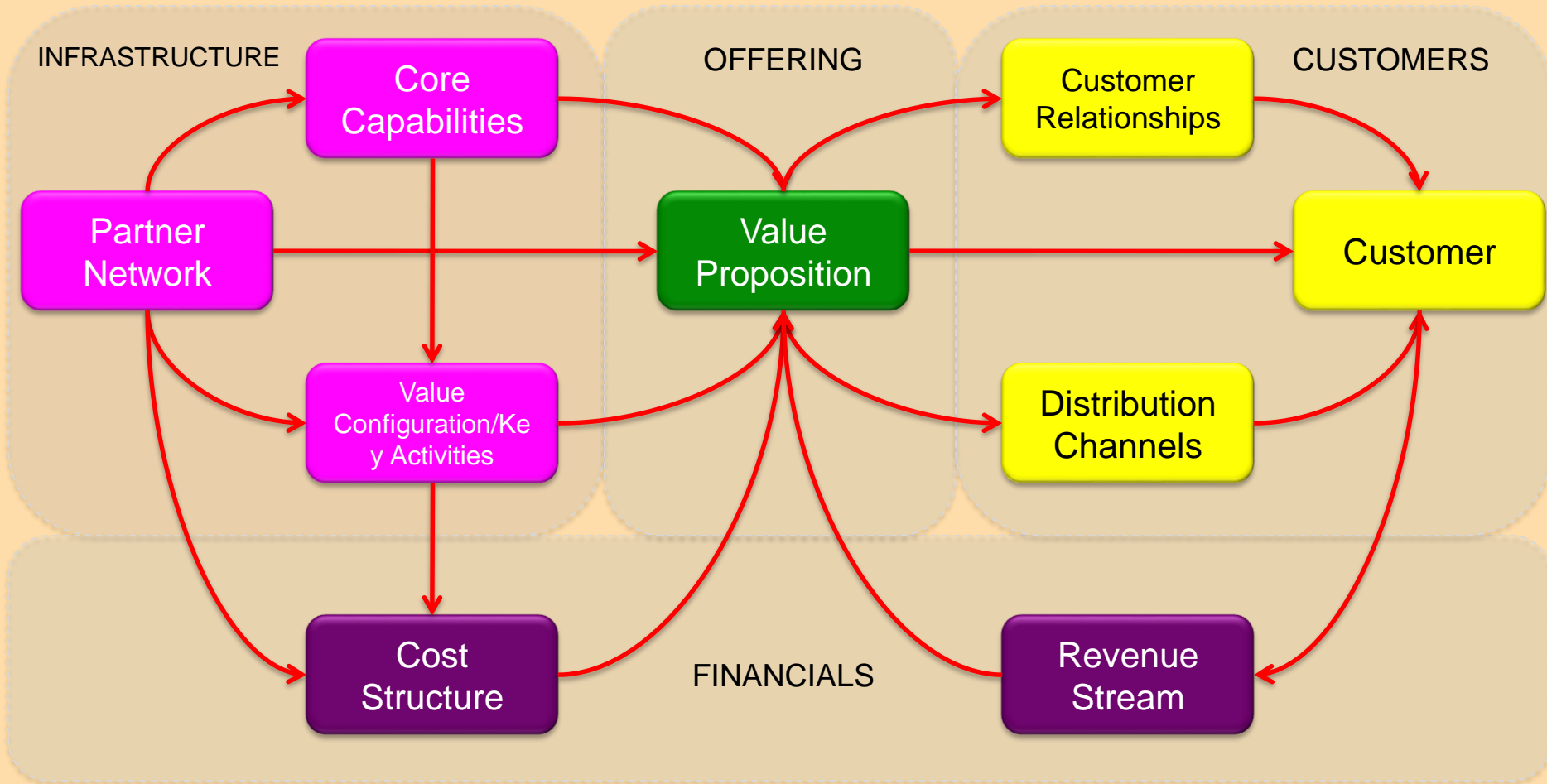
# The Value Chain



# The Value Chain

- Entrepreneurs look at the value chain of a product or a service to pinpoint where the value chain can be made more effective or to spot where additional “value” can be added.
- This type of analysis may focus on:
  - A single primary activity (eg. marketing and sales)
  - The interface between one stage of the value chain and another, such as the interface between operations and outgoing logistics.
  - One of the support activities, such as human resource management.

# Business Model





# Business Model - Infrastructure

- **Core capabilities:** The capabilities and competencies necessary to execute a company's business model.
- **Partner network:** The business alliances which complement other aspects of the business model.
- **Value configuration/ key activities:** describes the arrangement of activities and resources that are necessary to create value for the customer.

# Business Model – Offering

- Value proposition
  - The products and services a business offers.
  - ... is an overall view of .. products and services that together represent value for a specific customer segment. It describes the way a firm differentiates itself from its competitors and is the reason why customers buy from a certain firm and not from another.

# Business Model - Customers

- **Target customer:** The target audience for a business' products and services.
- **Distribution channel:** The means by which a company delivers products and services to customers. This includes the company's marketing and distribution strategy.
- **Customer relationship:** The links a company establishes between itself and its different customer segments. The process of managing customer relationships is referred to as customer relationship management.

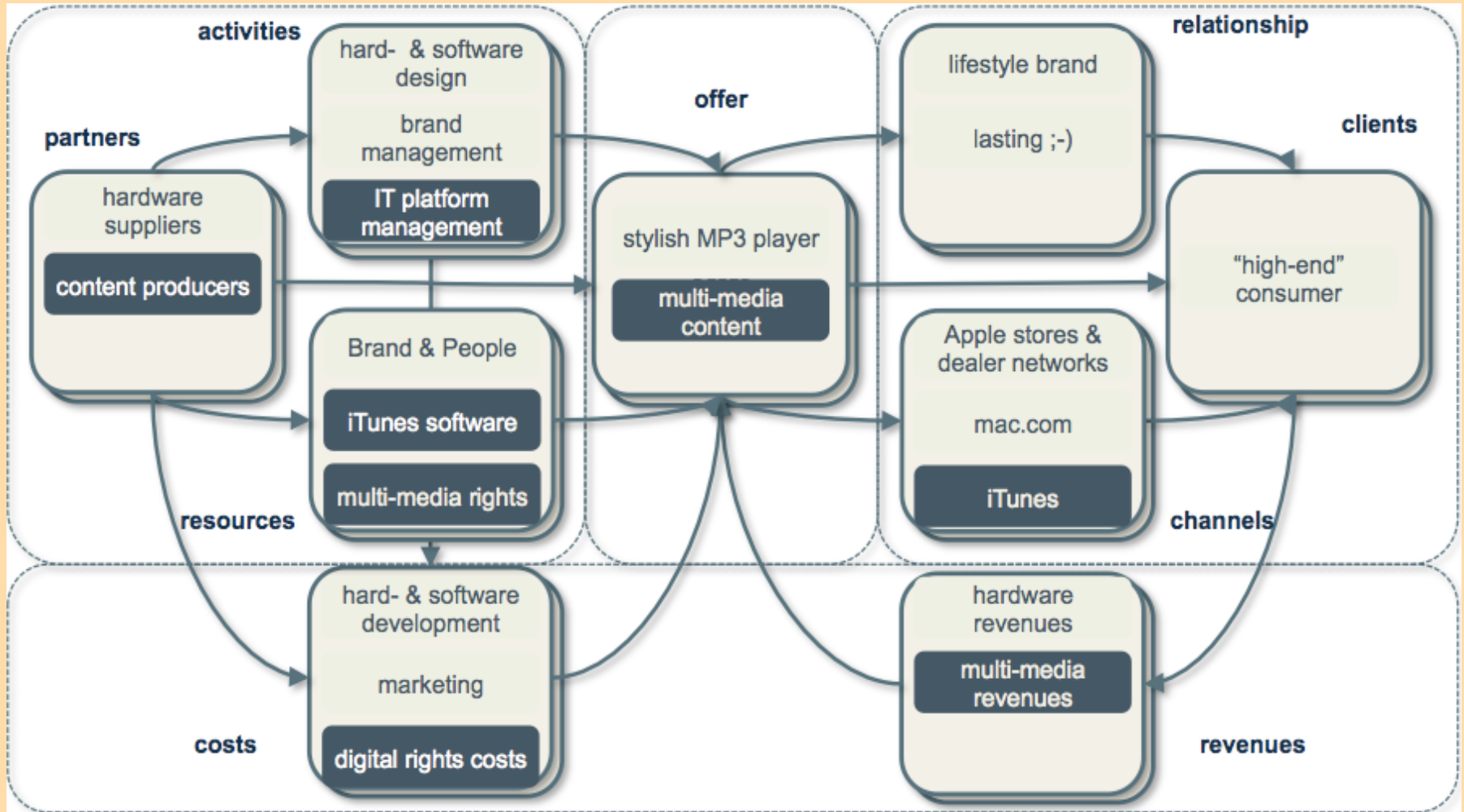
# Business Model – Financial

- **Cost structure:** The monetary consequences of the means employed in the business model. A company's DOC.
- **Revenue:** The way a company makes money through a variety of revenue flows. A company's income.

# Apple iTunes & iPod

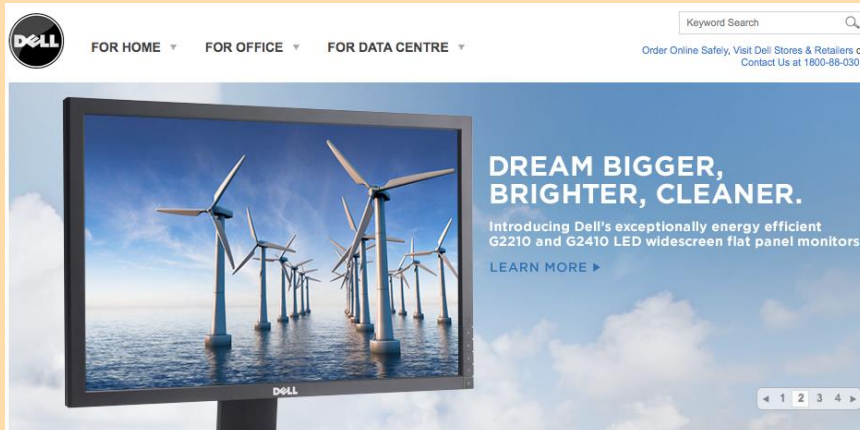


# Apple iTunes & iPod

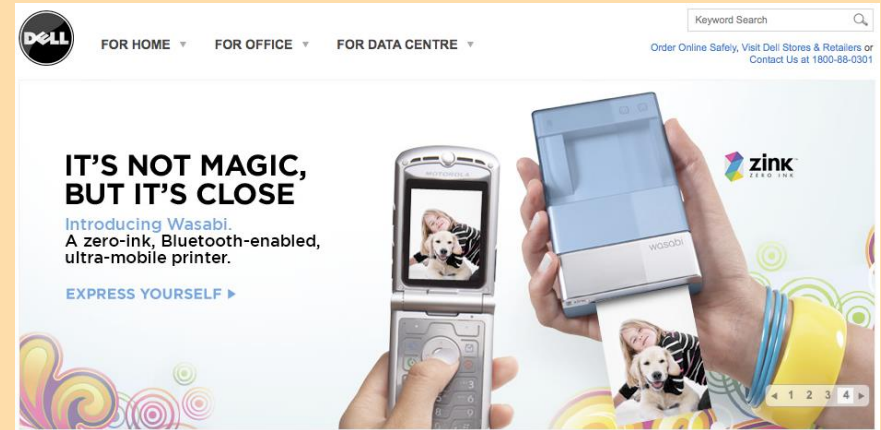


# Direct Marketing Model

- Most common EC models
- Sales may be from a manufacturer to a customer, eliminating intermediaries/ physical stores
- Eg. Dell



The screenshot shows the top navigation bar of the Dell website with the Dell logo, 'FOR HOME', 'FOR OFFICE', and 'FOR DATA CENTRE' dropdown menus, and a 'Keyword Search' field. Below the navigation is a banner for Dell monitors. The banner features a large image of a Dell monitor displaying a row of wind turbines on a blue sky and ocean background. The text on the banner reads: 'DREAM BIGGER, BRIGHTER, CLEANER. Introducing Dell's exceptionally energy efficient G2210 and G2410 LED widescreen flat panel monitors. LEARN MORE ▶'. At the bottom right of the banner is a small navigation bar with arrows and the numbers 1, 2, 3, 4.



The screenshot shows the top navigation bar of the Dell website with the Dell logo, 'FOR HOME', 'FOR OFFICE', and 'FOR DATA CENTRE' dropdown menus, and a 'Keyword Search' field. Below the navigation is a banner for the Wasabi printer. The banner features a large image of a hand holding a silver flip phone and a blue Wasabi printer. The printer is printing a photo of a dog. The text on the banner reads: 'IT'S NOT MAGIC, BUT IT'S CLOSE. Introducing Wasabi. A zero-ink, Bluetooth-enabled, ultra-mobile printer. EXPRESS YOURSELF ▶'. At the bottom right of the banner is a small navigation bar with arrows and the numbers 1, 2, 3, 4.

# Name-Your-Own-Price Model

- Model in which a buyer sets the price he/she is willing to pay and invites sellers to supply the good or service at that price
- Eg. Priceline.com
- will try to match the customer's request with a supplier willing to sell the product/ service at that price



# Priceline.com

**priceline.com** Customer SAVINGS \$6,247,996,142









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# Find the Best Price

- A customer specifies his/ her need and then an intermediate company (eg. Hotwire.com) matches the customer's need against a database, locates the lowest price, and submits it to the consumer
- Potential buyer has 30-60 min to accept/ reject the offer
- Eg. Norwich Union, Pricerunner.com, Kelkoo.com

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	★★★★★ 12 reviews		£ 202.40 + Shipping : £ 0.00 <b>£ 202.40</b>	<span style="color: green;">In stock</span> 28/01/10 <span style="background-color: green; color: white; padding: 5px; border-radius: 5px;">Go to store</span>

# Product and Service Customization


- Customization: Creation of a product or service according to the buyer's specifications
- Eg. Dell – PC, Nike – shoes, Mattel – Barbie dolls

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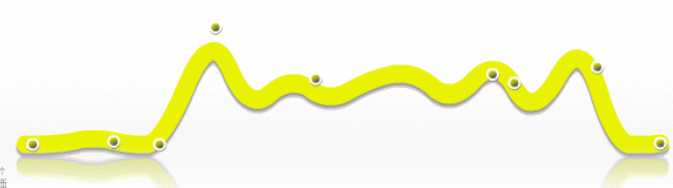
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RUN TOTALS - 10/16/06 at 5:26 AM DELETE THIS RUN

1.29mi	19'01"	14'39"/mi	202	Basic
DISTANCE	TIME	PACE	CALORIES	WORKOUT

See My Runs



FASTER →

DISTANCE →

1.29mi

Runs Goals Challenges

# Revenue Model

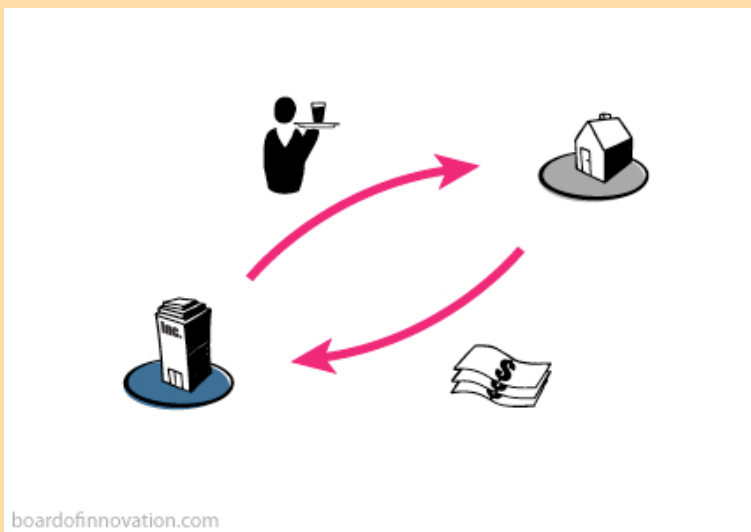
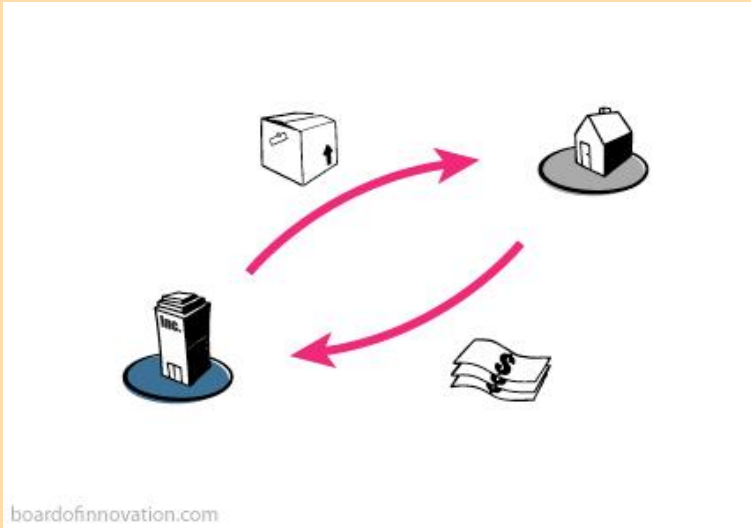
- A method that a company, organisation or individual uses to collect money from users of their product or service.
- In essence, a method of earning money and a way to collect it.

# Revenue Model – Sales

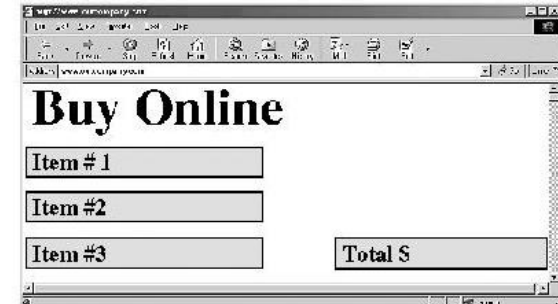
- Seller gives a product to the client in return for money.
- One of the most applied models throughout history, certainly in the agricultural and industrial eras.
- Examples: a farmer selling its food products to consumers, a craftsman selling to the local villagers, artist selling its paintings...



# Revenue Model – Sales (Product)



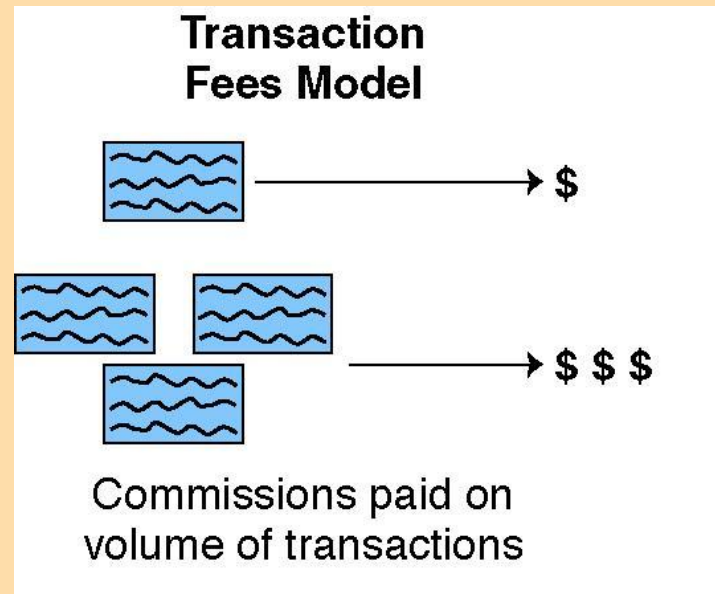
## Sales Model



Revenue from sales of goods or services

# Revenue Model – Transaction Fees

- Companies receives commission based on the volume of transaction made (broker, realtor)

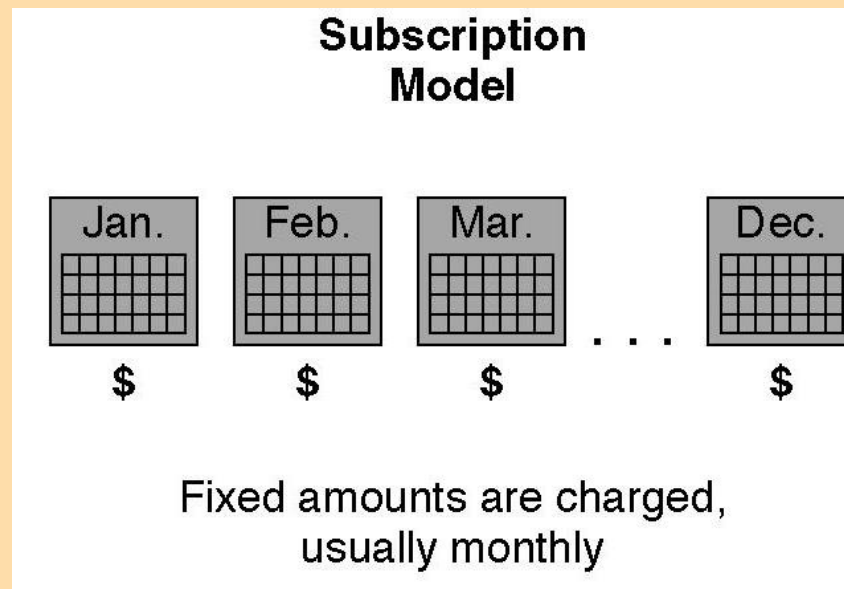


# Revenue Model – Pay What You Want

- Radiohead surprised the music industry by letting its fans pay what they want to download from the band's latest album.
- This revenue model gained incredible attention, and has been applied to other sectors as restaurants and magazine subscriptions
- Examples: iTunes, Amazon, Tesco Music Stores

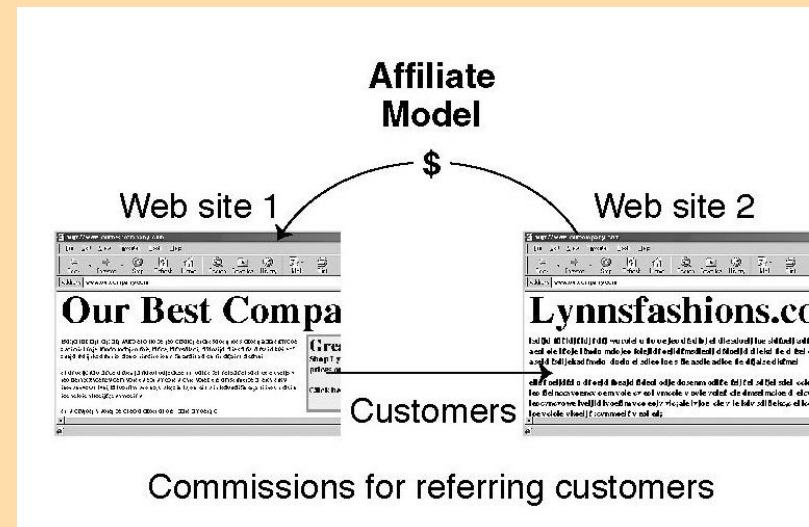
# Revenue Model – Subscription Fees

- Customers pay a fixed amount (monthly), to get some type of service (Astro, TMnet)



# Revenue Model – Affiliate Fees

- Companies receive commissions for referring customers to others' Web sites (Amazon.com)



# Summary

- It is very useful for a new venture to look at itself in a holistic manner and understand that it must construct an effective “business model” to be successful.
- Everyone that does business with a firm, from its customers to its partners, does so on a voluntary basis. As a result, a firm must motivate its customers and its partners to play along.
- Close attention to each of the primary elements of a firm’s business model is essential for a new venture’s success.

# Exercise – What Business & Revenue Model?



# Exercise – What Business & Revenue Model?



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# Activity: Analyzing Business Model

- In a group of 5, choose a company listed
- Identify a product/ services to narrow down your research
- Study their business model by identifying all the nine BM components
- Put all the details in the BM canvas template
- Draw the business model in a mahjong paper
- Present it!