

COURSE: BUSINESS MODEL INNOVATIONS

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Long Tail

Strategies in Business Models

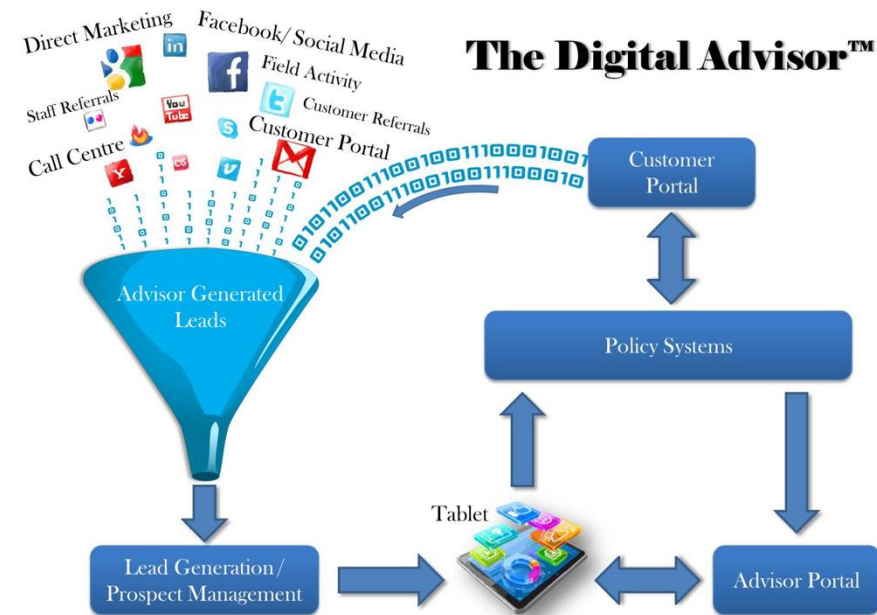
What is a business model?

Business models are an analytical tool used to assess the economic viability of a business concept

= 10,000-foot overview of a business: how it is structured

= Focusing on whether the business 'makes sense',

i.e. can be profitable, sustain competition, scalable



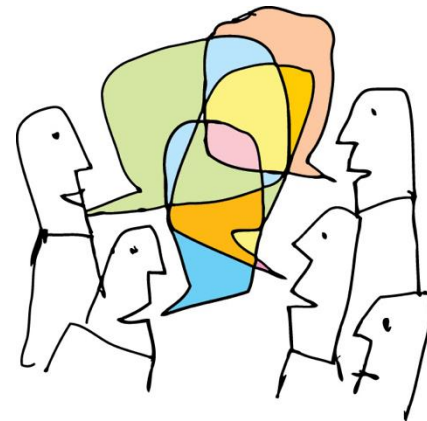
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Why should you care about Bm's?

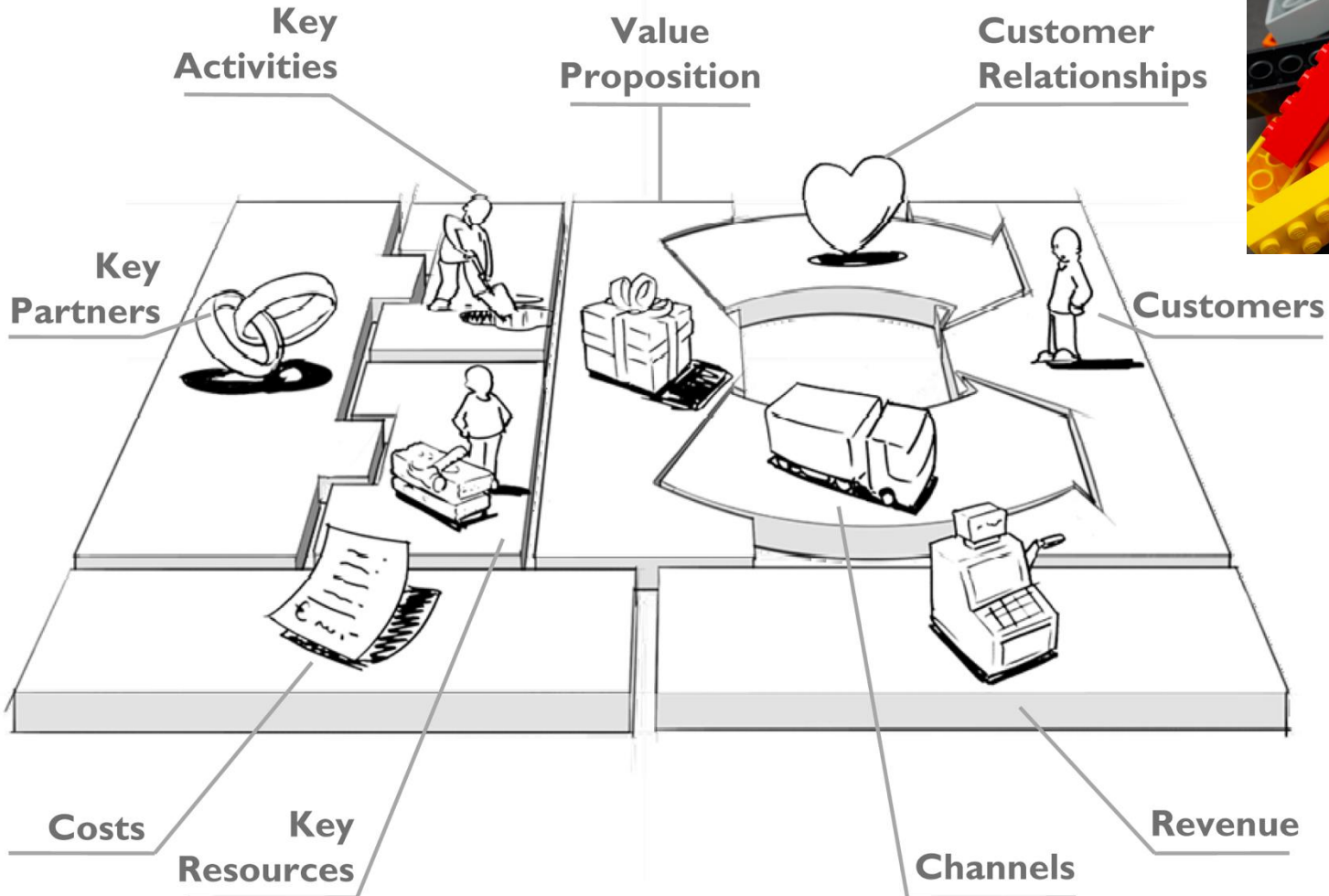
BMs are useful to think through all critical aspects of a business: A checklist



BMs are useful to communicate your business concept through a 'common language'



The bm canvas



Business Model Generation,
By A. Osterwalder
& Y. Pigneur

drawings by JAM

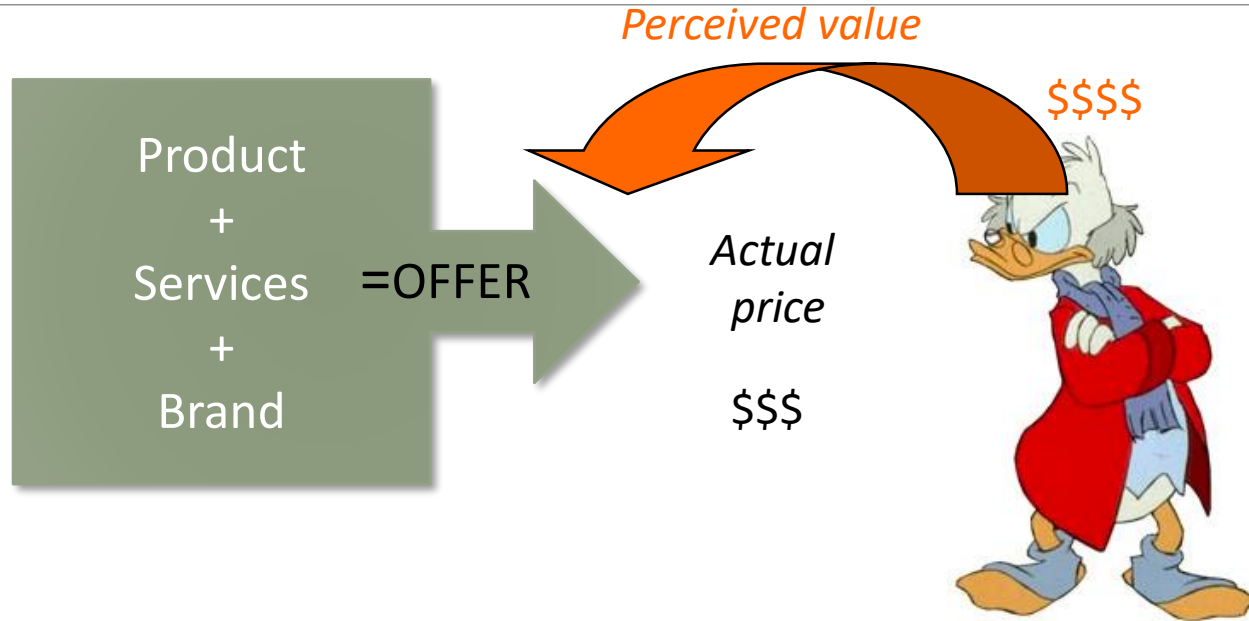
#1: customer segments

Who is(are) the target customer(s)?

- Mass market Vs niche
- Single segment Vs multi-segments
- Multi-sided platforms (serving several interdependent customer segments)



#2: value proposition



Perceived value may be a combination of ECONOMIC value (benefits to customer) and SOCIAL value (benefits to others)



OLIBERTÉ IS MADE IN AFRICA. SUPPORTING NEW AND EXISTING JOBS, SUSTAINABLE LIFESTYLES, AND A PROUD MIDDLE CLASS YOU MAKE IT POSSIBLE.

(not to mention lookin' dapper as you do)

oliberte.com

#3: distribution channels

Direct:

- Sales Force
- Online
- Own stores

Indirect:

- Partner stores (physical/online)
- Wholesalers (physical/online)

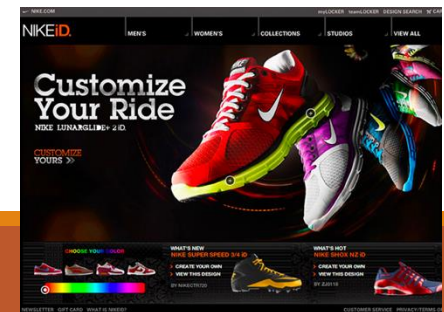
Key question: who takes care of after-sales service?



#4: customer relationships

What CR do we want to establish and maintain with our target customers?

- Self-service
- Personal assistance
- Automated service (= hybrid)
- Communities
- Co-creation

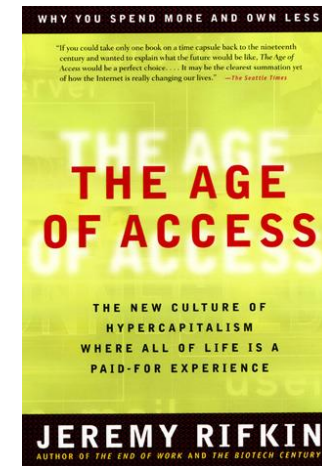


#5: revenue stream(s)

=Cash we generate from each customer segment

- Asset sale: transfer of ownership
- Usage fee
- Subscription
- Licensing
- Brokerage fee
- Advertising
- Consumer data sale to third-party

Can mix: e.g. "freemium"



#6: key resources

Most important assets required to run the business ops

- Physical
- Intellectual/intangible
- Human
- Financial

amazon



#7: Key activities

What key activities are critical to the success of our BM? Esp. to deliver the value proposition

- Problem solving
- Production
- Delivery
- Network



#8: key partnerships

Buyer-supplier relationships

Strategic alliances with non-rivals

Co-opetition: partnership with rivals

Can be based on simple contract, or a structured dedicated organization (e.g. Joint-Venture)



#9: cost structure

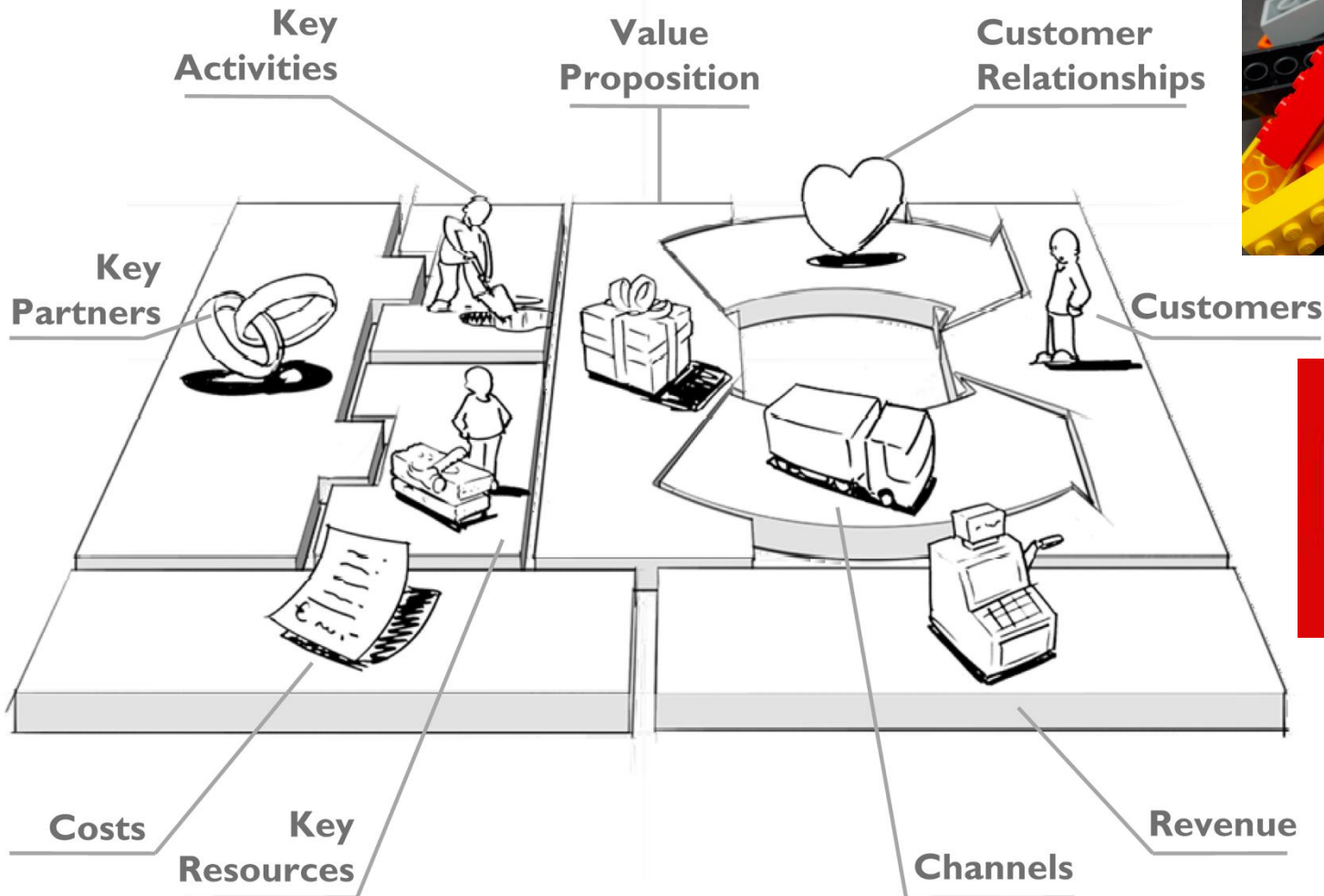
What are the cost drivers of our business?

Reflection in terms of:

- Product Costing, but also Activity-Based Costing (ABC)
- Variable Vs Fixed costs
 - => Break-even point
 - => Size-related economies
 - => Scalability



The bm canvas: example



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Patterns in bm's

Razor-and-blades

Free / Premium / Freemium

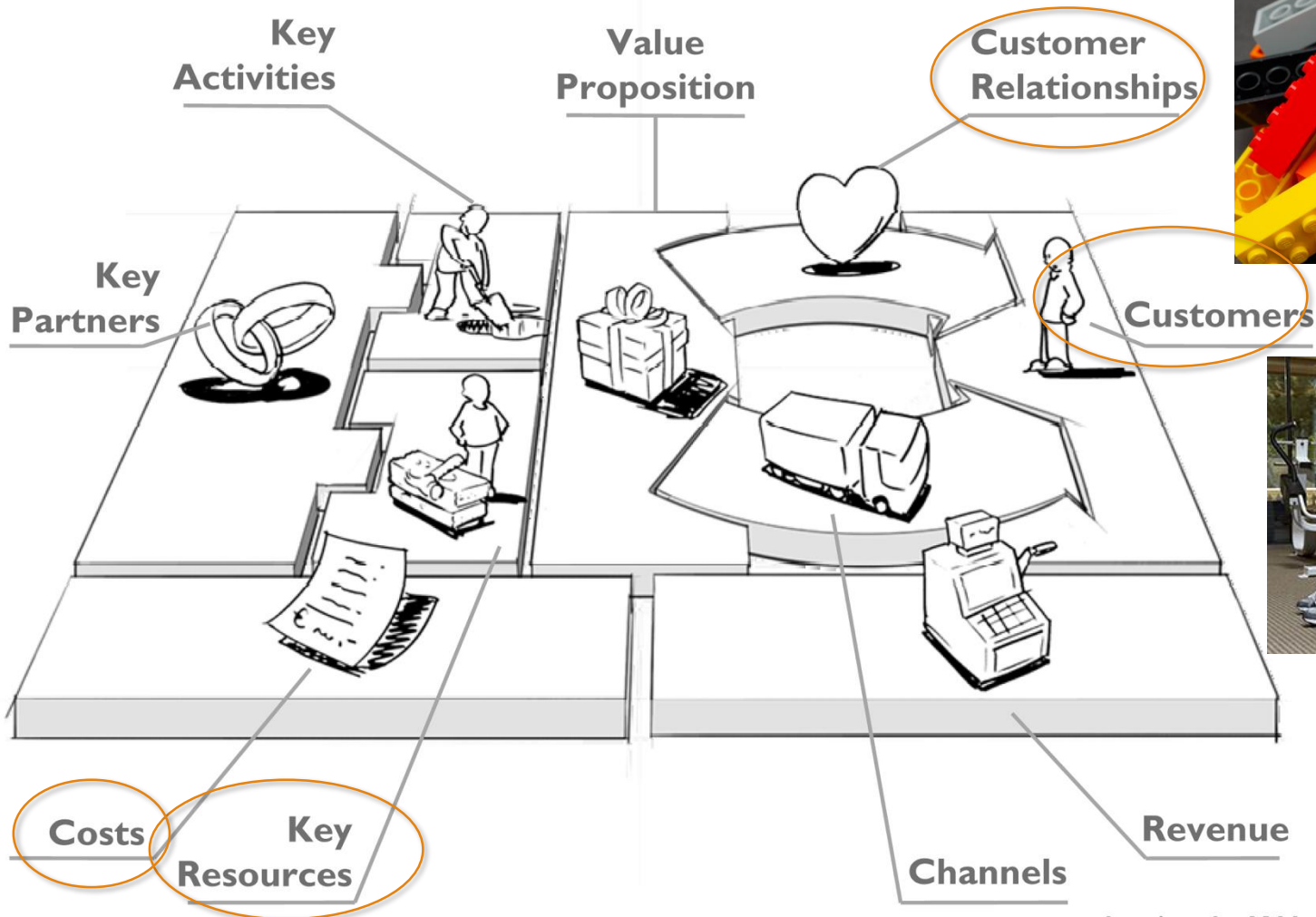
"Long Tail": Selling a large number of items in small quantities (e.g. businesses offering a large catalog)

Multi-sided platforms

Open Source



bm innovation: challenge industry norms



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Try various combinations



Limits and caveats

- The BM approach focuses on economic imperatives (break-even point, sustainability of operational profits), NOT competitive positioning
- A BM may be great on paper, but implementation is everything



Building Layers of Advantage

A company faces less risk if it has a wide portfolio of advantages

Successful companies build portfolios by establishing layers of advantage on top of one another

Illustrates how a company can move along the value chain to strengthen competitive advantage

Searching for Loose Bricks

Search for opportunities in the defensive walls of competitors whose attention is narrowly focused

- Focused on a market segment
- Focused on a geographic area to the exclusion of others

Changing the Rules of Engagement

- Refuse to play by the rules set by industry leaders

Example Xerox and Canon

- Xerox employed a huge direct sales force; Canon chose to use product dealers
- Xerox built a wide range of copiers; Canon standardized machines and components
- Xerox leased machines; Canon sold machines

Collaborating

Use the know-how developed by other companies

Licensing agreements, joint ventures, or partnerships

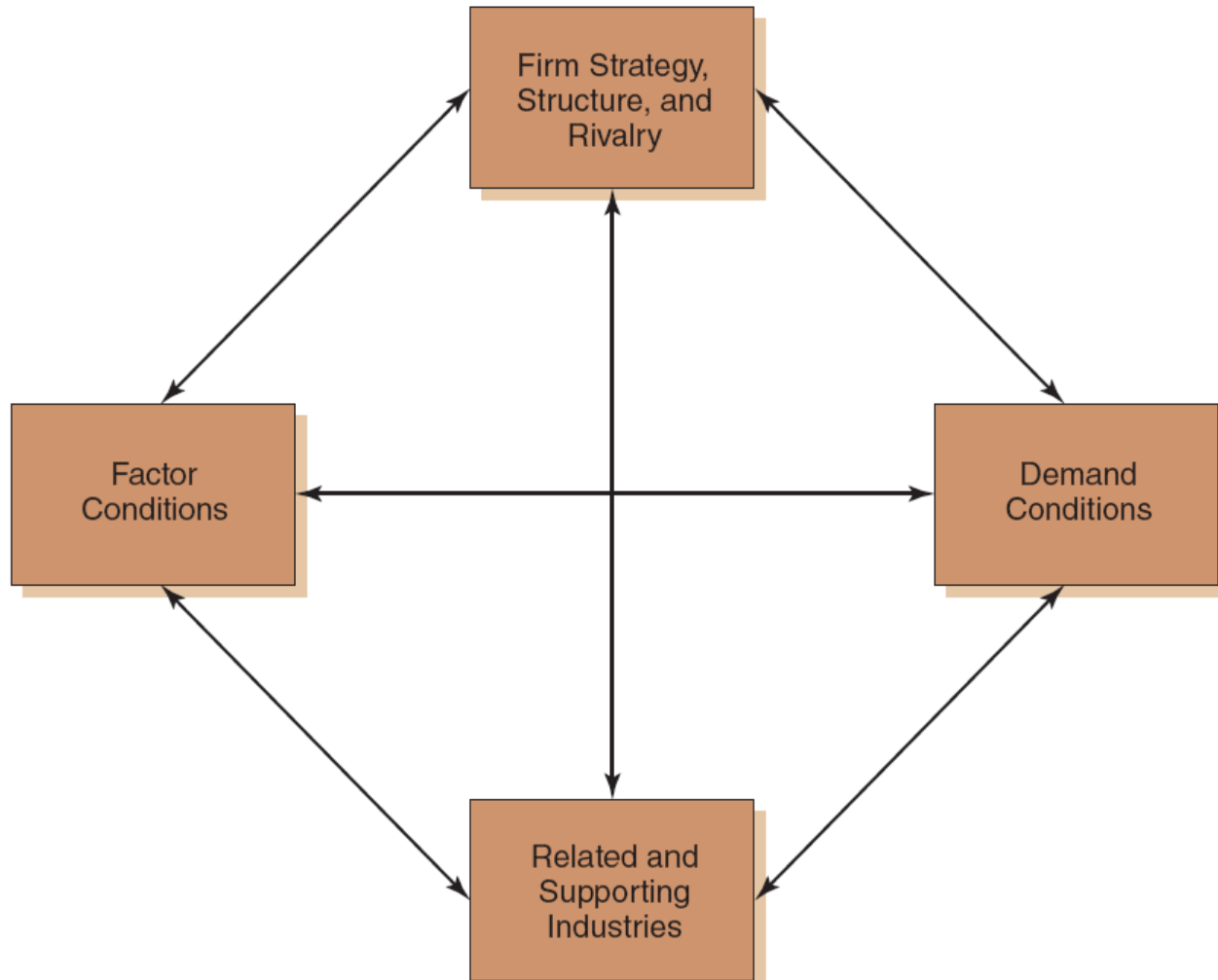
Global Competition and National Competitive Advantage

Global competition occurs when a firm takes a global view of competition and sets about maximizing profits worldwide

The effect is beneficial to consumers because prices generally fall as a result of global competition

While creating value for consumers, it can destroy the potential for jobs and profits

Global Competition and National Competitive Advantage



Factor Conditions

Human Resources – the quantity of workers available, skills possessed by those workers, wage levels, and work ethic

Physical Resources – the availability, quantity, quality, and cost of land, water, minerals, and other natural resources

Knowledge Resources – the availability within a nation of a significant population having scientific, technical, and market-related knowledge

Factor Conditions

Capital Resources – the availability, amount, cost, and types of capital available; also includes savings rate, interest rates, tax laws, and government deficit

Infrastructure Resources – this includes a nation's banking, healthcare, transportation, and communication systems

Demand Conditions

Composition of Home Demand – determines how firms perceive, interpret, and respond to buyer needs

Size and Pattern of Growth of Home Demand – large home markets offer opportunities to achieve economies of scale and learning in familiar, comfortable markets

Related and Supporting Industries

The advantage that a nation gains by being home to internationally competitive industries in fields that are related to, or in direct support of, other industries

Firm Strategy, Structure, and Rivalry

Domestic rivalry in a single national market is a powerful influence on competitive advantage

- The absence of significant domestic rivalry can lead to complacency in the home firms and eventually cause them to become noncompetitive in the world markets

Differences in management styles, organizational skills, and strategic perspectives also create advantages and disadvantages for firms competing in different types of industries

Firm Strategy, Structure, and Rivalry

Capital markets and attitudes toward investments are important components of the national environments

Chance events are occurrences that are beyond control; they create major discontinuities

Government is also an influence on determinants by virtue of its roles as a consumer, policy maker, and commerce regulator

Current Issues in Competitive Advantage

Today's business environment, market stability is undermined by:

- Short product life cycles
- Short product design cycles
- New technologies
- Globalization

Result is an escalation and acceleration of competitive forces

Current Issues in Competitive Advantage

Hypercompetition is a term used to describe a dynamic competitive world in which no action or advantage can be sustained for long

Competition unfolds in a series of dynamic strategic interactions in four areas: cost quality, timing and know-how, and barriers to entry

Reference and source

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