

COURSE: BUSINESS MODEL INNOVATIONS

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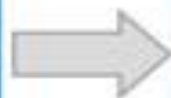
# Strategy and Business Models

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**Potential Entrants**  
(Threat of  
Mobility)



**Suppliers**  
(Supplier Power)



**Industry  
Rivalry**



**Buyers**  
(Buyer Power)



**Substitutes**  
(Threat of  
Substitutes)

## Porter's Five Forces of Competitive Position Examples

### New Market Entrants, eg:

- entry ease/barriers
- geographical factors
- incumbents resistance
- new entrant strategy
- routes to market



### Supplier Power, eg:

- brand reputation
- geographical coverage
- product/service level quality
- relationships with customers
- bidding processes/capabilities



### Competitive Rivalry, eg:

- number and size of firms
- industry size and trends
- fixed v variable cost bases
- product/service ranges
- differentiation, strategy

### Buyer Power, eg:

- buyer choice
- buyers size/number
- change cost/frequency
- product/service importance
- volumes, JIT scheduling



### Product and Technology Development, eg:

- alternatives price/quality
- market distribution changes
- fashion and trends
- legislative effects



# Example Airline Industry

<http://youtu.be/hUWAwor9rcA>

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# Porter's Force 1: Threat of New Entrants

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New entrants mean downward pressure on prices and reduced profitability

**Barriers to entry** determines the extent of threat of new industry entrants

# Threat of New Entrants: Barriers to Entry

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## Economies of Scale /H

- Refers to the decline in per-unit product costs as the absolute volume of production per period increases

## Product differentiation /H

- The extent of a product's perceived uniqueness

## Capital requirements /H

- Required investment for manufacturing, R&D, advertising, field sales and service, etc.

## Switching costs /H

- Costs related to making a change in suppliers or products

# Threat of New Entrants: Barriers to Entry

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## Distribution channels

- Are there current distribution channels available with capacity?

## Government policy

- Are there regulations in place that restrict competitive entry?

## Cost advantages/ independent of scale economies

- Is there access to raw materials, large pool of low-cost labor, favorable locations, and government subsidies?

## Competitor response

- How will the market react in anticipation of increased competition within a given market?

# Porter's Force 2: Threat of Substitute Products

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Availability of substitute products places limits on the prices market leaders can charge

High prices induce buyers to switch to the substitute

# Porter's Force 3: Bargaining Power of Buyers

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Buyers=manufacturers and retailers, not consumers

Buyers seek to pay the lowest possible price

Buyers have leverage over suppliers when:

- They purchase in large quantities (enhances supplier dependence on buyer)
- Suppliers' products are commodities
- Product represents significant portion of buyer's costs
- Buyer is willing and able to achieve backward integration

# Bargaining Power of Buyers

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“We do not quibble or argue with anyone’s right to sing what they want, to print what they want, and say what they want. But we reserve the right to sell what we want.”

- Wal-Mart’s response to the accusation that it is using its financial power to dictate what is appropriate music and art

# Porter's Force 4: Bargaining Power of Suppliers

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When suppliers have leverage, they can raise prices high enough to affect the profitability of their customers

Leverage accrues when

- Suppliers are large and few in number
- Supplier's products are critical inputs, are highly differentiated, or carry switching costs
- Few substitutes exist
- Suppliers are willing and able to sell product themselves

# Porter's Force 5: Rivalry Among Competitors

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Refers to all actions taken by firms in the industry to improve their positions and gain advantage over each other

- Price competition
- Advertising battles
- Product positioning
- Differentiation

# Competitive Advantage

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Achieved when there is a match between a firm's distinctive competencies and the factors critical for success within its industry

Two ways to achieve competitive advantage

- Generic strategies—four types
- Strategic intent—also four types

# Competitive Advantage

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**“The only way to gain lasting competitive advantage is to leverage your capabilities around the world so that the company as a whole is greater than the sum of its parts. Being an international company—selling globally, having global brands or operations in different countries— isn’t enough.”**

- David Witwam, CEO, Whirlpool

# Generic Strategies for Creating Competitive Advantage

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## **Broad market strategies**

- Cost Leadership—low price
- Product Differentiation—premium price

## **Narrow market strategies**

- Cost Focus—low price
- Focused Differentiation—premium price

# Cost Leadership

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Based on a firm's position as the industry's low-cost producer

Must construct the most efficient facilities

Must obtain the largest market share so that its per unit cost is the lowest in the industry

Only works if barriers exist that prevent competitors from achieving the same low costs

# Product Differentiation

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Product that has an actual or perceived uniqueness in a broad market has a differentiation advantage

Extremely effective for defending market position

Extremely effective for obtaining above-average financial returns; unique products command a premium price

# Cost Focus

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Firm's lower cost position enables it to offer a *narrow target market* and lower prices than the competition

Sustainability is the central issue for this strategy

- Works if competitors define their target market more broadly
- Works if competitors cannot define the segment even more narrowly

# Focused Differentiation

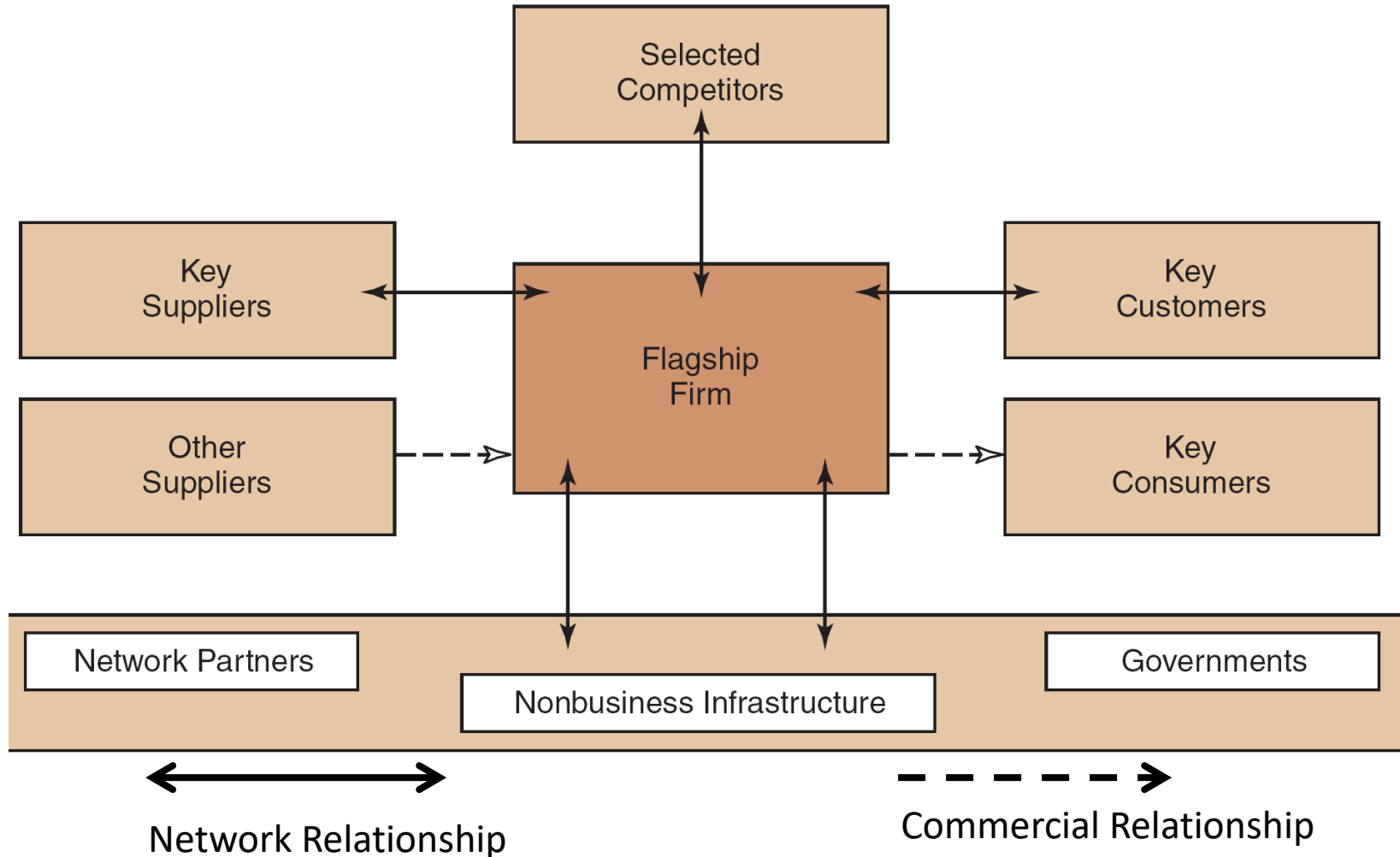
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The product not only has actual uniqueness but it also has a very narrow target market

Results from a better understanding of customer's wants and desires

Ex.: High-end audio equipment

# The Flagship Firm: The Business Network with Five Partners



# Creating Competitive Advantage via Strategic Intent

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**“Few competitive advantages are long lasting. Keeping score of existing advantages is not the same as building new advantages. The essence of strategy lies in creating tomorrow’s competitive advantages faster than competitors mimic the ones you possess today. An organization’s capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all.”**

- Gary Hamel and C.K. Prahalad

# The Flagship Firm

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- A collection of 5 partners
  - Key suppliers do some tasks better than the flagship (ex.: manufacturing)
  - Key customers (ex: car dealers)
  - Key consumers (ex: car buyers)
  - Selected competitors like global Strategic Partnerships
  - Nonbusiness infrastructure: universities, governments, trade unions that supply intangibles like technology and intellectual property

# Creating Competitive Advantage via Strategic Intent

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Building layers of advantage

Searching for loose bricks

Changing the rules of engagement

Collaborating

# Web Site Design

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- Internet potential requires using interactive media
- Key issues
  1. Choosing domain names—Cybersquatting
  2. Arranging payment—credit card usage rate, fraud, postal money order or bank check
  3. Localizing sites—reflect local culture, language, aesthetics
  4. Addressing privacy issues—EU laws more stringent
  5. Setting up distribution—local sales tax issues

# Broadband

Has sufficient capacity to carry multiple voice, data, or video channels simultaneously

Bandwidth determines the range of frequencies that can pass over a transmission channel

# New Products and Services

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- Cloud Software will not be installed on a computer hard drive but through a web browser
- Smartphones represent  $\frac{1}{4}$  of 1 billion cellular handsets sold each year.
- SMS texting to move to other channels like TV, the Internet, e-mail.
- Apple and Android systems
- Apps—Angry Birds best selling in 2010

# Mobile Advertising and Mobile Commerce

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Term for conducting commercial transactions using cell phones

Wi-Fi

Cellular data plans via 3G, 4G networks

Tablets like iPad, Galaxy

# Mobile Commerce

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Bluetooth—uses less power than Wi-Fi, works well with cell phones and covers shorter distances than Wi-Fi

Handles data, not voice

# Mobile Music

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Ringtone sales peaked in 2006 at \$6 billion

iTunes downloads in 2006 reached 1 billion;  
cumulative total of 12 billion downloads

By 2011, worldwide mobile music purchases should reach \$14 billion with Asia accounting for 40% of the market

Cloud-based music systems offer a locker for storing music that is accessed by a variety of mobile devices

# Internet Phone Service

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The next big thing for the telecommunications industry

Has the potential to render the current telecommunications infrastructure obsolete

Currently only accounts for a small percentage of total global calling

Skype acquired by Microsoft for 48.6 billion in 2011

# Digital Books and Electronic Reading Devices

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Amazon's Kindle, Sony's Reader Digital Book, Apple's iPad

Textbooks are a huge market opportunity for publishers

Piracy is a concern for many authors

# Reference and source

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