

COURSE: BUSINESS MODEL INNOVATIONS

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# Glossary of Business Model Terms

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# Some Basic Definitions

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An organization is a group of people within some structure who possess a common objective, usually expressed in a mission statement.

- Organizations may be:
  - for profit (frequently referred to as “firms”)
  - not-for-profit

A market is a place (real or virtual) where potential sellers and buyers meet to exchange resources (which may be money, products, services, etc.).

An industry is a group of organizations competing in a predefined market under similar bases of competition

# General Bases of Competition

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A “basis of competition’ is a dimension upon which companies choose to compete, e.g.,

- Price
- Quality
- Delivery
- Service
- Innovation
- Knowledge
- Others?

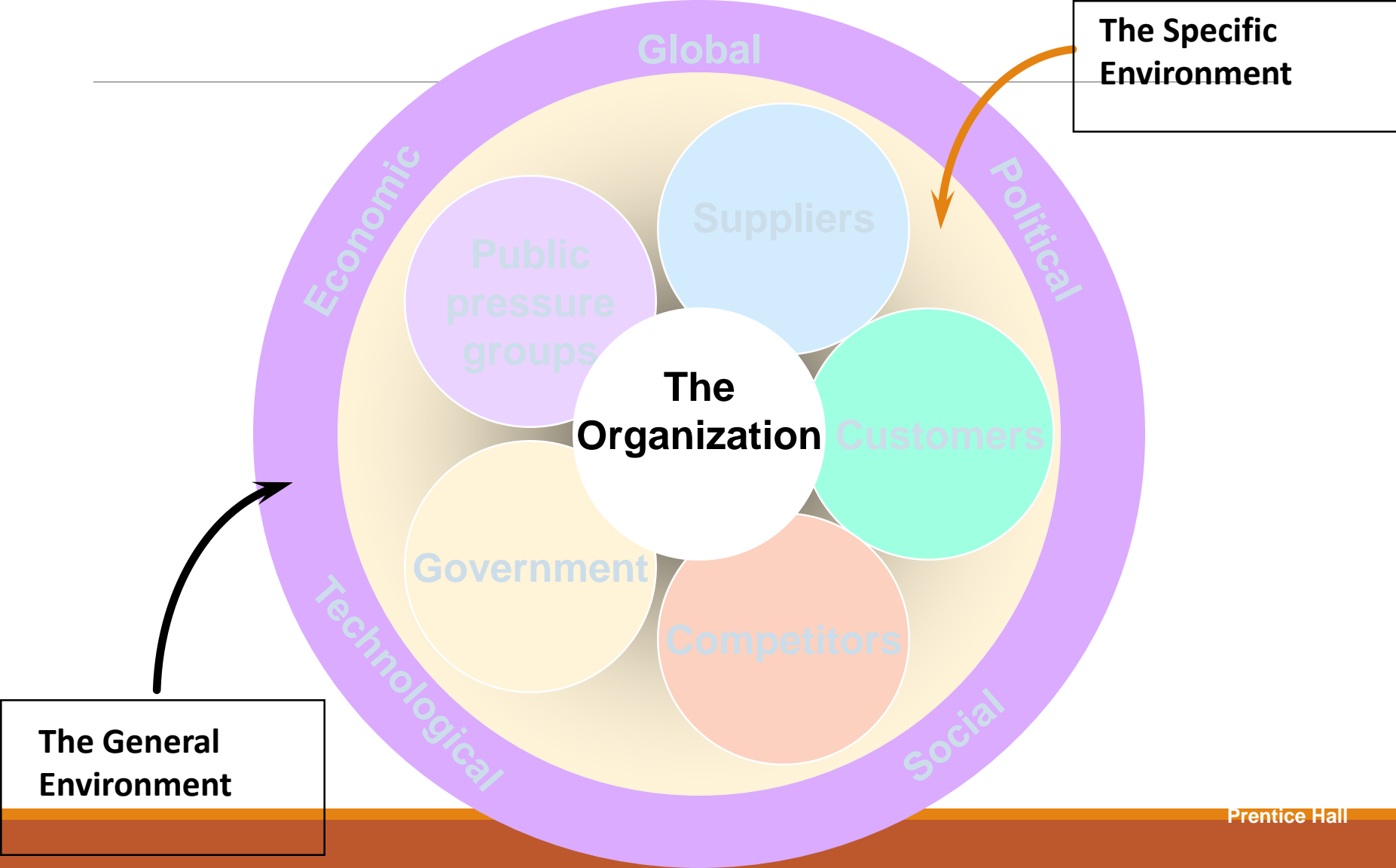
# Organization and Environment

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An organization operates within an environment that is in a constant state of change

Too often we hear of change and its effects, but exactly what can change?

# The Organization and Its Environment



# Objective(s) of the Firm

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What is the objective of the firm?

- Maximize shareholder wealth
- Generate above average economic rents (profits)

Shareholder: Someone who holds stock (ownership) in the firm.

*Stakeholder:* Anyone who possesses an interest in the firm's activities (govt., public pressure groups, alumni, students, etc.)

# Strategy

To meet the organization's objective, managers craft a strategy. What's a strategy?

- The science of planning and directing large-scale operations, of maneuvering forces into the most advantageous position prior to actual engagement with the enemy (Webster)
- A strategy is a plan to marshall or deploy scarce resources. (Simpler)

Levels of strategy:

- Corporate (Portfolio management)
- Business (Generate sustainable competitive advantage)
- Functional (Support the business level strategy)

# Corporate-Level Strategy

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Diversification: the minimization of cash flow variance

## Integration

- Forward integration (one type of vertical):
  - Gaining ownership or increased control over distributors or retailers (UA buys Priceline)
- Backward integration (the other):
  - Gaining ownership or increased control over suppliers (Amazon buys RCA records)
- Horizontal integration
  - Seeking ownership or increased control over competitors (Amazon buys BestBookBuys.Com)

Also approving (but not crafting) business-level strategies

# Business-Level Strategy

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The primary objective of business-level strategy is to create sources of sustainable competitive advantage.

OK... what is sustainable competitive advantage?

- There are many definitions, used by different people in different ways.
- Here is a practical description. But first, we have to back up...

# Sustainable Competitive Advantage

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An asset is anything the firm owns or controls.

- Loosely, “Asset” is to Accounting as “Resource” is to Management.

Types of assets:

- **Physical:** plant equipment, location, access to raw materials
- **Human:** training, experience, judgment, decision-making skills, intelligence, relationships, knowledge
- **Organizational:** Culture, formal reporting structures, control systems, coordinating systems, informal relationships

# Sustainable Competitive Advantage

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A capability is usually considered a “bundle” of assets or resources to perform a business process (which is composed of individual activities)

- E.g. The product development process involves conceptualization, product design, pilot testing, new product launch in production, process debugging, etc.

All firms have capabilities. However, a firm will usually focus on certain capabilities consistent with its strategy.

- For example, a firm pursuing a differentiation strategy would focus on new product development. A firm focusing on a low cost strategy would focus on improving manufacturing process efficiency.

The firm’s most important capabilities are called competencies.

# Competencies vs. Core Competencies vs. Distinctive Competencies

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A competency is an *internal capability* that a company performs *better* than other internal capabilities.

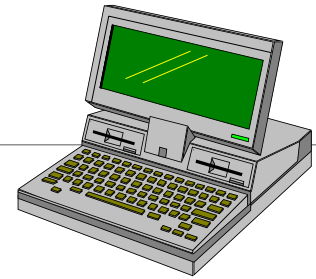
A core competency is a well-performed internal capability that is *central*, not peripheral, to a company's *strategy, competitiveness, and profitability*.

A distinctive competence is a *competitively valuable capability* that a company performs better than its rivals.

# Examples: Distinctive Competencies

## Sharp Corporation

- Expertise in flat-panel display technology



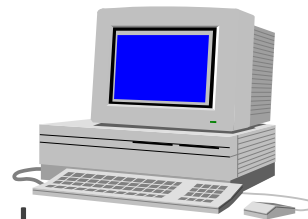
## Toyota, Honda, Nissan

- Low-cost, high-quality manufacturing capability and short design-to-market cycles



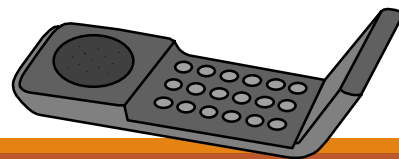
## Intel

- Ability to design and manufacture ever more powerful microprocessors for PCs



## Motorola

- Defect-free manufacture (six-sigma quality) of cell phones



# Where are we?

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We are discussing sustainable competitive advantage. Here we are now:

Assets → Capabilities → Competencies → Competitive Advantage

Next is competitive advantage.

- A competitive advantage is simply an advantage you have over your competitors.
- A competitive advantage is a special type of competency that will produce competitive advantage provided:
  - A) it produces value for the organization, and**
  - B) it does this in a way that cannot easily be pursued by competitors.**

# Public Relations and Publicity

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Fosters goodwill and understanding

Generates favorable publicity

## Tools

- News releases
- Media kits
- Press conferences
- Tours
- Articles in trade and professional journals
- TV and radio talk show appearances
- Special events

# The Growing Role of Public Relations in Global Marketing

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Public Relations expenditures are growing at an average of 20% per year

In India they are reported to be growing by 200% annually

## Reasons for the growth

- Increased governmental relations between countries
- Technology
- Societal issues like the environment

# Public Relations Practices around the World

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Public relations practices can be affected by:

- Cultural traditions
- Social and political contexts
- Economic environments

Public relations professionals must understand these differences and tailor the message appropriately

# Looking Ahead

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Chapter 14 Global Marketing Decisions: Sales Promotion, Personal Selling, Special Forms of Marketing Communication

# Chapter 14

## Global Marketing Decisions: Sales Promotion, Personal Selling, Special Forms of Marketing Communication

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POWERPOINT

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# Sales Promotion

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Sales promotion refers to any paid consumer or trade communication program of limited duration that adds tangible value to a product or brand

- Price vs. non-price promotions
- Consumer vs. trade promotions

# Sales Promotion

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Provide a tangible incentive to buyers

Reduce the perceived risk associated with purchasing a product

Provide accountability for communications activity

Provide method of collecting additional data for database

# Sales Promotion: Global or Local

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In countries with low levels of economic development, low incomes limit the range of promotional tools available

Market maturity can also be different from country to country

Local perceptions of a particular promotional tool or program can vary

Local regulations may rule out use of a particular promotion in certain countries

Trade structure in the retailing industry can affect the use of sales promotions.

# Sampling

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## Sampling

- Provides consumer with opportunity to try product at no cost
- May be distributed in stores, in the mail, through print media, at events, or door-to-door

# Coupons

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## Coupons

- Printed certificates entitle the bearer to a price reduction or some other special consideration for purchasing a particular product

Coupons account for 70% of consumer promotion spending in the US

# Coupons

Country	Coupons by Mail	Home Delivery Coupons	On-Pack Coupons	In-Pack Coupons
England	Legal	Legal	Legal	Legal
France	Legal for discount on same product. No cross coupons.	Legal for discount on same product. No cross coupons.	Legal for discount on same product. No cross coupons.	Legal for discount on same product. No cross coupons.
Germany	Legal for samples only. Price-off coupons not allowed.	Legal for samples only. Price-off coupons not allowed.	Price reduction cannot be made by retailer. Consumers mail on-pack code directly to manufacturer.	Prohibited in most cases.
Sweden	Legal to persons age 16 and over; illegal to send to persons younger than 16. Restrictions when sending to parents of new baby.	Legal to persons age 16 and over; illegal to send to persons younger than 16. Restrictions when sending to parents of new baby.	Legal	Legal
USA	Legal. Restrictions on alcohol, tobacco, and drugs.	Legal. Restrictions on alcohol, tobacco, and drugs.	Legal; all terms must be disclosed. Minimum 6-month redemption period required.	Legal; all terms must be disclosed. Minimum 6-month redemption period required.

# Sales Promotion: Issues and Problems

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## Fraud

- Pepsi promotion with Apple

## Regulations vary by country

## Cultural dispositions to coupons and other sales promotions

- Malaysians see coupon usage as embarrassing
- Islam frowns on gambling so sweepstakes may not work

# Personal Selling

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Person-to-person communication between a company representative and potential buyers

Focus is to inform and persuade prospect

Short-term goal: make a sale

Long-term goal: build relationship

# Personal Selling Hurdles

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Political Risks – unstable or corrupt governments change the rules for the sales team

Regulatory Hurdles – Governments can set up quotas or tariffs that affect the sales force

Currency Fluctuations – increase and decrease in local currencies can make certain products unaffordable

Market Unknowns – lack of knowledge of market conditions, the accepted way of doing business, or positioning of the product may derail the sales team's efforts

# The Strategic/Consultative Selling Model

<b>Strategic/Consultative Selling Model</b>	
<b><i>Strategic step</i></b>	<b><i>Prescription</i></b>
Develop a Personal Selling Philosophy	<input type="checkbox"/> Adopt Marketing Concept <input type="checkbox"/> Value Personal Selling <input type="checkbox"/> Become a Problem Solver/Partner
Develop a Relationship Strategy	<input type="checkbox"/> Adopt Win-Win Philosophy <input type="checkbox"/> Project Professional Image <input type="checkbox"/> Maintain High Ethical Standards
Develop a Product Strategy	<input type="checkbox"/> Become a Product Expert <input type="checkbox"/> Sell Benefits <input type="checkbox"/> Configure Value-Added Solutions
Develop a Customer Strategy	<input type="checkbox"/> Understand Buyer Behavior <input type="checkbox"/> Discover Customer Needs <input type="checkbox"/> Develop Prospect Base
Develop a Presentation Strategy	<input type="checkbox"/> Prepare Objectives <input type="checkbox"/> Develop Presentation Plan <input type="checkbox"/> Provide Outstanding Service

Strategic/consultative selling evolved in response to increased competition, more complex products increased emphasis on customer needs, and growing importance of long-term relationships.

# The Strategic/Consultative Selling Model

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Personal Selling Philosophy – commitment to the marketing concept and a willingness to adopt the role of problem solver/partner

Relationship Strategy – game plan for establishing and maintaining high-quality relationships with prospects/customers

Product Strategy – plan that can assist the sales representative in selecting and positioning products to satisfy customer needs

# The Strategic/Consultative Selling Model

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Customer Strategy – plan that ensures that the sales professional will be maximally responsive to customer needs

Presentation Strategy – consists of setting objectives for each sales call and establishing a presentation plan to meet those objectives

# The Strategic/Consultative Selling Model

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# Reference and source

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