



**Universität
Zürich** UZH

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

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Chair of Entrepreneurship

Universität Zürich

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Content





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A Primer in Entrepreneurship

Part II Developing Successful Business Ideas

Lecture 6

Developing an Effective Business Model

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Agenda

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Questions



What is a business model and why is it important ?



What role does the value chain play in the emergence of a business model ?



What is included in an effective business model ?

...to be answered in today's lecture.



1 Business Models

The development of a firm's business model follows the feasibility analysis stage of launching a new venture but comes before the completion of a business plan.

Business Model is a firm's 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 earns.

The business model stage addresses how to surround the product or service with a core strategy, a partnership model, a customer interface, distinctive resources, and an approach to creating value that represents a viable business model.



1 Business Models

There is no standard business model, no hard-and-fast rules that dictate how firms in a particular industry should compete.

A firm's business model takes it beyond its own boundaries.



Almost all firms partner with others to make their business models work.



1 Business Models

A firm needs to have a business model in place before it can make additional substantive decisions.



It is premature for a new venture to raise money, hire a lot of employees, establish partnerships, or implement a marketing plan.



1.1 Business Model Innovation

Dell's approach to selling computers versus traditional manufacturers' represented a business model innovation in the computer industry.

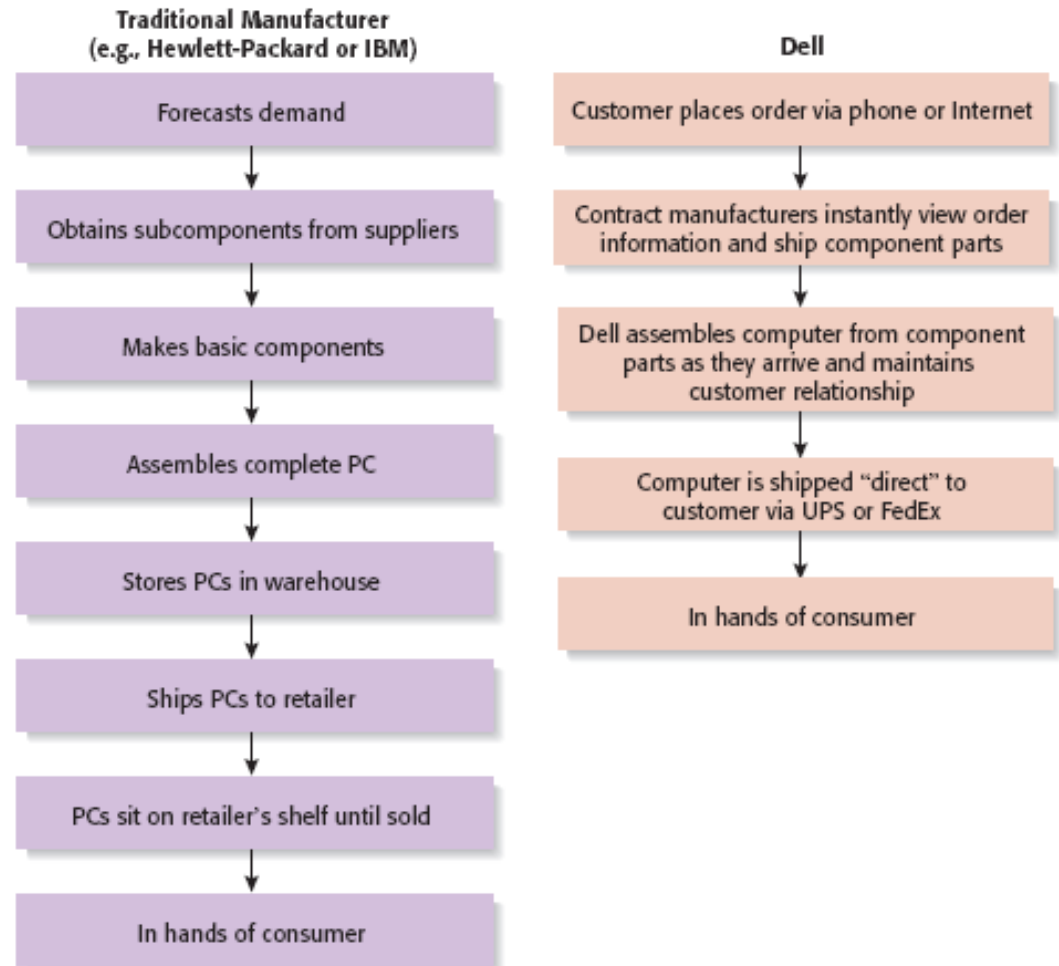
Business Model Innovation refers to initiatives that are undertaken with the intention of revolutionizing how a particular product is produced, sold, and supported after the sale.



Dell needs the cooperation of its suppliers, shippers, customers, and many others to make its business model possible.

1.1 Business Model Innovation

At the time of its introduction
Dell's business model was
revolutionary.





1.2 Importance, Viability and Flaws of a Business Model

Having a clearly articulated business model is important, because it ...

- ... serves as an ongoing extension of feasibility analysis;
- ... 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 would be willing to work together;
- ... articulates a company's core logic to all stakeholders, including the firm's employees.

It is very important 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.



1.2 Importance, Viability and Flaws of a Business Model

The entrepreneur should diagram the business model on paper, examine and check whether the answers to the following questions are satisfactory.

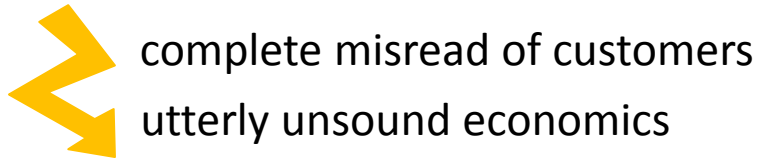
- ? Does my business model make sense ?
- ? Will the businesses I need as partners participate ?
- ? If I can get partners to participate, how motivated will they be ? Am I asking them to work for or against their self-interest ?
- ? How about my customers, will it be worth their time to do business with my company and, if I do get customers, how motivated will they be ?
- ? Can I motivate my partners and customers at a sufficient scale to cover the overhead of my business and make a profit ?
- ? How distinct will my business be ? If I'm successful, will it be easy for a larger competitor to step in and steal my idea ?

1.2 Importance, Viability and Flaws of a Business Model

- ? Does my business model make sense ?
- ? **If the answer to each of these questions is not satisfactory, then the business model should be revised or abandoned.**
- ? If I can get partners to participate, how motivated will they be ? Am I asking them to work for or against their self-interest ?
- ? **Ultimately, a business model is viable only insofar as the buyer, the seller, and the partners involved see it as an appropriate method of selling a product or service.**
- ? Can I cover the overhead of my business and make a profit ?
- ? How distinct will my business be ? If I'm successful, will it be easy for a larger competitor to step in and steal my idea ?

1.2 Importance, Viability and Flaws of a Business Model

Two fatal flaws can render a business model untenable from the beginning.



Kozmo.com (1998-2001)



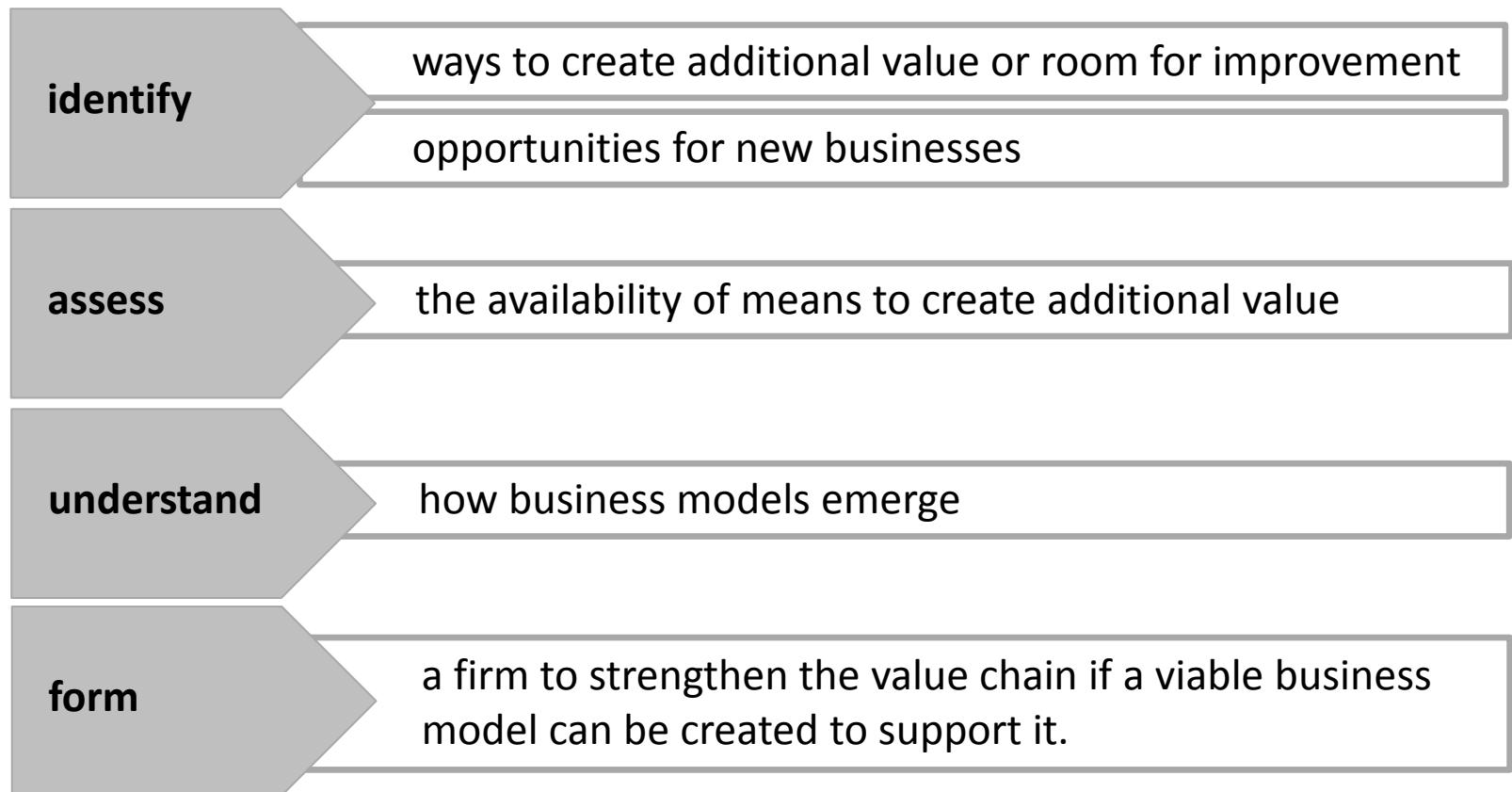
The shining example of a good idea gone bad, online store and delivery service Kozmo.com. For urbanites, Kozmo.com was cool and convenient. You could order a wide variety of products, from movies to snack food, and get them delivered to your door for free within an hour. After expanding to seven cities, it was clear that it cost too much to deliver a DVD and a pack of gum. Kozmo eventually initiated a \$10 minimum charge, but that didn't stop it from closing in March 2001 and laying off 1,100 employees. Though it never had an IPO (one was planned), Kozmo raised about \$280 million and even secured a \$150 million promotion deal with Starbucks.

Source: http://www.cnet.com/1990-11136_1-6278387-1.html



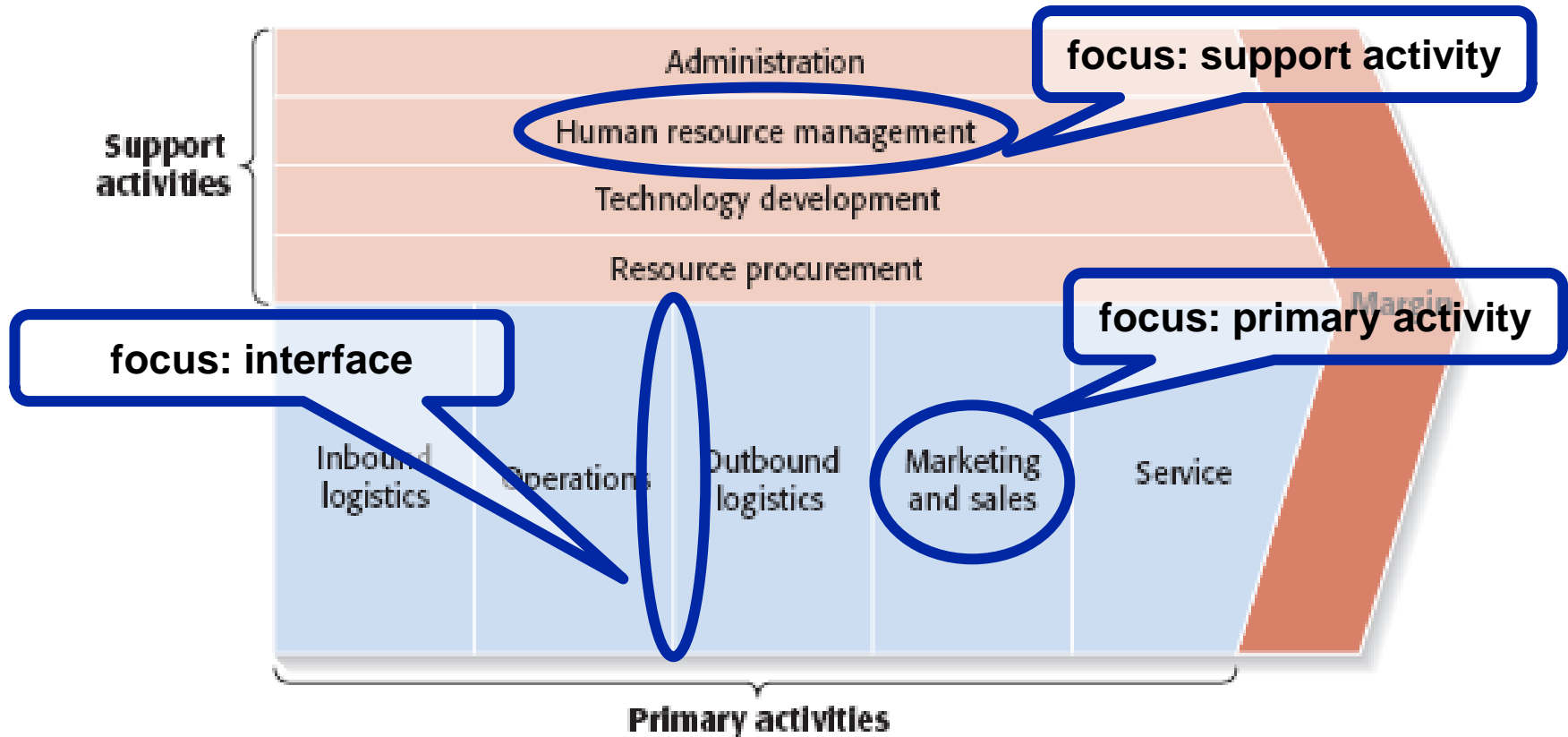
1.3 How Business Models Emerge

It is helpful to study and analyze the value chain of a product or service.



1.3 How Business Models Emerge

The analysis of the value chain may focus on a single primary activity, a support activity or an interface between two stages of the value chain.





2 Components of an Effective Business Model

Core Strategy **how** a firm competes

Strategic Resources **how** a firm acquires and uses its resources

Partnership Network **how** a firm structures and nurtures its partnerships

Customer Interface **how** a firm interfaces with its customers

Core Strategy

- Business mission
- Product/market scope
- Basis for differentiation

Strategic Resources

- Core competencies
- Strategic assets

Partnership Network

- Suppliers
- Partners
- Other key relationships

Customer Interface

- Target customer
- Fulfillment and support
- Pricing structure



2.1 Core Strategy

The core strategy consists of a firm's mission statement, the product/ market scope, and the basis for differentiation.

mission statement

describes why the firm exists and what its business model is supposed to accomplish.

product/ market scope

defines the products and market son which it will concentrate. The choice of products has an important impact on a firm's business model.

basis of differentiation

of itself from its competitors in some way that is important to its customers.

cost leadership

competition on the basis of costs

differentiation

competition on the basis of quality, service, timeliness or other important dimension



2.1 Core Strategy



Starbucks Coffee Company

Mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.

<http://www.starbucks.com/about-us/company-information/mission-statement>



Google

Google's mission is to Organize the world's information and make it universally accessible and useful.

<http://www.google.com/about/corporate/company/>

<http://cmorse.org/missiongen/>



2.2 Strategic Resources

Resources are essential for a firm to implement its strategy and, hence, affect its business model substantially.

core competency

is a resource or capability that serves as a source of a firm's competitive advantage over its rivals.

strategic assets

are anything rare and valuable (plant, equipment, location, brands, patents, customer data, highly qualified staff, and distinctive partnerships, etc.)

Firms try to combine core competencies and strategic assets to create a sustainable **competitive advantage**, to which investors pay close attention when evaluating a business.

A competitive advantage is achieved by implementing a value-creating strategy that is unique and not easy to imitate.



2.3 Partnership Network

New ventures, in particular, rely on partners to perform key roles.

New ventures typically do not have the resources to perform all the tasks required to make their businesses work.

suppliers

Vendors/ suppliers are companies that provide parts or services to another company. Almost all firms have suppliers who play a vital role in the functioning of their business models.

other key relationships

Firms partner with other companies to make their business models work.



But partnerships ...

... **involve risks** if a single partner is a key component of a firm's business model;

... **often fall short of meeting the expectations** of the participants.



2.3 Partnership Network

Oracle Press Release



Contact(s):

http://www.oracle.com/corporate/press/2005_nov/oracle_unisys.html

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Unisys and Oracle Join Forces on Global Initiatives Focus on combined global vertical market initiatives

LONDON 02-NOV-2005 03:45 PM Unisys Corporation (NYSE: UIS) and Oracle today announced that the two companies are working on several combined global initiatives in areas such as financial services, outsourcing solutions, public sector and enterprise computing.

"We are pleased to count Unisys as a global strategic systems integrator alliance partner," said Andy Bailey, senior vice president, Global Systems Integrator Alliances at Oracle. "Because Oracle and Unisys have been trusted alliance partners since 1984, it's natural that we now begin working on global initiatives that bring additional customer benefit by allowing us to focus on global solutions for secure business operations."

The two companies are building upon Unisys newly announced plan to deliver solutions for secure business operations. The solutions are energized by Unisys 3D Visible Enterprise strategy, which is designed to enable a client to see the links among business strategy, processes and IT requirements throughout the entire enterprise and gain visibility into the impacts and costs of strategic decisions at all levels even before making them. To support its strategy for solutions delivering secure business operations, Unisys is aligning with an exclusive list of the world's leading technology providers to deliver customer solutions that harness its partners' expertise with the power of 3D-VE.



2.4 Customer Interface

The type of customer interaction depends on how the firm chooses to compete.

primary elements of customer interface

A **target market** is the limited group of individuals or businesses that a firm goes after or tries to appeal to.

The selection of the target market affects acquisitions of strategic assets, partnerships, promotional campaigns, etc.

Fulfillment and support describes the way a firm's product or service "goes to market"; how it reaches its customers (channels a company uses, what level of customer support it provides)

All these issues impact the shape and nature of a company's business model.

Pricing structures/ models vary depending on a firm's target market and its pricing philosophy. (more details follow in chapter 11)



Do you know the answer ?



What is a business model and why is it important ?



What role does the value chain play in the emergence of a business model ?



What is included in an effective business model ?

...test yourself.



References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.



Outlook

