Chapter 4

Business Models

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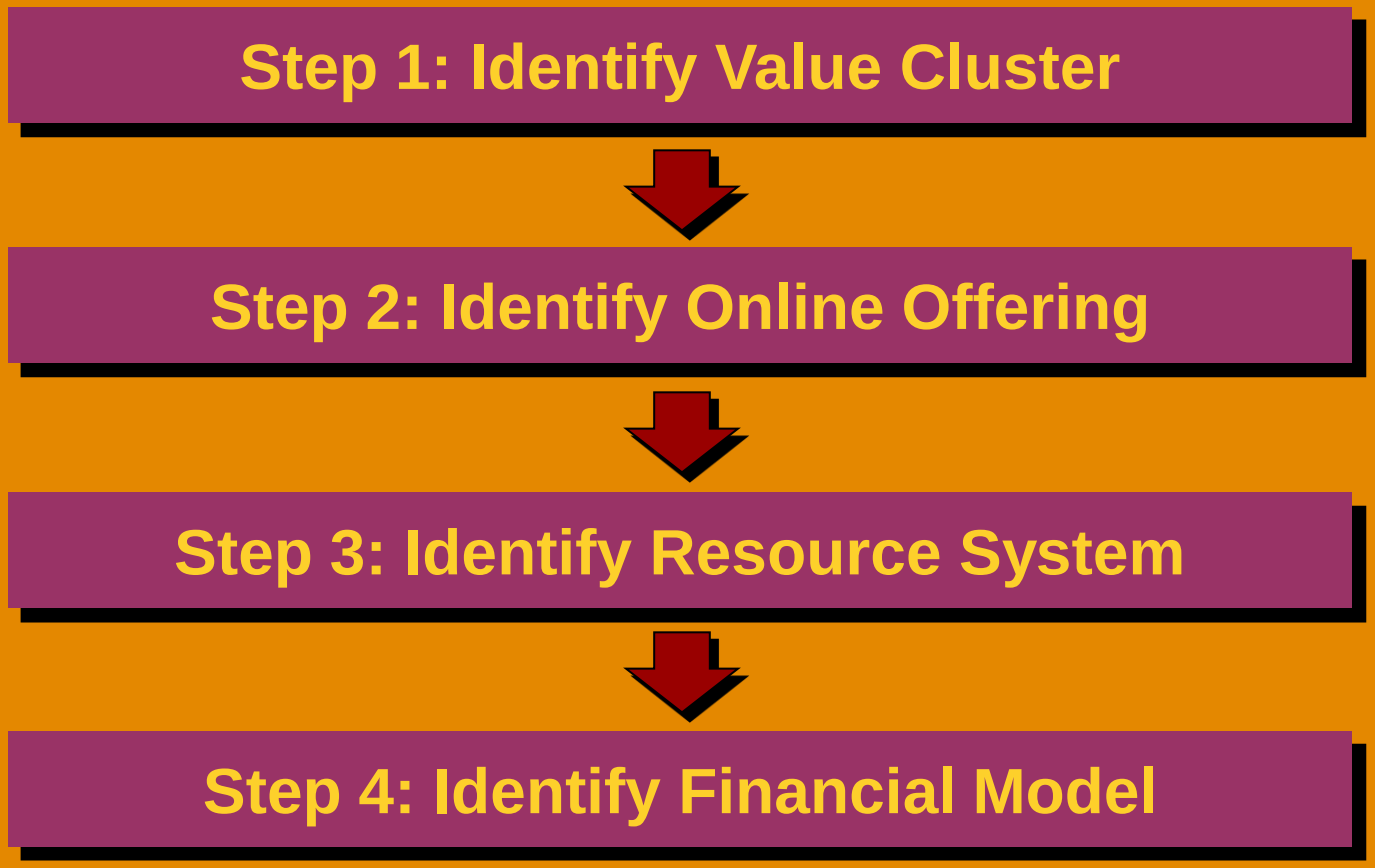
Components of a Business Model



Step 1: Value Propositions and Value Clusters

- Value Proposition - specify three things:
  - Target segment
  - Focal customer benefits
  - Key resource that give market advantage
- Value Cluster
  - Target customer segments
  - Combination of customer-driven benefits
  - Set of resources available to deliver the value cluster in a significantly better way than competitors

Step 1: Value Propositions and Value Clusters

- Choice of Segments
  - Market size and growth rates
  - Unmet or insufficiently met customer needs
  - Weak or nonexistent competitors
- Choice of Focal Customer Benefits
  - Single-benefit approach
  - Multiple-benefit approach
- Choice of Unique and Differentiating Resources
  - Tangible assets
  - Intangible assets
  - Capabilities of the organization

Step 1: Quality of a Value Proposition or Cluster

- Customer Criteria:
  - Do target customers understand the value proposed?
  - Is it relevant to their needs?
  - Is it believable?
  - Is it perceived as unique or indistinguishable from other propositions?

Step 1: Quality of a Value Proposition or Cluster

- Company Criteria:
  - Is the firm rally to the proposition or cluster?
  - Does the company have the resources or capabilities to own this cluster?

Step 1: Quality of a Value Proposition or Cluster

- Competitive Criteria:
  - Are other competitors trying to hold a similar proposition or cluster?
  - Can current or future competitors match this cluster?
  - How easy is it for future competitors to match this cluster?

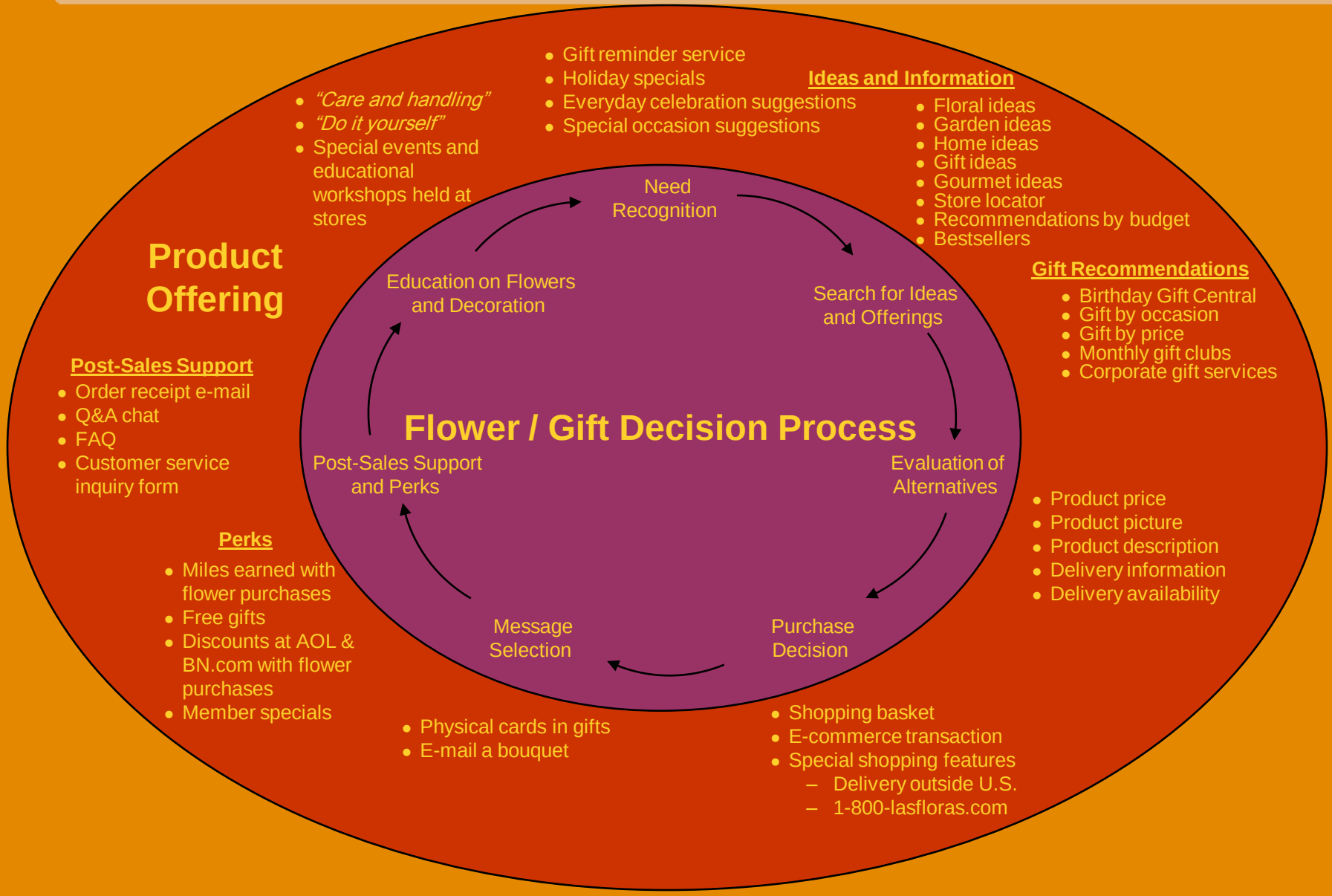
Step 2: The Online Offering

- Identify scope of offering
- Identify customer decision process
- Map offering to decision process

- Scope of the Offering
  - ***Category-Specific Dominance*** **focuses exclusively on one product category, such as flowers.**
  - ***Cross-Category Dominance*** **consist of multiple product categories, such as Amazon.com.**

Step 2: Customer Decision Process - Flowers

Step 2: Mapping Offering to Customer Decision Process for 1-800-Flowers.com

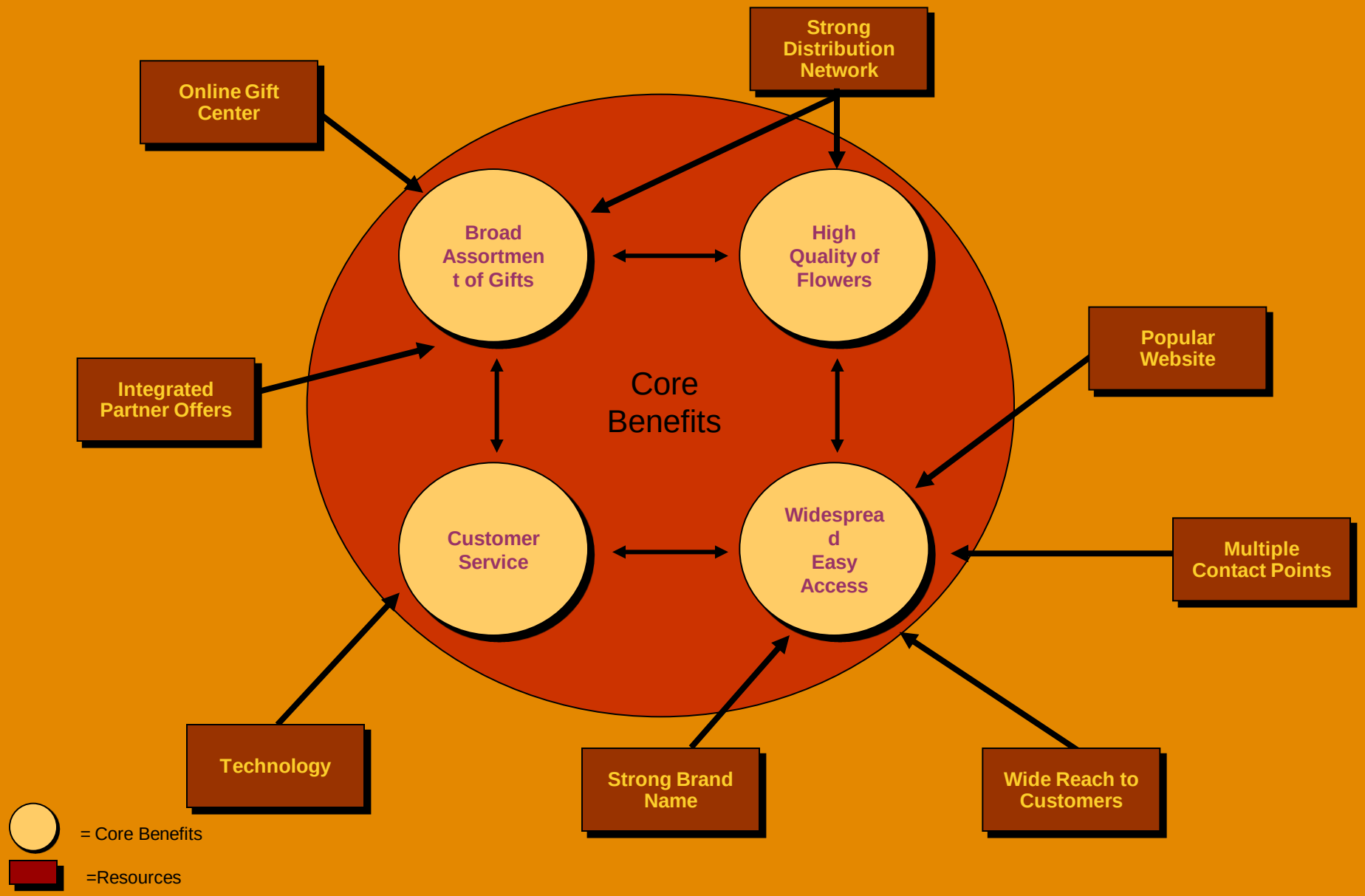


Source: Adapted from Mohanbir Sawhney, "Making New Markets," *Business 2.0* (May 1999): 116–21.

Step 3: Specifying a Resource System

- Step 3-1: Identify core benefits in the value cluster:
- Step 3-2: Identify resources that relate to each benefit
- Step 3-3: Identify to what degree the firm can deliver each benefit
- Step 3-4: Identify partners who can complete resources

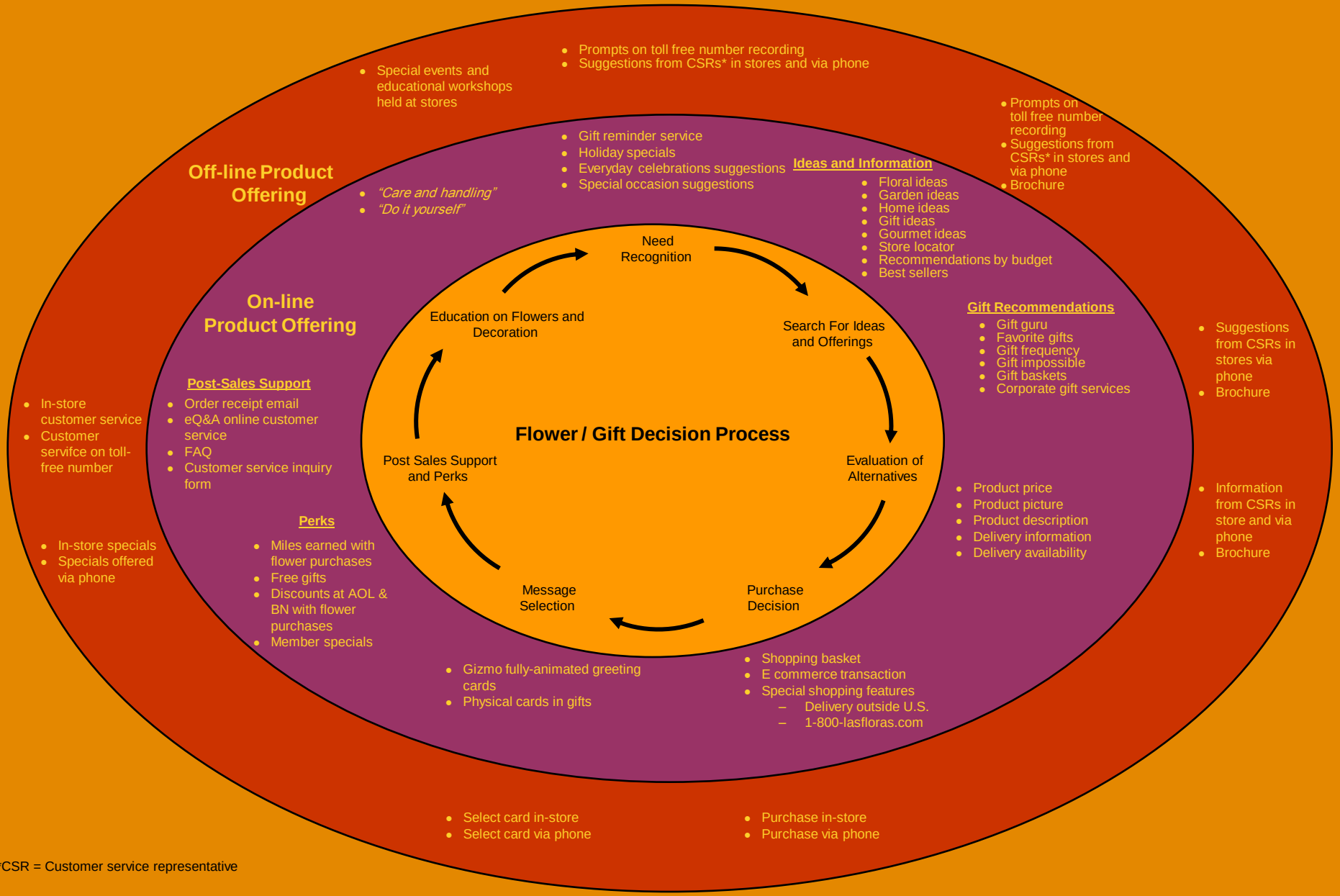
Step 3-1, 3-2: 1-800-Flowers.com Resource System



Step 3-3: Criteria to Assess Quality of a Resource System

- Uniqueness of the system
- Links between resources and benefits
- Links among resources in the system
- Links between virtual world and physical world business systems
- …

Step 3-3: Online/Offline Egg Diagram for 1-800-flowers.com



*CSR = Customer service representative

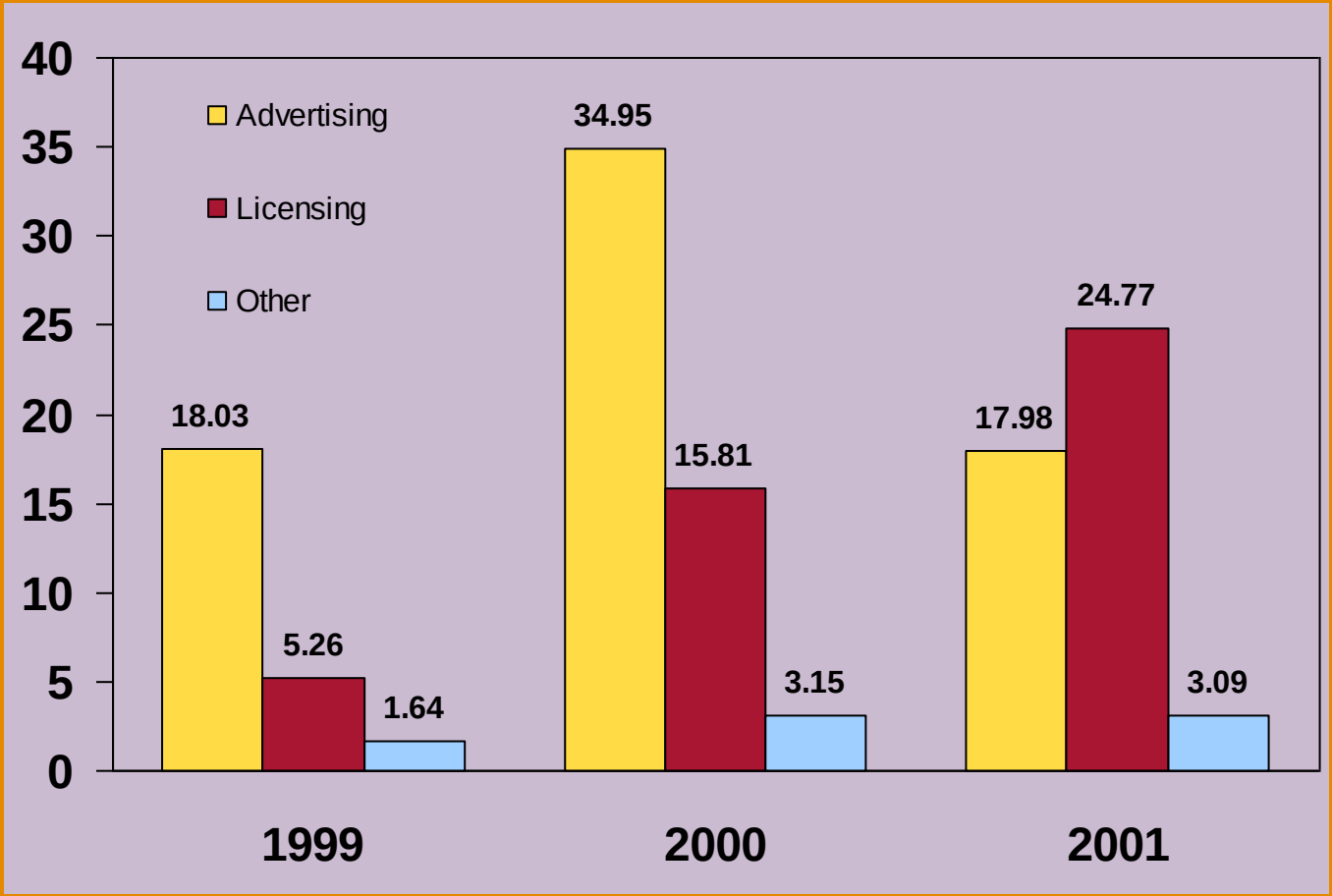
Step 3-4: The Role of Partnerships

- Portal agreements (AOL, Yahoo, MSN, etc.)
- Anchor tenant agreements (exclusive partnerships)
- Promotion agreements (cross industry promotions.)

Step 4: Revenue Models

- ***Advertising*** **- selling of ads**
- ***Product, Service, or Information Sales*** *- from the site*
- ***Transaction*** **- charging a fee or taking a portion of the transaction sum(ebay)**
- ***Subscription*** **- subscriber fees for magazines, newspapers, or other information/service businesses**
- ***License Fees*** **- licensing of content**

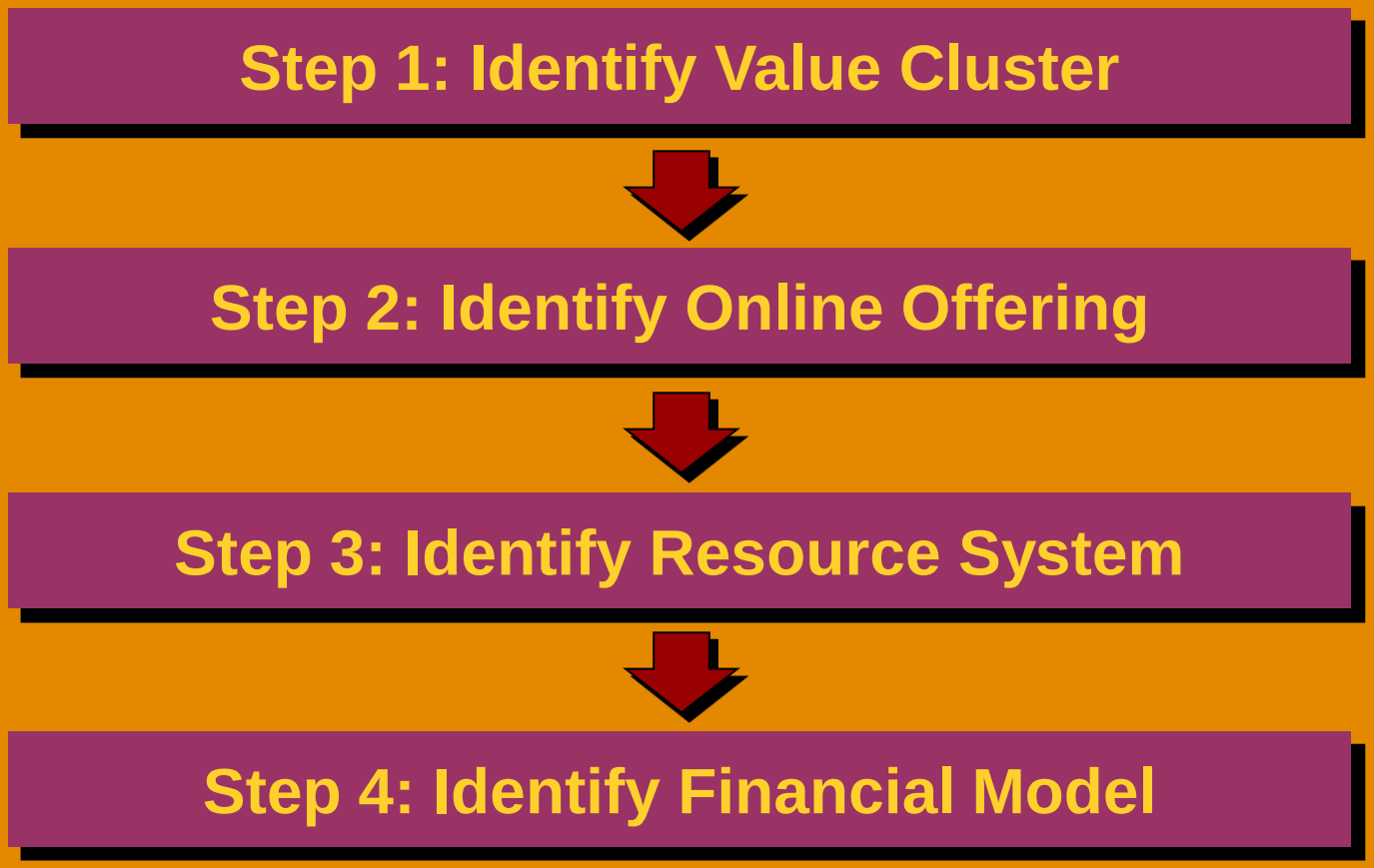
Step 4: MarketWatch.com's Revenue Distribution



Online Business Models

- Metamarket Switchboard Model
  - VerticalNet.com
- Traditional and Reverse Auction Models
  - Ebay, FreeMarkets.com
- Freshest-Information Model
  - CNet.com
- Highest-Quality Model
  - WilliamsSonoma.com
- Widest-Assortment Model
  - Send.com
- Lowest-Price Model
  - Buy.com
- Most-Personalized Model
  - eBags.com

Summary of Online Business Models

Business Models	Metamarkets Switchboard	Auction	Freshest Information	Highest Quality	Widest Assortment	Lowest Prices	Most Personalized
Core Benefits and Proposition	• Single point of access for all needs	• Depth and breadth of product assortment • Number of active buyers	• Timely and accurate information	• High-quality products with exclusivity	• Broadest inventory possible • Can lead to best prices	• Lowest prices	• Unique product, service, or experience
Online Offering	• Either category specific of across categories	• Usually a large number of products	• Broad or targeted audience	• Concentrates on smaller offerings for smaller markets	• Can be either category killer in one category or widest assortment across man categories	• Niche category or across wide variety of categories	• Geared toward a single buyer
Key Resources	• Large, active customer base • Commitment to building brand name	• Large base of buyers and sellers • Good, reliable technology • Strong brand name	• Hiring best personnel	• Ability to source products • Outstanding customer service • Strong brand	• Significant brand name • Strong logistics to manage brand name	• Ability to build strong back-office systems and leverage scale economies	• Ability to generate exceptional customer knowledge
Revenue Model	• Transaction fees • Product sales • Advertising	• Transaction fees	• Product and service sales • Subscription • Advertising	• Product, service, and information sales • Advertising	• Product sales	• Product sales	• Product sales • Subscriptions
Examples	• BabyCenter.com • Verticalnet • CarPoint.com • FashionMall.com	• eBay • Amazon Auctions • Covisint	• NYTimes.com • Salon.com • Business 2.0 • Zagat.com	• FAO.com • Ashford.com	• Amazon.com • CDNow • Sephora.com • EBags.com	• Lowestfare.com • Allbooksforless.com • Outpost.com	• Reflect.com • Sevencycles.com • eDiets.com

Summary: Components of a Business Model