Chapter 4

Business Models

Components of a Business Model

Step 1: Identify Value Cluster

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Step 2: Identify Online Offering

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Step 3: Identify Resource System

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Step 4: Identify Financial 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

- 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?

- 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?
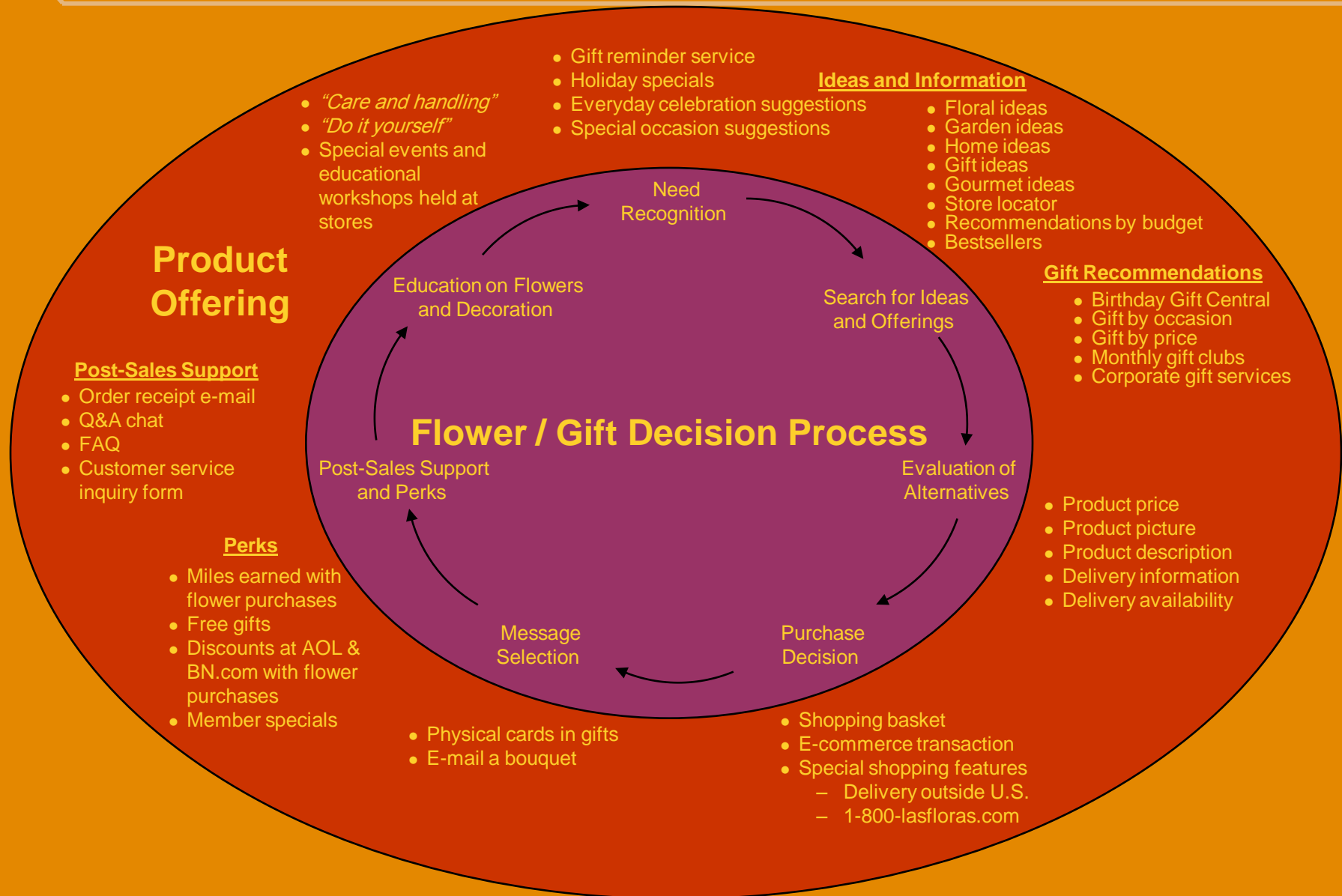
Step 2: The Online Offering

- 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.
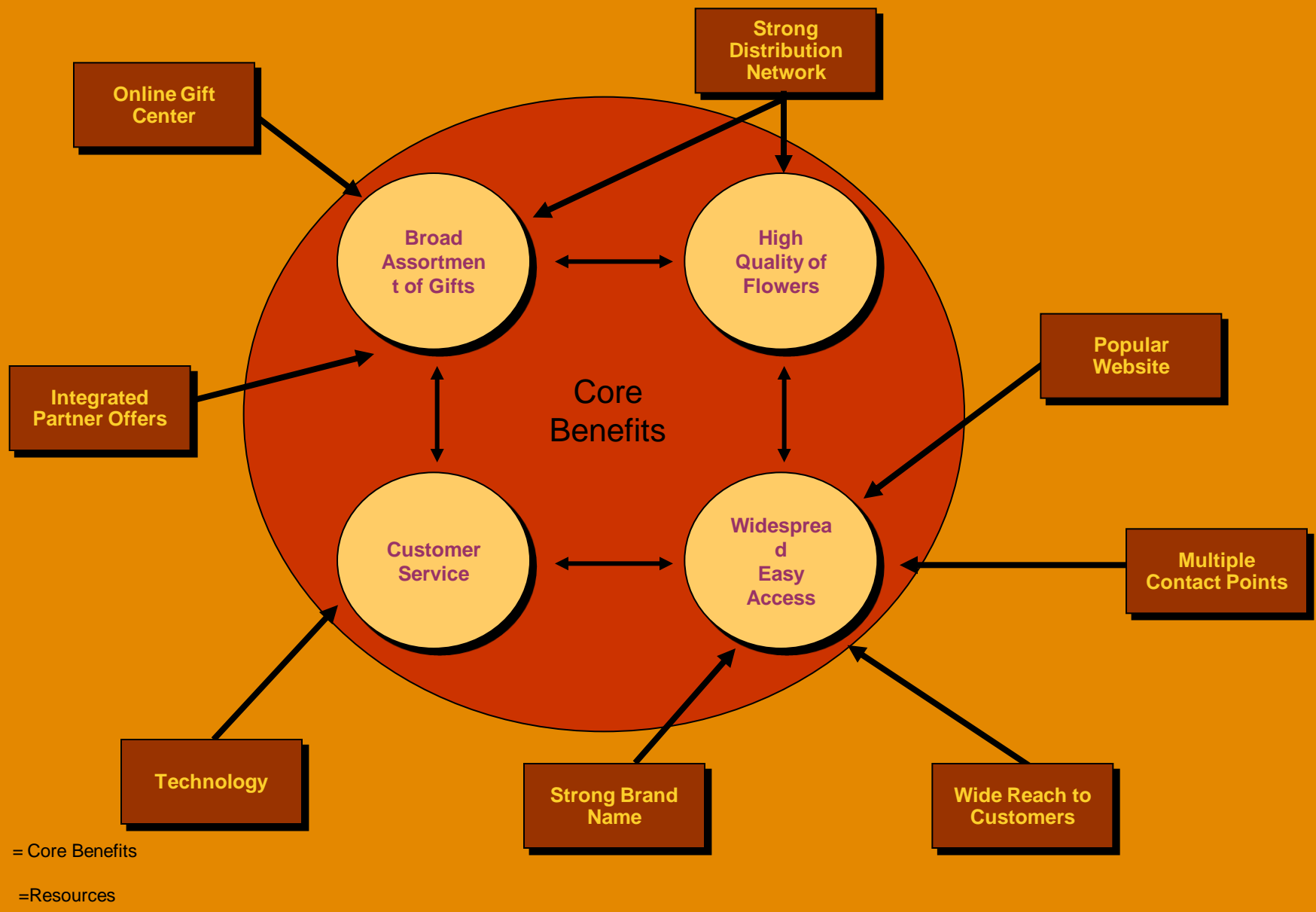
Step 2: Customer Decision Process - Flowers

PREPURCHASE

- Problem Recognition
- Information Search
- Evaluation of Alternatives

PURCHASE

- Purchase Decision

POSTPURCHASE

- Satisfaction
- Loyalty

Flower / Gift Decision Process

Need Recognition

- Gift reminder service
- Holiday specials
- Everyday celebration suggestions
- Special occasion suggestions

Ideas and Information
- Floral ideas
- Garden ideas
- Home ideas
- Gift ideas
- Gourmet ideas
- Store locator
- Recommendations by budget
- Bestsellers

Search for Ideas and Offerings

Gift Recommendations
- Birthday Gift Central
- Gift by occasion
- Gift by price
- Monthly gift clubs
- Corporate gift services

Evaluation of Alternatives

- Product price
- Product picture
- Product description
- Delivery information
- Delivery availability

Purchase Decision

- Shopping basket
- E-commerce transaction
- Special shopping features
  - Delivery outside U.S.
  - 1-800-lasfloras.com

Message Selection

- Physical cards in gifts
- E-mail a bouquet

Post-Sales Support and Perks

Perks
- Miles earned with flower purchases
- Free gifts
- Discounts at AOL & BN.com with flower purchases
- Member specials

Post-Sales Support
- Order receipt e-mail
- Q&A chat
- FAQ
- Customer service inquiry form

Education on Flowers and Decoration

- *"Care and handling"*
- *"Do it yourself"*
- Special events and educational workshops held at stores

Product Offering

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

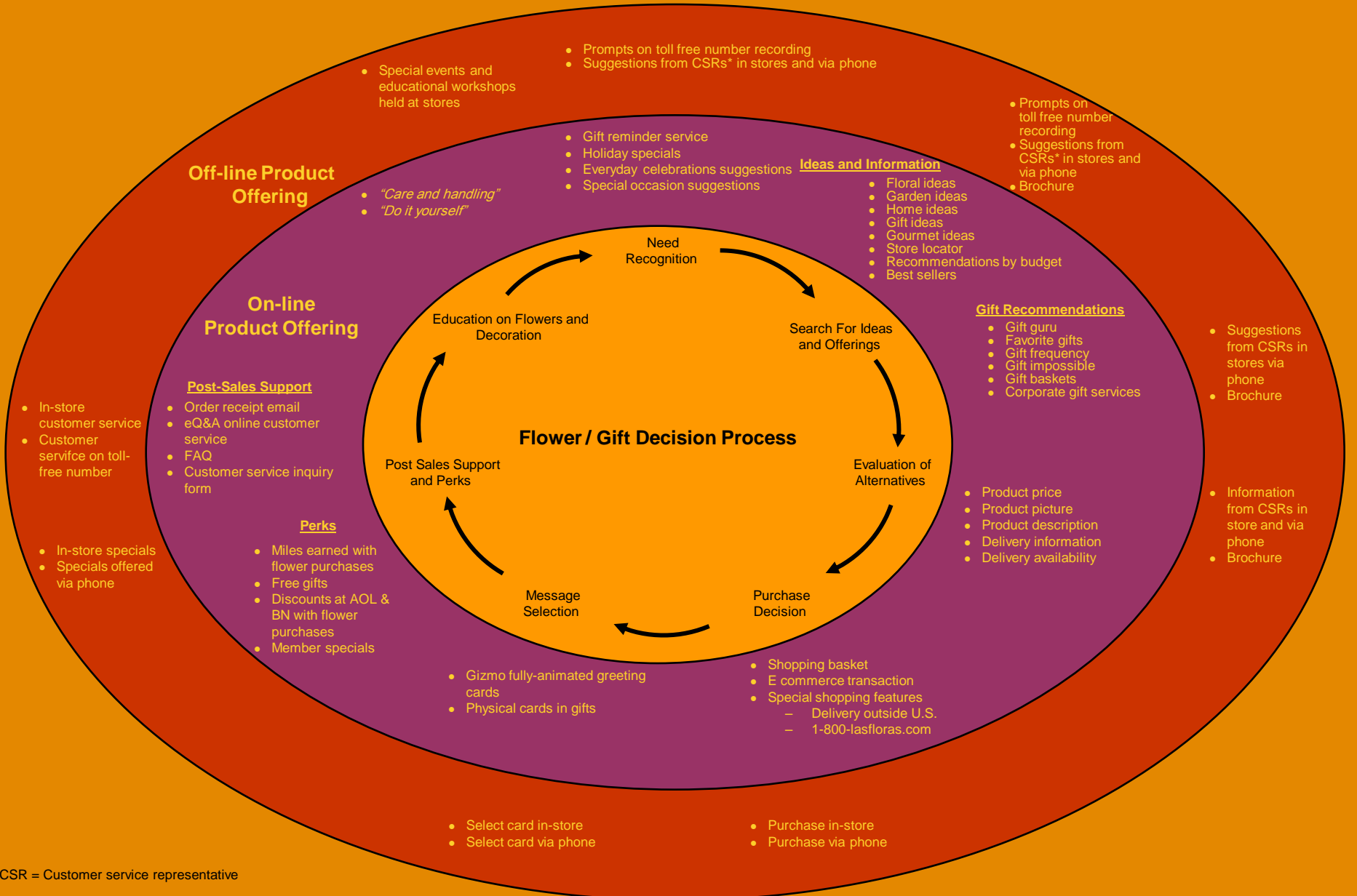- Step 3-4: Identify partners who can complete resources

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

Strong Distribution Network

Online Gift Center

Integrated Partner Offers

Popular Website

Multiple Contact Points

Technology

Strong Brand Name

Wide Reach to Customers

Broad Assortment of Gifts

High Quality of Flowers

Customer Service

Widespread Easy Access

Core Benefits

= Core Benefits

=Resources

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

Off-line Product Offering

On-line Product Offering

Flower / Gift Decision Process

- Need Recognition
- Search For Ideas and Offerings
- Evaluation of Alternatives
- Purchase Decision
- Message Selection
- Post Sales Support and Perks
- Education on Flowers and Decoration

- Special events and educational workshops held at stores
- Prompts on toll free number recording
- Suggestions from CSRs* in stores and via phone

- Gift reminder service
- Holiday specials
- Everyday celebrations suggestions
- Special occasion suggestions

"Care and handling"
"Do it yourself"

Ideas and Information
- Floral ideas
- Garden ideas
- Home ideas
- Gift ideas
- Gourmet ideas
- Store locator
- Recommendations by budget
- Best sellers

- Prompts on toll free number recording
- Suggestions from CSRs* in stores and via phone
- Brochure

Gift Recommendations
- Gift guru
- Favorite gifts
- Gift frequency
- Gift impossible
- Gift baskets
- Corporate gift services

- Suggestions from CSRs in stores via phone
- Brochure

Post-Sales Support
- Order receipt email
- eQ&A online customer service
- FAQ
- Customer service inquiry form

- In-store customer service
- Customer servifce on toll-free number

- In-store specials
- Specials offered via phone

Perks
- Miles earned with flower purchases
- Free gifts
- Discounts at AOL & BN with flower purchases
- Member specials

- Product price
- Product picture
- Product description
- Delivery information
- Delivery availability

- Information from CSRs in store and via phone
- Brochure

- Gizmo fully-animated greeting cards
- Physical cards in gifts

- Shopping basket
- E commerce transaction
- Special shopping features
  - Delivery outside U.S.
  - 1-800-lasfloras.com

- Select card in-store
- Select card via phone

- Purchase in-store
- Purchase via phone

*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

	1999	2000	2001
Advertising	18.03	34.95	17.98
Licensing	5.26	15.81	24.77
Other	1.64	3.15	3.09
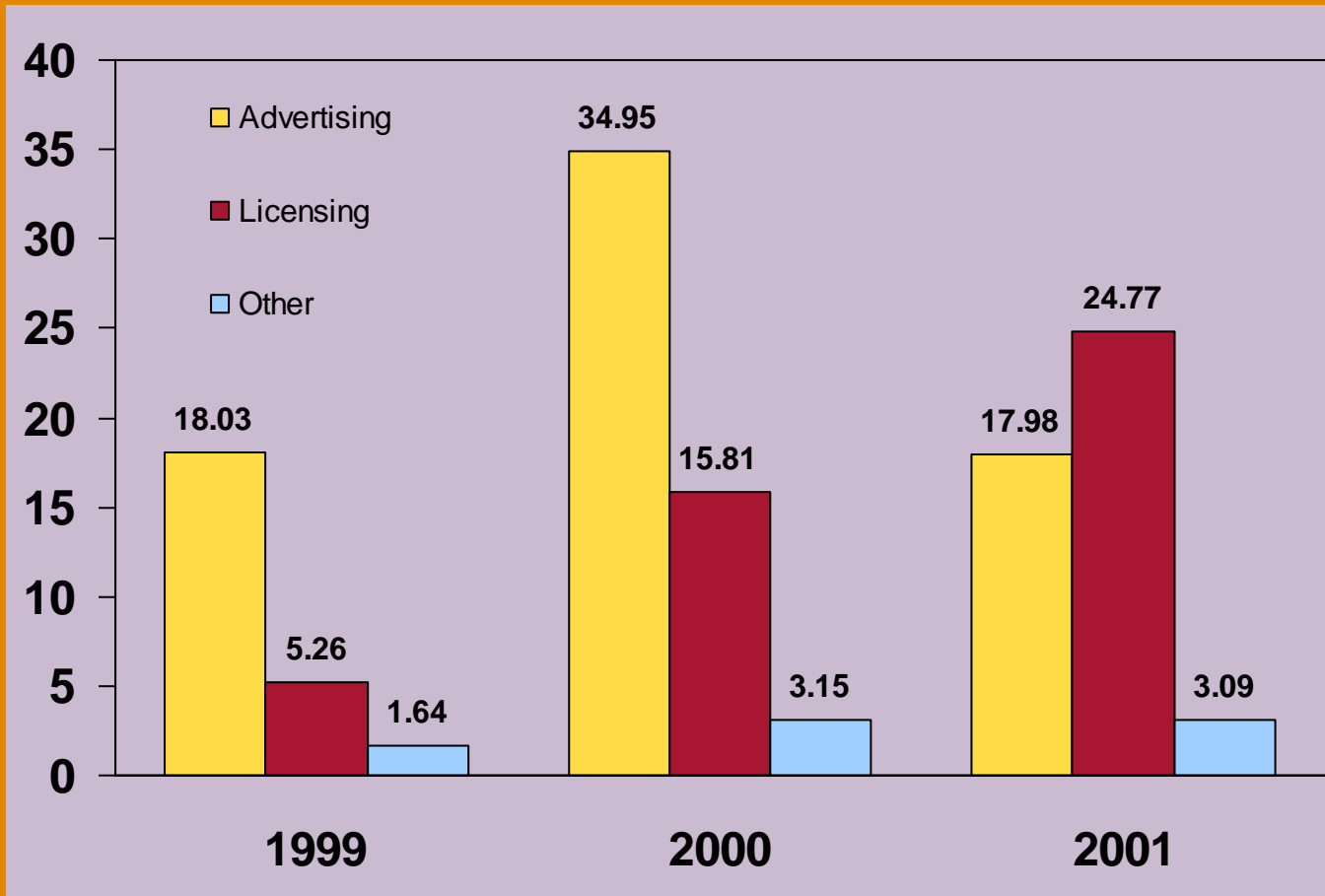
Online Business Models

- **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	• Lowest-fare.com • Allbooksfor-less.com • Outpost.com	• Reflect.com • Seven-cycles.com • eDiets.com

Step 1: Identify Value Cluster

Step 2: Identify Online Offering

Step 3: Identify Resource System

Step 4: Identify Financial Model