Unit-3

Business Models

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Introduction

- The vertical bureaucratic structure in a firm is built on the assumption that concentrating similar activities within functions, and thus separating activities which are not similar, would result in economies of scale.
- The internet and related technologies reduce coordination costs and transaction costs.
- Traditional business models focused on creating value at the line-of-business level while the new business models focus on the customers and creating value at the relationship level across products and channels.

Pressure Forcing Business Changes

- The unprecedented challenges which businesses are facing nowadays makes competition fiercer and more global. Customers become increasingly demanding because of competing products and service offerings.
- User who want to book travel package could use booking service of an online travel agency submit their specification.
- Travel agency booking service first invoke an airline booking service to compare different airline offerings and choose airline ticket best suited to travel specification(price range, departure date and time).Travel agencies also suggest a hotel and car rental service.
- Such integrated demand requires a close co-operation between the organizations involved.

- This dynamic assembly of products and services gives the customer real added value and provides enterprise with marketing advantages such as lower costs for acquiring customers and sharing program for customer loyalty.
- Companies tend to think differently: there is no reason to do something oneself unless one is really uniquely good at it.
- Uniqueness and value adding competences are the business drivers of the future.
- B’coz of the integration of product and service offerings, and the concentration of core competences , companies’ success will depend on their ability to set up cross industry partners to provide high quality, cost efficient products reflecting the customers’ needs.

Business Strategy Vs. Business Model

- In a company's e-business plan the business model takes a central position which consolidates its purpose and goals to outline all kinds of aspects relating to e-business including: marketing plan, competition, sales strategy, operations plan, management plan and financial plan.
- The business model must effectively address aspects such as: value proposition, revenue model, market opportunity, competitive advantage, market strategy, organizational development and management

Business Models – types of definitions

- Definitions that concern themselves with the *participants in a joint* business venture.
- Definitions that concern themselves with the *processes and structure of a business organization.*
- Definitions that relate to how business models are *seen from the perspective of a marketplace*

First Type of Definition

- This definition may describe business models as follows:
  - Business models specify relationships between participants in a commercial venture, benefits, and costs to each and flows of revenue
  - A business model describes how the enterprise produces, sells and delivers products and services, thus showing how it delivers value to the customers and how it creates wealth [Margretta 2002].
  - A business model addresses a simple equation

    (profit = revenue – costs) [Elliot 2002]. .

Second Type of Definition

- According to these definition business model refers to the structures and processes in place to operationalize the strategy of the business.
  - This definition describes business models as follows:
    - An architecture for the product, service and information flows
    - A description of the various business actors and their roles.
    - A description of the potential benefits for the various actors.
    - A description of the sources of revenues.

Third Type of Definition

- According to this definition business models can be analyzed from various perspectives [Chaffey 2002]:
  - Is the company involved in business-to-business activities, business-to-customer activities or both?
  - Which position does the company have in the value chain between customers and suppliers?
  - Which is its value proposition, and which are its target customers?
  - Which are the specific revenue models that will generate its various income streams?
  - How is it represented: by physical shops (‘bricks’) or online, in the virtual world (çlicks’); or even by a mixture of these two (‘bricks and clicks’)?

- Definition of Business model from the perspective of e-business as a descriptive representation of the planned activities of an enterprise that involves 3 integral components which specify:
  - The internal aspects of a business venture;
  - The type of relationships of the enterprise with its external business environment and its effective knowledge regarding these relationships;
  - How a company’s info assets – such as info systems and effective business processes typically grouped in the customer relationship management, and core business operations domains – are embedded in the business venture.

- Internal aspects include:
  - The product or service that a company delivers to its customer.
  - The sources of revenue that indicate how and to what extent a business venture is economically viable.
  - The activities acc. To which a company performs to deliver its products or services and realizes its strategic objectives.
  - The organization a company has established to realize its objectives.

- When considering the external relationships of a company, the business model defines the external actors involved in the business venture.
- As Info technology is to an increasing extent becoming an integral part of business processes and organization design, it should also characterize the business model.

Business Models –Classification

- Traditional organizational structure

  VS
- New organizational structure

Traditional Organizational Structure

- Vertical and hierarchical
- Function-based
- Product-based
- Geography-based
- Matrix-based
- High coordination costs (costs of sending, storing and retrieving information)
- Seller- or product-driven, aiming to generate value at the of line-of -business level

New Organizational Structure

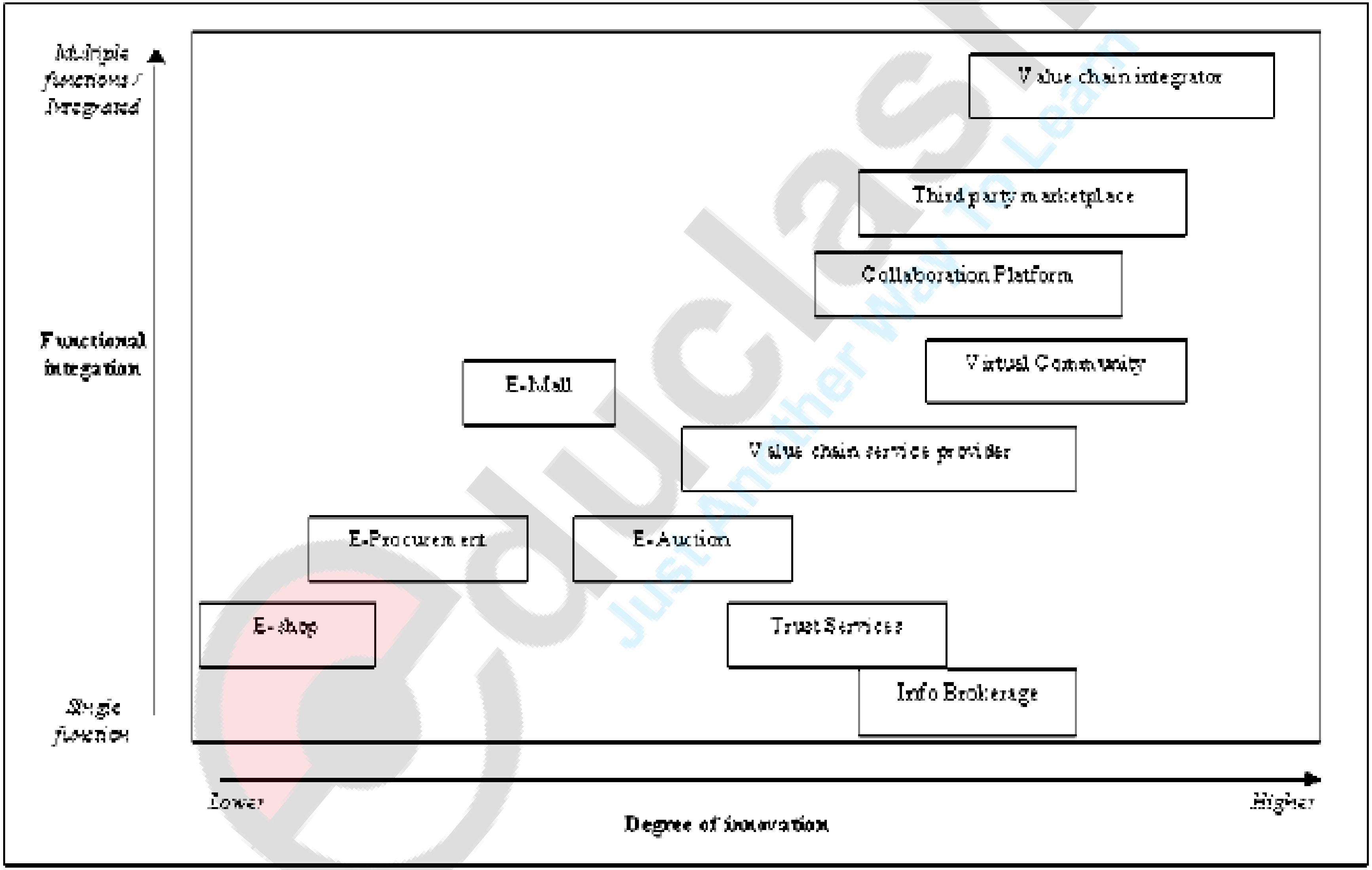
- Hierarchical, procedural and other new coordination mechanisms, which leads to network based business models
- Team-based structure.
- Customer focused: value is generated at the relations level, across products and channels.
- Creation of Internet-based business models (5 Business models Classifications)

5 Business Models Classifications

- Internet-enabled business models
- Value-web business models
- E-business enabled business models
- Market participant business models
- Cyber-intermediary business models

Internet Enabled Business Model

- 10 different types of business models that are facilitated by the Internet and based on analysis of Porter's value chain
- Internet-enabled models are classified according to the degree of innovation and functional integration involved.
- 1st dimension – Innovation: Ranges from basically applying the Internet to replace a more traditionally way of doing business to more innovative business models.
- 2nd dimension – Functional Integration: Ranges from business models that encompass one function, such as e-shop, to a business model that fully integrates multiple function

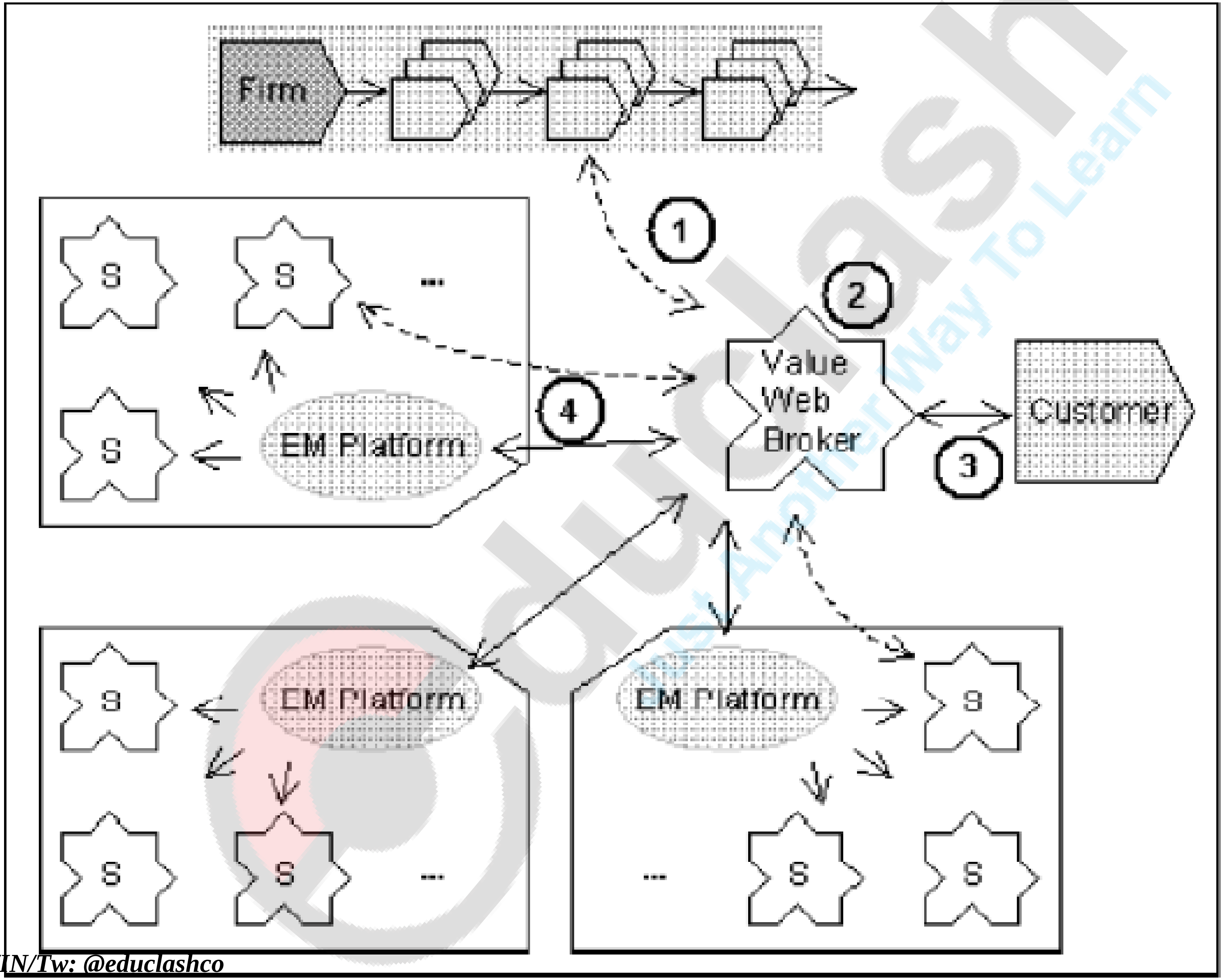

Multiple functions / Integrated
Functional integration
Single function
Value chain integrator
Third party marketplace
Collaboration Platform
Virtual Community
E-Mall
Value chain service provider
E-Procurement
E-Auction
E-shop
Trust Services
Info Brokerage
Lower
Higher
Degree of innovation

Internet Enabled Business models

- E-shop
- E-procurement
- Value chain service provider
- Value chain integrator
- E-auction
- E -mall
- Collaboration platform
- Information brokerage, trust & other services
- Third party marketplace
- Virtual communities
- Trust services

Value-web Business Model

- Value-web business model: A conception of an emerging form of a fluid and flexible organization.
- Value-web brokers: Having the central value web function of coordinator, integrator and interface.
- Consisting of several key building blocks:
  - Markets
  - Hierarchies
  - Networks
  - Information Technology
  - New-old business models


Firm
S
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...
S
EM Platform
Value
Web
Broker
Customer
1
2
3
4
EM Platform
EM Platform
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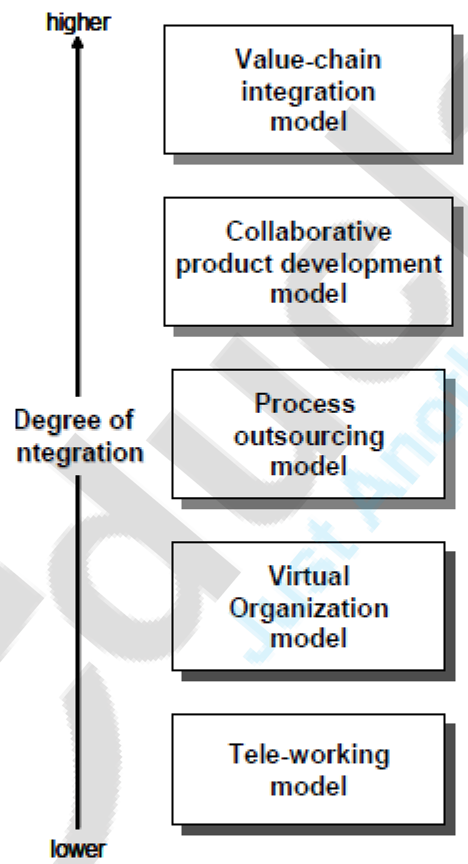
- Networks arise because companies move away from the old ‘we –do-everything –ourselves-unless’ assumption, which meant that customer value was generated by a single organization, to the ‘we-do-nothing-ourselves-unless’ assumption, which means that value is generated by the network as a whole.

The Family of e-Business Enabled Business Models

- Classification scheme valid for B2B contexts, 5 representative business model types are distinguished.
  - Teleworking model
  - The virtual organization model
  - The process outsourcing model
  - The collaborative product development model
  - And the value chain integration model
- Categorized based on the degree of integration between collaborating enterprises
- Low degree of integration means small no. of core business processes integration between networked organizations
- High degree means several core business processes integration in a meaningful way and can flow seamlessly between networked organizations


higher
Value-chain integration model
Collaborative product development model
Degree of ntegration
Process outsourcing model
Virtual Organization model
Tele-working model
lower

- **Telemarketing model:** large numbers of individuals or groups collaborating using networking and communication technologies
- Example: engineers in multinational companies collaborating across the globe on the development of new products and processes

- **Virtual organization model:** temporary or permanent collection of geographically dispersed individuals, groups and organizational units, linked electronically to complete a collaborative production process.
- Example: GeneralLife, an insurance company focusing on its core business product development and sales, while outsourcing all other functions to third party administrators
- Minimizes fixed costs and increases variable cost proportion
- Decreases new product time-to-market, and improves overall flexibility

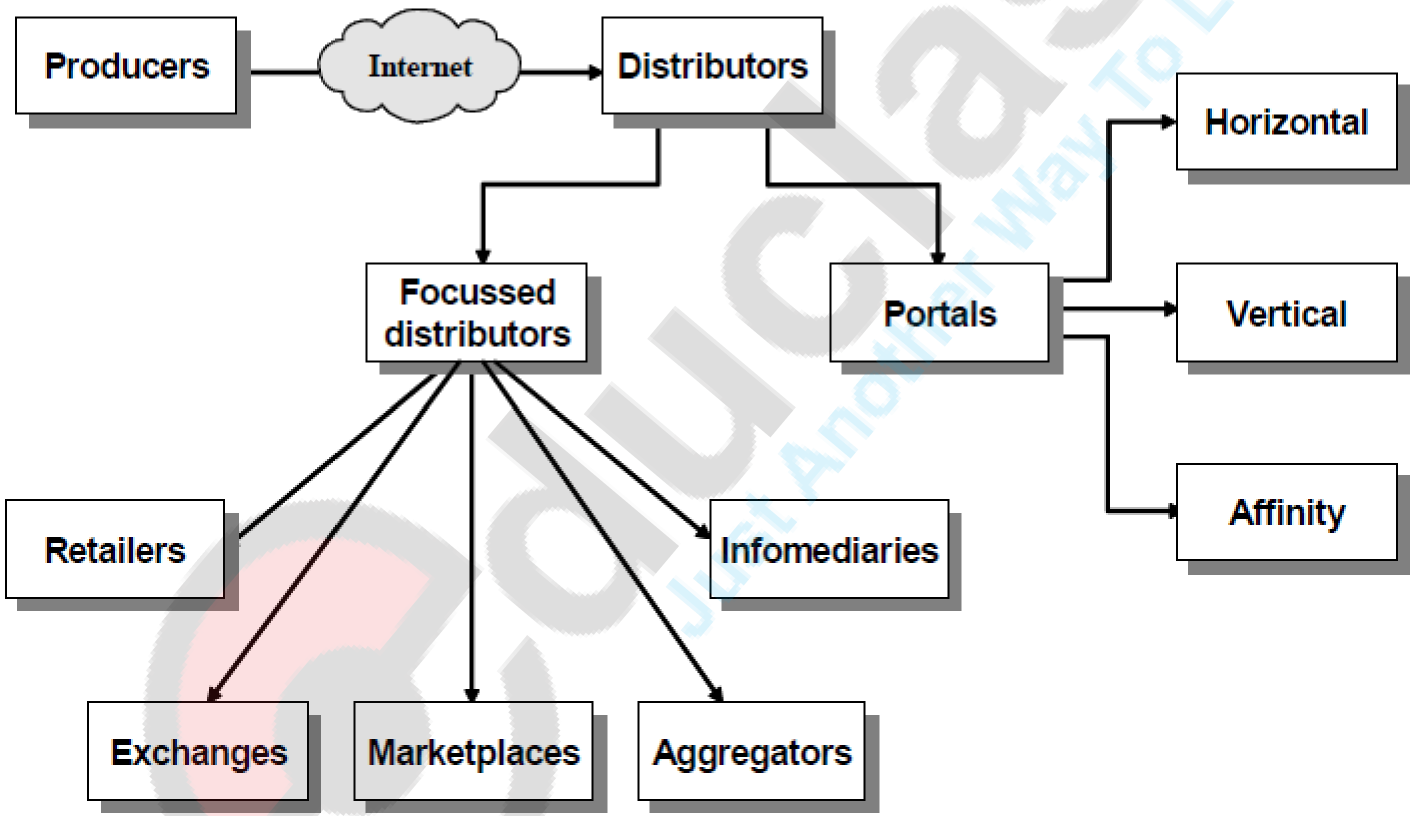
- **Process outsourcing model:** transferring responsibility for one or more processes to external suppliers.
- Human resources, accounting, and logistics functions are typical candidates for such transfer
- Critical condition for process outsourcing to work: smooth coordination and communication between service supplier and service recipient, meaning that transaction costs must be low
- Thus modern IT platforms are the critical factor

- **Collaborative product development model:** concerns with the need to coordinate product development activities across multiple companies or organizational units
- Example: Ford Motor Corporation
- Called for flexible information systems and applications, making it possible to manage and transmit design documents across various Ford centers around the world.

- **Value chain integration model:** when vendors must achieve effective coordination between 'upstream' suppliers, internal operations (e.g., manufacturing), and 'downstream' shippers and customers.
- Every company in the chain performs a set of activities contributing to the production of the chain's collaborative products

Market Participants Business Model

- More generic classification of Internet-Based models
- Networked business models are defined for companies doing business on the Internet as well as for network infrastructure providers.


Producers
Internet
Distributors
Focussed distributors
Portals
Horizontal
Vertical
Affinity
Retailers
Infomediaries
Exchanges
Marketplaces
Aggregators

- Starting from the value chain framework, market participant business model distinguishes Two roles key: producers & distributors
- Producers (design and produce products and services)

  – Manufacturers of physical products

  – Less physical products (such as services provisioning, education and consultancy)
- Distributors (consists of focused distributors and portals)

  – Retailers (who sell inventory of which they have assumed control online)

  – Market places (facilitates online sales without having physical control over the inventory sold)

  – Aggregators (who provide information on products or services sold by others in the channel)

  – Exchanges (who may or may not complete sales online nor assume control over inventory)

  – Informediaries (a type of aggregator that brings together the sellers and buyers of information-based products)

Portal

- Acts as gateways to info and services, including electronic markets, available on the internet that customize, aggregate and integrate info for specific constituencies, and provide content management, search and categorization capabilities, collaboration, community services and other related services.
- Portals are web sites targeted at specific audiences and communities, providing:

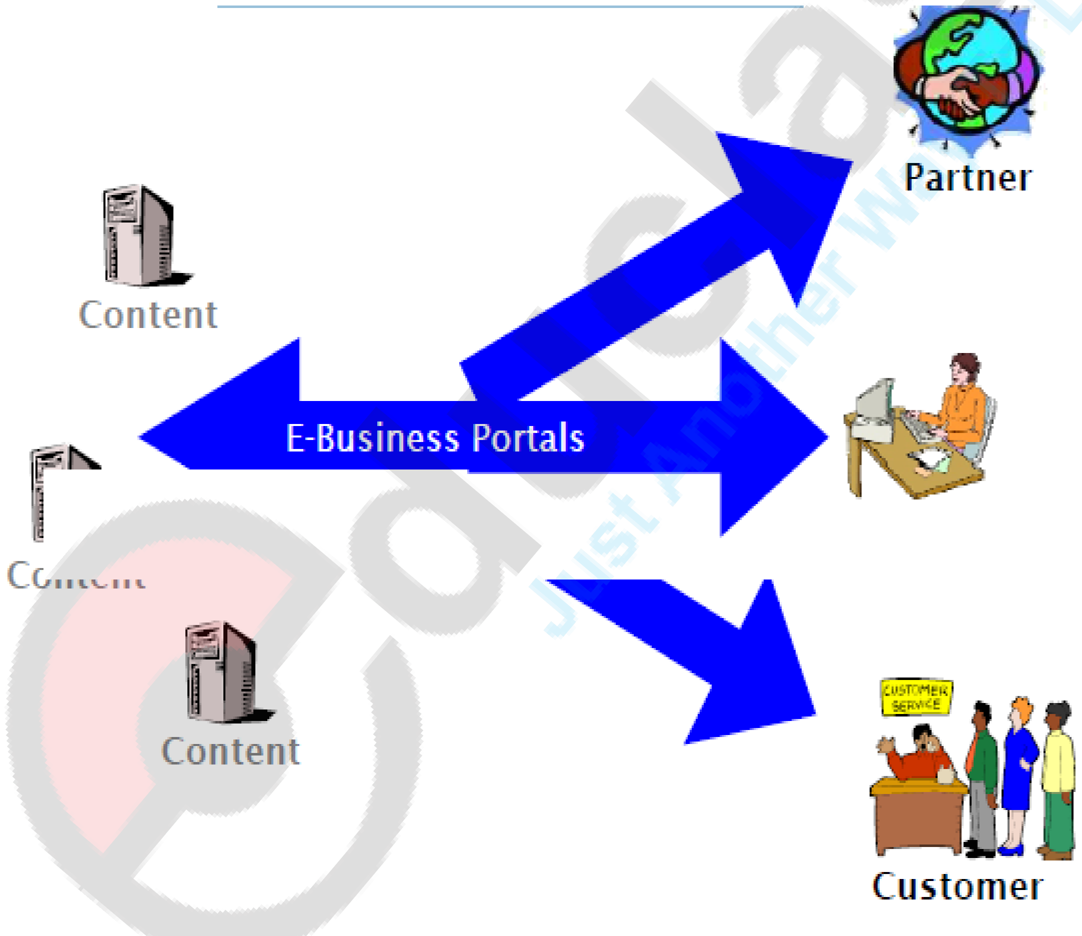
  – content aggregation/delivery of information relevant to the audience

  – collaboration and community services

  –services/applications access for target audiences

- Portals offer:
  - Custom framework for presenting Web pages and components within each page and organizing info for specific customers
  - Personalization capabilities for individual users
  - Set of ‘portlets’ (components that integrate with data, applications, content, and resources, and present info to the portal user)
  - Single sign-on to the set of applications accessed via the portal
  - Other features, e.g., search and collaboration facilities

Role of a Portal



Portal Include Three Types:

- **Horizontal Portals**: Originally created to provide search engine services, these portals focus on the entirety of the Internet, not specified audiences, from various industries
- **Vertical Portals:** Often referred to as Vortals, these sites focus on targeted areas of interest, such as healthcare or financial services.
- **Affinity Portals**: Provide highly specific information, much like vertical portals but focused on specific interest groups or market segments.

Cybermediaries Business Model

- Cybermediaries: New Network-Based Intermediaries
- Definition: organizations which operate in electronic markets to facilitate exchanges between producers and consumers by meeting the needs of both producers and consumers
- Examines nature of intermediation in electronic markets and its implications for structure of electronic business
- Eleven business models are proposed based on this assumption
- Each business model is characterized by its functions

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- Directories: Directory service intermediaries help consumers find producers by categorizing Web sites and providing structured menus to facilitate navigation.
- Search Services: In contrast to the directories, search sites (e.g. Lycos and Infoseek) provide users with the capabilities for conducting keyword searches of extensive databases of Web sites/pages.
- Malls: The term virtual mall or internet mall is often used to refer to any site that has more than two commercial sites linked to it.
- Virtual Resellers: The malls described above provide cyber infrastructure, but they do not own inventory or sell products directly.
- Web Site Evaluators: they help consumer choose between websites by offering some form of evaluation. Consumers may be directed to a producer's site via a new type of site that offers some form of evaluation, which may help to reduce some of the risk to consumers.

- Publishers Web sites are "traffic generators" that offer content of interest to consumers (e.g. Information Week or Wired Magazine).
- Auditors are not direct intermediaries, but serve the same functions as audience measurement services in traditional media.
- Forums, Fan Clubs, and User Groups Sites such as these are also not necessarily direct intermediaries, but can play a large role in facilitating customer-producer feedback and supporting market research.
- Financial Intermediaries Any form of electronic commerce will require some means of making or authorizing payments from buyer to seller.
- Spot Market Makers bring buyers and sellers together. The emergency of such a service isn't surprising considering the speed with which e-networks can distribute information.
- Barter Networks – Buyers and sellers exchange goods rather than pay for them with money.
- Intelligent Agents :Intelligent agents are often discussed as the answer to user problems with navigation in the chaos of the Internet.

Networked Business Models

- Companies wish to adopt networked business model must develop organization view and an information technology view.
- The organization view concerns their role and position in their value chain: how will they add value for their customers and providing the inputs.
- Also establishes their and their partners willingness to engage in long-term collaboration as well as strength of their collaboration links.
- An information technology view shared by all partners is required to set up an appropriate technology environment of support the electronic links between them.
- Networked business models, which are built on electronic links with other business, require common IT platforms in order to enable interoperable systems to support the business collaboration.
- Such platform contains number of components, among which are standards, standard enterprise information systems, applications such as ERP, CRM, standard components with which to build interoperable applications and business protocols.