



Week 4

Developing an Effective Business Model

MG4001

Instructor: Dr. Saif Maqbool

Reading Book Chapter: 04

Book Name: Entrepreneurship by Bruce R. Barringer & R. Duane Ireland





Learning Objectives – Chapter 4

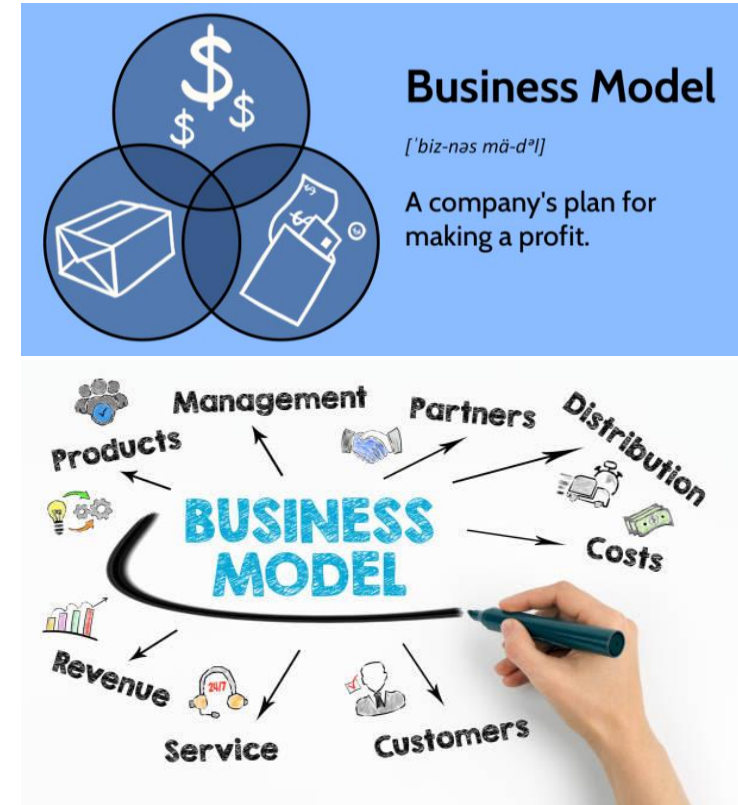
1. Describe business models and discuss their importance.
2. Identify and describe the two general types of business models—standard and disruptive business models.
3. Explain the components of the Barringer/Ireland Business Model Template that entrepreneurs can use to develop a business model for their firm.

Business Models

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□ Business Model

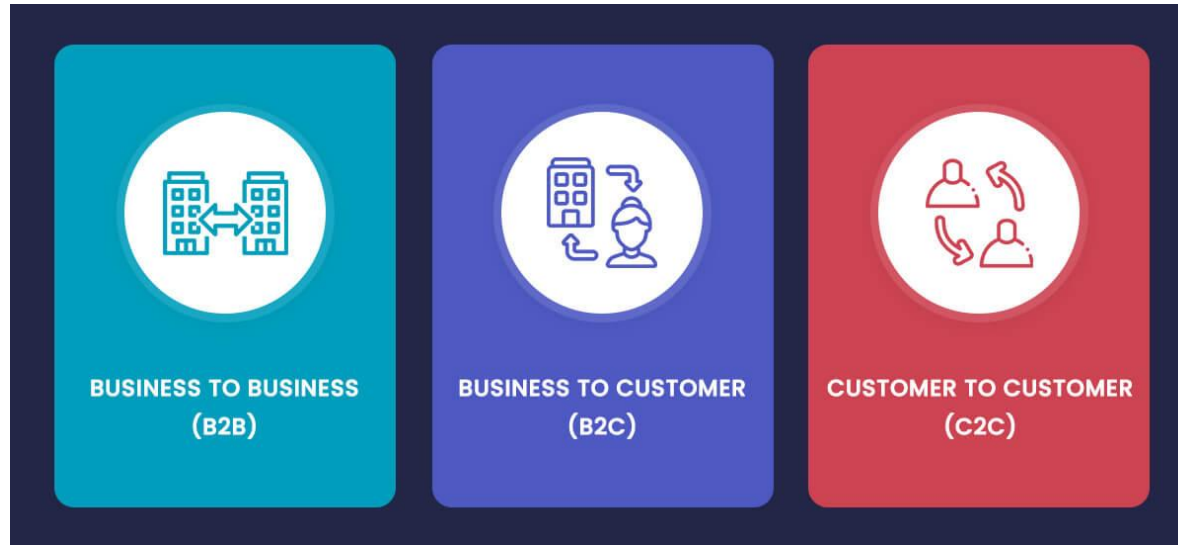
- A business model is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders.
- The proper time to develop a business model is following the feasibility analysis stage and prior to fleshing out the operational details of the company.
- A firm's business model is integral to its ability to succeed both in the short and long term.



Business Models

4-4

Business models for startups: A broad classification



General Categories of Business Models

4-5

Standard Business Models

- Standard business models depict existing plans or recipes firms can use to determine how they will create, deliver, and capture value.
- There are several standard or common business models, which are shown on the next slide.



<https://www.prismatic.com/business-models-for-startups/>

Standard Business Model	Name	Description	Examples of Entrepreneurial Firms (or Types of Firm) Utilizing This Model
Advertising Business Model	Advertising Business Model	Business model based on providing advertisers access to highly targeted customer niches.	Google, Facebook, Pinterest
Auction Business Model	Auction Business Model	Currently synonymous with eBay, the auction business model has been around since 500 bc. The idea is to provide a platform for individuals and businesses to sell items in an auction format.	eBay, uBid.com
Bricks and Clicks Business Model	Bricks and Clicks Business Model	A business model in which a company integrates both offline (bricks) and online (clicks) presences.	Apple, Barnes & Noble, J. Crew
Franchise Business Model	Franchise Business Model	A business model in which a firm that has a successful product or service (franchisor) licenses its trademark and method of doing business to other businesses (franchisees).	24 Hour Fitness, Panera Bread, iLoveKickboxing.com
Freemium Business Model	Freemium Business Model	A business model in which a firm provides a basic version of its service for free, and makes money by selling a premium version of the service.	Dropbox, Evernote, MailChimp
Low-Cost Business Model	Low-Cost Business Model	A well-established business model that relies on driving down costs and making money by servicing a large number of customers.	Southwest Airlines, Warby Parker, Costco
Manufacturer/Retailer Business Model	Manufacturer/Retailer Business Model	A business model in which a manufacturer both produces and sells (online, offline, or both) a product.	Apple, Fitbit, Tesla Motors
Peer-to-Peer Business Model	Peer-to-Peer Business Model	A model in which a business acts as a matchmaker between individuals with a service to offer and others who want the service.	Airbnb, Uber, Task Rabbit
Razor and Blades Business Model	Razor and Blades Business Model	This model involves the sales of dependent goods for different prices— one good (a razor) is sold at a discount, with the dependent good (blades) sold at a considerably higher margin.	Game Consoles and Games, Mobile Phones and Air Time, Printers and Ink Cartridges
Subscription Business Model	Subscription Business Model	A business model in which the customer pays a monthly, quarterly, or yearly subscription fee to have access to a product or service.	Birchbox, Blue Apron, Netflix
Traditional Retailer Business Model	Traditional Retailer Business Model	A business model calling for a firm to sell its products or services, made by others, directly to consumers at a markup from the original price. Can be sold online or offline.	Amazon, Whole Foods Markets, Zappos

Standard Business Model

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Advertising Business Model

- **ProPakistani** (<https://propakistani.pk/>)
 - A digital media platform that generates revenue through online advertisements, sponsored content, and brand partnerships.

Auction Business Model

- **PAKBIDS** (<https://www.pakbids.com/>)
 - An online auction platform where users can bid on products like electronics, vehicles, and property.

Bricks and Clicks Business Model

- **Khaadi** (<https://www.khaadi.com/>)
 - Operates both physical stores and an online e-commerce platform, allowing customers to shop in-store or online.

Franchise Business Model

- **McDonald's Pakistan** (<https://mcdonalds.com.pk/>)
 - A global fast-food franchise operating in Pakistan under a local franchisee model. Other examples include **Pizza Hut**, **KFC**, and **OPTP**.

Freemium Business Model

- **Patari** (<https://patari.pk/>)
 - A Pakistani music streaming service offering free access with ads and a premium ad-free experience through paid subscriptions.

Low-Cost Business Model

- **AirSial** (<https://www.airsial.com/>)
 - A low-cost airline in Pakistan providing affordable air travel compared to premium airlines like PIA.

Standard Business Model

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Manufacturer/Retailer Business Model

- **Sapphire** (<https://pk.sapphireonline.pk/>)
 - A textile manufacturer that also directly sells its products through branded retail stores and online platforms.

Peer-to-Peer (P2P) Business Model

- **Zameen.com** (<https://www.zameen.com/>)
 - A real estate marketplace connecting buyers and sellers directly without a middleman.

Razor and Blades Business Model

- **JazzCash & Easypaisa**
 - They offer free mobile wallets but charge transaction fees and other financial services, similar to the razor-and-blades model where the base product is free or cheap, and additional services generate revenue.

Subscription Business Model

- **Earaz Club** (<https://www.daraz.pk/>)
 - Offers a subscription service providing exclusive discounts and benefits for regular shoppers. Another example is **Tapmad TV**, a subscription-based video streaming platform.

Traditional Retailer Business Model

- **Imtiaz Super Market** (<https://imtiaz.com.pk/>)
 - A chain of physical retail supermarkets selling groceries, household items, and clothing through brick-and-mortar stores.

General Categories of Business Models

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Disruptive Business Models

- ❑ The second category is disruptive business models.
- ❑ Disruptive business models, which are rare, are ones that do not fit the profile of a standard business model.
- ❑ They are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry.
- ❑ The next slides depict four business models that were disruptive when they were introduced.

General Categories of Business Models

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Disruptive Business Model	Companies That Introduced It
Direct-to-Consumer Computer Sales (which allowed consumers to customize their computers)	Dell
Online Text Ads on Search Engines (allowed advertisers to place ads for products that searchers were already searching for)	Yahoo, Google
Software as a Service (SaaS) (By moving software to the cloud, allowed users to access the software and their data from anywhere there was an Internet connection)	Salesforce.com
Cloud-based Service to Connect Riders and People Willing to Provide Rides (Provided riders with an app that connects them with the owners of private cars)	Uber, Lyft, BlablaCar

Barringer/Ireland Business Model Template

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- Although not everyone agrees precisely on the components of a business model, many agree that a successful business model has a common set of attributes.
- These attributes can be laid out in a visual framework or template so it is easy to see the individual parts and their interrelationships.
- The Barringer/Ireland Business Model Template is shown in the next slide.

WHAT IS THE BARRINGER/IRELAND BUSINESS MODEL TEMPLATE

The Barringer/Ireland Business Model Template is divided into 4 categories and 12 individual elements including Core Strategy, Resources, Financials, Operations.

JETEK
AFRICA, ASIA, EUROPE & U.S.

Barringer /Ireland Business Model Template

Core Strategy	
Business Mission	Basis of Differentiation
Target Market	Product/Market Scope

Resources	
Core Competency	Key Assets

Financials	
Revenue Streams	
Cost Structure	Financing/Funding

Operations	
Product (or service) Production	Channels
	Key Partners

Barringer/Ireland Business Model Template



a. Core Strategy

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- ❑ The first component of the business model is core strategy.
- ❑ A core strategy describes how the firm plans to compete relative to its competitors.
- ❑ The primary elements of core strategy are:
 1. Business Mission
 2. Basis of Differentiation
 3. Target Market
 4. Product/Market Scope

Barringer/Ireland Business Model Template



a. Core Strategy

4-14

1. Business Mission

- A business's mission or mission statement describes why it exists and what its business model is supposed to accomplish.
- If carefully written and used properly, a mission statement can articulate a business's overarching priorities and act as its financial and moral compass.
- A well-written mission statement is something that a business can continually refer back to as it makes important decisions in other elements of its business model.



Barringer/Ireland Business Model Template

a. Core Strategy



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There are several rules of thumb for writing mission statements. A business's mission statement should:

- ❑ Define its “reason for being”
- ❑ Describe what makes the company different
- ❑ Be risky and challenging but achievable
- ❑ Use a tone that represents the company's culture and values
- ❑ Convey passion and stick in the mind of the reader
- ❑ Be honest and not claim to be something that the company “isn't”



Barringer/Ireland Business Model Template



a. Core Strategy

4-16

2. Basis of Differentiation

- It's important that a business clearly articulate the points that differentiate its product or service from competitors.
- A company's basis of differentiation is what causes consumers to pick one company's products over another's.
- It is what solves a problem or satisfies a customer need.
- It is best to limit a company's basis of differentiation to two to three key points.
- Make sure that your points of differentiation refer to benefits rather than features.



Barringer/Ireland Business Model Template

a. Core Strategy



4-17

3. Target Market

- The identification of the target market in which the firm will compete is extremely important.
- A target market is a place within a larger market segment that represents a narrow group of customers with similar interests.
- A firm's target market should be made explicit in the business model template.



Barringer/Ireland Business Model Template



a. Core Strategy

4-18

4. Product/Market Scope

- A company's product/market scope defines the products and markets on which it will concentrate.
- Most firms start with a narrow (or limited) product/market scope and pursue adjacent product and market opportunities as the company grows and becomes more financially secure.
- In completing the business model template, a company should be very clear about its initial product/market scope and project 3-5 years in the future in terms of anticipated expansion.

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Barringer/Ireland Business Model Template



b. Resources

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Resources

- ❑ Resources are the inputs a firm uses to produce, sell, distribute, and service a product or service.
- ❑ A firm's most important resources, both tangible and intangible, must be both difficult to imitate and hard to find a substitute for.
 - This stipulation is necessary for an individual company's business model to be competitive over the long term.
- ❑ There are two major categories of resources are:
 1. Core Competencies
 2. Key Assets

Barringer/Ireland Business Model Template



b. Resources

4-20

1. Core Competencies

- A core competency is a specific factor or capability that supports a firm's business model and sets it apart from rivals.
- A core competency can take on various forms, such as technical know-how, an efficient process, a trusting relationship with customers, expertise in product design, and so forth.
- Most start-ups will list two to three core competencies in their business model template.

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Barringer/Ireland Business Model Template



b. Resources

4-21

2. Key Assets

- Key assets are the assets that a firm owns that enable its business model to work. The assets can be physical, financial, intellectual, or human.
 - ▣ **Physical assets** include physical space, equipment, vehicles, and distribution networks.
 - ▣ **Intellectual assets** include resources such as patents, trademarks, copyrights, and trade secrets, along with a company's brand and its reputation.
 - ▣ **Financial assets** include cash, lines of credit, and commitments from investors.
 - ▣ **Human assets** include a company's founder or founders, its key employees, and its advisors.



Barringer/Ireland Business Model Template

c. Financials



4-22

Financials

- The third component of a firm's business model focuses on its financials.
- This is the only section of a firm's business model that describes how it earns money—thus, it is extremely important.
- For most businesses, the manner in which they make money is one of the most fundamental aspects of their business model.
 1. Revenue Streams
 2. Cost Structure
 3. Financing / Funding

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Barringer/Ireland Business Model Template

c. Financials



4-23

1. Revenue Streams

- A firm's revenue streams describe the ways in which it makes money.
- Some businesses have a single revenue stream while others have several.
- For example, most restaurants have a single revenue stream. Their customers order a meal and pay for it. Other restaurants may have several revenue streams—including meals, a catering service, product sales (such as bottle barbeque sauce for a barbeque restaurant), and apparel products with the name of the restaurant on them.

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Barringer/Ireland Business Model Template

c. Financials



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2. Cost Structure

- A business's cost structure describes the most important costs incurred to support its business model.
- It costs money to establish a basis of differentiation, develop core competencies, acquire and develop key assets, and so forth.
- Generally, the goal for this box in a firm's business model template is threefold:
 - ▣ Identify whether the business is a cost-driven or value-driven business.
 - ▣ Identify the nature of a business's costs.
 - ▣ Identify the business's major cost categories.

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Barringer/Ireland Business Model Template



c. Financials

4-25

3. Financing/Funding

- Many business models rely on a certain amount of financing or funding to bring their business model to life.
- At the business model stage projections do not need to be completed to determine the exact amount of money that is needed. An approximation is sufficient.
- There are three categories of costs to consider:
 - Capital costs.
 - One-time expenses, such as building a Web site and training initial employees.
 - Provisions for ramp-up expenses (most businesses incur costs before they earn revenues).
- Some entrepreneurs can draw from personal resources to fund their business. In other cases, the business may be simple enough that it is funded from its own profits from day one.
- In many cases, however, an initial infusion of funding or financing is needed.
- The business model template should indicate the appropriate amount of funding that will be needed and where the money will most likely come from.

Barringer/Ireland Business Model Template

d. Operations



4-26

Operations

- Operations are both integral to a firm's overall business model and represent the day-to-day heartbeat of a firm.
- There are three components
 1. Product (or service) Production
 2. Channels
 3. Key Partners



Barringer/Ireland Business Model Template

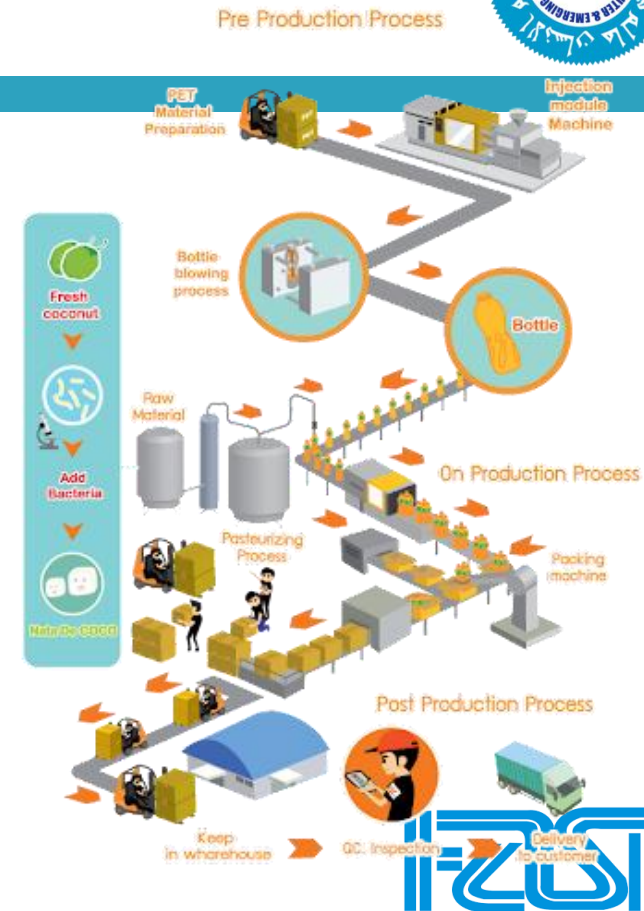
d. Operations



4-27

1. Product (or Service) Production

- This section focuses on how a firm's products and/or services are produced.
- For example, if a firm sells a physical product, the product can be manufactured or produced in-house, by a contract manufacturer, or via an outsource provider.
 - ▣ This decision has a major impact on all aspects of a firm's business model.
- If a firm is producing a service rather than a physical product, a brief description of how the service will be produced should be provided.



Barringer/Ireland Business Model Template

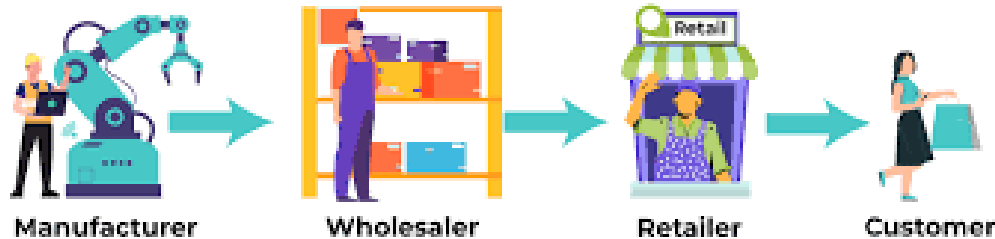
d. Operations



4-28

2. Channels

- A company's channels describe how it delivers its product or service to its customers.
- Businesses either sell directly, through intermediaries (such as distributors and wholesalers), or via a combination of both.
- Some firms employ a sales force that calls on potential customers to try to close sales. This is an expensive strategy but necessary in some instances.



Barringer/Ireland Business Model Template

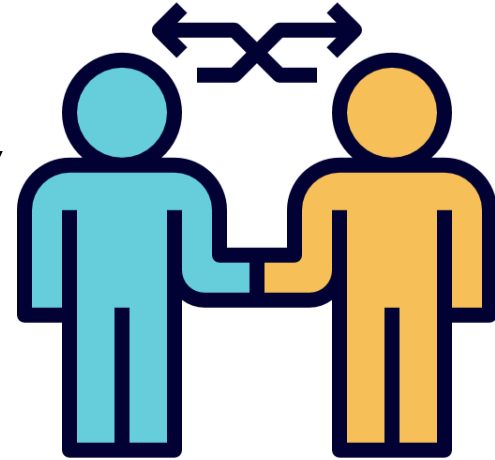
d. Operations



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3. Key Partners

- Start-ups, in particular, typically do not have sufficient resources (or funding) to perform all the tasks necessary to make their business models work, so they rely on key partners to perform important roles.
- The table on the next slide identifies the most common types of business partnerships.



<https://www.educba.com/joint-venture-example/>



Barringer/Ireland Business Model Template

d. Operations



4-30

Table 4.4 The Most Common Types of Business Partnerships

Partnership Form	Description
Joint venture	An entity created by two or more firms pooling a portion of their resources to create a separate, jointly-owned organization
Network	A hub-and-wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms
Consortia	A group of organizations with similar needs that band together to create a new entity to address those needs
Strategic alliance	An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved
Trade associations	Organizations (typically nonprofit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying

The Business Model Canvas








Designed for:

Designed by:

Date:

Version:



<h3>Key Partners</h3>  <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p>NOTIFICATIONS FOR PARTNERSHIPS Competition and economy Reduction of risk and uncertainty Acquisition of particular resources and activities</p>	<h3>Key Activities</h3>  <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p>CATEGORIES Production Problem Solving Platform/Network</p>	<h3>Value Propositions</h3>  <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p>CHARACTERISTICS Newness Performance Customization "Getting the Job Done" Design Brand/Status Price Cost Reduction Risk Reduction Accessibility Convenience/Usability</p>	<h3>Customer Relationships</h3>  <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p>EXAMPLES Personal assistance Dedicated Personal Assistance Self-Service Automated Services Communities Co-creation</p>	<h3>Customer Segments</h3>  <p>For whom are we creating value? Who are our most important customers?</p> <p>Mass Market Active Market Segmented Diversified Multi-sided Platform</p>																	
<h3>Cost Structure</h3>  <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p>IS YOUR BUSINESS MODEL Cost Driven (leanest cost structure, low prime value proposition, maximum automation, extensive outsourcing) Value Driven (focused on value creation, premium value proposition)</p> <p>SAMPLE CHARACTERISTICS Fixed Costs (salaries, rents, utilities) Variable costs Economies of scale Economies of scope</p>	<h3>Revenue Streams</h3>  <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <table border="0"> <tr> <td>FIXED PRICING</td> <td>ADAPTIVE PRICING</td> <td>PERFORMANCE PRICING</td> </tr> <tr> <td>Asset sale</td> <td>License fee</td> <td>Subscription fee</td> </tr> <tr> <td>Usage fee</td> <td>Product feature dependent</td> <td>Performance dependent</td> </tr> <tr> <td>Subscription fee</td> <td>Customer engagement</td> <td>Real time market</td> </tr> <tr> <td>Licensing</td> <td>Leasing/renting/leasing</td> <td></td> </tr> <tr> <td>Advertising</td> <td>Volume dependent</td> <td></td> </tr> </table>			FIXED PRICING	ADAPTIVE PRICING	PERFORMANCE PRICING	Asset sale	License fee	Subscription fee	Usage fee	Product feature dependent	Performance dependent	Subscription fee	Customer engagement	Real time market	Licensing	Leasing/renting/leasing		Advertising	Volume dependent	
FIXED PRICING	ADAPTIVE PRICING	PERFORMANCE PRICING																			
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Advertising	Volume dependent																				



DESIGNED BY: Business Model Foundry AG

The makers of Business Model Generation and Strategyzer

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