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Management
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Business Models

Objectives

1. What is Vision and Mission?
2. Value Proposition
3. **Business Model**
4. Core Competency and Competitive advantage
5. Sustainability



Vision

➤ Vision

Informed and forward looking statement of purpose that defines the long term destiny of the firm.

Intel's Vision



Mission

➤Mission

It completely describe the company's goals and customers while incorporating the basic tenets of the vision statement.



INTEL

Mission Statement:

Through computing innovation,
we push the boundaries of smart
and connected technology to
make amazing experiences
possible for every person on earth.



Value Proposition

➤ Definition

- Value is the worth, importance or usefulness to the customer.
- Value proposition states who the customer is and describes the values offered to this customer.

➤ Five values offered to a customer

| Values | Descriptors |
|------------|--|
| Product | Performance, Quality, Feature, Brand, Selection, Search, Safe |
| Price | Fair, Visible, Consistent, Reasonable |
| Access | Convenient, Location, Nearby, At-hand, Easy to find |
| Service | Ordering, Delivery, Return, Check-out |
| Experience | Emotional, respect, Ambiance, Fun, Intimacy, Relationship, Community |

Value Proposition (contd..)

➤ Primary/Secondary values

One value is selected to dominate the value proposition and the second value to differentiate the offering and the remaining value must meet the industry norms.

[Crawford and Matthews, 2001]

➤ Unique Selling proposition (USP)

It is a short version of the firms value proposition which explains the key benefits of the firm's offering as compared to a key competitor.

e.g. FedEx:

Positively, Absolutely overnight

Primary/Secondary values for leading firm

| | | Primary value | | | | |
|-----------------|------------|---------------|-------|------------|---------|------------|
| | | Product | Price | Access | Service | Experience |
| Secondary value | Product | - | | Amazon.com | | |
| | Price | | - | | | |
| | Access | Google | | - | | |
| | Service | Toyota | | | - | |
| | Experience | | | | | - |

This exercise is to be completed in the lab session

Business Design

- The design of a business is the means for delivering value to customers and earning a profit from that activity.
- The business design incorporates the selection of customer, its offerings, the tasks it will do itself and those it will outsource and how it will capture profits.
- The resulting outcome of the business design process is “**The Business Model**”.

Business Model

- A business model is a set of planned assumptions about how a firm will create value for all its stake-holders [Magretta, 2002].
- A business model is the framework that connects a technology to economic profit.
- The business model answers questions about the customers, profit and value.

Elements of a Business Model

| Elements | Interpretations |
|-------------------------------|---|
| Customer Selection | <ul style="list-style-type: none"> • Customer • Offering relevant to the customer |
| Value Proposition | <ul style="list-style-type: none"> • Unique benefits |
| Differentiation and Control | <ul style="list-style-type: none"> • Relationship • Sustainability of competitive advantage |
| Scope of product and activity | <ul style="list-style-type: none"> • Scope • Activities in-house/Outsource |
| Organizational Design | <ul style="list-style-type: none"> • Organizational Architecture |
| Value Capture for profit | <ul style="list-style-type: none"> • Total value for profit • Protection of profitability |
| Value for talent | <ul style="list-style-type: none"> • Selection of good people • Leverage of talent |

<https://www.youtube.com/watch?v=XnLaQzi8xJc>

Business Model of Dell Computers

| Elements | Outcomes |
|---|---|
| Customer Selection: High relevance to the customer | <ul style="list-style-type: none"> Corporate, Government, Education, Consumer |
| Value Proposition: Unique benefits | <ul style="list-style-type: none"> A customized computer at a good price with great service |
| Differentiation and Control: Sustainability of competitive advantage | <ul style="list-style-type: none"> Customer relationship Customized product Direct sales Channel |
| Scope of product and activity | <ul style="list-style-type: none"> Desktop, Laptops and Servers Strong supply chain |
| Organizational Design | <ul style="list-style-type: none"> Divisional Organization |
| Value Capture for profit | <ul style="list-style-type: none"> Opportunities for cross sell and up-sell |
| Value for talent: Learn, grow, prosper | <ul style="list-style-type: none"> Training, learning and career opportunities |

➤ **Core Competencies** of a firm are its unique skills and capabilities.

These are rare, difficult to imitate and difficult to substitute.

- Examples:

Core competencies of **Intel** is in designing of new microprocessor with advanced technology nodes.

Core competencies of **Honda** is in designing of IC engines of all sizes.

➤ **Competitive Advantage** of a firm is its distinctive factors that give it a superior or favorable position in relation to its competitors.

➤ Sources of **Competitive Advantage** are:

Efficiency, low cost, product and manufacturing innovation, quality, reliability and customer responsiveness.



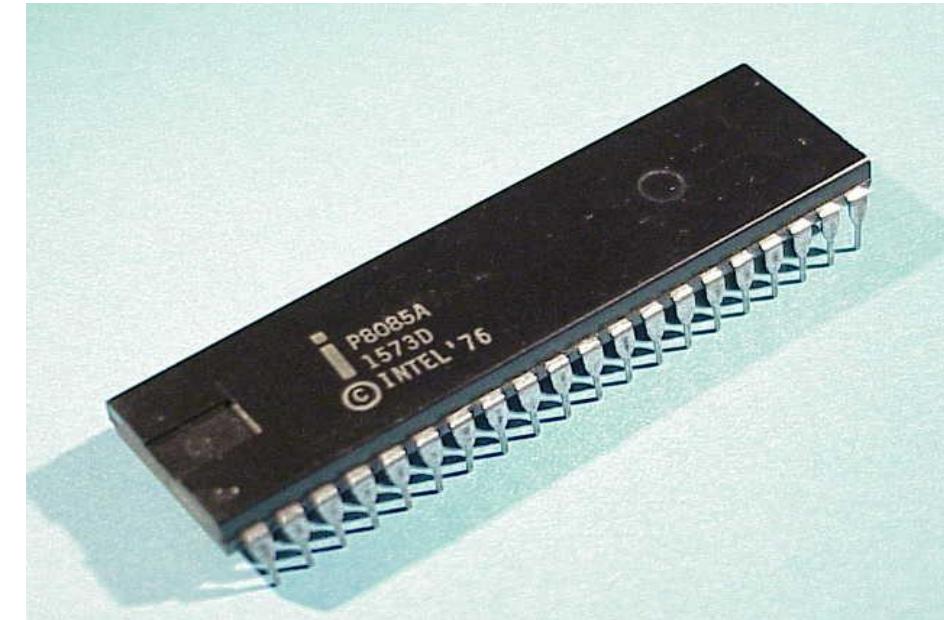
- **Sustainable Competitive Advantage** is a competitive advantage that can be maintained over a period of time measured in years. The competitive advantage is used to measure the market value of the firm and given as

$$MV = CA \times D$$

Where MV is the market value

CA is competitive advantage
and D is duration

- Designing of Cores is Sustainable Competitive advantage for Intel since 1970.



Conclusion

The vision, mission, value proposition and business model embodied within the business design of a firm and powered by a sustainable competitive advantage can lead to compelling results.

Technology Ventures: From Idea to Enterprise

Richard C. Dorf

Thomas H. Bayers

Further Readings

1. Christensen, C.M., Johnson, M.W. and Kagermann, H. (2008) Rebuilding your business model, Harvard Business Review, 86, 12,50-59.
2. Girotra, K. and S. Netessine (2014), Four Paths to Business Model Innovation, Harvard Business Review, 92(7/8): 96-103.
3. Zott, C., Amit, R. and Massa, L. (2011) The Business Model: Recent Developments and Future Research, Journal of Management, 37, 4, 1019-1042.
4. Teece, D.J. (2010), Business Models, Business Strategy and Innovation, Long Range Planning, 43, 172-194.
5. Osterwalder, A., & Pigneur, Y. (2010). Business model canvas. [practical/popular].

How can we use this information in teaching?

- Role of Vision and Mission.
- Understanding of Value Proposition for a firm. An assignment may be given to evaluate the primary and secondary value proposition of various firms (Assignment 1).
- Identify the different elements of a business model and develop the business model for different firms (As assignment 2).
- Importance of Core Competency and Competitive advantage.
- How to maintain the sustainability of the product.
- Papers can be shared with students for reading in groups and asked for presentations.
- Flipped classroom environment.

Primary/Secondary values for leading firm(Assignment 1)

| | | Primary value | | | | |
|-----------------|------------|---------------|-------|--------|---------|------------|
| | | Product | Price | Access | Service | Experience |
| Secondary value | Product | - | | | | |
| | Price | | - | | | |
| | Access | | | - | | |
| | Service | | | | - | |
| | Experience | | | | | - |

Select one business,

1. What are the jobs/pains/gains of the customer ?
 2. Define 2 distinct ways HOW one could address jobs/pains/gains of the customer.
 3. For each “HOW”, describe 2 distinct ways to capture the value.

Proposition

| Value creation (job/pains/gains) | Value delivery (the HOW) | Value capture (what stands on the bill?) |
|---|-------------------------------------|---|
| | | |
| | | |
| | | |

Elements of a Business Model (Assignment 2)

| Elements | Outcomes |
|-------------------------------|----------|
| Customer Selection | |
| Value Proposition | |
| Differentiation and Control | |
| Scope of product and activity | |
| Organizational Design | |
| Value Capture for profit | |
| Value for talent | |