Entrepreneurship Development

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Developing an Effective Business Model

Lesson Objectives

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

- Business Model
  - A business model is a firm's plan 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.

General Categories of Business Models

- Standard Business Models
  - The first category is standard business models.
  - Standard business models depict existing plans firms can use to determine how they will create, deliver, and capture value.
  - There are a number of standard or common business models, which are shown on the next two slides.

General Categories of Business Models

Standard Business Models

Business Model	Representative Companies
Advertising Business Model	Facebook
Auction Business Model	eBay, uBid.com
Franchise Business Model	Panera Bread, 24-Hour Fitness
Freemium Business Model	Dropbox
Low-Cost Business Model	Southwest Airlines, Walmart
Manufacturer/Retailer Business Model	Fitbit, Tesla Motors
Peer-to-Peer Business Model	Airbnb, Uber

General Categories of Business Models

Standard Business Models

Business Model	Representative Companies
Razor and Blades Business Model	Game Consoles and Games, Printers and Ink Cartridges
Subscription Business Model	Birchbox, Netflix
Traditional Retailer Business Model	Amazon, Whole Foods Markets

General Categories of Business Models

- 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

Disruptive Business Models

Business Model	Company or 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

General Categories of Business Models

Disruptive Business Models

Business Model	Company or Companies That Introduced It
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

Barringer/Ireland Business Model Template

- Barringer/Ireland Business Model Template
  - 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.

Barringer/Ireland Business Model Template

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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

Core Strategy

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

Core Strategy

- 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.

Wal-Mart Mission Statement

- Our mission is to enhance and integrate our supplier diversity programs into all of our procurement practices and to be an advocate for minority- and women-owned businesses.

Hindustan Unilever Limited

Vision Statement: “We will **develop new ways of doing business** with the aim of **doubling the size of our company** while **reducing our environmental impact**.”

Mission Statement: Unilever’s mission is to add vitality to life. We meet **every day needs** for nutrition, hygiene, and personal care with brands that help people feel good, look good and get more out of life.

Nestle

Vision:

To bring consumers foods that are safe, of high quality and provide optimal nutrition to meet physiological needs. In addition to Nutrition, Health and Wellness, Nestlé products bring consumers the vital ingredients of taste and pleasure.

Mission:

Make better food so that people live a better life.

Core Strategy

- 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.**

Core Strategy

- 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.

Core Strategy

- 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.

Resources

- Resources
  - The second component of a business model is 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.

Resources

- 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.

Resources

- 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.

Financials

- 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 it makes money is one of the most fundamental aspects of its business model.

Financials

- 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.

Financials

- 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.

Financials

- 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).

Financials

- Financing/Funding (continued)
  - Some entrepreneurs are able to 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.

Operations

- Operations
  - The final quadrant in a firm’s business model focuses on operations.
  - Operations are both integral to a firm’s overall business model and represent the day-to-day heartbeat of a firm.

Operations

- 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.

Operations

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- Channels
  - A company's channels describe **how it delivers** its product or service to its customers.
  - Businesses either sell direct, 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.

Operations

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- Key Partners
  - The final element of a firm's business model is 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**.

Operations

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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

Source: B. Barringer and J. S. Harrison, "Walking a Tightrope: Creating Value Through Interorganizational Relationships," *Journal of Management* 26, no. 3 (2000): 367–403.