

Management Information Systems

MIS 310

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Business Models in the Digital World

Business Model Defined

- A Business Model is a summary of a business's strategic direction that outlines how the objectives will be achieved
- A business model reflects the following:
 - What does a company do?
 - How does a company uniquely do it?
 - In what way (or ways) does the company get paid for doing it?
 - What are the key resources and activities needed?
 - What are the costs Involved?
- Business Models in the Digital World
 - Sales (product/service) Based Business Model
 - E-Commerce
 - Platform-Based Business Models
 - Service-Based Business Models

Business Models

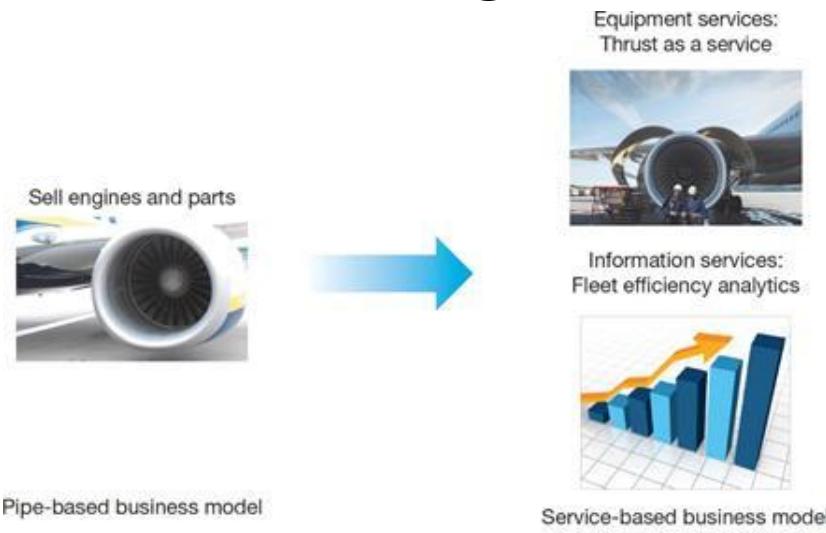
Platform-Based Business Models

- A Digital Platform enables other businesses or users to co-create value
 - Doesn't offer services themselves
 - Depends on users to offer and consume services
 - Success dependents on the network effect
 - Has to be attractive to both producers and consumers

Value Created/Exchanged	Examples
Products	Amazon Marketplace, eBay
Services	Airbnb, Uber
Payments	Square, PayPal
Investments and funding	Kickstarter, Lending Club
Content	Wikipedia, Twitter, YouTube
Communication	WhatsApp, Skype
Collaboration	Dropbox
Social relationships	Facebook, LinkedIn

Service-Based Business Models

- Under a **Service-Based Business Model**, a manufacturer can offer equipment services as well as the product
 - Focus on life span and ease of maintenance/repair of a product rather than on minimizing manufacturing costs



Source: Sergioboccardo/Shutterstock; Christian42/Fotolia.

Service-Based Business Models

- Benefits:
 - Creates continuous value for the customer instead of a one-time transaction.
 - Strengthens customer loyalty and creates recurring revenue
 - Reduce price sensitivity since customers value the added services and reliability
 - Differentiates the company from competitors

Revenue Models in the Digital World

- **Revenue Model** describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital

Revenue Type	Description	Who Is Doing This?
Traditional sales	A consumer buys a product/service from the website.	Amazon, Zappos, Nordstrom.com , iTunes
Transaction fees/Brokerage	A commission is paid to the business for aiding in the transaction.	PayPal, eBay, Groupon, Scottrade, Airbnb, Uber
Advertising	Free services are provided to customers and paid for by a third party.	Yahoo!, Google, Facebook, Twitter
Affiliate marketing	Paying businesses that bring or refer customers to another business. Revenue sharing is typically used.	Amazon's Associates program
Subscription	Users pay a monthly or yearly recurring fee for the use of the product/service.	Netflix, World of Warcraft, Spotify
Licensing	Users pay a fee for using protected intellectual property (e.g., software).	Symantec, Norton
Freemium	Basic services are offered for free, but a premium is charged for special features.	Flickr, Skype, Dropbox.com

Revenue Models in the Digital World

You'll always need a combination of either these two...



[B2C Revenue Models](#)

[B2C Revenue Model Flowchart](#)

Revenue Models in the Digital World

Free for the user		Value Proposition	
Business Model	Example	Business Model	Example
13. Non-monetary	Waze	1. Privacy/anonymity	LinkedIn Premium
14. Donation	GoFundMe	2. Loss/aversion	iCloud
15. Pay-what-youwant	Humble Bundle	3. Vanity/reputation	Gaming, The League
16. Freemium	Spotify	4. Helping peers/gifts	Coinbase
17. Barter	Simbi	5. Exclusivity/limited availability	Bugatti
		6. Convenience/shortcuts	Postmates / TaskRabbit
		7. Mystery/surprises	Srprs.me
Third party pays the bills		Pricing tactic	
Business Model	Example	Business Model	Example
8. Advertising	Instagram	18. Subscription	Dollar Shave Club
9. Marketplace	Getaround	19. Leasing	Rent the Runway
10. Data selling	PatientsLikeMe	20. Pay-per-use	Bird
11. Affiliate/referral	The Wirecutter	21. Dynamic pricing	AirBnB
12. Get one, give one	Lemonade	22. Flat rate	Dyson
		23. Upselling	Tesla's 'Model 3'
		24. Pre-sales	Exploding Kittens
		25. Fractional ownership	FlexJet
		26. Razor blade	Nespresso

B2C Revenue Models

B2C Revenue Model Flowchart

The Transformative Business Model

- Business model that can link a new technology to an emerging market need
 - Transformative business models tend to include three or more of these features:
 - personalization
 - Netflix
 - a closed-loop process
 - Nespresso
 - asset sharing
 - Airbnb
 - usage-based pricing
 - Amazon Web Services (AWS)
 - a collaborative ecosystem
 - Apple App Store
 - an agile and adaptive organization
 - Tesla

The Transformative Business Model

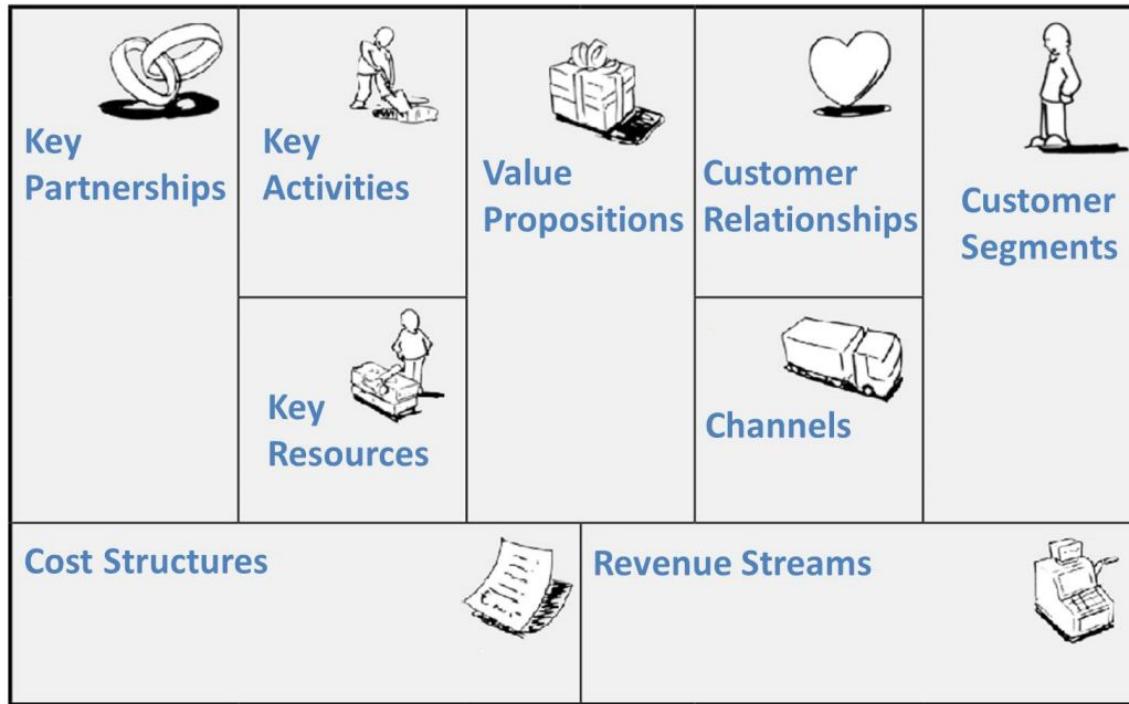
- Transformative business models examples:tend to include three or more of these features:
 - Amazon
 - **Personalization** – Recommends products based on browsing and purchase history.
 - **Closed-Loop Process** – Uses customer feedback and return data to refine product offerings, logistics, and even private-label products.
 - **Asset Sharing** – Through *Amazon Marketplace*, third-party sellers use Amazon's platform and logistics network to reach customers.
 - **Usage-Based Pricing** – *Amazon Web Services (AWS)* charges businesses based on actual computing/storage usage.
 - **Agile and Adaptive Organization** – Amazon continuously experiments (Prime, Kindle, Alexa, AWS, etc.) and adapts quickly to new markets.
 - Apple
 - **Personalization** – Custom app/music recommendations.
 - **Closed-Loop Process** – Collects device data and offers recycling/trade-in programs.
 - **Asset Sharing** – App Store with third-party developers.
 - **Agile and Adaptive Organization** – Pivoted from computers to iPhones, wearables, services

Questions

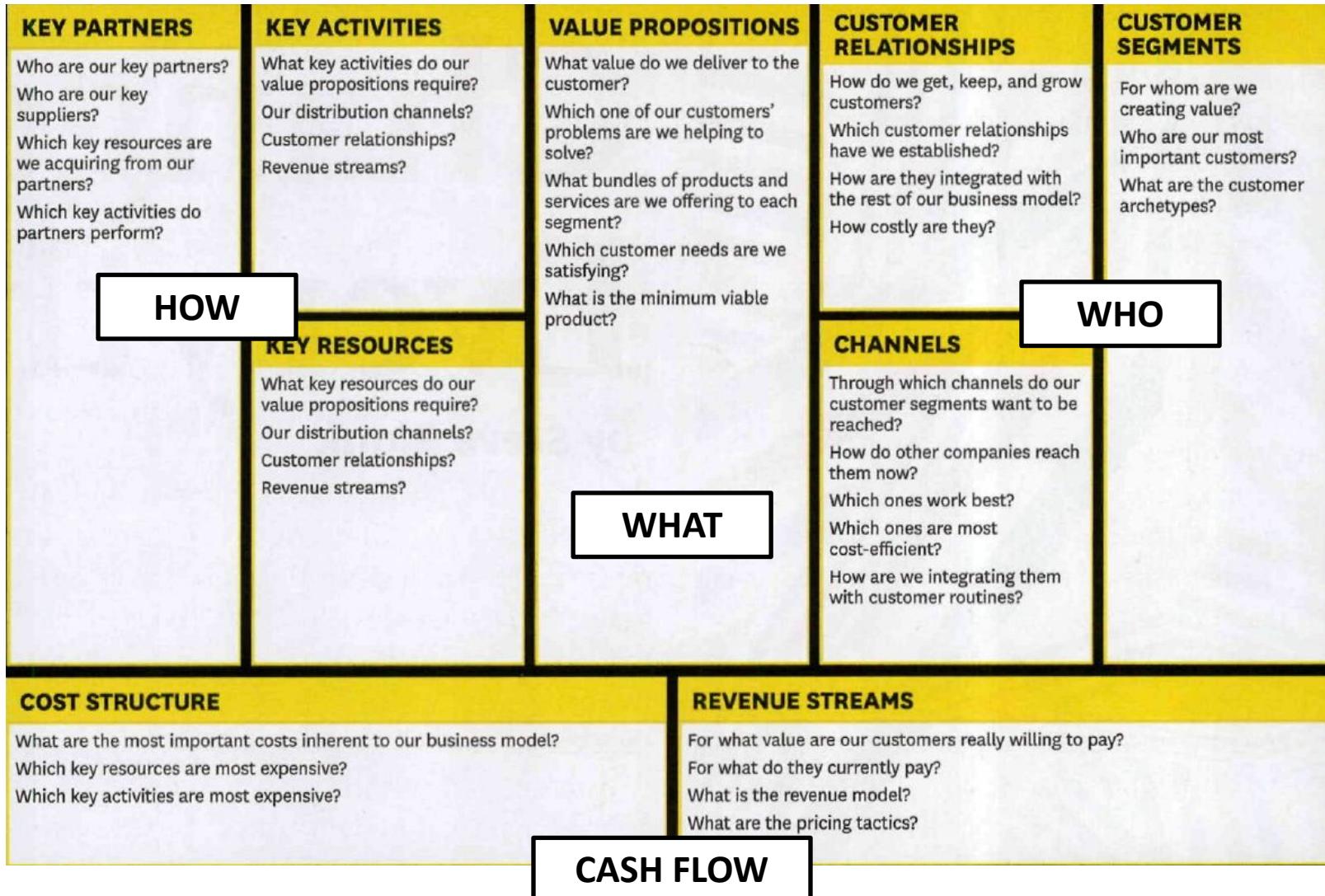
- In your own words, what does it mean that a digital platform co-creates value with its users rather than offering services directly?
- Why is the network effect so important for the success of a digital platform? Can you give a real-world example?
- What are the benefits of Service-Based Business Model?
- What are some common revenue models used by digital businesses? Which ones do you use most often in your own digital life?
- What are the differences between Advertising and Affiliate marketing revenue models?

Business Model Canvas

- Business Model Canvas is a strategic management and lean startup template for developing new or documenting existing business models.
 - Describes value proposition, infrastructure, customers, and finances
 - Illustrates potential trade-offs



Business Model Canvas



Business Model Canvas

- The Use of the Business Model Canvas
 - Describe
 - Discuss
 - Design
 - Challenge
 - Improve
 - Innovate
 - Invent
 - Pivot
 - Choose

Business Model Canvas – 9 Building Blocks

1. Customer Segments

- Mass Market
- Niche Market
- Segmented
- Diversify
- Multi-Sided Platform/ Market

2. Value Propositions

- Quantitative
- Qualitative

3. Channels

- Company Owned
- Partner Owned

Business Model Canvas – 9 Building Blocks

4. Customer Relationships

- Personal Assistance
- Dedicated Personal Assistance
- Self-Service
- Automated Services
- Communities
- Co-creation

5. Revenue Streams

- Asset Sale
- Transaction fees/Brokerage
- Advertising
- Affiliate marketing
- Subscription Fee
- Licensing

Business Model Canvas – 9 Building Blocks

6. Key Resources

- Human
- Financial
- Physical
- Intellectual

7. Key Activities

- Coincide with revenue streams

8. Key Partnerships

- Strategic alliance between competitors
- Joint ventures
- Subscription Fee
- Relationships between buyers and supplier

Business Model Canvas – 9 Building Blocks

9. Cost Structure

- Fixed Costs
- Variable Costs
- Economies of Scale
- Economies of Scope

* Source: <https://www.cleverism.com/business-model-canvas-complete-guide/>

Business Model Canvas – Uber Example



KEY PARTNERS: <ul style="list-style-type: none">❖ Drivers with their Cars❖ Payment Processors❖ Map API Providers❖ Investors	KEY ACTIVITIES: <ul style="list-style-type: none">❖ Product Development & Management❖ Marketing & Customer Acquisition❖ Hiring Drivers❖ Managing Driver Payouts❖ Customer Support	VALUE PROPOSITION: CUSTOMERS: <ul style="list-style-type: none">❖ Minimum Waiting Time.❖ Prices Lesser than the Normal Taxi Fares.❖ Cashless Ride.❖ Can see The ETA and Track The Cab on Map. DRIVERS: <ul style="list-style-type: none">❖ Additional Source of Income.❖ Flexible Working Schedules and can Work Part Time.❖ Easy Payment Procedure.❖ Drivers get Paid to be Online, even without can Requests.	CUTOMER RELATIONSHIP: <ul style="list-style-type: none">❖ Social Media❖ Customer Support❖ Review, Rating & Feedback System	CUSTOMER SEGMENTS: USERS: <ul style="list-style-type: none">❖ Those who do not own a Car❖ Those who do not want to drive themselves to a Party or Function.❖ People who like to Travel in Style and want to be Treated as a VIP.❖ Those who want a Cost-Efficient Cab at their Doorstep. DRIVERS: <ul style="list-style-type: none">❖ People who own a Car and want to Earn Money.❖ People who Love to Drive.❖ Those who Wish to be called Partners Instead of Drivers.
COST STRUCTURE: <ul style="list-style-type: none">❖ Technological Infrastructure❖ Salaries to Permanent Employees❖ Launch Events & Marketing Expenditure		REVENUE STREAMS: <ul style="list-style-type: none">❖ Car Rides on per Km/Mile basis.❖ Surge Pricing❖ UberX, Uber Taxi, Uber Black, Uber SUV etc.❖ Uber Cargo, Uber Rideshare etc.		

Elevator Pitch

- What is it?
 - In the time it takes to ride an elevator from the 1st to the 10th floor – explain the gist of your business idea to a stranger!
 - An elevator pitch conveys the businesses' key features in a clear, concise way
- Who is the primary audience?
 - Potential investors, customers, suppliers, partners, employees
 - Anyone who has or could have a stake in your business
- Why does it matter?
 - Communicate – What, why, how, where and when
 - Teaser to generate interest – the upfront hook!
 - Share a coherent vision of the firm's goals and high level strategy for achieving these goals
 - And, last but not least - Raise \$\$\$!
 - Plus, it might be your only shot!

Elevator Pitch: Key Issues

- Overview of the problem your business will solve and opportunity it will address
 - Why does this problem matter?
 - How severe is it?
 - How big is the opportunity?
 - How fast is it growing?
 - Why has it not been solved yet?
 - Why can you solve it when others could not?
- What value is being created?
- Who are the primary beneficiaries?
 - Think about who is capturing the value
 - Consider that some groups may capture more than others – these represent the ideal first customers

Elevator Pitch: Products/Services and Competitors

- What are the products and services that you will deliver to solve the problem
- How do these products and services meet the unsolved market problem?
 - Do they immediately solve the entire problem?
 - Or what is the product and service “path” for getting there?
- Who are the competitors and why are your products and services superior?
 - Focus on direct competitors
 - Consider segmenting direct competitors by type
 - Why, where and how does each competitor or type fall short

Elevator Pitch: Revenues and Resources

- How do you plan to generate revenues
 - Short term
 - Longer term if there is a twist or kicker
- Hit the high points of your business model
 - Profitability
 - Leverage – As revenues and size increases, do gross and/or operating margins improve?
 - Scale efficiencies - how do the mechanics and economics of your business model scale
- What are the resources required?
 - Money – Capital intensity?
 - Time – core development, unique product versions for different customer types, distribution channel build, etc
 - Team background and expertise – what are the critical competencies of the team?

Elevator Pitch: Teaser and Vision

- Teaser to initiate interest
 - Punchy, crisp and clearly articulated
 - Incentivizes stakeholders to care by logically presented the case for how the business benefits them
 - Delivered with confidence
 - Should leave them wanting to hear more about the details at a later date
- Communicate a common vision and goals
 - Everyone on the same page, working toward the same goal
 - Minimize non-productive activities, speeds up time to market

Elevator Pitch: Raising Money

- Raise \$\$\$
 - VCs would rather back a Grade A management team with a Grade B product than vice versa
 - Decisions to proceed forward with due diligence are often made on the basis of the elevator pitch



Elevator Pitch

HOW TO EASILY CREATE A KILLER PITCH

WHAT IS AN ELEVATOR PITCH?



An elevator pitch is a brief summary of your business designed to quickly convey the key elements of your business to investors and get them interested.



The goal of your elevator pitch is to convey your message and get the investor interested in **60 SECONDS OR LESS**

Investors are too busy to invest time thoroughly reviewing all companies they come across. So, if you can't convey your business quickly and effectively, you won't receive funding.

WHY ELEVATOR PITCHES ARE IMPORTANT



If you can't convey your story and gain their interest in 60 seconds, they'll move on to the next opportunity.



A GREAT ELEVATOR PITCH FORMULA:



One way to concisely explain your business to others is to compare it to another successful business they know and to show how you're different.

COMPARING YOURSELF TO ANOTHER SUCCESSFUL VENTURE



Elevator Pitch Tips and Examples

- Introduce your team and your business
- Demonstrate product-market fit
- Illustrate who your target customer is and the opportunity you're getting into.
- Discuss the competition and how your business differentiates from others.
- End your elevator pitches with a contextual call to action.
 - For example: Offer trying your service for free or sending out a sample to check out; ask to connect with you on LinkedIn or by email to discuss working together; suggest to pass your information along.
- [6 Real Business Model Canvas Examples with Step-by-step Instruction to Create and Refine Yours](#)

Elevator Pitch Template

Answer the following questions:

THE SIMPLE ELEVATOR PITCH TEMPLATE



What does your company do?



Who are your customers?



What key benefits do you offer your customers?



Why is your company better than competitors?



What information gives your firm more credibility?



Is there a clear and clean business sector that your company fits?

PRACTICE MAKES PERFECT



Write down/type up your elevator pitch and practice delivering it. The more you practice, the more easily you will concisely recite it within 60 seconds and the more natural it will sound.

BusinessPlanTemplate.com 

Sources:

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John Gallaugher, Information Systems: A Manager's Guide to Harnessing Technology, v. 7.0
Minder Chen, Ph.D., Management Information Systems Lectures