

# BUSINESS MODELS

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# What is a business model?

- What is a business model?
  - “A business model is a framework for making money. It is the set of activities which a firm performs, how it performs them, and when it performs them so as to offer its customers benefits they want and to earn a profit.”(Afuah, 2004)
- Can be used for many things:
  - Business model as compelling narrative
  - Business model as strategic checklist

# Business model as narrative

- Narrative AND numbers
- A story, not a strategy



-\$830 Million



-\$340 Million

# Business models



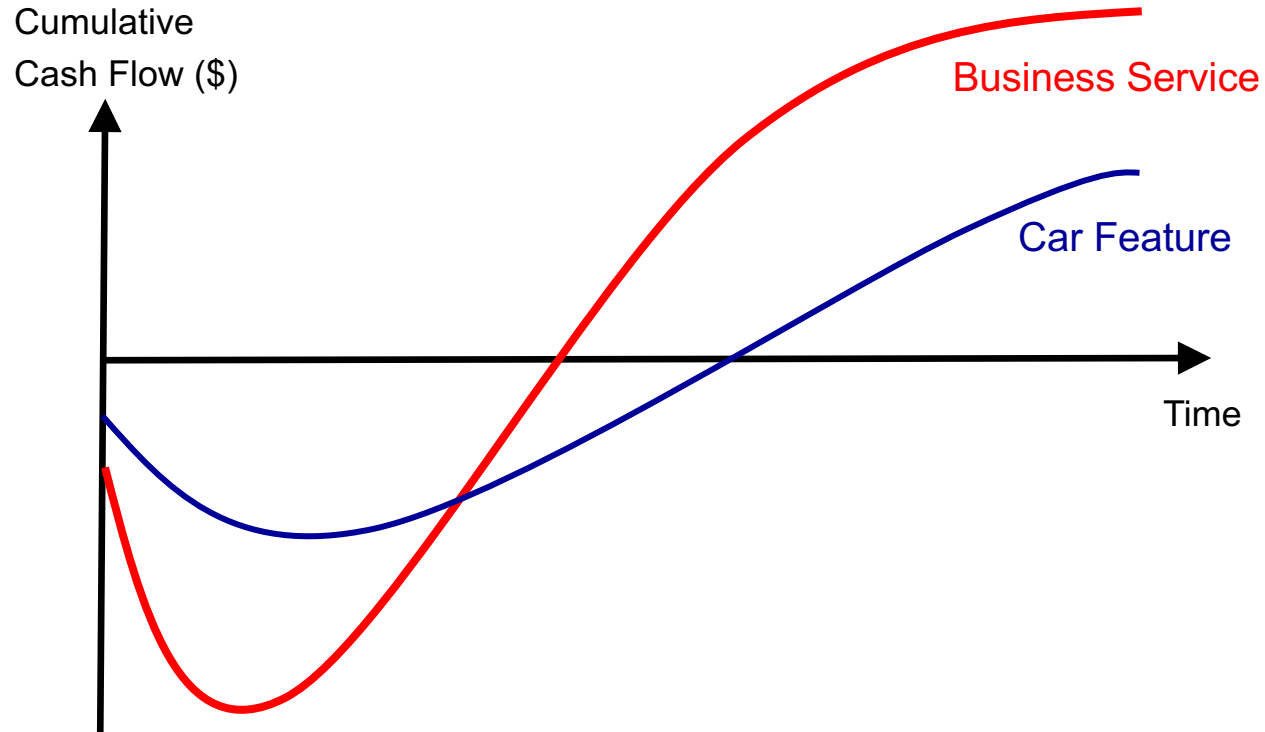
# Example

- Telematics
  - Devices that wirelessly connect vehicles to customized information and services (Forrester Research)



- Ds
  - A two-way vehicle communication system
  - Founded in 1995 as a result of a collaborative venture between GM, EDS and Hughes Electronics

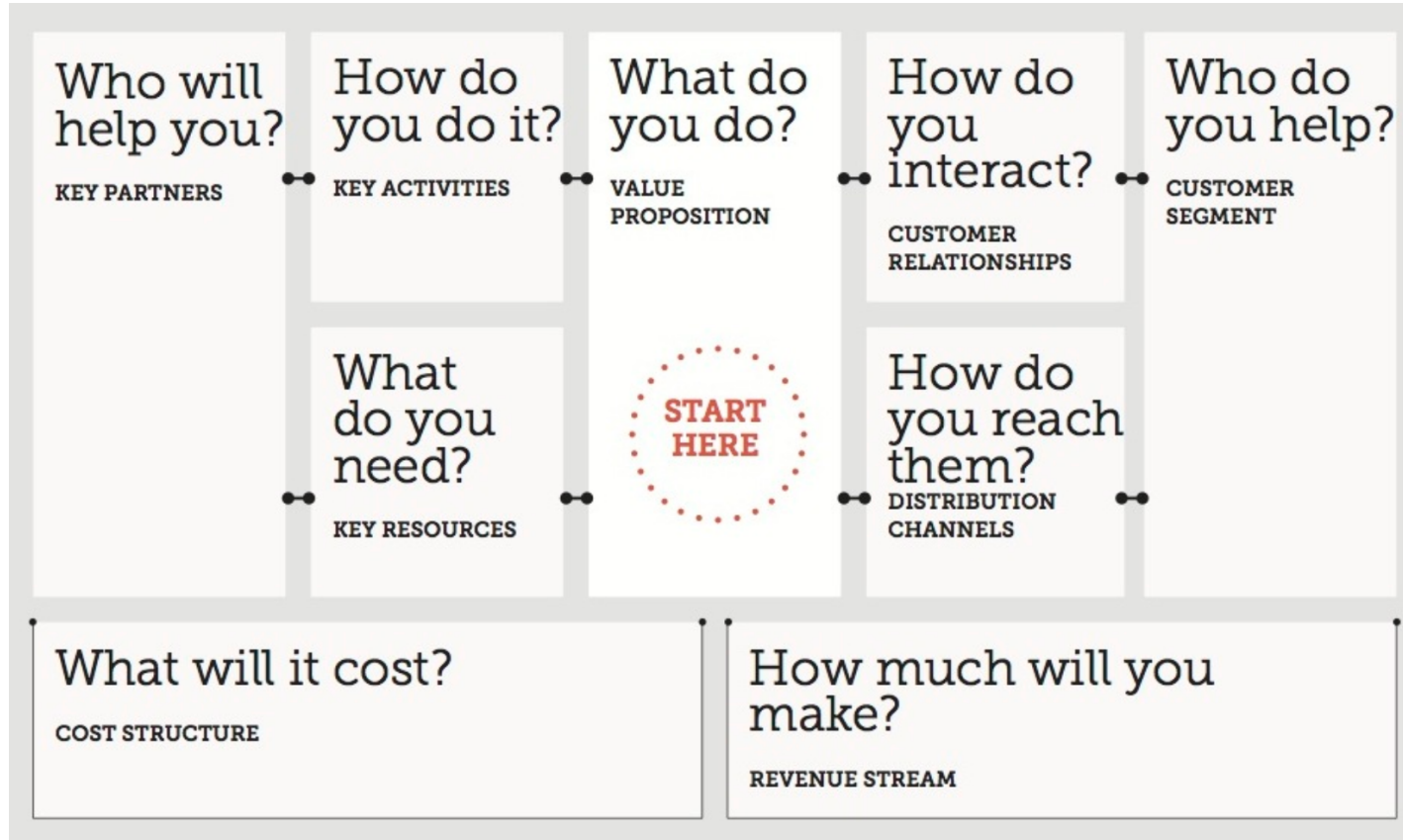
# OnStar Business Model Alternatives



# Business model as checklist

- Business models are not generally strategy
  - A business model is an outcome of a strategy
  - For entrepreneurs, they are often the same
- Four interrelated questions:
  - What is your value proposition for customers?
  - How will you build your product or services to deliver this value?
  - How will you bring your product or service to market?
  - How will you make money from your product or service?
- Not all of these issues will appear in your actual business plan

# Many possible checklists: Business model canvas





# Architecture Modles

- These are business ideas built around platforms
- Create a new value chain to bring multiple parties together



- Two types:
  - A Technology Platform: A foundational product upon which others can build products and services (in a modular way)
  - A Market Intermediary: A mechanism to significantly reduce the search and transaction costs that allow different types of customers and other players to engage with each other

# Disruptive models

- Use incumbents size against them to leapfrog them
- You need a theory about why incumbents can't win

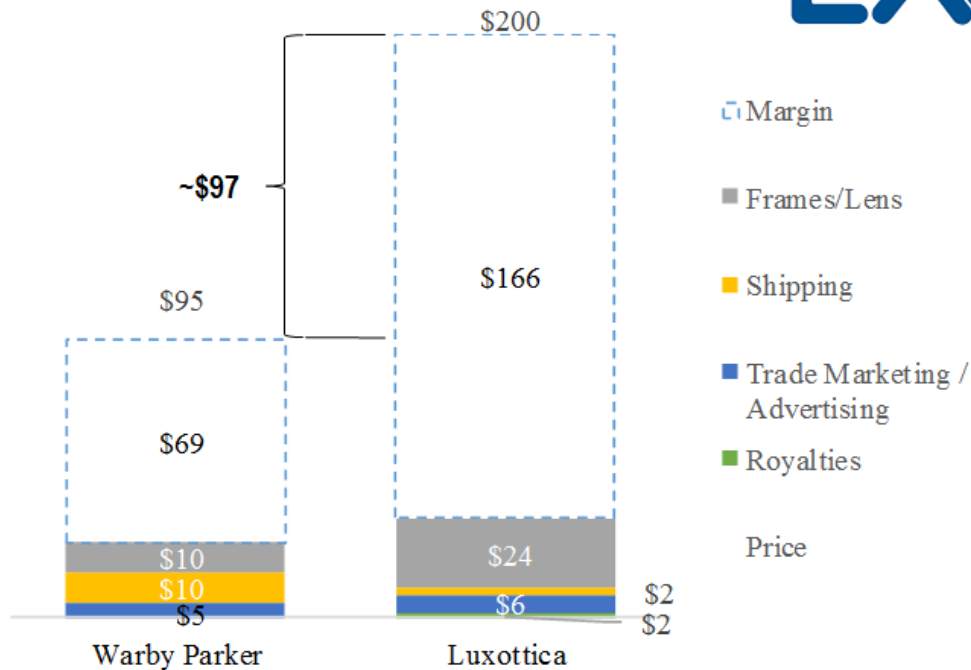


# Disruptive model



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# Value chain models

- Join existing value chains do it better
- Find a way to control resources & extract value



## Many Other models exist

- Translation
  - One region to another
  - One industry to another
- Efficiency
  - Ability to outcompete on margins
- Razor and blades (and reverse razor and blades)
- Freemium, etc

# Conclusion

- Business models are the story of how your business works
- No single approach is ideal
- Can be used for many things:
  - Business model as compelling narrative
  - Business model as strategic checklist



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