

ENT 2112 Homework 4

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All non-cited quotes are from the textbook

Review Questions

1. What is a business model?
 - "A **business model** is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders."
2. How does a freemium business model work?
 - "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."
3. What is the best time for a firm to develop its business model?
 - The best time for a firm to develop its business model is between the "initial validation of the business idea" and the "fleshing out the operational details of the company."
4. What is a standard business model and what is a disruptive business model?
 - "**Standard business models** depict existing plans or recipes firms can use to determine how they will create, deliver, and capture value for their stakeholders"
 - "**Disruptive business models**, which are rare, are models that do not fit the profile of a standard business model, and are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry."
5. What are the four major categories that comprise the Barringer/Ireland Business Model Template?
 1. "A **core strategy** describes how the firm plans to compete relative to its competitors."
 2. "A business' **mission or mission statement** describes why it exists and what its business model is supposed to accomplish."
 3. "A company's **basis of differentiation** is what causes consumers to pick one company's products over another's."
 4. "As explained in Chapter 3, a **target market** is a segment within a larger market that represents a narrower group of customers with similar interests."
 5. "A company's **product/market scope** defines the products and markets on which it will concentrate."
6. How are a firm's core strategy and its mission related to each other as parts of a business template?
 - A business' mission is a primary part of the business' core strategy.
7. What is the difference between a new market disruption and a low-end market disruption?
 - "A **new market disruption** addresses a market that previously wasn't served" while a **low-end market disruption** is "possible when the firms in an industry continue to improve products or services to the point where they are actually better than a sizable portion of their clientele's needs or desires."
8. Why do most entrepreneurial firms initially choose to compete within a narrow target market?

- Most entrepreneurial firms initially choose to compete within a narrow target market because targeting a wider audience requires a set of core competencies while a narrow market does not.
9. What is “churn,” and how does it affect a firm?
- “**Churn** refers to the number of subscribers that a subscription-based business loses each month”
10. Why are the resources a firm possesses a critical part of its business model?
- “**Resources** are the inputs a firm uses to produce, sell, distribute, and service a product or service.” Without resources, there would be no company.
11. What is a core competency?
- “A **core competency** is a specific factor or capability that supports a firm’s business model and sets it apart from its rivals.”
12. How many core competencies do most start-ups have?
- “Most start-ups will list **two to three** core competencies on the business model template” (emphasis mine)
13. What is a business’s cost structure?
- “A business’ **cost structure** describes the most important costs incurred to support its business model.”
14. What are the differences between a firm’s physical assets and its intellectual assets?
- “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.”
15. What is a revenue stream and why is it important to a firm’s short- and long-term success?
- “A firm’s **revenue streams** describe the ways in which it makes money.”
16. What are the most common revenue streams for certain business firms?
- Advertising, commissions, download fees, licensing, matchmaking, product sales, renting/leasing, service sales, subscription services.
17. What are the primary elements of the Operations component of the Barringer/ Ireland Business Model Template?
- Product or service production
 - “A company’s **channels** describe how it delivers its product or service to its customers.”
 - Key partners
18. Who are “key partners” and why are they important to the success of an entrepreneurial venture?
- **Key partners** are companies that provide a good or service to an entrepreneurial venture that the venture cannot produce on its own.
19. What are the different ways a firm may choose to deliver its product or service to its customers?
- The different business models for delivering a product or service to customers are advertising, auctions, bricks and clicks, franchises, freemium products, low-cost products, manufacturer/retailer, peer-to-peer, razor and blades, subscription, and traditional retailer.
20. Who are “freelancers” and why are these individuals potentially attractive as partners for an entrepreneurial venture?
- “A freelancer is an independent contractor who has skills in a certain area, such as website design, search engine optimization (SEO), or marketing. Start-ups hire freelancers for two reasons. First, they fill gaps that companies have in their expertise. For example, a business may need to develop

a social media strategy, but lack capabilities in that area. There are freelancers who are social media specialists, who can quickly and effectively help a business design a social media strategy. Second, freelancers can be hired on an "as needed" basis, so they are typically cheaper than hiring a part-time employee. In addition, if a business hires a freelancer for a project and it doesn't work out, a decision can be made to not hire the same person again. It is more difficult to separate from a part-time or full-time employee."

Case 4.1

34. How does Etsy create, deliver, and capture value for its shareholders?

- "Etsy has three revenue streams. The first is the 20 cent listing fee for each item listed on the site. While 20 cents doesn't sound like much, there are more than 40 million unique listings on the site. Second, Etsy charges a 3.5 percent commission on each item sold. Third, the company earns money from seller services such as its advertising platform, payment processing, and website hosting (for sellers who sell products via their own website in addition to their Etsy store). This mix of revenue streams makes sense given Etsy's core strategy and its resources. The larger and more engaged a community it builds, the more revenue it will earn from listing fees and commissions."

35. Is Etsy's business model a standard or a disruptive business model? Explain your answer.

- Etsy has a standard business model in the internet age. They are simply another marketplace for goods such as eBay or Amazon with the note that they are focused on handmade/craft items.

36. How is Etsy's business model different from eBay's business model for the makers of handmade goods?

- Etsy exclusively sells craft items and does not have an auction format while on eBay you can sell anything and there can be an auction format.

37. In your judgment, what is the most serious challenge facing Etsy? To what extent does the challenge threaten Etsy's business model? How should Etsy confront the challenge?

- I think the biggest challenge facing Etsy is the sellers selling cheap crap that breaks or isn't what was promised. It is difficult for Etsy to prevent this because they have no control over the sellers and if they punish the sellers, other sellers will leave or people will stop buying from Etsy. Etsy cannot do anything to combat this besides only ban sellers when absolutely necessary.