



Enterprise Business model

Enn Õunapuu

Tallinna Tehnikaülikool
enn@cc.ttu.ee



Business model definition

A business model is nothing else than a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams.



Def. Business Model

A business model describes the rationale of how an organization creates, delivers, and captures value



The 9 Building Blocks



CS

1 Customer Segments

An organization serves one or several Customer Segments.



VP

2 Value Propositions

It seeks to solve customer problems and satisfy customer needs with value propositions.



CH

3 Channels

Value propositions are delivered to customers through communication, distribution, and sales Channels.



CR

4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.





RS

5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.



KR

6 Key Resources

Key resources are the assets required to offer and deliver the previously described elements...



KA

7 Key Activities

...by performing a number of Key Activities.



KP

8 Key Partnerships

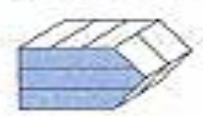
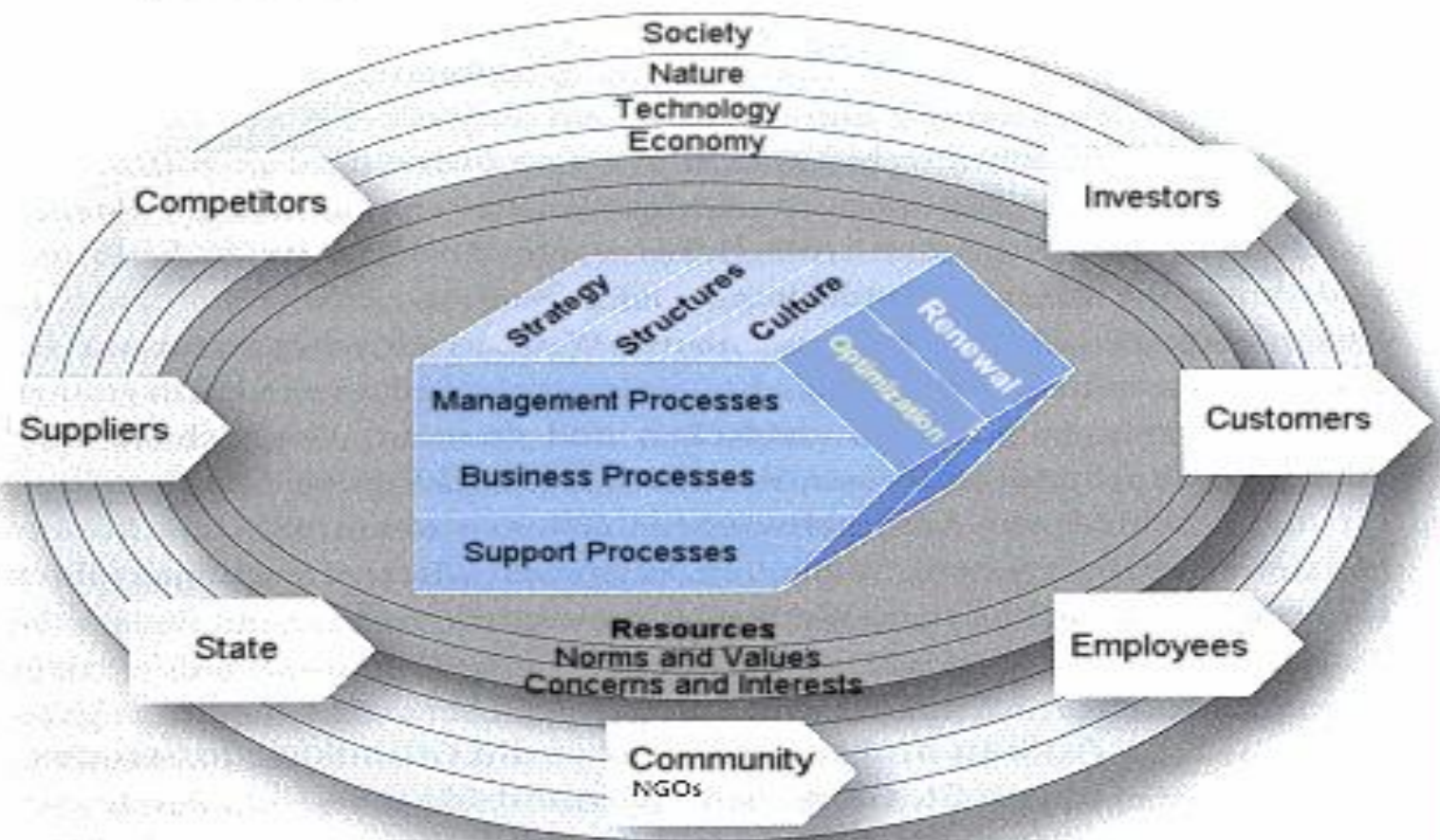
Some activities are outsourced and some resources are acquired outside the enterprise.



CS

9 Cost Structure

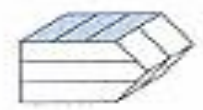
The business model elements result in the cost structure.



Processes



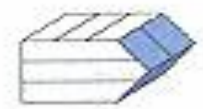
Stakeholders



Configuring Forces



Environmental Spheres

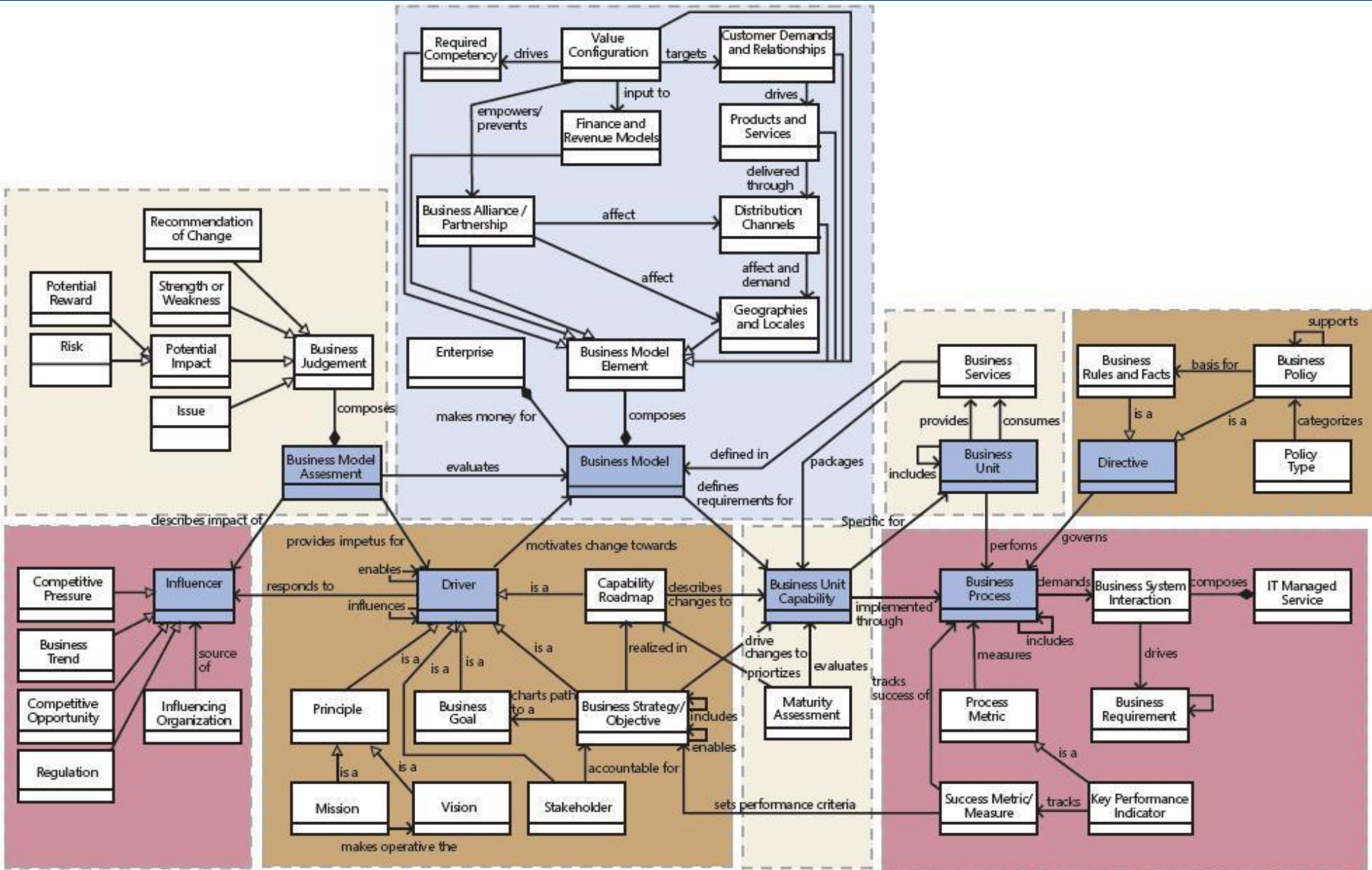


Modes of Development



Issues of Interaction





Dimensions of Organizational Fitness

Legitimacy
 ("to fulfil a purpose at the service of a larger whole")

Effectiveness
 ("to do the right things")

Efficiency
 ("to do things right")

Logical Levels of Management

Normative Management

Strategic Management

Operative Management

Orientators/ Control Variables/ Design Parameters

e.g.
 system ethos
 identity & vision
 system dynamics
 system structure
 system culture

e.g.
 core competencies
 customer problem
 solutions
 technological substitution
 critical success factors
 competitive position
 collaborative position

e.g.
 customer benefit
 profit, cash flow
 company value
 social benefit
 ecological benefit

Goals

Viability/ Development

Value Potentials

Value

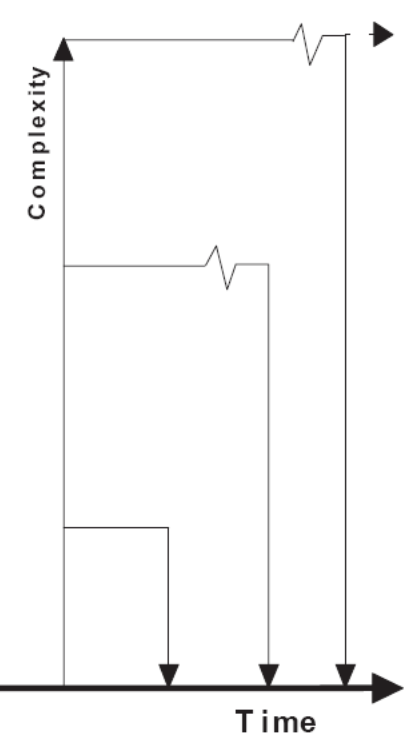


Figure 1. A model of systemic control



Definition

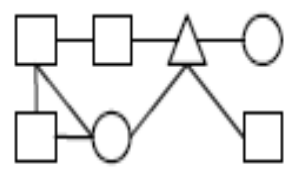
A synthesis of literature shows that there are mainly 9 building blocks to help us describe a business model:

- The *value proposition* of what is offered to the market;
- The *target customer segments* addressed by the value proposition;
- The communication and *distribution channels* to reach customers and offer the value proposition;
- The *relationships* established with customers;
- The *core capacities* needed to make the business model possible;
- The *configuration of activities* to implement the business model;
- The *partners* and their motivations of coming together to make a business model happen;
- The *revenue streams* generated by the business model constituting the revenue model;
- The *cost structure* resulting of the business model.



①

Business Model
Concept



conceptual levels

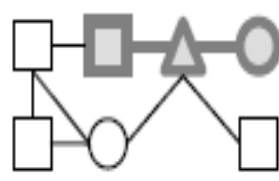
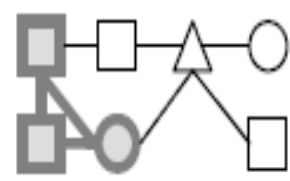
DEFINITION
what is a business model?

META-MODEL
what elements belong into a business model?

②

Business Model
Type

Business Model
Type



conceptual levels

TAXONOMY OF TYPES
which business models resemble each other?

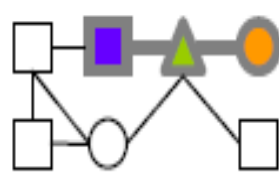
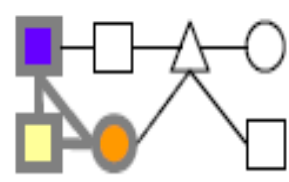
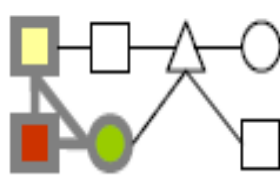
SUB-(META)-MODELS
what are the common characteristics?

③

Business Model
of Dell

Business Model
of Amazon

Business Model
eBay



instance levels

INSTANCES (VIEW OF COMPANY)

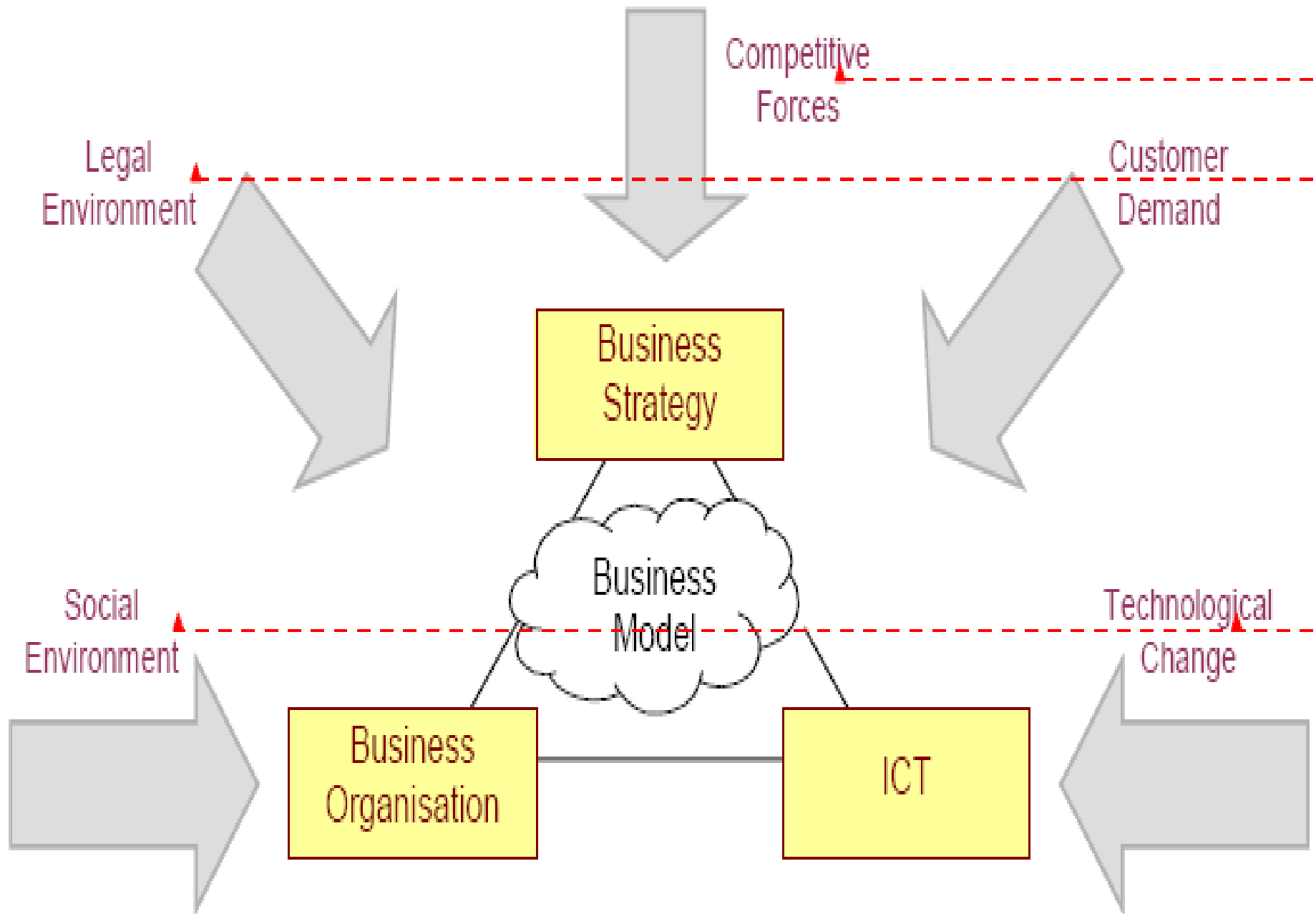
MODELLED INSTANCE

REAL WOLRD COMPANY

Dell

Amazon

eBay



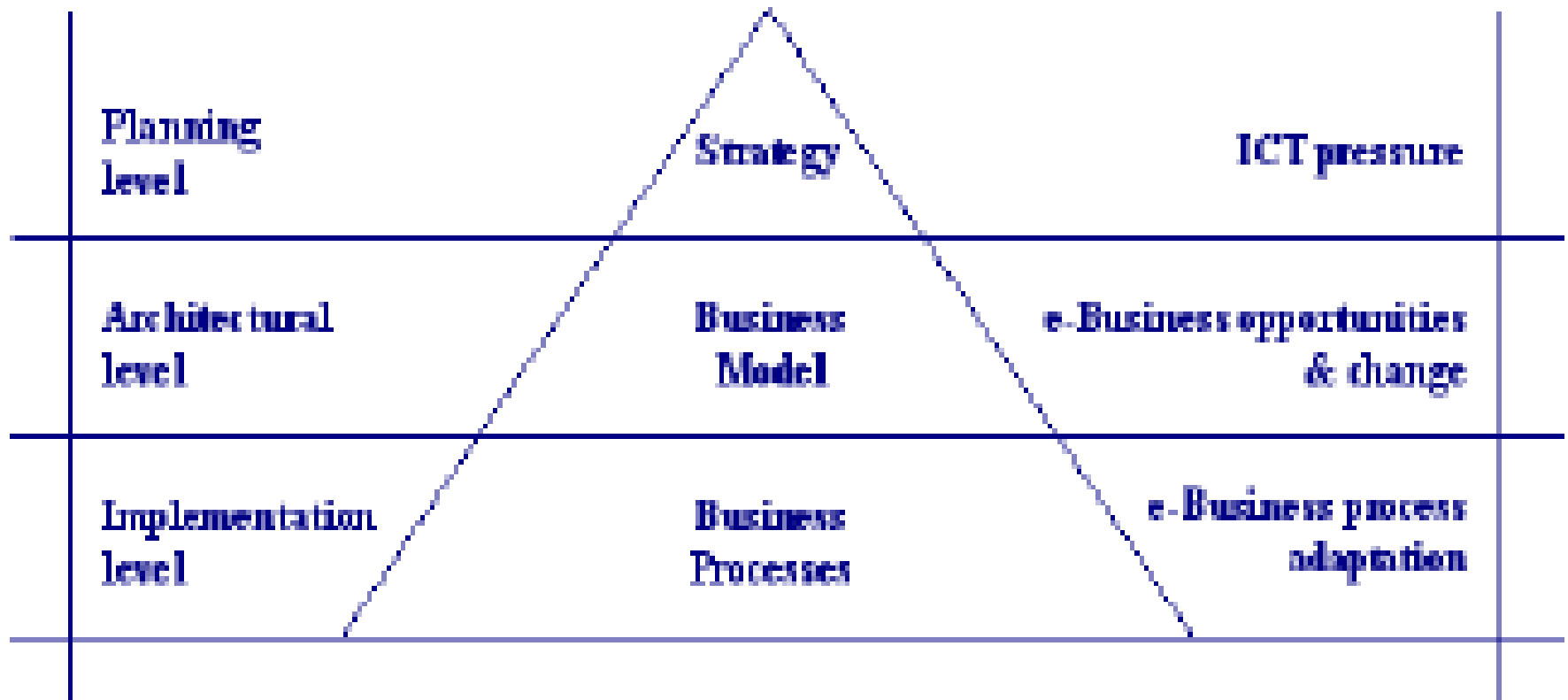
Pillar	Business Model Building Block	Description
Product	Value Proposition	Gives an overall view of a company's bundle of products and services.
Customer Interface	Target Customer	Describes the segments of customers a company wants to offer value to.
	Distribution Channel	Describes the various means of the company to get in touch with its customers.
	Relationship	Explains the kind of links a company establishes between itself and its different customer segments.
Infrastructure Management	Value Configuration	Describes the arrangement of activities and resources.
	Core Competency	Outlines the competencies necessary to execute the company's business model.
	Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value.
Financial Aspects	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
	Revenue Model	Describes the way a company makes money through a variety of revenue flows

Business model explanation

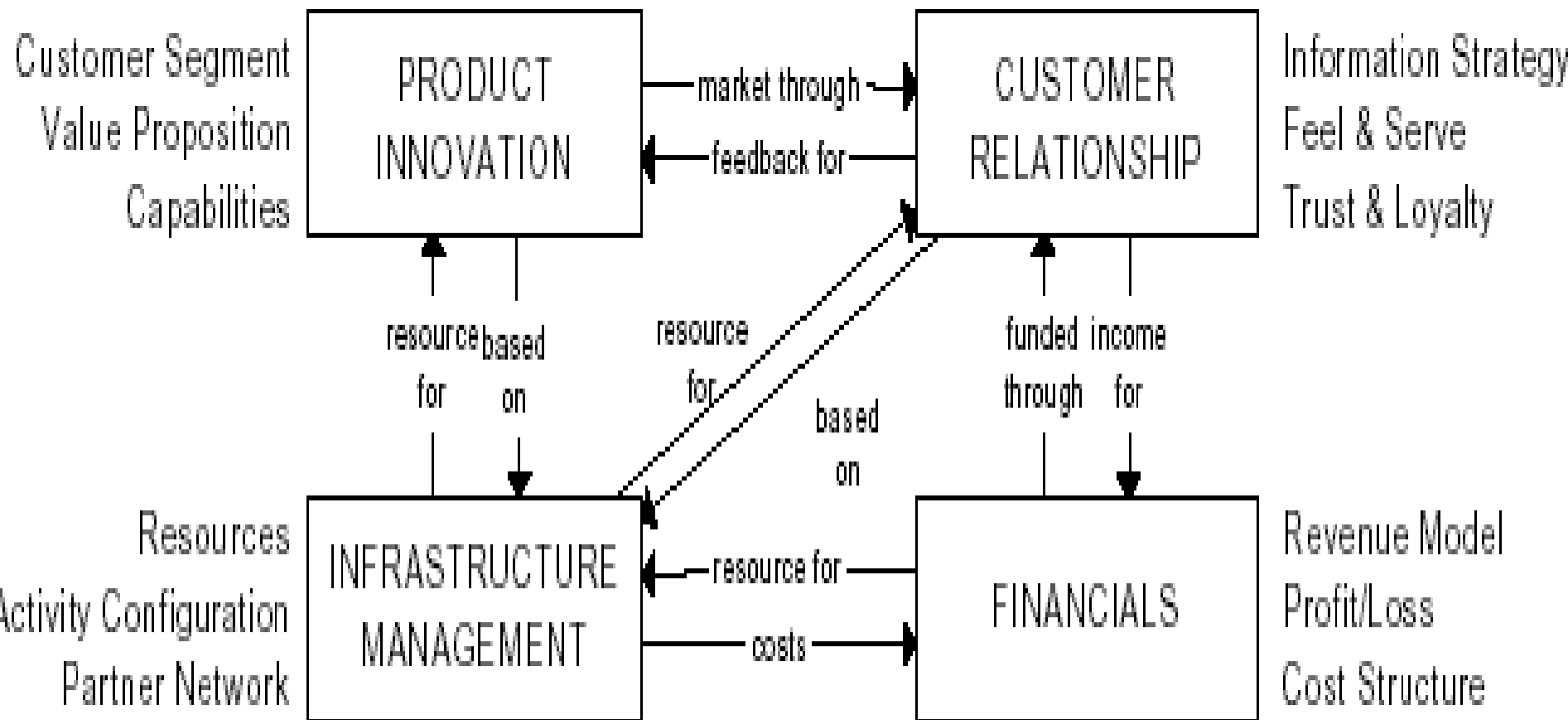
- [Product innovation] What business the company is in, the product innovation and the value proposition offered on the market.
- [Customer relationship] Who the company's target customers are, how it delivers them the products, and how it builds a strong relationships with them.
- [Infrastructure management] How the company efficiently performs infrastructure or logistics issues, with whom, and as which kind of virtual enterprise.
- [Financials] What is the revenue model (transaction, subscription/membership, advertising, commission, licensing) and the cost model (cost of goods sold, operating expenses for R&D, sales and marketing, general and administrative)?



Business logic triangle



Business model ontology



Components of business model

Name of BM-Element	e-BUSINESS MODEL ONTOLOGY (root element)
Consists of	<ul style="list-style-type: none">• PRODCUT INNOVATION• CUSTOMER RELATIONSHIP• INFRASTRUCTURE MANAGEMENT• FINANCIALS
Level of decomposition	0 (root element)

Product innovation

Name of BM-Element	PRODUCT INNOVATION
Child of	Root Element: Business Model
Consists of	<ul style="list-style-type: none">• TARGET CUSTOMER SEGMENT• VALUE PROPOSITION• CAPABILITIES
Level of decomposition	1
Related to	<ul style="list-style-type: none">• <i>Marketed through</i> CUSTOMER RELATIONSHIP• <i>Based on</i> INFRASTRUCTURE MANAGEMENT

Customer relationship

Name of BM-Element	CUSTOMER RELATIONSHIP
Child of	Root Element: Business Model
Consists of	<ul style="list-style-type: none">• INFORMATION STRATEGY• FEEL & SERVE• TRUST & LOYALTY
Level of decomposition	1
Related to	<ul style="list-style-type: none">• <i>Feedback for</i> PRODUCT INNOVATION• <i>Based on</i> INFRASTRUCTURE MANAGEMENT• <i>Income for</i> FINANCIALS



Customer relationship components

INFORMATION STRATEGY. The objective of the information strategy is related to information gathering in order to excel in customer relationship (e.g. through personalization and profiling).

The information strategy aims at discovering new and profitable business opportunities and to ameliorate customer satisfaction. Data warehousing, data mining and business intelligence are important technologies that allow managers to gain insight on their customers buying behavior.

These insights can be used to create what Hamel (Hamel, 2000) calls the positive feedback effect.



Customer relationship components

FEEL & SERVE (channels). This element refers to the way a firm “goes to market” and how it actually “reaches” its customers (Hamel, 2000). This means a company must define its channel strategy : either indirect or direct channels, operated by the firm or provided by a third party (e.g. agent, intermediary). ICT, and particularly the Internet, has a great potential to complement rather than to cannibalize a business’s channels (Porter, 2001). Direct selling over the Web could improve margins, whereas selling through new Internet mediation services (cybermediaries) (Sarkar et al., 1995) could mean new market opportunities. Of course the expansion of the range of channels also increases the potential of conflicts between channels (Anderson et al., 1998) and demands strong management.



Customer relationship components

TRUST & LOYALTY. It is essential to establish trust between business partners when the business environment becomes increasingly virtual and the implicated parties do not necessarily know each other anymore before conducting business. There exists mechanisms to build trust in ebusiness environments, such as virtual communities (Hagel et al., 1997), performance history, mediation services or insurance, third party verification and authorization, and, clear privacy policies (Friedman, 2000; Dimitrakos, 2001). Customer loyalty can be understood as the outcome of the customer's trust and satisfaction.



Infrastructure management

Name of BM-Element	INFRASTRUCTURE MANAGEMENT
Child of	Root Element: Business Model
Consists of	<ul style="list-style-type: none">• RESOURCES• ACTIVITY CONFIGURATION (or VALUE CONFIGURATION)• PARTNER NETWORK
Level of decomposition	1
Related to	<ul style="list-style-type: none">• <i>Resource for</i> PRODUCT INNOVATION• <i>Resource for</i> CUSTOMER RELATIONSHIP• <i>Cost for</i> FINANCIALS

Infrastructure management components

ACTIVITY CONFIGURATION. The main purpose of a company is the creation of value that customers are willing to pay for. This value is the outcome of a configuration of inside and outside activities and processes. To define the value creation process in a business model we use the *value chain framework* (Porter et al., 1985) and its extension, as defined by (Stabell et al., 1998), who add the concept of the value shop and the value network.



Infrastructure management components

PARTNER NETWORK. The partner network outlines, which elements of the activity configuration are distributed among the partners of the firm. Shrinking transaction costs make it easier for firms to vertically disintegrate and to reorganize in partner networks.

RESOURCES. In order to create value, a firm needs resources (Wernefelt, 1984). Grant (Grant, 1995) distinguishes tangible, intangible, and human assets. Tangible resources include plants, equipment and cash reserves. Intangible resources include patents, copyrights, reputation, brands and trade secrets. Human resources are the people a firm needs in order to create value with tangible and intangible resources.



Financials

Name of BM-Element	FINANCIALS
Child of	Root Element: Business Model
Consists of	<ul style="list-style-type: none">• REVENUE MODEL• COST STRUCTURE• PROFIT/LOSS
Level of decomposition	1
Related to	<ul style="list-style-type: none">• <i>Resource for</i> INFRASTRUCTURE MANAGEMENT• <i>Funded through</i> CUSTOMER RELATIONSHIP



Financials components

REVENUE MODEL. This element measures the ability of a firm to translate the value it offers its customers into money and therefore generate incoming revenue streams. A firm's revenue model can be composed of different revenue streams that can all have different pricing models. The new pricing mechanisms enabled by ICT should be used in order to maximize revenues. Particularly the Internet has had an important impact on pricing and has created a whole new range of pricing mechanisms (Klein et al., 2000).

COST STRUCTURE. This element measures all the costs the firm incurs in order to create, market and deliver value to its customers. It sets a price tag on all the resources, assets, activities and partner network relationships and exchanges that cost the company money.

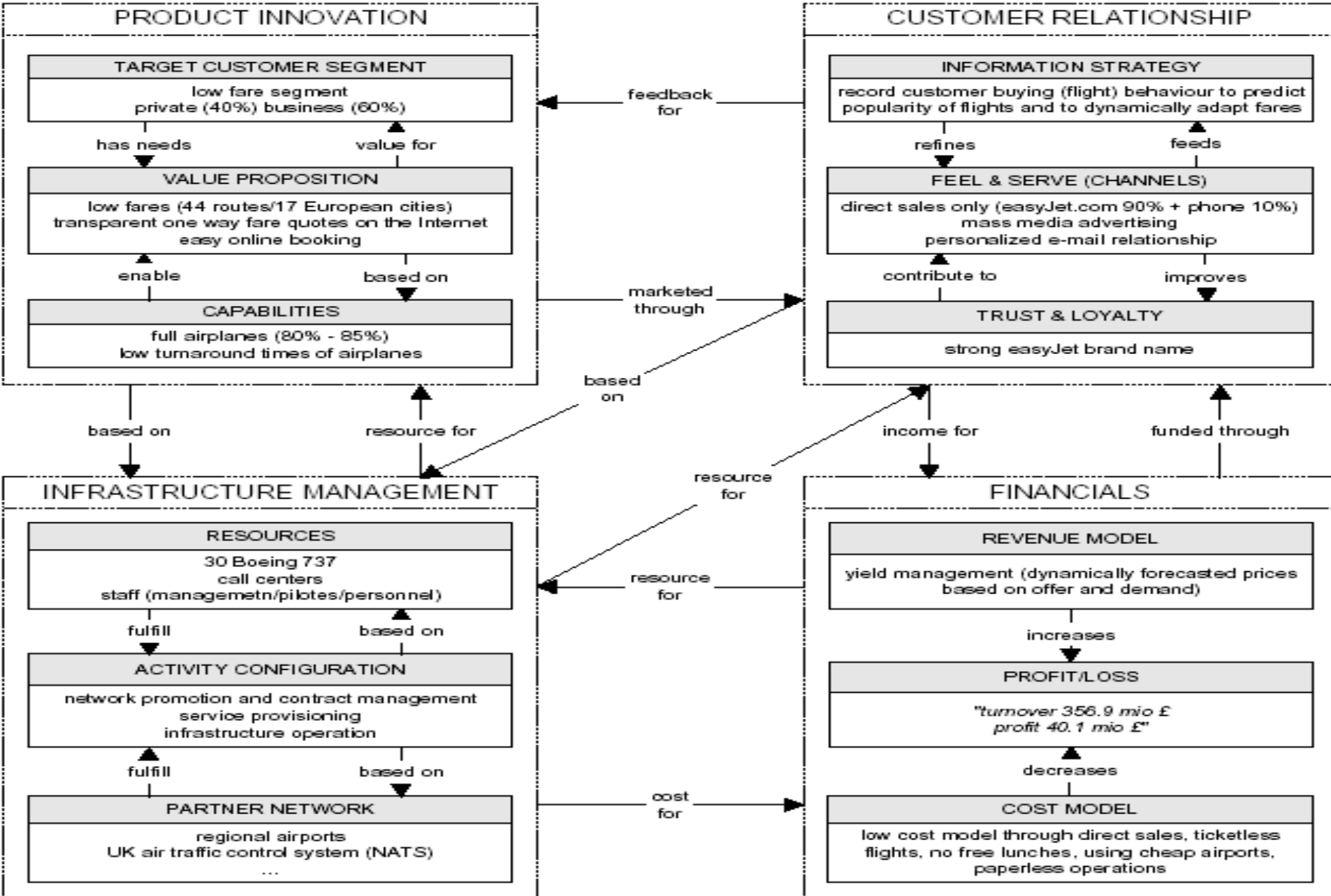


Financials components

PROFIT MODEL. This element is simply the outcome of the difference between the REVENUE MODEL and the COST STRUCTURE. Therefore it can be seen as the culminating point and as an expression of the entire e-business model ontology. Whereas PRODUCT INNOVATION and CUSTOMER RELATIONSHIP shall maximize revenue, an effective INFRASTRUCTURE MANAGEMENT shall minimize costs and therefore optimize the profit model.

The REVENUE MODEL increases the company's PROFIT (or diminishes its LOSS) whereas the COST STRUCTURE decreases PROFIT (or increases LOSS).





Business model dimensions

- What kind rights
 - producer
 - Distributor
 - Rentier
 - Broker
- What kind of values
 - Physical
 - Financial
 - nonMaterial
 - people



Ärimudeli mõiste

<i>What rights are being sold?</i>	<i>How much does the business transform the asset?</i>	
	<i>Significant</i>	<i>Limited</i>
Ownership of Asset	Creator	Distributor
Use of Asset	Landlord	
Matching of buyer and seller	Broker	

Ärimudeli mõiste

<i>Basic Business Model Archetype</i>	<i>What type of asset is involved?</i>			
	<i>Financial</i>	<i>Physical</i>	<i>Intangible</i>	<i>Human</i>
Creator	Entrepreneur	Manufacturer	Inventor	Human Creator*
Distributor	Financial Trader	Wholesaler/ Retailer	IP Trader	Human Distributor*
Landlord	Financial Landlord	Physical Landlord	Intellectual Landlord	Contractor
Broker	Financial Broker	Physical Broker	IP Broker	HR Broker

Ärimudeli rakendus USA top 1000

<i>Basic Business Model Archetype</i>		<i>What type of asset is involved?</i>				<i>Total by Asset Right</i>
		<i>Financial</i>	<i>Physical</i>	<i>Intangible</i>	<i>Human</i>	
<i>What rights are being sold?</i>	<i>Creator</i> <i>(ownership of asset with significant transformation)</i>	Entrepreneur (0%; 0)	Manufacturer (46%; 565)	Inventor (0%; 0)	Human Creator (0%; 0)	(46%; 565)
	<i>Distributor</i> <i>(ownership of asset with limited transformation)</i>	Financial Trader (~0%; 34)	Wholesaler/ Retailer (18%; 258)	IP Trader (~0%; 2)	Human Distributor (0%; 0)	(18%; 288)
	<i>Landlord</i> <i>(use of asset)</i>	Financial Landlord (10%; 187)	Physical Landlord (6%; 132)	Intellectual Landlord (5%; 85)	Contractor (13%; 308)	(34%; 516)
	<i>Broker</i> <i>(matching of buyer and seller)</i>	Financial Broker (2%; 55)	Physical Broker (~0%; 15)	IP Broker (~0%; 1)	HR Broker (~0%; 5)	(2%; 75)
	<i>Total by Asset Type</i>	(12%; 205)	(71%; 774)	(5%; 86)	(13%; 308)	100%; NA

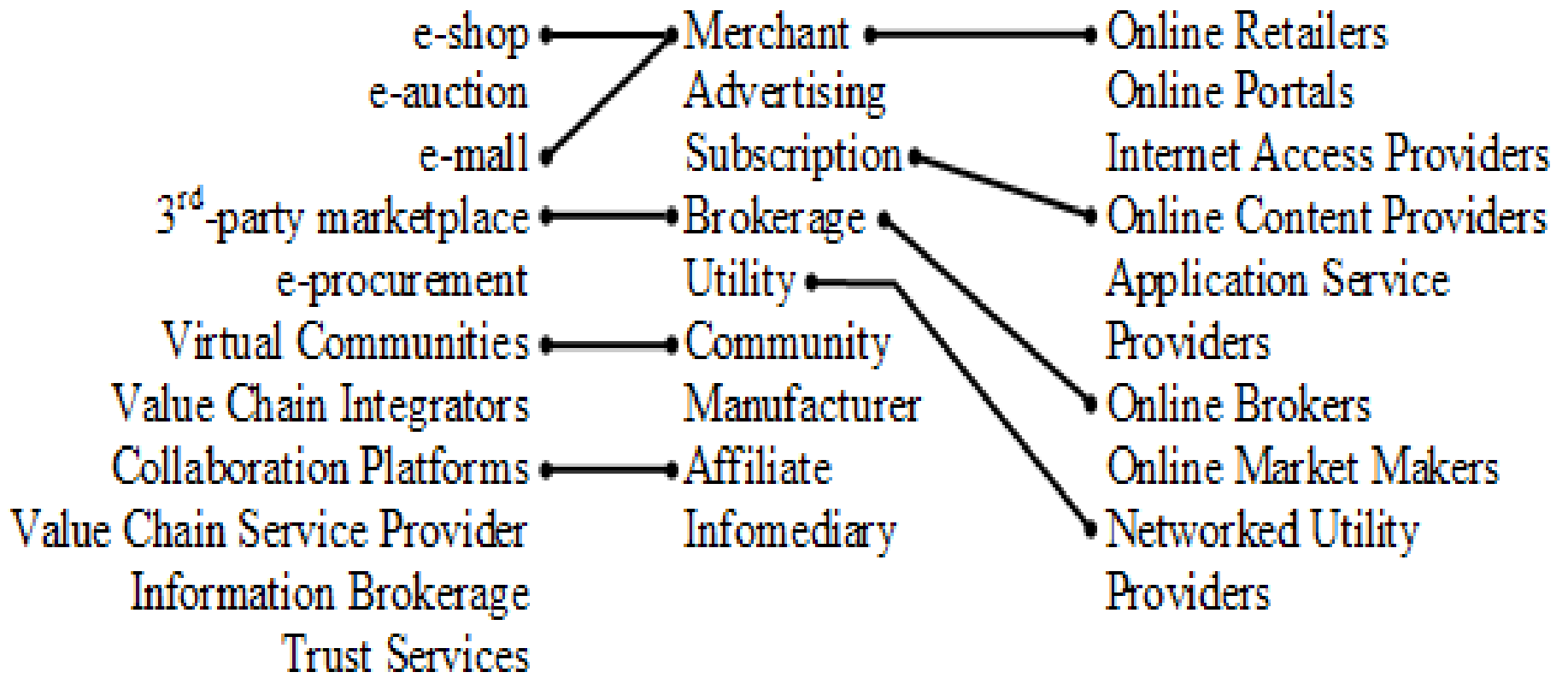
Author of taxonomy	Number of models in taxonomy	Classification schemes of Internet business models
Thomas Eisenmann (2002)	8	Online Retailers, Online Portals, Internet Access Providers, Online Content Providers, Application Service Providers, Online Brokers, Online Market Makers, and Networked Utility Providers
Michael Rappa (2000)	9	Merchant, Advertising, Subscription, Brokerage, Utility, Community, Manufacturer, Affiliate, and Infomediary
Paul Timmer (1998)	11	e-shop, e-auction, e-mall, Third Party Marketplace, e-procurement, Virtual Communities, Value Chain Integrators, Collaboration Platforms, Value Chain Service Provider, Information Brokerage and Trust Services



Timmers

Rappa

Eisenmann



Rappa Business Models

- Brokerage
- Advertising
- Infomediary
- Merchant
- Manufacturer (Direct)
- Affiliate
- Community
- Subscription
- Utility



Brokerage model

- Brokers are market-makers: they bring buyers and sellers together and facilitate transactions. Brokers play a frequent role in business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. Usually a broker charges a fee or commission for each transaction it enables. The formula for fees can vary. Brokerage models include:
- Marketplace Exchange -- offers a full range of services covering the transaction process, from market assessment to negotiation and fulfillment. Exchanges operate independently or are backed by an industry consortium. [[Orbitz](#), [ChemConnect](#)]
- Buy/Sell Fulfillment -- takes customer orders to buy or sell a product or service, including terms like price and delivery. [[CarsDirect](#), [Respond.com](#)]
- Demand Collection System -- the patented "name-your-price" model pioneered by [Priceline.com](#). Prospective buyer makes a final (binding) bid for a specified good or service, and the broker arranges fulfillment. [[Priceline.com](#)]
- Auction Broker -- conducts auctions for sellers (individuals or merchants). Broker charges the seller a listing fee and commission scaled with the value of the transaction. Auctions vary widely in terms of the offering and bidding rules. [[eBay](#)]



Manufacturer Direct Model

- The manufacturer or "direct model", it is predicated on the power of the web to allow a manufacturer (i.e., a company that creates a product or service) to reach buyers directly and thereby compress the distribution channel. The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences. [[Dell Computer](#)]
- Purchase -- the sale of a product in which the right of ownership is transferred to the buyer.
- Lease -- in exchange for a rental fee, the buyer receives the right to use the product under a "terms of use" agreement. The product is returned to the seller upon expiration or default of the lease agreement. One type of agreement may include a right of purchase upon expiration of the lease.
- License -- the sale of a product that involves only the transfer of usage rights to the buyer, in accordance with a "terms of use" agreement. Ownership rights remain with the manufacturer (e.g., with software licensing).
- Brand Integrated Content -- in contrast to the sponsored-content approach (i.e., the advertising model), brand-integrated content is created by the manufacturer itself for the sole basis of product placement. [[bmwfilms](#)].



Affiliate model

- In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model, provides purchase opportunities wherever people may be surfing. It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites. The affiliates provide purchase-point click-through to the merchant. It is a pay-for-performance model -- if an affiliate does not generate sales, it represents no cost to the merchant. The affiliate model is inherently well-suited to the web, which explains its popularity. Variations include, banner exchange, pay-per-click, and revenue sharing programs. [[Barnes & Noble](#), [Amazon.com](#)]
- Banner Exchange -- trades banner placement among a network of affiliated sites.
- Pay-per-click -- site that pays affiliates for a user click-through.
- Revenue Sharing -- offers a percent-of-sale commission based on a user click-through in which the user subsequently purchases a product.



Community Model

- The viability of the community model is based on user loyalty. Users have a high investment in both time and emotion. Revenue can be based on the sale of ancillary products and services or voluntary contributions.
- Open Source -- software developed voluntarily by a global community of programmers who share code openly. Instead of licensing code for a fee, open source relies on revenue generated from related services like systems integration, product support, tutorials and user documentation. [[Red Hat](#)]
- Public Broadcasting -- user contributor model used by not-for-profit radio and television broadcasting extended to the web. The model is based on the creation of a community of users who support the site through voluntary donations. [[The Classical Station \(WCPE.org\)](#)]
- Knowledge Networks -- discussion sites that provide a source of information based on the sharing of expertise among professionals. [[AllExperts](#)]



Subscription Model

- Users are charged a periodic -- daily, monthly or annual -- fee to subscribe to a service. It is not uncommon for sites to combine free content with "premium" (i.e., subscriber- or member-only) content. Subscription fees are incurred irrespective of actual usage rates. Subscription and advertising models are frequently combined.
- Content Services -- provide text, audio, or video content to users who subscribe for a fee to gain access to the service. [[Listen.com](#), [Netflix](#)]
- Person-to-Person Networking Services -- are conduits for the distribution of user-submitted information, such as individuals searching for former schoolmates. [[Classmates](#)]
- Trust Services -- come in the form of membership associations that abide by an explicit code of conduct, and in which members pay a subscription fee. [[Truste](#)]
- Internet Services Providers -- offer network connectivity and related services on a monthly subscription. [[America Online](#)]



Utility Model

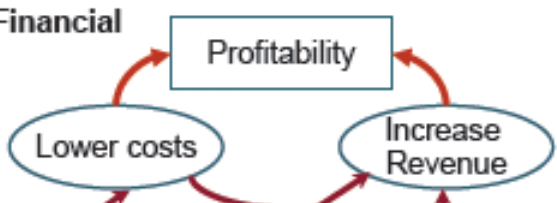



- The utility or "on-demand" model is based on metering usage, or a "pay as you go" approach. Unlike subscriber services, metered services are based on actual usage rates. Traditionally, metering has been used for essential services (e.g., electricity water, long-distance telephone services). Internet service providers (ISPs) in some parts of the world operate as utilities, charging customers for connection minutes, as opposed to the subscriber model common in the U.S. [[IBM](#)]
- Metered Usage -- measures and bills users based on actual usage of a service.
- Metered Subscriptions -- allows subscribers to purchase access to content in metered portions (e.g., numbers of pages viewed). [[Slashdot](#)]



Example Balanced Scorecard: Regional Airline

Mission: *Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.*

Vision: *Continue building on our unique position -- the only short haul, low-fare, high-frequency, point-to-point carrier in America.*

Theme: Operating Efficiency	Objectives	Measures	Targets	Initiatives
Financial 	<ul style="list-style-type: none"> Profitability Fewer planes Increased revenue 	<ul style="list-style-type: none"> Market Value Seat Revenue Plane Lease Cost 	<ul style="list-style-type: none"> 25% per year 20% per year 5% per year 	<ul style="list-style-type: none"> Optimize routes Standardize planes
Customer 	<ul style="list-style-type: none"> Flight is on -time Lowest prices More Customers 	<ul style="list-style-type: none"> FAA On Time Arrival Rating Customer Ranking No. Customers 	<ul style="list-style-type: none"> First in industry 98% Satisfaction % change 	<ul style="list-style-type: none"> Quality management Customer loyalty program
Internal 	<ul style="list-style-type: none"> Fast ground turnaround 	<ul style="list-style-type: none"> On Ground Time On-Time Departure 	<ul style="list-style-type: none"> <25 Minutes 93% 	<ul style="list-style-type: none"> Cycle time optimization program
Learning 	<ul style="list-style-type: none"> Ground crew alignment 	<ul style="list-style-type: none"> % Ground crew stockholders % Ground crew trained 	<ul style="list-style-type: none"> yr. 1 70% yr. 4 90% yr. 6 100% 	<ul style="list-style-type: none"> Stock ownership plan Ground crew training

References

<http://digitalenterprise.org/models/models.html>

<http://internetbusinessmodels.org/>

http://en.wikipedia.org/wiki/Business_model



Summary

