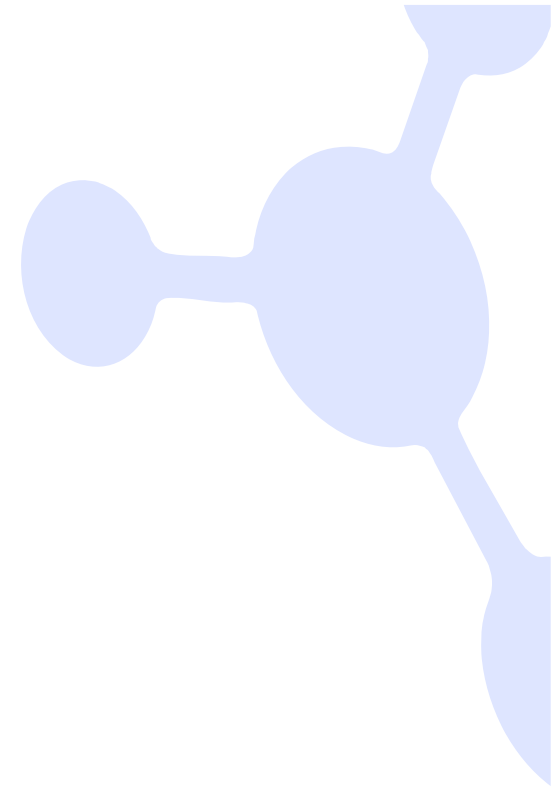




Universität Münster  
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Prof. Dr. Stefan Klein

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## Defining the business

Business models and business strategy



## Learning goals

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- Understand the notion of business model.
- Learn about approaches and concepts for a business model analysis (or development)
- Distinguish between market-based view (MBV) and resource-based view (RBV).

# Agenda

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1. The concept of business model
2. Network business model configuration
3. Background: business strategy

## What is a business model?

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- The phrase "business model" has become popular only since the mid 1990ies.
- The discussion about business models has emphasized business innovation (value maps etc.) and structural design issues (network design, interorganizational division of labor).
- Related terms are e.g.
  - business idea or business plan (entrepreneurship)
  - (inter-)organizational models (management, organizational science)
  - business modelling (information systems)

## Perspective on business models

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- The core **business idea**
- The model for an **enterprise**
- A model for collaborative, **interorganizational value generation**, e.g. business web.

## A business model thus

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- ... is a simplified version of a company's strategy
- ... captures the core business idea
- ... focuses on innovation and customer value
- ... describes a simple model of an enterprise
- ... addresses forms of collaborative, interorganizational value generation

## A business model perspective

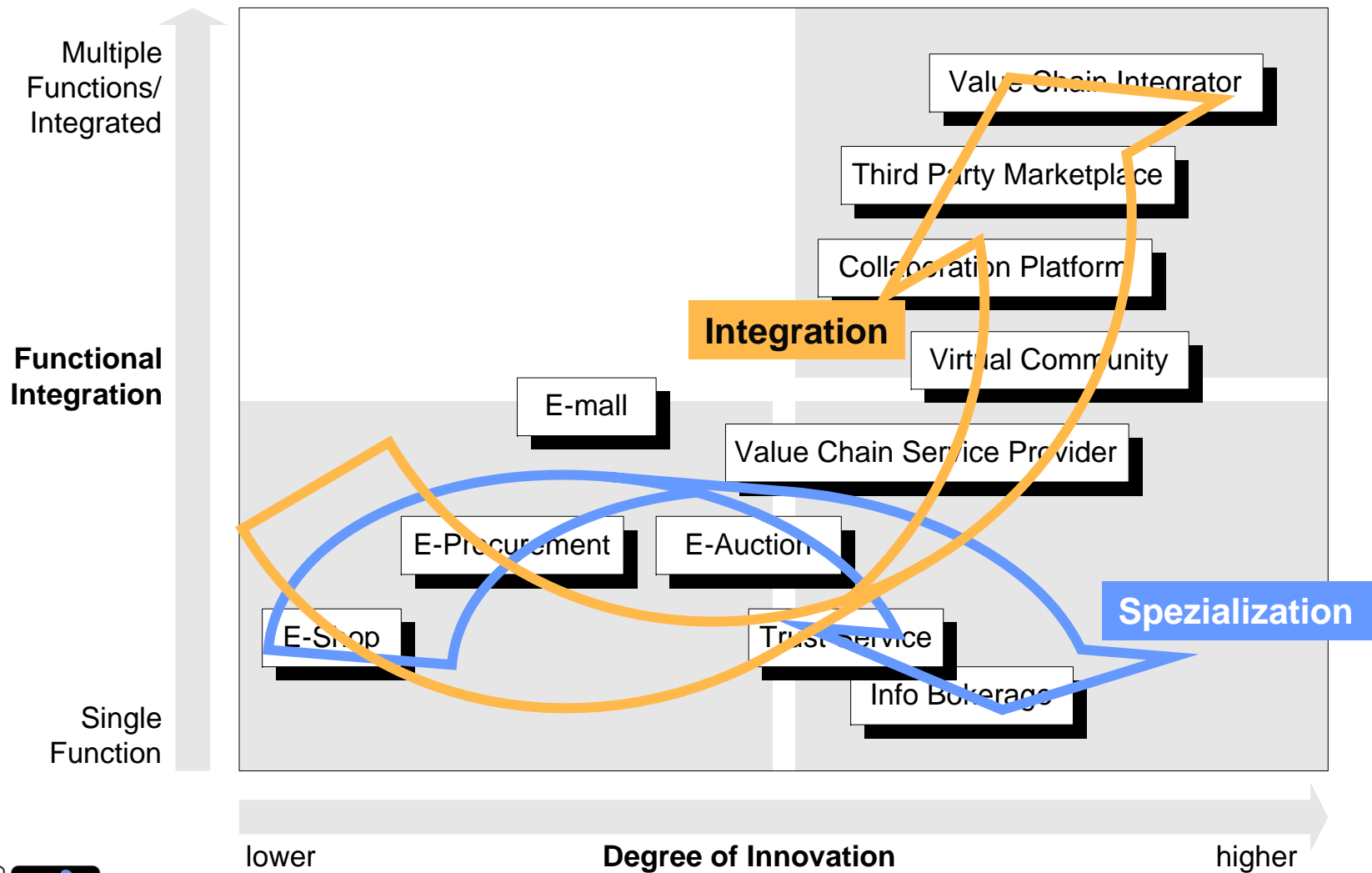
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A simple definition:

- An **architecture for the product, service and information flows**, including a description of the various business actors and their roles; and
- A description of the **potential benefits** for the various business actors; and
- A description of the **sources of revenues**.

Source: Timmers 1998

# Timmers: Examples of business models



Source: Timmers, P. 1998

## Key issues

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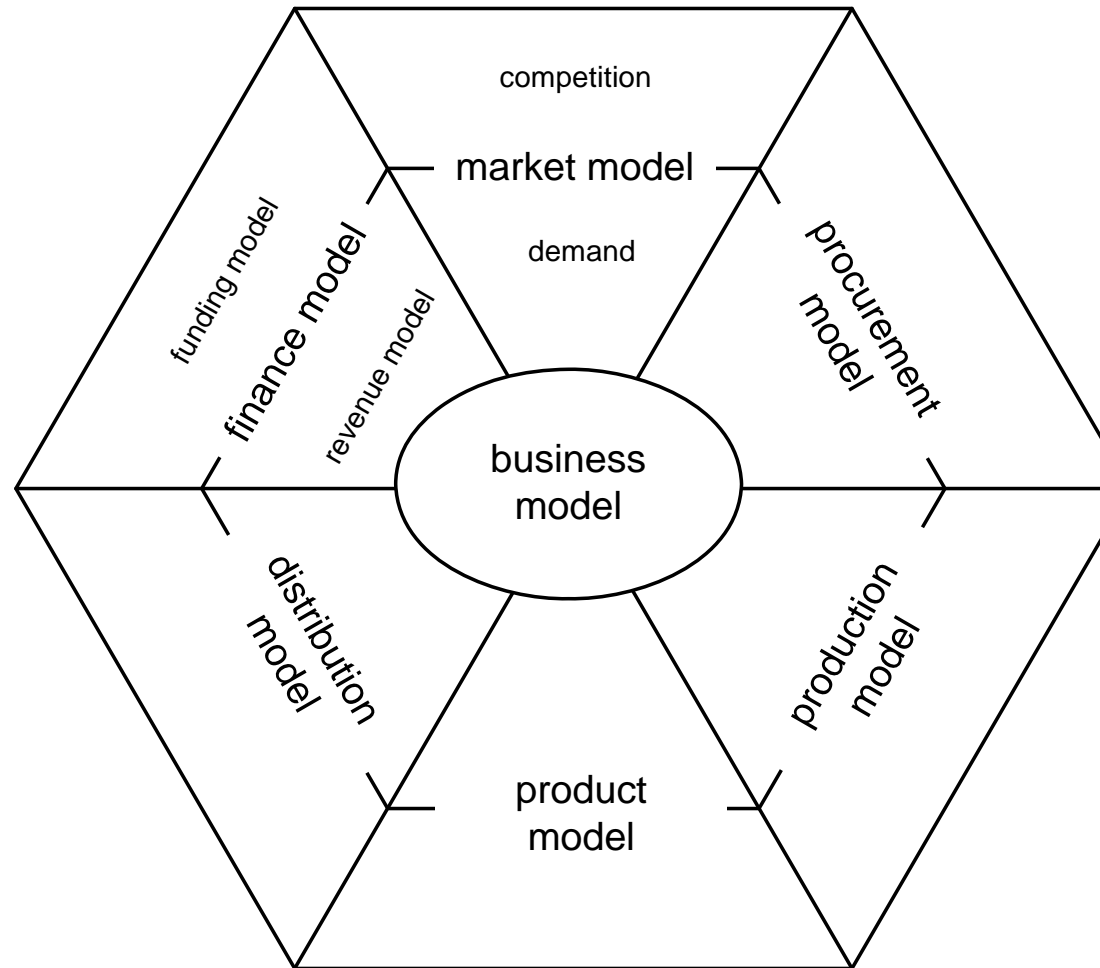
- **[Product innovation]:** What business the company is in, the product innovation and the value proposition offered on the market.
- **[Customer relationship]:** Who the company's target customers are, how it delivers them the products, and how it builds a strong relationships with them.
- **[Infrastructure 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)?

(Osterwalder, Pigneur, 2002)

# Towards a Network Business Model

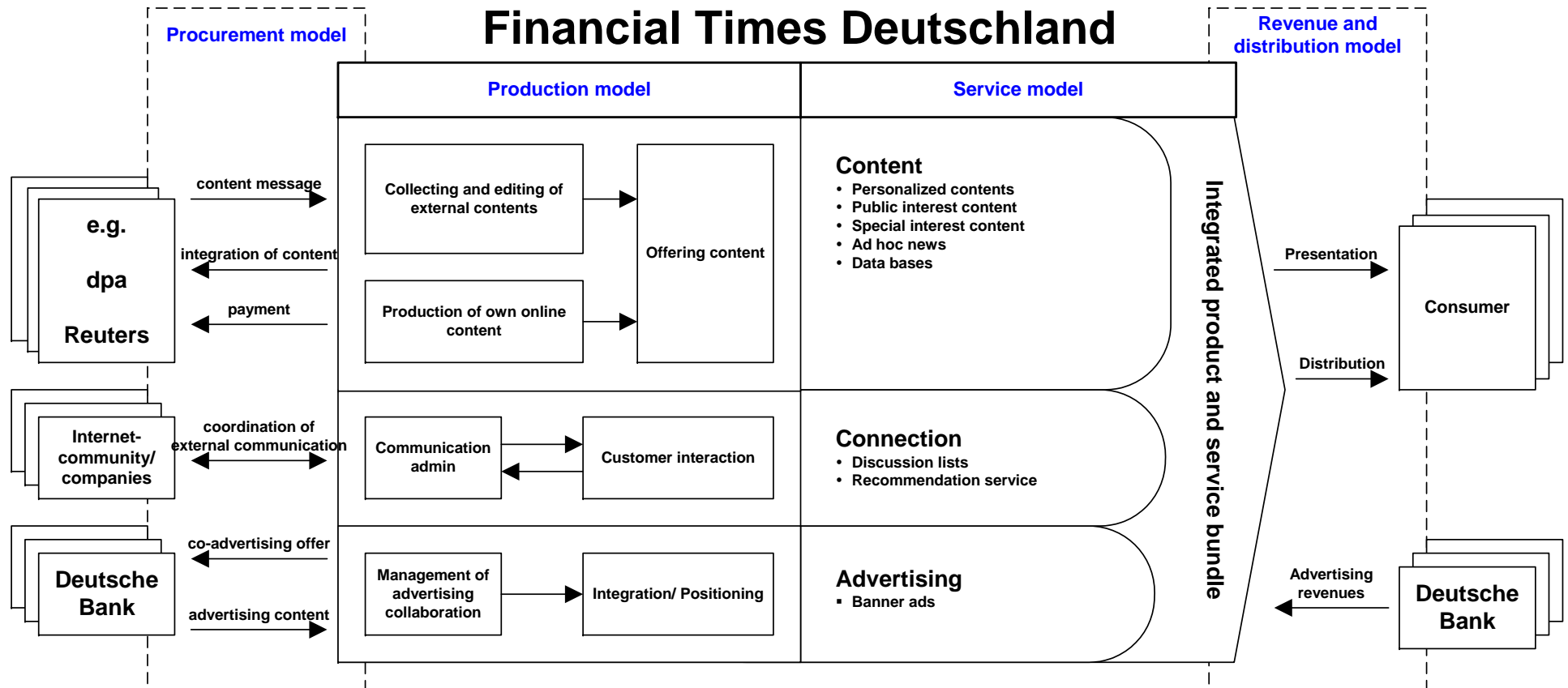
	E-business model (Timmers 1998)	E-business model (Osterwalder, Pigneur 2002)	Network Business Model
Market	A description of the <b>sources of revenues</b>	Product innovation	<b>Value proposition:</b> offering (products and services) to customers
		Customer relations	
Benefits	A description of the <b>potential benefits</b> for the various business actors	Financials (cost / revenue)	<b>Incentives/motivation:</b> Determines attractiveness of a network BM for participants
Organization	An <b>architecture</b> for the product, service and information <b>flows</b> ,  including a description of the various <b>business actors and their roles</b>	Infrastructure Management	<b>Network Structure:</b> Roles & Linkages, Players & Network Resources
			<b>NW Processes:</b> processes & interactions (standardization)
			<b>Partner Relations:</b> dyadic relations (attitude towards partners)

# Functional view of an integrated business model



Adapted from: Wirtz 2000, 83

# Business model: FTD.de



adapted from: Wirtz 2000, p. 90

## Types of revenues

---

	Direct revenues	Indirect revenues
Transaction based	Usage fees	Commissions
Transaction independent	Set-up fee Flat fee	Banners, data mining, sponsorship,

- > Can you think of other models?
- > How would you position freebies etc.

adapted from: Wirtz 2000, p. 86

## Generic revenue models

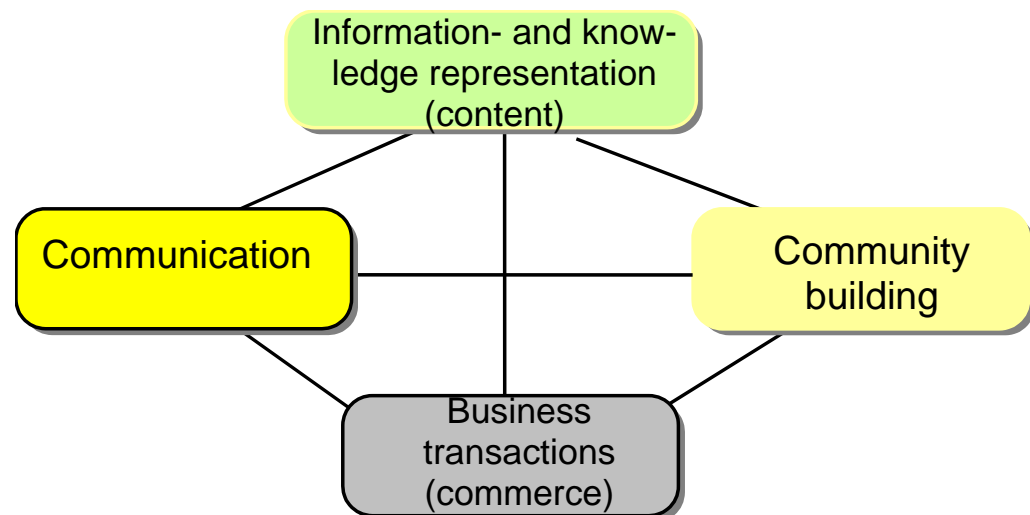
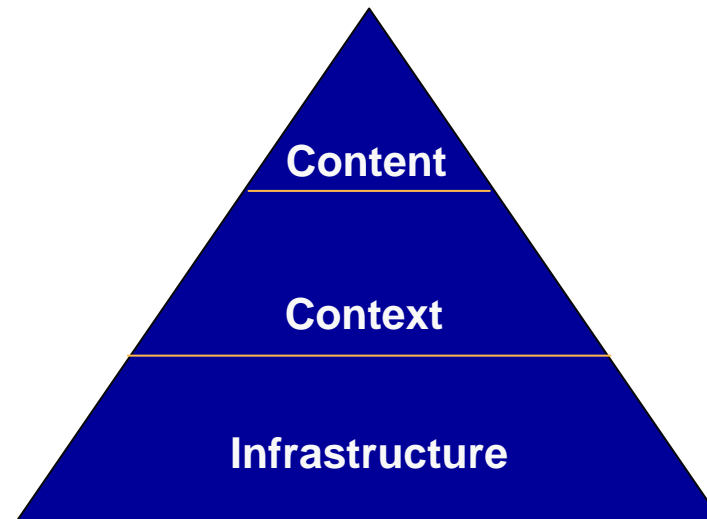
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- **Sale**, incl. shareware  
tradable item exchanged for money
- **Barter**  
tradable item exchanged for tradable item
- **Subscription** (period, pre-paid, site licence)  
tradable items available for bulk payment
- **Sponsor-funded**  
ads, public services, vanity press, freeware

Source: Roger Clarke, Xamax

## Generic building blocks of e-Business

- Content, commerce, context, connection (Wirtz 2000)
- Content, context, infrastructure (Rayport; Sviokla 1994)
- Content, communication, community, commerce



## Types of eBusiness Applications (by Actors)

<i>To</i> \ <i>From</i>	Consumer	Business	Public Administration/ Government
Consumer	E-auctions, communities	Product evaluation sites, Demand pooling	Citizens' organizations
Business	E-retailing	Supply chain management, planning ... Competitive intelligence	Public procurement
Public Administration	E-services (tax declaration, citizens' admin)	E-services (tax declaration, start-ups etc.)	Data access, sharing, workflows ... across admins

## Acronyms ...

---

- B2B
- b2b
- B2B2C
- B2Y
- B2E
- ...



# Cama e Café

A rede brasileira de bed and breakfast

CENTRAL DE RESERVAS +55 (21) 2224-5689 e 2221-7635  
Horário de Atendimento 9 às 19h (seg à sex), 10 às 17h (sáb)

## FAÇA SUA RESERVA



Cidade

selecione uma cidade

Data de chegada

dd/mm/aaaa

Data de saída

dd/mm/aaaa

Noites

1

Procurar

opções adicionais >>



**BONDINHO:** Charmoso veículo sobre trilhos que serve de transporte e passeio. A maneira mais gostosa e fresquinha de visualizar e conhecer bem um lugar. No Rio de Janeiro, são encontrados apenas no bairro de Santa Teresa!

## BEM VINDO AO DICIONÁRIO DO VIAJANTE CAMA E CAFÉ!

### ONDE ENCONTRAR OS SERVIÇOS CAMA É CAFÉ

BRASIL



RIO DE JANEIRO

### CASTELO VALENTIM



Santa Teresa - RJ



### CASA DA IANETE



### Galeria de fotos



Veja mais fotos >>



## Questions for analysis

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- Market segment and
- value proposition (innovation)
- Mobilizing resources
- Orchestrating the network
- Product innovation
- Model for growth and sustainability

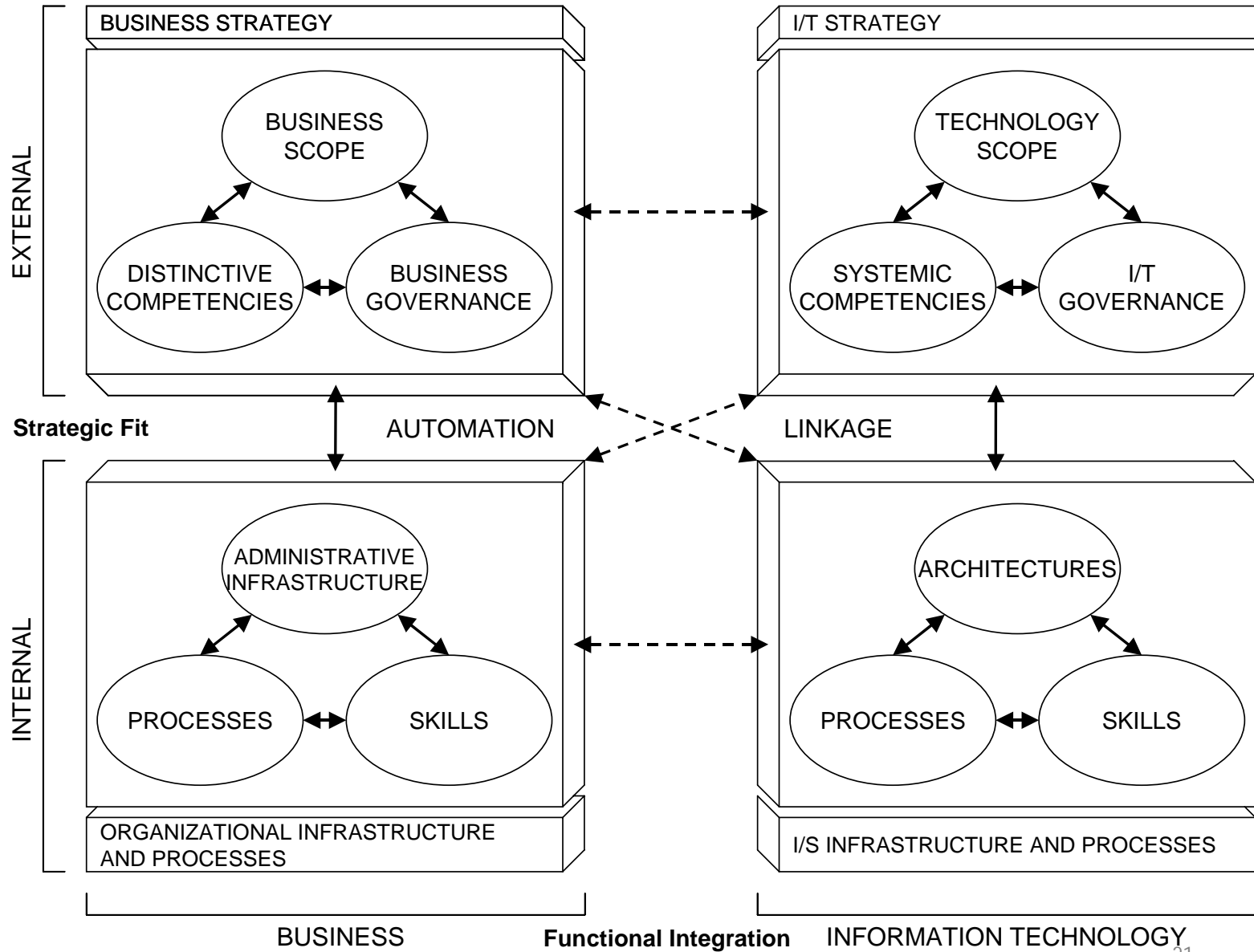
## Example: Cama e Café

---

- **Product innovation:**  
Adapted model of B&B network, network creation with training and matching component.
- **Customer relationships & Infrastructure management :**  
Web based portal to
  - facilitate the provision of information,
  - capturing of guest profiles,
  - profile matching and
  - reservations
  - combined with a personal touch and a sense of hospitality.
- **Financials:**  
Commissions.

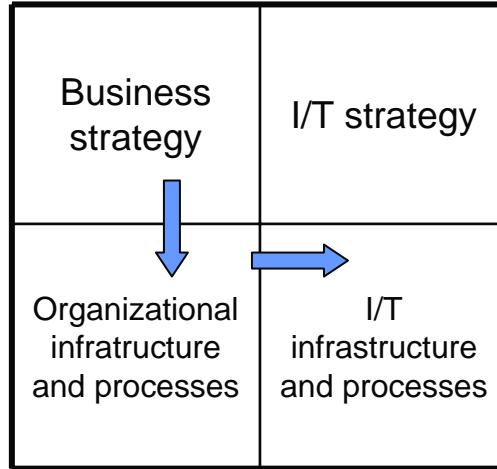
# Role of IT: Strategic alignment model

(Henderson; Venkatraman 1993, 8)

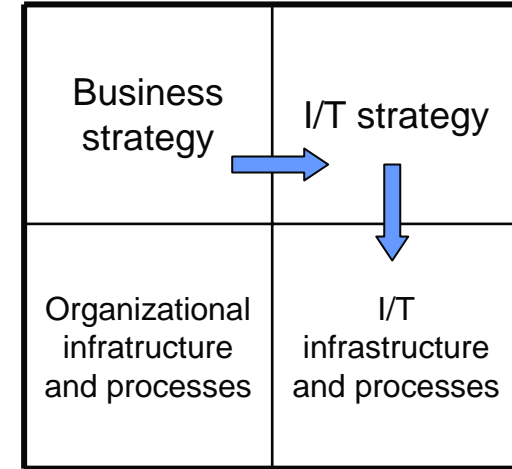


# Alignment perspectives

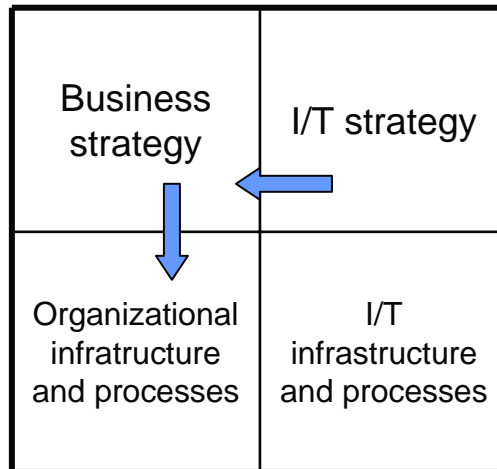
## 1 Strategy execution



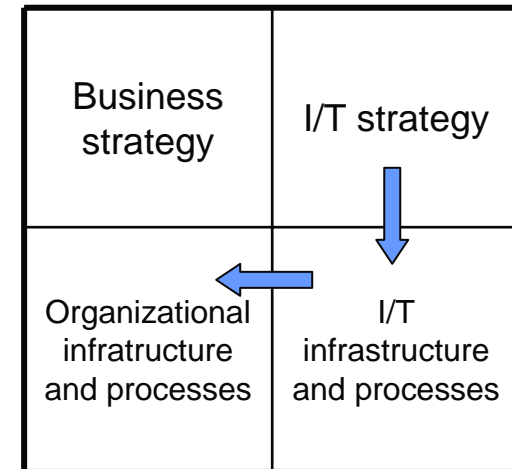
## 2 Technology transformation



## 3 Competitive potential

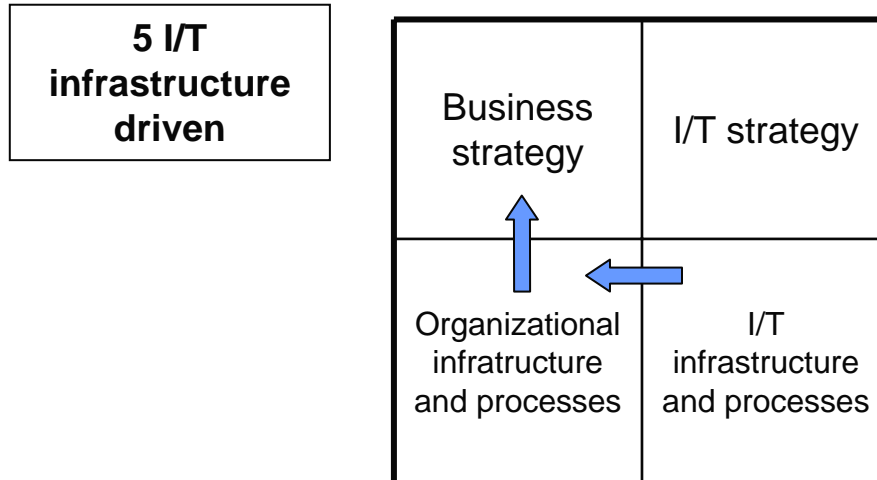


## 4 Service level



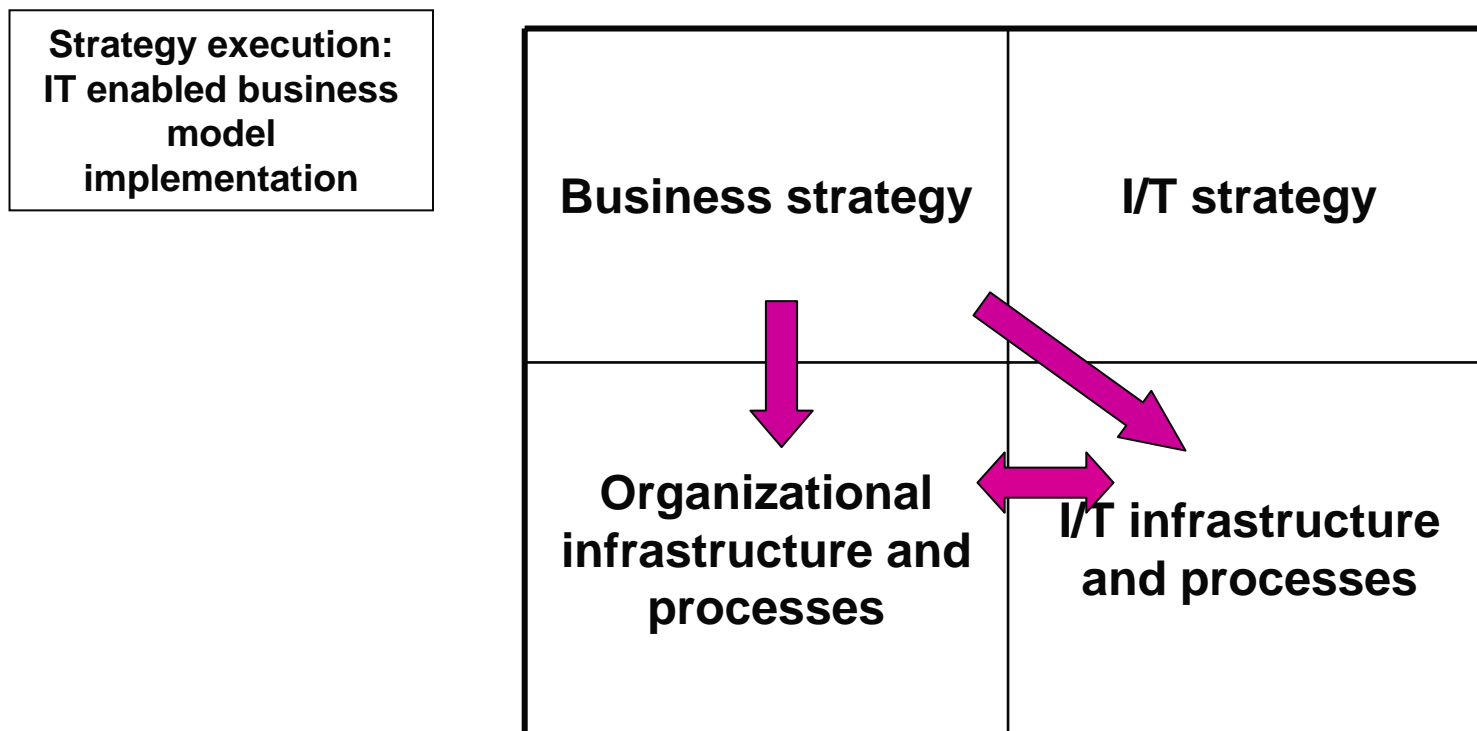
# Alignment perspectives ... expanded

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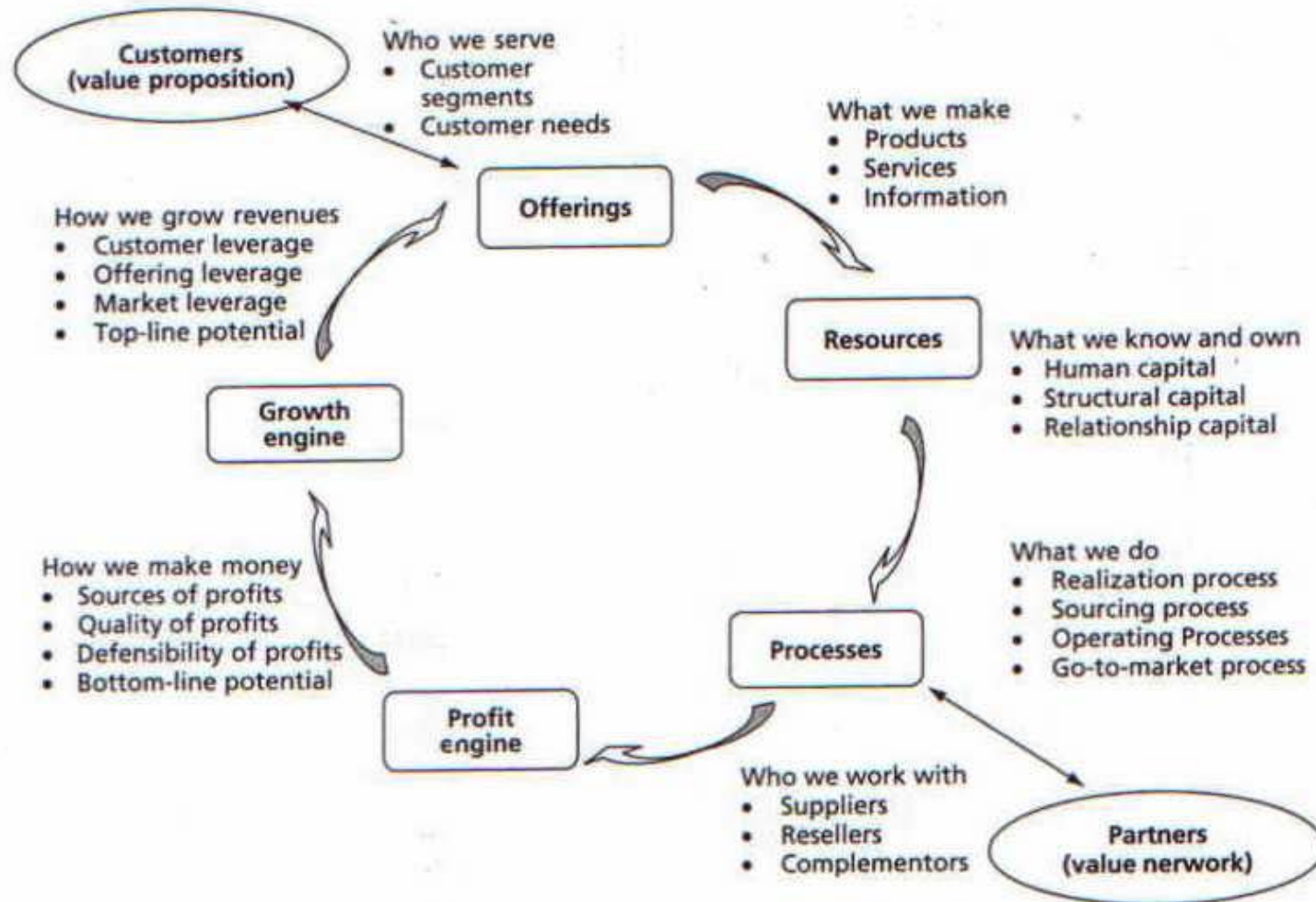
# The role of ICT

Strategic alignment: strategy driven, execution through close linkage between organizational and technical infrastructures, processes and competencies.



# Planning and business design issues ...

Figure 2.3 Dimensions of the business architecture



Source: Sawhney and Zabin, *The Seven Steps to Nirvana: Strategic insights into e-Business Transformation*, 2001. McGraw Hill, New York. Reprinted with permission.

## A word of caution ...

---

### Porter's verdict: "The Internet's Destructive Lexicon"

"Instead of talking in terms of strategy and competitive advantage, dot-coms and other Internet players talk about 'business models'. ...

**The definition of a business model is murky at best.**

...

The business model approach to management becomes an invitation for faulty thinking and self-delusion."

Porter, Strategy and the Internet, HBR March 2001, 73

# Agenda

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1. The concept of business model
2. Network business model configuration
3. Background: business strategy

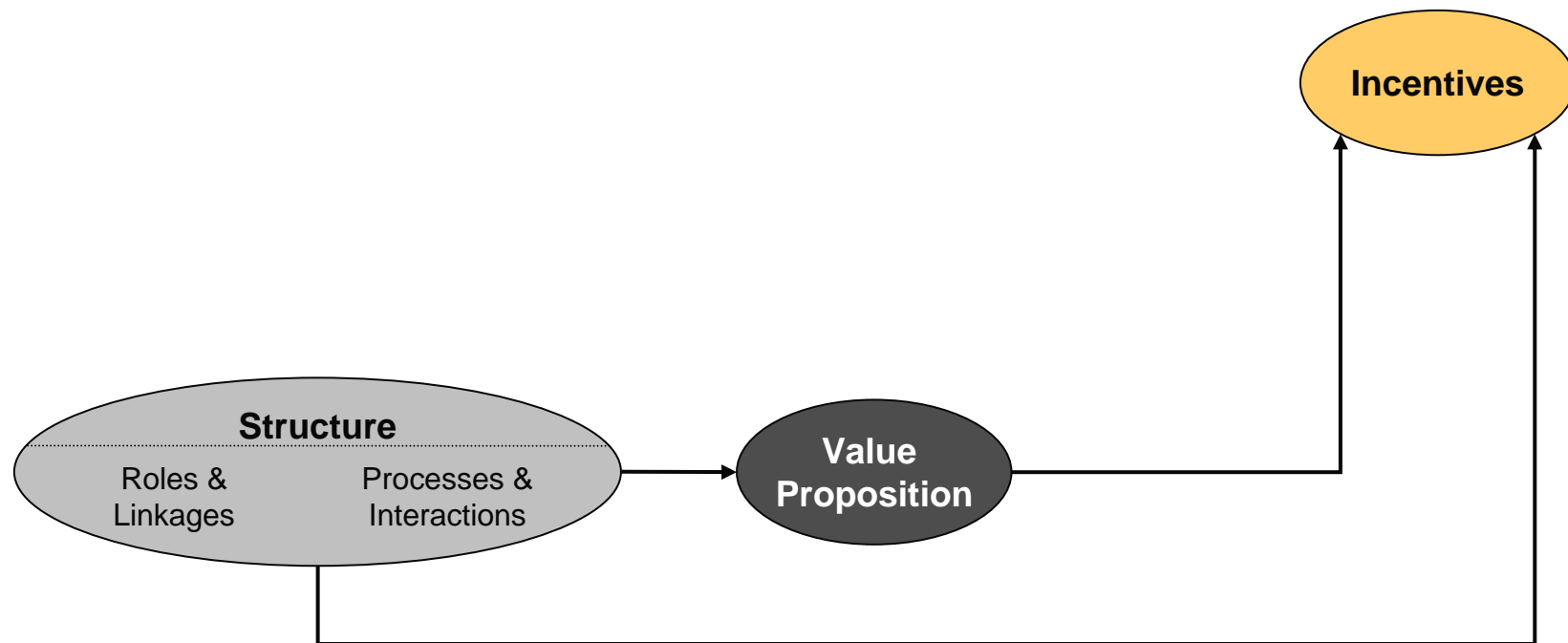
# Adding the network dimension to business models

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- Central issues of business model configurations remain important:
  - Value proposition
  - Revenue streams / incentives
  - Organizational architecture
- However, an additional dimension has to be considered when analyzing network business model configurations:
  - Configuration attractiveness for network participants
- Reason:
  - Each network configuration consists of roles and linkages, and players assigned to roles
  - Each configuration is of varying attractiveness to each player
  - Players assess the attractiveness based on their resources & capabilities, relations, and motives
- Incentives for participants have to match each participants motives

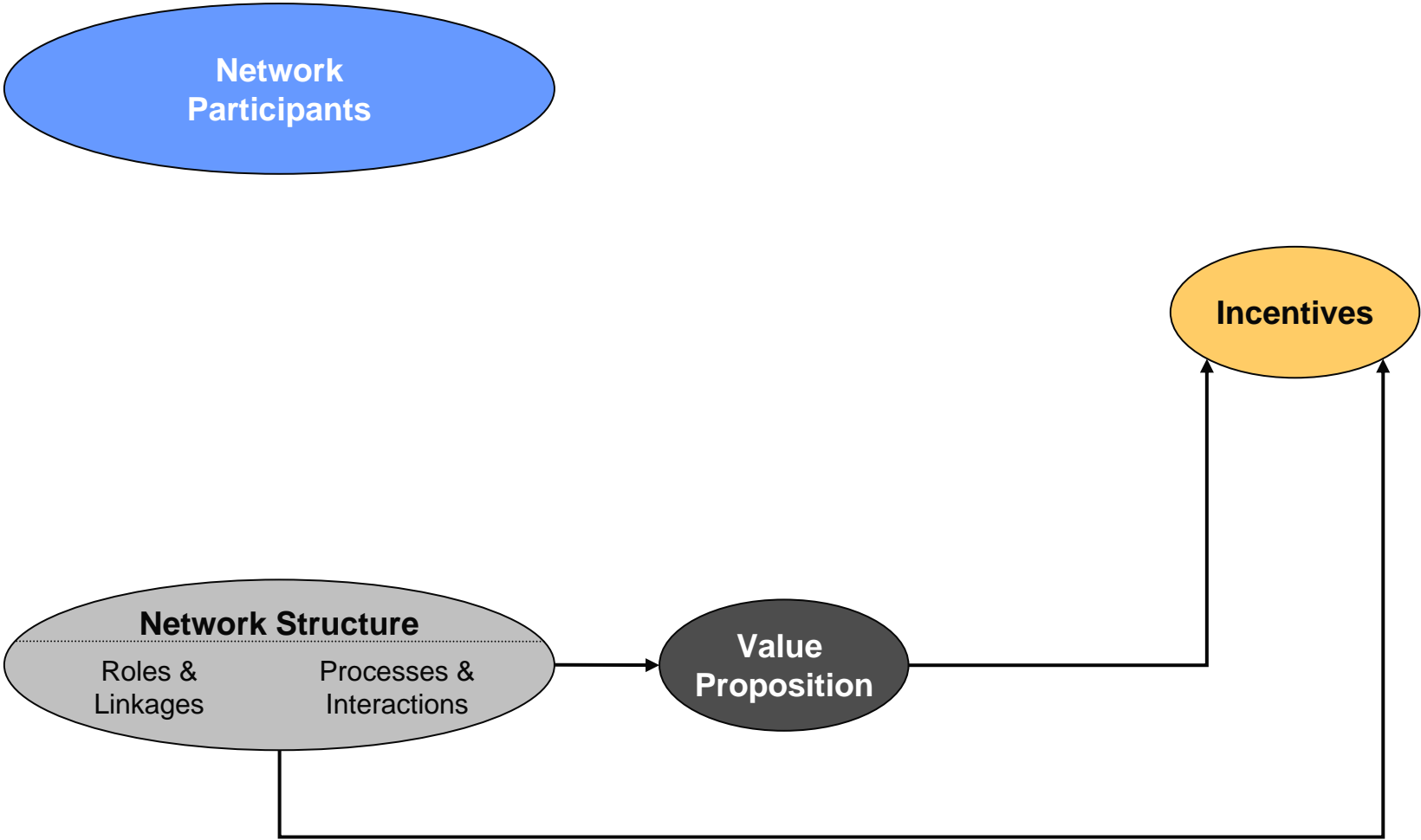
# Incentives of business model configurations: Network business model

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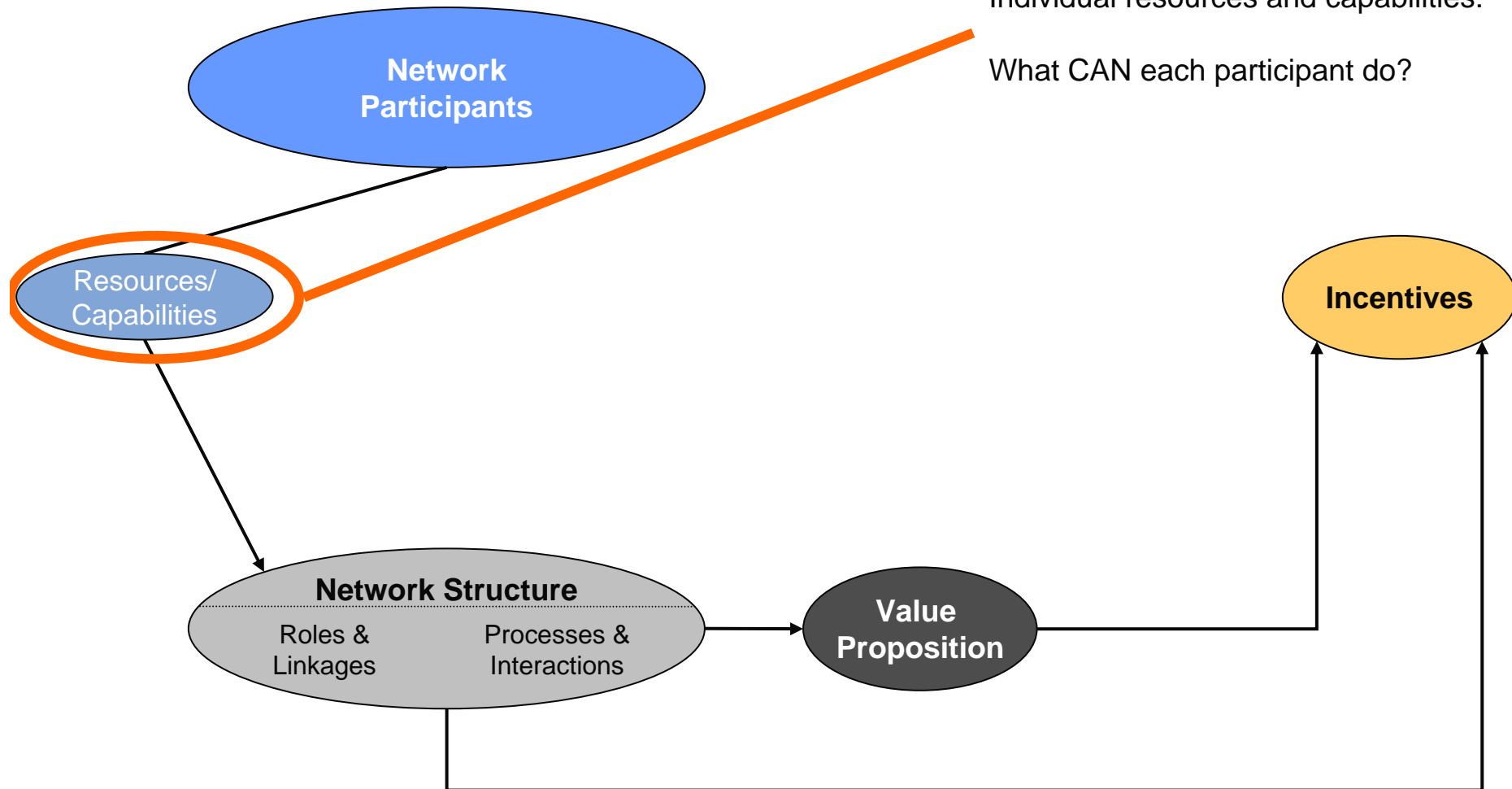
# Incentives of business model configurations: Network business model

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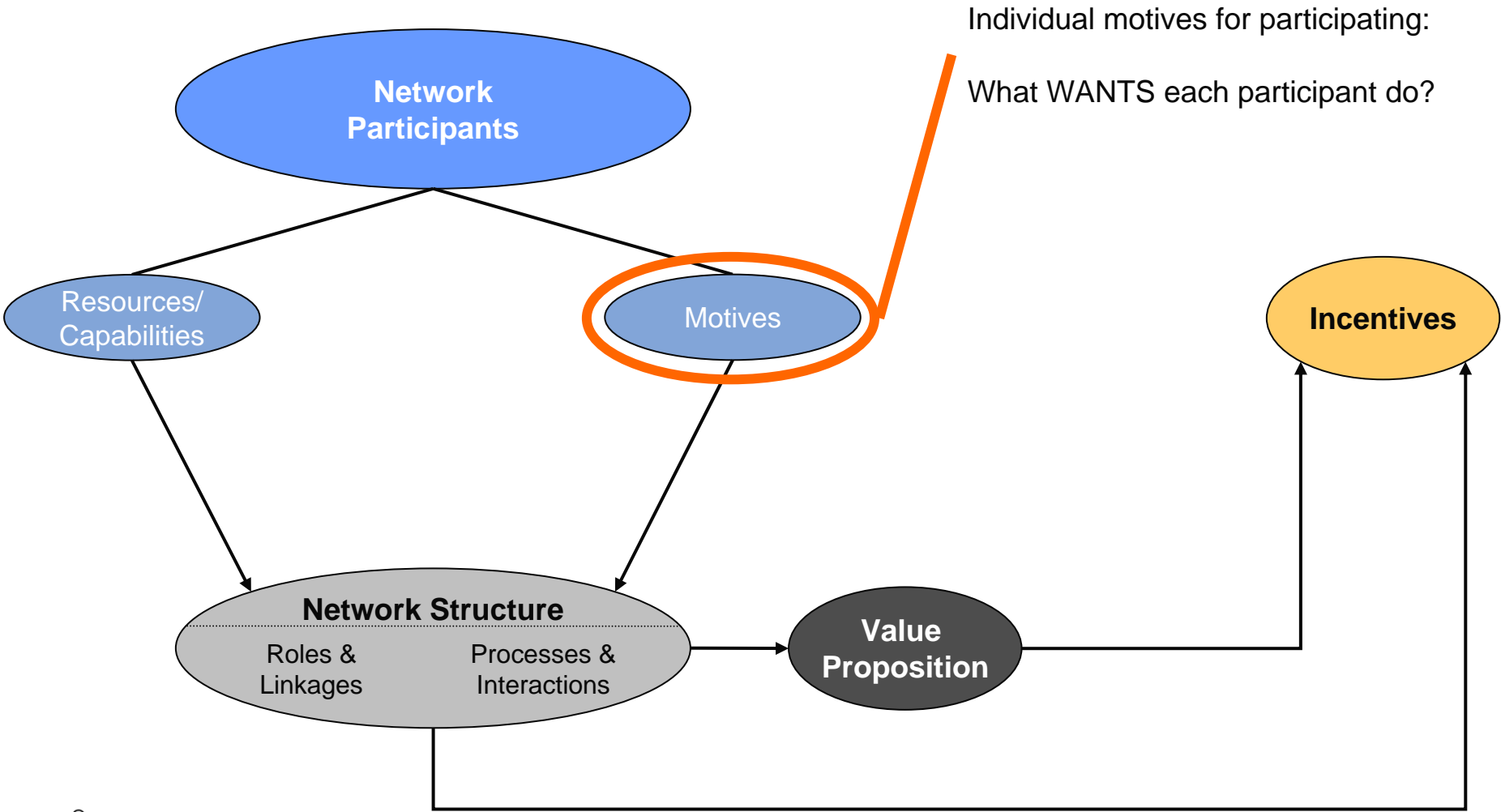


# Incentives of business model configurations: Network business model

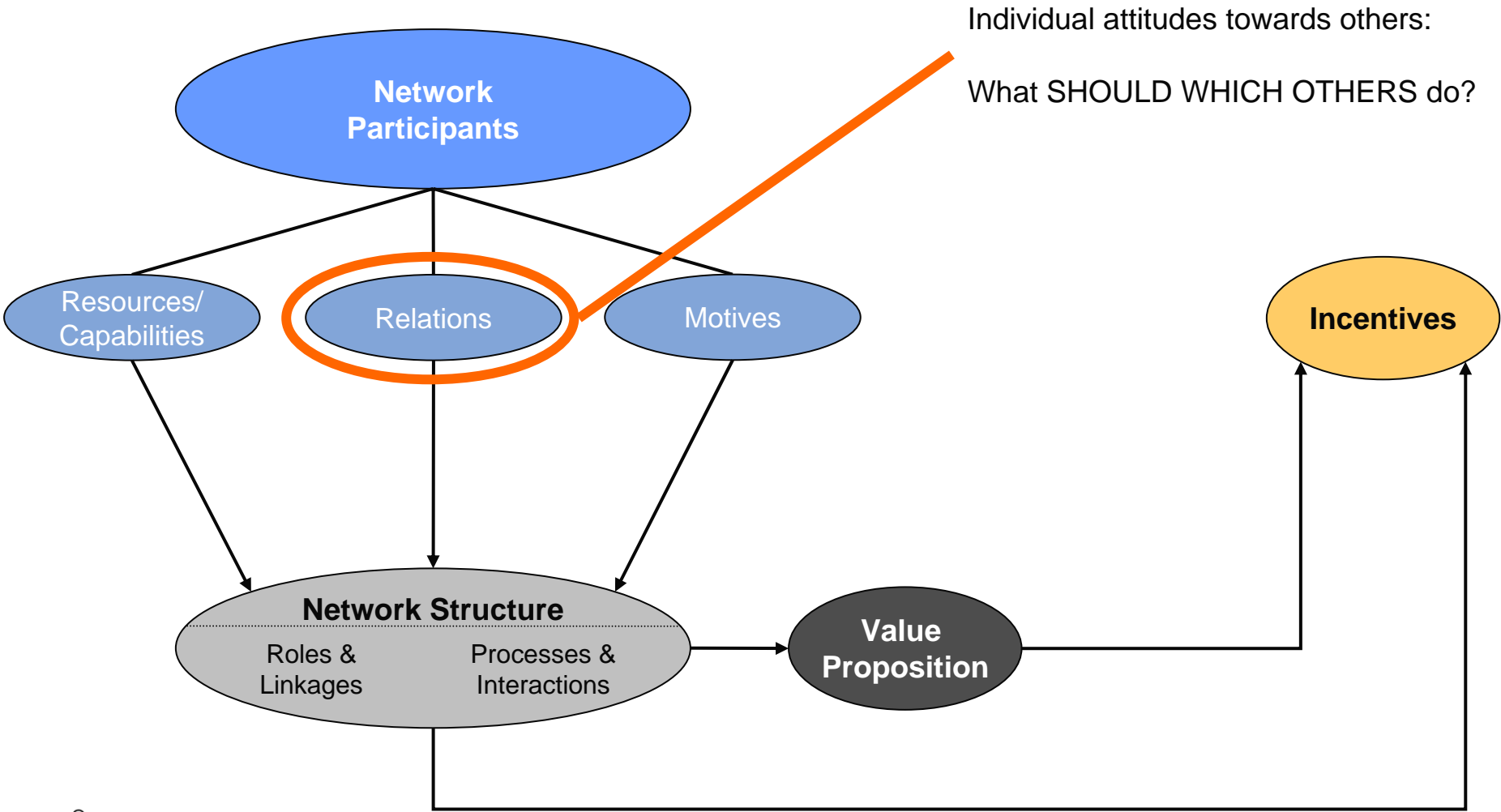
Individual resources and capabilities:  
What CAN each participant do?



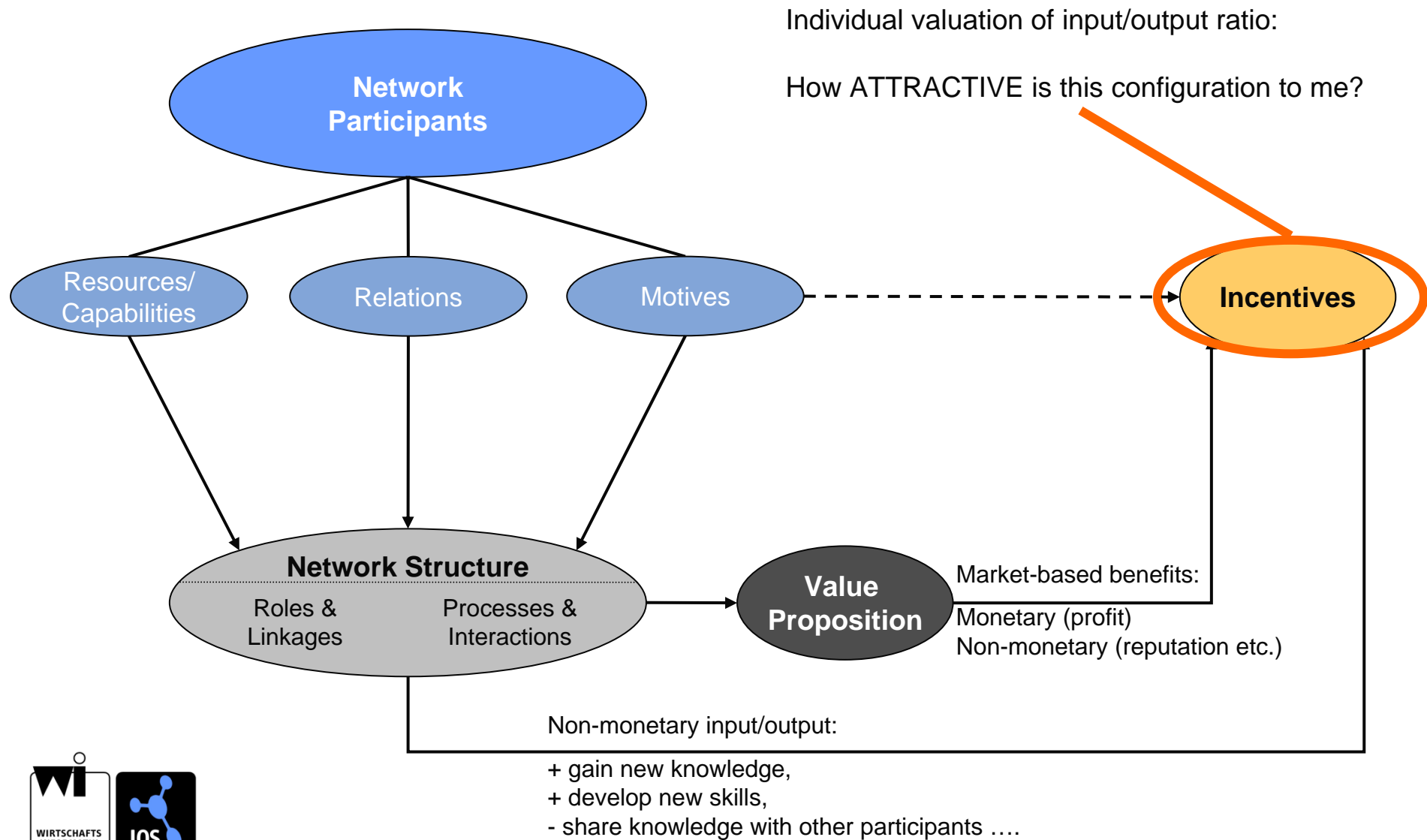
# Incentives of business model configurations: Network business model



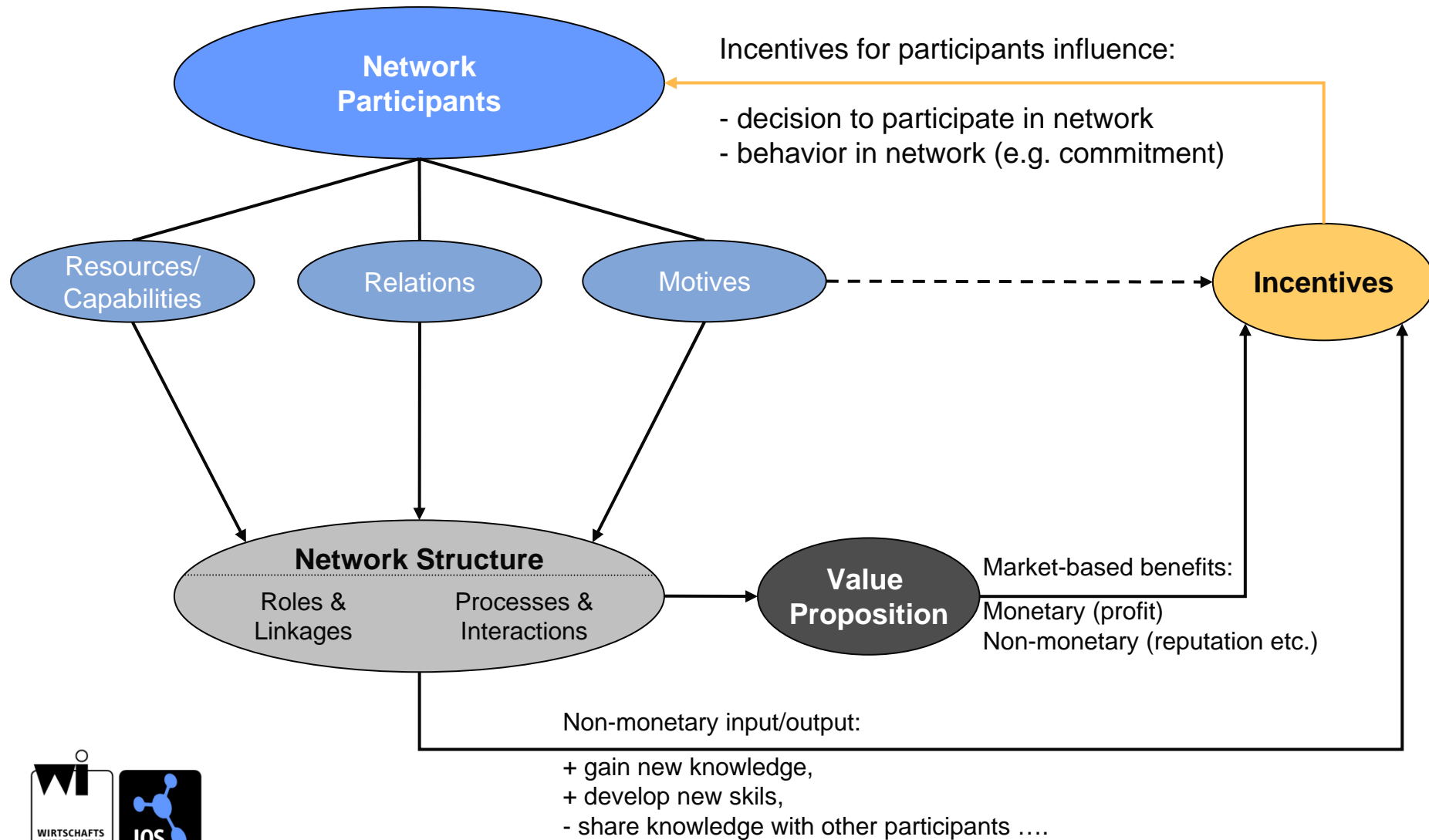
# Incentives of business model configurations: Network business model



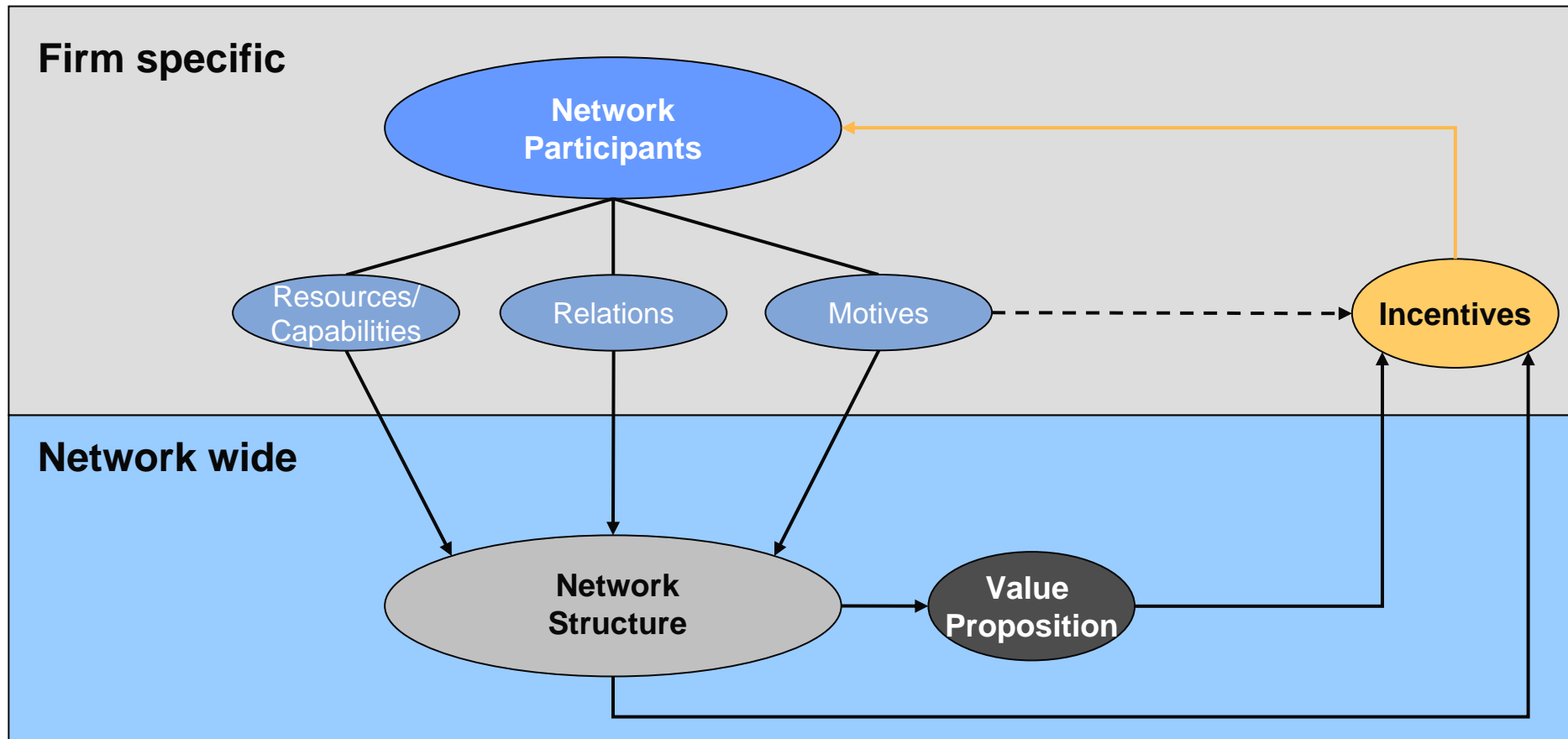
# Incentives of business model configurations: Network business model



# Incentives of business model configurations: Network business model



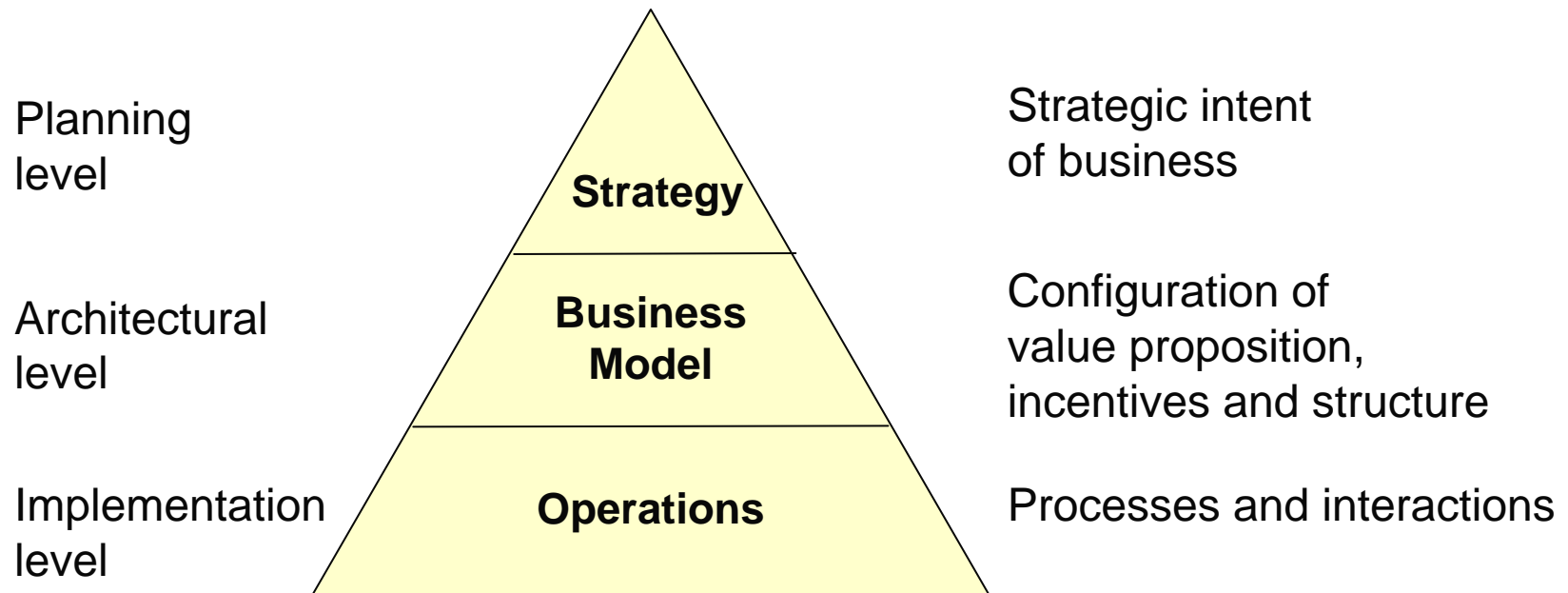
# Incentives of business model configurations: Network business model



## Business models as link between strategy and implementation

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- Business models complement strategy, they don't substitute them!



Based on Osterwalder, Pigneur (2002): An eBusiness Model Ontology for Modelling eBusiness, Proceedings of 15th Bled Electronic Commerce Conference

# Agenda

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1. The concept of business model

2. Network business model configuration

3. Background: business strategy

- a) Definitions
- b) Market-based view
- c) Resource-based view

## What is strategy?

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- greek: strategós - commander
- The term originally comes from a military context:
  - „maneuvering troops into position (...), the employment of troops.“ (vgl. Nickols 2000).
  - Carl von Clausewitz (On war): military strategy is “ ...the employment of battles to gain the end of war.”
- After World War II, several notions and meanings of strategy in the business area have evolved, which are partly conflicting.

## Definition 1

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**George Steiner** („Strategic planning“ 1979):

1. Strategy is what **top management** does which is of great **importance** to the organization
2. Strategy refers to basic **directional decisions**, that is, to purpose and mission.
3. Strategy consists of the **important actions necessary** to realize these directions.
4. Strategy answers the question: What should the organization be doing?
5. Strategy answers the question: What are the ends we seek and how should we achieve them?

## Definition 2

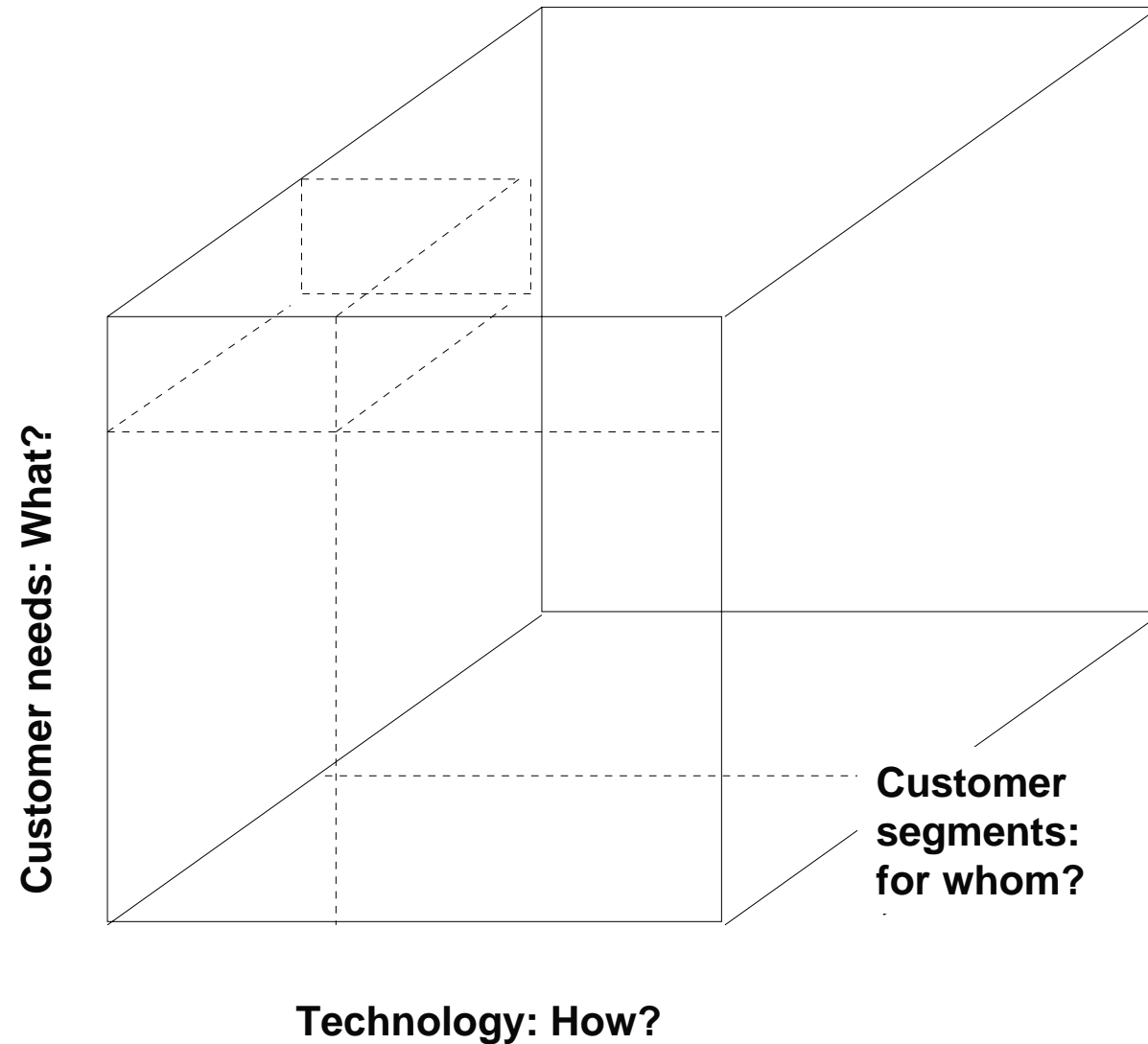
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**Henry Mintzberg** („The rise and fall of strategic planning“ 1979):

1. Strategy is **perspective**, that is vision and direction.
2. Strategy is **position**; that is, it reflects decisions to offer particular products and services in particular markets.
3. Strategy is a **plan**, a „how“, a means of getting from here to there.
4. Strategy is a **pattern** in actions over time.  
→ strategy emerges over time as intentions collide with and accommodate a changing reality („**realized strategy**“).

## Definition 3: Defining the business (Abell 1980)

Focus on  
business  
segments



## Focus: customer needs and technology

---

It is necessary to clarify

- which customer problem is addressed and
- how it is fulfilled.

A few points for illustration:

- A comprehensive offering taking care of a variety of related needs when traveling (“all inclusive”, total customer care)
- Mobility advisor, including multi-modal transport
- Customer decision support (selection of hotels across a complex set of characteristics and constraints, plus additional reports from other customers who have visited the hotel)
- Price comparison (transparency)
- Information about price trends.

## Definition 4

---

**Michael Porter** („Competitive Strategy“, HBR, 1996):

- **Competitive strategy** is „about being different.“
  - „It means deliberately choosing a **different** set of activities to deliver a **unique** mix of value.“
- ➔ To achieve a superior industry position by differentiating the firm's products and services from the customer's perspective.

## 10 strategy schools (Mintzberg et al.) (1-5)



### 1. The Design school – the 70ths

- Strategy as a FIT of strengths/weaknesses and opportunities/risks.
- The senior manager formulates clear and simple guidelines for implementation.



### 2. The Planning school – 1970 to 1980

- Formal planning: clear processes, check lists, methods and techniques.
- Detailed plans instead of informal guidelines!



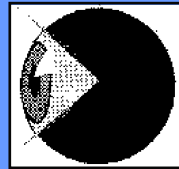
### 3. The Positioning school – the 80ths

- Founded by Michael E. Porter:
- Market positioning a detailed/intensive analysis of the (market) situation.



### 4. The Entrepreneurial school

- The entrepreneur is the central persons. He steers/directs the company, he decides.
- Strategy is somehow mystic, based on intuition of the entrepreneur.



### 5. The Cognitive school – since the 80ths

- How do strategies emerge in the minds of people (mind models, landscapes)?
- What can we learn from these formation processes?

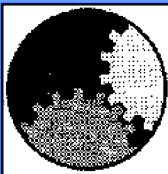
Mintzberg, Henry; Ahlstrand, Bruce; Lampel, Joseph (1999): Strategy, blind men and the elephant, in: Financial Times Mastering, 27.09.1999, S. 6-7.

## 10 strategy schools (Mintzberg et al.) (6-10)



### 6. The Learning school

- Notion of „emergent strategy“. Strategy emerges on all levels of the organization.
- Formulation and implementation are independent: „try, fail, learn and try again.“



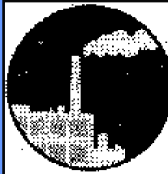
### 7. The Power school

1. Internal: Strategy formulation is a process of negotiating, convincing and confrontation.
2. External: Company uses power positions in the market and in alliances.



### 8. The Cultural school

- Strategy development is a social process, grounded in the organizational culture.
- Examines cultural influences to strategy formulation.



### 9. The Environmental school

- Contingency theory: Focuses on external impact and demands to the organization.
- The role of ecology, society and in general stakeholders to be focused.



### 10. The Configuration school

- Integrative view: Use different approach depending on different situations.
- Do not overemphasize one of the above views!

Mintzberg, Henry; Ahlstrand, Bruce; Lampel, Joseph (1999): Strategy, blind men and the elephant, in: Financial Times Mastering, 27.09.1999, S. 6-7.

## 3 basic strategy models

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### 1. Design model (classical):

- Planning and design process, then implementation
- Fit of internal competencies and external situation

### 2. Emergent model (modernist):

- Strategy emerges in the process of action
- Strategy cannot be (fully) planned in advance but derives from the organization's adaptive behaviour to external forces

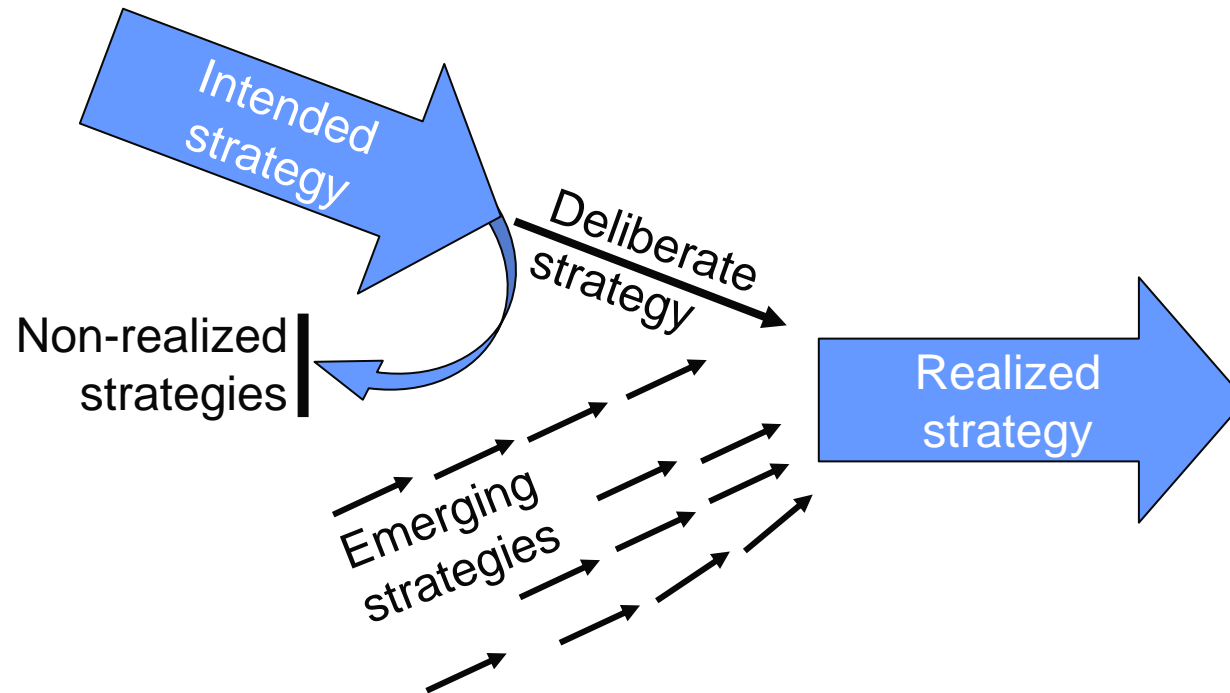
### 3. Culture model (symbolic):

- Strategy formation as a social process
- Organization develops powerful symbols of business culture to mobilize strategy formation and implementation.
- More about setting the context than rational planning

## The essence of strategy

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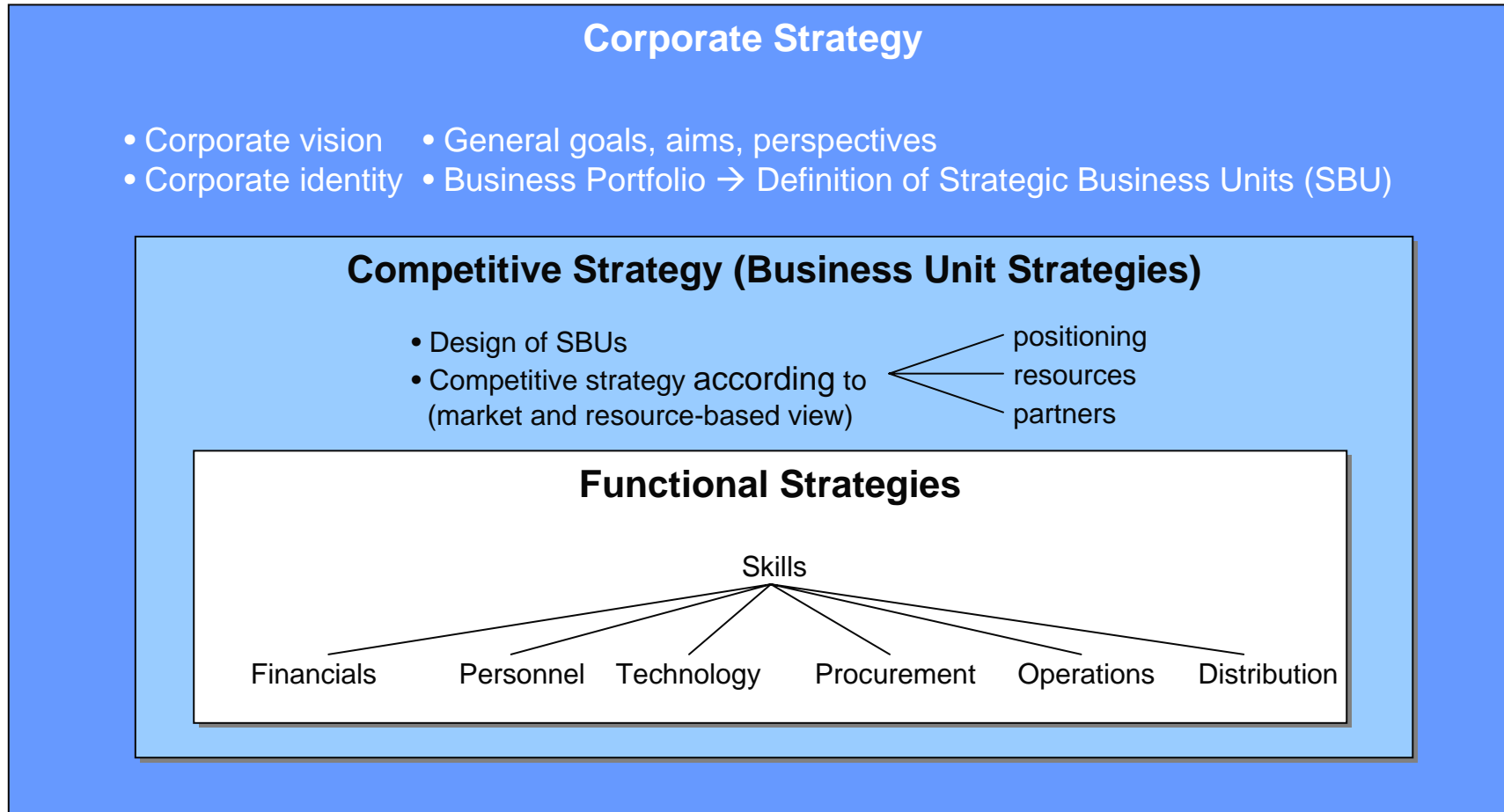
Strategies tend to be not only deliberately formulated but also to emerge over time:



Mintzberg 1999, S. 30; Chaffee 1985, S. 89f.

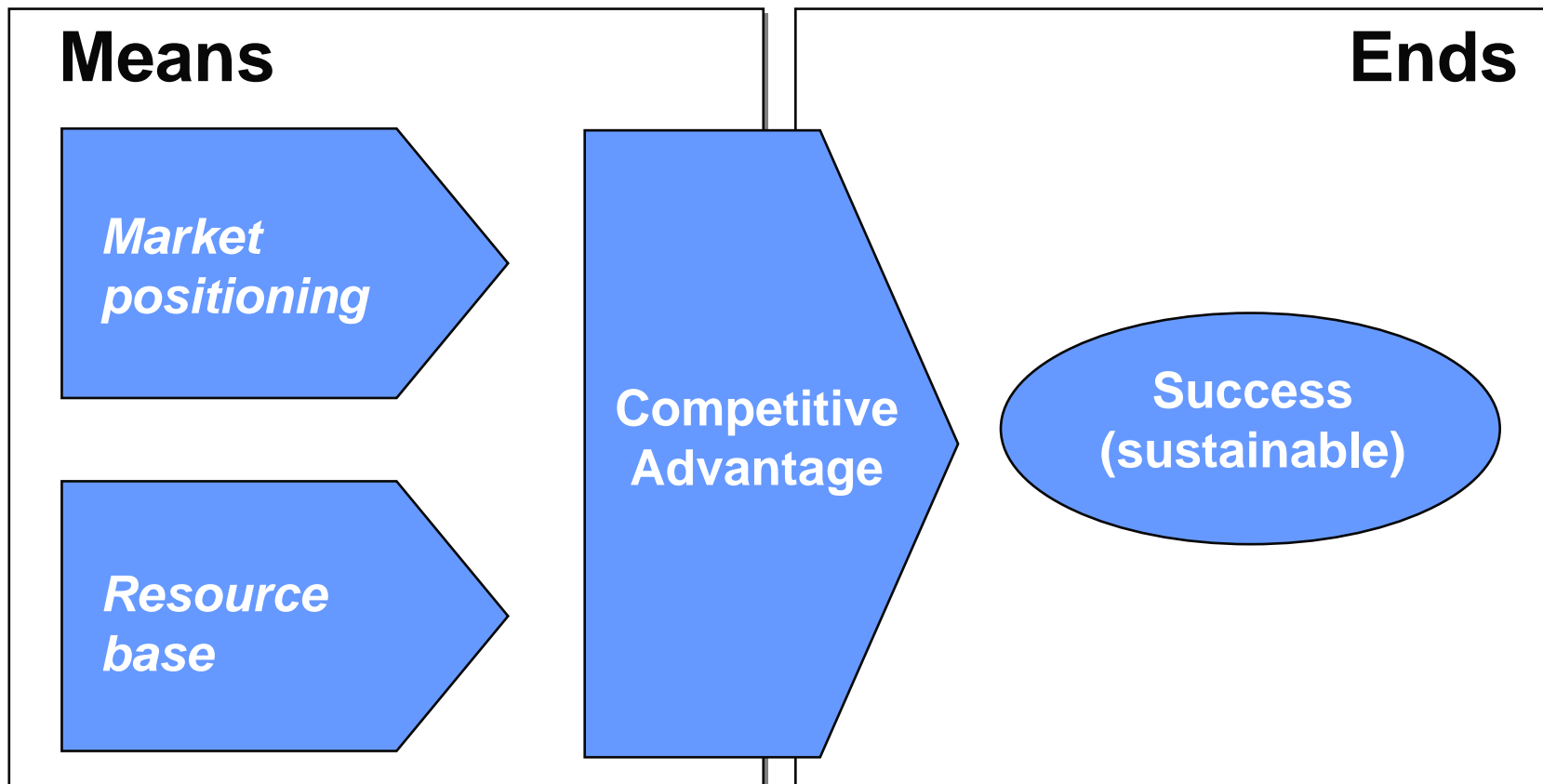
## From long-range planning to strategic management ...

Strategy takes place on different levels within the firm ...



## Basics of competitive strategy

Two schools dominate the strategy debate:  
market-based view and resource-based view



Strategic positioning theory posits that superior performance comes from tight linkages among

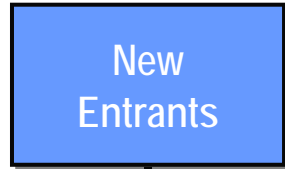
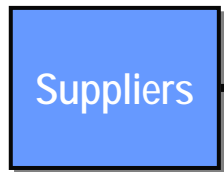
- distinctive **value propositions**
- a carefully crafted **product-market focus**
- a set of unique **value activities** -> value chain/ activity system

# MBV Porter's Five Forces Model

## Bargaining Power of Suppliers:

These factors tend to increase supplier power:

- Dominated by a few suppliers
- Suppliers more concentrated than buyers
- No substitutes
- Threat of forward integration (if suppliers can vertically integrate, their power increases)
- Supplier input to quality of products critical

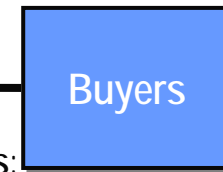
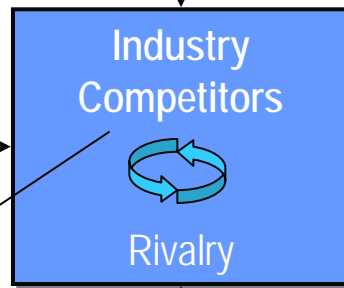


## Threat of new entrants:

Depends on: Entry barriers.

Typical barriers are:

- Economies of scale
- Capital requirements
- Customer switching costs
- Government policies
- Access to distribution and suppliers



## Bargaining Power of Buyers:

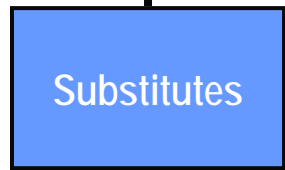
These factors tend to increase buyer power:

- Concentrated
- Low switching costs (standardized products or services), low profit margins
- Threat of backward integration
- Buyer has all relevant information

## Rivalry among competitors:

Depends on:

- Numerous rivals, equally balanced power
- Slow growth
- Low differentiation, low switching costs
- High exit barriers
- Etc.



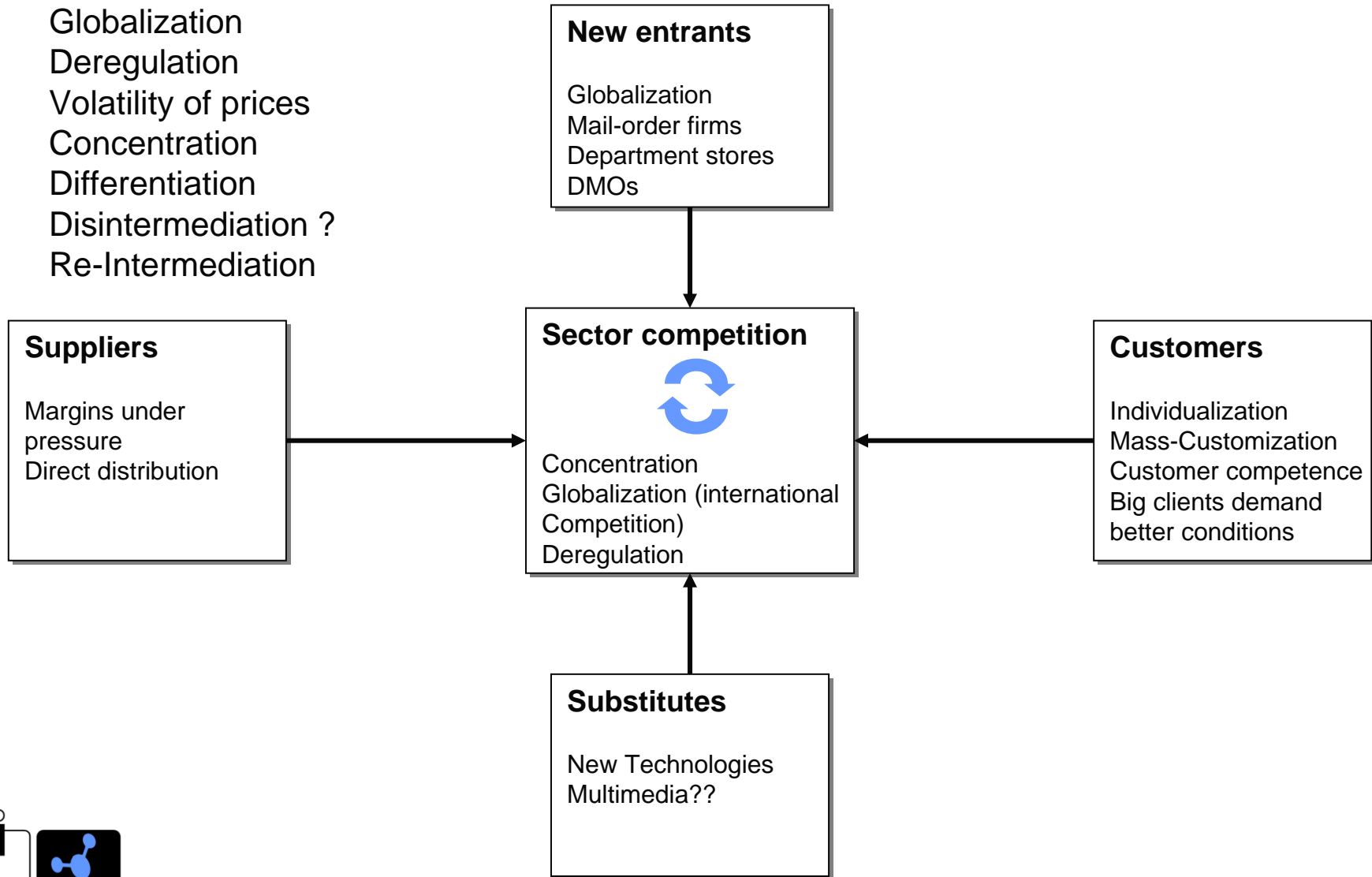
## Threat of substitutes:

Depends on:

- Existence of equal-functioned products
- Customer switching costs
- Aggressivität und Profitabilität der Produzenten

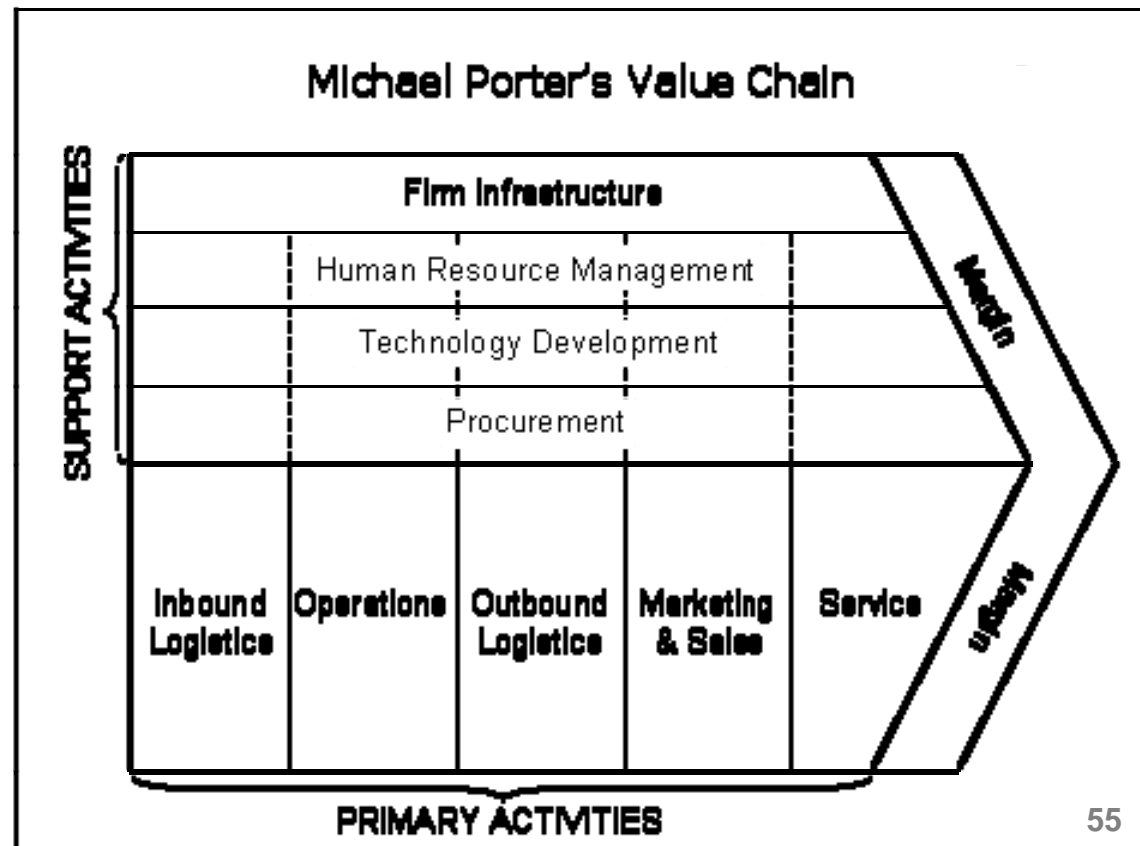


# Example tourism: From a travel agent's point of view



- 1. Positioning** the company in the way that its capabilities provide the best defense against the competitive forces.
  - E.g. a company can improve its strategic posture by finding suppliers who possess the least power to influence it adversely.
- 2. Influencing the balance of the forces** through strategic moves, thereby improving the company's position.
  - E.g. Innovation (substitutes), vertical integration
- 3. Anticipating shifts** in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.
  - E.g. analyze trends, market research, corporate intelligence (Porter, M. E. (1997), p. 8).

- 3 generic strategies:
  1. Overall cost leadership: „do the same things better“
  2. Differentiation: „do different things“
  3. Focus: „search for a niche“
- Porter's value chain:  
Unique value activities



## RBV Resource-based view

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- **Favourable strategic positions (*Erfolgspotentiale*):** Strategic management concentrates on the development, maintenance and exploitation of strategic potentials, for which the firm uses its resource base. (Bleicher 1999, p. 75)
- Competitive advantage derives from **unique (i.e. not tradable and difficult to substitute) and inimitable resources and competencies**, which allow to achieve a superior customer benefit. (cp. Börner, 2000, p. 817)



## The intelligent enterprise (Quinn 1992)

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- "**First**, all **nonproduction elements** in the value chain and at corporate staff levels need to be redefined as 'services', which can either be produced internally or potentially be **outsourced** to external firms ...
- **Second**, ... In which of these activities can we achieve, '**best in the world**' **capabilities internally**? ...
- **Third**, the corporation itself should **concentrate** ... on those activities ..., where it can create a unique value, and where it must have strategic control to maintain dominance (1) within its own selected area of special competency, (2) over its crucial customer and supplier relationships, and (3) over the systems that coordinate the two." (37)

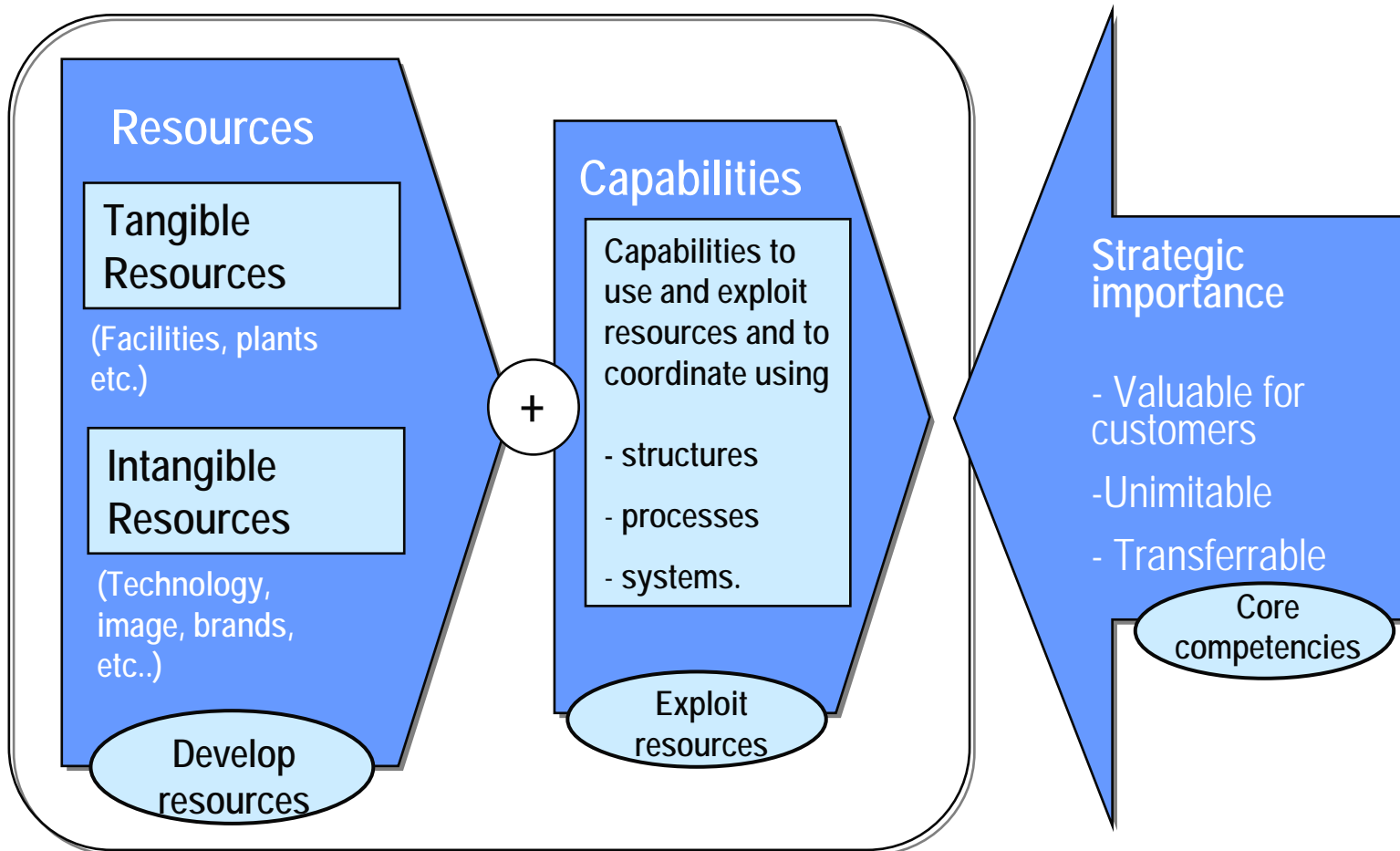


## The intelligent enterprise (Quinn 1992)

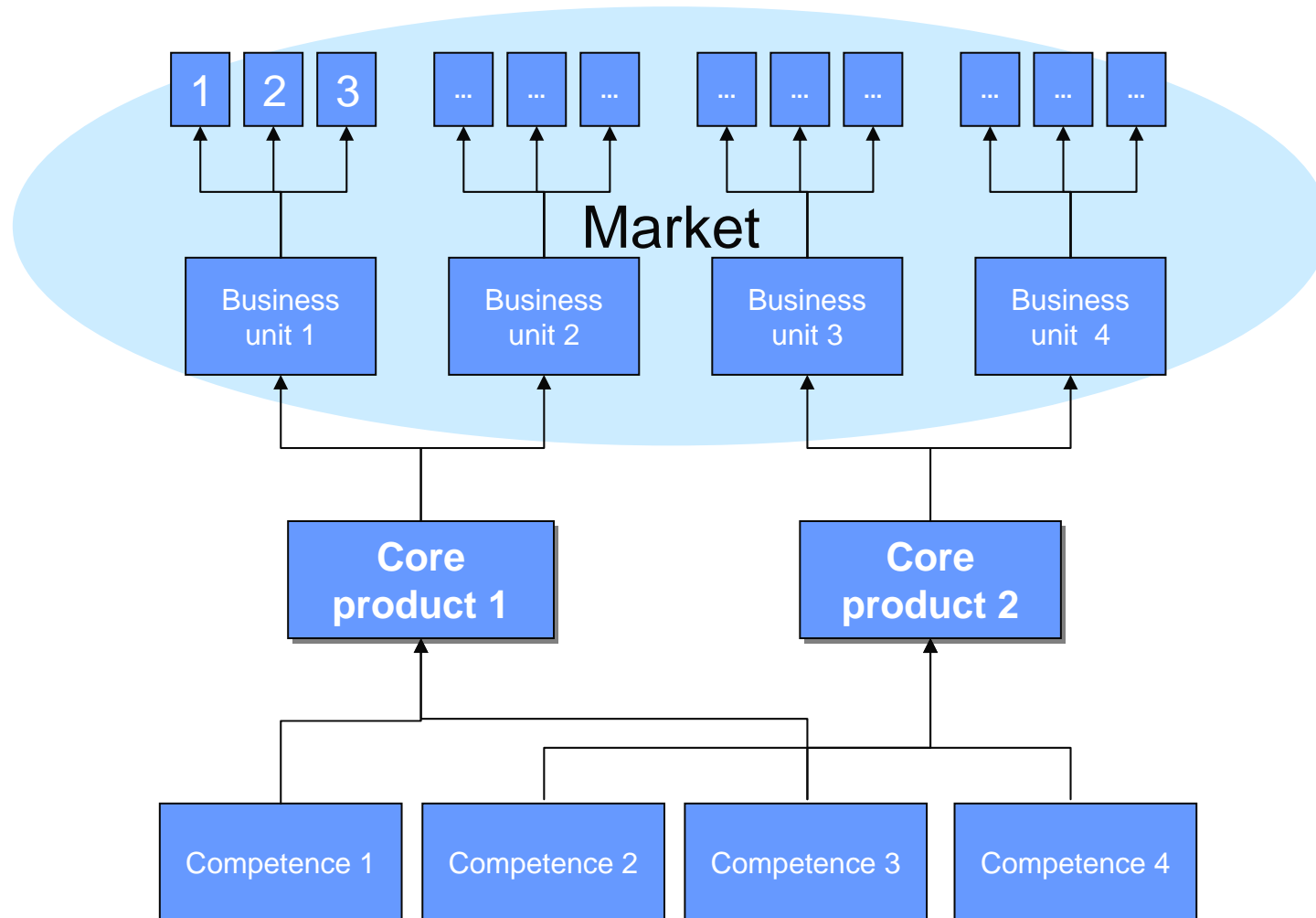
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- "Maxim One: For maximum long-term strategic advantage, companies **focus** their own internal resources on a relatively few basic sources of intellectual or service strength - or classes of service activities - which create and maintain a real and meaningful longterm distinctiveness in customer's minds." 53
- "Maxim Three: For continued success companies actively **command, dominate, and build barriers to entry** around those selected activities critical to their particular strategic concept. Concentrating more power than anyone else in the world on these core competencies as they affect customers is crucial to strategic success. ...
- Maxim Four: Strategists **plan and control their outsourcing** so that their company never becomes overly dependent on - or later dominated by - their partners." 55

# Resources and capabilities as the basis of core competencies

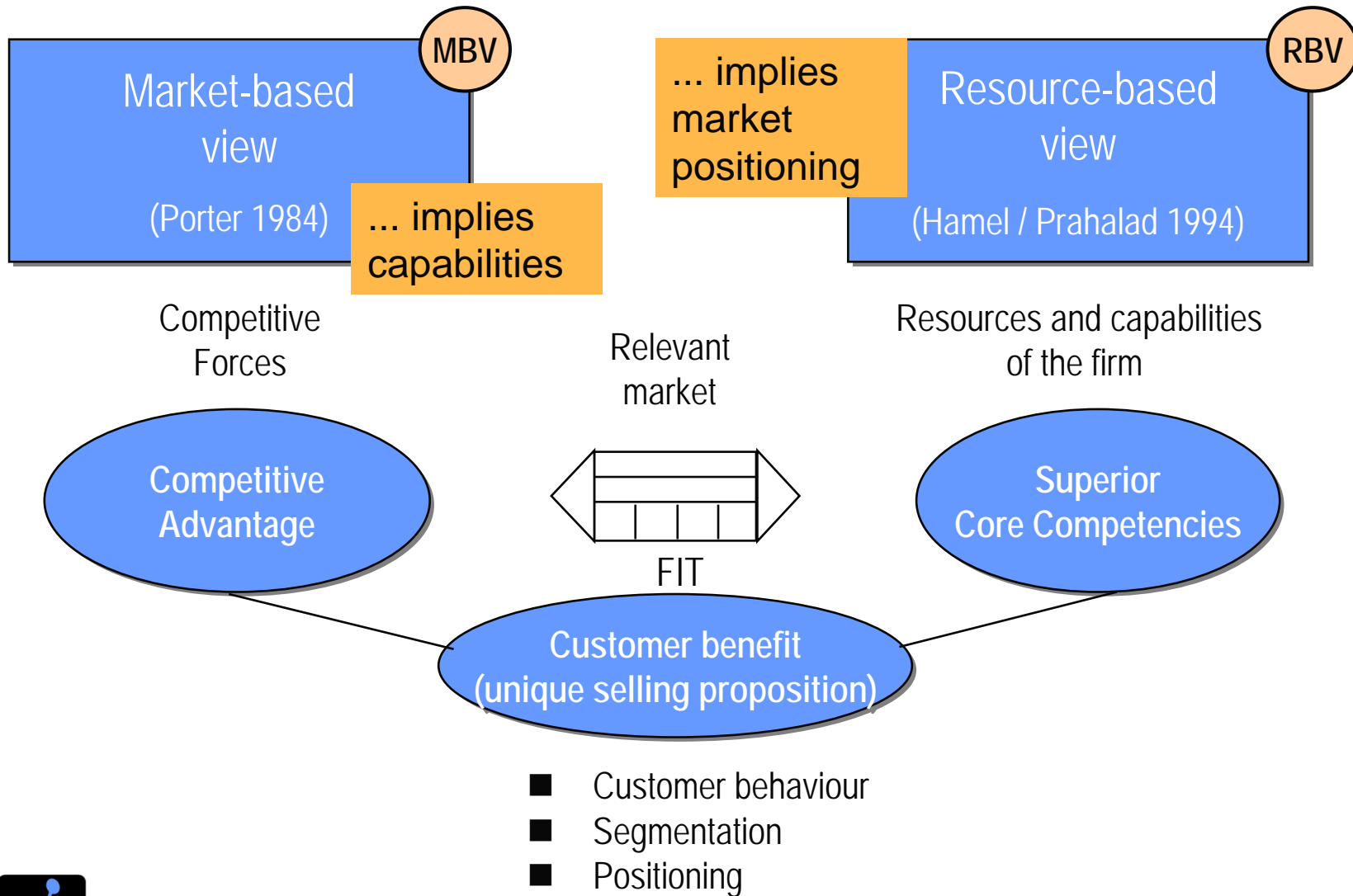


# RBV Configuration of core products



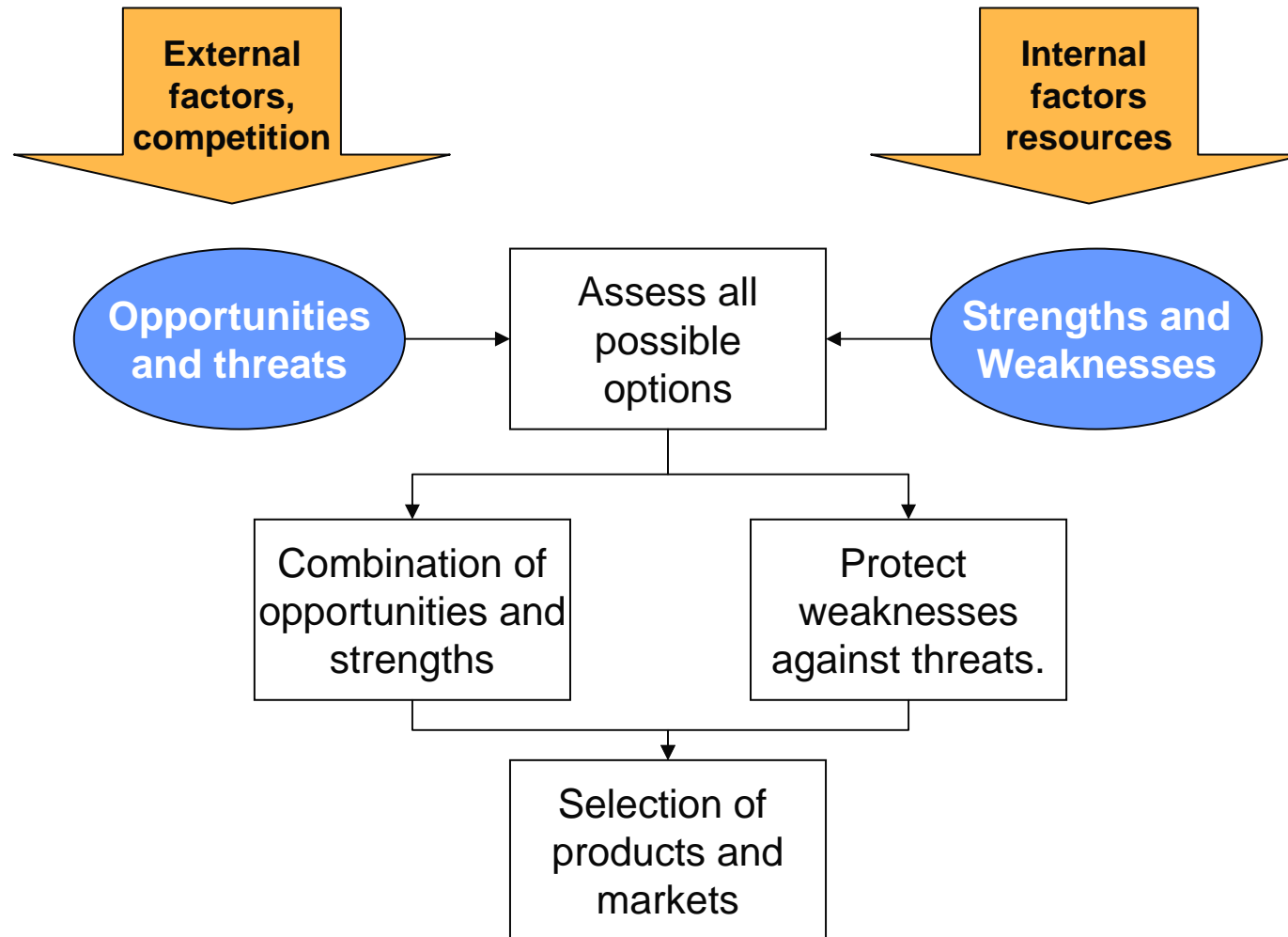
Source: Hamel, Prahalad (1994).

# Integrated view on competitive strategy

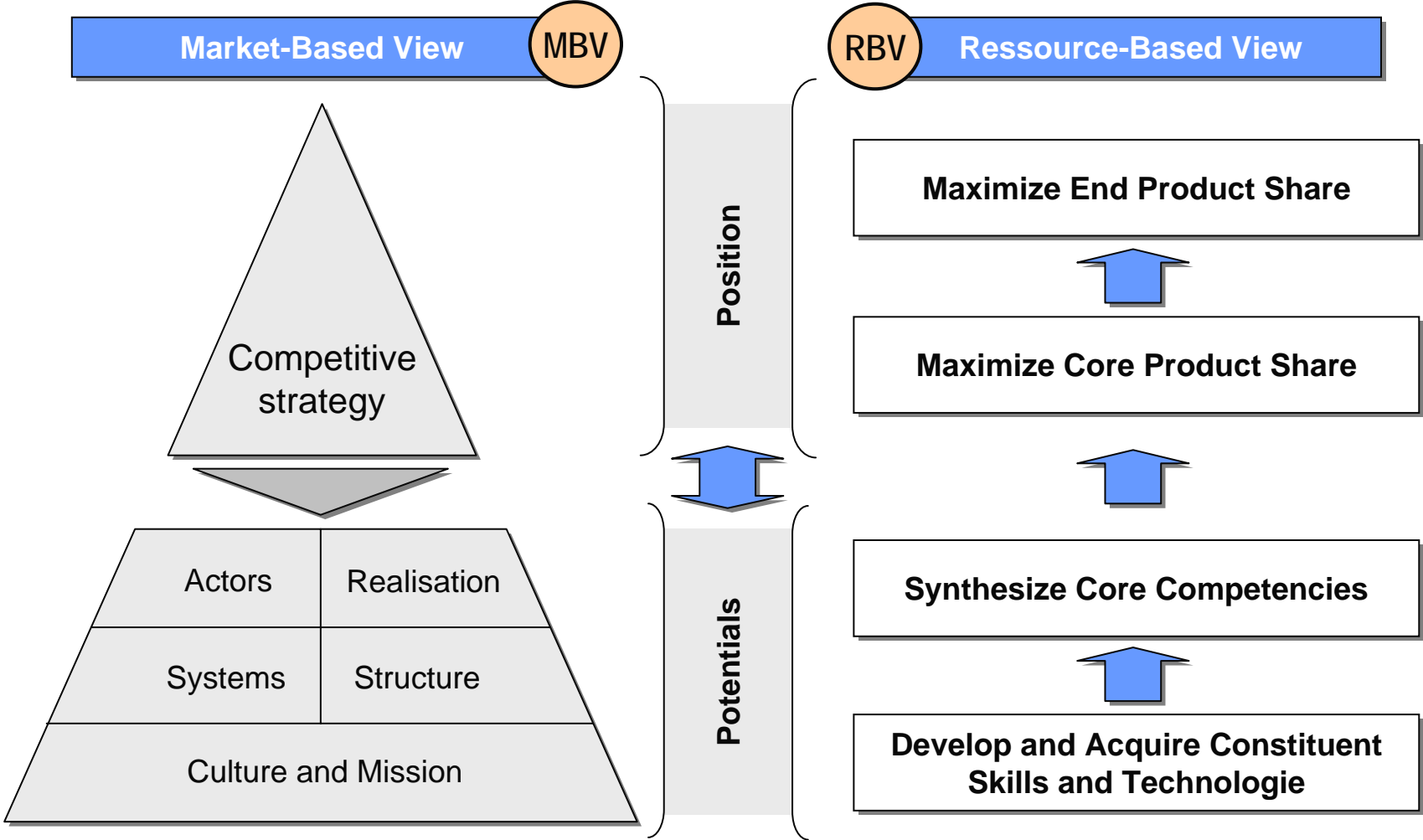


# Using SWOT analysis to integrate MBV and RBV thinking

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# Outside-in versus Inside-out: two views, same intention



## Issues for your consideration: (1) design

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- **Unique value proposition – defining the business**
  - Competitive lens and analysis (e.g. 5 forces)
  - Customer focus, including customer segmentation
  - Reflection of means, e.g. technology
  - Positioning of Web activities - Functional strategy, e.g. multi-channel distribution (airlines)
  - Innovation potential: variation of existing models, patterns of doing business (prediction markets)
- **Network & operations**
  - Flow of information, service provision
  - Roles and linkages: Forging partnerships, mobilizing others
  - Dis-, Re-Intermediation, Cybermediation
- **Revenue model**
  - (Configuration of) sources of revenue

## Issues for your consideration: (2) development

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- Perspectives on and prerequisites for growth
- Options for development and growth