



Business Models that Make Money

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What is a business model?

Peter Drucker once indicated that a business model is something that addresses the following:

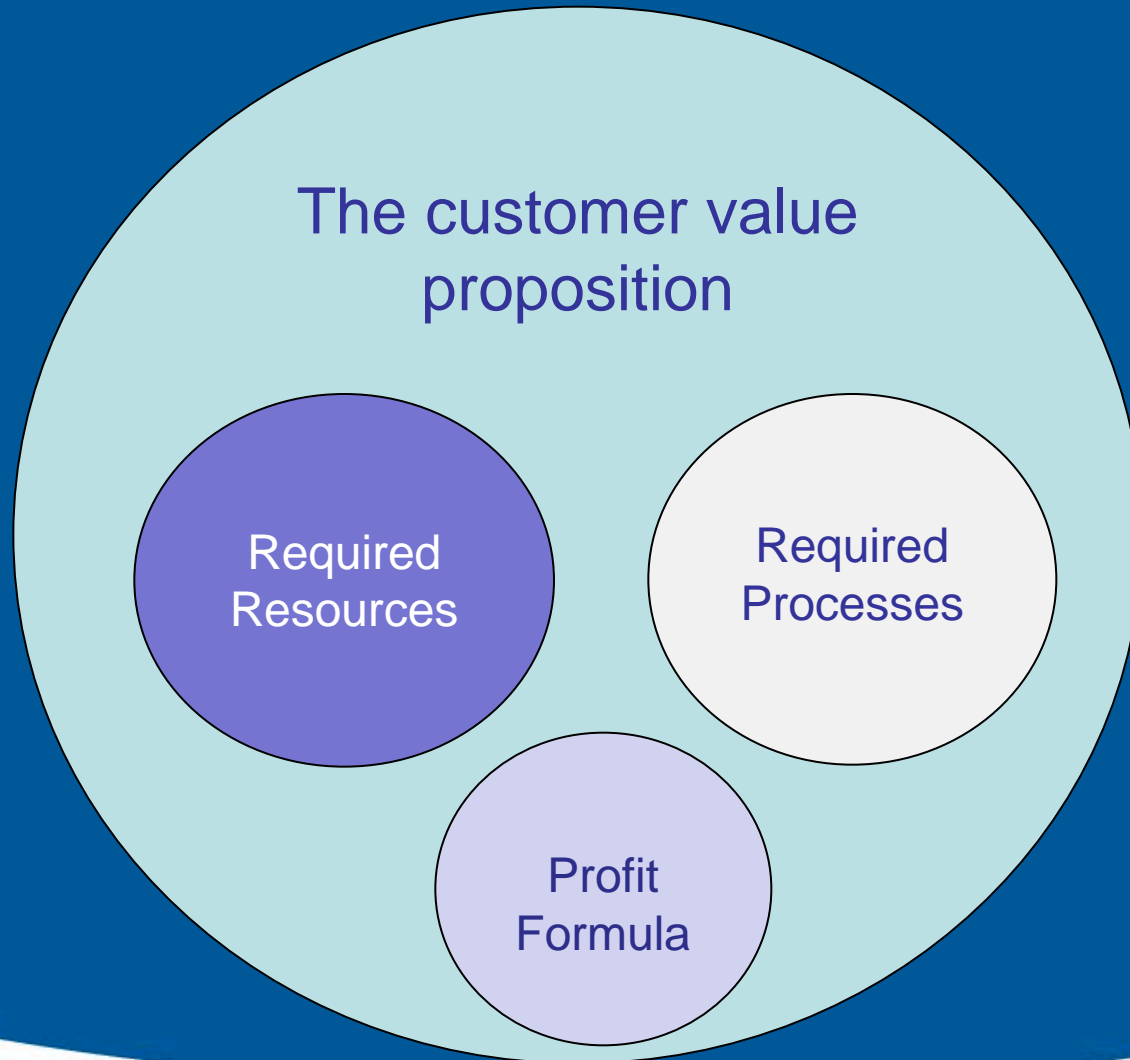
Who is your customer?

What does the customer value?

How does the firm deliver that value at an appropriate cost?



What is a business model? (Adapted from Christensen)





Business Models have become identified with Company Specific Models

- The McDonald's Model
- The Southwest Airline's Model
- The Apple Innovation Model



Determining the Customer Value Proposition





How do we determine the Customer Value Proposition?

- We can understand what the customer values and create a product or service

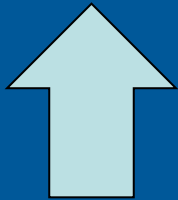
OR

- We can influence the customer to value the product or service we have created

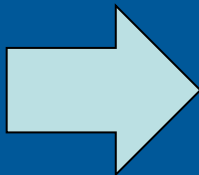


The Profit Formula

Price/Revenues – Costs = Profit?



Value
Proposition



Required Resources
Required Processes



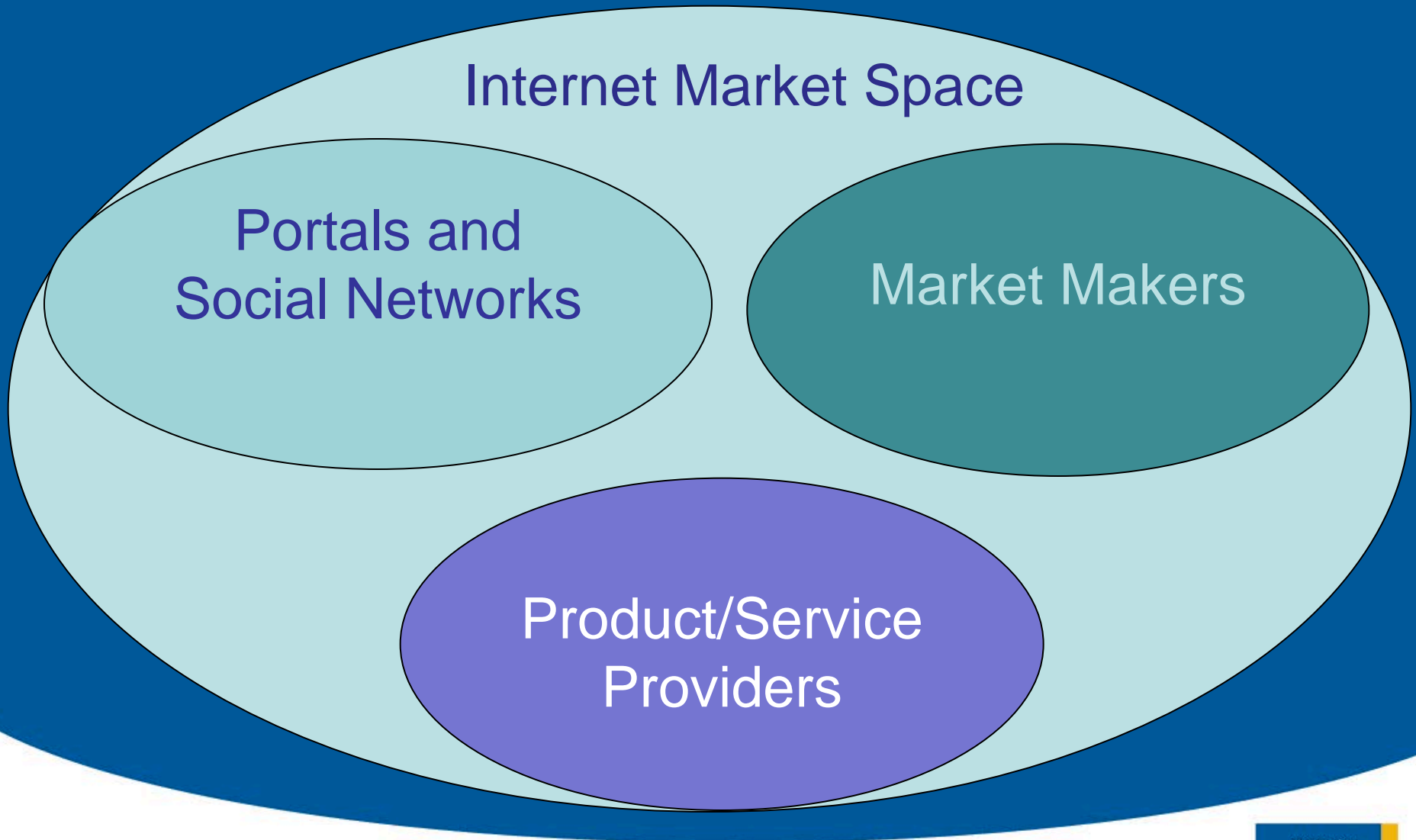


Novel Business Models

- Shared Ownership
 - Co-operatives
 - profit sharing
- Trust Culture
 - Honesty
 - Transparency
 - Customers, Management and Employees
- Focused Quality
 - One product
 - Outsource of repetitive, non-quality enhancing tasks



E-Business Models





The E-Profit Formula

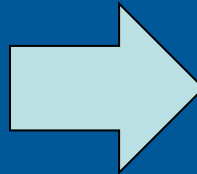
Price/Revenues – Costs = Profit?

- Increased Margins over Brick and Mortar
- Revenue from Online Seller Communities
- Advertising
- Variable Pricing Strategies
- Revenue from Asymmetric Information
- Free Offerings

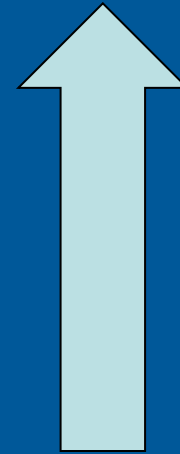


Value Proposition

- Virtual Communities
- Reduction in Transaction Costs
- Exploiting Information Asymmetry
- Value-added Market Making



Required Resources Required Processes





E-Business Models

Elements of the E-Business Model	Portals	Market Makers	Product/Service Providers
Value Streams			
Virtual Communities	✓	✓	✓
Reduction in Transaction Costs		✓	✓
Information Asymmetry		✓	
Value-Added Market Making	✓	✓	



E-Business Models

Elements of the E-Business Model	Portals	Market Makers	Product/Service Providers
Revenue Streams			
Increased Margins over Brick and Mortar			✓
Revenue from Online Seller Communities	✓	✓	
Advertising	✓	✓	
Variable Pricing Strategies			✓
Revenue from Information Asymmetry		✓	
Free Offerings	✓		✓



E-Business Models

Elements of the E-Business Model	Portals	Market Makers	Product/Service Providers
Logistical Streams			
Dis-intermediation			✓
Info-mediation	✓		
Meta-Mediation		✓	



In Summary

- Five Tips for Achieving a Business Model that Makes Money
 - Understand your customer and what they value
 - Consider whether you can deliver that value at an appropriate price
 - Determine what are the required resources and processes for delivering the value proposition
 - Think about introducing novelty to your business model
 - For an e-business model, decide which value stream and which revenue stream best fits your business



Wrap Up

- Any Questions???????