

Business Model As a Framework

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IOM 543
Global Business Issues in The
Networked Digital Industry

Learning Objectives

- What is a business model? How can we conceive a business model systematically when services are provided through interactive digital platforms?
- How will partnering change in new marketspaces for services provided through digital platforms?
- How can we systematically identify, generate, build, and assess business models for launching services provided through interactive digital platforms ?



Going Digital

Digital Innovation

Taking advantage of emerging digital technologies & platforms to find new ways of working and providing value to customers

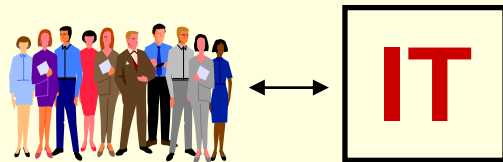
*New business
processes*

New products

*New
Communities*

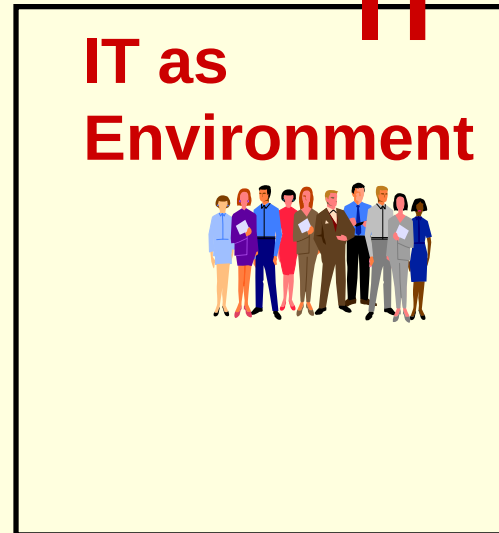
The Changing Role of IT and its Relationship to the Business

IT as Tool

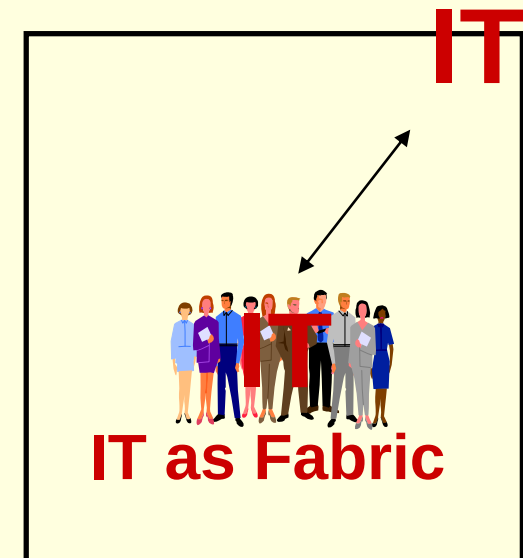


**Connection
View (~1970-95)**

IT as Environment



**Immersion View
(~1991-2011)**



**Fusion View
(~2005- ?)**



Connection View

First Gear: IT as a Tool

Design Focus is on the IT System

*Information Systems
Design*

Supporting the Business

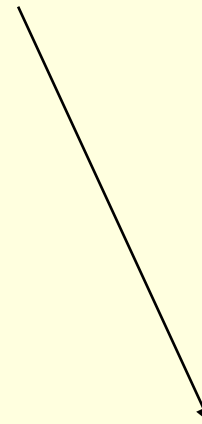
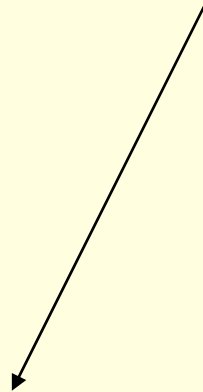
EDI systems
CRM



Immersion View

Second Gear: IT as Environment

Design Focus is on Business
Processes & Work Systems



*Work Systems &
Practices*

Running the Business



Fusion View

Third Gear: IT as Fabric

Design Focus is on Business Models for
Digital Platforms

*Digitally-Enabled
Enterprises*

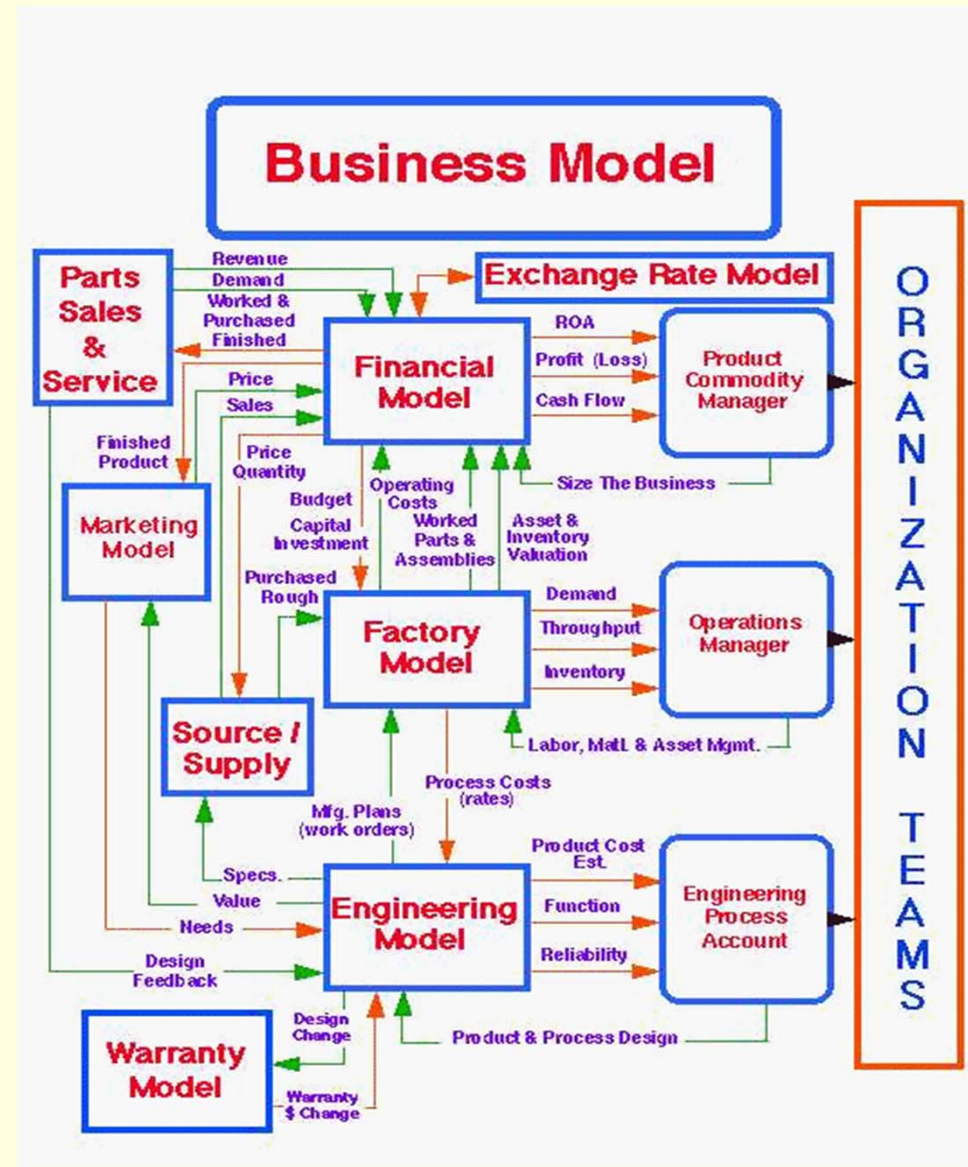
Designing the Business

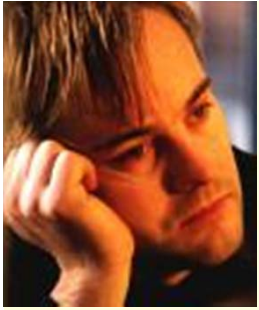
What is a Business Model ?



So many
definitions....

What is a Business Model ?





What is a Business Model ?

Business Model

Wireless Music: Licensing to advertising, power utilities

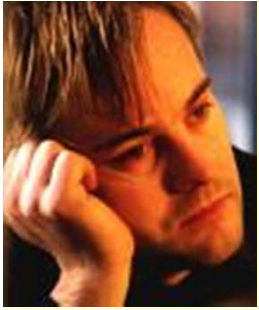
Greenstar Textures: textile, commercial design

Premier Artist: guest musicians, advertiser-supported

The Greenstar Experience: streaming media subscription



<http://www.greenstar.org>



Example: Confusing Revenue Models with Business Models in Digital Industries such as Entertainment.....



Advertising Model !

Pay Per View !

Monthly Subscription
for Premium Services !

Just in case you think you can always predetermine the user value proposition, think again ...



Definition

Confusion in terminology as “business model, strategy, business concept, revenue model and economic model are often used interchangeably... (and moreover) the business model has been referred to as architecture, design, pattern, plan, method, assumption and statement.

Definition

Three General Categories of Definitions

- Economic: Focuses on how a firm makes a profit
(revenue sources, pricing, cost structures)
- Operational: Focuses on the firm's internal processes and design of infrastructure that enables firms to create value.
(production/service delivery methods, resource flow and knowledge management)
- Strategic: Emphasizes the overall direction of the firm's marketing position, interactions across organizational boundaries, and growth opportunities
(stakeholder identification, value creation, visions, values)

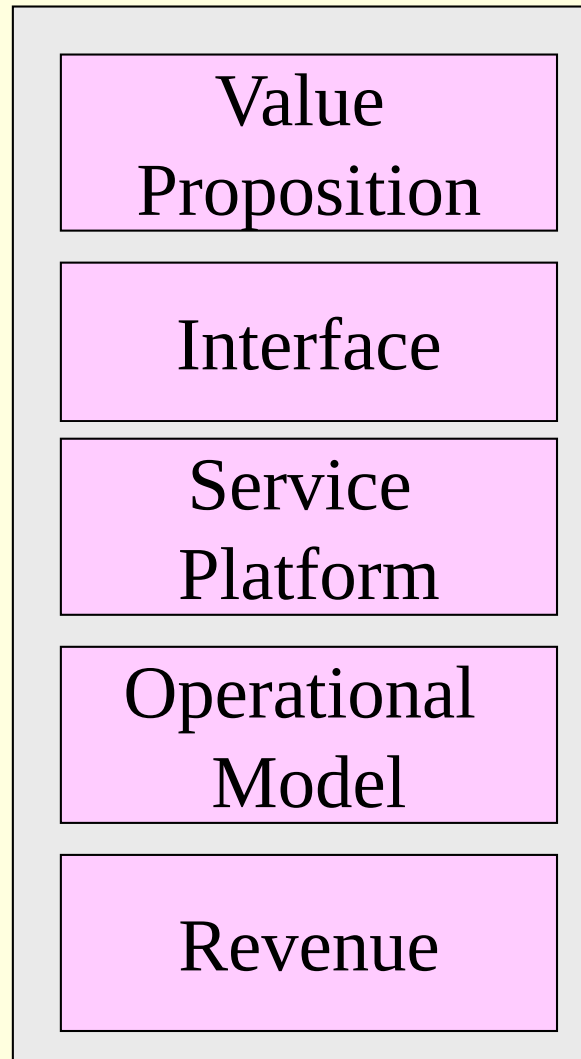
Definition

- i) Flawed or untested assumptions underlying the key premises of a firm's business plan.
- ii) Limitations in the strategic choices considered.
- iii) Misunderstanding about value creation and value capture
- iv) Flawed assumptions about the value network; assumptions that the current value created through the network would continue unchanged into the future.

Definition

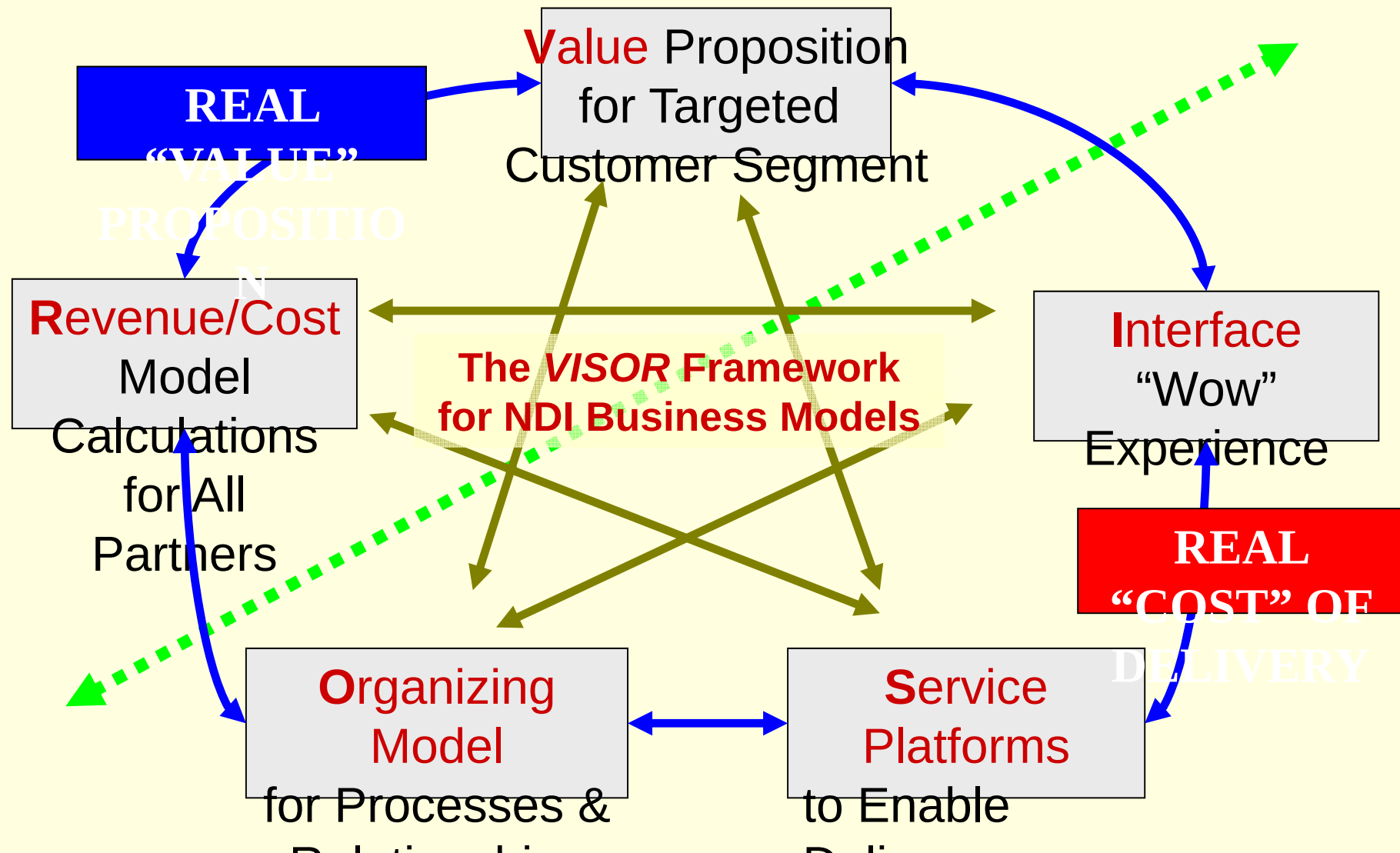
“Who is the customer? And what does the customer value? ... How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to the customers at an appropriate cost

VISOR Framework



- Little systematic conception and agreement exists on what a business model is.
- In new market-spaces, such as NDI, search for viable business models is critical.
- Important to articulate and define the elements of a business model to
 - (i) attain “common language and framework”*
 - (ii) use the framework to assess the viability of new business propositions*
 - (iii) understand the multiple elements that have to be in place for a successful business model.*

Articulating IT-Intensive Business Models



VISOR Framework

Defines how a firm responds to a customer need, latent or established, thus creating and delivering the greatest value to the customer, in a profitable and sustainable manner, and, as such, optimizes costs to value creation.

A successful business model is one delivers the greatest value proposition that maximize the willingness to pay on the part of its target consumers against the ability to minimize the real cost (tangible and intangible) of the provision of these services.

VISOR Framework

VALUE PROPOSITION

Why particular customer segments would value an enterprise's products and services and be willing to pay a premium price for them..

INTERFACE

The success of delivery of a product or service is heavily predicated on the user interface experience in terms of ease of use, simplicity, convenience, and positive energy, and should generate a "Wow" experience.

VISOR Framework

SERVICE PLATFORMS

IT platforms that enable, shape, and support the business processes and relationships that are needed to deliver the products and services, as well as improve the value proposition.

ORGANIZING MODEL

Describes how an enterprise or a set of partners will organize business processes, value chains, and partner relationships to effectively and efficiently deliver products and services.

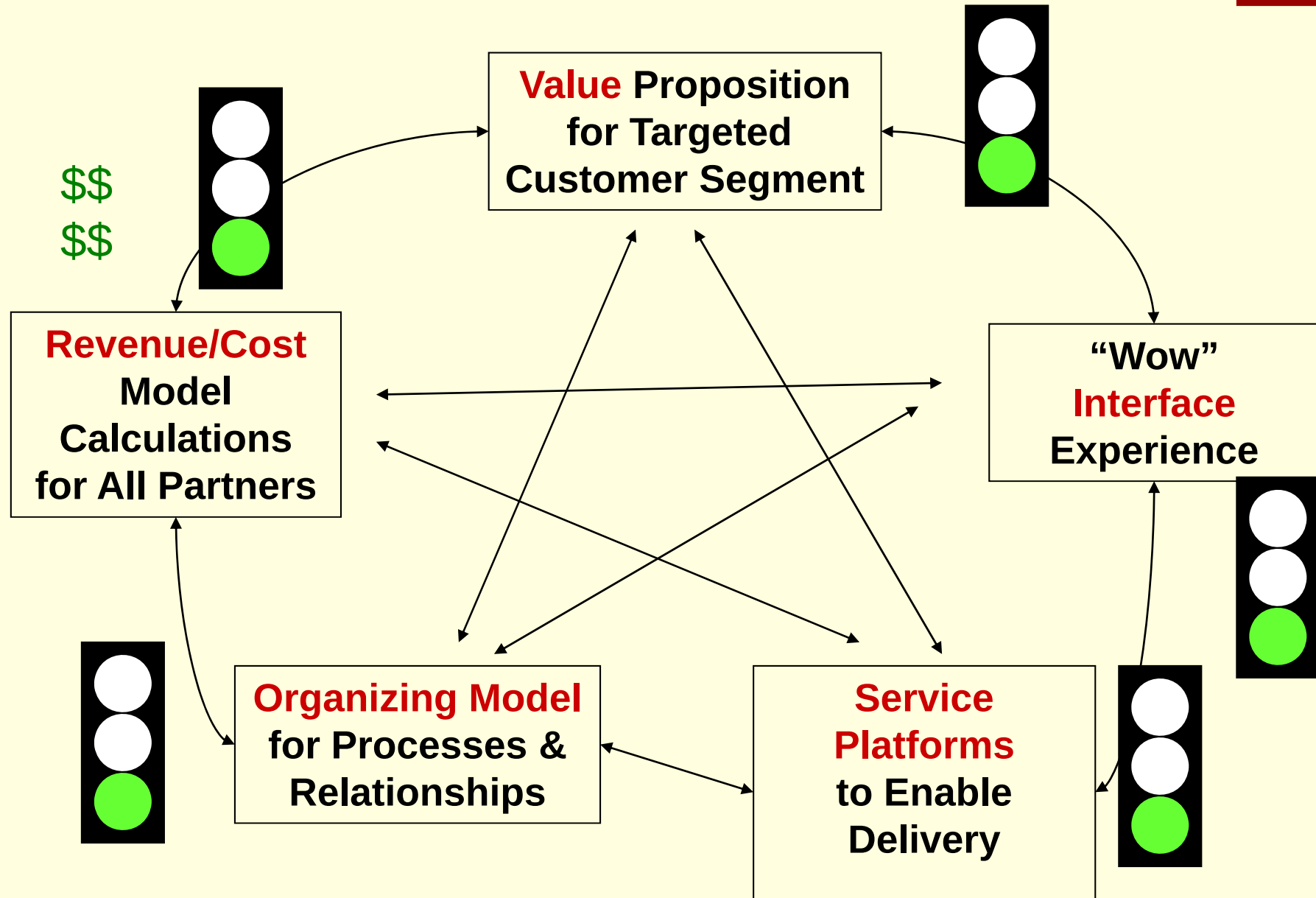
VISOR Framework

REVENUE/COST SHARING

In a good business model, the combination of the value proposition, the way that offerings are delivered, and the investments in IT platforms are such that revenues exceed costs and attractive for all partners.

VISOR Framework

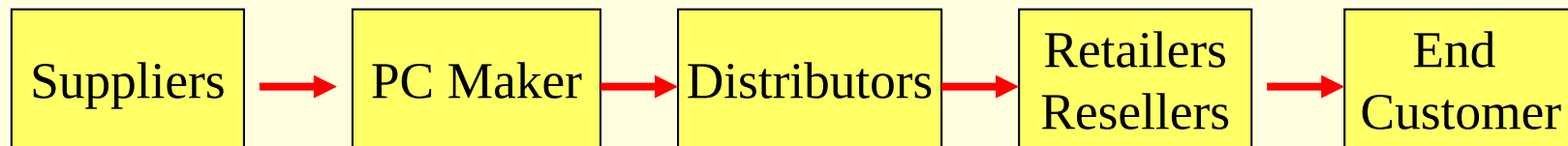
Successful Business Models



VISOR Framework

DELL Computers

Indirect Distribution Channel



Direct Distribution Channel



VISOR Framework

DELL Computers

What were industry drivers?

- Product life cycle shrunk from 22 months in 1988 to 6 months in 1997
- excess inventory depreciates
- time to market of new products is critical
- design and manufacturing of PCs provides no competitive advantage (*standard components*)

VISOR Framework

DELL Computers



VALUE PROPOSITION

Build to order at low cost and high service quality. Focused principally on relationship transactions (70%)

Business Models

INTERFACE

DELL Computers

- 24 hr customer support/technical assistance
- on-site sales representative
- adapted IT systems, interfaces and procurement procedures to match relationship transactions

Business Models

DELL Computers

ORGANIZING MODEL

- *reduced number of suppliers to 50 from 200 and adopted IT for communications*
- *15 suppliers provide 85% of materials*
- *bulk of components warehoused within 15 minutes*
- *suppliers must ensure 2 hrs on inventory*

Business Models

DELL Computers

SERVICE PLATFORMS

Process Re-engineering

- *redesigned PCs to reduce total number of screws to five*
- *shortened cables to create more room in chassis for ease of assembly, expansion*
- *reduced software download time by 75% using fiber-optics*
- *reduced number of machine touches by 50%*

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Direct Sales	Call Center Automation Premier Pages Dell-On-Line Dell Product Services (DPS)	Accurate forecasting of demand Segmentation of demand Early Indications of shift in demand

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Build to Order	Dell Order Management Systems (DOMS) e-mail Lotus Notes	Better control of information Reduced Inventory and transit points Better communications during build process Improved monitoring and evaluation of production and supplier quality

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Direct Distribution	Dell Logistics System Lotus Notes e-mail Information to Run Business (IRB)	Accelerated outbound logistics No inventory Optimization of production, quality and distribution

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Integrate with suppliers	Dell Integrated Logistics i2 Technologies Rhythm forecasting	Accelerated inbound logistics, better forecasting, reduced inventory, reduced supplier risk.
	Dell Order Management System	Faster, better decisions and information flows, streamlined ordering system

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Integrate with customers	Dell Configurator DellPlus Premier Pages Dell OnLine, Internet	Greater customer service, satisfaction and loyalty, retention of relationship

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Reach new geographic markets and customer segment	Dell Configurator DellPlus Premier Pages Dell OnLine, Internet	Increased market share in transaction customers and internationally, increased revenues

Business Models

DELL Computers

SERVICE PLATFORMS

Business Strategy	IT Applications	Performance Effects
Virtually integrate across the value chain and globally	Entire information infrastructure of company	Greater efficiency across the value chain globally

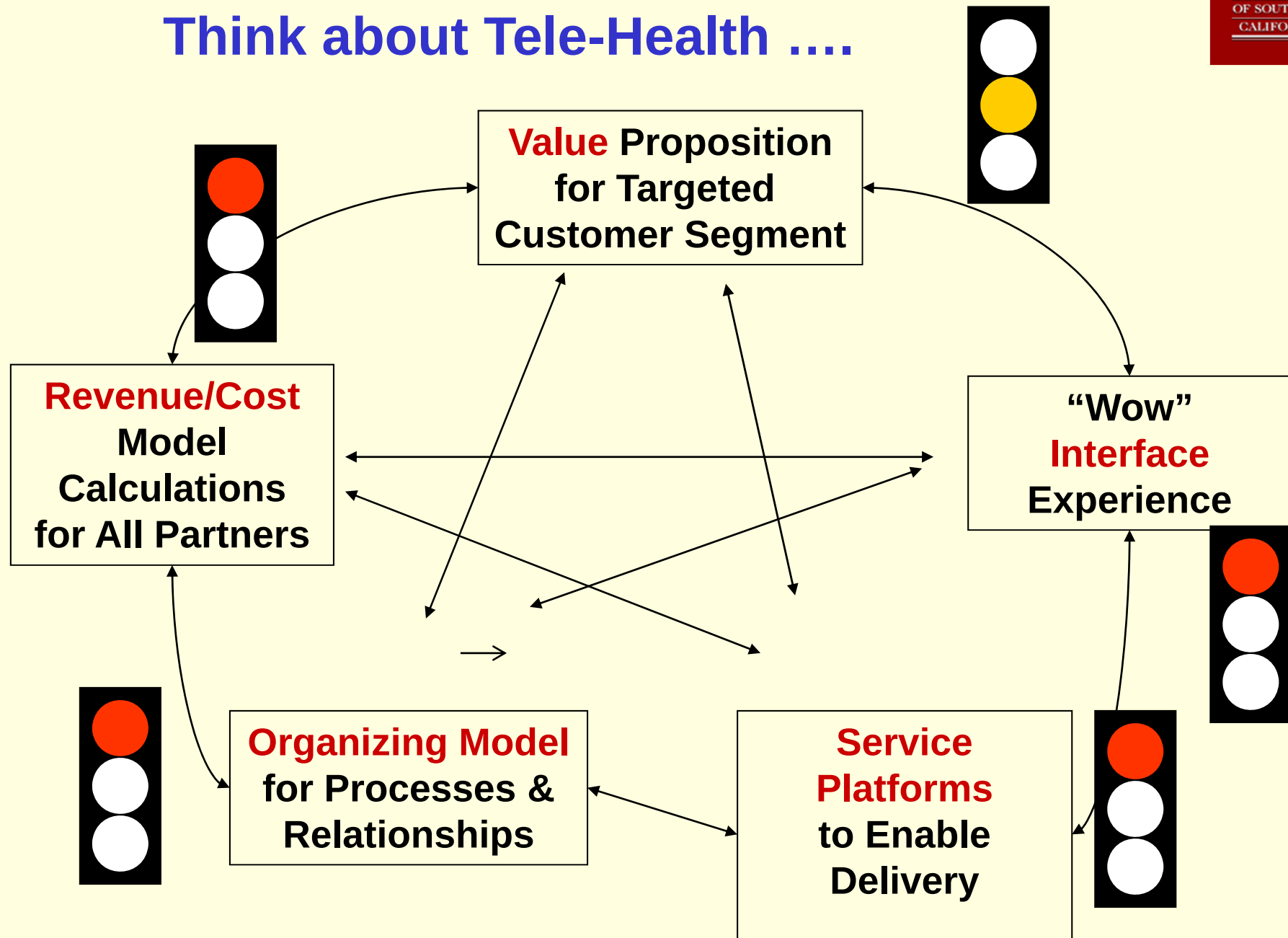
Business Models

DELL Computers

REVENUE/COST SHARING

VISOR Framework

Think about Tele-Health



VISOR on Tele-Medicine

VALUE PROPOSITION

- Potential time-savings, and costs savings for both patients and health care professionals, through reduced travel costs, fewer unnecessary referrals and benefits
- Tele-medicine consultations for correctional institutions cost \$71 per patient as compared to \$174 for face to face consultations.
- Tele-Health is not a means to replace “physician-patient” contact. Applications designed to support and enhance “face-to-face” contact have yet to be fully developed
- Estimated that over 25% of all material accessed on the net is health-related

VISOR on Tele-Medicine

INTERFACE

- Ease of use of devices and equipment still present some problems for the “average” physician.
(first used by radiologists)
- Interface devices generally have low compatibility to existing medical practices – health care professionals have to “adapt” to the devices and not vice-versa.
- Ineffective change management in hospitals.
- Home-based interfaces still need to be developed.

VISOR on Tele-Medicine

SERVICE PLATFORMS

- Standards remain key issues. Interoperability across software, devices using proprietary specifications and lack of agreed protocols and guideline still persist
- Ability for OEMs to scale up to meet potential demands of major health-care providers will be key hurdle (over 300 OEM produced some 100K units to date)
- Need to be able to address privacy and security of HIPAA requirements

VISOR on Tele-Medicine

ORGANIZING MODEL

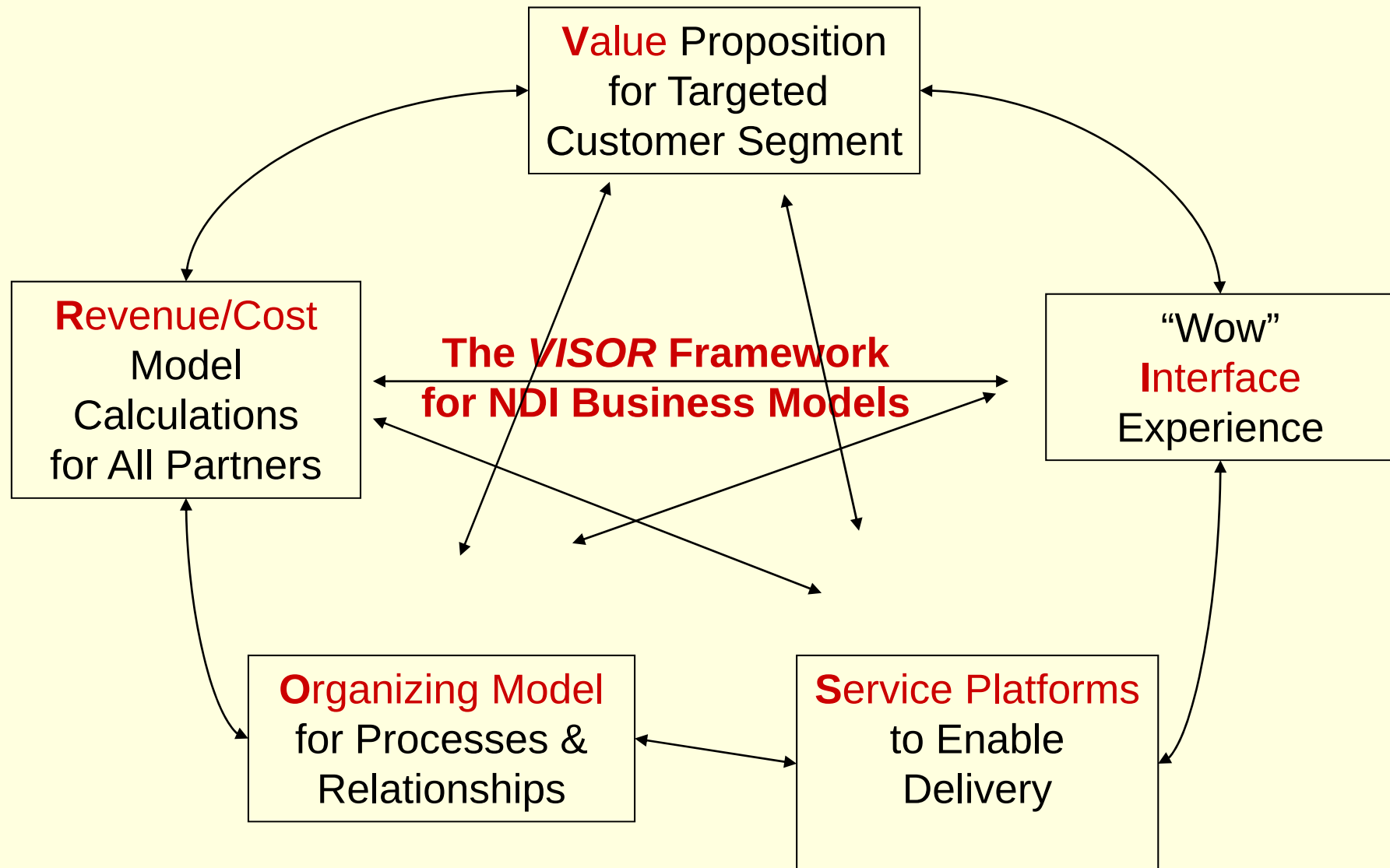
- Health industry in U.S. is highly structured and extremely complex. Challenging to bring together consortium of health care providers, private and state insurance companies, and equipment providers
- States regulate Tele-medicine within own borders. Multiple and different legal definitions between States. Multiple Federal regulatory bodies involved
- Telemedicine defined as “bringing doctor to the patient” as opposed to “patient to the doctor.”

VISOR on Tele-Health

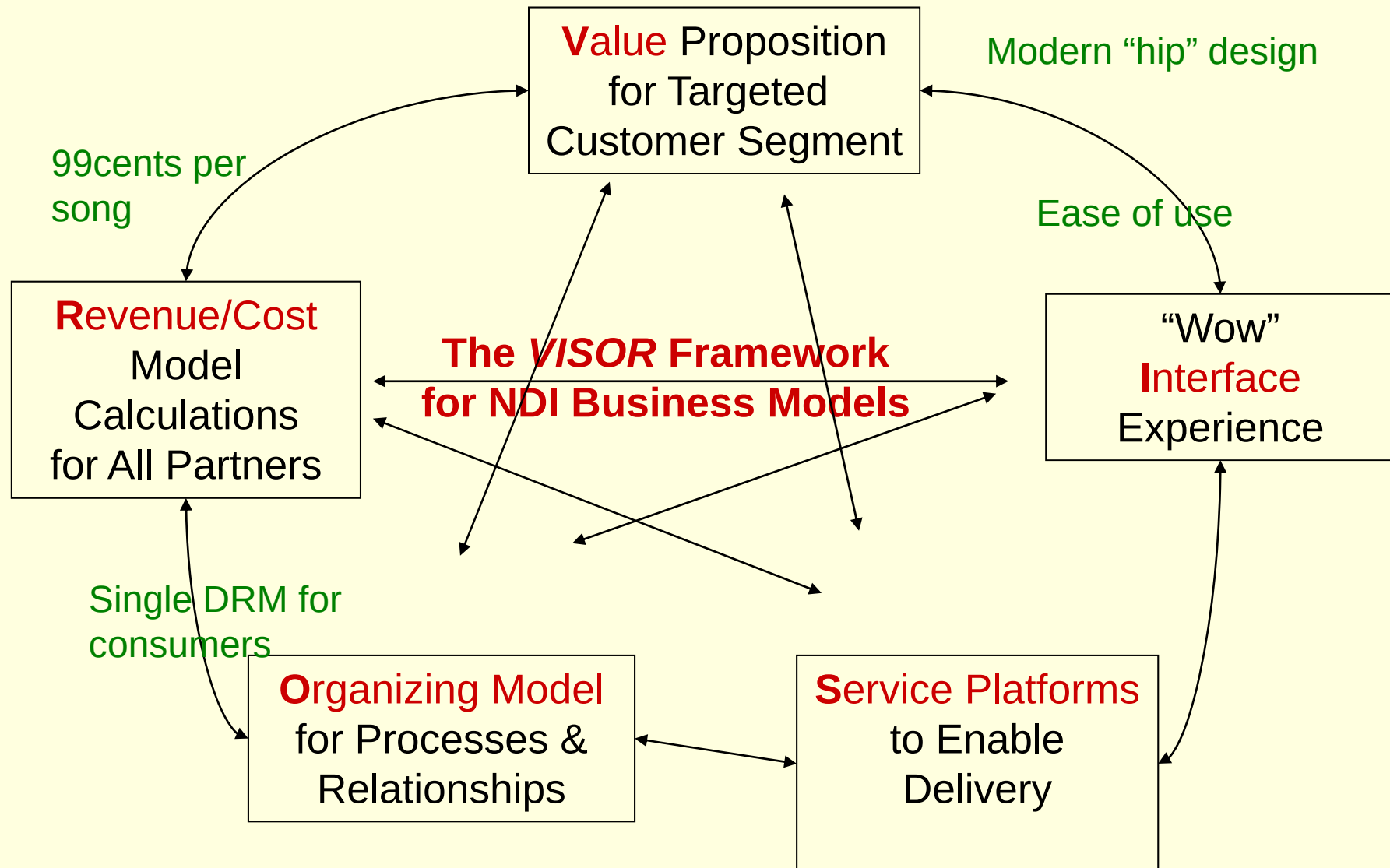
REVENUE/COST SHARING

- Potential comprehensive cost-savings at the Federal and State levels have not been fully established. Medicare has recently begun re-imbursement for some services
- Most programs have been federally or “privately” funded
- New comprehensive revenue and payments models need to be developed.

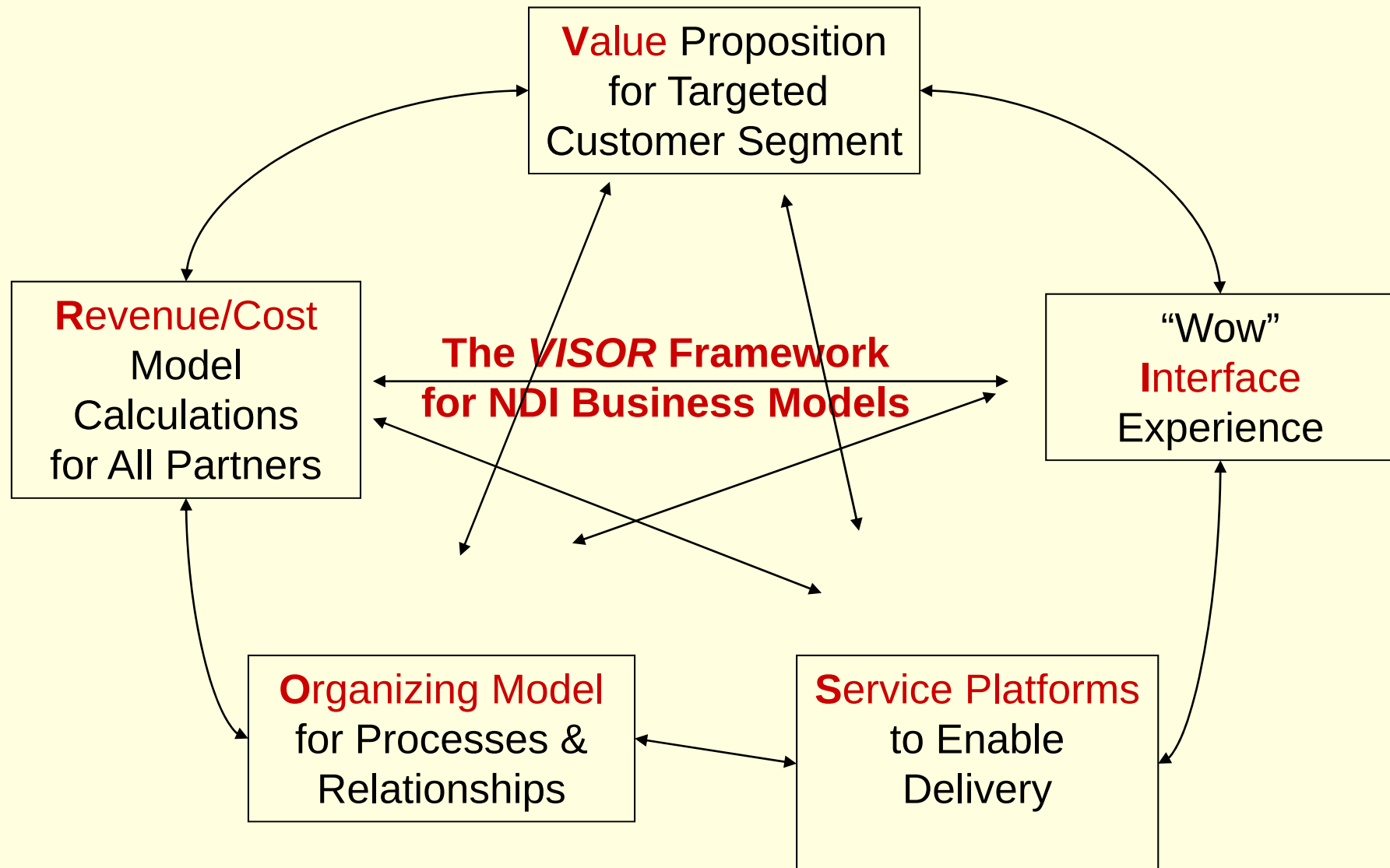
VISOR on iPod



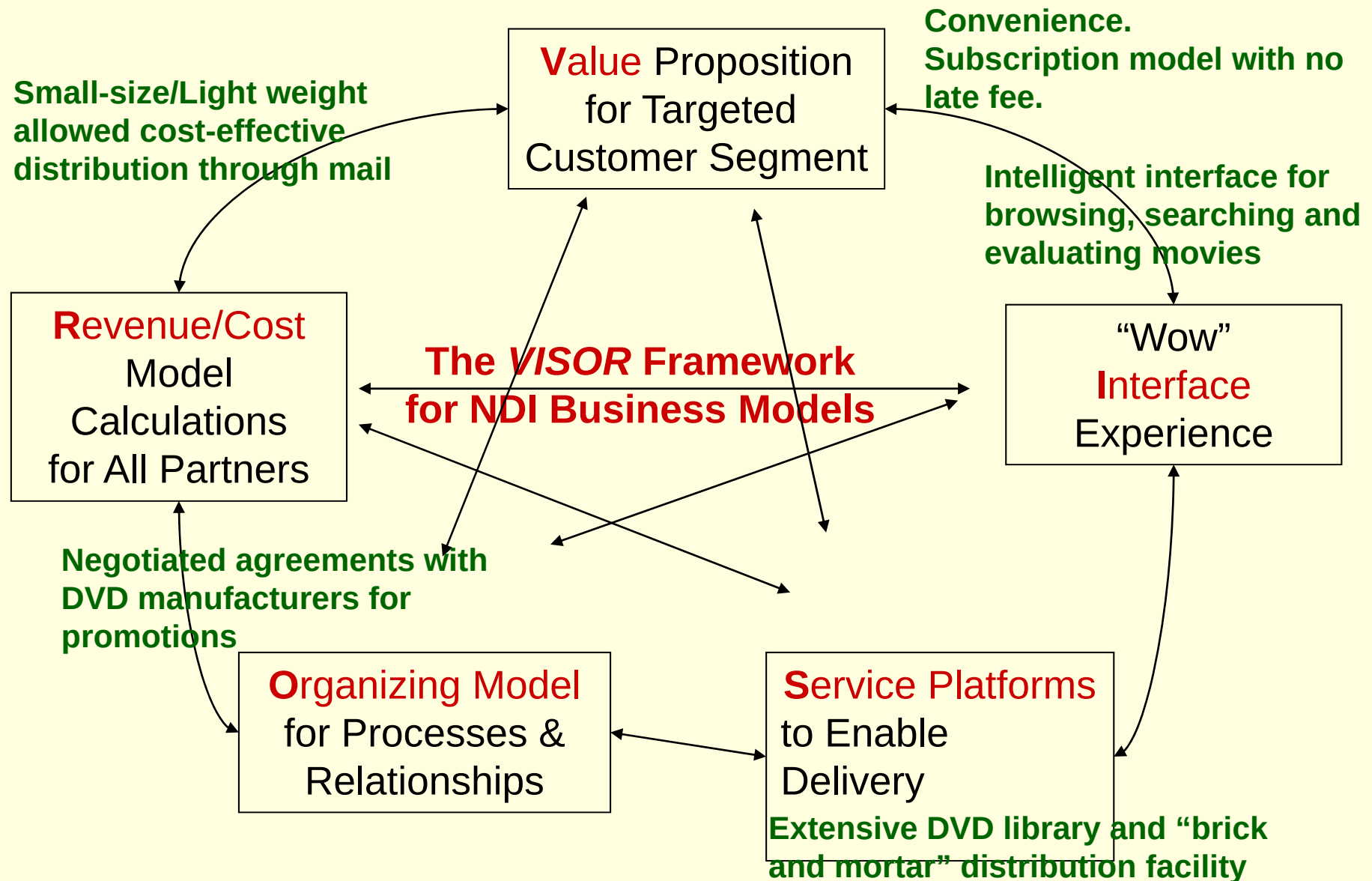
VISOR on iPod



VISOR on Netflix.com

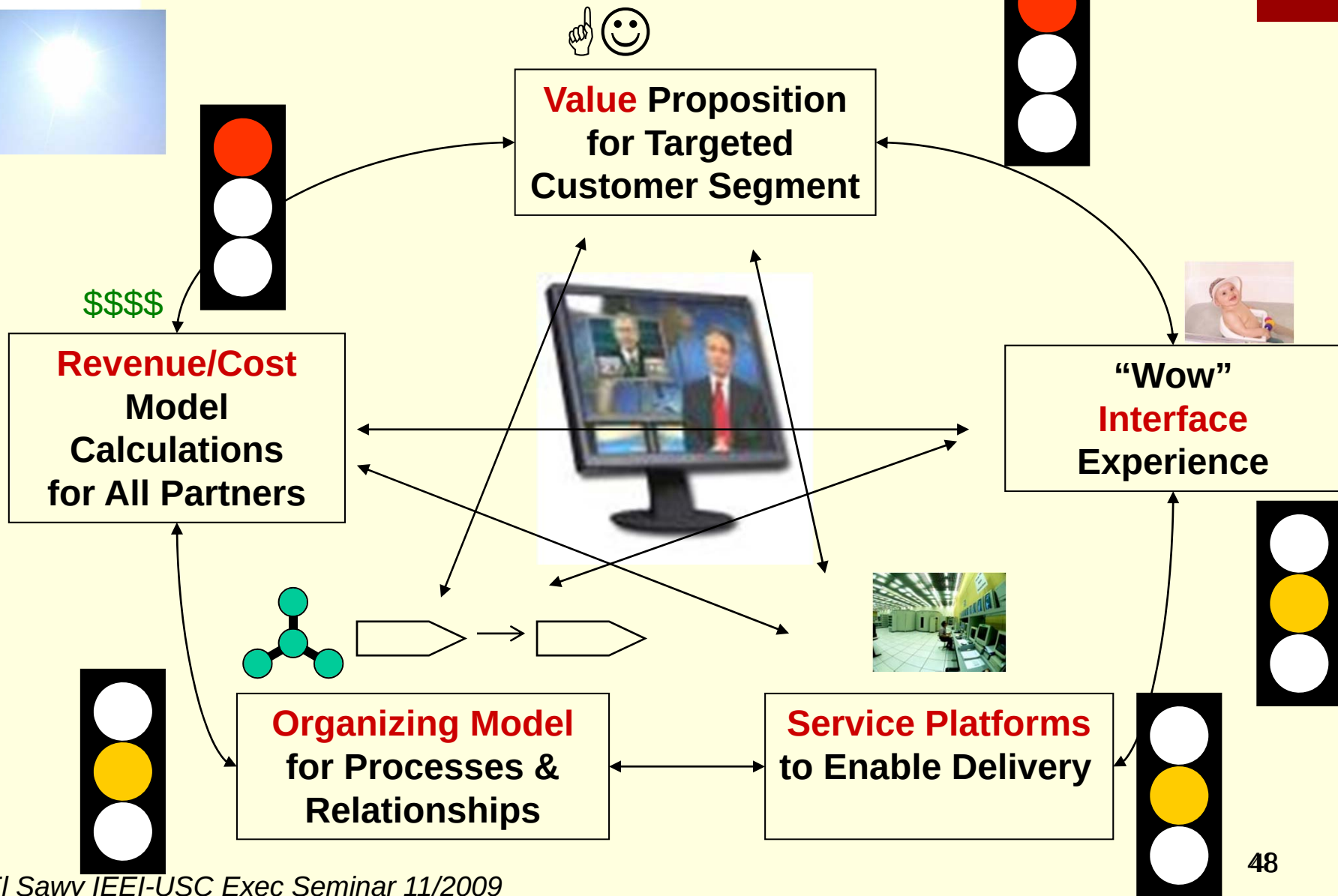


VISOR on Netflix.com



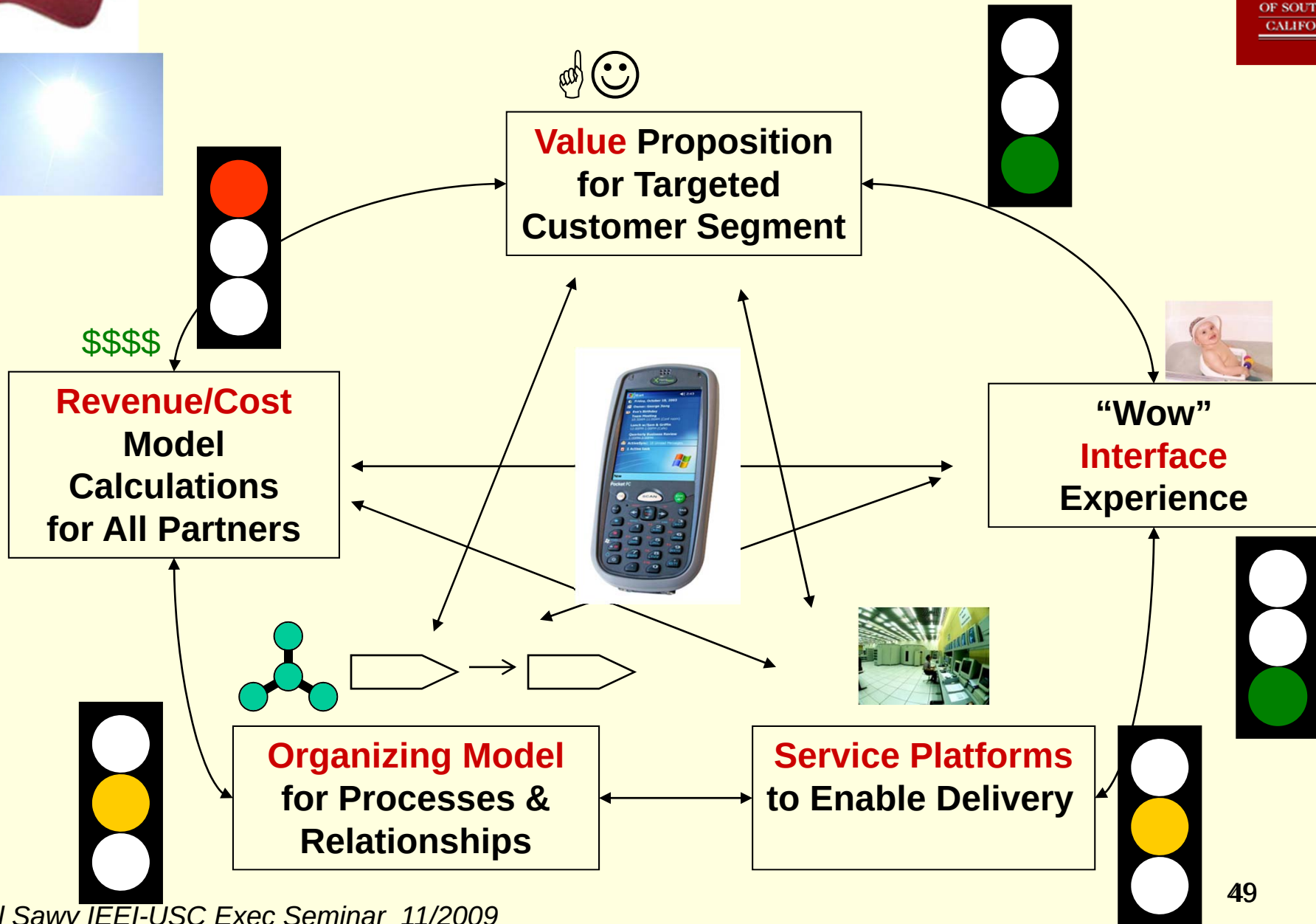


Think about the Future of IPTV ..



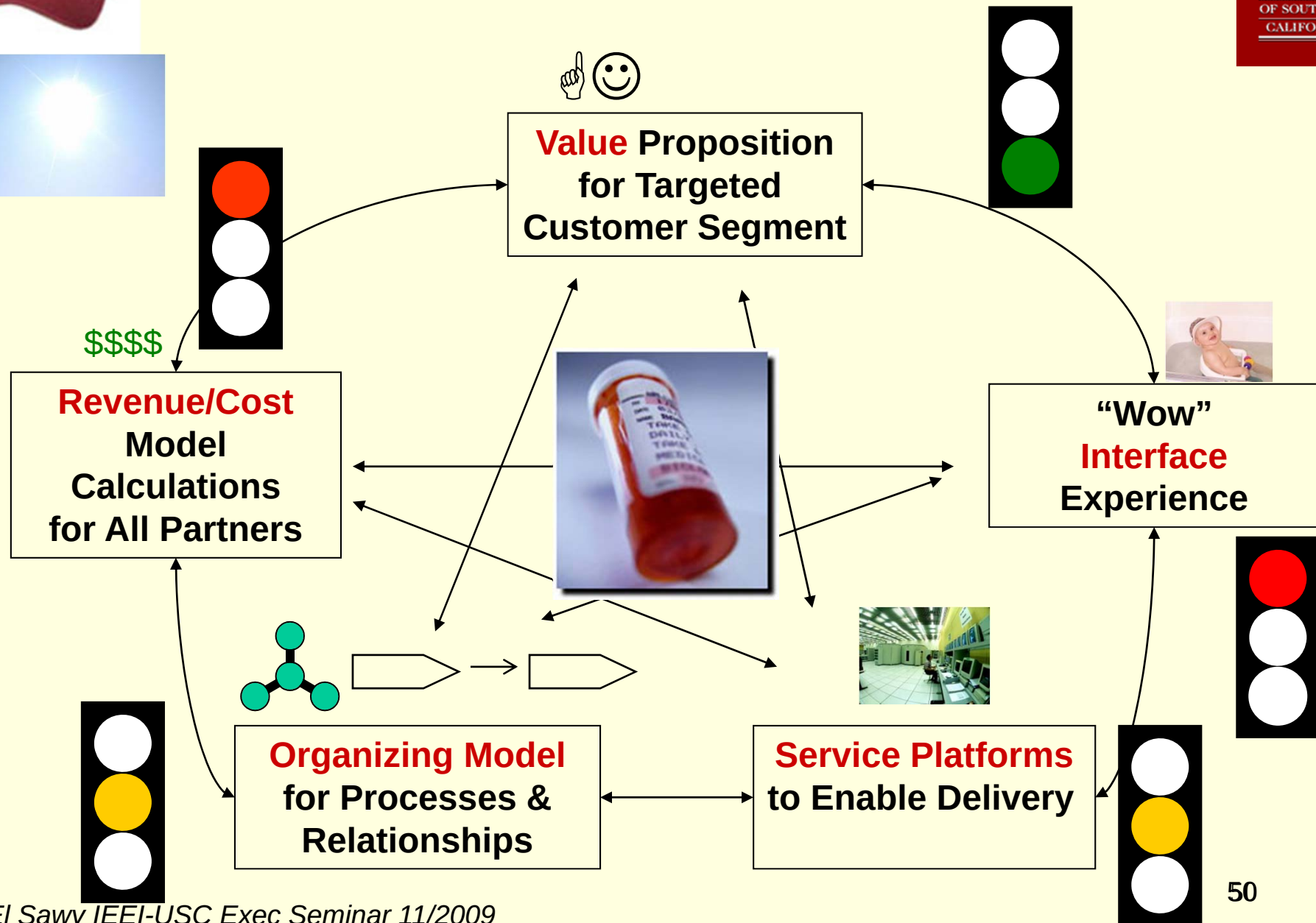


Think about mobile payments...





Think about e-health at home...



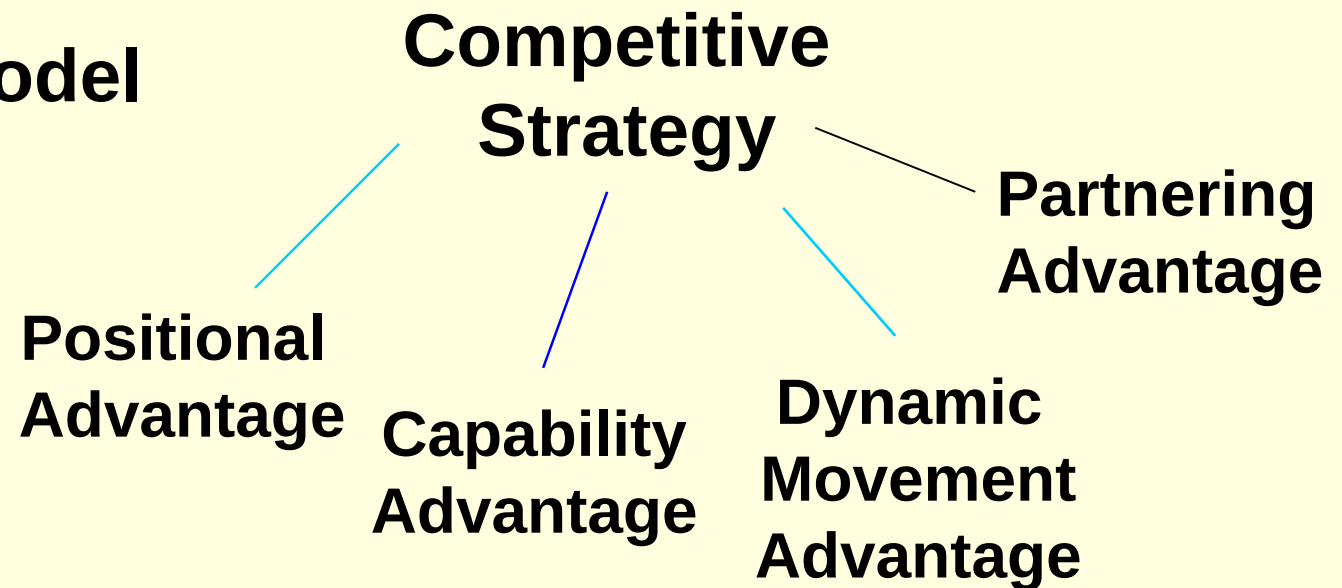
Caution !!

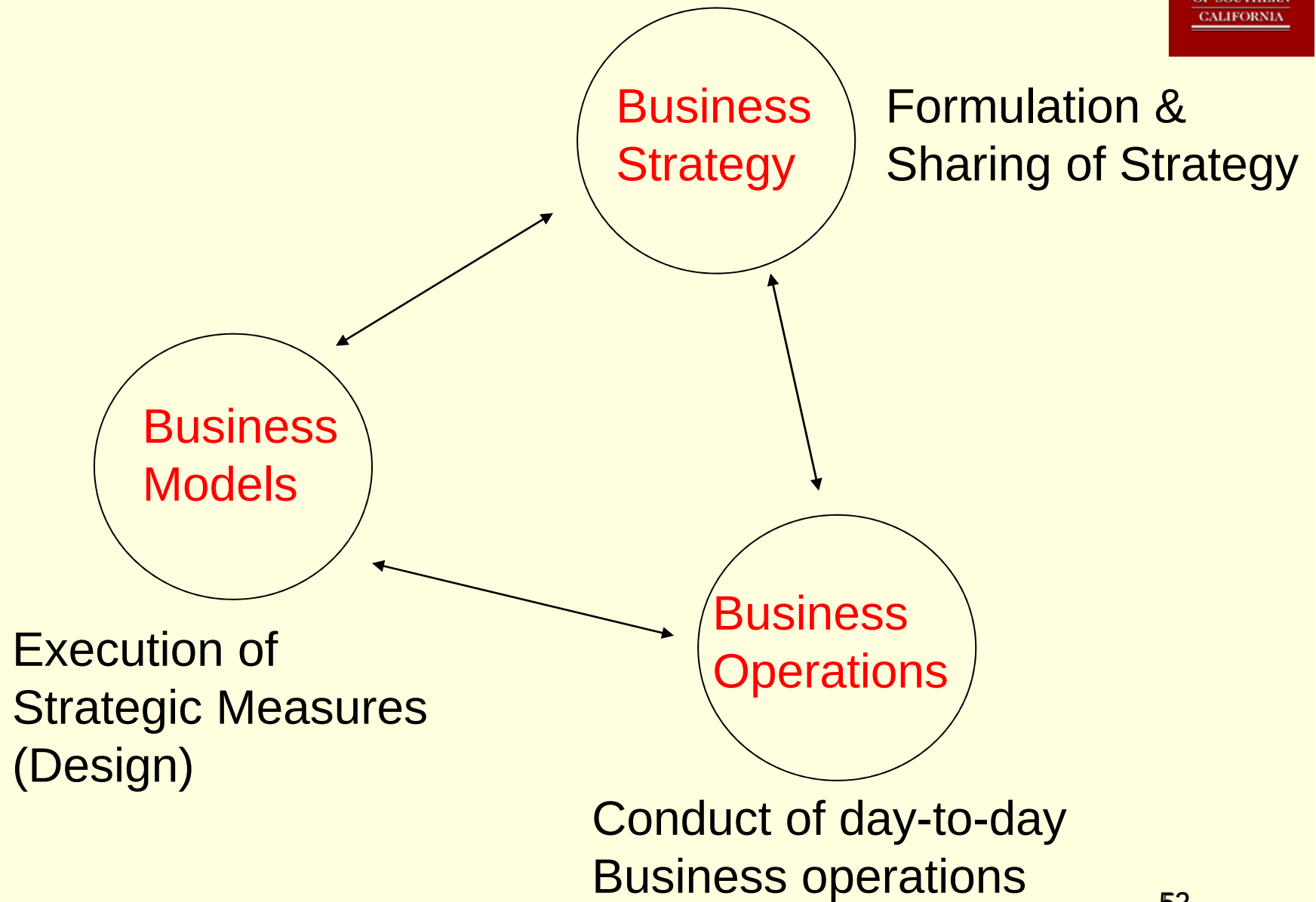
**A Business Model is Connected to
--- but not the Same as Strategy !!**



**Business Model is
“almost” an
Operational Model**

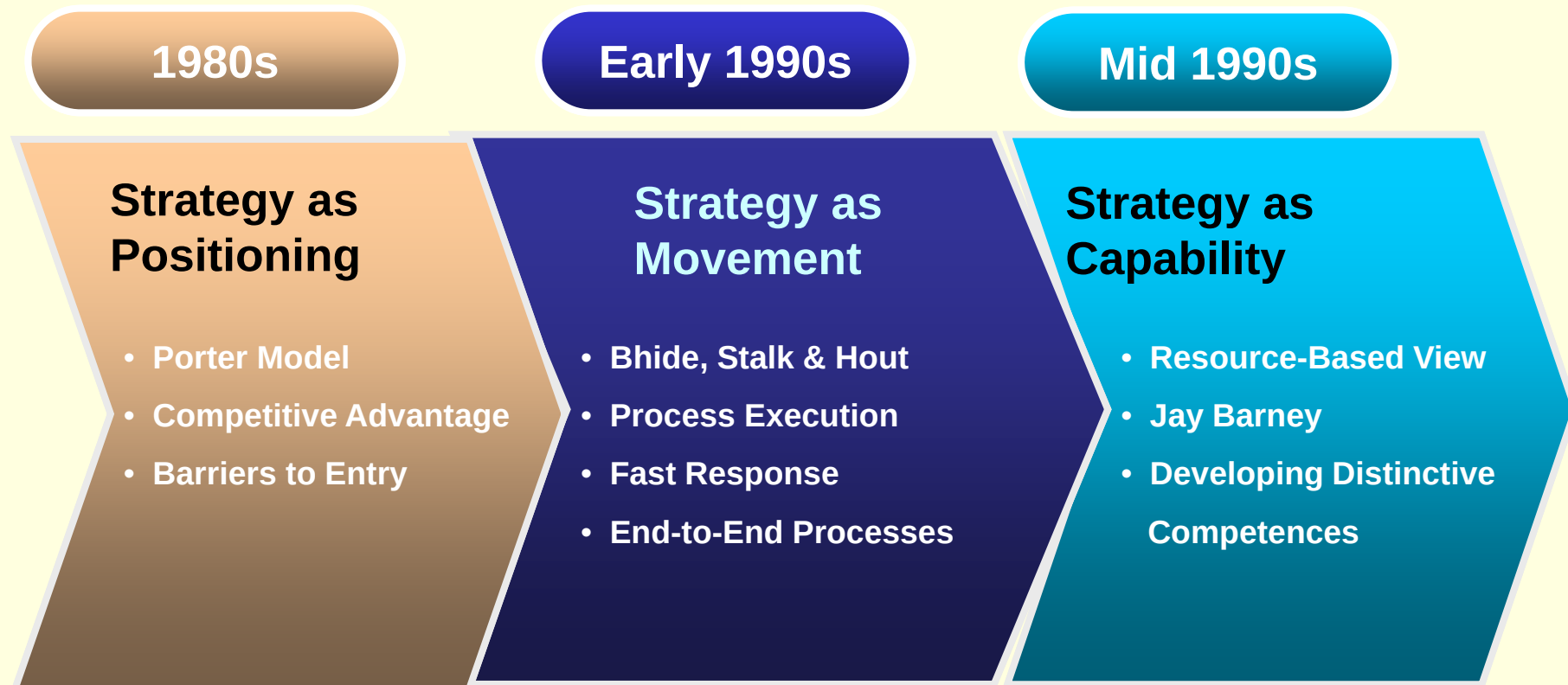
**Environmental
Turbulence !!**





- The CTM VISOR business model framework, and its uses with examples
- The Ecosystem view of strategy and partnering

The Evolution of the Business Strategy Repertoire



The Evolution of the Business Strategy Repertoire

(continued)

Late 1990s

Strategy as Dynamic Capability

- Teece, Eisenhardt
- Reconfiguring Resources
- Flexibility
- Turbulent Environment

Early 2000s

Strategy as Value Chain Synchronization

- Process Integration
- Synchronization
- Information Sharing
- Seamless Visibility
- Collaborative Advantage

Mid 2000s

Strategy as EcoPartnering

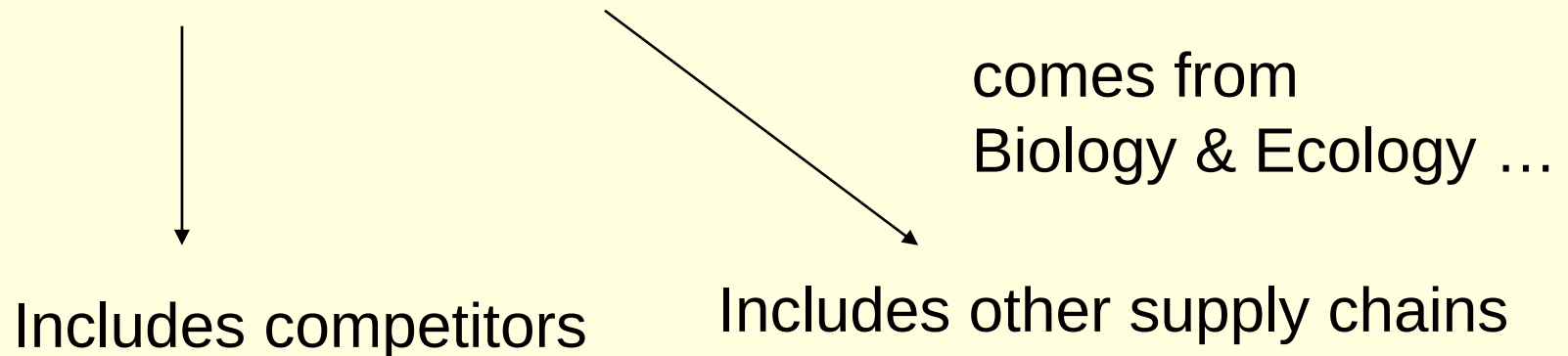
- Iansiti & Levien
- New Market Spaces
- Change the Rules
- Disruptive Technologies
- Partnering for new Business Ecosystem to thrive
- Hyper-turbulence

EcoPartnering

means partnering with other enterprises in a way that helps the entire business ecosystem be sustainable

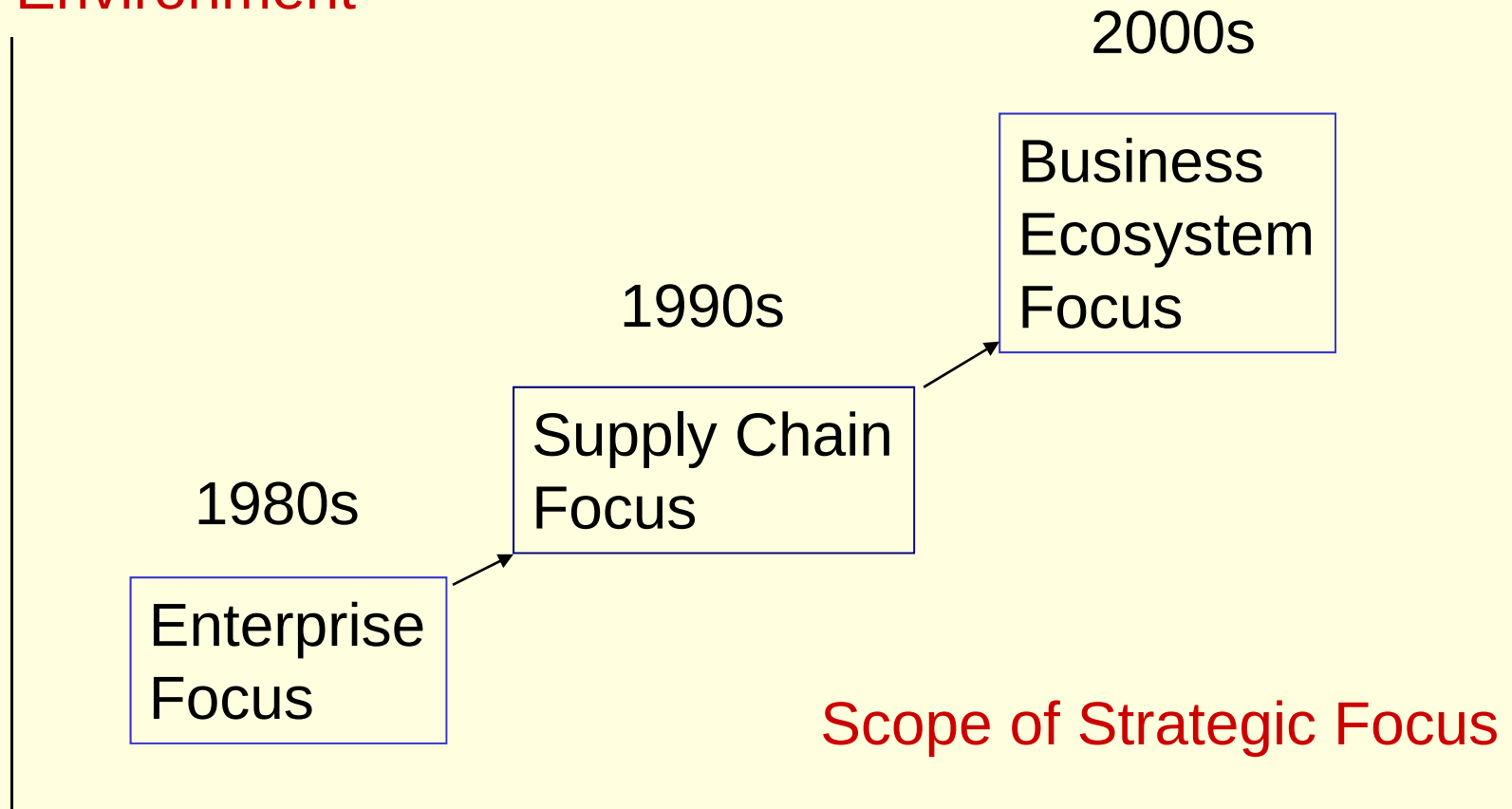
Business Ecosystem ?

The collective network
of loosely coupled enterprises & organizations
that influence the creation & delivery
of your products and services



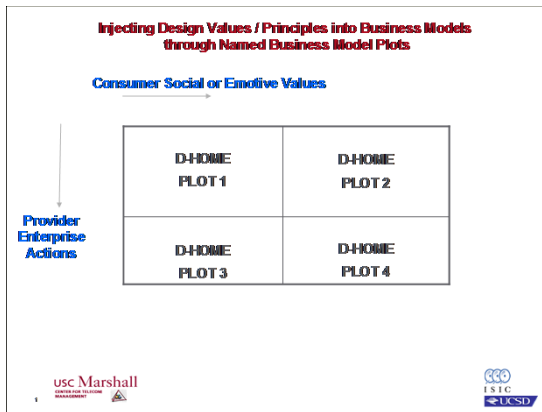


Turbulence Level of Business Environment

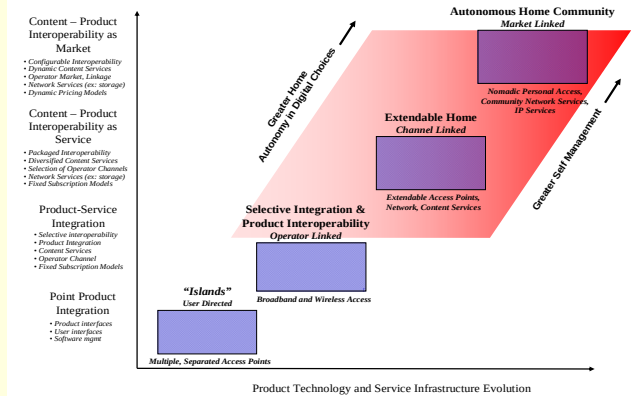


Strategy as EcoPartnering

- Success depends on managing assets & resources that your enterprise does not own or control
- Beyond outsourcing -- and involves new marketspaces with new rules & new players & new business models
- Goes beyond your value chain and business process networks and worries about entire ecosystem
- EcoPartnering involves both creating value & sharing value and providing business platforms that other enterprises can leverage



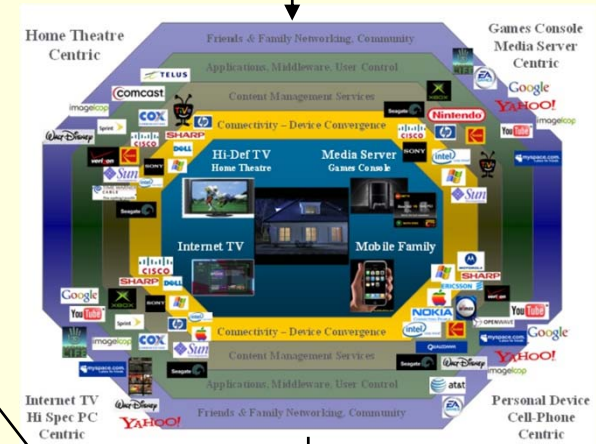
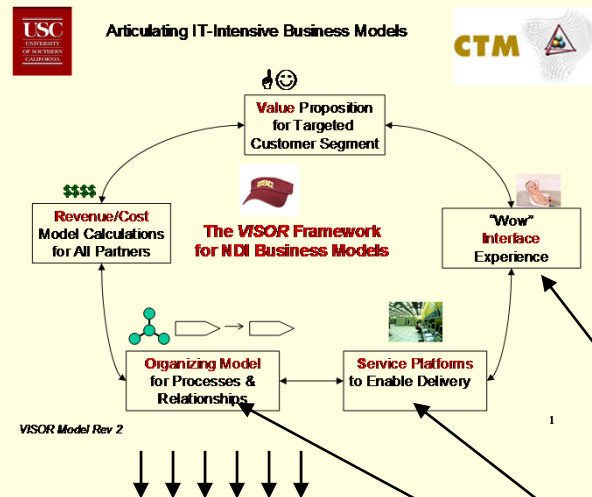
Elements of Generating Business Models for Digital Home Entertainment in Context



Select a Business Model Plot From HandBook

Choose your stage positioning in the Technology Convergence Ecosystem

Use Field Insights from D-Home Study



Generate a Populated Business Model through VISOR

Choose Level of Engagement in D-Home IT Governance Framework