

Business Strategy and Business Models

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Strategy

Definition:

Strategy is the art of creating value. It provides the intellectual frameworks, conceptual models, and governing ideas that allow a company's managers to identify opportunities for bringing value to customers and for delivering that value at a profit.

(Normann; Ramírez 1993)

Nowadays, strategy is embodied in a business model.

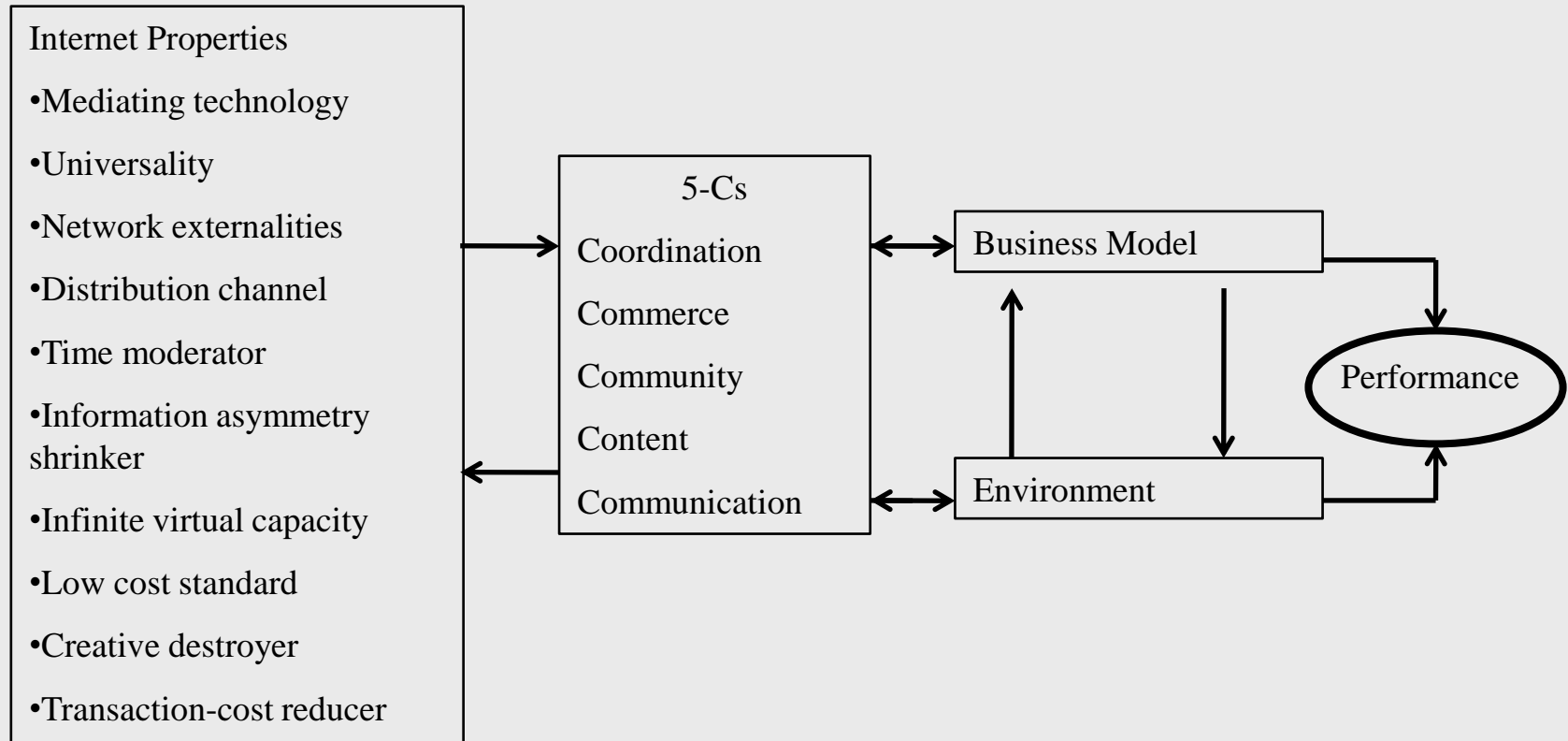
Business Model

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.

(Timmers 1998)

Building Internet-based Business Models



Categorization of Internet Business Models

- a) By participating parties,
basic: (B2C, B2B) and more complex: (e.g., B2B2C)

- b)
 - Brokerage
 - Advertising
 - Infomediary
 - Merchant
 - Manufacturer
 - Affiliate
 - Community
 - Content
 - Utility

(Rappa, 2000/ Timmers, 1998)

Elements of a Business Model

Components of a Business Model	Relating questions
Customer value	Is the firm offering its customers something distinctive or at a lower cost than its competitors?
Scope	To which customers (demographic and geographic) is the firm offering this value? What is the range of products / services offered that embody this value?
Pricing	How does the firm price the value?
Revenue source	Where do the dollars come from? Who pays for what value and when? What are the margins in each market and what drives them? What drives value in each source?
Connected activities	What set of activities does the firm have to offer this value and when? How connected (in cross section and time) are the activities?
Implementation	What organizational structure, systems, people, and environment does the firm need to carry out these activities? What is the fit between them?
Capabilities	What are the firm's capabilities and capabilities gaps that need to be filled? How does a firm fill these capabilities gaps? Is there something distinctive about these capabilities that allows the firm to offer the value better than other firms and that makes them difficult to imitate? What are the sources of these capabilities?
Sustainability	What is it about the firm that make it difficult for other firms to imitate it? How does the firm keep making money? How does the firm sustain its competitive advantage?

Customer Value, Scope

Customer value

- **Differentiation**
 - Product features
 - Timing
 - Location
 - Service
 - Product mix
 - Linkages
 - Brand reputation
- **Cost/ price advantage**

Scope

in terms of customers and products served

Price

- Menu
- One-to-One
- Auction
- Reverse Auction
- Barter

Revenue Sources, Connected Activities

Revenue sources

- Products, services, advertisement, ..., exit

Connected Activities

Choose activities which:

- Are consistent with customer value and the scope of customers served.
- Reinforce each other.
- Take advantage of industry success drivers.
- Are consistent with distinctive capabilities that the firm has or wants to build.
- Make the industry more attractive for the firm.

Timing:

- What are the characteristics of the industry at this stage of the life cycle and what will they be down the line?
- What are existing competitors doing and what are potential ones likely to do?
- Are the activities consistent timewise?

Implementation

- Structure
- Systems
- People
- Innovation
- Organizational culture

Capabilities, sustainability

Capabilities

- Resources
- Competencies
- Competitive advantage

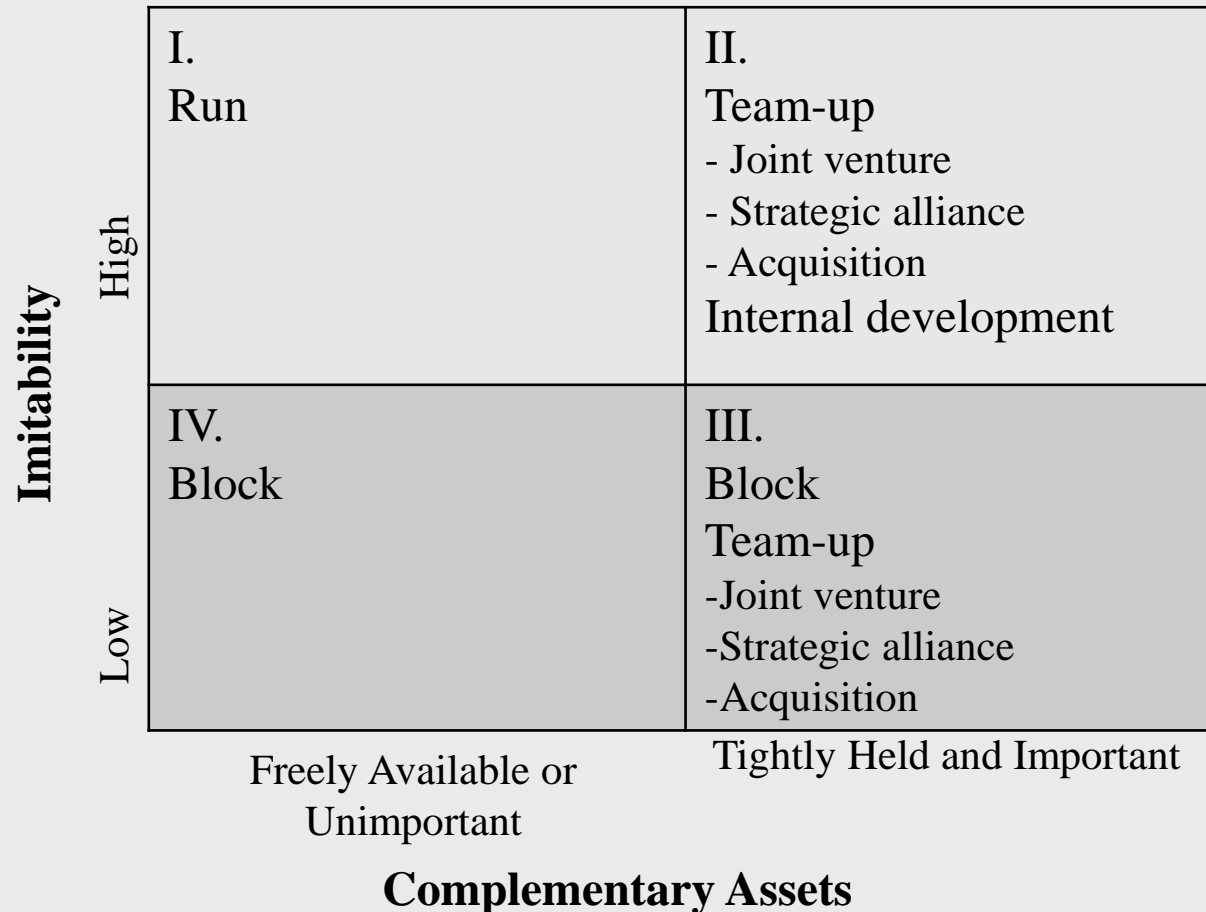
Sustainability

- Block strategy
- Run strategy
- Team-up strategy

Who Profits from Innovation?

Imitability	High	I. Difficult to make money	II. Holder of complementary assets makes money
	Low	IV. Inventor makes money	III. Party with both technology and assets or with bargaining power makes money
		Freely Available or Unimportant	Tightly Held and Important
		Complementary Assets	

Strategies for Building Business Models



Business Model Appraisal

Level 1	Profitability measures
	<ul style="list-style-type: none">-Earnings-Cash flow
Level 2	Profitability predictor measures
	<ul style="list-style-type: none">-Margins-Market share-Revenue share growth rate
Level 3	Component attribute measure
	<ul style="list-style-type: none">-Value-Scope-Price-Revenue-Activities-Implementation-Capabilities-Sustainability

Appraisal Based on BM Components

Business Model Component	Benchmark Questions	Rank
Customer value	Is customer value distinct from that of competitors? If not, is the firm's level of value higher than that of competitors? Is the firm's rate of increase in customer value high relative to that of competitors?	H/L
Scope	Is the growth rate of market segments high? Is the firm's market share in each segment high relative to that of competitors? Is potential erosion of products high? If so, in what segments?	H/L
Price	Is the quality-adjusted price low?	H/L
Revenue source	Are margins and market share in each revenue source high? Are margins and market share in each revenue source increasing? Is the firm's value in each source of revenue distinctive? If not, is the level of value higher than that of competitors?	H/L
Connected activities	What is the extent of which activities: Are consistent with customer value and scope? Reinforce each other? Take advantage of industry success drivers? Are consistent with the firm's distinctive capabilities? Make the industry more attractive for the firm?	H/L
Implementation	Is quality of the team high?	H/L
Capabilities	To what extent are the firm's capabilities: Distinctive? Inimitable? Extendable to other product markets?	H/L
Sustainability	Has the firm been able to maintain or extend its lead in its industry?	H/L

Value Configuration

- **Value chain**

transformation of materials into tangible products

- **Value shop**

combination of various services on demand

- **Value network**

connects independent actors through an intermediary service

Evaluation of a Business Model

Business Evaluation

Discounted cash flow model

$$V = \sum_{t=0}^{t=n} \frac{C_t}{(1 + r_k)^t}$$

Where

C_t is the free cash flow at time t, and

r_k is the firm's cost of capital

C_t = Cash earnings (from income statement) – Cash investments (from balance sheet)

Calculation of Discount Rate

Calculation of the discount rate r_k using the capital asset pricing model (CAPM)

$$r_k = r_f + \beta_i(r_m - r_f)$$

r_f = risk-free rate

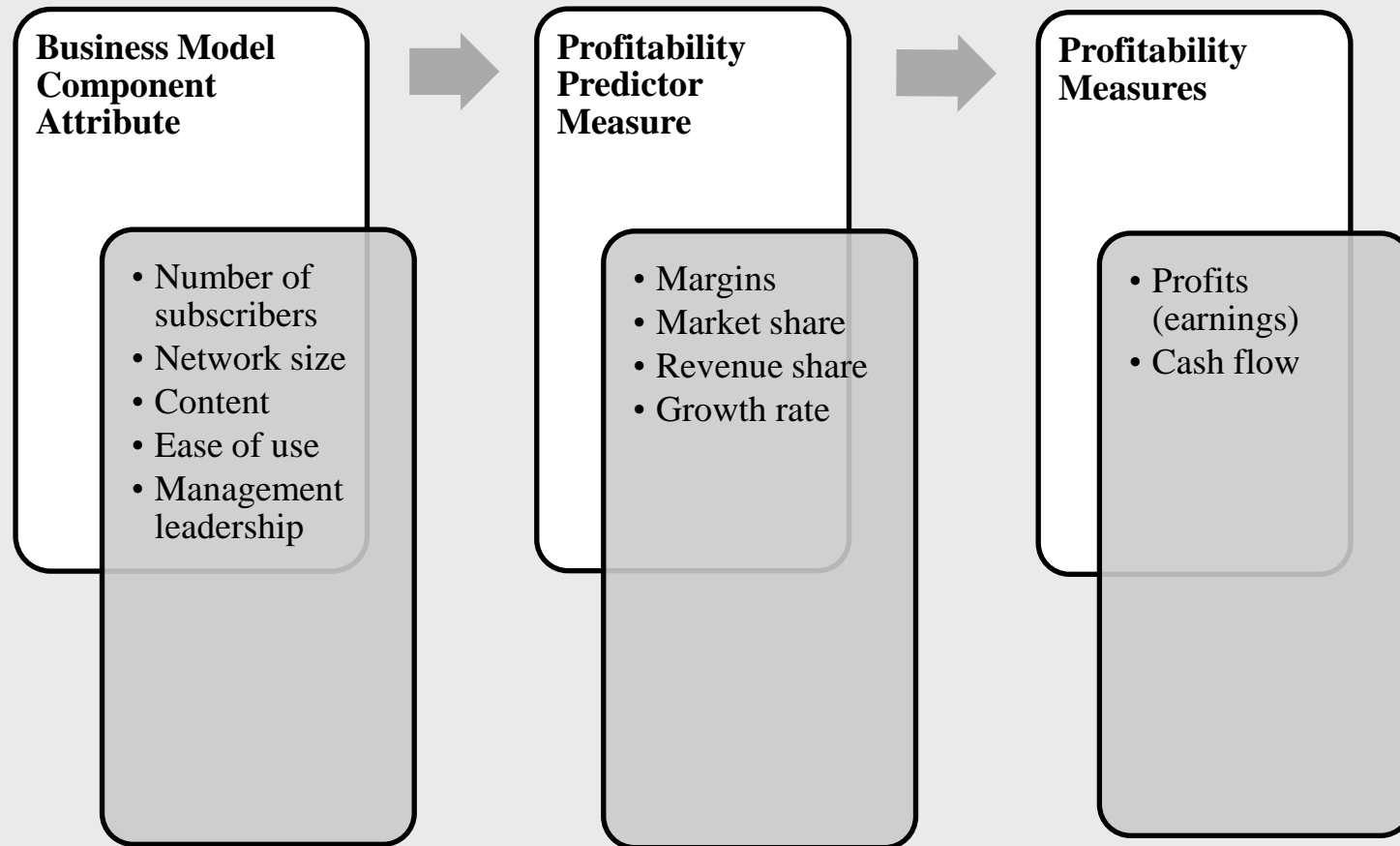
r_m = market return

β_i = systematic risk

Business Evaluation of Public Companies

- **Price-earnings (P/E)** = $\frac{P}{E}$
- **Price-earnings growth (PEG)** = $\frac{P/E}{\text{growth rate in \%}}$

Profits/Cash Flow Chain of an ISP



Book and market value

Book value = Assets – Liabilities

Market value = Shares outstanding * Share price

Intellectual capital = Market value – Book value

Case: Amazon goes from eShop to eMall

Amazon Timeline

July 1995	Amazon begins selling books online
May 15, 1997	Amazon goes public
March 1998	Amazon.com Kids books available on the Web
June 11, 1998	Amazon diversifies to include CDs
August 4, 1998	Amazon purchases Junglee Corp. and PlanetAll
November 16, 1998	Amazon introduces video and gift stores
March 29, 1999	Amazon releases its auction site to counter eBay
July 1999	Amazon opens toys and electronics stores
September 29, 1999	Amazon announces zShops

Source: Afuah, Tucci, 2001.

Based on: Seattle Times; Amazon.com press releases.

Amazon versus Barnes & Noble

	Amazon	Barnes & Noble
Number of stores	1 website	1.011
Titles per superstore	3.1 million	175.000
Book returns	2%	30%
Sales growth*	306%	10%
Sales per employee (annual)	\$375.000	\$100.000
Inventory turnovers per year	24	3
Long-term capital requirements	Low	High
Cash flow	High	Low

*Third quarter. 1998.

Source: Business Week, December 14, 1998, www.businessweek.com/1998/50/b3608006.htm

Amazon Financials

AMAZON.COM INC				
Annual Income Statement				
(in millions except EPS data)				
Fiscal Year End for AMAZON.COM INC (AMZN) falls in the month of December.				
	12/31/98	12/31/97	12/31/96	12/31/95
Sales	609.99	147.76	15.75	0.51
Cost of goods	476.11	118.94	12.29	0.41
Gross profit	133.88	28.81	3.46	0.10
Selling and administrative, and depreciation and amortization expenses	195.62	58.02	9.44	0.41
Income after depreciation and amortization	(61.74)	(29.21)	(5.98)	(0.30)
Nonoperating income	(36.15)	1.90	0.20	0.00
Interest expense	26.63	0.28	0.00	0.00
Pretax income	(124.54)	(27.59)	(5.78)	(0.30)
Income taxes	0.00	0.00	0.00	0.00
Minority interest	0.00	0.00	0.00	0.00
Investment gains/losses	0.00	0.00	0.00	0.00
Other income/charges	0.00	0.00	0.00	0.00
Income from continuing operations	N/A	N/A	N/A	N/A
Extras and discontinued operations	0.00	0.00	0.00	0.00
Net income	(124.54)	(27.59)	(5.78)	(0.30)
<i>Depreciation Footnote:</i>				
Income before depreciation and amortization	(49.67)	(24.47)	(5.69)	(0.29)
Depreciation and amortization (cash flow)	12.07	4.74	0.29	0.02
Income after depreciation and amortization	(61.74)	(29.21)	(5.98)	(0.30)
<i>Earnings Per Share Data (EPS):</i>				
Average no. of shares	296.34	260.68	271.86	227.20
Diluted EPS before nonrecurring items	(0.25)	(0.10)	(0.02)	(0.00)
Diluted net EPS	(0.42)	(0.10)	(0.02)	(0.00)

Source: Afuah, Tucci, 2001.

Based on: Zacks Investment Research, n.D.

Amazon Trademarks

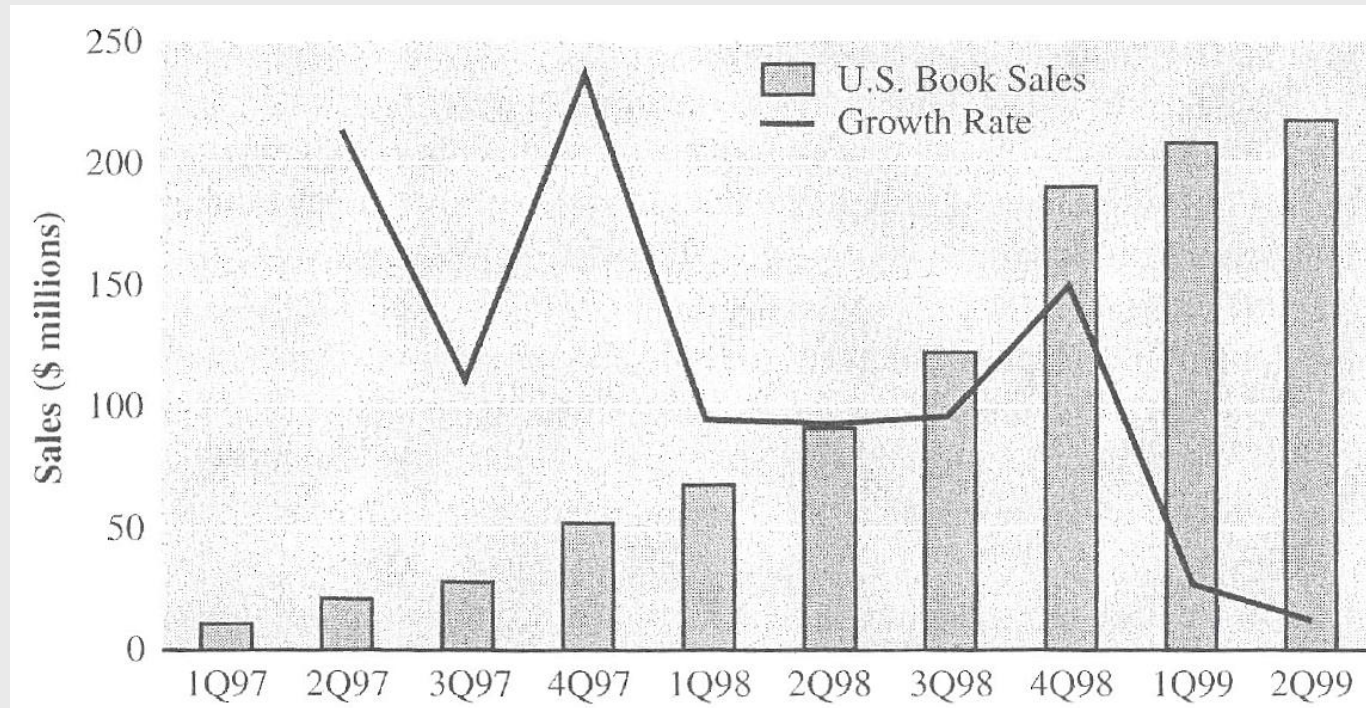
Amazon Properties

Excerpt of new trademarks

Trademark No.	Description
75-775431	Book-ology
75-770523	zShops
75-765373	Quickclick
75-765372	Powerclick
75-765371	First Bidder Discount
75-765370	Crosslinks
75-765369	Charitylinks
75-765367	2-Click
75-765366	0-Click
75-760190	Crosslinks

Source: www.companysleuth.com/askjeeves/index.cfm?INFO=AMZN

Amazon's U.S. Book Sales and Growth Rate



Source: Afuah, Tucci, 2001.

Based on: Mark J, Rowan. "Amazon.com Inc.: Prudential Securities Research Report. September 23, 1999. p.12.

zShops

Purchasing Procedure



1. Customer places order in Amazon's zShop website.
2. Amazon processes order and notifies zShop stores.
3. zShops stores deliver the product directly to customer.

Business Model Elements I

Customer value (consumer)

Convenience of the one-stop shopping

Reliability and credibility

Guarantee by Amazon

Customer value (merchants)

Brand recognition

Access to a large customer base

E-commerce package from Amazon

Guarantee and credibility

Access to Amazon's client database

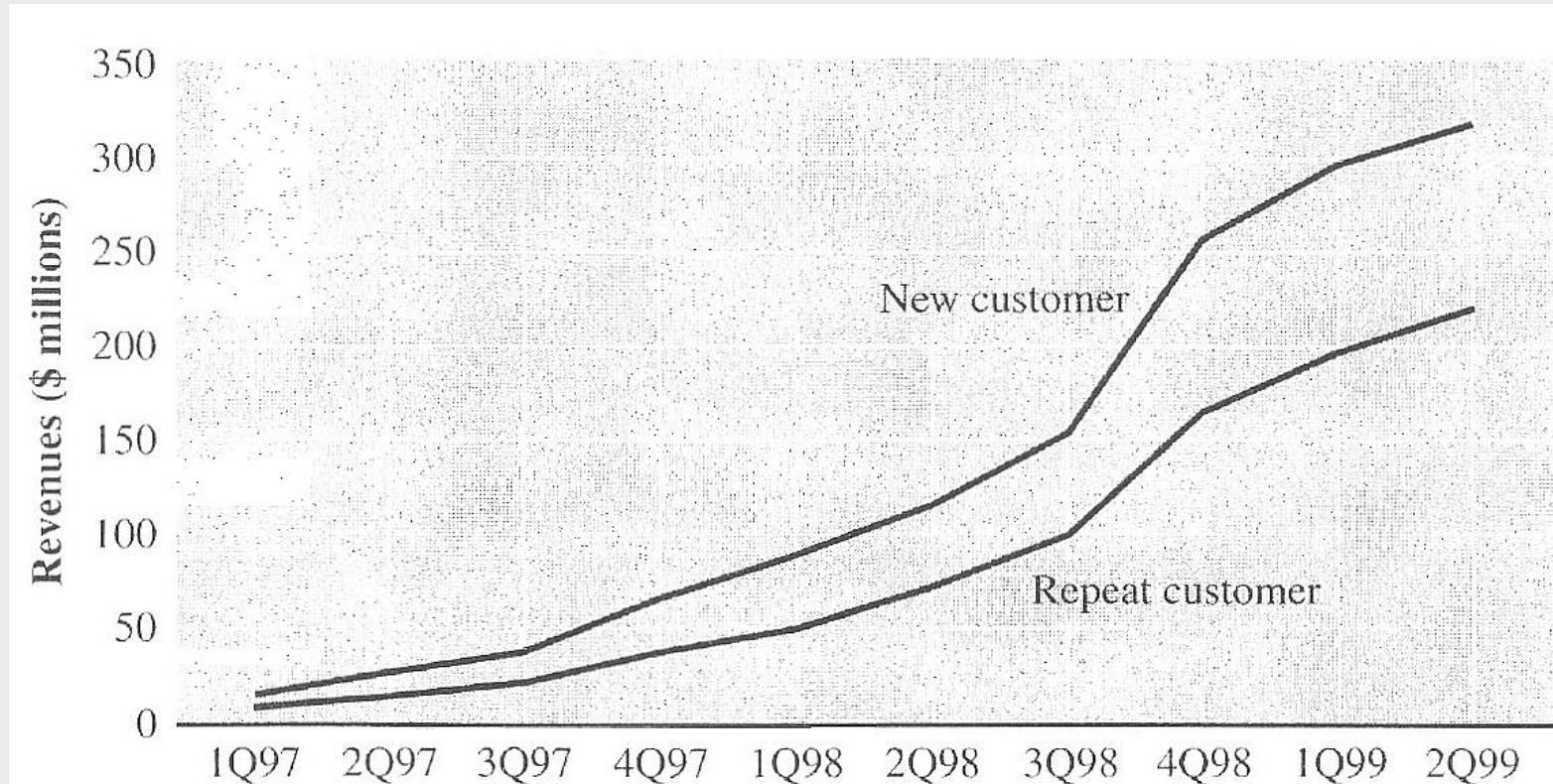
Value to Amazon

Additional stable source of revenue to increase profitability by means of the subscription model

Customer information

Revenues

Revenues from New and Repeat Customers



Source:

Based on: Mark J. Rowan, "Amazon.com Inc." Prudential Securities Research Report, September 23, 1999, p. 11.

Business Model Elements II

Pricing (1999)

Amazon: 5% for \$0-\$25, 2.5% for \$25-\$999, and 1.25% for 1,000 and over.

eBay: Sliding listings fee based on the opening bid; then receives a final fee of between 1.25% and 5% of the selling price.

MSN: 1.5% and 5%, based on the purchase price.

Source: Compiled from each company's website.

Revenue source (1999)

A: Hosting fee	\$9.99 per month (for up to 3,000 products)
B: Transaction commission	
Order size	Commission (%):
- Less than \$ 25	5.0%
- \$25 to \$1,000	2.5%
- Over \$1,000	1.25%
C: 1-Click service fee	4.75% of price and \$0.60 per each transaction

Source: www.amazon.com.

Value Network Components for Amazon as Intermediary

Network promotion and contract management

- Brand name and awareness
- Customer acquisition
- Merchant acquisition
- Merchant monitoring and evaluation

Service provisioning

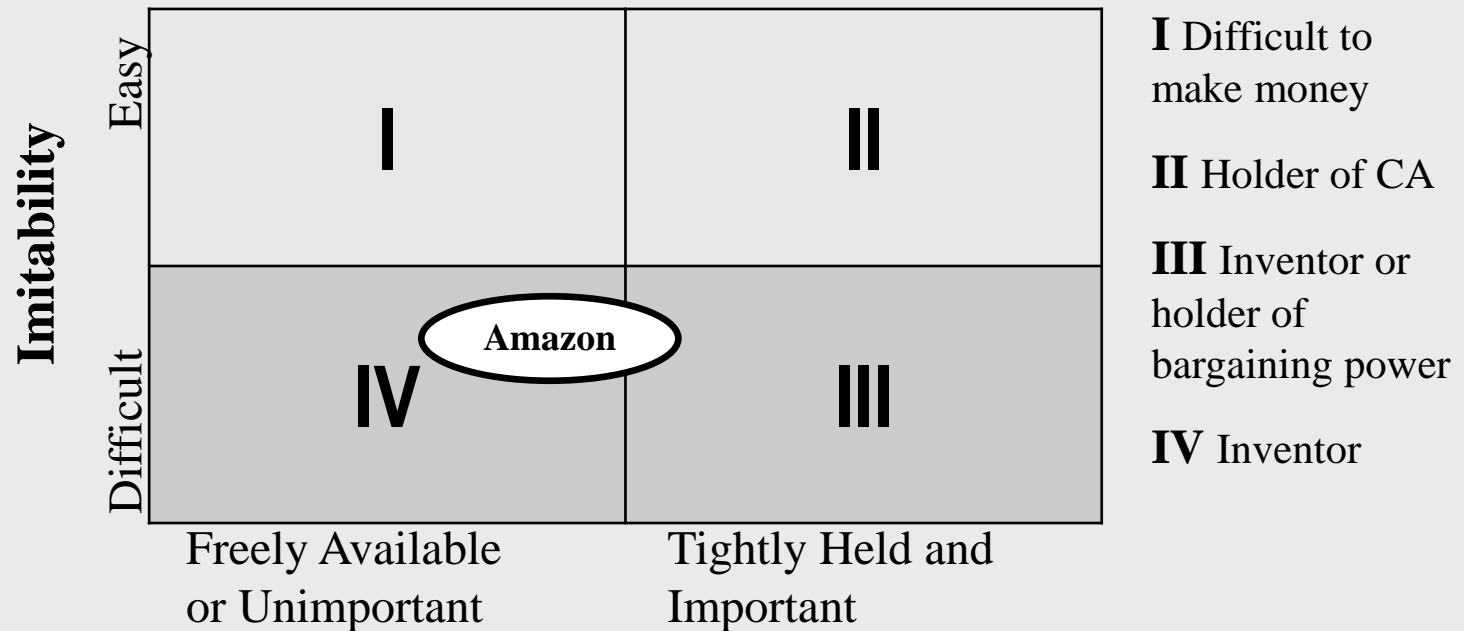
- Providing recommendations based on interests or previous purchases
- Wide range of products
- Convenience
- Reliability
- Guarantee

Infrastructure operation

- Consumer interface
- Knowledge database
- Technological infrastructure
- Logistics expertise (although this would not be the primary source of value)

Complementary Assets

Viability of the zShops Strategy for Amazon



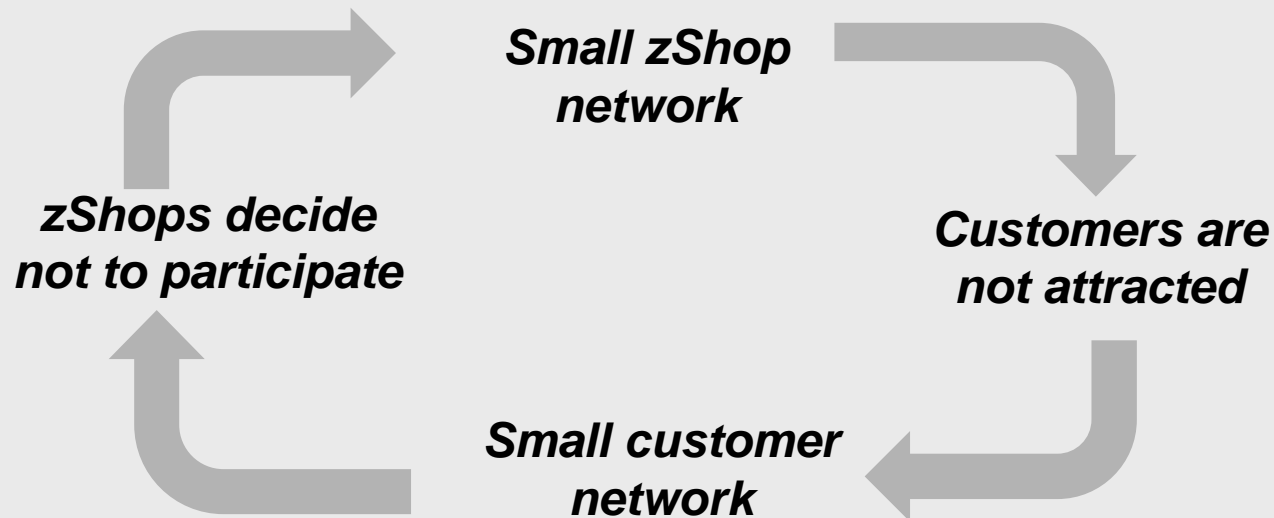
Appraisal

Appraising the Move to Retailer + Intermediary Models for Amazon

Component	Pure Retailer	Retailer + Market Maker
Customer value	High	High
Scope	High	Medium
Revenue source	Low	Medium
Pricing	Low	Medium
Connected activities	Low	Low, or worse
Capabilities	High	High
Sustainability	Low	Medium
Implementation	High	High
Value Configuration	Value Chain	Value Network

Risks

- Vicious circle of customer and zShop participation



- Brand erosion

Actions to contain risk

→ Develop a large high quality zShop network:

- Obtain the best players in the categories.
- Establish relationships with branded product manufacturers.

→ Protect brand name and reputation:

- Liberally live up to guarantee.
- Exercise due diligence in the selection of participants.
- Remove negligent zShops merchants from the network.

Case: YOC – Mobile Commerce

Company Creation and Business

Start: YOC (Your Opinion Counts) was started in 2000

Founders: Two former consultants from Roland Berger

In 2012: 220+ employees, 7 locations (EU, USA), 20000 mobile sites, 300 int. publishers, 5 billion Ad Impressions

Business segments:

1. Mobile marketing

Conception and conduct of marketing campaigns on mobile phones and i-pads, maintenance of mobile websites

2. Affiliate Marketing

Manage a network of publishers (affiliates) and advertisers

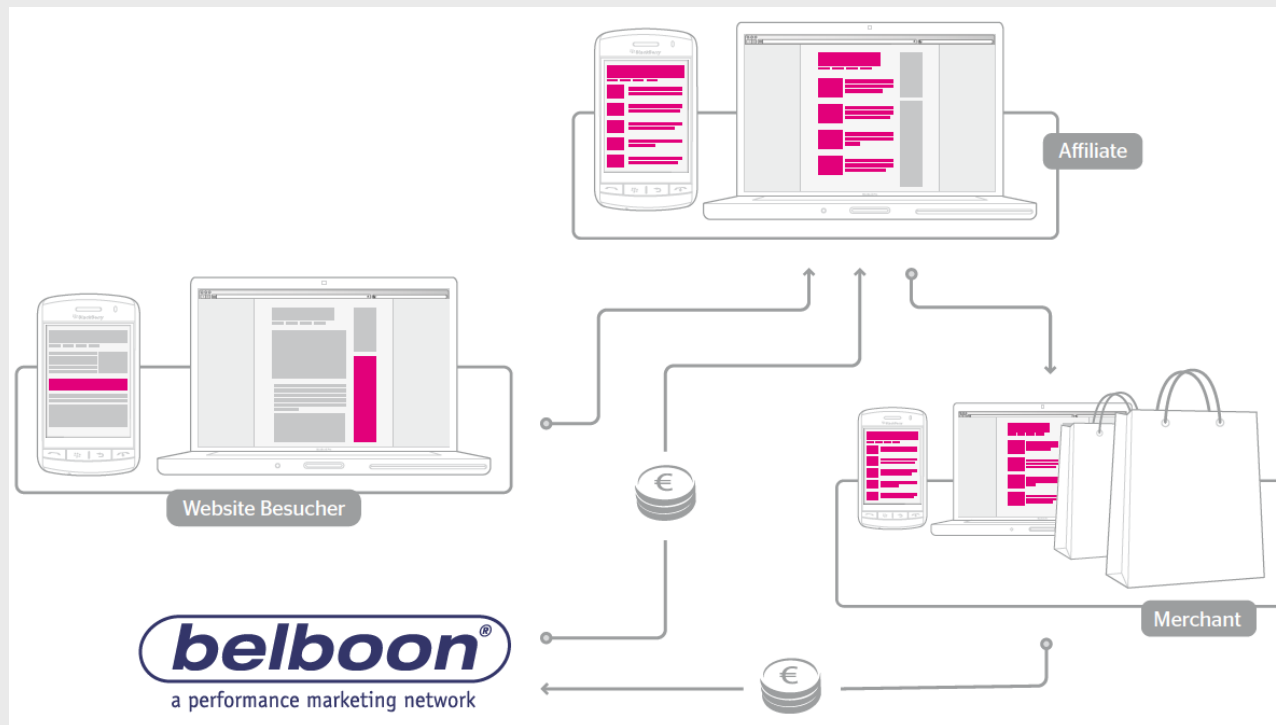
3. Mobile B2C Services

Sell mobile content (e.g., games, ringtones) to end consumers

YOC – Activities

Mobile ad formats: YOC Rich Media Ad Formats 2011
YOC Ad Plus
YOC Mystery Ad

Affiliate marketing:



YOC Business Segments

The YOC Group is market leader in its core business Mobile Marketing



Source: YOC Group (2009):Deutsches Eigenkapitalforum, p. 4

SWOT Analysis

Company	
Strengths <ul style="list-style-type: none"> ■ YOC serves several of the world's most prestigious brands ■ Proven track record (sales CAGR '01-'05 45%, profitable and FCF positive for since 2004 (founded in 2000)) ■ Successful at generating repeat business with existing customers ■ Successful at winning new customers ■ Proven technical platform 	Weaknesses <ul style="list-style-type: none"> ■ Small size ■ Limited scalability of core business mobile marketing ■ Customer concentration (three largest customers accounted for 41% of '05 sales) ■ Dependence on key personnel
Future opportunities for investment <ul style="list-style-type: none"> ■ Grow sales internationally, service new industry segments (automotive...) ■ Accelerate growth of B2C mobile content business by building a monthly subscriber base ■ Use small base in affiliate marketing to take this business model mobile 	Future risks for investment <ul style="list-style-type: none"> ■ Fluctuations in business activity from quarter to quarter ■ Increasing competition from established ad agencies ■ Success of B2C and affiliate marketing uncertain (but both are off to a good start)

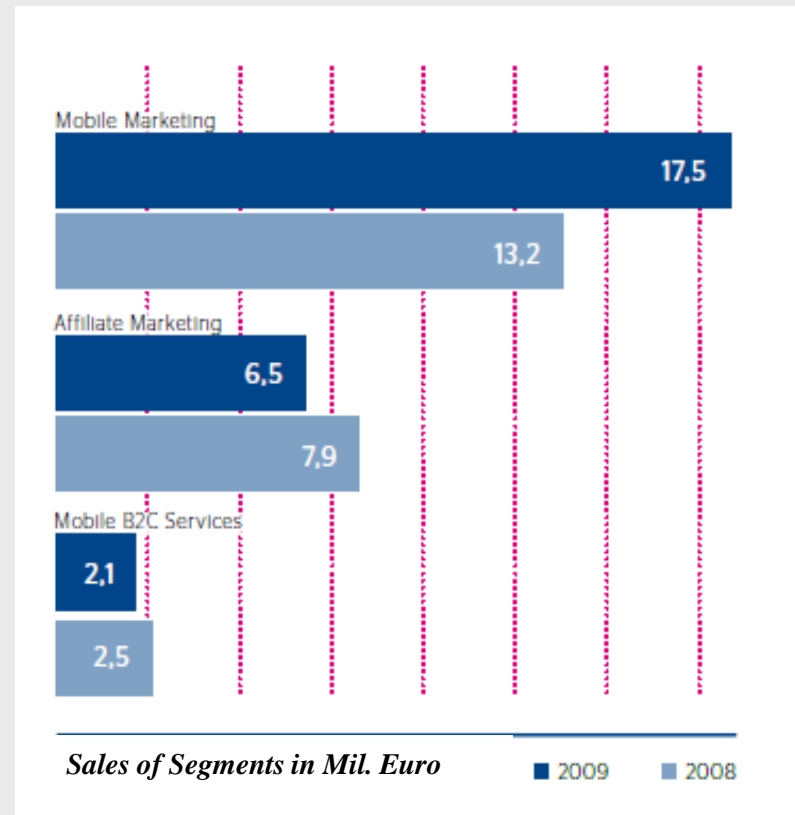
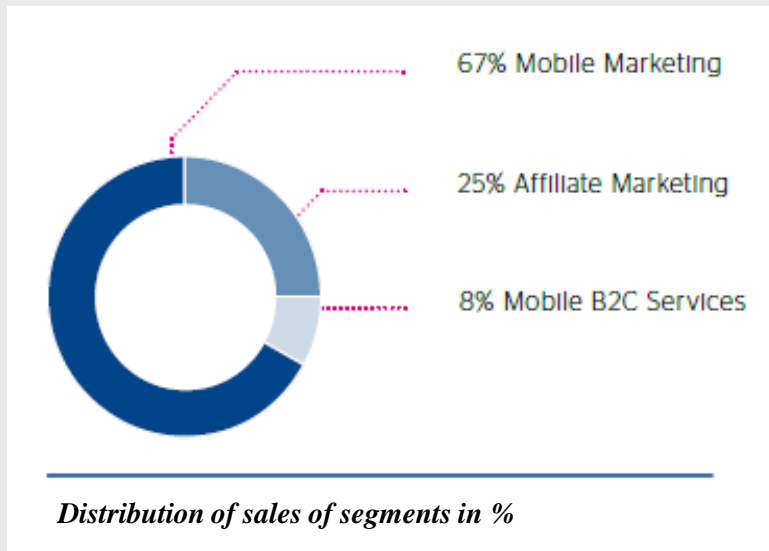
Source: YOC Technology (2006): Mobile Marketing at the start of its growth cycle, p. 7

Industry Analysis of Competitive Forces

Industry		Average score 4.8 Scoring range 1-10 (high score is good)	
Power of suppliers 9 Low and stable Prices for SMS, MMS and mobile data generally are on a downward trend benefiting YOC	Substitute products 8 Low and stable Mobile marketing complements and substitutes other forms of direct marketing not vice-versa	Rivalry 3 High Some established agencies cooperate with YOC, others may decide to build their own mobile marketing skills (they need to overcome important technology barriers). Neo-media Inc. acquired three key competitors in Q1 2006	New entrants 3 Low and stable Market still in early stage of development, however, barriers of entry getting higher every year
			Power of customers 1 High Customers can and do dual or even triple source. They pay for creativity and quality of service but have pricing power.

Source: YOC Technology (2006): Mobile Marketing at the start of its growth cycle, p. 7

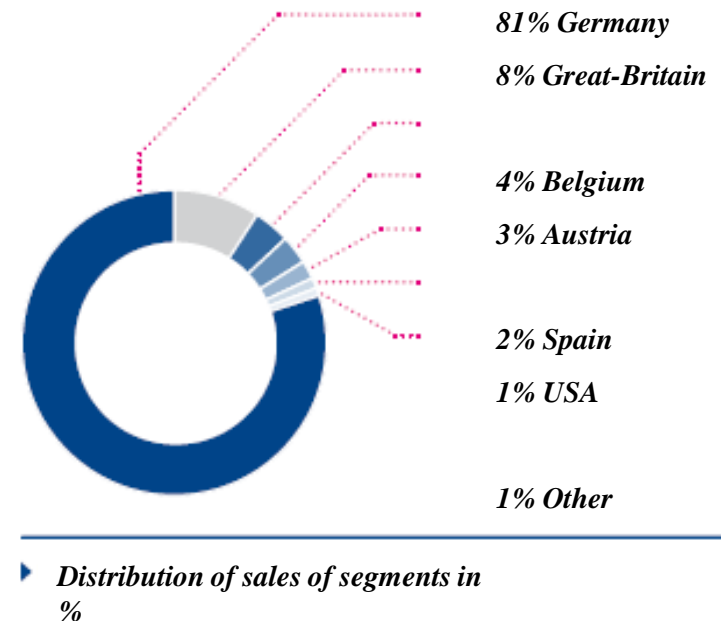
Development of Profits by Segment



Source: YOC Group (2009):Passion for mobile, p. 67

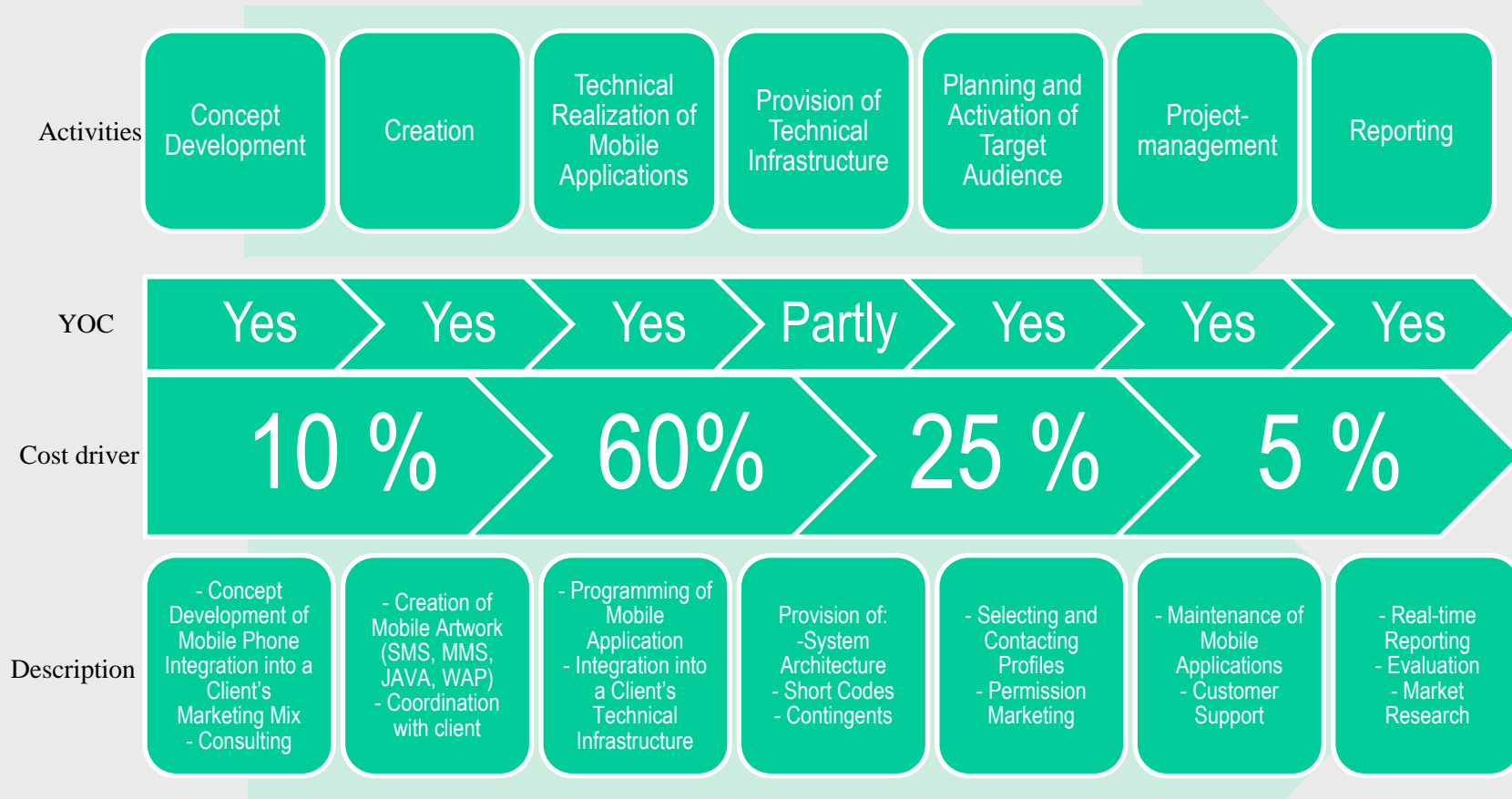
Development of Profits by Country

Sales by country (in Mio. EUR)	2009	2008
Germany	21.1	20.3
Great-Britain	2.2	1.1
Belgium	1.2	1.3
Austria	0.7	0.5
Spain	0.5	0.0
USA	0.2	0.0
Other	0.2	0.4
Total	26.1	23.6



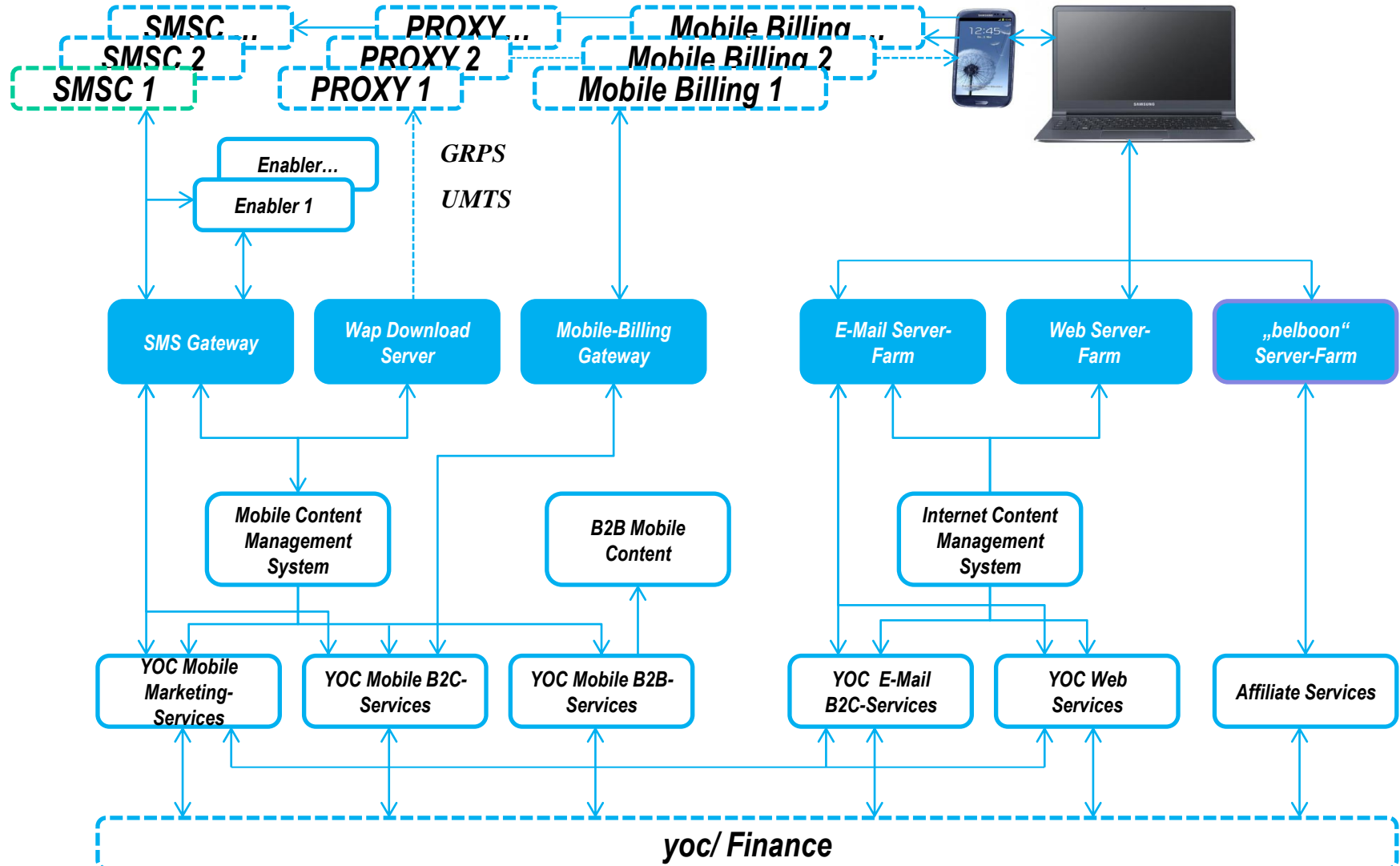
Source: YOC Group (2009):Passion for mobile, p.69

YOC: A full service provider for mobile marketing

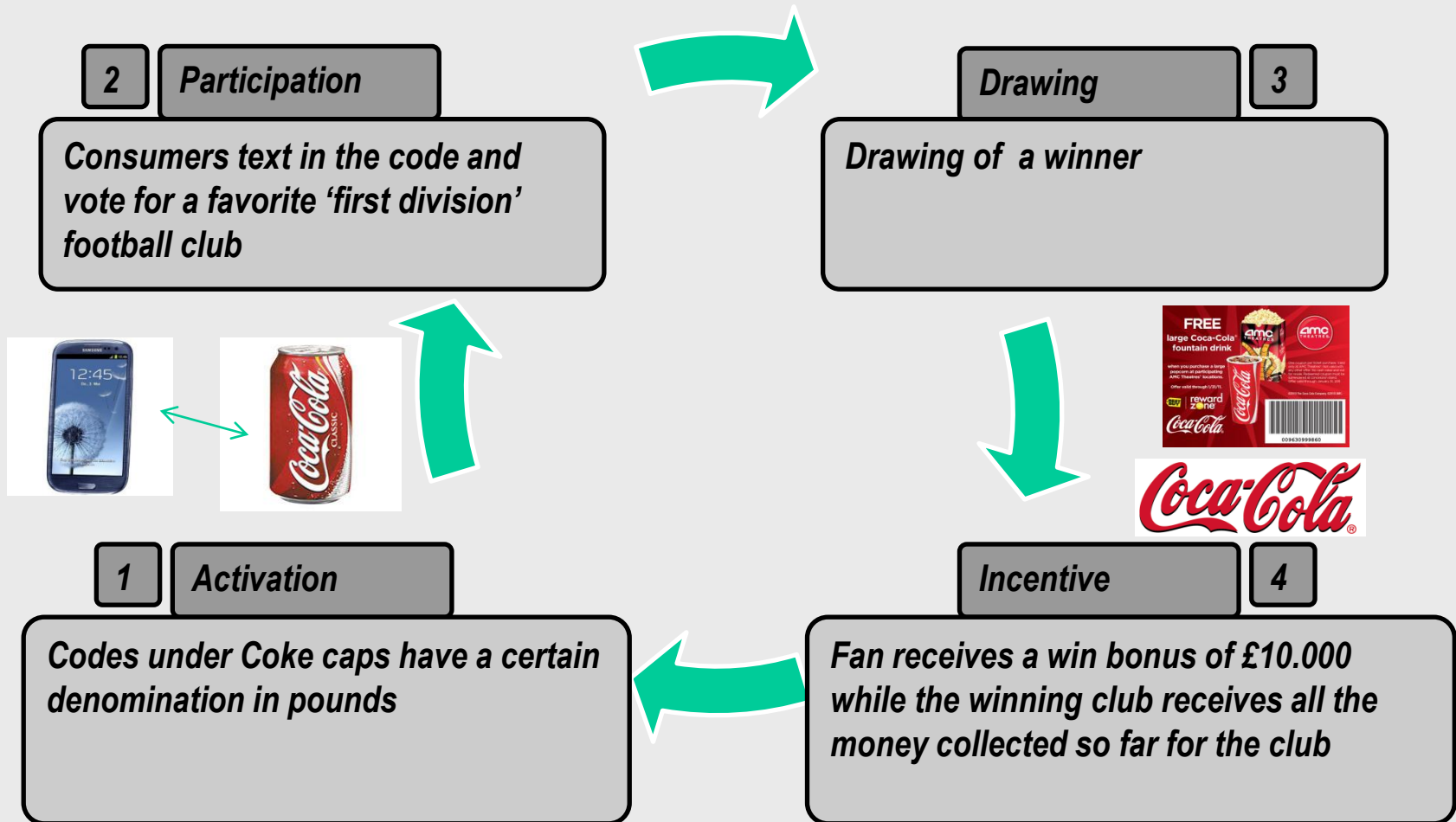


Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, Second Edition, London.

YOC's IT Infrastructure

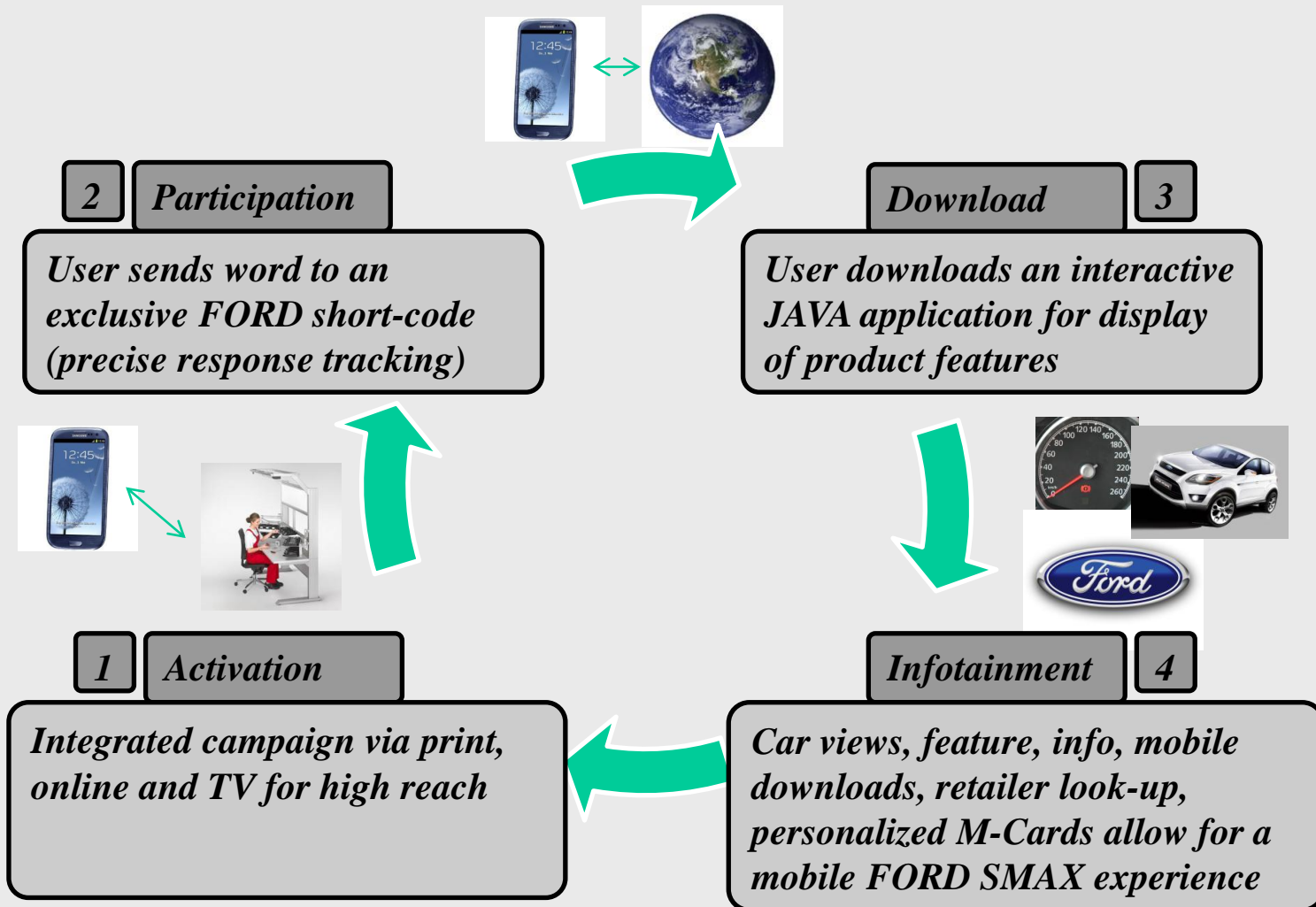


YOC's “Buy-a-Player” campaign for Coca-Cola



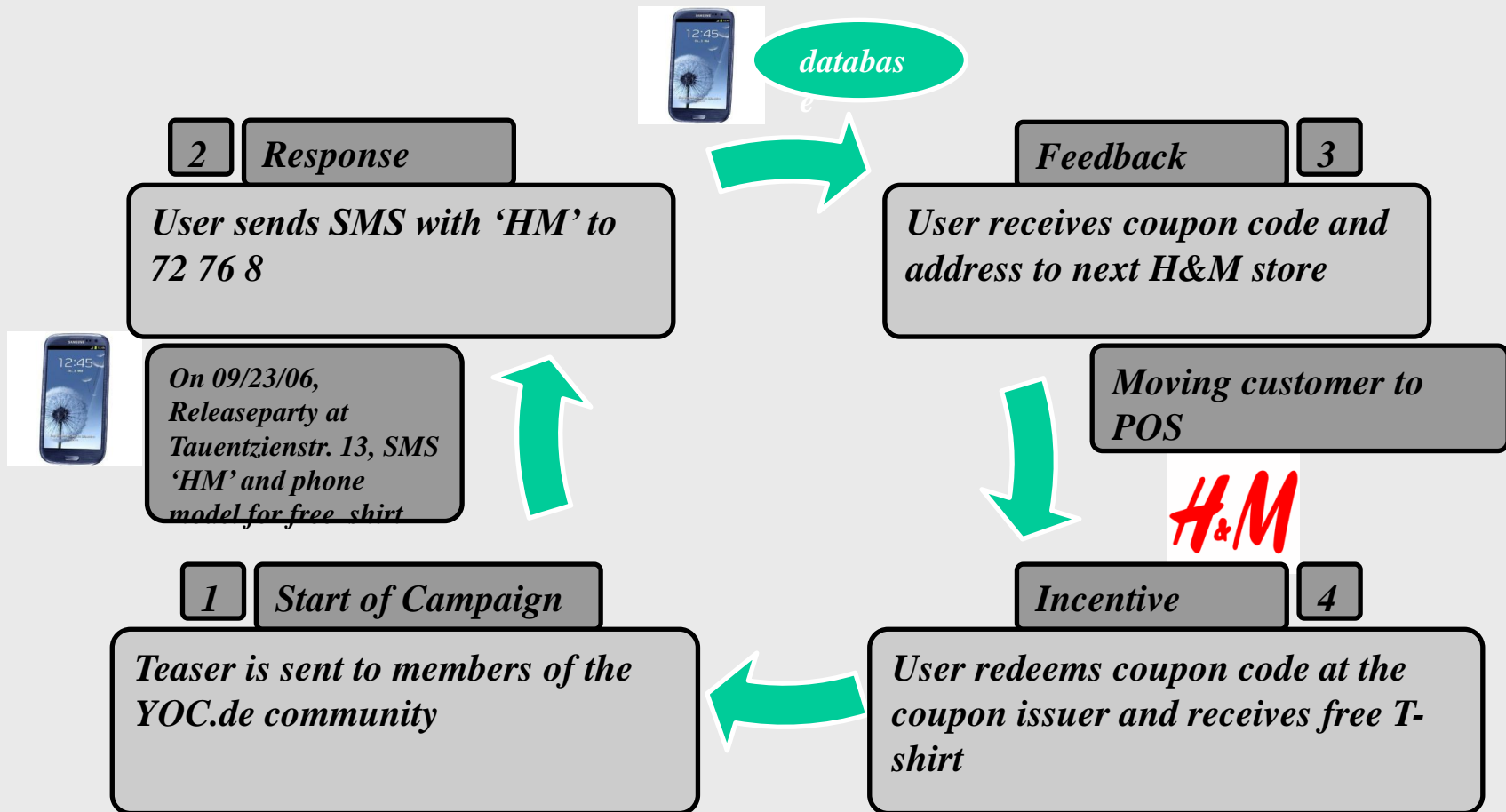
Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, Second Edition, London.

FYOC's campaign for Ford Motor Company



Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, Second Edition, London.

H&M store opening: Moving customers to the POS through mobile couponing



Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, Second Edition, London.

Business Model Elements I (mobile marketing)

Customer value for advertisers

- Access to YOC's mobile addresses database
- Access to YOC's network of owned and managed mobile sites
- Access to YOC's publishing partners
- Technological know-how
- Convenience of the one-stop shopping
- Reliability and credibility

Business Model Elements II

Pricing

45-65 € CPM, depending on channel (sports, finance, etc.) or particular mobile site

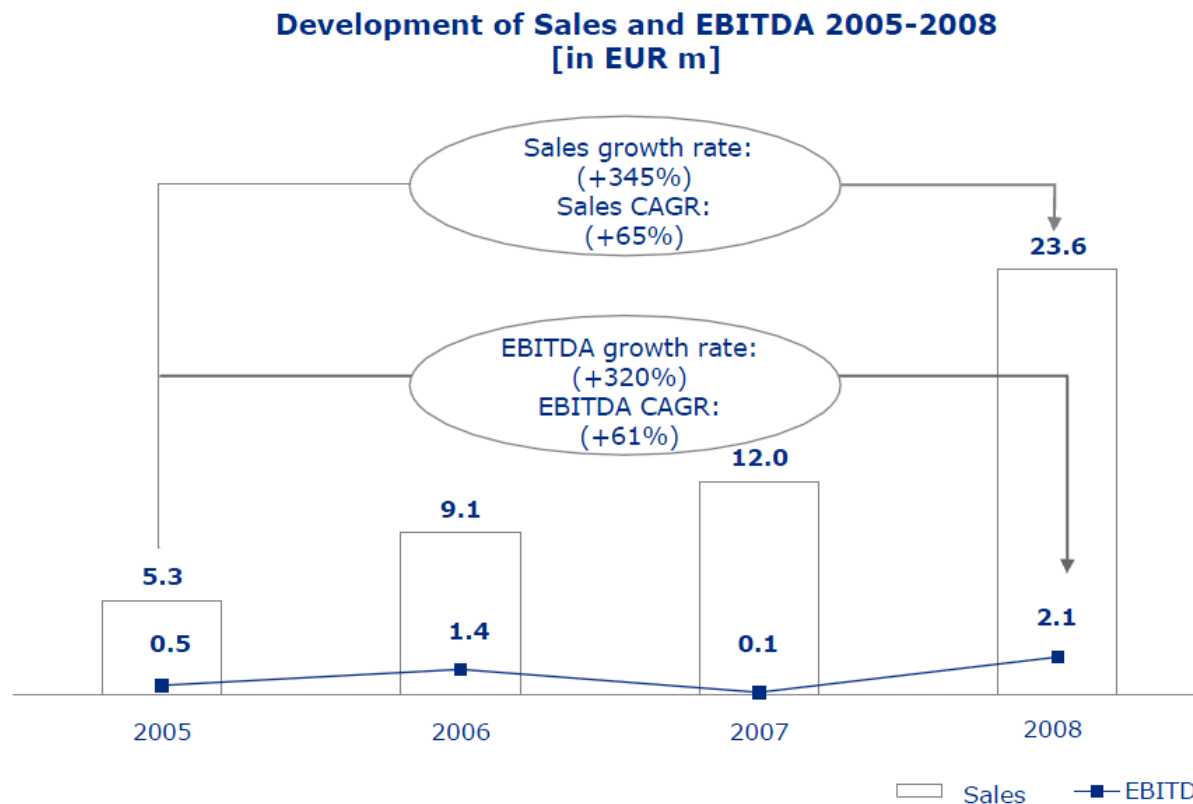
Revenue source

Fees from advertisers for campaign conception and implementation

Fees for site management

YOC's Revenues and EBITDA

The EBITDA growth of over 320% within four years is backed up by a 345% increase in turnover



Source: YOC Group (2009):Deutsches Eigenkapitalforum, p. 5

Value configuration

Service provisioning

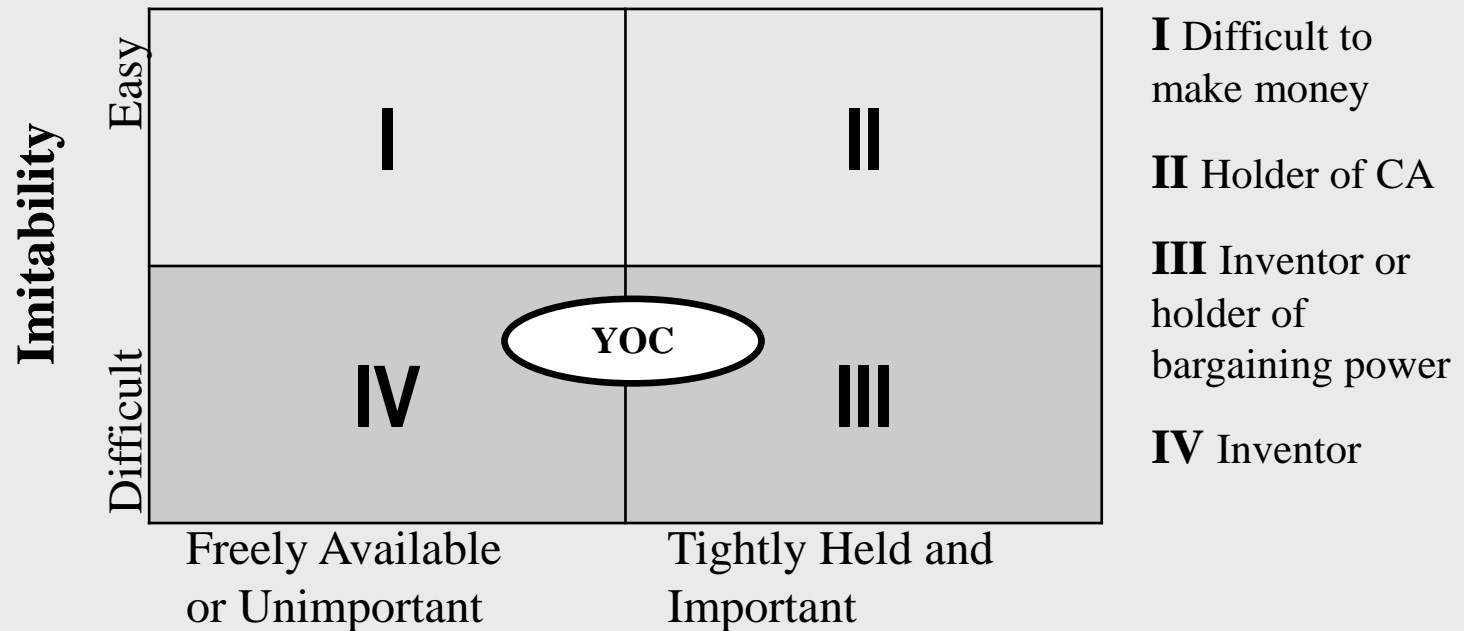
- Wide range of services
- Convenience
- Reliability
- Guarantee
- Large mobile addresses base of potential target customers
- Publishers network

Infrastructure operation

- Technological infrastructure
- Own websites
- Managed websites

Complementary Assets

Viability of YOC's Strategy



Complementary Assets: YOC customers

Appraisal of YOC's Business Models

Component	Mobile Marketing	Mobile B2C Services	Affiliate Marketing
Customer value	High	Low	Low/Medium
Scope	High	Low	Medium
Revenue source	High	Low	Medium
Pricing	High	Low	Medium
Connected activities	High	Low	Medium
Capabilities	High	Medium	High
Sustainability	High	Low	Medium
Implementation	High	Low	Medium
Value Configuration	Value Shop	Value Chain	Value Network

Contain Risks

- Maintain large enough mobile marketing network
- Maintain large enough database of mobile addresses with permission to receive ads
- Maintain technology leadership