The Business Model Concept

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Contents and learning objectives

Background and definitions
- “The business model of a firm” – based on prior research
- A working definition for business model for developing service concepts

Elements
- Business model design elements for the group's service concept
- What is needed to make the service a working solution?
- How is the service to be launched and promoted?

Frameworks
- Tools for business model design

Revenue model as part of the business model
- Understanding of the value of the service provided to the user
- Actors and their motives/incentives in the business ecosystem
- Other business models than those based on direct revenue
  - Sale of the business or customer base later
  - Support for other activities or actors
  - Non-monetary cases
Business model concept and frameworks are needed for visioning and navigation in the business environment

- To clarify the business as a whole, not just one aspect of it
- There is a need for tools that help to understand and manage the key attributes of successful service

The ways of creating economic value is fundamentally changing...

- Complex webs of knowledge & technological bonds (Castells 1996)
- Collaborative networks have an important role in creation of economic and social innovations (SMJ, Special Issue 2000) → the need to demonstrate and advance one’s concept and business logic
Anchoring the concept of business models to related concepts

- **Business Idea**
  - What?, To Whom?, How?
  - (Image?)

- **Business Strategy**
  - Means for achieving strategic objectives?
  - With what resources / input factors?

- **Business Plan**
  - A written description of the basic concepts how a company is aiming at putting its business idea & business strategy into operation.
  - Includes description of markets, (+development trends), competition, customers' needs & their development, marketing plan, finances, product development plan, risks, strengths, opportunities & threats, etc. (see different templates of business plans in the Internet)

(Rajala et al. 2003)
Terminology used in business literature since 1975 (database: Proquest)

Focus of business models in the literature

<table>
<thead>
<tr>
<th>Period</th>
<th>No. of articles</th>
<th>Identified themes</th>
<th>Focus</th>
<th>Sample articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-1975</td>
<td>36 (4)</td>
<td>Management science models on firm operation</td>
<td>Intra-organizational operation</td>
<td>Kaufman (1971); Urban &amp; Karash (1971); Konczal (1975); Steers (1975); Assmus (1975)</td>
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<td>Organizational effectiveness models</td>
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<td>Computerized models on logical interrelationships</td>
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<tr>
<td>1976-1980</td>
<td>46 (5)</td>
<td>Corporate planning models</td>
<td>Strategic planning support</td>
<td>Naylor &amp; Schauland (1976); Parasuraman &amp; Day (1977); Mairs et al. (1978); Montgomery &amp; Weinberg (1979); Sharma &amp; Mahajan (1980)</td>
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<td>Sales effort management</td>
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<td>Production allocation models</td>
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<td>Strategic intelligence systems</td>
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<td>Indicators of business success/failure</td>
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<tr>
<td>1981-1985</td>
<td>59 (6)</td>
<td>Strategy support and simulation models</td>
<td></td>
<td>Alavi &amp; Henderson (1981); Morecroft (1984); Chakravarthy &amp; Lorange (1984); Lee et al. (1982); Thietart &amp; Vivas (1984); Harrigan (1985)</td>
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<tr>
<td></td>
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<td>Decision support systems</td>
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<td>Contingency models of organizational structure</td>
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<td>Success models/strategies</td>
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<td>Strategies for intrafirm operation and outside sourcing</td>
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</tbody>
</table>

*The number of articles selected for content analysis is shown in parentheses.
## Business models in the literature

<table>
<thead>
<tr>
<th>Period</th>
<th>Count</th>
<th>Models</th>
<th>Linking strategy and operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-1990</td>
<td>70 (7)</td>
<td>Models for pricing and supplier-vendor exchange&lt;br&gt;Models for operationalizing strategy&lt;br&gt;Systematic ways for classifying business strategies&lt;br&gt;Asset pricing theories and models&lt;br&gt;Strategies for development of information systems and implementing packaged software</td>
<td>Banerjee, Avurr; Mintzberg; Chisman et al.; Affleck-Graves; Apte et al.; Davidson &amp; Davis; Lucas Jr. et al.</td>
</tr>
<tr>
<td>1991-1995</td>
<td>123 (5)</td>
<td>Strategic business planning&lt;br&gt;Financial models for BD&lt;br&gt;Management models for SISP&lt;br&gt;Models for linking organizational context and managerial action&lt;br&gt;Strategy selection models</td>
<td>Laware; Murray &amp; Trefts; Earl; Ghoshal &amp; Bartlett; Elangovan</td>
</tr>
<tr>
<td>1996-2000</td>
<td>1058 (5)</td>
<td>Optimization of the supply chain&lt;br&gt;Models for BPR&lt;br&gt;Models for e-commerce and strategies for dynamic information-intensive environments&lt;br&gt;Models for online retail, e-business strategies, and Internet intermediaries&lt;br&gt;Modeling community-based information networks</td>
<td>Sengupta &amp; Turnbull; Lyons; Sampler &amp; Short; Van Vliet &amp; Pota; Kodama</td>
</tr>
</tbody>
</table>

## Business models in the literature

<table>
<thead>
<tr>
<th>Period</th>
<th>Count</th>
<th>Models</th>
<th>Modeling business ecosystems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2005</td>
<td>3240 (8)</td>
<td>Modeling the new economy (econometric/microeconomic)&lt;br&gt;Technology-enabled supply chain network&lt;br&gt;Business models for mobile content and services&lt;br&gt;Bridging the gap between business models and system models&lt;br&gt;Entrepreneurial models; models for managing online businesses</td>
<td>Hengyi et al.; Rosenbaum; MacInnes et al.; Odeh &amp; Kamm; Engelhardt; Bakhru</td>
</tr>
<tr>
<td>2005-2009</td>
<td>5023 (14)</td>
<td>Dispersed themes including models of networked businesses and growth models for enterprises&lt;br&gt;Performance measurement in e-business&lt;br&gt;Meta-modeling of management information systems&lt;br&gt;Drivers of business models; Strategic decision models and outsourcing models&lt;br&gt;Modeling IT-enabled business, and digital business models&lt;br&gt;Business models for open innovation&lt;br&gt;Pricing policies, Operational models for supply-chain management</td>
<td>Tikkanen et al.; Bremer &amp; Chung; Sen and Sen; Shapiro; Sgincia et al.; Drake et al.; Brousseau &amp; Penard; Freeman &amp; Engel; Cheng-Min &amp; Chi-Hwa; Johnson et al; Zott &amp; Amit</td>
</tr>
</tbody>
</table>
### Business Model Definitions

<table>
<thead>
<tr>
<th>Authors</th>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amit and Zott (2001)</td>
<td>“A business model depicts the design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities”</td>
</tr>
<tr>
<td>Morris et al. (2005)</td>
<td>“A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”</td>
</tr>
<tr>
<td>Shafer et al. (2005)</td>
<td>Business model is “a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network”</td>
</tr>
<tr>
<td>Tikkanen et al. (2005)</td>
<td>“We define the business model of a firm as a system manifested in the components of related material and cognitive aspects”</td>
</tr>
<tr>
<td>Westerlund et al. (2008)</td>
<td>“Business model of a firm spells out how the company generates revenue by specifying the nature of relationships with other actors as well as the firm’s position in its value-creating network”</td>
</tr>
<tr>
<td>Johnson et al. (2008)</td>
<td>“…a business model consists of a number of interlocking elements that, taken together, create and deliver value.”</td>
</tr>
<tr>
<td>Zott and Amit (2008)</td>
<td>Business model is a “structural template that describes the organization of a focal firm’s transactions with all of its external constituents in factor and product markets”</td>
</tr>
</tbody>
</table>

### Working definition

In sum, the business model of a firm can be defined as:

“a concise representation of how an interrelated set of elements – the offering, relationships, resources, revenue model and management mind-set – are addressed to create and capture value in defined markets”

(Rajala, R. 2009)
Business model elements

- Offering
- Resources
- Relationships
- Revenue model

(Rajala, R. 2009)
Types of relationships

- social
- transactional (provider – client, suppliers)
- collaborative (provider – client, partners)
- competitive
- hierarchical
- dyadic, multidimensional, asymmetrical
- ...  

Business environment has changed

From Value Chains...

Focus on supplier-customer relationships (within the value chain)

Modified from Kemppainen et al. (2003)
... To Value Networks...

Focus on supply chain leaders (in a star-formed network)

Modified from Kemppainen et al. (2003)

... and Encapsulated Value Networks

Focus on collaboration with complementary partners (in an encapsulated network)

Modified from Kemppainen et al. (2003)
.. emphasizing the **Roles & Utilities** of various actors

A winning business model interconnects:

- A beneficial service for customers
- A rewarding and knowhow –favourable work organization for employees
- Clear message and lucrative opportunities for potential partners
- Competitive business strategy in relation to competitors
- A profitable investment for owners

(Modified from Räsänen 1996)

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**Example: actors & relationships in digital service ecosystems**

![Diagram of digital service ecosystems]

Applied from Messerschmitt & Szyperski (2000)
How to gain a central position in a business ecosystem?

- Constant innovation activity
- Management of customer relationships
  - visibility to customers
  - management and utilization of customer base: gateway to customers in a network
- Brand management
  - strong brand image
- Attractive and well-defined business model
  - creation and development of trust
  - maintain interest and motivation for strategic collaboration
What do we need to get the service launched and workable?
- capabilities, skills, technology…
- a team with resources complementary to each other

Do we need to possess the resources in our team?
- access to resources might be better than resource ownership
- capabilities and skills to use available resources is ever more important

Resources in service co-creation?

<table>
<thead>
<tr>
<th>Goods logic</th>
<th>Service logic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources as assets</strong></td>
<td><strong>Resources as capabilities</strong></td>
</tr>
<tr>
<td>- Firm resources primarily as operand: <em>usually tangible, static resources that require some action to make them valuable.</em></td>
<td>- Firm resources primarily as operant: <em>intangible, dynamic resources that are capable of creating value.</em></td>
</tr>
<tr>
<td><strong>Resource ownership</strong></td>
<td><strong>Resource access</strong></td>
</tr>
<tr>
<td>- Resources are things that can be owned.</td>
<td>- Resources are things that can be accessed for a purpose.</td>
</tr>
<tr>
<td>- Application of the term resource to people is inappropriate.</td>
<td>- The notion of customers and people as resource is perfectly appropriate from an ‘access to capabilities’ perspective.</td>
</tr>
</tbody>
</table>

(Mod. from Vargo & Lusch, 2008)
### Different views on resources

<table>
<thead>
<tr>
<th><strong>Goods logic</strong></th>
<th><strong>Service logic</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Making something (goods or services)</td>
<td>● Assisting customers in their own value-creation processes</td>
</tr>
<tr>
<td>● Value as produced</td>
<td>● Value as co-created</td>
</tr>
<tr>
<td>● Customers as isolated entities</td>
<td>● Customers in context of their own networks</td>
</tr>
<tr>
<td>● Firm resources primarily as assets (operand)</td>
<td>● Firm resources primarily as capabilities (operand)</td>
</tr>
<tr>
<td>● Customers as targets</td>
<td>● Customers as resources</td>
</tr>
<tr>
<td>● Primacy of efficiency</td>
<td>● Efficiency through effectiveness</td>
</tr>
</tbody>
</table>

(Adapted from Vargo & Lusch, 2008)
Business model positioning – levels of strategy

Levels of Business Modeling

<table>
<thead>
<tr>
<th>Level of strategy</th>
<th>Contents</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate level</td>
<td>Corporate strategy</td>
<td>Competitive advantage and value creation through domain selection and business portfolio strategy, resource acquisition and allocation, general business strategy and SBU strategies, and through synergy between units and investment priorities.</td>
</tr>
<tr>
<td>SBU level</td>
<td>Business model</td>
<td>Competitive advantage, value creation, and capture through the firm’s competitively relevant, business-level characteristics.</td>
</tr>
<tr>
<td>Functional level</td>
<td>Business processes</td>
<td>Support for the desired competitive advantage through the development and maintenance of core competences by function-specific and inter-functional processes</td>
</tr>
</tbody>
</table>
A Business Model Ontology

WHO?
Who are customers, how to manage relationships with them?

WHAT?
What is the scope of products and services, its value for the customer, the capabilities to innovation?

HOW MUCH?
What is the revenue model / profit model / cost model?

HOW?
How to organize infrastructure, its resources, the knowledge and the structure of costs, manage value chain activities and processes, build partner network to achieve performance?

(Pigneur 2002)

Factors affecting business models

(Mod. from Rajala et al. 2001, Rajala, Rossi, Tuunainen, 2003)
### Business model decomposed

![Diagram of a business model canvas](image)

- **Offering**
- **Revenue model**
- **Relationships**
- **Resources**
- **Financing Environment & Stakeholders' Utilities**
- **Competing Environment**
- **Business Strategy**
- **Customers needs, benefits & utilities**

(Modified from Rajala et al. 2003)

### A business model canvas

<table>
<thead>
<tr>
<th>PARTNER NETWORK</th>
<th>KEY ACTIVITIES</th>
<th>OFFER</th>
<th>CUSTOMER RELATIONSHIPS</th>
<th>CUSTOMER SEGMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td>KEY RESOURCES</td>
<td></td>
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<tr>
<td>DISTRIBUTION CHANNELS</td>
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<tr>
<td>COST STRUCTURE</td>
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<td>REVENUE STREAMS</td>
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</tbody>
</table>

(Framework by A. Osterwalder, 2009)
### An example: a long-tail business model

<table>
<thead>
<tr>
<th>Partner Network</th>
<th>Key Activities</th>
<th>Offer</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>content producers</td>
<td>match-making platform management</td>
<td>platforms for niche products and services</td>
<td>online interaction &amp; communities</td>
<td>large breadth of niche segments</td>
</tr>
<tr>
<td>communities of interest</td>
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<tr>
<td>Key Resources</td>
<td></td>
<td>focus on match-making</td>
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<tr>
<td>platform breadth &amp; reach</td>
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<tr>
<td>Cost Structure</td>
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<tr>
<td>platform development &amp; maintenance</td>
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<tr>
<td>Revenue Streams</td>
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<td></td>
<td></td>
<td>selling little of more</td>
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</tbody>
</table>

(Framework by A. Osterwalder, 2009)
Revenue model as a part of a business model

- Business model is about
  - How does a business operate in practice?
  - The manifestation of both business idea and business strategy in practice
  - How the business is adding value to its customers and other actors?
  - Specific combination of key elements of business

Revenue model is about
- How does the business gain money
- sources of revenue,
- pricing & cost structure,
- lock-in effects, network effects

Underlying issues to be recognized in service revenue models

- Customers want to "get the job done"
  - functionality still drives service sales
  - pricing options and “licensing" becoming part of core features

- Total cost of use is more important than price
  - customers want more value as costs and complexity rise
  - price bundling can give customers more "results" from less budget

- Control of use can bring customers and providers together
  - customer paying for use
  - provider charging for use

- IPR management is one part of pricing
  - affects business practices and competitiveness

Adapted from Geisman (2004)
Remarks on revenue models

- The significance of revenue models has increased in business planning.
- Efficient pricing cannot be based (solely) on costs. Instead, costs determine the volume of profitable operation.
- In the consumer businesses, end-users are willing to pay for single services only in exceptional cases.
- Information is costly to produce but incredibly cheap to reproduce (follows from high fixed costs and low marginal costs!)

Pricing of an information-intensive offering should be based on its value, not cost.

Levels of pricing considerations

- In what businesses do we want to be involved?
- With what resources & cost structure do we compete?
- Focus on portfolio of offerings & sources of revenue
- What are our profit-makers and loss-leader offerings?
- What are our price quotation principles? (bundling, skimming, penetration, etc.)

Strategic level

Business model level

Business process & transaction level

- Focus on transaction-specific pricing issues
- How do we win deals?
- What are the determinants of a single price (value, elasticity, contribution margin, etc.)
Strategic level assessment

Pricing issues to be considered before the launch of a service:

1. **Price differentiation?**
   - Differentiate your offering (add value to your product proposition to distinguish yourself from the competition)
   - Personalized pricing
     - Sell to each user at a different price
   - Versioning
     - Offer variations and let users choose
   - Group pricing
     - Based on group membership/identity

Or 2. **Cost leadership?**
- through economies of scale (by adding apples to apples) with multiple customers
- economies of scope (by adding oranges to apples) with selected customers

Operational level assessment

What is our **revenue model**?
- Sources of revenue? (substitute & complementary products in our product portfolio?)
- Type of transaction? Contract period?
- How to gain lock-in? What are users’ switching costs?

What is our **pricing principle**?
- Market-based pricing?
- Contribution margin (cost) –based?
- Value-based?

**Environmental factors**?
- Networking externalities, competition, etc.
Pricing in practice

- Know your customer and personalize your service and pricing for the target group
- Provide variations - users choose version best suited to their needs
- Use promotions to measure demand
- Know your costs, but accomplish pricing according to users’ benefits rather than costs
- “To discourage entry, avoid greed and play tough - send signals about aggressiveness”

Thoughts on pricing

- “Pricing is the moment of truth – all of marketing comes to focus in the pricing decision” (Raymond Corey 1960)
- “Price is the only variable in marketing that generates income, all the others – product development, packaging, advertising and sales promotion, etc – generates costs.” (Daniel Dymer 1970)
- “If the price is not right, all the merchandising effort might be wasted.” (André Gabor 1988)
Increased importance of pricing

- In some segments, price of information products are pushed to zero. Simultaneously, customers in some segments are willing to pay premium prices.
- Rapid technological change reduces profitability
- Fragmented needs and proliferation of offerings causes blurring of product and service offerings
- Increased demand for performed and additional services.
- Increased competition

Marketing perspectives on pricing

Pricing is closely related to other elements of marketing.

Aspects related to price in consumer markets include
- vendor reputation, trust, reliability, amity
- quality, experience of safety, level of service, etc.

Objectives pursued by pricing
- market share
- response to competition (defending market share)
- return on investment
- image

Adapted from Geisman (2004)
Role of Pricing

Cost-based Pricing

Product $\rightarrow$ Cost $\rightarrow$ Price $\rightarrow$ Value $\rightarrow$ Customers

Value-based Pricing

Customers $\rightarrow$ Value $\rightarrow$ Price $\rightarrow$ Cost $\rightarrow$ Product

Nagle & Holden (1997)

Prevailing models for service pricing

- **Cost (& contribution margin) –based pricing:** identify relevant costs, targeted contribution margin and understand how changes in sales will affect product’s profitability. Furthermore, you should learn how to judge the likely impact of a price change on sales.

- **Value-based pricing:** as the definitive value and satisfaction of customers are hard to measure, you can use the *economic value-to-the-customer* by determining the customers’ alternatives and setting your price below the total economic value (consisting of both *reference value* and *differentiation value*).

- **Market-based pricing:** evaluate what buyers in the market will pay and only then choose products to produce and markets to serve.
Common Pricing Principles

1. Cost-plus pricing
   - Markup prices
2. Competitive pricing
   - Neutral (parity) prices
   - Above market prices
   - Below market prices
3. Life Cycle pricing
   - Skimming (high entry price)
   - Penetration pricing (aggressive entry at low prices)
4. Experience curve pricing
5. Target return pricing
6. Economic value-based pricing
   - Contingency pricing

Key considerations in pricing decisions

1. Price sensitivity
   - The price sensitivities of buyers shift based on a number of factors and your must shift with them.
2. Costs
   - Focus on your current and future (not historical) costs to determine the cost basis for your prices.
3. Competition
   - Pay attention to them, but don't copy them. When it comes to pricing, they may have no idea what they're doing.
4. Lifecycle
   - How you price, and what value you provide for that price, will change as you move through the lifecycle of your service.

Adapted from Geisman (2004)
Product Marketing Life Cycle

<table>
<thead>
<tr>
<th>Type</th>
<th>Brand development</th>
<th>Brand reinforcement</th>
<th>Brand repositioning</th>
<th>Brand modification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Establish market position</td>
<td>Expand target market</td>
<td>Seek new market segments</td>
<td>Prepare for re-entry</td>
</tr>
<tr>
<td>Product strategy</td>
<td>Assure high quality</td>
<td>Identify weaknesses</td>
<td>Adjust size package</td>
<td>Modify features</td>
</tr>
<tr>
<td>Advertising objectives</td>
<td>Build brand awareness</td>
<td>Provide information</td>
<td>Differentiate from competition</td>
<td>Educate on changes</td>
</tr>
<tr>
<td>Distribution</td>
<td>Build distribution network</td>
<td>Solidify distribution relationships</td>
<td>Maintain distribution</td>
<td>Re-establish and deliver new version</td>
</tr>
<tr>
<td>Price</td>
<td>Skimming or penetration strategy</td>
<td>Meet competition</td>
<td>Use price deals</td>
<td>Maintain price</td>
</tr>
</tbody>
</table>

Phase in Life Cycle

- Introduction
- Growth
- Maturity
- Decline

Source: Adapted from Cravens 1987

Business model lifecycle

- Revenue model
  - Skimming or Loss-leader pricing
  - Various alternatives for Licensing & Hybrid / Media model
  - Support selling, Accessorizing, Brand licensing, Franchising, etc.

- Innovators
- Early Adopters
- Early Majority
- Late Majority
- Laggards
Value-based Pricing

Identify value
- Why and how do customers use our service?
- How do customers want it provided & supported?
- How do customers want to buy our service?

Link price to value
- Discuss value in customer’s own language
  (Revenues, growth, profits, ROI, ease of use…)
- Present clear value proposition

Present prices clearly
- Keep service options & initial quote simple
- Size/scale the deal reasonably

Value-based pricing

Money

Better

Other solutions

Faster

Cheaper

How valuable the benefits are in money terms?

(Quantify value metrics)

(MarketShare, Inc., 2004)
Price elasticity of demand

\[
\text{Price elasticity of demand} = \frac{\% \text{ change in the rate of purchases}}{\% \text{ change in the price}}
\]

"Cost Laws"

- Costs are not sufficient basis for pricing, but affect the profitability at different volumes of operation
- "Once the first copy has been produced, costs are sunk and cannot be recovered"
- "Multiple copies can be produced (but not sold) at roughly constant per-unit costs"
- There are no natural capacity limits for additional copies of software, but marginal costs may rise
- "Information commodities don't last... price pushed to zero!"
Production costs

First-unit costs dominate
- Sunk costs - not recoverable → do not focus costs in pricing decisions

Variable costs small; no capacity constraints
- In some services, profit margins exceed 90% of sales revenue

Significant economies of scale
- Marginal cost less than average cost
- Declining average cost

(Shapiro & Varian 1998)

Cost structures in information-intensive business

**AFC** = average fixed costs

**AVC** = average variable costs

**AC** = average costs
Maximizing service provider’s surplus

Profit [the difference between total revenue (Supply x Price) and Average Costs (AC), as shown by the colored rectangle] is thought to be maximal in this perusal when the marginal cost (MC) equals price.

We are interested in the area that is above AC curve

Further Considerations on Business Models...

The business model concept, tools and frameworks can be used

- as a basis for developing business plans
- to analyze the outcomes of key business decisions
- to develop a well-balanced service strategy and offering portfolio
- to analyze the likelihood to succeed and estimate required efforts
- in search of fitting business partners and financiers
Challenges

Two essential questions related to conducting business with social networks and communities of interest:

- How to balance between the culture of the community, and, the premises of the commercial business model?
- Are there sustainable revenue models connected with the idea of supporting or sponsoring a community?

Indirect revenue models

<table>
<thead>
<tr>
<th>Revenue Model</th>
<th>Revenue sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support selling</td>
<td>Revenue comes from media distribution, branding, training, consulting, custom development, and post-sales support for physical goods and services.</td>
</tr>
<tr>
<td>Loss-leader</td>
<td>Complementary offerings, e.g. other software products</td>
</tr>
<tr>
<td>Accessorizing</td>
<td>Supplementary offerings</td>
</tr>
<tr>
<td>Service enabler</td>
<td>Service fees</td>
</tr>
<tr>
<td>Brand licensing</td>
<td>Copyright compensations</td>
</tr>
<tr>
<td>Sell it, Free it</td>
<td>Initial revenue from service offerings converted into other models, e.g. the loss-leader model</td>
</tr>
<tr>
<td>Franchising</td>
<td>The franchiser supplies franchisees with training and related services in exchange for franchising fees of some sort</td>
</tr>
</tbody>
</table>

(Modified from Hecker 1999 and Välimäki 2005)
Business model development focus

From a single firm perspective, business model focus has been shifted from offerings to serving customers’ needs.

- Firms have traditionally defined their businesses through product/service offerings.
- However, customer-(or market-) oriented thinking is claimed to be more efficient than product-oriented.
- Sales is a customer satisfaction process, not a production process.
  - Products and service concepts change, needs remain.
  - Customers buy solutions, not products.

Hence, instead of focusing product/service offerings, a successful business model could be based on the ways to meet clients’ needs...


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Modes of service co-creation

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Client-Driven</th>
<th>Provider-Driven</th>
<th>Balanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Cases</td>
<td>MySAP, MySQL, NowPublic</td>
<td>Apple iTunes, Dell, Google, Microsoft, Nokia</td>
<td>Intel, McAfee, Skype, TVU Networks</td>
</tr>
<tr>
<td>Competitive Superiority</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
  - Value propositions are typically directed toward known clients and their explicit needs through client-driven market pull.
  - Customer-centric innovation activity serves existing needs optimally through well-defined market-oriented solutions.
  - Technology push in innovation-oriented development of services targets prospective clients.
  - The provider-driven development activity may create new innovative services that would not otherwise exist.
  - Ambidextrous innovation activity combines both market and technology orientation in service co-development.
  - Strategic congruence based on mutual interests enhances current and future value co-creation.
Further readings

- Doganova & Eyquem-Renault 2009 What do business models Research Policy 38, 1559–1570