

# 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

## An early 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)

## Recent Research on Business Models

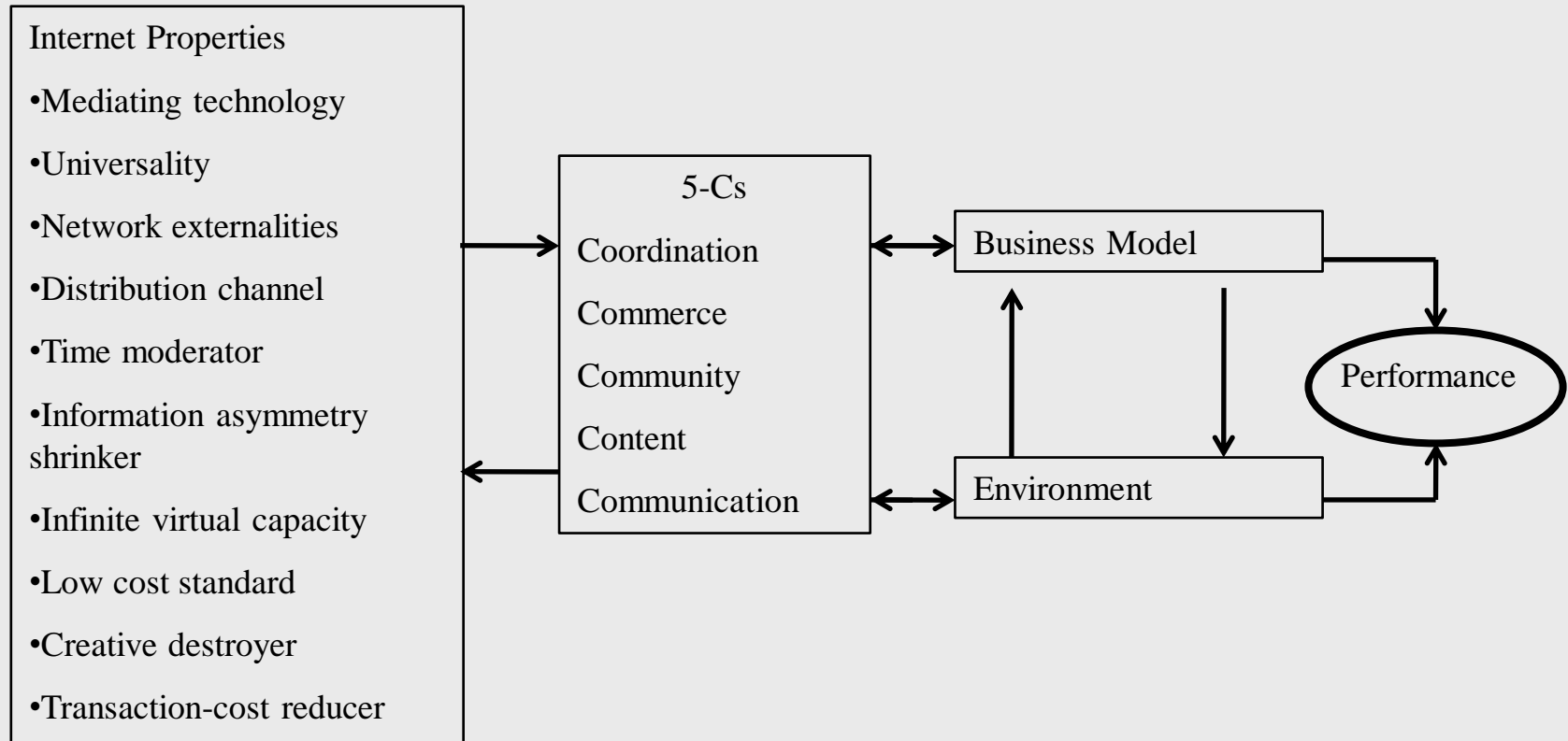
*Many new proposals (Canvas, Blue Ocean, Open Innovation,...)*

A review reveals:

- No agreement on what a business model is, but common themes
- A dominant unit of analysis,
- Holistic system-level approach,
- A system of boundary-spanning activities,
- Emphasis on value creation.

(Zott, Amit, Massa 2011)

# Building Internet-based Business Models



# Categorization of Internet Business Models

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

b) By offering

- |                |             |
|----------------|-------------|
| - Brokerage    | - Affiliate |
| - Advertising  | - Community |
| - Infomediary  | - Content   |
| - Merchant     | - Utility   |
| - Manufacturer |             |

(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

Imitability	High	I. Run	II. Team-up - Joint venture - Strategic alliance - Acquisition Internal development
	Low	IV. Block	III. Block Team-up -Joint venture -Strategic alliance -Acquisition
		Freely Available or Unimportant	Tightly Held and Important
Complementary Assets			

# Business Model Appraisal

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

# Appraisal Based on BM Components

Business Model Component	Benchmark Questions	Rank
<b>Customer value</b>	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
<b>Scope</b>	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
<b>Price</b>	Is the quality-adjusted price low?	H/L
<b>Revenue source</b>	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
<b>Connected activities</b>	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
<b>Implementation</b>	Is quality of the team high?	H/L
<b>Capabilities</b>	To what extent are the firm's capabilities: Distinctive? Inimitable? Extendable to other product markets?	H/L
<b>Sustainability</b>	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

# *Financial 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

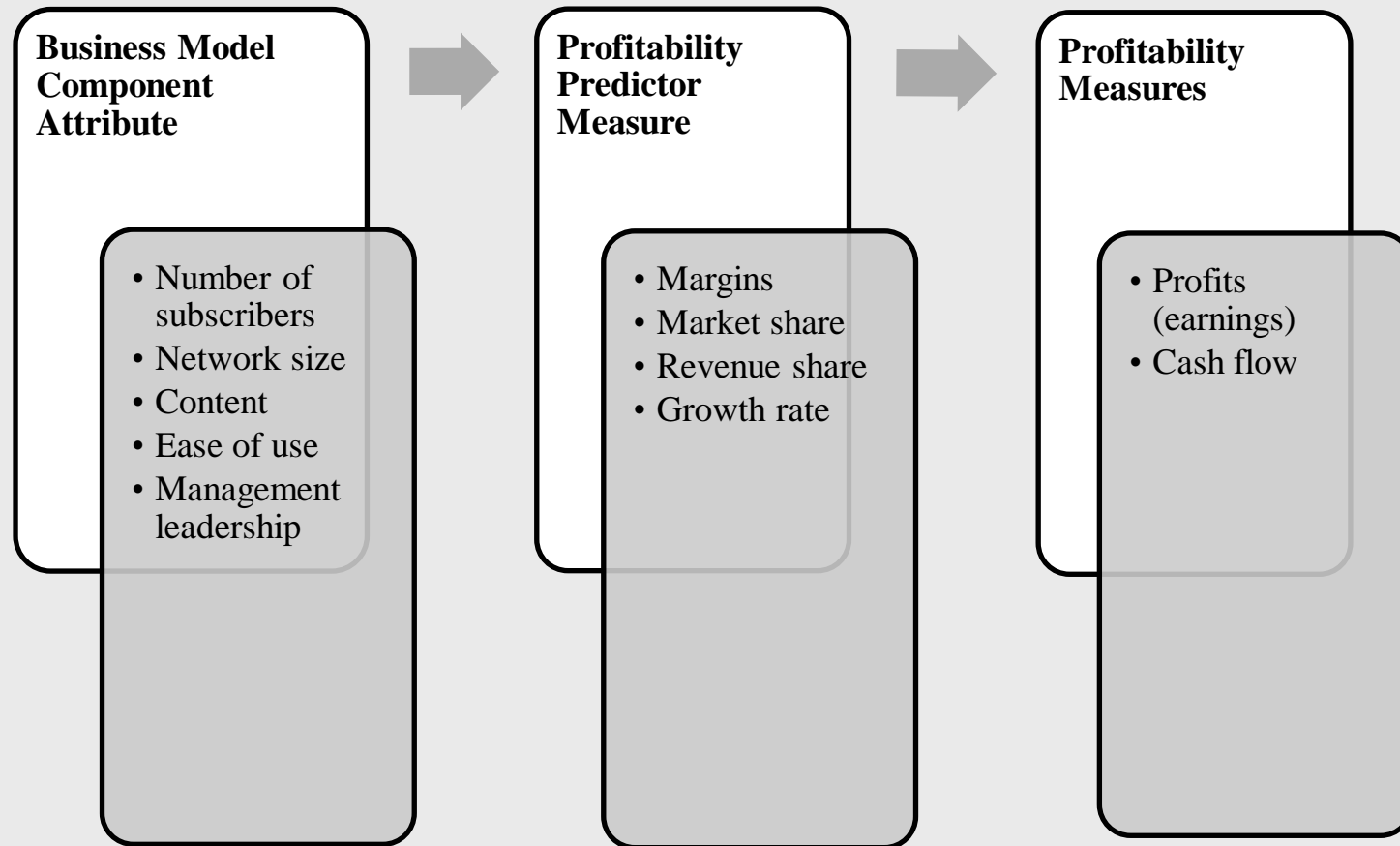
$r_m$  = market return

$\beta_i$  = 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 Internet Service Provider



## 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

	<b>Amazon</b>	<b>Barnes &amp; Noble</b>
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](http://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
<b>Gross profit .....</b>	<b>133.88</b>	<b>28.81</b>	<b>3.46</b>	<b>0.10</b>
Selling and administrative, and depreciation and amortization expenses .....	195.62	58.02	9.44	0.41
<b>Income after depreciation and amortization .....</b>	<b>(61.74)</b>	<b>(29.21)</b>	<b>(5.98)</b>	<b>(0.30)</b>
Nonoperating income .....	(36.15)	1.90	0.20	0.00
Interest expense .....	26.63	0.28	0.00	0.00
<b>Pretax income .....</b>	<b>(124.54)</b>	<b>(27.59)</b>	<b>(5.78)</b>	<b>(0.30)</b>
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
<b>Income from continuing operations .....</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Extras and discontinued operations .....	0.00	0.00	0.00	0.00
<b>Net income .....</b>	<b>(124.54)</b>	<b>(27.59)</b>	<b>(5.78)</b>	<b>(0.30)</b>
<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
<b>Income after depreciation and amortization .....</b>	<b>(61.74)</b>	<b>(29.21)</b>	<b>(5.98)</b>	<b>(0.30)</b>
<i>Earnings Per Share Data (EPS):</i>				
<b>Average no. of shares .....</b>	<b>296.34</b>	<b>260.68</b>	<b>271.86</b>	<b>227.20</b>
Diluted EPS before nonrecurring items .....	(0.25)	(0.10)	(0.02)	(0.00)
<b>Diluted net EPS .....</b>	<b>(0.42)</b>	<b>(0.10)</b>	<b>(0.02)</b>	<b>(0.00)</b>

Source: Afuah, Tucci, 2001.

Based on: Zacks Investment Research, n.D.

# Amazon Trademarks

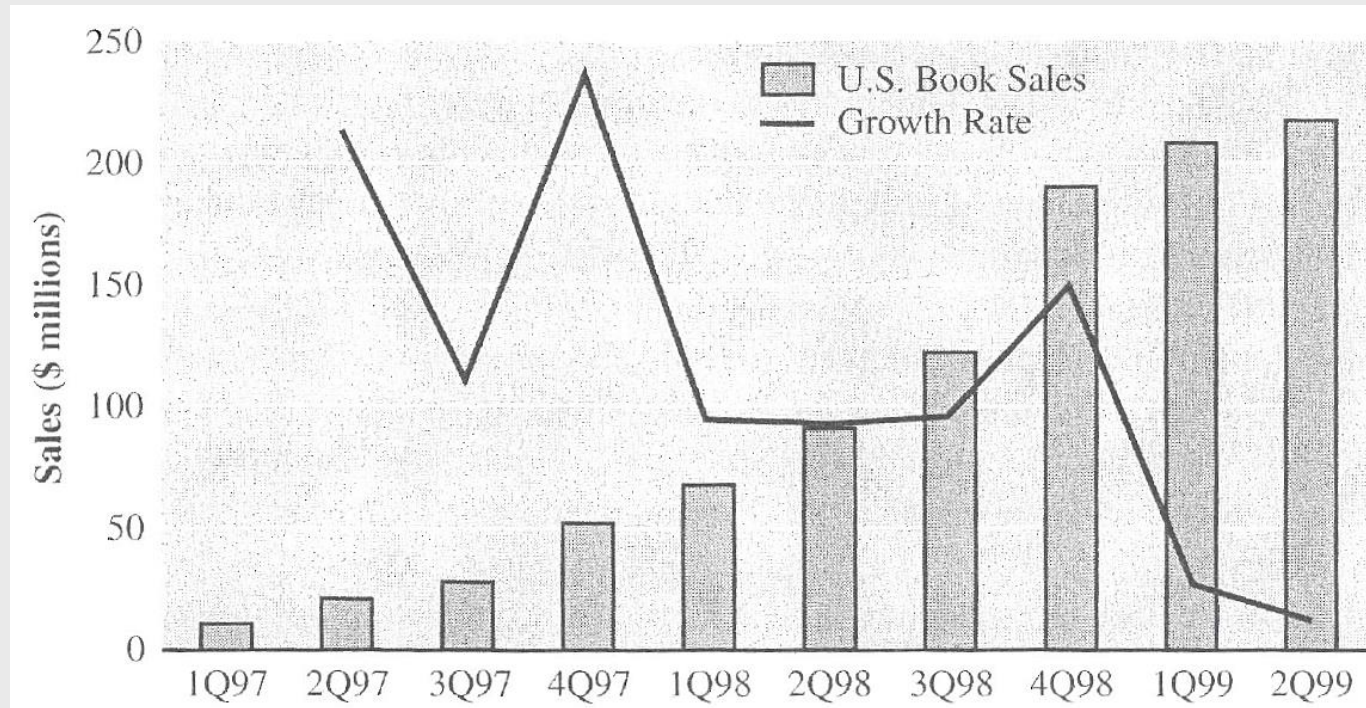
## Amazon Properties

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](http://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

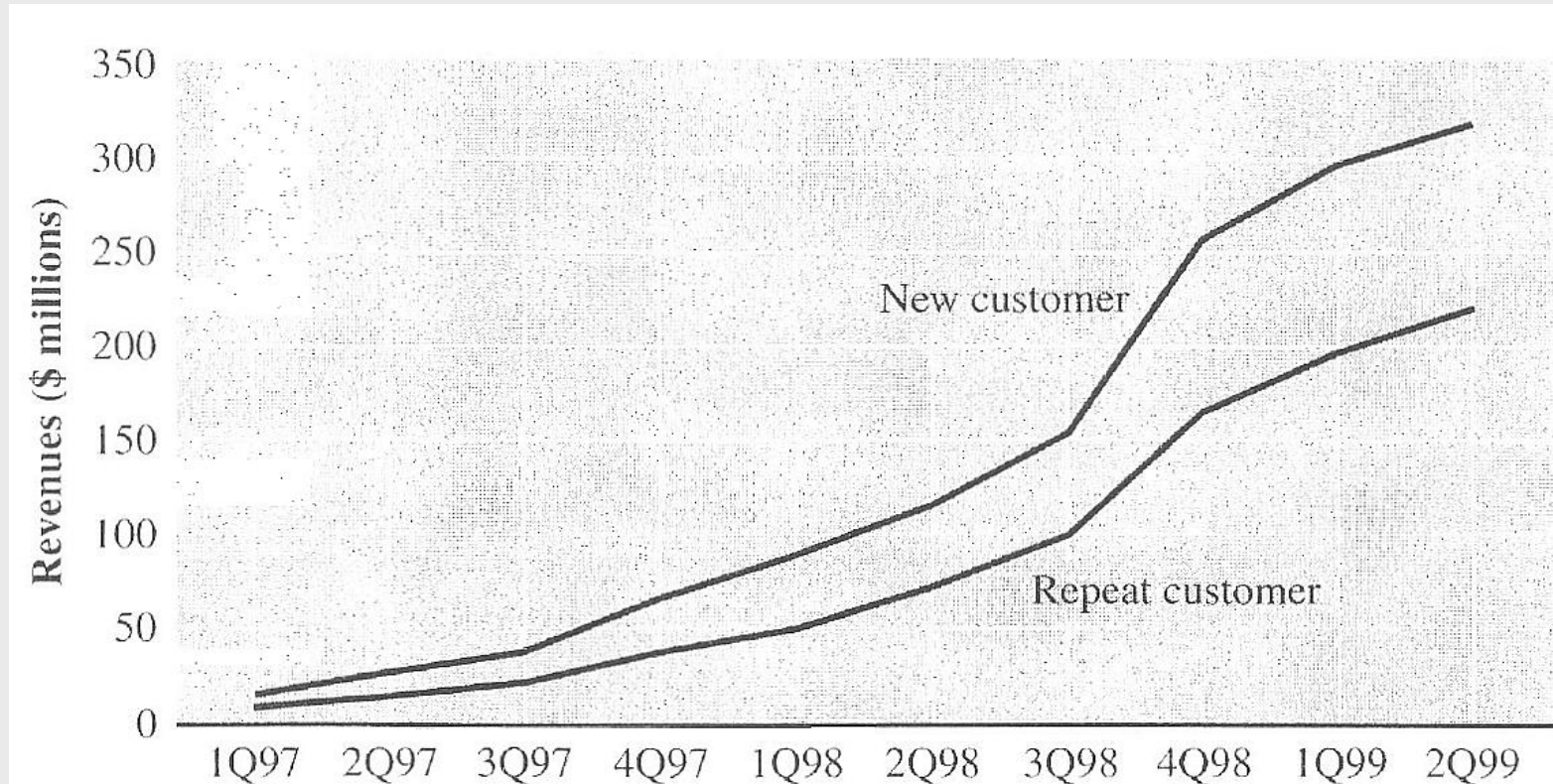
Additional stable source of revenue to increase profitability by means of the subscription model

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](http://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

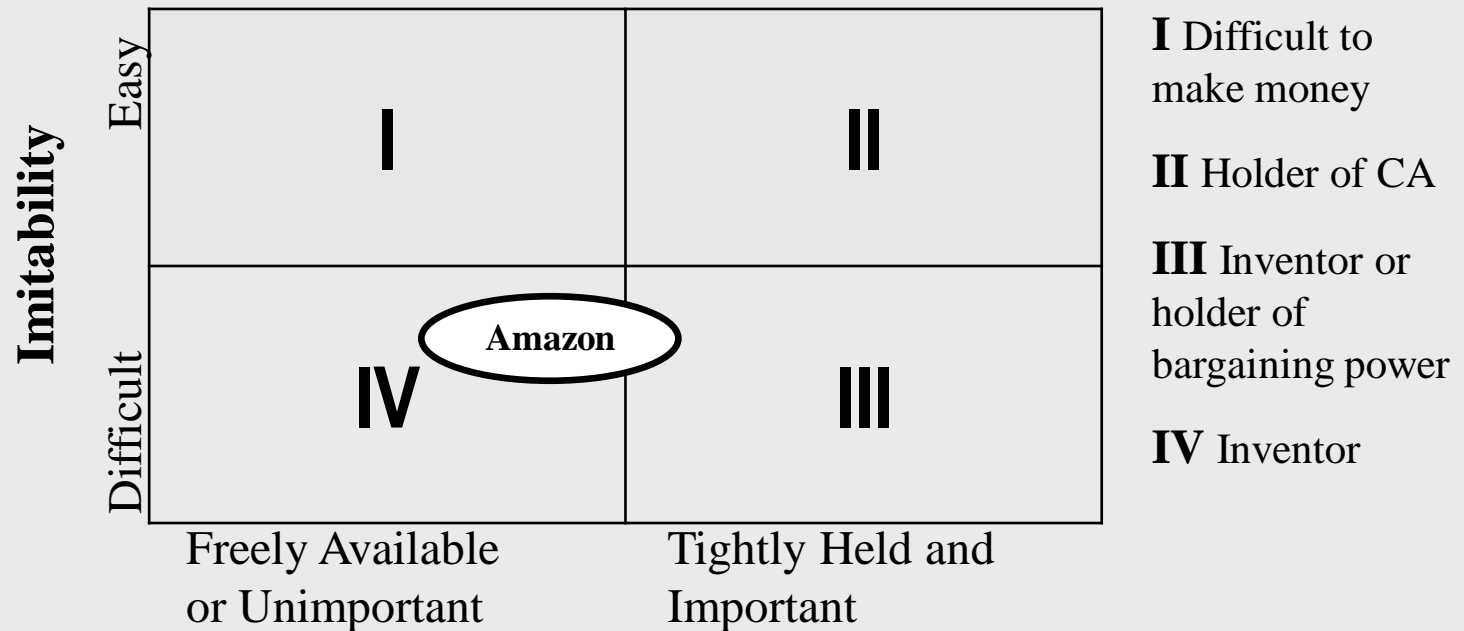
- Providing recommendations based on interests or previous purchases
- Wide range of products
- Convenience
- Reliability
- Guarantee

## 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*



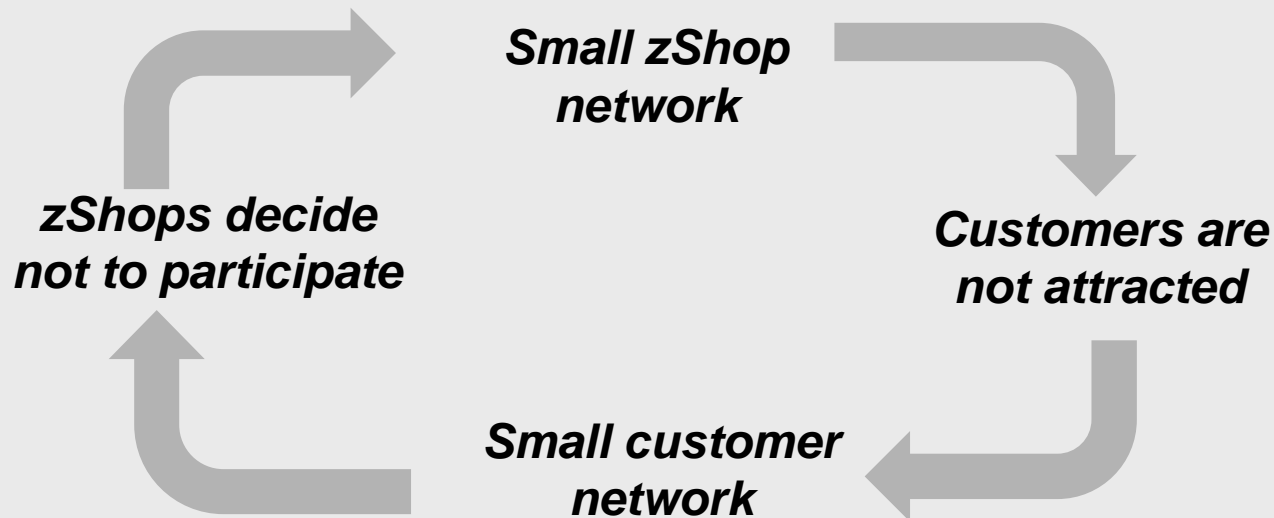
# Appraisal

## Appraising the Move to Retailer + Intermediary Models for Amazon

<b>Component</b>	<b>Pure Retailer</b>	<b>Retailer + Market Maker</b>
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
<b>Value Configuration</b>	<b>Value Chain</b>	<b>Value Network</b>

## 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

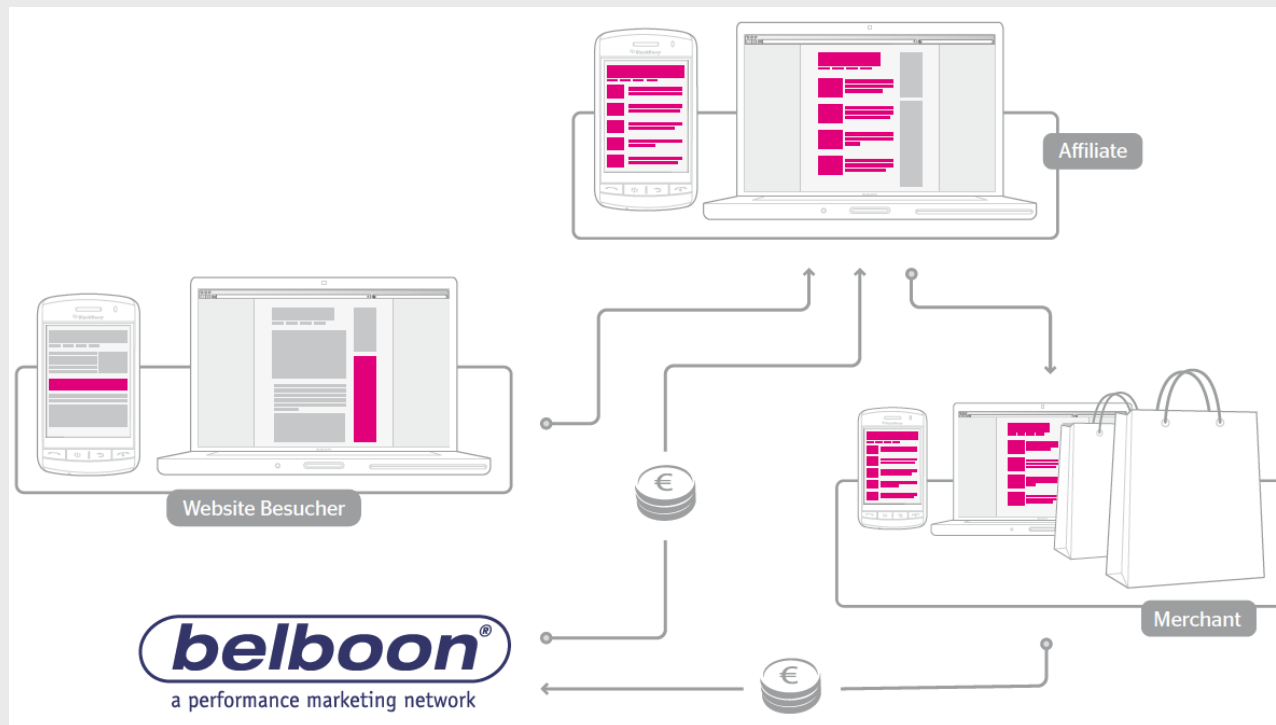
Sell mobile content (e.g., games, ringtones) to end consumers



# 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

## affiliate marketing

- Operation of leading affiliate marketing networks
- Performance-based online and mobile marketing

## mobile entertainment

- Subscription services for mobile entertainment
- B2C mobile content shop
- Content syndication and licensing



## mobile marketing

- Integration of the mobile phone into the media mix
- Conception, planning and implementation of individual Mobile Marketing solutions
- Innovative Technologie-Plattform (wie z.B. Smartphone Apps., Mobile Video, QR-Codes etc.)
- CRM and CMS solutions
- Multi-channel permission marketing

## mobile advertising

- Largest off-portal Mobile Advertising marketing network in Europe
- Inventory management for mobile media space
- Mobile AdServing solutions
- Mobile Ad Network

## mobile internet

- Establishment and operation of more than 400 international mobile portals
- Mobile banking solutions
- Mobile video solutions

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

# SWOT Analysis

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

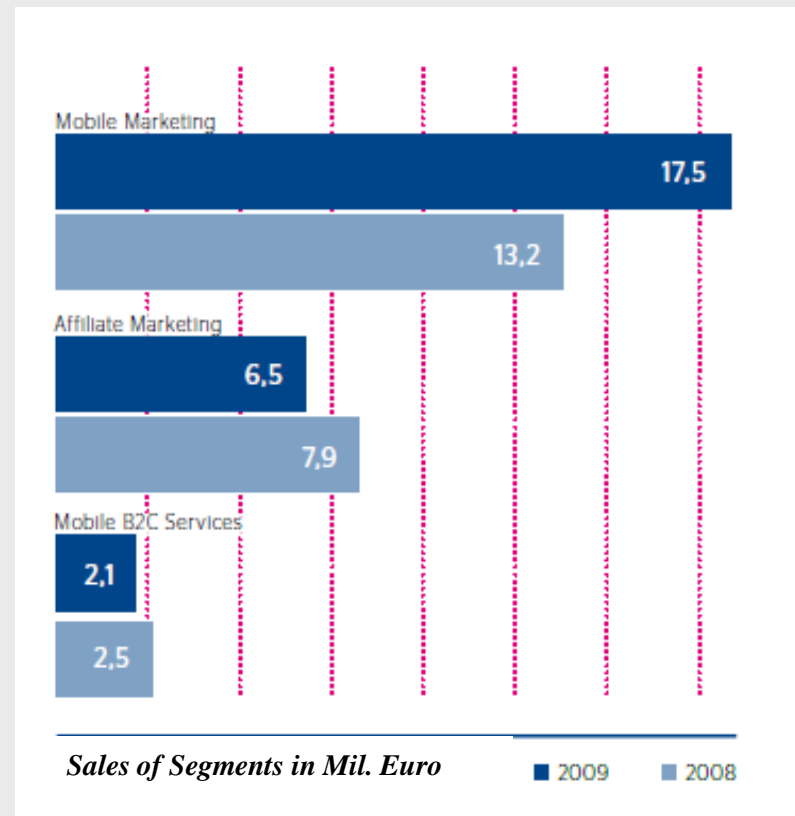
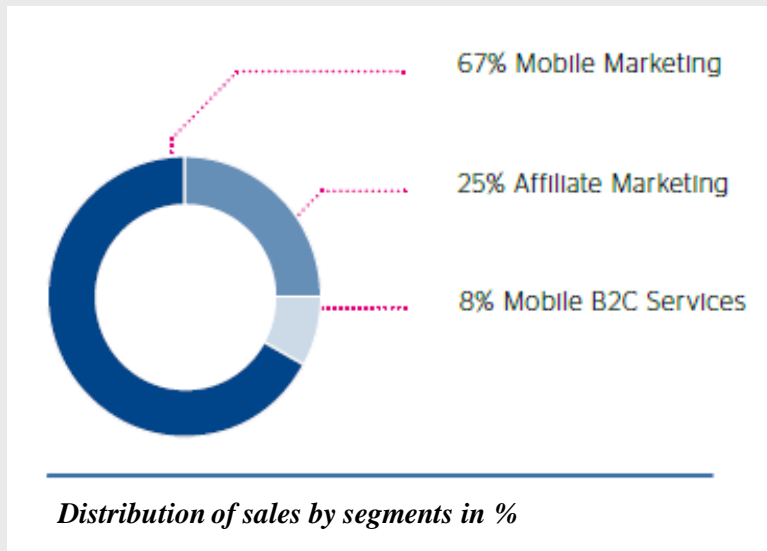
Source: YOC Technology (2006): Mobile Marketing at the start of its growth cycle, p. 7

# Industry Analysis of Competitive Forces

Industry		Average score 4.8 Scoring range 1-10 (high score is good)	
<b>Power of suppliers</b> 9 <b>Low and stable</b>  Prices for SMS, MMS and mobile data generally are on a downward trend benefiting YOC	<b>Substitute products</b> 8 <b>Low and stable</b>  Mobile marketing complements and substitutes other forms of direct marketing not vice-versa	<b>Rivalry</b> 3 <b>High</b>  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	<b>New entrants</b> 3 <b>Low and stable</b>  Market still in early stage of development, however, barriers of entry getting higher every year
			<b>Power of customers</b> 1 <b>High</b>  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

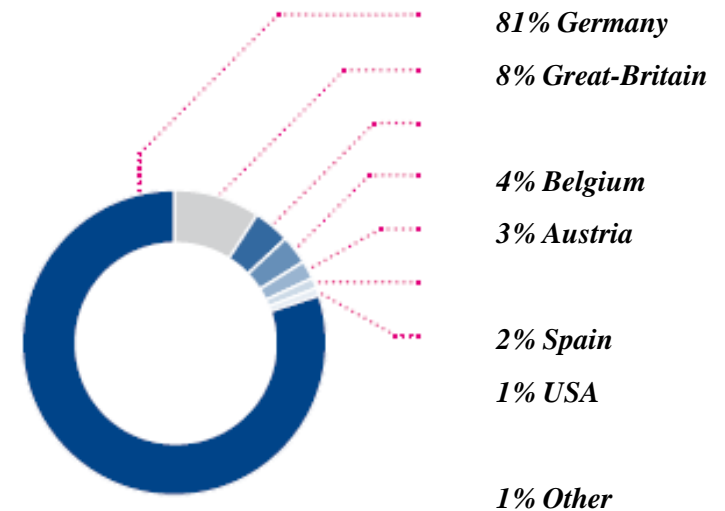
# Development of Profits by Segment



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

# Development of Profits by Country

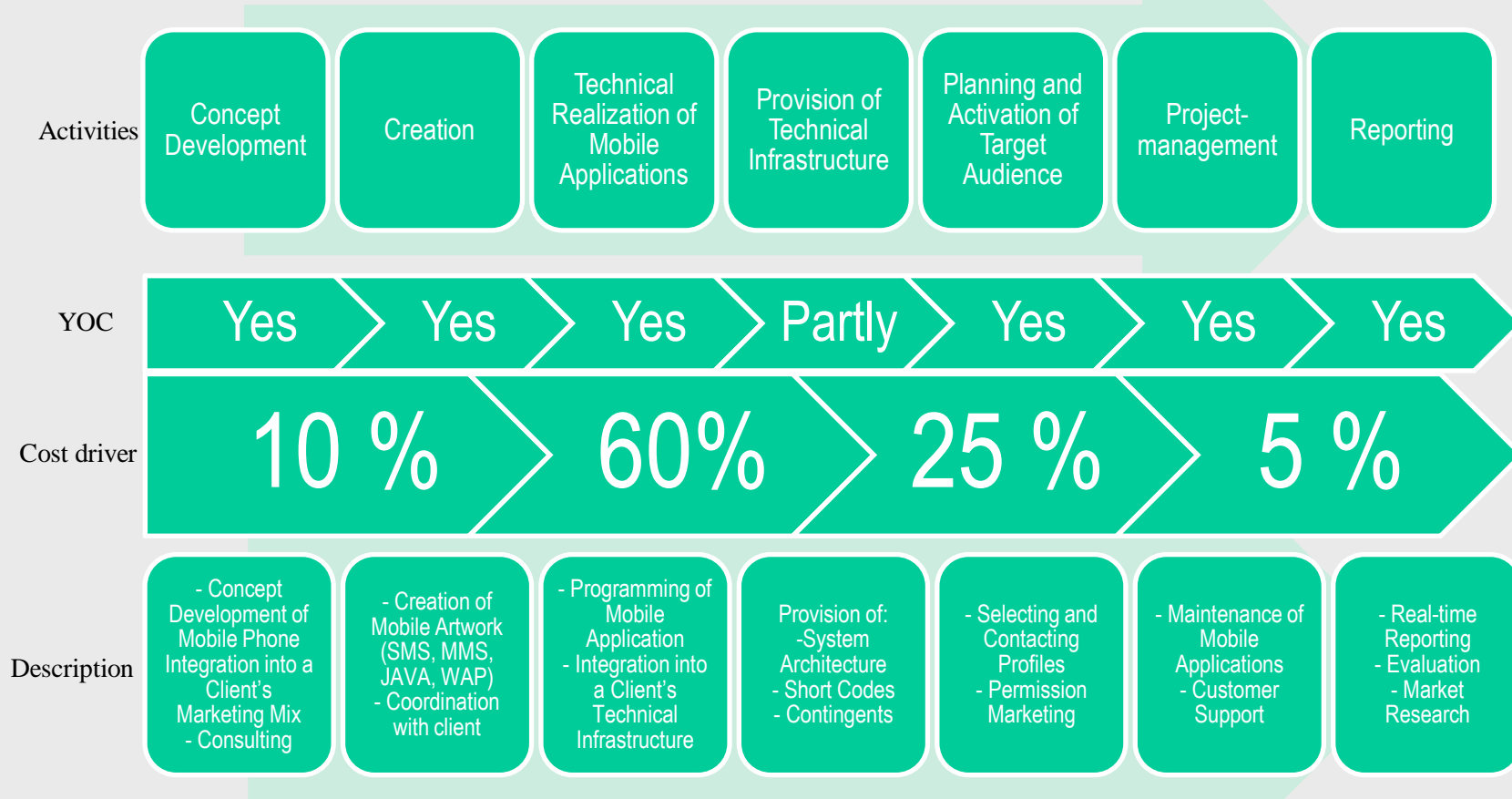
Sales by country (in Mio. EUR)	2009	2008
Germany	21.1	20.3
Great-Britain	2.2	1.1
Belgium	1.2	1.3
Austria	0.7	0.5
Spain	0.5	0.0
USA	0.2	0.0
Other	0.2	0.4
<b>Total</b>	<b>26.1</b>	<b>23.6</b>



► Distribution of sales by country in %

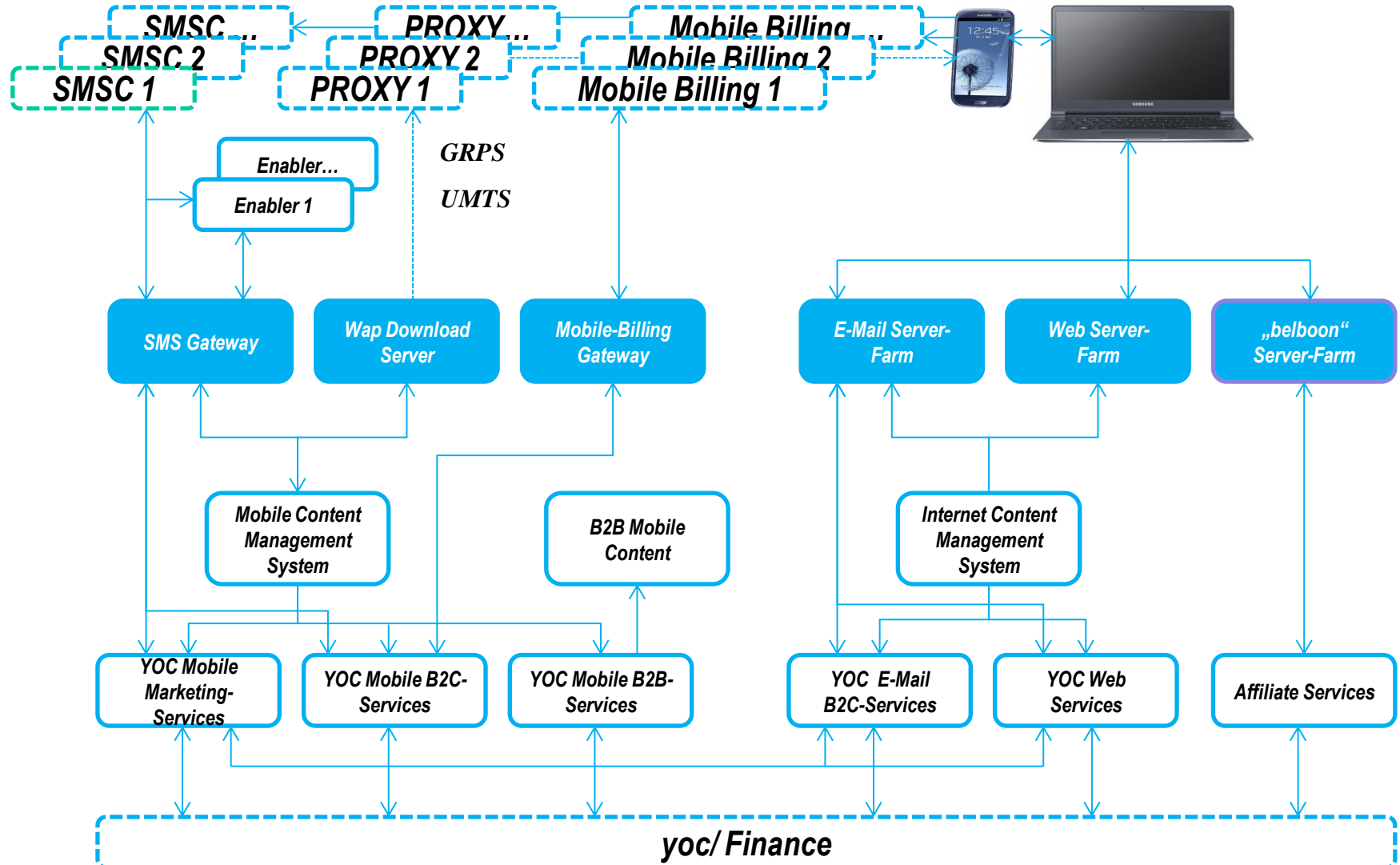
Source: YOC Group (2009): Passion for mobile, p.69

# YOC: A full service provider for mobile marketing



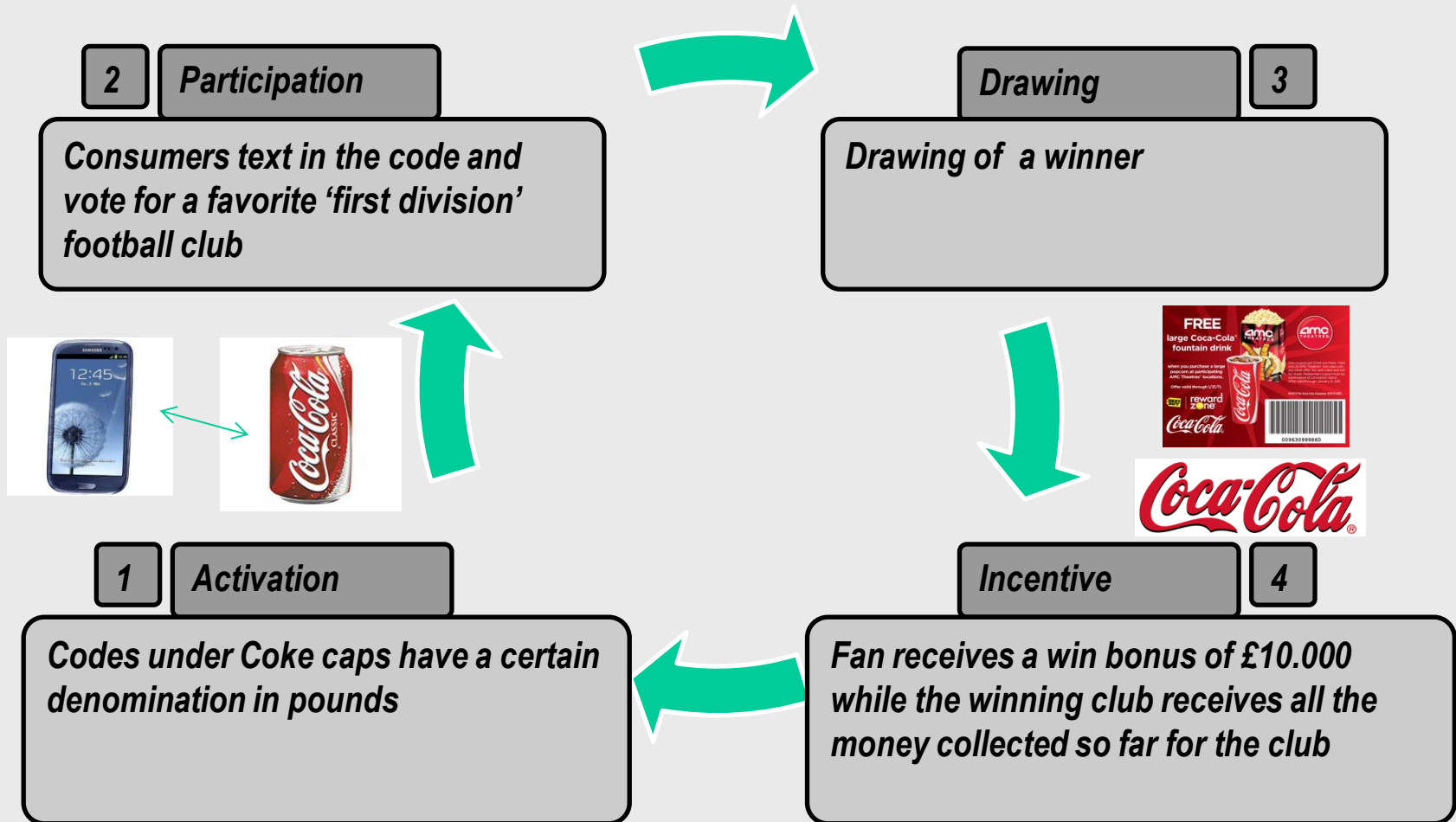
Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business - Creating value through electronic and mobile commerce, 2nd Edition, London.

# YOC's IT Infrastructure



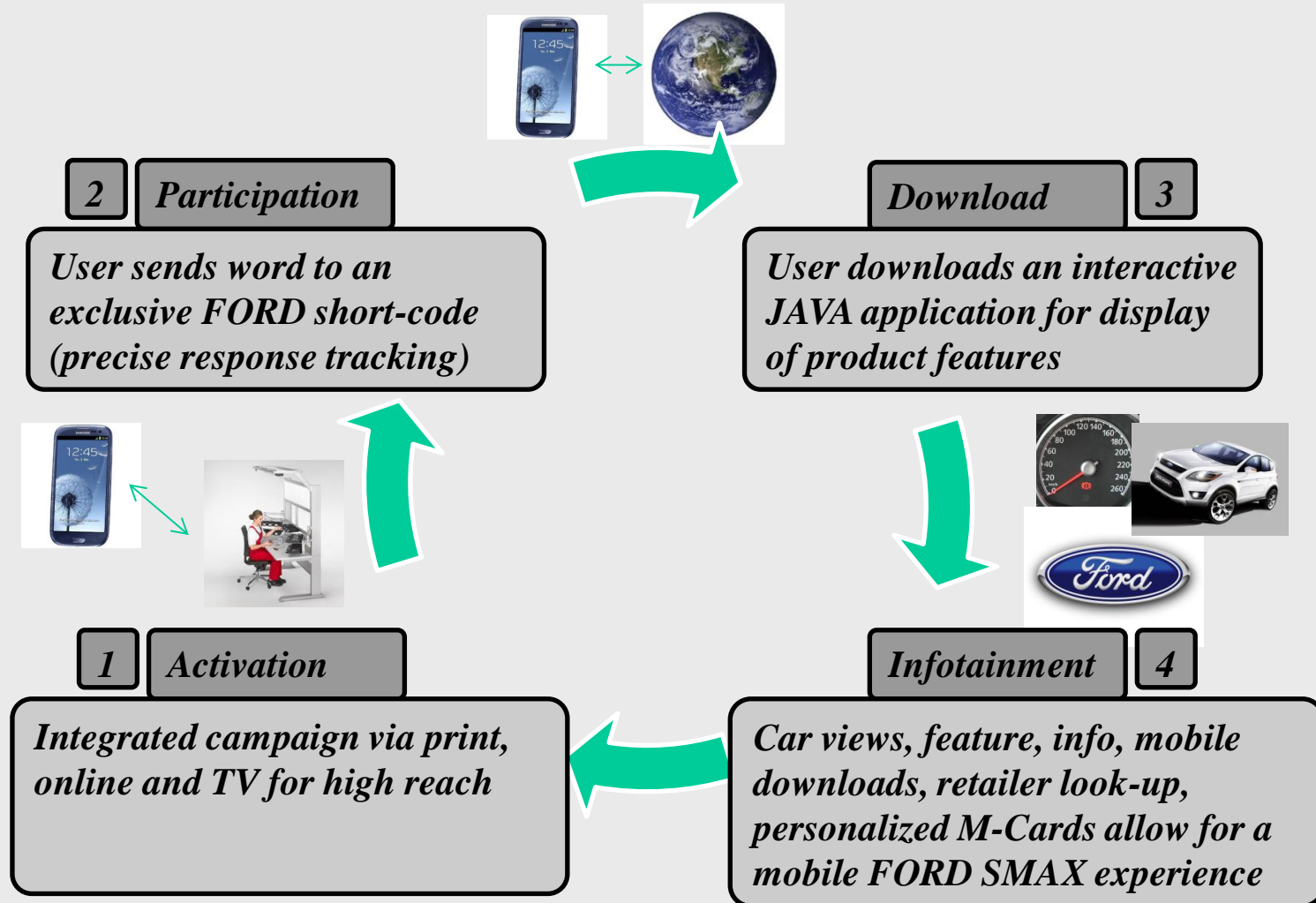


# YOC's “Buy-a-Player” campaign for Coca-Cola



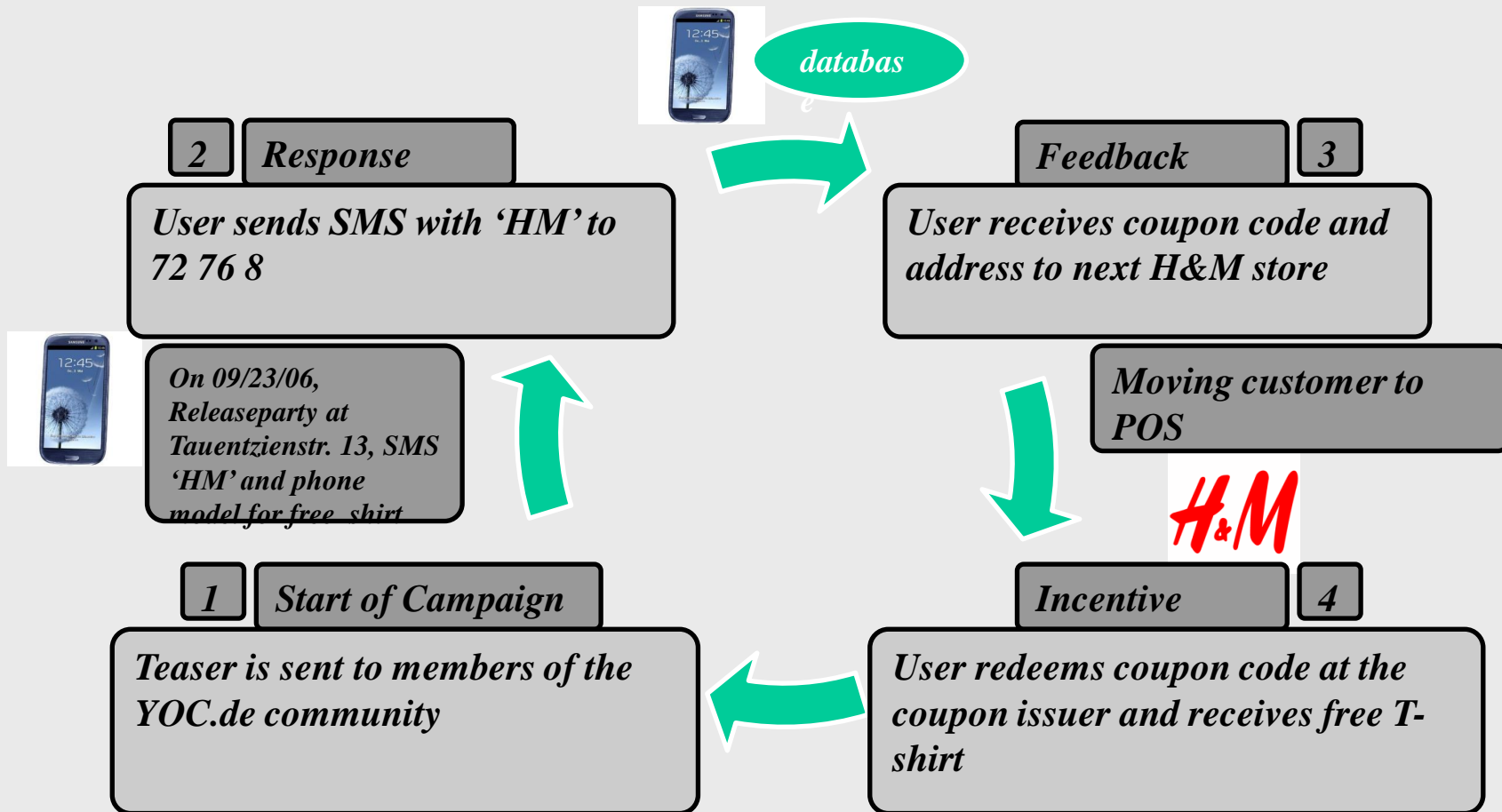
Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, 2nd Edition, London.

# FYOC's campaign for Ford Motor Company



Source: Jelassi, T.; Enders, A.(2008): Strategies for E-Business-Creating value through electronic and mobile commerce, 2nd 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, 2nd 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

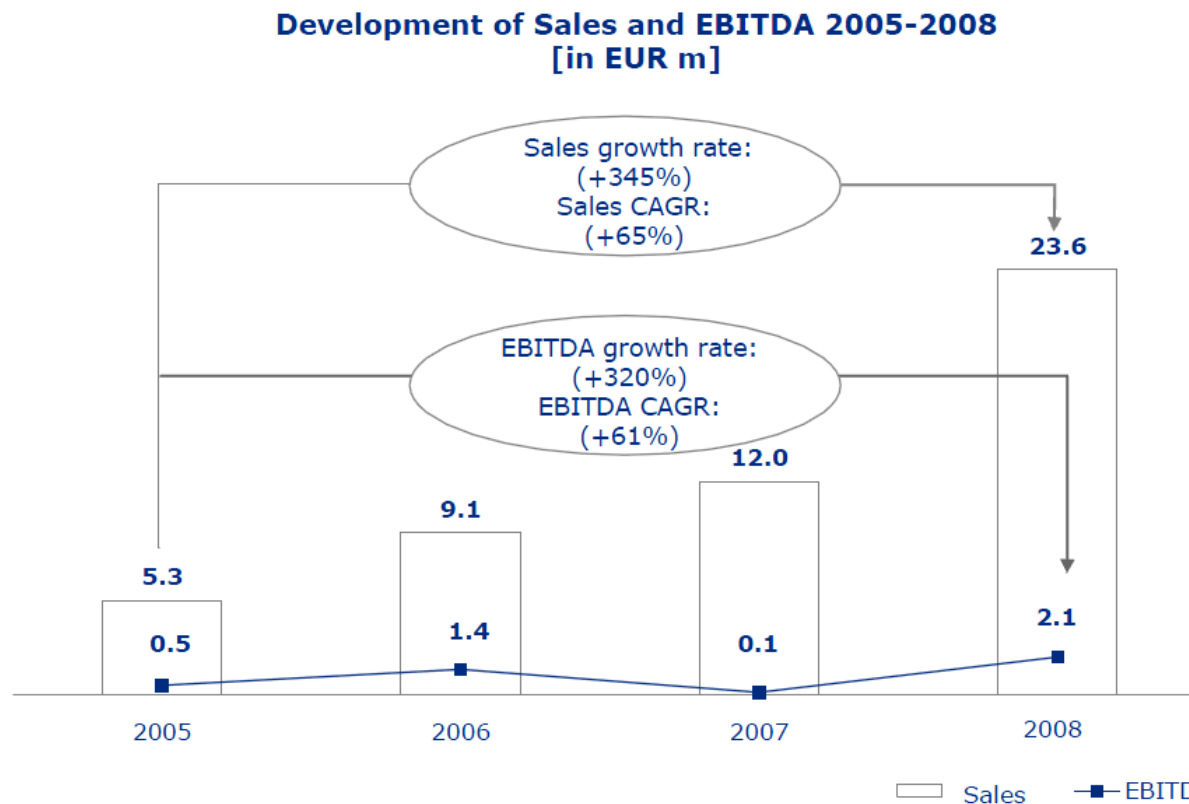
## Revenue source

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

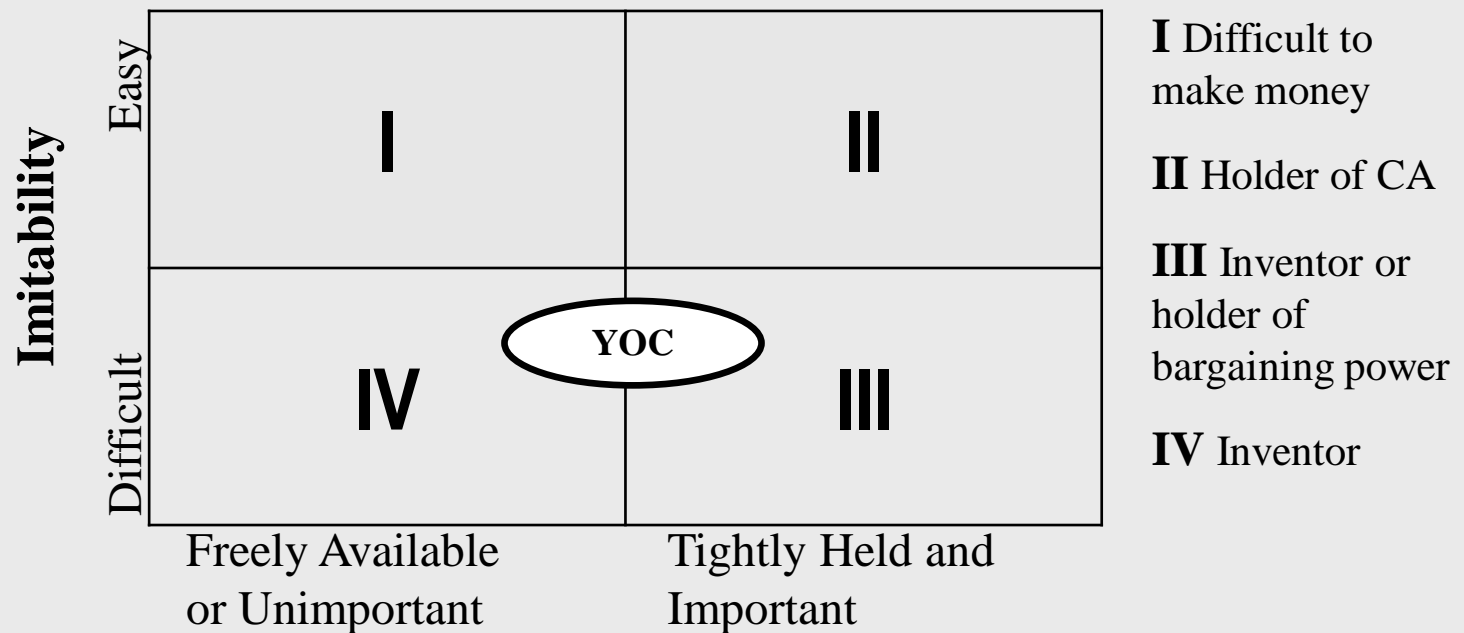
- Wide range of services
- Convenience
- Reliability
- Guarantee
- Large mobile addresses base of potential target customers
- Publishers network

## 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

<b>Component</b>	<b>Mobile Marketing</b>	<b>Mobile B2C Services</b>	<b>Affiliate Marketing</b>
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
<b>Value Configuration</b>	<b>Value Shop</b>	<b>Value Chain</b>	<b>Value Network</b>

## Contain Risks

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