

Organizational Feasibility Analysis



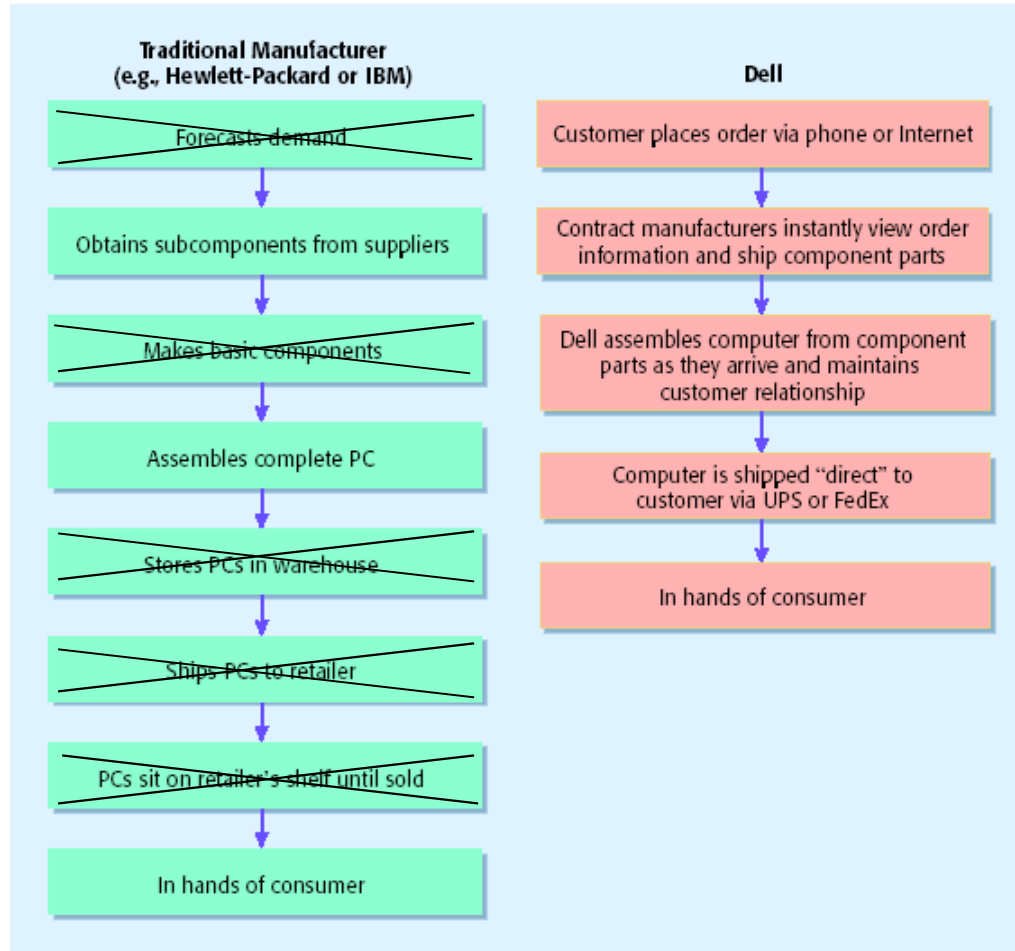
Modified from Barringer and Ireland (2006)

What is a Business Model?

- Business Model
 - Is an outline of the actions that occur in the delivery of a good or service
 - The plan for how a firm
 - Competes (core strategy),
 - Uses resources (distinctive resources),
 - Structures relationships (partnership network),
 - Interfaces with customers (customer interface), and
 - Creates value to sustain itself based on its generated profits (approach to creating value)
- Important Point:
 - A firm's business model takes it beyond its boundaries (to consider necessary partners that help enable the business model)
 - **Example:** Dell needs help from suppliers (e.g., Intel), shippers (e.g., FedEx), customers, and others to make its business model possible

Dell's Business Model

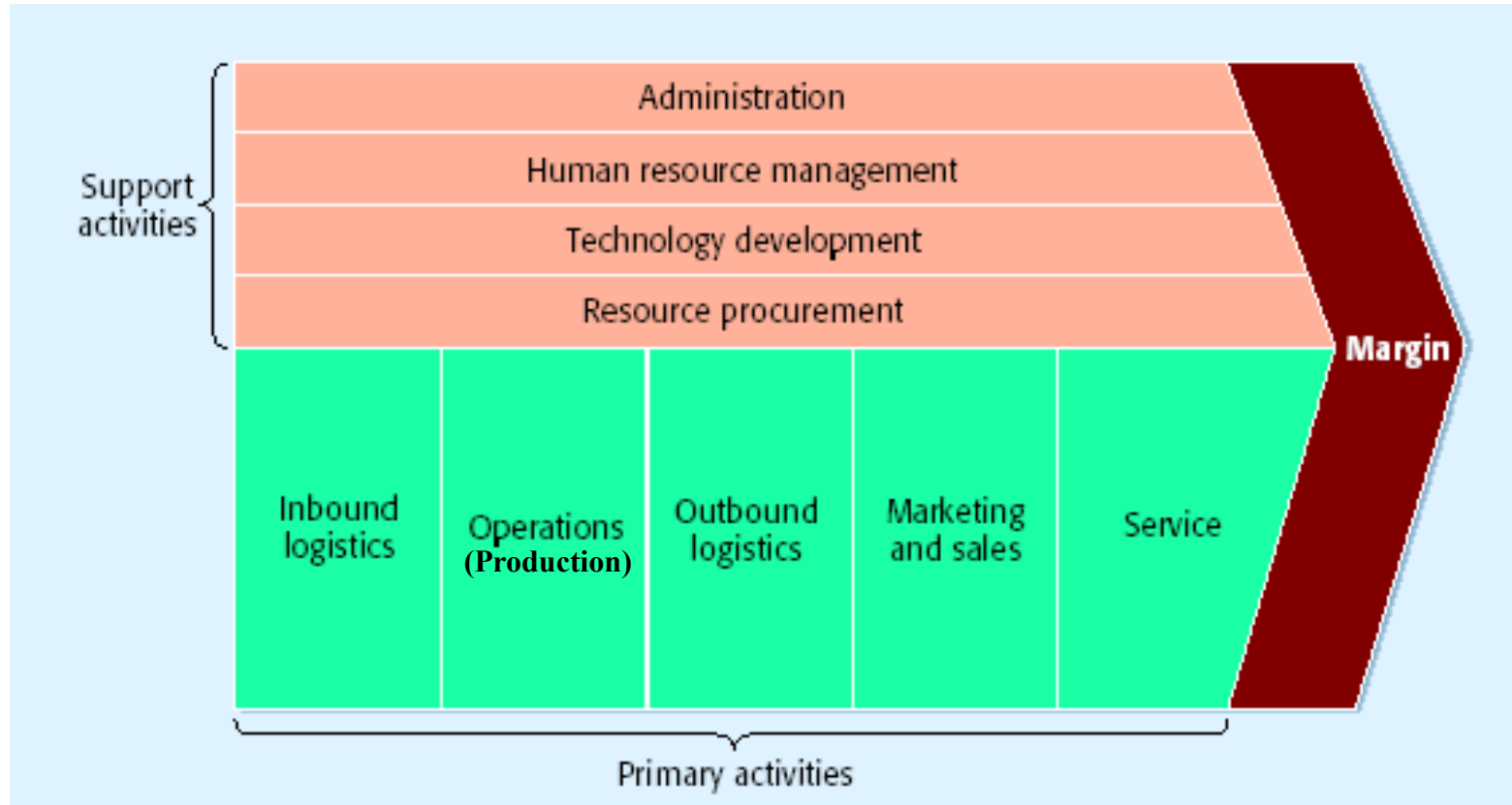
Dell's Approach to Selling PCs versus Traditional Manufacturers



How Business Models Emerge

- The Value Chain
 - A model that helps us to organize the “parts” of the organization
 - Helps us to explain how the “parts” fit and work together
 - Illustrates activities that move products from raw material stage → manufacturing and distribution → end user.
 - The way each activity is completed should add value to, or not detract value from, the firm
 - Can also help us study a business or industry’s value chain in order to identify opportunities for new businesses
 - That is, areas in the value chain where value can be created

How Business Models Emerge: Porter's Value Chain



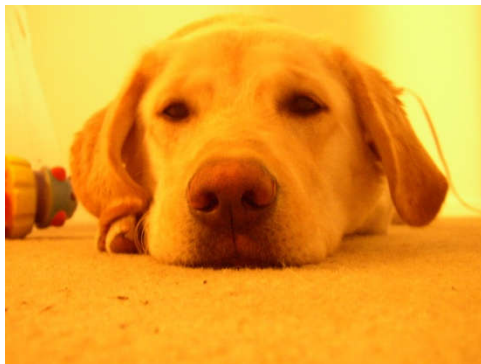
- **Primary activities:** deal with the physical creation, sale, and servicing of the product
- **Support activities:** act as activities that reinforce primary activities
- **The Value Chain:** called the value chain because it proposes that each activity can either add or subtract value for the firm. The 'margin' depicted in the diagram is the same as added value.

How Business Models Emerge

- Uses for the Value Chain
 1. Used to provide an overview of the business model (logic for how the parts of the business work together)
 2. Can be used to identify where new business model can be created--where additional “value” can be added (e.g., can be more effective) in a business or industry’s value chain and focus firm around creating this new value
 - Analysis may focus on:
 - **One primary activity** (e.g., marketing and sales)
 - » FedEx, UPS with Outbound Logistics
 - **One support activity** (e.g., human resource management)
 - » Administaff & Paychex with HRM; Accenture and BCG with Management Support (e.g., administration)
 - **Interface between ≥ 2 stages** (e.g., operations & outbound logistics)
 - » DHL, UPS with operations (supply and distribution management) and outbound logistics (shipping offerings to consumers)

Fatal Flaws To Avoid in Business Models

- Fatal Flaws
 - Two fatal flaws can render a business model untenable from the beginning:
 1. A complete misread of the customer
 - Examples: WebHouse and Pets.com
 2. Utterly unsound economics
 - Examples: Iridium; MobileStar



**Pets.com sported
an unsound
business model,
and failed**

The Lieutenant Commander Geordi La Forge got sad because Pets.com didn't deliver his food expeditiously. As a result, he's decided to shop exclusively at PetSmart for all of his dietary needs.

Four Components of a Business Model

These four components help to clarify how specific value chain activities should be completed.

Core Strategy

- Business mission
- Product/market scope
- Basis for differentiation

Strategic Resources

- Core competencies
- Strategic assets

Partnership Network

- Suppliers
- Partners
- Other key relationships

Customer Interface

- Target customer
- Fulfillment and support
- Pricing structure

- Remember all relationships that must be forged are discretionary
- The people providing strategic assets, the members of the partnership network, and customers do not have to “play” with you.
- Always ask yourself “what value can I bring to these people and what value do they bring me?”

Business Model Component 1: Core Strategy

- **Core Strategy:** how firm competes relative to competitors
 - Porter's generic strategies
 - **Cost leadership:** operations streamlined for efficiency (e.g., Wal-Mart)
 - **Differentiation:** create an industry-wide perception of unique value (e.g., Tiffany jewelry; Intel)
 - **Focus:** concentrate on narrow segment of the industry (e.g., Red Bull with energy drinks) of a narrow set of customers (e.g., Babies 'R' Us with baby needs)
 - **Focused-differentiation:** uniquely serve narrow industry or customer segments (e.g., Babies 'R' Us comprehensively serves consumers in need of baby care items)
 - **Requires development of**
 - **Business mission (overarching purpose):** describes why firm exists and what it's supposed to accomplish
 - **Southwest:** "...the highest level of customer service delivered with... warmth, friendliness, individual pride, and company spirit."
 - **Product/market scope (what you provide customers):** defines products & markets on which firm concentrates
 - **Amazon:** adjusted product choices over time (first only books → cds, dvds, etc.)

Business Model Component 2: Customer Interface

- Customer Interface
 - The way a firm interacts with customers dictates how it competes
 - **Ex. 1:** Amazon.com sells on Internet; Barnes & Noble sells via traditional bookstores and online
 - **Ex. 2:** Dell initially sold only online; HP sells through retail stores
 - 3 elements of customer interface (follows closely from product/market scope):
 - **Target customer:** exact people the firm tries to appeal to
 - Affects almost every decision the firm makes like strategic assets acquired, partnerships, promotional campaigns
 - » **Example:** Abercrombie vs. Chico's
 - **Fulfillment & Support:** How offerings get to customers and how they offer after-sale support
 - **Fulfillment:** Cell phone technology (license, manufacture, partner); Nike (outsources production, and focuses on marketing)
 - **Support:** Dell offers 24/7 support & customers pay more because it adds value
 - **Pricing model:** The cost of the venture's offerings and how collect those funds
 - **Ex. 1:** Price leaders like Wal-Mart and Domino's
 - **Ex. 2:** Create a new pricing strategy like Priceline.com and CarMax

Business Model Component 3: Strategic Resources

- Strategic Resources (must be in line with core strategy & customer interface)
 - The resources firm has substantially affects business model
 - New ventures' resources often limited to competencies of founders, opportunity identified, unique way they serve the market
 - 2 most important strategic resources are:
 - **Strategic assets:** anything rare, valuable, inimitable that firm owns
 - Brands, patents, customer data, distinctive partnerships, HR, etc.
 - **Example:** Starbucks' brand name in coffee retailing
 - **Core competencies:** unique ability to use strategic assets to reach desired end; is transferable to other opportunities; serves as a source of competitive advantage over rivals
 - **Examples:** Sony and miniaturization, Dell's supply chain management

Examples of Resources to Consider

Tangible Resources—can be sources of strategic assets	
Financial	• Cash and equivalents; capacity to raise equity; borrowing capacity
Physical	• Modern plant and facilities; favorable manufacturing locations; machinery & equipment
Technological	• Trade secrets; innovative production processes; patents, copyrights, trademarks
Organizational	• Effective strategic planning processes, evaluation and control systems
Intangible Resources—can be sources of strategic assets	
Human	• Employee experience and skills; trust; firm procedures
Innovation & Creativity	• Technical and scientific skills; innovation capacities
Reputation	• Brand name; quality and reliability reputation; supplier relations
Organizational Capabilities—can be core competencies	
• Competencies firm uses to transfer inputs to outputs • Ability to combine tangible and intangible resources to attain desired end • Examples: customer service; R&D capabilities; human resource management capabilities	

Business Model Component 3:

The Importance of Strategic Resources

- Must combine strategic assets & core competencies to get a sustainable competitive advantage



- Investors pay attention to this when evaluating a business
- A sustainable competitive advantage is achieved by VRIO
- Having **V**aluable, **R**are, and **I**nimitable strategic assets that the founder has the ability (competencies) to use (e.g., can **O**rganize/implement them effectively).
 - Value: Does a resource enable a firm to exploit an environmental opportunity, and/or neutralize an environmental threat?
 - Rarity: Is a resource currently controlled by only a small number of competing firms? [are the resources used to make the products/services or the products/ services themselves rare?]
 - Imitability: Do firms without a resource face a cost disadvantage in obtaining or developing it? [is what a firm is doing difficult to imitate?]
 - Organization: Are a firm's other policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?"

Business Model Component 3:

The Importance of Strategic Resources

- According to VRIO, a supportive answer to each question would indicate the firm can sustain a competitive advantage.
- Below is how to apply VRIO and the likely outcome for the venture under varying situations

Summary of VRIO, Competitive Implications, and Economic Implications					
Valuable?	Rare?	Costly to Imitate?	Organized Properly?	Competitive Implications	Economic Implications
No			No	Disadvantage	Below Normal
Yes	No		↑	Parity	Normal
Yes	Yes	No	↓	Temporary Advantage	Above Normal (at least for some amount of time)
Yes	Yes	Yes	Yes	Sustained Advantage	Above Normal

Business Model Component 4: Partnership Network

- New ventures don't usually have all resources needed to perform all activities
- Do not want to do everything as many tasks aren't core to venture' competitive advantage
 - **Example:** Nike with manufacturing
 - **Example:** Dell with suppliers (e.g., Intel supplies microprocessors to Dell, gets paid quickly, uses Dell's supply management software, etc.)
 - It's important to have collaborative relationships with suppliers, and to find ways to motivate them to perform at higher levels
- There are many ways to partner with different network partners, some formal, some not (see next slide)

Business Model Component 4:

Common Types of Business Partnerships

- **Joint Venture:** Formal partnership (involves equity stakes)
 - Two or more firms pool resources to create a separate, jointly owned organization (e.g., Sony Ericsson to make mobile phones using Sony's consumer electronics and Ericsson's technology leadership expertise)
- **Strategic Alliance:** Generally no equity, but contractual in nature
 - Relationship between two or more firms that exchange resource with one another but do not have a joint, equity, relationship (e.g., Lexus and Coach → Limited Lexus ES 300 Coach Edition)
- **Trade Associations:** Informal partnership (often non-profit)
 - Organizations formed by firms to collect and disseminate important industry information
 - Often used to promote the industry via advertising, lobbying, etc.
 - National Cattleman's Association and "Beef, it's what's for dinner" campaign

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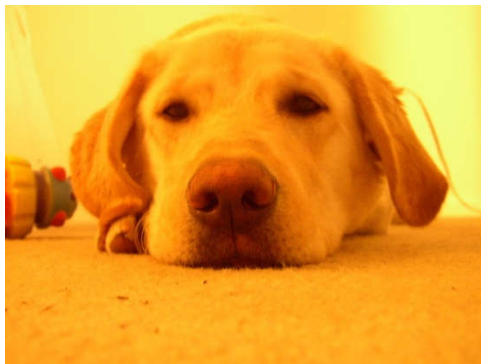
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 - **Product/market scope:** choice of products delivered & markets the firm concentrates on
 - **Amazon:** adjusted product choices over time (first only books → cds, dvds, etc.)
 - **Wal-Mart:** core strategy dealt effectively with both product and market scope

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 - **Core competencies:** resource/capability that serve as source of competitive advantage over rivals
 - Deals with how strategic assets are used
 - Identify skills that are unique, valuable to customers, difficult to imitate, and transferable to other opportunities
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