Business model generation

What is a Business Model?

A business model is a component of a business organization that lays out the foundation on which an organization generates, delivers, and retains value (Osterwalder & Pigneur, 2010, p. 14). To create a good business model, entrepreneurs and business experts are advised to have a clear understanding of what a business model is. Also, to create the right model, the involved parties need to agree on the most suitable model for their potential business. Therefore, the business model impression should be easy for every other member to understand. With a proper understanding of the agreed business model, parties can come up with added descriptions and discussions to help improve the business model. However, to reach such a point, the parties involved need to start on the common ground and then proceed to talk about their concept.

Nonetheless, research has shown that the challenge lies in formulating a simple, relevant, and understandable concept (Zott, Amit & Massa, 2011, p. 1022). This is because in many discussions, individuals tend to draw fascination from many great ideas while dismissing some for being too simple. To reach a shared understanding, interested parties need to avoid taking a broad view of the complications of how their business should function. Fortunately, recent research has proposed a shared concept that allows entrepreneurs to create and manipulate useful business models (Osterwalder & Pigneur, 2010, p. 15). Also, such a concept should be sufficient for entrepreneurs to devise strategic alternatives. Moreover, without a shared concept, researchers have found that it becomes difficult for entrepreneurs to come up with logical assumptions and challenge one’s business model.

A Business Model According to the Strategic Management Concept

According to the strategic management theory, a business model can be defined as a plan for a business approach to be applied in an organization’s systems (Demil & Lecocq, 2010, p. 230). Similarly, a business model can be defined using pricing and costs that highlight how a company plans to make profits. In a marketplace, a company can choose to raise its prices or keep its inventory at reduced costs. Either case, the company increases its gross profit. Gross profit determines if a business is at a profit or loss because it only takes into account the business’ costs and not expenses. Therefore, as the business model definition suggests, gross profit focuses on the manner a company conducts its business with no regards to the efficiency of management (Kaspina, Khapugina & Zakirov, 2014, p. 357). To date, many investors focus on business models to run an organization thereby missing the fact that the organization might be made up of an ineffective team.

The gross profit of a company is essential in showing whether the company’s business model is profitable. To test for profitability, the company’s financial statements should show in the end, how efficient the management is at using labor and other resources. A company’s efficiency in using its resources is core to establishing a profitable business. For example, if a publishing company sold six million books worth ten million annually, its gross profit would be four million. However, if after the advent of the internet the company decided to publish its books online, then it would adopt an entirely different business model. If the new model facilitated the sale of six million books worth fifteen million, then it would mean that the adjustment disrupted the company's business model positively because its profit spiked by five million.

The Role of Value Propositions

Value propositions are one of the nine building blocks used to define a business model. These values may be quantitative or qualitative in nature (Osterwalder & Pigneur, 2010, p. 23). Some propositions play the role of satisfying a unique and new set of needs that consumers possess that they did not have previously. Research shows that these needs are often technology related. For example, the increase in availability of mobile phones has created an entirely new industry in telecommunication. Value propositions are also evident in the element of performance. In today's market, it is difficult to retain a clientele base as a business organization without improving the products or services you offer. This is because currently, consumers seek products and services to which great value is attached. This trend has seen sectors such as the computer industry bring computers that are more powerful into the market (Osterwalder & Pigneur, 2010, p. 23). Still, in the current market, consumers are seeking products and services tailored to meet their needs. This concept of customization has gained importance over the years because it contributes towards the creation of value.

Value propositions are also seen in the element of price. Normally, lowering the price of a product or service gets the needs of most consumers satisfied. However, research shows that such low pricing has effects on a business model (Osterwalder & Pigneur, 2010, p. 24). This value proposition has dominated a wide range of industries including air travel and car manufacturers. In other industries, free offers have become the most influential business strategy. Another way through which businesses have been able to create value for their products and services is by reducing the costs incurred by consumers. Similarly, the concept of risk reduction has emerged as a way to create value for desirable products and services. For example, car manufacturers include service guarantees that last up to one year thereby reducing the risk undertaken by the consumer. Moreover, this value proposition element is instrumental to any business that wishes to attract more consumers. Accessibility and convenience are also among the major value propositions that help design a good business model.

The Power of ‘ What If’ Questions When Brainstorming New Business Models

In many occasions, entrepreneurs find it difficult to think of creative business ideas because they work in groups. Hence, laxity among individuals is common. Research has shown that the presence of many individuals in a business setting working on the same thing tends to suppress one’s imagination (Osterwalder & Pigneur, 2010, p. 140). Therefore, one way to counter this difficulty is by employing “ what if” questions. Combined with the right ingredients, entrepreneurs can conceive even the most unimaginable ideas. By doing this, it becomes easy to create a successful business model, which can mark the foundation of a potential business or help save a failing business. For example, Rolls Royce manufacturer was able to salvage itself from a failing company into one of the largest jet engine suppliers.

Many businesses today also fail to come up with innovative ideas because they are constrained by their existing business models. “ What if” questions help businesses experiencing such difficulties to overcome this challenge. Hence, entrepreneurs start to view such constraints as a way to challenge their thinking. For example, if innovators at Rolls Royce Company had allowed themselves to succumb to their business model constraints they would not have considered manufacturing jet engines as an option. Despite the powerful impact “ What if” questions have on successful businesses, they are merely the starting point of a business’ successful journey. Nonetheless, they are essential because they challenge entrepreneurs to identify a business model that could bring their ideas to fruition. Obviously, some “ What if” questions remain unanswered because they are deemed too challenging (Osterwalder & Pigneur, 2010, p. 140). However, it is evident that some of the provocative questions only need the right business model for them to be realized.

References

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