

Business model

[Business](#)



1. Introduction In recent years, more and more companies focus on their business model. Compare with traditional business model, a new business model can provide some complete benefits and lower costs to companies. It means the innovation of business model can bring companies much profit. Therefore this paper report focus on different kinds of new business model in social network industry, and analysis the benefits of Facebook's business model. In the first section, this paper report will give a definition of business model.

It will include what are business model, and the importance of business model. Moreover, through business model canvas theory, paper report given some suggests about how to design companies' business model. Then, this report provided a system of special examples in relative industries such as Google, Amazon, Groupon and Skype. Through these examples, paper report analyzed the importance and successful of business model. At last, paper report examined Facebook's business model in two fields: revenue streams and customer strategy.

2. Business model

2.1 Definition of business model

In terms of the most rudimentary level, Stewart and Zhao (2000) approached that " business model as a statement of how a firm will make money and sustain its profit stream over time. ' (Stewart DW, 2000) It means business mode is the way of how company earns money and keeping their customers. However, at the operational level, business model could be described an architectural configuration. It will focus on the company's internal process and helping firms design a kind of structure. This structure enables firms to create value and attract customers. Michael M, 2005) Furthermore, at the

strategy level business model also include the firm's market position, growth opportunities, competitive advantage and sustainability. 2. Decision of business model When a company decides their business model, a large number of fields should be considering. Such as firm's vision, value configurations, stakeholder relationship and target customers. When a firm wants to design their business model, they will consider some main points and ask some questions such as: How to select their target customers and How to captures profit? (Michael M, 2005)

Moreover, manager also should pay attention to some other key points. This picture showed the business model canvas in firms. (Business Model Alchemist, 2011) When firm design their business model, they should consider of their customer segment, revenue streams, cost structure, key resource, customer relationship, key partnerships, channels and key activities. All of these can help manager capture, understand, design, analysis and change their business logic. 3. Use of business model Business model can be defined as a conceptualization of a firm's money earning logic.

And it will assume 4 categories of function: sharing, analyzing and prospects of business models. (Alexander. O. , 2004) ? Understand and share Business model is a kind of tool to help firm share and understand their business logic. Business can simplify some complex and abstract consequences, and make stakeholders to understand it easily. Therefore business model will improve the understanding, visualization, communication and business logic sharing. ? Analyze Business model also could be contributed in analysis of business logic of a company.

It could be used to identify relevant measures to follow, observe the change they faced with and compare their competitive advantages with other companies. ? Prospect Furthermore, another contribution of business model is helping firms to prospect their further development trend. Through the simulation and the analysis of business model portfolios, firms will have an ability to foresee innovation and increase readiness for the future. 2. Business model in relative industry 3. 1 Business model of Amazon. com Amazon has a very famous business model about their online book store.

Their business changed from a simple book store to the largest online retailers. Actually, Amazon chose the perfect product lines for e-commerce to provide some convenience to their customers. Through their excellent distribution channel, Amazon making their customer book products online, and using postal system deliver products to their customers' address. This business model make Amazon can save their fixed cost because they did not need to pay high overheads. In one term, they did not to pay a premium rents to ensure their store in central locations. In another term they can not pay salaries to sales representatives.

Therefore they can sell their products for a lower price. (Amazon. com, 2011)

3. 2 Business model of Google As one of the profitable company, Google have an excellent business model. Although Google provide service for free, yet their profitability is higher than other company. Actually Google's product is not their web page but their users. As similar as the traditional media, advertisers are Google's main customers and they will pay Google for their advertisements in Google's web page. However the different is that Google's income will be decided by user's behavior.

Depend on their successful model “ Google adwords”, advertisers will pay for every time Google’s user clicked their advertisements in Google. Moreover, if a key word connects with a large number of advertisers’ products, advertisers can through the way of ‘ Pay for Performance’ to improve their rank. This service will bring some extra income to Google. 3. 3 Business model of Skype Skype is another good example for freemium business model. Every register user can use their free basic service such as calling other Skype user online. Because of the zero barriers to entry, the users of Skype are growing constantly.

Most of Skype’s users are stick to these basic free services, but there are some Skype’s users will pay for their extra services such as call to other people outside Skype. These premium users are large enough to support Skype’s profitable. (Telco 2. 0, 2011) Moreover, thanks to a large number of Skype users, some companies will like to advertise in Skype, these advertisements are another income source for Skype. 3. 4 Business model of Groupon Business model called ‘ Group-buying’ as a new shopping pattern is very popular in all of the world.

It is comes from a website in the U. S. A called Groupon. This is a kind of platform that musters people who interest in the same product and make them to buy it together. In one term, Groupon muster customer together to improve their bargaining power, which will make customers buy something cheaper. In another term, it will bring scale effects to service provider, and it is a good way to do word of mouth marketing. In this process, service provider will pay some preparations of net profit in this group purchase to Groupon, and this is the main income resource of Group on. (Craig. P, 2011)

3. Business model of Facebook 4. 1 Definition of Facebook's business model
As one of the biggest social network website, Facebook's business model is absolute successful. In one term, Facebook is a platform to help people building and maintaining their social network. In another term, Facebook will become a big third party applications platform and provide some apps such as games to their users. 2. Facebook's revenue streams In the graph, it will show the Facebook's information flows (grey arrows) and revenue streams (black arrows).

It is clear that, Facebook has two kinds of income resource: advertisements and Facebook users' paying in for addition services or entertainment. Facebook have two types of advertisement: Firstly they will put advertises in their webpage directly. Everybody who has a Facebook user account can do that from Facebook's portal. Secondly, Facebook putting advertisements through Microsoft banners. Through this kind of advertisement brings more than 240 millions dollar to Facebook. (Adam H, 2011). Furthermore, another main revenue source of Facebook is their users.

As a big third party applications platform, Facebook cooperate with some apps developers and provide some useful apps and games. When people want to play it, they need to buy virtual money in Facebook. And then, they profit will be distribute by Facebook and apps developers. 3. Facebook's customer strategic Because Facebook's profits and information from their users, therefore users played an important role in Facebook. Therefore Facebook made many customer strategies to attach and keeping customers. Actually Facebook's customer strategic always has slicks, just like Michael Huston said: " If you're not on Facebook. om by now, then you're either

protesting it deliberately in an attempt to avoid doing what everybody else is doing, or you're afraid that stalkers will use it to come after you. " (Barton. Z. , 2011) Through their original users' network, Facebook will encourage their inviting their friends and family members to register Facebook. That is the reason why Facebook's users keep growing. 4. Conclusion From the above discussion, business model designed the profit pattern of firms. Through design their business model, firms will have a clear idea about their position in market and helping them defines basic business logic.

Moreover, the innovation of business model will offer competitive advantages to firms such attract consumers' attention and saving firms' fixed cost. Especially in social network industry, some successful business model such as Google, Groupon and Skype through their free online service to make profits from their users' behavior. As similar as Facebook, through their third party applications platform and advertisement platform Facebook's market share has a great growth in recent years. Furthermore, Facebook also have a good customer strategy and it helping them keeps their loyal customers.