

# DOES YOUR BUSINESS MODEL MEASURE UP?



Wouldn't it be great if all your employees actually understood what it takes for their company to make money? Sales presentations were always spot-on with the appropriate message. And if the goods and services you provide had all the features your customers wanted, at prices they could afford to pay.

It would be great but unrealistic. Very few of our client's people can state clearly what a business model is, much less know how their company makes money.

By "business model," most people think it means everything from how a company makes money to how it structures the organization. Most often, they are referring to components of a model, the so called "bricks and mortar" business model.

A real business model is the organization's core logic for creating value. More specifically, it is:

- ✓ the set of value propositions an organization offers its stakeholders
- ✓ along with the operating processes to deliver these propositions
- ✓ arranged as part of a coherent system
- ✓ that both relies on and builds assets, capabilities and relationships
- ✓ to create value

### **Characteristics of a Good Business Model**

**First, they offer unique value** – sometimes in the form of a new idea. More often, it is a combination of goods and service features that offer more value; lower price for the same benefit or more benefit for the same price. Atlanta's own Home Depot, for example, combines lower price for the same benefit or more benefit for the same price. It's a model that has helped to make them so successful.

**Second, winning business models are hard to imitate.** By establishing a key differentiator, such as superior customer care or superb execution, these models build barriers to entry that protect their profit streams.







**Lastly, successful business models are grounded in reality.** They are based on accurate assumptions about customer behavior. Their cost structures fit their revenue streams, day in and day out. Obvious? Many small businesses, new and old, lack a clear understanding of where they make money, why customers prefer their offerings and how many customers actually have a negative impact on revenues.

Since businesses compete for customers and resources, a business model must highlight what is distinctive about the firm – how it wins customers and earns profits.

**Effective business models are rich in detail and the components reinforce each other: change any one and you have a different model.**

Even the best designed business model cannot last forever. The model must change to keep pace with shifting customer needs, markets and competitors.

After analyzing more than 900 companies, of all sizes, I found there are six common approaches to change.

-  **Change incrementally to extend an existing business model.** Expand geographically, add customers, tweak prices, extend product and service lines. These are all incremental changes that can boost the returns from an existing business model.
-  **Renew the distinctiveness of an existing business model.** This approach focuses on revitalizing value propositions to counteract the forces that encourage competition based only on price.
-  **Replicate a model in a new domain.** Companies that replicate their business models take new products and services into new markets by using the same business formula.
-  **Add models to a portfolio through acquisitions.** Many companies reposition themselves by buying and selling operating companies.
-  **Leverage existing capabilities to add new models.** Some companies grow by building new business models around skills, assets and capabilities.
-  **Change a business model fundamentally.** This means transformation of the old company, its structure, culture, values, and capabilities, to create value in a new way. The faster this must happen, the more seismic the change. Companies that move up-market or down-market or shift into services or solutions when their products become commodities, face this challenge.

### **Implications for Small Business Owners**

I see three management imperatives:

1. **Clarify your business model to improve your organization's focus.** Do your people understand the organizations business model and how they contribute to it? Do they know what makes your business distinctive and how the company makes money? If they did, their everyday decisions would probably support your profit making agenda more strongly.
2. **Make change part of the agenda.** By laying out the way you intend to change, you can create business architecture that smoothes execution.
3. **Establish a framework for agile competition.** Think of your business model, not your company, as a set of building blocks. Expand your strategic range by experimenting with new blocks, then mix and match them to create profitable new combinations.