

Winning Business Models for a Digital Economy

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A business model describes how an organization designs and delivers value by providing stakeholders with a shared understanding of how the business operates. A strong business model offers a competitive advantage by demonstrating that the firm does something different, more innovative, and better than its rivals. The digital era has driven many recent business model transformations.

Apple's iTunes is a great example of the changing music industry. In the past, record companies, distributors, and retailers controlled channels and profits, now the artist and platform (iTunes) has the market power. Newspapers have struggled to become information providers as their readers aged and defected to other media. Google, Facebook, Apple, and Salesforce.com are examples of shapers since they open up platforms for third-parties and create new market space. Participants embrace and enhance shapers' platforms and may include applications (apps) developers, service firms, or online e-tailers. For example, millions of Farmville gamers manage virtual plots of land, grow crops, raise animals, and use online tools such as tractors. It has been estimated that there are more than 20 times more people playing this Zynga app than there are actual farms in the U.S. Consider these ten business models as you develop your business strategy.

Digital Business Models

Bricks and clicks: Retail, e-tail (Examples: Best Buy, Target).

Internet pure-play: Online presence (Examples: Blue Nile, Overstock.com).

Software as a service (SaaS): Delivering applications over the Internet (Examples: Salesforce.com, ADP).

Community of users: Users generate knowledge, solve problems (Examples: eBay, Wikipedia)

Shaper: Open up new market space (Apple, Facebook).

Platform participant: Enhance platforms by creating user applications (Examples: Foursquare, Zynga).

Multi-sided markets: Serve multiple segments - e.g., readers and advertisers (Examples: USA Today, Visa).

Long tail: Millions of products offered, most sell very few (Examples: Amazon, Netflix)

Free as a business model: Products provided to users at no cost, revenues generated elsewhere (YouTube, Hulu).

Open business model: Companies share products for low cost [way below branded options] (Linux (Red Hat), Qualcomm).

Think about these seven questions as your management team assesses your business model and market performance.

1. Can you clearly explain your business model?
2. What is unique about your strategy?
3. How does it compare with your direct and indirect competitors?
4. Have you broken any industry rules lately?
5. Can you develop a more innovative and interesting business model?
6. Will your business model win in the market?
7. Does your organization truly deliver superior value for customers?

Art Weinstein, Ph.D., is Chair and Professor of Marketing at Nova Southeastern University and author of *Superior Customer Value - Strategies for Winning and Retaining Customers*. He may be reached at art@nova.edu or 954-262-5097; visit his website www.artweinstein.com