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E-Content BCH-601 : Business Policy


Lecture 27

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- The simplest business model is to provide a good or service that can be sold so that revenues
- exceed costs and expenses. Other models can be much more complicated. Some of the many
- possible business models are:
- _ Customer solutions model: IBM uses this model to make money not by selling IBM
- products, but by selling its expertise to improve its customers' operations. This is a consulting
- model.
- _ Profit pyramid model: General Motors offers a full line of automobiles in order to close
- out any niches where a competitor might find a position. The key is to get customers to
- buy in at the low-priced, low-margin entry point (Saturn's basic sedans) and move them
- up to high-priced, high-margin products (SUVs and pickup trucks) where the company
- makes its money.

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- Multi-component system/installed base model: Gillette invented this classic model to
 - sell razors at break-even pricing in order to make money on higher-margin razor blades.
 - HP does the same with printers and printer cartridges. The product is thus a system, not
 - just one product, with one component providing most of the profits.
 - _ Advertising model: Similar to the multi-component system/installed base model, this
 - model offers its basic product free in order to make money on advertising. Originating in the newspaper industry, this model is used heavily in commercial radio and television.

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- Internet-based firms, such as Google, offer free services to users in order to expose them
 - to the advertising that pays the bills. This model is analogous to Mary Poppins' "spoonful
 - of sugar (content) helps the medicine (advertising) go down."
 - _ Switchboard model: In this model a firm acts as an intermediary to connect multiple sellers
 - to multiple buyers. Financial planners juggle a wide range of products for sale to multiple
 - customers with different needs. This model has been successfully used by eBay and
 - Amazon.com.



- _ Time model: Product R&D and speed are the keys to success in the time model. Being
- the first to market with a new innovation allows a pioneer like Sony to earn high margins.
- Once others enter the market with process R&D and lower margins, it's time to move on.
- _ Efficiency model: In this model a company waits until a product becomes standardized
- and then enters the market with a low-priced, low-margin product that appeals to the mass
- market. This model is used by Wal-Mart, Dell, and Southwest Airlines.