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E-Content BCH-601 : Business Policy


Lecture 28

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- Blockbuster model: In some industries, such as pharmaceuticals and motion picture studios,
- profitability is driven by a few key products. The focus is on high investment in a
- few products with high potential payoffs—especially if they can be protected by patents.
- _ Profit multiplier model: The idea of this model is to develop a concept that may or may
- not make money on its own but, through synergy, can spin off many profitable products.
- Walt Disney invented this concept by using cartoon characters to develop high-margin
- theme parks, merchandise, and licensing opportunities.

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- _ Entrepreneurial model: In this model, a company offers specialized products/services
 - to market niches that are too small to be worthwhile to large competitors but have the potential
 - to grow quickly. Small, local brew pubs have been very successful in a mature industry
 - dominated by Anheuser-Busch. This model has often been used by small high-tech
 - firms that develop innovative prototypes in order to sell off the companies (without ever
 - selling a product) to Microsoft or DuPont

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- a very low price in order to saturate the market and become the industry standard. Once
 - users are locked in, the company offers higher-margin products using this standard. For
 - example, Microsoft packaged Internet Explorer free with its Windows software in order
 - to take market share from Netscape's Web browser.²²



- In order to understand how some of these business models work, it is important to learn where
- on the value chain the company makes its money. Although a company might offer a large
- number of products and services, one product line might contribute most of the profits. For example,
- ink and toner supplies for Hewlett-Packard's printers make up more than half of the
- company's profits while accounting for less than 25% of its sales.