UTS 21919

Business Models and Strategic Planning

Subject Notes

What is a business model?

- How you will monetize your idea and make money with your operations method based on capabilities and competencies
- It is how the business must operate given its value proposition, what its capability foundation is and whether it can be financially viable
- Business model has three components: value proposition, strategic resources and dynamic processes
- Value proposition: an idea that fills a gap in customer experiences or creates an important customer want
- Strategic resources: a strategic asset used to develop capabilities in the company's value chain
- Dynamic process: the right mix of strategic resources used in a company's operations that builds capability and competencies
- Once those three are in place, the ultimate test of a business model lies in three quantitative components: revenue sources, cost structure and profitability
- Revenue sources: this includes the following revenue streams – product/service based, subscription based, transaction based. Assessing revenue is no longer a manufacturing/marketing issue; it's a business model issue that focuses on whether the business model can generate enough revenue
- Cost structure: guided by a company's value chain and competencies. Value chain identifies the operational areas where capabilities and competencies exist. These competencies contribute to profit margins.
- Profit formula involves revenue streams, cost structure, profit margins and resource velocity
- Profitability: the company's ability to generate revenues with an appropriate cost structure results in profitability.
- Razor/Razorblade Model: A business tactic involving the sale of dependent goods for different prices - one good is sold at a discount, while the second dependent good is sold at a considerably higher price.

Business Models and Financial Management:

- Metrics are measures of business performance

- Operational metrics: the key drivers, they drive company performance
- Financial metrics: key results
- Financial components of a business model: revenue, profit and costs
- The best way to utilize metrics is to include them in the business model – ensure the metrics are aligned with key resources, capabilities and dynamic processes that deliver the value proposition
- Cost structure or cost model will optimize a businesses profit formula and stimulate future performance
- When revenues grow and profits decrease operating expenses increase
- Operational metrics include cost drivers, revenue drivers and profit drivers
- They contribute to such financial metrics as ROA, ROI, return on equity, gross, operating and net profit margins
- Cost driver analysis: assigning costs and assets to the value chain then determining the elements that drive the costs of each value activity. Next consider reconfiguring the value chain to control/decrease costs. Finally conduct experiments by testing operations to ensure the cost savings are sustainable.
- Revenue driver analysis: revenue drivers are rooted in the buyer's purchase criteria or in units of revenue. You can determine the buyer's purchase criteria by analysing the value of products/services offered.
- Profit driver analysis: three main profit drivers – price, costs and revenues. Price is determined by measuring costs. A company's ability to build value into its products/services allows for more flexible pricing
- Financial Leverage – ability to borrow/increase equity that will benefit EPS
- Financial management decisions: investment decision, financing decision and dividend/stock buyback decision
- Investment: internal project investment – meets the internal rate of return as stated in the strategic plan and external acquisition investment – valued by net worth, future value