

5.13: Components of a Business Model

A company's value proposition composes the core of its business model; it includes everything it offers its customers in a specific market or segment. This comprises not only the company's bundles of products and services but also how the company differentiates itself from its competitors. A value proposition therefore consists of the full range of tangible and intangible benefits a company provides to its customers (stakeholders).

The market participation dimension of a business model has three components. It describes what specific *markets or segments* a company chooses to serve, domestically or abroad; what methods of distribution it uses to reach its customers; and how it promotes and advertises its value proposition to its target customers.

The value chain infrastructure dimension of the business model deals with such questions as, what key *internal resources and capabilities* has the company created to support the chosen value proposition and target markets; what *partner network* has it assembled to support the business model; and how are these activities organized into an overall, coherent value creation and delivery model?

The global management submodel summarizes a company's choices about a suitable global organizational structure and management policies. Global organization and management style are closely linked. In companies that are organized primarily around global product divisions, management is often highly centralized. In contrast, companies operating with a more geographic organizational structure are usually managed on a more decentralized basis.

It used to be that each industry was characterized by a single dominant business model. In such a landscape, competitive advantage was won mainly through better execution, more efficient processes, lean organizations, and product innovation. While execution and product innovation obviously still matter, they are no longer sufficient today.

Companies are now operating in industries that are characterized by multiple and coexisting business models. Competitive advantage is increasingly achieved through focused and innovative business models. Consider the airline, music, telecommunications, or banking industries. In each one, there are different business models competing against each other. In the airline industry, for example, there are the traditional flag carriers, the low-cost airlines, the business-class-only airlines, and the fractional private-jet-ownership companies. Each business model embodies a different approach to achieving a competitive advantage.

Southwest Airlines' business model, for example, can be described as offering customers an alternative to traveling by car, bus, or train by giving them a no-frills flight service, enhanced through complementary activities. Southwest's business model differs from those of other major U.S. airlines along several dimensions. It is about more than low fares, point-to-point connections, and the use of a standardized fleet of aircraft. A key differentiating factor is the way Southwest treats its employees—putting them first with profit-sharing and empowerment programs. Another is the fun experience Southwest creates on board and in the terminal, with jokes, quizzes, and the relaxed behavior of the cabin crew and ground staff. Yet another is the legendary care and attention Southwest puts into its customer service. Not surprisingly, Southwest's demonstrably successful business model has spawned numerous imitators around the world, including Ryanair, EasyJet, JetBlue, and Air Arabia.

Apple provides an example of why it is useful to focus on a company's overall business model rather than individual components such as products, markets, or suppliers. While it is tempting to think of the iPod as a successful product, it is, in fact, much more. Less visible than redefining the size, look, and functionality of an MP3 player, Apple's real innovation was creating a digital rights management system that could satisfy the intellectual property concerns of the music industry while simultaneously creating a legal music download service that would satisfy consumers. Thus, Apple's real breakthrough was not good product design, it was the creation of a revolutionary business model—one that allowed people to find and legally download high-quality music files extremely easily but that would not allow the pirating of entire albums. Put differently, the iPod was the front-end of a very smart and highly differentiated platform that worked for both the music industry and the consumer. That platform, the iTunes Music Store—which now also offers digital music videos, television shows, iPod games, and feature-length movies—is at the very heart of Apple's strategic move into consumer electronics, allowing more recent Apple products like the iPhone and Apple TV to sync with PCs as easily as the iPod. In fact, iTunes is the trojan horse with which Apple plans to capture a significant share of the home entertainment market.

Describing a company's business strategy in terms of its business model allows explicit consideration of the logic or architecture of each component and its relationship to others as a set of designed *choices* that can be changed. Thus, thinking holistically about

every component of the business model—and systematically challenging orthodoxies within these components—significantly extends the scope for innovation and improves the chances of building a sustainable competitive advantage

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