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Business Model

Special points of interest:

- Value proposition, what an organization does, and why it preferred rather than competitors
- Value chain, business processes
- Value network, who executes the business processes and their roles

Business Model

By Jorge E Vasquez

Have you seen some people scribbling their ideas on napkins? Because of space, what you can write is not very detailed. However, great ideas have been devised in this way. The expression *business model* became popular simultaneously with the term *e-commerce*, namely, at the end of last century. It would not be surprising if such a *business model* would have come up in that manner, scribbled on a napkin. The expression became popular to state what *e-commerce* is. At the time, it was a new way to service the public. No need to have face-to-face interaction and the requests from customers were received

through the Internet. That is a business model. It is a sketchy description of what a company offers to its marketplace and how it offers it. In more direct terms, it is the way a business makes money. A *business model* is the combination of three elements: a *value proposition*, a *value chain* and a *value network*.

A *value proposition* is a clear and direct statement of how your services benefit your clients and how they are different from competitors' in the marketplace. It is also called the 30 second elevator speech. It refers to the 'accidental' encounter of a capital-

pursuing entrepreneur and a banker or venture capitalist in an elevator. Though brief, such an encounter should draw the investor's attention. Brand and image advisors recommend that once an entrepreneur has prepared his 30 second speech, he rehearses it until it comes out naturally, without hesitation or stammering, like saying your name when introducing yourself.

The *value chain* is the set of activities and events from the moment a business proposal is submitted up to the moment the client is serviced and pays for it. How long is it? It depends on the integration. This



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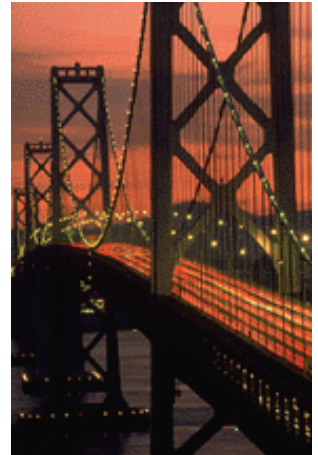
concept has two forms: vertical and horizontal integration. A detailed definition of integration would be a subject of another article.

Lastly, the *value network* is the group of 'actors' participating in the value chain. The main 'actors' are the employees and the company's owners. Also, suppliers and clients are included in the chain. The term stakeholder well describes who, in general, have a part in the *value network* of a company, whoever they are, persons or entities.

Finally, a business model changes though sporadically. Changes must be foreseen by an entrepreneur. Being off guard to the need of change usually has catastrophic effects on the business. Indeed, a merchant must always have in mind that what worked in the past might not work today or in the future; conversely, what

did not work in the past, might work tomorrow. In a similar way, success today does not necessarily mean success tomorrow. Nevertheless, the former is not committing to quixotic endeavors; it is not repeatedly doing the same and expecting different results, somehow, some day... Foreseeing the need for change is a result of the constant observation of the internal performance and of the conditions in the organization's environment. In other words, foreseeing the need for adjustments to the business model requires a strategic mentality.

Note that a business model can initially be formulated on a napkin. After ideas become mature and solid, then the business model can (and should) fit within a page of text and graphics. The next step is the preparation of a business plan. This will be the theme of the upcoming articles.



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A vision without an action plan is just a dream; an action plan without a vision is drudgery; a vision and an action plan are our best hope for the future.

-Anonymous



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