Animation 12.4

Business model is a phrase that has been used for many years – especially in industry - to explain how a business is designed to be successful. But no one has ever really defined exactly what a business model is – at least not until two academics from Lancaster University, Spring and Mason, developed the generic framework shown in Figure 14.4.

They propose that in order to understand or design a business model, you need to consider three main elements - what they term, the market offering, technology and the network architecture. Each of these has four sub-elements.

With regards market offering, there are also four sub-elements. Artefacts refers to the products that the firm may produce. Activity refers to the types of service the firm may provide. Many companies making and selling products may also offer service in the form of after sales service.

The third sub-element of market offering is access. This refers to how customers or users will be able to gain access to the artefacts and activities of the firm. Finally, there is value. As we have seen when discussing order winners, it not necessarily price that customers are most concerned about, it is whether or not they are getting good value for their money.

The second main element of a business model is technology. According to Spring and Mason this has four sub-elements, the first of which is infrastructure. This refers to the location and design of facilities, which we discussed in chapter 4.

The second sub-element is core technology. In a manufacturing setting this may be a specific approach to fabricating or assembling artefacts, but in a service setting this may be the information systems that support customer processing. Thirdly there is process, which as you know is at the heart of operations.

Finally a business model will have a technology related to product. This refers not only to ways in which the organisation's products function, but are also developed.

The network architecture refers to how the business is positioned in the world relative to other stakeholder groups and how it interacts with the world. Hence the first sub-element of network architecture is markets. In other words a key element of any business is to know what specific markets are being served.

As you know from chapter 2, there are two main types of market – B2B and B2C. The second sub-element is transactions. Having established its market, the firm needs to devise ways in which it will interact with customers and develop transactional processes that are effective.

With the development of the world wide web, many organisation have now had to adopt internet-based transactions. A third sub-element of network architecture is capabilities. In other words what expertise and skills does the operation need in order to be effective.

Finally the firm will inevitably establish relationships with a range of stakeholders – not just customers, but also suppliers, investors, and the media. Such relationships should be designed deliberately to support the business model.