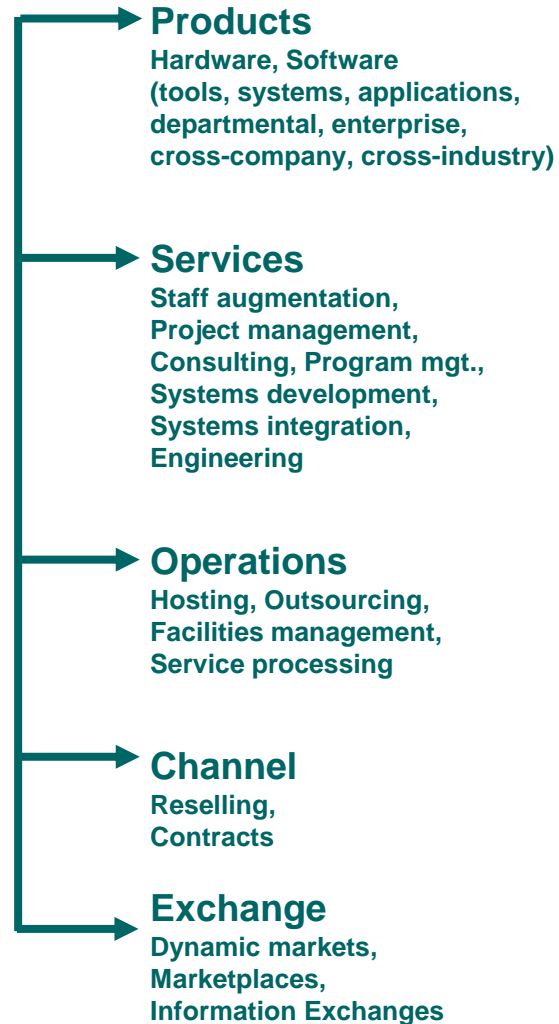


Five Common Successful Business Models

Service, Product, Operation, Channel, or Exchange

It is best to choose one of the five common business models over multiple models or a hybrid.



Group Activity

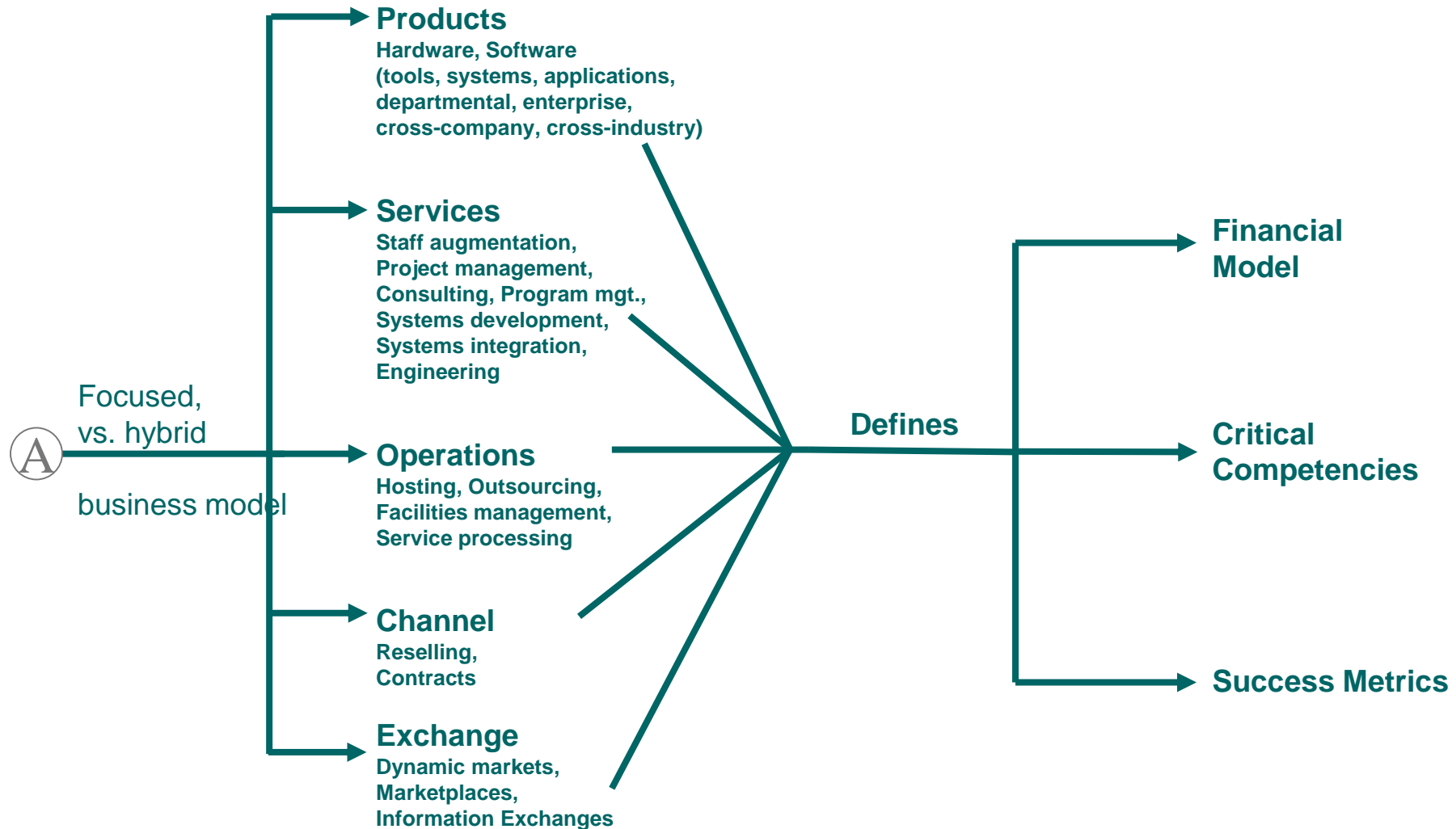
- Outcome: to gain a deeper understanding of each business model
- Break into 5 groups (count off by 5s)
- Work in your group to answer the following for the business model with the corresponding number from the previous slide:
 - What is it?
 - How does a business of this sort get paid?
 - Provide an example.

There are five common high-tech business models (cont' d)

Business Model	Description	Payment	Example
Product	Software, hardware, or information	Per copy Per unit	Hewlett Packard Microsoft
Service	Hourly or project consulting or service	Per hour Per deliverable	PWC Booz Allen & Hamilton
Operation	Outsourcing Facilities Management	Per unit of time Per unit processed	USInternetworking EDS outsourcing
Channel	Set up and administer connection between buyer and provider	Percentage of revenue	GTSI IDIQ contractors AOL
Exchange	Broker links between many buyers and many sellers	Subscription fee Transaction fee	NYSE Metals Exchange

The business model defines characteristics

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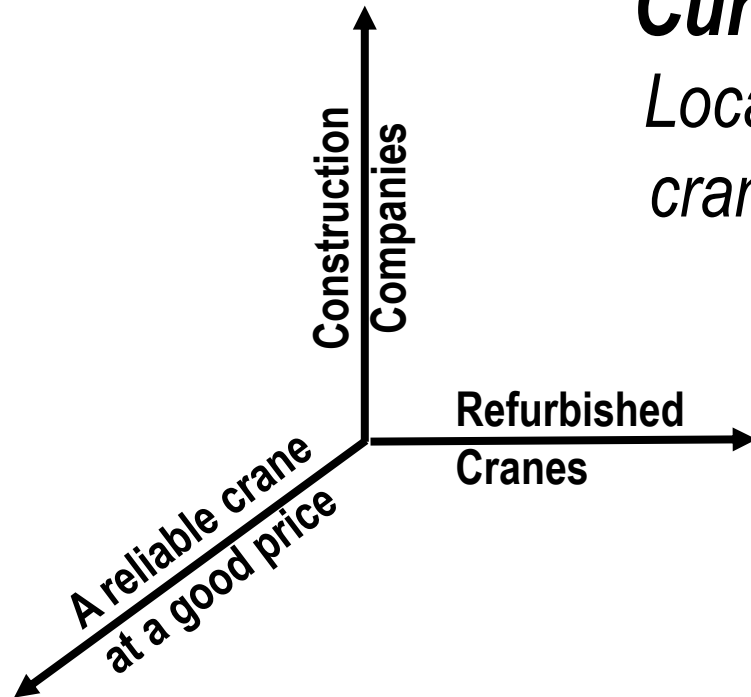
There are inherent risks to adopting multiple or hybrid business models

Business Model	Financials	Competencies	Metrics
Product	EBIT=20% P/E=100X	Sales, Call Center, Development	No. of Salesmen, salesmen tenure, \$/sale, sales/salesman
Service	EBIT=15% P/E=25X	Project Management Account Management	Staff utilization Average hourly rate
Operation	EBIT=10% P/E=10X	Efficiency of operation Driving to scale	Cost per unit Service levels
Channel	EBIT=3% P/E=5X	Contract management and administration Space, Inventory mgmt	Contract order backlog Commitment level
Exchange	EBIT<0 P/E=n.a.	Domain competence Efficiency of operation	Number subscribers Number of Transactions

Which business model is the right one?

Example: Cunningham Crane

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Cunningham Crane:

Locates, fixes, and resells secondhand cranes throughout the world

For any given solution, there are multiple possible businesses

Customer: <u>Construction Companies</u> ; Problem: <u>Reliable Cranes</u> ; Solution: <u>Refurbished Cranes</u>	
Product	Build, or procure and refurbish, cranes to sell
Service	Assess, recommend, and service cranes
Operation	Own, maintain, and operate cranes for rent
Channel	Connect crane buyers and sellers
Exchange	Broker link between crane seekers and crane owners who bid to sell their cranes

Choose which business model is best for you based on:

- What you are good at and what you like to do.
- Resources available (people, money).
- Economic returns sought.
- Appetite for risk.

No one option is always correct

Customer: <u>Banks</u> ; Problem: <u>Customer Access</u> ; Solution: <u>Phone, Branch, Mail + Internet</u>	
Product	Sell software to enable access via Internet (\$1)
Service	Hourly services to help banks develop own Internet front-end (AMS)
Operation	Operate a service by the account/month to let bank customers access via Internet (ORCC)
Channel	Connect banks to suppliers of Internet front-end software (Andersen Consulting)
Exchange	Match any of several banks with any of several front-ends based on needs, price, and availability (e-Loan)

Thank you.

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