

**Case Studies on**  
**Business Models – Vol. I**

---

Edited by

**R. Muthukumar**

Icfai Business School Case Development Centre



**Icfai Books**

# 71, Nagarjuna Hills, Punjagutta, Hyderabad – 500082

## **Icfai Books**

# 71, Nagarjuna Hills,  
Punjagutta, Hyderabad – 500082  
Andhra Pradesh, INDIA  
Phone: 91 - 40 - 23435387/91, Fax: 91 - 40 - 23435386  
e-mail: [icfaibooks@icfai.org](mailto:icfaibooks@icfai.org), [ibscdc@icfai.org](mailto:ibscdc@icfai.org)  
Website: [www.books.iupindia.org](http://www.books.iupindia.org), [www.ibscdc.org](http://www.ibscdc.org)

© 2008 The Institute of Chartered Financial Analysts of India. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means – electronic, mechanical, photocopying or otherwise – without prior permission in writing from the Icfai University Press.

While every care has been taken to avoid errors and omissions, this publication is being sold on the condition and understanding that the information given in the book is merely for reference and must not be taken as having authority of or being binding in any way on the authors, editors, publishers or sellers.

Icfai Books, IB and the IB logo are trademarks of the Icfai University Press. Any other product or corporate names, that may be registered trademarks, are used in the book only for the purpose of identification and explanation, without any intent to infringe.

Other than the publisher, no individual or organization is permitted to export this book from India.

Case studies are intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Copies of individual case studies are available for purchase from [www.ibscdc.org](http://www.ibscdc.org)

**ISBN** : 978-81-314-1992-2

**Editorial Team:** K Ramanathan and Deepa Verma

*Visualiser and Designer:* Cherukuri Chinna Mabu

The views and content of this book are solely of the author(s)/editor(s). The author(s)/editor(s) of the book has/have taken all reasonable care to ensure that the contents of the book do not violate any existing copyright or other intellectual property rights of any person in any manner whatsoever. In the event the author(s)/editor(s) has/have been unable to track any source and if any copyright has been inadvertently infringed, please notify the publisher in writing for corrective action.

Case Title	Page No.
Concorde and Supersonic Civil Aviation	1
Nanotechnology – New Vistas for US	11
Credit Cards and Business Growth	25
Microsoft vs Windows	37
Coke’s Relationship with Bottlers: To “Revive and Sustain”	51
Media Specialists: Transforming Global Ad Industry’s Business Model	71
De Beers vs Lev Leviev: The “Decartelisation” of the Diamond Industry?	87
AOL’s Ad Revenues: A New Business Model	105
Microsoft’s “Digital Vision”: Looking Beyond PC?	123
Dell’s Service Business: Duplicating the Low-Cost PC Model	141
Growth of Wikipedia: The Free Online Encyclopaedia	155
High Sales with Low Margins: Notebook PC Makers’ New Success Formula?	169
France Telecom’s ‘Orange’: Renaissance of a Brand and Rebranding Strategies	181
Dell’s Dilemma: Corporates or Consumers?	205
Best Buy and Circuit City’s Revenue Models: Threat from Wal-Mart?	221
Cartridge World, the Australian Cartridge Refilling Company’s Business Model: Can it Sustain?	237
Big Media’s “On-Demand” Entertainment: What’s the Business Model?	243
Public Private Partnership in Rajasthan’s Health Sector: Outsourcing Diagnostic Services	251

## OVERVIEW

---

Business model is a buzzword that everybody used during the dotcom boom. Poor business models were attributed for the downfall of many dotcoms. To differentiate the winners from the losers, it is important to describe and evaluate companies' business models.<sup>1</sup> However, the business model dates back to the earliest days of business; it merely describes the way in which a company makes money.

A business model describes what and how a firm will do, to build and capture wealth for stakeholders. Effective business models operationalize good strategies — turning position and fit into wealth: By efficiently (profitably) transforming inputs into something that customers value enough to pay for repeatedly.

To put it simply, the business model is how the company makes money. This is a plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs. It also explains the sources of the company's revenues, how much these sources pay and how often. For instance, a restaurant's business model is to make money by cooking and serving food to hungry customers. A website's business model might be little complex, as there are many ways in which these types of companies can generate revenue. For example, some make money by providing a free service and then selling advertising to other companies, while others might sell a product or service directly to online customers.

According to IBM's global study on CEOs in 2007<sup>2</sup>, companies are responding to challenges through increased focus on business model innovation. The business models will determine the strategies' failure and success. Products and services can be copied, but the business model is the differentiator. CEOs believe that greatest focus is on business model innovation, which is where the greatest benefits lie. Business model innovators expand margins (Exhibit I).

Business model innovation can be defined along three dimensions<sup>3</sup>:

- Industry model innovation: Innovating the 'industry value chain' by moving into new industries, redefining existing industries or creating entirely new ones, also by identifying/leveraging unique assets. For example, Apple transformed the music industry through a new way of connecting hardware with software to download music with iPods/iTunes product & service combination. Dell redefined the PC value chain and industry model by using a direct to customer sales model
- Revenue model innovation: Innovating how we generate revenue through offering reconfiguration (product/service/value mix) and pricing models. For example, Gillette

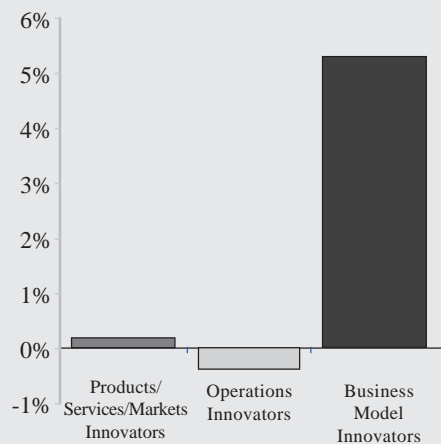
<sup>1</sup> McClure Ben, "Getting To Know Business Models", <http://www.investopedia.com/articles/fundamental/04/033104.asp>

<sup>2</sup> Edward H.B. Giesen, et al., "Business Model Innovation Competing through innovative business models", *The Global CEO Study 2006: Expanding the Innovation Horizon*, June 2007

<sup>3</sup> Ibid.

## Exhibit I Operating Margin Growth in Excess of Peers

(Compound annual growth rate over 5 years)



Source: Edward H.B. Giesen, et al., "Business Model Innovation Competing through innovative business models", *The Global CEO Study 2006: Expanding the Innovation Horizon*, June 2007

innovated the pricing model by giving away razors and making money on the blades. Netflix shifted the revenue model from product /rental based to a subscription based annuity model. Cirque du Soleil reconfigured offering and value elements to transform the circus experience

- Enterprise model innovation: Innovating the role we play in the value chain by changing our extended enterprise and networks with employees, suppliers, customers, and others, including capability/asset configuration. Zara's Fast Fashion model is supported by a highly integrated business model along its value chain. Bharti created a highly specialized Telco business model by focusing only on its key differentiators – marketing, sales and distribution – and partnering for everything else. P&G's innovative R&D collaboration model "connect & develop", sourcing over 50% of ideas externally

Moreover, as industries change, companies cannot always stick to the same business model. We can witness the same from Kodak and the fast-changing camera business. Traditional film cameras generated a lot of revenues for the company, as users have to buy film rolls frequently to take pictures and then spend even more getting the pictures developed. But new digital cameras do away with film sales and processing fees. In response, Kodak has had to create a new business model. The company has established digital printing centers, where users can have their digital camera pictures printed on genuine Kodak

paper. The business model that was once based on film sales and processing has become a model based primarily on photograph printing.

So how do we know whether a business model is any good? When business models do not work, it is because they do not make sense and/or add up to profits. The airline industry is a good place to find business models that stopped making sense. For years, major carriers like American, Delta and Continental built their businesses around a 'hub-and-spoke' system, in which all flights routed through a handful of big city airports. By ensuring that seats were filled, the business model produced big profits for airlines. But it turned out that competitive carriers like Southwest and JetBlue could shuttle planes between smaller centres at a lower cost - in part because of lower labor costs, but also because they avoided some of the operational inefficiencies that occur in the hub-and-spoke structure. As competitive carriers drew away more customers, the old carriers were left to support their large, extended networks with fewer passengers. To fill seats, the airlines had to offer more and deeper discounts. No longer able to produce profits, the hub-and-spoke model no longer made sense.

Similar example of business models that failed can be US automakers. In 2003, to compete against foreign manufacturers, Ford, Chrysler and General Motors offered customers such deep discounts and interest-free financing that they effectively sold vehicles for less than it cost to make them. That dynamic squeezed all the profits out of Ford's US operations and threatened to do the same for Chrysler and GM. To remain viable, the big automakers had to revamp their business models.

This book entails the business models adopted by various companies and benefits they got out of it.