

BEE/CSS 371 Business of Technology
Winter 2017
Lecture 6

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Today's agenda

Discussion of *Technology Ventures*

Chapter 3. [Vision and the business model](#)

Chapter 4. [Competitive strategy](#)

Chapter 3. Vision and the business model

Important ideas

1. Vision
2. Mission statement
3. Value proposition
4. Business model
5. Responding to change

A firm's theory of its business

1. **Vision:** A statement of purpose in response to an opportunity.
2. **Mission:** The goals, products and customers.
3. **Value proposition:** How the customer needs will be satisfied.
4. **Business model:** Economics and activities of the firm.

The vision is long term, **why** the company exists and **what** it will do.

The mission is more strategic, **how** you'll do it.

A **vision** is an informed and forward-looking statement of purpose that defines the long-term destiny of the firm.

TABLE 3.1 Elements of a vision.

- **Clarity:** Easily understood and focused
 - **Consistency:** Holds constant over a time period, but is adjustable as conditions warrant
 - **Uniqueness:** Special to this enterprise
 - **Purposeful:** Provides reason for being and others to care
-

The **mission** statement completely describes the organization's goals and customers.

TABLE 3.3 Possible elements of a mission statement.

- | | |
|---------------------------------|-------------------------------|
| ■ Core values | ■ Competitive advantage |
| ■ Customers and/or stakeholders | ■ Values provided to customer |
| ■ Products | ■ Markets or industry |
-

The value proposition

The value proposition

Value is the worth, importance, or usefulness to the customer. It is ***the value you propose to deliver.***

To be successful, a business must *create value*, selling goods or services that are more valuable than whatever it cost to create them.

Value propositions

Most value propositions offer some combination of these values to the customer:

1. Product
2. Price
3. Access
4. Service
5. Experience

Primary and secondary values

1. A ***primary value*** typically dominates the value proposition.
2. A ***secondary value*** typically differentiates the offering.
3. The remaining values must meet industry norms.

TABLE 3.7 Primary and secondary values for leading firms.

| | | Primary Value | | | | |
|-----------------|-------------------|-------------------------------|-----------------------------|-------------|---------------|---------------------------------|
| | | Product | Price | Access | Service | Experience |
| Secondary Value | Product | — | Wal-Mart | Amazon.com | Honda | Harley-Davidson Disney World |
| | Price | Target | — | Holiday Inn | Wal-Mart | Olive Garden |
| | Access | Google Barnes & Noble | Priceline Visa | — | Dell Computer | Starbucks |
| | Service | Toyota Home Depot Intel | Southwest Airlines | McDonald's | — | Carnival Cruise Line |
| | Experience | Mercedes | Virgin Atlantic Best Buy | AT&T | Nordstrom | — |

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Wal-Mart is the leader in low prices and huge selection.

TABLE 3.7 Primary and secondary values for leading firms.

| | | price, selection, and convenience continue to be at the core of Amazon.com's value proposition | | | | Primary Value | |
|-----------------|------------|--|-----------------------------|-------------|---------------|---------------------------------|--|
| | | | | Access | Service | Experience | |
| Secondary Value | Product | — | Wal-Mart | Amazon.com | Honda | Harley-Davidson Disney World | |
| | Price | Target | — | Holiday Inn | Wal-Mart | Olive Garden | |
| | Access | Google Barnes & Noble | Priceline Visa | — | Dell Computer | Starbucks | |
| | Service | Toyota Home Depot Intel | Southwest Airlines | McDonald's | — | Carnival Cruise Line | |
| | Experience | Mercedes | Virgin Atlantic Best Buy | AT&T | Nordstrom | — | |

TABLE 3.7 Primary

Our focus on retail sales to individual buyers has a direct correlation to the high resale value of **Honda** products, which is a key factor in the value proposition for our customers

| | | Primary | | | Value | |
|-----------------|------------|-------------------------------|-----------------------------|-------------|---------------|---------------------------------|
| | | Product | Price | Access | Service | Experience |
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more power, greater efficiency and unmatched safety, backed with an improved value proposition. Not only is the new **S-Class** the most intelligent car on the road ...

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| | Price | Target | — | Holiday Inn | Wal-Mart | Olive Garden |
| | Access | Google Barnes & Nob | Priceline | — | Dell Computer | Starbucks |
| | Service | Toyota Home Depot Intel | the Dell value proposition of aggressively priced systems custom-built for each customer. | | | Carnival Cruise Line |
| | Experience | Mercedes | Virgin Atlantic Best Buy | AT&T | Nordstrom | — |

TABLE 3.7 Primary and secondary values for leading firms.

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| | | Product | Price | Access | Service | Experience |
| Secondary Value | Product | — | Wal-Mart | Amazon.com | Honda | Harley-Davidson Disney World |
| | Price | Target | — | Holiday | McDonald's is famous for its value proposition: food of a constant quality that is served quickly and consistently across the globe. | |
| | Access | Google Barnes & Noble | Priceline Visa | — | | |
| | Service | Toyota Home Depot Intel | Southwest Airlines | McDonald's | — | Carnival Cruise Line |
| | Experience | Mercedes | Virgin Atlantic Best Buy | AT&T | Nordstrom | — |

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| | Service | Toyota Home Depot Intel | Southwest Airlines | McDonald's | — | Carnival Cruise Line |
| | Experience | Mercedes | Virgin Atlantic Best Buy | Carnival built an unmatched value proposition on the promise of fun. | | |

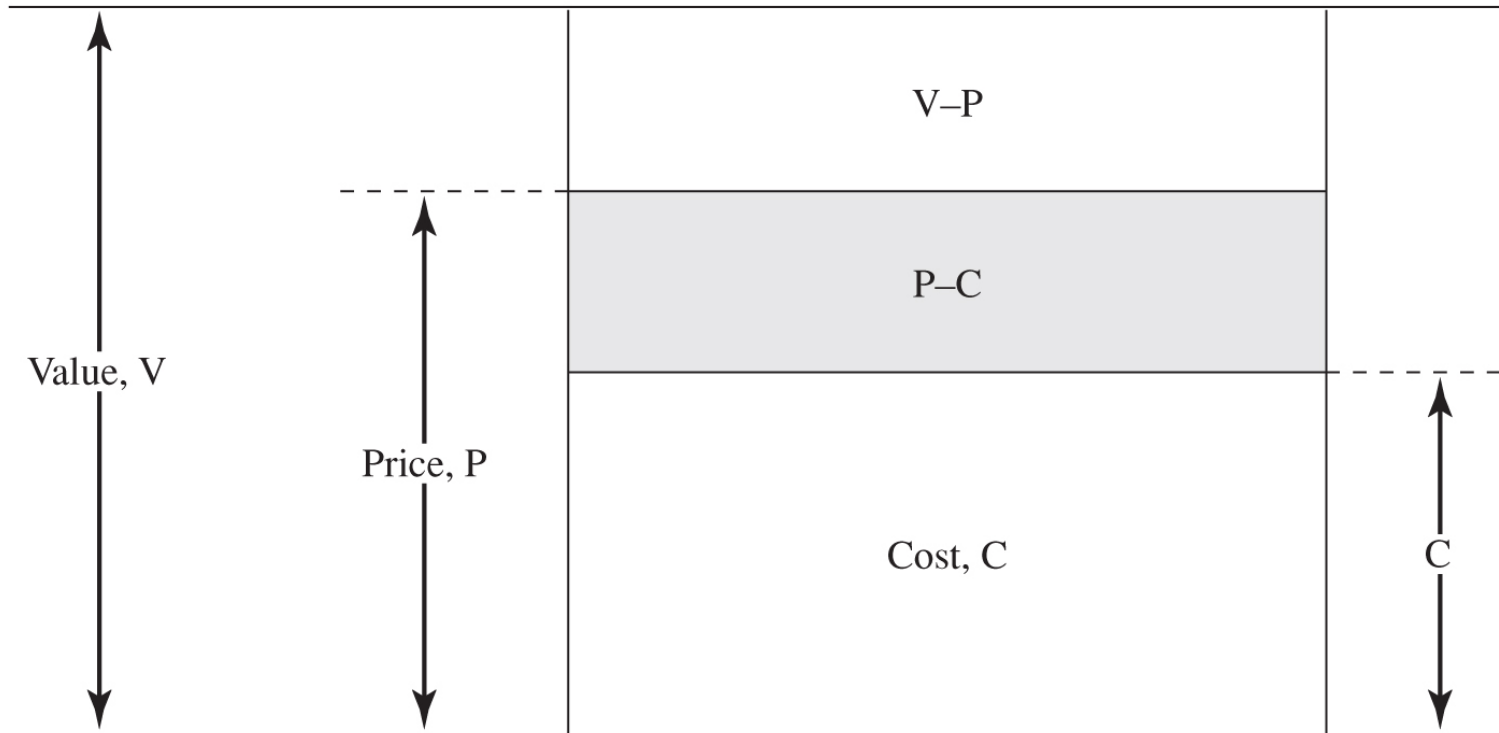


FIGURE 3.5 Value and return to the customer and the firm.

The **business model** is an integrated description of:

1. The firm's unique customer value proposition.
2. How the firm will configure its resources and activities to deliver that value and earn sustainable profits.

TABLE 3.8 Elements of a business model.

| | |
|---|--|
| ■ Customer selection: | Who is the customer? Is our offering relevant to this customer? |
| ■ Value proposition: | What are the unique benefits? |
| ■ Differentiation and control: | How do we protect our cash flow and relationships? Do we have a sustainable competitive advantage? |
| ■ Scope of product and activities: | What is the scope of our product activities? What activities do we do, and what do we outsource? |
| ■ Organizational design: | What is the organizational architecture of the firm? |
| ■ Value capture for profit: | How does the firm capture some of the total value for profit? How does the firm protect this profitability? |
| ■ Value for talent: | Why will good people choose to work here? How will we leverage their talent? |

TABLE 3.9 Apple business model.

| | |
|--|--|
| ■ Customer selection: High relevance | Target customer is the consumer who values breakthrough technology and world-class user interface over open standards. |
| ■ Value proposition: Unique benefits | Seamless integration of products and services, intuitive interfaces, elegant designs. |
| ■ Differentiation and control: Sustainable competitive advantage | Control over both hardware and software, critical mass in App Store, constant innovation, and strong intellectual property protection. |
| ■ Scope of product and activities | Desktops, laptops, smartphones, tablets, cloud based services, customized devices for experiencing media, and an applications store with many applications developed by third parties. |
| ■ Organizational design | Engineering and design are valued above all other disciplines. Marketing is used to create a culture around what it means to be an Apple user. |
| ■ Value capture for profit | Premium price charged for a premium product. Tight control over manufacturing leads to greater product margins and differentiated product. |
| ■ Value for talent: | Opportunity to work with a world-changing company and with some of the best and brightest engineers. |

TABLE 3.10 Business model of two airlines.

| | American Airlines | Southwest Airlines |
|--|--|--|
| Customer | Traveler who needs to fly many places throughout the world | Traveler who desires to fly routes served point to point in the U.S. |
| Value proposition: | | |
| Dominant value | Product | Price |
| Differentiating value | Accessibility | Service |
| Differentiation | Wide scope of product: goes almost anywhere | Limited point-to-point flights Easy maintenance and training for low cost |
| Scope of products and activities | Very broad: connects everywhere | Narrow: only flies to selected cities (point to point) |
| Organizational design and implementation | Hub-and-spoke High fixed cost | Point-to-point Lower, flexible costs Control costs |
| Value capture for profit | Dominate hub city Requires high occupancy | Requires high occupancy |
| Value for talent | High pilot salaries Good career | Participation in stock options and camaraderie |

TEAM NAME HERE

FILL OUT ALL 9 BOXES OF THE CANVAS IN ORDER 1 THRU 9

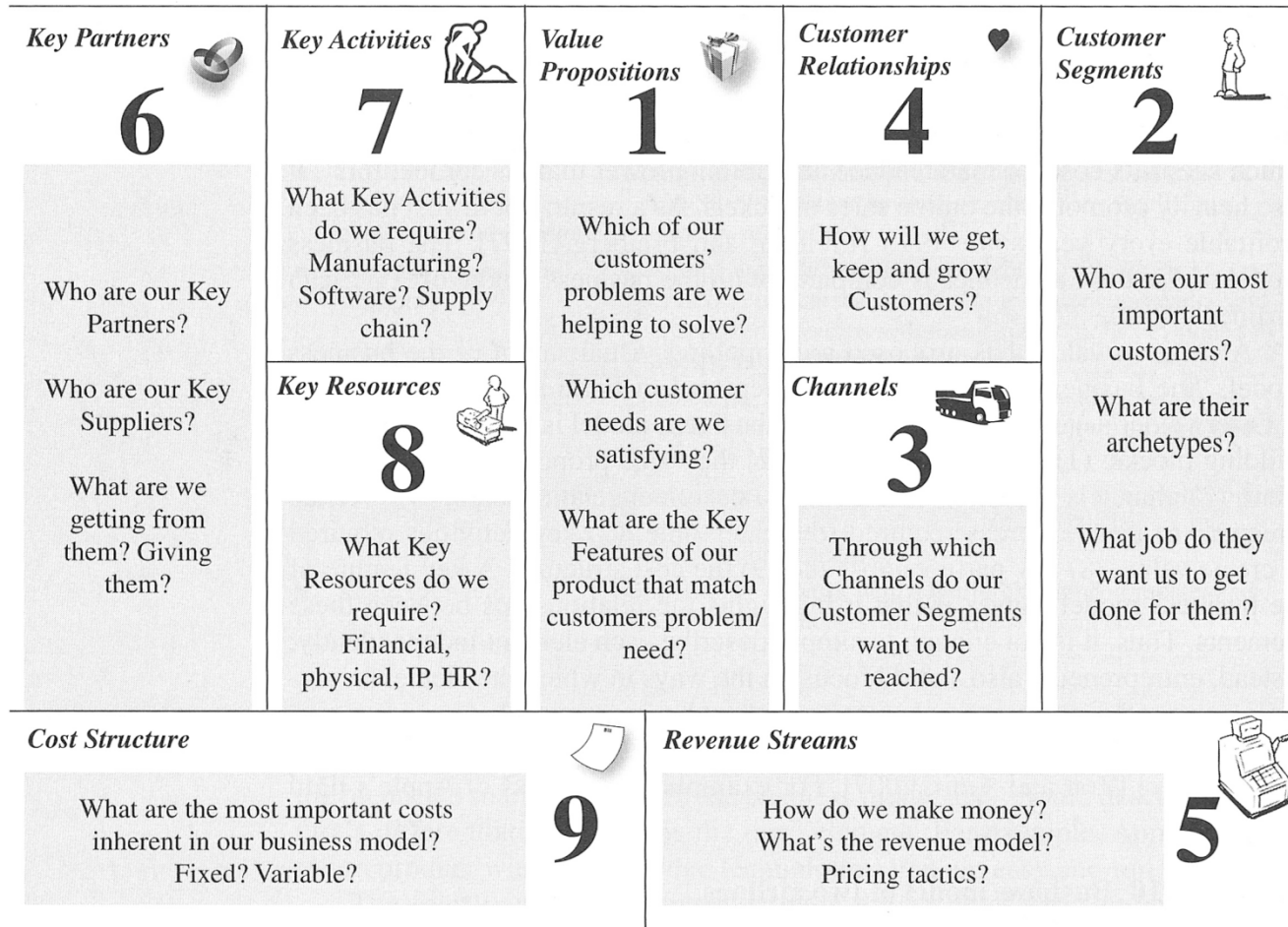


FIGURE 3.4 Business model canvas.

If the market changes, you may have to change in order to survive.

Example: Netflix versus Blockbuster

Why was it easier for Netflix to make the transition?



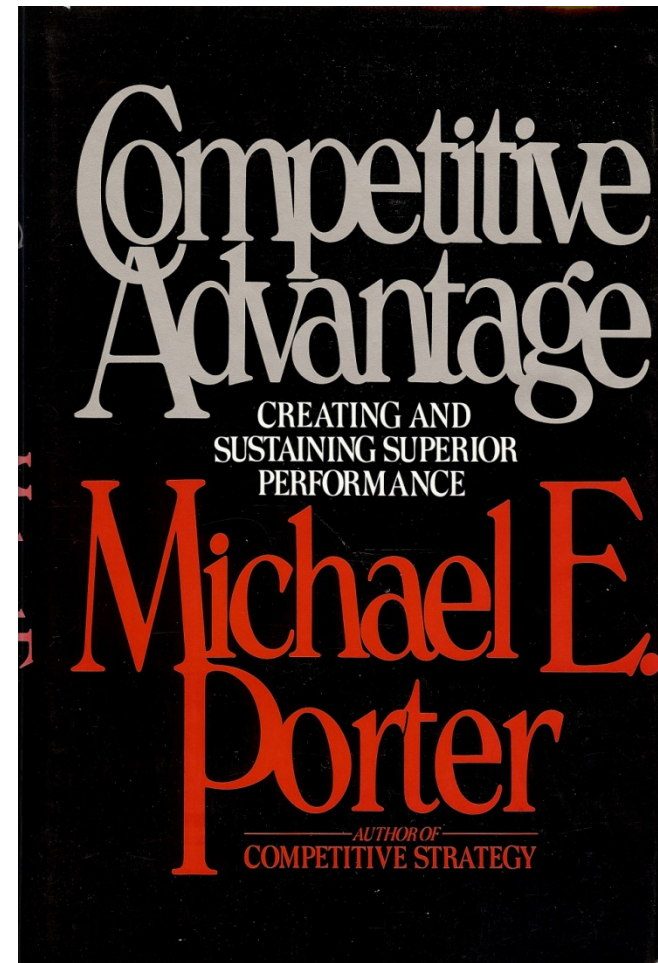
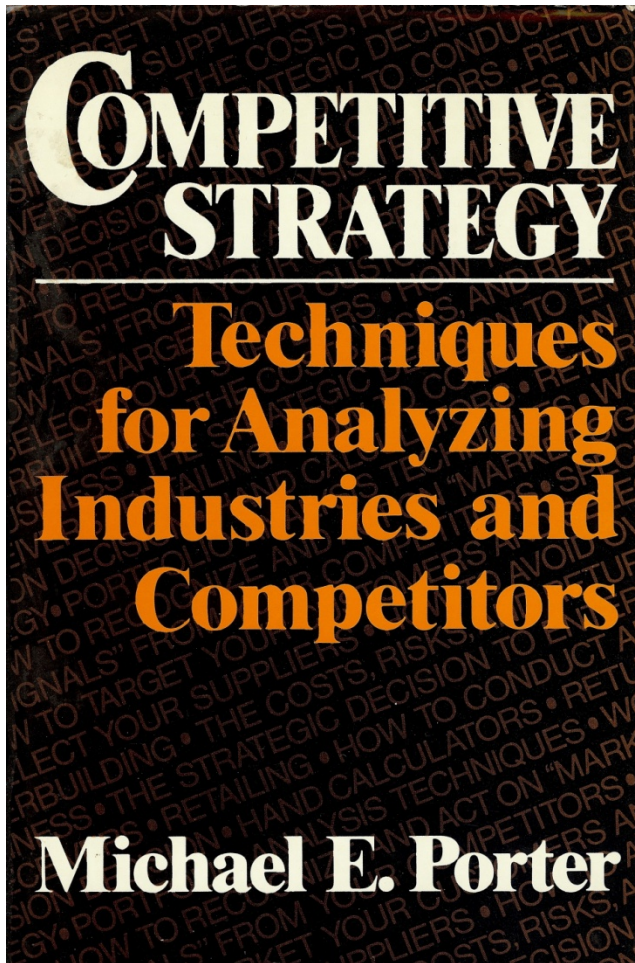
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Chapter 4.

Competitive strategy

Important ideas

1. Strategy
2. Core competencies
3. Industry and context
4. SWOT analysis
5. Barriers to entry
6. Competitive advantage
7. Alliances
8. Tactics
9. Social responsibility



Many of the ideas come from Michael Porter's seminal books in 1980 and 1985.

A **strategy** is a plan or roadmap of the actions that a firm or organization will take to achieve its mission and goals.

Every firm competing in an industry has a competitive strategy, whether explicit or implicit.

Source: Porter, *Competitive Strategy*, p. xiii.

TABLE 4.1 Management process for developing a strategy.

1. Develop the vision and mission statements, and the business model.
 2. Describe the firm's core competencies, its customers, and its competitive advantage.
 3. Describe the industry and context for the firm and its competitors.
 4. Determine the firm's strengths and weaknesses in the context of the industry and environment.
 5. Describe the opportunities and threats for the venture.
 6. Identify the key factors for success using the six forces model.
 7. Formulate strategic options and select the appropriate strategy.
 8. Translate the strategy into action plans with suitable measures and controls.
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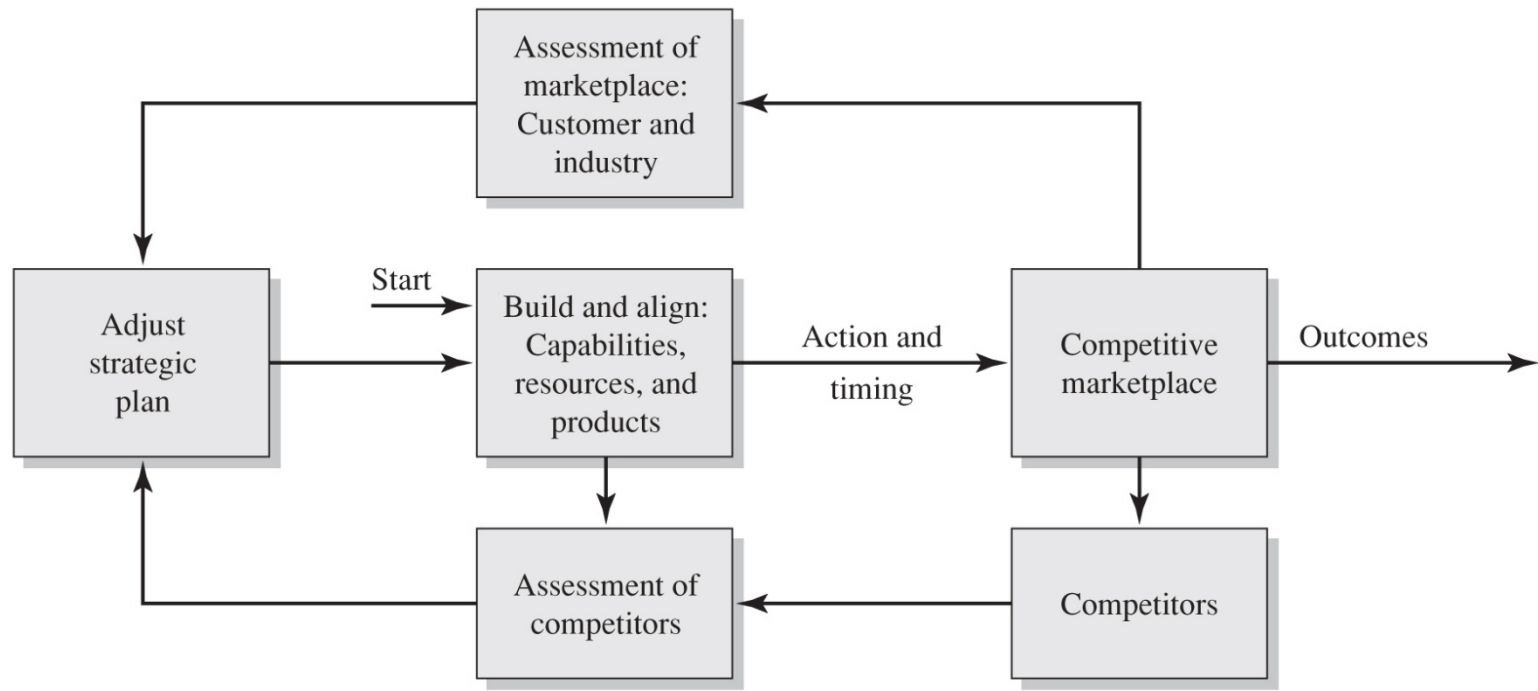


FIGURE 4.1 Framework for a firm operating in a dynamic marketplace.

| Profitability | | |
|--|--|--|
| Why are we pursuing this objective? <ul style="list-style-type: none"> • Vision • Mission | Where will we be active? <ul style="list-style-type: none"> • Customer • Market | How will we achieve our objective? <ul style="list-style-type: none"> • Innovation • Acquisitions |
| When will we act and at what speed? <ul style="list-style-type: none"> • Timing • Execution | What will differentiate our product? <ul style="list-style-type: none"> • Positioning • Competitor response | With whom will we compete and cooperate? <ul style="list-style-type: none"> • Competition • Alliances |

FIGURE 4.2 The six questions for creating a dynamic strategy. Profitability rests on six solid answers to these questions.

The **core competencies** of a firm are its unique capabilities and resources that enable it to implement its business model.

To be **competitive**, a firm must have either:

1. Unique and valuable resources and the capability to exploit these resources.

Examples: Intel, 3M, Weyerhaeuser.

2. A unique capability to manage common resources.

Example: Southwest Airlines.

The **context** of a firm is the industry in which it operates and the customers it serves.

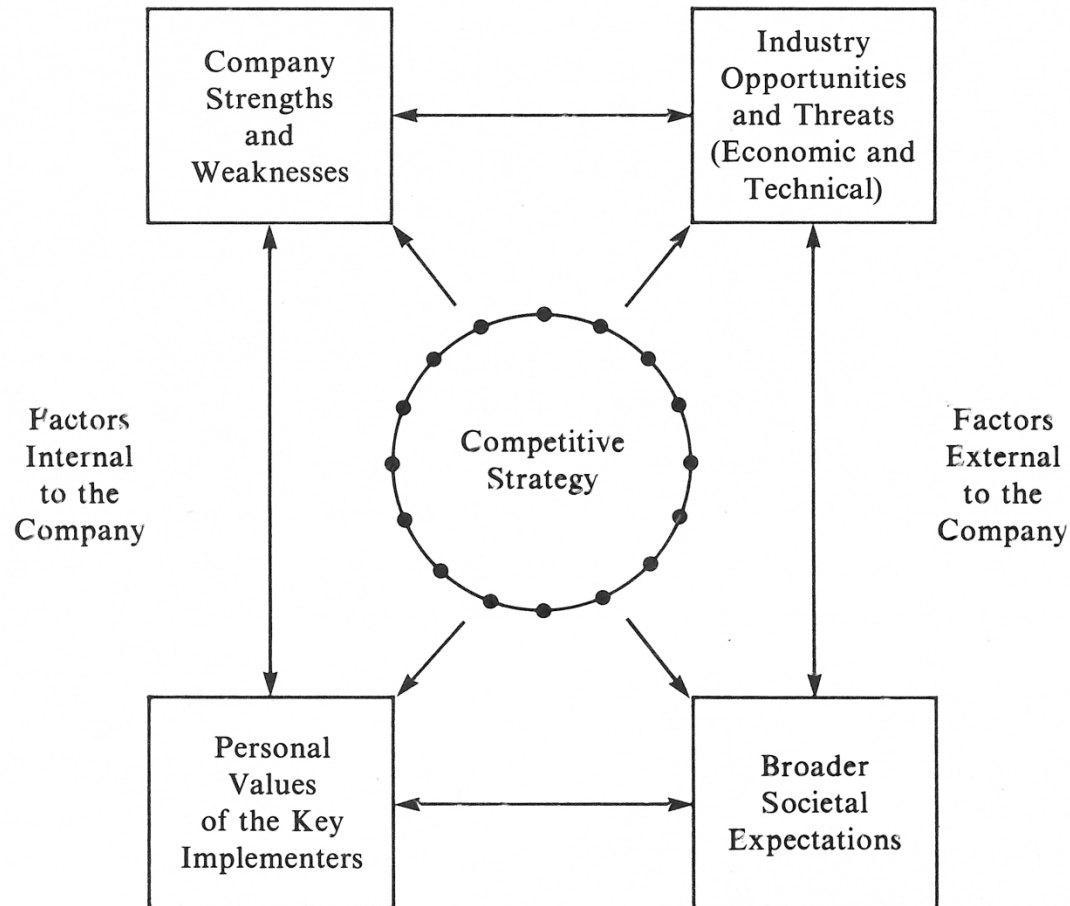


FIGURE I-2. Context in Which Competitive Strategy Is Formulated

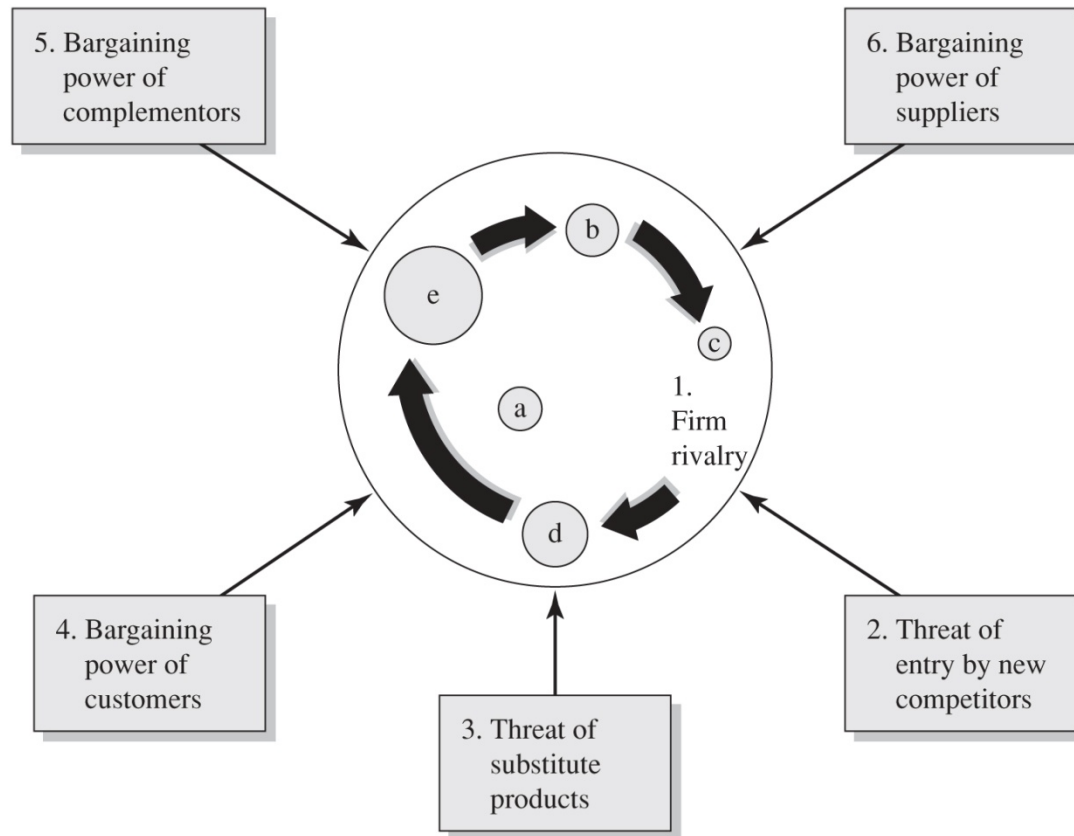
Source: Porter, *Competitive Strategy*, p. xviii.

TABLE 4.2 Five elements of an industry analysis.

1. Name and describe the industry.
 2. Describe the regulatory, political, and legal issues in this industry.
 3. Describe the growth rate of the industry and the state of the evolution of the industry.
 4. Describe the profit potential and the typical return on capital in the industry.
 5. Describe the competitors in the industry and the rivalry among them.
-

TABLE 4.3 Four stages of an industry life cycle.

| Stage | Examples |
|---------------|--|
| 1. Emergence | Artificial organs Nanotechnology Genomics |
| 2. Growth | Medical technology Software Smart phones |
| 3. Maturation | Electric appliances Automobiles Personal computers |
| 4. Decline | Steel Fax machines Car phones |



Note: Firms are represented by a circle; for example, (a) represents firm a. The size of the circle indicates the size of revenues of the firm. The six forces are numbered for clarity. The rivalry of the firms is shown as a vortex of competition illustrated by the solid arrows.

FIGURE 4.3 Six forces model.

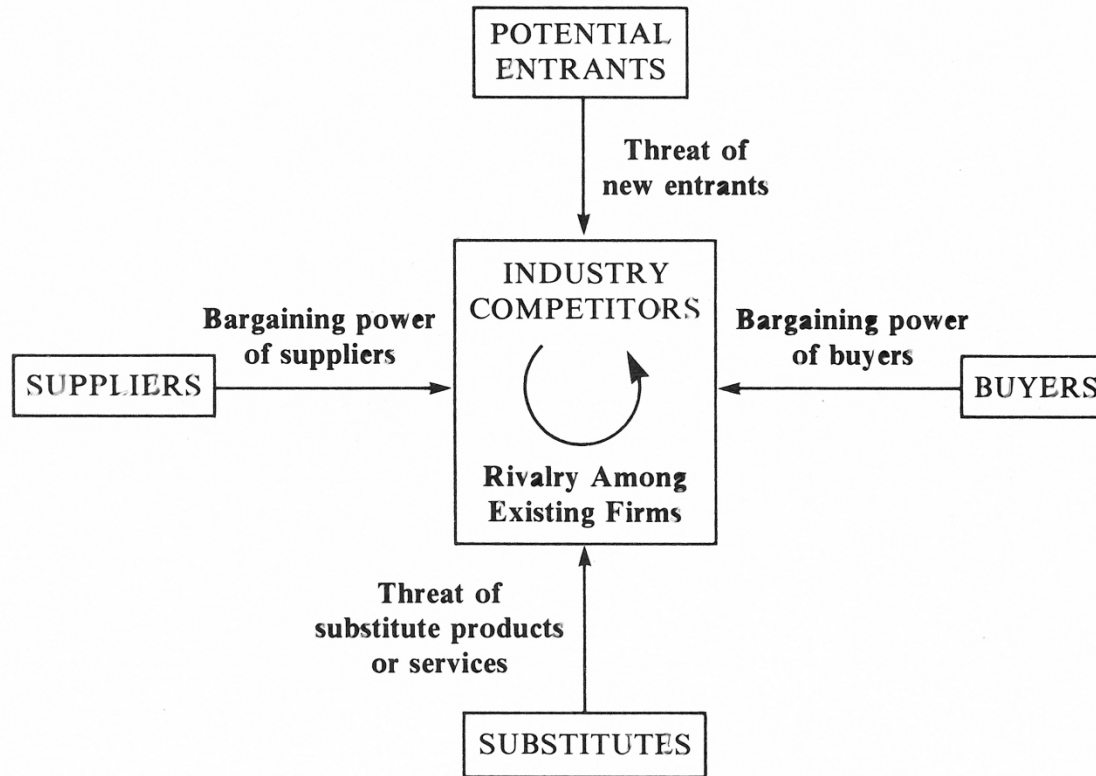


FIGURE 1-1. Forces Driving Industry Competition

Porter's original diagram, missing only the complementors.
Source: Porter, *Competitive Strategy*, p. 4.

Six forces

1. Rivalry between ***current competitors***
2. Threat of entry by ***new competitors***
3. Threat of ***substitutes***
4. Bargaining power of ***customers***
5. Bargaining power of ***complementors***
6. Bargaining power of ***suppliers***