

Business Models

A **business model** (also called a business design) is the mechanism by which a [business](#) intends to generate [revenue](#) and profits. It is a summary of how a company plans to serve its customers. It involves both strategy and implementation. It is the totality of:

- How it will select its customers
- How it defines and [differentiates](#) its product offerings
- How it creates [utility](#) for its customers
- How it acquires and keeps customers
- How it goes to the market ([promotion](#) strategy and [distribution](#) strategy)
- How it defines the tasks to be performed
- How it configures its resources
- How it captures profit

Types of business models

Generally, the business models of [service](#) firms are more complex than those of manufacturers and resellers. The oldest and most basic business model is the shop keeper model. This involves setting up a store in a location where potential customers are likely to be and displaying a [product](#) or service.

Over the years, business models have become much more sophisticated. The *bait and hook* business model (also referred to as the [razor and blades business model](#) or the tied products model) was introduced in the early [20th century](#). This involves offering a basic product at a very low cost, often at a loss (the "bait"), then charging excessive amounts for refills or associated products or services (the "hook"). Examples include: razor (bait) and blades (hook); cell phones (bait) and air time (hook); computer printers (bait) and ink cartridge refills (hook); and cameras (bait) and prints (hook). An interesting variant of this model is a software developer that gives away its word processor reader for free but charges several hundred dollars for its word processor writer.

In the [1950s](#) new business models came from [McDonald's](#) Restaurants and [Toyota](#). In the [1960s](#) the innovators were [Wal-Mart](#) and Hypermarkets. The [1970s](#) saw new business models from [Federal Express](#) and Toys R Us; the [1980s](#) from [Blockbuster](#), [Home Depot](#), [Intel](#), and [Dell Computer](#); the [1990s](#) from SouthWest Air, [eBay](#), [Amazon.com](#), and [Starbucks](#). Poorly thought out business models were a problem with many dot-coms. Each of these business model innovations can gave the firm a [sustainable competitive advantage](#). But times are changing and companies must continuously rethink their business design. Companies must change their business models as [value migrates](#) from industry to industry. Ultimately the success or failure of a company depends first on how well its business design matches their customers' priorities.

Articles on business models

- The [subscription business model](#)
- The [razor and blades business model](#) (bait and hook)
- The [pyramid scheme business model](#)
- The [multi-level marketing business model](#)
- The [network effects business model](#)
- The [monopolistic business model](#)
- The [cutting out the middleman](#) model
- The [auction business model](#)
- The [online auction business model](#)
- The [bricks and clicks business model](#)
- Loyalty business models
- [collective business models](#)

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