

# **An Age of Competition between Business Models**

**Professor Hideo Yamada,  
Waseda Business School,  
Waseda University**

# **What is a business model?**

- **A mechanism for making profits**

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# **1 . Triggers for Competition between Business Models**

- 1) Technological Innovation
- 2) Deregulation
- 3) Increasingly knowledgeable Users

# 1) Technological Innovation

Innovation	Examples
<b>Physical Phenomenon</b> → <b>Electronic Phenomenon</b>	<b>Mercury Thermometer</b> → <b>Electronic Thermometer</b>
<b>Chemical Phenomenon</b> → <b>Electronic Phenomenon</b>	<b>Silver-film Camera</b> → <b>Digital Camera</b>
<b>Analogue → Digital</b>	<b>8mm Video Camera</b> → <b>Digital Video Camera</b>
<b>Contact → Non-contact</b>	<b>Magnetic Card</b> → <b>Non-contact IC Card</b>
<b>Electromagnetics → Optics</b>	<b>Floppy Disk → Optical Disk</b>

# Change in Core Technology

- Breakdown of boundaries between products and between industries
- *e.g.* Digitalization has placed the consumer-electronics, information, telecom and broadcasting businesses all on the same field of competition

# **Sale of Core Competence to Non-affiliated Companies**

- The sale of core competence to rival companies helps achieve the critical mass of investment
- It lowers the exit barrier for competitors, creating an oligopoly market.

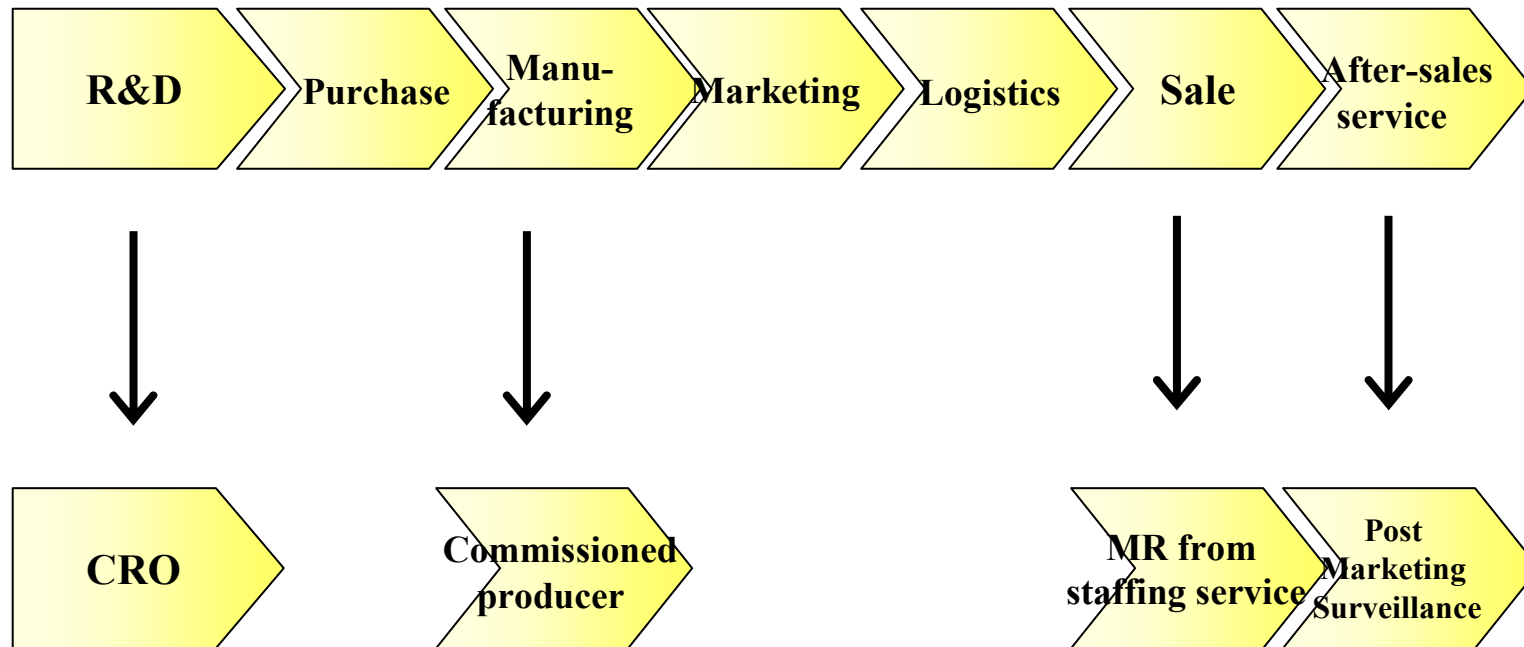
## 2) Deregulation

- The more heavily regulated an industry is, the more likely it is to undergo dramatic change in its structure.

*e.g.* the financial, pharmaceutical, telecom, and broadcasting industries



# Broken Value Chain in the Pharmaceutical industry



### 3) Increasingly Knowledgeable Users

- Maker's technical skills  $>$  User's technical skills



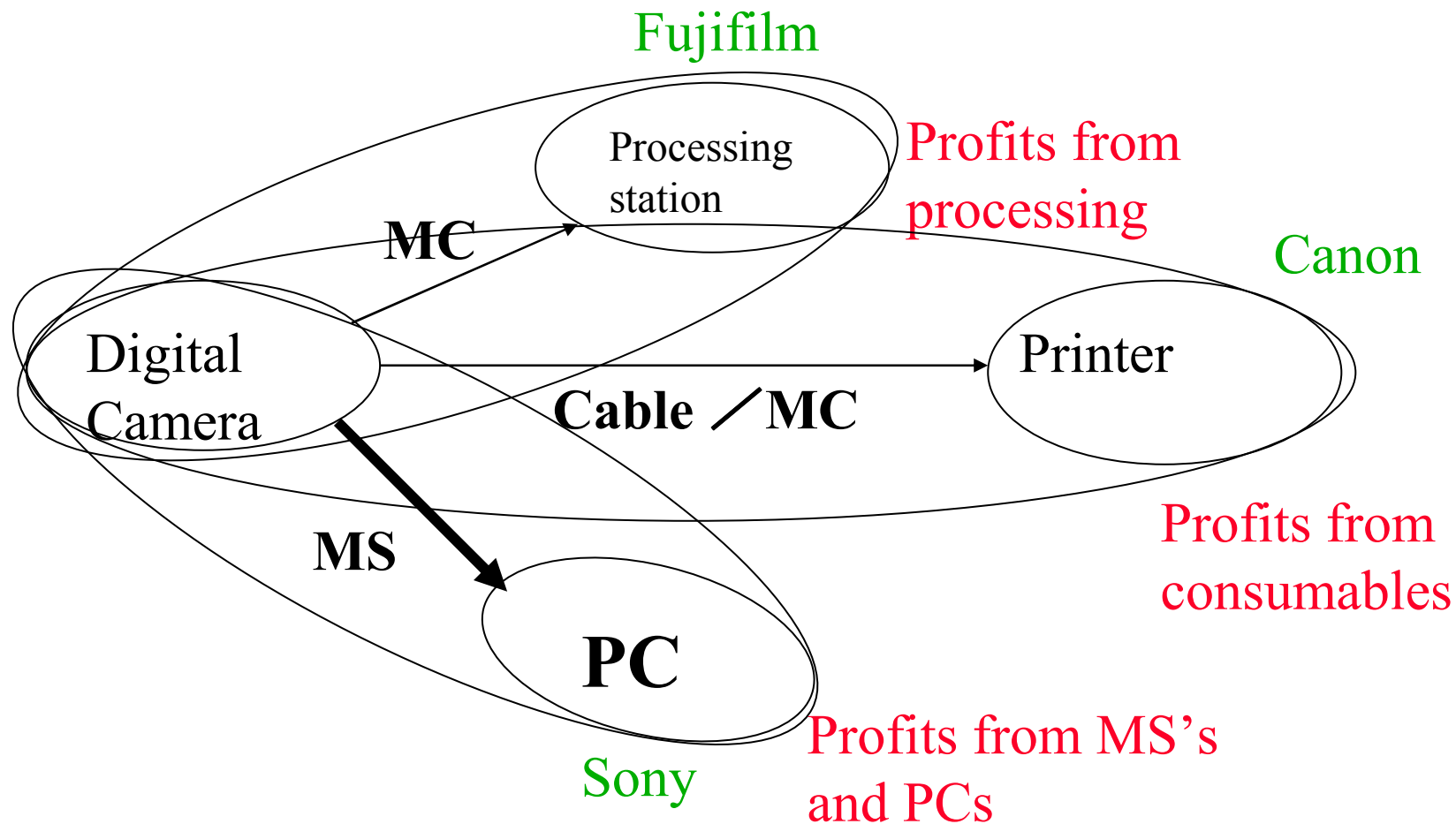
Maker's technical skills  $\doteq$  User's technical skills

- Users buy only the functions they want.



Fewer profitable package contracts

## 2. Competition between Different Business Models



Notes: MC stands for the memory card.

MS for the memory stick.

# Competition between Different Business Models

- **Ordinary banks :**

Receive deposits from consumers at lower interest rates and lend the money to businesses at higher interest rates

- **Seven Bank :**

Earns transaction fees by handling other banks' cash cards

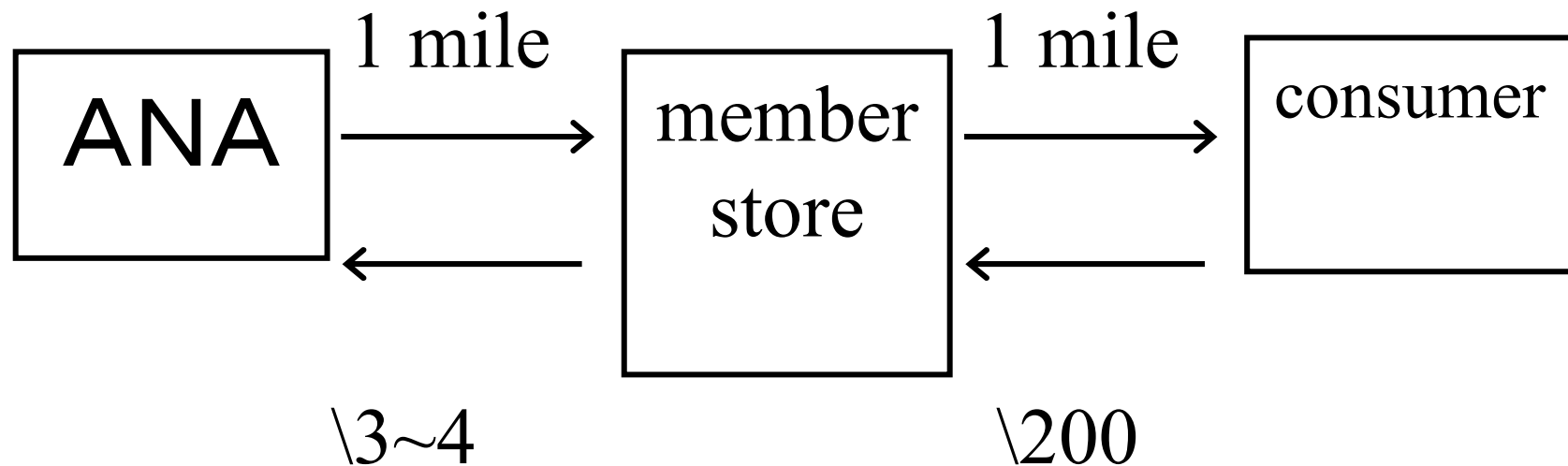
# **3 . The Open Business and the Closed Business**

- **A trade-off between “open” and “closed”**
  - The open business enables market expansion
  - The closed business secures profits

# To Resolve the Trade-off

- Instead of keeping your business closed with the aim of customer retention, leave it open, enhance its attraction and seek other sources of revenue. (*e.g.* ANA's frequent flyer program)
- Keep some of your operations open and others closed, and bundle them. (More on this in Section 4)

**If you make a purchase worth ¥200  
with your Edy card...**



## 4 . Today's Business and Tomorrow's Business

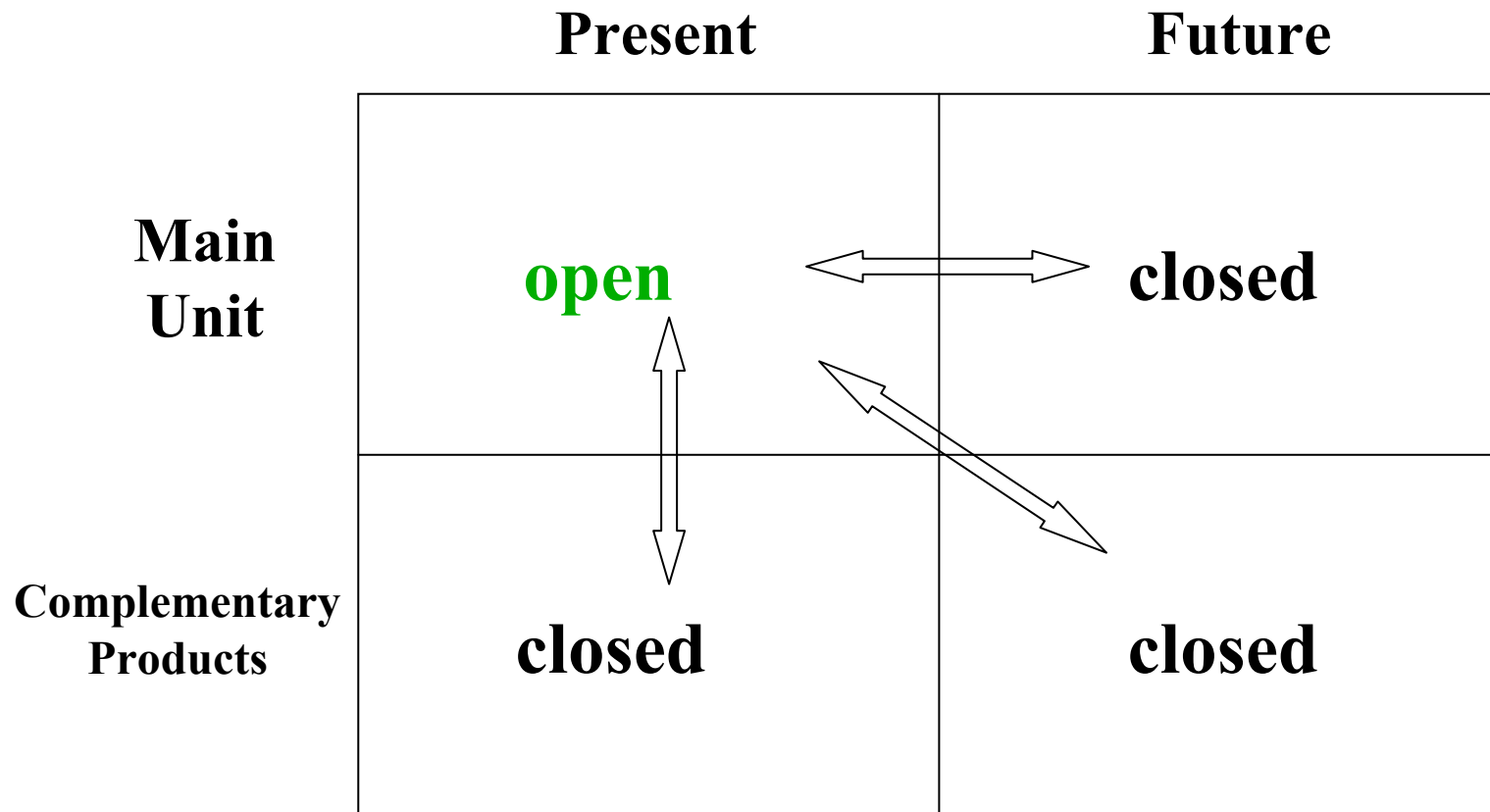
- No profits from one-time, unbundled sales of products.
- Keep the list active by not concluding with a one-time sale of a product.
- Combination of today's business and tomorrow's business
- Combination sale of the main unit and complementary products.



# Diversified Sources of Revenue

	Present	Future
Main Unit	A	C
Complementary Products	B	D

# “Open” and “Closed” Combined



**Is the Company System  
not Standing in the Way of  
Enhancing the Business Mix?**

# From Competition between Products to Competition between Business Models

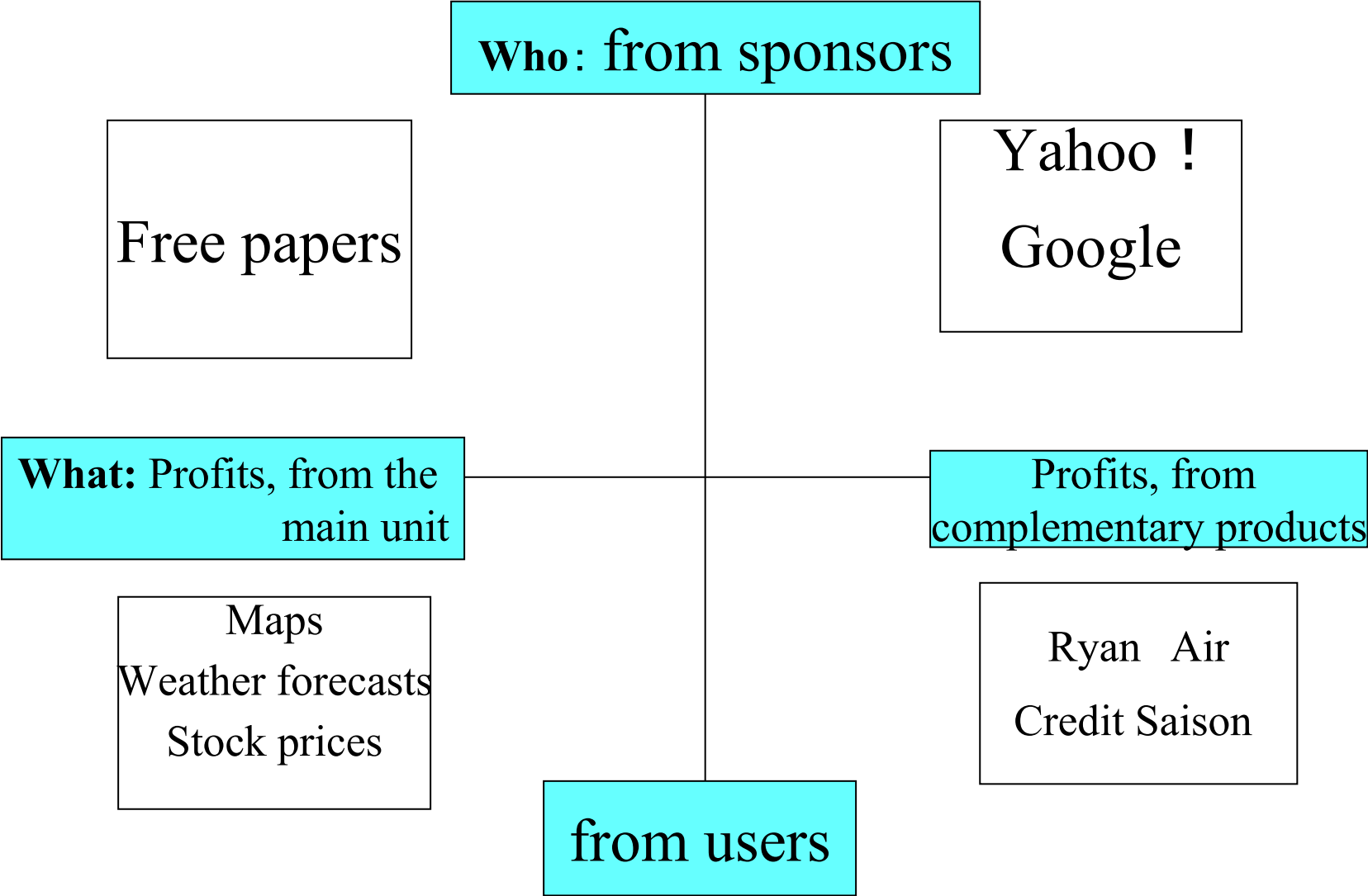
- Product competition exhausted through endless price war
- Get out of homogeneous competition
  - Build the company's own business model
- The key lies not in trying to keep pace with the competitor, but in devising a profitable mechanism from the development stage.



# **Appendix: The Paid-for Business and the Gratuitous Business**

- Windows vs. Linux
- MS Office vs. Google Docs & Spreadsheets
- NTT/KDDI vs. Skype
- Rental DVDs vs. You Tube
- Paid-for e-mail services vs. Free e-mail services

# The Framework for a Gratuitous Business



# Points in Launching a Gratuitous Business

- Target the profit-earning business of a rival  
(*e.g.* Google, Epson)
- Focus on the value that consumers are willing to pay for.