

Bright Ideas



Supporting Organizational
Excellence & Innovation

What business are you in? Choosing the right business model

When a person asks you what business you're in, they usually want to know what you do for a living. When an organization asks itself what business it's in, the discussion gets much more complicated. Choosing the right business model gives clarity to an organization's choices, just as its mission does.

Business models are not just for businesses. They apply equally well to non-profit organizations and government programs. At its simplest, a business model says what the organization does and how it makes money doing it. Of course, nothing is ever quite that simple. We'll look at four business models and the types of operations that are included under each.

Four Business Models

Peter Weill and his colleagues at MIT's Sloan School of Management have described four types of business: creators, distributors, landlords and brokers. The products of their labour may be physical, financial, human or intellectual.

Creators are in the business of design or manufacturing. This

category includes manufacturers of goods, inventors, researchers, artists, writers and entrepreneurs. Many creators have little or no contact with the end-user of their product. They mostly sell their work to someone in a different category who has contact with the end-user.

Researchers and program designers often make their money via grants from government, foundations or businesses who hope the research will tell them something that advances their own mission.

Distributors are in the business of selling ownership of a product they bought to someone else, and provide some level of customer service to add value. The most familiar are wholesale and retail distributors of goods. But this category also includes intellectual property traders and financial traders. Distributors make their money by marking up the price relative to what they paid the item's creator and the value they've added.

Both creators and distributors typically transfer ownership of the asset in their business models, although this is a bit more compli-

cated for creators who retain the moral right to claim authorship of their work while selling the economic rights to it. For example, authors' and painters' signatures remain attached to their work, even through the new owner may resell it at a profit.

Landlords are in the business of giving others the right to use what they own. This category includes organizations that rent or lease houses, cars, hotel rooms, furniture and money (AKA banks and other financial lenders), and publishers who make their money through subscriptions. Any business that deals in user licenses (e.g., Microsoft) or franchises (e.g., Subway) is a landlord. Consultants as landlords

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give their clients the use of their knowledge and problem solving skills (although consultants can also create documents and other products that may, by contract, become the property of the client). In the same way, contractors and human services provide customers or clients with the right to access the knowledge, time and efforts of their workers.

Brokers are in the business of matching buyers and sellers for a fee. This category includes financial and insurance brokers, realtors and “head hunters.” On the Internet, eBay is an example of a broker.

Not every organization operates using a single business model. A manufacturer may have a retail division. Sometimes a company may make a decision to “get out of the business of [fill in the blank]” and staff may suddenly find themselves working for a new company that their previous employer is buying that service or product from. Sometimes that decision is about business models, as described

above, and sometimes it is about the industry (e.g., an oil company calving off its IT division).

Why Business Models Matter

The sustainability or success of an organization is affected somewhat by the industry it’s in, but slightly more by its business model, according to the MIT research. In general, landlords and brokers are better off than creators and distributors. When creators and distributors sell something, it’s gone. A landlord has continuing access. For example, Microsoft can license use of its software to many users simultaneously. And Hertz can rent the same vehicle over and over again. A broker does not own the asset it brokers, so the broker has no “upkeep” costs.

Competition also plays a role. It is better to be a landlord when there is little competition for your product or service. However, the advantage goes to creators and distributors when there is a competitive marketplace.

Having said all this, the research on business model advantages has focused on (surprise, surprise!) businesses—and usually big businesses, at that. How well it applies to non-profits and government programs is anyone’s guess at this point. Certainly the main way these entities make their money is different. Yet, some of the same principles apply to all three sectors. There must be a market for what you offer and you must give good value for the money. Non-profits that fail to meet these criteria find themselves without funding, and government programs find themselves under attack from the public. While the business model chosen is important, a sound business plan that fits that model is even more critical to success, a topic I’ll tackle next time.

Check This Out

Do Business Models Matter? <http://pdf-cast.org/pdf/do-business-models-matter>

Do Some Business Models Perform Better than Others? <http://ccs.mit.edu/papers/pdf/wp226.pdf>

From Where I Sit



Give me some credit

As a management consultant with a mixed business model, I often find the copyright to my own work an issue. I am a landlord in that I lend my knowledge and problem solving skill to my clients for a fee. I do research and write reports to which I proudly attach my name. But my communications and training development contracts, like those of many others in the same line of work, often require that I sign over ownership or copyright of the work I created to the client. In many cases that means that my name is not attached to the end product.

Copyright is composed of two rights: the moral right of authorship and the economic right to sell, lease or distribute the work. I have no difficulty signing over economic rights. You, the client, paid for my expertise and effort; it’s yours to do with as you like. That’s how the creator business model works. But some contracts specify that moral rights are also transferred. What is the advantage to the new owner of removing the creator’s name? None that I can see.

Recently, a colleague proudly described a guide to partnership for non-profits that she co-wrote for a foundation. I found her marvelous creation on the foundation’s web-

site, but without her name—not even in a footnote or the acknowledgements. From where I sit, transfer of moral rights is immoral.



K. K. Biersdorff Consulting supports organizational excellence and innovation through an array of planning, research, communication and training services that take projects seamlessly from start to finish.