

## Building a Healthy Company

### Lesson 3-6: Knowing Your Business Model

#### Discussion Guide – Confidentiality Reminder

#### One Word Check-in

#### Update – Personal, Business, Leadership

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*“For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it?”*  
Luke 14:28 (ESV)

**A business model answers the simple question: How does the company make money?** The question is simple, but the answer changes with time as the competitive marketplace rapidly changes.

**Every organization has a business model, whether they spend time understanding and refining it or not.**

The most successful organizations have a good understanding of their business, and likewise, many struggling businesses do not have a model that leads to success. Many promising business ideas never succeed because the decisions and resources needed to take it to market and be profitable are misunderstood, overlooked or underestimated. Developing a robust and realistic business model can determine the financial viability of an idea before an investment is made and money is lost on an unprofitable venture. A business model can act like a filter to block a bad idea from going any further while allowing the best ideas to move forward. Without such a filter, a business risks not just financial losses from unsuccessful initiatives but also potential damage to their reputation that will hinder future initiatives.

**An effective business model requires a complete, objective analysis to determine if the idea has financial potential.** Research, not emotions, should influence your business model. A successful business model must consider the factors below:

1. *Customers* – Who are the customers? What are their unmet needs/desires? How many potential customers are there?
2. *Value* – How does the company create something valuable that others want to pay money for? Why will a customer buy this? What sets you apart from competitors?
3. *Delivery* – How are the products/services marketed, sold and delivered?
4. *Relationships* – How do you create relationships and then interact with the customer?
5. *Costs* – What are the costs for all aspects of the business to deliver the product/service?
6. *Income* – How does the business earn money for the value (products/services) provided?
7. *Resources required* – What physical, fiscal and people assets are required? How long before the idea will make money?

**In order to prosper long-term, a company needs to be willing to reinvent itself.** Your business model can't only be used in the beginning to evaluate a prospective business idea. Once a new business or product line is launched, market changes like customer needs, pricing pressures, product costs, competitor offerings and external economic conditions will impact your business model. You must constantly re-examine your business model to ensure ongoing financial viability.

#### **Shared Experiences:**

- What sets your business apart from your competitors? How do you know this is true?
- Can someone share what might need to change for your business model to be more effective?
- How could technology and artificial intelligence impact your business model in the future? How should you plan for this?
- Can someone share what changes are necessary to double the size of your business?
- Can someone share the metrics they evaluate to determine if their products/services should be modified or discontinued?

**Bottom line:** Building a healthy company begins with a great idea. That great idea must be supported by a viable business model that takes into consideration all costs and still shows a profit. As customer needs and preferences change, the idea and the business model need to be reviewed and adjusted accordingly.

#### One Word Check-out

### Dig Deeper

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#### Want to learn more?

- *Article:* [What is a Business Model?](#) by Carol Kopp, published in Investopedia. This is an excellent article that links to many other resources and examples.
- *Article:* [An Oracle White Paper - Three Steps to a Profitable, Modern Service Organization](#) by Jeff Griebeler, CX Strategist
- *Article:* [Growing Profitably At All Stages](#) by Christian Brim, Forbes Councils Member posted at Forbes.com
- *Website:* [Build an Invincible Company](#) by Strategyzer. There are many excellent resources on this site.
- *Video:* [Business Model Canvas Explained](#) by Strategyzer
- *Books:* [Business Model Generation](#) and [Testing Your Business Ideas](#), both by Strategyzer
- *Website:* [Business Model Canvas Presentation](#) by Wikipedia
- *Article:* [22 Simple Tactics to Increase Your Profitability](#) by David Finkel published in Inc.
- *Article:* [9 Strategies to Boost Small-Business Profitability](#) by Ekalavya Hansaj published in Entrepreneur

#### Competing business model examples – Walmart and Amazon

Kelly Main offers an excellent example of how Walmart's and Amazon's business models differ and yet are similar in her article [How Amazon prime's \\$20 Price Increase Helped Me Save Over \\$1,000 a Year](#). Below is a summary of the article.

Amazon has built its retail business on convenience of customer shopping while Walmart is based on the lowest price. Both models work and both models are trending toward the other.

Amazon is based on the convenience of shopping while also charging, for the most part, full retail. Amazon is building their own delivery business and brick-and-mortar stores. They also have Prime which means you do not pay for shipping plus you get some other perks as well. The fee for Prime is increasing by \$20 per year, going from \$119 in 2021 to \$139 in 2022. This has sparked some debate among loyal Amazon customers (please see additional articles below that more fully outline Amazon's business).

Walmart prides itself in offering the lowest price on the products it sells. It is also striving to compete with Amazon through its website, again offering lower prices. If the internet order is more than \$35, then shipping is free. Walmart also offers curbside pickup if you do not want to go in the store.

The difference between Walmart and Amazon is illustrated in the example of Pert Plus shampoo. At Amazon it is \$8.30 per bottle. The very same bottle at Walmart is \$2.88. That adds up to a \$65/year savings by shopping at Walmart. There are numerous examples of how Walmart is more cost effective, while Amazon charges a higher price but is more convenient.

In the next few years, Amazon's and Walmart's business models are going to continue to move toward each other. It is yet to be determined which business model might end up with the biggest advantage.

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[How Amazon Makes Money](#) by Nathan Reiff (published in Investopedia) is another very interesting article about Amazon's business model. It shows in the last quarter of 2021, Amazon made all its profits in its cloud business and broke even on its retail business.

[Amazon.com Announces Fourth Quarter Results](#) is a press release that provides a full overview of Amazon's business. It is likely much broader than most people understand.