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Module: English
Branch: Finance and International Trade
Level: First year Master

Lecture 04; Business Models

By the end of this lesson, students should be able to:
. Define what a *business model* is and explain how it guides the way an organization creates and delivers value.
. Differentiate between various business model approaches, including sales-based, service-based, and product-to-service models.
. Analyze the relationship between sales volume and profit margins in determining business profitability.
. Evaluate how pricing strategies (high vs. low prices) influence customer perception, competitiveness, and revenue.
. Explain the trade-off between market share and profitability and discuss how focusing on one can affect the other.
. Assess the impact of choice overload and explain why offering fewer, clearer options can improve customer decision-making.
. Discuss the role of cooperation and networking among competitors as alternatives to pure competition.
. Apply the principles of lean thinking to enhance business efficiency, minimize waste, and increase customer value.
. Recognize the benefits of shifting from product selling to service-oriented models to meet evolving customer needs.
. Distinguish between persistence and stubbornness and identify when it is necessary to adapt or change a business model.
. Understand that uncertainty is inherent in business and describe strategies for maintaining flexibility and innovation.
. Incorporate expert insights on adaptability, timing, and focus into strategic business decision-making.

The term "*business model*" first appeared in the 1950s and has since evolved to include many definitions. Essentially, it describes how an organization conducts business its strategy for creating and delivering value. A business model may focus on a sales technique, pricing strategy, target market needs, or any approach that aligns what the business does best with what customers value most. For example, a fast-food restaurant may rely on quick, counter-based service; a retailer might offer lower prices by removing intermediaries; and a manufacturer could shift from selling products to providing services. Since business models differ widely in effectiveness, success depends on balancing the product, customer needs, and business operations to create a strong, sales-oriented environment.

1-What Works for One May Not Work for Another

Choosing the right business model typically involves research and experimentation. Research helps identify not only a product's potential profitability but also the best ways to achieve it. Meanwhile, trial and error allows businesses to adapt and refine their ideas in real-world settings. Since no single model suits every situation, a strategy that succeeds for one product, market, or customer group may fail for another. In short, even great products or services can be unsuccessful if they are not presented or delivered effectively to the right customers.

2-Sales Volume vs. Profit Margins

Which yields greater profit selling a product with a 30% markup or a 2% markup? According to Colombian economist Bernardo Trujillo, who transformed the food retail industry in the 1940s and 1950s, the answer is the latter. At that time, food was mostly sold in specialty shops where prices were kept artificially high. Many retailers avoided selling food altogether because profit margins were low and products spoiled quickly. Instead, they focused on non-perishable goods like furniture, clothing, and tools, which could be sold at much higher markups.

Trujillo, however, argued that food sales could be more lucrative because people buy food daily. He famously noted that "percentages don't go into the bank—money does." In other words, even with a small 2% profit per item, selling large quantities such as hundreds of tomatoes, loaves of bread, or cartons of milk each day—could generate substantial revenue. This idea inspired the rise of the modern supermarket and later the hypermarket, both built on the principle of high-volume, low-margin sales summed up by the saying: "Pile it high and sell it low."

3-Profit Margins vs. Sales Volume

The widespread success of supermarkets and hypermarkets might imply that buying in bulk and selling cheaply guarantees profitability. However, reality proves otherwise. In 2006, the head of Waterstone's, a UK-based bookstore chain, resigned after the company's profits plunged from £13.5 million to a £300,000 loss within a year. He blamed supermarket and online competition, overlooking that his own aggressive discount strategy offering three-for-two deals and price cuts of up to 70% had eroded profits.

In contrast, rival retailer W.H. Smith reported a strong £80 million profit. Its CEO credited the success to maintaining higher price margins, emphasizing that selling fewer products at better margins** can be more profitable than chasing high sales volumes through deep discounts. So much for the idea of simply "pile it high and sell it low."

4-High Prices vs. Low Prices

It's often believed that low prices attract buyers while high prices drive them away as the saying goes, "rich people like low prices, and poor people need them." However, PTI International, a London-based personal development consultancy, argues otherwise. Their research suggests that customers are generally less resistant to higher prices, as they often associate price with quality or value.

PTI advises small businesses to recognize this dynamic, noting that large firms frequently exploit smaller companies' lack of pricing confidence. According to PTI, some of their clients have increased annual revenue by up to $250,000 simply by quoting higher prices to new customers. The message is clear: if your customers never object to your prices, you're probably charging too little. Still, this raises important questions:

. Can your business truly justify higher prices?

. Will your customers be willing to pay them?

. Is your product or service high-quality enough to support a premium price?

5-**Market Share vs. Profitability**

The renowned South African retail chain Pick ’n Pay began in 1967 with just four small stores in Cape Town. Nearly four decades later, it had expanded to 273 supermarkets and hypermarkets and 176 franchise outlets, employing over 30,000 people. According to company chairman Raymond Ackerman, the secret to this success lies in prioritizing profitability over market share.

Ackerman argued that many growing companies focus too much on expanding their market share by opening or acquiring new stores, often at the expense of profits. His approach was different—he cared less about how many stores he owned and more about whether each store was profitable. This strategy fueled both strong profit growth and long-term expansion, while competitors weakened themselves chasing size over substance.

Ironically, Ackerman noted that Pick ’n Pay’s failed expansion into Australia was due to having only one store, which couldn’t gain enough market share to be profitable a reminder of the paradoxical balance between scale and profit in business.

6-. Less Choice vs. More Choice:

Contrary to popular belief, offering more options doesn’t always lead to happier customers. A travel business once provided a wide range of international tours but saw little interest. When the number of options was reduced from twelve to three, demand sharply increased. The lesson: too many choices can confuse customers, while fewer, clearer options can boost sales and satisfaction.

7. Competition vs. Cooperation:

While traditional capitalism promotes competition as the path to strength and innovation, many successful companies now favor cooperation. Firms like Toyota, Peugeot, and Citroën, as well as Australian tourism operators, have collaborated to share ideas, reduce costs, and expand opportunities. This approach, known as cooperative networking, enables businesses to share resources, lower expenses, and increase competitiveness. Entrepreneurs should therefore analyze not only the market size but also how to work alongside competitors for mutual benefit.

8. Lean Thinking vs. Business as Usual:

Lean thinking, pioneered by Henry Ford and refined by Toyota, focuses on eliminating waste and producing only what customers need. Companies like Dell successfully applied this by building computers only after receiving orders, avoiding excess inventory and reducing costs. According to Womack and Jones in Lean Thinking (1996), businesses should compete against perfection, not rivals by removing non-essential activities and focusing entirely on customer value and efficiency.

***Overall Insight**:*

Effective business models are not about offering more, competing harder, or producing endlessly they’re about simplicity, collaboration, and efficiency, ensuring every action directly serves the customer.

9. Selling vs. Sales and Service

Many companies experience unstable cycles of high demand followed by slow periods, as seen with Boeing’s production struggles. To reduce this instability, businesses can shift from merely selling products to offering products as services. Customers often want the benefit a product provides, not the product itself.

For example, Dow Chemical transformed its model by selling the use of its chemicals rather than the chemicals themselves. Dow applies, collects, and recycles the materials, reducing waste, lowering costs, and benefiting the environmental while earning repeat revenue. Customers appreciate paying only for the desired outcome. Similar “product-to-service” models are used by companies like Schindler (elevator leasing), Xerox, and Pitney Bowes.

This approach helps businesses:

* Focus on customer needs and benefits,

* Extend product life through reuse and maintenance,

* Control waste and financial risk, and

* Create skilled, stable employment.

10. **Persistence vs. Stubbornness (Knowing When to Change)**

Businesses must recognize when a model isn’t working and adapt before failure. Several examples illustrate this:

Coca-Cola (New Coke): Changing its classic formula without considering customer loyalty led to massive losses before returning to the original product.

Ray Kroc (McDonald’s): Although many of his new menu ideas failed, his success came from knowing when to stop a bad idea and embrace better ones, such as the Big Mac, which he initially opposed.

Citicorp (ATMs): Initially unpopular, ATMs became essential after a snowstorm highlighted their convenience proving that timing and context can transform a product’s success.

Apple Computers: Simplifying computers through user-friendly design revolutionized the market and left traditional firms like IBM struggling to adapt.

Mohammad Yunus (Grameen Bank): By offering microcredit loans directly to the poor, Yunus empowered millions, achieving a 98.9% repayment rate and winning the Nobel Peace Prize, showing that socially driven business models can also be highly successful.

Overall Insight:

Successful businesses understand when to evolve their models, focusing on customer needs, service-based value, and adaptability. Those that cling stubbornly to outdated methods risk failure, while those that innovate and respond to change thrive both economically and socially.

10-**There Are No Certainties in Business**

While thorough research can guide the selection of an effective business model, it does not guarantee success. Even the most innovative, affordable, or appealing products may take considerable time, effort, and persistence before customers recognize their value. Entrepreneurs must stay alert and adaptable, as a single unexpected change—whether a new feature or a competitor’s innovation can turn a product into either a breakthrough success or an outdated idea overnight. The key lesson is to remain informed, flexible, and responsive to shifts in the market, customer preferences, and business environments.

11-**Expert Advice**

Don’t confuse persistence with stubbornness. If your current approach isn’t working, stop and try a new one — repeating a bad strategy won’t lead to success.

Understand your reasons for change. Before shifting direction, know exactly what you're changing and why.
Time your changes wisely. Change is necessary, but it should be purposeful and well-timed. Some strategies take patience and commitment before showing results.
Work intelligently, not just tirelessly. Revising your business plan is a sign of strength, not failure, if the existing one isn't effective.
Stay focused. Avoid adopting multiple business models at once trying to please everyone usually leads to confusion and poor performance.
Dare to be different. Success often comes from offering something unique. If competitors compete on price, consider offering premium products or superior service instead.
Stay adaptable. No business strategy is permanent; even the best models eventually need to evolve.

Key Terms

-Business Model; The framework or strategy through which a company creates, delivers, and captures value for customers and stakeholders.
-Value Creation; The process of delivering products or services that meet customer needs and generate profit.
-Sales Volume; The total number of units of a product or service sold within a given period.
-Profit Margin; The percentage of revenue that exceeds the total costs of production; a key indicator of profitability.
-High-Volume, Low-Margin Model; A business strategy that focuses on selling large quantities of products at small markups to achieve profit.
-Market Share; The proportion of total market sales controlled by a particular company or product.
-Profitability; The ability of a business to generate earnings compared to its expenses over time.
-Pricing Strategy; The approach a company uses to set product or service prices in order to maximize profit and market position.
-Customer Perception; How customers view the quality and value of a product or service based on its price and presentation.
-Choice Overload; A situation where too many options confuse customers and reduce purchasing decisions.
-Cooperative Networking; Collaboration between competitors or related firms to share resources, reduce costs, and improve efficiency.
-Lean Thinking; A management approach focused on eliminating waste, streamlining processes, and maximizing customer value.
-Product-to-Service Model; A business model that sells the use or benefit of a product rather than the product itself.
-Adaptability; The ability of a business to respond quickly and effectively to market changes or unexpected challenges.
-Persistence vs. Stubbornness; The balance between perseverance in pursuing a goal and the awareness to change direction when necessary.
-Innovation; The process of developing new ideas, products, or methods to improve efficiency, competitiveness, or value.
-Customer Value; The perceived benefit a customer receives from a product relative to its cost.
-Sustainability; Operating in a way that supports long-term environmental, social, and economic balance.
-Competitive Advantage; A unique feature or capability that allows a business to outperform its competitors.
-Strategic Flexibility; The capacity to adjust business plans and operations in response to environmental or market changes.