

# The Principles of Highly Successful Business Models: Using the Value Framework™

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We've been seeking the answer to "what drives value for a company" since companies were first started. In the industrial age, business models changed fairly infrequently. But, in today's networked environment, business models change so frequently that management has a difficult time determining which models to deploy and which to avoid.

Acting on the wrong model—or not acting quickly enough—can lead to significant financial or opportunity loss, and increase the potential to being forced out of business. We need a framework to help us create optimum and lasting value for all stakeholders in a business. E-Commerce Management (ECM) expert and pundit Mitchell Levy has created the Value Equation ( $V=MS^3$ ™) to put a framework around business in the 21<sup>st</sup> century and beyond. It helps determine the best business models to deploy, manage and evolve to successfully execute your company's strategic objectives.

$$V=MS^3 \text{™} \quad (V = \text{Value}, M = \text{Model}, \text{ and } S = \text{Strategy})$$

The Value Equation represents a framework for architecting holistic business models through the application and management of strategies with the correct business models. Successful businesses will show a synthesis of processes, transactions, and participants, applied through strategy deployment, strategy management, and continuous strategy evolution.

The Value Framework™ is an essential tool for building a business framework as networks have changed the relationship of processes, transactions, and participants in business models. Understanding success and failure of business models can't wait for marketplace deployment; we need a predictive model that can dissect both previous successes and previous failures. Using the Value Framework™ and Methodology in case study analysis, we examined over 50 firms in a variety of business models. In each case, we found that strategy was the key variable in deploying, managing, and evolving business models.

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## **Evolution of Networked Business Process Models**

Business processes, transaction types, participants, internal and external influences need to be combined to create models that can be deployed, managed, and evolved over time. As strategies evolve, so do the models. Improvements in efficiency of supply chains and logistics, and disintermediation add continuing complexity to future models. But the complexity of business models is simplified when we apply the Value Framework™ and create an integrated and strategic fabric to support processes, transactions, participants and influences of commerce. The network—not the computer—is the workhorse of process. EDI and supply chain networks have evolved as the Web has grown from Websites and extranets to exchanges and e-Marketplaces and companies seamlessly combine physical and digital processes to produce optimal results.

The business dimensions of Value Webs include the supply and value chains, horizontal business applications, and static and dynamic transactions. Additionally, these models overlap, merge, and evolve over time. Internet business models such as direct commerce Vendor Managed Inventory (VMI), for instance, complement sell side and demand chain management for partners, complementers, and enterprises alike. The merging of P2P (peer-to-peer) networks and Web Services is likewise enabling the evolution of 21<sup>st</sup> century "transparent commerce" where transactions occur that benefit the customer without the customer directly initiating the request or conducting the payment.

## **Vertical Market Business Models**

Successful business models blending physical and digital components have appeared in manufacturing, energy, health care, distribution, and retail, and all can be explained using the Value Framework™. In each case, process, transactions, the chain of participants, plus internal and external influences have been extended over the value Web.

- Manufacturing has leveraged supply chain automation through exchanges, in e-marketplaces, including market-to-market models.
- In energy, exchanges and automated trades help the sensitive balancing of the power grid, which would not be possible were it not for the networked process.
- Health care has built in the use of electronic point-of-service, document workflow in multi-partner portals, and will soon add networked medicine.
- Distribution and logistics, especially Fed-Ex and UPS, have reinvented a new supply / value chain.
- Retail has embraced VMI, and "direct commerce".

Whether companies deploy a blended model or purely a physical or digital one, through the Value Framework™ Methodology, the case study analysis describes a methodology of observation, analysis, and comparison of principles for discovering and predicting strategies and business models for highly successful companies.

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## Case Study Methodology

For each company analyzed, eight concrete steps are used to analyze the business framework using the Value Framework™. These are:

- Analysis of Processes – discovery, interact, transact, and satisfy
- Analysis of Transactions – spot buy, recurring, replenishment, dynamic
- Analysis of Participants – consumer, business, marketplace, applications
- Analysis of influences – internal and external
- Analysis of Strategy Deployed
- Analysis of Strategy Managed
- Analysis of Strategy Evolved
- Summary of value provided by the business framework

## Strategy Analysis

Strategies have three distinct phases in molding, managing, and adapting business models to current and future business environments, including introduction of new technologies. These are strategies deployed, strategies managed, and strategies evolved. Each phase of strategy looks at the business ecosystem and determines the optimum fit of processes, transactions, participants, and influences to discover and create new business models. New models can also "graft" onto existing models as more participants are added to complex value networks. Examples include merging of B2C and B2B into new B2B2C business models.

## Analysis of Value

The last step in evaluation of business models and strategies looks at the total value provided by the business framework. In addition to optimizing costs while enhancing transaction and trading values, value can also be provided to employees through efficiencies, to consumers through increased quality of experience, and to the corporation through its image of being a more responsive business entity. As companies mold business strategies to support core ideologies and respond to new market challenges, the value should be increased to all stakeholders in the corporation. An analysis of the "best practice" companies should not overlook any aspect of value creation.

## Summary

Evolution of businesses requires a methodology that analyzes the various dimensions of business models. These dimensions include:

1. The complex actions incorporated into business processes
2. The types of transactions companies conduct
3. The participants that are involved in the processes and transactions

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These business models need to be continually deployed (or redeployed), managed and evolved according to the morphing strategy of the company. In the 21<sup>st</sup> century landscape of integrated physical and digital business models, the holistic Internet enabled entity needs to continually evaluate and modify their business by all components of business models and strategy to be able to continue to create value tomorrow and survive in the long-term.

## **About the Author:**

Mitchell Levy is President and CEO of ECnow.com (<http://ecnow.com>), a management consulting helping companies and individuals' transition from the industrial age to the Internet age with strategy, marketing and off-the-shelf and customized on-line and on-ground training.

He is the author of E-Volve-or-Die.com (<http://e-volve-or-die.com>) and author of the Value Framework™ (<http://ecnow.com/value>), Executive Producer of VMS3.info (<http://VMS3.info>), an on-line strategic eZine analyzing companies via the Value Framework™, the Founder and Program Consultant of the premier San Jose State E-Commerce Management Certificate Program (<http://ecmtraining.com/sjsu>), and the Chairman of the Pay-per-Performance PR Agency Media Attention Now™ (<http://ecnow.com/mediaattention>), the on-line learning content production company Transition Learning (<http://transitionlearning.com>), and the CEO Networking organization (<http://CEOnetworking.com>).

Levy was at Sun Microsystems for 9 years, the last 4 of which he managed the e-commerce component of Sun's \$3.5 billion supply chain. He is a popular speaker, lecturing on ECM issues throughout the U.S. and around the world.

Read more about Levy: [http://ecnow.com/ml\\_bio.htm](http://ecnow.com/ml_bio.htm)

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