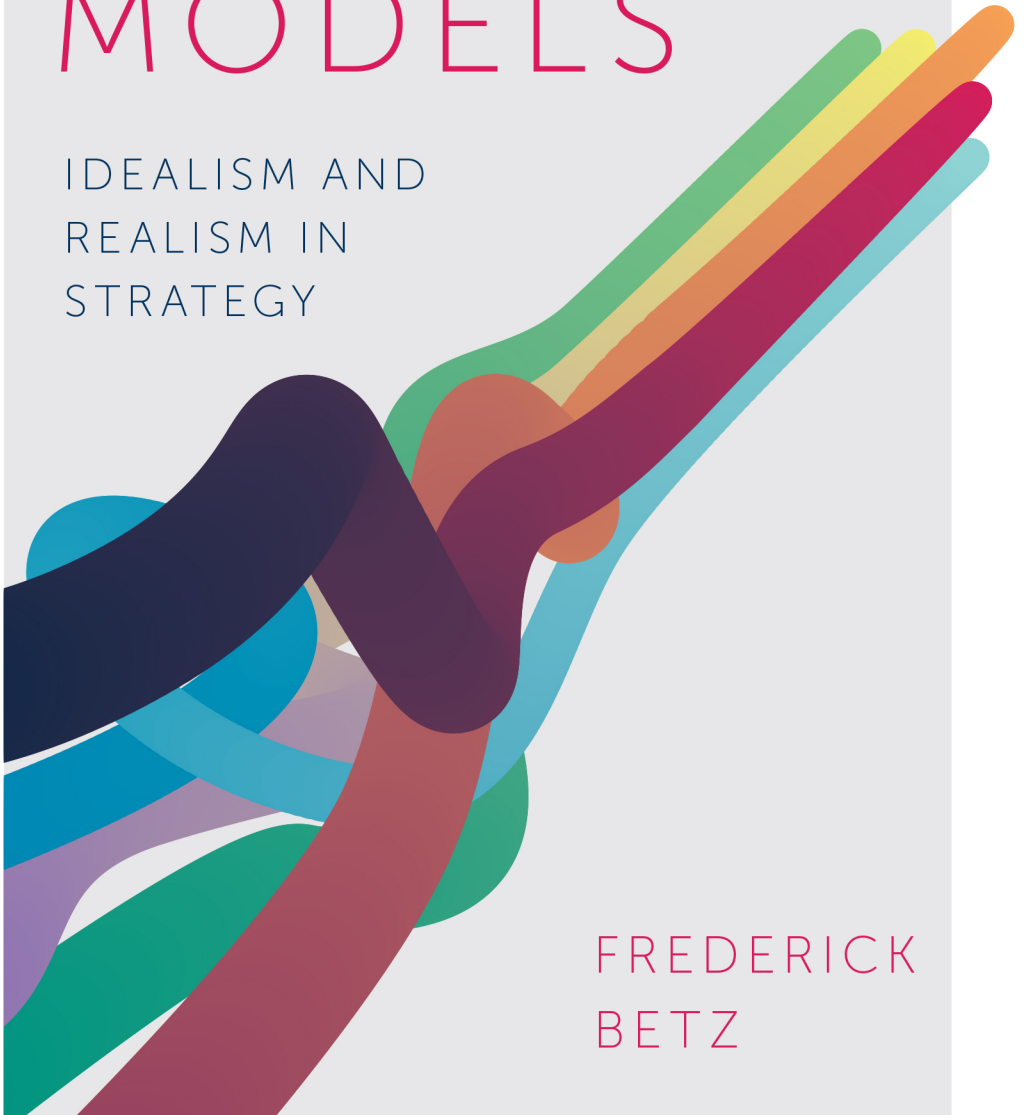


# STRATEGIC BUSINESS MODELS

IDEALISM AND  
REALISM IN  
STRATEGY

FREDERICK  
BETZ



# STRATEGIC BUSINESS MODELS

*This page intentionally left blank*

# STRATEGIC BUSINESS MODELS: IDEALISM AND REALISM IN STRATEGY

**FREDERICK BETZ**

*Portland State University, USA*



United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2018

Copyright © 2018 Emerald Publishing Limited

**Reprints and permissions service**

Contact: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-78756-710-8 (Print)

ISBN: 978-1-78756-709-2 (Online)

ISBN: 978-1-78756-711-5 (Epub)



Certificate Number 1985  
ISO 14001

ISOQAR certified  
Management System,  
awarded to Emerald  
for adherence to  
Environmental  
standard  
ISO 14001:2004.



INVESTOR IN PEOPLE

*For my wife, Nancy, and my children, Sara, Fred, David*

*This page intentionally left blank*

# Contents

List of Figures	<i>ix</i>
Preface	<i>xiii</i>
<b>Chapter 1   Modeling Business Strategy</b>	<b><i>1</i></b>
<b>Chapter 2   Strategic Sales – The Case of Amazon</b>	<b><i>13</i></b>
<b>Chapter 3   Strategic Capital – The Case of Barings Bank</b>	<b><i>25</i></b>
<b>Chapter 4   Strategic Resources – The Case of Intel</b>	<b><i>43</i></b>
<b>Chapter 5   Strategic Profit – The Case of Hyundai</b>	<b><i>65</i></b>
<b>Chapter 6   Strategic Control – Case Studies on Global Holding Companies</b>	<b><i>83</i></b>
<b>Chapter 7   Strategic Business Environment – The Case of The Great Depression</b>	<b><i>101</i></b>
<b>Chapter 8   Strategic Financial Markets – The Case of Securitization</b>	<b><i>123</i></b>
<b>Chapter 9   Strategic Idealism and Reality – The Case of The International Financial Grid</b>	<b><i>145</i></b>
<b>Chapter 10   Strategic Methodology – The Case of Xerox</b>	<b><i>165</i></b>
<b>Chapter 11   Summary – Strategic Modeling</b>	<b><i>183</i></b>
References	<i>193</i>
Index	<i>197</i>



*This page intentionally left blank*

# List of Figures

Fig. 1.1	Porter's Value-added Open System Model . . . . .	2
Fig. 1.2	Two Inputs and Two Outputs Strategic Business Models . . . . .	2
Fig. 1.3	Six Types of Strategic Business Models. . . . .	3
Fig. 1.4	Comparing Business Models for Whole Foods and for Amazon. . . . .	5
Fig. 1.5	Strategic Business Models for Whole Foods and for Wells Fargo. . . . .	8
Fig. 1.6	Types of Enterprise Systems Strategic Business Models . . . . .	10
Fig. 2.1	Original Strategic Business Model for Amazon. . . . .	16
Fig. 2.2	Strategic Business Models for Book Sales to New and Used Book Markets . . . . .	18
Fig. 2.3	Amazon's Strategic Business Model as an eBook Publisher/ Retailer . . . . .	20
Fig. 2.4	Expanded Business Factor of Sales in the First Strategic Business Model of Amazon . . . . .	21
Fig. 2.5	Strategic Business Models for the Three Book Businesses of Amazon . . . . .	21
Fig. 3.1	Strategic Model of a Merchant (Commercial) Bank . . . . .	27
Fig. 3.2	Business Model of Futures Trading in Agriculture . . . . .	32
Fig. 3.3	Arbitrage Strategic Business Model . . . . .	34
Fig. 3.4	Ideas in the Concept of Capital . . . . .	40
Fig. 3.5	Comparing Strategic Business Models for Bank's Loans or Trades . . . . .	41
Fig. 4.1	Scientific Technology Innovation Process . . . . .	46
Fig. 4.2	Moore's Law for the Forecast for Progress in Semiconductor Chips . . . . .	49
Fig. 4.3	Intel's Business Model for MOS IC Memory Chips . . . . .	52
Fig. 4.4	In Production of IC Chips, Intel's Percentage Production of Memory Chips . . . . .	53
Fig. 4.5	The Business Environment of Intel after 1976 needed to Include Japanese Firms as Competitors . . . . .	54
Fig. 4.6	Intel's Percentage Production of Memory Versus Microprocessor Chips . . . . .	56
Fig. 4.7	Dynamics of New Industries based on Technological Innovation . . . . .	57
Fig. 4.8	Intel's Strategic Business Model for Micro processor Chips . . . .	61
Fig. 4.9	Intel Microprocessor Chips and Moore's Law. . . . .	62

Fig. 5.1	Strategic Business Model of Hyundai Group . . . . .	69
Fig. 5.2	Industrial Life Cycle for Manufactured Products . . . . .	70
Fig. 5.3	US Domestic Sales of Automobiles . . . . .	71
Fig. 5.4	Hyundai's Automobile Production System . . . . .	73
Fig. 5.5	Strategic Business Model of Hyundai Group with Hyundai Automobile. . . . .	76
Fig. 5.6	Automobile Production Operations within a Strategic Business Model . . . . .	77
Fig. 5.7	Operations Model of an Enterprise System. . . . .	78
Fig. 5.8	Operations Model of a Manufacturing Enterprise . . . . .	79
Fig. 6.1	Strategic Business Models in a Diversified Firm . . . . .	85
Fig. 6.2	Berkshire Hathaway's Strategic Business Model . . . . .	86
Fig. 6.3	Major Industrial Groups of Keiretsu with Core Financial Institutions . . . . .	89
Fig. 6.4	Strategic Business Model of Japanese Zaibatsu/Keiretsu . . . . .	90
Fig. 6.5	Disequilibrium Systems Model of Corporate Leveraged Buy-outs. . . . .	96
Fig. 7.1	Supply and Demand Market Equilibrium Curves . . . . .	104
Fig. 7.2	Equilibrium Price Drops to Depression Price as Market Demand Shrinks. . . . .	104
Fig. 7.3	Model of Keynes/Minsky Description of a Financial Asset Transaction. . . . .	106
Fig. 7.4	Three-dimensional Chart of Minsky Price–Disequilibrium Process Due to Leverage . . . . .	107
Fig. 7.5	Bank Failures due to Insolvency, Superimposed upon Stock Market Prices . . . . .	108
Fig. 7.6	1930–1933 Failures of Bank Business Model Due to Bad Loans in 1929 New York Stock Market . . . . .	109
Fig. 7.7	Industry Production in the US and the Timing of Bank Runs 1930–1933 . . . . .	110
Fig. 7.8	Weberian Model of Functional Relationships in Society. . . . .	111
Fig. 7.9	Taxonomic Model of Functional Systems in a Society . . . . .	113
Fig. 7.10	Topological Graph of American Societal Systems in 1929–1933. . . . .	113
Fig. 7.11	Economic Progress for the Functional Planes of the U.S. Society from 1925 to 1929 . . . . .	114
Fig. 7.12	Minsky Disequilibrium Model of the US Stock Market in 1929 . . . . .	115
Fig. 7.13	Unemployment Rate in the US . . . . .	116
Fig. 7.14	US Farm Prices. . . . .	117
Fig. 7.15	Big Social Structural Changes between US Society in 1930–1940. . . . .	118
Fig. 8.1	Strategic Business Model of Investment Banks . . . . .	124
Fig. 8.2	Financial System in which Investment Banks Formulate Financial Products . . . . .	125

Fig. 8.3	The Plunge in the Dow Jones Index from May 2008 to November 2008 . . . . .	130
Fig. 8.4	Operational Financial Scheme Leading to Collapse of the Securitized Financial Market . . . . .	132
Fig. 8.5	The Mortgage Securitization Product was Not a Real Trade of a Financial Asset . . . . .	135
Fig. 9.1	Harrod–Domar Macro-economic Model of Savings and Production . . . . .	148
Fig. 9.2	Events Changing the Stasis of Wall Street Investment Banking . . . . .	151
Fig. 9.3	City of London Financial Center of the International Financial Grid . . . . .	154
Fig. 9.4	International Financial Networks . . . . .	155
Fig. 9.5	Law Firms and Shell Corporations Operating with Off-shore Banking . . . . .	159
Fig. 10.1	Perspectives on Strategic Logic . . . . .	166
Fig. 10.2	Strategic Perspectives at the Founding of Xerox . . . . .	168
Fig. 10.3	Strategy Process . . . . .	169
Fig. 10.4	Strategy Process in the Innovation (Invention Plus Commercialization) of Xerox . . . . .	170
Fig. 10.5	Xerox Strategic Process in Failing to Commercialize the Altos PC Network. . . . .	173
Fig. 10.6	Business Models and Environment Models in a Strategy Process . . . . .	177
Fig. 10.7	Research Laboratories as Top-down Strategic Resources . . . . .	179

*This page intentionally left blank*

# Preface

The capability of modeling business strategy is important to planning and is called a “strategic business model.” The technique was introduced by Michael Porter in his value-adding model of business transformations (Porter, 1985). This book describes advances in the technique, including Jay Forrester’s earlier approach of depicting the control of business operations (Forrester, 1961).

The importance of a strategic business model as a technique is to assist in discriminating between strategy as “wishful-thinking” and as “future-reality.” The major difficulty to successful strategy is (1) to get from the reality of the present and (2) to a desirable future, eventually made real. Wishful thinking is not sufficient as strategy.

For example, in strategy a business is urged to formulate a mission statement. And often such a mission statement has been “to serve customers and benefit stakeholders.” And while the intent is desirable (all businesses should serve customers and create profit), it is, in practice, not very helpful. It is an obvious wish, but without operational detail. Which customers and how to provide value to them now and in the future – this is the first real question. Which stakeholders (shareholders, executives, management, labor, public good) and how much to each – this is the second real question. Strategic business models provide a basic technique to figure out, in detail, the realities of the present and the future.

What is unique about this book on strategic modeling is that it provides an analytical technique of six different types, for modeling both manufacturing and financial firms. Previous business modeling did not have this capability, modeling only manufacturing firms. It also enables modeling of conglomerate firms, such as Amazon and Berkshire Hathaway.

Strategic business models are important to understand the transformative operations of an enterprise system for competitiveness in the present and in the future. We will study this technique by applying it to real business cases, some successful and some problematic, and we will see how the reality of the future tested their strategic business models.

*This page intentionally left blank*