

## Video Transcript: "What is a Business Model?"

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**MALE\_1:** Today, business model and strategy are among the most sloppily used terms in business. But these are separate concepts with enormous practical value. When it comes to concepts so fundamental to success, no organization can afford fuzzy thinking.

The term business model emerged when personal computers and spreadsheets became common, says Joan Magretta, a longtime editor at Harvard Business Review. Managers could use these tools to literally run the numbers, to see models of how various decisions might affect the bottom line. A new business model might hinge on either a different way to make something, or a different way to sell something. Take discount retailers like Kmart and Walmart for example. These pioneers applied supermarket logic to the conventional department store, and developed a discount retail model, which involved slashing costs by eliminating chandeliers, carpets, and personal service in exchange for lower prices.

While business model is a description of how your business runs, a competitive [00:01:00] strategy explains how you will do better than your rivals. For example, part of Walmart's unique strategy was to prioritize rural customers. In founder Sam Walton's own words, he put good sized stores into little one horse towns, which everybody else was ignoring. And it worked. Focusing on rural areas, let Walmart buy up land for cheap target customers no one else was going after and preempt other discount stores from entering the market in those areas. Their customer strategy, thus reinforced other parts of their competitive strategy. In contrast, Kmart tried to appeal to everyone, and that's not a distinctive strategy. While they may have a good business model without a clear strategy, they've struggled to stay competitive.

To get ahead of your rivals you not only need a good business model and a clear strategy, you also need a clear understanding of the difference between the two. [MUSIC]