

Recommendation Preface: Turn the Wei-Zhu Business Model Theory into Tools for Business Founders

How to design the profit model is a big issue about business model design. Especially in the mobile internet era, if you don't have a clear idea before you do something and even after you've finished doing it, the opportunity is already gone when you've figured it out. The idea here usually involves the design of profit models. The key point of this book is on how to design a better profit model; therefore it is a must-read in the mobile internet era.

For the Wei-Zhu team, the overarching significance of this book is to instrumentalize theories, which is of great practical importance. The principal of business model design is entrepreneur, but entrepreneurs need not become theorists, as they only need to grasp the tools of business model design and apply them properly. The book provides the tools with which to design profit models. Starting with this book, the Wei-Zhu team will create more user-friendly tools by centering on all the elements of business models—each element represents an entrance to business model design.

Human beings are great in that they've created and can use tools. Creating tools is also an inevitable path for the research on business models, and is just a matter of time. Since the end of 2006, *Chuangfuzhi* and the Wei-Zhu team have worked together on the research of business models. At the very beginning, they wrote cases by making use of the six elements of business model, searched for various species in the diverse business ecosystem, and drew them up, amassing over one thousand cases about business eco-species. By observing these specimens, business founders can obtain many a design inspiration. Their next-step work is to analyze the genes of these species, and invent the tools to design and combine these genes.

One of the merits of this book is its origin from practices. Under the promotion of Wei WEI and Wuxiang ZHU in 2012, *Chuangfuzhi* carried out an experiment, and opened a club joined by business founders to explore the means to help enterprises design business models on large scales. One of the major tasks is to turn the Wei-Zhu business model theory into tools business founders can use conveniently. We've assisted the founders of over 100 enterprises with business model design and practically implement these models. Doctor Guiping LIN, a co-author of the book, has participated in this program, and sought solutions together with the business

founders to specific cases. The process of this travail has generated huge gains, which will be displayed in this book.

Business model design is such a process of practice. When working with Wei WEI and Wuxiang ZHU, everybody was particularly excited about the discovery of a new species or a new solution. From the discovery of business species, to gene research, and experiment over genetic recombination, each step has to be verified and confirmed repeatedly. Any successful model looks perfect logically in hindsight, and even can be described perfectly with various logics. Therefore, logic alone is not enough; only by combining theory with practice, will there be true value.

Business model design actually means designing a transaction structure between you and all the stakeholders. Take profit model for example, conventional enterprises normally pay their own costs, and their income derives from direct customers. That is to say, whoever receives the product pays for it. Nevertheless, both cost and income can be expanded, and allocated to different stakeholders. For instance, income may come from direct customers, or third parties without charging direct customers, or from direct customers and third parties at the same time. Costs may be borne by the enterprise itself, or by third parties, or shared between the enterprise and third parties, or the variable cost can be zero. Combine these options in different ways, and you will get 12 profit models. There are also multiple choices for the means of income and expenditure: you may take fixed, residual or shared revenue, collect the admission fee, road toll, parking charge, fuel cost or sharing fee, or choose pricing by customer or auction-based pricing. There are rules to follow, and conditions precedent.

It can be said that the existence of each profit model is built on certain conditions precedent. Therefore, it is advisable to expand the conditions precedent before designing a better profit model. This can be achieved by (i) expanding the sources of income and expenditure; and (ii) expanding the means of income and expenditure. Finally, put them together, or form combination pricing models, and we will obtain new profit models and apply them in practice.

Today, we're living in a wonderful era, in which everybody has the opportunity to stand on the same starting line with giants, or even stand on the shoulders of giants through business model innovation, and create a brand-new business of yours.

Publisher of *Chuangfuzhi*

Zhang Xindong

Recommendation Preface: How to Make Profit After Opening Up Corporate Boundaries

Principle of Profit Model, written by Guiping LIN, Wei WEI and Wuxiang ZHU, just like other works produced by a Wei-Zhu business model team, sets up various transaction scenarios you may find yourself in amid their calm narration, and brings you disruptive and inspiring enlightenment.

This book is an application of the theoretical patterns of the Wei-Zhu business model research team to profit model design, and it is disruptive in terms of theoretical patterns about business model. The “Wei-Zhu business model theory” intends to enable enterprises to open up their boundaries, display, analyze and design a “stakeholder-based transaction structure”, and gradually weave enterprises into society. Such a transaction structure perspective of opening up corporate boundaries and the thinking behind it are of distinctive theoretical significance and practical value in the current information era.

Enterprises in the industrial age were independent of society, with a strict boundary in between, therefore, the core of an enterprise’s profit lay in pricing. The clearer the corporate boundary is, the more accurate the costs. Hence price became the core of mutual transactions and internal profits.

However, in the current information era, the enterprise system has gradually become an integral part of society from the original system independent of society. Enterprises have become an organic node in the big information interchange network of people, money and materials, and can no longer make profits by relying on the old simple profit model design (which only cares about “quantitative” pricing).

How should enterprises transform themselves from a “social insulator” in the industrial age into organic entities well integrated into social networking in the information age? This requires entrepreneurs to open up corporate boundaries by introducing the perspectives of stakeholders and transaction structure, fully recognize the inseparable and cross-sector symbiotic relationship between enterprises and their stakeholders, and realize that corporate boundary has gone out of time. Although the context of “cost—income” remains unchanged, it is not simply about computation, but about the four factors mentioned in the introduction of this book, i.e. positioning, determining nature, quantification, and timing, which constitutes a diagram of “promoting the circulation of qi” for the organic entity. By opening up corporate boundaries and introducing new stakeholders, enterprises can figure out

the design paths of shifting from PM0 (the conventional profit model) to innovative profit models such as PM2, PM5 and PM11, or other combinations (PM: Profit Model).

Discussions about conventional profit models abound, but the theory of pricing is the core of economic and business theories. *Profit Patterns* and *Profit Zone*, among others are very good works on this subject.

Profit Patterns has touched the transformation of the world, by starting with the “mastery-oriented pattern”. But restrained by the traditional corporate boundaries and work division system, this book only centers on analysis of traditional manufacturing, value chain, customers, channels, products, knowledge and organization, without opening up corporate boundary, therefore its research on profit models is confined to the operational system with clear-cut corporate boundaries, which only yields technical improvement on profit models, but not reforms.

Starting with strategic corporate design, *Profit Zone* devises profit, profit protection and other strategies by centering on customers, but fails to break away from the traditional analysis pattern for the two relatively independent bodies: “producers—customers”.

Conventional enterprises presumptuously talk about customer-oriented pricing, but with the appearance of the free-of-charge model in the internet era, all the profit models built on established corporate boundaries have crumbled. The root cause lies in the fundamental changes in business forms from the industrial age to the information age, and the strategic and profit models generated by the corporate thinking in the industrial age have come to the dead end, or will do so in the new information era. Therefore, entrepreneurs must come to understand the essence of modern enterprises and the core thinking behind the “Wei-Zhu business model theory”. Only in doing so can readers truly understand and follow the new thinking on profit models and comprehend this *Principle of Profit Model*.

The key to understanding modern enterprises lies in the basics of the “Wei-Zhu business model theory”, namely, research on the transactions of stakeholders. Customers, suppliers, partners, governments and even competitors, all are the stakeholders of enterprises. Each stakeholder, due to its different resource capacity, has varied transactional activities with an enterprise, has different interest appeals, and may take on multiple roles, all of which can become the new starting point for profit model design.

In the traditional industrial age, you provide commodities or services to a customer and get the remuneration, which is an isolated transaction. However, from the perspective of stakeholders, there is possibility of opening up boundaries for redesign. For instance, incentivize a large number of customers to interact with you so as to obtain the inspiration for product design. A profit model can be designed in such a way that even customers can obtain a certain return on their design ideals. Meanwhile, these customers who have contributed to your product design with their innovative ideas reflected in the product, will be proud to do product promotions for you. In this way, a simple customer can take on three roles: customer, designer and salesman. With a change of role, the customer is embedded into your enterprise.

And your enterprise system may also become a new platform, to be embedded into the network of your stakeholders.

After the corporate boundary is opened up, different elements are inter-embedded and develop in a symbiotic relationship, therefore, the profit model will inevitably change to various types of models such as shared revenue, auction-based pricing, and pricing by customer. The first chapter of the book deals with “Stakeholders of the Sources of Income and Expenditure”; the second chapter discusses how to design profit models based on resource capacities, and then carefully analyzes a variety of profit models including shared revenue pricing, pricing by customer, auction-based pricing and combination pricing, so that stakeholders can interact with each other continuously, and develop compatible and harmonious relations among profit, incentive and experience.

Both China and the world have entered into a critical phase for structural adjustment and major transformation of business models. Under the traditional industrialized mass manufacturing model, Chinese enterprises could only learn and imitate, without forming their own business theories. After entering the information age, especially an age for global economic transformation, enterprises also face the same opportunities and challenges posed by such transformation. It is gratifying, on one hand, to see so many Chinese enterprises actively engage in business model innovation and achieve remarkable successes. On the other hand, we’re even more delighted to see China has born its own business theory—“Wei-Zhu business model theory” during this process. This is a complete set of theoretical systems, with a unifying theoretical kernel and abundant practice methodologies, which also keeps evolving. It is partly attributable to the dedicated and sustained efforts of the research team of Wei-Zhu business model, and also owing to the Chinese tradition of structured philosophy as a whole.

I expect that an increasing number of entrepreneurs and scholars can hear the “thunder” of the change of times by reading this book.

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