

## Discussion on the Difference Between the Business Model and Profit Model

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### Abstract

In recent years, the business model and profit model has attracted wide attentions of the domestic and foreign academic circles and enterprise circles, however, during the studies, most of them confuse the commercial mode and profit mode. It will cover the creation of enterprise value, brings the barrier to true methods of accurately reveal the enterprise profits. This paper introduced the definition of the business model and profit model, and then analyzes the relationship and differences between them.

**Key words:** Business model; Profit model; Definition; Relationship; Differences

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### INTRODUCTION

Some say profit model is essentially an enterprise business model, which includes the operating profit model and

strategic profit model, some say the profit model is not the same as in business models. The business model is the transaction structure of stakeholders, involving trade, trading, trading and pricing, and other content. Profit model is primarily concerned with the problem of transaction pricing. Enrich the connotation of business model no doubt. Whether the business model or the profit model, domestic and foreign scholars on whose definition has a lot of different opinions.

Strategic analysis of the business model is a conceptual tool to clarify the business logic for a particular entity describes economies achieve sustainable profitability, pattern. Profit model is one of the core logic business model advocated, it is contained in a business model to guide economic entities to logical business models in the rational allocation of nine, profit model was finally reached this core objective is achieved. Based on previous research, through normative research, discovering profitable patterns and business models which seems to be a concept, but referred to are different. Based on profit model and reasonable business model, a clear distinction between short-term and long-term planning of the enterprise is instructive.

### 1. DEFINITION OF A BUSINESS MODEL

Business model concept first appeared in 1957, to date, foreign scholars study the theories of business models can be summarized in three main groups: value creation and profit theory and systems theory.

## 1.1 Value Creation

**Table 1**  
**From Value Creation to Define the Business Model**

| Researchers                        | Definition  |
|------------------------------------|---|
| Linder & Cantrell (2000)           | Business model is an organizational value creation on the main logic, all related work of the enterprise are based on this logic.   |
| Makadok (2001)                     | Enterprise value for value creation, marketing and value structure of enterprise and its partners provide the network to produce a profitable customer relationship capital and maintain revenue streams.   |
| Osterwalder & Pigbeur Tucci (2005) | Business model is a conceptual tool that contains a series of elements and their relationships. To clarify the business logic for a particular entity. It describes what the company can provide customers with value and the company's internal structure, network and relational capital partners to realize (creating, marketing, and delivery of) the value and create sustainable, profitable revenue elements.  |
| Chesbrough (2002, 2003, 2009)      | Business model is economic output, connect business ideas and technology to an analytical framework, which describes the creation and realization of these two important functions: first business model defines a set of activities aimed at providing new products or services, these activities had created new value second business model describes how enterprises achieve value from some activities.  |
| Osterwalder & Pigbeur (2010)       | Business model describes how companies can create value, deliver value and gets the value of the principles. They also adopted a basic elements (value propositions, Target Customer Segments, distribution channels and customer relationships, value configuration, core competencies, partner networks, cost structures and revenue model) to describe and define the business model through the "canvas" show business to generate income in the form of logic. |

## 1.2 Profit Theory

**Table 2**  
**From Profit Theory to Define the Business Model**

| Researchers                                  | Definition   |
|--|--|
| Rappa (2001), Hawkins (2001) & Elliot (2002) | Through commercial way to generate income to maintain their survival, think how business models show that the companies profited by a clear understanding of their position in the value chain.  |
| Afuah & Tucci (2003)                         | To reduce the determinants of the performance of commercial activities to business models, business environment and changes in business models specifically reflected how profitable companies now in the future.  |
| Wang Bo & Peng Yali (2002)                   | Understanding of the business model can have two: one is the operational business model, namely the operational mechanisms of enterprises. Two is a strategic business model refers to how an enterprise in a dynamic environment of change itself in order to achieve the goal of sustained profitability. Operational business model to create the company's core strengths, abilities, and knowledge of strategic business models to expand and function. |

## 1.3 Systems Theory

**Table 3**  
**From Systems Theory to Define the Business Model**

| Researchers                            | Definition   |
|--|--|
| TIMMERS (1998)                         | Business model is made out organic products, services, and information systems, is a framework for product, service and information flows, and its essential elements, including products, services, information, value, business participants as well as sources of income, and so on.  |
| Weng Junyi (2004)                      | Business model defines the value proposition, the value of support, on the value composition of value system, provides a business model idea and making a way of thinking.   |
| Luo Min & Zeng Tao & Zhou Siwei (2005) | Business model is an organization outside the clear assumption, premise of internal resources and capacity, for integrated supply chain organization, its customers, partners, employees, shareholders or stakeholders to obtain a strategic innovation intents and premium collection of structures and institutional arrangements that can be achieved.  |
| Yuan Xinglong & Wu Qinglie (2005)      | Commercial model can General for a system, it by different part, and each part between of contact and interactive mechanism composition, it is refers to enterprise can for customer provides value, while enterprise and other participants and can share interests of organic system, it including products and the service flow, and flow and funds flow of structure, including on different commercial participants and role of description, also including different commercial participants proceeds and distribution of divided. |

## 2. DEFINITION OF A PROFIT MODEL

### 2.1 Systematic Approach to Corporate Profits, Organizational Structure or Its Components

**Table 4**  
**Systematic Approach to Corporate Profits, Organizational Structure or Its Components**

| Researchers                  | Definition   |
|------------------------------|--|
| Qiong-magelita (2003)        | Profit model is a systematic approach, is evolving in the market competition can seek out corporate profits and production, is a business that can help corporate profits and business structure. Simply put, profit model is enterprise profitable methods and channels.  |
| Wang Fanghua & Xu Fei (2009) | Profit model is through the inputs of production factors and various economic relations and integration of external resources, eventually gets to achieve value creation and profit, and help companies to finalize the organizational structure and business framework of the distribution of benefits.   |
| Wise Geek (2011)             | Presents the successful profit model has three aspects, first is in the premise of ensuring the safety of enterprise property of all parts of the enterprise can be efficient operation, followed by the customer focus and approved the company's products or services, and finally the enterprise should have the effective channels to ensure the product or service delivery to the customer. Their profit model is defined as that the investment of the enterprise have a way of life continued profitability. |

### 2.2 Equating business models and profit model

**Table 5**  
**Equating Business Models and Profit Model**

| Researchers                | Definition  |
|----------------------------|---|
| Hawkins (2001)             | The Business model as between an enterprise and its to market products and services offered by commercial relationship, the pattern that defines a feasible cost/income structure, so the company can cling to the income of their own survival and development.  |
| Elliot (2002)              | Emphasis on costs and revenue streams, as well as a business relationship, that business model to differentiate the relationship between various participants in business investment, and clearly the interests of participants, cost and income status. All profit model research revolves around profit is the difference between revenues and costs. |
| Wang Bo & Peng Yali (2002) | The Business model is divided into: the operating business models and strategic business model, which refers to the dynamic environment and how companies change their purpose to achieve sustained profitability, this is essentially profit model, stated he believes that business model and profit model is equal.                                  |
| Peter Weill (2001)         | Analysis of business model from the point of view of the key influence of the source of income and infrastructure factors and core competitiveness, and summarized 8 kinds of typical electronic commerce mode.   |

### 2.3 Profit Model is the Core Content of Business Models

Some scholars believe that the profit model is the core

of business models and profit from business models to explore enterprise.

**Table 6**  
**Profit Model is the Core Content of Commercial Pattern**

| Researchers          | Definition  |
|----------------------|---|
| Linder               | Business model is to create the core logic of value organization.   |
| Fan Gang             | Making money is the business model.   |
| Afuah & Tucci (2002) | Parts of a clear business model: Customer value, range, pricing, revenue and associated activities, implementation, capacity and durability. Made no clear definition on business models in the book, but describes in detail each part of the business model, connecting links, dynamic mechanism and the methods of evaluation. Business model are the core of the Internet, particularly important for enterprise to gain and maintain competitive advantage. Although each business varies but the business model are designed to enable enterprise to sustainable profitability. |

## 2.4 From the Perspective of Value Chain Profit Model Definitions

**Table 7**  
**From the Perspective of Value Chain Profit Model Definitions**

| Researchers      | Definition   |
|------------------|--|
| Ye Naixin (2004) | Enterprise in the value chain system of a specific location for the target markets for investors to realize the value of enterprise, the ways and means is the profit pattern of e-commerce and profit models into e-marketing, customer relationships, product innovation, the financial elements of the environment, resources and business processes into six elements, six factors to determine the composition and characteristics of the for-profit model. |
| Yi Ying (2004)   | Profit model is the company's way of doing business, companies use profit models to generate income to survive through the clear position in the value chain of the company and illustrate how companies make money.   |

In addition, Michael Rappa (2004) from the perspective of net work economics, the profit model is defined as companies reap the benefits through to maintain the survival and development of the business practices, think profit model indicates a company how to clarify its position in the value chain to profit. In studies of Internet profit, Zheng (2003) in the Chinese business in website revenue model proposes the concept of network business model, argues that the Internet business model for websites can be done with relatively little cost to acquire more income for a particular mode of operation. Huang (2006) made a net profit of foreign literature by studying a large number of patterns is through electronic market products, services, information and the operating mechanism of the value-creation process. Tang Guiliang in the financial interpretation of profit model emphasizes on profit model should strengthen links with the financing concept, he thinks profit model is not only strategic issues, profit model is also operational problems, objectives of financial value is the sole criterion for evaluation of company's profit model, stable and sustainable profit model is the profitability of primary features. In addition, the profit model of study is particularly concerned about the company's "business income", "operating profit" and so on. The study on profit model need to clear the enterprise profit sources, generating process and the output form. The construction of enterprise profit pattern to cultivate the core competitiveness of enterprises in the first place. A successful business model will not only be able to guide and ensure long-term access premium, and should have the update mechanism (Xiang, 2011).

## 3. THE RELATIONSHIP AND DIFFERENCE BETWEEN THE BUSINESS MODEL AND PROFIT MODEL

### 3.1 Business Models and Profit Model of Common Guiding Business Strategy

Business strategies are generally based on a business model and profit model, it includes not only the selection and adoption of business models and profit models, also

include the business model in the daily application of the management, implementation and improvement. In recent years, business models and profit model received some attention to academia and the business community at home and abroad. But apparently in the process of research, business models and profit model of the indiscriminate application. This will hide the real enterprise value creation means exactly what corporate earnings is really hinder the methods and approaches.

Business model and profit model determines the enterprise's management strategy. The business model is to sell the product, and profit model is to get your money back. Profit model around the "how to make money", is the ultimate method and way of enterprise profit: business model around the "what to do, how to do, why to do", and business strategy is "how to operate specific", they want to distinguish the overall but interrelated and unity. In General, what kind of product and service is the direct source of profit, but in the Internet environment, in many cases, what kind of business model is not the ultimate means of reaping profits. For example, as opposed to a Web portal to provide information on service-oriented, profit by charging for information services, business models and profit model of unity as a whole, but many more cases, the portal site is by providing free information on the products and services, gather popularity, attract advertisers to get people here, really the profit model for advertising revenue model. Therefore, the business model is the framework of external business enterprise, and the profit model is the internal source of enterprise the ultimate profit.

The business model is the embodiment of profit model, and business strategy is a concrete realization form of business model. Business strategy is to serve certain business model and profit model, is to use and performance of business model in the concrete enterprise. From the hierarchy relationship, profit model is the most core factor. Because any enterprise should rely on to make money to survive and develop. But the business model is reflected in a certain profit model to determine it. As for the business strategy is from the special operational level for the enterprise, it is the specific mode of operation of an enterprise.

### 3.2 Differences in Business Strategy Lead to the Difference Between the Business Model and Profit Model

Theoretically speaking, the profit model determines the business model, business model and profit model should be highly identical. But in practice the business model and profit model is not completely corresponding situation is very common, but this is due to the enterprise actual operation of different management strategies. Due to the different resources and competitiveness of enterprises, as well as the external market environment changes in the competitive landscape, business strategy is not the same in the actual enterprise management, enterprise's main source of profits and profit amount is not the same, so differences in the business model and profit model.

In the actual business of, there exists a primary profit model and the difference between high-profit models, is actually as a result of different management strategies. All the enterprise's business strategy is to focus on product sales and start, or make money by sell to franchisees. While some companies make money mainly by charging the franchise fees.

### 3.3 Study on the Different Applicable Scope

In studies of real companies, business models, business model and the business strategy has a different focus and scope. On earnings patterns are often in search of a new way of corporate earnings. It can be either through the study of a new business model, such as Dell computer company's direct-sales model research and study of Internet-Bank business model, and so on. May also be trying to design a new model to make money, such as start-ups or entrepreneurial projects tend to design a profit model. But when such profit model of basic study clear, went on the study of specific business models. Explore the forms and rules of this business model. Once this kind of business model and business model after the basic shape, and enterprises in order to use this model on the need to enhance the operational level, management level of enterprise business strategy studies.

The research focuses on the business model and profit model, stress is a "design study", and stressed that "business strategy is the implementation of research". In strategic management, the strategy of "design" and "the implement of the strategy" are two different research category. While the business model and profit model is in strategic management strategy of "design study", and business strategy research like study "strategy implementation in strategic management". Therefore, study on the profit model and business model is generally for a new industry or one wants to adopt a new way to make money business launch. For those mature business model and profit model of the industry or want to take the established a business model and profit model of enterprises is often studied business strategy.

### 3.4 Business Models and Profit Model have Different Deadlines

Business model value path is a long process, profit model attention to benefits is a short-term process. Business model above and guide to the profit model, corporate profit model stresses on objectives and outcomes, business model, attention to the paths and methods, compared with business model is a more permanent content. Companies such as McDonald's 2009 profit model is the number of stores in China to reach 1500, to get into more third-tier cities, at the same time to launch this new product challenges Starbucks coffee. McDonald's business model over the past 20 years, or in the next 20 years, remained stable and dynamic, it changes very little. If not spent a lot of time and energy to study, is unable to discern the McDonald's business model, at least it doesn't want others to see through its business model. Business model focused on goals, more dominant, short-term, and business models focused on the path, focused on how to achieve this goal, how to layout, it takes a long time, so entrepreneurs focused on profitability at the same time to pay more attention to business model, because it is the strategy of the strategy.

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## CONCLUSION

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Profit model is actually the enterprise in a certain business model of the main source of profit mode. The profit mode determines the form of business model, business model is to earn a profit and design a set of business application method and system. Therefore, the business model and profit model should have a certain degree of consistency. But because of the complexity of actual operation, the business model and profit model is often not consistent. The business model is from commercial operation level, and profit pattern is generated from the profit point of view, they focus on different point of view, but each other inseparable, is "hair does not exist, dependency skin adhere to".

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