All business models are not equal

As explained in chapter 1, all business models are not equal, as some are more powerful than others. Consequently, the table scores them on a rating of 1 to 5, with 1 being the highest and 5 the lowest. These ratings are subjective and could arguably be higher or lower, to an extent, but a top-rated business model would unlikely to be relegated to the bottom or vice versa.

The points are awarded depending on the power of the sector to achieve low cost and/or differentiate itself so that it adds value. Above all, it is crucial to be able to control its revenue streams. Consequently, those that score the maximum 1 are: rivalry; substitutes; value added; recession resistant; addictive or highly compulsive; long-term and opaque pricing; make once and sell many times; and moving up and down the value chain. Medium scorers include consolidation and demographics. At the bottom of the pile are those with poor competitive advantage because they are commodity-type businesses that have serious flaws or do not add value, such as dying sectors.

Sector business models table

Sector business models	**Competitive advantage** (1 highest, 5 lowest)	**Illustrations**
1. Competitors		
1a. Collaboration	2	Information technology, oil
1b. Consolidation	3	Stockbroking, banking
1c. Entry and exit barriers	2	Oil and gas, aerospace
1d. Rivalry	1	Telecommunications, food retailing
2. Customers		
2a. Elasticity of demand	2	Beverages, leisure
2b. Elasticity of supply	2	Telecommunications, construction
2c. Materiality	3	Automobiles, aerospace
2d. Motivation	3	Retailing, financial services
2e. Predictability of demand	2	Tobacco, retailing
2f. Size and number	3	Mortgage banks, aerospace
2g. Substitutes	1	Tobacco, internet
2h. Sticky customers	2	Utilities, banks
2i. Value added	1	Beverages, chemicals

3. Economics		
3a. Deflation and inflation	3	Tobacco, pharmaceuticals
3b. Demographics	3	Healthcare, leisure
3c. Global potential of a sector	2	Mobile phones, supermarkets
3d. Government spending	3	Health, transport
3e. Hubs and spokes	3	Media, oil
3f. Legislation and regulation	4	Financial services, utilities
3g. Low-cost overseas production	3	Automobiles, electronics
3h. Market size	3	Banks, diversified industrials
3i. Megatrends	2	Energy, leisure
3j. Outsourcing to third parties	3	Airlines, television
3k. Recession resistant	1	Tobacco, life insurance
3l. Self-reinforcing	4	Financial services, engineering
3m. Spending other people's money	4	Entertainment, government
3n. Technology	2	Electronics, food
4. Management		
4a. Ability to attract top talent	3	Dot coms, financial services
4b. Intellectual capital	3	Advertising, information technology
5. Products		
5a. Addictive or highly compulsive	1	Tobacco, gambling
5b. Commodities	5	Sugar, distributors
5c. Crazes	5	Emerging markets, property
5d. Crossing the chasm	3	Mobile phones, automobiles
5e. High growth markets	2	Mining, pharmaceuticals
5f. High value product	2	Software, stockbroking
5g. Intellectual property rights and proprietary products	2	Pharmaceuticals, consumer goods
5h. Internet threat	3	Music, retailers
5i. Obsolescence	3	Tobacco, technology
5j. Long-term and opaque pricing	1	Life insurance, support services
5k. Make life easy	3	Supermarkets, leisure
5l. Make once, sell many times	1	Information technology, financial services
5m. Monopoly, oligopoly and cartels	2	Oil, utilities
5n. Must-have products	2	Information technology, music
5o. New products	2	Electronics, transport
5p. Positional goods	4	Automobiles, clothing
5q. Research and development to maintain lead	3	Aerospace, pharmaceuticals

5r. Recovery plays	4	Banks, TMT
5s. Product pipeline	3	Automobiles, tobacco
5t. Toll bridge – intangible	2	Software, support services
5u. Toll bridge – tangible	2	Transportation, leisure
6. Suppliers		
6a. Cost of inputs compared to selling price	2	Pharmaceuticals, food retailing
6b. Excess capacity weakens supplier	3	Telecommunications, financial services
6c. Moving up and down the value chain	1	Beverages, oil
6d. Weak and numerous suppliers	2	Food retailing, leisure
7. Sectors to avoid		
7a. Attracts capacity in the good times	5	General insurance, telecommunications
7b. Based on a quirk that politicians can remove	5	Retailing, banking
7c. Being the bacon in the sandwich	5	Distributors, food producers
7d. Dying sectors	5	Engineering, textiles
7e. Endless restructuring	5	Heavy industry, airlines
7f. High depreciation and amortisation of goodwill	5	Steel, telecommunications
7g. Long tail liability insurance	5	General insurance, reinsurance
7h. Prone to the economic cycle	5	Builders, cyclicals
7i. Prone to litigation	5	Tobacco, health
7j. Regulated	5	Transport, utilities
7k. Unethical	5	Beverages, tobacco