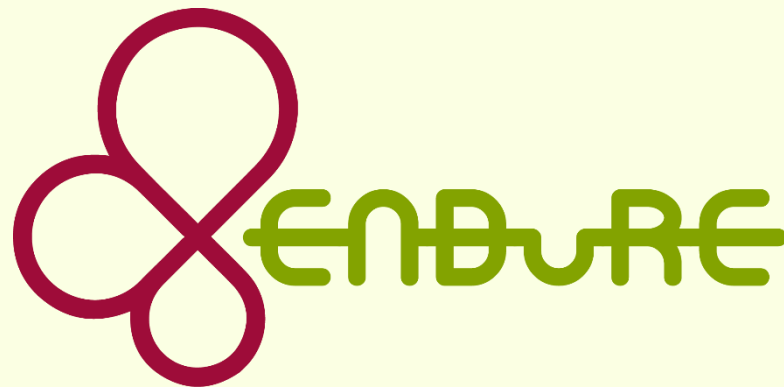




Business Modelling



UNIVERSITY OF
SURREY



UNIVERSITÀ DI PISA



IVERIDIS
INTELLIGENT INNOVATION



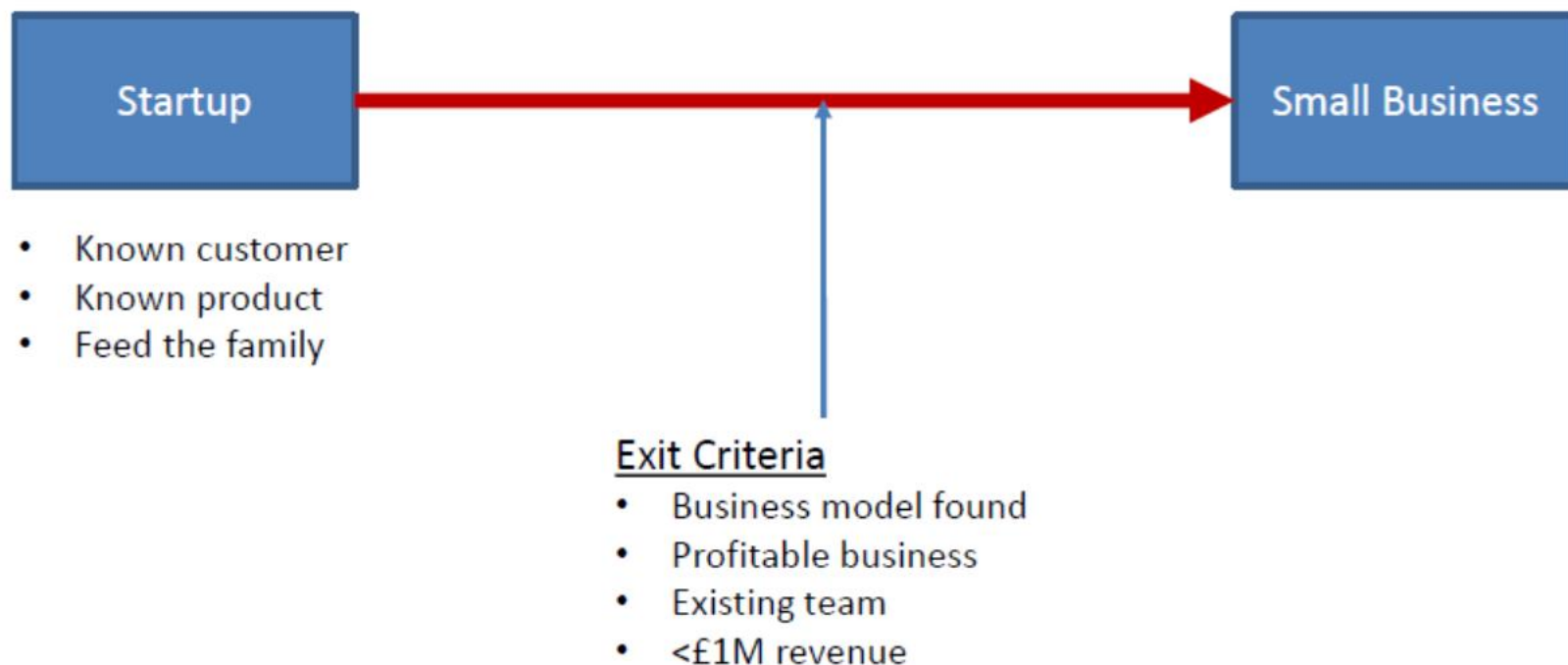
Co-funded by the
Erasmus+ Programme
of the European Union

The European Commission support for the production of this publication does not constitute endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

What's a Company?

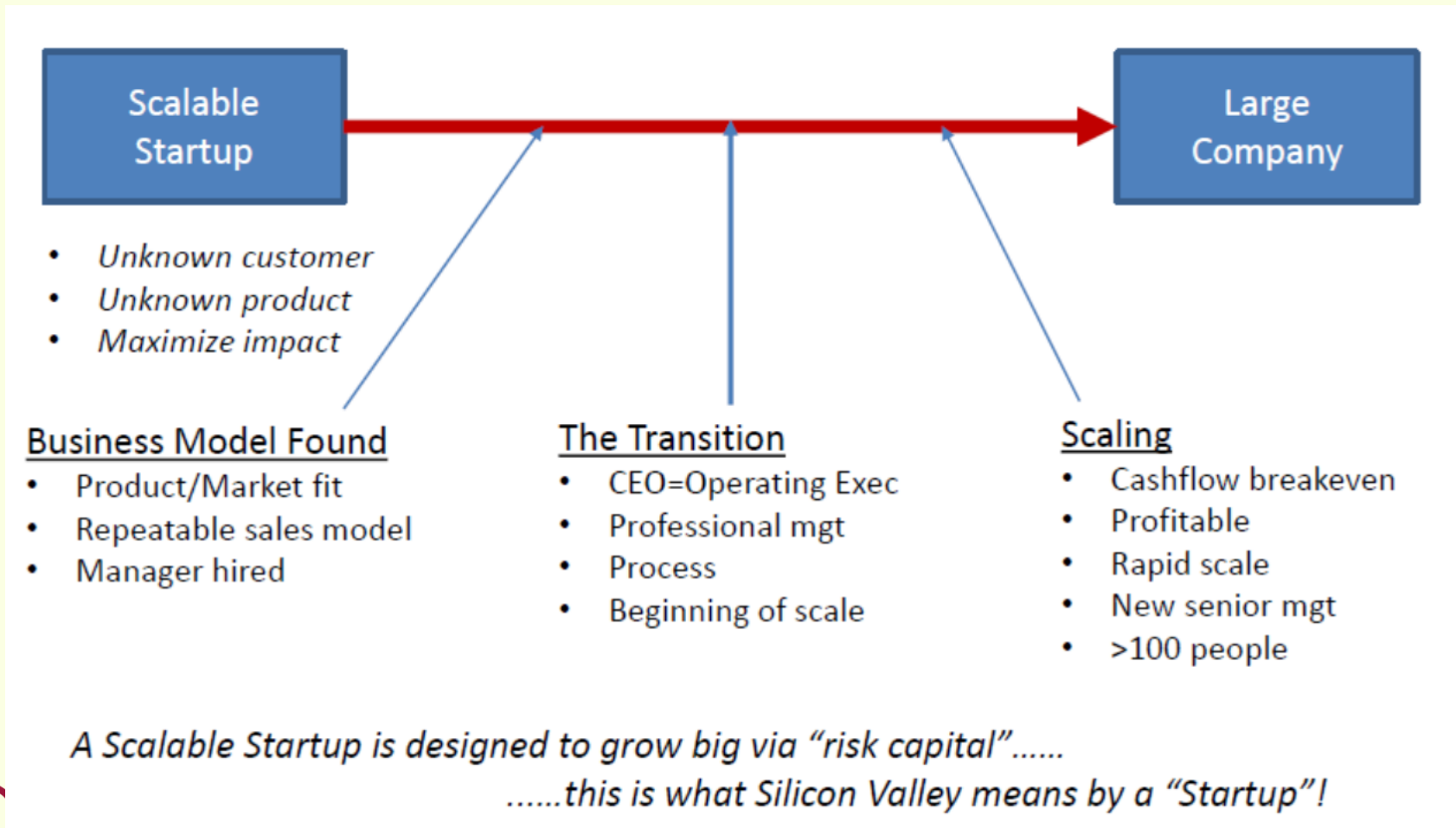
- A business organization which sells a product or service in exchange for revenue and profit
- **What's a Startup?**
- A temporary organization designed to search for a repeatable and scalable business model
- A Startup aims to become a Company!

What's a Startup?



In the USA, 5.7 million small businesses, 99.7% of all companies, half total workforce

What's a Startup?



The Role of A Business Model

- How do you go about starting up a business?
- When do you move from an idea to a commercial plan?
- Where do you start when you put together your business plan?
- What decisions do you make to make the business sustainable?

Answer: You need a Business Model

Models Vs Plans

- Definitions
- **Business model**
- A generic plan describing how different components and functions of a business can be organized;
- **Business plan**
- A specific plan describing how a business idea can be put into action to achieve its goals

What Is Business Modelling?

- What is Business modelling?
- A framework to evaluate how building blocks of a business can be assembled to evaluate how they may function and interact collectively
- Essential exercise for a business
- Business Model Canvas describes the key business model elements and their relationships

Building Sustainable Businesses

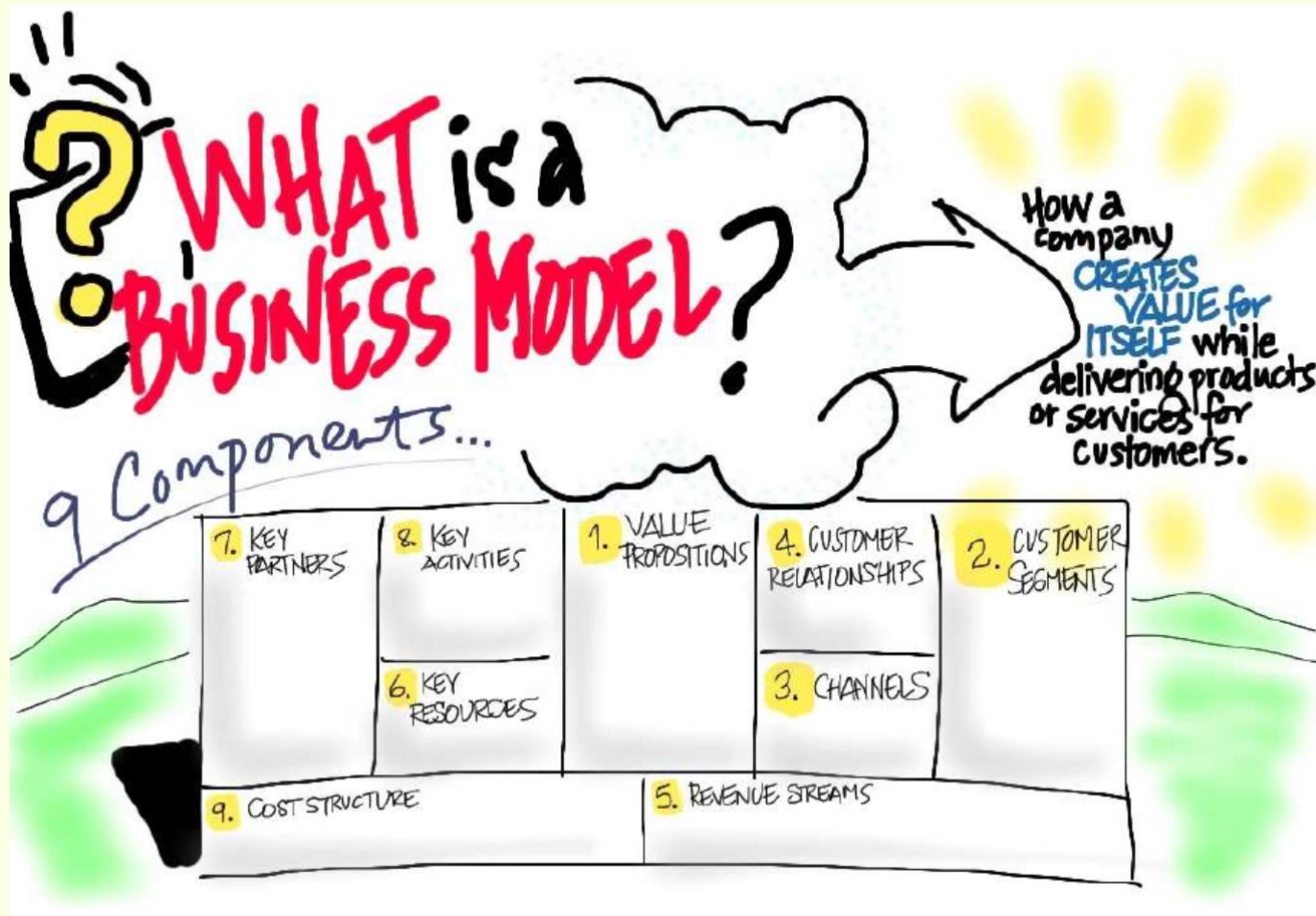


What is a Business Model?

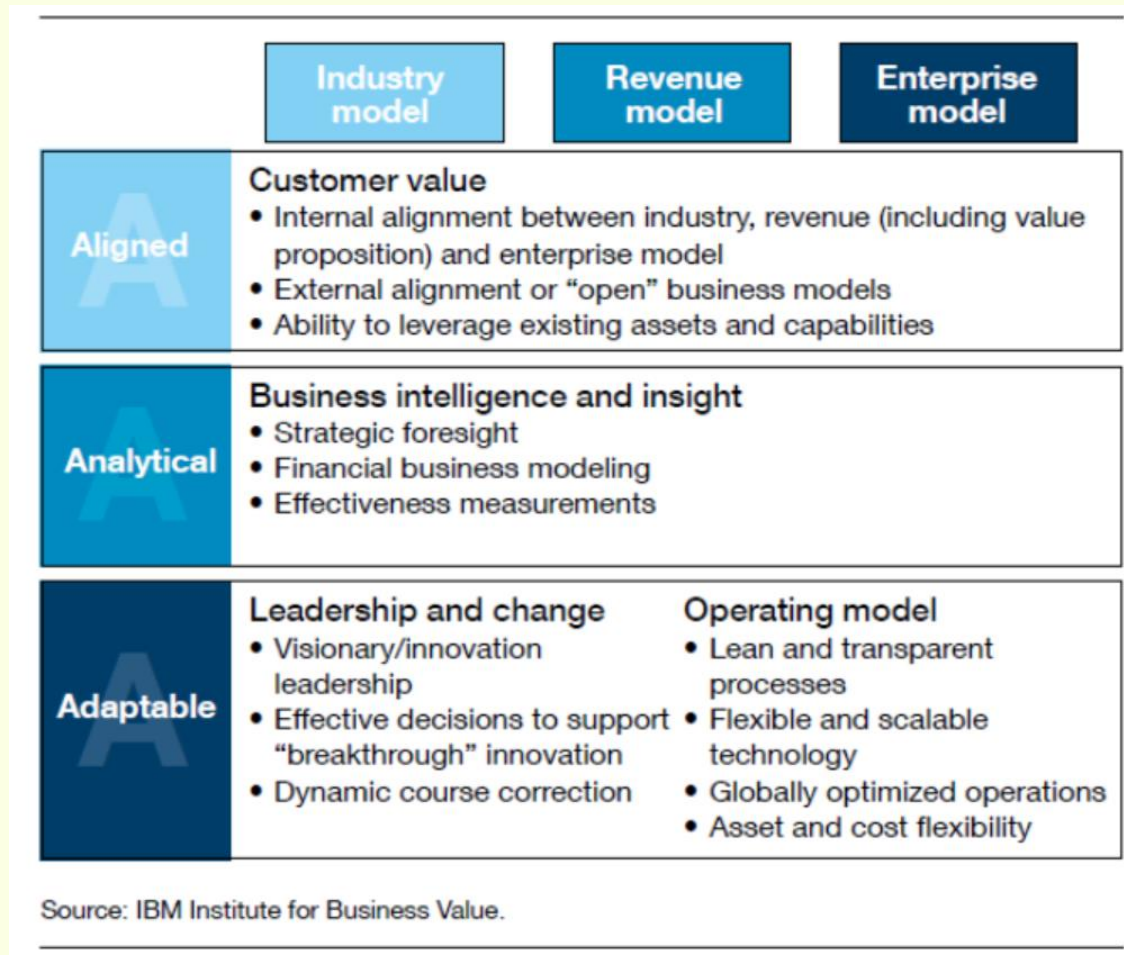
There is growing agreement on what elements define a business model:⁴

- ***What value is delivered to customers:*** Customer segments, the value proposition, the specific “job to be done,” what is sold and how it is sold
 - ***How revenue is generated:*** the pricing model and forms of monetization
 - ***How the company positions itself in the industry:*** the company’s role and relationships across the value chain
 - ***How the value is delivered:*** Key internal resources and processes as well as external partnerships.
-

What is a Business Model?



Why Innovate Your Business Model?



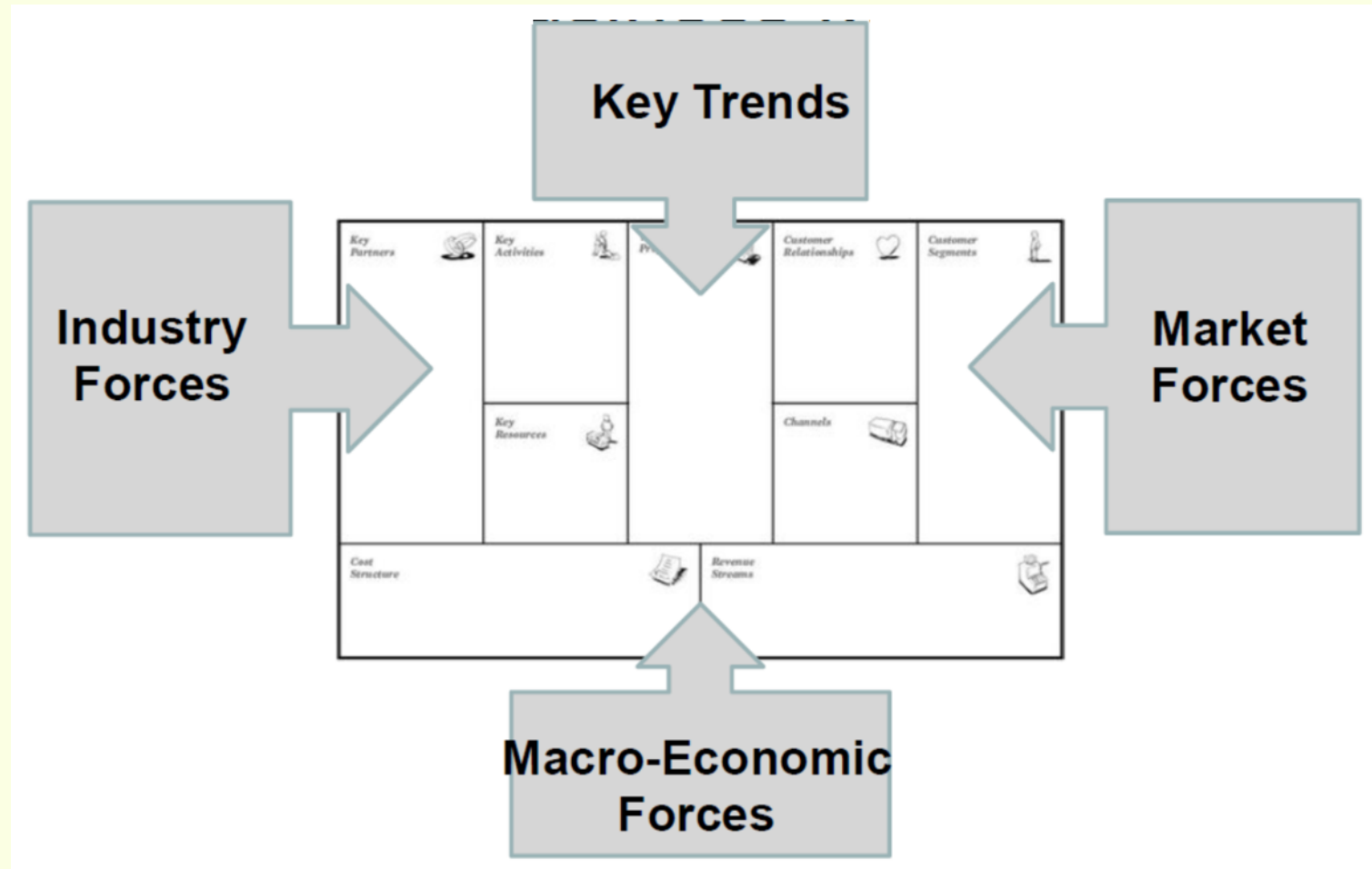
Dynamic Aspects of the Business

- Different business models for different customers
- Transitioning from current to future state of the business
- Relationships between different elements of the business to drive value
- Inside-out vs. outside-in view
 - How the business impacts the world
 - How the world guides/constrains the business

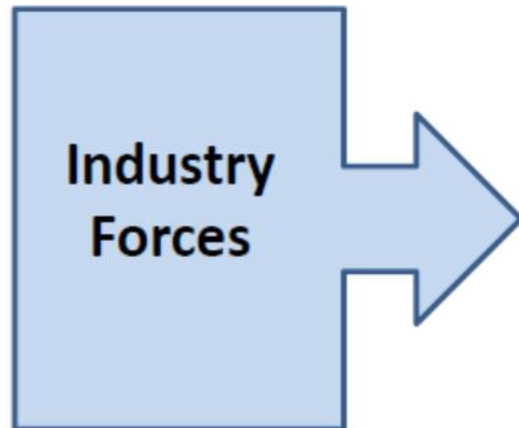
Reality Check

- Any business model must be:
 - Appropriate
 - Viable
 - Executable
 - Adaptable
- How can you “test” a business model?

External Forces Shape the Business Model

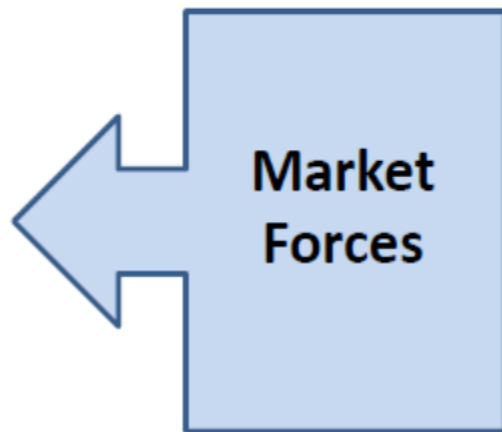


Industry Forces



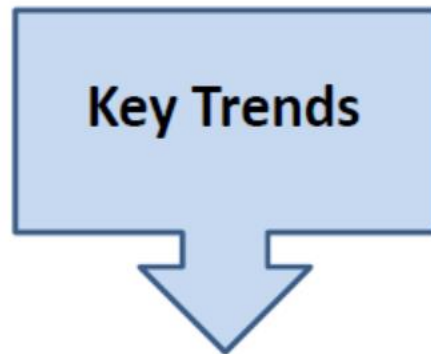
- Suppliers and other value chain actors
- Stakeholders
- Competitors (incumbents)
- New Entrants (Insurgents)
- Substitute products and services

Market Forces



- Market segments
- Needs and demands
- Market issues
- Switching costs
- Revenue attractiveness

Key Trends



- Technology trends
- Regulatory trends
- Societal and cultural trends
- Socioeconomic trends

Macro-Economic Forces



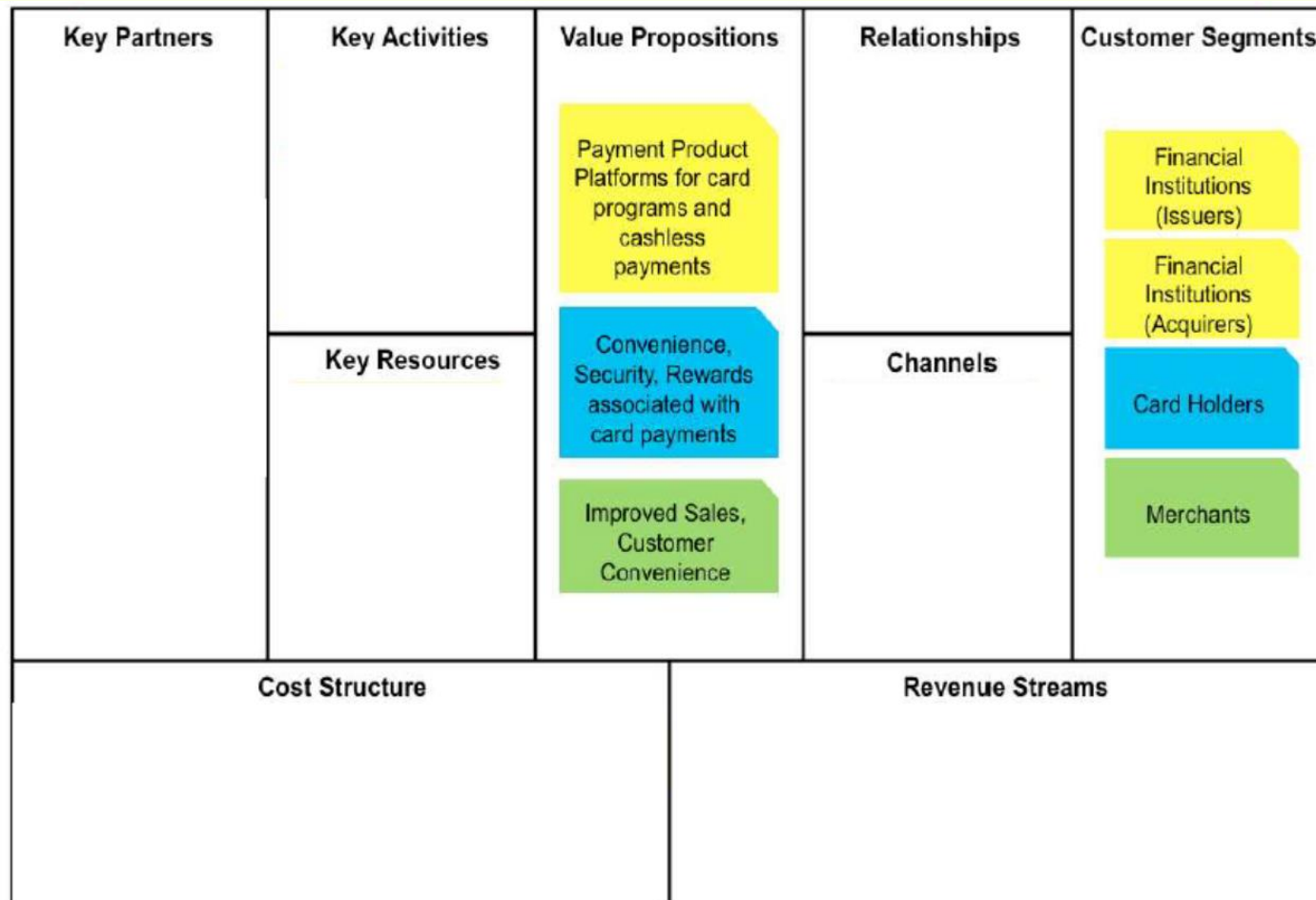
- Global market conditions
- Capital markets
- Commodities and other resources
- Economic infrastructure

Business Model Canvas

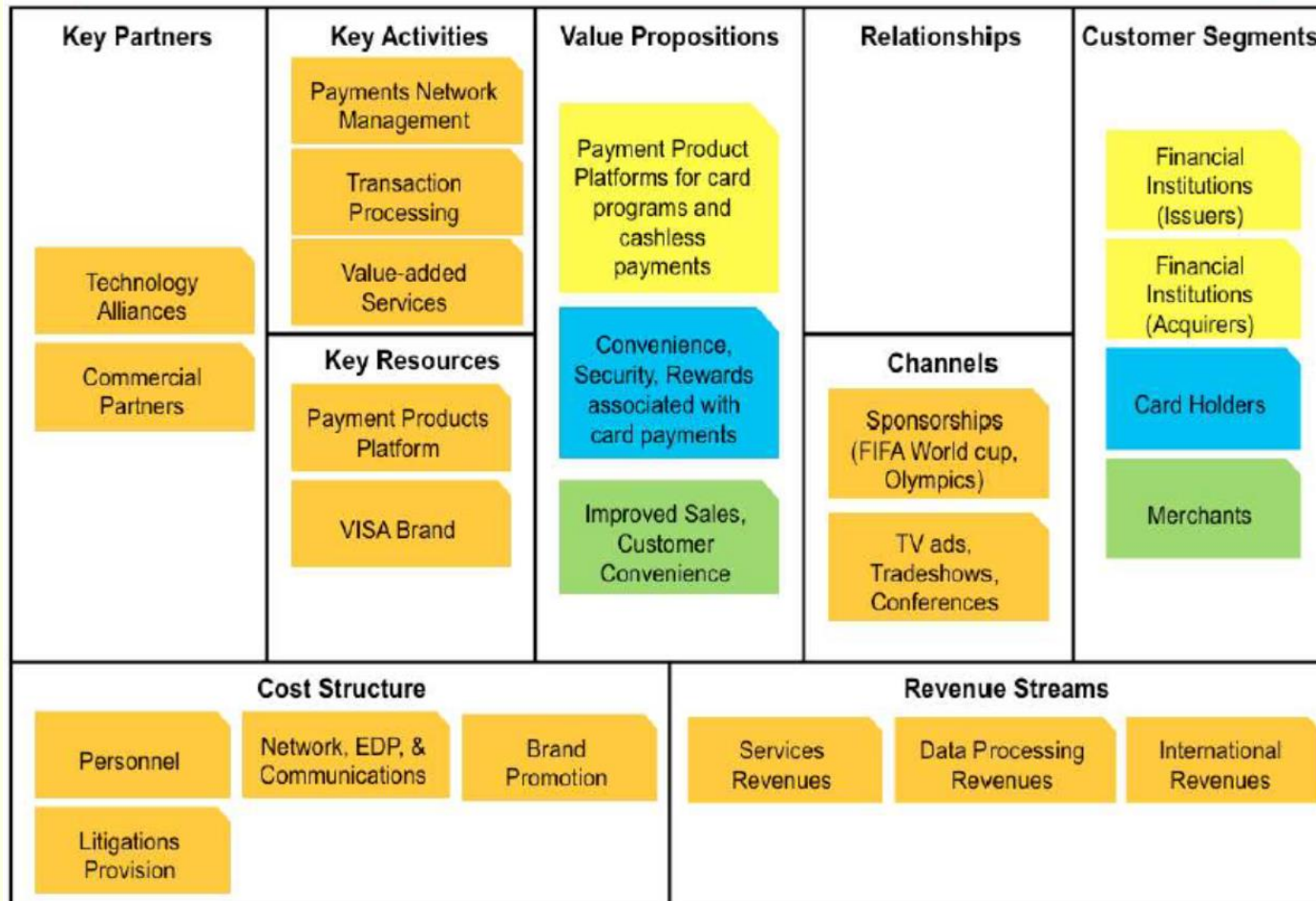
Key Partners	Key Activities	Value Propositions	Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure			Revenue Streams	

www.businessmodelgeneration.com

VISA - Leader in Global Payments Industry



VISA - Leader in Global Payments Industry

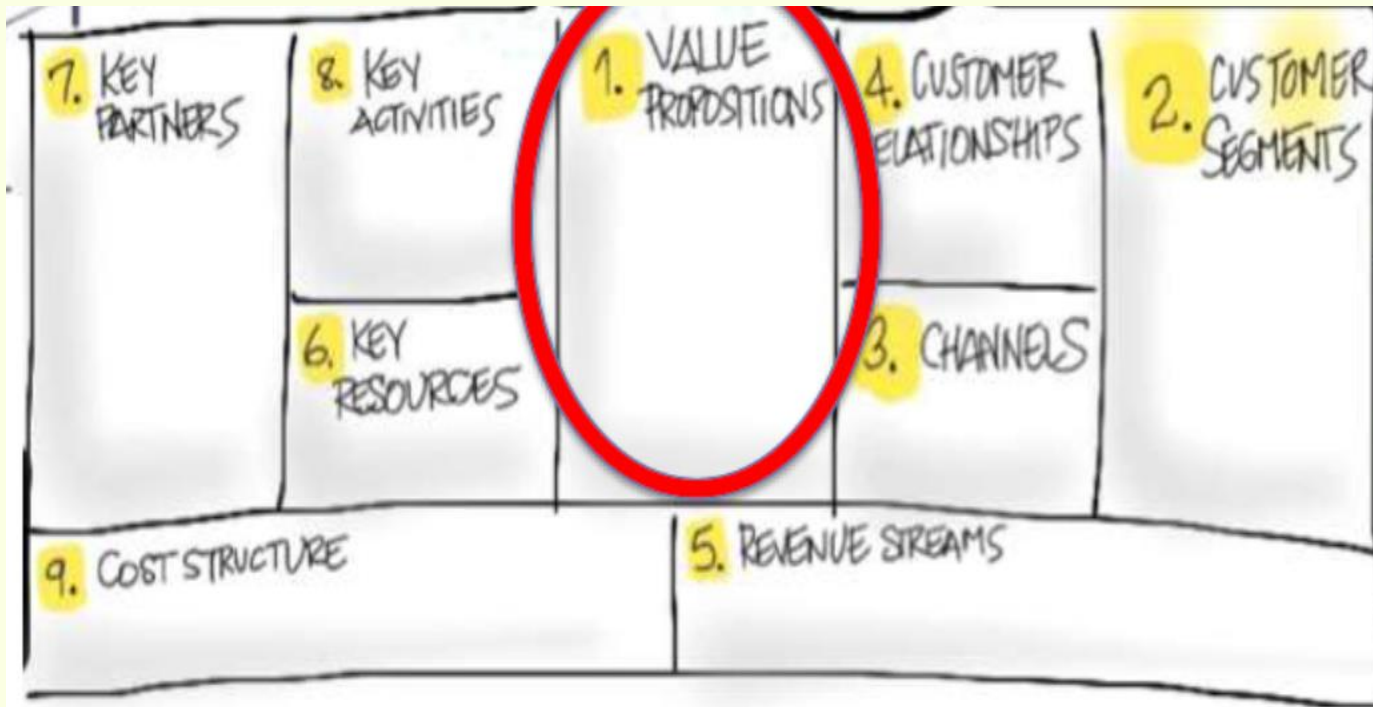


Business Model Canvas

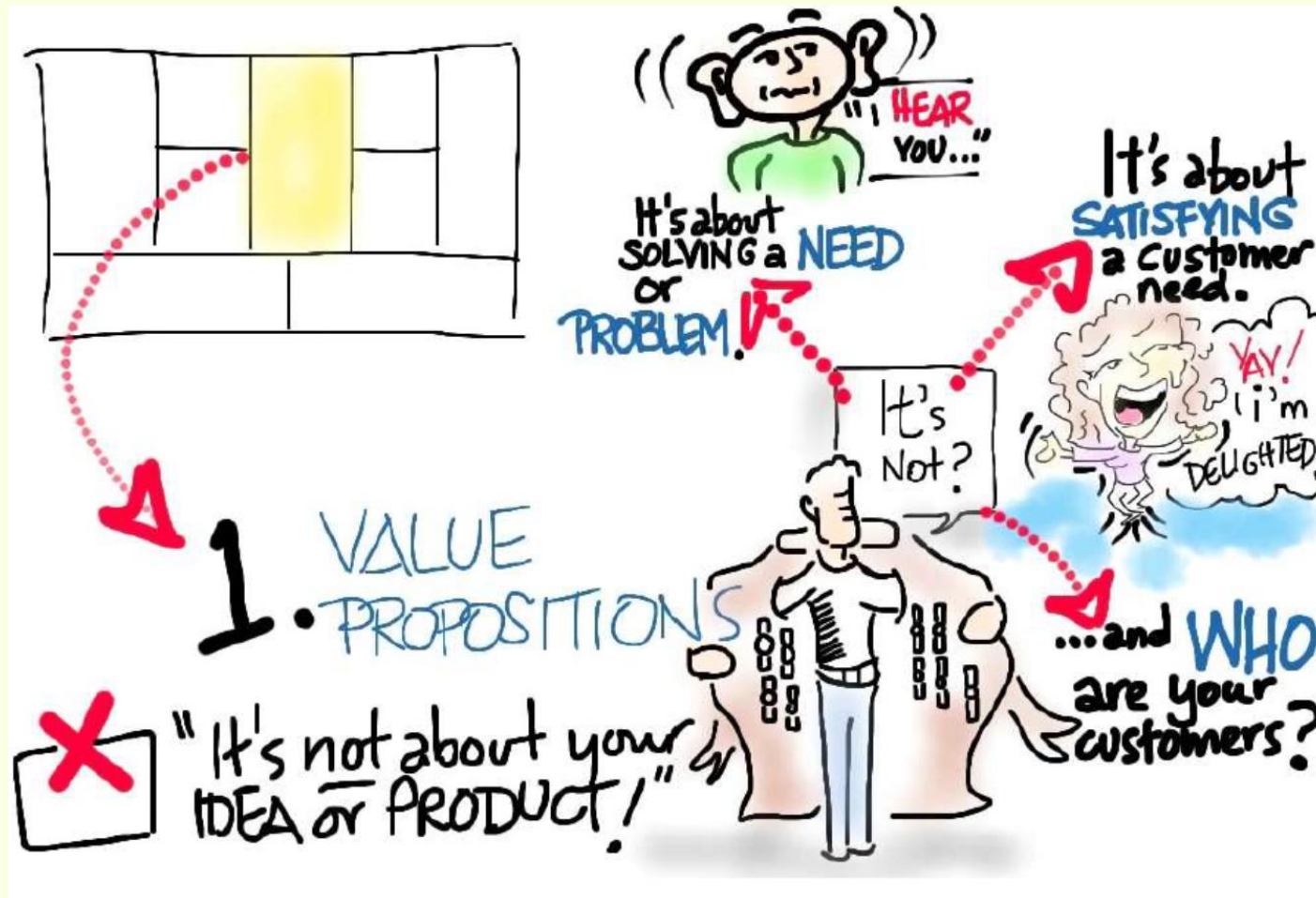
- It's about thinking about each box and their interrelationships
- Each box can contain different complementary, or contradictory, options - explore which goes best with other box combinations.
- Don't just stick with the examples we provide. This is a very 'open' approach.

Value Proposition -

What Are You Building & For Who?



Value Proposition

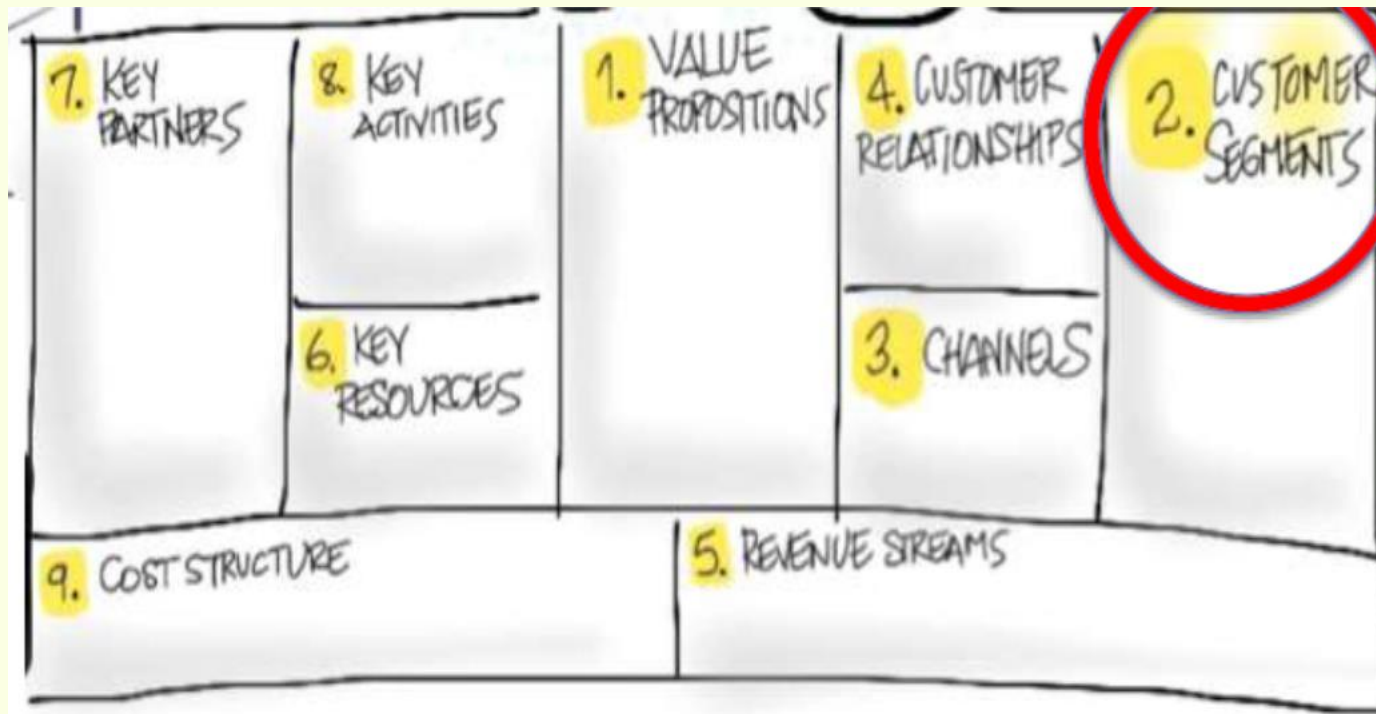


Value Proposition

- Cost
 - Performance
 - Service
-
- **Cost:** Focus on price minimisation (in some cases, may be down to zero); but can include offers that reduce the costs of customers (e.g. outsourcing)
 - **Performance:** Focus on superior functionality, design and/or aesthetics/status appeal; most radical in terms of disruptive technologies, but also incremental improvements
 - **Service:** Focus on after-sales support; also covering accessibility/convenience and customization potential

Customer Segments -

Who Are They? Why Would They Buy?



Customer Segments

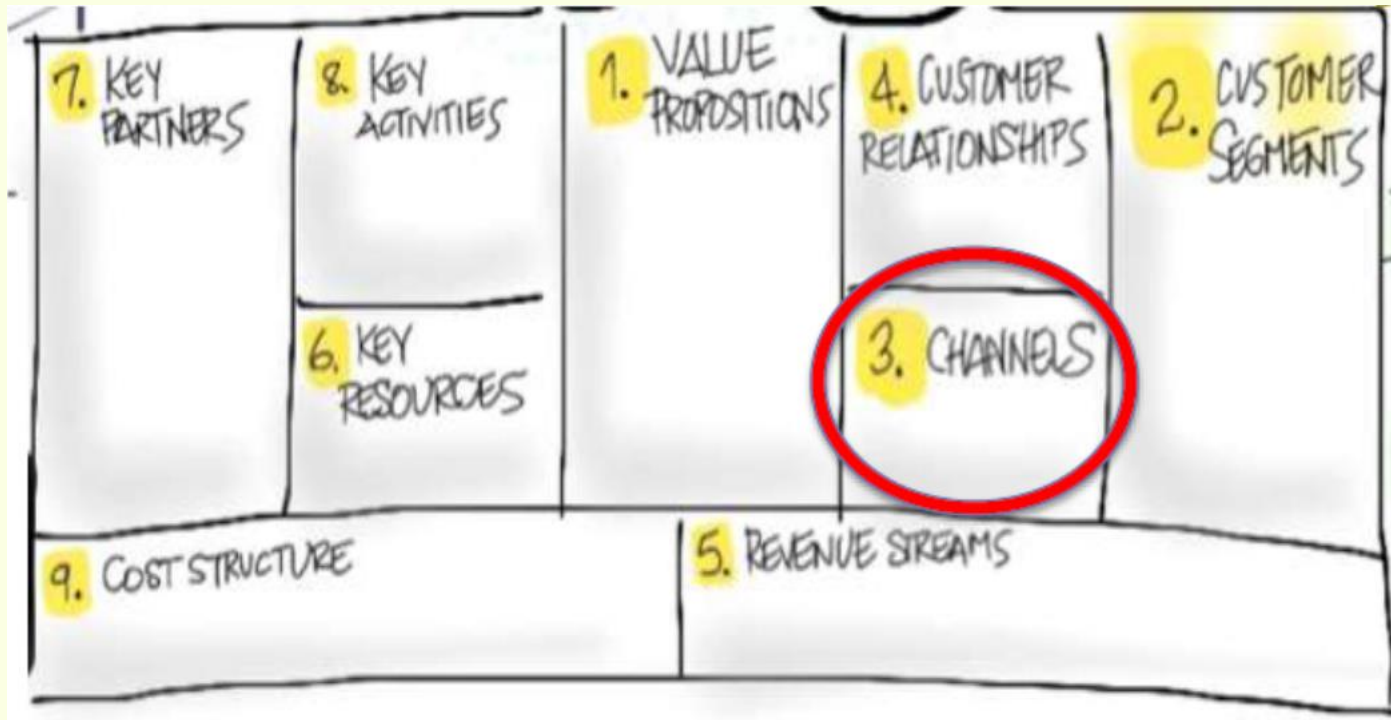


Customer Segments

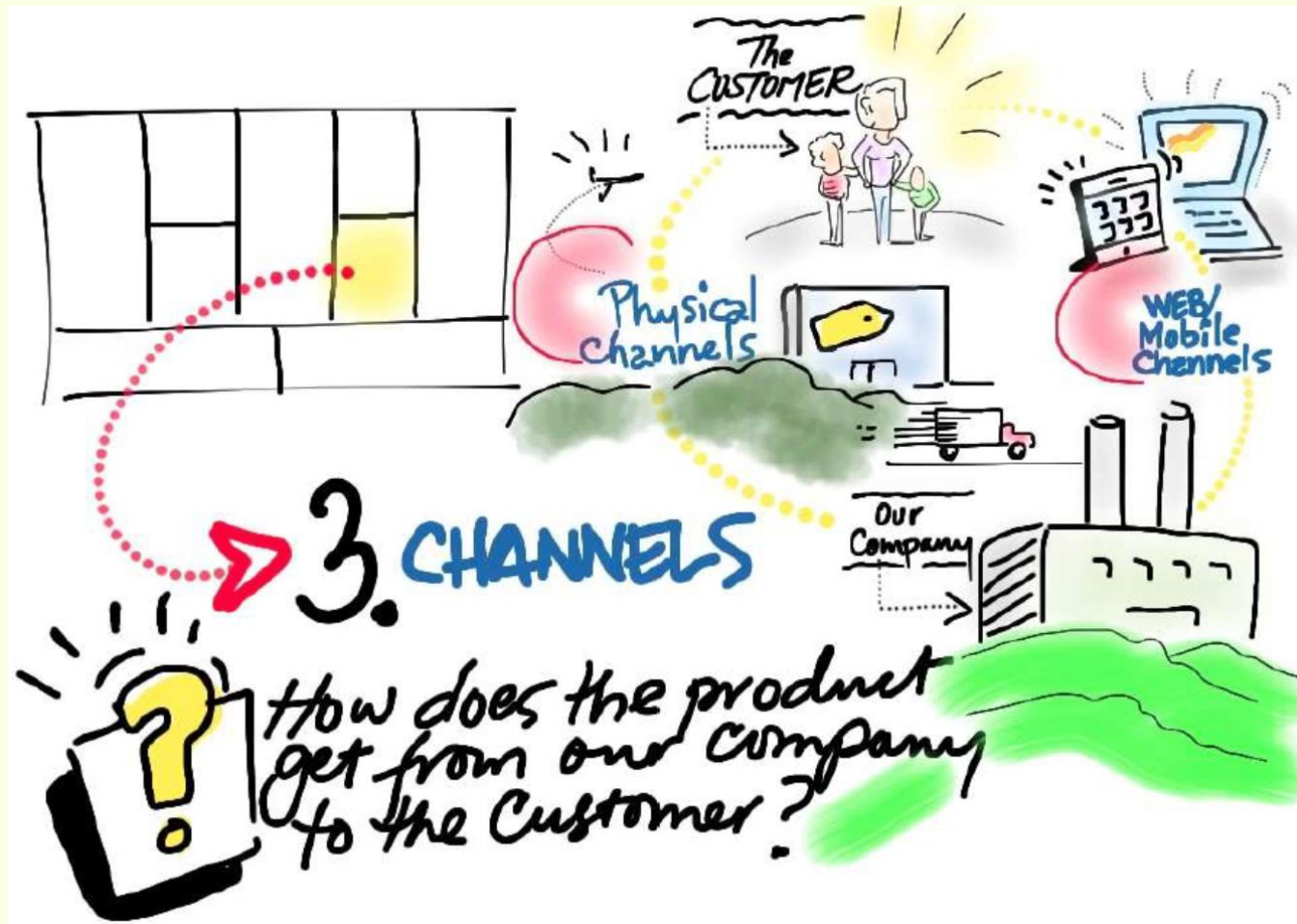
- Mass
 - Niche
 - Diverse
-
- **Mass:** Focus on an undifferentiated group of customers assumed to have broadly similar needs
 - **Niche:** Focus on specialised customer segments; some companies may serve a single niche, others may be able to 'customise' across different niches i.e. tail strategies
 - **Diverse:** Focus on markets that are distinct in terms of customer needs and offerings made

Channels -

How Does Your Product Get to Customers?



Channels

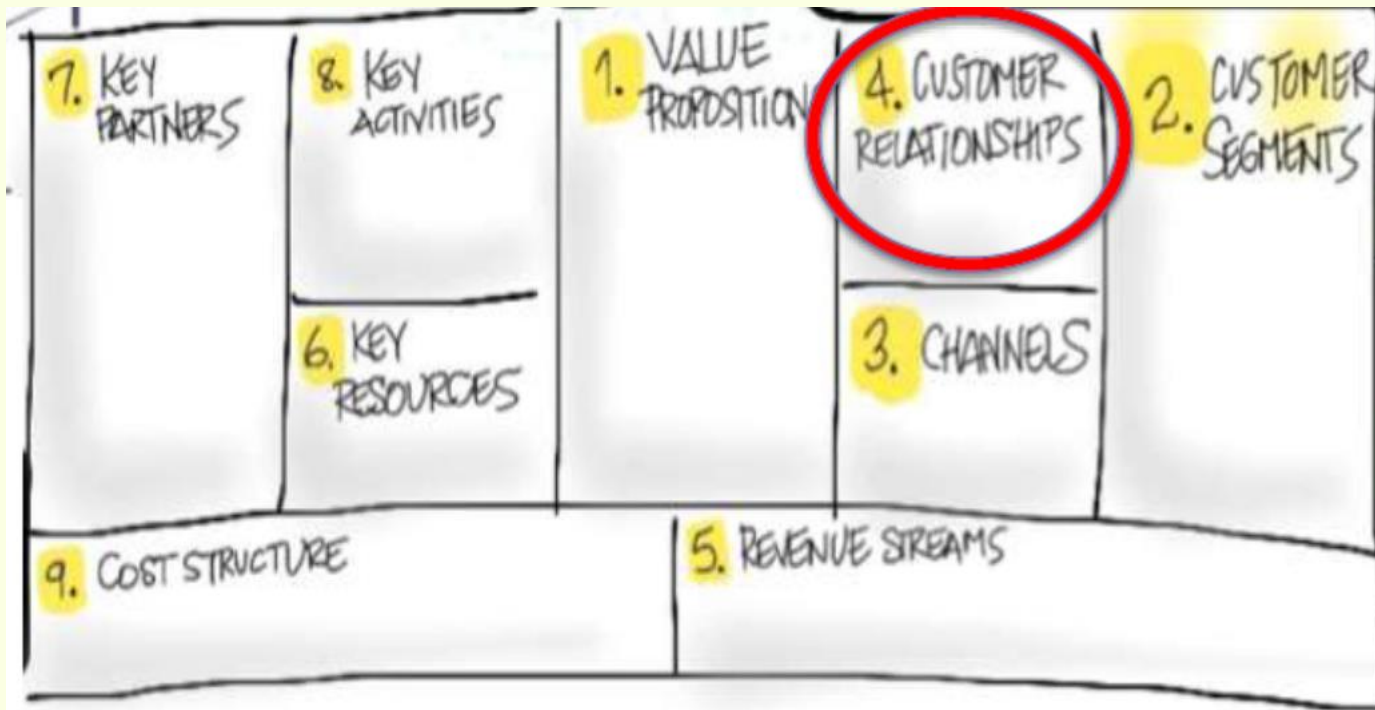


Channels

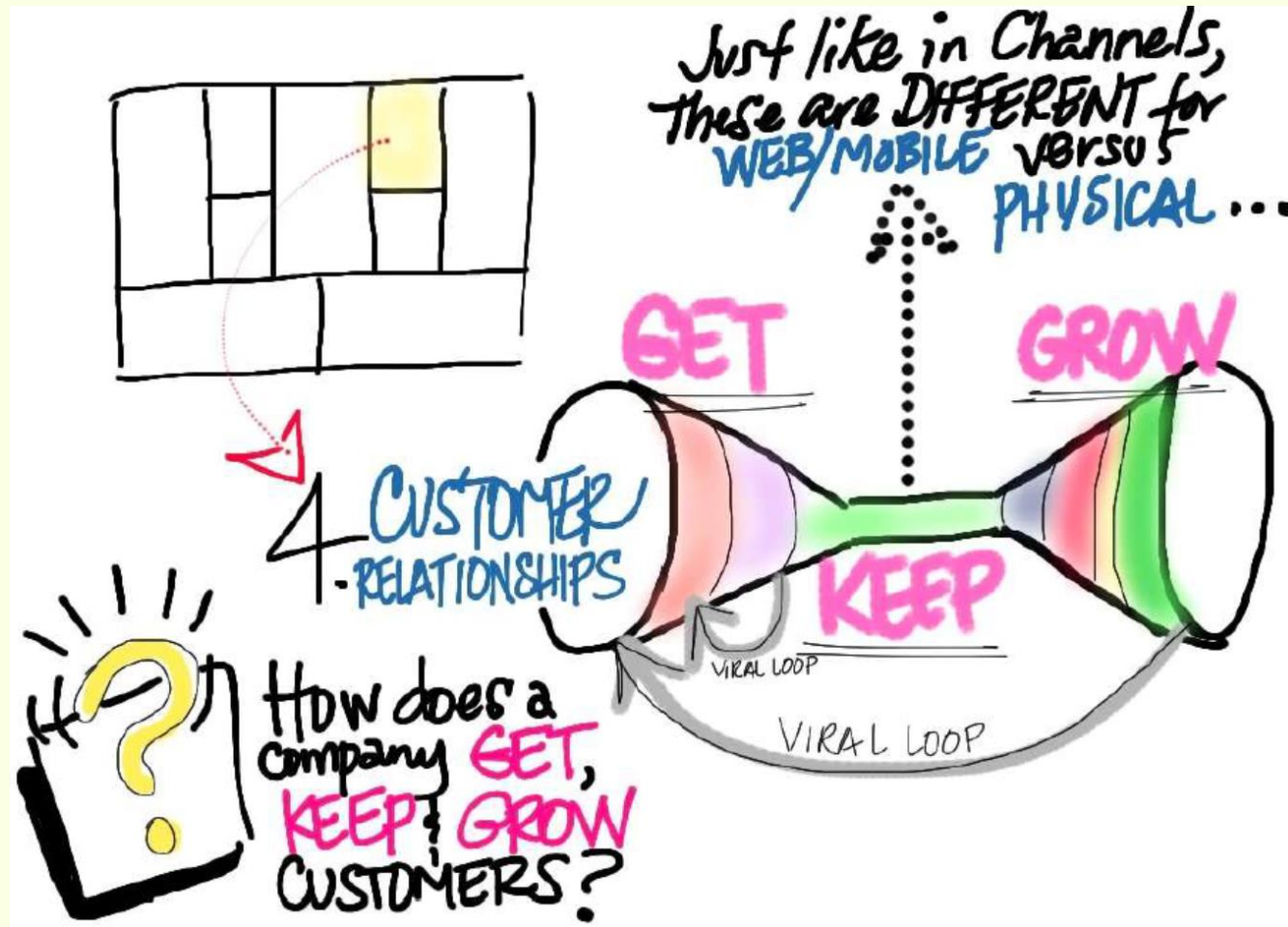
- Direct
 - Indirect
 - Hybrid
-
- **Direct:** Customers transact directly with the company by whatever means; it can encompass web/mail-based services or own retail outlets
 - **Indirect:** Customers do not engage with the producer/provider except through third parties (e.g. retailers, brokers, wholesalers)
 - **Hybrid:** Combination of direct and indirect channels to customers; usually one will be dominant

Customer Relationships -

How Do You Get, Keep & Grow Customers?



Customer Relationships

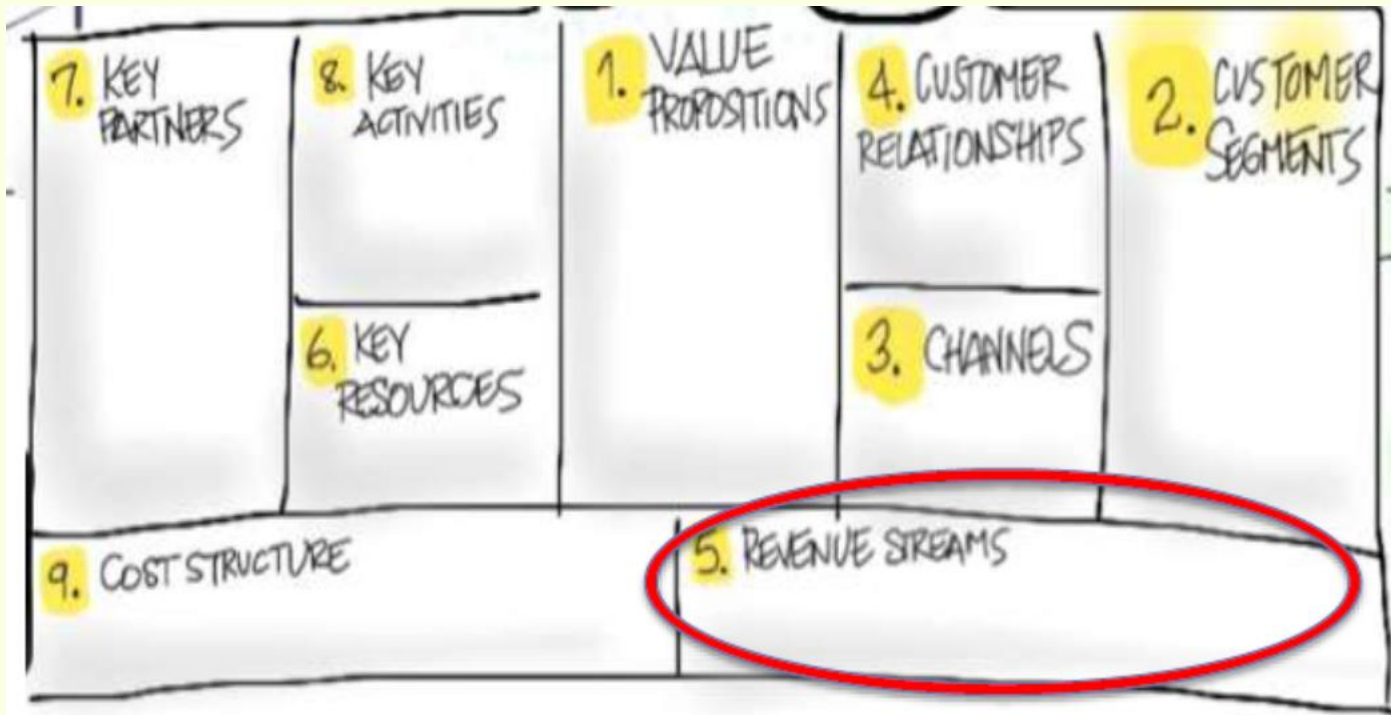


Customer Relationships

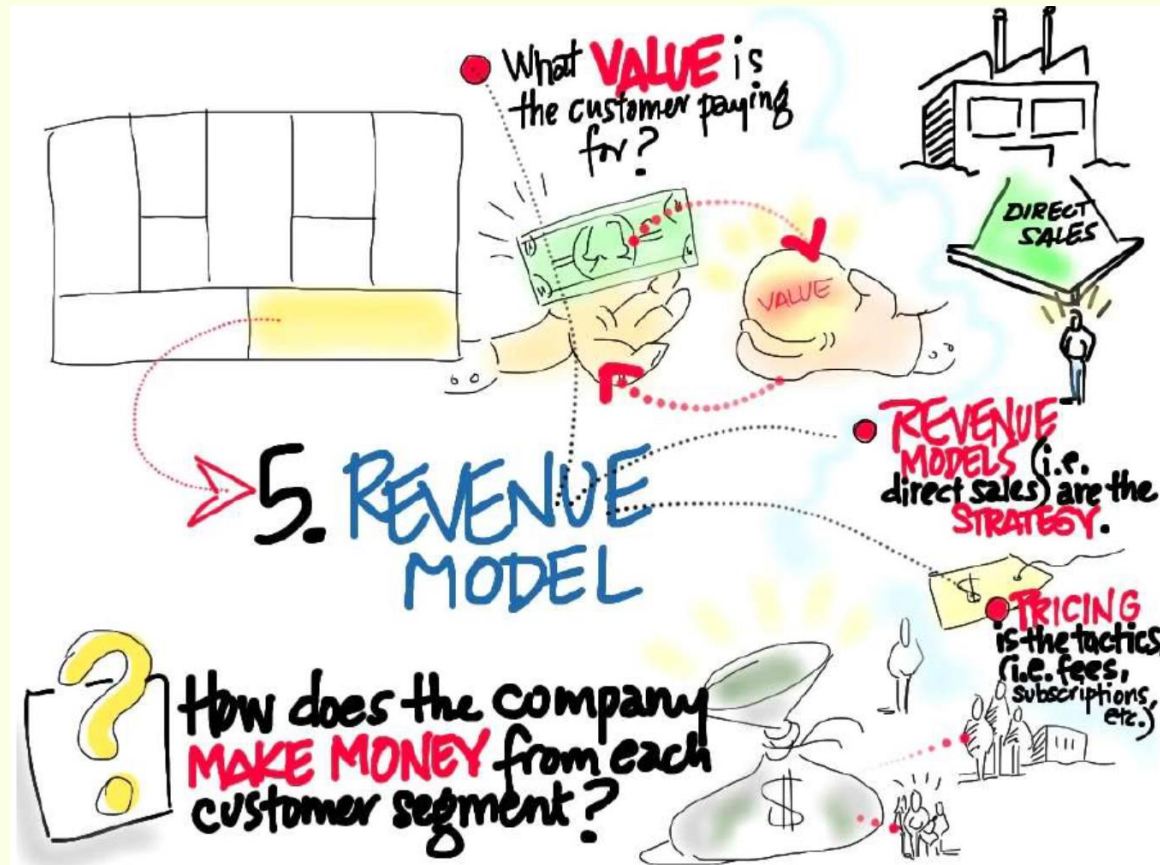
- Personal
 - Automated/self-service
 - Co-creation
-
- **Personal:** Focus on person-to-person interaction with customer; this can range from 'as they come' encounters (e.g. service centres) to individually tailored appointments
 - **Self-service:** Company provides the product or service that the customer can choose to buy but no direct relationship beyond the transaction i.e. internet banking
 - **Co-creation:** Direct involvement of customers in reviewing or even designing products or enabling the dissemination of customer-created products

Revenue Streams -

How Do You Make Money?



Revenue Streams

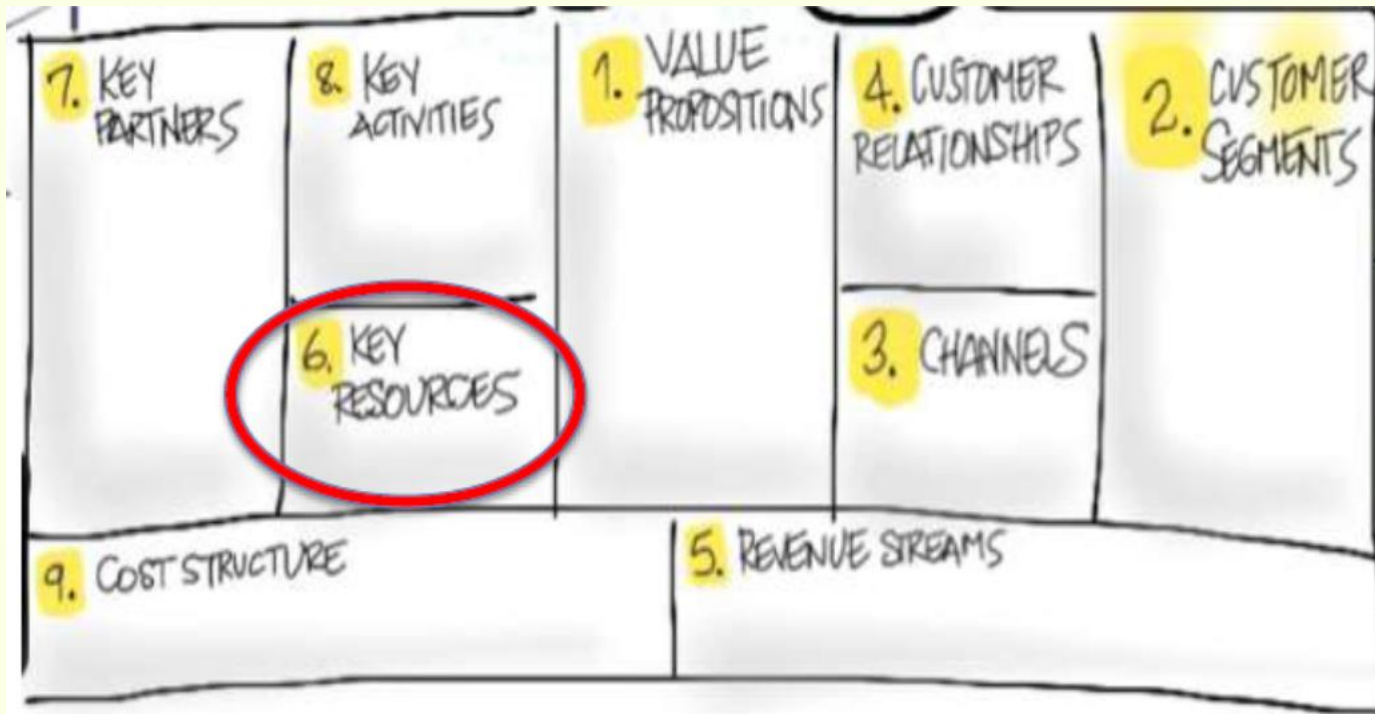


Revenue Streams

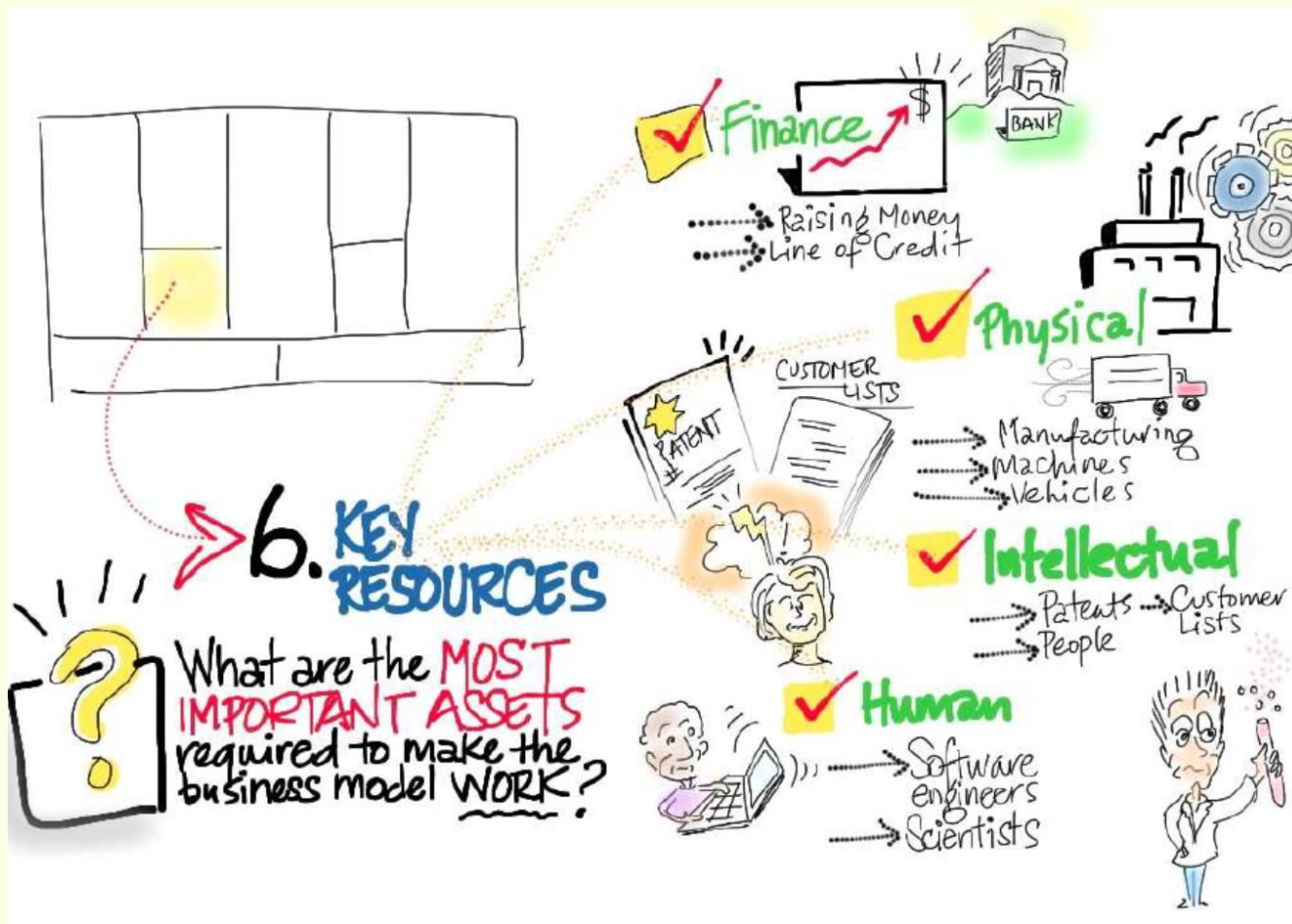
- Asset sale
 - Fees/rent
 - Advertising
-
- **Asset sale:** Revenue comes from sale of a physical product or specific service
 - **Fees/rent:** Cover a range of transactions including usage fees, subscriptions, as well as licensing, brokerage, leasing and lending activities
 - **Advertising:** Important in internet economy as well as for traditional media

Key Resources -

What Are Your Most Important Assets?



Key Resources

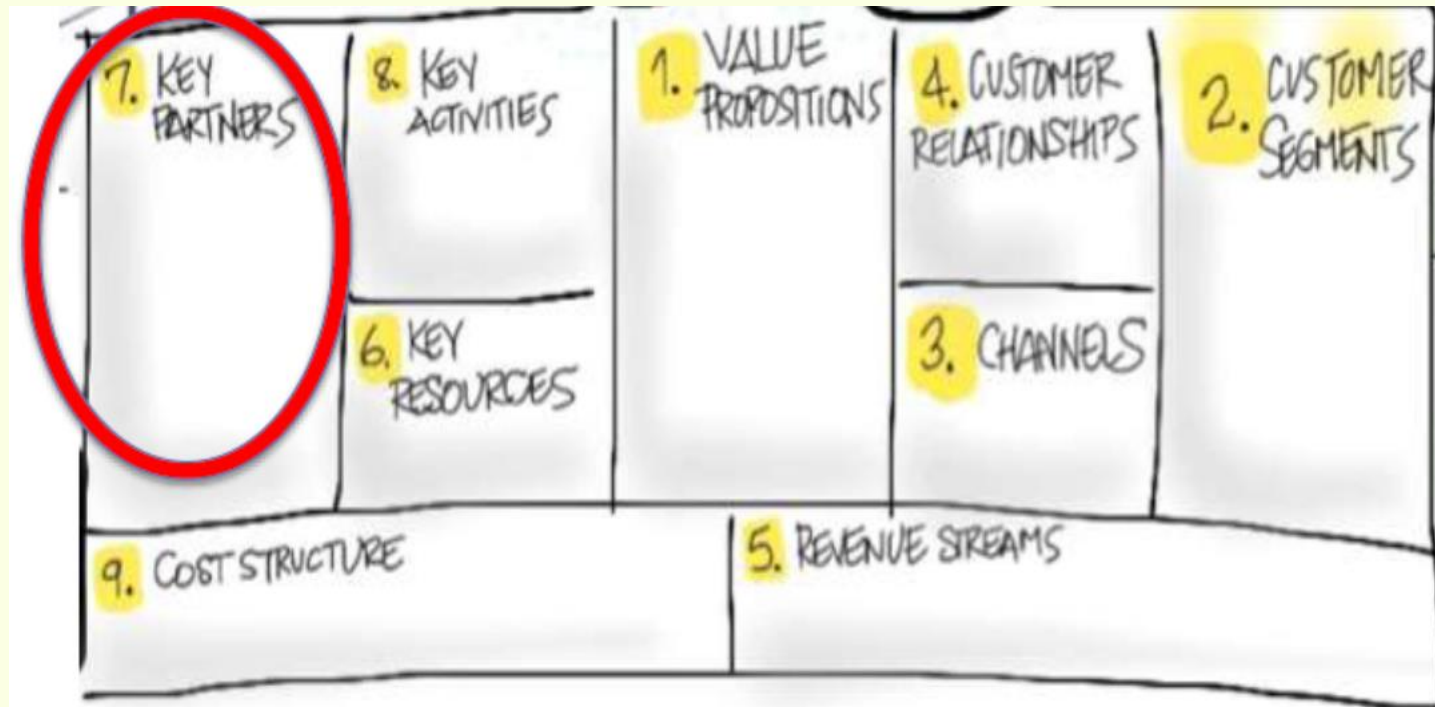


Key Resources

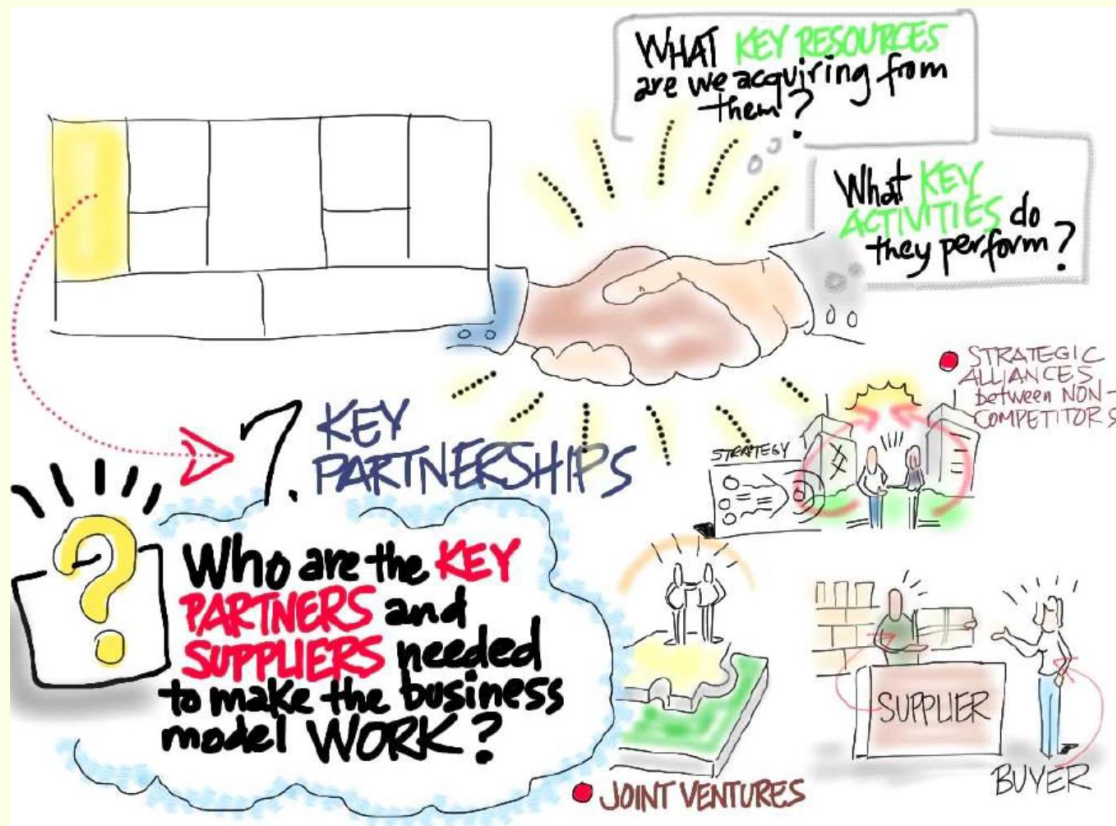
- Physical
 - Intellectual/human
 - Financial
-
- **Physical:** Facilities, buildings, technology, infrastructure; may not be owned by the company but are crucial to its operations (e.g., road networks for transport companies)
 - **Human/intellectual:** Encompasses proprietary knowledge, patents and design capabilities as well as the human skills and capacities that maintain and develop organizational capacity.
 - **Financial:** Either access to cash or borrowing opportunities with which to finance developments or sustain short-term fluctuations in returns.

Key Partners -

Who Are Your Partners & Suppliers?



Key Partners

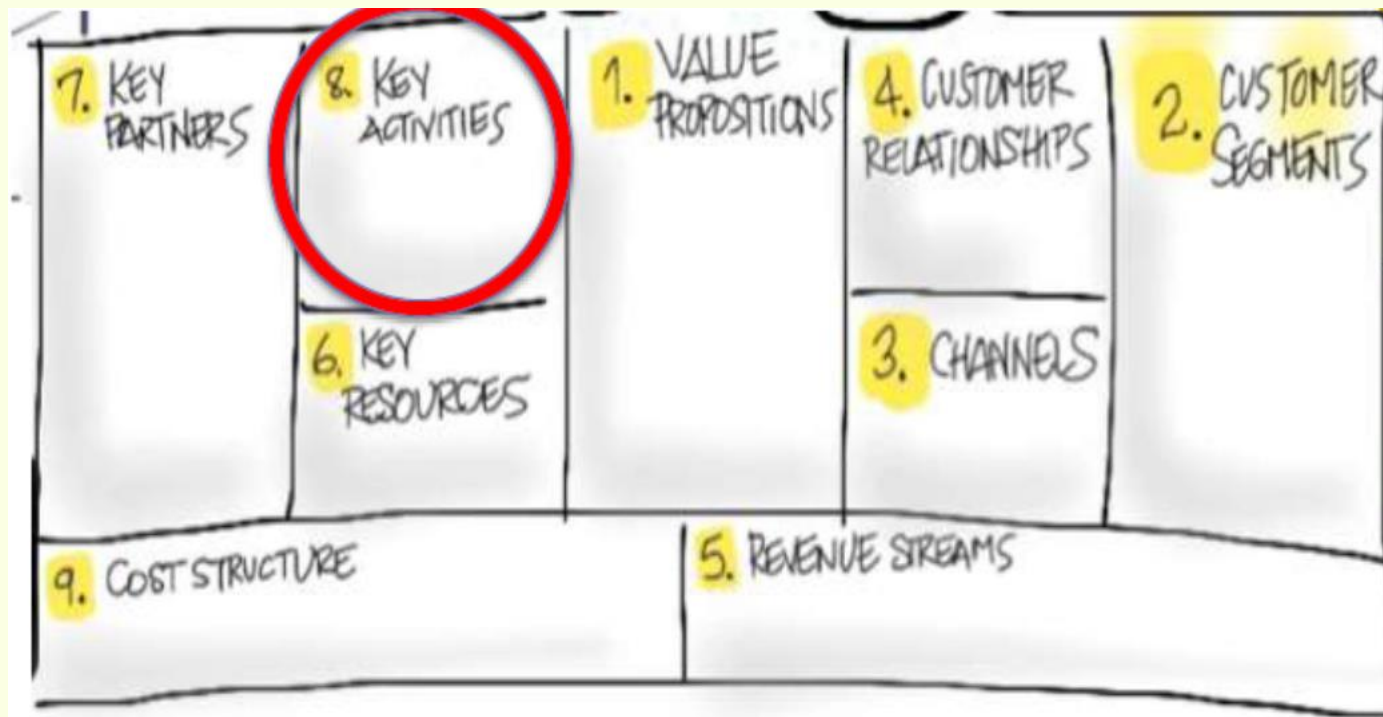


Key Partners

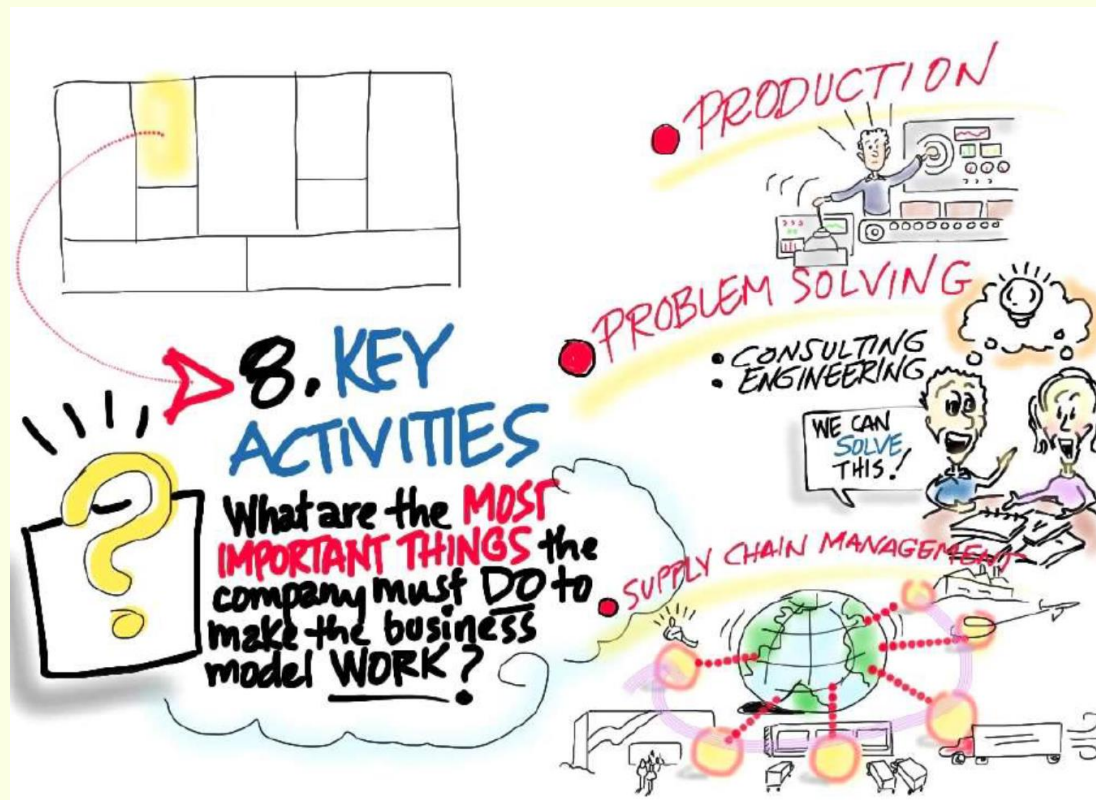
- Optimization
 - Risk-sharing
 - Control
-
- **Optimization:** Range from economies of scale (vertical integration) to outsourcing with a focus on cost reduction whilst maintaining or improving quality.
 - **Risk-sharing:** Covers strategic alliances for R&D or collaboration on high-risk projects; also extends to knowledge-sharing within supply-chains such as open-sourcing
 - **Control:** Ranges from M&A activity to gain direct control to partnership/licensing relationships with explicit IP restrictions

Key Activities -

What's Most Important For The Business?



Key Activities

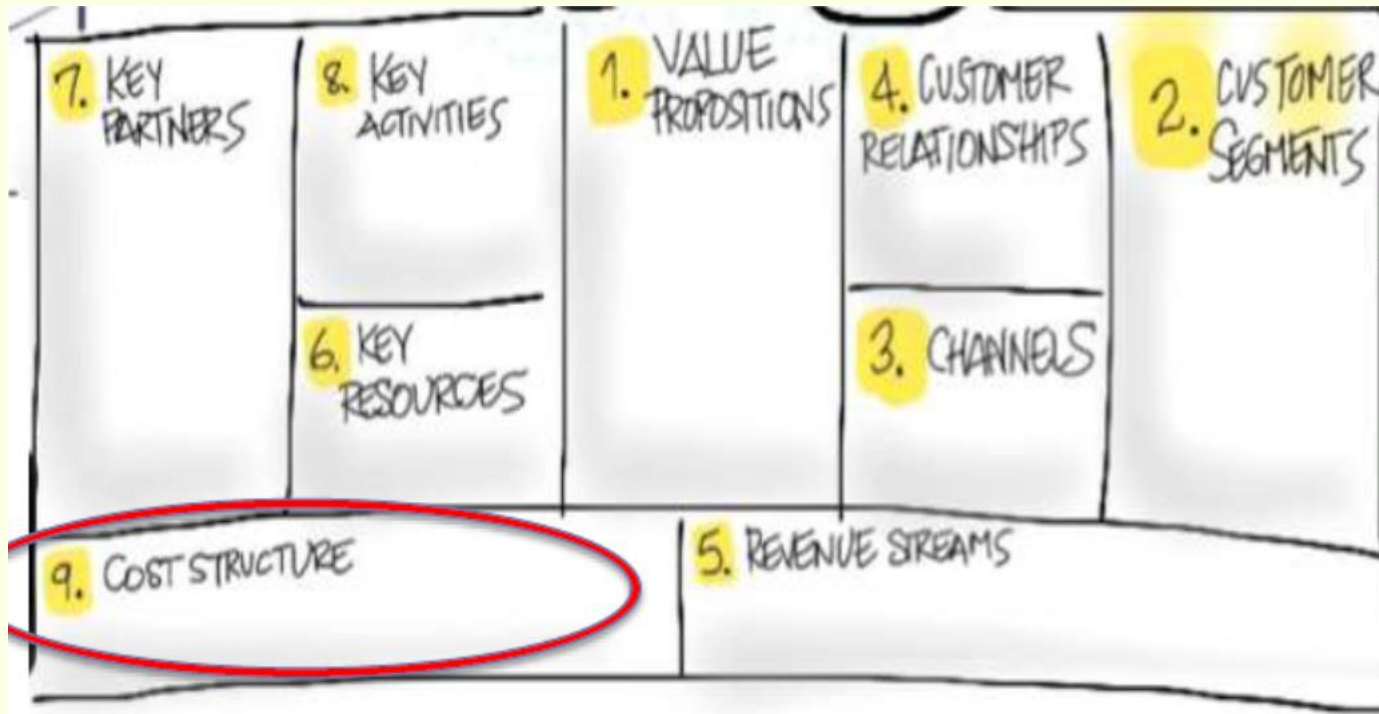


Key Activities

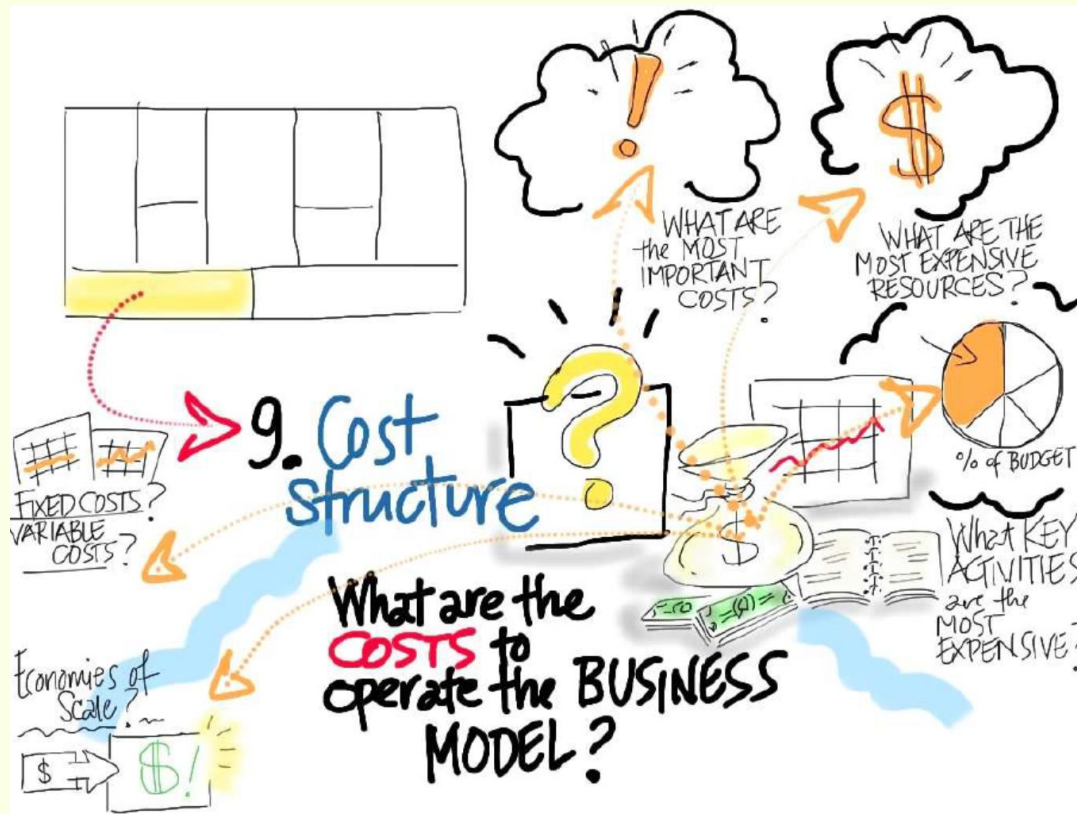
- Production
 - Problem solving
 - Platform
-
- **Production:** Designing and/or manufacture a specific product(s); also extends to businesses that specialise in delivery of such products
 - **Problem-solving:** Focus on resolving customer problems such as consultancy, healthcare or other forms of service business
 - **Platform:** Associated with web-based businesses that rely on a software/hardware combination to deliver their offering i.e. YouTube or Facebook

Cost Structure -

What Are The Costs & Expenses?



Cost Structure

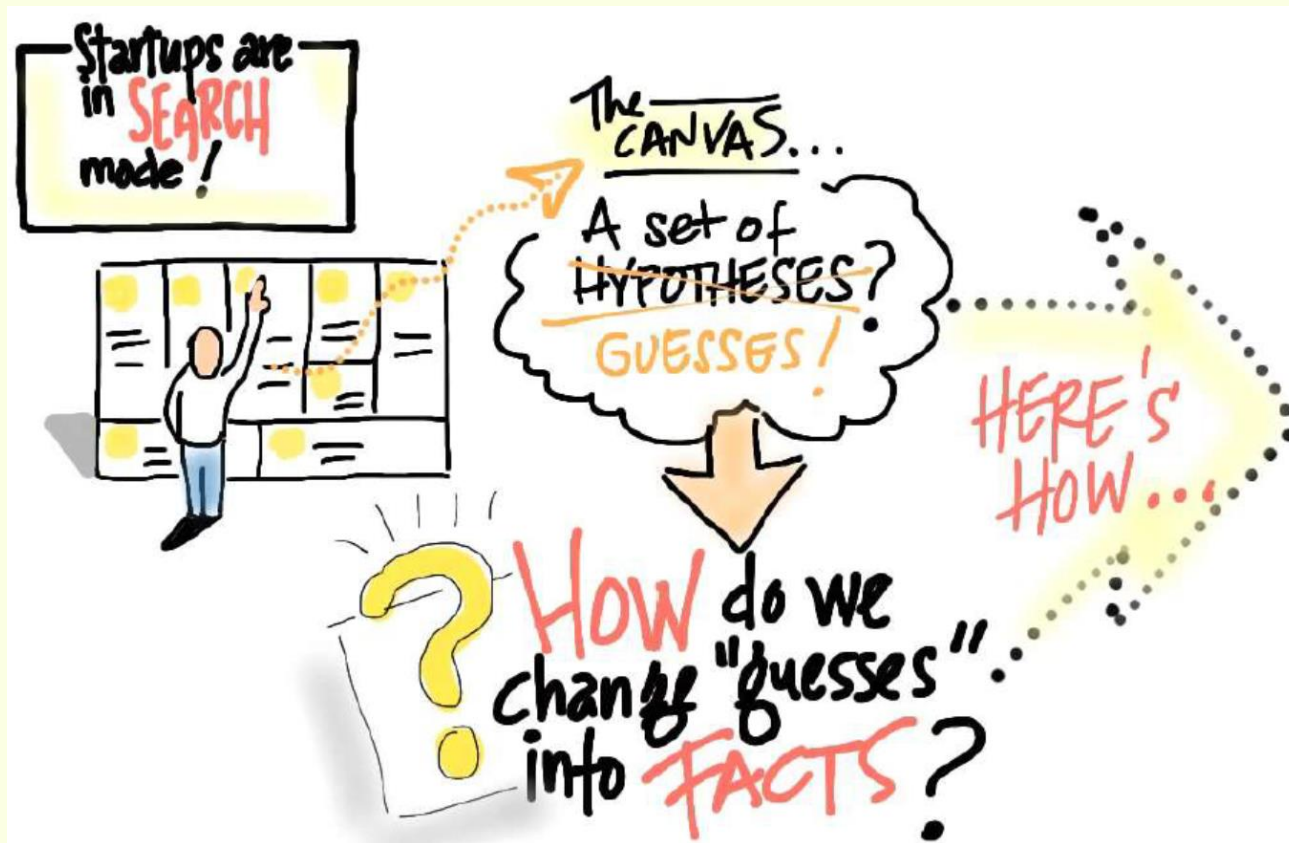


Cost Structure

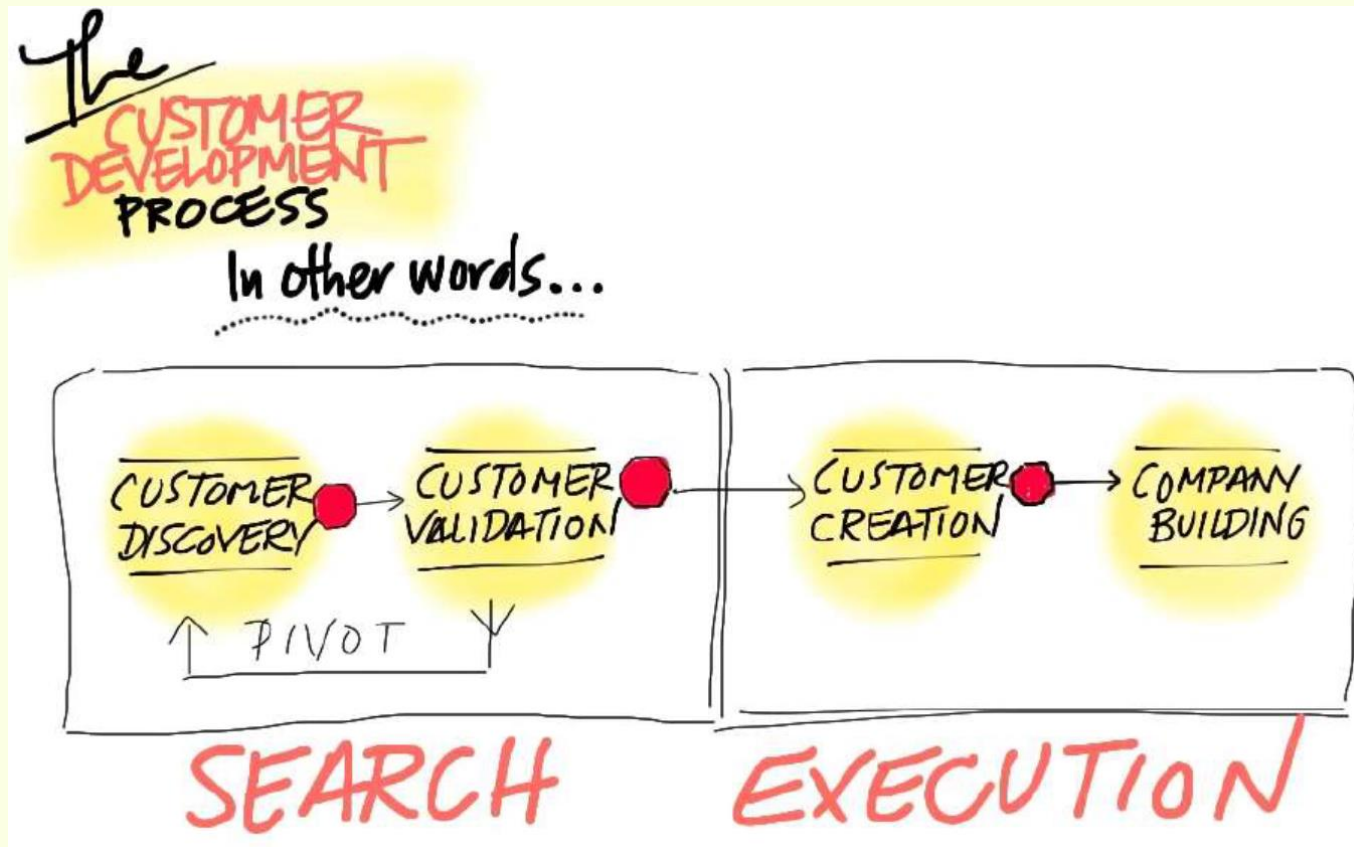
- Cost-driven
 - Value-driven
 - Scale
-
- **Cost-driven:** Focus on minimising costs and emphasis on value-at-price; use of outsourcing and stripping costs to the level that customers will tolerate for a given price i.e. budget airlines
 - **Value-driven:** Focus is on markets where the customer will pay, a premium for a superior level of service and/or product
 - **Scale:** Extent to which control of costs rests upon the scale of activity

But,
Realize They're Hypotheses

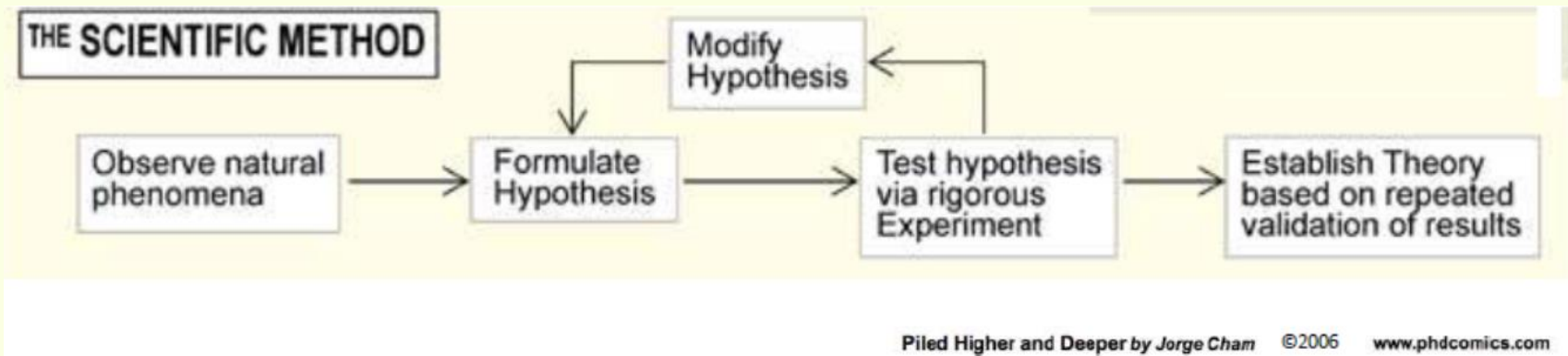
Key Partners Why are we the Partner? Why are we the needed? What key resources are we requiring from partner? What key channels do partners perform? Guess	Key Activities What key activities do our Value Proposition require? The Production Channel? Customer Relationship? Revenue Stream? Guess	Value Propositions What value does deliver to the customer? Which word of our customer's problems are we trying to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying? Guess	Customer Relationships What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How do they interact with the rest of our business model? Guess	Customer Segments For whom are we creating value? Who are our most important customers? Guess
Cost Structure What are the most important costs drivers in our business model? What key Resources are most expensive? What key Activities are most expensive? Guess	Key Resources What key Resources do our Value Proposition require? The Production Channel? Customer Relationship? Revenue Stream? Guess		Channels Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are we planning to reach them? Guess	
Cost Structure Guess		Revenue Streams For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How much they paid in cash? How much does each customer segment contribute to our revenue? Guess		



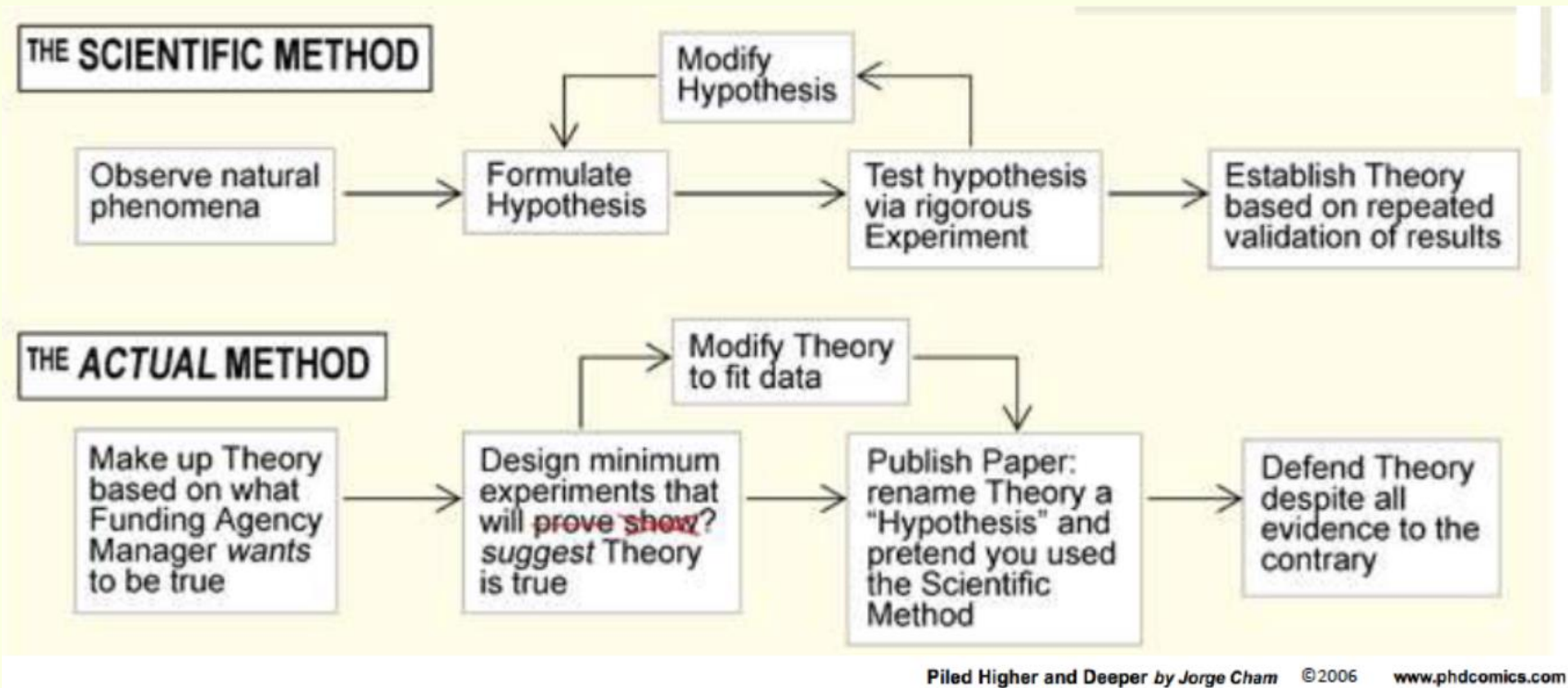
The Customer Development Process



Scientific Method



In Reality...



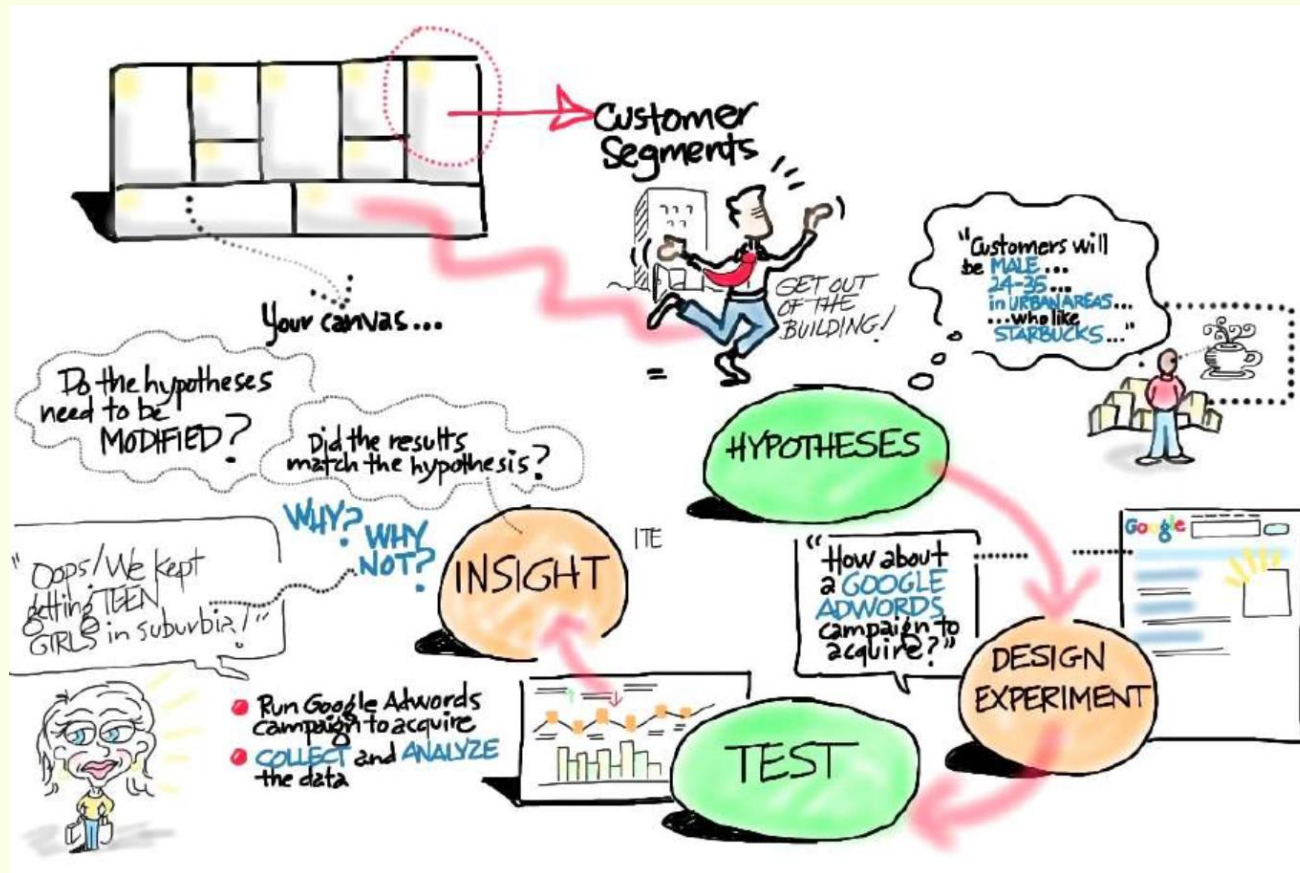
Customer Development

Test the Problem, Then the Solution

Test Guesses, Look For Insight



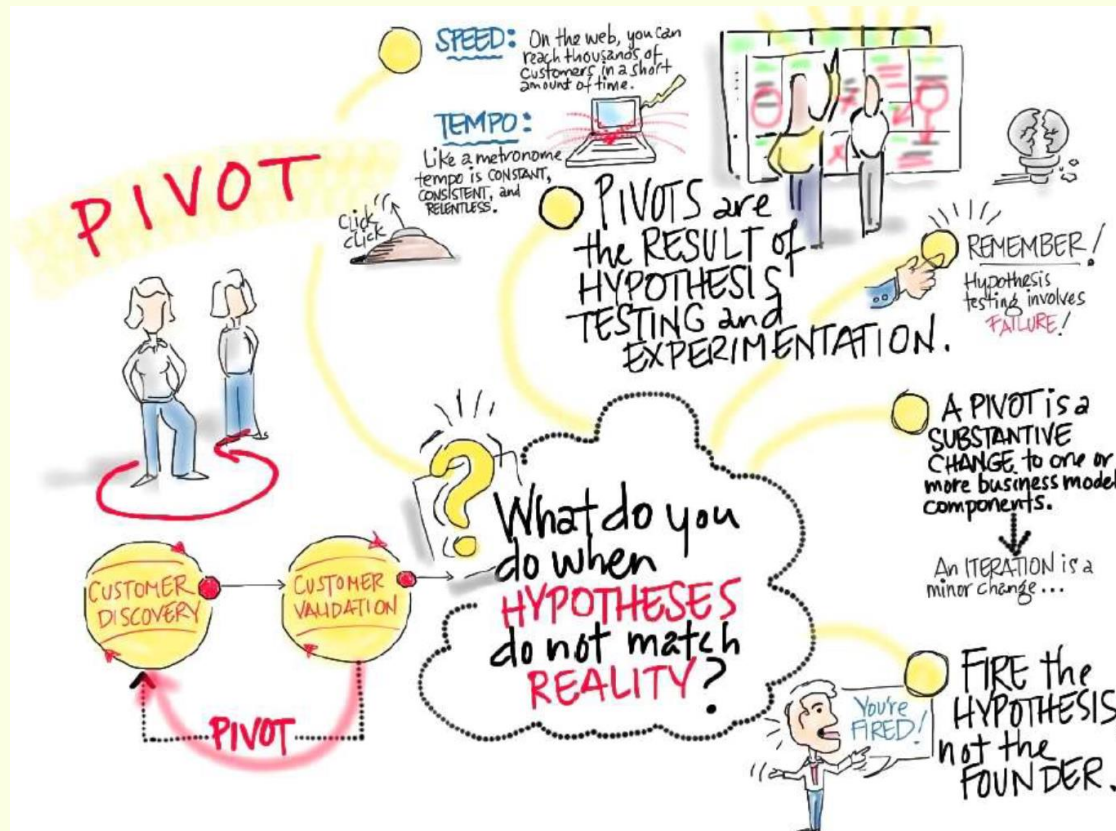
Hypotheses-Design Experiment-Test-Insight



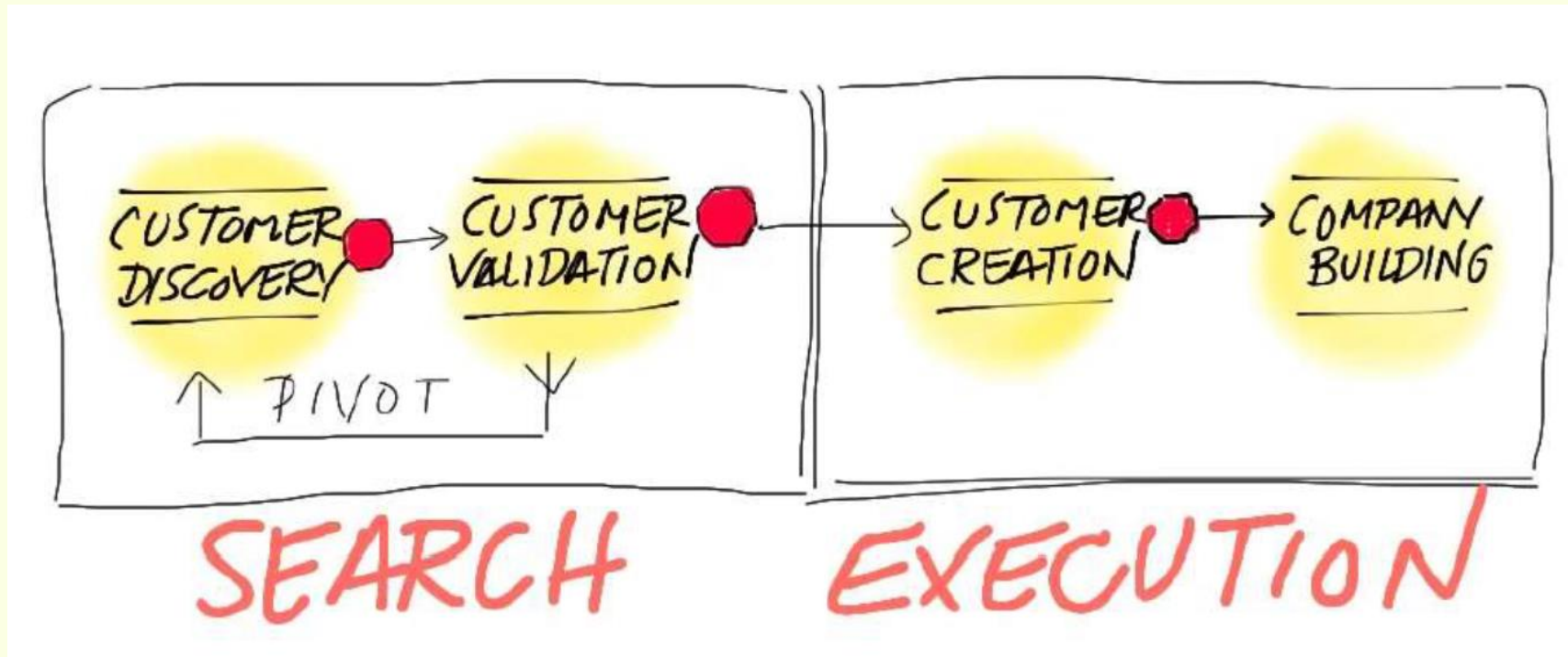
Customer Development - Minimum Viable Product



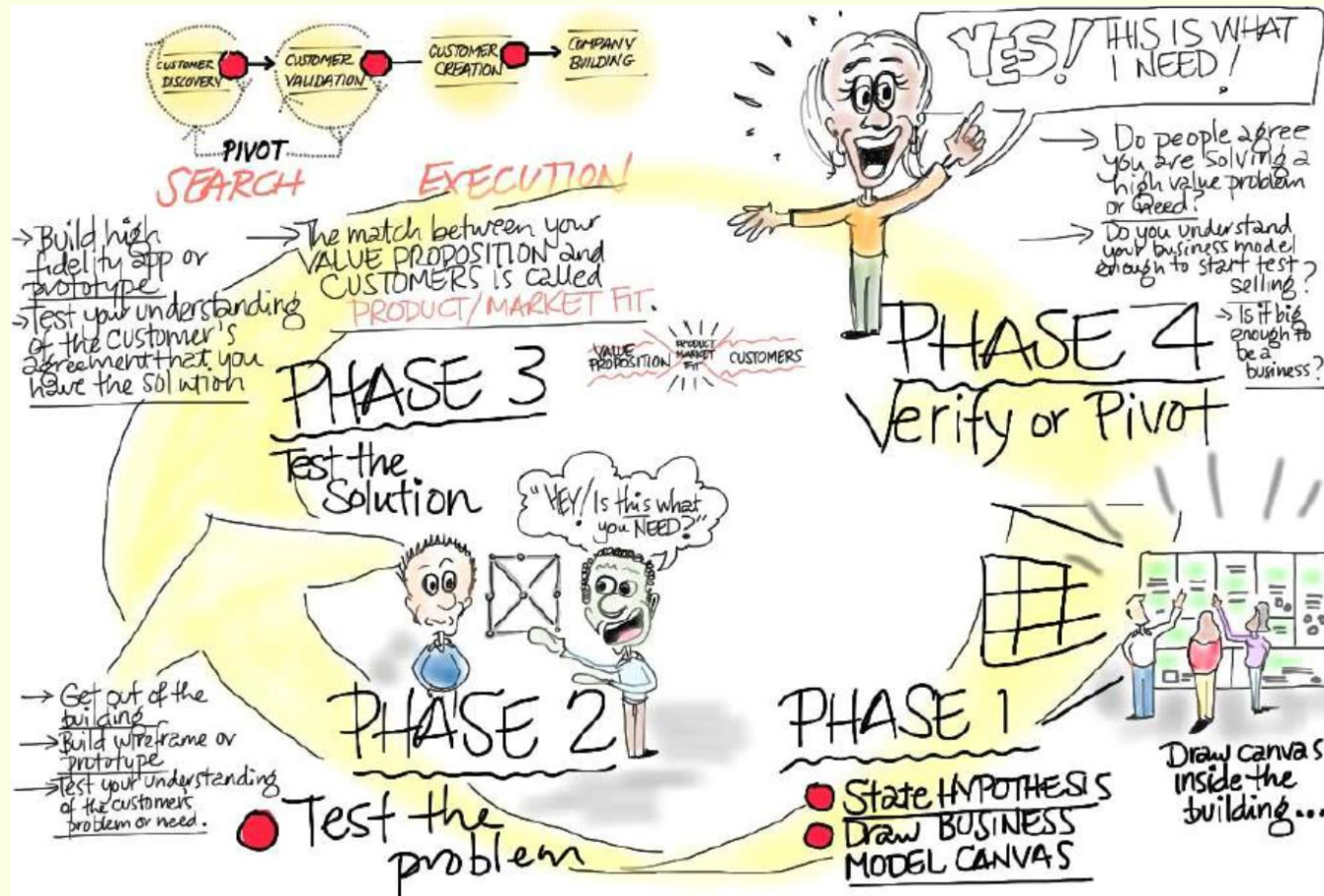
Customer Development - The Pivot



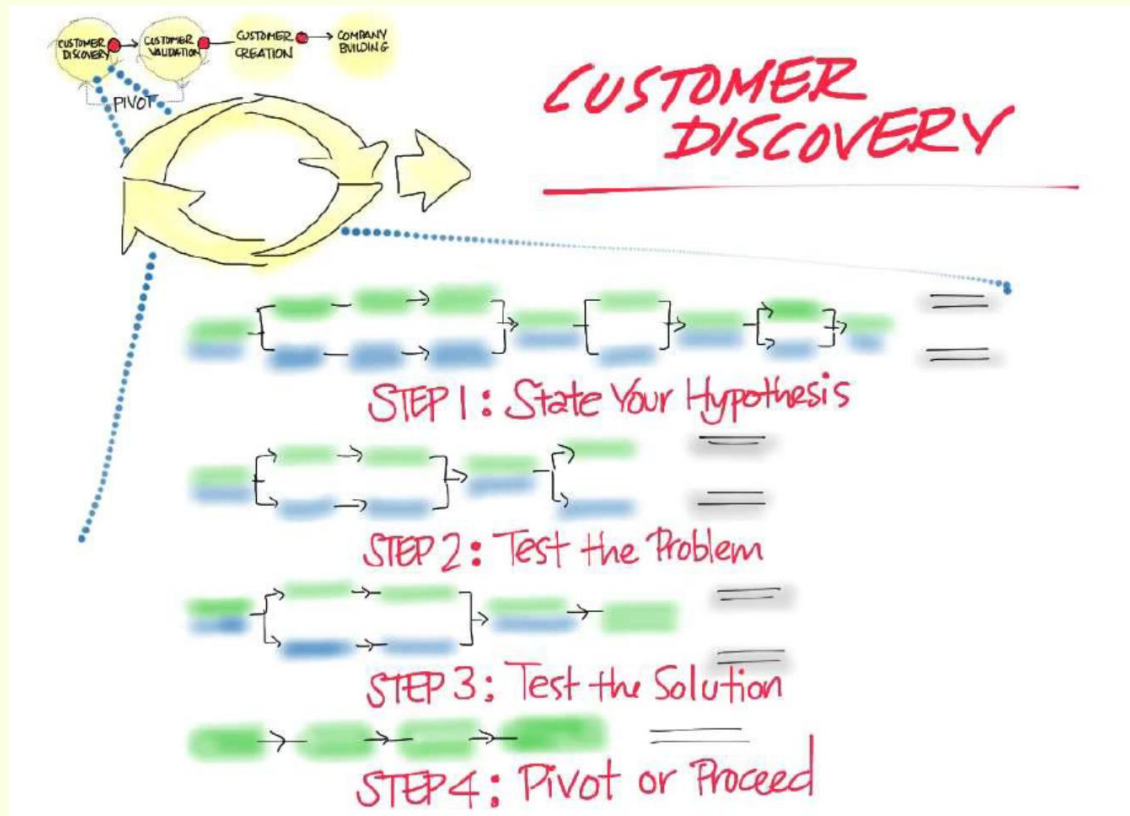
Customer Development Is How You Search For The Model



4 Phases To Enlightenment!



Customer Discovery

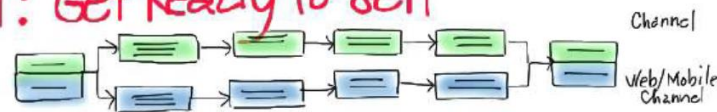




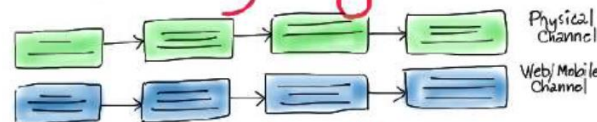
Customer Validation

CUSTOMER VALIDATION

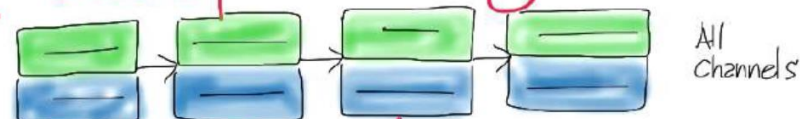
STEP 1: Get Ready to Sell



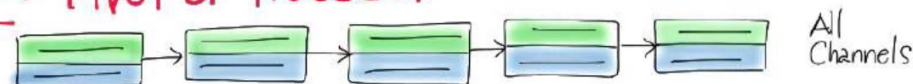
STEP 2: Sell to Early Vangelists



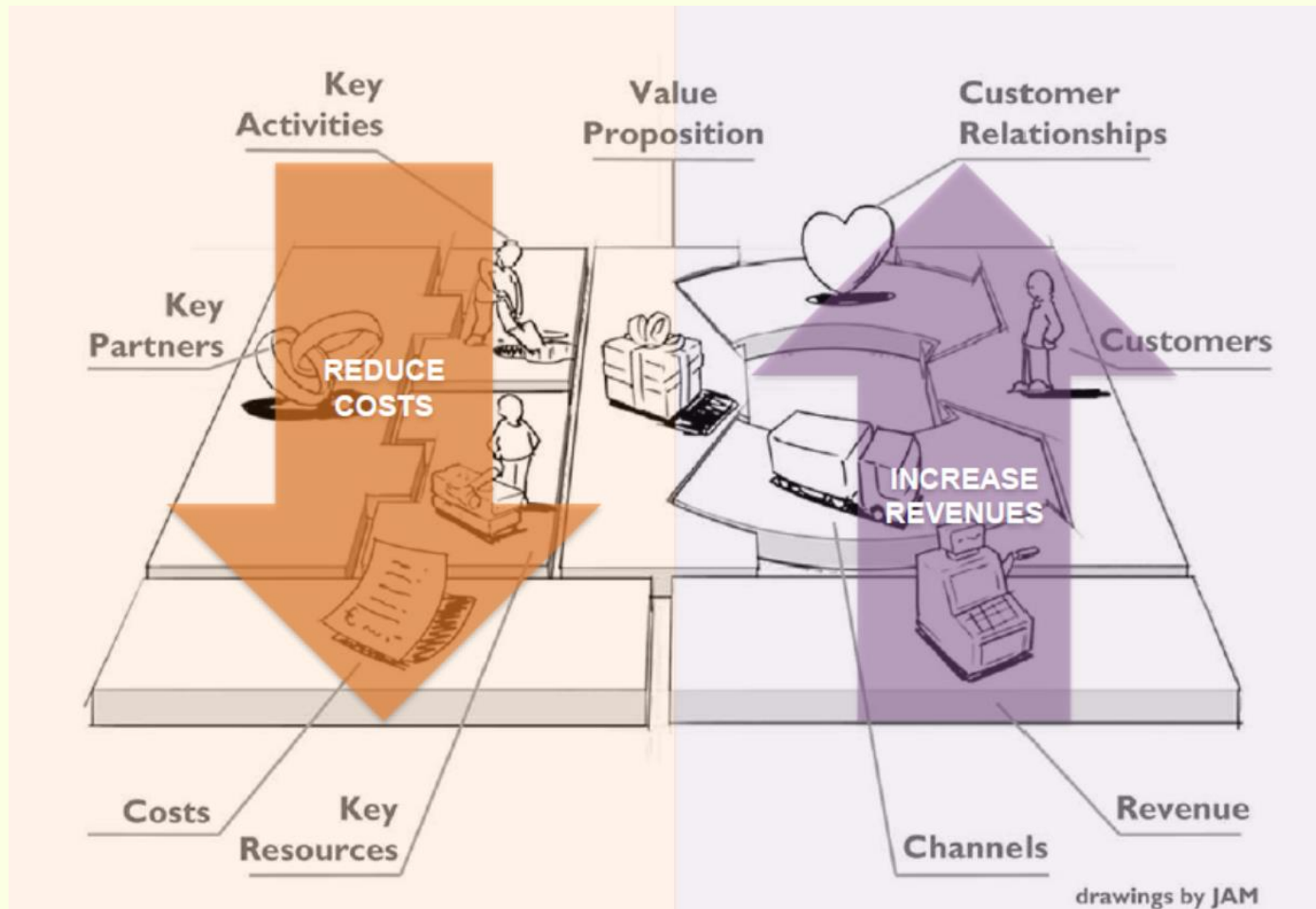
STEP 3: Develop Positioning



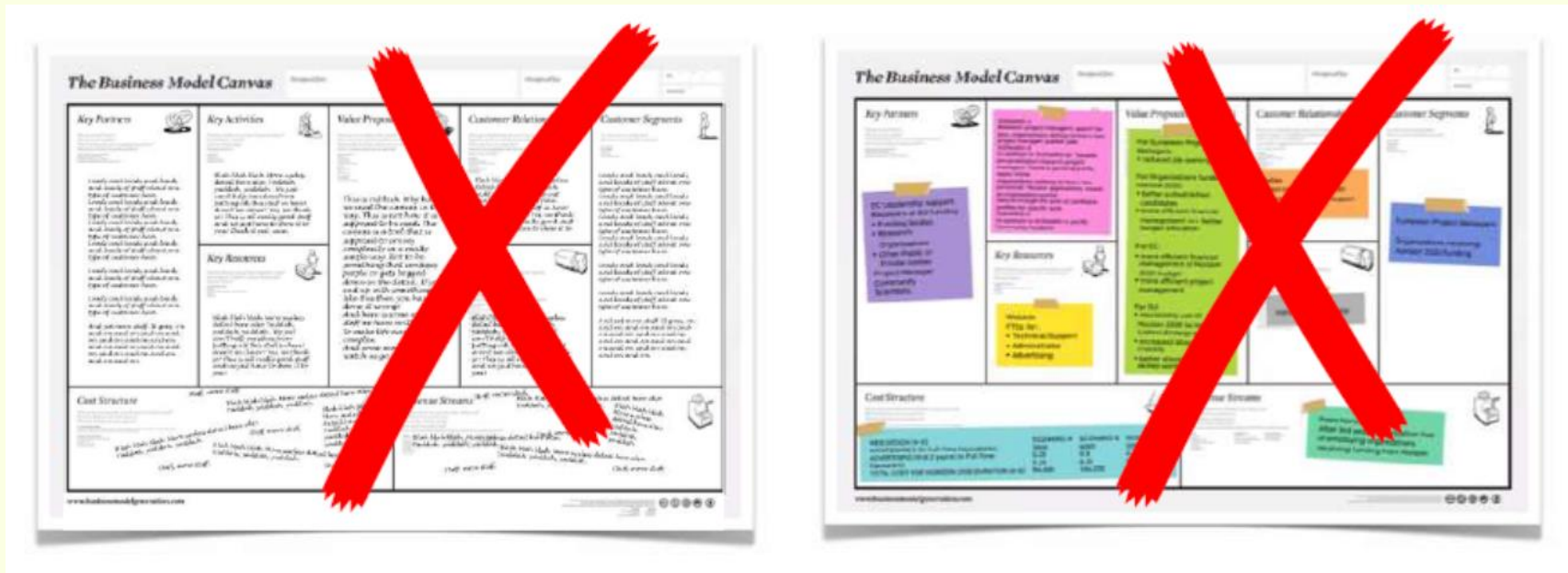
STEP 4: Pivot or Proceed



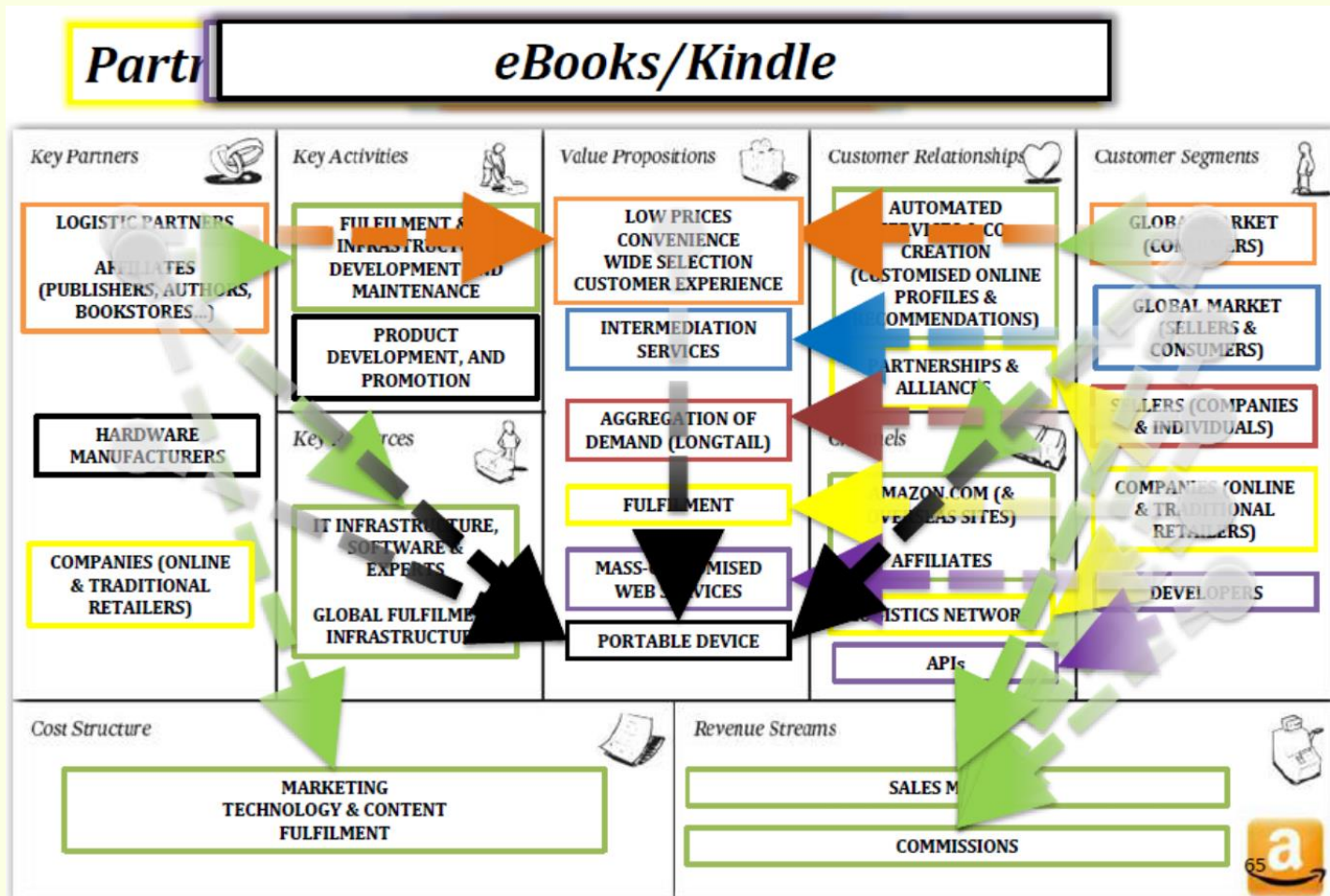
Create, Deliver, Capture, Value



The Canvas In Practice



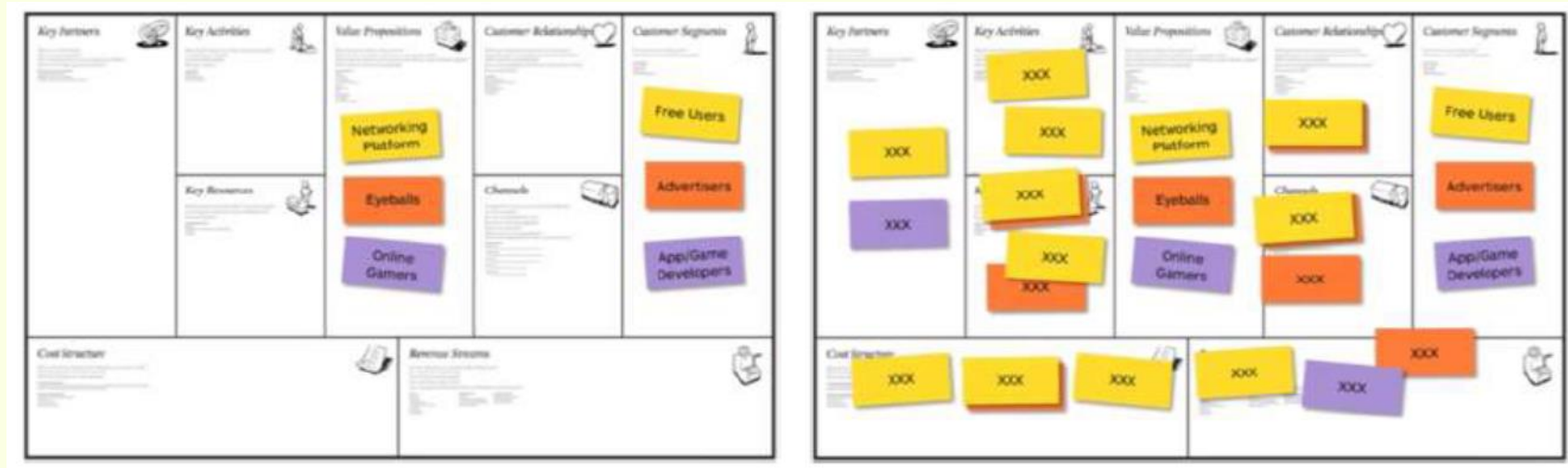
Example Business Model Canvas



Assessing Your Business Model

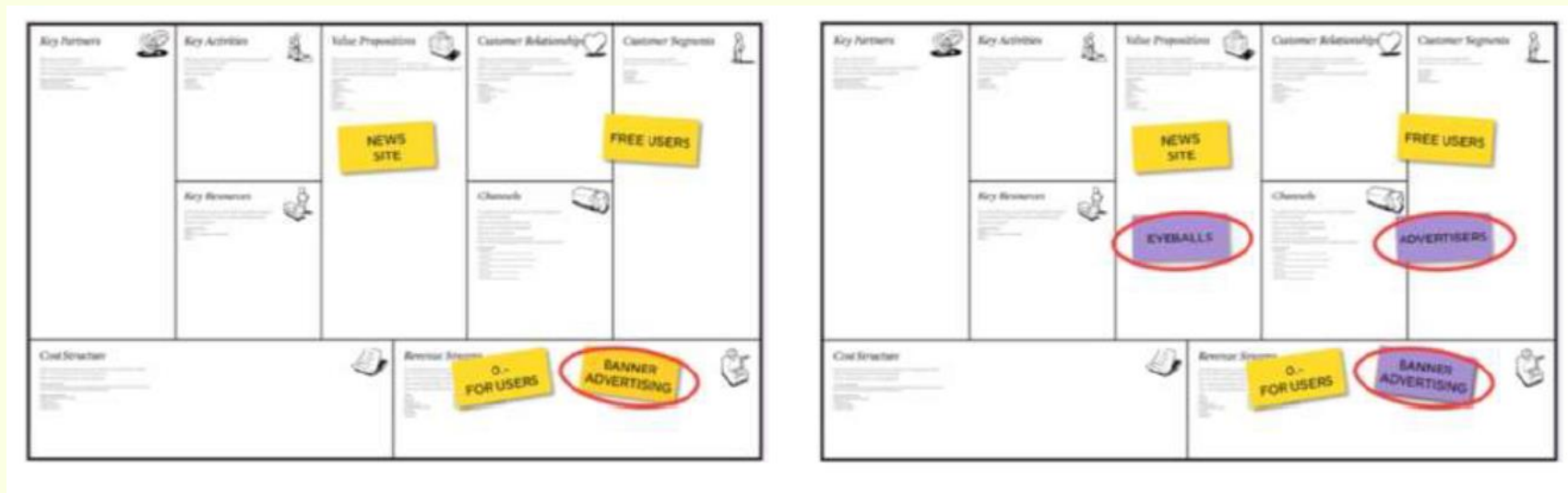
1. **Switching costs:** how easy or difficult is it for your customers to switch to another company
2. **Recurring revenues:** is every sale a new effort or will it result in follow-up revenues and purchases?
3. **Earn before you spend:** Are you earning money before you are spending it?
4. **Game changing cost structure:** is your cost structure substantially different and better than those of your competitors?
5. **Scalability:** How rapidly and how easily can you grow your business model without hitting roadblocks (e.g. infrastructure, customer support, etc.)?
6. **Protection from competition:** how much is your business model protecting you from your competition?
7. **Future proof:** how much is your business model protecting you from game-changing technologies?

The Canvas In Practice



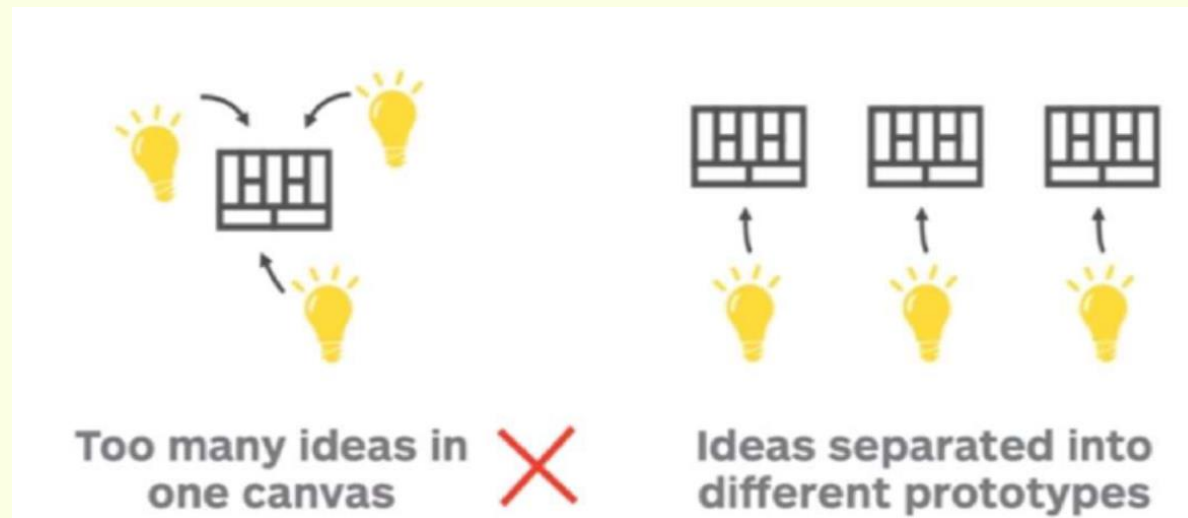
- ✓ Only use post-it notes
- ✓ Don't get too granular
- ✓ Systematic colour coding – use post-its

The Canvas In Practice



- ✓ Design within a story - connect the building blocks (no orphans!)

The Canvas In Practice



✓ Iterate on separate canvases

The Canvas In Practice

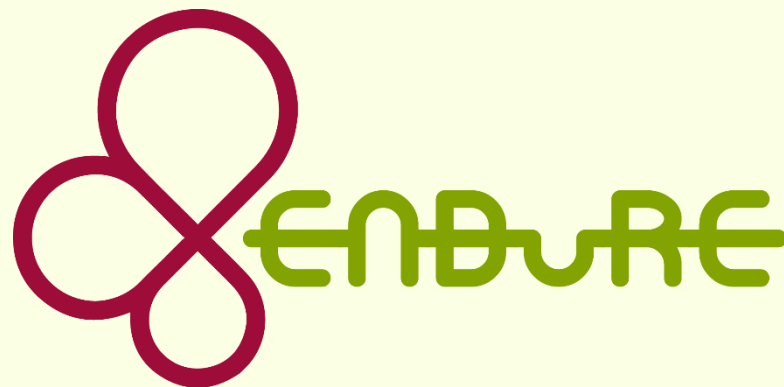
- Get started - Customer or VP
- Work smart as team - alternatives & prototypes
- Keep it simple - the “essence” or “blueprint”
- Iterate, iterate, iterate

EXERCISE

- Your family is considering buying a local pub
- They have asked your help to analyze whether this is a good idea
- The focus is on what you would do to run this as a successful business
- Use the business model canvas to describe your ideas and how you would approach it



DISCUSSION



UNIVERSITY OF
SURREY



UNIVERSITÀ DI PISA



IVERIDIS
INTELLIGENT INNOVATION



Co-funded by the
Erasmus+ Programme
of the European Union

The European Commission support for the production of this publication does not constitute endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.