Business Model Mapping

Prof. Steve Tello
Agenda

• Understanding business models

• Developing a business model

• Understanding why business models fail
What is Business Model?

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What is Business Model?

• A business model describes the rationale of how an organization creates, delivers, and captures value.

Clarke (2004)
• Who pays? (consumer, producer, other)
• What for? (e.g., goods, services, expertise)
• To whom?
• Why? (e.g., perceived value, low price, relationship)

Magretta (2002)
• Who is the customer?
• What does the customer value?
• How do we make money in this business?
Six Functions of a Business Model

- Articulate Value Proposition
- Identify a Market Segment
- Define the Firm’s Value Chain
- Specify Revenue Generation Mechanisms
- Describe Firm Position in Value Chain
- Formulate Competitive Strategy

Chesbrough & Rosenbloom, 2002

- Flexibility critical – Why?
Business Model and Business Plan: What’s the difference?
Business Model and Business Plan: What’s the difference?

• Business Plan
  – Detailed document with Financial Projections
  – Marketing and Funding Solicitation Tool
  – Lots of Paper

• Business Model
  – Tells the story of the value of the business to the customer
  – Describes how the company plans to make money
  – Should fit in the Founder’s Head – Should “Ring True”
The Business Model

Let’s go to the movies . . .


(Video Sections 3/4/6)
The Business Model Canvas

Target Product – Recombinant hemagglutinin (HA) for pandemic and seasonal influenza

Key Partners
- Tobacco Suppliers
- Gene Synthesis Companies
- CMOs
  - Purification
  - Fill & Finish
  - Packaging
  - QA/QC
- CROs
  - Clinical Trials
- FDA

Key Activities
- R&D
- Manufacturing
- Regulatory Approval
- Licensing
- Marketing

Value Propositions
- Speed
- Cost-Effectiveness
- Robustness
- Scalability
- Safety
- Ease of Customization
- U.S. Supply

Customer Relationships
- Long-Term Contracts with Government and Vaccine Manufacturers

Customer Segments
- U.S. Government
  - CDC
  - HHS BARDA
  - DOD DARPA
- Foreign Governments
- NGOs
- Vaccine Manufacturers
  - Established and Emerging Biotech

Key Resources
- IP – Patents, Trade Secret
- Manufacturing Facility

Channels
- Distribution through Government and Pharma Companies

Cost Structure
- Capital Investments
- Manufacturing Costs
- Licensing Costs
- Marketing

Revenue Streams
- Contract Manufacturing
- Fully Integrated Manufacturing (Sales)
- Licensing (Royalties)
Not-For Profit Model

Key Activities
- Mission
- Value Proposition
- Customer Relationships
- Channels
- Customer Segments
- Revenue Stream
- Free
- Donation

Key Partners
- Product or Service
- Recipient

Key Resources
- Mission
- Value Proposition
- Customer Relationships
- Channels
- Customer Segments
- Revenue Stream
- Free
- Donation

Cost Structure
- Mission
- Value Proposition
- Customer Relationships
- Channels
- Customer Segments
- Revenue Stream
- Free
- Donation
Customer Segment

Groups of people or organizations a business aims to serve

- **Mass Market**
  - One large group of customers with broadly similar needs

- **Niche Market**
  - Target to specific, specialized customer segments

- **Segmented Market**
  - Segments with slightly different needs & problems

- **Diversified Market**
  - Different, unrelated customer segments

- **Multi-side Market**
  - Two or more interdependent customer segments
WHO ARE YOUR CUSTOMERS?

Be specific, identify customer segments?

What type of customer are they?

Use your Post-Its to capture your customer segments!
Value Propositions

Bundle of products and services that create value for specific Customer Segments

- How does a business create value?
  - By addressing Customer Pain
    - Deliver service faster or cheaper, or both!
    - Provide a higher quality of service
  - By addressing Customer Gain
    - Providing status
    - Customization of product or service
WHAT IS A VALUE PROPOSITION?

Let’s Go Back to The Movies
http://ecorner.stanford.edu/authorMaterialInfo.html?mid=2880
To Work on your Startup!

- WHAT VALUE PROPOSITION DO YOU OFFER YOUR CUSTOMERS?

- Again, be specific, identify which customer segments benefits.

- Use your Post-Its to capture your Value Proposition!
## Channels

How a company communicates with, and reaches its Customer Segments to deliver a Value Proposition

<table>
<thead>
<tr>
<th>OWN CHANNEL</th>
<th>DIRECT</th>
<th>Sales Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Web Sales</td>
<td></td>
</tr>
<tr>
<td>PARTNER CHANNEL</td>
<td>INDIRECT</td>
<td>Own Stores</td>
</tr>
<tr>
<td></td>
<td>Partner Stores</td>
<td>Wholesaler</td>
</tr>
</tbody>
</table>
Communication and Distribution Channels

- Do we have a well thought-through communication and distribution channel design?
- How well do we reach our clients?
- Do we know how successful our channels are in terms of customer acquisition?
- How well are our different channels integrated?
- Do we know how cost efficient are our channels are?
- Do we use the right channels for the right clients (e.g. in terms of profitability)?
Customer Relationship

The types of relationships a company establishes with specific Customer Segments

- Personal Assistance
- Dedicated Personal Assistance
- Self-Service
- Automated Service
- Communities
- Co-creation

- Motivated by Customer Acquisition, Customer Retention and Upselling
Customer Relationship

The types of relationships a company establishes with specific Customer Segments

- Do we have a customer relationship strategy?
- How good are our relationships with our best customers?
- Do we spend too much time and money in relationships with unprofitable clients?
- How well are we doing in managing our customer relationships (e.g. follow-up, etc.)
Map Customer to Value Proposition

Getting the Customer Value Proposition Right Is Critical To Success
Job To Be Done

http://www.youtube.com/watch?v=s9nbTB33hbg&feature=player_embedded
A Day In The Life Of Your Customers

<table>
<thead>
<tr>
<th>Question</th>
<th>Customer 1___________</th>
<th>Customer n__________</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How Is Your Customer Currently Dealing With This Task/Problem?</td>
<td></td>
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<tr>
<td>2. What Are They Trying To Accomplish? Desired Outcome? Wish They Could Do?</td>
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<td></td>
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<tr>
<td>3. What Approach Are They Attempting</td>
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<tr>
<td>4. What Are The Interfering Factors?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. What Are The Economic Consequences? –Costs?</td>
<td></td>
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</tr>
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## A Day In The Life . . .

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<tr>
<th>Question</th>
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<th>Customer n____________</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Enabling Factors?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Economic Rewards?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Is Our Price Consistent With Budget? – Problem Solved?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Do This For About 20 Customers!
For Each Customer . . .

• Are They Just Like Another Customer?
  – Basis for Segmentation
  – Who Has Similar / Different ‘Jobs to Be Done’!

• How Many Customers Like This?

• How Much Would They Buy?

• This Is The Start of your Marketing Plan!
How Are You Going To Test This?

• Experiments
  – Example from Lean Startup Contest (uTube)

• Talk to Customers
  – Health Care Professionals, Patients, Family
  – Other Service Providers, Competitors
  – Field Interviews

Successful Businesses Plan To Continually Experiment & Discover
To Work on your Startup!

- **HOW WILL YOU REACH YOUR CUSTOMER?**

- **WHAT TYPE OF RELATIONSHIP WILL YOU HAVE WITH YOUR CUSTOMER?**

- Use your Post-Its to capture your Value Proposition!
Revenue Streams

The cash a company generates from each Customer Segment

- Where does your revenue come from?
  - One source?
  - Multiple sources?

- How sustainable are revenue streams?

- How diversified are revenue streams?

- Are you dependent on too few revenue sources (e.g. from some big clients or one single business)?

- How well do we price our value proposition?
Revenue Streams

Types of Revenue Streams

- Sale of Asset
- Usage Fee
- Subscription Fees
- Lending/Renting/Leasing
- Licensing
- Brokerage Fees
- Advertising
Key Resources
Most important assets required to make a business model work

- Physical
- Intellectual
- Human
- Financial
Key Resources
Most important assets required to make a business model work

- Do we have an ‘unfair’ advantage based on our resources and capabilities?
  - Intellectual Property?
  - Unique access to information?

- Do we have the right resources to compete in the future?

- Do we invest in the right key resources in terms of quality and quantity?
Key Activities

Most important things a company must do to make a business model work

- How efficient are we in performing our activities?

- Do we perform too many activities ourselves, leading to a lack of focus?

- Are there activities we would be better off outsourcing to partners?

- Are our activities adapted perfectly to our value proposition?
Key Partners

Network of suppliers and partners that make a business model work

- Do we use partners enough?
- How well do we work with our existing partners and suppliers?
- How dependent are we on our existing partners and suppliers?
- Which partners could help us complement our value proposition?
- Which suppliers could help us streamline our business model?
Cost Structure

All costs incurred to operate a business model

- Cost-driven
- Value-driven
- Fixed Costs
- Variable Costs
- Economies of Scale
- Economies of Scope
Cost Structure

• Is our cost structure appropriate? (low cost business model = low cost structure)

• Do we clearly understand which parts of our business model have the highest costs?

• How lean is our cost structure?

• Are there ways we could reduce our cost structure?
Your Solution

• Must be designed to address the real and perceived needs of your client, customer or patient
• Must provide additional value over existing solutions
• Must be sustainable over time
Go Build Your Initial Business Model
(But Expect To Revise It Often As You Learn and Grow)