

# 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?

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# 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 . . .

- <http://ecorner.stanford.edu/author/MaterialInfo.html;jsessionid=C88A82434C120C7FE39B9D5ABDD0494A?mid=2877>

(Video Sections 3/4/6)

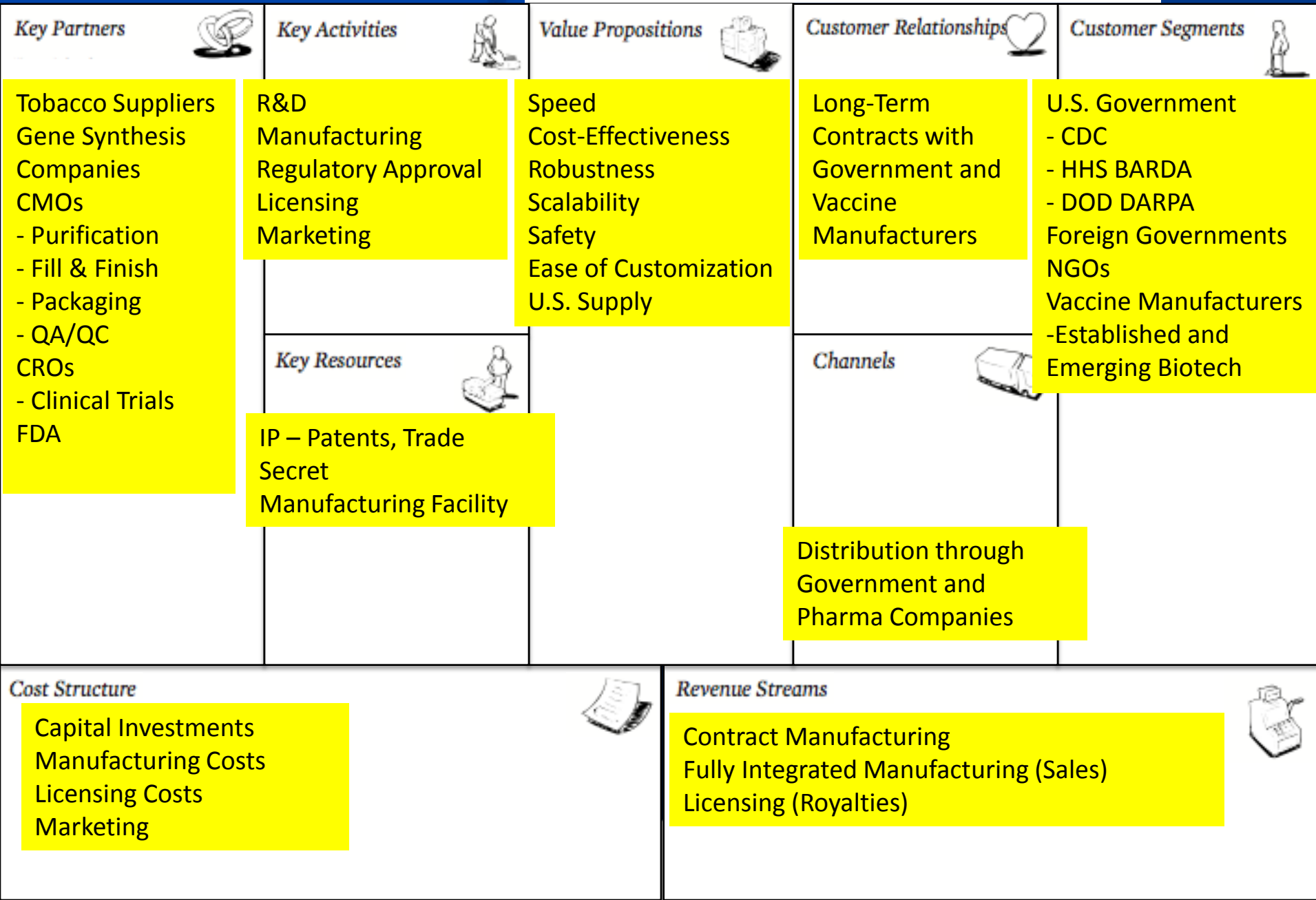


# Business Model Map

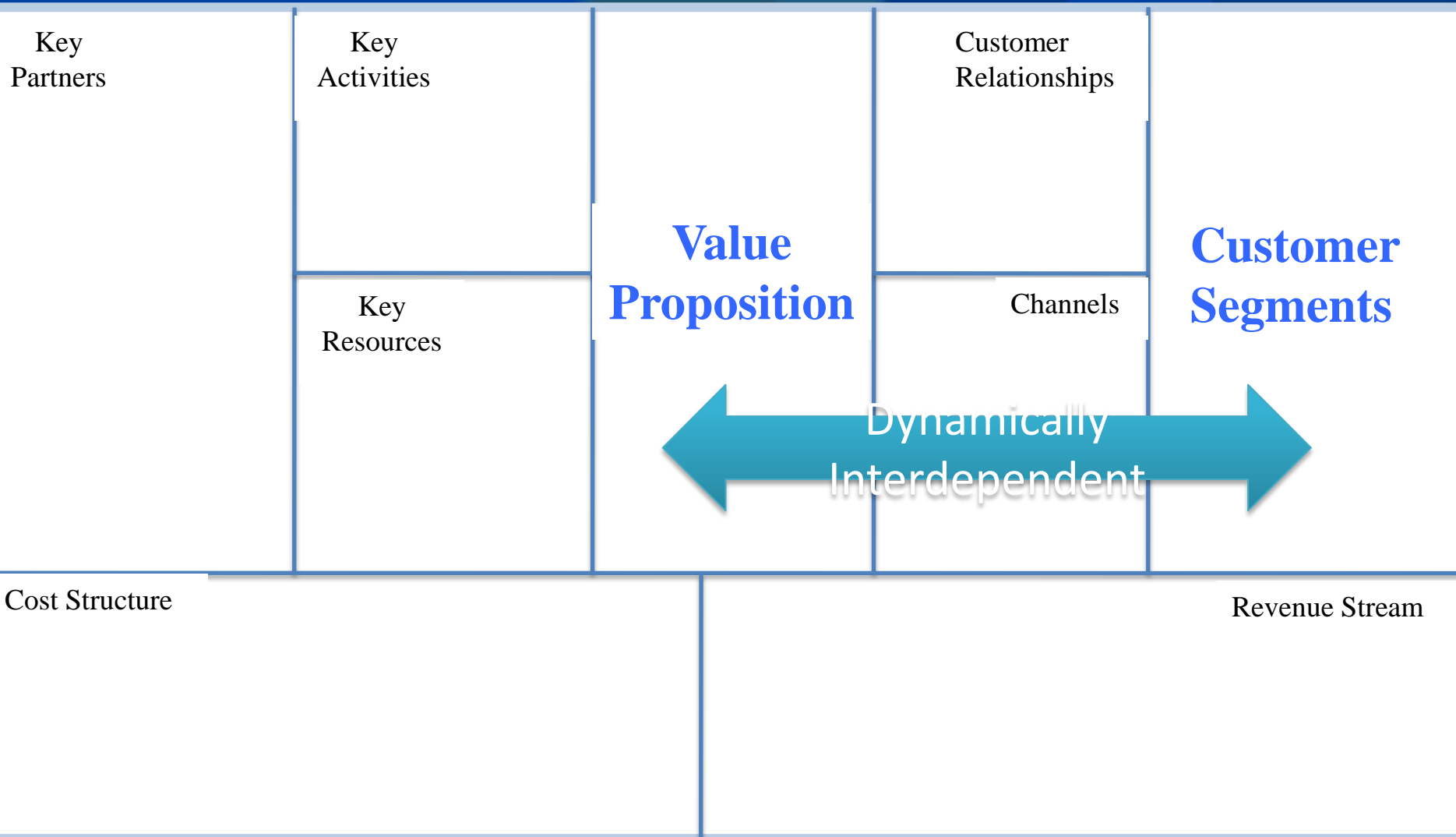
 <b>KEY PARTNER</b>	 <b>KEY ACTIVITIES</b>	 <b>Value Proposition</b>	 <b>RELATIONSHIPS</b>	 <b>CLIENTS</b>
	 <b>KEY RESOURCES</b>		 <b>CHANNELS</b>	
 <b>COST CENTRES</b>			 <b>REVENUE STREAMS</b>	

# The Business Model Canvas

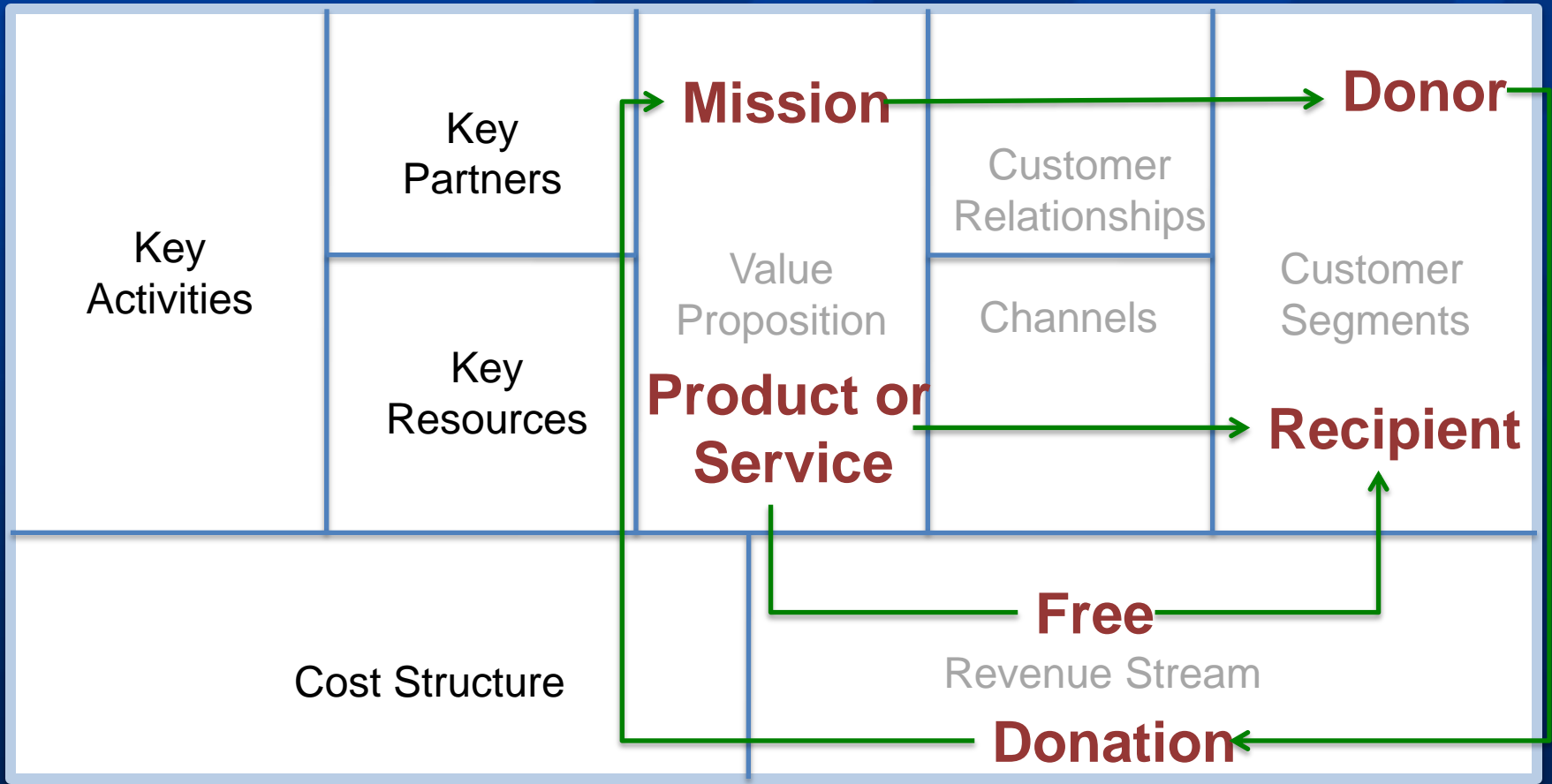
Target Product – Recombinant hemagglutinin (HA)  
for pandemic and seasonal influenza



# Start Here!

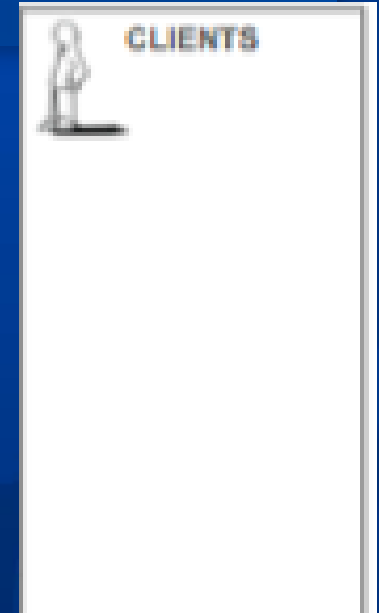


# Not-For Profit Model



# 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



# To Work on your Startup!

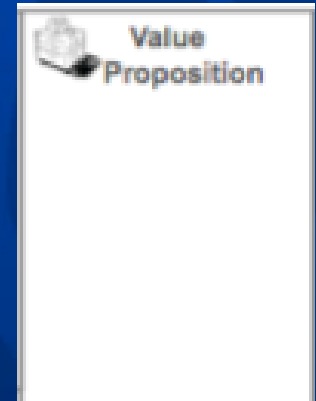
- ▶ **WHO ARE YOUR CUSTOMERS?**
- ▶ Be specific, identify customer segments?
- ▶ What type of customer are they?
- ▶ Use your Post-Its to capture your customer segments!



# 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

OWN CHANNEL	DIRECT	Sales Force
		Web Sales
PARTNER CHANNEL	INDIRECT	Own Stores
		Partner Stores
		Wholesaler

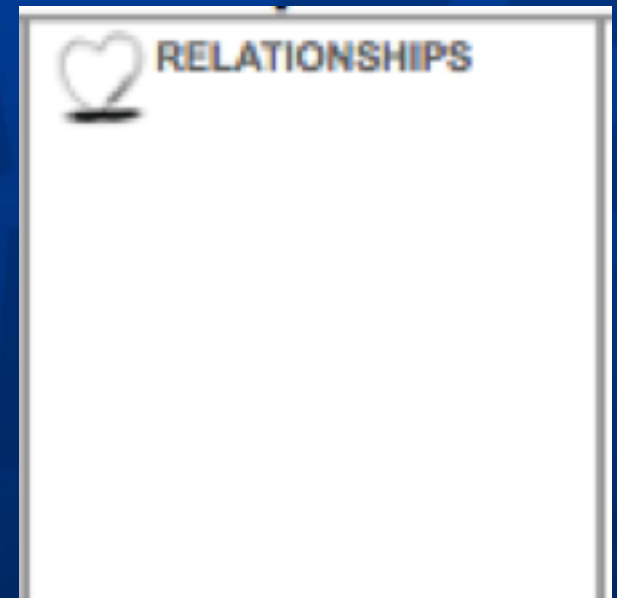
# Communication and Distribution Channels

- 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

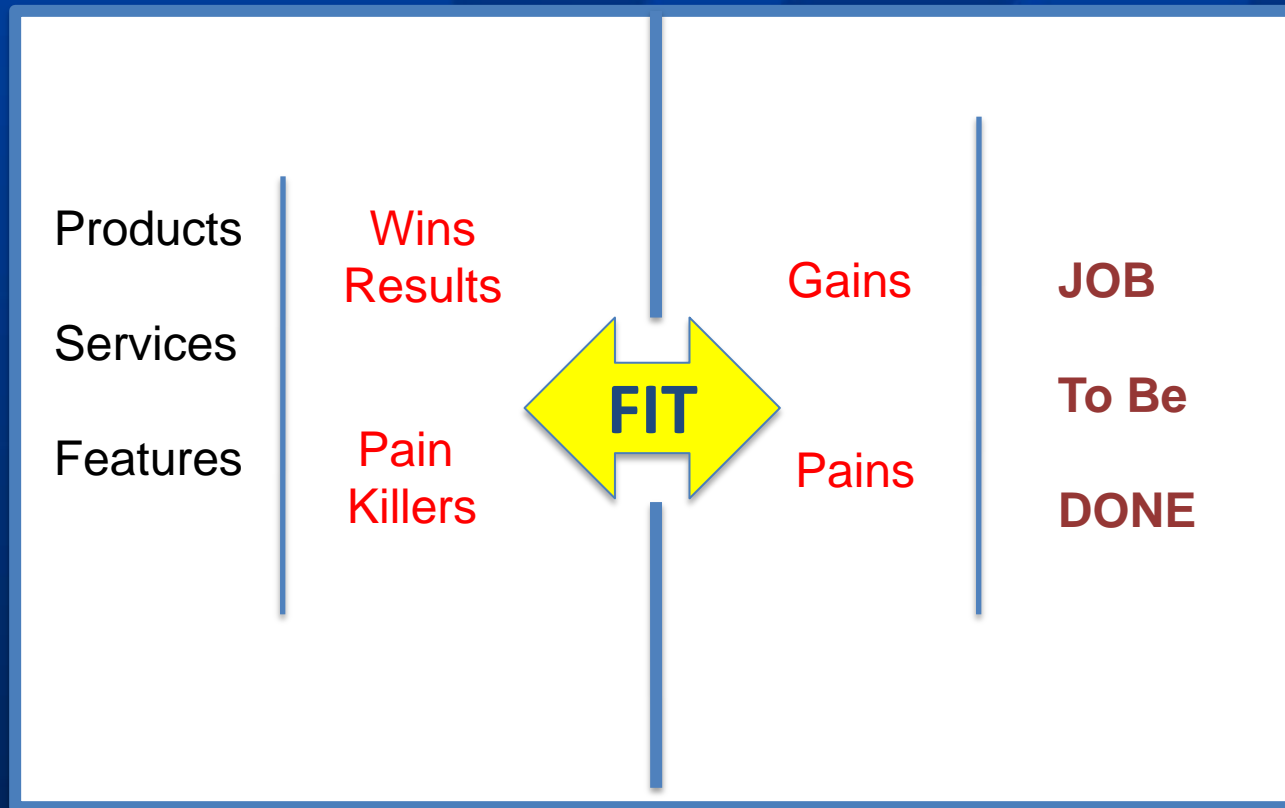
The types of relationships a company establishes with specific Customer Segments

- ▶ 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

**Value Proposition**

**Customer Segment**



**Getting The Customer Value Proposition Right  
Is Critical To Success**

# Job To Be Done

[http://www.youtube.com/watch?v=s9nbTB33hbg&feature=player\\_embedded](http://www.youtube.com/watch?v=s9nbTB33hbg&feature=player_embedded)

# A Day In The Life Of Your Customers

Question	Customer 1_____	Customer n_____
1. How Is Your Customer Currently Dealing With This Task/Problem?		
2. What Are They Trying To Accomplish? Desired Outcome? Wish They Could Do?		
3. What Approach Are They Attempting		
4. What Are The Interfering Factors?		
5. What Are The Economic Consequences? –Costs?		





# A Day In The Life . . .

Question	Customer 1_____	Customer n_____
6. Your New Approach . . .		
7. Enabling Factors?		
8 Economic Rewards?		
9. Is Our Price Consistent With Budget? – Problem Solved?		

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!

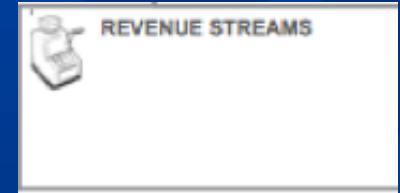
- ▶ **HOW WILL YOU REACH YOUR CUSTOMER?**
- ▶ **WHAT TYPE OF RELATIONSHIP WILL YOU HAVE WITH YOUR CUSTOMER?**
- ▶ Use your Post-Its to capture your Value Proposition!



# Revenue Streams

The cash a company generates from each Customer Segment

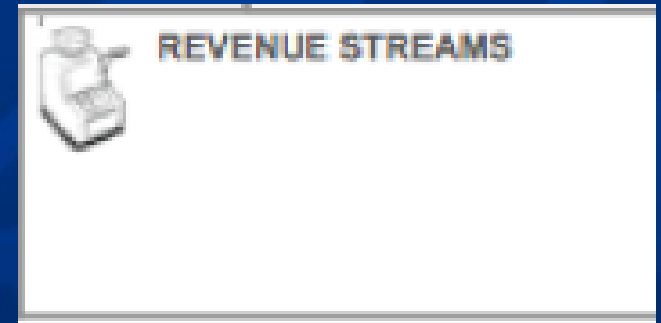
- ▶ Where does your revenue come from?
  - One source?
  - Multiple sources?
- ▶ How sustainable are revenue streams?
- ▶ How diversified are revenue streams?
- ▶ Are you dependent on too few revenue sources (e.g. from some big clients or one single business)?
- ▶ How well do we price our value proposition?



# Revenue Streams

## Types of Revenue Streams

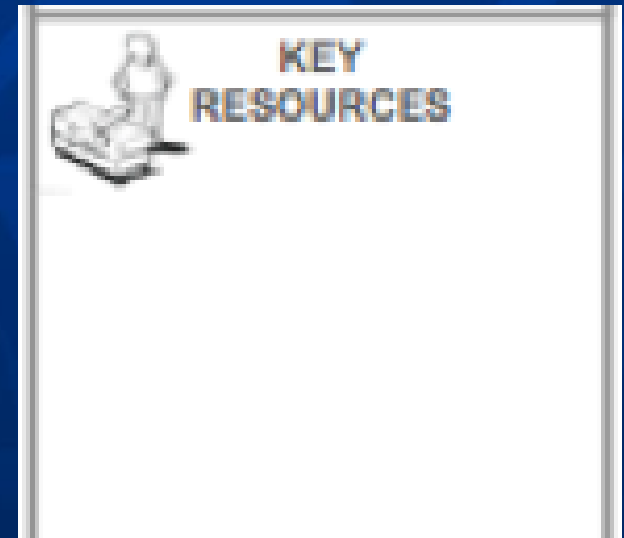
- ▶ Sale of Asset
- ▶ Usage Fee
- ▶ Subscription Fees
- ▶ Lending/Renting/Leasing
- ▶ Licensing
- ▶ Brokerage Fees
- ▶ Advertising



# Key Resources

Most important assets required to make a business model work

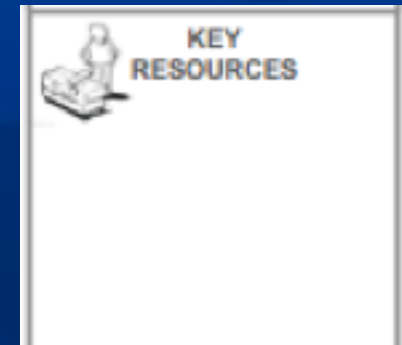
- ▶ Physical
- ▶ Intellectual
- ▶ Human
- ▶ Financial



# 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 of the right key resources in terms of quality and quantity?

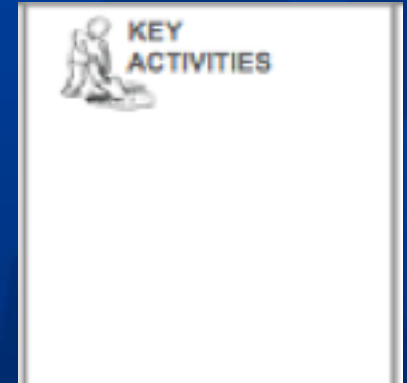




# Key Activities

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

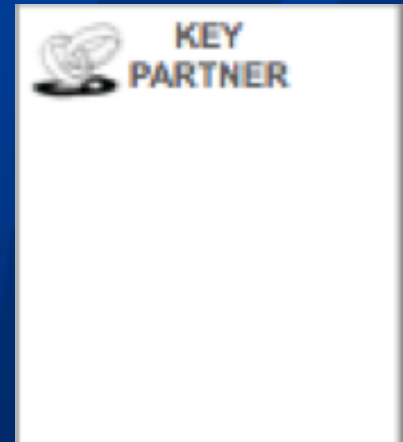
- ▶ How efficient are we in performing our activities?
- ▶ Do we perform too many activities ourselves, leading to a lack of focus?
- ▶ Are there activities we would be better off outsourcing to partners?
- ▶ Are our activities adapted perfectly to our value proposition?



# 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)

