

INTRODUCTION

Business Models

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Business Model: A Definition

busi·ness mod·el

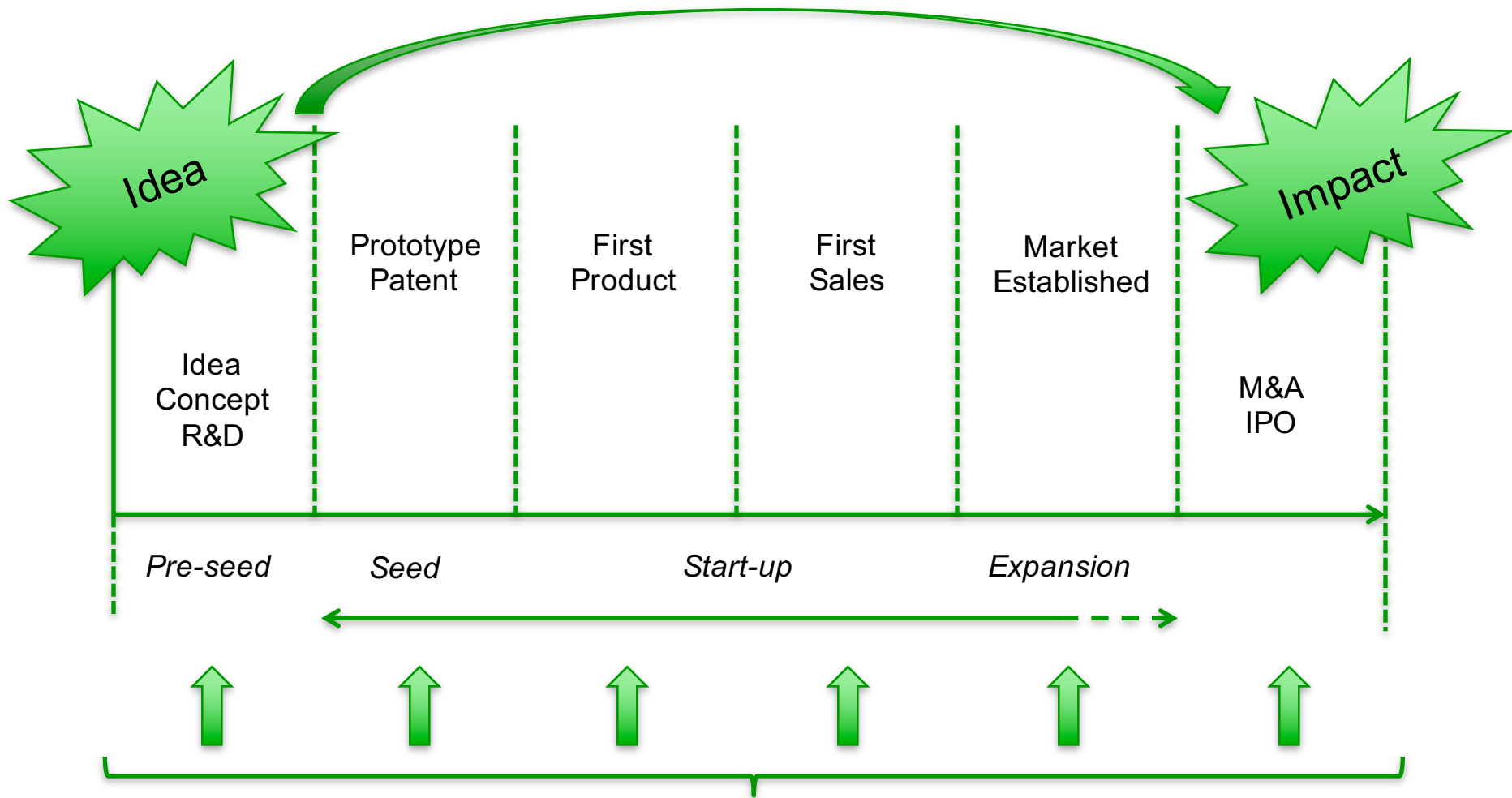
Noun

noun: **business model**; plural noun: **business models**

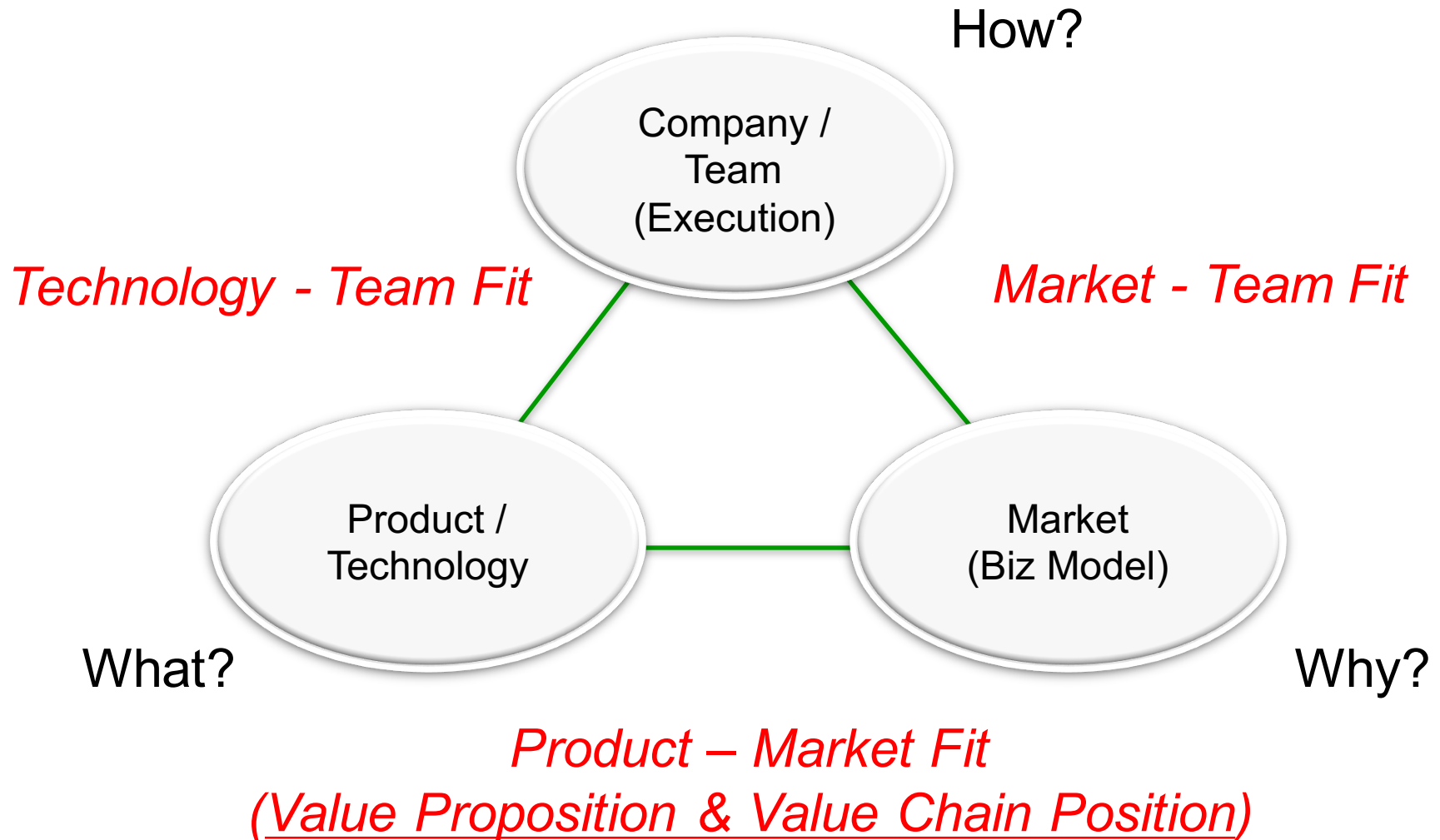
a design for the successful operation of a business, identifying revenue sources, customer base, products, and details of financing.

"many of the free sites have either shifted their business model or have gone out of business completely"

New Venture Timeline



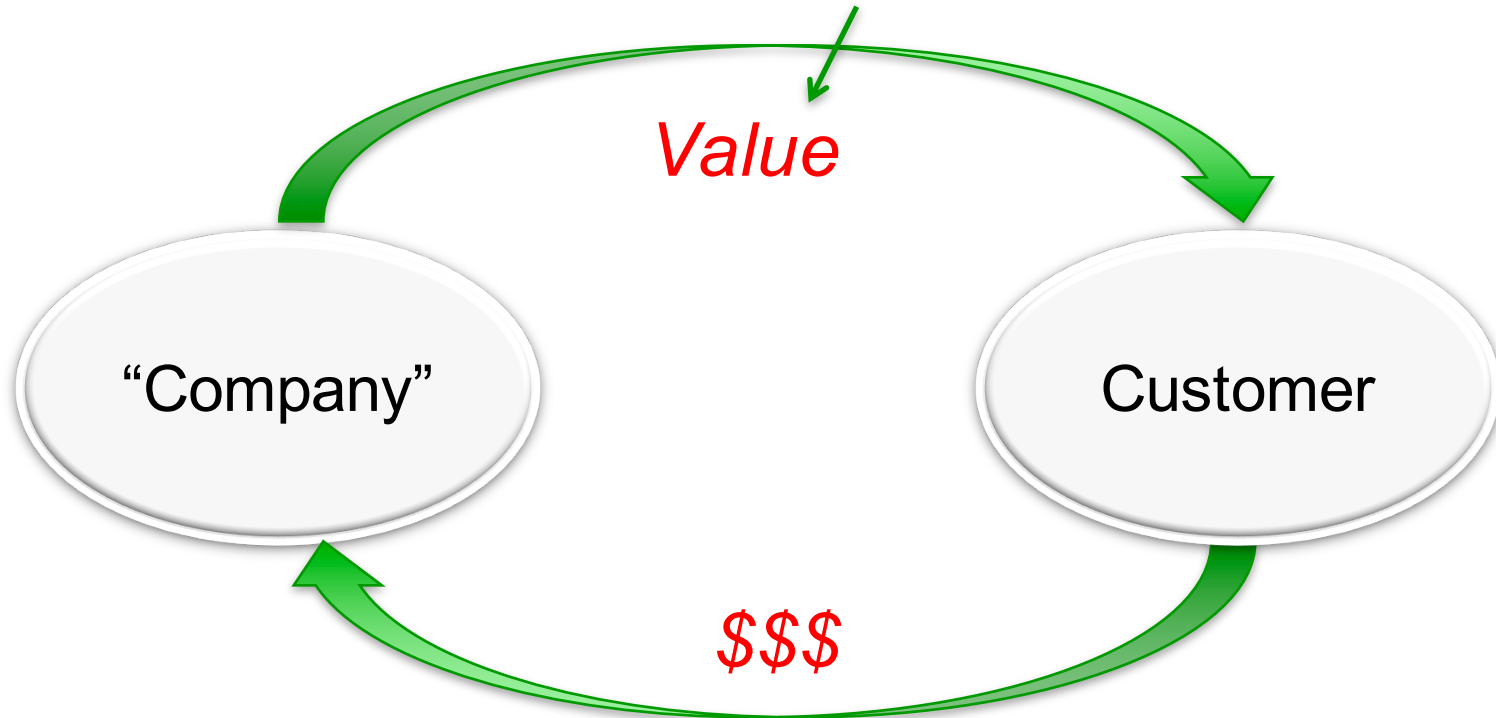
Venture Development: 3 Parallel Tracks



"New Venture 101"

*Pain Killer vs. Vitamin?
Better? Faster? Cheaper?*

*Product?
Service?
Both?*



***Applies to both
For-Profit and
Non-Profit***

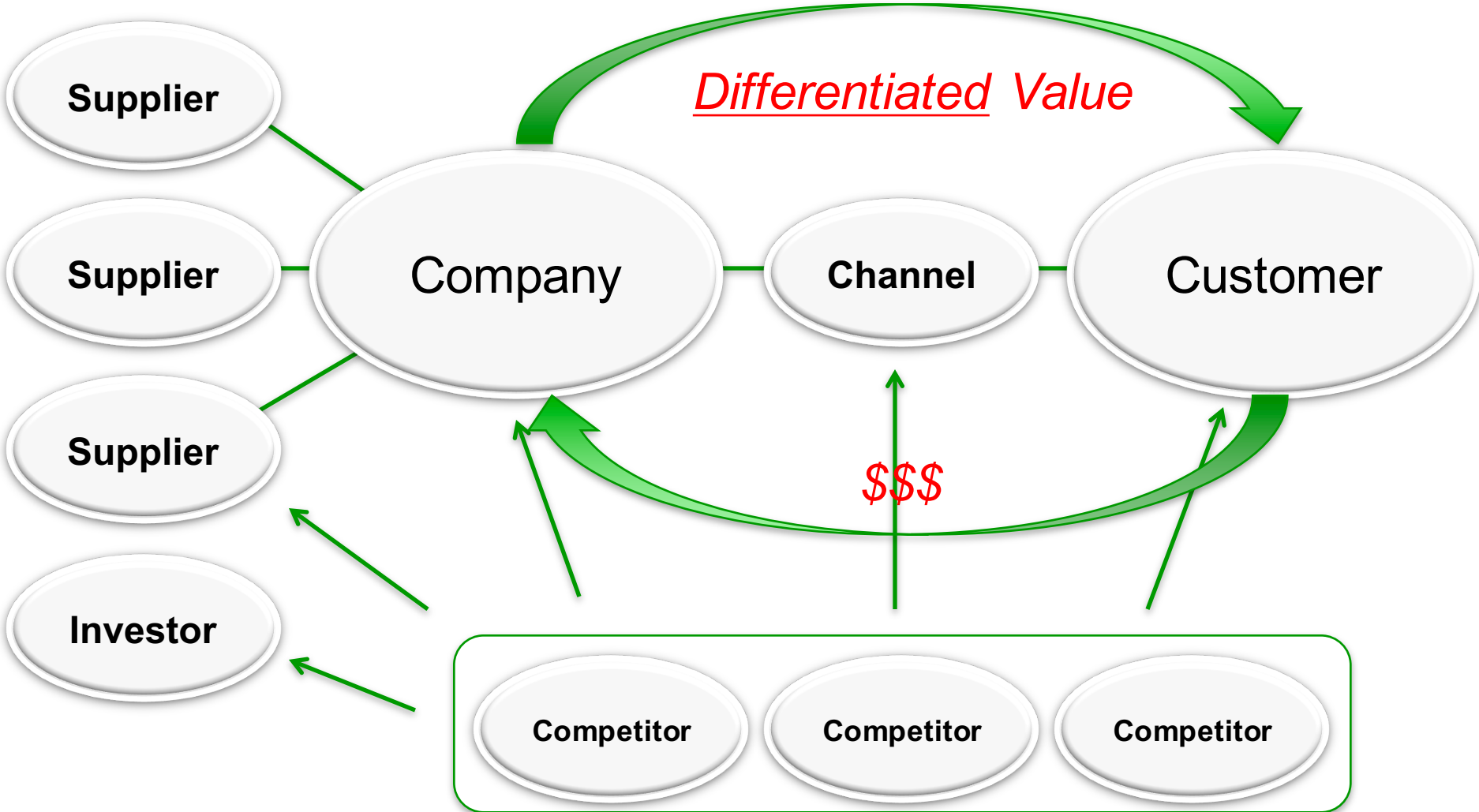
- Costs

Profits

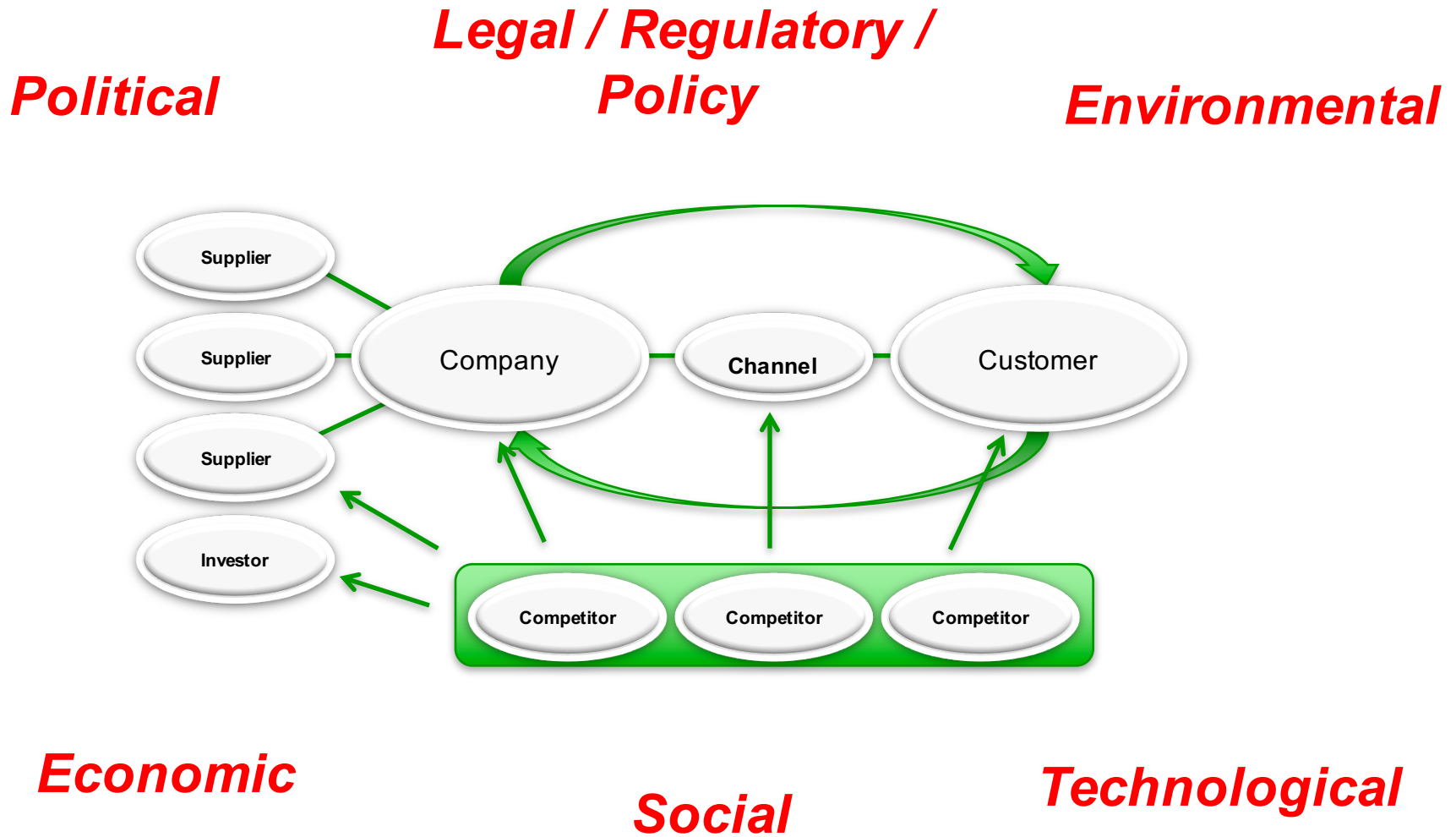
A Bit More Detail...

Product and / or Service

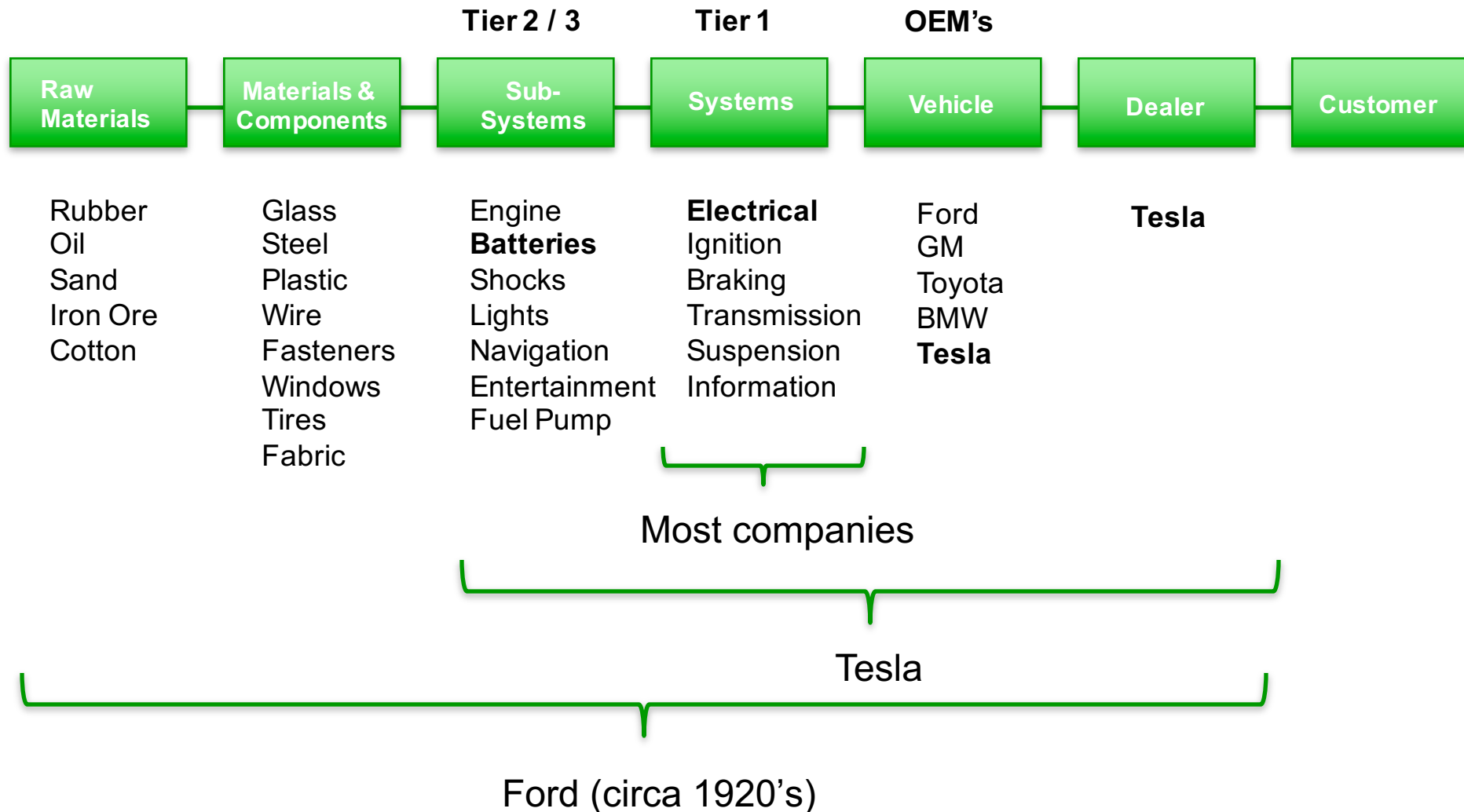
Differentiated Value



And Don't Forget @ PESTEL...



Value Chain: Automotive Industry



Value Chain Positioning



Exercise #1: Industry Value Chain

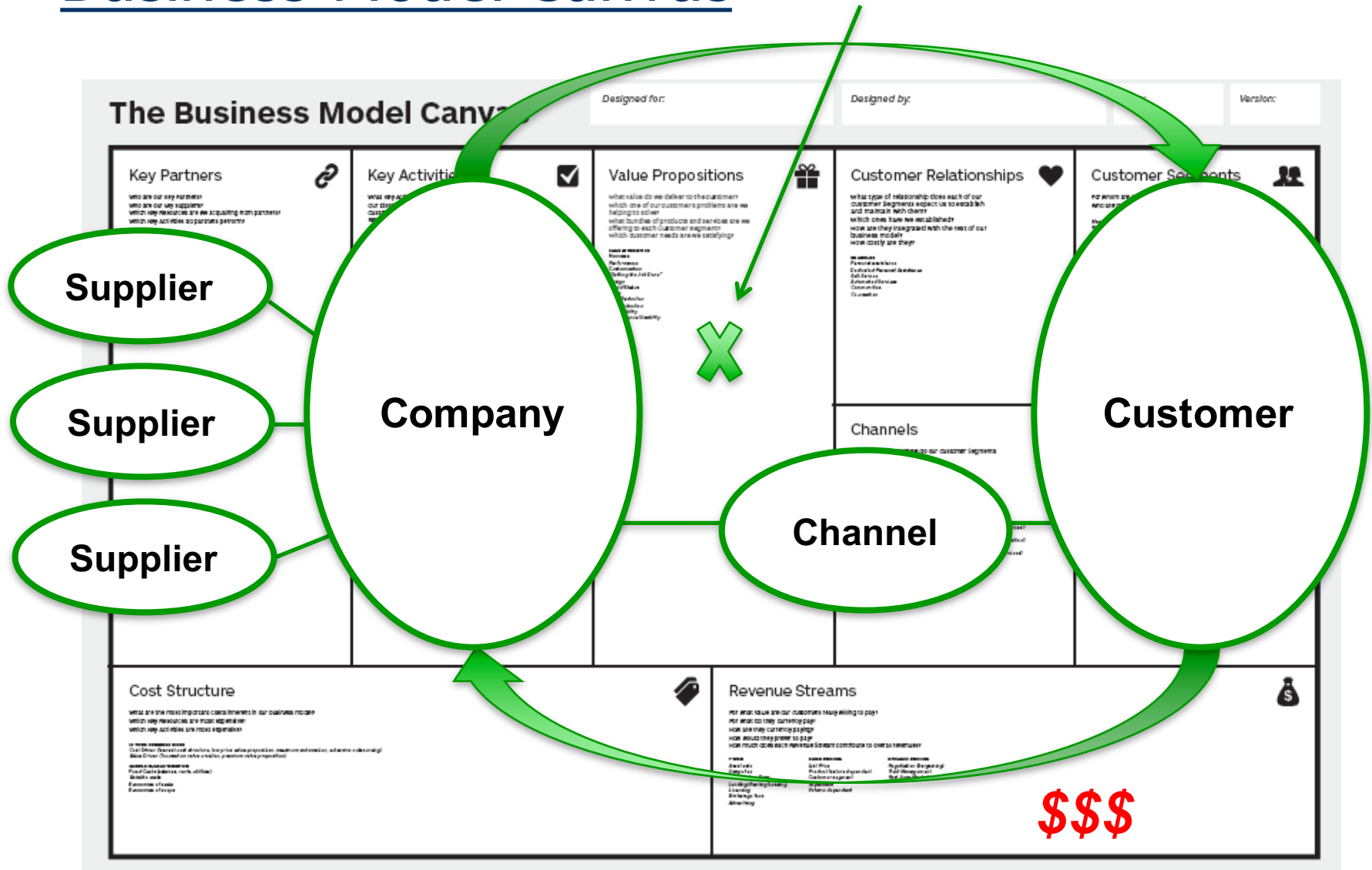
- Sketch out your industry value chain
- Where is the most value created in the value chain?
- Identify your proposed position(s) in the value chain

Business Model & Market Positioning

- Who are your customers? End users?
- What differentiated product / service are you delivering to them and how?
- What are your proposed price and cost structures? Revenue generation model?
- Who are your suppliers? Strategic partners?
- What is your position(s) in the industry value chain?
- How do you capture the optimum value from the value chain?

Business Model Canvas

Value



Customer Segments

For whom are we creating value?
Who are our most important customers?



TIPS

- Be specific: Segment = unique need & behavior
- *People* buy, not entities
- OK to brainstorm first segments to bring in first \$10M
- Prioritize
 - Who is *desperate* for your solution to their problems?
 - Which segment will be easiest, even if smaller?

Value Propositions



What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products and services are we offering to each Customer Segment?

Which customer needs are we satisfying?

TIPS

- Put "Product/Service" in title or top line of Value Proposition
- Each Value Proposition connects directly to a Customer Segment
- Value to the customer ...not you ...not society in general
- Benefits, not features
- Prioritize
 - Nice to have = Vitamin
 - Need to have = Pain-Killer

Channels



Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

Awareness → Evaluation → Purchase → Delivery → After-sales

TIPS

- AKA Sales & Distribution
- You will *always* sell the first few, but how will it scale up?
- Consider Value Chain
 - How many hands it will pass through
 - Economics of downstream players

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 are they integrated with the rest of our business model?
How costly are they?

Dedicated Personal Assistance / Automation / Self-Service / Communities

TIPS

- AKA Marketing & Customer Cultivation
- “Get, Keep, Grow”
- Each customer segment will have unique expectations

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?



Transactional vs. Recurring

Pricing: Dynamic, Fixed, Volume-based, Lowest, Luxury etc.

TIPS

- Propose prices for each revenue stream- hypotheses
- CAUTION: Licensing
 - Tempting to jump straight to YOUR model- *easy!*
 - Also have to validate model you expect licensee to buy, 2x work
- Pricing strategies can change over time
- Ask about sales cycle timing

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?



Human / Financial / Physical / Intellectual

TIPS

- AKA Assets (but not always)
- Stick to top “do or die” resources, shift as BMC evolves
- Differentiate what would be yours vs. contracted
- Be specific: type of HR skill, type & amount of \$, amount of data, size of factory, types of IP, etc.
- Will shift as Right side of BMC evolves

Key Activities



What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

Production / Problem Solving / Platform

TIP

- Time & resources are limited. Can't do it all (yet)
- You can't be everything to everyone:

Who are you?

What is your core business?

Who does your customer need you to be?

Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

Spreading risk, economizing, optimizing

Non-Competitive Alliance / Coopetition / Joint Venture / Vendor-Supplier

TIPS

- You won't need all of them today... prioritize.
- Woah there, Cowboy:
 - What benefit would they bring to you, and vice versa?
 - How do you fit into their strategy?
- Can be time & money intensive

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?



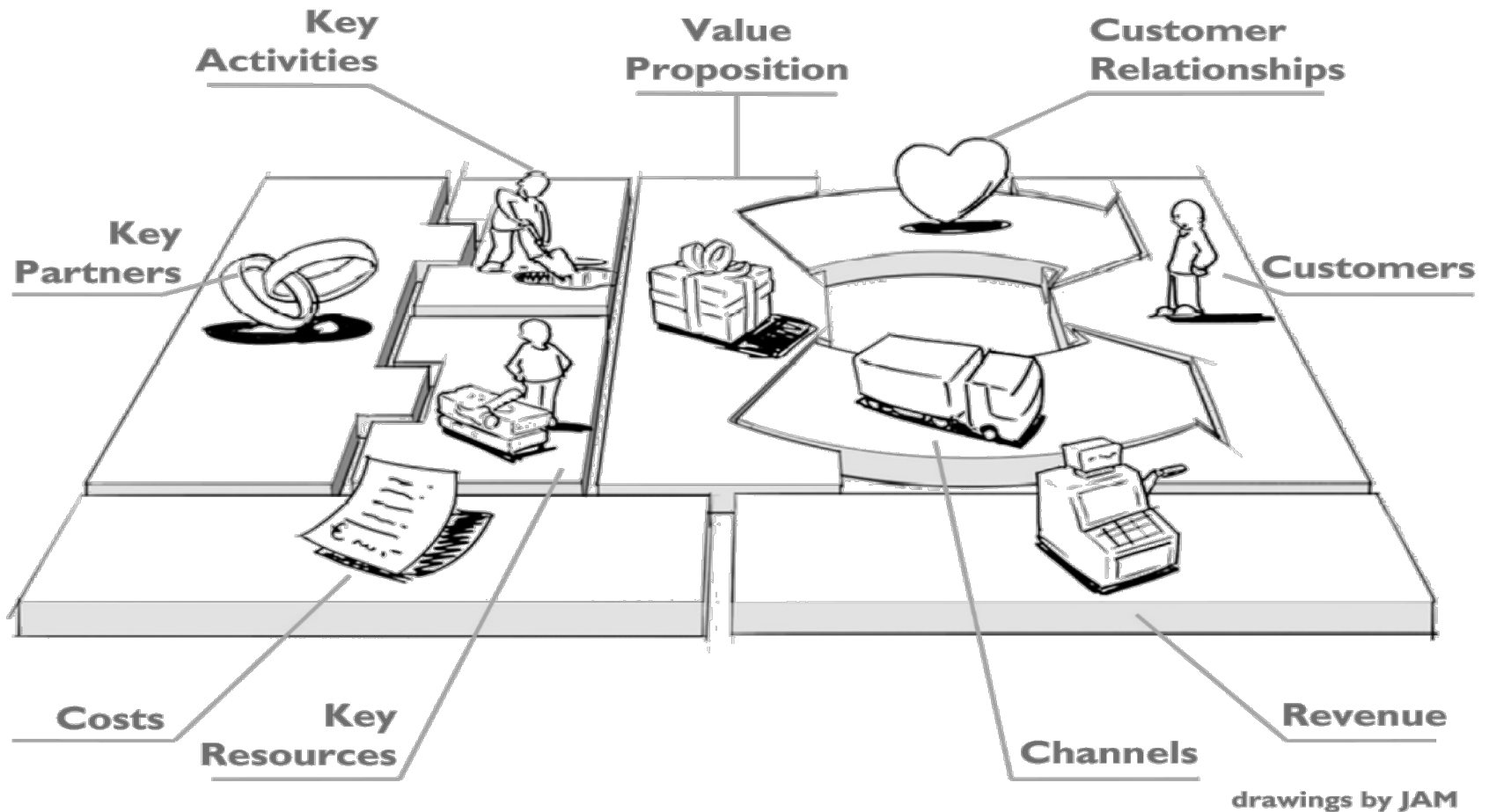
Cost vs. Value Driven

Fixed vs. Variable Costs

TIPS

- Validate costs in tandem with rest of business model:
get quotes, get creative, get out of the building
- Watch margins closely: what is sector norm?
- Clichés are *real*:
 - *Development & unit production costs*
 - *Channel/Relationship costs*
- Can't rely on Net 30 or Net 60

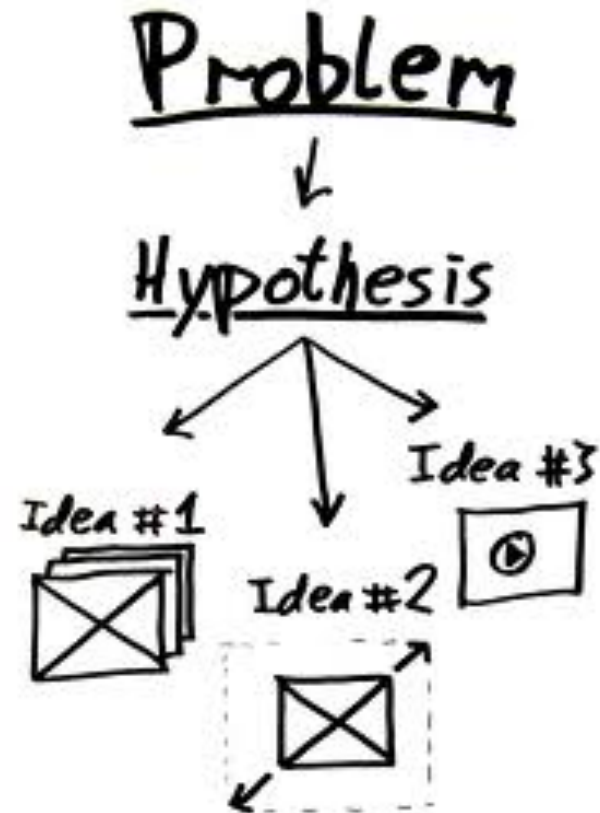
Putting the Pieces Together



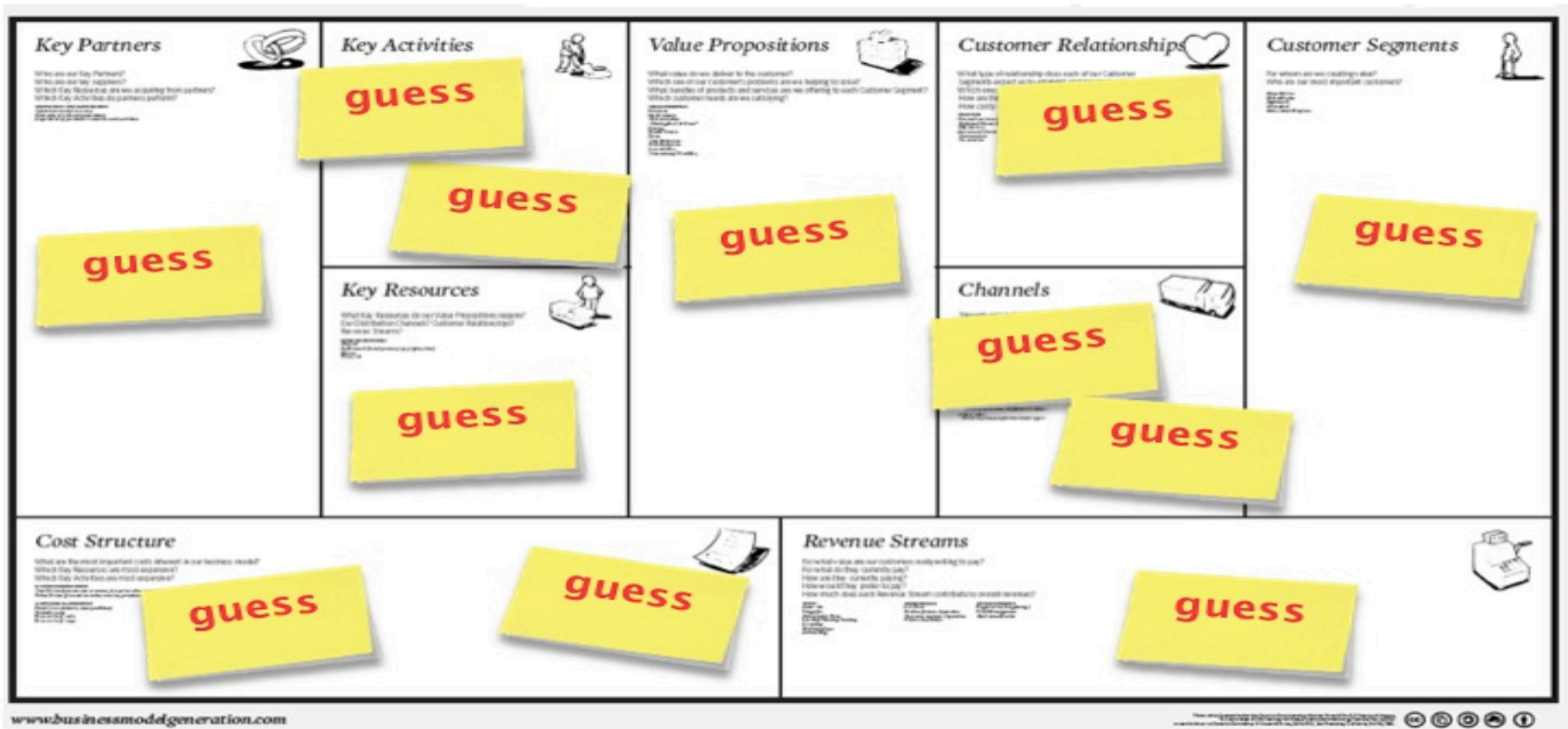
Right now, it's a hypothesis

It's an *hypothesis that you will have to test in the marketplace!*

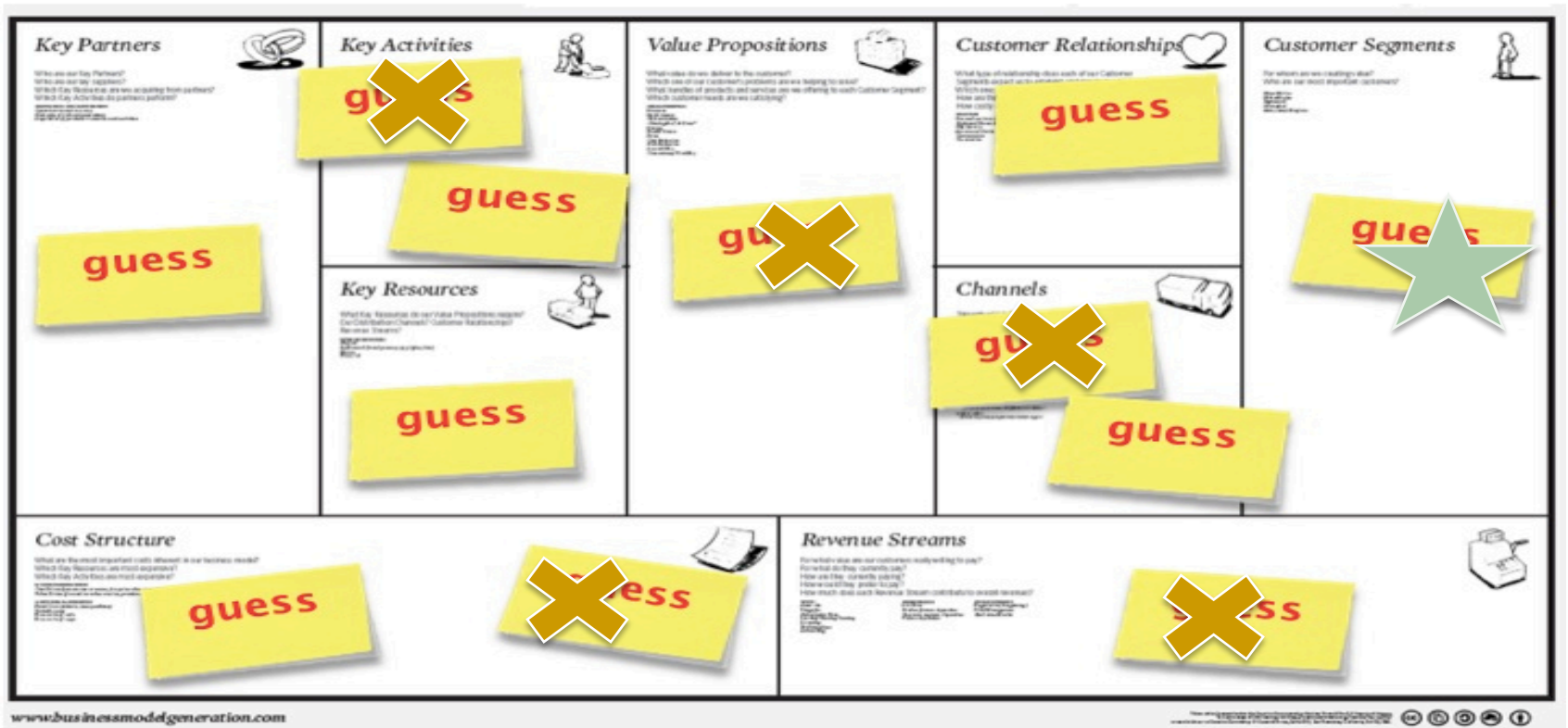
BUT you need a starting point



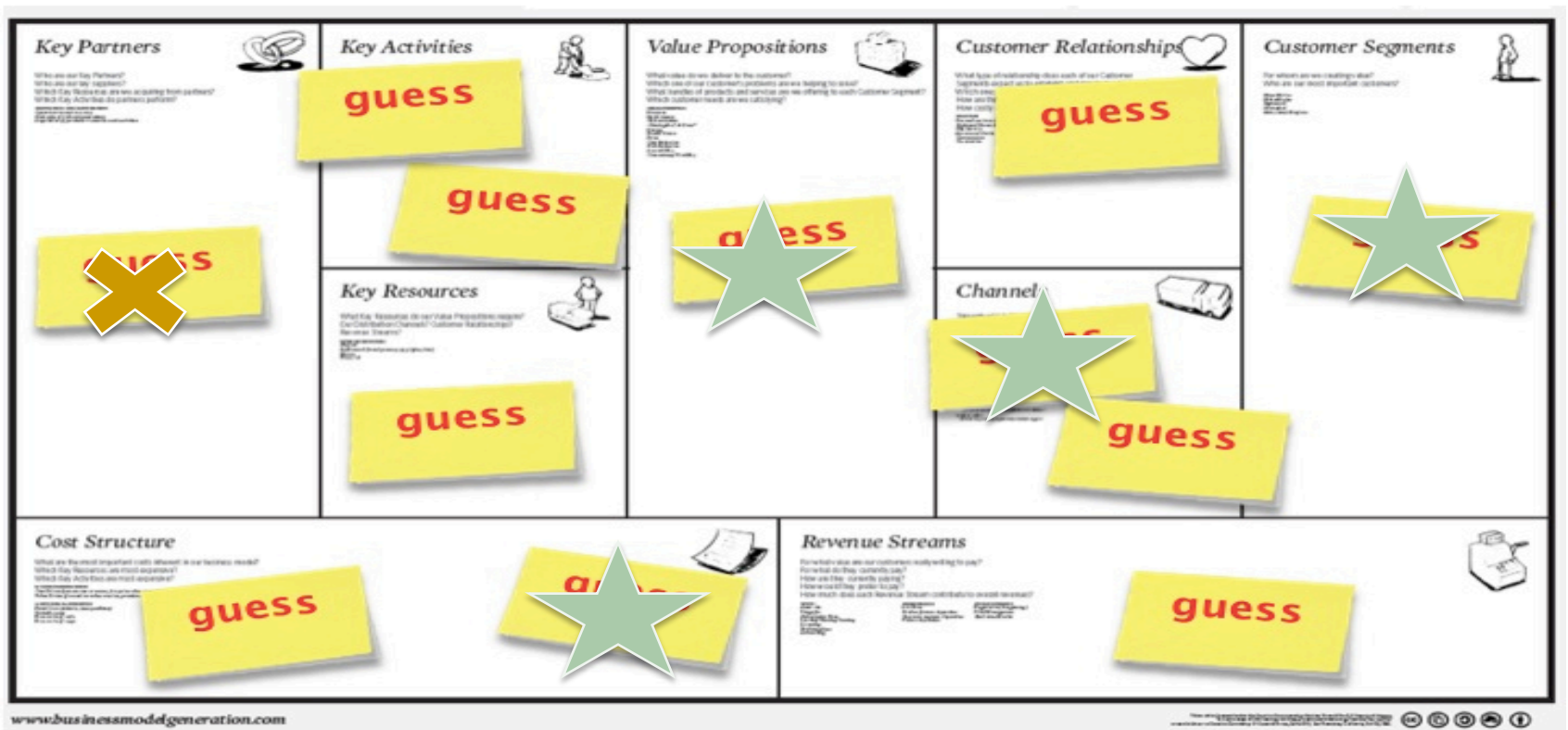
Just a set of hypotheses...



Until they've been validated or invalidated



...and iterated upon...



...with a note on *PIVOTS*

Exercise #2: Business Model Canvas

The Business Model Canvas		Designed for:	Designed by:	Date:	Version:
Key Partners <small>WHO ARE OUR KEY PARTNERS? WHO ARE OUR KEY SUPPLIERS? WHICH KEY RESOURCES ARE WE ACQUIRING FROM PARTNERS? WHICH KEY ACTIVITIES DO PARTNERS PERFORM?</small> <small>COMPETITIVE ADVANTAGES: Operational and economic Reduction of risk and uncertainty Acquisition of particular resources and activities</small>	Key Activities <small>WHAT KEY ACTIVITIES DO OUR VALUE PROPOSITIONS REQUIRE? OUR DISTRIBUTION CHANNELS? CUSTOMER RELATIONSHIPS? CHANNEL PARTNERS?</small> <small>KEY RESOURCES: Physical Human Financial Intellectual</small>	Value Propositions <small>WHAT VALUE DO WE DELIVER TO THE CUSTOMER? WHICH ONE OF OUR CUSTOMER PROBLEMS ARE WE HELPING TO SOLVE? WHICH BUNDLES OF PRODUCTS AND SERVICES ARE WE OFFERING TO EACH CUSTOMER SEGMENT? WHICH CUSTOMER NEEDS ARE WE SATISFYING?</small> <small>WAYS TO REDUCE COSTS: Efficiency Performance Customization "Nothing like the others" Design Simplification Price Cost Reduction Risk Reduction Accessibility Convenience/Usability</small>	Customer Relationships <small>WHAT TYPE OF RELATIONSHIP DOES EACH OF OUR CUSTOMER SEGMENTS EXPECT US TO ESTABLISH AND MAINTAIN WITH THEM? WHICH ONE HAVE WE ESTABLISHED? HOW ARE THEY INTEGRATED WITH THE REST OF OUR CUSTOMER MODEL? HOW COSTLY ARE THEY?</small> <small>NEW CHANNELS: Personal assistance Educational Personal Assistance Self Service Automated Self Service Communities Co-creation</small>	Customer Segments <small>FOR WHOM ARE WE CREATING VALUE? WHO ARE OUR MOST IMPORTANT CUSTOMERS?</small> <small>MARKET SEGMENT: New Market Existing Market Disruptive Market Market of the Future</small>	
Key Resources <small>WHAT KEY RESOURCES DO OUR VALUE PROPOSITIONS REQUIRE? OUR DISTRIBUTION CHANNELS? CUSTOMER RELATIONSHIPS? CHANNEL PARTNERS?</small> <small>KEY RESOURCES: Physical Human Financial Intellectual Social Structural Organizational Technological Economic Environmental Political Legal Cultural Religious Ethical Moral Spiritual Emotional Psychological Physiological Biological Chemical Physical Environmental Political Legal Cultural Religious Ethical Moral Spiritual Emotional Psychological Physiological Biological Chemical Physical</small>		Channels <small>THROUGH WHICH CHANNELS DO OUR CUSTOMER SEGMENTS WANT TO BE REACHED? HOW ARE WE REACHING THEM NOW? HOW ARE OUR CHANNELS INTEGRATED? WHICH ONE IS OUR MAIN CHANNEL? WHICH ONE IS OUR MOST COST-EFFECTIVE? HOW ARE WE INTEGRATING THEM WITH CUSTOMER RELATIONSHIPS?</small> <small>NEW CHANNELS: 1. Distribution How do we deliver our value proposition to our customers? 2. Evaluation How do we deliver our value proposition to our customers? 3. Distribution How do we deliver our value proposition to our customers? 4. Delivery How do we deliver our value proposition to our customers? 5. After sales How do we provide post-purchase customer support?</small>			
Cost Structure <small>WHAT ARE THE MOST IMPORTANT COST STRUCTURES IN OUR CUSTOMER MODEL? WHICH KEY RESOURCES ARE MOST RESPONSIBLE FOR? WHICH KEY ACTIVITIES ARE MOST RESPONSIBLE FOR?</small> <small>10 MOST IMPORTANT COSTS: Cost of Sales (Material and labor costs, for price value proposition, material and overhead, administrative value margin) Marketing (Used to create awareness, generate value proposition) Sales (Used to create awareness, generate value proposition) Distribution (Used to create awareness, generate value proposition) Production (Used to create awareness, generate value proposition) Research & Development (Used to create awareness, generate value proposition) General & Administrative (Used to create awareness, generate value proposition) Finance (Used to create awareness, generate value proposition) Human Resources (Used to create awareness, generate value proposition) Information Technology (Used to create awareness, generate value proposition)</small>			Revenue Streams <small>HOW MUCH IS OUR CUSTOMER READY WILLING TO PAY? HOW MUCH IS OUR CUSTOMER WILLING TO PAY? HOW MUCH IS OUR CUSTOMER WILLING TO PAY? HOW MUCH IS OUR CUSTOMER WILLING TO PAY?</small> <small>10 MOST IMPORTANT REVENUE STREAMS: 1. Sales How much is our customer ready willing to pay? 2. Distribution How much is our customer ready willing to pay? 3. Evaluation How much is our customer ready willing to pay? 4. Distribution How much is our customer ready willing to pay? 5. Delivery How much is our customer ready willing to pay? 6. After sales How much is our customer ready willing to pay?</small>		

Narrative / Story to Key Stakeholders

- Investors & Financial Backers
- Customers
- Partners
- Employees
- Gov't Agencies & Regulators

*Why should I invest in you? Partner with you?
Work with you? Buy from you?*

Value Proposition Mad Lib

We sell **A** {our product} to **B** {your customer: the person or entity who will pay you money}.*

Our customer has a problem and it is **C** {describe the problem}.

We solve this problem by **D** {describe how you solve their problem AND WITH WHAT DIFFERENTIATORS! }

* If you are not actually selling a product right now, speak as if you are. Most of you are not yet selling a product.

Exercise #3: Value Proposition Presentations

We sell **A** {our product} to **B** {your customer: the person or entity who will pay you money}.*

Our customer has a problem and it is **C** {describe the problem}.

We solve this problem by **D** {describe how you solve their problem AND WITH WHAT DIFFERENTIATORS! }

Are they **succinct** about their product?

Are they **specific** about who their customer is?

Are they **convincing** about the problem? And is this a problem for their customer...or is it some other problem?

Are they **addressing** the problem with their solution?

Do they **differentiate** their product (“faster, better, cheaper” etc.) and do they **quantify** those differentiators (25% cheaper, 10% faster etc.)?

END