Entrepreneurship

Business Model Canvas
Part One

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Sunday, February 19, 2012
Module Objectives

“There is not a single Business Model . . . . There are a lot of opportunities and options, we just have to discover them all”

Tim O’Reilly

• Learn 9 Elements of Business Model Canvas
• Understand “painting” the Canvas
• Apply Business Model Canvas to Senior Design Project
• Identify “starting points” for Venture Capital Funding
• Initiate “hands-on” experience - Homework
DFSS Put Prerequisites in Place

Charter Project

VOC HOQ Functions Value Engin.

Develop IP Product Development Select Concept

Business Model Business Plan

Seek VC Funding

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Definition: Business Model

Business Model:
Describes the rationale of how an organization creates, delivers, and captures value

Innovative Business Models make the most money

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Business Model is Critical Thinking

- Blueprint . . . . you are serious
- Interesting communication
- Compelling story:
  - Who you are
  - Why you are in Business
  - What you do, how you do it & where you operate
  - How you will make money
  - What Customers are served
- Judged by Quality & Appearance of Plan & product novelty

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Sunday, February 19, 2012
Business Model Canvas

Key Partners | Key Activities | Value Proposition | Customer Relationships | Customer Segments
---|---|---|---|---
| | | | |

Key Resources | Channels
---|---
| |

Cost Structure | Revenue Streams
---|---
| |

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Business Model - 9 Building Blocks

1. **Customer Segments**
   An organization serves one or several Customer Segments.

2. **Value Propositions**
   It seeks to solve customer problems and satisfy customer needs with value propositions.

3. **Channels**
   Value propositions are delivered to customers through communication, distribution, and sales Channels.

4. **Customer Relationships**
   Customer relationships are established and maintained with each Customer Segment.
Revenue Streams
Revenue streams result from value propositions successfully offered to customers.

Key Resources
Key resources are the assets required to offer and deliver the previously described elements.

Key Activities
...by performing a number of Key Activities.

Key Partnerships
Some activities are outsourced and some resources are acquired outside the enterprise.

Cost Structure
The business model elements result in the cost structure.
Business Model Canvas
Customer Segmentation Building Block

Defines a group of people, or organizations, an enterprise aims to reach and serve

- Customers are heart of Plan
- Group Customers into distinct segments with common needs & behaviors

Separate segments if:
- Need a distinct product
- Utilize different Channels
- Require special Relationships
- Have different profitabilities
- Pay for unique aspects
Offering 4P’s

Product / Service

Price

Place

Promotion

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5 Types of Customer Segments

**Mass Market**
Don’t distinguish Segments

**Niche Market**
Specific Specialized Segments

**Segmented**
Distinguish between segments with different needs

**Diversified**
Serves unrelated Segments

**Multi-Sided**
Interdependent Segments

Additional detail in Appendix
Value Proposition Building Block

Describes the bundle of products and services that create value for a specific Customer Segment

- Reason why Customers buy from one company over another
- Solves a Customer Problem, or satisfies a set of Needs
Value Proposition Elements

**Design**
Difficult to measure, but important in Fashion & Consumer Electronics

**Performance**
Common way to create value

PC sector relied on powerful machines, but has limits

**Customization**
Tailoring products & services to specific Customers

Enables customized products & economy of scale

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Additional detail in Appendix
# More Value Proposition Elements

<table>
<thead>
<tr>
<th><strong>“Getting the Job Done”</strong></th>
<th><strong>Risk Reduction</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Create value by helping Customer get jobs done</td>
<td>Customers value risk reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Brand / Status</strong></th>
<th><strong>Price</strong></th>
<th><strong>Cost Reduction</strong></th>
<th><strong>Accessibility</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers value use and display of a brand</td>
<td>Low-price has implications for rest of Business Model</td>
<td>Important way to create value</td>
<td>Provide offering to Customers who lack access</td>
</tr>
</tbody>
</table>

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Value Proposition Format

Concept Elements . . .

1. {Offering} will provide {Customer Segment} with {Needs} via {Offering} at a price of {$$}
2. The {offering} will be achieved through {technology / technical specifications}
3. The approximate cost to deliver these Needs will be {$$}

Value Proposition . . .

{Offering} provides {Customer Segment} with {Needs} via {offering} at a price of {$$}, differentiating from {benchmark competitors} by {offering with _____innovative attributes}
Effective Value Proposition Characteristics

Is the Value Proposition . . .

**Simple** - Easily understood and communicated

**Customer Specific** - focused and consistent with their beliefs, knowledge, behavior and/or experiences

**Credible Promise** - Customers believe you can deliver better than competition

**Relevant & Motivating** - Addresses Needs, concerns, and outcomes of significant importance

**Ownable** - Unique relative to competitor’s position
Example: LEGO Factory
LEGO Factory expands scope of off-the-shelf kit by giving fans tools to build, showcase, and sell their own custom designed kits.

Thousands of customer-designed kits complement standard blocks. LEGO Factory connects customers who create customized designs with other customers, thus becoming a customer match maker.
You're holding a handbook for visionaries, game changers, and challengers striving to defy outmoded business models and design tomorrow's enterprises. It's a book for the...

**Business Model Generation**

**Writtten by**
Alexander Osterwalder & Yves Pigneur

**Co-created by**
An amazing crowd of 470 practitioners from 45 countries

**Designed by**
Alan Smith, The Movement

Reference copies in Engineering Library

ISBN 978-0-470-87641-1

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Homework Discussion

○ Goal: Apply Business Model Canvas to your Senior Design Project

○ Can start now by completing:
  ○ Customer Segment(s)
  ○ Value Proposition(s)

○ Utilize template on web
Homework: **Value Propositions** to what **Segments**?

**Model . . .**

<table>
<thead>
<tr>
<th>Offer</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Proposition 1</td>
<td>Target Customer 1</td>
</tr>
<tr>
<td>Value Proposition 2</td>
<td>Target Customer 2</td>
</tr>
<tr>
<td>Value Proposition N</td>
<td>Target Customer N</td>
</tr>
</tbody>
</table>

**Hints:**

1. Think broadly about Customers ...... there are often more than one to consider
2. There is a unique Value Proposition for each Customer Segment
# Business Model Canvas Homework

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Key Resources</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
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</thead>
<tbody>
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<td></td>
<td></td>
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</tbody>
</table>

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Entrepreneurship

Business Model Canvas
Part Two
Review Segmentation & Value Proposition

**Customer Segmentation Building Block**
 Defines a group of people, or organizations, an enterprise aims to reach and serve

**Value Proposition Building Block**
 Describes the bundle of products and services that create value for a specific Customer Segment

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Channels Building Block

Describes how a company communicates with & reaches its Customers to deliver a Value Proposition

Channels are:

• Communication, Delivery, & Sales interfaces to Customer
• Important “touch points” to the Customer

Channels provide:

• Product awareness
• Allow Customers to purchase
• Provide post-purchase support
Channel Types

• Company Owned: Direct, have Higher Margins, but costly to establish
  • Sales Force
  • Web Sites
  • Stores

• Partner Owned: Indirect, and have Lower Margins
  • Retail Stores
  • Warehouses
  • Wholesale Distribution
  • Web Sites
Channels Have 5 Phases

Each Channel can cover some or all of these phases

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Evaluation</th>
<th>Purchase</th>
<th>Delivery</th>
<th>After Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise awareness about company &amp; offerings</td>
<td>Assist Customers evaluate Value Proposition</td>
<td>Allow Customers to purchase products &amp; services</td>
<td>Deliver Value Proposition to Customers</td>
<td>Provide post-purchase support</td>
</tr>
</tbody>
</table>

Time

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Customer Relationship Building Block

Describes the types of relationship a company establishes with specific Customer Segments

Relationship Motivations:

• Acquisition
• Retention
• Boost Sales (upselling)
Customer Relationship Categories

**Personal Assistance**
- Direct access

**Dedicated Personal Assistance**
- Customer specific Representative
- Intimate relationship

**Automated Services**
- Sophisticated form of self-service

**Self-Service**
- No direct Customer relationship
- Only self-help

**Co-Creation**
- Users co-create value with company

**Communities**
- User community connects members to company

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Additional detail in Appendix
Revenue Streams Building Block

Represents cash a company generates from each Customer Segment

\( \text{Revenue} - \text{Cost} = \text{Earnings} \)

- “Arteries” of the Business
- Must ask ....”What is each Customer Segment willing to pay?”
- Each Stream has different pricing: List, bargaining, market dependent, volume dependent, etc.
- Types of Revenue Streams: Transaction & Recurring
<table>
<thead>
<tr>
<th>Ways to Generate Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Sale</strong></td>
</tr>
<tr>
<td>• Physical product sale</td>
</tr>
<tr>
<td><strong>Subscription Fee</strong></td>
</tr>
<tr>
<td>• Sell continuous access to service</td>
</tr>
<tr>
<td><strong>Usage Fee</strong></td>
</tr>
<tr>
<td>• Service use fee</td>
</tr>
<tr>
<td><strong>Lending / Renting / Leasing</strong></td>
</tr>
<tr>
<td>• Temporary grant of right to use asset for fixed time</td>
</tr>
<tr>
<td><strong>Licensing</strong></td>
</tr>
<tr>
<td>• Grant to use IP</td>
</tr>
<tr>
<td>• Common in media industry</td>
</tr>
<tr>
<td><strong>Brokerage Fees</strong></td>
</tr>
<tr>
<td>• Intermediation services performed on behalf of two or more parties</td>
</tr>
</tbody>
</table>

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Additional detail in Appendix

Sunday, February 19, 2012
# Pricing Mechanisms

<table>
<thead>
<tr>
<th>Fixed “Menu” Pricing</th>
<th>Dynamic Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>List Price</strong></td>
<td><strong>Negotiation</strong> (Bargaining)</td>
</tr>
<tr>
<td></td>
<td><strong>Yield Management</strong></td>
</tr>
<tr>
<td><strong>Product Feature Dependent</strong></td>
<td></td>
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<tr>
<td></td>
<td><strong>Auctions</strong></td>
</tr>
<tr>
<td><strong>Customer Segment Dependent</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Volume Dependent</strong></td>
<td></td>
</tr>
</tbody>
</table>

Fixed prices for products, & services

Price depends on number or quality

Price depends on type & characteristic of Segment

Price as a function of quantity

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Key Resources Building Block

Describes most important assets required to make business model work

- Enables product to reach markets, & earn revenue
- Required resources are dependent on selected Business Model
- Resources may be physical, financial, intellectual, or human
- Resources may be owned, leased or acquired

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Key Resources Catalog

**Physical**
- Buildings, cars, machinery, systems, point-of-sales systems, and distribution

**Human**
- Critical in knowledge intensive & creative businesses

**Intellectual**
- Brands, proprietary knowledge, patents copyrights, partnerships, and Customer databases
- IP difficult to develop, but powerful

**Financial**
- Cash, credit, stock

Additional detail in Appendix
Example: LEGO Factory
Ex: LEGO Relationships, Channels, Resources, & Revenue

Community of customers who are interested in niche content & want more than off-the-shelf kits

Web presence
Agile Mfg.
Supply Chain
User Groups

Small revenues from Customer designed kits. Valuable addition to traditional high-volume kits.

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Goal: Apply Business Model Canvas to your Senior Design Project

Can start now by completing:

- Customer Segment(s)
- Value Proposition(s)
- Channels
- Customer Relationship
- Revenue Stream
- Resources

Utilize template on web
Homework: **Channels, Customer Relationships, Revenue Streams, and Resources** required for success?

**Model**

- **Offer**
  - Value Proposition 1
  - Value Proposition 2
  - Value Proposition N

- **Channel**
  - Channel 1
  - Channel 2
  - Channel N

- **Relationship**
  - Relationship 1
  - Relationship 2
  - Relationship N

- **Finance**
  - Revenue Stream 1
  - Revenue Stream 2
  - Revenue Stream N

- **Customer**
  - Target Customer 1
  - Target Customer 2
  - Target Customer N

- **Resources**
  - Resource 1
  - Resource 2
  - Resource N

**Hint:**

*For every Customer & Value Proposition pair, one at a time, define required Channel, Customer Relationship, Revenue Stream & Resources required to succeed*

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Business Model Canvas Homework
Entrepreneurship

Business Model Canvas
Part Three
Review Channels & Customer Relationship Blocks

**Channels Block**
Describes how a company communicates with & reaches Customers to deliver a Value Proposition

**Customer Relationship Block**
Describes types of relationship a company establishes with specific Customer Segments

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Review Revenue Streams & Resources Blocks

**Revenue Streams Block**
Represents cash generated from each Customer Segment
(Revenue - Cost = Earnings)

**Key Resources Building Block**
Describes most important assets required for business model
Key Activities Building Block

Describes most important things a company must do to make its Business Model work

Required to:

• Create & offer Value Proposition
• Reach markets
• Maintain Customer Relationships
• Earn Revenue

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Key Activities Catalog

Production

• Design, mfg., & deliver product in quantity or superior quality
• Dominates mfg. Business Models

Problem Solving

• Develop new solutions
• Dominates knowledge management Business Models

Platform / Network

• Networks, matchmaking, software and brands can serve as platforms

Additional detail in Appendix
Key Partnerships Building Block

Describes network of suppliers and partners that make the Business Model work

4 Types of Partnerships:

1. Strategic alliances between non-competitors
2. Strategic alliance between competitors
3. Joint Ventures to develop new business
4. Buyer-Supplier to assure reliable supply
Partnership Motivations

Optimization & Economy of Scale
• Most basic partnership
• Often results in outsourcing

Reduction of Risk & Uncertainty
• Competitors form strategic alliance in one area while competing in another

Acquisition of Particular Resources & Activities
• Extend capabilities by relying on others to furnish part of the required resources / activities

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Additional detail in Appendix
Cost Structure Building Block

Describes all costs incurred to operate a Business Model

- Create & deliver value, maintain Customer relationships, & generate revenue all incur cost
- Easily calculated after defining: Key Resources, Key Activities, & Key Partnerships
# Cost vs. Value Driven Models

## Cost Driven:
Low Cost Value Proposition, automation, & outsourcing

<table>
<thead>
<tr>
<th>Fixed Cost</th>
<th>Variable Cost</th>
<th>Scale Economy</th>
<th>Scope Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same cost regardless of volume</td>
<td>Cost vary in proportion with volume</td>
<td>Cost / unit drops as volume increases</td>
<td>Same mktg &amp; dist. support many products</td>
</tr>
</tbody>
</table>

## Value Driven:
Focused on value creation, not cost. Premium Value Propositions and personalized service
Example: LEGO Factory
Ex: LEGO Factory **Key Activities, Partners, & Cost Structure**

<table>
<thead>
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<th>Key Activities</th>
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<th>Customer Segments</th>
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<tbody>
<tr>
<td></td>
<td>Provide &amp; manage platform &amp; logistics for producing, packaging &amp; delivery of custom-made sets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customers who build new designs &amp; post them on-line thereby generating content &amp; value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilizes production &amp; logistics already incurred by traditional retail block model</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© G. Motter, 2010
Utilize this format to incorporate the Business Model Canvas into your project final report.

<table>
<thead>
<tr>
<th>Customers who build new designs &amp; post them online</th>
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<td>Community of customers who are interested in niche content &amp; want more than</td>
<td>Community of customer designed kits complement standard blocks. LEGO Factory</td>
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<td>WEb presence, Agile Mfg., Supply Chain, User Groups</td>
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<tr>
<td>Web, Retail Stores, and User Groups</td>
<td>Small revenues from Customer designed kits. Valuable addition to traditional high-volume kits.</td>
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<td></td>
</tr>
</tbody>
</table>

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Homework: **Key Activities, Key Partnerships, and Cost Structure** required for success?

**Model**

- **Offer**
  - Value Proposition 1
  - Value Proposition 2
  - Value Proposition N

- **Activity**
  - Activity 1
  - Activity 2
  - Activity N

- **Partnership**
  - Partnership 1
  - Partnership 2
  - Partnership N

- **Customer**
  - Target Customer 1
  - Target Customer 2
  - Target Customer N

**Cost**

- Cost 1
- Cost 2
- Cost N

**Hint:**

*For every Customer & Value Proposition pair, one at a time, define required Key Activities, Key Partnerships, & Cost Structure required to succeed*

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Blue Ocean Strategy

Red Ocean
- Compete in existing markets
- Beat the Competition
- Explore existing demand
- Make Value / Cost Trade-off
- Align with differentiation OR low cost

Blue Ocean
- Compete in uncontested markets
- Make Competition irrelevant
- Create & capture new demand
- Break Value / Cost Trade-off
- Align with differentiation AND low cost

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Measurement of Business Model Success

- Sales Revenue Growth
- Profits
- Market Share Gain
- Competitive Reactions
Ready to Write Business Plan

- Charter
- Project
- VOC
- HOQ
- Functions
- Value Engin.
- Develop IP
- Product Development
- Select Concept
- Business Model
- Business Plan
- Seek VC Funding

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Uses for the Business Model Canvas

- Describe and innovate the business
- Easily illustrates how the Business makes financial sense
- “Design and Align” the leadership team
- Show team members “big picture” and interdependencies
- “Translate” Business Plans into everyday work processes
- Remind teams to think holistically, and prevent getting stuck on details
- Provides a common language and framework
- Reality Check
Business Model Fatal Assumptions

- Customers will buy our cool technology
- All we need is 5% market share
- Competition will not notice us
- Customers will switch suppliers
- Product is so cool it will sell itself
- We command premium pricing
- Our financial projections are conservative
East Lansing Area Venture Capital

- MSU Broad College of Business
  - Institute for Entrepreneurship
- The Hatch
  - Adjacent to Technology Innovation Center (above “Barnes & Nobel”)
- Prima Civitas
  - Started in 2006 by MSU to facilitate knowledge based economy
- Look for “Technology Fabrication” shops
  - $100/m gets you “industrial strength fabrication

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Michigan Venture Capital Sources

Ann Arbor
- SPARK
- Arboretum Ventures
- Ardesta
- Seneca Partners
- Chrysalis
- EDF Ventures

Farmington Hills
- Beringea LLC

Southfield
- Wind Point Partners
- Seneca Partners, Inc

Battle Creek
- Homeland Security Resources

Kickstarter.com
- Viewers search a bevy of proposals from innovators
- In 2011, funded $80MM

Additional Resources identified in Appendix

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Helpful Texts - Starting a New Business

Street Smarts
- “Coffee with an veteran entrepreneur” sharing real life experiences

Start with Why
- Know why you are in a particular business
  - “Right” Customers and Employees
- Difference between evangelist customers or low cost competitive buyer

Mastering Rockefeller Habits
- Develop structured, disciplined routines

The E-Myth
- Build “replicable systems” that operate in absence of owner

Little Bets
- Start with something simple

Who - The A Method for Hiring

Art of the Start
- “Substance vs. fluff
- Focus on Customers & Business Model
Objective: Develop Business Model Canvas for your Senior Design Project

Instructions:
• Develop Business Model Canvas as illustrated in lecture slides with LEGO Factory & refer to examples in appendices
• Use Canvas template on web site
• E-Mail to G. Motter at sail1070@Yahoo.com and Dr. Shanblatt

Due Date: Monday
Appendices
Business Model Innovation Drives Profits

Source: IBM, CEOs are expanding the innovation horizon: Important implications for CIOs

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Additional detail in Appendix
Bus. Model Innovation Benefits

Source: IBM, Global CEO Study 2006
Reasons for a Business Model

- Prove you are serious
- Establish Milestones
- Understand Competition
- Know Customers
- State Assumptions
- Document Revenue Model
- Attract Investors
- Reduce Risk
- Attract Employees
Types of Customer Segments

Mass Market
- Don’t distinguish Customer Segments
- Value Propositions, Distribution Channels, and Customer Relationships all focus on a large group
- Ex: Consumer Electronics

Niche Market
- Cater to specific Customer Segments
- Value Propositions, Distribution Channels and Customer Relationships are tailored
- Often found in supplier-buyer relationships. Ex: Car part producers dependent on OEM purchases

Segmented
- Distinguish between segments with different needs and priorities
- Has implications for Value Proposition, Distribution Channels, Customer Relationships, and Revenue Streams
- Ex: Micro Precision Systems provides micro-mechanical design & mfg. solutions to watch and industrial automation sectors

Diversified
- Serves two unrelated Customer Segments with different needs and problems. Ex: Amazon.com decided to diversify retail business by selling cloud computing services; online storage space and on-demand server use
- Totally different Value proposition utilizing powerful IT infrastructure

Multi-Sided Platforms
- Serve two or more interdependent Customer Segments. Ex: Credit card company needs a large customer base of card holders and a large base of merchants who accept card
- Both segments are required to make the Business Model work
More Value Proposition Elements

**“Getting the Job Done”**
- Value created by helping Customer get jobs done. Ex: Roll-Royce Customers rely on them to manufacture and service jet engines
- Arrangement allows Customers to focus on running airline, not engine service
- Pay Roll-Royce a fee for every hour flown

**Brand / Status**
- Customers value simple act of using and displaying a brand
- Ex: Wear a Rolex watch
- Skateboarders wear “underground” brands to show they are “in”

**Price**
- Satisfy price-sensitive Segments
- Low-price Value Propositions have important implications for rest of Business Model
- Ex: No frills airlines - Southwest, easyJet, and Ryanair designed entire business to enable low cost air travel.
- Ex: Nano car produced by Tata makes cars affordable to new segment of population

**Risk Reduction**
- Customers value reduction of risk
- Ex: Used car buyer values one year warranty to cover repairs
- Service level guarantee reduces risk in outsourced IT services

**Accessibility**
- Make offering available to Customers who lacked access
- Can result from Business Model innovation, new technologies, or a combination of both
- Ex: Net Jet popularized concept of fractional private jet ownership
- Ex: Mutual Funds made it possible for those with modest wealth to build diversified investment portfolios

**Customer Cost Reduction**
- Important way to create value
- Ex: Salesforce.com sells a hosted Customer Relationship Management (CRM) application that relieves buyers from expense and trouble purchasing, installing, and managing CRM software

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Customer Relationship Categories

**Personal Assistance**
- Human interaction
- Customer communicates with Customer Representative for help during, or after, the sale
- Happens on-site, through call centers, by e-mail, or other means

**Automated Services**
- Sophisticated form of Customer self-service
- Online profiles give Customers access to customized services
- Automated service stimulate a personal relationship. Ex: Book and movie recommendation

**Self-Service**
- No direct relationship with Customer
- Provides necessary means for self-help

**Dedicated Personal Assistance**
- Customer specific Customer Representative at company
- Deep and intimate relationship and develops over a long time. Ex: Private Banking, dedicated bankers serve high net worth individuals
- Key Account Managers maintain personal relationships with important Customers

**Communities**
- User communities involved with Customers / prospects and facilitate connections between community members
- Maintains online communities so users can exchange knowledge and solve each other’s problems
- Help companies understand Customers
- Ex: GlaxoSmithKline launched a Alli community for weight loss

**Co-Creation**
- Beyond traditional Customer -Vendor relationship to co-create value. Ex: Amazon invites Customers to write reviews creating value for other readers
- Customers assist with new and innovative product design. Ex: YouTube solicits Customer’s content for public consumption
Ways to Generate Revenue Streams

**Asset Sale**
- Widely understood and results from selling ownership of a physical product
- Ex: Amazon sells books, music, electronics and more on-line

**Usage Fee**
- Generated by service use
- More service is used, more Customer pays
- Ex: Telecom charges by the minute

**Subscription Fee**
- Selling continuous access to a service
- Ex: Gym sells subscriptions to access exercise facilities
- Ex: Nokia’s Comes With Music provides music library access

**Licensing**
- Generated by giving Customers permission to use IP
- Right-holders generate revenue without product manuf. or commercialization
- Common in media industry

**Lending / Renting / Leasing**
- Temporary grant of exclusive right to use an asset for fixed time period
- Lender gets recurring revenue, and renters enjoy benefits without full cost of ownership
- Ex: Zipcar.com rents cars by the hour in large NA cities

**Brokerage Fees**
- Intermediation services performed on behalf of two or more parties
- Ex: Credit card providers take a percentage of all transaction fees
- Ex: Brokers and real estate agents are paid in commissions
Key Resources Catalog

Physical
- Includes mfg. facilities, buildings, vehicles, machinery, systems, point-of-sales systems, and distribution
- Retailers rely heavily on physical resources.

Human
- Critical in knowledge intensive and creative businesses
- Novartis has an army of scientists developing next generation drugs

Financial
- Cash, lines of credit, stock

Intellectual
- Brands, proprietary knowledge, patents and copyrights, partnerships, and Customer data bases
- IP difficult to develop, but powerful
- Consumer goods companies, Nike and Sony, rely heavily on Brands
- Microsoft and SAP rely heavily on IP developed over decades
- Qualcomm (mobile device chips) earns substantial license fees

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Sunday, February 19, 2012
Key Activities Catalog

Production

• Designing, making, and delivering a product in substantial quantity and/or superior quality
• Dominates Business Models of mfg. firms

Problem Solving

• Developing new solutions for Customer problems
• Consultancies, hospitals and service organizations
• Business Models dominated by knowledge management and continuous training

Platform / Network

• Networks, matchmaking, software and brands can serve as platforms
• Ex: eBay’s Business Model requires continuous development to maintain the platform
• Ex: Microsoft’s Model requires managing interface between vendors - hardware and other software suppliers

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Partnership Motivations

Optimization & Economy of Scale

• Most basic form of partnership
• Illogical for a company to own all resources or perform every activity
• Often results in outsourcing of an activity

Reduction of Risk & Uncertainty

• Competitors often form a strategic alliance in one area while competing in another
• Ex: Blue-ray was developed by leading consumer electronics, computer and media mfgs.

Acquisition of Particular Resources & Activities

• Few companies own all the resources or perform all activities described in their Business Models
• Extend capabilities by relying on other firms to furnish part of the required resources / activities
• Ex: Mobile phone company licenses operating system vs. developing one
Goldcorp publicly shared all of its geological data and offered US$ 500’000 in prizes for determining where they might find the next 6 million ounces of gold.
Skype

deliver voice & video quality

“eBay”

free VoIP & value added services

software development

website

internet

global (non segmented)

software development

large scale low margin

free voice-over-IP VoIP telephony & value-added services
1291 Cityhomes

low-cost hotel/rental in New York City

- young curious Swiss
- apartment owners
- renting out rooms
- low cost accommodation New York
- keep down costs
- find demand
- low cost

CUSTOMER RELATIONSHIPS

DISTRIBUTION CHANNELS

- rents
- the cost sensible

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business process outsourcing “up-side down” in India
online movie rental (with large niche movie database)

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Business Model Canvas

Key Resources (KR)

Key Activities (KA)

Key Partners (KP)

Cost Structure (CS)

Customer Segments (CS)

Customer Relationships (CR)

Value Propositions (VP)

Channels (CH)

Revenue Streams (RS)
Additional Venture Capital Resources

National Venture Capital Association
www.nvca.org

Go Big Network
www.gobignetwork.com

Sequoia Venture Capital
www.sequoia.com

Federal Govt. Programs
Small Business Admin.
www.sba.gov

Small Business Innovation Research
www.sbir.gov

Small Business Technology Transfer
www.sbtt.gov

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