

Entrepreneurship

Business Model and Business Model Canvas Part One



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
- Identify “starting points” for Venture Capital Funding
- Initiate “hands-on” experience - Homework

Prerequisites are in Place

Charter
Project

VOC

HOQ

Functions

Value Engin.

Develop IP

Product Development

Select Concept

Business Model

Business Plan

Seek VC
Funding

Definition: Business Model

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



Innovative Business Models make the most money

Additional detail in Appendix

Business Model is Critical Thinking

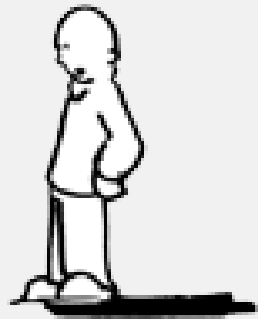
- Blueprint you are serious
- Interesting communication
- Compelling story:
 - Who you are
 - Why you are in Business
 - What you do, how you do it & where you operate
 - How you will make money
 - What Customers
- Judged by Quality & Appearance of Plan & product novelty



Business Model Canvas

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

Business Model - 9 Building Blocks



CS

1 Customer Segments

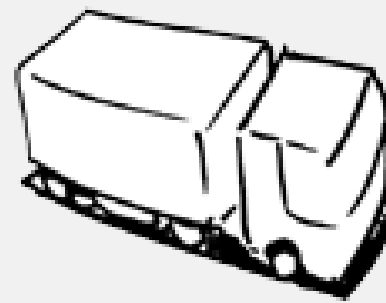
An organization serves one or several Customer Segments.



VP

2 Value Propositions

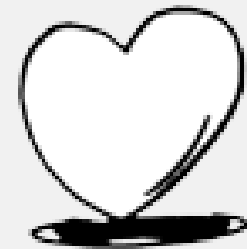
It seeks to solve customer problems and satisfy customer needs with value propositions.



CH

3 Channels

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



CR

4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.

Business Model - 9 Building Blocks



R\$

5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.



KR

6 Key Resources

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



KA

7 Key Activities

...by performing a number of Key Activities.



KP

8 Key Partnerships

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



C\$

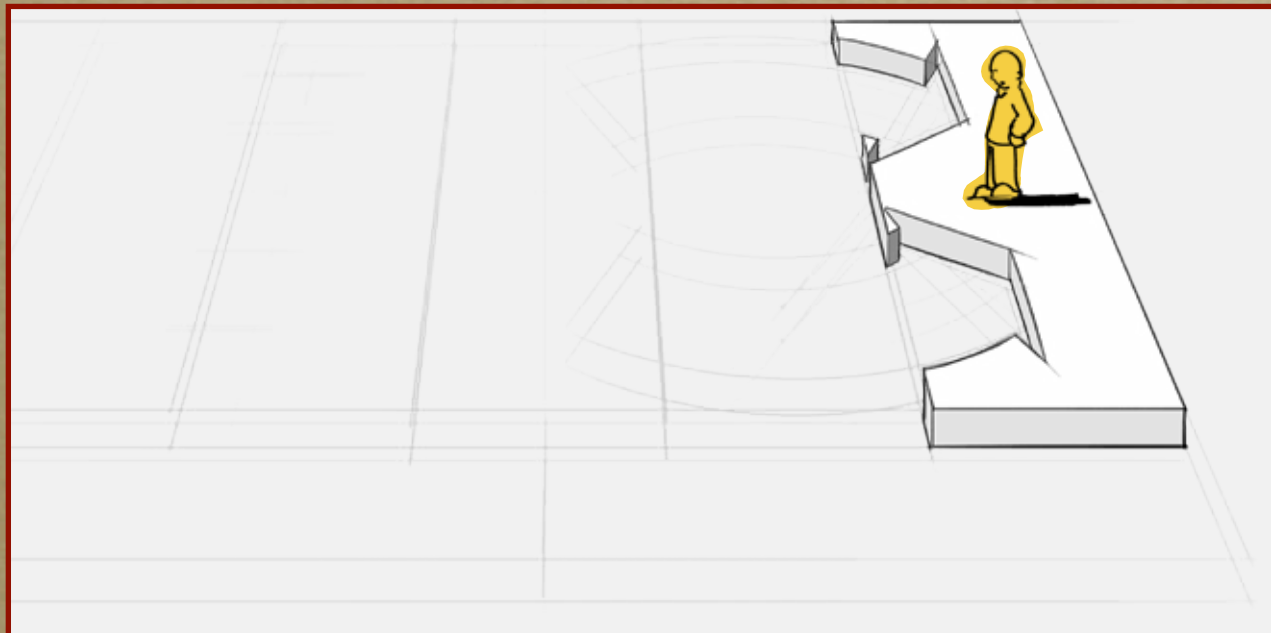
9 Cost Structure

The business model elements result in the cost structure.

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



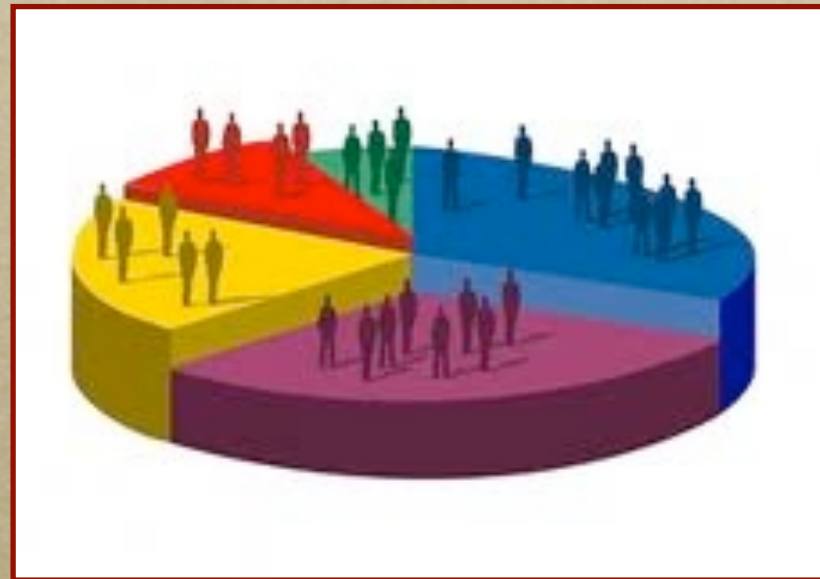
Separate segments if:

- Need a distinct product
- Utilize different Channels
- Require special Relationships
- Have different profitabilities
- Pay for unique aspects

Types of Customer Segments

Mass Market

Don't distinguish
Segments



Diversified

Serves unrelated
Segments

Niche Market

Specific
Specialized
Segments

Segmented

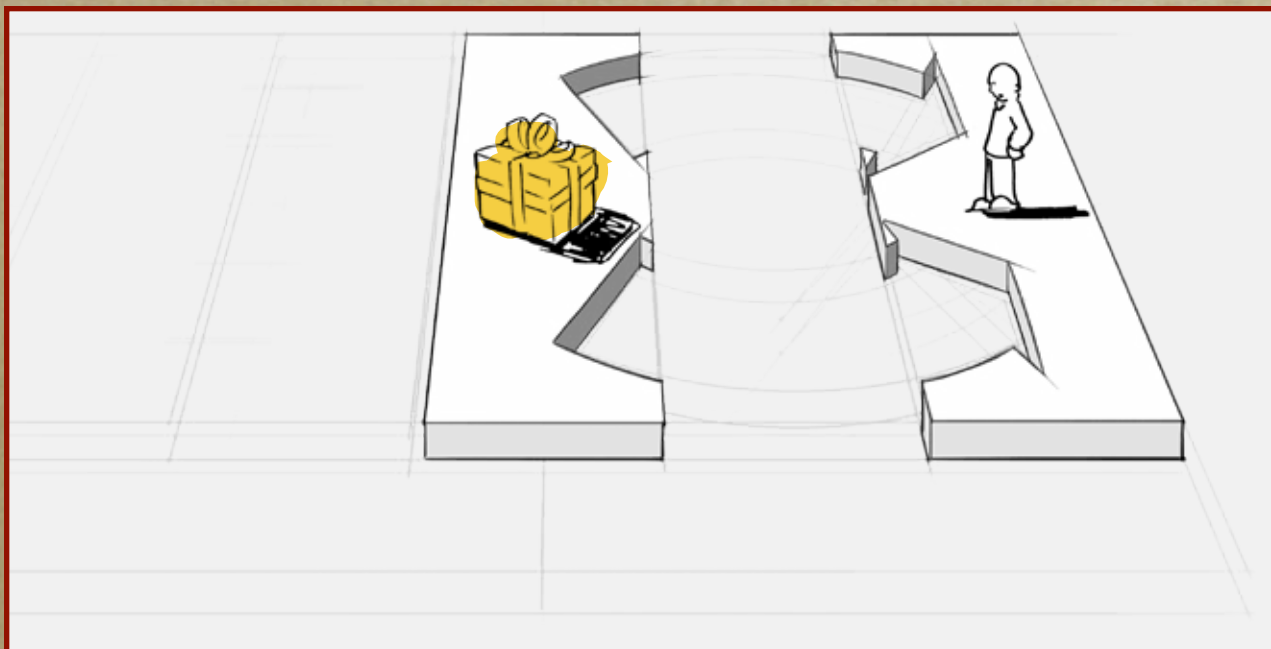
Distinguish
between segments
with different
needs

Multi-Sided

Interdependent
Segments

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



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Performance

Common way to
create value

PC sector relied on
powerful machines,
but has limits

Additional detail in Appendix



Customization

Tailoring products &
services to specific
Customers

Enables customized
products & economy
of scale



More Value Proposition Elements

“Getting the Job Done”

Create value by helping Customer get jobs done

Price

Low-price has implications for rest of Business Model

Risk Reduction

Customers value risk reduction

Brand / Status

Customers value use and display of a brand

Cost Reduction

Important way to create value

Accessibility

Provide offering to Customers who lack access

Value Proposition Format

Concept Elements . . .

1. {Offering} will provide {Targeted Customers} with {Needs} via {Concept} at a price of {\$\$}
2. The {concept / innovative attributes} will be achieved through {technology / technical specifications}
3. The approximate cost to deliver these Needs will be {\$\$}

Value Proposition . . .

{Offering} provides {Targeted Customers} with {Needs} via {form} at a price of {\$\$}, differentiating from {benchmark competitors} by {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

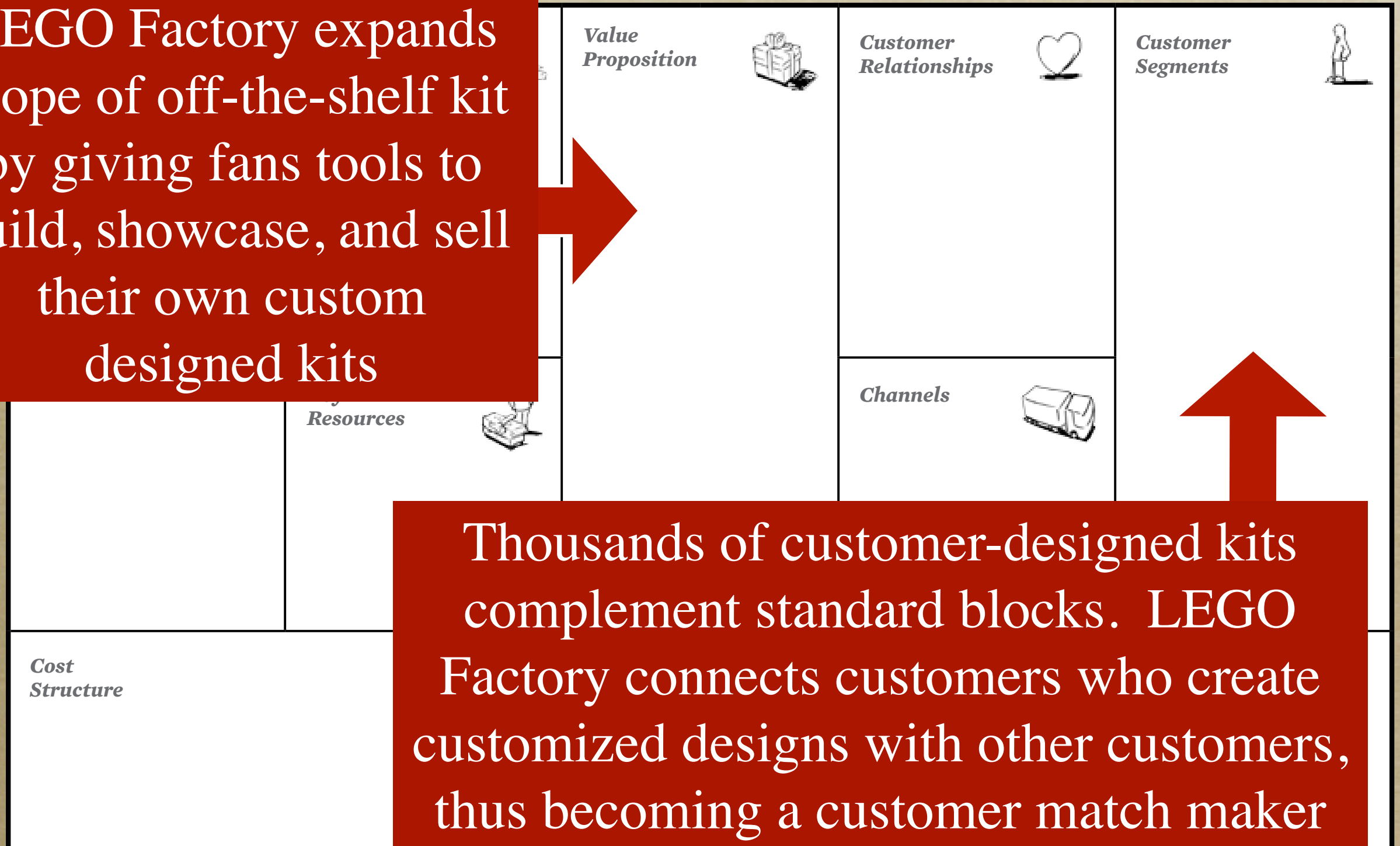
Ownable - Unique relative to competitor's position

Example: LEGO Factory



Ex: Lego Factory **Value Proposition & Segments**

LEGO Factory expands scope of off-the-shelf kit by giving fans tools to build, showcase, and sell their own custom designed kits



Easy to Read Reference

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

WRITTEN BY
Alexander Osterwalder & Yves Pigneur

CO-CREATED BY
An amazing crowd of 470 practitioners from 45 countries

DESIGNED BY
Alan Smith, The Movement



ISBN 978-0-470-87641-1

Reference copies in Engineering Library

Homework Case Study

You become owner of a soccer club . . .



Homework: **Value Propositions** to what **Segments**?

Model . . .

Offer

Value Proposition 1
Value Proposition 2

Value Proposition N

Segment

Target Customer 1
Target Customer 2

Target Customer N

Hints:

- 1. Think broadly about Customers.....there are more than one to consider*
- 2. There is a unique Value Proposition for each Customer*

Business Model Canvas Homework

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

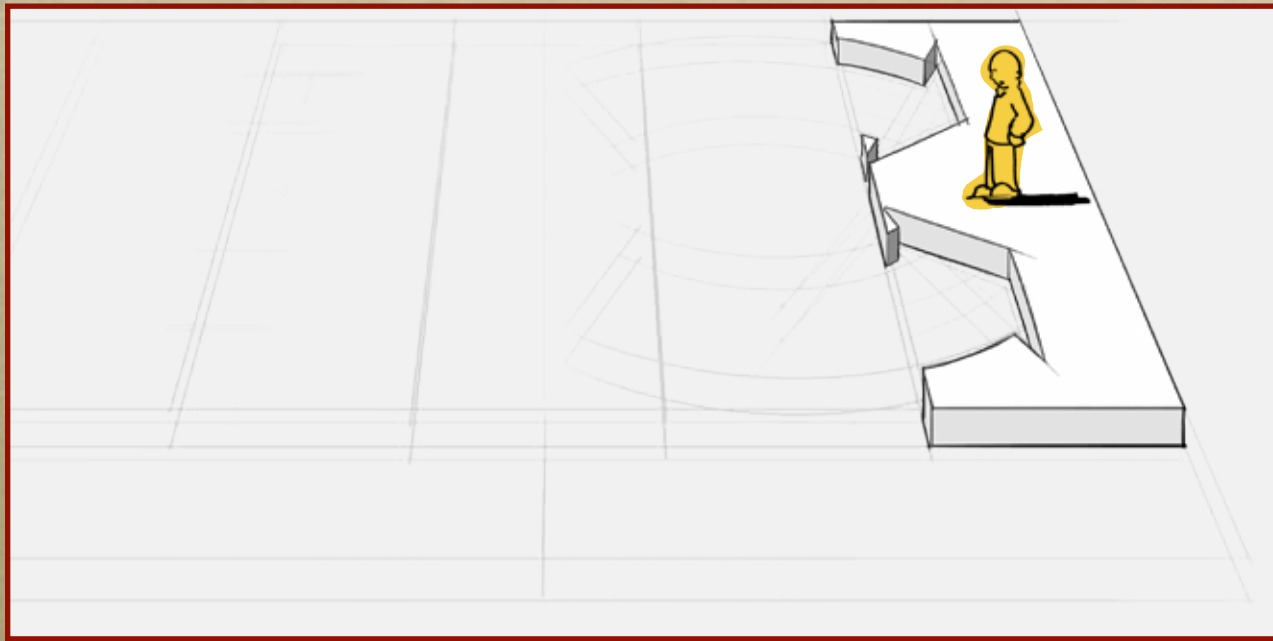


Entrepreneurship

Business Model and Business Model Canvas Part Two

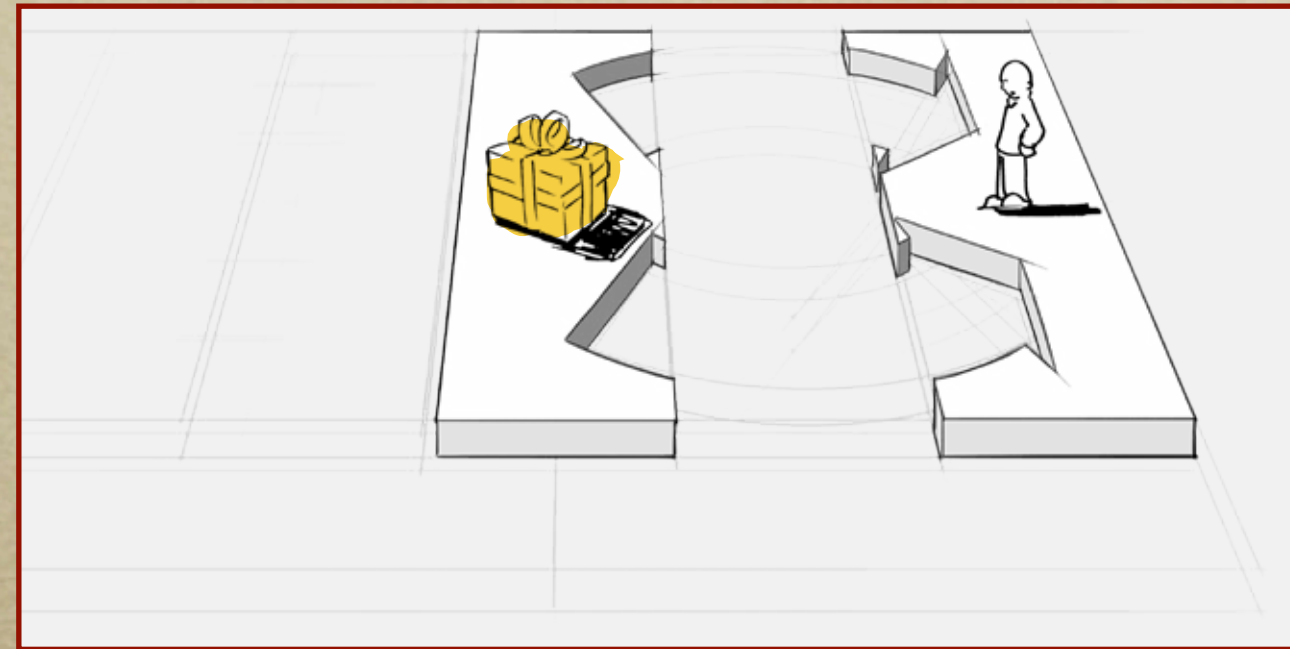


Review Segmentation & Value Proposition



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

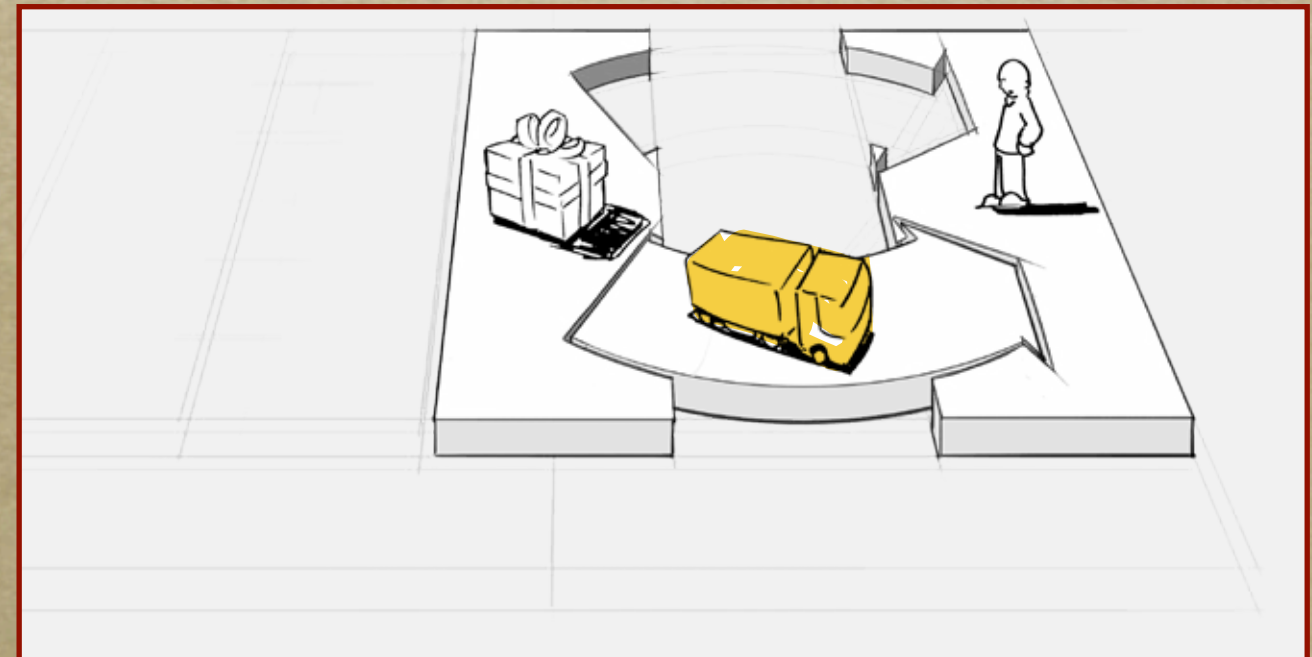
Channels Building Block

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

- Customer Interface: Communication, Distribution, & Sales
- Customer touch points, & important in their experience

Channels provide:

- Product awareness
- Allow Customers to purchase
- Provide post-purchase support



Channel Types and Phases

Channels have 5 distinct phases. Each Channel can cover some or all of these phases

<i>Awareness</i>	<i>Evaluation</i>	<i>Purchase</i>	<i>Delivery</i>	<i>After Sales</i>
Raise awareness about company & offerings	Assist Customers evaluate Value Proposition	Allow Customers to purchase products & services	Deliver Value Proposition to Customers	Provide post-purchase support

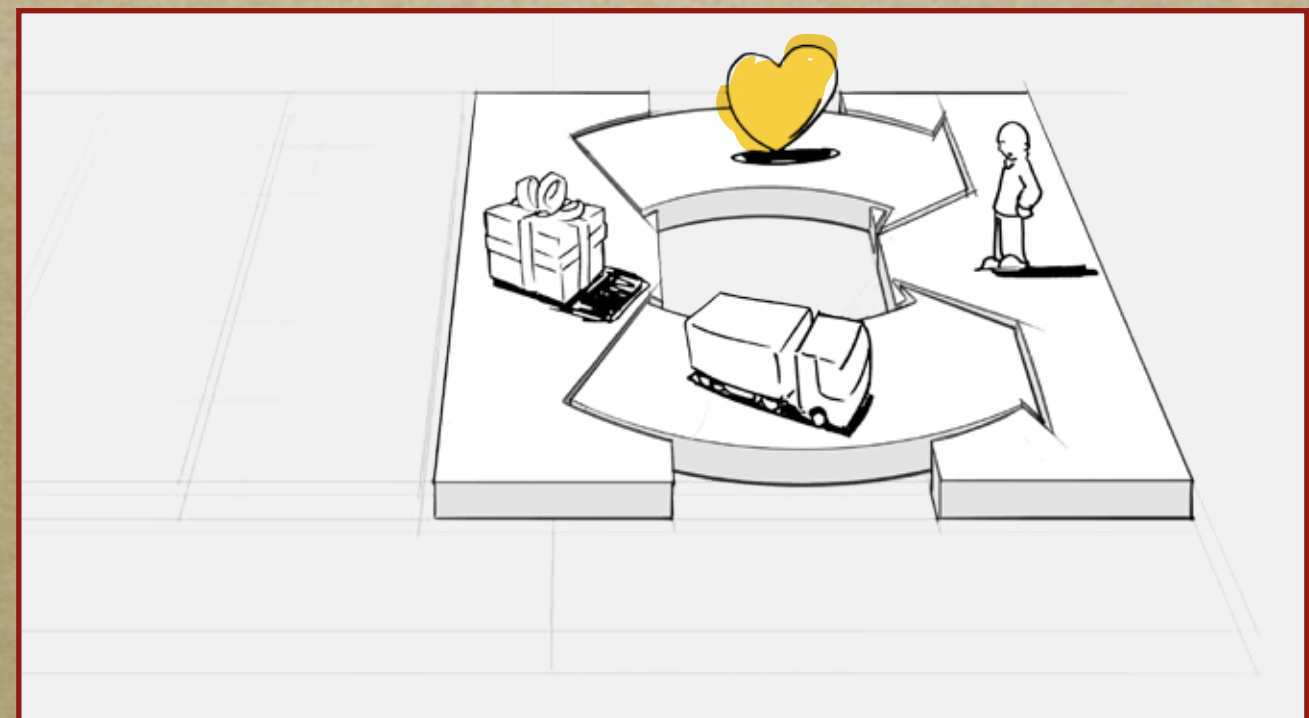
Customer Relationship Building Block

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

Must clarify desired relationship with each Customer Segment

Relationship Motivations:

- Acquisition
- Retention
- Boost Sales (upselling)



Customer Relationship Categories

Personal Assistance

- Direct access for help

Dedicated Personal Assistance

- Customer specific Representative
- Intimate relationship

Self-Service

- No direct Customer relationship
- Provides self-help

Communities

- User community aides connections between members

Automated Services

- Sophisticated form of self-service

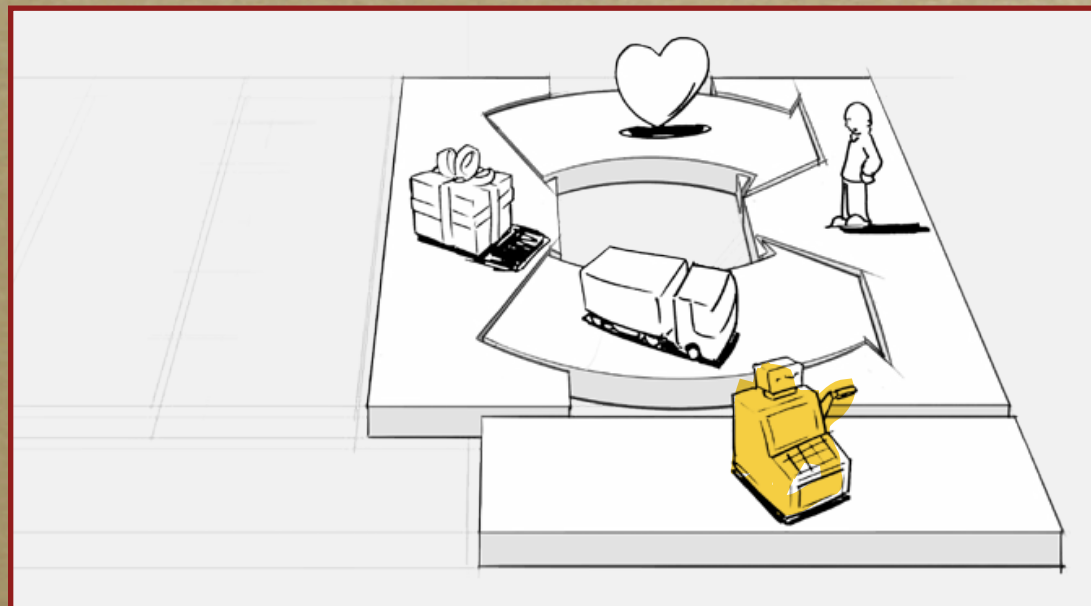
Co-Creation

- Beyond traditional relationship to co-create value.

Revenue Streams Building Block

*Represents cash a company generates from each Customer Segment
(Revenue - Cost = 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



Ways to Generate Revenue Streams

Asset Sale

- Physical product sale

Subscription Fee

- Sell continuous access to service

Licensing

- Grant to use IP
- Common in media industry

Usage Fee

- Service use fee

Lending / Renting / Leasing

- Temporary grant of right to use asset for fixed time

Brokerage Fees

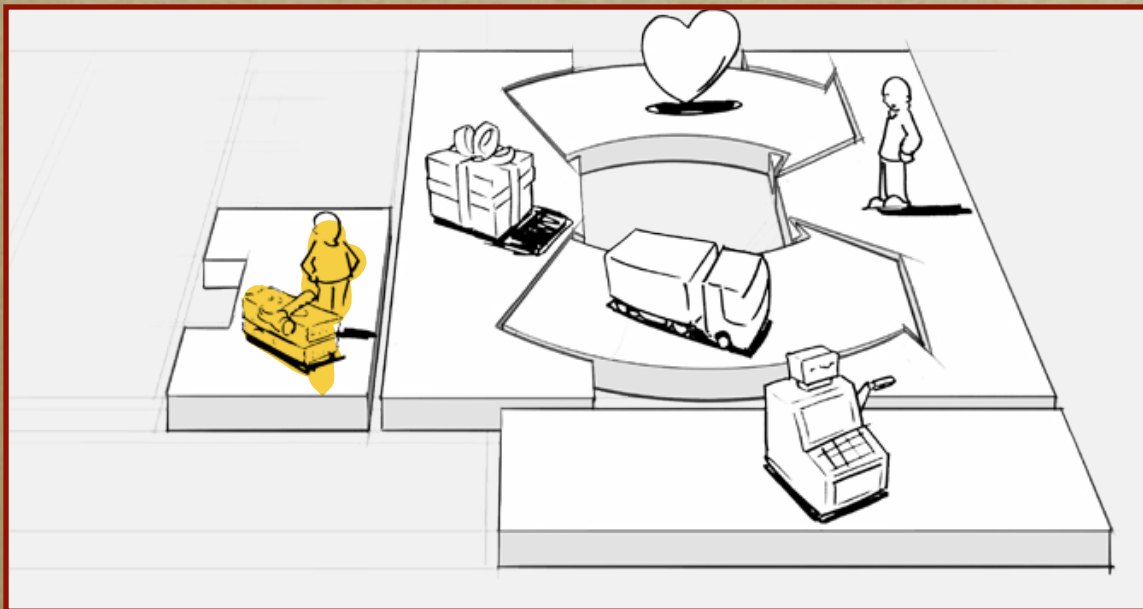
- Intermediation services performed on behalf of two or more parties

Pricing Mechanisms

<i>Fixed “Menu” Pricing</i>		<i>Dynamic Pricing</i>	
<i>List Price</i>	Fixed prices for products, & services	<i>Negotiation (Bargaining)</i>	Price negotiated between parties & is dependent on negotiation skill
<i>Product Feature Dependent</i>	Price depends on number or quality	<i>Yield Management</i>	Price depends on inventory and time frame of purchase
<i>Customer Segment Dependent</i>	Price depends on type & characteristic of Segment	<i>Real-time Markets</i>	Price established based on supply and demand
<i>Volume Dependent</i>	Price as a function of quantity	<i>Auctions</i>	Price determined by competitive bidding

Key Resources Building Block

Describes most important assets required to make business model work



- Enables product 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

Key Resources Catalog

Physical

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

Human

- Critical in knowledge intensive & creative businesses

Financial

- Cash, credit, stock

Intellectual

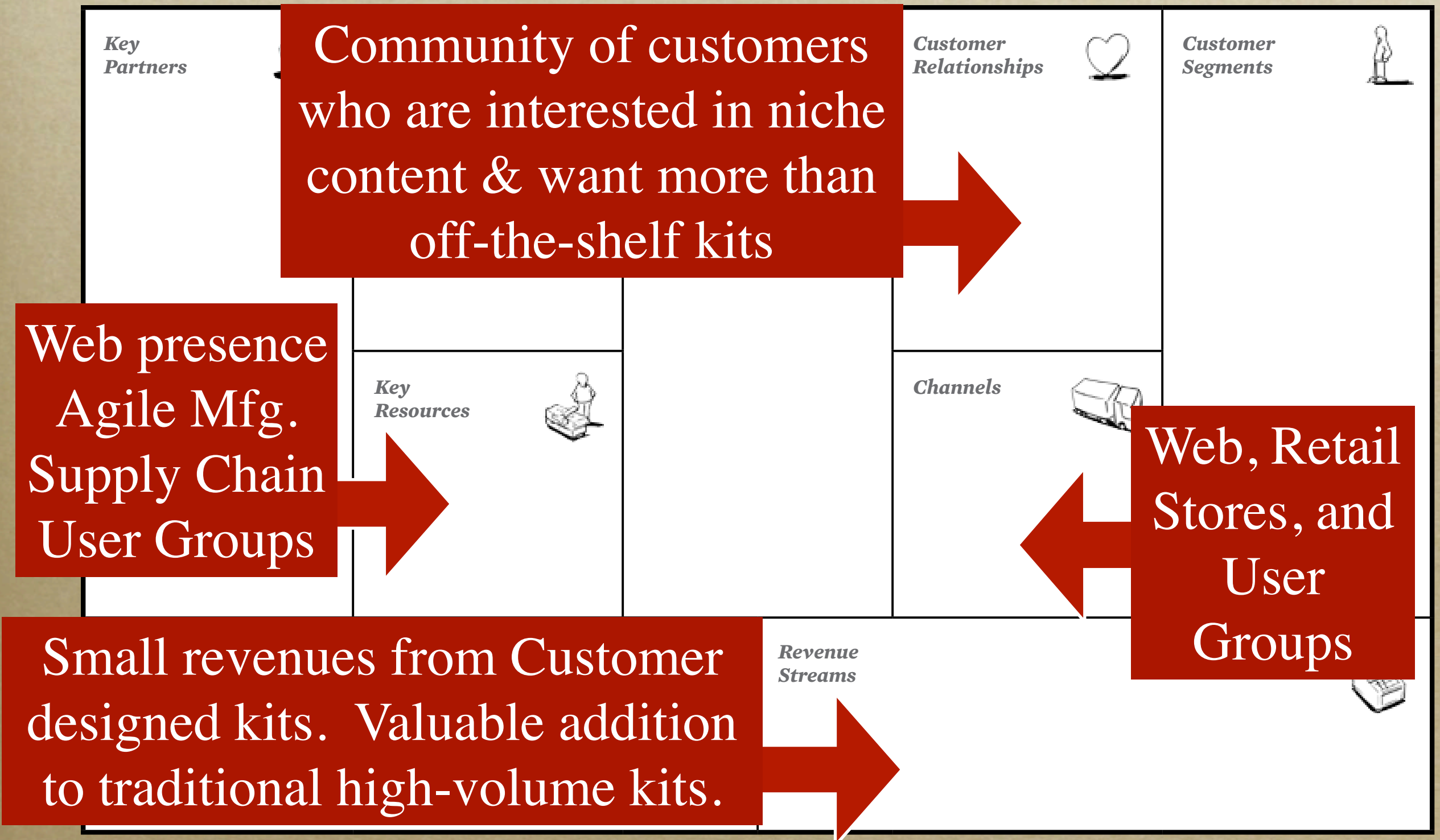
- Brands, proprietary knowledge, patents copyrights, partnerships, and Customer data bases
- IP difficult to develop, but powerful

Additional detail in Appendix

Example: LEGO Factory



Ex: LEGO Relationships, Channels, Resources, & Revenue



Homework Case Study

You become owner of a soccer club . . .

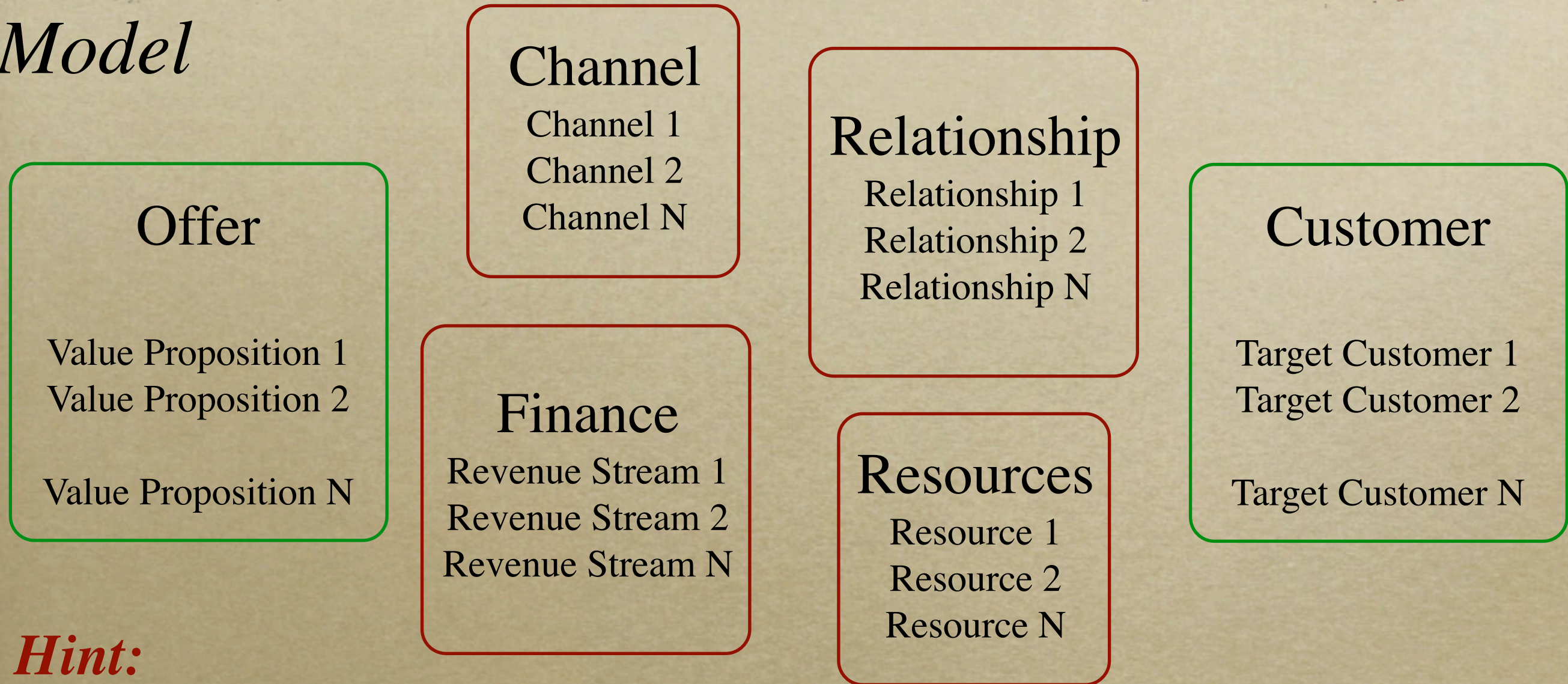


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Sunday, April 10, 2011

Homework: **Channels, Customer Relationships, Revenue Streams, and Resources** required for success?

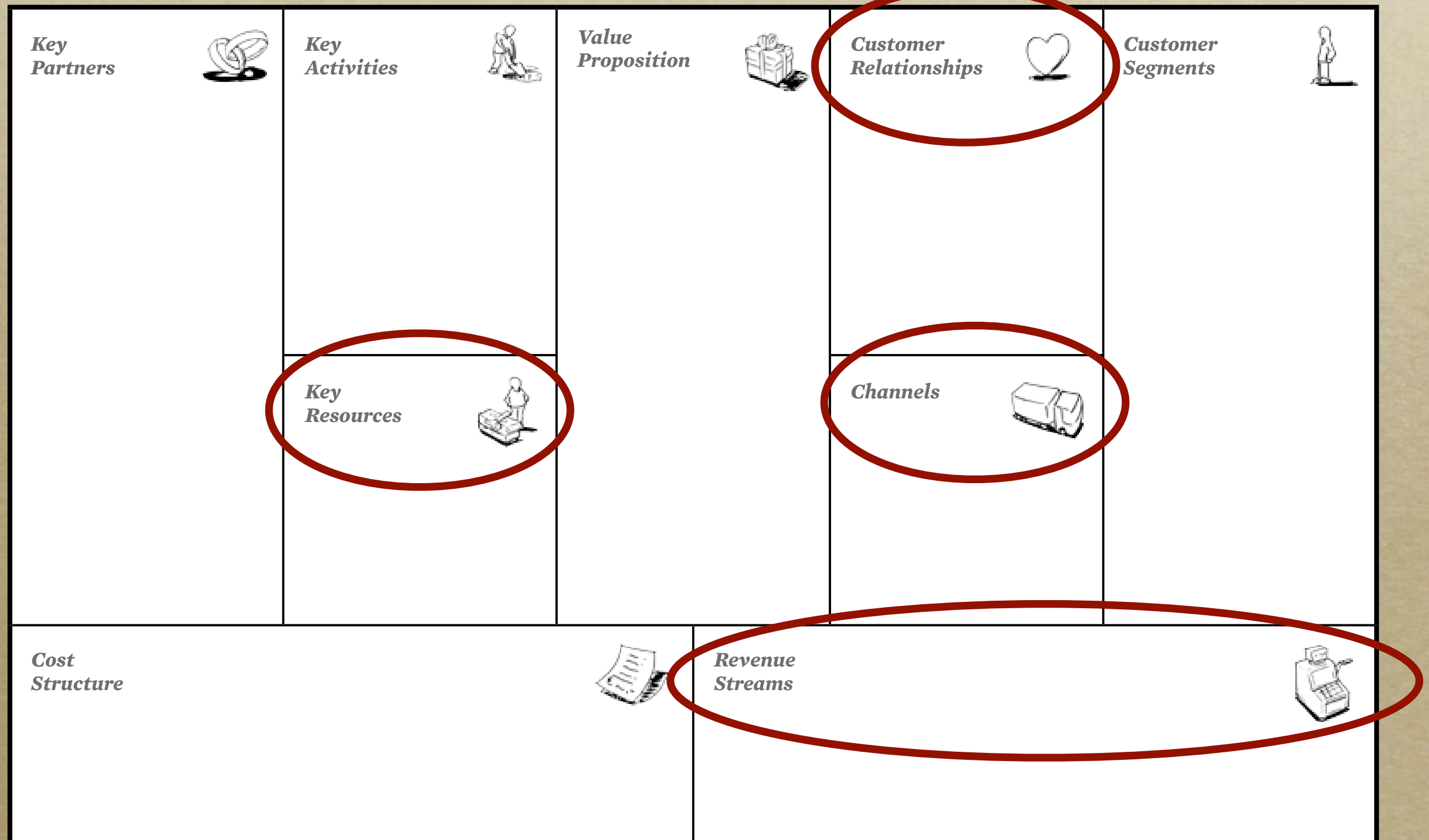
Model



Hint:

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

Business Model Canvas Homework



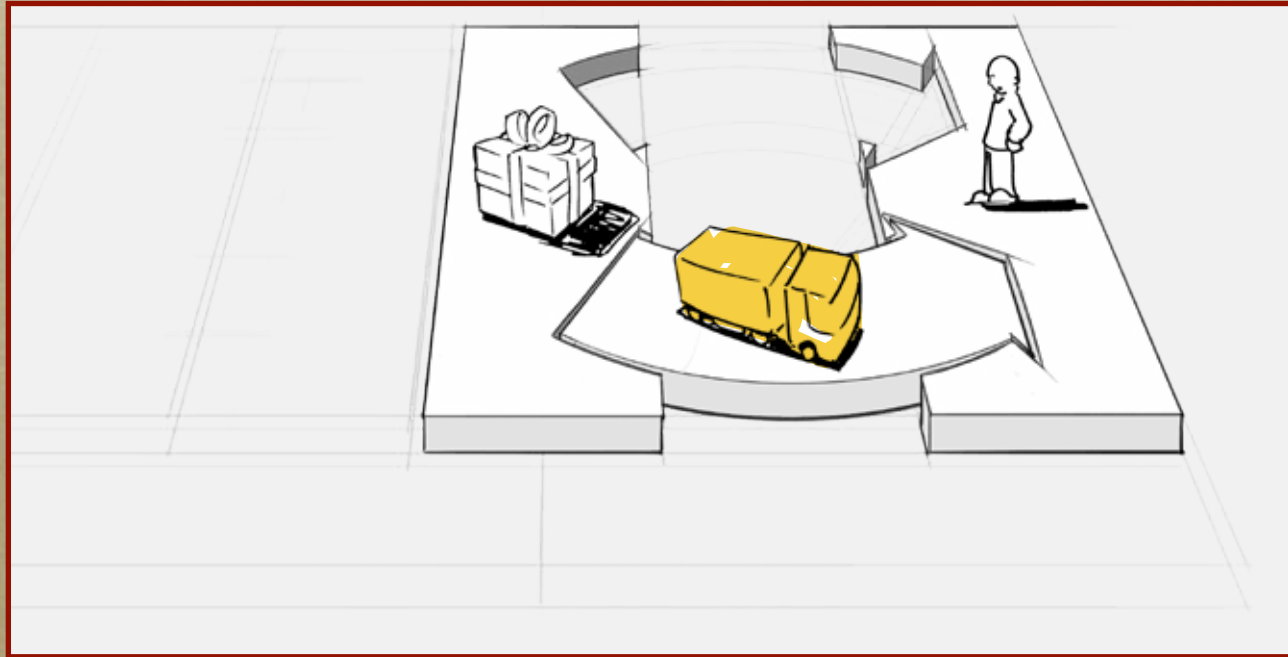


Entrepreneurship

Business Model and Business Model Canvas Part Three

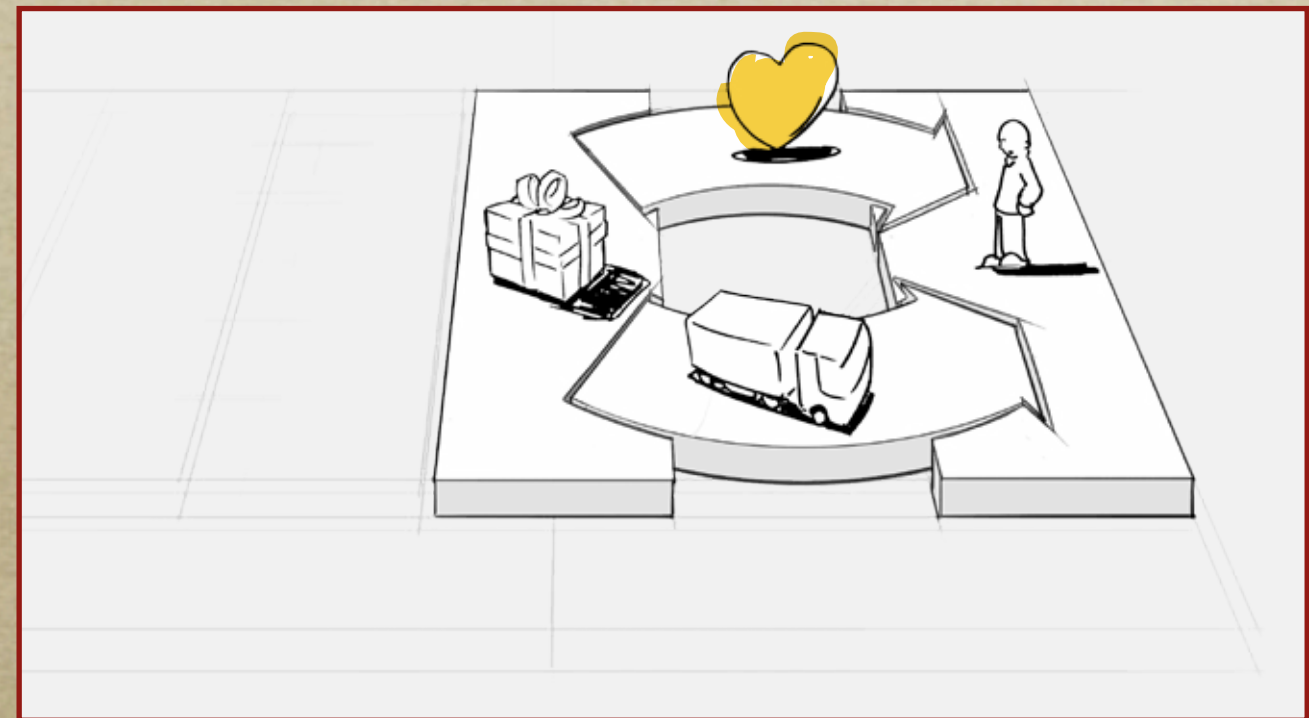


Review Channels & Customer Relationship Blocks



Channels Block

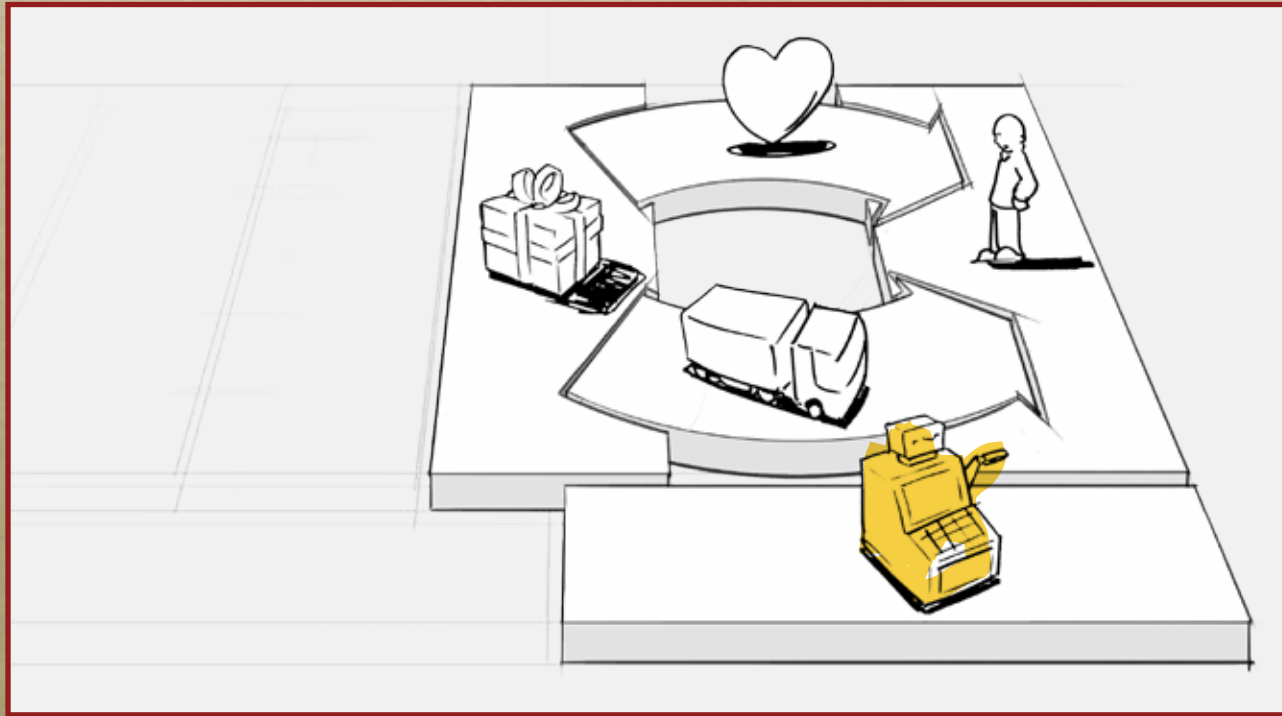
Describes how a company communicates with & reaches Customers to deliver a Value Proposition



Customer Relationship Block

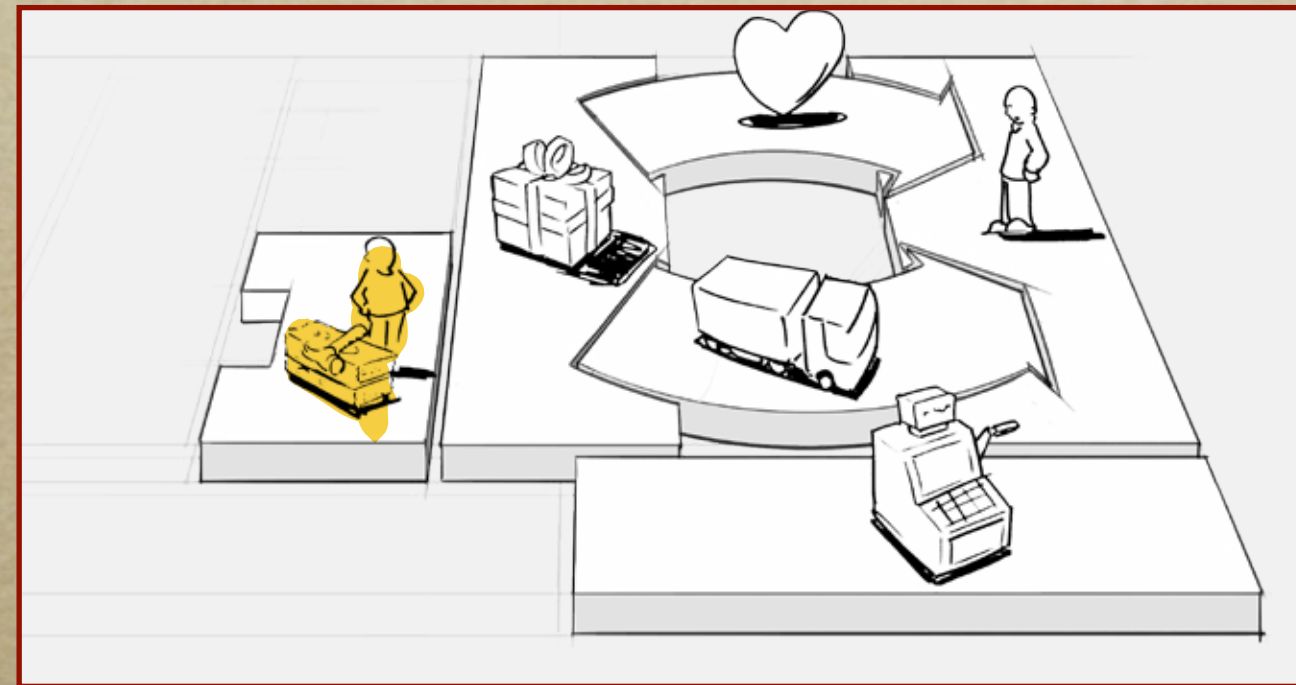
Describes types of relationship a company establishes with specific Customer Segments

Review Revenue Streams & Resources Blocks



Revenue Streams Block

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

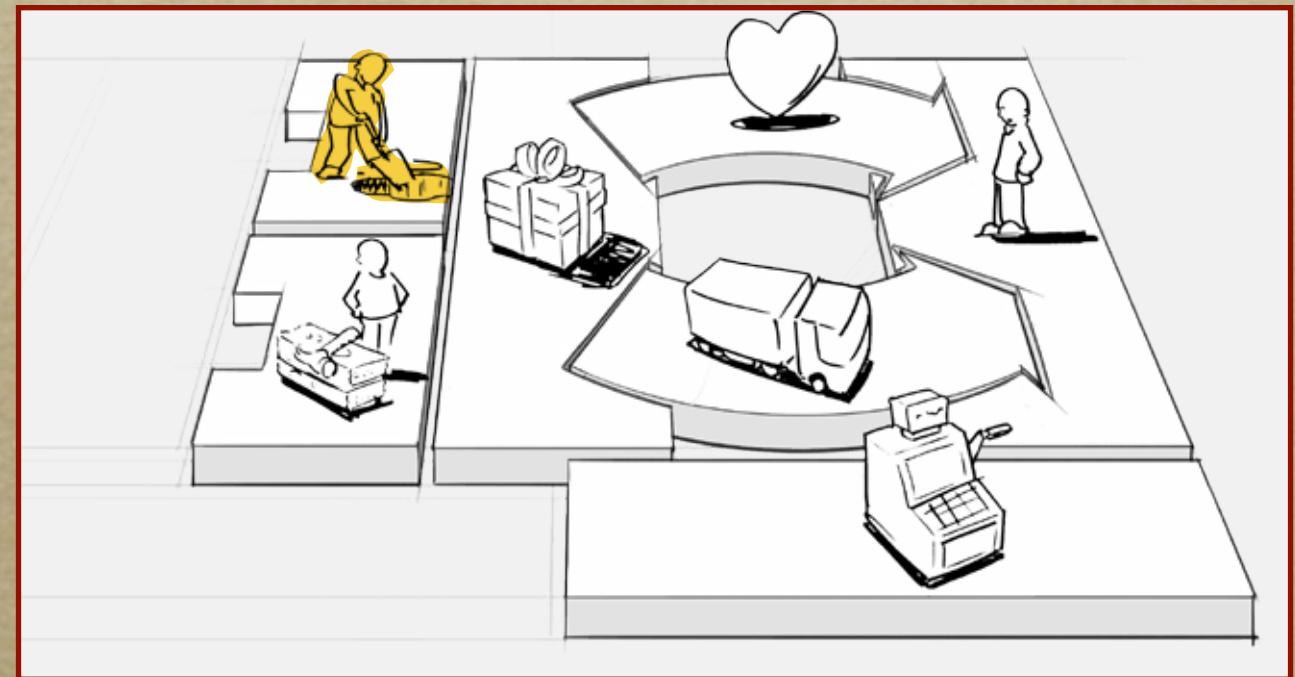


Key Resources Building Block
*Describes most important assets
required for business model*

Key Activities Building Block

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

Required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn Revenue



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

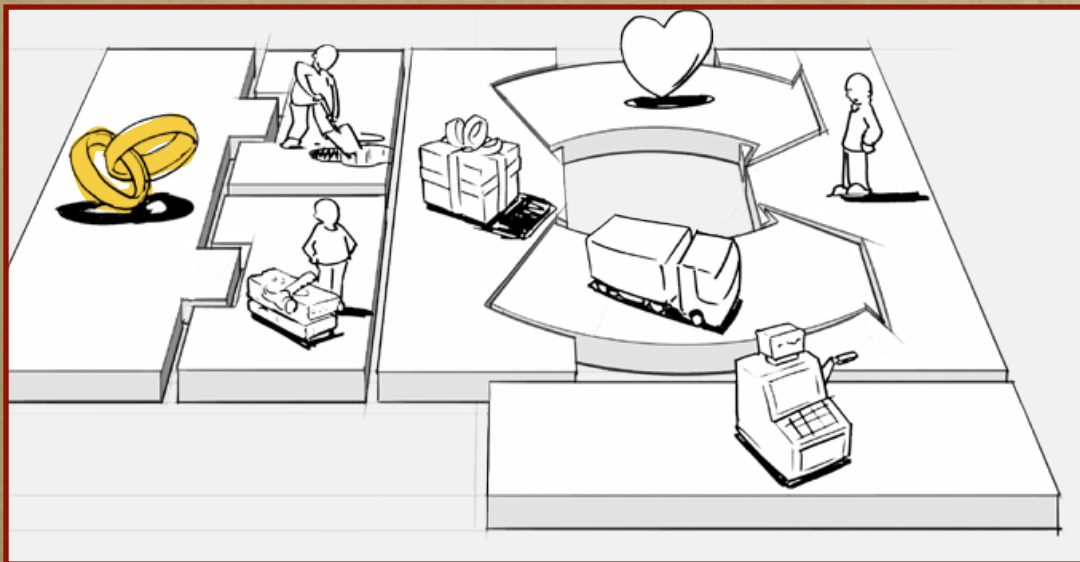
Additional detail in Appendix

Key Partnerships Building Block

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

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 form of partnership
- Often results in outsourcing

Reduction of Risk & Uncertainty

- Competitors form strategic alliance in one area while competing in another

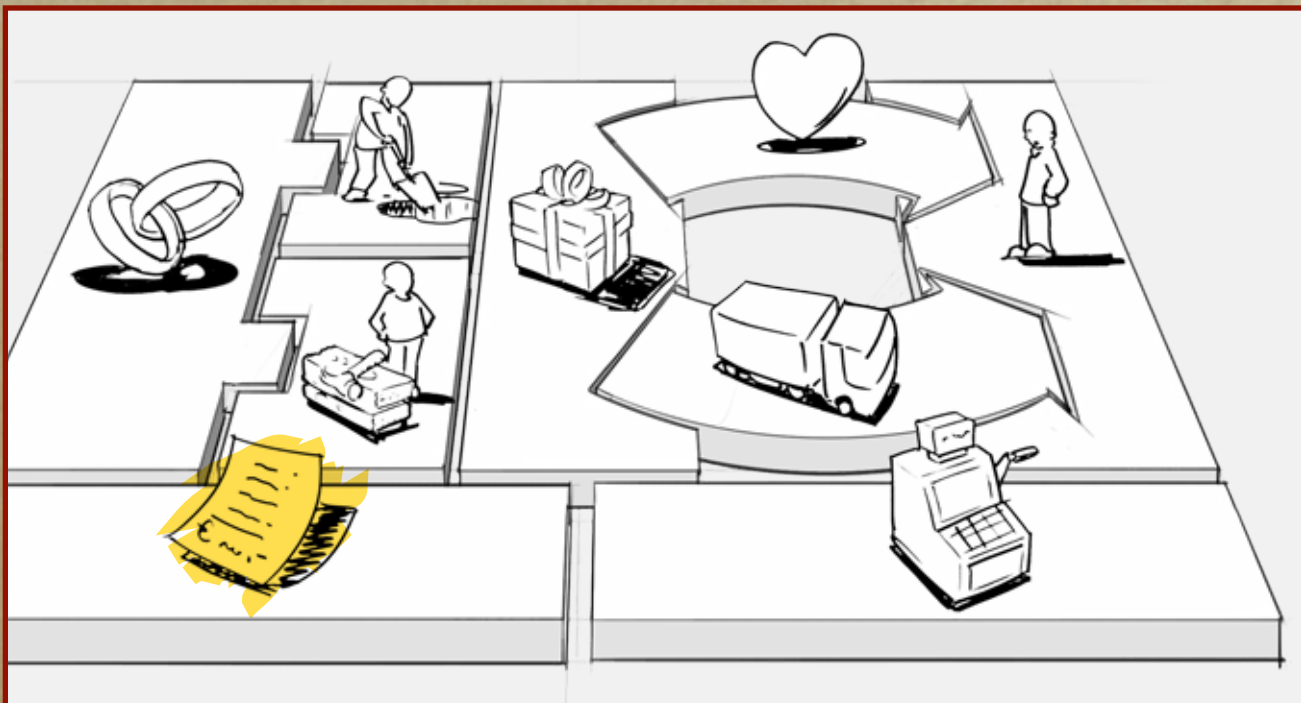


Acquisition of Particular Resources & Activities

- Extend capabilities by relying on others to furnish part of the required resources / activities

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

Fixed Cost

Same cost
regardless of
volume

Variable Cost

Cost vary in
proportion
with volume

Scale Economy

Cost / unit
drops as
volume
increases

Scope Economy

Same mktg &
dist. support
many products

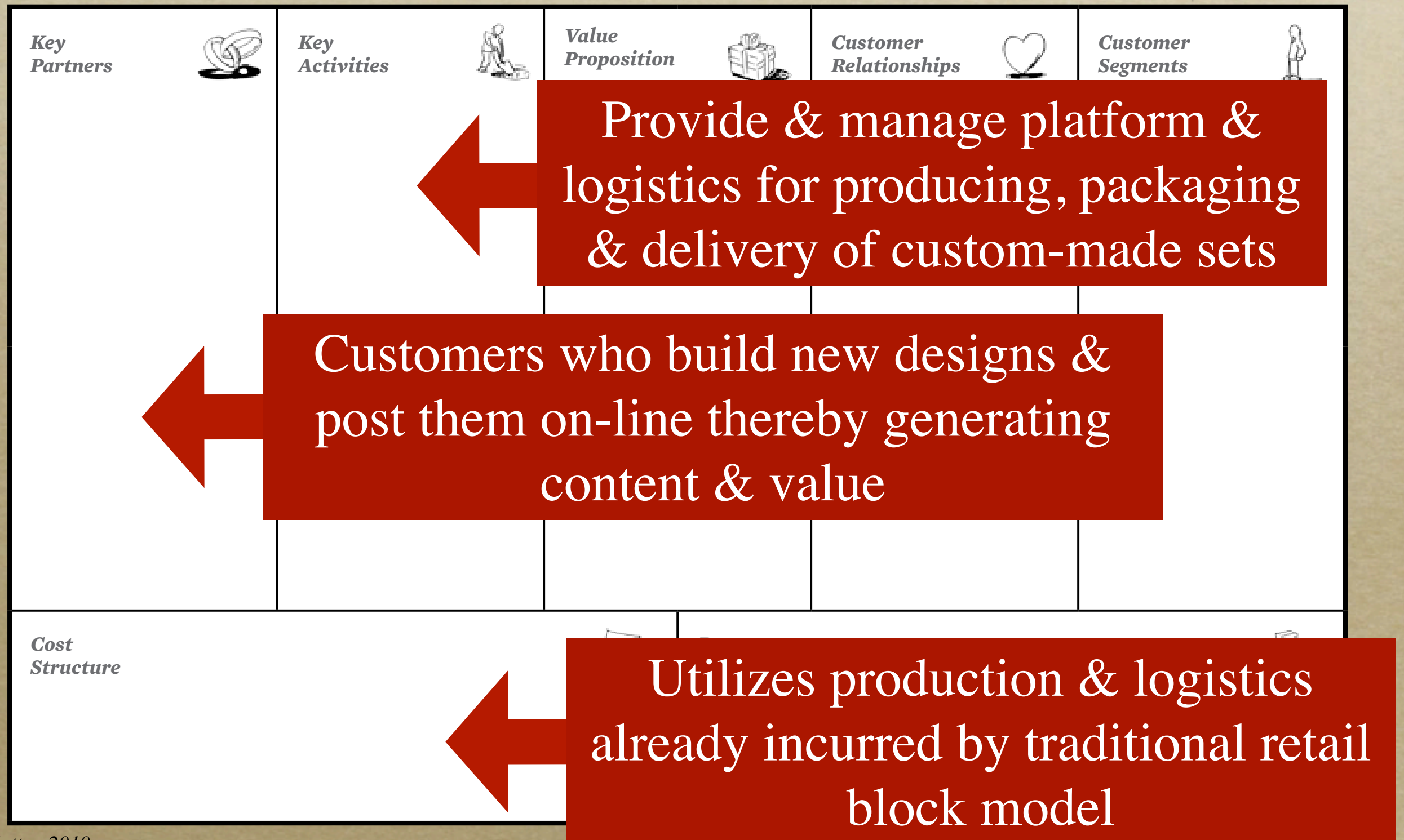
Value Driven:

Focused on value creation, not cost. Premium Value
Propositions and personalized service

Example: LEGO Factory



Ex: LEGO Factory **Key Activities, Partners, & Cost Structure**



Final LEGO Factory Business Model Canvas

Key Partners



Customers who build new designs & post them on-line thereby generating content & value.

Key Activities



Provide & manage platform & logistics for producing, packaging & delivery of custom made sets.

Key Resources



WEb presence, Agile Mfg., Supply Chain, User Groups

Value Proposition



LEGO Factory expands scope of off-the-shelf kit by giving fans tools to build, showcase and sell their own customers designed kits.

Customer Relationships



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

Channels



Web, Retail Stores, and User Groups

Customer Segments



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

Cost Structure

Utilizes production & logistics already in place by traditional retail block model



Revenue Streams

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



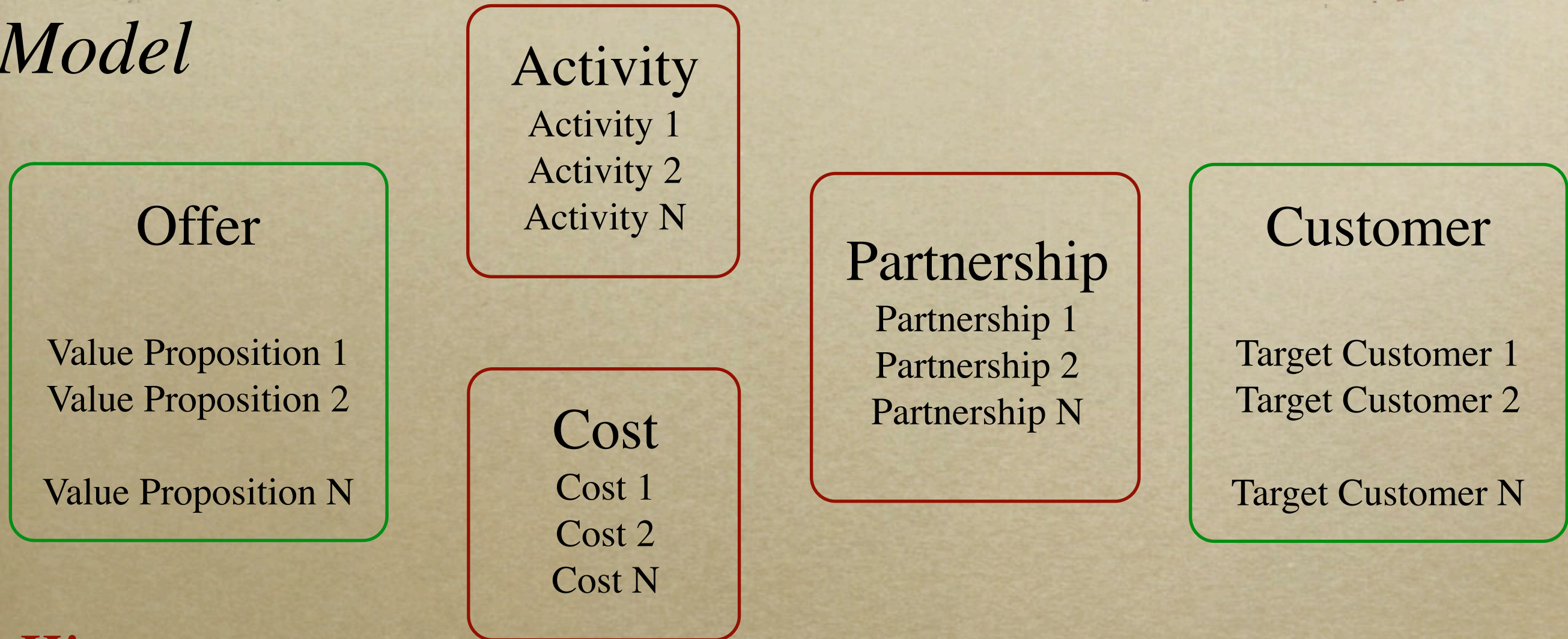
Homework Case Study

You become owner of a soccer club . . .



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

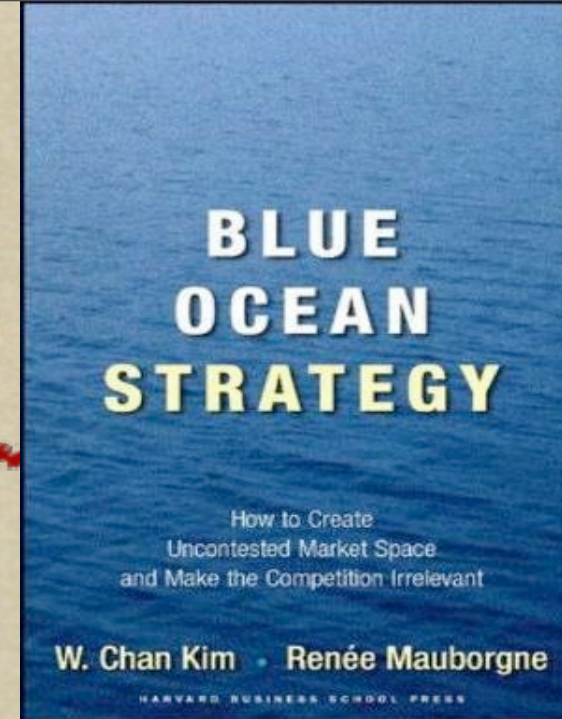
Model



Hint:

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

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

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

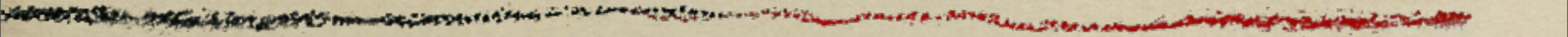
Select Concept

Business Model

Business Plan

Seek VC
Funding

Using 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

- All we need is 5% market share
- No problem in attracting top talent
- Competition will not notice us
- Customers will buy because of our cool technology
- Customers will not mind switching suppliers
- Product is so cool it will sell itself
- We can command premium pricing
- Our financial projections are conservative

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

Lansing

- Prima Civitas

Additional 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

Homework Assignment

Objective: Complete Business Model Canvas for your soccer club

Instructions:

- Follow LEGO Factory Model & examples in appendices
- Develop Models for each Block & Business Model Canvas

Deliverables:

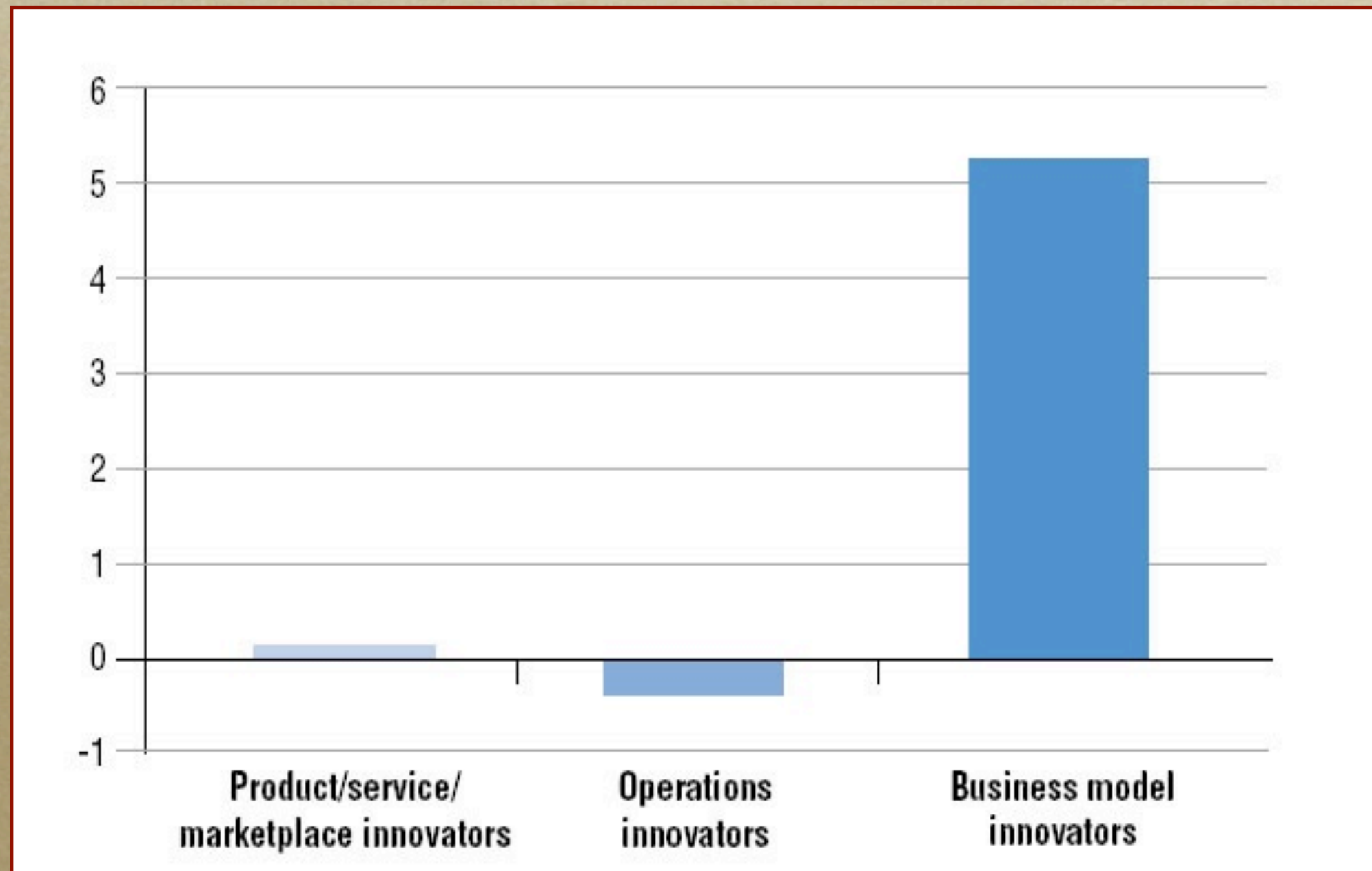
- Development Models & Business Model Canvas in **PDF**
- E-Mail to G. Motter at sail1070@yahoo.com and Dr. Shanblatt

Due Date: Next Wednesday



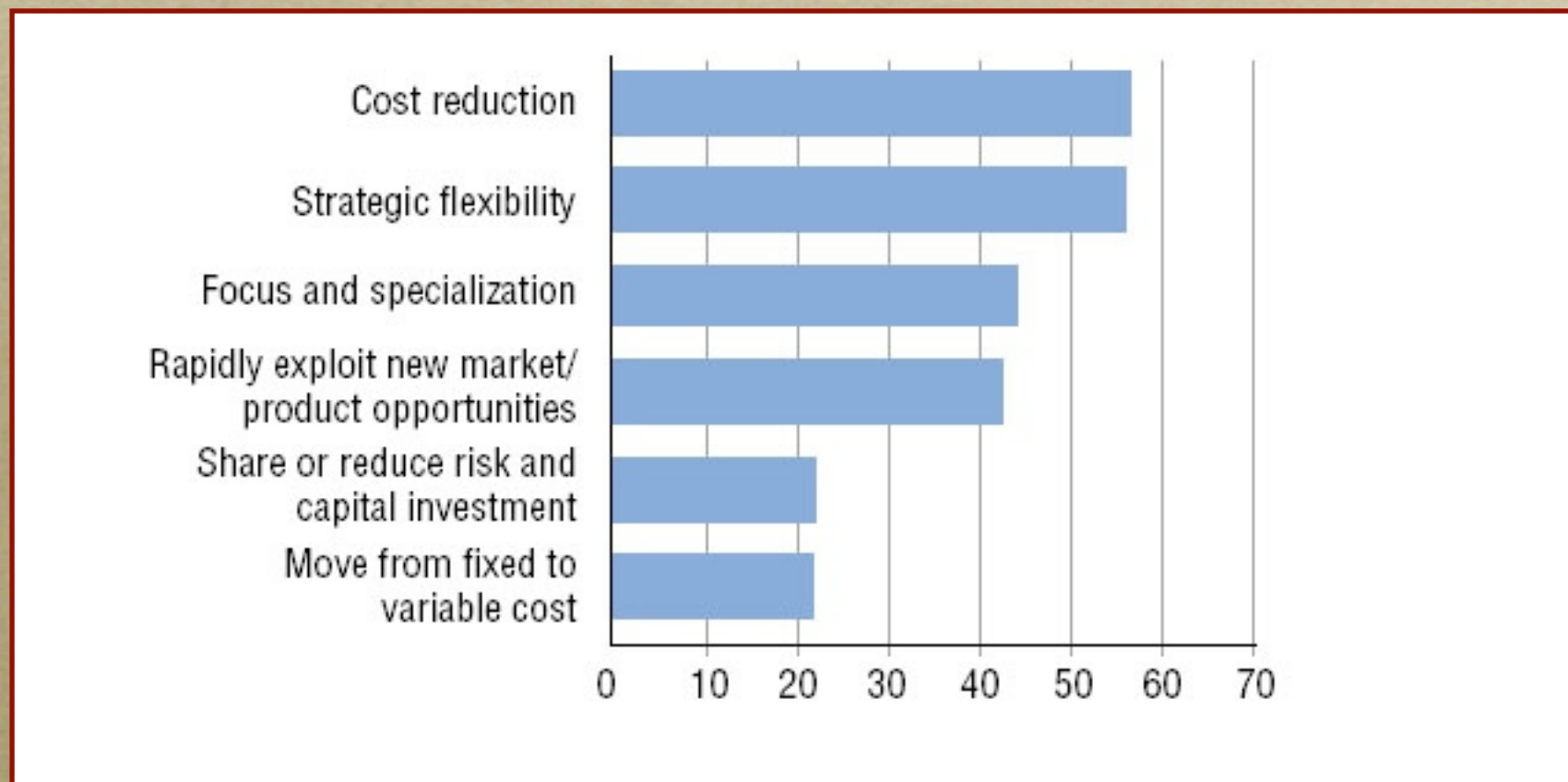
Appendices

Business Model Innovation Drives Profits



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

Bus. Model Innovation Benefits



Source: IBM, Global CEO Study 2006

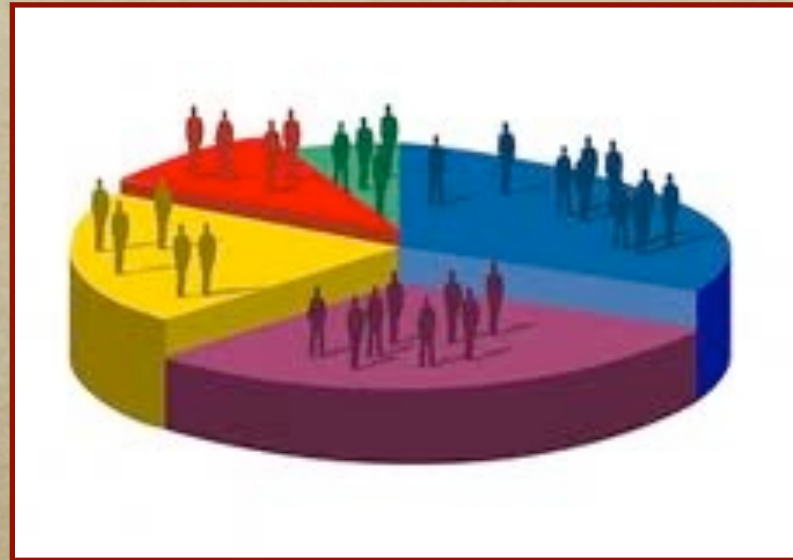
Reasons for a Business Model

- 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



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

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

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

Price

“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”

- 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

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

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 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

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

Self-Service

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

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

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

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

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

Licensing

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

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

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

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

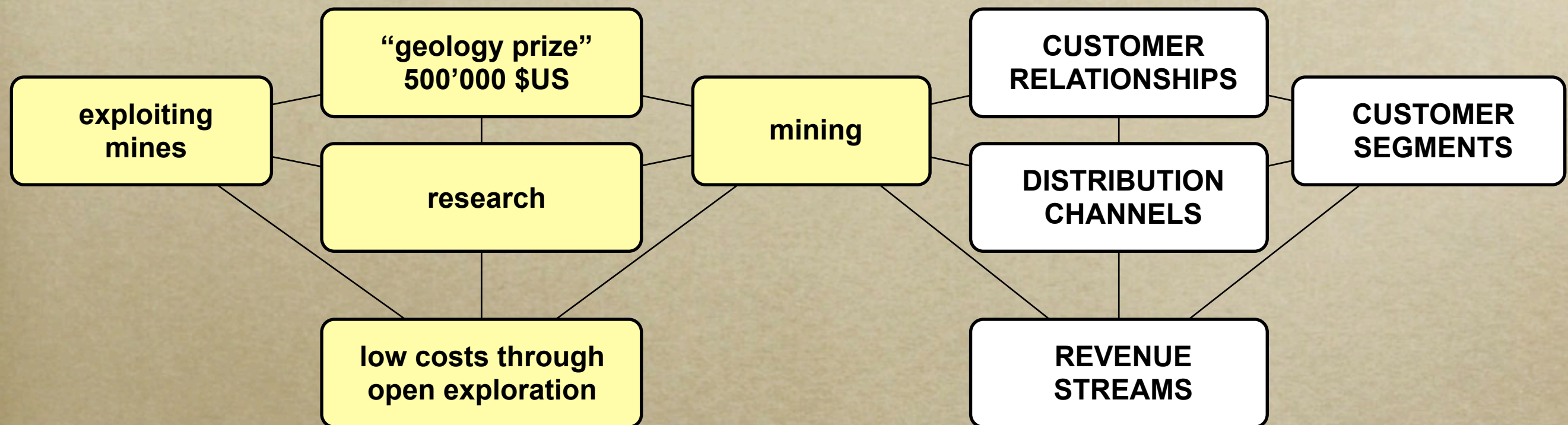
- Competitors often form a strategic alliance in one area while competing in another
- Ex: Blue-ray was developed by leading consumer electronics, computer and media mfgs.



Acquisition of Particular Resources & Activities

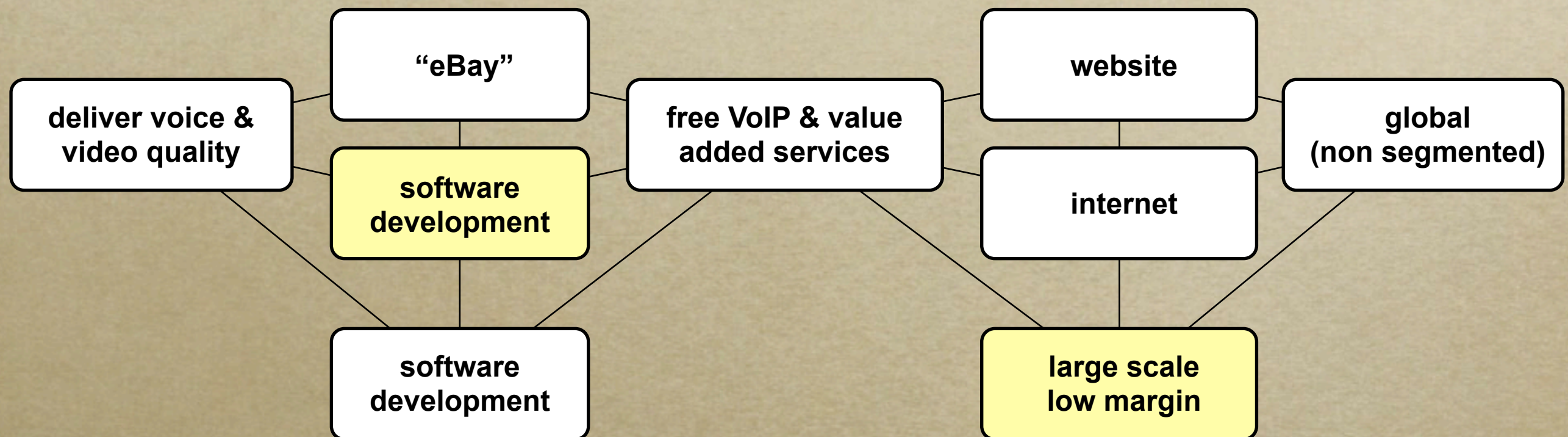
- Few companies own all the resources or perform all activities described in their Business Models
- Extend capabilities by relying on other firms to furnish part of the required resources / activities
- Ex: Mobile phone company licenses operating system vs. developing one

Goldcorp



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

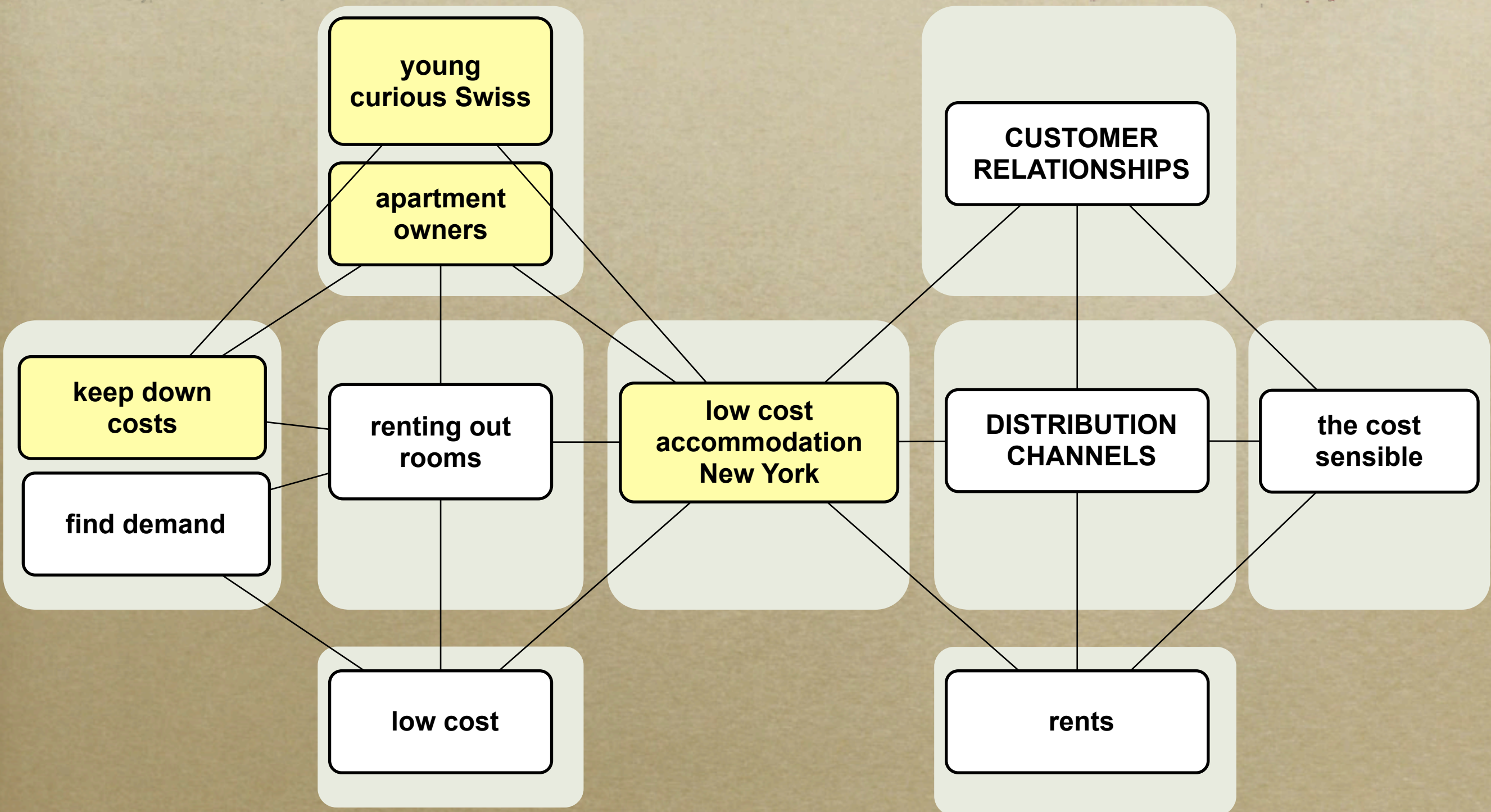
Skype

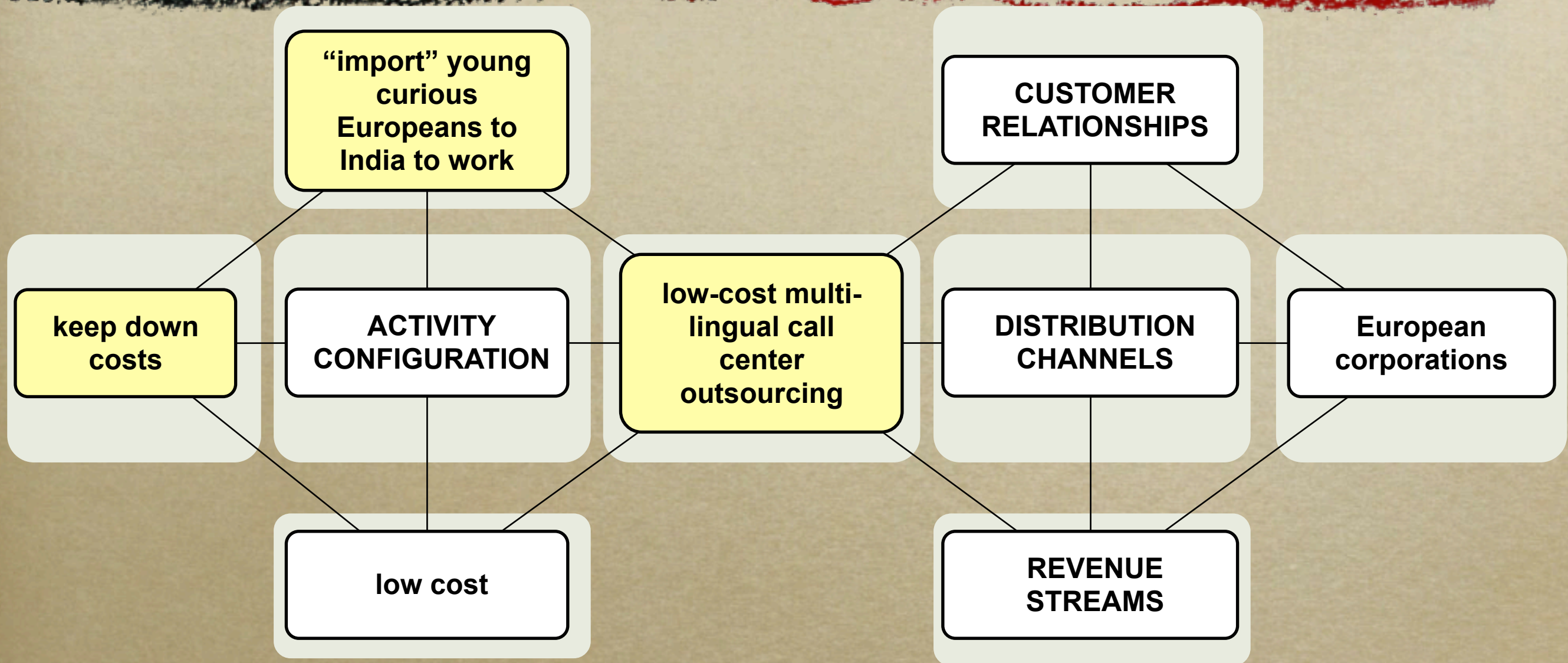


*free voice-over-IP VoIP
telephony & value-added
services*

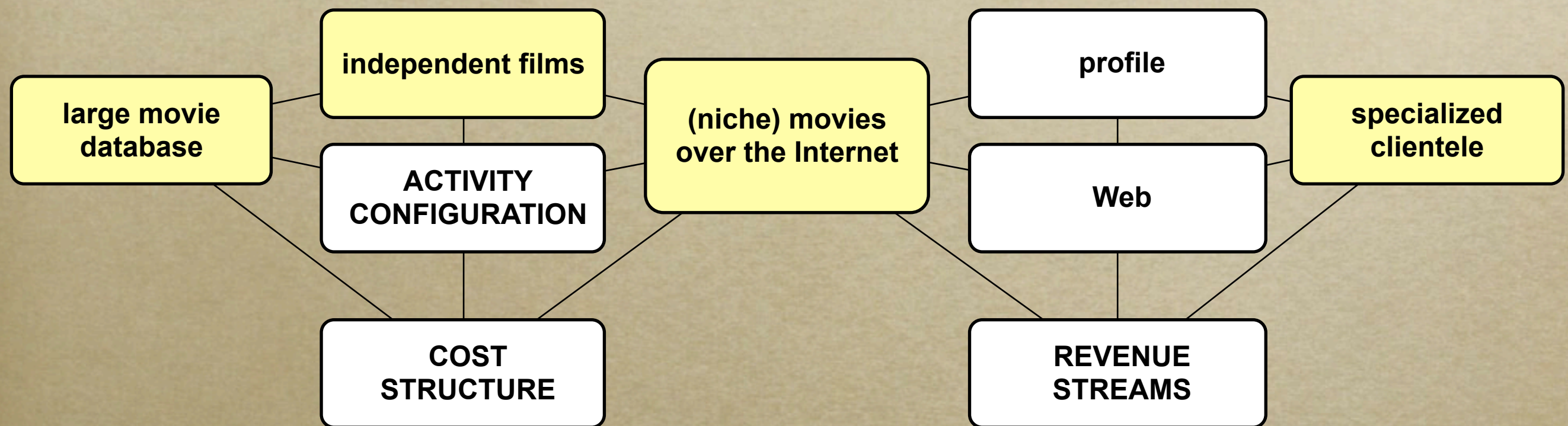
1291 Cityhomes

low-cost hotel/rental in New York City





business process outsourcing “up-side down” in India



online movie rental (with large niche movie database)

Business Model Canvas

