

# Business Modelling

Notekeeper: Federico Gozzer

Lesson: 21/10

Important topic, mostly for who want to follow the next semester course in startup, or who want to create a startup them self.

## 1 Business Modelling Definition

### 1.1 Any idea on what a Business Model could be?

- definition of who are target clients (Business 2 Business, Business 2 Customers)
- definition of the competitors (advantages and disadvantages of the company respect to the competitors)
- Mission (products)
- Several topics together!

### 1.2 Definition # 1

"A business model describes the rationale of how an organization creates, delivers and captures value – starting from an idea"

Main features: the 3 elements in business modeling analysis are: creating value, bring it to customer and capturing (mantain it in time).

If you create chairs, and you have the best product, but a certain point another company get wood/workers for cheaper and have a better design (as it may change with years), if you want to sell your product you have to defend it somehow. Capturing value means to find ways to keep selling your product.

### 1.3 Definition # 2

"A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers"  
(David J. Teece)

The focus is more on creation and delivering. Not fully considering the focus on captioning.

### 1.4 Definition # 3

”Business modeling is defining how a company makes money”

From the creator of 500 Startups. This is a short and concise definition summarizing what he said. There are other important features to take into account in the model, like the revenue model, which defines how the customer can pay (subscription, premium, ....). The revenue model is a part of the modeling, but is how the company makes money.

### 1.5 Definition # 4

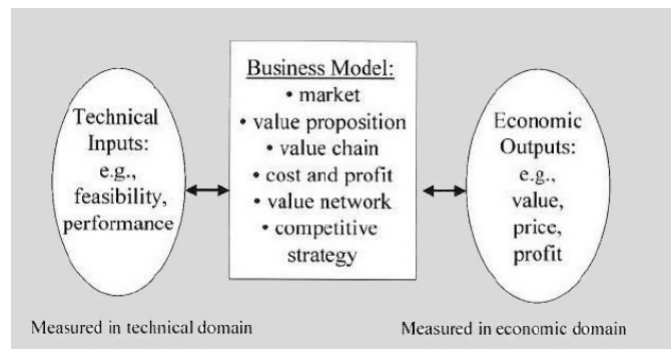


Figure 1: Business Model

Source: “Open Innovation” by Henry Chesbrough. It tries to sketch out what is a business model. You try to ensemble technical features in order to get an added value, using a business model.

Example: Value Network (Amazon). They do a lot of logistics! A logic consequence would be to build a partnership with a delivery company. So they cut the costs of delivery. Several aspects to consider in order to build a value network.

### 1.6 Why is it important for a startup to have a business model?

- To prove investors your idea is valuable

- To prove the accelerator (before build your company, you are a startup) your idea is valuable!

## 1.7 Different Business models in gaming (same market)

Look at the evolution of the interaction with the customer. And the link with tools available and technology.

- Arcade machines:
  - You have to go to a certain place (customer go to a certain place)
  - Customers have to put a coin to play.
- First Consoles:
  - Freedom to play at your place (wherever you want). It was no more necessary to mote to play.
- Playstation 3:
  - Play at home.
  - The best type of games are at disposal at your home. Super types of games.
  - The target customers are serious players.
- Wii:
  - The target costumer became more wide. Entertaining for everyone.
- Kinect:
  - Simplified interface. No more joysticks.
  - Wide rage of users.

## 1.8 Business model evolution

- Arcade machines: Pay to play.
- Consoles: Buy and use.
- Modern gaming: Free 2 play (Pay for bonuses/Pay 2 win).

## 1.9 What is necessary and sufficient condition for a business?

- Have profit
- Have customers
- Sustainability

- Creativity
- Unique product(disruptive)/better product(overcompete)
- Flexibility
- Organization/Have a plan
- Objective/mission

## 2 Necessities for a business

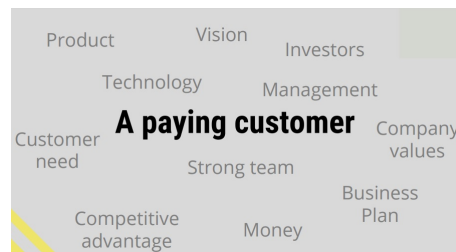


Figure 2: Business Modeling Needings

Most of all, if we want to open a business, the necessary condition is a paying customer!

### 2.1 Top reasons for startup fails

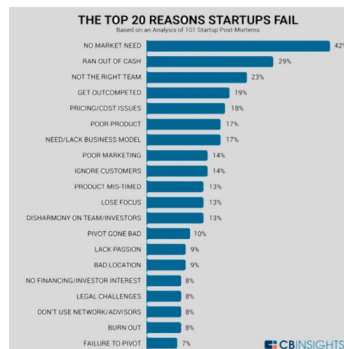


Figure 3: Failing reasons

The first reason for startup fails is that the company do something nobody wants.

As the graphics are made out of subjective datas, keep them as food for thoughts, not absolute truths.

### 3 Xerox Business Case

Study case of a company of the '50s. At that time, photocopies were not possible except for an instrument called mimeograph or dry thermal process. Poor quality, hard work, and this thermal stuff disappeared after 1 years.

The money were made of supplies. What yu pay is not the ink, but the stuff you need for the thermal operations. Usually a machine like this did 100 copy per month. Not very common. The invention of xerography which gave higher quality and long lasting type of output(many years), was a patent file from Chester Carlson in '37. The xerox company bought the patent and built the first copy machine in 1950.

There was a problem. The machine costs 6x more than classic mimeograph. But the cost per copy was about the same.

None of the big investors saw a good opportunity to invest in xerox photocopies.

What could have they done to sell their product? Split products? mah...

What they did:

- Identify a high volume of users (Big companies/ Libraries/ ...)
- Not sell the machine but Lease the machine! They were sure the copy machine would have worked for a couple of years. 2000 copies are given for free in leasing contract each months, others are payed as an extra. They knew they had a better product! An average user made 2000 copies per day! In one day they completed the base of free copies. Then, made a lot of money.

The people wanted the best product and the company knew that, so they found the best way to deliver their product.

Even though it was not a "blue ocean", i.e. a market without competitors, they became dominant!

#### 3.1 Examples of this business strategy:

- Netflix
- Topobox (pay per view services)
- Nespresso

#### 3.2 Summary

If you are able to find an unmet need (of privates or companies), and you are able to address it, you can build your business around it! This is what xerox did.

## 4 Types of business models

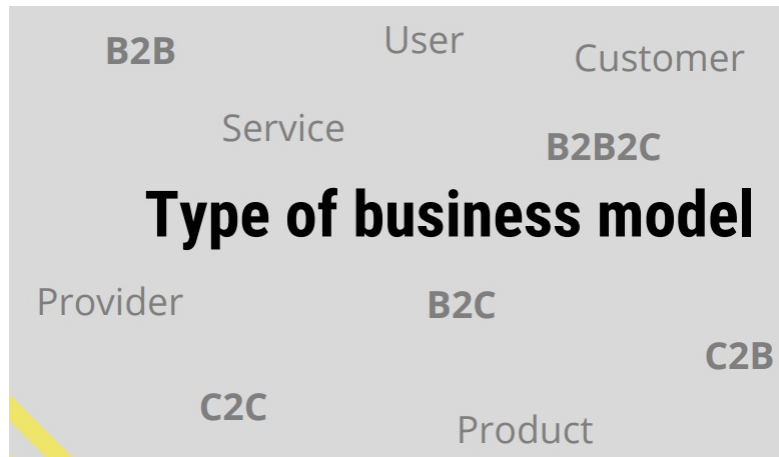


Figure 4: Type of models

Definitions based on acronyms of who is your customers. (B= business, C= costumer)

## 5 Interaction Models

### 5.1 "Library model"

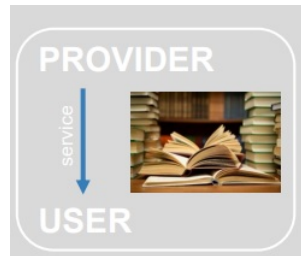


Figure 5: The "Library" model

There is a provider(library) that gives you a service as a user(you). Notice that a User is someone paying or not for a service, a Customer is someone who pays for a service.

## 5.2 "Ebay/Amazon model"

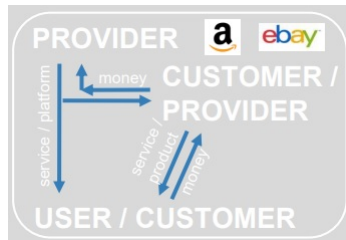


Figure 6: The "Ebay" model

Most of the products amazon sells are products from shops/manufacturers. It make costumers meets providers.

## 5.3 "Google/Facebook model"

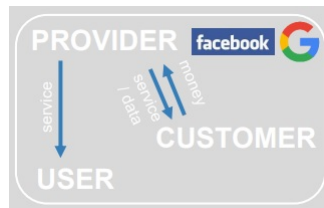


Figure 7: The "Google" model

The customers are not the users! We are the users, Google and Facebook sells our datas to companies that analyze them and make their ads more attractive, building profiles. Those companies are the costumers.

## 5.4 "Public trasport/FCA model"

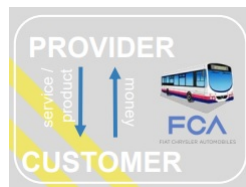


Figure 8: The "FCA" model

You pay for a product and you get it. A car or a ticket for a bus. Example of B2C. The customer is the final purchaser. The car is sold to a physical person.

### 5.5 "Saint-gobain/salesforce model"

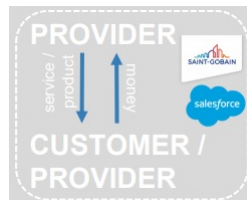


Figure 9: The "Saint-Gobain" model

Example of B2B. You sell your product to a company, a legal person. Saint gobain sell glasses for cars, sold to who produce and sell cars.

### 5.6 "Airbnb model"

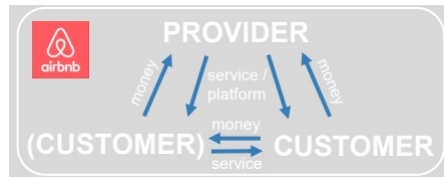


Figure 10: The "airbnb" model

The 2 customers are who want to rend and the one who want to take it. Is a provider for a C2C service, gaining from both for the linking, originally it was more a pure C2C service.

## 6 Business Modelling Tools

Today we'll see just one, but we'll talk about more during the course.

### 6.1 Business Model Canvas

Most used tool for/to startups!

[VIDEO SEEN IN CLASS FOR EXPLANATION OF THE MODEL]



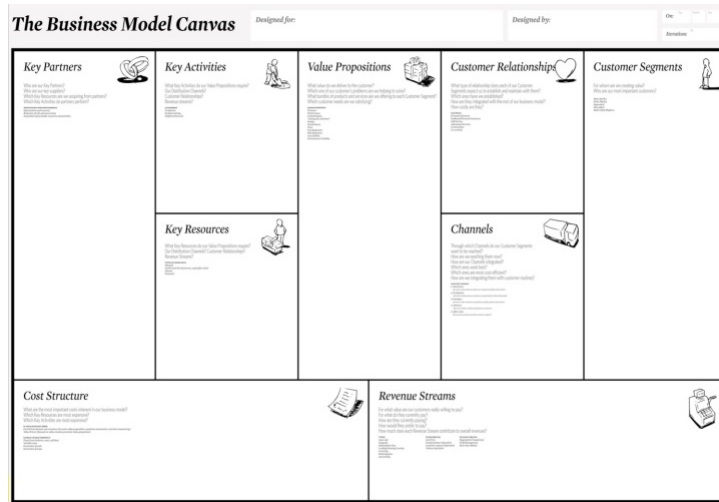


Figure 11: The Business Model Canvas

## 6.2 Value proposition canvas

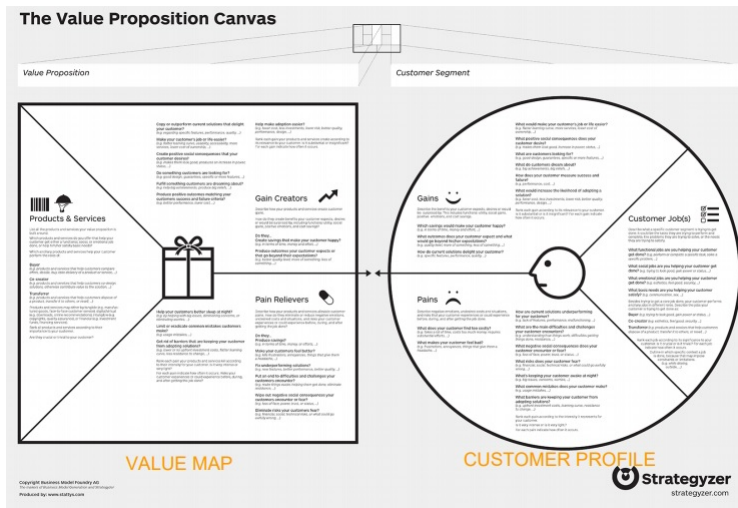


Figure 12: The Value proposition canvas

At the center of the Business Model Canvas. Identifies user "Persona", a specific type of customer which you would like to reach with your product. At the right there is the customer segment (relieve pain of customer to make

money), at the left the value map. Those are the 2 most important parts of the business model canvas, is where you make money.

### 6.3 Customer exploration map

Another way to map the analysis of a business model.

### 6.4 Melt frame Canvas

There are many, another way to map material/resources/effects/needs/ ....

### 6.5 Business modelling tool

Sections visual representation of previous concepts.

### 6.6 Lean Startup Method

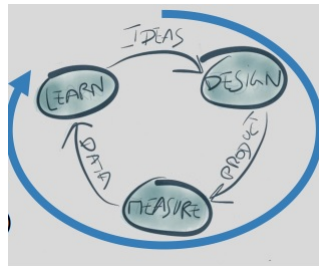


Figure 13: The Lean Method

Uses the lean validation method.

Test if the customers have really the problems you think they have. With lean validation method (usually done in 1 or 2 days), you interview potential customers to see if the problems you want to solve are really felt from customers, before developing your solutions.

### 6.7 Javelin board

Is the type of canvas that you use for the lean invalidation.

### 6.8 Waterfall approach vs. Lean startup / Agile methodology

Our focus is on entrepreneurship. Usually people try to follow the lean approach, without implementing the whole front end, but trying to make some modules with some working backend, as people start using it, they develop the rest.

The waterfall approach is the old ways of doing projects. For example to develop a new car, you design it, do prototypes, and after some years it comes out, but may be already out of the market. But still some products needs to proceed like this.

## 7 Business Models Examples

- iTunes - revolution of business modelling! they convinced the major of music companies to jump in their initiative! There were a few before but illegal.
- Gillette - Similar to nespresso, you pay more for recharges than the bra-chet.
- Rolls Royce - Making engines for jets, renting it for numbers of flying hours, not for a fixed price! Including maintenance and substituting.
- Dixan - Collecting ideas from customers! Which products they wanted to get.
- Indian Hospitals - When you perform a surgery, you also pay it for a poor person.

## 8 Who is the toughest competitor to beat?

The costumer's status quo!

All customers do things for a habit! Is very difficult to change it!