Business Modelling

Andrea Guarise

Business Model

"A business model describes the rationale of how an organization creates, delivers and captures **value**" – starting from an idea
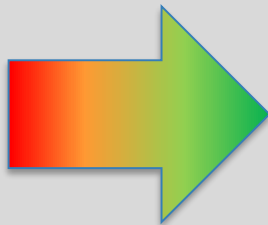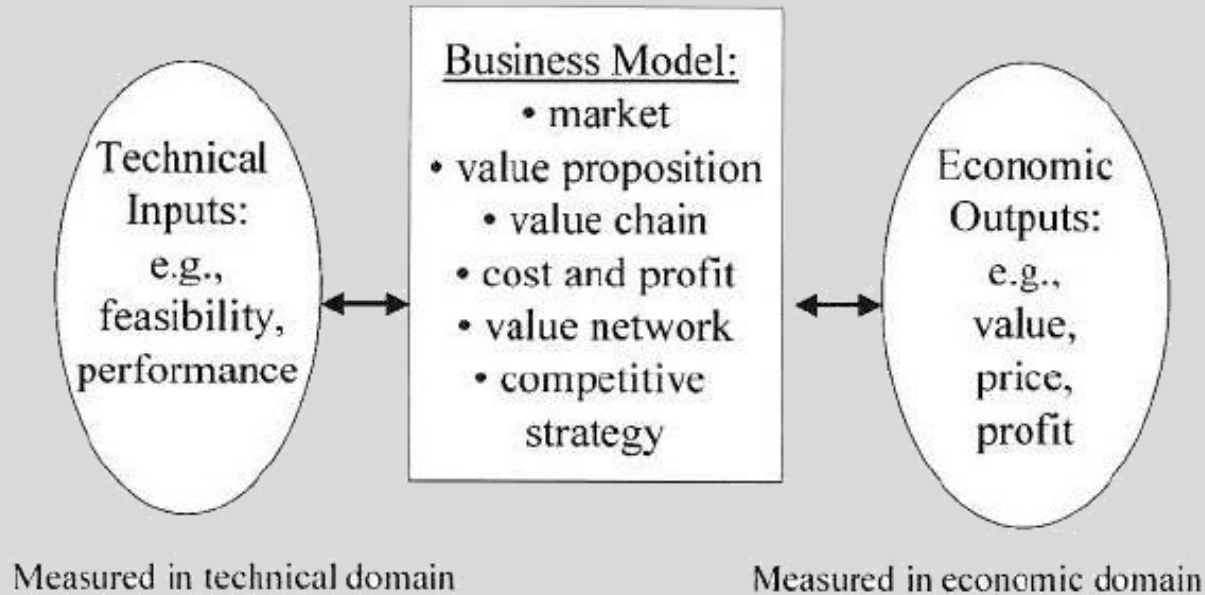
Business Model − other definition

"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)

Business Modelling

Measured in technical domain   Measured in economic domain

Different business models, same market

Business Model evolution

Pay per play

Rent and trade / Buy and use

Free use + pay for:
Access to levels
Credits
Lives
Weapons / Features

What is the **single** necessary and sufficient condition for a business?

Product

Vision

Investors

Technology

Management

Customer
need

Company
values

Strong team

Business
Plan

Competitive
advantage

Money

Product

Vision

Investors

Technology

Management

A paying customer

Customer
need

Company
values

Strong team

Business
Plan

Competitive
advantage

Money

TOP 10 STARTUP MISTAKES

#1 Building something nobody wants
Score: 300
36% of Tot.

#2 Hiring Poorly
Score: 153
18% of Tot.

#3 Lack of Focus
Score: 112
13% of Tot.

#4 Fail to execute Sales & Marketing
Score: 98
12% of Tot.

#5

#6

#7

#8

#9

#10

100 First Hits
www.100FirstHits.com

THE TOP 20 REASONS STARTUPS FAIL

Based on an Analysis of 101 Startup Post-Mortems

Reason	Percentage
NO MARKET NEED	42%
RAN OUT OF CASH	29%
NOT THE RIGHT TEAM	23%
GET OUTCOMPETED	19%
PRICING/COST ISSUES	18%
POOR PRODUCT	17%
NEED/LACK BUSINESS MODEL	17%
POOR MARKETING	14%
IGNORE CUSTOMERS	14%
PRODUCT MIS-TIMED	13%
LOSE FOCUS	13%
DISHARMONY ON TEAM/INVESTORS	13%
PIVOT GONE BAD	10%
LACK PASSION	9%
BAD LOCATION	9%
NO FINANCING/INVESTOR INTEREST	8%
LEGAL CHALLENGES	8%
DON'T USE NETWORK/ADVISORS	8%
BURN OUT	8%
FAILURE TO PIVOT	7%

CB INSIGHTS

Xerox business case

# Xerox company

- 1950s – copies made by mimeograph or dry thermal processes – very poor quality, hard to archive

- Equipment was inexpensive, money was made on supplies

- 90% of machines made < 100 copies per month

The invention and Xerox solution

- Invention of xerography – much higher quality, longer lasting (Chester Carlson files patent in 1937)
- Haloid Corp buys patent and sells first Xerox machine in 1950
- Problem: Xerox machines **six times** more expensive than competitive technology, cost per copy about the same
- Kodak, GE, IBM and Arthur D. Little Consultants all concluded there was no market for Xerox machines
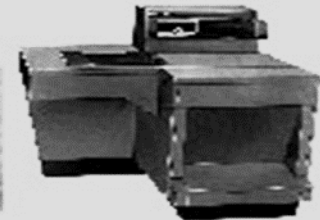
New Business Model identified

- Identify high volume users
- Lease machines instead of selling them, including 2000 copies in the monthly fee; customers pay extra for all further copies
- Improved quality and convenience led to average user making 2000 copies *per day*!
- More copies made = more money Xerox makes

Dominant logic of Xerox

- Giving the chance to customers to make more copies is the trick

- New product innovations must lead to higher volume
  - Duplexing
  - Collating
  - Stapling
  - Copies per minute

Find an **unmet need** and build your business around it

Business Model innovation

Other examples?

Why Business Modelling is important?

B2B

User

Customer

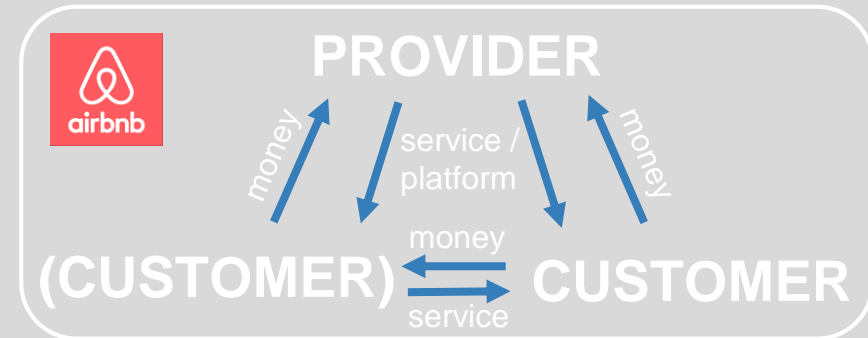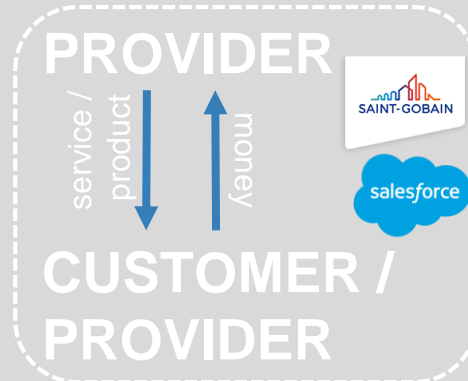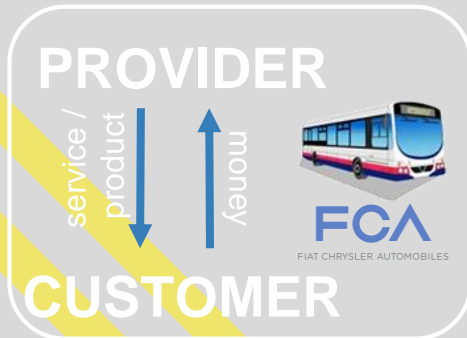Service

B2B2C

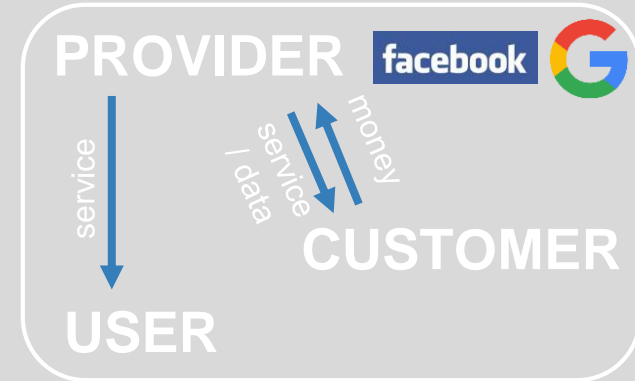# **Type of business model**

B2G

Provider

B2C

C2B

C2C

Product

Interaction models

© Copyright Andrea Guarise and UNITN I&E Basics team, unauthorized copy not allowed
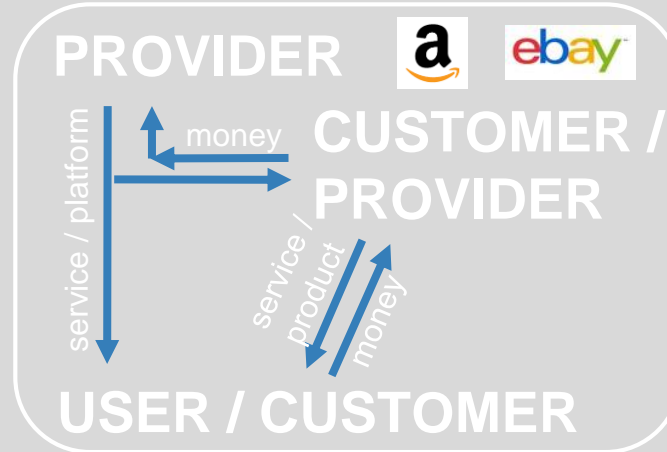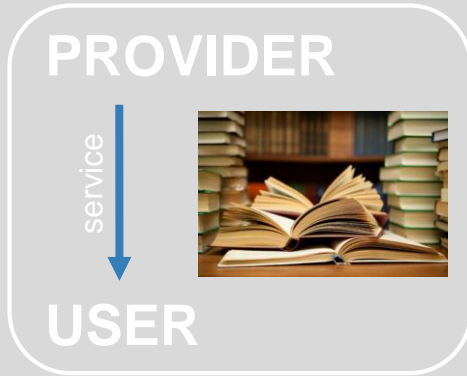
BM tools

Business Model Canvas
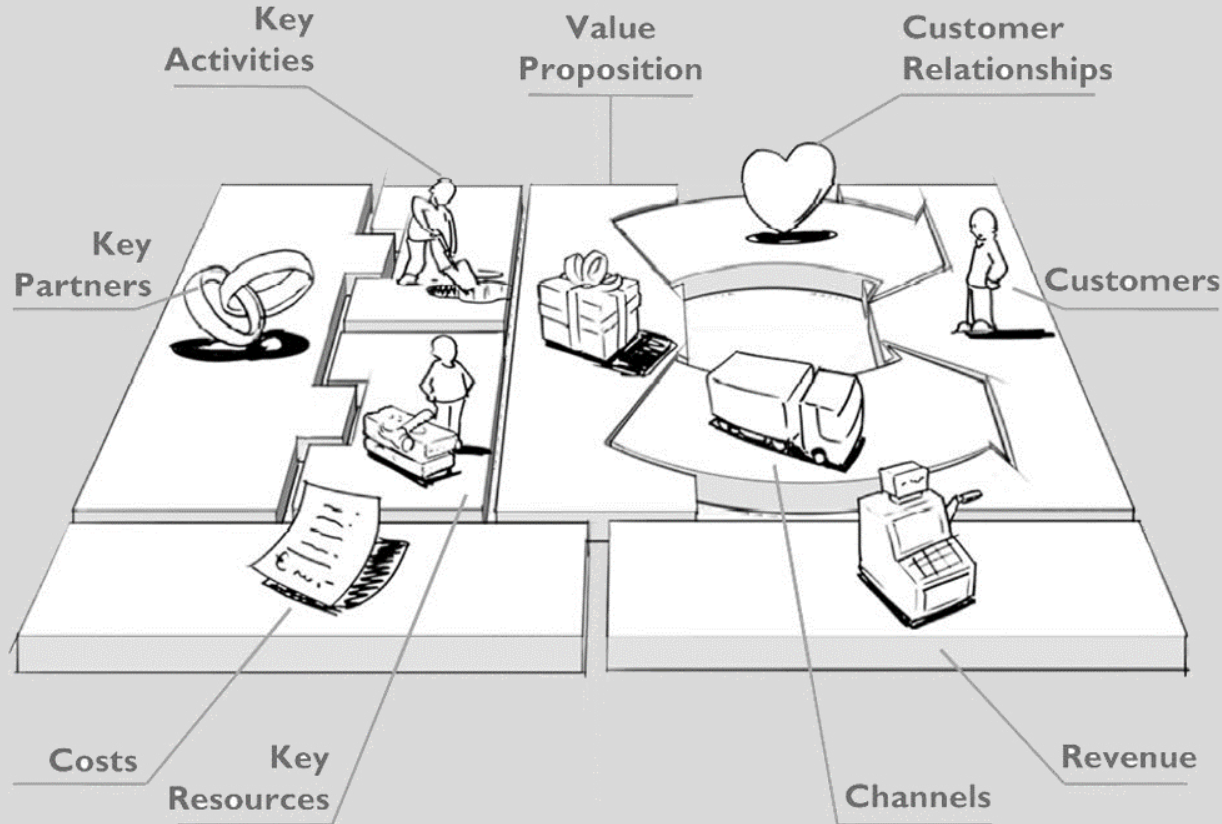
drawings by JAM

The Business Model Canvas

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?

MOTIVATIONS FOR PARTNERSHIPS:
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

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

CATEGORIES
Production
Problem Solving
Platform/Network

Key Resources

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

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

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?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

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?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

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?

CHANNEL PHASES:
1. Awareness
How do we raise awareness about our company's products and services?
2. Evaluation
How do we help customers evaluate our organization's Value Proposition?
3. Purchase
How do we allow customers to purchase specific products and services?
4. Delivery
How do we deliver a Value Proposition to customers?
5. After sales
How do we provide post-purchase customer support?

Customer Segments

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

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

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?

IS YOUR BUSINESS MORE:
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS:
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

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?

TYPES
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation(bargaining)
Yield Management
Real-time-Market

The Value Proposition Canvas

Value Proposition

Customer Segment

Value Map

Copy or outperform current solutions that delight your customer?
(e.g. regarding specific features, performance, quality, ...)

Make your customer's job or life easier?
(e.g. flatter learning curve, usability, accessibility, more services, lower cost of ownership, ...)

Create positive social consequences that your customer desires?
(e.g. makes them look good, produces an increase in power, status, ...)

Do something customers are looking for?
(e.g. good design, guarantees, specific or more features, ...)

Fulfill something customers are dreaming about?
(e.g. help big achievements, produce big reliefs, ...)

Produce positive outcomes matching your customers success and failure criteria?
(e.g. better performance, lower cost, ...)

Help make adoption easier?
(e.g. lower cost, less investments, lower risk, better quality, performance, design, ...)

Rank each gain your products and services create according to its relevance to your customer. Is it substantial or insignificant? For each gain indicate how often it occurs.

Gain Creators

Describe how your products and services create customer gains.

How do they create benefits your customer expects, desires or would be surprised by, including functional utility, social gains, positive emotions, and cost savings?

Do they...
Create savings that make your customer happy?
(e.g. in terms of time, money and effort, ...)

Produce outcomes your customer expects or that go beyond their expectations?
(e.g. quality level, more of something, less of something, ...)

Products & Services

List all the products and services your value proposition is built around.

Which products and services do you offer that help your customer get either a functional, social, or emotional job done, or help him/her satisfy basic needs?

Which ancillary products and services help your customer perform the roles of:

Buyer
(e.g. products and services that help customers compare offers, decide, buy, take delivery of a product or service, ...)

Co-creator
(e.g. products and services that help customers co-design solutions, otherwise contribute value to the solution, ...)

Transferer
(e.g. products and services that help customers dispose of a product, transfer it to others, or resell, ...)

Products and services may either by tangible (e.g. manufactured goods, face-to-face customer service, digital/virtual (e.g. downloads, online recommendations), intangible (e.g. copyrights, quality assurance), or financial (e.g. investment funds, financing services).

Rank all products and services according to their importance to your customer.

Are they crucial or trivial to your customer?

Help your customers better sleep at night?
(e.g. by helping with big issues, diminishing concerns, or eliminating worries, ...)

Limit or eradicate common mistakes customers make?
(e.g. usage mistakes, ...)

Get rid of barriers that are keeping your customer from adopting solutions?
(e.g. lower or no upfront investment costs, flatter learning curve, less resistance to change, ...)

Rank each pain your products and services kill according to their intensity for your customer. Is it very intense or very light?

For each pain indicate how often it occurs. Risks your customer experiences or could experience before, during, and after getting this job done?

Pain Relievers

Describe how your products and services alleviate customer pains. How do they eliminate or reduce negative emotions, undesired costs and situations, and risks your customer experiences or could experience before, during, and after getting the job done?

Do they...
Produce savings?
(e.g. in terms of time, money, or efforts, ...)

Make your customers feel better?
(e.g. kills frustrations, annoyances, things that give them a headache, ...)

Fix underperforming solutions?
(e.g. new features, better performance, better quality, ...)

Put an end to difficulties and challenges your customers encounter?
(e.g. make things easier, helping them get done, eliminate resistance, ...)

Wipe out negative social consequences your customers encounter or fear?
(e.g. loss of face, power, trust, or status, ...)

Eliminate risks your customers fear?
(e.g. financial, social, technical risks, or what could go awfully wrong, ...)

Customer Profile

What would make your customer's job or life easier?
(e.g. flatter learning curve, more services, lower cost of ownership, ...)

What positive social consequences does your customer desire?
(e.g. makes them look good, increase in power, status, ...)

What are customers looking for?
(e.g. good design, guarantees, specific or more features, ...)

What do customers dream about?
(e.g. big achievements, big reliefs, ...)

How does your customer measure success and failure?
(e.g. performance, cost, ...)

What would increase the likelihood of adopting a solution?
(e.g. lower cost, less investments, lower risk, better quality, performance, design, ...)

Rank each gain according to its relevance to your customer. Is it substantial or is it insignificant? For each gain indicate how often it occurs.

Gains

Describe the benefits your customer expects, desires or would be surprised by. This includes functional utility, social gains, positive emotions, and cost savings.

Which savings would make your customer happy?
(e.g. in terms of time, money and effort, ...)

What outcomes does your customer expect and what would go beyond his/her expectations?
(e.g. quality level, more of something, less of something, ...)

How do current solutions delight your customer?
(e.g. specific features, performance, quality, ...)

Customer Job(s)

Describe what a specific customer segment is trying to get done. It could be the tasks they are trying to perform and complete, the problems they are trying to solve, or the needs they are trying to satisfy.

What functional jobs are you helping your customer get done? (e.g. perform or complete a specific task, solve a specific problem, ...)

What social jobs are you helping your customer get done? (e.g. trying to look good, gain power or status, ...)

What emotional jobs are you helping your customer get done? (e.g. esthetics, feel good, security, ...)

What basic needs are you helping your customer satisfy? (e.g. communication, sex, ...)

Besides trying to get a core job done, your customer performs ancillary jobs in different roles. Describe the jobs your customer is trying to get done as:

Buyer (e.g. trying to look good, gain power or status, ...)

Co-creator (e.g. esthetics, feel good, security, ...)

Transferer (e.g. products and services that help customers dispose of a product, transfer it to others, or resell, ...)

Rank each job according to its significance to your customer. Is it crucial or is it trivial? For each job indicate how often it occurs.

Outline in which specific context a job is done, because that may impose constraints or limitations. (e.g. while driving, outside, ...)

Pains

Describe negative emotions, undesired costs and situations, and risks that your customer experiences or could experience before, during, and after getting the job done.

How are current solutions underperforming for your customer?
(e.g. lack of features, performance, malfunctioning, ...)

What does your customer find too costly?
(e.g. takes a lot of time, costs too much money, requires substantial efforts, ...)

What makes your customer feel bad?
(e.g. frustrations, annoyances, things that give them a headache, ...)

What negative social consequences does your customer encounter or fear?
(e.g. loss of face, power, trust, or status, ...)

What risks does your customer fear?
(e.g. financial, social, technical risks, or what could go awfully wrong, ...)

What's keeping your customer awake at night?
(e.g. big issues, concerns, worries, ...)

What common mistakes does your customer make?
(e.g. usage mistakes, ...)

What barriers are keeping your customer from adopting solutions?
(e.g. upfront investment costs, learning curve, resistance to change, ...)

Rank each pain according to the intensity it represents for your customer.

Is it very intense or is it very light?

For each pain indicate how often it occurs.

VALUE MAP

CUSTOMER PROFILE

Strategyzer
strategyzer.com

Customer Exploration Map

Who is our customer / user / stakeholder ?

Be specific: for a person - age, origin, job, interests
for a company - size, industry, purpose

What are his likes and dislikes ?

Related to the general character of the person / stakeholder

Jobs to be done & challenges

Functional / social / emotional / supporting needs in a specific situation
e.g. I need fast transport / good reputation / security / help to...
Quotes, that could be typical for this person

What we don't know

Assumptions, black spots
Why / when is something a challenge / a good experience....?

Existing solutions

Any kind of solution that could help to fulfill the needs

THIS WOULD BE GAME CHANGING!

Empathize with your customer / user / stakeholder
What would be the perfect solution, situation or experience?

Melt Frame Canvas

Business Modelling Tool

Potential partners

External financing

Competence needed

Your TEAM

Media market available

Cash flow

Investment
Price
Cost

Awareness
Communication channel

Competitors' timing

Road map

Who, What, When

Customer

Supply chain

Competing products

Visualize idea

SWOT

Pitch

Production

Distribution

Sell

Sales channels

USP

Problem

Market size and trend

Killing issues

Solution
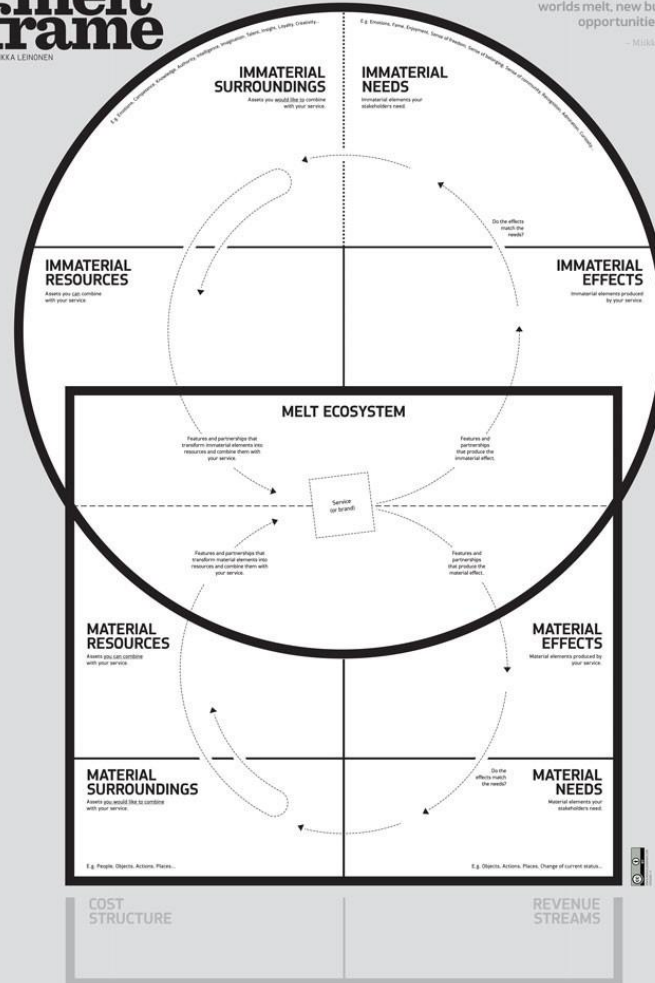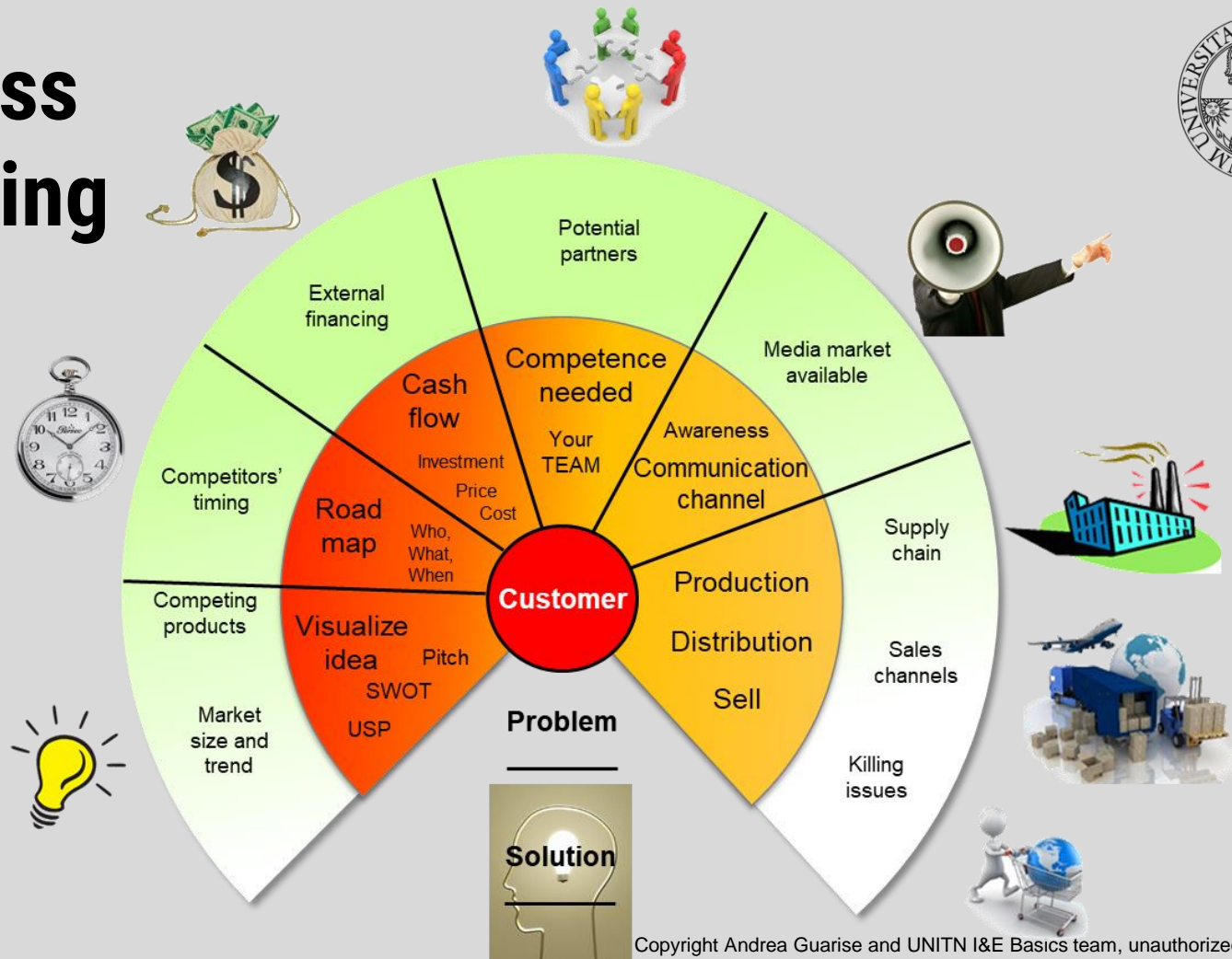
Lean startup method

- State your assumptions (data-driven, insight-driven, or your-vision-driven)

- Design/Build (prototypes or MVPs as tools for collecting data)

- Test (give the prototype to the customer, try to simulate)

- Measure (measure what happens using metrics)

- Learn (deduct: analyse data; compare with hypotheses; derive insights; state what you will change and how)

- REPEAT!
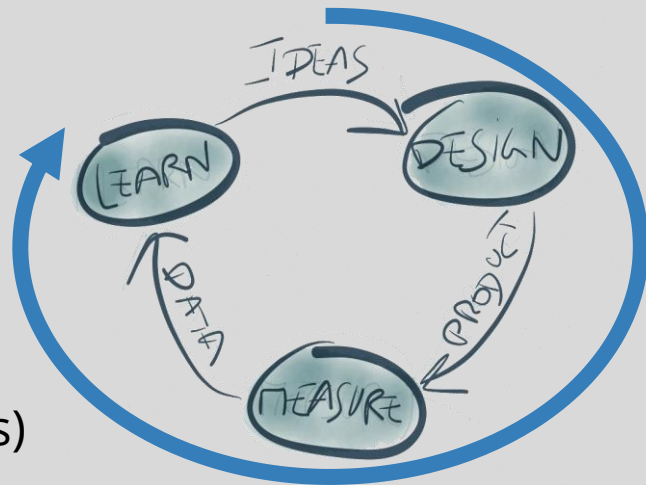
Javelin board – Customer centric innovation

Validation method better than a BM tool

Waterfall approach
vs.
Lean startup / Agile methodology

Aerospace

Fashion

Leisure

More BM examples

Retail

Healthcare

Consumer market

IT

Business Model innovation

WHAT'S THE TOUGHEST COMPETITOR OF ALL?

WHAT'S THE TOUGHEST COMPETITOR OF ALL?

THE CUSTOMER'S STATUS QUO

What next?

Today, 17:30 @ Povo 2, whoever wants: "skill sharing"

Wed, 23 Oct 2019 → graduation day, <u>no lesson</u>

Next class → Monday 28th of October, 14:30 @ A205
- **First Battle: Apple vs. Samsung!**

IBICT group 3 Battle preparation → Monday 28th of October, 13:30 @ A205 (participants shall receive mail)

References

- Definitions elaborated from Wikipedia pages and other sources
- Henry Chesbrough, "Open Innovation: The New Imperative for Creating and Profiting from Technology", 2003
- Alex Osterwalder, Yves Pigneur, "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers", 2010
- Eric Ries, "The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Business", 2011
- Steve Blank, "The Four Steps to the Epiphany", 2013
- Revised course material "Economics and Management" UNITN from V. Filippas
- BMC video explanation: https://www.youtube.com/watch?v=QoAOzMTLP5s
- Build your own BMC: https://canvanizer.com/new/business-model-canvas
- The Lean Startup Machine (LSM) material including the Validation Board process created by Trevor Owens

Contacts

Milena: milena.stoycheva@unitn.it

Andrea: andrea.guarise@trentinoinnovation.eu

Francesca: francesca.fiore@unitn.it

Lorenzo: lorenzo.angeli@unitn.it

Massimiliano: massimiliano.luca@unitn.it

Chiara: chiara.grossi@studenti.unitn.it

All in one (and more!): i-and-e-team@list.disi.unitn.it