

Business Models

“A product is the centre of a business model, but it is not a business in and of itself – it can’t succeed without a great business model.” *The Dragon’s Den Guide to Real-World Business Models*

Learning Objectives

After studying this topic, you should understand:

- * what a business model is and the different building blocks that make up a business model
- * why it is important to understand your business model
- * why companies in the same industry or with essentially the same product/service might have different business models
- * how a company's business model affects how it operates
- * some of the common patterns found in business models
- * the process of building a business model and be able to apply it

What is a Business Model?

- * “a business model describes the rationale of how an organization creates, delivers, and captures value”

Alexander Osterwalder – “Business Model Generation”

- * How a company intends to make money / the *logic* by which it sustains itself financially
- * How your idea actually becomes a business
- * Different companies can have similar offerings but different business models
- * Model affects strategy/ways of operating
 - * *Blueprint* describing how an organization operates



- * Gillette virtually gives away the handle and makes its money selling a steady supply of razor blades
- * Companies that sell electric shavers make their money up front

3 Ways to Make Money in Water Filtration

Q Water	AquaOvo	Event Water Solutions
Rents water filtration systems for a monthly fee to restaurants	Sells water filtration systems with a stylish cooler for a one-time fee to individuals	Rents water filtration systems for a per-event fee to event holders



Game time.

Your Product:

Rocks.

Your Product:

**Water
Bottles.**

Differences?

How they make money (Revenue models)?

Who they sell to (customer Segments)?

Value Proposition?



- * Subscription-based vs advertising-based revenue model
- * Focus on selecting content readers willing to pay for vs selecting content to attract readers advertisers want to sell to



- * Traditional local copy centre business model.
 - * What is it?
 - * Product?
 - * Customer?
 - * Value-proposition? ... how do they stay in business?

Foundations of Print Training Program



Discover the exciting alternative that others are experiencing! Our on-site printing studio, Eva's Phoenix Print Shop is an excellent training and working environment that is well respected by the printing industry. Our residents can learn practical printing skills that will prepare them for ...

[Enter ...](#)

Eva's Phoenix Print Shop



In a recent survey, 94% of customers said we met or exceeded their printing expectations, and 97% said they would recommend us to a friend or colleague. Eva's Phoenix Print Shop is a full service commercial print shop, capable of handling all your business and personal printing needs and Canada's ... [Enter ...](#)

Hire our Youth



We know it can be a challenge to find qualified candidates. In general, you have two choices. You can look through hundreds of resumes, or pay a fee to an agency. We offer you a third choice, and from a resource that understands printing and what is needed to fill each position. When you contact ... [Enter ...](#)

*Eva's Phoenix Print Shop

*What is it?

*Product?

*Customer?

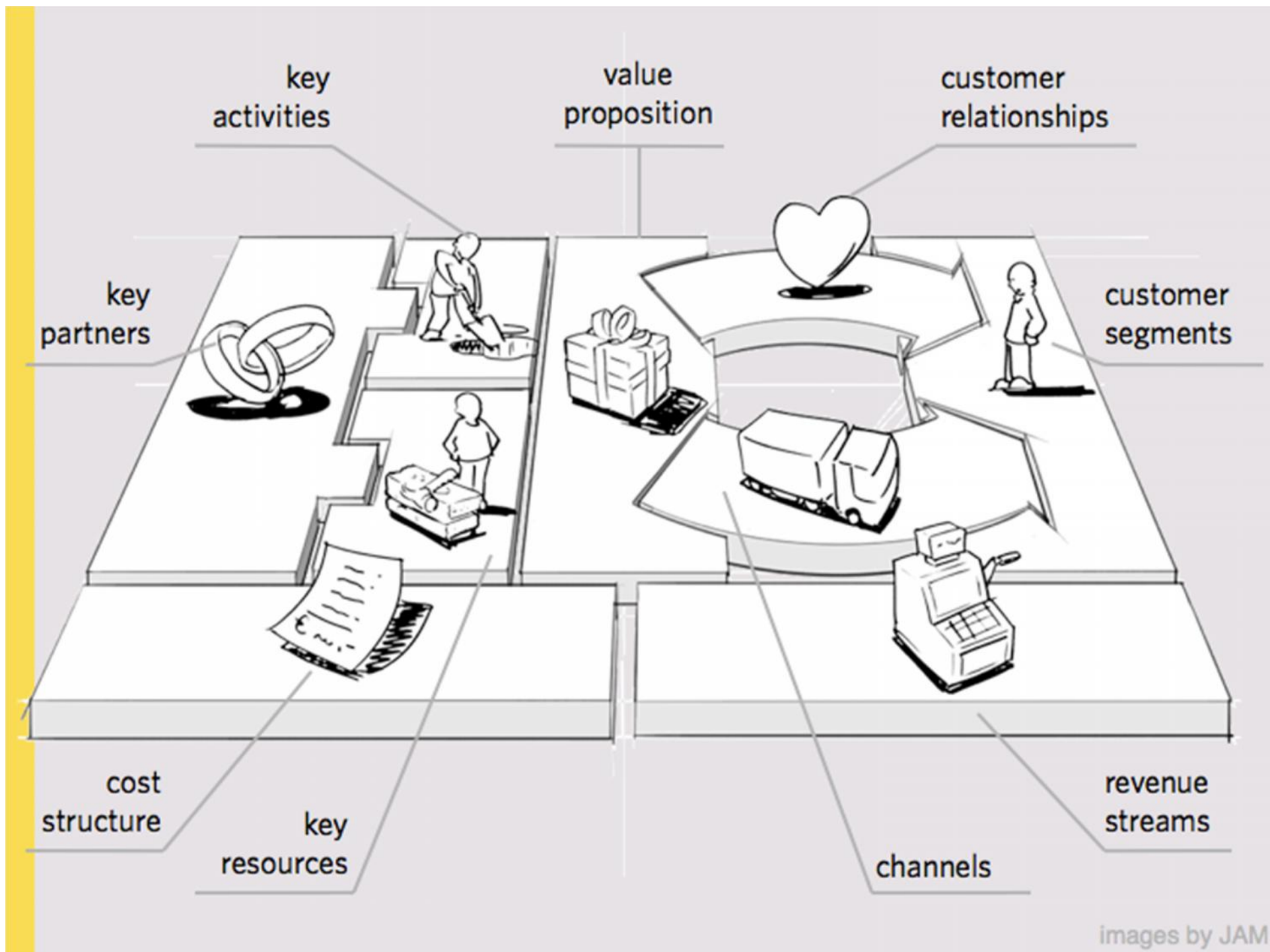
*Value-proposition? ... how do they stay in business?

“Business Model Generation”

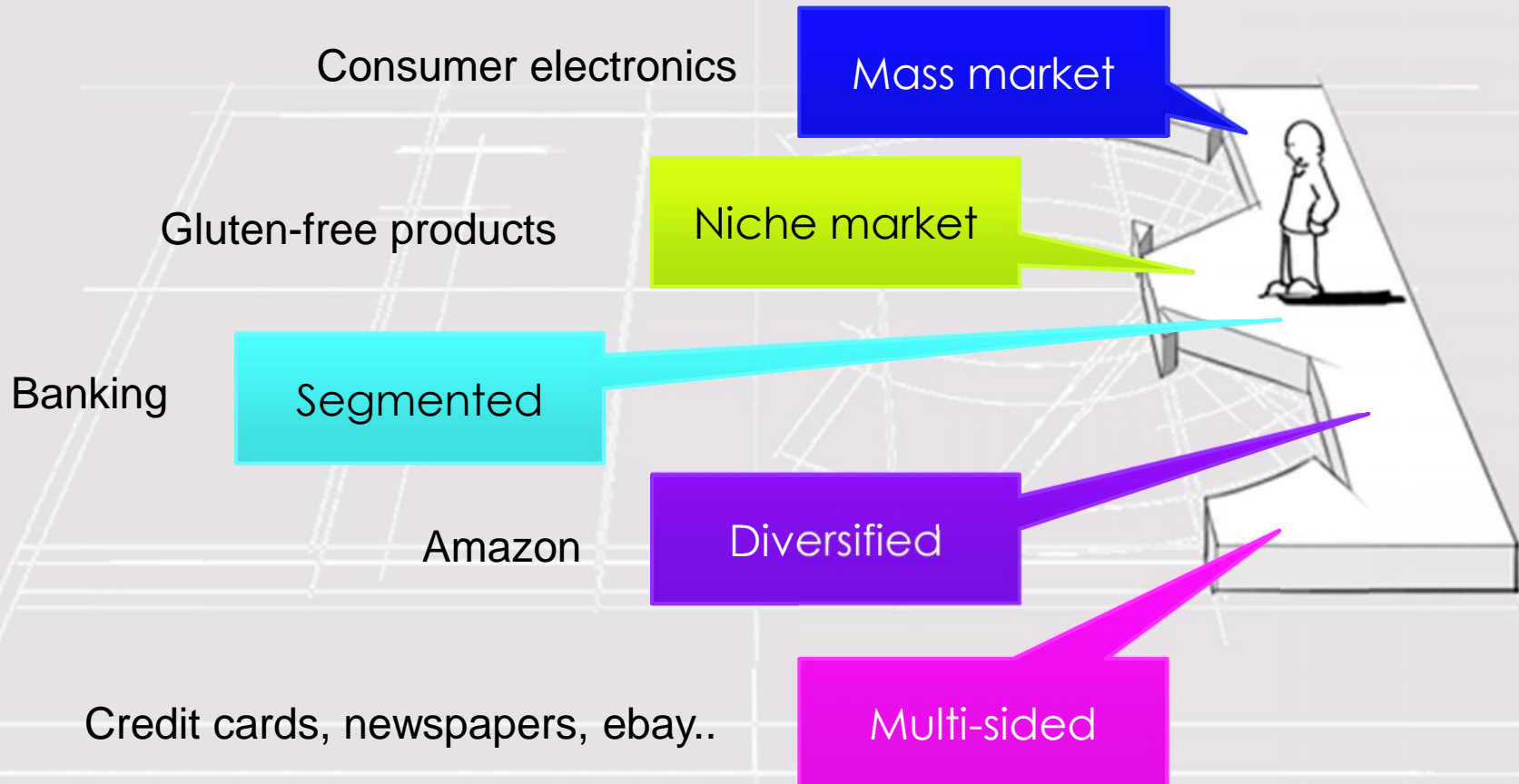
Alexander Osterwalder and Yves Pigneur



<http://www.businessmodelgeneration.com/book>
(great pdf to help explain the business model canvas)



CUSTOMER SEGMENTS



which customers and users are you serving?
which jobs do they really want to get done?

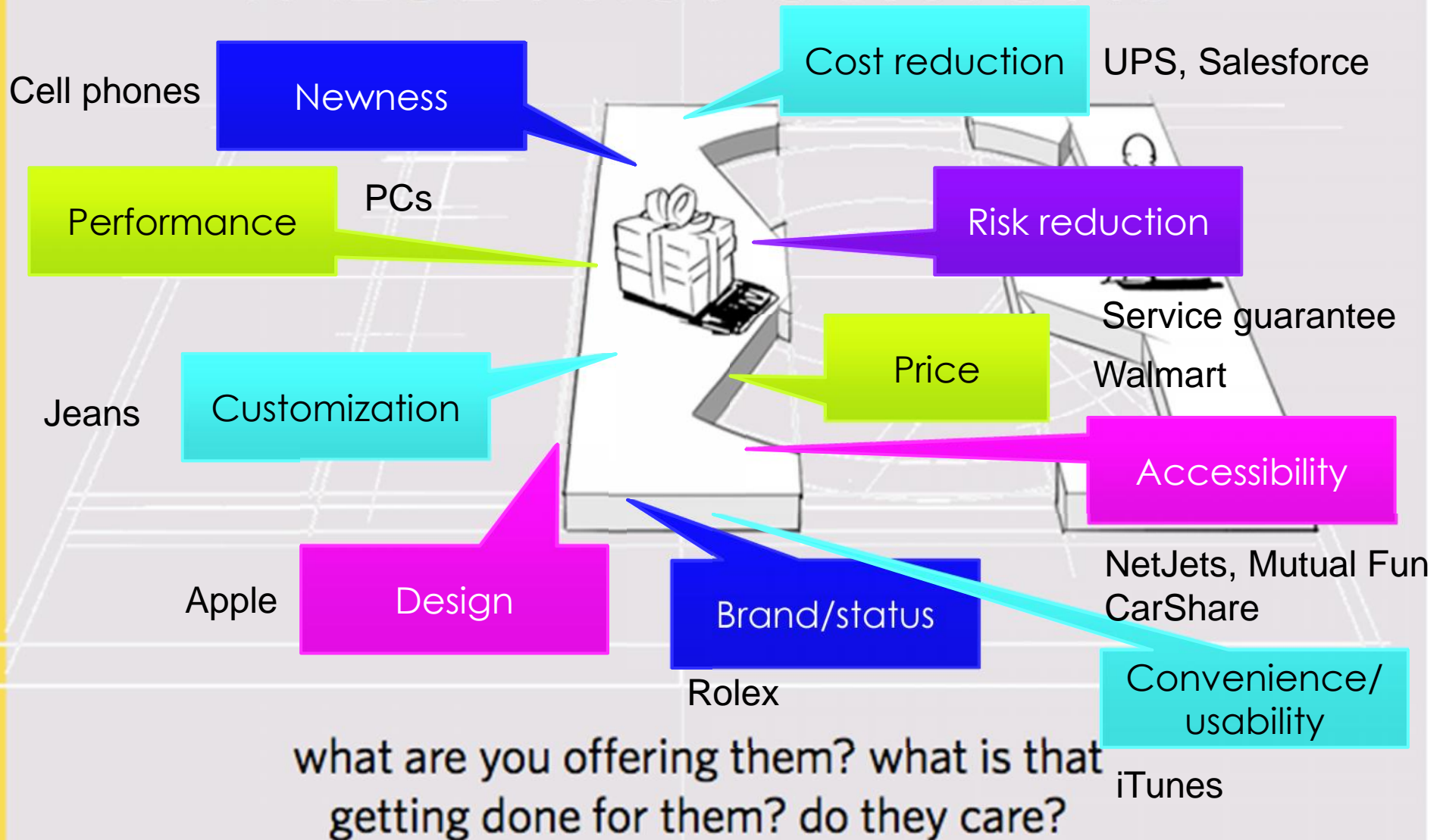
Multiple Customer Segments?

Yes, you can serve different segments if they require different strategies, don't have to just pick one. When?

Customer groups represent different segments if:

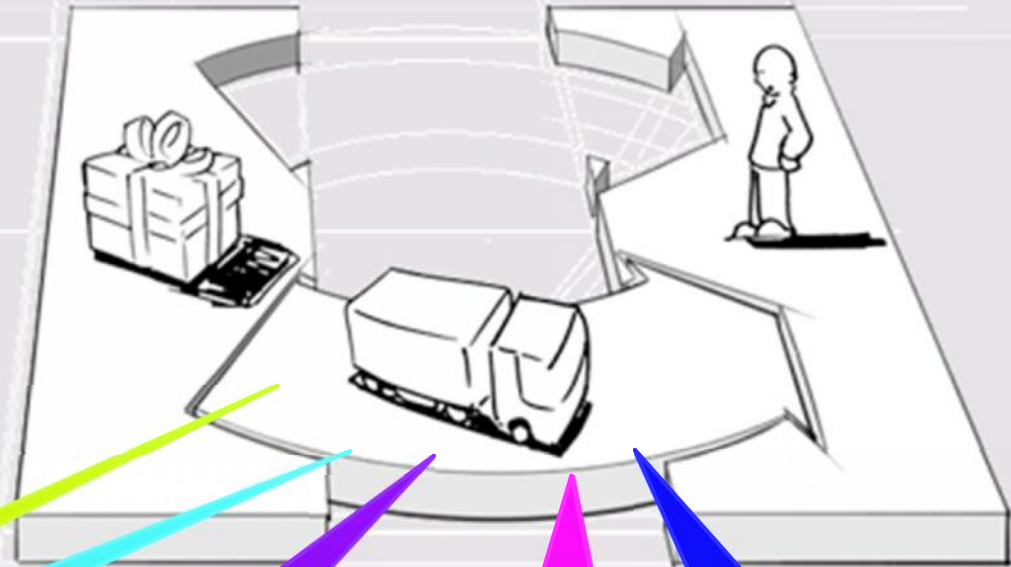
- their needs require and justify a distinct offer.
- they are reached through different distribution channels.
- they require different types of relationships.
- they have substantially different profitabilities.
- they are willing to pay for different aspects of the offer.

VALUE PROPOSITIONS



CHANNELS

In person
Telephone
Internet
On-site
In store
Physical delivery
Pick up
Social media
Traditional media



Awareness

Evaluation

Purchase

Delivery

After sales

how does each customer segment want to be reached?
through which interaction points?

Channels isn't just about where they buy!

- **Channels are all customer touch points** – each which plays an important role in the customer experience!
- **You can own the channel, or use partner channels:**
 - **Partner channels** lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths.
 - **Owned Channels** have higher margins, but can be costly to put in place and to operate.
 - Gotta find the right mix! (balance great customer experience & maximize revenue)

Awareness

Evaluation

Purchase

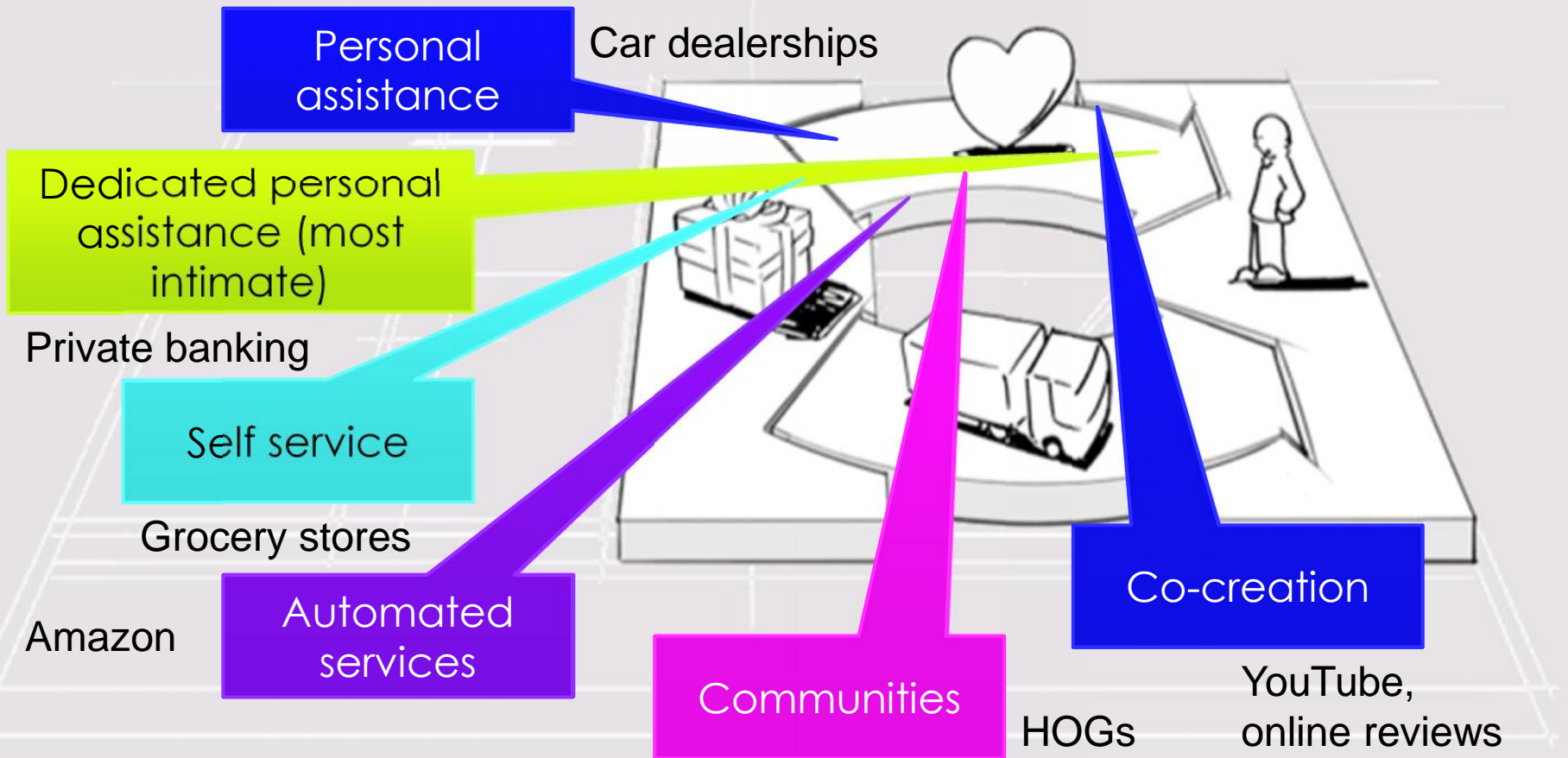
Delivery

After sales

What's in a Channel?

- Nike
- Morty's Pub
- Candy Crush
- Etsy
- Sears

CUSTOMER RELATIONSHIPS



what relationships are you establishing with each segment?
personal? automated? acquisitive? retentive?

REVENUE STREAMS

Ford

Asset sale

Media

If customers comprise the heart of a business model, Revenue Streams are its arteries!

Su
(-

Le

Zip

Licensing

Technology patents, Media copyright

what are customers really willing to pay for? how?
are you generating transactional or recurring revenues?

Revenue Streams & Pricing Mechanisms

- **Revenue Streams:**

1. Transaction based one-time revenue.
2. Recurring revenues from on-going payments.

The types of streams? The 7 types listed on the last slide.

- **Pricing Mechanisms:** for each stream, you apply a pricing mechanism, either:

1. **Fixed Pricing:** here prices are determined in advance of any sales based on zero or more static variables.
2. **Dynamic (variable) Pricing:** The price can change based on market conditions.

Pricing Mechanisms



es)

sms

Key Questions to Answer

from The Dragon's Den Guide to Real-World Business Models

- * *How does your product/service generate revenue?*
- * *Who pays you?* – consumer, business, licensee...
- * *How do you charge?* – unit price, transaction fee, royalty...
- * *When do you get paid? How do you collect?* – up front, installments, back end...
- * *What is your pricing model?* – price floor (breakeven price), price ceiling (max \$ possible), price point (highest customers)
- * *What is the lifetime value of each customer?*
= annual revenue x number of years a customer will pay you
- * *Is your revenue model scalable?* – can you respond to sudden increases in sales without spreading your resources too thin? **

KEY RESOURCES

These resources allow an enterprise to create a value proposition, reach markets, maintain relationships with customer, and earn revenues.

which resources underpin your b.model?
which assets are essential?

Owned



Leased

images by JAM

KEY ACTIVITIES

Manufacturing, providing services.

Microsoft (Soft dev) vs Dell (Supply Chain).

Making

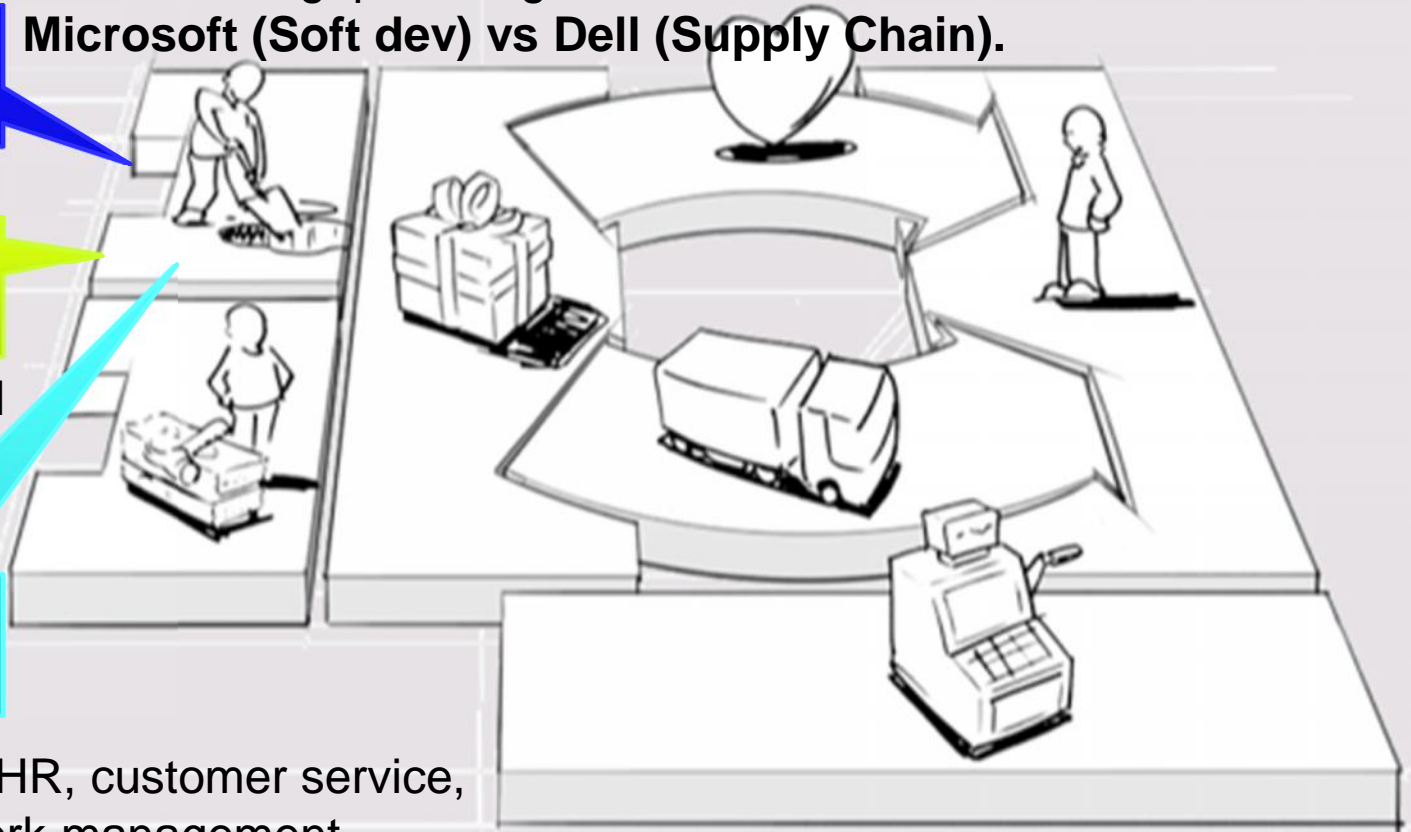
Selling

Promotion and
education

Supporting

Finding talent/HR, customer service,
platform/network management

which activities do you need to perform well in
your b.model? what is crucial?



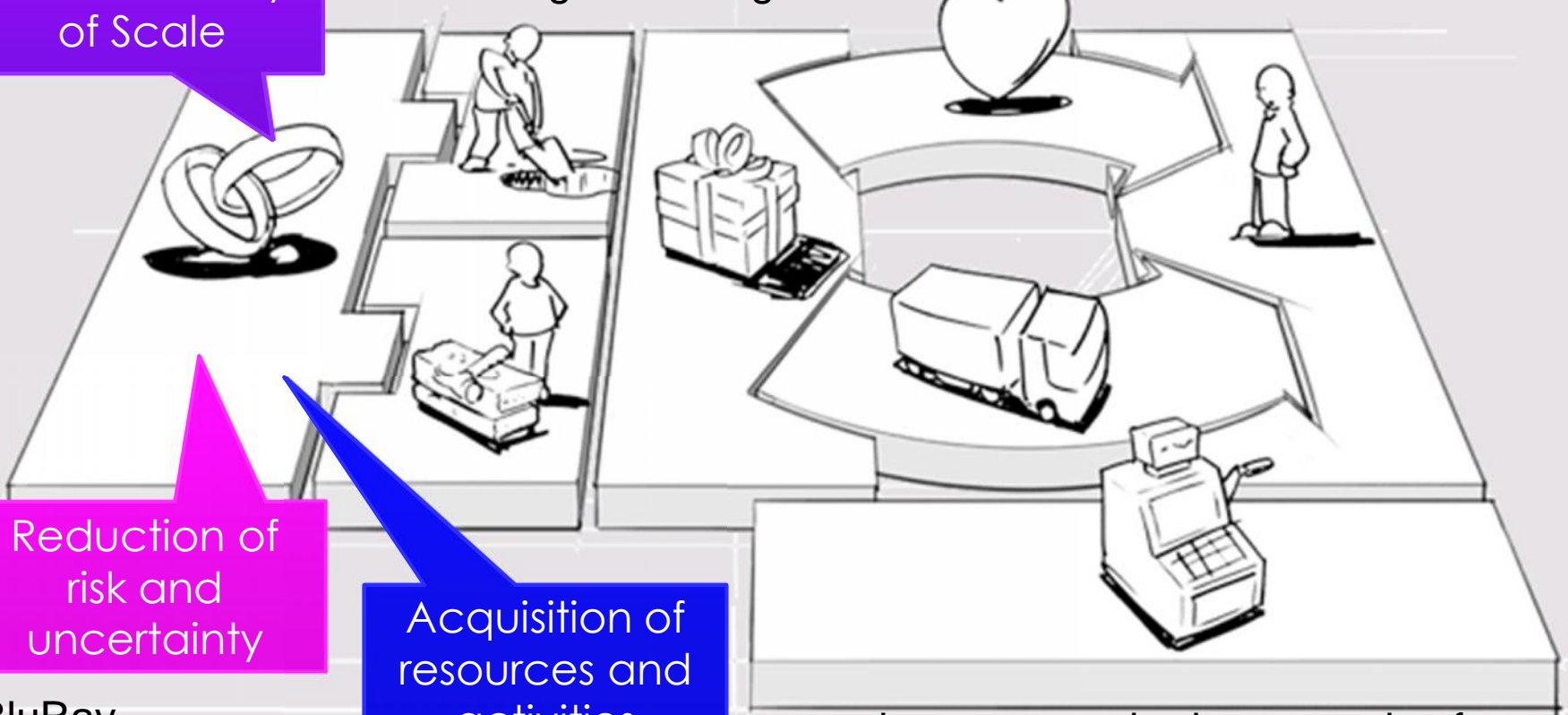
New 'Making' Model: Platform-based.

- **“ Key Activites”** are the most important things a company must do to make its business model work
- **Business models designed with a platform as a “Key Resource” are dominated by platform or network- related Key Activities:**
 - Networks, matchmaking platforms, software, and even brands can function as a platform.
 - **Ex:** Kijij.ca's key activity is maintaining and upgrading the platform/website, kijiji.ca.

KEY PARTNERS

Optimization
and Economy
of Scale

Outsourcing or sharing infrastructure



Reduction of
risk and
uncertainty

Acquisition of
resources and
activities

BluRay

operating systems, brokers vs sales force.

which partners and suppliers leverage your model?
who do you need to rely on?

4 Types of Partnerships

1. **Strategic partnerships, non-competitors:**

- Starbucks and Chapters

2. **Strategic partnerships, competitors, (coopetition):**

- Samsung and Sony to produce LCD screens (2006)
- Ford & Toyota, hybrid vehicle (2013)

3. **Joint ventures to develop new businesses:**

- Sony/Ericsson in mobile phones.

4. **Buyer-supplier relationships to assure reliable supplies**

- Pepsi .. Buying everyone vs McDonalds licensing only Coke.

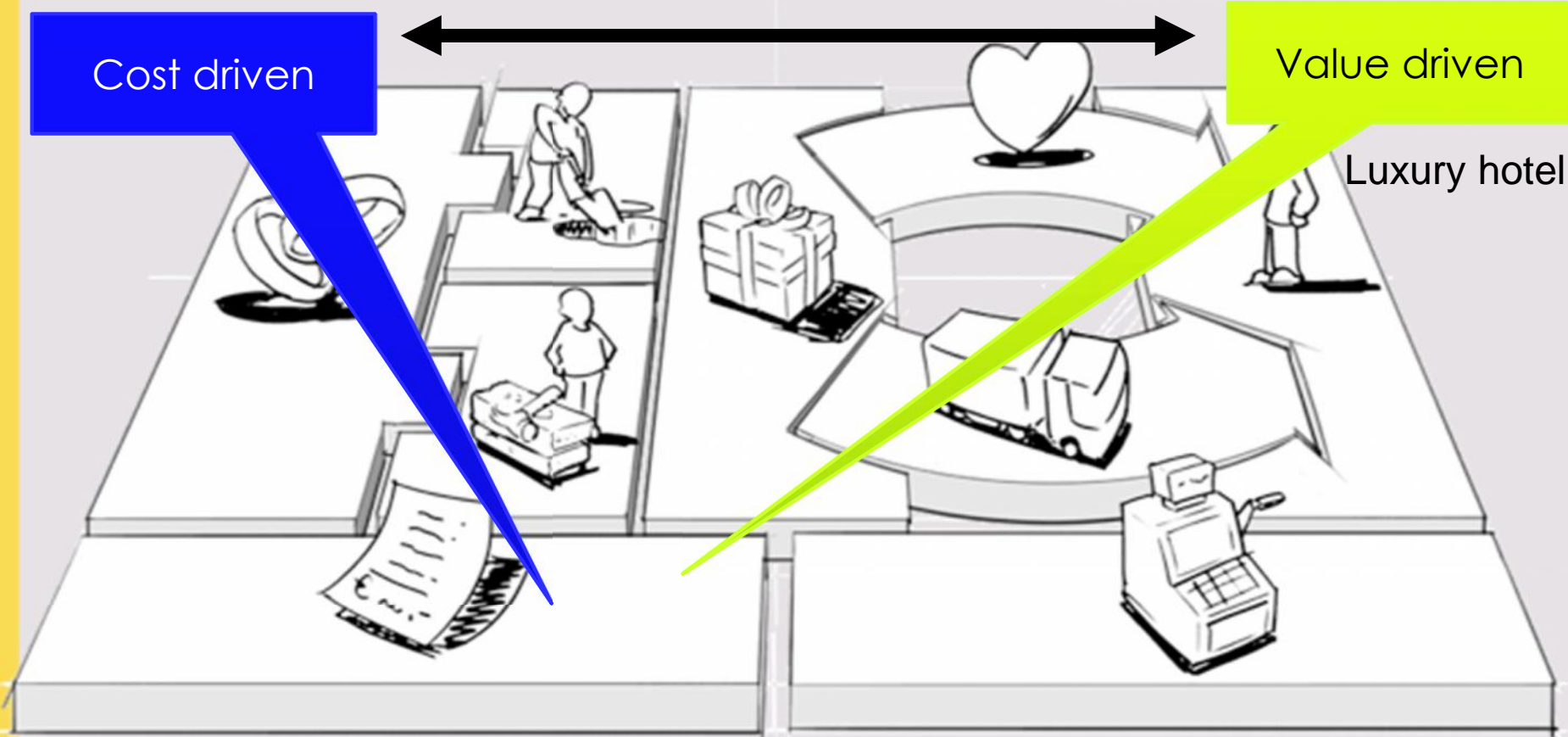
COST STRUCTURE

Walmart

Cost driven

Value driven

Luxury hotel

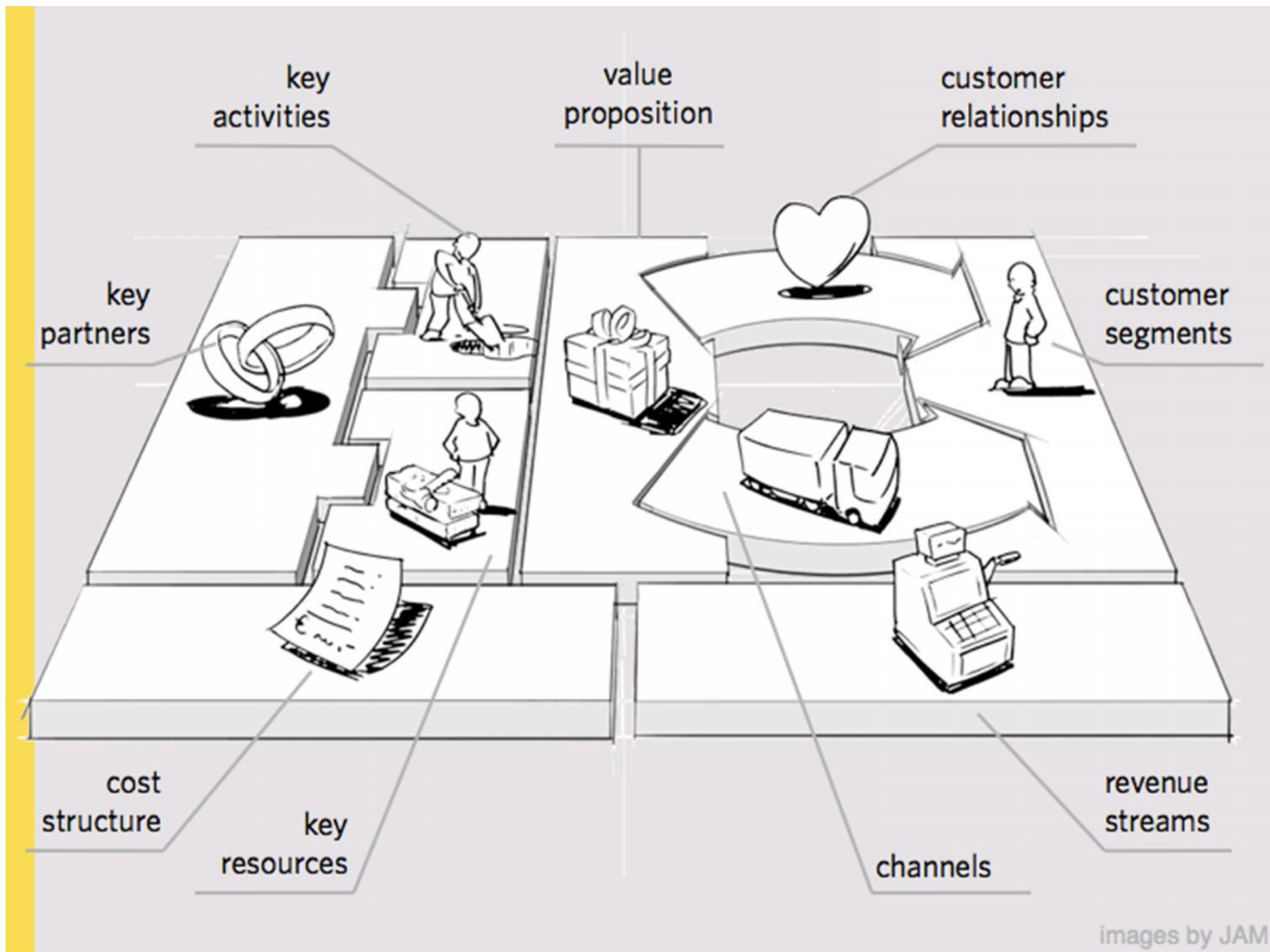


what is the resulting cost structure?
which key elements drive your costs?

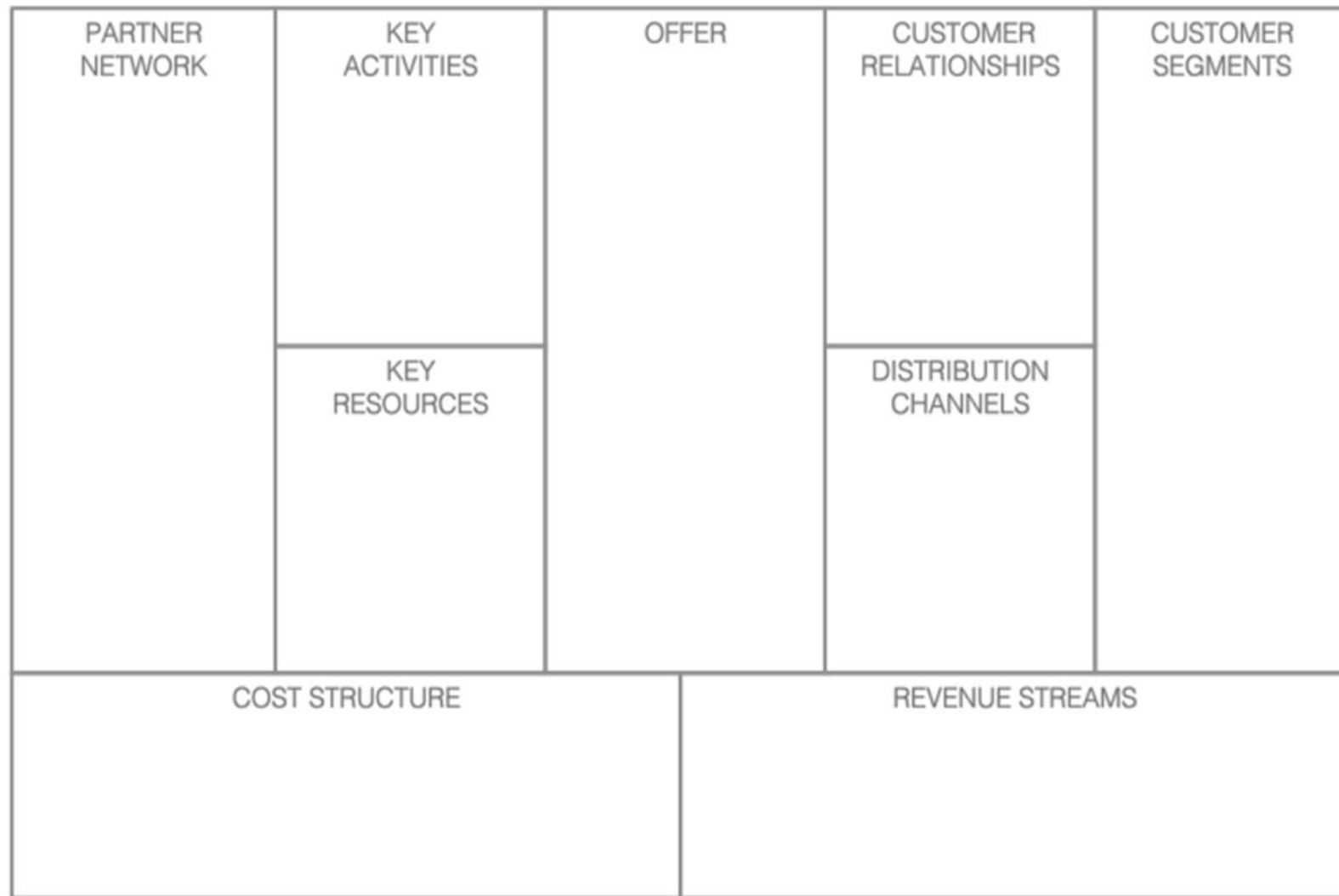
4 Characteristics of Cost Structures:

- 1. Fixed Costs**
- 2. Variable Costs**
- 3. Economies of Scale**
- 4. Economies of Scope**

- Is your model it scalable?**
 - software vs consulting



THE BUSINESS MODEL CANVAS



Business Model Patterns

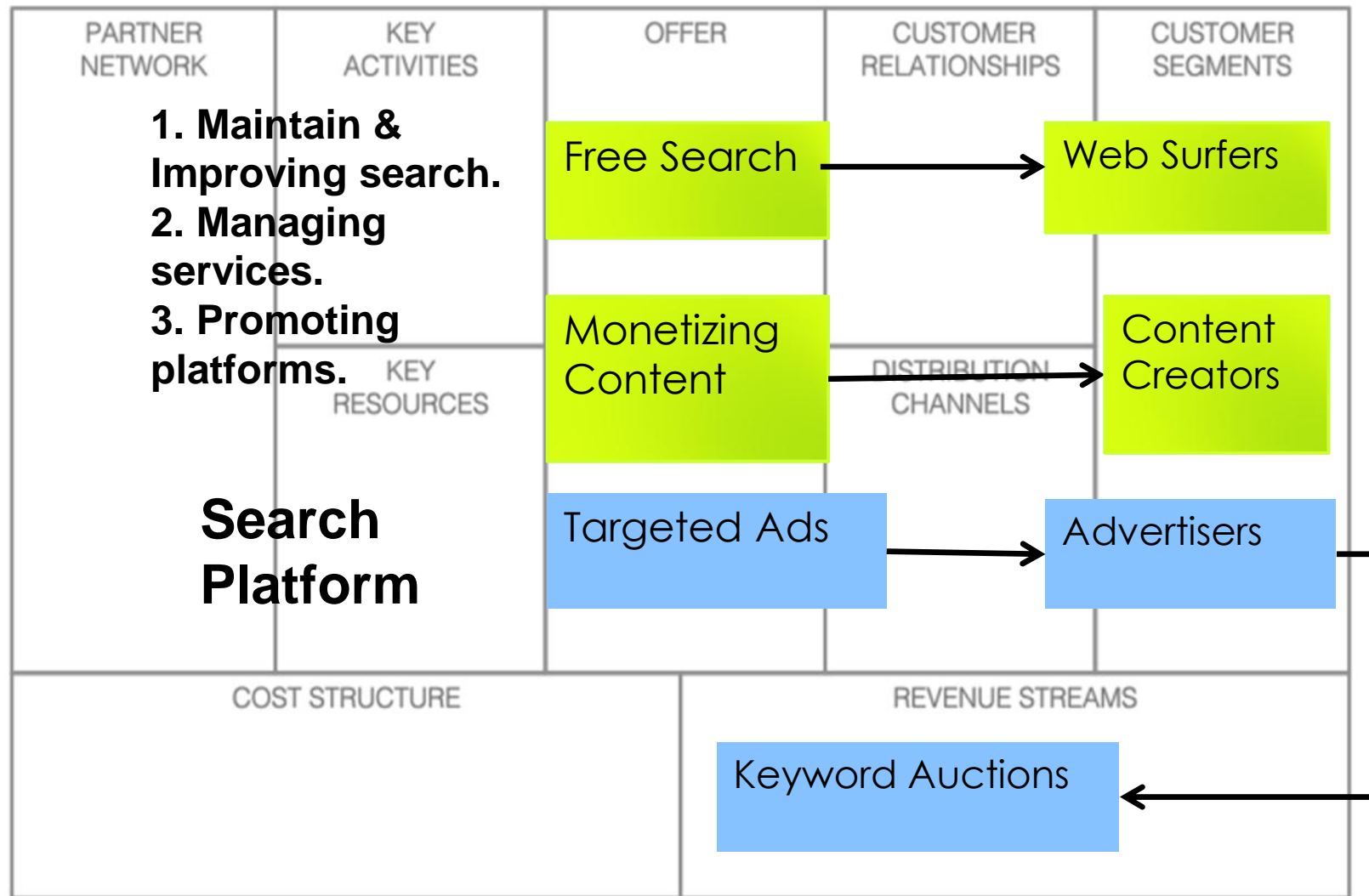
1. Multi-Sided Platforms

- * Value is created by facilitating interactions between two or more distinct but interdependent groups of customers
- * Of value to one group *only* if the other groups of customers are also present – and grows in value to the extent that it attracts more users – *network effect*
- * Often solved by one segment subsidizing another
- * **Examples:** Visa (credit card companies), eBay, Financial Times (newspapers), Facebook, Video game consoles, Google



Multi-sided platform: Google

THE BUSINESS MODEL CANVAS



From *Business Model Generation* by Alex Osterwalder & Yves Pigneur

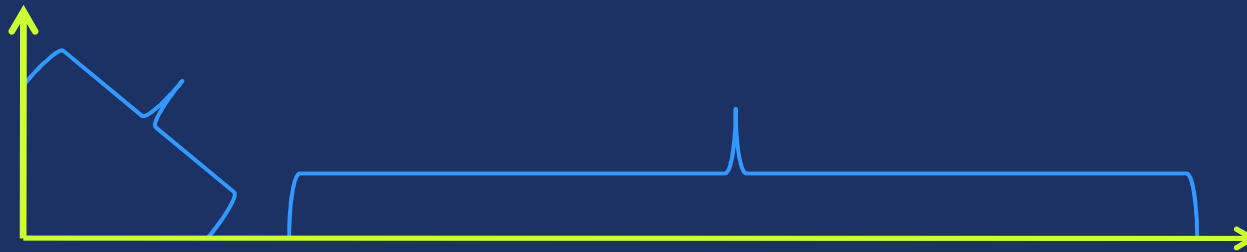
Business Model Patterns cont'd...

2. The Long Tail

- * Selling 'less of more' – focusing on offering a large number of niche products, each of which sells relatively infrequently vs. focusing on selling a small number of products, each selling in high volume

of sales

of products



Business Model Patterns cont'd...

2. The Long Tail

* Why / How?

1. **Democratization of Tools of Productions** (tech increases, cheaper to create pro quality!)
2. **Democratization of Distribution** (internet lowers inventory, easy to community and sell)
3. **Lower costs to connect supply & demand:** SEO, online communities (youTube channels etc!)

* **Examples:** Netflix, eBay, YouTube, Facebook, LEGO Factory (customer-designed kits), lulu.com



Penguin
Random House
Canada

VS.

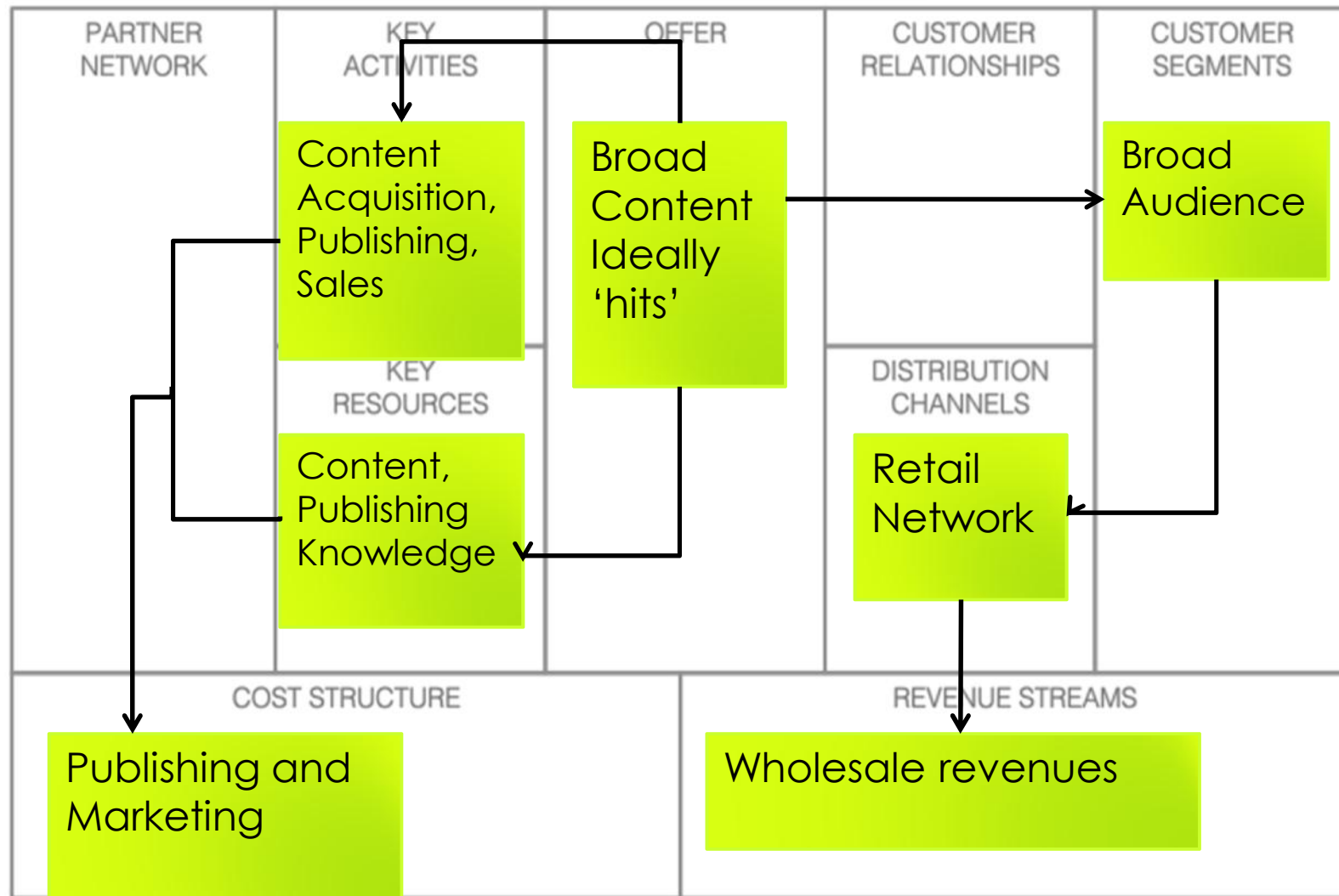


'Traditional' Book Publishing Model

THE BUSINESS MODEL



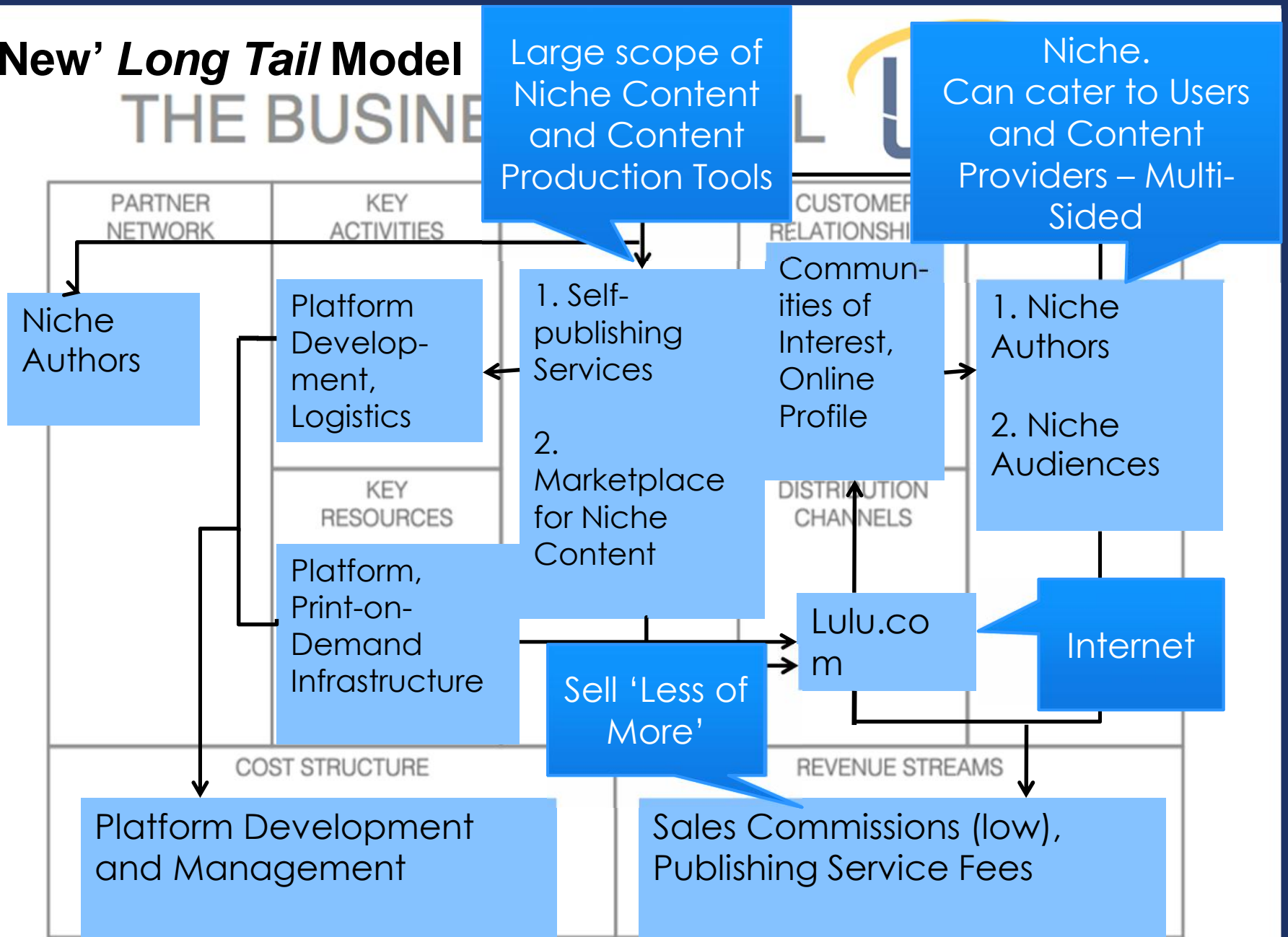
Penguin
Random House
Canada



From *Business Model Generation* by Alex Osterwalder & Yves Pigneur

'New' Long Tail Model

THE BUSINESS MODEL



From *Business Model Generation* by Alex Osterwalder & Yves Pigneur

Business Model Patterns cont'd...

3. FREE

- * At least one substantial customer segment is able to continuously benefit from a free-of-charge offer, financed by another part of the business model or by another customer segment
- * Different patterns make the free offer possible:

Advertising (CBC, Metro papers)

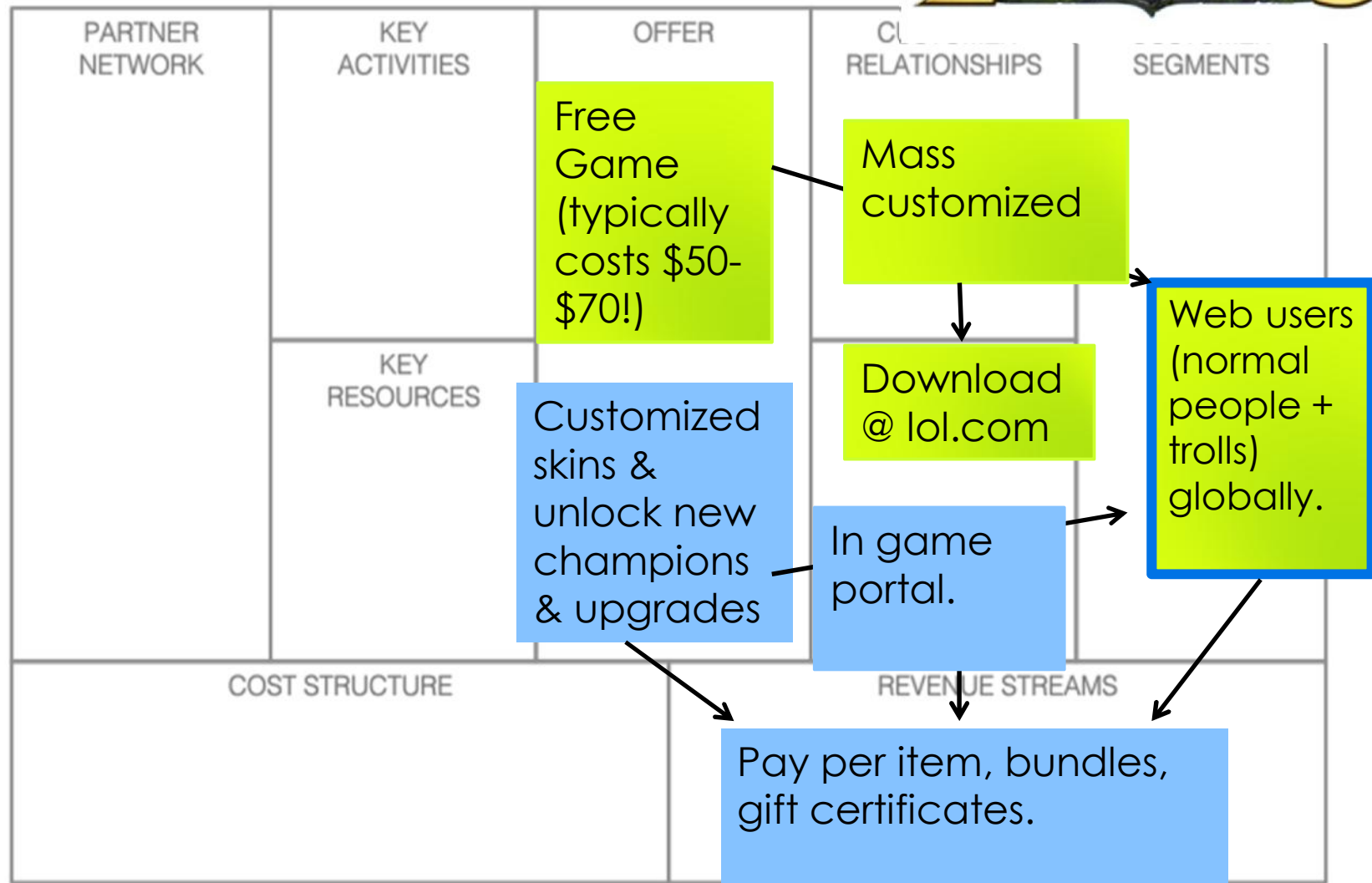
Freemium (League of Legends, Dropbox)

Bait & Hook (Sidekick)



Freemium

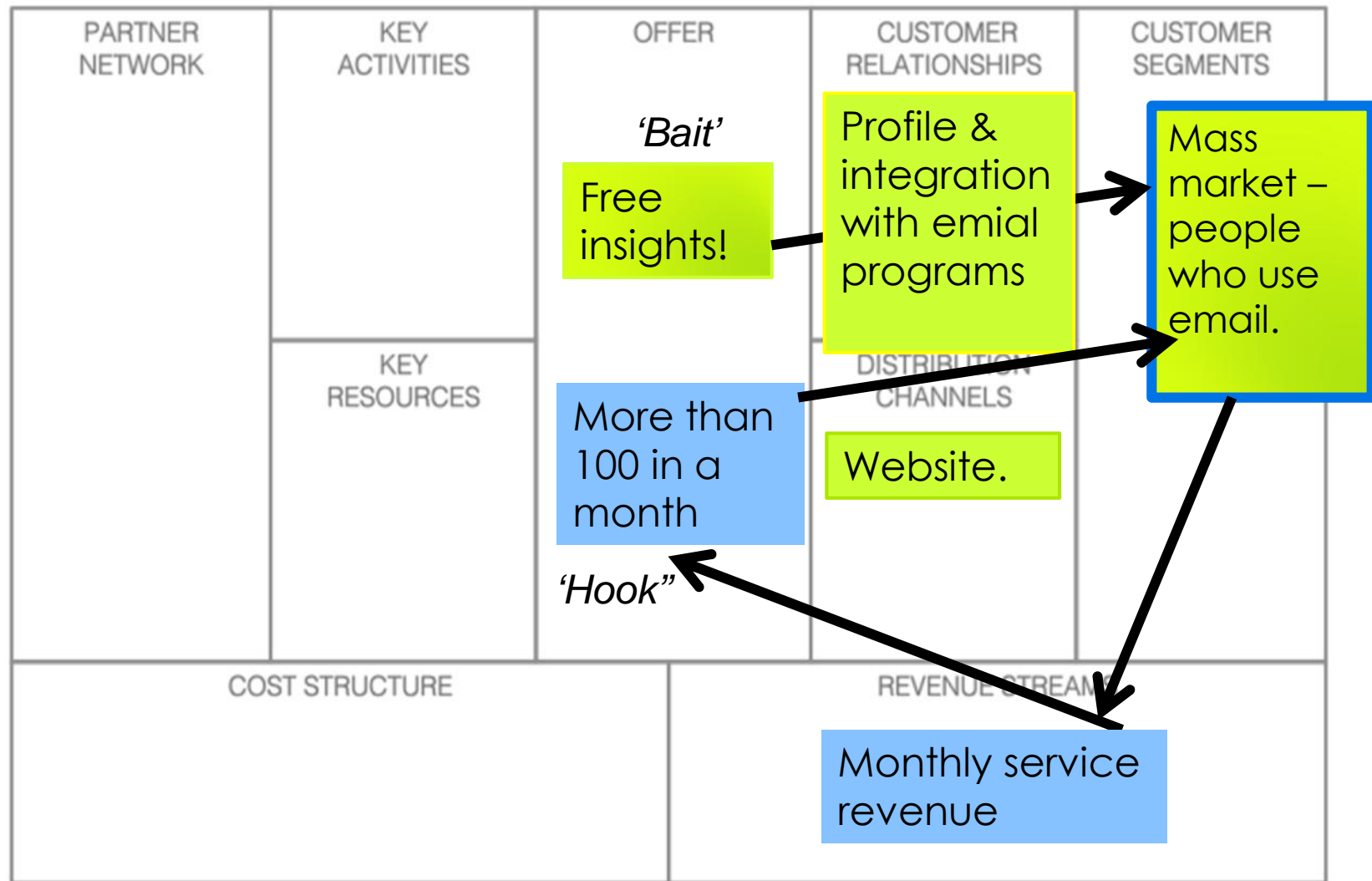
THE BUSINESS MODEL



From *Business Model Generation* by Alex Osterwalder & Yves Pigneur

'Bait & Hook'

THE BUSINESS MODEL



From *Business Model Generation* by Alex Osterwalder & Yves Pigneur

Business Model Patterns cont'd...

- * Some recent game-changer patterns:
 - * Freemium
 - * Membership models – Subscription box, “Beer of the month”, member community, flash sales
 - * Crowdsourcing models – crowdsourcing, crowdfunding, peer-to-peer sharing (Sharing economy)

MEAL SHARING



THE SHARING ECONOMY

Uber

The world's largest taxi company, owns no vehicles.

The world's most popular media owner, creates no content.

Facebook

Alibaba

The most valuable retailer, has no inventory.

The world's largest accommodation provider, owns no real estate.

Airbnb

Other Examples

- * Groupon vs other daily email businesses

<http://www.youtube.com/watch?v=7J-PHRNoc20>

- * Social entrepreneurship

<http://www.youtube.com/watch?v=LWbT7KZYBuM>

- * Startup for grannies – different approaches

<http://www.youtube.com/watch?v=PjG8SHXqcVY>

Building *Your* Business Model

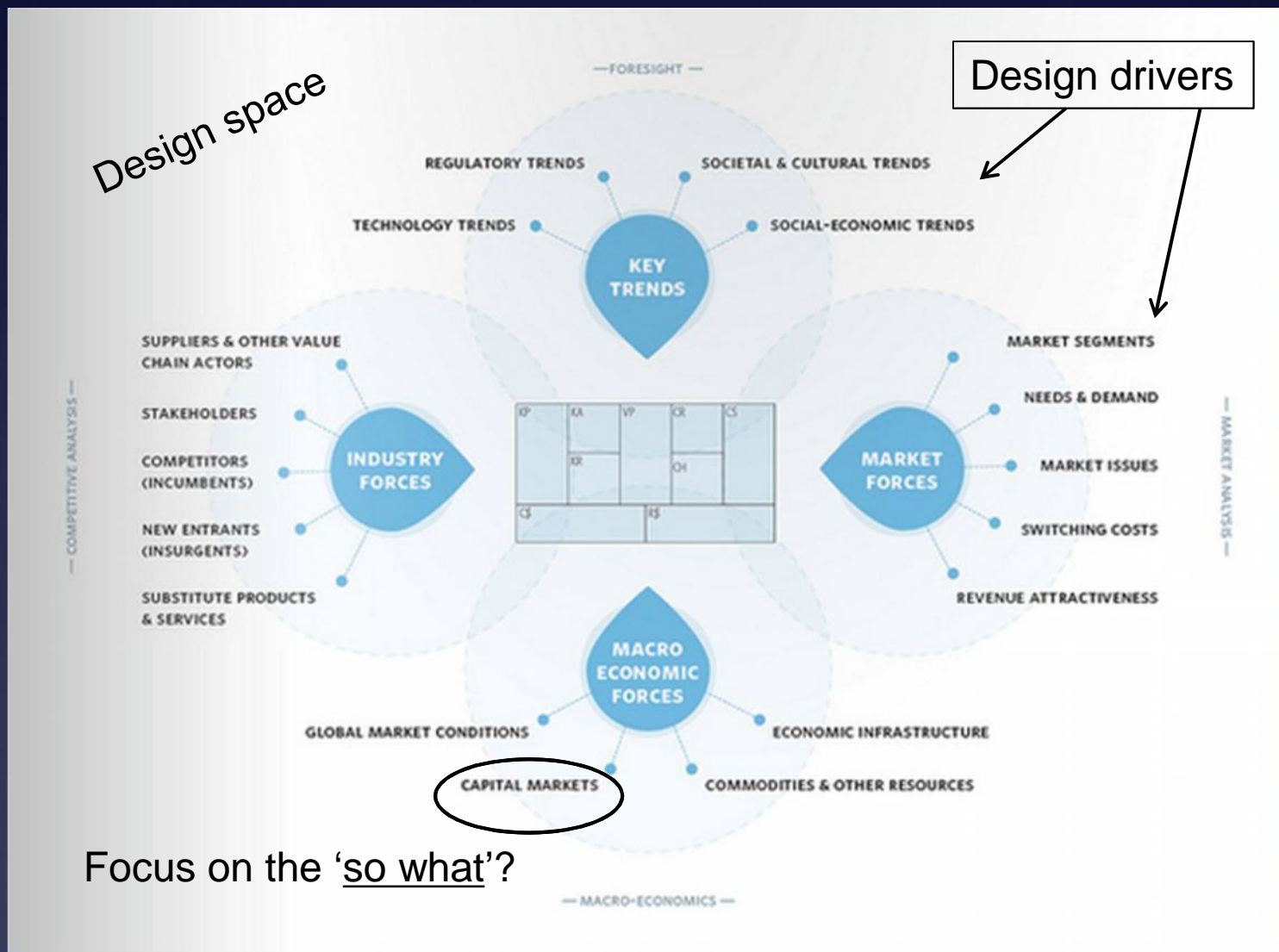
The Process

Before you Begin...

What are you Thinking Now?

- * Product or service model?
- * Merchant or agency model?
 - * consumer-direct, retail, pop-up, or party plan
- * Producer/sub-contract or licensor model?
 - * AC/DC, Rubik's cube
- * Independent owner/operator or Franchising/licensing model?
 - * Ford & Model T.
- * Traditional or game-changer model?
 - * Piggly Wiggly's self service grocery store in 1916

1. Understanding the Context



Building the Model...

2. Build on Customer Insights

* **Ask them!**

- * Should drive your building blocks (customer-centric not organization-centric)

3. Brainstorm

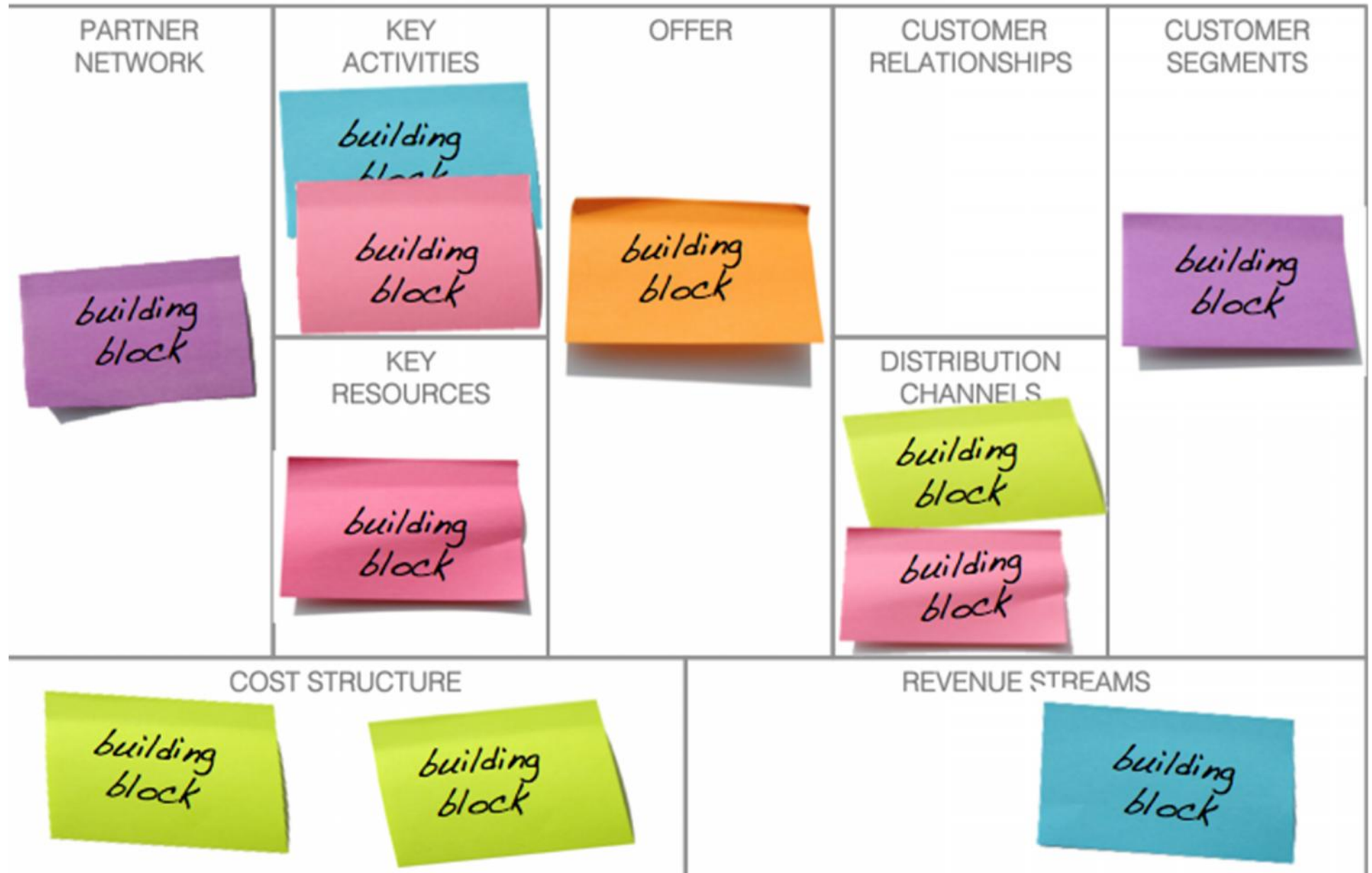
* Ask 'what if?' questions

- * IKEA, Mercedes → Car2go

* Rules: prepare, stay focused, defer judgment, and think visually (post-it notes can move!!)

- * Use thick marking pens
- * Write only one element on each 'post-it'
- * Write only a few words to capture the essential point

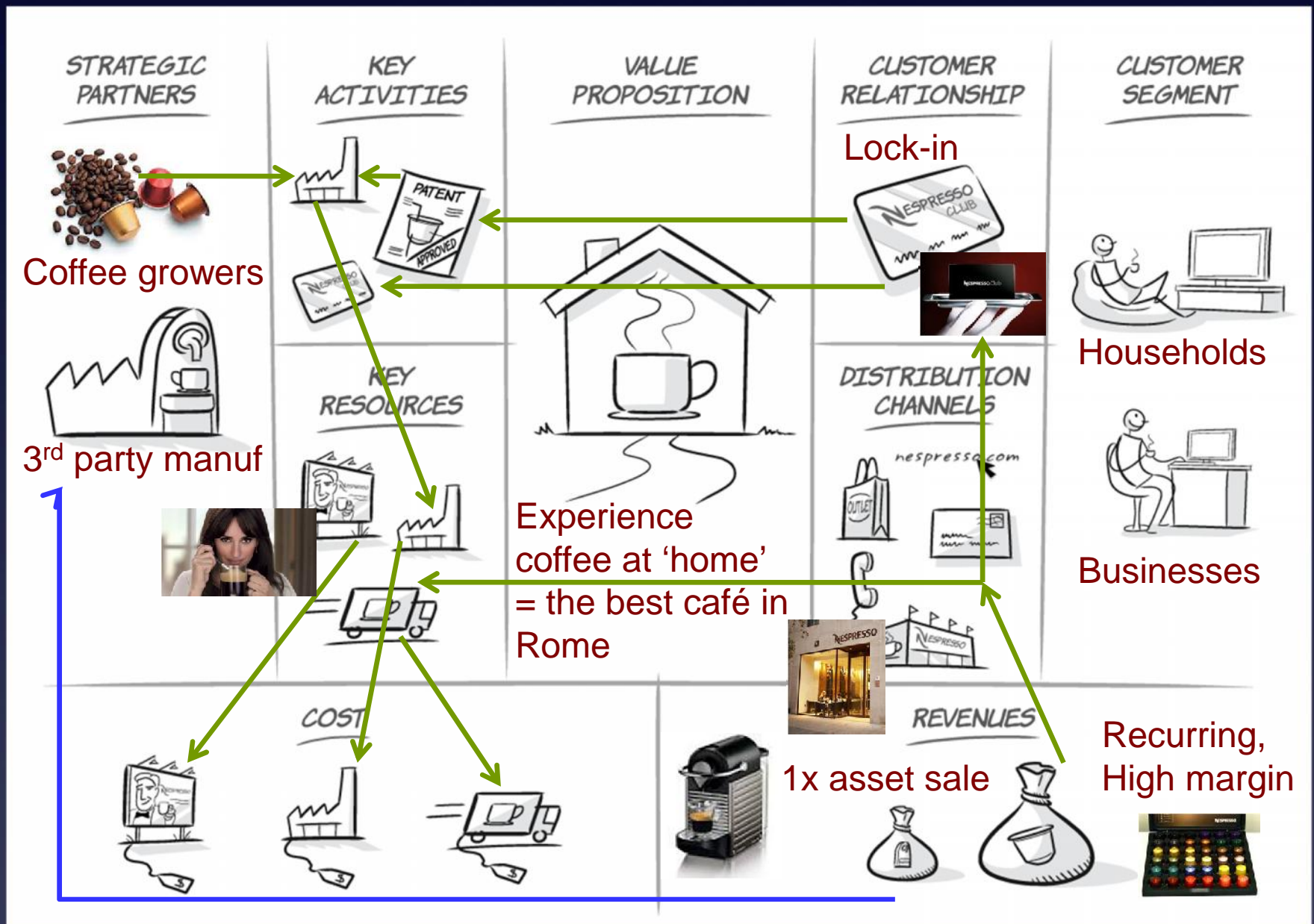
THE BUSINESS MODEL CANVAS

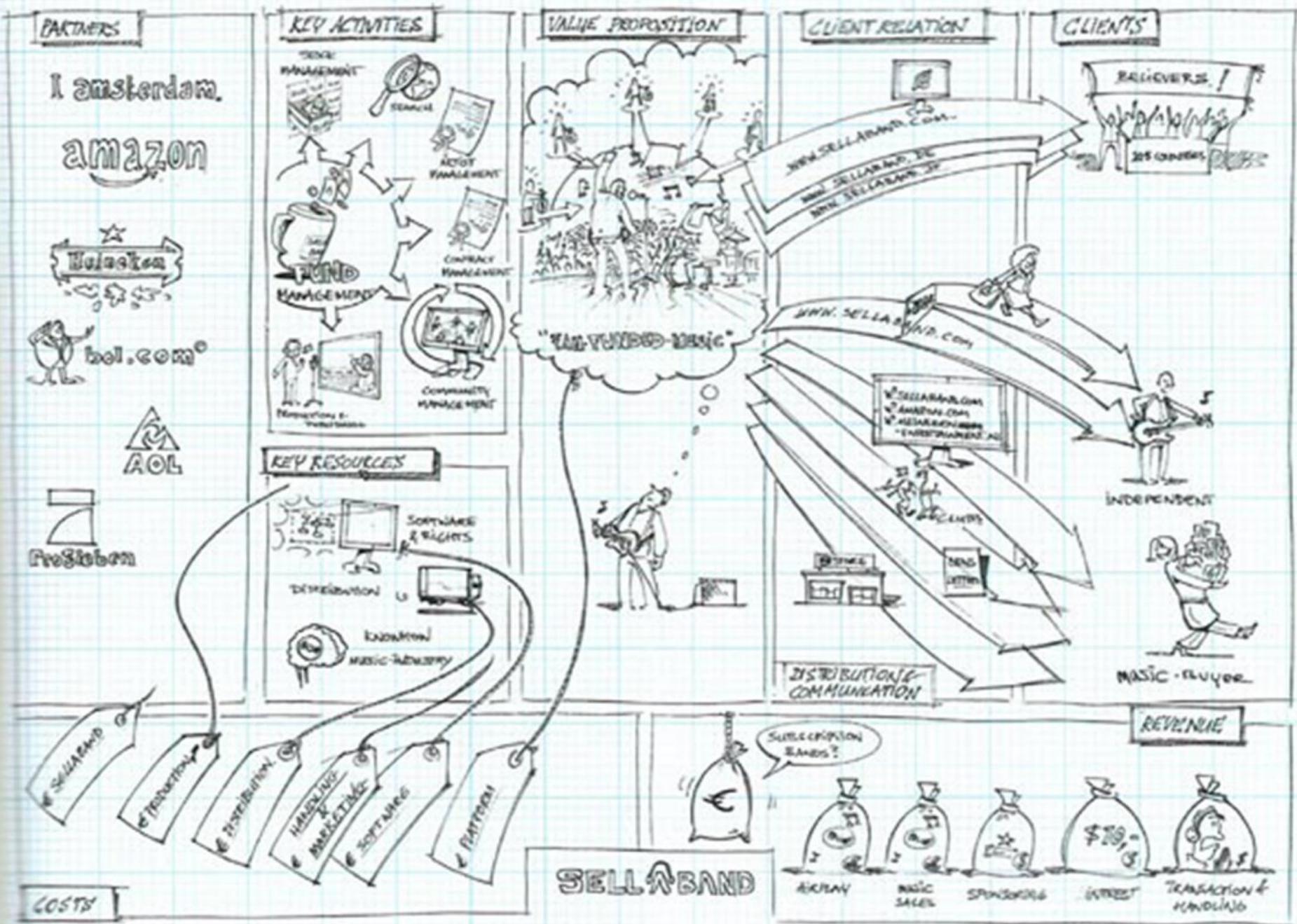


Building the Model cont'd...

4. Think and *Create* Visually

- * Words
- * Drawings/Images
- * Demonstrate relationships
- * It's the interaction that matters more than the individual elements. Critical process as it forms the basis for your business plan.**





Key Concepts

- * The details of the building blocks and the process of building the canvas are important for the New Venture project, but will NOT be tested on exams
- * Important to download the PDF of the Business Model Generation book and READ the assignment requirements
- * **For exam purposes you should understand**
 - * what a business model is, and different business model patterns that exist
 - * how companies can have basically the same product but different business models
 - * and how your business model affects how you operate

For labs next week...

- * Lab registration
 - * Opens Friday @ 9am – **register online.**
- * **MANDATORY:** Fill out Student profile & Academic Integrity form, due Sun @ 4pm – www.laurierbiz.com/forms
- * Remember to take the **coupon sheet** that came with the lab manual to your lab
 - * You need it to get the access codes for the 2 assessments due at the end of the week
- * Read the **Lab #1** materials carefully and make sure you have prepared for the lab as per the instructions
 - * Remember that ½ of your participation mark is determined based on your prep work for the lab.