“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

<table>
<thead>
<tr>
<th>Q Water</th>
<th>AquaOvo</th>
<th>Event Water Solutions</th>
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<tbody>
<tr>
<td>Rents water filtration</td>
<td>Sells water filtration systems with a stylish</td>
<td>Rents water filtration systems for</td>
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<td>systems for a monthly fee</td>
<td>cooler for a one-time fee to individuals</td>
<td>a per-event fee to event holders</td>
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<td>to restaurants</td>
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![Q Water Image](image1.png)

![AquaOvo Image](image2.png)

![Event Water Solutions Image](image3.png)
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?
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

(great pdf to help explain the business model canvas)
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

Cell phones: Newness, Cost reduction
PCs: Performance, UPS, Salesforce
Jeans: Customization, Risk reduction
Apple: Design, Price
Rolex: Brand/status, Accessibility
Walmart: Service guarantee
CarShare, NetJets, Mutual Funds: Convenience/ usability
iTunes

what are you offering them? what is that getting done for them? do they care?

images by JAM
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?

images by JAM
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)
What’s in a Channel?

- Nike
- Morty’s Pub
- Candy Crush
- Etsy
- Sears
what relationships are you establishing with each segment? personal? automated? acquisitive? retentive?
If customers comprise the heart of a business model, Revenue Streams are its arteries!

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

- Fixed:
  - Fixed List Price (iPhones)
  - Feature Dependent (Cable TV channels)
  - Customer Segment Dependent (Movies)
  - Volume Dependent (buying bulk)

- Variable:
  - Bargaining
  - Yield Management (hotels, airlines)
  - Real-time Market (stock markets, commodities)
  - Auctions

7 revenue streams * 8 pricing mechanisms = 56 different pricing combinations.
Key Questions to Answer

* 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 your respond to sudden increases in sales without spreading your resources too thin? **

from The Dragon’s Den Guide to Real-World Business Models
These resources allow an enterprise to create a value proposition, reach markets, maintain relationships with customer, and earn revenues.
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 Activities” 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:** Kijji.ca’s key activity is maintaining and upgrading the platform/website, kijiji.ca.
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

Luxury hotel
Value driven

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

<table>
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<tr>
<th>PARTNER NETWORK</th>
<th>KEY ACTIVITIES</th>
<th>OFFER</th>
<th>CUSTOMER RELATIONSHIPS</th>
<th>CUSTOMER SEGMENTS</th>
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<table>
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<th>KEY RESOURCES</th>
<th>DISTRIBUTION CHANNELS</th>
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<th>COST STRUCTURE</th>
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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

1. Maintain & Improving search.
2. Managing services.
3. Promoting platforms.

Search Platform

- **Free Search**
  - **Web Surfers**

- **Monetizing Content**
  - **Content Creators**

- **Targeted Ads**
  - **Advertisers**

**Keyword Auctions**

From *Business Model Generation* by Alex Osterwalder & Yves Pigneur
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.
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
‘Traditional’ Book Publishing Model

From Business Model Generation by Alex Osterwalder & Yves Pigneur
‘New’ Long Tail Model

**The Business Model Canvas**

- **Niche Authors**
- **Platform Development, Logistics**
- **Platform, Print-on-Demand Infrastructure**
- **Platform Development and Management**
- **Sales Commissions (low), Publishing Service Fees**
- **Communities of Interest, Online Profile**
- **Lulu.com**
- **Internet**

1. **Self-publishing Services**
2. **Marketplace for Niche Content**
3. **Large scope of Niche Content and Content Production Tools**
4. **Niche. Can cater to Users and Content Providers – Multi-Sided**

- **1. Niche Authors**
- **2. Niche Audiences**

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

Free Game (typically costs $50-$70!)

Mass customized

Customized skins & unlock new champions & upgrades

Download @ lol.com

In game portal.

Pay per item, bundles, gift certificates.

Web users (normal people + trolls) globally.

From Business Model Generation by Alex Osterwalder & Yves Pigneur
‘Bait & Hook’

**THE BUSINESS MODEL**

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<td>Monthly service revenue</td>
<td>‘Hook’</td>
<td>‘Bait’</td>
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From *Business Model Generation* by Alex Osterwalder & Yves Pigneur
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)
Some recent game-changer patterns:

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**THE SHARING ECONOMY**

- **Uber**
  - The world’s largest taxi company, owns no vehicles.

- **Facebook**
  - The most valuable retailer, has no inventory.

- **Alibaba**
  - 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

Focus on the ‘so what’?
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
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.
Experience coffee at ‘home’ = the best café in Rome

Coffee growers

3rd party manuf

Households

Experience coffee at ‘home’ = the best café in Rome

Businesses

Recurring, High margin

1x asset sale

Lock-in
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](http://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.