A Business Model

- A business model can best be described through nine basic building blocks that show the logic of how a company intends to make money.

- The nine blocks of the following model cover the four main areas of a business:
  1. Customers
  2. Offer
  3. Infrastructure
  4. Financial viability

- The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.

Source: Business Model Generation, Osterwalder and Pigneur 2010
Business Models: The Business Model

The Business Model Canvas

Key Partners
Who are our Key Partners?
Who are our key suppliers?
Who are our key customers?
What are our key competitors?
What are our key collaborators?
What are our key vendors?

Key Activities
What key activities do we perform?
What are our key resources?
What are our key partnerships?
What are our key processes?
What are our key capabilities?

Value Propositions
What is the value we deliver to our customers?
What are the features of our products or services?
What are the benefits of our products or services?
What are the advantages of our products or services?
What are the unique selling points of our products or services?

Customer Relationships
How do we establish relationships with our customers?
How do we maintain relationships with our customers?
How do we communicate with our customers?
How do we manage customer feedback?
How do we handle customer complaints?

Customer Segments
Who are our target customers?
Who are our core customers?
Who are our secondary customers?
Who are our ancillary customers?
Who are our future customers?

Key Resources
What key resources do we need to perform our activities?
What key resources do we need to deliver our value propositions?
What key resources do we need to establish relationships with our customers?
What key resources do we need to manage customer feedback?
What key resources do we need to handle customer complaints?

Channels
Through which channels do we reach our customers?
How do we reach potential customers?
How do we reach existing customers?
How do we reach new customers?
How do we reach loyal customers?

Cost Structure
What are the most important costs in our business model?
What are the most significant costs in our business model?
What are the most frequent costs in our business model?
What are the most critical costs in our business model?
What are the most necessary costs in our business model?

Revenue Streams
For what value do our customers pay?
For what value do we pay?
How much does each Revenue Stream contribute to our revenue?
How much does each Revenue Stream contribute to our costs?
How much does each Revenue Stream contribute to our profit?
Pillars of e-Business Model

INFRASTRUCTURE MANAGEMENT

PRODUCT INNOVATION

- Capabilities
- Resources
- Value Configuration
- Partner Network

VALUE PROPOSITION

- Value Proposition

FINANCIAL ASPECTS

- Cost Structure
- Profit/Loss

CUSTOMER RELATIONSHIP

- Information Strategy
- Feel & Serve
- Trust & Loyalty
- Target Customer

REVENUE MODEL

- Revenue Model
Key Resources
The most important assets required to deliver our value proposition, distribution channel, and customer relationships

- Physical
- Intellectual
- Human
- Financial
- Production
- Platform
Key Activities [Capabilities]
The most important activities a company must do, in order to deliver its value proposition, and makes its business model work.

- Marketing
- Engineering
- Managing
- Selling
- Logistics
- Problem solving
- Managing
Key Partners
Who are key partners in terms of suppliers and intermediaries between the firm and its end-users? 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

Partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers.

Example: Mobile phone companies that license Android, or insurance companies...
Value Propositions

Value Propositions describes what creates value for a targeted Customer Segment.

- Newness
  - Performance
  - Customization
  - “Getting the job done”
  - Brand / Status
  - Design

- Cost reduction
- Risk reduction
- Accessibility
- Convenience
- Usability
Customer Segments
For whom are we creating value?

- Who are the most important customers?
  - Mass Market
  - Niche Market
  - Segmented
  - Diversified
  - Multi-sided platform
Channels

Value Propositions are delivered to customers through communication, distribution and sales channels.

- How a company communicates with and reaches its customer segments to deliver a value proposition.
- Which Channels do our Customer Segments want to be reached? How are we reaching them now? Which are working best (or not working)?
- Enabling customers to evaluate a firm’s
Customer Relationships
The types of relationships the firm establishes with its customers. What types of relationships does our customer expect and how much does this cost? How does this support the value proposition?

- Personal Assistance
- Dedicated Personal Assistance
- Self-service
- Automated Services
- Communities
Revenue Streams
For what value are our customers really willing to pay?

- Asset sale [product sale]
- Usage fee
- Subscription fee
- Lending / Renting / Leasing
- Licensing
- Brokerage fees
- Advertising
- Service
## Revenue Streams

### Pricing Mechanism

<table>
<thead>
<tr>
<th>Fixed Menu Pricing</th>
<th>Dynamic Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predefined prices are based on static variables</td>
<td>Prices change based on market conditions</td>
</tr>
</tbody>
</table>

#### Fixed Menu Pricing

<table>
<thead>
<tr>
<th>Pricing Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>List Price</strong></td>
<td>Price set by product, service, or other Value Propositions</td>
</tr>
<tr>
<td><strong>Product Feature</strong></td>
<td>Price depends on the number and quality of Value Proposition features</td>
</tr>
<tr>
<td><strong>Customer Segment</strong></td>
<td>Price depends on the type and characteristic of a Customer Segment</td>
</tr>
<tr>
<td><strong>Volume dependent</strong></td>
<td>Price as a function of quantity purchased</td>
</tr>
</tbody>
</table>

#### Dynamic Pricing

<table>
<thead>
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<th>Pricing Mechanism</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Negotiation</strong></td>
<td>Price determined by bargaining skills and leverage</td>
</tr>
<tr>
<td><strong>Yield Management</strong></td>
<td>Price depends on inventory and time of purchase</td>
</tr>
<tr>
<td><strong>Real-time-market</strong></td>
<td>Price is determined dynamically based on supply and demand</td>
</tr>
<tr>
<td><strong>Auctions</strong></td>
<td>Price determined by outcome of competitive bidding</td>
</tr>
</tbody>
</table>
Cost Structure

What are the most important costs inherent in delivering the value proposition? Which key resources are most expensive? Which key activities are most expensive?

- Is our business model more Cost driven or Value driven?
- Types of costs
  - Fixed
  - Variable
  - Economies of scale
  - Economies of scope

Some business models are more cost-driven than others. “No frills” airlines, for instance, have built business models entirely around Low Cost Structures.
<table>
<thead>
<tr>
<th>Left Canvas</th>
<th>Right Canvas</th>
</tr>
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<tbody>
<tr>
<td>Company Efficiency</td>
<td>Customer Value</td>
</tr>
<tr>
<td>KP</td>
<td>CR</td>
</tr>
<tr>
<td>KA</td>
<td>CS</td>
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<td>VP</td>
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www.businessedelgeneration.com
The Business Model Canvas: Blue Star Jets

**Customer Segments**
- High Net worth individuals
  - Spend 100k per annum minimum
  - Executives
  - Athletes
  - Musicians
  - Hi Finance

**Customer Relationships**
- Polo Matches
  - Existing & potential customers

**Value Propositions**
- Range of jets
- Flexibility
- No lines – quick security
- No fixed overhead
- Low rates [relative]

**Key Resources**
- Network of 4,000 planes
- Relatively low cost as they don’t own the planes

**Key Activities**
- Brokerage service
  - [matchmaking]
- Marketing

**Key Partners**
- Polo Matches
- Existing & potential customers
- [network of 4,000 planes]
- [brokerage service, matchmaking]
- Marketing

**Channels**
- Through which Channels do our Customer Segments want to be reached?
  - How are we reaching them?
  - How are our Channeling efforts successful?
  - How are we integrating them with customer relations?

**Cost Structure**
- What are the biggest costs in our business model?
- Why cost structure most important?
- What Key Resources are most crucial?

**Revenue Streams**
- What is the revenue stream really willing to pay?
- How does the revenue stream pay?
- How is profit really generated?
- How much does each revenue Stream contribute to overall revenue?
Exercise 1 – Project Group

• Using the Business Model Canvas included in your session material, complete the various building blocks of Netflix's business model.