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? What do we do for the partners? What resources do we offer to partners?

Key Activities
What key activities do we perform? What value do we create for our customers? What customer relationships do we have?

Value Propositions
What do we offer to our customers? What is our unique value proposition? What is the customer problem we solve?

Customer Relationships
What type of relationship do we have with our customers? How are we interacting with them? How are we maintaining our customer relationships?

Customer Segments
Who are our most important customers? Which customer segments are we targeting?

Key Resources
What key resources do we need to create value? How are we acquiring these resources? How do we use our key resources?

Channels
What channels do we use to reach our customers? How do we reach our customers? How do we create value through these channels?

Cost Structure
What are the most important costs in our business model? How do we manage these costs?

Revenue Streams
What are our revenue streams? How much do our customers pay? How do we generate revenue?

www.businessmodelgeneration.com
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 products
- Allowing customers to purchase
- Providing post-purchase customer support
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>

#### List Price
- Price set by product, service, or other Value Propositions

#### Product Feature
- Price depends on the number and quality of Value Proposition features

#### Customer Segment
- Price depends on the type and characteristic of a Customer Segment

#### Volume dependent
- Price as a function of quantity purchased

#### Negotiation
- Price determined by bargaining skills and leverage

#### Yield Management
- Price depends on inventory and time of purchase

#### Real-time-market
- Price is determined dynamically based on supply and demand

#### Auctions
- Price determined by outcome of competitive bidding
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.
The Business Model Canvas: Blue Star Jets

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>High Net worth individuals</th>
<th>Spend 100k per annum minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Executives</td>
<td>Athletes</td>
</tr>
<tr>
<td></td>
<td>Athletes</td>
<td>Musicians</td>
</tr>
<tr>
<td></td>
<td>Hi Finance</td>
<td>Polo Matches</td>
</tr>
<tr>
<td></td>
<td>Range of jets</td>
<td>Polo Matches</td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
<td>Matching</td>
</tr>
<tr>
<td></td>
<td>No lines – quick security</td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>No fixed overhead</td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>Low rates [relative]</td>
<td>Marketing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Brokerage service [matchmaking]</th>
<th>Marketing</th>
</tr>
</thead>
</table>

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

<table>
<thead>
<tr>
<th>Customer Relationships</th>
<th>Polo Matches Existing &amp; potential customers</th>
</tr>
</thead>
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<table>
<thead>
<tr>
<th>Customer Segments</th>
<th>Polo Matches Existing &amp; potential customers</th>
</tr>
</thead>
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<table>
<thead>
<tr>
<th>Channels</th>
<th>Through which channels do our Customer Segments want to be reached?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How are we reaching them?</td>
</tr>
<tr>
<td></td>
<td>Polo Matches Existing &amp; potential customers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue Streams</th>
<th>Planes Helicopters</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>What are the costs in our business model?</th>
</tr>
</thead>
</table>

| Network of 4,000 planes | Relatively low cost as they don’t own the planes |
Exercise 1 – Project Group

• Using the Business Model Canvas included in your session material, complete the various building blocks of Netflix’s