Enhancement of Technology Transfer Skills in Science and Study Institutions of Lithuanian Valleys

Business Models Workshop
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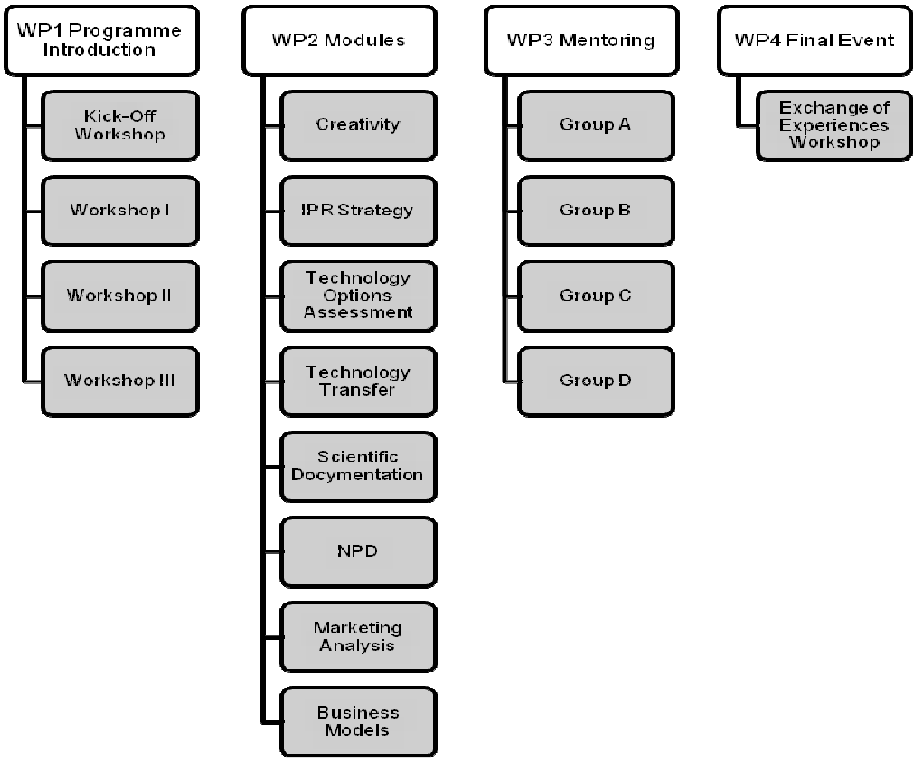
Table of Contents

Modules of the program



1. INTRODUCTION TO BUSINESS MODELS

1.2 Entrepreneurial Spirit

Traditionally, "entrepreneurial spirit" cannot be defined in a global way, as everybody would have a different idea and most importantly, the national, regional and even local differences can be so big, that in each region another understanding would prevail. However, in order to approach the topic of Business Models in the sequence of this workshop series, we like to ask:

Do you have an entrepreneurial spirit?

The criterion to reply can again be worded as a question:

Are you constantly thinking about how to create value and build new businesses, or how to improve or transform your organization?

Or:

Are you trying to find innovative ways of doing business to replace old, outdated ones?

In the way we see it: "entrepreneurial spirit" is not conditioned by operating your own company, rather to constantly being involved with your job, your business and finding a high identification with it. And it is connected to finding all the time something new to generate other services, customer care or putting new products or lines on the market.

What does this have to do the topic of this seminar "Business Models". We consider it of high importance to be able conditioned by your personal history, operating environment, colleagues, organization, etc to move and change, improve things and to transform innovations into economic goods, hopefully into positive operational results.

Scientists have worked on definitions since the upcoming industrialization in Europe, i.e. starting with late 17th Century. Economists who have notably contributed this subject are Richard Cantillon, Adam Smith and especially Joseph Schumpeter in the 1930s. according to Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation. But we leave this to deepen for those interested in theory.

In teaching *entrepreneurship* the concept of a *business mode*l has to be discussed. Let's start with on example:

Let's go back to 1958. Why to 1958? Because we want to introduce a person called Chester Carlson, head of the research unit at a company called Haloid and inventor of the first Photocopying-machine. An amazing machine that could make 2,000 copies a day at a time where could only be made between 15-to 30. This was a considerable technology jump but the problem was that this technology was really expensive. It was about 7 to eight times more expensive than existing technologies. What to do with such an impressive technology if you are not sure about how to bring into the market.

Expert consultants were hired to analyse the market and after a detailed market research they came to the conclusion that there was no market, because it was impossible to sell to the price necessary to recover the investment.

It was a very expensive technology. Not convinced with the answer, they came back to the board and thought of a new business model that influenced the photocopying industry until today. They decided to lease the technology to companies for 95 dollars a month what included 2,000 copies for free. Every copy over the 2,000 had an additional fee of 2 cents. Companies jumped into this offer and started licensing this great new technology and started copying not 2,000 times a month but 2,000 times a day. This success meant a revenue growth of 40% compounded for the following 20 years.

This is an interesting story but there are many others. Now we can move forwards to 1997 to introduce 2 persons who do not need introduction: Larry Page and Sergey Brin founders of Google while they were Ph.D. students at Stanford University. They came up with a new invention and popularize the first modern-day search engine.

The problem they had to face was different to the problem solved by Chester Carlson; their product was not too expensive: their product was FREE! How to do that, they made it from Contextualized Advertising by selling search terms and not only selling but by optioning them off. So the pricing mechanism makes the big difference.

Now, what do both examples have in common?

- They empower the product through the business model. Of course, the technology behind the product and the product itself is important, essential, but alone considered is not sufficient for the business success.
- They invented a new business model. Broke the limits of the organisation and the limits of the industry and created something new avoiding to concentrate in a simply competition for the price or the speed of delivery.
- Success of Business models can be tested and predict to some extent, but the adoption of a new business model always imply a risk!

In order to move into an active position, we set ourselves three aims:

1. How do we design a Business Model? How do we go beyond the product and service definition to reach all the pieces influencing a Business Model?
2. How do we come up with innovative Business Models?
3. How do we test Business Models?

1.2 How do we discuss Business Models?

To illustrate this analysis we can take the coffee market and the expenditure rates of coffee consumption at home. *Nespresso* is a good example, because changed the business model of espresso industry.

There is a technology behind with an attractive colored design. The results of applying the *Nespresso* Business Model to the technology are impressive:

Nespresso is one of the fastest growing businesses in the Nestlé Group. The average growth rate is of 30% p.a. since 2000.

Exercise:

Imagine and describe the *Nespresso* Business Model. Try to identify what made them so successful?

Before analysing in detail the Business Model of *Nespresso*, let's describe what is a Business Model. They used to look like the graphic shown on the left side of the page. Correct: this seems to be a mindmap (see workshop CREATIVITY) and it a very useful approach tro graphically capture your ideas and to transform them into some economically operational "how to turn a buck".

Some people speak about existing business model in the industry, others about a new invented one. Some people put the accent on technology and product definition and others on promotion and sales. There is quite some confusion: and this is not because we don' have smart people around the table, but because they do not usually speak the same language. Indeed: many things can be made clearer with a picture!

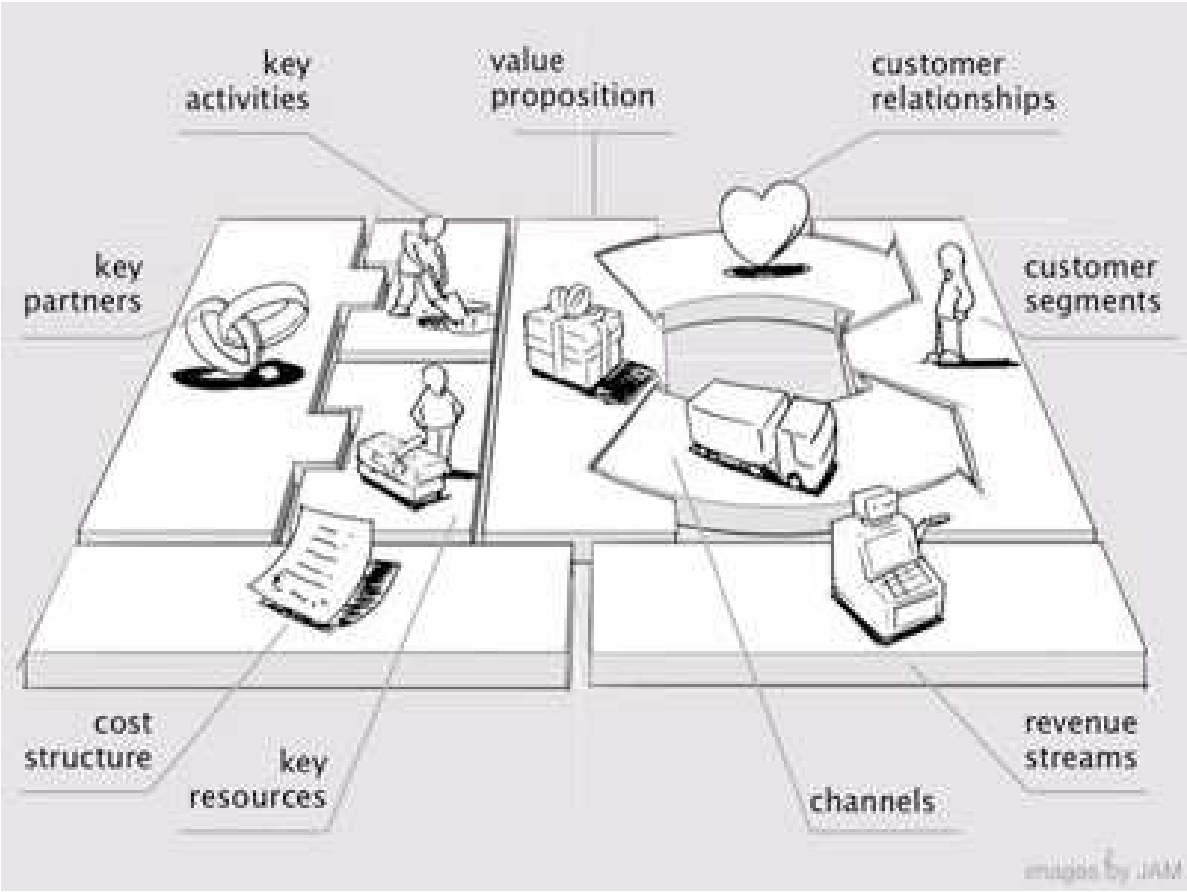
Pictures, charts and diagrammes are very useful to understand the whole picture f a business model and how the different elements interact.

However, business needs figures and facts at some point textual description, for example when you want to approach a potential investor (see script VENTURE CAPITAL).

We propose you a methodology based on a canvas, where you can draw, write, put and reorganize the ideas and different elements conforming an ecosystem in a systematic way

2. INTRODUCING THE BUSINESS CANVAS Methodology

Now let's concentrate on are a tool for the definition of the business model that we can use in our daily work until you map out your complete Business Model. http://www.businessmodelgeneration.com/



According to this methodology, a business model can be organised in 9 Building Blocks a shown in the above picture that show the logic of how a company intends to make money.

LEFT	**RIGHT**
– Revenue Streams – Key Resources – Key Activities – Key Partnerships – Cost Structure	– Customer Segments – Value Propositions – Channels – Customer Relationships

The content to be worked on in detail in the right side of the canvas are:

- Customer Segments: serving one or several customer segments E.gr. Newspapers: readers and advertisers. For both you will have a different value proposition.

- Value Propositions: it seeks to solve customer problems and satisfy customer needs with value propositions;
- Channels: Value propositions are delivered to customers through communication, distribution and sales channels. How do customers want to be reached? Through which channels? How do they want to communicate with me? How do they want tot receive the goods? E. gr. Physical channel? Digital channel?
- Customer Relationships: customer relationships are established and maintained with each Customer Segment. For example: a pivateSwiss bank will have a very personal relationship with a wealthy family, over generations even. This will influence the whole Business model that will be based on persons. If we were ***amazon*** we would have a different approach: personal relationship? Maybe in the sense of customized offers based on experience of historic sales even recommending us music and Books. Amazon offers an automated system relationship scalable.
- Revenue Streams: Revenue Streams result from value propositions successfully offered to customers; What do the customers want to pay for and how do they want to pay? What pricing mechanisms? Fixed amount, discounts, licensing…

The content reflected in detail in the left side of the canvas are:

What do we need for creating value to the different segments and maintain relation?

- Key Resources: Key resources are the asset required to offer and deliver the previously described elements…; Do I need factories, brands, IPRs…
- Key Activities: by performing the key activities necessary for offering value; What do we really need to do and be good/excellent at? Researching? Marketing? Producing?
- Key partnerships: some activities are outsourced and some resources are acquired outside the company; We cannot do it everything by ourselves. Because we cannot be specialised in everything.
- Cost Structure: The business model elements result in a cost structure;

Let's analyse the Nespresso Business Model in detail. They have a very well designed strategy. Here you are in one poster, the whole strategy. But, why did we use this case study? Because Nestlé already made a first attempt to start up a business with the same product and technology but a different strategy. Nespresso almost went bankrupt.

The Business Model may be the difference between success or failure with exactly the same product or technology!

Conclusio: design your Business Model well! A business model describes the rationale of how an organization creates, delivers, and captures value. The nine "building blocks" of the Business Canvas are explained here in detail:

2.1 Customer Segments: serving one or several customer segments. During the seminar, each of the nine blocks was explained in detail theoretically and followed up with team work.

Customer Segments define the different groups of people or organisations an enterprise aims to reach and serve.

Customer groups represent separate 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 profitability
- They are willing to pay for different aspects of the offer

Which are the **segmentation criteria**? Here are segmentation criteria:

- Geographic
- Economic
- Demographic
- psychographic
- behaviour

Customers comprise the heart of any business model. Without profitable customers, no company can survive for long. IN order to better satisfy customers, a company may group them into different segments with common needs, size, age, common behaviours, or other attributes. A business model may define one or several large or small customer segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around and strong understanding of specific customer needs-

Another approach would be to ask: **For Whom are we creating value?**

Who are our most important customers?

There are different strategies for attending the customer segments identified:

- Mass market
- Niche market
- Segmented
- Diversified
- Multi-sided platforms

Mass Market: Business models focused on mass markets don't distinguish between different Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships all focus on one large group of customers with broadly similar needs and problems. This type of business model is often found in the consumer electronics sector.

Niche market: Business models targeting niche markets cater to specific, specialized Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships. For example, many car part manufacturers depend heavily on purchases from major automobile manufacturers.

Segmented: Some business models distinguish between market segments with slightly different needs and problems. The retail arm of a bank like Credit Suisse, for example, may distinguish between a large group of customers, each possessing assets of up to U.S. $100,000, and a smaller group of affluent clients, each of whose net worth exceeds U.S. $500,000. Both segments have similar but varying needs and problems. This has implications for the other building blocks of Credit Suisse's business model, such as the Value Proposition, Distribution Channels, Customer Relationships, and Revenue streams. Consider Micro Precision Systems, which specializes in providing outsourced micromechanical design and manufacturing solutions. It serves three different Customer Segments — the watch industry, the medical industry, and the industrial automation sector — and offers each slightly different Value Propositions.

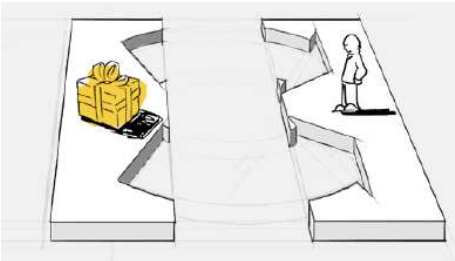
Diversified: An organization with a diversified customer business model serves two unrelated Customer Segments with very different needs and problems. For example, in 2006 Amazon.com decided to diversify its retail business by selling "cloud computing" services: online storage space and on-demand server usage. Thus it started catering to a totally different Customer Segment — Web companies — with a totally different Value Proposition. The strategic rationale behind this diversification can be found in Amazon.com's powerful IT infrastructure, which can be shared by its retail sales operations and the new cloud computing service unit.

Multi-sided platforms: Some organizations serve two or more interdependent Customer Segments. A credit card company, for example, needs a large base of credit card holders and a large base of merchants who accept those credit cards. Similarly, an enterprise offering a free newspaper needs a large reader base to attract advertisers. On the other hand, it also needs advertisers to finance production and distribution. Both segments are required to make the business model work.

2.2 Value Proposition - What are you selling?

You might think this is an easy question to answer - it isn't

- the real question: What is the customer buying?



- What needs are you satisfying?
- In building a business, you want to emphasize benefits as part of marketing.

The Value proposition Building Block describes the bundle of products, services and related attributes that create value for a specific customer segment.

The value proposition is the reason why customers turn one company over another. It solves a customer problem or satisfies a customer need. In this sense the value proposition is an aggregation of benefits that a company offers to customers.

Emphasize the best benefits. “best benefits” are those that make people feel better or fill their wallets:

benefit 1: convenience

- products and services that save people time can often charge more

benefit 2: added value

- important, no matter how simple
- if product is boring, you must figure out ways to add value

benefit 3: saving both time and money

- example: purchasing over the internet

The next step is Assessing the Competition

- No businesses are carried out in a vacuum
- if there is no apparent competition, do not take that as a good sign
- maybe the market isn’t receptive
- maybe you need to look deeper
- your competitor may not be another business, but another way of doing it
- list your competitors and their weaknesses + strengths
- how will you stay ahead of competition?

A Value proposition creates value for a customer segment through a distinct mix of elements catering to that segment’s needs. Values may be qualitative (design, quality, user experience) or quantitative (e.g. price, speed of service).

Newness

Some Value Propositions satisfy an entirely new set of needs that customers previously didn’t perceive because there was no similar offering. This is often, but not always, technology related. Cell phones, for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.

Performance

Improving product or service performance has traditionally been a common way to create value. The PC sector has traditionally relied on this factor by bringing more powerful machines to market. But improved performance has its limits. In recent years, for example, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand. What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?

Customization

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

"Getting the job done"

Value can be created simply by helping a customer get certain jobs done. Rolls-Royce understands this very well: its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls- Royce a fee for every hour an engine runs.

Design

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

Brand/status

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest "underground" brands to show that they are "in."

Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easyJet, and Ryanair have designed entire business models specifically to enable low cost air travel. Another example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian

conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population. Increasingly, free offers are starting to permeate various industries. Free offers range from free newspapers to free e-mail, free mobile phone services, and more.

Cost reduction

Helping customers reduce costs is an important way to create value. Salesforce.com, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

Risk reduction

Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

Accessibility

Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

Convenience/usability

Making things more convenient or easier to use can create substantial value. With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.

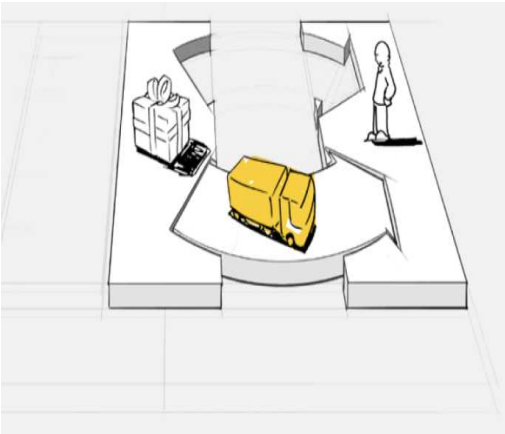
An Exercise was performed: *Given the selected business make a value proposition and try to answer following questions:*

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each Customer Segment?

For a selection of different variables you can also use the matrix we used for the selection of Value Attribute Matrix. (see workshop CREATIVITY)

2.3 Channels

The next Building Block of the Business Canvas is "Channels". This is chiefly understood as "Sales and Promotion" and hence include to a large extend communications as well. The channels Building Block describe how a company communicates with and reaches its customer segments to deliver a value proposition. Communication, Distribution and sales channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience.



Channels serve several functions, including:

- Raising awareness among customers about a company's products and services
- Helping customers evaluate a company's value proposition
- Allowing customers to purchase specific products and services
- Delivering value proposition to customers
- Providing post-purchase customer support**.**

Channels have five distinct phases. Each channel can cover some or all of these phases. We can distinguish between direct Channels and indirect ones, as well as between:

- owned Channels; and
- partner / external Channels.

Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to market. An organization can choose between reaching its customers through its own Channels, through partner Channels, or through a mix of both.

- Owned Channels can be direct, such as an in-house sales force or a Web site, or they can be indirect, such as retail stores owned or operated by the organization. Owned Channels and particularly direct ones have higher margins, but can be costly to put in place and to operate.
- Partner Channels are indirect and span a whole range of options, such as wholesale distribution, retail, or partner-owned Web sites.

Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths. The trick is to find the right balance between the different types of Channels, to integrate them in a way to create a great customer experience, and to maximize revenues.

Exercise: For the selected Business try to

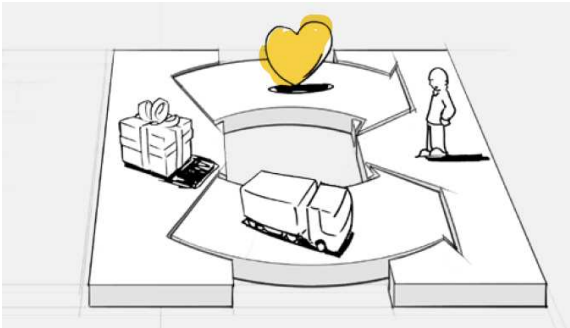
identify the most adequate channels with the below value attribute Matrix:

- 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 TYPES			CHANNEL PAHSES				
			Awareness	Evaluation	Purchase	Delivery	After sales
Own	Direct	Sales Force					
		Web Sales					
	Indirect	Own Stores					
Partner		Partner Stores					
		Wholesaler					
		Others					

2.4 Customer Relationships



The Customer Relationships Building Block describes the types of relationship a company establishes with specific Customer Segments and hence integrates also the channels use to communicate the Value Proposition.

Customer relationships may be driven by the following motivations:

- Customer Acquisition;
- Customer retention;
- Boosting sales (*upselling*).

A company should clarify what type of relationship wants to establish with each customer segment. Relationships can range from personal to automated.

Example: in the early days, for example, mobile network operator Customer Relationships were driven by aggressive acquisition strategies involving free mobile phones. When the market became saturated, operators switched to focusing on customer retention and increasing average revenue per customer. The Customer Relationships called for by a company's business model deeply influence the overall customer experience.

We can distinguish between several categories of Customer Relationships, which may co-exist in a company's relationship with a particular Customer Segment:

Personal assistance

This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. This may happen onsite at the point of sale, through call centers, by e-mail, or through other means.

Dedicated personal assistance

This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals. Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.

Self-service

In this type of relationship, a company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

Automated services

This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can stimulate a personal relationship (e.g. offering book or movie recommendations).

Communities

Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and solve each other's problems. Communities can also help companies better understand their customers. Pharmaceutical giant GlaxoSmithKline launched a private online community when it introduced *alli, a* new prescription-free weight-loss product. GlaxoSmithKline wanted to increase its understanding of the challenges faced by overweight adults, and thereby learn to better manage customer expectations.

Co-creation

More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others, such as YouTube.com, solicit customers to create content for public consumption.

Deepen the understanding of the Block "Customer Relationships with this exercise: For the selected Business try to

identify the most adequate 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 cost-effectively are they?
- How are they integrated with the rest of the Business Model?

Consider the following patterns:

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

2.5 Revenue Streams

The revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings).

If customers comprise the heart of a business model, Revenue Streams are the arteries. company must ask itself for what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more revenue streams from each customer segment. Each Revenue Stream may differ in the pricing mechanism, as explained on more detail below. **Price mechanisms my be:**

- Fixed list of prices;
- Bargaining;
- Auctioning;
- Market dependant;
- Volume dependent; or
- Yield management.

There are several ways to generate Revenue Streams:

Asset sale

The most widely understood Revenue Stream derives from selling ownership rights to a physical product. Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

Usage fee

This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays. A telecom operator may charge customers for the number of minutes spent on the phone. A hotel charges its customers for the number of nights rooms are used. A package delivery service charges customers for the delivery of a parcel from one location to another.

Subscription fees

This Revenue Stream is generated by selling continuous access to a service. A gym sells its members monthly or yearly subscriptions in exchange for access to its exercise facilities. World of Warcraft Online, a Web-based computer game, allows users to play its online game in exchange for a monthly subscription fee. Nokia's Comes with Music service gives users access to a music library for a subscription fee.

Lending/Renting/Leasing

This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership. Zipcar.com provides a good illustration. The company allows customers to rent cars by the hour in North American cities. Zipcar.com's service has led many people to decide to rent rather than purchase automobiles.

Licensing

This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows right holders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties. Similarly, in technology sectors patent holders grant other companies the right to use a patented technology in return for a license fee.

Brokerage fees

This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sales transaction executed between credit card merchants and customers. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

Advertising

This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years other sectors, including software and services, have started relying more heavily on advertising revenues.

Each Revenue Stream might have different pricing mechanisms. The type of pricing mechanism chosen can make a big difference in terms of revenues generated.

There are two main types of pricing mechanism: fixed and dynamic pricing

Fixed "Menu" Pricing Predefined prices are based on static variables		Dynamic Prices Prices change based on market conditions	
List Price	Fixed Prices for individual products, services, or other value propositions	*Negotiation (Bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product Feature dependent	Price Depends on the number or quality of Value Proposition features	*Yield Management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer Segment dependent	Price depends on the type and characteristic of a Customer Segment	*Real Time Market*	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quality purchased	*Auctions*	Price determined by outcome of competitive bidding

A business model can involve two different types of Revenue Streams:

- Transaction revenues resulting from one-time customer payments (e.g. Nespresso Machines);
- Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support (Nespresso Pods).

The concluding exercise shall help to identify revenue streams and fix most adequate prices /price system.

- 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?

2.6 Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work. For example a microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources. Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model.

Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

Physical

This category includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks. Retailers like Wal-Mart and Amazon.com rely heavily on physical resources, which are often capital-intensive. The former has an enormous global network of stores and related logistics infrastructure. The latter has an extensive IT, warehouse, and logistics infrastructure.

Intellectual

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when successfully created may offer substantial value. Consumer goods companies such as Nike and Sony rely heavily on brand as a Key Resource. Microsoft and SAP depend on software and related intellectual property developed over many years. Qualcomm, a designer and supplier of chipsets for broadband mobile devices, built its business model around patented microchip designs that earn the company substantial licensing fees.

Human

Every enterprise requires human resources, but people are particularly prominent in certain business models. For example, human resources are crucial in knowledge-intensive and creative industries. A pharmaceutical company such as Novartis, for example, relies heavily on human resources: its business model is predicated on an army of experienced scientists and a large and skilled sales force.

Financial

Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to borrow funds from banks and capital markets, then use a portion of the proceeds to provide vendor financing to equipment customers, thus ensuring that orders are placed with Ericsson rather than competitors.

Here the exercise is to identify Key Resources you may need to provide the value proposition to the selected customer segments:

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

2.7 Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work.

Key Activities are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain

Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type.

Some Examples of Key activities are:

- For software maker Microsoft, Key Activities include software development.
- For PC manufacturer Dell, Key Activities include supply chain management.
- For consultancy McKinsey, Key Activities include problem solving.

In terms of business models, key activities can be structured in 3 main categories:

- Production
- Problem Solving
- Platform/ Network.

Some examples of Key activities are:

Production

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

Problem solving

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.

Platform/network

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.

- eBay's business model requires that the company continually develop and maintain its platform: the Web site at eBay.com.
- Visa's business model requires activities related to its Visa credit card transaction platform for merchants, customers, and banks.
- Microsoft's business model requires managing the interface between other vendors' software and its Windows operating system platform. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

The **exercise** corresponding to identify Key Activities is based primarily on the value proposition and how to reach the selected customer segments:

- What Key Activities do our value propositions require?
- Our Distribution Channels?
- Customer Relationships? Revenue Streams?

2.8 Key Partners

The Key Partnerships Building Block describes the network of suppliers and partners that make the Business Model work. Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

- Strategic alliances between non-competitors;
- Co-opetition: strategic partnerships between competitors;
- Joint ventures to develop new businesses;
- Buyer-supplier relationships to assure reliable supplies.
-

It can be useful to distinguish between three motivations for creating partnerships:

Optimization and economy of scale

The most basic form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. Optimization and economy of scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

Reduction of risk and uncertainty

Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products.

Acquisition of particular resources and activities

Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. A mobile phone manufacturer, for example, may license an operating system for its handsets rather than developing one in-house. An insurer may choose to rely on independent brokers to sell its policies rather than develop its own sales force.

Exercise: identify Partners and strategic alliances you may need to provide the value proposition to the selected customer segments:

- Who are our key partners? Who are our key suppliers?
- Which key resources are we acquiring from partners?
- Which Key activities do partners perform?

2.9 Cost Structure

The Cost Structure describes all costs incurred to operate a business model. , This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships.

Some business models, though, are more cost-driven than others. So-called “no frills” airlines, for instance, have built business models entirely around low Cost Structures. A no-frills or no frills service or product is one for which the non-essential features have been removed to keep the price low. The use of the term- "frills" refers to a style of fabric decoration. Something offered to customers for no additional charge may be designated as a "frill" - for example, free drinks on airline journeys, or a radio installed in a rental car.[1] No-frills businesses operate on the principle that by removing luxurious additions, customers may be offered lower prices.

Depending on the value proposition and the revenues streams we already have decided what the customer is ready to pay for.

Costs are important in every Business Model. But low cost structures are more important to some business models than to others.

We can distinguish 2 different types of Business Models cost structures:

- Cost-driven,
- Value-driven.

Cost-driven

Cost-driven business models focus on minimizing costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing. No frills airlines, such as Southwest, easyJet, and Ryanair typify cost-driven business models.

Value-driven

Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models. Luxury hotels, with their lavish facilities and exclusive services, fall into this category.

Cost structures can have following characteristics:

Fixed costs

Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

Variable costs

Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

Economies of scale

Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

Economies of scope

Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

The cost structure Exercise shall enable you to consider the resources, activities, partners and value proposition required:

- What are the most important costs inherent in our Business Model?
- Which key resources are most expensive?
- Which Key activities are more expensive? Which are the most cost-effective?
- Should I reconsider my resources and partners?

A Case Study of the Apple iPod/iTunes Business Model illustrates the nine blocks of the Business Canvas in conjunction:

In 2001 Apple launched its iconic iPod brand of portable media player. The device works in conjunction with iTunes software that enables users to transfer music and other content from the iPod to a computer.

The software also provides a seamless connection to Apple's online store so users can purchase and download content.

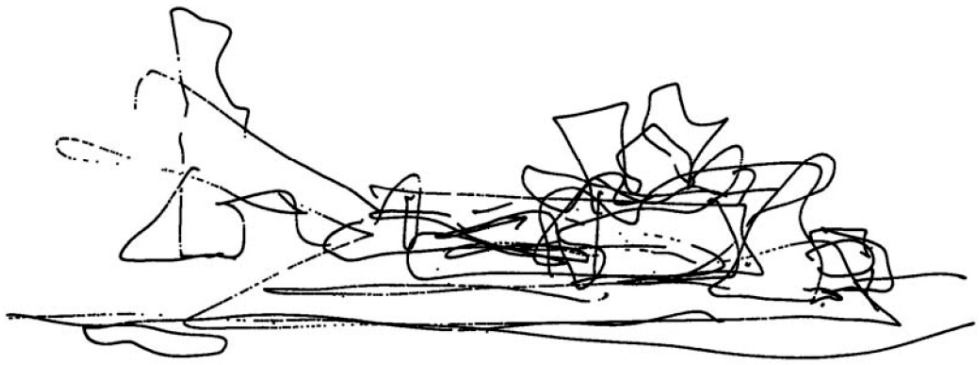
This potent combination of device, software, and online store quickly disrupted the music industry and gave Apple a dominant market position. Yet Apple was not the first company to bring a portable media player to market. Competitors such as Diamond Multimedia, with its Rio brand of portable media players, were successful until they were outpaced by Apple.

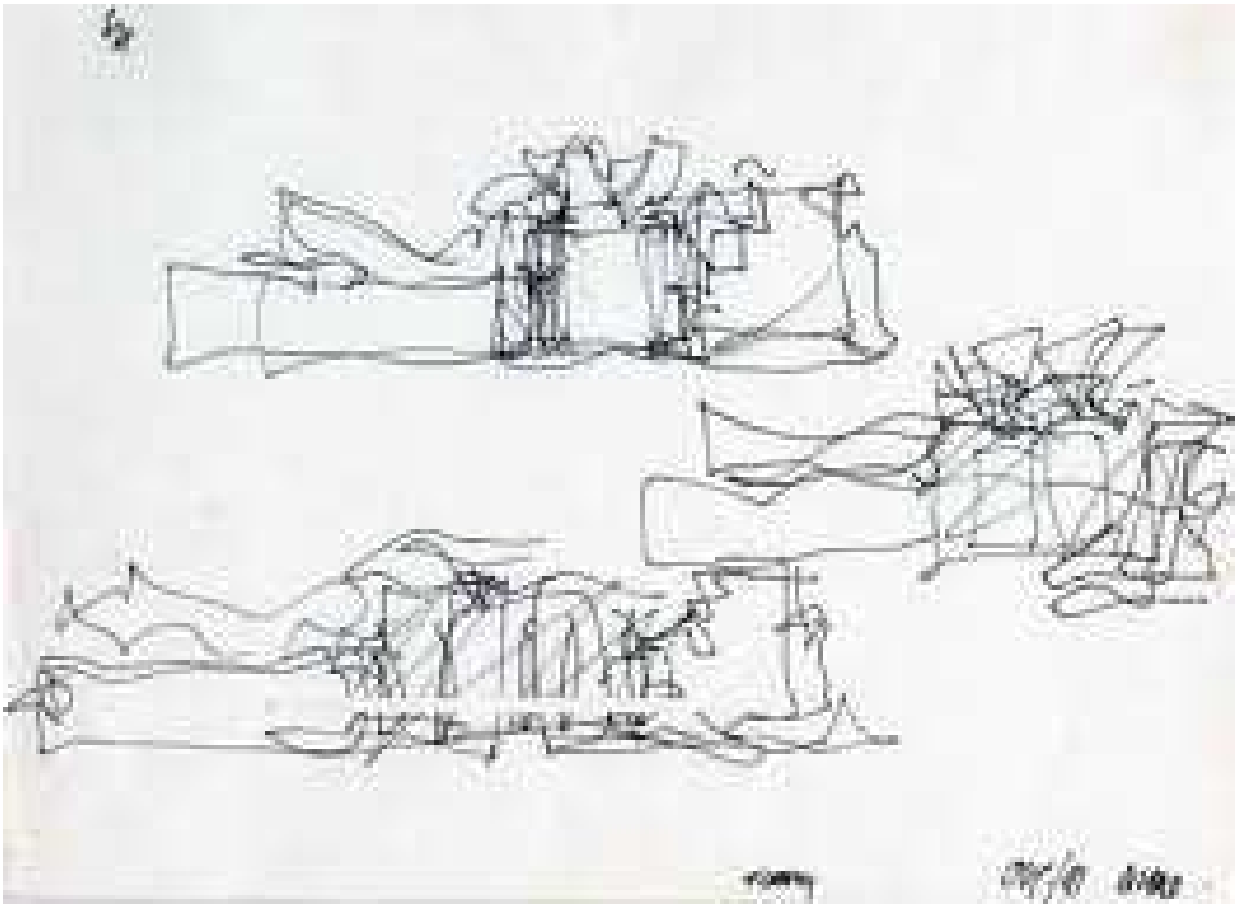
How did Apple achieve such dominance? Because it competed with a better business model. On the one hand it offered users a seamless music experience by combining its distinctively designed iPod devices with iTunes software and the iTunes online store. Apple's Value Proposition is to allow customers to easily search, buy, and enjoy digital music. On the other hand, to make this Value Proposition possible, Apple had to negotiate deals with all the major record companies to create the world's largest online music library.

The twist? Apple earns most of its music-related revenues from selling iPods, while using integration with the online music store to protect itself from competitors.

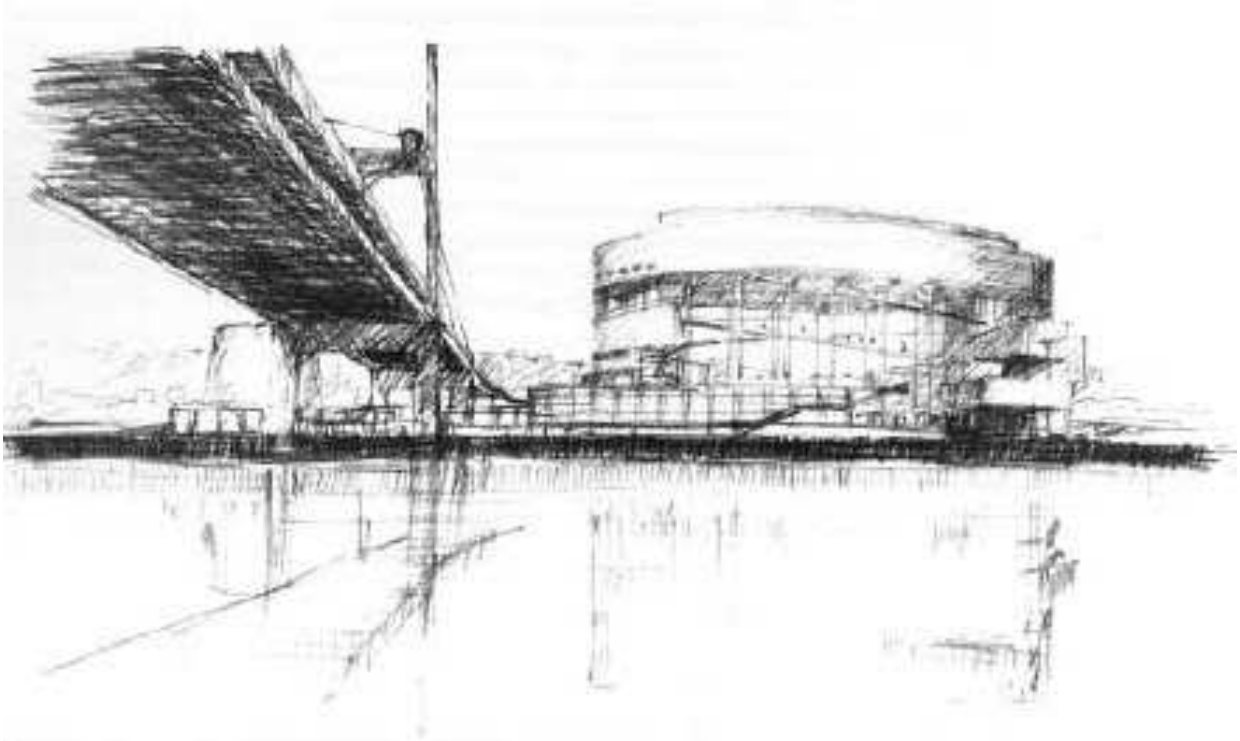
A philosophical approach behind the definition of Business Models shall be illustrated in a creative context imaging the work of designers or architects: Most of them do not find out the best solution at once, like genius, but buildings and new products are result of a hard work of drafting different alternatives and often shown an evolution of an idea or concept.

Frank O. Gehry and the Bilbao Guggenheim shall be told as a case study here: He accepted the challenge of designing and building a museum, not only for preserving and exhibiting contemporary art, but also for transforming and revitalizing a city. Frank Gehry, supported by his team, started a process of design thinking, trying to define the target customers and the value propositions to face the challenge. But innovative creation is not a pure intuitive act of a genius, but there is a very structured process behind that. Gehry and his team worked with many prototypes before they even decided the way the building should look like.

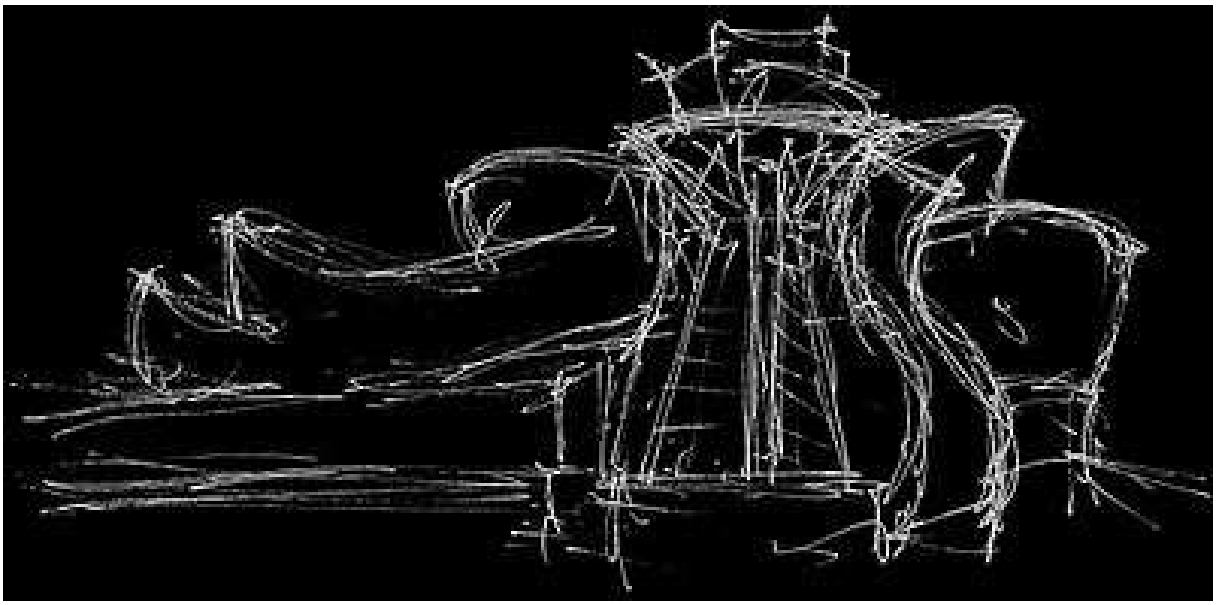




Getting from image to plan




Museo de Guggenheim Bilbao



The result:

A detail:

The lesson or message we would like to convey here is that you should take the time to scetch out many alternative business models. This includes imperatively to be able to select and choose and discard likely 90 % of your (previous) choices.

3. FROM THE BUSINESS MODEL TO THE BUSINESS PLAN

The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems and is described and concreted in a Business Plan.

The business plan is a document that convincingly demonstrates that your business can sell enough of its product or service to make a satisfactory profit and be attractive to potential investors. It is not abstract, uninformative, theoretical or mysterious. it is a selling document!

The goals of a Business Plan are to consider key aspects and decide whether to “go or no go”. This includes:

- Initial planning document for a new business
- Serves as a tool to communicate the idea of the new venture to potential investors, bankers, key employees (see Seminar “Venture Capital from March 2013)
- Serves as a record or tool to monitor and compare results.

There are obviously potential problems with this definition of a goal, reflected as in a psychological dimension:

- The Real goal is **to convince!**
- Who are you convincing? Yourself!

- Once you convince yourself, everything else is “downhill”

The operational dimension can be formulated with the question: Who Needs to Write/See the Business Plan? The recipient is/are:

- Most banks loaning money, especially if the business does not have a track record
- Colleagues and “risk-sharers”, to insure you have considered everything
- Investors or partners who have some doubts about your abilities/integrity
- Highly required or important potential employees
- Anyone wondering if they should take the risk

A Business Plan helps the company in many ways:

1. Obtain bank financing (separates you from the run-of-the-mill competition, you are serious enough to do formal planning, those that plan are better risks)
2. Seeking investment funding: this is the document most venture capitalists and public subsidy loans first ask for
3. Arranging strategic alliances: small/large companies
4. Obtaining large(r) contracts: proof of recognition to large companies checking out small ones
5. attracting key employees: can help an executive come over to your side
6. completing mergers and acquisitions: for selling and buying companies, buyers seldom look at only one company
7. motivating management team: causes everyone to be working toward the same goal, reduces customer confusion, lays out financial, marketing and production goals

Now, to transform this seminar/workshop into practice, w will identify which type of plan is best for you? Questions to be asked to narrow down the choise are:

- What should the plan look like?
- How should it be arranged?
- What should be included in each section?
- How long should it be?

>> Our Proposal: base it on the CANVAS METHODOLOGY

3.1 Types of Business Plans

We can distinguish Three Fundamental Types of Plans

First Type: The Summary Plan

- contains only the most important information about a business and its direction
- 10-15 pages, concise and precise in style
- business strategy stated in a few sentences
- works best when applying for a loan, if you are well-known, not seeking funding from other investors, need money quickly

Type 2: the Full Business Plan

- standard issue, 30-50 pages in length
- from 10-30 pages of support documentation
- I.e., resumes, letters of support, promotional materials
- introduction detailed, explanatory
- works best when you want to explain key issues fully, looking for a lot of money, looking for a strategic partner

Type 3: the Operational Business Plan

- internal planning document of an operational company
- usually much longer because it takes more time to describe ongoing business
- more history, products, people
- heavy on the quantitative analysis
- meant to inspire managers, best for fast-growing company, gives order to growth
- used as part of an annual review.

3.2 Parts of the Business Plan

The various parts of a Business Plan, notwithstanding its form, or type can be read like a Table of Contents:

1) cover page
2) executive summary - small version of BP
3) company strategy - what's your identity?
4) marketing issues - who are the buyers?
5) product/services issues: What are you selling?
6) sales and promotion: How will you sell?
7) financial issues.

3.2.1 Cover Page

- Name of company
- address
- phone number, fax, e-mail
- chief executive's name
- Hints: don't make the banker look up your name and phone number
- number the copy of the plan
- follow-up with non-disclosure agreement

3.2.2 Executive Summary

- Stands alone as a business plan within a business plan
- logical, clear, interesting and exciting
- requires less than 4 minutes to read
- no more than 2 pages (so that's what they're up to!)
- not an abstract, introduction, preface, random collection of highlights
- it's the BP in miniature

The BAD Executive Summary

- Says little about company strategy
- Barely touches on marketing issues
- Emphasizes company's financial needs
- Internally directed vs. externally
- Little explanation of competition and where the company will go in marketplace

The BETTER Executive Summary

- Explains why the timing is right for the company to be formed or the venture to be set up
- Establishes its strategy
- Explains how it will compete effectively, concise, to the point
- Emphasizes marketing aspects
- Positive in nature, says what a prospective investor wants to hear
- Synthesizes talents of team; written, re-written

3.2.3 Company Strategy

The Company Strategy asks: What is your company's identity?

- Every company has an underlying philosophy and logic (examples):
- Market of research result
- Establish a service that your are missing and others might pay for
- Decentralize decision-making
- Interest in funding expansion of the company via earnings as opposed to outside investment.

This can be broken down into four main strategy issues:

1) **Overall company strategy:** overall approach to producing and selling products and services, goals for maximizing success, what is your guiding principle?

   Discuss your company's history, when it was started, by whom, has strategy changed from that of the past, if so, why?

   Include fundamentals: sales, profits, number of employees, locations

   What is status of company today (snapshot)?

   Strengths and Weaknesses: mention these, you will appear more honest, open-minded.

   Future prospects, or also known as the **"objectives"** section intend to deliver:

   - easy to project good growth, harder to make it believable
   - if you had a history of growth, then it is more believable
   - can sometimes use external trends (e.g., growth in another area) to justify new direction
   - start-up companies can more easily speak to growth because they have bad experiences to dispel optimism
   - people starting the business can lend credibility to the plan if they, themselves, are credible

2) **Mission statement:** a statement that encapsulates your company's values and overall purpose in life. It represents a more generalized and idealistic vision of the company's purpose in life. Often, these visions are a little too lofty, link to the key business case! Many times it is more than adequate just to improve people's lives. Mission statements also establish achievable goals

   Often focus on three issues: product, economic and social objectives

3) **Technology/information assessment:** ability to use technology and manage information. Greater or higher technology allows small companies to compete on an possibly saturated market. Your service helps to achieve competitive

advantages. With proper technology, customers can be serviced more quickly and efficiently than competitors Technology must be integrated into the company's most important operations

4) **Management team:** who determines and implements strategy (must have credibility). This is the critical link in making the strategy section believable:
   - quality of the management team should speak for itself because people are the key to determining success;
   - two most common problems: one-man-band syndrome, everyone from same background;
   - hard to expand if you have a dictator;
   - successful management teams require diversity of training and expertise.

3.2.4 Marketing issues - who are the buyers?

Refer to the Building Block "Customer Segments" of the Business Canvas Plan and illustrate with appropriate research and figures.

3.2.5 Product/services issues: What are you selling?

Refer to the Building Block "Value Proposition" of the Business Canvas Plan and illustrate with appropriate research and figures. Include technical concepts, plans and IPR issues where useful.

3.2.6 Sales and promotion: How will you sell?

Refer to the Building Block "Channels" of the Business Canvas Plan and illustrate with appropriate research and figures. Include technical concepts, plans and IPR issues where useful.

1) Emphasize real-life business accomplishments
2) Academic accomplishments only hold value for technology businesses
3) Identify evidence of special knowledge and creativity
4) Make the most of your human resources: describe all team members in positions of authority

3.2.7 Financial issues.

It contains financial projections and is the hardest part of the Plan to organize and finish. Please see the workshop lecture on VENTURE CAPITAL.