Creating, Delivering & Capturing Value:
the *Business Model Canvas*

Start-up Sprint

New Ventures BC Seminar Series

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Some Background

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Key Themes

- Why a Business Model Canvas

- Creating a Business Model Canvas

- Telling your 'Business' story

- Some examples to follow/consider

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What is a 'Business Model'?

- Not a financial pro forma

- Def: business model
  "A Business Model describes the rationale of how an organization creates, delivers and captures value"

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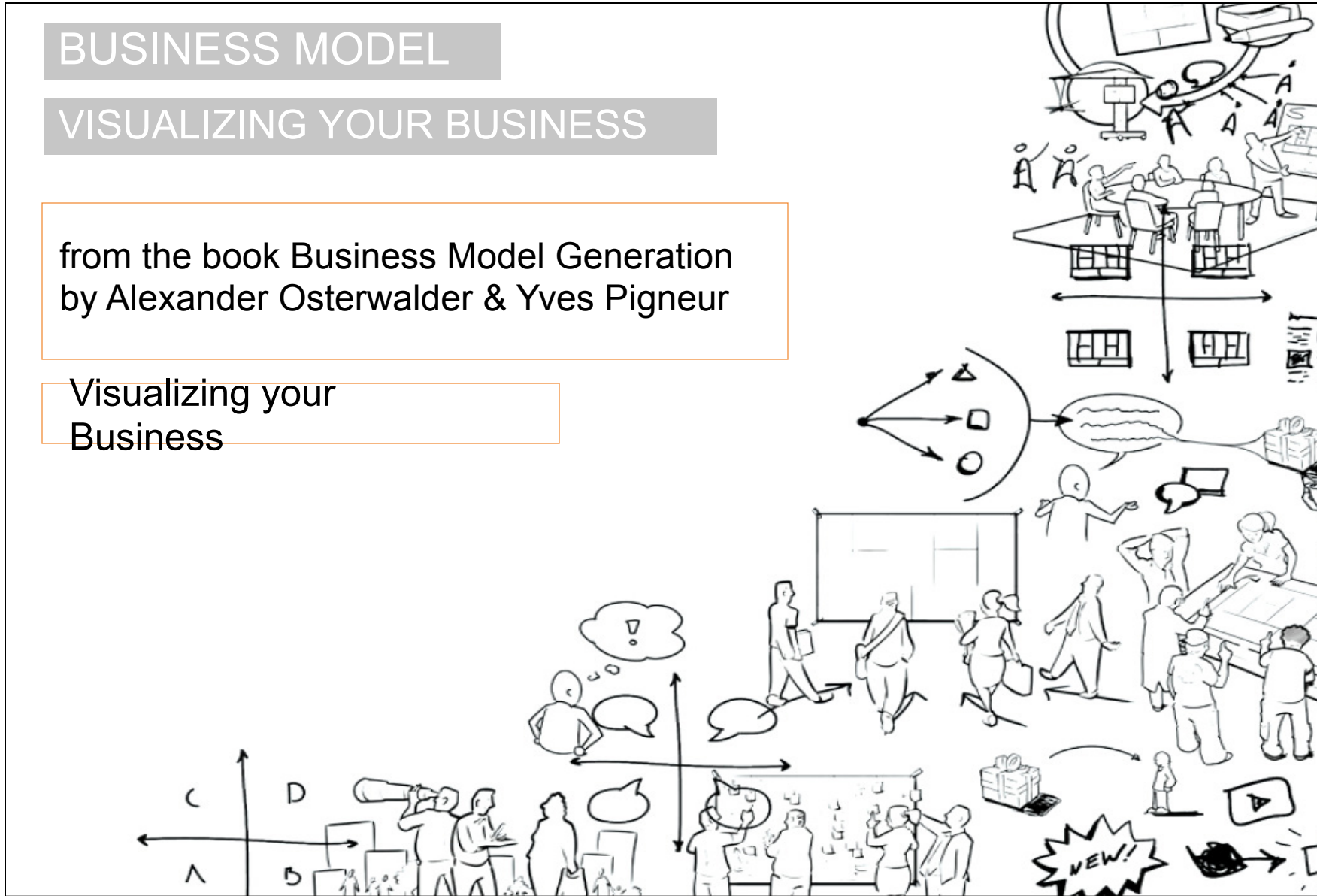*elan
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BUSINESS MODEL

VISUALIZING YOUR BUSINESS

from the book Business Model Generation
by Alexander Osterwalder & Yves Pigneur

Visualizing your
Business

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The Business Model Canvas

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
	Key Resources		Channels	

Cost Structure	Revenue Streams

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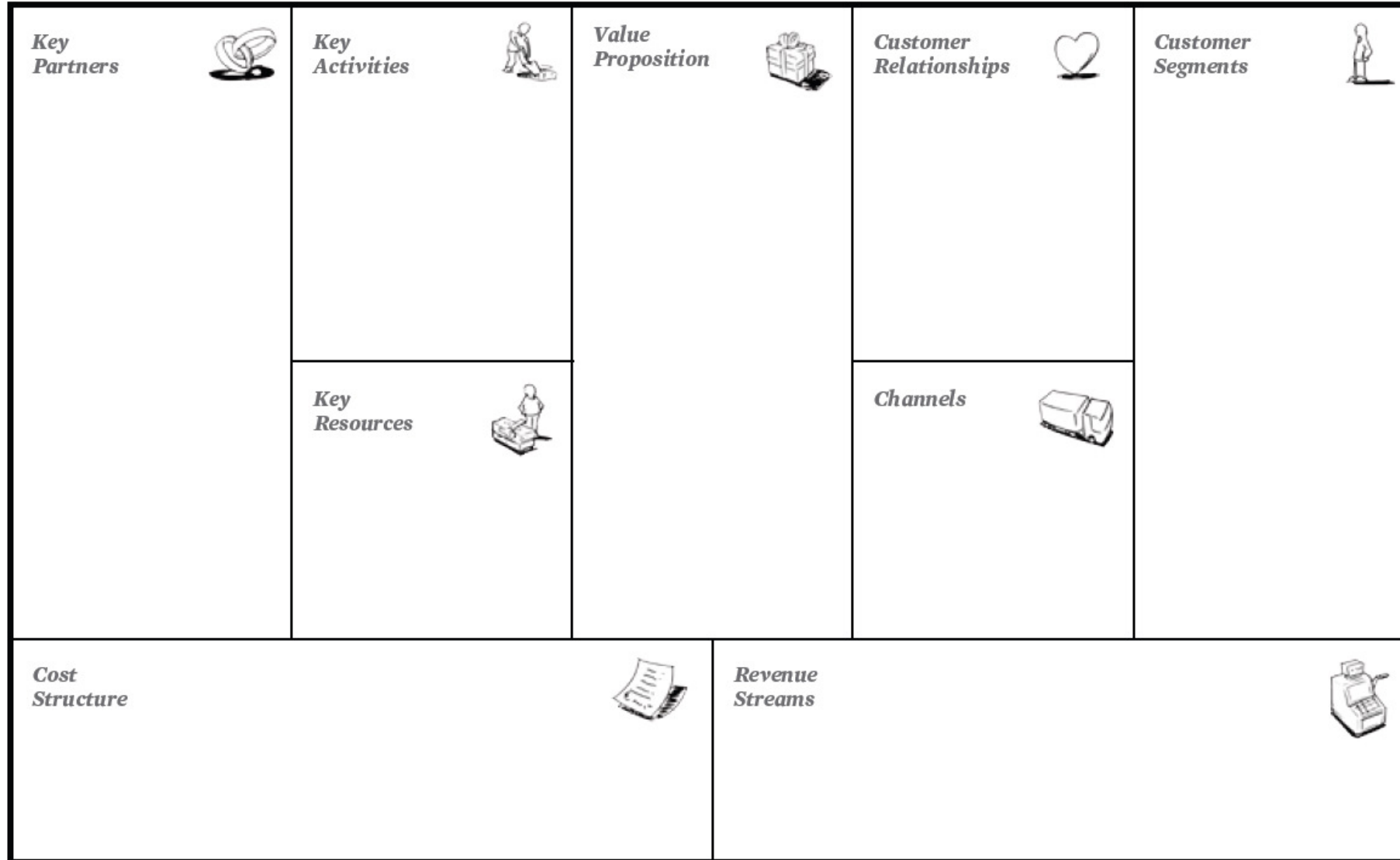
Apple iPod Business Model

Key Partners
- record companies
- OEMs

Key Activities
- hardware design
- marketing
- people
- Apple brand
- content & agreements
- iPod hardware
- iTunes software

Value Proposition
- seamless music experience

Customer Relationships
- lovemark
- switching costs

Channels
- retail stores
- Apple Stores
- apple.com
- iTunes store

Customer Segments
- mass market

Cost Structure
- people
- manu-facturing
- marketing & sales

Revenue Streams
- large hardware revenues
- some music revenues

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Customer Segments

...the more Specific the Better!

- For whom are we creating value?

- Who are our most important customers?
Identify the specific groups of people we want to serve

  - Are their needs the same?
  - Do they reference each other?
  - Can we use the same Channel?
  - Do they all require the same Relationships?
  - Do they generate similar profitability?
  - Do they buy the same aspects of our offer?

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Market/Customer Segments

■ A Customer Segment is:

- A set of actual or potential customers,
- for a given set of products or services
- who have a common set of needs or wants, and
- who reference each other when making a buying decision
- …and, buy at the same price, channel and purchase volume

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Value Proposition

…the more 'WOW' the Better!

- Solves a customer problem or satisfies customer need, what's the collection of products/services
  - what value do we deliver to the customer?
    - Newness, performance, customization, completeness, design, brand, price, cost reduction, risk reduction, accessibility, convenience/usability
  - which one of our customer's problems are we helping to solve?
  - which customer needs are we satisfying?
  - what bundles of products & services are we offering to each segment?

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VP For Each Customer Segment…

Value Proposition

First Sentence - Value of the Offering

	Target Customer
For …	

	Statement of the Need or Opportunity
who …	

	Product/Service Category
our (product/service name) is …	

	Statement of Benefit
that …	

Second Sentence – Positioning the Value

	Primary Competitive Alternative
Unlike …	

	Statement of Primary Differentiator
our product…	

	Proof that Benefits can be Delivered
because of our…	

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Channels

...the Simpler, the Better!

- 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 our customer routines?

- How do we communicate and reach Customer Segments to deliver value?

- What are the customer touch points that play an important role in customer experience (communications, distribution, sales, support)

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What will be the Channels
... through all of the sales process

Sales Process

Channel Types	Awareness: How do we raise awareness about our products and services?	Evaluation: How do we help customers evaluate our Value Proposition?	Purchase: How do we allow customers to purchase specific products and services?	Delivery: How do we deliver a Value Proposition to Customers	After Sales: How do we provide post-purchase customer support?
Sales Force					
Web presence					
Own Facilities					
Partner facilities					
Wholesalers					

Own / Direct / Partner / Indirect

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Customer Relationships

...the Stronger the Better!

- Describe the type of relationship we establish with each segment for– acquisition, retention, up-sell, e.g., personal assistance, dedicated personal assistance, self-service, automated service, (user) communities, Co-creation

  - What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
  - Which ones have we established?
  - How costly are they?
  - How are they integrated with the rest of our business model?

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Revenue Streams

...the more Predictable the Better!

- by each Customer Segment – what is the value perpetrated in each segment

  - For what value are customers really willing to pay?

  - For what are they paying?

  - How are they currently paying?

  - How would they prefer to pay?

  - How much does each Revenue Stream contribute to overall revenue?

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Revenue Streams

...the more Predictable the Better!

- $$ per unit   Asset sale, Project fee
- $$ per unit of use   Usage fee
- $$ per time period   Subscription fee
- $$ per use or unit of time   Lending/renting/leasing fee
- % of revenue earned   Licensing/royalty
- $$ per transaction   Brokerage fee
- $$ per person-hour   Professional services

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Key Activities

…the Harder to Replicate, the Better!

- What are the most important things to make the model work?
  - E.g., production, problem solving, platform/network operation
- What Key Activities are required for each Customer Segment to
  - create and offer the Value Proposition
  - operate our Distribution Channels
  - maintain Relationships
  - earn Revenue

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Key Resources

…the Fewer, the Better!

- Define the most important assets required to make the business model work

- What resources (physical, intellectual, financial, human) within each Customer Segment are needed to

  - create and offer the Value Proposition?
  - operate our Distribution Channels?
  - maintain our Customer Relationships?
  - earn our Revenue Streams?

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Key Partners

...the Closer, the Better!

- The collective network of suppliers and partners that make the model work and alliances to optimize business model, reduce risk or acquire skills/resources

  - Who are our Key Partners?
  - Who are our key suppliers?
  - Which Key Resources are we acquiring from our partners?
  - Which Key Activities do our partners perform?

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Cost Structures

…the more Controllable, the Better!

- Describes all costs incurred to operate the model, i.e. creating and delivering value, maintaining customer relationships, and generating revenue all incur costs!

  - What are the most important costs inherent in our business model?
    - Fixed costs?
    - Variable costs?
    - Economies of scale?
    - Economies of scope?
  - Which Key Resources are most expensive?
  - Which Key Activities are most expensive?

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Validate Hypotheses!

Internal assessment

Customer discovery

Key Partners	Key Activities	Value Proposition		Customer Relationships	Customer Segments
Hypothesis or Fact?	Hypothesis or Fact?	Hypothesis or Fact?		Hypothesis or Fact?	Hypothesis or Fact?
	Key Resource Hypothesis or Fact?			Channels Hypothesis or Fact?	
Cost Structure Hypothesis or Fact?			Revenue Streams Hypothesis or Fact?		

Cost/ Efficiency

Value

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Consider the Kano Model

Drives engagement!!

Value improves with use

Gets you to the Party!

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Use the Canvas to Tell a Story!

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
8	6	2	4	Start
	Key Resources		Channels	
	7		3	
Cost Structure		Revenue Streams	5	
Finish				

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Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
• ACETech • BCIC • Foresight • Open Angel Network • ACG	• Client engagement • Facilitation • Coaching • Best practices	Enable **sustainable growth** through proven scale-up framework & experienced coaching	• Personal coaching • Team training • Reference library	**Owners of tech Co's** • 5-20 mil rev • BC & Alberta • Growth challenges – feels stuck
	Key [Resources] • Experience & ref materials • Computer webconferencing		**Channels** • Direct sales • Referrals • Conference prstn	

Cost Structure	Revenue Streams
• Salary ($ per mth) • Education – best practices ($/item) • Legal ($ per year) • Accounting ($ per year)	• Retainer ($ per mth) • On-site workshops ($ per day)

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Multi-sided Platforms Model - Google

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
		Easy & free search		People looking for stuff
		Efficient targeted advertising		Businesses selling stuff
	Key Resources	Monetizing content	**Channels**	People distributing content
	Platform!! Algorithms			

Free

Keyword auctions

Free

Cost Structure	Revenue Streams
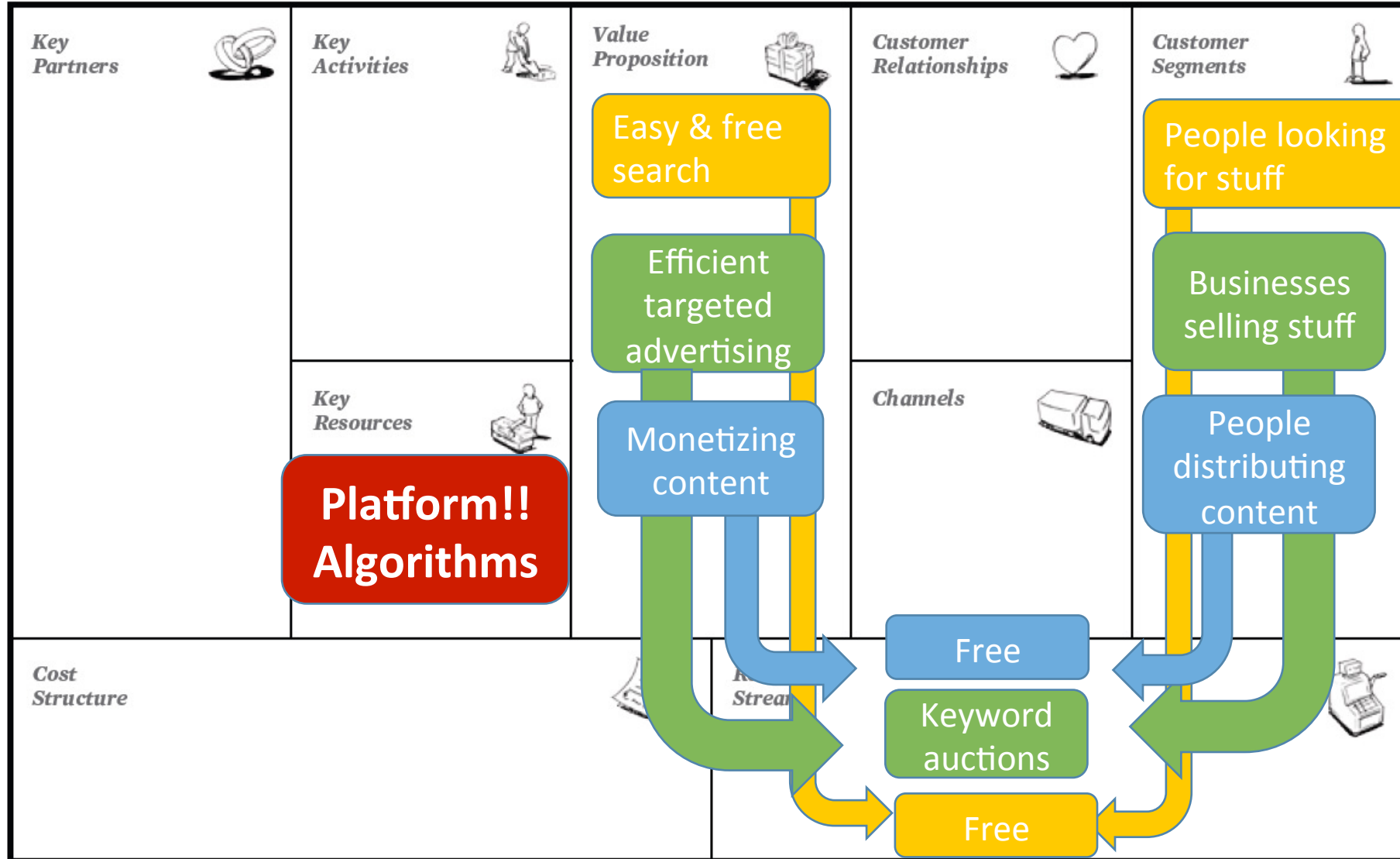
How can I attract enough users to interest payors?

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FREE as a Business Model - Flickr

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
Yahoo	**Platform management**	**Free basic features /use photo share**	**Mass customized switching costs**	**Casual Non-paying customer**
	Key Resources	Premium features for productivity	Channels	High value Customer
	Flickr Platform Brand		**Flickr.com Yahoo.com**	

Full-featured pro accounts

Free limited basic accounts

Cost Structure	Revenue streams
Platform development **Storage costs**	

How can I develop an effective pay wall to monetize enough revenue?

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Continuously look to Improve Value

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments

Internally - Value for Shareholders

Externally - Value for Customers

Cost Structure	Revenue Streams

[Osterwalder & Pigneur (2010) Business Model Generation]

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Using Business Model Canvas

- Create your story for investors and your team
  - How are we creating value?
  - How are we delivering value?
  - How are capturing value for owners/stakeholders?
- Defines the structure of a financial pro forma

- Tool to evaluate quarterly
  - Do SWOT for each of 9 components
- Source of innovation

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Questions???

Thank you!!

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Five Different Patterns

- Unbundled businesses – 3 in 1
  - Customer relationship business
  - Product innovation business
  - Infrastructure management business
- The Long Tail
- Multi-Sided Platform
- Free as a Business Model
- Open Business Models

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Value is…

- For the customer
  …has nothing to do with cost of your inputs or how cool you are

- Relative …to an alternative
  (there is always an alternative – even if it is 'doing nothing')

- An Emotional (qualitative values) decision
  …justified by rational Economic (quantitative) analysis

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What is Your Value?

Your Company

Benefits/Strengths

-

Costs/Weaknesses
(Includes your Price)

= Your VALUE

IQ/Rational Benefits create Value

Financial Changes

- Increase Revenues
- Decrease Costs
- Increase Profits

Operational Efficiency

- Productivity increase

Risk

- Reduction/Mitigation
- Safety
- Reputation

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EQ/Emotional Benefits create Value

Satisfaction Increase

- Customer
- Employee

Time saving

- Ability to Save Time / Convenience – its easy
- Immediacy - now; faster and better

Relationships & Connections

- Fun / Entertainment increase
- Health & Well Being increase – information; games
- Creative learning increase
- Increase Image / Reputation
- Success & status
- Desirability due to scarcity

What Your Differentiator?

VALUE (axis) ++ / + / =

YOU WIN!

WOW!

Their Product Differentiator

Your Product Differentiator

Competition Value & Benefits

Your Value & Benefits

COMPETITION

YOU

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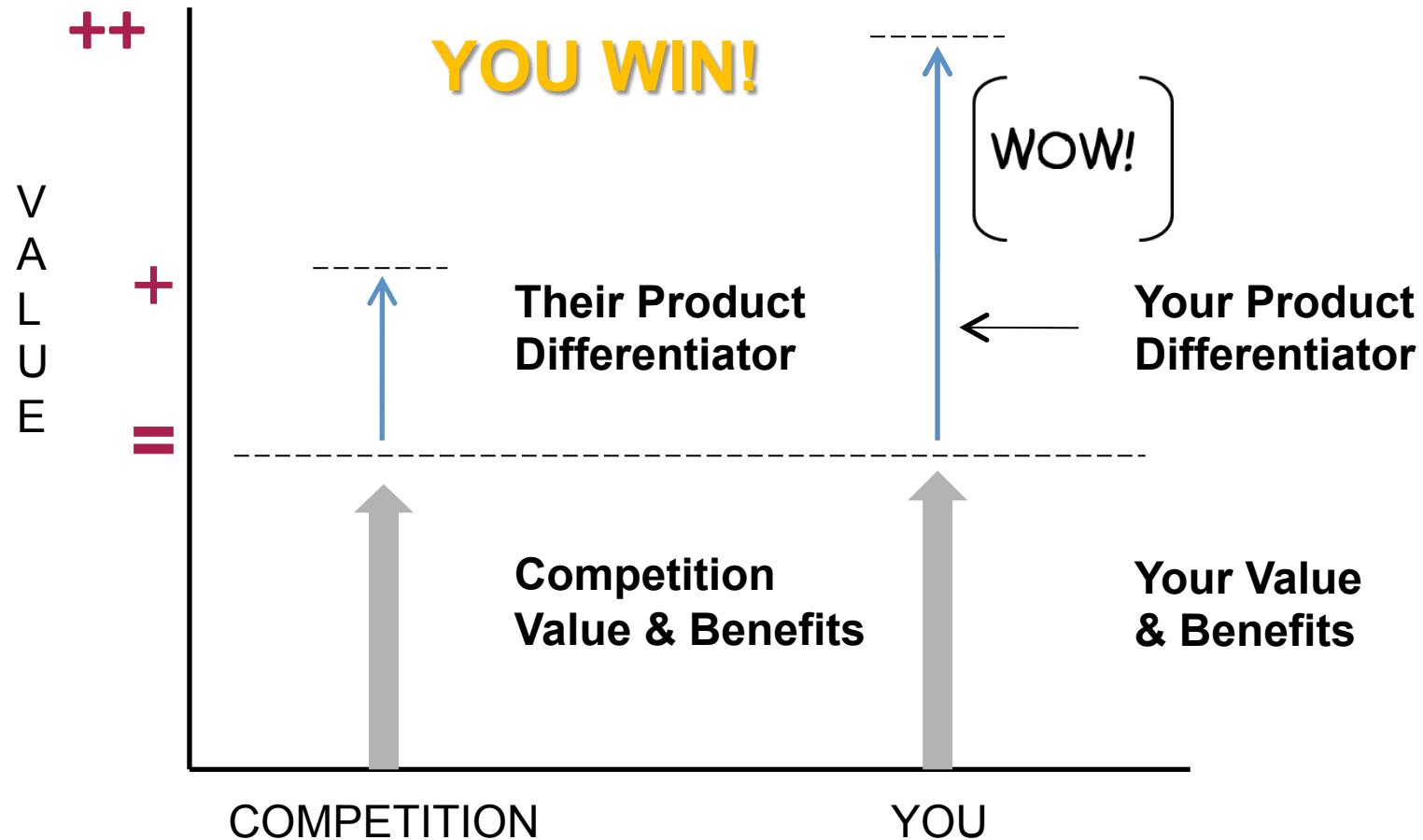
When does a Start-Up Win?

<u>Your Company</u>

Benefits/Strengths

-

Costs/Weaknesses   (Price)

= Your VALUE

Your Company's VALUE

> >

<u>The Competition</u>

Benefits/Strengths

-

Costs/Weaknesses   (Price)

= Their VALUE

Competitor's VALUE

Your Differentiator is your 'trump' to WIN!!

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View from the Customer

Sources of Customer Value, in descending order of strength:

1. Your Product/Service – Features → Benefits
2. Your Company
3. Your People

Decision Making process by the Buyer, in descending order of strength:

- 1st, Best Differentiated Value
- 2nd, Lowest Price
- 3rd, Lowest Risk

**Conclusion:
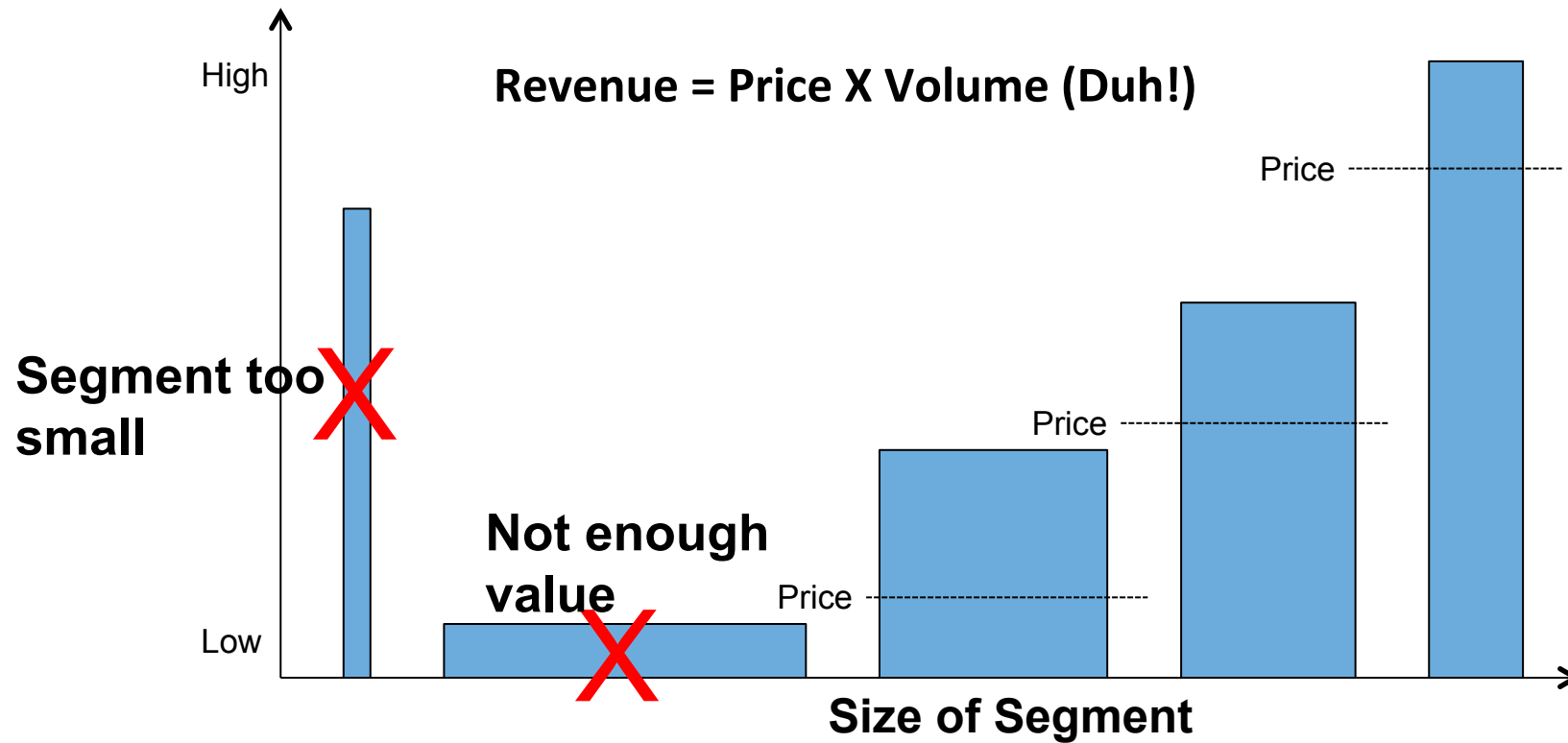as a Startup, the only way to WIN is with superior Product/Service!**

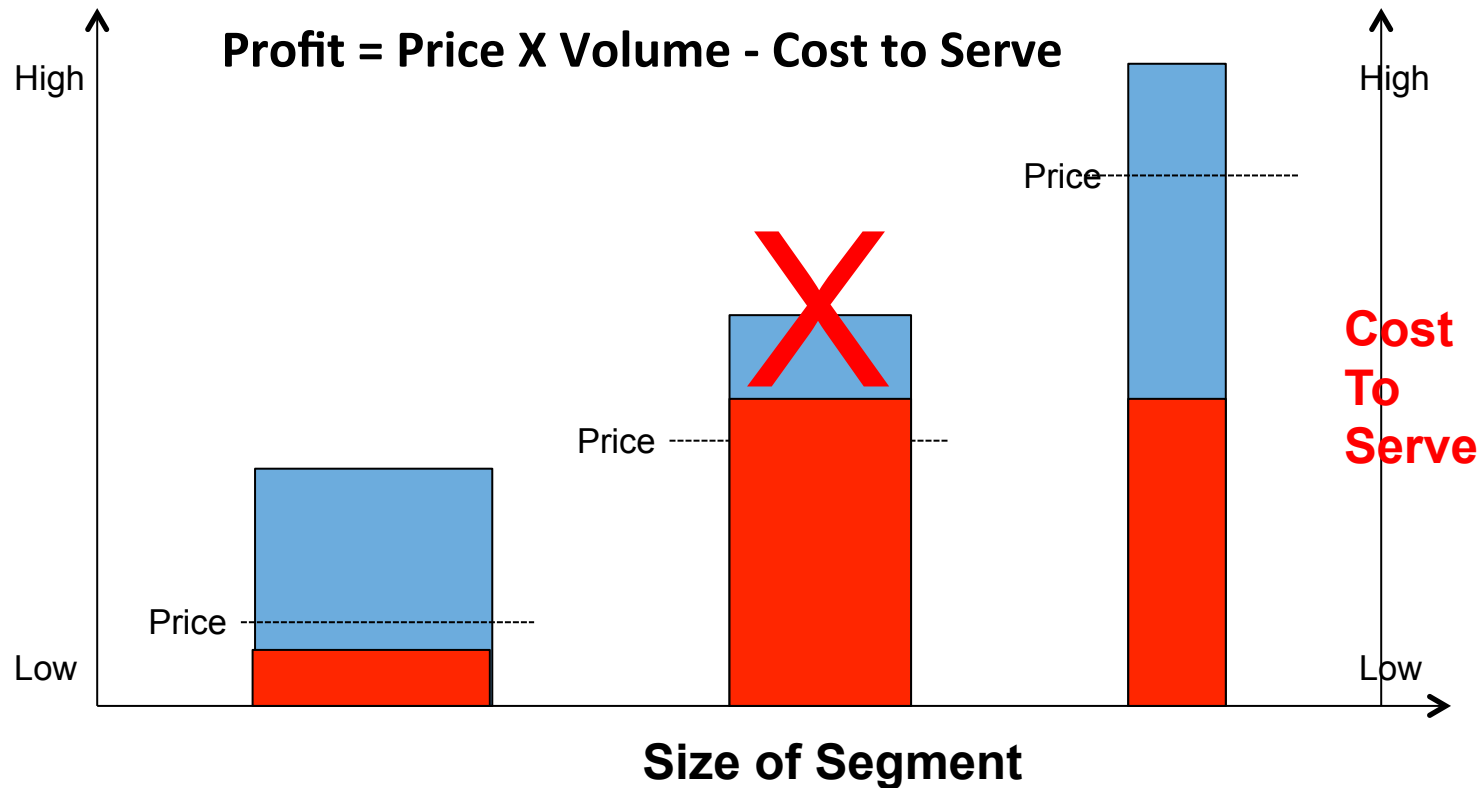# Pricing is not just about picking a number

Pricing is based on:

1. Understanding value provided to customer

2. Segmenting the target market on how and how much value is provided

3. Identifying the value metric and finding a pricing metric

4. Building a set of offers and prices for **each** segment targeted

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Segmenting & Targeting
Value & Size

Revenue = Price X Volume (Duh!)

High

Segment too small ✗

Price ----------------------

Price ----------------------

Not enough value ✗

Price ----------------------

Low

Price ----------------------

Size of Segment

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Segmenting & Targeting – Cost to Serve

Profit = Price X Volume - Cost to Serve

Size of Segment

Cost To Serve

Key Themes for Today

- Pricing is about Value, not Cost

- Value is always Relative to Alternatives

- Value is generated from your Business Model choices
  ...your Pricing Model captures that value

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