Business Models

Key Partners

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

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

Value Propositions

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

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 are they integrated with the rest of our business model?
How costly are they?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Key Resources

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Channels

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?

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

Revenue Streams

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?

**"The business model ontology:
A proposition in a design science approach."**

Alexander Osterwalder

2004

University of Lousanne

160 pages + bibliography

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Linda Br
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Roger A
Morten
Lars Zal
Elin Mø
Xuemei
Harry V
Riccard
André J
Colin Bu
Alexand
J Bartels
Steven
Clark G
Leslie C
Amanda
Benjam
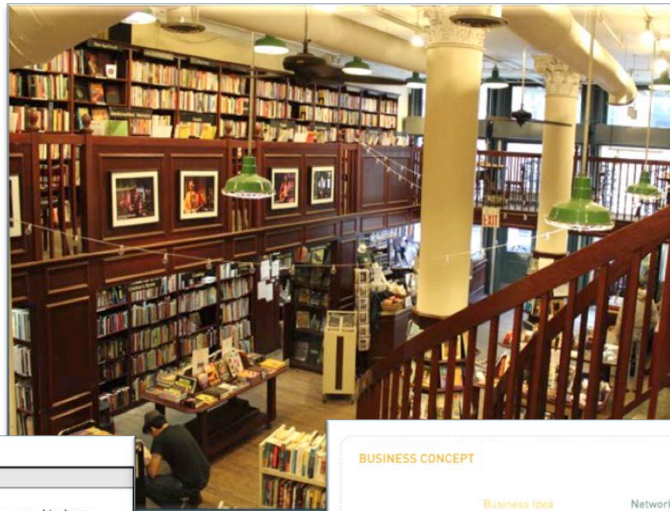Andre N
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Mark Ev
Susan S

Business Model Canvas:
WHO? WHAT? WHEN? WHERE? WHY? HOW?

Business Model Generation via "Canvas"
1. Value Proposition
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Cost Structures
7. Key Resources
8. Key Partnerships
9. Key Activities

10. Weaknesses of the BMC

Problem

Top 3 problems

1

Solution

Top 3 features

3

Key Metrics

Key activities you measure

6

Unique Value Proposition

Single, clear, compelling message that states why you are different and worth buying

2

Unfair Advantage

Can't be easily copied or bought

7

Channels

Path to customers

4

Customer Segments

Target customers

1

Cost Structure

Customer Acquisition Costs
Distribution Costs
Hosting
People, etc.

Revenue Streams

Revenue Model
Life Time Value
Revenue

ABC Products

2011 STRATEGIC PLAN

PURPOSE

To be recognized as the absolute best pressure regulation supplier to the process control industry.

2011 FOCUS = GROWING SALES REVENUES

KEY OBJECTIVES

MARKET DEVELOPMENT	PROCESS IMPROVEMENT	PEOPLE DEVELOPMENT	PRODUCT DEVELOPMENT
INITIATIVES			
• Expand regulator market reach • Increase customer visits by engineers • Review distribution strategy	• Implement lean process • Develop/implement supply chain strategy	• Implement personal planning process • Improve communication • Increase teamwork	• Increase quick-change regulator line • Expand range of QPRO line
KEY PERFORMANCE INDICATORS			
• Revenue/Distributor • Revenue/Month	• Cash to Cash Days • First-Time Through %/Month	• % Turnover/Month • % Absenteeism/ Month	• New Product Revenue/Month

---

BUSINESS CONCEPT

- Business Idea
- Product Portfolio
- Business Model
- Customer Portfolio
- Market Position

CUSTOMER RELATIONS

- Network
- Marketing
- Sales
- Communications and PR
- Branding

ORGANIZATION

- Ownership and Board
- Employees
- Partnerships
- Business Processes
- Legal Issues

OPERATIONS

- Management Accounting
- Financing
- Production and Project Management
- IT Systems
- Facilities
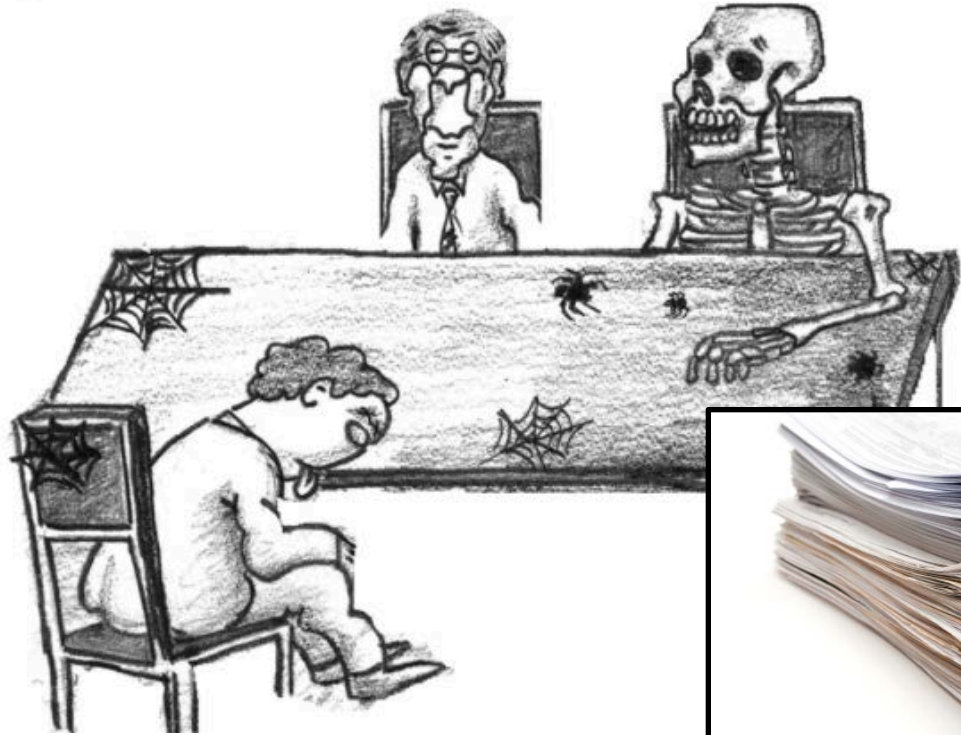
The Business Model Canvas

Designed for:

Designed by:

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		**Channels**	

Cost Structure

Revenue Streams

Use Canvas to "develop" the "Biz Plan"

Business Model Canvas

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hypothesis

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hypothesis

Customer Discovery

- Phase 4 — Verify
- Phase 3 — Test Product Concept
- Phase 2 — Test Problem Hypotheses
- Phase 1 — State Hypotheses
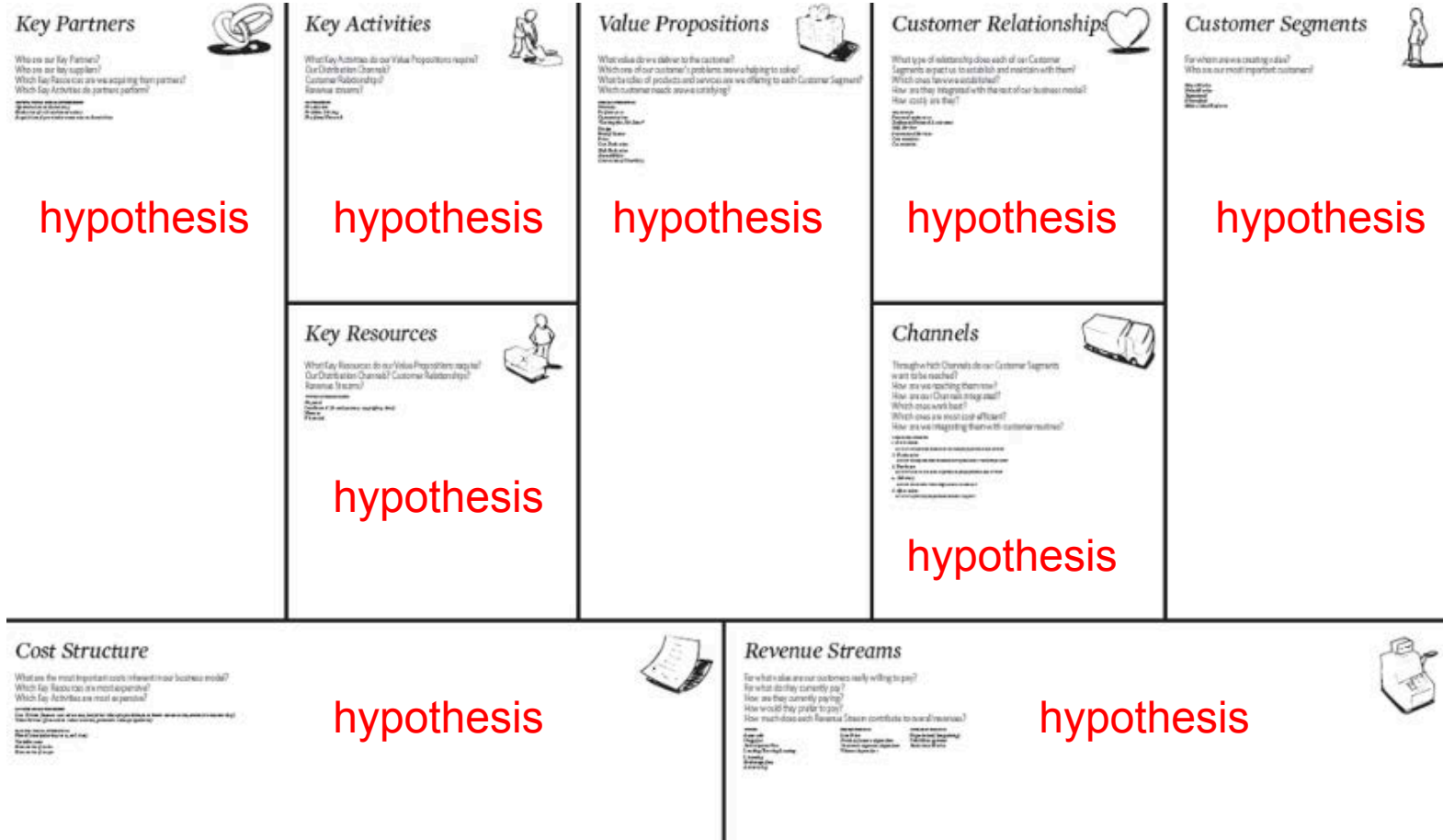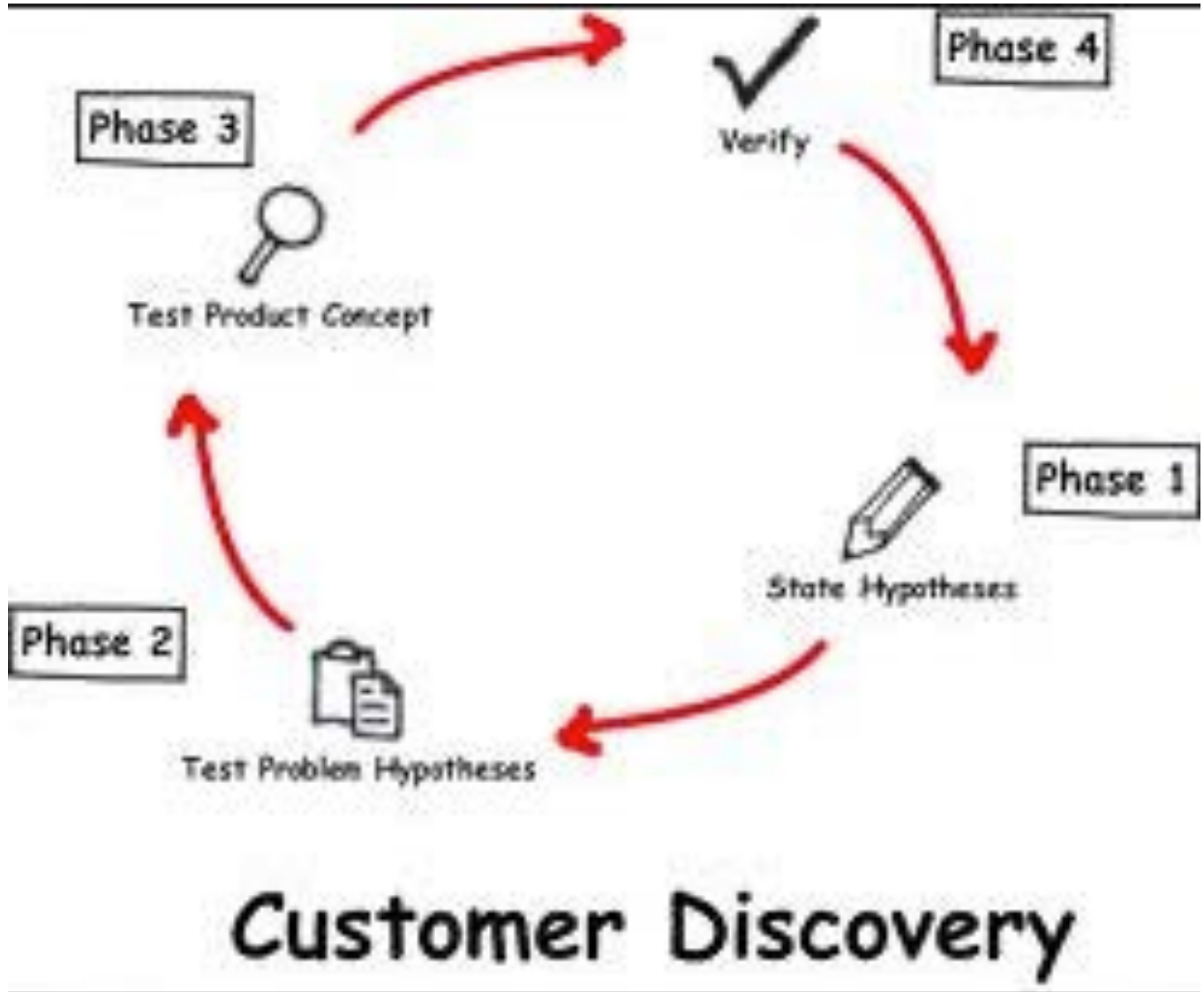
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Canvanizer
Brainstorm better concepts. Together with your team

Business Model Fiddle
The Free Business Model Canvas Playground

Strategyzer

Example 1.

Skype
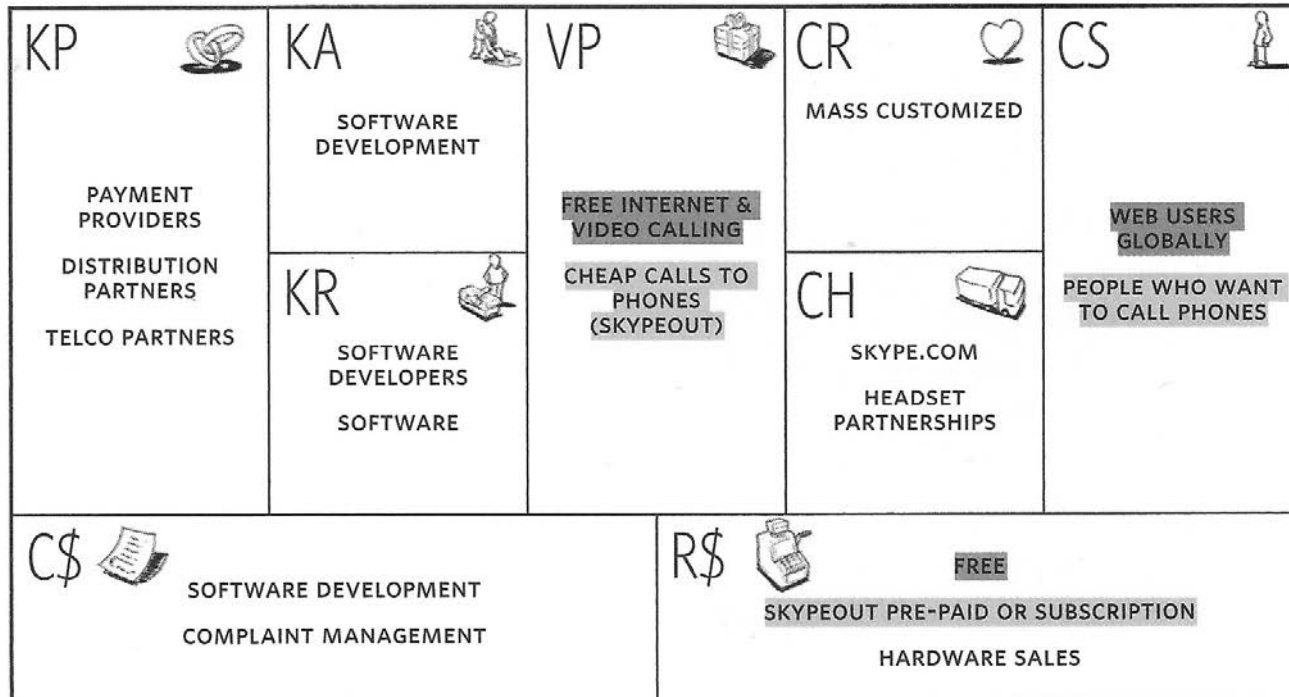
Business Model Canvas for Skype:

KP	KA	VP	CR	CS
PAYMENT PROVIDERS DISTRIBUTION PARTNERS TELCO PARTNERS	SOFTWARE DEVELOPMENT **KR** SOFTWARE DEVELOPERS SOFTWARE	FREE INTERNET & VIDEO CALLING CHEAP CALLS TO PHONES (SKYPEOUT)	MASS CUSTOMIZED **CH** SKYPE.COM HEADSET PARTNERSHIPS	WEB USERS GLOBALLY PEOPLE WHO WANT TO CALL PHONES

C$	R$
SOFTWARE DEVELOPMENT COMPLAINT MANAGEMENT	FREE SKYPEOUT PRE-PAID OR SUBSCRIPTION HARDWARE SALES
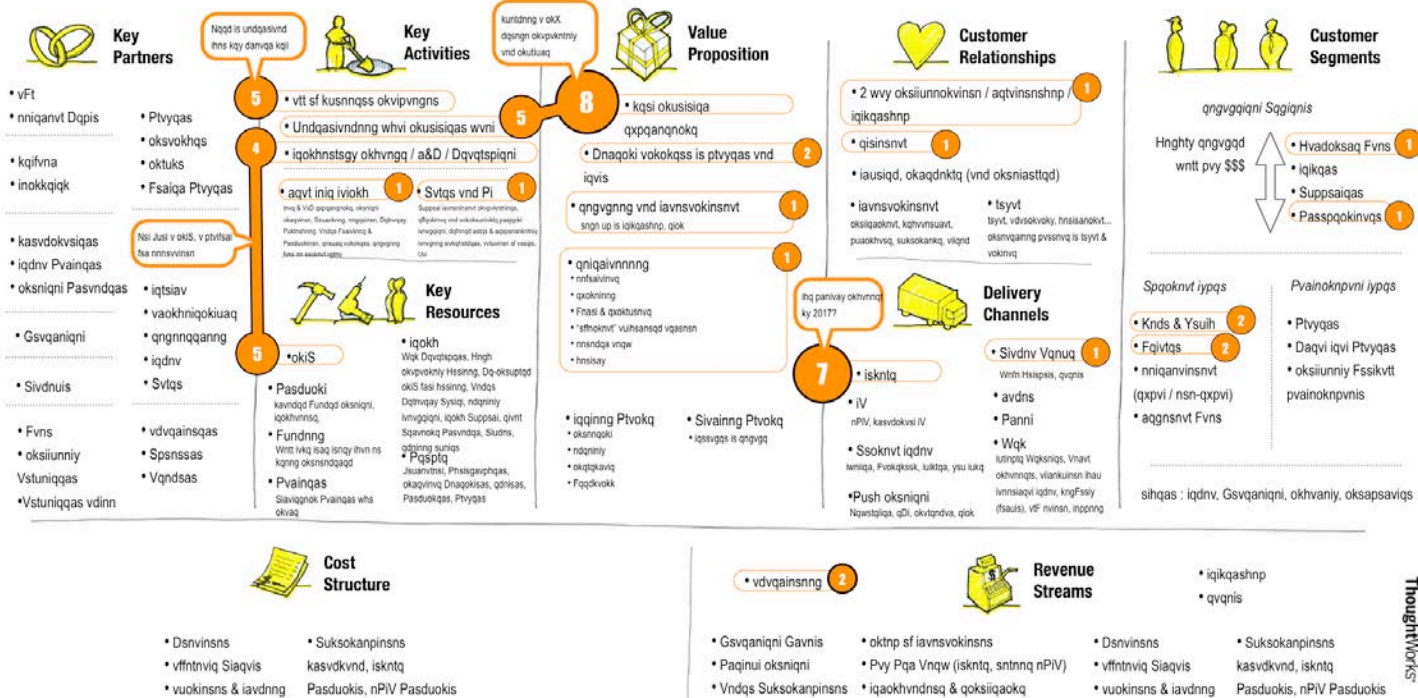
Don't do this!

- National Science Foundation
  - 3X funding success using BMC/LLP
  - (now claiming > 10x)
- MNEs
  - Greater commercial success (new products)
- Investors asking for a BMC

Used by companies from start-ups to Fortune 500s, business schools
Half a Million Books + 26 Languages + over 5,000,000 Canvas users
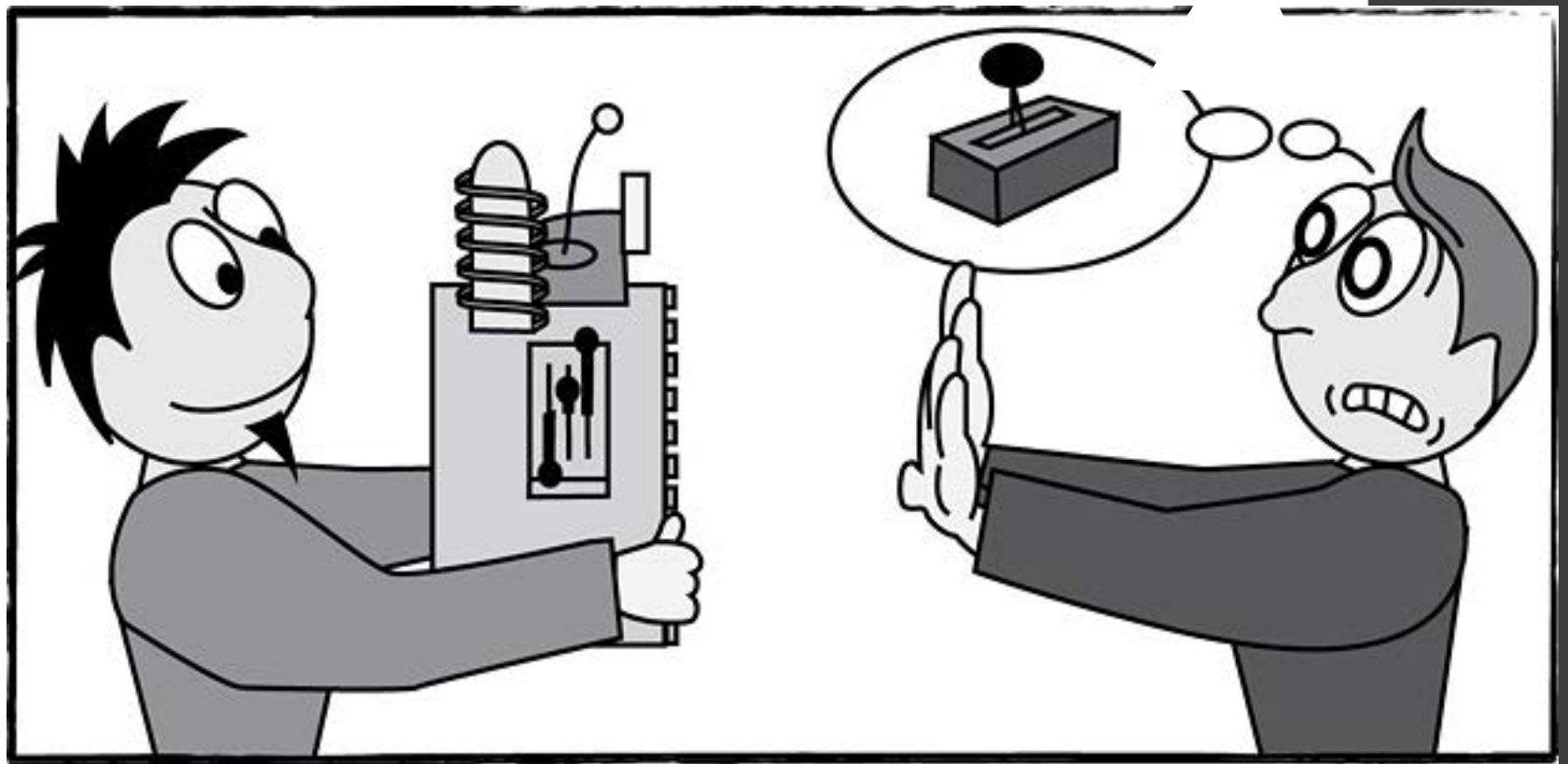
© The Tough Love Angel

Product Market Fit

Customer Segments – Business Model Canvas

The Business Model Canvas
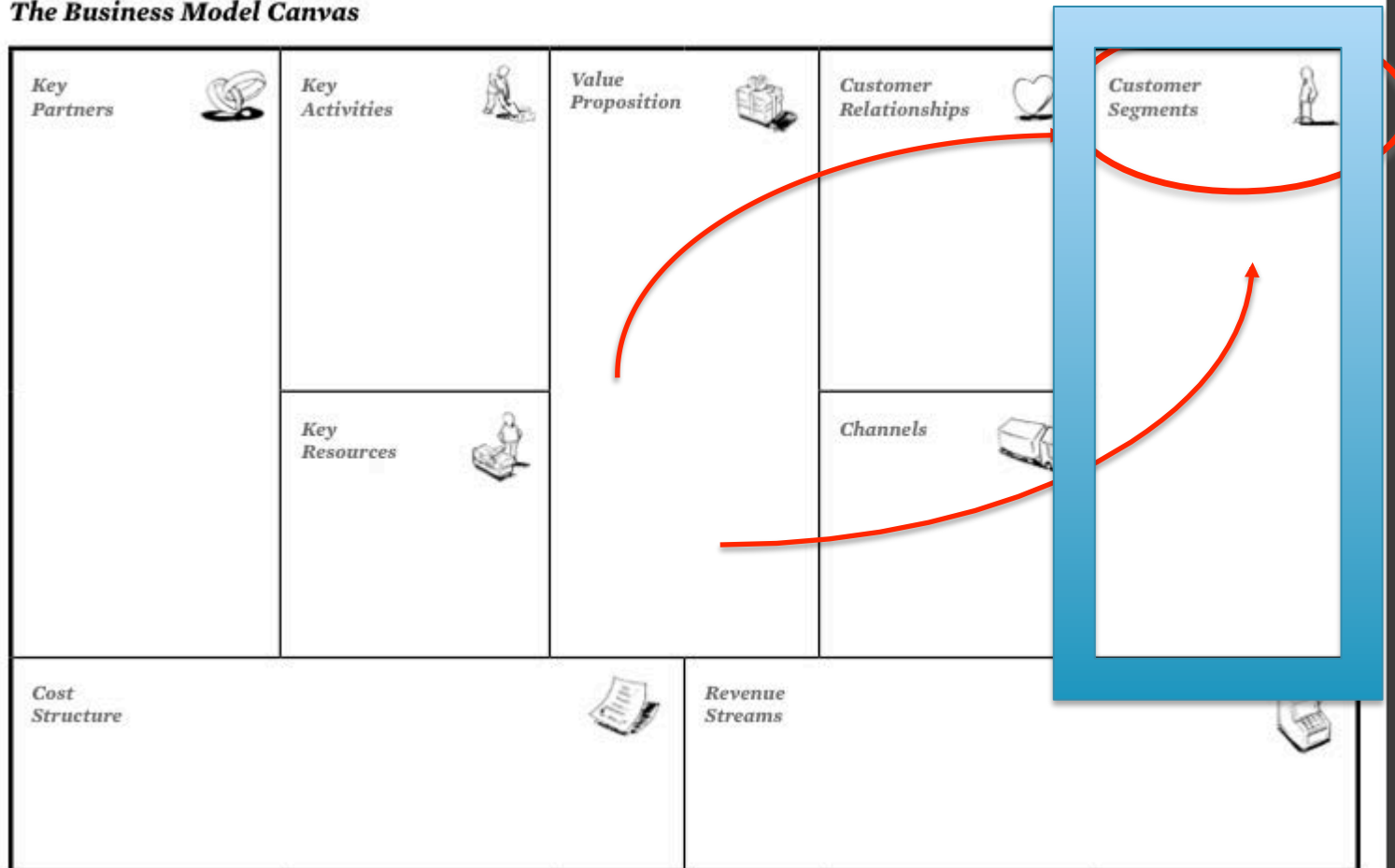
Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure		Revenue Streams		

What is the problem you are solving?

Who are you solving it for?

Customer Segments – Definition

"Customer group, with a common denominator, for whom you serve and create value."

Purpose of Customer Segmentation:

Determines business viability
Focuses *Value Proposition*
Optimizes resources / efficiencies
Develops expertise + relationships
Builds competitive advantage

Examples of Customer Segments:

Business	Revenue
Consumer	Profitability
Geography	Demographics
Income	Sector
Life cycle	Behaviour

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24-35

- Tech-savvy and helpful.
- Join online communities to share product expertise with fellow consumers.
- Active on social networks.

HOW MANY IN THE U.S. POPULATION?

16.5 MILLION

HOW CAN YOU NURTURE A RELATIONSHIP WITH THEM?

- Incentivize with online badges and other intangible rewards.
- Leverage their desire to be perceived as helpful.

WHY THEY'RE IMPORTANT:

Mamas: 14%
Everyone
Surveyed:

14% Bargain-Hunting Mamas

BEST REPRESENTED BY:
Women, often mothers, age

35-44

HOW MANY IN THE U.S. POPULATION?

24.6 MILLION

TRAITS:
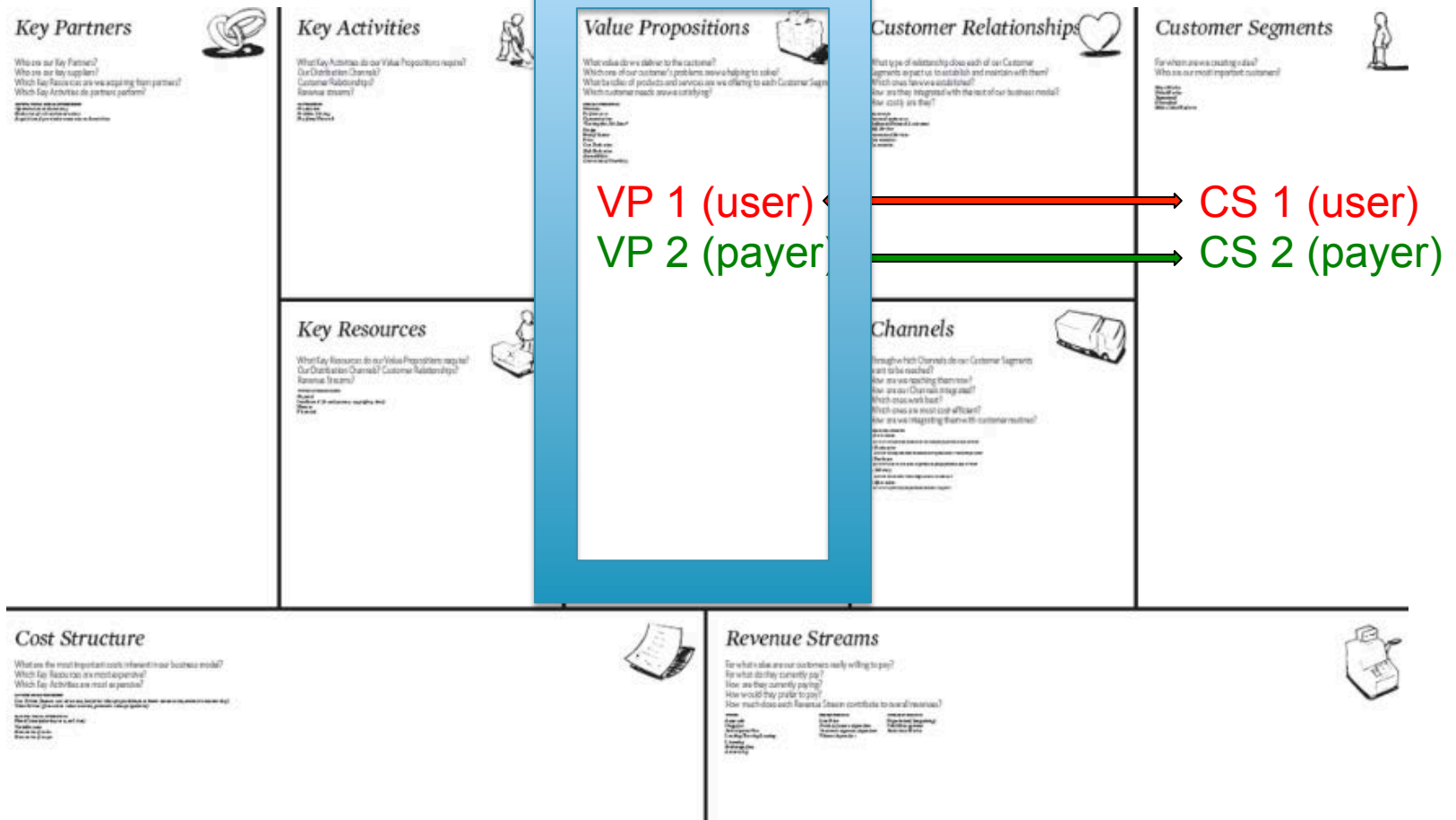- Responsible for household shopping.
- Value-driven buyers.

HOW CAN YOU NURTURE A RELATIONSHIP WITH THEM?

Provide special offers and promotions, and facilitate interaction with other mamas like them.

WHY THEY'RE IMPORTANT:
These mamas are eager to participate in an online community to research topics, share their knowledge, and receive offers and promotions. Incentivize them with coupons, and they will bring tremendous value to your community and brand.

26% Fashionista Professional

WHO ARE THEY?
Female professionals age

25-34

HOW MANY IN THE U.S. POPULATION?

47.2 MILLION

TRAITS:
- Have discretionary income and no children to spend it on.
- Desire a deep, meaningful relationship with brands.
- More than willing to provide feedback and advocate for a product or service they like.
- Present on: Facebook, YouTube, LinkedIn, Twitter and Google+

HOW CAN YOU NURTURE A RELATIONSHIP WITH THEM?
- Provide special offers and promotions.
- Create active online communities with strong social linkages
share with

IY THEY'RE IM

Business Model Canvas

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Customer Segments
For whom are we creating value?
Who are our most important customers?

VP 1 (user) → CS 1 (user)
VP 2 (payer) → CS 2 (payer)

Key Resources
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How much does each Revenue Stream contribute to overall revenues?

- What is your customer's problem/pain?
- How does your solution solve their problem/pain?
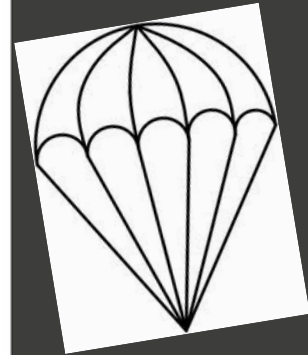- Why is it better than the current solution?

Design

Accessibility

Custom

Performance

Status

Usability

NEW!

Convenient

$PRICE$

$COST$

Risk

It is **VALUE** not PRICE

$12,000,000

Free - $0.99 - $69.99

iPhone Apps in the "Productivity" Category

Popularity (on a 0 to 1 scale - shown logarithmically)   MobileOrchard.com

No value -> No customers
Value -> customers

Value Proposition

- A sailing ship from San Diego to Honolulu currently takes 12 days which is too long for many travellers.
- Our new steam powered ship reduces travel time to 6 days.
- In addition, the ship requires less crew and fewer supplies.
- This trip on our ship only costs 10£* more than a sailing ship

*1 week salary *circa* 1880.

THE BRITISH and NORTH AMERI-CAN ROYAL MAIL STEAMSHIPS between Halifax and Liverpool, and Halifax and Boston.
Will sail from Halifax for Liverpool as follows:

17th February	9th June	29th Septmbr.
3rd March	23rd do	13th October
17th do	7th July	27th do
31st do	21st do	10thNovembr.
14th April	4th Aug.	24th do
28th do	18th do	8th Decembr.
12th May	1st Sept	22nd do
20th do	15th do	

Chief Cabin Passage to Liverpool, £25 0
Second do do do 13 15
Chief do do to Boston 5 0
Feby 17. 6m liew. S. CUNARD.

1£ 1880 = 66.40£ 2013

= $108 CDN

10£ = $1080 CDN

VALUE PROPOSITION TEMPLATE

Unlike _____
[market leader/reference competitor]

our _____
[product/service category name]

helps _____
[target customer segment]

who want to _____
[job(s) to be done]

by _____ _____
[verb (e.g. reducing, avoiding)]   [customer pain]

and _____ _____
[verb (e.g. increasing, enabling)]   [customer gain]

BRAND GENETICS

- Exercise: <u>Your</u> value proposition:

    – What is your customer's pain?
    – What is your solution?
    – Why is it better than your customer's
    current (or alternative) solution?

A Day in the Life Worksheet

OBJECTIVE
Understand your customer's world in more detail
OUTCOME
Map of your customer's day

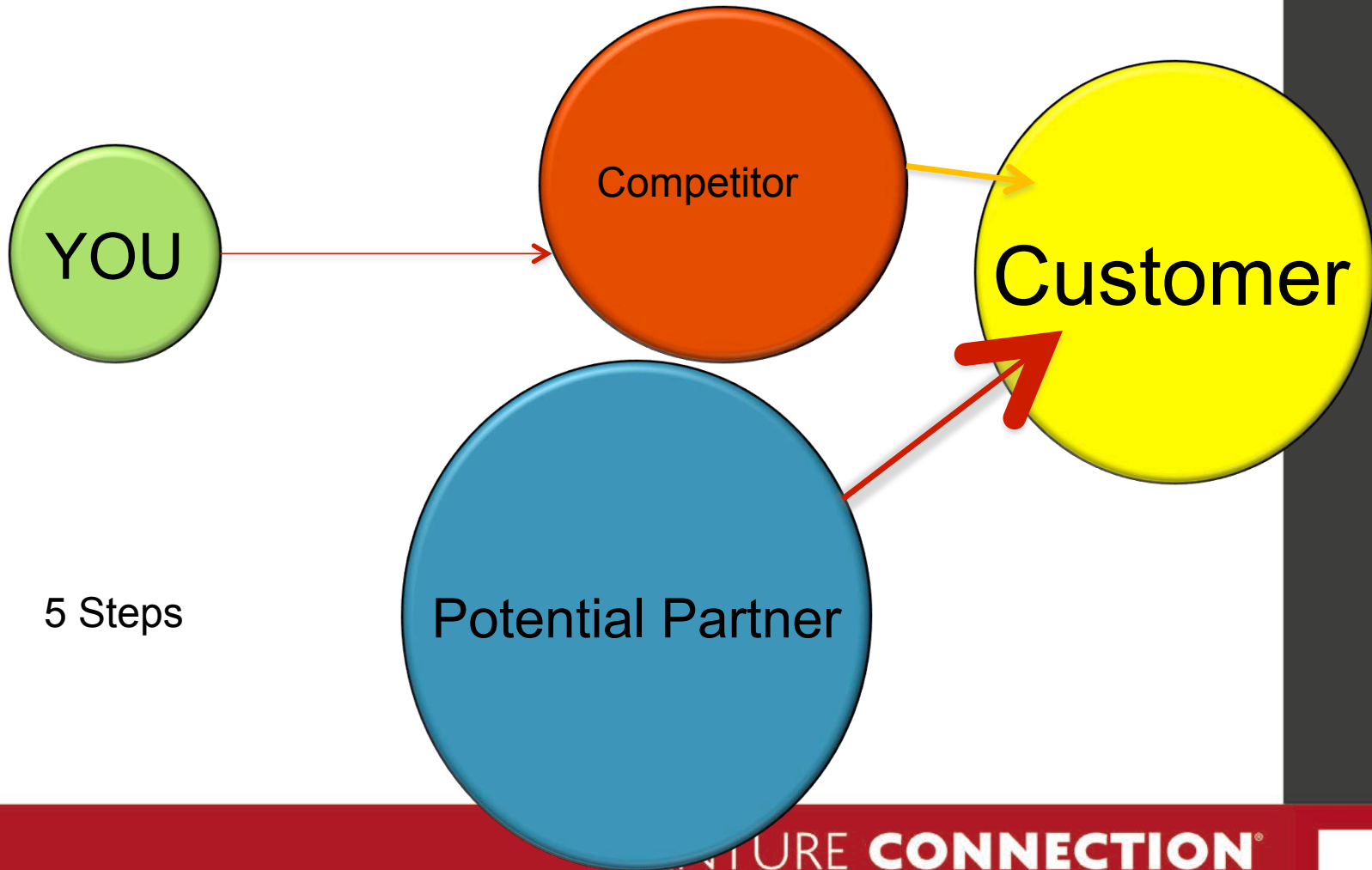Capture the most important jobs, pains, and gains of the customer you shadowed.

Tips

- Observe and take notes. Hold back with interpretation based on your own experience. Stay nonjudgmental! Work like an anthropologist and watch with "fresh" eyes and an open mind-set.
- Pay attention to both what you see and what you don't see.
- Capture not only what you can observe but also what is not talked about such as feelings or emotions.
- Develop customer empathy as a critical mind-set to perform this type of contextual inquiry effectively.

Time	Activity (what I see)		Notes (what I think)
7 pm	brush kid's teeth before bed		parents annoyed by water splashing everywhere

Download "A Day in the Life" worksheet

1. AWARENESS

YOU

Competitor

Customer

Potential Partner

Looks a fashion magazines
Rarely watches TV
Goes to Fine Dining
Travels by air frequently
Doesn't garden
Etc.

2. Evaluate

3. Purchase

Customer

4. Delivery

Personal network
Salesforce
Transaction platform
Retail
Wholesale
Facebook
Public transport
Partnership

Always be Customer Centric. Improve their experience.

5. After sales

All sales final
Return for credit
Return for full refund
30 days free support
Satisfaction surveys
Money back before 30 days
Free customer support
Paid customer support
Remote support
On-site support
Training
Follow-up phone calls
How-to videos
Facebook group
Free 'upgrades'
Paid 'upgrades'
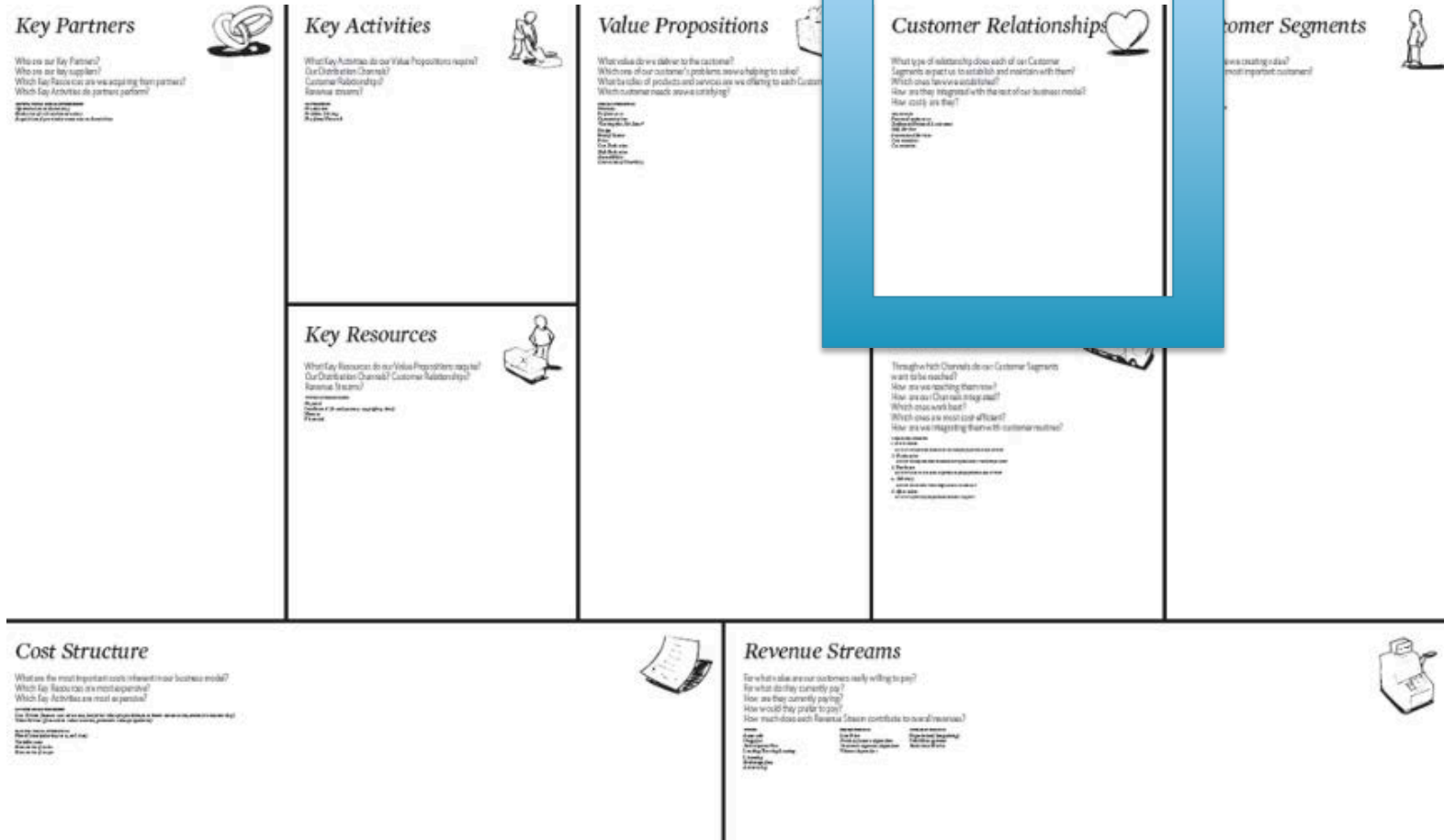Paid Add-on features
Support groups
Loyalty programs

Business Model Canvas

Exercise

What is your Channels plan?

1. Awareness program
2. Evaluation strategy
3. Purchase methods
4. Delivery methods
5. After sales support

Business Model Canvas
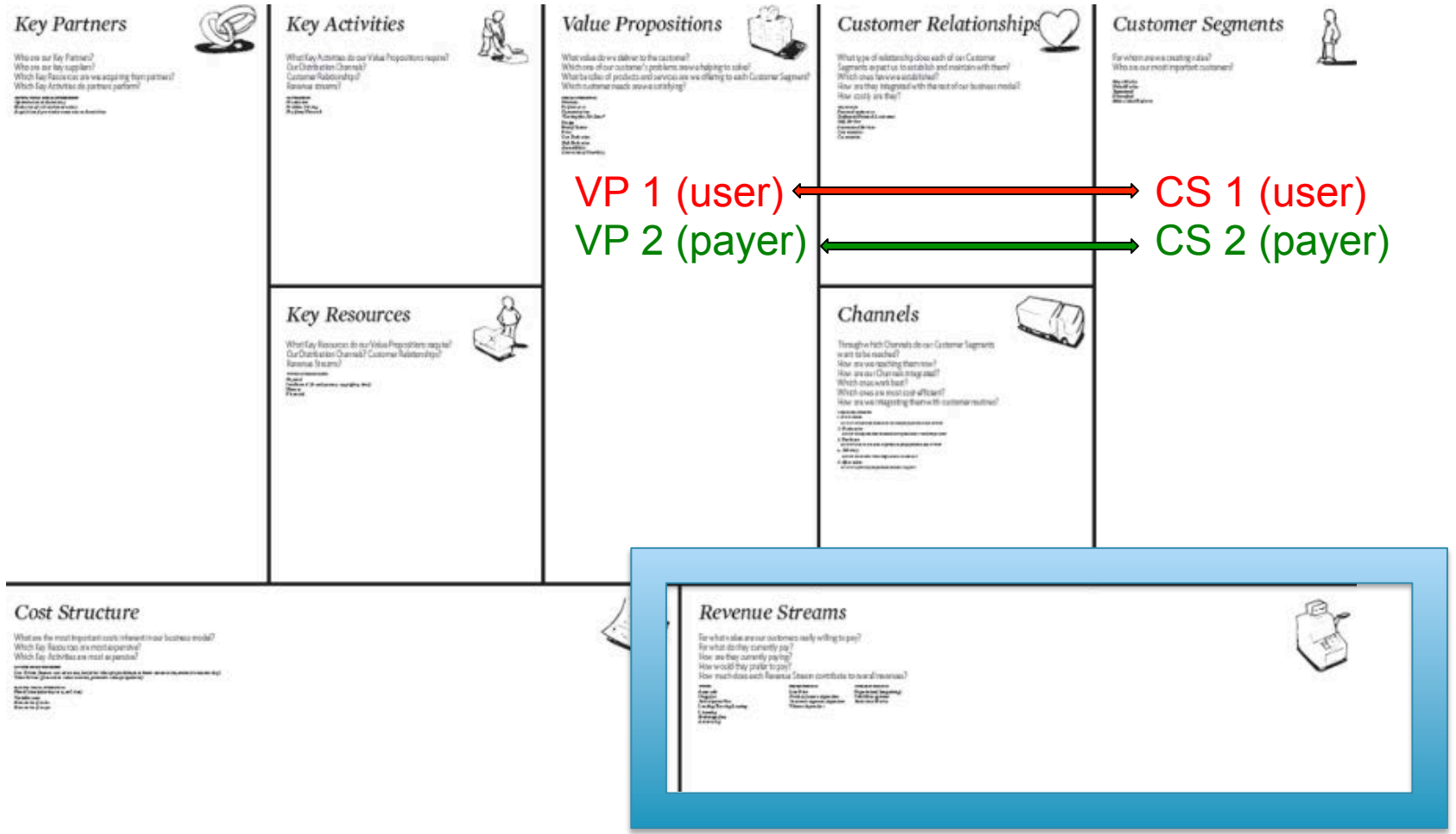

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Revenue Streams

Types	Example
Asset sale	Sell a book, circuit board, music
Usage fee	Minutes used on a phone
Subscription fees	Club membership, satellite radio
Lend/rent/lease fee	Temporary use – returnable
License fee	Grant use of a patent or copyright
Brokerage fee	'middle-man', credit cards
Advertising	Sell space-time on a website,
Fixed pricing	Feature, volume, location dependent
Dynamic pricing	Auction, Yield (airline seats), negotiated

Better Revenue Model = advantage

Broker
Subscription

Broker
Rental
Asset Sale

Exercise

How does your customer pay for their current solution?

How much does your customer pay for their current solution? (do they have a limit?)

How would your customer prefer to pay? (Club Penguin example)

How much will they pay?
How do you prove it?

COST STRUCTURE

- Focus on minimizing costs wherever possible

- Creating and maintaining the leanest possible Cost Structure, using:

    – Low price Value Propositions

    – Maximum automation, and extensive outsourcing.

- Examples: No frills airlines, such as Southwest

COST STRUCTURE

- Some companies are less concerned with the cost implications of a particular business model design, instead focus on Value Creation

- Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models

- Examples: Luxury hotels

COST STRUCTURE

Just pick the biggest line items.

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Partnerships

- Key Partnerships
  - Co-founder
  - Strategic Alliance
  - Joint Venture
  - Buyer-supplier

Make a list of key partners:

5 minutes

Business Model Canvas
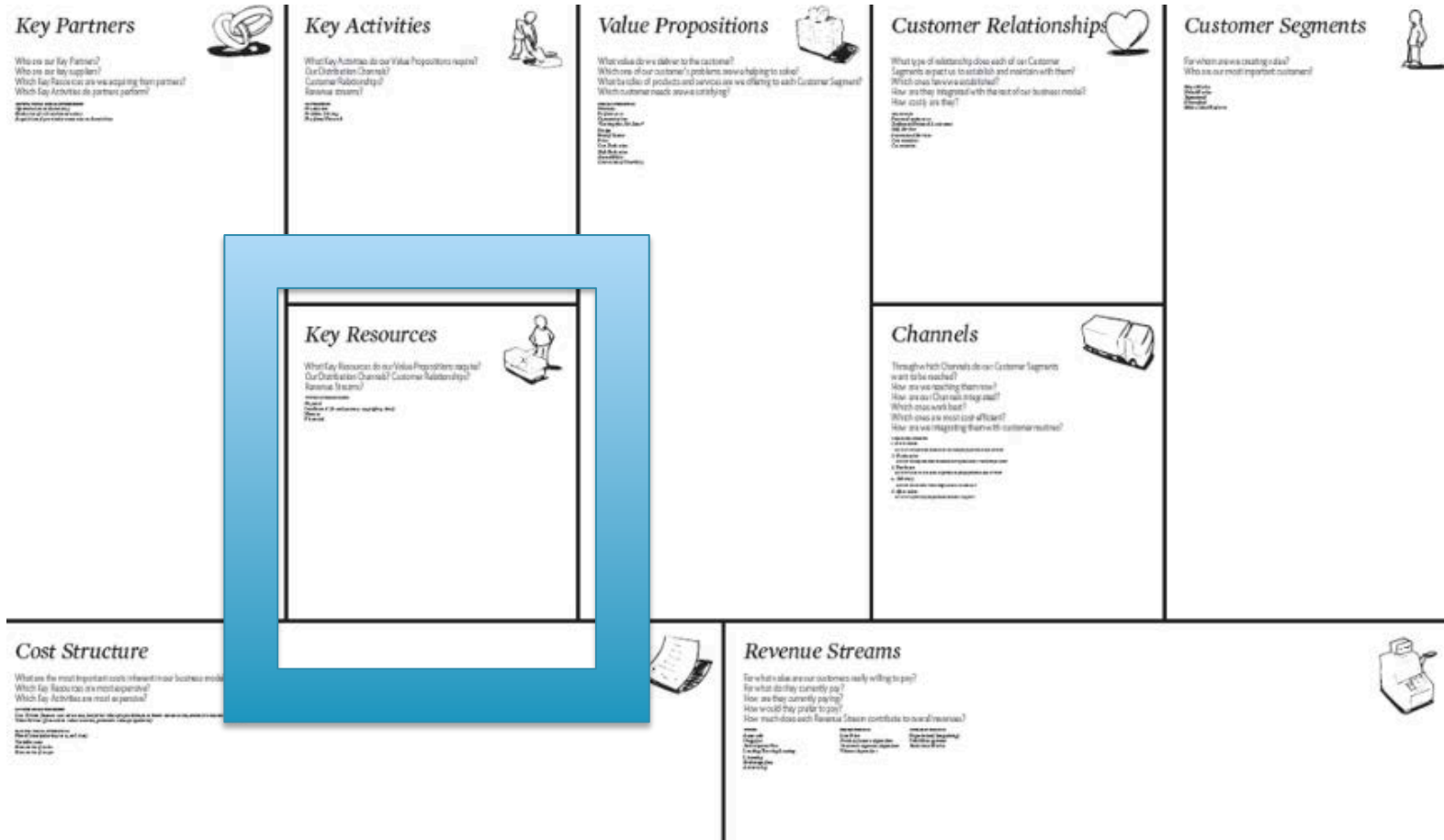
- Key Resources: required for your business to succeed.

    – Physical: building, equipment, servers, etc.
    – Human: certifications, experience, connections
    – Financial: LOC, cash, share-pool

Business M[odel]

Key Partners

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

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

[Value] Propositions

[...] we deliver to the customer?
[...] our customer's problems are we helping to solve?
[...] of products and services are we offering to each Customer Segment?
[...] er needs are we satisfying?

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 are they integrated with the rest of our business model?
How costly are they?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Our Distribution Channels? Customer Relationships?
Revenue Streams?

Channels

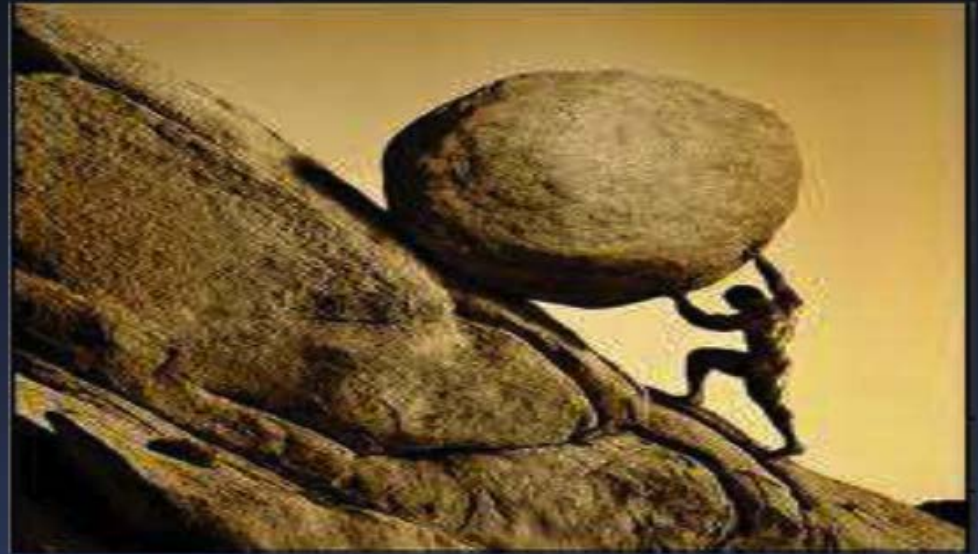Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

Revenue Streams

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?

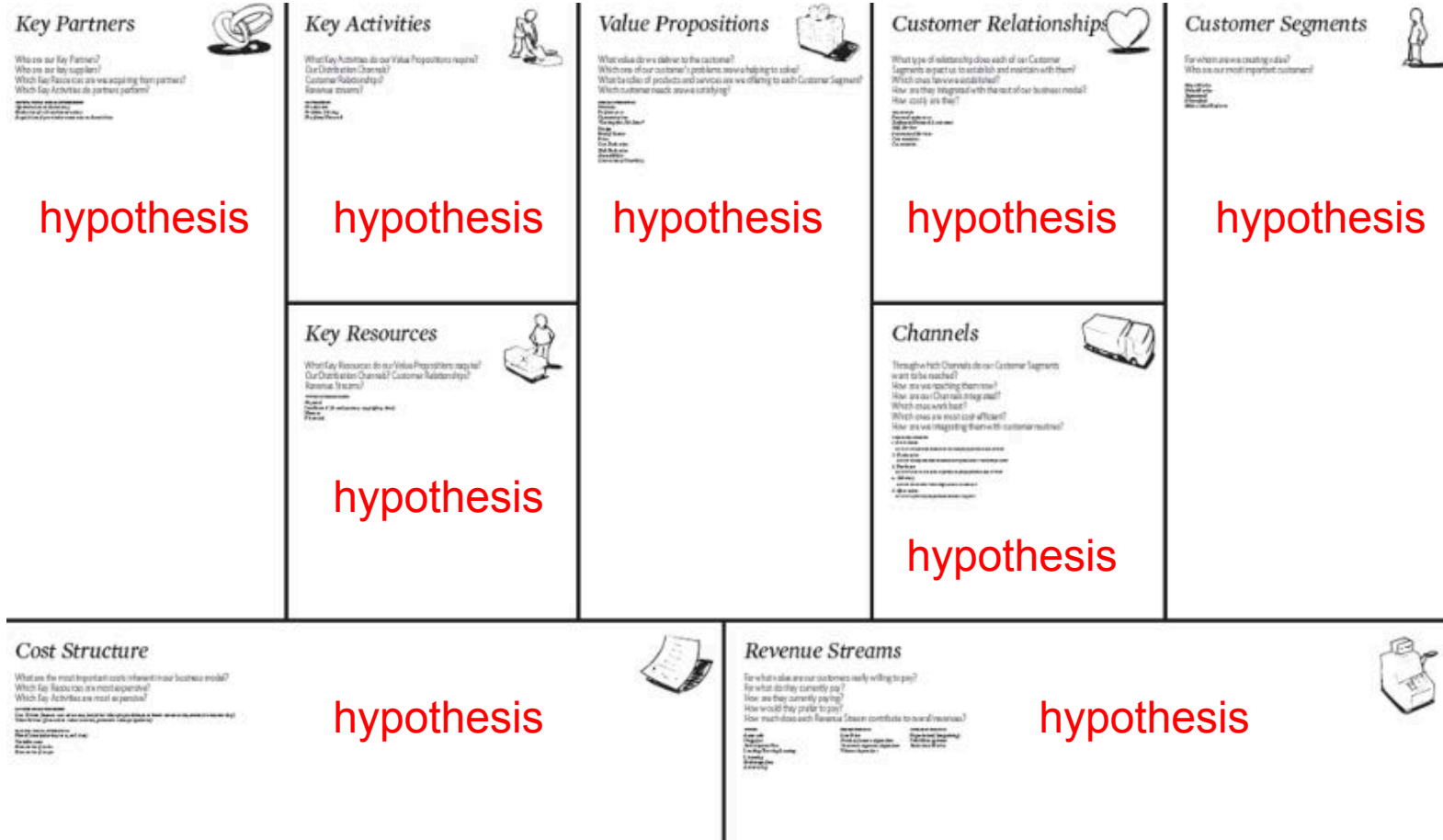| 30 days	90 days	1 year

- File Patent
- Launch pay portal
- Prepare term sheet
- Release Beta
- Interview 100 'customers'

- Close debt financing
- File 510k with FDA
- License to partner

- First $200,000 sales
- Close equity financing
- Expand into Europe

Business Model Canvas

Key Partners	Key Activities	Value Propositions	Customer Relationships	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?	What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?	What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?	What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?	For whom are we creating value? Who are our most important customers?
hypothesis	**hypothesis**	**hypothesis**	**hypothesis**	**hypothesis**

Key Resources

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

hypothesis

Channels

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?

hypothesis

Cost Structure	Revenue Streams
What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?	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?
hypothesis	**hypothesis**

Customer Discovery

Weaknesses

- Analysis of the customer
- Analysis of the competition

- Customer Discovery
  - Interviews
- Old fashioned research
  - Internet search
  - Reports
  - User groups

- Customer
  - Empathy Maps
  - Day in the life of (customer segment X)
  - Decision map

A Day in the Life Worksheet

OBJECTIVE
Understand your customer's world in more detail
OUTCOME
Map of your customer's day

Capture the most important jobs, pains, and gains of the customer you shadowed.

Tips

- Observe and take notes. Hold back with interpretation based on your own experience. Stay nonjudgmental! Work like an anthropologist and watch with "fresh" eyes and an open mind-set.
- Pay attention to both what you see and what you don't see.
- Capture not only what you can observe but also what is not talked about such as feelings or emotions.
- Develop customer empathy as a critical mind-set to perform this type of contextual inquiry effectively.

Time	Activity (what I see)		Notes (what I think)
7 pm	brush kid's teeth before bed		parents annoyed by water splashing everywhere

Empathy Map

THINK & FEEL?

•Life is constant battle between work that is affirming, rewarding, and creative with the fact that there are few avenues to create art sustainably long term
•Having a lot of varied experiences and not being "trapped" in a mundane life cycle matter most to him

HEAR?

•Influencers speak through successful work; not interested in the academic side of things as much as production of cultural significance
•Friends are hyper-literate and he must keep up culturally to understand their references
•If not his own boss, he works with people he's comfortable addressing as peers
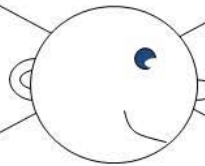
SEE?

•Photographic eye makes him very attuned to environment and aesthetic surroundings
•Market is all about discernment, both in being picky about careers and what he consumes
•Selective group of close friends that he trusts their opinions

SAY & DO?

•Strong opinions and unafraid to make value judgments
•Concerted attempt to cultivate a "non-traditional" look and individual style
•Generally not confrontational, but will defend topics of interest vigorously

PAIN

•Impressive work by peers just as likely to make him doubt his own skills as it is to inspire him
•Frustrated by having to compromise artistic vision to fit commercial goals in industry
•Obstacles include lack of viable careers

GAIN

•Needs fulfillment through unrestricted creativity and autonomy in life
•Measure success by opinions of respected peers and his own sense of worth
•Prestige weighs more than monetary success

Competitive Analysis

	My Business	Strength	Weakness	Competitor A	Competitor B	Competitor C	Importance to Customer
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Stability							
Expertise							
Company Reputation							
Location							
Appearance							
Sales Method							
Credit Policies							
Advertising							
Image							

INSPIRATION

Sometimes it's right in front of you.

APPENDIX

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 are they integrated with the rest of our business model?
How costly are they?

Step 1.
Scientific method + Customer Discovery

Hypothesis:
Our customers require live support 24 hours/day, 7 days per week.

Experiment:
Live call customers to see if this is true. Determine to a level of confidence (*e.g. p*=0.01)

Customer Discovery:
What level of support would you like? What else would you like?

Bronze, Silver, Gold levels of support

Step 2.
Weighted result based on 'critical-to-success'

Simplified example:

Confidence level: 1 – 10 (10 = very high confidence)
Critical level: 1 – 10 (10 = very critical to success)

Score: (1/Confidence)x(Critical) = proportional to success

e.g.
High confidence and highly critical: (1/10)x(10)= 1
High confidence and not critical: (1/10)x(1) = 0.1
Low confidence and highly critical: (1/1)x(10) = 10
Low confidence and not critical: (1/1)x(1) = 1

Higher numbers require action.

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?
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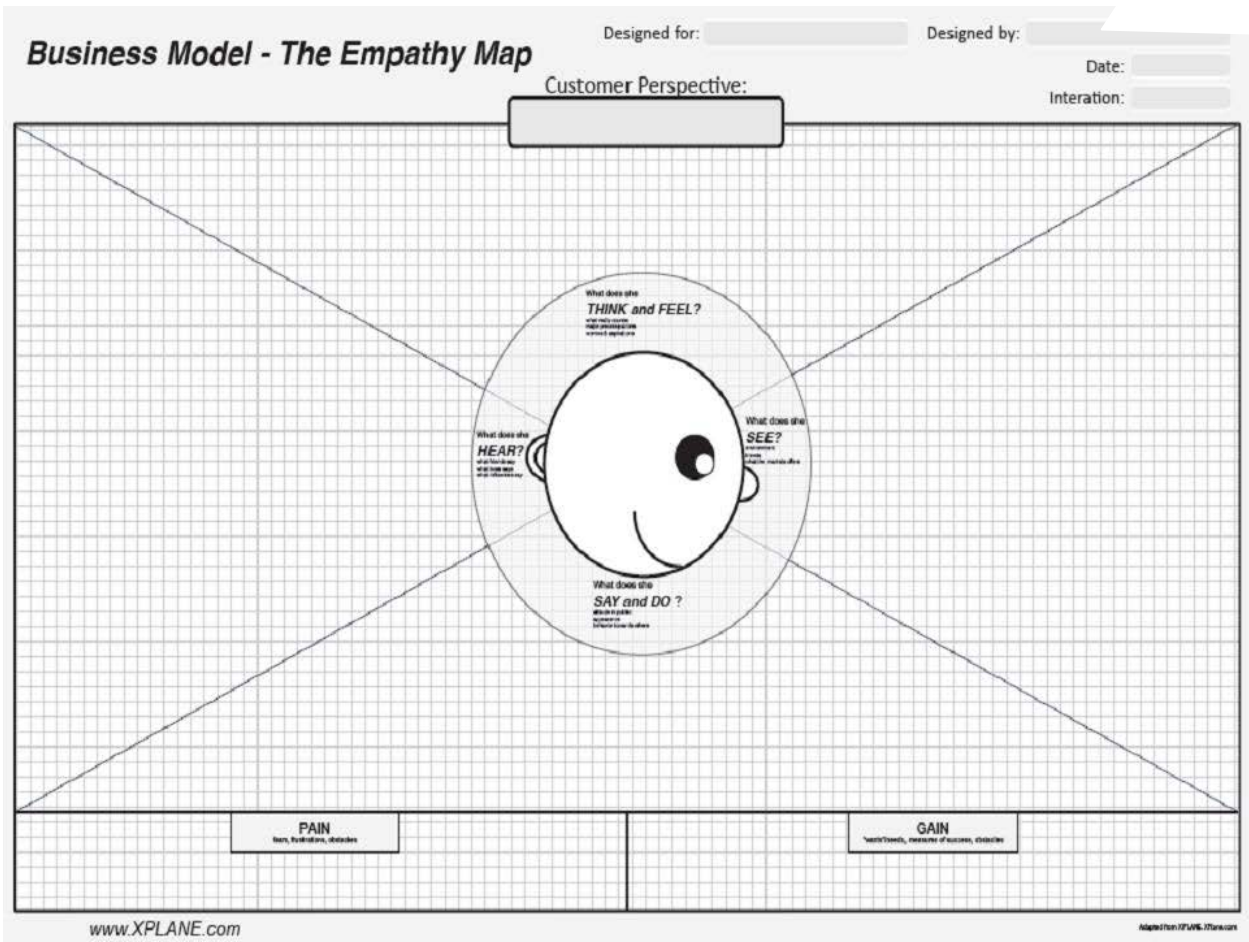
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Low confidence and not critical: (1/1)x(1) = 1

Higher numbers require action.

Empathy Video 1   Customer Empathy (Apple)

Create a list of 10 people you believe are your users and/or paying customers and talk to them (face-to-face).

You are seeking (a) insights, (b) new actions.

Healthy Eating Interview

Death by Powerpoint

Example questions (DO NOT SELL!):

- Is 'X' a problem for you?

- How do you solve 'X' now?

- What is your cost of the current solution?

- If someone provided new *Value Proposition 'Y'*, would you use it?

- Who else should I talk to?

Customer Discovery & Validation
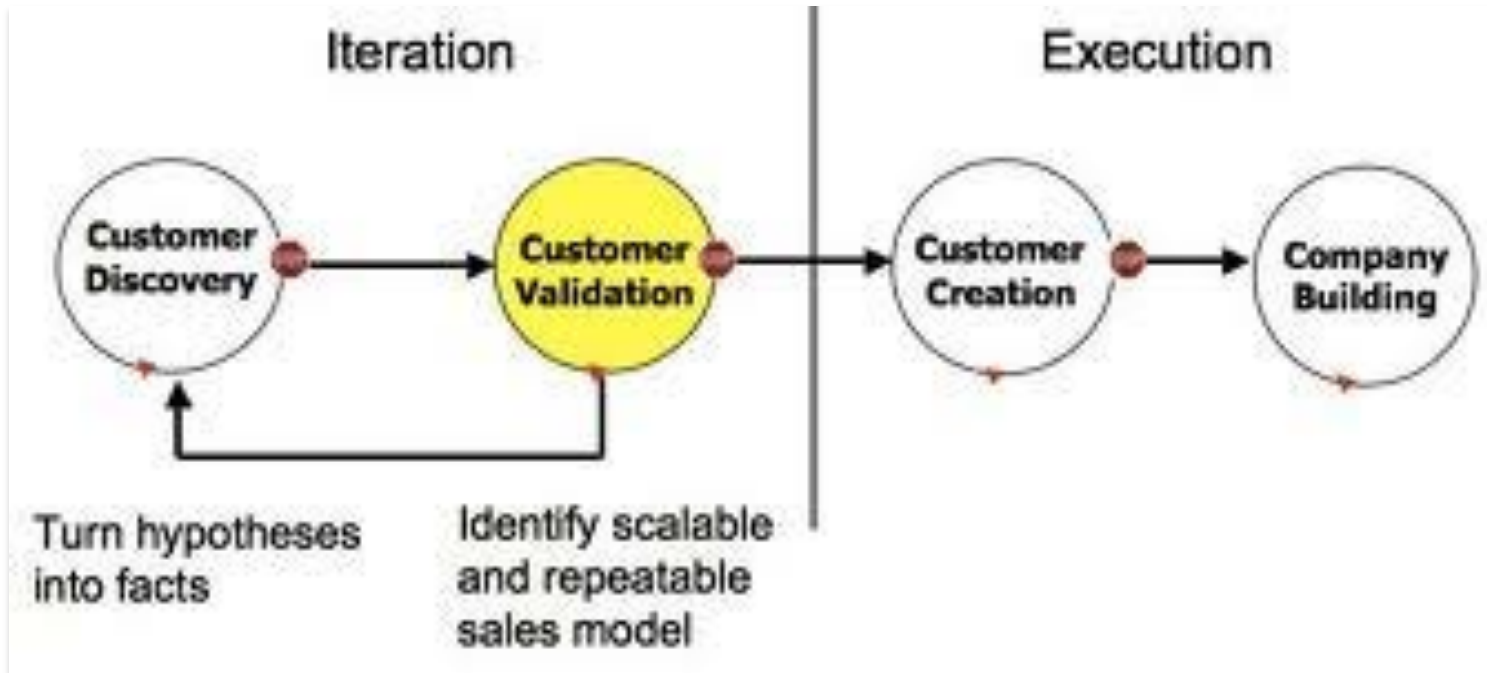
Test Card

☺ Strategyzer

| Test Name | Deadline |
| Assigned to | Duration |

STEP 1: HYPOTHESIS

We believe that

Critical:
⚠ ⚠ ⚠

STEP 2: TEST

To verify that, we will

Test Cost: Data Reliability:
🪙 🪙 🪙   👍 👍 👍

STEP 3: METRIC

And measure

Time Required:
🕐 🕐 🕐

STEP 4: CRITERIA

We are right if

SFU
INNOVATES
think. engage. change.

Learning Card

⏱ **Strategyzer**

Insight Name	Date of Learning

Person Responsible

STEP 1: HYPOTHESIS

We believed that

STEP 2: OBSERVATION

We observed

Data Reliability:

👍 👍 👍

STEP 3: LEARNINGS AND INSIGHTS
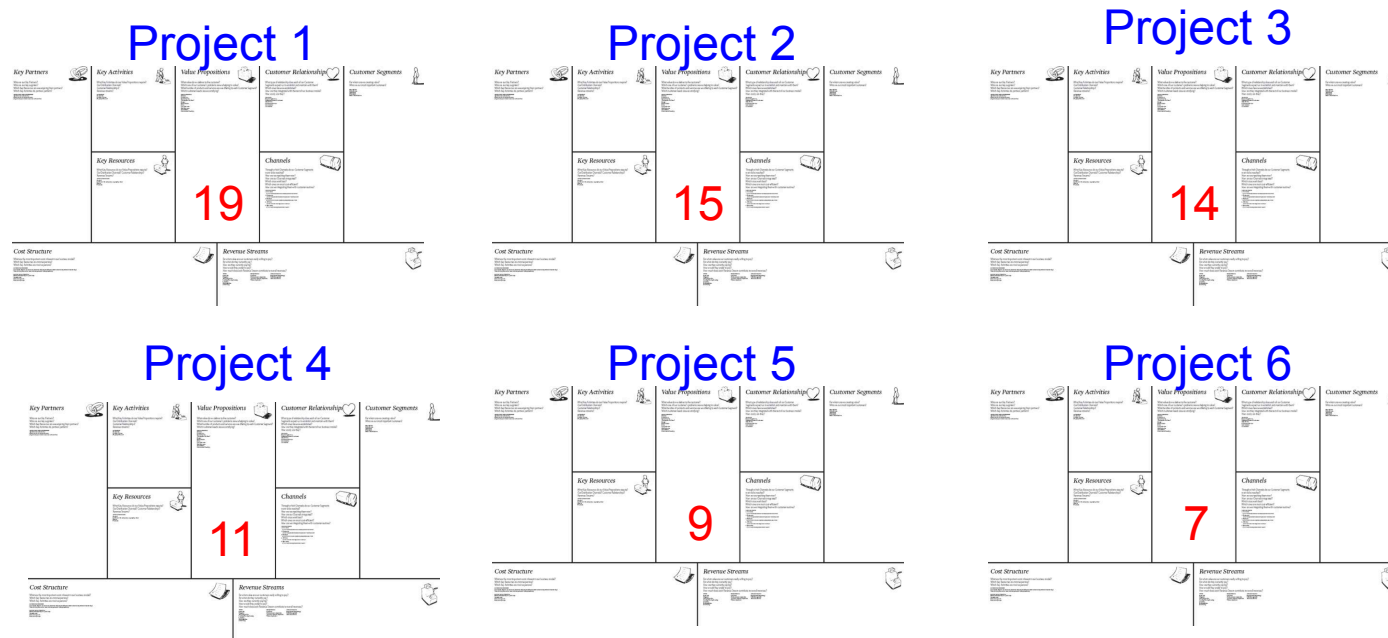
From that we learned that

Action Required:

☑ ☑ ☑

STEP 4: DECISIONS AND ACTIONS

Therefore, we will

SFU
INNOVATES
think. engage. change.

Project Portfolio Management

Project Score (simplified examples):

Project 1
19

Project 2
15

Project 3
14

Project 4
11

Project 5
9

Project 6
7

Determine which projects have the highest probability of best revenue

1. **Better before Cheaper**
   "Systematically, exceptional companies differentiate on non-price factors"

2. **Revenue before Cost**
   "Drive up returns on assets through higher relative revenue than by lower relative cost or lower relative assets. Superior profitability does not depend on cost….."

3. **There are No Other Rules**
   "Above rules tell you where your best bet lies"

Source:
Globe & Mail, June 17th, 2013, on Michael Raynor & Mumtaz Ahmed's new book *The Three Rules.*

Credit to: Peter-Paul Van Hoeken