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CS7CS6: Part 3: Business Model Canvas Blocks continued

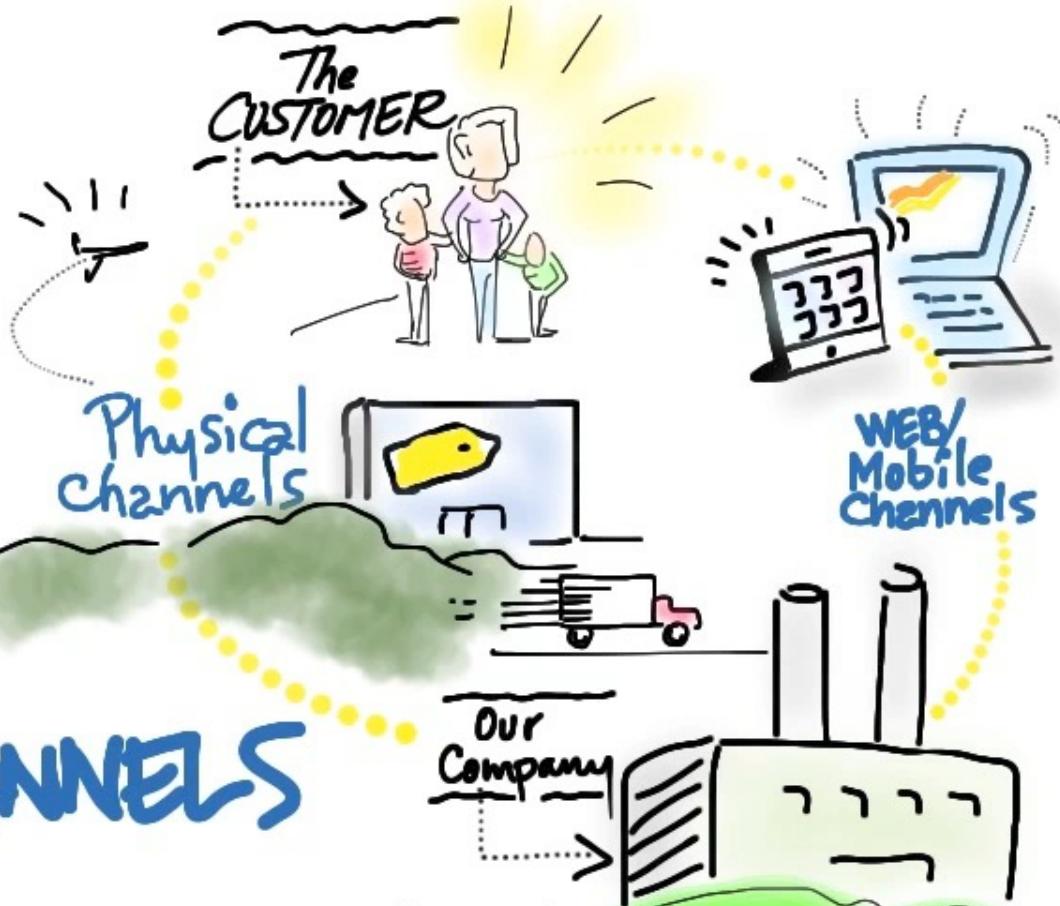
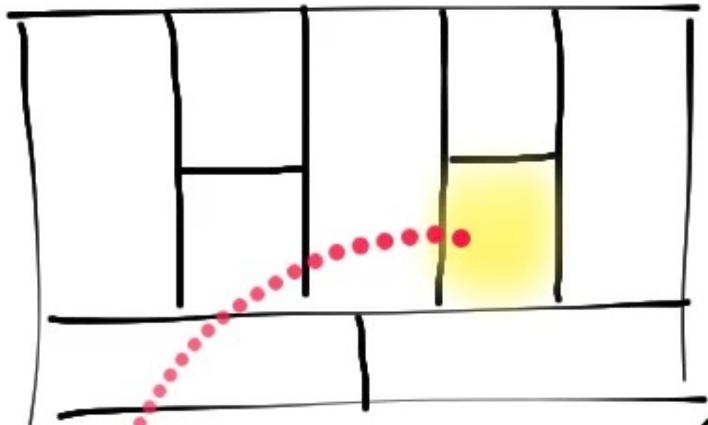
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ORI G.38

With thanks to:
Steve Blank, Jon Feiber, Jon Burke, Liam Cronin
Based on <http://i245.stanford.edu/>
And icorps : https://www.nsf.gov/news/special_reports/i-corps/



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Channels



3. CHANNELS



How does the product get from our company to the customer?

7. KEY PARTNERS

8. KEY ACTIVITIES

1. VALUE PROPOSITIONS

**Who Are Our
Customers? and
How Do We Reach
Them?**

3. CHANNELS

6. KEY RESOURCES

9. COST STRUCTURE

5. REVENUE STREAMS

1. CUSTOMER SEGMENTS

Physical versus Virtual Channels

The SECOND INDUSTRIAL REVOLUTION!

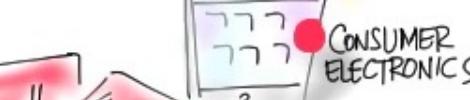
Product



• SHOES (Zappos)

• BOOKS (Amazon)

• MOVIES (Netflix)



• Food
• Household Goods



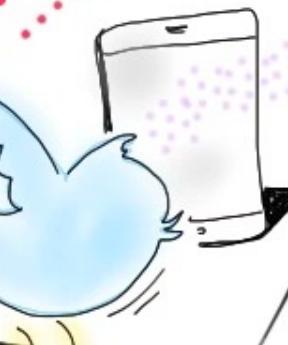
• Autos
• Planes

BITS/VIRTUAL

Google



BITS/VIRTUAL



Channel!

FASTER

- TESTING
- ADAPTABILITY to CHANGE
- OPTIMIZATION

PHYSICAL

• Insurance
• Stocks and Bonds

• Enterprise Software
• Shrinkwrap Software



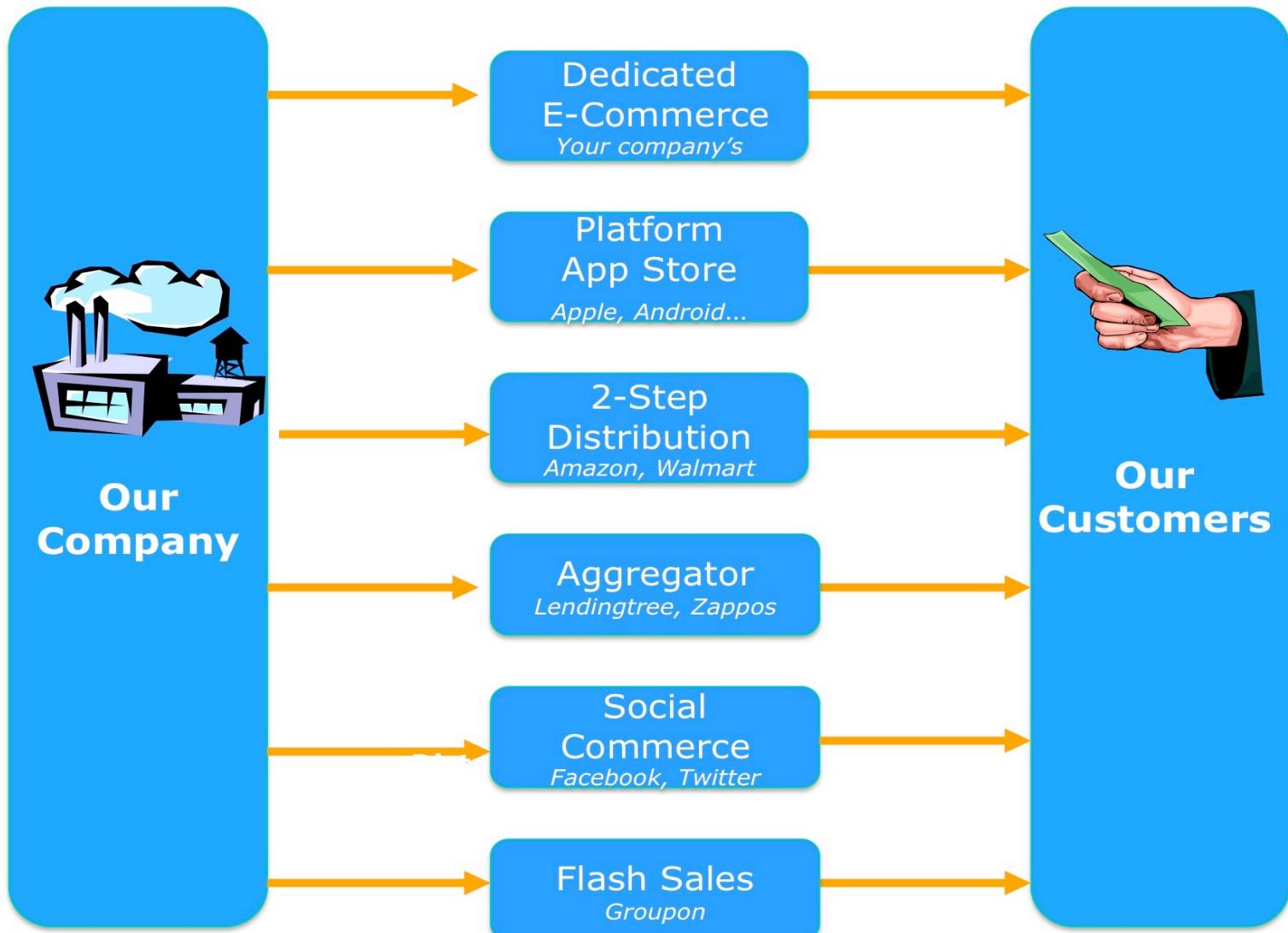
How Do You Want Your Product to Get to Your Customer?

- Yourself
- Through someone else
- Retail
- Wholesale
- Bundled with other goods or services

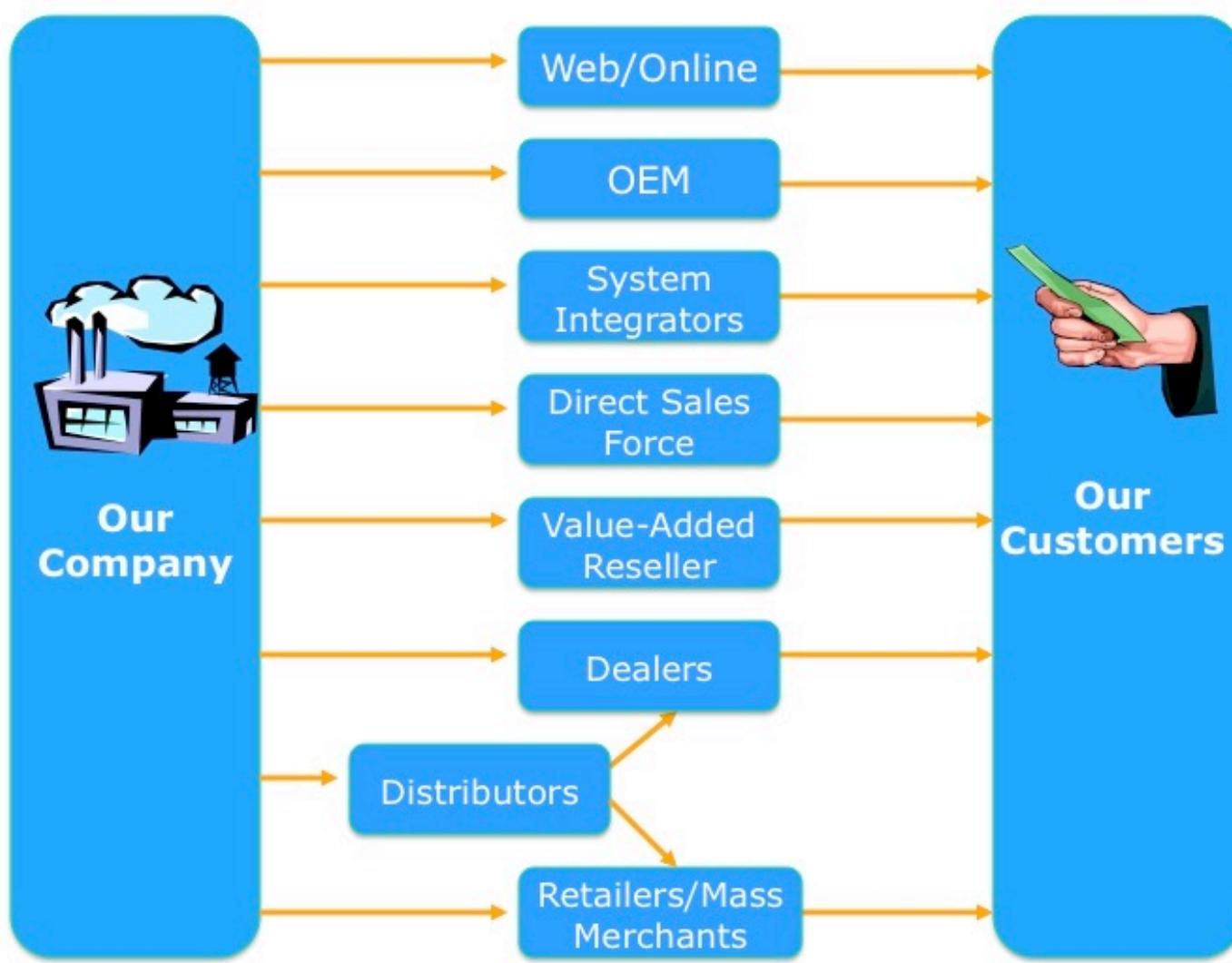
Different Economics

Different options for different Customer Segments – Customer Relationships

Web Channels



Physical Channels

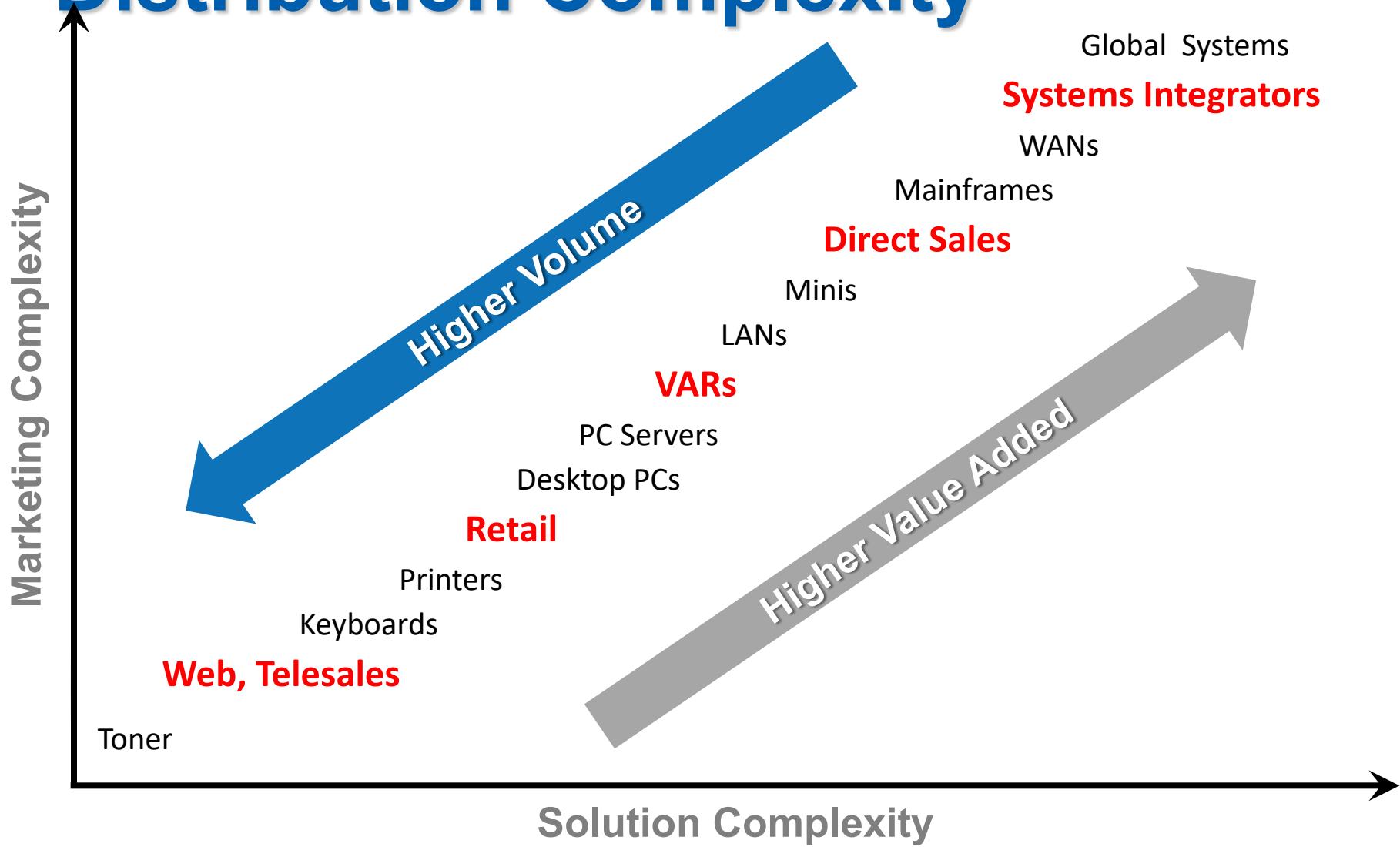


How Does Your Customer Want to Buy Your Product from your Channel?

- Same day
- Delivered and installed
- Downloaded
- Bundled with other products
- As a service

...

Distribution Complexity



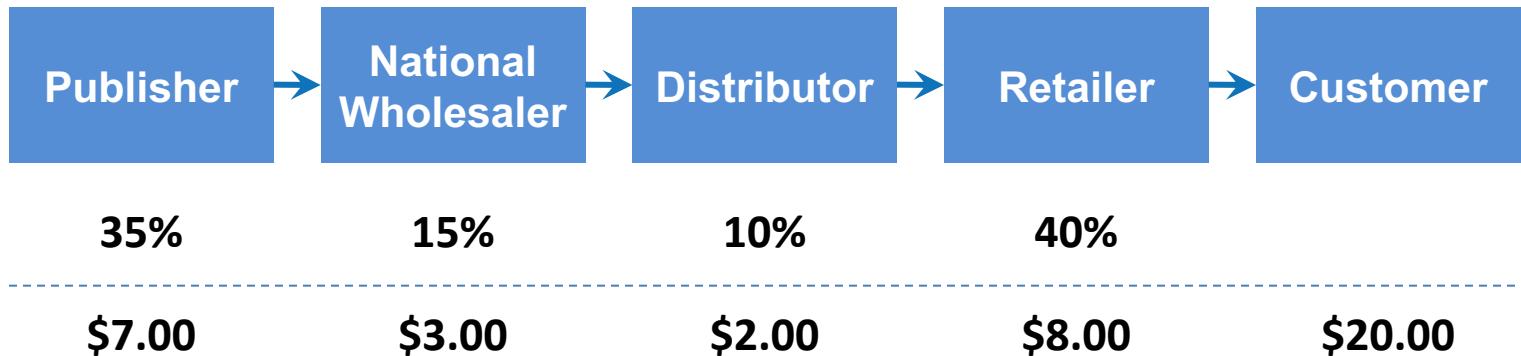
How Are Channels Compensated?

- Commission
- Percentage of sales price
- Discounted pre-purchase

How Are Channels Motivated or Incented?

- Money! – what makes them the most?
- Training
- Marketing to the channel
- Sales Performance Incentive Fund (SPIF)

Book Publishing

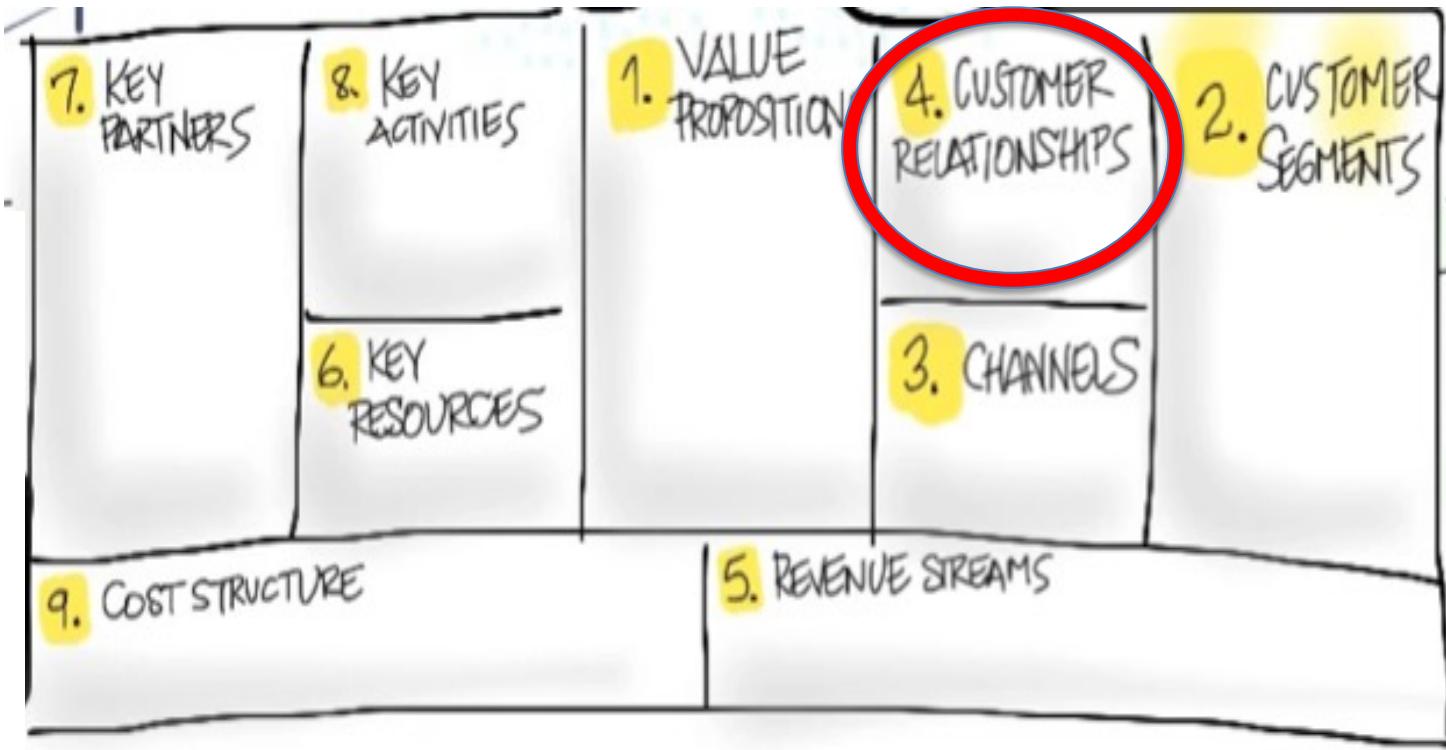


- You get
 - 35% of retail
 - the distributor gets 10%
 - the wholesaler gets 15%
 - the retailer gets 40%
 - less any *discount* they offer the customer



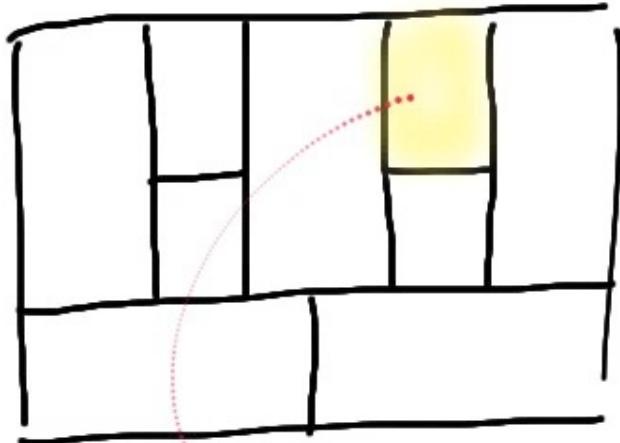
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Customer Relationships

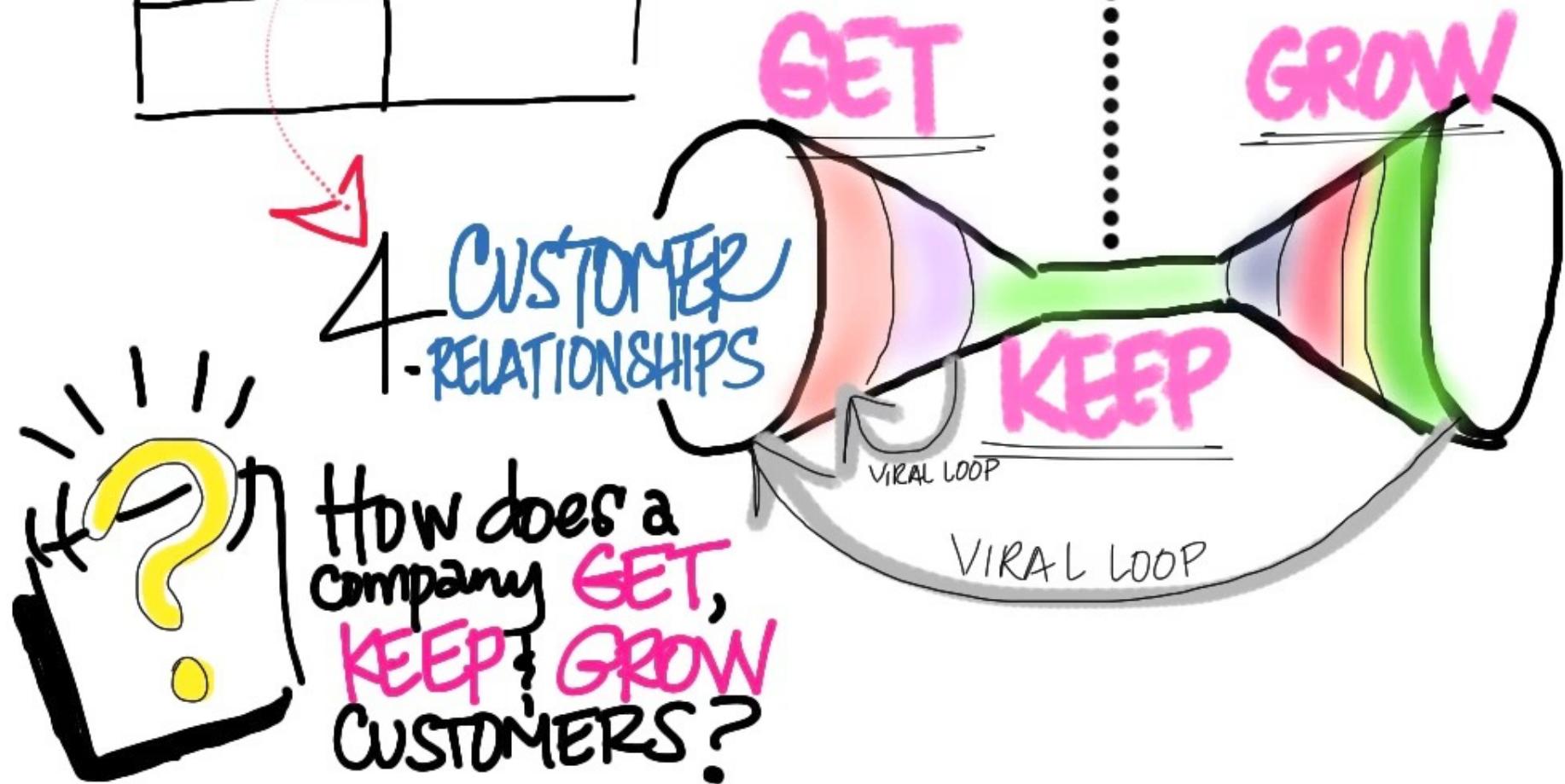


Customer Relationships

How do you Get, Keep and Grow Customers?

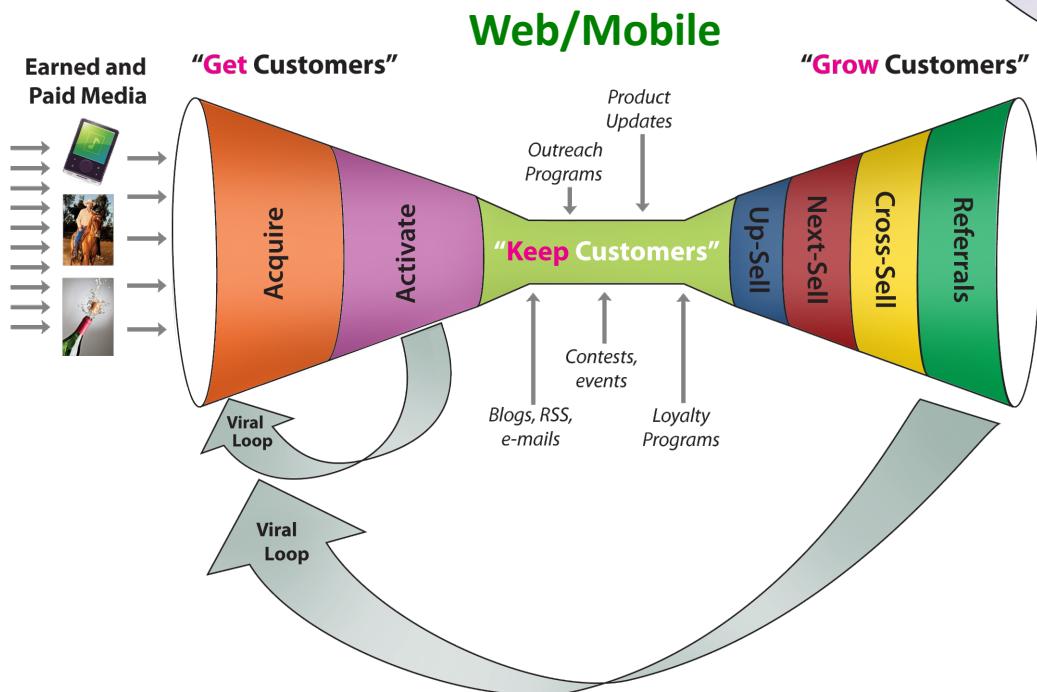
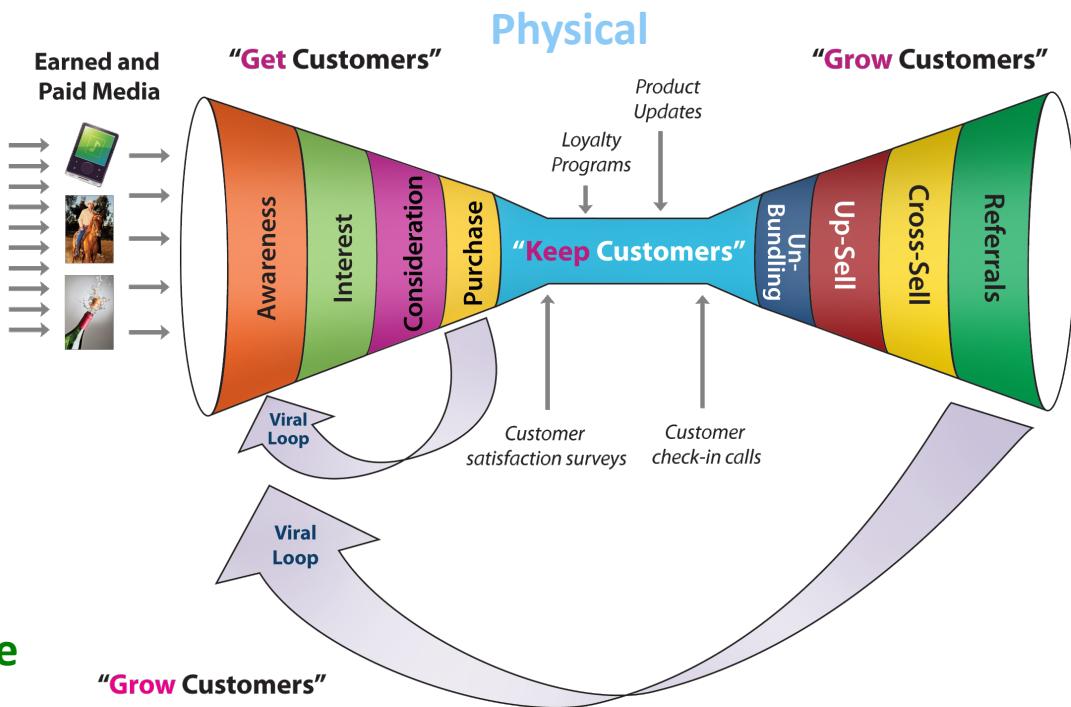


Just like in Channels,
these are DIFFERENT for
WEB/MOBILE versus
PHYSICAL



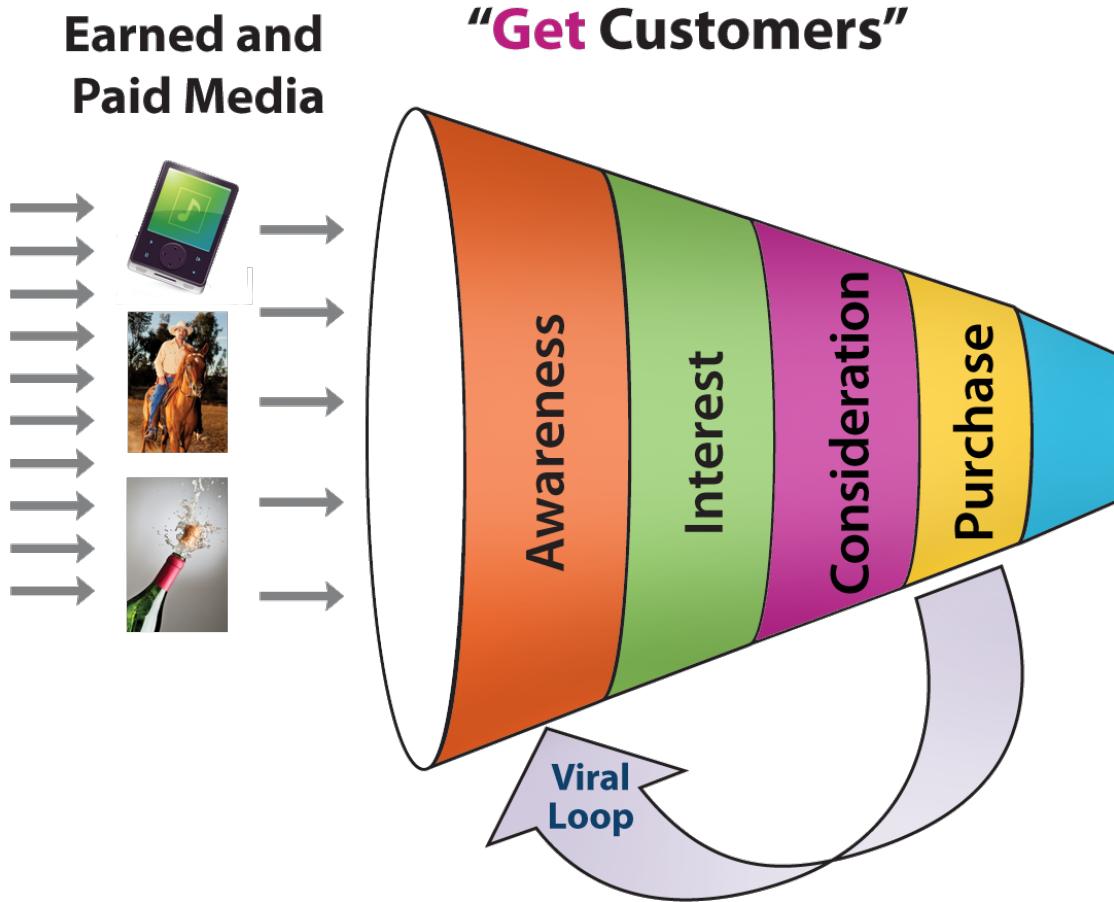
Customer Relationships

Physical & Web Mobile Are Different



Customer Relationships

Physical Products – **Get Customers**



Paid Demand Creation Activities

“Paid” Media

Demand Creation



Public Relations

Advertising

Trade Shows

Webinars

Email marketing

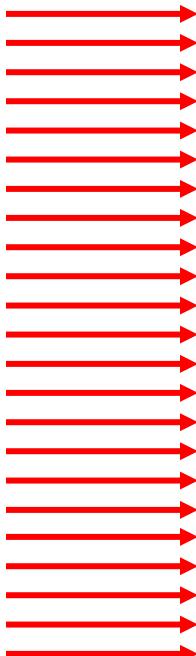
On-line Search Engine Marketing
(SEM)

Biz Dev

Free Demand Creation Activities

“Earned” Media

Demand Creation



Publications in journals

Conference speeches/papers

Educational seminars

Public relations

Blogging / Sharable content

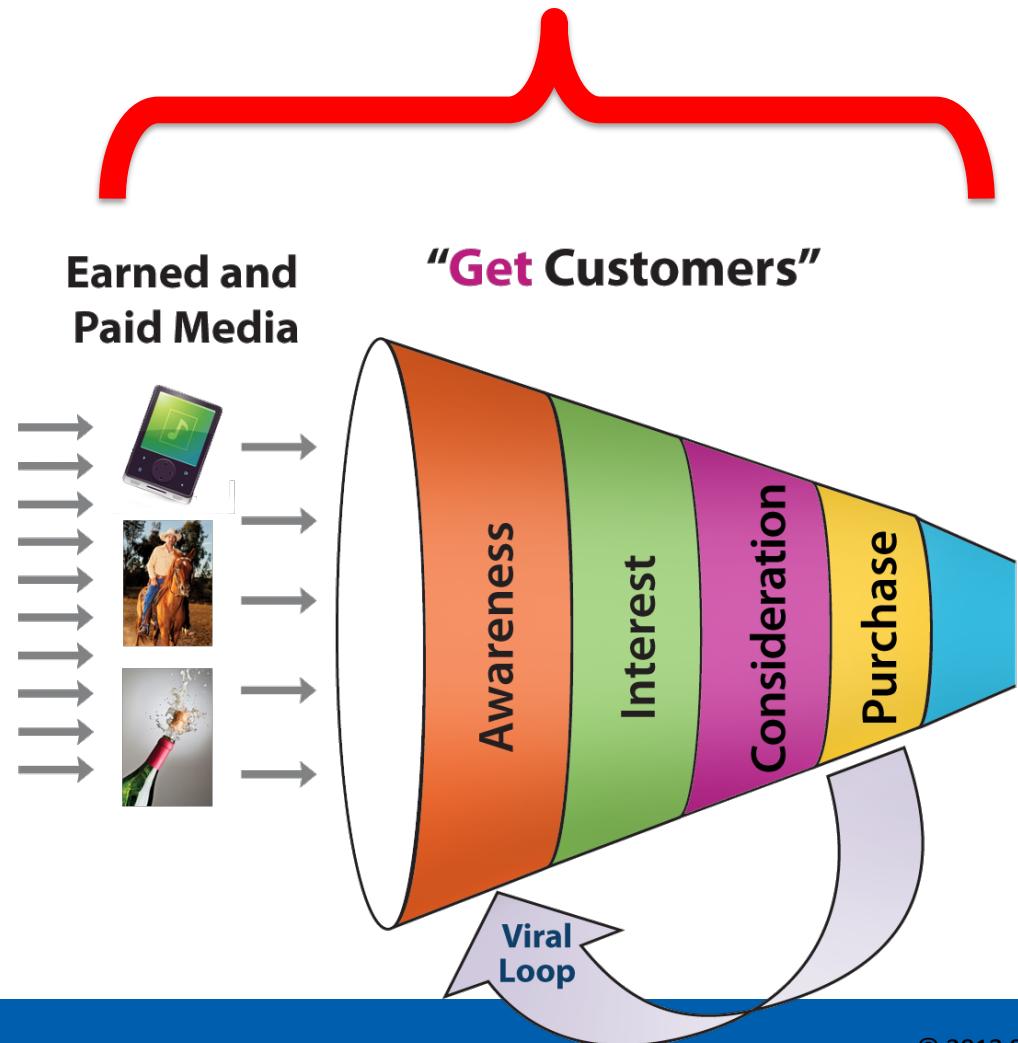
Social Media

Communities

Customer Relationships

Physical Products – **Get Customers**

CAC = Customer Acquisition Cost

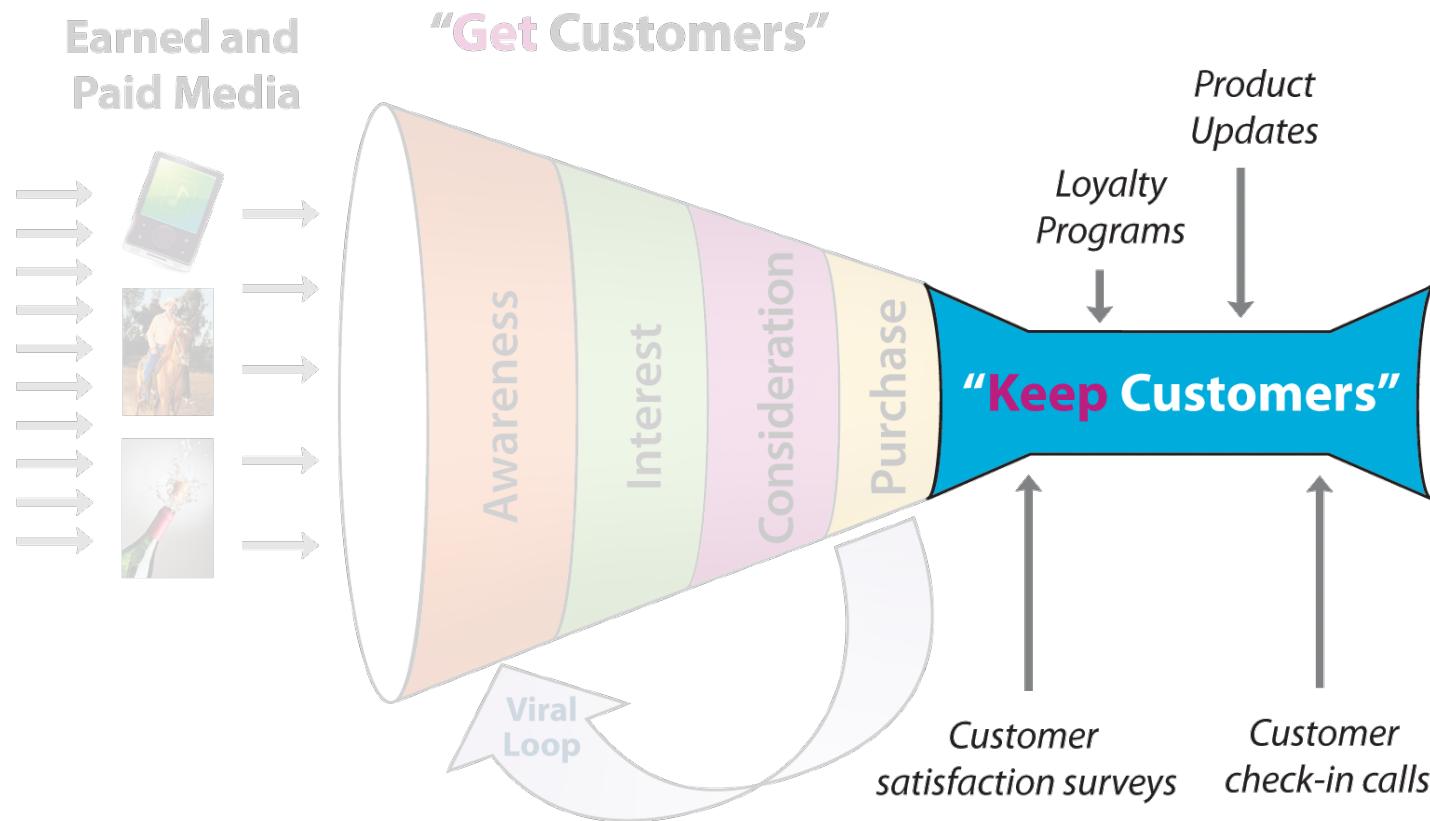


Customer Acquisition Cost versus Sales Complexity



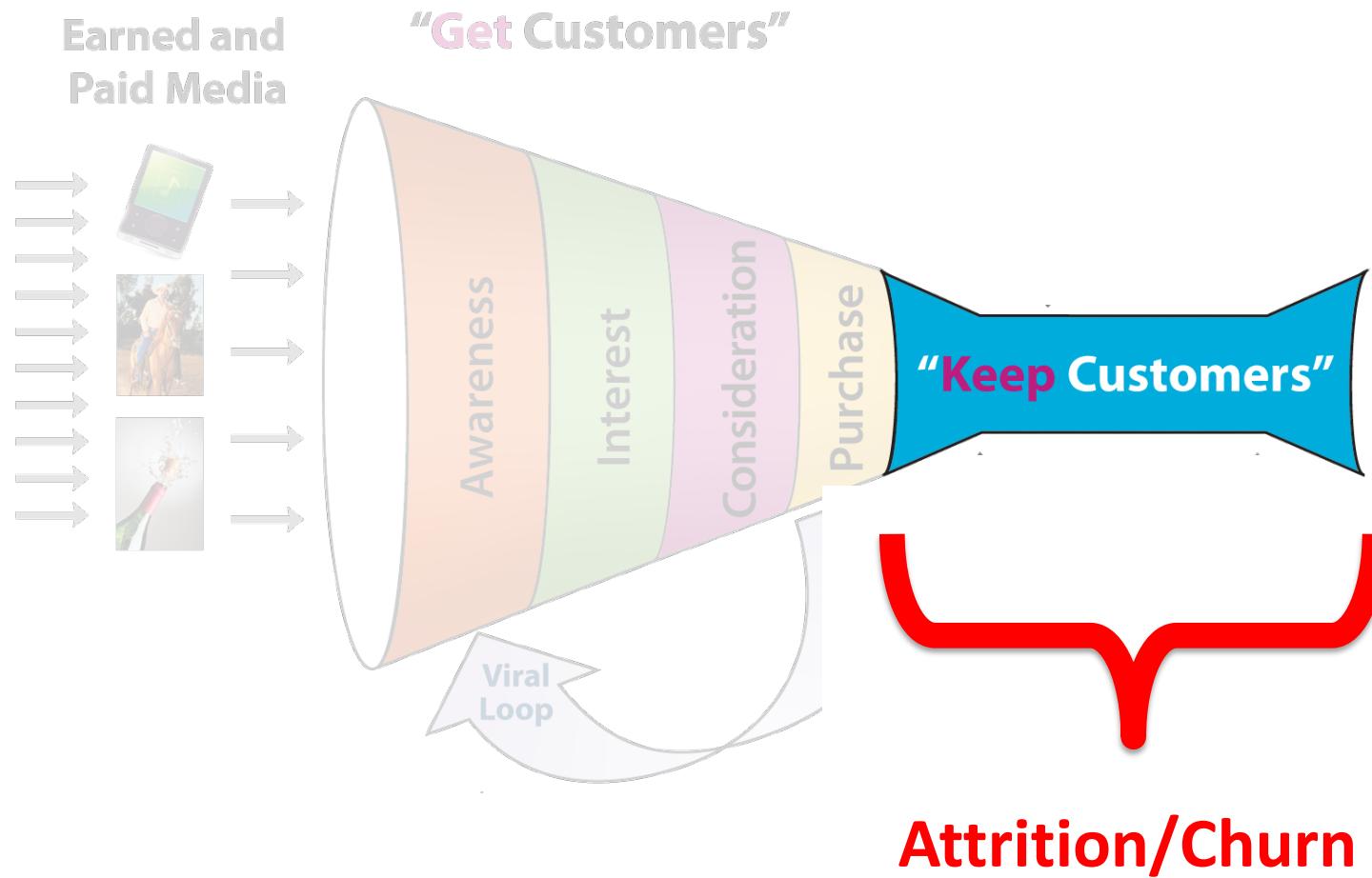
Customer Relationships

Physical Products – **Keep Customers**



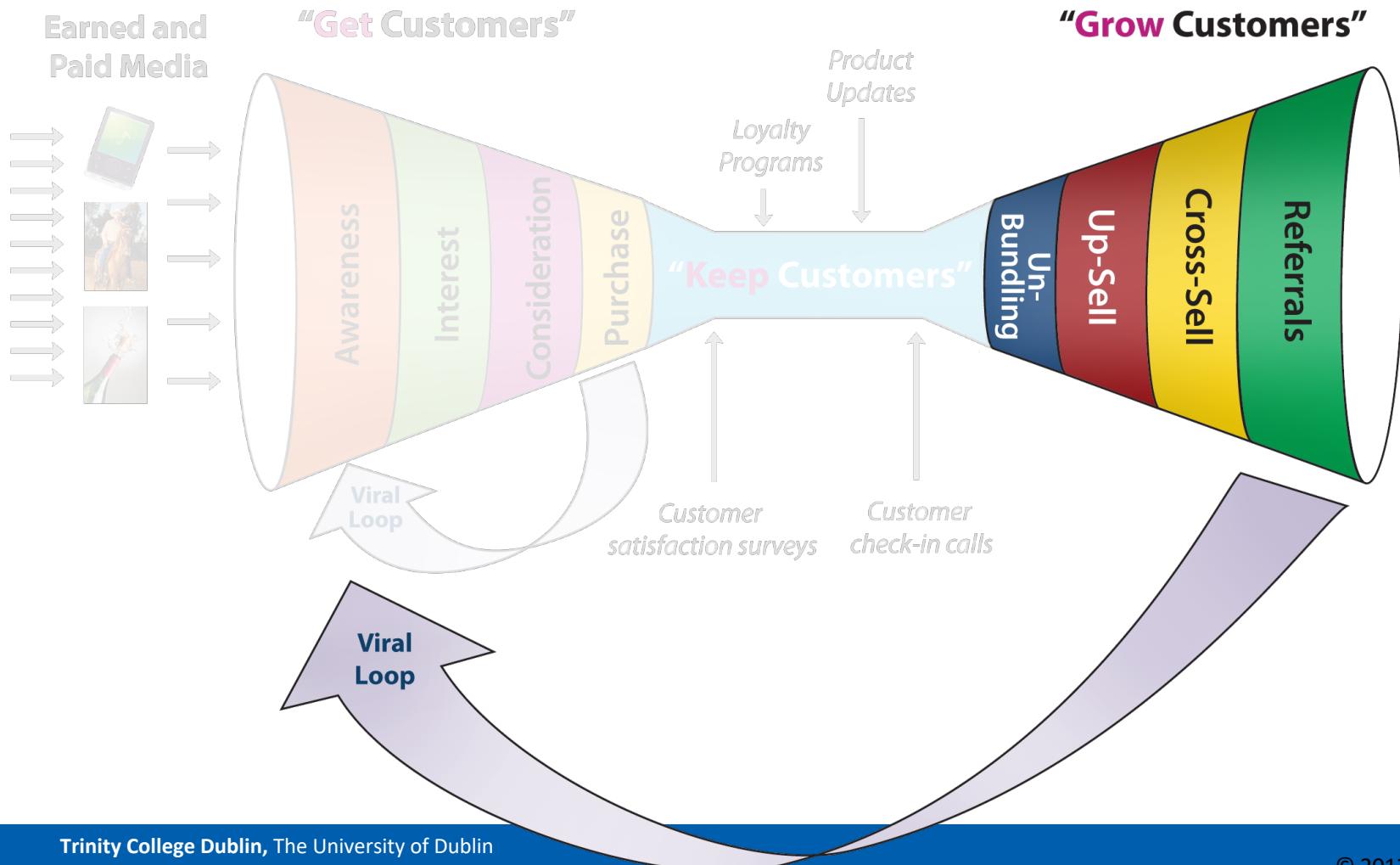
Customer Relationships

Physical Products – **Keep Customers**



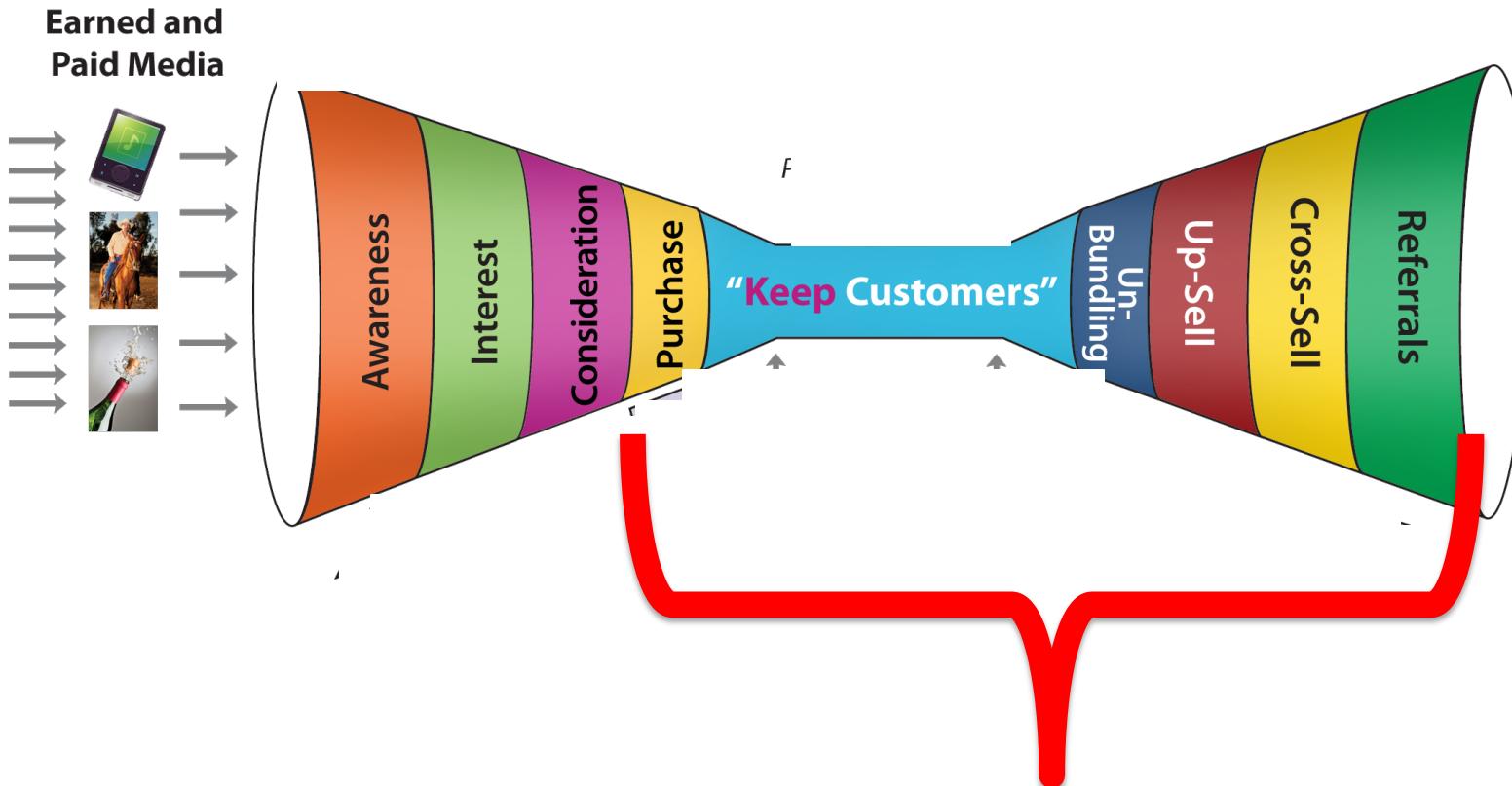
Customer Relationships

Physical Products – **Grow Customers**



Customer Relationships

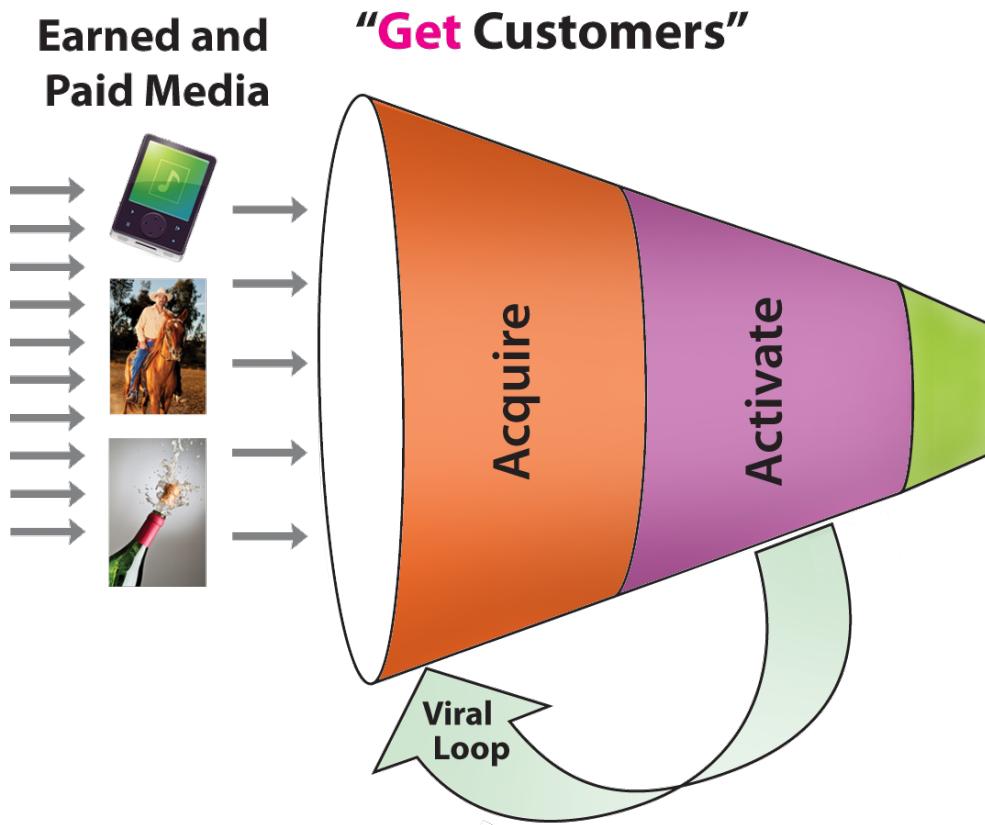
Physical Products – Get/Keep/Grow



LTV = Customer Life-Time Value

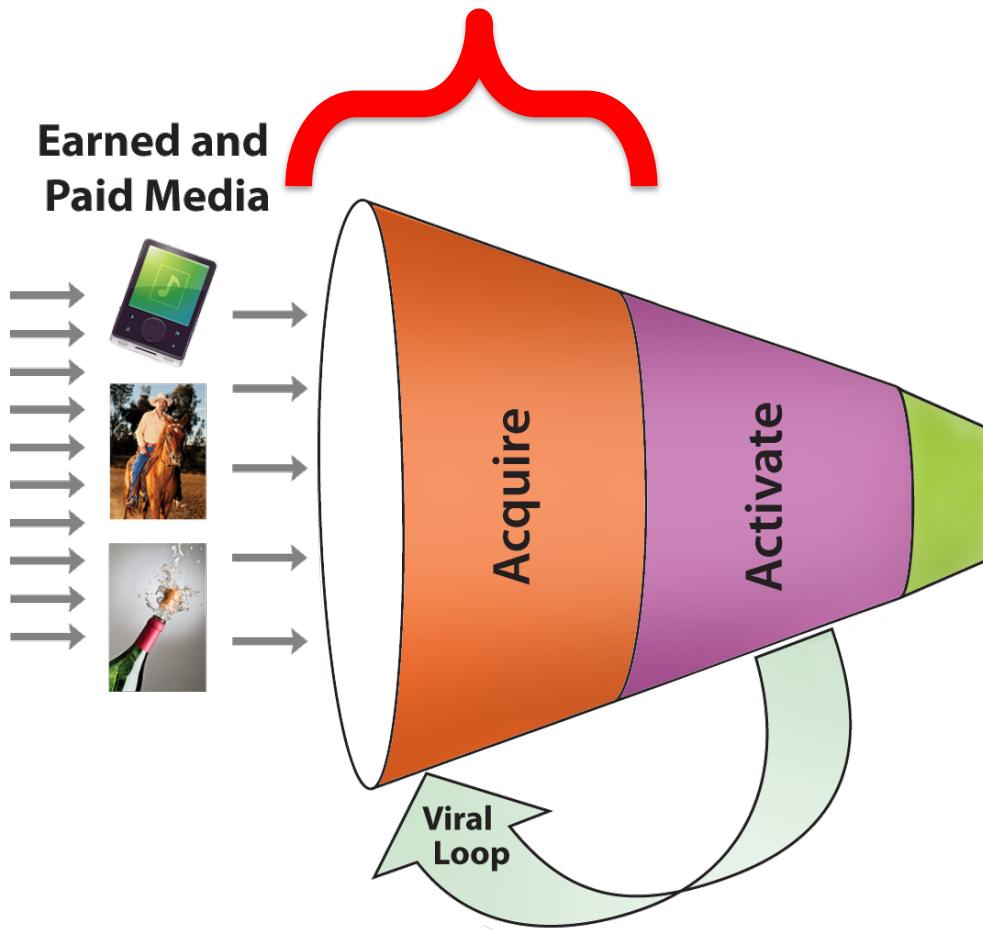
Customer Relationships

Web/Mobile Products— **Get Customers**



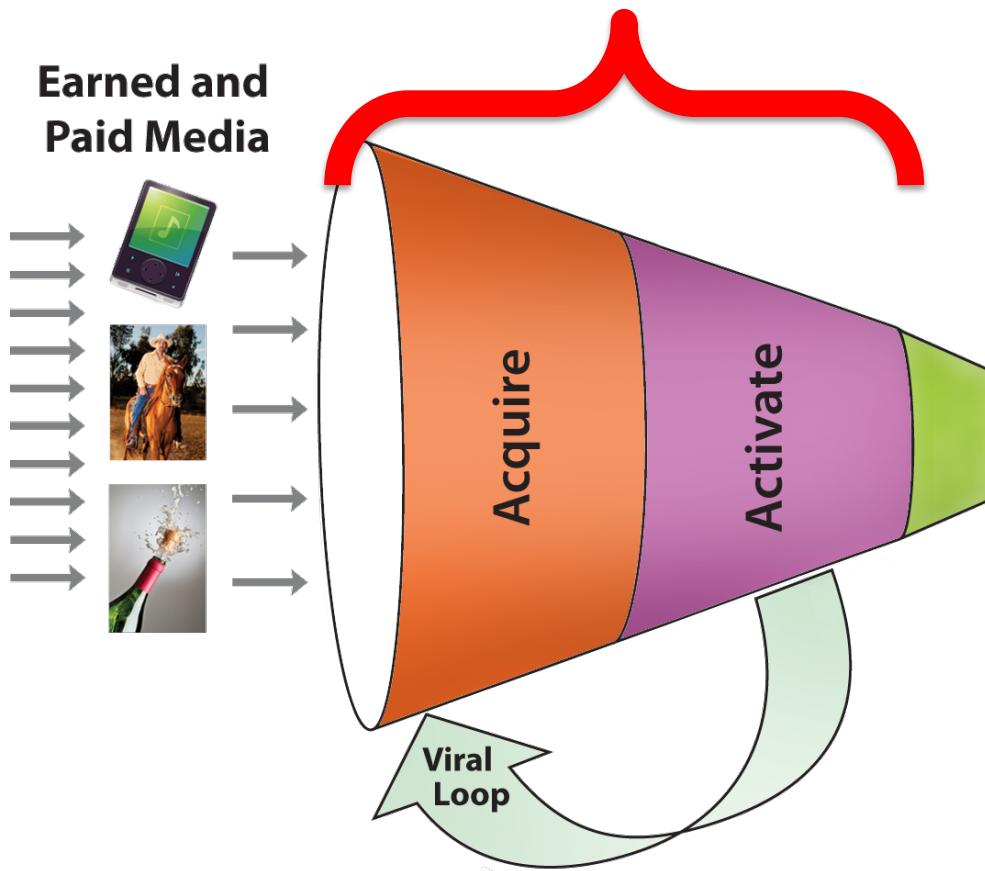
Web/Mobile Products—**Get Customers**

CPM = cost per thousand hits (“cost per mille”)



Web/Mobile Products—Get Customers

CPA = Cost per Action



Exsample: SaaS Products– Get Customers

Organic Traffic,
SEM, Other Paid
Sources



Our Example Marketing Funnel

Quick Marketing Calculation

50% amount of traffic that is organic versus paid

\$1.50 cost per paid visitor (Google AdWords, etc.)

\$ 0.75 Cost per visitor (both paid and unpaid)

3% visitors convert to raw leads

20% number of raw leads that turn into qualified leads

1 qualified lead

5 raw leads required

167 Visitors required

\$125 Cost per qualified lead

Cost per Qualified Lead

\$125

Leads to closed deal

10

Marketing Costs per closed deal

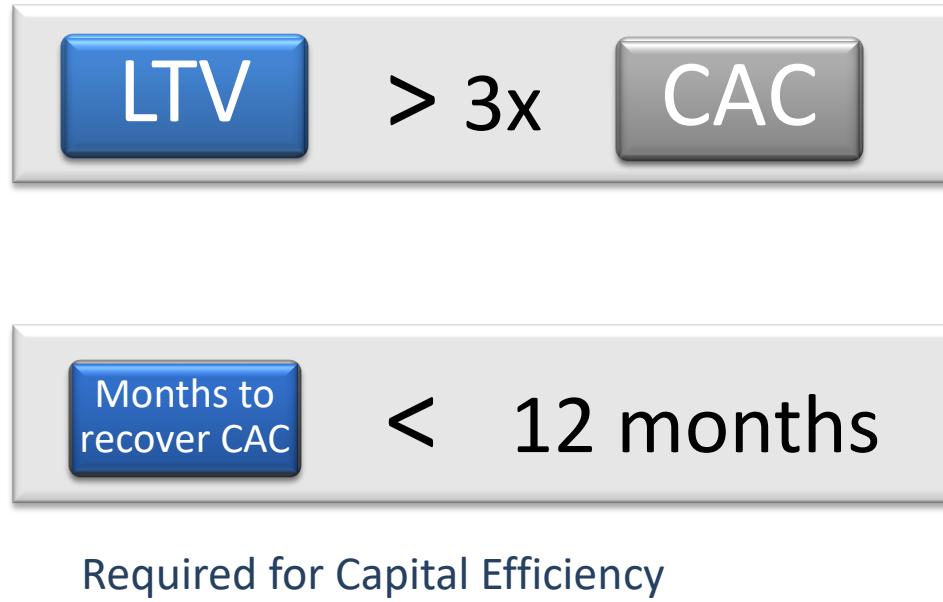
\$1,250

We Can Compute CAC and LTV

Lead Gen costs per deal	\$ 1,250	Excludes people costs (Cost per qualified lead x no of leads required per closed deal)
Selling costs per deal	\$ 1,620	Excludes cost of sales management
Total CAC	\$ 2,870	Excludes people costs in marketing, and sales management. (CAC=Customer Acquisition Cost)
Total LTV	\$ 16,000	Calculated by dividing average monthly gross profit per customer (ARPU x Gross Margin) by the churn rate

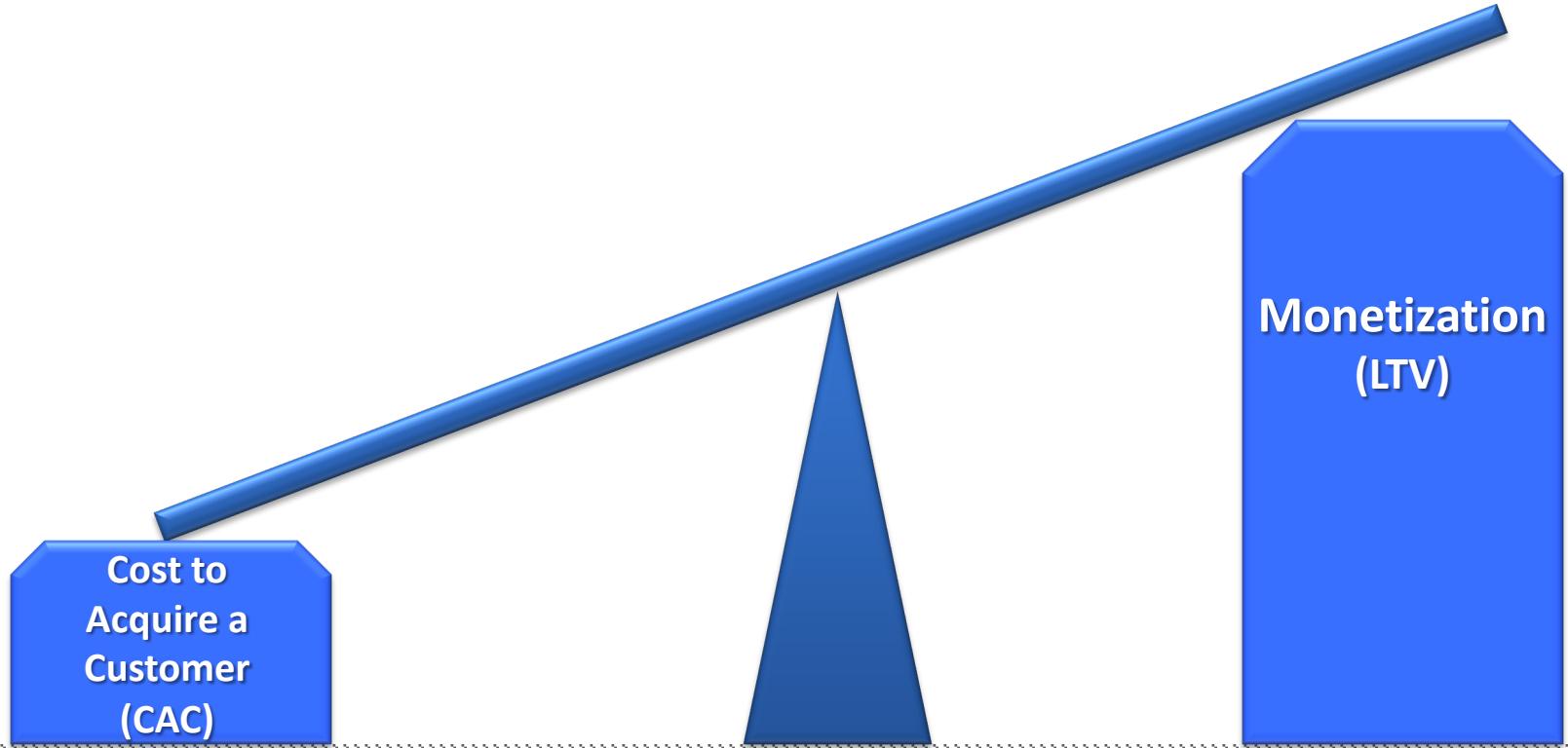
This excludes people costs in marketing, and sales management costs

Balancing CAC/LTV in a SaaS model

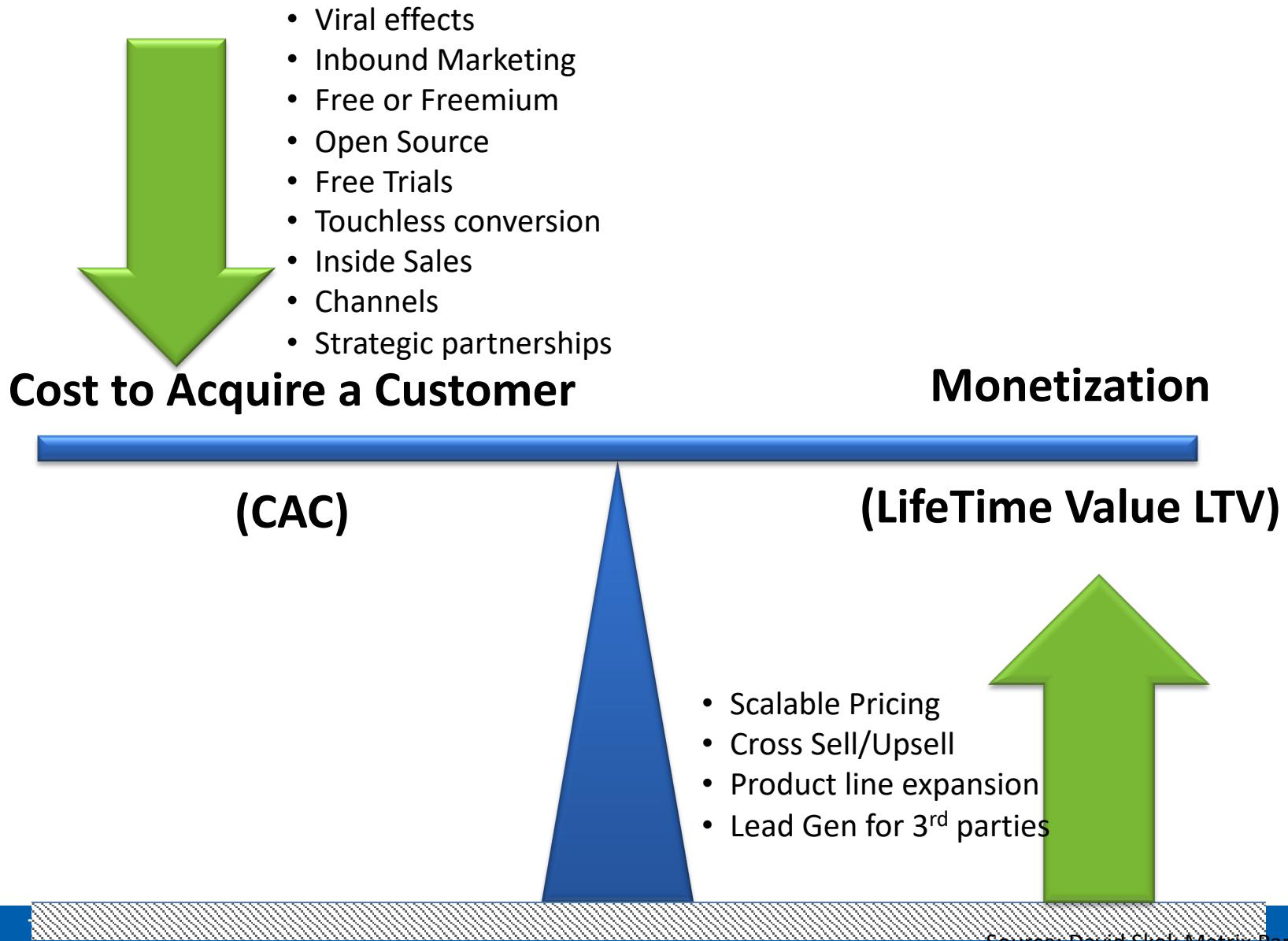


What Investors are Looking For

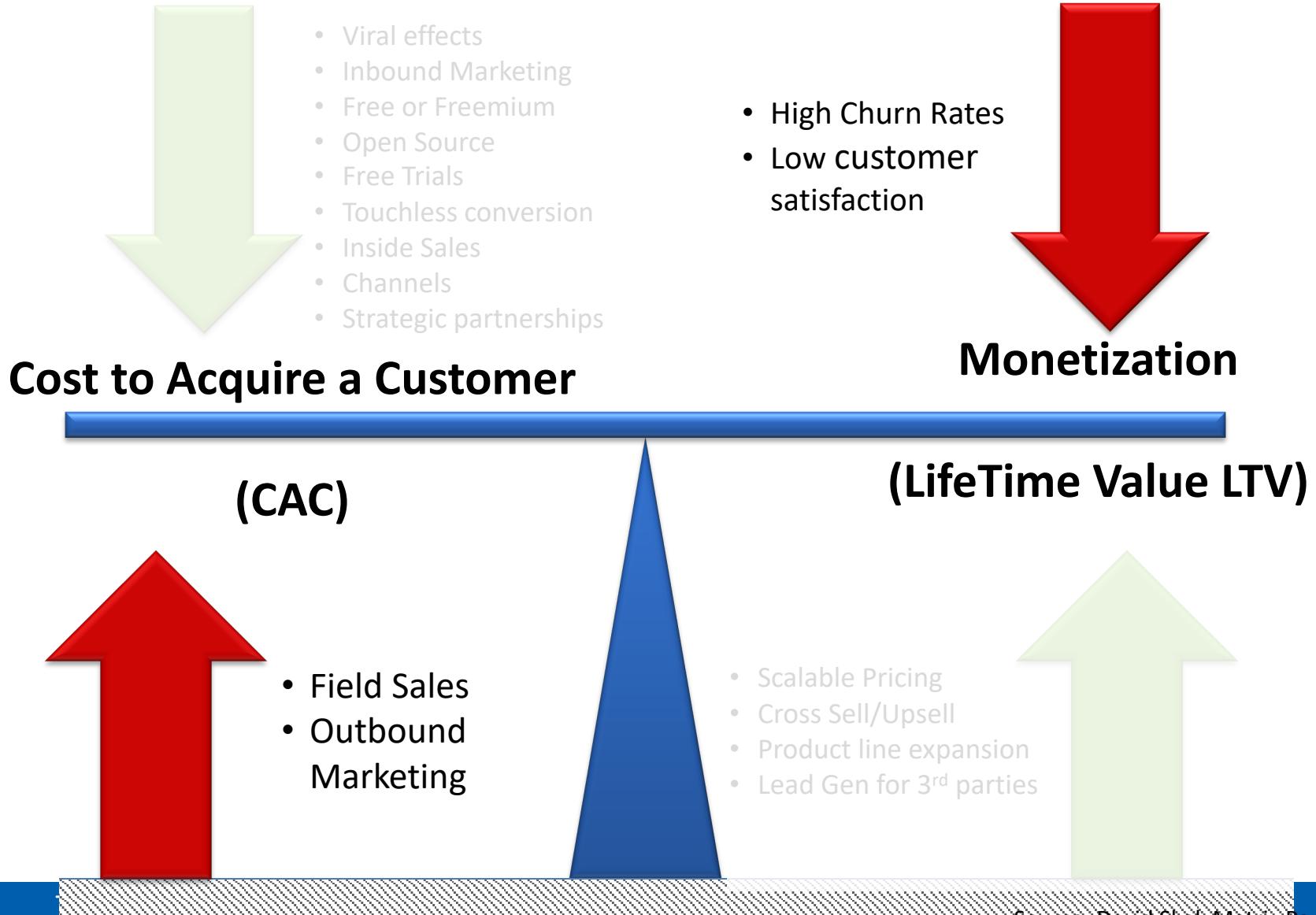
A well *balanced* business model



The Balancing Act

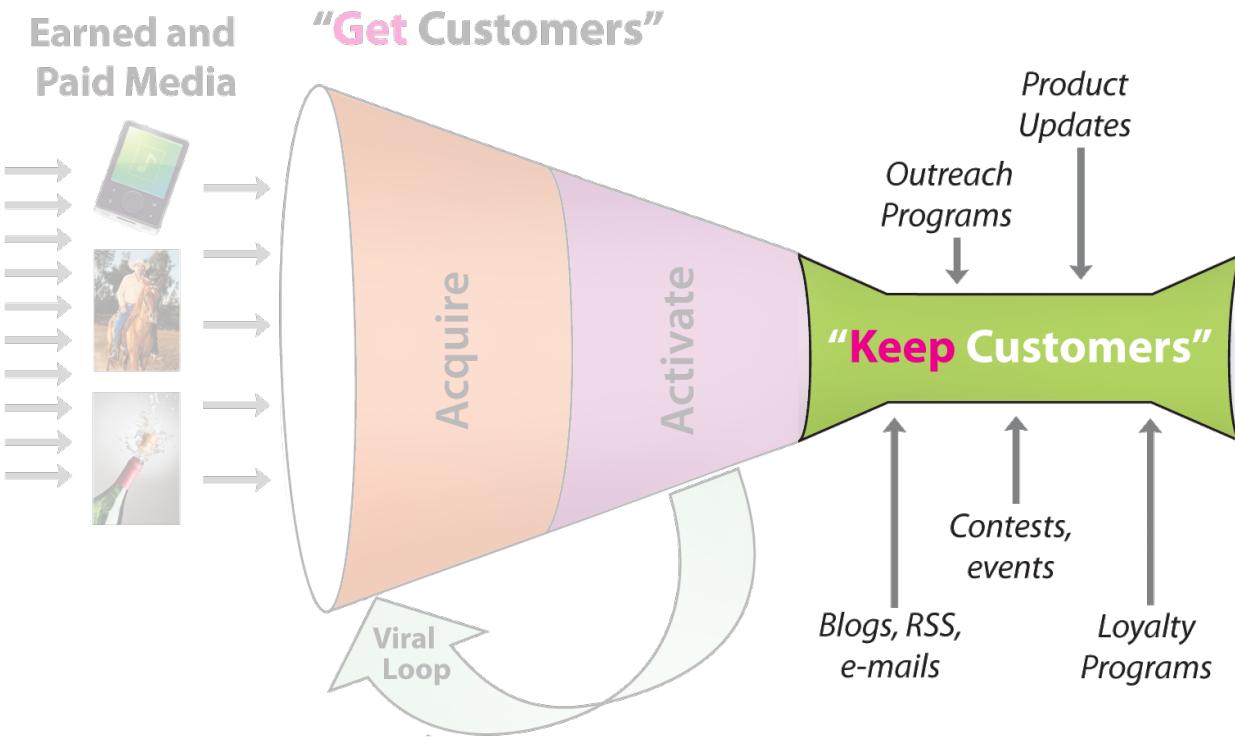


The Balancing Act



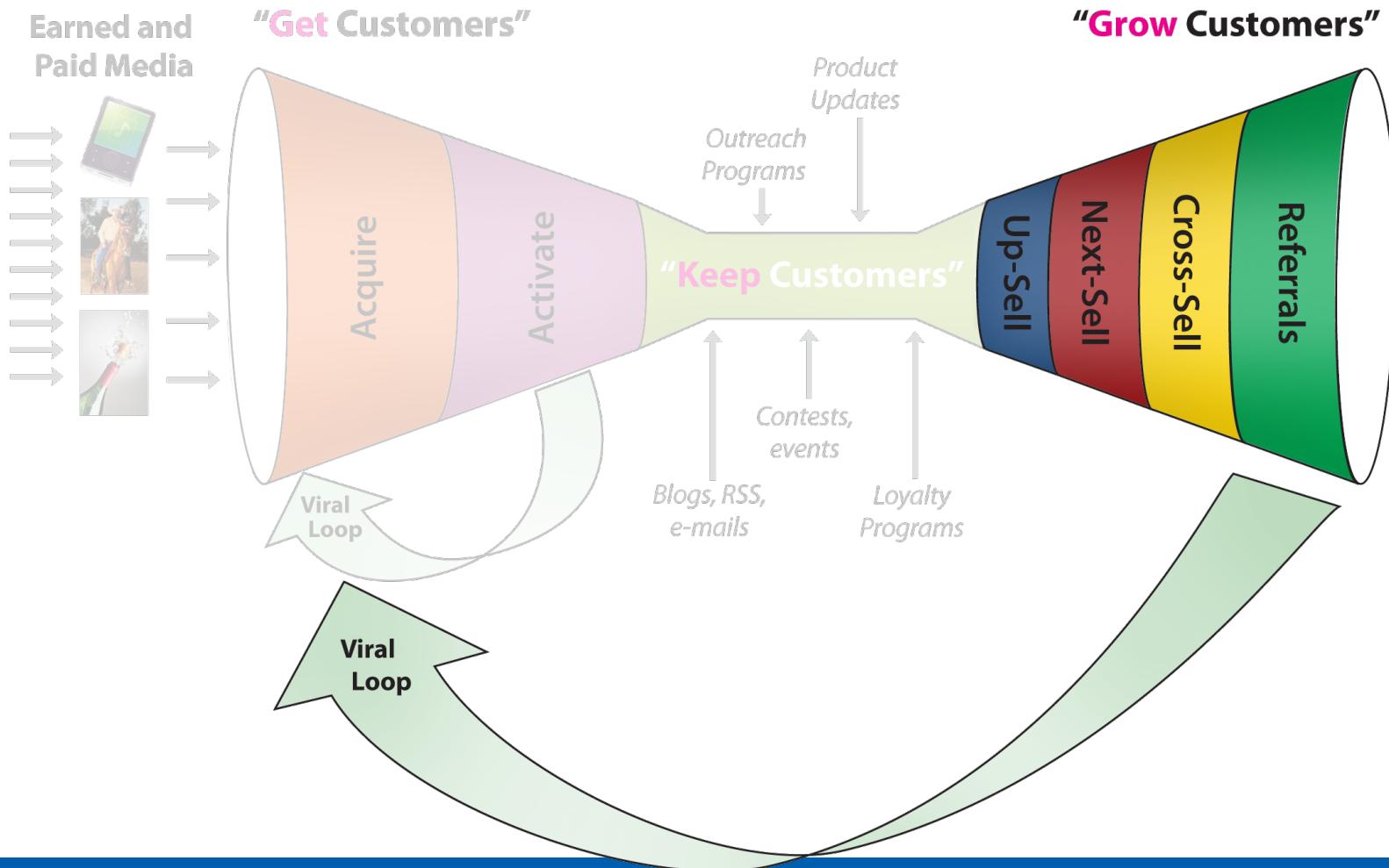
Customer Relationships

Web/Mobile Products—**Keep Customers**



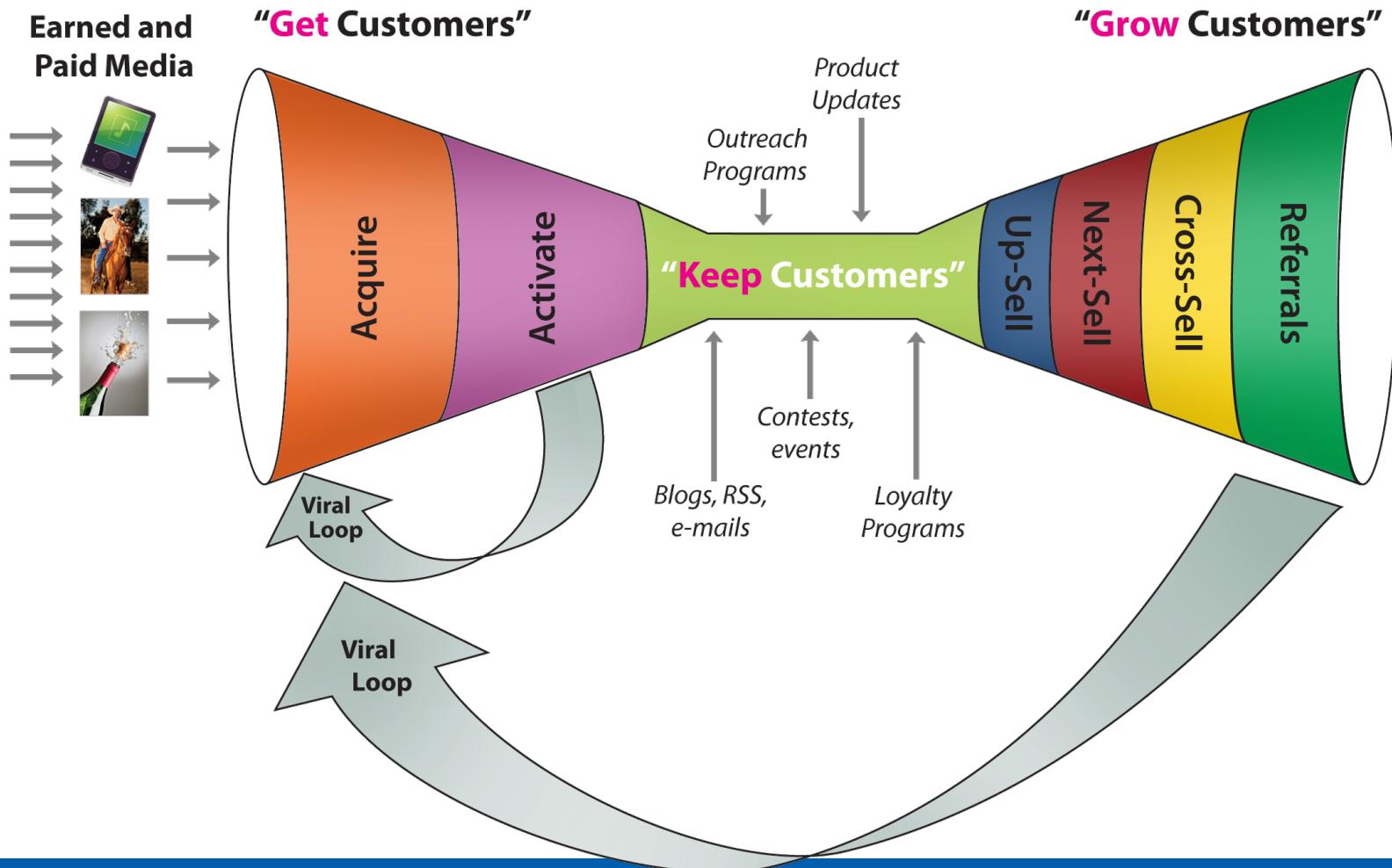
Customer Relationships

Web/Mobile Products— **Grow Customers**



Customer Relationships

Web/Mobile Products **Get/Keep/Grow**



Ag Robot Customer Relationships Example

Demand generation plan and budget

"You prove that it works and everything else is easy. Distribution is not that complicated in farming." – Wyatt Duncan, Integrated Crop Pest Control

SUNBELT EXPO 2010

Word of mouth generation

- 2 systems for “Demo day events”
- 2 systems for customer demos
- 4 x 30K each = \$120,000

World Ag Expo Booth

- 1 x 40x40 corner booth with demo
- Hold press event breakfast
- \$ 15 K (booth, banners, hotels)

Magazine campaign

- 3 ads in 2 magazines
- Goal – get 2 articles on us
- 2 x \$ 10K + Ad agency = 30K

Total \$165 K



Sunbelt Expo Rates for 2010

Ad Sizes	B/W	2/C (Std)	4/C
Full Page	6,260	7,050	8,200
Full Spread	14,180	15,045	16,125
2/3 Page	3,950	4,860	6,000
1/2 Page	3,840	4,720	5,600
1/3 Page	2,030	3,050	4,050
1/4 Page	1,910	2,590	3,455
1/6 Page	1,100	1,650	2,200
Business Card	800	1,200	1,600
NEW! Exhibitor List Ad			395

All rates are gross.

GENERAL AG EXHIBIT SPACE PRICES

Outdoor General Ag Section	New and Renewing Exhibitors prior to May 31, 2010	New and Renewing Exhibitors after May 31, 2010
40' x 40'	\$1,115	\$1,150
40' x 40' Corner	\$1,475	\$1,520
40' x 40' Corner Median St.	\$1,630	\$1,680
40' x 60'	\$1,710	\$1,760



Black & White National Rates

Frequency Discounts	1x	6x	12x	18x	24x	36x	48x
Full Page	\$4580	\$4395	\$4215	\$4025	\$3840	\$3755	\$3665
½ Page	3120	2985	2865	2745	2615	2555	2495
¼ Island	2655	2550	2440	2335	2235	2180	2125
½ Page	2430	2330	2235	2135	2040	1990	1920
¼ Page	1650	1580	1520	1450	1385	1350	1320
⅛ Page	875	835	800	760	730	715	705

Housing App Customer Relationship Example

We ran a Facebook ad to test actual willingness to pay for this service

Sponsored See All

Pay rent online
rentlingo.com

Tired of writing checks by hand? Pay rent online easily and securely



Email:
Password: Sign In

RentLingo - One Stop Rental Se... www.rentlingo.com/property/#rentpayment

235 Lindsen Apartment Bushwell Rd, CA94043 3 Members

Monthly Rent: \$2000.00 per month

Roommates:	Amount:	Confirmed:
Joe Weiss	\$700.00	confirmed
Me	\$700.00	waiting confirm
Ben Anderson	\$600.00	waiting confirm

Payment Options

Please auto-debit on the of every month until 12/01/12
 Don't auto-debit, remind me to make payment on 28 of every
 I'll remember to make my rent payment, please don't schedule :

Confirm

Make rent payment less painful

- Split rent payment amongst roommates
- Get automatic rent reminders and deductions
- Manage all utility bills in a single place

FREE! that's right, all that, for free

Sign Up ►

Trinity COMPANY HELP

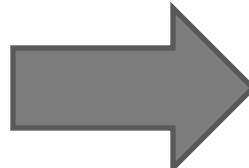
To test willingness to pay we used three identical ads with three different landing pages

Sponsored [See All](#)

Pay rent online
rentlingo.com



Tired of writing checks by hand? Pay rent online easily and securely



FREE!
that's right, all that, for free

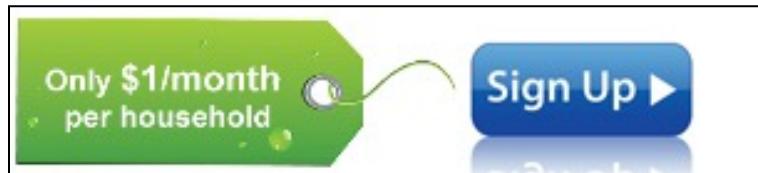
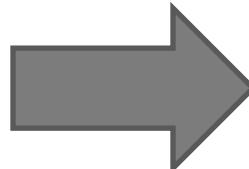
[Sign Up ▶](#)

Sponsored [See All](#)

Pay rent online
rentlingo.com



Tired of writing checks by hand? Pay rent online easily and securely



Only \$1/month
per household

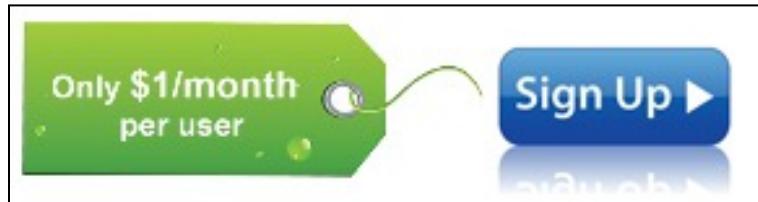
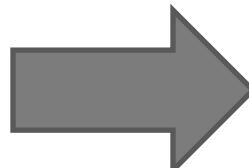
[Sign Up ▶](#)

Sponsored [See All](#)

Pay rent online
rentlingo.com



Tired of writing checks by hand? Pay rent online easily and securely



Only \$1/month
per user

[Sign Up ▶](#)

To test willingness to pay we used three identical ads with three different landing pages

Ad	Sign-ups	Clicks	Ad spend
Free	0	23	\$25
\$1/household	0	25	\$25
\$1/user	0	24	\$25

- Unfortunately, test results only proved users did not trust our site for payments
 - Facebook traffic on this campaign was on our page for 4 seconds on average
- Outstanding question: can we win trust in other ways and then engage users to pay rent through us?

Software Reference Tool Customer Relationships Example

Example: AdWords Testing



citation manager

x Search

Instant is on ▾

Advanced search

About 10,400,000 results (0.19 seconds)

▶ Son of Citation Machine ☆ 🔎

Provides an interactive tool to help create reference citations for research papers. Includes various print and electronic resources.

Web Page - Book - Web Document - Online Journal Article

citationmachine.net/ - Cached - Similar

[Comparison of reference management software - Wikipedia, the free ...](#) ☆ 🔎

Jump to [Citation styles](#): Reference Manager, Yes, Yes, Yes, Yes, various ? Referencer ? ...

Sente, Yes, Yes, Yes, Yes, various, Sente format through GUI ...

General - Operating system support - Export file formats - Import file formats

en.wikipedia.org/.../Comparison_of_reference_management_software - Cached - Similar

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Ads

Free Citation Manager

Peaya: A free way to search, organize and cite your papers
www.peaya.com

[See your ad here »](#)



citation manager

x Search

Instant is on ▾

Advanced search

About 10,400,000 results (0.18 seconds)

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Provides an interactive tool to help create reference citations for research papers. Includes various print and electronic resources.

Web Page - Book - Web Document - Online Journal Article

citationmachine.net/ - Cached - Similar

[Comparison of reference management software - Wikipedia, the free ...](#) ☆ 🔎 - 2:47am

Jump to [Citation styles](#): Reference Manager, Yes, Yes, Yes, Yes, various ? Referencer ? ...

Sente, Yes, Yes, Yes, Yes, various, Sente format through GUI ...

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Ads

Cite Like A Pro

Try a free citation management tool used at Harvard and Stanford
www.peaya.com

Related to reference manager:

Reference Manager

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Free 2-Day Shipping w/Amazon Prime.
amazon.com is rated ★★★★★
amazon.com/software

[See your ad here »](#)

Tri

Example: AB Testing Results

Website Optimizer: Experiment List

+ Create another experiment

<input type="checkbox"/>	Experiment	Status	Page Visitors	Conv.	Conv. Rate	Finish Time
	Peaya1	Running — collecting data Edit settings » View report »	31	14	45.16%	N/A

Show rows: 15 1 to 1 of 1



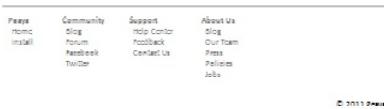
Join thousands of researchers using Peaya globally:



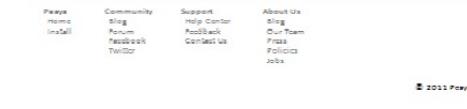
Join thousands of researchers using Peaya globally:



Paying Endnote too much to manage your citations?



0% conversion



42% conversion



75% conversion



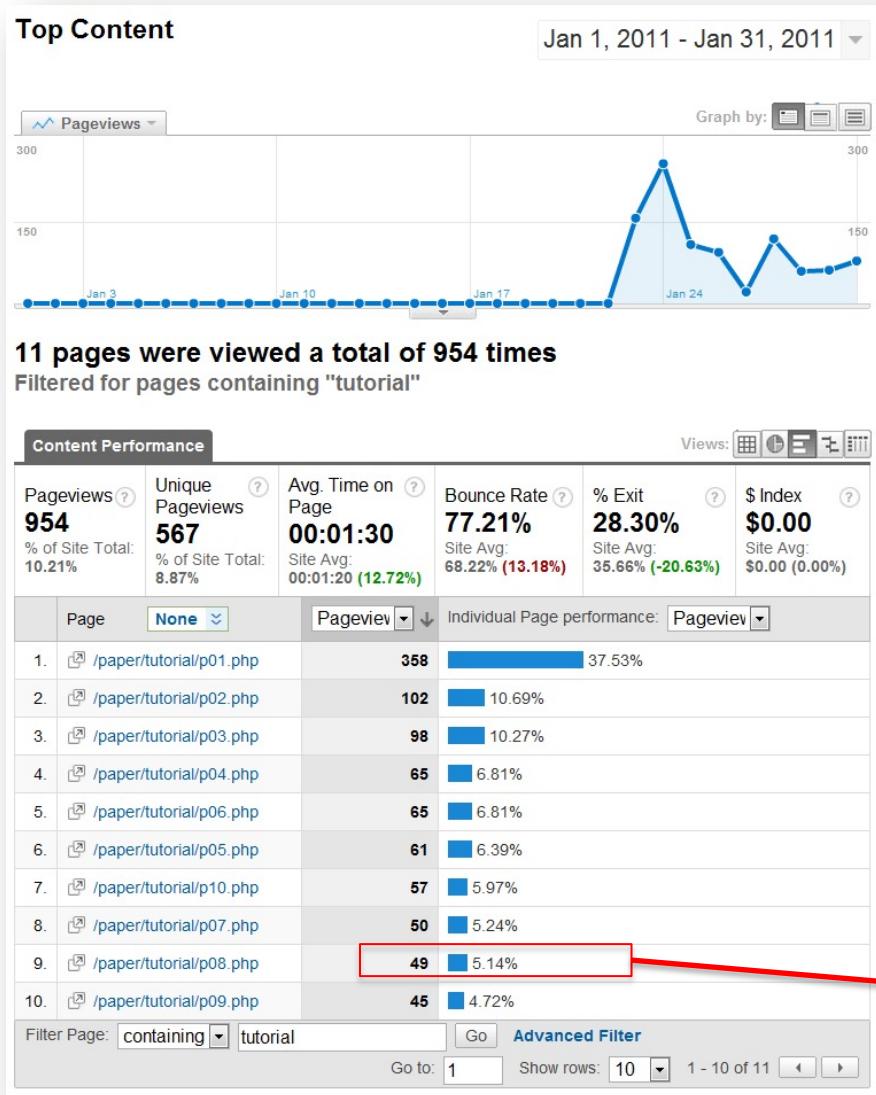
32% conversion

- Original Peaya website has 66% conversion rate
- Conversion defined as people clicking the download button on the landing page
-

Example: Google & Facebook campaigns

- Keywords: free endnote, reference manager, pdf manager, Itunes for digital content, I tunes, manage pdf, organize paper, paper manager, citation manager, paper citation, cite pdfs
- 24 impressions, 2 clicks on google adwords
- Clicks on free endnote and organize paper
- No Facebook response
- 1 Post on ResearchGate drew 7 visitors

Example: We're “a little” viral



12% of sign-ups from referrals

14 of 117 new registrations came from referrals by 3 people from Jan 1 to Feb 1.

Referral bonus promoted in tutorial

Invite friends

Connect with friends to see what they read TRY IT NOW

Click "Friends" and choose an invitation method

BONUS:
When you refer a friend both your paper limits increase by 25.

Invite friends

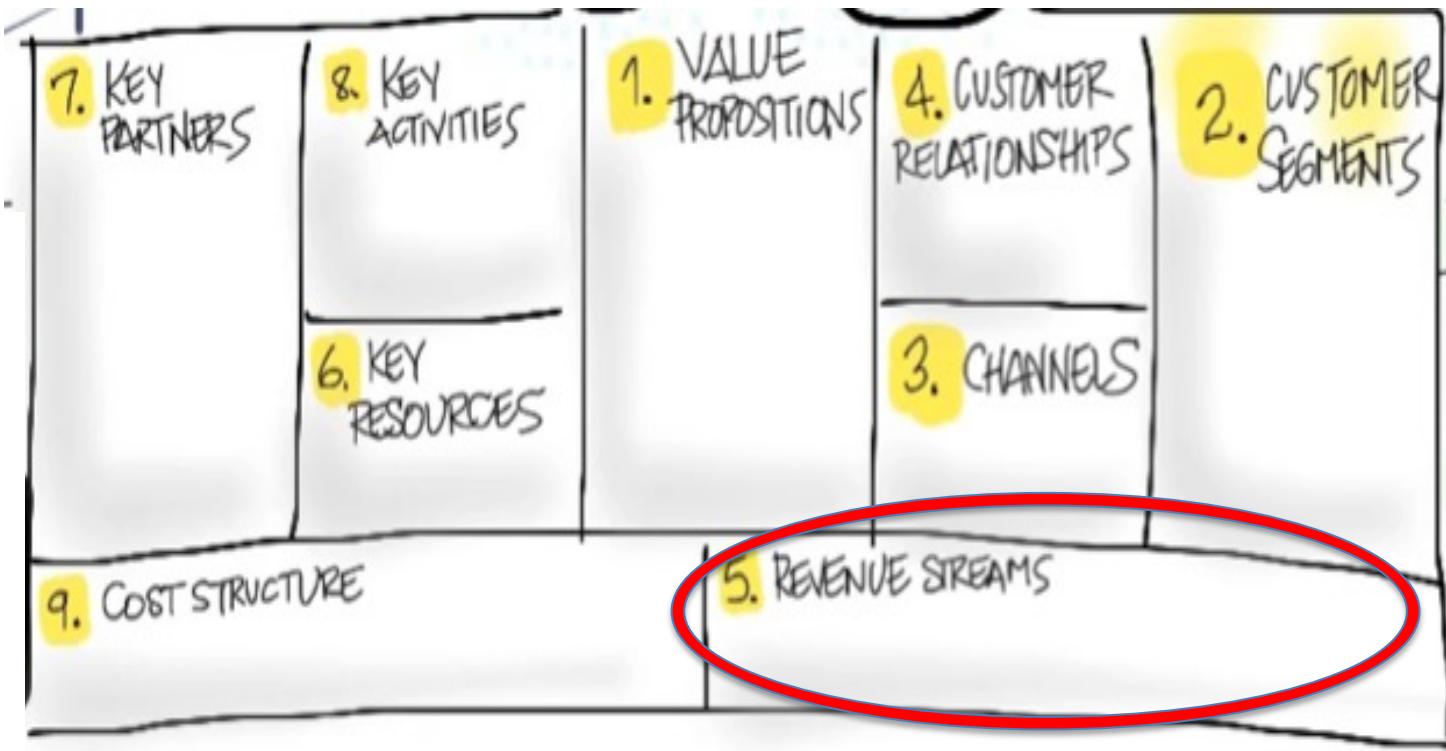
Add **Share** **Cite**

Search and Import	Share by email	Cite papers in Word
Type new reference	Share using web link	Requires Word 2003, 2007, or 2010
Add PDFs	Invite friends	for Windows XP or higher
Add whole folder	Rate & Discuss	
Bulk Import		



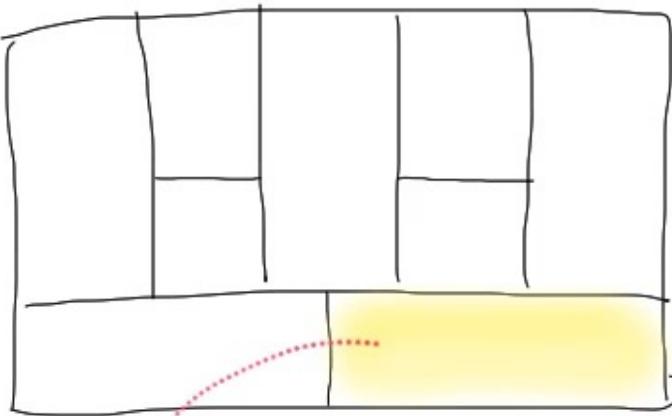
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Revenue Streams



Revenue Streams

How do you Make Money?



• What **VALUE** is the customer paying for?



> 5. REVENUE MODEL



How does the company **MAKE MONEY** from each customer segment?



• **REVENUE MODELS** (i.e. direct sales) are the **STRATEGY**.



PRICING is the tactics.

Common Mistakes

- A Revenue Stream is the *price* I charge customers
- I set the price of the product based on how much it costs me to make it
- My price has to be less than my competitors price

The Two Key, but separate, Questions

What's my Revenue Streams?

**Within the revenue streams– how do I
price the product?**

Revenue Stream =

the strategy the company uses to
generate cash from each customer
segment

Pricing Model =

the tactics you use to set the price in
each customer segment

Revenue Stream

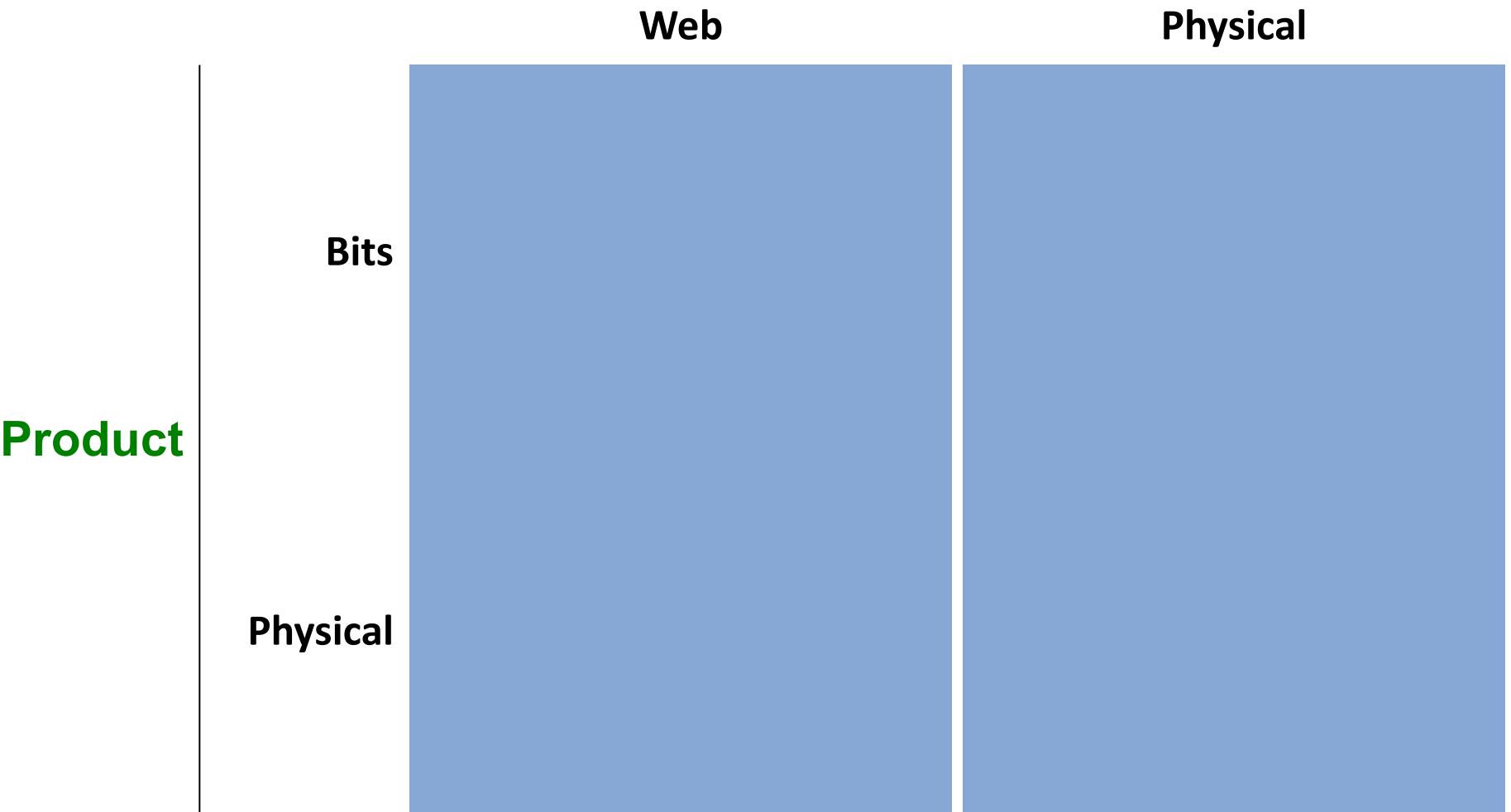
The strategy

What **value** are customers willing to pay for?

How do customers pay for products
today?

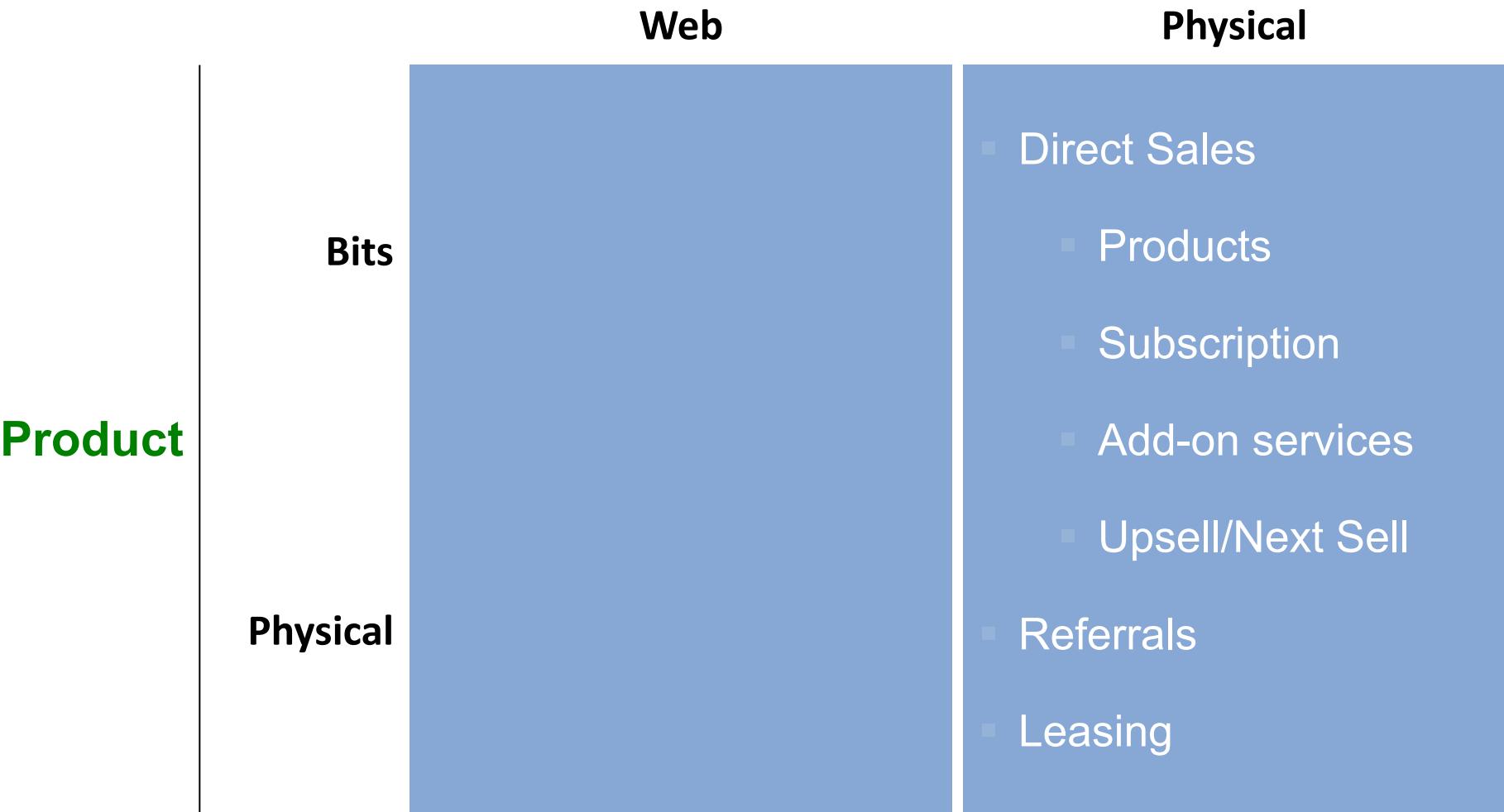
Revenue Stream Choices

Channel



Revenue Stream Choices

Channel



Revenue Stream Choices

Channel

	Web	Physical
Product	Bits	
	Physical	
	<ul style="list-style-type: none">■ Direct Sales<ul style="list-style-type: none">■ Products■ License■ Subscription■ Upsell/Next Sell■ Ancillary Sales:<ul style="list-style-type: none">• Referral revenue• Affiliate revenue• E-mail list rentals• Back-end offers	<ul style="list-style-type: none">■ Direct Sales<ul style="list-style-type: none">■ Products■ Subscription■ Add-on services■ Upsell/Next Sell■ Referrals■ Leasing

Common categories of revenue models

“Direct” revenue models

Sales: Product, app, or service sales

Subscriptions: SaaS, games, monthly subscription

Freemium: use the product for free:
upsell/conversion

Pay-per-use: revenue on a “per use” basis

Virtual goods: selling virtual goods

Advertising sales: unique and/or large audience

“Ancillary” revenue models

Referral revenue: payment for referring traffic/customers to other web or mobile sites or products.

Affiliate revenue: finder's fees/commissions from other sites for directing customers to make purchases at the affiliated site

E-mail list rentals: rent your customer email lists to advertiser partners

Back-end offers: add-on sales items from other companies as part of their registration or purchase confirmation processes, or “sell” their existing traffic to a company that strives to monetize it and share the resulting revenue

Each Revenue Stream may have different
pricing tactics

Pricing Model

the tactics

Two Types of Pricing

Fixed
Pricing

- Cost + markup
- Value priced (by customer segment or features)
- Volume priced

Dynamic
Pricing

- Negotiation
- Yield Management
- Real-time market
- Auctions

Common Startup Mistake

Lets Price on Cost

- Cost + markup
- Typically not a strategic way to price
- Driven by internal economics and not customer insight

Common Startup Mistake

Lets Price on Cost

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Price on Value

- Based on buyer's perception of value (e.g. time saved, new efficiency created, etc.)
- Customers don't necessarily feel that they want to pay this way

Single versus Multi-sided Markets

Single/Multi-side Markets

Single-sided markets care about revenues

Multi-sided markets may care about users first, revenues second

– Often Web-based

“Users First” Companies

If you say your business is advertising based:

How do you get to 10M monthly users?

How do you become one of the top 5 websites visited?

How much do the “payers” actually pay?

“Revenue First” Companies

Time to doublings for monthly revenues

Key questions:

- When will I get to \$100k/month in revenues?
- When will I get to \$1M/month in revenues?
- What **assumptions** about my business am I making when I reach these milestones?

Key Revenue Model Questions

What are my customers paying for?

What capacity do my customers have to pay?

How will you package your product ?

How will you price the offerings?

How Many Will You Sell?

What's the Market Size & estimate of Market Share?

How many can your channel sell?

How much will the channel cost?

How many customer activations?

- Revenue? Churn/Attrition rate? customers/?

How much will it cost to acquire a customer?

- How many units will they buy from each of these efforts?

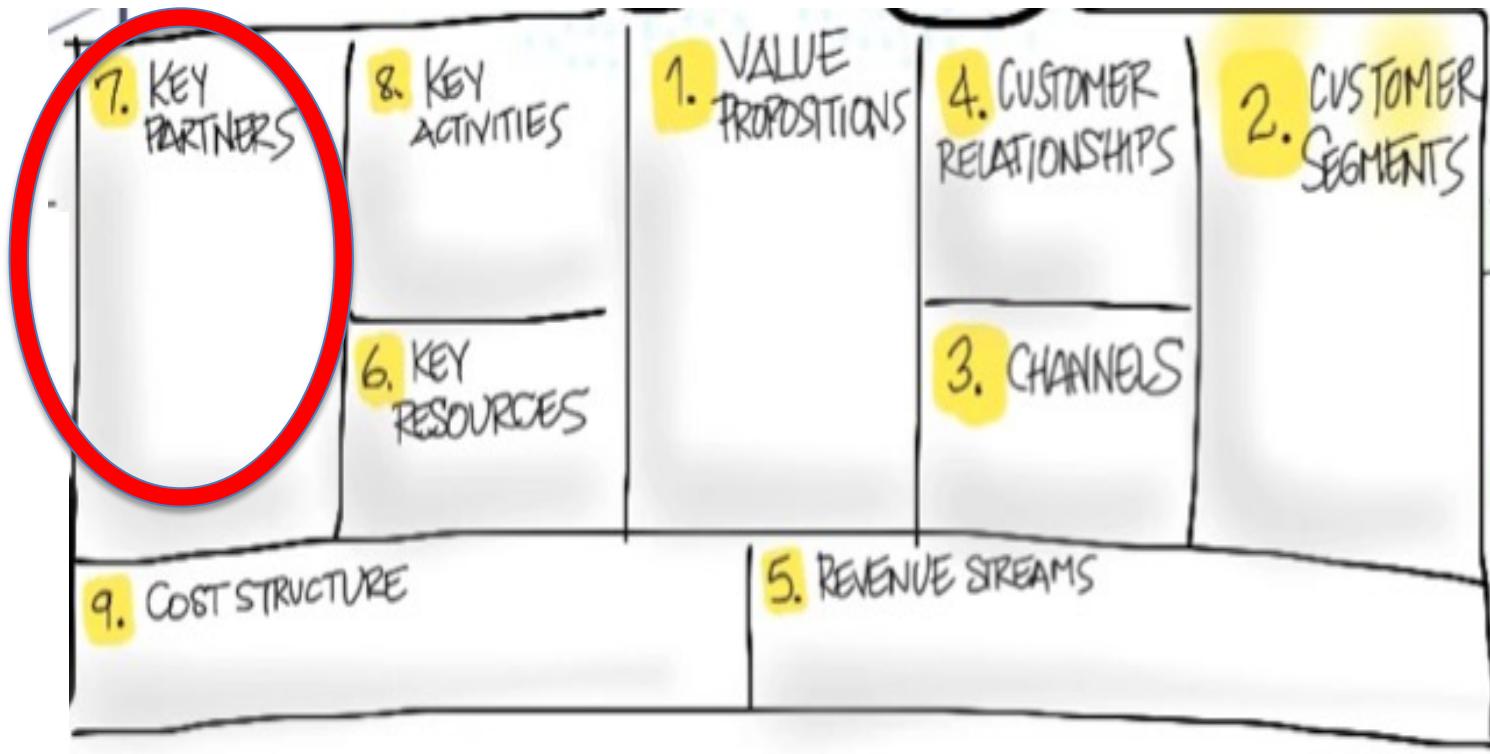
Top down: 10% of a million-person market=100,000 customers

Bottom up: 1,000 customers/month 1st year => 3,000/month 3rd year



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Key Partners, Key Activities, Key Resources, Cost structure

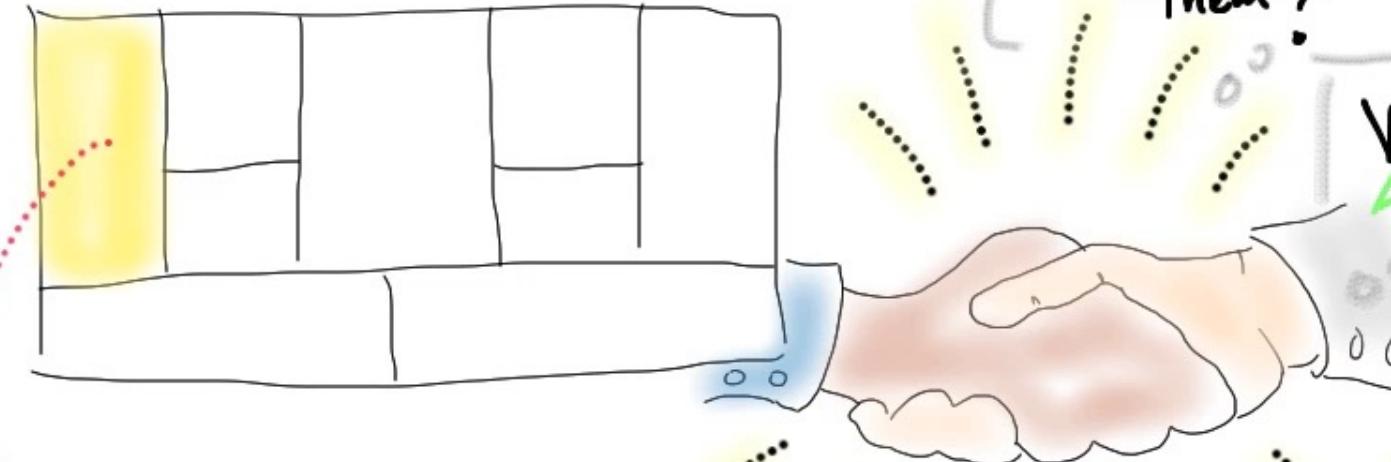


Key Partners

Who are your Partners and Suppliers?

WHAT KEY RESOURCES
are we acquiring from
them?

What KEY ACTIVITIES do
they perform?

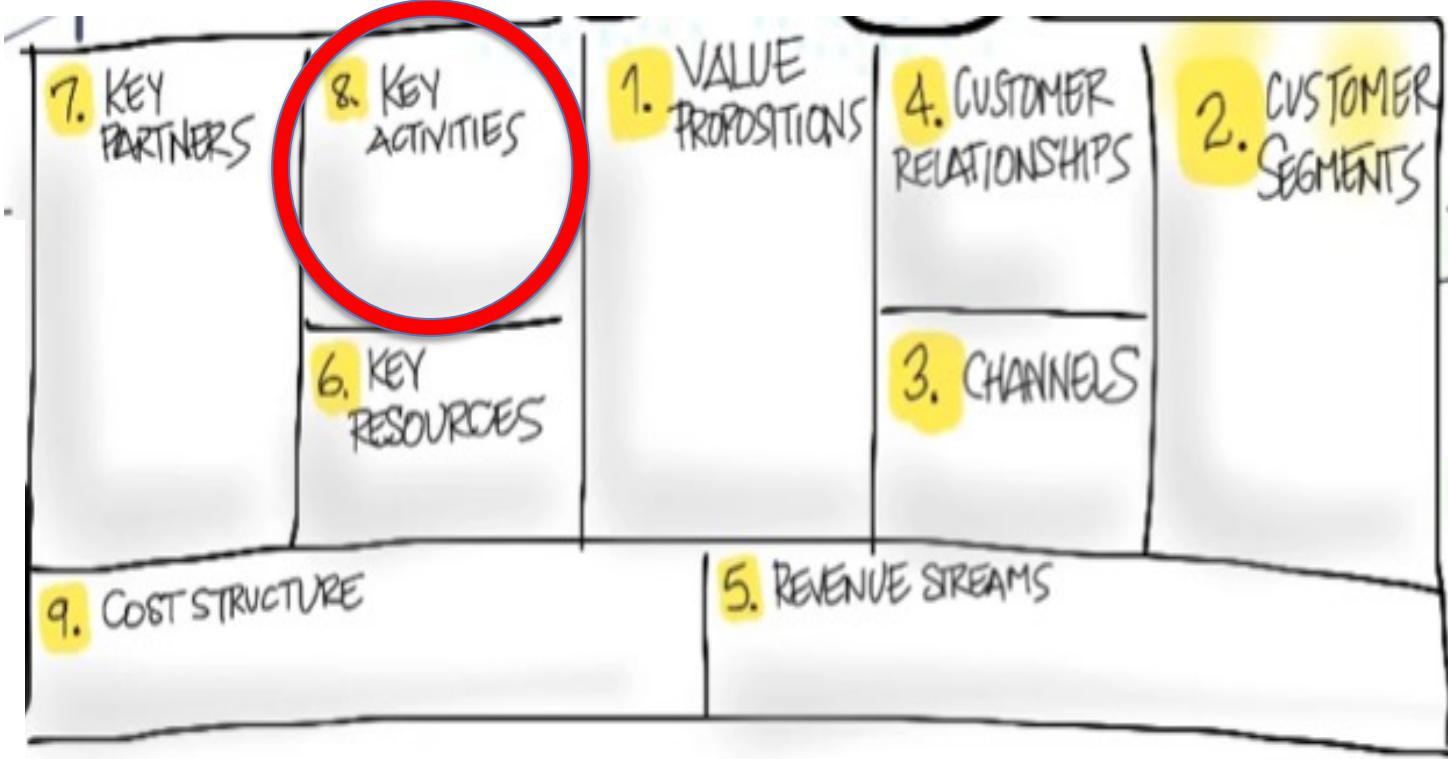


7. KEY PARTNERSHIPS

Who are the KEY
PARTNERS and
SUPPLIERS needed
to make the business
model WORK?

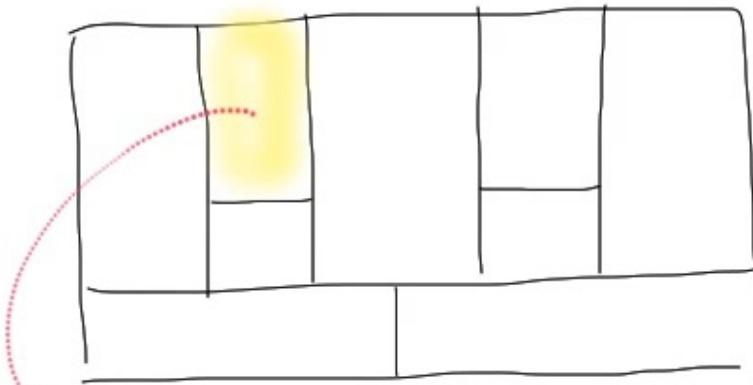
• JOINT VENTURES





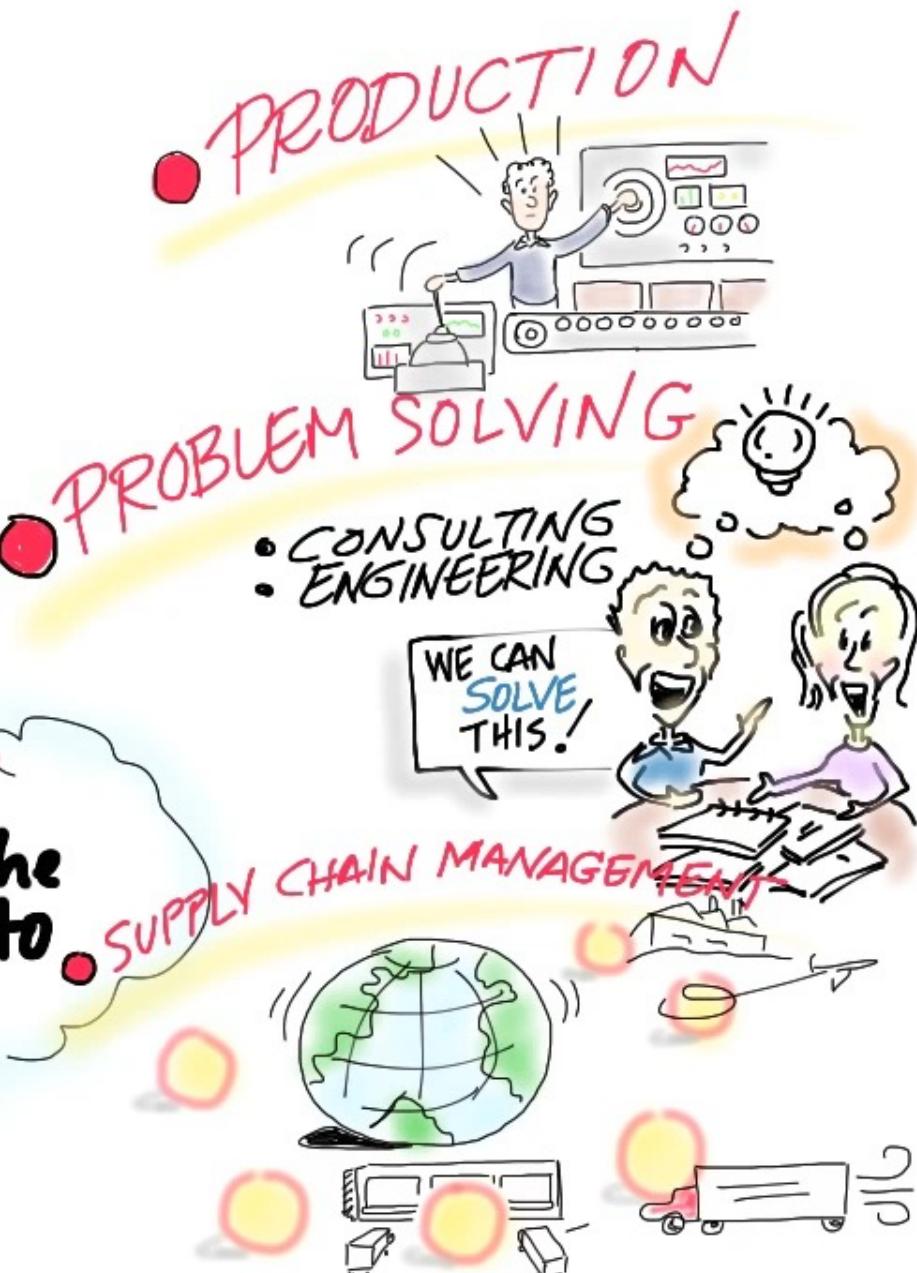
Key Activities

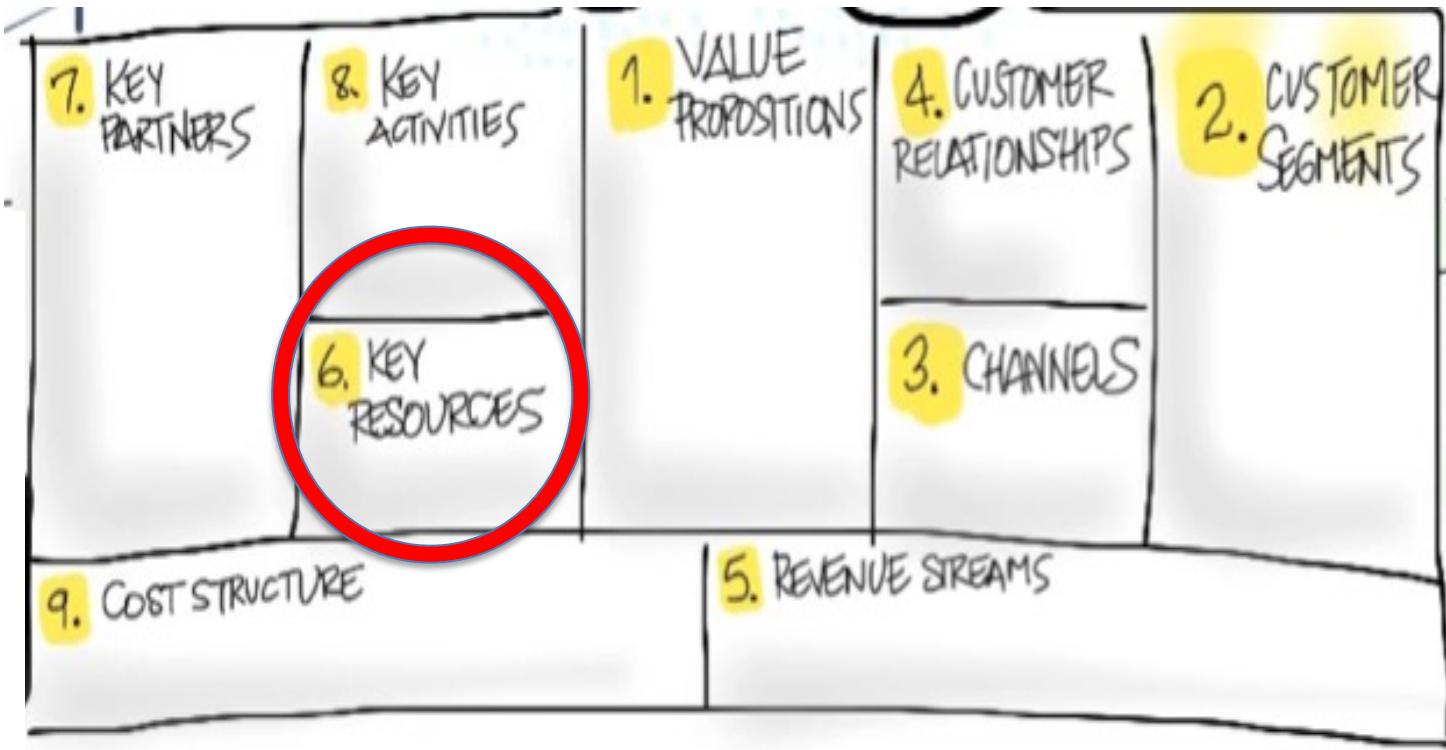
What's Most Important for the Business?



8. KEY ACTIVITIES

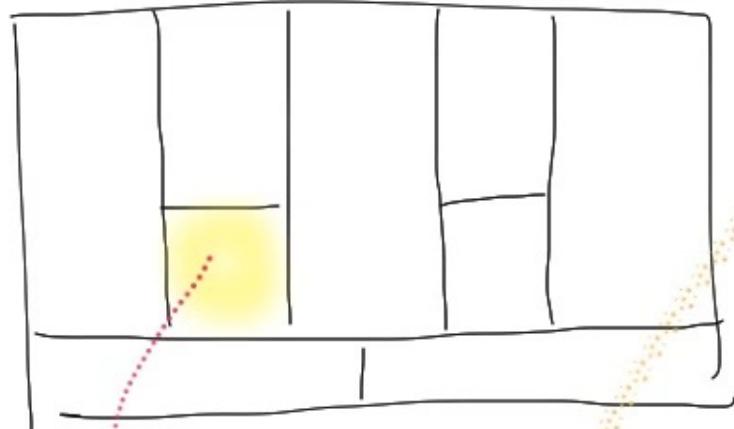
What are the **MOST
IMPORTANT THINGS** the company must DO to make the business model WORK?





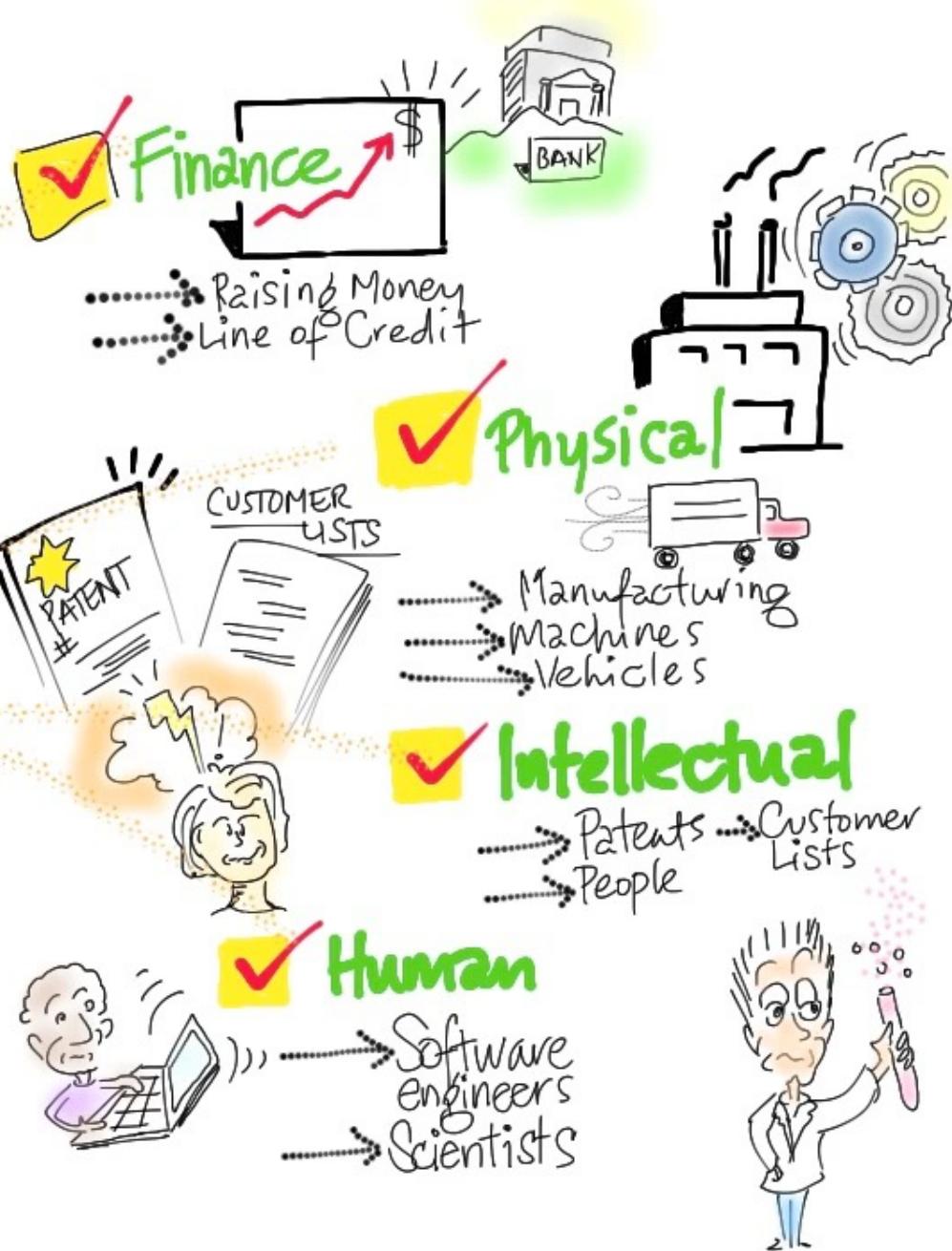
Key Resources

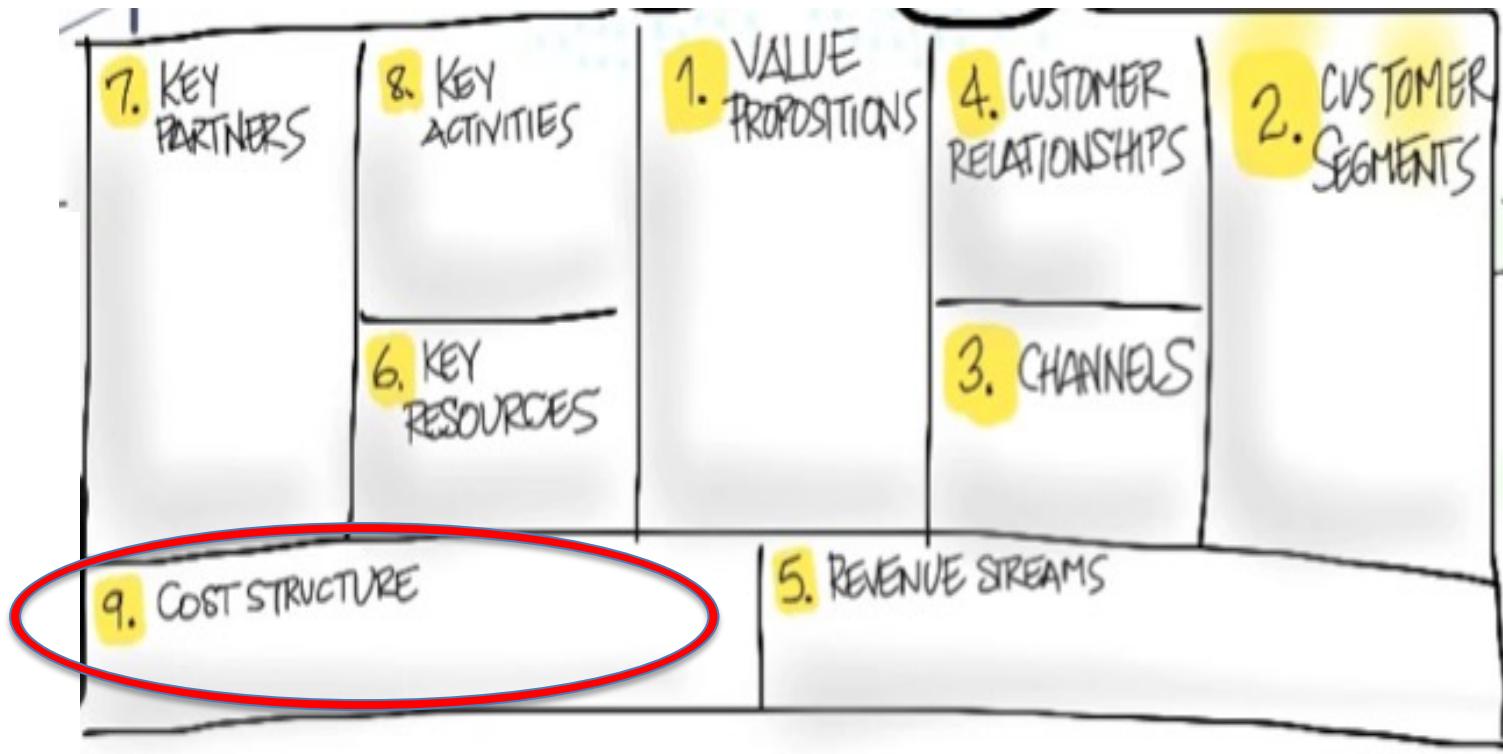
What's Are Your Most Important Assets?



b. KEY RESOURCES

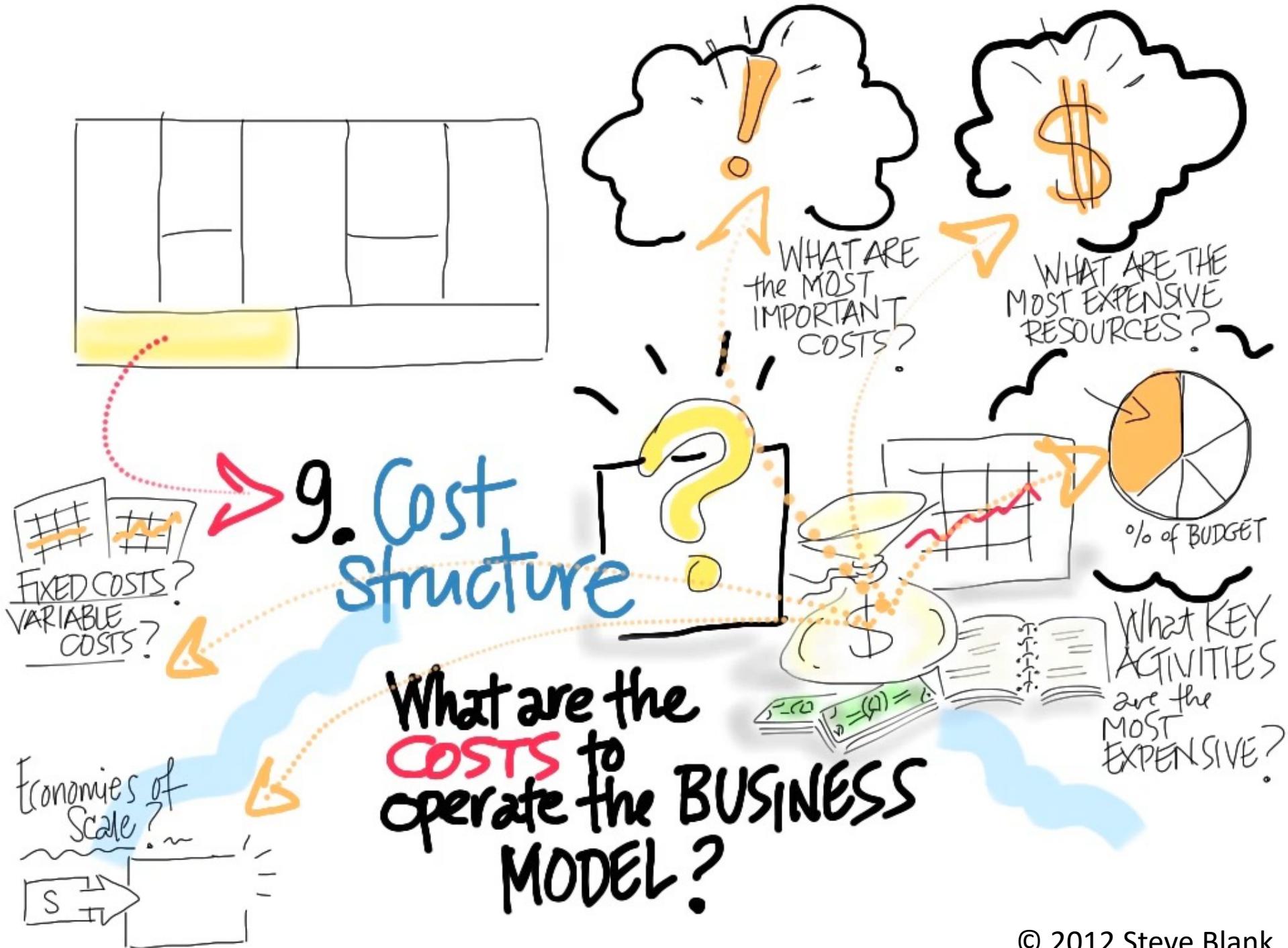
What are the **MOST
IMPORTANT ASSETS**
required to make the
business model WORK?





Cost Structure

What are the Costs and Expenses



7. KEY PARTNERS

8. KEY ACTIVITIES

1. VALUE PROPOSITIONS

4. CUSTOMER RELATIONSHIPS

2. CUSTOMER SEGMENTS

6. KEY RESOURCES

3. CHANNELS

How You Make Money

4. COST STRUCTURE

5. REVENUE STREAMS





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