

Entrepreneurship Miniproject

Group DPT906e15 - Room 5.1.50

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_____	_____
Date	Tommy Christensen
_____	_____
Date	Jais Christiansen
_____	_____
Date	Henrik Geertsen
_____	_____
Date	Svetomir Kurtev

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1 Introduction

Netflix is a streaming service that provides access to many movies and series for a monthly subscription fee. The initial idea was to have a single place for all the movies and series, but some companies withdrew their licenses to create their own streaming services. The net result is that there now are many streaming services who each require their own subscription and who each provide access to a smaller number of movies and series.

Our Business idea is to have a collected service that provides access to all, or at least many, of the streaming services through a single client and with a single larger subscription fee. To be competitive on the price we will rely on working out some deal with the included streaming services that allows us to pay them from our subscription money dependant on usage of their service.

2 Idea

To elaborate on the idea, we want to analyse it and its market. For this, we have used some existing models, being Porter's Five Forces and resource-based theory. Some theory for market strategy will be needed as well. This section will elaborate on each of the mentioned methods, as well as covering the blue and red ocean strategies.

2.1 Porter's Five Forces

Using Porter's Five Forces [1, p. 16-17], we can analyse the market, and how it affects our product. As we deem the market dangerous, as it is competitively crowded, we believe this business model can be useful for the process. Figure 1 is a visual representation of the model, where our considerations are pointed out for the forces.

Determinants of Supplier Power

The suppliers for the project are providers of motion pictures through streaming over the internet. There are many of these providers, which is the main reasoning for the project. For the project to succeed, these providers must agree to supply content to the project. This causes a threat, as we then become very dependent on the suppliers. Suppliers may also be against the entry of new suppliers, e.g. they might gain a smaller profit from their entry.

Determinants of Buyer Power

As there already exists streaming services that are thriving, it can be concluded that the market exists, but is risky to enter. Our product differs in our wide range of selection, as we serve as a gateway to the

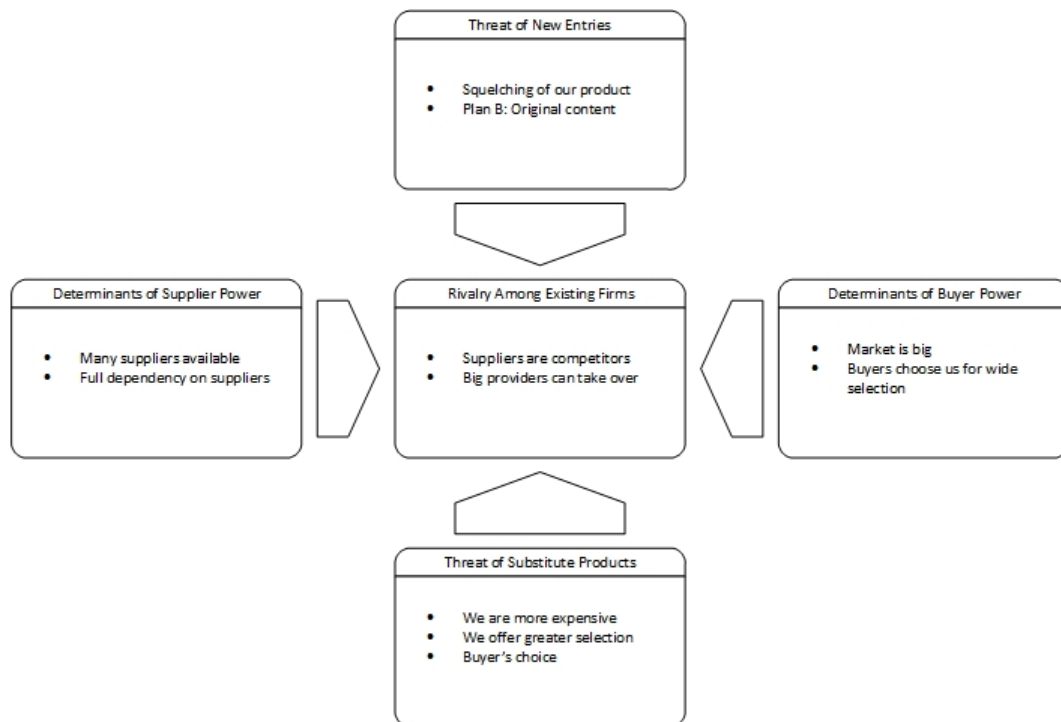


Figure 1: Porter's Five Forces for the project

existing companies, and do not quelch the existing market. The hope is that users will choose us for this quality. We can capture the part of the market that want to use services of several providers, but don't want to pay for them all, individually.

Threat of Substitute Products

The services that exist for the market are not combining the effort of all suppliers, which gives us both an advantage and a disadvantage: As we are a gateway to existing services, we offer a greater selection, but we are therefore also more expensive. A big threat from a substitute is if an existing provider expands to the point that we are not needed as a service.

Threat of New Entries

If a new competitor is to enter the market, a possible outcome is loss of suppliers. Imagine this scenario: The new competitor will gain suppliers, possibly by focusing on our product's weak points, and perhaps gain some of our suppliers as well. As this scenario is a risk involving loss of suppliers, a natural backup plan would be to create media of original content. If our suppliers are then lost, we will simply become another streaming service. To avoid this, we must focus on our weaknesses, and make sure we are never seen as the second best choice for suppliers.

Rivalry Among Existing Firms

One of the problems in this business is the fact that the suppliers can be seen as competitors. They are suppliers, but they are not dependent on us in the beginning, although we are completely dependent on them. The greatest streaming services are very successful in themselves, and if they become too big, we are not needed as a service.

Discussion

The market itself is greatly occupied, which is both positive and negative. On one hand, we might be an unnecessary service. On the other hand, we offer a collection of the existing services, for ease of access and saving of money. The dependency on our suppliers is a risk, as we can only succeed in this project if a set of providers agree to supply access. The market itself is therefore a difficult one, as we twist it to our advantage, but at a great risk.

2.2 Resource-based theory

Generally, a company could be perceived as a collection of resources and certain capabilities which defines the resource-based theory of the company [1, p. 13-14]. When these resources are combined in the right way, they form organizational capabilities.

In our case, we try to combine technically talented people (software developers and engineers, system architects, UI and integration specialists) and the appropriate software tools with the collaboration of our competitors (through the use of the media patents they have on specific tv series, movies etc.) in order to create a competitive advantage. This competitive advantage is described by the idea that our platform will provide access to media from both our biggest competitors (Netflix and HBO) in one place with the use of only one subscription and the option to pick specific shows from both.

The key resources we consider for our company are:

1. Brand
2. Software Products
 - (a) Platform
 - (b) Algorithms
 - (c) Protocols
 - (d) Embedded software
 - (e) Associated hardware
3. People/Talent

- (a) Programmers
 - (b) Project Managers
 - (c) System Architects
 - (d) Embedded software
4. Core Competencies
 - (a) Software processes and methods
 - (b) Knowledge
 - (c) Community
 5. Vision Direction
 6. Strategies
 7. Market Orientation
 8. Positioning and Targeting

These resources can be added to certain capabilities of the company, which in turn will define its competitive advantage. The defining capabilities in our case are:

1. Learn new programming skills
2. Deliver quality through our platform and services
3. Respond to feedback and customer needs
4. Expand existing features and develop new ones

2.3 Blue And Red Ocean

Red oceans and Blue oceans make up the market universe, as defined by *Kim* and *Mauborgne* [2]. Red oceans cover all the existing industries and businesses (known market space), and the Blue oceans cover the ones which are not created yet (unknown market space), respectively.

We consider our company to be mostly in Red ocean territory because Red ocean strategy is a market-competing strategy, and we would build our platform on the premise of using media provided by our competitors, with an already established market rules. We say mostly, not entirely, since our platform will have a bit of novelty where nobody else has created such a platform so far to effectively unify this type of media streaming content. This falls under the description of Blue ocean strategy where something new is created within red oceans territory by expanding existing industry boundaries.

3 Business Model Canvas

In this chapter we will discuss the business canvas model for our idea, as well as pattern considerations and our design approach.

By building up a business model canvas as a concept for our project, we gain insight for discussion, and a common understanding for what we are doing. Using Osterwalder's approach [3, p. 1-51], this is done through nine building blocks. In Figure 2, a graphical overview of the nine blocks can be seen. Each will be described with relation to the project throughout this chapter.

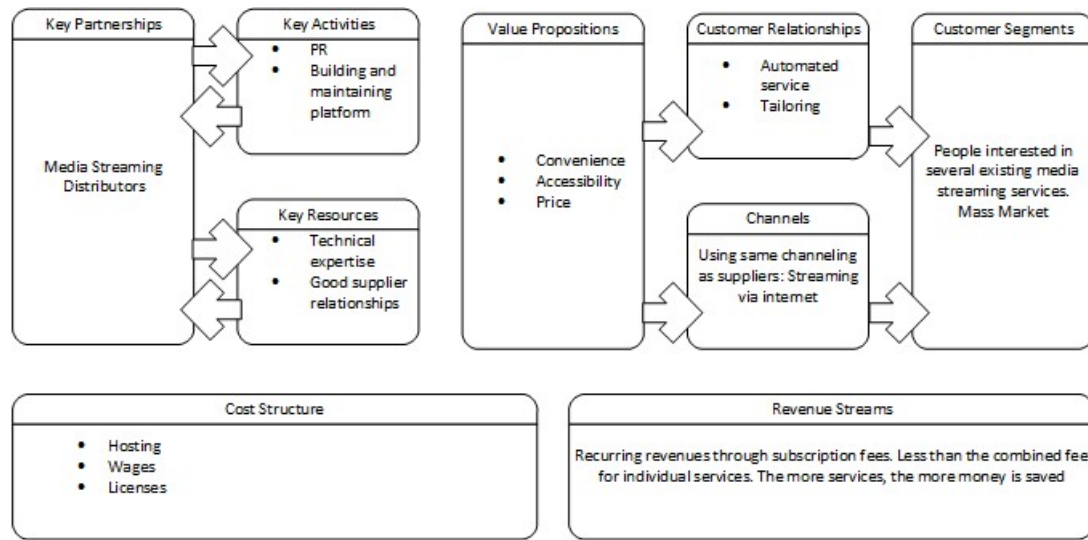


Figure 2: The Business Model Canvas for our project

Customer Segments

Our product aims for an already existing market, although we want to change this market. Nonetheless, it is a mass market, consisting of people interested in several existing media streaming services.

Value Propositions

We are focusing on the customers, who seeks several streaming services, collected in one place and at a lower price. That means there are three services of value for the customers: Convenience, accessibility and price. Convenience comes in collecting the product in one place, and making the interface painless to use. Accessibility is in the amount of suppliers, as more suppliers give wider range of streaming possibilities. Pricing lies in how far down we can push the price, which is also dependent on the suppliers, among other possibilities, such as advertisement.

Channels

There are several ways of reaching our customers. The one way we are sure of is the fact that we want to offer our services through the same experience as existing services offer them: Streaming over the internet. It is important to note that this has to be done over several platforms, to gain competitive value through accessibility. This includes applications for mobile devices and for consoles. Advertisement of our product can be done in several ways, but one of the least costly ways to go about this is through the suppliers. As the customers are those already using the services that our suppliers offer, the best place to advertise is through these.

Customer Relationships

As the existing companies do, being the suppliers of our product, we want to offer an automated service through a personal profile. Through this, it is possible to offer service without greater work effort, as well as the customer being able to mend their profile to their needs. As an extra feature, we want the customer to be able to tailor their own profile to their needs. They should only have access to and pay for the services needed, in the case they only want a subset of supplier services. With personal profiles, it is possible through algorithms to use knowledge on past activity to aid the user in their experience and to suggest future actions. If a customer seems to never use the services from a specific supplier, then we can give awareness of this, such that the user can tailor the profile further.

Revenue Streams

Through the personal profile as an automated service, we want to create earnings through subscription fees. As the most successful streaming services have their income through this method, we see no reason to change this. We want to tempt customers to use our service by being cheaper than using all the services of the customers separately. Furthermore, to tempt customers to buy more, they are given greater offers the more suppliers they add to their profile.

Key Resources

The most important resources for this project is partnerships with the suppliers and technical expertise. If we do not have suppliers, we don't have a service. If we do not keep the suppliers satisfied with our partnership, we lose them again. Technical expertise ensures a good, reliable client for the customers. The most needed resources are therefore intelligent and human resources.

Key Activities

As the business comes up and running, the main activity is maintenance in both relationships and in customer support. If we do not continue our partnership with the suppliers, we cannot guarantee our

main contribution from the service, and therefore lose customers. If the customers are unhappy with the product, we will lose them if we aren't able to locate and handle the problem.

Key Partnerships

The media streaming distributors are our main suppliers, as they give access to the motion pictures our customers want to see. without these, the rest of the business will crumble. It is worth to note that this creates a great risk, as if we cannot live up to the expectations of our suppliers, we can lose these.

Cost Structure

There are three major cost factors for this project: Hosting, wages and licenses. We need hardware, software locales and technical expertise for hosting our client. As we need expertise in some areas, such as marketing, there is a greater cost in waging. Furthermore, there is the licensing cost, as we must pay the suppliers for their service to us. We want to handle this as a percentile split, depending on the individual customer. A certain amount from each subscription is dedicated to the suppliers. The amount is based on how the customer has tailored the profile, and how much this individual is paying. Depending on what supplier services the customer has been using, the amount of money is then split, to give those that contribute to the individual customer a greater share of the profit. Another way is to make a fixed arrangement with each supplier, giving the possibility of a greater content variety, and therefore a greater attraction value for new customers.

3.1 Pattern Considerations

There generally exists five categories of business model patterns [3, p. 52-119]:

- Un-Bundling Business Models
- The Long Tail
- Multi-Sided Platforms
- FREE
- Open Business Models

The pattern to consider regarding our business idea is mostly the The Long Tail pattern where elements from the Multi-Sided Platform patterns can be used. Parts from the Open Business Models are also worth considering, as a lot of inspiration can be gotten from already existing services (HBO Nordic, Netflix, etc.), but that is strictly speaking not necessarily *collaborating with outside partners* [3, p. 109], so the consideration is on the other two.

The most fitting pattern is the Long Tail, as we want to provide both “non-hit” and “hit” products to all of our customers. It makes sense as our business idea fits mostly to the points presented in *Business Model Generation* [3, p. 75]. Another hint that this pattern is the best fit for the project is the fact that our service is similar to Netflix and they used the Long Tail pattern. At least they used to, it seems like they are moving away from “non-hit” products and producing their own “hit” TV shows (House of Cards, Orange Is the New Black, etc.). The elements from the Multi-Sided Platforms that can be used are regarding the revenue stream, as we can possibly do a similar deal as Spotify and Telia. Telia provides with their mobile plan a Spotify subscription. If we can get a similar deal, the revenue loss can be subsidized by customers of our own service, but we will possibly reach a larger market.

3.2 Design Approach

We have chosen to use the Customer Insight [3, p. 127-133] technique in our design approach. If the funds are available, it is possible to hire social scientists which could sketch profiles of the customer segment. The Empathy Map is a good alternative, which we will make use of. The Empathy Map is also known as the “really simple customer profiler” [3, p. 131].

The first thing to do when using the empathy map, is to brainstorm all possible customer segments that one might want to serve with the business model. Then three promising candidates should be chosen, from which a single candidate is selected for the first profiling exercise. Then a customer from that customer segment is thought up, by giving the customer characteristics, such as a name, income, occupation, and so on. Afterwards a profile is build for the customer by asking and answering six questions [3, p. 131]. These questions should be put on a white board or flip chart, as seen in Figure 3(Hence, empathy map), and the answers could be written on Post-it notes and placed on the questions.

The six questions are:

- What does the customer see? Describe what the customer sees in their environment
- What does the customer hear? Describe how the environment influences the customer
- What does the customer really feel and think? Try to sketch out what goes on in their mind
- What does the customer say and do? Imagine what the customer might say, or how the customer might behave in public
- What is the customer’s pain? E.g. what are their biggest frustrations?
- What does the customer gain? E.g. what does the customer truly want or need to achieve?

The three candidate customer segments we have come up with are:

1. Couples in the age range of 25-35, with children, that is “forced” to have cable because the children need their Saturday morning cartoons.

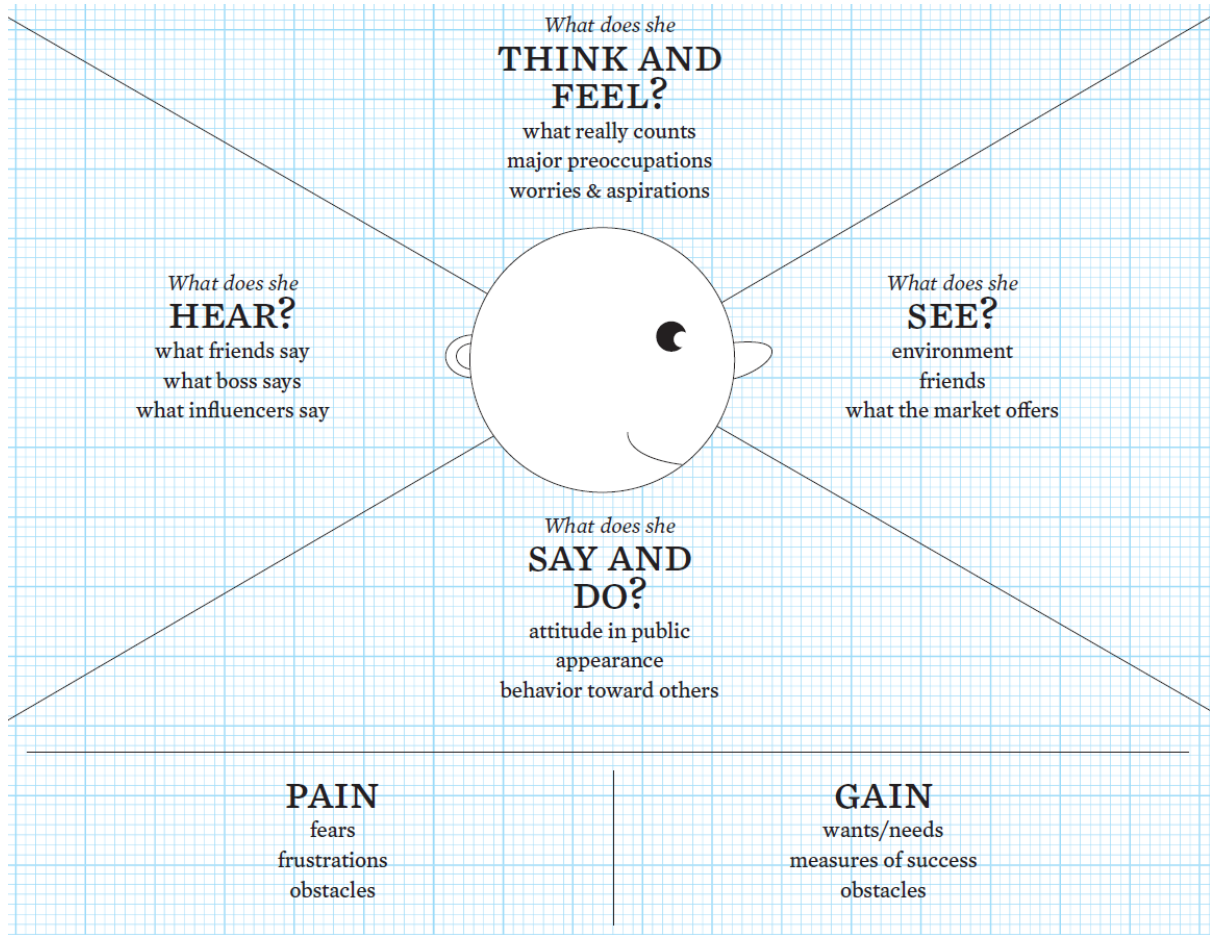


Figure 3: Adapted empathy map from XPLANE [3, p. 130]

2. Students in the age range of 18-24, not living at home, limited income e.g. support from the government. Illegally downloads movies and TV-shows, as they can't afford to pay for several services or box sets. Doesn't want to buy cable, due to advertisements.
3. People in the age range of 16-35, illegally downloads movies and TV-shows because of ease-of-access.

We are basing our customer on candidate 2 from the list. He is called John, he has no income except for support from the government, he is studying computer science at a university, he is single.

Question 1, what does he see?

- He lives in a small apartment with one bedroom and no space for a TV
- He is mostly surrounded by friends, as his family lives a couple of hours away, but will come visit occasionally
- His friends are people with similar interests as him self or study buddies, such as computers, video games, books and comics, TV shows and movies

- He is not exposed to many offers in his daily routine, as he gets no advertisements from not owning a TV and he uses an ad blocker when surfing the internet

Question 2, what does he hear?

- His friends talk mostly about their shared interests
- He is influenced by his friends and the internet, e.g. forums
- He is not influenced by a lot of media channels, as he does not watch advertisements, and he does not visit social media often because people fills his wall with random games.
- The most influential media channel is probably YouTube, where he gets the news he is interested in

Question 3, what does he really think and feel?

- He worries a lot about his studies
- His financial situation can keep him up at night
- He really wants to be a video game developer

Question 4, what does he say and do?

- He has a friendly attitude in public, e.g. holding doors for people if necessary
- He will mostly discuss ideas, talk about hobbies and so on
- He enjoys a good discussion, does not have to be about anything, and he indulge in a little bit of gossiping

Question 5, what is his pain?

- One of his biggest frustrations is having a hard time understanding a study related subject
- An obstacle he faces, is that when he needs a break from studying, he watches an episode from a TV show, but keep watching more episodes because it is easier than studying

Question 6, what does he gain?

- He wants to gain good grades to make his dream of becoming a successful video game developer come true
- He wants happiness in his professional life

4 Paradigms

In this chapter we will discuss the software entrepreneurship paradigms and outline how we use one.

For software entrepreneurship there are two paradigms: Analyse, Design, Enact (ADE) and Consider, Do, Adjust (CDA). The ADE paradigm relies on causal logic with a focus on predicting the future to control it. It is a useful paradigm when the future is knowable, the goal is clear and the environment is reasonably well structured. The CDA Paradigm instead relies on effectual logic with a focus on working with the things that can be controlled. It is a useful paradigm when the future is unknowable, the means are clear, and the environment is subject to human shaping.

For our project we have a clear goal (a collection of streaming services), but are not sure which means we have available (which kind of agreement we can make with streaming services). Furthermore, the environment is well structured with several other subscription streaming services to compare with, and use the comparison to get an idea of the future. Therefore we choose the ADE paradigm.

When outlining the business process we consider it five phases because we use the ADE paradigm.

4.1 Mobilize

In the mobilization phase we would assemble our team, which would consist of us as programmers and some sales specialist. It might also be a good idea too contact some streaming services to test the preliminary business idea.

4.2 Understand

The primary action for us in the understanding phase would be to research the existing streaming services. Their pricing and assortment would give us a better idea of our potential market position, and analysing their client features would give us an idea of expected features for our client. If we are in contact with the streaming services at this point we can also use their expert knowledge on the area. Since our intended product is very similar to existing products with an established market, we are unlikely to get much out of studying potential customers.

4.3 Design

In this phase we would probably focus on designing various business ideas and propositions for the streaming services. We might also make a prototype of our client.

4.4 Implement

Here we will contact the streaming services and negotiate an agreement with them based on our business ideas. We would then implement the system based on the agreement.

4.5 Manage

The manage phase is mostly a maintenance phase for our business. Here we could very well switch over to an iterative or agile approach as we focus on keeping our product the best through continuous improvement.

4.6 Financial Issues

Our biggest financial issue is that if we don't get a good agreement with the existing streaming services we will have difficulties being price competitive. We can make a vendor service that simply provides the convenience of browsing the services you have already paid for, but it is difficult to get much profit out of it. Either we charge for using our service which would make the total cost inarguable worse, or we use advertisements which risks hurting the convenience we sell our product on.

5 Related Work

In this chapter we will discuss related work.

References

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