Introduction to Entrepreneurship and Innovation

Leila Rawashdeh

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CHAPTER 4

Developing an Effective Business Model

What is a business model ??

A business model is a firm's **plan** or recipe for **how you: create, deliver, harvest value** for its stakeholders.

The proper time to develop a business model is following the feasibility analysis stage and prior to fleshing out the operational details of the company.

A firm's business model is integral to its ability to succeed both in the short and long term.

Having a clearly articulated business model <u>is important</u> because it serves as an ongoing <u>extension</u> of <u>feasibility analysis</u>. A business model continually asks the question, "Does this business make sense?"

General Categories of Business Models

1. Standard Business Models

Business Model	Representative (Examples) Companies
Advertising Business Model	Google, Facebook
Auction Business Model	eBay, uBid.com
Bricks and Clicks Business Model	Apple, Barnes & Noble
Franchise Business Model	Panera Bread, 24-Hour Fitness
Freemium Business Model	Dropbox, Pandora
Low-Cost Business Model	Southwest Airlines, Walmart
Manufacturer/Retailer Business Model	Fitbit, Tesla Motors
Peer-to-Peer Business Model	Airbnb, Uber
Razor and Blades Business Model	Game Consoles and Games, Printers and Ink Cartridges
Subscription Business Model	Birchbox, Netflix
Traditional Retailer Business Model	Amazon, Whole Foods Markets

Ask yourself: What is the standard business model for the industry I am entering? Is it better to use a non-standard business model to launch my business?

Manufacturer/ Retailer

A manufacturer makes finished products from raw materials. It may sell directly to the customers or sell it to a middleman

SuperJam



Namliyeh



https://www.yout-ube.com/watch?v=tWWksi8oUzQ
https://www.yout-ube.com/watch?v=tWnV0iDrov8

Distributor

A distributor buys products from manufacturers and resells them to the retailers or the public.



Example:

Wholesale sugar distributor

Competition can be fierce for distributors, which necessitates continual analysis of the market.

Traditional Retailer

A retailer sells directly to the public after purchasing the products from a distributor or wholesaler.

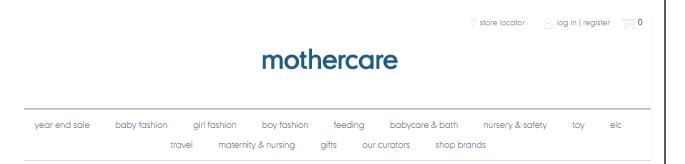
Brick-And-Mortar In 1845, Tiffany's Blue Book

was the first mail-order

Brick-And-Click catalogue in the United

States.

Online/ eCommerce
Or Entrepreneur Bloom Cart



https://www.youtube.com/watch?v=8UsT8OzfiVI

Franchise

A franchise can be a manufacturer, distributor or retailer. Instead of creating a new product, the franchisee uses the parent business's model and brand while paying royalties to it.

Examples - McDonald's, Pizza Hut.





Nickel-And-Dime (low-cost model)

The nickel and dime business model is about driving the cost of a product down to its lowest point while still making a profit. By doing so, customers are tempted to buy such products because the psychological weight placed on the purchase is low. For every other service that comes with it, a certain amount is charged.

Examples – All low-cost air carriers like JetBlue, Walmart, One-dollar-shop

https://youtu.be/SRuHyB8w_-l

Precautions:

- •Selling a high volume in order to have a sustainable profit.
- •Creating an understanding with customers that such products are low budget. Customer expectation is key. If they expect too much and receive too little, the brand will not succeed.
- •Paying particular attention to competition and market pricing in order to undercut.



https://www.yout-ube.com/watch?v=IjgOKBfWg6k

Subscription



This model involves having customers pay monthly, quarterly or yearly to use a product. The <u>subscription</u> <u>business model</u> lets you keep customers over a long-term contract and get recurring revenues from them through repeat purchases.

Examples – <u>Netflix</u>, <u>Dollar Shave Club</u>, Newspaper and magazine subscriptions

https://youtu.be/ZUG9qYTJMsl

- •Customers not having to continually reorder the same item.
- •No matter how good the product or service, subscription services will lose some subscribers each month. These must be replaced in order to keep the business afloat.
- •Churn refers to the number of subscribers that a subscription-based business loses each month... you need to offer high level of customer service to keep customers

Freemium

This is one of the most common business models on the Internet. Companies offer basic services to the customers for free while charging a certain premium for extra add-ons.

Example, the basic version of Dropbox



- •This model not only is a great marketing tool but also a cost-effective way to scale up and attract new users.
- •Creating loyal customers first before asking them to pay for a service or product.
- •Providing true value through the free version of said product/service, not a useless counterpart. Customers expect a free version to still have practical value.

You Tube

Advertisement

HerCampus

A business builds an audience and then sells advertising space to advertisers on its product. The larger the audience, the more money the business generates as an advertising platform.

This business model is popular with media publishers like Youtube, Forbes, etc. where the information is provided for free but are accompanied with advertisements which are paid for by identified sponsors. Websites have been doing this for decades, and advertising services like Google Ads generates billions of revenue in doing so.

- •High burn rate until an audience is secured.
- •Increasing advertising prices for premium spots on the product. Taking YouTube as an example, advertisers pay more for an advert appearing on a channel with 10 million subscribers than they do on a channel with 10 subscribers.



The **burn rate** is typically used to describe the **rate** at which a new company is spending its venture capital to finance overhead before generating positive cash flow from operations. It is a measure of negative cash flow. The **burn rate** is usually quoted in terms of cash spent per month.

Agency-Based

An agency can be considered as a partner company which specializes in handling the non-core business activities like advertising, digital marketing, Public Relations, etc.

This company partners with several other companies that outsource their non-core tasks to them and is responsible to maintain privacy and efficiency in their work.





Digital Marketing Agency in Amman, Jordan

Peer 2 Peer Catalyst/Platform





P2P creates a *decentralized* economy where the transactions are not handled by a central website, but instead are processed directly between users of the economy. Users can be both buyers and sellers.

Example of P2P platform is Airbnb & Uber.

- A centralized location, usually a website where users can post their personal ads.
- The transaction takes place outside of the website.
- The marketplace makes money from charging listings fees and the user makes money from finding customers through the marketplace's large install base.

Some <u>un</u>successful examples of peer-2-peer:

BlackJet:

- Too expensive for a membership
- Too expensive per ride
- Rarely used... people forget about it

Ridejoy:

- Didn't grow fast enough for investors
- Carpooling in colleges
- Cutting Ridejoy out

Neighborrow:

- People didn't like to borrow
- Rarely used... people forget about it

https://www.businessinsider.com/one-theory-explaining-why-jay-z-blackjet-failed-2016-5

https://www.flexaircharters.com/news/business/why-blackjet-failed/

https://www.linkedin.com/pulse/biggest-things-i-learned-fromstarting-shutting-down-ridejoy-shen/

https://www.fasttrac.org/blog/learn-from-others-failures/

Dropshipping

Dropshipping is a type of e-commerce business model where the business owns no product or inventory but just a store. The actual product is sold by partner sellers who receive the order as soon as the store receives an order from the ultimate customer. These partner sellers then deliver the products directly to the customer.

https://youtu.be/Dd34oDc1bZE

https://www.shopify.com/blog/how-to-start-dropshipping

- At its heart, dropshipping is very similar to the distributor model. Where it differs, however, is that a dropshipping business doesn't deliver or distribute the products directly.
- In this model, the dropshipping company is the merchant. The merchant sells items to customers, taking the orders and processing the transactions. The merchant also handles all advertising of the products. The big difference here is that the merchant doesn't own the products.
- the dropshipping business markets products under its own brand takes the orders from the customers and then buys the desired products from a third party company.
- The third-party company then ships directly to the customer, which is one of the huge benefits of the dropshipping model.

Crowdsourcing

Crowdsourcing business model involves the users to contribute to the value provided. This business model is often combined with other business and revenue models to create an ultimate solution for the user and to earn money.

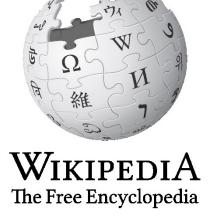
Examples of businesses using the crowdsourcing business model are Wikipedia, Duolingo, etc.

https://youtu.be/-38uPkyH9vI

https://youtu.be/AkwhUOQ3nYg

The Wikipedia Foundation does have one other source of revenue beyond donations: goods sold on the Wikipedia store. Some of the items for sale include t-shirts for \$21, notebooks for \$8, pencils for \$10, and pins for \$2





Only 1.75% of Duolingo's users pay for its ad-free version (\$84 a year), but because its base is so huge, revenue hit \$36 million last year. Von Ahn says that will climb to \$86 million in 2019 and \$160 million in 2020 as more users sign on and pay for the premium app, which will attract them with new features.

Auction-Based



Mostly used for unique items that are not frequently traded and that don't have a well-established market value, like collectables, antiques, real estate, and even businesses.

This business model involves the listing of an offering by the seller and the buyers making repeated bids to buy that offering while fully aware of other bids by other buyers.

The offering is sold to the highest buyer with the auction broker charging a listing fee and/or commission based on the transaction value.

<u>eBay</u> is one such auction platform.

One-For-One Business Model

The one-for-one business model is classified as a form of "social entrepreneurship". It is a way to both generate revenue and have a lasting positive impact on others. A simple way to look at it is that if you buy a pizza, the restaurant promises to provide another pizza for someone less fortunate who cannot afford it.

The one-for-one model is also known as "<u>buy-one-give-one</u>" and was first pioneered by TOMS Shoes, where one item was given away for every purchase. TOMS Shoes began donating a pair of shoes to a child in a developing

country for every pair purchased.

•Large enough profit margins to produce two products for every one sold.

•Factoring delivery of items to needy causes and any resulting necessary infrastructure investment into cost structure.



Same as **bait** and **hook** business model

Razor And Blades

The accessories business model is a great way to generate lasting, regular revenue. Instead of having customers pay just once for something, they pay over and over for something that is essential to them.

In the accessories business model, customers buy a product that requires specific parts to run. These parts are finite in their capacity and so run down eventually. Customers then have to buy those parts in order to keep the full product working.

By using this model, businesses create a stream of recurring income over the life of the root product.

Companies dealing in razors, mosquito vaporizers, and other refillable products employ this business model.





Reverse Razor And Blades

A business employing a reverse razor and blades model offers the low margin item at a very less price or below the cost to encourage the sale of the high margin product.

Amazon employs this business model to sell its Kindle e-reader.

It provides Kindle ebooks at a price lower than their actual cost so to make people consider Kindle as a one-time investment to enjoy low-cost books throughout its life.

CHAPTER I

THE year 1866 was signalised by a remarkable incident, a mysterious and puzzling phenomenon, which doubtless no one has yet forgotten. Not to mention rumours which agitated the maritime population and excited the public mind, even in the interior of continents, seafaring men were particularly excited. Merchants, common sailors, captains of vessels, skippers, both of Europe and America, naval officers of all countries, and the Governments of several States on the two continents, were deeply interested in the matter.

For some time past vessels had been met by "an enormous thing," a long object, spindle-shaped, occasionally phosphorescent, and infinitely larger

1 min left in chapter

1%

kindle

General Categories of Business Models

2. Disruptive Business Models

Disruptive Business Models

- Disruptive business models, which are rare, are ones that do not fit the profile of a standard business model.
- They are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry.

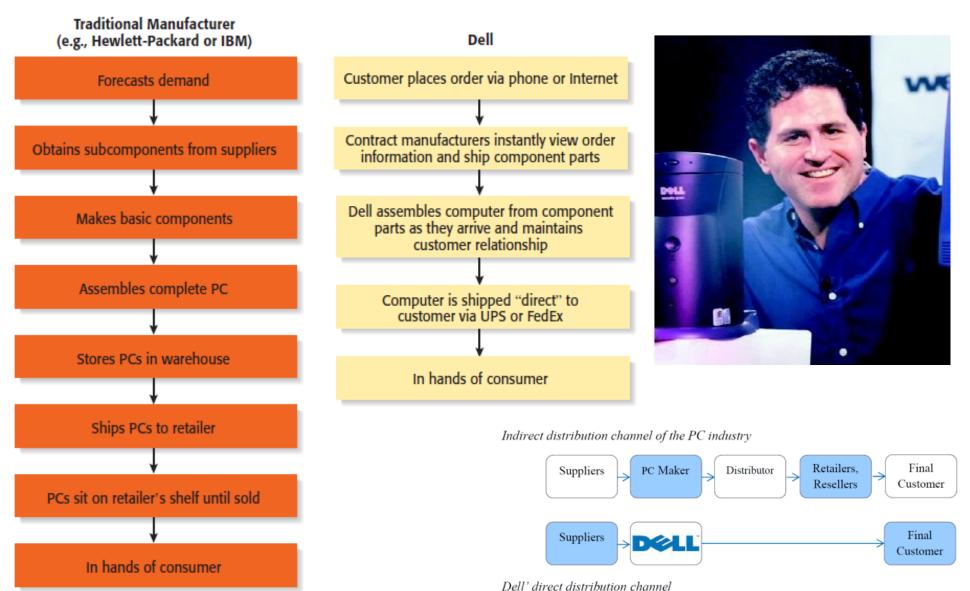
General Categories of Business Models

Disruptive Business Models

Business Model	Company or Companies That Introduced It
Direct-to-Consumer Computer Sales (which allowed consumers to customize their computers)	Dell
Online Text Ads on Search Engines (allowed advertisers to place ads for products that searchers were already searching for)	Yahoo, Google
Software as a Service (SaaS) (By moving software to the cloud, allowed users to access the software and their data from anywhere there was an Internet connection)	Salesforce.com
Cloud-based Service to Connect Riders and People Willing to Provide Rides (Provided riders with an app that connects them with the owners of private cars)	Uber, Lyft

Dell's Business Model

Dell's Approach to Selling PCs versus Traditional Manufacturers



Types of e-commerce business models

There are 4 main types of e-commerce business models:

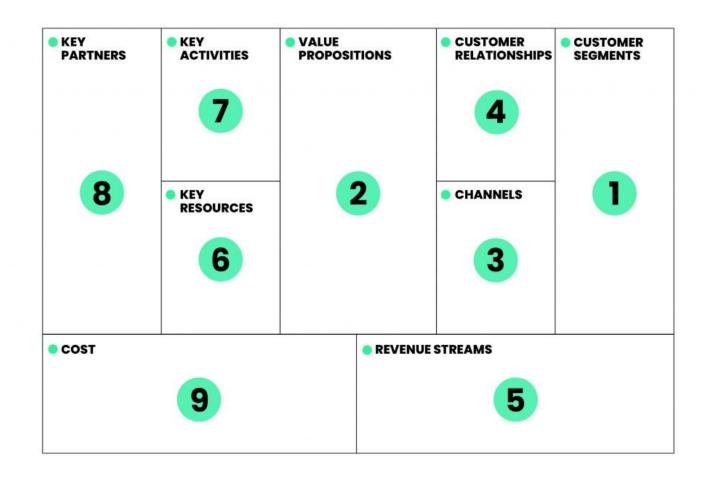
- 1. Business to Consumer (B2C): One(Seller) to many(customer). This model refers to the distribution of goods and services from business to individual consumers (one time transaction). Example of this model is Amazon. B2C business models can sell other brands products besides theirs as well (Example: A sports store selling Adidas and Nike shoes together)
- 2. Business to Business (B2B): This model is the one where the exchange of goods or services takes place between companies instead of individuals. It has higher order value and more recurring purchases
- **3. Consumer to Business (C2B):** Opposite from the B2C model, this one is when a consumer sells their products or services to a business or organization. Examples can be freelance programmers, social media managers, content creators, and other services providers working online.
- **4. Consumer to Consumer (C2C):** When a consumer sells a product or service to another consumer, usually through a third-party website. Example: eBay

- Although not everyone agrees precisely on the components of a business model, many agree that a successful business model has a common set of attributes.
- These attributes can be laid out in a visual framework or template so it is easy to see the individual parts and their interrelationships.

What is a Business Model Canvas?

A visual representation of the various elements of your Business Model.

Created by Alexander Osterwalder, the Business Model Canvas is a visual representation of the **9 key building** blocks



The Business Model Canvas

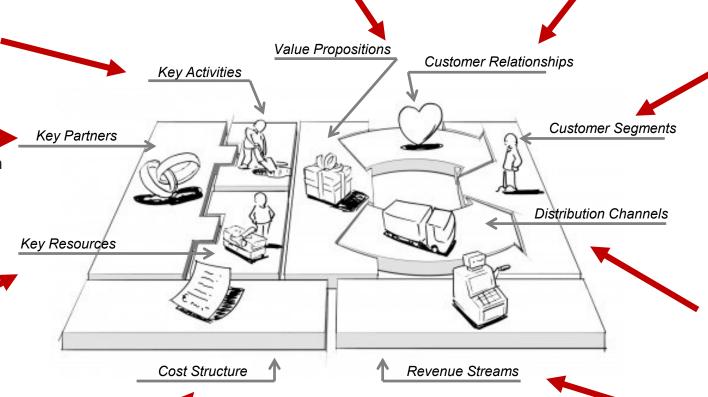
Key activities are any **activities** that your **business** needs to do to make a profit. They include operations, marketing, production, problemsolving, and administration

Key partners are other companies that you partner with to make your business succeed

Key resources are Any resource or capability that the firm owns.
They include plant and equipment, location, brands, patents, customer data, a highly qualified staff.
This factor is one that investors pay close attention when evaluating a business

Value preposition is the "what" that makes customers turn to you, over your competitors? Which of their problems are you best at solving? If a new firm's products or services aren't different from those of its competitors, why should anyone try them?

Customer relationships let you think how you can build, nurture, and grow relationships with customers. This can be automated and transactional like large eCommerce brands, or it could require a more personal relationship



Cost structure includes some of the more obvious needs such as manufacturing costs, physical space, rent, payroll, but also areas such as marketing activities. fixed costs (rent, payroll, point of sales personnel) and variables, such as costs associated with the fluctuating sale of goods, purchase of materials and, manufacturing costs.

Customer segmentation is the process of dividing customers into groups based on common characteristics so you can market to each group effectively and appropriately.

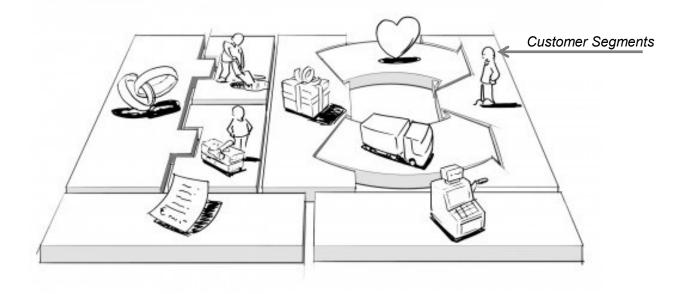
Distribution channels includes both the channels that customers want to communicate with you as well as how they'll receive your products or services.

Revenue streams is how you are going to capture value (money) from customers.

Direct sales strategy? Freemium?

1 Customer Segments

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes.



- Who are your most important users and customers?
- You must create a detailed portrait of each ("archetype")

- Look beyond the obvious
 - who are the stakeholders?
 - who is most motivated?
 - who is most underserved?
 - who has the most to gain?

Mass market

Business models focused on mass markets *don't distinguish between different Customer Segments.*

This type of business model is often found in the consumer electronics sector.

Niche market

Business models targeting niche markets cater to *specific, specialized Customer Segments.*

Such business models are often found in supplier-buyer relationships. For example, many car part manufacturers depend heavily on purchases from major automobile manufacturers.

Segmented

Some business models distinguish between market *segments* with slightly different needs and problems. The retail arm of a bank like Credit Suisse, for example, may distinguish between a large group of customers, each possessing assets of up to U.S. \$100,000, and a smaller group of affluent clients, each of whose net worth exceeds U.S. \$500,000. Both segments have similar but varying needs and problems.

Diversified

An organization with a diversified customer business model serves *two unrelated Customer Segments* with very different needs and problems. For example: Amazon.com starts their business selling books online, as their business grows they try to expand their business by selling "cloud computing" services to business customers.

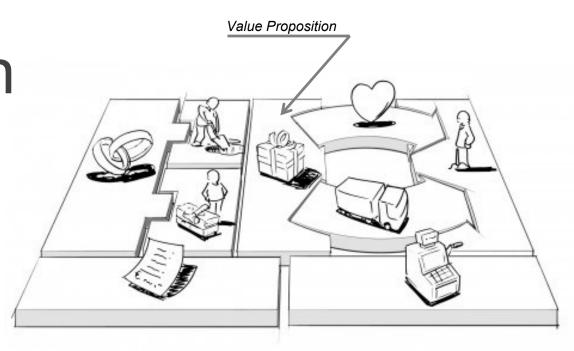
Multi-sided platforms (or multi-sided markets)

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

Value Proposition

The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need.

Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.



For each Customer Segment:

- ✓ What is their PAIN?
- ✓ What is the GAIN for them to solve their pain or ache?
- ✓ What is their DECISION TRIGGER?

The Decision Trigger

How does your solution change the customer's life for the better?

« What is the **RETURN ON USE** »

Does your offer promise enough added value to motivate your customer to pull out their credit card?

Value Proposition Elements

- 1. Newness
- 2. Performance
- 3. Customization
- 4. Getting the job done
- 5. Design
- 6. Brand/ Status
- 7. Price
- 8. Cost Reduction
- 9. Risk Reduction
- 10. Accessibility
- 11. Convenience/usability

Beware of promising more than you can deliver!

Newness

Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. Cell phones, for instance, created a whole new industry around mobile telecommunication.

Performance

Improving product or service performance has traditionally been a common way to create value. For example, faster PCs, more disk storage space, and better graphics.

Customization

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. Nike lets its customers customize their shoes through NikeID on their website.

"Getting the job done"

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

Design

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

Brand/status

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example.

Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. An example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population.

Cost reduction

Helping customers reduce costs is an important way to create value. Example, Dollar Shave Club.

Risk reduction

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

Accessibility

Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Also Mrayti example.

Convenience/usability

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

Key Partners

- · Geometry teachers
- · Math organizations
- School Boards
- PTA

Key Activities

- Content follows Core
 Curriculum
- Network of students and teachers
- Out of game collaborative platform

Key Resources

- · App Developers
- · Graphic Designers

Value Propositions

- Make learning Geometry engaging
- Focus on Geometric Proofs
 Endogenous Fantasy
- · Multiplayer Format

Value to Students

- Fun + Learning
- Share achievement on social media

Value to Teacher

- Student interest in Geometry
- Follows Core
 Curriculum
- Improves students grades

Value to Parents

- · Better grades
- · Productive activity

Customer Relationships

Get

- Free to download
- Adwords
- PTA

Keep

Engaging Game

Grow

- Different subject areas
- Additional platforms (Flash)

Channels

- App Store
- Summer Schools
- Flash Platforms
 Direct Sale to Private
 Schools

Customer Segments

Middle School Students

- 10 to 13 year old
- 4-8 Million students taking Geometry
- 48% have iPhone

Mathematics Teachers at Private Schools

Parents

It is important to achieve a Value – Customer Fit

https://online.visualparadigm.com/diagram s/templates/businessmodelcanvas/geometry-gamebusiness-model-canvas/

Cost Structure

- · Game development fixed \$100,000 (estimated high end)
- · Apple / Android App store cut variable 30% of sales
- · Advertising costs (google ad words) first year \$50,000 (estimated)

Revenue Streams

Possible Low End (yearly)

5% of 4M High School Market: 200,000 per year

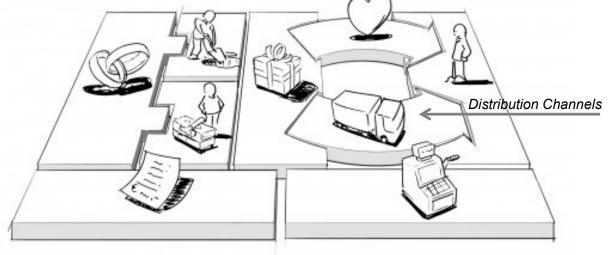
200,000 users * \$2 = \$400,000 - 30% cut \$1200000 = **\$280,000 / year Possible High**End (yearly)

10% of cust segment at \$4 per app

400,000 users * \$4 = \$1,600,000 - 30% cut \$480,000 = **\$1,120,000 per year**

Distribution Channels

Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience.



Channels

- A company's channels describe how it delivers its product or service to its customers.
- Businesses either sell direct, through intermediaries (such as distributors and wholesalers), or via a combination of both.
- Some firms employ a sales force that calls on potential customers to try to close sales. This is an expensive strategy but necessary in some instances.

Channel Types

Sales force Web sales Own stores Partner stores Wholesaler

Your Product HOW DO YOU WANT TO GET YOUR PRODUCT TO THE CUSTOMER? PRODUCT: NIRTUAL PHYSICAL

4

Customer Relationships

A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated.

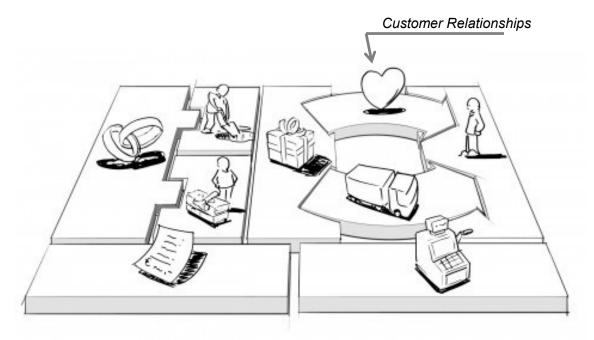
Customer relationships may be driven by the following motivations:

GET (Customer acquisition)

KEEP (Customer retention)

and **GROW** (Boosting sales (upselling))

How do you build a loyal and enthusiastic tribe around your offer?



Customer Relationships

Grow

Keep

Get

- Online marketing (Google Adwords, Facebook)
- Physical tasting/sampling at endurance events and sports stores
- Health blogs and magazines

- Discount codes for repeat online customers
- for long-term partners and retailers

- Introduce new flavors
- Introduce bundles and different pack sizes
- Expand available distribution channels
- Further brand development

Personal assistance

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

Dedicated personal assistance

This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals.

Self-service

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

Automated services

This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example automated services can recognize individual customers and their characteristics through their profiles, and offer information related to orders or transactions.

Communities

Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and solve each other's problems. Communities can also help companies better understand their customers.

Co-creation

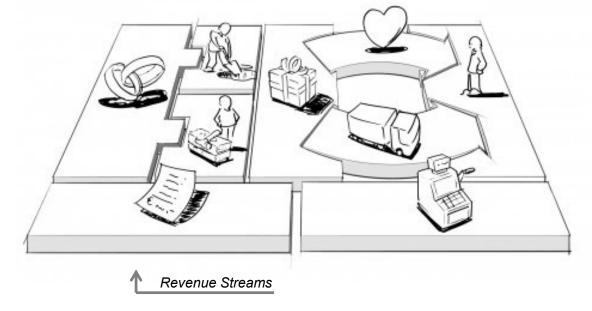
More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others,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



Revenue Streams

Revenue Streams

- A firm's revenue streams describe the ways in which it makes money.
- Some businesses have a single revenue stream while others have several.
- For example, most restaurants have a single revenue stream. Their customers order a meal and pay for it. Other restaurants may have several revenue streams—including meals, a catering service, product sales (such as bottled barbeque sauce for a barbeque restaurant), and apparel products with the name of the restaurant on them.



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

- 1. Transaction revenues resulting from one-time customer payments
- 2. Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support

Where can you generate revenue that others leave on the table?

Asset sale

Selling ownership rights to a physical product. Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

Usage fee

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

Subscription fees

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

Licensing

This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties.

Lending/Renting/Leasing

This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. Zipcar.com allows customers to rent cars by the hour in North American cities.

Brokerage fees

This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

Advertising

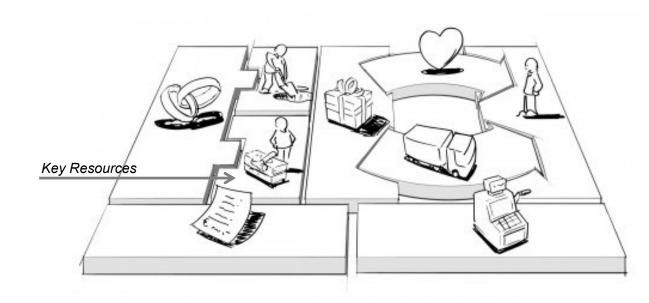
This Revenue Stream results from fees for advertising a particular product, service, or brand. Media industry and event organizers relied heavily on revenues from advertising.

6 Key Resources

Different Key Resources are needed depending on the type of business model.

What infrastructure and resources do you need to deliver what you promise?

- tools, space, locations
- personnel (qualifications, in-house or sub)
- equipment (lease or buy)
- licenses, intellectual property
- supplies (components, assemblies)
- what is scarce or difficult to get



Key Resources can be categorized as follows:

Physical

such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks.
Retailers like Wal-Mart and Amazon.com rely heavily on physical resources.

Intellectual

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases. Intellectual resources are difficult to develop but when successfully created may offer substantial value. Consumer goods companies such as Nike relies heavily on brand as a Key Resource. Microsoft depend on software and related intellectual property developed over many years.

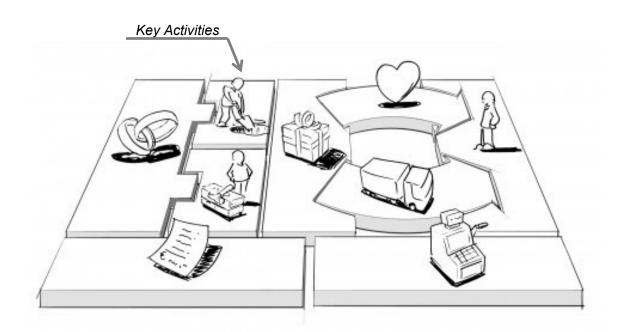
Human

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

Financial Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees.

7 Key Activities

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully.

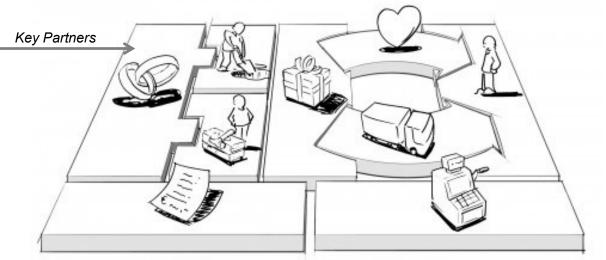


- Product (or Service) Production
 - This section focuses on how a firm's products and/or services are produced.
 - For example, if a firm sells a physical product, the product can be manufactured or produced inhouse, by a contract manufacturer, or via an outsource provider.
 - This decision has a major impact on all aspects of a firm's business model.
 - If a firm is producing a service rather than a physical product, a brief description of how the service will be produced should be provided.

Key Partners

Key Partners

- The final element of a firm's business model is key partners.
- Start-ups, in particular, typically do not have sufficient resources (or funding) to perform all the tasks necessary to make their business models work, so they rely on key partners to perform important roles.
- The table on the next slide identifies the most common types of business partnerships.



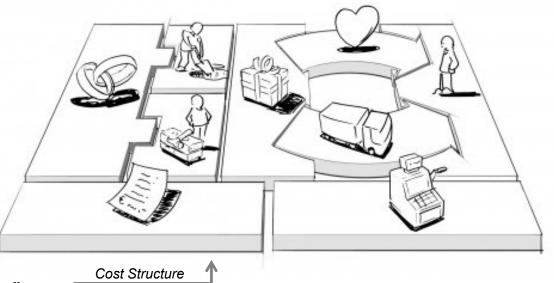


Cost Structure

- A business's cost structure describes the most important costs incurred to support its business model.
- It costs money to establish a basis of differentiatio develop core competencies, acquire and develop key assets, and so forth.



- Identify whether the business is a cost-driven or valuedriven business.
- Identify the nature of the business's costs.
- Identify the business's major cost categories.



What are the critical elements of the cost structure?

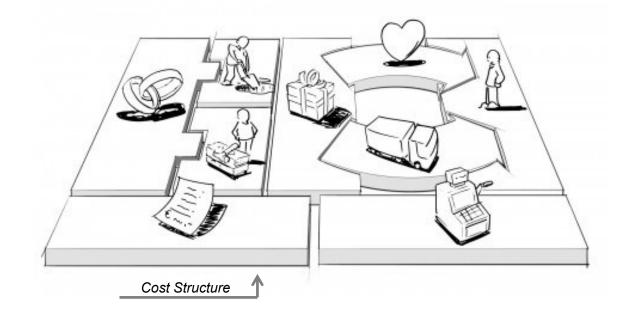
- Fixed costs
- Variable costs
- Resource, activity, partner costs
- Infrastructure, operational, cost of sales
- Payroll costs, benefits, bonus structure, taxes

9

Cost Structure

Types of Cost Structure

Naturally enough, costs should be minimized in every business model. But low Cost Structures are more important to some business models than to others. Therefore it can be useful to distinguish between two broad classes of business model Cost Structures:



1. Cost-driven

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

2. Value-driven

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

9 Cost Structure

Cost Structure Attributes

A Cost Structures can have the following attributes:

1. Economies of scale

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

2. Economies of scope

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

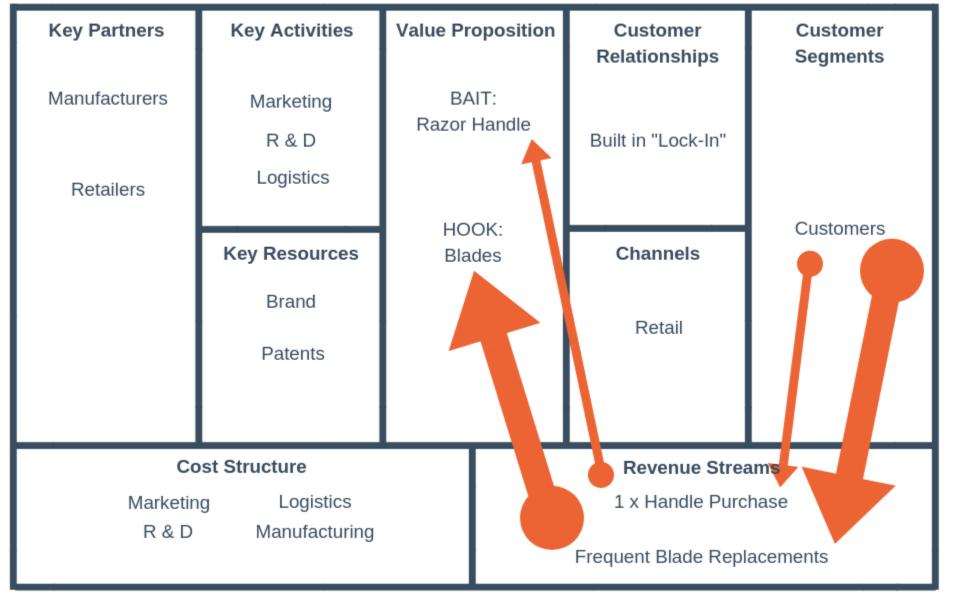
3. Fixed cost

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

4. Variable cost

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

Business Model Canvas: Gillette



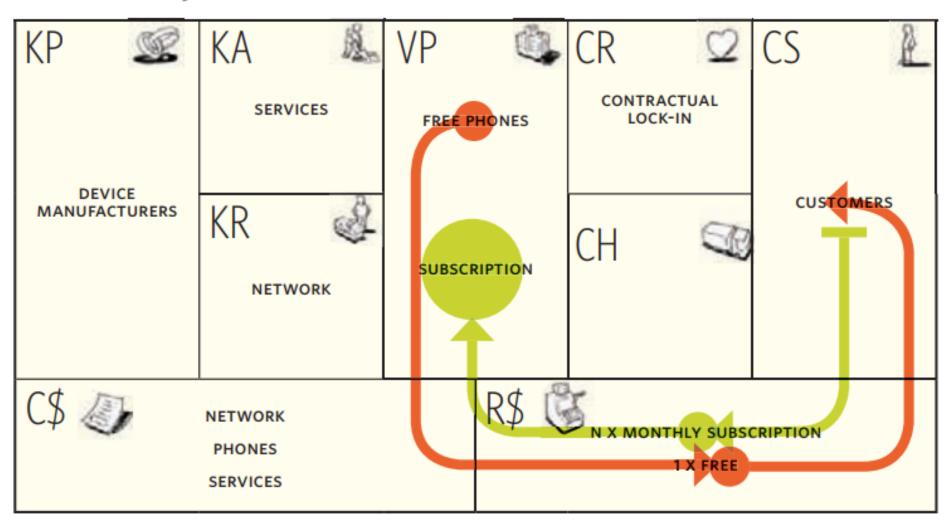
Same as razor and blade business model

Gillette's business model is based on the "Bait & Hook" business model pattern. This model is characterized by an attractive, inexpensive or even free initial offer that encourages ongoing future purchases of related products or services.

In Gillette's case, an inexpensive razor handle forms the bait, and continued purchases of the blades represent the hook.

Same as razor and blade business model

Bait & Hook of Free Mobile Phones



Freemium business model

Flickr

