

ENTREPRENEURSHIP ESSENTIALS



BUSINESS MODEL CANVAS

**BUSINESS MODEL
CANVAS**

Proven Beta Bridge Building Winning Strengths
How you're doing things



Lecture Note # 7



Business Model: Definition

- A business model is a 'Business Opportunity' with all its features including risks, advantages, complexities, customer segment, market structure & potential, competition landscape, socio-political challenges and opportunities, commercial attractiveness, environmental challenges, techno-economic feasibility, profitable sustainability, growth potential, legal tenability and the execution plan.
- A business model describes the rationale of how an organization creates, delivers, and captures value – Alexander Osterwalder
- The process of business model construction and modification is also called business model innovation and forms a part of business strategy.

Business Plan

Business plan is a document containing the detailed plan of execution of a Business Model, its unique strengths, weaknesses, opportunities, threats, the complementary skills of the team, operation plan, marketing plan and the financial projections, demonstrating how the company acquire, retain and grow customer base, create value for customers and other stakeholders, derives competitive advantages, sustain and grow in the long run.

A business model is how a business operates, while a business plan describes the business and outlines its strategy.

Business Model Innovation

- Starting from identifying the pain point, Business Model innovation includes developing solutions, sustaining profitable growth and creating value for companies, customers, and society.
- It is about innovating new products, process, services, and businesses replacing outdated models.
- Apple created an innovative new business model with its iPod digital media player and iTunes online music store.
- Skype & WhatsApp have brought us cheap global calling and free calls with an innovative business model built on peer-to-peer technology.
- Grameen Bank, in Bangladesh, is promoting social entrepreneurship and alleviating poverty through innovative micro-lending to the poor.

Business Model Template

- Thankfully for us, **Alexander Osterwalder** has developed a template for business model.
- It is known as Business Model Canvas.

Business Model Canvas

- Alexander Osterwalder has presented nine building blocks for describing business model.
- These blocks are arranged in a canvas, called Business Model Canvas.
- The heart of the canvas is the Value Proposition and the Customer Segment blocks.
- Any business is related to customers and customers are there for the value provided to them through the product or service and they would provide profit to the company .

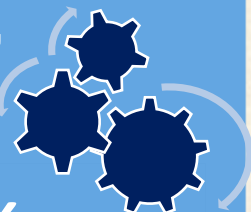
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Key Partners



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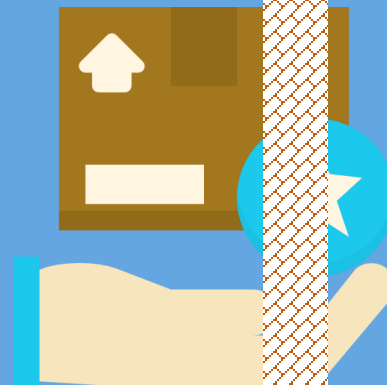
Key Activities



Key Resources
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01

Value Proposition



Customer Relationship

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Channel

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Customer Segment



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Cost Structure



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Revenue Model



Data Show that:

- 7 out of 10 products flop (in Silicon Valley)
- All the money, time, resources and talent that go into making these 7 products are all wasted.
- Majority, if not all, of the products **fail because** the targeted **customers do not buy them**.
 - They do not buy because they do not find them attractive.
 - They do not find them attractive because these products are **unable to meet customers' essential needs**.
 - 42% Well-Funded startups fail.
- But sometimes customers accept very simple products
- So, try to know what they would buy!

Wufoo founded by Kevin Hale

- Founded in 2006 and exited in 2011
- Raised only \$1,18,000
- Sold to SurveyMonkey for \$35 million in 2011.
- Gave a return of 29,561% to investors.
- Product: A web app that lets people create forms
- Motivation for the product: “We looked at other form builders, and we were like, ‘All these people are crappy. And we don’t want to be in that space.’”

Value Proposition

- **A VALUE PROPOSITION** represents the sum total of features of your product or service that customer would perceive as value for their money.
- Your value proposition would provide reasons why customers would prefer to buy your product or service over those of competitors.

Value Proposition

Value proposition is the sum total of the benefits of product or service to be offered including:

Quality

Efficacy

Usefulness

Esteem

Ease of installation

Configuration

Maintainability

Safety

Ease of use

Re-sale value

Power efficiency

Serviceability

Storability

Shelf-life

After-sale service

Reliability

Cost

Warranty

Aesthetic value

Convenience to buy

Delivery

Return policy

Trouble shooting
and such.

Example: Failed because they did not focus on value proposition

- The Iridium communications service or Iridium SSC was launched on November 1, 1998 at a capital investment of US\$6 billion (Indian ₹ 42,000 crore).
- Motorola was the technology provider.
- This was launched at a time when cell phone service was in its infancy.
- What the founder assumed?
- If communication is made possible from anywhere to anywhere, people have every reason to lap it up.



Image courtesy: <http://i-marineapps.blogspot.com>

Facts

Nine months later, on August 13, 1999, filed for bankruptcy.

❑ Why?

- Every single call has to be routed through all satellites. Required entire constellation of 66 active satellites to make any call.
- The cost of service was prohibitively high for most users.
- Indoor reception was poor, if at all possible.
- The hand held device was bulky.
- Calls were expensive.
- The present owners bought it for **US\$35 million**. The investment was more **than \$6000 million**.



Why did Iridium fail?

- The company lacked idea of the cost of the service, affordability, usefulness of the product and adequacy of supporting technologies.
- Customers were not ready to pay the price of the product and service.
- The products did not meet requirements of customers.
- The business model was ahead of time.
- Ancillary industries were not well developed.

Value Proposition Template

- Value proposition may be succinct one-liner or it may be elaborate for clear understanding.
- The book by Alex Osterwalder has provided a template for a one-liner value proposition.
- Your business's value proposition is arguably the most important element of your overall market messaging.
- A value proposition tells prospects why they should do business with you rather than your competitors and makes the benefits of your products or services crystal clear from the outset.

What Is Not a Value Proposition?

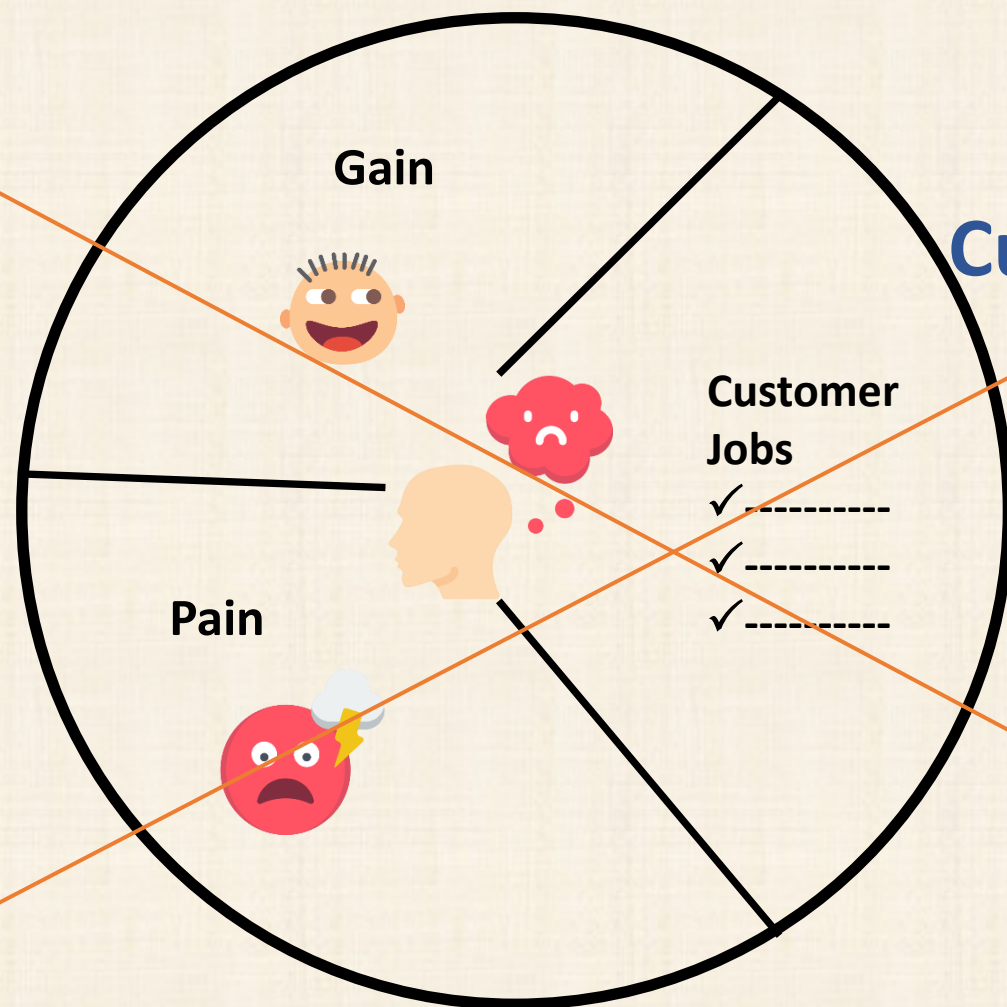
- The features of your product that are not valued by customers.
- The services that customers are not interested in.
- Vanity metrics.
- Anything that does not directly help improve your business.

Some Value Proposition Statements

- **Uber – The Smartest Way to Get Around**
- **Apple iPhone – The Experience ‘is’ the Product**
- **Digit – Save Money Without Thinking About It**
- **CrazyEgg – Website Behavior Tracking at an Unbeatable Price**

<https://strategyzer.com/canvas/value-proposition-canvas>

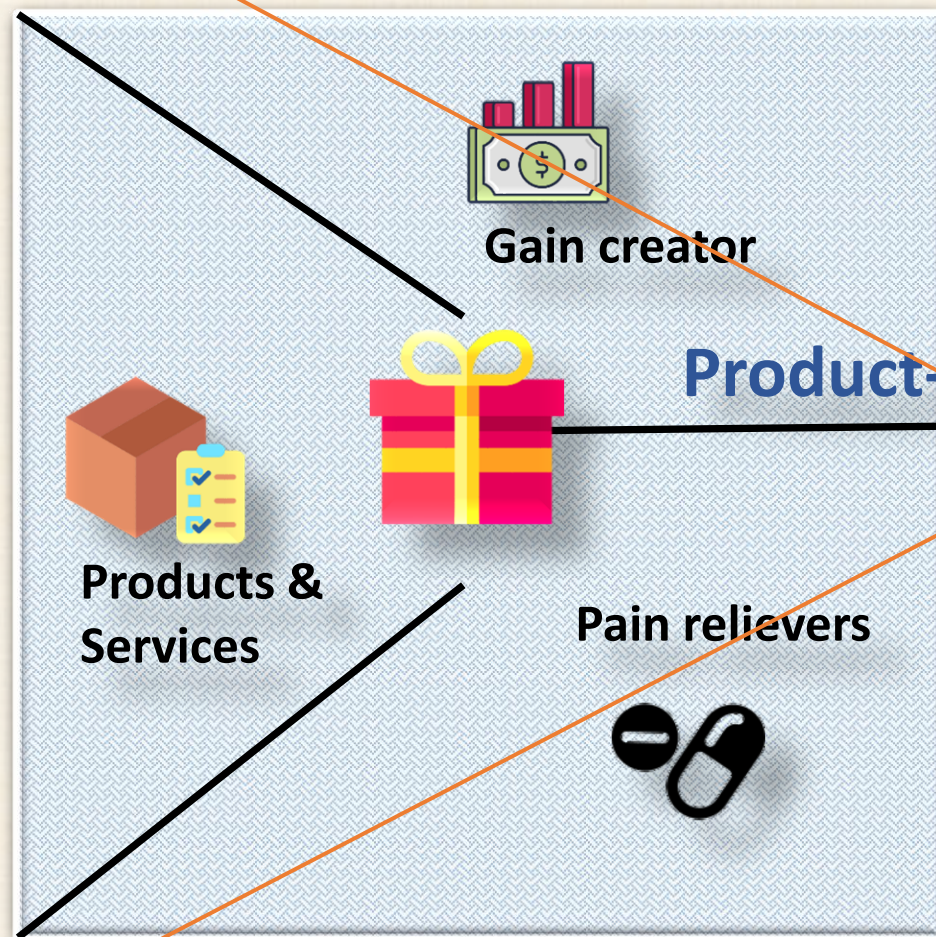
Video by
Osterwalder



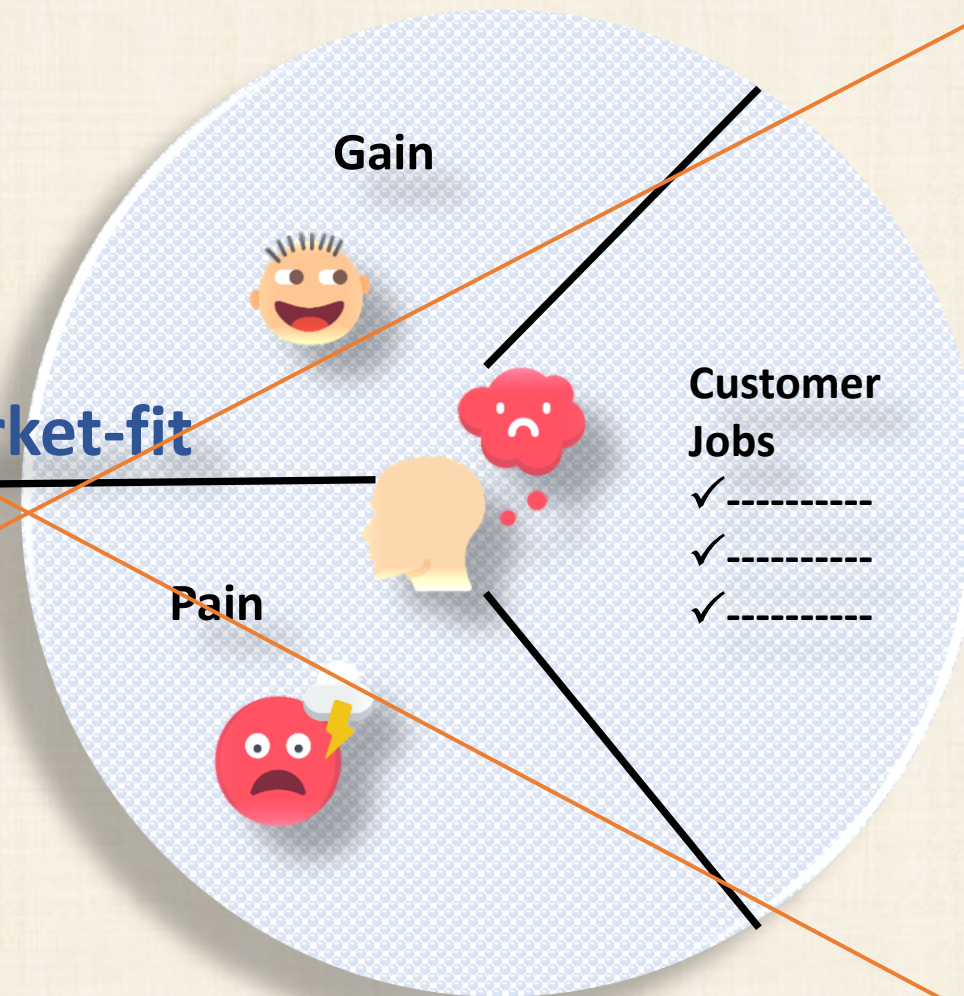
Customer Segment

Value Proposition

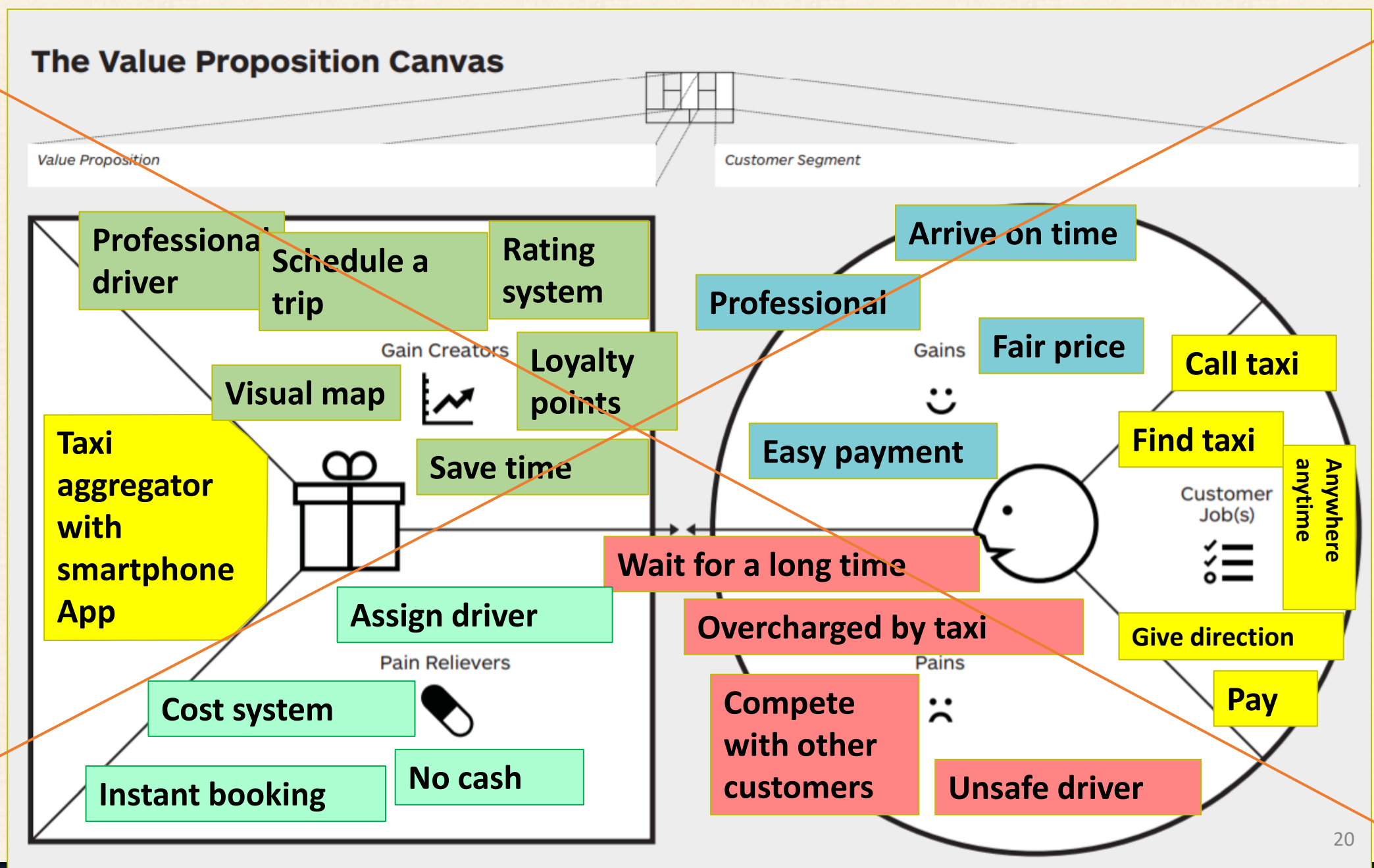
Customer Segment



Product-market-fit



Recreated from the book: Value Proposition Design by Osterwalder



Value Proposition

Must be defined as clearly as possible so that the advantages become glaringly and doubtlessly visible requiring no explanation (nobody will approach to get clarification. When in confusion, they would buy others' product).

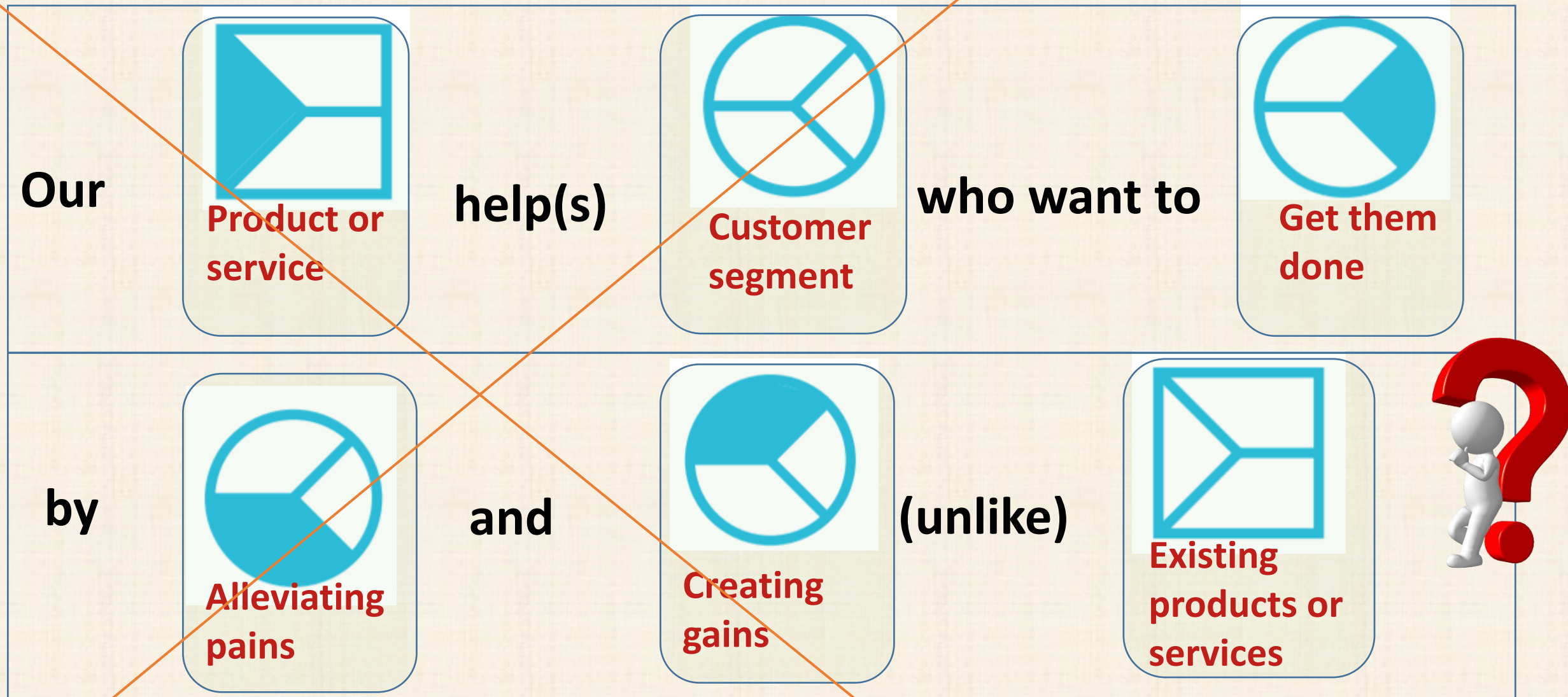
State how your product better solves the problem than competition.

Value Proposition Is Usually a One-Sentence statement

- Our (products or service) help(s) (customer segment) who want to (jobs to be done) by (your own verb such as reducing avoiding) and (your own verb such as increasing or enabling). You may also add a mild criticism of the competing products in general, writing (unlike: competing value proposition).
- Our (book) help(s) (business professionals) who want to (improve or build a business) by (gaining latest knowledge on strategies) and (gaining deep insight) unlike books without focus on the real issues.



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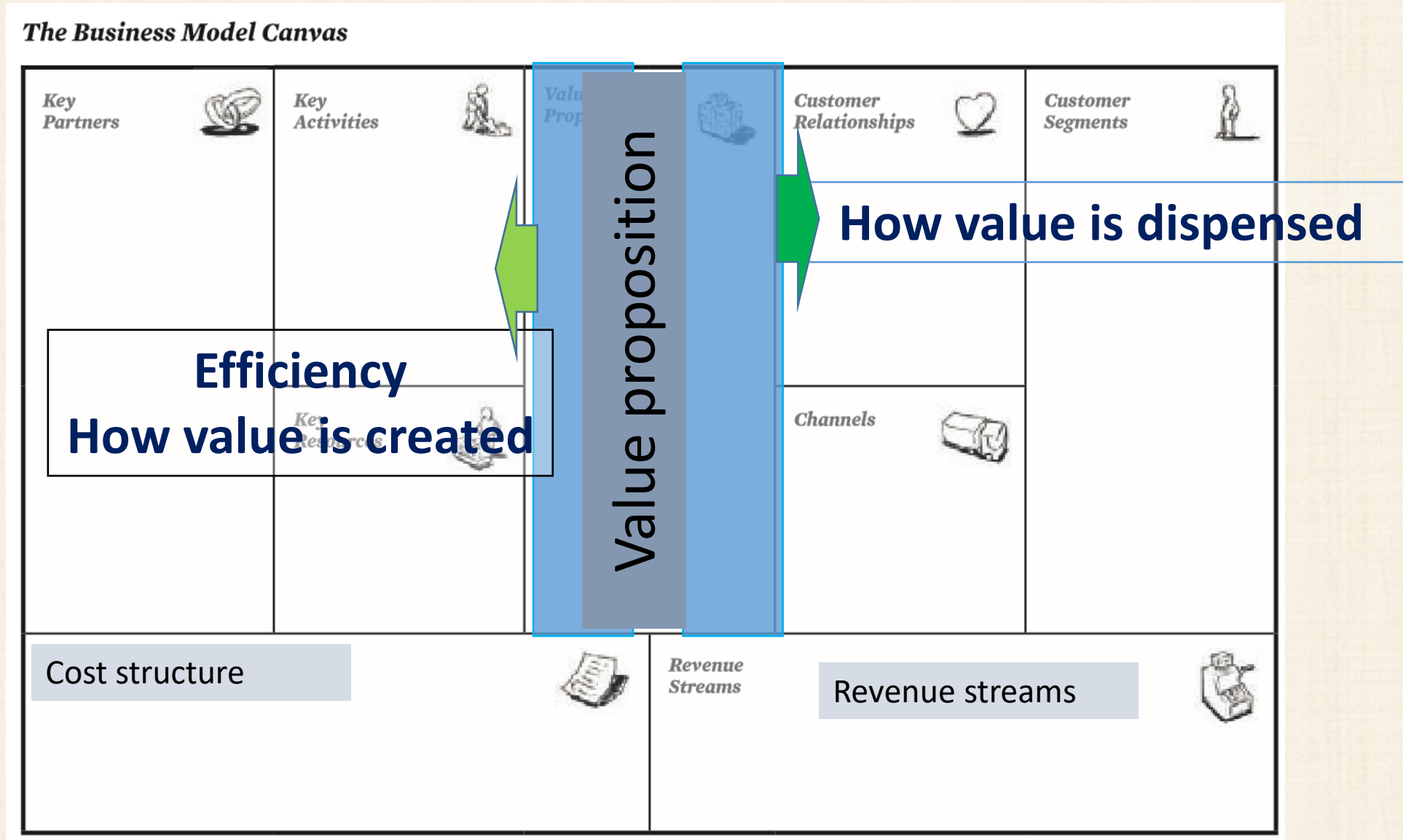
Images are from the book: Value Proposition Design by Alexander Osterwalder

Value Proposition: Example of 10 carat gold jewelry

- Our (jewelry) help(s) (affordability) of middle class people (to enjoy jewelry as glittering as the best gold ornament and increase happiness) by (buying more with less money) and (save money) unlike the 22 carat gold jewelry.
- Our innovative technology, developed in advanced laboratory and crafted by the best professionals has created gold jewellery as glittering as any other gold jewellery that has enhance affordability and saving potentiality while increasing the happiness unlike any other jewelry available in the market.

Business Model Canvas

Book: Business Model Generation by
Alexander Osterwalder, 2010



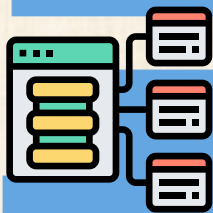
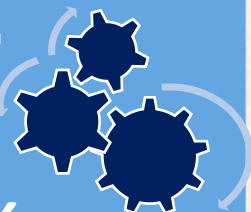
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Key Partners



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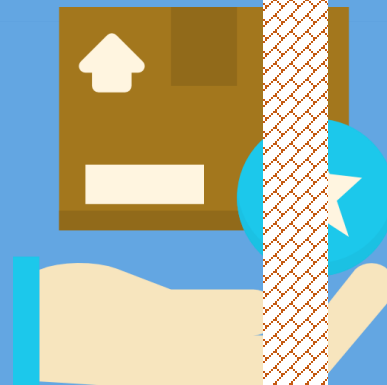
Key Activities



Key Resources
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Value Proposition



Customer Relationship

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Customer Segment



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Cost Structure



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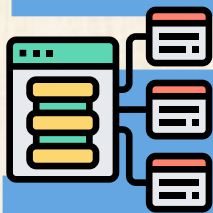
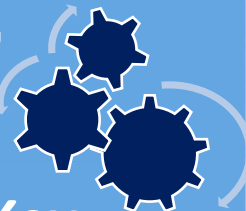
Revenue Model



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Partners

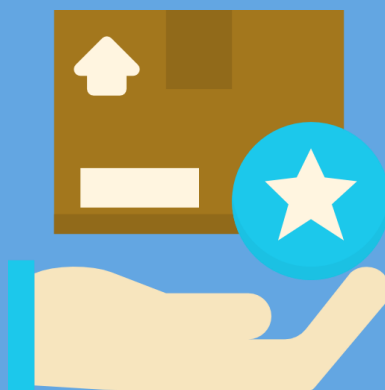
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Key
Activities

Key Resources

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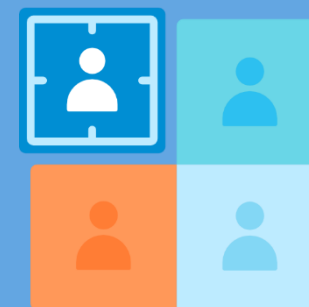
01

Value
PropositionCustomer
Relationship

04



02

Customer
Segment

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Cost Structure



Value Proposition

- The Value Propositions Building Block describes the favorable features of products and services that would be perceived by the customers in the targeted segment as superior value for money.
- The Value Proposition provides reasons to customers why they would buy product of one company over another.
- Customers would consider the bundle of features and the price to be paid vis-à-vis with those of competing products.

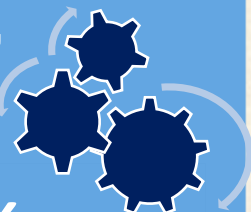
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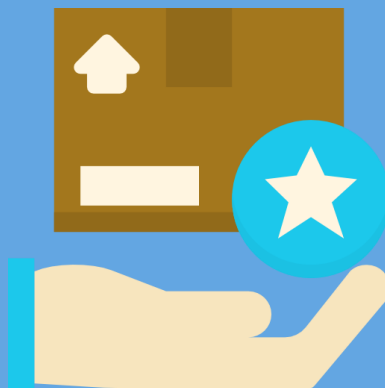


Key Resources

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Value Proposition



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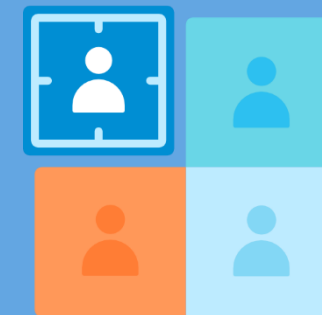
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Market / Customer Segment

- Market segmentation is the act of dividing a broad consumer or business population into sub-groups of consumers based on some shared characteristics relevant for marketing particular product or service.
- Dividing the market for common characteristics such as similar needs, common interests, similar lifestyles or even similar demographic profiles.
- Ideally the market segment should hold promise of profitable relationship with growth potential.

More About Segment

- Distinct groups with common needs, common behaviors, common taste or other attributes.

Customer groups represent separate segments if:

- Their needs, behavior, and conveniences are unique, and they are ready to pay the extra price (or revenue) justifying additional cost to meet them.
- The sharper the focus to meet specific needs of a group of customers, smaller the segment becomes. More 'niche' is the marketing – catering to specialized needs.

Segmentation

The features of the products or services include newness, performance, customization, 'getting the job done', design, price, brand, cost reduction, risk reduction, accessibility, convenience, usability and such (Osterwalder 2010).

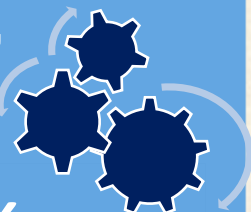
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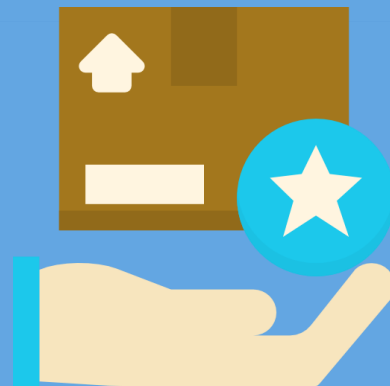


Key Resources

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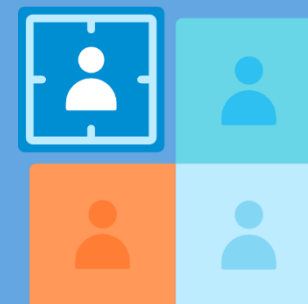
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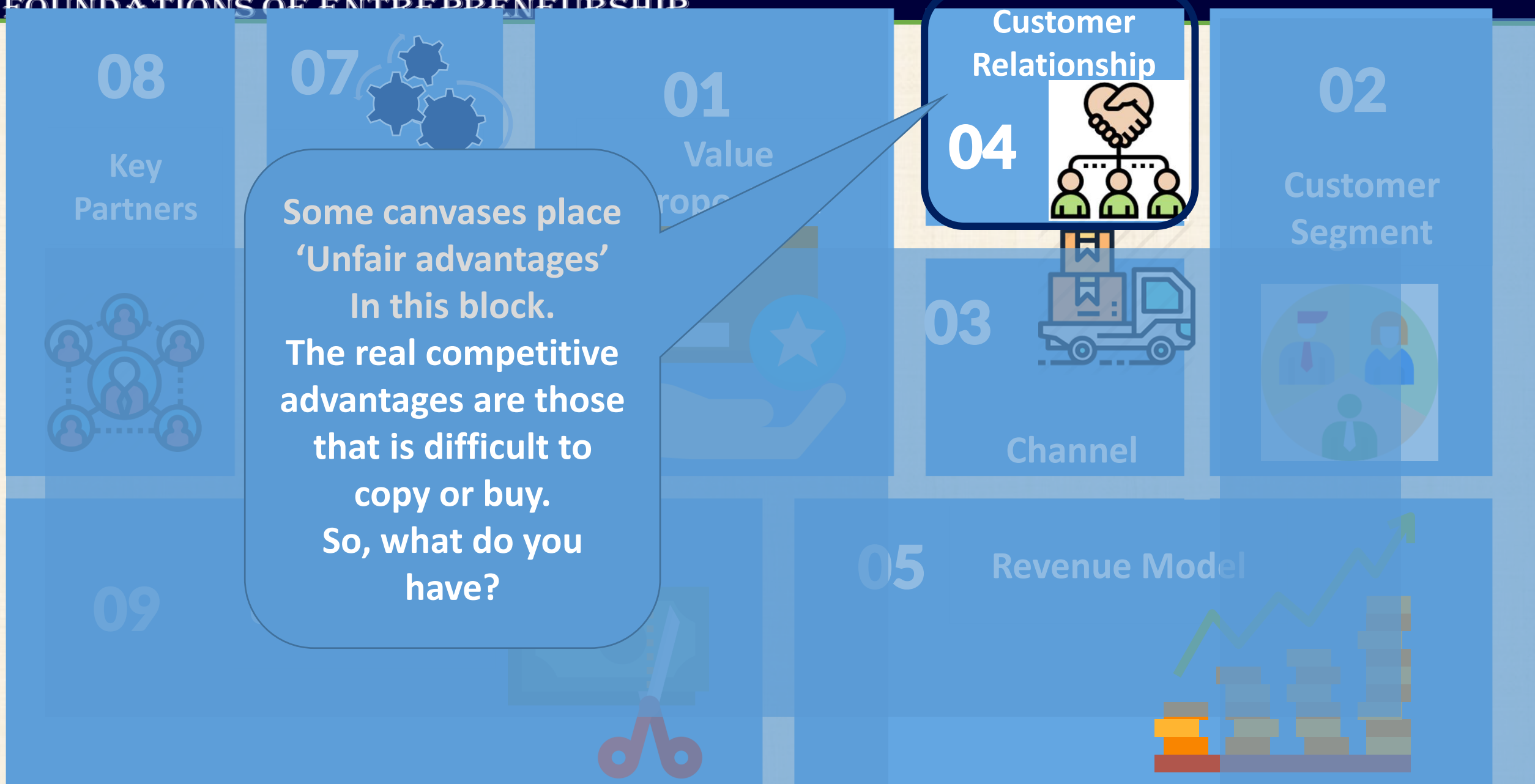


- The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.

It includes:

- Creating awareness among customers of the value proposition.
- Helping customers evaluate a company's Value Proposition.
- Facilitating easy purchase of the product or service by the customers.
- Delivering the product or service conveniently to customers.
- Providing after-sale customer support as part of value proposition.
- Allowing to return in case of mismatch. Exchange of old with new.

Channels



Customer Relationships



- The Customer Relationships Building Block describes how the company would build and maintain relationship with targeted customers on a sustainable long-term basis.

Motivations:

- Customer acquisition
- Customer retention
- Acquiring more customers for sustainable & profitable growth.
- Making profit from life-time-value of customers.

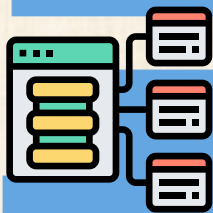
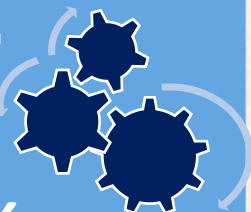
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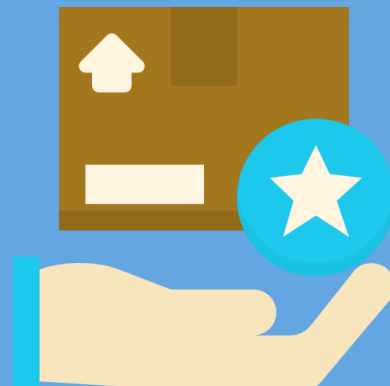


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How do you earn money
Pricing model
Gross profit margin
What burn-rate or profit
Life-time value
Growth strategy

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Revenue Model





Revenue Streams/Model

- The Revenue Streams Building Block represents the cash a company generates from each Customer Segment
- If customers comprise the heart of a business model, Revenue Streams are its arteries.
- A company must ask itself, For what value is each Customer Segment truly willing to pay?
- Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment.

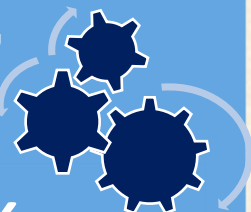
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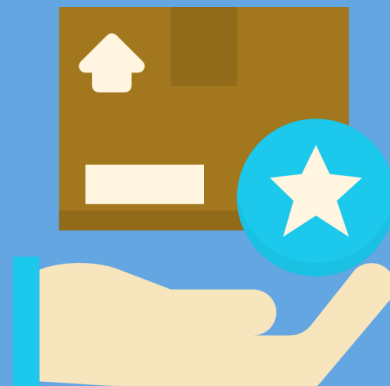
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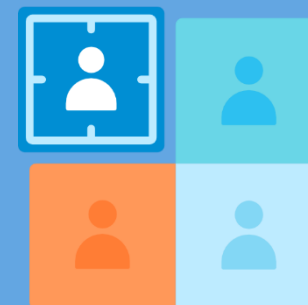
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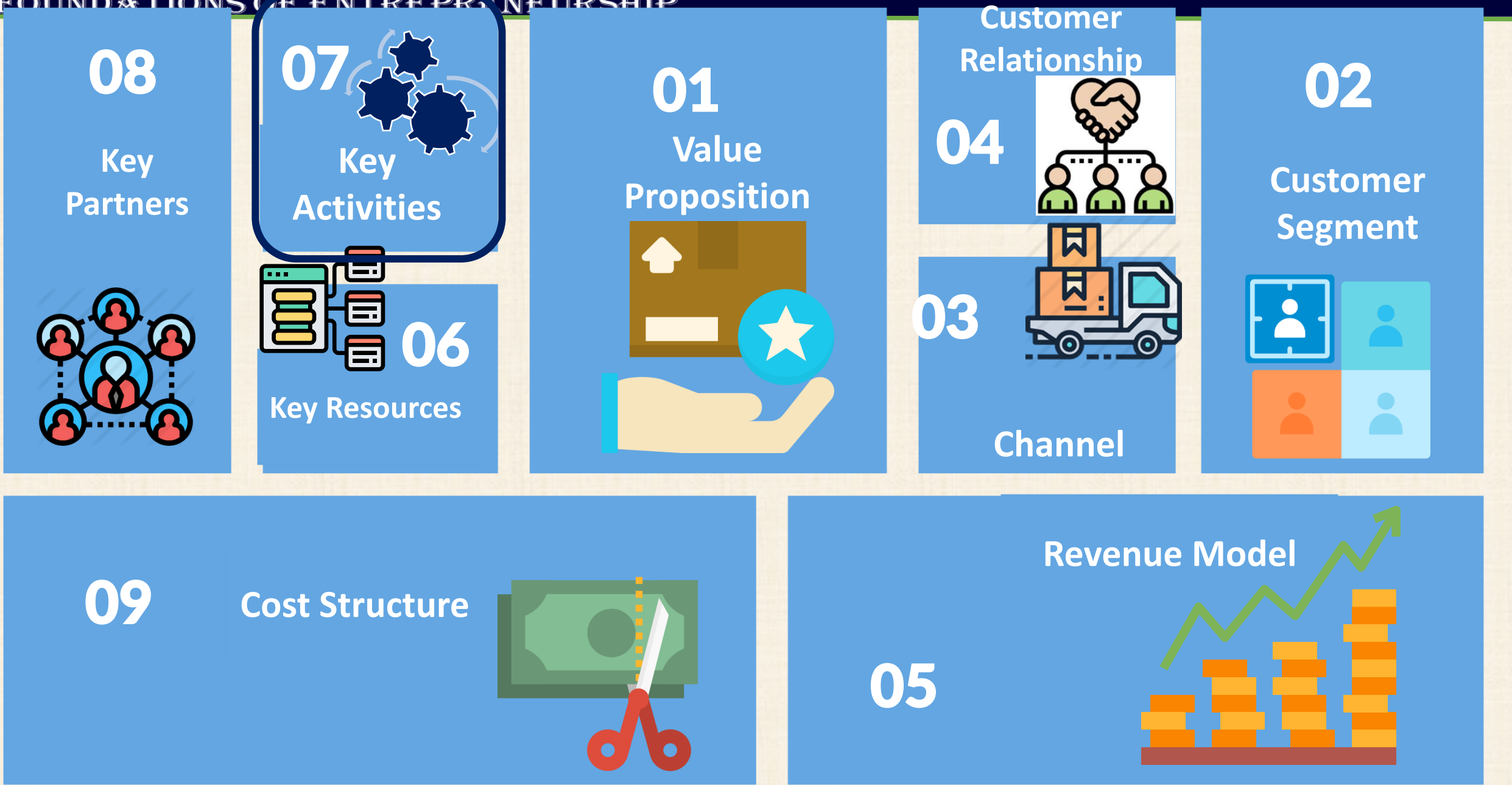
Revenue Model

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Key Resources

- **The Key Resources Building Block** describes the most important resources required to make a business model work
 - These resources allow an enterprise to create the Value proposed.
 - Depending on type of business, different Key Resources are needed.
 - An E-car manufacturer requires batteries, whereas a battery manufacturer requires materials such as lithium, cobalt, nickel, manganese, graphite, copper and aluminum.
 - Key resources can be physical, financial, intellectual, or manpower.
Key resources can be owned or acquired from key partners.
- **Physical Resources:** Tangible assets like manufacturing facilities, equipment, buildings, or distribution networks.
 - **Intellectual Resources:** Intangible assets such as patents, copyrights, brands, proprietary knowledge, partnerships, and customer databases.
 - **Human Resources:** People who are essential to the business, including employees with specific skills, expertise, or leadership qualities critical to success.
 - **Financial Resources:** Funds required to support the business, such as cash reserves, credit lines, or investment capital.



Key Activities

The Key Activities Building Block describes the important processes or actions through which it delivers the value.

For a car maker, Key Activities include manufacturing and supply chain management. For a software consultancy firm, Key Activities include problem solving.

For an e-commerce company, the key activities are maintaining the virtual market place, maintaining logistics, connecting with vendors, maintaining data, payment gateway, handling customer complaints, managing reverse logistics (return of goods), and many more.

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Key Partners



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Key Activities



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Key Partnerships



- The Key Partnerships Building Block describes the network of suppliers, providers of other resources, and facilitators.
- Companies create alliances to optimize their business models, reduce risk, or acquire resources.
- Key Partners include key suppliers of inputs, funding, consulting, manpower providers, investors.
- Co-founders are partners, but this block refers mostly to outside partners who play key role in smooth running of the venture
- Key suppliers
- Strategic alliances partners
- Joint ventures
- Distribution and logistic partners
- Technology partners
- Investors

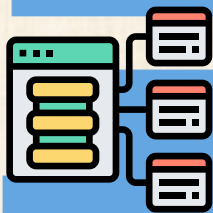
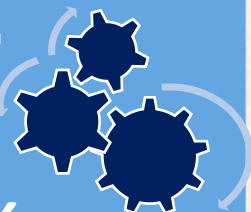
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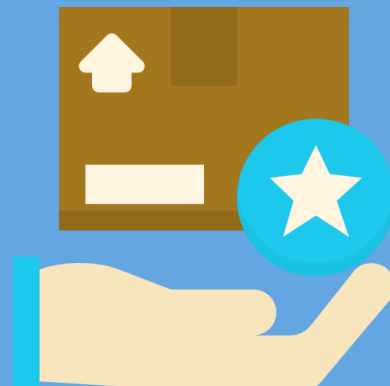


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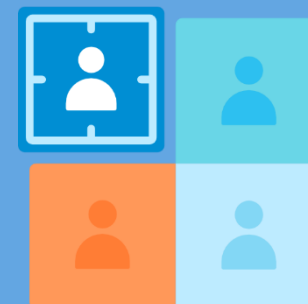
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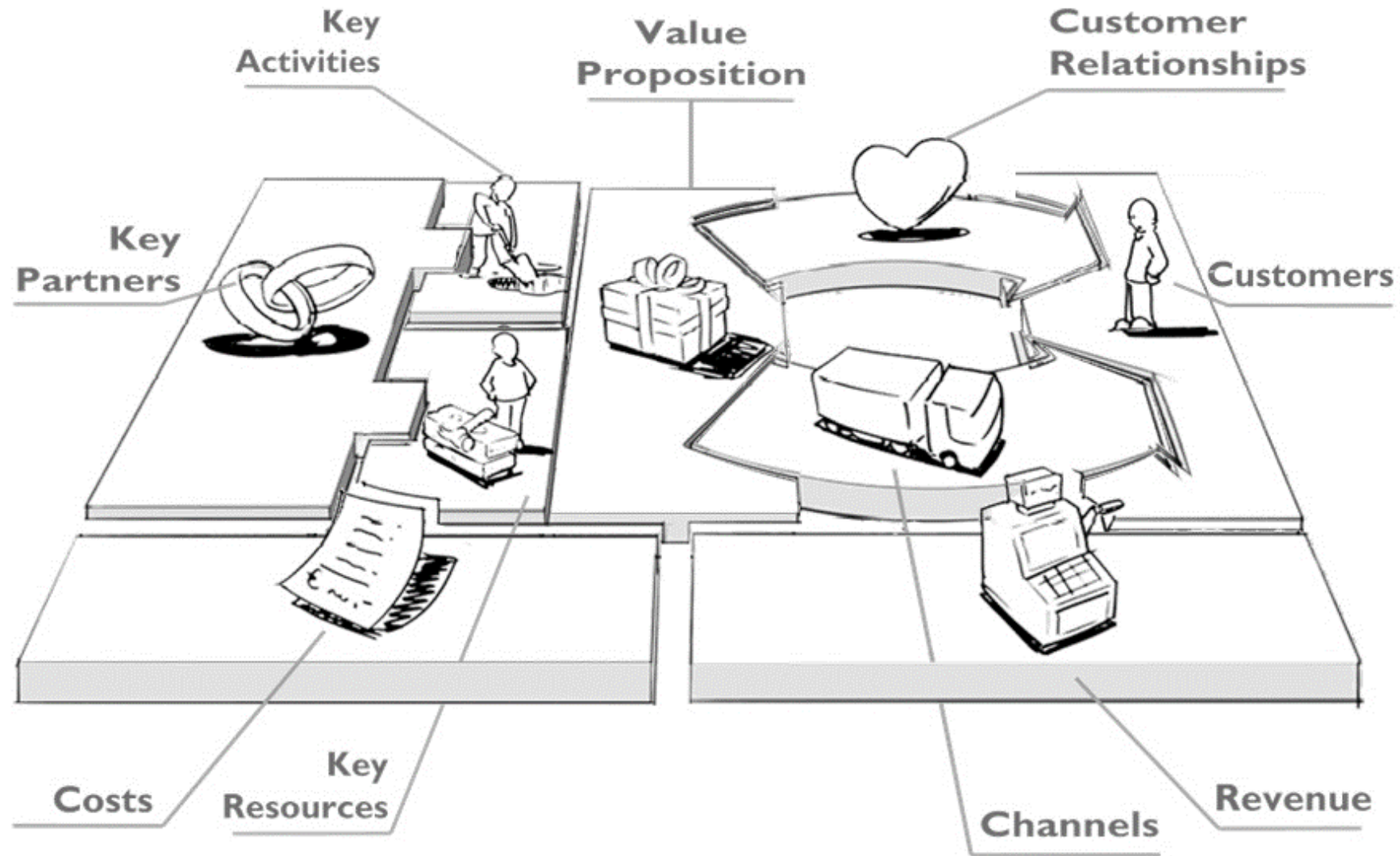


Cost Structure










- The Cost Structure describes all costs incurred to operate a business model.
- Cost to be incurred in creating and delivering value, maintaining Customer Relationships, and generating revenue.
- Raw-materials, rent, salary & wages, transportation, insurance, webhosting, internet service, advertisement, depreciation, interest on loans, royalty, research & Development cost, server rental cost, administrative overhead cost are part of the costs.
- Fixed cost
- Variable cost
- Minimizing cost
- Economies of scale
- Value-driven cost management

Book: Business Model Generation by
Alexander Osterwalder

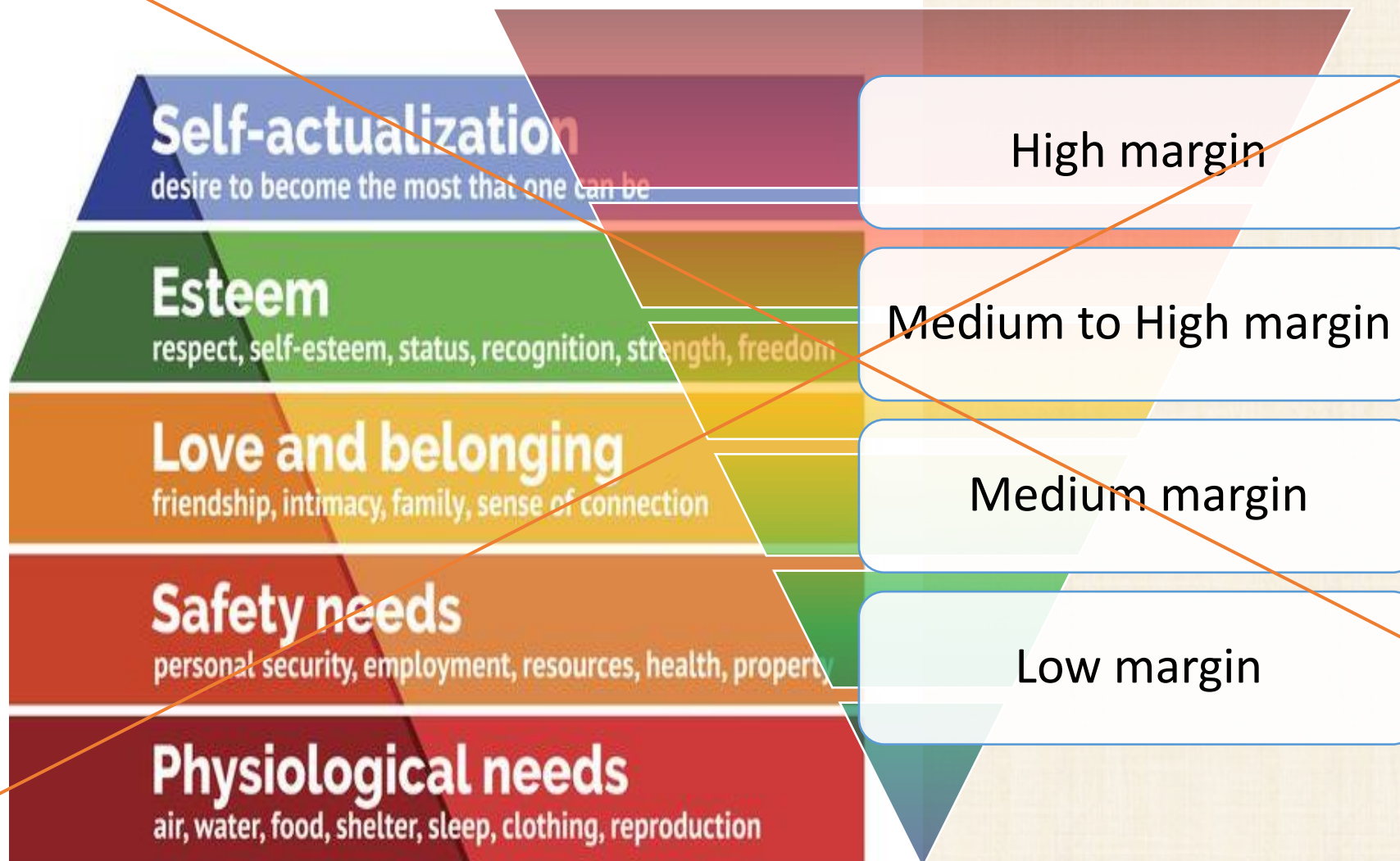


The Business Model Canvas for taxi aggregator

<div><div>Key Partners</div></div> <div><div>† Individual car owners</div><div>† Transport operator</div><div>† Digital wallet companies</div><div>† Technology provider</div><div>† Advertisement agencies</div><div>† Driver association</div><div>† Hardware provider</div></div>	<div><div>Key Activities</div></div> <div><div>• Manage booking</div><div>• Optimize vehicle logistics</div><div>• Maintain customer registration, travel record</div></div>	<div><div>Value Proposition</div></div> <div><div>• Easy booking</div><div>• Easy payment</div><div>• Direction</div><div>• Safety</div><div>• Competitive rate (transparent)</div><div>• Schedule tour in advance</div><div>• No waiting</div><div>• Pickup from home</div><div>• No parking</div><div>• Good interior</div></div>	<div><div>Customer Relationships</div></div> <div><div>• Security</div><div>• Feedback</div><div>• Loyalty bonus</div><div>• Fidelity bonus</div></div>	<div><div>Customer Segments</div></div> <div><div>Segment by profession</div><div>• People commuting daily</div><div>• Working people</div><div>• Tourist</div><div>Segment by age</div><div>• People above 18 and below 70</div></div>
<div><div>Cost Structure</div></div> <div><div>• Hardware cost</div><div>• Software maintenance cost</div><div>• Employee cost</div><div>• Network / hosting / database server cost</div></div>	<div><div>Revenue Streams</div></div> <div><div>• Pay per ride</div><div>• Registration fee, hardware rent</div><div>• Advertisement on the App</div><div>• Advertisement on taxis</div><div>• Event contract</div></div>			

Know Your Customers' Aspiration

Maslow's hierarchy of needs



How do you connect-
Channel of purchase-
Your narrative-
Pricing strategies
Promotional strategy -
Selecting influencer -
Branding strategies -

Create a Correct Buyer- Persona

A buyer-persona (a.k.a. “customer avatar”) is a semi-fictional person who represents your ideal customer.

The objective of defining a ‘buyer persona’ is to get crystal clear on the individuals who you are marketing to.

Until you nail this down, you can’t really be sure that your offerings and your marketing messaging are going to be successful. That’s why the buyer persona is often based on real customers, and/or extensive research.

Criticism of Business Model Canvas

- It does not have any reference to exogenous forces.
- It focuses mostly on economic value and not environmental and social value.
- How to create competitive advantages, entry barrier, scaling business and such.
- Overly simplistic and narrow in terms of diversity of business challenges.

- Osterwalder, A., & Pigneur, Y. (2010). Business model generation: a handbook for visionaries, game changers, and challengers. John Wiley & Sons.
- Bocken, N. M., Short, S. W., Rana, P., & Evans, S. (2014). A literature and practice review to develop sustainable business model archetypes. Journal of cleaner production, 65, 42-56.
- Toro-Jarrín, M. A., Ponce-Jaramillo, I. E., & Güemes-Castorena, D. (2016). Methodology for the of building process integration of Business Model Canvas and Technological Roadmap. Technological Forecasting and Social Change, 110, 213-225.
- Icons from <https://www.flaticon.com/>

- **Business model canvas explains how a business creates and delivers values.**
- **Clear understanding of business model is critical for success of a business.**
- **Business model canvas is almost like a ready reckoner for conceiving various aspects of the business.**
- **However, business model canvas is only a part of the understanding of challenges and opportunities of a business.**

Thank you