Startup Business Modelling and Fundamentals of Management

Business Modeling

Business Model vs Business Plan

The **business model is the mechanism through which the company generates its profit** while the **business plan is a document presenting the company's strategy and expected financial performance for the years to come.**

As you can see, **the business model is at the center of the business plan.**

The business model describes how the company is positioned within its industry's value chain, and how it organises its relations with its suppliers, clients, and partners in order to generate profits. The business plan translates this positioning in a series of strategic actions and quantifies their financial impact.

[Business Model vs. Business Plan (thebusinessplanshop.com)](thebusinessplanshop.com)

Business Model vs Revenue Models

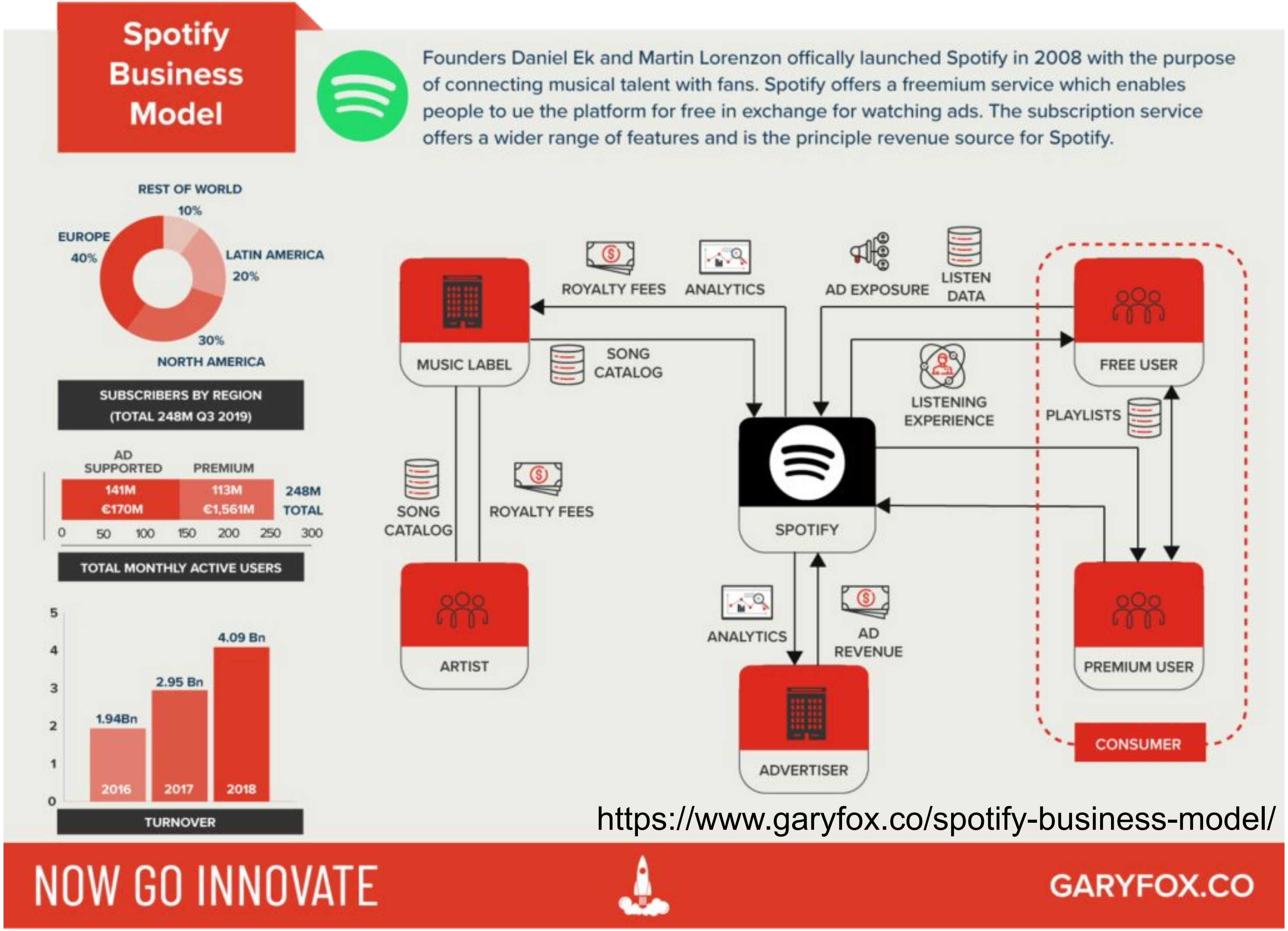
When entrepreneurs use the term **business model, they often mean "how the business earns money."** To understand the implications of this question deeper, however, it's important to make the **distinction between business model and revenue model:**

A revenue model is a narrow answer to that question. The revenue model is **the combination of all your revenue streams.** It's concerned narrowly with the area of your business that involves **clients transferring money to your organization.**

The business model is a more broad term. It involves the revenue model, but **it's also concerned with other aspects** of the business like e.g. the **cost structure.**

For example, while the revenue model of a traditional retailer is concerned only with customer transactions, the business model is concerned with suppliers, locations, marketing, employees, etc.

Which Business Model To Choose For Your Startup? (forbes.com)



https://www.garyfox.co/spotify-business-model/

Don’t reinvent the wheel!

Simply **choosing a business model for a startup is somewhat unrealistic.** The innovative nature of the venture means that its exact business model would be a somewhat **unique combination of different factors** and involves multiple key choices related to the business.

That said, you don’t have to reinvent the wheel.

Look at the established players in your industry.

Imitate what they are doing and make iterations where needed based on the unique aspects of your business.

For example, you might want to retain the same revenue model but offer distinct value propositions. It’s not a coincidence that almost all project management software solutions use a freemium subscription-based revenue model. What differentiates them is their exact solution, rather than the way they make money.

Which Business Model To Choose For Your Startup? (forbes.com)

Don’t reinvent the wheel!

The second option is to **take a business model from another industry and to apply it to an industry where this model hasn’t been established yet.**

This is riskier, but being the first company to do it successfully has big benefits.

For example, Booking.com did this by creating an online marketplace (similar to eBay) for the hospitality industry.

[Which Business Model To Choose For Your Startup? (forbes.com)]

SCALABILITY!

Scalability is a requirement rather than a choice for most startups.

The extremely risky nature of the business implies that for the venture to be worthwhile, the potential needs to be big. Because of this, **your business plan needs to be scalable.**

A consultancy that charges by the hour is not particularly scalable, while a software solution with close to zero marginal costs (the cost of adding an additional customer) is extremely scalable. <u>That's why the vast majority of successful tech startups are in the digital world.</u>

[Which Business Model To Choose For Your Startup? (forbes.com)]()

Is AI a scalable business?

https://towardsdatascience.com/the-only-three-scalable-ai-startup-archetypes-25054e35f539

https://www.forbes.com/sites/mirunagirtu/2020/10/14/what-does-it-take-to-scale-an-ai-company-founders-and-investors-share-their-insights/?sh=397ff4367aaa

Cost Structure & Pricing

- **How much does it cost to develop the product or to run the service?**
- **How much does it cost to deliver it to your customers?**
- **How much are competitors charging customers for similar offerings?**

Knowing the exact cost structure of your business would let you price your offering, which in turn would help you choose the correct marketing channels and revenue models.

Because of the low marginal costs of most software products **“free” has become a popular pricing choice.** That said, while giving away something for free is a great way to attract customers, it creates an obvious problem – **how do you actually earn money?**

Ads, affiliate offerings, and most importantly freemium offerings (i.e. part of your offering is free, another part is paid for) are the most common solutions to that problem, **but they are not perfect.** Speaking in general, **it’s safer to avoid “for free” business models in the very early stages of your startup.** That way you can validate more easily if people truly want what you are making. You can always add free offerings when your startup project reaches the growth stage.

Which Business Model To Choose For Your Startup? (forbes.com)

Revenue Model

There are two types of revenue models: **transactional and subscription models.**

The main difference is that in **the first option you are selling ownership with one-time transactions, while in the second you are selling temporary access.**

The **subscription model makes a lot of sense in the scalable digital world** because it provides predictable, recurring revenue to the company (and hopefully higher customer lifetime value) while at the same time requiring a smaller upfront investment by the customer.

Because of this, a lot of the older software giants (Microsoft, Adobe) are putting effort into migrating from a transactional to a subscription-based revenue model.

Which Business Model To Choose For Your Startup? (forbes.com)

B2B vs B2C

B2B stands for ‘business to business’ while **B2C is ‘business to consumer’.**

- B2B companies sell products or services to other businesses.
- B2C companies target personal consumers.

A company that sells office furniture, software, or paper to other businesses would be an example of a B2B company. Netflix is B2C

B2B e-commerce tends to be more complex than B2C e-commerce. It involves heavier research, more needs-based purchasing, and less marketing-driven buying.

Many B2B buyers have very tight parameters around the purchases they can make. This means that traditional revenue drivers like add-ons don’t have the same impact. B2B organisations didn’t have much of an incentive to optimise their customer journey but this is changing in the current climate.

The Beginner's Guide to B2B and B2C Business Models (wisdmlabs.com)

B2B+B2C and B2B2C

B2B + B2C – they sell to consumers and businesses in parallel (SKY)

But the reality is not always that simple:

There is a distinction between who you sell a product to and who uses that product. Let's say you are a business that sells through channel partners like retailers. You're selling to a business (the retailer), but the product's end-user is probably a consumer. Does that make you a B2C company, a B2B company, or both?

A company may build products for consumers but not be able to sell directly to them. While more and more manufacturers are selling 'direct to consumer,' many still do not. And some may not want to, often because they don't want to damage their relationships with the intermediaries who sell their products to consumers

That is where B2B2C comes in. As a category, it is harder to explain and understand than B2C or B2B. But it is becoming increasingly important.

The Rise of the B2B2C Business Model - Adience - A Specialist B2B Market Research Consultancy in New York City (hello-adience.com)

Assignment 1: Define Your Business Model

30 min presentation + 10 min Q&A

- 10 min pretotyping experience
- 10 min value proposition & competitor
    - Updated value proposition based on Montelisciani's lecture
    - Your Minimum Viable Product
    - Product Positioning (in which market you are going to sell)
- 10 min Competitors analysis and comparison matrix
    - Who is/are your customers?
    - B2B, B2C, B2G or B2B2C?
    - Which is your revenue model? (indicate your revenue sources)
    - Which are your main cost centers? (where you spend money)
    - Sketch the related Business Model diagram (like Spotify)
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