

**POLITECNICO**  
MILANO 1863

# Business Modeling & Archetypes

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# Agenda

- What, Why, How business modeling?
- Business model archetypes
- Guest: Challenges in Business Modeling – A real case
- Business model design and validation: Lean Strategy&Tool
- Guest – HR perspective on competences the market is looking for

# Purpose: Why?

## Invention vs Innovation

**Invention:** «something newly designed or created, or the activity of designing or creating new things»

**Innovation:** bringing inventions into the market or finding/creating a market for inventions

## Purpose: Why?

Innovation and Invention are two different process indeed historically inventors may not correspond to innovators.

Inventors may result capable of extroridany action creating something that has never been done before and that can have great impact on real world.

But making such great impact happen is a different story, and may require differnt capabilities.

# Purpose: Why?

Examples: The «first» Internet

**Invention:** The first telegraph was invented by [Claude Chappe](#) and his brother Ignazio Chappe (end of 1700).

**Innovation:** Samuel Morse, who also created Morse Code, was the first person to build a commercially successful telegraph communication system in 1837 → key words: making money and market adoption/diffusion



# Purpose: Why?

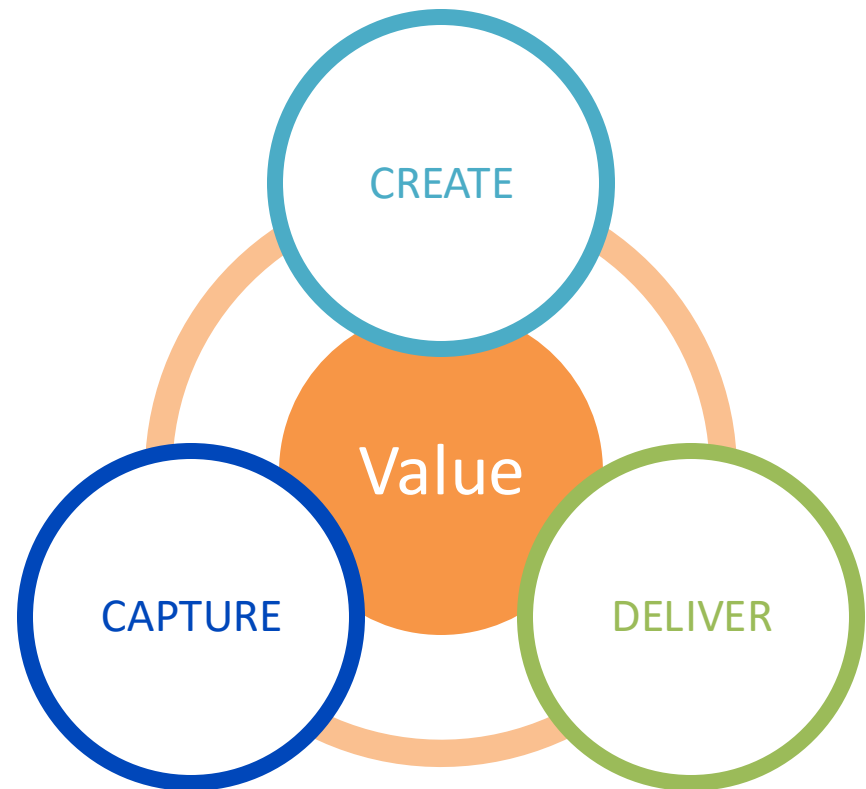
## How to move from inventions to innovation?

Business Modeling:

The process of creating a business model

What is a BM?

Business models is the value **architecture** through which a company **creates**, **delivers** to and **captures** value from the **market**.



### Business Model as a comprehensive unit of analysis for innovation

- Product/Service Innovation: a new product/service valued by the market (e.g. Iphone)
- Process Innovation: a new process valued by the market (e.g. Nutella)
- Business Model Innovation: a new business model valued by the market (e.g. Amazon; Ryanair)



# Purpose: Why? 2/2

Being able to introduce a new business model is a capability extremely required nowadays

Any kind of professionals (managers, entrepreneurs, designers etc.) may benefit from developing such capability

Business modeling is at the heart of entrepreneurship: «startups are temporary organizations looking for a proven business model» (Steve Blank).

Business modeling is at the heart of corporate entrepreneurship: «large organizations are especially in need of re-thinking and constantly innovating their business models to be sustainable in the long run» (Jeff Covin)



**90% of all new business models  
aren't actually new. They are based  
on existing archetypes.**

# Business Model Archetypes

Business Model Archetypes (or Patterns) are a set of predefined choices that are used to describe the way a company creates, delivers, and captures value.

- Freemium/Razor and Blade



- Subscription



- Hidden Revenue: Google



- Affiliate



- (Innovation) Platform



- (Transaction) Multi-sided market



# ***Business Model Archetypes***

- **Product-centric vs. Service (Owned vs. Rented)**
- **Direct vs. Indirect sales (intermediaries)**
- **Vertical (single industry) vs. Horizontal (cross)**
- **Branded vs. Private Label (e.g. Elemaster)**
- **Advertising-supported vs. Fee-based**

# ***Business Model Archetypes***

- **Cost Leader vs Differentiation.**
- **Niche vs Mass Market**
- **Premium vs Budget**
- **Local vs Global (Non scalable vs Scalable)**

# ***Business Model Archetypes***

- **Convenience vs Experience**
- **Price vs Value.**
- **Customization vs Standardization**
- **Access vs Ownership**
- **Functionality vs Emotion (e.g., Yankee Candle)**



# The Business Model Canvas

Designed for:

Designed by:

On:	Date	Month	Year
Iteration:	No.		

<h2>Key Partners</h2> <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p><b>KEY PARTNERS AND RELATIONSHIPS:</b> Distribution and logistics Research and development Acquisition of key assets and technology Regulation (e.g. health care, environmental standards)</p>	<h2>Key Activities</h2> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p><b>KEY ACTIVITIES:</b> Production Procurement Logistics (in and out) Sales Product support Finance Legal and regulatory Human resources Technology development</p>	<h2>Value Propositions</h2> <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p><b>VALUE PROPOSITIONS:</b> Newness Performance Customization Convenience Design (the "look factor") Price Product quality Cost Reduction Risk Reduction Accessibility Compatibility Environmental Sustainability</p>	<h2>Customer Relationships</h2> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p><b>RELATIONSHIPS:</b> Personal assistance Self-Service Automated relationship Communities Co-creation</p>	<h2>Customer Segments</h2> <p>For whom are we creating value? Who are our most important customers?</p> <p><b>SEGMENTS:</b> Mass Market Niche Market Segment of Mass Individual Micro-Sector (e.g. NGOs)</p>
<h2>Key Resources</h2> <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><b>KEY RESOURCES:</b> Physical Intellectual (brand, patents, copyrights, data) Human Financial</p>		<h2>Channels</h2> <p>Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?</p> <p><b>CHANNELS:</b> 1. Direct sales 2. Retailers 3. Distribution 4. Sales force 5. Partners 6. Other sales 7. Other sales 8. Other sales 9. Other sales 10. Other sales</p>		
<h2>Cost Structure</h2> <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p><b>KEY RESOURCES:</b> Key Partners (Customer acquisition, distribution, production, logistics, regulatory) Key Activities (Production, distribution, production, logistics, regulatory)</p> <p><b>KEY ACTIVITIES:</b> Production Distribution Logistics Sales Product support Finance Legal and regulatory Human resources Technology development</p>		<h2>Revenue Streams</h2> <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p><b>REVENUE STREAMS:</b> Subscription Usage-based Licensing Advertising Other</p>		

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# The Business Model Canvas: an aggregated view (2/2)

- **Value Proposition:** a selected bundle of products and/or services targeting a group of customers and satisfying well-defined needs.
- **Customer Interface:** the channels through which we offer our value propositions to our customers and the types of relationships we entertain with our customers.
- **Value Infrastructure:** the key activities, resources and suppliers/partners on which the value proposition is built.
- **Value Monetization:** the revenue streams through which the company earns from its customers and the corresponding cost structure.

# The Business Model Canvas: The Building Blocks of a Business Model

A business model can be described by looking at a set of nine building blocks. To get a good picture of our business model we should describe our:

1. **Customer segments:** Our groups of customers with distinct characteristics.
2. **Value proposition:** The bundles of products and services that satisfy our customer segments' needs.
3. **Distribution channels:** The channels through which we communicate with our customers and through which we offer our value propositions.
4. **Customer relationships:** The types of relationships we entertain with each customer segment.
5. **Revenue streams:** The streams through which we earn our revenues from our customers for value creating and customer facing activities.
6. **Key resources:** The key resources on which our business model is built.
7. **Key activities:** The most important activities performed to implement our business model.
8. **Partner network:** The partners and suppliers we work with.
9. **Cost structure:** The costs we incur to run our business model.

# 1. Customer Segments

- Customers are the heart of any business model. Successful companies know how to turn satisfied customers into revenue streams.
- A clear description and understanding of a company's customers is an integral part of every business model.

## **Key Questions:**

1. Who do we create value for?
2. Do any of these customers merit to be grouped into a distinct category, because...
  - ... we propose them a distinct offer?
  - ... we reach them through different communication and distribution channels?
  - ... we entertain different relationships with them (e.g. more personal)?
  - ... they have a substantially different profitability?

## 2. 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. Each value proposition consists of a selected bundle of products and/or services.
- 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.

### **Key Questions:**

1. What do we offer the market?
2. What is the specific bundle of products and services you offer each of our customer segments?
3. Which customer needs does each value proposition cover?
4. Do we offer different service levels to different customer segments?

# Factors enabling value creation

- Originality
- Performance
- Customization
- «Getting the job done»
- Design
- Brand/Status
- Price
- Cost reduction for the customer
- Risk reduction for the customer
- Accessibility
- Handiness

### 3. Channels

- A company reaches its customers through various communication and distribution channels. They represent the interface between a company, its value propositions and its customers.
- Communication and distribution channels have become increasingly important in business model design. For example, cost intensive channels should be used for very profitable clients, while unprofitable clients should be served through cost efficient channels.

#### **Key Questions:**

1. Through which communication and distribution channels do we reach our markets?
2. How well does each channel work?
3. How expensive or cost efficient is each of our channels?
4. Through which communication and distribution channels do we promote and deliver each value proposition?
5. Through which channels do we reach each customer segment?

The direct (sales force, web) or indirect channels (owned dealers, dealer of partner, wholesalers) have different functions:

- Create awareness of the proposal
- Support the customer in the evaluation of the proposal
- Allow the purchase of specific products/services
- Get the value proposition to the customer
- Support the customer in the post-sale phase



## 4. Customer Relationships

- Getting relationship management right in our business model is crucial today to satisfy customer's expectations. For instance, customers paying a high price for a product or service will expect a high touch relationship, while customers paying a cheap price do not expect more than automated, yet customized relationships.
- A sound business model has a clear strategy for customer relationship management for each customer segment.

### **Key Questions:**

1. Do we develop and maintain different types of client relationships in our business model (e.g. more or less intense, more or less personal)?
2. How resource intensive is each of these client relationship types in terms of time consumption and other costs?
3. For each client segment, which client relationship types and mechanisms do we develop and maintain?

# Customer Relationship management

- Personal assistance
- Dedicated personal assistance
- Self-service
- Automated services
- Online community
- Co-creation

# 5. Revenue Streams

- If customers comprise the heart of a business model, revenue streams are its arteries.
- Revenue streams come from one or several segments of clients who are willing to pay for the value they get from our offer.
- These revenue streams come in the form of selling, lending, licensing, commissions, transaction fees or advertising fees.

## **Key Questions:**

1. What are our revenue streams?
2. What are the revenue streams from each customer segment and value proposition?
3. How much is each revenue stream's contribution to overall revenues in terms of percentages?

# Examples of revenue streams

- Sell of products/services
- Usage fees
- Subscription fees
- Exclusive right of use for a limited time (renting)
- Licence
- Brokerage fees
- Advertising fees

## 6. Key Resources

- At the basis of every business model there is a set of key resources a company must dispose of to make its business model work.
- These key resources include classical ones such as human resources and tangible assets. Increasingly, business models are also built on intangible assets that are difficult to quantify, such as brand equity and expertise of a specific domain.

### **Key Questions:**

1. What are the key resources we rely on to run our business model?
2. How does each of these resources relate to our value propositions and their corresponding customer segments, channels and relationships?

## 7. Key Activities

- To implement a business model a company needs to perform a number of key activities. It may perform these activities itself or get them done through a network of partners.

### **Key Questions:**

1. What are the main activities we operate to run our business model?
2. On which key resources do they rely?
3. To which value propositions, channels or relationships do they contribute?

## 8. Partner Network

- Today's Business Models are more and more the result of a network of partnerships, joint ventures, cooperation and alliances between different companies.
- Every company must ask itself if and how it can leverage its own business model by partnering with other companies. This includes the question of what a company wants to do by itself and what it wants to do with partners. It also includes the question of leveraging one's own value proposition by combining it with the value proposition of strategic partners.

### **Key Questions:**

1. Which partners and suppliers do we work with?
2. Which key resources do they relate to?
3. To which value propositions, channels or relationships do they contribute?



## 9. Cost Structure

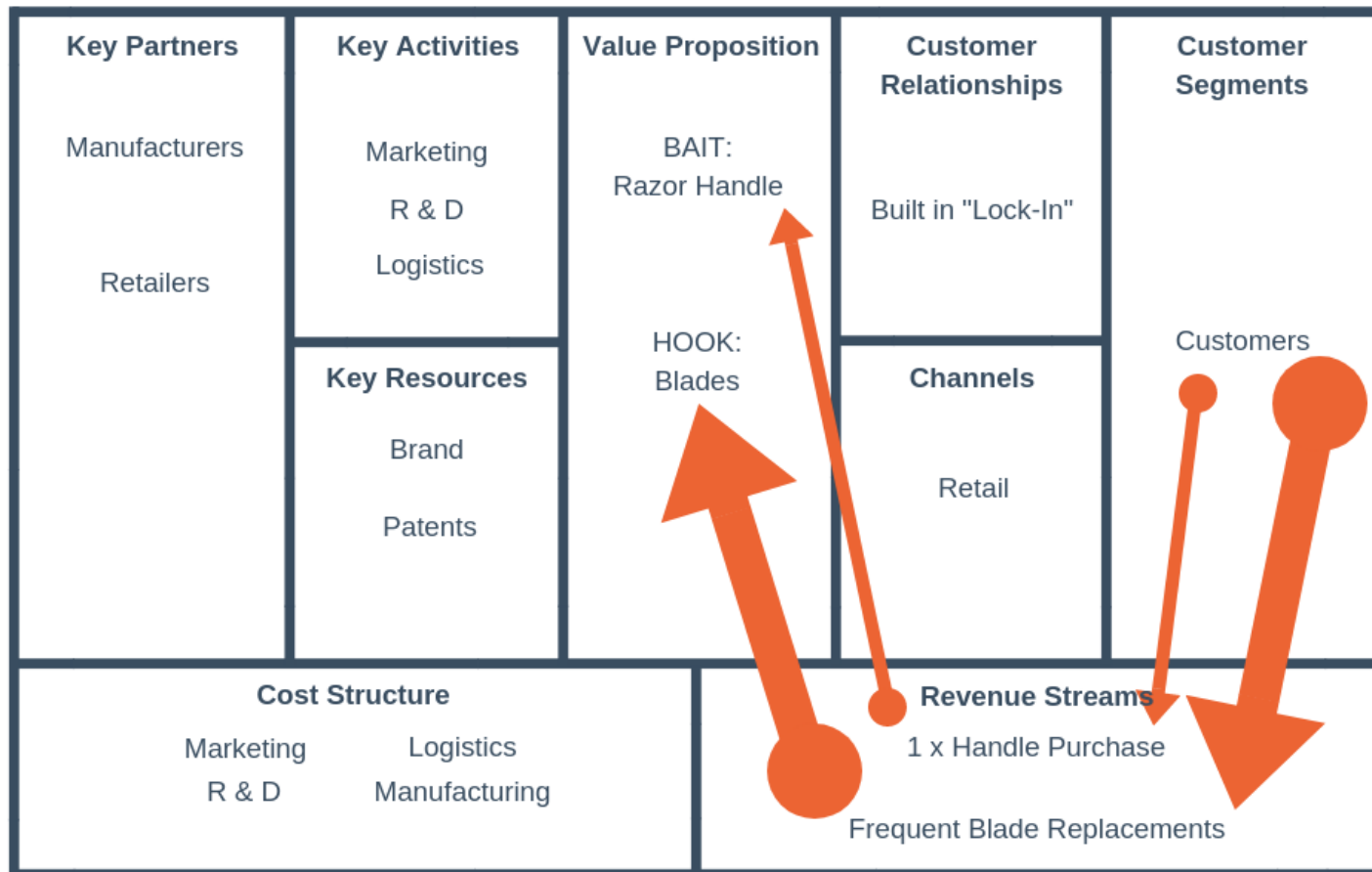
- The cost structure is a direct result of all the other building blocks of the business model. Ideally costs should be traceable back to each business model block.

### **Key Questions:**

1. What are the most important cost positions in our business model?
2. Can the cost positions be easily connected to a business model building block?
3. Can costs be calculated for each customer segment?

# Successful Business Models

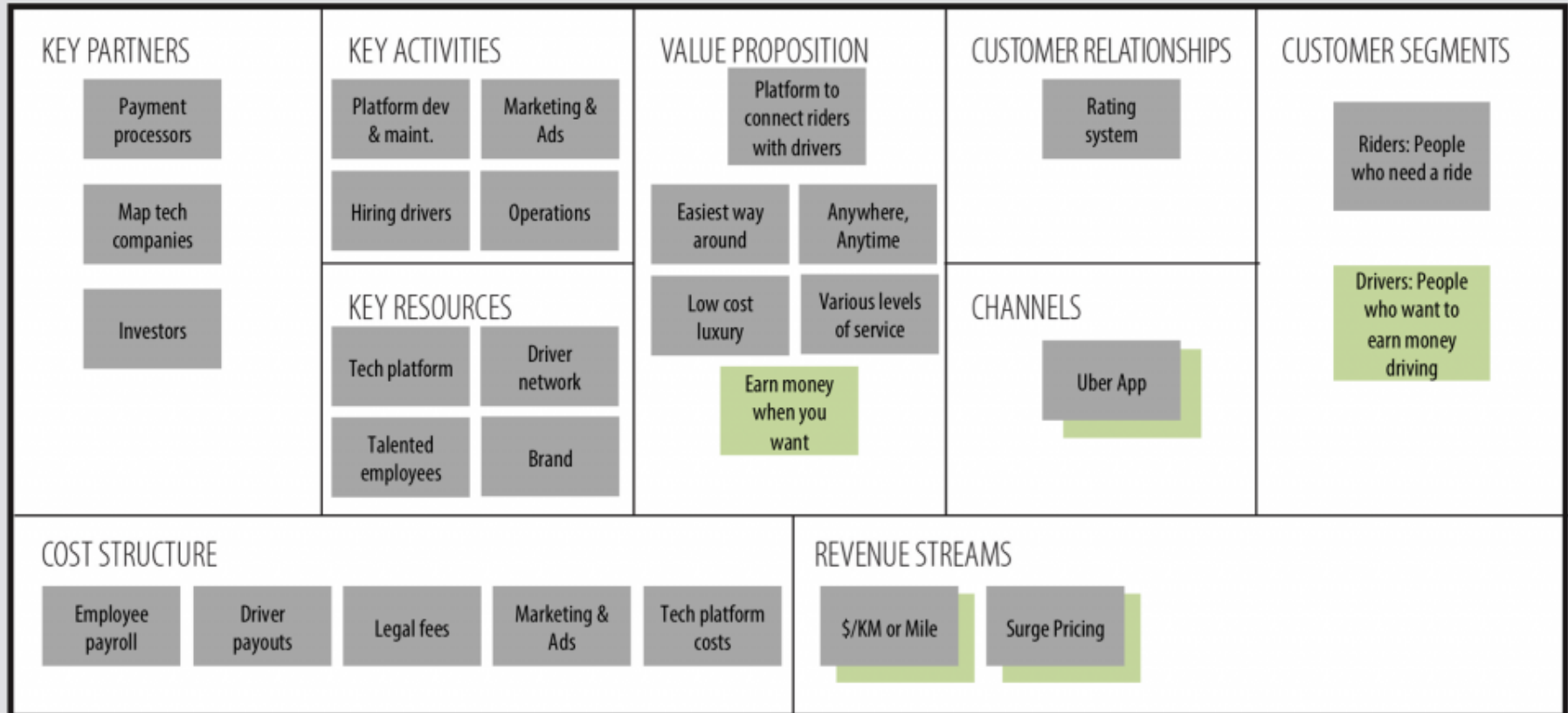
## Business Model Canvas: Gillette



# Successful Business Models

## BUSINESS MODEL CANVAS

## UBER



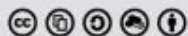
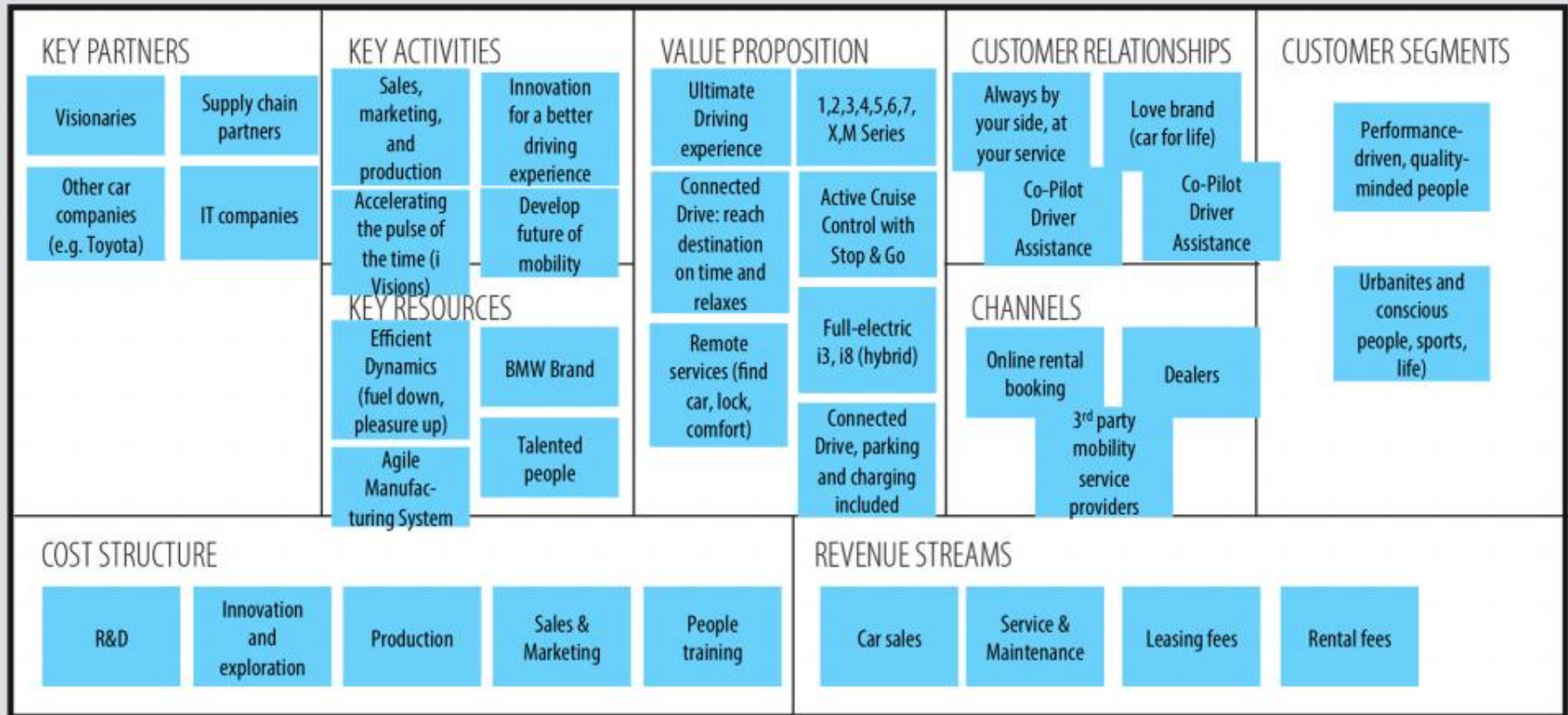
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# Successful Business Models

## BUSINESS MODEL CANVAS



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## *Group work activity*

Please draw the BM of Ryanair by working in group of 3/5 people.



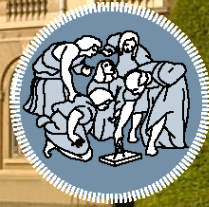


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# Business Modeling: Tools

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**Thank you!**

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