BUSINESS MODEL DESIGN

Andy Acs

PDM8

TESTING AND VALIDATING YOUR IDEA

CONCEIVE

PLAN

DEVELOP

ITERATE

LAUNCH

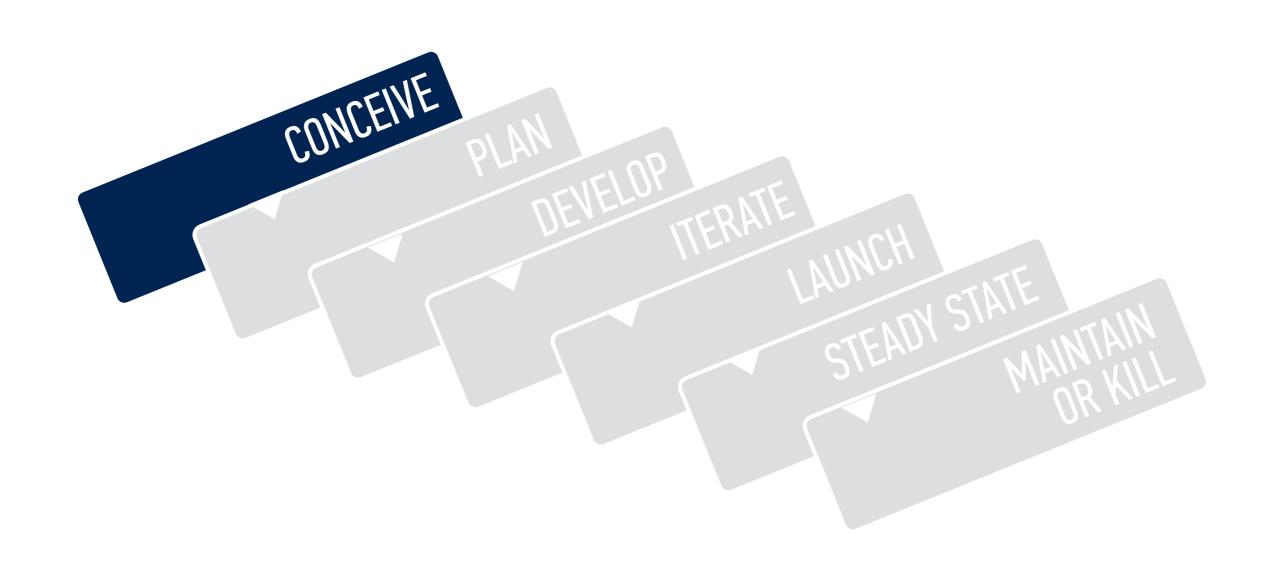STEADY STATE

MAINTAIN OR KILL

LEARNING OBJECTIVES

‣ Describe the components of every business model and how the components relate to each other

‣ Describe different types of business models

‣ Develop a business model around a new product idea

BUSINESS MODEL CANVAS

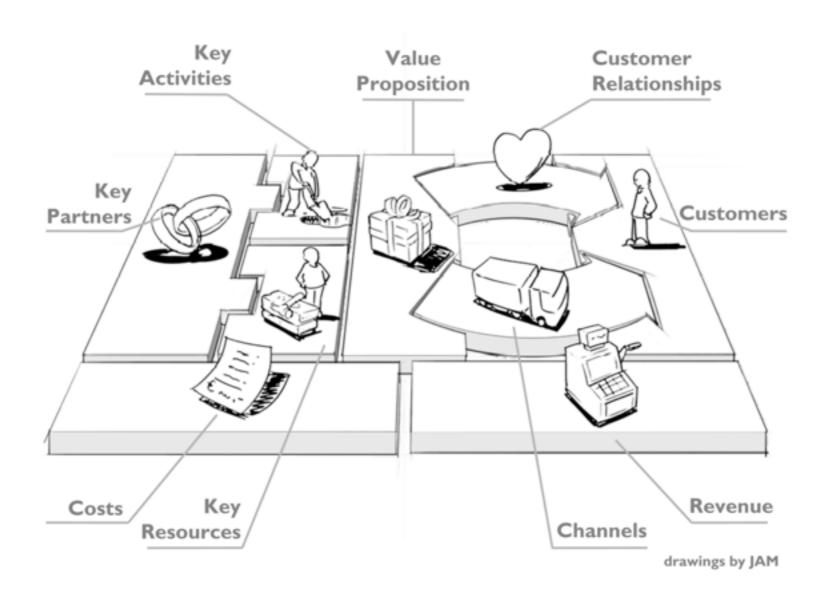# PRODUCT IS (USUALLY) NOT A BUSINESS

THE TENSION

BUSINESS

- What's the cost?
- What's the ROI?
- Does this fit the brand?
- What is the market?
- Who is my audience?
- What need does this fulfill?
- What is the competition?
- Are people willing to pay for this?

TECHNOLOGY

- Does this technology currently exist?
- How long would it take to develop this product?
- What resources do we need in order to develop this product?
- How do we prioritize other products in our pipeline?
- How will this impact other products?

BUSINESS MODEL CANVAS

drawings by JAM

The Business Model Canvas

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

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?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

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?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

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?

CHANNEL PHASES
1. Awareness
How do we raise awareness about our company's products and services?
2. Evaluation
How do we help customers evaluate our organization's Value Proposition?
3. Purchase
How do we allow customers to purchase specific products and services?
4. Delivery
How do we deliver a Value Proposition to customers?
5. After sales
How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

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?
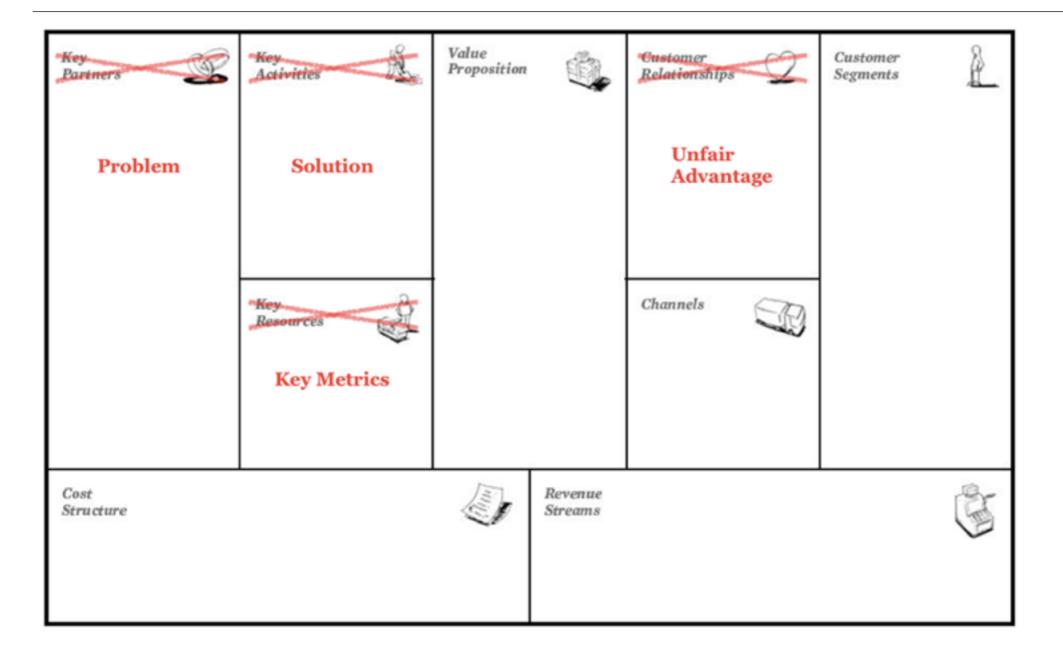How much does each Revenue Stream contribute to overall revenues?

TYPES
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
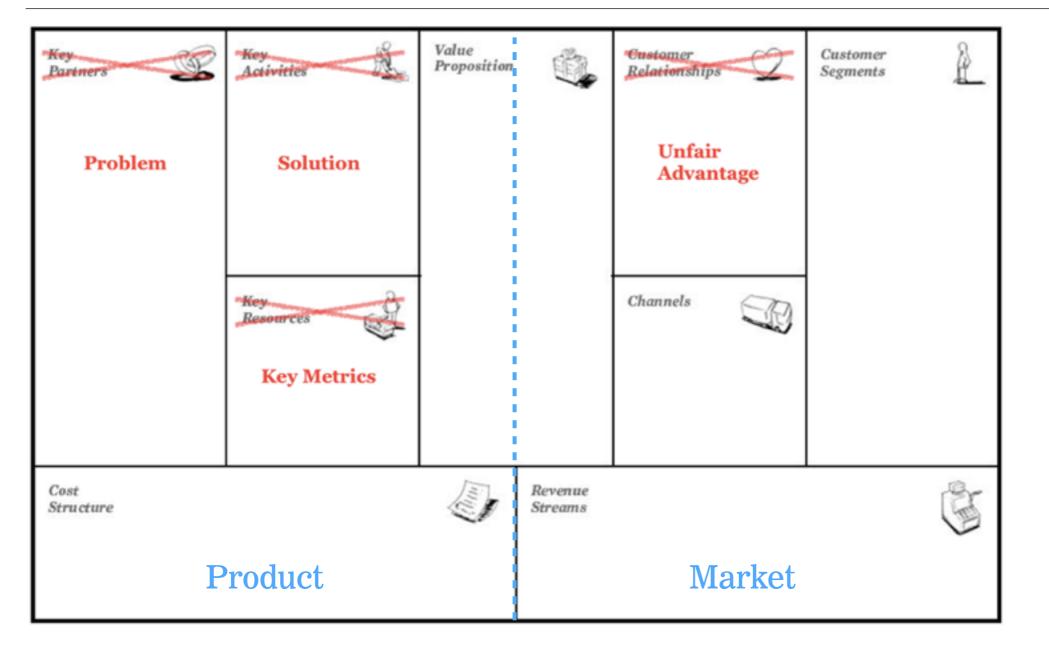Negotiation (bargaining)
Yield Management
Real-time-Market

LEAN CANVAS

WHY LEAN CANVAS?

‣ Entrepreneur focused

‣ Extremely actionable
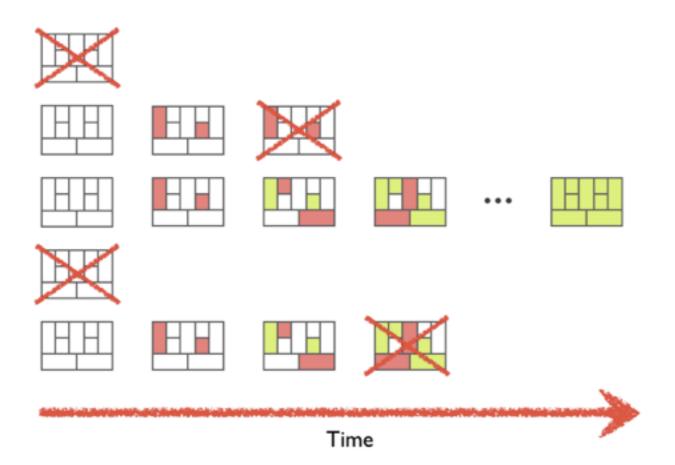
‣ Shows which piece of the business model is most risky

LEAN CANVAS

~~Key Partners~~	~~Key Activities~~	Value Proposition	~~Customer Relationships~~	Customer Segments
Problem	**Solution**		**Unfair Advantage**	
	~~Key Resources~~		Channels	
	Key Metrics			

Cost Structure	Revenue Streams

*created by Ash Maurya

LEAN CANVAS

Problem	Solution	Value Proposition	Unfair Advantage	Customer Segments
~~Key Partners~~	~~Key Activities~~		~~Customer Relationships~~	
	Key Metrics		Channels	
	~~Key Resources~~			

Cost Structure	Revenue Streams
Product	Market

Square

*created by Ash Maurya

LEAN CANVAS

Systematically test your model

Time

COMMON BUSINESS MODELS

TOP 10 BUSINESS MODEL PITFALLS

10) Not clearly defining your success metric

09) Marketing to everyone

08) Ending up on a local maximum

07) Problems aren't specific enough

06) No unfair advantage story

05) A week unique value proposition

04) Not enough runway

03) No significant path to customers

02) No monetizable pain

E-COMMERCE
SUBSCRIPTION
AD-SUPPORTED MEDIA

ECOMMERCE

‣ Focus on conversion rate which is a small fraction of traffic

‣ Traditional Online Retailers

   ‣ Profit = Traffic * Conversion Rate *(Avg Sale Price - Cost)

   ‣ Amazon, Bonobos,

‣ Marketplace:

   ‣ Etsy

   ‣ Ebay

Traffic: 111M per month
Conversion Rate: 10%
Avg Sale Price: $30
Transaction Fee: 3.5%

SUBSCRIPTION

‣ Customers pay a monthly or yearly fee for use of product.

‣ Freemium - starts out free for a short period of time.

‣ Profit = Traffic * conversion to free trial * conversion to paid subscription * price per month * avg subscription length

‣ Software as a Service - ex. Salesforce

‣ Content as a Service - ex. Spotify, Netflix

‣ Platform as a Service - ex. AWS, Heroku, Github

AD SUPPORTED MEDIA

‣ Ways to monetize: CPM, CPC, CPA

‣ CPM - someone views the ad

‣ CPC - someone clicks the ad

‣ CPA - someone clicks the ad and takes an action

‣ Profit = traffic * revenue per thousand impressions.
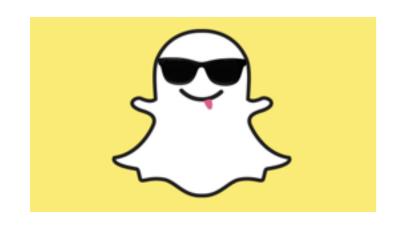
GAWKER

Traffic: 22M per month
RPM: $25

*RPM = revenue per thousand impressions.

PRE-REVENUE MODELS

Designed to be acquired by larger company or monetized later.

ACTIVITY

EXERCISE

KEY OBJECTIVE(S)

Learn to build a lean canvas.

TIMING

15 min 1. In a team, fill out a lean canvas for making apartment searches easier.

5 min 2. Identify the riskiest sections of the canvas.

10 min 3. Brainstorm an experiment to test those sections.

DELIVERABLE

Interview questions and answers.

HOMEWORK

CREATE A BUSINESS MODEL CANVAS OR A LEAN CANVAS FOR YOUR PRODUCT

Create one of the canvases for your product and post them on a separate slide.

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Can write on "sticky" notes.

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Usage fee   *Product feature dependent* *Yield Management*
Subscription Fees   *Customer segment dependent* *Real-time Market*
Lending/Renting/Leasing   *Volume dependent*
Licensing
Brokerage fees
Advertising

Q&A