Vision and the Business Model

MAY 2017

Business model process: Vision

Start

↓

Create a vision

↓

Write a mission statement

↓

State the value proposition

↓

Create the business model

- A vision is an informed and forward-looking statement of purpose that defines the long-term destiny of the firm.
- The vision is a statement of insight, intention, ambition and purpose. It reflects clearly the novelty of the solution and uniqueness of the entrepreneur's commitment
- A vision is an imaginable picture of the future. It is like a rudder on a boat in a turbulent sea.
- The vision can be expressed as a story or even graphically

Qualities of a good vision

- **Clarity:** Easily understood and focused
- **Consistency** – Holds constant over time
- **Unique** to the enterprise
- **Purposeful** – Provides reason for being and others to care

Business model process: Mission statement

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Create the business model

- Combines the basic tenets of the vision to more completely describe the organisation's goals and customers.
- Where the vision describes the future, the mission statement tells the company how to get there. The path / course of action. The mission provides a theory of change.
- A good mission statement can help align all the stakeholders and provide a rationale for allocating resources.

Elements of a mission statement

- Core values
- Competitive advantage
- Customers and stakeholders
- Value provided to a customer
- Product
- Markets or industry

eBay’s mission statement

“We help people trade practically anything on earth. eBay was founded with the belief that people are basically good. We believe that each of our customers, whether a buyer or a seller is an individual who deserves to be treated with respect.

We will continue to enhance the online trading experience of all – collectors, hobbyists, dealers, small businesses, unique item seekers, bargain hunters, opportunistic sellers, and browsers. The growth of the eBay community comes from meeting and exceeding the expectations of this special group.”

Business model process: Value proposition

Start
↓
Create a vision
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↓
Create the business model

- Value is the worth, importance, or usefulness a customer derives from the use of a product or a service.
- One value is selected to dominate the value proposition offered to the customer, the second one differentiates the company from the rest. For the other values, the company should at least meet the industry norm.

The value formula

Profit = **P**rice – **C**ost

Value created = **V**alue - **C**ost

Value realised = **V**alue - **P**rice

The **unique selling proposition** (USP) is a short version of the firm’s value proposition, often used as a slogan to explain the product’s key benefits versus its competitors

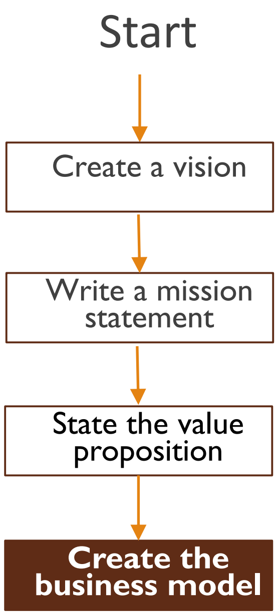
Key values offered

- Product – performance, features, brand
- Price – fair, consistent
- Access - convenience
- Service – ordering, delivery, returns
- Experience – emotional, ambience, relationships, community

Value proposition for Amazon.com

"An easily accessible internet site that is always convenient and provides a wide selection of products at a fair price to the busy, computer literate customer"

Business model process: The business model



- This is the means by which a business delivers value to customers and earns a profit from that activity. A successful business model represents an improvement over existing alternatives. It addresses what a venture will and will not do, and how it will actualize its value proposition.

- The business model elements are best captured in a business model canvas, which is depicted in the next page.

3 questions a business model answers

- Who is the customer?
- How are the needs of the customer satisfied?
- How are the profits captured and profitability protected?

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquairing 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	FIXED PRICING	DYNAMIC PRICING
Asset sale	*List Price*	*Negotiation (bargaining)*
Usage fee	*Product feature dependent*	*Yield Management*
Subscription Fees	*Customer segment dependent*	*Real-time-Market*
Lending/Renting/Leasing	*Volume dependent*	
Licensing		
Brokerage fees		
Advertising		

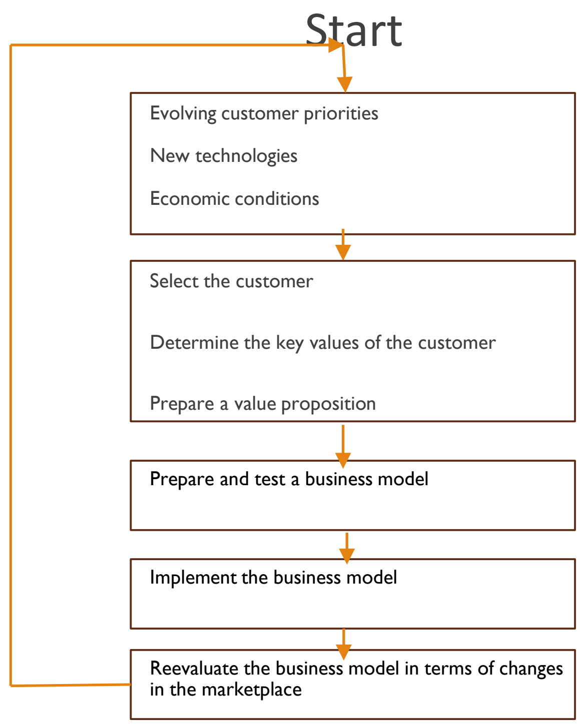
Strategyzer
strategyzer.com

Business models in tech

Some reading:

1. Business models for web enterprises – the examples given here may be outdated, but the information is great. Group assignment: Come up with a recent example of a business that uses each of the business models
2. How to get startup ideas.

Business model process: Business design process



Recap

Competitive Strategy

MAY 2017

Introduction to business strategy

A strategy is a plan or a road map of the actions that a firm or organization will take to achieve its mission and goals. To be useful, the plan must be action oriented and based on the firm's opportunities, strengths and competencies. It should also be simple, and easy to understand for everyone in the firm.

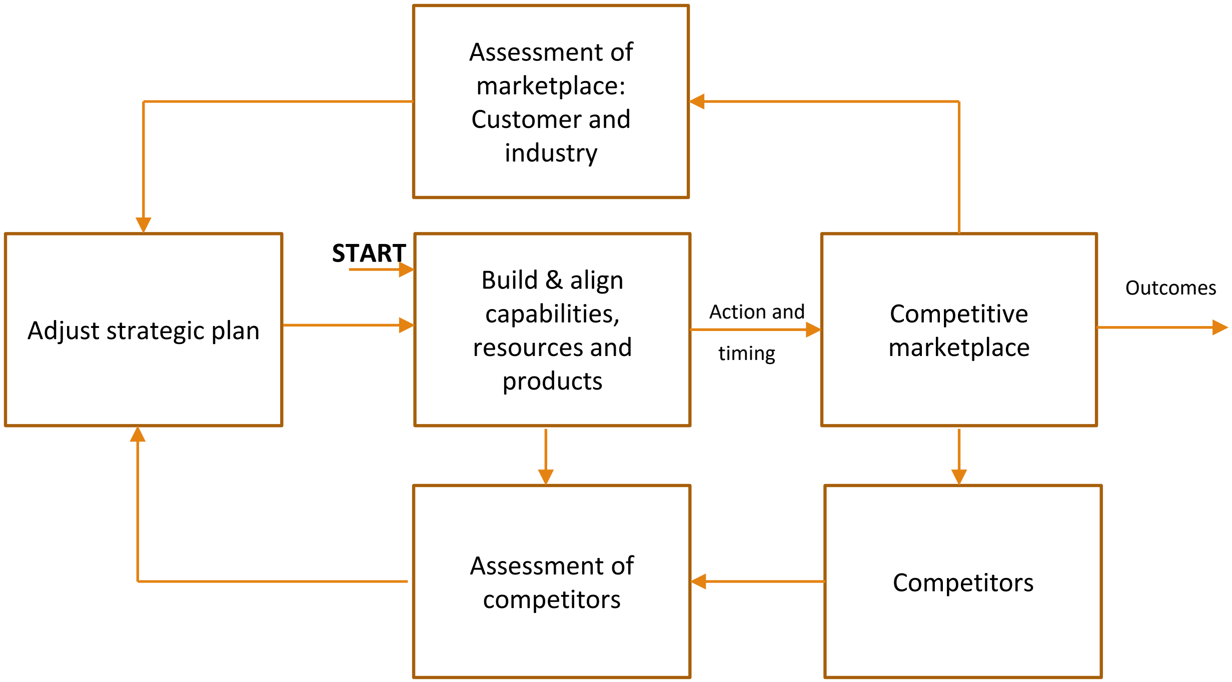
Strategy helps to set a firm on a course, then focus their efforts on it.

Because of the dynamic nature of the competitive business world, long term planning is very difficult and the strategy should also be dynamic and the strategy formulation process should be continuous.

Management process for developing a strategy

1. Develop the vision and mission statements, and the business model
2. Describe the firm's core competencies
3. Describe the industry and context for the firm and its competitors
4. Determine the firm's strengths and weaknesses in the context of the industry and environment
5. Describe the opportunities and threats for the venture
6. Identify key factors for success
7. Formulate strategic options and select appropriate strategy
8. Translate the strategy into action plans with suitable measures and controls

Strategy for a firm operating in a dynamic marketplace



Profitability rests on six solid answers to these questions

PROFITABILITY		
Why are we pursuing this objective? • Vision • Mission	Where will we be active? • Customer • Market	How will we achieve our objective? • Innovation • Acquisitions
When will we act and at what speed? • Timing • Execution	What will differentiate our product? • Positioning • Competitor response	With whom will we compete and cooperate? • Competition • Alliances

Core competencies

What are your firm's unique **capabilities** and **resources** that enable it to implement its business model and thus deliver a valuable product or service to your customers?

Capability – Capacity of the firm (team) to perform some task or activity. This includes the collective learning in the organization, the skills of its people and its capabilities to coordinate and integrate know-how and proprietary knowledge.

Resources – Human, physical, financial and organizational, and include patents, brand and capital.

It is the usefulness of both capabilities and resources in a coordinated way that leads to distinctive core competencies – things that the firm does better than its competitors

To be competent, a firm must have

1. Unique and valuable resources and the capability to exploit these resources
2. A unique capability to manage common resources

Unlike physical assets, core competencies do not deplete as they are used, but in fact grow as the firm continues to learn and build on them

The core competencies of a firm must match the requirements of its businesses.

The industry and context for a firm

A good industry analysis has five key elements

i. Name and describe the industry in which the firm is operating. An industry is a group of firms producing products that are close substitutes for each other and serve the same customers.

ii. Describe the regulatory, political and legal issues in this industry. These can have a significant impact on the business strategy and profitability.

iii. Describe the growth rate of the industry and the state of the evolution of the industry. Most industries emerge through an initial period of slow growth with limited sales and a few competitors. Then they expand through a period of rapid growth as sales take off and many firms enter the market. This is followed by a third period of maturation marked by slower growth and stability. Eventually, the number of firms in the industry declines.

Stage	Examples
1. Emergence	Artificial organs Nanotechnology Genomics 3D printing Driverless cars
2. Growth	Medical technology Software Smartphones
3. Maturation	Electric appliances Automobiles Personal computers
4. Decline	Steel Fax machines Car phones Landlines

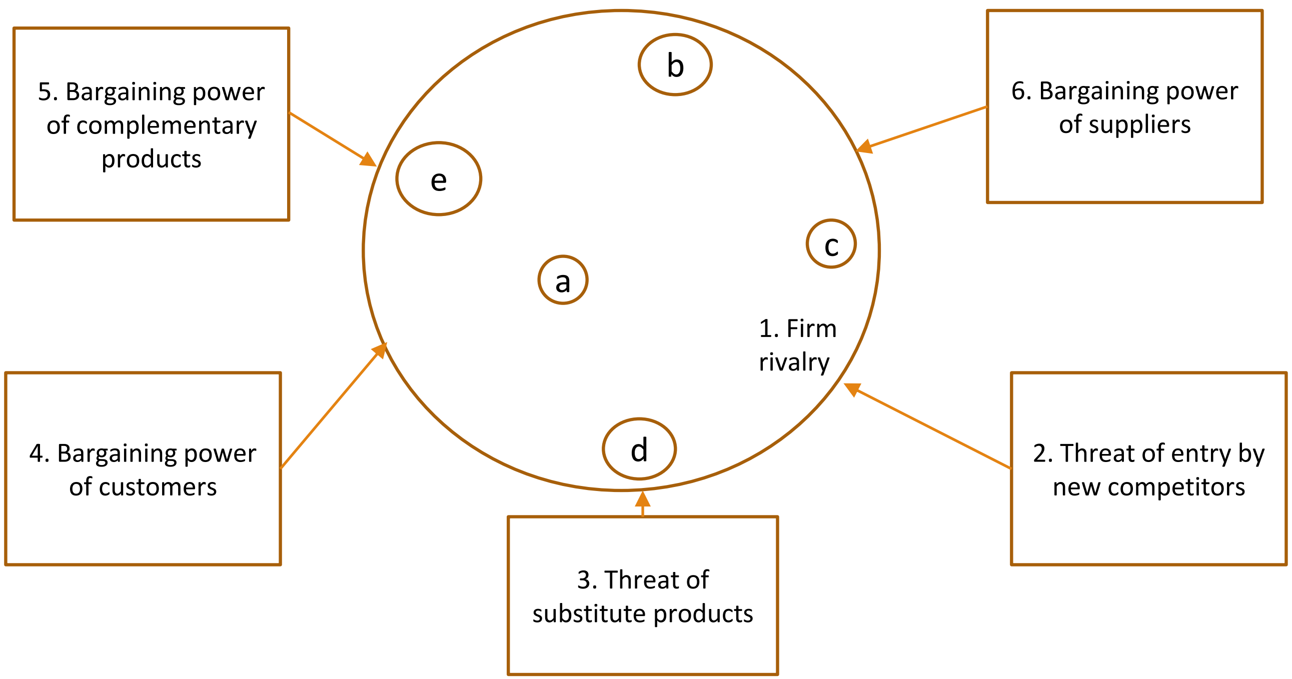
Key elements of industry analysis (contnd)

iv. Describe the profit potential and the typical return on capital in the industry. Return on capital is the ration of profit to the total invested capital of a firm.

v. Describe the competitors in the industry and the rivalry among them (you may use the Six Forces Model)

The Six forces Model (Video)

The six forces model



Elements of the six forces model

Complementors are companies that sell complements to the enterprises own offerings. These are products that improve or perfect another product. Without adequate supply of complementary products at a reasonable price, the demand of your product will be low.

The bargaining power of the suppliers depends in part, on the number of suppliers and buyers. If the suppliers are many, then the buyers are at an advantage and will get good prices and vice versa.

Customers have a good bargaining power if their needs are being met adequately by a substitute product / service.

A new venture should be able to accurately describe the barriers to entry, threat of substitutes, and the bargaining power of the suppliers, customers and complementors.

Key elements of industry analysis (contnd)

vi. Develop a SWOT analysis: This provides the questions for a strategic response and helps a firm exploit its strengths, avoid or fix its weaknesses, seize its good opportunities and mitigate its threat.

Organizational (internal)	**Environmental (external)**
1. Strengths The firm's resources and capabilities	1. Opportunities Chances of success in a new entry or product in its industry
2. Weaknesses Limitations or organization or lack of capabilities and resources	2. Threats Actions or events outside its control in the competitive environment

Barriers to entry

These are factors that make it costly for companies to enter an industry. The greater the costs that potential competitors must bear to enter an industry, the greater the barriers to entry. The six barriers to entry are:

i. Economies of scale – where production costs drastically decline once the product is produced at high levels. This makes it disadvantageous for a new entrant to get in at small scale. E.g aircraft design and manufacture

ii. Cost advantages – certain firms may have cost advantages that may deter a new company from entering. They may have proprietary technology, know-how, favorable geographic location and learning curve advantages.

iii. Product differentiation – This means that the incumbent firms possess brand identification and customer loyalty that serve as barriers to entry. E.g HP or Dell. A way of getting over this barrier as a new player is to appeal to a niche market that is not being served by the incumbents.

Barriers to entry

iv. Contrived deterrence – when incumbent firms strive to throw up unnatural barriers at a cost to them. These can be in form of lower prices, new products or brand building to send a signal to potential entrants that intense responses will result if they try to enter. E.g Uber versus Taxify

v. Government regulation can also act as a barrier to entry. For example, potential entrant to the banking sector is deterred by government allocation of banking licenses. Governments can also introduce costs that lock out new players, e.g in the mobile networks where a license is costly.

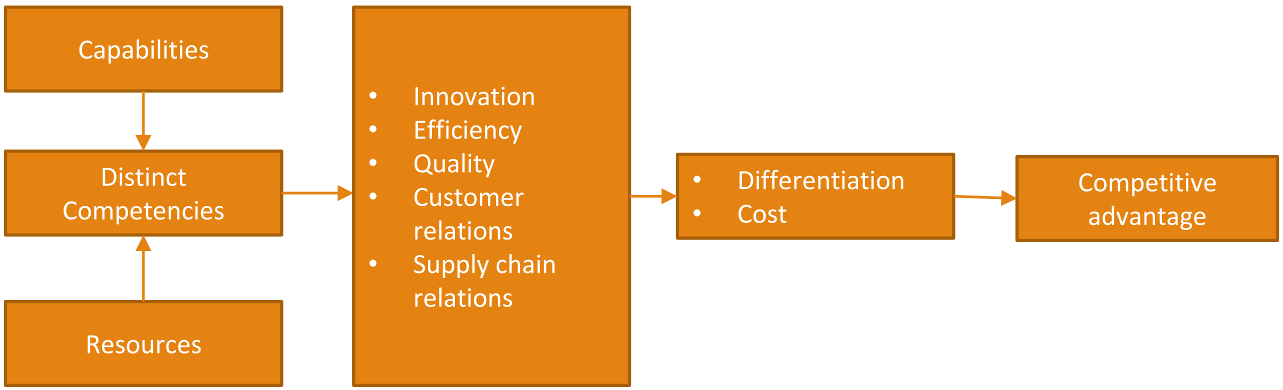
vi. Switching costs are the costs to the customer to switch from the product of an incumbent company to the one of the new entrant. When these costs are high, customers are locked into the product even if new entrants offer a better product – unless they incentivize the switching e.g free installation for new internet service providers

How do you achieve a sustainable competitive advantage?

Competitive advantage is defined as those distinctive factors that give a firm a superior or favorable position in relation to its competitors. It brings together the firm’s core competencies and its strategic relationship within the industry.

A firm uses its distinctive competencies to manage its innovation, efficiency, product quality, customer relations and supplier relations in order to differentiate its product and manage its costs.

A technology venture works to design and produce at low cost, the highest-quality product that possesses unique differentiating factors. Four common ways in which a firm will distinguish itself from its competitors are **niche, cost, differentiation and combined differentiation and cost.**



Distinctive competencies lead to a competitive advantage

How companies will distinguish themselves

i. **Niche** ventures often require less capital and achieve financial success rather quickly. Typically, a niche business is too small for the mass-market supplier, and this, competition is low. A niche can be geographic or a product or price segment. Niche businesses are typically started in one market segment and based on a focused core competency and good customer and supplier relationships.

ii. **Low cost** businesses distinguish themselves by building unique competencies that keep their costs low. This can be through efficient processes and logistics. Typically, these firms target the mass market, and are able to be profitable by selling large volumes.

How companies will distinguish themselves

iii. **Differentiation** is offering customers something unique they value that the competitors don’t have. This unique offering can be in the product, service, sales, delivery or installation of the product.

iv. **Differentiation – cost** strategy lies within firms that have high switching costs. They typically will offer low prices to customers, knowing that the customers will want to stay with them for the long haul. This is how they stay profitable. A firm can also choose to differentiate itself by offering a special cost which makes customers willing to forgo other perks in order to enjoy the product. E.g Costco

A firm can choose to differentiate itself in one, or in two of the above 4.

Matching tactics to market

There are three types of competitive tactics that a new firm can choose to adopt:

	Position	Resources	Emergent
Approach	Establish a position and defend it	Leverage resources such as brands, patents or assets	Pursue emerging opportunities
Firm's basic question	Where should we be?	Where should we be?	How should we take our next step?
Basic steps	Identify an attractive market. Locate a defensible position, and fortify and defend it	Acquire unique, valuable resources	Choose one or two core strategic processes and use them to guide the next step
Works best in	Slowly changing, well understood markets	Moderately changing, well understood market	Rapidly changing, uncharted markets
Duration of competitive advantage	Relatively long (3-6 years)	Relatively long (3-6 years)	Short period (1-3 years)
Risk or difficulty	Difficult to change position	Difficult to build new resources if needed	Difficult to choose best opportunities
Performance goal	Profitability	Long-term dominance	Growth and profitability

The success of a new venture arises, in part, from a fit between the distinctive competencies of the venture team and the major success factor requirements of the industry. The better the fit, the greater the competitive advantage.

Your success as a firm will depend on:

1. Industry-related competencies: Are you great at certain unique things?
2. Competitive rivalry: Low rivalry in the industry
3. Time of entry: Enters industry early at appropriate time
4. Educational capability: Able to obtain skills, knowledge and resources required to overcome market ignorance
5. Lead time: Significant time between the pioneer’s entry and the appearance of the first follower / competitor