

Business Model Canvas: Introduction

- A business model describes how an organisation creates, delivers and captures value. A business model is **built around an innovation** – a clear business model is **required for successful commercialisation**
- The Business Model Canvas provides us with **a framework** to analyse and develop business models
- The combination of the building blocks makes up the business model. The individual building blocks, as well as the relationships between the building blocks, are important to ensure that there is **alignment** within the business model

Filling in the Business Model Canvas

- Startup = the search for a business model
- Business model canvas = a representation of a business model
- **A startup can track its search for a business model by iteratively filling in a business model canvas**
- The Business Model Canvas:
 - Good for representing:
 - what's known (results of hypothesis testing); and
 - what hypotheses still need to be tested

Overview of the 9 Building Blocks

Customer Segments	Block 1	... are the <u>groups of people and/or organisations a company or organisation aims to reach</u> and create value for with a dedicated value proposition.
Value Propositions	Block 2	... are the <u>value created and delivered to a Customer Segment</u> in the <u>form of Pain Relievers or Gain Creators</u> .
Channels	Block 3	... describe <u>how a value proposition is communicated and delivered</u> to a customer segment through communication, distribution, and sales channels.
Customer Relationships	Block 4	... outline <u>what type of relationship is established and maintained</u> with each customer segment and explain how customers are acquired and retained.
Revenue Streams	Block 5	... result from a value proposition successfully offered to a customer segment. It is <u>how an organisation captures value with a price</u> that customers are willing to pay.
Key Activities	Block 6	... are <u>the most critical activities an organisation must do to deliver Value Propositions</u> to a Customer Segment and generate revenue.
Key Resources	Block 7 are <u>the most important assets required</u> to offer and deliver the previously described elements.
Key Partnerships	Block 8	... shows <u>the network of suppliers and partners</u> that bring in external Activities and Resources.
Cost Structure	Block 9	... <u>outlines all major costs incurred</u> to operate the business model

Block 1: Customer Segments cont.

- Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.
- Customers represent **separate segments** if:
 - Their needs **require and justify** a distinct offer
 - They are reached through **different distribution channels**
 - They require **different types of customer relationships**
 - They have **substantially different profitability**
 - They are **willing to pay** for different aspects of the offer

5 Types of Customer Segments

Mass Market	Business models focussed on <u>mass markets don't distinguished between different customer segments</u> . The Value Propositions, Distribution Channels, and Customer Relationships all <u>focus on one large group of customers with broadly similar needs and problems</u> . This type of business model is often found in the consumer electronics and automotive sector.
Niche Market	Business models targeting niche markets cater to specific, specialised Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all <u>tailored to the specific requirements of a new niche market</u> . Such business models are often found in <u>supplier-buyer relationships, where the supplier depend heavily on purchases from the buyer</u> . Examples include Qualcomm which depend heavily on purchases from smartphone makers for its system-on-chips (Snapdragon).
Segmented	Some business models distinguish between market segments with slightly different needs and problems. For example, Apple distinguish between users that want computers with varying mobility, performance and size requirements— <u>all of whom had similar but varying needs</u> . As such, <u>Apple offers each segment with slightly different Value Propositions with its MacBook Air, MacBook Pro and iMac/ iMac Pro</u> .
Diversified	An <u>organisation with a diversified customer business model serves two unrelated Customer Segments with very different needs and problems</u> . For example, in 2006, Amazon.com decided to diversify its retail business by selling “cloud computing” services: online storage space and on-demand server usage. Thus, it started catering to a totally different Customer Segment (i.e. organisations requiring cloud computing). The strategic rationale behind this diversification can be found in Amazon.com's <u>powerful IT infrastructure</u> .
Multi-sided platforms (or multi-sided markets)	Some organisations <u>serve two or more interdependent Customer Segments</u> . A data annotation platform needs a large base of AI companies that require labelling services, and a base of annotators that can label data. Both segments are required to make the business model work.

Case Studies



Mass Market
Strategy



Niche Market
Strategy



Segmented
Strategy



Diversified
Strategy



Multi-Sided Platform
Strategy

Block 2: Value Propositions

- **The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment**
- The Value Proposition is why customers turn to one company over another. It solves a customer problem or satisfies a customer's need.
- Each **Value Proposition consists** of an offering that caters to the requirements of a specific Customer Segment.
 - What is the organisation's offering?
 - What are the Gain Creators and Pain Relievers? (Refer to the Value Proposition Canvas)
 - What Value Propositions are offered to the Customer Segment (as a result of the Gain Creators and Pain Relievers)?

Case Studies



Self-Trancendence



Affiliation
& Belonging



Design
& Aesthetics



Provides
Access



Google Cloud

Simplifies

Block 3: Channels

- **The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.**
- Communication, distribution and sales Channels comprise a company's interface with customers.
- Channels are customer touch points that play an important role in the customer experience.
- A few questions to be considered here are, “through which Channels do our Customer Segments want to be reached? How are we reaching them now? Which ones work best?”

Block 3: Channels cont.

- Channels **serve several functions**, including:
 - Raising **awareness** among customers about a company's product offerings
 - Helping customers **evaluate** a company's Value Proposition
 - Allowing customers to **purchase** specific products and services
 - Delivering a Value Proposition to customers
 - Providing **post-purchase customer** support

Channel Types & Phases

Channel Types

There are online and offline channels. Online channels include:

- Web: This include self-service sign-ups, logins and documentation; and live chats with a real person or AI (chatbot).
- Phone calls: With a real person or chatbot.
- Emails: Replied by a real person, or via pre-determined logic pathways
- Advertisements: Social media and search
- Payments

And more

Channel Phases

Phase 1 - Awareness	Phase 2 - Evaluation	Phase 3 - Purchase	Phase 4 - Delivery	Phase 5 - After Sales
How do we <u>raise awareness</u> about our company's product offering?	How do we <u>help customers to purchase</u> specific products and services?	How do we <u>allow customers to purchase specific product offerings</u> ?	How do we <u>deliver a Value Proposition</u> to customers?	How do we <u>provide post-purchase</u> customer support?

Case Studies



Web
+
Phase II, V

ActiveCampaign >

Email
+
Phase I, II, III



Advertisement
+
Phase I



Payments
+
Phase III



Web
+
Phase I, II, III, IV, V

Block 4: Customer Relationships

- The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments
- A company should clarify the type of relationship it wants to establish with each Customer Segment.
- Relationships can range from personal to automated. The following motivations may drive Customer Relationships:
 - Customer acquisition (Onboarding new customers);
 - Customer retention (Retaining repeat customers);
 - Upselling and cross-selling (Selling higher priced product offerings or selling other complementary products)

Types of Customer Relationships

Personal Assistance	This relationship is <u>based on human interaction</u> . The customer can communicate <u>with a real customer representative</u> to get help during the sales process or after the purchase is complete. This may happen on-site at the point of sale, through call centres, by email or through other means.
Dedicated Personal Assistance	This relationship involves dedicating a <u>customer representative specifically to an individual client</u> . It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, <u>for example, dedicated bankers serve high net worth individuals</u> . Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.
Self-Service	In this type of relationship, a company maintains <u>no direct relationship with customers</u> . It <u>provides all the necessary means for customers to help themselves</u> .
Automated Services	This type of relationship mixes a more <u>sophisticated form of customer self-service with automated processes</u> . For example, personal online profiles give customers access to <u>customised services</u> . Automated services can recognise individual customers and their characteristics, and <u>offer information related to orders or transactions</u> . At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).
Communities	Increasingly, companies are utilising user <u>communities to become more involved with customers/prospects and to facilitate connections between community members</u> . Many companies <u>maintain online communities</u> that allow users to exchange knowledge and solve each other's problems. Communities can also help companies better understand their customers.
Co-Creation	More companies are going beyond the traditional customer-vendor relationship to <u>co-create value with customers</u> . <u>Amazon.com invites customers to write reviews and thus create value for other book lovers</u> . Others, such as YouTube, rely on their content producers to develop and maintain relationships with their followers and supporters.

Case Studies



Personal
Assistance



Self-Service



Automated Services
(e.g. Recommendations)



Communities

Block 5: Revenue Streams

- The Revenue Streams Building Block represents **the cash a company generates from each Customer Segment** (i.e. how the company earns money from its Customer Segment)
- If customers comprise the **heart** of a business model, Revenue Streams are its **arteries**. A company must ask itself, how can it quantify the financial value of the Value Proposition that it delivers to its Customer Segment?
- How much of that financial value can the company capture? What methods can it capture that financial value?
- For example, a certain product offering saves a Customer Segment 5,000 hours per year, estimated to be equivalent to \$1 million in financial value per year. Out of the \$1 million, the company expects to capture \$200,000 per year via an annual subscription model.

Types of Revenue Streams

Asset Sale	The most widely understood Revenue Stream derives from <u>selling ownership rights to a physical product</u> . Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles which buyers are free to drive, resell or even destroy.
Usage Fee	This Revenue Stream is <u>generated by the use of a particular service</u> . The more a service is used, the more the customer pays. A cloud computing platform may charge customers based on the number of minutes which a virtual machine is being run. A scooter ridesharing startup like Lime may charge customers based on a combination of the number of kilometres travelled on the scooter (it can also be argued that Lime is).
Subscription Fee	This Revenue Stream is generated by selling <u>continuous access to a service</u> . A SaaS platform like Asana sells its members monthly or yearly subscriptions in exchange for access and usage of its project management tool.
Lending, Renting or Leasing	This Revenue Stream is created by <u>temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee</u> . For the lender, this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership. <u>Zipcar.com allows customers to rent cars by the hour</u>
Licensing	This Revenue Stream is generated by <u>giving customers permission to use protected intellectual property in exchange for licensing fees</u> . Licensing allows rights-holders to generate revenues from their property without having to commercialise an invention. In the technology sector, patentholders grant other companies the right to use a patented technology in return for a license fee.
Transaction or Brokerage Fees	This Revenue Stream derives from <u>intermediation services performed between or on behalf of two or more parties</u> . Tripe, for example, generate revenue by <u>taking a percentage of the value of the transaction</u> executed between the merchant and the buyer.
Advertising	This Revenue Stream results from fees for <u>advertising a particular product</u> . For example, Google Adwords has a “pay-per-click” model and may charge their advertising customer \$1.50 for every click of their advertisement displayed in the search results on Google.

Case Studies



Asset Sale



Usage Fee



Subscription Fee



Lending, Renting
or Leasing



Transaction
or Brokerage Fee

Block 6: Key Activities

- The Key Activities Building Block describes **the most important things a company must do** to make its business model work
- Every business model calls for several Key Activities. These are the most important actions a company must take to operate successfully.
- Key Activities enable other building blocks (Value Propositions, Channels... etc).
- Key Activities differ depending on the business model of the organisation. For example, the key activities for Microsoft would be **software development**, whereas for Dell (PC manufacturer), it would be **supply chain management**.

Block 7: Key Resources

- The Key Resources Building Block describes the most important assets required to make the business model work
- Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model.
- A self-driving car startup requires large volumes of training data to develop its computer vision model, whereas Wikipedia requires the underlying open-source software (Media Wiki).

Types of Key Resources

Technology	This may include proprietary or open-sourced software . Various libraries and frameworks are often used in the development of proprietary technologies.
Data	Data is crucial for AI companies as training data is required to develop AI models. Either open data or proprietary data may be accessed and used.
Human	Every enterprise requires human resources, but people are particularly prominent in specific business models. For example, human resources are crucial in knowledge-intensive and creative industries . For example, a pharmaceutical company such as Novartis relies heavily on human resources: its business model is predicated on an army of experienced scientists and a large and skilled sales force.
Intellectual	Intellectual resources such as proprietary knowledge, patents and copyrights , and insights into technical and business problems are increasingly important in a modern business model. Intellectual resources are challenging to develop but, when successfully created, may offer substantial value. Smartphone maker Huawei has the most patents on 5G in the world, which has enabled the organisation to achieve its dominant position in 5G globally today.
Physical	This category includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems and distribution networks . eCommerce platforms like Amazon rely heavily on physical resources for logistics and fulfilment functions.
Financial	Some business models call for financial resources , such as <u>cash, debt or stock options</u> for hiring key employees.

Block 8: Key Partnerships

- The Key Partnerships Building Block describes **the network of suppliers and partners** that make the business model work.
- Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models.
- Companies create **alliances** to optimise business models, reduce risk, or acquire resources.
- We can distinguish between four different types of partnerships:
 - Strategic alliances between non-competitors
 - Cooperation: Strategic partnerships between competitors
 - Joint ventures to develop new businesses
 - Buyer-supplier relationships to ensure reliable supplies

Block 9: Cost Structure

- **The Cost Structure describes **all costs incurred to operate** a business model**
- This building block describes the most important costs incurred under a particular business model.
- Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Business models enabled by technology are more cost-efficient than others.

Type of Costs

Fixed Costs	Costs that <u>remain the same despite the volume of goods or services produced</u> . Examples include salaries, rent, and physical manufacturing facilities . Some businesses, such as manufacturing companies, are characterised by a high proportion of fixed costs.
Variable Costs	Costs that <u>vary proportionally with the volume of goods or services produced</u> . Some businesses, such as SaaS companies, are characterised by a high proportion of variable costs.

The Valley of Death – “The J Curve”

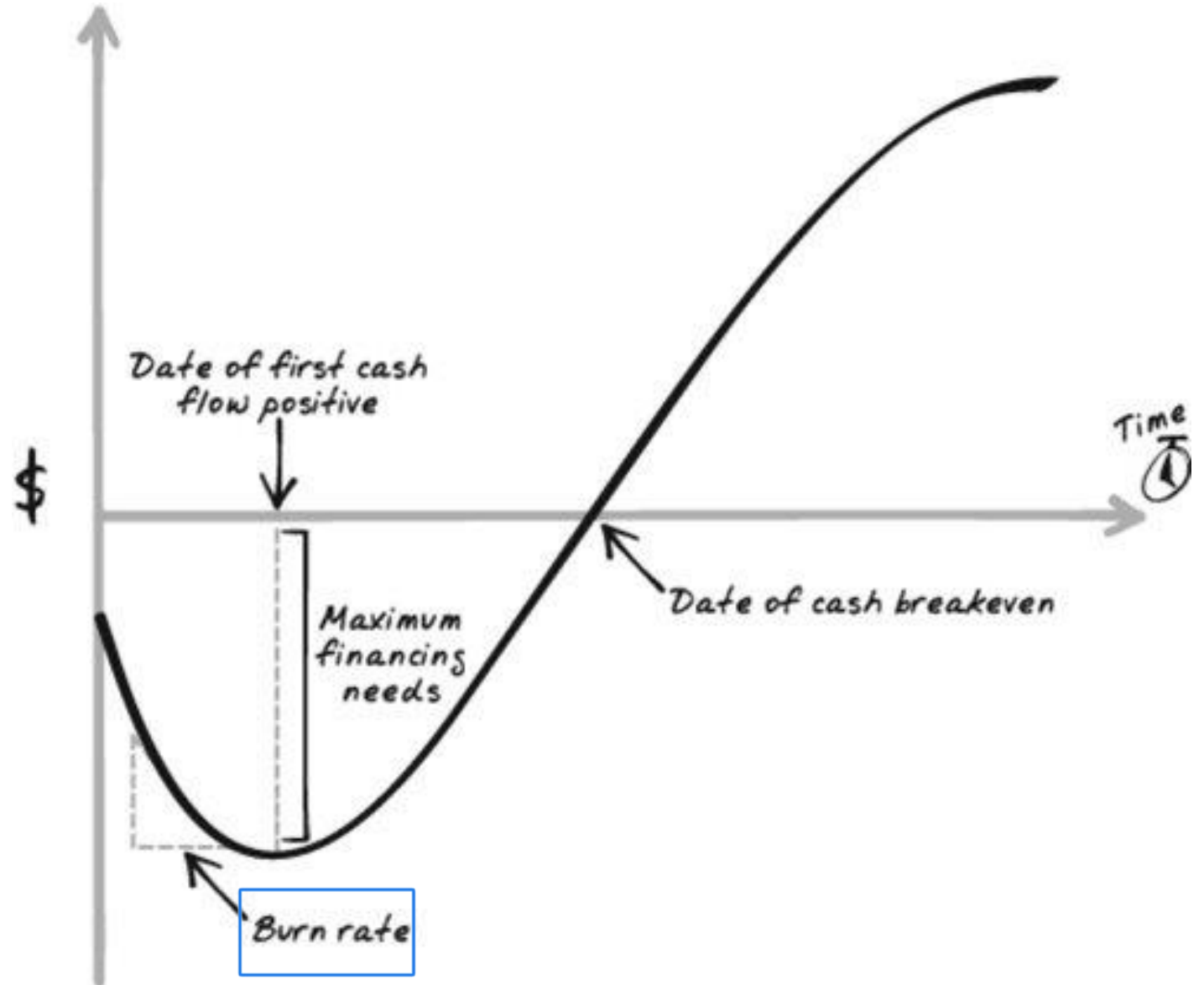
Massive losses in early-stage startups

What does it mean to have a loss?

Revenue

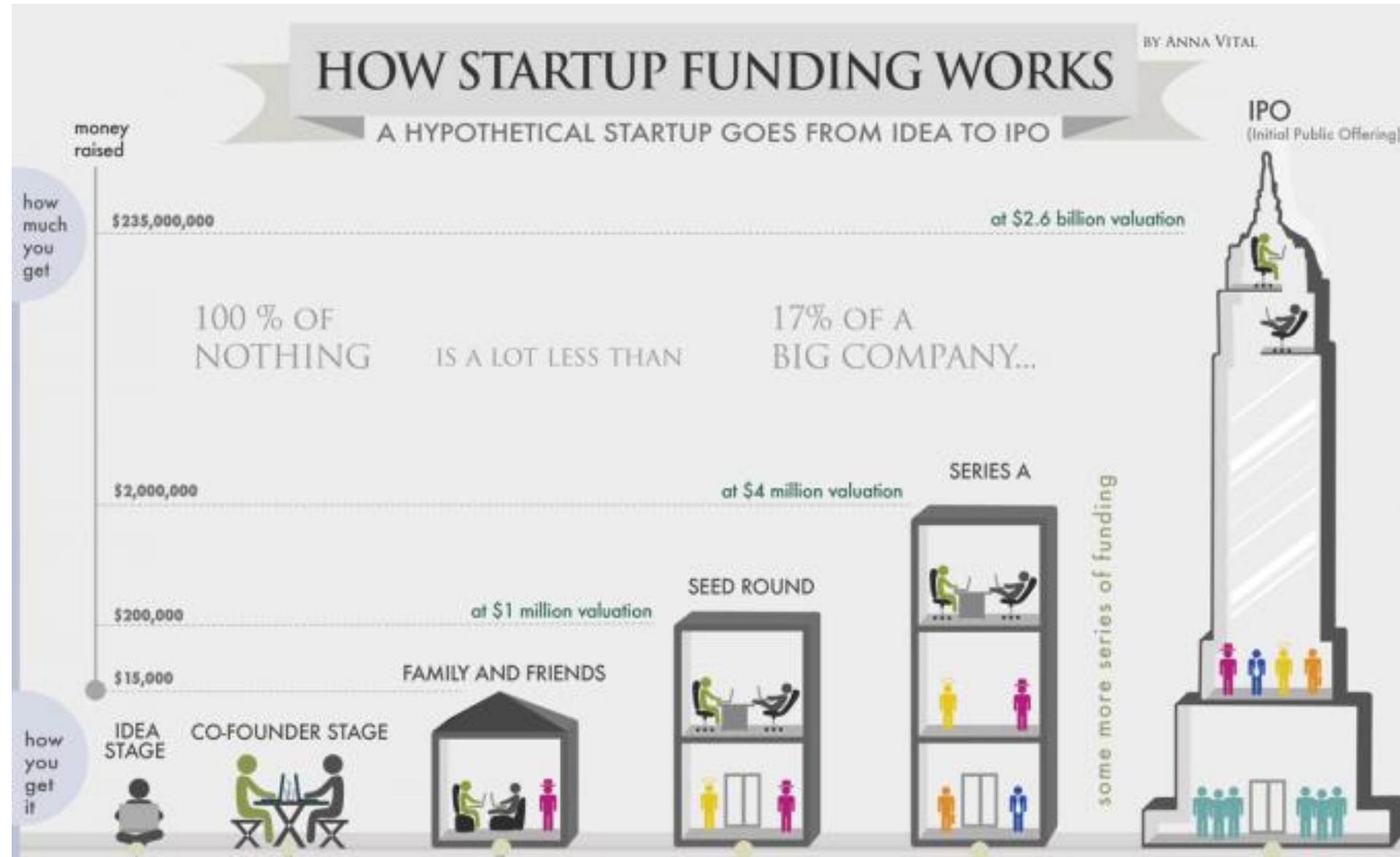
-- Expenses

= Profit OR Loss



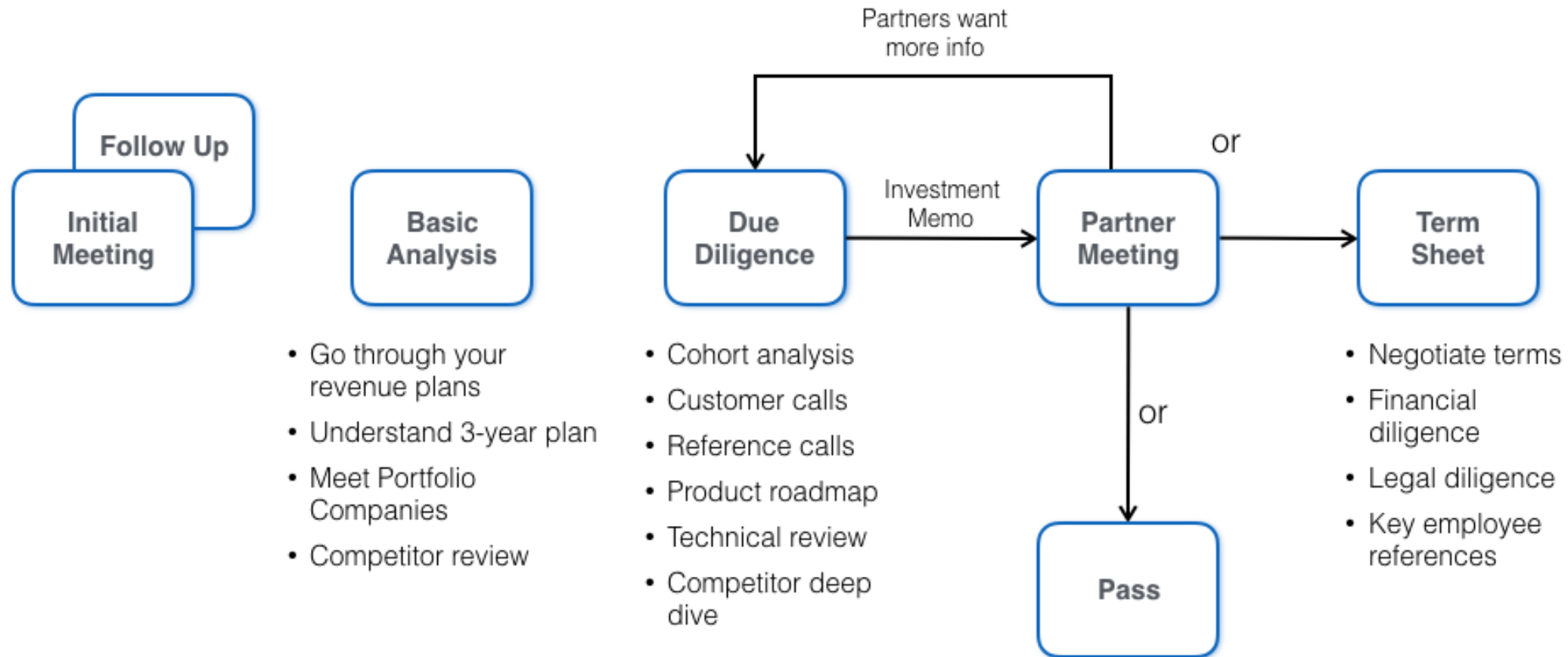
Funding rounds: From Zero to IPO

IPO stands for initial public offering



Raising capital from investors

How does the process look like?



Pitch Format - Continued

Introduction	<ul style="list-style-type: none"> • Introduce yourself • One sentence elevator pitch • Traction teaser (if you have it)
What is the problem/ opportunity	<ul style="list-style-type: none"> • What problem are you solving? • Do you have a deep understanding of this problem? • What is your solution? • Is your solution well validated?
What is your market	<ul style="list-style-type: none"> • Who uses your product? • Why do people need your product? • How big is the market? • Is the market large and/or growing? • Is your understanding of the market accurate and complete? • Why is now the right time?
Who you are	<ul style="list-style-type: none"> • What about the founders will allow the startup to succeed? • How well do the founders work together?
Business Model and Growth	<ul style="list-style-type: none"> • Do you have a visible and well-understood revenue or funding model? • How will you grow and achieve scale?
How and why you can win	<ul style="list-style-type: none"> • What else is out there? • Why are you better? • What's your traction/ progress to date? • How big can this get? • How far will you be by the end of MAP?

Investor Types

Angel Investors



Venture Capital



ANDREESSEN
HOROWITZ

[Andreessen Horowitz | Software Is Eating the World \(a16z.com\)](#)

Strategic Investors



[Telstra Ventures | Venture Capital Investing Based in Data Science](#)