Business Model Generation

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Business Model

A business model describes the rationale of how an organization creates, delivers, and captures value

Business model can be best described through nine basic building blocks that covers four main areas of business –

Customers, Offers,

Infrastructure and

Financial viability

A business model is a high-level plan for profitably operating a business in a specific marketplace. A primary component of the business model is the **value proposition**. This is a description of the goods or services that a company **offers** and why they are desirable to customers or clients, ideally stated in a way that **differentiates** the product or service from its **competitors**.

9 Building Blocks

1. ## Customer Segments

Different group of people or organizations an enterprise aims to reach and serve

- Mass market
- Niche market
- Segmented
- Diversified
- Multi-sided markets

2. ## Value Propositions

- Bundle of products and services that create value for a specific Customer segment
  - Newness
  - Performance
  - Customization
  - “Getting the job done”
  - Design
  - Brand/Status
  - Price

3. ## Channels

- How a company communicates with and reaches its Customer segments to deliver a Value Proposition
  - Direct or Indirect: Sales force, Web sales, Own or Partner stores, Wholesalers
  - Raise Awareness, help evaluation, purchase, delivery, after sales

9 Building Blocks (contd...)

4. Customer Relationships

Types of relationships a company establishes with specific Customer segments

- Personal assistance
- Self-service
- Automated service
- Communities
- Co-creation

5. Revenue Streams

- Cash a company generates from each Customer segment

Transaction revenues resulting from one-time customer payments

Recurring revenues from ongoing payments

- Asset sale
- Usage or Subscription or Brokerage fees
- Lending/Renting/Leasing
- Licensing
- Advertising

6. Key Resources

Most important assets required to make a business model work

- Physical
- Human
- Intellectual
- Financial

9 Building Blocks (contd…)

7. Key Activities

Most important things a company must do to make its business model work

- Production
- Problem solving
- Platform / Network

8. Key Partnerships

Network of suppliers and partners

-Strategic alliances between non-competitors
-Coopetition strategic partnerships between competitors
-Joint ventures to develop new businesses
-Buyer-supplier relationships to assure reliable supplies
-Helps in Optimization & economies of scale, Reduction of risk & uncertainty,
-Acquisition of particular resources and activities

9. Cost Structure

- All costs incurred to operate a business model

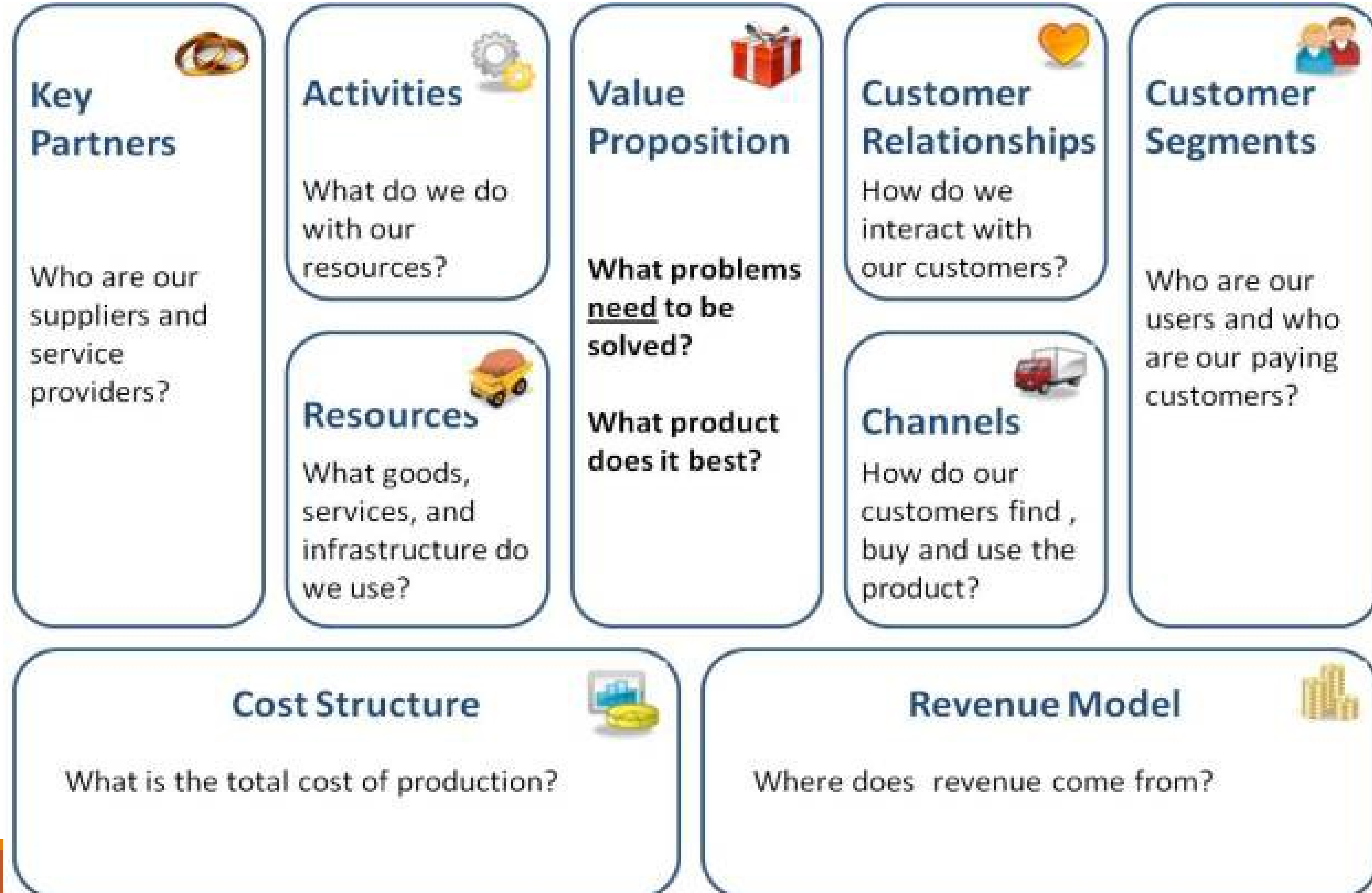
Cost driven and Value driven

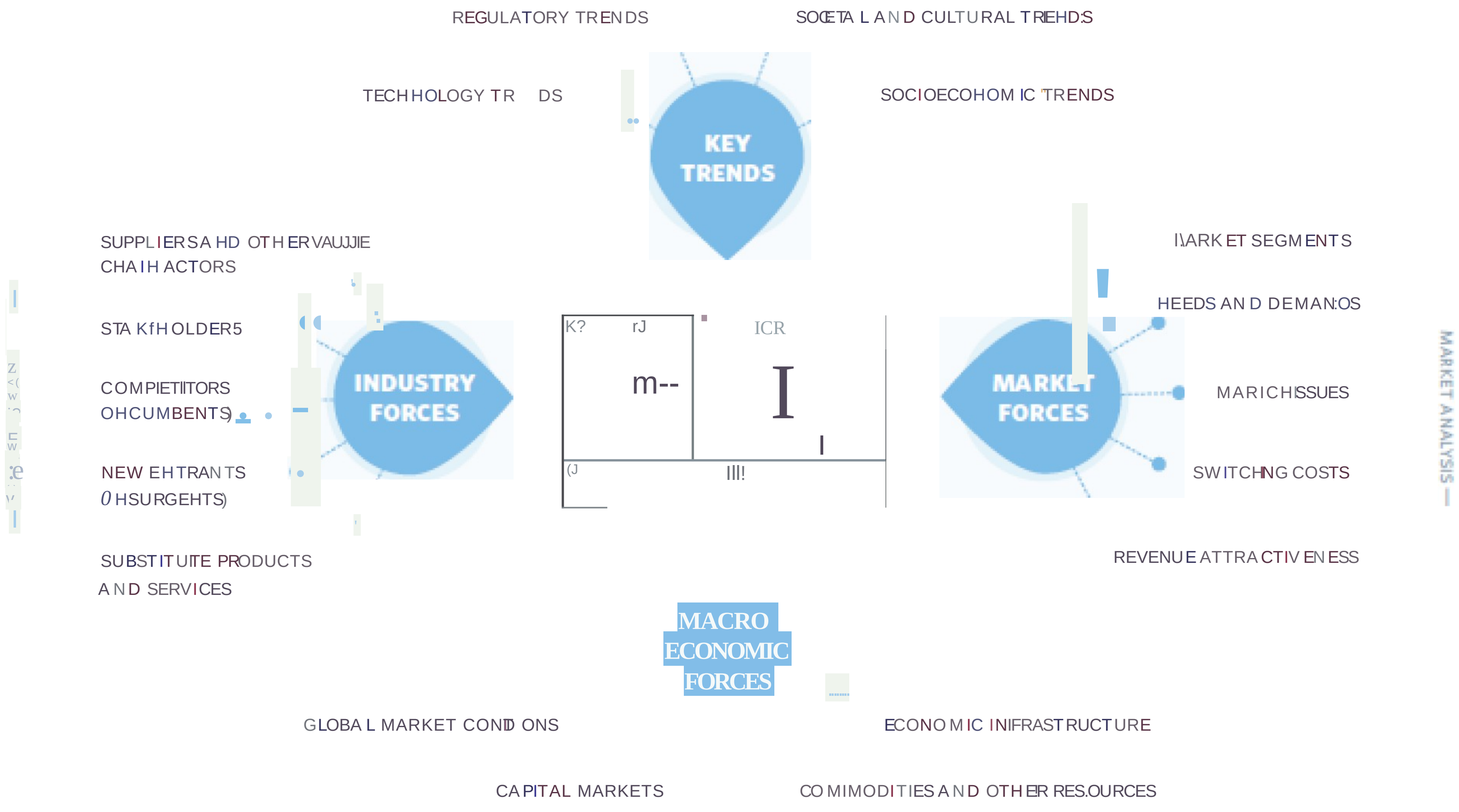
Fixed and variable cost

Economies of scale

Economies of scope

Business Model Canvass




REGULATORY TRENDS
SOCIETAL AND CULTURAL TRENDS
TECHNOLOGY TRENDS
SOCIOECONOMIC TRENDS
KEY TRENDS
SUPPLIERS AND OTHER VALUE CHAIN ACTORS
STAKEHOLDERS
COMPETITORS (INCUMBENTS)
NEW ENTRANTS (INSURGENTS)
SUBSTITUTE PRODUCTS AND SERVICES
INDUSTRY FORCES
MARKET SEGMENTS
NEEDS AND DEMANDS
MARKET ISSUES
SWITCHING COSTS
REVENUE ATTRACTIVENESS
MARKET FORCES
MARKET ANALYSIS
MACRO ECONOMIC FORCES
GLOBAL MARKET CONDITIONS
ECONOMIC INFRASTRUCTURE
CAPITAL MARKETS
COMMODITIES AND OTHER RESOURCES

Business Plan

A **business plan** is a formal statement of **business** goals, reasons that are attainable, and **plans** for reaching them. It may also contain background information about the organization or team attempting to reach those goals.

Reasons for writing a Business Plan

Internal Reason

Forces the founding team to systematically think through every aspect of their new venture.

External Reason

Communicate the merits of a new venture to outsiders, such as investors and bankers.

Summary Business Plan 10-15 pages	Full Business Plan 25-35 pages	Operational Business Plan 40-100 pages
Works best for new ventures in the early stages of development that want to "test the waters" to see if investors are interested in their idea	Works best for new ventures that are at the point where they need funding or financing: serves as "blueprint" for company's operations	Is meant primarily for an internal audience; works best as a tool for creating a blueprint for a new venture's operations and providing guidance to operational managers

Contents of Business Plan

- Executive Summary
- Industry Analysis
- Company Description
- Market Analysis
- Economics of Business
- Marketing Plan
- Design and Development Plan
- Operations plans
- Management team & company structure
- Overall Schedule
- Financial Projections

Patterns

Pattern no. 1: Unbundling Business models

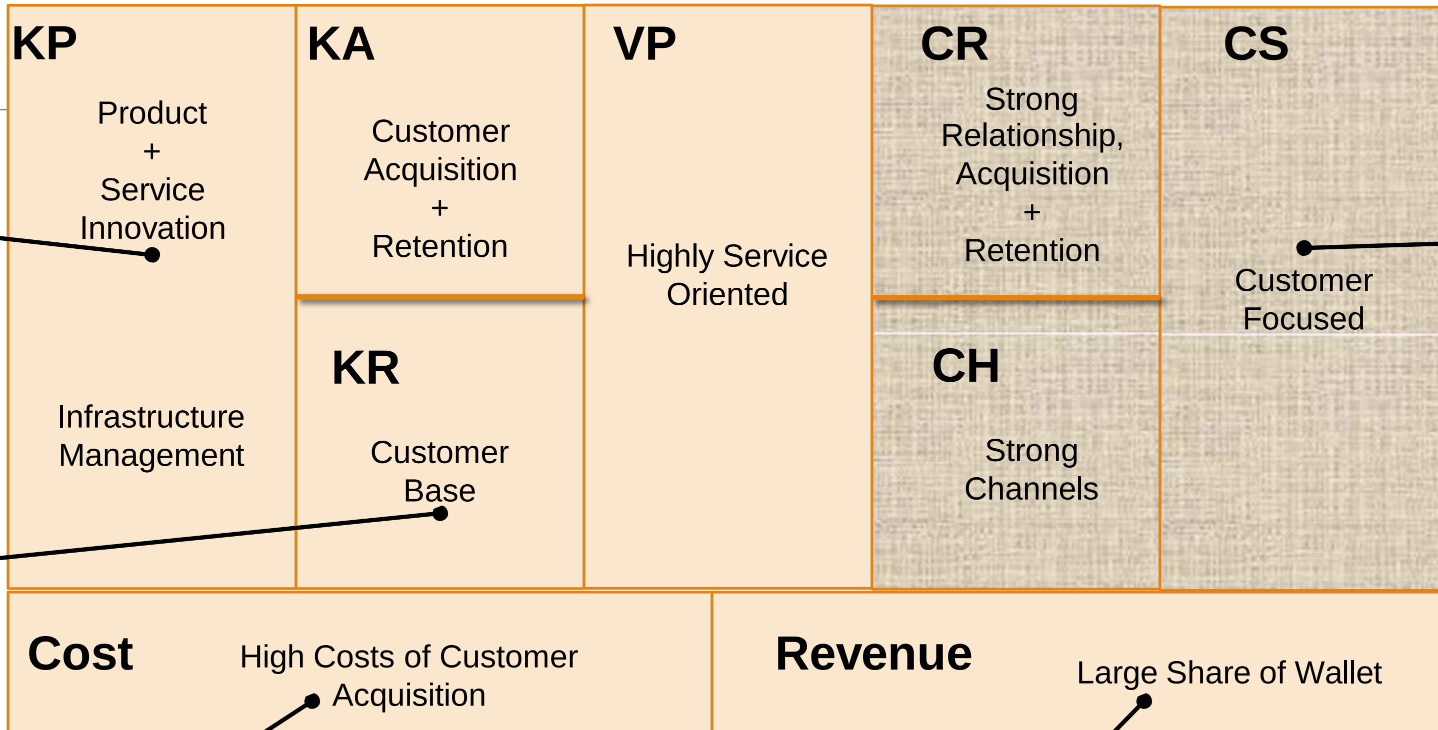
- Fundamentally 3 different types:
  - Customer relationships;
  - Product innovation and
  - Infrastructure
- Each has different economic, competitive, and cultural imperatives
- Mobile Telecom industry, Private Banking

Three Core Business Types

	Product Innovation	Customer Relationship Management	Infrastructure Management
Economics	Early market entry enables charging premium prices & acquiring large market share; speed is key	High cost of customer acquisition makes it imperative to gain large wallet share; economies of scope are key	High fixed costs make large volumes essential to achieve low unit costs; economies of scale are key
Culture	Battle for talent; low barriers to entry; many small players thrive	Battle for scope; rapid consolidation; a few big players dominate	Battle for scale; rapid consolidation; a few big players dominate
Competition	Employee centered; coddling the creative stars	Highly service oriented; customer comes first mentality	Cost focused; stresses standardization, predictability and efficiency

Unbundled Patterns – 1: Customer Relationship Management (CRM)

Product & service innovation, infrastructure acquired from **third parties**



Everything in this model is tailored to understanding and serving customers, or building strong Customer Relationships

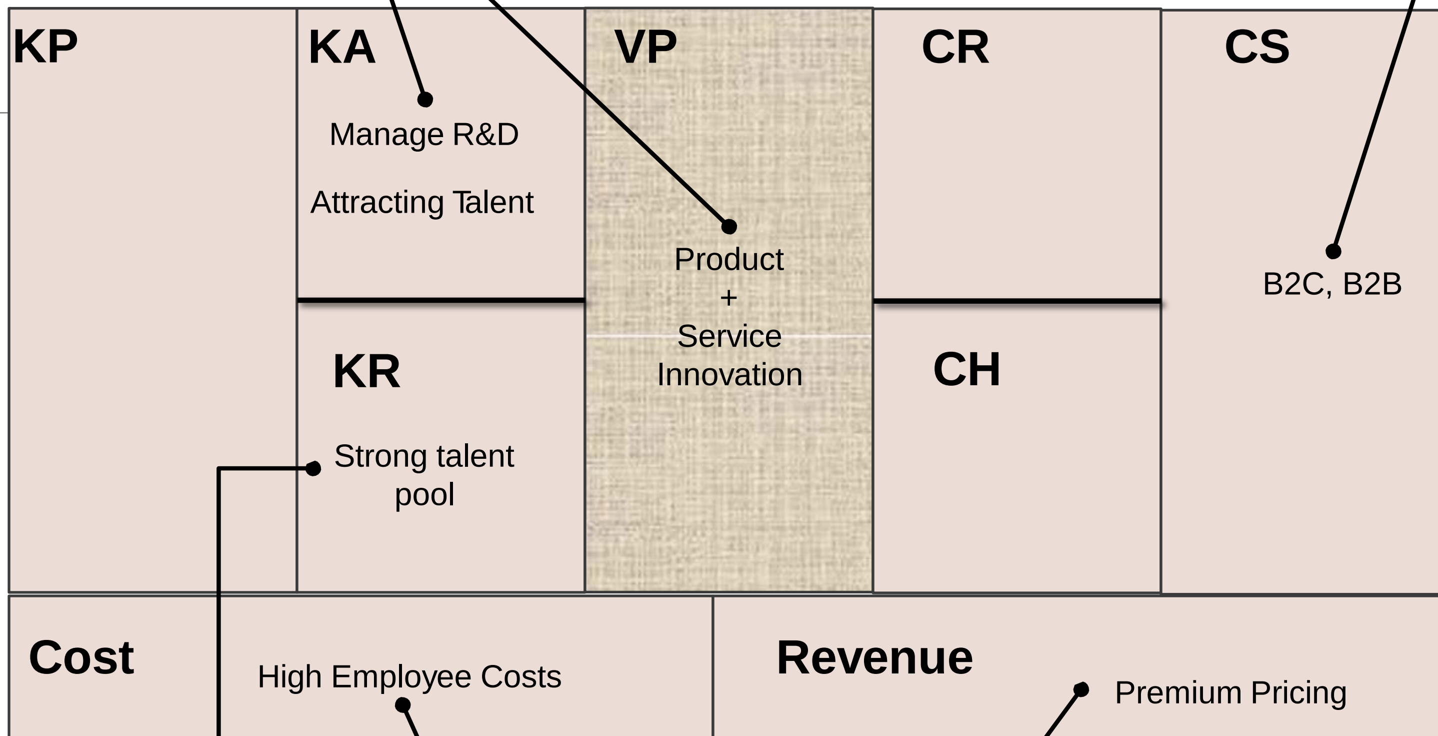
Key Assets & **Resources** are the customer base & subscriber trust acquired over time

Customer acquisition and retention comprise main **costs**, which include branding and marketing expenses

This model aims at generating revenues with a broad scope of products built upon customer trust—the goal is to win a large "share of wallet"

Activity is focused on leveraging research and development to bring new products and services to market

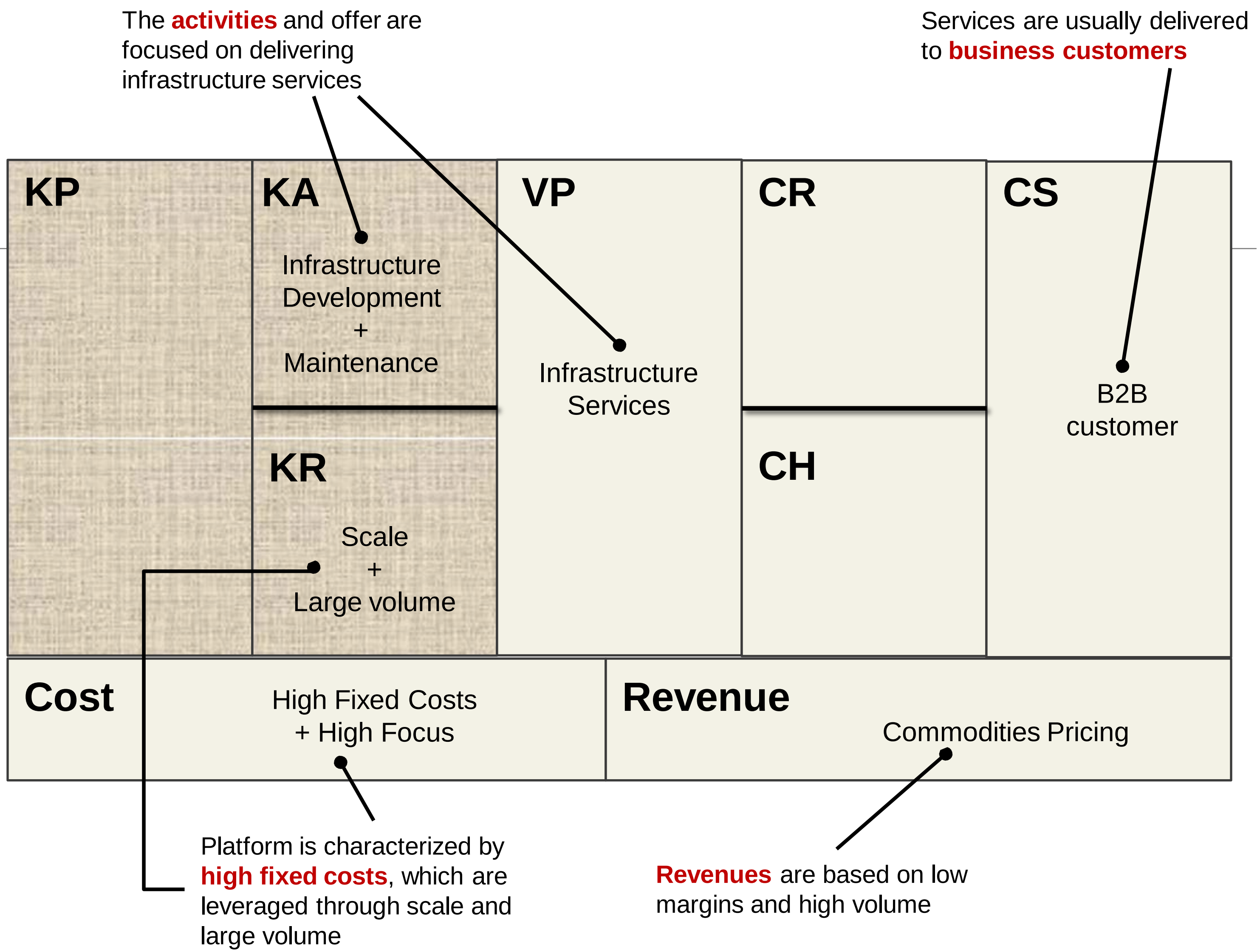
Products and services can be brought to market directly, but are usually delivered through B2B intermediaries focused on **customer relationships**



High **cost** base due to the battle over creative talent, the **key resource** in this model

High **premium chargeable** because of novelty factor

Unbundled Patterns – 2: Product Innovation



Unbundled Patterns – 3: Infrastructure Management

Pattern 2: Long Tail Business Models

Selling less of more, large no. of niche products which sells relatively infrequently in low volume

- Require low inventory costs and strong platforms to make niche content readily available to interested buyers.
- Eg: Netflix, eBay, YouTube, Facebook

# of Sales

TOP 20% Focus on a small no. of products, each selling in high volume

The Long Tail concept was coined by Chris Anderson to describe a shift in the media business from selling a small number of "hit" items in large volumes toward selling a very large number of niche items, each in relatively small quantities. Anderson described how many infrequent Sales can produce aggregate revenues equivalent to or even exceeding revenues produced by focusing on "hit" products.

Anderson believes three economic triggers gave rise to this phenomenon in the media industry:

1. Democratization of tools of production: Falling technology costs gave individuals access to tools that were prohibitively expensive just a few years ago. Millions of passionate amateurs can now record music, produce short films, and design simple software with professional results.

2. Democratization of distribution: The Internet has made digital content distribution a commodity, and dramatically lowered inventory, communications, and transaction costs, opening up new markets for niche products.

LONG TAIL Focus on a large number of products, each selling in low volumes

3. Falling search costs to connect supply with demand: The real challenge of selling niche content is finding interested potential buyers. Powerful search & recommendation engines, user ratings, & communities of interest had made this much easier.

Anderson's research focuses primarily on the media industry. For example, he showed how online video rental company **Netflix** moved toward licensing a large number of niche movies. While each niche movie is rented relatively infrequently, aggregate revenue from Netflix's vast niche film catalog rivals that from the rental of blockbuster movies.

But Anderson demonstrates that the Long Tail concept applies outside the media industry as well.

The success of online auction site **eBay** is based on a huge army of auctioneers selling and buying small quantities of "non-hit" items.

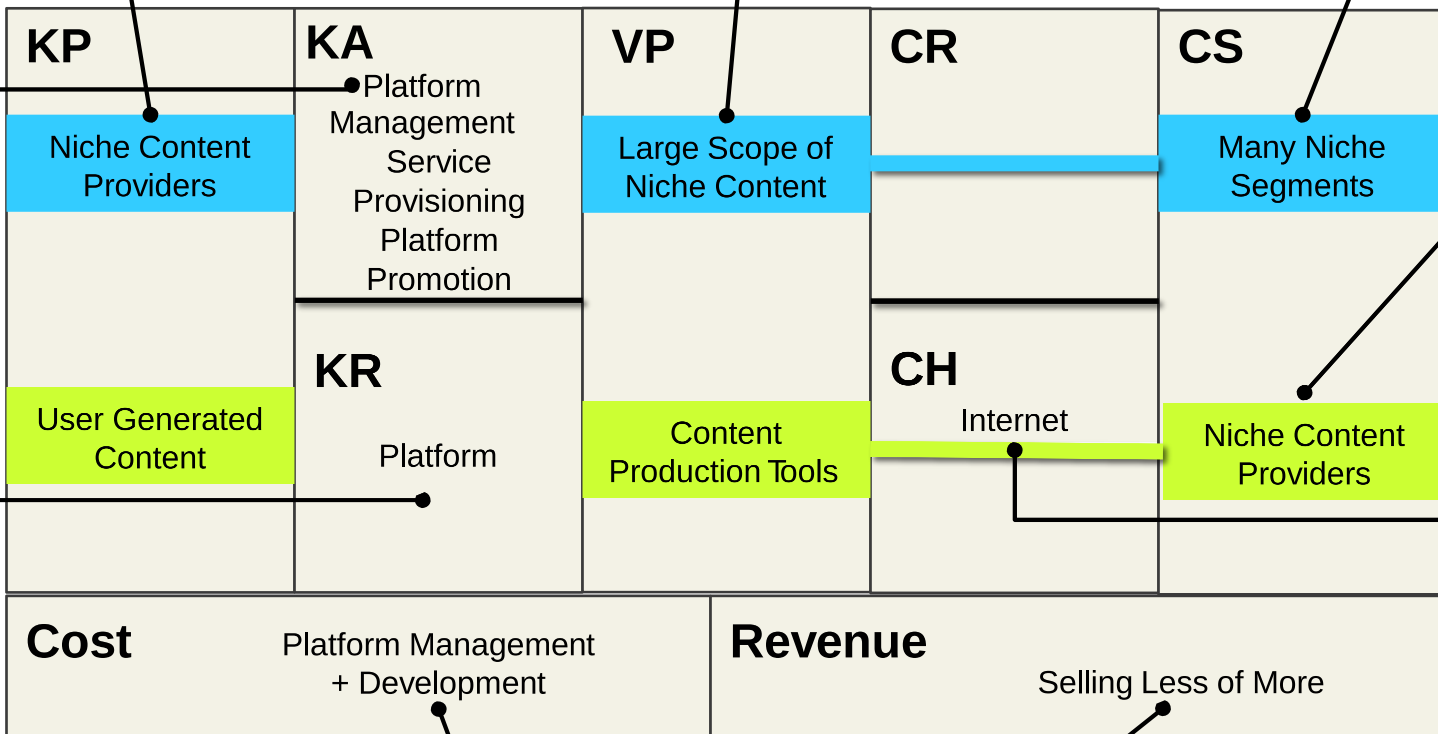
# of Products

Pattern – Long Tail

Niche content providers (professional and/or user-generated) are the **key partners** in this pattern.

The **value proposition** of a Long Tail business model is characterized by offering a wide scope of “non-hit” items that may co-exist with “hit” products. Long Tail business models may also facilitate and build on user-generated content.

Long Tail business models focus on **niche customers**.



A Long Tail business model can serve both professional and amateur content producers, and may create a multi-sided platform catering to users and producers alike.

Long Tail business models usually rely on the Internet as a customer relationship and/or transaction channel

Key resource is platform; **key activities** include platform development and maintenance; niche content acquisition & production

The **main costs** incurred cover platform development and maintenance

This model is based on aggregating small revenues from a large number of items. **Revenue streams** vary; they may come from advertising, product sales, or subscriptions.

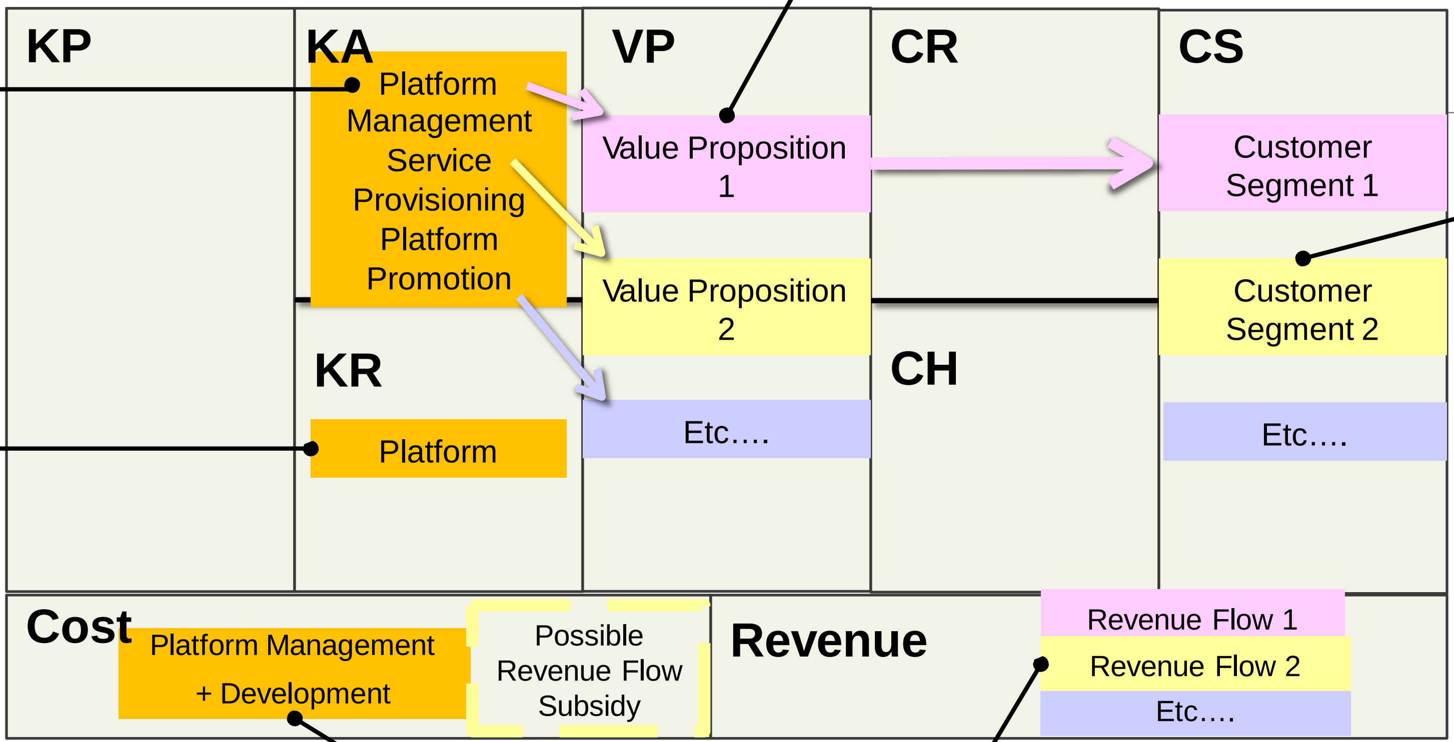
Pattern 3: Multi-sided Platforms

Bring together two or more distinct but interdependent groups of customers

- Such platforms are of value to one group of customers *only* if the other groups of customers are also present
- The platform creates value by *facilitating interactions* between the different groups
- A multi-sided platform grows in value to the extent that it attracts more users, a phenomenon known as the *network effect*
- *E.g. Visa, Google, Microsoft, eBay, Windows*

Pattern – Multi-Sided Platform

The **value proposition** usually creates value in three main areas: First, attracting user groups (i.e. Customer Segments); Second, matchmaking between Customer Segments; Third, reducing costs by channeling transactions through the platform.



Business models with a multi-sided platform pattern have a distinct structure. They have two or more **customer segments**, each of which has its own Value Proposition and associated Revenue Stream. Moreover, one Customer Segment cannot exist without the others.

The **key resource** required for this business model pattern is the platform. The three **Key Activities** are usually platform management, service provisioning, and platform promotion.

The **main costs** incurred cover platform development and maintenance

Each Customer Segment produces a different **revenue stream**. One or more segments may enjoy free offers or reduced prices subsidized by revenues from other Customer Segments. Choosing which segment to subsidize can be a crucial pricing decision that determines success of a multi-sided platform business model.

Pattern 4: Free

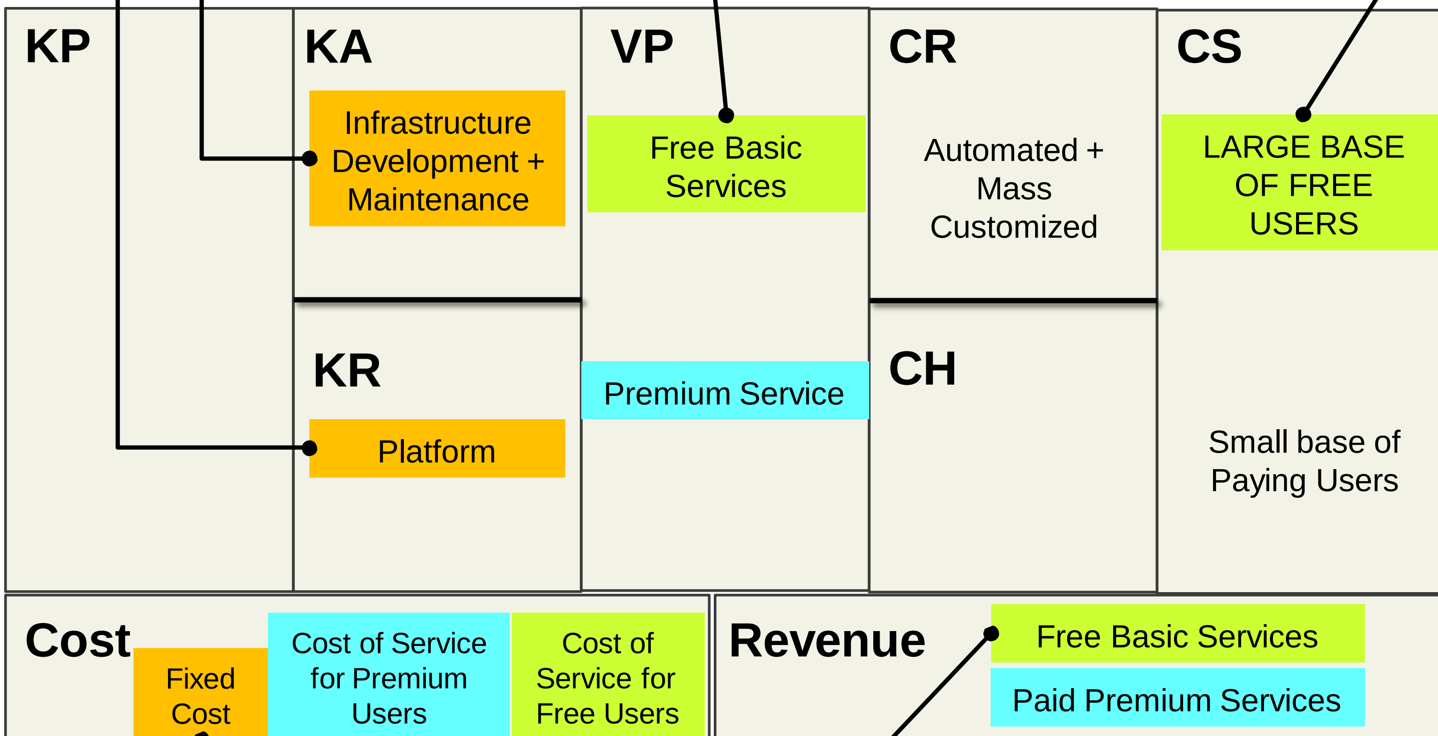
At least one substantial customer segment is able to continuously benefit from a free-of-charge offer

- Different patterns make the free offer possible
- Non-paying customers are financed by another part of the business model or by another customer segment
- Eg: Metro (free paper), Flickr, Open Source, Skype, Google, etc.
- ***Freemium: Get the Basics for Free, Pay for More***

The platform is the most important **asset** in the freemium pattern, because it allows free basic services to be offered at low marginal cost.

Customer relationship must be automated and low cost in order to handle large numbers of free users.

The freemium model is characterized by a large base of free service users subsidized by a small base of paying users. Users enjoy a free basic service and can pay for a premium service that offers additional benefits.



The **cost structure** of this pattern is tripartite: usually with substantial fixed costs, very low marginal costs for services to free accounts, and (separate) costs for premium accounts

An **important metric** to follow is the rate at which free accounts convert to premium accounts

Pattern – Freemium

Percent of Premium & Free Users specifies how many of all users are premium paying users or free users.

Price of Premium Service indicates the average cost the company incurs to deliver a premium service to a premium paying user.

Growth & Churn Rate specifies how many users defect/respectively join the user base.

Users describes how many users a company with a freemium business model can attract

Income = [Users x % of Premium Users x Price of Premium Service] x Growth Rate x Churn Rate

Cost of Service = [Users x % of Free Users x Cost of Service to Free Users] + [Users x % of Premium Users x Cost of Service to Premium Users]

Operating Profit = Income – Cost of Service – Fixed Costs – Customer Acquisition Cost

Cost of Service indicates the average cost the company incurs to deliver a free or premium service to a free or premium user.

Fixed Costs a company incurs to run its business model (e.g. systems costs)

Customer Acquisition Costs total expenses a company incurs to acquire new users.

Pattern 5: Open Business Model

Open business models can be used by companies to create and capture value by systematically collaborating with outside partners

- This may happen from the "outside – in" by exploiting external ideas within the firm i.e. buy innovation – acquire innovation from outside sources

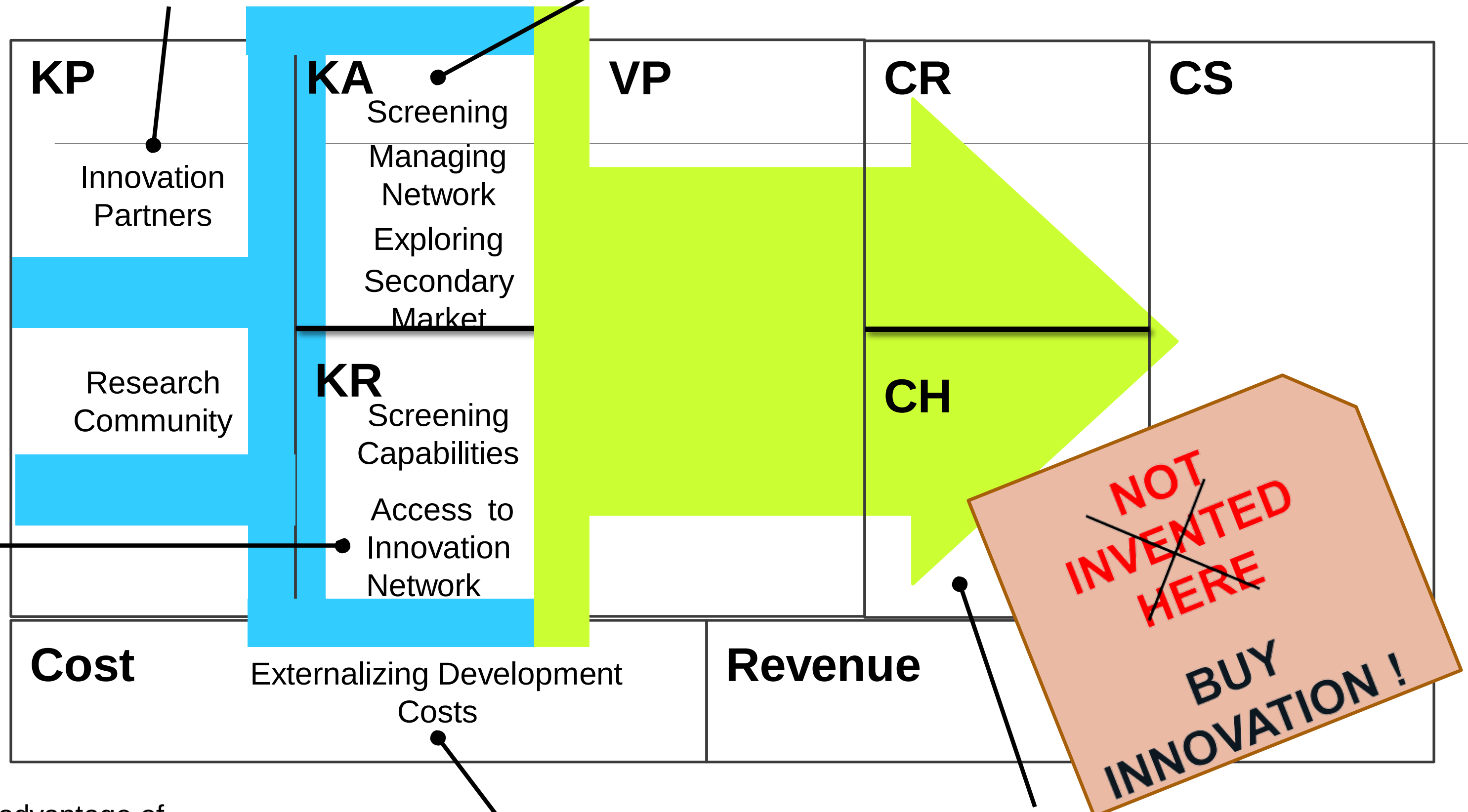
- or from the "inside – out" by providing external parties with ideas or assets lying idle within the firm i.e. sell innovation like R&D outputs; patents; technology

CLOSED	OPEN
The smart people in our field work for us	We need to work with smart people both inside and outside of our company
To profit from R&D, we must discover it, develop it, and ship it ourselves	External R&D can create significant value; internal R&D is needed to claim some portion of that value
If we conduct most of the best research in the industry, we will win	We don't have to originate the research to benefit from it
If we create the most or best ideas in the industry, we will win	If we make the best use of internal and external ideas, we will win
We should control our innovation process, so that competitors don't profit from our ideas	We should profit from others' use of our innovations, and we should buy others' IP whenever it advances our own interests

Pattern – Open Business: Outside-In

External organizations, sometimes from completely different industries, may be able to offer valuable insights, knowledge, patents, or ready-made products to internal R&D groups.

Building on external knowledge requires dedicated **activities** that connect external entities with internal business processes and R&D groups.



Taking advantage of outside innovation requires specific **resources** to build gateways to external networks.

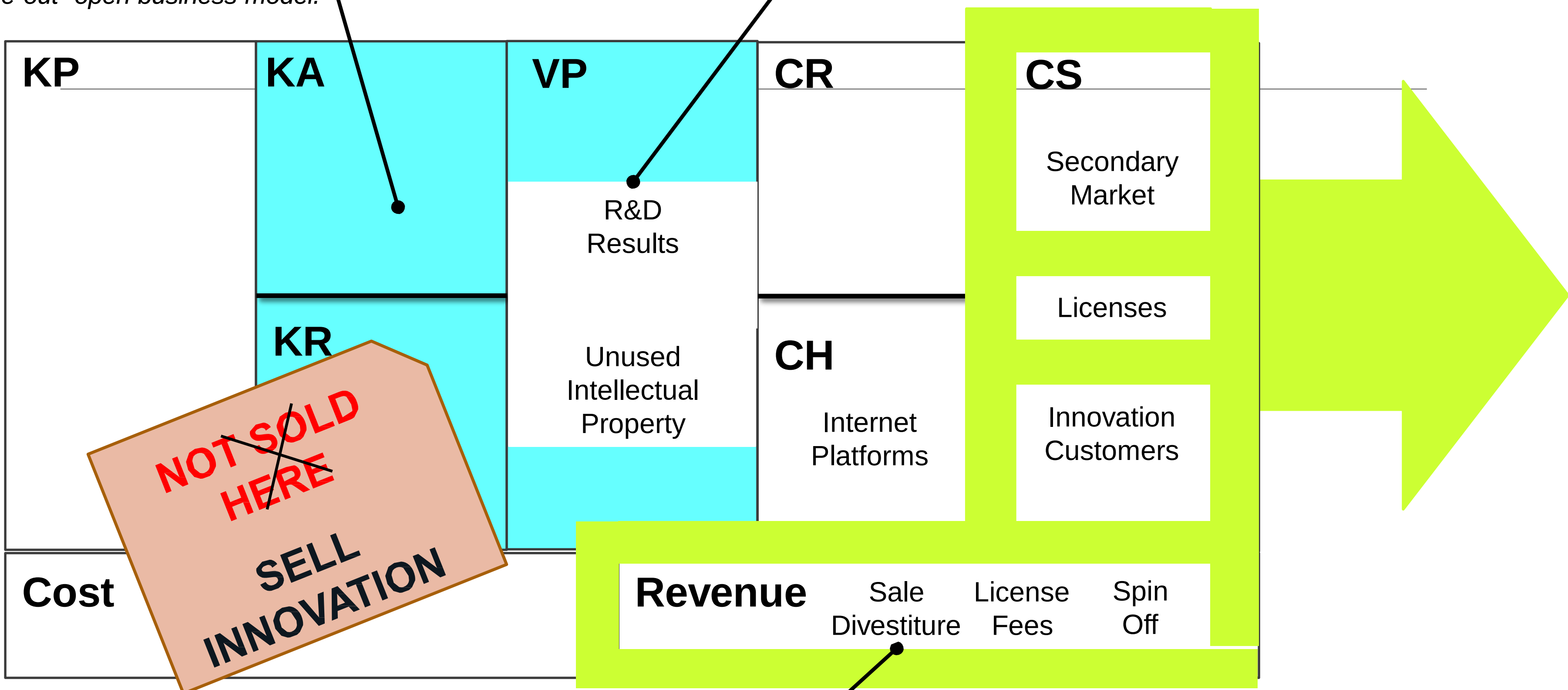
It **costs** money to acquire innovation from outside sources. But by building on externally-created knowledge and advanced research programs, a company can shorten time-to-market and increase its internal R&D productivity.

Established companies with strong brands, strong Distribution Channels, and strong Customer Relationships are well suited to an outside-in open business model. They can leverage existing Customer Relationships by building on outside sources of innovation.

Pattern – Open Business: Inside-Out

Organizations with substantial internal R&D operations typically possess much unutilized knowledge, technology, and intellectual property. Due to sharp focus on core businesses, some of these otherwise valuable intellectual assets sit idle. Such businesses are good candidates for an "inside-out" open business model.

Some R&D outputs that are unusable internally—for strategic or operational reasons—may be of high **value** to organizations in other industries.



By enabling others to exploit unused internal ideas, a company adds "easy" additional **revenue streams**.

Patterns Overview

	Unbundling Business Models	The Long Tail	Multi-Sided Platforms	FREE as a Business Model	Open Business Models
CONTEXT (BEFORE)	An integrated model combines infrastructure management, product innovation and Customer Relationships under one roof.	The Value Proposition targets only the most profitable clients.	One Value Proposition targets one Customer Segment.	A high-value, high-cost Value Proposition is offered to paying customers only.	R&D Resources and Key Activities are concentrated in-house: • Ideas are invented 'inside' only • Results are exploited 'inside' only
CHALLENGE	Costs are too high. Several conflicting organizational cultures are combined in a single entity, resulting in undesirable trade-offs.	Targeting less profitable segments with specific Value Propositions is too costly.	Enterprise fails to acquire potential new customers who are interested in gaining access to a company's existing customer base (e.g. game developers who want to reach console users)	The high price dissuades customers.	R&D is costly and/or productivity is falling.
SOLUTION (AFTER)	The business is unbundled into three separate but complementary models dealing with • Infrastructure management • Product innovation • Customer relationships	The new or additional Value Proposition targets a large number of historically less profitable, niche Customer Segments - which in aggregate are profitable.	A Value Proposition "giving access" to a company's existing Customer Segment is added (e.g. a game console manufacturer provides software developers with access to its users)	Several Value Propositions are offered to different Customer Segments with different Revenue Streams, one of them being free-of-charge (or very low cost).	Internal R&D Resources and Activities are leveraged by utilizing outside partners. Internal R&D results are transformed into a Value Proposition and offered to interested Customer Segments.
RATIONALE	IT and management tool improvements allow separating and coordinating different business models at lower cost, thus avoiding undesirable trade-offs.	IT and operations management improvements allow delivering tailored Value Propositions to a very large number of new customers at low cost.	An intermediary operating a platform between two or more Customer Segments adds Revenue Streams to the initial model.	Non-paying Customer Segments are subsidized by paying customers in order to attract the maximum number of users.	Acquiring R&D from external sources can be less expensive, resulting in faster time-to-market. Unexploited innovations have the potential to bring in more revenue when sold outside.
EXAMPLES	Private Banking Mobile Telco	Publishing Industry (lulu.com) LEGO	Google Video game consoles from Nintendo, Sony, Microsoft Apple iPod, iTunes, iPhone	Advertising and newspapers Metro Flickr Open Source Red Hat Skype (versus Telco) Gillette Razor and blades	Procter & Gamble GlaxoSmithKline Innocentive

Common Business Models

Retailer

Common business models most people interact regularly is the retailer model. A retailer is the last entity along a supply chain. They buy finished goods from manufacturers or distributors and interface directly with customers.

Manufacturer

A manufacturer is responsible for sourcing raw materials and producing finished products. It may make custom goods or highly replicated, mass produced products. A manufacturer can sell to distributors, retailers, or directly to customers.

Bundling

If a company is concerned about the cost of attracting a single customer, it may attempt to bundle products to sell multiple goods to a single client. Bundling capitalizes on existing customers by attempting to sell them different products. This can be incentivized by offering pricing discounts for buying multiple products.

Fee-for-Service

Instead of selling products, fee-for-service business models are centered around labor and providing services. A fee-for-service business model may charge by an hourly rate or a fixed cost for a specific agreement. Fee-for-service companies are often specialized, offering insight that may not be common knowledge or may require specific training.

Affiliate

These are based on marketing and the broad reach of a specific entity or person's platform. Companies pay an entity to promote a good, and that entity often receives compensation in exchange for their promotion. Compensation may be a fixed payment, a percentage of sales derived from their promotion or both.

Brokerage

It connects buyers and sellers without directly selling a good themselves. Brokerage companies often receive a percentage of the amount paid when a deal is finalized. Most common in real estate, brokers are also prominent in construction/development or freight.

Razor Blade

Gillette invented the model, this business model aims to sell a durable product below cost to then generate high-margin sales of a disposable component of that product. Also referred to as the "razor and blade model", razor blade companies may give away expensive blade handles with the premise that consumers need to continually buy razor blades in the long run.

Reverse Razor Blade

Instead of relying on high-margin companion products, a reverse razor blade business model tries to sell a high-margin product upfront. Then, to use the product, low or free companion products are provided. This model aims to promote that upfront sale, as further use of the product is not highly profitable.

Franchise

The franchise business model leverages existing business plans to expand and reproduce a company at a different location. Often food, hardware, or fitness companies, franchisers work with incoming franchisees to finance the business, promote the new location, and oversee operations. In return, the franchisor receives a percentage of earnings from the franchisee.

Pay-As-You-Go

Instead of charging a fixed fee, some companies may implement a pay-as-you-go business model where the amount charged depends on how much of the product or service was used. The company may charge a fixed fee for offering the service in addition to an amount that changes each month based on what was consumed.

Subscription

It strive to attract clients in the hopes of luring them into long-time, loyal patrons. This is done by offering a product that requires ongoing payment, usually in return for a fixed duration of benefit. Though largely offered by digital companies for access to software, subscription business models are also popular for physical goods such as monthly reoccurring agriculture/produce subscription box deliveries.

Circular Business Model

How an organization creates, delivers, and captures value to its broader range of stakeholders while minimizing ecological and social costs

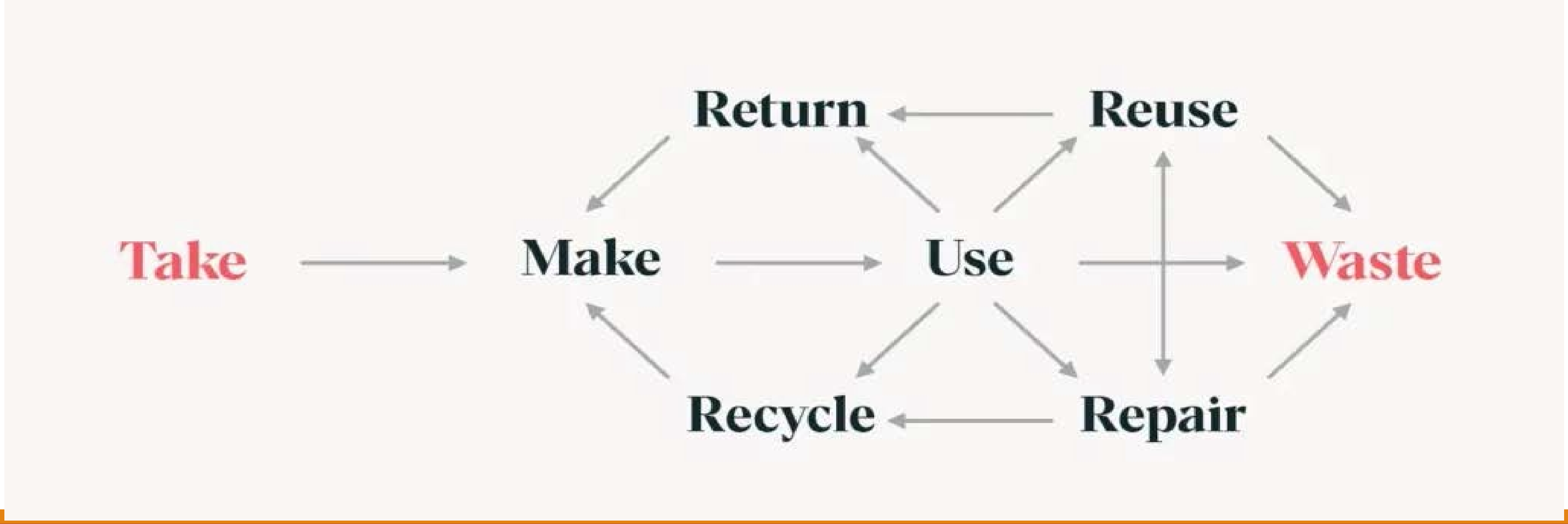
Linear versus circular business models

Linear business models are based on the following logic:

- **take** natural resources,
- **make** products for consumers that eventually become
- **waste**

Circular business models contribute to a circular economy by adhering to the circular economy's three fundamental principles.

- ➢ Design out waste and pollution
- ➢ Keep products and materials in use
- ➢ Regenerate natural systems



How to create a circular business model?

Main circular business model principles

1. Source products and materials from the **economy**, not from ecological reserves.
2. Create value for customers by adding value to **existing** products and materials.
3. Create valuable inputs for **businesses** beyond your customer.

Different types of circular business models

1. **Coordinating circular value chains through data:** Creating products, from recycle to reuse.
2. **Circular product design:** Creating products, from recycle to reuse.
3. **Use, reuse, share, and repair:** Creating durable goods from recycled and reused parts can be inputs for downstream circular business models.
4. **Collection & reverse logistics:** Close the material life-cycle loop by creating products that can be upcycled, repurposed, and re-sold.
5. **Sorting & preprocessing:** Finding alternative value in the parts that make a product whole.

10 Circular Business Model Examples

Circular Economy business models come in all shapes and sizes, depending on where they occur in the value chain.

This diversity is what makes a circular economy dynamic and genuinely circular.

This section describes some circular business model examples.

❑ Coordinating circular value chains through data

Globechain is a B2B marketplace for reuse across multiple industries, like construction, hotels, offices, medical, restaurants, and retail. Organizations no longer needing assets (like furniture, equipment, or office supplies) list them on the platform, where they're requested and collected by other companies. Globechain makes its revenues by *charging membership fees*.

The Reuse Marketplace for business

Building As Material Banks(BAMB) is a platform for identifying the value and material markup of buildings throughout the building cycle, from planning and construction through occupancy, repairs, renovations, repurposing and decommissioning. The initiative is still searching for its sustainable business model to *capture, maintain, and exchange data* between businesses and stakeholders in the building-materials value chain.

❑ Circular product design

Planned for a Spring/Summer 2021 release, FUTURECRAFT.LOOP is **Adidas**‘ first running shoe that is “made to be remade.” The high-performance running shoe was carefully designed with manufacturing and recycling partners so that “it can be returned to Adidas, broken down and reused to create new performance running shoes.”

Protix upcycles food waste into sustainable protein for fish, chicken, and pets. The Dutch company invested €35 million in an industrial-scale production facility where it uses food waste to breed blackfly larvae, which it harvests to form high-value insect protein products.

❑ Use, reuse, share, and repair

Creating durable goods from recycled and reused parts can be inputs for downstream circular business models

Circos is “a *subscription model* for baby clothing (and maternity wear) where members pay a monthly fee to access a range of high-quality clothing from different brands, delivered to their door.” As babies outgrow clothing, it is returned, cleaned, and redistributed to another customer – eliminating waste and capitalizing on the clothing value, all while creating convenience for customers.

Philips Refurbished Systems – Philips enables hospitals to upgrade their medical equipment (like MRIs and CT scanners) by trading-in their old equipment for a discount on new systems.

Philips refurbishes and upgrades older equipment and sells it again.

This business model helps hospitals get financial returns on their older equipment while efficiently upgrading to the latest technology.

It also enables Philips to reach different customer segments with affordable, high-quality systems.

This is an excellent example of a *reuse business model* that doesn't necessarily require a lease construction.

❑ Collection & reverse logistics

Close the material life-cycle loop by creating products that can be upcycled, repurposed, and re-sold

Extending the useful lifetime of materials, parts, and products across several customers. **Re-Tek** collect redundant IT equipment for medium to large organizations in the UK and Europe.

They can *remarket 80% of collected goods*, enabling them to share revenue with the equipment's previous owners.

This revenue allows them to harvest spare parts and work with *recycling partners to address the 20% remaining obsolete goods*.

Through their business model, 99% of electronic systems they collect are diverted from landfills.

H&M partnered with I:CO* to collect 29,005 tonnes of textiles for *reuse and recycling*. H&M's customers return used clothing to the stores, receiving a discount voucher for future purchases at H&M.

I:CO* collects the clothing and sorts it into three categories:

- **rewear** (sold on the second-hand market),
- **reuse** (turned into other textile products like cleaning cloths), and
- **recycle** (turned into textile fibers for things like insulation).

Although not disclosed by H&M, it is assumed each collected textile category creates revenue streams for I:CO*.

❑ Sorting & pre-processing

Finding alternative value in the parts that make a product whole

Urban Mining Co (UMC) is the first US commercial recycler of rare NdFeB magnets (present in hard disk drives, speakers and headphones).
Despite containing rare materials, NdFeB magnets are often thrown away, ending up in landfills. UMC uses a *patented process to reprocess* the scrap magnets into custom made magnets.

Mr Green Africa is a Kenyan plastics recycling start-up. They buy collected used consumer plastics and industrial waste as feedstock and sell recycled plastic pellets of different colors and qualities. They received funding from DOB Equity (Dutch family-backed investment organization active in East Africa) and Global Innovation Fund (partnership with Unilever) to scale their business model.

Blue Ocean Strategy

- Blue Ocean Strategy is a potent method for questioning Value Propositions and business models and exploring new Customer Segments

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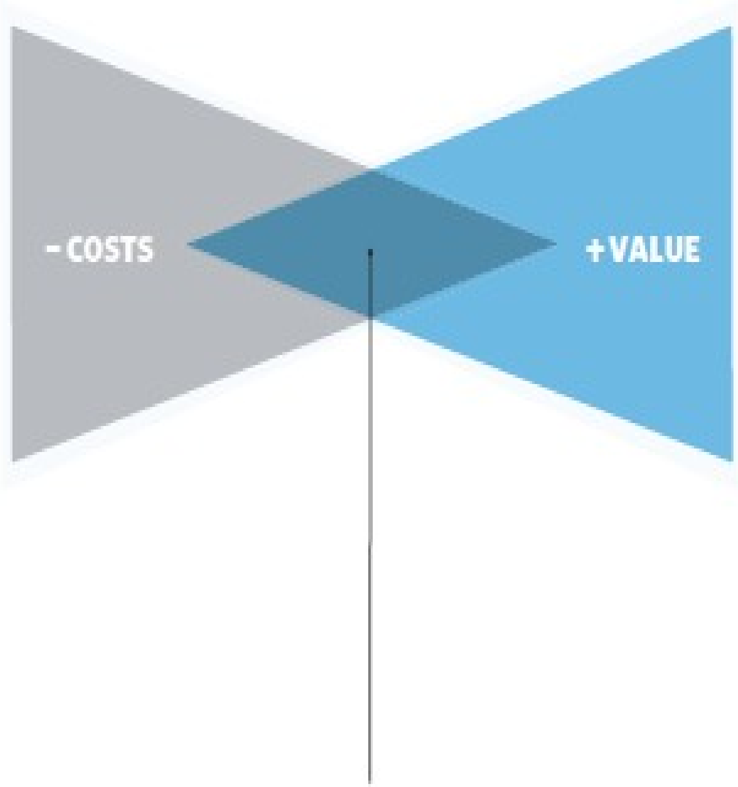
- The Business Model Canvas complements Blue Ocean and helps us understand how changing one part of a business model impacts other components
- **Blue Ocean Strategy** is about creating completely new industries through fundamental differentiation as opposed to competing in existing industries by tweaking established models
- Rather than outdoing competitors in terms of traditional performance metrics, it advocate creating new, uncontested market space through **value innovation**
- Increasing value for customers by creating new benefits & services, while simultaneously reducing costs by eliminating less valuable features or services
- Notice how this approach rejects the traditionally accepted trade-off between differentiation and lower cost
- In addition to value innovation, it propose exploring non-customer groups to create Blue Oceans and tap untouched markets

Blue Ocean Strategy

- Blending Kim and Mauborgne's **Value innovation** concept and **Four Actions Framework** with the Business Model Canvas creates a powerful new tool



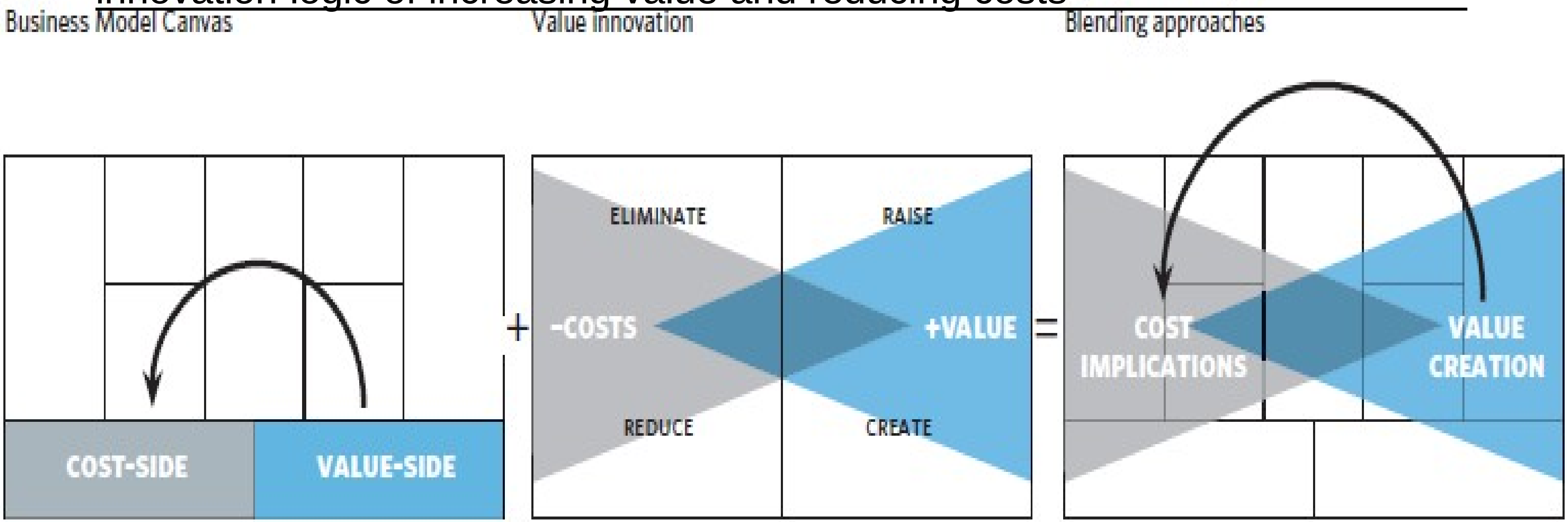
— VALUE INNOVATION —

ELIMINATE	RAISE
WHICH FACTORS CAN YOU ELIMINATE THAT YOUR INDUSTRY HAS LONG COMPETED ON?	WHICH FACTORS SHOULD BE RAISED WELL ABOVE THE INDUSTRY'S STANDARD?
REDUCE	**CREATE**
WHICH FACTORS SHOULD BE REDUCED WELL BELOW THE INDUSTRY'S STANDARD?	WHICH FACTORS SHOULD BE CREATED THAT THE INDUSTRY HAS NEVER OFFERED?

— FOUR ACTIONS FRAMEWORK —

Blending

- In the Business Model Canvas the right-hand side represents value creation and the left-hand side represents costs. This fits well with Kim and Mauborgne's value innovation logic of increasing value and reducing costs

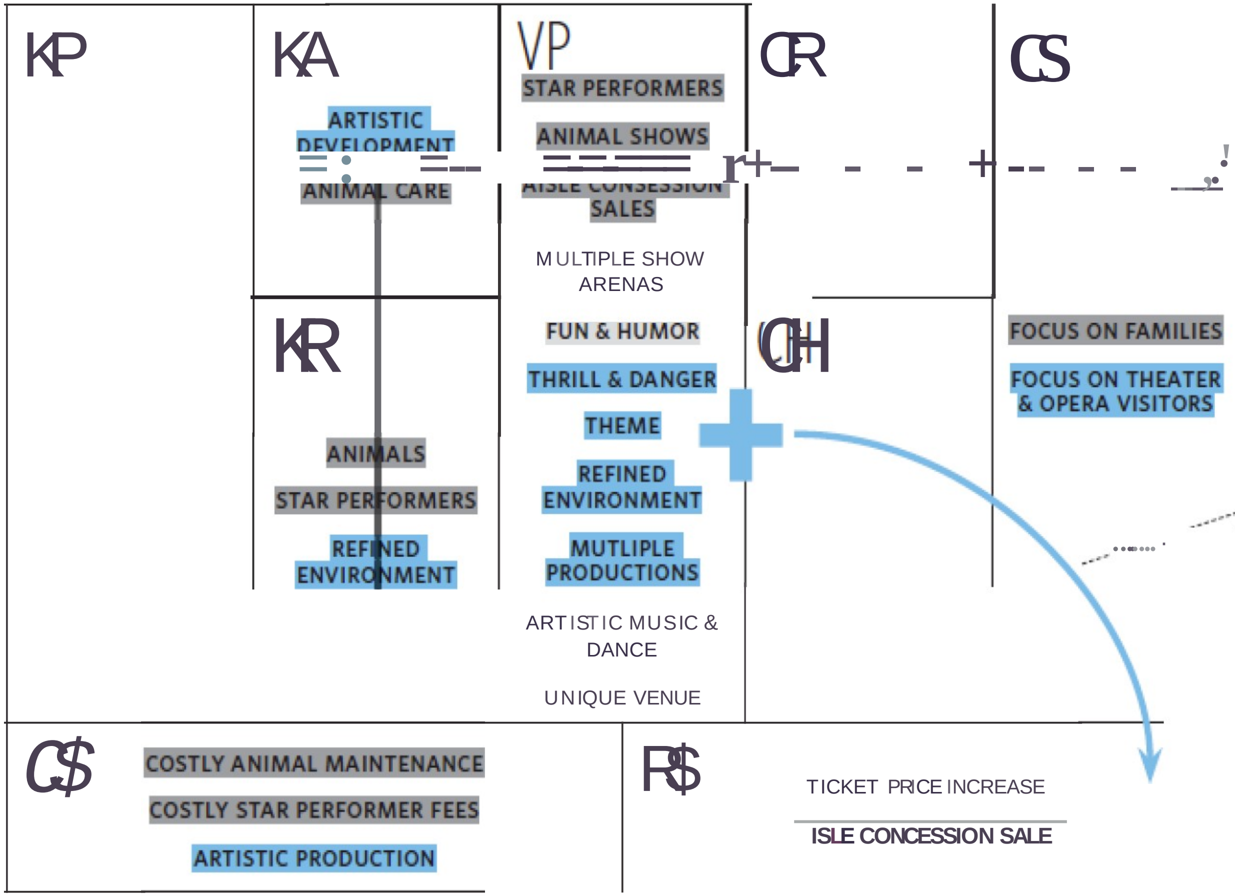


If we add to or eliminate parts of Value Proposition, Channels, or Customer Relationship Building Blocks, this will have immediate implications for Resources, Activities, Partnerships, & Costs

First goal is to lower costs by reducing or eliminating less valuable features or services. Second goal is to enhance or create high-value features or services that do not significantly increase the cost base

It systematically analyze a business model innovation in its entirety. Ask Four Actions Framework questions about each business model Building Block and immediately recognize implications for other parts of business model

CIRQUE DU SOLEIL



ADDING THE ARTISTIC ELEMENT TO THE VALUE PROPOSTION CHANGES ACTIVITIES & COSTS

ELIMINATING ANIMALS FROM THE SHOW SUBSTANTIALLY REDUCES COSTS

THE VALUE PROPOSITION COMBINES H EMENTS FROM CIRCUS, THEATER & OPERA, WHICH ALLOWS CATERING TO HIGHER END CUSTOMERS WHO PAY HIGHER TICKET PRICES

ELIMINATE

STAR PERFORMERS
ANMAL SHOWS
ASLE CONCESSON SALES
MULTIPLE SHOW ARENAS

REDUCE

FUN & HUMOR
THRILL & DANGER

RAISE

UNIQUE VENUE

CREATE

THEME
REFINED ENVRONMENT
MULTIPLE PRODUCTONS
ARTISTIC MUSC & DANCE

Cirque du Soleil features prominently among Blue Ocean Strategy examples. Next we apply the blended Blue Ocean and Business Model Canvas approach to this intriguing and highly successful Canadian business.

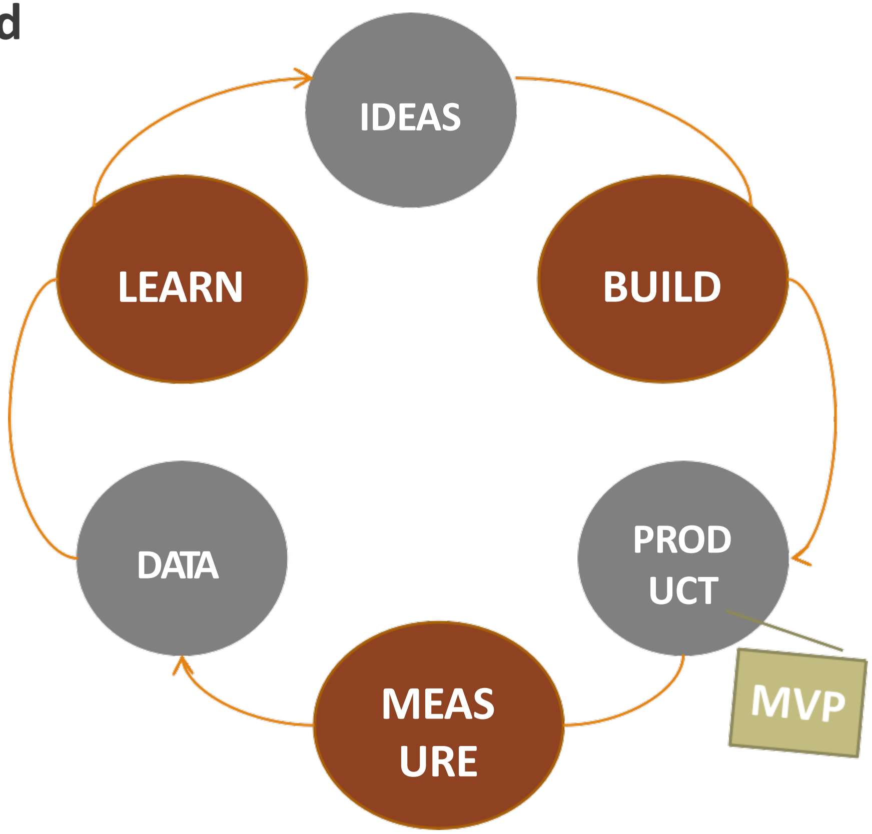
First, the Four Actions Framework shows how Cirque du Soleil "played" with the traditional elements of the circus business Value Proposition. It eliminated costly elements, such as animals and star performers, while adding other elements, such as theme, artistic atmosphere, and refined music. This revamped Value Proposition allowed Cirque du Soleil to broaden its appeal to theatergoers and other adults seeking sophisticated entertainment, rather than the traditional circus audience of families.

As a consequence, it was able to substantially raise ticket prices. The Four Actions Framework, outlined in blue and gray in the business model canvas above, illustrates the effects of changes in the Value Proposition.

Lean Startup Method

First step is to enter BUILD phase with a Minimum Viable Product (MVP), version with a minimum amount of effort & least amount of development time

- MVP is product that is **bare minimum needed to test your most important hypotheses**
- Entering MEASURE phase biggest challenge is determining whether product development efforts are leading to real progress through *innovation accounting* method, a quantitative approach. It also allows to create *learning milestones,* a way of assessing progress accurately & objectively
- Finally and most importantly, there's ***pivot***
- Lean startup method builds capital-efficient companies as it allows to recognize that it's time to pivot original strategy (or preserve) creating less waste of time & money



Build-Measure-Learn Feedback Loop

Minimize *TOTAL* Time through the Loop

MVP: Types

- **Two types of MVP:**

1. **Low Fidelity: quick and cheap to create, and they often involve creating a basic prototype using simple materials like paper, sketches, or wireframes. They are intended to test the core features of the product and gather feedback from users. They are an excellent way to validate a product idea and make sure that it meets the needs of the target audience before investing time and resources into building a more refined product.**

2. **High-fidelity: MVPs are more advanced prototypes that have a higher level of design and functionality. They often involve building a working prototype that closely resembles the final product, with more attention paid to user experience and design. High-fidelity MVPs are more expensive and time-consuming to create, but they provide a more accurate representation of the final product and can help businesses get more detailed feedback from users.**

Low-Fidelity MVPs are used to:	High-Fidelity MVPs are used to:
Gain a better understanding of your customer’s problems	Find out how much customers are willing to pay for your product
Check how valuable a solution to this problem may be for customers	Find early adopters who will be your first customers and help spread the word about your product
Investigate as to whether or not the problem is worth solving	Help you define and optimize your marketing strategy, such as your value proposition, call to action and communication channels
Explore what kind of solution would be most effective for the customer	Identify the best potential growth strategies

Before you start your MVP project, ask yourself these questions:

- What could your biggest potential **risk** be, and how could you avoid it?
- How much **time** do you have to build your MVP and wait for reliable results?
- What can you afford? Think about the most effective way to **spend** your money.

Don’t spend too much on your first tests.

You’re not trying to make your customer happy at this stage, your main goal is to learn.

Types of MVP: Low-Fidelity

1. Customer interview
To find out information about your product and problem you're trying to solve. Questions around Price, Product, Promotion and Purchase behavior help understanding of your audience's requirements

2. Blogs
Easy way to validate ideas within your target market while using minimal effort. It costs very little to set up a blog, and provides two-way communication between you and your future customer

3. Forums
If you are trying to gain a better understanding of your customer's problems, existing forums dedicated to the subject can be a great way of learning directly from potential customers

4. Landing Page
It is the first thing customers come to after clicking a link on your marketing communication. It's a great opportunity to promote the features and benefits of your product and validate your Value Proposition. Ex. Buffer

5. Split Testing
This is a very effective way to measure any changes you make to your product or marketing. Analytical tools can tell you how your audience reacts to various changes, be it your website, product design, pricing, etc. If you want to test two versions of something, split testing allows you to compare the two and determine which one performs best.

6. Explainer Video
Is a short, simple video explaining the features and benefits of your product and why people should buy it. Video has become an increasingly popular MVP and it's a very effective and simple way to find out about your product. You can generate interest in your idea and determine traction you may expect.

7. Paper Prototypes
Rather than jumping into design and development, paper prototypes require a lot less time and effort. Typically they are sketches of a user interface. They give users an opportunity to experience your product before it exists. This is a great way to test your product because it can be easily and quickly modified.

8. Ad Campaigns
Are a good way of running market validation surveys. You can choose demographics for a specific target audience and you can discover which aspects of your product are most appealing. You can also run split tests using this method.

Types of MVP: Low-Fidelity

9. The 'Fake Door'
This MPV works by getting your customers to sign up for a product or service that isn't actually available. It will help you measure the interest by seeing how many people try to access it. For example, you could have a landing page with a call to action button, and when your visitor clicks on it, it could take them through to a page saying "Coming Soon!". No. of visits gives you an idea of the number of downloads or orders you would have received over a given period.

10. Audience building
By building an audience before you create a product you can gain a good insight into whether there's any interest or demand around the problem you are going to solve. It's also a very simple low-cost approach. If you get good results and decide to test a High-Fidelity MVP, you will already have an engaged audience (who could participate in tests, interviews and questionnaires) which will all contribute to helping you produce a valuable product.

11. Micro-Survey
This type of survey usually gets a much better response rate because it's normally only one or two questions. By keeping your survey short and sweet you can expect a much more reliable answer. For example: If you have a website you could use a pop-up tool and offer some kind of giveaway if your visitor performs the action then they would have answered a simple question. Make sure your questions are specific but open-ended.

Types of MVP: High-Fidelity

12. Digital Prototypes
These are typically wireframes, mock-ups and prototypes. Rather than jumping straight into high-end designs, digital prototypes are used to save time and money in development and are very effective in demonstrating the functionality of your product. They make usability and functionality issues much easier to spot and resolve early on before you've invested in a lot of front-end design and development.

14. The "Wizard of Oz" MVP
This MVP is where you essentially put up a front that gives your potential customers the impression you have a real working product and they're experiencing the real thing. This MPV requires a lot more time and effort but it's a very effective way of checking if you have a desirable product or service, before you build it. With this approach, you use a human resource to replicate what your proposed technology will do. This prove the interest in your product while keeping technical costs low.

13. 3D Models
This MVP will give your prototype a more professional feel, but it will come at a cost and will be more expensive than a paper one. This might be something worth considering if you're building a product that will be manufactured.

15. The "Concierge" MVP
A concierge MVP is often confused with the "Wizard of Oz". However, rather than using a human resource to replicate an algorithm, the customer knows they are receiving a human service. For example, before being an automated investment service, Wealthfront would manually create and deliver investment plans face to face, which wasn't very scalable. Concierge MVPs should be used when you're not exactly sure of the solution, whereas a "Wizard of Oz" MVP should be used when you have a clear understanding of the solution and are testing the market.

Types of MVP: High-Fidelity

16. The “Piecemeal” MVP
Falls in-between the “Concierge” MVP and the “Wizard of Oz” MVP. With a Piecemeal MVP, you use existing tools and services to deliver a functioning product to your customers. Typically, you use a number of existing technologies so more human resource is required to manage the process. Using existing services will save you time and money by building your own technology and infrastructure.

17. Crowdfunding
This is like getting pre-orders for your idea. It allows you to raise money to create your product, while also testing the demand. If you want to be successful at Crowdfunding it’s a good idea to create an explainer video about your product. This is a great way to see if people want to buy your product or not. If it turns out to be a success you will raise money in the process, and generate a following of early adopters who could even spread the word about your product. This approach is used for all types of products.

18. Single Featured MVP
Often it’s more effective testing just one essential feature of a product. A single featured MVP prevents users from getting distracted by other features and allows you to gain a really clear understanding of one specific problem or solution. It’s also more cost-efficient than building a product with a lot of features no-one wants.

MVP: Concierge and Wizard of Oz

https://www.allencheng.com/concierge-mvp/

To understand how Concierge MVP works meet**Manuel Rosso**, Founder & CEO of an Austin, Texas based startup called **Food on the Table (FotT)**

- **FotT** creates weekly meal plans and grocery lists that are based on food you and your family enjoy, then hooks into your local grocery stores to find best deals on ingredients
- Concierge MVP simplifies the product by replacing automated components with **humans** and puts you directly in touch with your **early customers**

Food on the Table (FotT) [https://www.moneycrashers.com/food-on-the-table-review/]

FotT began its life with a **single customer**. Manuel with VP of product Steve Sanderson, went to local supermarkets and moms' groups in Austin. Part of their mission was typical observation of customers, however they were on hunt for their first customer but were rejected most times. Eventually an early adopter signed for their services & got concierge treatment. She got personal visits each week from CEO. Both CEO and VP review what was on sale at her preferred grocery store and carefully select recipes on the basis of her preferences, going so far to learn her favorite recipes. Each week they would hand her – in person – a prepared packet containing a shopping list & relevant recipes, solicit her feedback and make necessary changes. Each week they would collect a check for **$9.95.** Viewed through lean startup, they were learning more & more about what was required to make their product a success. After a few weeks they were ready for another customer.

FotT: is a mobile app that provides easy-to-cook recipes, sale items and grocery lists for weeknight diners

Founded Date: 2009; Food on the Table was acquired by Food Network on Apr 20, 2014

FotT raised a total of **$2.2M** in funding over 1 round in August 28, 2009

- Each customer they brought made it easier to get next one, because FotT could focus on same grocery store, getting to know its products and the kinds of people who shopped there. Each new customer got concierge treatment: personal in-home visits, the works but after few more customers overhead of serving one-to-one started to increase.
- Manuel & his team start to invest in automation. Each iteration of MVP allowed them to save a little more time & serve few more customers: delivering the shopping lists via email than home visit, starting to parse lists of what was on sale automatically via software instead of by hand, even taking credit card payments online than cheque.
- Soon they built a substantial service offering in Austin area and nationwide. But, their **product development team was always focused on scaling something that was working rather than trying to invent something that might work in future.**

Implications in small business: it is routine to see CEO, founder, president, & owner serving customers directly, one at a time. In a concierge MVP, this personalized service is not the product but the **learning activity** designed to test the **leap-of-faith** assumptions in the firm's growth model. Common outcome of concierge MVP is to invalidate firm's proposed growth model, making it clear that a different approach is needed. This can happen even if initial MVP is profitable for firm. Without a formal growth model, many firms get trapped of being satisfied with small profitable business when a ***pivot*** (change in course or strategy) might lead to more significant growth. The only way to know is to have tested the growth model systematically with **real customers**.

Lean Canvas

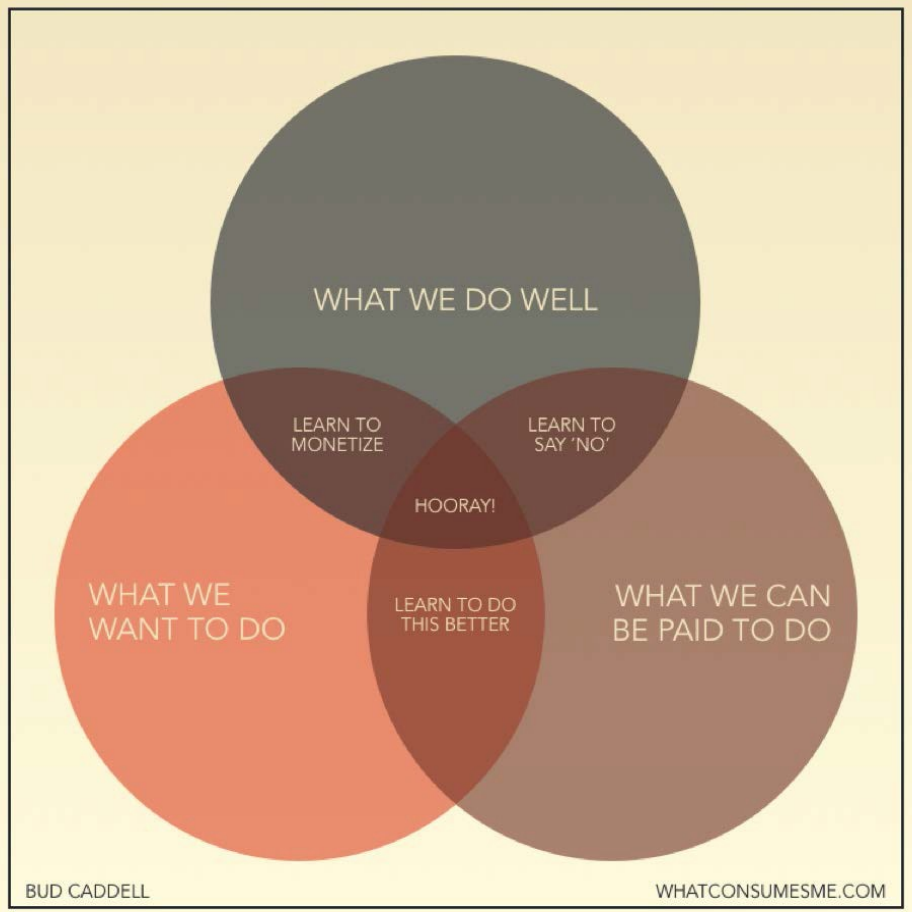
Lean Canvas lays out a clear process for defining & adjusting business model based on customer development. It provides a formal framework to help you choose & steer your business

Created by Ash Maurya, & inspired by Alex Osterwalder's **Business Model Canvas**

- If you're going to survive as a founder, you have to find **intersection of demand** (for your product), **ability** (for you to make it), **& desire** (for you to care about it)
- That trifecta is often overlooked, under harsh light of data & a flood of customer feedback
- **Bud Caddell** has an amazingly simple diagram of how people should choose what to work on:

Bud's diagram shows three overlapping rings: what you *like* to do, what you're *good at*, and what you *can be paid* to do. For each intersection between rings, suggests course of action:
•If you want to do something and are good at it, but can't be paid to do it, *learn to monetize*.
•If you're good at something and can be paid to do it, but don't like doing it, *learn to say no*.
•If you like to do something and can be paid to do it, but aren't very good at it, *learn to do it well*.

This isn't just great advice for career counselors; when launching a new venture, you need to properly assess these three dimensions as well



PROBLEM

List our top 1-3 problems

1

!EXISTING ALTERNATIVES

List how these problems are solved today

SOLUTION

Oulline a possible sou on for each proble

4

KEV METRICS

isl the key numbers that tell you how your business is doing

8

UNIQUE VALUE PROPOSITION

Single, clear, c,ompelli g message that ums an unawa e visitor into an interested prospect

3

HIGH-LEVEL CONCEPT

Lis your X fo V a abgy (e.g., ¥ouTube = Flrckr for videos)

UNFAIR ADVANTAGE

Something that canl be easily oopied ff bough

9

CHIANNELS

Lis1your path to customers

5

CUSTOMER SEGMENTS

List your targe custom _ rs an users

2

EAR 't(A00PTERS

List the characteristic s o ywr ĸieal cus omers

COST STRUCTURE

List: our fixed a d variable 1costs

7

REVENUE STREAMS

List our sources of revenue

6

When you’re trying to decide if you’ve got a real business opportunity, Ash says you should consider the following:

1. **Problem:** Have you identified real problems people know they have?
2. **Customer segments:** Do you know your target markets? Do you know how to target messages to them as distinct groups?
3. **Unique value proposition:** Have you found a clear, distinctive, memorable way to explain why you’re better or different?
4. **Solution:** Can you solve the problems in the right way?

5. **Channels:** How will you get your product or service to your customers, and their money back to you?
6. **Revenue streams:** Where will the money come from? Will it be onetime or recurring? The result of a direct transaction (e.g., buying a meal) or something indirect (magazine subscriptions)?
7. **Cost structure:** What are the direct, variable, and indirect costs you'll have to pay for when you run the business?
8. **Metrics:** Do you know what numbers to track to understand if you're making progress?
9. **Unfair advantage:** What is the "force multiplier" that will make your efforts have greater impact than your competitors?

In the early stages of a startup, you'll be dealing with a lot of data. You're awash in the tides of opinion, and buffeted by whatever feedback you've heard most recently.
Never forget that you're trying to answer three fundamental questions:

- Have I identified a problem worth solving?

- Is the solution I'm proposing the right one?

- Do I actually want to solve it?

Or, more succinctly: *should I go build this thing?*

Create a Lean Canvas
Go to *http://leancanvas.com* to create your first canvas.

Pick an idea or project you're working on now, or something you've been thinking about. Build the canvas and see what it looks like. Fill in the boxes based on the numbered order.

How did you do? Can you see what areas of your idea or business are the riskiest? Are you excited about tackling those areas of risk now that you see them described in the canvas? Share your Canvas with someone else (an investor, mentor, or colleague) and use it as a discussion starter

THANK YOU