# UNIT – III

**Unit – III: Business Model & Validation: -** Introduction to Business Models, Lean approach to Business Model Canvas, Blue and Red Ocean Strategies, the Problem-Solution Fit, Build your Solution Demo, Solution Interview Method, Identify Minimum Viable Product (MVP), Product-Market fit test.

# Business Models : An Introduction



A **business model** is **an outline of how a company plans to make money** with its product and customer base in a specific market. At its core, a business model explains four things:

- What product or service a company will sell
- How it intends to market that product or service
- What kind of expenses it will face
- How it expects to turn a profit

One popular example of a business model, as we'll review shortly, is the subscription model—in which businesses charge a subscription fee (monthly, annually, etc.) for customers to access a service. Of course, this type of business model can be adjusted and customized for each individual business.

# Business Models : An Introduction



According to management guru Peter Drucker: " *A business model is supposed to answer who your customer is, what value you can create / add for the customer and how you can do that at reasonable costs".*

- A **Business Model** is the way that a company sells products to its customers. It describes how a **Business** creates, delivers, and captures value

A ***Business Model*** is a conceptual structure that supports the viability of a product or company and explains how the company operates, makes money, and how it intends to achieve its goals. All the business processes and policies that a company adopts and follows are part of the business model.

# Parts of a Business Model

A Business Model comprises of -

1. Everything related to designing and manufacturing the product
2. Everything related to selling the product, from finding the right customers to distributing the product
3. Everything related to how the customer will pay and **how the company will make money**

There are nine components of a business model, given by –

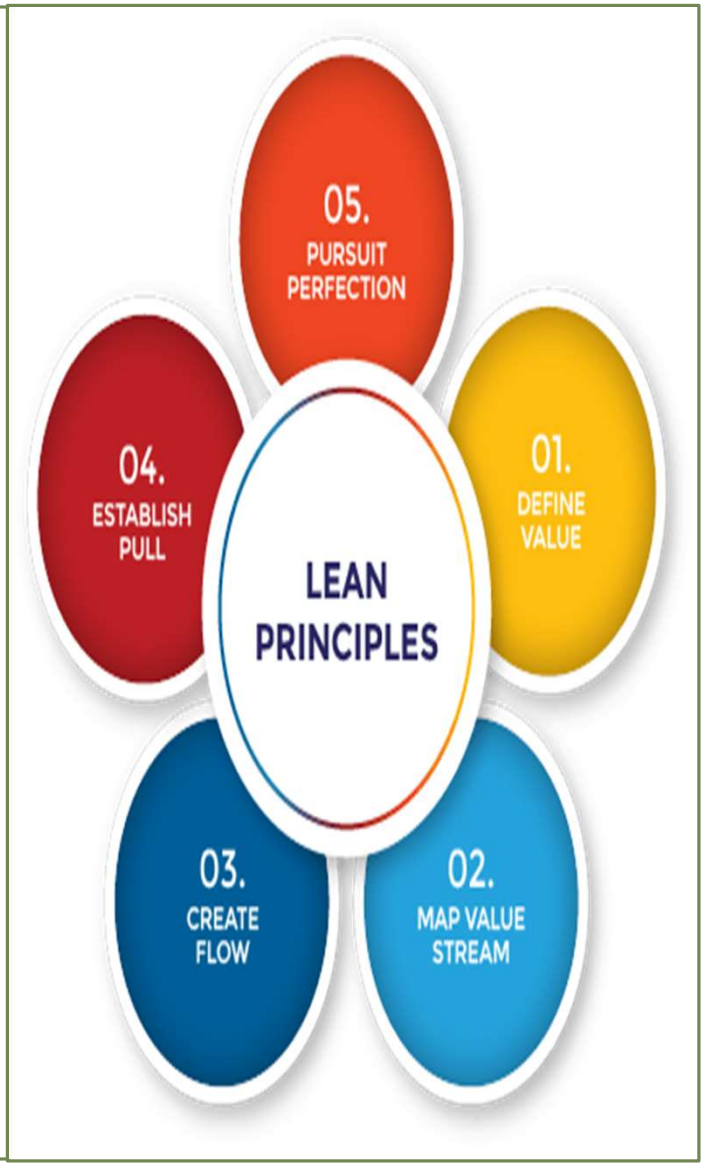
| | | |
|---|---|---|
| **1** | **Value Proposition** | A feature that makes your product attractive to your customers. |
| **2** | **Target Market** | A specific group of consumers who would be interested in your product. |
| **3** | **Competitive Advantage** | A unique feature of your product or service that can't easily be copied by competitors. |
| **4** | **Cost structure** | A list of the fixed and variable expenses your business requires to function, and how they affect pricing. |
| **5** | **Key metrics** | The ways your company measures success. |
| **6** | **Resources** | The physical, financial, and intellectual assets of your company. |
| **7** | **Problem and solution** | Your target customers' pain points, and how your company intends to meet them. |
| **8** | **Revenue model** | A framework that identifies viable income sources to pursue. |
| **9** | **Revenue streams** | The multiple ways your company can generate income. |
| **10** | **Profit margin** | The amount your revenue exceeds your business costs. |

# Types of Business Models

- Manufacturing model
- Retailing model
- Freemium model
- Online model
- SAAS Model
- Subscription model
- Aggregator Model
- Franchise model

# LEAN APPROACH AND IT'S KEY FIVE PRINCIPLES

1. The **lean approach** is a way to think about the start up process that emphasizes the business model over the business plan, and encourages a process of customer discovery and development, and iteration to achieve the right product / market fit.
2. Simply, **lean means** creating more value for customers with fewer resources.
3. A **lean** organization understands customer value and focuses its key processes to continuously increase it.
4. The ultimate goal is to provide perfect value to the customer through a perfect value creation process that has zero waste.



1. **Value.**: Value is always defined by the customer's needs for a specific product.

i. What is the timeline for manufacturing and delivery?

ii. What is the price point?

iii. What are other important requirements or expectations that must be met? This information is vital for defining value.

2. **Value stream**: Once the value (end goal) has been determined, the next step is mapping the "value stream," or all the steps and processes involved in taking a specific product from raw materials and delivering the final product to the customer.

Value-stream mapping is a simple but eye-opening experience that identifies all the actions that take a product or service through any process.

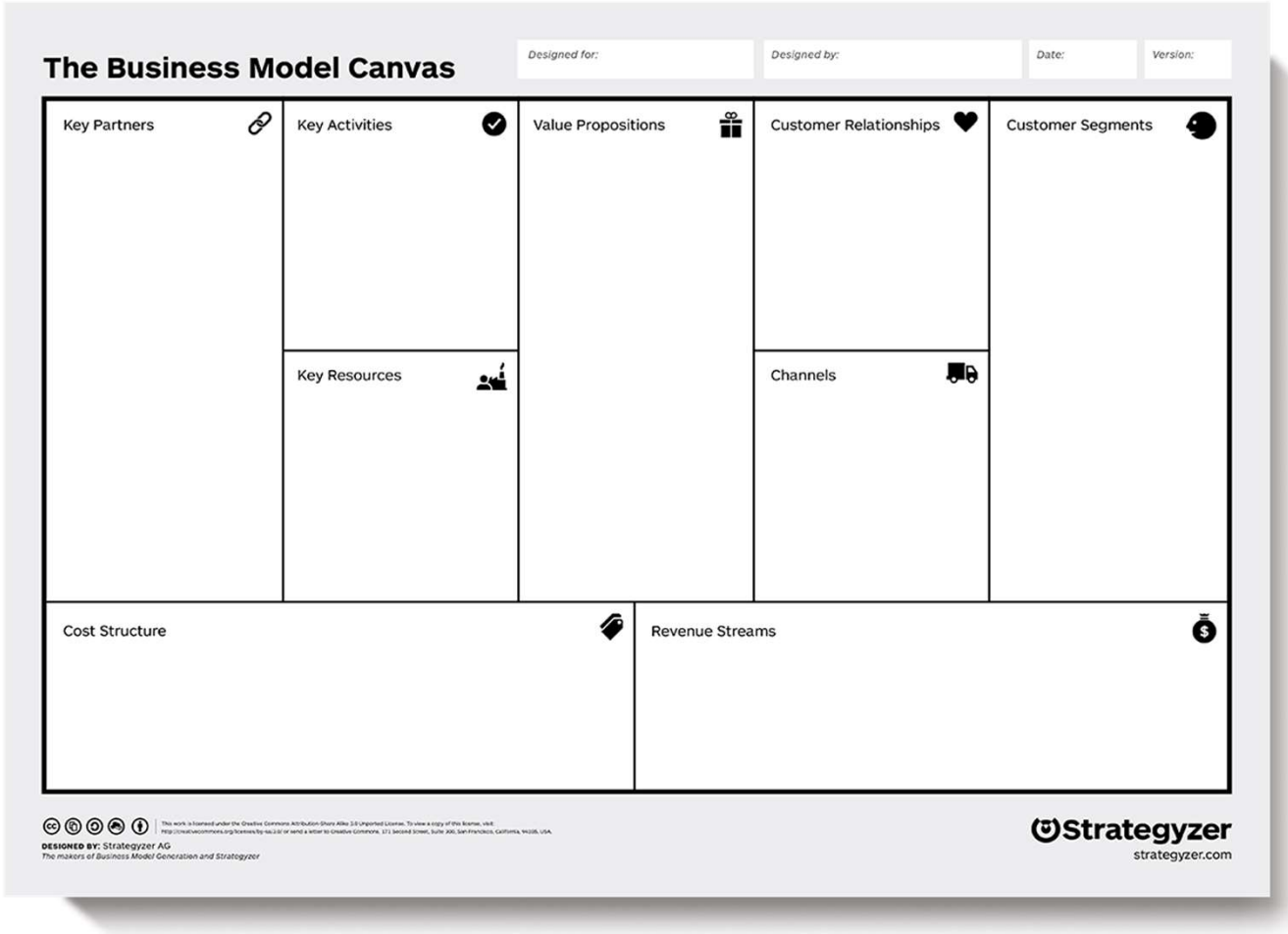
**3.Flow.**:After the waste has been removed from the value stream, the next step is to be sure the remaining steps flow smoothly with no interruptions, delays, or bottlenecks. “Make the value-creating steps occur in tight sequence so that the product or service will flow smoothly toward the customer,”

4**. Pull.:** With improved flow, time to market (or time to customer) can be dramatically improved. This makes it much easier to deliver products as needed, as in “just in time” manufacturing or delivery. This means the customer can “pull” the product from you as needed (often in weeks, instead of months).

5**. Perfection**.: Accomplishing Steps 1-4 is a great start, but the fifth step is perhaps the most important: making lean thinking and process improvement part of your corporate culture. it is important to remember lean is not a static system and requires constant effort and vigilance to perfect

# Business Model Canvas

- The Business Model Canvas (BMC) is a strategic management tool to quickly and easily define and communicate a business idea or concept.
- It is a one page document which works through the fundamental elements of a business or product, structuring an idea in a coherent way.



# Business Model Canvas

- The right side of the BMC focuses on the customer (external), while, the left side of the canvas focuses on the business (internal).
- Both external and internal factors meet around the value proposition, which is the exchange of value between your business and your customer/clients.
- Why we use it
  - To quickly draw a picture of what the idea entails.
  - It allows us to get an understanding of your business and to go through the process of making connections between what your idea is and how to make it into a business.
  - It looks at what kinds of customer decisions influence the use of your systems.
  - It allows everyone to get a clear idea of what the business will likely be.

# Business Model Canvas - Swiggy

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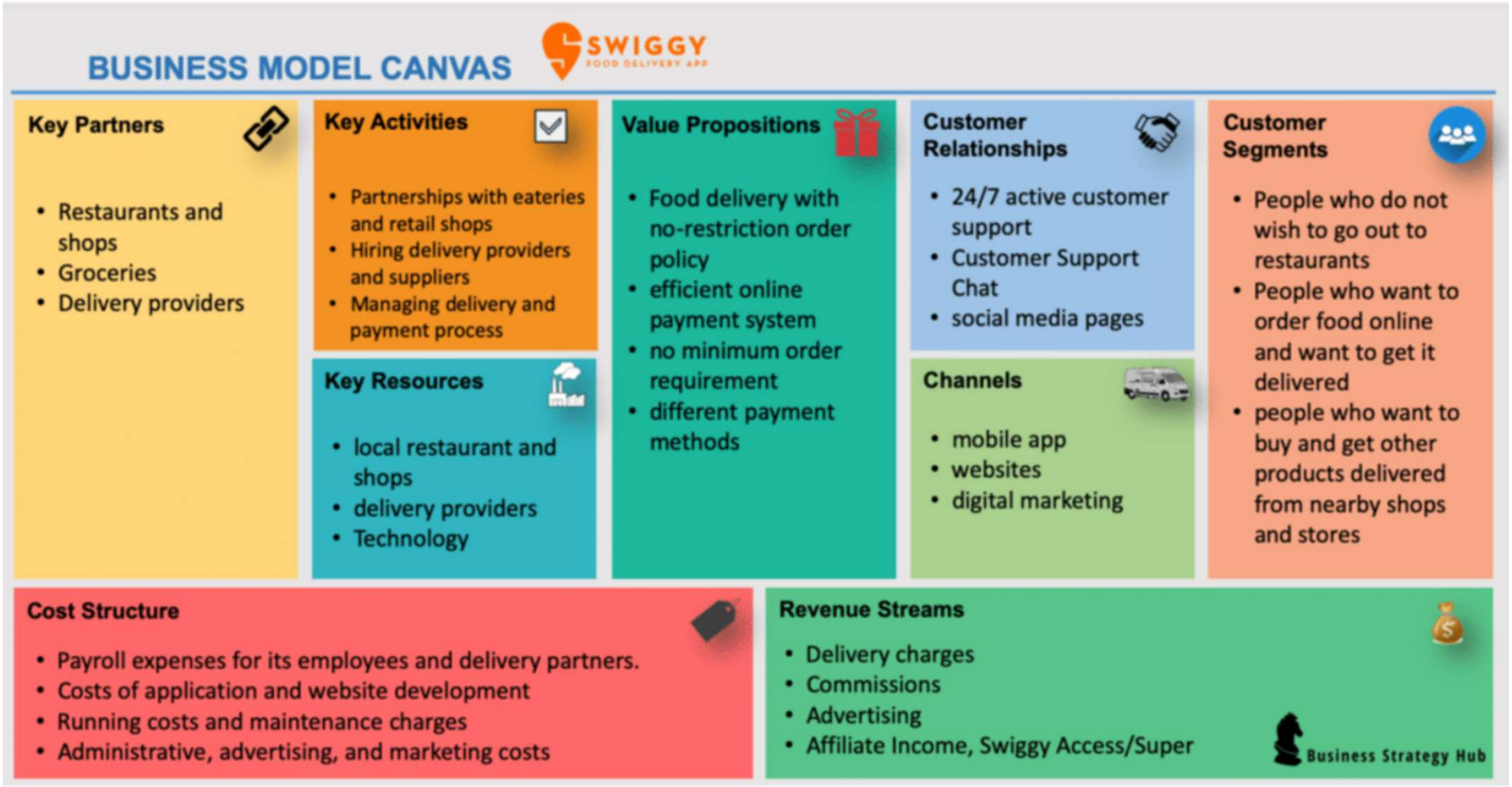

# Business Model Canvas - Ola

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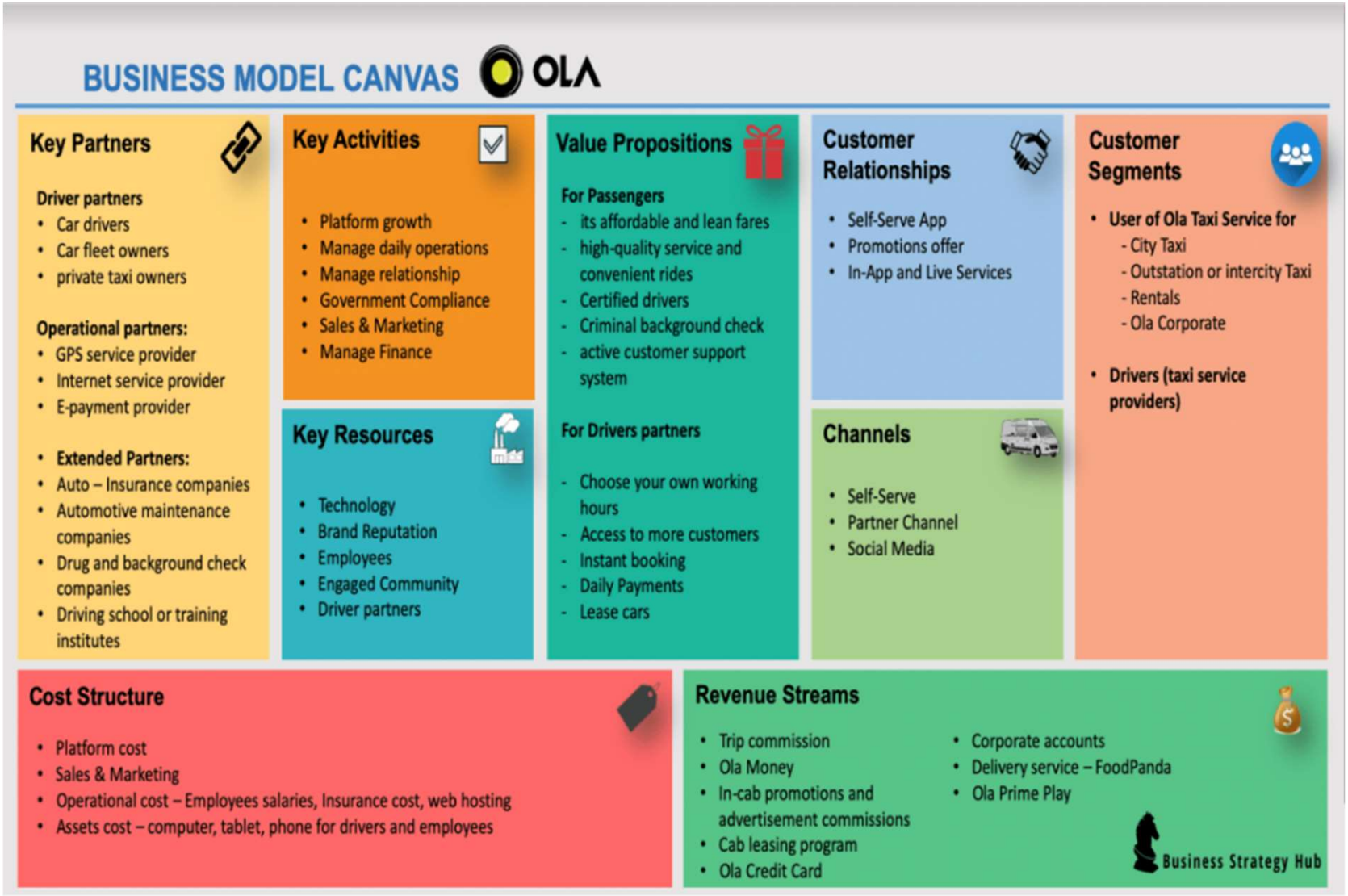
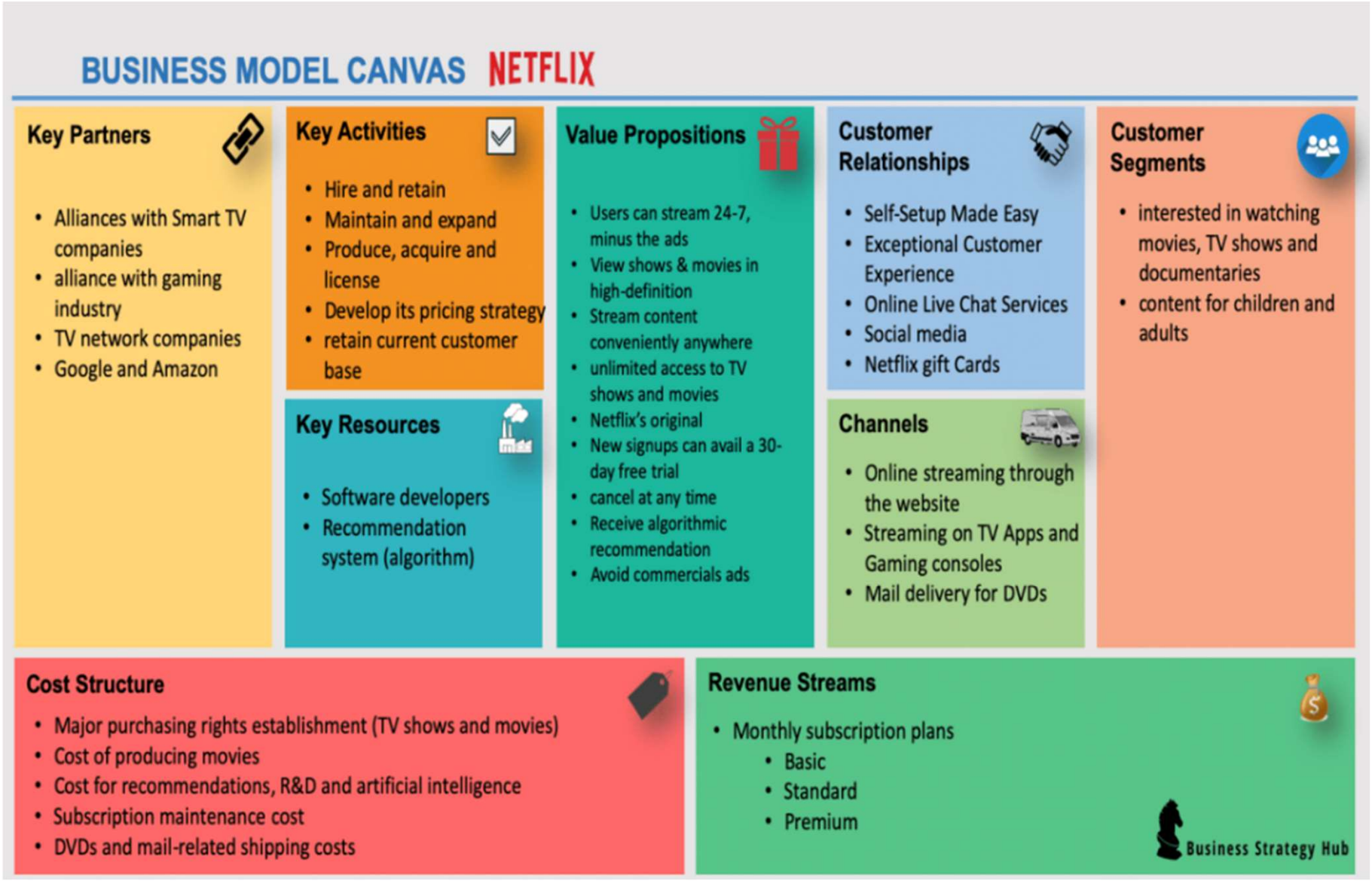
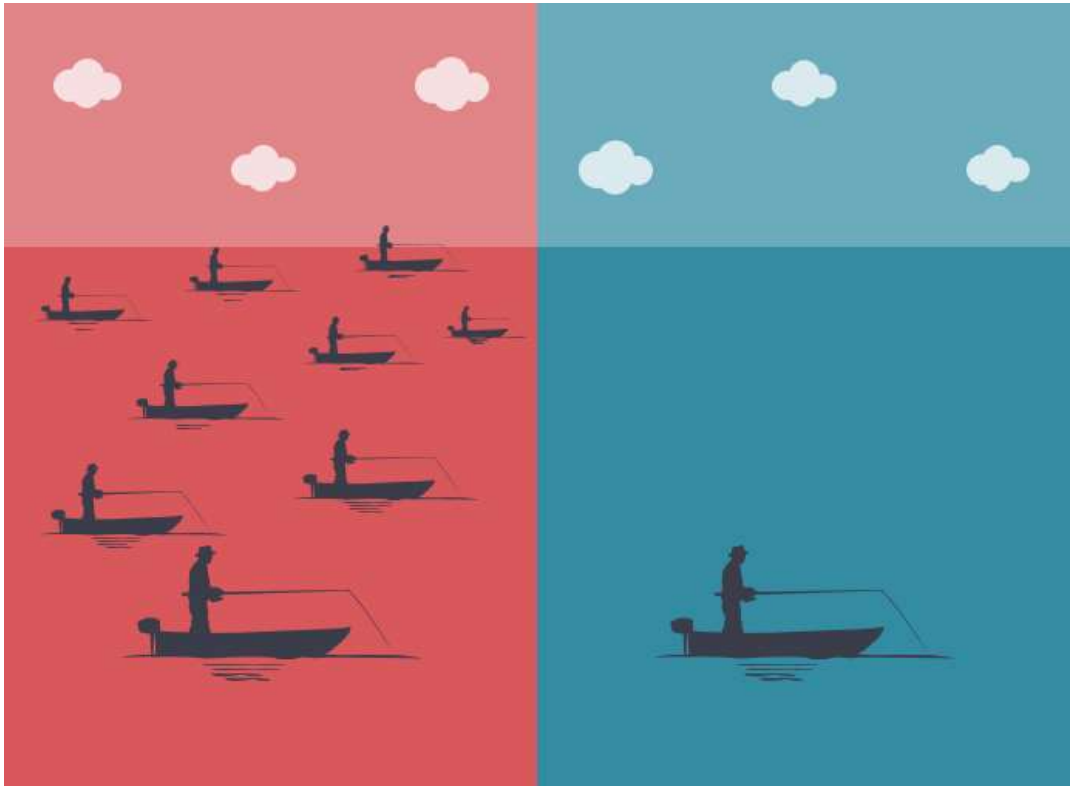


# Business Model Canvas - Netflix



# Blue and Red Ocean Strategies

It can be difficult to succeed with the cutthroat competition in the business environment today. Luckily, there are many strategies you can use in order to gain an edge on your competition. Two of these are red ocean and blue ocean strategies, which were introduced by W. Chan Kim and Renée Mauborgne in 2005.



# Red Ocean Strategy

A red ocean strategy involves competing in industries that are currently in existence. This often requires overcoming an intense level of competition.

This can also often involve the commoditization of the industry where companies are competing mainly on price. For this strategy, the key goals are to beat the competition and exploit existing demand.

One industry in which a red ocean strategy would be necessary is the soft drink industry. This industry has been in existence for a long time, and there are many barriers to entry. There are industry leaders in place such as Coke and Pepsi, and there are also many smaller companies also in competition for market share. There's also limited shelf space and vending spots, well-established brand recognition of popular, current brands, and many other factors that affect new competition. This causes the soft drink industry to be very competitive to enter and succeed in.

# Blue Ocean Strategy

A blue ocean strategy is based on creating demand that is not currently in existence, rather than fighting over it with other companies. You must keep in mind that there is a deeper potential of the marketplace that hasn't been explored yet. Most blue oceans are created from within red oceans by expanding existing industry boundaries. The key to a successful blue ocean strategy is finding the right market opportunity and making the competition irrelevant.

An example of a successful execution of a blue ocean strategy is the iPod. When the iPod was introduced in 2001, Steve Jobs said that "with [the] iPod, Apple has invented a whole new category of digital music player that lets you put your entire music collection in your pocket and listen to it wherever you go." Apple looked beyond what was in the market at that time and introduced a product that created a new industry in and of itself. Apple looked beyond what customers were asking for and created a successful product.

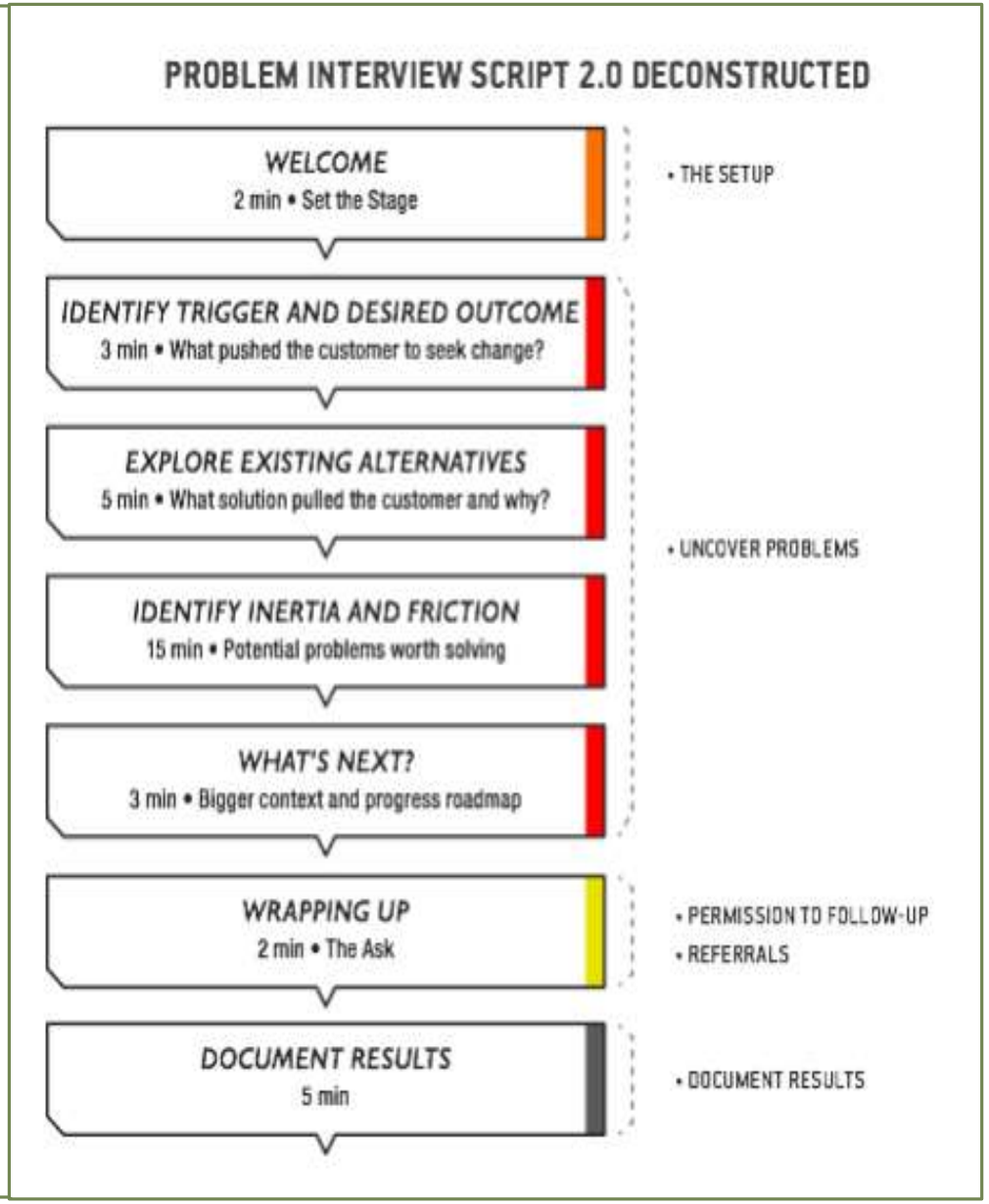
# Blue and Red Ocean Strategies

| Red Ocean Strategy | Blue Ocean Strategy |
| --- | --- |
| Compete in existing market space | Create uncontested market space |
| Beat the competition | Make the competition irrelevant |
| Differentiation or low cost | Differentiation and low cost |
| Competitive Advantage | Value Innovation |
| Segment existing customers | Attract noncustomers |
| Exploit existing demand | Create and capture new demand |

# THE PROBLEM-SOLUTION TEST



- Before you can build the "right" solution for your customers, you have to understand the "right" problem.
- Inspired by the Scientific Method, the search for Problem / Solution fit starts with creating a model—specifically a business model, you take your best guess at articulating a customer and problem.



- **Triggers create a desire for better.**

Taken together, the trigger and desired outcome create anchor points for the customer journey story you want to learn about.

*Example: When entrepreneurs get hit with an idea, they might define securing funding or building/launching their product as the desired outcome.*

- **Existing Alternatives and Current Solution**

i. What attributes attracted the customer?

ii. What solutions did the customer consider?

- **Inertia, Friction, and Next Summit**

For each solution (starting with their most recent), you want to get the customer's story on how they found, selected, used the solution, and what's the next goal for them :

Inertia represents obstacles and roadblocks that hold the customer back at the time of choosing a new solution.

Friction occurs further down the road. Friction represents obstacles and roadblocks that get in the way during usage. The last step is assessing how well the job was done with their chosen alternative.

- The script starts out by setting the stage and setting a problem context, but the heart of the interview is around exploring your customer's worldview because that's where you gather empirical evidence that either supports or refutes your case.
- The only reliable way to gather this evidence is by exploring **what customers did in the past or will do in the present**. Asking them what they'll do in the future, e.g. "Will you use…", puts you in the land of biases and should be avoided.
- If you gather evidence that supports your problem assumptions (validation), you can pat yourself on the back and move to the next step of defining and testing a solution with a Solution Interview:

# Building a Solution Demo

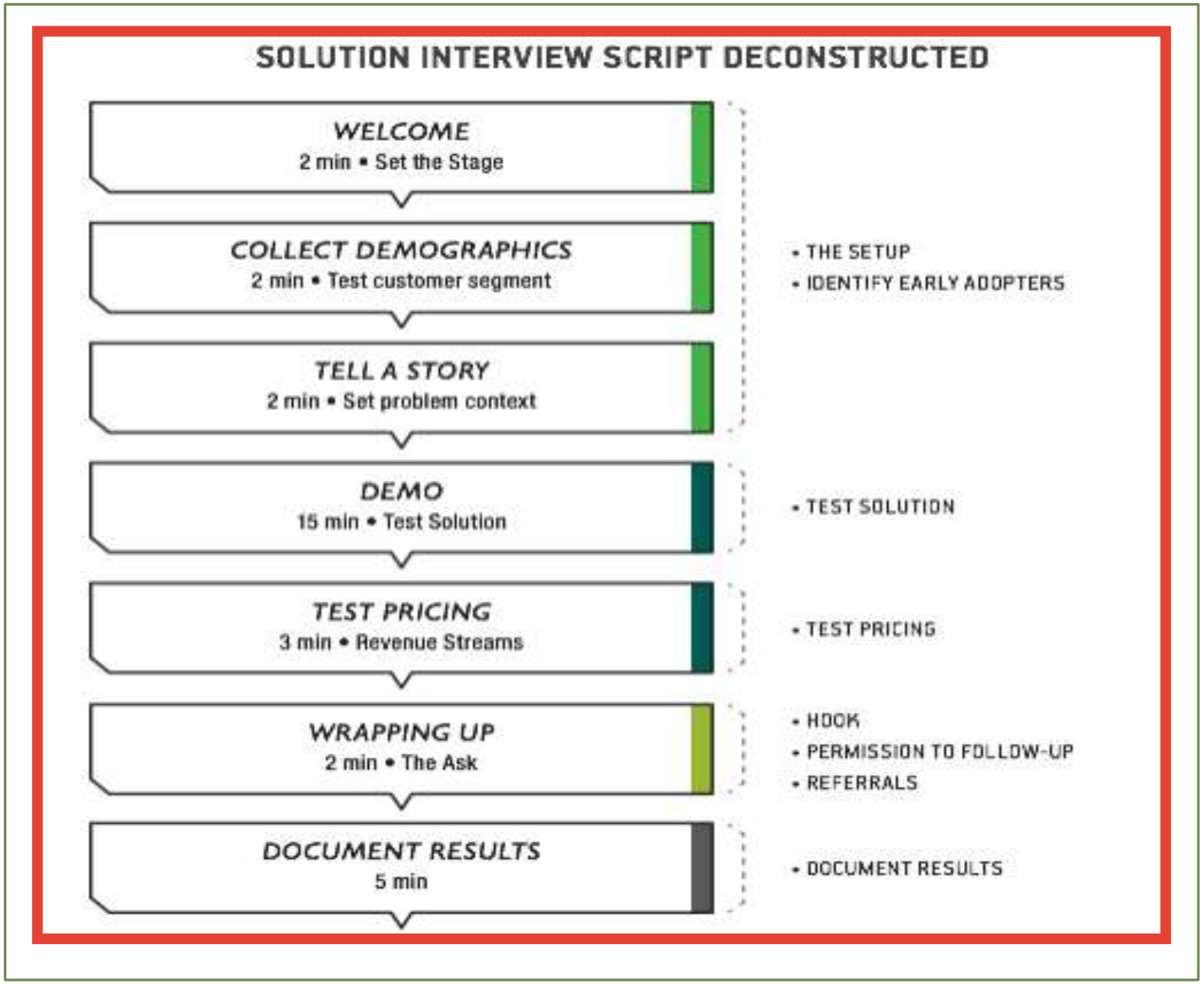
- The Solution Demo can be thought of the smallest possible solution that can stand in for the actual solution, for the purpose of testing. It contains the core component of the solution, but is not the entire solution.
- You might not want to invest a lot in building a solution ( a full – fledged product or a service ) which nobody wants. Instead, create a demo or a mockup of your solution and test run it with your customers.
- This is a Lean Startup Technique which helps you validate your solution.
- Example of a Solution Demo ( of a Data Center ) – a video depicting its services.


# Building a Solution Demo

- Guidelines to build a solution demo :
  - 1) Don’t make a very simple mockup or a demo, such as an image or a sketch. Give the customer a real sense of the solution. For example, if your solution is a website, design a mock website as the solution demo, rather than displaying a photoshopped image of the site.
  - 2) Don’t build an unnecessarily flashy demo. While a flashy/creative demo may be effective at making the sale, it makes the job of the implementation team quite difficult. Hence, you need to make sure that the demo represents something that can indeed be created in reality.
  - 3) Build your demo with your own resources, don’t hire/spend on additional resources. Create a quick mockup, instead of creating a complicated one by hiring resources which would lead to increase in the turn – around time to respond to feedback.
  - 4) Build as many mockups as required. If there are multiple user requirements, create one mockup/demo for each requirement.

# SOLUTION INTERVIEW METHOD





- If, however, you don't uncover evidence that supports your assumptions (invalidation), you have to dig deeper for new problems worth solving. This is where people stumble.
- Here are a couple of reasons why:

1. Most of us unconsciously frame (or fake) problems around the solution we already want to build and then attempt to seek just enough evidence to convince ourselves we are on the right track.
2. Next, if you start with a non-problem, even though you can often see invalidation pretty quickly during the interview, recovering from it isn't always easy.

# IDENTIFY MINIMUM VIABLE PRODUCT



- A **Minimum Viable Product** (MVP) is a **product** with just enough features to satisfy early customers, and to provide feedback for future **product** development.
- The **Minimum Viable Product** (MVP) gives you the chance to test the **product** in the real market conditions and with the everyday consumers to evaluate its performance.

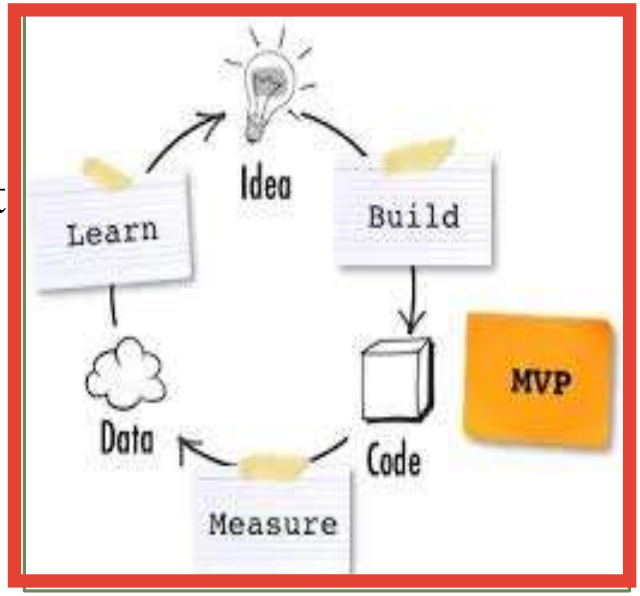
Example: In 2009, Manuel Rosso, Food on the Table's founder, had no mobile application or website for his service. But Manuel did amazing work to make sure that his startup idea was valuable for customers. First, Manuel found people willing to participate in his experiment. Then, he interviewed these participants and learned their food preferences and their budgets

Famous product that was initially launched with a MVP is Food on the Table. Food on the Table is a mobile application that collects your food preferences and then suggests recipes and grocery stores with the best deals to help you cook tasty and cheap dishes.

# Steps To Building An MVP



- Step 1. Define a problem you want to solve
- Step 2. Define the target audience and narrow it down
- Step 3. Evaluate your competitors
- Step 4. Do the SWOT analysis
- Step 5. Define the user flow
- Step 6. Create a list of features and arrange them according to their priority
- Step 7. Define the scope of MVP
- Step 8. Choose the best-fit management method and engineer an MVP
- Step 9. Apply Alpha and Beta testing
- Final Advice



# PRODUCT - MARKET FIT TEST



- Marc Andreessen defined the term as follows: "**Product/market fit** means being in a good **market** with a **product** that can satisfy that **market**."
- Many people interpret **product/market fit** as creating a so called minimum viable **product** that addresses and solves a problem or need that exists.
- Olsen has created a process to help articulate, test and revise your business plan so you can achieve this goal. He proposes a six-step framework called the Lean Product Process.

i. Determine your target customer

ii. Identify underserved customer needs

iii. Define your value proposition

iv. Specify your minimum viable product feature set

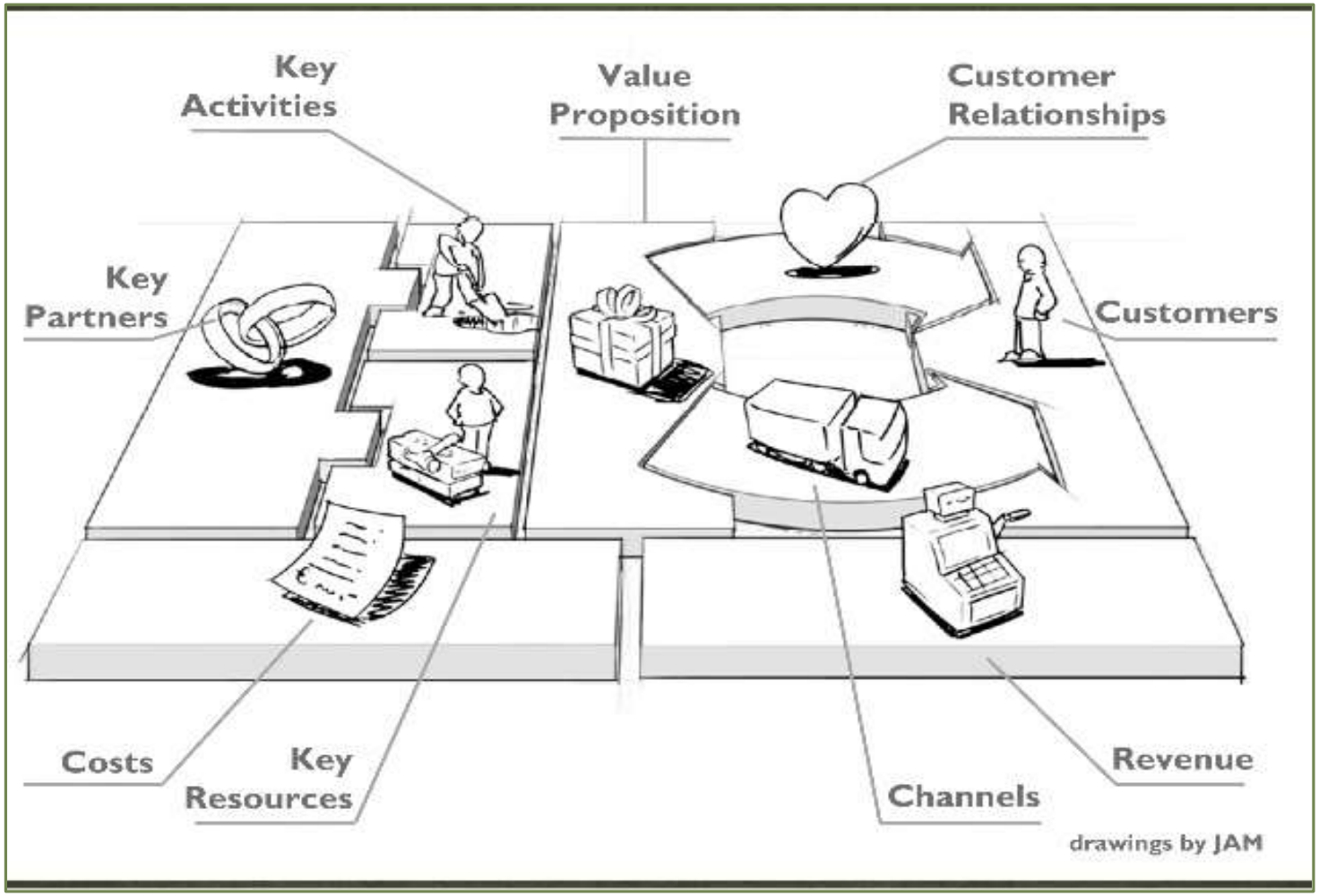
v. Create your minimum viable product prototype

vi. Test your minimum viable product with customers

- Product Market Fit = 2 parts

The Product : The part you control.

The Market : The part you don't control.

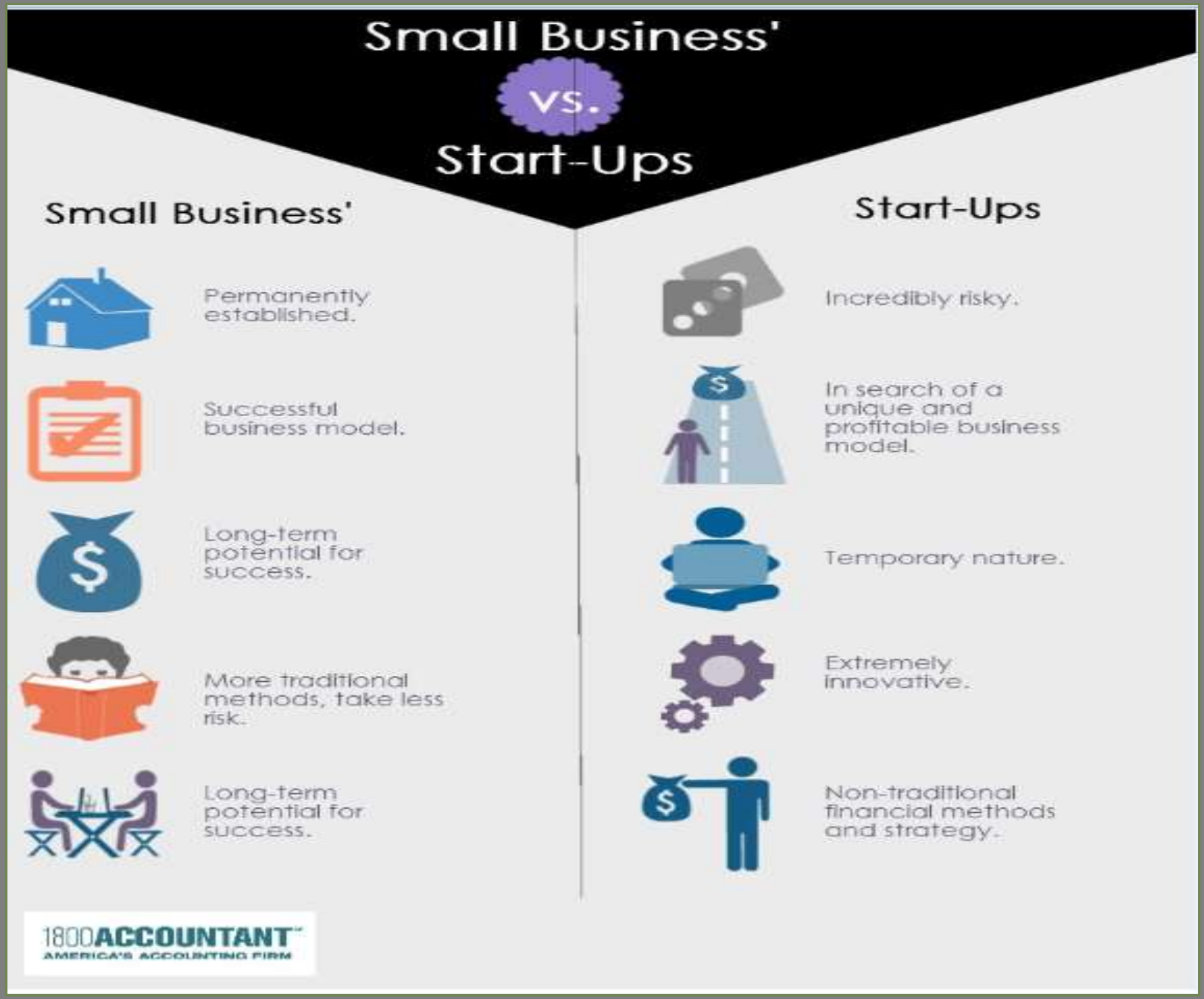


# Few Examples Of Product Market Fit.

- If your product is “diapers “, your product market is B2C - newborn to up to 8 years
- If your product is “milk”, your product market is the universe
- If your product is “Audi”, your product market is for upper middle to upper class with higher income
- If your product is “Allegra “, your product market- “people with allergies
- A good example of “product-market fit” is a school application that helps students learn and warns teachers when a student isn’t achieving expected goals.
- The **market** for airline travel; smart-phones, new cars; pharmaceutical **products** and the **markets** for financial services such as banking, mortgages and pensions.

# CHARACTERISTICS OF START-UP AND SMALL BUSINESS

| START-UP | SMALL BUSINESS |
|---|---|
| Start-Ups are fundamentally concerned with growth | Smaller Teams of Employees |
| Start-Ups must exhibit economies of scale | Small Market Area |
| Start-Ups must pursue large markets | Sole or Partnership Ownership and Taxes |
| Start-Ups operate under conditions of extreme uncertainty | Limited Area of Fewer Locations |
| Start-Ups market their products / services in very unique ways | Lower Revenue and Profitability |


Small Business'
vs.
Start-Ups
Small Business'
Permanently established.
Successful business model.
Long-term potential for success.
More traditional methods, take less risk.
Long-term potential for success.
Start-Ups
Incredibly risky.
In search of a unique and profitable business model.
Temporary nature.
Extremely innovative.
Non-traditional financial methods and strategy.
1800ACCOUNTANT
AMERICA'S ACCOUNTING FIRM

# INDUSTRY ANALYSIS

An Industry is a system consisting of a group of manufacturers or businesses with the common objective of producing a particular kind of goods or services. There are different types of industries and industry sectors with a number of firms doing business with profit motivation.

| Industry Sector Analysis | People Perception Analysis |
|---|---|
| Industry Trend Analysis | Industry Contribution To GDP |
| Environmental Analysis | Market Demand Analysis |
| Competitors Analysis | Opportunity Analysis |
| Alternative Product / Service Analysis | Government Policy Analysis |
| Financial Performance Analysis | Industry –Employment Generation |
| Industry ABCD Analysis | Latest Industrial Development Analysis |
| Industry SWOC Analysis | Top Leading Companies In Industry |
| Product / Service Analysis | Cross Industry Analysis |
| Investment Analysis | Market Size Analysis |
| Automation and Labor Analysis | Information Technology Implementatio |
| Studying Industry Innovations using Six Thinking Hats | |

# INDUSTRY ANALYSIS Includes……



**1.Industry Sector Analysis**: An industry sector contains a segment of industries of a particular type in a given economy.

Examples are materials sector, financial sector, food sector, energy sector, transportation sectors, health sector, education sector etc.

**2. Industry Trend Analysis:** The present and future trend of a given industry are analyzed in this stage. Based on changes in the economy, technology, environment, and people aspirations, the opportunity and the growth trend of an industry are affected.

**3.Environmental Analysis** : This includes analysis of challenges and opportunities for the growth of industries based on environmental factors. This may also include internal industry environment and external factors affecting the industry.

**4.The Competitor's Analysis** can be done as per the guidelines in Porter's 5 Forces Analysis. This include

i. Threat of new entrants to the given industry.

ii. Threat of substituent products or services or technology in that industry.

iii. Bargaining power of customers on pricing, quality, and after-sales support.

iv. Bargaining power of suppliers while supplying various resources in a given industry and the ability of companies to sustain and negotiate. The strength of bargaining power of supplier depends on their switching cost.

v. The competition among the revelry in the given industry and its consequence on their profit and sustainability for Analysis

**5.Alternative Product/service Analysis**: Alternative products/service analysis may give rise to new innovative business models or processes in a given industry.

**6.Financial Performance Analysis**: The average financial performance of an industry in terms of overall investment in a given economy/country, in terms of initial investment, working capital and maintenance expenditure, the average return on investment, comparison of share prices, assessment of current position, prediction of current profitability & growth prospects, and future investment opportunities & returns have to be analyzed.

**7.Industry ABCD Analysis**: The affecting factors are identified under the constructs advantages, benefits, constraints, and disadvantages of selected key issues.

**8.Industry SWOC Analysis** : SWOC is an acronym for Strengths, Weaknesses, Opportunities and Challenges, SWOC Analysis is the most renowned tool for audit and analysis of the overall strategic position of the industry and its environment. Its key purpose is to identify the strategies that will create an industry specific business model that will best align the available resources and capabilities to the requirements of the environment in which the firms in an industry operates.

**9. Product/Service Analysis:** The quality, suitability, durability, features, and acceptability of a product or service by its customers and further possible innovations are the main essences of product/service analysis.

**10. Investment Analysis:** factors that will be looked at include:

i. Revenues, expenses and income

ii. Growth prospects for the company

iii. The competitive factors the company faces

iv. Expected return on equity or assets in the industry

**11. Automation & Labor Requirement Analysis** :Based on the analysis, one can determine a given industry as capital intensive or labor intensive.

**12. People perception Analysis: The** perception about the given industry, its products or services, usefulness of that industry to the society, environmental effect of that industry, contribution of that industry to the economical change and social change of the country.

**13. Size of the Industry & Total Contribution to the Economy** : Analyzing the size of the given industry, the number of companies functioning, the contribution to economy and GDP by the industry.

**14. Market Demand Analysis**: This analysis helps to determine if the companies in a given industry can successfully enter a market and generate enough profits to advance its business operations.

**15. Opportunity Analysis**: The various opportunities in a given industry for its products and services, growth and expansion, improved business models, better margins, brand building, economy of scale etc.

**16. Government Policy Analysis** :This section should focus on how the government policies on a given industry are supported or hindered its performance and growth.

**17. Industry Contribution & Employment Generation Analysis** :Industry contribution towards creating employment, supporting other industries, and contribution towards foreign export

**18. Latest Industrial Developments:** Studying, and analyzing short time and long time changes/developments in an industry based on changes in business models, changes in technology, changes in people aspirations, and changes in local/ country Govt. policies,

**19. Top leading Companies in an Industry & their Strate**gies : The analysis can also include the study of various strategies used by such companies in a given industry.

**20. Cross-industry Analysis** : The cross-industry analysis focuses on comparing the business features on various inter-related industries in horizontal (within an industry sector) and vertical (in different industry sector) integrated schemes.

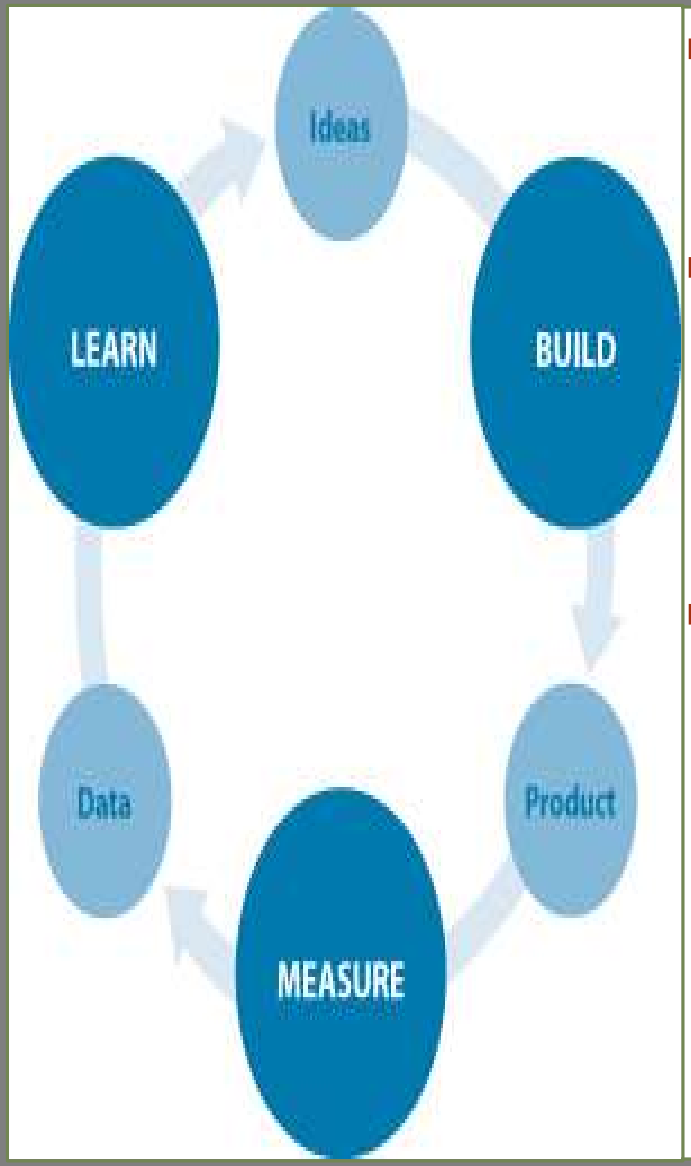
**21. Market Size: The** data related to the market size of an industry can be collected to free resources on the web, Government sources, Trade associations, Financial Services Firms, and Online Data Providers

**22. Information Technology Implementation** :Depending upon the nature of products/services and their tangibility/intangibility, opportunity to use information technology supported e-business models in a given industry to decrease the cost of doing business and for global marketing

**23. Studying Industry Innovations using Six Thinking Hats** : Six thinking hats is a lateral thinking technique for solving any given problem in an industry innovatively

# Build-Measure-Lean Feedback loop






- A core component of Lean Startup methodology is the **build-measure-learn** feedback loop.
- The first step is figuring out the problem that needs to be solved and then developing a minimum viable product (MVP) to begin the process of **learning** as quickly as possible
- In practice, the model involves a cycle of creating and testing hypotheses by building something small for potential customers to try, measuring their reactions, and learning from the results

Follow these steps to use the build **BUILD-MEASURE-LEARN FEEDBACK LOOP:**