



New Venture Creation

Valuation

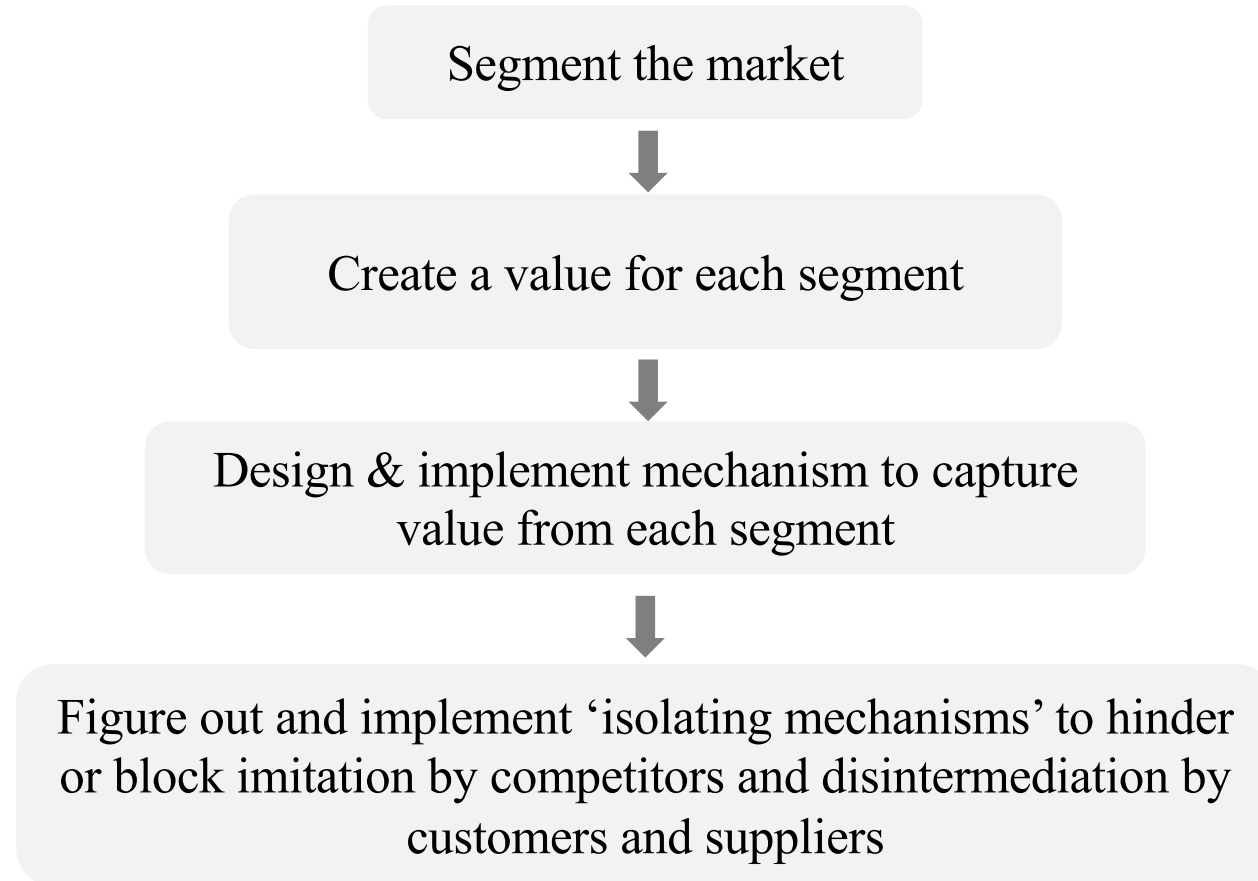
Value

Business Model

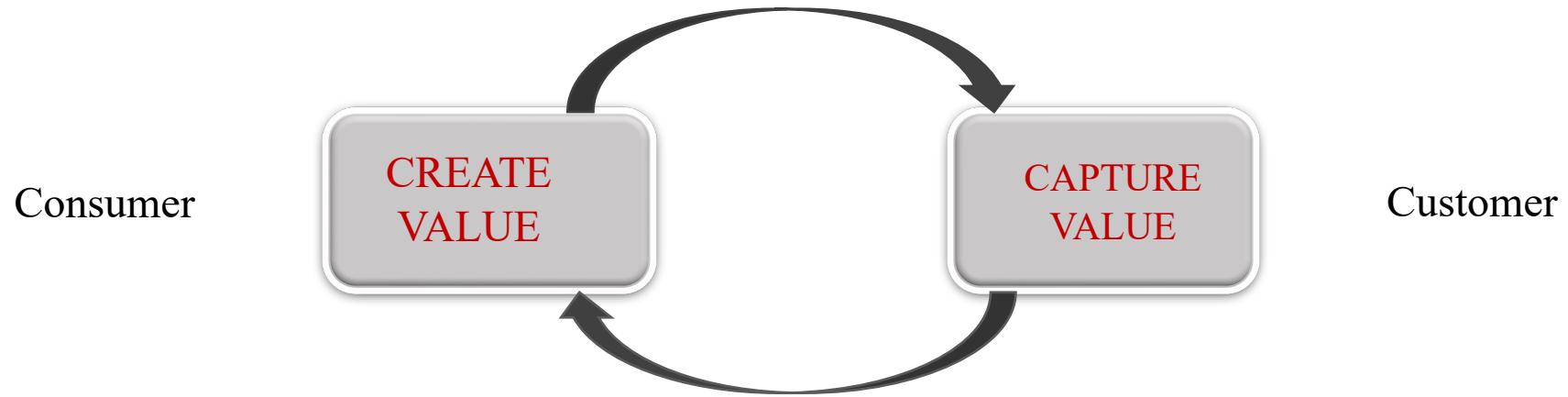
Designing a business model....

Designing a Business Model

Source: Teece (2009)

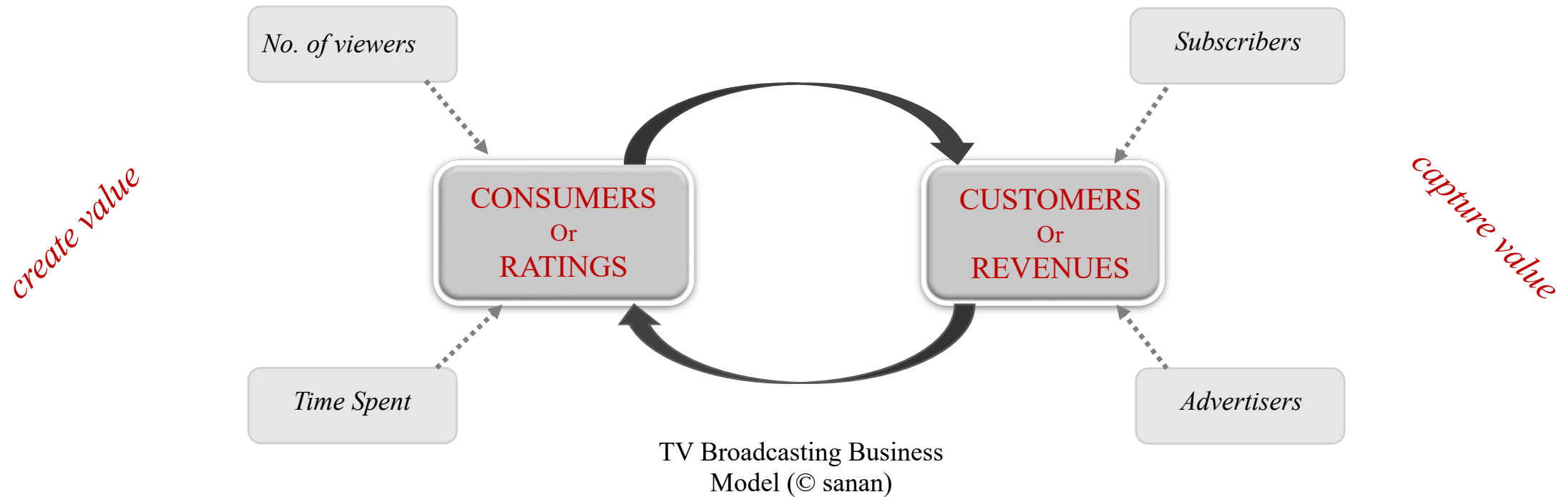


Business Model : The two main parts



Consumers and customers maybe the same or different

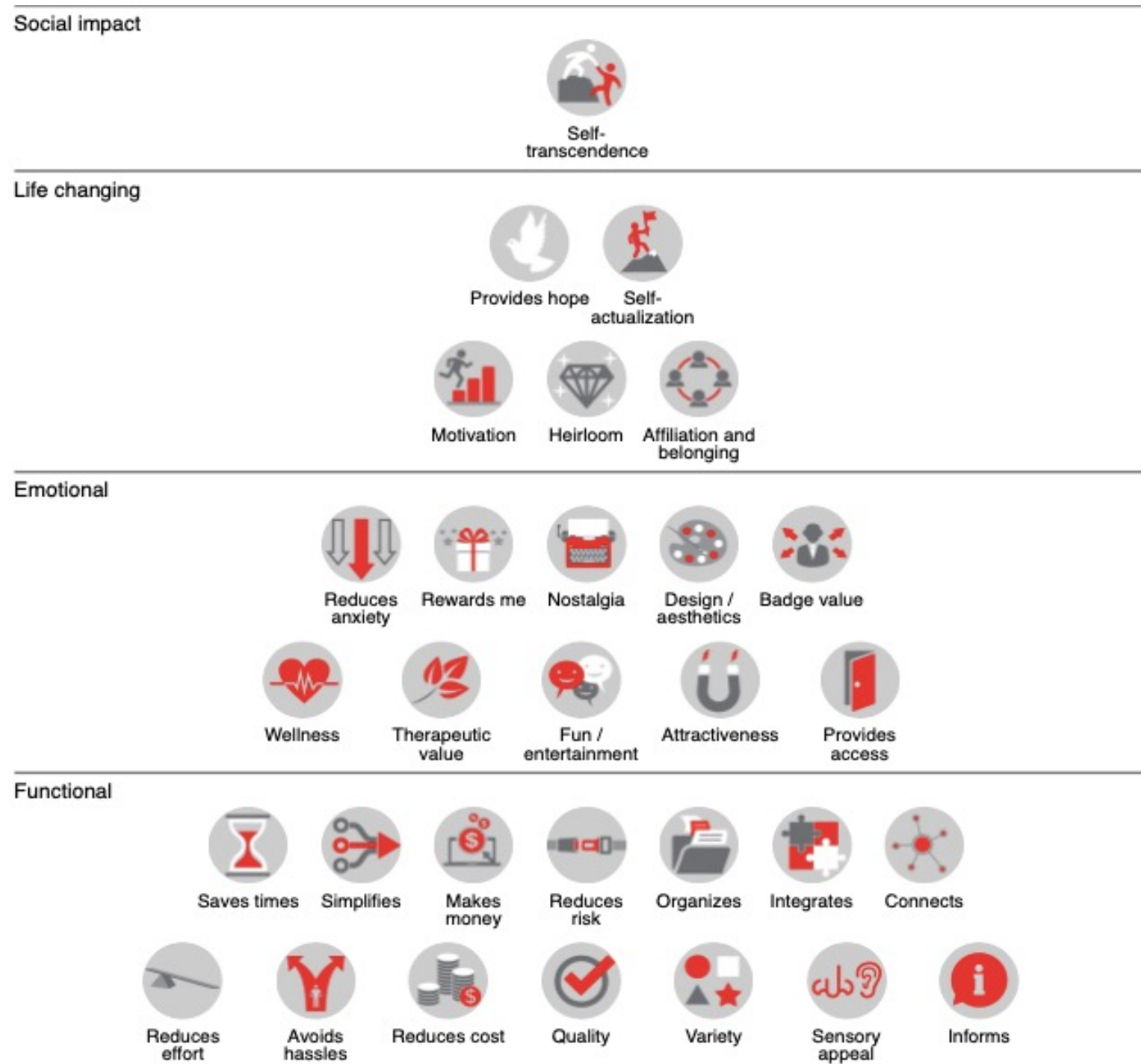
Example: The TV Business Model



Concepts

1. **Value:** a combination of quality, service, and price

Value hierarchy



You CAN map value hierarchy by category of business

APPAREL RETAIL

QUALITY
VARIETY
AVOIDS HASSLES
DESIGN/AESTHETICS
SAVES TIME

DISCOUNT RETAIL

QUALITY
VARIETY
REDUCES COST
SAVES TIME
REWARDS ME

AUTO INSURANCE

QUALITY
REDUCES ANXIETY
REDUCES COST
PROVIDES ACCESS
VARIETY

CREDIT CARDS

QUALITY
REWARDS ME
HEIRLOOM
AVOIDS HASSLES
PROVIDES ACCESS

Concepts

1. **Value:** a combination of quality, service, and price
2. **Value proposition:** a set of unique benefits that satisfy an existing or an unmet needs

How to express ‘value proposition’

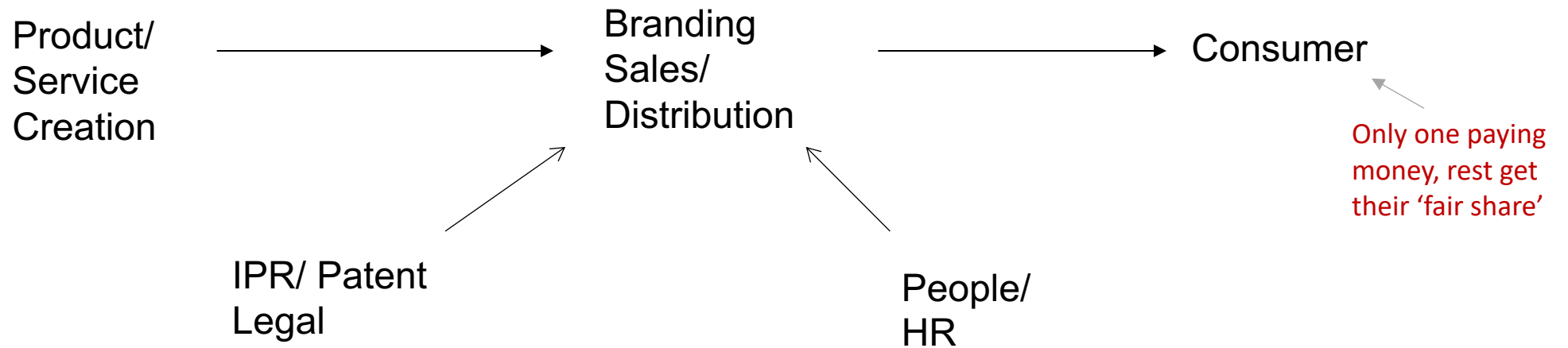
| | | |
|----------------|---------------------|--|
| | Only _____ | (company name) |
| <i>Need</i> | _____ | (problem you are solving) |
| <i>Benefit</i> | by delivering _____ | (B2B: cost/ revenue, B2C: functional, emotional) |
| <i>RTB</i> | because _____ | (why should customer believe you....POC) |

- Written by the founders
- Endorsed by the prospective customer: Concept Check

Concepts

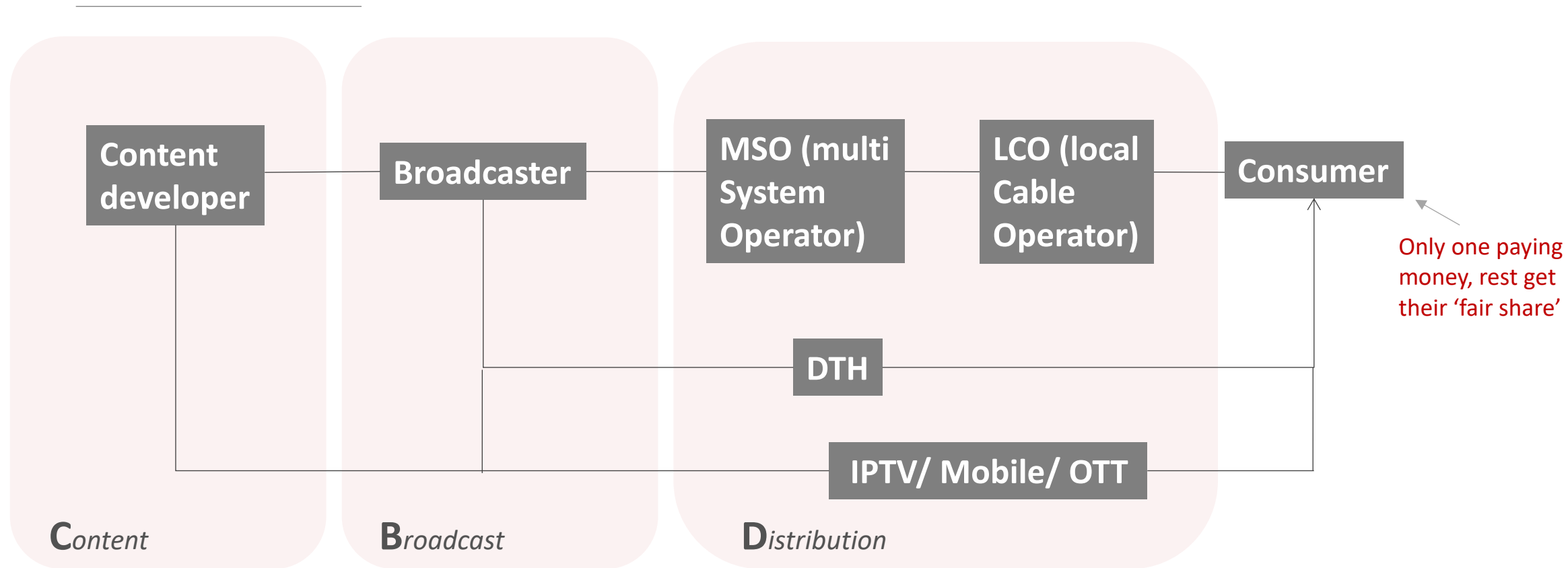
1. **Value:** a combination of quality, service, and price
2. **Value proposition:** a set of benefits that satisfy an existing or an unmet needs
3. **Price:** a customer segment's "willingness to pay"
 - Note: Ability to pay is assumed
 - Note: Price is a not a function of costs, but yes competition plays a huge role
 - Transaction happens when [$WTP \geq Price$]

Value Delivery Network/ Supply Chain



Value chain: a channel stretching from raw materials to components to finished products carried to final buyers

Value Delivery Network/ Supply Chain



Concepts

1. **Value:** a combination of quality, service, and price
2. **Value proposition:** a set of benefits that satisfy an existing or an unmet needs
3. **Price:** a customer's willingness (+ ability) to pay for satisfaction
4. **Experience/ Satisfaction:** a person's judgment of a product's perceived performance in relationship to expectations

Customer Experience (CX) Measurement

- Customer Experience has many layers to it.
- It is a sum of all experiences that a customer has had across touchpoints, while interacting with an organization.
- In its entirety, it seeks to measure the customer journey over time, to improve the overall relationship experience as well as maximize/optimize the impact of each ‘transaction x touchpoint’
- Three Metrics enable comprehensive tracking of customer experience:
 1. Net Promoter Score (NPS)
 2. Customer Satisfaction Score (CSAT)
 3. Customer Effort Score (CES)
- These metrics are not substitutable with each other – they are complementary in nature.

What are the questions asked?

Net Promoter Score (NPS)

How Likely are you to **recommend** this product/ service?

Customer Satisfaction Score (CSAT)

How **satisfied** are you with this product / service?

Customer Effort Score (CES)

How **easy** was it to complete this task/action?

How are they measured?

NPS

How likely are you to recommend this product or service to a friend or co-worker?

Not at all likely 0 1 2 3 4 5 6 7 8 9 10 Extremely likely

CSAT

Overall, how satisfied were you with the F&B?

Extremely
dissatisfied

Somewhat
dissatisfied

Neither
satisfied nor
dissatisfied

Somewhat
satisfied

Extremely
satisfied

CES

How easy was it for you to complete this task or action?

Very difficult

1

2

3

4

5

6

7

Very easy

Why are they important?

NPS

DRIVE CUSTOMER RETENTION & GROWTH

- Measure LONG TERM Customer Loyalty
- Reduce Churn
- Strategize for segments – Detractors, Passives, Promoters

CSAT

IMPROVE PRODUCTS AND SERVICES

- Measure Satisfaction with RECENT INTERACTION/ TRANSACTION with Customer
- Identify Drivers of Satisfaction/ Dissatisfaction
- Drive Training, Quality Control, Address Immediate Issues

CES

REDUCE FRICTION IN A TRANSACTION

- Measure Ease of Completion linked to a specific service rendered
- Pinpoint Areas of Friction
- Identify Obstacles in critical areas

Concepts

1. **Value:** a combination of quality, service, and price
2. **Value proposition:** a set of benefits that satisfy an existing or an unmet needs
3. **Price:** a customer's willingness (+ ability) to pay for satisfaction
4. **Satisfaction:** a person's judgment of a product's perceived performance in relationship to expectations
5. **Profit:** (Customer's willingness to pay) – (cost of product/ service)
6. **Customer Lifetime value:** Profits you will make from a customer over the time that customer remains with you

Understanding Customer Lifetime Value

| A Hypothetical Example to Illustrate CLV Calculations | | | | | | | | | | | |
|---|--------|----------|----------|----------|----------|----------|----------|--------|--------|--------|---------|
| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Number of Customers | 100 | 90 | 80 | 72 | 60 | 48 | 34 | 23 | 12 | 6 | 2 |
| Revenue per Customer | | 100 | 110 | 120 | 125 | 130 | 135 | 140 | 142 | 143 | 145 |
| Variable Cost per Customer | | 70 | 72 | 75 | 76 | 78 | 79 | 80 | 81 | 82 | 83 |
| Margin per Customer | | 30 | 38 | 45 | 49 | 52 | 56 | 60 | 61 | 61 | 62 |
| Acquisition Cost per Customer | 40 | | | | | | | | | | |
| Total Cost or Profit | -4,000 | 2,700 | 3,040 | 3,240 | 2,940 | 2,496 | 1,904 | 1,380 | 732 | 366 | 124 |
| Present Value | -4,000 | 2,454.55 | 2,512.40 | 2,434.26 | 2,008.06 | 1,549.82 | 1,074.76 | 708.16 | 341.48 | 155.22 | 47.81 |

Ok **how** does this work

| | | Valuation | | |
|-----------|---|------------|-------------|------------|
| | | (products) | (tech Prod) | (services) |
| Revenues: | x | 5x-7x | 7x-15x | 3x-5x |
| Or | | | | |
| Profits | y | 15y-20y | 15y-20y ~ | |

- **5/7/3 : Multipliers**

- Used more with revenues, especially for loss making startups.
- Function of what are the hypotheses.
- Your startup in someone else's hand can change the valuation.

For the next meeting

- On or before the mid-night of August 16th , please mail the following to Shivani:
 1. Group Name
 2. Group Members
 3. Category that you want to enter
- On Tuesday, August 16th
 - Starting business in India
 - Please read Chapter 1 and Chapter 2 of NVC, the book