

Entrepreneurship Business Model Generation - I

CONCEPTS COVERED

Concepts Covered:

- ❑ Business model definition & generation
- ❑ Business model template
- ❑ Business model template canvas
- ❑ Example

Business Model: Definition

- A business model is an opportunity for a business with all its features including risks, advantages, complexities, customer segment, market structure & potential, competition landscape, socio-political challenges and opportunities, commercial attractiveness, environmental challenges, techno-economic feasibility, profitable sustainability, growth potential, legal tenability and the execution plan.
- A business model describes the rationale of how an organization creates, delivers, and captures value – Alexander Osterwalder

Business Model and Business Plan

Business plan is a document containing the detailed plan of execution of a Business Model, its unique strengths, weaknesses, opportunities, threats, the complementary skills of the team, operation plan, marketing plan and the financial projections, demonstrating how the company acquire, retain and grow customer base, create value for customers and other stakeholders, derives competitive advantages, sustain and grow in the long run.

Business Model

- Starting from identifying the pain point, Business Model innovation includes developing solutions, sustaining profitable growth and creating value for companies, customers, and society.
- It is about innovating new products, process, services, and businesses replacing outdated models.
- Apple created an innovative new business model with its iPod digital media player and iTunes online music store.
- Skype brought us cheap global calling and free Skype-to-Skype calls with an innovative business model built on peer-to-peer technology.
- Grameen Bank, in Bangladesh, is promoting social entrepreneurship and alleviating poverty through innovative microlending to the poor.

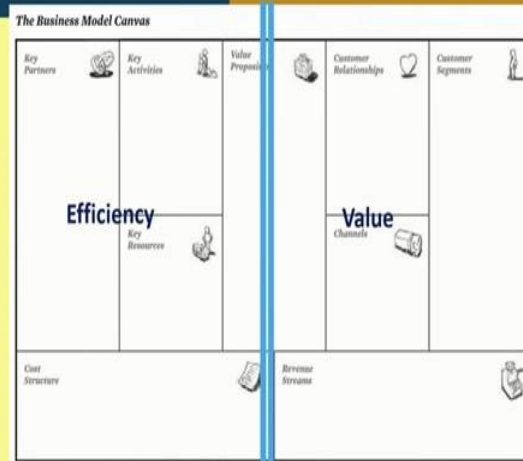
Business Model Template

- Thankfully for us, a template is available for business model.
- It has been propounded by Alexander Osterwalder.
- It is known as Business Model Canvas.

Business Model Canvas

- Alexander Osterwalder has presented nine building blocks for describing business model.
- These blocks are arranged in a canvas, called Business Model Canvas.
- The heart of the canvas is the Value Proposition and the Customer Segment blocks.
- Any business is related to customers and customers are there for the value provided to them through the product or service and they would provide profit to the company .

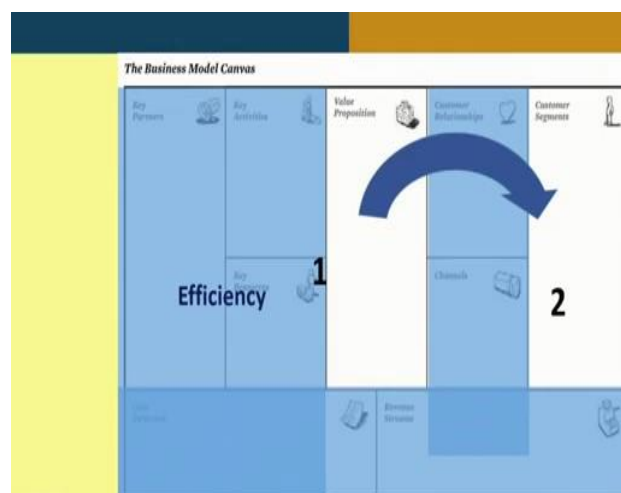
Business Model Canvas
Book: Business Model Generation by
Alexander Osterwalder, 2010



Value Proposition

- The Value Propositions Building Block describes the favorable features of products and services that would be perceived by the customers in the targeted segment as superior value for money.
- The Value Proposition provides reasons to customers why they would buy product of one company over another.
- Customers would consider the bundle of features and the price to be paid vis-à-vis with those of competing products.

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Market Segment

- Market segmentation is the act of dividing a broad consumer or business population into sub-groups of consumers based on some type of shared characteristics relevant for marketing particular product or service.
- Dividing the market for common characteristics such as shared needs, common interests, similar lifestyles or even similar demographic profiles.
- Identify high yield segments – that is, those segments that are likely to be the most profitable or that have growth potential

More About Segment

- Distinct groups with common needs, common behaviors, common taste or other attributes. A business model may define one or several large or small Customer Segments to meet their specific needs.

Customer groups represent separate segments if:

- Their needs, behavior, and conveniences are unique and they are ready to pay the extra price (or revenue) justifying additional cost to meet them.

More About Segment

The features of the products or services include newness, performance, customization, 'getting the job done', design, price, brand, cost reduction, risk reduction, accessibility, convenience, usability and such (Osterwalder 2010).



Channels

- The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.

It includes:

- creating awareness among customers of the value proposition.
- Helping customers evaluate a company's Value Proposition.
- Facilitating easy purchase of the product or service by the customers.
- Delivering the product or service conveniently to customers.
- Providing after-sale customer support as part of value proposition.
- Allowing to return in case of mismatch. Some exchange may also be included.

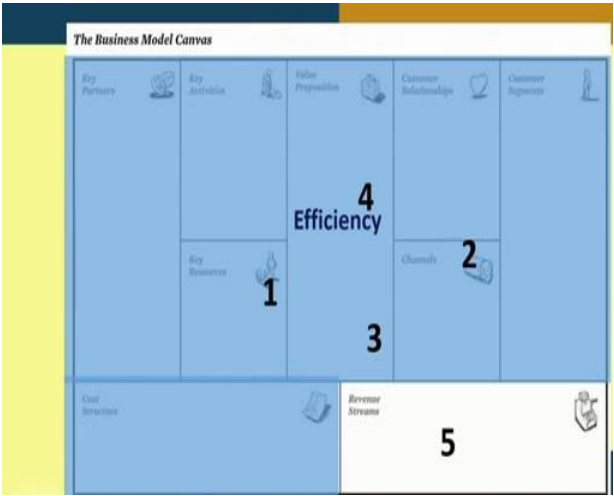


Customer Relationships

- The Customer Relationships Building Block describes how the company would build and maintain relationship with targeted customers on a sustainable long-term basis.

Motivations:

- Customer acquisition
- Customer retention
- Acquiring more customers for sustainable & profitable growth.
- Making profit from life-time-value of customers.



Revenue Streams/Model

- The Revenue Streams Building Block represents the cash a company generates from each Customer Segment
- If customers comprise the heart of a business model, Revenue Streams are its arteries.
- A company must ask itself, For what value is each Customer Segment truly willing to pay?
- Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment.



Key Resources

- The Key Resources Building Block describes the most important assets required to make a business model work
- These resources allow an enterprise to create the Value Proposition.
- Depending on type of business, different Key Resources are needed.
- A E-car manufacturer requires batteries, whereas a battery manufacturer requires materials such as lithium, cobalt, nickel, manganese, graphite, copper and aluminium.
- Key resources can be physical, financial, intellectual, or manpower. Key resources can be owned or acquired from key partners.



Key Activities

- The Key Activities Building Block describes the important processes or actions through which it delivers the value.
- For a car maker, Key Activities include manufacturing and supply chain management. For a software consultancy firm, Key Activities include problem solving.



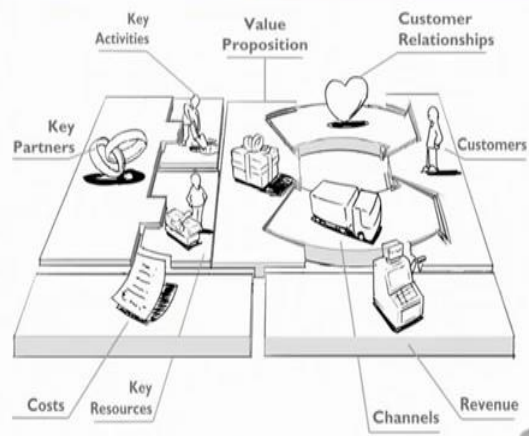
Key Partnerships

- The Key Partnerships Building Block describes the network of suppliers and facilitators who provide key resources.
- Companies create alliances to optimize their business models, reduce risk, or acquire resources.
- Key Partners include key suppliers of inputs, funding, consulting, manpower providers, investors.










Cost Structure

- The Cost Structure describes all costs incurred to operate a business model
- Cost to be incurred in creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs.



The Business Model Canvas

Key Partners  <ul style="list-style-type: none">Individual car ownersTransport operatorDigital wallet companiesTechnology providerAdvertisement agenciesDriver associationHardware provider	Key Activities  <ul style="list-style-type: none">Manage bookingOptimize vehicle logisticsMaintain customer registration, travel record	Value Proposition  <ul style="list-style-type: none">Easy bookingEasy paymentDirectionSafetyCompetitive rate (transparent)Schedule tour in advanceNo waitingPickup from homeNo parkingGood interior	Customer Relationships  <ul style="list-style-type: none">SecurityFeedbackLoyalty bonusFidelity bonus	Customer Segments  <p>Segment by profession</p> <ul style="list-style-type: none">People commuting dailyWorking peopleTourist <p>Segment by age</p> <ul style="list-style-type: none">People above 18 and below 70
Cost Structure  <ul style="list-style-type: none">Hardware costSoftware maintenance costEmployee costNetwork / hosting / database server cost	Revenue Streams  <ul style="list-style-type: none">Pay per rideRegistration fee, hardware rentAdvertisement on the AppAdvertisement on taxisEvent contract			

Criticism of Business Model Canvas

- It does not have any reference to exogenous forces.
- It focuses mostly on economic value and not environmental and social value.
- How to create competitive advantages, entry barrier, scaling business and such.
- Overly simplistic and narrow in terms of diversity of business challenges.

Conclusion

Conclusion:

- ❑ Business model explains a business creates values.
- ❑ Clear understanding of business model is critical for success of a business.
- ❑ Business model canvas is almost like a ready reckoner for conceiving various aspects of the business.
- ❑ However, business model canvas is only a part of the understanding of challenges and opportunities of a business.

References

References:

- ❑ Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: a handbook for visionaries, game changers, and challengers*. John Wiley & Sons.
- ❑ Bocken, N. M., Short, S. W., Rana, P., & Evans, S. (2014). A literature and practice review to develop sustainable business model archetypes. *Journal of cleaner production*, 65, 42-56.