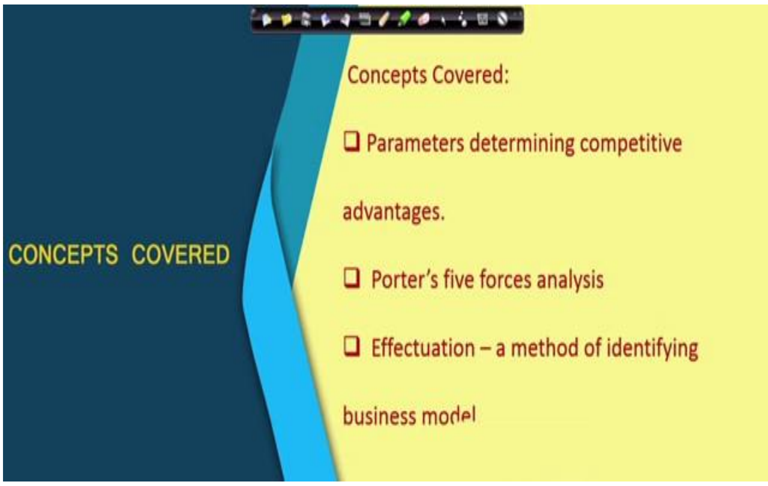
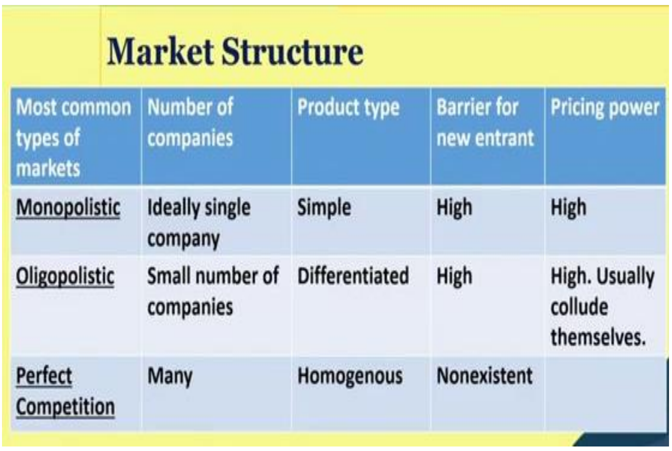
Business Model Generation – II





Market Structure

Most common types of markets	Number of companies	Product type	Barrier for new entrant	Pricing power
Monopolistic	Ideally single company	Simple	High	High
Oligopolistic	Small number of companies	Differentiated	High	High. Usually collude themselves.
Perfect Competition	Many	Homogenous	Nonexistent	

Characteristics of Winning Business Models

- Attractive market structure
- Entry barrier
- Scalability
- Pricing power
- Repeatability
- Compelling nature
- Growth potential
- Technological edge
- Ownership of IP
- Easy product extension
- Logistic advantage

Market Structure to Test the Potential Opportunity

- Market size and structure (present growth and future growth potential). Sufficient to accommodate new entrants.
- Market demand and supply of the product or service and the gap thereof justifying entry.
- Margin and profitability analysis.

Entry barrier

- Technological edge. Intellectual Property.
- Economies of Scale and cost advantage thereof
- Brand Loyalty
- Geographical Barriers
- Access to strategic resources
- Product differentiation
- The degree of firm concentration
- Capital requirements to enter a market
- Customers' cost of switching,
- Access to distribution channels, and
- Government policy.

Scalability

- Scalability – how easily business can scale or grow. Software application is a classical example of scalable solution. Developing it is costly but can be cloned at very little marginal cost.
- Good examples are Amazon, Flipkart, Practo
- In network based companies, scalability is a must for sustainability.

Pricing power

- Pricing power is the capacity to increase price without affecting the level of customers' demand for the product.
- Say a company is the sole manufacturer of a life-saving drug. The company can increase the price to increase profit without much impact on the sales volume.
- The ability to raise prices is one of the most important characteristics that determines profitability and sustainability of a business.
- Whenever input costs go up, firms can pass it over to customer by increasing price without concerns.

HOME SEARCH The New York Times

BUSINESS DAY

Drug Goes From $13.50 a Tablet to $750, Overnight

By ANDREW POLLACK SEPT. 20, 2015

Email Share Tweet Save More

Specialists in infectious disease are protesting a gigantic overnight increase in the price of a 62-year-old drug th... for treating a life-threatening parasitic infec...

The drug, called Daraprim, ... Pharmaceuticals, a start-up ... ring immediately raised the pric... the annual cost of treatment for som... sands of dollars.

"What is it that they are doing differently that has led to this dramatic increase?" said Dr. Judith Aberg, the chief of the division of infectious diseases at the Icahn School of Medicine at Mount Sinai. She said the price increase could force hospitals to use "alternative therapies that may not

HOME SEARCH The New York Times

BUSINESS DAY

Drug Goes From $13.50 a Tablet to $750, Overnight

July 27, 2016 :
Imprimis Pharmaceuticals waiting FDA approval for $1 copycat of

The same drug is already being made by many generic drug companies in India, where it can cost as little as 4 cents.

Australian high school students developed process to make the drug at a cost of 1$

Repeatability

- Cost of acquiring a customer is huge. This cost includes cost of product, research, marketing, and accessibility.
- Firms incur such huge cost on customer acquisition with the understanding that the customers would make repeated transactions and the life time value would give considerable profit to the firm.
- Therefore, the business model should ensure that customers come repeatedly.

Easy product extension

- Creating awareness among customers requires valuable resources.
- Create impression among your target market segment through one product.
- Introduce new products targeting the same segment as a natural extension at low marketing cost.

Logistic Advantage

- Nearness to inputs.
- Closeness to markets.
- Availability of knowledge workers or cheap labor.
- Access to ready and efficient distribution network.

Porter's Five Forces

- <u>Competitive Rivalry</u> – strengths and weakness of your competitors vis-à-vis your advantages. Intense rivalry may lead to aggressive price cut and more power to suppliers and buyers. Moderate competitive rivalry may lead to healthy profit.
- <u>Supplier Power</u> – how dependent is the suppliers on your business and vice versa. If you have many suppliers, you may command terms of supply and control price. Else, you are in a sellers' market (sellers can dictate terms).

Porter's Five Forces

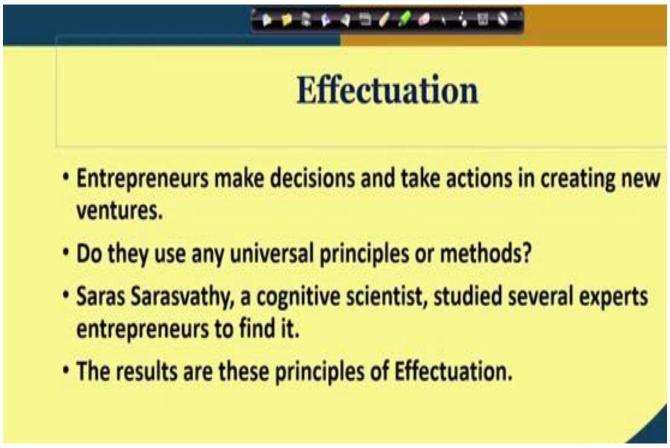
- Buyer Power – are there many buyers? Does it cost them much to switch to new sellers? If they can dictate terms you may have to price vary competitively? Else you may make healthy profit.
- Threat of Substitution – there may not be many sellers of the product that you sell. But if buyers can manage with a substitute product and that is available at attractive terms, they may switch to that putting pressure on you to reduce price.
- Threat of New Entry – If you are making good profit, others will start doing the same business. If there is barriers for new entrant, you may maintain your advantages.

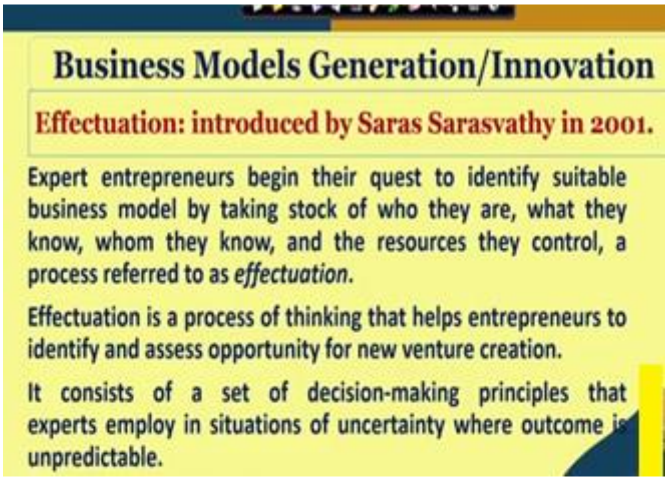
Demand-Side Economy – Network Effect

- It is important to understand that at present, we are in the demand-side economy, where driving force of business is economies of scale – also known as NETWORK EFFECT.
- Firms that have large customer base (platform participants), can afford higher variety of goods, offer better choices, have power to bargain with suppliers, can better manage logistics and delivery.
- These companies can give higher satisfaction to customers and easily grow customer base.

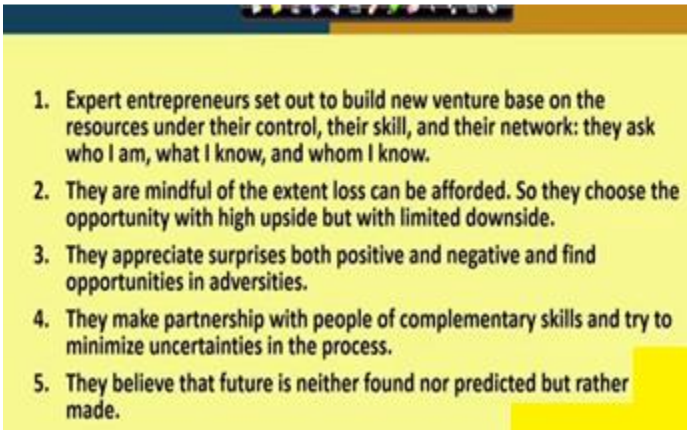
Demand-Side Economy – Network Effect

- If you are exploring a business model that will be driven by network effect, you need to invest resources, time and talent in scaling fast enough.
- But be sure that the market is big enough and the business is sustainable. Else, you invest a fortune, like online medicine, only to hit a dead wall.

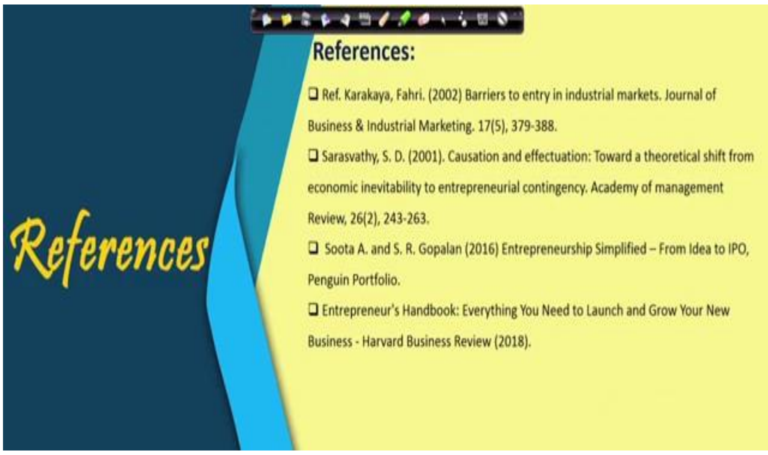

Effectuation
• Entrepreneurs make decisions and take actions in creating new ventures.
• Do they use any universal principles or methods?
• Saras Sarasvathy, a cognitive scientist, studied several experts entrepreneurs to find it.
• The results are these principles of Effectuation.


Business Models Generation/Innovation
Effectuation: introduced by Saras Sarasvathy in 2001.
Expert entrepreneurs begin their quest to identify suitable business model by taking stock of who they are, what they know, whom they know, and the resources they control, a process referred to as effectuation.
Effectuation is a process of thinking that helps entrepreneurs to identify and assess opportunity for new venture creation.
It consists of a set of decision-making principles that experts employ in situations of uncertainty where outcome is unpredictable.

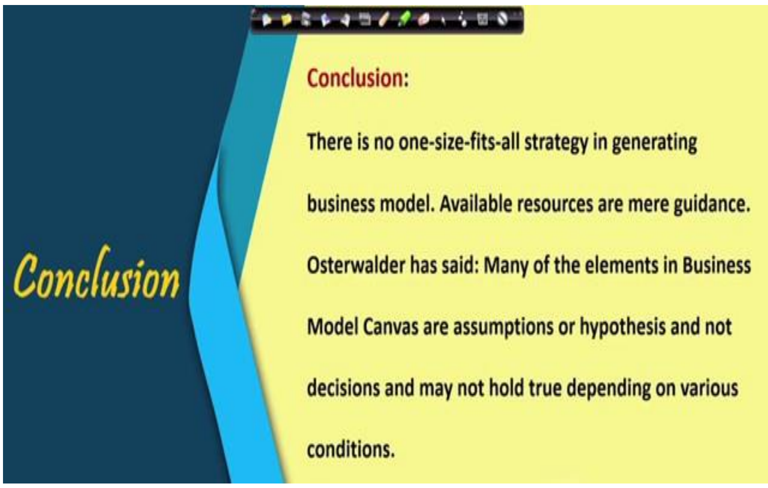
.


1. Expert entrepreneurs set out to build new venture base on the resources under their control, their skill, and their network: they ask who I am, what I know, and whom I know.
2. They are mindful of the extent loss can be afforded. So they choose the opportunity with high upside but with limited downside.
3. They appreciate surprises both positive and negative and find opportunities in adversities.
4. They make partnership with people of complementary skills and try to minimize uncertainties in the process.
5. They believe that future is neither found nor predicted but rather made.

Transient Competitive Advantages
• Life span of companies are shrinking, so is the life span of products and services.
• It may not bode well to target sustainable competitive advantage since the product itself may not sustain.
• Those who are nimble enough to constantly build or refine products and meet the changing needs and taste of the customers are likely to create great companies.



References
References:
❑ Ref. Karakaya, Fahri. (2002) Barriers to entry in industrial markets. Journal of Business & Industrial Marketing. 17(5), 379-388.
❑ Sarasvathy, S. D. (2001). Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency. Academy of management Review, 26(2), 243-263.
❑ Soota A. and S. R. Gopalan (2016) Entrepreneurship Simplified – From Idea to IPO, Penguin Portfolio.
❑ Entrepreneur's Handbook: Everything You Need to Launch and Grow Your New Business - Harvard Business Review (2018).



Conclusion
Conclusion:
There is no one-size-fits-all strategy in generating business model. Available resources are mere guidance. Osterwalder has said: Many of the elements in Business Model Canvas are assumptions or hypothesis and not decisions and may not hold true depending on various conditions.