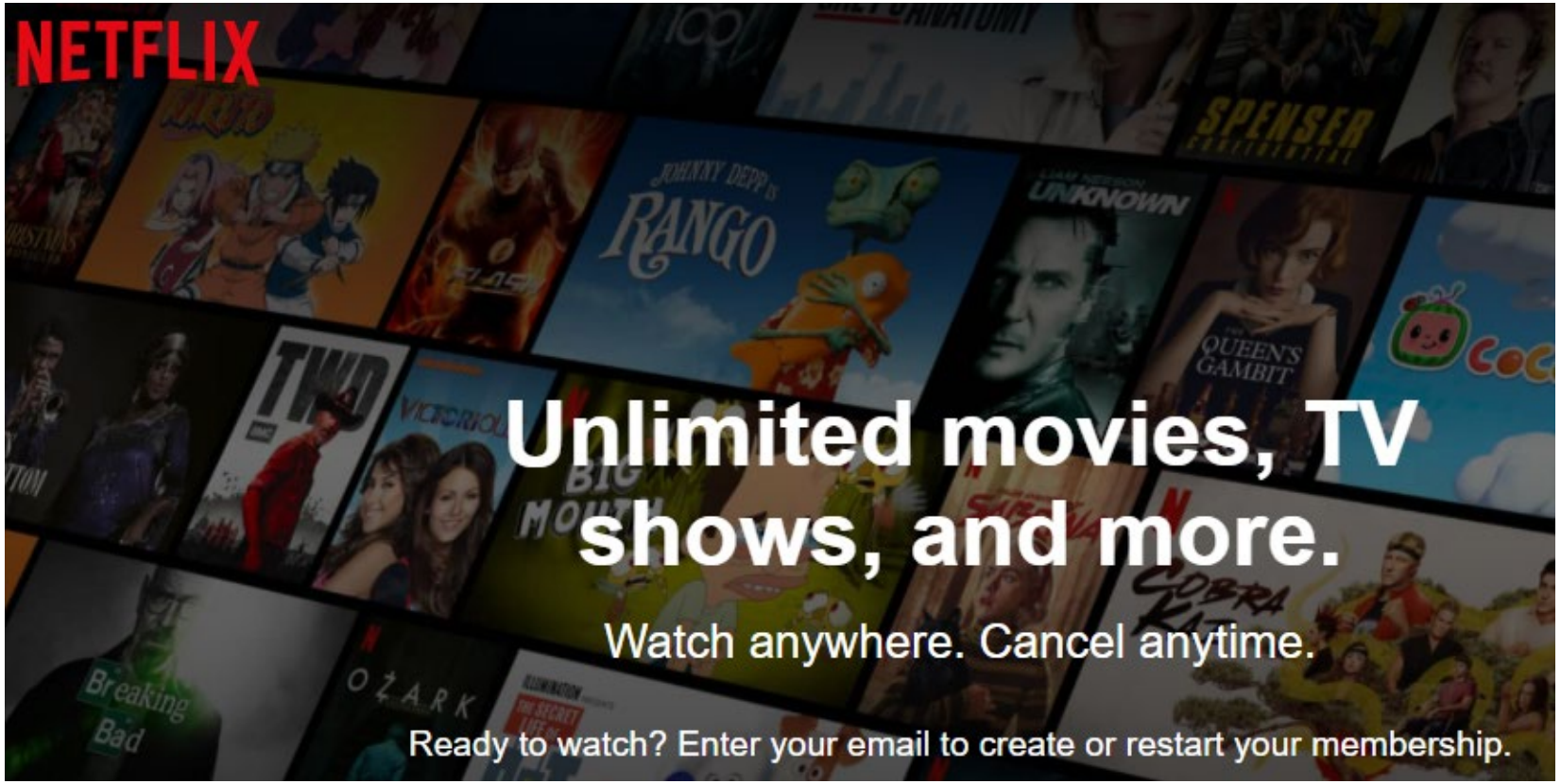
BUSINESS MODEL GENERATION

Strategyzer

Business Model

- A business model describes the rationale of how an organization creates, delivers, and captures (revenue sources and product).



The Business Model Canvas

Designed for:	Designed by:	Date:	Version:

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	

Cost Structure	Revenue Streams

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DESIGNED BY: Strategyzer AG
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The Business Model Canvas

A shared language for describing, visualizing, assessing, and changing business models

This concept has been applied and tested around the world and is already used in organizations such as IBM, Deloitte, and more.

like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.

Without such a shared language it is difficult to systematically challenge assumptions about one's business model and innovate successfully. We believe a business model

The 9 Building Blocks

1. Customer Segments: An organization serves one or several Customer Segments.
2. Value Propositions: It seeks to solve customer problems and satisfy customer needs with value propositions.
3. Channels: Value propositions are delivered to customers through communication, distribution, and sales Channels.
4. Customer Relationships: Customer relationships are established and maintained with each Customer Segment.
5. Revenue Streams: result from value propositions successfully offered to customers.
6. Key Resources: Key resources are the assets required to offer and deliver the previously described elements
7. Key Activities: ... by performing a number of Key Activities.
8. Key Partnerships: Some activities are outsourced and some resources are acquired outside the enterprise.
9. Cost Structure: The business model elements result in the cost structure.

1- Customer Segments

- The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve
- Customers comprise the heart of any business.
- A business model may define one or several large or small Customer Segments.
- An organization must make a conscious decision about which segments to serve and which segments to ignore.
- Customer groups represent separate segments if:
  - Their needs require and justify a distinct offer
  - They are reached through different distribution Channels
  - They require different types of relationships
  - They have substantially different profitability
  - They are willing to pay for different aspects of the offer

1- Customer Segments

- For whom are we creating value?
- Who are our most important customers?

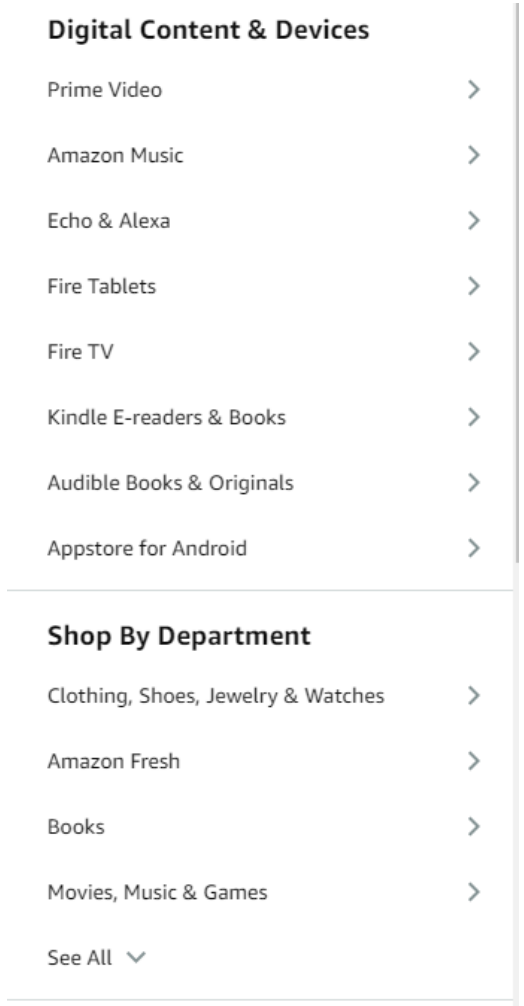
Different customer segments, for example:

- Mass market (Netflix)
- Segmented (Sling TV)
- Diversified (ex. Amazon –cloud computing, retail, entertainment)
- Multi-sided platforms (uber, Airbnb)
- Niche market

1- Customer Segments

NETFLIX

amazon



1- Customer Segments

sling

Sling Blue
$30/mo

- 3 device streams
- No contracts
- Free 10 hour DVR

Good for: News, Entertainment

Popular channels:

See all channels

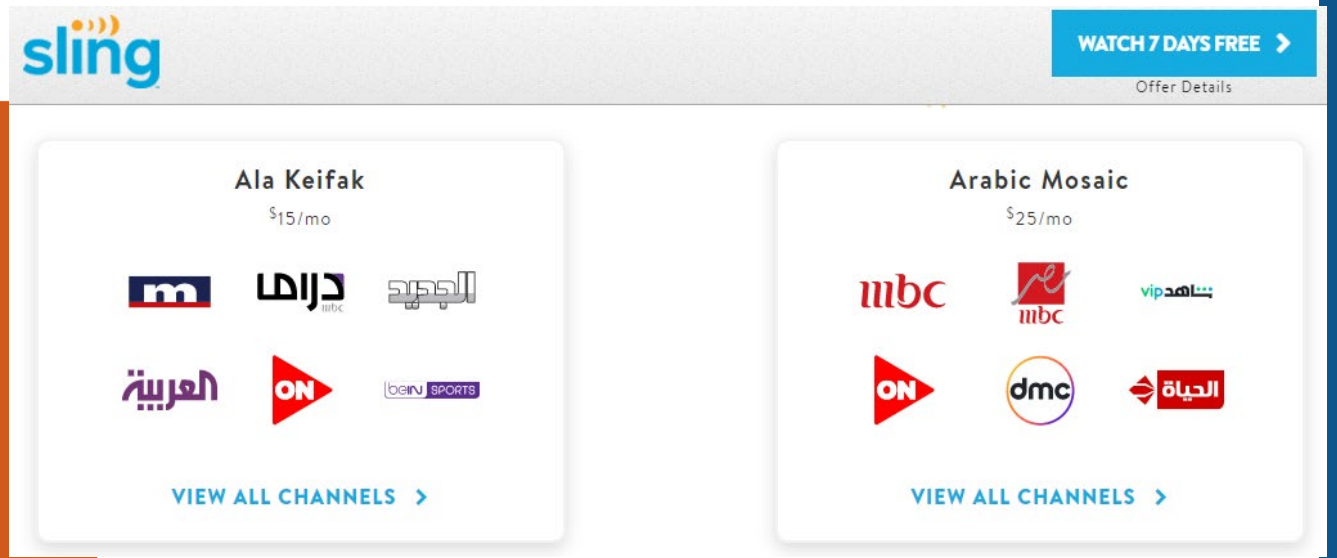
Sling Orange
$30/mo

- 1 device stream
- No contracts
- Free 10 hour DVR

Good for: Sports, Families

Popular channels:

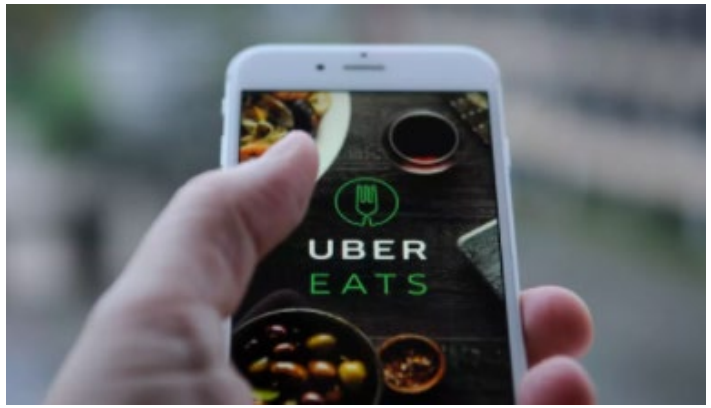
See all channels



1- Customer Segments

2- Value Proposition

- The Value Proposition is the reason why customers turn to one company over another.
- Solves a customer problem or satisfies a customer need.
- Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment.
- Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.



2- Value Proposition

- What value do we deliver to the customer?
- Which one of our customer’s problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each Customer Segment?

2- Value Proposition

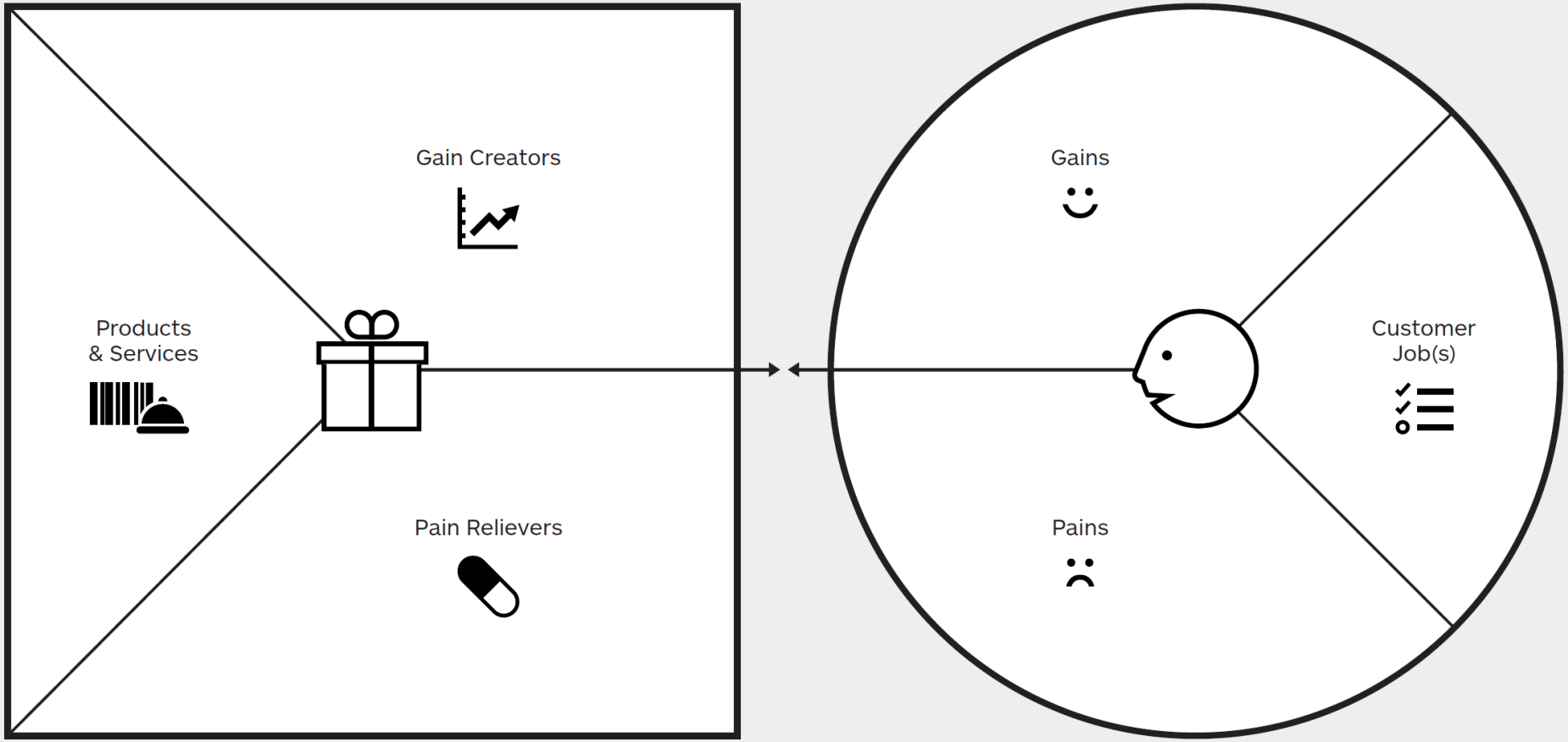
Examples of customer value creation

- Newness (ex. AirBnB, Netflix [when introduced]). Crypto games and blockchain-based apps
- Accessibility (SaaS)
- Convenience/Usability (Uber eats, Spotify, Netflix, etc.)
- Performance (ex. AWS cloud computing)
- Customization (Netflix, Amazon, Spotify)
- “Getting the job done” (ex. Google docs, Microsoft 365, Tableau, etc)
- Design (ex. iPhone)
- Brand (Apple, Tesla, etc.)
- Price (AirBnB, trivago)
- Cost reduction (Hulu, Sling TV, AWS, etc.)
- Risk reduction (SaaS, AWS, etc.)

The Value Proposition Canvas

Value Proposition

Customer Segment



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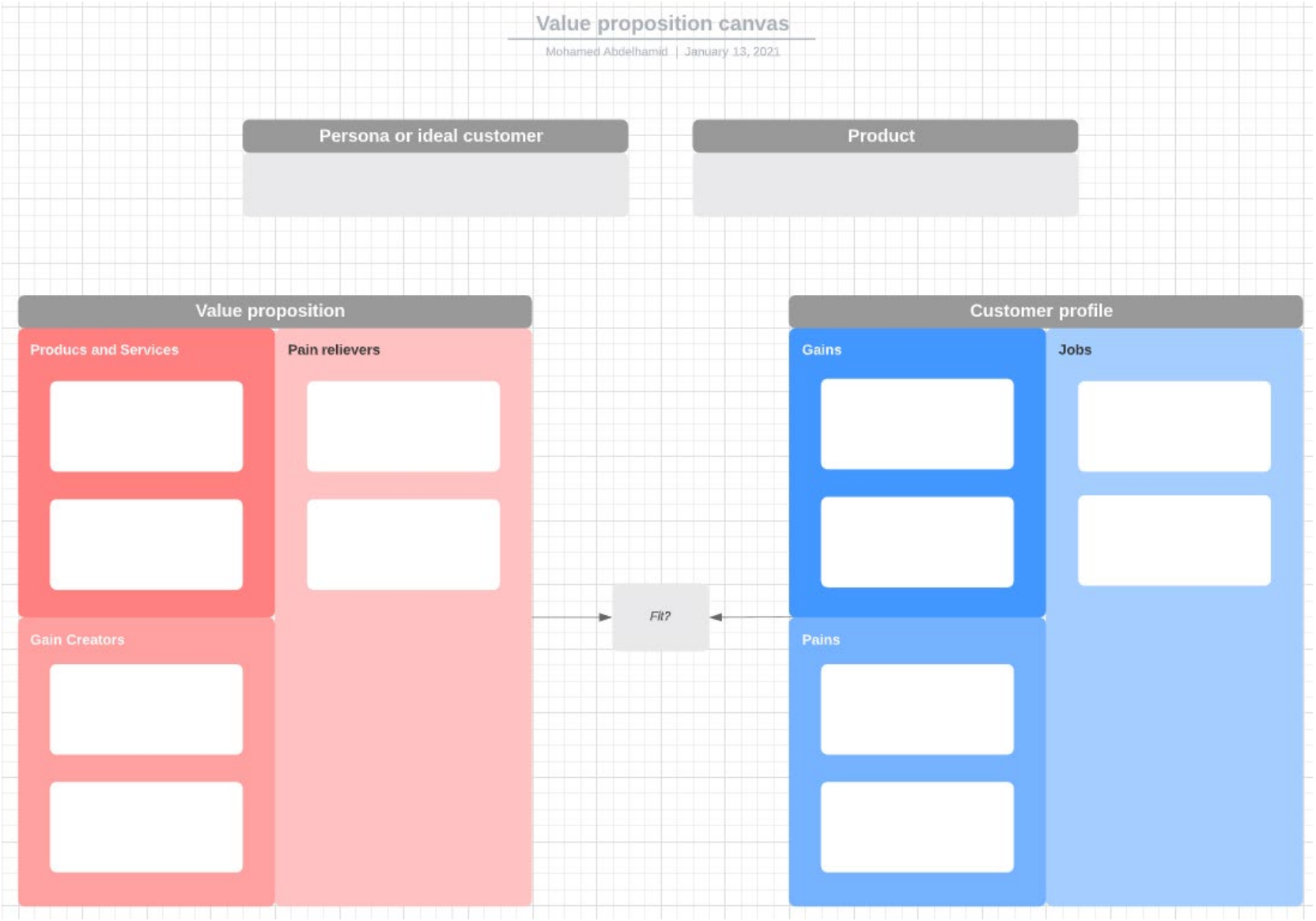
Lucidchart


Value proposition canvas
Mohamed Abdelhamid | January 13, 2021
Persona or ideal customer
Product
Value proposition
Producs and Services
Pain relievers
Gain Creators
Fit?
Customer profile
Gains
Jobs
Pains

3- Channels

- Describes how a company communicates with and reaches its customer segment to deliver a value proposition.
- Channel Types:
  - Own:
    - Online -web, mobile app, etc. (Ex. Amazon, google, apple, tesla, etc.)
    - Own stores – apple, tesla, etc.
  - Partner
    - Partner stores (selling through Amazon, Android Smartwatches on google store)
    - Wholesales (selling google products in Walmart)
    - Products (Netflix on Smart TVs and with google devices)

4- Customer Relationships

- Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:
  - Customer acquisition
  - Customer retention
  - Boosting sales (upselling)

- Examples of customer relationships
- Personal assistance (Apple, Tesla, Microsoft).
- Self-service (most Tech including Tesla (touchless test drive and online buying experience), Apple, etc.)
- Automated service (Amazon, Netflix, etc.) Requires Machine Learning and Artificial Intelligence capabilities.
- Communities (google, apple, etc.)
- Co-creation (reviews in Amazon, YouTube)

5- Revenue Streams

- The cash a company creates from each customer segment.
- A business model can involve two different types of Revenue Streams:
    1. Transaction revenues resulting from one-time customer payments
    2. Recurring revenues resulting from ongoing payments to either deliver a value proposition to customers or provide post-purchase
- For what value are our customers really willing to pay?
- For what do they currently pay?
- How are they currently paying?
- How would they prefer to pay?

5- Revenue Streams

There are several ways to generate Revenue Streams:

- Asset Sale: for example: Amazon, google, apple selling products (Alexa, Nest, etc.), or even NFTs or cryptocurrency.
- Usage fee: ex., AWS SaaS (pay per hour for software usage)
- Subscription fees: Netflix, Spotify, Hulu, Amazon Prime, etc.
- Lending/Renting/Leasing: Amazon eBooks rentals, etc.
- Transaction/Service fees: Uber
- Advertising: Spotify, Hulu, etc.

5- Revenue Streams

- Pricing Mechanism

	Fixed Menu Pricing Predefined prices are based on static variables		Dynamic Pricing Prices change based on market conditions	
amazon Prime	*List price*	Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
NETFLIX	*Product feature dependent*	Price depends on the number or quality of Value Proposition features	*Yield management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
amazon	*Customer segment dependent*	Price depends on the type and characteristic of a Customer Segment	*Real-time-market*	Price is established dynamically based on supply and demand
aws	*Volume dependent*	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

Showroom To-Go!
Work Your Own Deal

Booking.com

CARVANA

Copart

5- Revenue Streams

- Pricing Mechanism: Feature dependent example

NETFLIX

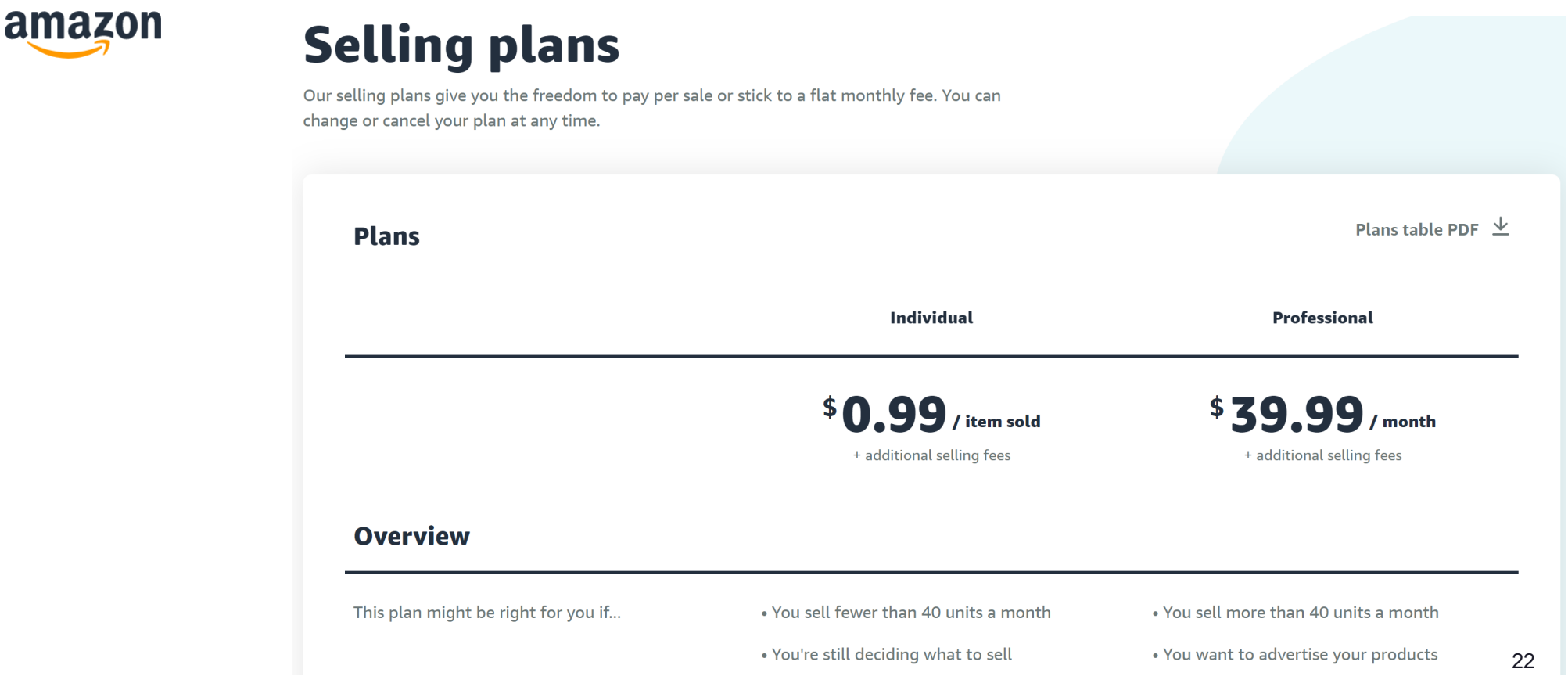
Choose the plan that's right for you

- ✓ Watch all you want.
- ✓ Recommendations just for you.
- ✓ Change or cancel your plan anytime.

	Basic with ads	Standard	Premium
Monthly price	$6.99	$15.49	$19.99
Video quality	Good	Better	Best
Resolution	720p	1080p	4K+HDR
Watch on your TV, computer, mobile phone and tablet	✓	✓	✓
Downloads	—	✓	✓

5- Revenue Streams

- Pricing Mechanism: customer segment dependent example



5- Revenue Streams

- Pricing Mechanism: Volume dependent example

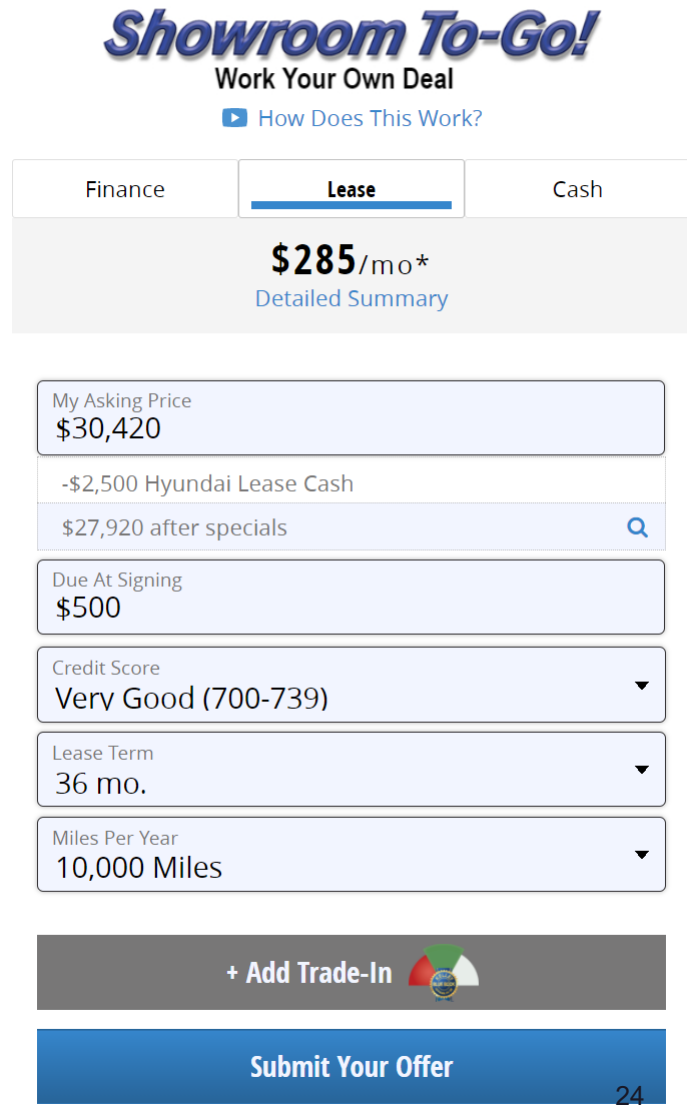
Amazon S3 | Overview | Features | Storage classes | Pricing | Security | Resources | FAQs

S3 Intelligent - Tiering * - Automatic cost savings for data with unknown or changing access patterns

Frequent Access Tier, First 50 TB / Month	$0.023 per GB
Frequent Access Tier, Next 450 TB / Month	$0.022 per GB
Frequent Access Tier, Over 500 TB / Month	$0.021 per GB

5- Revenue Streams

- Pricing Mechanism: Negotiation example (many car dealers)



6- Key Resources

- The Key Resources Building Block describes the most important assets required to make a business model work.
- Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

7- Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work.

- For software maker Microsoft, Key Activities include software development.
- For Netflix, Key Activities include movies and shows production. In addition, to maintaining and improving its platform.
- For Spotify, Key Activities include licensing songs.
- For Carvana, it is buying car inventory.

Key activities categories:

- Production
- Problem solving
- Platform/Network

8- Key Partnerships

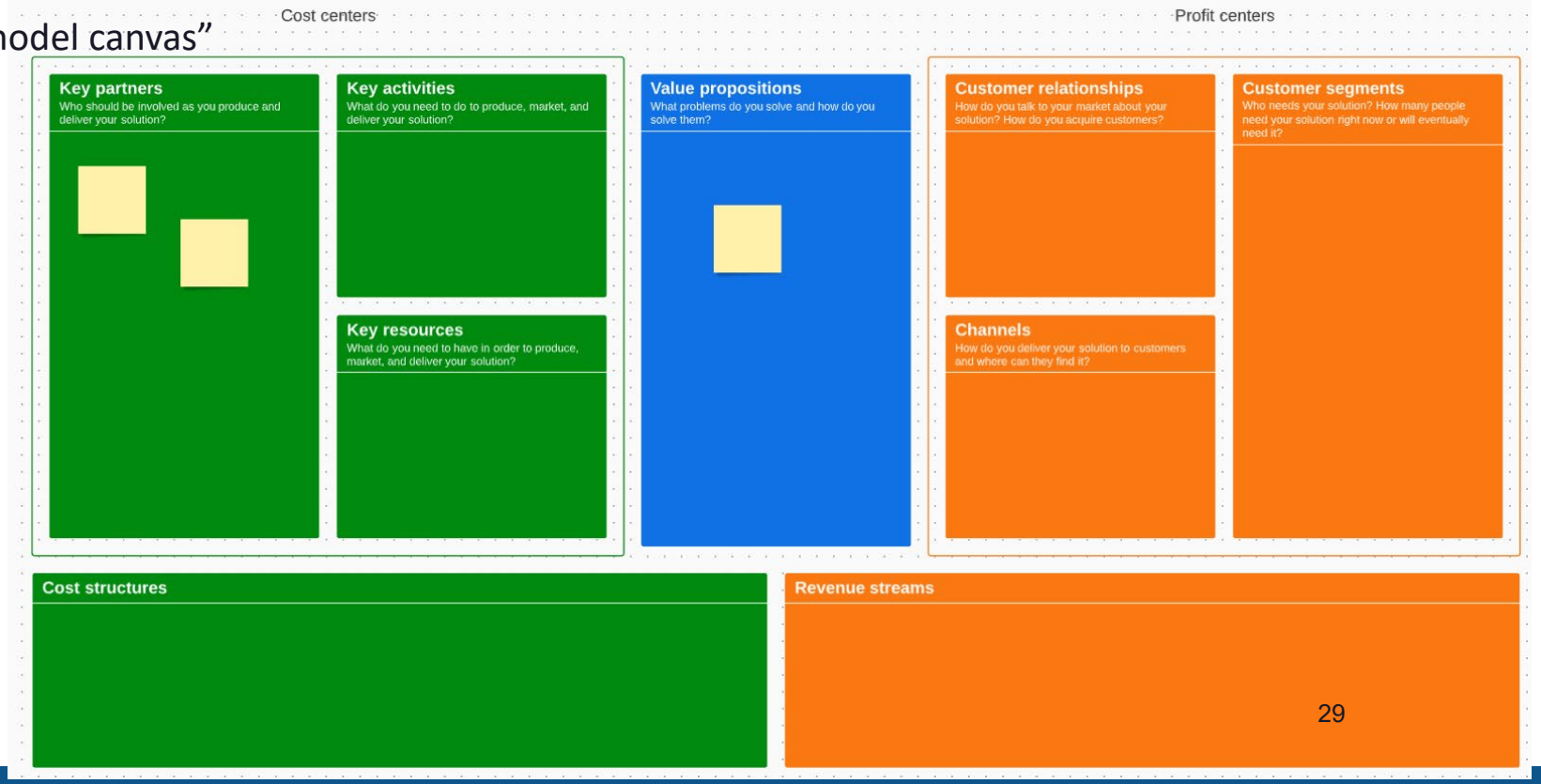
- The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work.
- For example:
  - Netflix and TV manufacturers
  - Phone companies (i.e. Samsung) and google’s Android.

9- Cost Structure

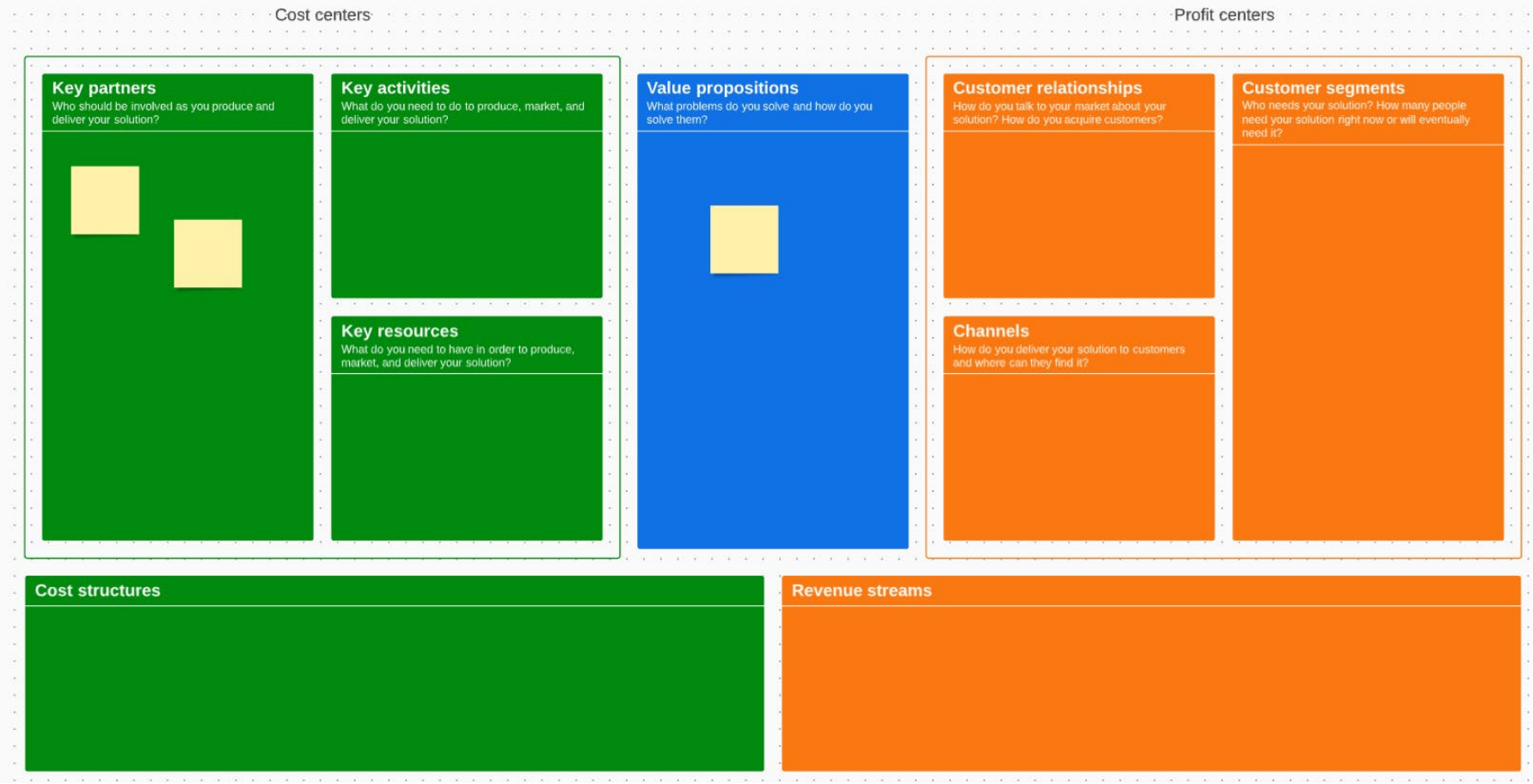
- The Cost Structure describes all costs incurred to operate a business model This building block describes the most important costs incurred while operating under a particular business model.
- Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs.
  - What are the most important costs inherent in our business model?
  - Which Key Resources are most expensive?
  - Which Key Activities are most expensive?

Exercise 1- Netflix

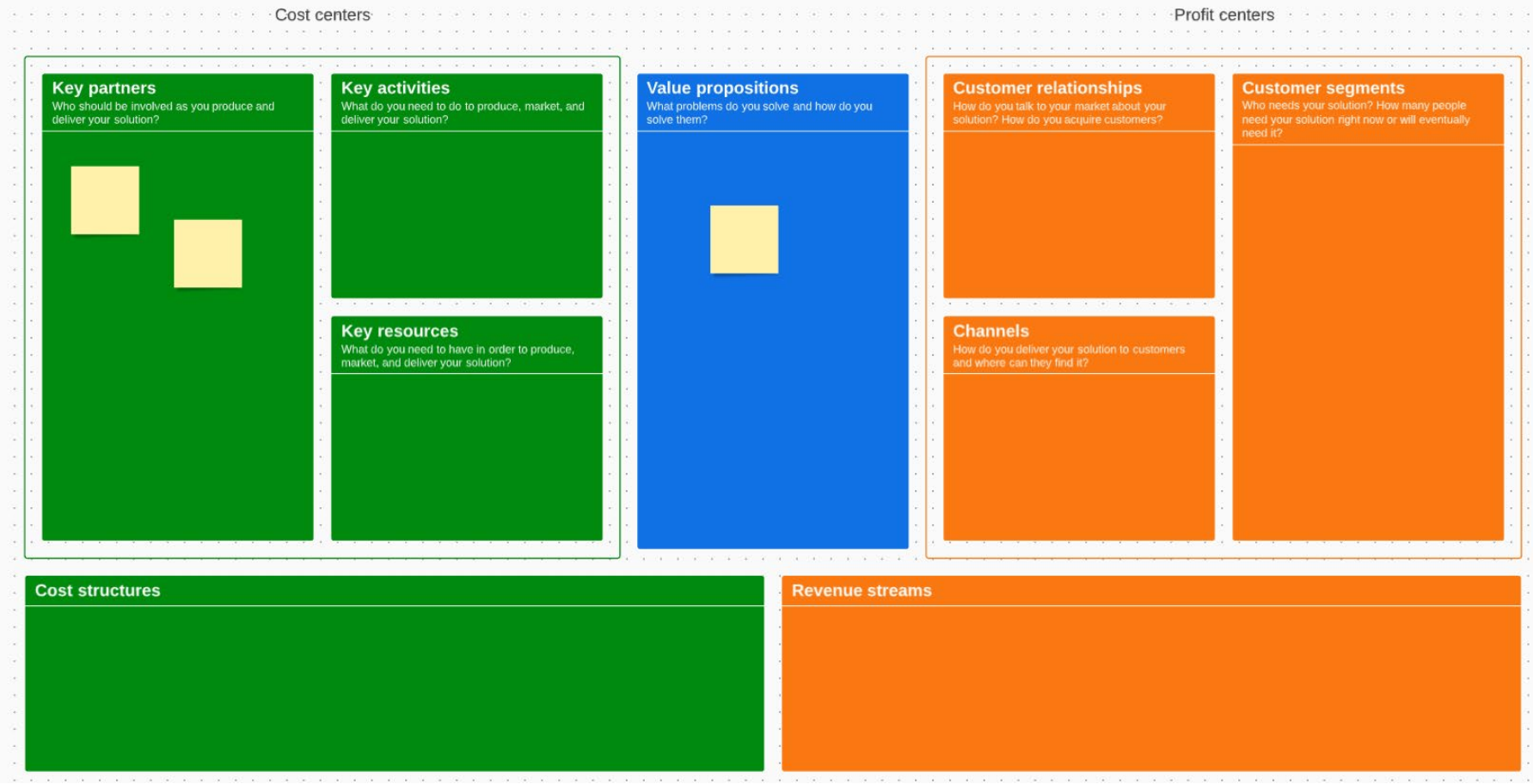
- Create a business model canvas for Netflix
- Use Lucidspark (https://lucidspark.com/)
- Create free educational account using your @student.csulb.edu email
- Create a new blank board
- Search templates for “Business model canvas”



Exercise 2- Hulu



Exercise 3- Busbud

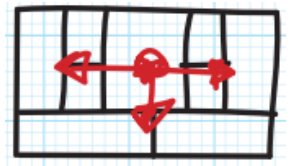


Epicenters of Business Model Innovation

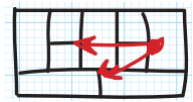
- Ideas for business model innovation can come from anywhere, and each of the nine business model building blocks can be a starting point.
- Four epicenters of business model innovation:
  - resource-driven
  - offer-driven
  - customer-driven
  - finance-driven

Epicenters of Business Model Innovation

- Offer-driven (most tech startups)



Epicenters of Business Model Innovation

- Customer-driven 

Key partners
Who should be involved as you produce and deliver your solution?

Key activities
What do you need to do to produce, market, and deliver your solution?

Key resources
What do you need to have in order to produce, market, and deliver your solution?

Value propositions
What problems do you solve and how do you solve them?

Customer relationships
How do you talk to your market about your solution? How do you acquire customers?

Channels
How do you deliver your solution to customers and where can they find it?

Customer segments
Who needs your solution? How many people need your solution right now or will eventually need it?

Starting point

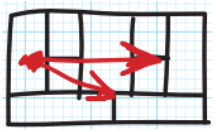
Example: 23andMe brought personalized DNA testing to individual clients—an offer previously available exclusively to health professionals and researchers, This had substantial implications for both the Value Proposition and the delivery of test results, which 23andMe accomplishes through mass-customized.

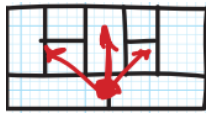
Cost structures

Revenue streams

Epicenters of Business Model Innovation

- Resource-driven



Epicenters of Business Model Innovation

- Finance-driven