Business Model Generation

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Business Model

Strategy

Organisation and Processes

Information Systems

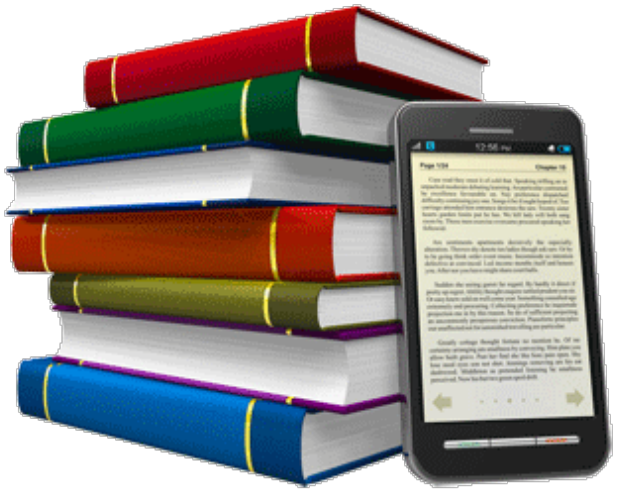
Infrastructure

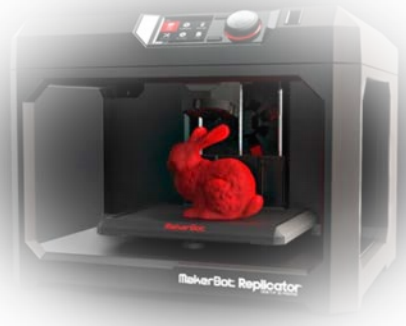
Digital Products: Change of Business Models

Example: Music Industry

Vinyl disc	Compact Disc	Download	Streaming
			
	Digitization	Disruption	Disruption
Influencers:	medium for storage and transport	Device with storage Network (no media needed for transport)	Always online

Digitalisation of Products demand for New Business Models





3D Print

Physical Products: Sharing Economy

Sharing economy is about renting or borrowing.
Everything will become “on demand”.

Physical Products: Shared Economy

- Broker between user and supplier
  - Uber has no cars and no drivers
  - Airbnb has no appartments
  - Sharoo has no cars
- Platforms
  - network
  - reviews

Physical Products:
Sharing Economy, Product as a Service

- Obtaining performance instead of a product
  - Rental
  - Sharing
  - Pay per use

Business Model

Def_Business Model

A business model describes the rationale of how an organization creates, delivers, and captures value

Building Blocks of a Business Model

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

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

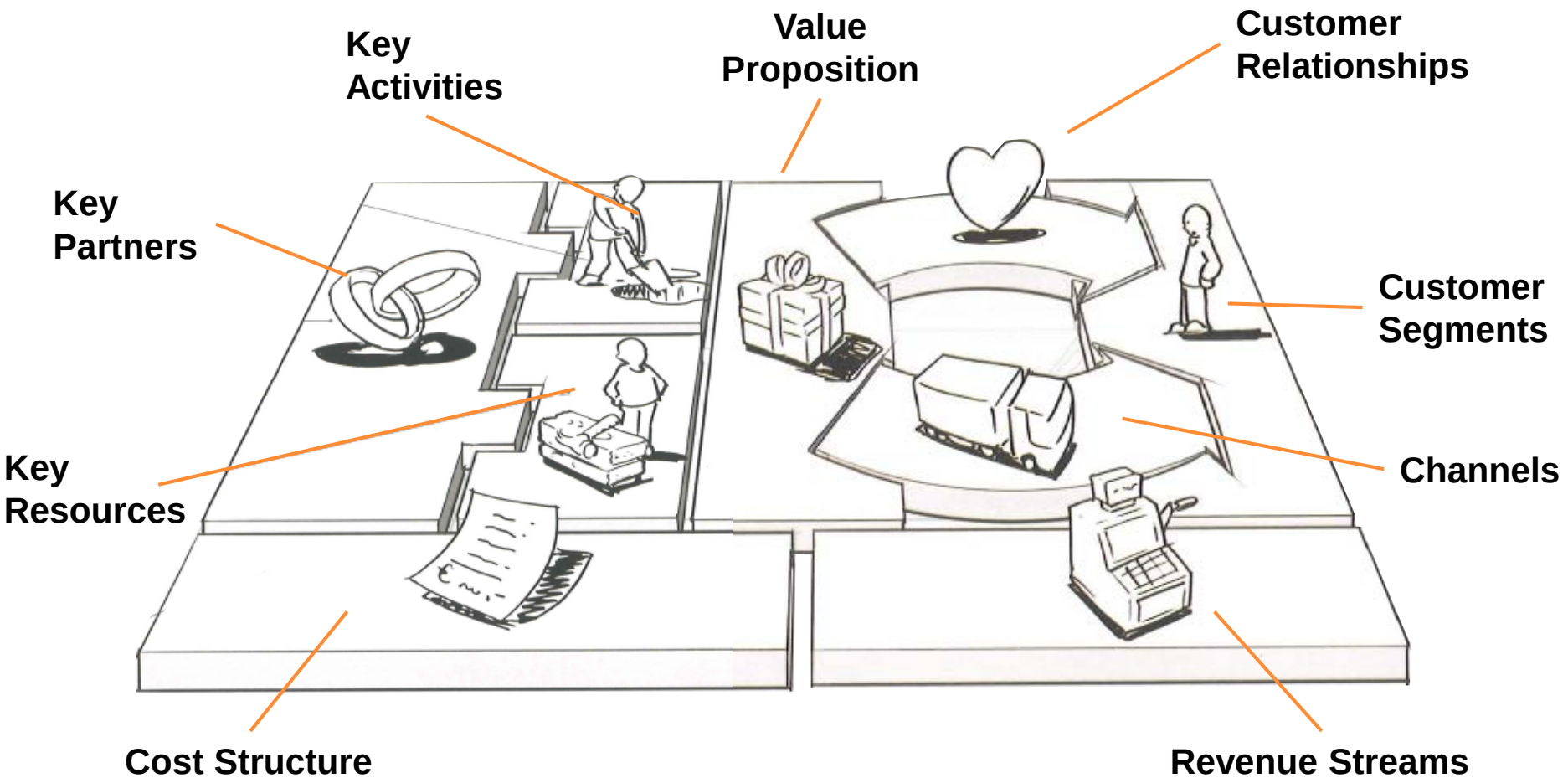
Some activities are outsourced and some resources are acquired outside the enterprise.

9 Cost Structure

The business model elements result in the cost structure.

(Osterwalder & Pigneur 2010, p. 16f)

Business Model Building Blocks

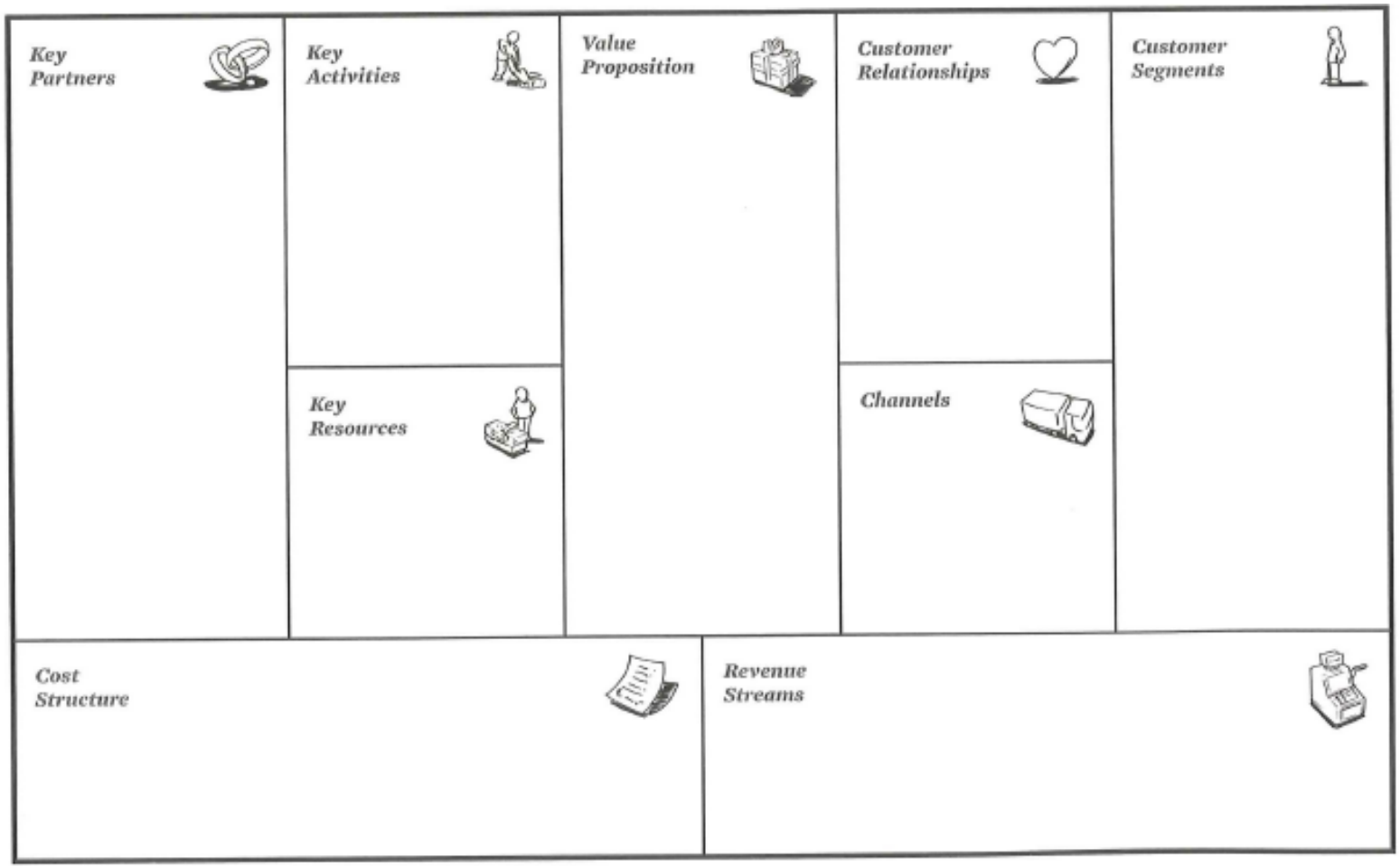


left canvas: efficiency

right canvas: value

(Osterwalder & Pigneur 2010)

Business Model Canvas



left canvas: efficiency

right canvas: value

Customer Segments (CS)

- Groups of people or organisations an enterprise aims to reach or serve – each with specific customer needs
- An organisation must make a concious 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
  - ♦ Thes have substantially different profitabilities
  - ♦ They are willing to pay for different aspects of the offer

Kinds of Customer Segments

Mass market: Do not distinguish between different Customer Segments. VP, DC and CR focus on one large group of customers with broadly similar needs and problems.

Niche market: Cater specific, specialized customer segments, VP, DC, CR are tailored to specific requirements of a niche market.

Segmented: Distinguish between market segments with slightly different needs and problems (e.g. private and business customers)

Diversified: Unrelated Customer Segments with very different needs and problems, i.e. different VP (e.g. Amazon being retailer and cloud provider)

Multi-sided platforms/markets: Several interdependent Customer Segments, (e.g. readers and advertisers of newspaper).

Value Propositions (VP)

- The **reason** why customers turn to one company over the other.
- VP consists of a selected bundle of products and/or services that caters to the requirements of a specific CS.
- Described from the point of view of the customer
  - ♦ the value for the Customer Segment
  - ♦ not the features of the product/service

Elements contributing to Value Proposition

Newness: Satisfy an entirely new set of needs, for which there was no similar offering.

Performance: Improving product or service performance.

Customization: Tailoring products and services to the specific needs of individual customers or Customer Segments.

Getting the job done: helping a customer to get certain jobs done.

Design: A product may stand out because of superior design.

Brand/Status: Customers may find value simply by using ad displaying a specific brand

Price: Offering similar value at a lower price.

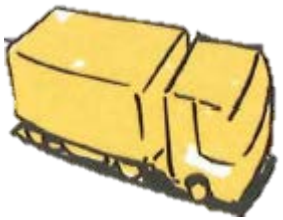
Cost reduction: Helping customers reduce costs.

Risk reduction: Reduce risk of a customer.

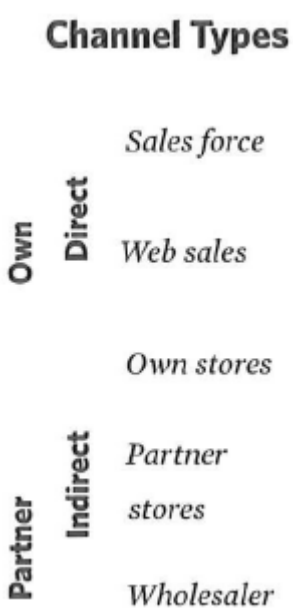
Accessibility: Making products and services available to customers who previously lacked access to them.

Convenience/Usability: Making things more convenient or easier to use.

Channels (CH)



- How company communicates with and reaches ist Customer Segments to deliver a Value Proposition
- Channels serve several functions including:



- ♦ **Awareness:** Raising awareness among customers about a company's products and services
- ♦ **Evaluation:** Helping customers evaluate a company's Value Proposition
- ♦ **Purchase:** Allowing customers to purchase specific products and services
- ♦ **Delvery:** Delivering a Value Proposition to customers
- ♦ **After Sales:** Providing post-purchase customer support

Customer Relationships (CR)

- Types of relationships a company establishes with specific Customer Segments
- Relationships range from personal to automated.
- May be driven by the following motivations:
  - Customer acquisition
  - Customer retention
  - Boosting sales (upselling)

Categories of Customer Relationships

Personal assistance: based on human interaction

Dedicated personal assistance : dedicating a customer respresentative specifically to an individual client

Self-service: No direct relationship with customer, only providing necessary means for customer to help themselves

Automated services: Mix self-service with automated processes

Communities: Utilizing communities to become more involved with customers/propects and to facilitate connections between community members

Co-creation: Co-create value together with customers (e.g. customers writing reviews or create content)

Revenue Streams (RS)

- Represents the cash a company generates form each Customer Segment
- Each Revenue Stream may have different pricing mechanims such as fixed list prices, bargaining, auctioning, market dependent, volume dependen or yield management.
- Types of Revenue Streams
  - Transaction revenues resulting from **one-time** customer payments
  - **Recurring** revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide past-purchase customer support

Ways to generate Revenue Streams

Asset sale: selling ownership rights to a physical product

Usage fee: Revenue Stream is generated by the use of a particular service

Subscription fee: Selling continuous access to a service

Lending/Renting/Leasing: Temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee.

Licensing: Giving customers permission to use protected intellectual property in exchagne fo licensing fees

Brokerage fees: Intermediation services performed on behalf of two or more parties (e.g. credit card providers, real estate agents)

Advertising: fees for advertising a particular product, service, or brand.

Key Resources (KR)

- Describes the most important assets required to make a business model work
- Allow an enterprise to create and offer a Value Proposition, reach markets, retain relationships with Customer Segments, and earn revenues.
- Key resources can be physical, financial, intellectual or human.
- Key resources can be owned or leased by a company or acquired from key partners.

Categories of Key Resources

Physical: physical assets such as manufacturing facilities, building, vehicles, machines, distribution networks.

Intellectual: Intellectual resources such as brands, proprietary knoweldge, patents and copyrights, partnerships, and customer databases.

Human: Humans resources, in particular for knoweldge-intensive and creative industries

Financial: financial resources and/or financial guarantees such as cash, lines of credit or a stock-option pool for hiring employees..

Key Activities (KA)

- Most important actions a company must take to operate successfully;
- Requried to create and offer a Value Proposition, reach market, maintain Customer Relationships, and earn revenues.
- Categories:
  - **Production:** Designing, making, delivering a product
  - **Problem Solving:** Solutions to individual customer problems (e.g. consultancies, hospitals)
  - **Platform/Network:** Business models designed with a platform as a Key Resource are dominated by platform or network-related Key Activities (e.g. auctioning, credits card transactions)

Key Partnerships (KP)

- Network of suppliers and partners that make the business model work
- Four kinds of partnerships:
  - Strategic alliances between non-competitors
  - Coopetition: strategic partnerships between competitors
  - Joint ventures to develop new businesses
  - Buyer-supplier relationships to assure reliable supplies
- Motivation for creating partnerships
  - Optimization and economy of scale
  - Reduction of risk and uncertainty
  - Acquisition of particular resources and activities

Cost Structure (CS)

- All costs incurred to operate a business model, i.e. creating and delivering value, maintaining Customer Relationships, and generating revenue.
- Costs can be calculated relatively easy after defining Key Resources, Key Activities, and Key Partnerships.
- Distinction between two broad classes of Cost Structures
  - **Cost-driven:** Focus on minimizing costs
  - **Value-driven:** Focus on value creation and being less concerned with cost implications

Characteristics of Cost Structures

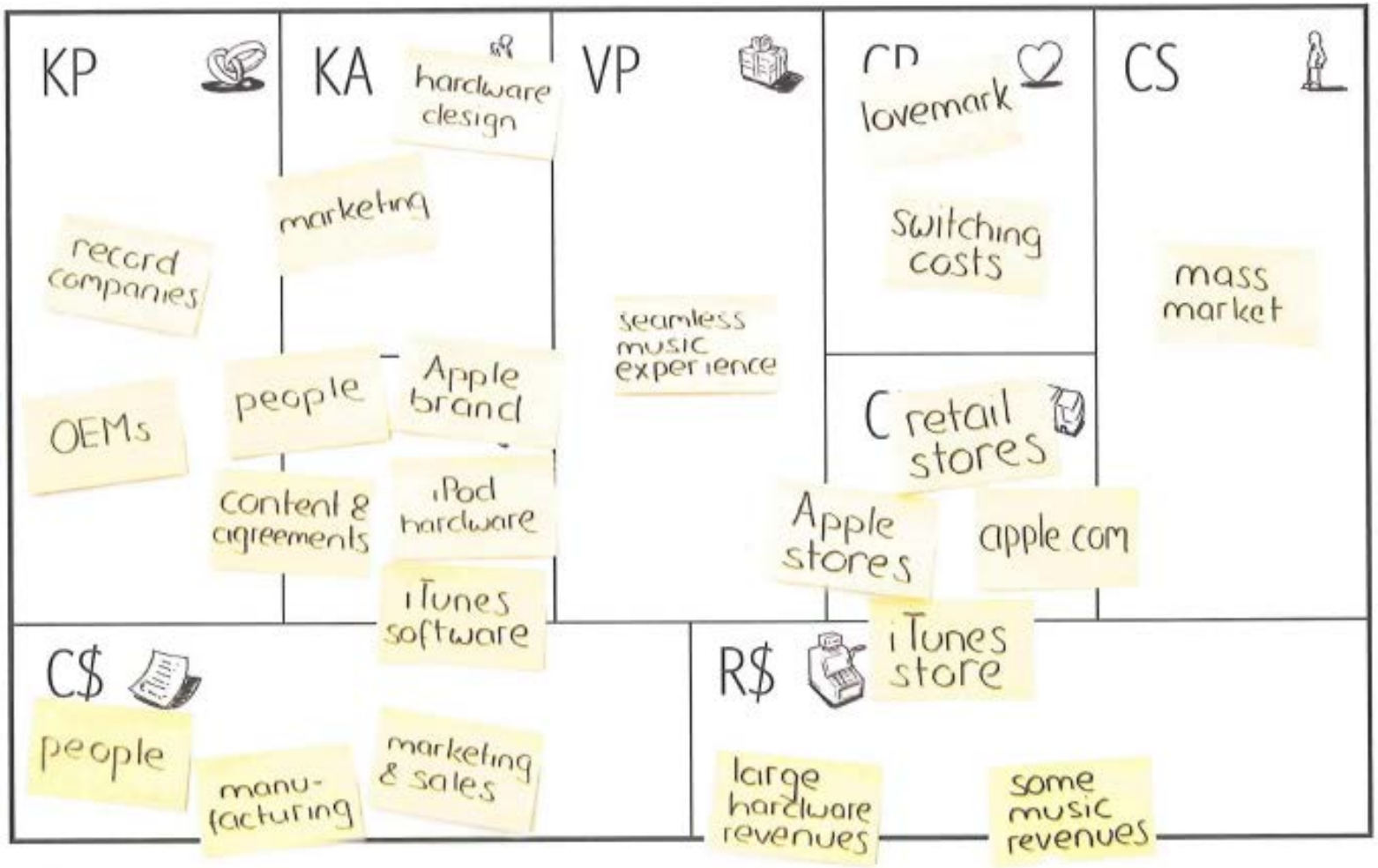
Fixed costs: costs remain the same despite the volume of goods or services produced (e.g. salaries, rents).

Variable costs: costs vary proportionally with the volume of goods and services produced.

Economies of scale: costs advantages as output explands

Economies of scope: cost advantages due to a large scope of operations (e.g. marketing may support multiple products).

Example: Apple iPod/iTunes Business Model



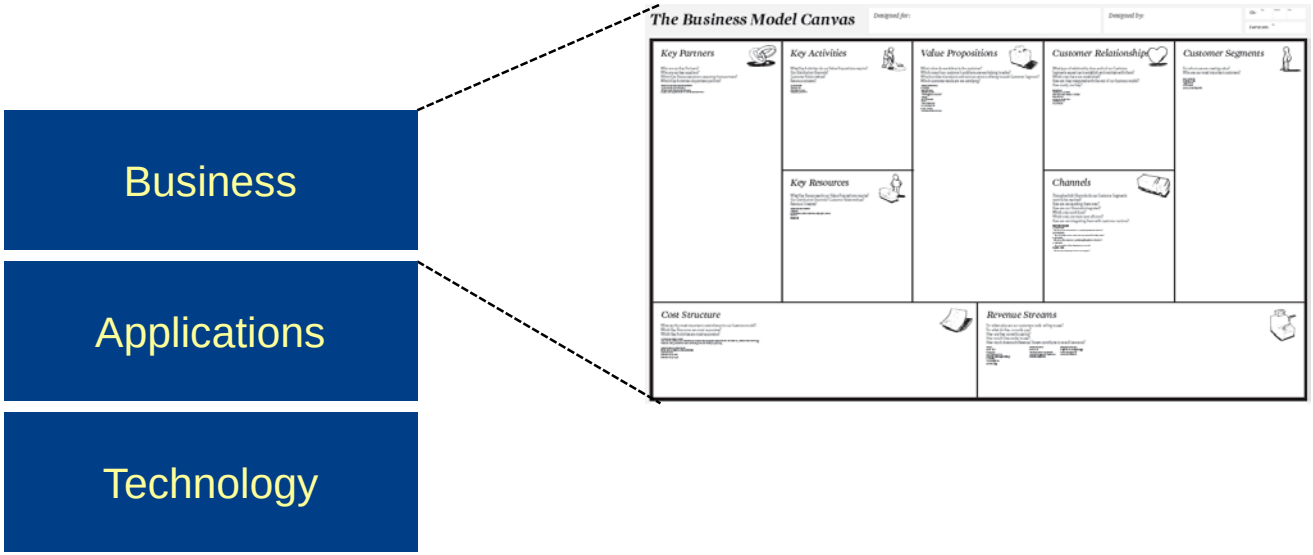
Business-IT Alignment for Business Models

- How does Information Technology influence the business models?
- Look at the examples before and identify the cells that are shaped by IT, e.g.
  - Channel
  - Customer Relationship
  - Value Proposition
  - Revenue Stream

Business Model and Enterprise Architecture

- According to Gartner, the business model canvas should be used by CIOs to align IT and key business processes
- It is recommended
  - to use the canvas to guide the business perspective
  - and then to align the business with the application and technology perspectives

strategy
business model
operational models



(Osterwalder & Pigneur 2010, p. 272)

Questions for Business and IT Alignment

How can IT support the processes and workflows required by my business models?

What information do I need to capture, store, share, and manage to improve my business model?

How does my application portfolio leverage the specific dynamics of my business model?

How will IT architecture, standards, and interface choices limit or leverage my business model?

Which technology infrastructure is required and crucial to the success of my business model (e.g. server farms, communications, and so on)?

Where in my business model does security play an important role and how does that influence my IT?

Do I need to invest in IT training and education to leverage my business model?

Could investments in IT research and development improve my business model in the future?

(Osterwalder & Pigneur 2010, p. 273)