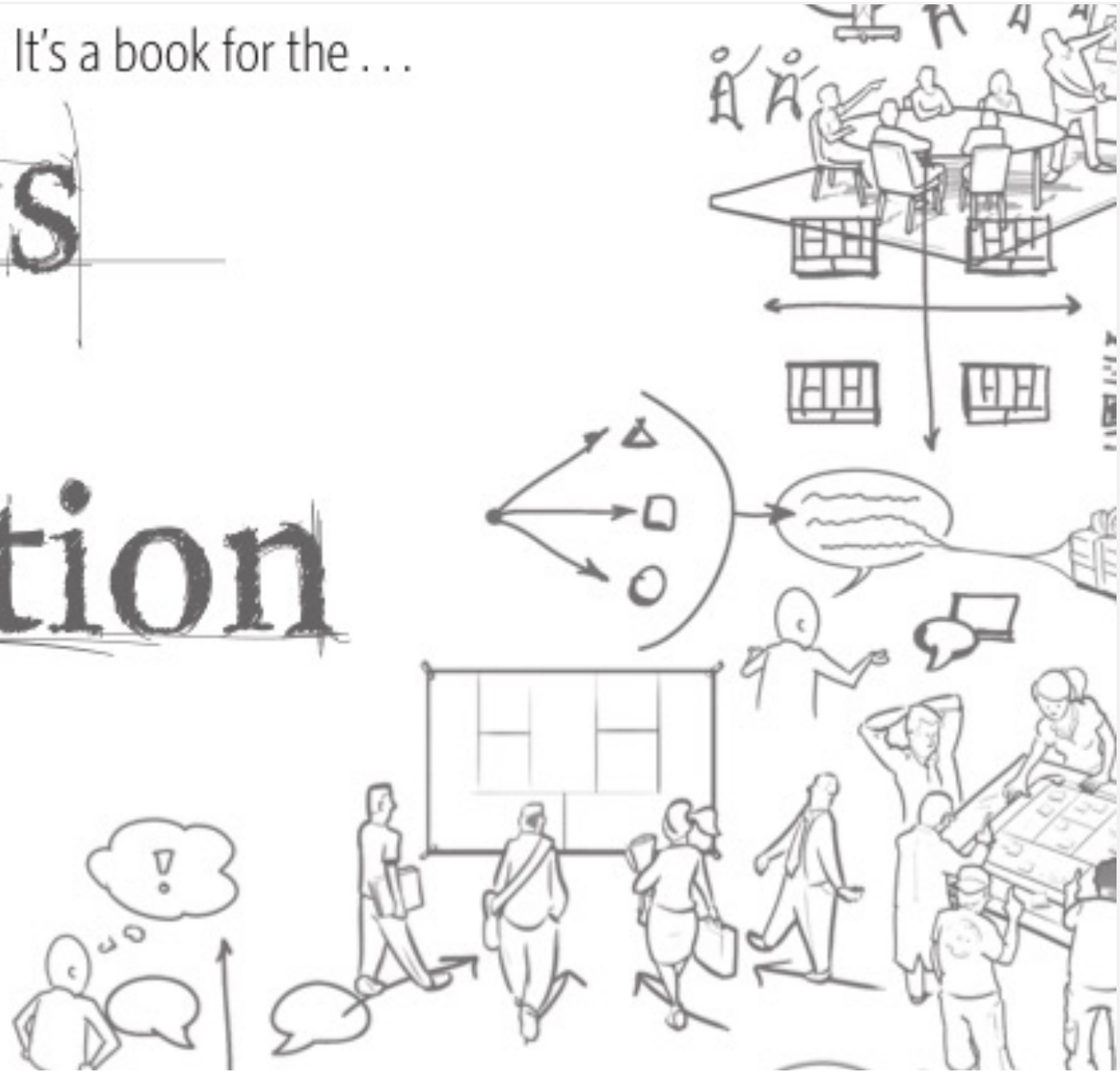
and design tomorrow's enterprises. It's a book for the . . .

Business Model Generation



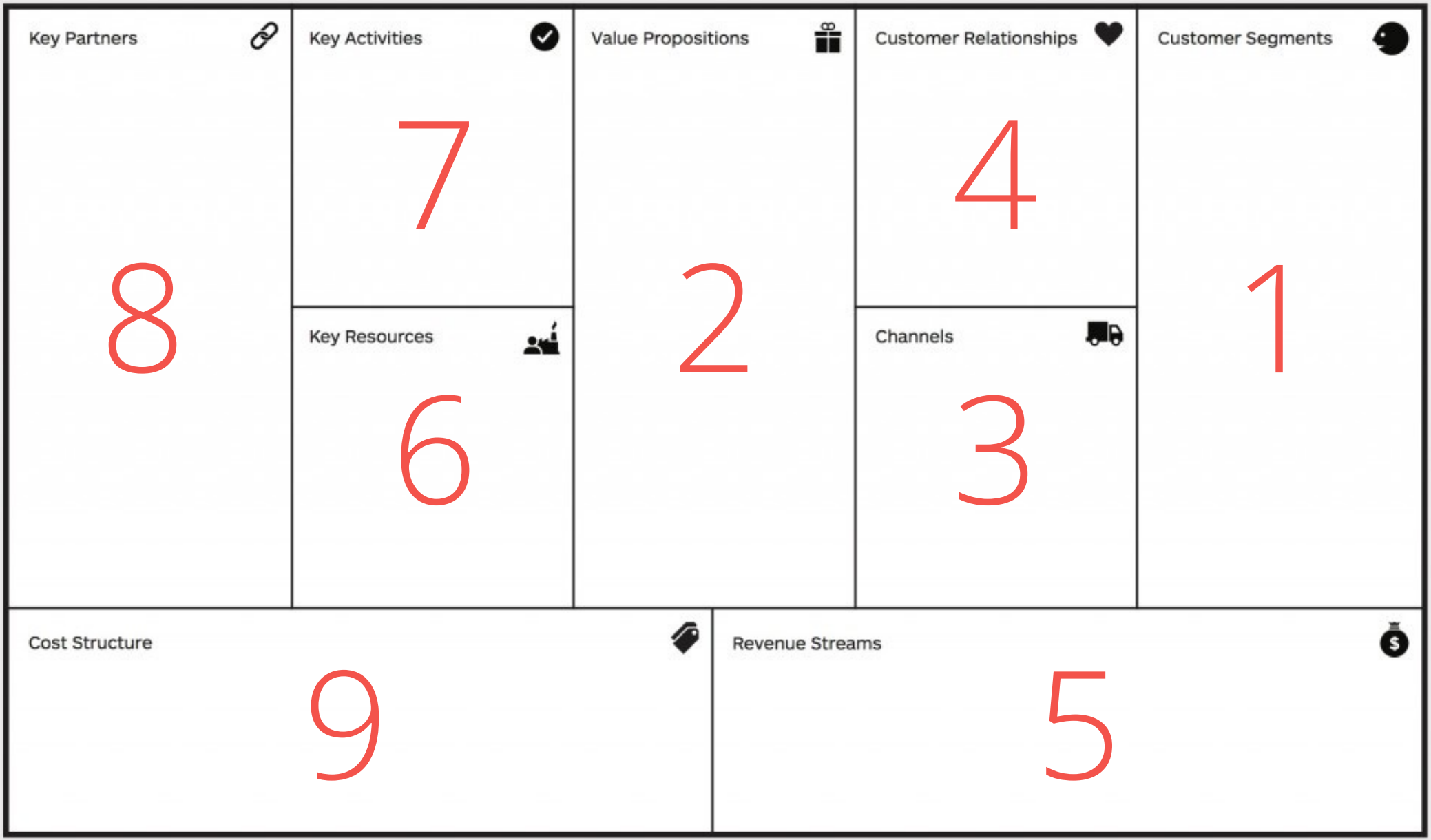
WRITTEN BY
Alexander Osterwalder & Yves Pigneur

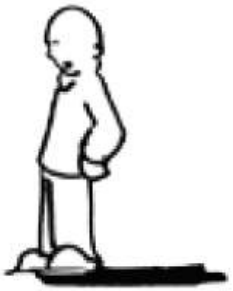
CO-CREATED BY
An amazing crowd of 470 practitioners from 45 countries

DESIGNED BY
Alan Smith, The Movement

defining BUSINESS MODEL

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


Key Partners
8
Key Activities
7
Key Resources
6
Value Propositions
2
Customer Relationships
4
Channels
3
Customer Segments
1
Cost Structure
9
Revenue Streams
5



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.

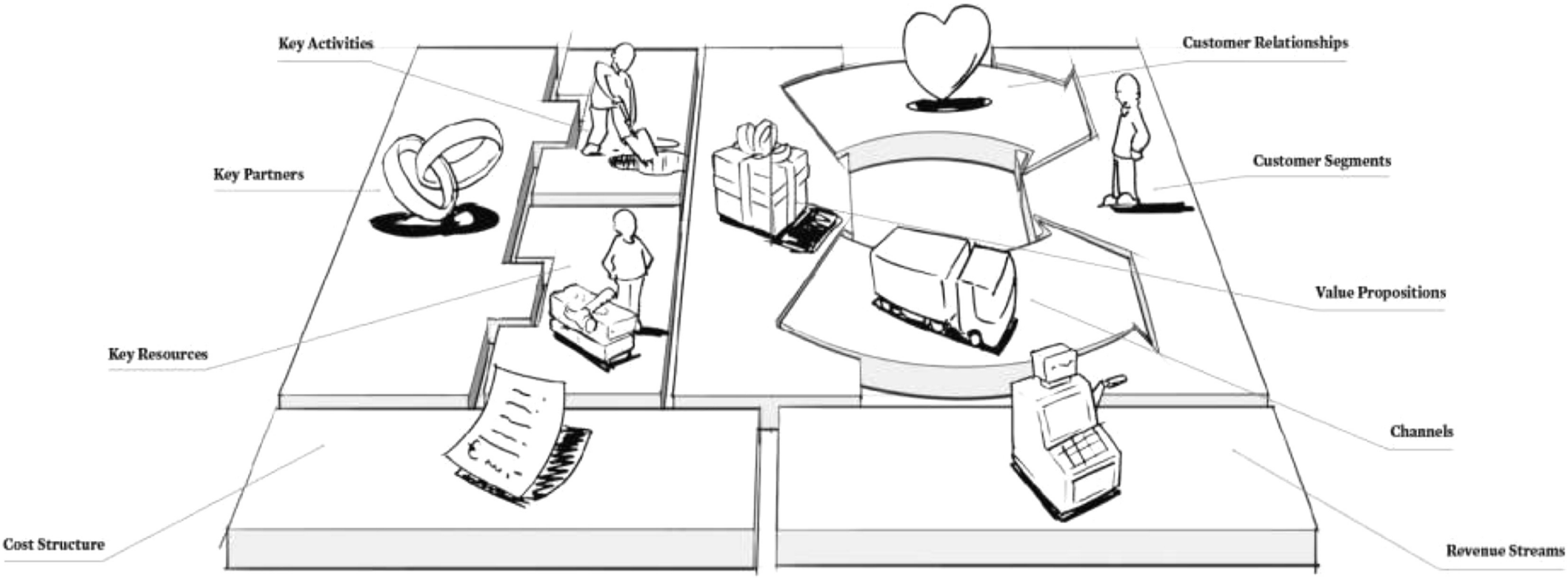
8: **Key Partnerships**

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

9: **Cost Structure**

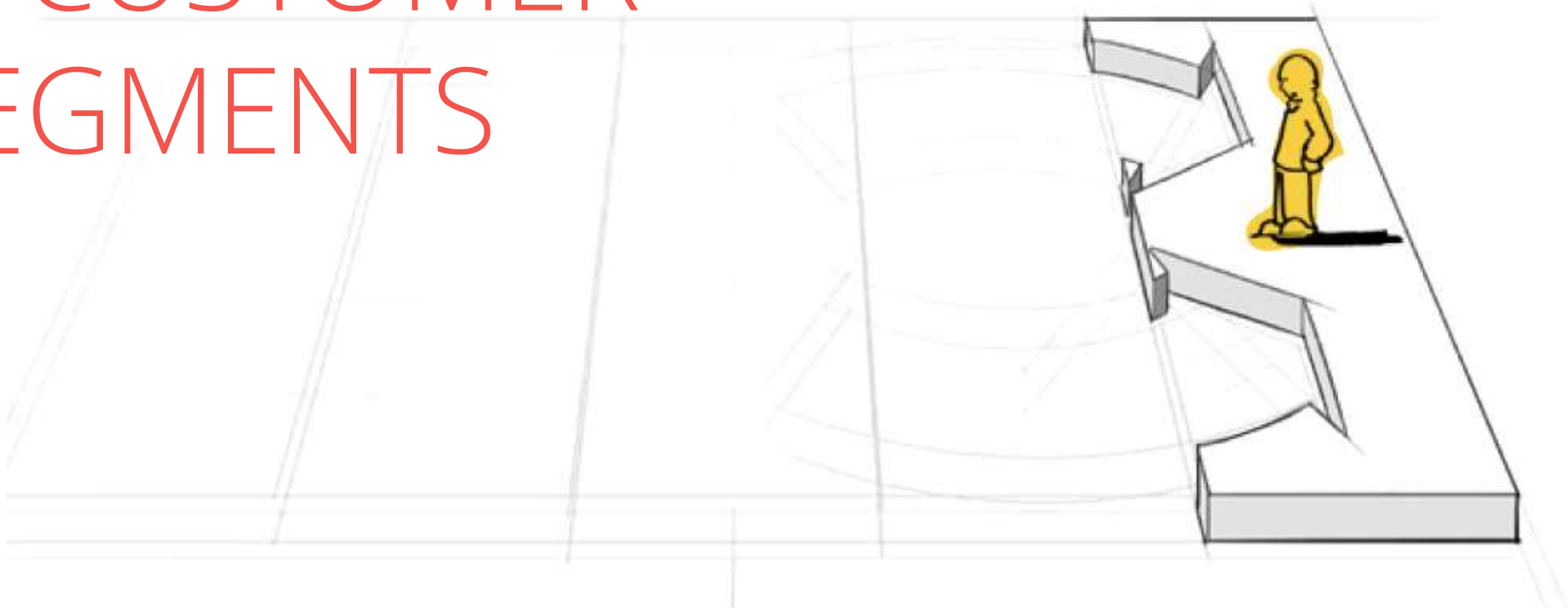
The business model elements result in th cost structure.

CONSISTENCY is the KEY WORD

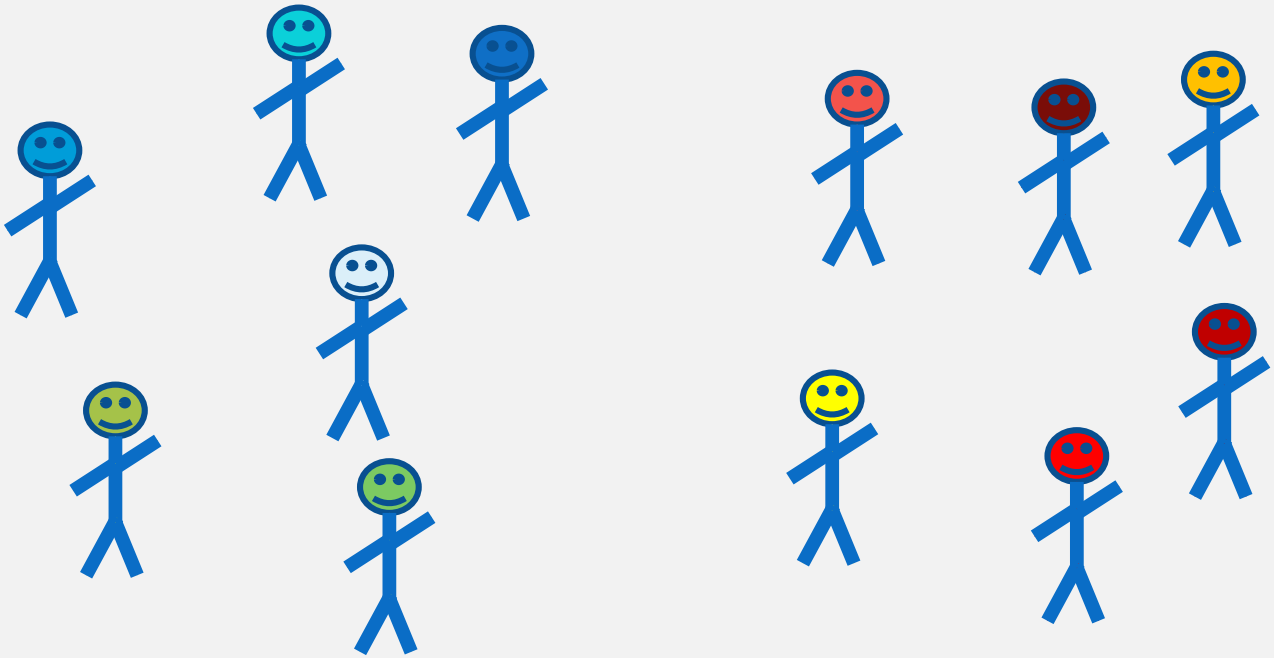


The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve.

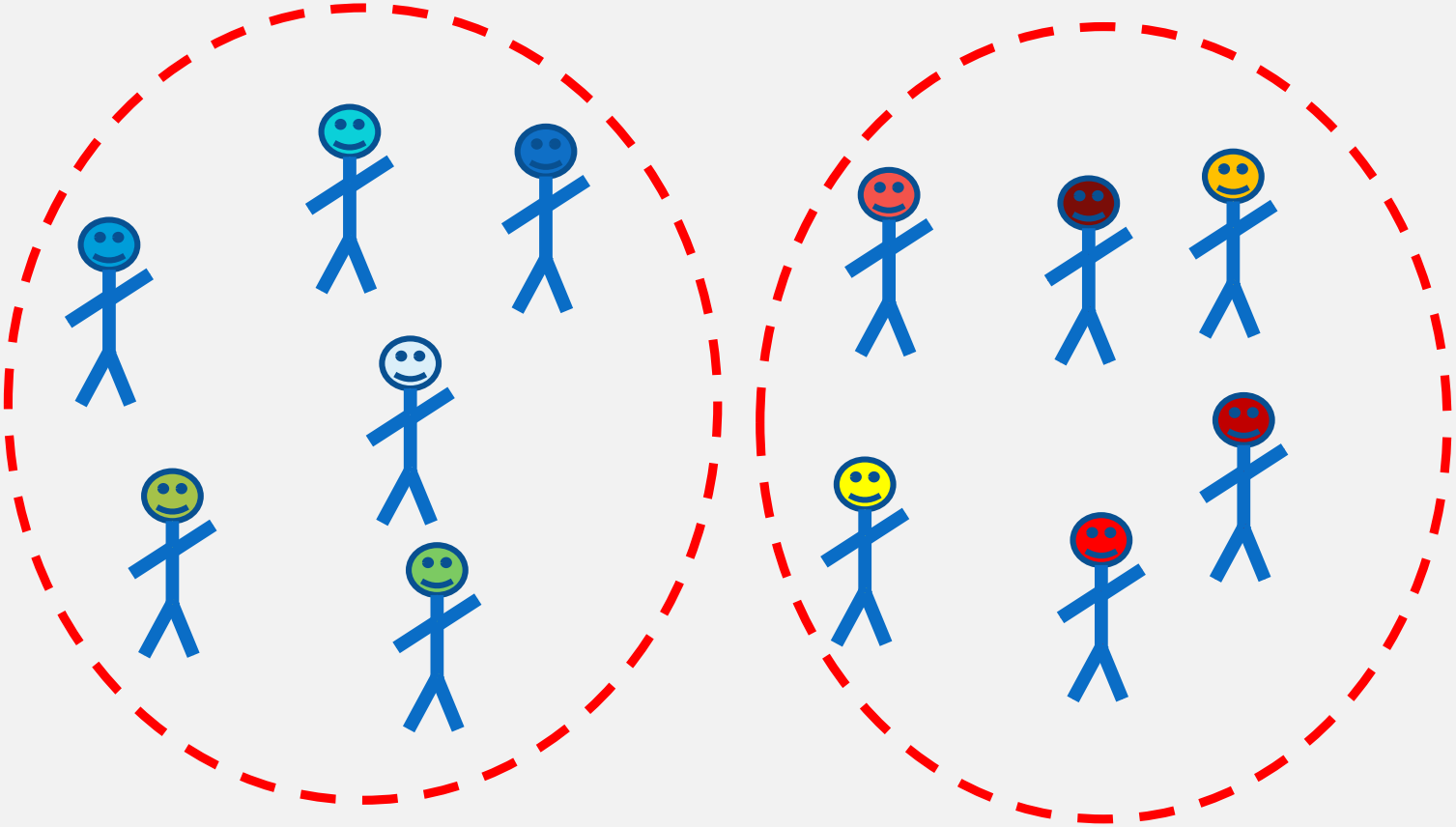
1. CUSTOMER SEGMENTS



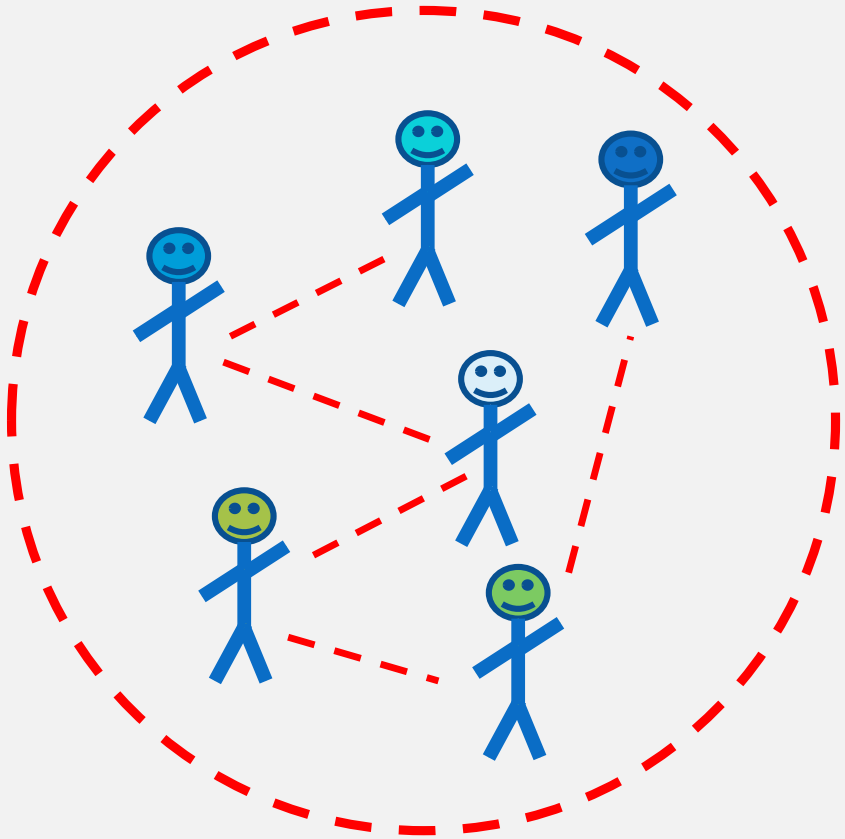
about segmentation

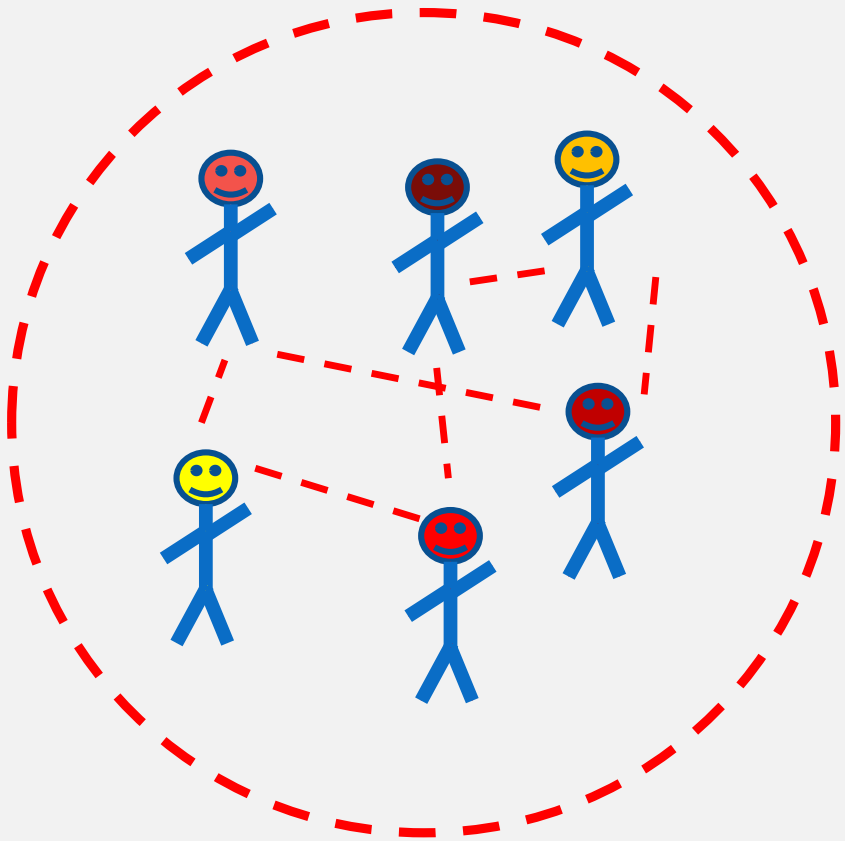


about segmentation

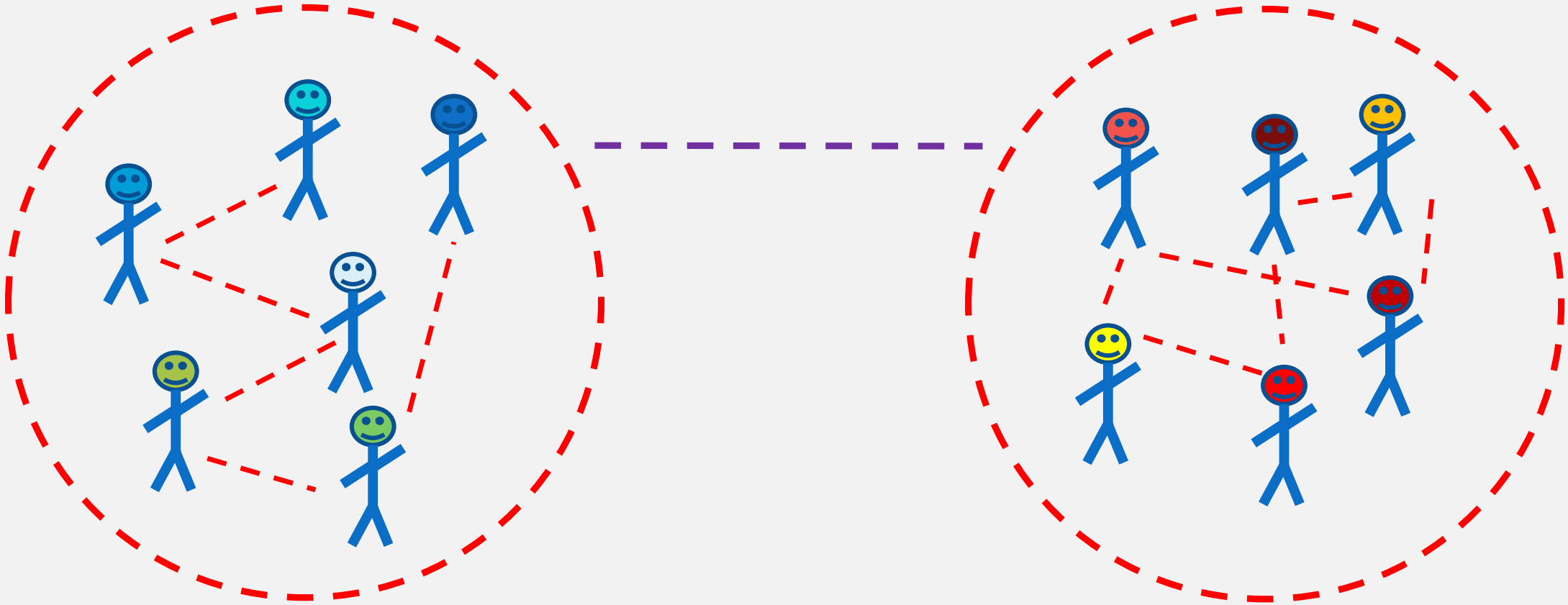


about segmentation



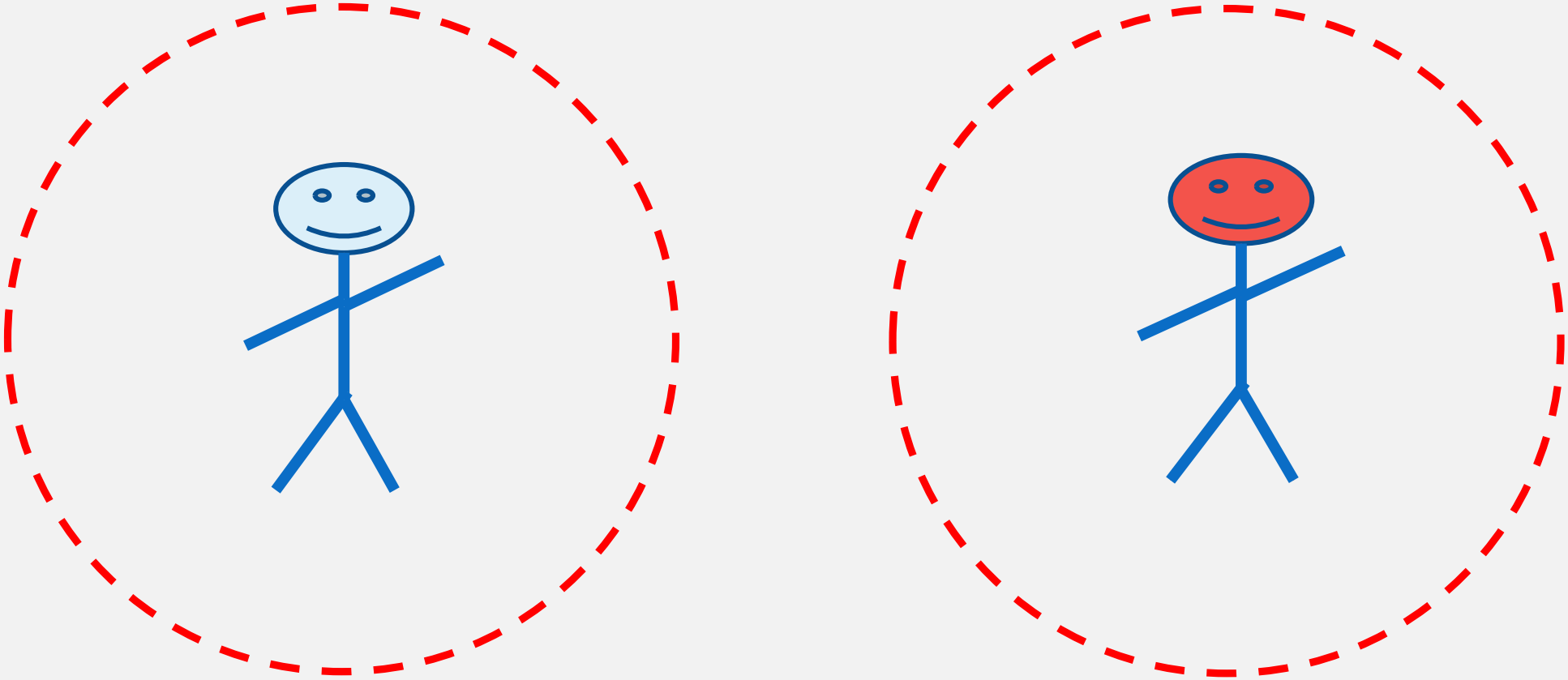


about segmentation



about segmentation

an “average” consumer is identified



MAIN TECHNIQUES

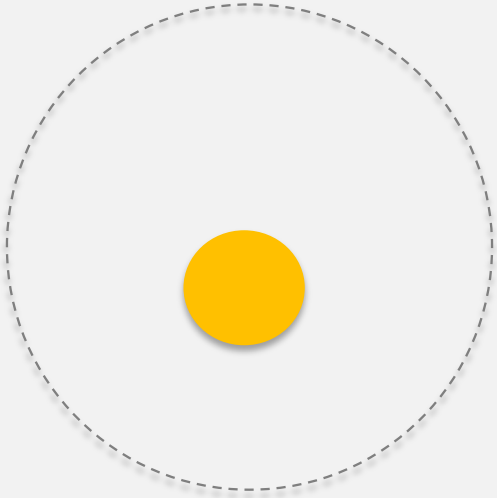
- *socio-demographic (age, sex, ...)*
- *geographic*
- *benefit (product attributes)*
- *purchasing behaviors (frequency, amount, ...)*
- *life-styles*
- *others...*

COROLLARIES

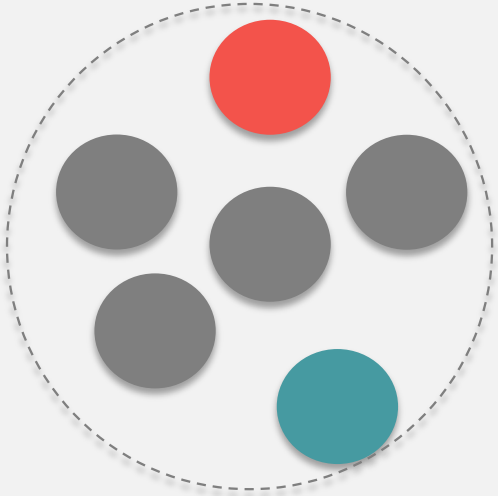
- *their characteristics require and justify a distinct* ***value proposition***
- *they could be reached through different* ***distribution and communication channels***
- *they could require different types of* ***relationships*** to be manged
- *They could have different profitability*

SEGMENTATION STRATEGIES

MASS MARKET



NICHE MARKET



SEGMENTED MARKET

The toothpaste TEST

USE GOOGLE TO IDENTIFY:

- 3 different brands reflecting the 3 segmentation strategies:
    - mass (one product for everyone),
    - niche (a specific product for a specific user),
    - segmented (many different products for different market segments)

- then focus on the segmented brand: what is in your opinion the segmentation technique behind the strategy adopted by such brand?

EXHIBIT 1

Toothpaste market segment description

	The Worriers	The Sociables	The Sensory Segment	The Independent Segment
Principal benefit sought:	Decay prevention	Brightness of teeth	Flavor, product appearance	Price
Demographic strengths:	Large families	Teens, young people	Children	Men
Special behavioral characteristics:	Heavy users	Smokers	Users of spearmint favored toothpaste	Heavy users
Brands disproportionately favored:	Crest	Macleans, Plus White, Ultra Brite	Colgate, Stripe	Brands on sale
Personality characteristics:	High hypochondriasis	High sociability	High self-involement	High autonomy
Lifestyle characteristics:	Conservative	Active	Hedonistic	Value-oriented

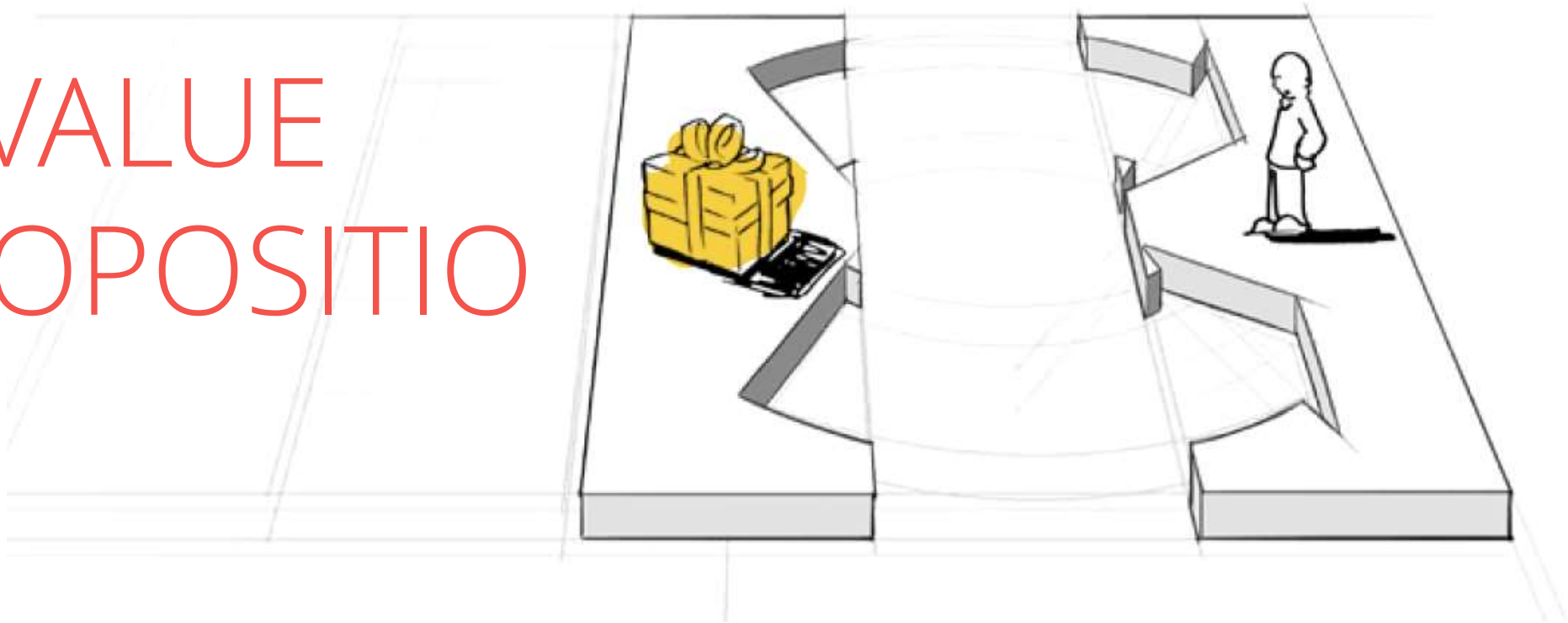
Benefit Segmentation: A Decision-Oriented Research Tool

Russell I. Haley, *Journal of Marketing,* Vol. 32, No. 3 (Jul., 1968), pp. 30-35

b2c b2b

The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment

2. VALUE PROPOSITION



VALUE DRIVERS

CUSTOMIZATION

Tailoring products and services to the specific needs of individual customers or segments. Increasing role of MASS CUSTOMIZATION and CUSTOMER CO-CREATION processes.

PERFORMANCE

Improving existing product or service performance

BRAND / STATUS

Users could value a specific brand and/or be “proud” to show others they belong to a certain “community”

GETTING THE JOB DONE

Offering “solutions” to users instead of single products and services.

DESIGN

A product may stand out for superior design/aesthetic

NEWNESS

The product or service satisfies entirely new needs not perceived before by the user

VALUE DRIVERS

PRICE
Offering similar values to price-sensitive consumers but at a lower prices.

COST REDUCTION
Offering products, services or solutions that help clients to reduce their costs

RISK REDUCTION
Reduce the uncertainty and the risks consumers incur when they buy "complex" products

ACCESSIBILITY
Making products or services accessible to users who previously lacked access to them (sharing economy)

USABILITY
Make products easier or more convenient to use

The SHOES TEST

- Work individually
- Pick 1 value drivers cards
- Elaborate a concept for a new pair of shoes embedding the value driver (5 min)
- Present it to the class!

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

3. CHANNELS

Communication objectives

1. Inform customers and establish need for category: especially for new-to-the-world products
2. Build brand awareness: "helping" the consumer to recognize (or recall) the brand in sufficient detail to make a purchase
3. Build brand attitude: helping consumers evaluate the brand's perceived ability to meet a currently relevant need:
   - negatively oriented needs (problem removal, problem avoidance, incomplete satisfaction,...)
   - positively oriented needs (social approval, personal gratification, intellectual stimulation,...)
4. Influence brand purchase intention: triggering consumers to take purchase-related action.

Some ads from 2022 Superbowl

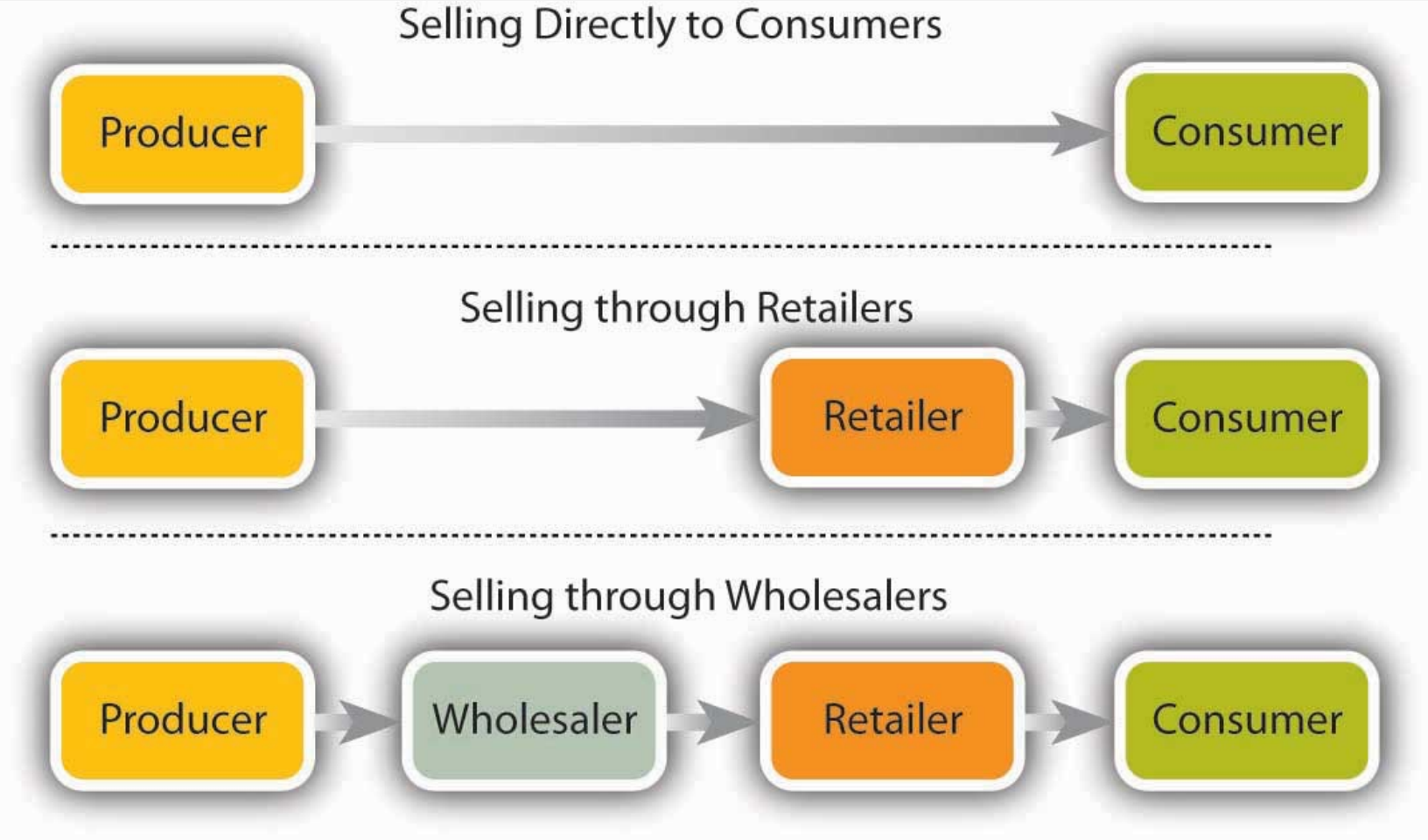
Same business, same message?

CARVANA

vroom

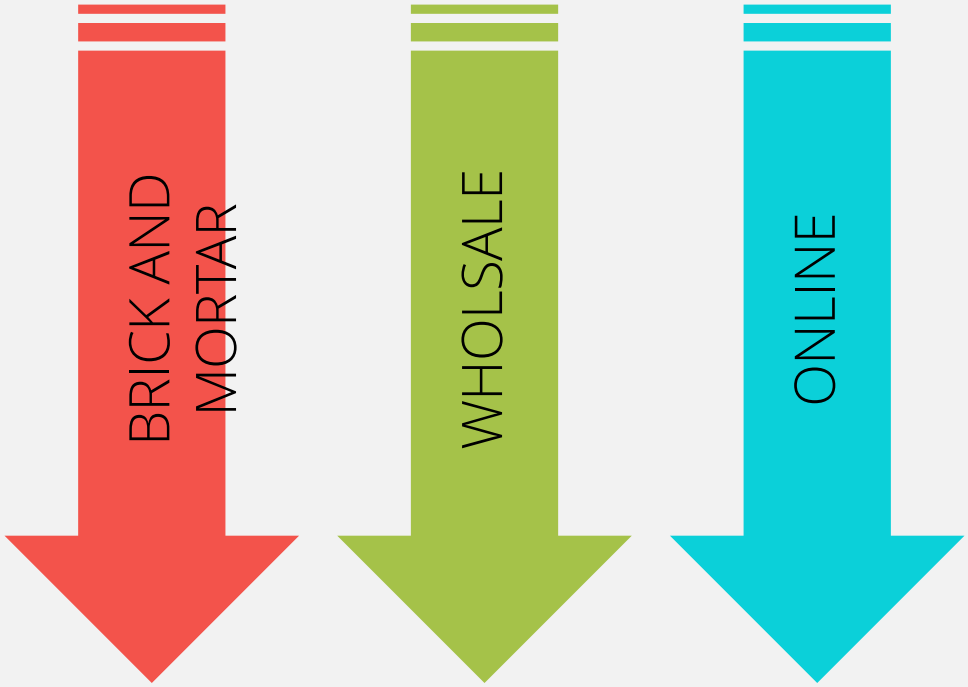
What about this?

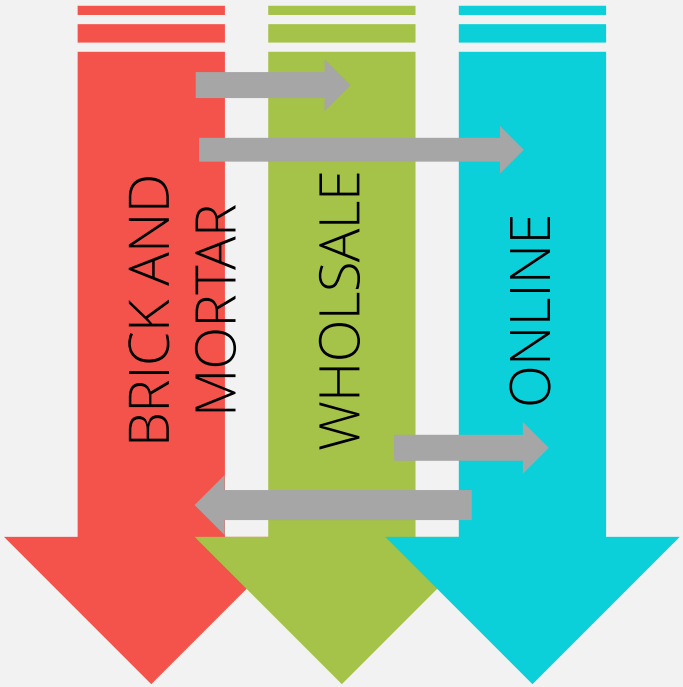
Distribution channels: types



CHANNEL STRATEGIES

MULTICHANNEL vs. OMNICHANNEL





COMMUNICATION AND DISTRIBUTION CHANNELS PHASES

2 EVALUATION

How do we help customers evaluate our organization's Value Proposition?

1 AWARENESS

How do we raise awareness about our company's products and services?

3 PURCHASE

How do we allow customers to purchase specific products and services?

4 DELIVERY

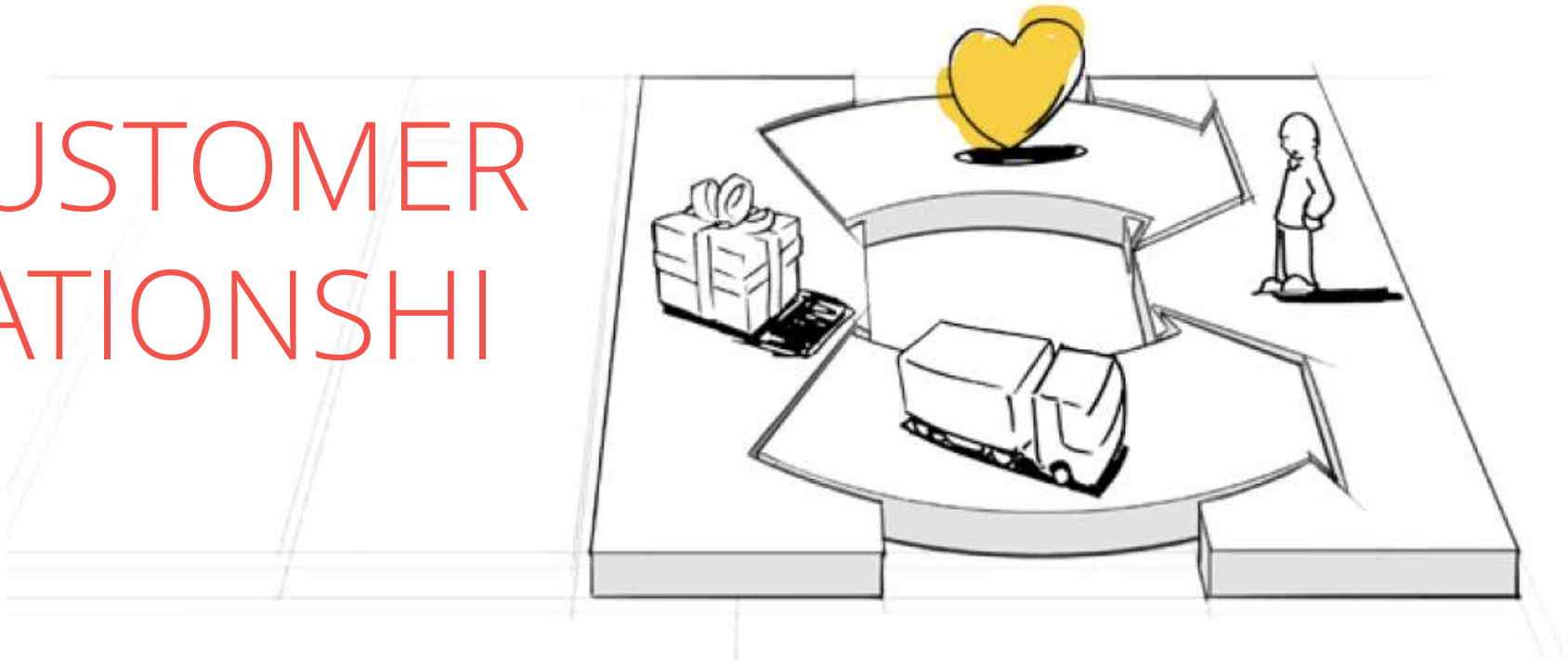
How do we deliver a Value Proposition to customers?

5 AFTER SALES

How do we provide post-purchase customer support?

The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments

4. CUSTOMER RELATIONSHIPS



The WHY of customer relationships

- ACQUIRE (NEW) customers
- RETAIN (OLD) customers
- Applying Up-selling / Cross-selling strategies

WHAT TYPE OF RELATIONSHIPS?

PERSONAL ASSISTANCE

Based on human interaction: live, call-centers, e-mail, chat, etc.

DEDICATED PERSONAL ASSISTANCE

PA dedicated to specific clients (ex. Key Account)

SELF-SERVICE

Provide to customers all the information to help themselves

AUTOMATED SERVICE

More sophisticated than S-S. Can recognize the client and personalize the service (ex. Netflix suggestions)

COMMUNITY

Facilitate information exchange among the members of a community

CO-CREATION

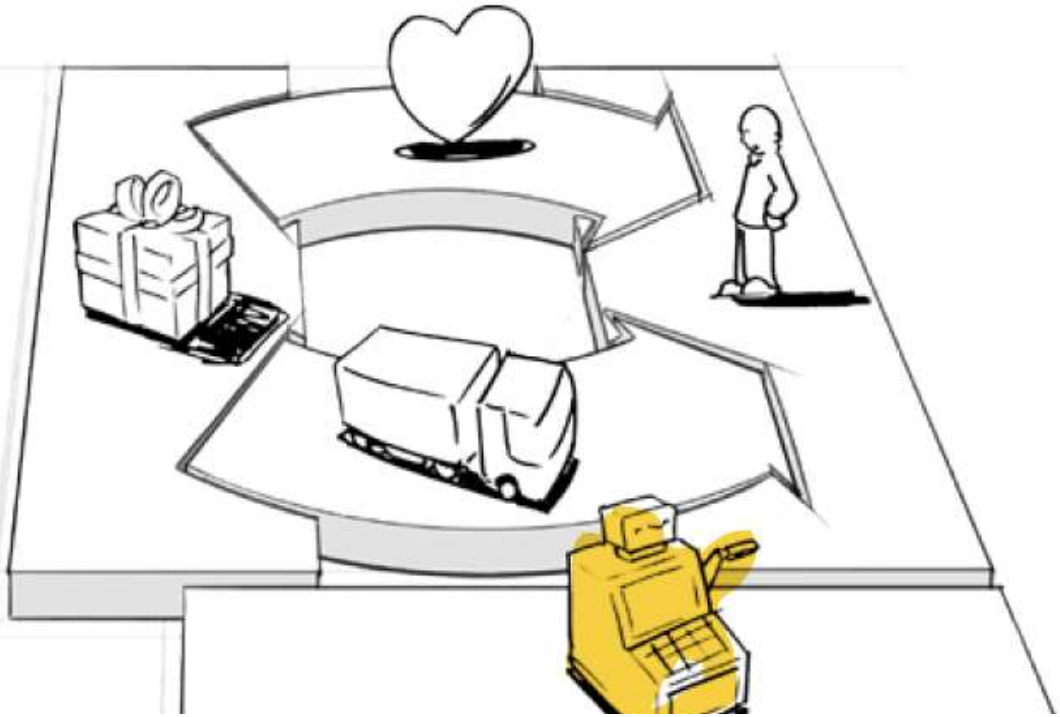
Customers co-create value (products, provide assistance to other clients, etc.) with company

What are the ADV and the DISADV of each type?

Let’s start putting the 4 building blocks together in a consistent way. Let’s hypothesise we want to start up with our PADDLE SHOES. Let’s think to a combination of target market, value proposition, channels and customer relationship strategies that make sense…

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

5. REVENUE STREAMS



REVENUE STREAMS

ASSET SALE
Simple selling of physical products

USAGE FEE
Fee derived from the use of a service (the more the use, the higher the revenues)

SUBSCRIPTION FEES
Revenues coming from selling access to a service (physical or digital)

LENDING/RENTING/LEASING
Revenues coming from a temporal grant given to someone to use a particular asset

LICENSING
Giving customers permission to use protected intellectual property in exchange for licensing fees

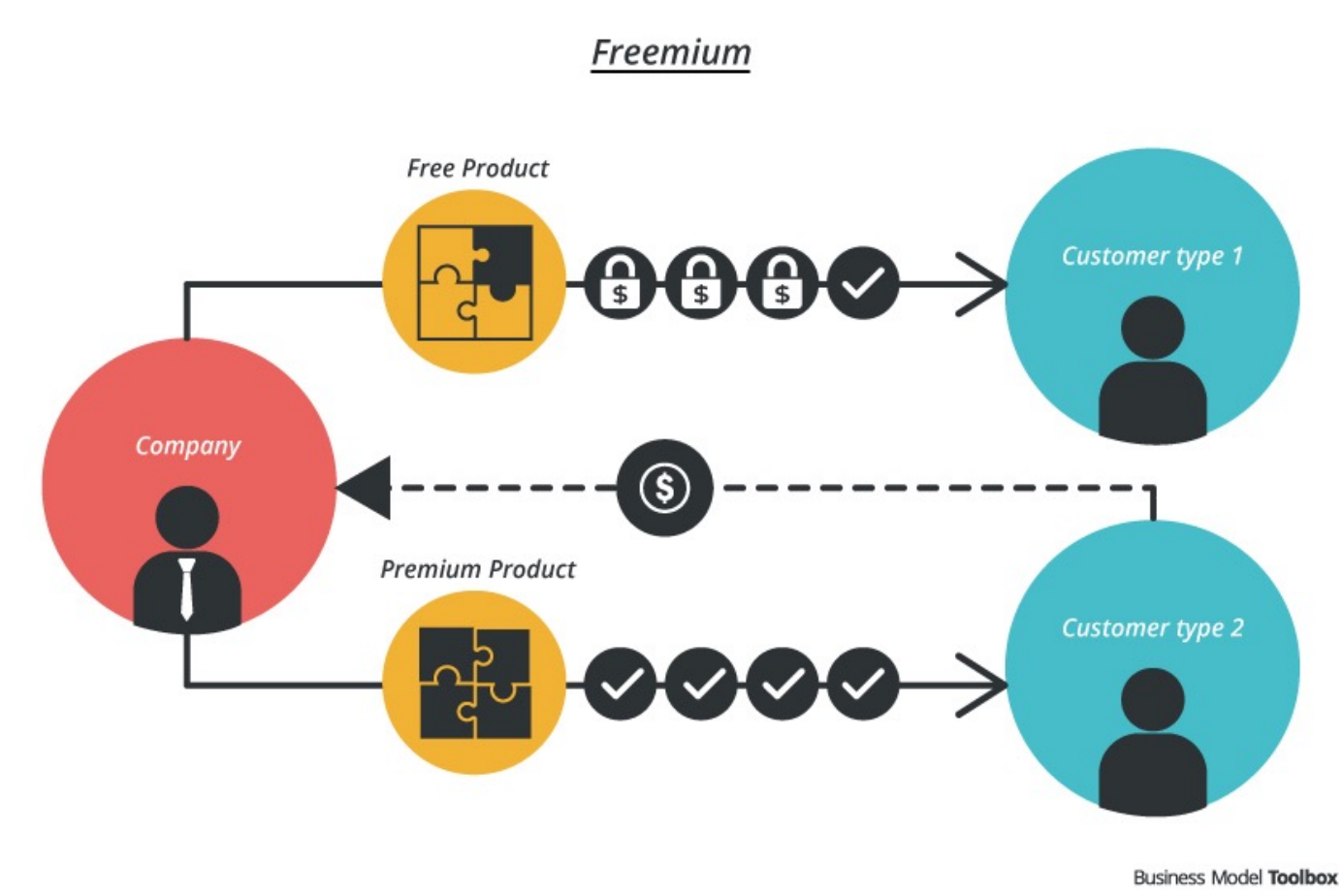
BROKERAGE FEES
Revenue Stream derives from intermediation services performed on behalf of two or more parties (credit cards, real estate agents)

ADVERTISING
Revenue Stream results from fees for advertising a particular product, service, or brand

Pricing Mechanisms

Fixed "Menu" Pricing Predefined prices are based on static variables		Dynamic Pricing Prices change based on market conditions	
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
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)
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
Volume dependent	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

An emerging revenue model



Source: http://bmtoolbox.net/patterns/freemium/

The “Freemium” RM

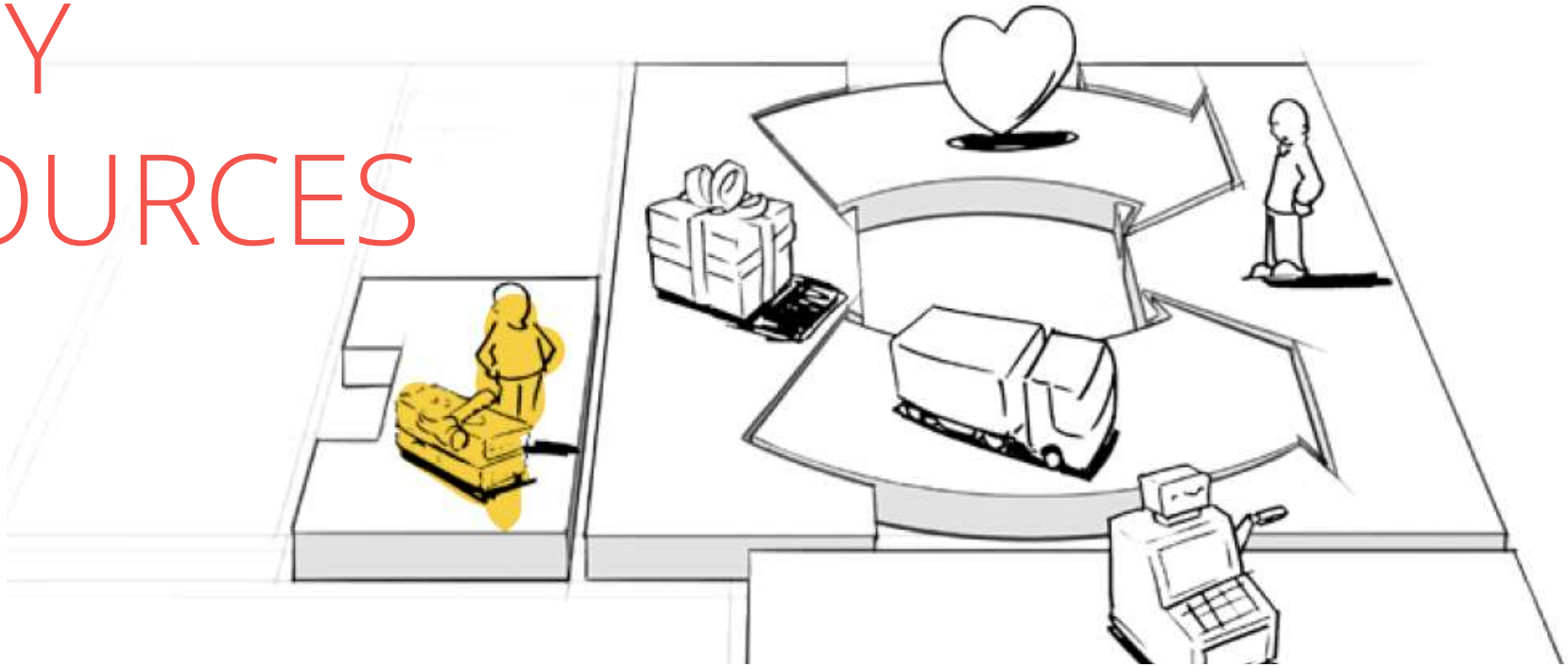
FREE | FREEMIUM | PREMIUM

FREE:
Feature limited
Capacity limited
Number of users limited
Effort limited
Support limited
Time or bandwidth limited
Storage Space Limited

PAY TO UNLOCK ALL THE ABOVE

The Key Resources Building Block describes the most important assets required to make a business model work

6. KEY RESOURCES



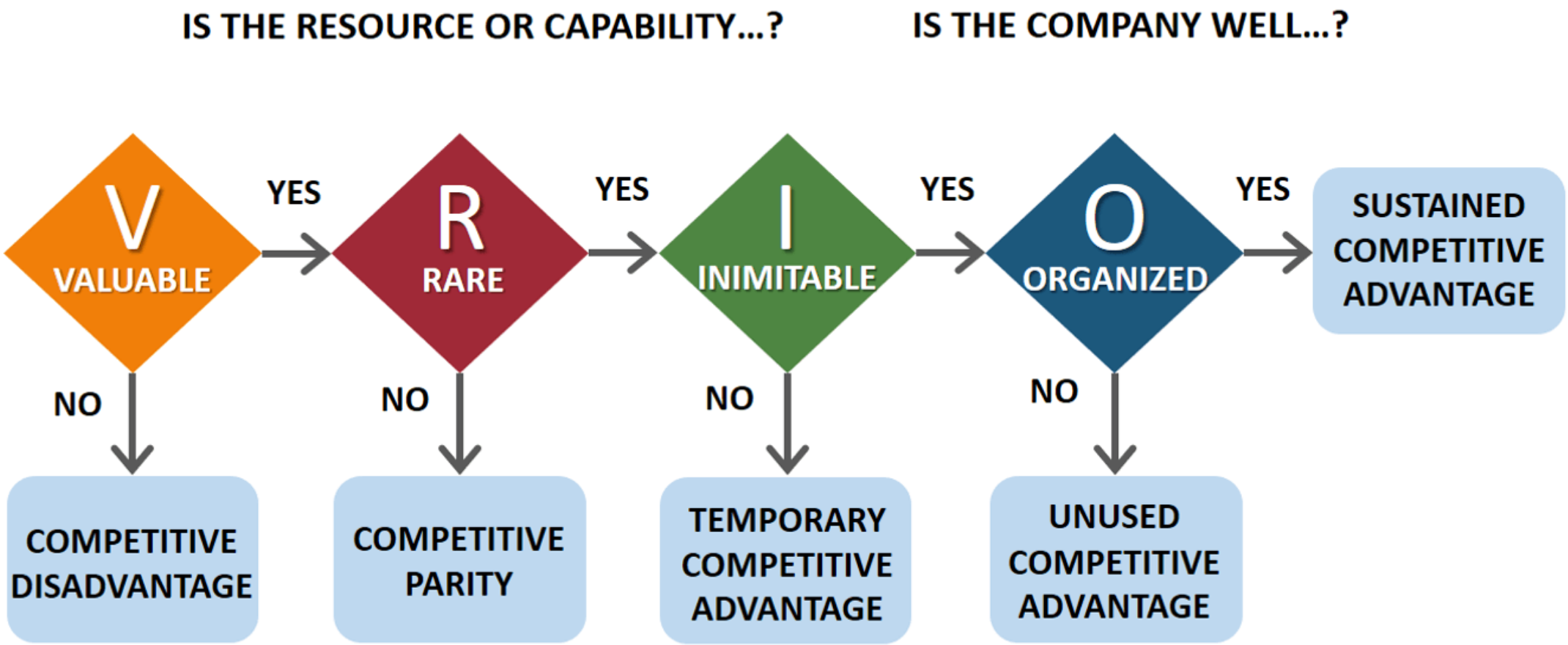
RESOURCE TYPE

INTELLECTUAL
Include brands, knowledge, patents, copyrights, partnerships, and customer databases

HUMAN
HR are particularly important in certain business models (i.e., knowledge-intensive and creative industries)

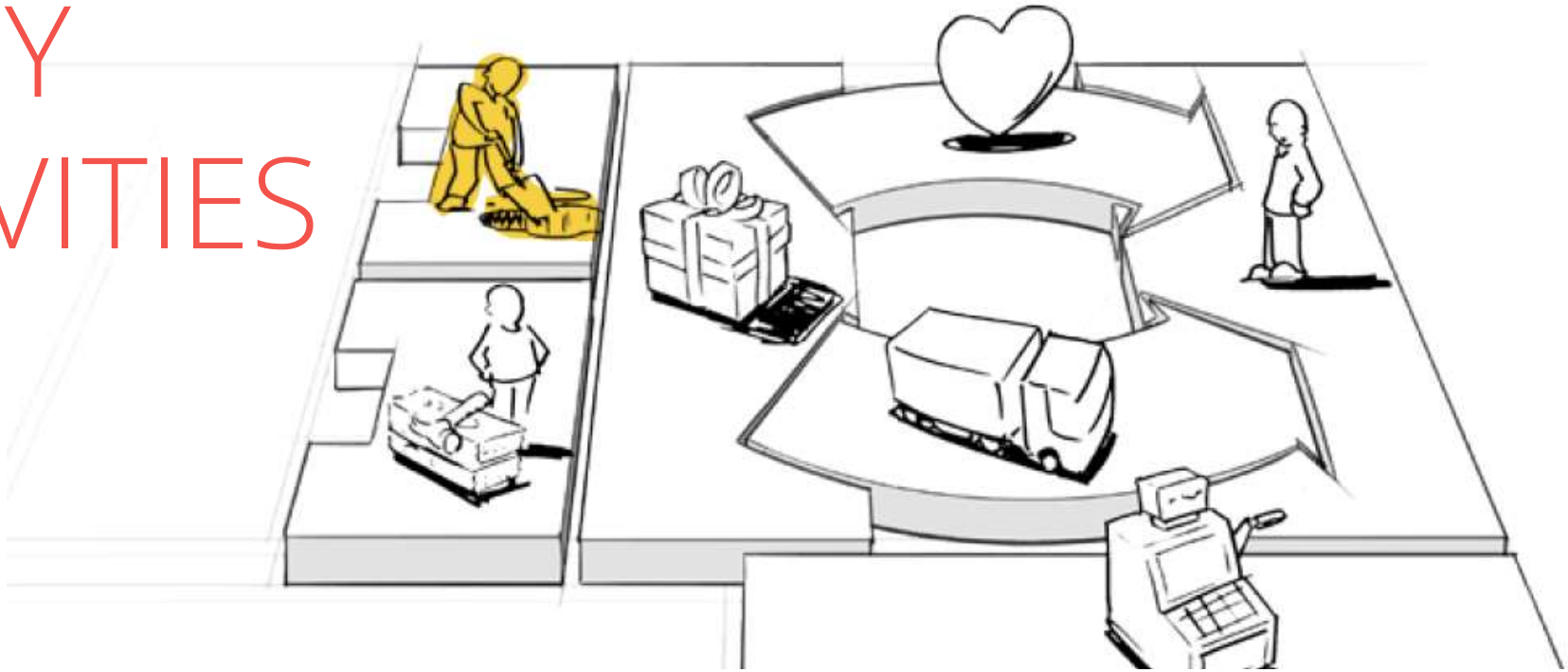
PHYSICAL
Include physical assets such as manufacturing facilities, machines, systems, point-of-sales systems, and distribution networks

FINANCIAL
Financial resources (or lines of credit) can be key (i.e., to finance equipment bought by customers


IS THE RESOURCE OR CAPABILITY...?
IS THE COMPANY WELL...?
V
VALUABLE
YES
R
RARE
YES
I
INIMITABLE
YES
O
ORGANIZED
YES
SUSTAINED COMPETITIVE ADVANTAGE
NO
COMPETITIVE DISADVANTAGE
NO
COMPETITIVE PARITY
NO
TEMPORARY COMPETITIVE ADVANTAGE
NO
UNUSED COMPETITIVE ADVANTAGE

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

7. KEY ACTIVITIES



KEY ACTIVITIES

PLATFORM/NETWORK

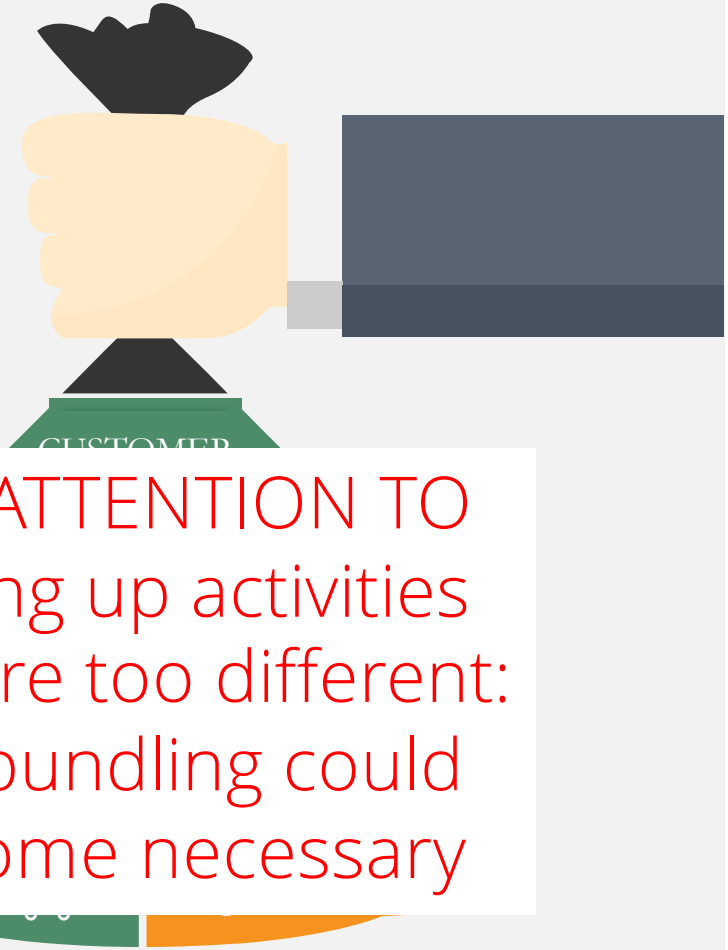
Some business model require managing the interface between multiple actors as a key activity (i.e., Airbnb, MasterCard)

PROBLEM SOLVING

Some BM require to come up with new solutions to individual customer problems. Typically, services.

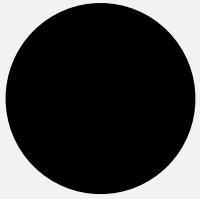
PRODUCTION

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Typically, manufacturing



PAY ATTENTION TO mixing up activities that are too different: Un-bundling could become necessary

Looking at products as they were services helps in focusing on the benefits provided to the clients

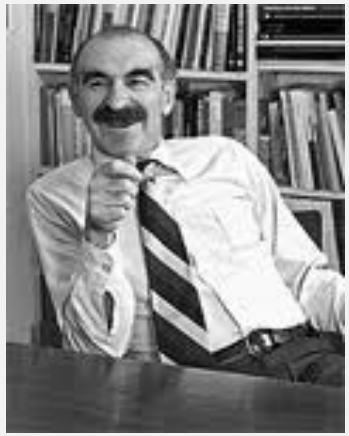


1/4" hole

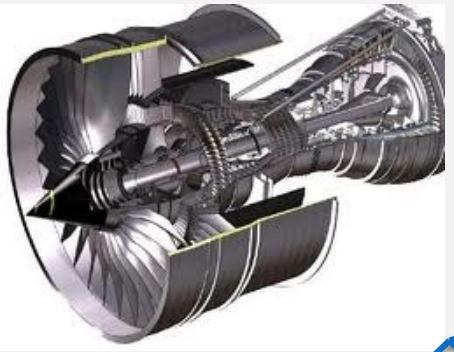
1/4" drill

Levitt T. (1960):

"when customers buy 1/4 inch drills what they really want are 1/4 inch holes"

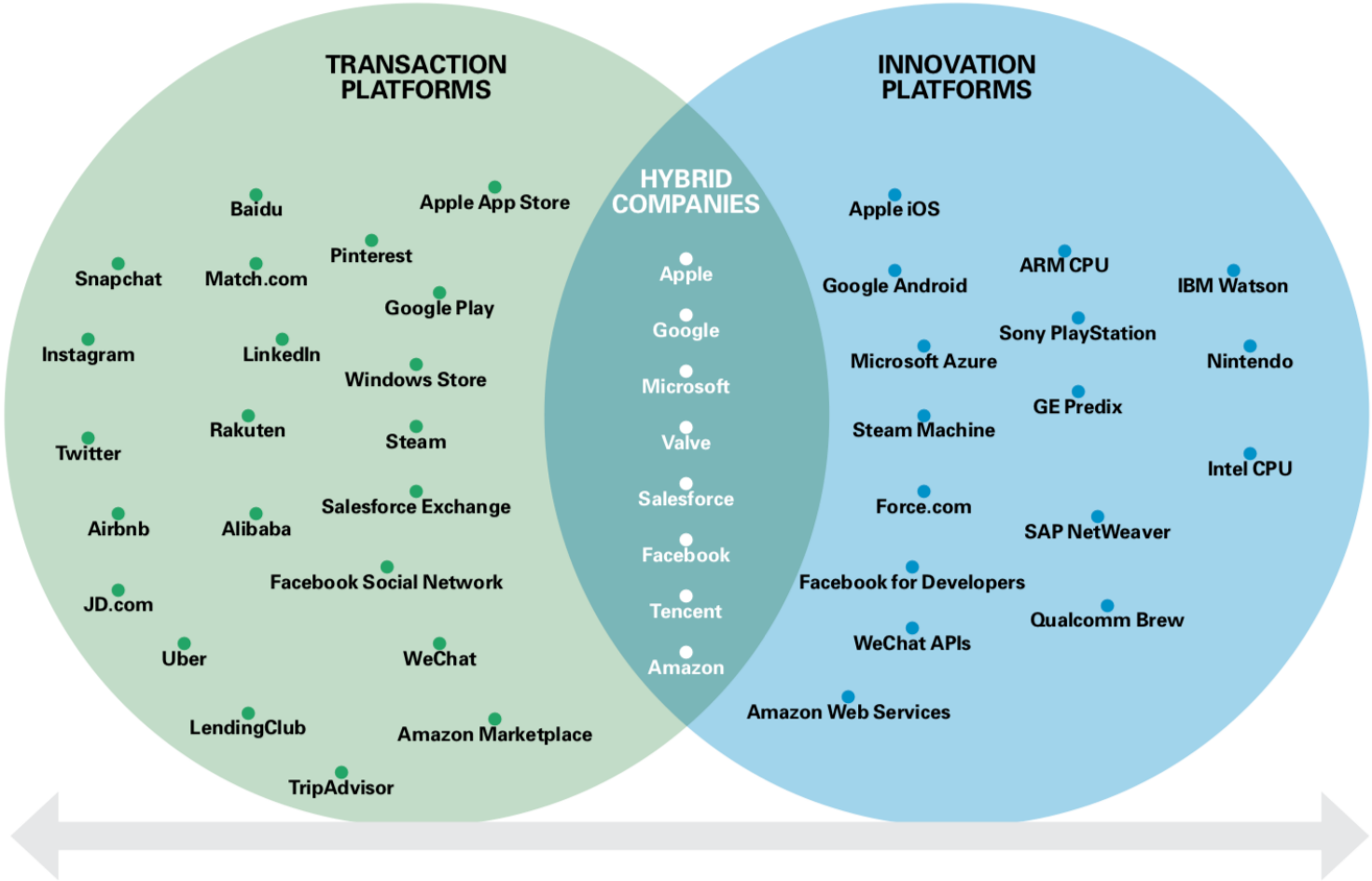


A (new?) trend:
the servitization of products



BASIC PLATFORM TYPES

In the quest for competitive advantage, companies are combining transaction and innovation platforms into a hybrid model.

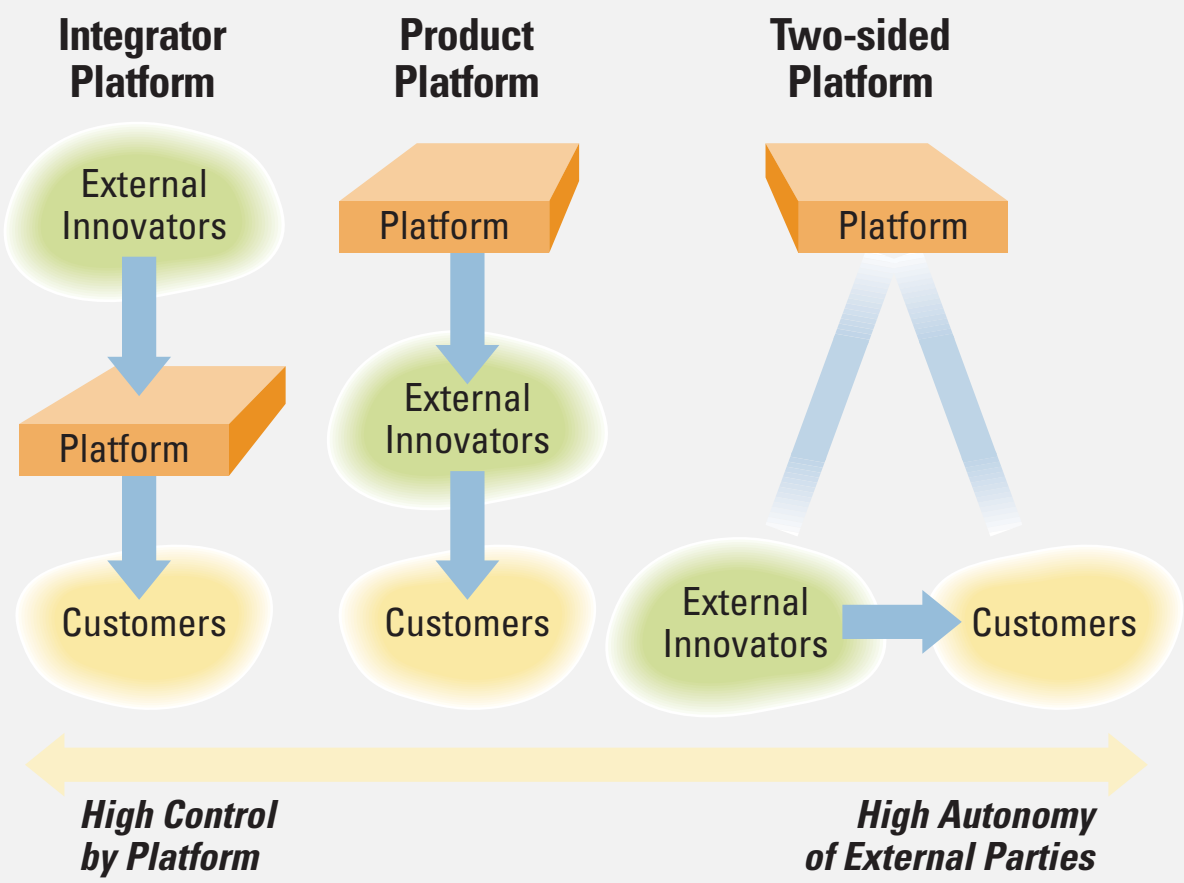


Transactions
The platform serves as an intermediary for direct exchange or transactions, subject to network effects.

Innovations
The platform serves as a technological foundation upon which other firms develop complementary innovations.

SOURCE: *THE BUSINESS OF PLATFORMS: STRATEGY IN THE AGE OF DIGITAL COMPETITION, INNOVATION, AND POWER* (HARPER BUSINESS, 2019)

PLATFORM TYPOLOGY



When a company opens up its product to outside innovation, **the product becomes a platform**. To generate revenues from that platform, executives need to think about what type of business model makes the most sense. In the integrator platform model, the company incorporates outside innovations and sells the final products to customers. In the product platform model, external innovators build "on top" of the platform and sell the resulting products to customers. Finally, in the two-sided platform model, external innovators and customers are free to transact directly with one another as long as they affiliate with the platform's owner.

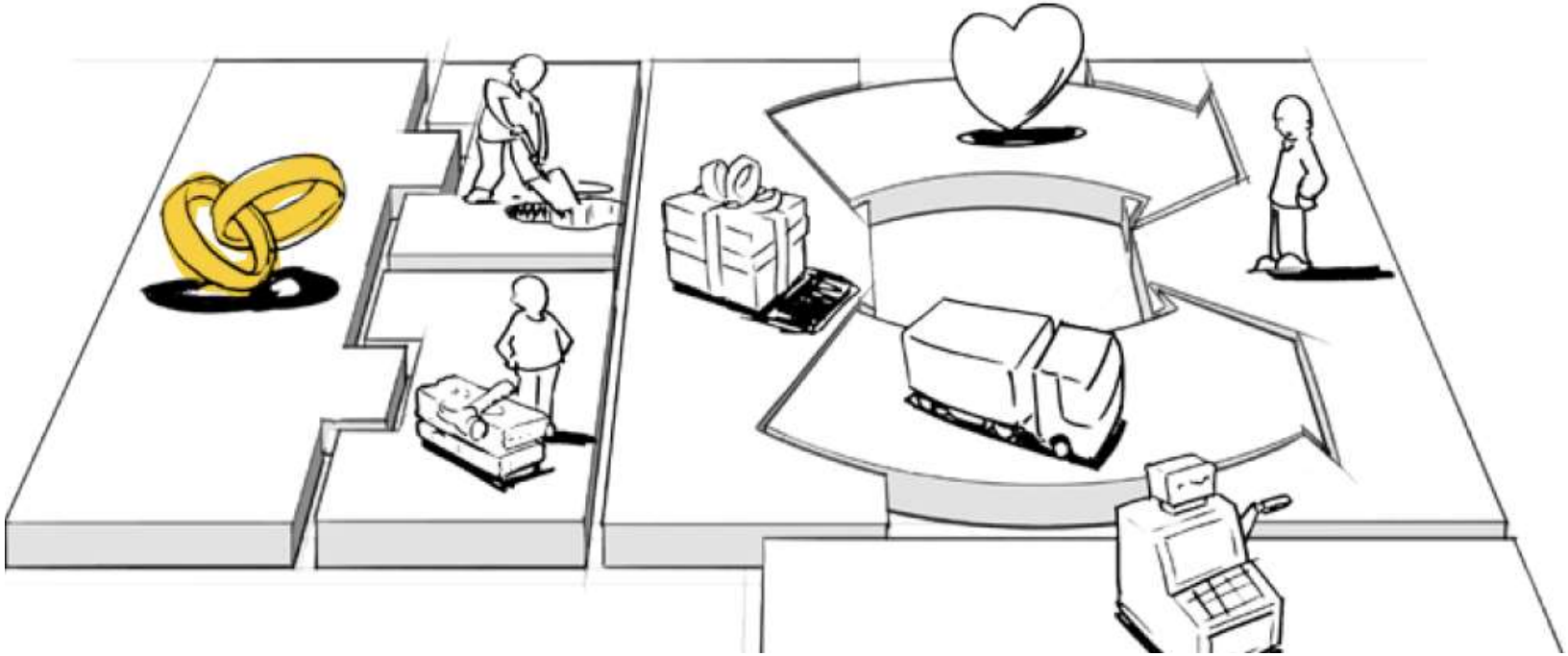
Source: Kevin J. Boudreau and Karim R. Lakhani (2009), "How to Manage Outside Innovation", Sloan Management Review, Vol. 50, N. 4

Platform strategies

- “Jump on the bandwagon” strategy. Simply use existing and "winning" platform
- “Embrace-and-extend” strategy. Embrace existing winning platforms, as far as they go, but then rapidly extend them with proprietary/unique features.
- Create new/alternative platforms (if possible)
- Avoid platforms (possible?)

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work

8. KEY PARTNERSHIPS



Key partnerships: which kind?

1. Strategic alliances
between non-competitors ("Rete" – Non competitive network)

2. Coopetition
Strategic partnerships between competitors

3. JV
Normally used to develop new businesses or to enter new markets

4. Buyer-Supplier relationships
Not only to assure reliable supplies…

Key partnerships: why?

1. Optimization of resources and economy of scale

Typical of supply relationships. It could make not much sense for a company to internalize all the assets, especially when demand is unstable

2. Reduction of risk and uncertainty

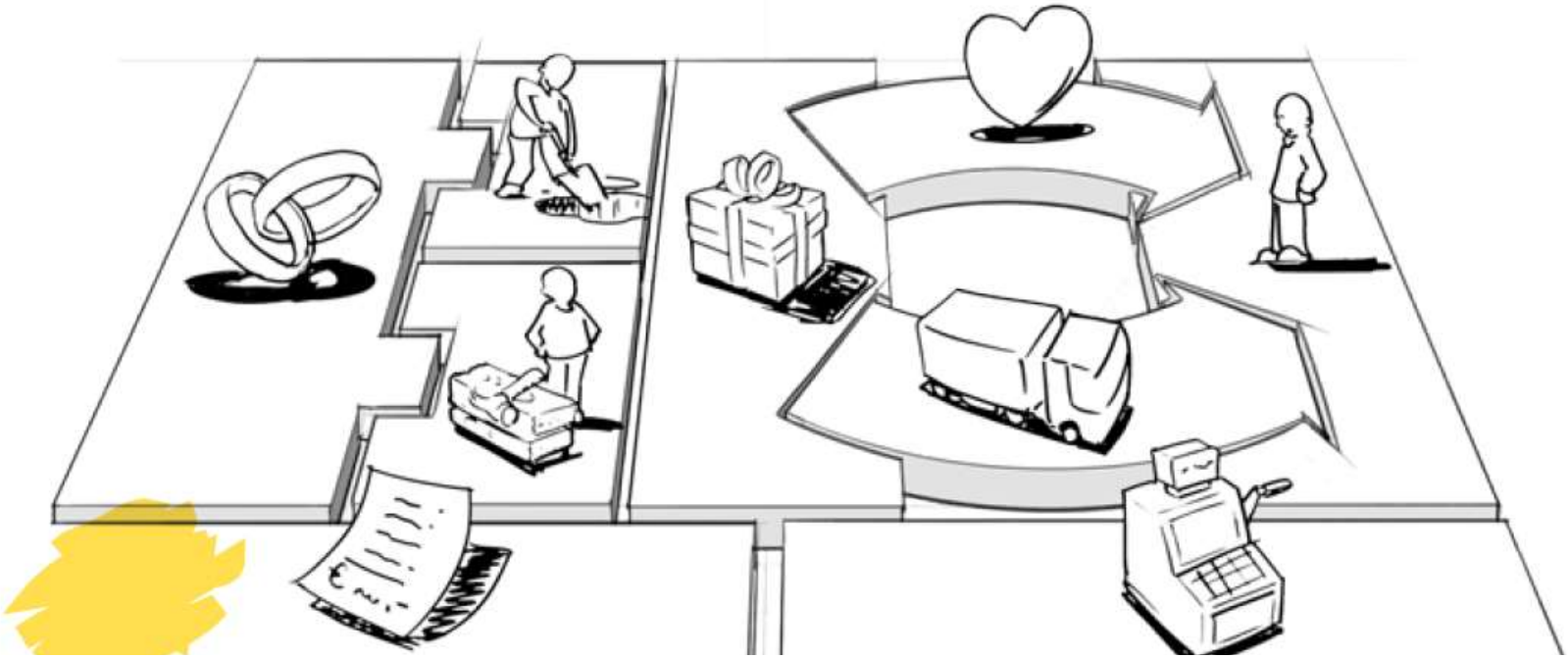
Typical of coopetition and JV. Entering new markets, launching new standards can be extremely costly for a single company.

3. Acquisition of particular resources and activities

Typical of strategic alliances. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers

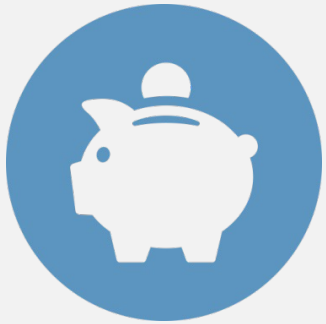
The Cost Structure describes all costs incurred to operate a business model

9. COST STRUCTURE



COST STRUCTURE TYPES

In between solutions are, of course, possible

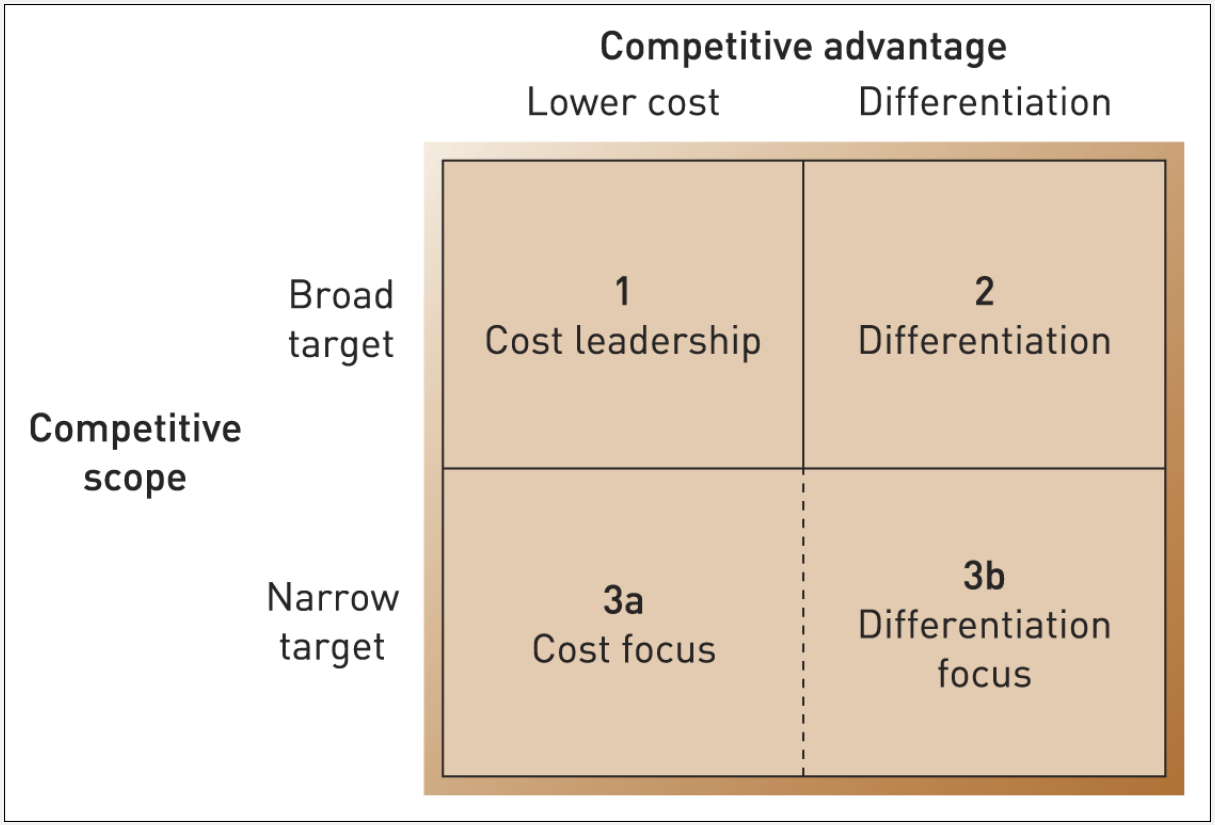


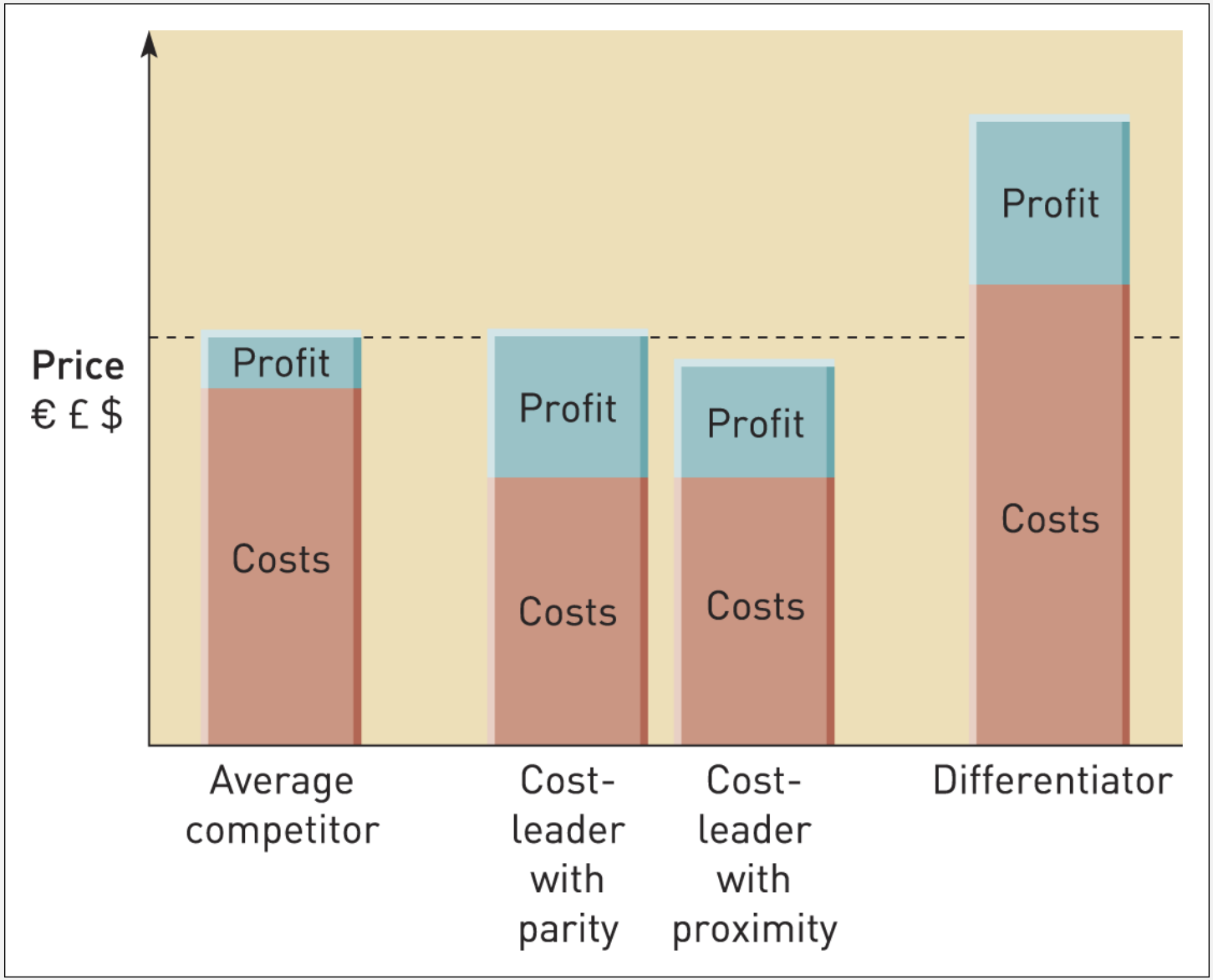
COST DRIVEN
Minimizing costs is key. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing.

VALUE DRIVEN
The focus is on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models.

The base competitive strategies

for Michael Porter




Price
€ £ $
Profit
Costs
Profit
Costs
Profit
Costs
Profit
Costs
Average competitor
Cost-leader with parity
Cost-leader with proximity
Differentiator

Innovation trends to consider (and actions to take)

- Discontinous innovations and how to react (or take advantage)
- Disruptive innovators and how to react

Discontinous innovation

- Innovation (especially technological) tends to develop over time along well defined trajectories
- Discontinuous innovations represent a rift in such trajectories that change the "rules of the game" for all the companies and can force incumbents to completely revise their business mode in order to avoid competitive irrelevance

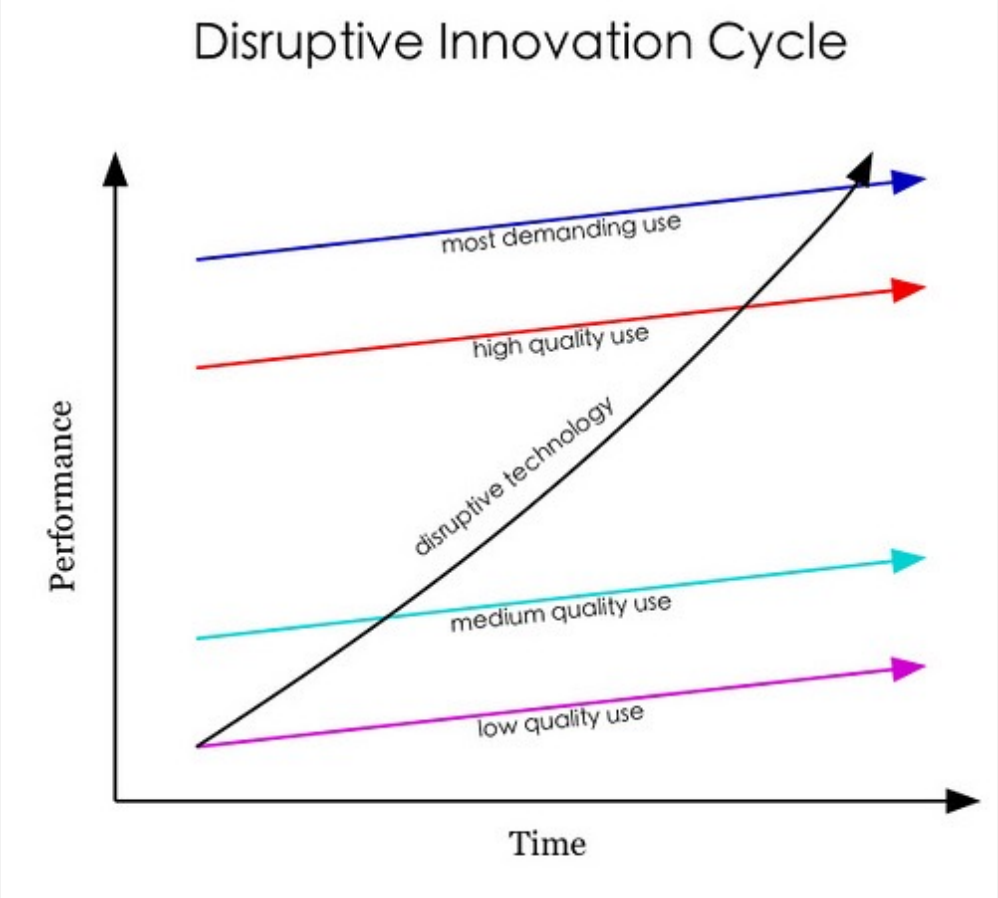
Potential sources of discontinuity are:

- New market segments emerge
- New technologies emerge
- New political rules emerge/shift in regulatory regimes
- New consumers' behaviors emerge
- New business models emerge
- Unthinkable events

How to react (or take advantage)

- Incumbents
  - Short-term: limit the damage (price tactics, wait-and-see behavior)
  - Long-term: shift to the new trajectory (if the winning one)
- New comers
  - Short-term: gain as much market share as possible
  - Long-term: prepare for tough competition coming from “converted” firms

Disruptive innovation



Source: Christensen C., "The innovator's dilemma", HBR

Disruptive innovation is a term coined by Clayton Christensen, that describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors

How to react

- Going up and up (being aware of the "quality trap")
- Repositioning down
- Dual positioning strategy (even through M&A)