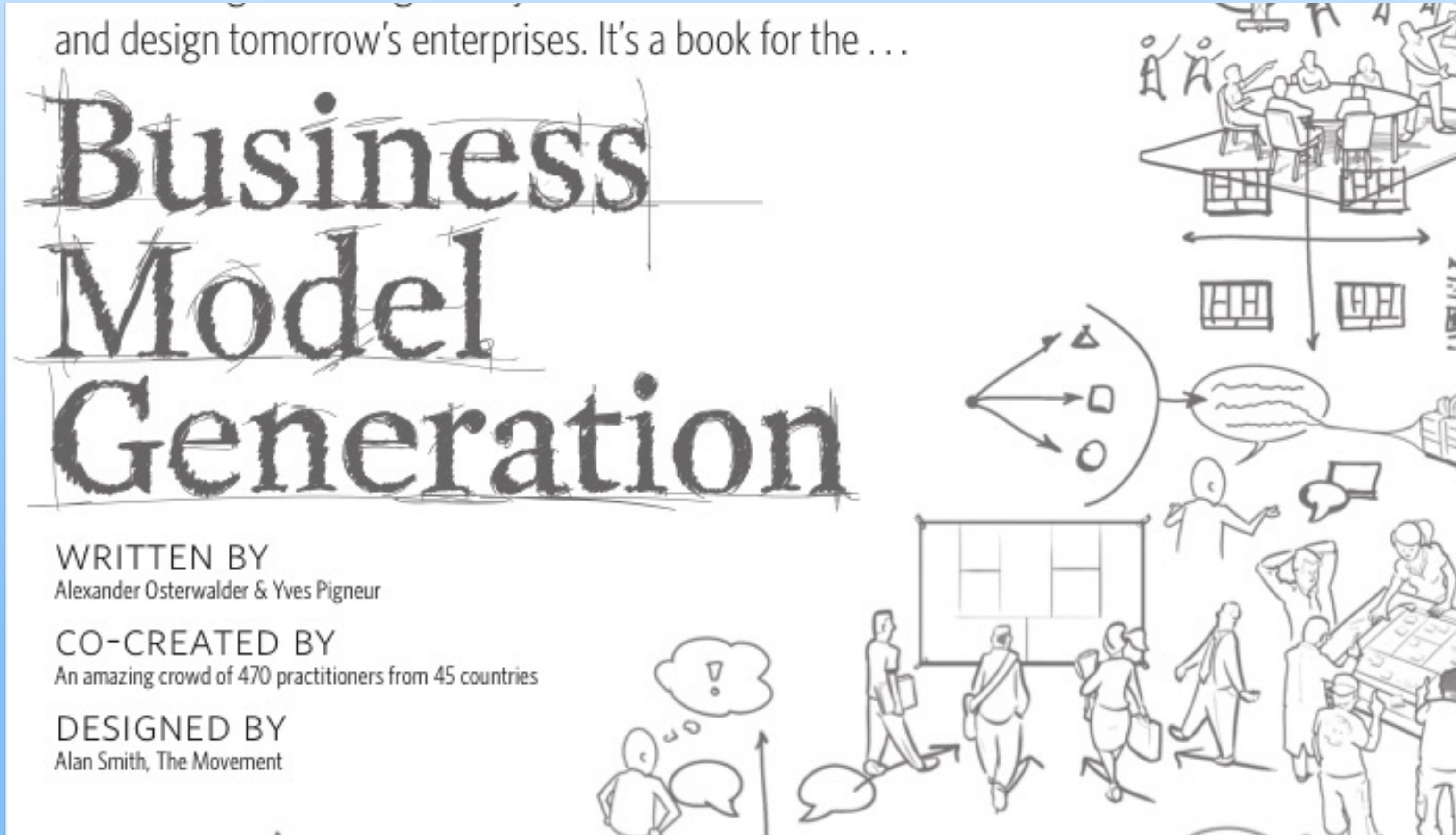
The BUSINESS MODEL CANVAS



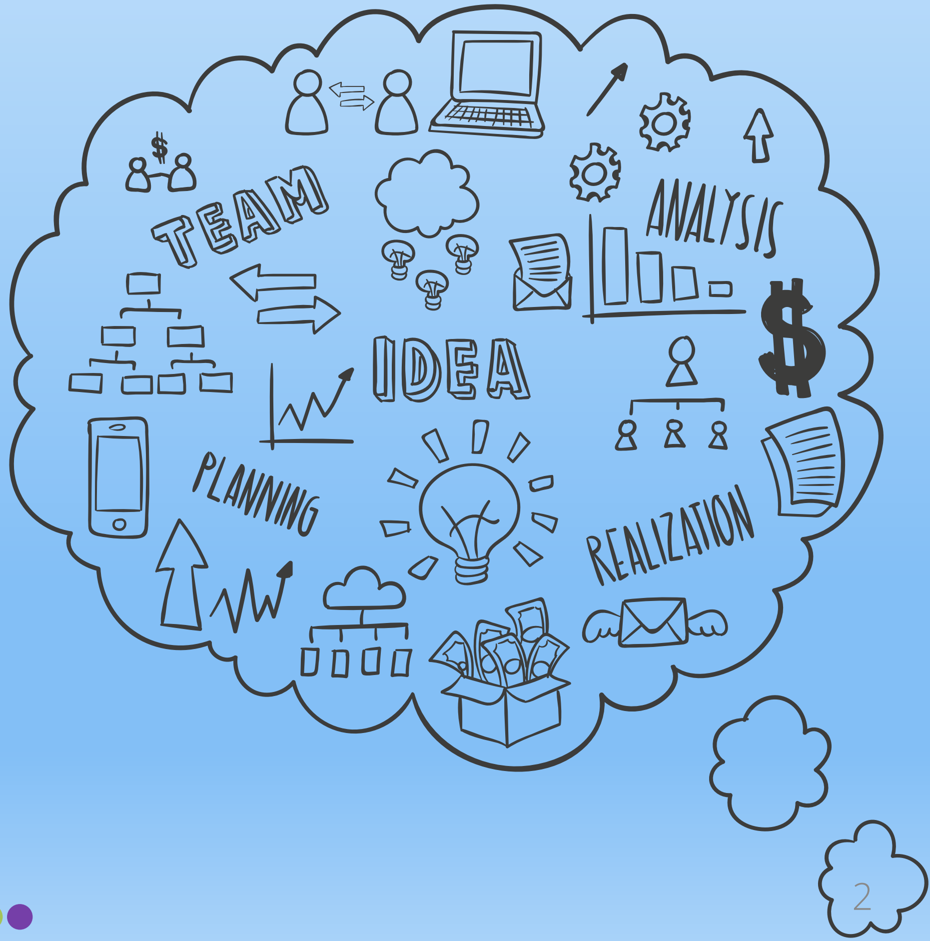
Entrepreneurship & Business Modelling course

Prof. Guido Bortoluzzi

academic year 2023/2024

defining the BUSINESS MODEL

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




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

Customer Segments

An organization serves one or several Customer Segments.

Value Propositions

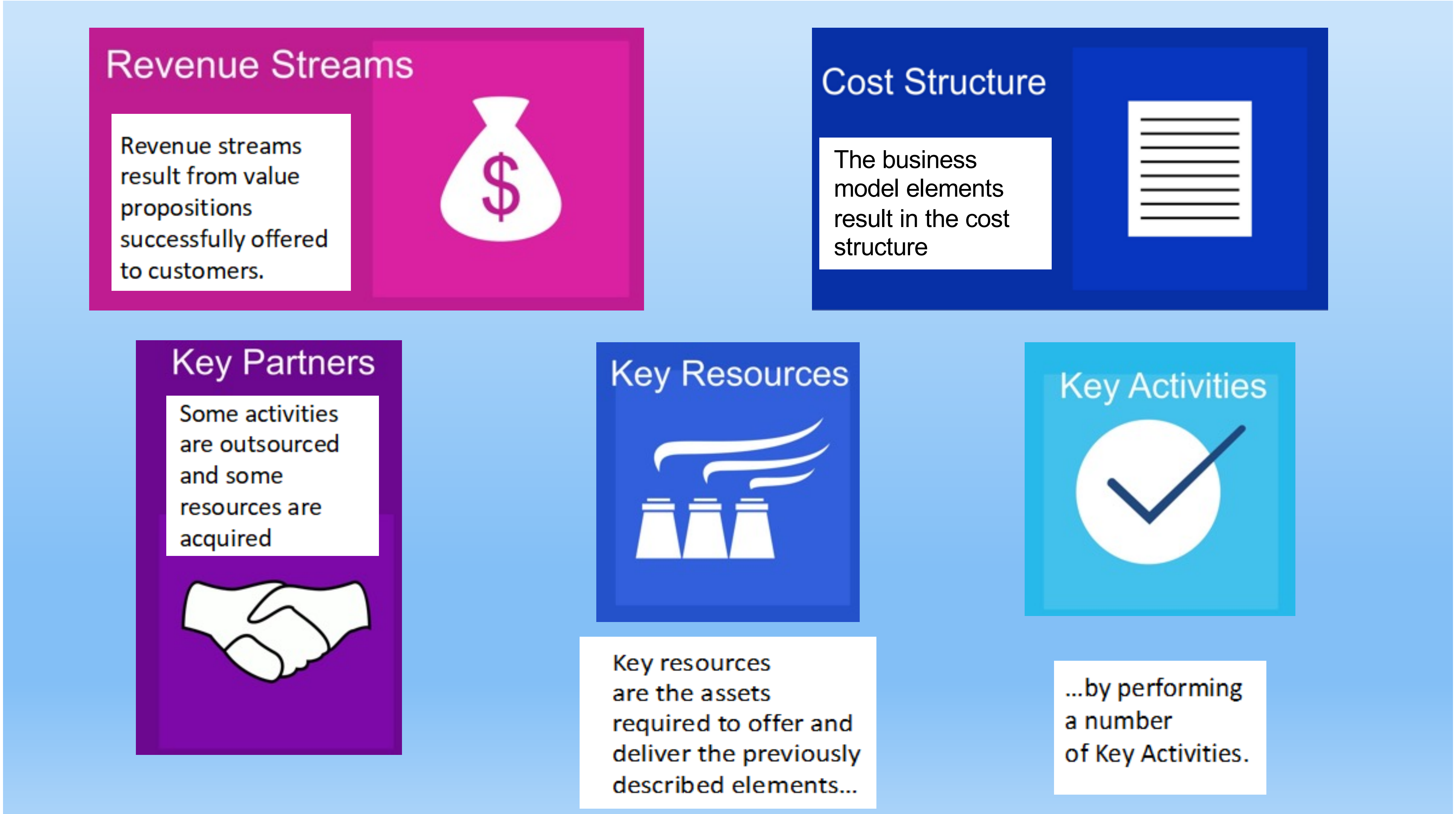
It seeks to solve customer problems
and satisfy customer needs with value propositions.

Customer Relationships

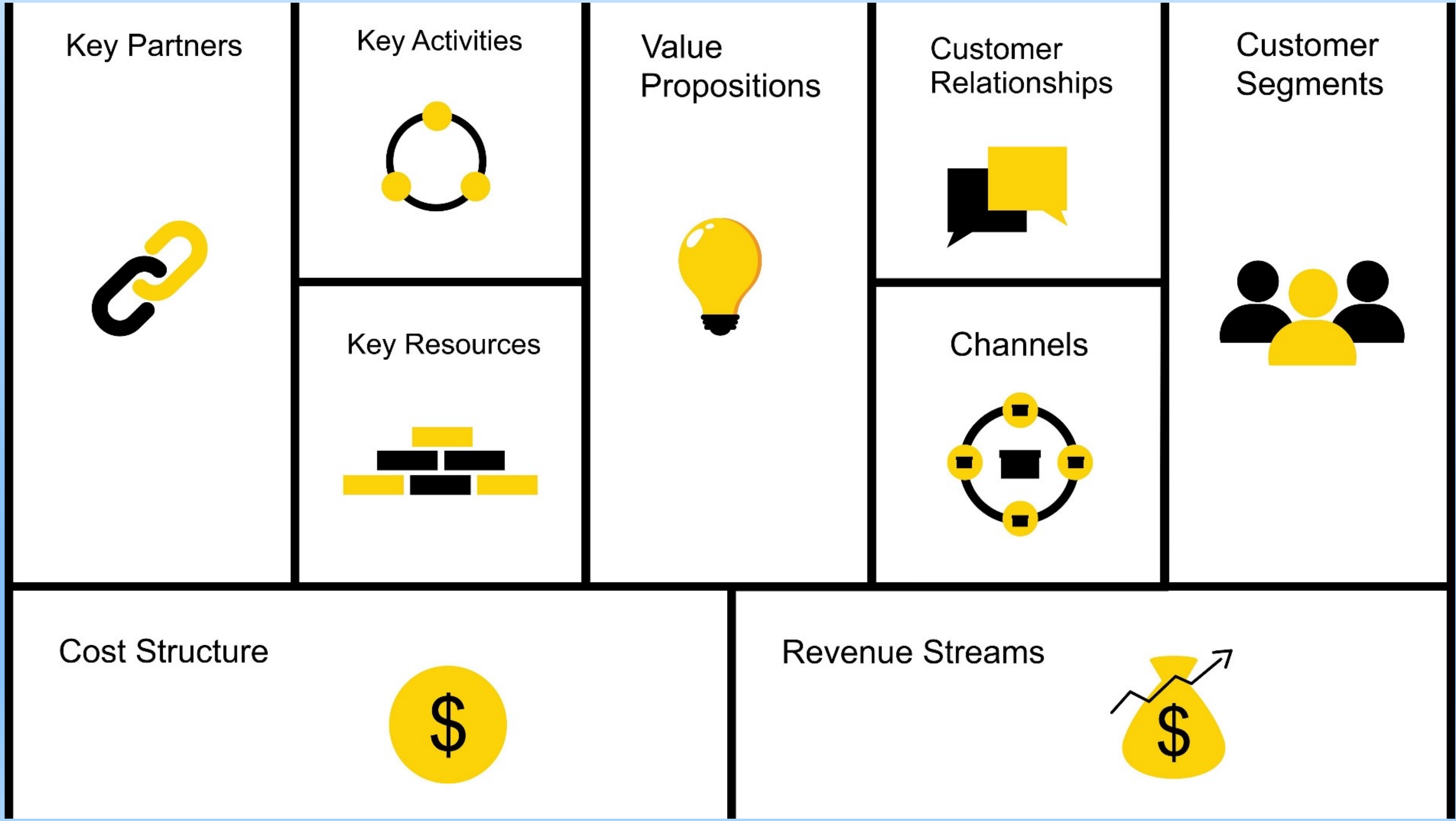
Customer relationships are established and maintained with each Customer Segment.

Channels

Value propositions
are delivered to customers
through communication,
distribution, and
sales Channels.


Revenue Streams
Revenue streams result from value propositions successfully offered to customers.
Cost Structure
The business model elements result in the cost structure
Key Partners
Some activities are outsourced and some resources are acquired
Key Resources
Key resources are the assets required to offer and deliver the previously described elements...
Key Activities
...by performing a number of Key Activities.

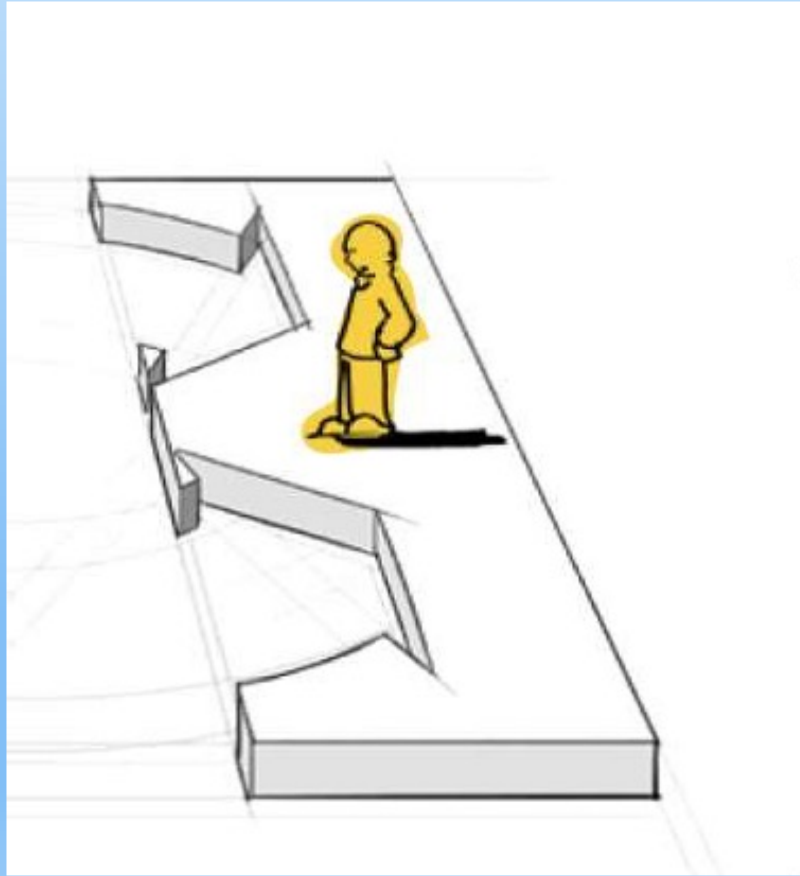
CONSISTENCY is the KEYWORD



1. CUSTOMER SEGMENTS

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

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

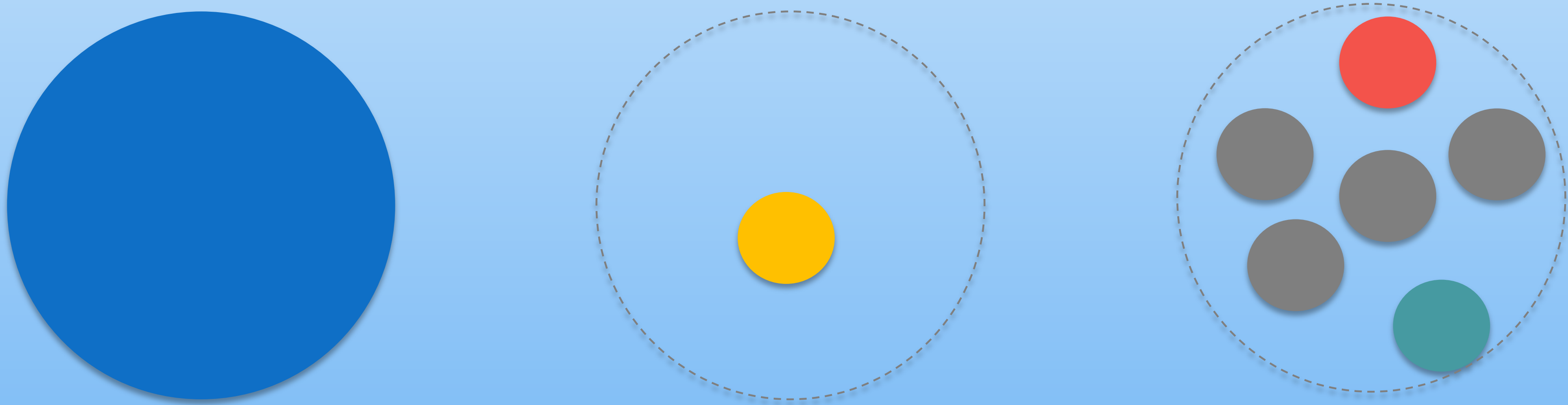


Several customers' segmentation techniques…

…and many more

MAIN CRITERIA	COROLLARIES
• socio-demographic features (age, sex, etc.) • geographic area • benefits received (i.e. product attributes) • purchasing behaviors (frequency, amount etc.) • lifestyles • needs • …and many more	• 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

1. 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)

2. Then focus on **each segmented brand**: in your opinion, what are the segmentation techniques behind them?

Toothpaste choices and customers' segments

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

Haley, R. I (1968). Benefit Segmentation: A Decision-Oriented Research Tool. *Journal of Marketing,* 32(3). 30-35
https://doi.org/10.1177/002224296803200306

B2B vs B2C

B2B

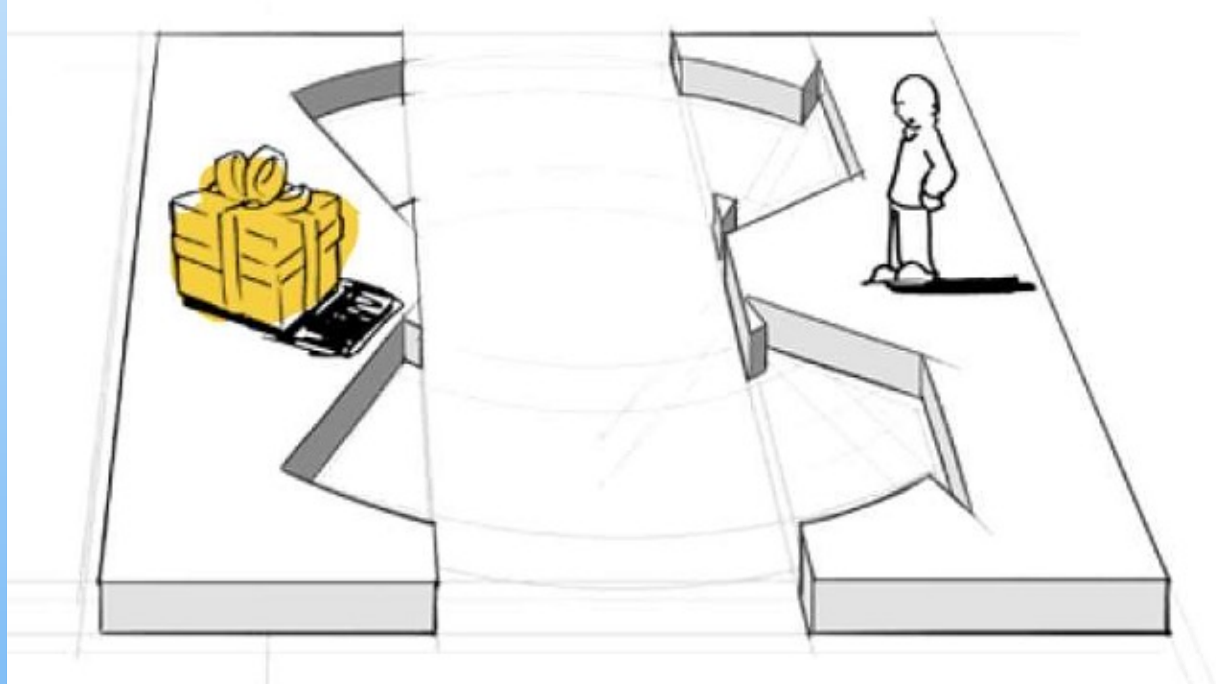
- Long sales cycle
- Long term goals
- Rational logic and expertise
- Relationships building with the target audience
- Niche market

B2C

- Short sales cycle
- Short term goals
- Desires and benefits
- Brand awareness building across the market
- Large scale market

2. VALUE PROPOSITION

The Value Proposition Building Block describes the bundle of **products and services** that create value for a specific customer segment.



What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?

VALUE DRIVERS

CUSTOMIZATION
Tailoring products and services to the specific needs of individual customers or segments → **mass customization** and **customer co-creation**

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

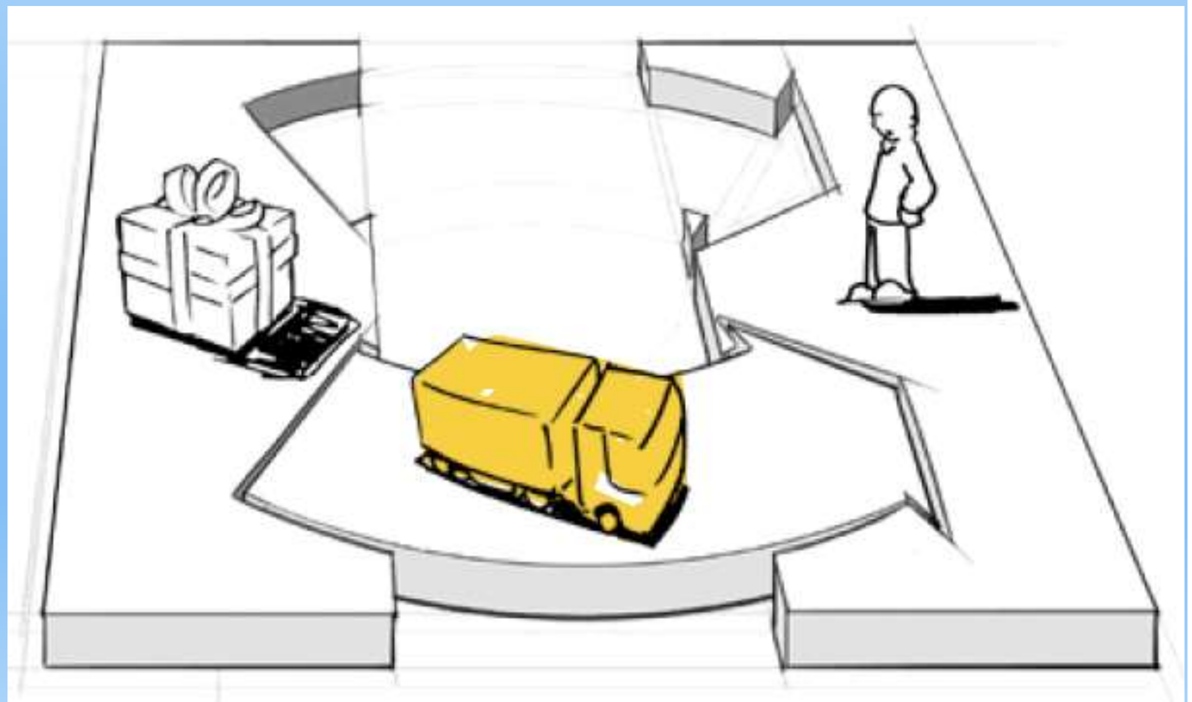
The XXX TEST

- Work individually
- Choose one value driver
- Elaborate a concept for XXX embedding the value driver (5 min)
- Present it to the rest of the class

3. CHANNELS

Through which channels do our customer segments want to be reached? How are we reaching them now? How are our channels integrated?

The Channels Building Block describes how a company **communicates with and reaches** its customer segments to deliver a value proposition.



Communication objectives

1. **Inform customers and establish need for category**: especially for new-to-the-world products

2. **Build brand awareness**: supporting 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,…)

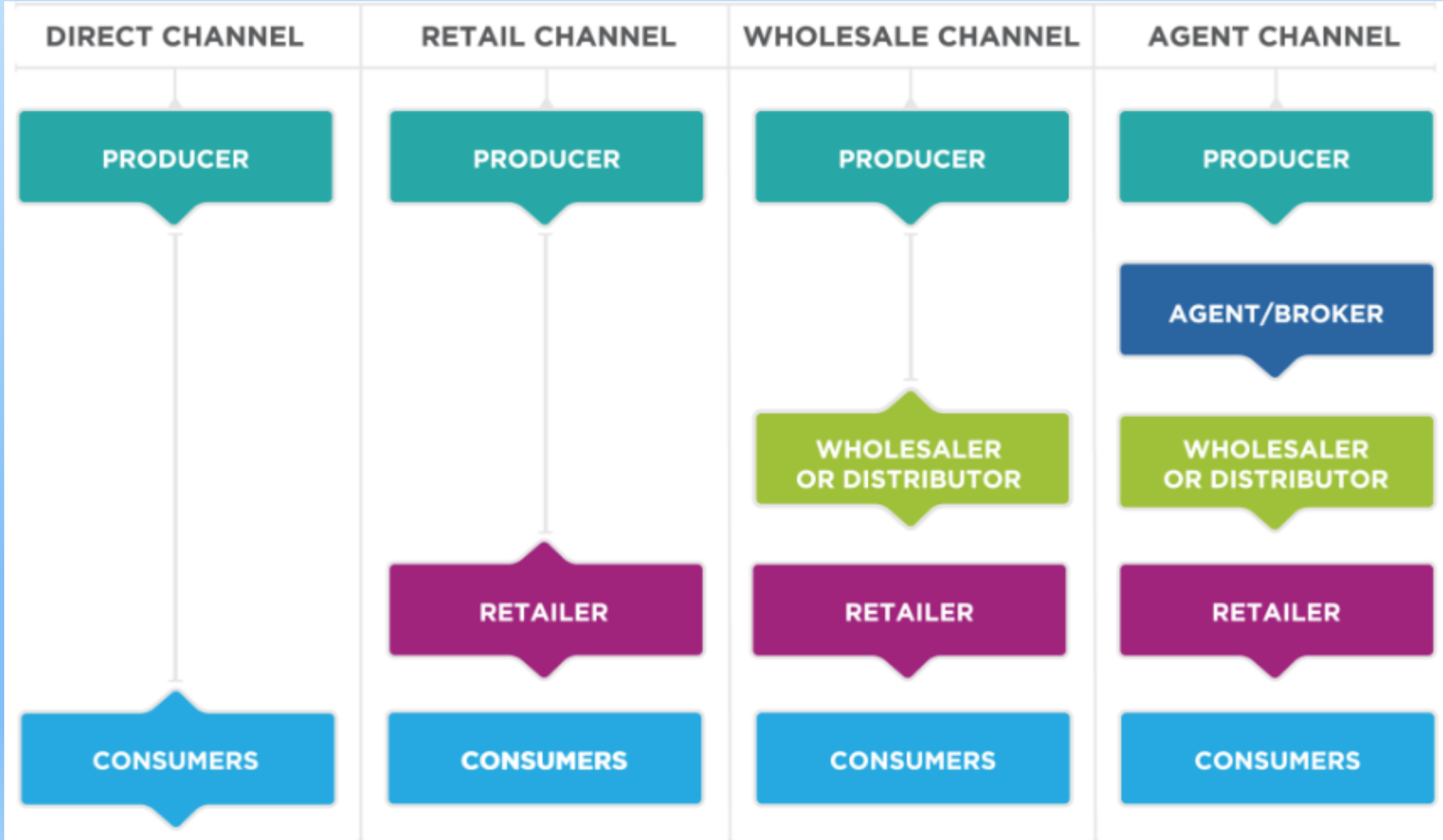
4. **Influence brand purchase intention**: triggering consumers to take purchase-related action.

Some ads from the 2022 Superbowl

Same business, same message?

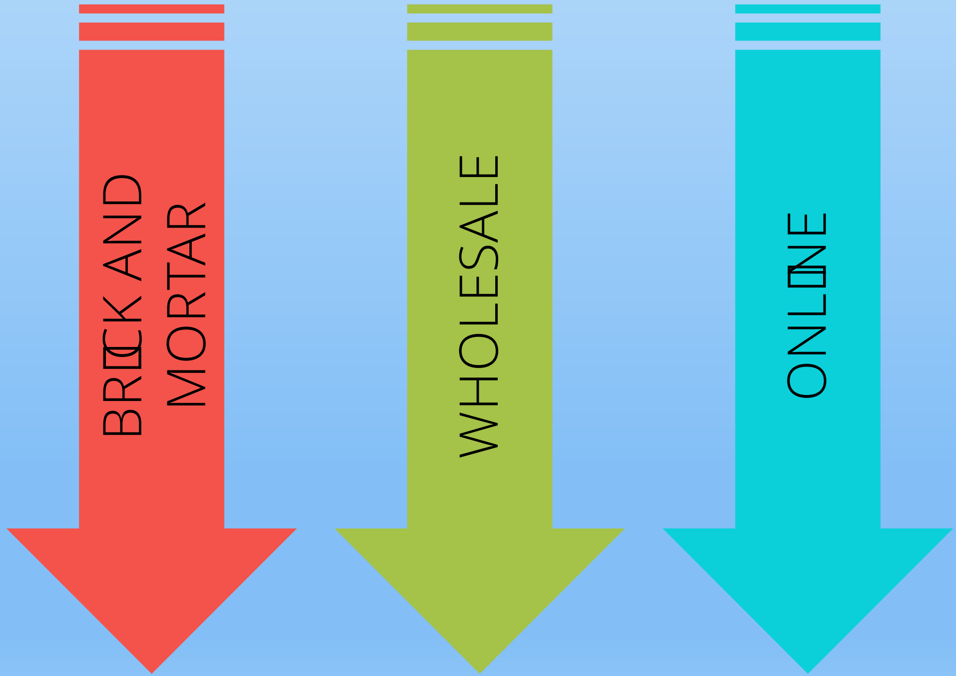
What about this?

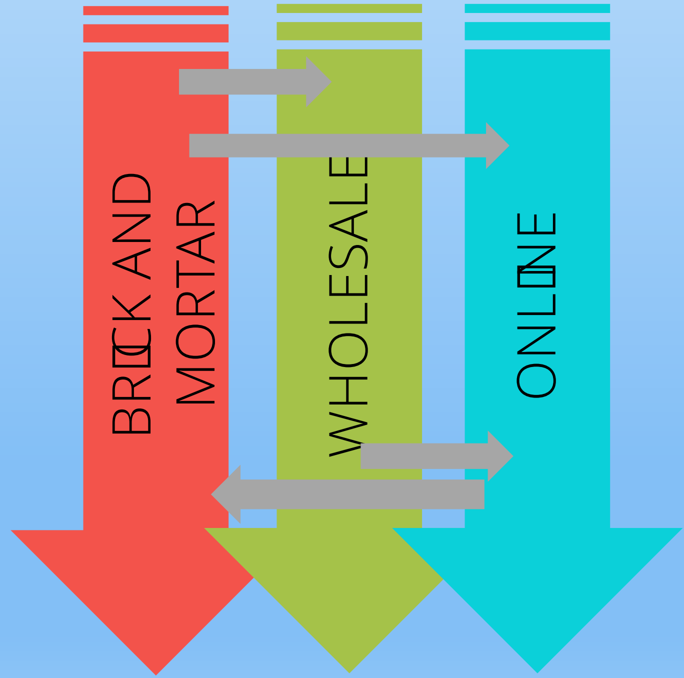
Distribution channels: types



CHANNEL STRATEGIES

MULTICHANNEL vs. OMNICHANNEL





Communication and distribution channels phases

1 AWARENESS

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

2 EVALUATION

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

3 PURCHASE

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

4 DELIVERY

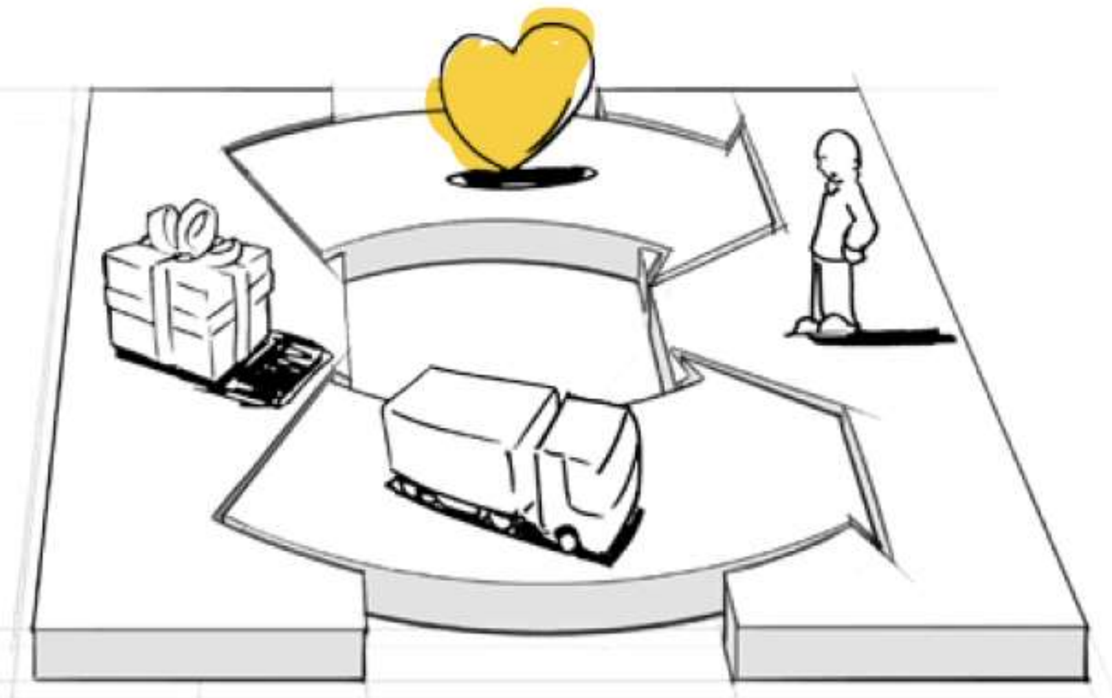
How do we deliver a Value Proposition to customers?

5 AFTER SALES

How do we provide post-purchase customer support?

4. CUSTOMER RELATIONSHIPS

What type of relationship does each of our customer segments expect us to establish and maintain with them? Which ones have we established? How costly are they?



The Customer Relationships Building Block describes the **type of relationships** a company establishes with specific customer segments.

Why customer relationships?

- **Acquire** (new) customers
- **Retain** (old) customers
- Applying **Up-selling** or
- Applying **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 as they 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, assistance etc.) with the company

What are the **advantages** and the **disadvantages** of each type?

Let’s start!

Let’s start putting the 4 building blocks together in a consistent way:

- Hypothesise we want to start up with our **XXX**
- Think to a **combination of:**

- target market
- value proposition
- customer relationships
- channels

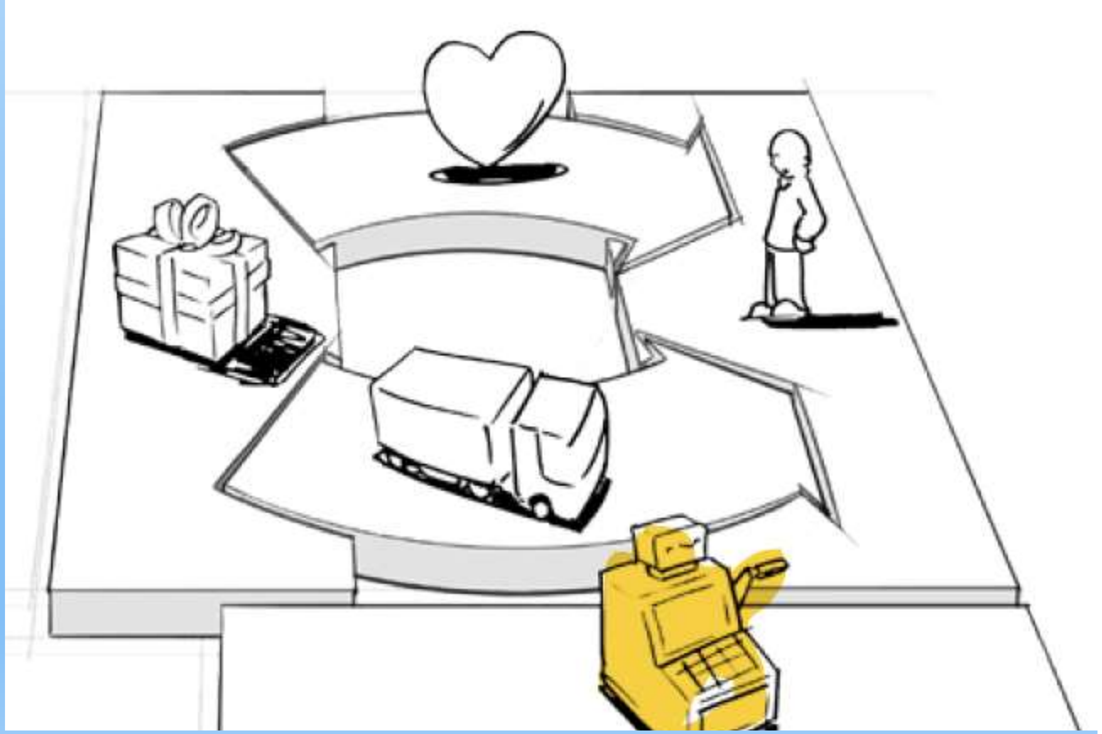
that make sense

- Explain your idea to your colleagues

5. REVENUE STREAMS

What value are our customers willing to pay? For what do they currently pay? How are they currently paying and how would they prefer to pay?

The Revenue Streams Building Block represents the **cash** a company generates from each customer segment.



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)

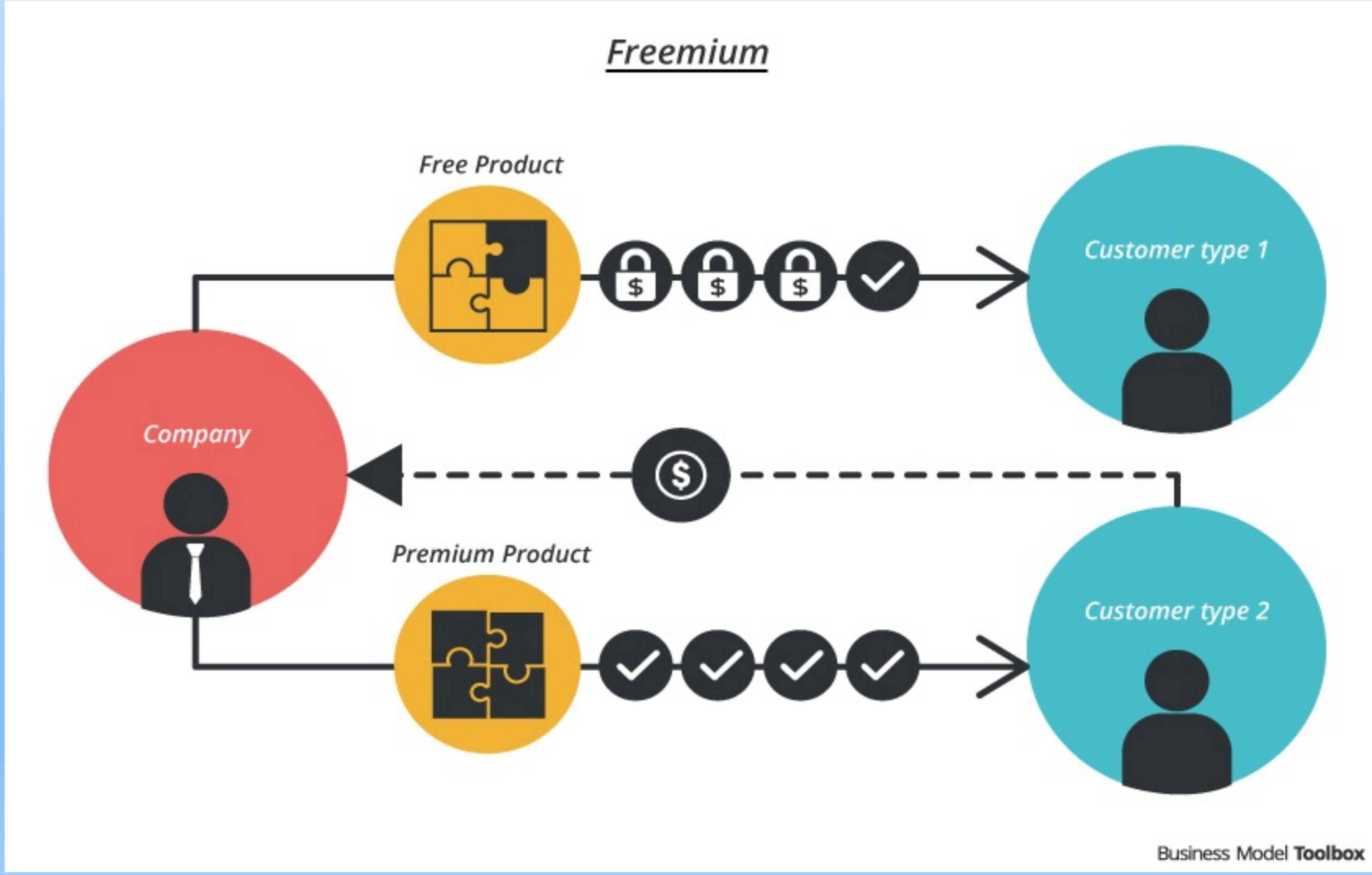
€ **ADVERTISING**
Revenue Stream results from fees for advertising a particular product, service, or brand

Fixed vs dynamic pricing

FIXED PRICING (predefined prices based on static variables)	
List price	Fixed prices for individual products, services, or other value propositions
Product feature or dependent	Price depends on the number or quality of value proposition features
Customer segment dependent	Price depends on the type and characteristic of a customer segment
Volume dependent	Price as a function of the quantity purchased

DYNAMIC PRICING (prices change based on market conditions)	
Negotiation (bargaining)	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Yield management	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Real-time-market	Price is established dynamically based on supply and demand
Auctions	Price determined by outcome of competitive bidding

An emerging revenue model



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

The "Freemium" RM

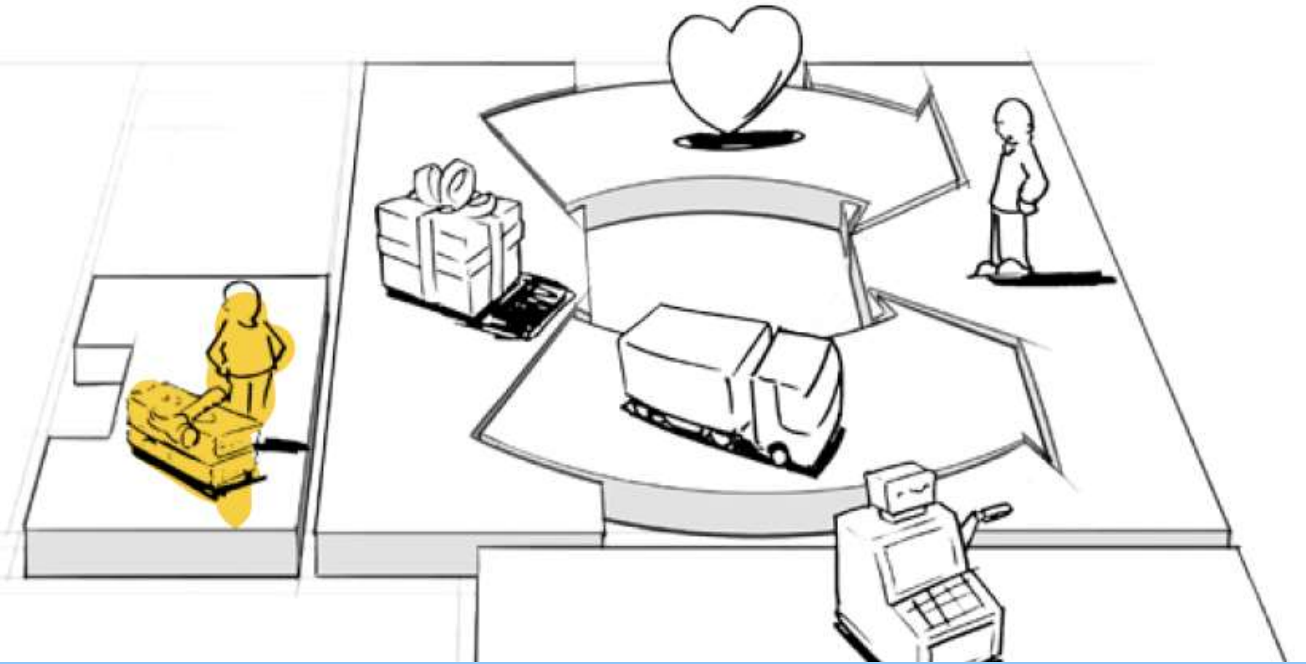
FREEMIUM

FREE

PREMIUM

- 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



6. KEY RESOURCES

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

What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?

RESOURCE TYPES

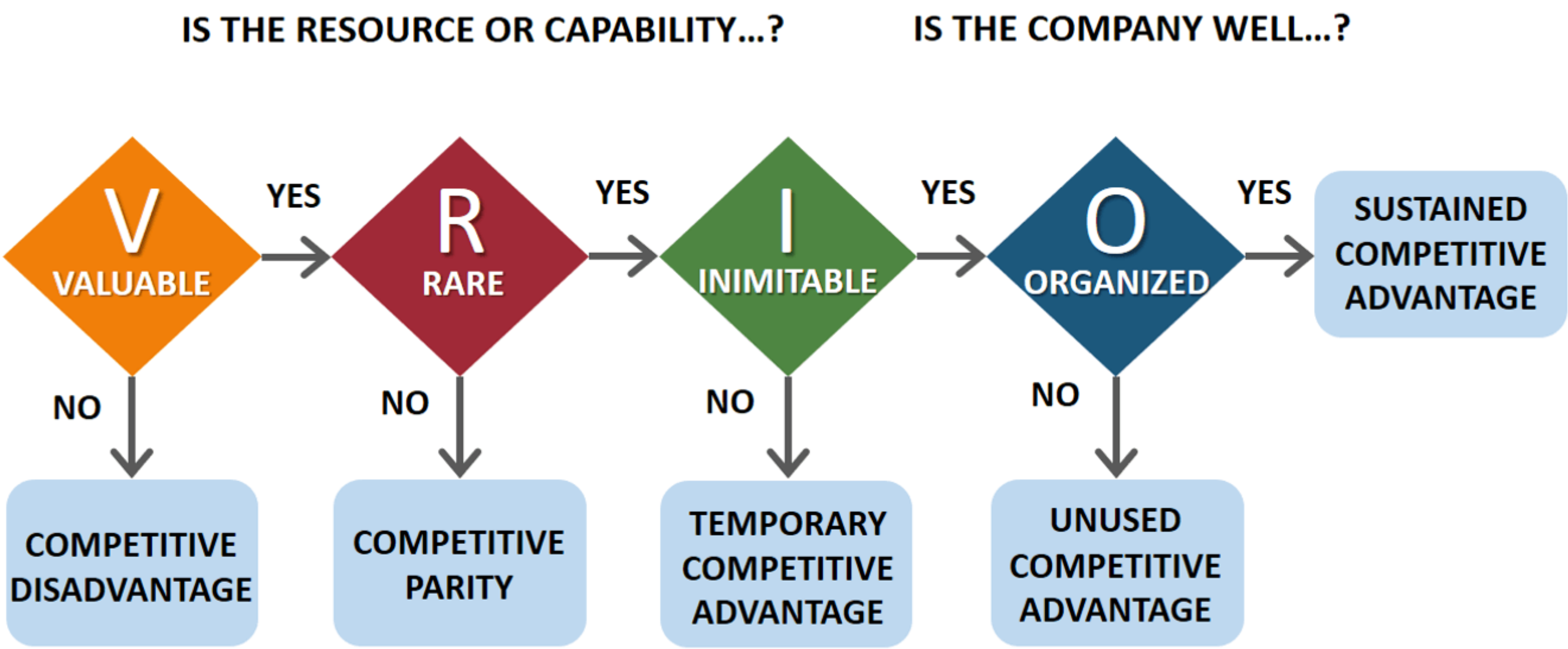
INTELLECTUAL
Include brands, knowledge, patents, copyrights, partnerships, and customer databases

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

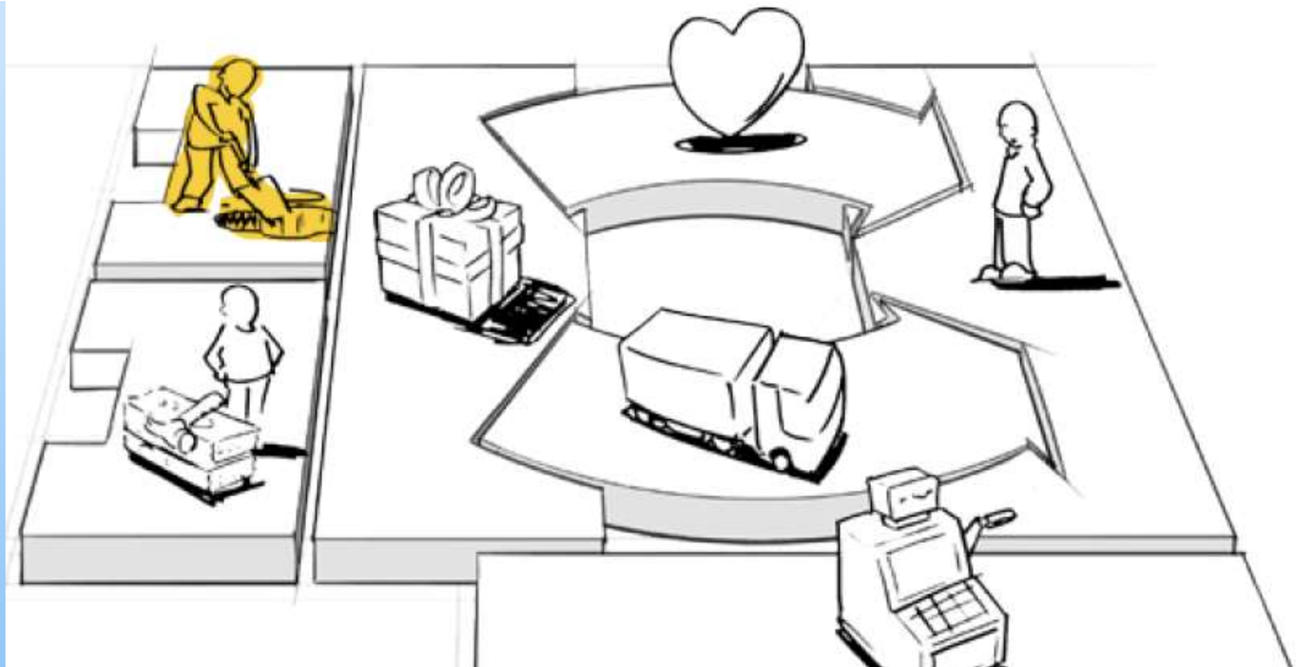
PHYSICAL
Include physical assets such as manufacturing facilities, machines, systems, point-of-sales systems, and distribution networks

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

The VRIO concept



7. KEY ACTIVITIES



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

What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?

KEY ACTIVITIES

PLATFORM/NETWORK

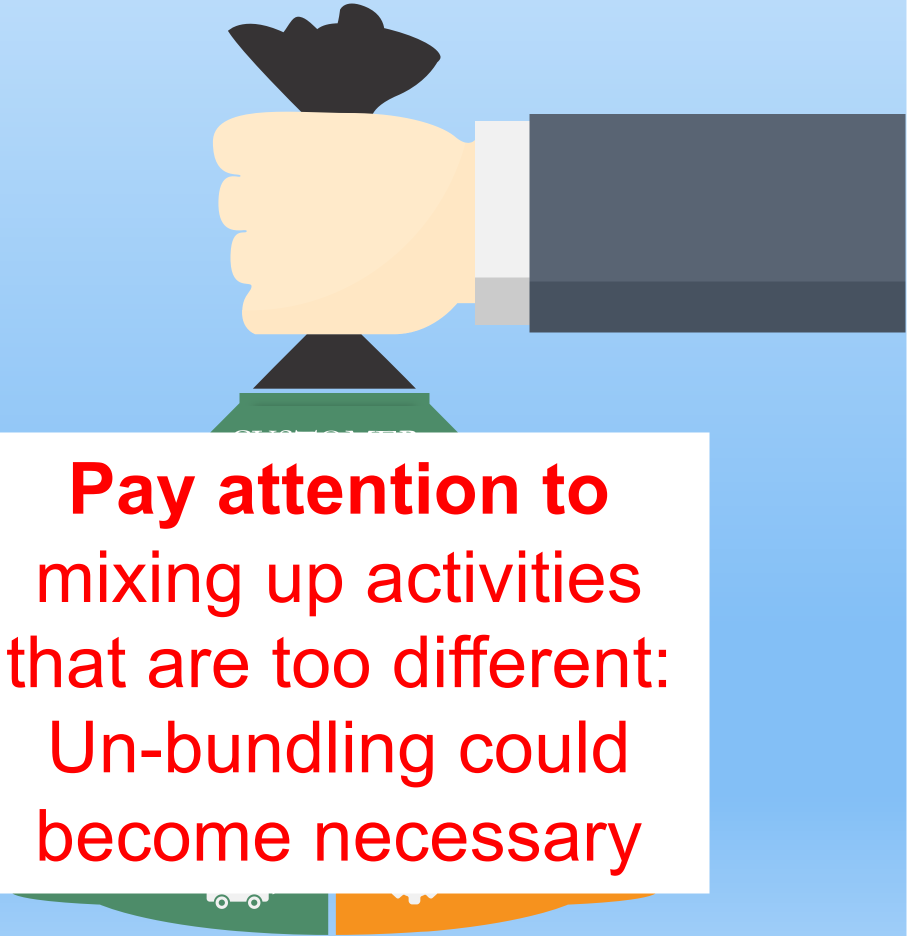
Some business models manage the interface between multiple actors as a key activity (i.e., Airbnb, MasterCard)

PRODUCTION

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

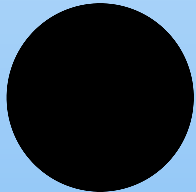
PROBLEM SOLVING

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



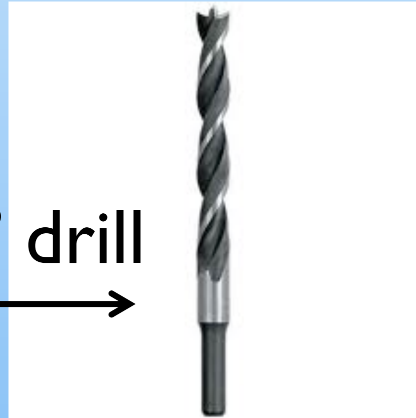
Pay attention to mixing up activities that are too different: Un-bundling could become necessary

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



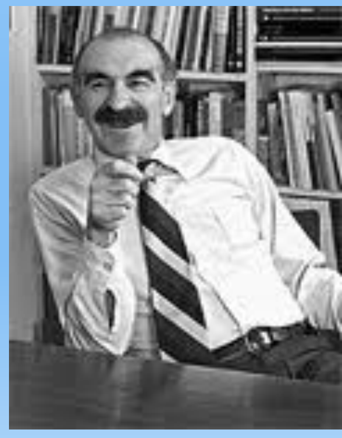
1/4” hole

1/4” drill



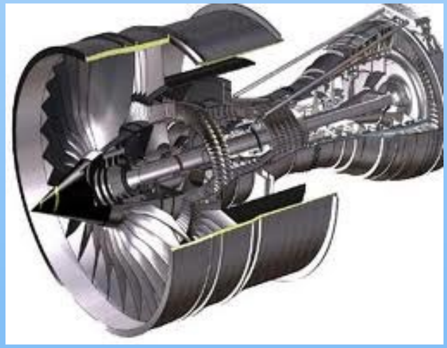
Levitt T. (1960):

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



A (new?) trend:
products servitization

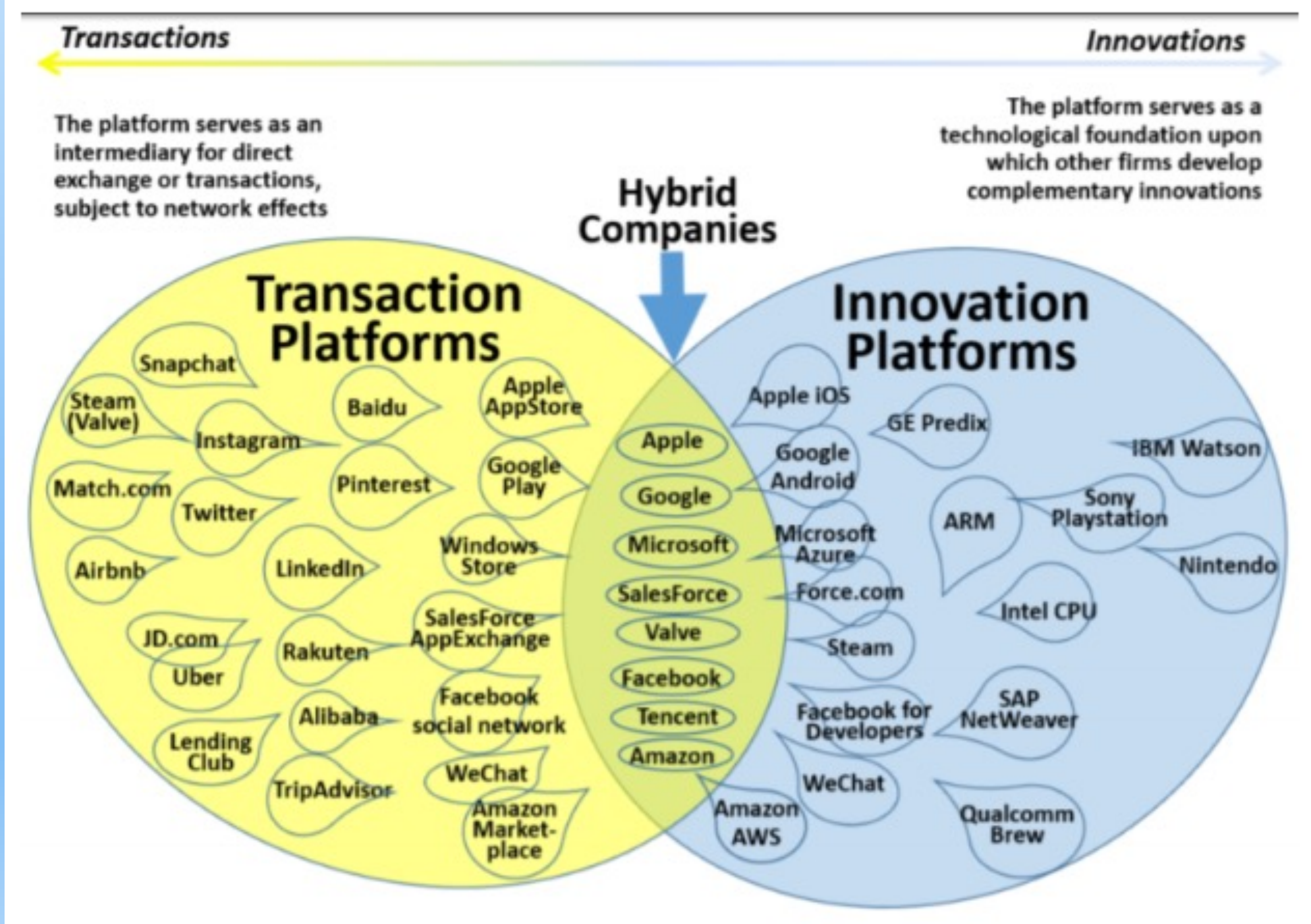
From one product,
many services:



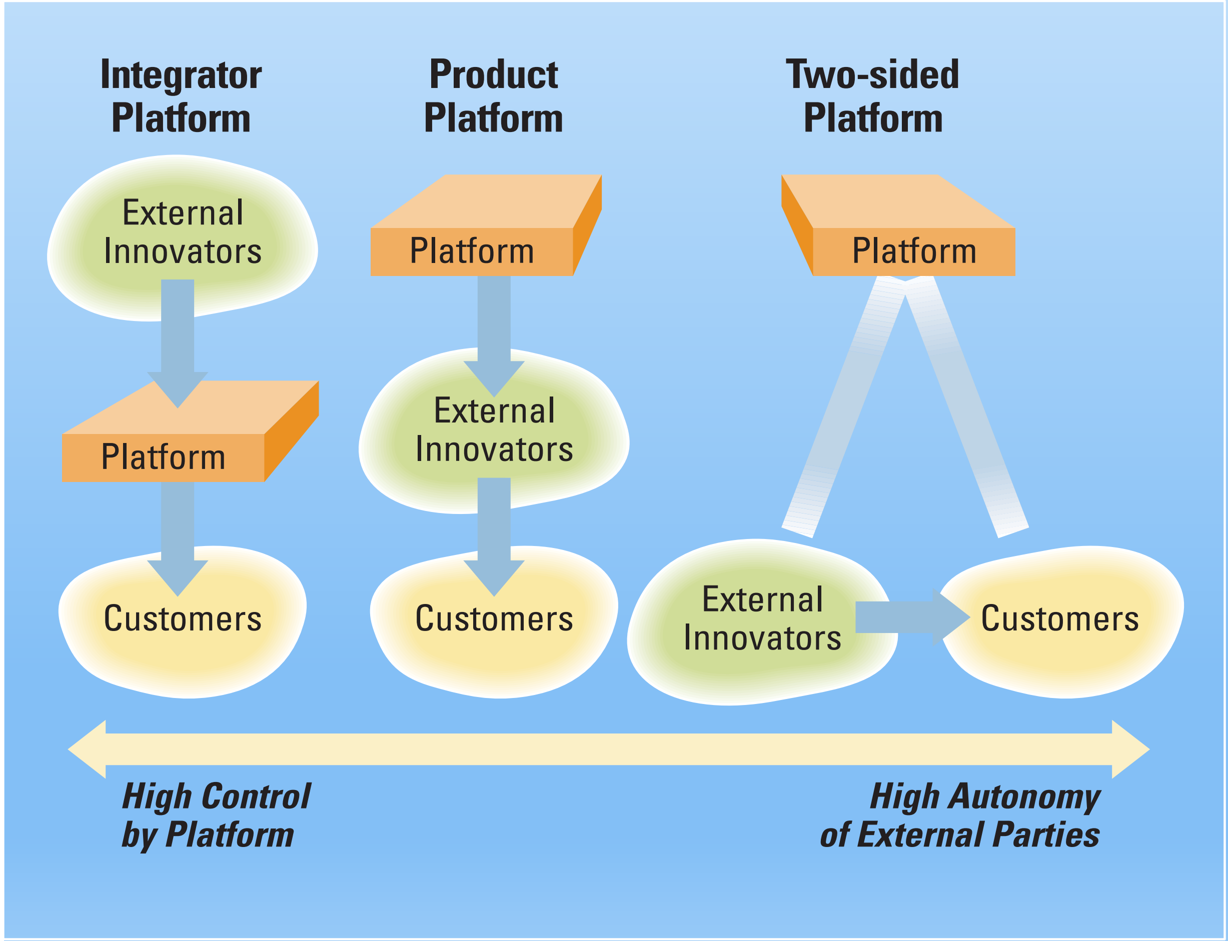
ROLLS ROYCE

amazon web services™

Transaction vs innovation platforms



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.

Boudreau, K. J., & Lakhani R. J. (2009).How to Manage Outside Innovation. *Sloan Management Review*, *50*(4)

Platform strategies

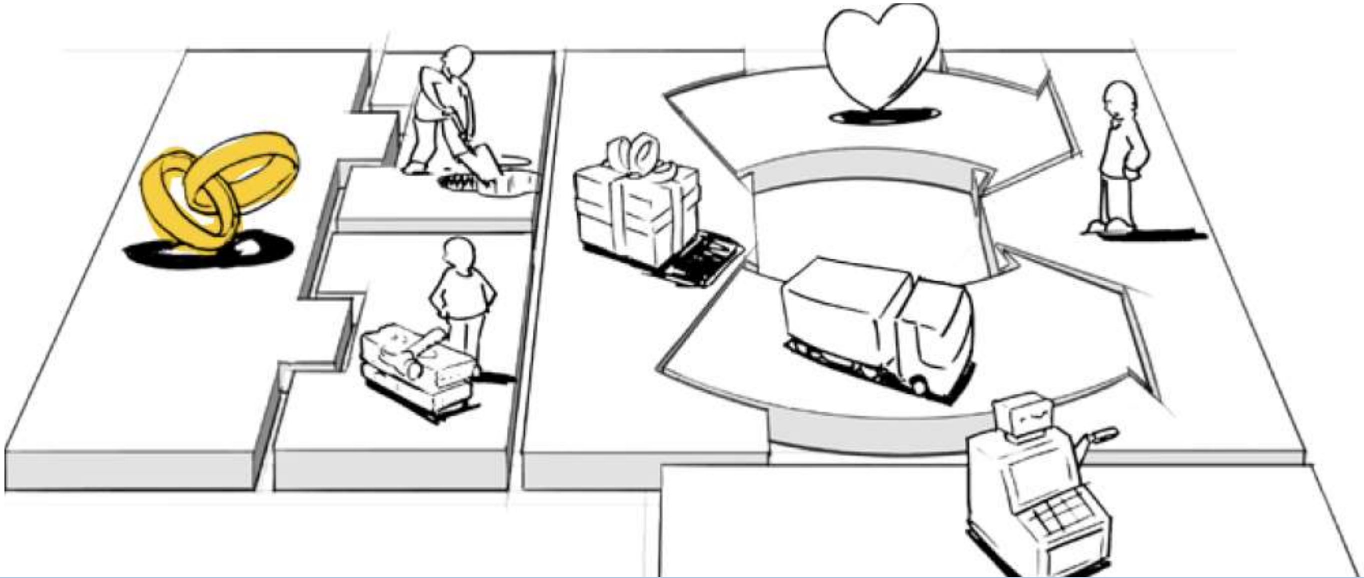
- **“Jump on the bandwagon” strategy**

Simply use existing and "winning" platforms.

- **“Embrace-and-extend” strategy**

Embrace existing winning platforms, as far as they go, then rapidly extend them with proprietary/unique features.

- **Create new/alternative platforms** (if possible)
- **Avoid platforms** (possible?)



Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from partners? Which key activities do partners perform?

8. KEY PARTNERSHIPS

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

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

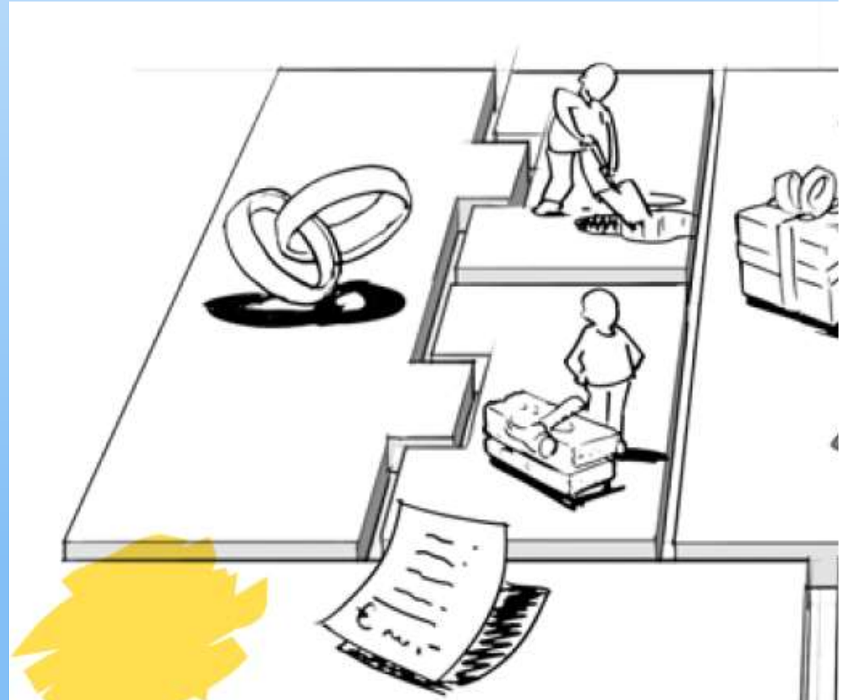
ACQUISITION OF PARTICULAR RESOURCES AND ACTIVITIES

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

9. COST STRUCTURE

What are the most important costs inherent in our business model? Which key resources are most expensive? Which key activities are most expensive?

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



COST STRUCTURE TYPES

In between solutions are, of course, possible

COST DRIVEN

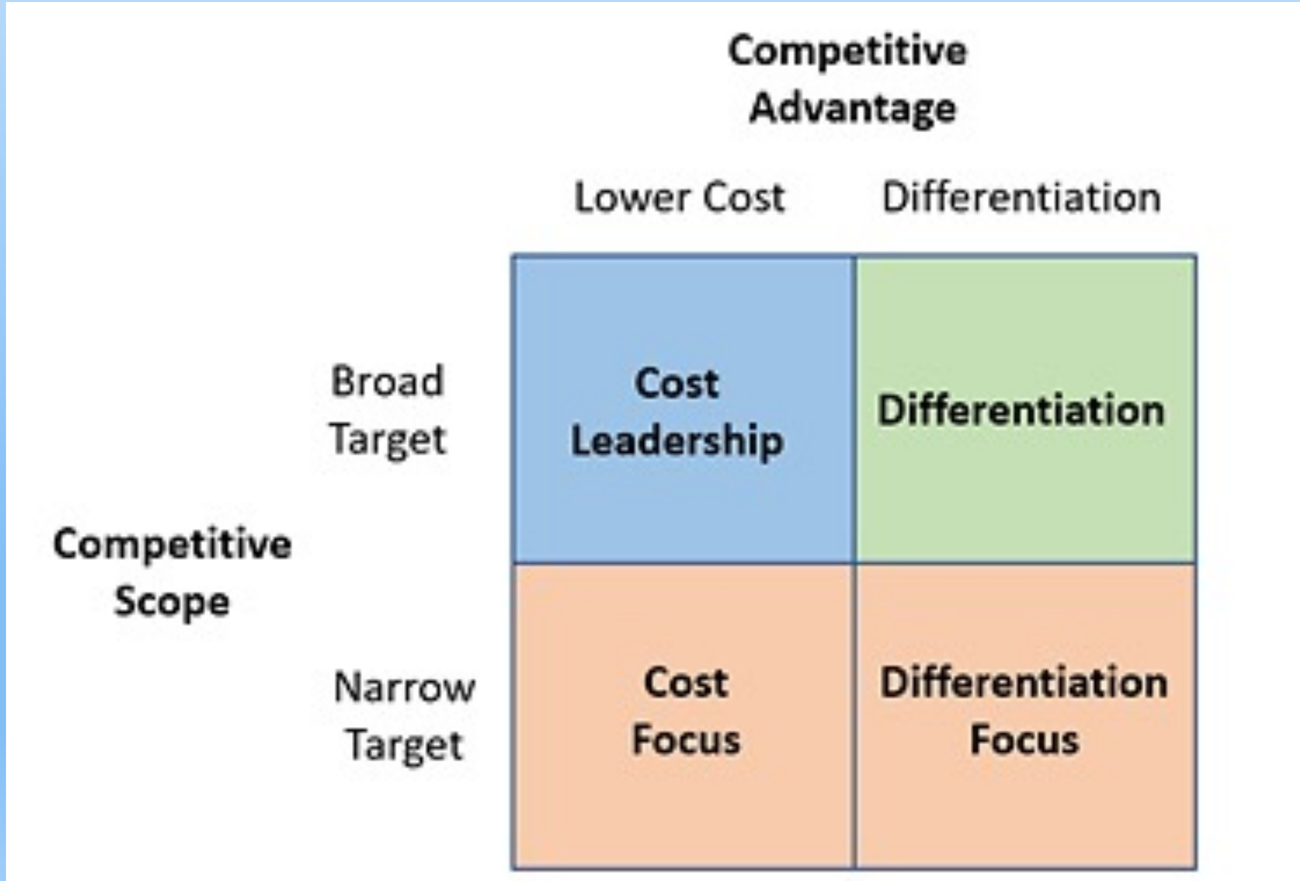
Minimizing costs is key. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation and extensive outsourcing.

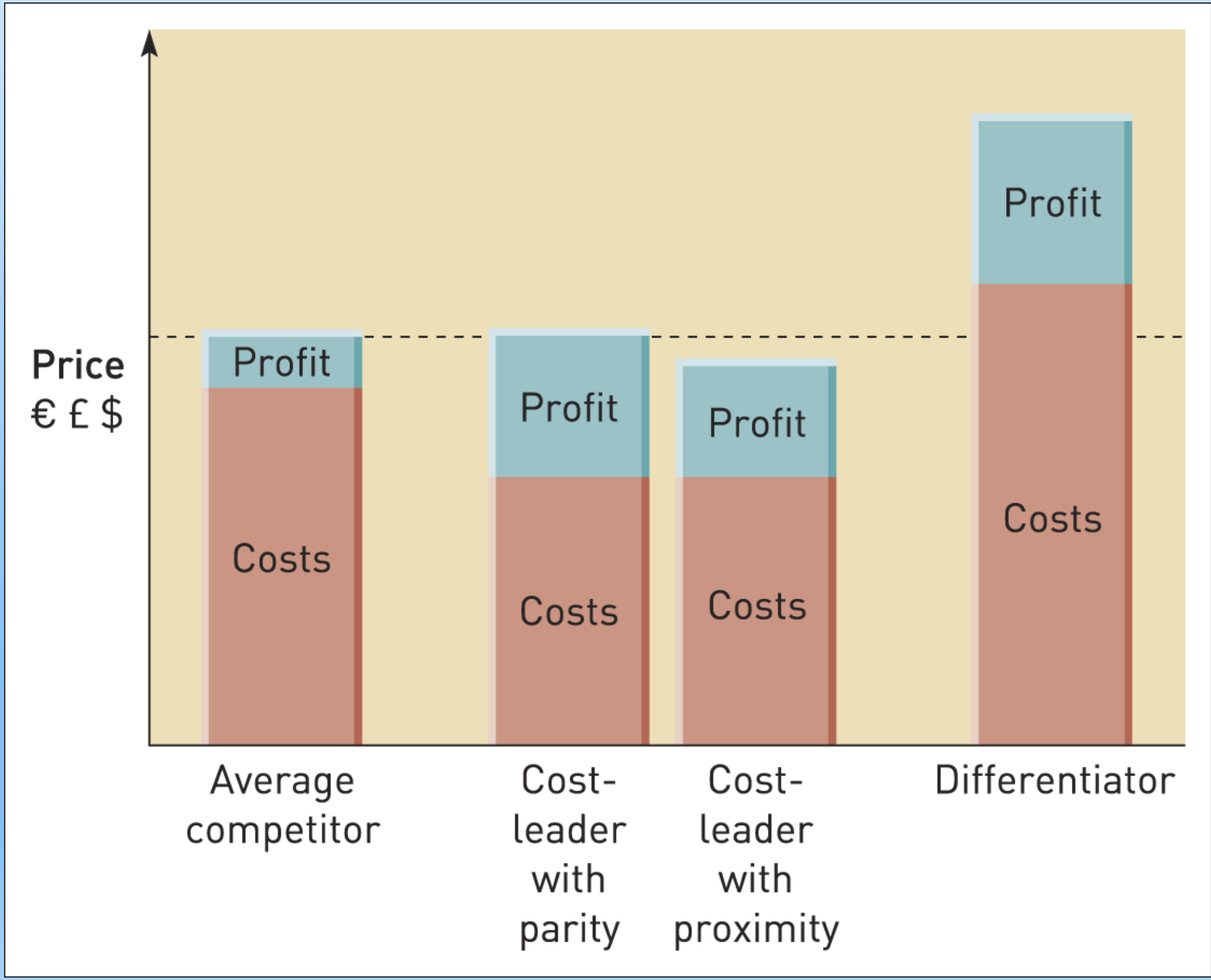
VALUE DRIVEN

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

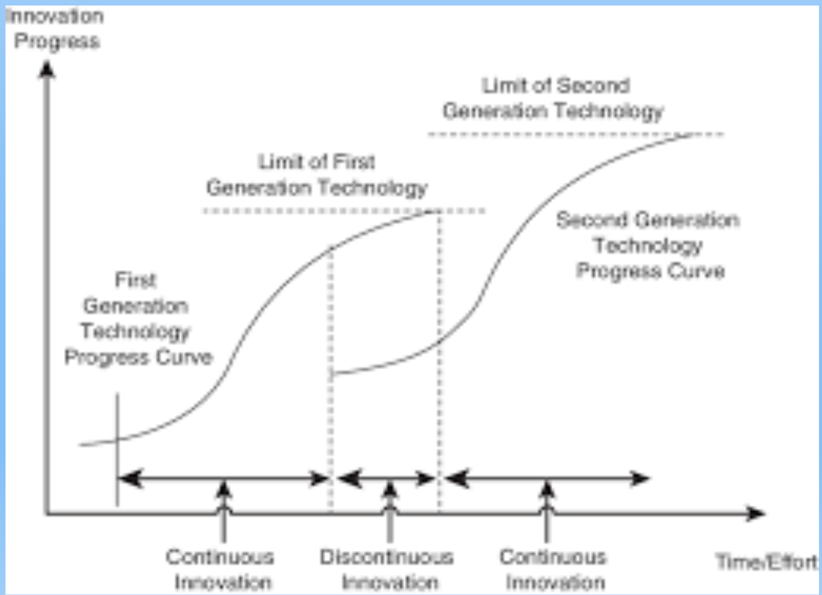




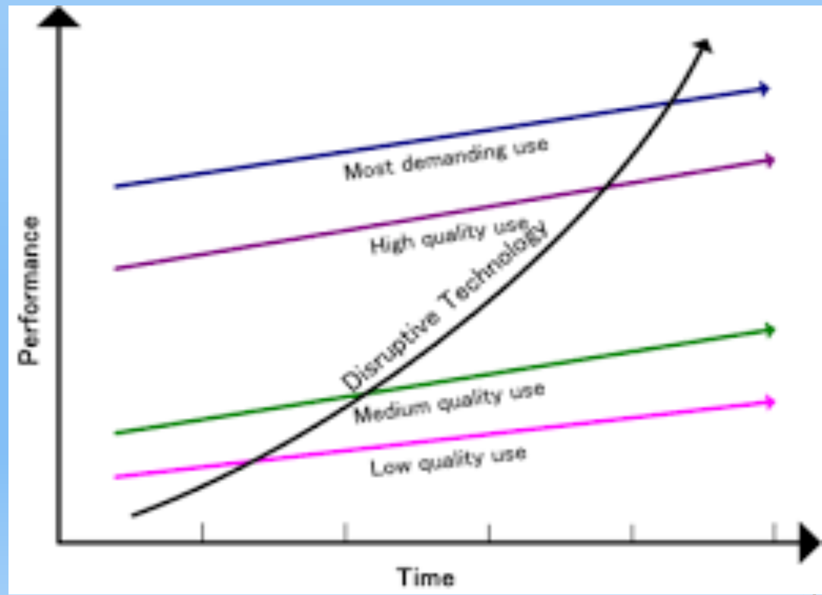
Price
€ £ $
Profit
Costs
Profit
Costs
Profit
Costs
Profit
Costs
Average competitor
Cost-leader with parity
Cost-leader with proximity
Differentiator

Innovation trends to consider (and actions to take)

DISCONTINUOUS INNOVATIONS



DISRUPTIVE INNOVATIONS



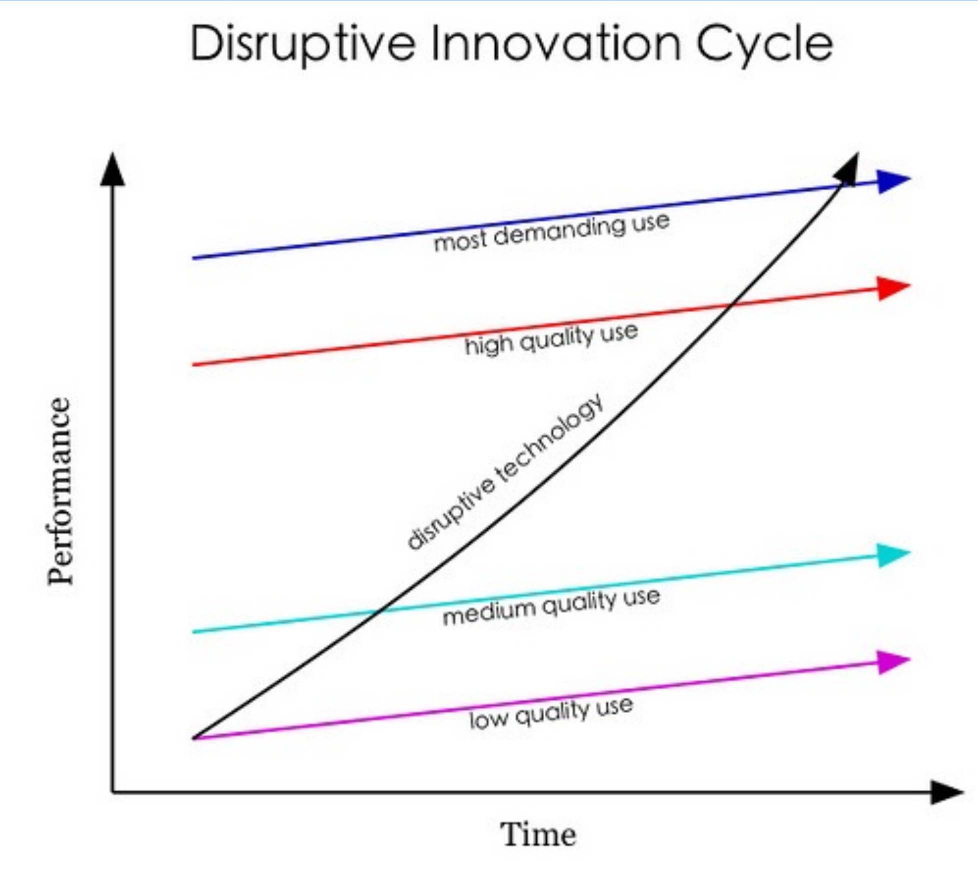
Discontinous innovation

- Innovation (mainly technological) tends to develop **over time along well-defined trajectories**
- **Potential sources:** new consumers' behaviors, business models, technologies etc.
- 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 models in order to avoid competitive irrelevance

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)
- **Newcomers**
  - Short-term: gain as much market share as possible
  - Long-term: prepare for tough competition coming from “converted” firms

Disruptive innovation



Coined by Clayton Christensen, it 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** the market, eventually displacing established competitors.

Christensen, C. M. (1997) *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail.* Boston: Harvard Business School Press.

Disruptive innovation: **How to react**

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