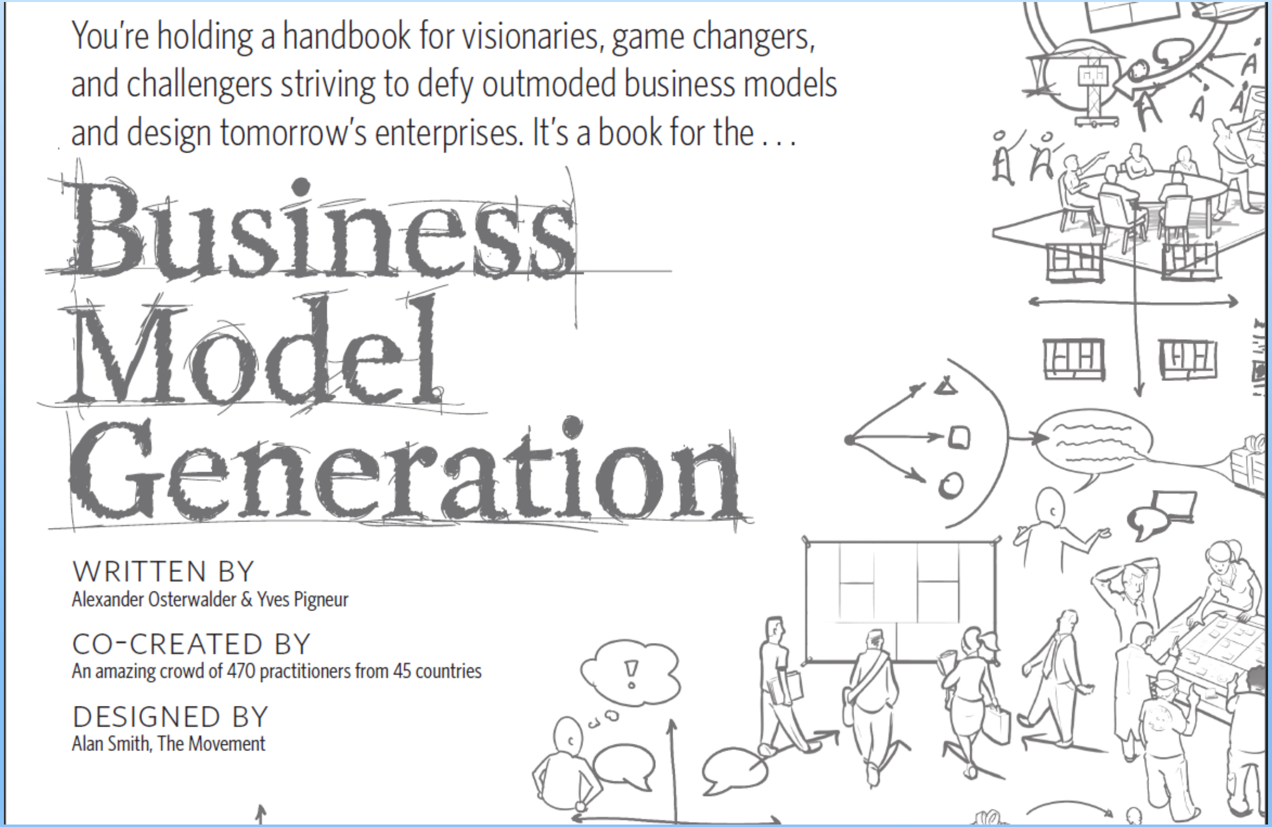
The BUSINESS MODEL CANVAS



Management of Innovation 2024/2025

UNIVERSITÀ DEGLI STUDI DI TRIESTE

Deams
Dipartimento di
Scienze Economiche, Aziendali, Matematiche e Statistiche "Bruno de Finetti"

Agenda

- A (short) introduction of myself
- The Business Model
- The Business Model Canvas
- The 9 Building Blocks
- Some practical exercises
- Resources and material

Defining the Business Model

The business model describes the rationale of how an organisation **creates, delivers, and captures value**

↓

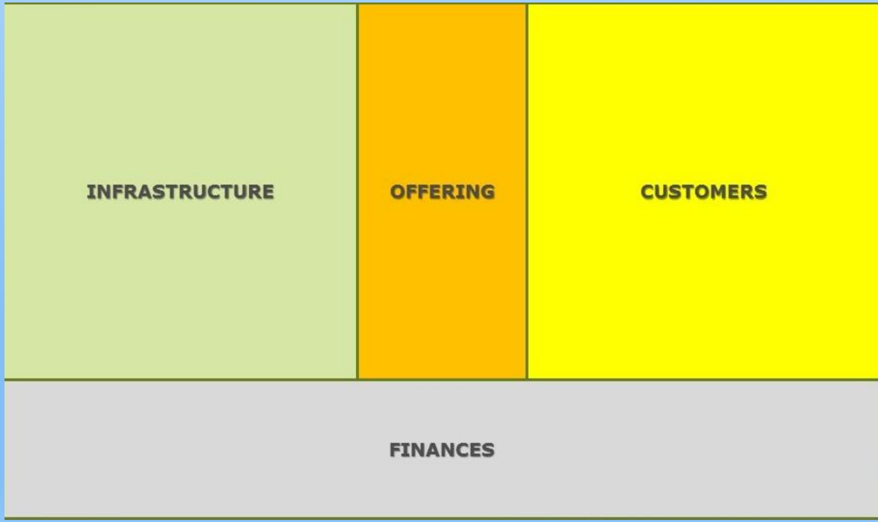
how a company intends to **make money**

The Business Model Canvas

- It is a tool for **strategic management** and entrepreneurship
- Nine building blocks for the **four main areas** of a business
- It allows to:

1. visualise and communicate
2. design and invent
3. challenge
4. exploit and explore
5. pivot

the business model




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

The nine Building Blocks

An organization serves one or several Customer Segments.

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

Customer relationships are established and maintained with each Customer Segment.

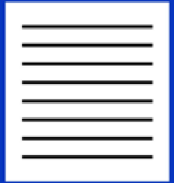
Value propositions
are delivered to customers through communication, distribution, and
sales Channels.

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

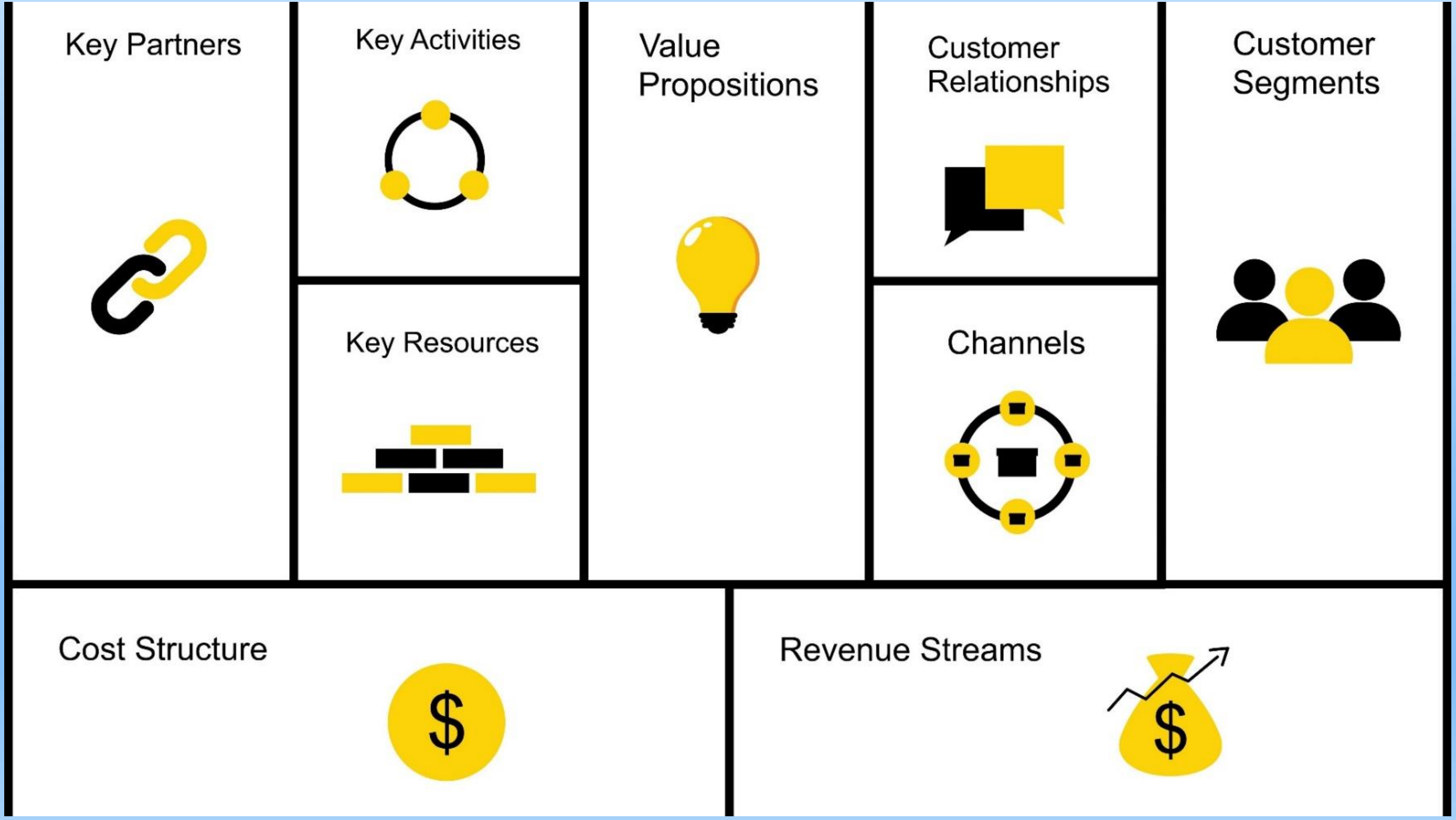
Key resources are the assets required to offer and deliver the previously described elements...

Key Activities

...by performing a number of Key Activities.

Consistency is the keyword

Left canvas: Cost, efficiency

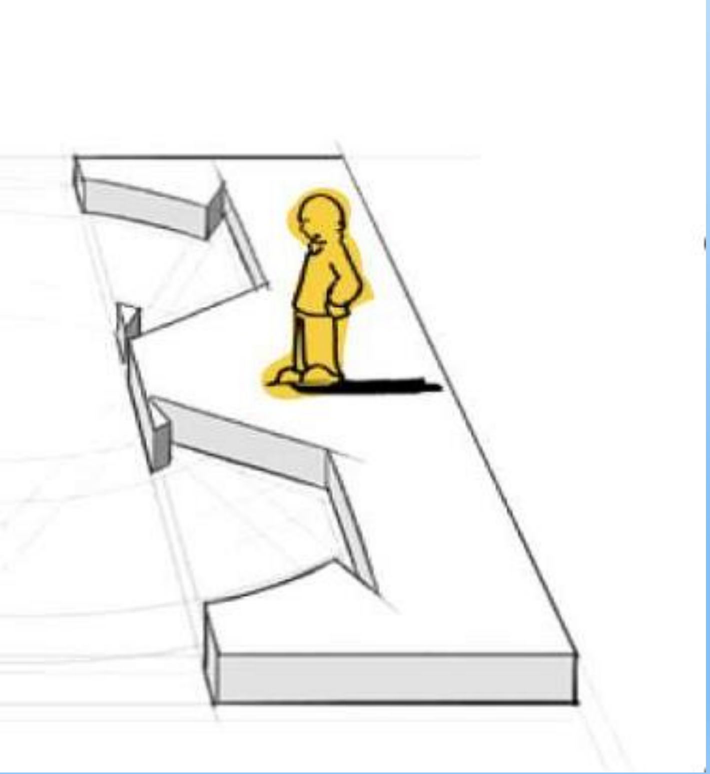


Right canvas: value, emotion

1. Customer Segments

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

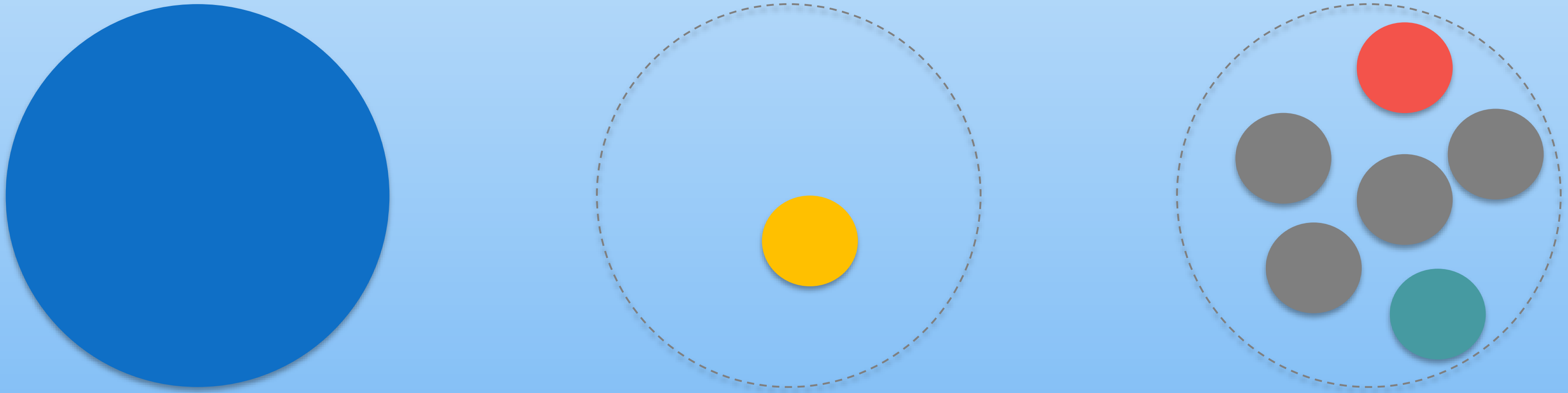
The Customer segments Building Block defines the different **groups of people or organisations** an enterprise aims to reach and serve.



Customer segmentation strategies

MAIN CRITERIA	COROLLARIES
• socio-demographic features (age, gender, 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 **profitabilities**

Types of customer segments



MASS MARKET

NICHE MARKET

SEGMENTED MARKET

DIVERSIFIED

MULTI-SIDED PLATFORMS

The toothpaste test

In 10 minutes:

1. Identify **3 different brands** of toothpaste reflecting the **3 main segmentation types**:

- 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 strategies behind them?

Toothpaste choices and customer segments

cerned with the flavor and appearance of the product, a large portion of the brand deciders are children. Their use of spearmint toothpaste is well above average, and Stripe has done relatively well among members of this segment.

They are more ego-centered than other segments, and their lifestyle is outgoing but not to the extent of the swingers.

The Independent Segment. The fourth segment, the price-oriented segment, shows a predominance of men and tends to be above average in terms of toothpaste usage. People in this segment see very few meaningful differences between brands. They switch more frequently than people in other segments and tend to buy a brand on sale.

In terms of their personalities, members of this segment are cognitive and

demonstrable product superiority.

The depth-of-sell reflected by the copy will also vary, depending on the segment of interest. It will be fairly intensive for the Worrier and the Independent Segment, but much more superficial and mood-oriented for the Sociables and the Sensory Segment.

Likewise, the setting will vary. It will focus on the product for the Sensory Segment, on socially oriented situations for the Sociables, and perhaps on demonstration or on competitive comparisons for the Independent Segment.

Media environments also will be tailored to the segments chosen as targets. Those with serious environments will be used for the Worrier and Independent Segments, and those with youthful, modern, and active environments for the Sociable and Sensory Segments. For

haps aqua (to indicate fluoride) for the Worriers, and gleaming white for the Sociables because of their interest in bright, white teeth.

It should be readily apparent that the kinds of information normally obtained in the course of a benefit segmentation study have a wide range of marketing implications. Sometimes they are useful in suggesting physical changes in a product.

For example, one manufacturer discovered that his product was well-suited to the needs of his chosen target with a single exception in the area of flavor. He was able to make a relatively inexpensive modification in his product and, thereby, strengthen his market position.

The new product implications of benefit segmentation studies are equally apparent. Once a marketer understands the kinds of segments that exist in his market,

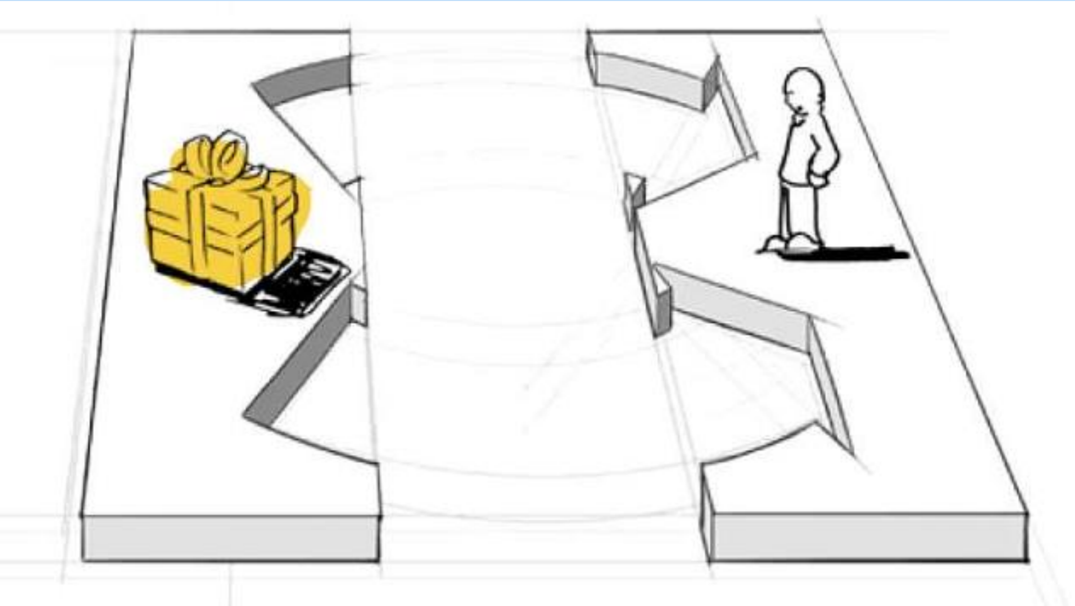
Haley, R. I (1968). Benefit Segmentation: A Decision-Oriented Research Tool. *Journal of Marketing,* 32(3). 30-35
https://doi.org/10.1177/002224296803200306

B2B vs B2C

B2B	B2C
• Long sales cycle • Long term goals • Rational logic and expertise • Relationships building with the target audience • Niche market	• 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

NEWNESS

The product or service satisfies **entirely new needs** not perceived before by users, as no similar offering existed

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**

CUSTOMISATION

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

Value drivers

PRICE

Offering **similar values** to price-sensitive consumers but **at lower prices**

COST REDUCTION

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

RISK REDUCTION

Reducing 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 Value Proposition Canvas

It is a part of the BMC aimed at helping companies to create value proposals which directly respond to client needs

https://www.youtube.com/watch?v=ReM1uqmVfP0&ab_channel=Strategyzer

The value proposition canvas

Customer profile

It includes the:

1. **Jobs-to-be-done** (the activities, problems, or desires of the customer)
2. **Pains** (the problems, risks, and obstacles faced by customers in achieving their goals)
3. **Gains** (the benefits and positive outcomes that customers seek)

Value map

It explains how the product or service addresses the customer needs through:

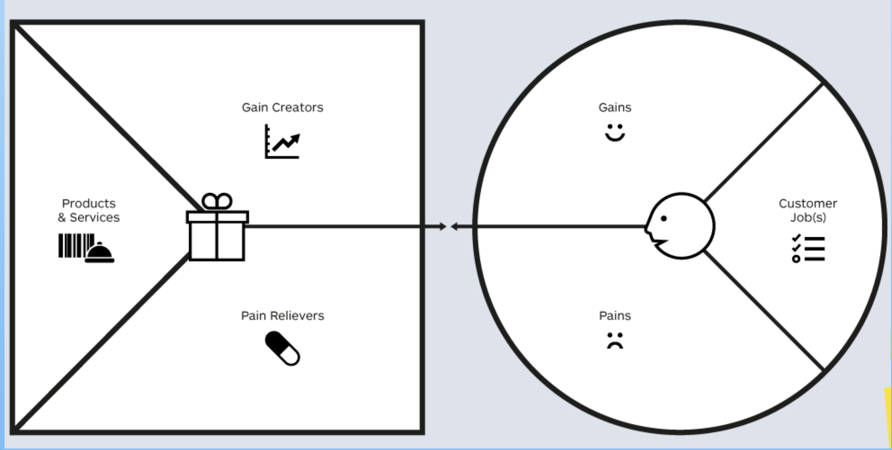
1. **Products and services**
2. **Pain relievers** (how the product reduces or eliminates customer pain points)
3. **Gain creators** (how the product generates additional value for the customer).

The Buyer Persona

- It is a detailed, semi-fictional representation of an **ideal customer**
- It is based on real data, including info on customers' demographics, behaviors, motivations and goals
- It helps businesses understand specific customer segments and handle all activities related to **relations with customers**

The XXX test

- Work in pairs
- Choose one value driver
- Shape your entrepreneurial idea and identify your target customers
- Use the value proposition canvas to focus
- Present it to the rest of the class

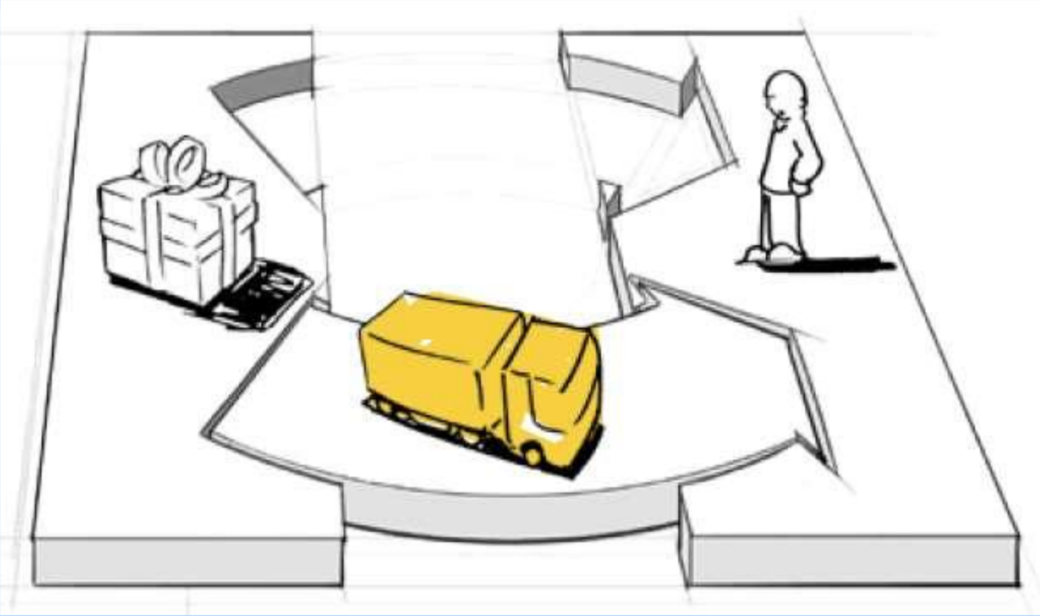


...remember to give your idea a name!

3. Channels

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

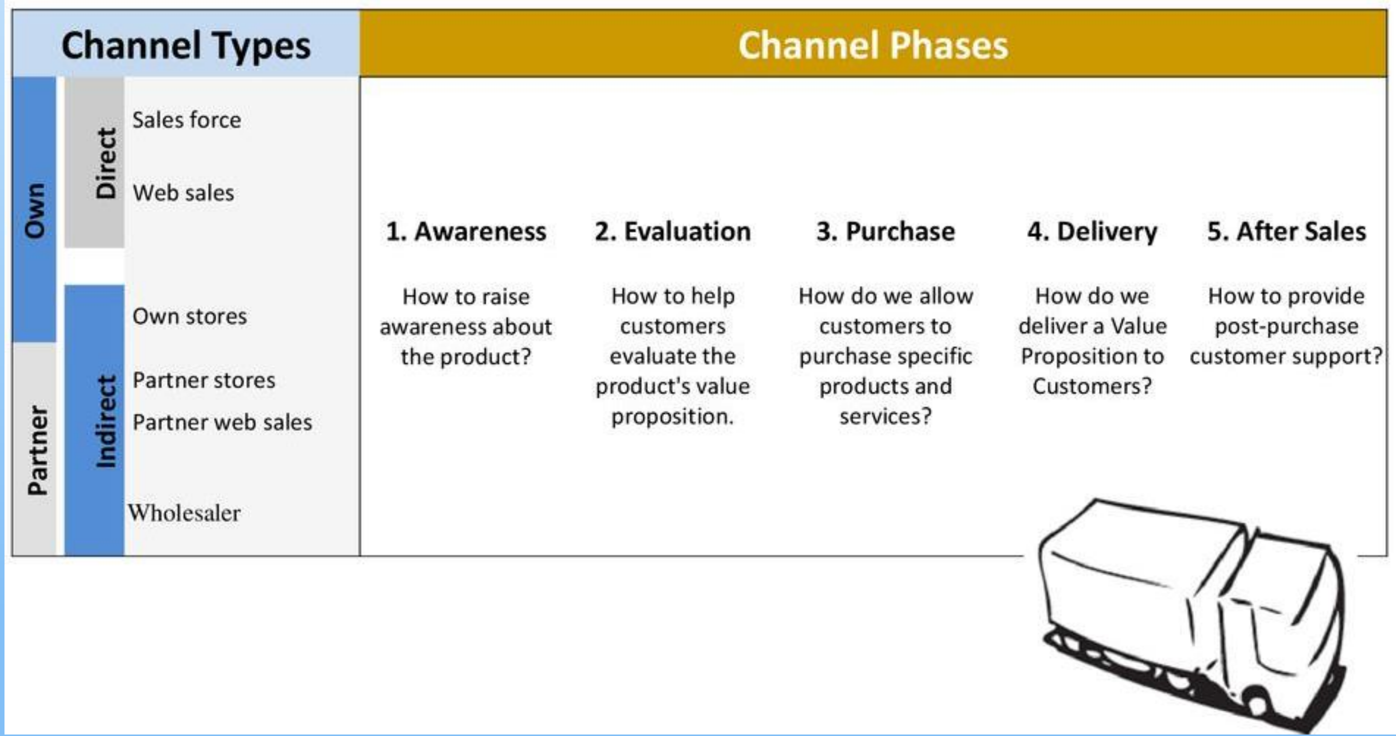
The Channels Building Block describes how a company **communicates with and reaches** its customer segments to deliver a value proposition.



Communication objectives

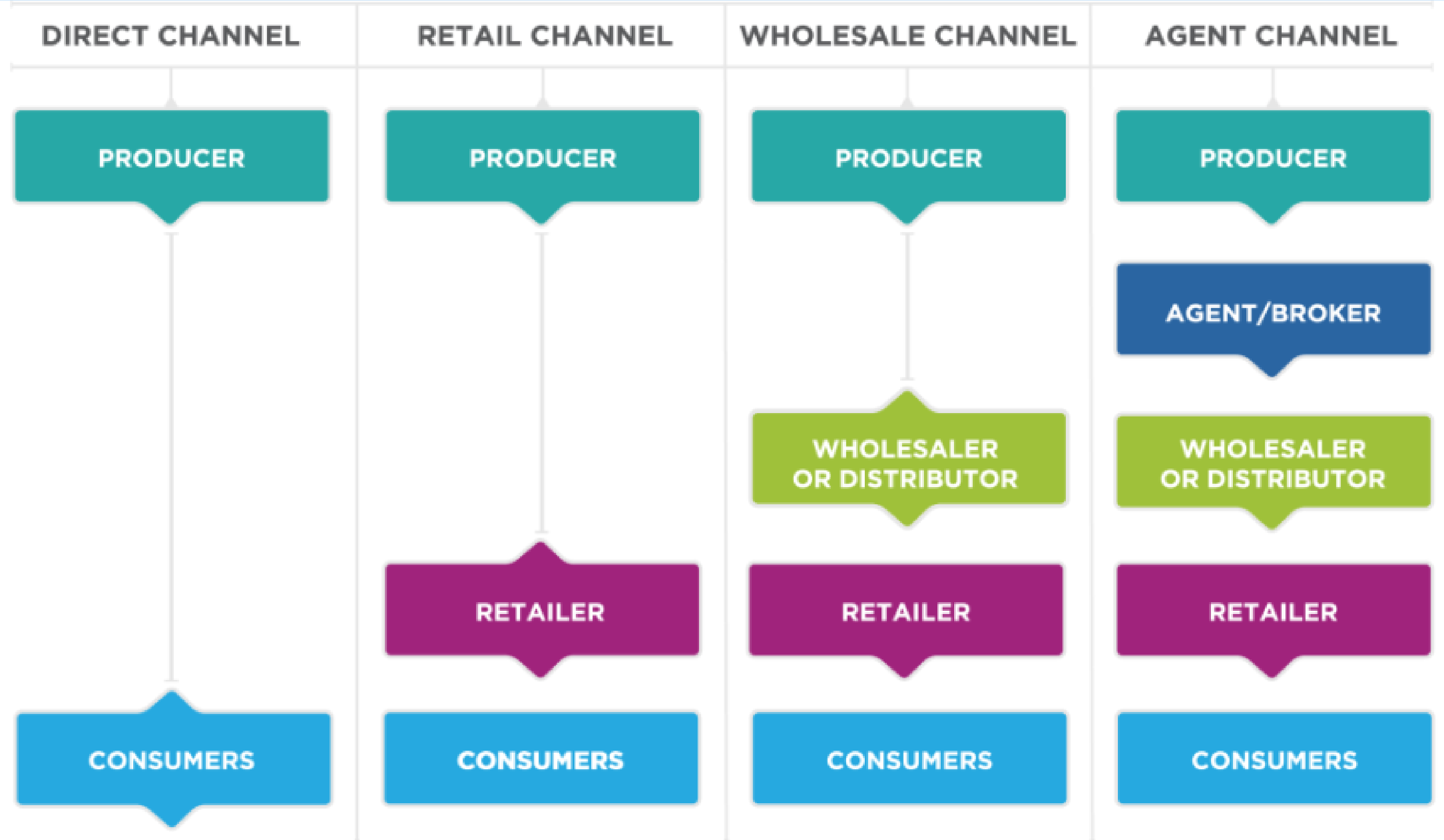
1. **Inform customers and establish need for category**: especially for new-to-the-world products
2. **Build brand awareness**: supporting the consumer to recognise (or recall) the brand in sufficient detail to make a purchase
3. **Build brand attitude**: helping consumers evaluate the brand's perceived 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.

Channel classification



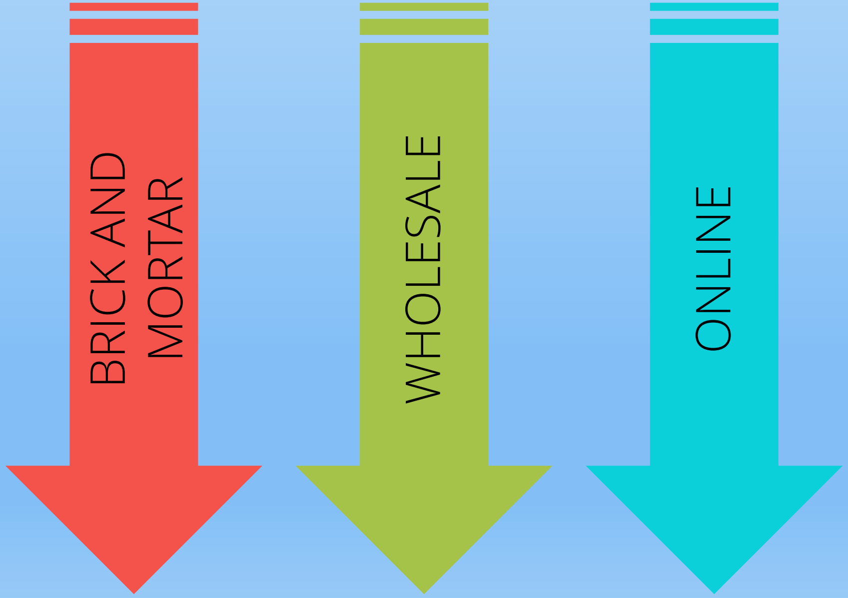
Finding the **right mix of channels** can be determinant to satisfy how customers want to be reached and deliver them the company's value proposition

Distribution channels: types

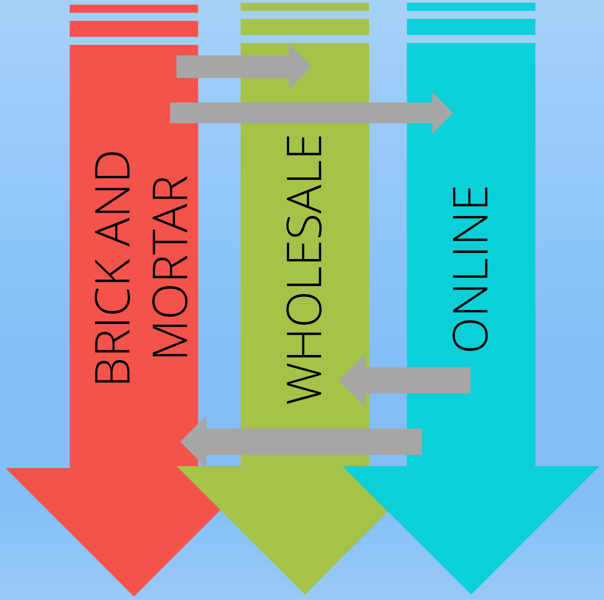


Channel strategies

Multichannel



Omnichannel



Channel phases

1 AWARENESS

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

2 EVALUATION

How do we help customers evaluate our organisation's value proposition?

3 PURCHASE

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

4 DELIVERY

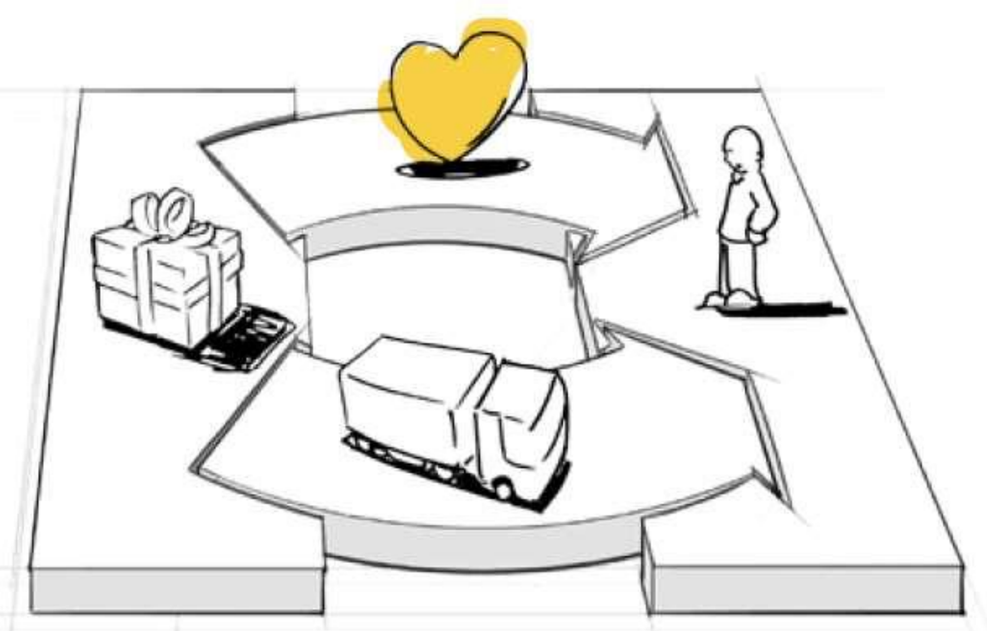
How do we deliver a value proposition to customers?

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?

Because of the need to:

- **Acquire** (new) customers
- **Retain** (old) customers
- Apply **Up-selling** or
- Apply **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 on a one-to-one basis

SELF-SERVICE

Providing to customers all the information to help themselves

AUTOMATED SERVICE

More sophisticated as it can recognise the client and personalise the service

COMMUNITY

Facilitating 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 startup **XXX**
- Think to a **combination of:**

- target market
- value proposition
- customer relationships
- channels

that make sense

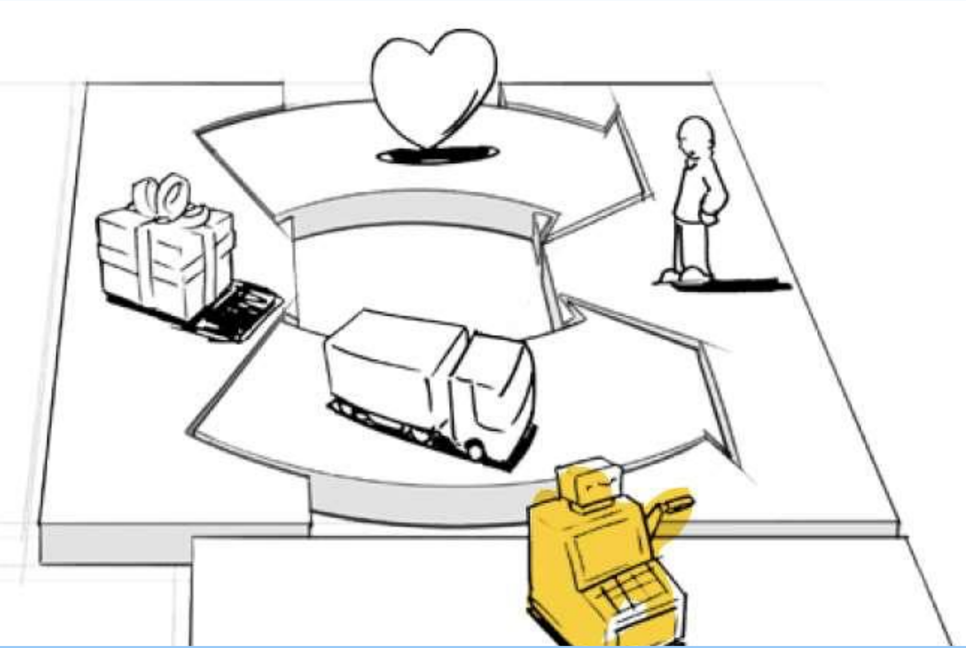
- Explain your idea to your colleagues

Alternatively, you can analyse an **existing company**

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.



Ways to generate 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

Different types of revenue streams…

Revenue streams can be:

- **Transaction revenues** resulting from one-time customer payments
- **Recurring revenues** resulting from ongoing payments to either deliver a value proposition to customers or provide post-purchase customer support

Each revenue stream can have **different pricing mechanisms**

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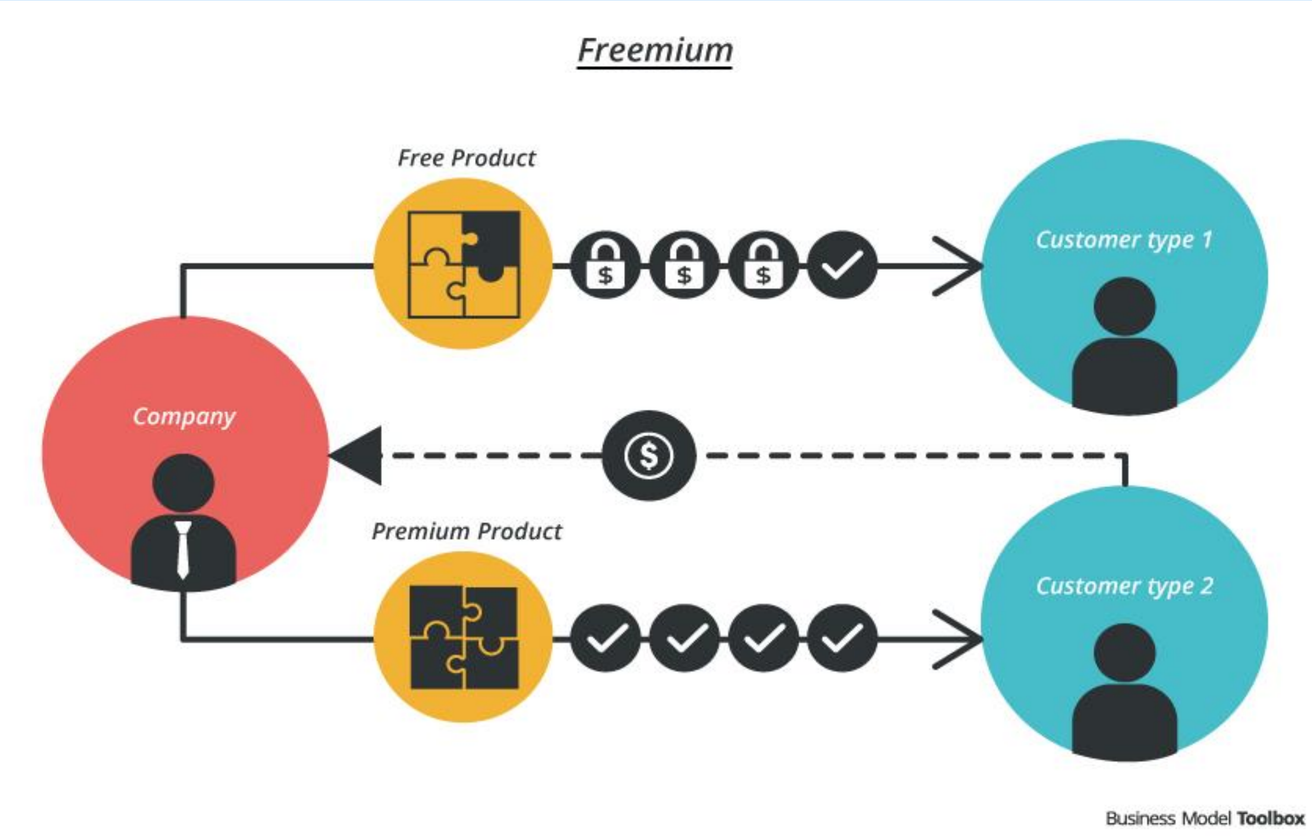
…and pricing mechanisms

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



The "Freemium" revenue model

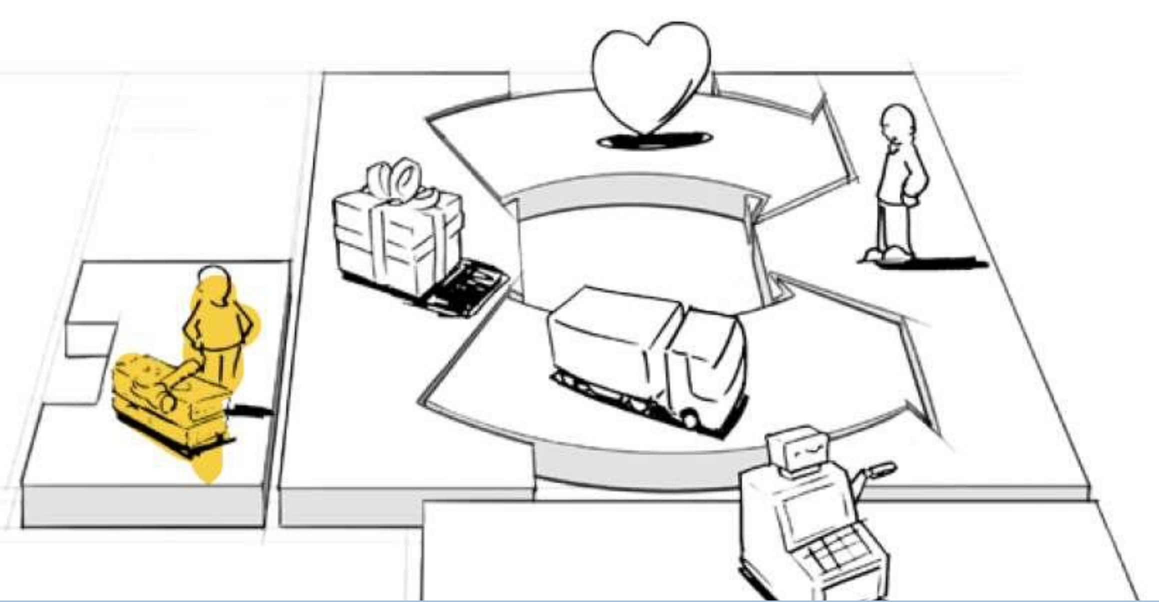
FREEMIUM

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

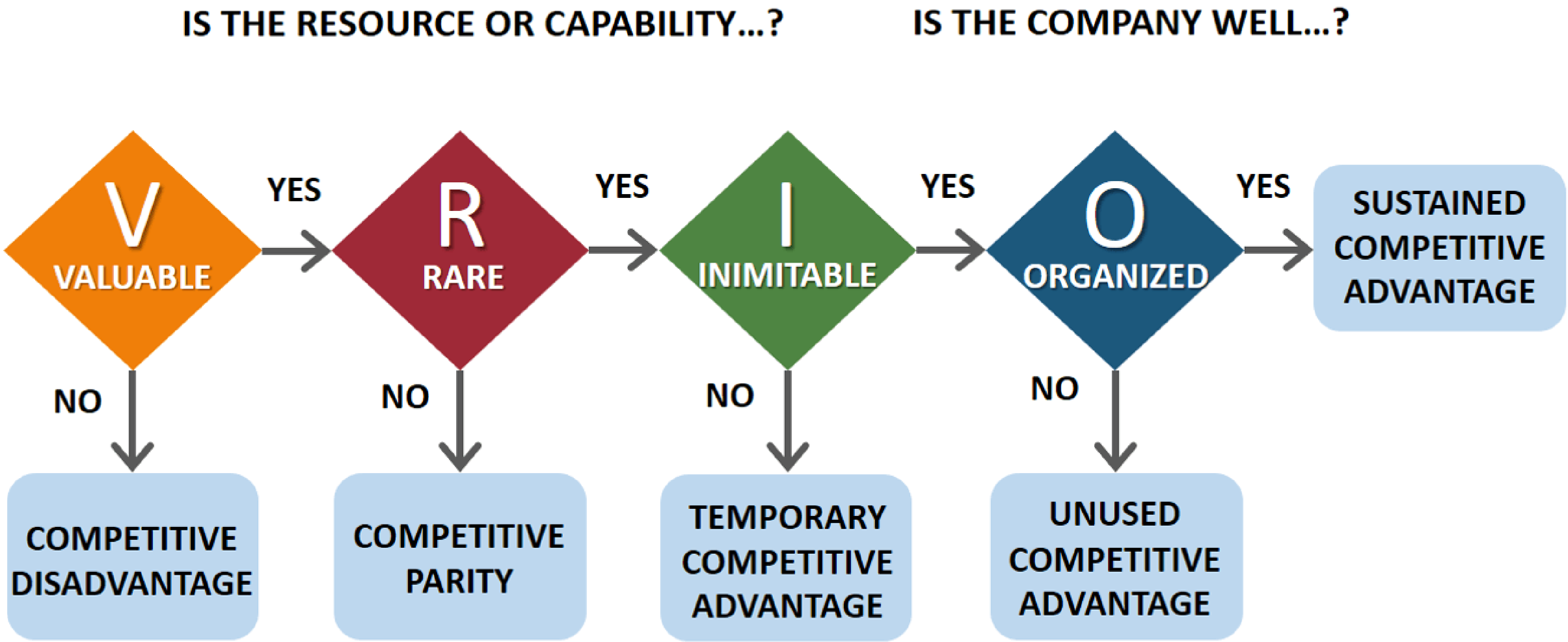
INTELLECTUAL
Include brands, knowledge, patents, copyrights, partnerships, and customer databases

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

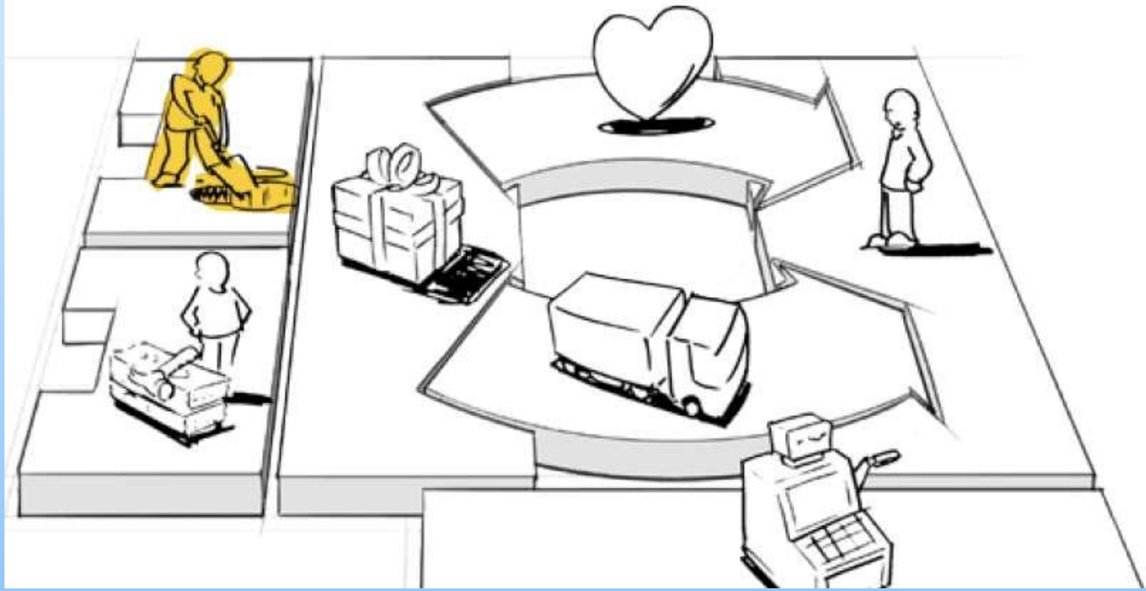
PHYSICAL
Include physical assets such as manufacturing facilities, machines, systems, point-of-sales systems, and distribution networks

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

The VRIO model



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?

Types of key activities

PLATFORM/NETWORK

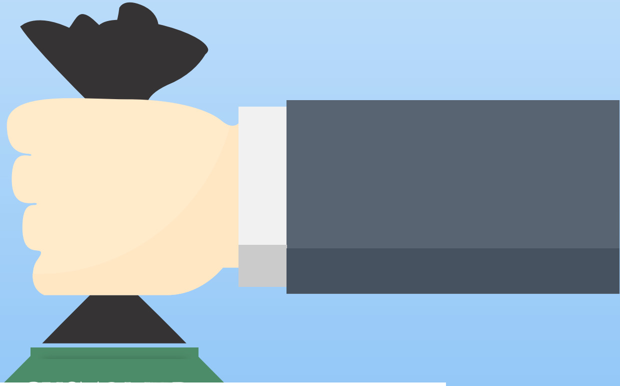
Some business models manage the interface between multiple actors as a key activity (i.e., Airbnb, MasterCard)

PRODUCTION

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

PROBLEM SOLVING

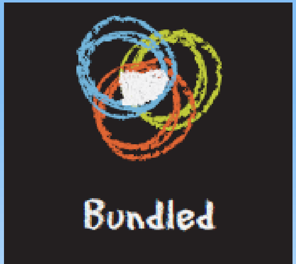
Some BM require to come up with new solutions to individual customer problems. Typically, services.

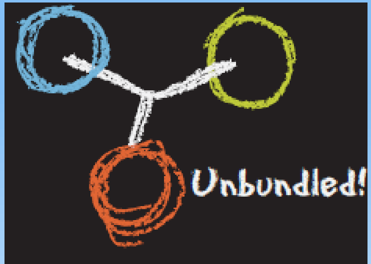


Pay attention to mixing up activities that are too different: **unbundling** could become necessary

Unbundling

- Assumption: three fundamentally different **types of businesses**, namely customer relationship, product innovation and infrastructure businesses
- Each type has different economic, competitive and cultural imperatives
- The three types may co-exist within a single corporation, but ideally they are "**unbundled" into separate entities** in order to avoid conflicts or undesirable trade-offs





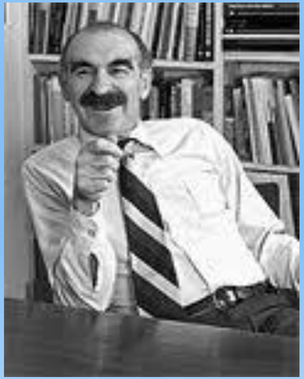
Servitisation

1/4" hole ←

1/4" drill →

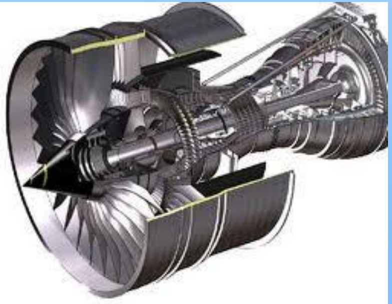
Levitt T. (1960):

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



The servitisation trend

From one product,
many services:

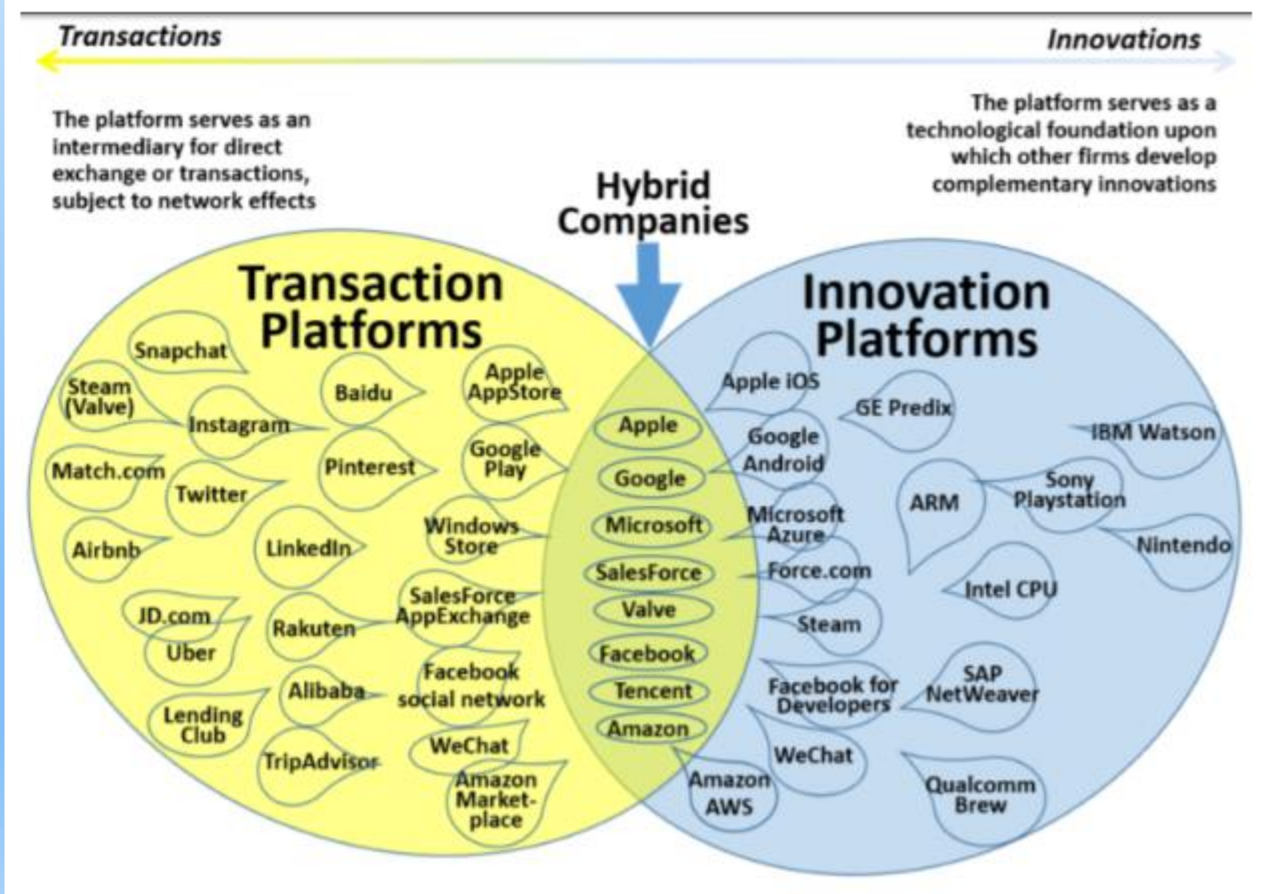


ROLLS ROYCE

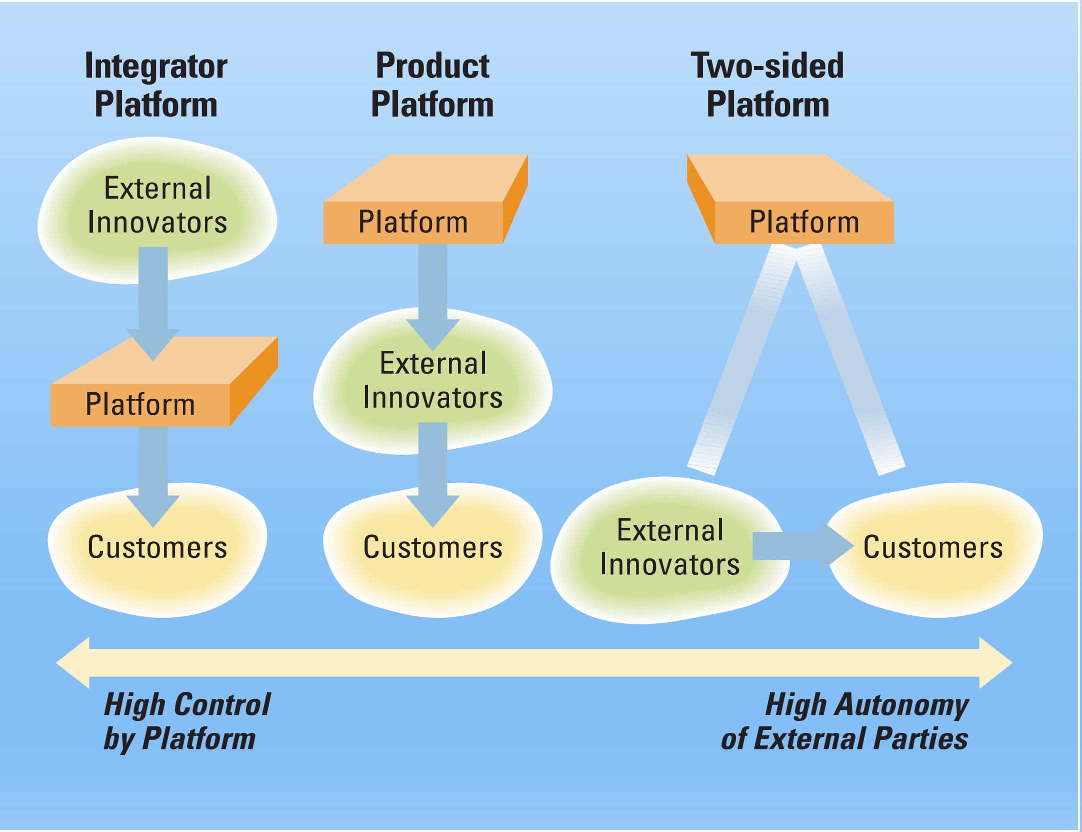
Looking at products as they were services helps to focus on the **benefits provided to clients**

amazon web services™

Transaction and 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.

Platform strategies

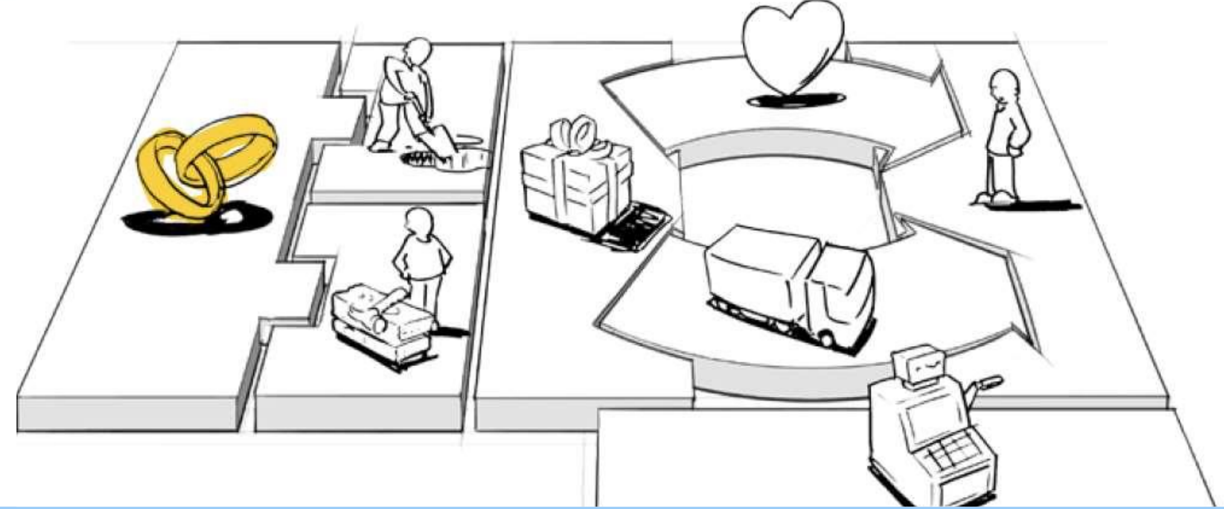
- **"Jump on the bandwagon" strategy**

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.

Types of key partnerships

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

OPTIMISATION 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.

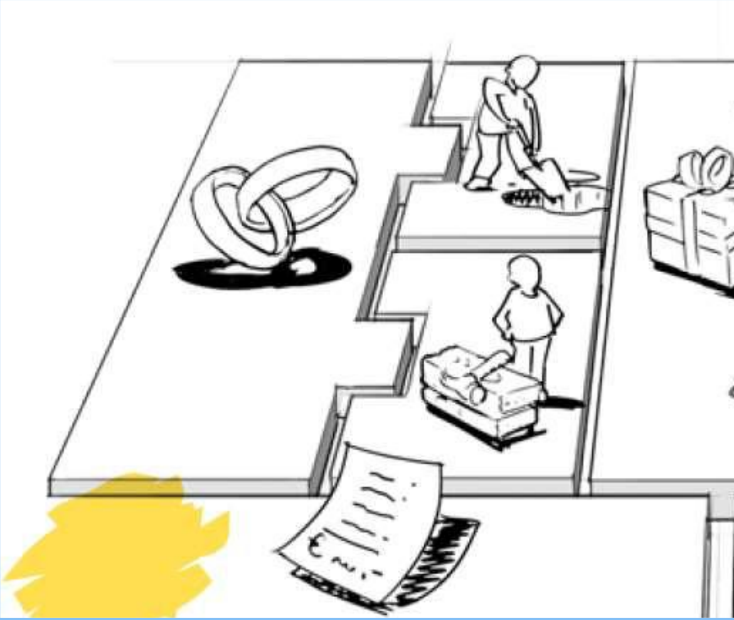
3

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

Minimising 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 personalised service usually characterise value-driven business models.

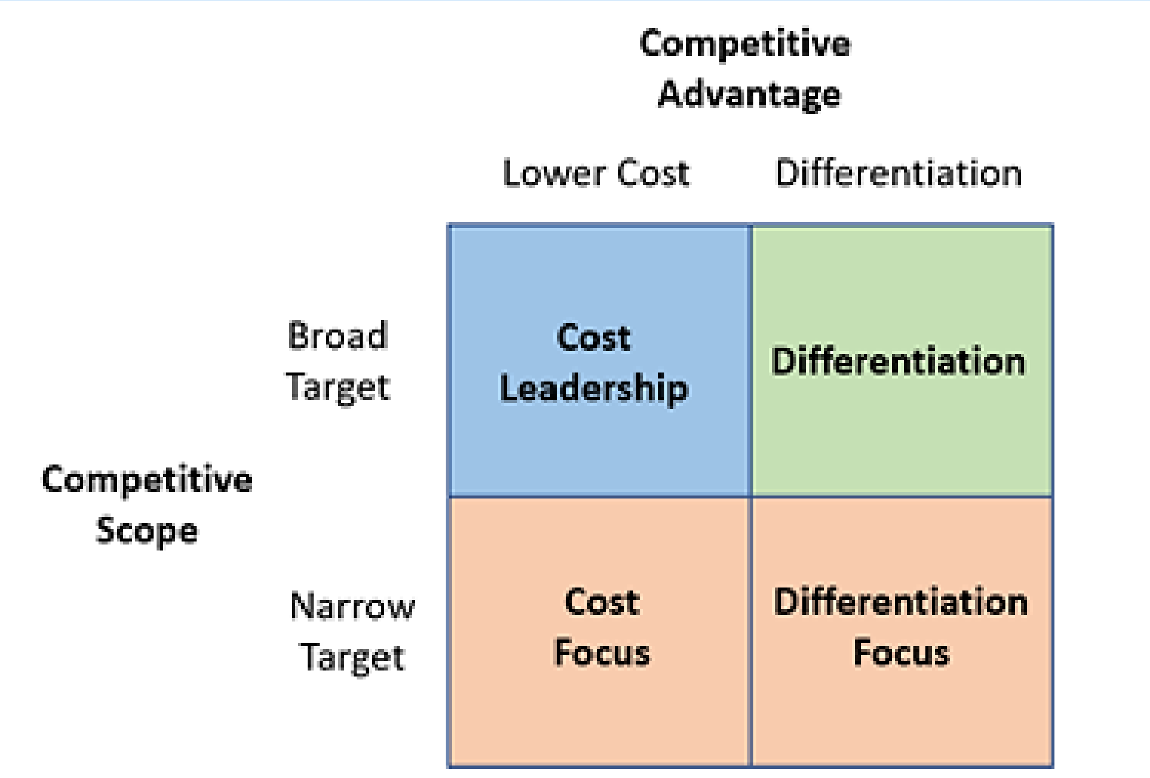
Cost structure features

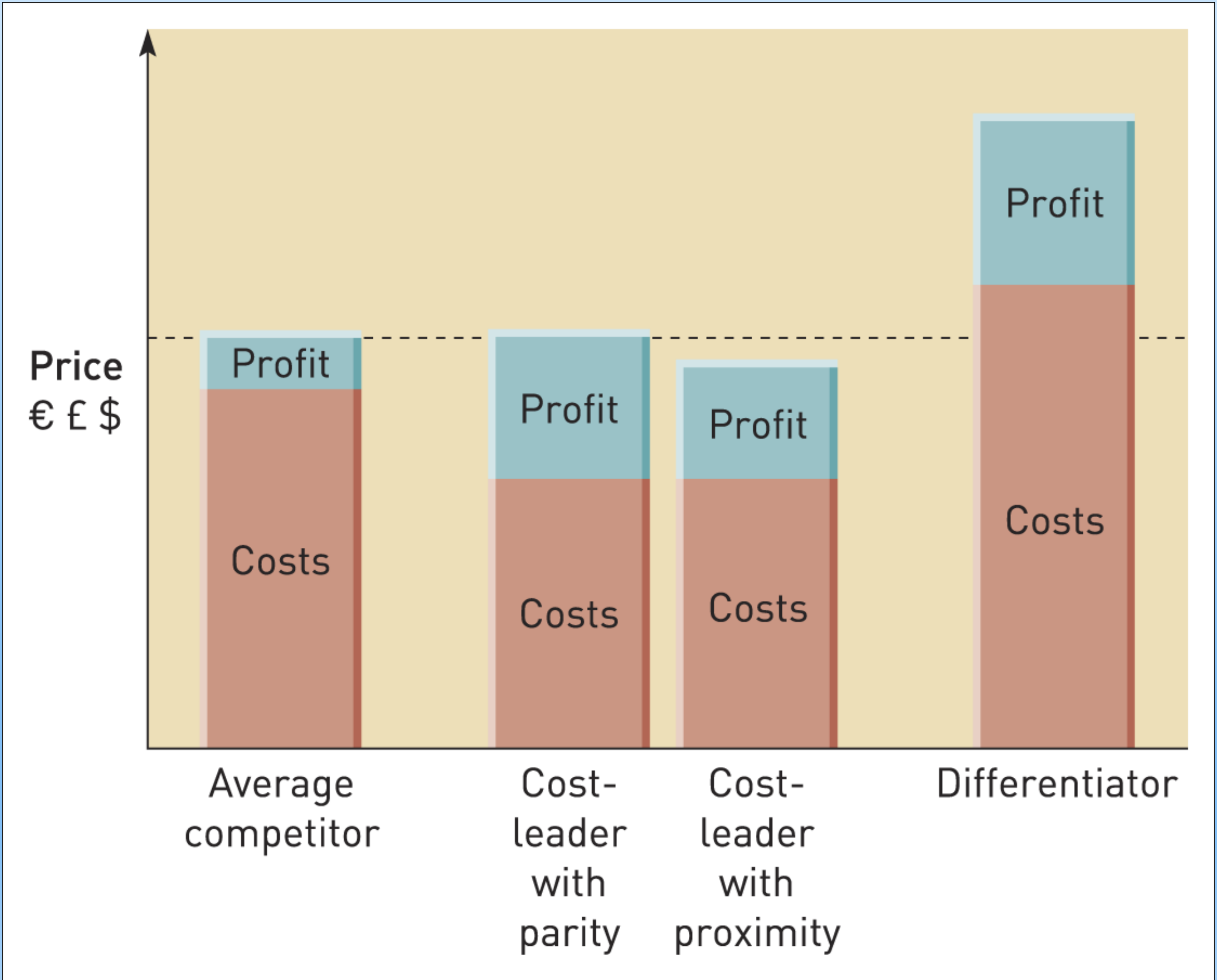
Cost structures can have the following characteristics:

- **Fixed costs:** Costs that remain the same, despite the volume of goods or services produced
- **Variable costs:** Costs that vary proportionally with the volume of goods or services produced
- **Economies of scale:** Cost advantages that a business enjoys as its output expands, making the costs per unit fall
- **Economies of scope:** Cost advantages that a business enjoys due to a larger scope of operations

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

Ryanair's BMC analysis…

- **KEY RESOURCES**: (young) pilot & cabin crews, digital infrastructure, standard aircraft model (→ easier crew training), small and minor airports (→ more 'political' power)
- **KEY ACTIVITIES**: online and direct ticket sales, short and direct flights (mainly to European destinations), many and organised cross-selling opportunities, onboard services
- **KEY PARTNERS:** parking and car rental services, public transport services, booking platforms for hotels

Try to examine the left-wing part of Ryanair's BMC and let's discuss about it!

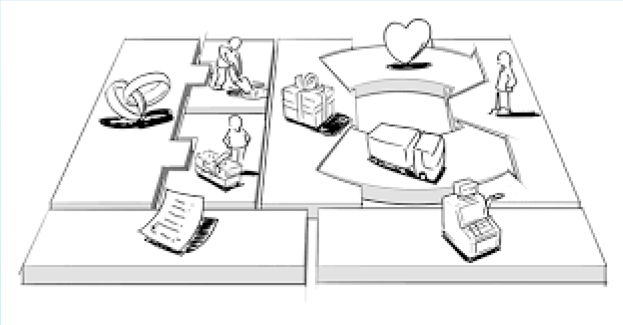
…and how about the competitors?

- **KEY RESOURCES**:

- **KEY ACTIVITIES**:

- **KEY PARTNERS:**

Challenge yourself to think about Ryanair's competitors, i.e. no-frills airlines. Focus on one of them and try to understand: what makes it different from Ryanair?



Thank you for your attention

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