

Business Models and Strategy

SK

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How to think

“A good plan violently
executed now is better than a
perfect plan executed next
week.”

- US General George S. Patton

**“No campaign plan survives
first contact with the enemy.”**

- Field Marshall Helmuth Graf von Moltke

“No business plan survives
first contact with customers.”

- American Entrepreneur Steve Blank

So what is a business model?

A quick look

Uber Suffers Setback as U.K. Court Rules Its Drivers Should Have Workers' Rights; Decision could serve as bellwether for other employment lawsuits against the car-hailing firm, potentially jeopardizing its **business model**

Sam Schechner, 10 novembre 2017, The Wall Street Journal



NTT Group Showcasing B2B2X **Business Model** Cases at Mobile World Congress 2018 in Barcelona

PR Newswire Europe, February 2nd 2018

Shopify slides after Citron criticizes marketing **business model**

Reuters, October 4th 2017

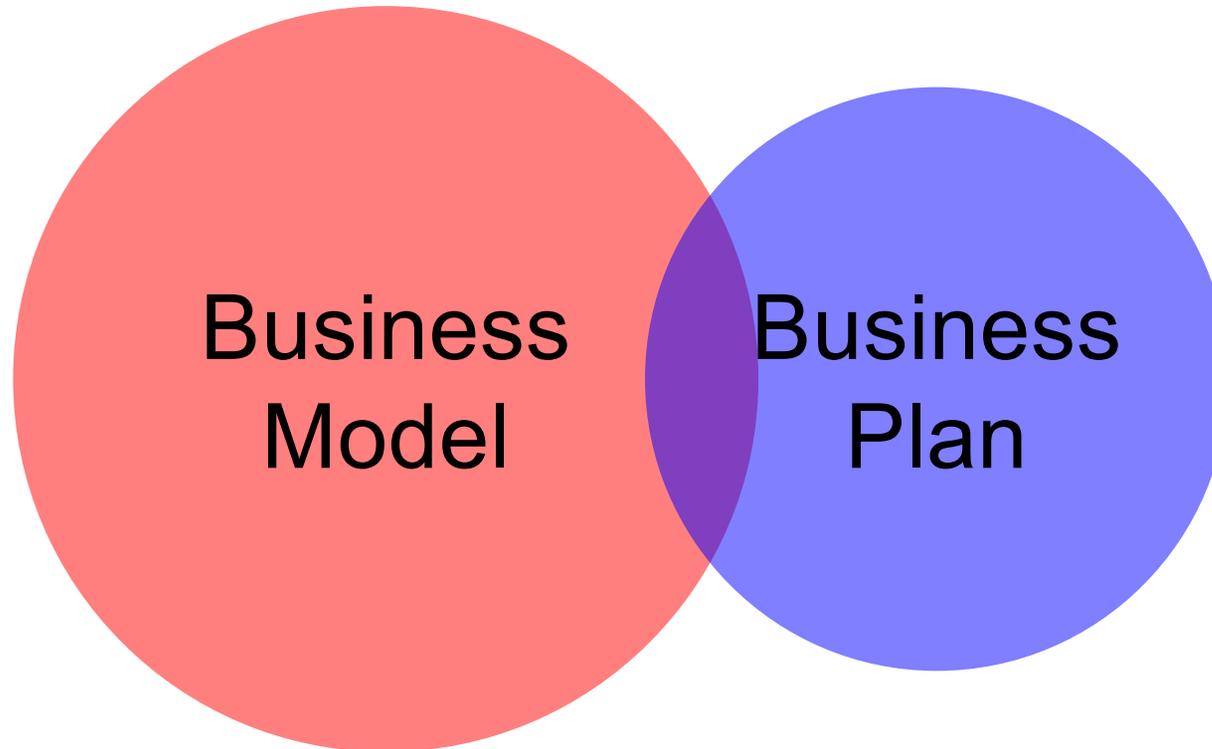
Can Creative Entrepreneurialism Save The Agency **Business Model**?

Forbes, August 15th, 2018

Cisco Revenue Falls In Shift To Subscription **Business Model**

Dow Jones, August 16th, 2017

Business model vs Business plan:



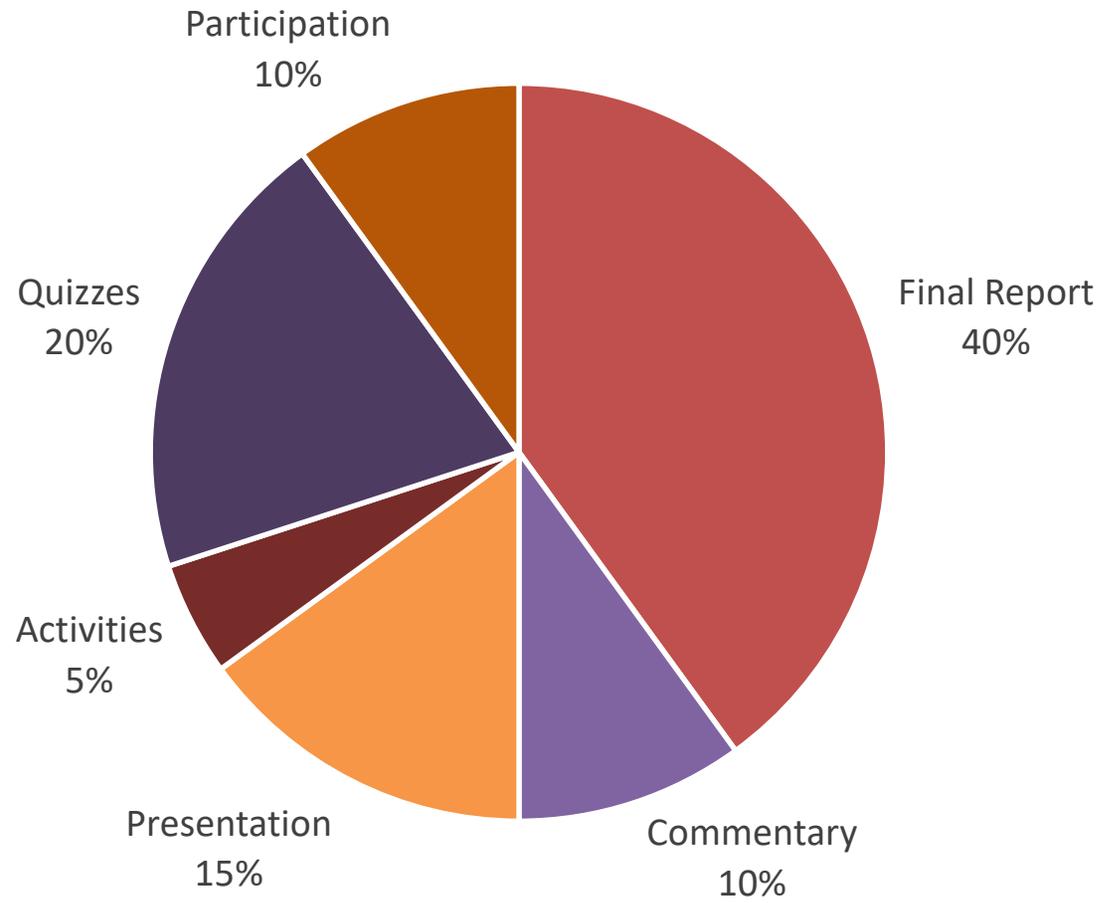
There is a relationship between these two concepts.

This course

Course objectives:

- To understand the concept of business model and its current application in business.
- To learn about the different ways a business model can be represented.
- To become aware of the importance of the business ecosystem as a key success factor.
- To become able in preparing an appropriate business plan.

Evaluation:



Description of the Final Report

1. Teams of four people. I will **not** accept individual projects!
2. Elaborate a business model and write a business plan draft containing the following sections:
 - a) Executive summary
 - b) Company description
 - c) Industrial analysis and trends
 - d) Target Market
 - e) Management organization
 - f) Financial report
3. The report should **not exceed 30 pages** long.

You have to pick from a list of predefined ideas for projects



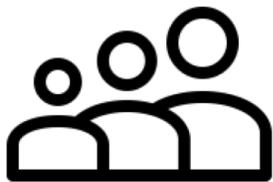
Innovation in
Gastronomy/
Food



Sustainable
Products



Bottom of
the Pyramid



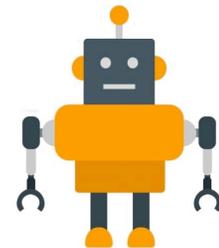
Mature
Industry



Social
Entrepreneurship

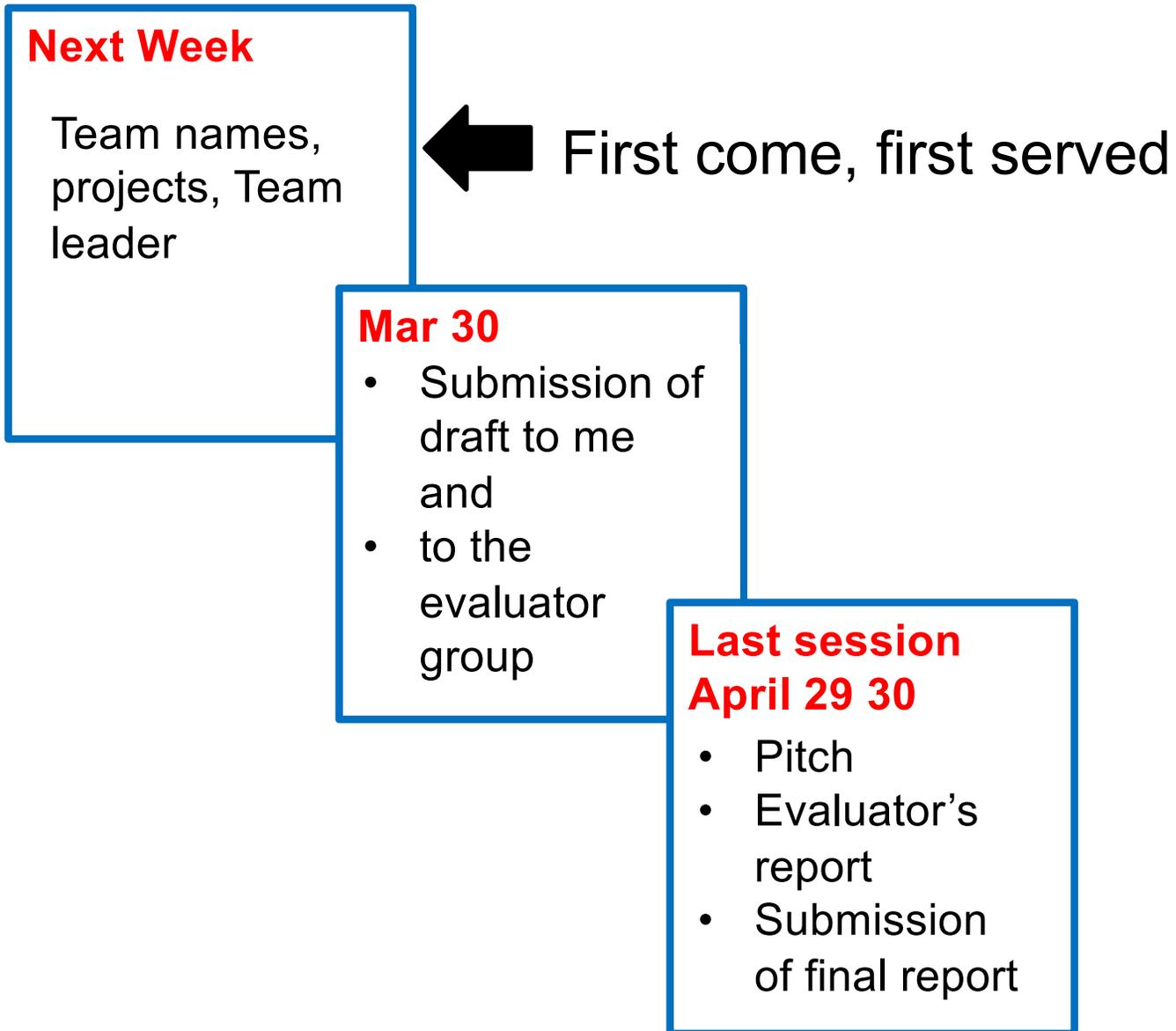


Artificial
Intelligence



Robotics

Only three groups can choose the same project



T
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Evaluation criteria, final report

- 1 Originality
- 2 Feasibility
- 3 Attractiveness
- 4 Rigorousness

Short Report

10%

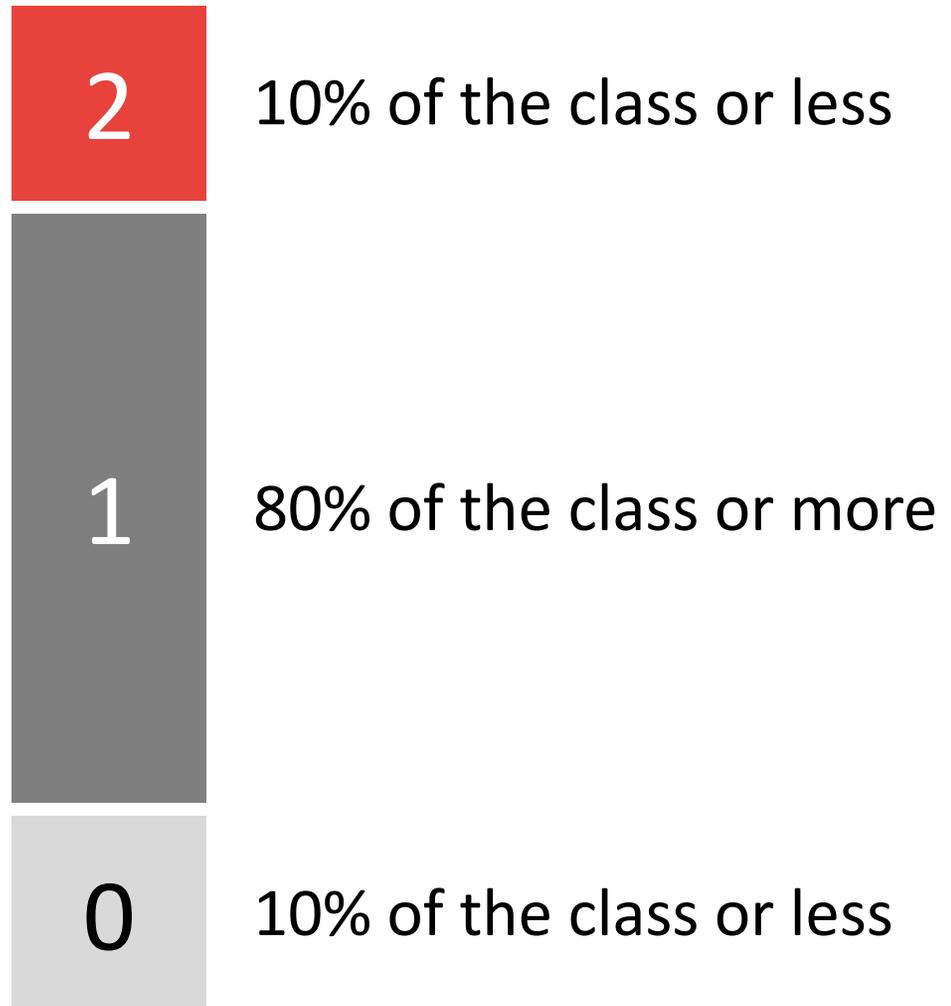
The **30th of March**, each group should submit an early draft of the final report to an evaluator group. This early draft should contain the company description section of the final report + the business model canvas.

The evaluator group should prepare a maximum two pages long report containing a small summary of the business idea, the strengths and weaknesses of the business plan and specific recommendations for improvement

This two pages report should be delivered to me and to the evaluated team during **the last session**.

In-class participation

0 to 2 out of 20 ← 10% of the grade



Quiz 1

Session 1 Introduction to Business Models	Session 2 Case Study Best Buy	Session 3 Business Plan
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Quiz 2

Session 4 Patterns	Session 5 Case Study Jumia, Nigeria	Session 6 Business Plan Presentations
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Discussion: What is the purpose of the firm?



- To satisfy its' customers' needs.
- To produce the best product of the market.
- To sell more products than its competitors.
- To create and capture value for its shareholders.

Discussion: What is competitive advantage?



- A company has competitive advantage when it has a superior technology.
- A company has competitive advantage when it earns a persistent higher rate of profits.
- A company has competitive advantage when it produces a better product than its competitors.
- A company has competitive advantage when it has more customers than its competitors.

Let's get started

Competitive Advantage

A firm has **competitive advantage** when it has the ability to outperform its rivals by earning **persistently** higher rate of profit.

Competitive Advantage = Profitable ?

A company with competitive advantage **might not** report high profits!

- Invest in new technology.
- Invest in increasing market share.
- Increase the wages of their employees
- Executive perks.

Sources of Competitive Advantage

	Industry effects (%)	Firm effects (%)	Unexplained variance (%)
Schmalensee (1985)	19.6	0.6	79.9
Rumelt (1991)	4.0	44.2	44.8
McGahan and Porter (1997)	18.7	31.7	48.4
Hawawini <i>et al.</i> (2003)	8.1	35.8	52.0
Roquebert <i>et al.</i> (1996)	10.2	55.0	32.0
Misangyi <i>et al.</i> (2006)	7.6	43.8	n.a.

Note: "Firm effects" combine business unit and corporate effects. The rows do not sum to 100% because other sources of variance are not reported.

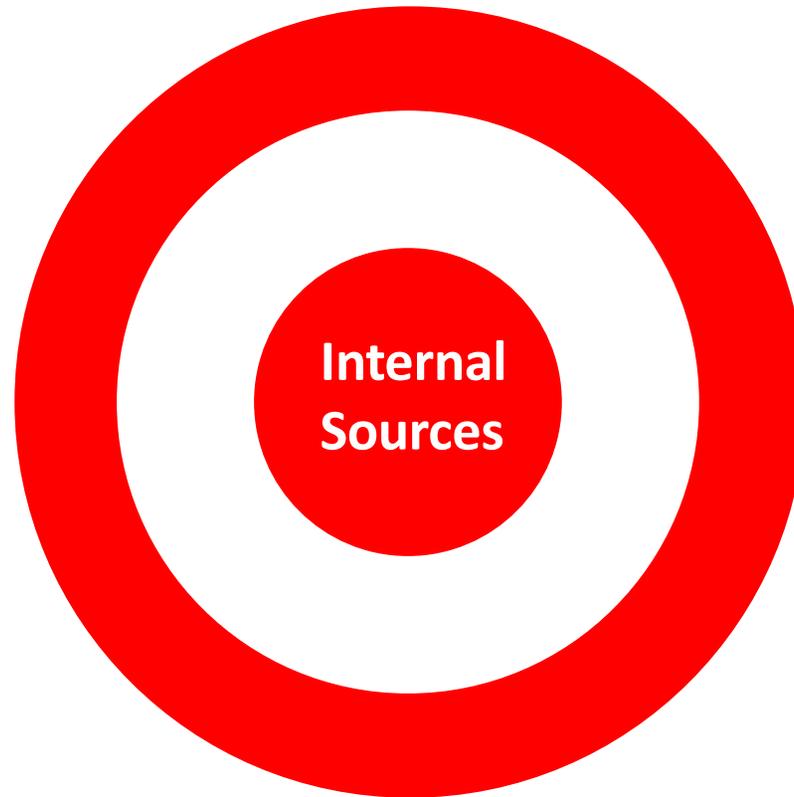
Sources: R. Schmalensee, "Do markets differ much?" *American Economic Review* 75 (1985): 341–51; R. P. Rumelt, "How much does industry matter?" *Strategic Management Journal* 12 (1991): 167–85; A. M. McGahan and M. E. Porter, "How much does industry matter, really?" *Strategic Management Journal* 18 (1997): 15–30; G. Hawawini, V. Subramanian, and P. Verdin, "Is Performance Driven by Industry or Firm-Specific Factors? A New Look at the Evidence," *Strategic Management Journal* 24 (2003): 1–16; J. A. Roquebert, R. L. Phillips, and P. A. Westfall, "Markets vs. Management: What 'Drives' Profitability?" *Strategic Management Journal* 17 (1996): 653–64; V. F. Misangyi, H. Elms, T. Greckhamer, and J. A. Lepine, "A New Perspective on a Fundamental Debate: A Multilevel Approach to Industry, Corporate and Business Unit Effects," *Strategic Management Journal* 27 (2006): 571–90.

Sources of Competitive Advantage



Maybe luck?

Where to put the focus?



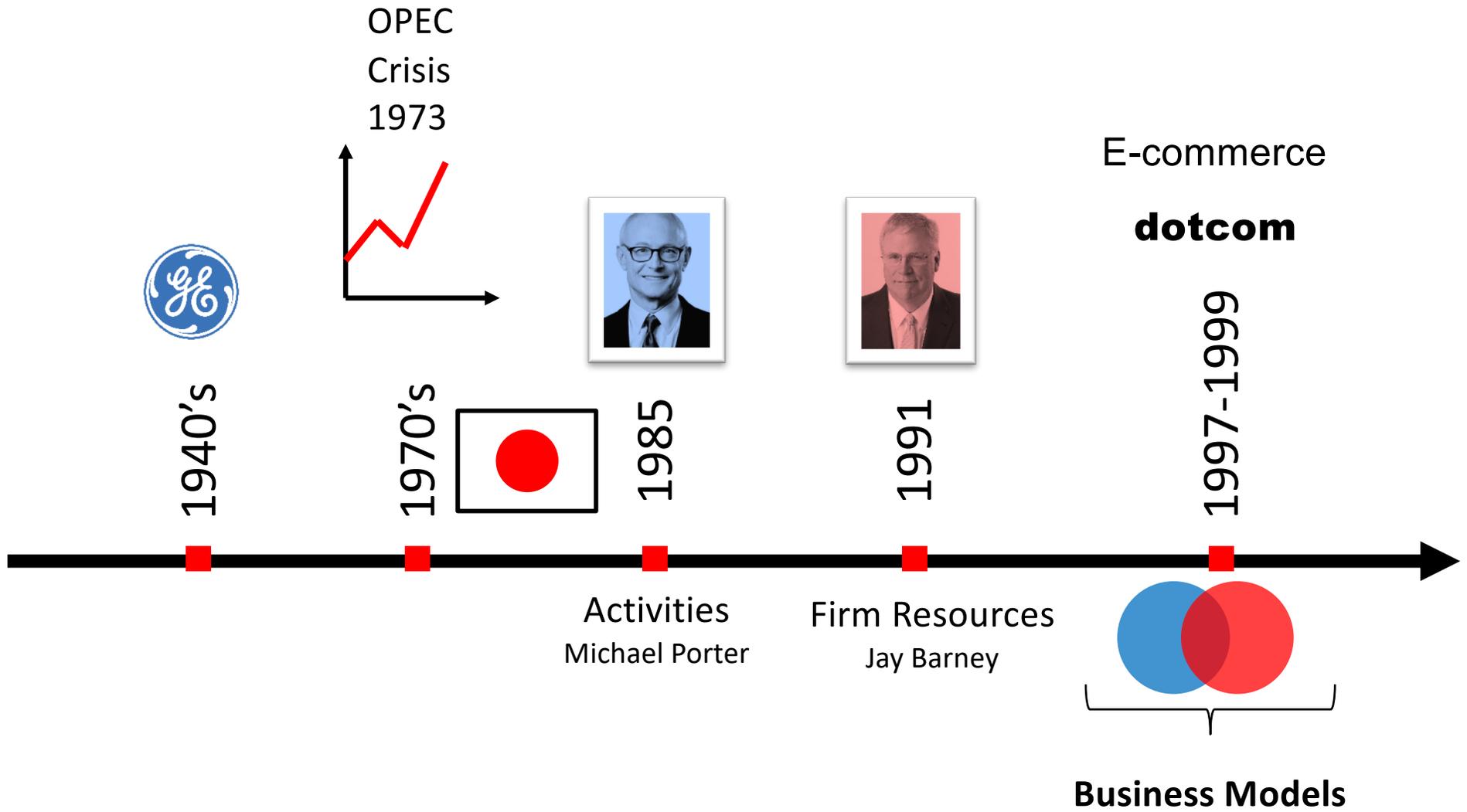
Would you devote time and effort in controlling the external sources?

**Milestones in
Competitive Advantage
and Business Model
“Theory”**

Don't Panic

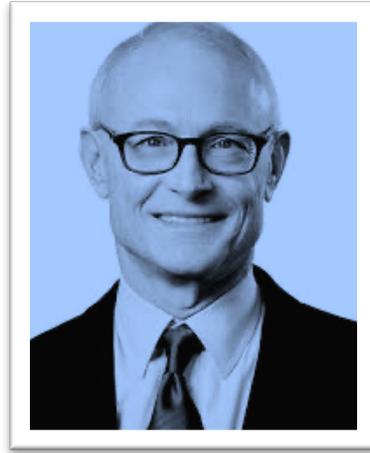
**We'll take about theory and
practice**

Milestones



1985 Michael Porter

Michael Porter – Competitive Advantage – Value Chain Analysis



*Michael Porter (1985): Competitive Advantage
comes from the **activities performed by the firm***

Five Forces:

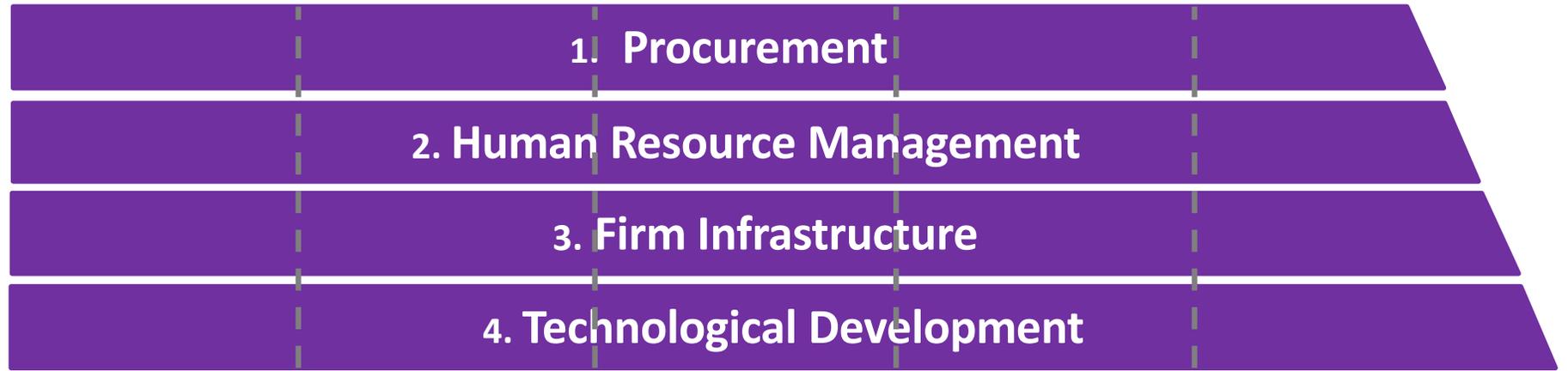
The **primary activities** of Porter's value chain are

1. Inbound logistics,
2. Operations,
3. Outbound logistics,
4. Marketing and sales, and
5. Service.

Value created > cost of activity
create value that exceeds
the cost of conducting that activity

Michael Porter: Value Chain Analysis

Secondary Activities



1 2 3 4 5

Primary Activities



How you can use the Value Chain Analysis to identify activities that will generate “sustainable competitive advantage?”



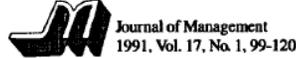
1991 Jay Barney



Firm Resources and Sustained Competitive Advantage

Jay Barney
Texas A&M University

Understanding sources of sustained competitive advantage has become a major area of research in strategic management. Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable over time, this article examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage—value, rareness, imitability, and substitutability—are discussed. The model is applied by analyzing the potential of several firm resources for generating sustained competitive advantages. The article concludes by examining implications of this firm resource model of sustained competitive advantage for other business disciplines.



Journal of Management
1991, Vol. 17, No. 1, 99-120

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TRANSLATION

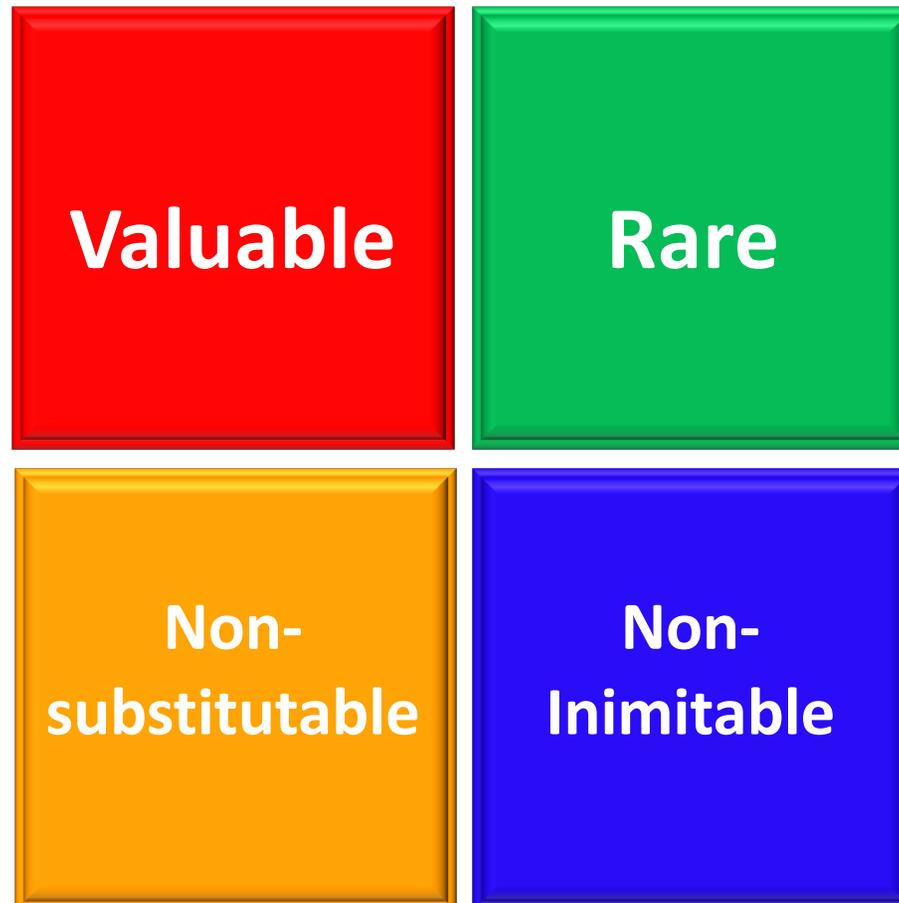
Barney defined a **competitive advantage** as "when [a firm] is able to implement a value creating strategy not simultaneously being implemented by any current or potential **competitors**."

TRANSLATION

This Resource Based View (RBV) RBV focuses attention on an organization's internal resources as a means of organizing processes and obtaining a competitive advantage. Barney stated that for resources to hold potential as sources of sustainable competitive advantage, they should be valuable, rare, imperfectly imitable and not substitutable (now generally known as *VRIN* criteria).^[9] The resource-based view suggests that organizations must develop unique, firm-specific core competencies that will allow them to outperform competitors by doing things differently

VRIN (Barney): “Valuable, Rare, Imperfectly Imitable and Non-substitutable

In a world where resources are heterogeneously distributed and imperfectly mobile they will generate competitive advantage if they are...



Warning!

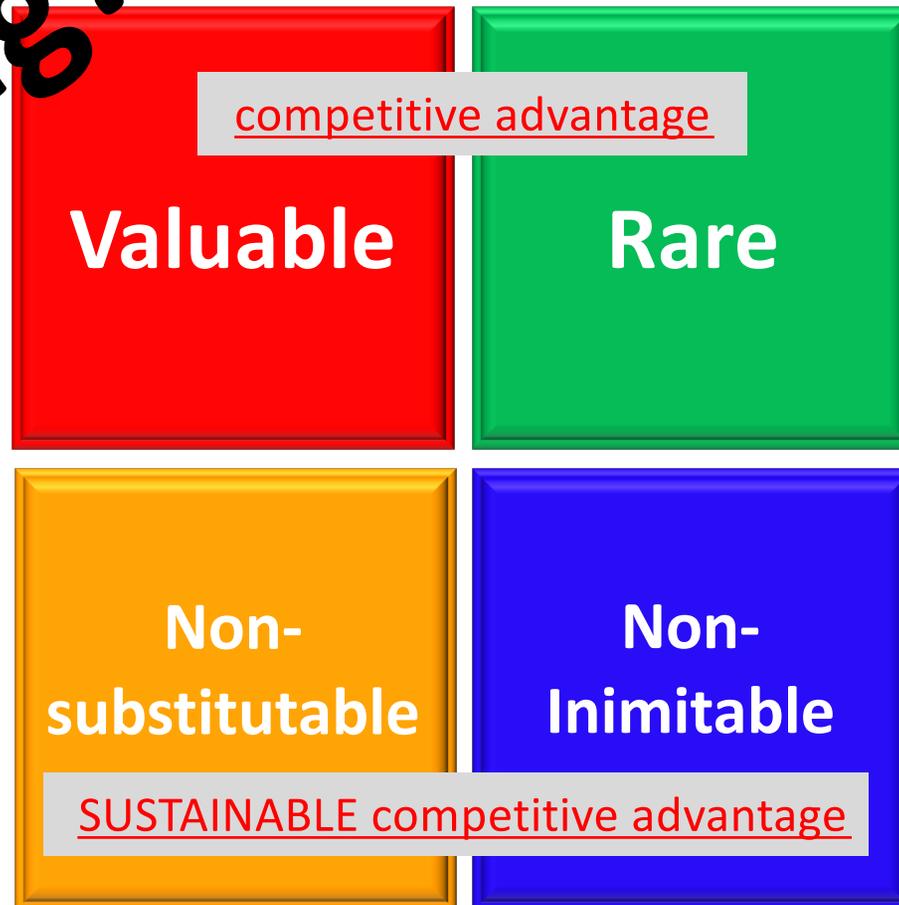
Value + Rarity = Competitive Advantage

But is not enough for SUSTAINABLE competitive advantage. For that, it is necessary to have “NON-inimitability” and “NON-substitutability”.

VRIN (Barney): “Valuable, Rare, Imperfectly Imitable and Non-substitutable

In a world where resources are heterogeneously distributed and imperfectly mobile they will generate competitive advantage if they are...

Warning!



Criticism



Jay Barney (1991) raises two important issues:

1. It has been assumed that firms within an industry are identical in terms of strategically relevant resources.
2. If there is any heterogeneity in the distribution of the resources this one will be temporal, because these resources are highly mobile.

These assumptions are unrealistic

Warning!

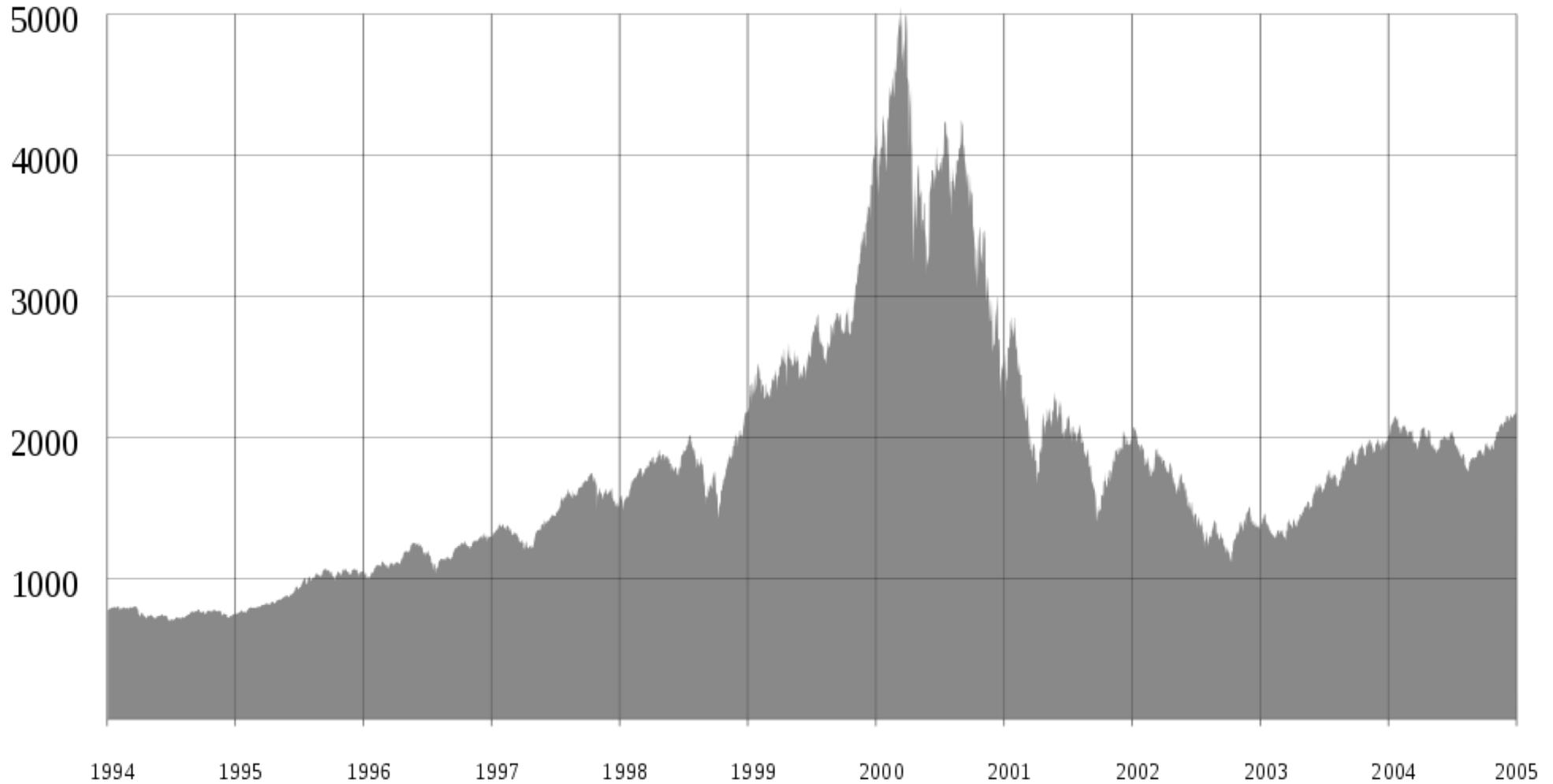
SUSTAINABLE competitive advantage vs.

UNIQUE COMPETITIVE

ADVANTAGE

**1997 Dotcom explosion
of business models**

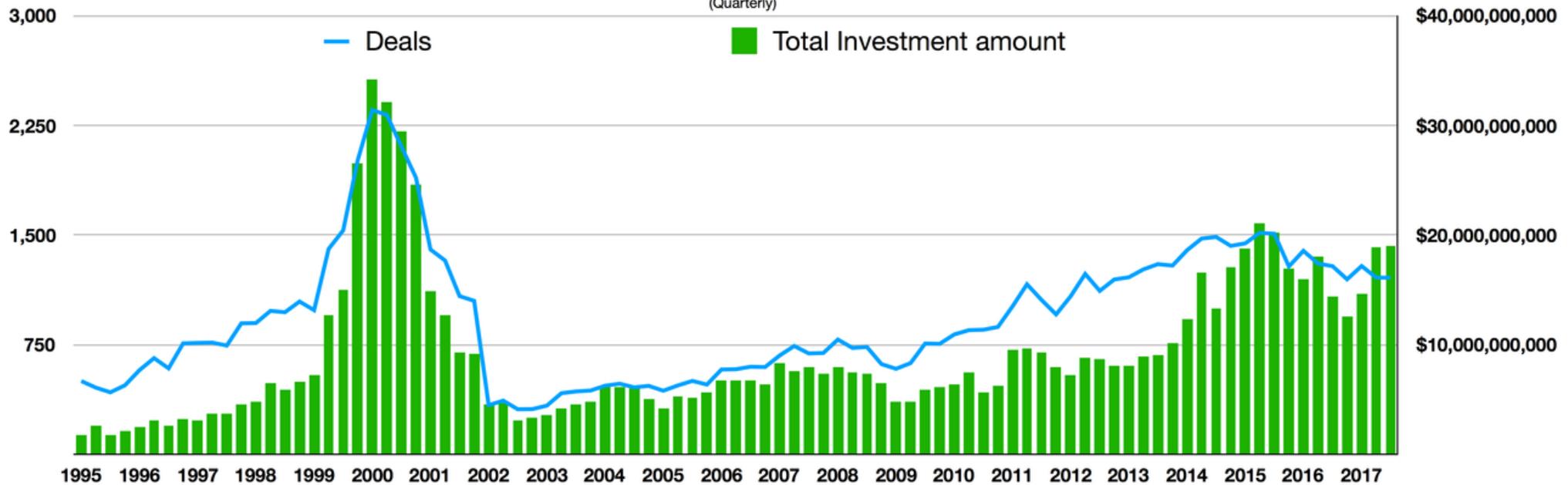
The dot-com bubble – NASDAQ MARKET PERFORMANCE





Total U.S. Venture Capital Investments

(Quarterly)



The Dotcom Era and Business Models

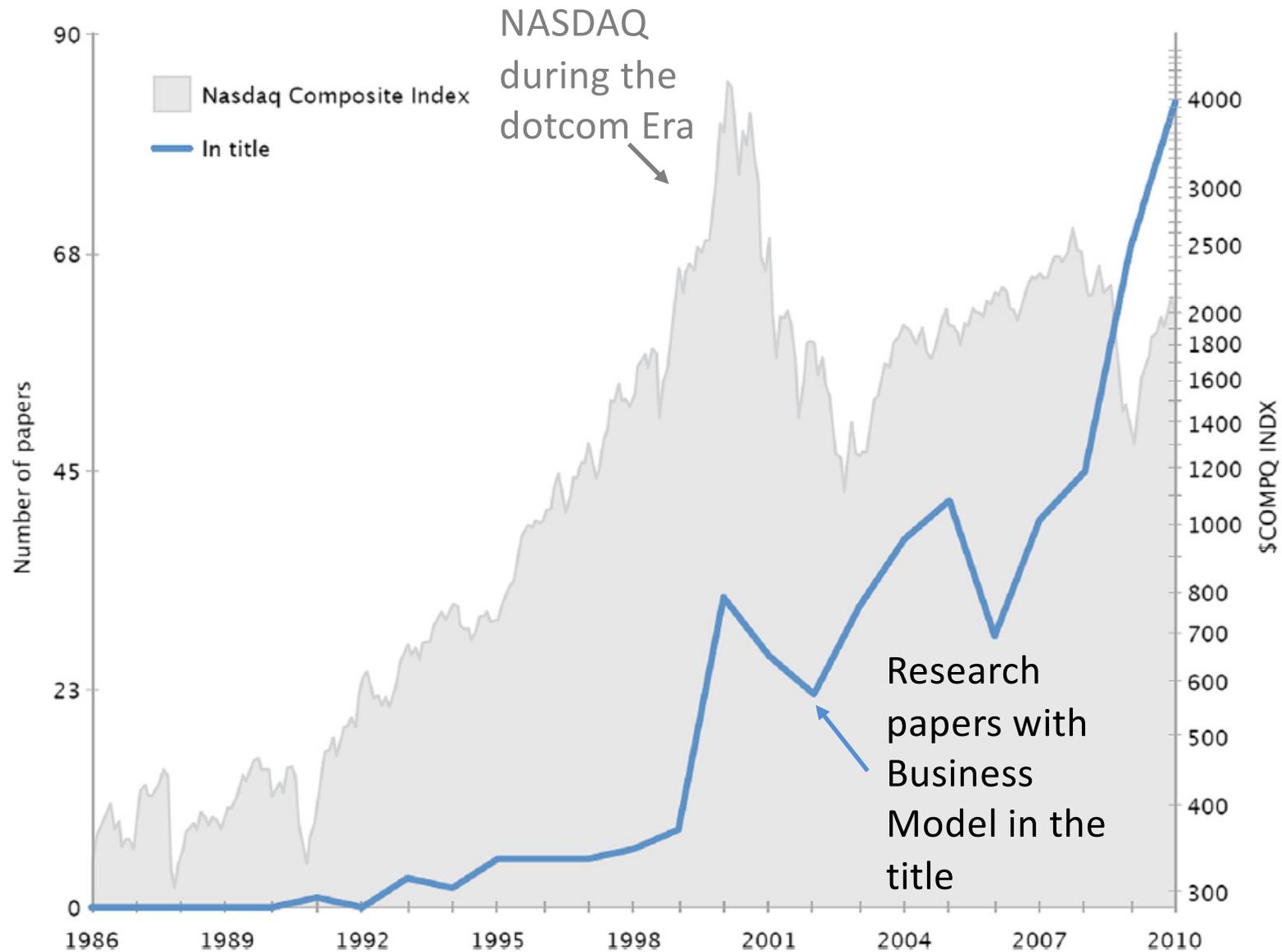


Figure 1. Number of papers published on business models vs. the NASDAQ trend

Source: Da Silva, C. & Trkman, P. (2014) Business Model: What It Is and What It Is Not?

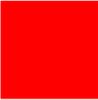
More Academic Research

1957 the FIRST TIME the Concept “Business Models” was used in an academic paper

In the business world, a significant new factor—conveniently absent from most of the engineering problems appearing in these models—is the decision process, which involves the use of human beings and machines, rather than machines alone. Many of the problems encountered are so involved that no simple simulation suffices. We must first construct a mathematical model, then construct a simulation process based upon it. And many more problems arise to plague us in the construction of these **business models** than ever confronted an engineer. The result is that the mathematician plays an essential role in designing the games and interpreting the results.

Bellman, R. Clark, CE. Malcom DG. Craft, CJ Ricciardi. FM. 1957. On the construction of a multi-stage, multi-person business games. **Operations Research** (5):4, 469-503.

<https://www.rand.org/content/dam/rand/pubs/papers/2007/P1056.pdf>



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Bellman, R. Clark, CE. Malcom DG. Craft, CJ Ricciardi. FM. 1957.
On the construction of a multi-stage, multi-person business games.
Operations Research (5):4, 469-503.

Translation:

- **Decision making is so complex that creating a business model is harder than any engineering problem.**

Although, **Peter Drucker** never explicitly used the term “business models” the current understanding of the term can be traced back to his writings (See **Joan Magretta**, 2002; **Andrea Ovans**, 2015).

The Theory of the Business.

Peter Drucker, Harvard Business Review 1994

<https://hbr.org/1994/09/the-theory-of-the-business>

Why Business Models Matter

Joan Magretta, Harvard Business Review 2002

<https://hbr.org/2002/05/why-business-models-matter>

What is a Business Model?

Andrea Ovans, Harvard Business Review 2015

<https://hbr.org/2015/01/what-is-a-business-model>



The Theory of The Business based on “assumptions” about:

- Society and its structure
- Market
- Customer
- Technology
- Competitors
- Company’s Strengths and Weaknesses
- These assumptions are about what a company gets paid

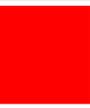


The Theory of The Business has three parts.

1. Assumptions about the environment of the organization:
 - The assumptions about environment define what an organization is paid for.
 - society and its structure,
 - the market,
 - the customer, and
 - technology.

2. Assumptions about the specific mission of the organization.
 - The assumptions about mission define what an organization considers to be meaningful results;
 - in other words, they point to how it envisions itself making a difference in the economy and in the society at large.

3. Assumptions about the core competencies needed to accomplish the organization's mission.
 - Finally, the assumptions about core competencies define where an organization must excel in order to maintain leadership.



Specifications of a valid theory of the business:

1. The assumptions about environment, mission, and core competencies must fit reality.
2. The assumptions in all three areas have to fit one another.
3. The theory of the business must be known and understood throughout the organization... But culture is no substitute for discipline, and the theory of the business is a discipline.
4. The theory of the business has to be tested constantly... built into the theory of the business must be the ability to change itself.



TWO PREVENTIVE MEASURES

1. *Abandonment*. Every three years, an organization should challenge every product, every service, every policy, every distribution channel with the question, If we were not in it already, would we be going into it now?

2. *NONcustomers*. The second preventive measure is to study what goes on outside the business, and especially to study *noncustomers*.



EARLY DIAGNOSIS THAT A COMPANY'S THEORY OF THE BUSINESS IS NO LONGER VALID:

1. Rapid growth is another sure sign of crisis in an organization's theory
2. Unexpected success—whether one's own or a competitor's.
3. Unexpected failure—again, whether one's own or a competitor's.

Why Business Models Matter

Joan Magretta, Harvard Business Review 2002

<https://hbr.org/2002/05/why-business-models-matter>

**Business models are stories
that explain how enterprises work**

A good business model should answer
Peter Drucker's age-old questions:

Who is the customer?

What does the customer value?

+

How do we make money in this business?

What is the underlying economic logic
that explains how we can deliver value to customers at an appropriate cost?"

A great summary of some of the literature

What is a Business Model?

Andrea Ovans, Harvard Business Review 2015

<https://hbr.org/2015/01/what-is-a-business-model>



Business
Assumptions

A business model is making **explicit** the assumptions from which a business is based.

Definition based on Andrea Ovans (2015)

CAN'T THINK OF A NEW BUSINESS MODEL?

Try adapting one of these basic forms.

ANALOGY	HOW IT WORKS	EXAMPLE
Affinity club	Pay royalties to some large organization for the right to sell your product exclusively to their customers.	• MBNA
Brokerage	Bring together buyers and sellers, charging a fee per transaction to one or another party.	• Century 21 • Orbitz
Bundling	Package related goods and services together.	• Fast-food value meals • iPod/iTunes
Cell phone	Charge different rates for discrete levels of a service.	• Sprint • Better Place
Crowdsourcing	Get a large group of people to contribute content for free in exchange for access to other people's content.	• Wikipedia • YouTube
Disintermediation	Sell direct, sidestepping traditional middlemen.	• Dell • WebMD
Fractionalization	Sell partial use of something.	• NetJets • Time-shares
Freemium	Offer basic services for free, charge for premium service.	• LinkedIn
Leasing	Rent, rather than sell, high-margin, high-priced products.	• Cars • MachineryLink

Low-touch	Lower prices by decreasing service.	• Walmart • IKEA
Negative operating cycle	Lower prices by receiving payment before delivering the offering.	• Amazon
Pay as you go	Charge for actual, metered usage.	• Electric companies
Razor/blades	Offer the high-margin razor below cost to increase volume sales of the low-margin razor blades.	• Printers and ink
Reverse razor/blades	Offer the low-margin item below cost to encourage sales of the high-margin companion product.	• Kindle • iPod/iTunes
Reverse auction	Set a ceiling price and have participants bid as the price drops.	• Elance.com
Product to service	Rather than sell a product, sell the service the product performs.	• Zipcar
Standardization	Standardize a previously personalized service to lower costs.	• MinuteClinic
Subscription	Charge a subscription fee to gain access to a service.	• Netflix
User communities	Grant members access to a network, charging both membership fees and advertising.	• Angie's List

The ultimate models?

Google



facebook

amazon

GAFA

What if business models are a management **fad**?

... just a fancy jargon created to explain the emergence of e-business

Words for the Unwise: The Internet's Destructive Lexicon

Michael Porter, 2001. Strategy and the Internet. Harvard Business School

*“The misguided approach to competition that characterizes business on the internet has even been embedded in the language used to discuss it. Instead of talking in terms of strategy and competitive advantage, dot-coms and other Internet players talk about “business models.” This seemingly innocuous shift in terminology speaks volumes. **The definition of a business model is murky at best.** Most often, it seems to refer to a loose conception of how a company does business and generates revenue. **Yet simply having a business model is an exceedingly low bar to set for a building a company.** Generating revenue is a far cry from creating economic value, and no business model can be evaluated independently of industry structure. **The business model approach to management becomes an invitation for faulty thinking and self-delusion.**”*

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Translation:

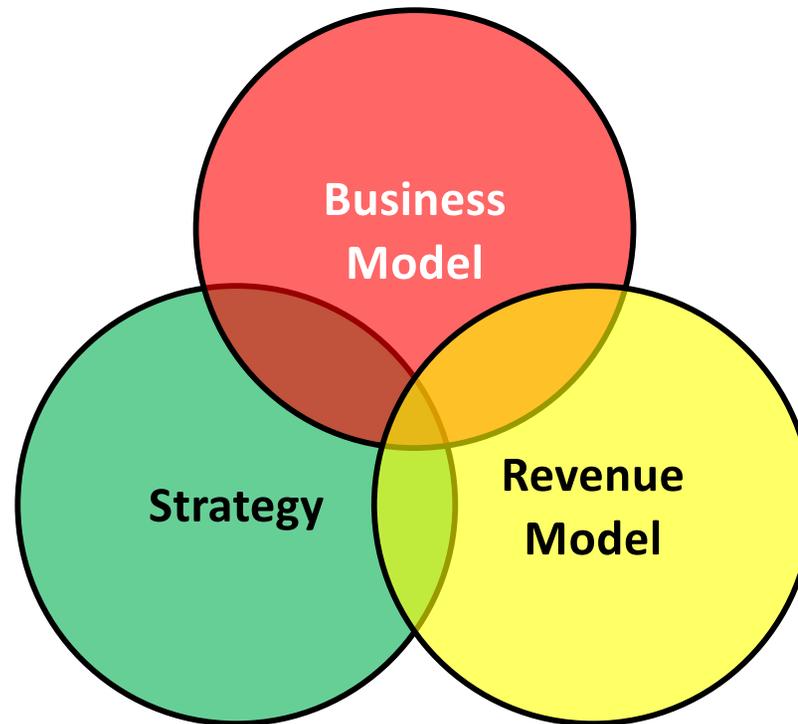
- **A business model is not enough.**
- **Revenue is not enough**
- **You need to make a profit [Duh!]**

How to Design a Winning Business Model

Ramon Casadesus-Masanell & Joan E. Ricart

Harvard Business Review 2011

<https://hbr.org/2011/01/how-to-design-a-winning-business-model>

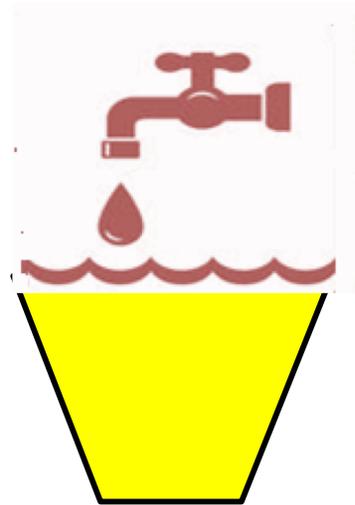


“Strategy has been the primary building block of competitiveness over the past three decades, but in the future, the quest for sustainable advantage may well begin with the business model.”

Putting some ideas together to form a new one

**Business
Model**

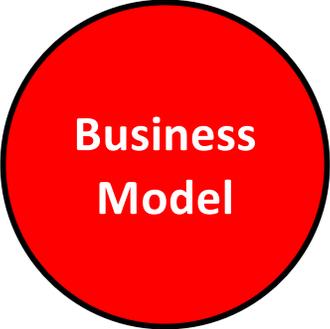
Business models include the means for value capturing and for value creation.



**Revenue
Model**

It is the way a business generates revenue.
The means by which value is capture by the firm.

Zott and Amit, 2006.



Business Model

It is a reflection of the firm's realized strategy.

Casadesus-Masanell and Ricart, 2010

Business models, dynamic capabilities, and strategy are interdependent.

Teece, 2018



Strategy

Contingent plan of action.

Casadesus-Masanell and Ricart, 2010

It is about building dynamic capabilities aimed at responding efficiently to future and existing contingencies.

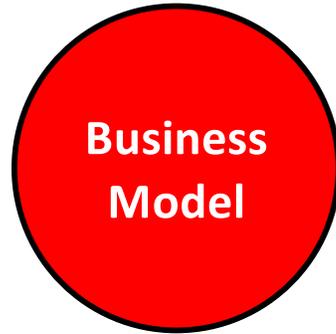
DaSilva and Trkman, 2014.

Business Models describe what a company really is

Strategy reflects what a company aims to become

DaSilva and Trkman (2014)

http://scholar.google.com/scholar_url?url=https://www.researchgate.net/profile/Peter_Trkman2/publication/255856760_Business_Model_What_it_is_and_What_it_is_Not/links/00b7d52208b7fdeb81000000/Business-Model-What-it-is-and-What-it-is-Not&hl=en&sa=X&scisig=AAGBfm1QsWgAYsGA7fs4C4H5u89-37vb6A&nossl=1&oi=scholar



Cafeteria: (This is my business today).

I am offering cold meals (sandwiches; salads), crossaints, pain au chocolat, desserts, coffees; cold teas; sodas and mineral water.



Cafeteria: (This is my Strategy).

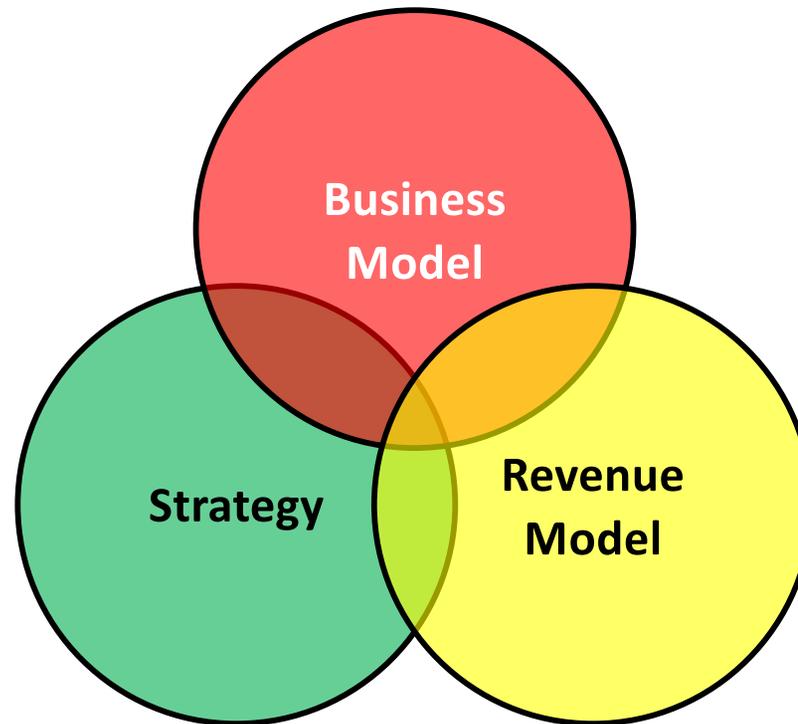
Our goal is to become the most successful cafeteria business in Lille by offering high quality products to our customers. Our cafeteria caters to young professionals and students. In the future we would like to expand the range of our products. We expect in the future to expand our business to other university towns in France.

How to Design a Winning Business Model

Ramon Casadesus-Masanell & Joan E. Ricart

Harvard Business Review 2011

<https://hbr.org/2011/01/how-to-design-a-winning-business-model>



Baden-Fuller and Morgan: Business Models Are *Recipes*

Baden-Fuller and Morgan (2010): business models are *recipes*. This is **one** of the roles they play.



Tortilla Española
(Spanish Omelette)

Ingredients
Eggs
Salt
Oil
Potatoes



Huevos con patatas
(Eggs with french fries)

Same ingredients different results

In a Nutshell

Two companies could own similar resources and undertake similar actions but end up with different business models. How the resources and activities are organized internally matters.



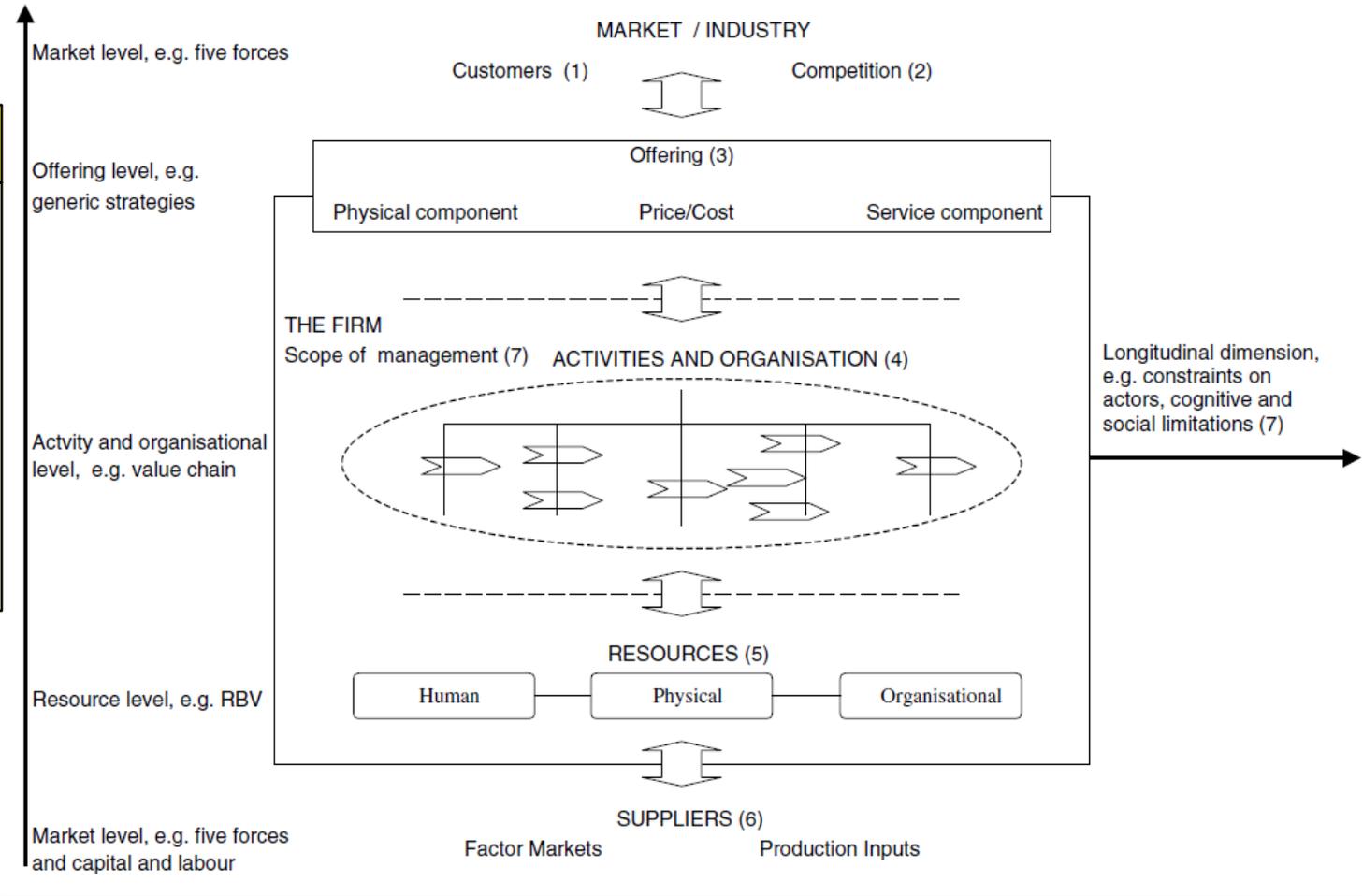
**If business models are like recipes,
what are the ingredients?**



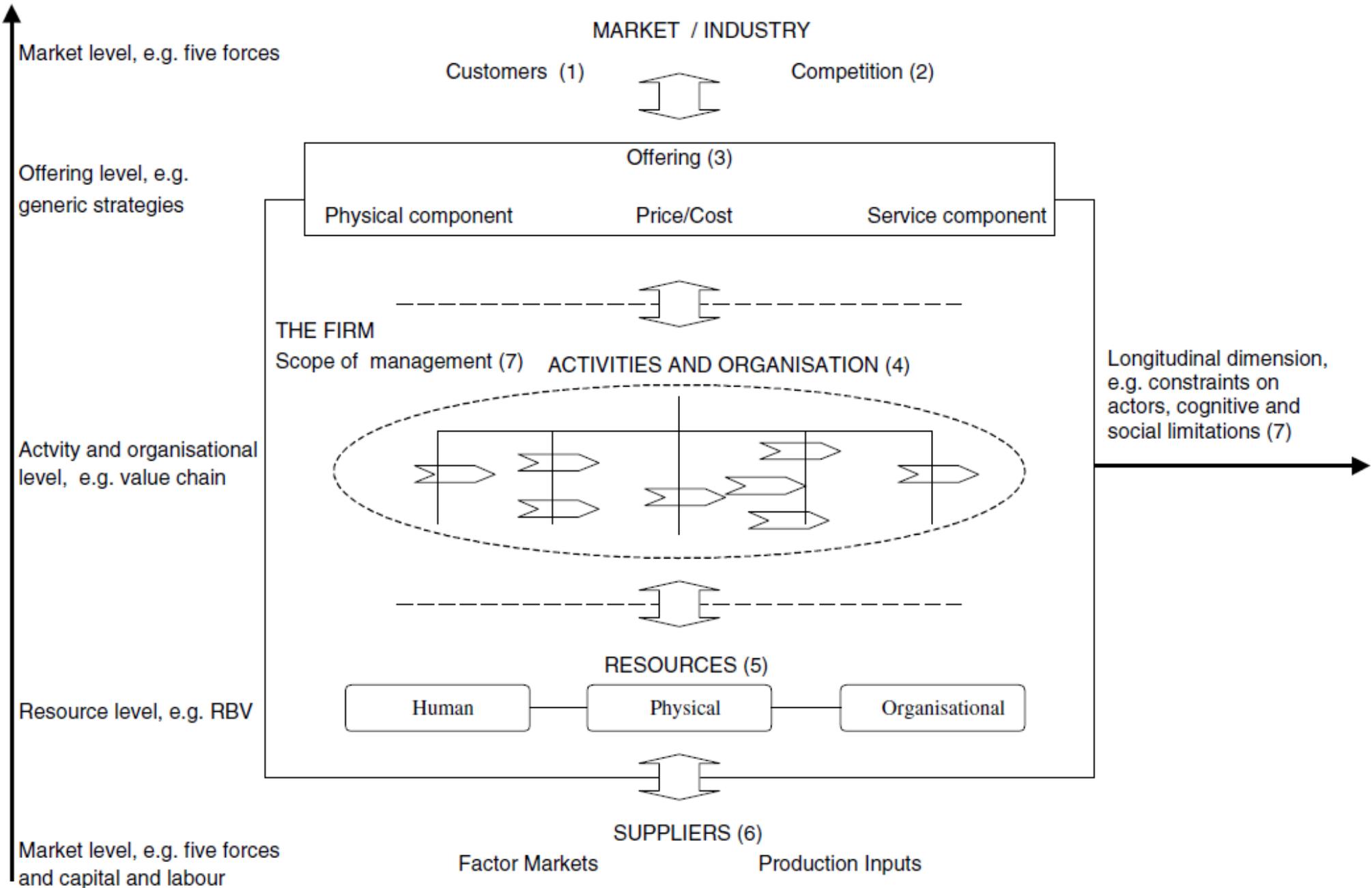
Hedman and Kalling, 2003 Framework

Ingredients

1. Customers
2. Competition
3. Offering
4. Activities
5. Resources
6. Suppliers
7. Management Scope



Hedman and Kalling, Business Models



1. The H&K framework acknowledges that a firm requires “activities” and “strategic resources”. This is explicit in their approach.
2. H&K framework mixes external and internal factors. They explicitly include three of the five forces created by Porter. (Suppliers, Customers and Competitors).
3. The framework explicitly mentions the “offering” which was never **explicit** in the previous approaches.
4. The authors include the “managerial scope” which represent the cognitive limitations and constraints of the top managerial team.
5. This enlist all the elements without dwelling into how they are related. The links between all these elements are missing.



THE BUSINESS MODEL CANVAS

2010

A Key Year in Business Model Literature

LRP long range planning

Published in association with the Strategic Planning Society and the European Strategic Planning Federation

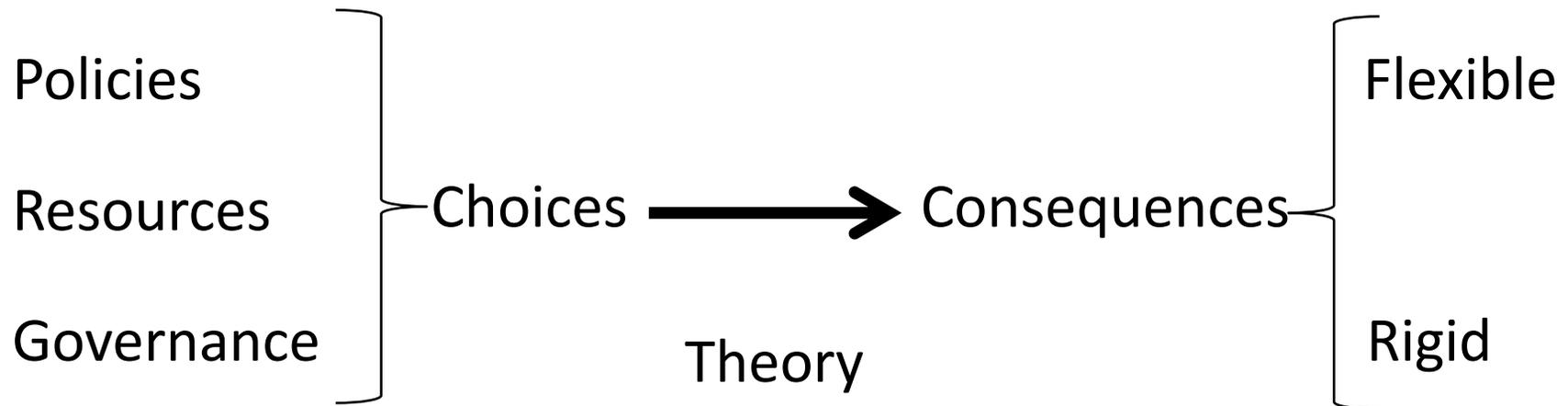
Editor-in-Chief
Professor Charles Baden-Fuller, Cass Business School, London, UK

Business Model Generation Osterwalder and Pigneur



How to **graphically**
represent a Business
Model?

Casadesus-Masanell and Ricart 2010



A business model is making **explicit** the assumptions from which a business is based.

We distinguish three types of choices

1. Policies  Activities (Michael Porter)
2. Assets/Resources  Resources (Jay Barney)
3. Governance  Transaction costs (Williamson)

So, how a business model looks like, using Casadesus-Masanell and Ricart Framework?



Ryanair - CHOICES

- Flying to secondary airports,
- Lowest ticket prices,
- Low commissions to travel agents,
- Standardized fleet of Boeing 737s,
- Treating all passengers equally,
- High-powered incentives,
- No meals,
- Nothing free,
- Spartan headquarters, and
- No unions.



Ryanair - CONSEQUENCES

- Secondary airports → low airport fees.
- Lowest ticket prices → large volume.
- Low commissions to travel agents → low cost.
- Standardized fleet of 737s → bargaining power with suppliers.
- All passengers treated equally → economies of scale.
- High-powered incentives → attracts combative team.
- No meals → faster turnaround.
- Nothing free → additional revenue.
- Spartan headquarters → low fixed cost.
- No unions → flexibility.

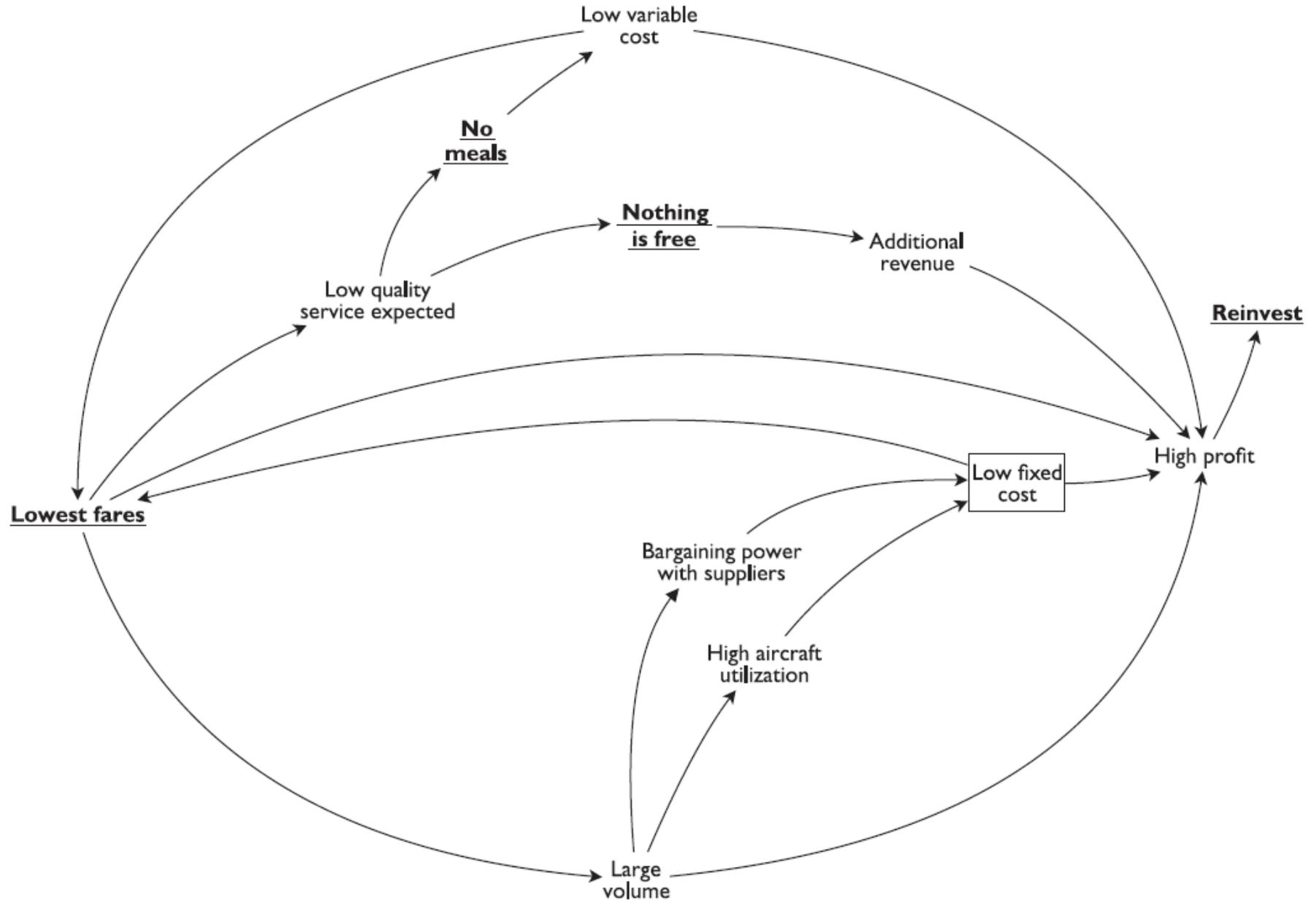


Ryanair – VIRTUOUS CYCLE

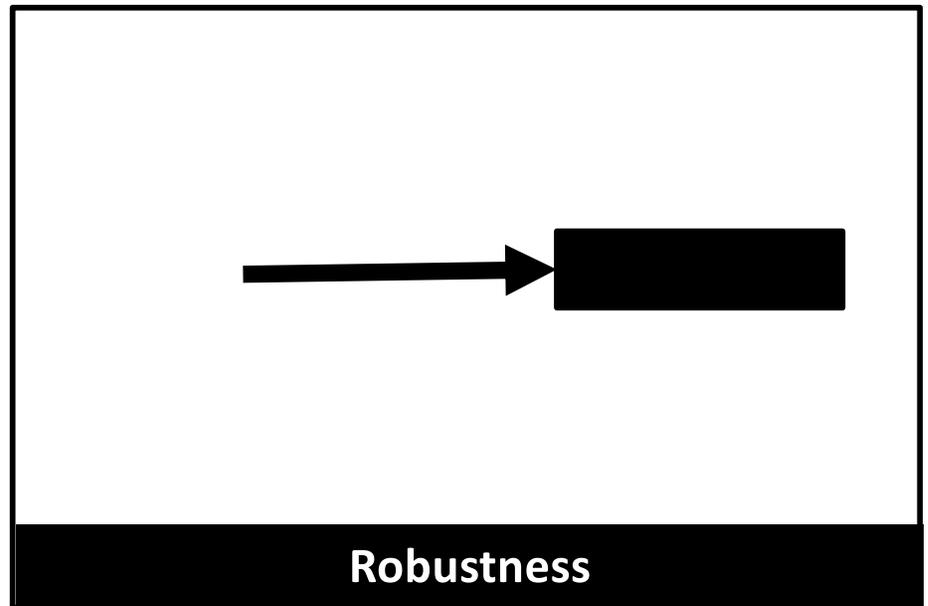
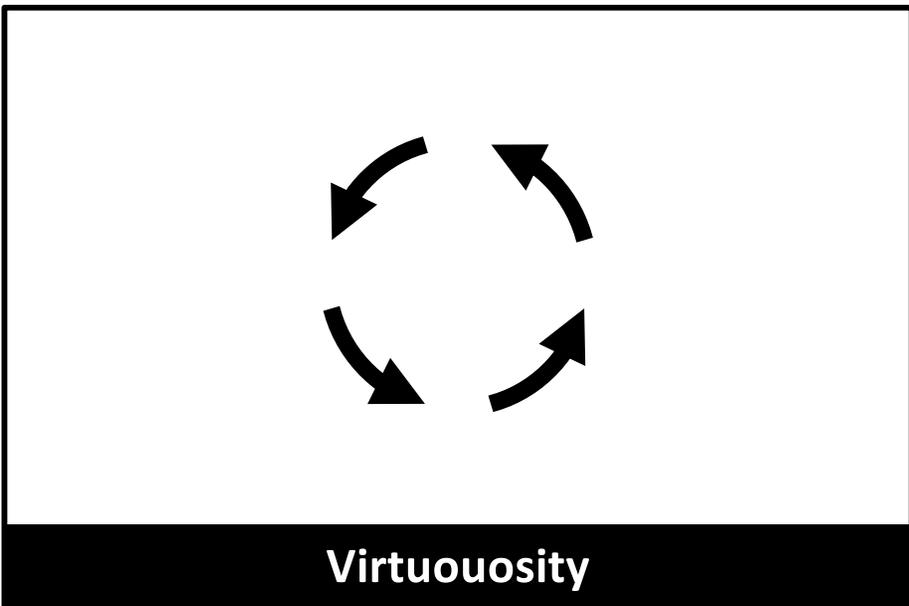
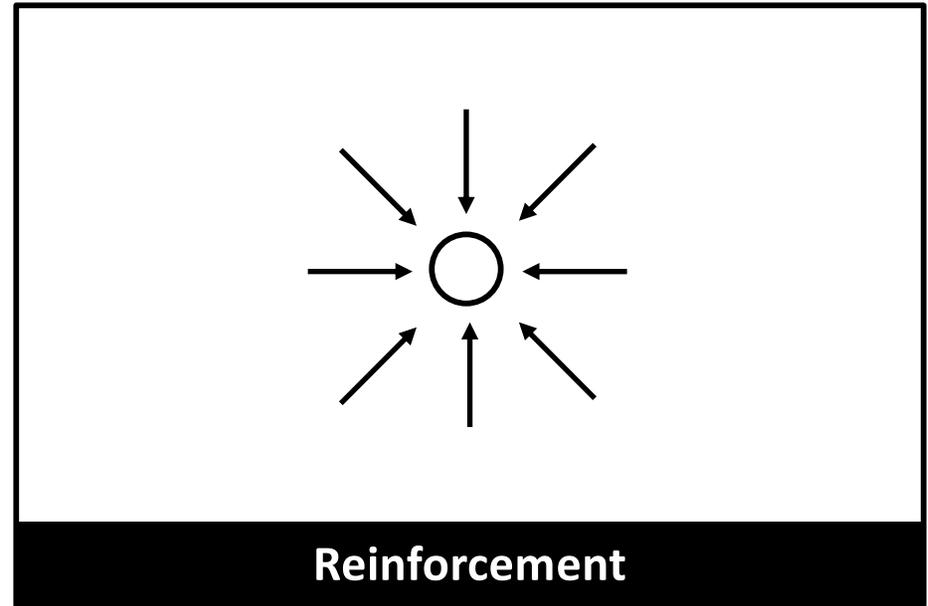
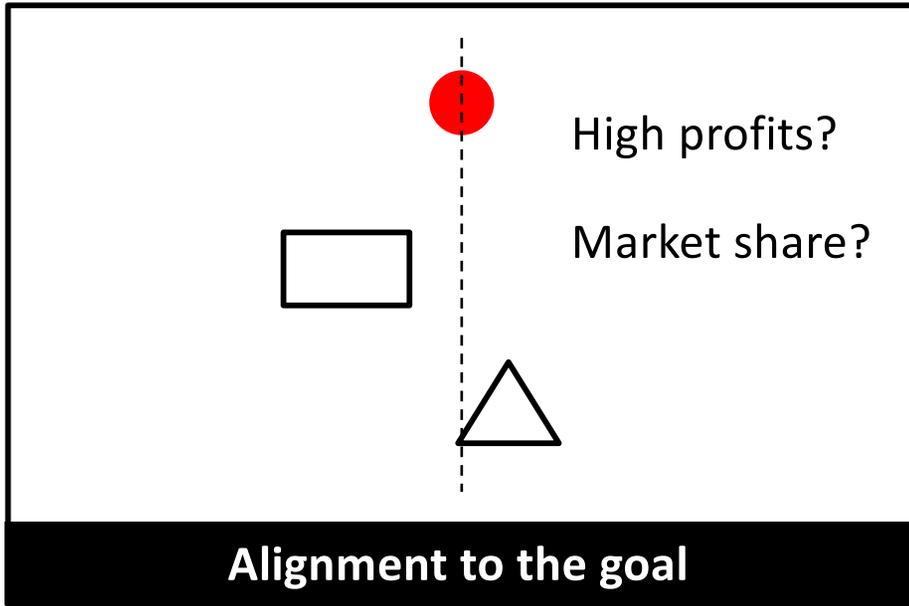
- **Virtuous cycle 1**: lowest fares → large volume → bargaining power with suppliers → [low fixed cost] → lowest fares → ...
- **Virtuous cycle 2**: lowest fares → large volume → high aircraft utilization → [low fixed cost/passenger] → lowest fares → ...
- **Virtuous cycle 3**: lowest fares → low quality service expected → no meals → low variable cost → lowest fares → ...



Ryanair - SIMPLIFIED BUSINESS MODEL

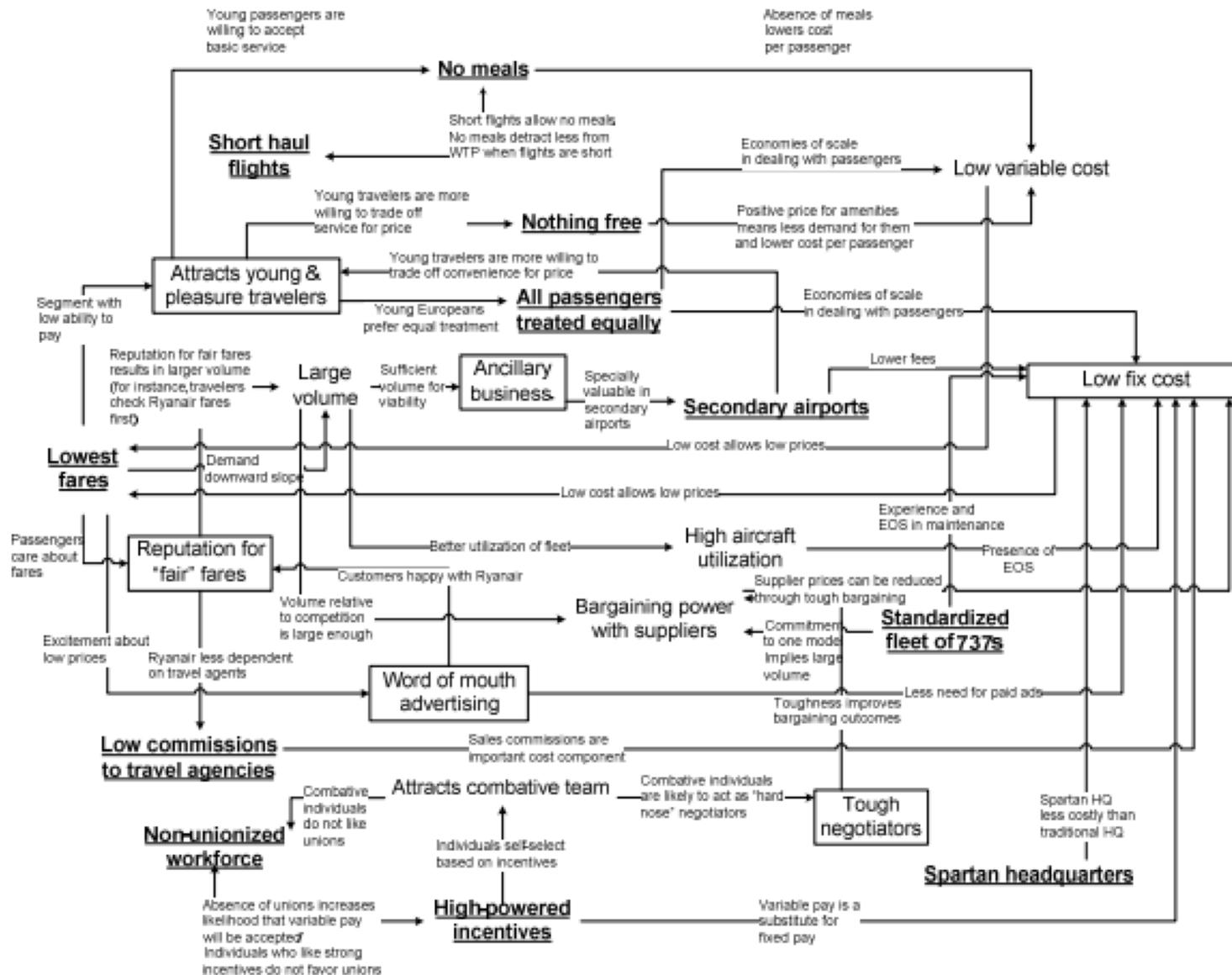


Business Models, Casadesus-Masanell and Ricart



Business Models, Casadesus-Masanell and Ricart

Ryanair's Business Model with Theories





FRESH SANDWICHES EVERYDAY!

RECEIPTS ARE ISSUED FOR ALL PURCHASES ON-BOARD.



RYANAIR
LOW FARES. MADE SIMPLE.

Boeing 737-800 Safety Information

EMERGENCY EXITS



EMERGENCY OXYGEN



LIFE VESTS



INFANT FLOTATION DEVICES



EMERGENCY LANDING



EXIT A DOORS



EXIT B OVERWINGS



INT953

RA918 REV.0

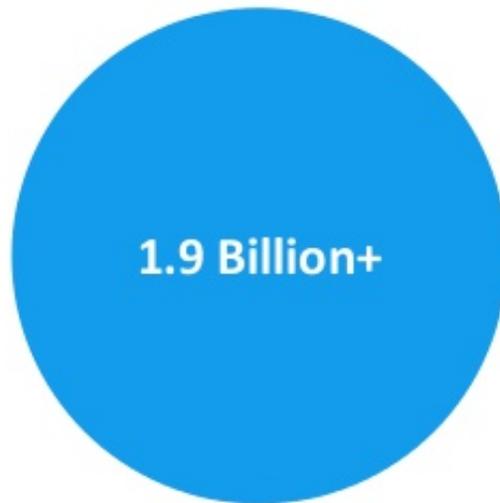


Reality vs. Academia

Airbnb

Market Size

5



1.9 Billion+

TRIPS BOOKED (WORDLWIDE)
Total Available Market



532M

BUDGET & ONLINE TRIPS
Serviceable Available Market



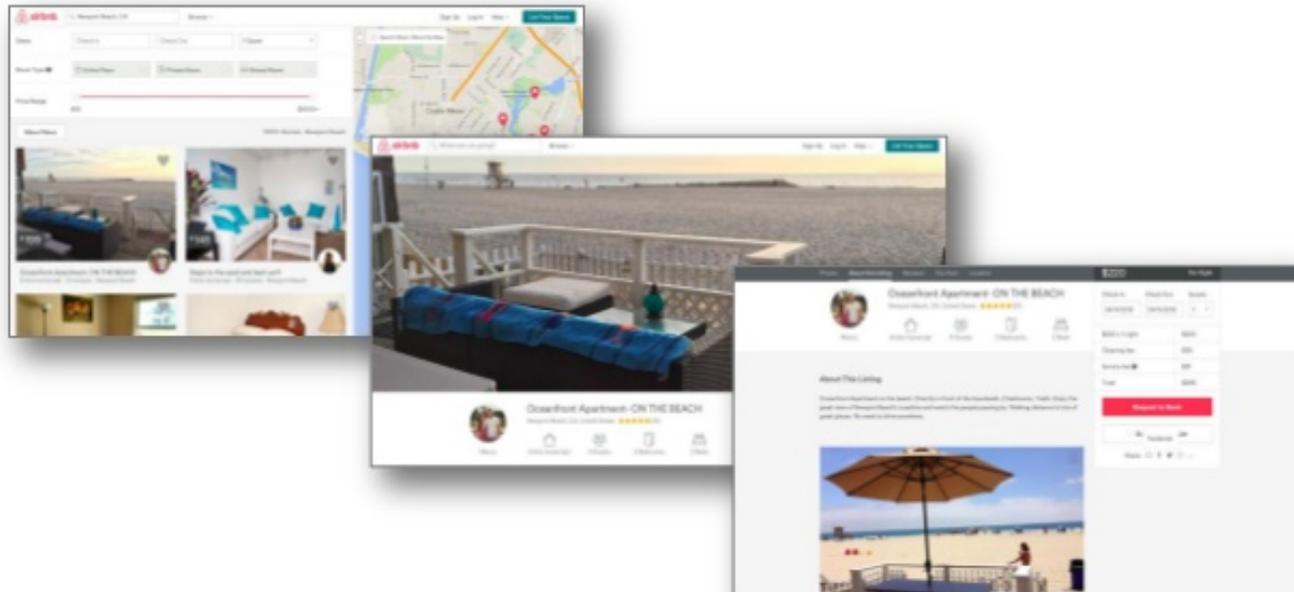
10.6M

TRIPS W/AB&B
Market Share

Product

6

SEARCH BY CITY → REVIEW LISTINGS → BOOK IT!

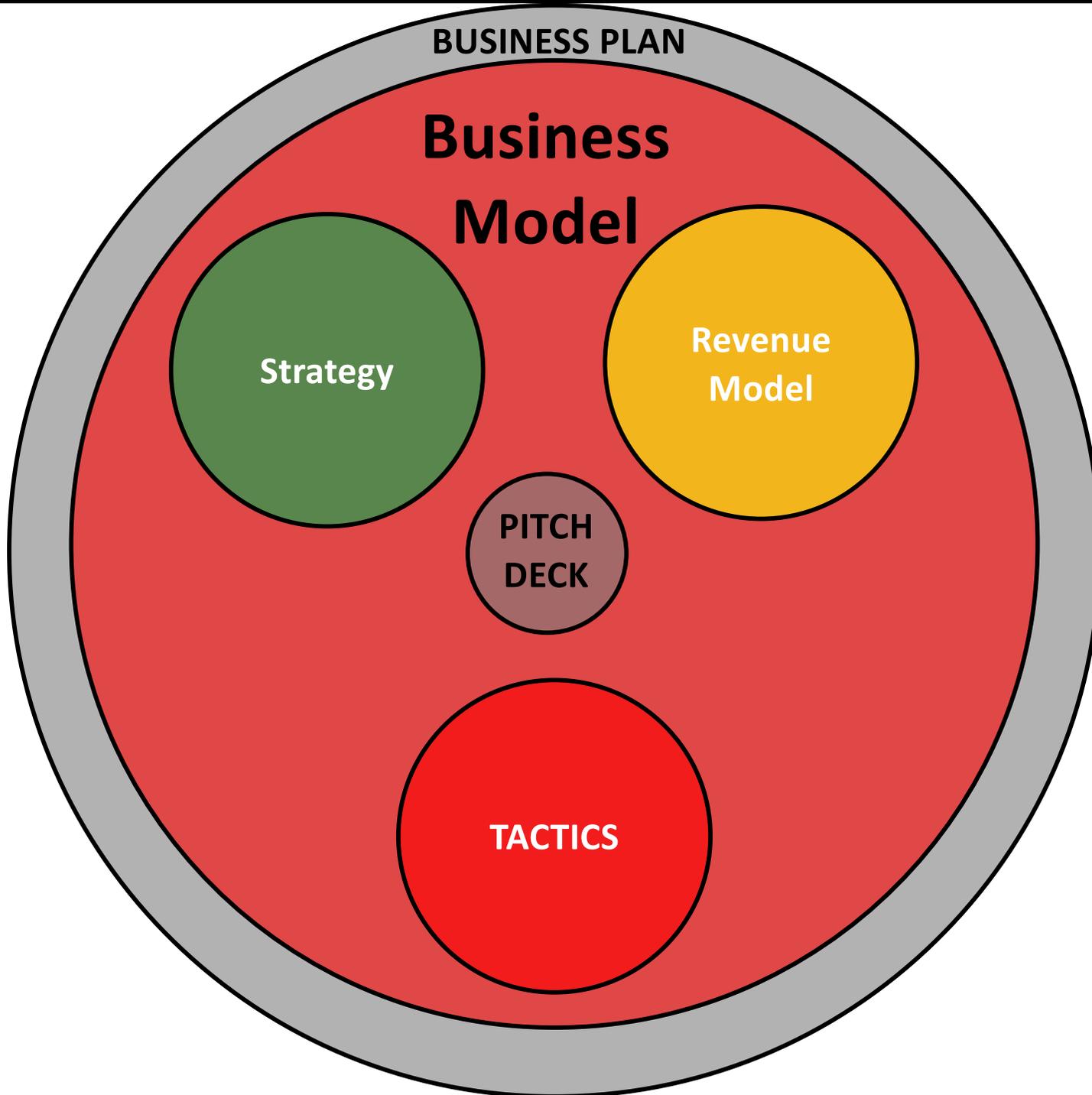


Business Model

7

We take a 10% commission on each transaction.





Where do we start?

Casadesus-Masanell and Ricart (2010) framework is good for describing a business model, but it might not be optimal for building or improving a new model.

Where do we start?

- B2B
- B2C
- B2B2B
- B2B2C
- B2B2X
- DTC (Direct To Consumer)

- Free
- Freemium
- Ad supported (Google)
- Donations (Wikipedia)
- Subscriptions (Harry's, News)

- One-time
- Recurring

Where do we start?

The chicken vs. the egg

- Apple
- Amazon
- Microsoft
- Twitter?
- Facebook?
- Google?
- Snapchat
- TikTok
- WeChat

CAN'T THINK OF A NEW BUSINESS MODEL?

Try adapting one of these basic forms.

ANALOGY	HOW IT WORKS	EXAMPLE
Affinity club	Pay royalties to some large organization for the right to sell your product exclusively to their customers.	• MBNA
Brokerage	Bring together buyers and sellers, charging a fee per transaction to one or another party.	• Century 21 • Orbitz
Bundling	Package related goods and services together.	• Fast-food value meals • iPod/iTunes
Cell phone	Charge different rates for discrete levels of a service.	• Sprint • Better Place
Crowdsourcing	Get a large group of people to contribute content for free in exchange for access to other people's content.	• Wikipedia • YouTube
Disintermediation	Sell direct, sidestepping traditional middlemen.	• Dell • WebMD
Fractionalization	Sell partial use of something.	• NetJets • Time-shares
Freemium	Offer basic services for free, charge for premium service.	• LinkedIn
Leasing	Rent, rather than sell, high-margin, high-priced products.	• Cars • MachineryLink

Low-touch	Lower prices by decreasing service.	• Walmart • IKEA
Negative operating cycle	Lower prices by receiving payment before delivering the offering.	• Amazon
Pay as you go	Charge for actual, metered usage.	• Electric companies
Razor/blades	Offer the high-margin razor below cost to increase volume sales of the low-margin razor blades.	• Printers and ink
Reverse razor/blades	Offer the low-margin item below cost to encourage sales of the high-margin companion product.	• Kindle • iPod/iTunes
Reverse auction	Set a ceiling price and have participants bid as the price drops.	• Elance.com
Product to service	Rather than sell a product, sell the service the product performs.	• Zipcar
Standardization	Standardize a previously personalized service to lower costs.	• MinuteClinic
Subscription	Charge a subscription fee to gain access to a service.	• Netflix
User communities	Grant members access to a network, charging both membership fees and advertising.	• Angie's List

Business Models, Hedman and Kalling

Author	Applegate (2001)	Rappa (2002)	Timmers (1998)
Dimensions	Generic market role Digital business Platform	Unknown	Value chain de-construction Interaction patterns Value chain re-construction
Business models	<i>Focused distributor^a</i> Retailer Marketplace Aggregator Infomediary Exchange <i>Portals^a</i> Horizontal portals Vertical portals Affinity portals <i>Producers^a</i> Manufacturers Service provider Educators Advisors Information and news Infrastructure distributors Infrastructure retailers Infrastructure marketplaces Infrastructure exchanges <i>Infrastructure portals^a</i> Horizontal infrastructure portals Vertical infrastructure portals <i>Infrastructure producers^a</i> Equipment/component manufacturing Software firms Custom software and integration Infrastructure provider	Brokerage Advertising Infomediary Merchant Manufacturing Affiliate Community Subscription Utility	e-shop e-procurement e-auction e-mail Third party marketplace Virtual communities Value chain service provider Value chain integrators Collaboration platforms Information brokerage

Business Model Canvas



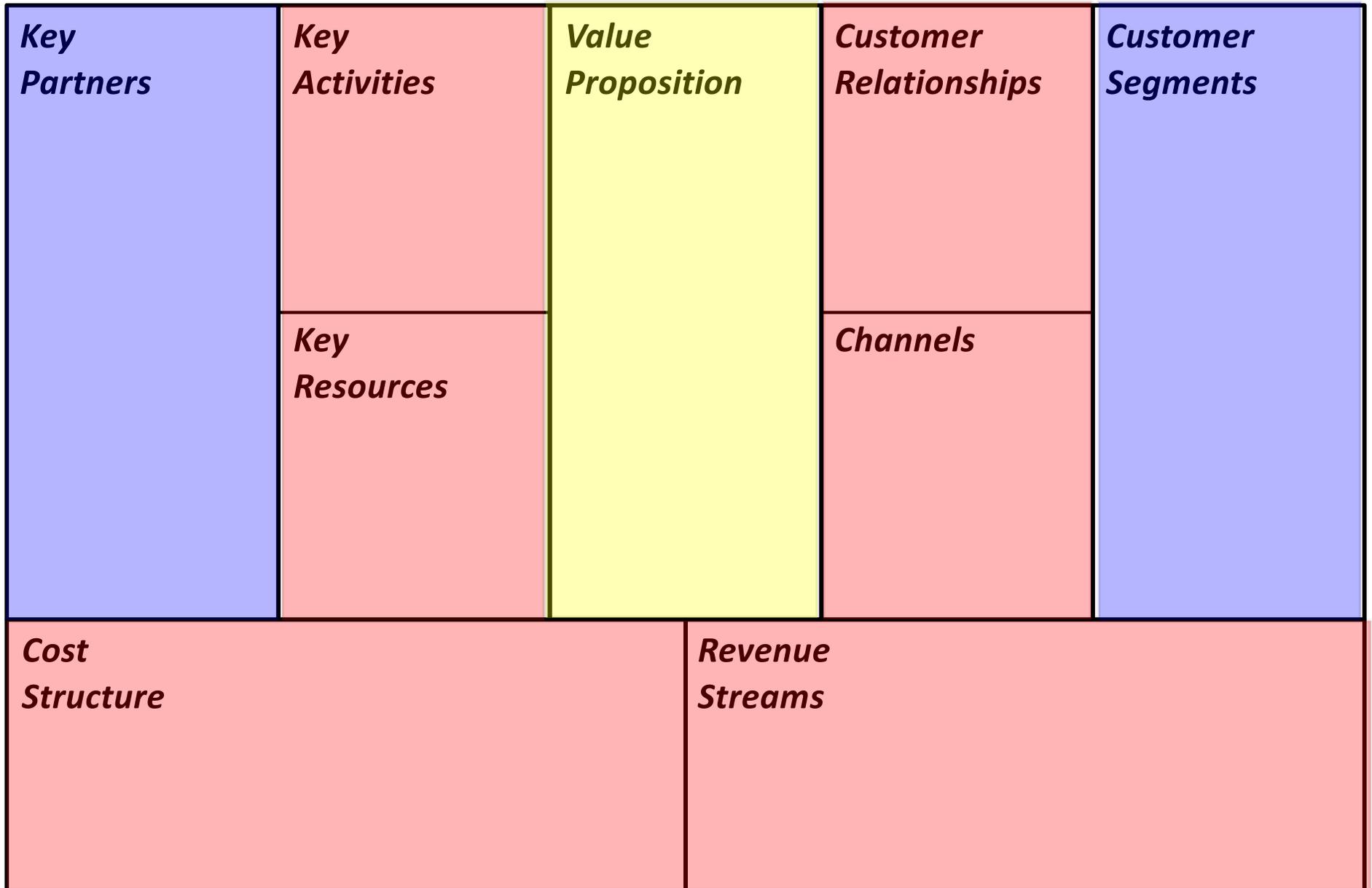
FOUR ADVANTAGES OVER A BUSINESS PLAN

1. **FOCUS** - Greatest impact on driving growth
2. **SPEED** - Takes less time to prepare
3. **CHANGEABILITY** - At the startup phase, quicker to make changes.
4. **STANDARD FORM** - Understandable by everyone

Business Model Canvas (Osterwalder and Pigneur)

<i>Key Partners</i> 1	<i>Key Activities</i> 2	<i>Value Proposition</i> 4	<i>Customer Relationships</i> 5	<i>Customer Segments</i> 7
	<i>Key Resources</i> 3		<i>Channels</i> 6	
<i>Cost Structure</i> 9			<i>Revenue Streams</i> 8	

Business Model Canvas (Osterwalder and Pigneur)



Business Model Canvas (Osterwalder and Pigneur)

KEY PARTNERS Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	KEY ACTIVITIES What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	VALUE PROPOSITIONS What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment? Which customer needs are we satisfying? What is the minimum viable product?	CUSTOMER RELATIONSHIPS How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	CUSTOMER SEGMENTS For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	KEY RESOURCES What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		CHANNELS Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	
COST STRUCTURE What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?		REVENUE STREAMS For what value are our customers really willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?		

*Value
Proposition*

Why customers would like to buy your product or service?



Your company is offering exceptional customer service and experience.

Example: Zappos



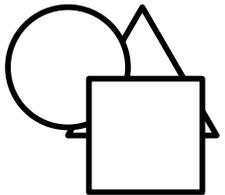
Your company is offering a new product or service; never used before.

Example: Sensory deprivation tanks



Your company offers a product or service with better performance.

Example: Lenovo (?), Apple



Your company is able to adapt its product or service to the customers' needs

Example: Haute Couture



Your company helps getting “the job done”.

Example: Cleaning Service Companies

**Value
Proposition**

Why customers would like to buy your product or service?



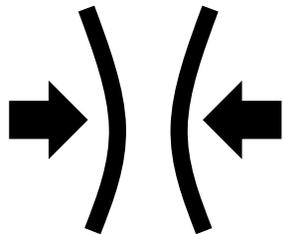
Your company is offering a superior design
Example: Ligne Roset



Your company conveys the idea of status or
the brand has good reputation
Example: Apple, Club Silencio (Paris)



Your company offers a product or service at a
very good price.
Example: Zara, Lidl



Your company offers a product or service that
helps the customer save costs:
Example: Energy-Efficient Light Bulbs

**Value
Proposition**

Why customers would like to buy your product or service?



Your company helps customers in reducing risk associated with purchasing products or services

Example: SFAM



Your company helps customers access to products or services that in principle couldn't access or afford.

Example: Les Cachotières



Your company offers convenience and usability to the customers:

Example: IKEA

VALUE PROPOSITIONS

- What value do we deliver to the customer?
- Which one of our customers' problems are we helping to solve?
- What bundles of products and services are we offering to each segment?
- What is the Minimum Viable Product?

**Customer
Segments**

Michael Porter 5 forces analysis (Customers)

Try to identify the customer segments for this companies:

H&M
Primark

The North Face
Hermès

Armani
Inditex

Carrefour
Printemps

consoGlobe
vinted

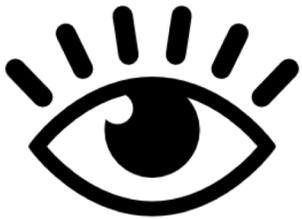
CUSTOMER SEGMENTS

- For whom are we creating value?
- Who are our most important customers?
- What are the customer archetypes?

Channels

How the company reaches its customers

Channel Phases



Awareness



Evaluation



Purchase



Delivery



After-sales

Amazon:

Step 1) Search engine for searching the product you want.

Step 2) Amazon provides you information to evaluate the product

Description

Price

Reviews
★★★★★

Glimpse

Step 3) Amazon guides you in the process of purchase

Used/New

Format

Mode of Payment

Step 4) Amazon offers different ways of delivering the final product.

Step 5) Amazon offers post-delivery services.

Returned Items

Reviews

Recommendations

Channels



Delivery

Contractual
Relationship

Own Channels → Domino's

Subcontract → Big Fernand

Mixed approach

The Omni-channel Experience



So what is multi-channel?

The Multi-channel vs Omni-channel Experience

Multichannel



All channels available to the consumer but are not integrated.

Omnichannel



All channels available to the consumer and they are connected.

CHANNELS

- Through which channels do our customer segments want to be reached?
- How do other companies reach them now?
- Which ones work best?
- Which ones are most cost-efficient?
- How are we integrating them with customer routines?

Customer Relationships

Look at the following list of types of business and try to create “types” of customer relationships.

Chinese Buffet
Answer Hub
Paul (Boulangerie)

McDonalds
Amazon

GymStreet
Bredin Prat
Law Firm
Société Generale
Entreprises

SNCF Guichet
Automated Machine
Microsoft
Community
Leboincoin.fr

*Customer
Relationships*

**Personal
Assistance**

**Dedicated
Personal
Assistance**

Self-Service

**Automated
Services**

Communities

Co-creation

CUSTOMER RELATIONSHIPS

- How do we get, keep, and grow customers?
- Which customer relationships have we established?
- How are they integrated with the rest of our business model?
- How costly are they?

*Revenue
Structure*

Revenue Stream Types

Starbucks

SFR/Orange

Microsoft

Gymstreet

Avis

Sergic

One-time

Recurrent

REVENUE STREAMS

- For what value are our customers really willing to pay?
- For what do they currently pay?
- What is the revenue model?
- What the the pricing tactics?

**Key
Activities**



**Key
Resources**



We have already covered this

Osterwalder & Pigneur

1. Production activities
(**Manufacture**)
2. Problem solving
activities (**Services**)
3. Platform/Network
activities

Porters' Classification

Primary Activities

1. Inbound logistics
2. Operations
3. Outbound logistics
4. Marketing & Sales
5. After sales services

Secondary Activities

1. Firm Infrastructure
2. Human Resources Mgmt.
3. Technology Development
4. Procurement

KEY ACTIVITIES

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

**Key
Activities**



**Key
Resources**



We have already covered this

Osterwalder & Pigneur

1. Physical
2. Intellectual
3. Human
4. Financial

Barneys' Classification

1. Tangible
2. Intangible
3. Human

KEY RESOURCES

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

*Key
Partners*

Michael Porter 5 forces analysis (Suppliers)

Osterwalder and Pigneur viewpoint

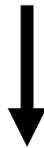
1. Suppliers
2. Strategic alliances
3. Complementors

KEY PARTNERS

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

***Cost
Structure***

Cost-driven



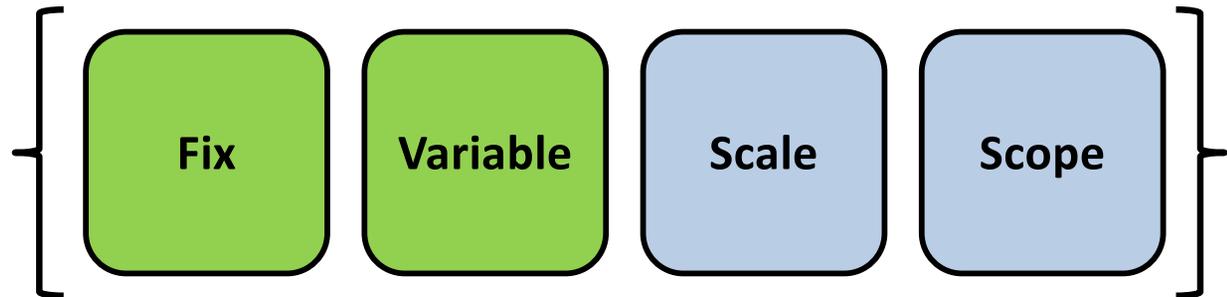
Leadership in
costs

Value-driven



Leadership in
differentiation

**Elements to take
into account**



COST STRUCTURE

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

Business Model Canvas (Osterwalder and Pigneur)

KEY PARTNERS

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

KEY ACTIVITIES

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

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What is the minimum viable product?

CUSTOMER RELATIONSHIPS

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Which customer relationships have we established?
How are they integrated with the rest of our business model?
How costly are they?

CHANNELS

Through which channels do our customer segments want to be reached?
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CUSTOMER SEGMENTS

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Who are our most important customers?
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COST STRUCTURE

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Which key resources are most expensive?
Which key activities are most expensive?

REVENUE STREAMS

For what value are our customers really willing to pay?
For what do they currently pay?
What is the revenue model?
What are the pricing tactics?

Business Model Canvas - Apple

The Business Model Canvas

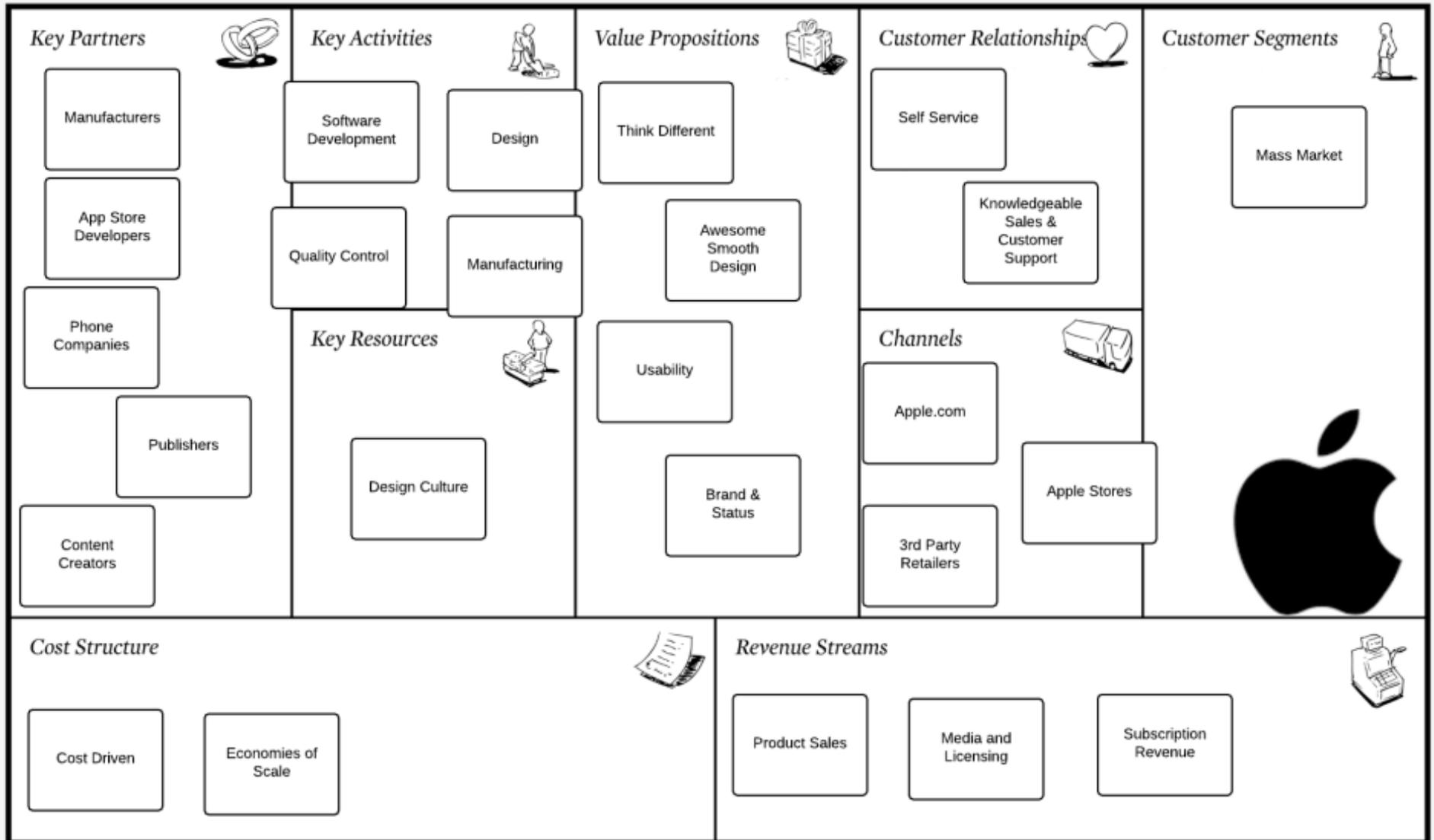
Designed for:



Designed by:

Denis Oakley

On:
Iteration:



Business Model Canvas - Ryanair

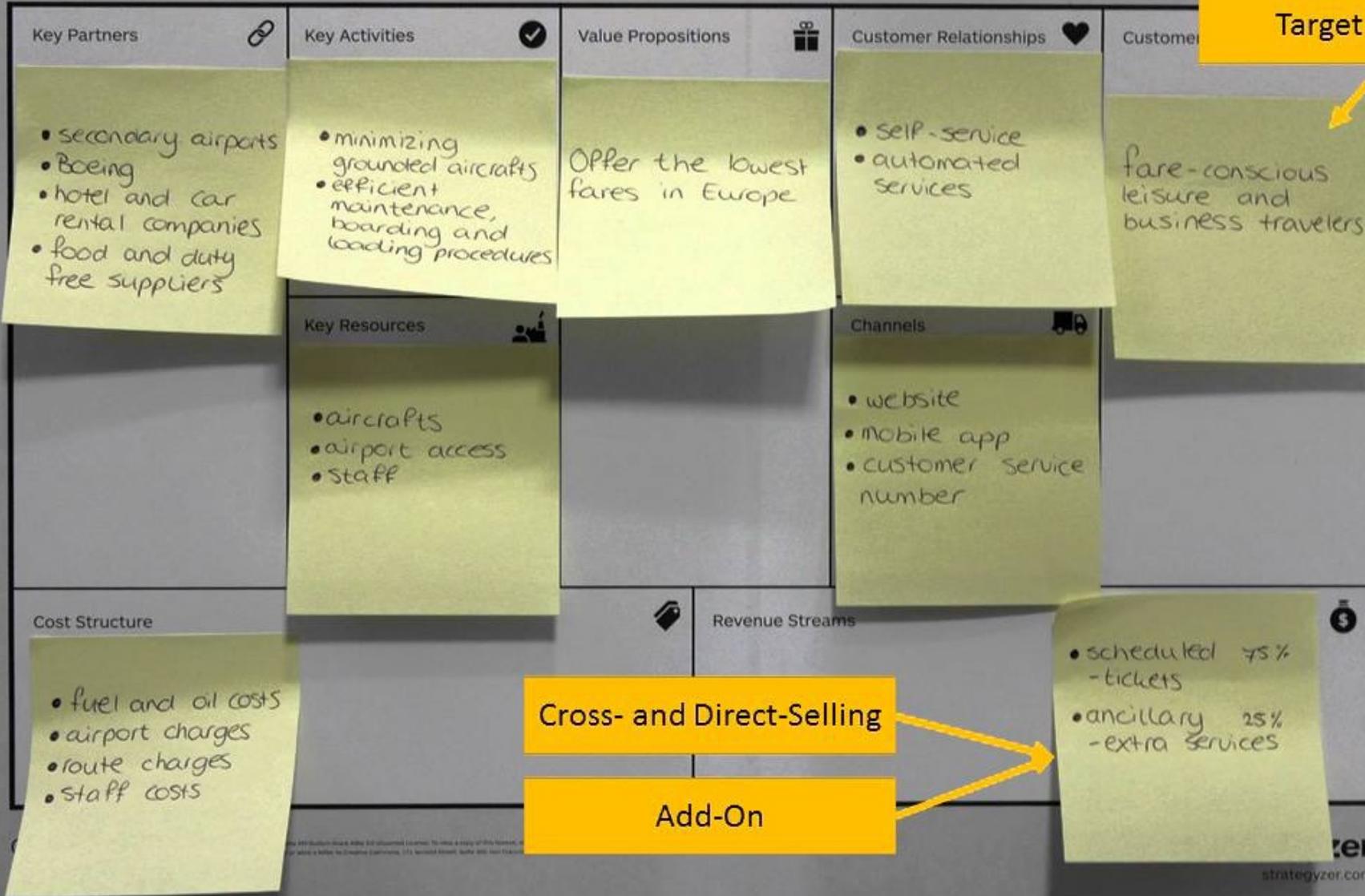
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



What is the purpose of the firm?



- a) To satisfy its' customers' needs. (is this true?)
- b) To produce the best product of the market. (is this true?)
- c) To sell more products than its competitors. (is this true?)
- d) To create and capture value for its shareholders. (is this true?)

Lean Everything

- What is a start-up? A temporary organization designed to search for a repeatable and scalable business model.
- Mike Tyson, the boxer, once said about his opponents' prefight strategies: "Everybody has a plan until they get punched in the mouth."
- Existing companies execute a business model, start-ups look for one

LEAN VS TRADITIONAL

Lean	Traditional
Strategy Business Model Hypothesis-driven	Business Plan Implementation-driven
New-Product Process Customer Development Get out of the office and test hypotheses	Product Management Prepare offering for market following a linear, step-by-step plan
Engineering Agile Development Build the product iteratively and incrementally	Agile or Waterfall Development Build the product iteratively, or fully specify the product before building it
Organization Customer and Agile Development Teams Hire for learning, nimbleness, and speed	Departments by Function Hire for experience and ability to execute
Financial Reporting Metrics That Matter Customer acquisition cost, lifetime customer value, churn, viralness	Accounting Income statement, balance sheet, cash flow statement
Failure Expected Fix by iterating on ideas and pivoting away from ones that don't work	Exception Fix by firing executives
Speed Rapid Operates on good-enough data	Measured Operates on complete data



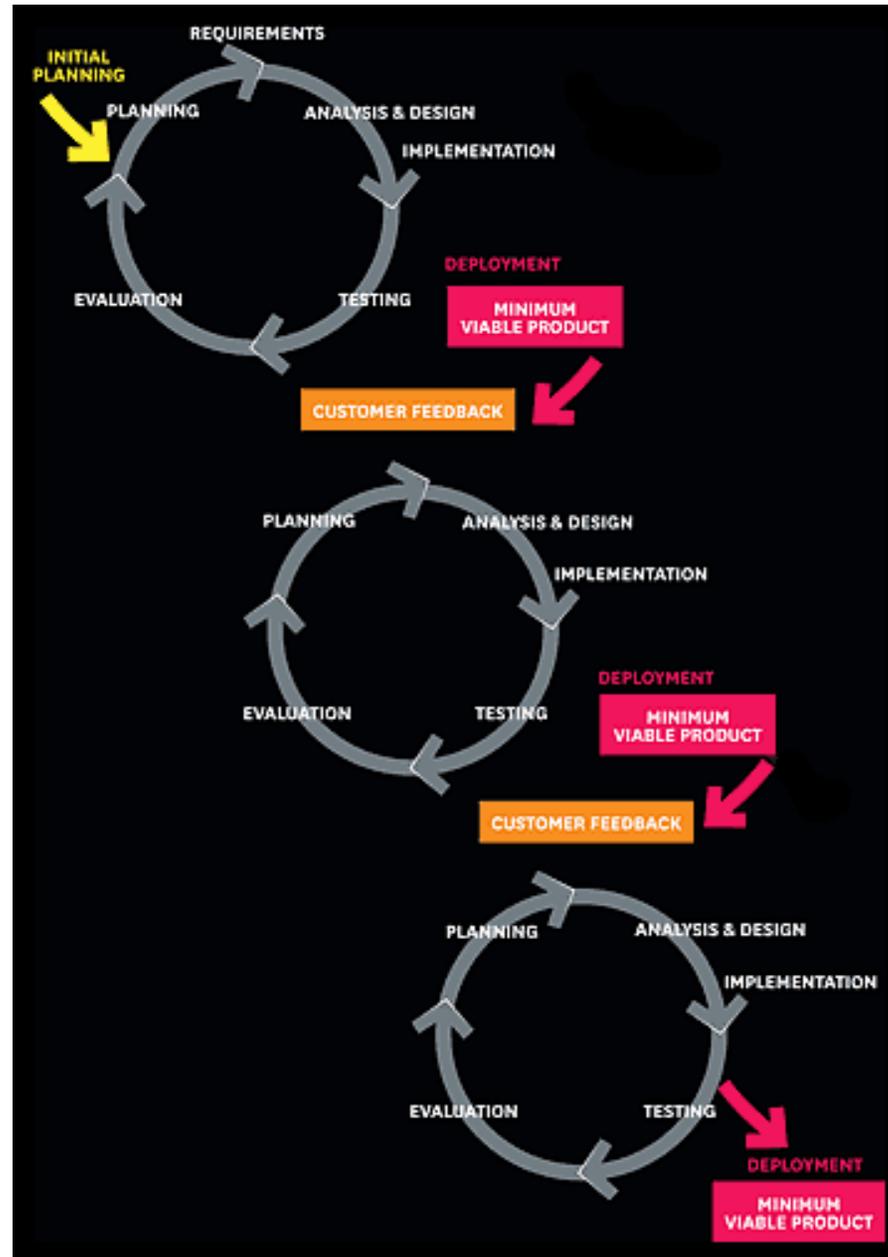
LEAN METHOD HAS THREE KEY PRINCIPLES:

1. Do the Business Model Canvas
2. “Get out of the building”
3. Third, lean start-ups practice something called agile development,

“GET OUT OF THE BUILDING” - LISTEN TO CUSTOMERS



AGILE DEVELOPMENT - THE ROAD TO MVP





GROWTH IN THE NUMBER OF STARTUPS CONSTRAINED BY FIVE FACTORS + the failure rate

1. The high cost of getting the first customer and the even higher cost of getting the product wrong.
2. Long technology development cycles.
3. The limited number of people with an appetite for the risks inherent in founding or working at a start-up.
4. The structure of the venture capital industry, in which a small number of firms each needed to invest big sums in a handful of start-ups to have a chance at significant returns.
5. The concentration of real expertise in how to build start-ups [East/West Coasts, Major cities]

WHY THE LEAN START-UP CHANGES EVERYTHING?

HARVARD BUSINESS REVIEW
— STEVE BLANK

Starting a company with less RISKY

"MINIMUM VIABLE PRODUCT" Development
"PIVOTING" Feedback

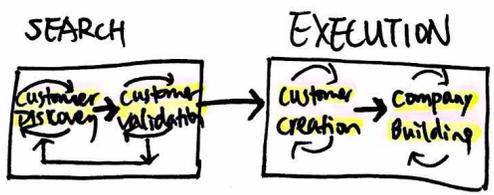


3 Learning from "Perfect Business Plan" ⊗

[Fallacy]

- Business plans rarely survive first contact with customers
- Fiction, waste of time
- Start-up are not smaller version of large companies

Listen to customer



SMALL COMPANIES vs BIG COMPANIES

SURVIVAL GROWTH ↑ invest business model
NEW STRATEGY 21st-Century Corporation



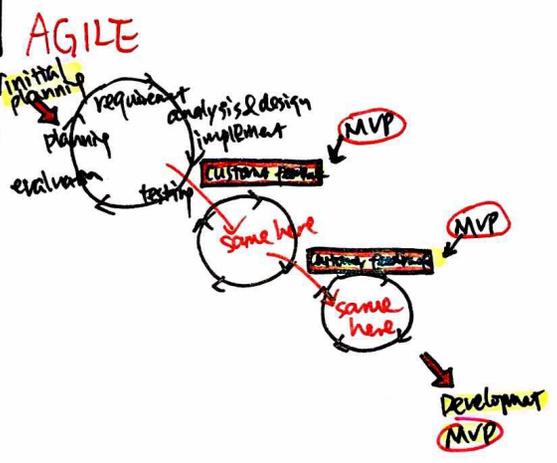
GE, Qualcomm, Intuit... ⌘

learn customer's issue / shift of their focus

3 KEY PRINCIPLES — Lean Method

- A SERIES OF HYPOTHESES — good guesses. "Business Model Canvas"

SKETCH OUT YOUR HYPOTHESIS				
key partners	key activities	value proposition	customer relationship	customer segments
	key resources		channels	
cost structure			revenue streams	

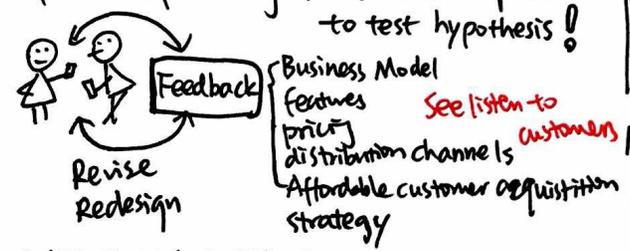


(Lean) 5 FACTORS

- Strategy Business Model Hypothesis-driven
- New Product Process Customer development text
- Engineering Agile Development (iteratively)
- Organization Team: hire for learning & nimbleness speed
- Financial Reporting Metrics — customer acquisition cost per \$
- Failure Speed Rapid

- High # cost of getting 1st customers ↑ High cost of getting the product wrong
- Long technology development cycles.
- The limited number of people with an appetite for the risks.
- invest big sums in a handful start-ups
- West coasts / East coasts of U.S.

② "Get out of building" → Customer development to test hypothesis!



③ AGILE DEVELOPMENT → Minimum viable product test it out!!!



IMPACT ON GOVERNMENT POLICIES & LARGE COMPANIES TOO!

- A lower start-up failure rate could have profound economic consequences.
- Disruption, globalization, and regulation are impacting all economies
- Established industries are rapidly shedding jobs, many of which will never return.
- Employment growth in the 21st century will have to come from new ventures... so the creation of an innovation economy that's driven by the rapid expansion of start-ups has never been more urgent.

