MK422: Business Model Innovation
(Class 6)

Putting together all we've innovated so far

…and filling in the holes

19 June
2014

What is a Business Model?

A business model describes:

“the rationale of how an organization creates, delivers, and captures value.”

Value creation:

“A product/service/solution that meets peoples’ needs”

Value delivery:

“Things that have to be done to get the product/service/solution to people”

Value capture:

“Making money from the delivery of value”

Let’s break down… Value Creation

Value creation:

“A product/service/solution that meets peoples’ needs”

Peoples’ needs

- **Specific people have specific problems and needs**
  - **Whether they know it or not**
  - **Whether the needs are already met or not**

Product/service/solution

- **A product/service/solution that meets those needs makes those peoples’ lives better…**
  - **It creates “value” for them**
  - **“How your product/service/solution creates value compared to other options is called a “value proposition”**

Let's break down… Value Creation

Value creation:
"A product/service/solution that meets peoples' needs"

Peoples' needs

- **Specific people have specific problems and needs**

Product/service/solution

- **A product/service/solution that meets those needs makes those peoples' lives better…**
  - **It creates "value" for them**
  - **"How your product/service/solution creates value compared to other options is called a "value proposition"**

What/Whose needs does Facebook target?
What is Facebook's value proposition?

Let’s break down… Value Delivery

Value delivery:
“Things that have to be done to get the product/service/solution to people”

What “things”?

- **Inputs**
  - **Raw materials, capital assets, IT, land, intellectual property, labor, management, financial capital, etc.**

Let's break down… Value Delivery

Value delivery:
"Things that have to be done to get the product/service/solution to people"

What "things"?

- **Inputs**
- **Activities**
  - **Processes: Product development, Procurement, Processing & Assembly, Quality control, Management**

Let’s break down… Value Delivery

Value delivery:
“Things that have to be done to get the product/service/solution to people”

What “things”?

- **Inputs**
- **Activities**
- **Channels**
  - **Distribution/Logistics: Shipping, Wholesale distribution, Warehousing, Retailing, After Sales Servicing**

Let’s break down… Value Delivery

Value delivery:
“Things that have to be done to get the product/service/solution to people”

What “things”?

- **Inputs**
- **Activities**
- **Channels**
- **Partners**
  - **Suppliers / Vendors / Service providers, Dealers, Competitors / Coalitions, Regulators and Governments, NGOs**

Let’s break down… Value Delivery

Value delivery:
“Things that have to be done to get the product/service/solution to people”

What “things”?

- **Inputs**
- **Activities**
- **Channels**
- **Partners**
- **Customer relationships**
  - **Sales and relationship management: Customer-driven vs. Company-push, Complexity of sales process, Ordering mechanisms, Relationship between customer and consumer, etc.**
  - **Marketing communication: advertising, promotions, PR, etc.**

Let’s break down… Value Delivery

Value delivery:

“Things that have to be done to get the product/service/solution to people”

What “things”?

- **Inputs**
- **Activities**
- **Channels**
- **Partners**
- **Customer relationships**

How does Facebook deliver value?

Let's break down… Value Capture

Value capture:

"Making money from the delivery of value"

How do you make money?

- **Revenue streams:**
  - **Who to charge: charge the customer vs. charge the government vs. charge a middleman**
  - **How much to charge: government-set vs. negotiated each time vs. seller set vs. buyer set vs. auction vs. etc.**
  - **How frequently to charge: subscription vs. per use vs. one-time**
  - **Charge for what: individual things vs. bundle**

Let’s break down… Value Capture

Value capture:

“Making money from the delivery of value”

How do you make money?

- **Revenue streams**
- **Costs**
  - **Variable / marginal costs**
  - **Fixed costs**
  - **Investments**

How does Facebook deliver value?

Let's zoom back out at the Business Model

		Or as the book calls them
Value creation	• Customers' needs	• Customer segments
	• Product/service/solution	• Value propositions
	• Inputs	• Key resources
Value delivery	• Activities	• Key activities
	• Distribution channels	• Channels
	• Customer relationships	• Customer relationships
	• Partners	• Key partnerships
Value capture	• Revenue sources	• Revenue streams
	• Costs	• Cost structure

Together they are the Business Model Canvas

Business Model Canvas tips

Start with Customer and Product, but jump around and jump back

- Expand and improve as you see holes in original thinking

You can't list every detail

- Focus on the key things that make each part of the canvas different from competitors

Consistency matters

- Try to keep the Canvas internally consistent
- Can create a totally different Canvas as another option

A great idea can fail if the Business Model has weaknesses

- Not all parts can be changed later on

The casual meaning of Business Model is a bit different

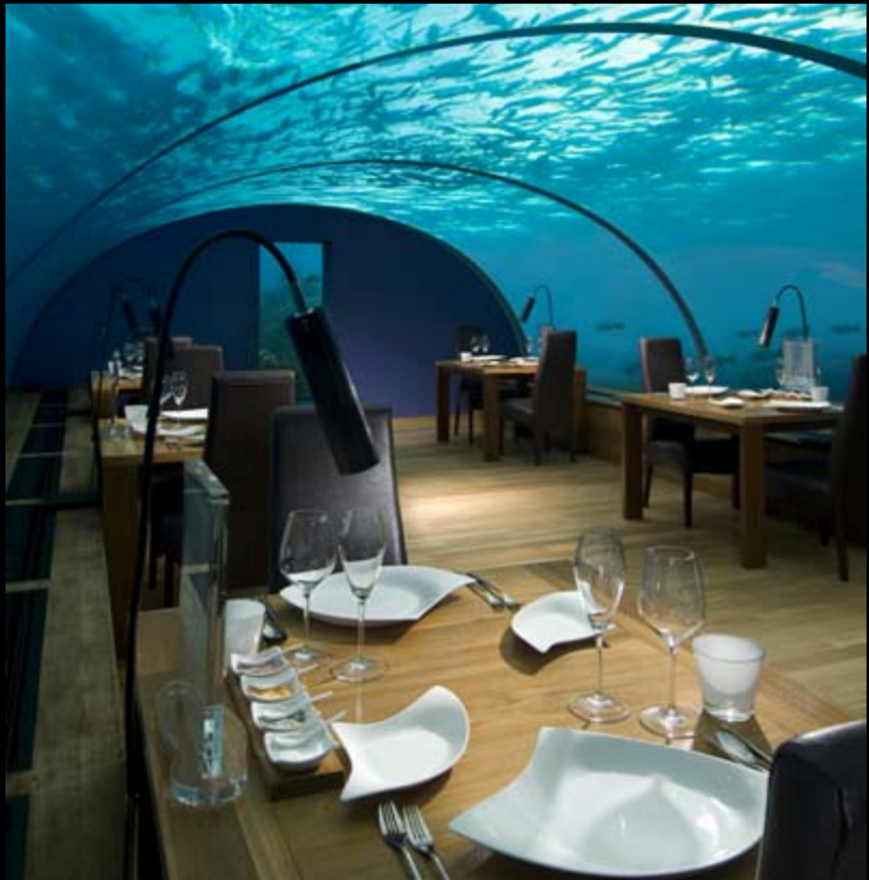
Be careful… not everybody defines Business Model this way

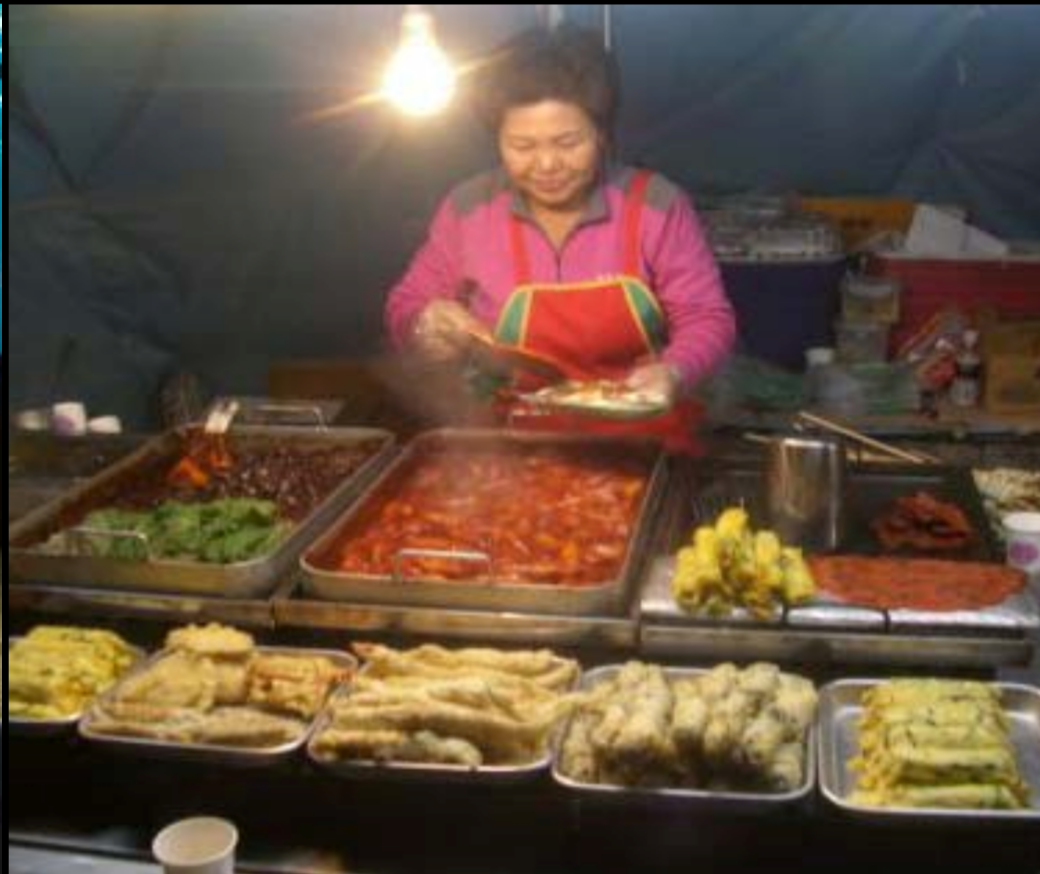
When someone asks "What's your business model" or "What's your economic model" or "how do you make money"

- **They typically mean "How do you capture value"**

When someone says "I don't think their business model makes sense"

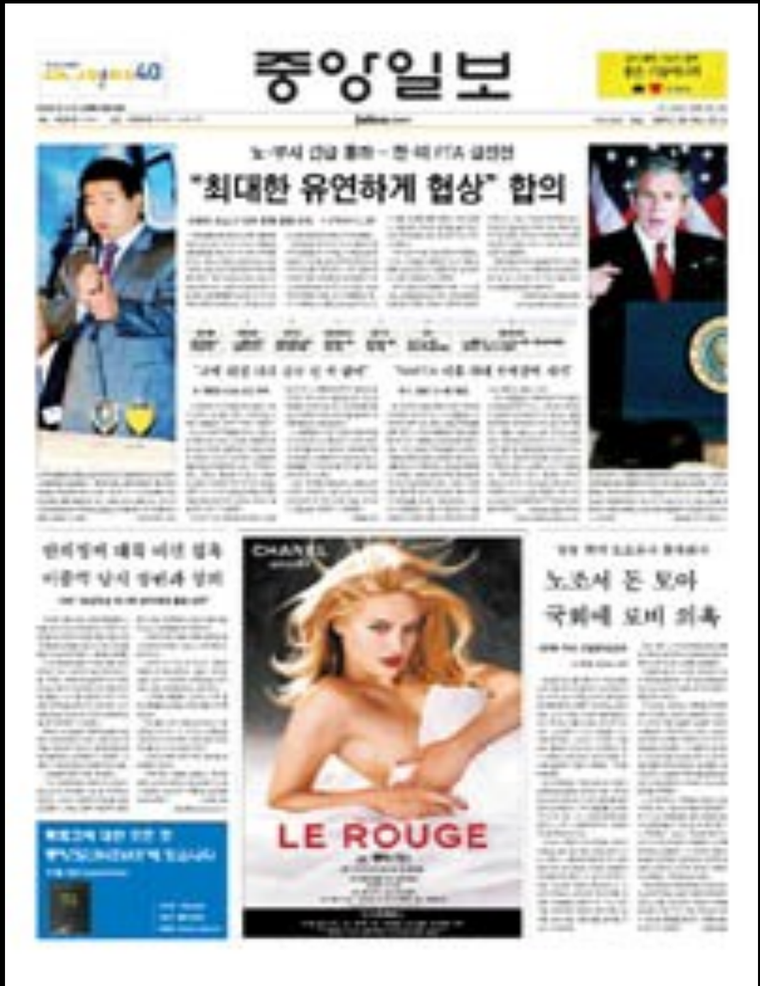
- **They can mean that any part of the Canvas is ineffective or inconsistent**





Large investment
High price, high profit margin
Low volume of customers

Low investment
Low price, low profit margin
High volume of customers

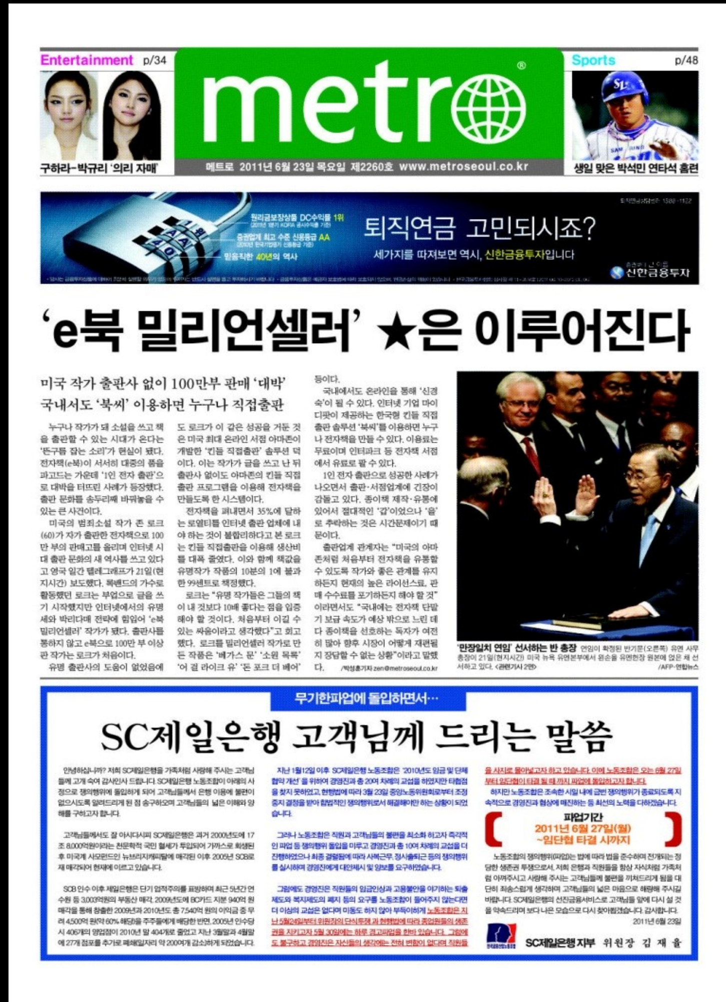


중앙일보

"최대한 유연하게 협상" 합의

CHANEL

LE ROUGE



Entertainment p/34

구하라-박규리 '의리 자매'

metro

메트로 2011년 6월 23일 목요일 제2260호 www.metroseoul.co.kr

Sports p/48

생일 맞은 박석민 연타석 홈런

퇴직연금 고민되시죠?

세가지를 따져보면 역시, 신한금융투자입니다

신한금융투자

‘e북 밀리언셀러’ ★은 이루어진다

미국 작가 출판사 없이 100만부 판매 ‘대박’

국내서도 ‘북씨’ 이용하면 누구나 직접출판

무기한파업에 돌입하면서…

SC제일은행 고객님께 드리는 말씀

파업기간 2011년 6월 27일(월) ~임단협 타결 시까지

SC제일은행지부 위원장 김 재 율

Price per issue

Advertising revenue

High cost

Free

Advertising revenue

Low cost

Partners

Activities

Value prop.

Cust. Relationship

Cust. needs

Resources

Channels

Cost structure

Revenue sources

A critical factor not in Business Model Canvas: Core Competency

A business model canvas describes how a company creates, delivers, and captures value

But it does NOT necessarily describe how a company can do that sustainably, in the face of copying and competition

The canvas ignores Core Competency

- The unique and hard-to-copy combination of skills, technology, assets, relationships, values, and processes that allow the company to prevent competition

In class Workshop: Do business model canvas for your innovation

Don’t write out every detail - Focus on what makes each part of the canvas different from competitors

Don’t worry about consistency too much at this point – you can always break it into two separate Canvases

This is a creative job – when going through parts that you’ve never thought through, be open to all options and don’t shoot ideas down

Supplementary tool: optimizing your economic model

1. Revenue: Identify the 3 largest sources of revenue

1.1 **1.2** **1.3**

4: What would you have to do to double revenue?

<u>3. Investment</u>
Identify the 3 largest investments

3.1

3.2

3.3

7.What would you have to do to dramatically increase long-term profit?

2. Cost: Identify the 3 largest operating costs

2.1

2.2

2.3

6. What would you have to do to reduce investment by half?

5. What would you have to do to reduce operating cost by half?

Alternative: Innovance Partners Business Model tool

Who is the customer and what's their pain

What is the value proposition to them

What is the operating model (value delivery)

How we make money (value capture)

How we sustainably differentiate (core competency)

Alternative: Innovance Partners Business Model tool

Who is the customer and what's their pain

Financial service firms nation-wide who are impatient to take advantage of the growth opportunities within their markets. They especially require new products that can meet the evolving needs of segment Z, which is growing rapidly in size.

The estimated market size is XX banks and XX non-bank financial service institutes nation-wide. They currently spend about $XXX billion dollars a year in IT development, and this figure is growing by X% a year. This includes banks who we currently consider to be our competitors.

What is the value proposition

We offer customers fast implementation of fast-growth high-profitability financial service products.

Customers can implement these new products with no hassle: we offer a complete turnkey package, from demand estimation to IT integration to training to cloud storage, all in weeks rather than the months/years it might take them to develop by themselves.

We also offer ease of mind that the products will be successful : the products have been successfully within our own market, and formulae for estimating market demand have been refined. We charge a fixed fee for installation, so they don't have to worry about development risk.

What is the operating model

We will develop IT solutions based on our internal needs **and** ***trends in the external market.***

We will develop earlier in the awareness cycle, to ensure that we can launch before anybody else. We will invest more than we otherwise would to ensure seamless IT systems interoperability.

We will partner with IT vendor firms like X, Y, and Z to ensure fast implementation.

How we make money

60% of our revenue will come from charge lump sums for turnkey installation, with price varying by expected market size and long-term profitability.

About 20% comes from cloud services. Another 20% is from periodic upgrades.

We will **not** ***make money based on transaction volume or profitability, as this puts us at risk.***

How we sustainably differentiate

We will invest XX% of revenue on IT, compared to YY% on average in the past 5 years.

We will use customer transaction data to continuously improve the quality of our algorithms.

We will never give up our core banking business, since that provides a test market and IT test-bed.

Alternative: Lean Startup Canvas

Customer	Pain	How solution is better than compet.	Unfair advantage (core compet.)	Key metrics
	Solution features		Channels	

Cost structure	Revenue sources

Online wiki versions of the canvas

Canvanizer.com

BMfiddle.com/