



European Territorial Cooperation Programme
Greece-Bulgaria 2007-2013
INVESTING IN OUR FUTURE

Business Models and Perspectives in Entrepreneurship

- summer school -



Business Modeling Framework

Fragidis Garyfallos

Monday, 16 July 2012

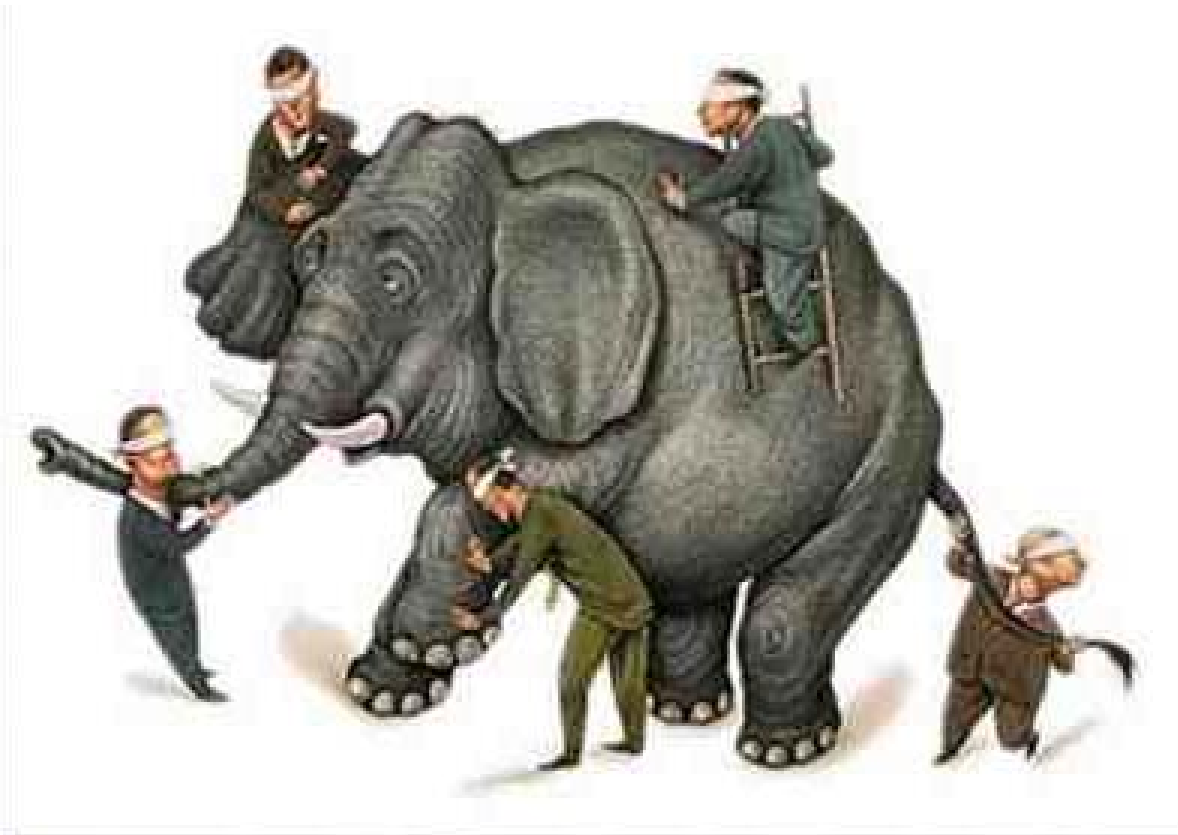


Learning Objectives

- To understand the meaning a business model
- To demonstrate the importance of the business model
- To highlight the elements of a business model
- To learn how to create business models



What is a Business Model?



What is a Business Model?

A business model is a description of

WHAT we are doing here &

HOW we are doing it



Business Model: A Definition

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

*Osterwalder and Pigneur,
Business Model Generation, John Wiley & Sons, NJ, 2010*



Business Model Outlooks

Business model

From Wikipedia, the free encyclopedia

A **business model** describes the [rationale](#) of how an [organization](#) creates, delivers, and captures value^[1] (economic, social, or other forms of value). The process of business model construction is part of [business strategy](#).

In theory and practice the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a [business](#), including purpose, offerings, strategies, infrastructure, organizational structures, trading practices, and operational processes and policies. The literature has provided very diverse interpretations and definitions of a business model. A systematic review and analysis of manager responses to a survey defines business models as the design of organizational structures to enact a commercial opportunity.^[2] Further extensions to this design logic emphasize the use of narrative or coherence in business model descriptions as mechanisms by which entrepreneurs create extraordinarily successful growth firms.^[3]

Whenever a business is established, it either explicitly or implicitly employs a particular business model that describes the architecture of the value creation, delivery, and capture mechanisms employed by the business enterprise. The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit: it thus reflects management's hypothesis about what customers want, how they want it, and how an enterprise can organize to best meet those needs, get paid for doing so, and make a profit.^[4]

Business models are used to describe and classify businesses (especially in an entrepreneurial setting), but they are also used by managers inside companies to explore possibilities for future development. Also, well known business models operate as recipes for creative managers.^[5] Business models are also referred to in some instances within the context of accounting for purposes of public reporting.



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Examples of Business Models

- Franchise business model
- IKEA's business model
- Free business model
- Freemium business model
- Direct sales model
- Pyramid scheme business model

Amazon vs. Barnes & Noble: [video](#)



Business Models vs Business Plans

Business Model

- Entrepreneurship tool
- Business idea
- Value

- Business strategy
- Graphical representation

Business Plan

- Planning tool
- Idea implementation
- Revenues – business goals
- Raise funding
- Document



Business Models vs Business Strategy

Business Model

- Complements/
elaborates business
strategy
- Emphasizes **HOW TO
REACH THE
TARGET**
- Real-world

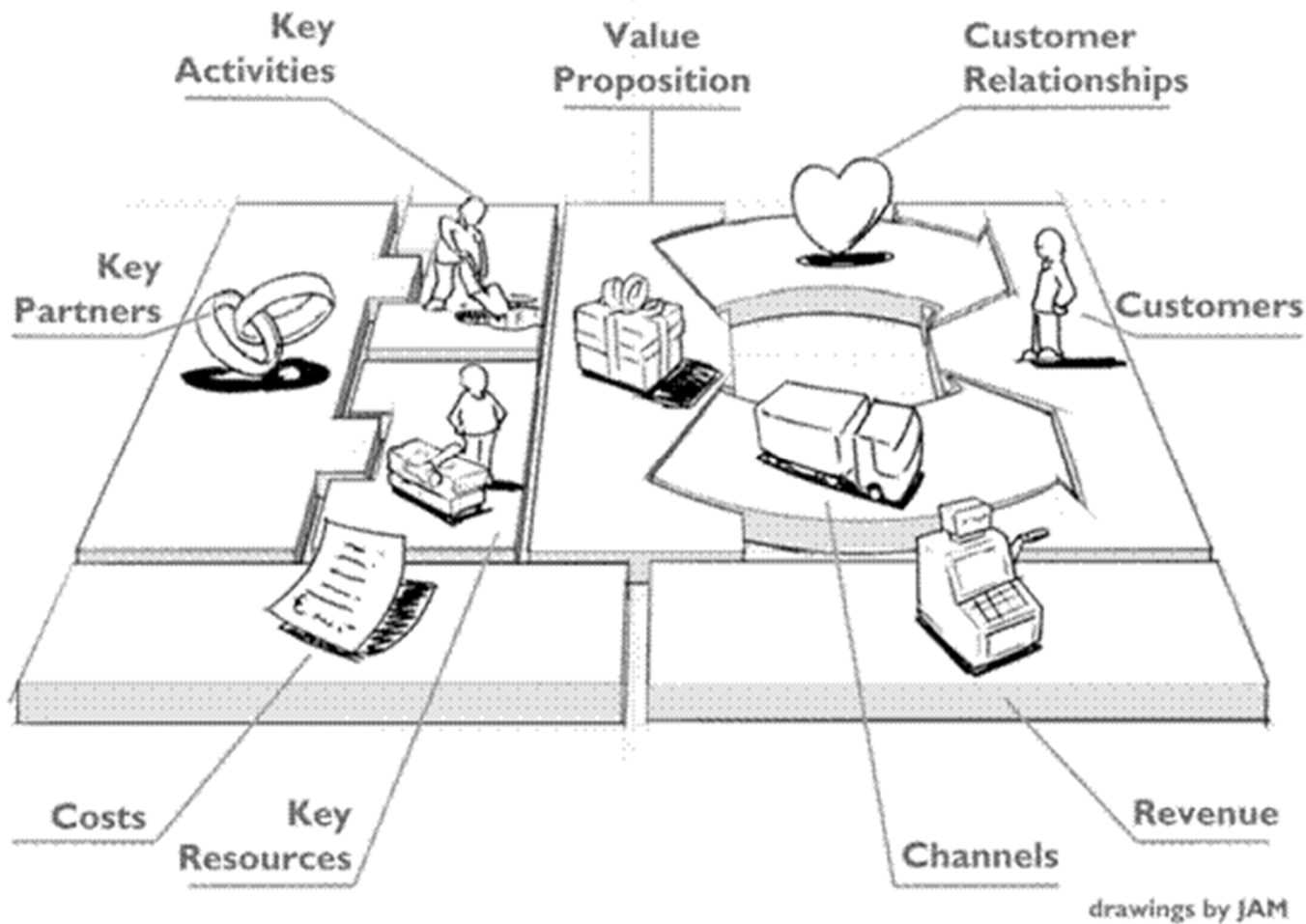
Business Strategy

- Emphasizes **WHAT** is
the **TARGET**
- Future World



The Business Model Canvas

Osterwalder & Pigneur

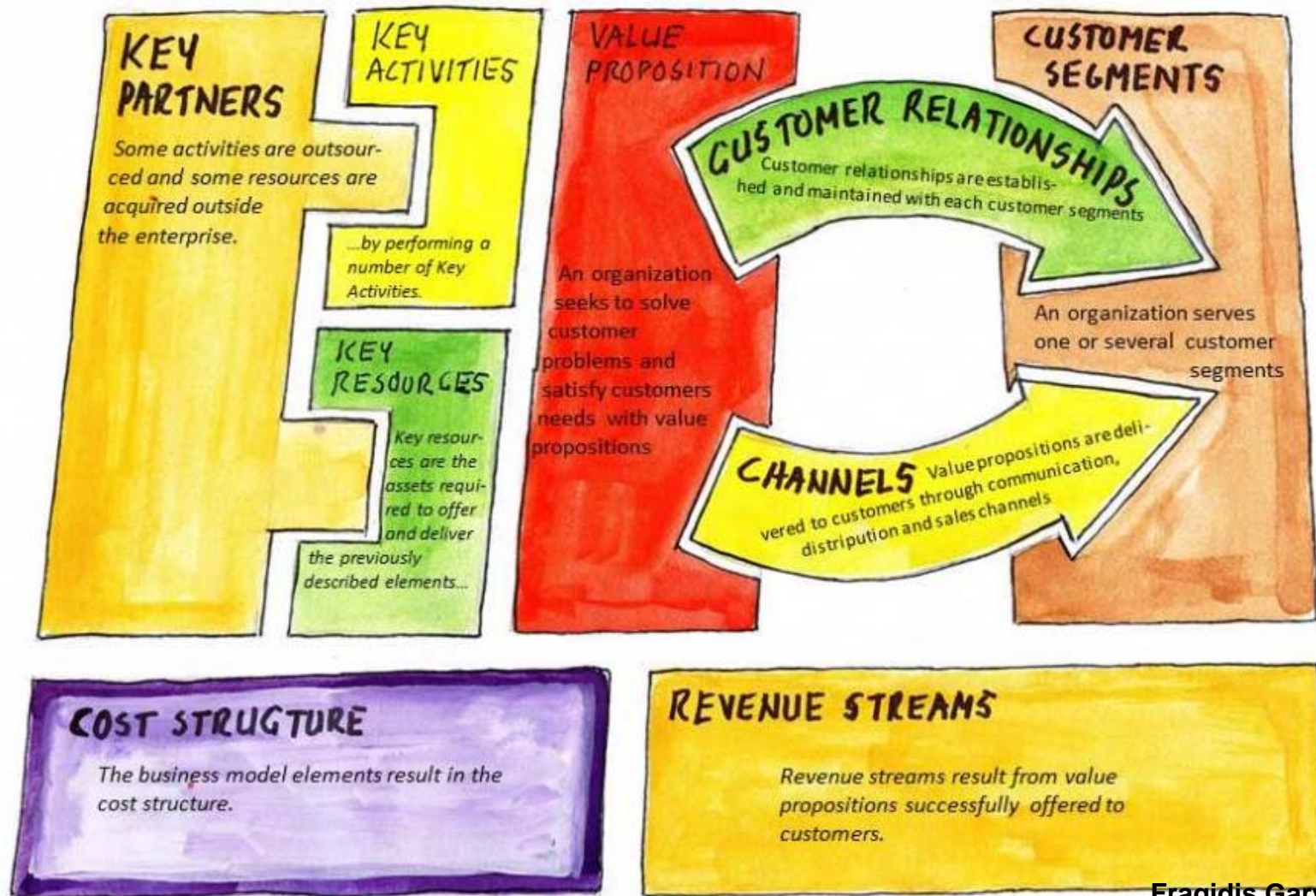


Business model canvas explained: [video](#)

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T.E.I. of Serres



The Business Model Canvas, in Brief



CUSTOMER SEGMENTS



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

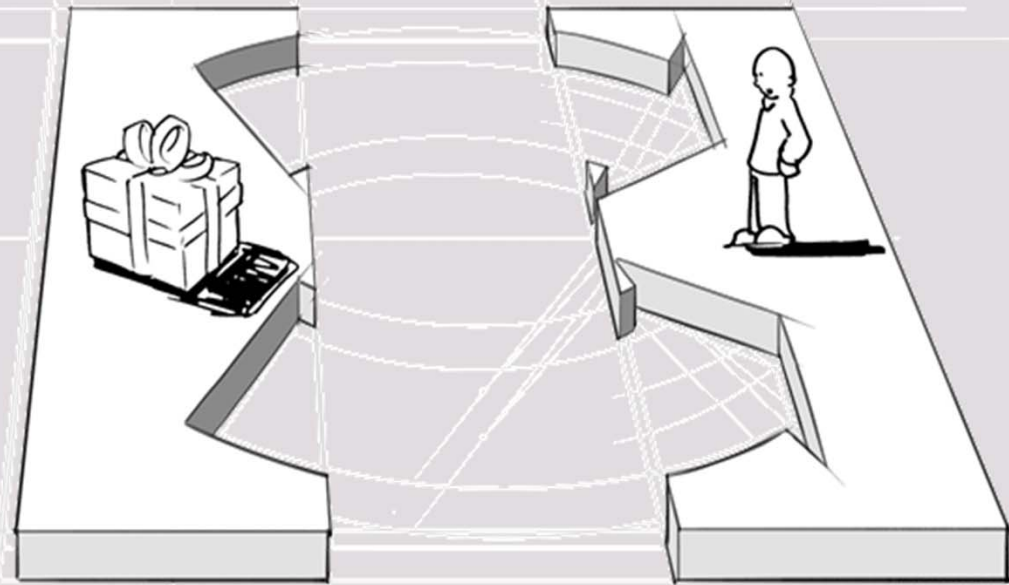
For whom are we creating value?

CUSTOMER SEGMENTS

- Customers comprise **the heart** of any business model. Without (profitable) customers, no company can survive for long.
- In order to better satisfy customers, a company may group them into distinct **segments with common needs**, common behaviors, or other attributes. Customer groups represent separate segments if:
 - Their needs require and justify a distinct offer
 - They are reached through different Distribution Channels
 - They require different types of relationships
 - They have substantially different profitabilities
 - They are willing to pay for different aspects of the offer
- An organization must make a conscious decision about which segments to serve and which segments to ignore.
- There are different types of Customer Segments. Here are some examples:
 - Mass market
 - Niche market
 - Segmented



VALUE PROPOSITIONS



**The business offer (i.e. distinct mix of elements)
that creates value for the customer ,
by resolving problems and satisfying needs**

Why do the customers buy our offering/ solution?

VALUE PROPOSITIONS

- The Value Proposition is **THE REASON WHY...**
 - **customers buy**
 - **choose** to one company over another.
- The Value Proposition is
 - an **aggregation of benefits** that a company offers and are considered important by the customer
 - **resolves a customer problem** or **satisfies a customer need**.
- Some Value Propositions may be **innovative** and represent a new or disruptive offer.
- Others may be **similar to existing market offers**, but with added features and attributes.

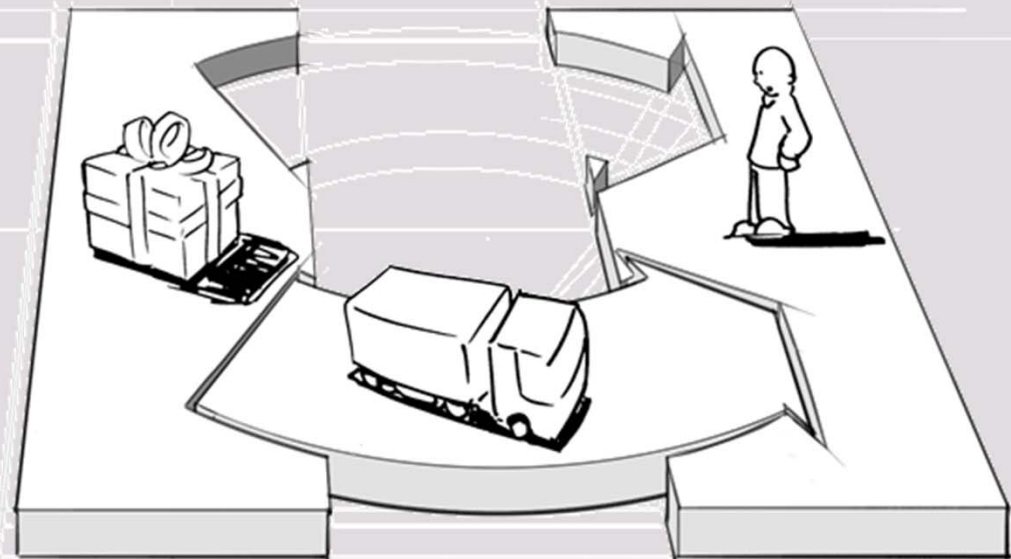


VALUE PROPOSITIONS

- Value may be:
 - quantitative (e.g. price, speed of service)
 - qualitative (e.g. design, customer experience).
- Elements of value creation:
 - Newness
 - Performance
 - Customization
 - “Getting the job done”
 - Design
 - Convenience/usability
 - Brand/ status
 - Price
 - Cost reduction
 - Risk reduction
 - Accessibility



CHANNELS



Channels are connecting the company with the Customer Segment in order to deliver the Value Proposition.

How do we reach and sell to our customers?

CHANNELS

- Channels are customer **touch points** and provide an **interface with customers.**
- Channels serve several functions, including:
 - **Communication**
 - Raising awareness among customers about a company's products and services
 - Helping customers evaluate a company's Value Proposition
 - Providing post-purchase customer support
 - **Distribution**
 - Delivering a Value Proposition to customers
 - **Sales**
 - Allowing customers to purchase specific products and services



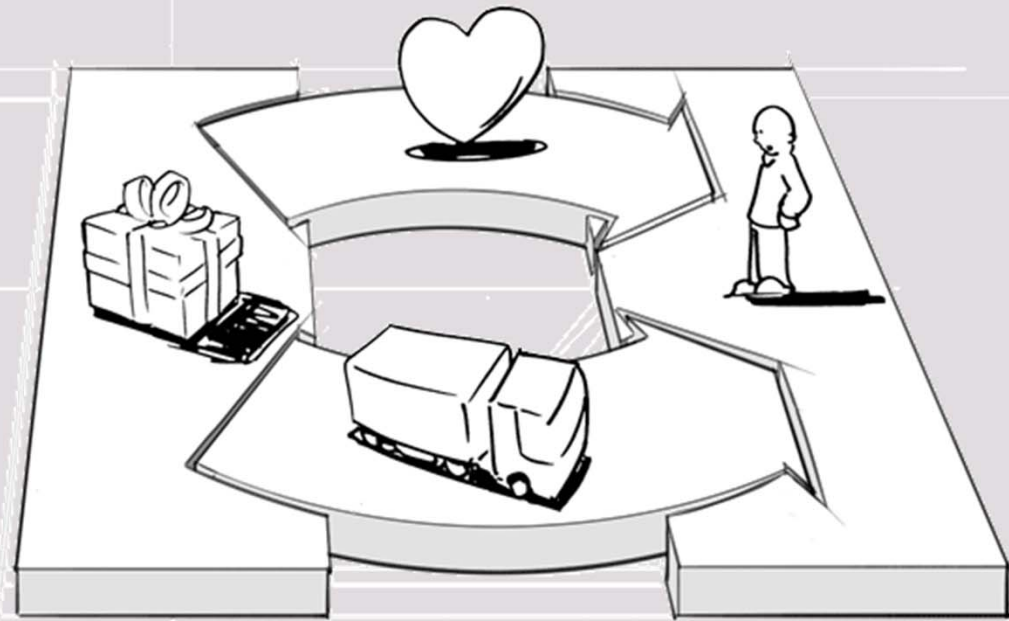
CHANNELS

- We can distinguish between
 - **direct** and **indirect** channels
 - **owned** and **partner** channels.
- Channels have five distinct phases.
 - Each channel can cover some or all of these phases.

Channel Types		Channel Phases				
Own	Direct	1. Awareness How do we raise awareness about our company's products and services?	2. Evaluation How do we help customers evaluate our organization's Value Proposition?	3. Purchase How do we allow customers to purchase specific products and services?	4. Delivery How do we deliver a Value Proposition to customers?	5. After sales How do we provide post-purchase customer support?
	Web sales					
Own stores						
Partner	Indirect					
	Partner stores					
	Wholesaler					



CUSTOMER RELATIONSHIPS



Customer relationships are established and maintained with each Customer Segment.

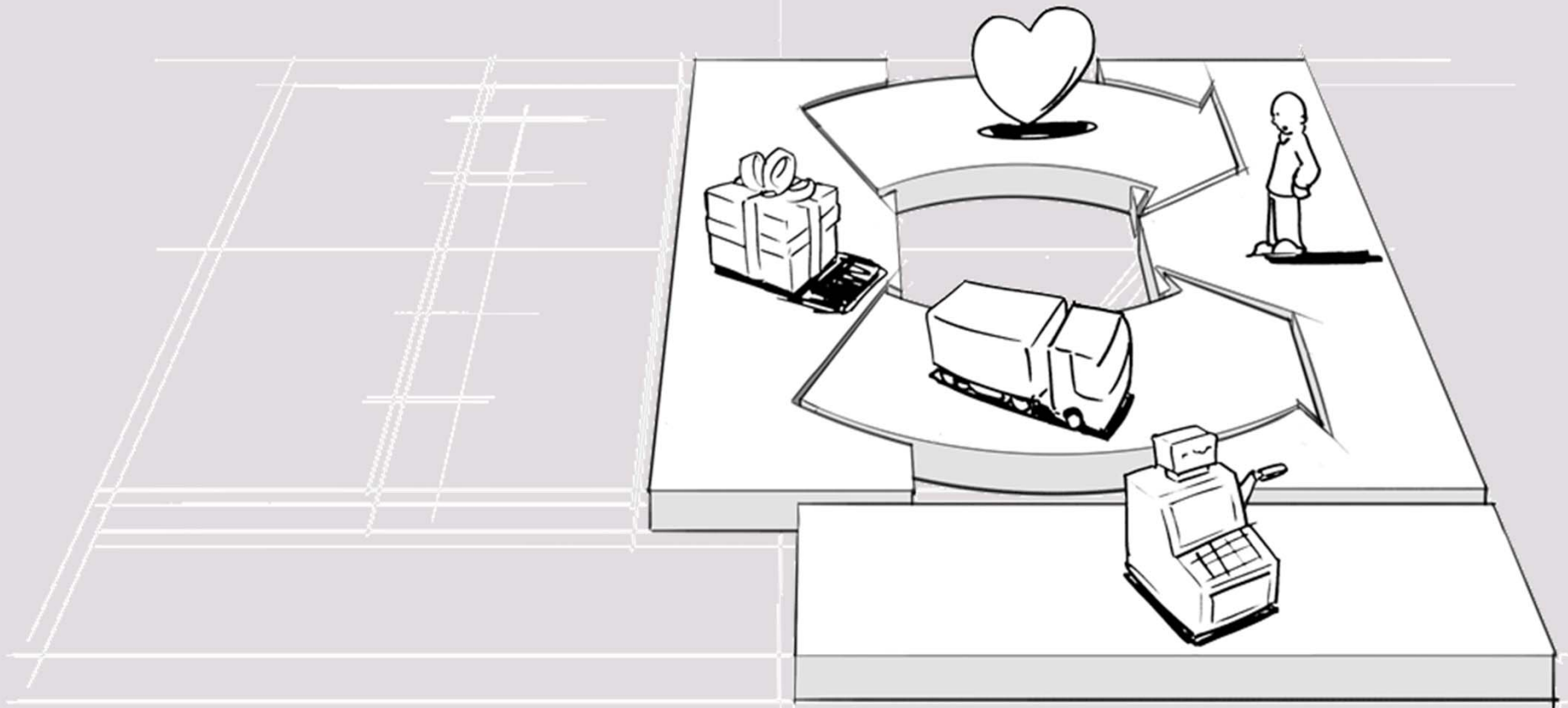
How do we communicate with our customers?

CUSTOMER RELATIONSHIPS

- Relationships can range from **personal** to **automated**.
- The Customer Relationships influence the overall **customer experience**.
- We can distinguish between several categories of Customer Relationship
 - Personal assistance
 - Dedicated personal assistance
 - Self-service
 - Automated services
 - Communities
 - Co-creation



REVENUE STREAMS



Revenue streams result from Value Propositions successfully offered/ delivered to Customers.

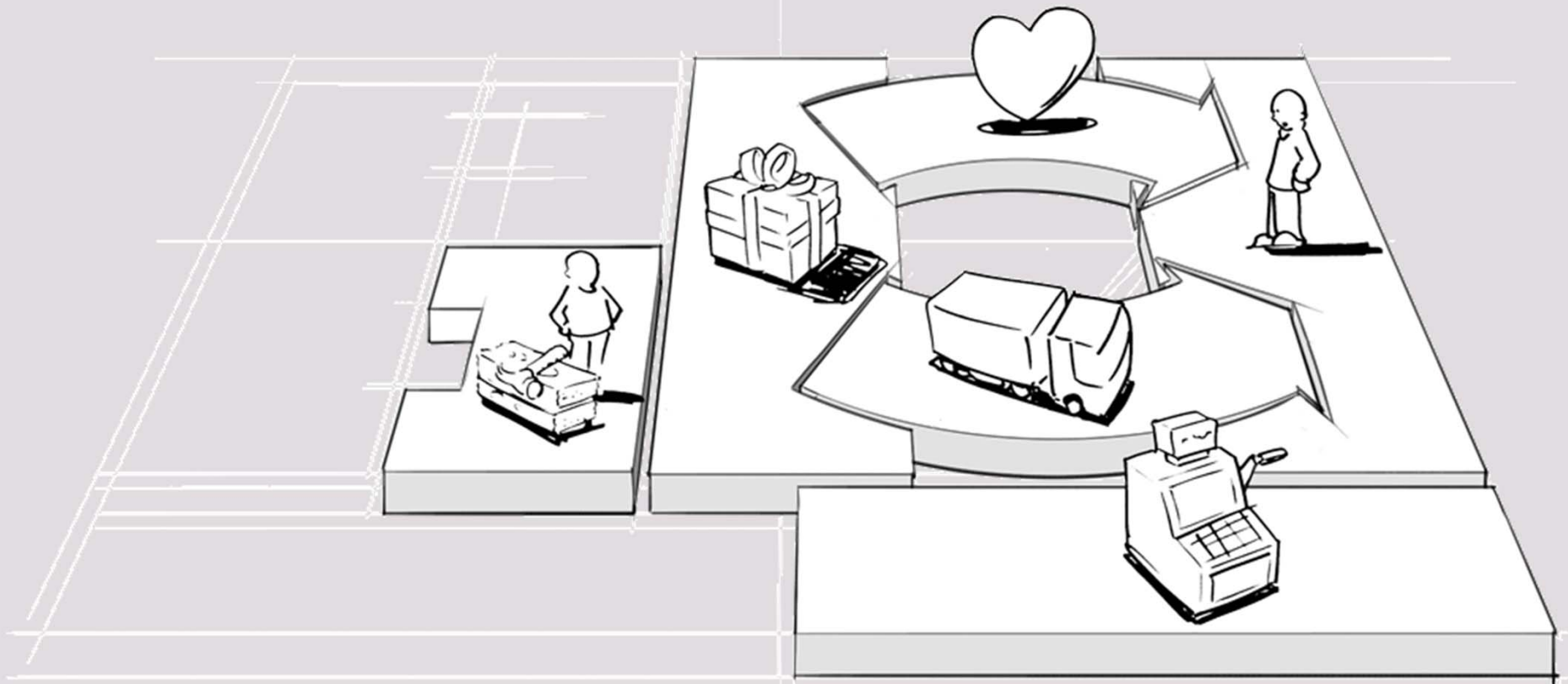
How do we have revenues & earnings?

REVENUE STREAMS

- Revenue Streams are **the arteries** of the business model.
- Revenue Streams result from **pricing** decisions
 - A company must ask itself, "For what value is each Customer Segment truly willing to pay?"
 - Each Revenue Stream may have different pricing mechanisms
- A company may have one or more Revenue Streams from each Customer Segment.
 - **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
- There are several ways to generate Revenue Streams:
 - Sale (ownership transfer)
 - Usage fee
 - Subscription fee
 - Lending/Renting/Leasing
 - Brokerage fees
 - Advertising



KEY RESOURCES



The assets and capabilities required to make a business model work

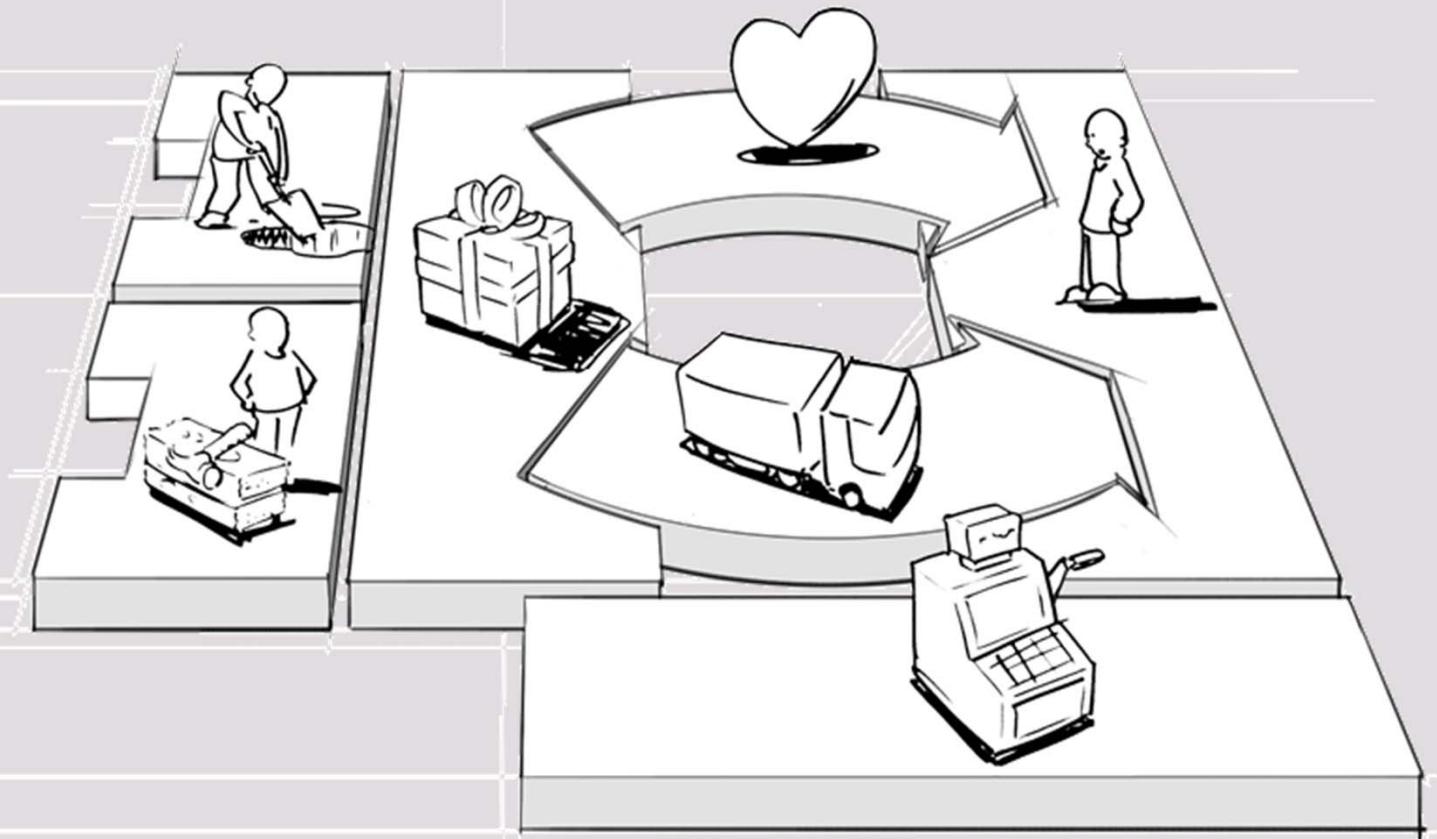
What resources & capabilities must we have to succeed?

KEY RESOURCES

- Every business model requires Key Resources, which enable an enterprise to ...
 - create and offer a **Value Proposition**
 - maintain **Channels** to reach markets,
 - maintain **Customer Relationships** with Customer Segments
 - have **Revenues**.
- Different Key Resources are needed depending on the type of business model.
 - Physical
 - Financial
 - Intellectual (brands, proprietary knowledge, patents and copyrights, partnerships, customer databases)
 - Human
- Key Resources can be
 - owned
 - leased
 - acquired from Key Partners.



KEY ACTIVITIES



**The most important things a company must do to make its
business model work**

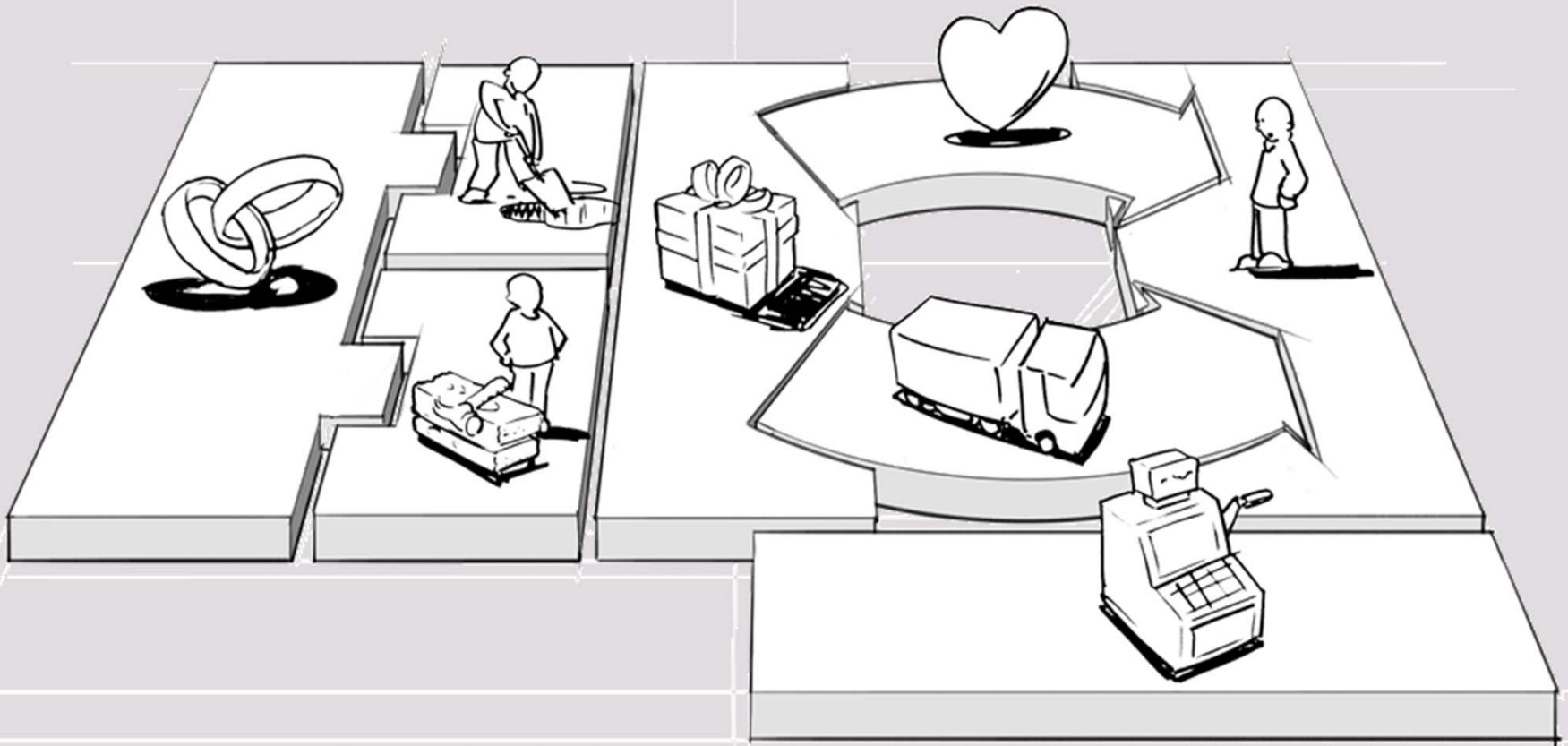
What must we do to succeed?

KEY ACTIVITIES

- Every business model requires some key action to ...
 - create and offer a **Value Proposition**
 - maintain **Channels** to reach markets,
 - maintain **Customer Relationships** with Customer Segments
 - have **Revenues**.
- Key Activities **link Resources to Value Propositions**
- Key Activities differ depending on business model type.
- Key Activities can be categorized as follows:
 - Production
 - Problem solving
 - Management
 - Platform/network
 - Communication



KEY PARTNERSHIPS



The network of suppliers and partners that make the business model work

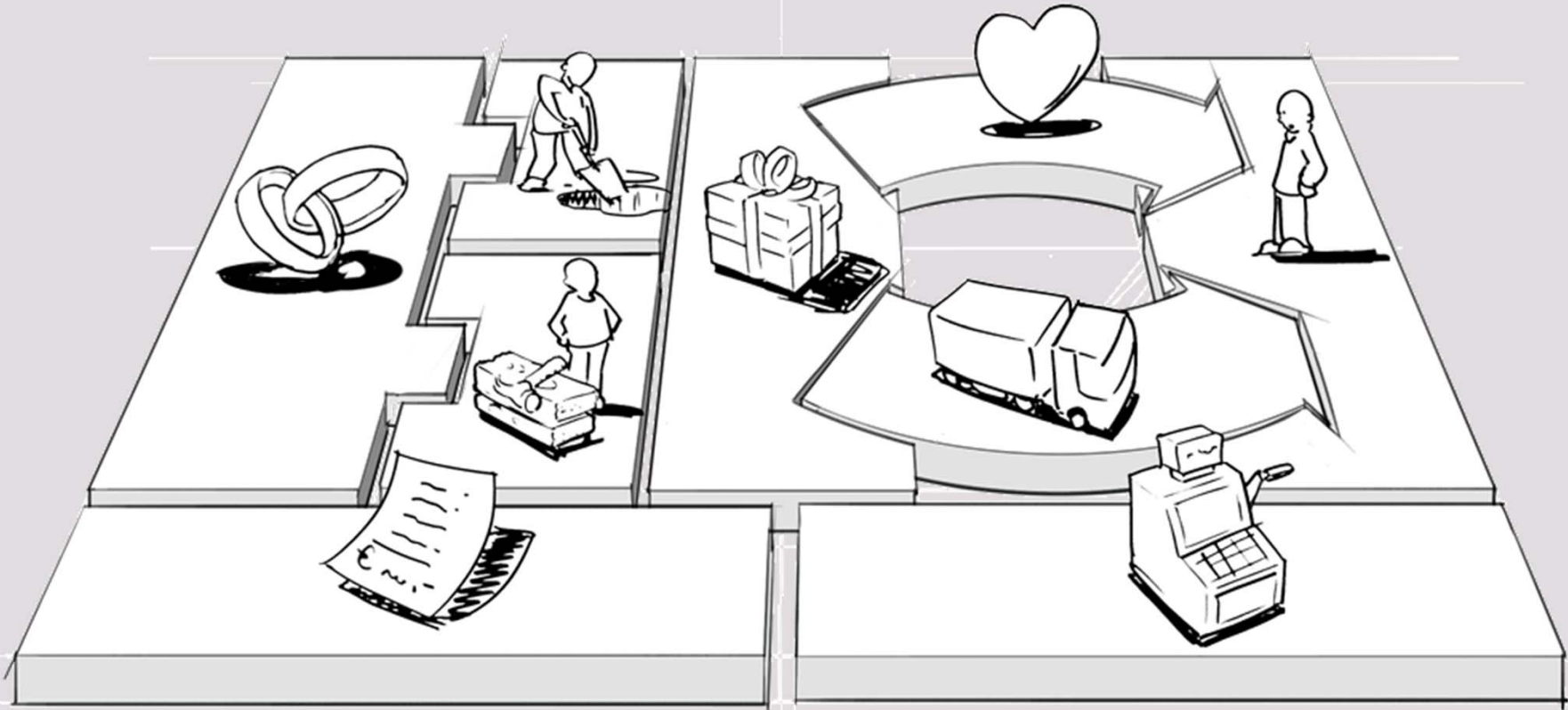
Which partners and suppliers support & leverage your model?

KEY PARTNERSHIPS

- Key Partnerships are **all the relationships**, except for with the Customers
- Companies create partnerships to optimize their business models, reduce risk, or acquire resources.
Motivations for creating partnerships:
 - Optimization and economy of scale
 - Reduction of risk and uncertainty
 - Acquisition of particular resources and activities
- Many companies operate today as “extended enterprises”
- We can distinguish between four different types of partnerships:
 - Strategic alliances between non-competitors
 - Co-opetition: strategic partnerships between competitors
 - Joint ventures to develop new businesses
 - Buyer-supplier relationships to assure reliable supplies



COST STRUCTURE



The cost resulting from the execution of the business model elements.

What is the cost of our operation?

COST STRUCTURE

- **Creating Value, Delivering Value, maintaining Customer Relationships and Partnerships, and generating Revenue, all incur costs.**
- Such costs can stem from **Key Resources, Key Activities, and Key Partnerships.**
- We distinguish between two broad classes of business models (related to the Cost Structure):
 - **Cost-driven**
 - **Value-driven**
 - in-between models
- Cost Structures can have the following characteristics:
 - Fixed costs
 - Variable costs
 - Economies of scale
 - Economies of scope












The Business Model Canvas

The Business Model Canvas

Designed for:

Designed by:

On:
 Month/Year:

<p>Key Partners </p> <p>Who are our Key Partners? Who are we relying on? What Key Resources are we acquiring from partners? What Key Activities do we have in common? What Key Channels do we have in common?</p>	<p>Key Activities </p> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p>	<p>Value Propositions </p> <p>What benefits are we offering to the customer? What pain of our customer's problem are we helping to solve? What features of products and services are we offering to each Customer Segment? Which customer needs are we addressing?</p>	<p>Customer Relationships </p> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p>	<p>Customer Segments </p> <p>To whom are we creating value? Who are our most important customers?</p>
<p>Key Resources </p> <p>What Key Resources build our Value Propositions and/or our Distribution Channels? Customer Relationships? Revenue Streams?</p>		<p>Channels </p> <p>Through which Channels do our Customer Segments want to be reached? How are we using them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How can we integrate them with customer needs?</p>		
<p>Cost Structure </p> <p>What are the most important costs in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p>			<p>Revenue Streams </p> <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p>	

The Business Model Canvas

LEFT BRAIN
logic

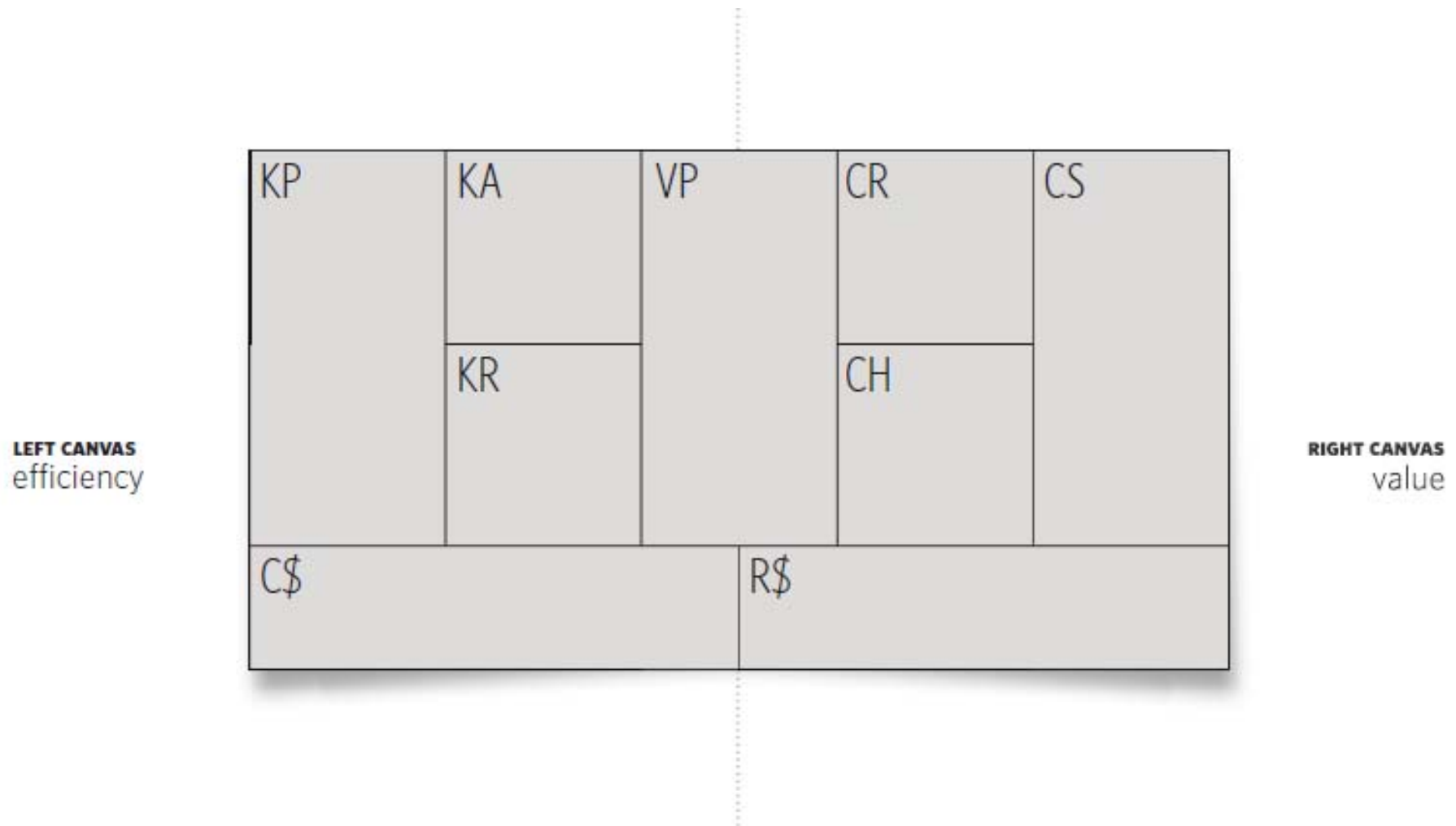


RIGHT BRAIN
emotion

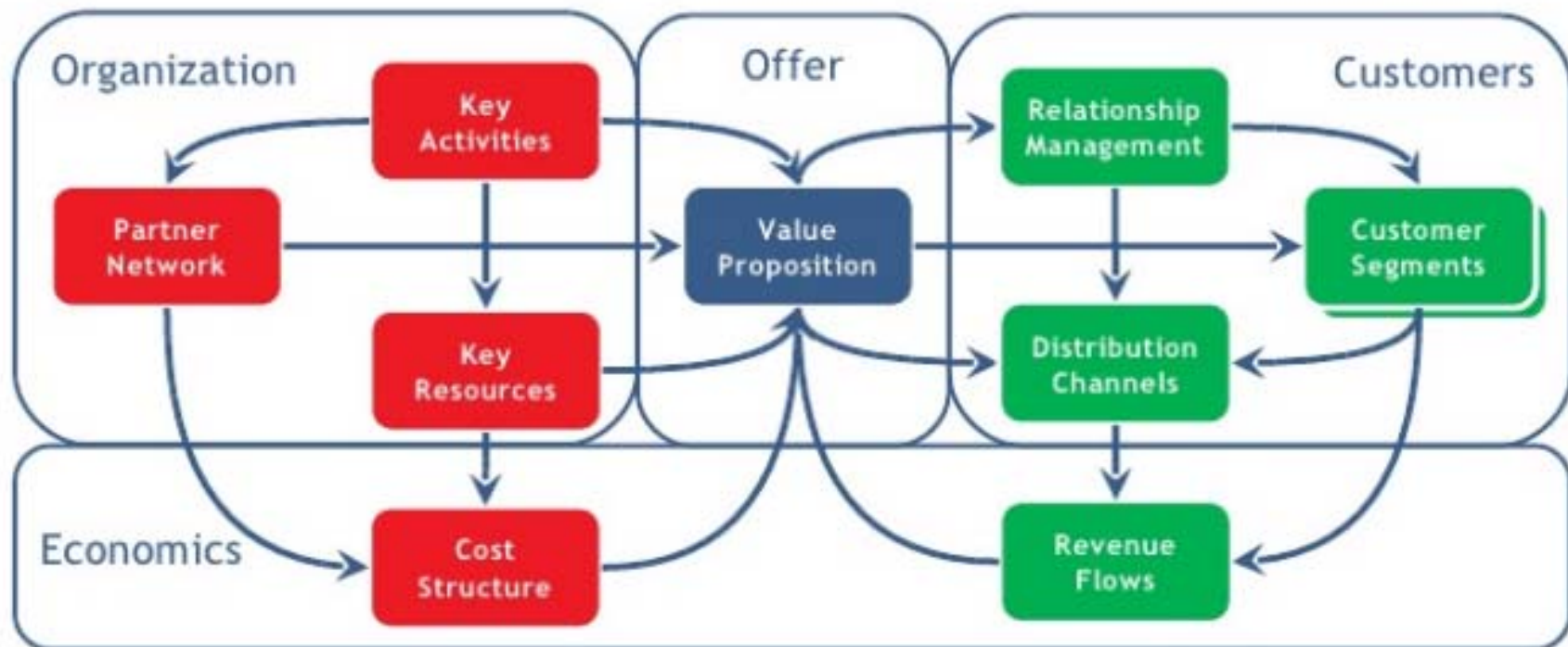
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The Business Model Canvas



The Business Model Canvas: Managerial and Economic Aspects



What is missing?



What is missing?

Competition?

- It would obviously be naive not to take into account existing or potential competitors when you design your business model.
- Competition is not a business model building block, it's part of the **environment** in which you design your business model.
 - ... just like an architect designs a building in a particular environment.



The iPod Example

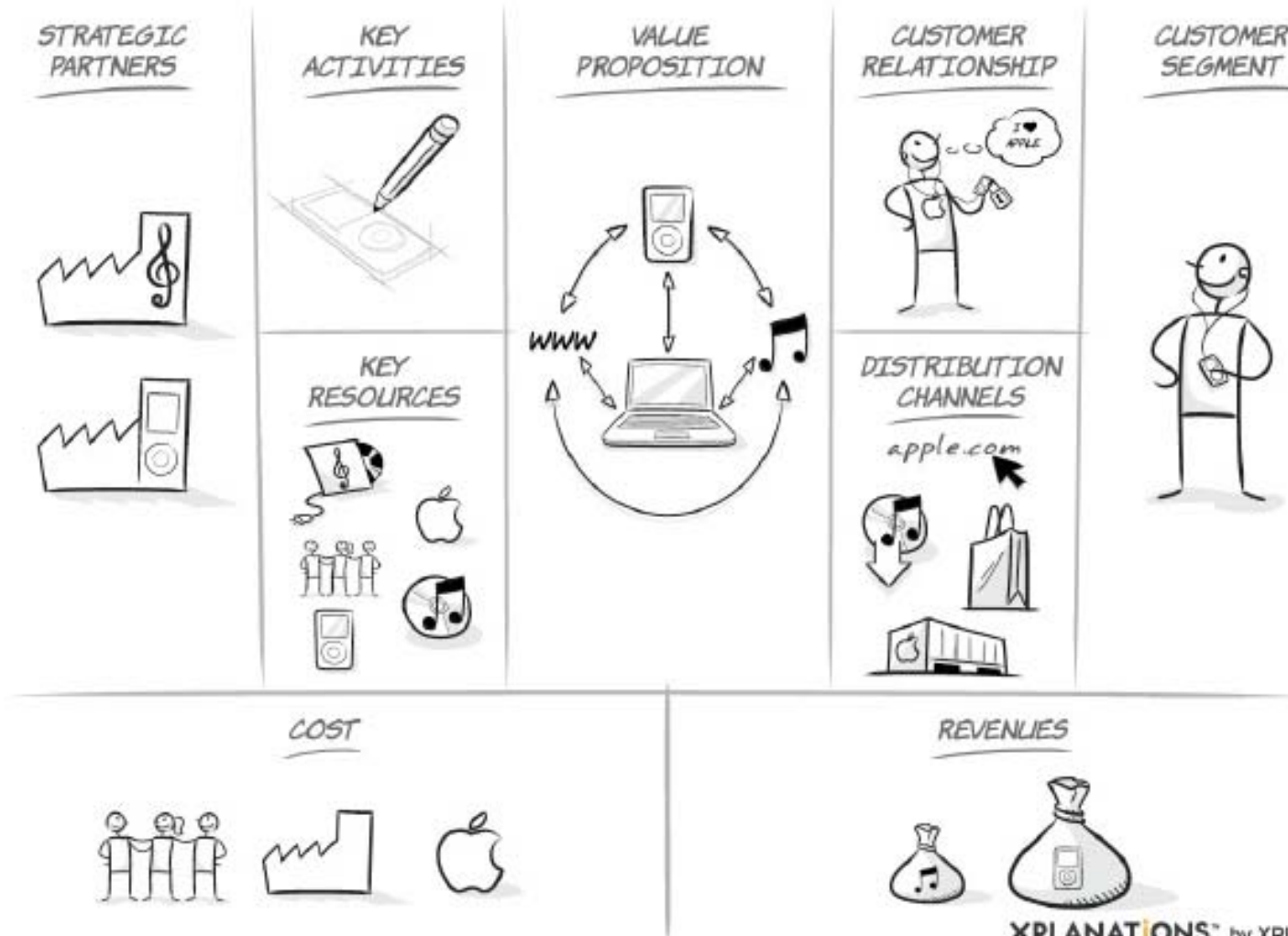
- In 2001 Apple launched its iconic iPod brand of portable media player.
 - The device works in conjunction with iTunes software that enables users to transfer music and other content from the iPod to a computer.
 - The software also provides a seamless connection to Apple's online store so users can purchase and download content.
- This potent **combination of device, software, and online store quickly disrupted the music industry** and gave Apple a dominant market position.
- Yet Apple was not the first company to bring a portable media player to market. Competitors such as Diamond Multimedia, with its Rio brand of portable media players, were successful until they were outpaced by Apple. **How did Apple achieve such dominance? Because it competed with a better business model.**
 - On the one hand, it offered users a **seamless music experience** by combining its distinctively designed iPod devices with iTunes software and the iTunes online store. **Apple's Value Proposition is to allow customers to easily search, buy, and enjoy digital music.**
 - On the other hand, to make this Value Proposition possible, Apple had to negotiate deals with all the major record companies to create the world's largest online music library.
- The twist? **Apple earns most of its music-related revenues from selling iPods**, while using integration with the online music store to protect itself from competitors.



The iPod Business Model



The iPod Business Model



The Groupon Example



GrouponTM
Collective Buying Power

- Groupon is a deal-of-the-day recommendation service for consumers. Every 24 hours, Groupon broadcasts an electronic coupon for a restaurant or store in your city, recommending that local service while also offering you a 40% to 60% discount if you purchase that service.
- Groupon is a middleman service that encourages people to try a different restaurant or store each day, and earns a commission whenever they successfully refer a customer.
- Groupon itself is a free service for the customer. Each day, Groupon will send an email announcement to its subscribers, describing the deal-of-the-day in that metro area. Commonly, the deals are 50% discounts at a particular restaurant, or 50% discounts at a particular store. If you like the deal-of-the-day, then you purchase an electronic coupon directly from Groupon using your credit card or PayPal account. You print that coupon, take it to the restaurant or store, and redeem it for commonly double the value you paid.
- Groupon is a commission-based middleman service. They provide a motivated customer base to the seller, and a promise to achieve X number of sales per day. If Groupon doesn't meet that promised quota, there is no need for the seller to provide any discount services, nor any commission pay to Groupon. As of this writing, Groupon earns a commission of 50% of the coupon sell price. It's a very powerful win-win situation for all 3 parties.

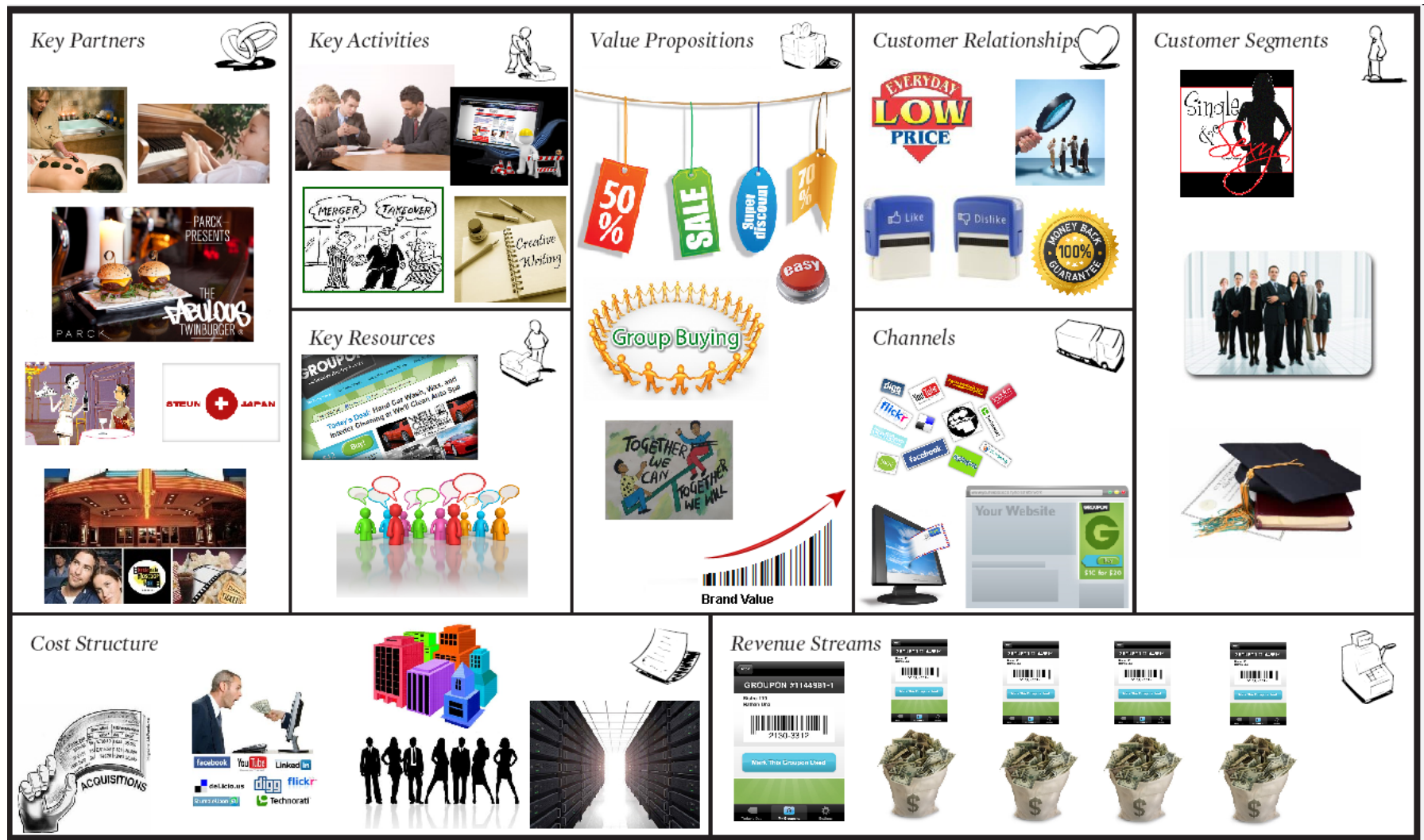
The Groupon Example

GROUPONTM
Collective Buying Power

- Groupon is very popular for two reasons:
 - Firstly, its subscribers are modern consumers who love to spend money. They especially love to spend money where they get a discount or a perceived bargain. Groupon works because it provides motivating choices for its motivated group of consumers.
 - Secondly, Groupon can easily become viral, and its daily discounts spread quickly through email. Groupon subscribers like to forward the deal-of-the-day as recommendation links to their friend. In a world of social media and online personal suggestions, an email suggestion carries a lot of clout. Groupon subscribers are even given a \$10 incentive to refer friends, so people are extra motivated to spread the word about Groupon to their personal networks.



The Groupon Business Model



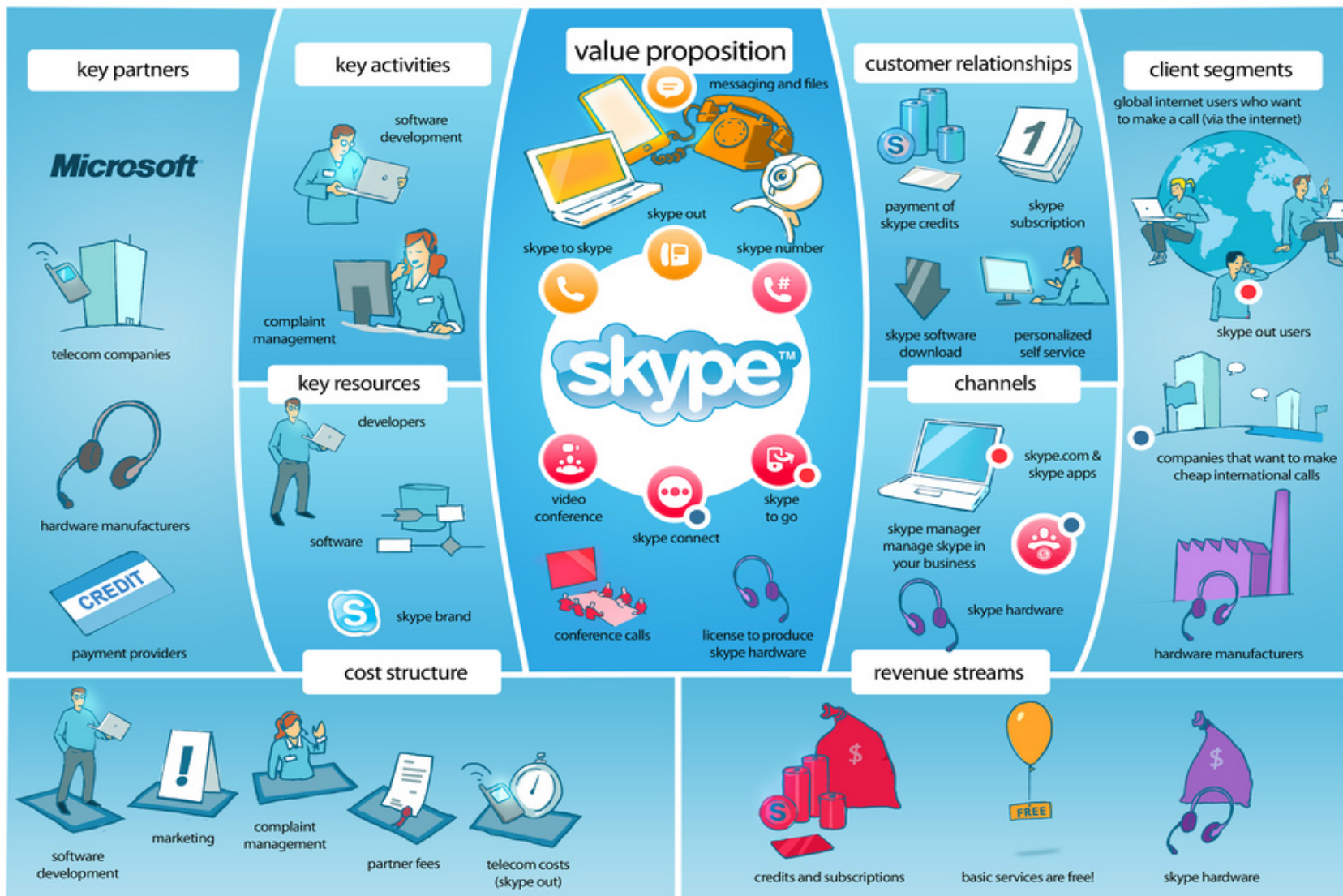
The Skype Business Model



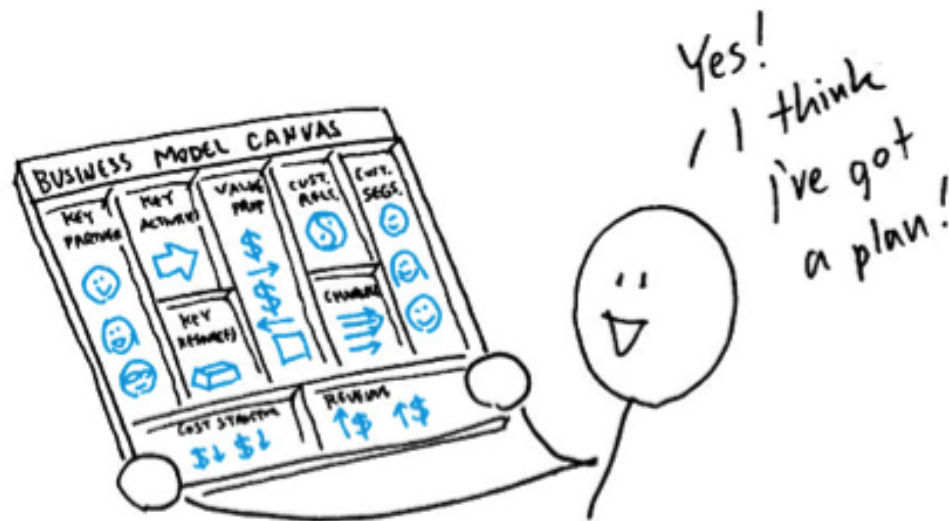
- Skype allows users to communicate with peers by voice, video, and instant messaging over the Internet.
 - Phone calls may be placed to recipients on the traditional telephone networks.
 - Calls to other users within the Skype service are free of charge, while calls to landline telephones and mobile phones are charged via a debit-based user account system.
 - Skype has also become popular for its additional features, including file transfer, and videoconferencing.
- Skype's business model is a good example of a Freemium business model.
 - Everyone can use the basic service (calling other Skype users) for free.
 - Although most Skype users stick to the basic free-of-charge service, a minority of users pay for premium services (calling users outside the Skype network). The number of these premium users is large enough to make Skype profitable.



The Skype Business Model



Business Models & Idea Generation



The Business Model Canvas
lets us experiment with
various plans that enable
our IDEA...



Do Business Models Fail?

YES, OF COURSE!!!

Why?

- Solving an Irrelevant Customer Job
- Flawed Business Model
- External Threats
- Poor Execution



Questions & Ideas



Contact Details



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