Business Modeling with the Business Model Canvas

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Session Agenda

• Purpose:
  • Introduce the key elements of the business model canvas
  • Explain how the business model canvas can be used for modeling an organization’s activities
  • Make sure that participants understand how to use the BMC

• The context – why do we need to model a business / operations / strategy
• Using the business model canvas
• The 9 elements of the business model canvas
• Business model canvas for non-profits and government organizations
• Examples
• Exercises – work in groups
What is business modeling all about?

- Legal environment
- Technology environment
- Economic environment
- Social environment
- Political environment
- Organization
- Investors
- Customers
- Suppliers
- Partners
- Public sector
- Competitors
What is business modeling all about?

It is not about hierarchies and departmentalization

![Diagram of business modeling structure]

- General management
- Financial
- Production
- Sales
- Public relations
- Marketing
- Personnel
- R&D
- Other

Input → Organization / enterprise → Output
What is business modeling all about?

It is about identifying critical systems and functions within the organization that contributes to success.
What is a business model

• The business model explains how a company / agency is doing its business.
• The business model explains how value is created for the consumers and how value is captured for the company / organization and its stakeholders.
• The business model describes the logic on which an organization functions. It is not an operational plan, or organizational plan.
• The business model describes how the organization is positioned internally as well as towards its suppliers, partners and customers.
The Business Model Canvas
Customers

Identify the various (one or more) customer segments /reference market
Customers

• They are the essence of any business activity

• Important: classify the customers
  • Profile the customers
  • Customers may have variety of needs. Each need would require a different value proposition
  • Distribution and reach is performed via different marketing and distribution channels
  • Different relationship framework may be required
  • Different revenue streams

• Critical questions
  • For who are we creating value?
  • Who are the most significant customers?
Value Proposition

Identify the value proposition that the organization offers to its customers
Value Proposition

• Services and/or products offer specific value to specific groups of customers

• Value = innovation, creativity, differentiation

• Critical questions:
  • What is the value that we offer to the beneficiaries?
  • What is the problem that we solve?
  • What type of package we provide to each category of beneficiaries?
  • What is the need that we satisfy?

• Important:
  • Do not list possible features or characteristics of the service
  • Describe instead the value that stems from the use or consumption of the service
  • Example: the smartphone
Distribution Channels

Identify the means that the value proposition is delivered to customers - communication, distribution, and sales channels
Distribution Channels

• Channels or routes we explore to
  • Communicate the message, reach the customers
  • Deploy the services and/or necessary infrastructure

• What do we accomplish:
  • Increase the number of possible customers that are better aware of the products and services
  • Assist in the understanding of the added-value of our service
  • We deliver the value to the customers
  • Offer support after and during the reception of the service or sale of the product

• Critical questions
  • Through what channel we reach what categories of customers?
  • How the channels are integrated? How are handled and managed?
  • Which is the better performing channel?
  • Which channel has the best cost/benefit ratio?

• Channels major contribution to the business:
  1. Notification: Notify that the product or service is available
  2. Evaluation: Assist beneficiaries evaluate the value proposition
  3. Purchase: How can the beneficiaries select and “buy” the services/products?
  4. Delivery: How the added value is delivered to the customers
  5. Support: How do we provide technical support (if needed)?
Customer relationships serve to improve loyalty and reduce churn. They establish trust, improve customer satisfaction, and contribute to long-term relations.
Customer relationships

• It relates to the customer relations, tactics and strategy for each category of customers
• Motivation: customer acquisition, customer retention, upselling
• Types of customer relations
  • Personal assistance
  • Personalized person assistance
  • Self-service
  • Automated service
  • Communities
  • Co-creation
• Critical questions:
  • What type of relation does each customer segment expect?
  • What types we already have?
  • How do they integrate to our business model?
  • How much do they cost?
Revenue Streams

Revenue streams relate to income and financial benefits from satisfied and paying customers
Revenue Streams

Sources of revenue is the fundamental element of every business model. An important element of the model is the accurate estimation of the revenue that each category of customers is willing to pay.

- **Pricing strategies:**
  - Invoices
  - Negotiations
  - Auctions
  - Competition based (price driven)
  - Based on quality
  - Based on desired profit

- **Revenue sources:**
  - Product sales
  - Fees
  - Subscription
  - Loans/rent/leasing
  - IP licensing
  - Intermediary services
  - Advertisement
  - Transaction-based vs. recurring

- **Critical questions**
  - For what value are our customers willing to pay?
  - What do they pay now?
  - How they pay now?
  - How would they like to pay?
  - Portion of each customer segment to the total revenue
Key Resources

Key Resources are the assets required to create the value proposition, deliver it to the customers, maintain customer relations and collect payments
Key Resources

• Resources help to
  • Create value
  • Reach/penetrate markets
  • Maintain relations with customers
  • Earn revenues

• Critical questions
  • Who are the key resources that are required for the value proposition
  • For which channels?
  • For customer relations?
  • For other sources of income?

• Key resources can be physical, financial, intellectual or human.

• Discussion examples: microchip manufacturer, microchip designer
Key Activities

In order to realize the value offered to the customers we execute certain activities
Key Activities

• The most important things an organization must do to make its business model work

• Key activities help to
  • Create value
  • Reach markets
  • Maintain customer relations
  • Collect revenues

• Critical questions
  • What are the key activities that are required for the value proposition?
  • For which channels?
  • For which customer relations?
  • For which revenue sources?

• Discussion examples: Microsoft, Dell, McKinsey
Key Partners

Things we can’t do ourselves are outsourced or purchased from the market
Key Partners

- Synergies and collaborative schemes are the norm today. No company can develop the entire value proposition by itself
  - Strategic alliance with non competitors
  - Strategic alliance among competitors
  - Collaboration for specific new opportunity (e.g. Joint Venture)
  - Collaboration with supplier/buyer to secure procurements and purchases – reliability of supplies

- Critical questions:
  - Who are the key partners?
  - Who are the key suppliers?
  - Which key resources we receive from our partners
  - What are the key activities that they offer?
Cost Structure

The business model results in a specific cost structure
Cost structure

- The cost is identified by:
  - The key resources
  - The key activities
  - The key partners

- Critical questions:
  - What are the most critical costs of the business model?
  - Which are the key resources and the most expensive?
  - What are the key activities and the most expensive?

- Two important concepts:
  - Fixed vs. variable costs
  - Economies of scale and scope
The Business Model Canvas
The Business Model Canvas
Business Model Canvas benefits

- **Focus**: Strips away all the ‘stuff’ in a traditional business plan, and highlights the essence. Still considers the whole (holistic view).
  - It should improve clarity and focus on what’s driving the business.
  - This includes identifying what is non-core (that’s quite important!).

- **Implements efficiency**: A better understanding of the business model gives the organization a good overview of how it creates and captures value => It gives insights to the relationship between the organization’s doing and success
  - Also, it offers the ability to compare one’s business model with another similar organization or competitor, to understand the cause of any competitive advantage and how something can be changed to the advantage of the organization.

- **Communication**: It helps communicate better the concepts and key elements to others.
BMC for nonprofit and government organizations
BMC for NGOs, NFPs and governments

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<th>PARTNER NETWORK</th>
<th>KEY ACTIVITIES</th>
<th>OFFER</th>
<th>Buy-in/Support</th>
<th>Beneficiaries</th>
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<td>KEY RESOURCES</td>
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<td>Deployment</td>
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- **Budget / Cost drivers**
- **Value Streams & Returns**
Exercise

• Develop a Business Model for an Innovation Center of Excellence
• Separate in two teams and work in groups
• One group takes the demand side (right-hand side)
• One group takes the supply side (left-hand side)
• You have 20 minutes
• We will then integrate your work into a unified business model
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Thank you

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