

# Business Model Analysis

*Why is this important?*

- Analyze the business model of your client
- Suggest improvements, changes or transformations of an existing business model
- ...develop your own

## ***What is a business model?***

“A business model is... a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.”

(Source: Osterwalder, Pigneur & Tucci, 2005, p. 10)

# Why do some business models fail?

- External threats coming from the firm's environment (e.g., technological disruption)
- Some business models seek to solve a customer job nobody really cares about (i.e., value proposition disconnected from customer demands)
- Flawed business model:  
income from customers over time < customer acquisition costs
- Poor execution (e.g., lack of skills, leadership, resources)

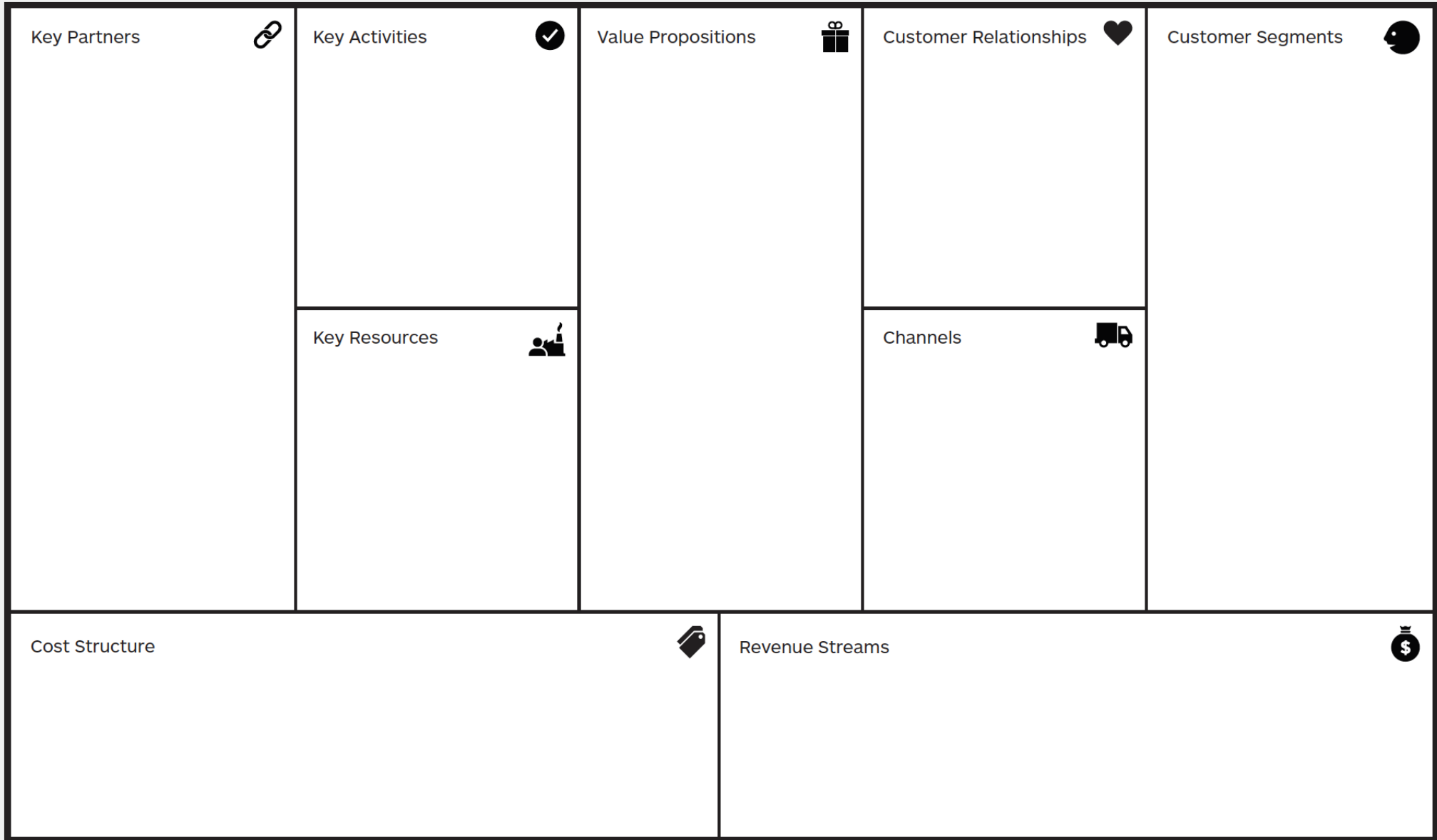
# The Business Model Canvas

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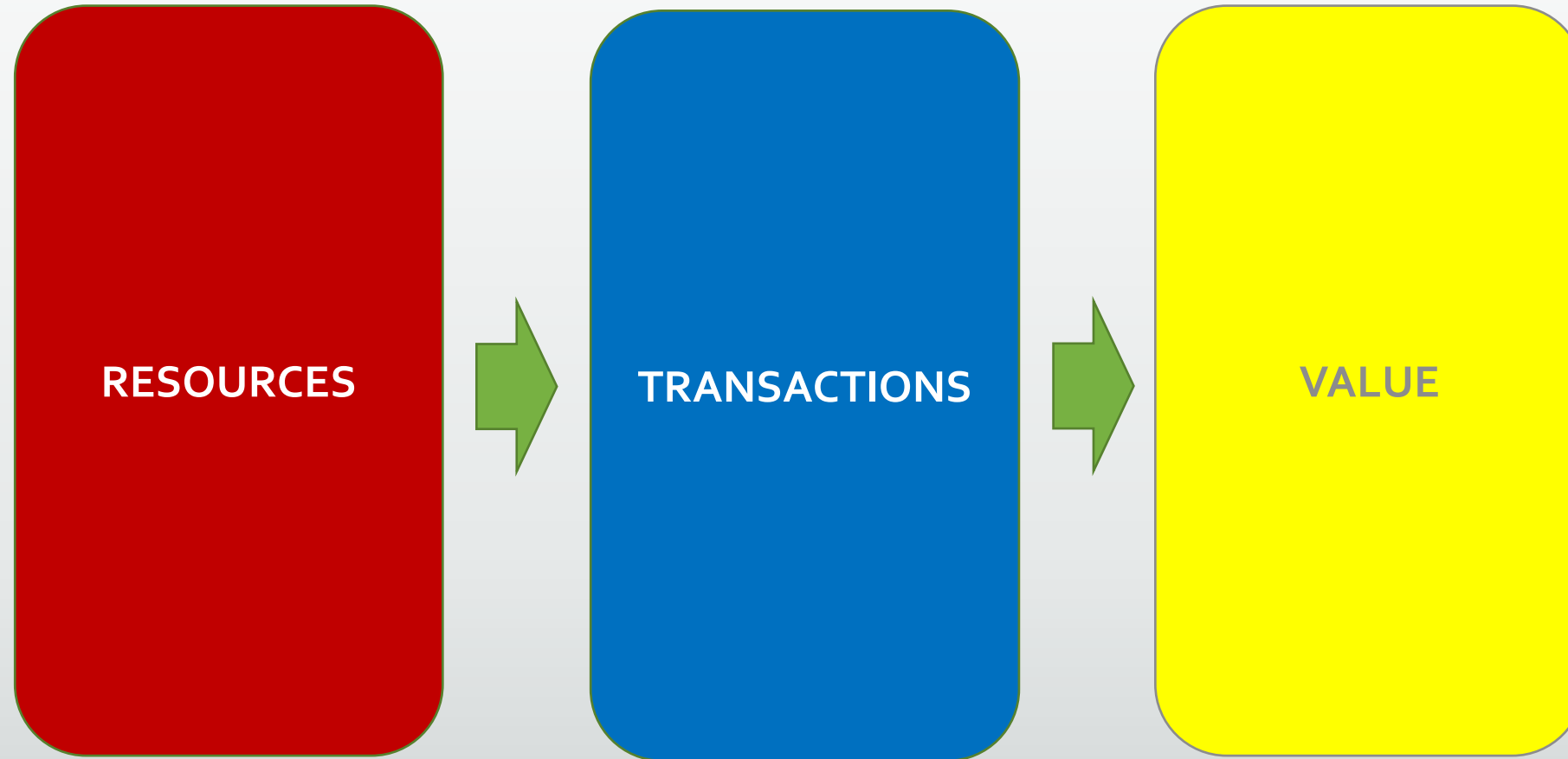
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# THREE UNDERLYING DIMENSIONS



# Map Apple's business model using the Canvas










## The Business Model Canvas

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Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 		Revenue Streams 		

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DESIGNED BY: Strategyzer AG  
The makers of Business Model Generation and Strategyzer

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## Activity 1

Be specific and consider Apple Cloud, iTunes, etc.

Alternatives:

- Google Maps
- TradeMe

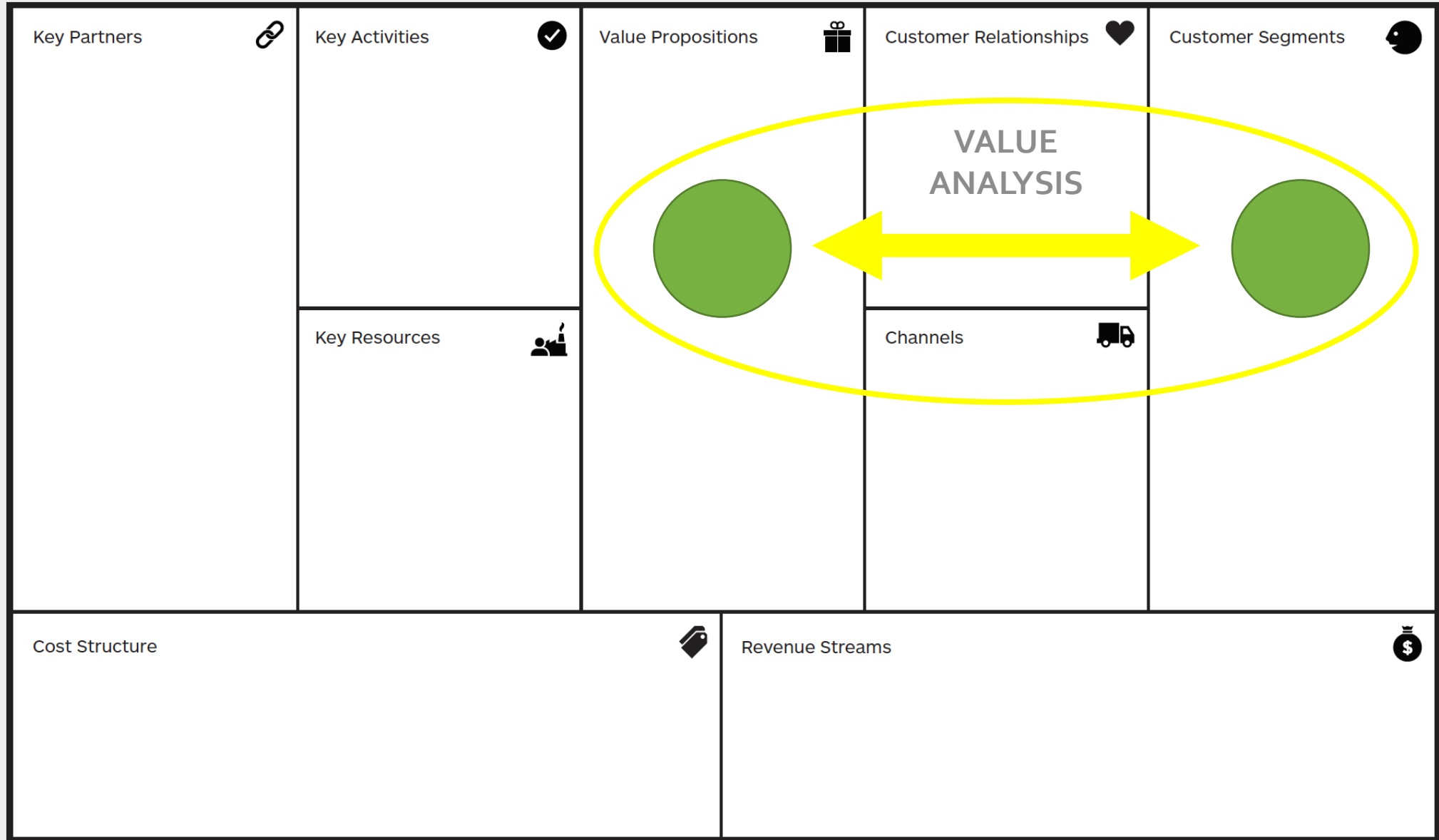
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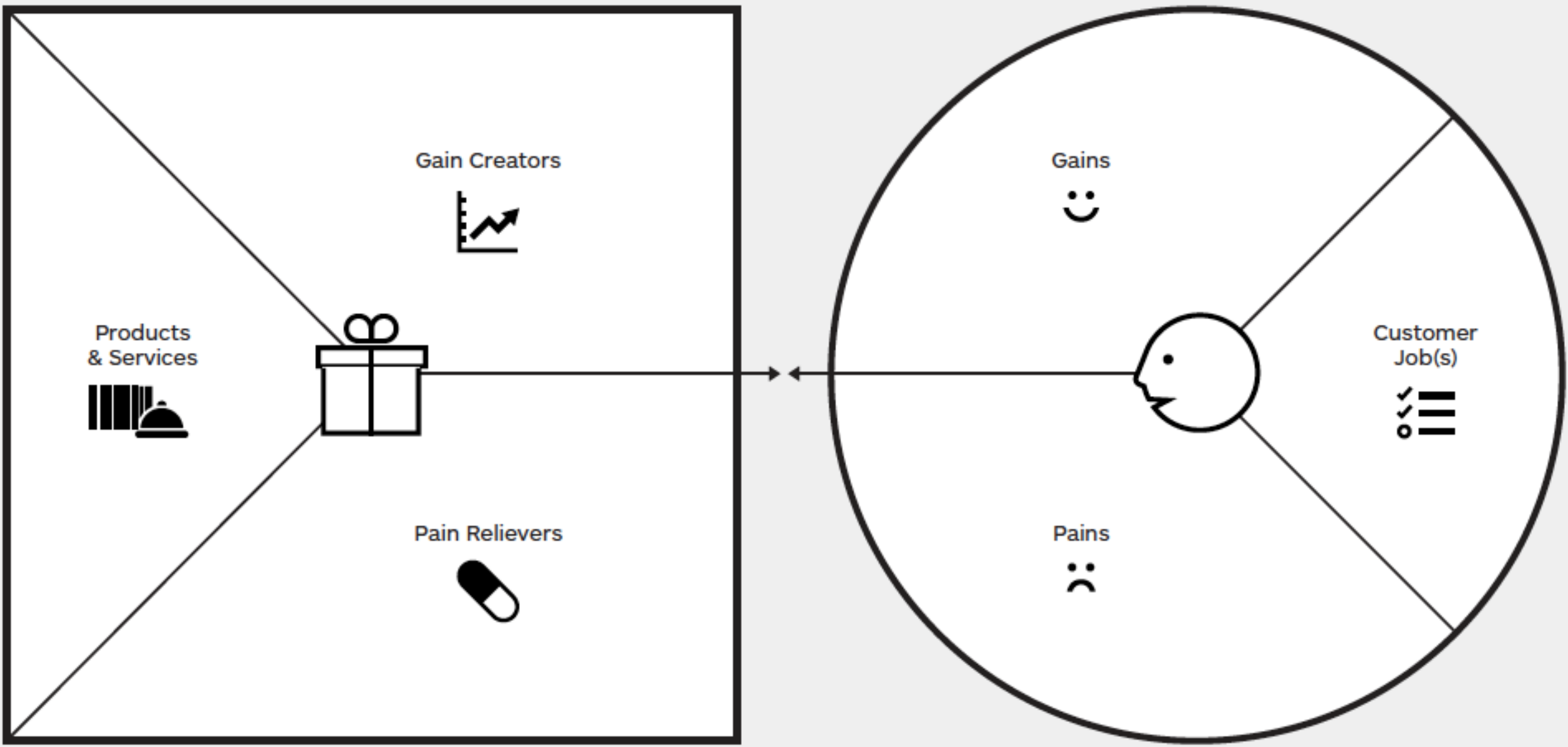
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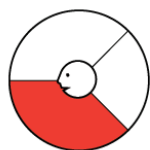
Value Proposition

Customer Segment





# Customer Pains



## Trigger Questions

1. How do your customers define too costly? Takes a lot of time, costs too much money, or requires substantial efforts?
2. What makes your customers feel bad? What are their frustrations, annoyances, or things that give them a headache?
3. How are current value propositions under performing for your customers? Which features are they missing? Are there performance issues that annoy them or malfunctions they cite?
4. What are the main difficulties and challenges your customers encounter? Do they understand how things work, have difficulties getting certain things done, or resist particular jobs for specific reasons?
5. What negative social consequences do your customers encounter or fear? Are they afraid of a loss of face, power, trust, or status?
6. What risks do your customers fear? Are they afraid of financial, social, or technical risks, or are they asking themselves what could go wrong?
7. What's keeping your customers awake at night? What are their big issues, concerns, and worries?
8. What common mistakes do your customers make? Are they using a solution the wrong way?

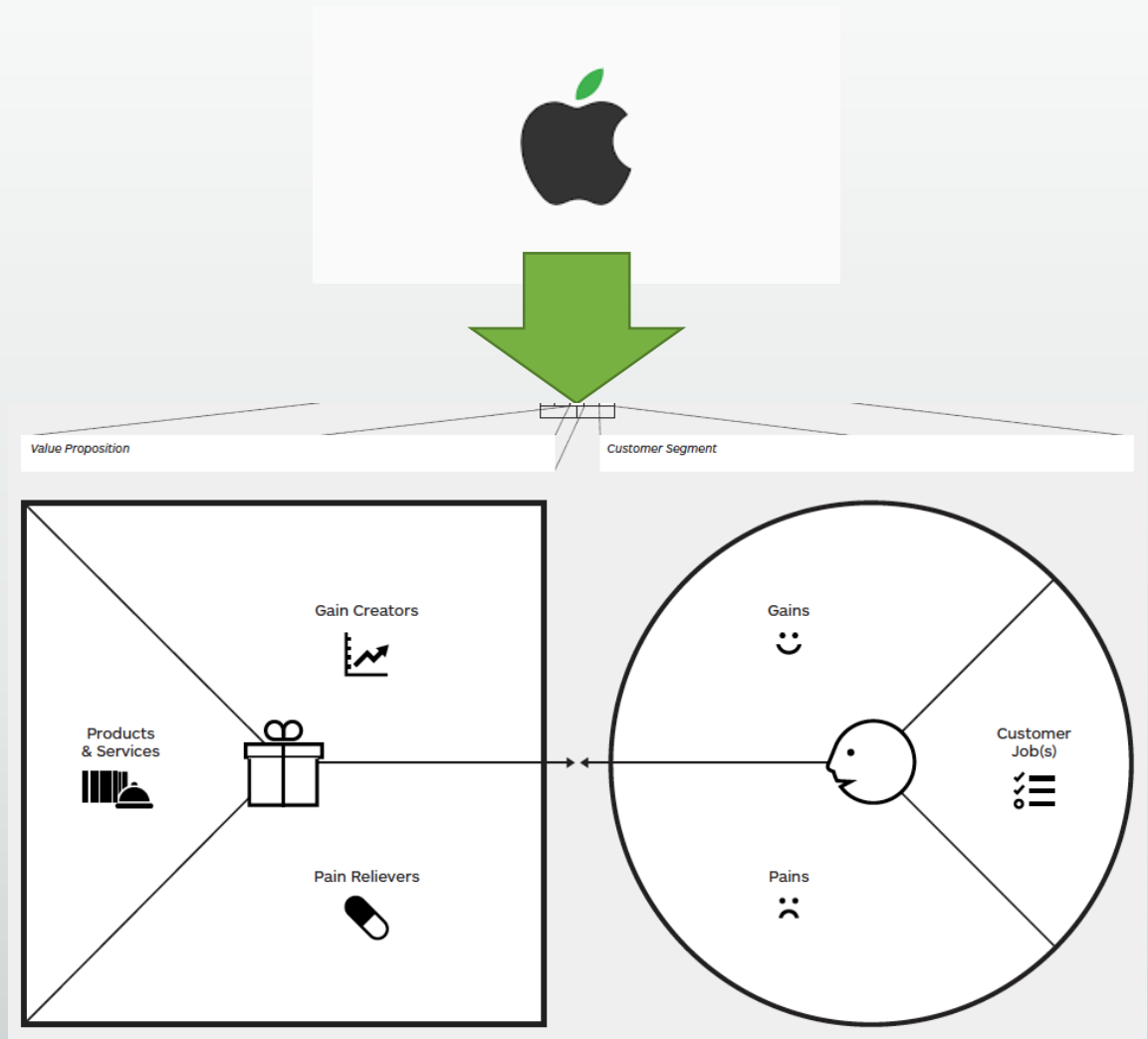
# Customer Gains



## Trigger Questions

1. Which savings would make your customers happy? Which savings in terms of time, money, and effort would they value?
2. What quality levels do they expect, and what would they wish for more or less of?
3. How do current value propositions delight your customers? Which specific features do they enjoy? What performance and quality do they expect?
4. What would make your customers' jobs or lives easier? Could there be a flatter learning curve, more services, or lower costs of ownership?
5. What positive social consequences do your customers desire? What makes them look good? What increases their power or their status?
6. What are customers looking for most? Are they searching for good design, guarantees, specific or more features?
7. What do customers dream about? What do they aspire to achieve, or what would be a big relief to them?
8. How do your customers measure success and failure? How do they gauge performance or cost?
9. What would increase your customers' likelihood of adopting a value proposition? Do they desire lower cost, less investment, lower risk, or better quality?

# Which of Apple's value propositions relate to which customer demands (jobs)?



## Activity 2

Be specific and consider Apple Cloud, iTunes, etc.

Alternatives:

- Google Maps
- TradeMe

# Hypotheses testing (again)

- What are the underlying hypotheses of your business model? (e.g., customers are keen on high quality products)
- How can you test this hypothesis?
- What data do you need?
- If you reject the hypothesis, which alternative hypothesis obtains support?
- What do you need to change in your business model based on your hypotheses tests?

*"To paraphrase Reid Hoffman, the founder of LinkedIn, you need to live your business model in permanent beta. The business model that you capture on paper (...) should be treated as a running **hypothesis** that is constantly **tested** and questioned."*

Source: Bock, Adam J.. The Business Model Book: Design, build and adapt business ideas that drive business growth (Brilliant Business) (p. 187). Pearson Education Limited. Kindle Edition.

# Business Model and Hypotheses Testing (example)



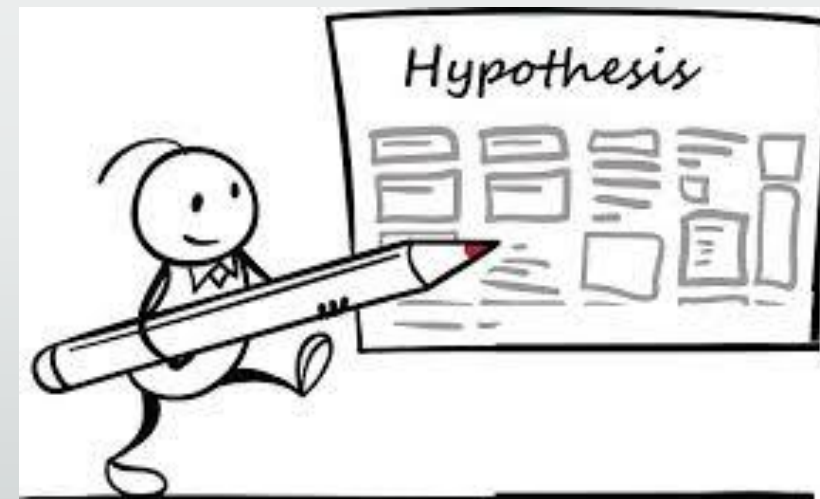
# Activity 3

(a) Identify 3-5 assumptions / hypotheses that form the foundation of the business model (e.g., about why customers will buy or subscribe a certain product / service, market segments, etc.)

(b) Identify 3-5 counter-assumptions (e.g., alternative reasons why customers buy a certain product)

(c) What kind of data you would need to test your assumptions/hypotheses?

Identify key hypotheses on which Apple's business model is based



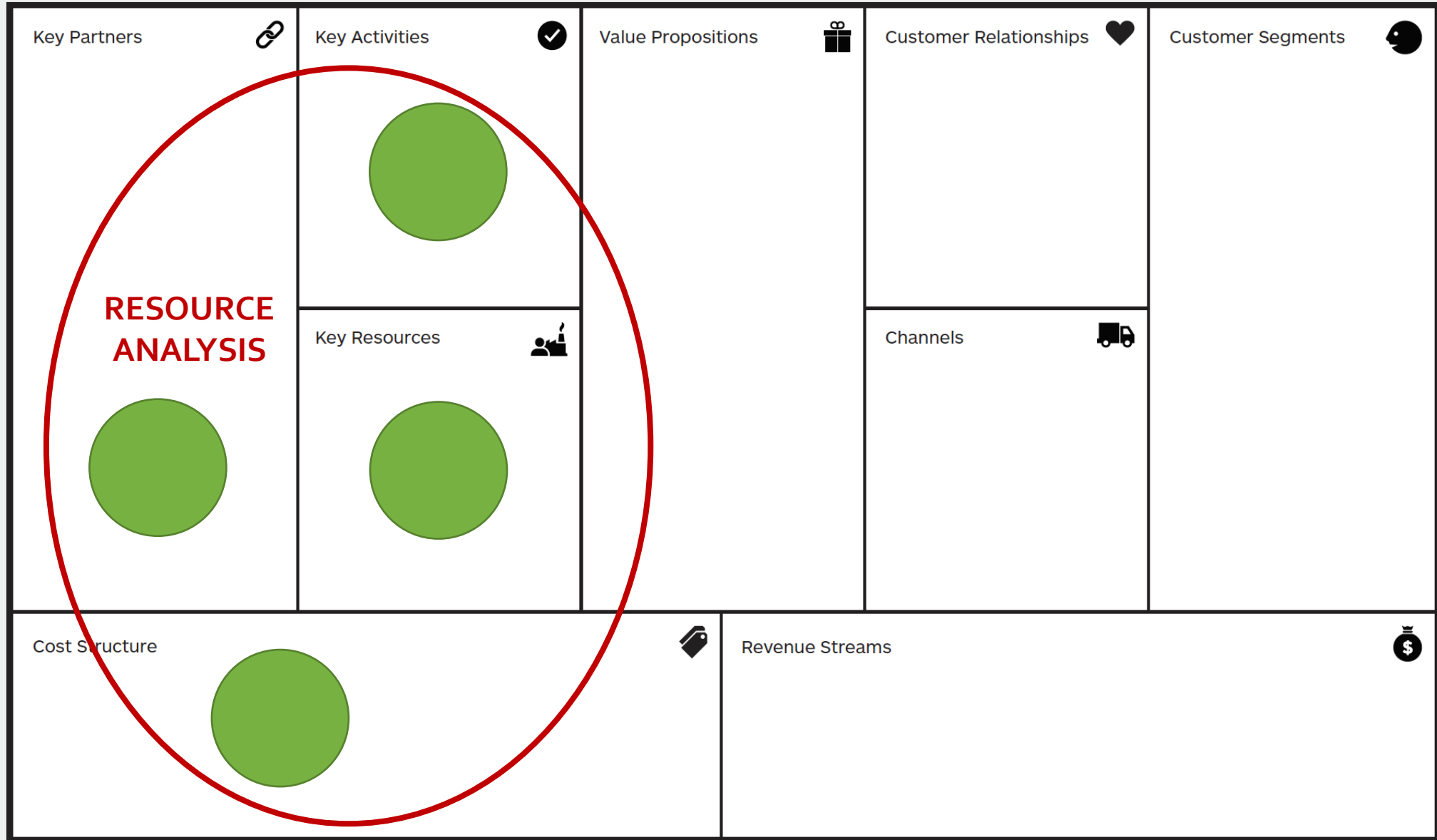
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# HOW DO YOU CONDUCT RESOURCE ANALYSIS?

VALUABLE?	RARE?	COSTLY TO IMITATE?	EXPLOITED BY ORGANIZATION	COMPETITIVE IMPLICATIONS	FIRM PERFORMANCE
No	—	—	No	Competitive disadvantage	Below average
Yes	No	—	Yes	Competitive parity	Average
Yes	Yes	No	Yes	Temporary competitive advantage	Above average
Yes	Yes	Yes	Yes	Sustained competitive advantage	Consistently above average

	Specialised	Hard to copy	Rare	Precious
Bar code scanner				
Buyer who knows fashion	X	X	X	X
Social media marketer	X			X
High end clothing brands		X		X
Book of repeat customers				X
Great location			X	X

*Do firm resources generate value?  
Competitive Advantage?*



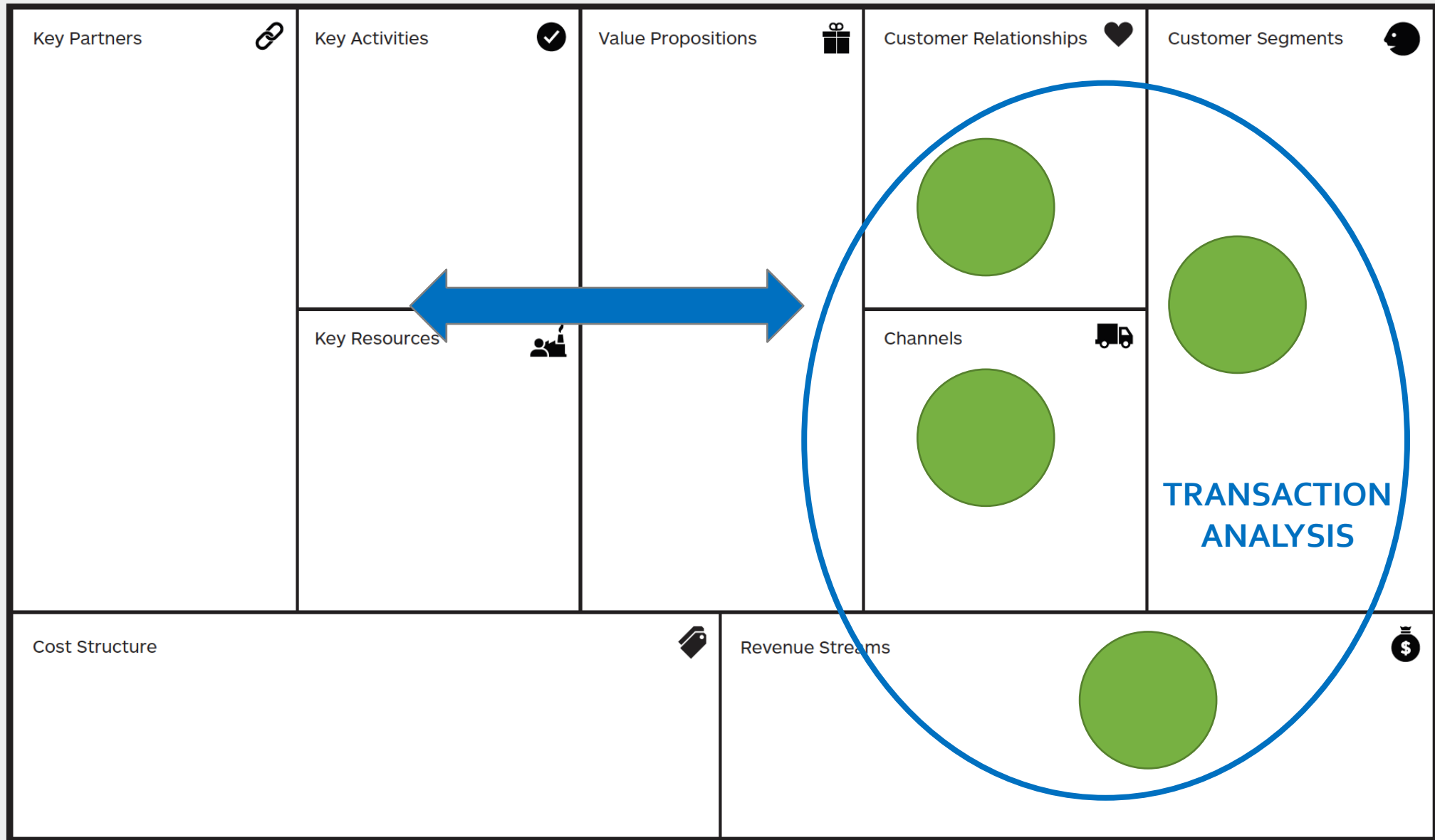
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# How do you analyze transactions?

- What do transactions do?
- Internal and external transactions
- Transactions connect firm resources to suppliers and customers and seek to *catch value*
- How can your firm capture more value by (re)designing its transactions?
- How can firms capture more value keeping transaction costs manageable?

# Types of Business Models

- **Solution Shops**

(e.g., professional service firms, e.g., consulting, law, advertising and market research, engineering service firms, ...)

- Key characteristics: **trust** in knowledge, expertise and service (= resource)
- Fee-for-service revenue model; performance based (e.g, % of profit increase)

- **Value-adding process**

(e.g., restaurants, standard medical procedures, education; manufacturing)

- Value chain: resources
- Fee-for-outcome revenue model.

- **Facilitated networks**

(e.g, B2B or B2C platforms such as Amazon, Alibaba; telephone companies (includes skype))

- Key characteristic: transactions
- Revenue model: commission, subscription, fee-for-service, advertising

# Business Model Types & dominant dimension

Examples	Resources	Transactions	Value
<ul style="list-style-type: none"> <li>Service free for advertising (Google search)</li> </ul>			X
<ul style="list-style-type: none"> <li>Razor &amp; Blade (Gillette, Lexmark, Kodak, Polaroid)</li> </ul>		X	
<ul style="list-style-type: none"> <li>One-stop, low-price (Amazon)</li> </ul>		X	
<ul style="list-style-type: none"> <li>Intermediary / Market aggregation / Multi-sided platform (Alibaba)</li> </ul>		X	
<ul style="list-style-type: none"> <li>Trust (Consultancy)</li> </ul>	X		
<ul style="list-style-type: none"> <li>Community Provider / freemium (Linkedin)</li> </ul>	X		
<ul style="list-style-type: none"> <li>Content Provider / advertising (NYT, youtube)</li> </ul>	X		

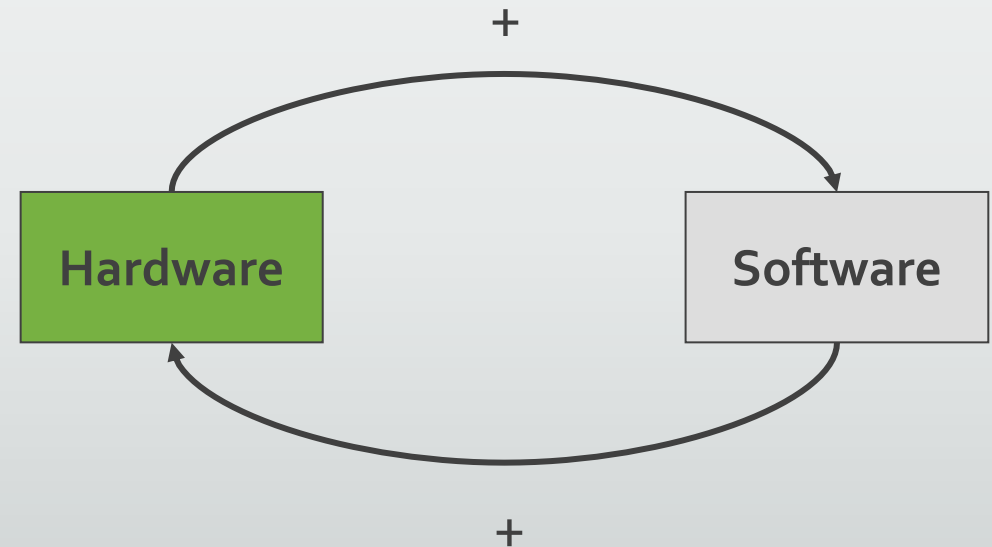
# Many online business models rely on network effects

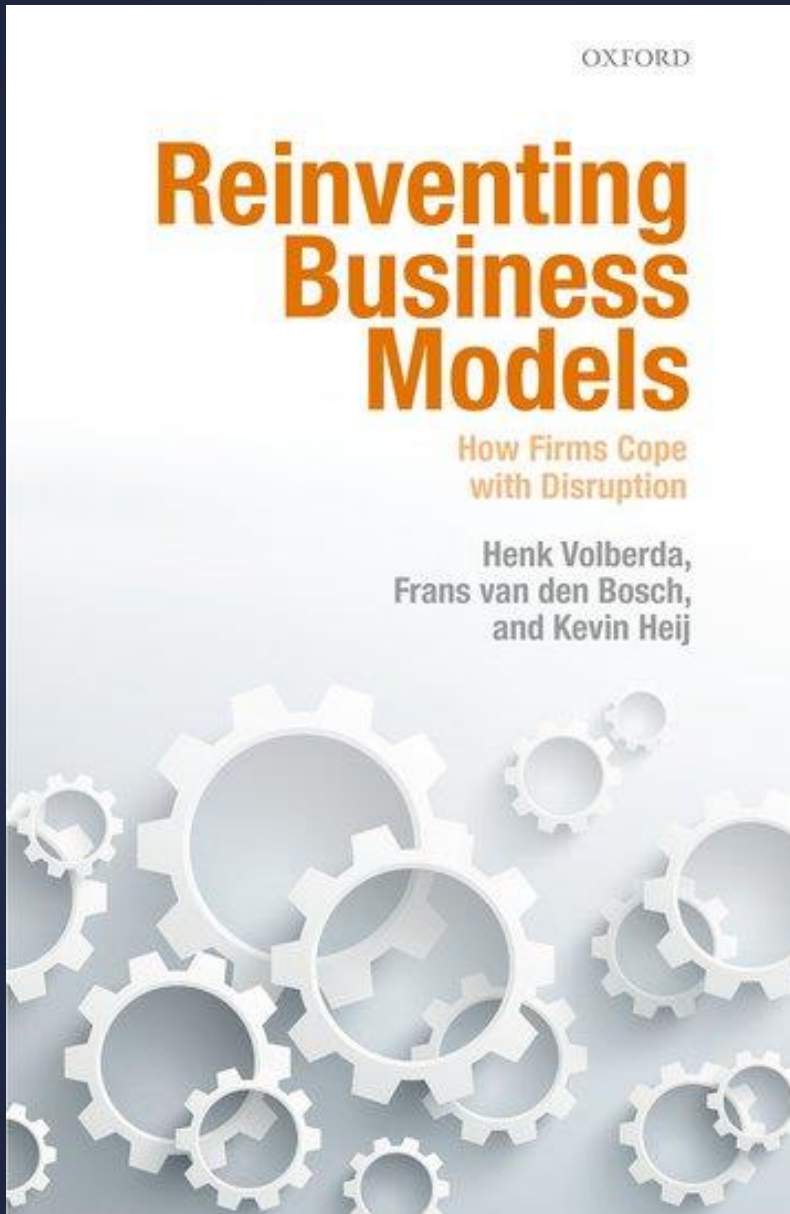
- **Direct Network Effect**

- Decision to buy network good influences the decisions of others to buy network good as well.
- Demand for network good =  $F(\text{price; size of network})$
- Example: phone, ...

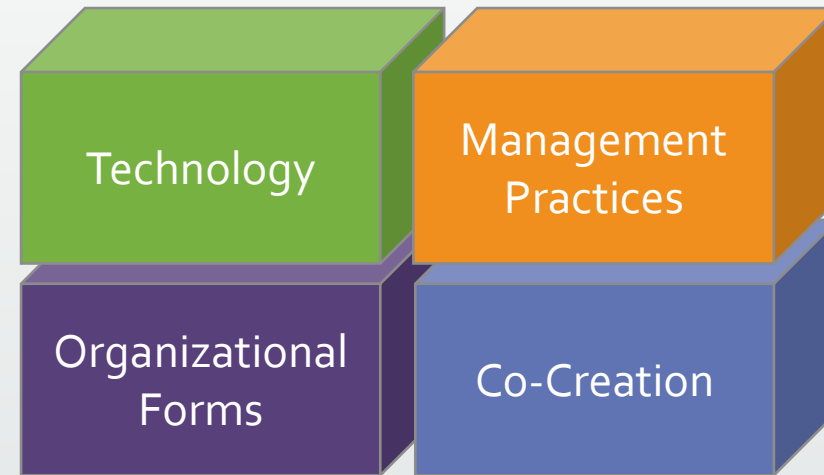
- **Indirect Network effect**

- Demand =  $F(\text{product price; prices and future availability of components and services})$
- Example: playstation & games



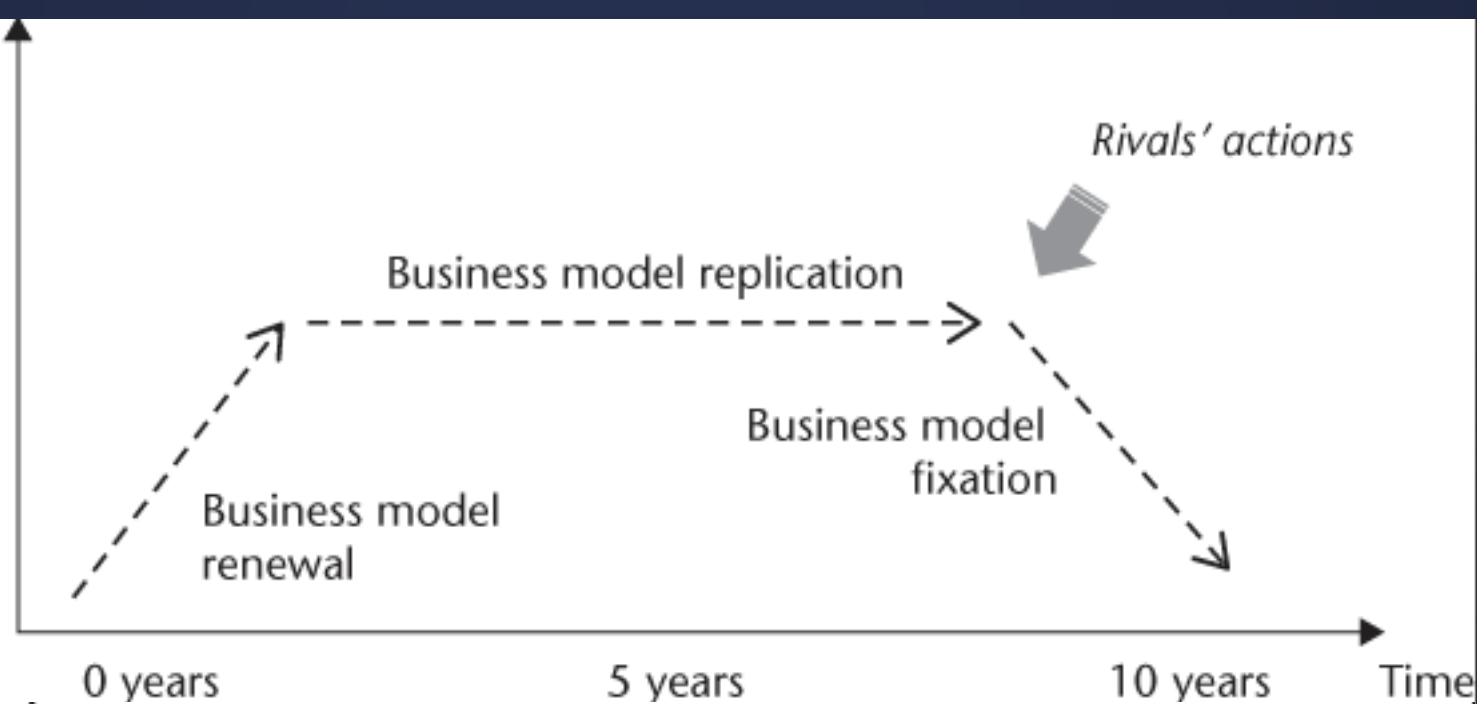


- Why should you have a look at this book?
- Ideas for your brainstorming
- Simple framework for business model innovation

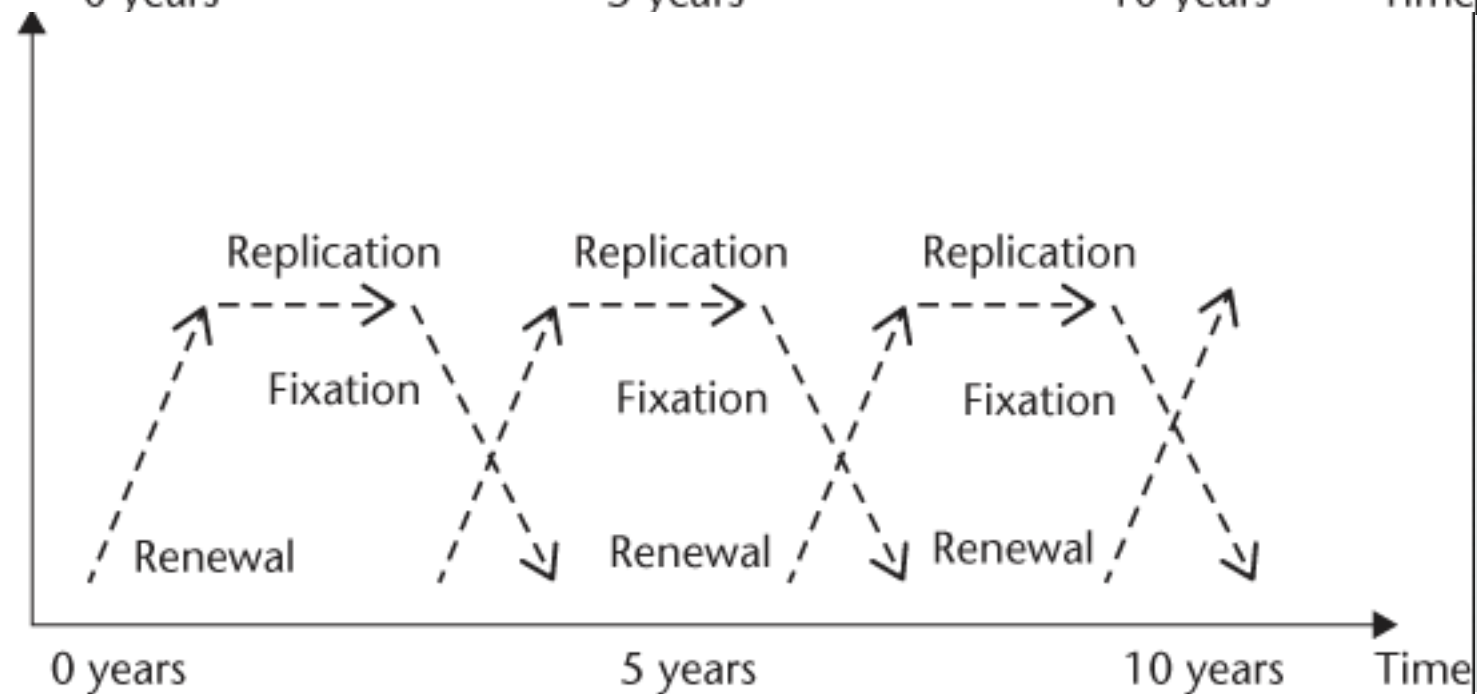


- Key message: focusing just on one lever, is unlikely to generate a new business model.

Revenue from a sustainable competitive advantage



Revenue from a temporary competitive advantage

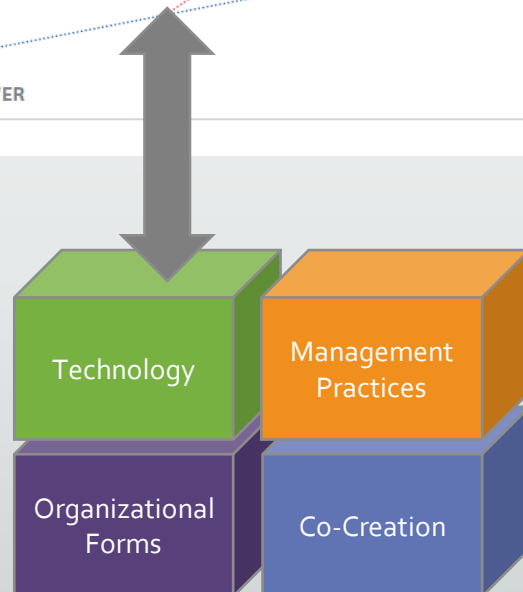
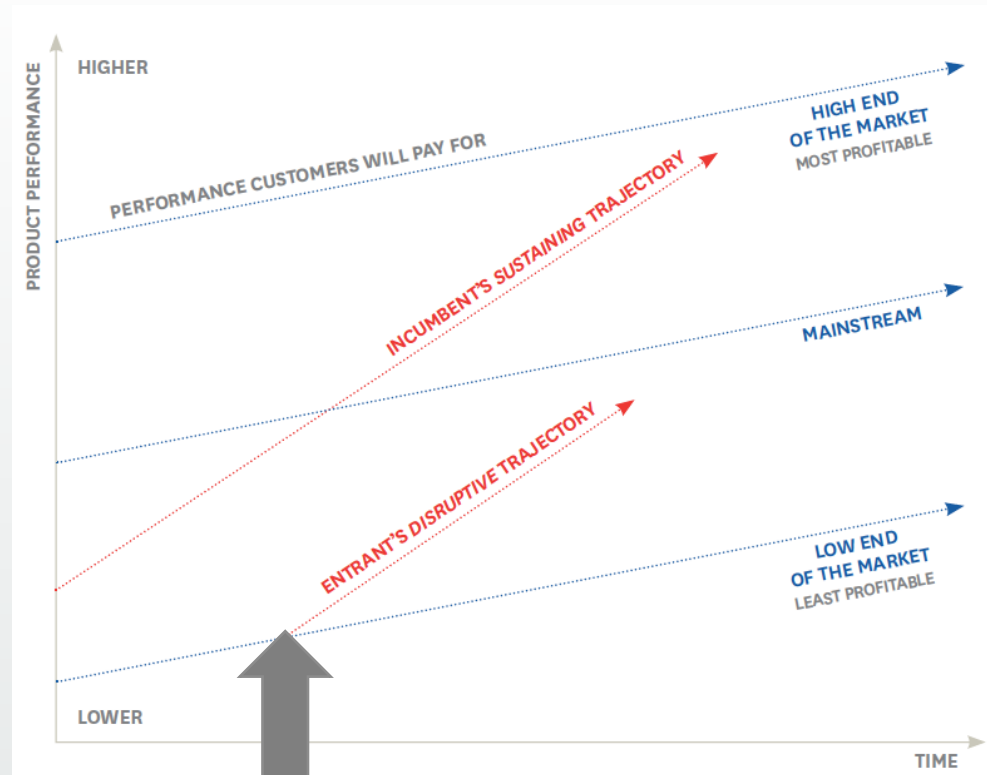


**Table 1.1 Business model trap versus business model innovation**

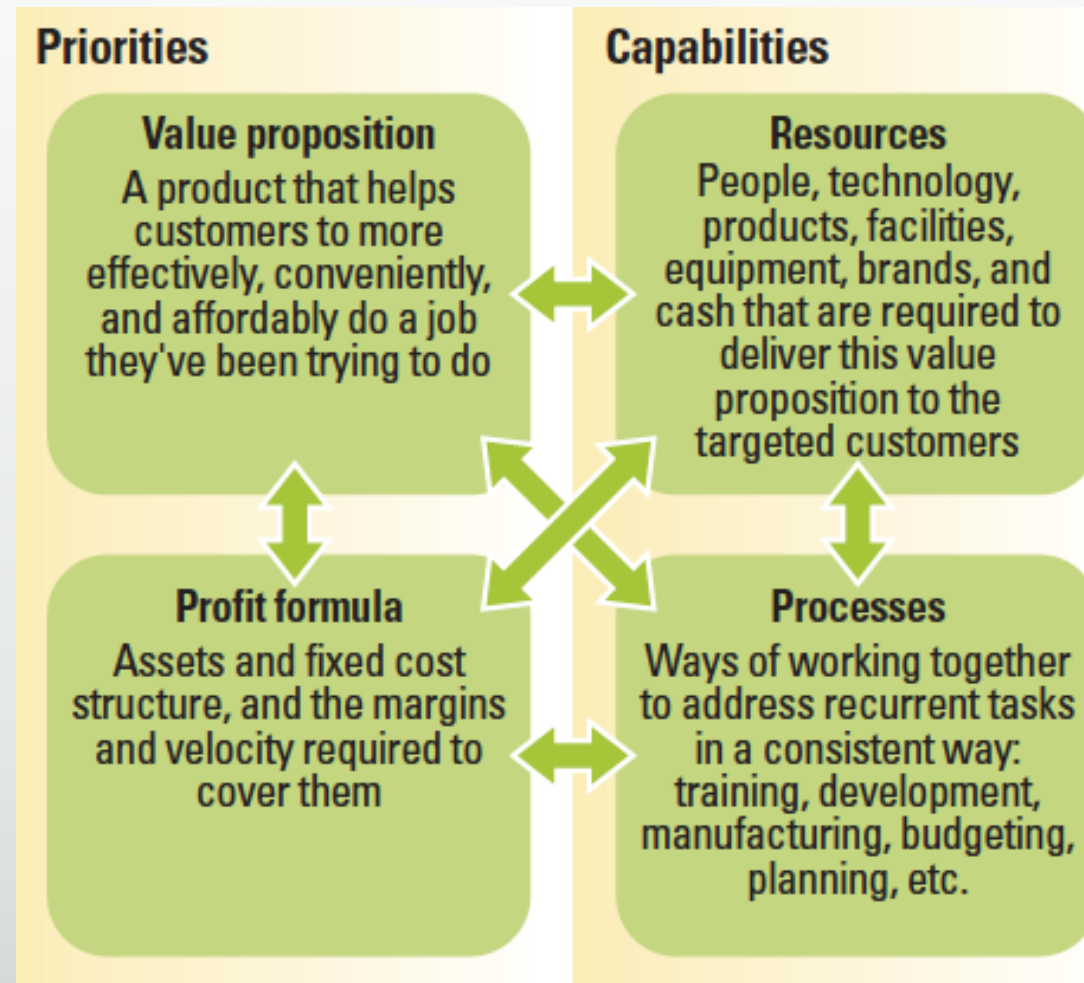
Business model trap	Business model innovation
• fixation on existing technology	• investment in emerging technologies
• refining routines	• developing dynamic capabilities
• adapting to the existing environment (fit)	• anticipating new environment (stretch)
• small-scale improvements (single-loop learning)	• radical experimentation (double-loop learning)
• focus on existing customers (adapting to the market)	• focus on new customers (market creation)



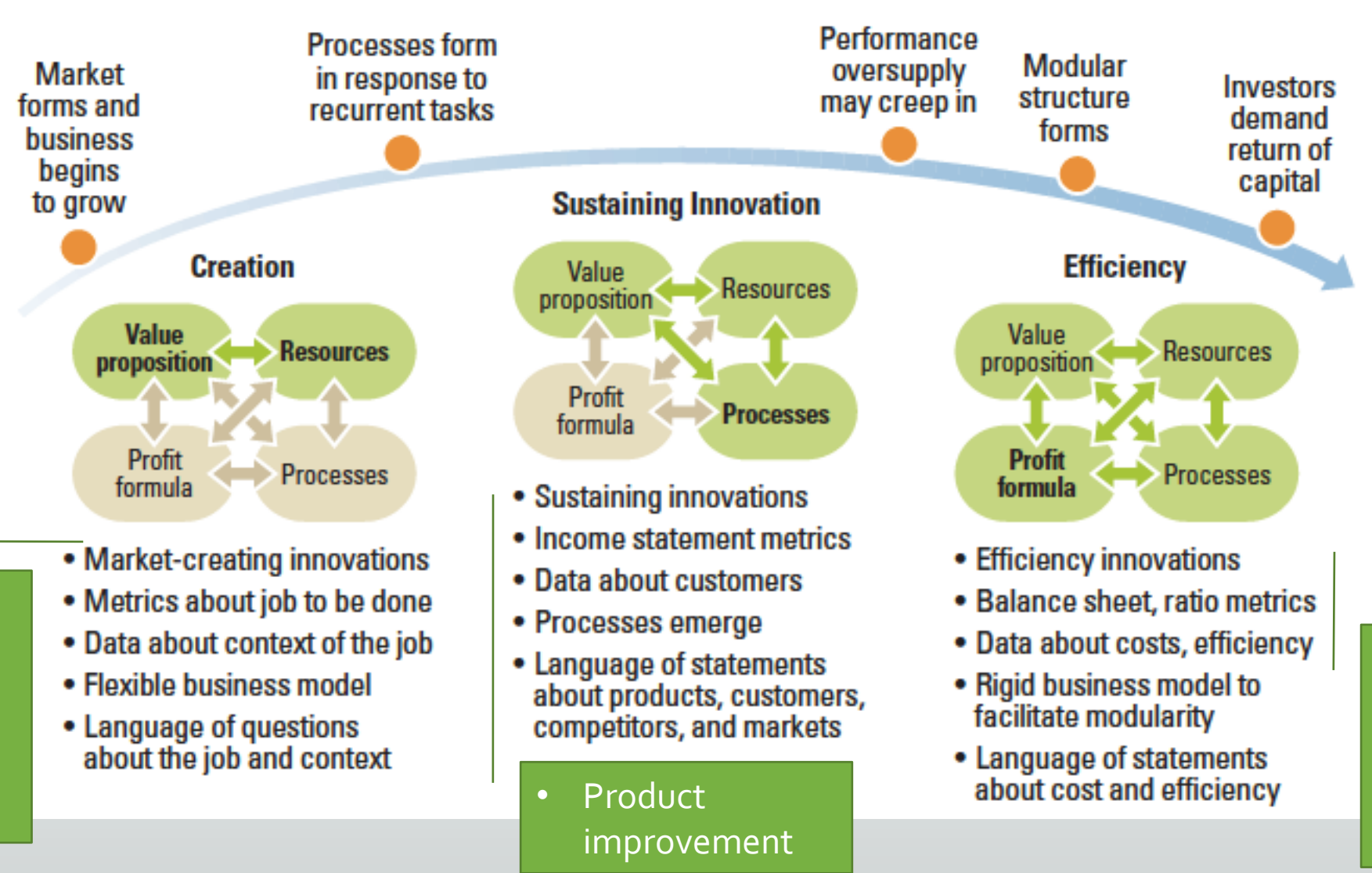
# Business models and technological disruptions



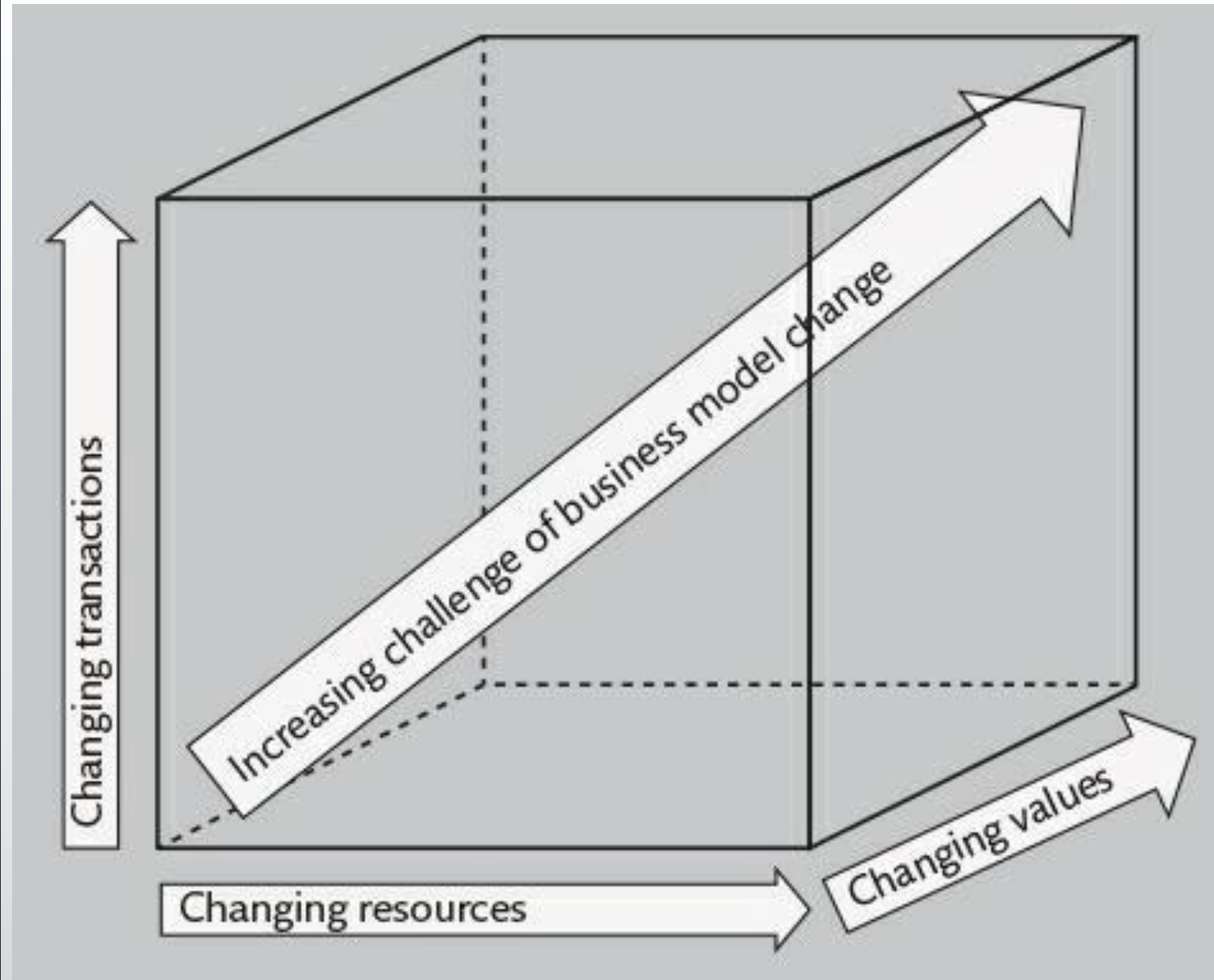
# (A simple) Alternative to the Business Model Canvas



# Business model evolution roadmap



- ### 3 Dimensions
- Resources
  - Transactions
  - Value



(re-)Design of Transaction	Definition
<b><i>Disintermediate</i></b>	Connect two individuals or entities that were previously unconnected to enable more efficient transactions or eliminate unnecessary components or parties in the transaction
<b><i>Extend</i></b>	Enable the transaction to reach further or accomplish more with additional processes or actions
<b><i>Simplify</i></b>	Reduce the complexity of the transaction through automation, process improvement, less documentation, or other means
<b><i>Virtualise</i></b>	Move the transaction into a virtual context such as online data collection or reporting
<b><i>Combine</i></b>	Combine previously separate processes, actions, or transactions; this may require moving responsibility for the combined transaction to a single person or entity
<b><i>Unpack</i></b>	Identify the underlying actions and processes within the larger transaction and separate them to identify unnecessary steps; reallocate steps to other transactions
<b><i>Outsource</i></b>	Place responsibility for the transaction with an external individual or entity
<b><i>Eliminate</i></b>	Eliminate the transaction; is it really necessary after all?
<b><i>Expose</i></b>	Make the transaction more transparent to participants and users of the transaction outcome; this may help identify redundancies, wasted transactions, or opportunities for increased efficiency
<b><i>Hide</i></b>	Make the transaction invisible to participants and users of the transaction outcome; this may reduce information overload and/or monitoring costs
<b><i>Update</i></b>	Change the transaction to reflect new technology, resources, or information requirements.
<b><i>Integrate</i></b>	Identify how the transaction could be more closely connected to other value-creating transactions within the organization; is possible that the transaction is well designed but simply not being utilized or implemented effectively

	Question	Your ideas or plans
<p><b>V</b></p> <p><b>A</b></p> <p><b>L</b></p>	<p><i>How is information about new value creation made available to people and groups inside and outside the organisation?</i></p>	
<p><b>U</b></p> <p><b>E</b></p>	<p><i>What are the characteristics of the value that is created in the new business model?</i></p>	
	<p><i>How is value capture monitored in the new business model? How will you know when partners and customers are benefitting from that value capture?</i></p>	
	<p><i>What elements of the business model design can be changed quickly if it looks like the business model is not generating the value you expected?</i></p>	
	<p><i>What are three industry- or market-level metrics that you could monitor to confirm whether the business model is generating value?</i></p>	