ENTREPRENEDU

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HORIZON-EIE-2022-SCALEUP-01-01 Expanding Entrepreneurial Ecosystems

Business Model Development

Video 2

2023

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Knowledge on Business Model Development is essential for Early-stage Entrepreneurs

Challenges

- Lack of **Experience** on BMD
- Limited **Resources**
- Access to feedbackand **mentorship**

BM

Relevance

- Prioritizing initial business model development increases **probability of survival and growth** for entrepreneurs.
- Clear business models can lead to up to **30% faster break-even** for startups.

Video-Objectives

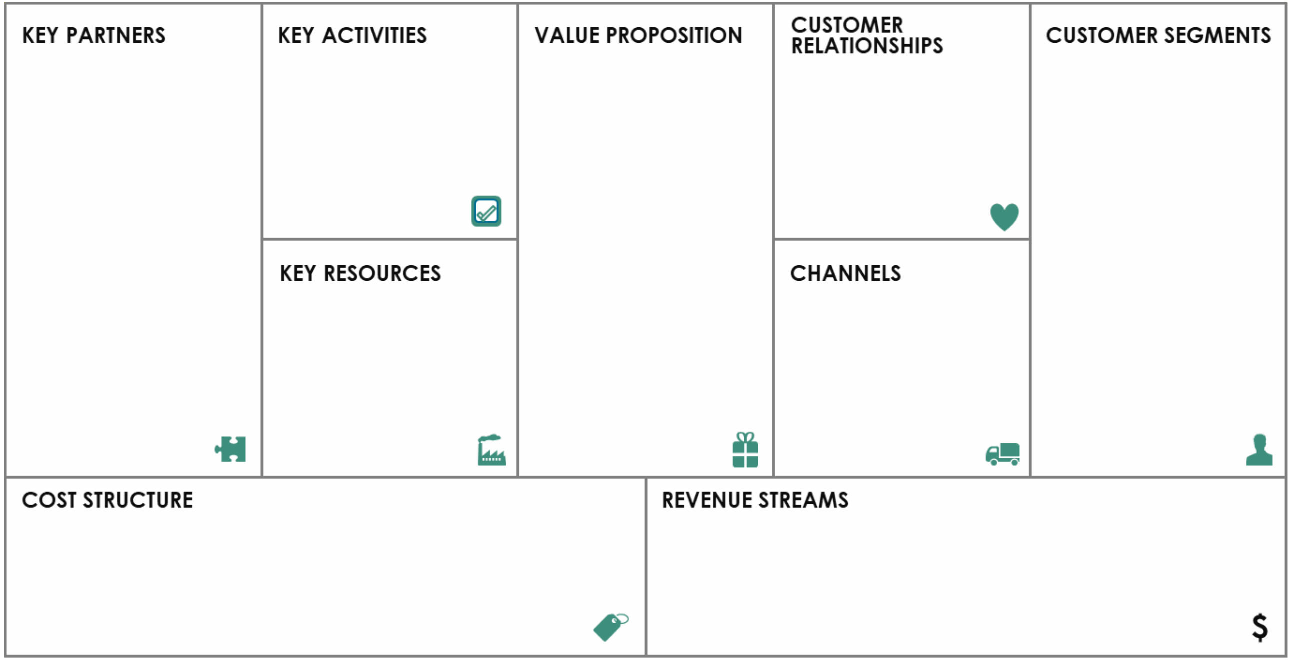
- Introduce the **Business Model Canvas (BMC)** and its background
- Provide an **advanced understanding** of the different BMC components and their application

Definition & History of the Business Model Canvas

Business Model Canvas (Osterwalder & Pigneur, 2010)

Definition

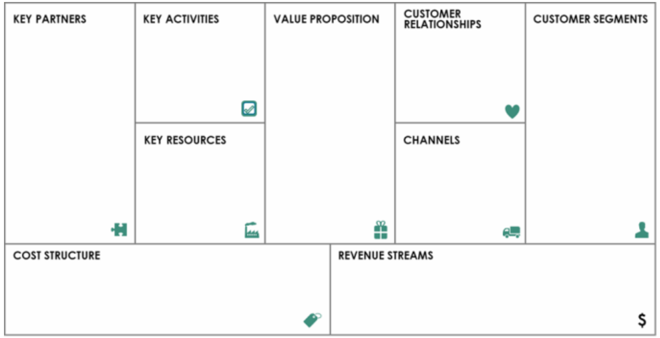
A business model canvas is defined as an organizational tool that is used for analyzing and designing business models and solving organizational transformation problems. It showcases the business model in its constituent parts and provides an holistic overview.
Macha-Huamán, et al. (2023)



Benefits & Variants of the Business Model Canvas

The BMC enables Start-ups to identify key strategic factors

BMC



Benefits

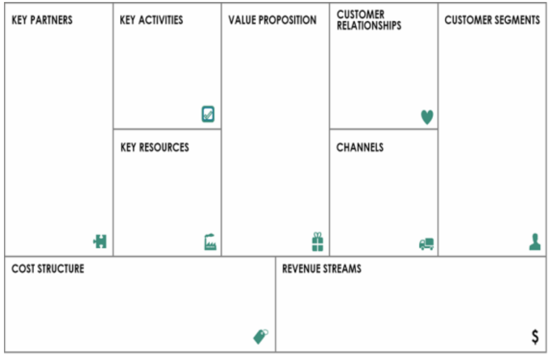
- Clarity and Visualization
- Comprehensive Overview

- Communication
- Iterative Proces

- Strategy Testing
- Alignment of Activities
- Risk Management

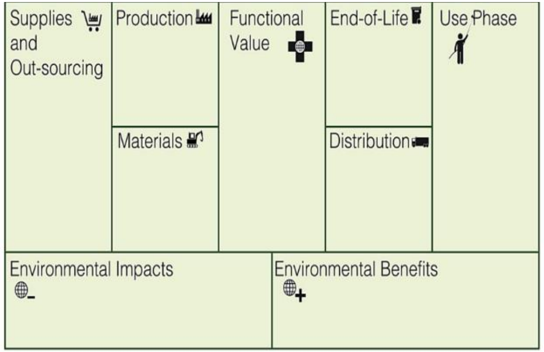
There are multiple variations of the BMC

Classic BMC



Lean BMC

Environmental BMC



The classic Business Model Canvas (Osterwalder & Pigneur, 2010)

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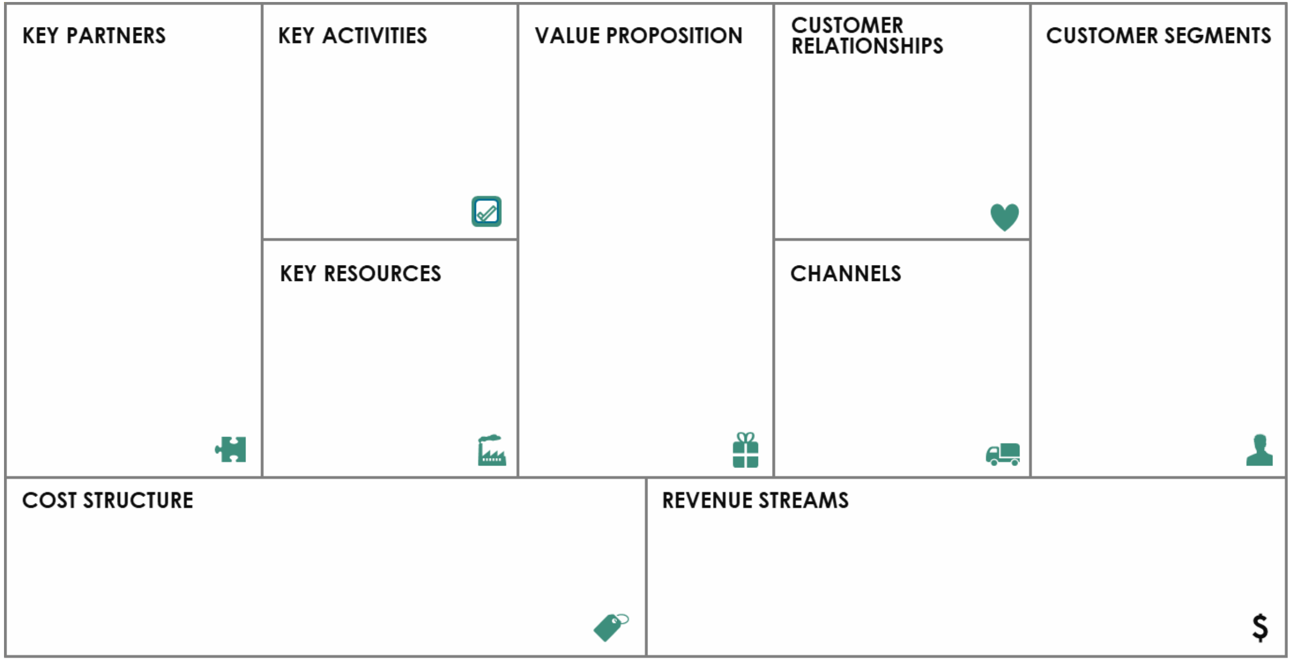
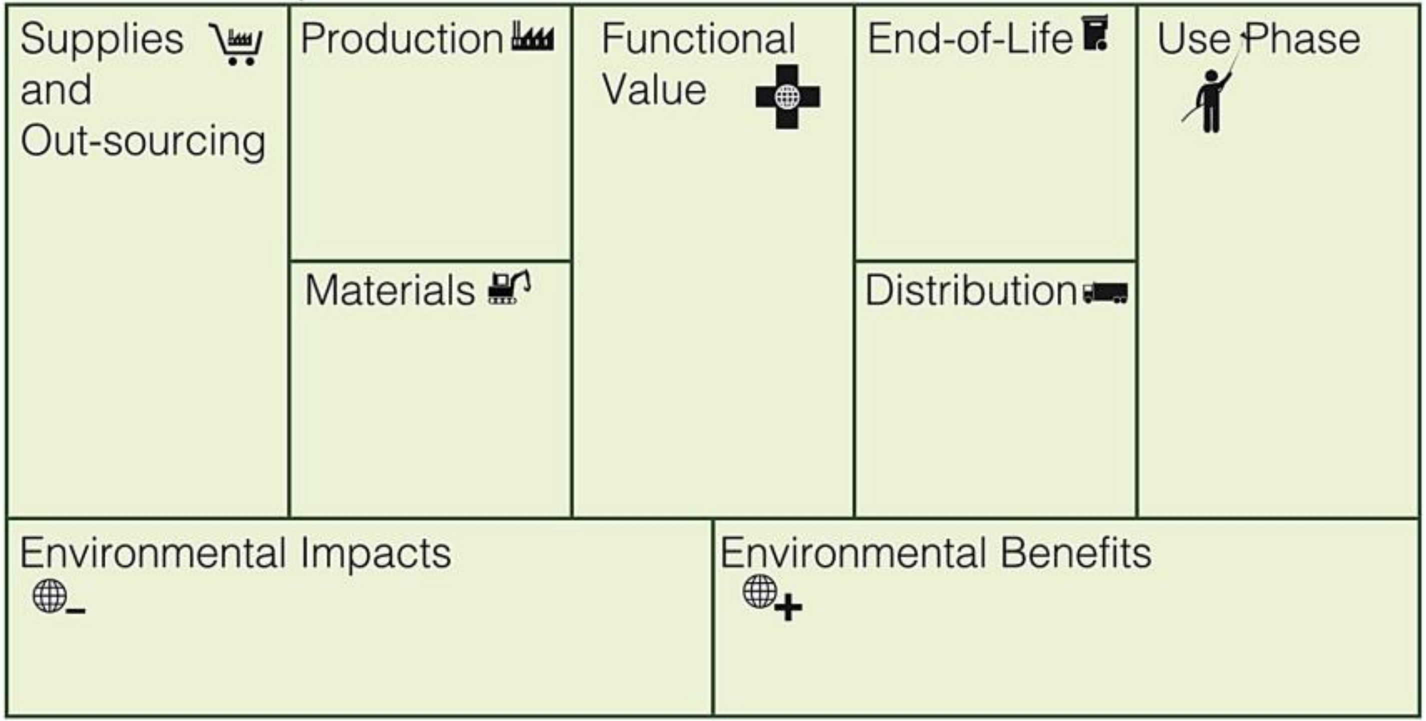


The lean Business Model Canvas (Maurya, 2010)

The environmental Business Model Canvas (Joyce & Raymond, 2016)



The 9 Business Model Canvas Elements

The application of the classic Business Model Canvas (Osterwalder & Pigneur, 2010)

Goal

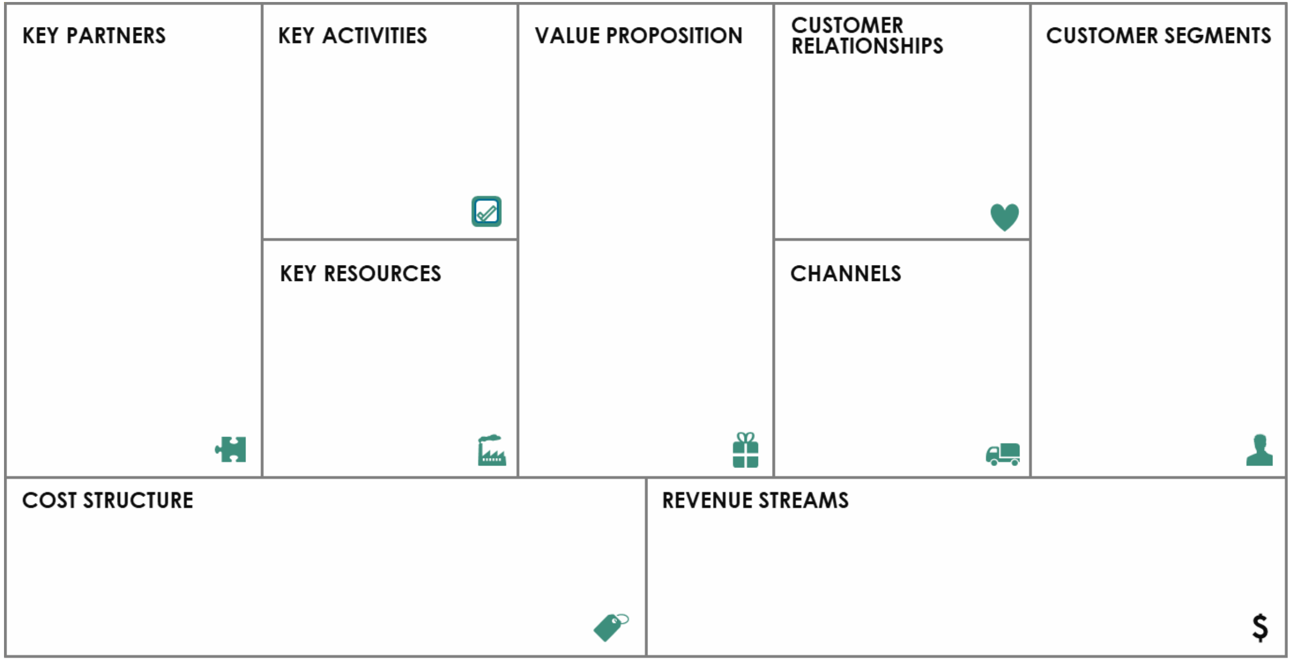
Understand the Business Model.

How

Ask yourself specific questions.

Outcome

Identify areas that require refinement, further development, or potential change.



The classic Business Model Canvas – Key Partners (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Key Partners	• Who are our most important partners? • Who are our most important suppliers? • Do suppliers offer special conditions in purchasing? • Am I dependent on certain suppliers for procurement or sales? • Do partnerships exist for the development of new markets?	• Assess the role of key partners and the potential value they bring to the business. • Consider how these partnerships enhance the business model.

The classic Business Model Canvas – Key Activities (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Key Activities	• What activities does our value proposition require? • What features could be added to the product for a greater value proposition? • How can customers be tied to the company even better? • How many employees need to be recruited and trained in what timeframe?	• Analyze the core activities required to deliver the value proposition. • This analysis should identify what activities are critical, cost-effective, and unique to the business.

The classic Business Model Canvas – Key Resources (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Key Resources	• What resources do we need for our performance /distribution channels/customer retention/revenue streams? • Material/technical • Knowledge based • Team • Financial	• Assess whether there are potential resource constraints or dependencies. • Ensure that the essential resources (e.g., technology, talent, infrastructure) are available and allocated effectively.

The classic Business Model Canvas – Value Proposition (Osterwalder & Pigneur, 2010)

BMC Element

Value Proposition

Questions

- What is our value proposition?
- What activities does our value proposition require?
- What features could be added to the product for a greater value proposition?
- How can customers be tied to the company even better?

Outcome

- The analysis should determine if the value proposition is well-defined, unique, and compelling to the target customer segments.
- Is it solving a real problem or addressing a need in the market?

The classic Business Model Canvas – Cost Structure (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Cost Structure	• What are the most important expense items in our business model? • Which resources/areas generate the greatest costs? • How high are the acquisition costs per customer? • What are the margins of the individual products?	• Review the cost structure to identify areas where costs can be optimized, reduced, or managed more effectively. • Ensure that the entity can operate within its budget constraints.

The classic Business Model Canvas – Customer Relationship (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Customer Relationship	• Who is our customer? • How are customers reached? • Where can the customer buy the offer? • How is a high level of customer satisfaction ensured? • How are incentives for repurchase set at the right time? • How is the customer supported after the sale?	• Assess the strategies for building and maintaining relationships with customers. • Ensure that they are appropriate for the type of product or service being offered.

The classic Business Model Canvas – Channels (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Channels	• Through which channels do our primary customer segments want to be reached? • How are we reaching them now? • How are our channels integrated? • Which channels work best? • Which channels are most cost-efficient?	• The analysis should reveal how the entity plans to reach its customers and deliver its value proposition. • Consider whether the chosen distribution channels are cost-effective and efficient.

The classic Business Model Canvas – Customer Segments (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Customer Segments	• Who buys my product? • What distinguishes my target group? • Which customer groups are the most valuable? • Which strategy do I pursue in which customer group?	• The analysis should reveal if these segments are well-defined, if they represent viable markets, and if the startup is effectively targeting them • Understanding the characteristics and needs of customer segments is crucial.

The classic Business Model Canvas – Revenue Streams (Osterwalder & Pigneur, 2010)

BMC Element	Questions	Outcome
Revenue Streams	• What benefits are our customers willing to pay for? • How do they currently pay? • How would they prefer to pay? • How much does each revenue stream contribute to total revenue?	• Evaluate the revenue model and pricing strategies. • Determine if the pricing is competitive and if it aligns with the perceived value of the product or service.

Author	Definition
Afuah & Tucci (2003)	[The business model] is the **method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so**. It details how a firm makes money now and how it plans to do so in the long term. The model is what enables a firm to have a sustainable competitive advantage, to perform better than its rivals in the long term. A business model can be conceptualized as a system that is made up of components, linkages between the components and dynamics.
Chesbrough (2007)	“At its heart, a business model performs two important **functions**: **value creation and value capture.** First, it defines a series of activities, from procuring raw materials to satisfying the final consumer, which will yield a new product or service in such a way that there is net value created throughout the various activities. […] Second, a business model captures value from a portion of those activities for the firm developing and operating it.
Johnson et al. (2008)	A business model, from our point of view, consists of four interlocking **elements** that, taken together, create and deliver value. The most important to get right, by far, is the first [customer value proposition; profit formula; key resources; key processes].
Osterwalder & Pigneur (2010)	A business model describes the **rationale of how an organization creates, delivers and captures value.**

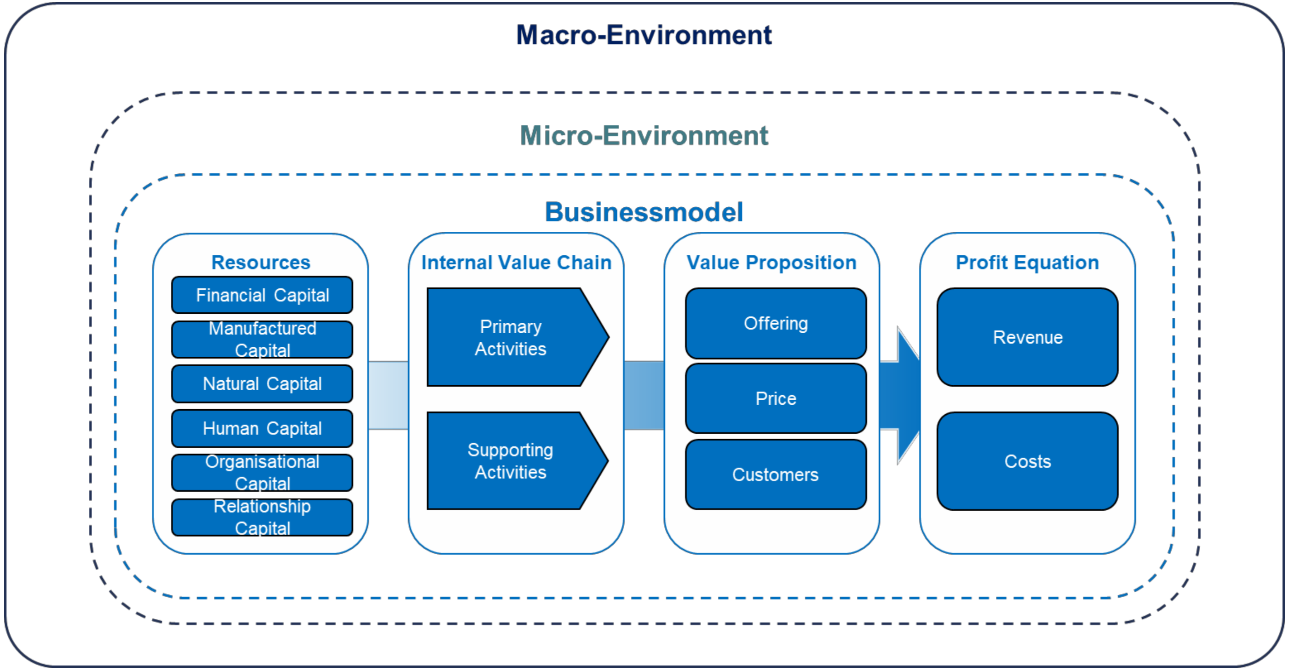
A Business Model defines how an organization creates, delivers, and captures value

Business Model

- A **blueprint** defining how an organization creates, delivers, and captures value.
- **Simplifies the complexity** of a company by reducing it to its essential elements and their interrelationships.
- It thus explains **how a company functions** and achieves its overarching goals.

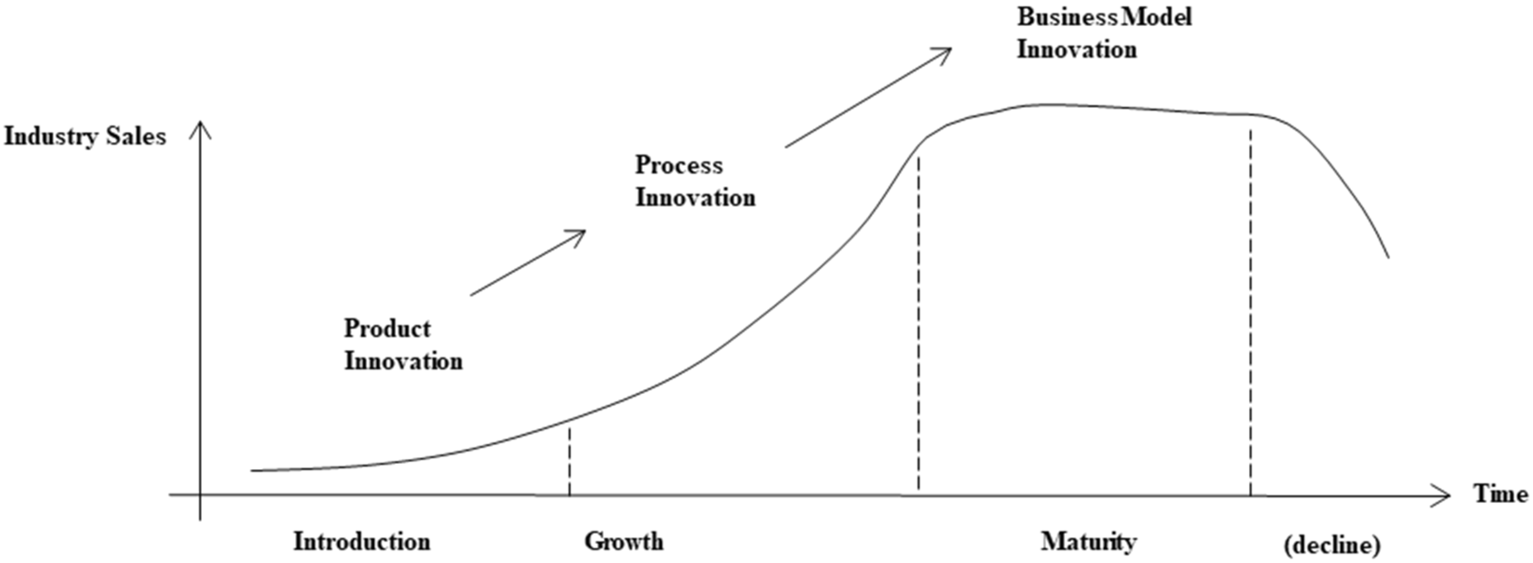
Business models guide strategic decisions, communicate ideas, identify risks, and act as a roadmap for growth.

A Business Models is embedded in its Micro- and Macro-Environment



Source: Steinhöfel, 2022

Significance of the Concept (Massa & Tucci, 2014)



Significance of the Concept

KODAK

Polaroid

HILTI

Uber

YAHOO!

zalando

BLOCKBUSTER

MOTOROLA

IKEA

BEYOND MEAT

airbnb

Commodore

PayPal

NOKIA

redhat

Business Model Development Process

Business Model Development Process

Osterwalder & Pigneur (2010)

Mobilise	Understand	Design	Implement	Manage
Prepare for a successful business model design project	Research and analyze elements needed for the business model design effort	Generate and test viable business model options and select the best	Implement the business model prototype in the field	Adapt and modify the business model in response to market reaction

Wirtz (2013)

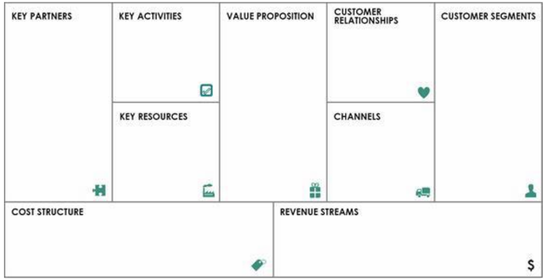
Idea Generation	Feasibility Analysis	Prototyping	Decision Making	Implementation	Monitoring & Controlling
• Market scan • Idea collection • Rough conception	• Detailed market analysis • Assessment of potential	• Demonstration of development trajectories • Detailed conception • Component development	• Examination of efficiency • Harmonisation • Conclusion of design	• Implementation plan • Communication and team set up • Iterative realisation of model • Conclusion of implementation	• Securing of competitive advantage • Controlling of value proposition • Controlling of value constellation

Gassmann (2014)

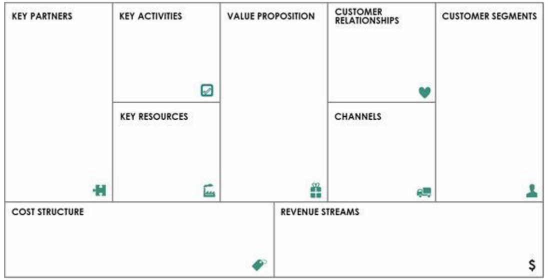
Initiation	Ideation	Integration	Implementation
• Environmental Analysis	• Adoption of Patterns	• Design of Business Model	• Implement the Plan

Business Model Development Process

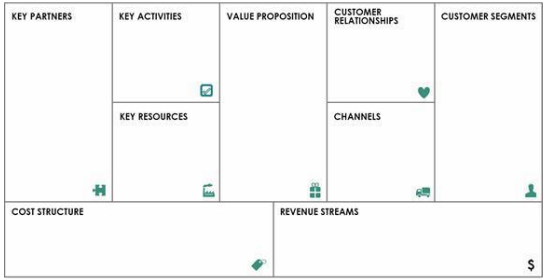
Capture & Communicate



Analyse



Develop



Approaches for Business Model Development

Approaches for BM Development

What do these three business models have in common?

#1

Answer: Switching costs

How easy or difficult is it for customers to switch to another company?

Approaches for BM Development

What do these three business models have in common?

#2

Answer: Recurring revenues

Is every sale a new effort or will it result in follow-up revenues and purchases? How evenly distributed are your revenues through the year?

Approaches for BM Development

What do these three business models have in common?

#3

FINANCIAL TIMES

TOYOTA

DELL

Answer: Earn before you spend

Are you earning money before you are spending it?

Approaches for BM Development

What do these three business models have in common?

#4

Answer: Game changing cost structures

Is your cost structure substantially different
and better than those of competitors? (E.g. no assets)

Approaches for BM Development

What do these three business models have in common?

#5

Answer: Getting others to do the work

How does your business model integrate customers or third parties to create value for you?

Define your Product or Service’s Value Proposition

Defining Your Product or Service’s Value Proposition

- The value proposition of your product or service is what distinguish you from the competition.
- They are the unique benefits or features that you offer which meet your customers' needs and wants.

To identify your value proposition, consider the following:

1. What problem are you solving that no other product or service in the market can?
2. What features or benefits make your product or service unique?
3. Why should customers choose your product or service over others?

Crafting a compelling Value Proposition by demonstrating its potential impact

How to Make Your Value Proposition Compelling in DeepTech Sectors

Creating a compelling value proposition in DeepTech sectors involves not just highlighting your ideas / product's unique features, but also demonstrating its potential impact.

Some recommendations are:

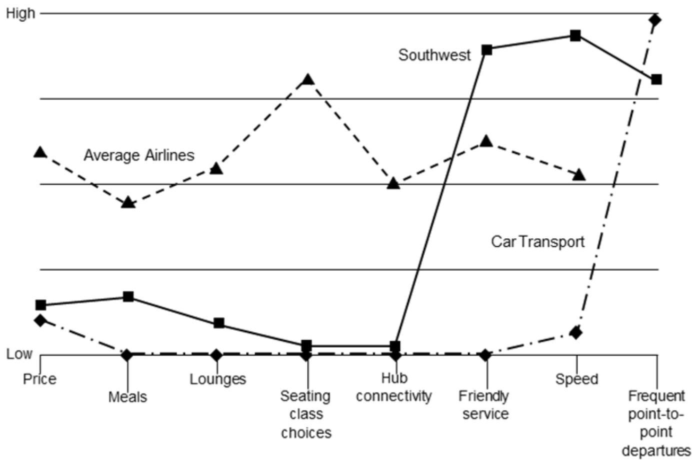
- Highlight the technological innovation and its advantages.
- Demonstrate the potential for scalability and impact on the industry or society.
- Address how you overcome the common challenges in the sector.
- Show evidence of traction or interest (such as patents, expert endorsements, or early adopters) to validate your claims.

Create a Compelling Value Proposition by following Blue Ocean Strategy

(Kim and Mauborgne, 2005)

The Value Curve approach focuses on designing innovative value propositions.

Kim & Mauborgne (2005)



Eliminate Which of the factors that the industry takes for granted should be *eliminated*?	***Raise*** Which factors should be *raised* well above the industry's standard?
Reduce Which factors should be *reduced* well below the industry's standard?	***Create*** Which factors should be *created* that the industry has never offered?

The TOWS matrix helps to identify key strategic elements when developing your business model

INTERNAL FACTORS / EXTERNAL FACTORS	**Strengths** List of Internal *Strengths*	**Weaknesses** List of Internal *Weaknesses*
Opportunities List of *External Opportunities*	**Strengths - Opportunities** Development of strategies that use STRENGTHS to seize OPPORTUNITIES.	**Weaknesses-Opportunities** Developing strategies that seize OPPORTUNITIES by addressing WEAKNESSES.
Threats List of External *Threats*	**Strengths-Threats** Development of strategies that use STRENGTHS to avoid THREATS.	**Weaknesses-Threats** Development of strategies to minimize WEAKNESSES and avoid THREATS.

Weihrich (1982)

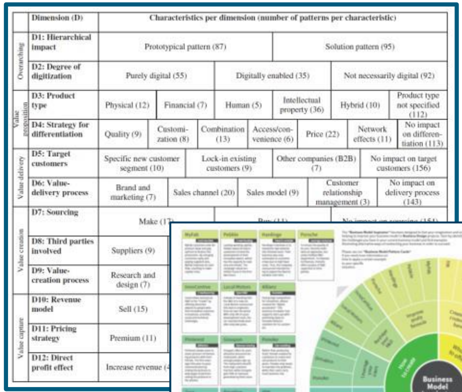
Business Model Patterns

Business model patterns are essentially recurring models or themes

Business Model Patterns

- **Standardized or recurrent elements** that can be identified in the business models of successful companies across different industries and contexts.
- By analyzing and understanding these patterns, businesses can **leverage proven strategies** to design their own unique business models.
- Goal is to use them as **inspiration** to develop a business model that fits a specific market context, customer need, and value proposition.

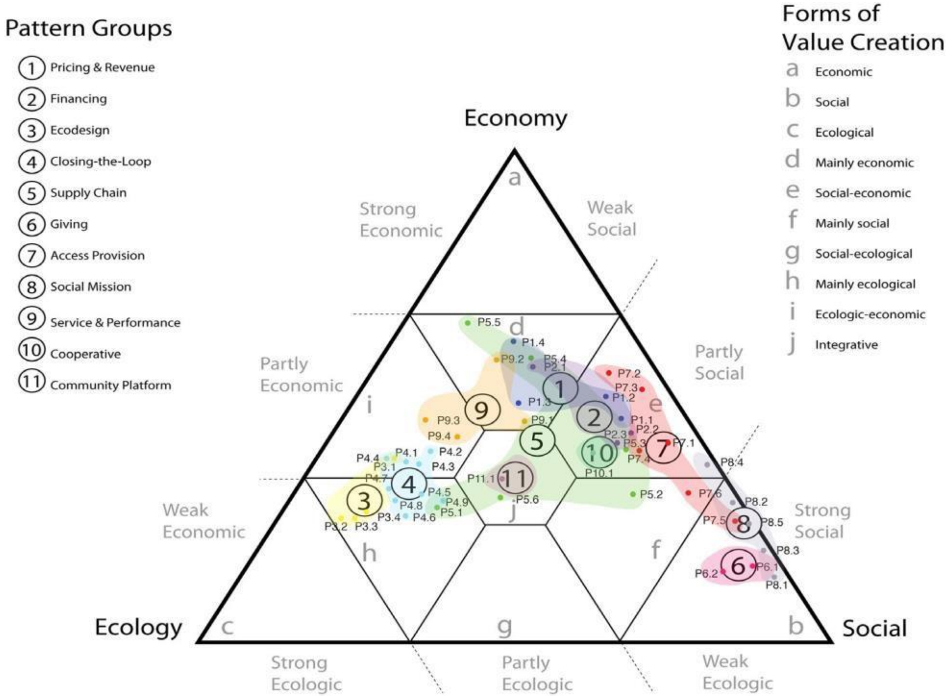
Remane et al.(2017)



	Dimension (D)	Characteristics per dimension (number of patterns per characteristic)						
Overarching	D1: Hierarchical impact	Prototypical pattern (87)	Solution pattern (95)					
Overarching	D2: Degree of digitization	Purely digital (55)	Digitally enabled (35)	Not necessarily digital (92)				
Value proposition	D3: Product type	Physical (12)	Financial (7)	Human (5)	Intellectual property (36)	Hybrid (10)	Product type not specified (112)	
Value proposition	D4: Strategy for differentiation	Quality (9)	Customi-zation (8)	Combination (13)	Access/con-venience (6)	Price (22)	Network effects (11)	No impact on differen-tiation (113)
Value delivery	D5: Target customers	Specific new customer segment (10)	Lock-in existing customers (9)	Other companies (B2B) (7)	No impact on target customers (156)			
Value delivery	D6: Value-delivery process	Brand and marketing (7)	Sales channel (20)	Sales model (9)	Customer relationship management (3)	No impact on delivery process (143)		
Value creation	D7: Sourcing	Make (17)	Buy (11)	No impact on sourcing (154)				
Value creation	D8: Third parties involved	Suppliers (9)						
Value creation	D9: Value-creation process	Research and design (7)						
Value capture	D10: Revenue model	Sell (15)						
Value capture	D11: Pricing strategy	Premium (11)						
Value capture	D12: Direct profit effect	Increase revenue (4						

Orange Hills (2015)

Sustainable Business Models (Lüdeke-Freund et al., 2017)



Thank you for your attention!

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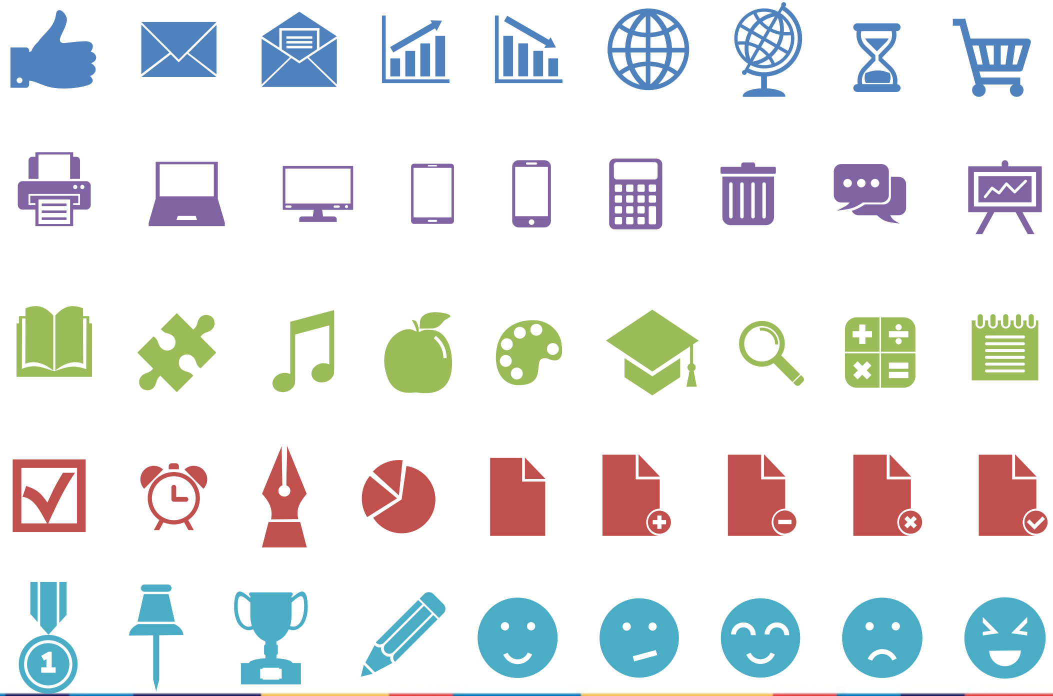
Fully Editable Icon Sets : A



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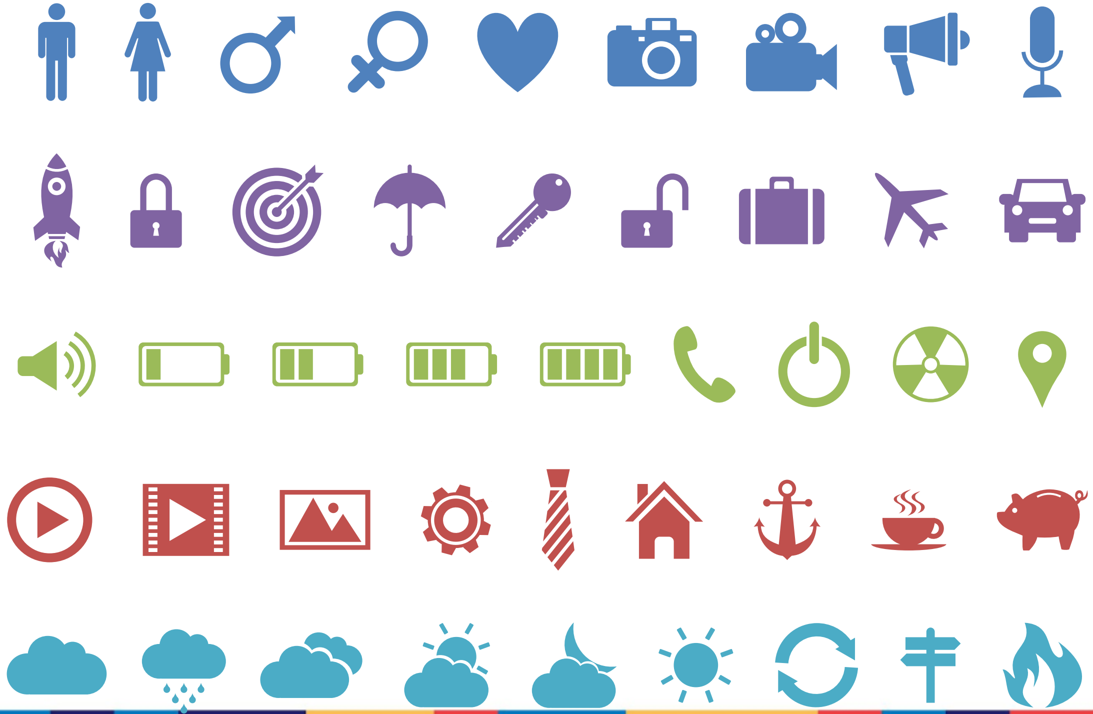

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