

Advanced Engineering Project

Building a Business Model

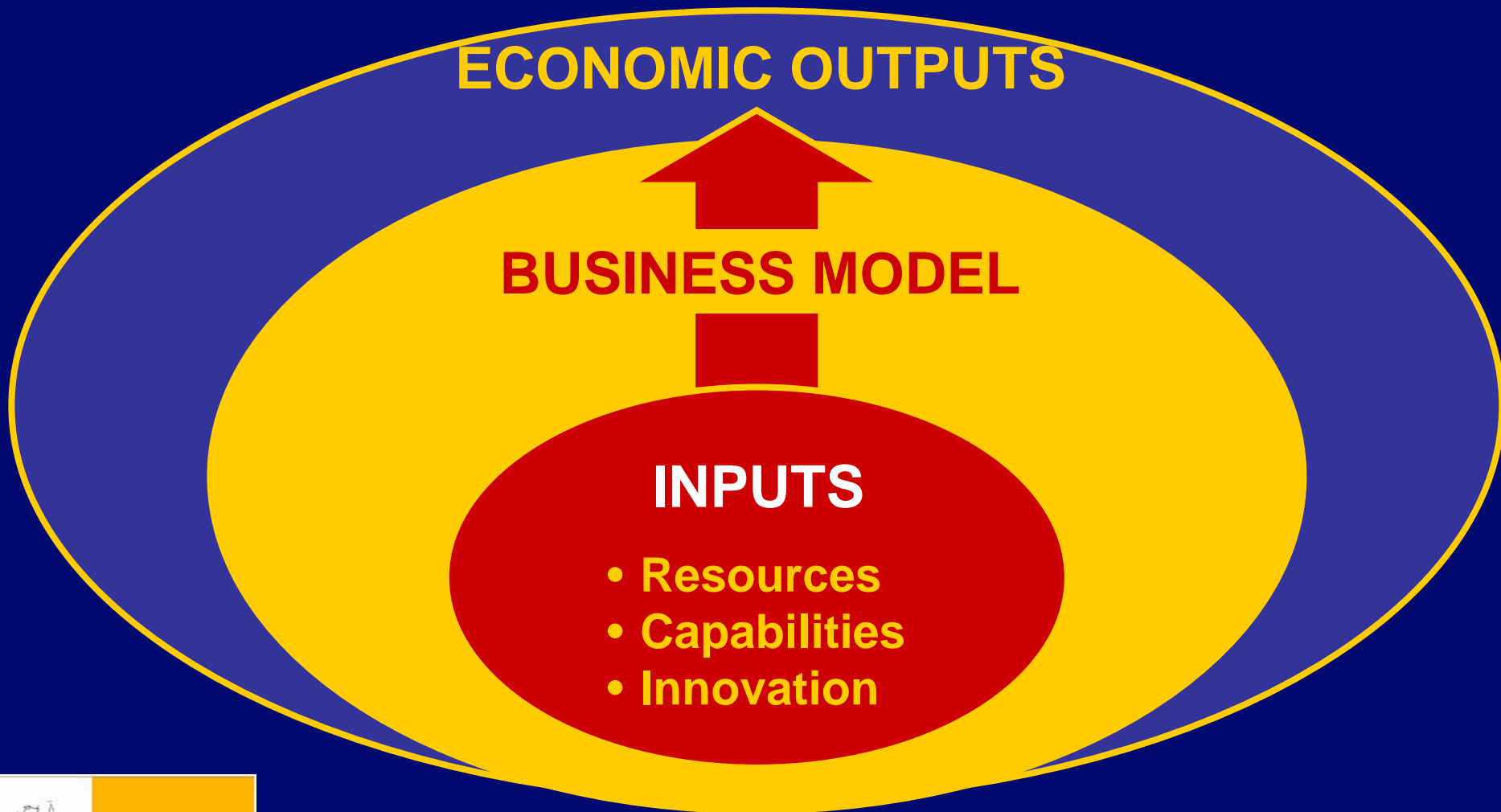
Don Scott-Kemmis



Turning a Good Idea into Reality: Building Value

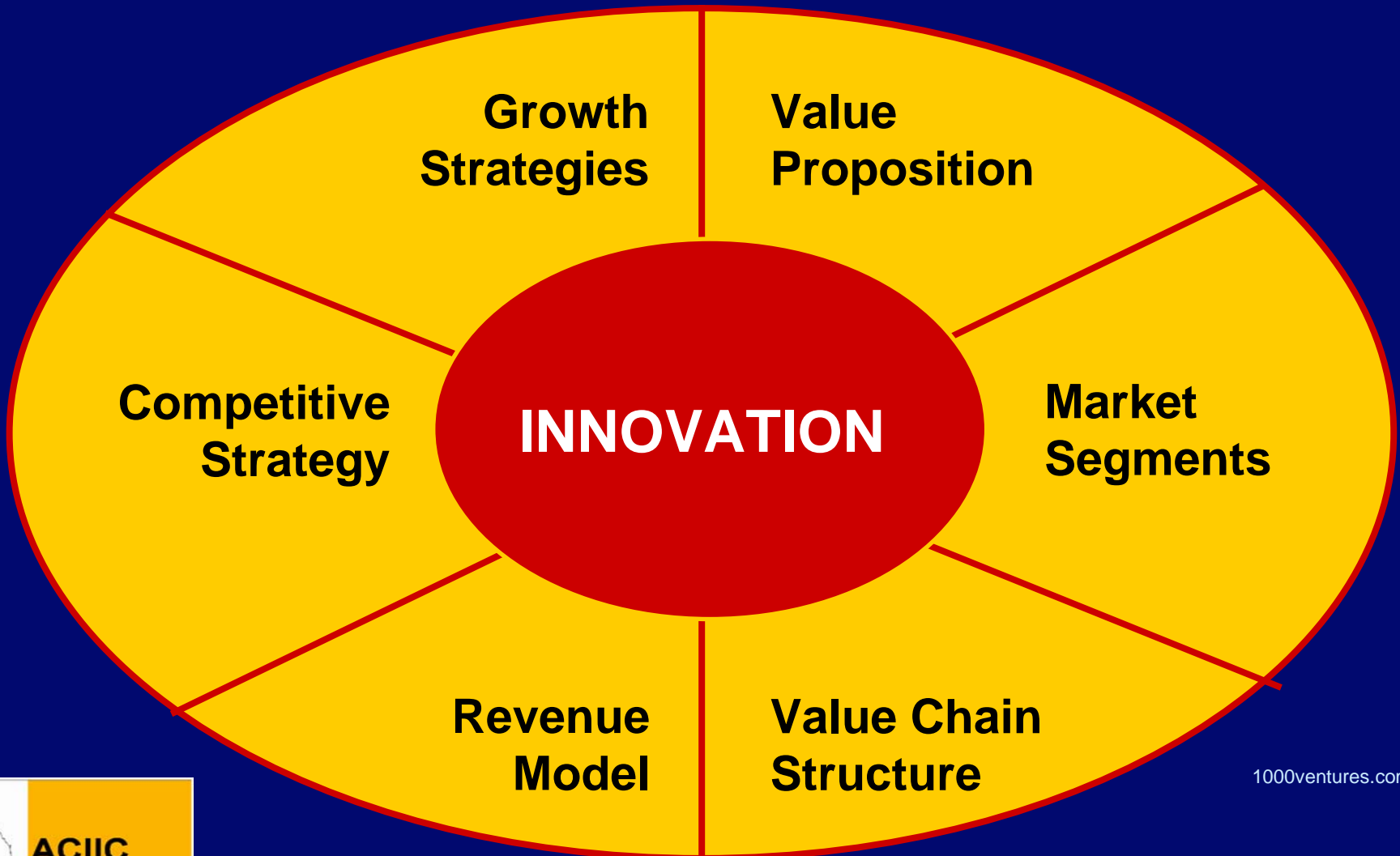
Business Model

Connecting Internal Inputs to Economic Outputs



Business Model

Converting Innovation to Economic Value



1000ventures.com:

Different Business Models

IBM

1. Forecast demand
2. Obtain components from suppliers
3. Make basic components
4. Assemble PC
5. Store PCs
6. Ship PCs to retailers
7. PCs on retailer shelves
8. Customer purchase

Dell

1. Web-accessible product info.
2. Customer places order and pays
3. PC assembled by Dell from component parts delivered JIT by suppliers
4. Computer shipped
5. Customer receives

Drivers of Business Model Innovation

The role of ICT in lowering transaction costs

Shortening life cycle of products and services: "If you understand the technology, it is obsolete"

Customer-driven economy: Customers now seek alternatives, compare offers, and hold out for the best option.

Rapidly changing business environment: "It's not the big that eats the small; it's the fast that eats the slow"

Globalization of world economies, technologies and innovations

Shift to a knowledge-based entrepreneurial economy driven by innovative technology

The Value Chain



Primary activities

Inbound logistics

Operations

Outbound logistics

Marketing & Sales

Service

Corporate infrastructure

HRM

Technology Development

Procurement

ACIIC

Materials receiving, storing, and distribution to manufacturing premises

Transforming inputs into finished products.

Storing and distributing products

Promotions and sales force

Service to maintain or enhance product value

Support of entire value chain, e.g. general management planning, financing, accounting, legal services, government affairs, and QM

Recruiting, hiring, training, and development

Improving product and manufacturing process

Purchasing input



Turning a Good Idea into Reality: Building Value

Porter's Value Chain

Administrative Coordination and Support Services

Human Resources Management

Technology Development

Procurement of Resources

Inbound
Logistics

Operations

Outbound
Logistics

Marketing
and Sales

Customer
Service

Competitive
Advantage

Building an Effective Value Chain

Supplier



Customer

State-of-the Art:

Product Development Chain:

- Collaboration on product design & development among all value-chain participants
- Enabled by Web-based collaborative modeling and prototyping
- Measured by product-development cycle time

Supply Chain:

- Suppliers contracts based on mutual benefits rather than straight cost
- Sharing of benefits achieved through collaboration
- Enabled by e-business tools
- Measured by lead-time on class-A purchased materials

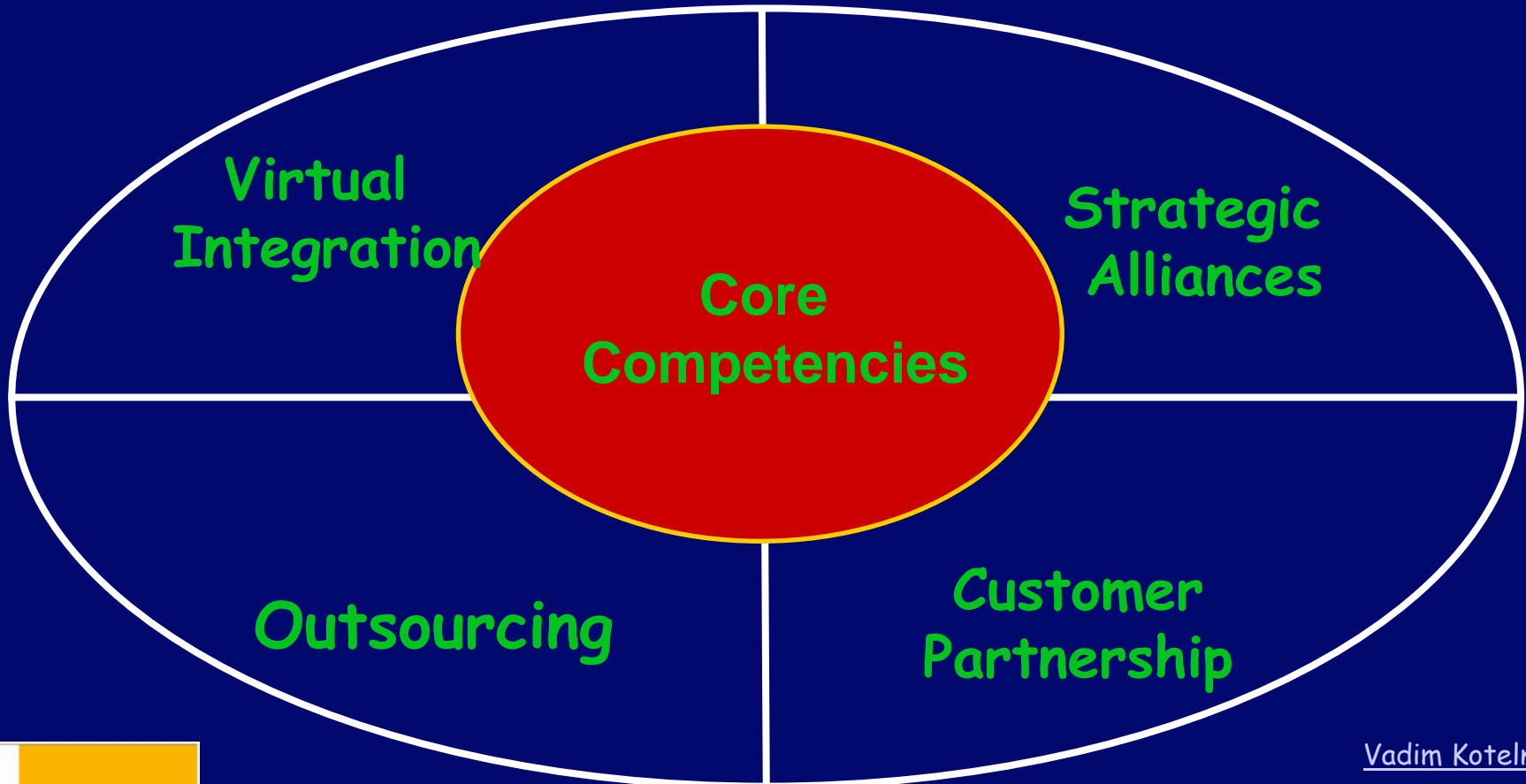
Manufacturing Chain:

- Collaboration with other chain members & application of lean techniques to supplier's operations allows the chain to respond rapidly in a changing market.
- IT-enabled visibility to all chain members
- Measured by productivity, and on-time deliveries

Selling Chain:

- Transparent access to real-time market forecast & sales data among value-chain partners
- Looping customer feedback to R&D stage
- Enabled by customer-relationship software
- Measured by market-share and sales growth

Extended Enterprise Focusing on Core Competencies and Partnering for the Rest



Vadim Kotelnikov

Business Models: A Definition

" business model is a conceptual tool that contains a big set of elements and their relationships and allows expressing the business logic of a specific firm. It 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."

— Osterwalder, Pigneur and Tucci (2005)

Components of a Business Model

1. Core Strategy

- Business mission
- Product/market scope
- Basis for differentiation

2. Strategic Resources

- Core competencies
- Strategic Assets

3. Partnership Network

- Suppliers
- Partners
- Other key relationships

4. Customer Interface

- Target customer
- Fulfilment and support
- Pricing structure

Business Models

- **Value propositions:** Bundle of products & services that creates utility for the customer.
- **target customer segments:** The customer segments a company wants to offer value to.
- **distribution channels:** how a company goes to market. marketing and distribution strategy.
- **customer relationships:** The links between the company and its customer segments.
- **value configurations:** The configuration of activities and resources.
- **core capabilities:** The capabilities and competencies necessary to execute the business model.
- **partner network:** The network of cooperative agreements with other companies necessary to efficiently offer and commercialize value.
- **cost structure:** The monetary consequences of the means employed in the business model.
- **revenue model:** The way a company makes money through a variety of revenue flows.

Osterwalder

Turning a Good Idea into Reality: Building Value

Elements of the Business Model - Examples

- **Value Proposition:** mobile phones over fixed line phones appeared in the market they offered a different value proposition than fixed line phones.
- **Customer Segments:** EasyJet have brought flying to the masses.
- **Distribution channel:** Dell became really successful by exploring the web as a distribution channel.
- **Customer Relationships:** Gillette has made a fortune by establishing a continuous relationship with customers based on its disposable razors.
- **Core Capacity:** Apple resurged based on its capability of bringing design to computers and electronic gadgets.
- **Value Configuration:** Cisco became famous for its capacity of configuring activities in new and innovative supply chains.
- **Partner Network:** Intel thrived for its capacity to get partners to build on its processing platform.
- **Revenue Streams:** Google tapped in an innovative revenue streams by linking highly specific search results and content with text ads.
- **Cost Structure:** Wal-Mart became dominant by its ability to slash cost throughout its business model.

Fatal Flaws of Business Models

- Misread the customer
- Unsound economics

Key Issues for A Business Model

- Does it make sense?
- Will required partners participate?
- How motivated will partners be?
- Will customers want to buy? (what's the value proposition for them?)
- How motivated will my customers be?
- Will my product/customer partner equation cover costs and generate profits?
- How distinct will my business be?
- What is the half-life of my business idea?

Nine Business Model Building Blocks

Pillar	Business Model Building Block	Description
Product	Value Proposition	Gives an overall view of a company's bundle of products and services.
Customer Interface	Target Customer	Describes the segments of customers a company wants to offer value to.
	Distribution Channel	Describes the various means of the company to get in touch with its customers.
	Relationship	Explains the links a company establishes with different customer segments.
Infra'ture	Value Configuration	Describes the arrangement of activities & resources.
Management	Core Competency	Outlines the competencies necessary to execute the company's business model.
	Partner Network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialize value
Financial Aspects	Cost Structure	Sums up the monetary consequences of the means employed in the business model.
	Value Proposition	Describes the way a company makes money through a variety of revenue flows.

Knowledge-Driven Enterprise

THE INDUSTRIAL ENTERPRISE

Economies of scale
Standardization of work
Standardization of workforce
Financial capital as scarce resource
Corporate HQ as operational controller
Hierarchical pyramid structure
Employees seen as expense
Internally focused top-down governance
Individualistic orientation
Information based on "need to know"
Vertical decision making
Emphasis on stability
Emphasis on vertical leadership

KNOWLEDGE-BASED ENTERPRISE

Smaller business units
Customization of work
Flexible, skill based workforce
Human capital as scarce resource
HQ as advisor & core competency guardian
Flat or networked structure
Employees seen as investment
Internal & external distributed governance
Team orientation
Open & distributed information system
Distributed decision making
Emphasis on change
Emphasis on empowered self-leadership