Business Model Canvas

(more than a box to check)
It’s all about the product, why waste time on modeling out the business?

- Founded in 1992
- Leader for years in digital language learning
- Innovator in sales channels
- Premium pricing strategy
  - Costs as much as $479
- UNTIL...
It’s all about the product, why waste time on modeling out the business?

- UNTIL...
  - Duolingo introduced in 2011 by Luis Van Ahn
  - Leveraged mobile - cloud architecture
  - Freemium pricing
  - First Pittsburgh based unicorn
    - $1B valuation (Dec, 2019)
It’s all about the product, why waste time on modeling out the business?

- reCAPTCHA introduced in 2007 by Luis Van Ahn
- Designed to address problem with “robots” (human verification)
- Technology rather pedestrian
- Sold to Google in 2009 for $28 M
It’s all about the product, why waste time on modeling out the business?

- Founded by Steve Jobs, Steve Wozniak & Ronald Wayne in 1976
- Personal computing
- Single platform (hardware – software)
  - Lost the operating system battle
- Fired Jobs in 1985
It’s all about the product, why waste time on modeling out the business?

- Rehired Jobs in 1996 – company near insolvent
- Adopted mobile hub strategy
- Ipod introduced in 2001
- Iphone 2007
- Today Apple is worth $1.8T (depending on the day) and was only recently dethroned as the most valuable company in the world by Saudi oil company – Saudi Aramco)
It’s all about the product, why waste time on modeling out the business?

- Founded in 1926 in Sweden
- Really transformed into the business that it is today in the 1980’s
- Innovative business model
  - Reasonably high quality product
  - Self assembly
- So, does not need to be only about technology
“...don’t make business more complicated than it needs to be...”

Don Jones
**Value Propositions**

What value do we deliver to the customer?
Which one of our customer’s problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer’s needs are we satisfying?

**Characteristics:**
- Newness
- Performance
- Customization
- “Getting the job done”
- Design
- Brand/Status
- Price
- Cost (reduction)
- Risk (reduction)
- Accessibility
- Convenience/usability

1. Value prop defined for each significant customer segment
2. Quantify Value ($$, time, other)
3. Must be relative to competing solutions (consider goodness factor)

**Customer Segments**

For whom are we creating value?
Who are our most important customers?

- Mass Market
- Niche Market
- Segmented
- Diversified
- Multi-sided platform

**DETAIL IS IMPORTANT!**
The Business Model Canvas

Revenue Streams

Key Partners
Why are our key partners?
Who are our key suppliers?
Which key resources do we acquire from partners?
Which key activities do partners perform?

Key Activities
What key activities do our customers require?
Which key activities does the customer perform?
Customer Relationships
Value Proposition
Customer Relationships

Key Resources
What key resources do we use to offer value propositions?
How do we create customer relationships?
Customer Relationships
Value Proposition

Cost Structure
What are the most important costs in our business model?
Which key resources are most important?
Which key activities are most important?

Revenue Streams
For what value are our customers willing to pay?
For what can they currently pay?
How much does each revenue stream contribute to overall revenue?
Let’s talk about revenue
What is Revenue? – Really...

Revenue is how your customer rewards you for the value that you create.

- Reflective of the value provided
- (Ideally) Quantifiable
How do you estimate revenue?
Value realized by customer: $100

Goodness Factor: 10x

Estimated revenue: $100/10 $10

Opportunity
($$/customer X # customers):

$10 x 10,000,000 customers = $100 M

What should I expect to get paid?

Is the opportunity big enough for me to invest the time?
“...your scientists were so preoccupied with whether they could that they did not stop to think about whether they should...”

Jeffrey Goldblum
Jurassic Park
Revenue Streams

For what value are your customers 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?

Types
- Fixed Pricing
  - List price
- Dynamic Pricing
  - Negotiation (bargaining)
  - Yield Management
  - Real time market

- Asset sale
- Usage fee
- Subscription fees
- Lending/Renting/Leasing Volume
- Licensing
- Brokerage fees
- Advertising

1. Customer value divided by the “goodness factor”.
2. Verify that you CAN extract your revenue.
3. DO NOT get hung up on the details!
What do we know, just from this?

1. We understand our customer (in detail)
2. We understand why (& how) they benefit from what we are doing
3. We understand whether there is enough left for us to make this worthwhile
4. We understand what we don’t understand!
Customer Relationships

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?

Examples:
- Personal assistance
- Dedicated personal assistance
- Self Service
- Automated services
- Communities
- Co-Creation

Channels

Through which channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

Channel phases:
- Awareness
  How do we raise awareness about our company?
- Evaluation
  How do we help customers evaluate our organization’s Value Proposition?
- Purchase
  How do we allow customers to purchase specific products and services?
- Delivery
  How do we deliver a Value Proposition to customers?
- After sales
  How do we provide post purchase customer support?
Revenue per customer: $10

Direct cost (cost to deliver value): $3

Direct Margin: $7

$7 x 10,000,000 customers = $70 M

Fixed cost
Overhead

Can I make a profit?

Can I justify the investment and can this be a self supporting concern?
“...your scientists were so preoccupied with whether they could that they did not stop to think about whether they should...”
How do you use the Business Model Canvas

• The BMC is the cornerstone of your internal business plan
• The BMC need to be as specific as possible!
  • The more quantification the better
• (Initially) focus on customer segments and value proposition
• Develop it in the order that I presented it
• Prioritize risk or unknowns

• The BMC is an evolving tool, not a one time task
• The BMC should be visible to the entire team
Questions?  --  Discussion?