Global Business Environment and International Strategy MOD007191

Lecture 3

The Business Model Canvas

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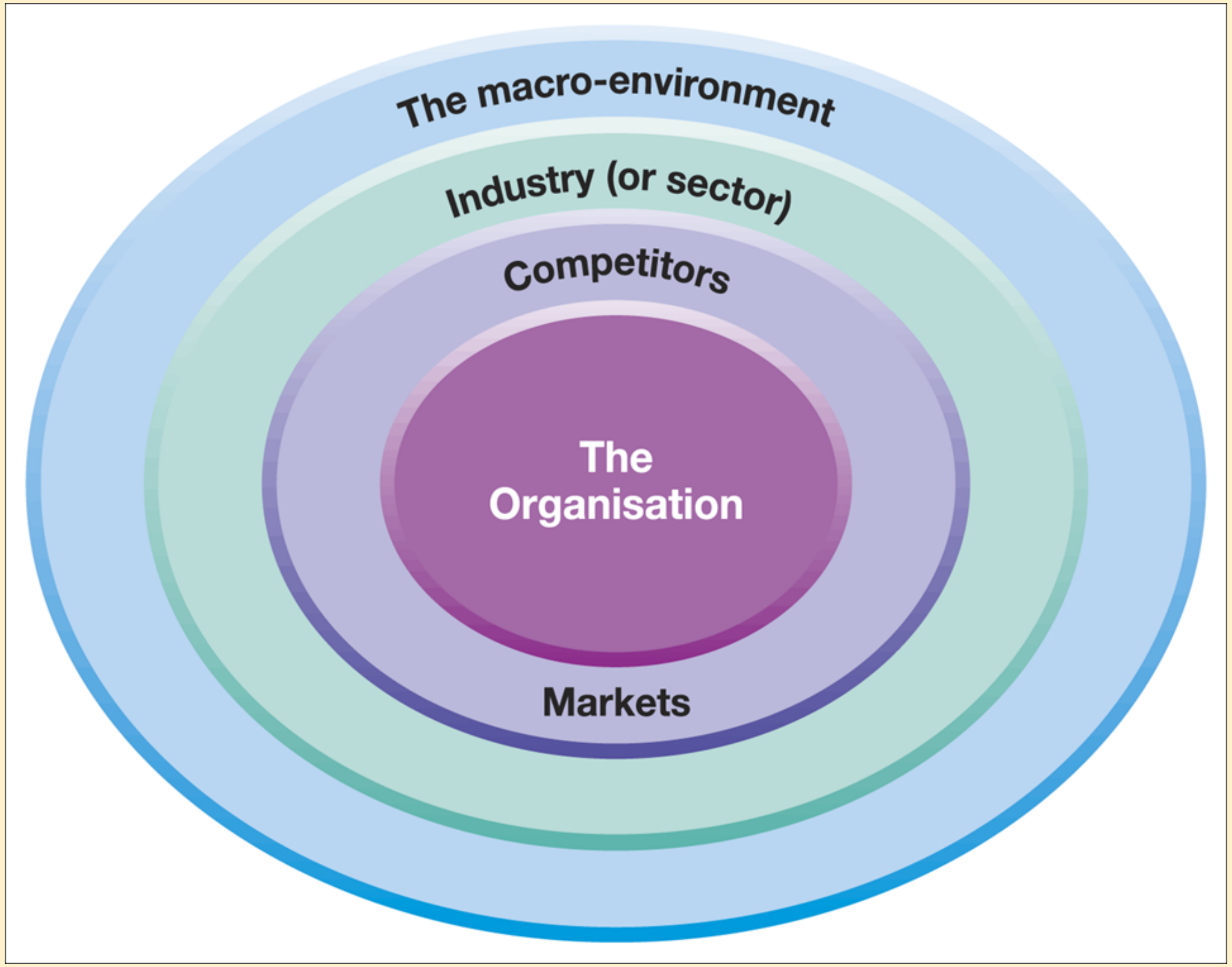
Recap

Layers of the business environment



Johnson, Whittington and Scholes (2011) Exploring Corporate Strategy

Key Factors of the Market

Market Definition

Broadly identifying the boundaries of a market, both in terms of the products or services being offered and the geographical area in which competition takes place

Market Segmentation

Divides the broader market into distinct groups of consumers with similar characteristics or needs..

Market Size

Total sales or revenue for a period of time. It quantifies demand by looking and volume and value of sales

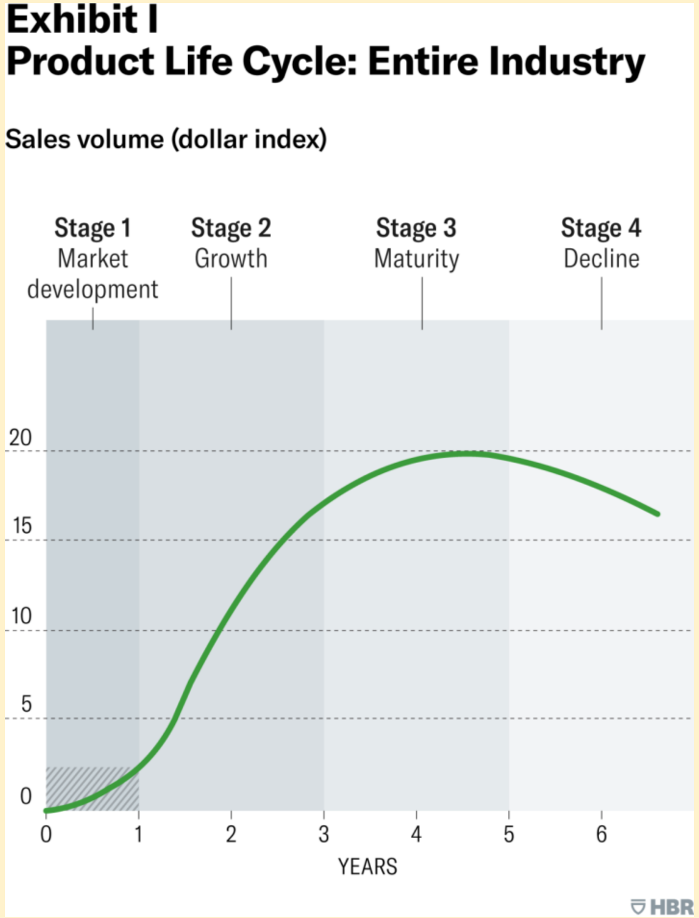
Market Growth Rate

How fast the overall market for a product or service is expanding (or contracting) over time. Measured using Compounded Annual Growth Rate (CAGR)

Stages of the Industry Lifecycle

- The industry life cycle is the **series of phases that a product will go through in its "lifetime" in relation to the profit and sales** that it will collect (Kotler & Armstrong, 2012)

- The life cycle is broken into **four stages**:
  - Development/Introduction
  - Growth
  - Maturity
  - Decline.



Levitt (1965) https://hbr.org/1965/11/exploit-the-product-life-cycle

What is a Business Model?

- A business model describes the rationale of how an organization:
  - creates,
  - delivers,
  - and captures value
- It is a company's plan or framework for making a profit.
- The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.

Popular Business Models

07

Business to Business Model

Target other businesses rather than individual consumers. This includes manufacturers, wholesalers, distributors, and service providers.

Examples: GE, Food Manufacturer

08

Business to Consumer Model

Company sells products or services directly to consumers. This can include various sales channels, such as retail stores, online e-commerce sites, and direct sales

Examples: Amazon, Walmart, and Zara

09

Retail Model

Involves selling products to consumers through brick-and-mortar stores, online stores, or third-party retailers.

Examples: Walmart, Target, Amazon, Zara

10

Franchise Model

A business licenses its brand and operating model to a third party, who runs individual outlets of the business.

Examples: McDonald's, Subway, KFC..

11

Razor-and-Blades Model

A base product is sold at a low price or even at a loss, while complementary consumables or services (blades) are sold at a higher price.

Examples: Gillette (razor handles and blades), gaming consoles and video games.

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Licensing Model

Companies license their intellectual property or technology to other firms, generating revenue through royalties.

Examples: Disney (licensing characters), software companies licensing patents.

Popular Business Models

01

Subscription Model

Customers pay a recurring fee (monthly, annually) to access a product or service.
Examples: Netflix, Spotify, Microsoft 365.

02

Freemium Model

Basic services or products are offered for free, but premium features or upgrades are available for a fee.
Examples: LinkedIn, Dropbox, Canva.

03

E-commerce Model

Businesses sell products or services online directly to consumers.
Examples: Amazon, Shopify, eBay.

04

Marketplace Model

A platform facilitates transactions between buyers and sellers, often taking a commission on sales.
Examples: Airbnb, Uber, Etsy.

05

Advertising Model

Revenue is generated by offering free content or services, while advertisers pay to reach the platform's audience.
Examples: Google, Facebook, YouTube.

06

Direct Sales Model

Products are sold directly to consumers without middlemen or retail outlets, often through representatives.
Examples: Avon, Amway, Tupperware.

9 Building Blocks of a Business Model

CS

1 **Customer Segments**

An organization serves one or several Customer Segments.

VP

2 **Value Propositions**

It seeks to solve customer problems and satisfy customer needs with value propositions.

CH

3 **Channels**

Value propositions are delivered to customers through communication, distribution, and sales Channels.

CR

4 **Customer Relationships**

Customer relationships are established and maintained with each Customer Segment.

R$

5 **Revenue Streams**

Revenue streams result from value propositions successfully offered to customers.

KR

6 **Key Resources**

Key resources are the assets required to offer and deliver the previously described elements …

KA

7 **Key Activities**

… by performing a num-ber of Key Activities.

KP

8 **Key Partnerships**

Some activities are outsourced and some resources are acquired outside the enterprise.

C$

9 **Cost Structure**

The business model elements result in the cost structure.

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partnerships

Key Activities

Key Resources

Value Propositions

Customer Relationships

Channels

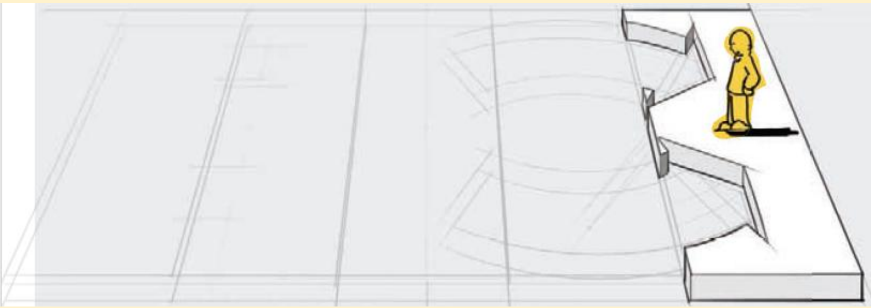
Customer Segments

Cost Structure

Revenue Streams

1. Customer Segments

- The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve



- Define one or more segments:
  - Mass Market
  - Niche Market
  - Segmented (demographics, geographic, Psychographic, behavioural)
  - Diversified

2. Value Propositions

- The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need.
- Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment.
- In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.

Mix of Elements to Create Value

- Values may be quantitative
  - e.g. price, speed of service
- Qualitative
  - e.g. design, customer experience

- Newness
- Performance
- Customization
- Design
- Brand/Status
- Price
- Cost Reduction
- Risk Reduction
- Accessibility
- Convenience/Usability

Value Proposition Statement Formula

01

For [Target Audience]

Clearly identify your target customer or segment. Be specific about who they are

02

Who [Problem Statement]

Describe the specific problem or challenge that your target audience faces. This sets the context for why they need your product or service.

03

[Product/Service Name]

State the name of your product or service. This helps ground the proposition in a tangible offering.

04

is a [Category]

Define what type of product or service it is. This could be a software solution, a physical product, a service, etc..

05

that [Key Benefits]

List the primary benefits your offering provides. Focus on how it solves the problem mentioned earlier

06

because [Differentiators]

Explain what makes your offering unique compared to competitors. This could be a feature, a superior quality, a pricing advantage, or exceptional customer service.

Example of a Value Proposition Statement

- For busy professionals who struggle to find time for exercise, FitBuddy is a fitness app that offers personalized workout plans and nutrition guidance because it utilizes AI to adapt to your schedule and fitness level.

Examples of Value Propositions- Tag line

- **Apple iPhone**:
  - "The ultimate smartphone experience with a seamless ecosystem, cutting-edge design, and top-tier security."
  - Focuses on quality, design, and user experience.
- **FedEx**:
  - "When it absolutely, positively has to be there overnight."
  - Focuses on reliability and speed.

Activity- Find the Value Proposition for your Chosen Organization

3. Channels

- The Channels Building Block describes how a company communicates with and reaches its Customer Segments

- To deliver the Value Proposition

- Communication, distribution, and sales Channels comprise a company's interface with customers.

- Channels are customer touch points that play an important role in the customer experience

Right mix of Channels

- **Direct Channels**
  - **Company Website**: A primary platform for e-commerce, information sharing, and customer engagement.
  - **Physical Stores**: Brick-and-mortar locations where customers can interact with products and staff.
  - **Sales Representatives**: Direct interaction through sales teams that engage with customers face-to-face or over the phone.
- **Indirect Channels**
  - **Distributors**: Third-party companies that sell products on behalf of the manufacturer, reaching wider markets.
  - **Retailers**: Stores or online platforms that sell products to end customers.
  - **Wholesalers**: Businesses that buy in bulk from manufacturers and sell to retailers or other businesses.
  - **Affiliates and Partners**: Collaborations with other businesses or influencers that promote products to their audiences.

4. Customer Relationship

- The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments
- A company should clarify the type of relationship it wants to establish with each Customer Segment.
- Relationships can range from personal to automated.

Type of relationship our Customer Segments expect us to establish

- Transactional
- Self-service
- Personal assistance
- Dedicated personal assistance
- Personalization
- Co-creation
- Communities
- Automated services
- Long term

5. Key Resources

- The Key Resources Building Block describes the most important assets required to make a business model work

- These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

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

- Key resources can be owned or leased by the company or acquired from key partners

What Key Resources are required?

- Physical
  - This category includes physical assets such as:
  - manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems
- Intellectual
  - Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases
  - Brand
- Financial
  - Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees.
- Human
  - Every enterprise requires human resources

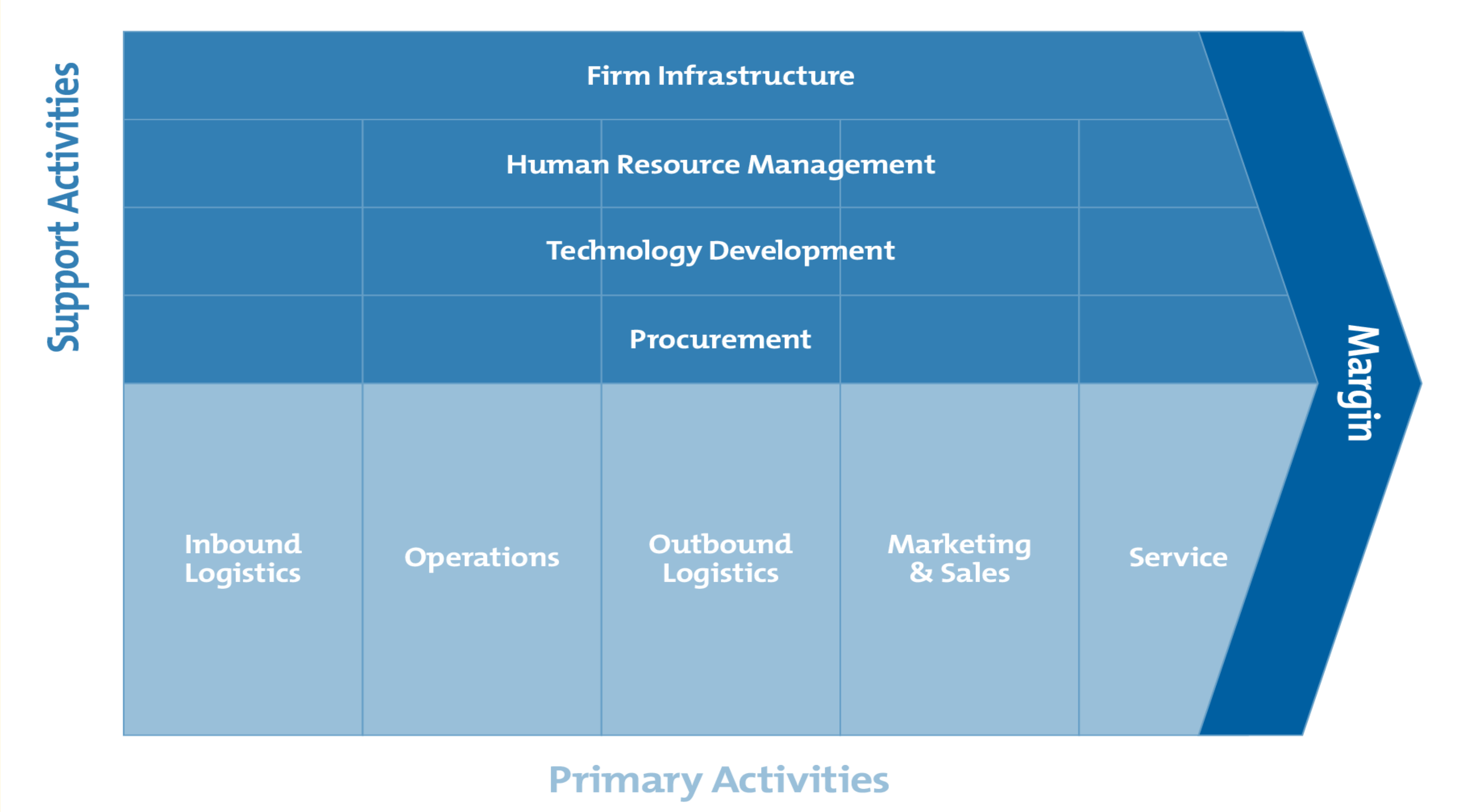
6. Key Activities

- The Key Activities Building Block describes the most important things a company must do to make its business model work

- They are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues

- The essential actions and processes

Using Porter's Value Chain Model to identify Activities



Primary Activities

- **Inbound logistics**
  - Receiving raw materials and/or partly finished goods; storing them; and transferring them to the manufacturing section
- **Operations**
  - Producing finished goods from raw materials and/or partly finished goods
- **Outbound logistics**
  - Storing finished goods and then distributing them to customers
- **Marketing and sales**
  - Promoting the firm’s products; soliciting orders from prospective customers
- **After-sales service**
  - Maintaining the value of the product to the customer after it has been delivered

Support Activities

- **Firm infrastructure**
  - General management; accounting and finance; legal department; health and safety; etc.
- **Human Resource Management**
  - Recruiting; training and developing; appraising; career planning; etc.
- **Technology development**
  - Research and development, relating to both products and processes
- **Procurement**
  - Acquiring the goods and services that the firm needs in order to operate effectively; applicable to both primary and support activities

7. Key Partnerships

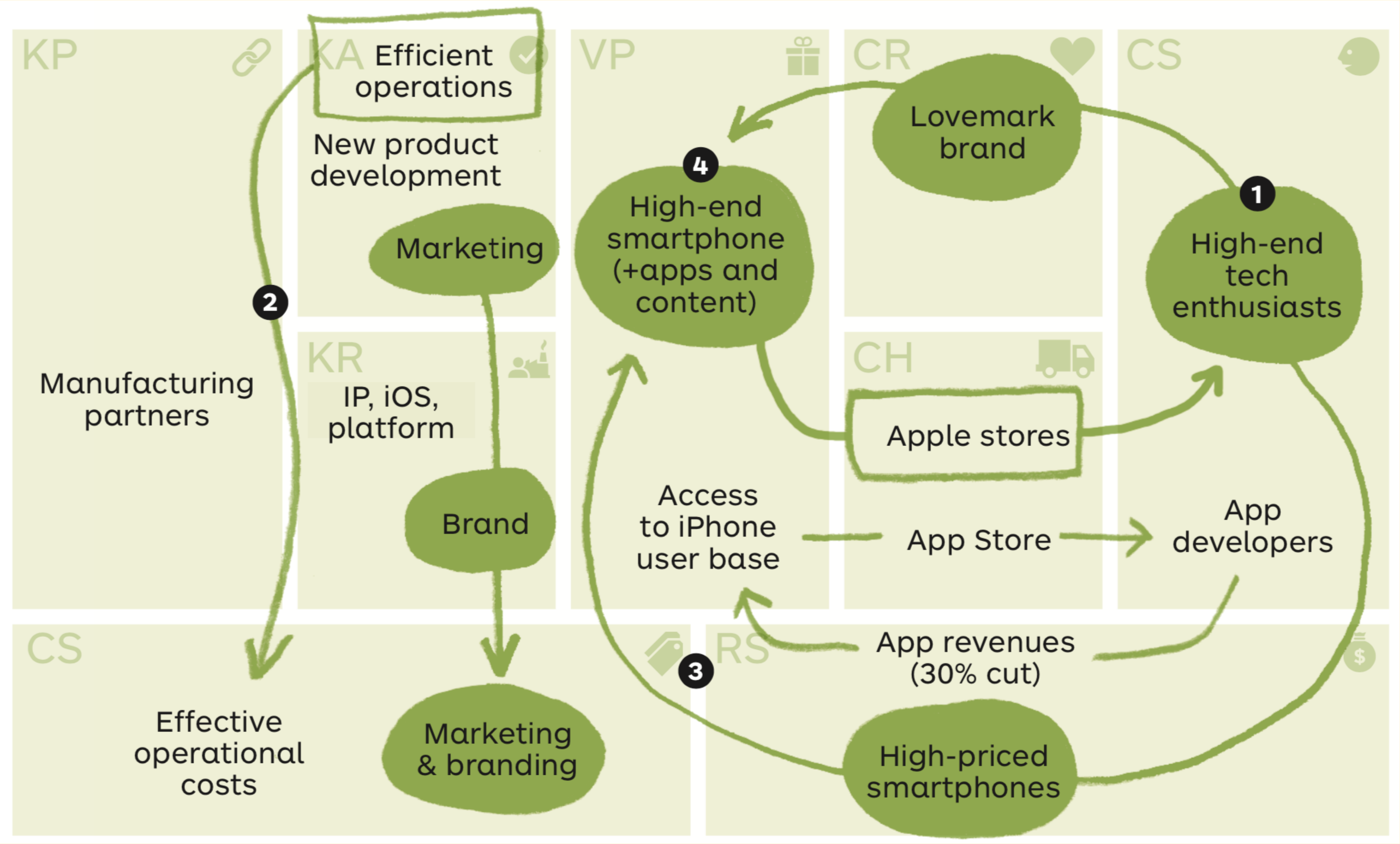
- The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work
- Key partners are the external organizations, individuals, or entities that play a crucial role in the success of a business model

Who are our Key Partners?

- Suppliers
- Distributors
- Alliances/Joint Ventures
- Investors
- Research Institutions
- Technology Partner
- Logistics and Transport Provider

Example Business Canvas Models

Apple



KP
Manufacturing partners
KA
Efficient operations
New product development
Marketing
KR
IP, iOS, platform
Brand
VP
4
High-end smartphone (+apps and content)
Access to iPhone user base
CR
Lovemark brand
CH
Apple stores
App Store
CS
1
High-end tech enthusiasts
App developers
CS
2
Effective operational costs
Marketing & branding
RS
3
App revenues (30% cut)
High-priced smartphones

Airbnb

KEY PARTNERS

Who are your key partners/suppliers?
What are the motivations for the partnerships?
Which key activities do your partners perform?

Investors

Travelers

Hosts

Insurance companies

Payment providers

KEY ACTIVITIES

What are the activities you perform every day to create & deliver your value proposition?

Maintain a platform

Provide customer support

Conduct user research

KEY RESOURCES

What are the resources you need to create & deliver your value proposition?

Community of hosts and guests

Platform

Developers and other staff

VALUE PROPOSITIONS

What is the value you delivery to your customer?
Which of your customer's problems are you helping to solve?
What is the customer need that your value proposition addresses?
What is your promise to your customers?
What are the products and services you create for your customers?

Simple booking process

Wide range of private homes to choose from

Competitive prices compared to hotels

Convenience of living like a local

CUSTOMER RELATIONSHIPS

What relationship does each customer segment expect you to establish and maintain?

Self-service

Customer support

CHANNELS

How does your value proposition reach your customer?
Where can your customer buy or use your products or services?

Word of mouth

Social media

Travel bloggers

CUSTOMER SEGMENTS

For whom are you creating value?
What are the customer segments that either pay, receive or decide on your value proposition?

Budget travelers

Bleisure travelers

Locals looking for extra income

Unconventional travelers

COST STRUCTURE

What are the important costs you make to create & delivery your value proposition?

Platform development and maintenance

Marketing

REVENUE STREAMS

How do customers reward you for the value you provide to them?
What are the different revenue models?

Booking fee

Affiliate marketing

Amazon

CFI

Key Partners

-shipping companies such as UPS, FedEx, and DHL which provide shipping services for Amazon's fulfillment process to ensure timely arrival of products

-major retail companies such as Nike, Best Buy, and Calvin Klein who want to increase their sales by selling on Amazon, consequently increasing Amazon's market presence as well

Key Activities

-quick fulfillment processes

-just-in-time delivery and shipping systems allowing for Amazon Prime to deliver orders within 1-2 days

-R&D to streamline and improve efficiency of fulfillment centers and other projects (e.g. Amazon Grab & Go stores) to lower costs

Key Resources

-shipping services

-warehouses and fulfillment centers

-servers for AWS and cloud services

Value Propositions

Ecommerce:
To provide an online shopping platform that offers and quickly delivers any item, to any person, anywhere, at any time.

Amazon Web Services:
To provide cloud services, infrastructure, and data storage to business clients in an agile, flexible, scalable, and secure form.

Customer Relationships

-best-in-class fulfillment systems allowing customers to receive their orders within 1-2 days

-"customer first" service mindset regardless of customer segment

-online/phone communication channels and built-in support channels on Amazon hardware

Channels

-global distribution channels through shipping partners and fully streamlined fulfillment centers

-enormous online marketing and advertising platforms

-fulfillment for other retailers indirectly advertises Amazon

-online/phone customer service

Customer Segments

Business Clients:
-operate as retailers on Amazon's websites

-require cloud services and infrastructure

-advertise on Amazon

Retail Clients:
-purchase products listed on Amazon

-purchase Amazon's subscription services (Prime)

Cost Structure

-cost-optimization strategy

-well scaled and efficient fulfillment center and process allows for optimized costs

-large investment and fixed costs from expanding Amazon Prime to international markets and building new fulfillment centers – capital investment is a key strategy for Amazon

-comparatively lower costs for managing and upkeeping AWS servers

-variable costs from stocking products that are 'fulfilled' (sold) by Amazon

Revenue Streams

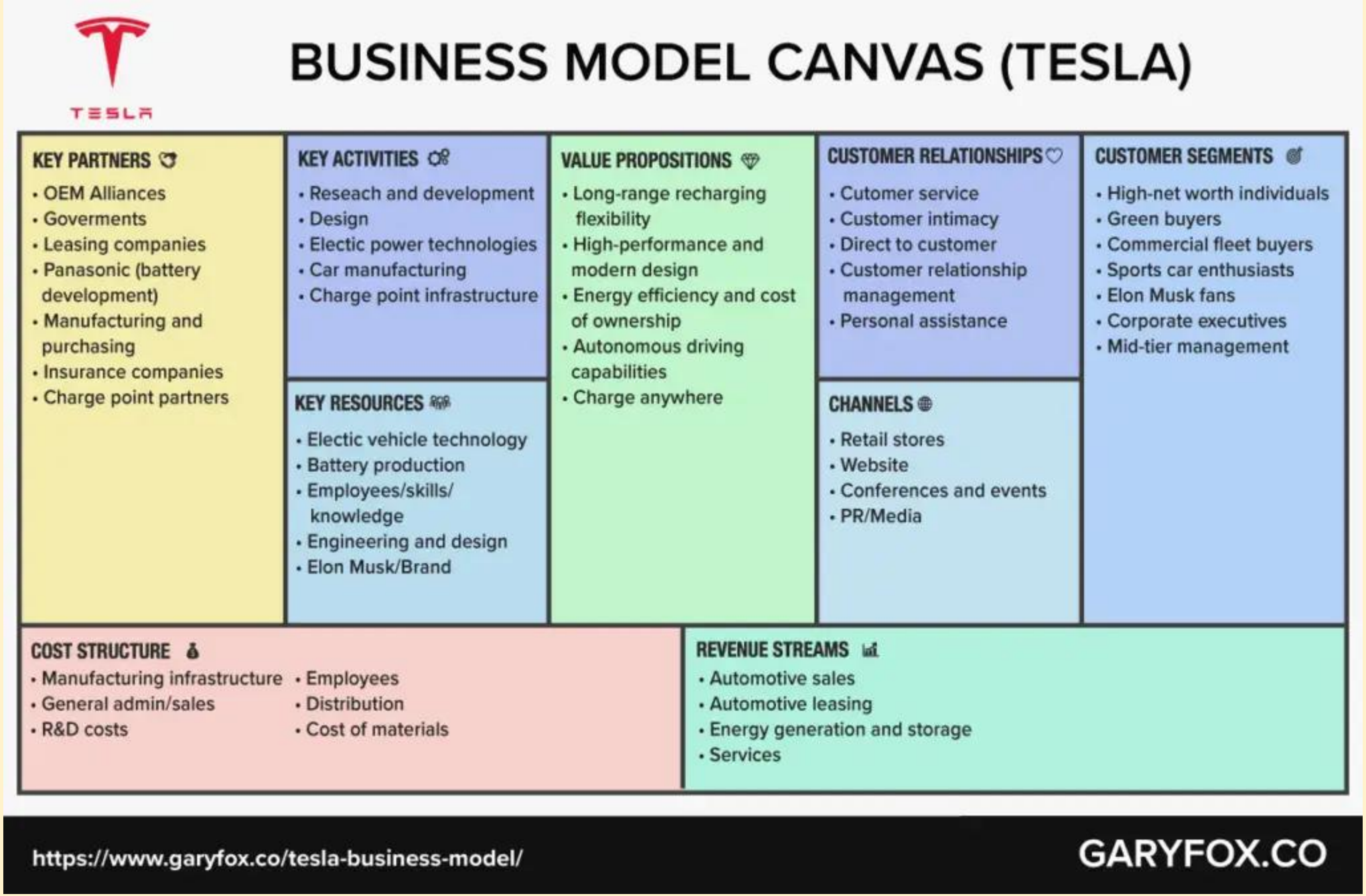
-low margin revenue streams from retail ecommerce sales and fulfillment

-ecommerce and fulfillment are low-margin due to costs related to warehousing and upkeeping fulfillment centers

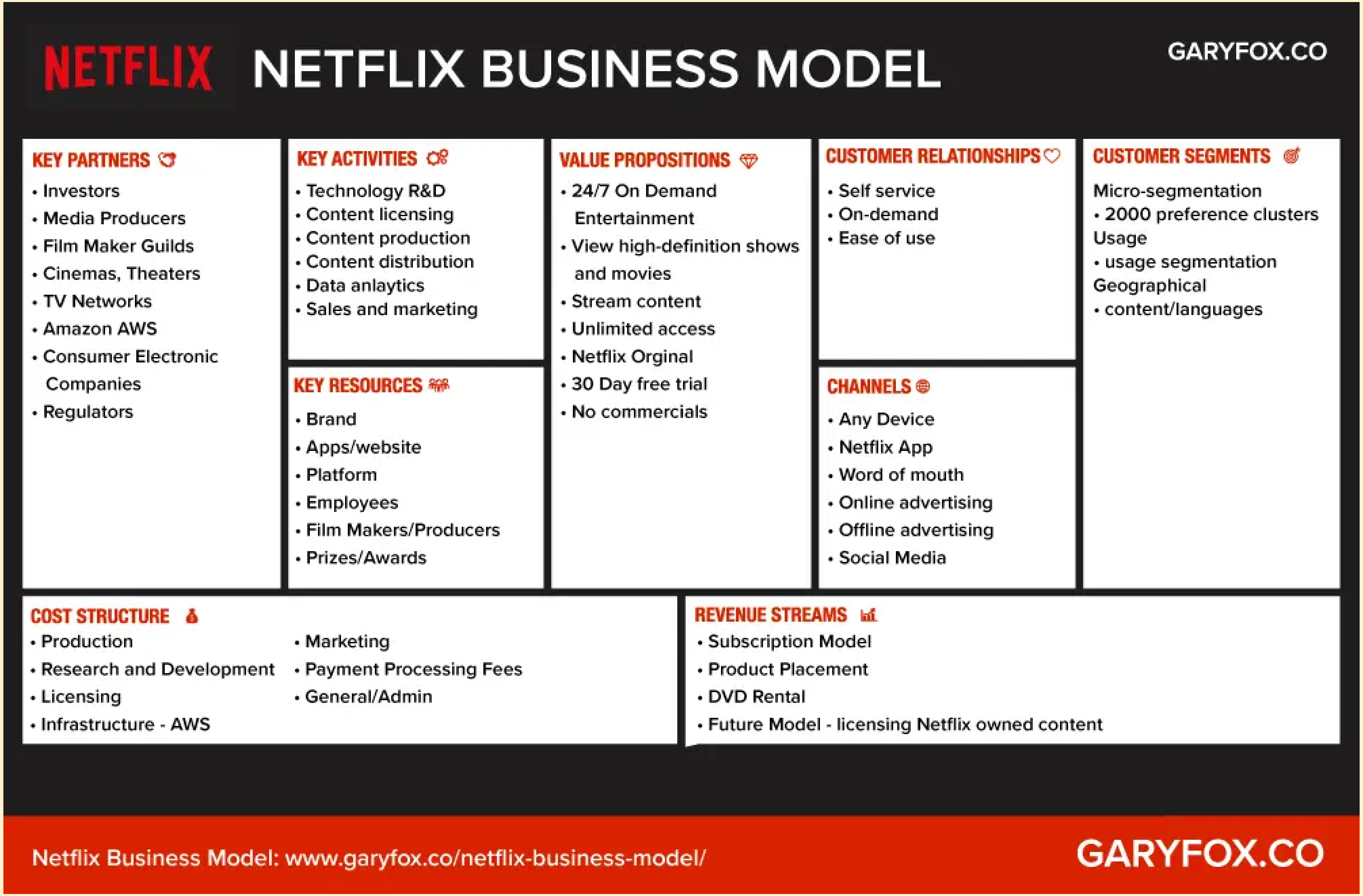
-high margin revenue streams from AWS, advertising, and subscription services

-low upkeep and variable costs allow AWS, advertising, and subscription services to be the primary profit driver for Amazon, despite being a significantly smaller revenue stream

Tesla


TESLA
BUSINESS MODEL CANVAS (TESLA)
KEY PARTNERS
• OEM Alliances
• Goverments
• Leasing companies
• Panasonic (battery development)
• Manufacturing and purchasing
• Insurance companies
• Charge point partners
KEY ACTIVITIES
• Reseach and development
• Design
• Electic power technologies
• Car manufacturing
• Charge point infrastructure
KEY RESOURCES
• Electic vehicle technology
• Battery production
• Employees/skills/ knowledge
• Engineering and design
• Elon Musk/Brand
VALUE PROPOSITIONS
• Long-range recharging flexibility
• High-performance and modern design
• Energy efficiency and cost of ownership
• Autonomous driving capabilities
• Charge anywhere
CUSTOMER RELATIONSHIPS
• Cutomer service
• Customer intimacy
• Direct to customer
• Customer relationship management
• Personal assistance
CHANNELS
• Retail stores
• Website
• Conferences and events
• PR/Media
CUSTOMER SEGMENTS
• High-net worth individuals
• Green buyers
• Commercial fleet buyers
• Sports car enthusiasts
• Elon Musk fans
• Corporate executives
• Mid-tier management
COST STRUCTURE
• Manufacturing infrastructure
• General admin/sales
• R&D costs
• Employees
• Distribution
• Cost of materials
REVENUE STREAMS
• Automotive sales
• Automotive leasing
• Energy generation and storage
• Services
https://www.garyfox.co/tesla-business-model/
GARYFOX.CO

Netflix



NETFLIX
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KEY PARTNERS
• Investors
• Media Producers
• Film Maker Guilds
• Cinemas, Theaters
• TV Networks
• Amazon AWS
• Consumer Electronic Companies
• Regulators
KEY ACTIVITIES
• Technology R&D
• Content licensing
• Content production
• Content distribution
• Data anlaytics
• Sales and marketing
KEY RESOURCES
• Brand
• Apps/website
• Platform
• Employees
• Film Makers/Producers
• Prizes/Awards
VALUE PROPOSITIONS
• 24/7 On Demand Entertainment
• View high-definition shows and movies
• Stream content
• Unlimited access
• Netflix Orginal
• 30 Day free trial
• No commercials
CUSTOMER RELATIONSHIPS
• Self service
• On-demand
• Ease of use
CHANNELS
• Any Device
• Netflix App
• Word of mouth
• Online advertising
• Offline advertising
• Social Media
CUSTOMER SEGMENTS
Micro-segmentation
• 2000 preference clusters
Usage
• usage segmentation
Geographical
• content/languages
COST STRUCTURE
• Production
• Research and Development
• Licensing
• Infrastructure - AWS
• Marketing
• Payment Processing Fees
• General/Admin
REVENUE STREAMS
• Subscription Model
• Product Placement
• DVD Rental
• Future Model - licensing Netflix owned content
Netflix Business Model: www.garyfox.co/netflix-business-model/
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