

DOUJAK CORPORATE DEVELOPMENT

BUSINESS MODEL HANDBOOK

How to describe your business model.

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I. THE BUSINESS MODEL

WHAT IS A BUSINESS MODEL?

„A business model describes **the rational of how an organization creates, delivers, and captures value.**“ (Osterwalder 2009 14)

“A business model is simply the ‘**way of doing business**’ that a firm has chosen: its entire system for creating and providing consistent value to customers and earning a profit from that activity, as well as benefit for its broader stakeholders. It refers to the core architecture or configuration of the firm, specifically how it deploys all relevant resources (not just those within the company boundaries), to create differentiated value for customers at a profit...” (Davenport, Leibold et al. 2006 20).

It is the underlying **economic logic that explains how value is delivered to the customer at an appropriate cost** (Magretta 2002).

The business model is a company’s answer to the question of how to make money in its chosen business. It describes, “...as a system, **how the pieces of a business fit together**” (Magretta 2002 91).

KEY ELEMENTS OF A BUSINESS MODEL

In order to describe and discuss a business model your organization needs a shared language, outlining the various pieces of your business and how they fit together. The “Business Model Canvas” is such a language (Figure 1). The Business Model Canvas consists of nine building blocks.

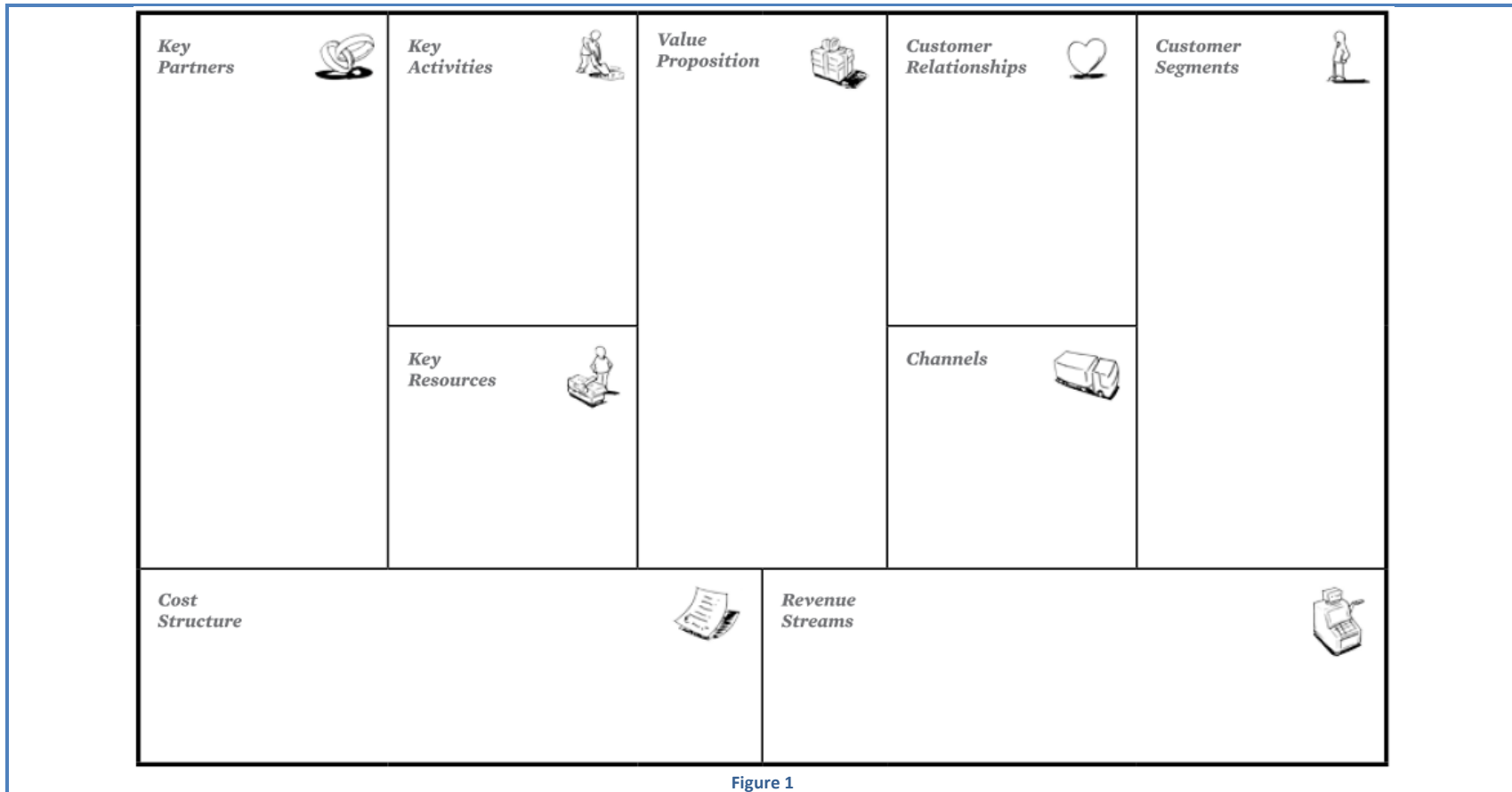


Figure 1

II. DESCRIBING YOUR BUSINESS MODEL

The goal is not to explain every detail, but the description should be rather to the point, highlighting the essence and the main competitive factors your business relies upon.

The following process has proven helpful for describing your business model:

1. Go through the questions on the next pages and document your answers. It will probably not be necessary to answer every question in great detail and some questions might not fit your particular business. Think of the questions as inspiration or a cooking recipe: the recipe gives you some directions, but feel free to use your creativity and the style that fits you and your business best.
2. After you have formulated your answers, use the Business Model Canvas to illustrate the main points and provide a summary (not a detailed description!) and highlight the most important factors of your business model. Have also a look at the examples provided.

WHO IS YOUR CUSTOMER?

Which customer segments do you serve? The term customer is used broadly here. It can include business customers or end customers. Instead of describing your direct customers, you might want to think about the real end customer, who is finally using the product. It might also be worth to think about who is buying the product, who is influencing the decision, who is paying for it and who is finally using it. Describing your customer segments along new characteristics and “the job to be done” (see next part) might open opportunities for re-segmenting your markets.

- Which customer segments are you currently targeting?
- For whom are you creating value?
- Who are your most important customers?
- Are your customers local or global?
- Business or consumer?
- What’s the demographic segment?
- What’s the life stage segment?

WHAT IS YOUR OFFER?

What is the customer value proposition? The customer value proposition (CVP) is about what products, services and solutions you offer your customers. It can be formulated in terms of what need is fulfilled or what problem is solved for the customer. Customer value propositions can be described as individual products or services or as bundles. In case you sell more than one product, you might want to think about the underlying need or problem all of your products or services fulfill. Maybe the products and services fall into several categories serving different needs?

- What needs does your offer fulfill?
- What is the job that your products and services help your customers to get done?
- What problem do your products, services and solutions solve for your customers?
- What bundles are you offering to each customer segment?

HOW ARE YOU CREATING YOUR VALUE PROPOSITION?

What are the key activities you perform? Key activities can include processes like for example: market research, design, research, product development, sourcing, manufacturing, recruiting, training, IT, licensing, marketing, sales, etc.

What are your key resources and assets? What are your most valuable assets and resources? Which do you need to make your business model work? Key resources can be physical, intellectual, human, or financial.

- Which activities are the most important to your business?
- Which do you perform best?
- Which do you outsource?

- People
- Technology
- Equipment
- Information
- Channels
- Exclusive access to partnerships and alliances
- Brands
- ...

Who are your key partners, alliances and suppliers? Who performs important activities in your value chain?

- *Suppliers* can be defined as those who fulfill steps in the value chain that your company has decided to outsource.

- *Partners* offer additions and act on a horizontal level as opposed to suppliers who act on a vertical level.

- *Alliances* are coalitions with competitors in certain areas.

HOW ARE YOU DELIVERING YOUR VALUE PROPOSITION?

How do you reach the customer? Delivering the value proposition is as much about how you sell as about how you reach your customer.

- What channels do you use? E.g. direct or indirect sales, high pressure or consultative selling, referrals, internet sales, etc.
- How do you organize fulfillment and support?
- How do you create awareness for your offer?
- How do you organize after sales?

What is your relationship to the customer? What is the image your customers have of your company? Are you differentiating yourself through:

- operational excellence “best buy”
- product leadership “best product”
- exceptional customer relationship “best brand”

HOW ARE YOU GENERATING REVENUES?

What specific revenue streams do you currently have? Where does the money come from?

- Sales
- Licensing
- Renting / Leasing
- Usage
- Subscription

How do you price? How do you fix prices?

- Fixed or dynamic
- Low, competitive, high
- List price
- Value based
- Auction
- ...

HOW DO COSTS OCCUR?

What are the most important costs in our business model? What are the cost drivers? Which key resources, activities, partnerships,... are the most expensive?

- Is your business cost-driven or value-driven?
- Fixed
- Variable
- Economies of scale
- Economies of scope

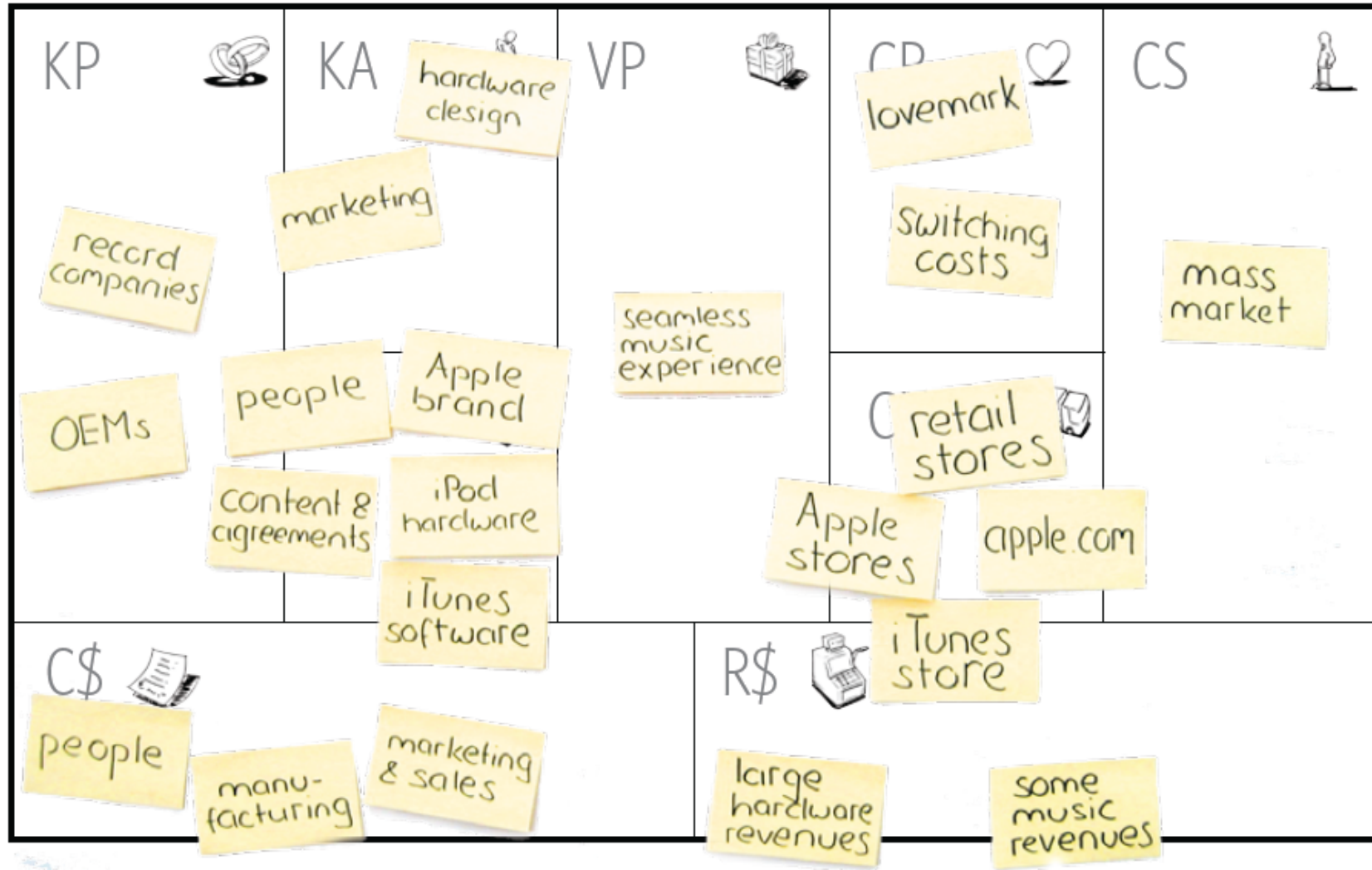
EXAMPLE: APPLE IPOD / ITUNES BUSINESS MODEL

“By the late 1990s, Apple’s initial pathway to growth was running out of steam. The company’s proprietary approach to designing both hardware and software limited it to being a niche player and hampered its ability to compete on price. In 2001, Apple began introducing a series of successful new products and services—the iPod, the iTunes online music service, and the iPhone—that propelled the company to the top of its industry. But the shift wasn’t only a matter of product innovation. Apple’s success resulted from its ability to define a workable business model for downloading music—something that had eluded the music industry for years.

This combination of product innovation and business model innovation (BMI) put Apple at the center of a market approximately 30 times larger than its original market. It also helped expand the company’s share of the traditional computer market, as new customers became so attached to their iPods that they took another look at Apple’s computers.” (Lindgardt et al 2009)

“Apples value proposition is to allow customers to easily search, buy, and enjoy digital music. Apple earns most of its music related revenues from selling iPods, while using the integration with and online music stores to protect itself from competitors.” (Osterwalder 2009 46)

The canvas on the following page can be downloaded from www.businessmodelgeneration.com.



(Osterwalder 2009 46)

III. DESCRIBING YOUR ENVIRONMENT

Sensing and seizing opportunities. The main purpose of describing the environment is to sense opportunities that can then be seized through entirely new business models or the reinvention of existing ones.

The need for inventing new business models or for reinventing existing ones can arise from **internal and external sources**. Internally the goal of organic growth can be one of these sources for example. Another source could be a new technology that needs to be brought to market with a new business model.

External pressure like increased competition, new entrants, or shifting customer needs can make it necessary to think about new business models as well.

This section deals with describing these external trends and pressures that might require new business models, but might also offer new opportunities that can be seized with the help of a new business model. The aim is not to find an answer to all of these trends and environmental factors. The list is meant to provide inspiration for areas to look into. Focus on those that you think have the biggest impact on your business, be it as a threat or an opportunity.

Here's an overview of external forces to think about.

Key Trends	Macro-Economic Forces	Industry Forces	Market Forces
<ul style="list-style-type: none">• Regulatory• Technological• Social• Cultural• Socio-Economic• Demographic• ...	<ul style="list-style-type: none">• Global market conditions• Capital markets• Economic infrastructure• Commodities and other resources• ...	<ul style="list-style-type: none">• Suppliers• Stakeholders• Competitors• New entrants• Substitute products and services• ...	<ul style="list-style-type: none">• Market attractiveness (from your BCG profile)• Market share (from your BCG profile)• Market segments• Needs and demand• Market issues• Switching costs• ...

IV. FURTHER READING

Doujak, A. (2008) „Strategic Innovation – Building New Growth Businesses“, first chapter available for download at www.doujak.eu

Sniukas, M. (2010) „Reshaping Strategy – The Content, Context and Process of Strategic Innovation“ VDM Verlag. First chapter available for download at www.sniukas.com

V. REFERENCES

Davenport, T. H., M. Leibold and S. Voelpel (2006). Strategic Management in the Innovation Economy. Publicis Wiley.

Osterwalder, A. (2009). Business Model Generation – A Handbook for Visionaries, Game Changers, and Challengers. Self Published

Lindgardt Z., M. Reeves, G. Stalk, and M.S. Deimler (2009) “Business Model Innovation: When the Game Gets Tough, Change the Game.” Boston Consulting Group report.

Magretta, J. (2002). "Why Business Models Matter." Harvard Business Review 80(5) May: 86-92.

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