

# RCVS Innovation Training

## Session Two – Developing and refining business models

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# Session Two

## Key learnings –

- The difference between business plans and a business models
- How to construct, assess and refine business models
- Telling your business model as a story

# Defining Innovation

*'The process of translating an idea or invention into a good or service that creates value or for which customers will pay'*

Business Dictionary, n.d.

# More Definitions...

- **Business Plan**

'A business plan is a written document that describes in detail how a business, usually a new one, is going to achieve its goals.'

Investopedia, n.d.

- **Business Model**

'Describes the rationale of how an organization creates, delivers and captures value'

Osterwalder & Pigneur, 2010, p.14

# Business Plans

*“Everyone had a plan until they get punched in the mouth”*

Mike Tyson

# Business Models

- 'Every viable organization is built on a sound business model'  
Magretta, 2002
- The Business Model describes:
  - How value is delivered to customers
  - Why customers pay for that value
  - How that value is turned into profitTeece, 2010
- 'Business modelling is...the managerial equivalent of the scientific method '. Start with a hypothesis, test and revise  
Magretta, 2002

# Definitions...again

- *Innovation is 'the process of translating an idea or invention into a good or service that creates value or for which customers will pay'*
- *Business models 'describe... how an organization creates, delivers and captures value'.*

# Business Model Canvas

A framework to:

- Develop and refine the elements of your business model
- Understand the interrelationship of these elements and build a consistent whole
- Identify areas of uncertainty and ambiguity
- Tell the story of your innovation

# Business Model Canvas



# The good news...

- You've already started building your Canvas.

What do you **DO**  
to generate this  
value?

**Activities**

**Customer  
relationships**

How do you get  
**INFORMATION**  
to/from your  
stakeholder/s?

What do you  
**USE** to generate  
this value?

**Resources**

**Value  
proposition**

**Channels**

How do you get  
**YOUR  
SOLUTION**  
to/from your  
stakeholder/s?

# Why a business model isn't enough

'Sooner or later...every enterprise runs into competitors'

Magretta, 2002

- At a top line level, business models are easy to copy
- Need to develop 'distinctive ways to compete' that cannot easily be replicated.
- This is the role of 'competitive strategy' and analysis.

ibid.

Teece, 2010

# Eliminate-Reduce-Raise-Create

- Blue Ocean Strategy tool to help differentiate without adding cost.
- For each element of the business ask:
  - What can be “eliminated” that was previously a source of competition?
  - What can be “reduced” below what is currently the standard?
  - What can be “raised” above the current standard?
  - What can be “created” that is entirely new?

Kim and Mauborgne, n.d.

# Value proposition

Always start with the value proposition

- Solves a problem or addresses a need  
...but you already know this!
- It outlines what benefits you are offering to your customers
- May be completely new or just adapt what is already exists better meet the needs of the market or a specific section of the market.

# How can you create value?

- “Getting the job done”
- Design
- Brand
- Price
- Cost reduction
- Risk reduction
- Accessibility
- Convenience

Osterwalder & Pigneur, 2010, p.25

# Customer segments

- The very people whose needs/wants you are meeting.
- The business model needs to be built around which customers it serves and how they are segmented.
- These customer segments may have differing needs and require differing offerings.

Osterwalder & Pigneur, 2010, p.21

# Customer segments

Separate segments are required if the answer to any of the following is, 'yes'

- Are needs sufficiently different to require different offerings?
- Are segments reached in the same way?
- Are different customer relationships required?
- Do they value different parts of the offering?
- Does their ability to pay differ?

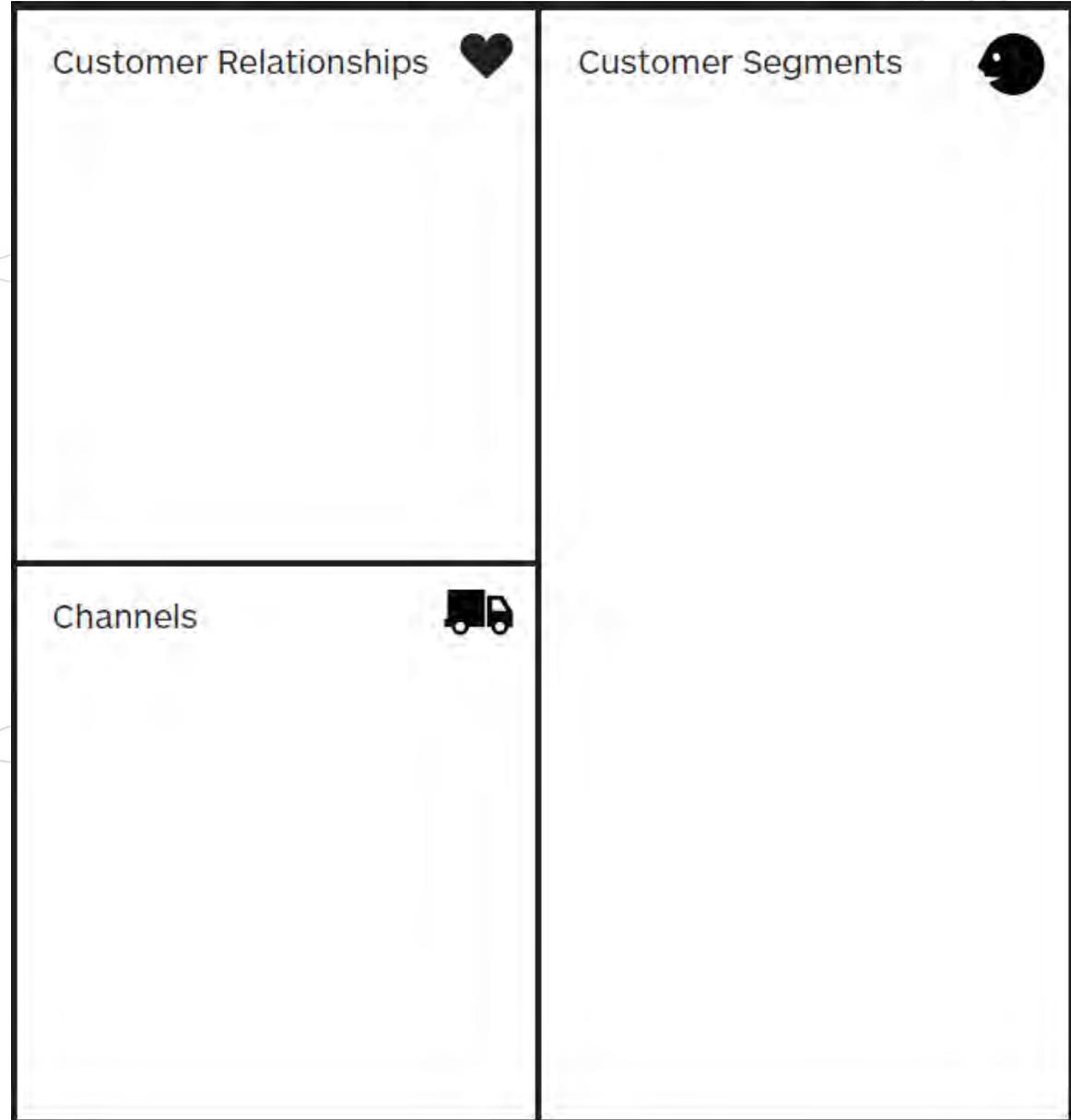
Osterwalder & Pigneur, 2010, p.18

# Example approaches

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

Osterwalder & Pigneur, 2010, p.18

# The demand side



# Channels

How you communicate with / reach your customers?

- Direct (owned by the company) or indirect (e.g. distributors/retailers).
- Channels have five phases:
  - Awareness
  - Evaluation
  - Purchase
  - Delivery
  - After sales

# Customer relationships

What type of relationship the company has with each customer segment

- Relationships can range from personal to automated
- Customer relationships may be driven by different motivations: customer acquisition, customer retention, boosting sales (up-selling)
- Think about how to keep your customers

# Types of relationship

- Personal assistance
- Dedicated personal assistance
- Self-service
- Automated service
- Communities
- Co-creation

Osterwalder & Pigneur, 2010, p.29

# The supply side



# Resources

‘Resources describe the most important assets required to make a business model work’ (Osterwalder, A. & Pigneur, 2010, p.35)

Resources may be:

- Financial
- Physical
- Human
- Organisational

Barney, 1995

# Resources

Resources are the key factor in 'sustained competitive advantage' – allowing firms to differentiate and avoid imitation by competitors.

- VRIO analysis asks, are your resources:
  - Valuable
  - Rare
  - Inimitable
  - Organizational (is the business structured to exploit these resources)

Barney, 1995

# Activities

The key things a company must do to deliver the business model.

Activities include:

- Production
- Problem solving
- Providing a platform/network

Osterwalder & Pigneur, 2010, p.37

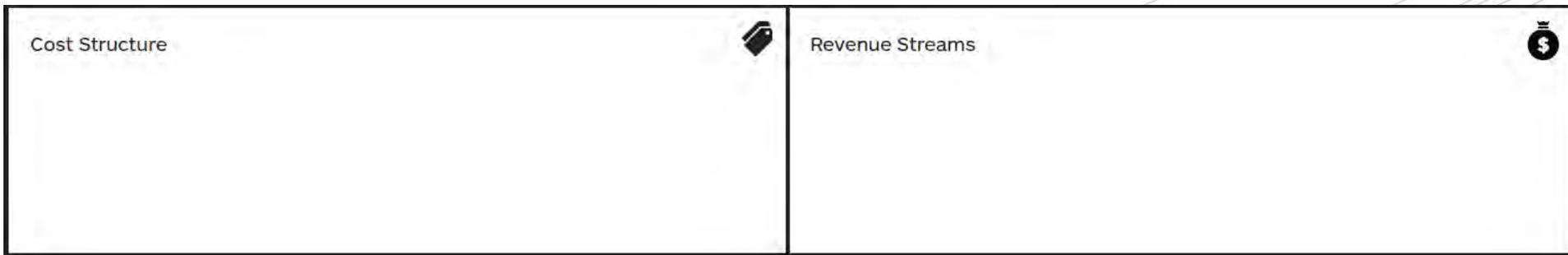
# Key partnerships

The network of suppliers and partnerships that allows delivery of the business model

- Partnerships may be sought for multiple reasons
- Example:
  - Strategic Alliance
  - Coopetition
  - Joint ventures
  - Buyer-Supplier

Osterwalder & Pigneur, 2010, p.39

# The Financials



# Cost structure

What are the costs associated with operating the business model?

- Is the business model 'cost-driven' or 'value-driven'?
- What is the nature of the costs 'fixed' or 'variable'?
- Are there Economies of Scale, Scope or Learning to be exploited?

Osterwalder & Pigneur, 2010, p.41

# Revenue Streams

- What customers are willing to pay for
- There may be multiple revenue streams and even multiple streams for each customer segment
- It is important to assess the security/sustainability of each revenue stream and whether is one-off or ongoing
  - How can you improve the sustainability / security of revenue?

Osterwalder & Pigneur, 2010, p.31

# Example revenue streams

- Asset sale (unit sale)
- Usage fee
- Subscription fees
- Renting/Leasing
- Licensing
- Brokerage
- Advertising

Osterwalder & Pigneur, 2010, p.31-33

# Business Model Innovation

- Innovation is often equated with technology.
- Business model innovation, can have more impacts than technological innovation.
  - Uber and AirBnB, for example, brought little technological innovation
- Without business model innovation 'technological innovation may be bereft of reward for pioneering individuals'

Teece, 2010

# 'Telling a good story'

Business models are 'stories that explain how enterprises work'

They tell the story of:

- Who is the customer and what they value?
- How the business makes money?
- How value is delivered to customers at an appropriate cost?

Think of developing a business model like writing a story with a coherent narrative

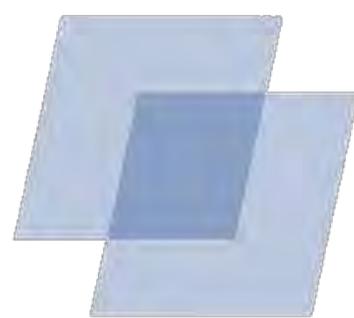
Magretta, 2002

# Summary

- A business models should be a the centre of the business plan. Providing a clear map as to how the components of the venture fit together so that the 'customer value proposition' will be delivered in a sustainable and profitable fashion.
- The Business Model Canvas provides a tool to develop the components of your business model, identify unknowns, and create a coherent whole.
- The business model provides the basis for your investor story.

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***ViVet***

*The network for veterinary innovation*