RCVS Innovation Training
Session Two – Developing and refining business models

Anthony Roberts
Director of Leadership and Innovation
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’

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 profit
  Teece, 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

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
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<th>Key Resources</th>
<th>Channels</th>
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<th>Cost Structure</th>
<th>Revenue Streams</th>
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The good news...

• You’ve already started building your Canvas.

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

<table>
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<th>Activities</th>
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What do you **USE** to generate this value?

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

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.

Osterwalder & Pigneur, 2010, p.23
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 need sufficiently different require different offerings?
- Are segments reached in the same way?
- Are difference 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

- Customer Relationships
- Customer Segments
- 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

Osterwalder & Pigneur, 2010, p.27
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

Osterwalder & Pigneur, 2010, p.29
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.
References


ViVet

The network for veterinary innovation