

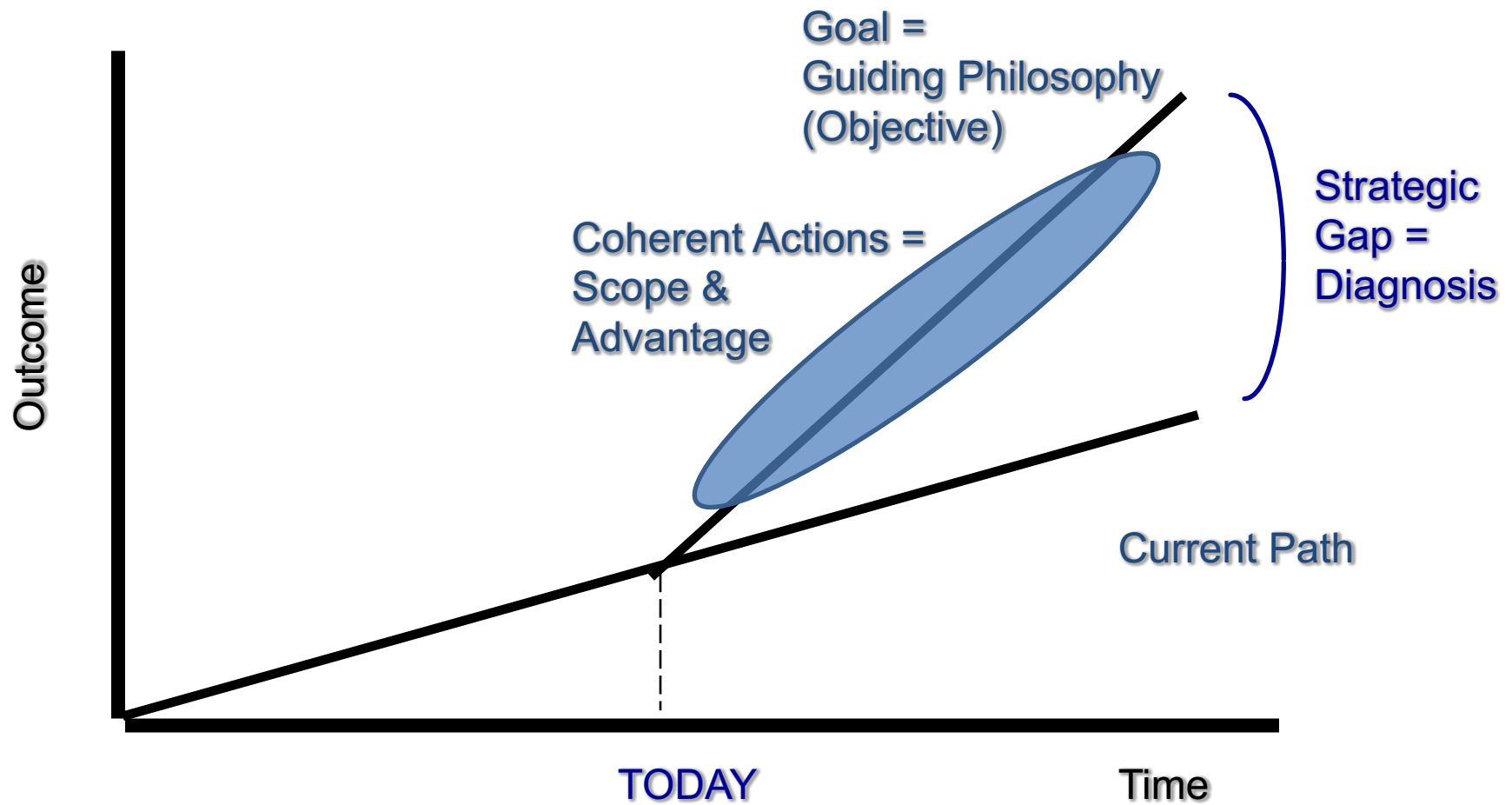


# **Two Core Strategy Tools: The Business Model Canvas and the 5 Key Questions of Strategy**

# Topic Outline

- Slide 3 – Strategy and the Performance Gap
- Slides 4 to 42 – The Current Business Model Canvas
- Slides 43 to 66 – Analysis of the Current Business Model
  - External Forces – 44 to 50
  - SWOT Analysis and the TOWS Matrix – 51 to 62
  - Blue Ocean Strategy and the ERRC Matrix – 63 to 65
- Slides 67 to 75 – The Five Key Questions of Strategy Development
- Slide 75/76 – The Summary Tool Kit

# The Performance Gap



# What is our business model?



# Outline of Topics

- The Business Model Canvas
  - Definition of Business Model
  - The Canvas
  - Visual Thinking
  - Our deliverable
- Value Proposition and Customer Segments
  - The Value Proposition Canvas
  - Empathy Map
- Customer Relationships and Channels
- Develop our Value Propositions: Key Resources, Activities and Partnerships
- Economics of the Business Model: Revenue Streams and Cost Structure
- Strategy and the Canvas










# The Business model canvas

# What is a Business Model?

- A business model describes the rationale of

**STRATEGIC**  
PLANNING PROGRAM

## The Business Model Canvas

Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 		Revenue Streams 		

[www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)

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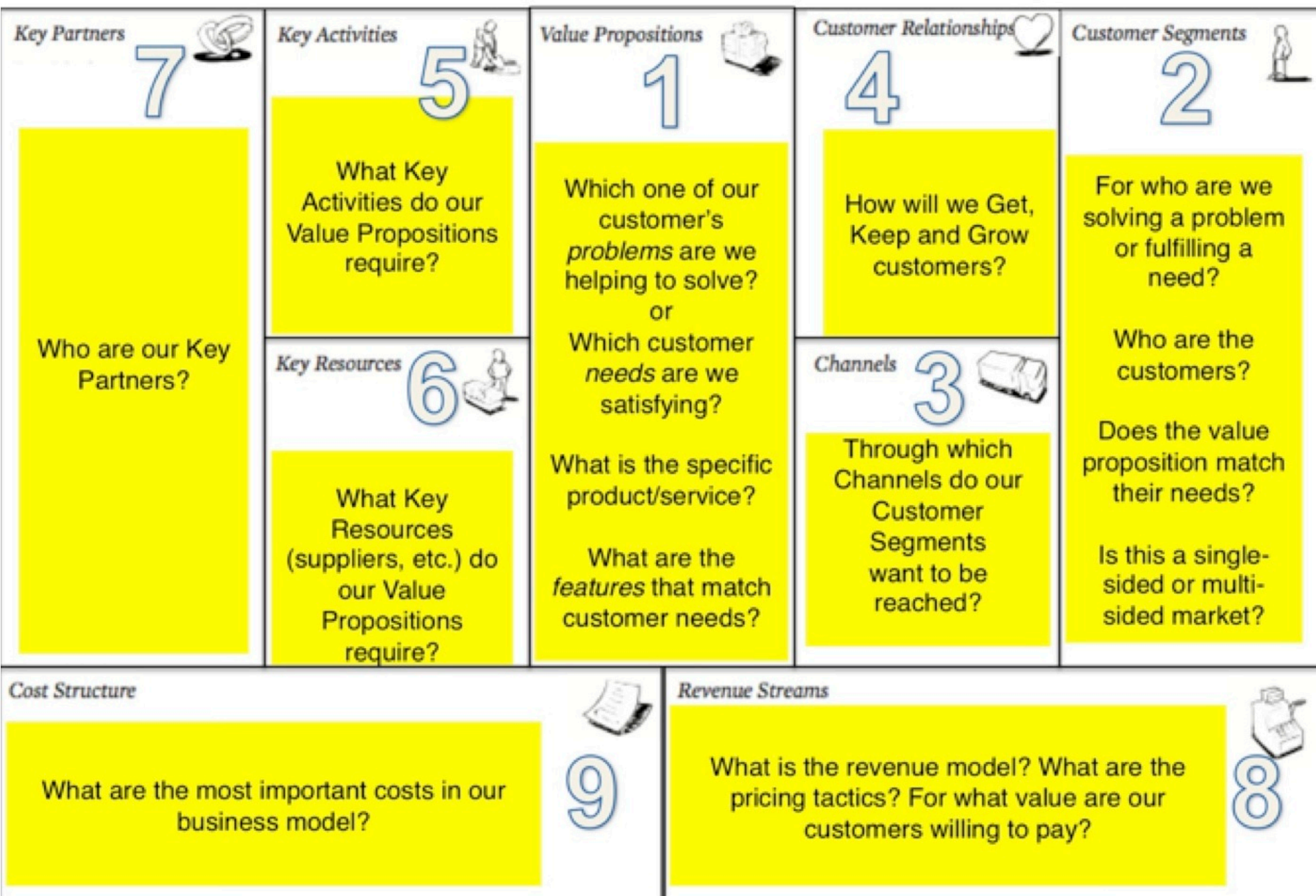
Center for Food and Agricultural Business  
COLLEGE OF AGRICULTURE

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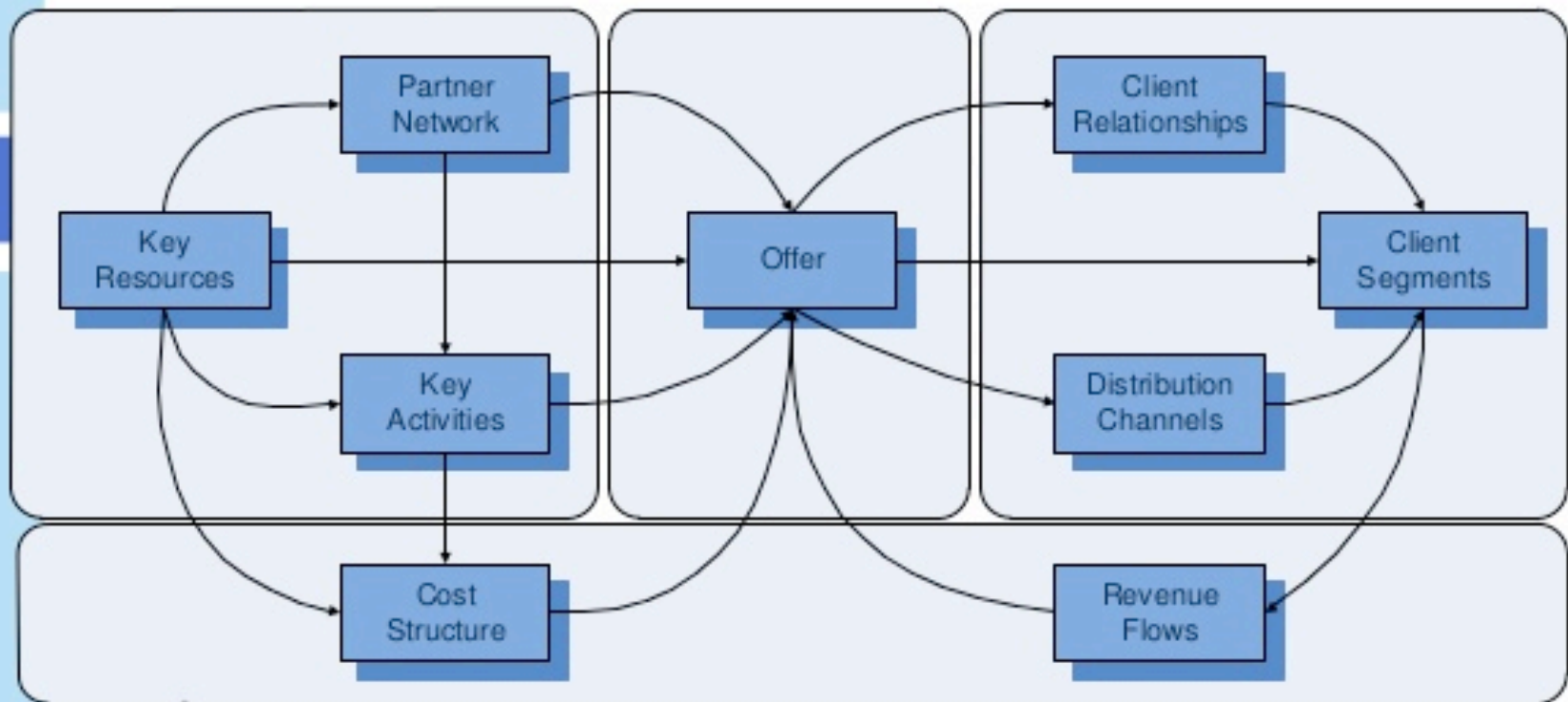


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# How the Nine Elements Relate



# Garrett's Lawn Mowing Service

Things that cost money

The Mission

Things that make money

## Key Partners

Dad (to let me borrow his mower and trimmer)

Mom (to drive me to FedEx to print flyers)

## Key Activities

Lawn mowing

Door-to-door sales

Flyer placement

Fee collection

Customer appreciation note writing

## Key Resources

Lawn mower (free)

Trimmer (free)

Trimmer line \$16/spool

Gas \$2.34/gallon

Flyers \$0.16/each

Envelopes \$11/500

## Value Proposition

**Problem:** Your lawn needs mowing.

**Solution:** I mow your lawn twice per month on a subscription basis so you can forget about it.

## Customer Relations

Personalized thank-you notes

Friendly face-to-face conversation

## Market & Customer Segments

Any individual or business with a lawn needs our services. In our immediate neighborhood, that's 43 potential customers.

## Channels

Door-to-door sale

Call-ins from flyers

## Cost Structure

Upfront cost: \$45.58 for gas, trimmer line, flyers, and envelopes.

Recurring costs: The average lawn uses \$1.41 in gas and \$2 in trimmer line, and each collection envelope costs \$0.02.

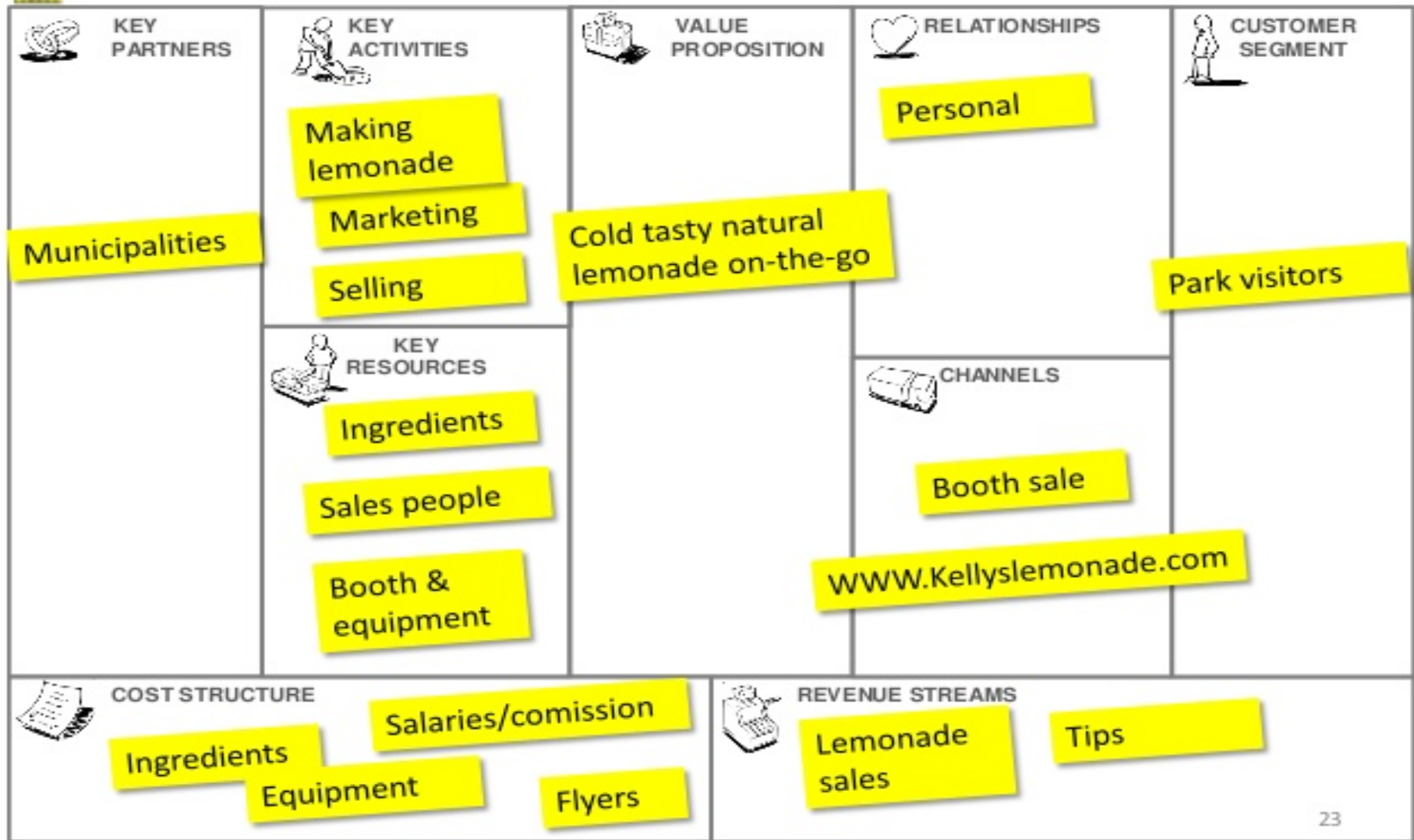
## Revenue Streams & Pricing Model

Clients pay \$40/month+tip. Money should be collected after the first mowing of each month.

After recurring monthly costs (\$6.84) are deducted, \$33.16 will remain as profit for each lawn mowed.

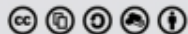
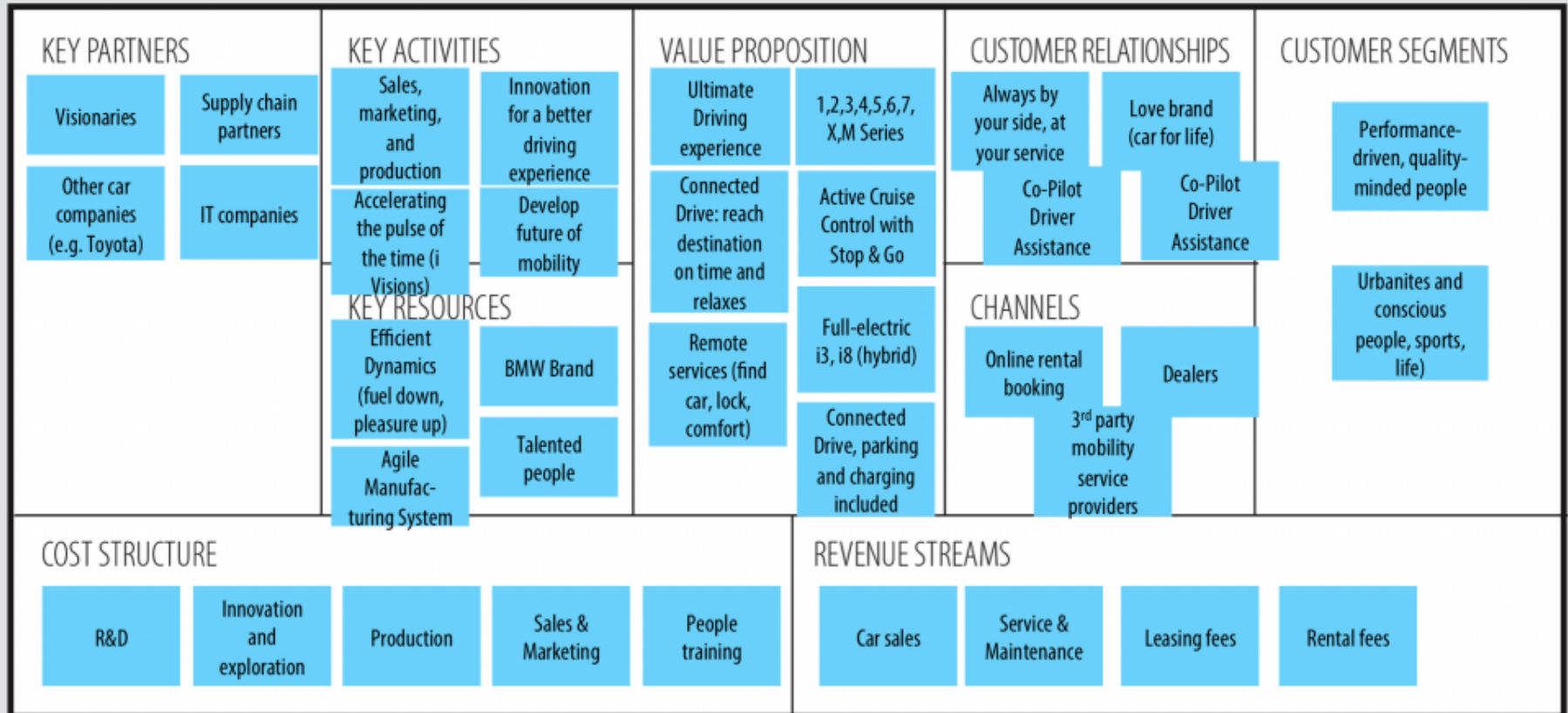


# Kelly's Lemonade Stand: Refreshing Lemonade





# BUSINESS MODEL CANVAS



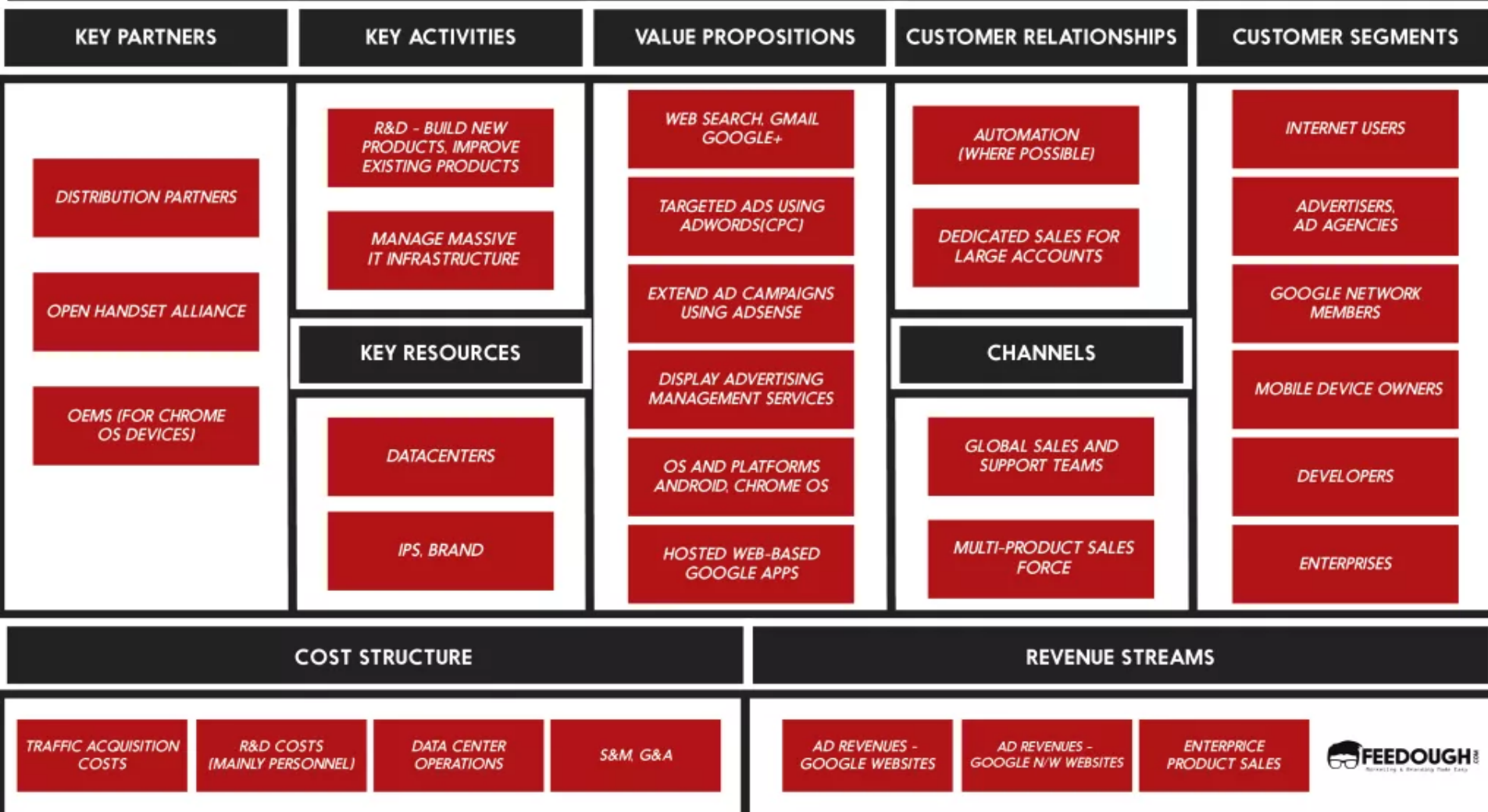
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# GOOGLE BUSINESS MODEL CANVAS



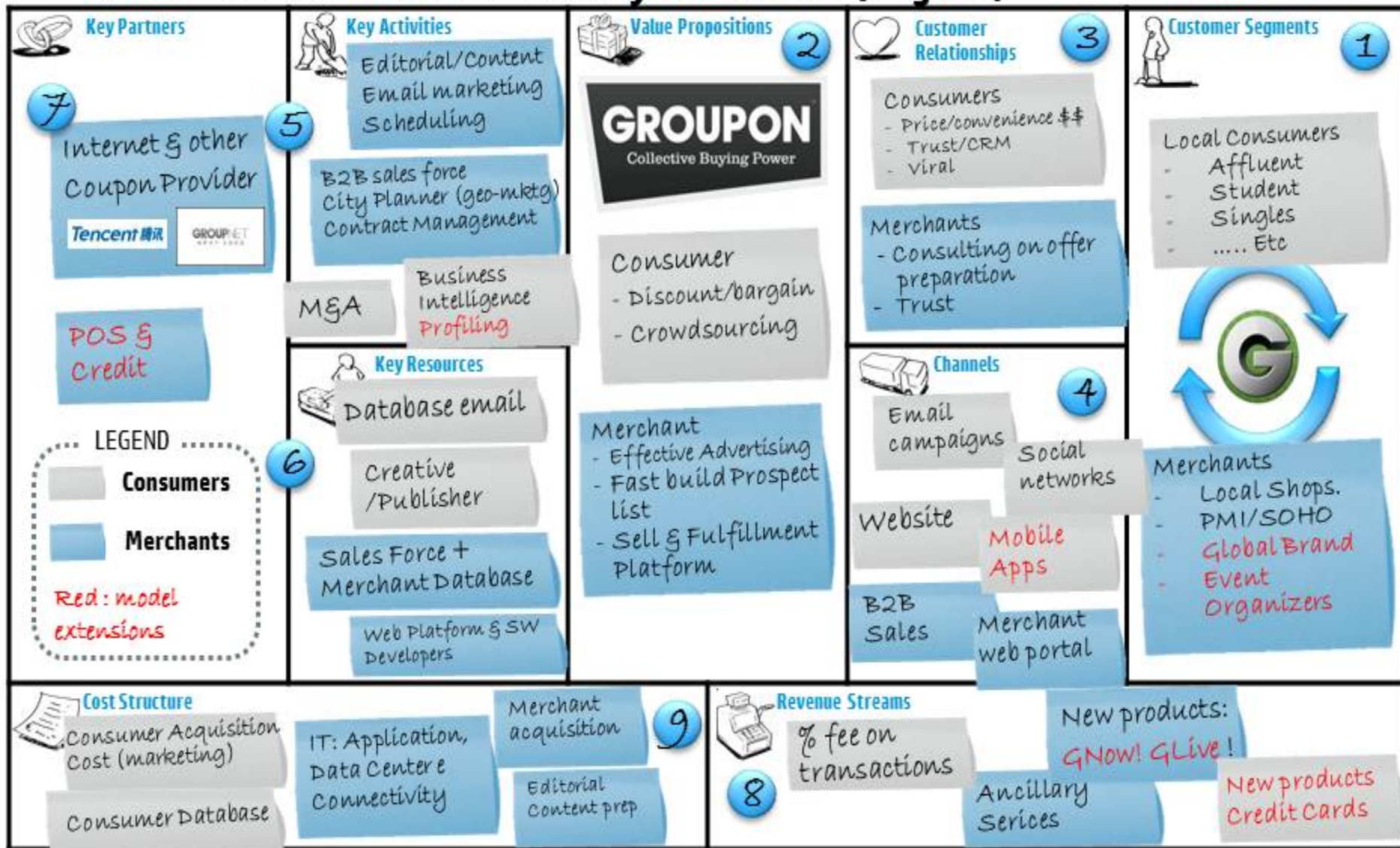


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# GROUPON - Business Model Canvas by Carlo Arioli (English)



# Business Model Canvas airbnb

## Key Partners

- Hosts (People who rent their space)
- Guests (People who book spaces)
- Photographers (Freelance)
- Investors
- Payment Processors

## Key Activities

- Product Development & Management
- Building Host network and Managing hosts
- Building travelers network and managing guests

## Key Resources

- Local Hosts
- Skilled Employees
- Technology

## Value Propositions

### Hosts

- Hosts can earn money by renting their space.
- Airbnb offers insurance to house owners.
- Free photo shoots for property listings through photographers.

### Guests

- Guests can book a homestay instead of hotel.
- Prices are often less as compared to hotels.

## Customer Relationships

- Customer Service
- Social Media
- Promotional Offers
- Home Insurance

## Channels

- Website
- Mobile App for Android
- Mobile App for iOS

## Customer Segments

### Hosts

- People who own a house and want to earn extra money.
- People who want to meet new people.

### Guests

- People who love to travel.
- People who want to stay comfortably at a cheap price.










## Cost Structure

- Technological Set up & running costs
- Salaries to permanent employees
- Payments to freelance photographers

## Revenue Streams

- Commission from Hosts upon every booking
- Commission from Guests upon every booking

# The Business Model Canvas

Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 			Revenue Streams 	



# A view with the end in mind

From idea to business model --

<https://youtube.com/watch?v=wwShFsSFb-Y>

Visualizing your business model --

<https://youtube.com/watch?v=wIKP-BaC0jA>

Prototyping business models --

<https://youtube.com/watch?v=iA5MVUNkSkM>

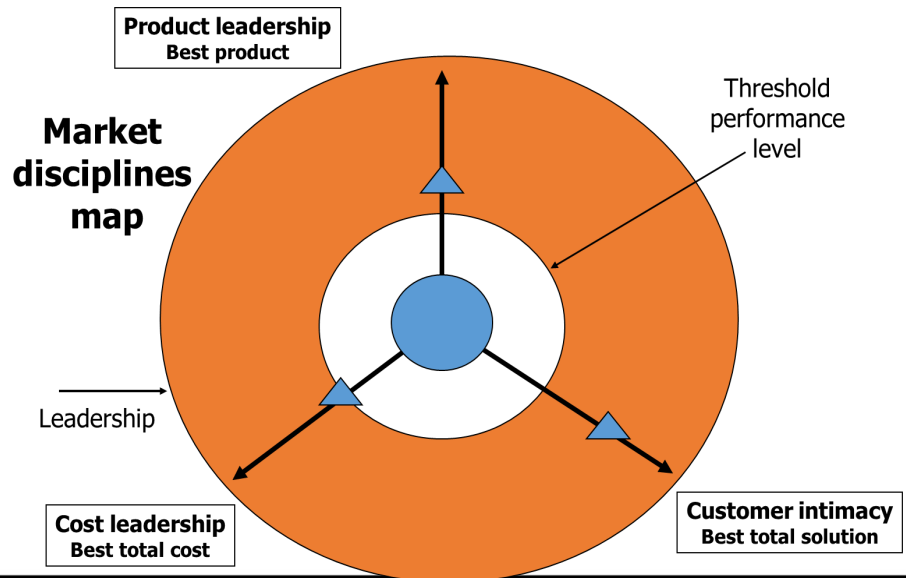
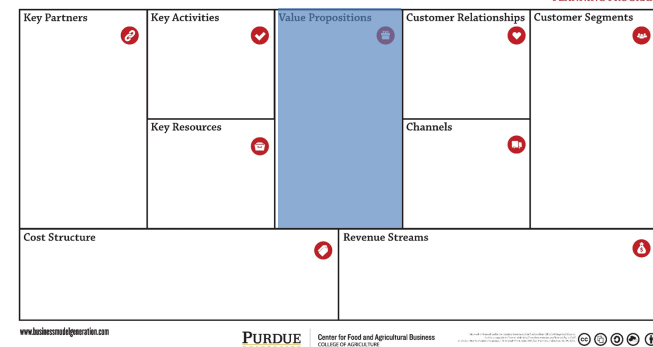
# **Our customer segments and value propositions**



# Value Proposition

- Creates value for a customer segment through a distinct mix of elements catering to that segments needs.
- Some examples:
  - New offering meets previously unknown need
  - Improving product/service performance
  - Tailoring products/services to specific needs
  - “Getting the Job Done”
  - Design
  - Brand/Status
  - Price
  - Cost Reduction
  - Risk Reduction
  - Accessibility
  - Convenience/Usability

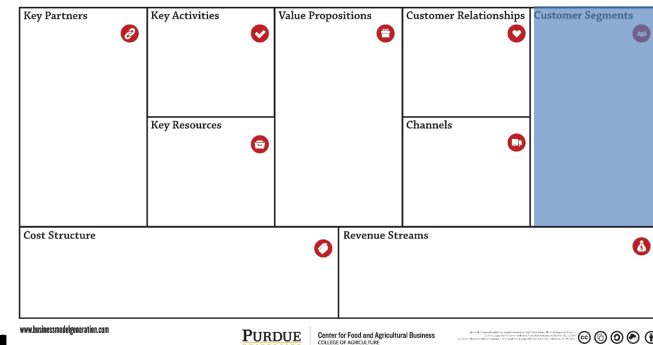
## The Business Model Canvas





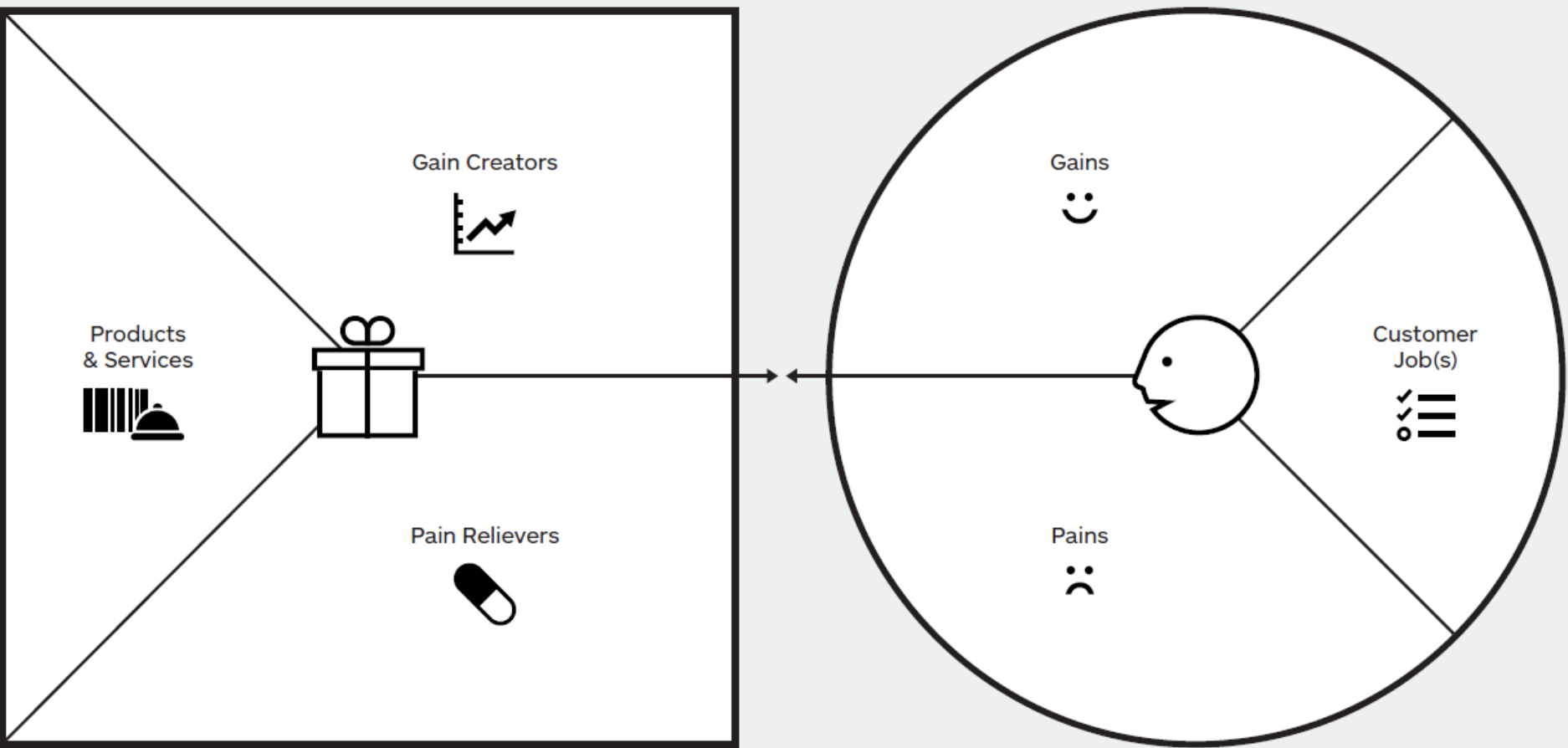
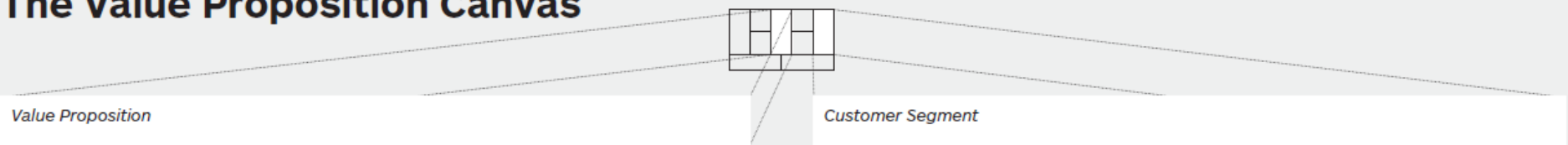
# Customer Segments

## The Business Model Canvas



- For whom are we creating value?
- Who are our most important customers?
- Different types of customer segments:
  - Mass market
  - Niche market
  - Segmented
  - Diversified
  - Multi-sided platforms (or multi-sided markets)
  - Upstream and downstream

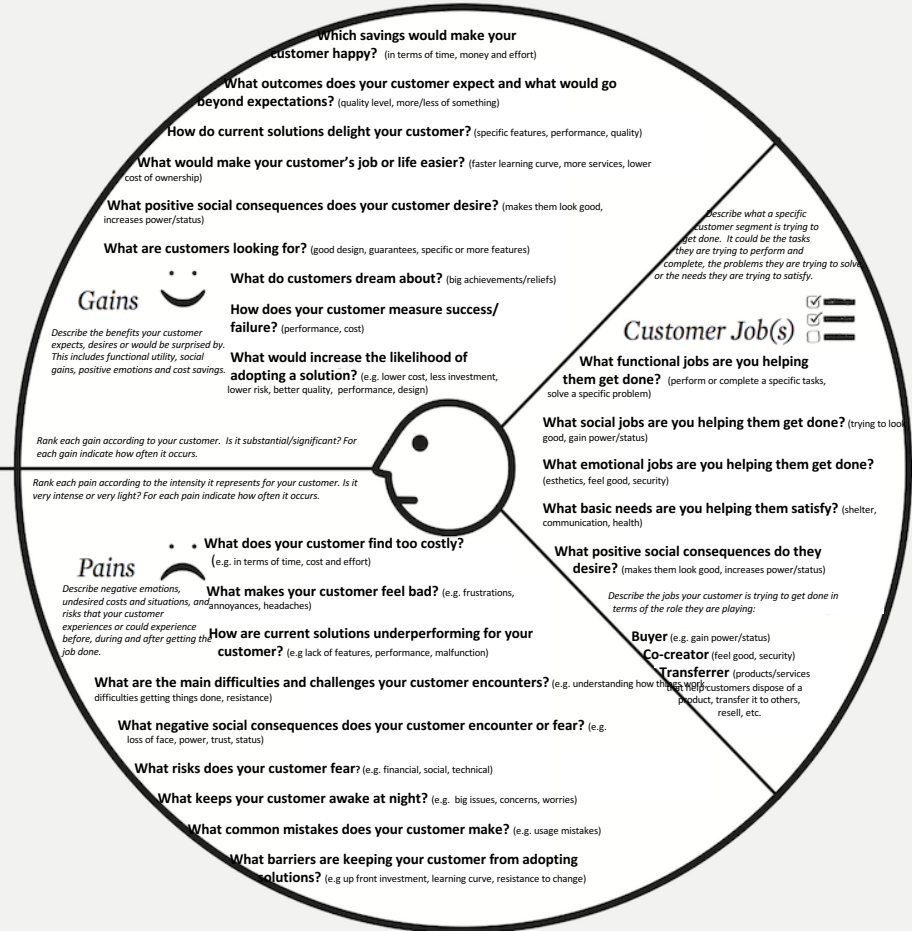
# The Value Proposition Canvas



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strategyzer.com

Customer Segment:	Designed by:	On: <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>
		Iteration: <input type="text"/> No <input type="text"/>



**Which savings would make your customer happy?** (in terms of time, money and effort)

**What outcomes does your customer expect and what would go beyond expectations?** (quality level, more/less of something)

**How do current solutions delight your customer?** (specific features, performance, quality)

**What would make your customer's job or life easier?** (faster learning curve, more services, lower cost of ownership)

**What positive social consequences does your customer desire?** (makes them look good, increases power/status)

**What are customers looking for?** (good design, guarantees, specific or more features)

## Gains



Describe the benefits your customer expects, desires or would be surprised by. This includes functional utility, social gains, positive emotions and cost savings.

Rank each gain according to your customer. Is it substantial/significant? For each gain indicate how often it occurs.

Rank each pain according to the intensity it represents for your customer. Is it very intense or very light? For each pain indicate how often it occurs.

**What do customers dream about?** (big achievements/relics)

**How does your customer measure success/failure?** (performance, cost)

**What would increase the likelihood of adopting a solution?** (e.g. lower cost, less investment, lower risk, better quality, performance, design)

## Customer Job(s)



**What functional jobs are you helping them get done?** (perform or complete a specific tasks, solve a specific problem)

**What social jobs are you helping them get done?** (trying to look good, gain power/status)

**What emotional jobs are you helping them get done?** (esthetics, feel good, security)

**What basic needs are you helping them satisfy?** (shelter, communication, health)

**What positive social consequences do they desire?** (makes them look good, increases power/status)

Describe the jobs your customer is trying to get done in terms of the role they are playing:

**Buyer** (e.g. gain power/status)

**Co-creator** (feel good, security)

**Transferrer** (products/services that help customers dispose of a product, transfer it to others, resell, etc.)

**What does your customer find too costly?** (e.g. in terms of time, cost and effort)

**What makes your customer feel bad?** (e.g. frustrations, annoyances, headaches)

**How are current solutions underperforming for your customer?** (e.g. lack of features, performance, malfunction)

**What are the main difficulties and challenges your customer encounters?** (e.g. understanding how things work, difficulties getting things done, resistance)

**What negative social consequences does your customer encounter or fear?** (e.g. loss of face, power, trust, status)

**What risks does your customer fear?** (e.g. financial, social, technical)

**What keeps your customer awake at night?** (e.g. big issues, concerns, worries)

**What common mistakes does your customer make?** (e.g. usage mistakes)

**What barriers are keeping your customer from adopting solutions?** (e.g. up front investment, learning curve, resistance to change)

## Pains



Describe negative emotions, undesired costs and situations, and risks that your customer experiences or could experience before, during and after getting the job done.



## Products & Services

List all the products and services your value proposition offers.

Which products/services do you offer that help your customer get either a function, social or emotional job done, or help him/her satisfy basic needs?

Which ancillary products and services help your customer perform the roles of:

**Buyer** (e.g. products and services that help customers compare offers, decide, buy, take delivery of a product/service)

**Co-creator** (e.g. products/services that help customers co-design solutions, otherwise contribute value to the solution)

**Transferrer** (e.g. products/services that help customers dispose of a product, transfer it to others, or resell).

Products/services may either be tangible, digital, intangible, or financial.

Rank all products and services according to their importance to your customer. Are they crucial or trivial to your customer?

Do they...

**Create savings that make your customer happy?** (e.g. in terms of time, money and effort)

**Produce outcomes your customer expects or that go beyond their expectations?** (e.g. better quality level, more of something, less of something)

**Make your customer's job or life easier?** (e.g. faster learning curve, usability, accessibility, more services, lower cost of ownership)

**Create positive social consequences that your customer desires?** (e.g. makes them look good, produces an increase in power or status)



**Do something customers are looking fore?**

(e.g. good design, guarantee, specific or more features)

**Fulfill something customers are dreaming about?** (e.g. help big achievements, produce big rebets)

**Produce positive outcomes matching your customers success and failure criteria?** (e.g. better performance, lower cost)

Rank the gains your products/services create according to its relevance to your customers. Is it substantial or insignificant? For each gain indicate how often it occurs.

## Gain Creators

Describe how your products/services create customer gains. How do they create benefits your customer expects, desires or would be surprised by, including functional utility, social gains, positive emotions, and cost savings?



Do they...

**Produce savings?** (e.g. in terms of time, money and effort)

**Make your customers feel better?** (e.g. kills frustrations, annoyances, things that give them a headache)

**Fix underperforming solutions?** (e.g. new features, better performance, better quality)

**Reduce difficulties and challenges for your customers?** (e.g. make things easier, helping them get jobs done, eliminate resistance)

**Wipe out negative social consequences your customer encounters or fears?** (e.g. loss of face, power, trust, or status)



## Pain Relievers

Describe how your products/services alleviate customer pains. How do they eliminate or reduce negative emotions, undesired costs and situations, and risks your customer experiences before, during, and after getting the job done?

**Eliminate risks your customers fear?** (e.g. financial, social, technical risks, or what could go wrong)

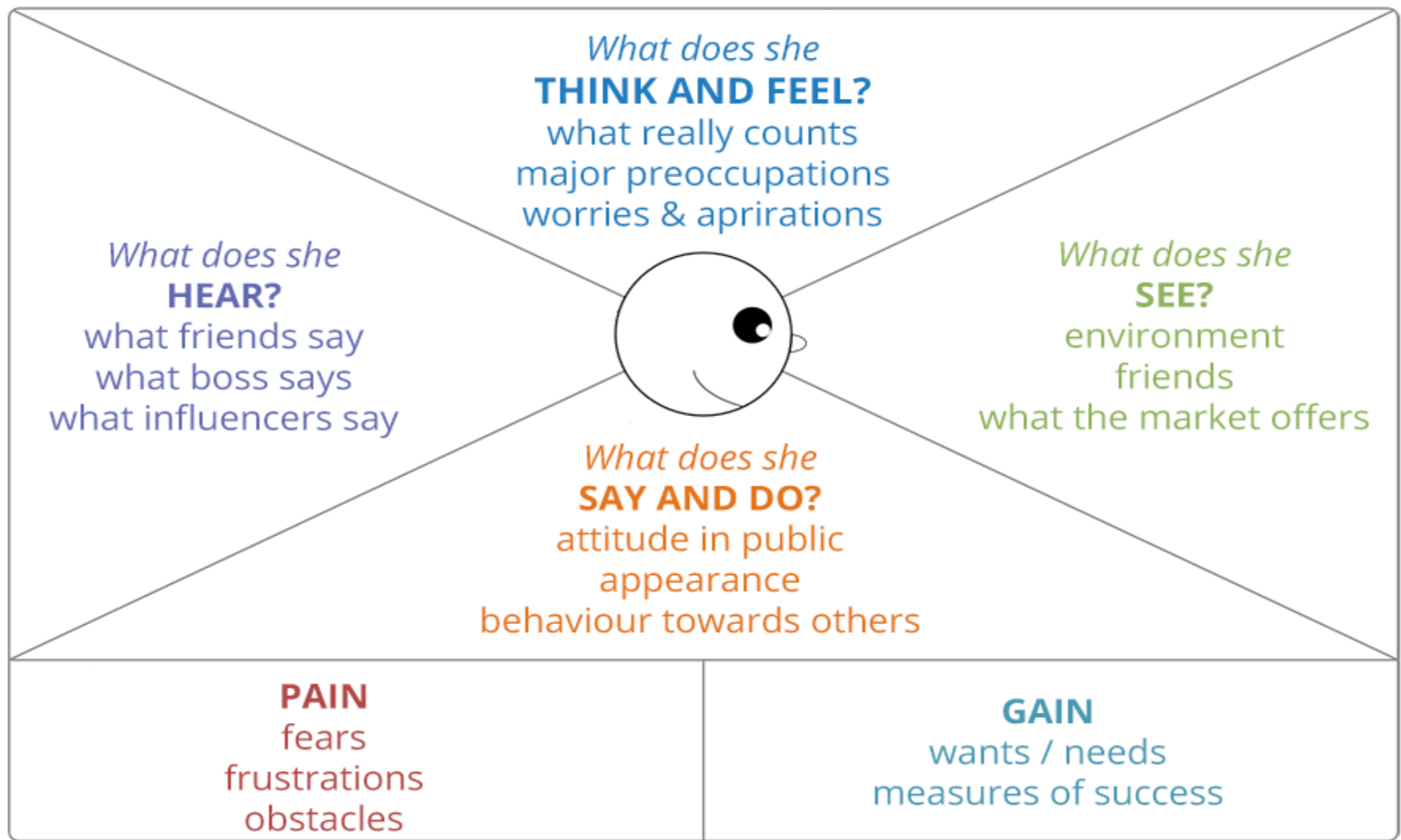
**Help your customers better sleep at night?** (e.g. help big issues, diminish concerns, eliminate worries)

**Reduce common customer mistakes?** (e.g. usage mistakes)

**Get rid of adoption barriers for your customers from adopting solutions?** (e.g. lower or no upfront investment costs, faster learning curve, less resistance to change)

Rank the pain your products/services address according to their intensity for your customers. Is it very intense or very light? For each pain indicate how often it occurs.

# BUSINESS MODEL GENERATION - EMPATHY MAP



Source: [http://businessmodelgeneration.com/book?\\_ga=1.202119953.1633864991.1418248536](http://businessmodelgeneration.com/book?_ga=1.202119953.1633864991.1418248536)



Our



Products and Services

help(s)



Customer Segment

who want to



Jobs to be done

by



verb (e.g., reducing, avoiding)



and a customer pain

and



verb (e.g., increasing, enabling)



and a customer gain

(unlike



competing value proposition

)

# Small Group Work

- Identify 3 critically important customer segments for your business.
- Pick one of your customer segments (ideally the segment where you have the most opportunity to grow)
  - Use the empathy map to sketch critical insights on this segment
    - Start by identifying a representative person from the segment and describe their demographics (age, experience, position, critical job functions/decisions, etc.)
    - Develop key descriptors of each of the empathy map boxes with a critical eye toward identifying pains and gains
  - Use the value proposition canvas to sketch the fit between the customer needs and your value proposition
    - Use the empathy map to assist in the right side of the canvas
    - Focus on the mapping of your offerings pain and gain solutions to the pains and gains of the customer segment.
  - Use the value proposition statement to summarize your value proposition for this segment – transfer this to your business model canvas in a few descriptive words
- Repeat for other customer segments
- Timing: 1 hour



# Additional resources

The value proposition canvas --

<https://youtube.com/watch?v=ReM1uqmVfP0>

Understanding customers –

<https://youtube.com/watch?v=kAdbbsZolOw>

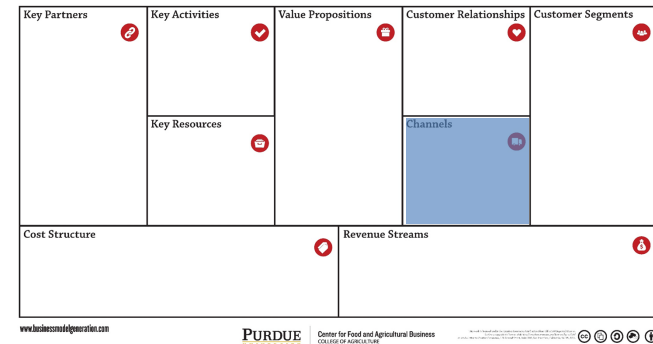
# Customer relationships and delivery channels?

# Channels

- How the company communicates with and reaches its customer segments to deliver a value proposition

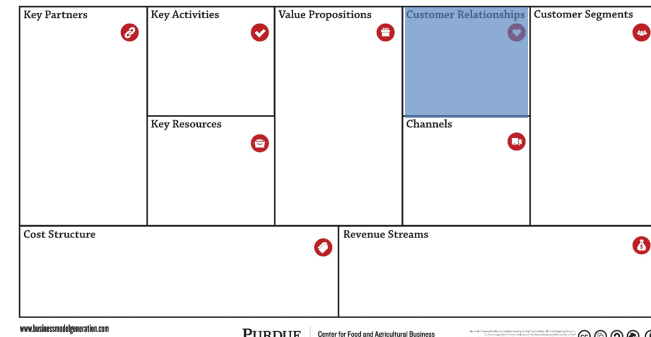
- Channel Types:
  - Own
    - Direct – Sales Force and Web Sales
    - Indirect – Own stores
  - Partner
    - Indirect – Partner Stores and Wholesaler

## The Business Model Canvas



- Channel Phases:
  - Awareness
  - Evaluation
  - Purchase
  - Delivery
  - After Sales

# Customer Relationships



- Type of relationship with each customer segment driven by: customer acquisition, retention, and upselling.
- Potential types of relationships:
  - Personal assistance
  - Dedicated personal assistant
  - Self-service
  - Automated services
  - Communities
  - Co-creation

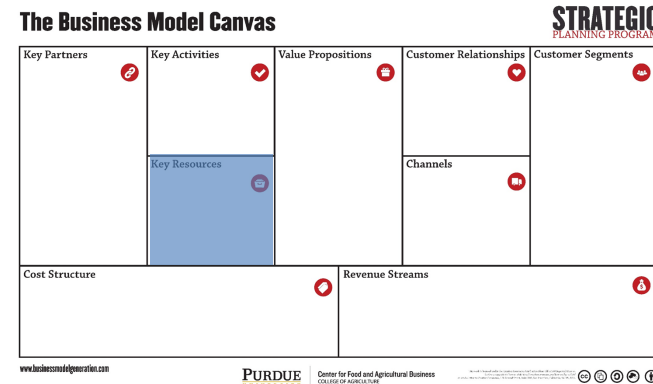
# Small Group Work

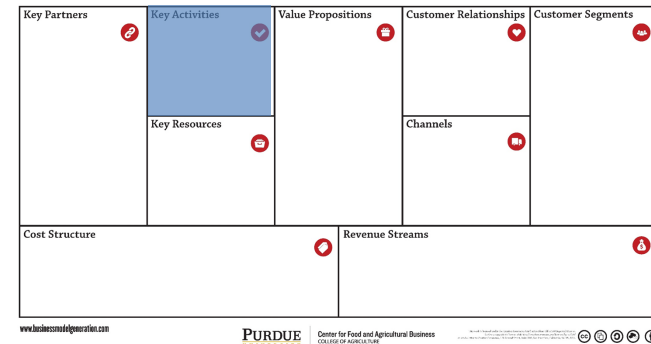
- For each of your customer segments identify the channels that you use to deliver their value propositions identify the most strategically important purposes for using that channel.
- For each of your customer segments identify the primary types of relationships you seek to develop.
- Timing: 1 hour

# Resources Activities, and relationships

# Key Resources

- What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?
- Resources include:
  - Physical
  - Intellectual
  - Human
  - Financial
- There General Business Types:
  - Product Driven – relies most often on intellectual and human resources.
  - Scope Driven – relies on intellectual resources about target customers, an established set of process and in some cases infrastructure.
  - Infrastructure Driven – leverage infrastructure and financial resources as key differentiators
- Watchout – make sure your list of resources is strategic – that is, are they truly essential to the businesses success and do you have to own them for them to be essential?

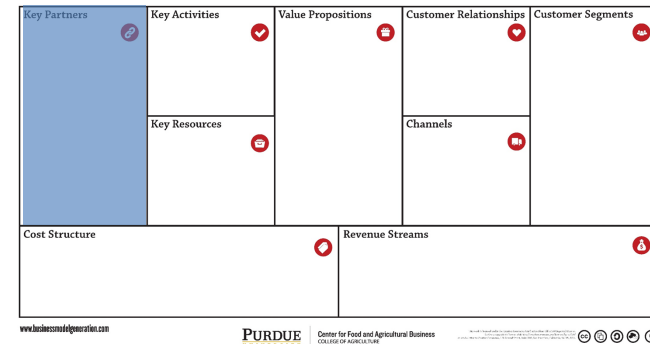




# Key Activities

- The most important things we must do to make business model work
  - R&D – New product research, New product Existing product updates, Quality Checks, Innovation
  - Production – Selection of product and design, Selection of production process, Selecting production capacity, production planning, production control, Quality and cost control, Inventory control, Maintenance and replacement of machines.
  - Marketing – strategy, market research, product development, communications, sales support, events.
  - Sales & Customer Service – Developing relationships, Handling problems, Acquiring new customers, assisting in sales, tracking orders, follow-up services
- An Example of a Consumer Product Producer that manufactures and sells the product on-line.
  - Value Propositions – product lasts longer saving customer money; provides performance improvement over competitors; easier to use because it is machine washable; easy to store packaging
  - Activities– control of production and manufacturing, managing website, online orders, and distribution of the product; creating a brand strategy, marketing and promotion of the product, product and package design.





# Key Partnerships

- The network of suppliers and partners that make the business model work
  - Strategic Alliances
  - Co-opetition
  - Joint Ventures
  - Buyer/Supplier
- Motivations for partnerships:
  - Optimization and economy of scale
  - Reduction of risk and uncertainty
  - Acquisition of particular resources and activities
- Key Questions:
  - Which partnerships are critical to our business?
  - Who are our critical suppliers?
  - Which of our suppliers/partners are sourcing our key resources?
  - What type of partnerships would suit our needs?
  - What is the best cluster/supply chain where we should be located?

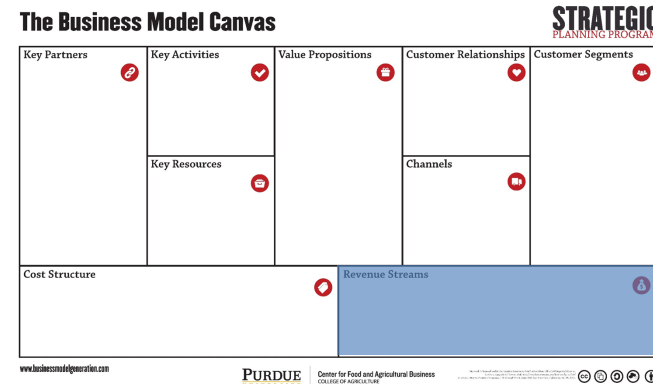
# Small Group Work

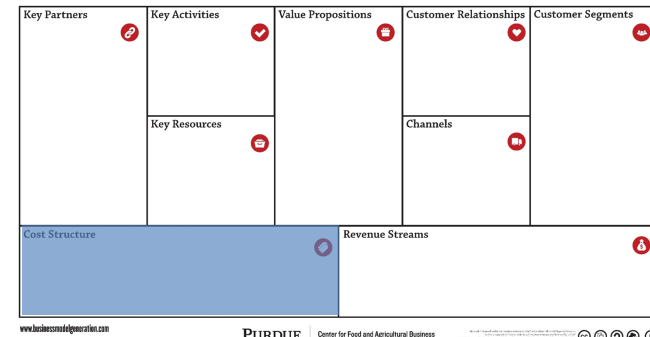
- Think critically about the RESOURCES that your business model requires to deliver the value propositions you have identified. Identify the top 3 to 4 resources you must have to be successful. Be as specific as possible about the resources and avoid generic resource names.
- Think critically about the ACTIVITIES that your business model requires to deliver the value propositions you have identified. Identify the top 4 to 4 activities you must have to be successful. Be as specific as possible about the resources and avoid generic resource names.
- Identify the 2 to 5 most strategic critical partnerships that allow you to be successful in your business model.
- Timing: 1 hour

# The economics of the business model

# Revenue Streams

- The cash generated from each customer segment through transaction revenue and/or recurring revenue.
  - Asset sale
  - Usage fee
  - Subscription fee
  - Lending/Renting/Leasing
  - Licensing
  - Brokerage fees
  - Advertising
- Pricing Mechanisms
  - Fixed Menu – List price, product feature dependent, customer segment dependent, volume dependent
  - Dynamic Pricing – Negotiation, yield management, real-time-market, auctions
- Key Questions
  - What benefits are customers currently paying for?
  - How are they paying for these benefits?
  - What mode of payment would be preferable to them?
  - What percentage of the total revenue does each revenue stream represent?
  - What benefits will encourage customer to pay more?





# Cost Structure

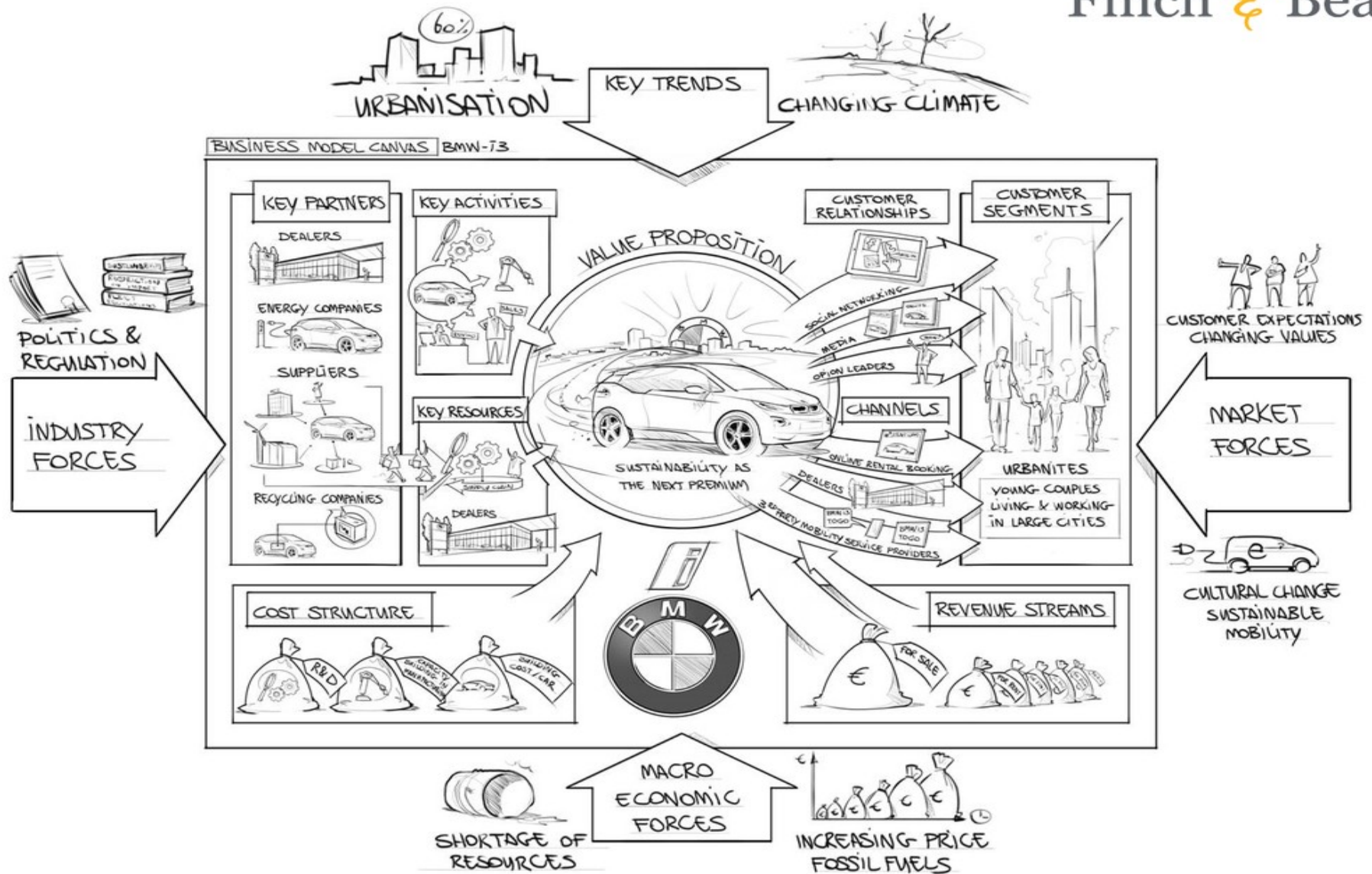
- All costs incurred to operate our business model
- Two basic types of business models
  - Cost-driven      -- Value-driven
- Cost structure characteristics
  - Fixed    -- Variable
  - Economies of scale    -- Economies of scope
- Key Questions to Ask:
  - What are the fundamental costs derived from the business model?
  - Which key resources represent a significant expense to the business?
  - What key activities represent a significant expense to the business?
  - How do your key activities drive costs?
  - Are the activities you have identified matched to value propositions?
  - Is the business more values driven or cost driven?
  - If you explore different changes in the business model to costs switch from fixed to variable?

# Small Group Work

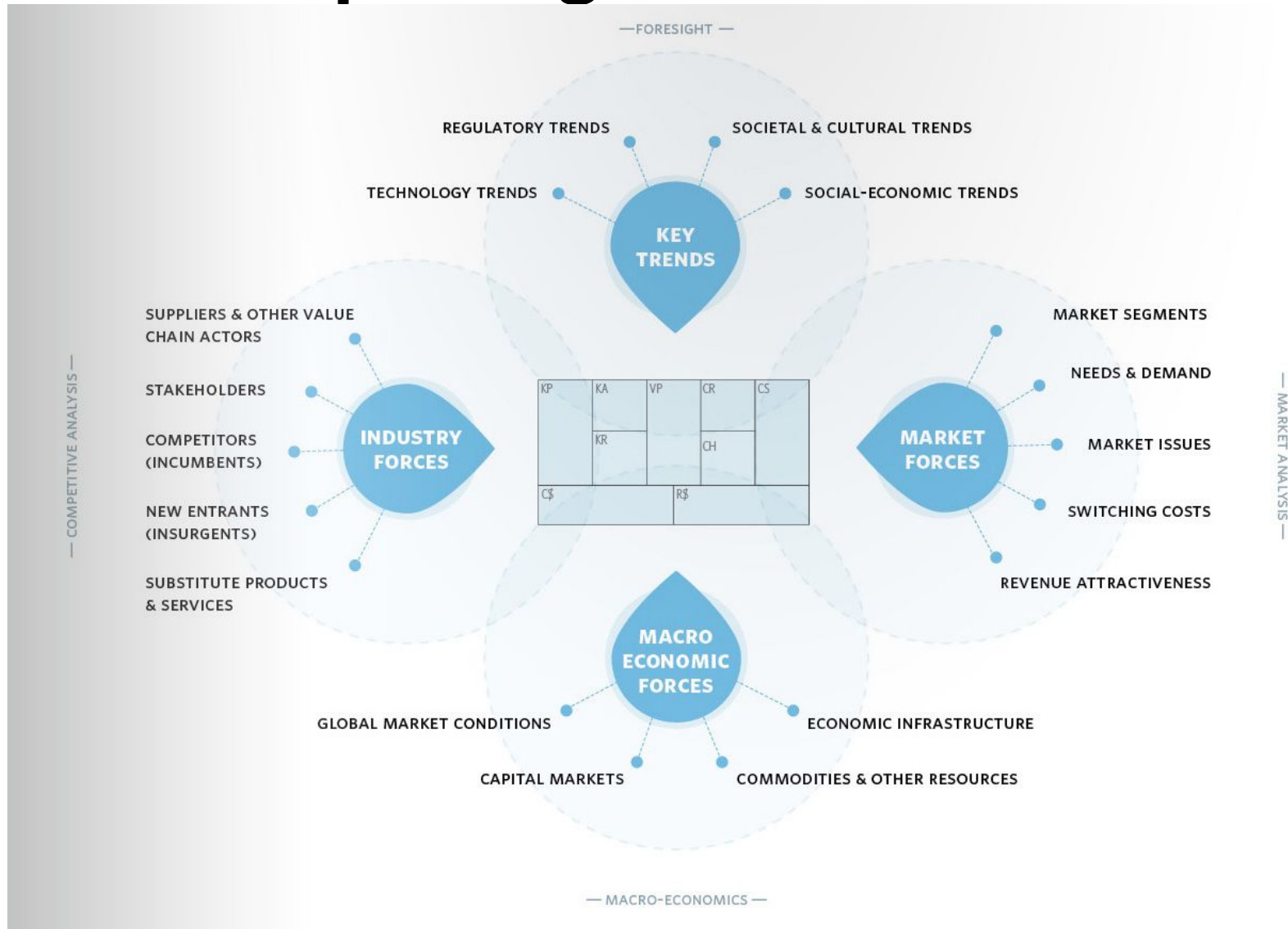
- Identify the critical revenue streams for your business. Be specific about the types of revenues and the proportion of the overall revenue streams they represent in terms of customer segments/products. Identify the level of volatility around the various sources of revenue. In addition, consider the five key strategic questions of revenue streams.
- Identify the critical operating costs for your business. Be specific about the types of costs. Identify the stage of production where the cost occurs. What proportion of the overall cost does each cost represent? In addition, consider the seven key strategic questions of cost structure.
- Timing 1 hour

# **STRATEGIC ANALYSIS OF OUR BUSINESS MODEL**





# Factors Impacting our Business Model



# Market Forces

## Market Issues

Identifies key issues driving and transforming your market from customer and offer perspectives

### Main Questions

What are the crucial issues affecting the customer landscape? Which shifts are underway? Where is the market heading?

## Market Segments

Identifies the major market segments, describes their attractiveness, and seeks to spot new segments

What are the most important Customer Segments? Where is the biggest growth potential? Which segments are declining? Which peripheral segments deserve attention?

## Needs & Demands

Outlines market needs and analyzes how well they are served

What do customers need? What are the biggest unsatisfied customer needs? What do customers really want to get done? Where is demand increasing? Declining?

## Switching Costs

Describes elements related to customers switching business to competitors

What binds customers to a company and its offer? What switching costs prevent customer from defecting to competitors? Is it easy for customers to find and purchase similar offers? How important is brand?

## Revenue Attractiveness

Identifies elements related to revenue attractiveness and pricing power.

What are customers really willing to pay for? Where can the largest margins be achieved? Can customers easily find and purchase cheaper products and services?

# Key Trends

## Technology Trends

Identifies technology trends that could threaten your business model – or enable it to evolve or improve

### Main Questions

What are the major technology trends both inside and outside your market? Which technologies represent important opportunities or disruptive threats? Which emerging technologies are peripheral customers adopting?

## Regulatory Trends

Describes regulations and regulatory trends that influence your business model

Which regulatory trends influence your market? What rules may affect your business model? Which regulations and taxes affect customer demand?

## Societal and Cultural Trends

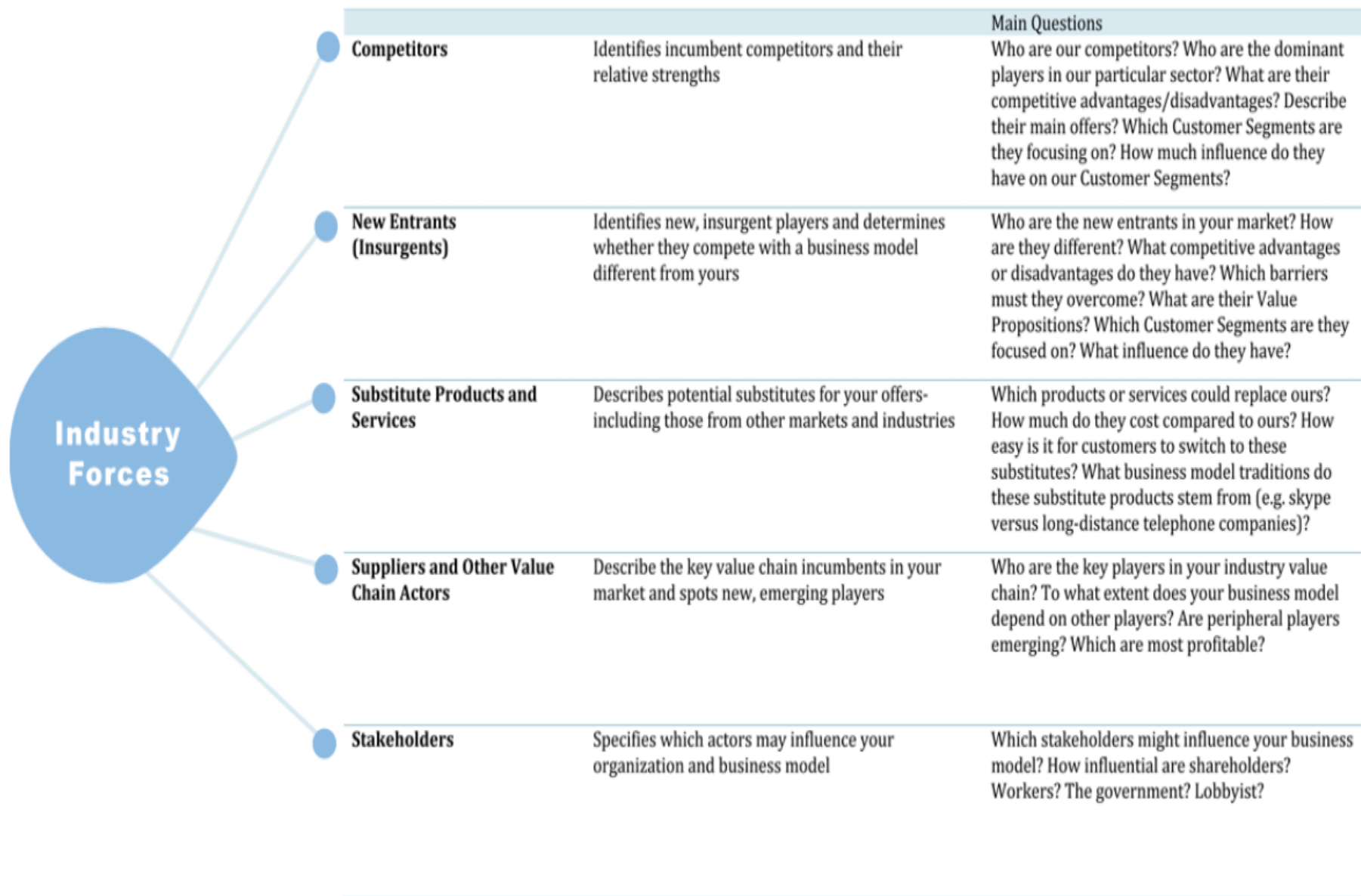
Identifies major societal trends that may influence your business model

Describe key societal trends. Which shifts in cultural or societal values affect your business model? Which trends might influence buyer behavior?

## Socioeconomic Trends

Outlines major socioeconomic trends relevant to your business model

What are the key demographic trends? How would you characterize income and wealth distribution in your market? How high are disposable incomes? Describe spending patterns in your market (e.g. housing, healthcare, entertainment, ect.) Rural, Suburban, or Urban.

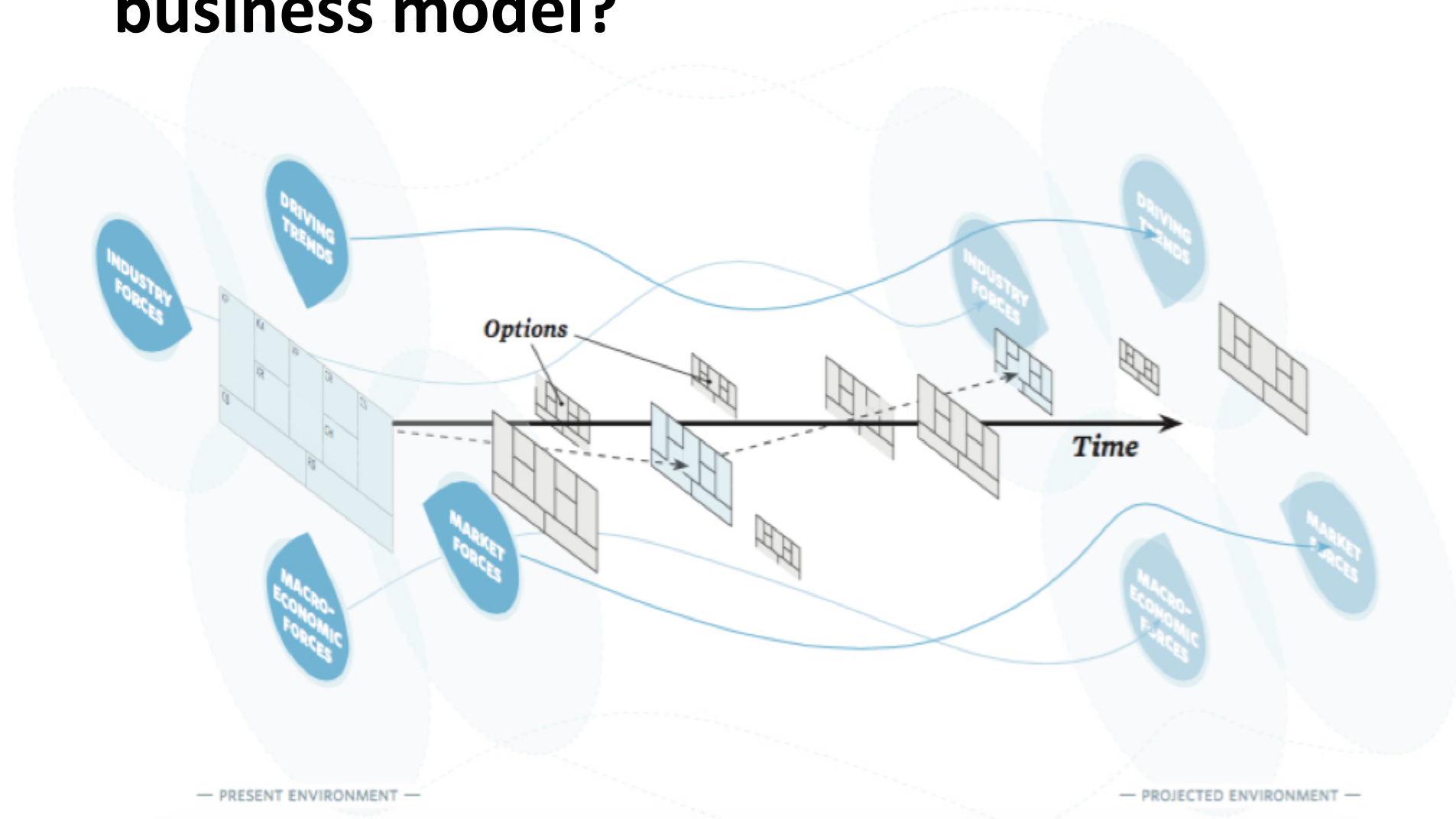




## Macro-Economic Forces

<b>Global Market Conditions</b>	Outlines current overall conditions from a macroeconomic perspective.	<b>Main Questions</b> Is the economy in a boom or bust phase? Describe general market sentiment. What is the GDP growth rate? How high is the unemployment rate?
<b>Capital Investments</b>	Describes current capital market conditions as they relate to your capital needs	What is the state of the capital markets? How easy is it to obtain funding in your particular market? Is seed capital, venture capital, public funding, market capital, credit, or family and friends money readily available?
<b>Commodities &amp; Other Resources</b>	Highlights current prices and price trends for resources required for your business model	Describe the current status of markets for commodities and other resources essential to your business (e.g. oil prices and labor costs). How easy is it to obtain the resources needed to execute your business model (e.g. attract prime talent)? How costly are they?
<b>Economic Infrastructure</b>	Describes the economic infrastructure of the market in which your business operates.	How good is the (public) infrastructure in your market? How would you characterize transportation, trade, school quality and access to suppliers and customers? How high are individual and corporate taxes? How good are public services for organizations?

# How are changing forces affecting our business model?





# SWOT Analysis of the 9 Blocks



Source: Business Model Generation, Alexander Osterwalder and Yves Pigneur, 2012, [businessmodelgeneration.com](http://businessmodelgeneration.com)

# Evaluating the Business Model: Strengths and Weaknesses

Value Proposition Assessment

 <small>IMPORTANCE TO MY B.M. 1-10</small>	Our Value Propositions are well aligned with customer needs	<input type="radio"/> 5 <input type="radio"/> 4 <input type="radio"/> 3 <input type="radio"/> 2 <input type="radio"/> 1	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5	Our Value Propositions and customer needs are misaligned
	Our Value Propositions have strong network effects	<input type="radio"/> 5 <input type="radio"/> 4 <input type="radio"/> 3 <input type="radio"/> 2 <input type="radio"/> 1	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5	Our Value Propositions have no network effects
	There are strong synergies between our products and services	<input type="radio"/> 5 <input type="radio"/> 4 <input type="radio"/> 3 <input type="radio"/> 2 <input type="radio"/> 1	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5	There are no synergies between our products and services
	Our customers are very satisfied	<input type="radio"/> 5 <input type="radio"/> 4 <input type="radio"/> 3 <input type="radio"/> 2 <input type="radio"/> 1	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5	We have frequent complaints



## Cost/Revenue Assessment



IMPORTANCE TO MY B.M. 1-10

We benefit from strong margins

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our margins are poor

Our revenues are predictable

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our revenues are unpredictable

We have recurring Revenue Streams and frequent repeat purchases

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our revenues are transactional with few repeat purchases

Our Revenue Streams are diversified

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

We depend on a single Revenue Stream

Our Revenue Streams are sustainable

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our revenue sustainability is questionable

We collect revenues before we incur expenses

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

We incur high costs before we collect revenues

We charge for what customers are really willing to pay for

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

We fail to charge for things customers are willing to pay for

Our pricing mechanisms capture full willingness to pay

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our pricing mechanisms leave money on the table



Our costs are predictable

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our costs are unpredictable

Our Cost Structure is correctly matched to our business model

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our Cost Structure and business model are poorly matched

Our operations are cost-efficient

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

Our operations are cost-inefficient

We benefit from economies of scale

(5) (4) (3) (2) (1)

(1) (2) (3) (4) (5)

We enjoy no economies of scale

## Infrastructure Assessment



	IMPORTANCE TO MY B.M. 1-10	Our Key Resources are difficult for competitors to replicate	5 4 3 2 1	1 2 3 4 5	Our Key Resources are easily replicated
		Resource needs are predictable	5 4 3 2 1	1 2 3 4 5	Resource needs are unpredictable
		We deploy Key Resources in the right amount at the right time	5 4 3 2 1	1 2 3 4 5	We have trouble deploying the right resources at the right time
		We efficiently execute Key Activities	5 4 3 2 1	1 2 3 4 5	Key Activity execution is inefficient
		Our Key Activities are difficult to copy	5 4 3 2 1	1 2 3 4 5	Our Key Activities are easily copied
		Execution quality is high	5 4 3 2 1	1 2 3 4 5	Execution quality is low
		Balance of in-house versus outsourced execution is ideal	5 4 3 2 1	1 2 3 4 5	We execute too many or too few activities ourselves
		We are focused and work with partners when necessary	5 4 3 2 1	1 2 3 4 5	We are unfocused and fail to work sufficiently with partners
		We enjoy good working relationships with Key Partners	5 4 3 2 1	1 2 3 4 5	Working relationships with Key Partners are conflict-ridden

## Customer Interface Assessment



IMPORTANCE TO MY B.M. 1-10



Customer churn rates are low	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Customer churn rates are high
Customer base is well segmented	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Customer base is unsegmented
We are continuously acquiring new customers	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	We are failing to acquire new customers
Our Channels are very efficient	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Our Channels are inefficient
Our Channels are very effective	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Our Channels are ineffective
Channel reach is strong among customers	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Channel reach among prospects is weak
Customers can easily see our Channels	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Prospects fail to notice our Channels
Channels are strongly integrated	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Channels are poorly integrated
Channels provide economies of scope	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Channels provide no economies of scope
Channels are well matched to Customer Segments	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Channels are poorly matched to Customer Segments
Strong Customer Relationships	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Weak Customer Relationships
Relationship quality correctly matches Customer Segments	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Relationship quality is poorly matched to Customer Segments
Relationships bind customers through high switching costs	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Customers switching costs are low
Our brand is strong	(5) (4) (3) (2) (1)	(1) (2) (3) (4) (5)	Our brand is weak



# Evaluating the Business Model: Threats

## Value Proposition Threats



Are substitute products and services available?

① ② ③ ④ ⑤

Are competitors threatening to offer better price or value?

① ② ③ ④ ⑤

## Cost/Revenue Threats



Are our margins threatened by competitors? By technology?

① ② ③ ④ ⑤

Do we depend excessively on one or more Revenue Streams?

① ② ③ ④ ⑤

Which Revenue Streams are likely to disappear in the future?

① ② ③ ④ ⑤



Which costs threaten to become unpredictable?

① ② ③ ④ ⑤

Which costs threaten to grow more quickly than the revenues they support?

① ② ③ ④ ⑤

## Infrastructure Threats



Could we face a disruption in the supply of certain resources?

① ② ③ ④ ⑤

Is the quality of our resources threatened in any way?

① ② ③ ④ ⑤



What Key Activities might be disrupted?

① ② ③ ④ ⑤

Is the quality of our activities threatened in any way?

① ② ③ ④ ⑤



Are we in danger of losing any partners?

① ② ③ ④ ⑤

Might our partners collaborate with competitors?

① ② ③ ④ ⑤

Are we too dependent on certain partners?

① ② ③ ④ ⑤

## Customer Interface Threats



Could our market be saturated soon?

① ② ③ ④ ⑤

Are competitors threatening our market share?

① ② ③ ④ ⑤

How likely are customers to defect?

① ② ③ ④ ⑤

How quickly will competition in our market intensify?

① ② ③ ④ ⑤



Do competitors threaten our Channels?

① ② ③ ④ ⑤

Are our Channels in danger of becoming irrelevant to customers?

① ② ③ ④ ⑤



Are any of our Customer Relationships in danger of deteriorating?

① ② ③ ④ ⑤



## Infrastructure Threats



Could we face a disruption in the supply of certain resources?

① ② ③ ④ ⑤

Is the quality of our resources threatened in any way?

① ② ③ ④ ⑤



What Key Activities might be disrupted?

① ② ③ ④ ⑤

Is the quality of our activities threatened in any way?

① ② ③ ④ ⑤



Are we in danger of losing any partners?

① ② ③ ④ ⑤

Might our partners collaborate with competitors?

① ② ③ ④ ⑤

Are we too dependent on certain partners?

① ② ③ ④ ⑤

## Customer Interface Threats



Could our market be saturated soon?

① ② ③ ④ ⑤

Are competitors threatening our market share?

① ② ③ ④ ⑤

How likely are customers to defect?

① ② ③ ④ ⑤

How quickly will competition in our market intensify?

① ② ③ ④ ⑤



Do competitors threaten our Channels?

① ② ③ ④ ⑤

Are our Channels in danger of becoming irrelevant to customers?

① ② ③ ④ ⑤



Are any of our Customer Relationships in danger of deteriorating?

① ② ③ ④ ⑤

# Evaluating the Business Model: Opportunities

## Value Proposition Opportunities



Could we generate recurring revenues by converting products into services?

(1) (2) (3) (4) (5)

Could we better integrate our products or services?

(1) (2) (3) (4) (5)

Which additional customer needs could we satisfy?

(1) (2) (3) (4) (5)

What complements to or extensions of our Value Proposition are possible?

(1) (2) (3) (4) (5)

What other jobs could we do on behalf of customers?

(1) (2) (3) (4) (5)

## Cost/Revenue Opportunities



Can we replace one-time transaction revenues with recurring revenues?

(1) (2) (3) (4) (5)

What other elements would customers be willing to pay for?

(1) (2) (3) (4) (5)

Do we have cross-selling opportunities either internally or with partners?

(1) (2) (3) (4) (5)

What other Revenue Streams could we add or create?

(1) (2) (3) (4) (5)

Can we increase prices?

(1) (2) (3) (4) (5)



Where can we reduce costs?

(1) (2) (3) (4) (5)

## Infrastructure Opportunities



Could we use less costly resources to achieve the same result?

1 2 3 4 5

Which Key Resources could be better sourced from partners?

1 2 3 4 5

Which Key Resources are under-exploited?

1 2 3 4 5

Do we have unused intellectual property of value to others?

1 2 3 4 5



Could we standardize some Key Activities?

1 2 3 4 5

How could we improve efficiency in general?

1 2 3 4 5

Would IT support boost efficiency?

1 2 3 4 5



Are there outsourcing opportunities?

1 2 3 4 5

Could greater collaboration with partners help us focus on our core business?

1 2 3 4 5

Are there cross-selling opportunities with partners?

1 2 3 4 5

Could partner Channels help us better reach customers?

1 2 3 4 5

Could partners complement our Value Proposition?

1 2 3 4 5

## Customer Interface Opportunities



How can we benefit from a growing market?

1 2 3 4 5

Could we serve new Customer Segments?

1 2 3 4 5

Could we better serve our customers through finer segmentation?

1 2 3 4 5



How could we improve channel efficiency or effectiveness?

1 2 3 4 5

Could we integrate our Channels better?

1 2 3 4 5

Could we find new complementary partner Channels?

1 2 3 4 5

Could we increase margins by directly serving customers?

1 2 3 4 5

Could we better align Channels with Customer Segments?

1 2 3 4 5



Is there potential to improve customer follow-up?

1 2 3 4 5

How could we tighten our relationships with customers?

1 2 3 4 5

Could we improve personalization?

1 2 3 4 5

How could we increase switching costs?

1 2 3 4 5

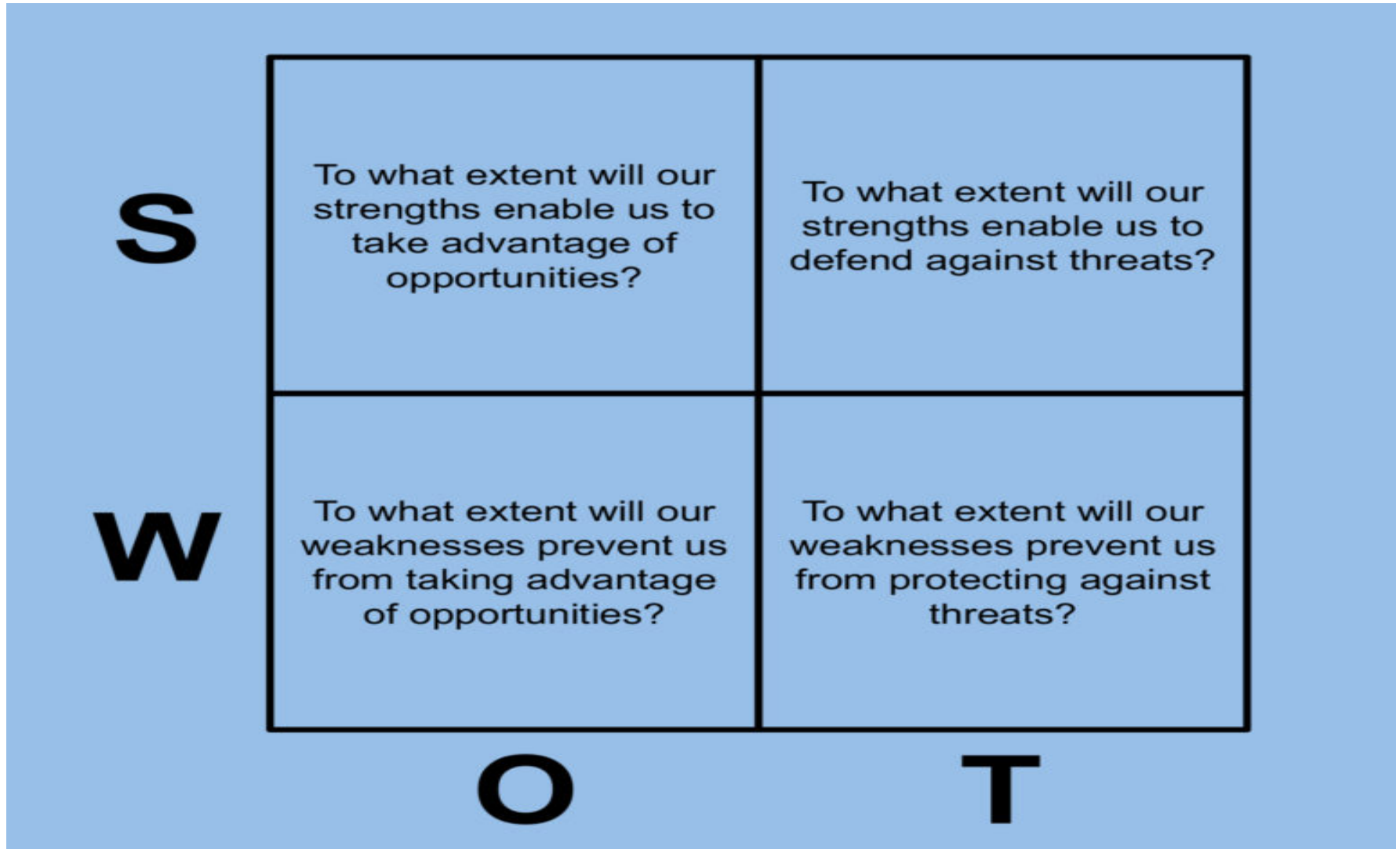
Have we identified and "fired" unprofitable customers? If not, why not?

1 2 3 4 5

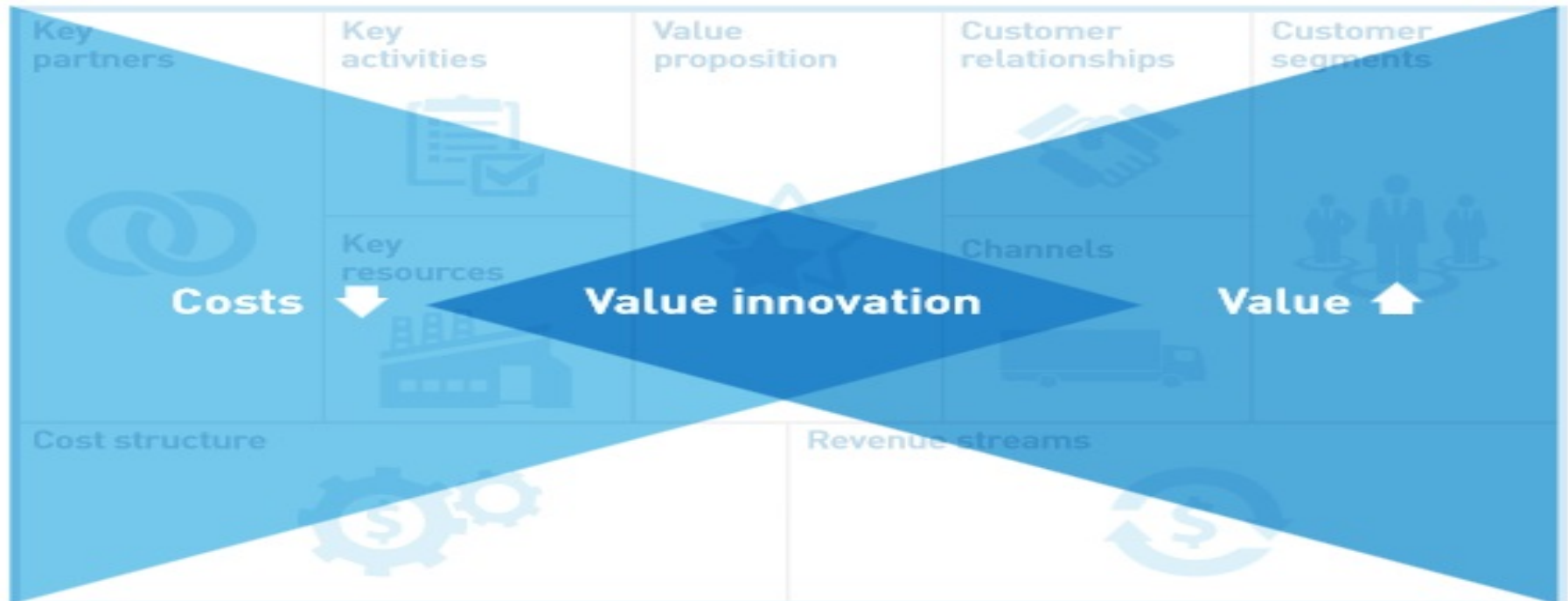
Do we need to automate some relationships?

1 2 3 4 5

# Confrontation Matrix



# Blue Ocean Strategy and the Canvas



## Eliminate

Which factors can be eliminated that the industry has long competed on?

## Reduce

Which factors should be reduced well below the industry's standard?

## Raise

Which factors should be raised well above the industry's standard?

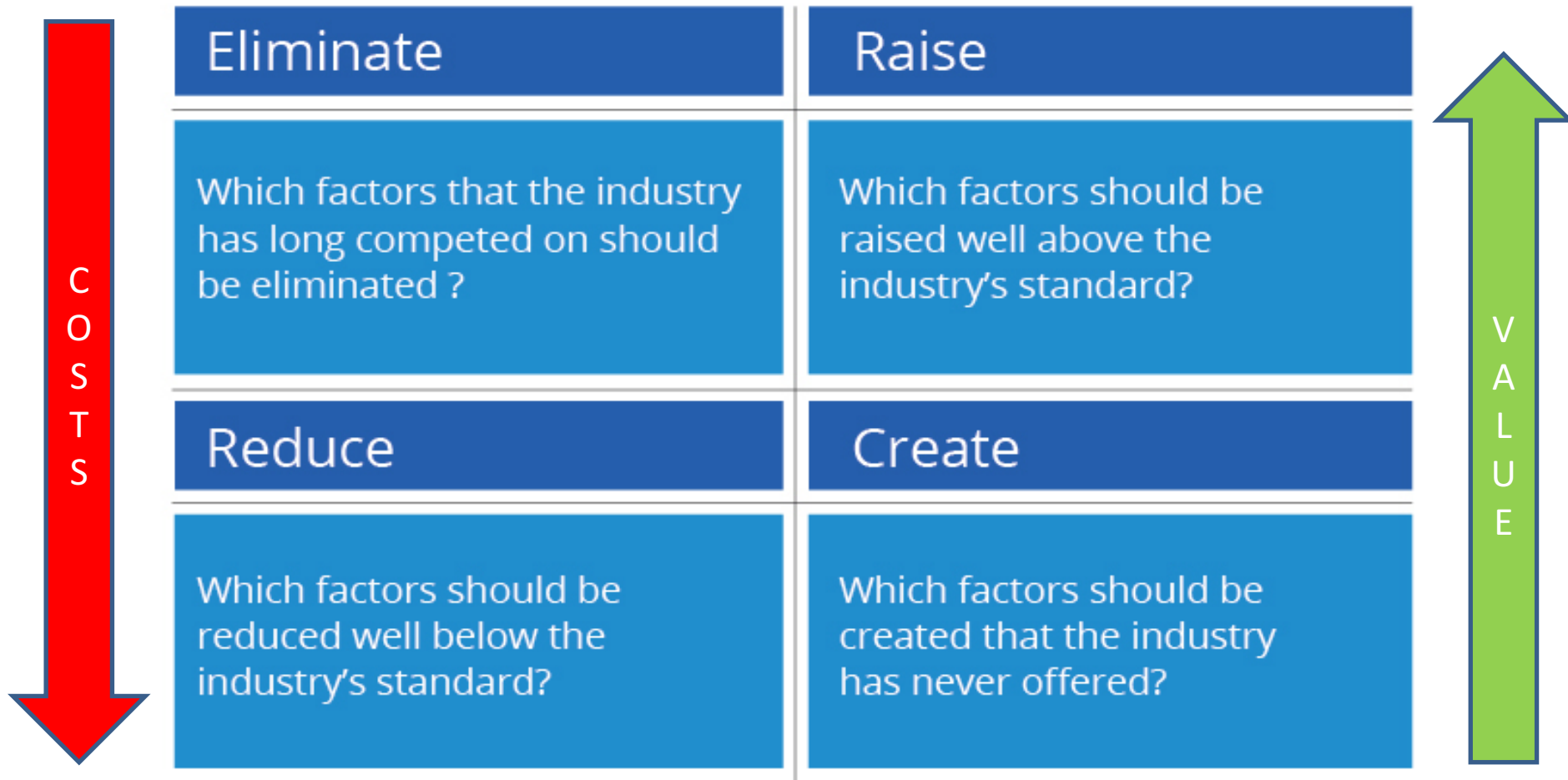
## Create

Which factors should be created that the industry has never offered?

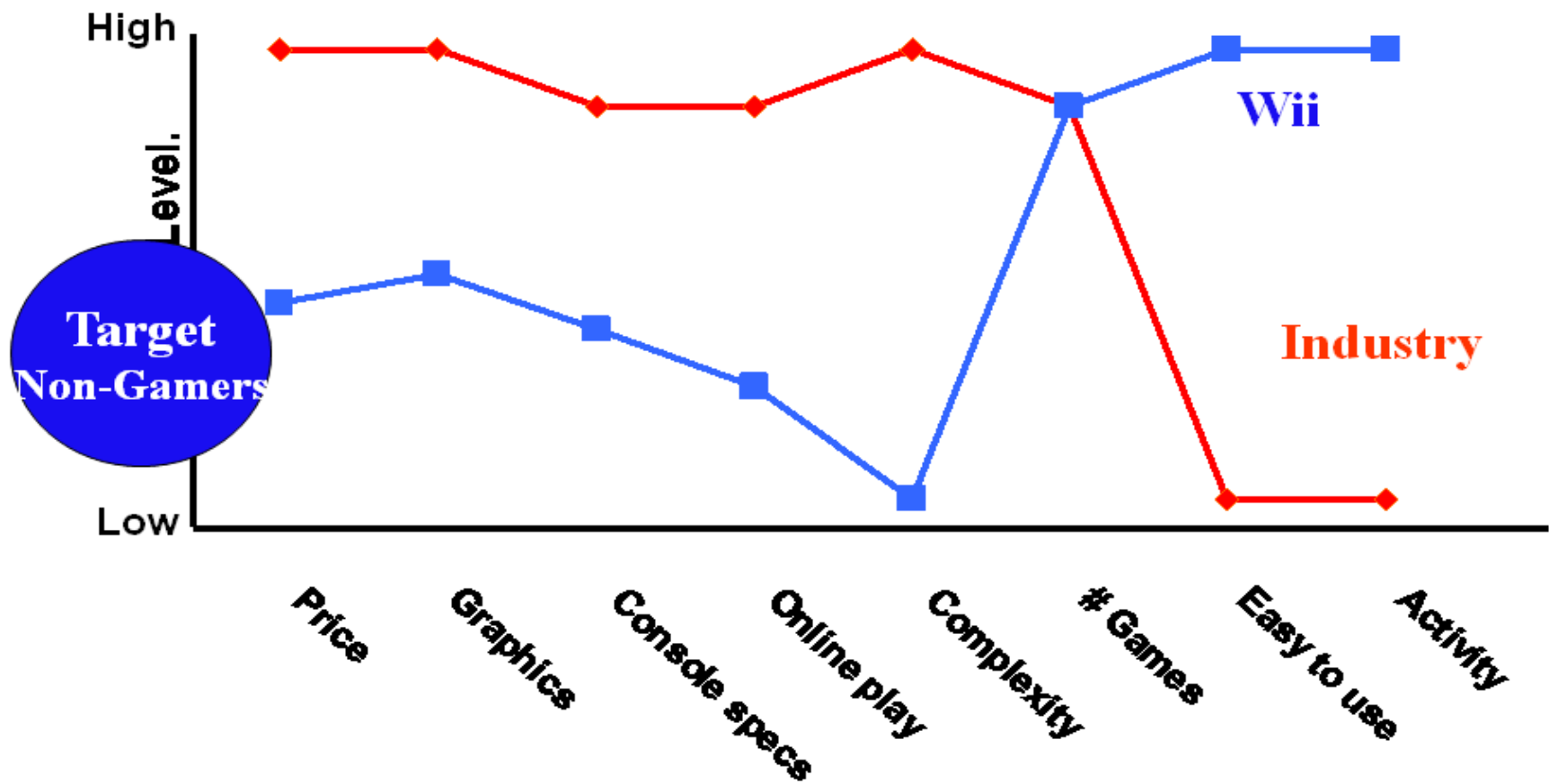
Source: Business Model Generation, Alexander Osterwalder and Yves Pigneur, 2010, [businessmodelgeneration.com](http://businessmodelgeneration.com)



# The ERRC Matrix

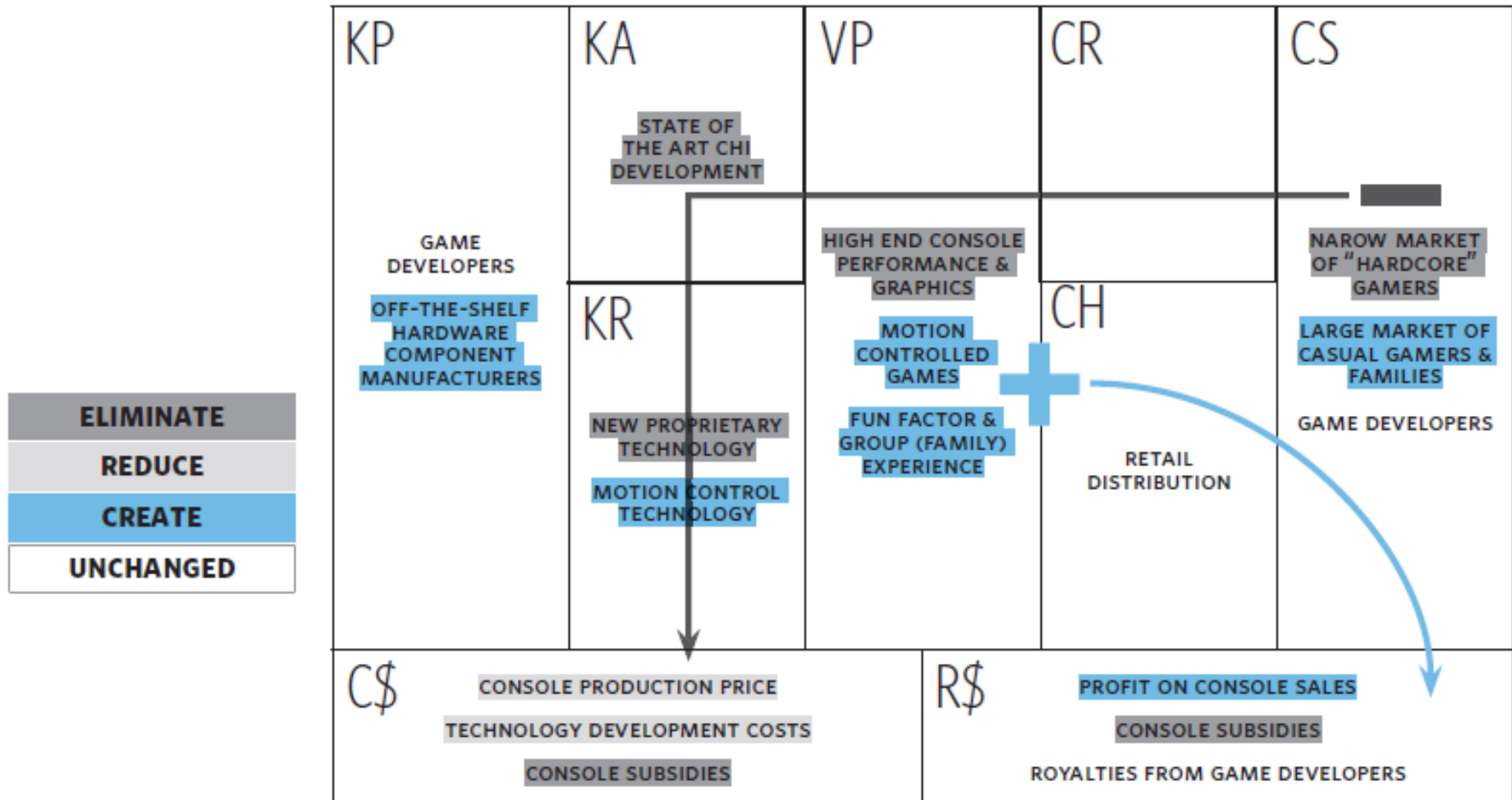


# Draw New BOS Value Curve Nintendo - Wii

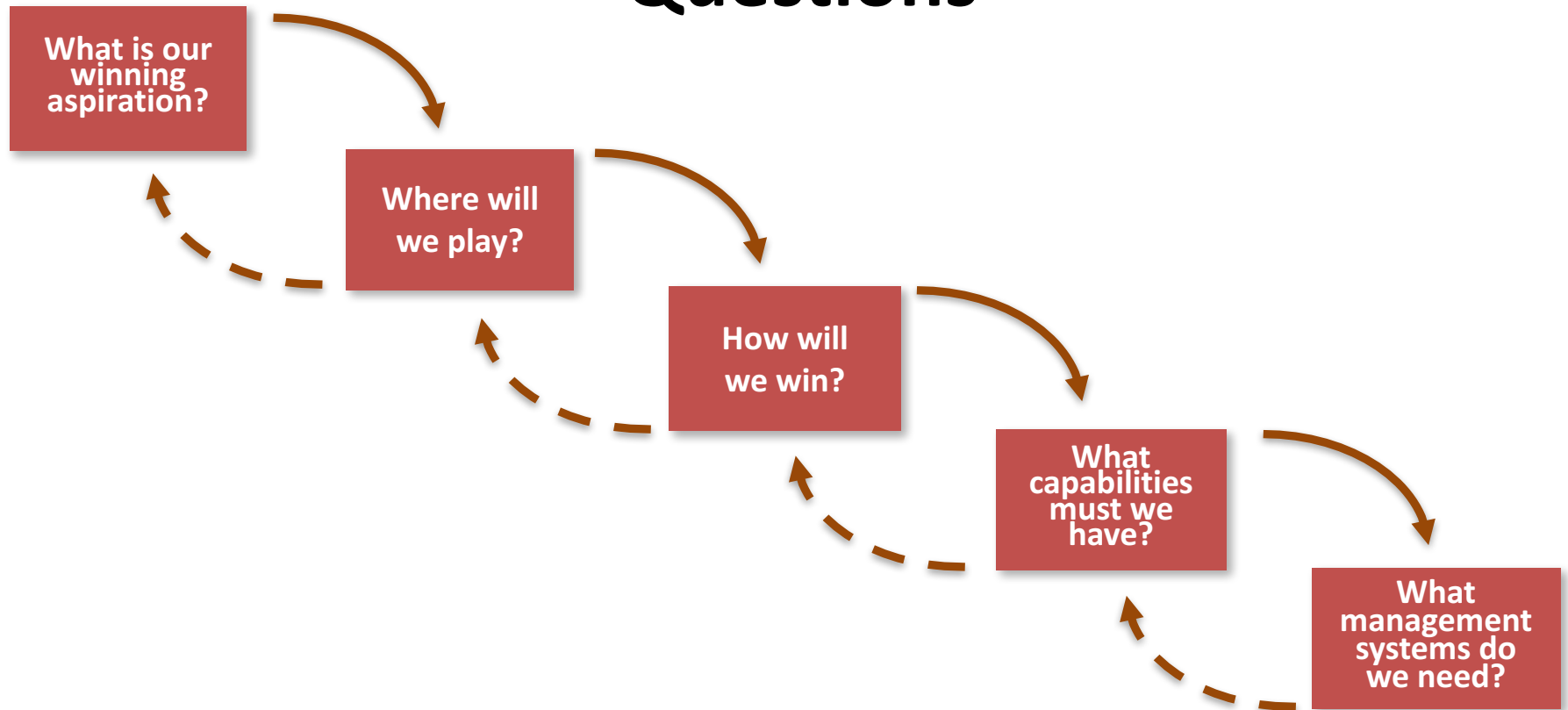




# ECCR and the Canvas -- Wii



# Strategy Is the Answer to Five Questions



Lafley, A. G. and R. L. Marin. Playing to Win: How Strategy Really Works. Harvard Business Review Press, Boston, Massachusetts, 2013.

# Define Our Strategic Problem

**What is our most pressing issue?**

Let's consider:

- **The industry segment** we play in
- **Our industry structure**
- **Our channel customers**
- **Our end customers**
- **Our current capabilities**
- **Our costs**
- **Our competition**

# What Is Our Winning Aspiration?

A winning aspiration is a future-oriented statement about the guiding purpose of the organization:

- What does our organization exist to do?
- What does winning mean for us?

# Where Will We Play?

**This choice defines the playing field on which we choose to compete:**

- Customer segment
- Distribution channel
- Product or service
- Geography
- Stage of production

It is also about where *NOT* to play.

# Where will we Play?

- Who are our core customers?
  - Describe your core customers in one sentence?
  - What is changing for these customers that we need to know?
- Through what channels do/should we serve these customers?
- What products/services do/should we offer?
- In what geographies do/should we offer these products/services?
- In what stages of production do/should we compete?
- Where along the value chain do/should we participate?
- Are we upstream or downstream compared to competitors?
- Are we broad across the value chain or narrow in one part?

# How Will We Win?

This choice is about *how* we will win on the playing field we've chosen.  
What is our competitive advantage?



# How will we win?

- Why do customers choose us over the competition?
- Do we compete on low cost or differentiation?
- What is our competitive advantage? How is it linked to our where-to-play choice? How is it linked to our winning aspiration?



# Customer Needs and Competitor Delivery Matter

## Customer purchase criteria\*

Low prices

Selection across categories

Rural convenience

Reliable prices

In-stock merchandise

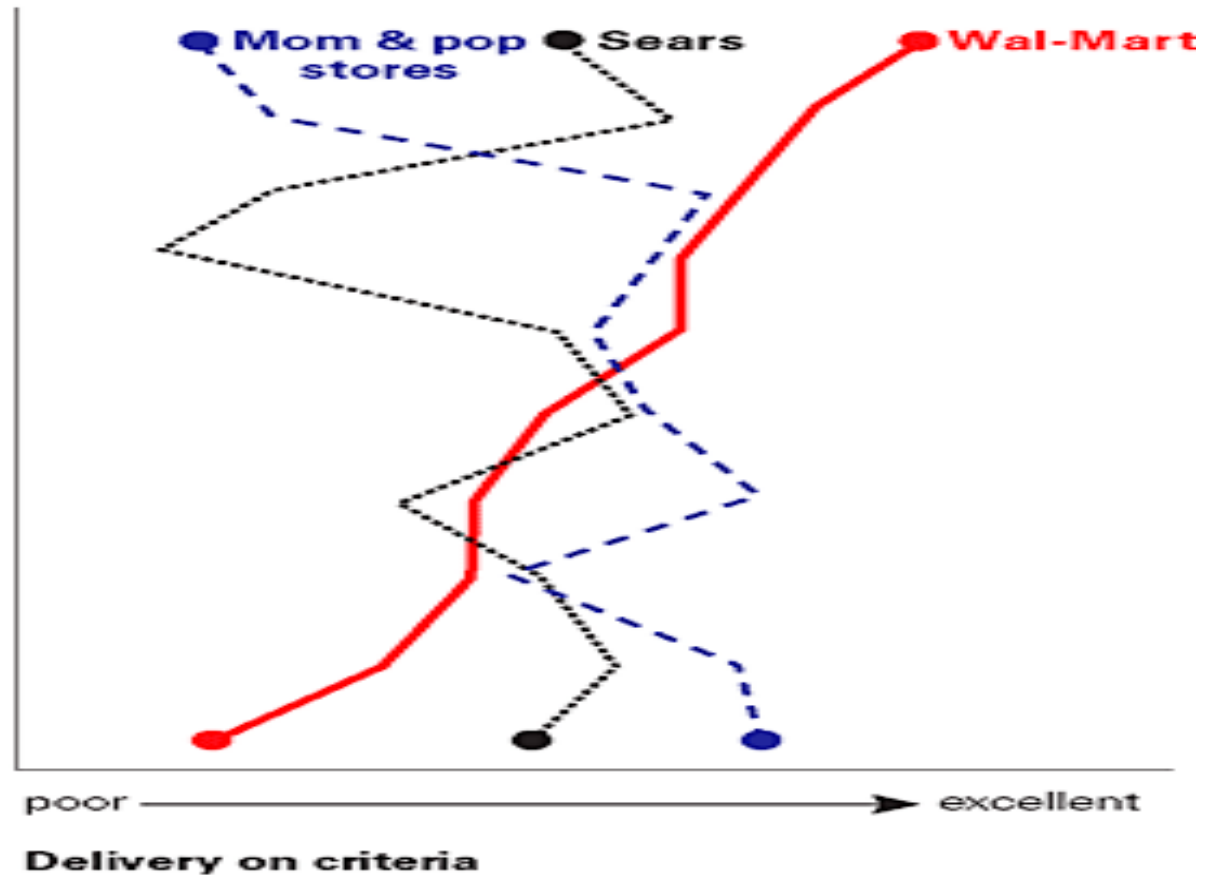
Merchandise quality

Suburban convenience

Selection within categories

Sales help

Ambience



# Which Capabilities Must We Have?

Capabilities are the activities that enable our organization to bring the where-to-play and how-to-win choices to life.

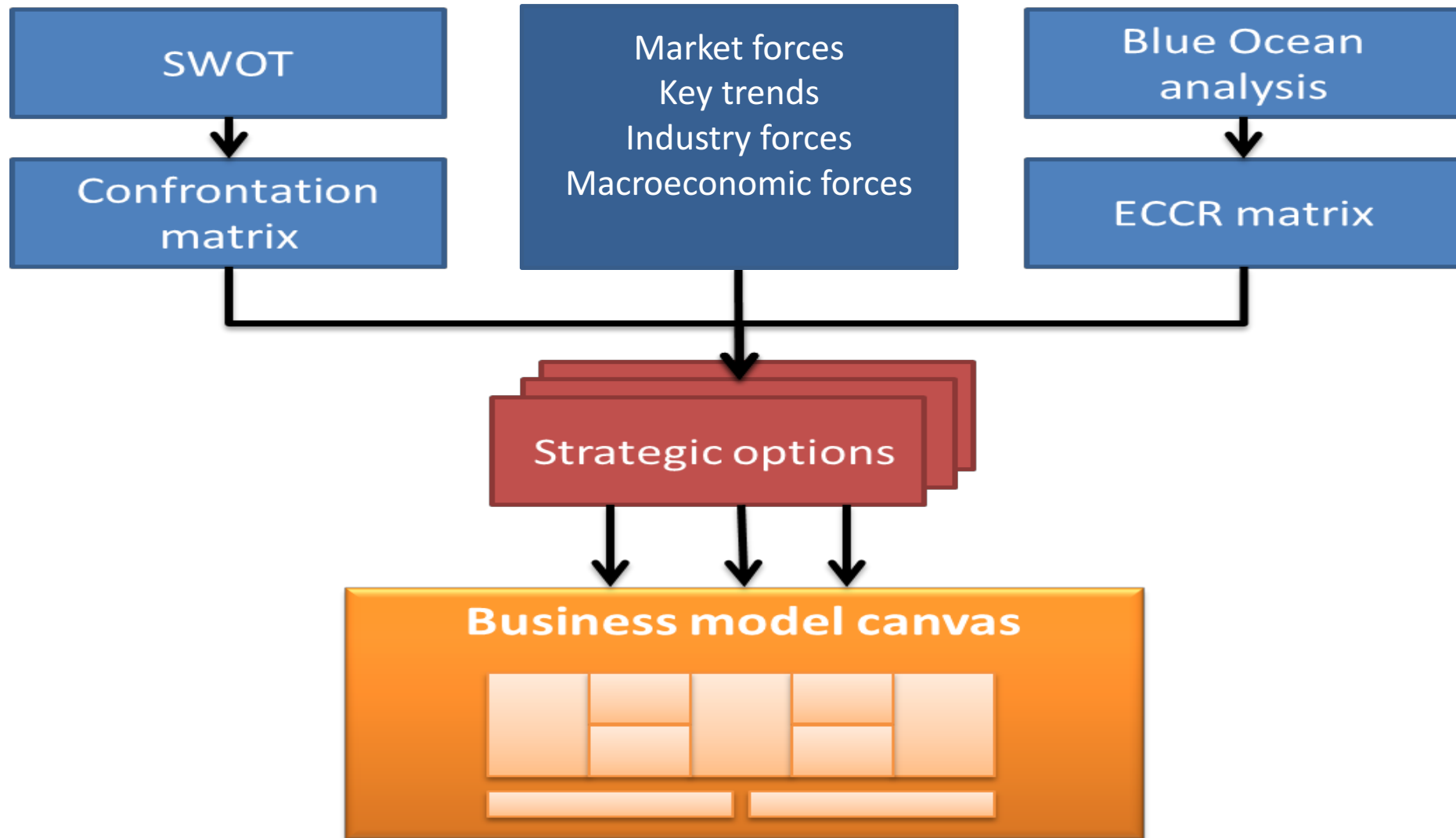
- What are we really great at doing?
- What activities are critical to bringing our where-to-play and how-to-win choices to life?

# What Management Systems Do We Need?

Management systems are the processes, structures, and rules that build our capabilities and that reinforce and measure our organization's strategic choices.

- What systems build our capabilities and reinforce our choices?
- How do we measure the success of our strategy?

# Summary: Strategy and the Canvas



**Current  
Business  
Model**

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure		Revenue Streams		

**Strategic  
Analysis**

SWOT Analysis of Current Business Model

Confrontation/TOWS Matrix

External Forces  
Key Trends  
Macroeconomic Forces  
Market Forces  
Industry Forces

Blue Ocean Analysis

ERRC Matrix

**Strategy  
Development**



**New  
Business  
Model**

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure		Revenue Streams		

# Small Group Work: assessing your business model

- Complete your business model canvas
- Identify 3-4 critical external factors in each of the external categories that will impact your business over the next 3 to 5 years:
  - Market forces, Key trends, Industry forces, Macroeconomic forces
- Use the SWOT analysis assessment tool to assess the elements of your current business model
- Based on your assessment, use the confrontation matrix and the ERRC matrix to identify potential changes to your current business model

# Considering outside forces and stress testing the business model

Navigating the business environment --

[https://youtube.com/watch?v=7O36YBn9x\\_4](https://youtube.com/watch?v=7O36YBn9x_4)

Proving your business model --

[https://www.youtube.com/watch?v=-2gd\\_vhNYT4](https://www.youtube.com/watch?v=-2gd_vhNYT4)

# **PREPARING FOR THE OPEN FORUM PRESENTATIONS**



# Concurrent session sharing

- We will present each team canvas in 30-minute concurrent sessions. Will repeat the concurrent sessions 3 times. Each 30 minute session will have 15 minutes of presentation and 15 minutes of Q&A
- Your Canvas is your presentation media. You can use other props if you wish but space and time are quite limited.
- Two people in your group will present your canvas at one time. All of you will have the opportunity to present.
- When you are not presenting you should attend another teams presentation and interact in the Q&A.
- Telling your story --  
<https://youtube.com/watch?v=SshglHDKQCc>
- Timing: 90 minutes total

# Resources

- From idea to business model --  
<https://www.youtube.com/watch?v=wwShFsSFb-Y>
- Visualizing your business model --  
<https://www.youtube.com/watch?v=wIKP-BaC0jA>
- Prototyping business models --  
<https://www.youtube.com/watch?v=iA5MVUNkSkM>
- Navigating the business environment --  
[https://www.youtube.com/watch?v=7O36YBn9x\\_4](https://www.youtube.com/watch?v=7O36YBn9x_4)
- Proving your business model --  
[https://www.youtube.com/watch?v=-2gd\\_vhNYT4](https://www.youtube.com/watch?v=-2gd_vhNYT4)
- Telling your story --  
<https://www.youtube.com/watch?v=SshglHDKQCc>
- The value proposition canvas --  
<https://www.youtube.com/watch?v=ReM1uqmVfP0>
- Understanding customers –  
<https://www.youtube.com/watch?v=kAdbbsZolOw>