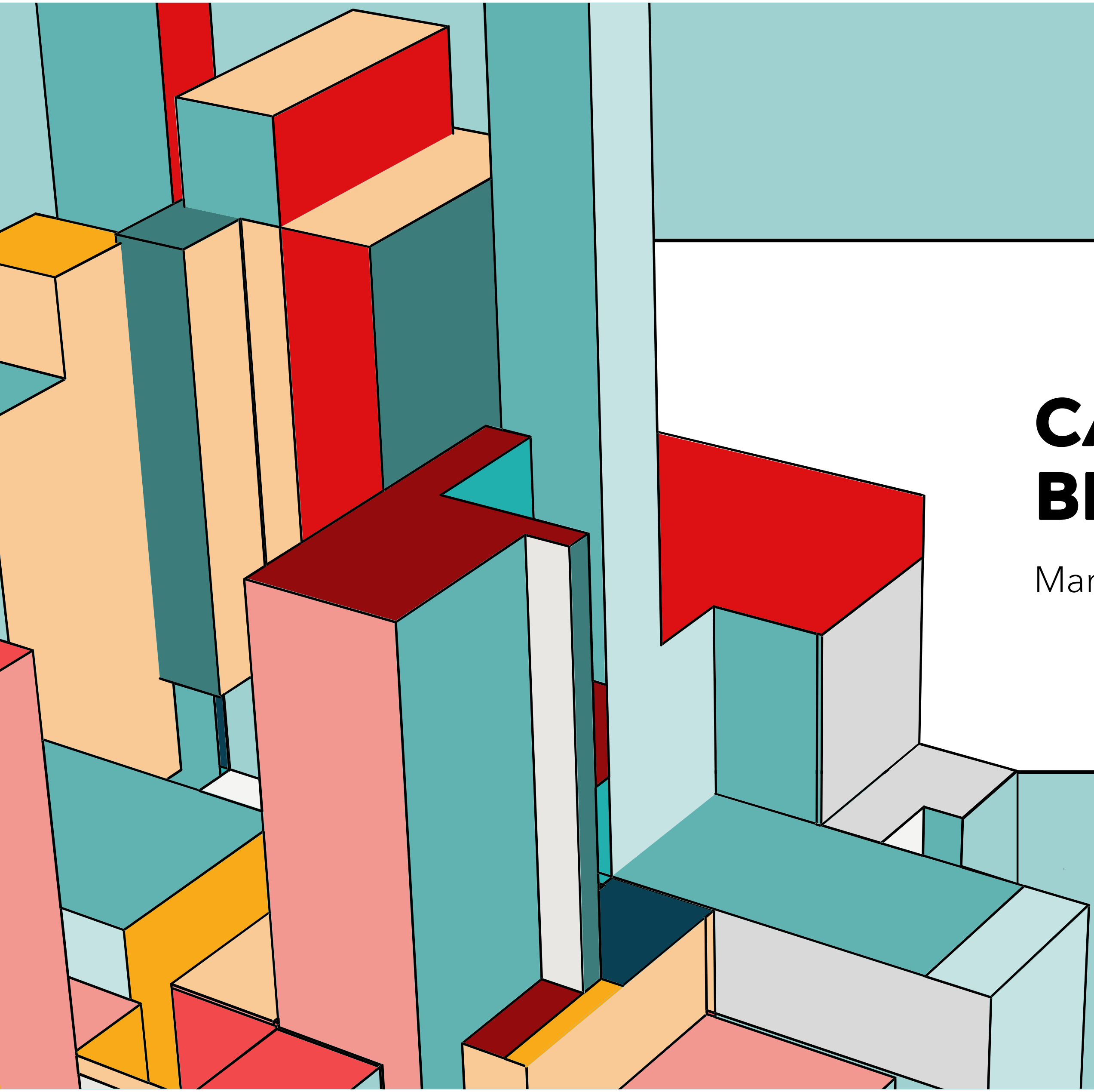
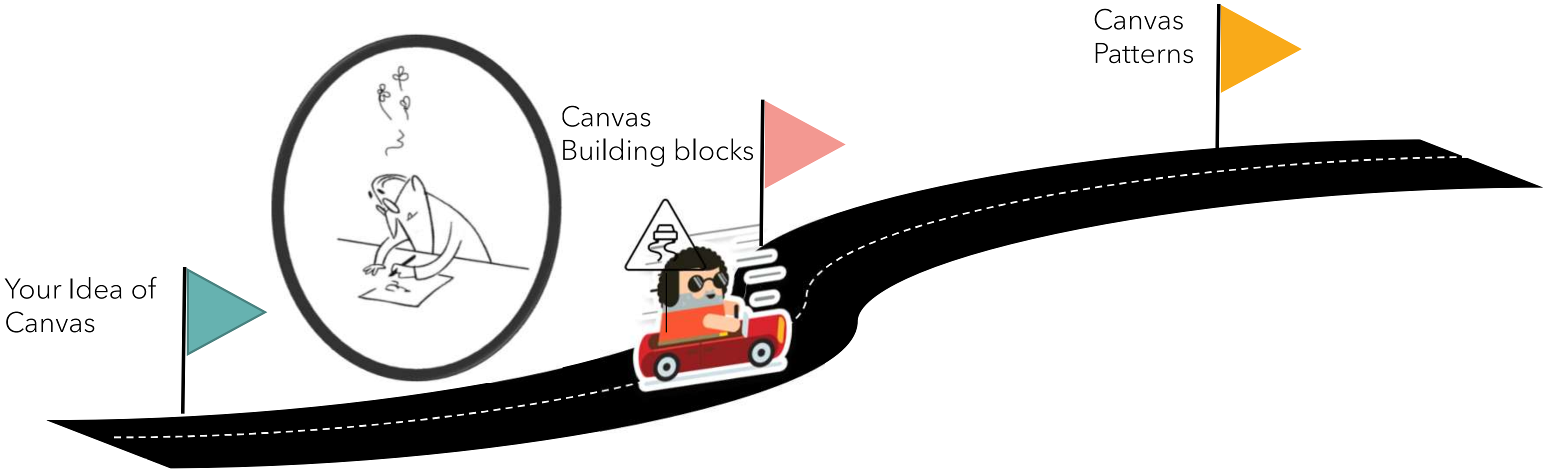


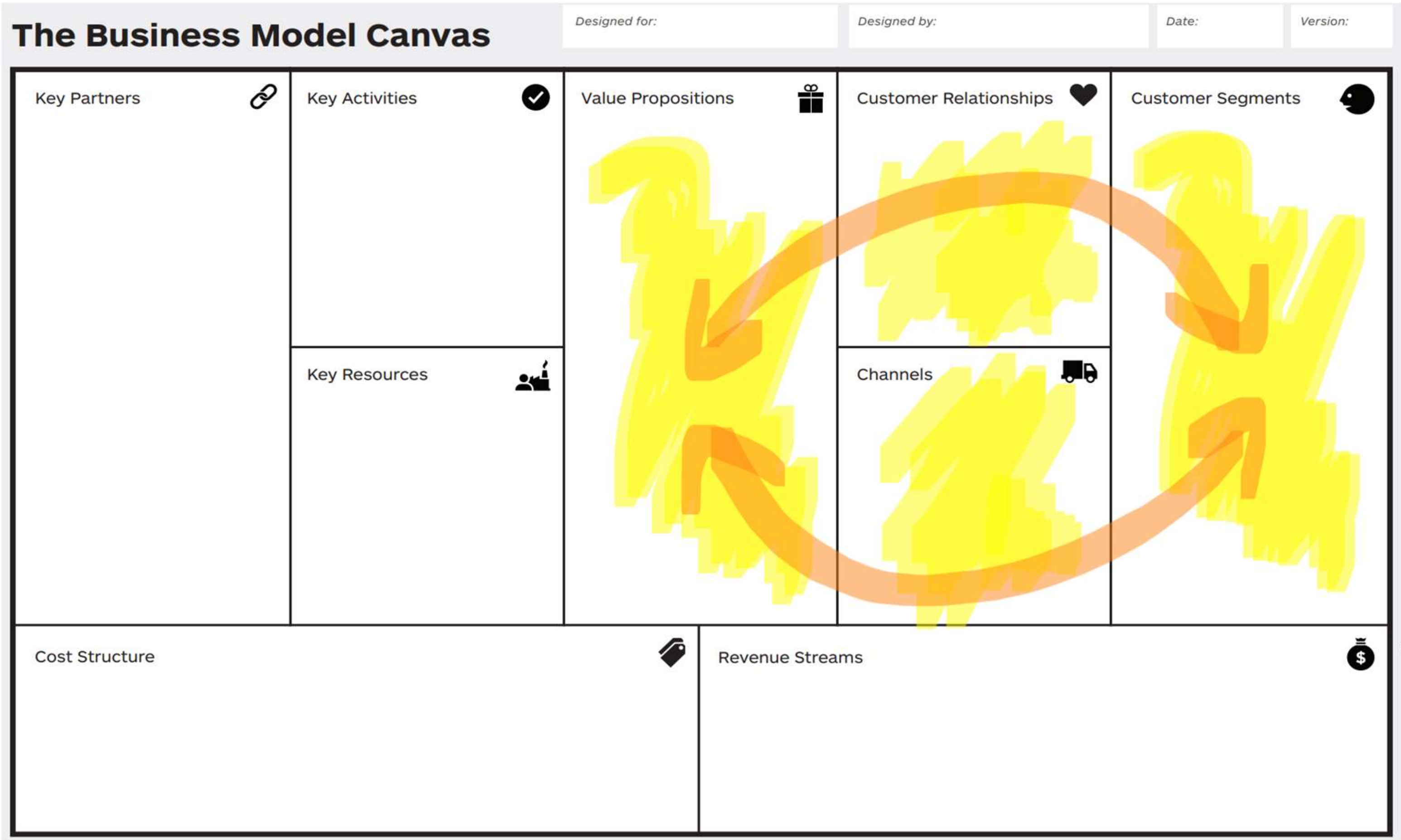
CANVAS BUILDING BLOCKS

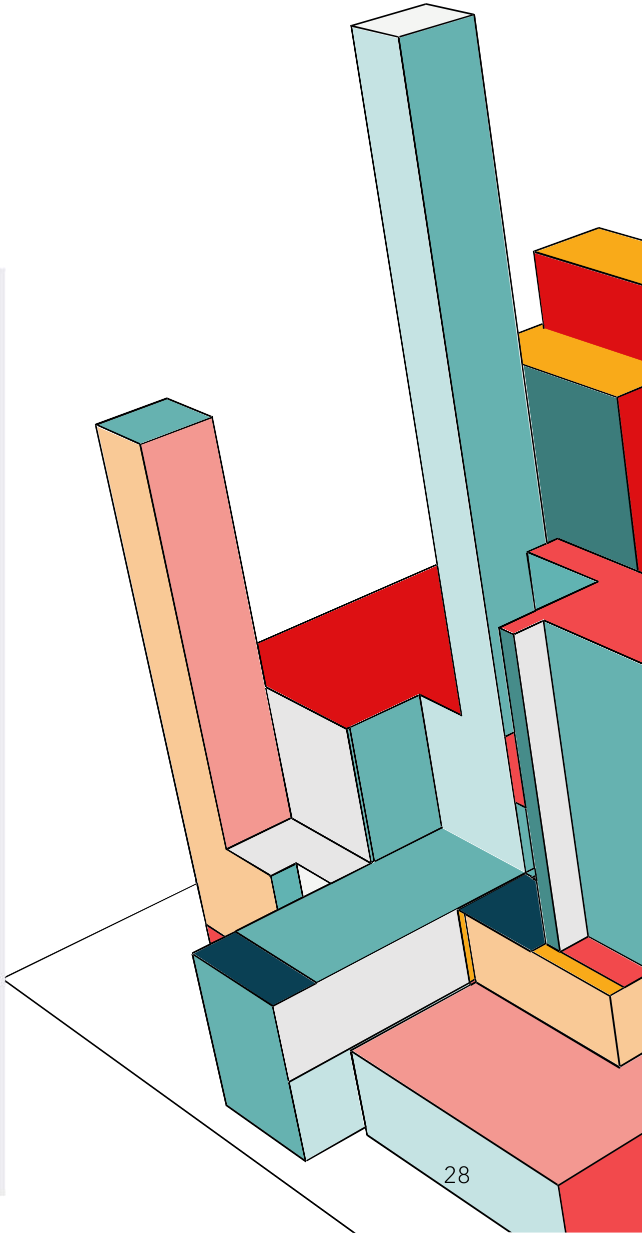
Maria Cristina Pietronudo, Ph.D.

OUR ROADMAP


Your Idea of Canvas
Canvas Building blocks
Canvas Patterns

DELIVERING VALUE





DELIVERING VALUE

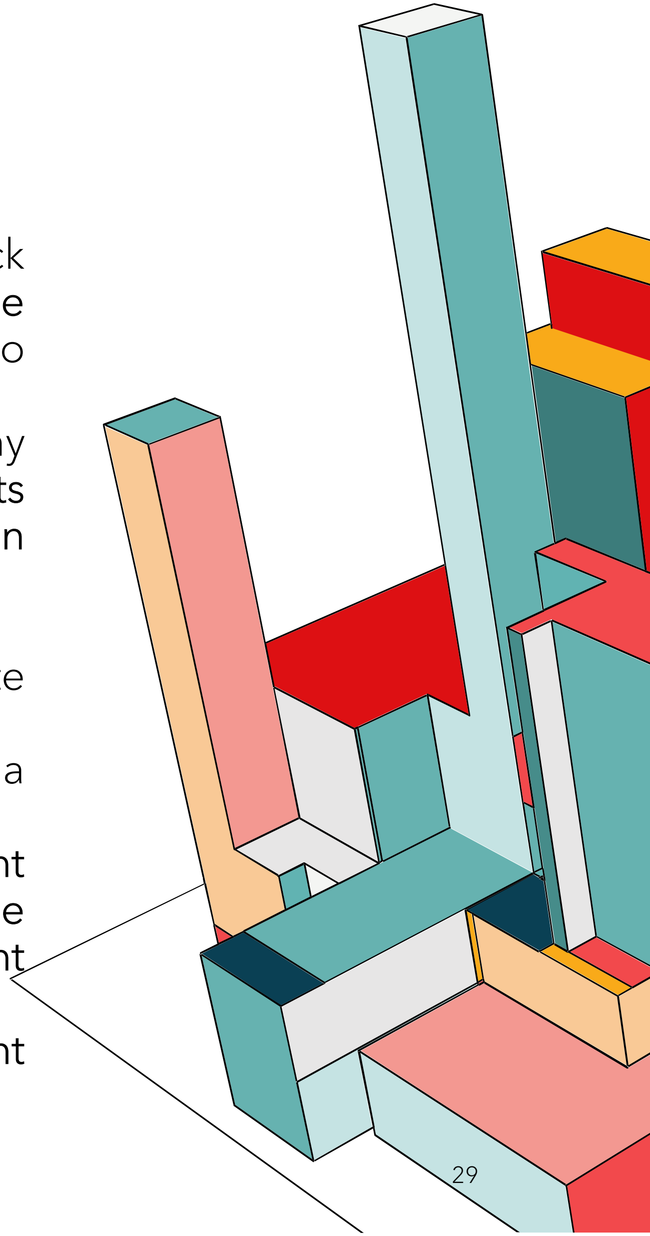
CUSTOMER SEGMENTS

«Customers comprise the heart of any business model. Without no profitable customers, no company can survive for long»

Customer segments building block defines the **different groups of people** or organizations an entreprises aims to reach and serve.
To better satisfy customers, a company may group them into **distinct segments with common needs, common behaviours, or other attributes.**

Customer groups represent a separate segment if:

- Their needs require and justify a **distinct offer**
- They are reached throught **different distribution channels; different type of relationship; different profitabilities**
- They are willing to **pay for different aspect of the offer**



DELIVERING VALUE

CUSTOMER SEGMNETS

- For whom are we creating value?
- Who are our most important customers?

MASS MARKET

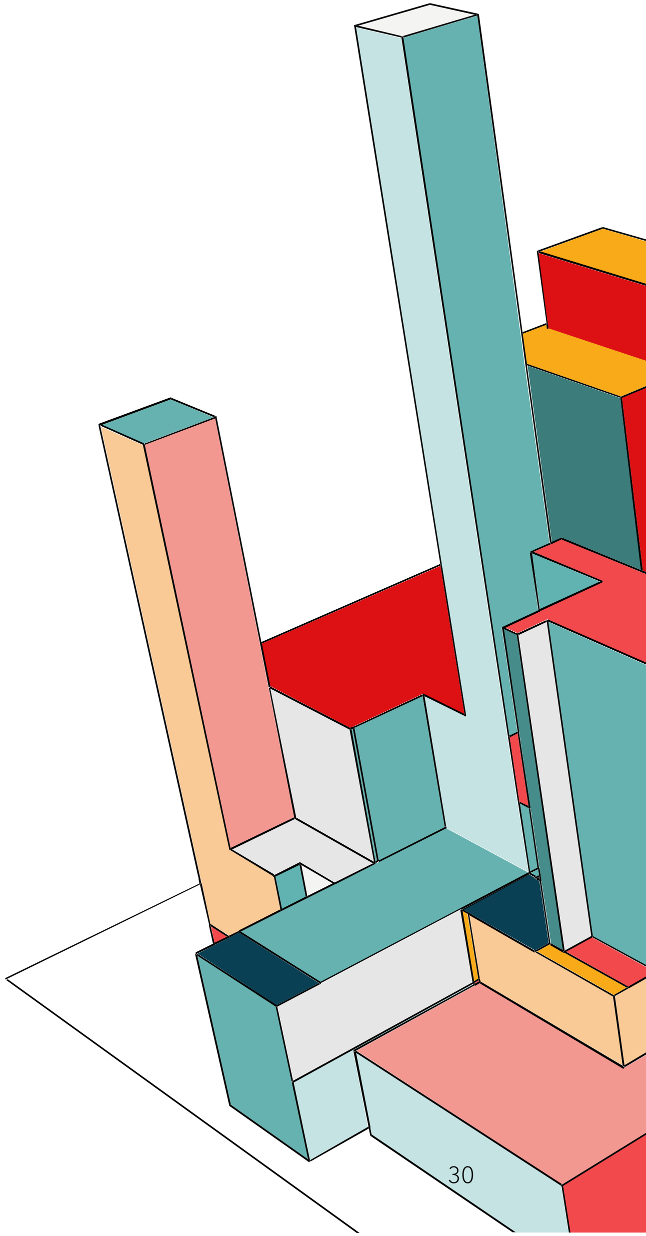
Business model focused on mass markets **don't distinguish between different customer segments**. VP, DC and CR all focus on one **large group** of customers with broadly similar needs and problems.

(E.g., toothpaste; chewing gum)

NICHE MARKET

Business model targeting niche markets cater to **specific, specialized customer segments**. VP, DC and CR are **all** tailored to the specific requirements of a niche market.

(E.g., S-B relationship; car part manufacturer)



DELIVERING VALUE

CUSTOMER SEGMNETS

- For whom are we creating value?
- Who are our most important customers?

SEGMENTED MARKET

Some business model distinghuish between **market segments with slightly different needs and problems.** VP, DC and CR focus different group of customers.

(E.g., record player)

DIVERSIFIED MARKET

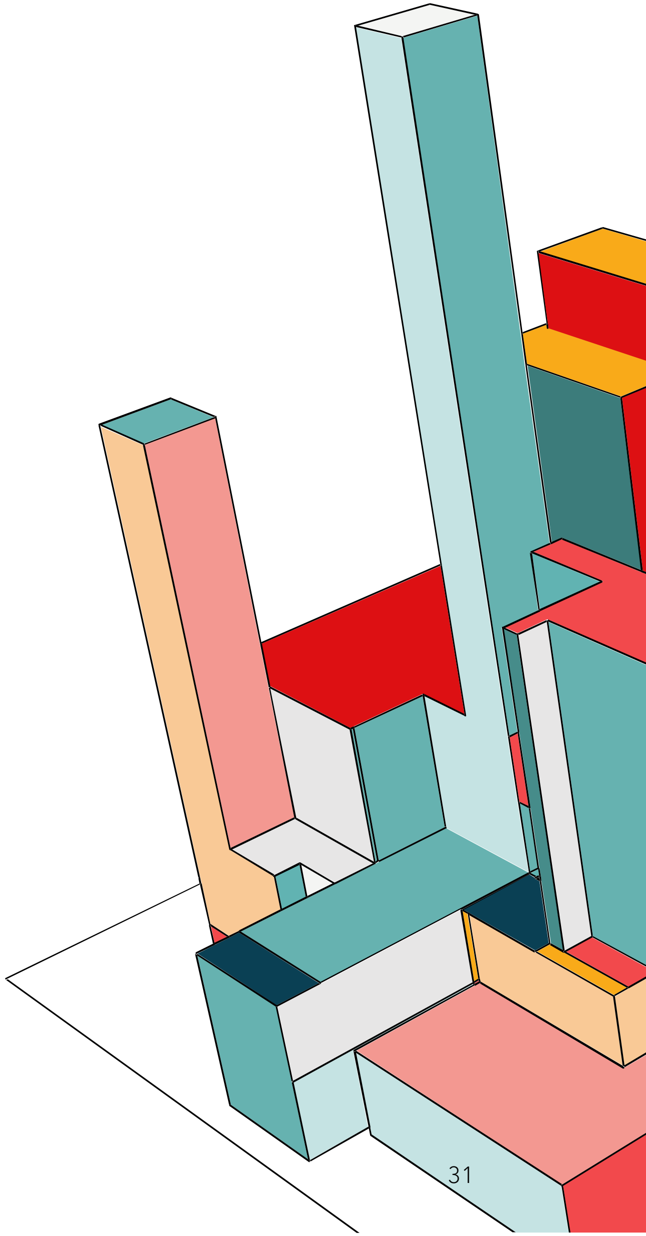
An organization with a diversified customer business model serves two **unrelated customer segments** with very different needs and problems.

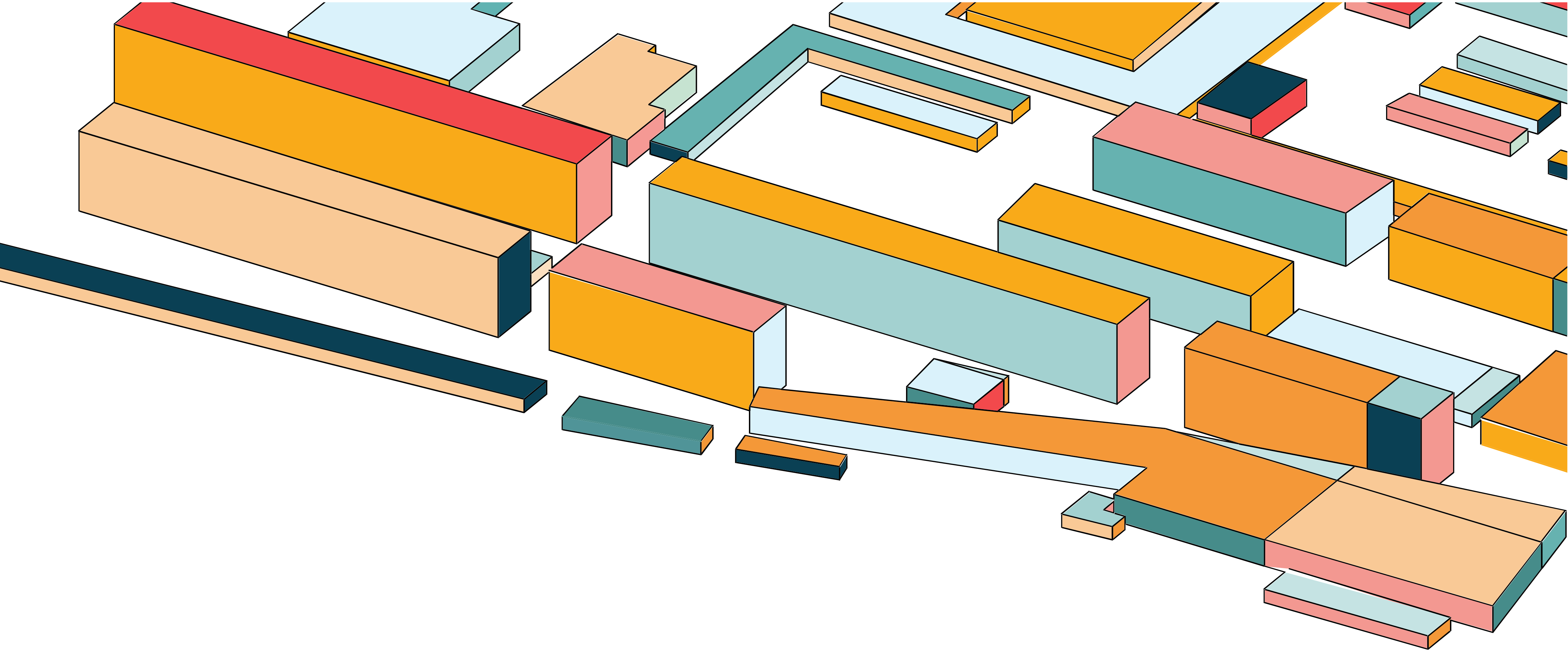
(E.g., Amazon)

MULTI-SIDED PLATFORMS

Some organizations serve two or more **interdipendent customer segments.** Both segments are required to make the business model work.

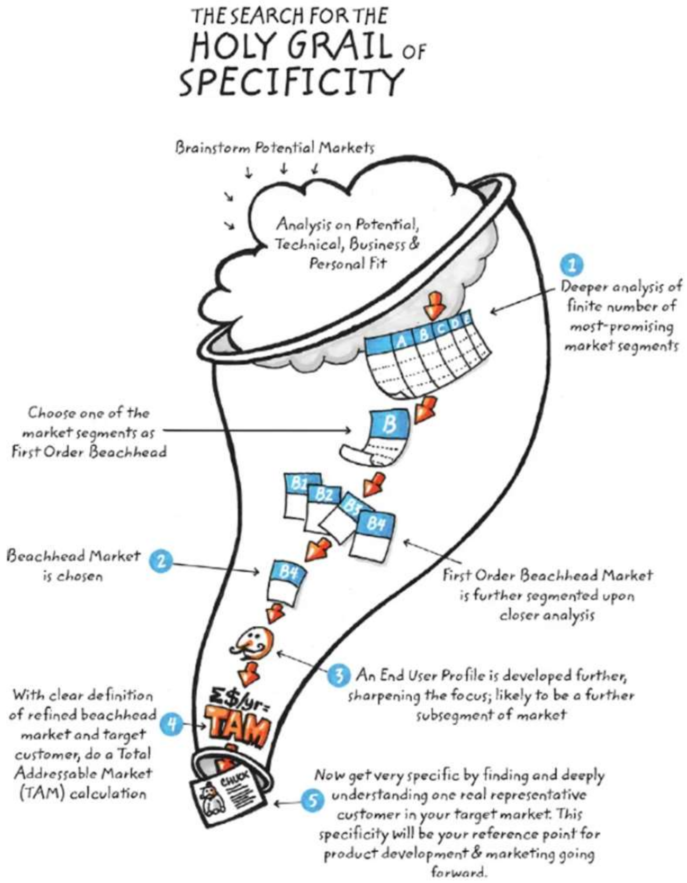
(E.g., newspaper, credit cards)





FURTHERING INFORMATION

THE HOLY GRAIL OF SPECIFICITY



COMMON PITFALLS

- **Selling to everyone**: as a fledgling startup with little to no resources, can't make products that fit the needs of anyone.

Your friend Sally, who read in the newspaper that camping equipment is a lucrative market, so she suggests you sell tents!

A neighbor thinks that easy-to-clean stuffed animals for children would be just lovely!

Your cousin Joe chimes in; he wants waterproof underwear.

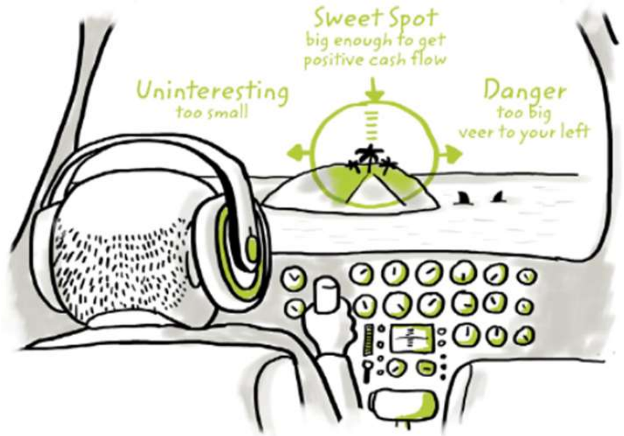
- **The China Syndrome**: rather than create a new market, the thinking goes, one could choose a huge existing market, get a fraction of the market share, and reap the rewards.

The Internet says China has over 1.3 billion people. If they all have teeth, the market size is 1.3 billion customers. I'll build a toothbrush for the Chinese market, and maybe we'll get 0.1 percent market share in the first year. If each person buys three toothbrushes a year, we could sell 3.9 million toothbrushes per year, and if we sell them for $1 each, we have $3.9 million in sales the first year, with lots of room to grow.

TAM – TOTAL ADDRESSABLE MARKET

It is important to start to understand the size of the market that entrepreneurs are targeting early.
They will modify this as time goes on, but it is wise to be thinking about this point early on and develop at least a rough market size to know if entrepreneurs are heading in the right general direction.

The TAM for the beachhead market is <u>the amount of annual revenue</u>, expressed in dollars/euros per year, the business would earn if entrepreneurs achieved 100 percent market share in that market.



Beachhead TAM calculation is your sanity check that you are headed in the right direction

TAM – TOTAL ADDRESSABLE MARKET

To calculate the TAM:

1. determine how many end users exist that fit the End User Profile using a bottom-up analysis based on primary market research;
2. complement this with a top-down analysis to confirm findings, determining how much revenue each end user is worth per year;
3. multiply the two numbers results in the TAM.

Entrepreneurs are looking for a market that is big enough to get to critical mass, develop key capabilities, and get to cash-flow positive in the market.
However, if the market is too big, entrepreneurs will likely not have sufficient resources to compete, and as a result they may get overwhelmed and either not succeed or have to raise money without much of a track record for potential investors to evaluate.

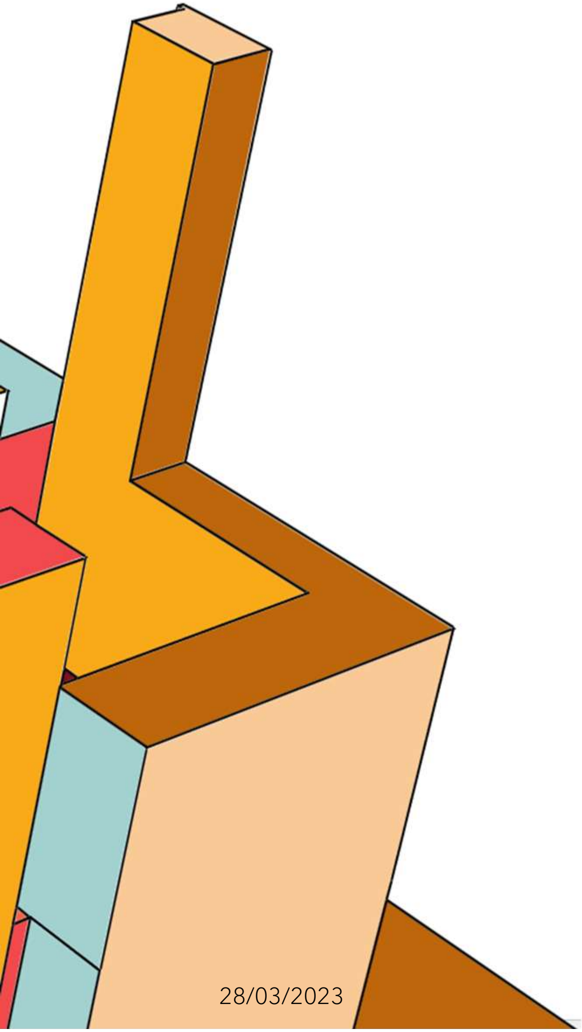
Entrepreneurs often tend to inflate the TAM with excessive optimism, but a big number is not necessarily better. The goal of this exercise is not to impress others, but to develop a conservative, defensible TAM number that they have faith in.

TAM – TOTAL ADDRESSABLE MARKET

What should my TAM be?

- If the estimated value of the TAM is less than $5 million per year, it is possible that the new venture has not identified a big enough beachhead market, especially because entrepreneurs often inflate the size of their market and their expected market share. In such a small market, it will likely be very difficult to get to cash-flow positive and achieve critical mass.
- A TAM that is between $20 million per year to $100 million per year is a good target.
- It is possible that an initial TAM of $5 million per year could be a successful business, if entrepreneurs can capture the market quickly and convincingly, especially if the gross margins on the product would be very high (e.g., 90% as it would be for software, mobile apps, information-based business models) and they do not need a lot of employees to do it. This could create positive cash flow from the market, which would be a significant accomplishment and a good beachhead market.

DELIVERING VALUE



The value proposition building block describes the **bundle of products and services that create value for a specific customer segment**.

The Value proposition is an **aggregation, or bundle, of benefits** that a company offers customers. It solves a **customer problem** or satisfies a **customer need**.

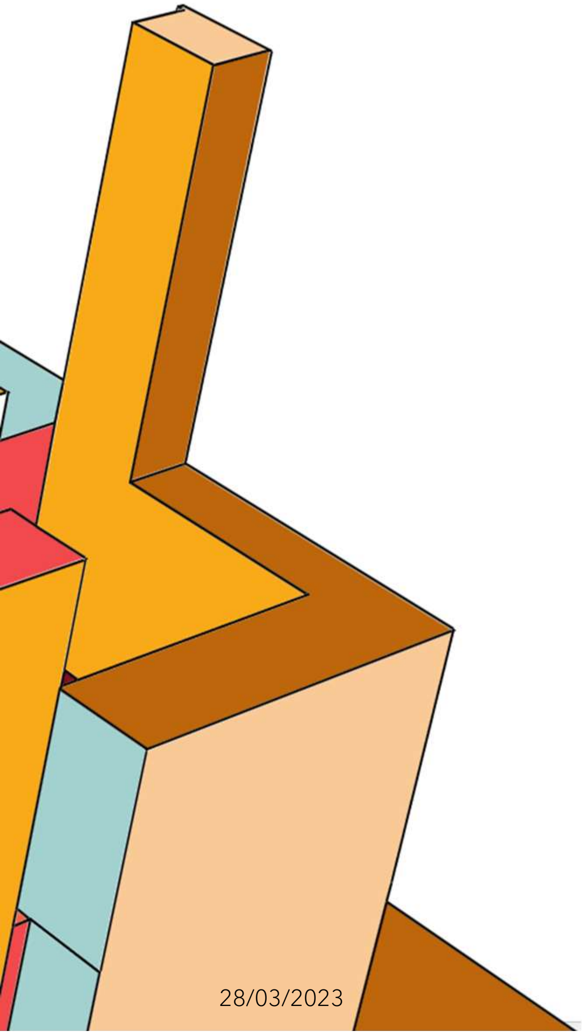
Some value proposition may be innovative and represent a new or disruptive offer.

Others may be similar to existing market offers, but with added features and attributes.

VALUE PROPOSITION

«The value proposition is the reason why customers turn to one company over another»

DELIVERING VALUE



NEWNESS

Some Value Proposition satisfy an entirely new set of needs that customers previously didn’t perceive because there was no similar offering.

PERFORMANCE

Improving product or service performance has traditionally been a common way to create value.

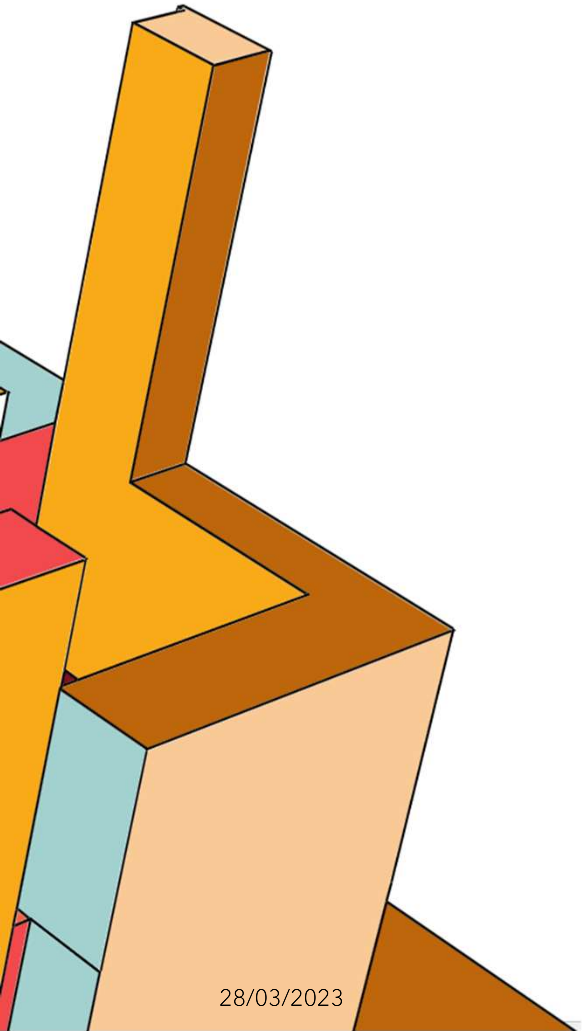
CUSTOMIZATION

Tailoring products and services to the specific needs of individual customers or customer segments creates value.

VALUE PROPOSITION

- What value do we deliver to the customer?
- Which one of our customer’s problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of product and services are we offering to each Customer Segment?

DELIVERING VALUE



GETTING THE JOB DONE

Value can be created simply by helping a customer **get certain jobs done**.

DESIGN

Design is an important but difficult element to measure. A product may stand out because of **superior design**.

BRAND/STATUS

Customers may find value in the simple act of **using and displaying a specific brand**.

VALUE PROPOSITION

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
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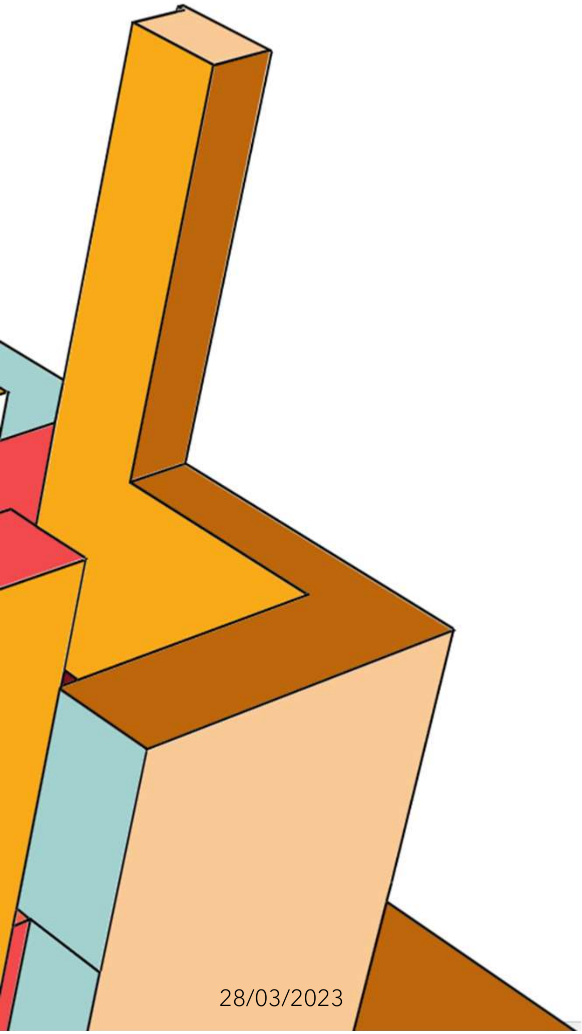


DELIVERING VALUE

PRICE

Offering **similar value at a lower price** is a common way to satisfy the needs of price-sensitive customer segments.

COST REDUCTION

Helping customer **reduce costs** is an important way to create value.

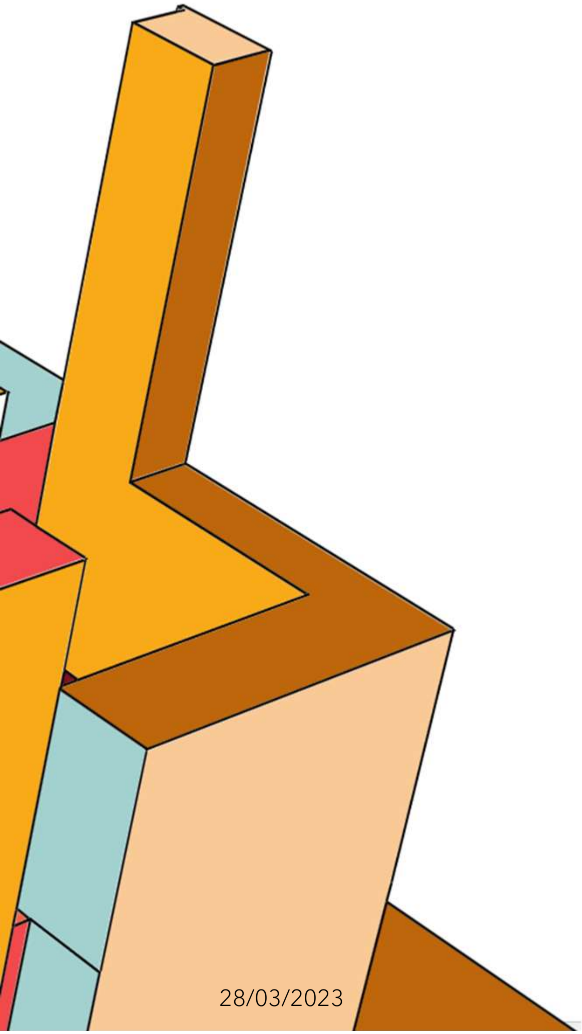
RISK REDUCTION

Customers value reducing the **risks they incur when purchasing products** or services.

VALUE PROPOSITION

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of product and services are we offering to each Customer Segment?

DELIVERING VALUE



ACCESSIBILITY

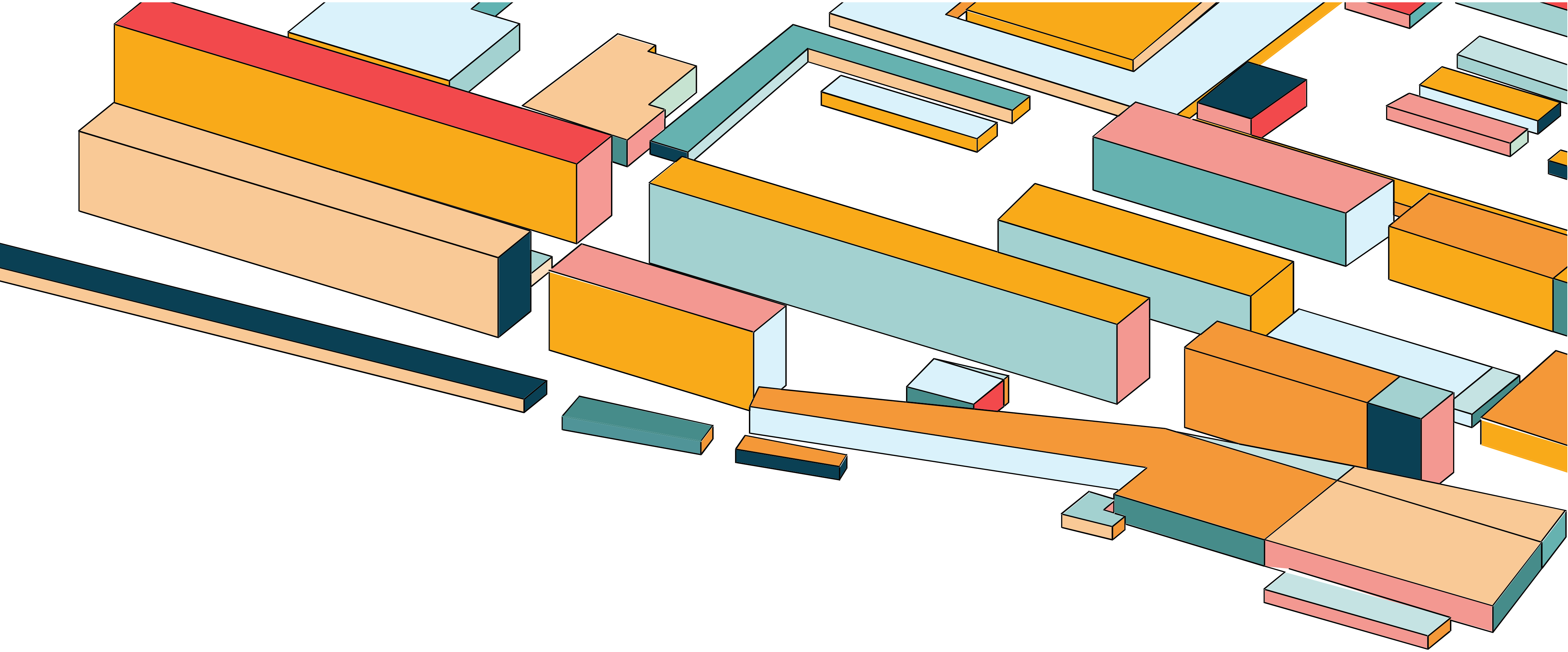
Making product and services available to customers who previously lacked access to them is another way to create value.

CONVENIENCE/USABILITY

Making things more convenient or easier to use create substantial value.

VALUE PROPOSITION

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of product and services are we offering to each Customer Segment?



FURTHERING INFORMATION

QUANTIFY THE VALUE PROPOSITION

Quantify the value proposition means determine how the benefits of the product turn into value that the customer gets out of the product

The Quantified Value Proposition converts the benefits Persona gets from the product into a tangible metric that aligns with the Persona's top priority, or in some cases priorities.

Products often have a large number of benefits (e.g., they may help a customer simplify a process or reduce their environmental impact, or help a business gain additional sales for their own products).
In a simple view of the world, benefits fall into three categories:

- *"better"*
- *"faster"*
- *"cheaper."*

The Quantified Value Proposition focuses on what potential customers want to gain rather than going into detail on technology, features, and functions.

QUANTIFY THE VALUE PROPOSITION

The "as-is" state versus the "possible" state with your product

1. Entrepreneurs should set up a comparison of the "as-is" state that does not involve use of the product and then compare this to the "possible" state that they are confident will exist when the customer is using the solution. In both cases, they should make it as quantifiable as possible.

- ➢ The difference in value between them is the Quantified Value Proposition

2. Entrepreneurs should create a supporting diagram showing the "as-is" state as compared to the "possible" state that visually illustrates the value the product has to the customer

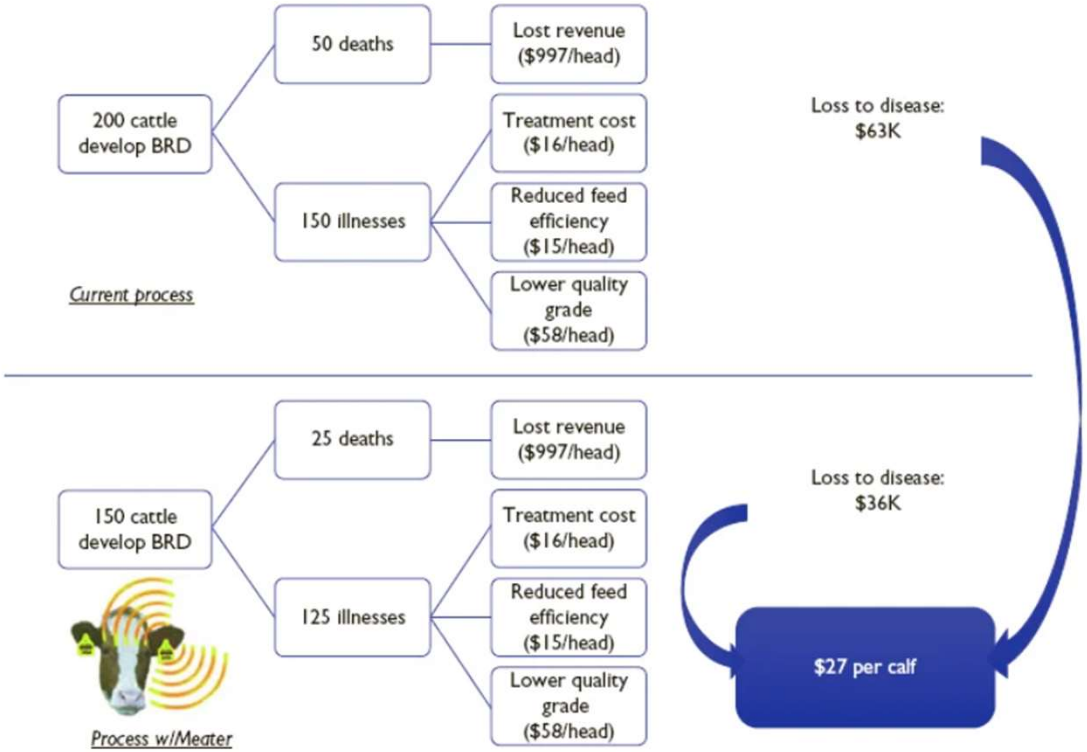
QUANTIFY THE VALUE PROPOSITION

Meater

Biosensor technology for the cattle ranching industry.

The proposed solution was a biosensor that could be affixed to a cow's ear, much like how cows are currently tagged, to detect disease earlier. Sick cows identified earlier can be separated from the herd, reducing infection rates, and allowing more effective treatment of diseases due to earlier detection than current methods.

The Persona had no personal attachment to the cattle; making as much money as possible was by far the rancher's top priority.



QUANTIFY THE VALUE PROPOSITION

Persona

Priorities:

1. Aaaaa
2. Bbbbb
3. Ccccc
4. Ddddd

Quantified Value Proposition

As Is State

------------------------------------ X

Possible State

------------------------------------ Y

Value Prop = Δ of X & Y

Measured in dimension of Priority #1

DELIVERING VALUE

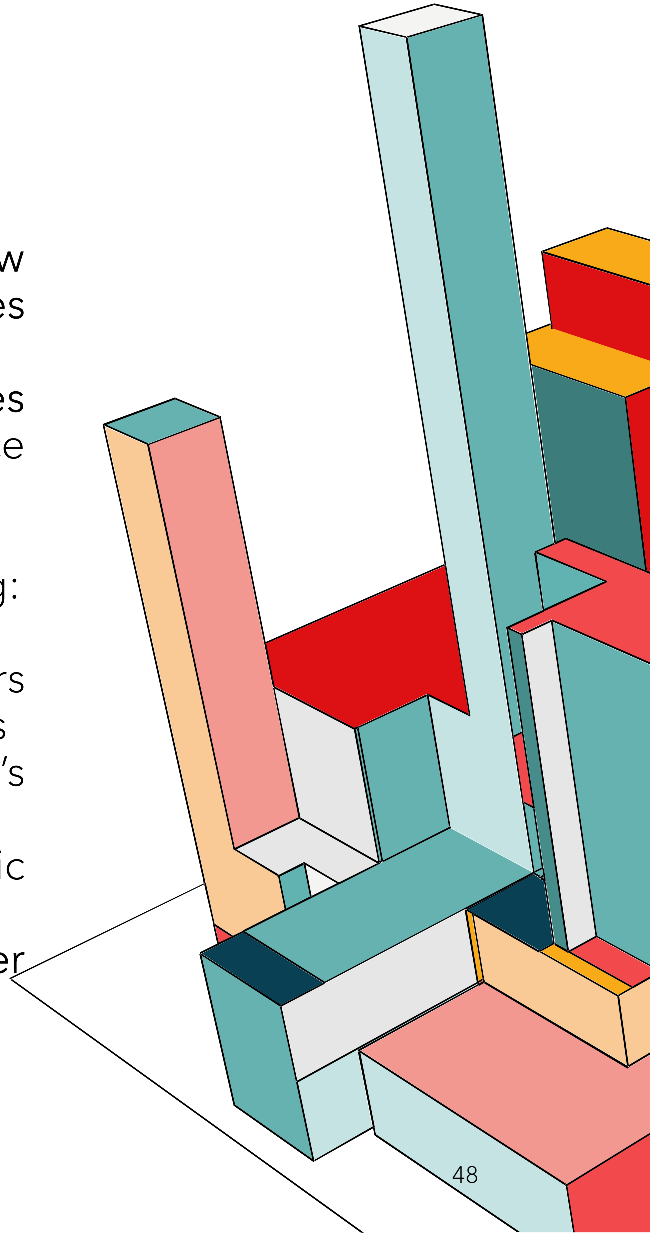
CHANNELS

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

The Channels building block describes **how a company communicates with and reaches its customer segments** to deliver a VP. **Communication, distribution and sales channels** comprise a company's interface with customers.

Channels serve several functions, including:

- **Raising awareness** among customers about a company's products and services
- **Helping customers evaluate** a company's Value proposition
- **Allowing customers to purchase** specific products and services
- Providing **post-purchase customer support**



DELIVERING VALUE

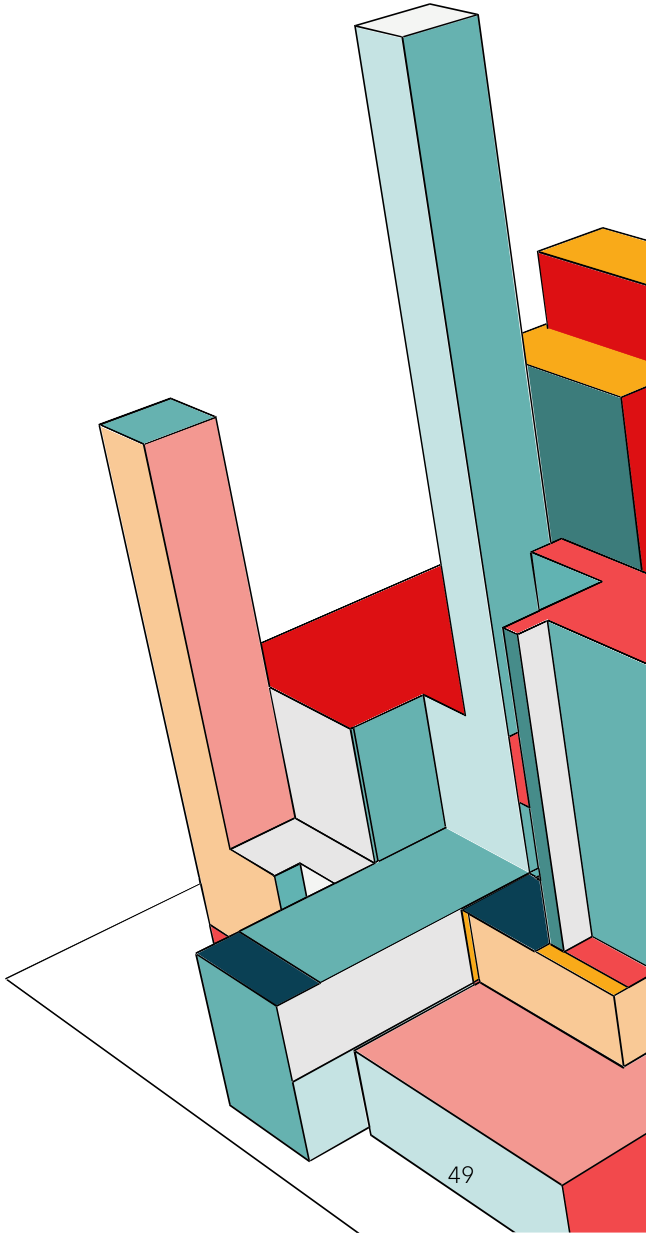
CHANNELS

- Through which channels do our customer segments want to be reached? How are we reaching them now?
- How are our channels integrated?Which ones work best? Which ones are most cost-efficient?
- How are we integrating them with customers routines?

Channels have five distinct phases:

1. Awareness: how do we raise awareness about our company’s products and services?
2. Evaluation: how do we help customers evaluate our organization’s VP?
3. Purchase: How do we allow customers to purchase specific products and services?
4. Delivery: How do we deliver a VP to customers?
5. After Sales: How do we provide post-purchase customer support?

Each channel can cover some or all of the phases.



DELIVER VALUE

CHANNELS

- Through which channels do our customer segments want to be reached? How are we reaching them now?
- How are our channels integrated?Which ones work best? Which ones are most cost-efficient?
- How are we integrating them with customers routines?

We can distinguish is:

- Owned vs Partner channels
- Direct vs indirect channels

OWNED

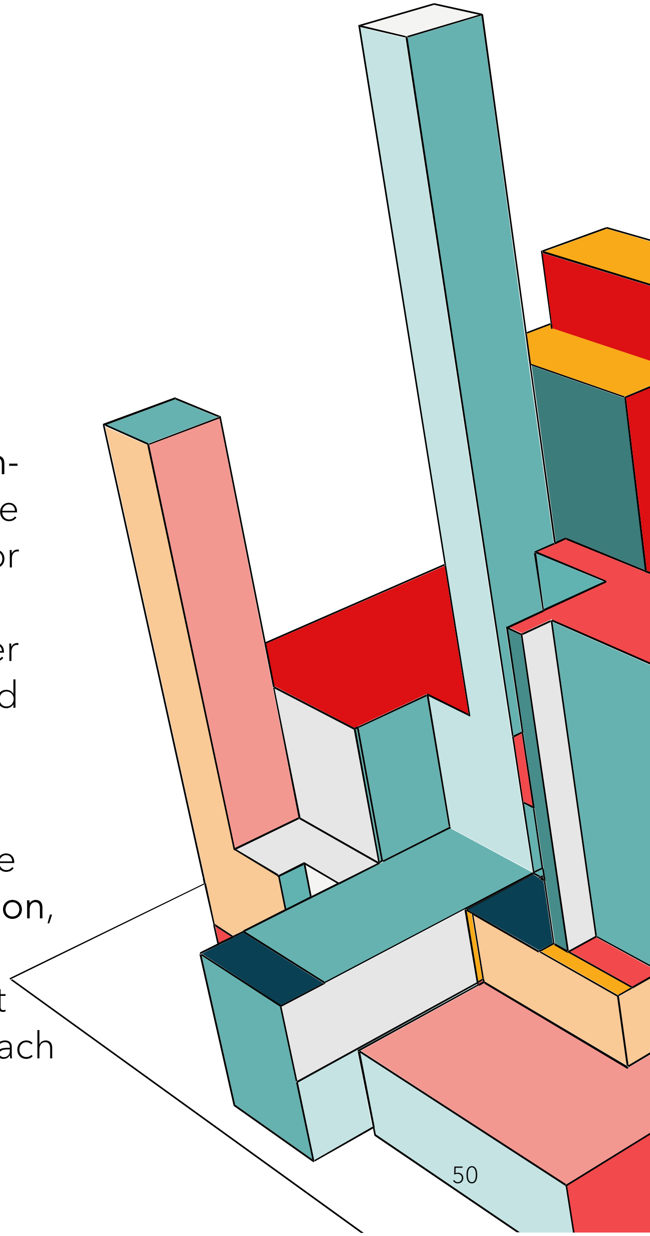
Owned channels can be **direct**, such as an **in-house sales force** or a **web site**, or they can be **indirect**, such as a **retail stores owned** or operated by the orgnization

➢ **Owned direct channels** have higher margins, but can costly to put in place and to operate

PARTNER

Partner channels are **indirect** and span a whole range of options, such as **wholesale, distribution**, retail, or partner-owned web sites.

➢ **Partner channels** lead to lower margins but they allow an organization to expand its reach and benefit from partner strenghts.



DELIVER VALUE

CHANNELS

- Through which channels do our customer segments want to be reached? How are we reaching them now?
- How are our channels integrated?Which ones work best? Which ones are most cost-efficient?
- How are we integrating them with customers routines?

O D P I

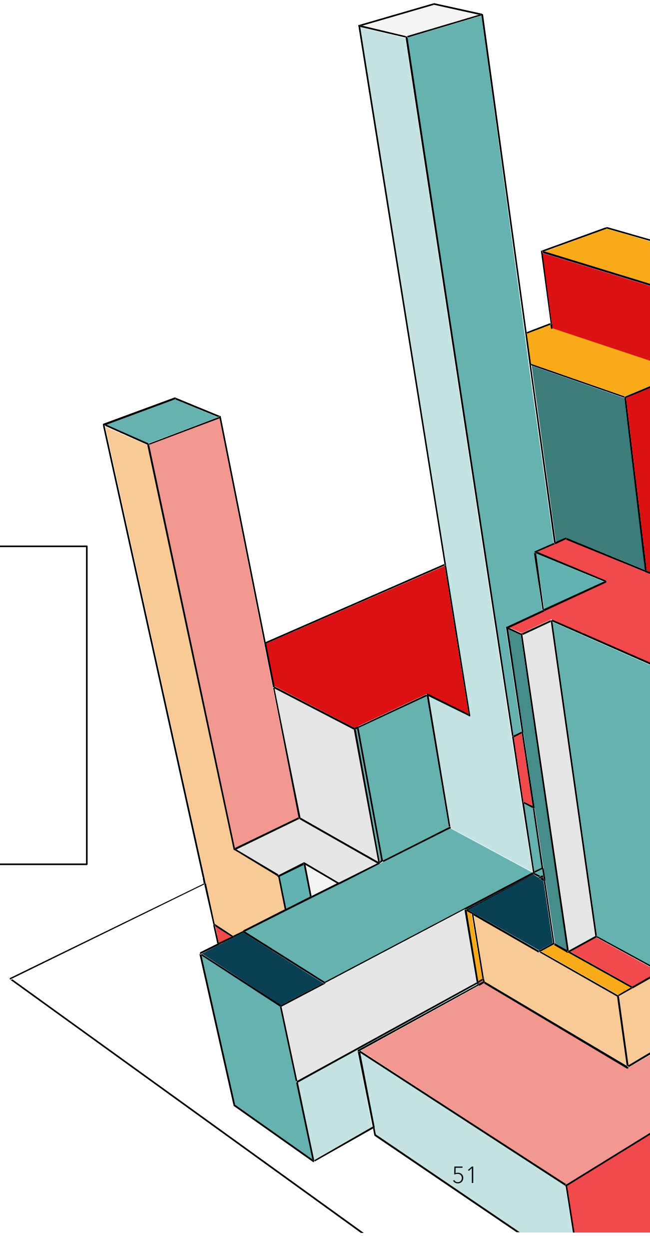
CHANNEL TYPES

Sales Force
Web Sales

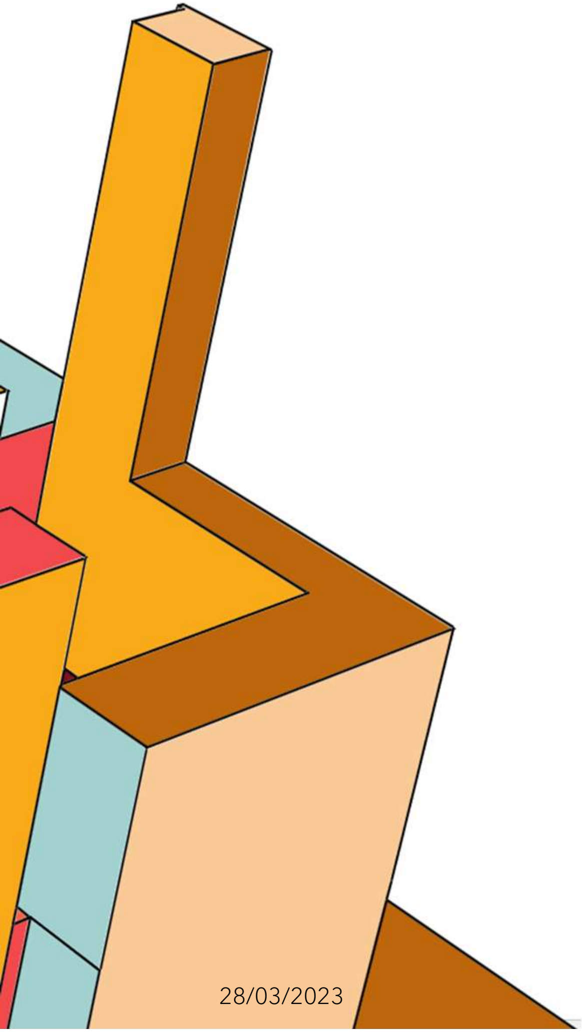
Own Stores
Partner Stores
Wholesales

CHANNEL PHASES

1. Awareness
2. Evaluation
3. Purchase
4. Delivery
5. After sales



DELIVERING VALUE



The customer relationships building block describes the type of relationships a company establishes with specific customer segments.

Relationships can range from personal to automated.

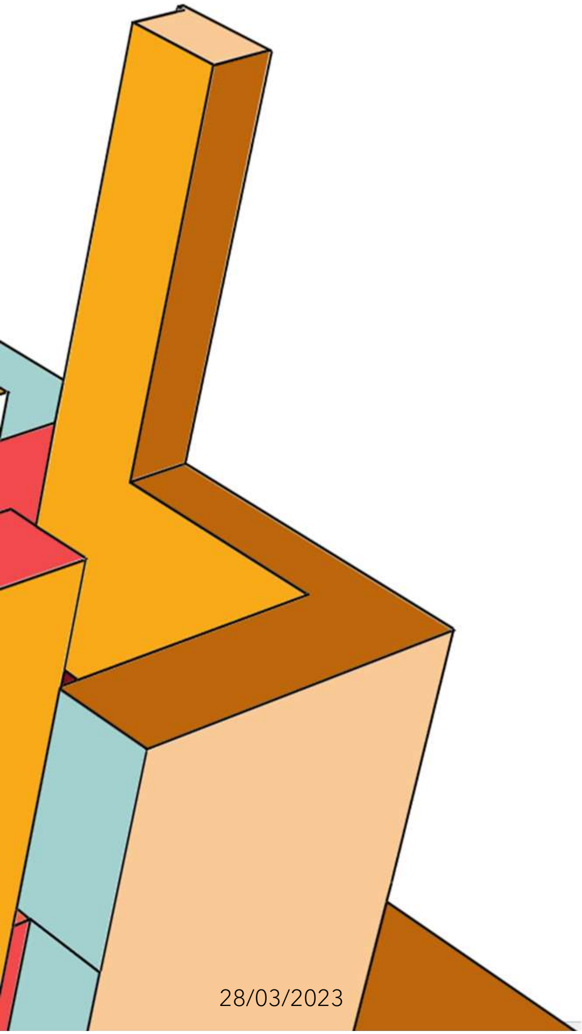
Customer relationships may be driven by the following motivations:

- Customer acquisition
- Customer retation
- Boosting sales (Upselling)

CUSTOMER RELATIONSHIPS

«A company should clarify the type of relationship it wants to establish with each customer segments»

DELIVER VALUE



We can distinguish several categories of CR, which **may co-exsist** in a company's relationship with a particular customer segments.

PERSONAL ASSISTANCE

This relationship is based on **human interaction**. The customer can communicate with a **real customer representative** to get help during **the sales process or after the purchase** is complete.

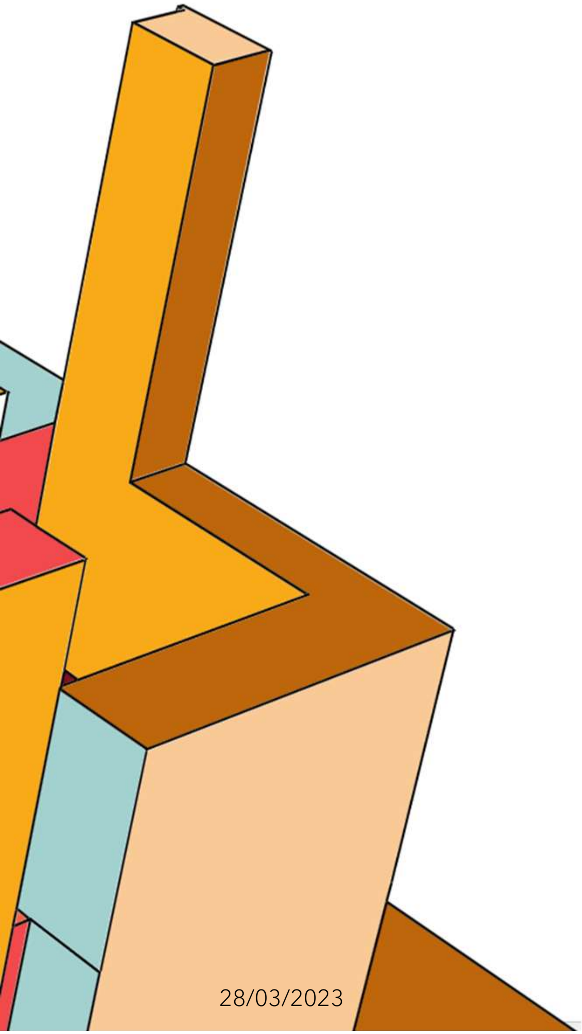
DEDICATED PERSONAL ASSISTANCE

This relationship involves **dedicating a customer representative specifically to an individual client**. It represents the deepest and most intimate type of relationship and normally develops over a long period of time.

CUSTOMER RELATIONSHIP ❤

- What type of relationship does each of our customer segments expect us to establish and maintain with them?
- Which ones have we established? How costly are they?
- How are they integrated with the rest of our business model?

DELIVERING VALUE



SELF-SERVICE

In this type of relationship, a company maintains **no direct relationship with customers**. It provides all the necessary means for customers to help themselves.

AUTOMATED SERVICES

This type of relationship **mixes a more sophisticated form of customer self-service with automated process.**

COMMUNITIES

Company may use **user communities** to become more **involved with customers/prospects** and to facilitate connections between community members. The aim is: **exchange knowledge, solve problems, understand customers**

CUSTOMER RELATIONSHIP

- What type of relationship does each of our customer segments expect us to establish and maintain with them?
- Which ones have we established? How costly are they?
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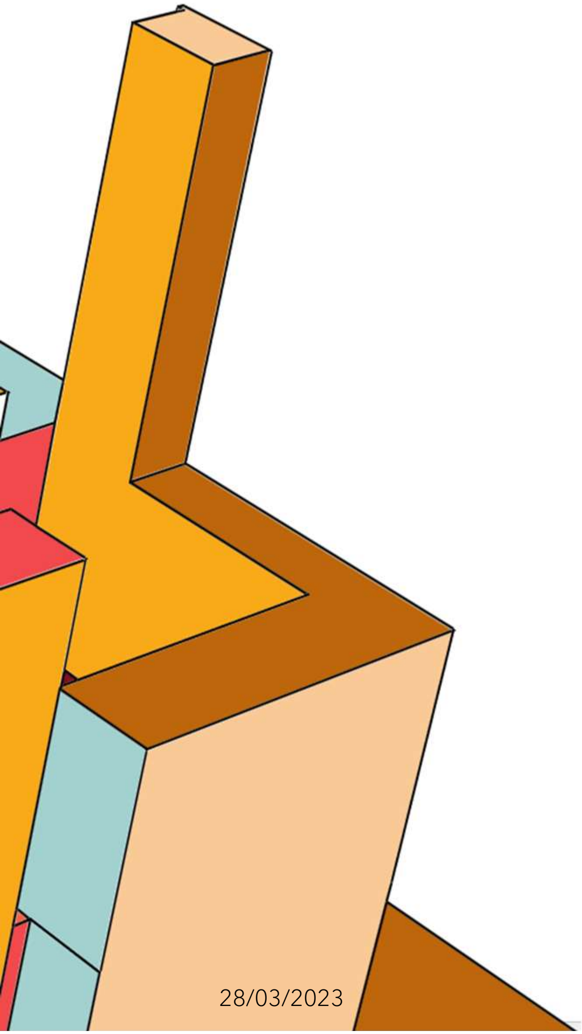


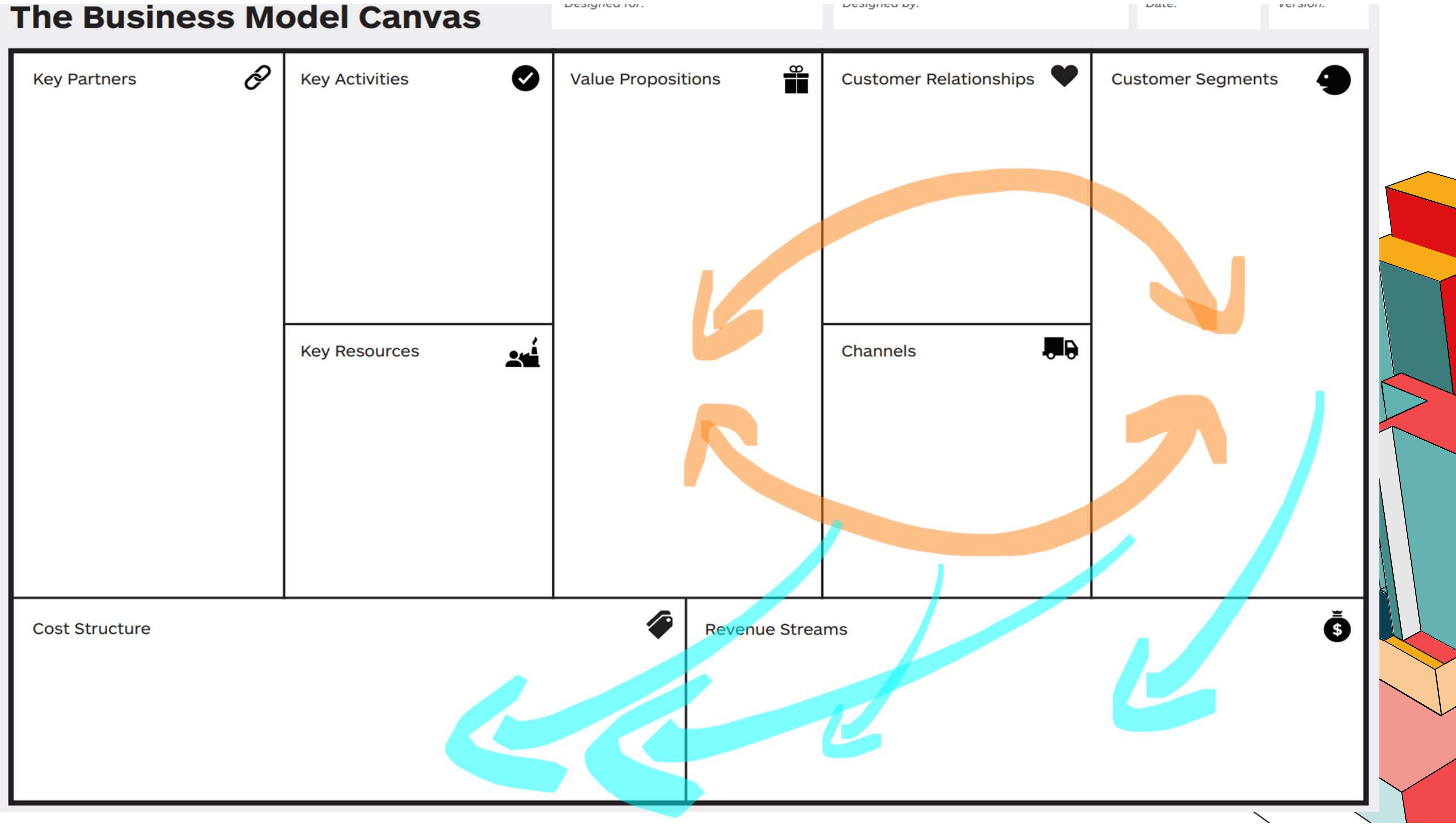
DELIVERING VALUE

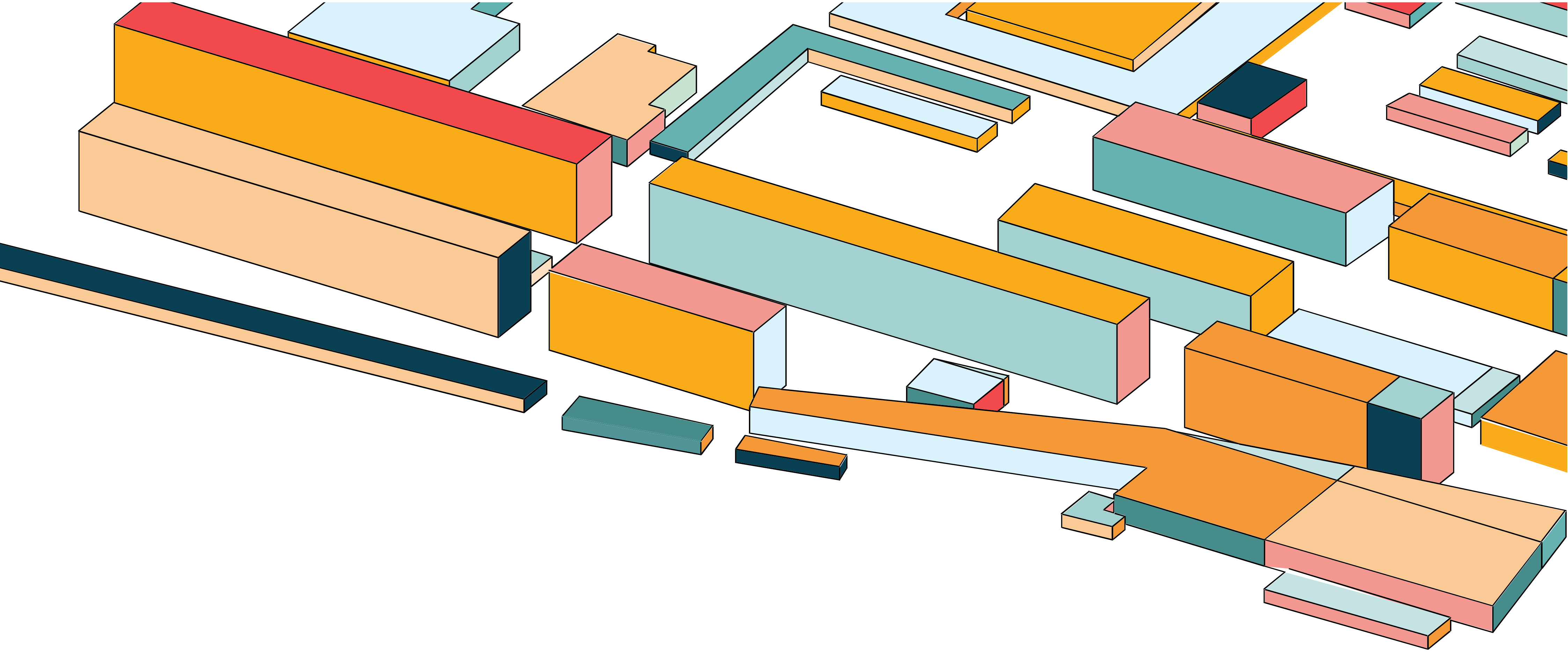
CO-CREATION

More companies are going **beyond the traditional customer-vendor relationship** to co-create value with customers.

CUSTOMER RELATIONSHIP

- What type of relationship does each of our customer segments expect us to establish and maintain with them?
- Which ones have we established? How costly are they?
- How are they integrated with the rest of our business model?


The Business Model Canvas
Key Partners
Key Activities
Key Resources
Value Propositions
Customer Relationships
Channels
Customer Segments
Cost Structure
Revenue Streams



FURTHERING INFORMATION

COST OF CUSTOMER ACQUISITION (COCA)

Understanding the details of customer acquisition will make clear to entrepreneurs the drivers of costs so that they will know over time how to make the sales process shorter and more cost-effective.

The question becomes *"How much it will cost to bring a new customer to your product?"*

Cost of Customer Acquisition
(COCA)

To truly understand how much entrepreneurs will have to spend on your sales process in order to gain customers, they will conduct a rigorous, honest assessment based on facts, not hope, starting by mapping out the expected sales process.

COST OF CUSTOMER ACQUISITION (COCA)

- Entrepreneurs should focus on the sales process, mapping out short-term, medium-term, and long-term sales channels.
- Then, entrepreneurs will use this information to calculate what the cost of sales and marketing initiatives are per customer.

The COCA, in combination with the LTV, helps entrepreneurs understand the dynamics of the business and gives enough data to make a meaningful first-pass analysis on the sustainability and profitability of the business!

COST OF CUSTOMER ACQUISITION (COCA)

The cost behind all of the sales and marketing efforts required to reach their prospects includes:

- the salaries of salespeople, printing of brochures, creation of websites, costs of trade show exhibits, advertising in industry publications, development of white papers, and so on;
- all the customers who did not buy their product, and the sales and marketing costs associated with reaching those customers;
- corporate shake-ups that affect the customer's Decision-Making Unit.
- new managers bring in new products and people to accomplish their goals, which can hamper the effectiveness of an entrepreneur's efforts to sell to the customer.

COST OF CUSTOMER ACQUISITION (COCA)

For almost all new ventures, the COCA will start very high and decrease over time.

The sales process necessary to reach and close customers at the founding of a new business requires much more time and investment than the same process does once a business has matured and begins to scale.

The sales process is typically broken into three time periods for the sake of analysis.

1. Short Term
2. Medium Term
3. Long Term

COST OF CUSTOMER ACQUISITION (COCA)

Short Term

The primary focus of the sales process is to create demand for the product and to fulfill orders for the product. While the customer-centric focus means have created a product the customer wants, the product is still new to the world, so entrepreneurs will need direct interaction with the customer:

- to explain the value proposition and why the product is unique.
- to rapidly iterate to improve the product based on customer feedback, which is more difficult if entrepreneurs funnel sales through intermediaries such as distributors.

This is the *missionary sales stage* and it ends when entrepreneurs start to see demand for the product that they did not directly generate.

- Direct salespeople—often called "business development" people—are traditionally a wise and effective investment here. However, they are very expensive and they take time to get up to speed.
- Web-based techniques such as inbound marketing, e-mail, social media marketing, and telemarketing can help lessen the need for direct salespeople, even at this stage.

COST OF CUSTOMER ACQUISITION (COCA)

Medium Term

At this point, focus shifts more from demand creation toward order fulfillment as word of mouth and distribution channels take on some of the demand creation burden. At this stage, entrepreneurs will also begin client management, which means ensuring them retain existing customers and creating additional sales opportunities.

- Distributors or value-added resellers (VARS) are often used, especially to serve more remote markets, or smaller customers who have a lower LTV.
- Direct salespeople (who are more costly) can focus on larger customer opportunities with a higher LTV.

Distributors or VARS substantially reduce the cost of customer acquisition but requires some of the profit margin to the distributor (between 15% and 45% or higher depending on the industry).

COST OF CUSTOMER ACQUISITION (COCA)

Long Term

The sales group focuses on fulfilling customer orders.
Entrepreneurs will do very little demand creation, and will continue client management where appropriate.

- Internet and telemarketing avenues are commonly employed in a long-term strategy. There will have to be adjustments made as competitors come into the market, which will affect the ability to get to this stage and what entrepreneurs do once them get there.

COST OF CUSTOMER ACQUISITION (COCA)

Short Term

- Direct Sales (100%) → All end customers w/focus on strategic accounts in target market

This would continue until Word of Mouth becomes significant and product is matured and proven. Then as move from demand creation to demand fulfillment . . .

Medium Term

- Direct Sales (50%) → Largest customers
- Selected Regional Exclusive VARS (50%) → Medium and small accounts in target market

This would eventually evolve to more of an online commerce as the product becomes the standard and the product line expands and new markets are tested—estimated in year 3

Long Term

- Direct Sales (25%) → Top 50 accounts & new market
- Selected Regional Exclusive VARS (40%) → Accounts below Top 50 & non-core markets
- Through Web Site & Direct Telemarketing (35%) → All customers in core market (with commission to VARS & Direct Sales)

COST OF CUSTOMER ACQUISITION (COCA)

Calculate the COCA means determine how much it costs to acquire a customer over the short term, medium term, and long term, based on sales process.

Entrepreneurs are always blind respect to the real costs of customer acquisition.

In determining the COCA, entrepreneurs must quantify all the sales and marketing costs involved in acquiring a single average customer in steady state. It does not include any fixed production costs or expenses outside of the sales and marketing department, such as research and development, finance and administration, or overhead.

COCA does include all the sales and marketing costs, even when a potential customer chooses not to purchase your product.

COST OF CUSTOMER ACQUISITION (COCA)

The right way to calculate coca: a top-down perspective

An effective way to calculate an accurate COCA is to:

- tabulate aggregate sales and marketing expenses over a period of time;
- divide that by the total number of new customers to acquire within that time period.

The COCA(t) will vary over time as the sales process changes and the organization is in the learning curve and develop strong positive word of mouth within the target customer group, entrepreneurs should calculate it over time. It is recommended three time periods in order to show how the COCA is trending.

Appropriate time periods depend on the life cycle of the product, which is directly related to the amount of time it takes for the customer to realize the value proposition from the product.

COST OF CUSTOMER ACQUISITION (COCA)

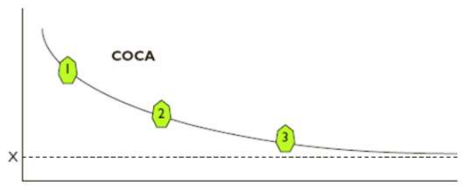
The right way to calculate coca: a top-down perspective

- Dividing the cost of the sales and marketing expenses by the defined time period will yield the Total Marketing and Sales Expenses over Time or TMSE(t) where t is the first, second, or third time period.
- If a sizeable portion of your TMSE(t) is the cost of retention of existing customers, rather than acquiring new customers, subtract this from the TMSE(t). We will refer to the cost of retention as the Install Base Support Expense over Time or IBSE(t).
- Determine the number of new customers you will close during that time period referred to as New Customers over Time or NC(t).
- Once you have numbers for each of your first three time periods, plot them on a graph where the x-axis is time and the y-axis is COCA for that period.

A good COCA, where it decreases over time. The horizontal line at X represents the COCA's steady state, once sales volume ramps up and the product, company, and market mature, typically achieved during the longer-term stage of your sales process.

$$\mathrm{COCA}(t) = \frac{\mathrm{TMSE}(t) - \mathrm{IBSE}(t)}{\mathrm{NC}(t)}$$

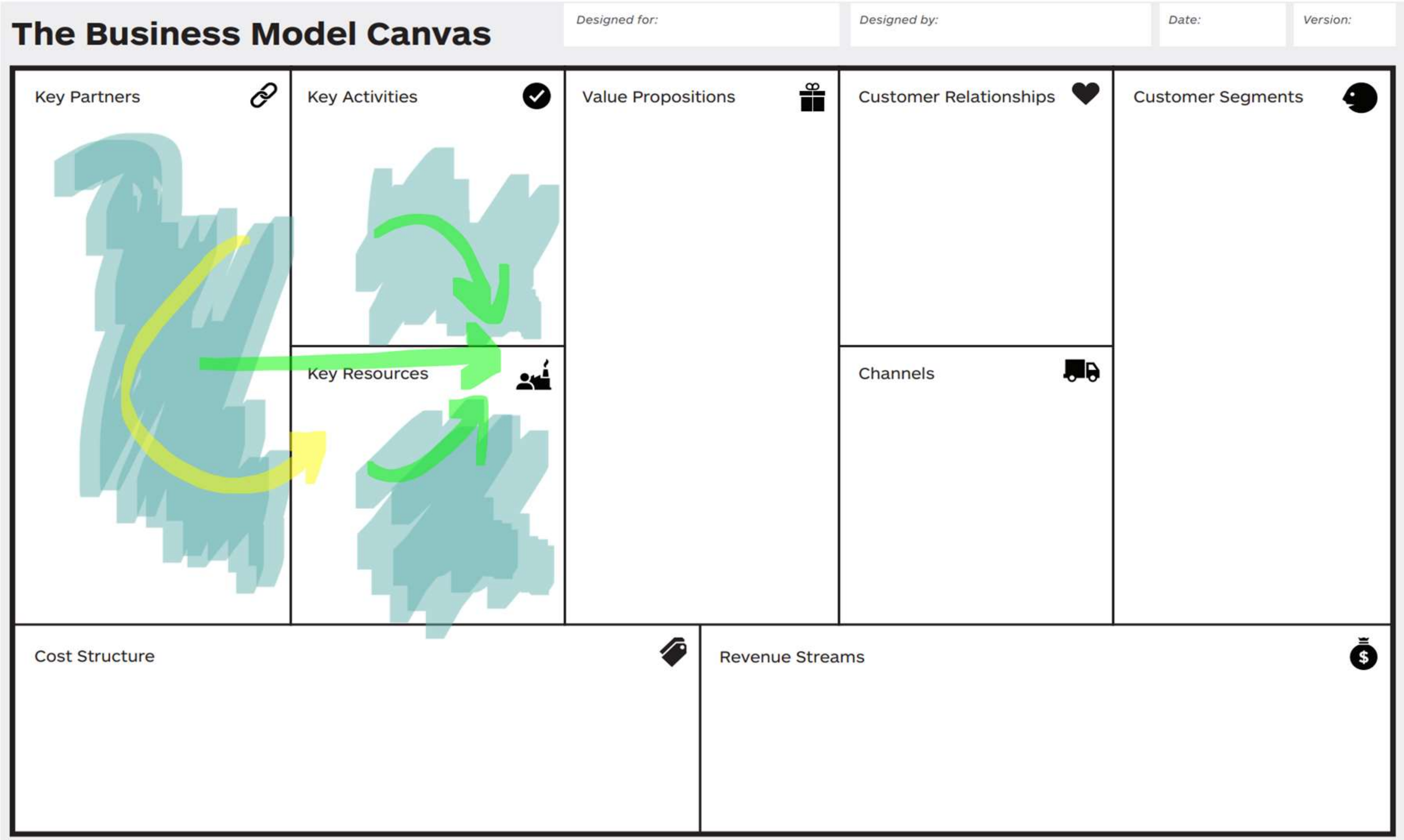
$$\text{Cost of Customer Acquisition} = \frac{\text{Total Marketing and Sales Expenses}(t) - \text{Install Base Support Expense}(t)}{\text{Number of New Customers}(t)}$$

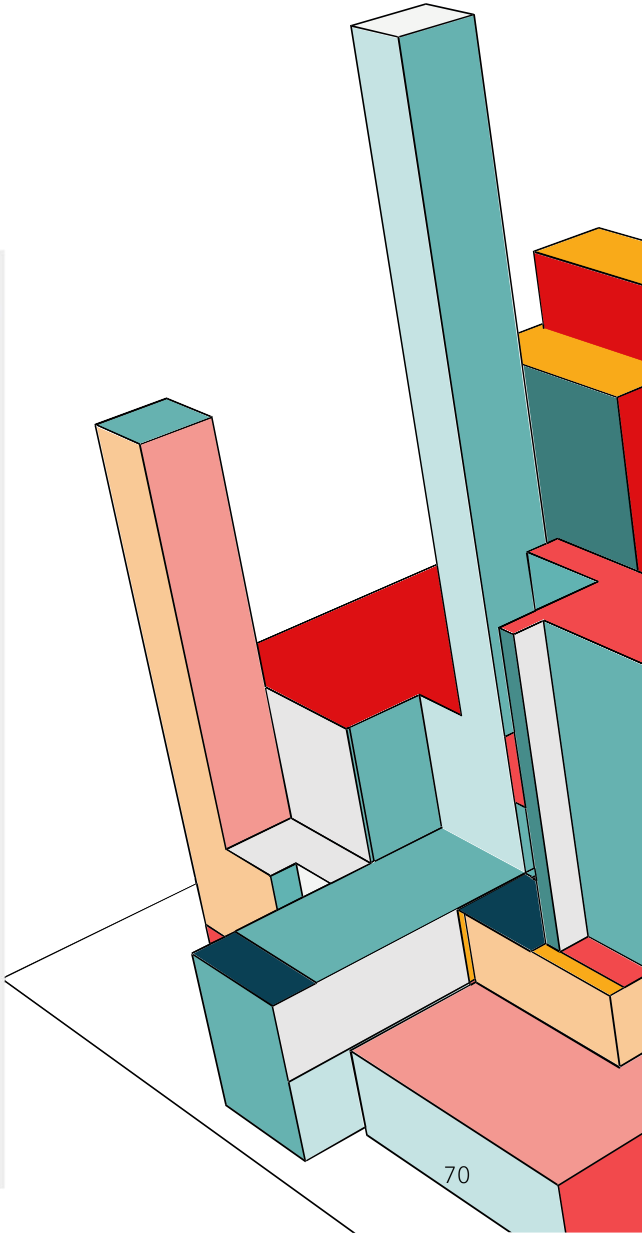


COST OF CUSTOMER ACQUISITION (COCA)

Items from Marketing & Sales Budget	Year 1	Year 2	Year 3
Number of Salespeople = Number of Tech Support People	1	2	3
Sales Salary ($175K/year fully burdened)	$ 175,000	$ 350,000	$ 525,000
Tech Support Salary ($125K/year fully burdened)	$ 125,000	$ 250,000	$ 375,000
Travel	$ 24,000	$ 40,000	$ 52,500
Entertainment	$ 15,000	$ 24,000	$ 30,000
Events	$ 30,000	$ 35,000	$ 40,000
Website Cost	$ 10,000	$ 10,000	$ 10,000
Consultant	$ 15,000	$ —	$ —
Total	$ 394,000	$ 709,000	$ 1,032,500
Number of Customers	1	3	7
COCA for Year	$ 394,000	$ 236,333	$ 147,500

CREATING VALUE





CREATING VALUE

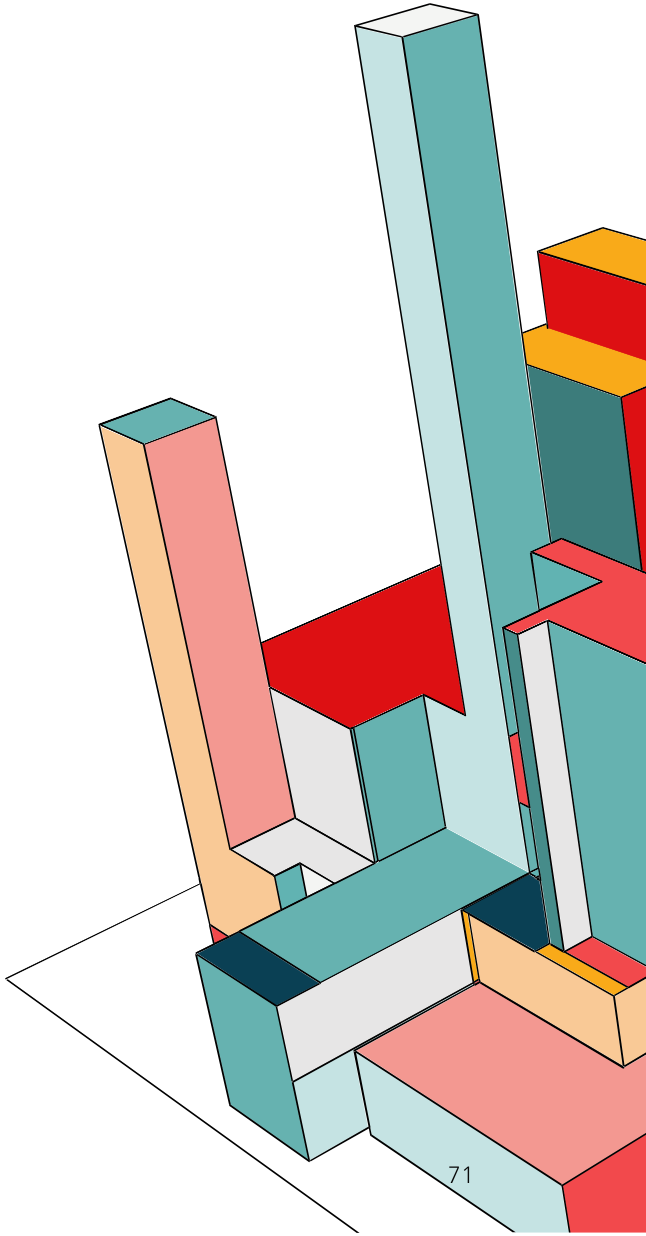
KEY RESOURCES

«Every business model requires Key Resources»

Key resources allow an entreprise to create and offer a VP, reach markets, maintain relationship with customer segments, and earn revenues.

Different key resources are needed depending on the type of business model (capital vs knowledge intensive firms).

Key resources can be owned or leased by the company or acquired from a key partner.



CREATING VALUE

KEY RESOURCES

- What key resources do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

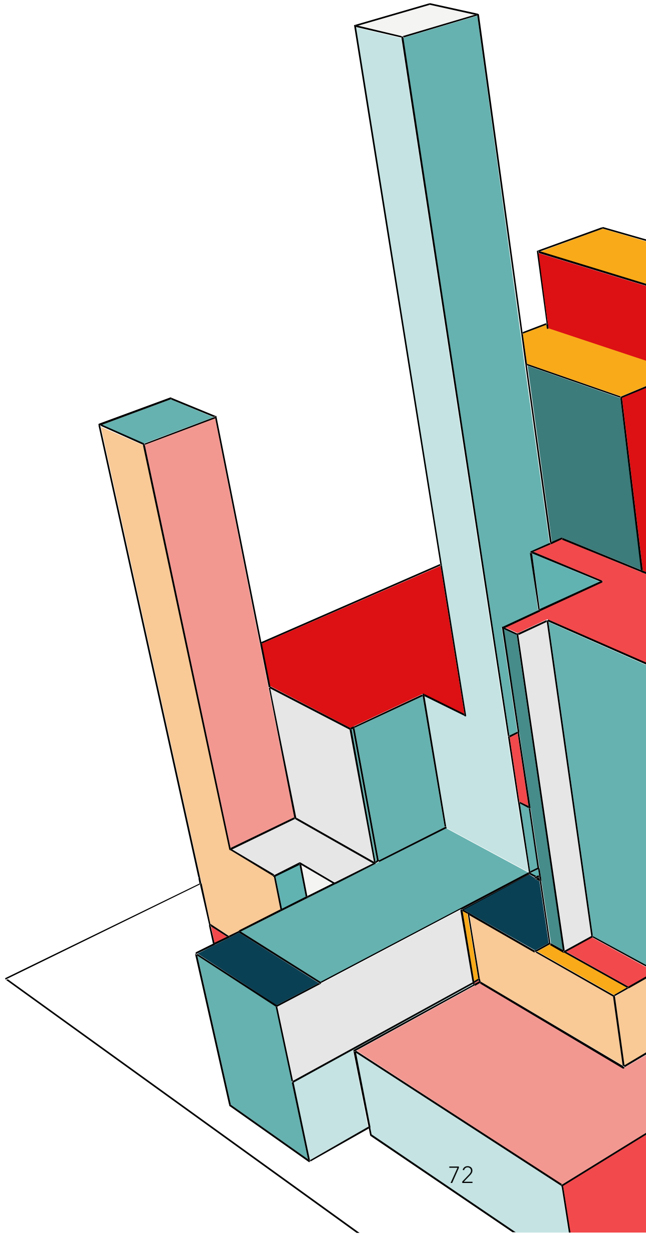
Key resources can be categorized as follows:

PHYSICAL

This category includes **physical assets** such as manufacturing facilities, buildings, vehicles,machines, systems, point of sales systems, and distribution networks.

INTELLECTUAL

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships and customer databases are increasingly important components of a strong business model. Intellectual resources are **difficult to develop** but when successfully created may offer substantial value.



CREATING VALUE

KEY RESOURCES

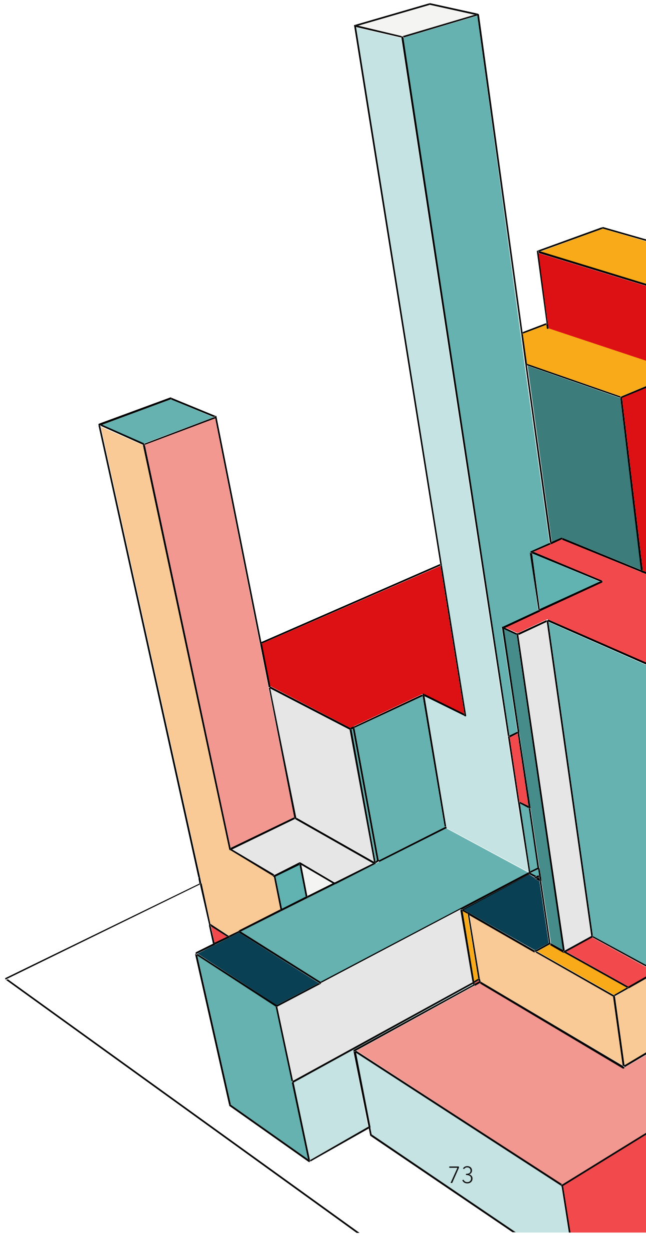
- What key resources do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

HUMAN

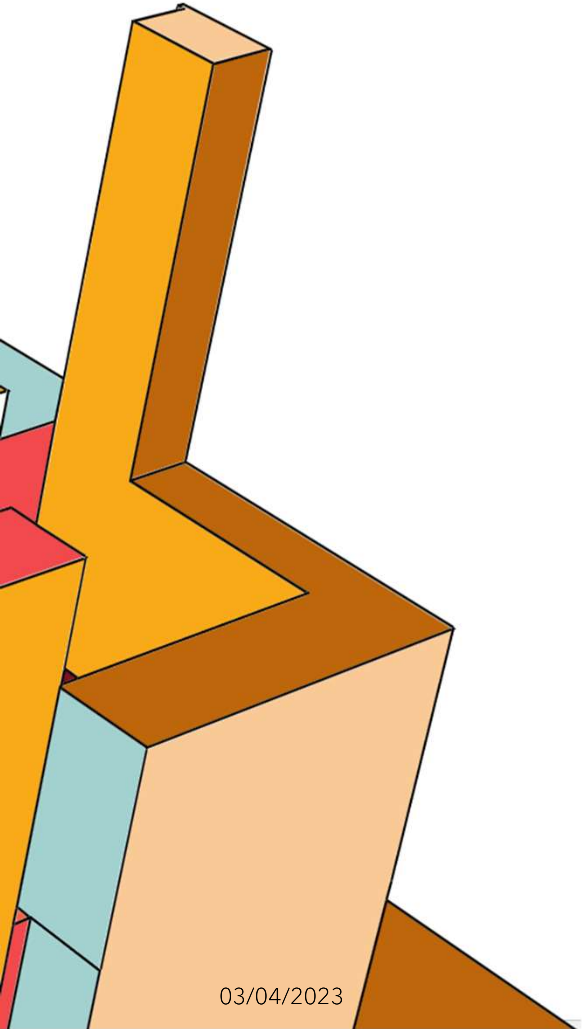
Every enterprise requires **human** resources, but people are particularly prominent in certain business models (human resources are critical in knowledge-intensive and creative industries)

FINANCIAL

Some business models call for **financial resources and or financial guarantees** such as cash, lines of credit, or stock option pool for hiring key employees.



CREATING VALUE



The Key Activities building block describes the most important things a company must do make its business model work.

Activities are the most important actions a company must take to operate successfully.

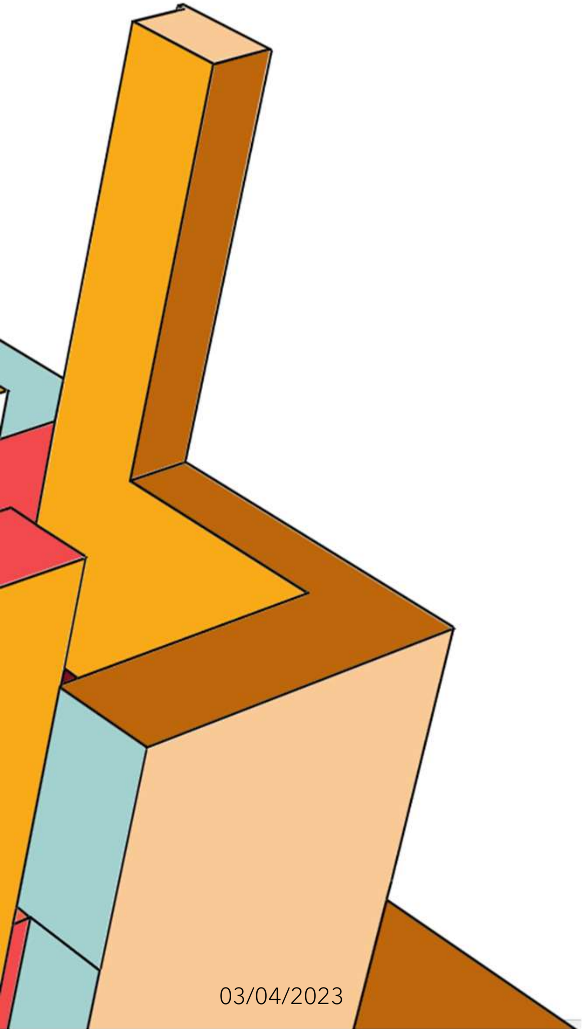
Like key resources they are required to create and offer VP, reach markets, maintain customer relationships, and earn revenue. And like key resources they differ depending on business model type.

- PC manufacturer?
- Consultancy company?

KEY ACTIVITIES

«Every business model calls for a number of Key Activities»

CREATING VALUE



Key activities can be categorized as follows:

PRODUCTION

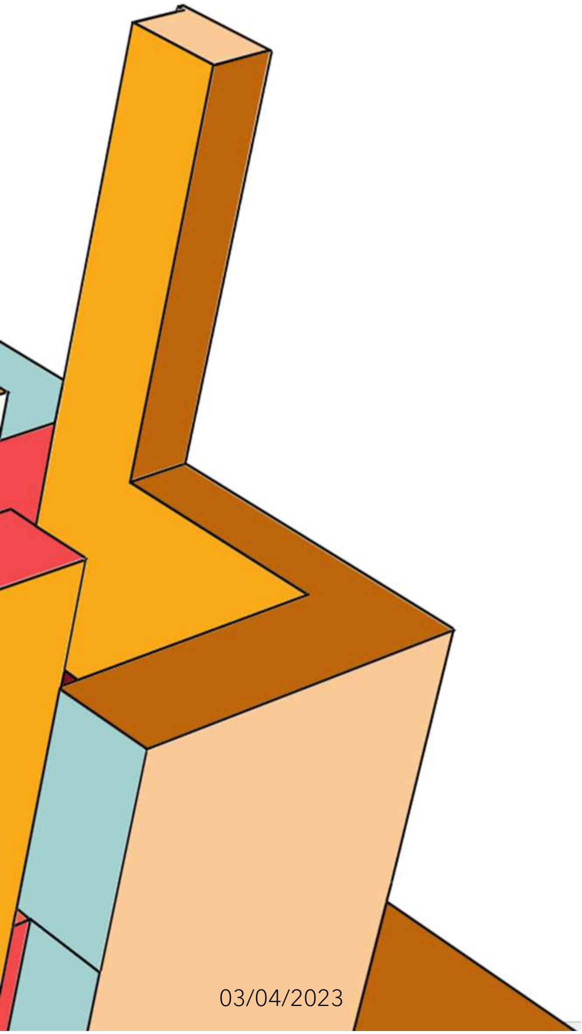
These activities relate to **designing, making and delivering product** in a substantial quantities and or/ of superior quality (e.g., manufacturing firms).

PROBLEM SOLVING

Key activities of this type relate to coming up with **new solutions** to individual customer problems. The business model call for activities such as **knowledge management and continuos training.**

KEY ACTIVITIES

- What key activities do our value propositons require?
- Our sistribution channels?
- Customer relationships?
- Revenue Streams?



CREATING VALUE

Key activities can be categorized as follows:

PLATFORM/NETWORK

Business models designed with a platform as a key resource are dominat by paltform or network related key activities.
Networks, matchmaking platforms, sofware and eaven brands can function as a platform.
Key activities in this category relate to platform management, service management and platform promotion.

KEY ACTIVITIES

- What key activities do our value propositons require?
- Our sistribution channels?
- Customer relationships?
- Revenue Streams?

CREATING VALUE

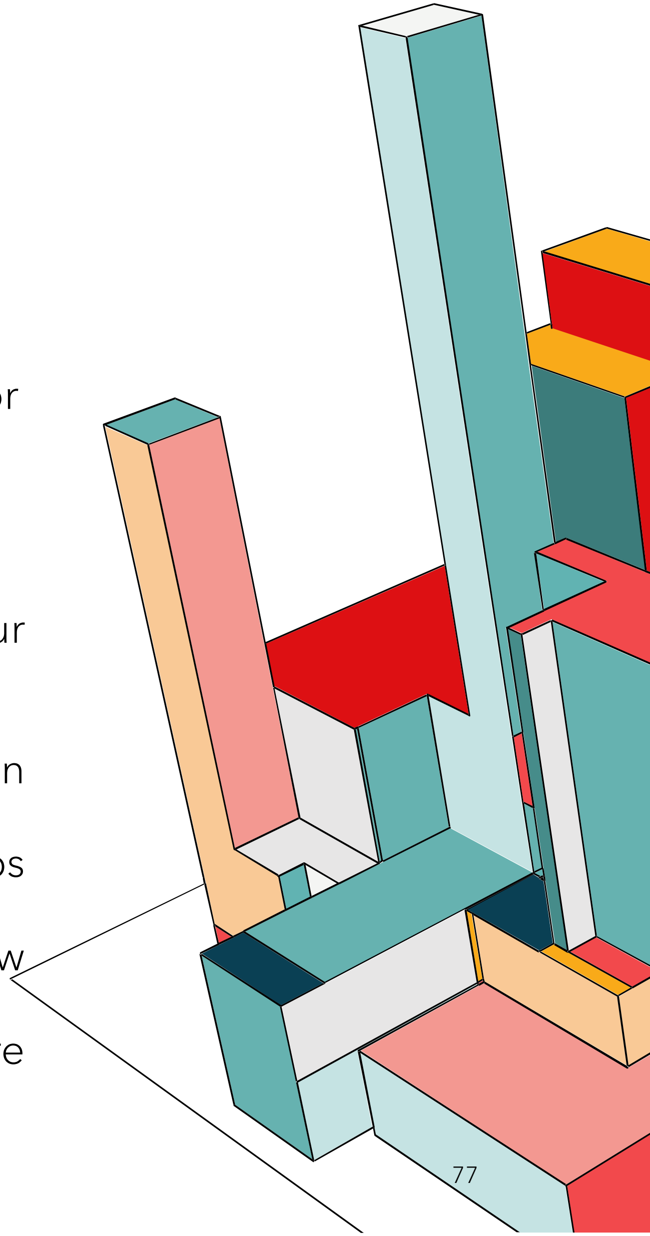
KEY PARTNERSHIPS

«Partnerships are becoming a cornerstone of many business models»

The Key Partnership builfing block describes the **network of suppliers and partners that make the business model work.** Companies forge partnerships for many reason: to **optimize business models, reduce risks or acquire resources.**

We can distinguish between four different types of partnerships:

- **Strategic alliances:** alliances between non-competitors
- **Coopetition:** strategic partnerships between competitors
- **Joint ventures** to develop new businesses
- **Buyer-supplier relationships** to assure reliable supplies



CREATE VALUE

KEY PARTNERSHIPS

- Who are our key partners?
- Who are our key suppliers?
- Which key resources are we acquiring from partners?
- Which key activities do partners perform?

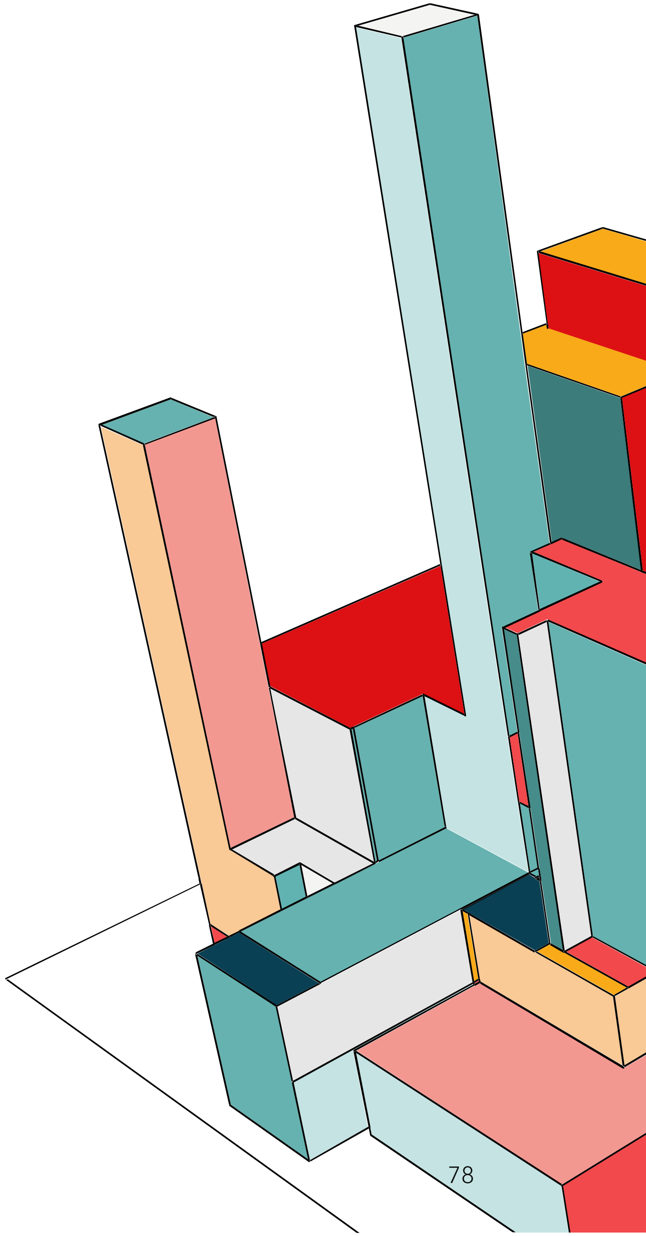
Motivations for creating partnerships:

OPTIMIZATION AND ECONOMY OF SCALE

It is the most basic form of partnership or B-S relationship. It is illogical for a company to own all resources or perform every activitiy by itself. They are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

REDUCTION OF RISK AND UNCERTAINTY

Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one are while competing another (Blu-ray).



CREATE VALUE

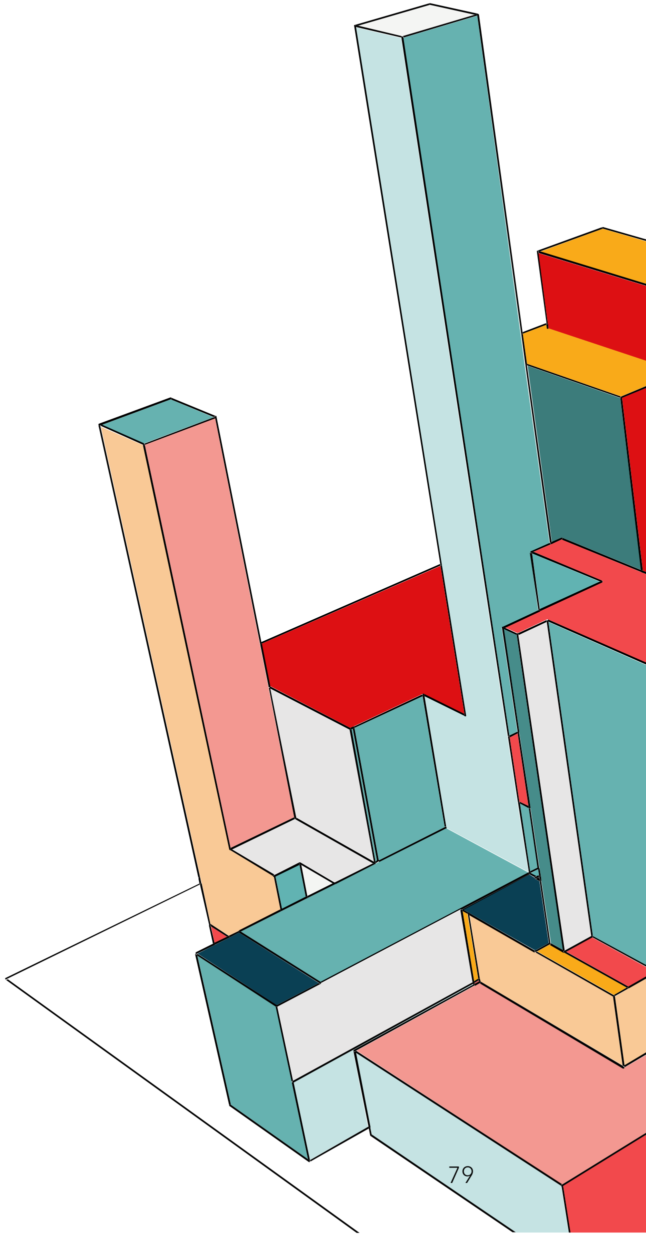
KEY PARTNERSHIPS

- Who are our key partners?
- Who are our key suppliers?
- Which key resources are we acquiring from partners?
- Which key activities do partners perform?

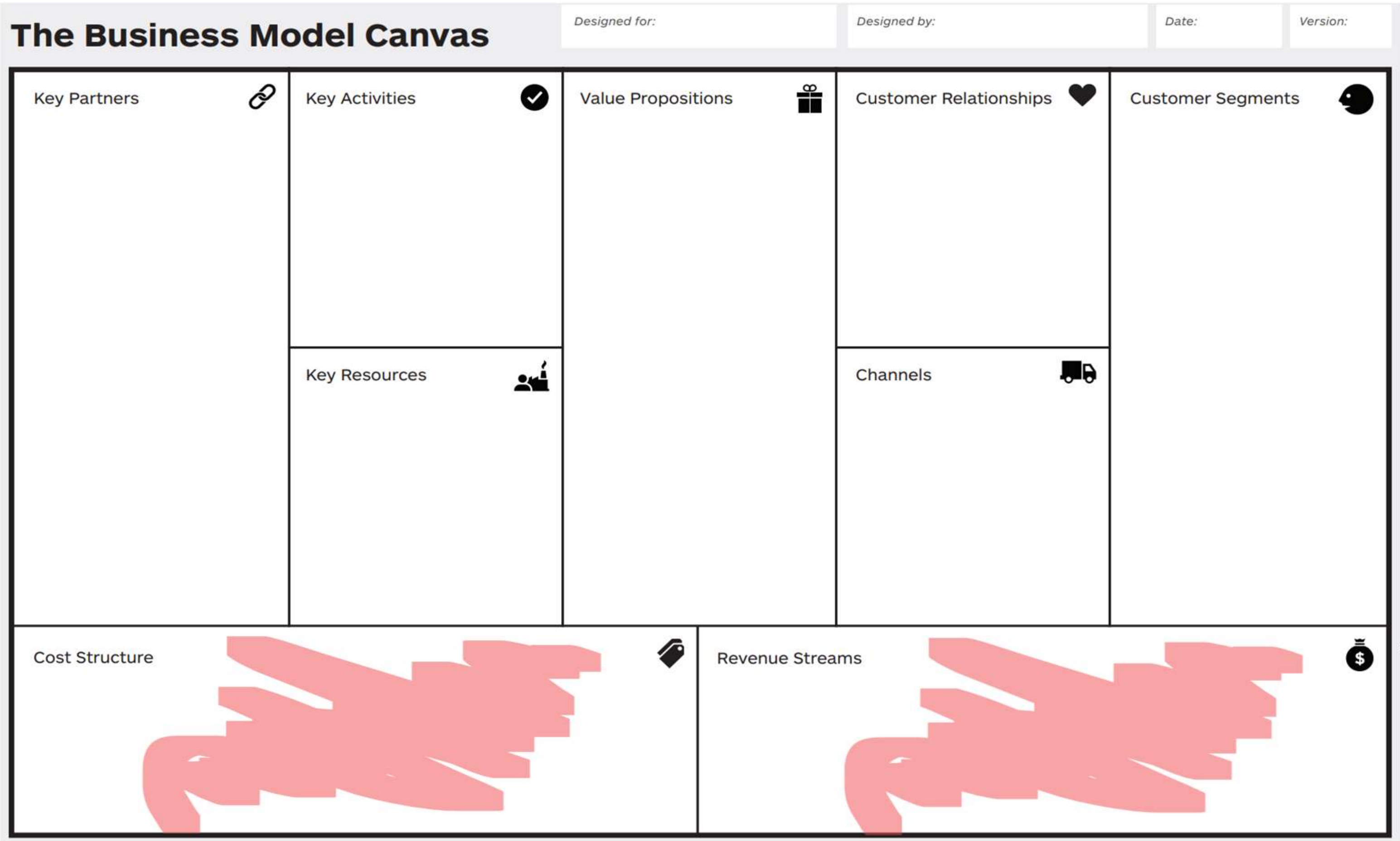
Motivations for creating partnerships:

ACQUISITION OF PARTICULAR RESOURCES AND ACTIVITIES

Few companies own all the resources or perform all activities. Rather, they extend their own capabilities by relying an other firms to furnish particular resources or certain activities (e.g., acquire knowledge, customers pr licence).



CAPTURING VALUE


The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

Key Activities

Key Resources

Value Propositions

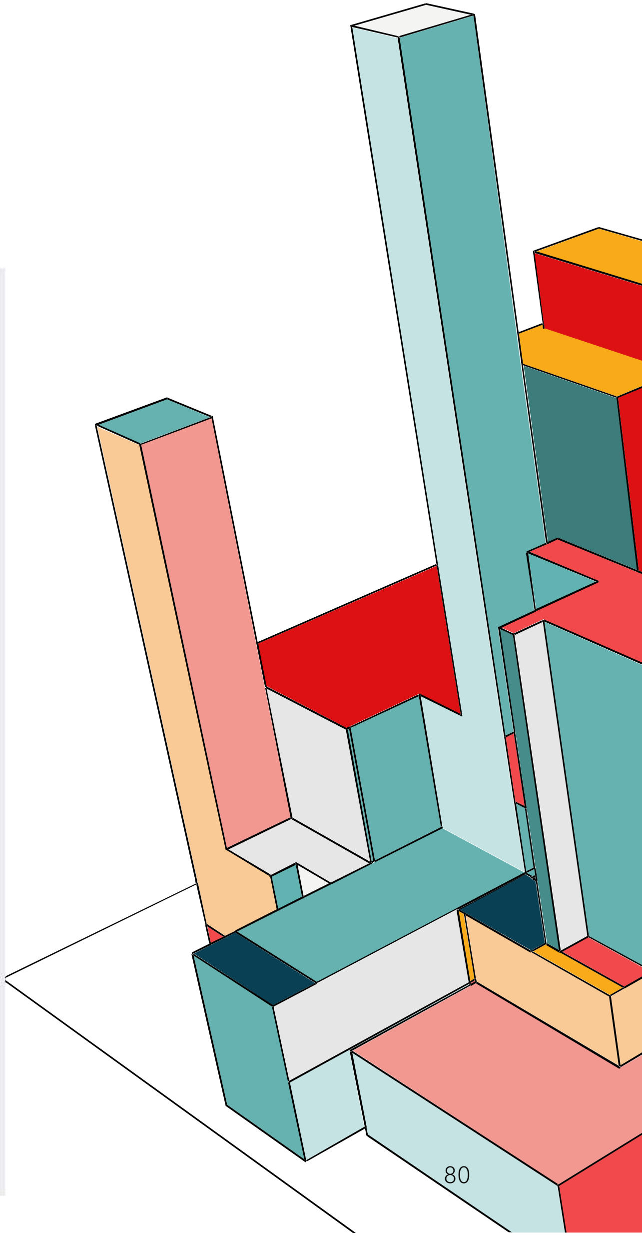
Customer Relationships

Channels

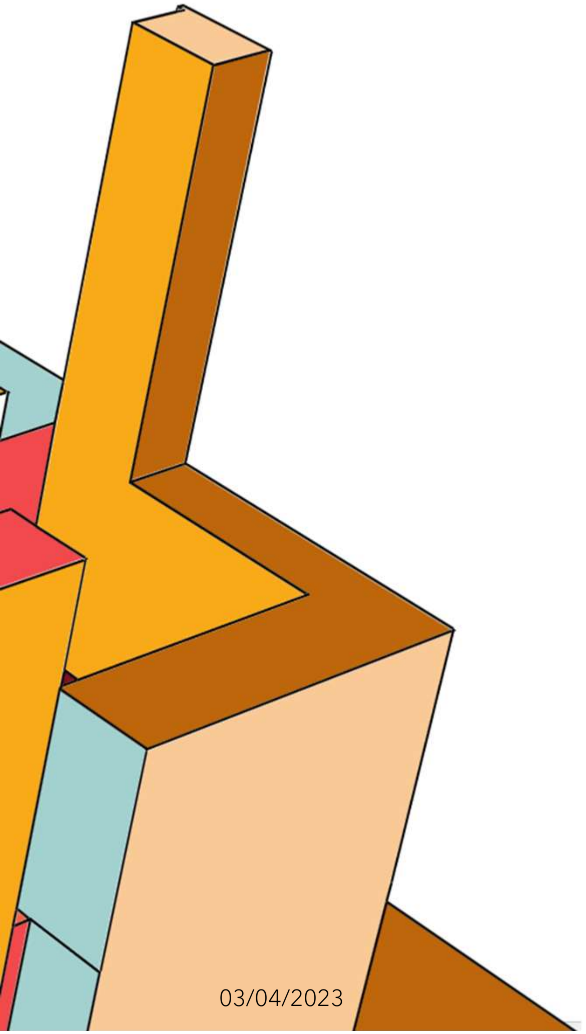
Customer Segments

Cost Structure

Revenue Streams



CAPTURING VALUE



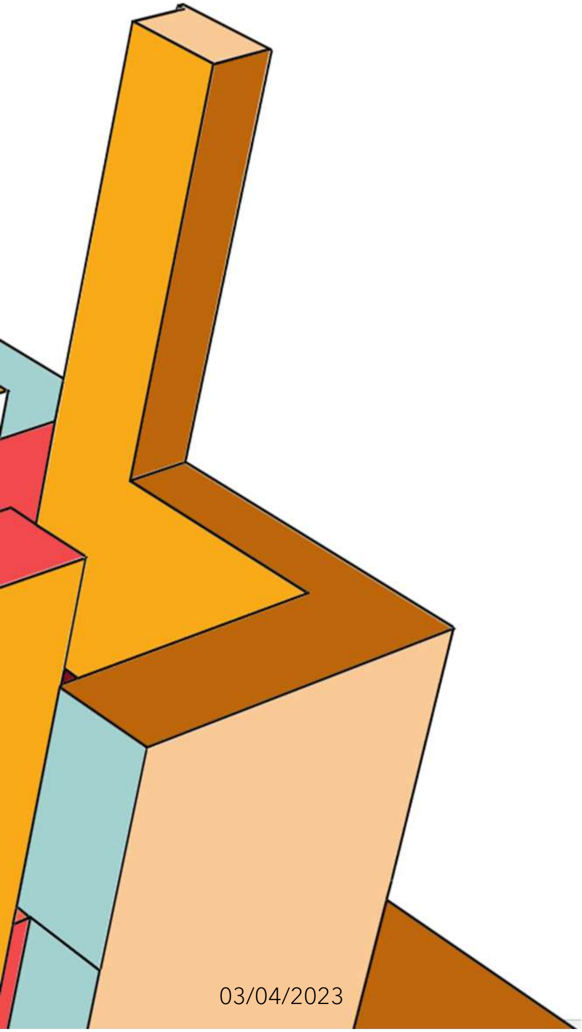
The cost structure describes all costs incurred to operate a business model.

This block decribes the most important costs incurred while operating under a particular business model.

Delivering and creating value incur costs. Such costs can be calculated relatively eaisly after defining resources, activities and partnerships.

COST STRUCTURE

«Some business models are most cost-driven than others»



CAPTURING VALUE

Costs should be **minimized in every business model**, but **low cost structures** are more important to some business models that to others. Therefore it can be useful to distinguish between two broad classes of business model cost structures:

COST – DRIVEN

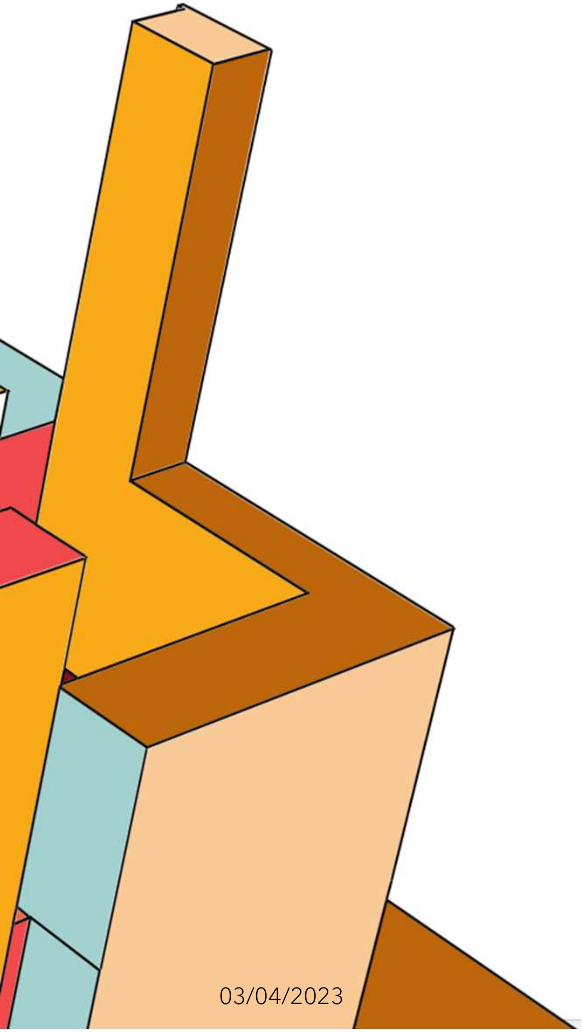
Cost-driven business model focus on **minimizing costs wherever possible**. This approach aims at creating and maintaining the leanest possible cost structure, using **low price VP, maximum automation, and extensive outsourcing**.

VALUE-DRIVEN

Some companies are less concerned with the cost implications of a particilar business model design, and instead **focus on value creation. Premium value propositions** and **high degree of personalized services** usually characterize value-driven business models.

COST STRUCTURE

- What are the most important costs inherent in our business model?
- Which key resources are most expensive?
- Which ket activities are most expensive?



CAPTURING VALUE

Cost structures can have the following characteristics:

FIXED COSTS

Costs that **remain the same despite the volume of goods or services** produced.

VARIABLE COSTS

Costs that **vary proportionally with the volume of goods or services** produced.

ECONOMIES OF SCALE

Cost **advantages that a business enjoys as its output expands**. Larger companies benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises

ECONOMIES OF SCOPE

Cost advantages that a **business enjoys due to a larger scope of operatios**. In a large entreprise the same marketing activities or channels may support multiple products.

COST STRUCTURE

- What are the most important costs inherent in our business model?
- Which key resources are most expensive?
- Which ket activities are most expensive?

CAPTURING VALUE

REVENUE STREAMS

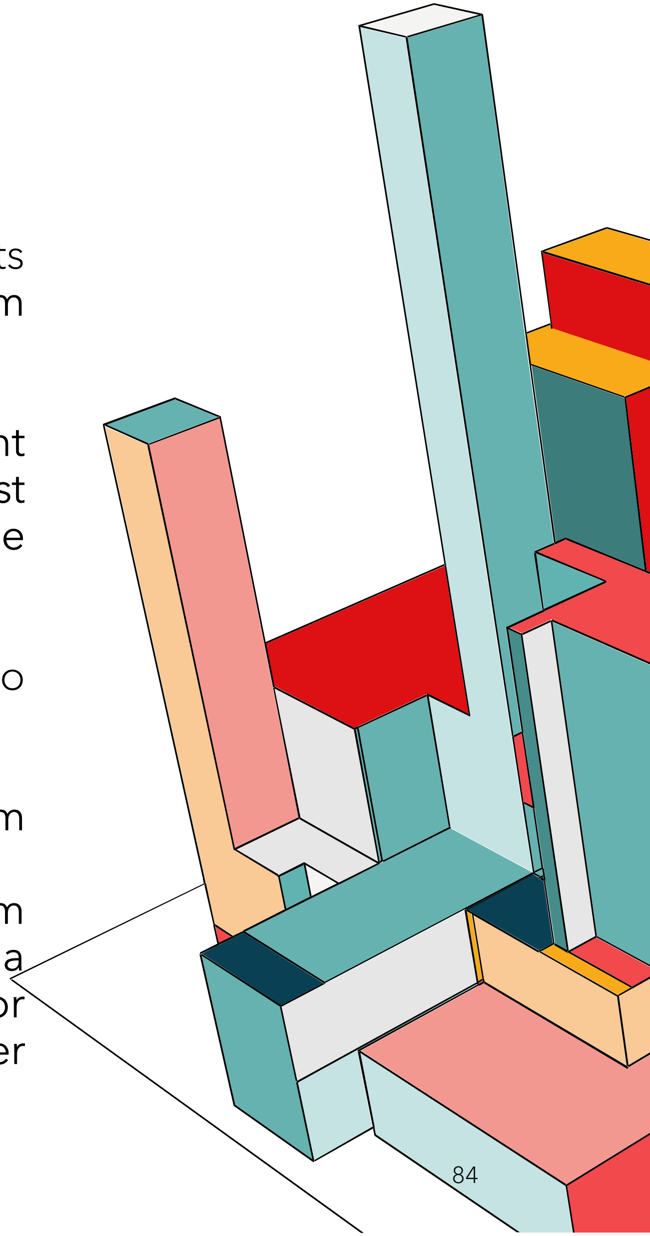
«If customers comprise the heart of a business model, revenue streams are its arteries»

The revenue stream block represents the cash a company generates from each customer segment.

Revenue stream may have different pricing mechanisms suh as fixed list prices, market dependent, volume dependent, or yield management.

A business model can involve two different type of revenue streams:

- Transaction revenues resulting from one-time customer payments
- Recurring revenues resulting from ongoing payments to either deliver a value proposition to customers or provide post-purchase customer support



CAPTURING VALUE

REVENUE STREAMS

- For what value are our customers really willing to pay?
- For what do they currently pay?
- How are they currently paying?
- How would they prefer to pay?
- How much does each revenue stream contribute to overall revenues?

Several way to generate revenue streams:

ASSET SALE

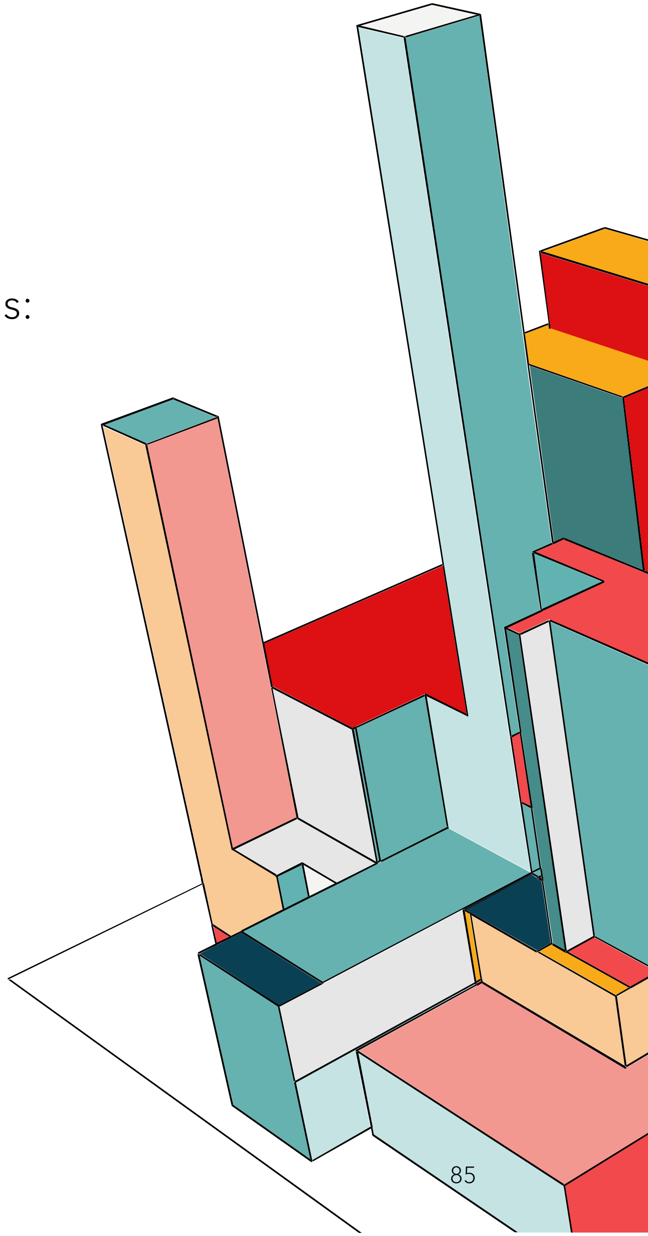
The most widely undertood RS derives from **selling ownership rights** to a physical product (e.g., books, electronics)

USAGE FEE

This revenue streamuse of a particular services is generated by the. The **more a service is used, the more the costumer pays** (e.g., telecom operator, hotel)

SUBSCRIPTON FEES

This revenue streams is generated by **selling continuous access to service** (e.g., gym, video game, music)



CAPTURING VALUE

REVENUE STREAMS

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- How are they currently paying?
- How would they prefer to pay?
- How much does each revenue stream contribute to overall revenues?

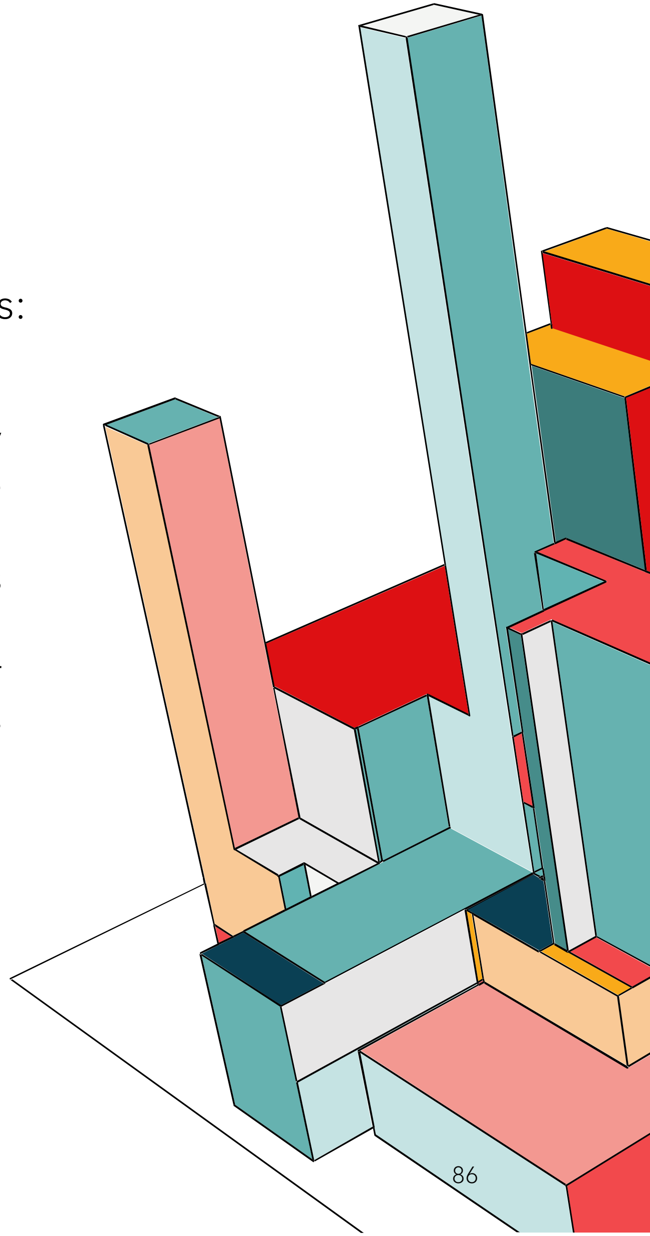
Several way to generate revenue streams:

LENDING/RENTING/LEASING

This revenue streams is created by **temporarily granting someone the exclusive right to use a particilar asset for a fixed period in return for a fee.** For the **lender** this provides the advantage of **recurring revenues. Renters or lessess**, on the other hand enjoy the benfits of incurring **expenses for only a limited time rather than bearing the full costs of ownership** (e.g., cars)

BROKERAGE FEES

This revenue streams derives from **intermediation services performed on behalf of two or more parties** (e.g. real estate agents, brokers)



CAPTURING VALUE

REVENUE STREAMS

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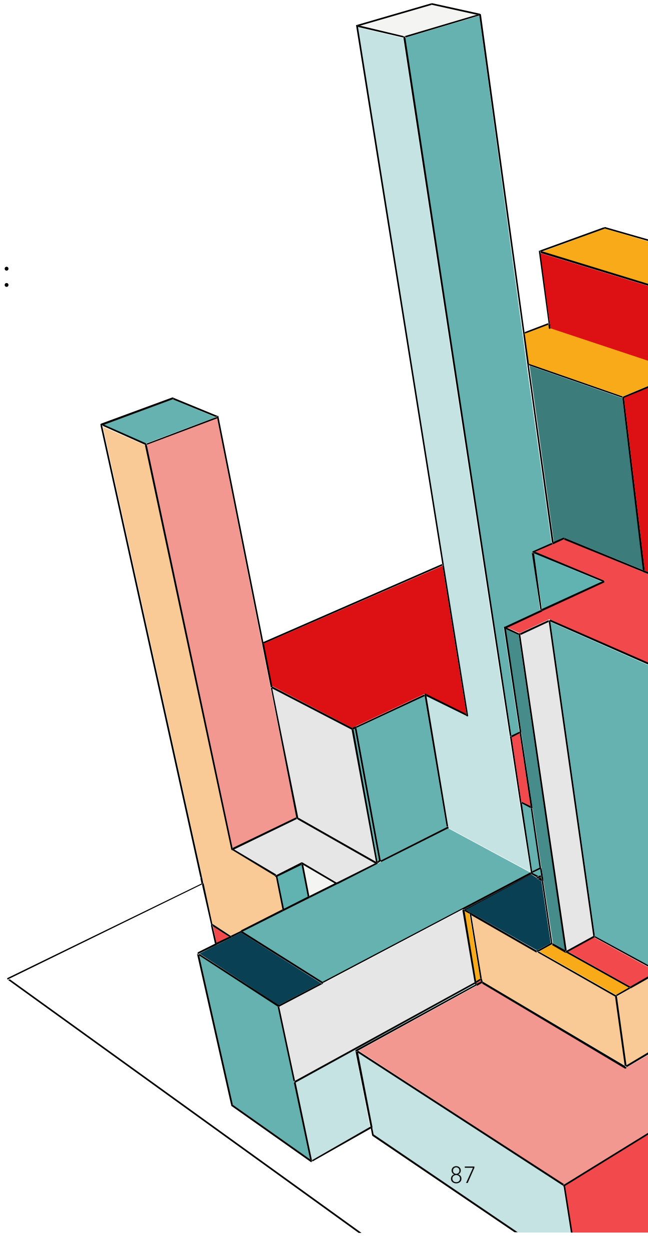
Several way to generate revenue streams:

ADVERTISING

This revenue stream results from fees for **advertising a particular product, service, or brand**. Traditionally, the media industry and event organizer relied heavily on revenues from advertising (e.g. software and services)

LICENSING

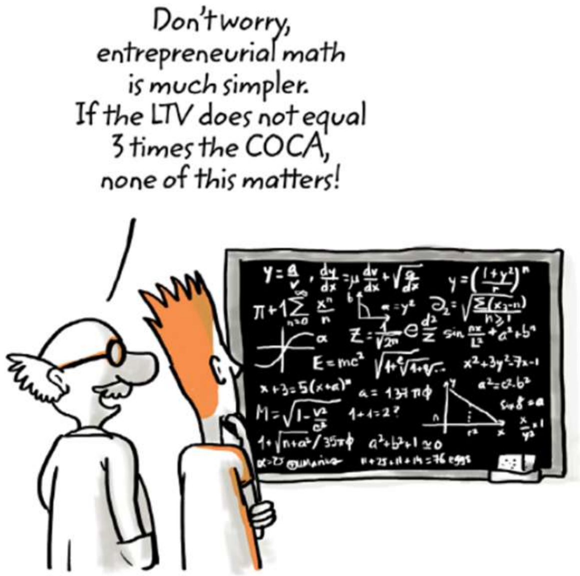
This revenue streams is generated by **giving customers permission to use protected intellectual proprierty in exchange for licensing fees**. Licensing allows rights-holders to generate revenues from their proprierty without having manufactured a product or commercialize a service (e.g., media industry)



LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

The Lifetime Value of an Acquired Customer (LTV) calculation, along with the Cost of Customer Acquisition (COCA) calculation, will help entrepreneurs determine how profitable the business will be in the beachhead market.

The LTV serves as the most fundamental checkpoint both to determine how viable the business is, and to understand what will drive the sustainability and profitability of the business so that entrepreneurs stay focused going forward.



LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

Key inputs to calculate the LTV

1. One-time Revenue Stream (If Any) - an up-front charge for the product, it is a one-time source of revenue (the initial purchase price of a product)
2. Recurring Revenue Streams (If Any) - subscription and maintenance fees, as well as repeated purchases of consumables, are all recurring revenues.
3. Additional Revenue Opportunities - other opportunities to “upsell” the customer (additional products with minimal additional effort from the sales team are revenue streams).
4. Gross Margin for Each Of Your Revenue Streams - the gross margin is the price of the product minus the production cost of making an individual product (cost does not include sales and marketing costs (which is factored into the COCA) or overhead costs like R&D or administrative expenses)
5. Retention Rate - the percentage of customers who continue to pay the recurring fee for the product for each recurring revenue stream (monthly rate or yearly rate).

LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

Key inputs to calculate the LTV

6. Life of Product -for each one-time revenue stream, this is the length of time you expect the product to last before the customer will need to either purchase a replacement or discontinue use of the product.
7. Next Product Purchase Rate -for each one-time revenue stream, this rate is the percentage of customers who will buy a replacement product from you when the current product has reached the end of its life (repurchase rate)
8. Cost of Capital Rate For Your Business - how much it costs you, in debt or equity, to get money from investors for your business (yearly rate).

LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

The LTV is the Net Present Value of your profits from year 0 through year 5. It is expressed in dollars or euros per customer, so to calculate this entrepreneurs will use the prices that an individual customer pays.

- For each revenue stream, entrepreneurs will use the gross margin and the retention rate to calculate the profit for the first year customer buys the product ("Year 0"), as well as the subsequent five years. So entrepreneurs will total the profit across all revenue streams for each year.

They will need to do one more thing before they can add up the profit numbers and get the LTV.

- The calculation refers the Present Value at Above Cost of Capital, which discounts the profit to take into account that investors will need to recoup with interest their investment in the business (*the beginning it is very high–50 percent is the number I suggest you use*)

$$\text{Present Value} = \frac{\text{Profit}}{(1 + \text{Cost of Capital Rate})^t}$$

where t = number of years after ye

LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

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$$\text{Present Value} = \frac{\text{Profit}}{(1 + \text{Cost of Capital Rate})^t}$$

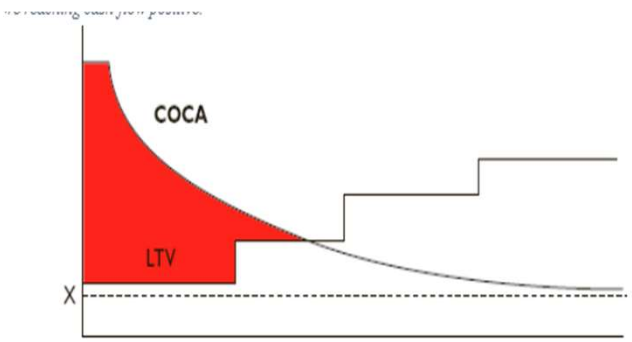
where t = number of years after ye

LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

The LTV by itself will not tell entrepreneurs how attractive the business is; for this, they will also need to calculate the COCA (which we will do in the coming steps).

Venture capitalist David Skok believes a sound rule of thumb for the ratio of LTV to COCA should be 3 to 1 for at least three major reasons.

- COCA does not include many other costs such as research and development, finance and administration, and other overhead (not to mention profit).
- There is also usually at least some overoptimism built into the LTV and COCA calculations,so a 3:1 ratio ensures there is plenty of room for error.
- A new venture is a highly variable system, so having a high ratio of 3:1 will ensure that entrepreneurs have the ability to manage the unexpected happens (e.g., product delays, competitive reaction, recession).



LIFE TIME VALUE (LTV) OF AN ACQUIRED CUSTOMER

How to calculate lifetime value. The widget example

In the widget business model, there is a one-time charge for the widget, with an annual recurring charge for maintenance.

- One-time revenue: the widget is priced at $10,000.
- Recurring revenue: maintenance fee of 15 percent of the widget's price after a six-month warranty period. The fee would therefore be $750 in year 0 and $1,500 in subsequent years.
- Additional revenue opportunities: None.
- Gross margin for each revenue stream: Widget: 65 percent.
- Maintenance: 85 percent.
- Retention rate: Maintenance, 100 percent per year in the first year; 90 percent per year in subsequent years.
- Life of product: Five years.
- Next product purchase rate: 75 percent of those customers who are still paying the maintenance fee at the time of next product purchase.
- Cost of capital rate: 50 percent.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue time series: Widget						
Price of widget	$10,000					$10,000
Next product purchase rate (beyond year 0)						75%
Gross margin for widget	65%					65%
Profit from widget	$6,500					$4,875
Revenue time series: Maintenance						
Price of yearly maintenance contract	$750	$1,500	$1,500	$1,500	$1,500	$750
Retention rate (not a direct product of the calculation; instead contributes to cumulative retention rate)	*100%*	*90%*	*90%*	*90%*	*90%*	*n/a (see next product purchase rate)*
Cumulative retention rate	100%	90%	81%	72.9%	65.6%	65.6%
Cumulative retention rate = r^t where r = retention rate and t = no. of years after year 0						
Next product purchase rate						75%
Gross margin for maintenance	85%	85%	85%	85%	85%	85%
Profit from maintenance	$637.50	$1,147.50	$1,032.75	$929.48	$836.40	$313.65
Sum of profits	$7,137.50	$1,147.50	$1,032.75	$929.48	$836.40	$5,188.65
Cost of capital rate	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
Net present value factor	100%	50%	25%	12.5%	6.25%	3.125%
Net present value factor = $(1 - r)^t$ where r = cost of capital rate and t = no. of years after year 0						
Present value above cost of capital	$7,137.50	$765.00	$459.00	$275.40	$165.21	$683.28
Net present value of profits (LTV)	$9,485.40					

THANK YOU

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