Accelerating Information Technology Innovation

http://aiti.mit.edu

Cali, Colombia
Verano 2012
Lectura 09
Agenda

• Reminders: Finish Company Descriptions
• Team Homework
• What is a Business Model?
• Examples of business models
• Alex Osterwalder’s Business Model Canvas
• Team work time ( describe and refine business model)
Reminder Links

• Course Components
  – Technical curriculum
  – Entrepreneurship curriculum
• Startup Creation Culminating in Demo Day:
  – Thursday, July 26th
• All materials posted online:
• E-mail your instructors at:
  – Aiti-colombia-2012@mit.edu
• E-mail Fellow Entrepreneurs at:
  – colombia-2012-entrepreneurs@mit.edu
• Post and share files at:
  – Aiti-colombia-2012@googlegroups.com
Demo Day Info

- You will pitch your startups on
  - **Demo Day on Thursday, July 26th**
- Each team will present to the judges and audience a...
  - 10 minute oral pitch promoting their business
  - Working demo of their product/service
  - 10 power-point slides to support the presentation
- A panel of expert judges will choose the winning team(s)
- After the judging we will host a cocktail party event to give you time to mingle with the judges and guests
<table>
<thead>
<tr>
<th>Day</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dia de San Pedro y San Pablo</td>
</tr>
<tr>
<td>2</td>
<td>Know your Customer</td>
</tr>
<tr>
<td>3</td>
<td>Targeting and Positioning</td>
</tr>
<tr>
<td>4</td>
<td>Business Model Exploration (Canvas)</td>
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<tr>
<td>5</td>
<td>Business Model Tuning</td>
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<tr>
<td>6</td>
<td></td>
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<td>7</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Revenue and cost modeling with Miguel Amaya</td>
</tr>
<tr>
<td>9</td>
<td>Guest speaker: Fernando Cardenas, MIT Sloan Fellow, ESCALA/Promodora, Lojack Brazil</td>
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<tr>
<td>10</td>
<td>Know your Competition</td>
</tr>
<tr>
<td>11</td>
<td>First Draft of Executive Summary Due (includes biographies)</td>
</tr>
<tr>
<td>12</td>
<td>First Advisor named</td>
</tr>
<tr>
<td>13</td>
<td>Proposed: MIT AITI BBQ</td>
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<tr>
<td>14</td>
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<tr>
<td>15</td>
<td>Feedback from Instructors</td>
</tr>
<tr>
<td>16</td>
<td>Revenue Model and Ask Due</td>
</tr>
<tr>
<td>17</td>
<td>Proposed: Café Critique: Laboratorio con Camera de Comercios y Club de Ejecutivos</td>
</tr>
<tr>
<td>18</td>
<td>Grito de Independencia</td>
</tr>
<tr>
<td>19</td>
<td>Final Draft of Executive Summary and Pitch Slides Due and Pitch Slides</td>
</tr>
<tr>
<td>20</td>
<td>Wrap up and Proximos Pasos</td>
</tr>
<tr>
<td>21</td>
<td>Final Pitch to Judging Panel</td>
</tr>
<tr>
<td>22</td>
<td>Final Drafts of Executive Summary and Pitch Slides Due and Pitch Slides</td>
</tr>
<tr>
<td>23</td>
<td>Final Pitch to Judging Panel</td>
</tr>
<tr>
<td>24</td>
<td>ista Cocktail con Jueces de la Presentacion Final y Huespedes Honorados</td>
</tr>
<tr>
<td>25</td>
<td>Wrap up and Proximos Pasos</td>
</tr>
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</table>
Team assignment –
due Monday, July 9th

1. Find an advisor outside of the class to review your business model and executive summary; this advisor could be a professional who knows about the market you are targeting (e.g. if you build an app for taxis, find yourself a manager or owner of a taxi company, a dispatcher or a driver!), or a faculty member at ICESI or Valle, or even a family member.

2. Come up with a 50 words or less bio for each team member, including your advisor.

3. Write a 100 words max description of the idea, discussing
   a. Why the problem is important
   b. How your solution will address it
   c. How big the market is
   d. Why your team can do it

4. Begin your business model canvas and your revenue and cost three year estimates (as a team)

5. 3 word positioning statement
BUSINESS MODEL
Logico del Plan de Negocios

- Logical Flow
- Scaling
- Presentation Plan
- Strategy & Pitch
- Financial Statements
- Investor
- Go to Market
- Sales
- Marketing
- Where to Extract Rent/Pay
- Pricing
- Value Proposition
- Competitive Advantage
- Development Plans
  - Segment
  - Direct Validation
  - Competition
  - Team Composition
  - Values
  - Setting Expectations
  - Generation
  - Analysis
  - Testing on Key Stakeholders

Plan to capture value

Plan to create value

Google

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Peter Weill MIT: What is a business model?

• We define a business model as consisting of two elements: (a) what the business does, and (b) how the business makes money doing these things.
Two dimensions to distinguish business models

<table>
<thead>
<tr>
<th></th>
<th>Creator</th>
<th>Distributor</th>
<th>Landlord</th>
<th>Broker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical</td>
<td></td>
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<tr>
<td>Intangible</td>
<td></td>
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<tr>
<td>Financial</td>
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<tr>
<td>Human</td>
<td></td>
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</tr>
</tbody>
</table>

Common Business Model Archetypes:

Weill, Malone, Urso, Herman, and Woerner (2005)
Two dimensions to distinguish business models (macro view)

<table>
<thead>
<tr>
<th></th>
<th>Creator</th>
<th>Distributor</th>
<th>Landlord</th>
<th>Broker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical</td>
<td>Manufacturer</td>
<td>Retailer</td>
<td>Utility</td>
<td>Auction</td>
</tr>
<tr>
<td>Intangible</td>
<td>R&amp;D Lab</td>
<td>-----------</td>
<td>Patent troll</td>
<td>-----------</td>
</tr>
<tr>
<td>Financial</td>
<td>Trader</td>
<td>Capital lender</td>
<td>Exchange</td>
<td></td>
</tr>
<tr>
<td>Human</td>
<td>Contractor</td>
<td>Headhunter</td>
<td></td>
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</tr>
</tbody>
</table>

- Examples of “macro” business model innovation
  - Xerox: creator/distributor → landlord
  - Amazon: distributor + auction/headhunter
- Business-model inflexibility
  - Polaroid and digital film

Weill, Malone, Urso, Herman, and Woerner (2005)
Business Models (micro view)

• Within an archetype, how does the nature of payment affect ongoing relationship incentives
  ▸ Razor-and-blades (bait and hook)
  ▸ Freemium
  ▸ Subscription
  ▸ Loyalty programs
  ▸ Upfront + maintenance
  ▸ Advertising-supported
<table>
<thead>
<tr>
<th>Business Models</th>
<th>Business Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Time Upfront Charge (plus maintenance)</td>
<td>Advertising</td>
</tr>
<tr>
<td>Licensing</td>
<td>Transaction %</td>
</tr>
<tr>
<td>Subscription/Leasing</td>
<td>Freemium</td>
</tr>
<tr>
<td>Shared Savings</td>
<td>Cell Phone Plan (or PPA in energy)</td>
</tr>
<tr>
<td>Consumables</td>
<td>Utility model (per usage)</td>
</tr>
<tr>
<td>O&amp;M (Operating and Maintenance)</td>
<td>Franchise model</td>
</tr>
<tr>
<td>Cost Plus</td>
<td>Micro-transactions</td>
</tr>
<tr>
<td>Upsell high margin add ons</td>
<td>Parking meter</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
</tbody>
</table>
It’s a jungle out there

iOS Available Apps by Category (332,000 total apps)

- Other: 31%
- Books: 17%
- Games: 14%
- Entertainment: 11%
- Education: 8%
- Lifestyle: 7%
- Utilities: 6%
- Travel: 6%
- Other: 31%

Paid App Comments

- Average App Price is $4.07
- Average Game Price is $1.66
- Average sold app is around $2.50 (games represent a huge proportion of the apps sold, estimates are 60%+)
- Android has about 130,000 applications. Android has more free apps and lower prices in general.
- BlackBerry has about 18,000 application

Source: 148Apps, SNL, WSJ

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Android is doing well for ad supported models

Comments

• We have heard anecdotally about Android being better for advertisers from multiple ad servers
• Android users seem to have slightly higher click through rates
• iAds is probably taking some market share from the ad servers
• They also have a higher percentage of free apps

A plug to sign up for these free reports:
http://www.millennialmedia.com/research/
Two other monetization models are very important

**Ad-Based**
- ~$10 CPM for Apple iAds
- $8 to $25 CPM range
- Ads tend to be clearly visible rather than stuffed into cluttered environments as they can be on the web

**In-App Purchases**
- Distimo recently reported that as much as 50% of revenue is coming through in-app sales
- Key in-app goods include expanded content (premium articles) and digital goods (super fertilizer in CarrotVille)

Getting on deck with a charge is hard - Top 300 free apps generated 3 million downloads per day, compared to 350,000 for paid

Source: Distimo, MdotM, TechCrunch
Tooth and nail fight for the big opportunities

- Do you want to live in a world where Kaplan isn’t on the front page?

Traditional SEM is very difficult to do because revenues per conversion are low and apps are on-deck.
Ted Chan: Some App Philosophy

• Competent, low-cost development
• Re-use similar platforms with different content – you don’t know what will be hot
• Portfolio theory applies – multiple apps spreads risk / multiple apps on one platform creates value
• Sales boost only from making Top 10 or so
• KISS principle applies – think hard about customer use cases and eliminating bulky code and slow-moving features
• And lastly...We’re just at the bottom of the knee in the curve for the global opportunity – 3.8 b mobile broadband subs in 2015

Source: Ericsson
DESCANSO
Alex Osterwalder’s

BUSINESS MODEL CANVAS
The 9 Building Blocks

1. Customer Segments
   An organization serves one or several Customer Segments.

2. Value Propositions
   It seeks to solve customer problems and satisfy customer needs with value propositions.

3. Channels
   Value propositions are delivered to customers through communication, distribution, and sales Channels.

4. Customer Relationships
   Customer relationships are established and maintained with each Customer Segment.
Revenue Streams
Revenue streams result from value propositions successfully offered to customers.

Key Resources
Key resources are the assets required to offer and deliver the previously described elements...

Key Activities
...by performing a number of Key Activities.

Key Partnerships
Some activities are outsourced and some resources are acquired outside the enterprise.

Cost Structure
The business model elements result in the cost structure.
Customer Segments

• The different groups of people or organizations an enterprise aims to reach and serve
• Group customers into distinct segments with common needs, common behaviors or other attributes.
• Define one or several large or small Customer Segments.
• Make a conscious decision about which segments to serve and which segments to ignore.
• Design business model around a strong understanding of specific customer needs.
• Customer groups represent separate segments if:
  – Their needs require and justify a distinct other
  – They are reached through different Distribution Channels
  – They require different types of relationships
  – They have substantially different profitabilities
  – They are willing to pay for different aspects of the offer
Value Proposition

• The bundle of products and services that create value for a specific customer segment
• Can be quantitative (price, speed of service) or qualitative (design, customer experience)
• Product or selected bundle of products and/or services that caters to the requirements of the targeted customer segment
• Newness, performance, customization, gets job done, design, brand/status, price, cost reduction, risk reduction, accessibility, convenience/usability
Channel

• How the company will communicate with and reach its customer segments to deliver the value proposition
• Interface with customers: includes communication, distribution, sales
• Channels serve several functions:
  – Raising awareness about company’s products and services
  – Helping customers evaluate the value proposition
  – Allowing customers to purchase specific products and services
  – Delivering value proposition to customers
  – Providing post-purchase customer support
## Channel Phases

<table>
<thead>
<tr>
<th>Channel Types</th>
<th>Channel Phases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own</strong></td>
<td>1. Awareness</td>
</tr>
<tr>
<td></td>
<td>How do we raise awareness about our company's products and services?</td>
</tr>
<tr>
<td>Direct</td>
<td>2. Evaluation</td>
</tr>
<tr>
<td></td>
<td>How do we help customers evaluate our organization's Value Proposition?</td>
</tr>
<tr>
<td>Web sales</td>
<td>3. Purchase</td>
</tr>
<tr>
<td></td>
<td>How do we allow customers to purchase specific products and services?</td>
</tr>
<tr>
<td>Own stores</td>
<td>4. Delivery</td>
</tr>
<tr>
<td></td>
<td>How do we deliver a Value Proposition to customers?</td>
</tr>
<tr>
<td>Partner stores</td>
<td>5. After sales</td>
</tr>
<tr>
<td>Wholesaler</td>
<td></td>
</tr>
<tr>
<td></td>
<td>How do we provide post-purchase customer support?</td>
</tr>
</tbody>
</table>
Customer Relationships

• Types of relationships company establishes with the customer (ex. personal or automated?)

• May be driven by the following motivations:
  – Customer acquisition
  – Customer retention
  – Boosting sales (upselling)

• Ex. Mobile phone industry business model evolution
  – Early days focus was free phones to drive customer acquisition
  – Later focus shifted to boosting average revenue per user (ARPU)
Revenue Streams

• Cash company generates from each customer segment (costs are subtracted from revenues to create earnings)
• What is the customers’ willingness to pay for the value delivered?
• There could be one or more revenue stream from each customer segment
• Different types of revenue streams:
  – Transaction revenues from one time customer payments
  – Recurring revenue ongoing payments to deliver a value proposition or for continued post-purchase support
• Ways to generate revenue streams: asset (product) sale, usage fee, subscription fee, lending/renting/leasing, licensing, brokerage fee, advertising
• Each stream could have different pricing mechanisms – two types fixed or dynamic (fixed list, bargaining, auctioning, market dependent, volume dependent, yield management)
# Pricing

## Pricing Mechanisms

<table>
<thead>
<tr>
<th>Fixed “Menu” Pricing</th>
<th>Dynamic Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Predefined prices are based on static variables</strong></td>
<td><strong>Prices change based on market conditions</strong></td>
</tr>
<tr>
<td><strong>List price</strong></td>
<td><strong>Negotiation</strong> (bargaining)</td>
</tr>
<tr>
<td>Fixed prices for individual products, services, or other Value Propositions</td>
<td>Price negotiated between two or more partners depending on negotiation power and/or negotiation skills</td>
</tr>
<tr>
<td><strong>Product feature dependent</strong></td>
<td><strong>Yield management</strong></td>
</tr>
<tr>
<td>Price depends on the number or quality of Value Proposition features</td>
<td>Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)</td>
</tr>
<tr>
<td><strong>Customer segment dependent</strong></td>
<td><strong>Real-time-market</strong></td>
</tr>
<tr>
<td>Price depends on the type and characteristic of a Customer Segment</td>
<td>Price is established dynamically based on supply and demand</td>
</tr>
<tr>
<td><strong>Volume dependent</strong></td>
<td><strong>Auctions</strong></td>
</tr>
<tr>
<td>Price as a function of the quantity purchased</td>
<td>Price determined by outcome of competitive bidding</td>
</tr>
</tbody>
</table>
Key Resources

• What assets are required to get the business model to work, to offer, create and deliver/distribute the value proposition?
  – Human
  – Intellectual
  – Physical
  – Financial
Key Activities

• What are the most important things the company must do to make its business model work?
  – Production
  – Problem Solving
  – Platform/network
Key Partnerships

• Who are the most important partners and suppliers to make the business model work?
• Motivations: Create alliances to optimize business models (optimization and economies of scale), reduce risk or acquire resources
• Four different types of partnerships:
  – Strategic alliances between non-competitors
  – Coopetition: strategic partnerships between competitors
  – Joint ventures to develop new business
  – Buyer-supplier relationships to assure reliable supplies/services
Cost Structure

• All the costs incurred to operate the business model
• What does it cost to create and deliver value, maintain customer relationships, generate revenue, provide support, etc.?
• Costs should be easier to calculate once you have defined the key resources, [channel], key activities and key partnerships.
• Is your business cost driven or value driven or somewhere between?
• Cost driven = minimizing costs, low price value proposition, ex. Southwest Airlines, easyJet, Ryanair
• Value driven = less concern on cost, premium value proposition, ex. Four Seasons Hotel, Intercontinental Hotel
• Cost structures: fixed or variable, economies of scale, economies of scope
**THE CANVAS OF BUSINESS MODEL GENERATION**

**Reach**
A mix of direct and indirect channels and a phased approach optimizes reach and margins. The story of the book lends itself well to viral marketing and word-of-mouth promotion.

**Production and Logistics**
Anything beyond content creation is outsourced to readily available service providers.

**Differentiation**
An entirely different format, business model, and story for the book makes it stand out in a crowded market.

**Community**
The book is co-created with practitioners from around the world who feel ownership thanks to attribution as contributing co-authors.

**Buyers**
Paying customers are not only readers but co-creators and companies that want customized books for their employees and clients.

**KPI**

- **THE MOVEMENT (DESIGN)**
- **NING PLATFORM**
- **AMAZON.COM**
- **3RD PARTY LOGISTICS COMPANY**
- **PUBLISHERS**

**KR**

- **CONTENT PRODUCTION**
- **HUB MANAGEMENT**
- **GUERRILLA MARKETING AND WORD-OF-MOUTH**
- **LOGISTICS AND SHIPPING**

**KP**

- **CONTENT PRODUCTION**
- **HUB MANAGEMENT**
- **GUERRILLA MARKETING AND WORD-OF-MOUTH**
- **LOGISTICS AND SHIPPING**

**KA**

- **BLOG AND VISIBILITY ON THE WEB**
- **BUSINESS MODEL HUB**
- **POWERFUL METHODOLOGY**

**VP**

- **VISUAL, PRACTICAL, AND BEAUTIFUL HANDBOOK FOR BUSINESS MODEL INNOVATORS**
- **CO-CREATION OF A POTENTIAL BESTSELLER**
- **PERSONALIZED BOOKS FOR COMPANIES AND THEIR CUSTOMERS**

**CR**

- **BUSINESSMODELHUB.COM**
- **BUSINESS MODEL EVENT, AMSTERDAM**

**CS**

- **VISIONARIES, GAME CHANGERS, AND CHALLENGERS**
- **ENTREPRENEURS, EXECUTIVES, CONSULTANTS, ACADEMICS**
- **COMPANIES**

**C$**

- **DESIGN**
- **CONTENT PRODUCTION**
- **PRINTING**
- **DISTRIBUTION**

**R$**

- **HUB MEMBERSHIP FEES**
- **ADVANCE & POST-PUBLICATION SALES**
- **FREE GIVE-AWAY CANVAS SECTION**
- **FEES FOR CUSTOMIZED VERSIONS**
- **ROYALTIES FROM PUBLISHERS**

**Revenues**
The book was financed through advanced sales and fees paid by co-creators. Additional revenues come from customized versions for companies and their clients.
Test Hypotheses:
- Channel
- (Customer)
- (Problem)

Agile Development
Customer Development Team

Test Hypotheses:
- Demand Creation

Test Hypotheses:
- Problem
- Customer
- User
- Payer

Cost Structure
Test Hypotheses:
- Size of Opportunity/Market
- Validate Business Model

Revenue Streams
Test Hypotheses:
- Pricing Model / Pricing

www.businessmodelgeneration.com www.steveblank.com
APPENDIX
Rompecielos II

• Juego Barceleno
  – Dividen en tres grupos
  – Cuenta hasta 10, pero recuerden de cumplir con las reglas de Danny