

Todd Zenger, MBC Online, Translating a Theory into a Business Model Part 2

In this lecture, we'll talk about how, again, one translates a theory into a business model but in this segment, we will get into the details of that business model composition. You'll notice in this presentation that mostly I'm going to have questions for you or categories of things for you to think about and participate in. I am not in a position to tell you what your business model should be. As we've talked through the architecture and logic of this course, the key idea is that you take your theory and translate that into a business model that matches that theory. I want to simply highlight a bunch of things that I think you need to think about and consider as you go through this very personal translation of your theory into a business model. There really are an abundance of choices that you need to make around customers. What types of customers are you focused on? What are the segments of customers that you're going to focus on? What are the critical suppliers that you need to access. You will have hopefully thought about this already as you thought about how you're going to solve your subproblems. Who are the critical suppliers out there that are going to provide the resources, the inputs that you need to solve your subproblems and deliver this value. You need to think about team members that you need, some of the critical resources that you need, or knowledge, and you have to make a critical decision about whether you're going to bring those folks in as team members or if you're going to contract for access to that critical knowledge that you need. You need to come up with a sales approach and a distribution approach. You need to think about how you're going to market your product. You're going to need to think about how you're going to compensate a variety of different actors to engage them in this collaborative effort. You're going to have to think about the nature of your organization and the culture that you're trying to compose and purpose and a variety of softer concepts around that. You're going to need to think about marketing channels and how you're going to go about if it's a product. How are you going to go about manufacturing this product or if it's a service, how you're going to compose the delivery of that service. You're going to have to think about potentially customer support and after-sales support and probably a host of things that aren't even listed here. There are an abundance of choices that you have to think about. One of the tools that is very commonly used for creating business models, or at least as an input to this process, is a tool called the Business Model Canvas and it simply describes or lays out a template with boxes in which you can list a variety of things that you might want to consider in composing your business model. Who are the key partners? Who are the key activities that need to be formed? What are the key resources that we need access to? What is our value proposition or propositions? What customer relationships do we need to develop? What's the nature of those customer relationships where the customer segments that we're focused on, what's our marketing channel? What's our cost structure? What's our revenue streams? I'm not sure that these are fully and completely all the right categories, but it is a tool to begin to, much like that prior slide, just list and think about the critical decisions that you need to make. What this tool fails to do is to provide you with answers. It's really just, these are things to consider and think about and as we've talked through, my hope is that your careful definition of a core problem, careful thinking, thought process around subproblems and ultimately an expression of theory will actually guide the choices that you make in these set of categories. This is a really useful tool to gather and maybe even share your work in progress. It's not generative in the sense that it doesn't tell you what the core problem is that you should be tackling with the value lab tried to create a generative process for you, nor does it magically tell you exactly what that business model should be but it is a good way to think through the categories of things that you need to consider. In building out your business model, it's useful to keep in mind that you are competing in multiple arenas. You are competing to access talent and you're competing with others that

are in your space and in other spaces that are also competing for that same talent. You're competing for funds and financing with lots of other actors, not only in your industry but in other industries. You are competing for mindshare and access to customers. You are competing to compose an efficient production and delivery process and building an efficient organization, and you are competing for ideas and need to think about the market for ideas as you move your business forward. As you do this, you have to think about, so what's the business model that we're going to put together to compete in these different categories versus what our competitors are doing. They're going to have their own approach to accessing talent markets and to funding and financing and competing for a share of the customer's mind and you're going to have your own unique business model. I think one of the critical questions you obviously face and would be useful for you to think about, is just to categorize what offering you have or what problem you're solving. Is this a lifestyle company? Is this a standard product company, is it a service company? Are you providing some integrated solution to customers? Is this a simple commodity product? Is it an experience good? Are you trying to create some multi-sided platforms? Think about what the nature of this particular category is. I want to help you think about in building your business model, to think about what's your talent model. What's your financial model, what's your customer interface model? What's your operating model, and what's your approach to developing an innovation pipeline? Now let me talk a little bit about each of those. Let's talk a little bit about this first category, your talent model. This obviously involves how you're going to access people and skills. There are lots of ways to do this. Organizations might choose a variety of approaches in different parts of their organization to access different types of skills and some areas or some corporations or some startups might use volunteers extensively, others might use contractors. You might be very traditional and you're trying to hire long-term employees and create hierarchical promotion opportunities for these individuals. Could be much more of a gig-based approach where they really are contractors but accessed and facilitated through some platform. Think carefully about what's your approach to accessing the critical skills and knowledge that you need, the people, human resources that are vital to your organization. Secondly, your financial model. Are you going to bootstrap this business? Are you going to use other people's money and if so, who are those folks? Are you going to have people direct pay for their product and in that sense, bootstrap the business. Is it going to be a Freemium type business where you're going to essentially give away the product earlier in hopes that you're going to position yourself with a platform or market position that's going to allow you to start charging prices or premium prices in the future for some smaller part of your customer base? Is there some third party that's going to pay for this product or service rather than the customers themselves? Is it a subscription model? Is it thinking about the lifetime of a customer and trying to capture that customer and provide services over a long period of time. Think carefully about what is your financial model, what's your revenue model. What's your financial resource model that will allow you to participate effectively in your space. Are you going to be a razor blade or a company where you're going to give away the platform product like the razor or the printer and make money off the supplies, the ink, and the razor blades? Or is it more sell the piece of equipment or initial service? Different types of models are you going to charge on a time basis? Are you going to charge by a completed project? We're going to be a solutions company and once we deliver the solution, then you pay us, or is it time and materials? Is that a cost-plus contract? Lots and lots of different models. Think about your customer model and your user interface. Is this going to be a face-to-face experience in terms of sales? Is it a digital interface? Is it a fully digital environment that you're trying to compose, or are you just trying to literally drop ship your product? You want to have minimal contact with that customer. They order it through the mail and it just arrives at their door with

little relationship developed with you or instead, is it a deep personal relationship that's critical to sell this product that you have? Is it going to be very transactions based one-off, you're buying individual things, or is it much more solutions based? Is it episodic or is it driven by events. A variety of different approaches to the sales experience. As you think about your customer model, it's probably useful for you to think about the whole purchase and consumption process or the lifetime of this thing and think about where are you trying to participate? There's an initial awareness of the need that they actually know that they have the problem that you are going to solve for them. There's a search function that they have to engage in. They have to choose among the options that they've discovered through their search. There's the transaction process of purchasing this item. There might be some financing function that's provided. There's the actual payment process. There's then this process of receiving the product, installing it. If that's relevant, there might be a storing and moving issue of that particular product. How do you use it? What's the user experience like? There's repairs and returns, there's servicing the product, and there may even be a disposal of that product function as well. What's your business model? Where are you trying to play here? What problem are you trying to solve? Which of these particular steps along this chain are relevant for your business and where are you trying to participate? All of this is relevant in things you need to consider, as you think about this as customer model. You also face important decisions about what your operating model is going to be. In particular, this relates to decisions about what activities need to be performed and which of those activities you're going to bring inside the company and others that you're going to manage externally. We're going to actually have a future lecture that's entirely focused on that particular decision. But you want to think about this sequence of activities that need to be performed and they ought to relate to this consumption chain as well. What activities do you need to build out that provide these services in a particular way to the customers that you are targeting? Think about this as the value chain that you're trying to compose or the constellation of activities that you're going to compose to create a particular value. Sometimes these get illustrated as maps of activities that you are going to perform. What is the interrelated set of activities that you're going to engage in to deliver this offering to the market that you are targeting. For instance, here's a standard value chain depiction for the jewelry industry. There is a whole function that you are clearly going to outsource if you're a jewelry store or chain of stores, or your businesses. To be a boutique jeweler, you're not going to do your own mining and extraction. You might be doing your own cutting of diamonds and that may be outsourced as well. There's process of polishing these stones. There's fabrication itself, melting gold, setting diamonds, polishing, finishing, designing, and there's a whole design function and then of course there's retail function that's customer-facing, and there's the whole marketing activity. Think about the whole chain of activities that need to be performed to ultimately solve the problem that you are targeting and then think about, okay where are we going to participate in play and where we're not going to participate in play, how are we going to get access to those stages of the value chain that are critical for us. What's important here is of course, that you ultimately figure out how to compose your business model. This is just one more tool that you might find helpful in thinking about the types of activities that you need to perform and pushing you to think about how you are going to go about organizing access to those critical activities. Finally, what's your innovation model? How are you going to get ideas going forward? How are you going to continue to innovate? Are you going to invest in patenting and are you going to have an active R&D operation that you engage in on an ongoing basis? Are you instead going to simply watch what others do and how they innovate and try to be a fast follower? Are you going to somehow try to crowd source inputs to what you need to do and use that broader crowd to provide input to you as to what the customer wants or

new ideas about areas that you can innovate and could be internal competition inside your organization, incentivize your employees to compete, to provide and generate new product ideas. Are you going to have annual budgets and product life cycles? Are you going to map out a product sequence over time that you're going to try to build out and satisfy the customer, much like an Apple today does. It's got a roadmap of things it's going to produce over the next three years in each of its product categories. What does that mean for your particular business? How are you going to continue to add unique value to the customers? Solve new problems over time such that you are able to continue to enjoy value creation and value capture. Another tool that you may find useful in providing structure to your business model is something that's referenced as the value proposition. The structure of a common value proposition would be something like this product is for name the category of customers who are dissatisfied with this, they have some particular problem which you then articulate, but they desire this instead, articulate what that is that provides and identify the bundle then a product features or services that your product will deliver. This is similar to, and you might describe an analogous or related product or service that's offered by a company, but differs from those products because it provides the following things. Again, it doesn't need to follow this exact format. But again, think of this as another way to clearly identify at least the customer problem that you're trying to attack and solve. If you can do that very clearly, it will really help you think carefully about composing your business model. Good value proposition will tell you, the customer that's being targeted, what the benefits are that you're trying to provide. It's going to answer these questions again, who's the target user or customer? What are the benefits that you're going to provide? How much value to the customer do these customers attach to the benefits that you're going to provide and what's the perceived value that you can provide to the customer that's better than what others can provide. Why are you going to be able to deliver this value? Solve this problem in a way that your competitors can't. Closing, let me encourage you to consider these questions. As you've built this business model, again, from your theory of value with an eye toward this problem you're trying to solve, are the components that you've put together coherent? Do they work together as a system to actually deliver the value that you have targeted and identified? Will they solve this core problem that we've identified and once composed, that is, once you pull this business model together, will it position me to be unique relative to my competitors? Is what I'm composing here actually solving this problem in a unique way or solving a problem that no one else has solved? Or as I look at this really carefully, am I actually just putting together business model that's very familiar. The more familiar it is, the less unique it is, the less likely it is to deliver value. Then where can I make changes in this business model? How can I edit and tweak this to increase the customer's willingness to pay? What other features and services can I provide? What can I do to limit my risk here and what can I do to further decrease my costs? That concludes our discussion of business model composition again, as we've talked about, this is really where the rubber meets the road. The creative part of this, we try to provide you a structured approach to compose this theory that's going to guide this. But ultimately where the rubber meets the road is you being imaginative and creative and composing a business model that delivers this value.