

# Business Planning and Business Modeling

## Institute for Entrepreneurship and Innovation

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# Our agenda for today...

*Today the focus will be on understanding the Market and Business Models...*

<b>09:00-10:30</b>	<b>Workshop: Business Planning</b>
10:30-10:45	Coffee Break
<b>10:45-12:00</b>	<b>Workshop: Business Modeling</b>
12:00-13:00	Lunch
<b>13:00-15:30</b>	<b>Group Assignment</b>
15:30-15:45	Coffee Break
<b>15:45-17:00</b>	<b>Presentations</b>



# Workshop

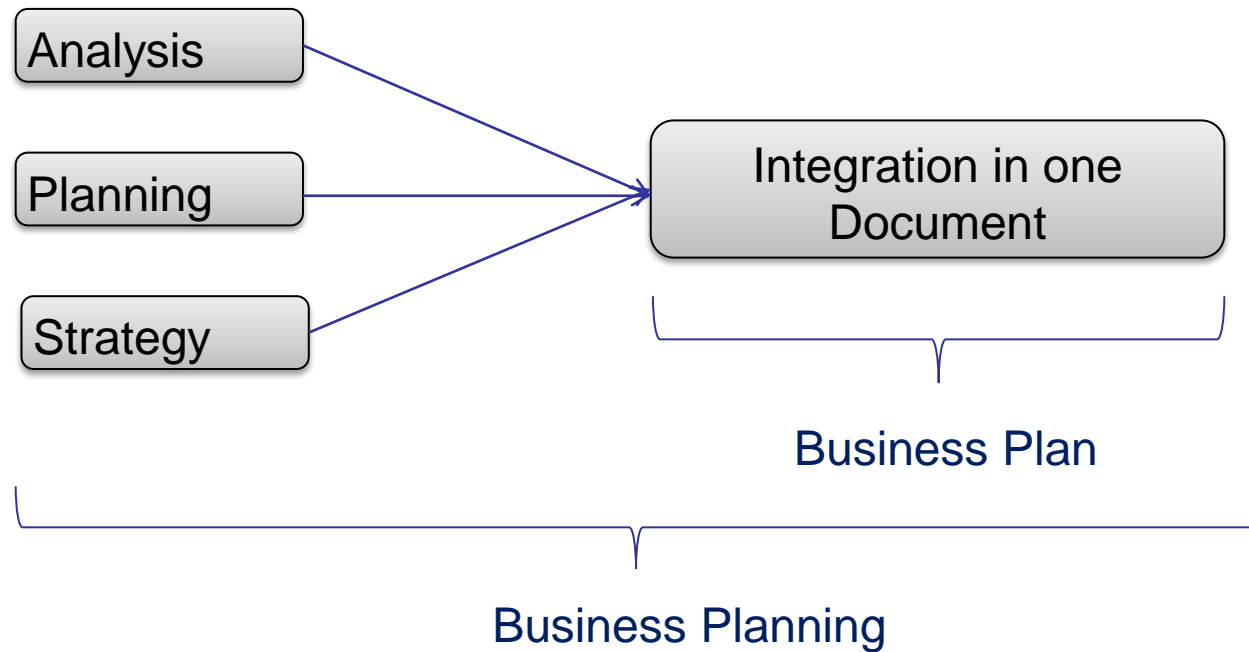
## Business Planning

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## *What is a Business Plan?*

“The Business Plan is a written document, describing all internal and external factors, which are important to bring your idea to market.”



## *Elements of the Business Plan*

Executive Summary

Company

Product / Service

Market and Competition

Business Model

Marketing Activities

Team and Key Partners

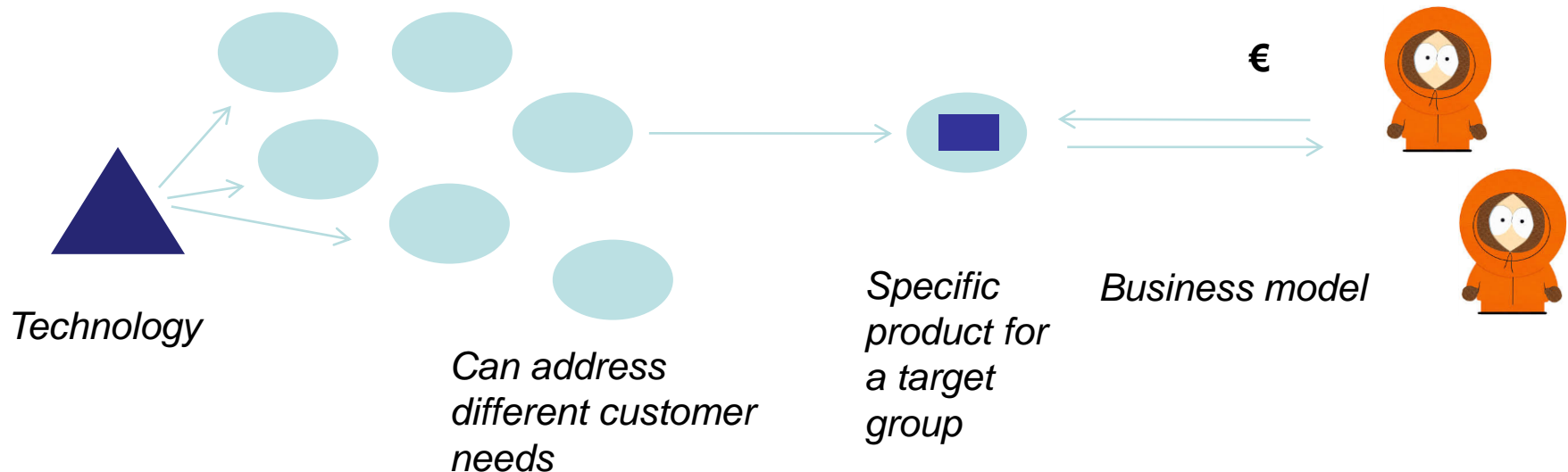
SWOT Analysis

Financial Analysis



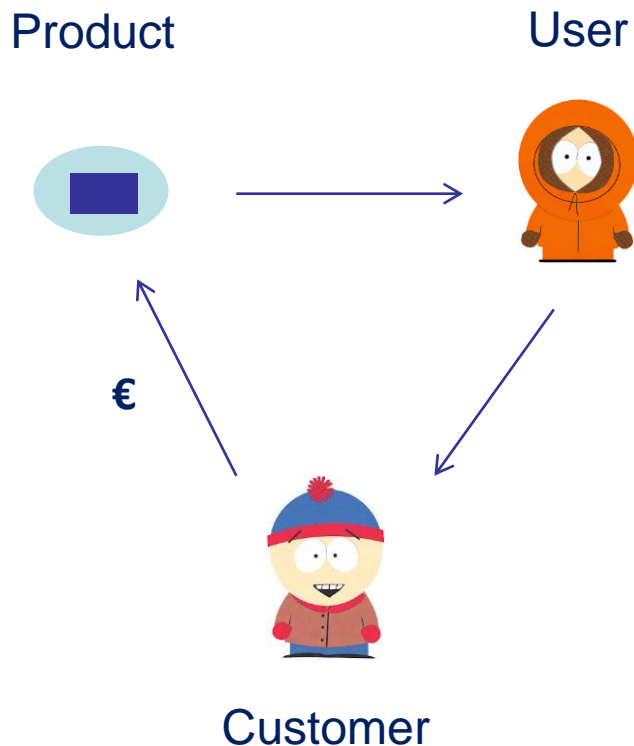
*Based on one technology, different products can be realised...*

- **A technology has a huge value potential** → it can be translated into different products/services for different target groups.
- A **product/service** is a **specific value proposition** for **specific target groups**
- The **customer value** which is generated through a product/service is substantial for its success



*Based on one technology, different products can be realised...*

**Watch out when defining the customer value!** There can be multiple stakeholders involved, e.g. the user of the product is not the client.



Can you think of examples for such indirect business models?

Search Engines, Advertisement, Job Platforms, Real Estate Agents,...

Think about the value chain and the possibility of **multiple stakeholders!**

# Customer Value vs. Unique Selling Proposition

*The customer value and the USP are crucial for the success of a product.*

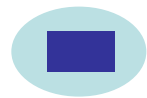
Different types of value:

- Performance Value (superior functionality)
- Price Value (low costs)
- Relational Value (such as personalized treatment)

→ **Unique Selling Proposition (USP)**

**USP** = describing the outstanding feature of performance, by which an offer differentiates itself significantly from competition.

Short and significant → e.g. 40% faster, 20% more efficient



**Customer Value Proposition (CVP)** = is the actual value/benefit perceived by a customer





*How would you translate the USP into a customer value?.*

## Example:

### Light weight construction tent

- Large capacity (membrane technology)
- Few elements
- Up to 50% lighter than conventional tents
- Weather-proof
- Possibility to heat the tent
- Allows creative shapes



## CVP

- Installation: 40% faster
- Fewer persons necessary for installation
- Easy to transport
- Cost reduction per use (30%)
- Full functional range
- Attractive, eye-catching design

*How is it done?*

## 1. Market estimation

Evaluation of market attractiveness → market definition, market potential, market volume, market growth

Valuation of competitors → Porter's 5 Forces

## 2. Analysis – basis for market entry

Analysis of strength, weaknesses, opportunities and threats/risks based on market estimation and competitor analysis → SWOT Analysis

## 3. Deduction of market entry strategy

Development of a successful strategy to commercialize the product



## *Market definition approach?*

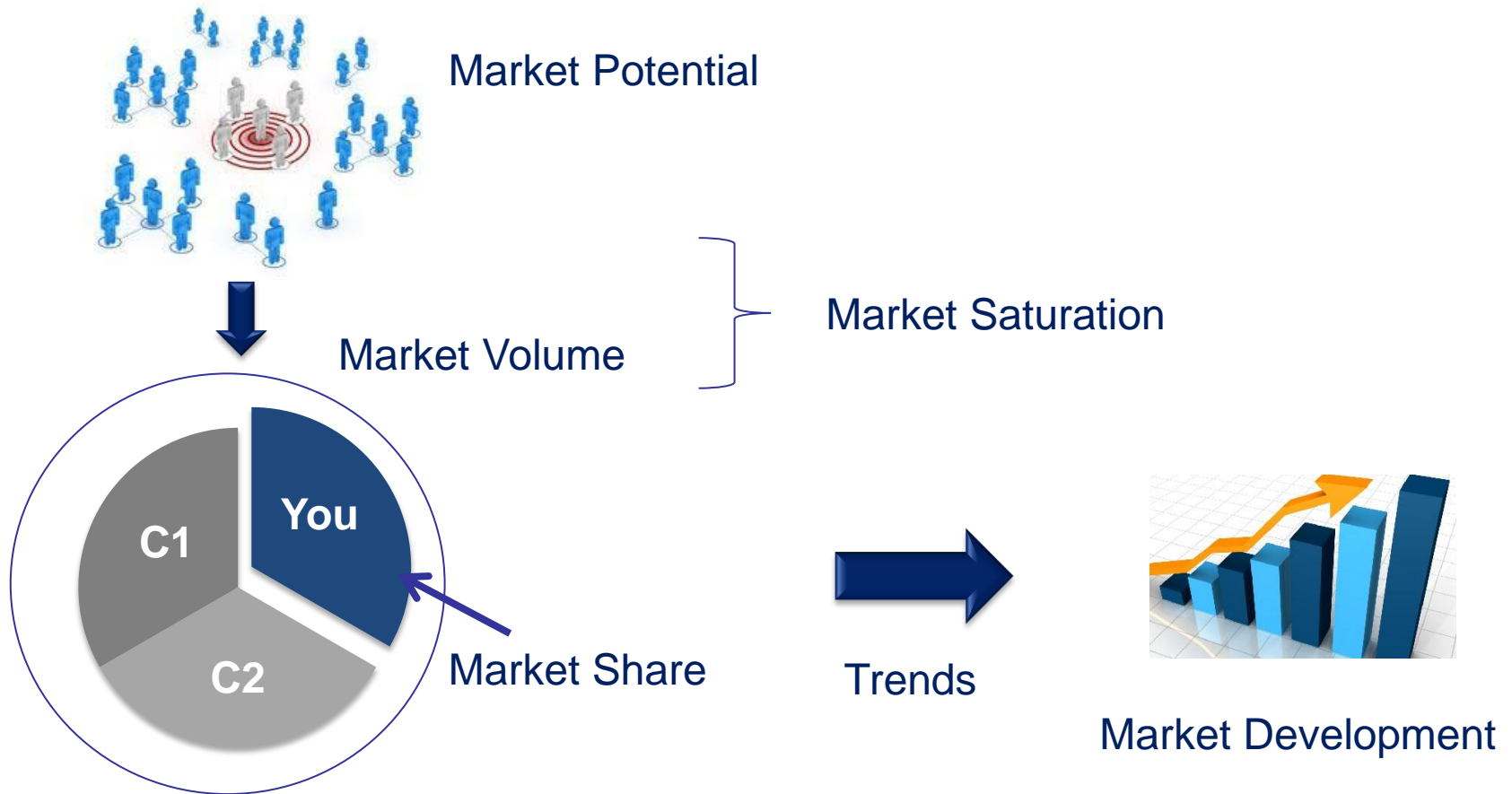
**Market definition** is crucial for further analysis:

- Differentiation from other markets?
- What numbers are important for market analysis?
- Who are my potential customers?
- Who are my competitors?
- What environmental influences have to be considered?



**Target Audience** = Group of customers within the market I want to address → market is often heterogenous → focus on a homogenous group.

*Estimate the most important numbers.....*



*Calculation of market numbers.....*

## **Market potential = total market capacity**

Calculation = no. of users \* volume per purchase \* (no. of purchases/year) \* cycle duration

## **Market volume = total or actual market demand within the market potential (total or actual production)**

Calculation = Production + Imports – Exports

## **Market growth = shift in market volume compared to the prior period**

Calculation = additional market volume \* 100% / market volume (prior period)

## **Predicted Market share = potential sales in the market volume**

Calculation = sales volume \* 100% / market volume



*Different market types entail different foci of analysis.....*

Existing market	New market
Market size can be assessed, customer needs are known	Market size unknown, customer needs unknown
Best/Worst practices available	Best/Worst practices not available
High competition → price competition, low margins	Low competition → product competition
High market saturation	Low market saturation
High entry barriers	Low entry barriers

- Closer look at competitor analysis
- Learn from analogies
- Niche/Differentiation/Efficiency?

- Broader competitor analysis
- Very thorough look at customer needs

*Team up in groups of 5 and try to answer the following questions...*

The Austrian company “IntersportExl” will add mountaineering departments at each of their 22 stores. You are working at IntersportExl and your job is to develop a market report. The following numbers are still missing:

- **Market capacity**

50% of all Austrians older than 15years (=80% of population) need new climbing boots every 5 years. Calculate the market capacity for climbing boots?

- **Market saturation**

75% of all Austrians are able to buy an outdoor jacket for 80 euros. The actual volume of sales for outdoor jackets is 120mio euros. Calculate the market saturation?

- **Market Growth and Market Share**

Market volume for mountaineering articles is 750mio. (2011). IntersportExl had a share of 35% in 2011. In 2012 the market volume increased to 787,5mio euros. The increase goes 70% back to IntersportExl. Calculate the market growth (in %) and the market share of IntersportExl in 2012.



*All products/services, that fulfill the same need as yours.....*

- Who are your (potential) competitors?
- How strong is their market power?
- How does your product/service differentiate compared to their products/services (USP)?
- How will the competitor react in regard to your market entry?

 **Very often, the term “competition” is defined too narrowly!**  
**There is always competition!**

		product	
customer		<i>same</i>	<i>different</i>
	<i>same</i>	Direct Competition	Indirect Competition
	<i>different</i>	Product Competition	Implicit Competition



*Name competitors for the Porsche Cayenne (SUV)!*



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# Competitor Analysis - Example

## Competitor Analysis for the Porsche Cayenne...



**Product  
Competition**

**Direct  
Competition**

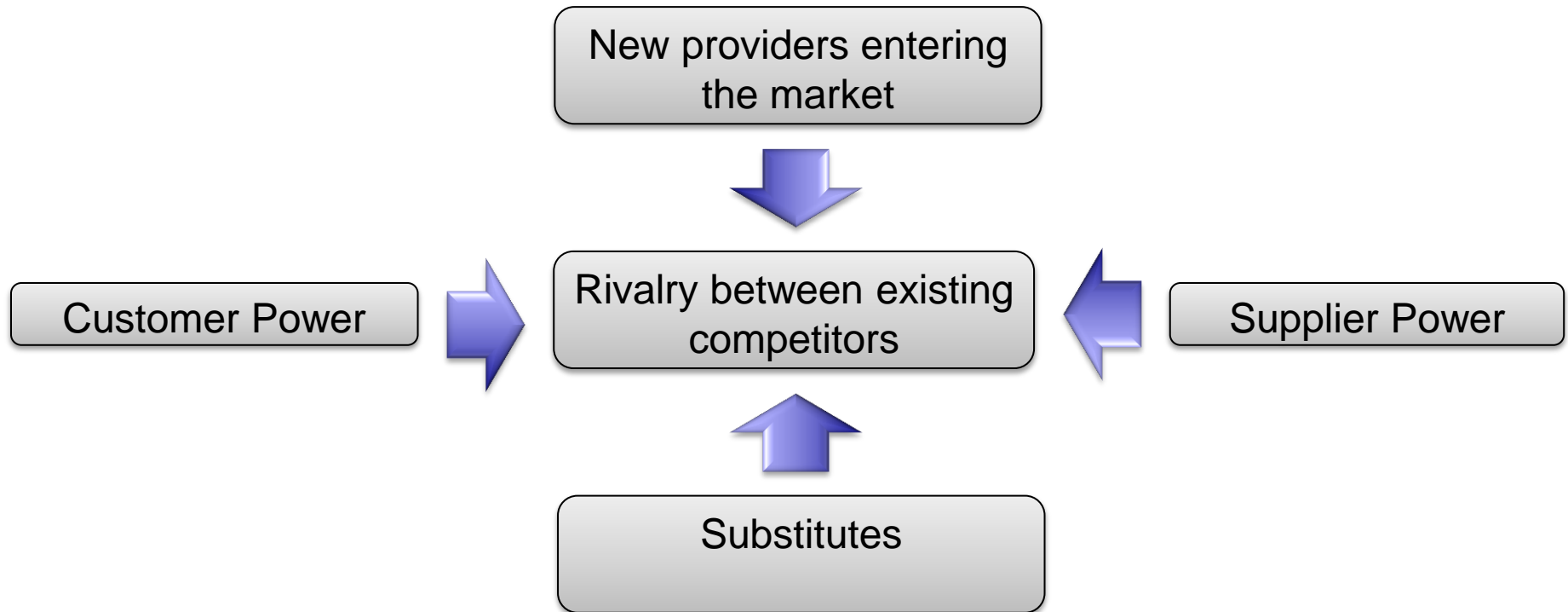


**Indirect  
Competition**

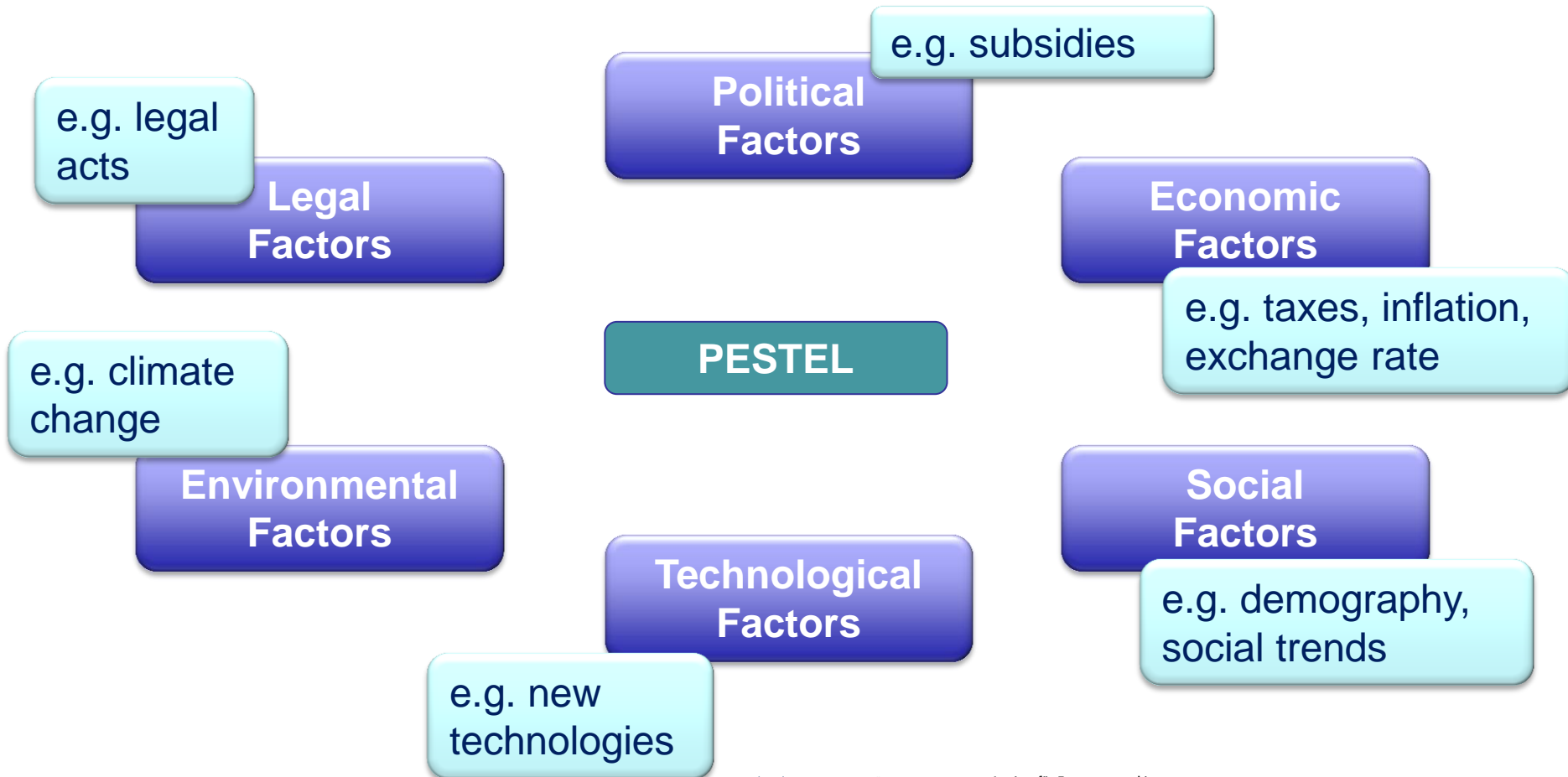
**Implicit  
Competition**



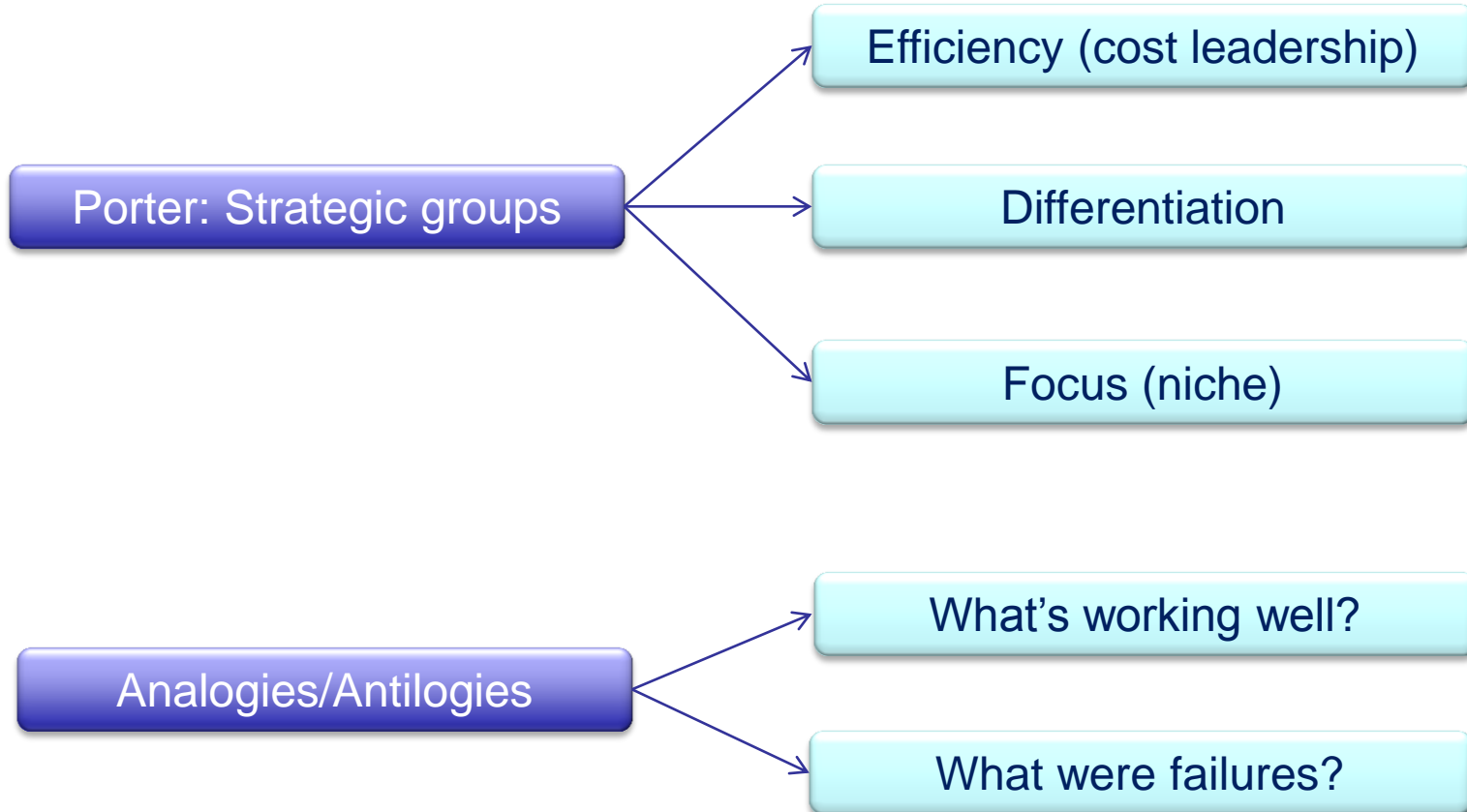
## Porter's 5 Forces



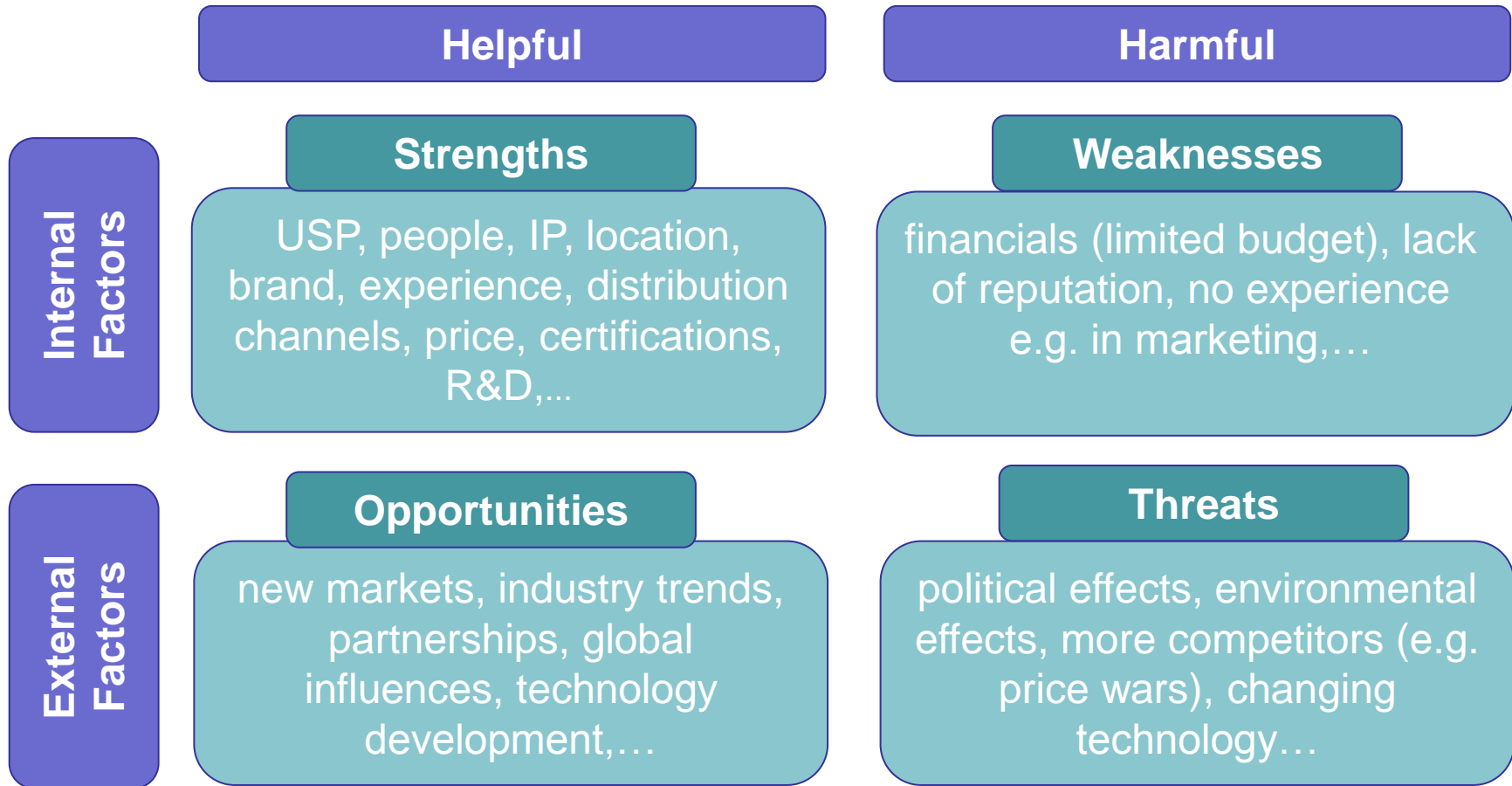
## PESTEL Analysis



*What to do if I know my competitors?.....*



*Strength, Weaknesses, Opportunities, Threats.....*



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*Develop strategies to maximize your strengths and opportunities and minimize your weaknesses and threats.....*

**Strengths/Opportunities:** which strength addresses which opportunity? How can you use your strength to realize chances?

**Strengths/Threats:** which threats can be averted by using which strength? How can you use your strength to prevent threats?

**Weaknesses/Opportunities:** can weaknesses be transferred into opportunities? How can you transfer weaknesses into strength?

**Weaknesses/Threats:** What are our weaknesses and how can we protect us?



# Workshop

## Business Modelling

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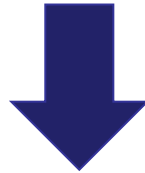
# What is a Business Model...?

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## *Definition...*

“A business model defines how the enterprise creates and delivers value to the customers, and then converts payments received to profits.” (Teece, 2010)

“Business models [...] are, at heart, stories – stories that explain how enterprises work” (Magretta, 2002).



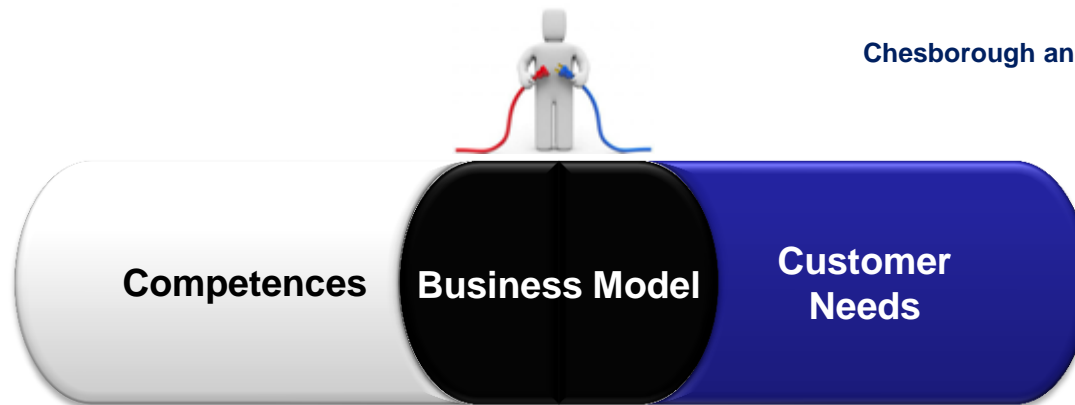
**Every company has a business model, but only a few are aware of this fact!**



# What is a business model all about...?

*Linking competences with needs..*

- Observation: many inventors or companies **fail to capture value** from new technologies
- Companies need business model to **commercialize innovative ideas** and **technologies**
- Business model is seen as “**mediating construct**” between technology and economic value
- → **Every new product development should be coupled with the development of a new business model**



Chesborough and Rosenbloom 2002; Teece 2010

# Key characteristics of a business model...

*How do we know a good business model?*

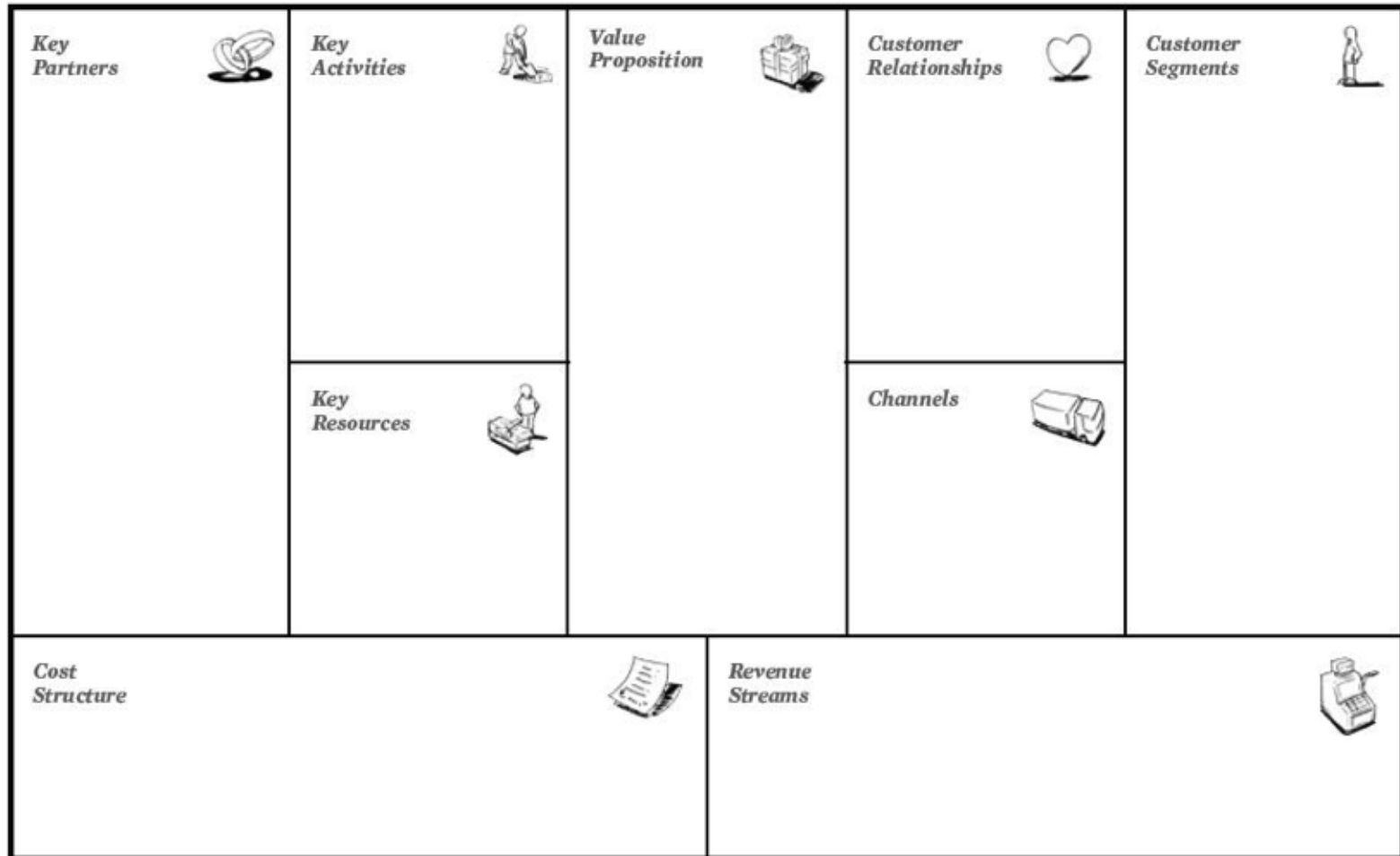
- **Alignment:** Not trivial!
- **Self-Energizing:** internal rigidity, complementarity
- **Synergies:** Between companies, markets and stakeholders
- **Robustness:** Protection against imitation, deprivation, running idle, substitution

Casadeus-Masanell and Ricart, 2011



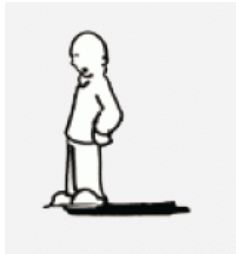
# The Business Model Canvas

*Everything is connected...*



# The Business Model Canvas

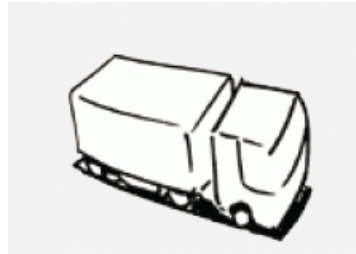
*9 parts of a business model...*



1. Customer Segments



2. Value Proposition



3. Channels



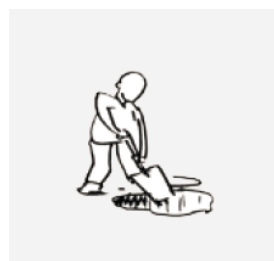
4. Customer Relationship



5. Revenue Streams



6. Key Resources



7. Key Activities



8. Key Partnerships

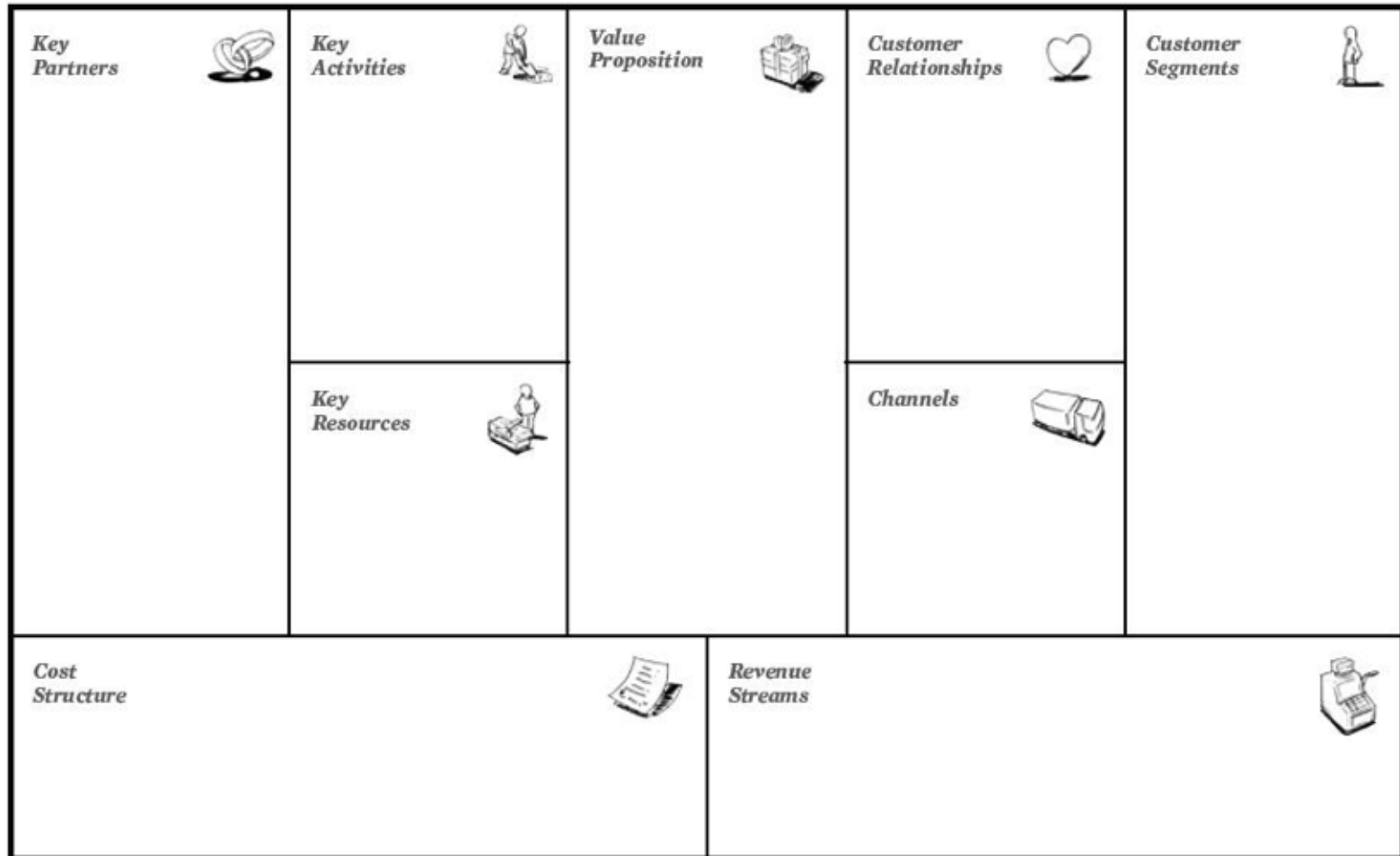


9. Cost Structure



# The Business Model Canvas

*Let's have a look on the 9 Parts closely by using the example of Nespresso...*



*Customers comprise the heart of any business model...*

In order to better address customer needs, a company may group customers in distinct segments (large or small) with common needs, common behaviours or common attributes and decide which one to serve.

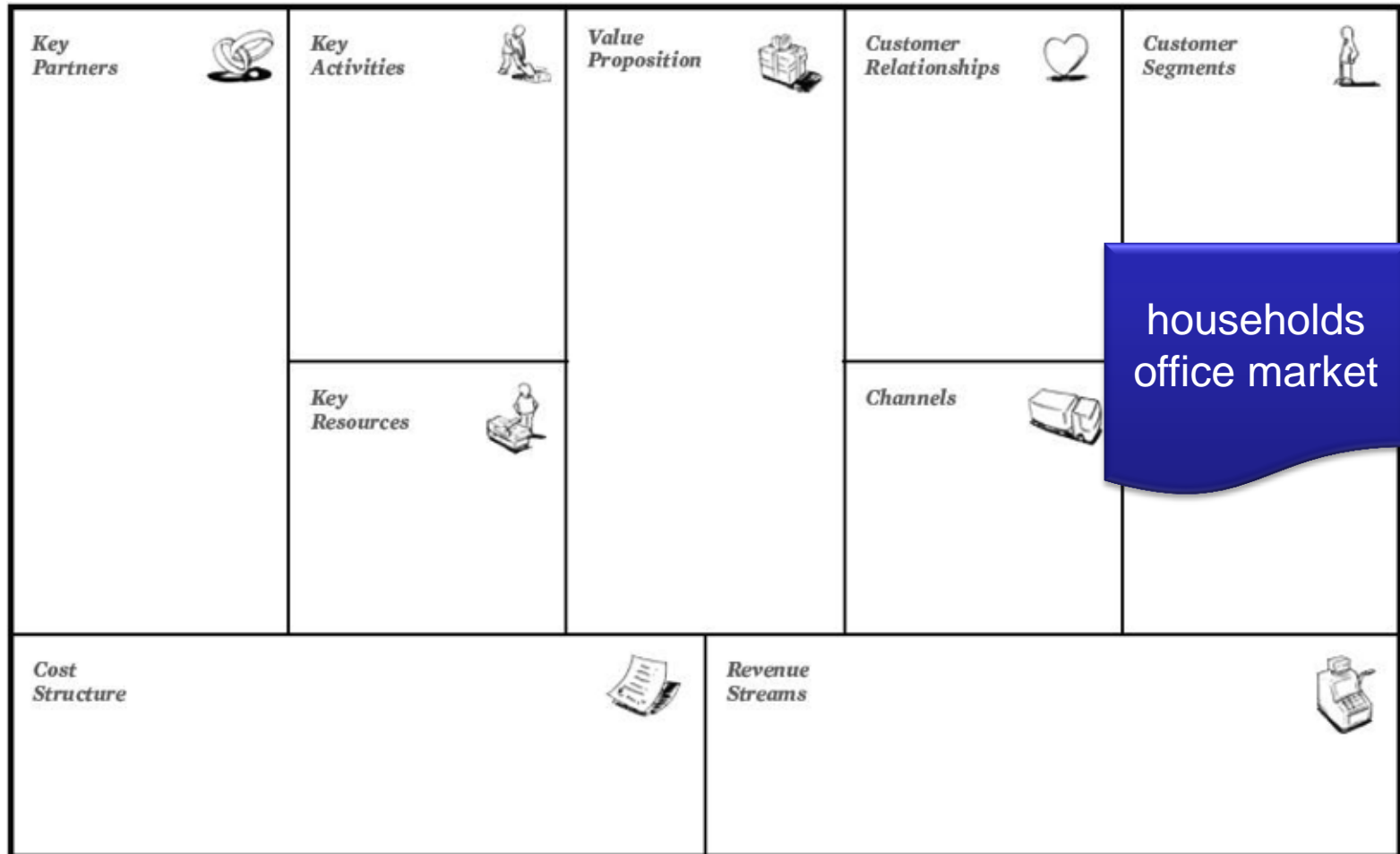
## Main Questions:

- Which customer segments can be identified (with regard to customer needs and customer behaviour)?
- Which segments should be served and which segments should be ignored?
- What value do we create for whom?
- Which segments need an individual offer?



# The Business Model Canvas

*The customer segment of Nespresso.....*





*A bundle of products and services that create value for the customer segment...*

A value proposition solves a customer problem or satisfies a customer need through a distinct mix of elements. Customer value creation can take place in terms of newness, performance, cost reduction, accessibility, customization,...

## Main Questions:

- What value do we deliver to the customer?
- Which one of our customer's problem are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each customer segment?



# The Business Model Canvas

*The value proposition of Nespresso.....*



*Channels are customer touch points...*

Channels are raising awareness among customers about a product or a service, help customers to evaluate the value proposition, allow customers to purchase products or services, deliver the value proposition to customers and provide post-purchase customer support. The aim is to find a mix of (direct and/or indirect) channels to bring a value proposition to market.

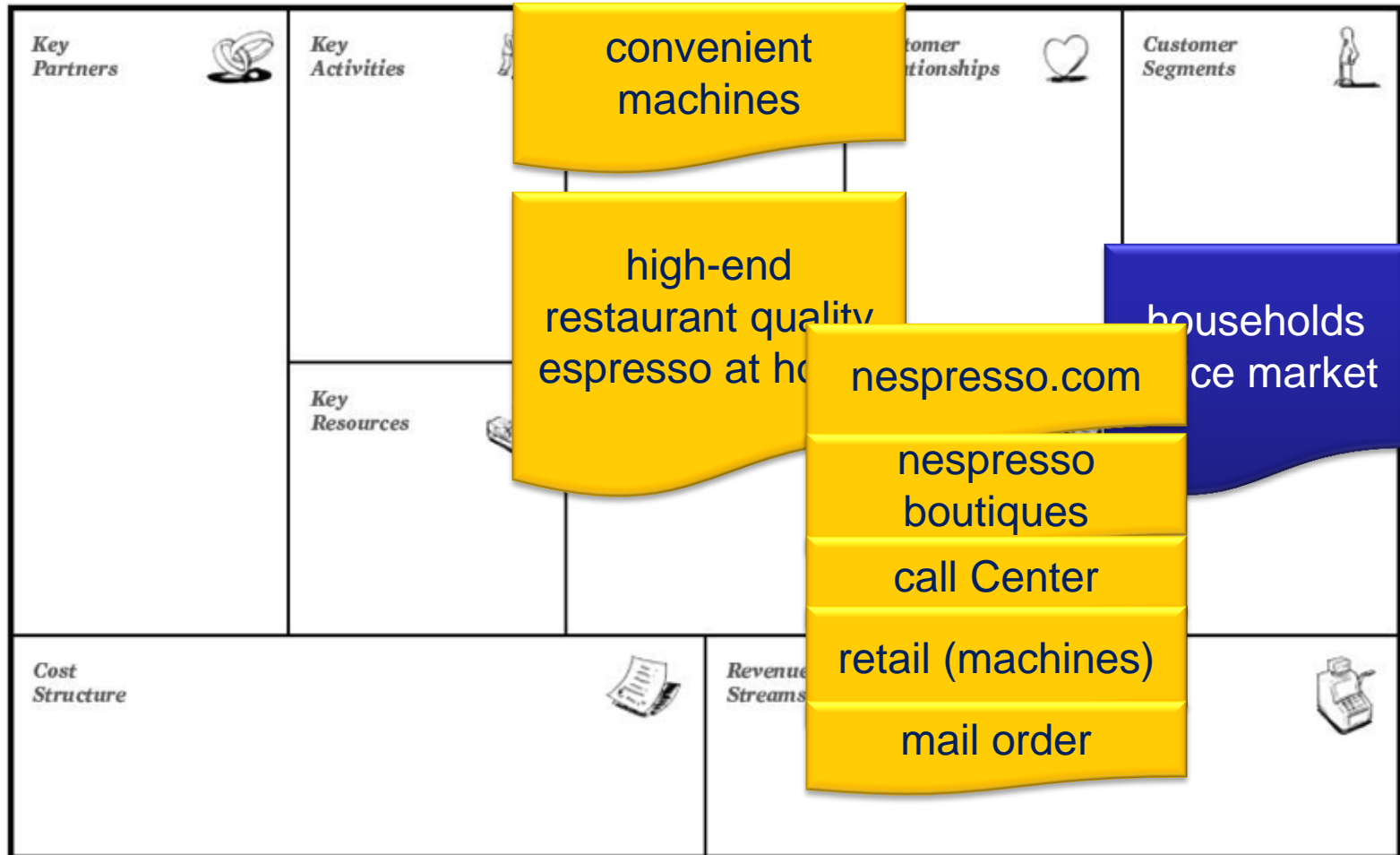
## Main Questions:

- Through which touch points do we reach our customer segments?
- Through which touch points do our customer segments want to be reached?
- Which sales channels are the most efficient ones?
- How are these channels are integrated (eg. with customer routines)?



# The Business Model Canvas

*The channels of Nespresso.....*



*What kind of relationship does a company establish with its customer segments...*

Customer Relationships describe the relationship between a company and its customer segments. Several categories of customer relationship can coexist like personal assistance, self-service, automated service, communities, co-creation...

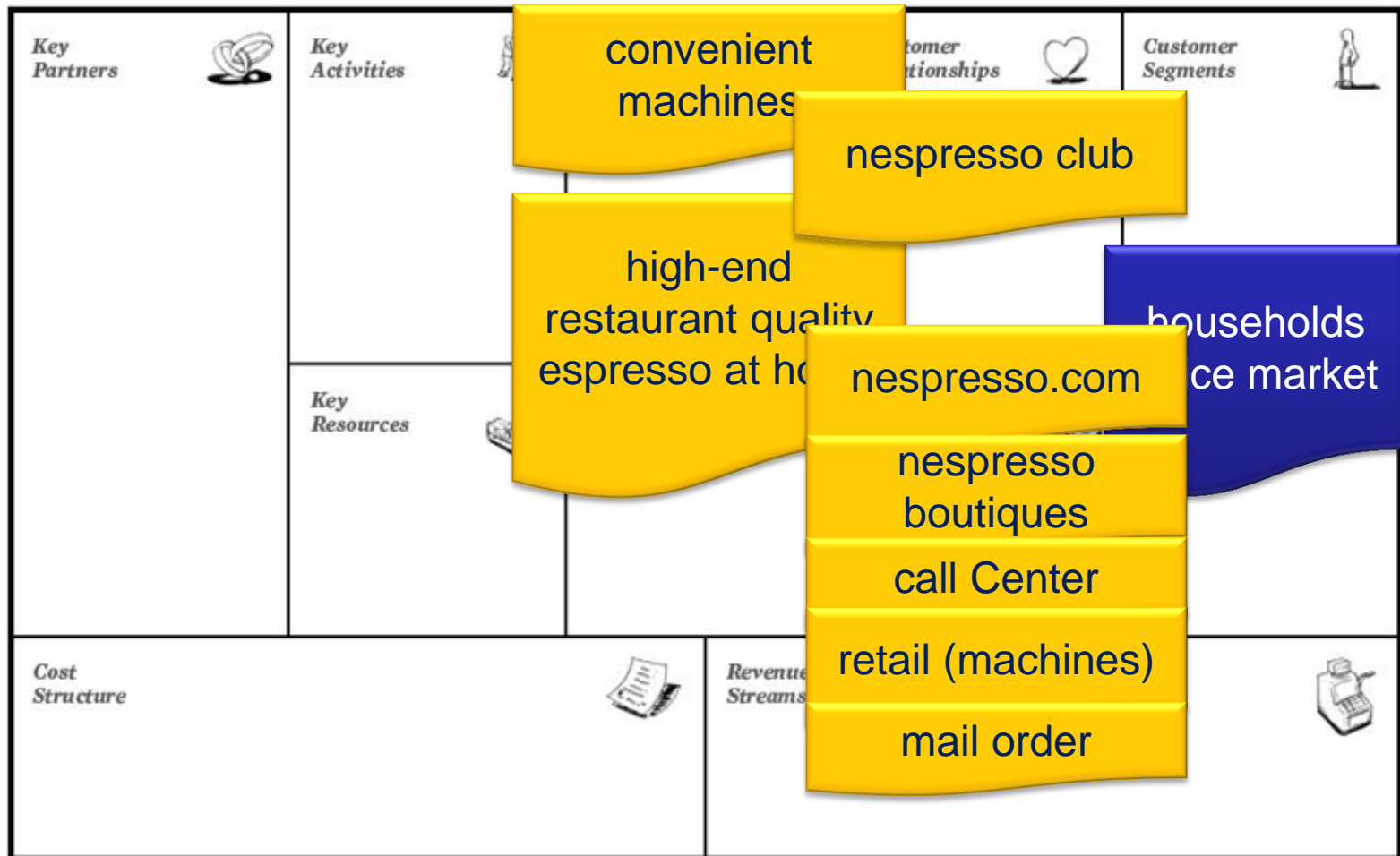
## Main Questions:

- What type of relationship does our customer expect?
- How can the relationship be established and maintained?
- What are our expectations with regard to customer relationship?
- How costly are they?



# The Business Model Canvas

*The customer relationship of Nespresso.....*



*How much cash does a company generate from each customer segment.....*

Revenue streams can include transaction revenues resulting from one-time customer payments or for ongoing payments to purchase value and/or provide post-purchase customer support. Possible revenue streams are: asset sales, usage fees, subscription fees, leasing, licensing, brokerage fees, advertising...

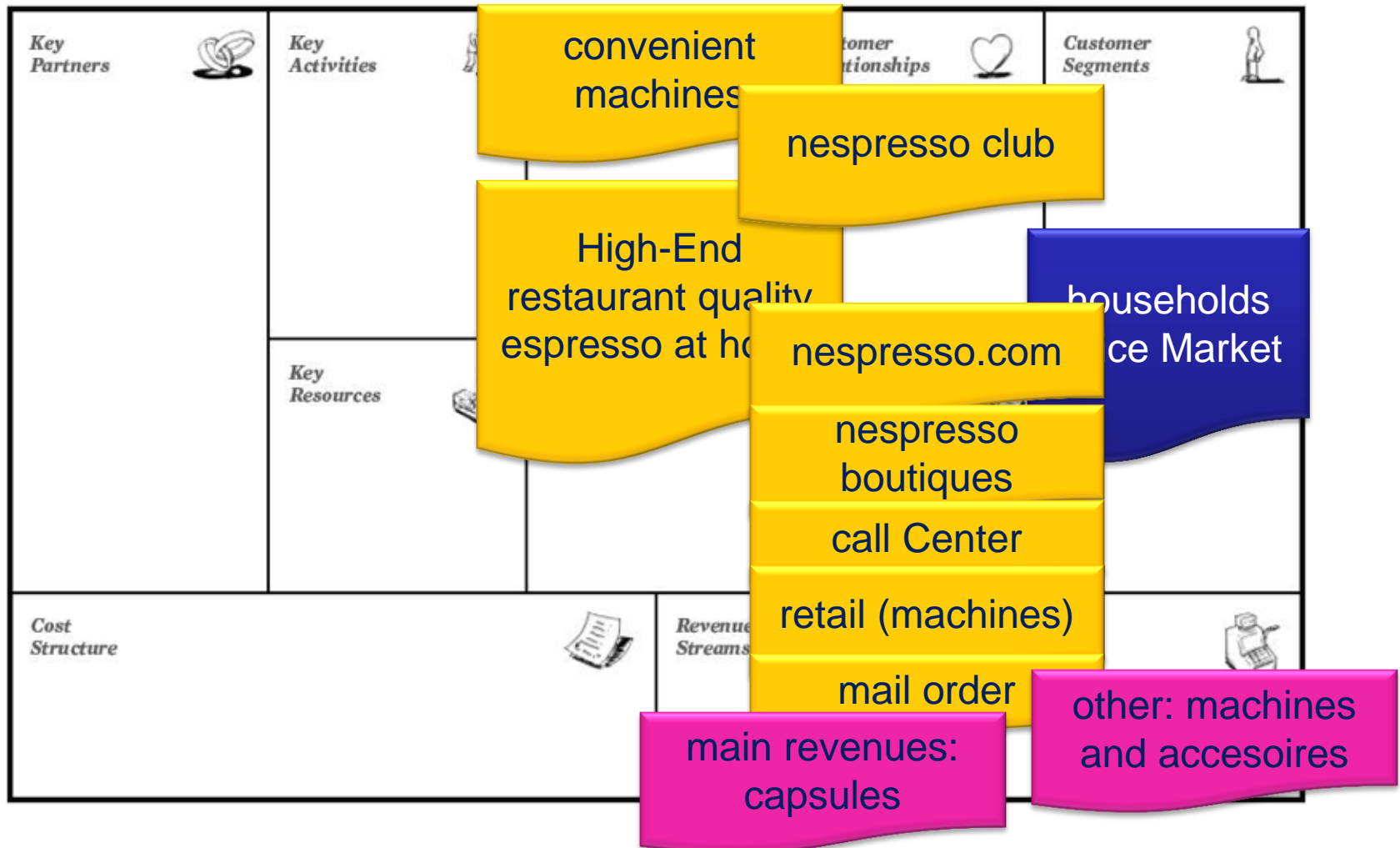
## Main Questions:

- For what value are our customers willing to pay?
- How much are they willing to pay?
- What price mechanisms do we use?
- What kind of profit models are possible?



# The Business Model Canvas

*The revenue streams of Nespresso.....*





*The most important assets required to make a business model work.....*

Key resources allow a company to create and offer a value proposition, reach markets, maintain relationships with customers and earn revenues. They can be physical, intellectual, human and financial.

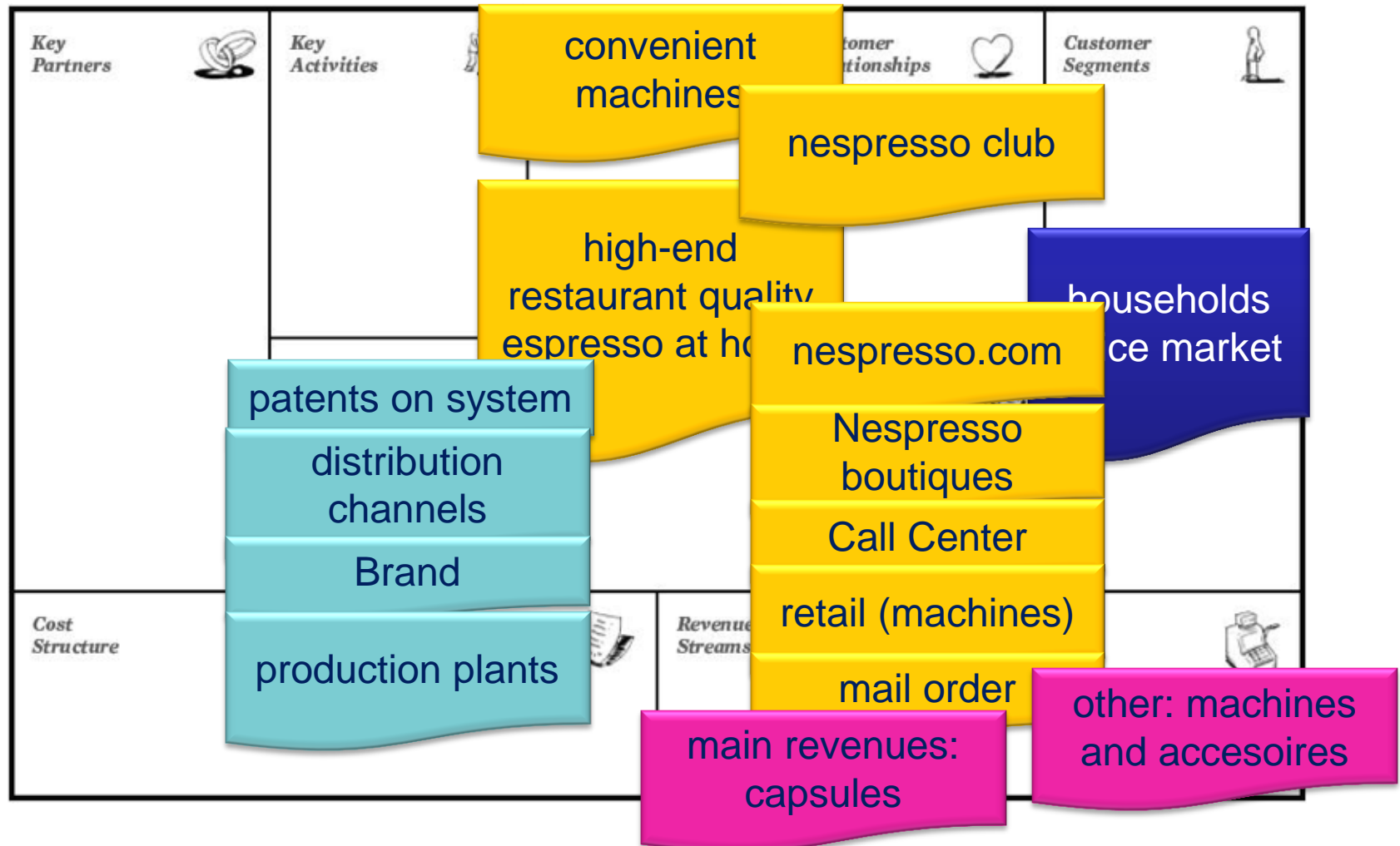
## Main Questions:

- What key resources do our value propositions require?
- What physical, financial, intellectual and human resources are available?
- Which ones do we own and which ones do we need to be acquired?



# The Business Model Canvas

*The key resources of Nespresso.....*



*Actions a company must take to operate successfully .....*

Key activities are required to create and offer a value proposition, reach markets, maintain customer relationships and earn revenues. They include production, problem solving and networking (platforms).

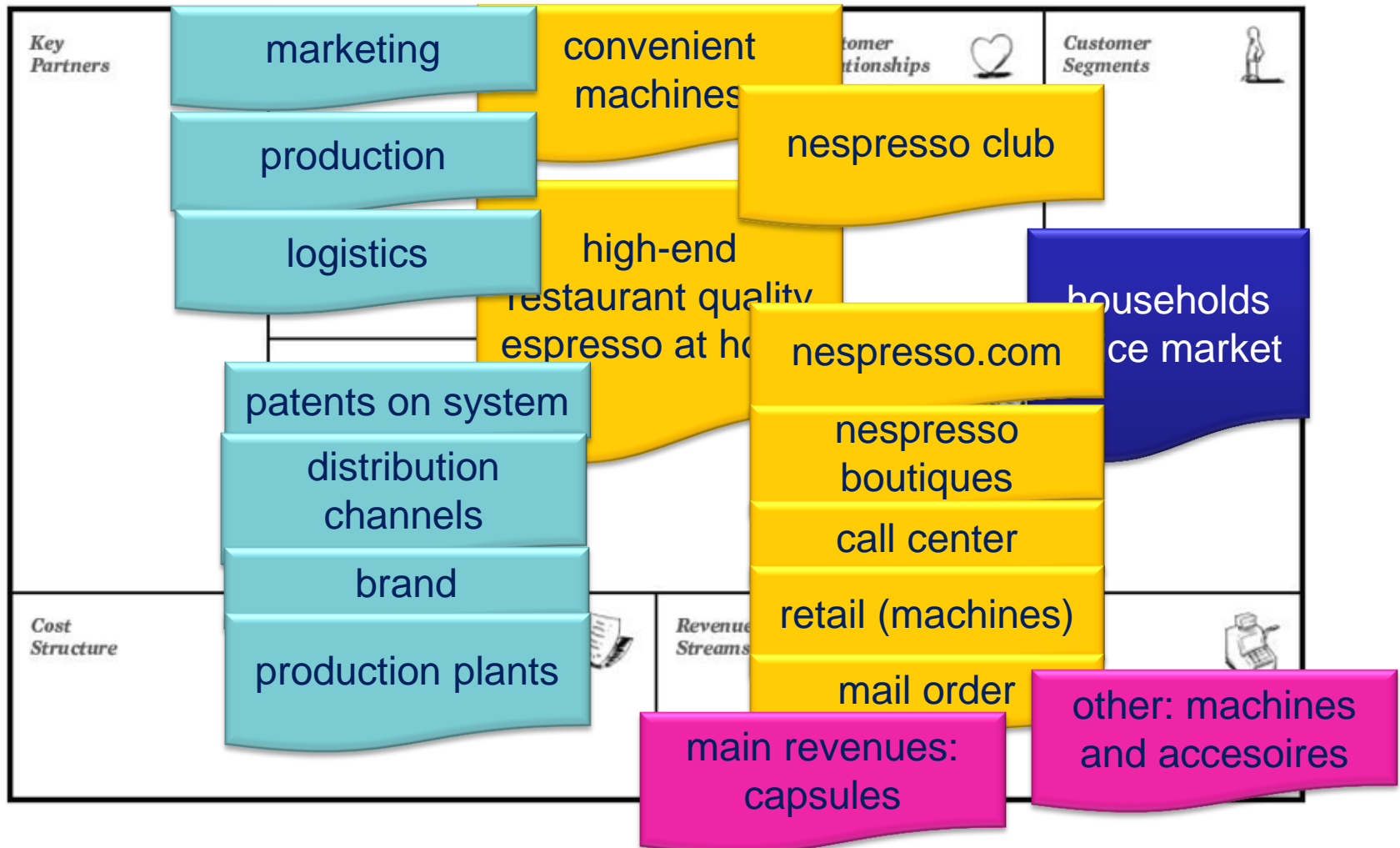
## Main Questions:

- What key activities do our value propositions require?
- What key activities are necessary to create and offer a value proposition?
- Which kind of activities can and we provide and which not?
- What are the costs?



# The Business Model Canvas

*The key activities of Nespresso.....*



*Network of suppliers and partners that make the business model work.....*

Companies create alliances to optimize their business models (economy of scale), reduce risk and uncertainty or acquire resources and activities.

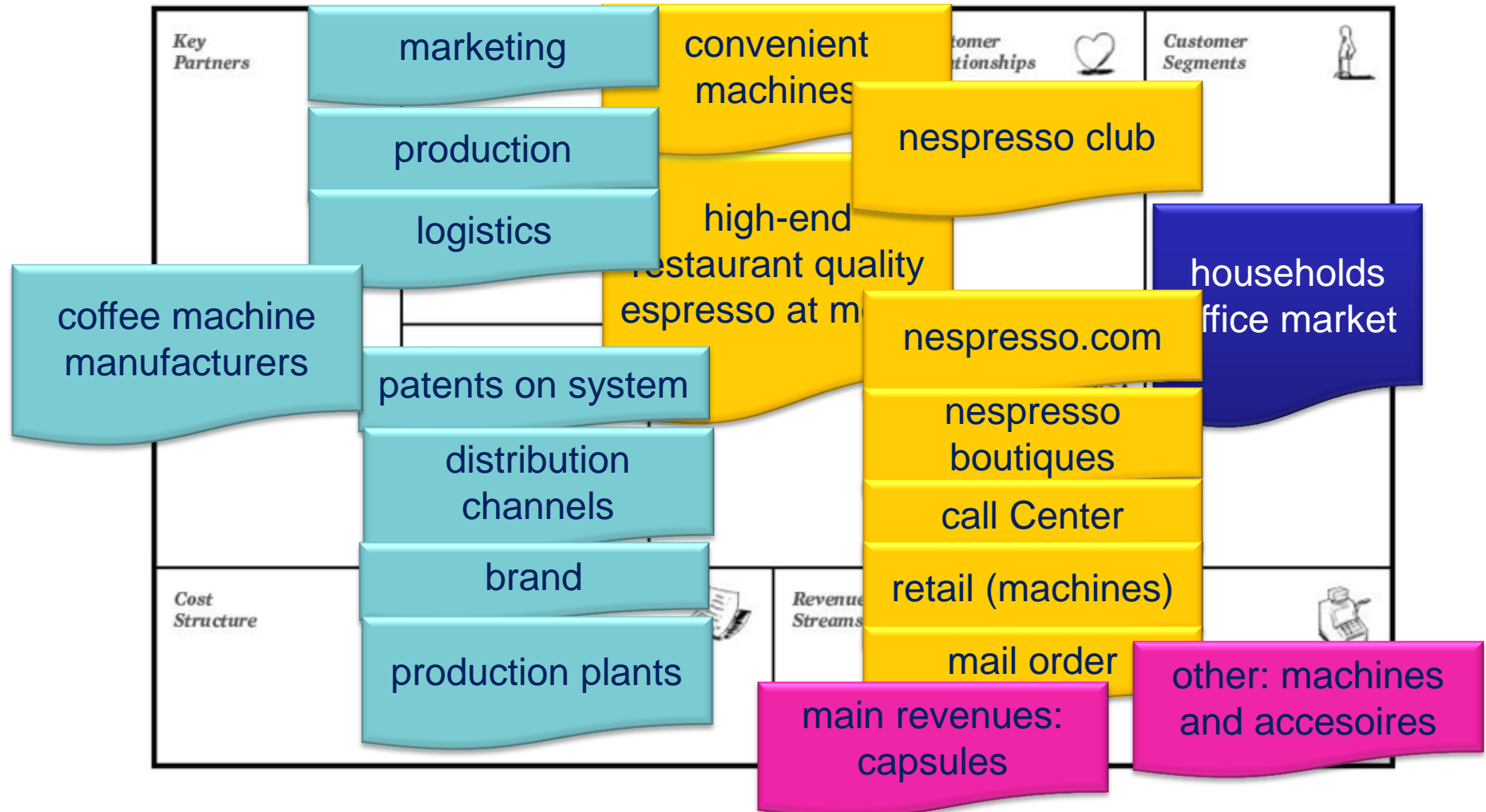
## Main Questions:

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



# The Business Model Canvas

*The Key Partnerships of Nespresso.....*



*All costs incurred to operate a business model.....*

Creating and delivering value, maintaining customer relationships and generating revenue incur costs. We differentiate between cost-driven and value-driven business models.

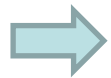
## Main Questions:

- What are the most important costs inherent in our business model?
- What's the cost model – Low-Cost or Value Creation?
- Which key activities cause which costs?



## *Cost-driven vs. value-driven business models.....*

Cost-driven	Value-driven
...focus on minimizing costs, wherever possible.	...focus on value creation. Less concerned with the cost implication.
...aim at creating and maintaining the leanest possible cost structure using: <ul style="list-style-type: none"> <li>• Low price value, propositions.</li> <li>• Maximum automation</li> <li>• Extensive outsourcing</li> </ul>	...aim at creating and maintaining premium value proposition and a high degree of personalized service.
<b>Example:</b> Ryan Air	<b>Example:</b> Luxury Hotels



Most business models are a combination of both!



## *Fixed costs vs. variable costs.....*

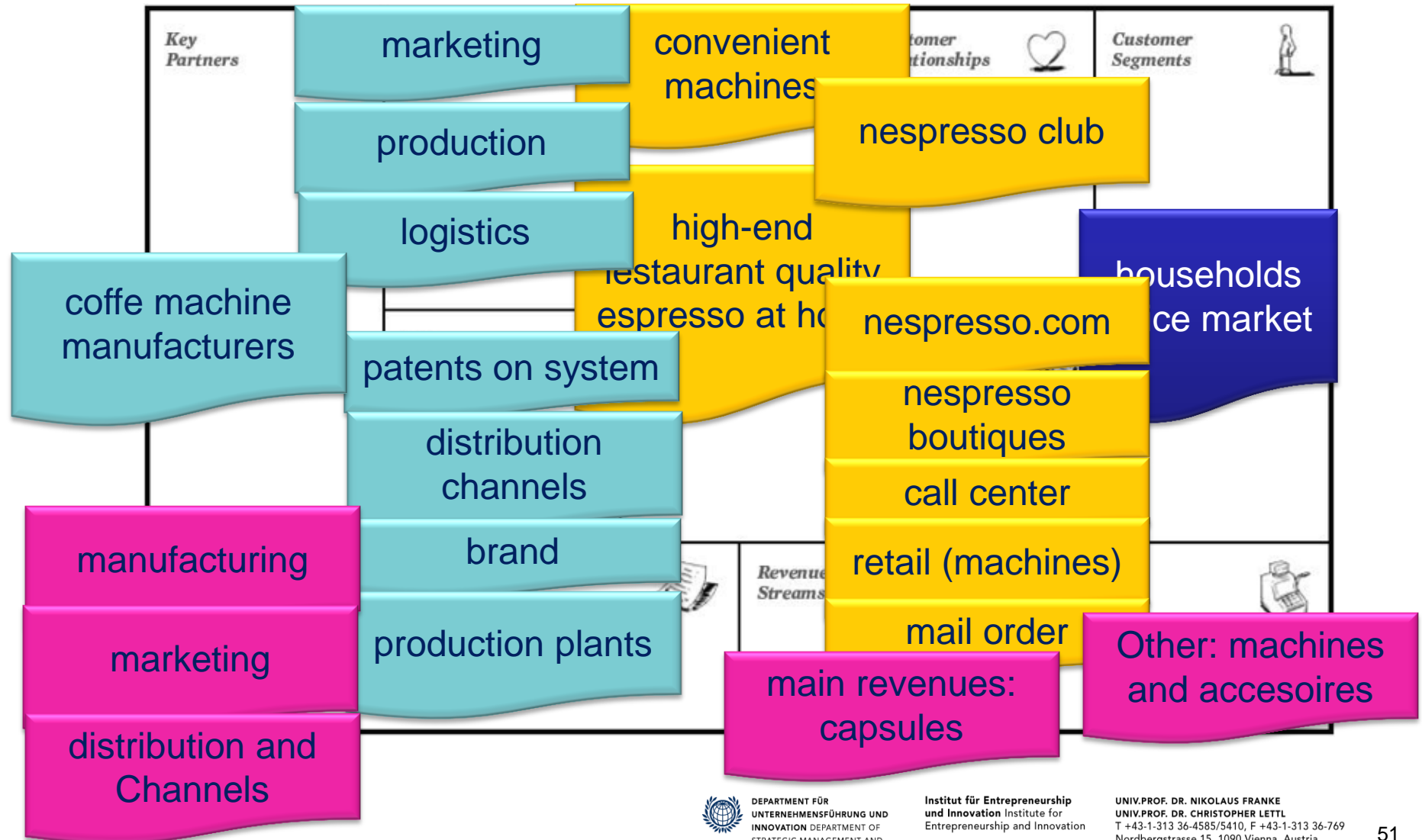
Fixed costs	Variable costs
Remain the same despite the volume of goods or services produced.	Vary proportionally with the volume of goods and services produced.
Manufacturing companies are characterized by a high amount of fixed costs.	Music festivals are characterized by a high proportion of variable costs.
<b>Examples:</b> salaries, rents, physical manufacturing facilities.	<b>Examples:</b> raw material, packaging, labor costs that can be attributed directly to the product.

## *Cost advantages.....*

Economies of Scale	Economies of Scope
Cost advantages that a business enjoys as its output expands. This and other factors cause average costs per unit to fall as output rises.	Cost advantages that a business enjoys due to a larger scope of operations.
<b>Example:</b> benefits from lower bulk purchase rates by large companies.	<b>Example:</b> the same marketing activities or distribution channels may support multiple products in large companies.

# The Business Model Canvas

*The cost structure of Nespresso.....*



# Epicenters of Business Model Innovation

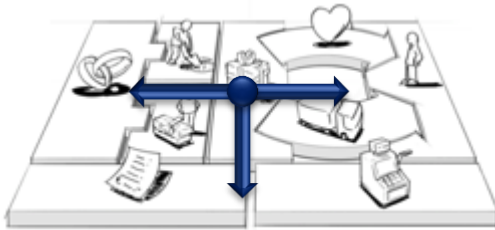
*Ideas for business can come from anywhere...*



Resource-driven



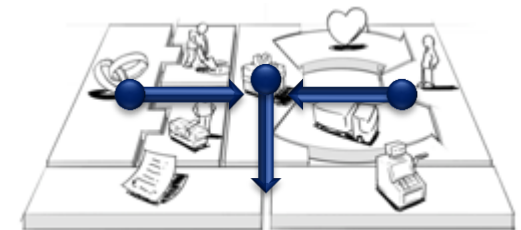
Customer-driven



Offer-driven



Finance-driven



Multiple-epicenter driven

● Epicenter

➡ Impact



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## Business models with:

- Similar characteristics
- Similar arrangements of business model building blocks
- Similar behaviors



Google™

eBay®

Wii™



VISA



## *Multi-sided platforms*

### **Pattern**

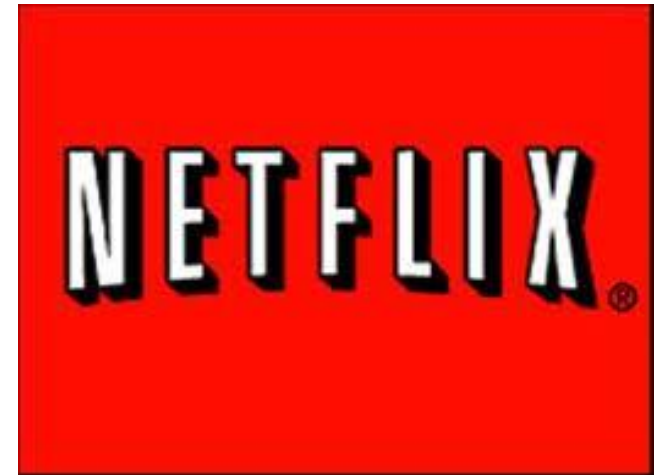
- Bringing together two or more distinct, independent groups of customers
- Create value by attracting many users and allow uncomplicated matchmarking
- Capturing revenue from all segments, leaving the opportunity to subsidize one (often end-consumer)

### **Examples**

Credit cards, newspapers, Facebook, Nintendo Wii, iPod/iTunes

### **Challenges**

- Value is created by scope&scale of participants → chicken/egg problem
- Deciding on who to subsidize how strongly (PSP vs Wii)



**amazon.com**  
The Amazon logo features the text "amazon.com" in a black, lowercase, sans-serif font, with a curved orange arrow underneath the word "amazon" pointing from the 'a' to the 'z'.





## *Long Tail*

### **Pattern**

- Sell less of more
- Focus on offering a large number of niche products
- Requires new inventory costs, strong platforms, fast delivery and easy search
- Main costs: platform and development

### **Examples**

Amazon, Netflix, rhaysody, ebay, LEGO, lulu.com

### **Challenges**

- Help customers to find less known items (~ up-selling)
- Find relevant niche content



**XING** 

**flickr**

**skype**™

  
**Dropbox**



## *Freemium*

### **Pattern**

- Offer basic service for free, charge premiums for extra service
- Enables fast growth in numbers → large customer base
- Fixed costs + very low variable costs for free customers: best feasible in highly scalable online services/products

### **Examples**

Xing, Dropbox, Radiohead, Red Hat, Skype, Flickr

### **Challenges**

- Valorizing customer-base through upselling (Skype) → “Conversion rate”
- Inserting premium content is difficult: often prove of business model comes very late in the development of an organization



**EPSON**

**Gillette®**



**NESPRESSO®**



## *Bait&Hook*

### **Pattern**

- Offers an attractive, inexpensive or initial free offer that
- Encourages continuing future purchases or services
- Close link between initial inexpensive product and follow-up products on which a high margin is earned

### **Examples**

HP, Epson, Canon, Gillette, Nespresso, Mobile Phones

### **Challenges**

- Controlling the lock-in (eg. patents)
- Subsidization of initial product and costs of follow-up products



# Group Assignment

## Meier Pump

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# Group Assignment: Market Analysis & Business Model Canvas

*Analyse the market of your application field and develop a business model...*

Based on the application field, you identified for the Meier Pump:

- prepare a market analysis,
- sketch out your business model on the Canvas and
- present your findings (max. 10min).

