Business Model and Business-IT Alignment

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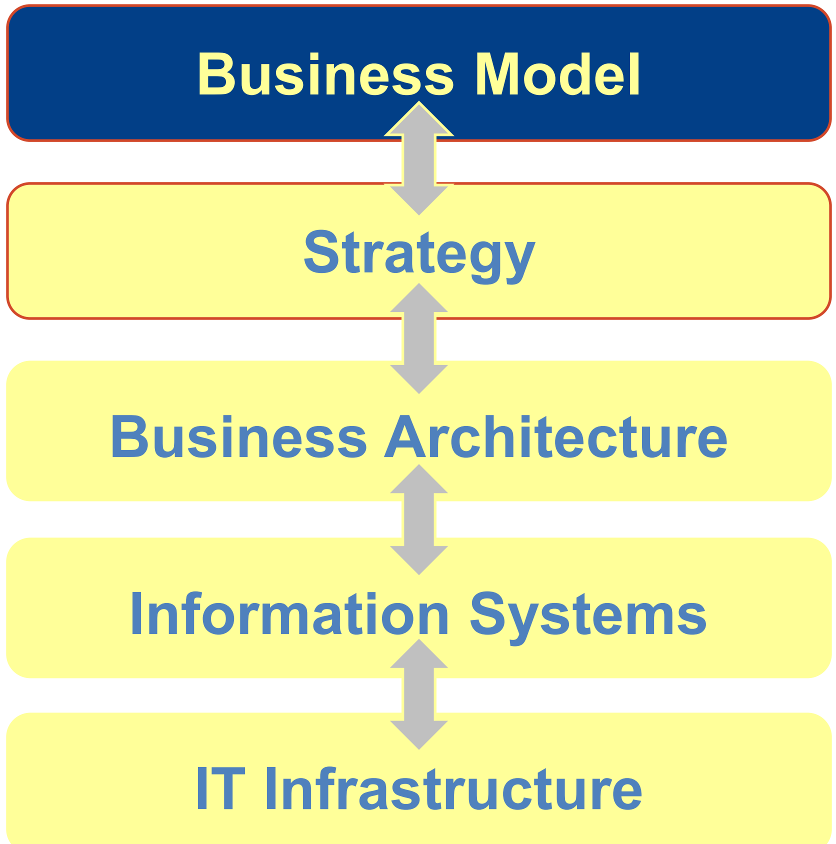
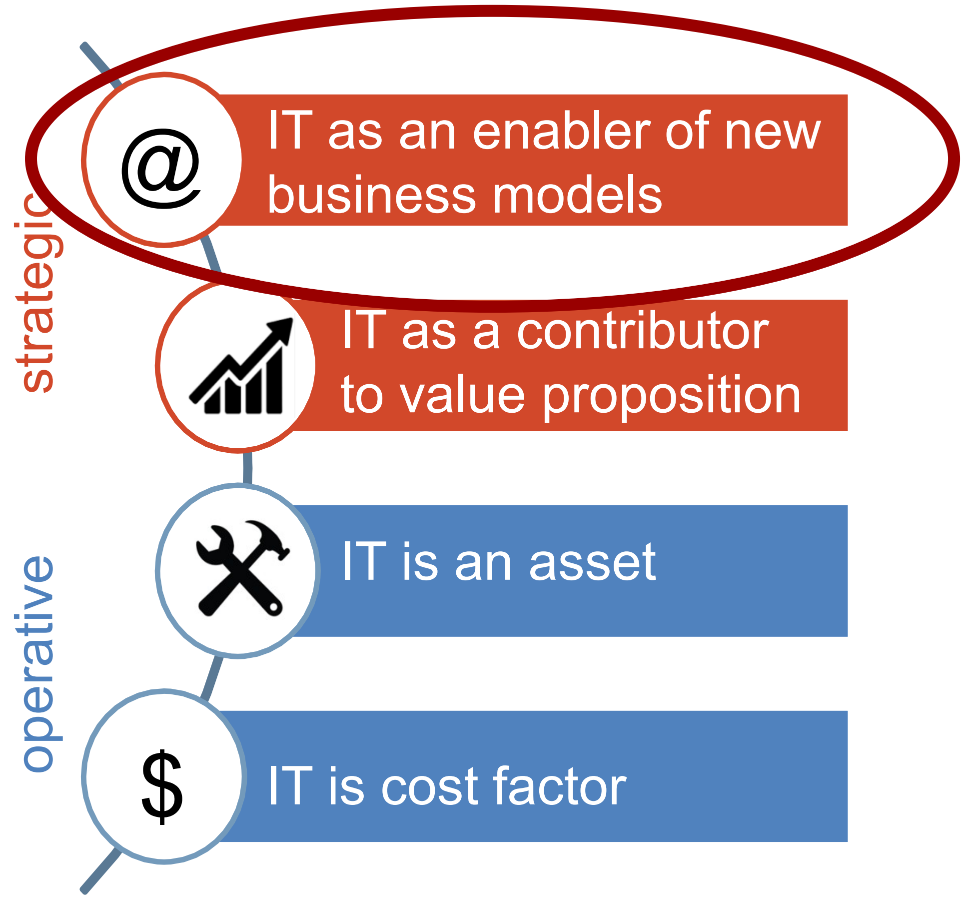

Business Model
Strategy
Business Architecture
Information Systems
IT Infrastructure

Business Model

Def_Business Model

A business model describes the rationale of how an organization creates, delivers, and captures value

Role of IT as Enabler for New Business Models



- IT has an influence on all elements of a business model
- IT enables ***new business models*** by shaping the core elements:
  - ***Customer value proposition***
  - ***Profit formula/Revenue***
  - ***Key resources***
  - ***Key processes***

Johnson et al. (2008) Reinventing your Business Model. Harvard Business Revue

Digital Products: Change of Business Models

Example: Music Industry

Vinyl disc

Compact Disc

Download

Streaming

Change of
Business Model

VP: - Convenient purchase,
- buy single songs
- Save space at home

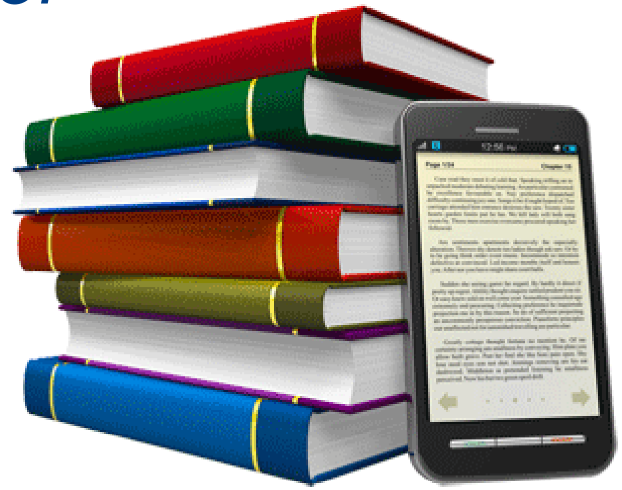
KP: Download

KR: Server, iTunes

VP: - Unlimited Music
- Anywhere
- No storage needed

PF: Subscription

Digitalisation of Products demand for New Business Models



3D Print

Physical Products: Sharing Economy

Sharing economy is about renting or borrowing.
Everything will become "on demand".

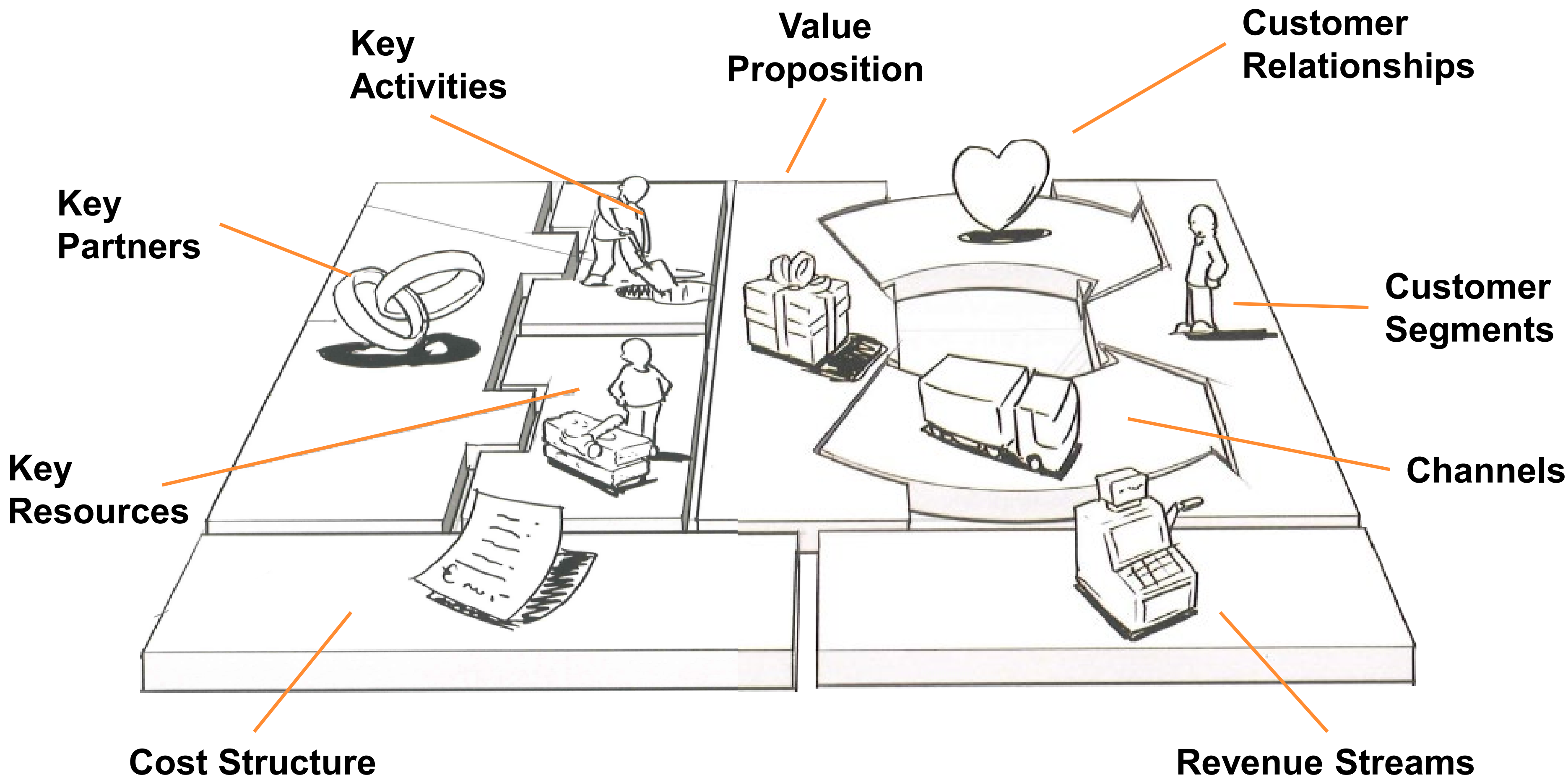
Physical Products: Shared Economy

- Broker between user and supplier
  - Uber has no cars and no drivers
  - Airbnb has no appartments
  - Sharoo has no cars
- Platforms
  - network
  - reviews

Physical Products: Product as a Service

- Obtaining performance instead of a product
  - Rental
  - Sharing
  - Pay per use

Business Model Building Blocks

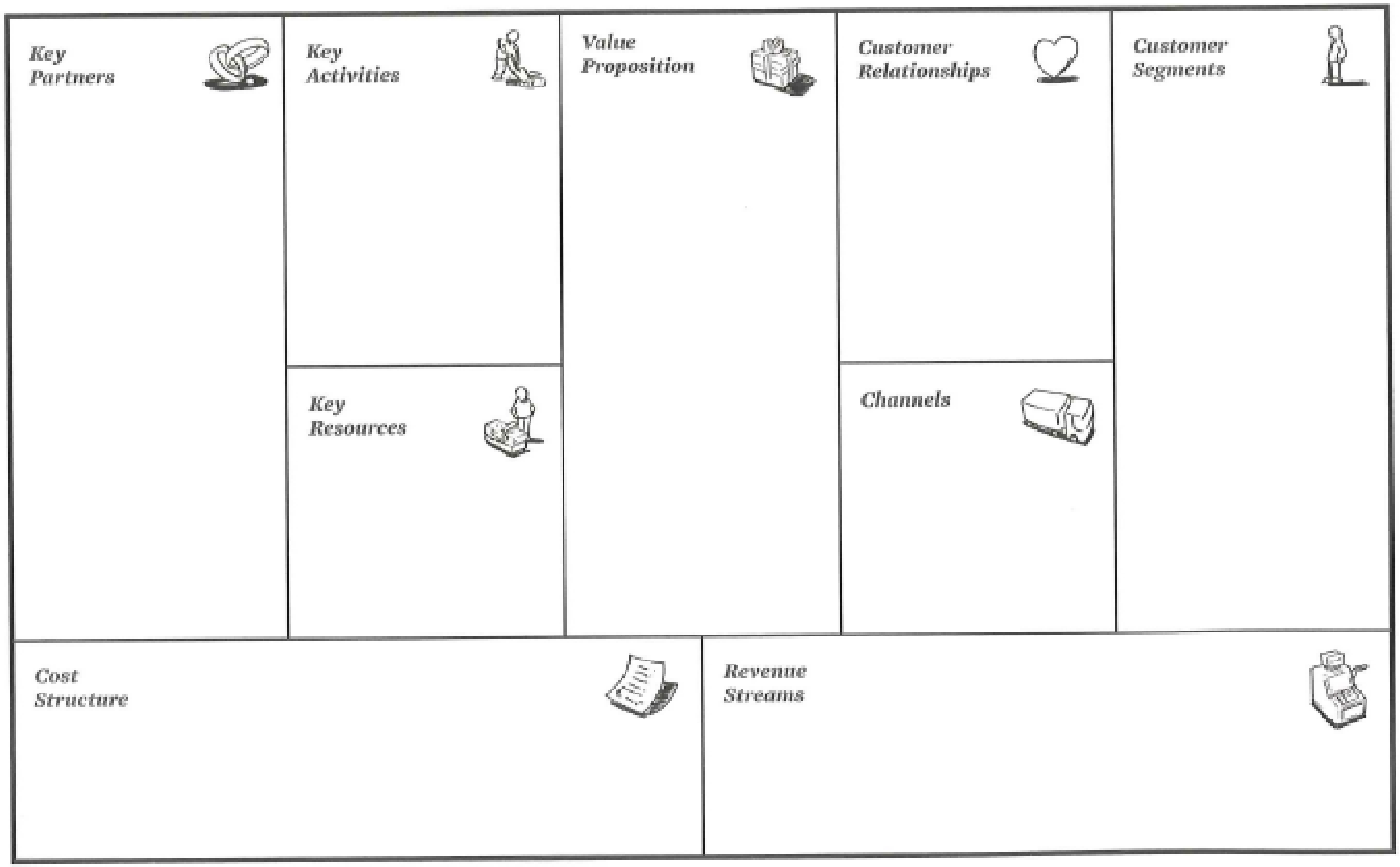


left canvas: efficiency

right canvas: value

(Osterwalder & Pigneur 2010)

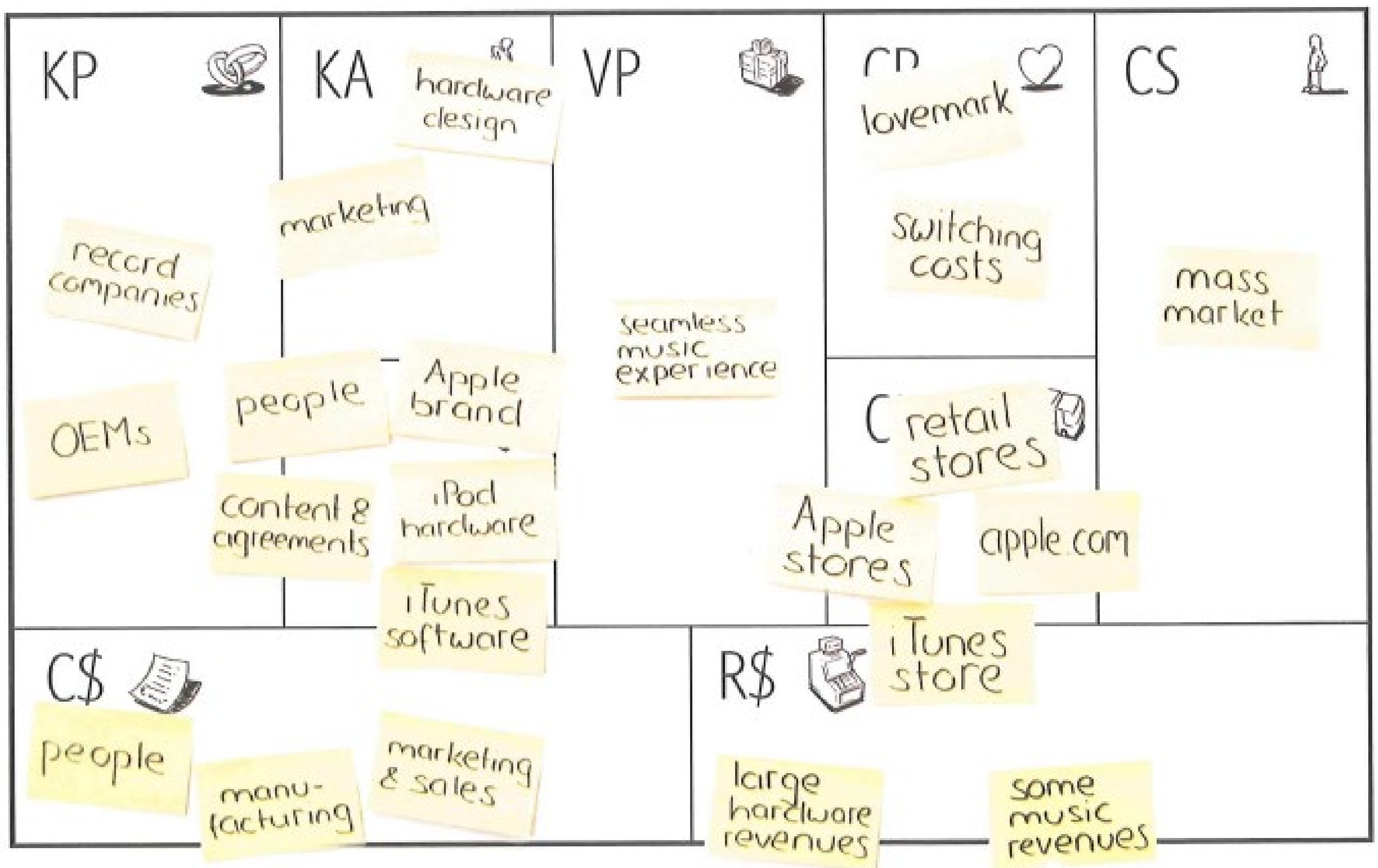
Business Model Canvas



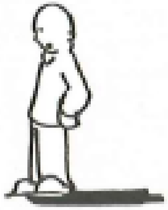
left canvas: efficiency

right canvas: value

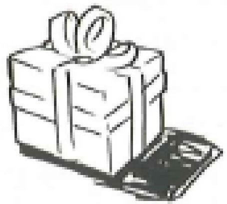
Example: Apple iPod/iTunes Business Model



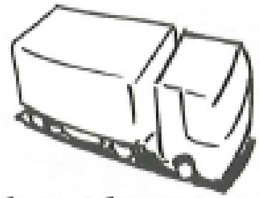
Building Blocks of a Business Model



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



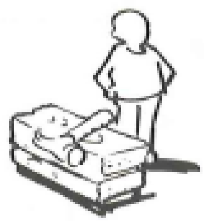
2 Value Propositions
It seeks to solve customer problems and satisfy customer needs with value propositions.



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

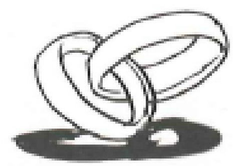
4 Customer Relationships
Customer relationships are established and maintained with each Customer Segment.

5 Revenue Streams
Revenue streams result from value propositions successfully offered to customers.



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

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

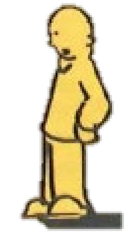


8 Key Partnerships
Some activities are outsourced and some resources are acquired outside the enterprise.

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

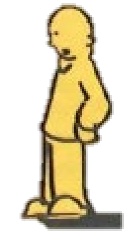
(Osterwalder & Pigneur 2010, p. 16f)

Customer Segments (CS)



- Groups of people or organisations an enterprise aims to reach or serve – each with specific customer needs
- An organisation must make a concious decision about which segments to serve and which segments to ignore
- Customer groups represent separate segments if:
  - Their needs require and justify a distinct offer
  - They are reached through different Distribution Channels
  - They require different types of relationships
  - Thes have substantially different profitabilities
  - They are willing to pay for different aspects of the offer

Kinds of Customer Segments



Mass market: Do not distinguish between different Customer Segments. VP, DC and CR focus on one large group of customers with broadly similar needs and problems.

Niche market: Cater specific, specialized customer segments, VP, DC, CR are tailored to specific requirements of a niche market.

Segmented: Distinguish between market segments with slightly different needs and problems (e.g. private and business customers)

Diversified: Unrelated Customer Segments with very different needs and problems, i.e. different VP (e.g. Amazon being retailer and cloud provider)

Multi-sided platforms/markets: Several interdependent Customer Segments, (e.g. readers and advertisers of newspaper).

Value Propositions (VP)

- The **reason** why customers turn to one company over the other.
- VP consists of a selected bundle of products and/or services that caters to the requirements of a specific CS.
- Described from the point of view of the customer
  - the value for the Customer Segment
  - not the features of the product/service

Elements contributing to Value Proposition

Newness: Satisfy an entirely new set of needs, for which there was no similar offering.

Performance: Improving product or service performance.

Customization: Tailoring products and services to the specific needs of individual customers or Customer Segments.

Getting the job done: helping a customer to get certain jobs done.

Design: A product may stand out because of superior design.

Brand/Status: Customers may find value simply by using ad displaying a specific brand

Price: Offering similar value at a lower price.

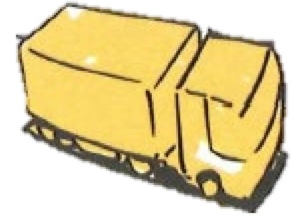
Cost reduction: Helping customers reduce costs.

Risk reduction: Reduce risk of a customer.

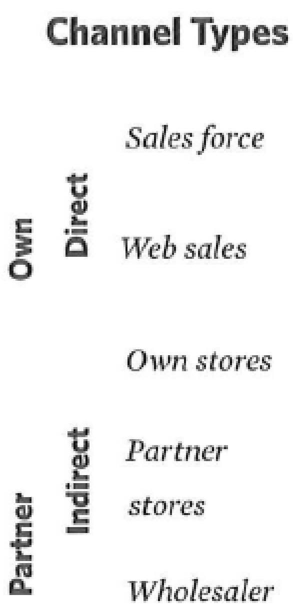
Accessibility: Making products and services available to customers who previously lacked access to them.

Convenience/Usability: Making things more convenient or easier to use.

Channels (CH)



- How company communicates with and reaches ist Customer Segments to deliver a Value Proposition
- Channels serve several functions including:



- ♦ **Awareness:** Raising awareness among customers about a company's products and services
- ♦ **Evaluation:** Helping customers evaluate a company's Value Proposition
- ♦ **Purchase:** Allowing customers to purchase specific products and services
- ♦ **Delvery:** Delivering a Value Proposition to customers
- ♦ **After Sales:** Providing post-purchase customer support

Customer Relationships (CR)

- Types of relationships a company establishes with specific Customer Segments
- Relationships range from personal to automated.
- May be driven by the following motivations:
  - Customer acquisition
  - Customer retention
  - Boosting sales (upselling)

Categories of Customer Relationships

Personal assistance: based on human interaction

Dedicated personal assistance : dedicating a customer respresentative specifically to an individual client

Self-service: No direct relationship with customer, only providing necessary means for customer to help themselves

Automated services: Mix self-service with automated processes

Communities: Utilizing communities to become more involved with customers/propects and to facilitate connections between community members

Co-creation: Co-create value together with customers (e.g. customers writing reviews or create content)

Revenue Streams (RS)

- Represents the cash a company generates form each Customer Segment
- Each Revenue Stream may have different pricing mechanims such as fixed list prices, bargaining, auctioning, market dependent, volume dependen or yield management.
- Types 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 past-purchase customer support

Ways to generate Revenue Streams

Asset sale: selling ownership rights to a physical product

Usage fee: Revenue Stream is generated by the use of a particular service

Subscription fee: Selling continuous access to a service

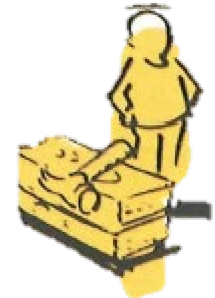
Lending/Renting/Leasing: Temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee.

Licensing: Giving customers permission to use protected intellectual property in exchagne fo licensing fees

Brokerage fees: Intermediation services performed on behalf of two or more parties (e.g. credit card providers, real estate agents)

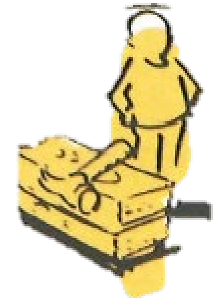
Advertising: fees for advertising a particular product, service, or brand.

Key Resources (KR)



- Describes the most important assets required to make a business model work
- Allow an enterprise to create and offer a Value Proposition, reach markets, retain relationships with Customer Segments, and earn revenues.
- Key resources can be physical, financial, intellectual or human.
- Key resources can be owned or leased by a company or acquired from key partners.

Categories of Key Resources



Physical: physical assets such as manufacturing facilities, building, vehicles, machines, distribution networks.

Intellectual: Intellectual resources such as brands, proprietary knoweldge, patents and copyrights, partnerships, and customer databases.

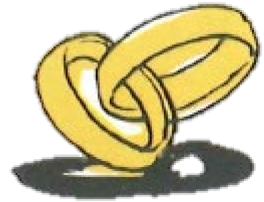
Human: Humans resources, in particular for knoweldge-intensive and creative industries

Financial: financial resources and/or financial guarantees such as cash, lines of credit or a stock-option pool for hiring employees..

Key Activities (KA)

- Most important actions a company must take to operate successfully;
- Requried to create and offer a Value Proposition, reach market, maintain Customer Relationships, and earn revenues.
- Categories:
  - **Production:** Designing, making, delivering a product
  - **Problem Solving:** Solutions to individual customer problems (e.g. consultancies, hospitals)
  - **Platform/Network:** Business models designed with a platform as a Key Resource are dominated by platform or network-related Key Activities (e.g. auctioning, credits card transactions)

Key Partnerships (KP)



- Network of suppliers and partners that make the business model work
- Four kinds of partnerships:
  - Strategic alliances between non-competitors
  - Coopetition: strategic partnerships between competitors
  - Joint ventures to develop new businesses
  - Buyer-supplier relationships to assure reliable supplies
- Motivation for creating partnerships
  - Optimization and economy of scale
  - Reduction of risk and uncertainty
  - Acquisition of particular resources and activities

Cost Structure (CS)

- All costs incurred to operate a business model, i.e. creating and delivering value, maintaining Customer Relationships, and generating revenue.
- Costs can be calculated relatively easy after defining Key Resources, Key Activities, and Key Partnerships.
- Distinction between two broad classes of Cost Structures
  - **Cost-driven:** Focus on minimizing costs
  - **Value-driven:** Focus on value creation and being less concerned with cost implications

Characteristics of Cost Structures

Fixed costs: costs remain the same despite the volume of goods or services produced (e.g. salaries, rents).

Variable costs: costs vary proportionally with the volume of goods and services produced.

Economies of scale: costs advantages as output explands

Economies of scope: cost advantages due to a large scope of operations (e.g. marketing may support multiple products).