



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:
 - <http://aiti.mit.edu/materials/colombia-summer-2012/>
- 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

July

2012

MIT AITI Colombia

MIT, Google, Universidad ICESI

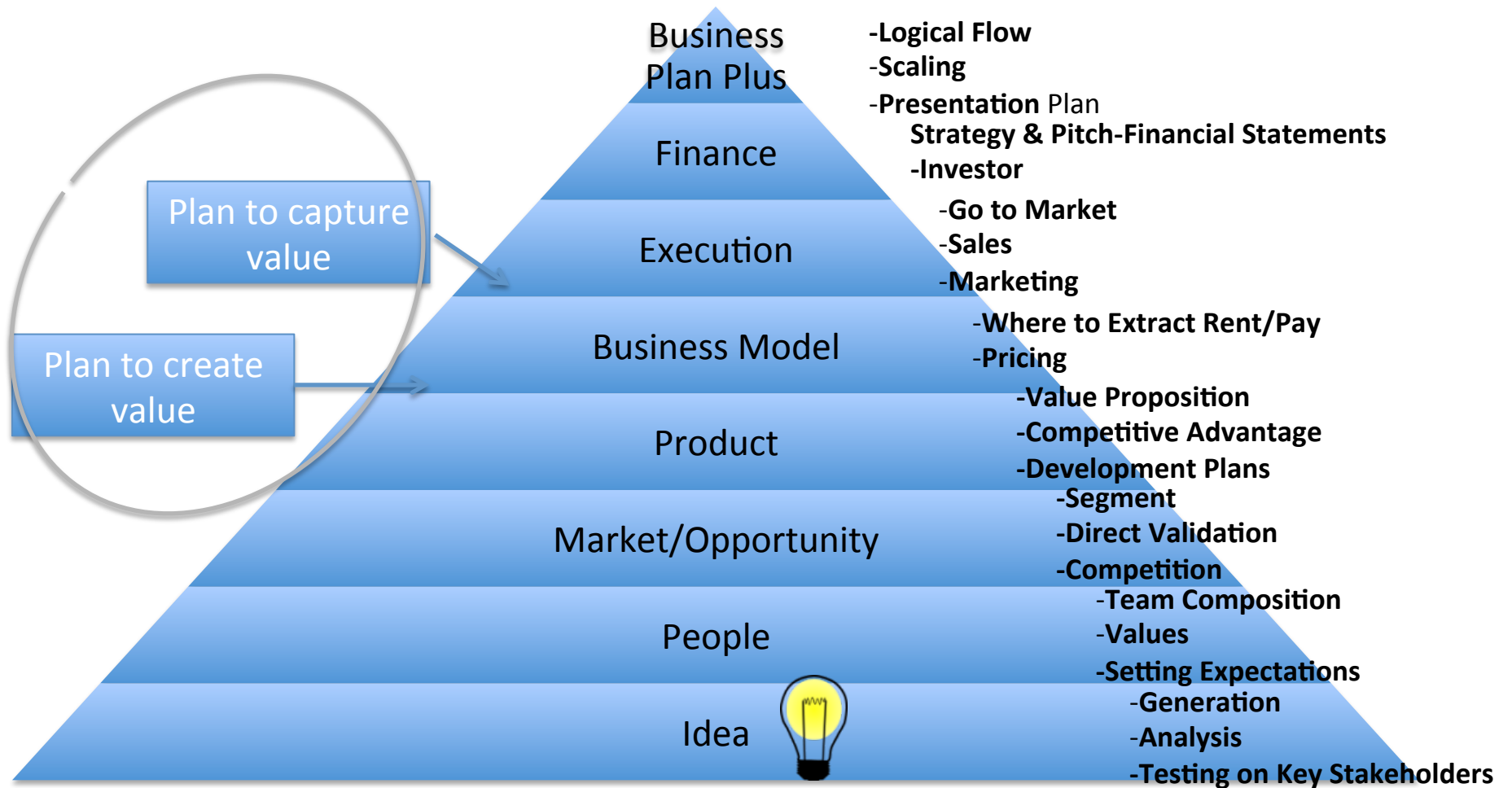
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2 Dia de San Pedro y San Pablo	3 Know your Customer	4 Targeting and Positioning	5 Business Model Exploration (Canvas)	6 Business Model Tuning	7
8	9 Revenue and cost modeling with Miguel Amaya	10 Guest speaker: Fernando Cardenas, MIT Sloan Fellow, ESCALA/Promodora, Lojack Brazil	11 Know your Competition	12 First Draft of Executive Summary Due (includes biographies)	13 First Advisor named First Draft of Slides Due	14 Proposed: MIT AITI BBQ
15	16 Feedback from Instructors	17 Revenue Model and Ask Due	18 Proposed: Café Critique: Laboratorio con Camera de Comercios y Club de Ejecutivos	19	20 Grito de Independia	21
22	23 Working Demo/prototype Near Final Draft of Executive Summary and Pitch Slides	24	25 Final Drafts of Executive Summary and Pitch Slides Due Prototype Due Dress Rehearsal Practice for Final Pitch	26 Final Pitch to Judging Panel Fiesta Cocktail con Jueces de la Presentacion Final y Huespedes Honorados	27 Wrap up and Proximos Pasos	28

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



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

	Creator	Distributor	Landlord	Broker
Physical				
Intangible				
Financial				
Human				

Common Business Model Archetypes:
Creator, Distributor, Financial Landlord, Physical Landlord,
Intellectual Landlord, Contractor, and Broker.

Weill, Malone, Urso, Herman, and Woerner (2005)

Two dimensions to distinguish business models (macro view)

	Creator	Distributor	Landlord	Broker
Physical	Manufacturer	Retailer	Utility	Auction
Intangible	R&D Lab	-----Patent troll-----		
Financial		Trader	Capital lender	Exchange
Human			Contractor	Headhunter

- 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)

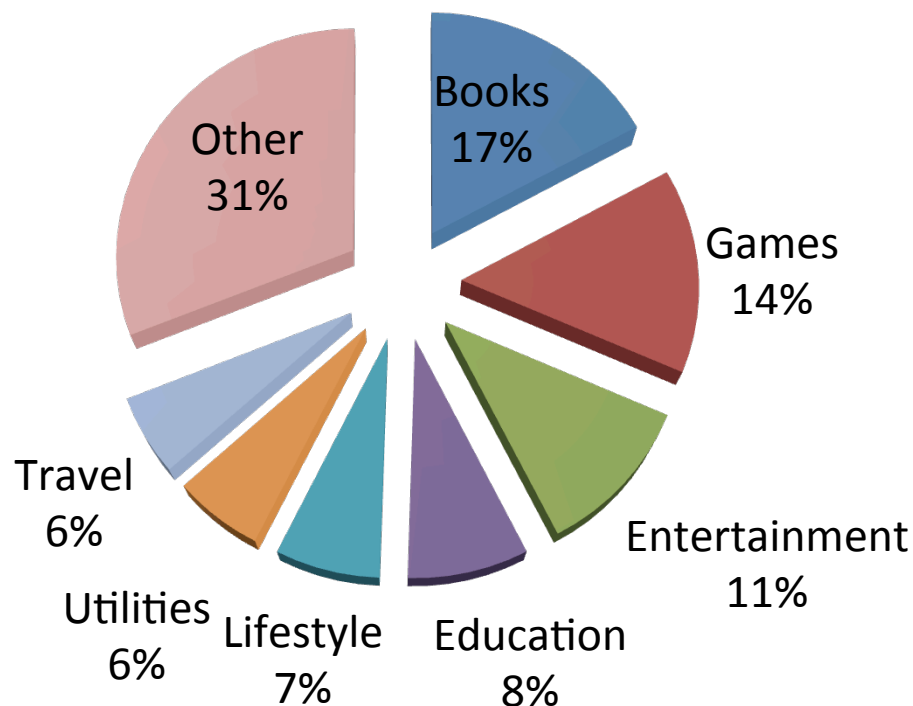
- Within an archetype, how does the nature of payment affect ongoing relationship incentives
 - ▶ Razor-and-blades (bait and hook)
 - ▶ Freemium
 - ▶ Subscription
 - ▶ Loyalty programs
 - ▶ Upfront + maintenance
 - ▶ Advertising-supported

All sorts of business models

- One Time Upfront Charge (plus maintenance)
- Licensing
- Subscription/Leasing
- Shared Savings
- Consumables
- O&M (Operating and Maintenance)
- Cost Plus
- Upsell high margin add ons
- Advertising
- Transaction %
- Freemium
- Cell Phone Plan (or PPA in energy)
- Utility model (per usage)
- Franchise model
- Micro-transactions
- Parking meter
- Other

It's a jungle out there

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



Paid App Comments

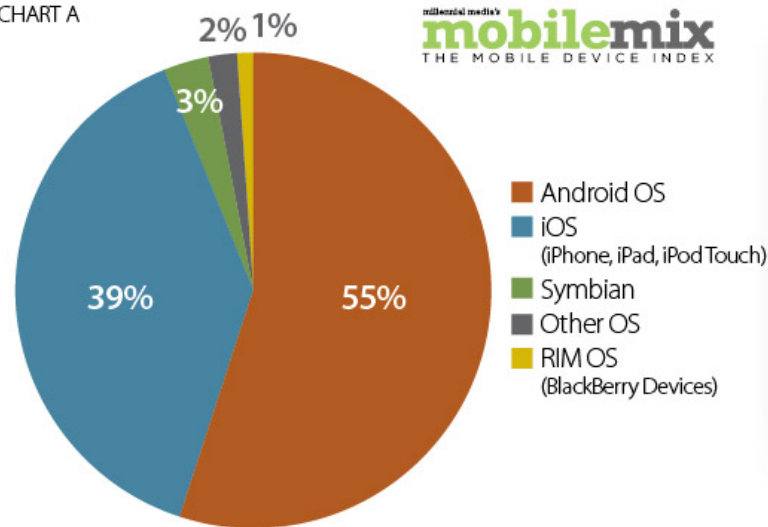
- Average App Price is \$4.07
- Average Game Price is \$1.66
- Average sold app is around \$2.50 (games represent a huge proportion of the apps sold, estimates are 60%+)
- Android has about 130,000 applications. Android has more free apps and lower prices in general.
- BlackBerry has about 18,000 application

Android is doing well for ad supported models

Application Platform Mix

By Revenue – Q4 2010

CHART A



Source: Millennial Media, 12/10. Other category includes Java, Palm, Windows Mobile/Windows Phone 7, and Brew.

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

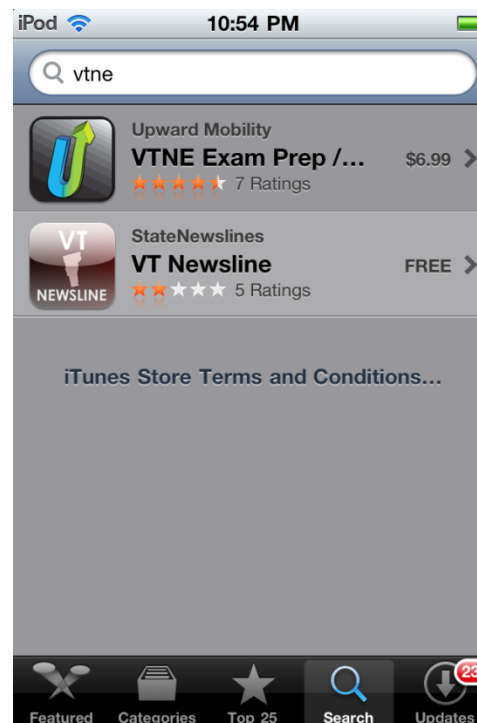
In-App Purchases

- 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

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



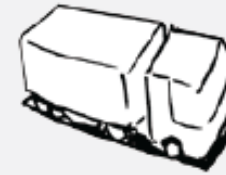
CS
1 Customer Segments

An organization serves one or several Customer Segments.



VP
2 Value Propositions

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



CH
3 Channels

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



CR
4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.



RS

5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.



KR

6 Key Resources

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



KA

7 Key Activities

...by performing a number of Key Activities.



KP

8 Key Partnerships

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



CS

9 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 offer
 - 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

Channel Types		Channel Phases				
Own	Direct	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 Value Proposition?	3. Purchase How do we allow customers to purchase specific products and services?	4. Delivery How do we deliver a Value Proposition to customers?	5. After sales How do we provide post-purchase customer support?
	Web sales					
	Own stores					
Partner	Indirect					
	Wholesaler					

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

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

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

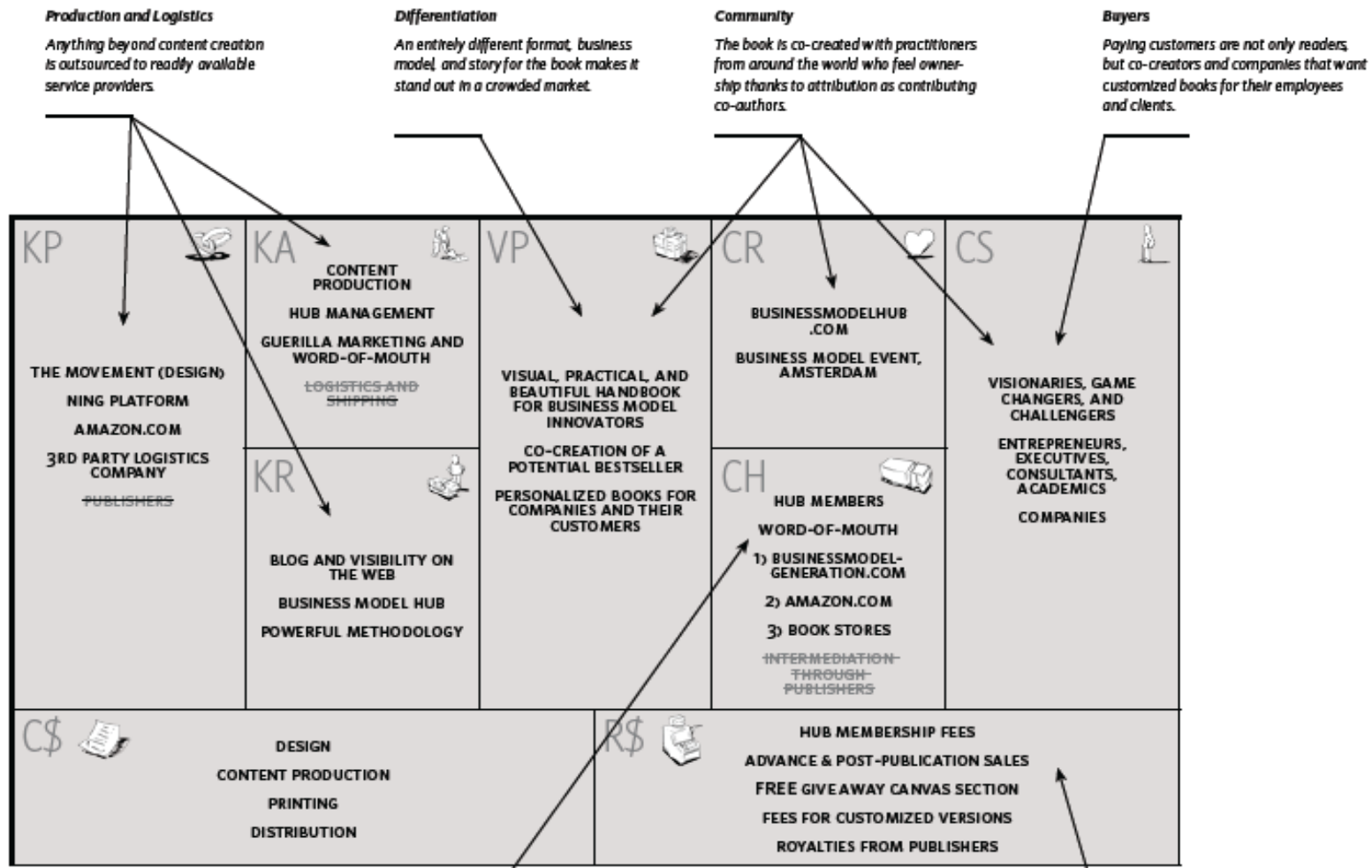
- What are the most important things the company must do to make its business model work?
 - Production
 - Problem Solving
 - Platform/network

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



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.

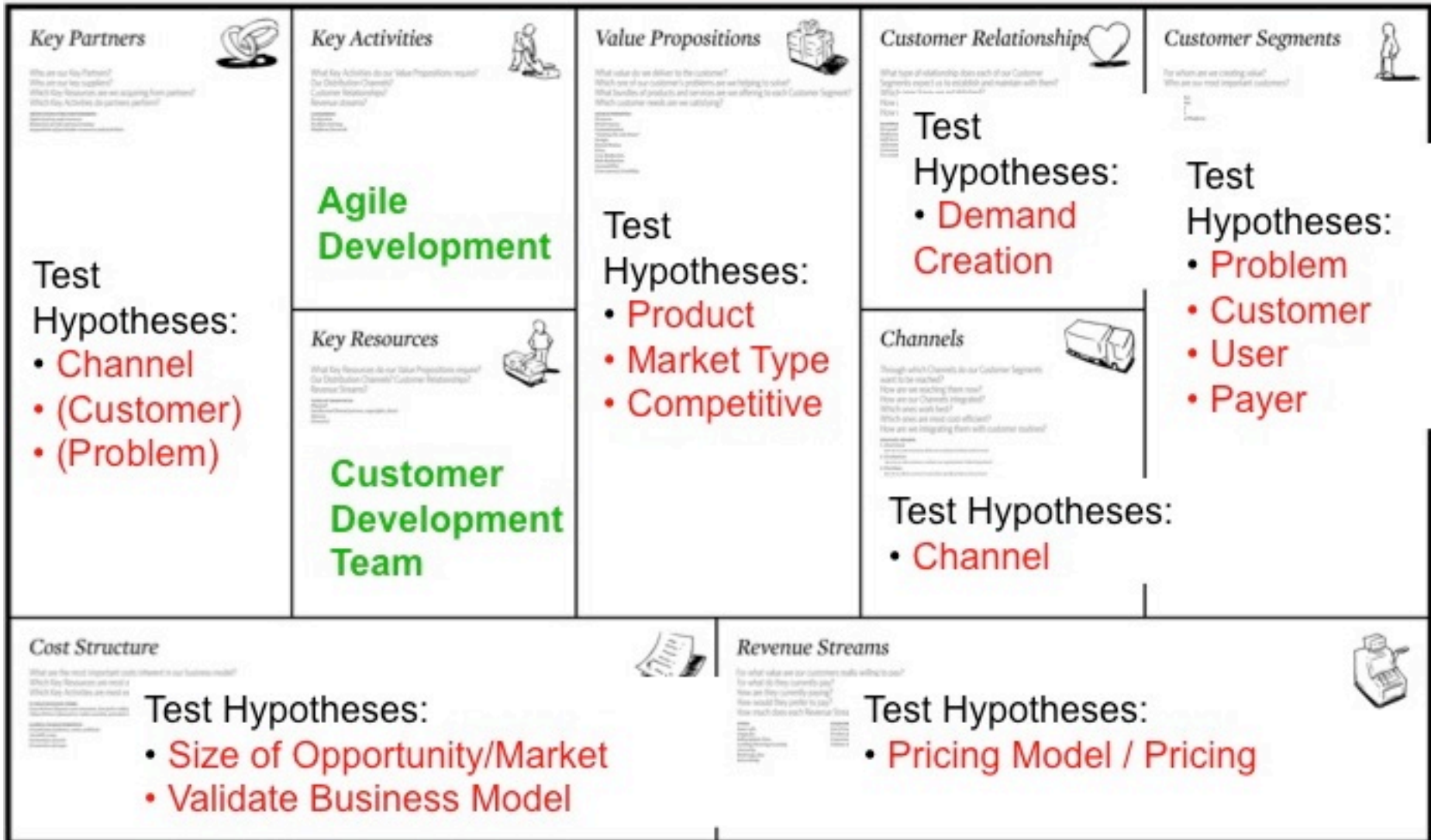
Community
The book is co-created with practitioners from around the world who feel ownership thanks to attribution as contributing co-authors.

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

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.

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.



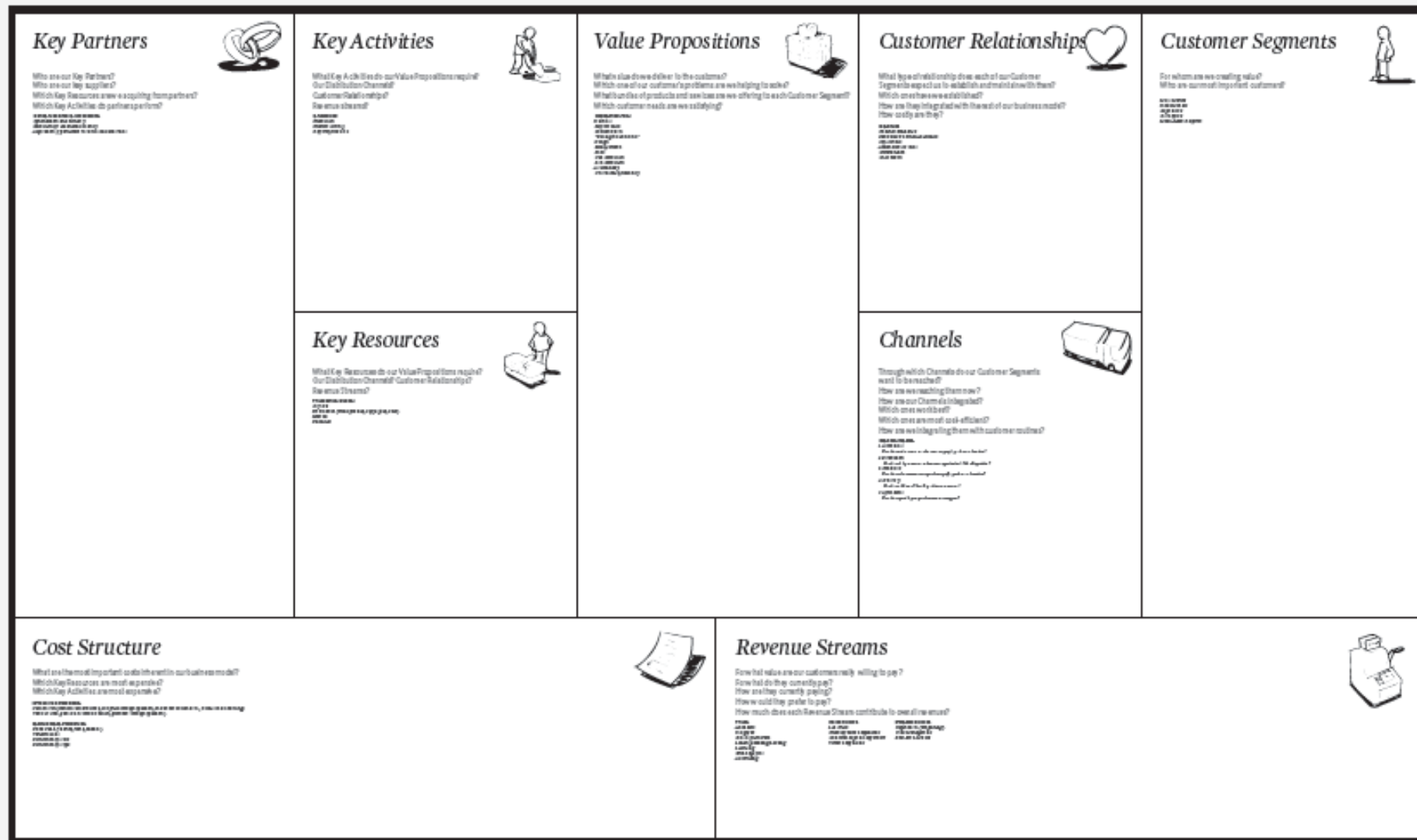
The Business Model Canvas

Designed for:

Designed by:

On: Day Week Year

Iteration:



APPENDIX

Rompecielos II

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