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Valuate the idea

# MARKETING: BUSINESS MODELS





## **Networking for Entrepreneurship**

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Action Type: Strategic Partnerships for vocational education and training

# Value the idea

## MARKETING: BUSINESS MODELS

### DESCRIPTION

In this section you will look at the creation of a business plan and the understanding and adoption of a particular business model. Both are necessary steps towards marketing your business idea and taking the venture forwards commercially. A good place to start is to ask yourself the following questions

### 10 QUESTIONS TO ASK YOURSELF BEFORE LAUNCHING A BUSINESS

Think you've got the makings of a great business idea? Here are 10 key questions to help you determine whether you're onto a winner.

#### 1. How is it different?

Your underlying business idea doesn't need to be original, but you need to establish unique selling points (USPs) if you want people to buy from you rather than your competitors. You have to offer something new. Is your proposition solving a problem? Are you filling a gap in the market, or building on an existing offering?

#### 2. Is there a market, and is it big enough?

Thorough market research is needed before moving forward with your business idea. You need to ensure there will be sufficient – and sustainable – demand to support your business and enable it to thrive.

#### 3. What's the business model?

How will you charge your customers, and what for? Can you think of additional revenue streams? Research is vital to determine whether your business model is viable; this should include analysis of how your competitors have structured their businesses.

#### 4. Is the price right?

It's no good having a winning product or service if your customers can't afford it, but you need a decent margin for a sustainable business. Talk to your potential customers to find out whether your pricing is feasible.

#### 5. What will stop others from copying you?

If you've ever watched Dragons' Den (an entrepreneurship challenge – reality TV in the UK) you'll have heard no doubt heard this question: 'What's to stop a big company coming along and stealing your idea?' Have strong USPs – such as exceptional customer service – and wherever you can protect your intellectual property.

#### 6. Do you know your customer?

Arm yourself with as much information as you possibly can about your target customer, and listen to them at every opportunity. What does a typical customer look like? How do they behave? What do they most value from a product or service like yours? Where can you find them? What marketing methods do they respond to?

#### 7. Can you turn a profit?

How much will it cost to produce your idea? (taking into account manufacturing or supplier costs; salaries; overheads; office equipment, etc)? How much can you sell your product or service for, and how much do you need to sell to not only cover your costs, but make a profit? Is this achievable?

## 8. Do you have sufficient funding to get the venture off the ground?

You need enough cash to support yourself and your business until it becomes sustainable. If you don't have the funding in place, can you raise it?

## 9. Do you have the necessary experience, attitude and skills to pull it off?

Even if you have the best idea in the world, without the passion, drive and commitment to see it through, it still stands a good chance of failing.

## 10. Is there scope for growth?

Can you expand on your idea in the future by adding new products or services, entering new locations, or improving your original proposition?

## CREATING A BUSINESS PLAN

A BUSINESS PLAN is a written roadmap of how an entrepreneur aims to achieve success



"A written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement" Entrepreneur's Encyclopedia

"A business plan lays out a written plan from a marketing, financial and operational viewpoint" Investopedia  
A business plan however, is NOT

- A set of financial projections
- An application for financial assistance
- A guarantee of success

## HOW TO WRITE A BUSINESS PLAN

Business plan writing is essentially answering strategic questions such as:

1. How do you want your business to look like in 5 or 10 years time (level of revenue, location, number of employees etc.)
2. A shorter term year plan considering an analysis of :
  - the industry and competitors
  - customers and marketing
  - operations
  - financial planning

“We are spurred on by the impossible.” Bruce Brenn

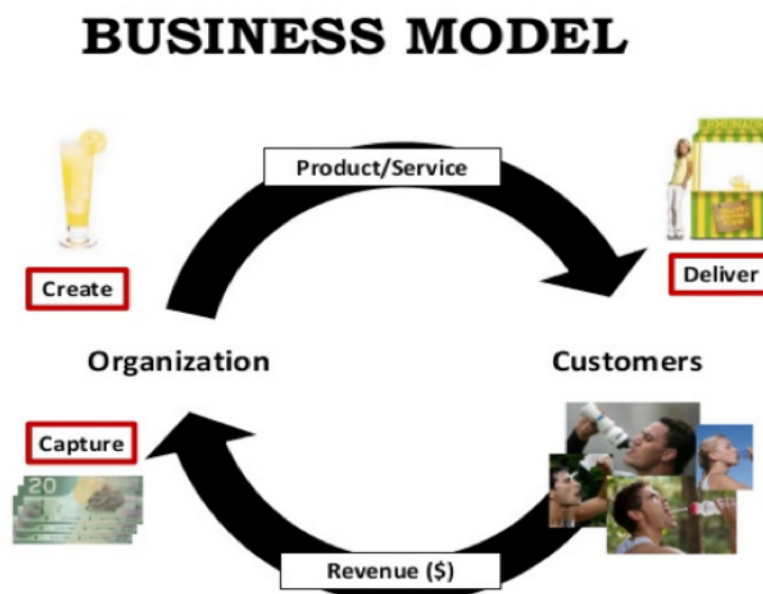
## CONSIDERATIONS

1. Company analysis: What products or services do we offer?
2. Industry analysis: How big is the market? What trends are affecting the markets?
3. Competitive analysis: Who are your competitors? What are their key strengths and weaknesses?
4. Customer analysis: Who are our target customers?
5. Marketing plan: how will we reach our target customers?
6. Management team: who are the key players in our team? What is their competence and their strenghts/weaknesses?
7. Operations plan: How shall we manufacture the products or deliver the service to customers? Where are we going to sell them?
8. Financial plan: How much capital are we going to need? Where are we going to get the funding?

REFERENCE: Sahlman, W. A. (2008). How to write a great business plan. Harvard Business Press.

## ADOPTING A BUSINESS MODEL...

At the most basic level, a business model is a producer making a product and selling it directly to customers. How you choose to do this is the model.



- It is a description of how your business intends to operate and make money and
- Strategic choices as to how to do so

It should focus on how the company creates value for the customer, i.e. what is the value proposition

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

## SAMPLE BUSINESS MODELS

- **The Add-On model**

Offering competitive pricing with extra add ons which raise the final price, e.g. airline tickets (+ luggage, + taxes, + seat selection etc...)

- **The Advertising model**

Revenue is driven from advertising (Facebook, Google...)

- **The Affiliate model**

An affiliate is someone who helps to sell a product in return for commission (e.g. real estate agents)

- **The Auction model**

Auctions have existed for hundreds of years, but these days the most famous auction site is probably eBay

- **The Bait and Hook model**

A relevant portion of the revenue is captured by component sales, servicing and refills etc. e.g. razor blades, copy machines

- **The Direct Sales model**

Direct sales (e.g. Farmers' markets) was initially the primary distribution channel, but production efficiency and improved transportation made the retail distribution channel pre-eminent for many years. The emergence of the Internet has yet again made direct selling a valid business model. For example, the PC manufacturer Dell focuses on a DS model.

- **The Franchise model**

By purchasing the right to a working business model, the entrepreneur pays royalties but gets an access to a support network and an established brand

- **The Freemium model**

A company gives away something for free in return for personal details that are then used for marketing purposes. Typically used in service-based business where the lifetime value is high. Examples such as Spotify, Tinder, Skype or Flickr. (Compare with advertising model)

- **The Low-Cost model**

In order to drive significant volumes of sales, the price is pushed very low. Examples: Primark, Wal-Mart, H&M

- **The Pay-As-You-Go model**

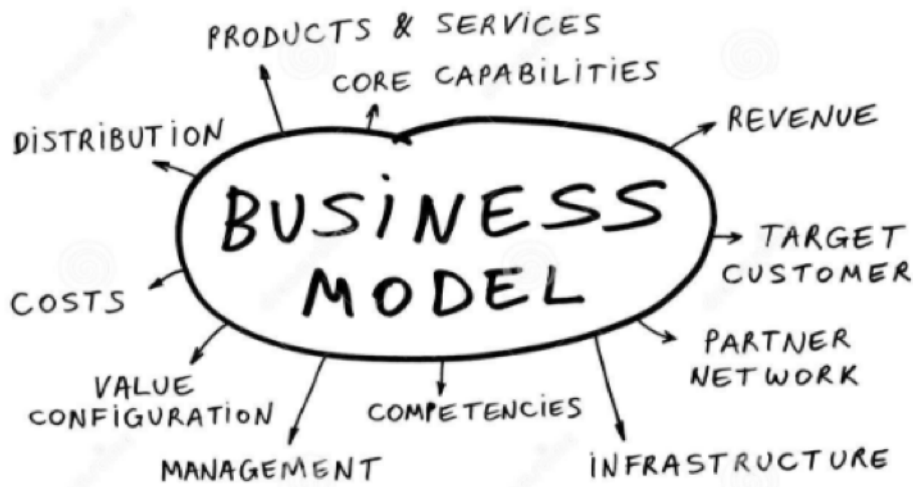
The actual usage is metered and the customer pays on the basis of consumption. e.g. Mobile phone and data contracts

- **The Subscription model**

Since the cost of new customer acquisition is usually high, the aim is to secure the customer on a long term contract. Most utilities providers operate under this model, e.g. magazines, electricity.

## ACTIVITY

### A. Explore Key Business Models



In a small group - choose your favorite company or brand.

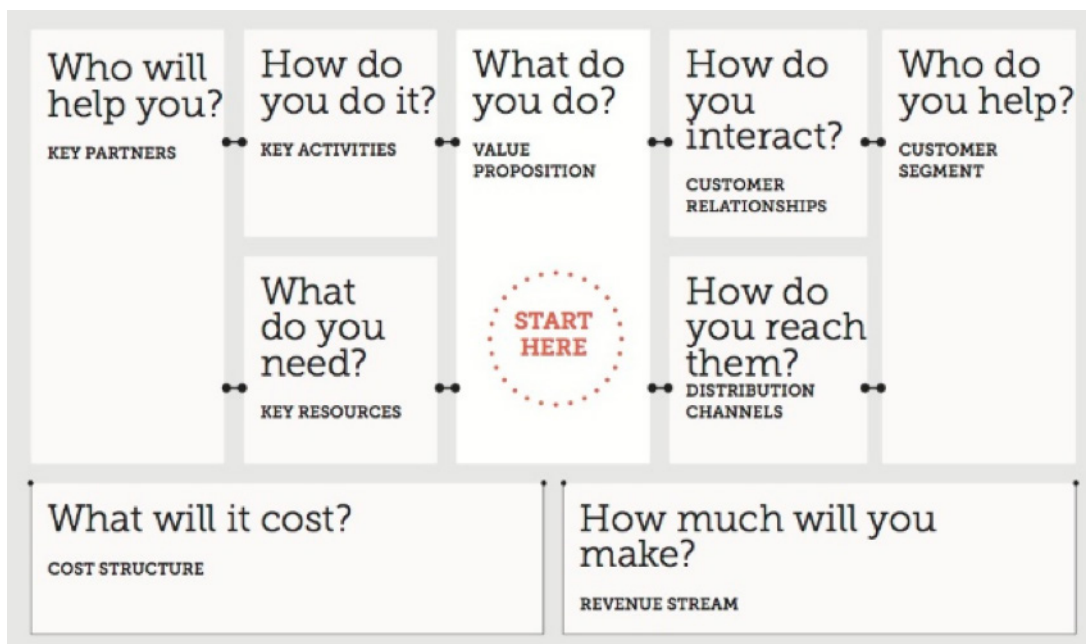
- What is their business model? Is it one of those described above or is it one not mentioned in the list?
- How would you describe their revenue-making compared to the competitors?
- Discuss your findings with other teams. What do you learn?

## ACTIVITY

### B. Understand how the BUSINESS CANVAS MODEL works

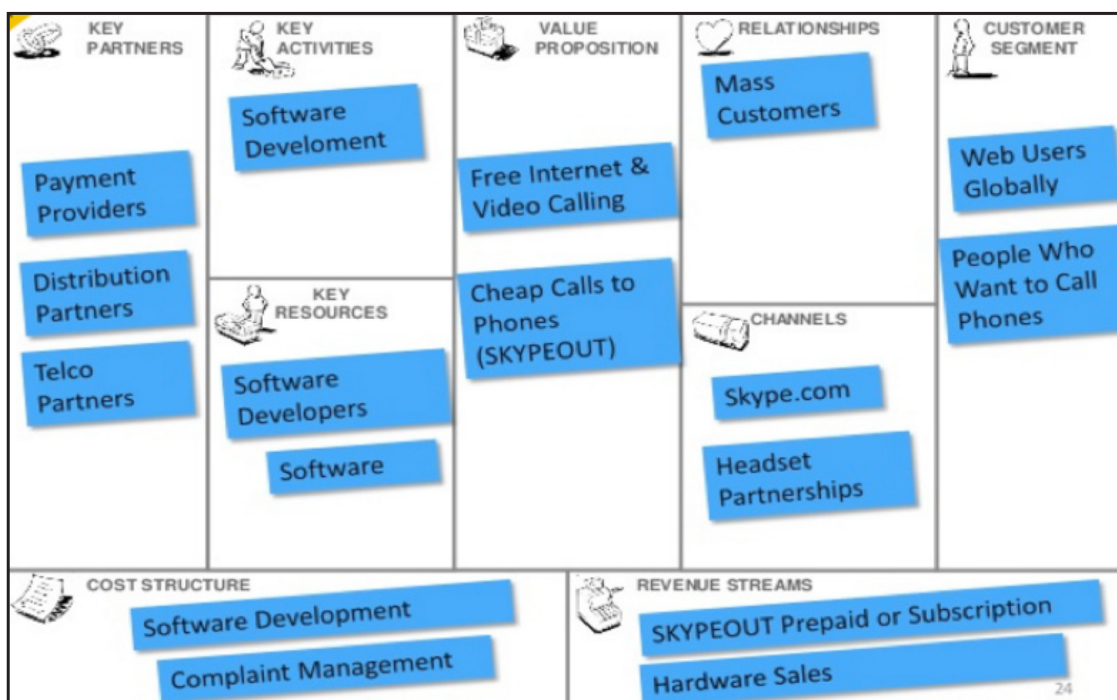
#### THE BUSINESS CANVAS MODEL tool

A strategic tool to describe & design your business model is called CANVAS - a simple visual tool which allows an entrepreneur to build their model step by step.

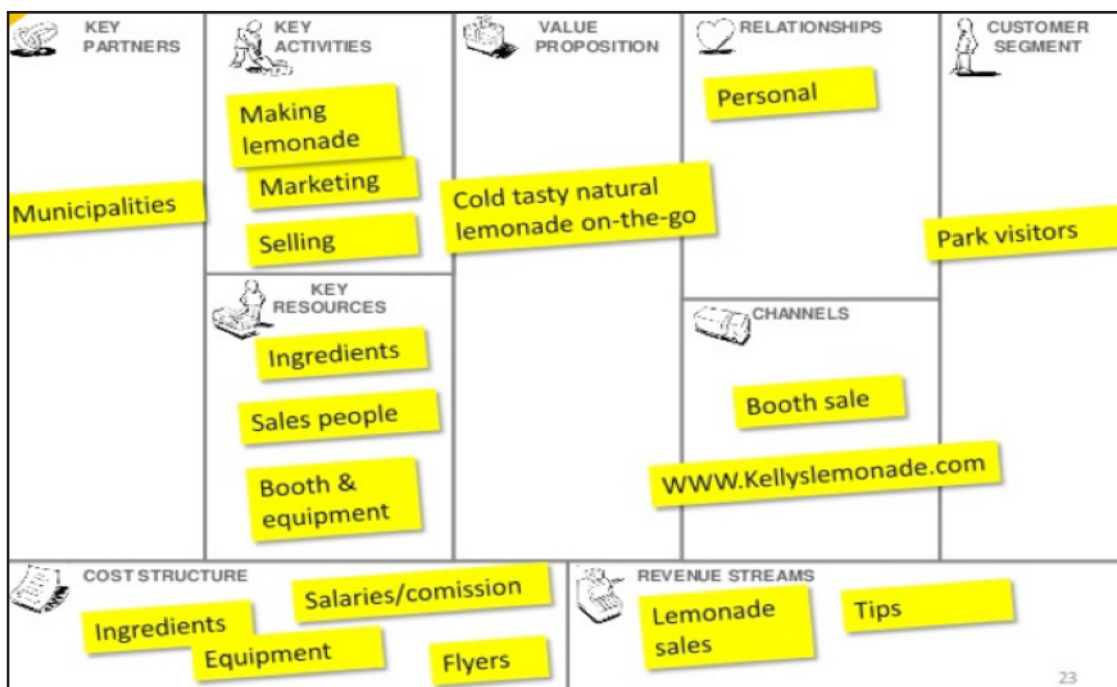


Watch the BCM explained in 2 minutes at <http://www.businessmodelgeneration.com/canvas/bmc>

**EXAMPLE 1: SKYPE**



**EXAMPLE 2: Kelly's Lemonade**





## ACTIVITY

### C. BUILD YOUR OWN BUSINESS MODEL

- Once you know the value proposition (i.e. the product or service you're offering) think about your business model and fill out the relevant boxes in the Business Model Canvas.

#### EXAMPLE 3: Nespresso

<https://hbr.org/2013/05/a-better-way-to-think-about-yo>

This web offers insight into how Nespresso built their business model

## ACTIVITY

### D. DISRUPTIVE BUSINESS MODELS

Watch a lecture from Harvard Innovation Lab about Start Up secrets:

Startup Secrets: Business Model

<https://www.youtube.com/watch?v=K0Eu6cL0BR8> (length 1h.51)

## MARKETING - ANALYSING MARKETS

Description: In this section you will consider how to analyse the market to be able to introduce your product or idea successfully.

### THE 4 P-S

The most traditional model for basic marketing strategy is called the 4 P-s. It revolves around the definition and choice of PRODUCT, PRICE, PROMOTION and PLACE.

## ACTIVITY

### E. Consider your 4P-s

#### PRODUCT

Think about ideas on how you can develop your product offer. As well as considering the accessibility needs of your customers, are you making the most of your area, its heritage and local produce? Are you linking with other organisations to meet what customers are looking for more closely? Have you considered what your competitors are offering?

My product offer is:

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#### PRICING

Are the prices you will charge considered value for money by your target customer groups? Are you excluding any particular groups through your pricing? Could you offer discounts or special offers e.g. for those with accessibility needs and their carers? Children and their parents? How do they compare with your competitors? Are there ways you could reduce your costs by saving energy, for example? Write your pricing strategy below.

My pricing strategy is:

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## PROMOTIONS

How could you communicate your offer to customers in the most effective way? Can you use links with local business groups and other networks for those with particular needs to promote your offer? Could you develop an accessible tourism 'trail' in a co-operative way? How could technology help you to increase awareness and attract a wider audience? Have you considered other promotional tools such as advertising, direct mail and public relations, for example? How many of your customers do you think would return? Why would they return - how could you encourage customer loyalty? Write your promotional strategy below.

My promotional strategy is:

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## PLACE

We can think of 'place' in terms of how the customer makes a booking, pays for their visit or product and their whole experience during their stay in your business – this applies equally to a business run entirely on the Internet. What steps can you take to make the customer experience from start to finish truly memorable? How can you make it different to your competitors' offers? Think about the entire chain from the customer first finding your product or service. Write your strategy below.

My strategy for 'place' is:

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## ACTIVITY

### F. 4 P-s Digital GAME: A Piece of Cake

Try this simple interactive game to choose the best product, place, price and promotions for a bakery.  
A PIECE OF CAKE <http://in.fm/v/MdPYnM>

## ANALYSING THE MARKET

The goal is:

- to determine the size and attractiveness of the market
- to understand the opportunities and threats in the market relating to your company capabilities.

### Market analysis outlines:

1. Market size
2. Growth rate
3. Profitability
4. Industry cost structure
5. Distribution channels

### 1. MARKET SIZE

The size of the market is based on the number of individuals in a certain market who are potential buyers and/or sellers of a product or service. Companies need to know the market size before launching a new product or service in an area.

Read more: <http://www.businessdictionary.com/definition/market-size.html>

Useful data sources for determining the size of the market

- Government data
- Trade associations
- Financial data from major players
- Customer surveys (especially in Innovation)

## 2. MARKET GROWTH RATE

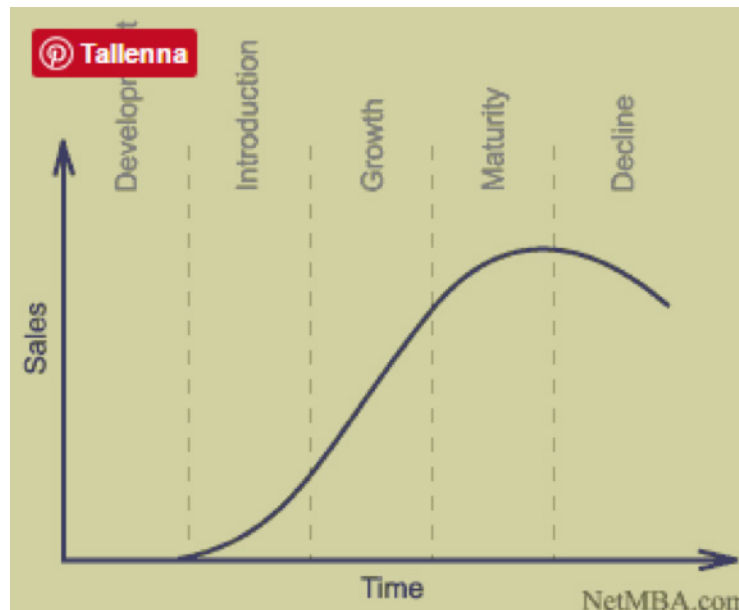
Market Growth Rate is closely related to the Product Life Cycle. Learn more: <http://www.investopedia.com/terms/p/product-life-cycle-management.asp>

It's important to remember that the growth rate is

- an estimate
- normally calculated by extrapolating historical data and projecting that into the future

However, this method does not predict current trends or important turning points

A better method is to study growth drivers such as demographic information and sales growth in complementary products.



Ultimately, the maturity and decline stages of a product will be reached and sales may rapidly decline and eventually die. Think, for example of old mobile phone models.

## 3. MARKET PROFITABILITY

Within the same market, different firms will always have varying levels of profitability. However, the average profit can be used as a guideline for knowing how profitable the market is.

Porter's framework for evaluating the attractiveness of the market identifies five factors that influence the market profitability

### PORTER'S FIVE FORCES MODEL

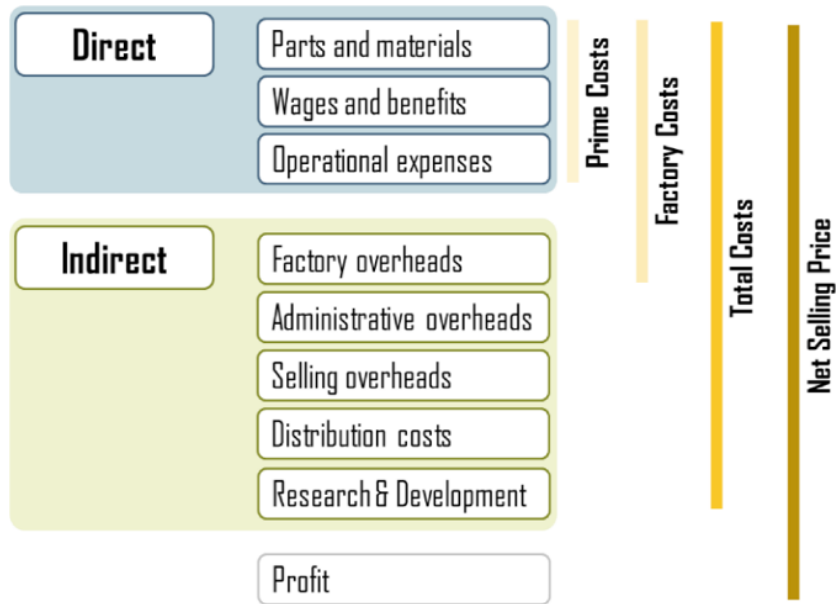


ESSENTIAL MARKETING MODELS [HTTP://BIT.LY/SMARTMODELS](http://bit.ly/smartmodels)

Learn more: <http://www.quickmba.com/strategy/porter.shtml>

## 4. COST STRUCTURE of the INDUSTRY

In order to succeed, understanding the cost structure is crucial. Cost structure is also vital in setting the price point for the final product



Source: adapted from UNIDO (2000) Structure of Production Costs in Footwear Manufacture.

### DIRECT COSTS

- costs that can be completely attributed to the product (materials, labour, machinery)

#### Divided into

- fixed = remain constant (rent, machinery)
- variable = increase as the production increases (materials, wages)

### INDIRECT COSTS

- costs that are indirectly caused by the production. They cannot be directly allocated to any product or service.

- For example administration, marketing, maintenance

Learn more @ <http://www.investopedia.com/terms/d/directcost.asp>

## 5. DISTRIBUTION CHANNELS

How the product or service reaches the consumer



Traditionally the channel includes the producer, wholesaler and retailer. Nowadays however, the Internet and mobile technology have created a whole new network of channels.



### Now omnichannel retailing is normal

## Omnichannel Retailing and 360° Marketing

- Xcel Brands is a leader and innovator in **OMNICHANNEL RETAIL SALES** and **360° MARKETING**.
  - By connecting retail distribution channels (Internet/digital, direct-response television, and bricks and mortar retailers), Xcel is able to serve its followers at every sales touch point and engages them in 360° marketing through social media to build our brands.

DIGITAL	DIRECT TO CONSUMER	BRICKS & MORTAR
<b>Web, Mobile Devices</b> <ul style="list-style-type: none"> <li>• Rich product info</li> <li>• Customer reviews and tips</li> <li>• Broad selection</li> <li>• Convenient and fast</li> </ul>	<b>QVC</b> <ul style="list-style-type: none"> <li>• A combination of entertainment and shopping</li> <li>• Brand personality association</li> </ul>	<b>Retail Shopping</b> <ul style="list-style-type: none"> <li>• Instant Gratification</li> <li>• Ability to test and try on</li> <li>• Personal assistance</li> <li>• Convenient returns</li> </ul>
<b>360° Marketing</b> <ul style="list-style-type: none"> <li>• Print</li> <li>• Digital</li> <li>• Press Events</li> <li>• TV Appearances</li> </ul>	<ul style="list-style-type: none"> <li>• Editorial</li> <li>• Personal Appearances</li> <li>• In-Store Events</li> <li>• Press Outreach</li> </ul>	<ul style="list-style-type: none"> <li>• Retail Co-Op</li> <li>• Customer Contests</li> <li>• Outdoor Media</li> <li>• Direct Mail</li> </ul>
<b>Social Media</b> <div style="display: flex; justify-content: space-around; align-items: center;"> </div>		
<div style="display: flex; align-items: center; justify-content: center;"> </div> <p style="text-align: right; font-size: small; margin-top: 5px;">www.xcelbrands.com</p>		

## ACTIVITY

### G. Analyse your market (complete the CANVAS model)

1. Estimate, how big and profitable your market/customer base is (your customer segment)

Take into consideration the size of your market, the product life cycle and market profitability. Use relevant data from industry, governmental organisations and demographic data to create your estimation.

2. What is the cost structure of your product/service

1. Key Resources: What will manufacturing cost be? Are there any intellectual property or human resources costs?

2. Cost structure: What are the most important costs that your business will have to pay?

3. Revenue Stream: How will you make money from this?

4. Channels:

How will your customers find out about you?

How will you get your product or service to them?

## MARKETING - ANALYSING CUSTOMERS

Description: In this section you will learn how to analyse your customer base as a key aspect of successful marketing.

A pivotal part in any business plan answers questions such as:

1. For whom are we creating value?

2. Who are our most important and valuable customers?

3. What are our customer archetypes?

Customer analysis identifies target customers and their needs allowing for the the development of a value proposition to satisfy these needs.

### Behavioral profile

- How your product matches a customer's lifestyle?

### Demographic profile

- describes demographic attributes
- aims to understand the **target market segment**

A market segment is a subset of a market made up of people with similar characteristics and demographic factors: age, income, education, ethnicity, geography...

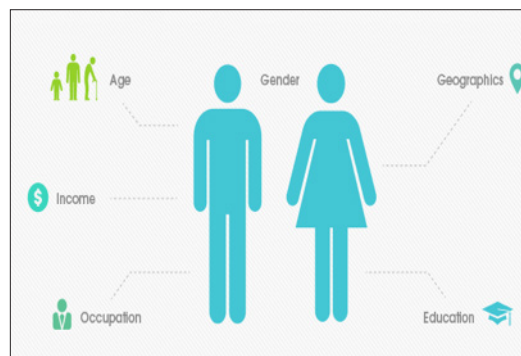
## EXAMPLES

### Behavioral Profile

Sandra..



- Visited website
- Visited Blog
- Clicked to Twitter Page
- Visited Community
- Downloaded White Paper "XYZ"
- Watched "7 Reasons" Video
- Submitted Demo Request Form
- Call Center Conversation
- Trial software login



### QUESTIONS frequently asked for demographic profiling

- Age range of the customer who wants my product or service?
- Gender most likely interested in this product or service?
- Income level of potential customers?
- Level of education?
- Marital or family status: In a couple, single, divorced? Kids or grandkids?
- Hobbies of target customers?

## Customer Buying Criteria

Behavioral analysis, or psychographic profile, aims to identify the factors influencing why a consumer chooses one product over another

- These factors are called buying criteria

In b2c (business-to-consumer or retail sales) price and quality tend to be the dominant factors, but in b2b (business-to-business or industrial markets) service issues such as reliability, payment terms, and delivery schedules tend to weigh more.

## Customer Buying Habits

Once the primary buying criteria has been identified, the company can better aim its marketing efforts to influence the customer's perception of the product along four main dimensions

- Market research is often used as a tool to identify these factors
- Behavioral profiling can also focus on actions in order to understand buying habits

### QUESTIONS frequently asked for behavioural profiling

- Reason/occasion for purchase?
- Number of times x will be purchased?
- Timetable of purchase (every week, month, quarter, etc.?)
- Amount of product/service purchased?
- How long it takes the customer to make the decision to purchase?
- Where does the customer purchase and/or use the product/service?

## ACTIVITY

### H. Analyse your customers (complete the CANVAS model)

Profile your target customer segment by answering the given questions on behavioural and demographic profiling. Present your findings to others in the group and include in your CANVAS MODEL.

#### CONSIDER:

How could you find out the behavioral profile of your customers?