



# **PA181: Service Systems, Modeling and Execution Business Models**

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# Key business model questions

How do you acquire customers?

After you have landed a new customer, how do you plan to relate to that customer and manage the relationship (if at all)?

How do you charge your customers? What is your revenue model?

How much do you charge your customers? Can you calculate your revenues for the next month, quarter and year?

What assets are available to you or under your control?



## Key business model questions (cont'd)

Who are your key partners?

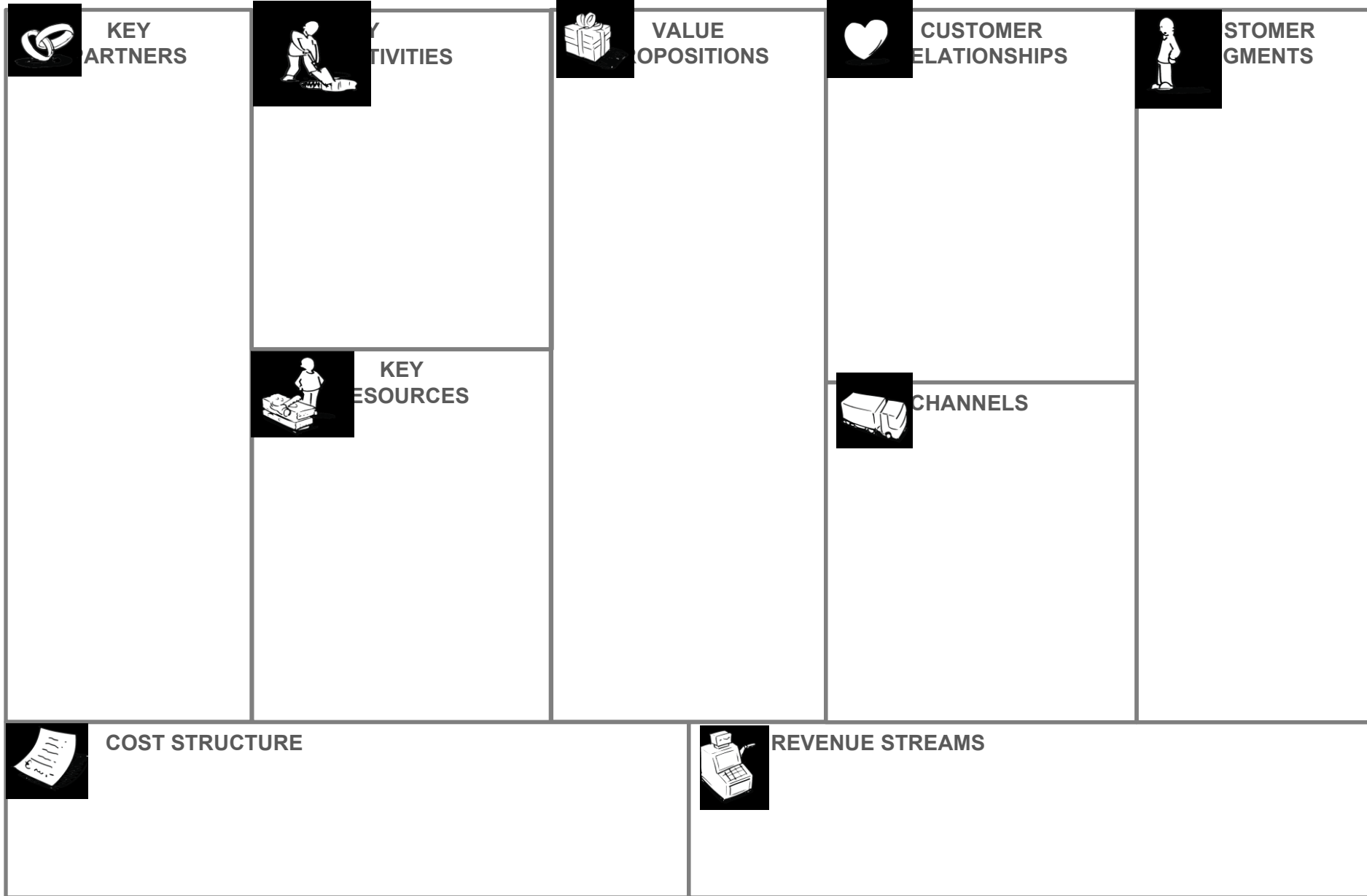
What key activities do you need to engage in to deliver your value proposition?

What are your fixed costs?

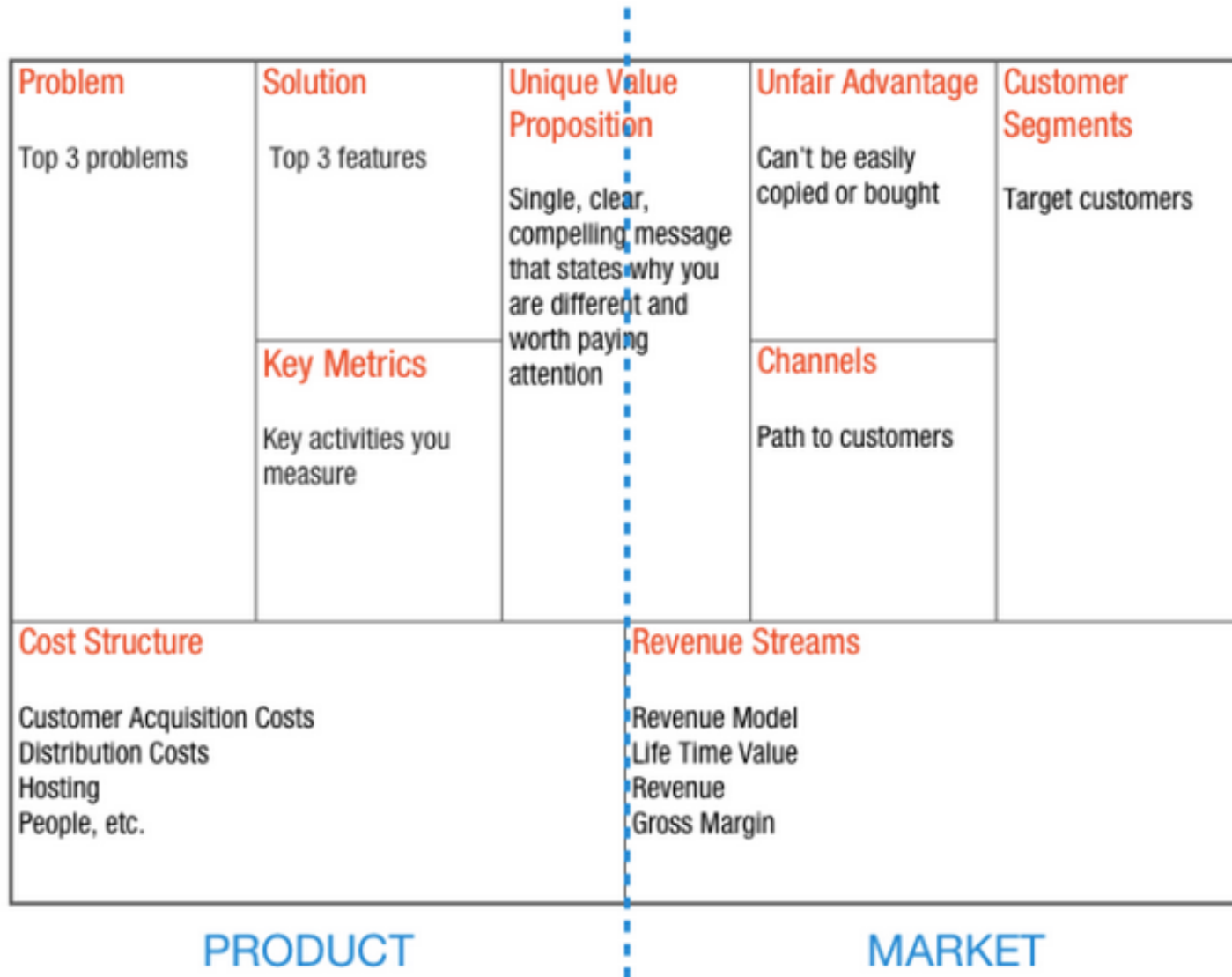
What are your variable costs? Can you calculate your total cost for the next month, quarter and year?

Does your revenue forecast demonstrate increased profitability towards the end of the forecast period?

# Business Model Canvas

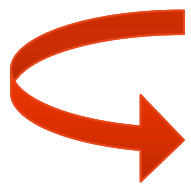


## Business Model – Lean Canvas





# Business Model versus Business Plan

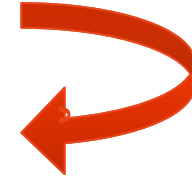


Business Model

A single diagram of  
your business

Business Plan

A document investors  
make you write that  
they don't read



# The prescribed order

<b>PROBLEM</b> Top 3 problems  1	<b>SOLUTION</b> Top 3 features  4	<b>UNIQUE VALUE PROPOSITION</b> Single, clear, compelling message that states why you are different and worth buying  3	<b>UNFAIR ADVANTAGE</b> Can't be easily copied or bought  9	<b>CUSTOMER SEGMENTS</b> Target customers  2
	<b>KEY METRICS</b> Key activities you measure  8		<b>CHANNELS</b> Path to customers  5	
<b>COST STRUCTURE</b> Customer Acquisition Costs  Distributing Costs  Hosting  People, etc.  7		<b>REVENUE STREAMS</b> Revenue Model  Lifetime Value  Revenue  Gross Margin  6		



# Problem and Customer Segments

<b>PROBLEM</b> Sharing lots of photos/videos is time-consuming.  Parents have no free time.  There is lots of external demand on this content.  <i>Existing alternatives:</i> Flickr Pro, SmugMug, Apple MobileMe, Facebook	<b>SOLUTION</b>	<b>UNIQUE VALUE PROPOSITION</b>	<b>UNFAIR ADVANTAGE</b>	<b>CUSTOMER SEGMENTS</b> Parents (creators)  Family and friends (viewers)
	<b>KEY METRICS</b>		<b>CHANNELS</b>	<i>Early adopter:</i> Parents with young kids
<b>COST STRUCTURE</b>		<b>REVENUE STREAMS</b>		





# Unique Value Proposition

## Unique Value Proposition

Why you are different and worth buying/getting attention

### Some Tips on how to craft a UVP

- Be different, but make sure your difference matters
- Target early adopters
- Focus on finished story benefits
  - Example resume building service
    - A feature - “professionally designed templates”
    - Benefit – “eye catching resume that stands out”
    - Finished story benefit – “landing your dream job”
- Pick your words carefully and own them
  - Performance – BMW
  - Design – Audi
  - Prestige – Mercedes
- Picking a few key words that you consistently use also drives your search engine optimization (SEO) ranking

Answer what, who and why

Study other good UVP's



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# Solution

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# Channels

Freer versus Paid

Inbound versus outbound

- Examples inbound channels
  - Blogs
  - SEO
  - Ebooks
  - White papers
- Examples of outbound channels
  - Print/TV ads
  - Trade shows
  - Cold calling

Direct versus automated

Direct versus indirect

Retention before referral



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<b>COST STRUCTURE</b>			<b>REVENUE STREAMS</b>	



# Revenue Streams and Cost Structure

## Revenue Streams

If you intend to charge for your product you should charge from day one.

- Price is part of the product
- Price defines your customers
- Getting paid is the first form of validation

## Cost structure

It's hard to calculate into the future. Instead, focus on the present

- What will it cost you to interview 30 – 50 customers?
- What will it cost you to build and launch your MVP?
- What will your ongoing burn rate look like in terms of both fixed and variable costs?



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<b>COST STRUCTURE</b> Hosting costs - Heroku (currently \$0)  People costs - 40 hrs * \$65/hr = \$10k/mo		<b>REVENUE STREAMS</b> 30-day free trial then \$49/yr		
		<b>Break-Even Point:</b> 2,000 customers		



# Key Metrics

Find the key number that tells you how your business is doing in real time, before you get the sales report







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# Unfair Advantage

A real unfair advantage is something that cannot be easily copied or bought

How can/will you make yourself different and make your difference matter

Some examples

- Insider information
- The right “expert” endorsements
- A dream team
- Personal authority
- Large network effects
- Community
- Existing customers
- SEO ranking



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