

FOUNDATION OF DIGITAL BUSINESS

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Week 02

Lecture 06

Lecture 06 : What is a Business Model and how to build a Business Model

Good morning. We have completed the first two modules, and now we move to module number 3, which is about business model innovation, leadership, and innovation. It has three sub-modules, and the first one is to explain what a business model is. Since we talk about business models, I should tell you what a business model is. I will show you an example, a particular way of building a business model—how you build a business model. I will take one such business model, and it is a very simple way of doing a business model.

I am using that for my lecture. The first one is: what is a business model, and what is the importance of it? Then, the second part will be all about how to make a business model, and it is called a business canvas model. Anyway, what is a business model? Simply speaking, it is how a company creates value for itself while delivering products or services to customers.

My main purpose of doing a business is to deliver a product or a service to somebody who needs it—to a customer—and at the same time, make a profit. I cannot do it at a loss, for example. I want to make a profit; that is why I have started a business. I am fulfilling the need for a particular product, item, or service, which is there in the market.

Somebody needs something, and I am going to provide that, and in the process, I will make some money. How I do that from start to finish is all about a business model. If you see a definition of a business model. This book has been referenced; you will find its name in the reference section, so if you want, you can go through this book or refer to it. A business model is a simplified and aggregated representation of the relevant services, processes, and activities of a company, describing how information,

products, and services that create additional value are developed and managed. While also considering strategic and procedural, as well as demand components, to support sustainable value creation. The important word here is sustainable value creation. We are creating value, and we have to sustain that, and maintain that. It should not be like you start a business and it fails within, say, six months or one year. That is not a good idea; that is not a good model.

You must develop a model that can sustain over years, multiple years. That is the whole idea behind creating or developing a business model. I would say developing is a better word than creating a business model. I will take you through one of the models known as the business model canvas, which was developed by Alexander Osterwalder. I have provided a YouTube link, which I will not show here; you can watch it at your leisure. Go through this YouTube video; it will give you more details. I will give you an overview of how the model works so that you can apply it in practice.

Put it in practice and you can use it for developing a business model of your own for whatever product or service you want to use it for. Because it will be very specific, product specific or a service specific, you cannot make a model for which is can be used in any products, no that is not possible. Each product must have its own specific business model catered or designed for that product or for that service. Now what is this model canvas is about? It maps out the critical nine building blocks.

I will go one by one gradually explain to you a business plan and why this canvas because it is a template and you see the nine building blocks so that you will not miss out anything. Otherwise, what happens if you start from a blank sheet and I want to start a business. For that I want to do something. Now why you need this tool or similar tool not only that necessarily ,is that it tells you that you should consider these elements, here in this case it is 9, some other model might have 8 or 7 or 12 or whatever it is. Here it is 9, so you have to one by one go and see whether all of these 9 or some of these 9 are relevant, some of them will be obviously, others may not be so.

Consider which are relevant for your business and then you have to study each of those building blocks and find out their relation to your particular business or the product you are going to make. It provides an overview of how a business should be conducted. Let us now forget about the model. Say the business - what are the various aspects of a business which impacts the performance of the business

It does not talk about manufacturing, the product or the product quality etc. It is only the business angle. They enable the companies to visualize and analyze their strategies. Based on these nine components or the building blocks you are actually building your strategy, business strategy. You are finally stating this is my business strategy which is again very important because without a strategy you will not have any direction.. Strategy gives you the direction.

You can update or change the model once you have the model as the company evolves or if the environment changes or you have new expansion ideas or whatever. All of these things will impact your model. Once you start with the model and keep it, it should be a live document, and you should review it every 6 months or 1 year and see how your business is changing, and then how to adapt or change the model accordingly. One of the most important segments, or building block is called the customer segment. If you do not know who your business is catering to, you will never be able to sell them.

You need to figure out who your customers are and why they should buy from you. Whenever we start a business, we first think of the customer. I am making this product or going to deliver this service for whom? Who is my customer? That is the starting point.

These are the nine drivers. Customer segment and value proposition, define the products and services that create value for each of the customer segments. This is again initially you have to spend a lot of time: What is the value proposition? What are you giving to the customer? What is the value? Because it may be very similar—like you are making phuchka or vada pav or maybe a burger. Many people make it or pizza. What is your value proposition?

What is it you are giving—something better or extra—so that the customers will take it from you and not from somebody else? Channels: the various methods of connecting the value proposition with the customers. Channels are how you connect, how you deliver, how you supply your product—whatever you are making—to your different types of customers because they can be very different. They could be individuals, they could be an organization, they could be government, they could be defense, etc. Customer relationship.

Like, what is your expectation from the customer? You want feedback, etc. to build your relationship because you want to retain your customer and you want to grow. Revenue streams. For what values are the customers willing to pay? Because the whole business is all about making profit—to make profit, you have to earn.

Which are the value props for which the customers are willing to pay? Key resources. What is the infrastructure required? This is easy, this is the easy part. Key activities like process like manufacturing, platform development, analytics, what you need for your business model for your strategy to deliver whatever you want to do.

Those who can help leverage you, you need to identify who your partners will be because you have to interact with them because they will add value to your business, to the product, help you reach out to customers and various other things. Cost structure and the final step is to determine the cost involved for all the activities required for delivering whatever you want to make or whatever you want to sell. Because ultimately everything is cost. Because price is nothing but cost plus, but in today's world very competitive industry. It is actually

something like cost, I mean cost is price minus. Your price is fixed in a competitive market. You know the price of the competitor is selling at ,so you cannot price it more than that. My price is fixed then what will my cost be so that I can make profit. I have to work backwards. This is my price end limit and my cost has to be obviously less than that so that I can make profit.

That is the other way of looking at it. I will quickly show you how the canvas looks like. I will come back to this. This is how it will look. These are the nine building blocks, as I said, and some of them are grey-colored.

These are the cost parts, and some of the blue-colored ones are the revenue segments. I will come back to this once I cover just a brief background of each of these nine elements. We were here—value proposition. It is an overall view of the company's bundle of products and services. It is about solving a need or a problem that we know. What is your idea of the product? That is what you are trying to bring out from this—your idea, the product-market fit.

Understanding this through the launch of a minimum viable product. There is something called a minimal viable product, meaning in today's world, especially in digital technology, the digital world, or apps, etc. You may not start after completing the whole thing. You can always do test marketing for this and then gradually improve it based on feedback and performance. Like all these ChatGPT models, for example, if you see, they release something called a beta product. It is half-made, and then they test the market—how people are using it, what the feedback is, what the mistakes are, what the errors

are—and then you gradually improve it. You do something like a prototype. There is a concept called design thinking.

You quickly do a prototype. Or what we call a minimal viable product, and send it for test marketing. Send it out to the market, and then you get all the feedback because the requirement of a customer— what is needed from this product—is very difficult to get at the first moment. You can start with some ideas, but you do not really know which areas it will serve or how it will serve the purpose. For that, you have to get user feedback. It has to be used, and then things will start coming out: this should have been added, or this is not required, or this is a problem, or something is missing. All that will give you an idea to complete your product.

The features—so risks of enhancing the usage. Are you making the product too complicated to use? There is a risk in that. What are the product features? Then people will not accept it.

The classic example here is UPI. All of you are using UPI, right? Why are all of you using UPI? Because it is so simple to use. It is very safe, and its performance is very accurate—it does not fail very often. Once in a while, it may fail, but usually, it works 99 percent of the time easily. The simplicity of it has made it popular with the lowest of the masses. People are not educated, illiterate, do not know English, have not been to school—

Why is it so? Because the product is so user-friendly, simple to use, and easy to use. This is a very crucial component of the design part. When you do the UID design of the user interface the UI part. So you have to clearly think that what my UI should be so that it is easily understandable by any and everyone.

Then only your product will be definitely successful. Otherwise no, if it is too complex, many steps, too many validation, too many OTPs, too many steps and you feel irritated. That is true with any users if they find you have to depend on the language when you think whatever knowledge of English is necessary etc. Then less and less number of people will be using it.

Customer gains, identifying the solution for the customer. What is the customer actually is wanting? If you can do that deliver that then that is one of the strong value proposition. Pain is resolved, realizing what the customer problem is resolved. What problem are you solving?

For example, if I take the case of UPI, one of the problem you are solving is change, availability of change. You want to buy a thing which is costing 13 rupees and you give him a 50 rupee note or a 100 rupee note and the poor fellow does not have a change for that. Or if it is a 2 rupee thing or a 5 rupee thing ,as small as that and you want to pay because you need that for that moment, but you do not have change, you have maybe 100 rupees or a 500 rupees. Just imagine offering a 500 rupees note for something which is costing 7 rupees, a cup of tea maybe or paying a bus fare. 15 rupees or whatever and you do not have a change.

What do you do? You have to travel, you have to go to office or school or college, get on from the bus or wait till the conductor now gets change etcetera, etcetera, wait for whatever. This is where this has worked, this is one of the pain which has been solved by UPI, the change is no longer a pain. It is so universally accepted everywhere, so anywhere you go on the roadside, travelling, going on a vacation, you do not have to carry cash literally these days. Type of products, now it could be like a physical product, we can distinguish between product and service, if this you take the case of physical product like manufactured goods or commodities,

There could be intangible products like copyrights or licenses and like your artistic things or books or things you write or drawings or paintings etc. Your financial products like financial guarantees and the insurance policies or mutual funds and stuff like that and then your digital products like files, e-books etc. There are various types of products we talk about. How the product or bundle of products together form? Perceived value for the prospective customer, this is what is your value proposition you have to think about.

I have got these various types of products, there could be a product or a bundle of products, how the customer will perceive value is what you have to think about. Now for types of services, there could be core service like consulting or investment advice, there could be pre-sale service or like financing. Post-sales service like free delivery, returns, and then after-sales service like, you know, free maintenance, etcetera, and disposal stuff like that. How the set of services together form perceived value. When you buy a certain thing, we ask—like when we go and buy a television, for example, or a refrigerator.

The first thing we ask is, what is the after-sales service? Where is the service center? Or even if you buy a laptop or things like that. The first thing to consider is because, you know, there will be problems. If you need some servicing, something will go wrong. You

need to know where the service center is. The question comes when you buy things online.

I bought it from Amazon—fine, a refrigerator or air conditioner—but what about the servicing? Do I know for this product where the nearest service center is in my city or town? If something goes wrong—like with ACs, etc. They are bound to fail sometimes, or something is not working—that is not working. You need to reach out to the service center.

That is where the value proposition comes. You have to find out what the perceived value is for the prospective customer for each of the service types. Because you have to deliver the services—not only sell a product. Sometimes you are only selling services; then, of course, the core service is your service, like consulting and investment service. But you are doing, say, post-sales service or after-sales service. is where things like for even for physical products you need to give, especially for equipment or a car for example, etc. things like that you need service. The customer segments that is one of the important points which we had told initially is to find out an under fulfilled or unfulfilled and under discovered or undiscovered.

Like this is you are building up your model business model. What is the problem or needs you are talking about? Which you are going to do for your business. You must try to find out what is an under fulfilled market, where some products are there, but the demand is so huge they are not able to fulfill the demand like burger for example. Huge demand of burgers, but there is just one burger restaurant and it is heavily crowded and too much of demand. You can find then I can open another burger shop.

There is a unfulfilled demand there. Undiscovered is like you go to Bombay and you find out there Vada Pav is very popular and you come back maybe you stay in a small town or another town somewhere in India and you have a huge number of population who has come from the Maharashtra. Then you can think what these people will like because they are missing vada pav, so why not start a restaurant selling vada pav, so that they can feel nostalgic about their home location and will come for vada pav. It is undesired costs, situations, risks, negative emotions.

All of these things you have to think about again from the customer angle. What could be their possible pain points? Extra cost, situation, risks or whatever. It will depend on and vary from product to product, service to service—what will gain, benefit the customer, meet their expectations, desires, or bring in some surprise element. One classic

example is UPI. It not only helped so many things, but it also came as a surprise. Suddenly, we have something in our hands—a phone and with that, we can buy anything, sell anything

Even exchanging money between two people—to give you 100 rupees, I take out my phone and transfer the money instantly. The market type: existing, resegmented, or new and cloned market types. You want to find out—need to know also—what the current market type is, how it is changing with digitalization, with networks, with the internet, etc. We will give you examples of this—how the market type changes—and according to that, you have to also adapt your business model to this different or new market type. The distribution channel is how you want to deliver your product to your customer.

It could be your product could be physical or virtual, etcetera. And depending on that—for example, you have to take Blinkit, for instance. They have to deliver fast physical products. They have to have bike-riding people coming, going, zipping, etc., sending, supplying. Their model is completely dependent on these delivery boys and their bikes.

Because it has to be delivered very fast. Channels—you have to consider whether there could be a direct channel where you are directly selling to the customer or indirect, meaning you are selling it through a dealer or a wholesaler, etc. Who is then, in turn, selling it to your customer—something like a car or automobile, etc. The channel part you have to consider is what the channel is. Then, the distribution—how you are doing it—whether it is web-based, dedicated platform-based,

Or a two-step aggregator, social commerce. Nowadays, with all these things, we are also getting all these new facilities or features of distribution. I can sell it through Amazon, for example—my product—I can do that. I have a reseller or a platform provider who can connect me with various customers. Or it could be a physical mode of distribution, like original equipment manufacturing. Suppose you are selling something to another manufacturer, to an automobile manufacturer, car manufacturer, etc. There are various ways of distribution. This is the marketing subject.

I will not get into much detail because it is a huge marketing subject, but you just need to know that I have to think about distribution. Then, channel economics—the carrying costs through various sales channels. This will get into the cost angle. Depending on how you move your product through the channel, the cost will increase. You have to factor that in.

I cannot necessarily only send it to a wholesaler, then a retailer or a dealer, then a retailer, etc. I have to think about the channel from the cost angle and the product-channel fit. Identifying the fit from the perspective of the customer and the transference of the maximum admissible value of the product. How can the customer get the maximum value of the product in the easiest way, the fastest way, or does he have to go through multiple sources, which we call channels, etc.? Like the simplest example is Blinkit again—I mean, you order salt or whatever, sugar, and it comes straight away.

The other option was for Hindustan Levers or those companies making salt or sugar, etc. They traditionally send it to a dealer, a wholesaler, and then a warehouse wholesaler. The wholesaler will send it to the retailer, and the retailer can be near your house. You go to the retailer, or it can be another pop-and-mom type store near your location, and you go and buy it. It might have travelled through 2, 3, or maybe 4 storage options or distribution, which comprises what we call the channel.

How can you make that channel short? Customer relationships, again, of course, for physical channels, web or mobile channels, relationships can vary because, in a physical channel, you meet the customer, the customer meets you, so that is one way of building a relationship. For mobile or web-based, it is a virtual world, so you do not really know who your customers are, so you have to develop a methodology for getting the feedback—some sort of online methods or platforms, etc., where the customers can submit feedback or a portal to submit feedback, but it is very important to have customer feedback. the revenue model is revenue stream, pricing, type of sales—how you will make money—so I will not talk about it.

Key partnerships are your partner resources, strategic alliances, co-petition, key suppliers, Most of these are common, except the one I will explain here a little bit about competition: many competitors also join together in programs to create and build a product for the industry, and you are actually competitors, but still, you can combine and work together for mutual benefit. One example is like Maruti Suzuki and Toyota combining together to deliver new car models. Or they share their platform and develop different models, but they share a lot of the common problems and platforms, so that their costs come down. For Apple for example, iPhone many of the components are supplied by Samsung, the glass, the Gorilla Glass and all those things are being supplied by and some chips by Samsung,

but Samsung and iPhone they are competitors, but they are still using each other for mutual benefit. Key resources, here we have this physical which is the space, location and the financial, human resource and intellectual resources. These are of course we understand and nothing much to explain here. that we know we have to have a storage place or the office, the factory or shop floor that is your resource or if you are in the cloud, then the cloud becomes your resource because that is where you are storing everything. If it is a digital product or you are using the softwares etcetera or a service. Financial of course you need your money to start any business and you need employees, workers whatever everything your team and intellectual resources are your copyrights or patents or trade

secrets or all those things which you use for making your product or say publishing a book for example, so the copyright of the author which you use for making your product or say publishing a book for example, so the copyright of the author. That is an intellectual resource. this was I had shown you the last slide here this section I have shown you earlier. This is how you write pictorial. These are your 9 major components or the building blocks. Here you write you start with a sheet or on a board key partners.

Who are your key partners? We will talk about this in the next class. I will talk about details give you examples so that you can understand key activities, and the cost structure. These are all from the cost angle.

You will understand better when I show you an example in my next class. Value proposition, customer relationship, customer segment, channels, and then finally you have the revenue stream. This cost and revenue together will finally give you your profitability picture, but this is where you do not capture any values or transactions. Please keep this in mind. This is just identifying what my revenue streams are, what my cost structure is, and what the elements of my cost structure are.

If I have this whole thing in view, then I can study it and see whether I have missed out on any of the important things. There will be many small things, etc. But the main thing is that I should not miss out on the important things. We will conclude this in the next class. I will give you some examples that will help you understand much better what I am talking about.

I will just put for each of these building blocks—for any, I will take a couple of companies and show you how they have done it or their business model so that you can understand it better. Thank you very much.