Management of Innovation and Product Development

Integrating Business and Technological Perspectives

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Chapter 7
Business Model Innovation

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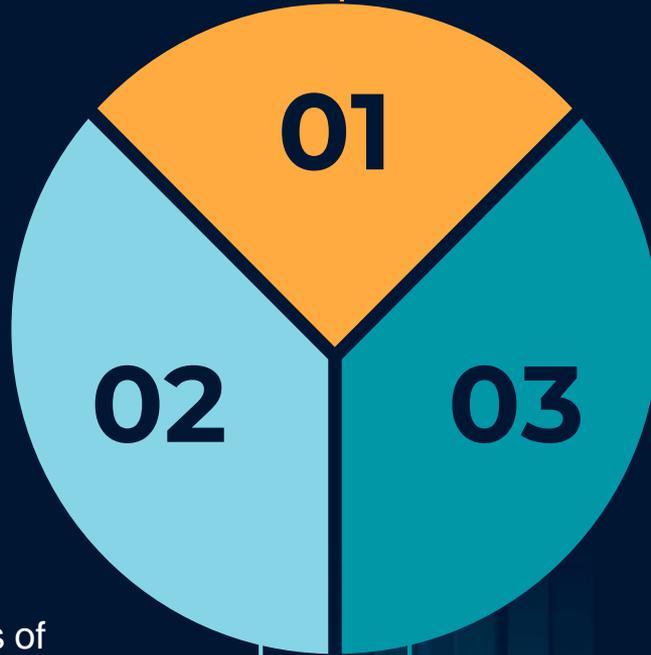# What Is a Business Model

Business models represent the "format"
key to determining success and failure of the technological innovations

01

02

03

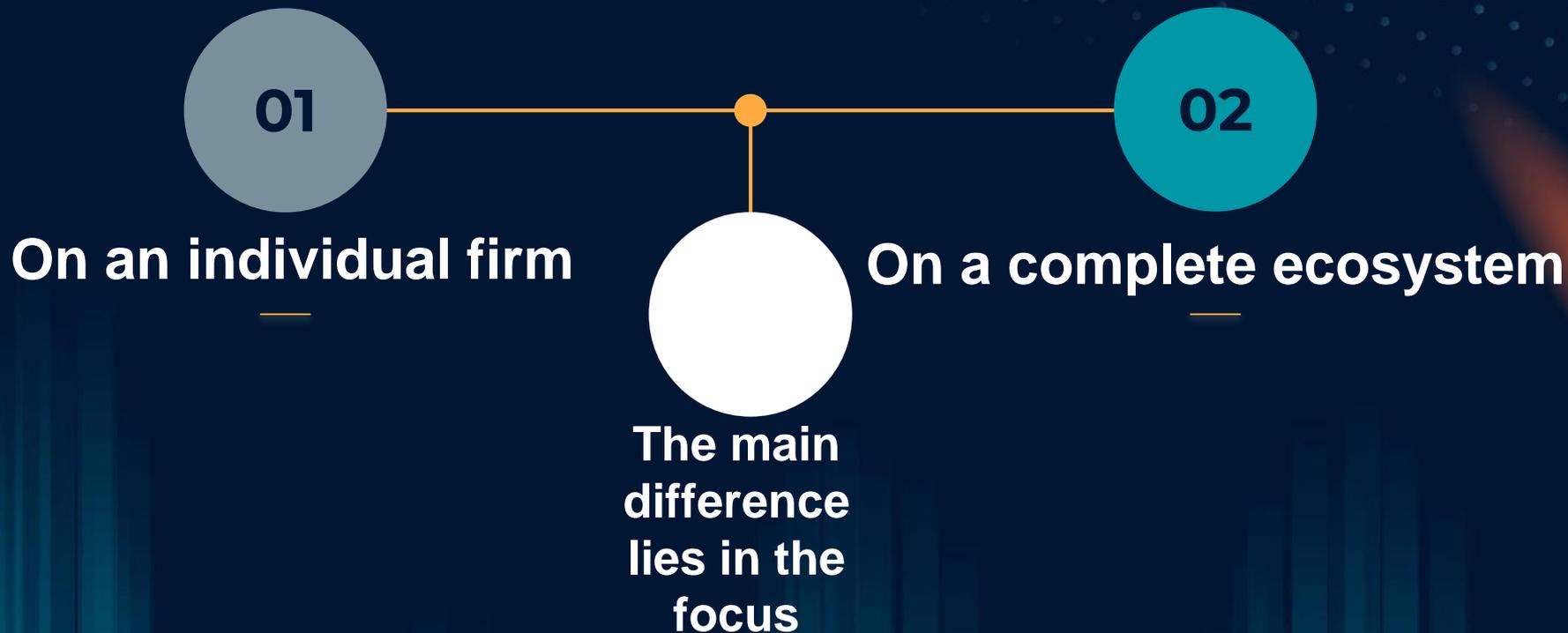**"Conceptual, rather than financial, model of a business"**
representing the constituent elements of a business and their coherence, rather than its profitability.

To "put flesh on the bones"
Once a business model has been developed use it to generate strategies, business plans, profit and loss and financial projections.

Approaches for representing business models

01

On an individual firm

02

On a complete ecosystem

The main difference lies in the focus

Representing a Business Model from the Perspective of a Single Firm ...

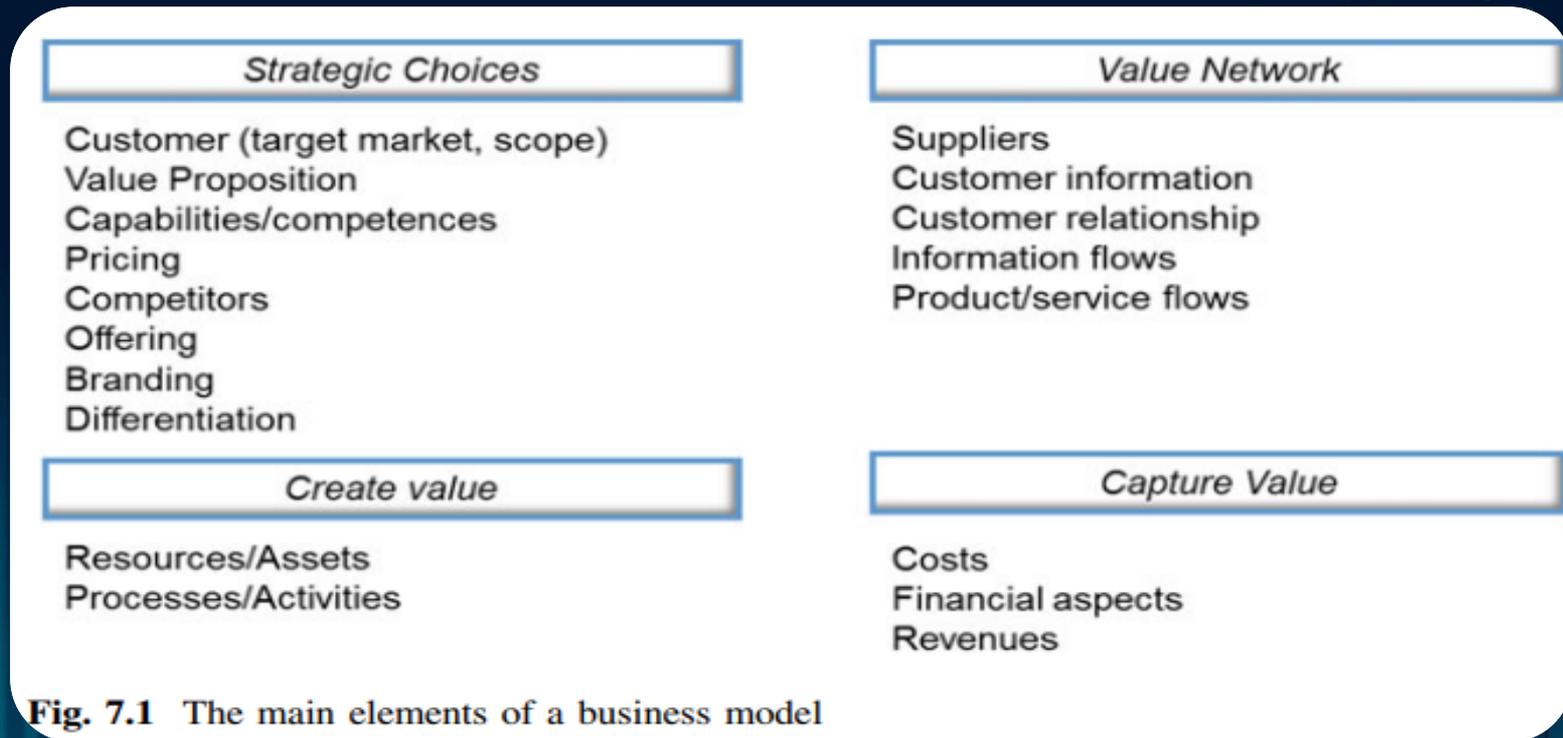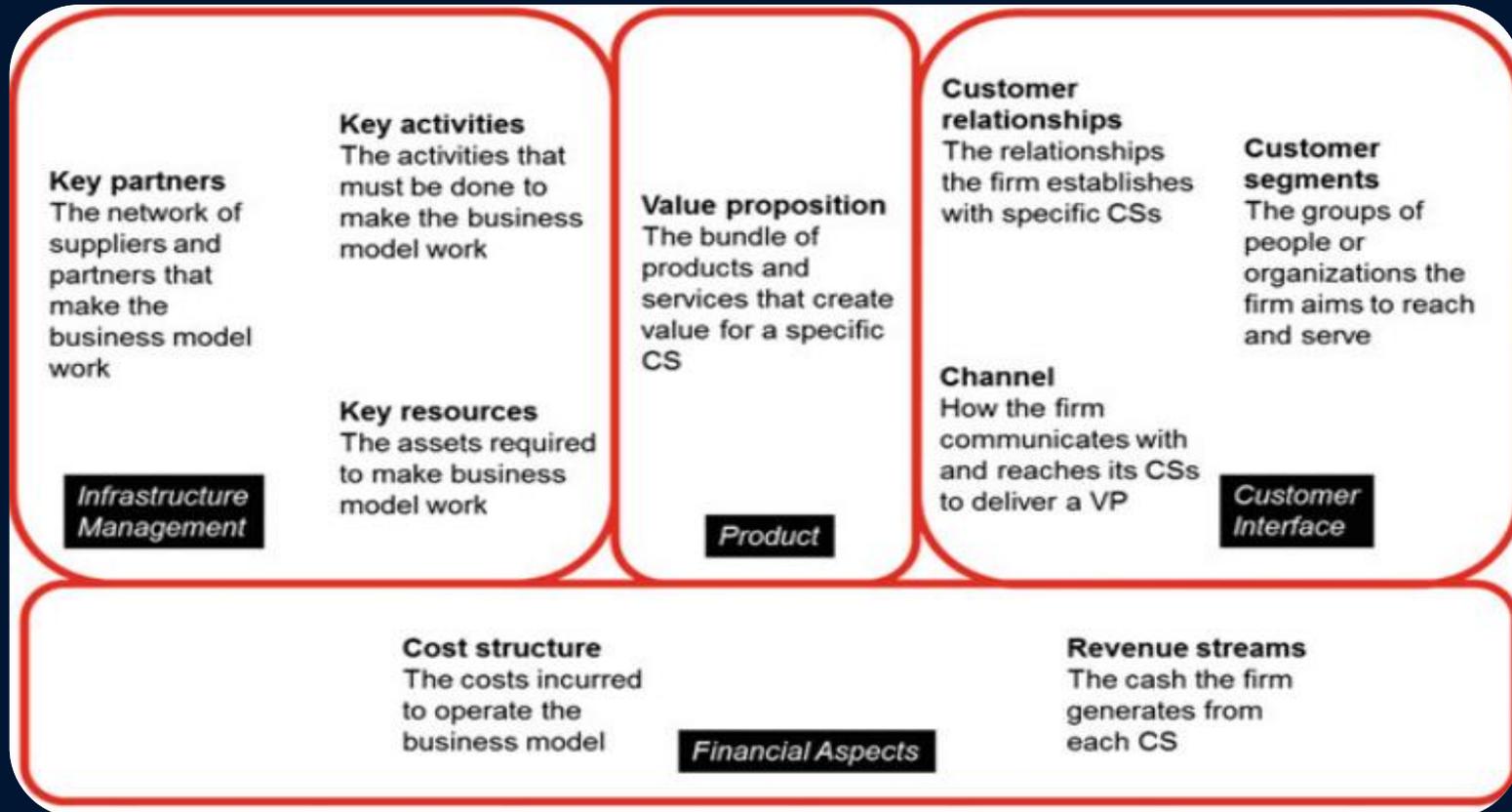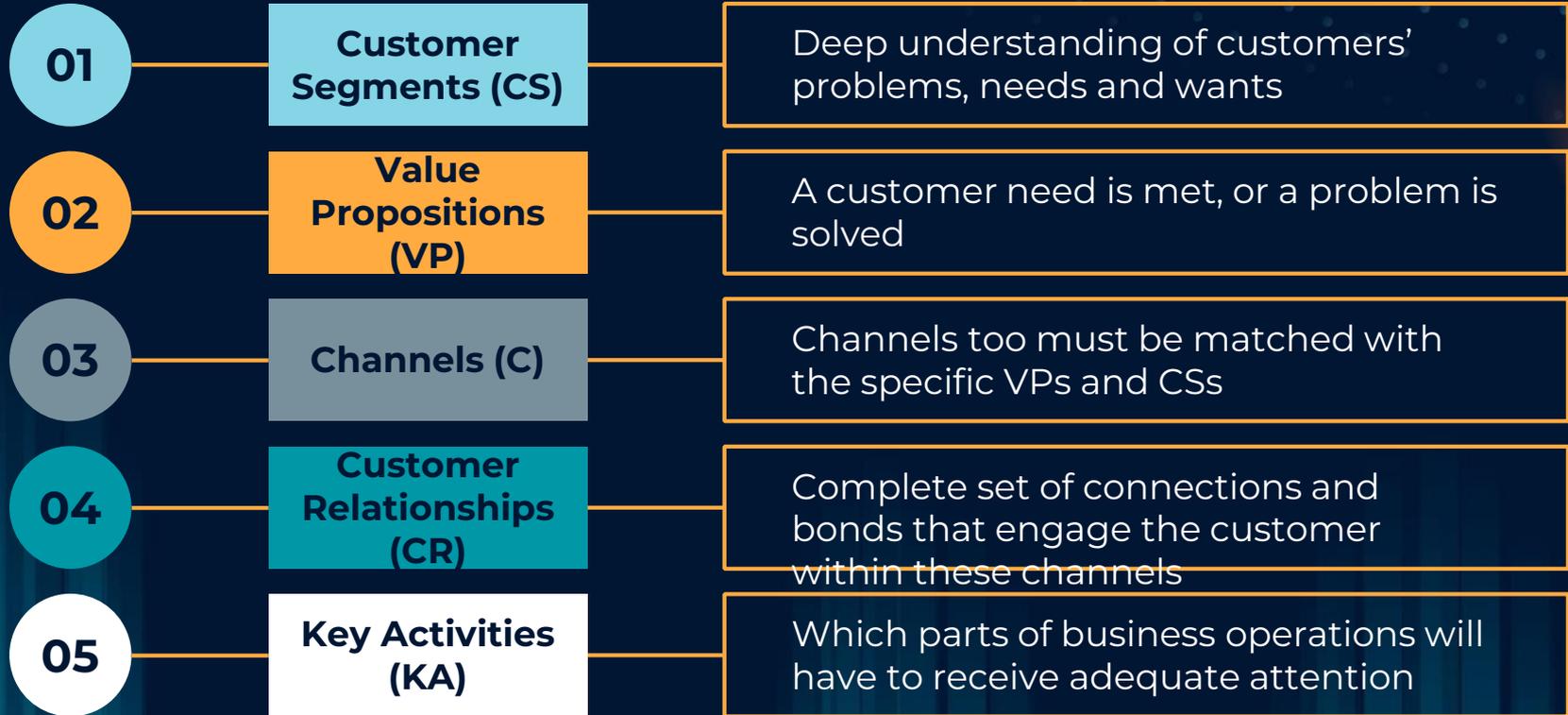| Strategic Choices	Value Network
Customer (target market, scope) Value Proposition Capabilities/competences Pricing Competitors Offering Branding Differentiation	Suppliers Customer information Customer relationship Information flows Product/service flows
Create value	**Capture Value**
Resources/Assets Processes/Activities	Costs Financial aspects Revenues

Fig. 7.1 The main elements of a business model

The Main Elements of the Business Model Canvas
(Osterwalder and Pigneur 2010) is a qualitative and informal tool for structuring business models.

Key partners
The network of suppliers and partners that make the business model work

Key activities
The activities that must be done to make the business model work

Key resources
The assets required to make business model work

Infrastructure Management

Value proposition
The bundle of products and services that create value for a specific CS

Product

Customer relationships
The relationships the firm establishes with specific CSs

Channel
How the firm communicates with and reaches its CSs to deliver a VP

Customer segments
The groups of people or organizations the firm aims to reach and serve

Customer Interface

Cost structure
The costs incurred to operate the business model

Revenue streams
The cash the firm generates from each CS

Financial Aspects

Major areas of Canvas are split in nine sections

01 — **Customer Segments (CS)** — Deep understanding of customers' problems, needs and wants

02 — **Value Propositions (VP)** — A customer need is met, or a problem is solved

03 — **Channels (C)** — Channels too must be matched with the specific VPs and CSs

04 — **Customer Relationships (CR)** — Complete set of connections and bonds that engage the customer within these channels

05 — **Key Activities (KA)** — Which parts of business operations will have to receive adequate attention

Major areas of Canvas are split in nine sections

Key Resources (KR)

06

resources can be physical, intangible, current and long-term assets

Key Partnerships (KP)

07

This decision will depend on the nature of each KR.
Make, Buy, Ally strategy

TARGET

Revenue Streams (RS)

08

covers the demand side of the business model. closely related to VPs. each Customer Segment's willingness to pay

Cost Structure (CS)

09

the distribution of its costs among the main cost categories (i.e., fixed, semi-fixed, and variable)

Types of Revenue

Operating Revenue

Operating revenue is the concept most closely associated with the term "revenue." It generally refers to income generated through sales of products or services.

Non-Operating Revenue

Non-operating revenue refers to income generated through activities beyond a company's normal business operations — like legal settlements, investments, or donations.
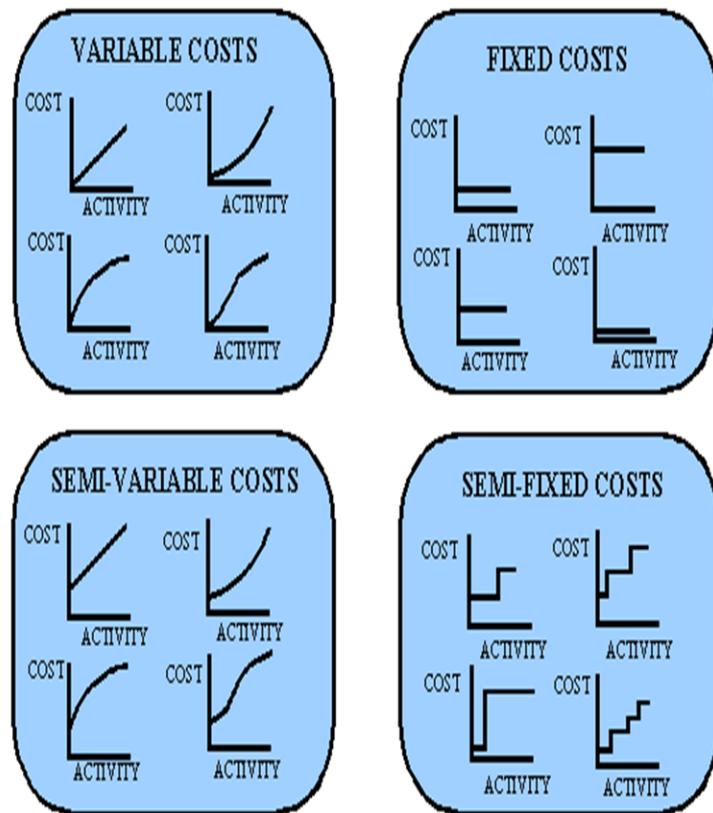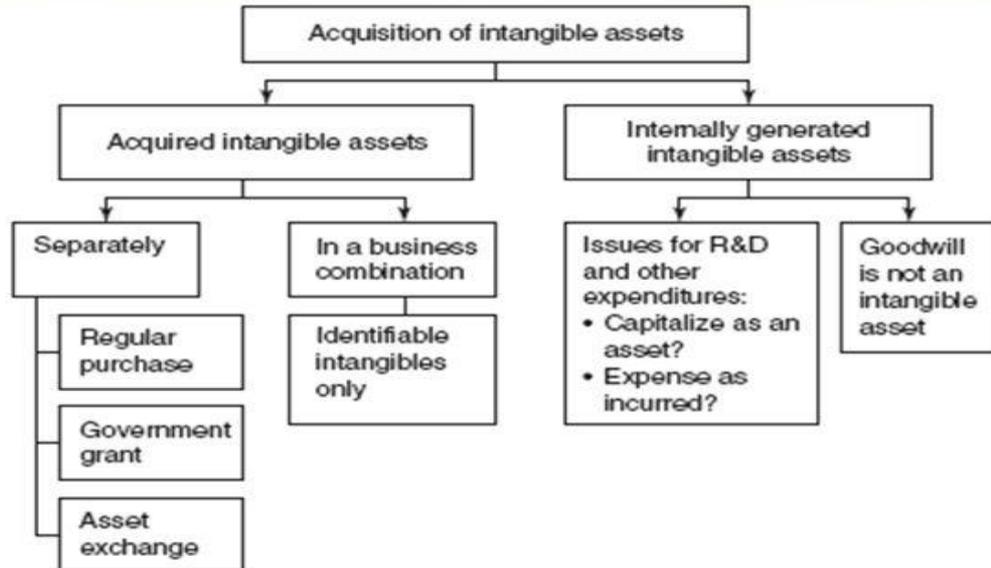
Figure 1.1

ELEMENTS OF COST

Material Cost — Direct Materials, Indirect Materials

Labor Cost — Direct Labor, Indirect Labor

Expenses — Direct Expense, Indirect Expenses

Prime Cost

Overhead Cost

Production Overhead, Administration Overhead, Selling Overhead, Distribution Overhead
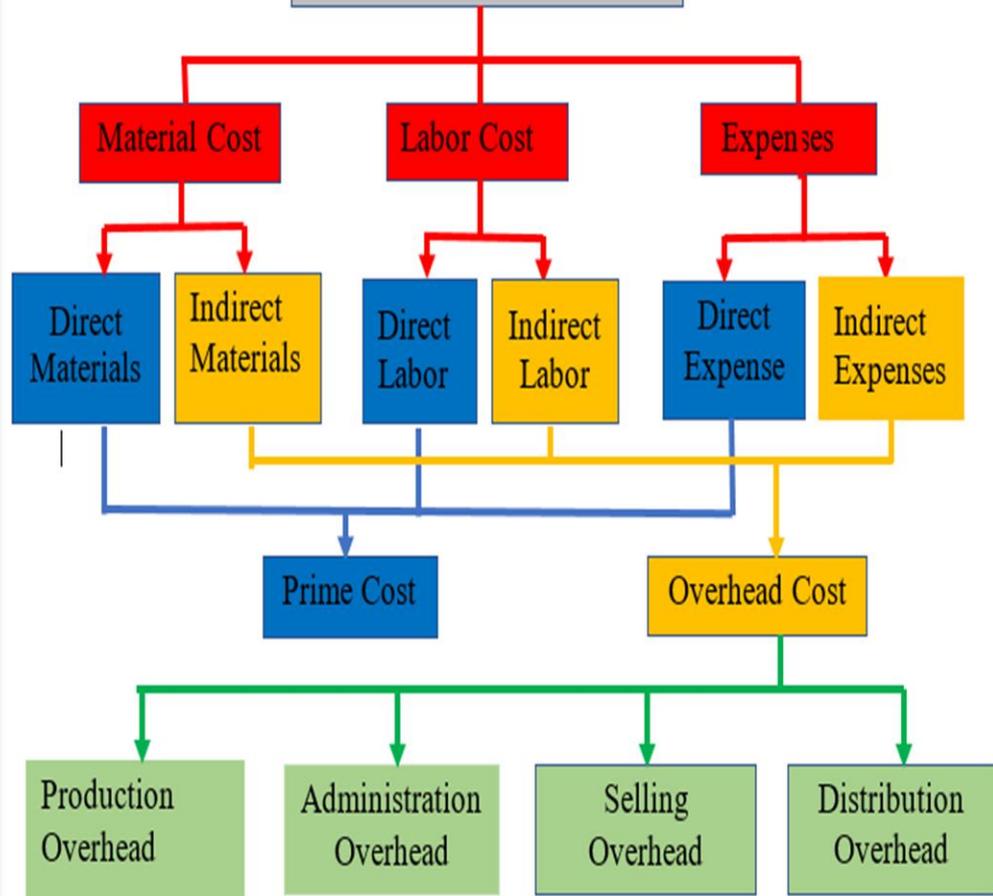
EXHIBIT 1-3
COST BEHAVIOR PATTERNS

VARIABLE COSTS — COST / ACTIVITY

FIXED COSTS — COST / ACTIVITY

SEMI-VARIABLE COSTS — COST / ACTIVITY

SEMI-FIXED COSTS — COST / ACTIVITY

IAS 38 — Acquired Intangible Assets

Illustration 15-1 Recognition of Intangible Assets
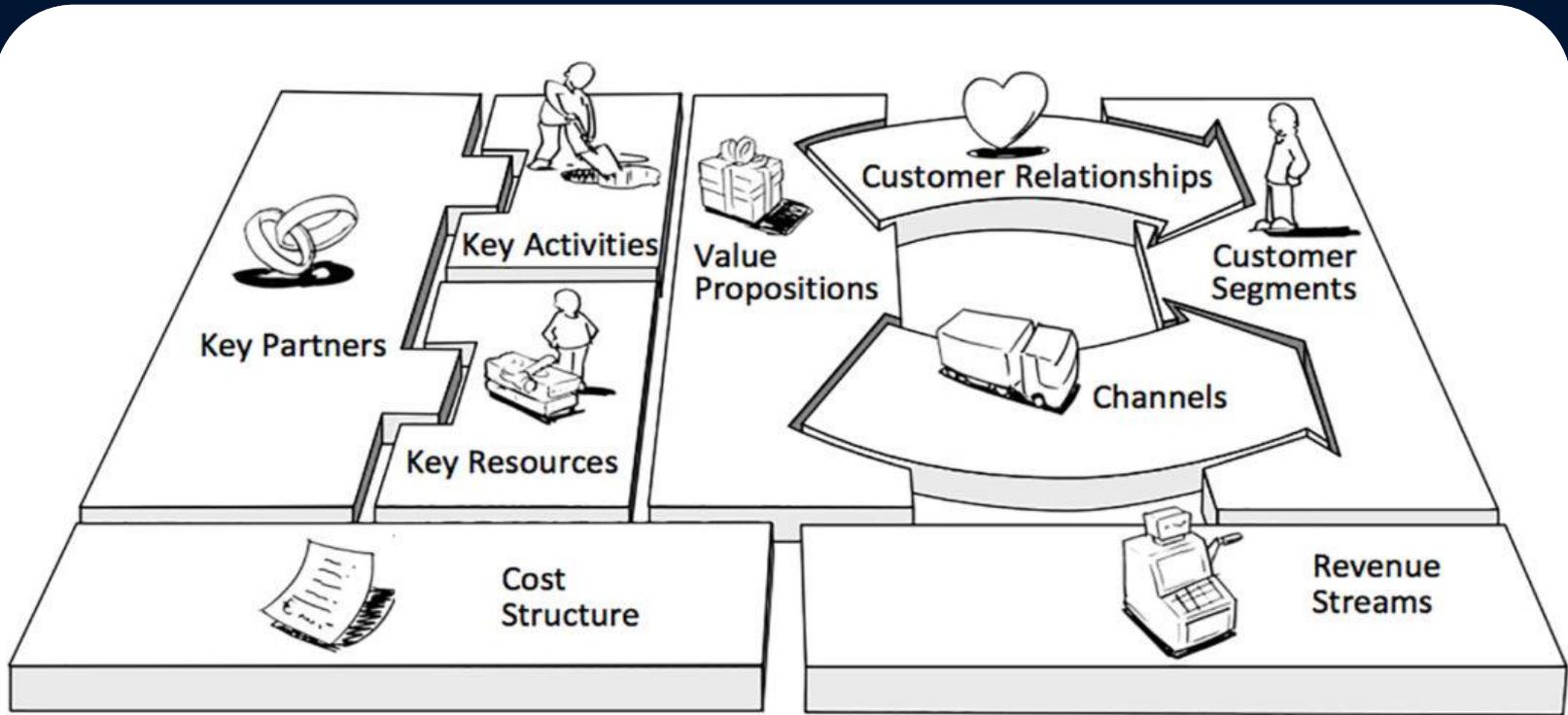
Acquisition of intangible assets
- Acquired intangible assets
  - Separately
    - Regular purchase
    - Government grant
    - Asset exchange
  - In a business combination
    - Identifiable intangibles only
- Internally generated intangible assets
  - Issues for R&D and other expenditures:
    - Capitalize as an asset?
    - Expense as incurred?
  - Goodwill is not an intangible asset

Key Partners

Key Activities

Key Resources

Value Propositions

Customer Relationships

Channels

Customer Segments

Cost Structure

Revenue Streams

Understanding the Coherence of the Business Model

Semantic | check that the elements that are being placed in the Canvas fit together **01**

02 Make sure that expected revenues may cover costs Rough-cut evaluation | **Economic aspects**

Causal-conections | to checking coherence in the business model between its elements **03**

a business model is a conceptual description that has the aim of evaluating the coherence of its constituent elements. The validation of this coherence can be studied under different perspectives
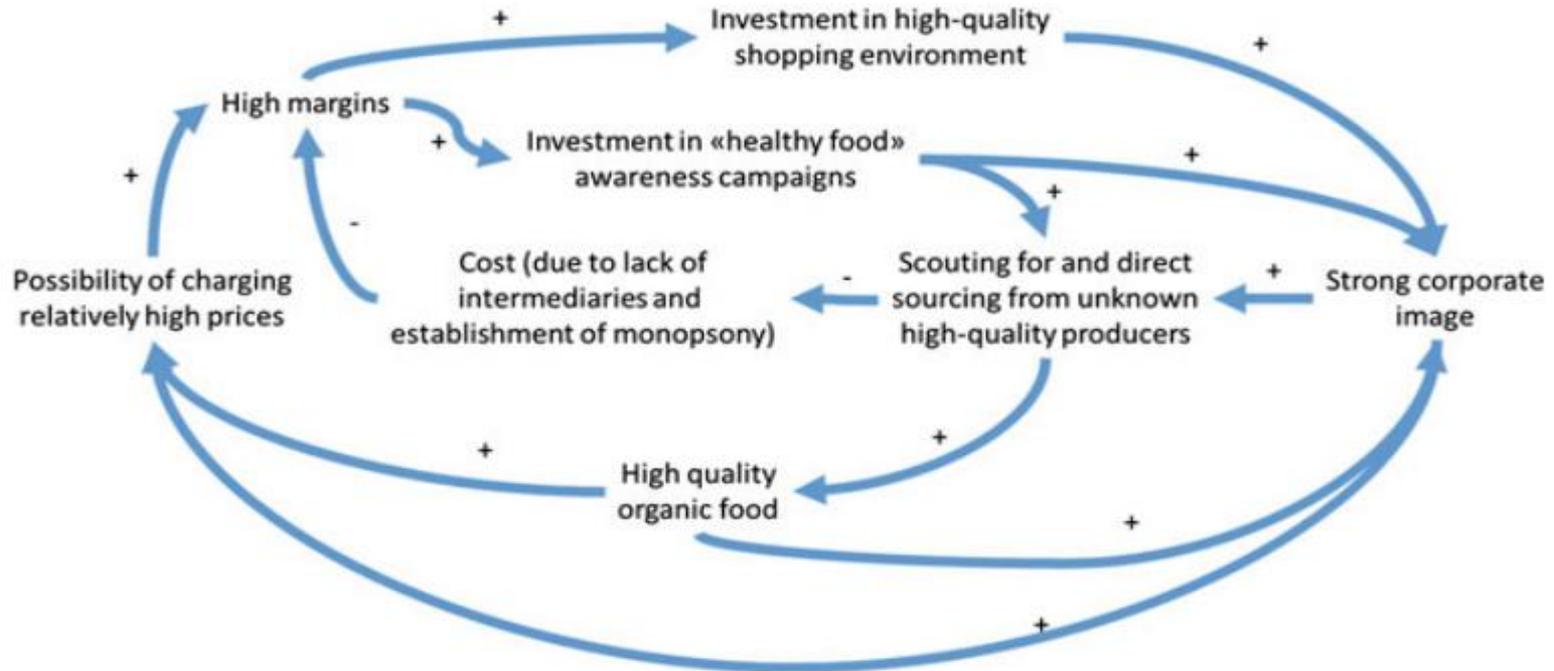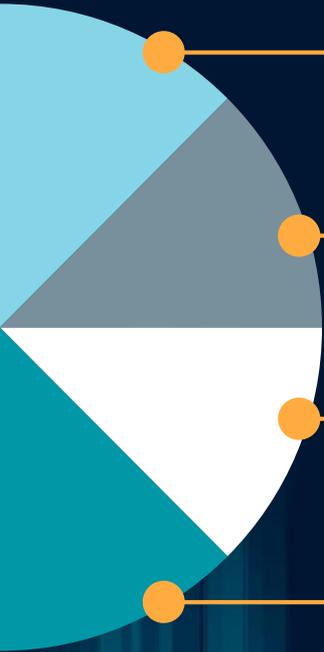
Fig. 7.6 Using a causal loop diagram to study the coherence of a business model (case of a premium grocery store)

Representing a Business Model from the Perspective of a Value System—E3value

Value network	The entire value network within which the firm is operating in
value chain	The relationships between the participating entities may not necessarily be linear
E3value approach	Complex business models arise out of the cooperation between multiple actors
Value creation	All actors are left with sufficient economic margins

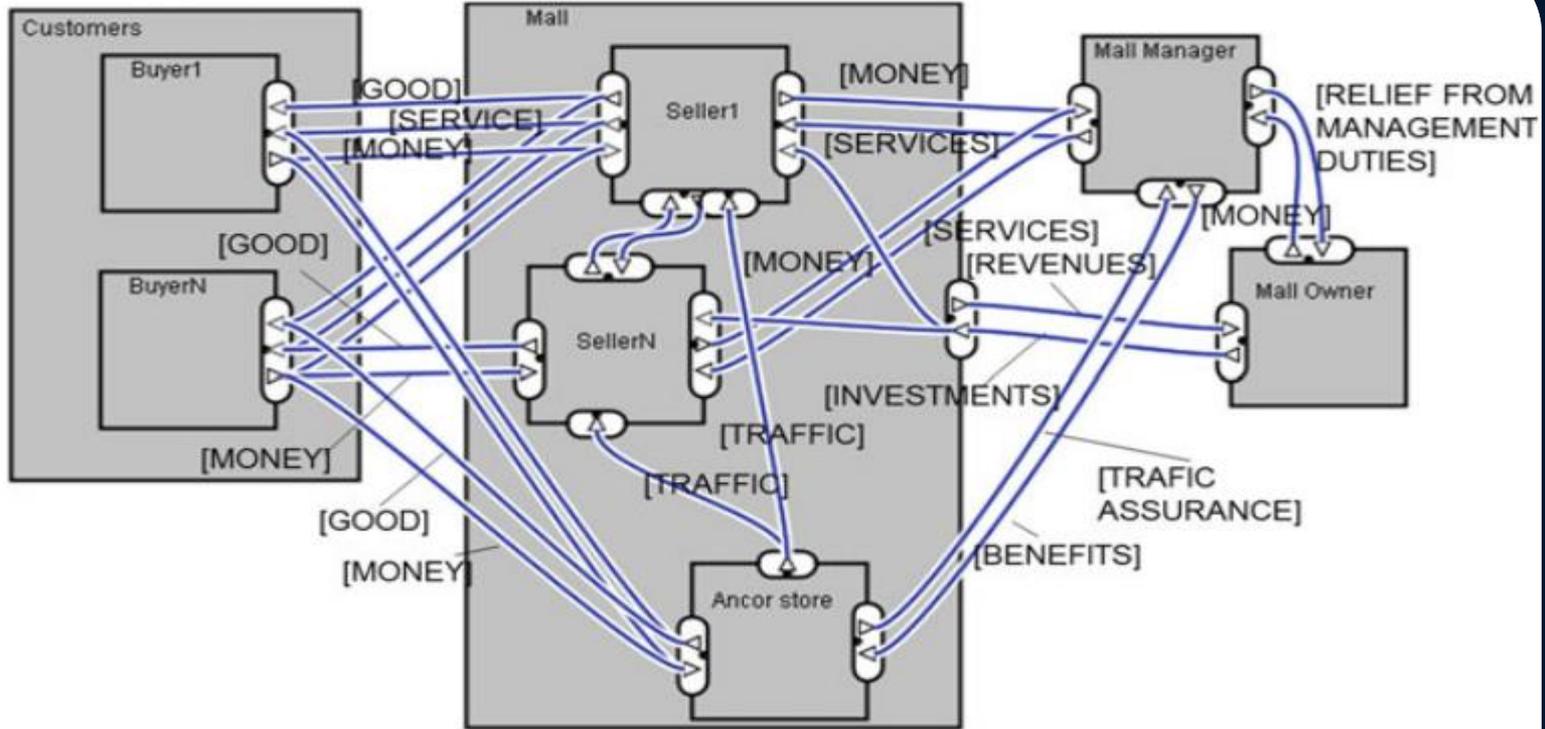# A sample e3value model that depicts the business model of a shopping mall, and which exhibits a number of the constructs

Fig. 7.7 A sample e3value model

THANKS FOR YOUR ATTENTION