



# MIND 4 MACHINES



## Strategies and Business Models

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- Introduction
  - Strategies
  - Business models
- Perspectives on business models
  - Offering
  - Customer characteristics
  - Value creation
  - Revenue models
  - Pricing



## Strategic and business models are necessary

- Product itself does not generate value for company and shareholders
- Often cool technologies cannot guarantee success

## Success in business may require e.g.

- Ability to differentiate and to argue for customer benefits
- A strong market position or efficient marketing
- Economies of scale or exceptional customer service

## Strategy may include

- A plan for *getting* from 'here to there'
- *Pattern of actions* over time
- A *position* (products or services in the market) or a *perspective* (company's vision and direction)



Mission - What business are we in today?

Vision - Where do we want to be in 5-10 years' time?

Values - What are the key principles guiding our business practices?

Products - What kind of products and services do we plan to offer?

Customers - Who do we want to serve? Who are the most important customers?

Competitive advantage - How can we challenge our competitors? Do we offer greater value?

Core competences - What is needed to implement the business model?

Earning and profits - How are we planning to make money?

Action plans - How do we move towards our vision?

Performance indicators - What are they? Do they measure the right things?



Higher level of abstraction

Strategies

Where do we want to go / be?

Business models

How are we going to make money?

Lower level of abstraction

Process models

How to implement the business models?



### Cost leadership strategy

- Emphasis on efficiency
- High volumes of standardised products – economies of scale
- Low cost – large base of customers

### Differentiation strategy

- Emphasis on the uniqueness of the product/ service
- Better value leading to lower price elasticity among target consumers
- Premium pricing – medium sized customer base

### Segmentation strategy

- Emphasis on effectively catering to customer needs
- Focus of narrow segments – low competitive density
- Value pricing – niche strategy



### Value proposition – for the customer

- Offering – “What” – The core product, service or combination of the two
- Targeted customers – “Who” will be served
- Customer benefits – “How” will they benefit from this offering

### Core capabilities

- Competences and resources needed to deliver value proposition

### Partner network

- Co-operative arrangements to support value creation

### Cost structure

- Costs of developing and delivering the value proposition

### Revenue and pricing models

- Mechanisms of capturing value and making profit



## Business model canvas (Osterwalder, 2010)

<b>Key partners</b> <i>describes the network of suppliers and partners that make the business model work</i>	<b>Key Activities</b> <i>describes the most important things a company must do to make its business model work</i>	<b>Value proposition</b> <i>describes the bundle of products and services that create value for a specific Customer Segment</i>	<b>Customer relationships</b> <i>describes the types of relationships a company establishes with specific Customer Segments</i>	<b>Customer segments</b> <i>defines the different groups of people or organizations an enterprise aims to reach and serve</i>
	<b>Key Resources</b> <i>describes the most important assets required to make a business model work</i>		<b>Channels</b> <i>describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition</i>	
<b>Cost structure</b> <i>describes all costs incurred to operate a business model</i>			<b>Revenue streams</b> <i>represents the cash a company generates from each Customer Segment</i>	



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### Designed to satisfy a gap

- Neglected segments
- Unmet customer needs (relieving pains, creating gains)

### Better than or sufficiently different from competing offerings

- Quality – better functionality / usability / reliability / experience...
- Cost – lower purchase / operation / life-cycle costs
- Uniqueness – novelty value / exceptional design...
- Brand value (enhances credibility)

### Easier to buy and use

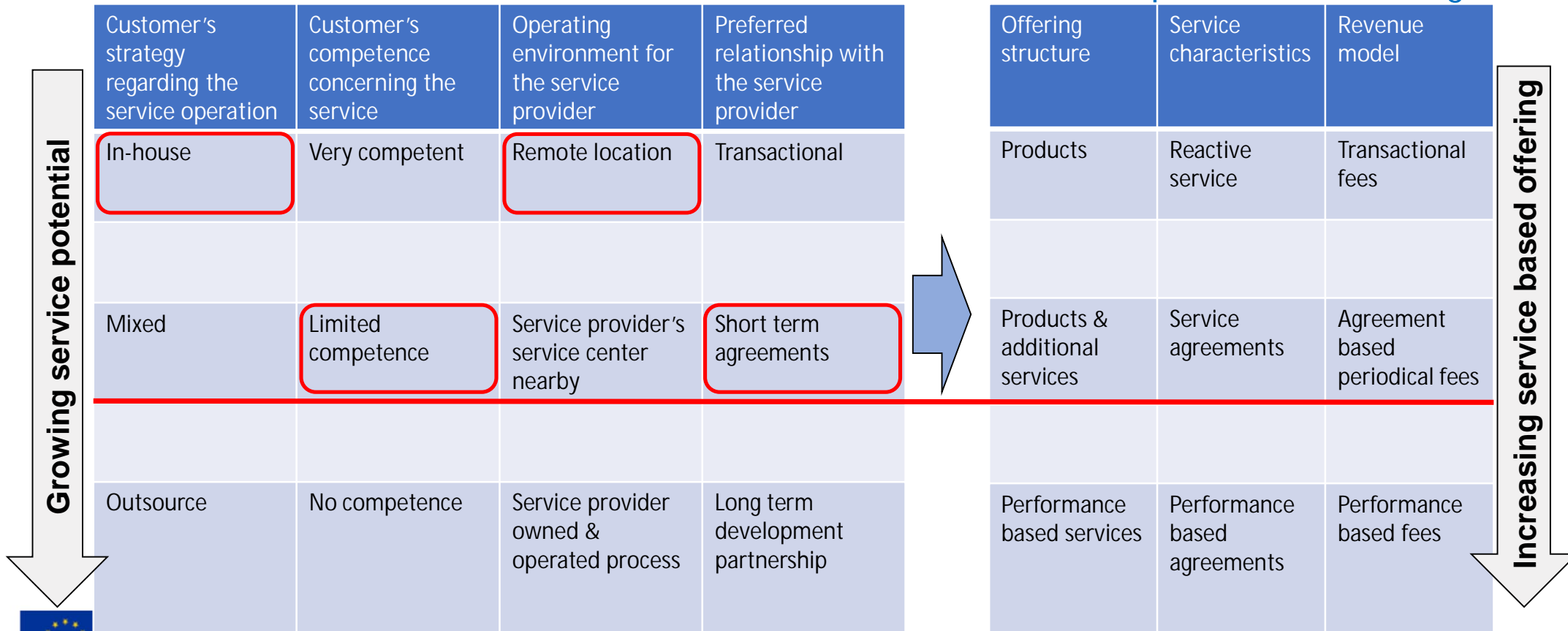
- Access to the offering (e.g. visibility, retail outlets)
- Scope and quality of service (e.g. financing, product support, ...)



# Offering and customer characteristics

## Customer characteristics

## Service provider's offering



### Value chain

- Producing standard products according to specifications
- Competitive advantage from efficiency (operational excellence)
- Predominant in manufacturing and processing industries

### Value shop

- Harnessing one's capabilities to solve the customer's problem
- Competitive advantage from effectiveness (problem-solving skills)
- Examples: consulting/engineering services, legal counselling, research

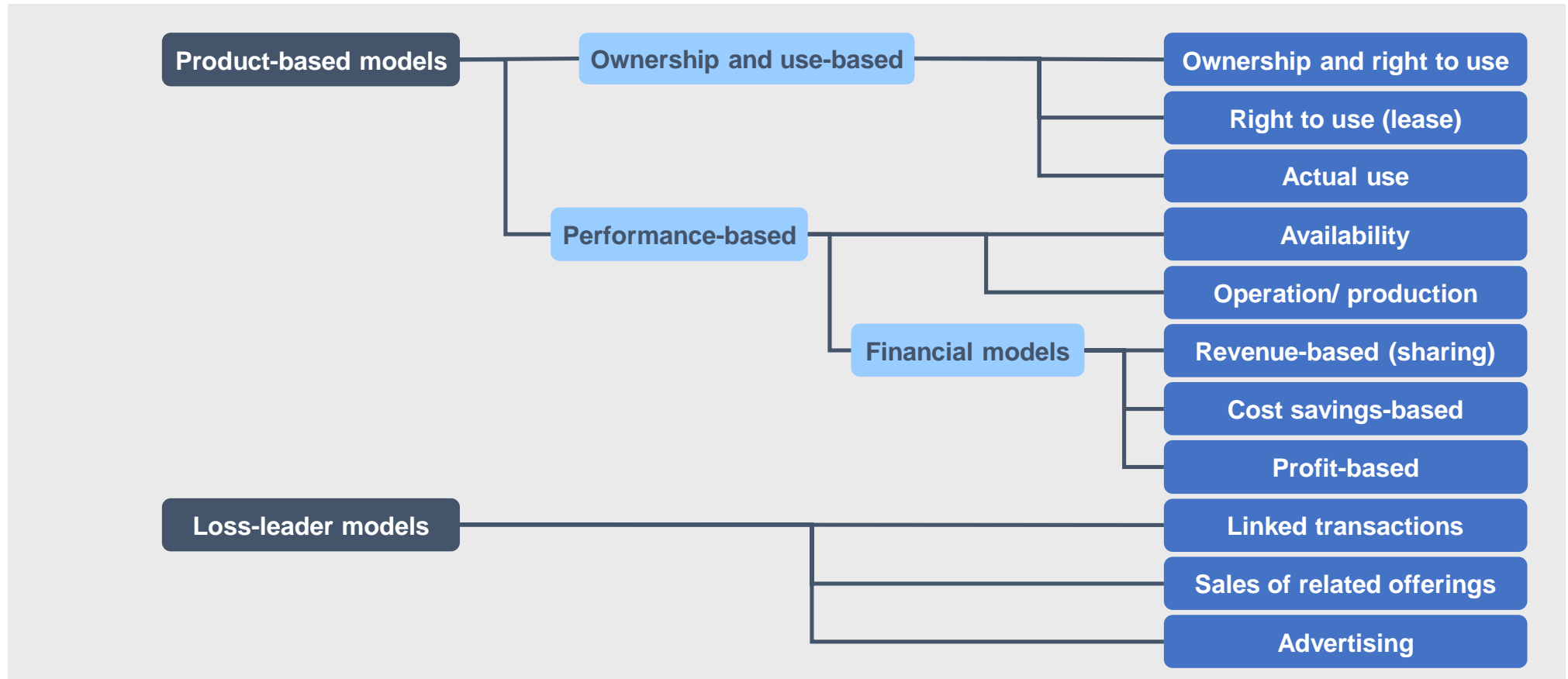
### Value network

- Connecting interdependent people, organizations and systems
- The value of the service depends on the number of its users
- Examples: telecom operators, credit card issuers, platform businesses



Attribute	Value creation model		
	Value chain	Value shop	Value network
<b>Deliverable</b>	– product	– solution	– connectivity
<b>Method of production</b>	– standard products and processes	– tailor-made products and processes	– building and maintaining infrastructure
<b>Success factors</b>	– operational excellence – volumes	– problem-solving skills – effectiveness	– large network and subscriber base
<b>Marketing challenge</b>	– selling the problem to the customer to which the product provides a solution	– justification of high unit costs	– new services: bringing in customers (while offering limited customer value) – established services: differentiation from competitors
<b>Trade-offs</b>	– between product differentiation and cost	– between knowledge depth and breath	– between service scope and richness





### Pricing has been a neglected function

- Marketers are paranoid about customers' price sensitivity
- Research suggests that they are often getting it wrong
- Price conveys a message about the product
- Pricing is also a very efficient way of influencing revenues and profits



### Generic pricing models

- Cost-based pricing
- Market-based pricing
- Value-based pricing
- Pricing 'brands'



### Cost-based pricing

- Fundamental model; production costs are estimated and the asking price is set on the basis of the targeted profit margin

### Market-based pricing

- Information on prices of competing offerings is collected
- Asking price is set lower or higher than this 'market price', depending on the chosen strategy, by taking production costs and the profit target into account

### Value-based pricing

- Clear understanding of customer value is required
- The asking price is set between the (estimated) customer value and production costs so that both players can benefit from the deal

### Pricing brands

- Priced higher than corresponding "non-branded" offerings
- The difference is ascertained to represent "brand value"



- Strategy decay can occur due to changes in
  - Technology
  - Customer preferences
  - Competitors actions
- To avoid: Identify major knowledge gaps
  - Focus on customer feedback
  - Build partnerships with key suppliers and customers
  - Identify key competitive paradigms and the “rule breakers”
  - Build a portfolio of strategic options for each development stage
    - Ideas and concepts that have been documented but not tested
    - Piloted new value propositions and business models
    - Ventures that can be scaled up as stand-alone businesses





- Answer the basic questions: **what**, to **whom**, and **how** are we planning to sell and **how** are we going to profit from it
- Define and further develop the organisation's competitive advantages and competitive strategy
- Clarify and analyse the key concepts and selections concerning pricing and revenue generation
- Invest in detecting possible strategy decay



*"Plans are nothing, planning is everything."*

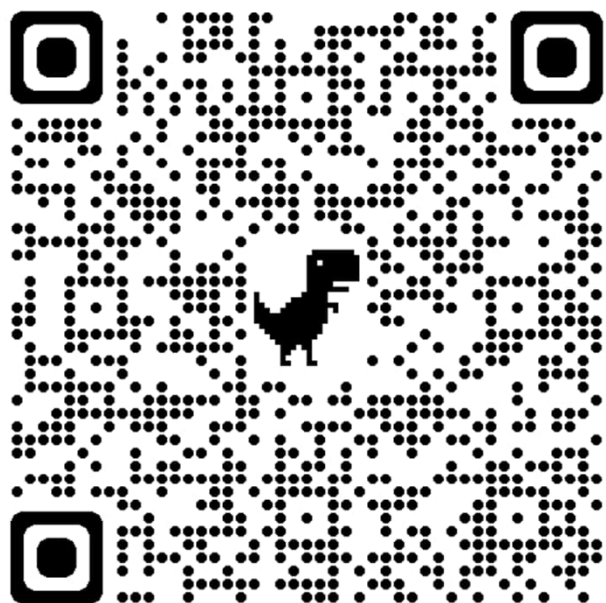
Dwight D. Eisenhower, a former US President, and an army general



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Thank You!



We appreciate your feedback!

<https://response.questback.com/vtt/mpyvmlsd7l>

Feedback  
survey

*Next webinar:  
Financial Projection & Plan  
Tuesday, March 21, 10 CET*



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