

The Open University | Student Entrepreneurship Competition - Applying your idea to the business model canvas

KAREN FOLEY: Welcome back. Well, in this section, we're going to talk about applying your idea to the Business Model Canvas. Now we've been using this word quite a lot today, and I've sort of bandied the thing around. Which is basically this-- Business Model Canvas. And it's something that you will be filling in if you are going to enter the competition. You'll see it's got lots of sections, and we're going to cover what is included in those and how to best fill it all in.

Joining me to discuss this is Carolin Decker-Lange. So thank you, Carolin, for coming in today. You're a senior lecturer in management and you've been doing some research on family owned businesses in Germany and also family entrepreneurship for some years. And you're also an expert in business modelling. So you're the best person to be talking to us today about all of this, which is great.

Now, you've covered things in your own area like different fields, among them strategy, marketing, and entrepreneurship. So you've got a very broad basis to talk about. And we've had some very broad ideas from people watching today, all sorts of enterprises and ideas have been things that people are considering entering for all of this.

So let's start talking about a business model more generally before we look at the specifics of the actual canvas that students are going to use to enter this competition. What is a business model?

DR. CAROLIN DECKER-LANGE: Well, the answer is not straightforward, to be honest. As an academic, I have read many different definitions. And one of them means that a business model is a configuration of activities centred on a business. The kind of logic behind the business. This is very abstract, and it doesn't help our students. I think it doesn't help us with the Canvas.

So I would say the business model is the sum of the answers to three important questions. So the first one is who is the business targeting with its products and services? The second one is what are the products and services that the business is offering to its customers, and what is its value proposition? And the third question is how does the business ensure that the products and services are delivered in an efficient way? That means how does the business ensure that it captures value from its services and products for itself?

KAREN FOLEY: Wow. So we've been talking a lot about those various ideas, and the trade offs, I guess, that you have between each of those various aspects as well.

DR. CAROLIN DECKER-LANGE: Well, yes. And the Canvas is really a very useful tool to balance on the one hand the value creation for customers and the value capture for the business itself. So we have different fields

in the Canvas that help you to define what you're actually doing, how you implement your business idea and bring it to life.

KAREN FOLEY: Now we'll be talking a little bit about that specifics in a short while. But before we do that, I wanted to talk to you about some terms that we've got, because these are really important. And we've heard various terms and how useful they can be conceptually. So entrepreneurial activity and business idea to business model. I mean, how do you get something like one of these magnetised screwdrivers to actually become a business model? How do you conceptualise some of the ideas about services, for example, that don't even exist as a screwdriver? What students are talking about as well-- getting people to recycle more or encourage behavioural change-- to a business model.

DR. CAROLIN Well, I like the idea to have a screwdriver, because obviously there was an opportunity that
DECKER-LANGE: bright minds saw and thought, OK there is an opportunity, there is a human need. We need a screwdriver with-- it's magnetised, is it?

KAREN FOLEY: One of the inventions magnetises the screwdriver so it holds the screw.

DR. CAROLIN Yeah, so this is really-- obviously there had been an opportunity, something that the
DECKER-LANGE: entrepreneur saw in his environment. There was some human need, and based on this opportunity an idea emerged, a technical solution for a human need. That was the idea. But how to sell this idea? How to convince people that this is a good idea?

And for this reason you need a business model, because it's a translation of the business idea and activities on how to produce and bring to market this idea. And with this business model, you can convince your customers that you have a brilliant solution for all the human needs.

KAREN FOLEY: Packing And assembling needs.

DR. CAROLIN You can also convince investors to provide some funding for your new venture.

DECKER-LANGE:

KAREN FOLEY: Yeah. Absolutely. But it's not just as simple as saying, well this is a brilliant idea, as we've seen before. It's all about looking at the market, and this is what the Business Model Canvas does. It takes that idea and it looks at all the various aspects of the business so that everything is covered, not just the product or service.

DR. CAROLIN Yeah. Many people have brilliant ideas, but they're not marketable because there is no need

DECKER-LANGE: for this, or it's too crazy maybe, or people don't like the idea to use a magnetised screwdriver.

KAREN FOLEY: Or it's too expensive.

DR. CAROLIN Yeah, it's possible. So you must balance your costs and the revenues that you can get out of

DECKER-LANGE: this product. So yeah, a business model can be very helpful to think about all these issues.

KAREN FOLEY: OK so we asked people at home what three words they associate with the term "business model." So I fill those in. If you could only think of one or two that's fine. Just put a full stop in, and your results will submit them. And also we'd like to know whether you agree or disagree about the statement-- the purpose of each enterprise is to create financial value. So do you agree with that, or disagree? I've had lots of different views on that, so that'll be interesting. And you can also put your comments in the chat as well.

Right. So the business model is this translation, then, of the opportunity that can be presented to potential investors. And you've spoken about the investors as well as the customers. And all of that obviously needs to be thought through, in particular in the context of this competition, because ultimately you are asking for some sort of investment by means of entering the competition as well. And there are two aspects about things that people need to consider-- it's about the opportunity being feasible and also viable.

DR. CAROLIN Yes. Well, viable means that your business needs to be sustainable in the long run. It must be

DECKER-LANGE: financially sustainable, and it must create value for your most important stakeholders-- in most cases, your customers. Stakeholders can also be banks that spend some money in your business and invested in your business, gave you a loan for your idea. So your idea must be well thought through and it must be viable-- that means you must balance your revenues and your costs.

KAREN FOLEY: Yeah, absolutely. OK, so the Canvas will help do that. But there are some other terms as well I wanted to raise with you before we talk about the specifics, which is this idea of strategy and how business models link to strategy. Because often in business we like to have a strategy, you know? And that depends on what that might be. But often it is very, very different to the actual business model. How are they linked, and does it matter if you don't understand these words, or even if you don't have a strategy as such yet for your business idea?

DR. CAROLIN Well, I would say it's good to have a strategy. Each business needs strategy. But you must

DECKER-LANGE: translate it in precise activities, and there comes the business model. But let me start again

with the term strategy, and what's a strategy? And generally we define a strategy as a pattern of activities that a business performs to achieve its objectives in the long run. So this is a very abstract definition, but it helps us to think about what does the business want to achieve in the long run?

For example, if the business wants to be the cost leader in its industry, it wants to provide the cheapest products. For example, an airline company wants to provide the cheapest flights. That would be cost leadership and would be a strategy. But what does it mean? For the business it means there must be a kind of action plan. An action plan that translates this strategy in activities. And the action plan also determines what kind of business model the, for example airline company, pursues.

And there might be many different airline companies which have the same strategy-- cost leadership, for example. And we also see differences between low cost carriers. When you book a flight you see this-- there are differences. So how can this company achieve its goal to be the cost leader in the airline industry?

Well, there can be some managerial choices that help determine the business model that translates the strategy. And for example, an airline company can decide to be the cost leader in the industry. It must find partners which provide efficient services, so it can enter a global alliance and a network. And within a network, costs can be shared. That means cheaper flights for the customers.

Another company could say, well, entering a network could be time consuming. We must manage the relationship with our partner organisations. So why don't we do it alone? We can do it alone, we can do it much better than the other ones. So there could be different choices leading to different business models based on the same cost leadership strategy.

KAREN FOLEY: Now, that all sounds well and good, and I can see how that would work for airlines. But HJ, we had lots and lots of different ideas as well from people at home. Could you put some of those to Carolyn and see what she might sort of recommend in terms of strategy, just to sort of help students maybe shape that vision, I guess, that they could have for their business ideas?

HJ: Yeah. Clara clarified earlier on that she's looking at a software company that will help small and medium enterprises understand what software they actually need, and looking at how she can meet their requirements or find different tools that will suit their types of businesses.

Darin was looking at creating tools for people who are dyslexic to use online or on the computer.

Martha was thinking about an idea to do with earlier education to help parents teach children phonetics as well. So yeah, quite a mixed range of ideas.

KAREN FOLEY: Just a couple. How might those sorts of things translate to strategy?

DR. CAROLIN DECKER-LANGE: Well, that's really a wide range of ideas. Let me come back to the first one of the small and medium sized enterprises, and they were a software solution?

KAREN FOLEY: That was Clara's idea. And one of her concerns is that people don't then buy things that they don't need. So she has a very ethical stance, then, from what I understand.

DR. CAROLIN DECKER-LANGE: From my point of view, from what I've heard so far, it would be a differentiation strategy. So very specific products for very specific type of companies-- small and medium sized enterprises. A difficult type of companies. But for this specific type of companies, specified software solutions might be a very valuable idea.

So I would go for a differentiation strategy. And then I'd think about what do these companies need in terms of software solutions? Are they different from other types of companies? If so, why? And why should we target them with different software solutions? And then the entrepreneur could think about finding either partner firms which a software could be developed in a very cost efficient way, or whether they need to be thinking of solutions, very specific solutions, for each company.

KAREN FOLEY: And I guess for Clara it would be about being very trusted. You know, going in and saying, you do need this but you don't need to spend your money on these things. Being a real expert in the field, and being able to ascertain what those small to medium enterprises actually need, and therefore what would be a good payoff for them. And perhaps even looking at the amount of money that they would spend on certain things and the value that could be ascertained. So that would be very much an expertise role, and you'd want to be very trusted, wouldn't you?

DR. CAROLIN DECKER-LANGE: Yes, indeed. And it leads us to the question of what kind of channel does Clara need to promote her software solutions?

KAREN FOLEY: Yes.

DR. CAROLIN So how does she interact with her potential customers? What do the customers prefer for this
DECKER-LANGE: interaction? And so there are many different and interesting managerial choices that Clara can make to define her business model.

KAREN FOLEY: OK. Shall we go to the specifics of the Business Model Canvas, and talk about all of that? I won't show this too much, because it's a bit boring seeing a big white piece of paper. But ultimately this Canvas is something that you fill in when you entered the competition. And you can download this from the Student Hub Live website, and also the competition website also.

And what you're going to see on the Business Model Canvas is that you've got key partners, key activities, value propositions, customer relationships channels, customer segments, key resources, cost structure, and revenue streams. This is a larger piece of paper, but also this could be an A4 piece of paper which could be quite small.

Now, Rob gave us some excellent suggestions about putting post it notes on these pieces of paper-- putting them down, picking them up, thinking through various parts. And some of them we've already talked about would be very interesting to people. Other things, like looking at the market, may be a really boring task, but it is essential to do that. And this whole process is about thinking about things that maybe you don't want to or haven't thought about yet as part of your business model.

So we've looked at the video as well. We've looked at some key partners activities and resources. How would you recommend people start approaching this? I guess everyone would be quite different in terms of what interests the most about which box they might like to fill in first.

DR. CAROLIN Well, I think it depends on what your idea is like, and what you like thinking about. I always
DECKER-LANGE: start with a human need. So a human need of my potential customers, and I play around a bit with it. I say, what do my customers need? What do they want? This is the first box. And do I address their needs with my idea?

And then I start, well maybe we can have a look again at this white paper, because it isn't boring at all for me. It's a playful approach.

KAREN FOLEY: Well, it's boring to look at, I think, for the people at home.

DR. CAROLIN But it's really a playful approach to use it. I start with customer groups or segments-- in
DECKER-LANGE: business language it's segments. But you can also call them as groups or different types of

customers. So do you have different customers, and do they have different needs? And how do you address their needs, their potentially different needs, with your products and services?

And then you can think about customer relationships. How do you want to interact with your customers? And this question is not so easy, because you can have customers who like social media. You can also have customers who don't like them at all. So think about this.

Then the channels are important. It is possible that you have designed a beautiful product, such as this screwdriver, but how do you sell it? How do you bring it to market? How do you communicate that your idea is brilliant and worth the money that you want to get for this?

And well after having defined these three boxes, I would say, go to the value propositions-- why is your product better than any other product in this market? Why is your screwdriver better than any other screwdriver? What's your value proposition? Why is it unique? Why is your product unique, and what kind of value do you promise to create for your customers?

So maybe you cannot produce your new idea on your own, but you need partners. So who would be potential partners? Suppliers, for example, or licencing partners. So think about any individuals or organisations that might be helpful to produce your product, bring it to market, and sell it.

Also think about the key activities that are needed to manufacture your products, or to provide the services that you have designed. What do you need for this? Think about the knowledge. Think about tangible resources, such as production facilities. And you might also think about money, because you must invest in your business.

And based on all these boxes on the upper level of this Canvas, you must think about the costs and the revenues that you're expecting. Define different types of costs-- what are variable costs? What are fixed costs? So what are the costs for production, for marketing, for personnel?

And finally, how do you want to earn money with your products and services? So think about value capture that we had at the beginning of our session, or revenue streams, in technical terms. Are there any revenues from sales? Are there subscription fees for your customers? Royalty fees? Or whatever do you expect to generate as income for your business?

KAREN FOLEY: Now, I must ask-- on a piece of paper with so much content there, you've mentioned some of

these things that actually could take a lot of time to think about. Things like thinking about your production, thinking about whether that's the best way of producing something, whether you could cut costs or you know, again depending on your volumes as well, that might shift over time. So some of these things are really, really big. How do you fit it all in on one page?

DR. CAROLIN DECKER-LANGE: I recommend thinking about various short answers. Just some keywords in the beginning. And use just post it notes, for example, as Rob recommended. Because you must play with it. It's possible that in the first place, you think about a partner organisation for production, and then you go to resources and activities and you might see that you don't need this partner. So you can use another note to put it on resources or activities. And you can play with this Canvas. So a short answer is maybe some notes and key words, and play with them.

And a final advice from my part as a playful approach, talk about the Canvas with someone. Talk about this with family members, with friends, and discuss your keywords in each box with your conversation partner.

KAREN FOLEY: OK. That's brilliant advice. Now, earlier we asked you at home what three words you associated with the term "business model." I'd like to see what you had to say about that, because it might be that we can pick up on certain aspects that are relevant to this as well. And we also asked you about whether or not you agreed with the statement, the purpose of each enterprise is to create a financial value. When I last heard, that was the majority disagreeing.

But let's take a look first at the word cloud and see which three words people most associate with this idea of a business model.

So customers are key, and so is strategy-- two points that we've been raising here. But things like clarity, good ideas, research, focus, revenue, products-- those are all really important. What would you say, then, in terms of how we might map those key thoughts then, Carolin, to the Business Model Canvas? I mean, here it's really thinking about the top line level, about how people experience the product, what the product is, and the strategy more so than other things like, for example, the market or the production.

Because it seems to me that there are certain things-- like I think returning to our point a little bit earlier about how easy it can be to focus on the business and what that's doing at the expense of some of those other areas. Things like when we were looking at various channels, for example. That might be a lot less relevant to somebody who might say, well, actually why

does any of that matter?

But when you were talking about some of this and just sort of reflecting on that word cloud, the whole business is focused on everything here. Whether or not they're exciting or the key focus of the product, they all matter. Because as you say, if you don't need those business partners, if you don't need to be international for example, something's got go. And I guess what I'm very mindful of is it's all about balancing this. If you then don't need that, what are the implications, then, in terms of your revenue? Or your production processes if, for example, you're deciding not to market so heavily for instance?

So everything is interdependent on everything else. And while these are all very separate items, it's about the coherence of how this all maps on to each other that makes it holistically collude with that strategy, with that idea that we've seen is so important to people on that word cloud. So thinking about these things in isolation is important, making notes on them. But it's again about how they all trade off against each other, isn't it?

DR. CAROLIN DECKER-LANGE: Yes, indeed. So as I mentioned before, if you have customers that don't like social media, it would be very difficult and not viable at all to use social media as a sales channel. So there must be some coherence. Or if you have older customers who rarely use the internet you shouldn't have an internet based shop, but use face to face sales.

KAREN FOLEY: Brilliant. And we're going to be hearing about the judges on advice at the end of the session, and you're going to be joining us for that, Carolin. So thank you very, very much. You've given us some great advice about how to fill all of that in. It sounds very exciting, and a very worthwhile activity also. So thank you for coming along, and we'll see you shortly towards the end of the session.

OK. So we've spoken about the Business Model Canvas. You can download that from the website and from the competition website. We're going to now show you a short video of [INAUDIBLE], and then we'll be back to look at what makes a good video pitch, which is the other important part of entering the competition. So Rob, who joined me earlier, will be back talking about how to make a great video. Join me in a few minutes for that next session.