

Business Model. □

The strategic coat of your idea

Business Model.

- 10** — Competition – find out who you are competing with
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How to use this booklet?

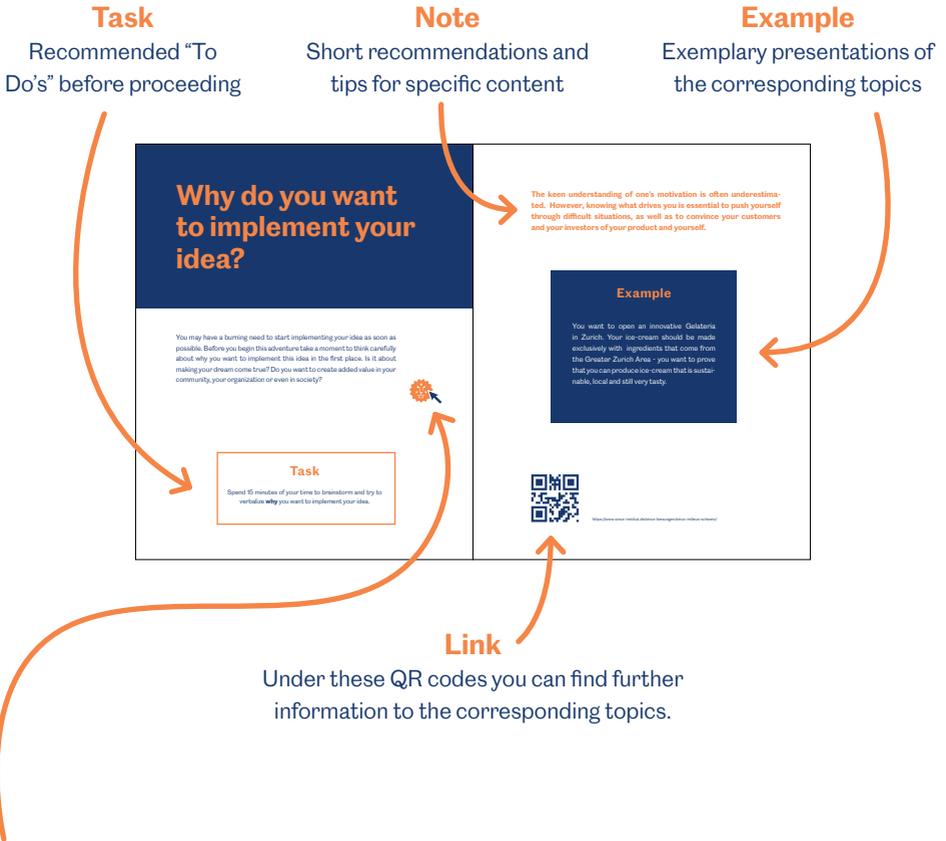
— This booklet is a part of the Bluelion Incubation Series. Each booklet deals with a specific topic that startups will have to face during the development of their ideas. The brochures follow a proven innovation process. We suggest approaching them in the recommended order. Of course, the booklets may be applied individually and independently of each other.

Each booklet guides you through the basic components of the (respective) topic and shows you the goal of the corresponding phase via various milestones. Consider the description of the process and the milestones as guidelines. Each idea is different and requires a distinct approach and prioritization.

These booklets attempt to provide some orientation in the often rather blurry process of innovation development. They are neither perfect nor complete but still provide you a good overview and a golden thread to hold onto. The overview of the relevant topics and the sketching of the individual methods and tools are complemented by Bluelion's incubation services.

On the following page, you can find a short description of different elements that you will encounter in the course of the booklet.

What is the structure of this booklet?

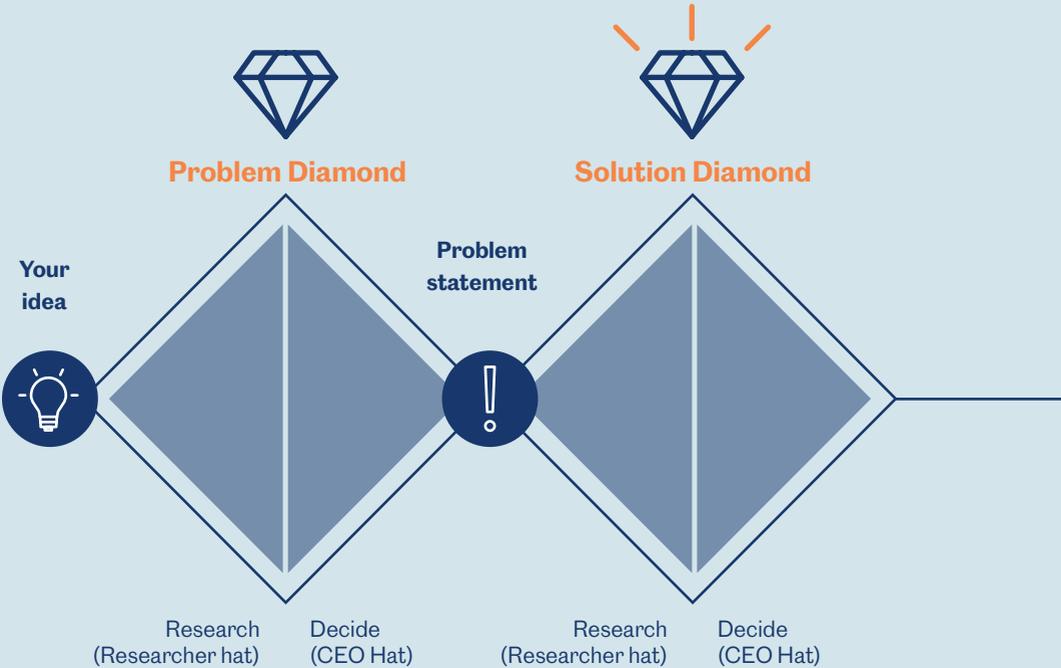


Digital Toolkit: all the models and tools described in the booklet are available online: www.bluelion.ch/services/toolkit. In the toolkit, you will also find other helpful tools, as well as access to chosen platforms that can help you with the visualization and prototyping of your idea. **The symbol**  in the booklet indicates that you may find additional material to the current topic online.

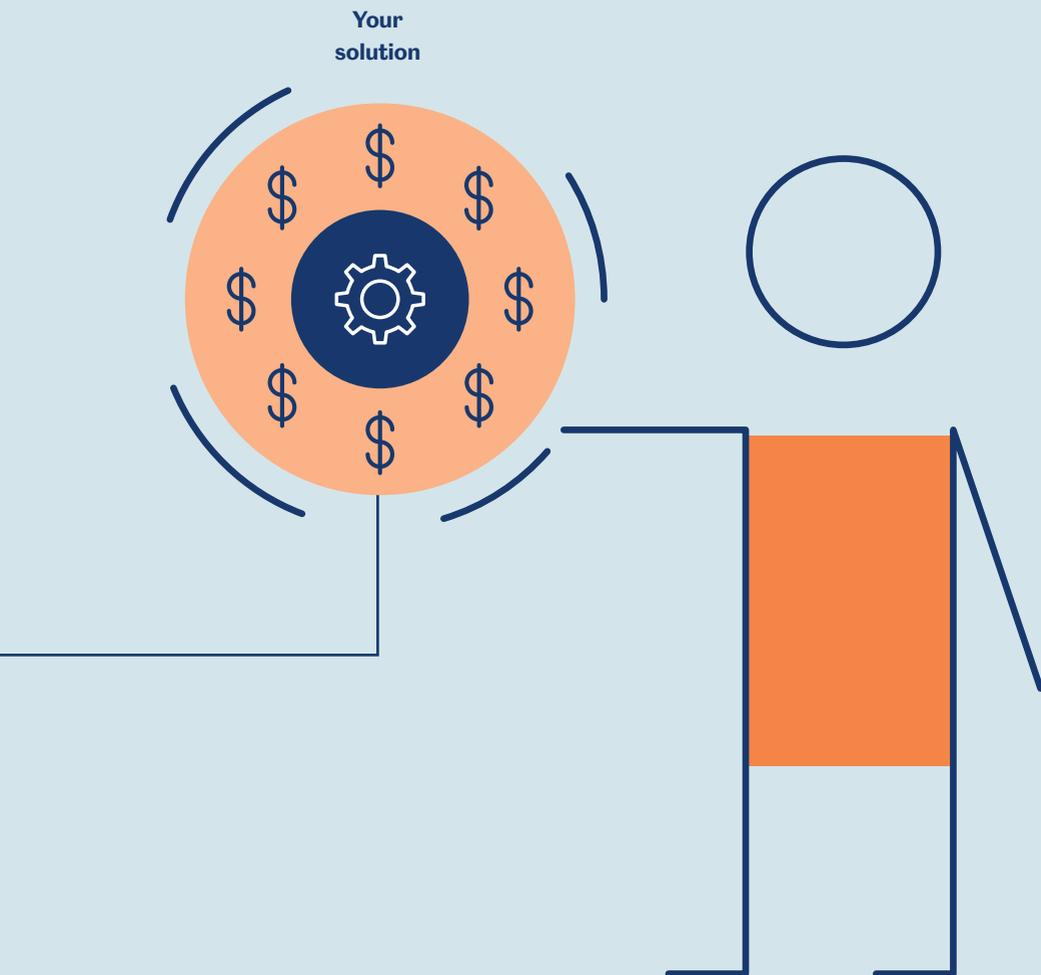
Develop your Business Idea

With the successful validation of your solution in the last booklet «Solution and Prototyping», you find yourself at the end of the double diamond. In the course of the further realisation of your idea, you will have to approach both diamonds once again, as it is commonly known that the innovation process hardly ever follows a linear development. In the beginning, however, you are asked to take a look at your solution in general to estimate the realistic potential of your idea.

This booklet is about expanding your solution with different strategic components in order to define the missing elements for a coherent business model.



Develop a business model for your idea.



The following elements are part of this strategic enrichment:

- **Competition**
find out who your competitors are
- **Market**
find out who you want to convince first
- **Unique Value Proposition (UVP)**
determine your unique selling proposition
- **Unfair Advantage**
give your company copy protection
- **Earnings Model**
show how you want to build a financially sustainable business

The single elements are briefly described and exemplified on the following pages. According to the iterative (repetitive) procedure, the process is open-ended.

Lean Canvas

Problem	Solution	Unique value proposition	Unfair advantage	Customer segments
Describe 1-3 great problems of your customer	Describe the solution for every problem	A simple clear message that explains why your solution is different and worth attention	Something that makes it difficult for others to copy the solution	Enlist your target and user groups
<p>Existing alternatives</p> <p>How were these problems solved in the past?</p>	<p>Key metrics</p> <p>Which measurable figures show whether the solution works?</p>	<p>Short concept</p> <p>The X for Y analogy Youtube = Flickr for Videos</p>	<p>Channels</p> <p>How you reach your customers</p>	<p>Early Adopter</p> <p>Describe the qualities of your ideal customer</p>
Costs		Income		
Enlist your fixed and variable costs		Enlist the sources of income		

Competition: find out who your competitors are

"If no one else is already working on the idea you have, there's a good chance it's a bad one."

Ben Yoskovitz

— A look at the competition can be exciting and far-reaching for you for different reasons:

- You get an overview of existing solutions and the companies behind them.
- The competitor analysis can give you information about the market's attractiveness. If there does not exist a single competitor, it often means that there is no demand for it. Contrary, a high number of competitors indicates an interesting market.
- Current existing solutions can be a source of inspiration for the development of your idea.
- The analysis allows for a reasonable strategic positioning on the market.
- With the help of an analysis, you can better evaluate your potential and get a grasp of the existing market

You have already done some research on the context of your idea (Booklet: «Your Idea»). Refine your search grid now and try to identify relevant competitors. During your interviews you have asked your potential customers about how they solve the problem today; research the alternatives that were mentioned during those conversations.

The following scheme will help you to research more efficiently so that you can work out the key findings for your competitor analysis:

- **Identify your competitors.**
- **Find out how they are represented on the market (strategy/market positioning).**
- **Check their media appearance.**
- **Try to find out why one competitor is more successful than another.**
- **Find out how you can set yourself apart from the competition and how this could be relevant to your customers**

Task

Conduct a competitor analysis and record your findings in the Lean Canvas block “Existing alternatives.”

Market: find out who you want to convince in the first step.

Even if you cannot go to the market at this time, the market analysis gives you information about whether your idea is effectively scalable from an economic perspective. With the definition of the target group from the booklet: «Problem & Customers», you have already done sufficient preliminary work for your market analysis.

Depending on the market size, it is possible that after a first rudimentary analysis you'll learn that there is no commercially viable business case. Consider the structure and size of your addressed market.

Example

You develop a digital translator, which translates a specific, very rare dialect into a sign language for the hearing impaired.

Without a doubt, this is a helpful solution, but just for a very narrow group. If your software is not applicable for the translation of other dialects, the scalability of your solution is very limited; and so are the chances for commercial success.

There are two possibilities to determine the market potential of your idea: the top-down analysis and the bottom-up analysis.



TOP-DOWN ANALYSIS

The top-down analysis is about deriving the potential of your idea from the size of the total market. The aim is to calculate the maximum potential which is theoretically attainable. The following illustration outlines how to analyze the market based on the theoretical potential:

The following steps resemble the customer development process in the booklet «Problem and Customers». The central difference is that, at this stage, we are talking about quantitative analysis, while the booklet «Problem and Customers» was centered on the identification of the perfect customer.

TAM = TOTAL ADRESSABLE MARKET

Total demand potential

SAM = SERVED ADRESSABLE MARKET

How many customers can we theoretically reach through our sales channels?

TARGET MARKET (FOR A STARTUP)

Who will most likely be our first buyers/ users (early adopters)?

The key figure Total Addressable Market (TAM) can be used to show the overall market size, if every potential customer would buy the product or use the service. The TAM can be equated with the total market in the booklet «Problem and Customers.»

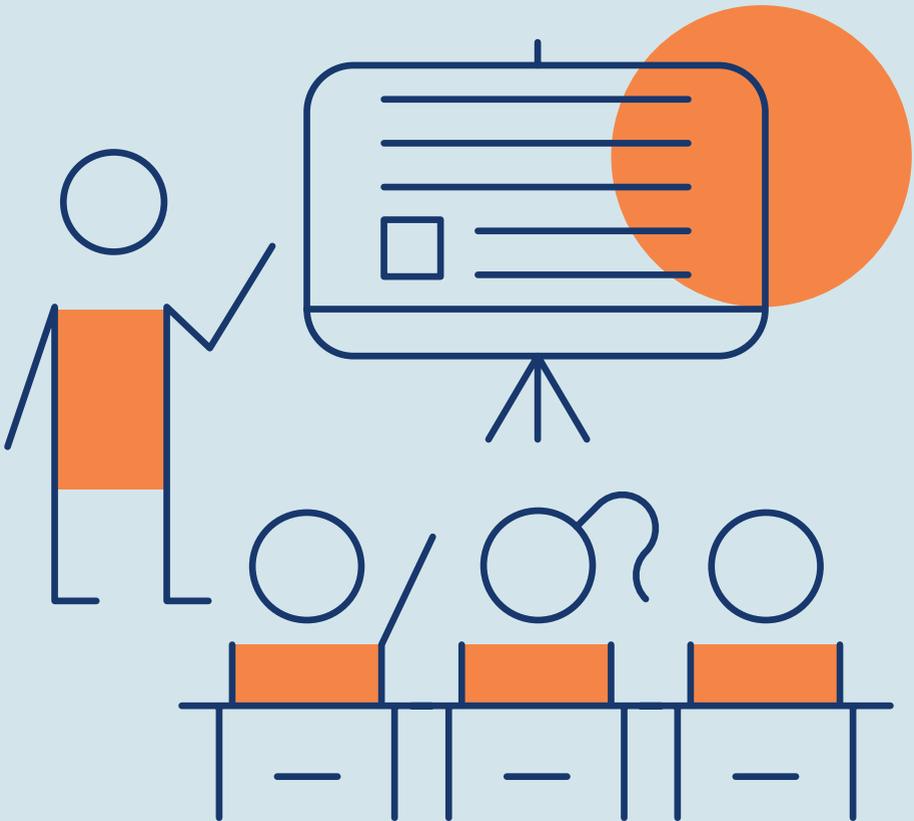
Example

A consulting business wants to offer a course on tax optimization for German-speaking men and women aged 30 to 39, who live in the German-speaking part of Switzerland. According to the Federal Office for Statistics, a maximum of one million people qualify. This figure represents the TAM.

In the next step, the accessible part of the addressed market (the Served Addressable Market, in short SAM) can be used to show how many people can be reached through marketing and distribution channels. SAM consists of the sum of the target groups as described in the booklet «Problem and Customers.»

Example

The consulting firm is mainly represented in the larger German-speaking Swiss economic centres and their agglomerations. Through these, 450,000 persons can be reached. This corresponds to the SAM.



As the last step, it makes sense to narrow down the market even further to the target market. At the beginning of an idea, startups often have limited resources, and thus, need to focus on the so-called Early Adopters. Even if more people could be reached through marketing and distribution channels, it makes sense to concentrate on those who are most interested in your product/service.

Example

The consulting firm assumes that mainly households with a yearly income of > CHF 80,000.- will be interested. As from this amount onwards, income taxes grow exponentially. This results into a target market of around 300,000 people.

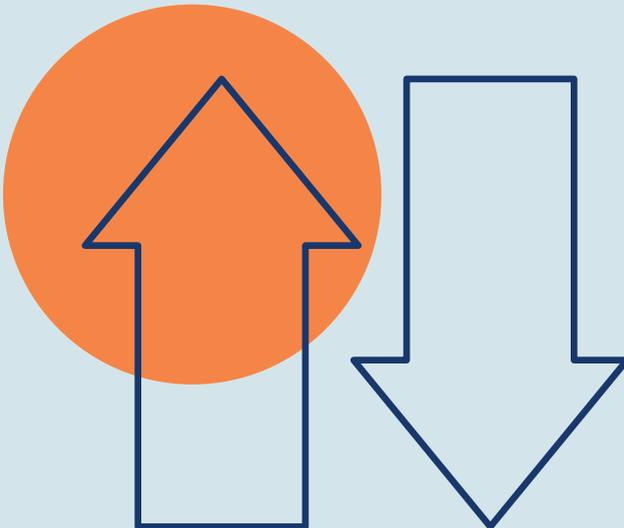
Task

Use your defined target group to analyze the quantitative market for your business idea using a top-down analysis.

BOTTOM-UP ANALYSIS

Next to evaluating the market starting from the total potential, you can also approach it from the opposite perspective, i.e. your own resources. The bottom-up perspective is a more elaborate but also a more difficult method. It is challenging to outline precisely how a market is conquered and penetrated, but it allows for more realistic assumptions compared to the top-down analysis.

Think about which marketing and sales channels you want to use to approach the defined customers (for now only early adopters). How will you reach your first 100 prospects or 10 customers, then your 1000 prospects and 100 customers? By prospects, we mean potential customers, which should be engaged in marketing activities. They only count as customers when they make use of your service. Also these calculations are based on assumptions, but they are much more tangible than those of the top-down approach.



Example

Personal life coach Roy L. is starting all over with his new offer. He wants to analyze the life situation of people and give advice based on that. He generated his first customers by doing the following:

Step 1

Roy searches his Facebook account for close contacts and calls them. 10 out of 100 are ready to take part in a coaching session. Thus, Roy has generated his 10 first customers.

Step 2

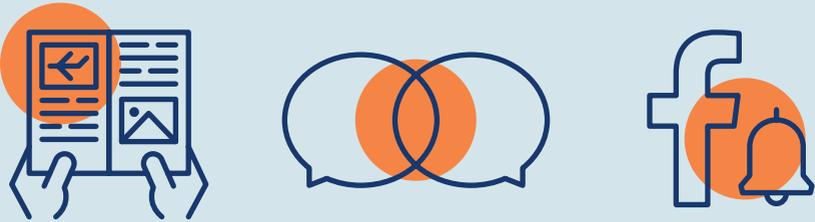
To increase the number of customers, Roy starts a flyer campaign in five big Swiss cities. In each city he reaches 1,000 to 1,500 potential customers (prospects). This results in approx. 100 new customers.

Step 3

With the first two steps Roy has generated his first revenue. Now he wants to reach quickly a large number of potential customers (prospects), without spending too much time on it himself. Therefore, he uses the generated revenues to place LinkedIn and Facebook ads. With these ads he reaches between 10,000 and 15,000 prospects within his target group in one month. These again result in around 1000 to 1500 customers.

With these calculations, Roy can illustrate his approach in a credible and clear manner. If he can even prove one of the steps with concrete numbers, it is all the more valuable.

The following illustration symbolizes Roy's approach:



PROSPECTS/USERS

CUSTOMER

STEP 1

100 → 10

PHONE CALLS

STEP 2

1,000 → 100

FLYER CAMPAIGN

STEP 3

10,000 → 1,000

ONLINE MARKETING

Task

Think about which measures you can realistically use to acquire which and how many customers.

Ideally, in your pitch you'll show both the top-down and bottom-up analysis. The two approaches can be perfectly combined. The first one shows you the total potential while the second one shows how you want to skim off this potential step by step.



Unique Value Proposition – determine your UVP

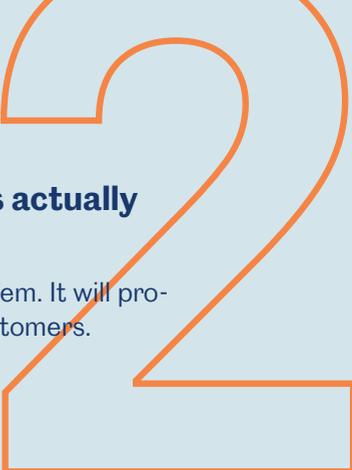
— Already during the competitor analysis, you thought about how you can set yourself apart. The Unique Value Proposition helps you to get to the point and to highlight the added value of your solution. Your customer should be able to see at first sight why they should go for your solution. Finding your Unique Value Proposition, a unique feature, is of vital importance. You have to convince your customers with a clear and evident message that your solution is better - or at least different - than your competitor's.

The following tips should help you find your UVP and express it in one or two sentences:

TIP. Look into other UVPs.

Get inspiration from different websites of successful companies and analyze their UVP. Try to sort out the «What,» «Who» and «Why.»





TIP. Be different, but make sure this is actually relevant.

Deduce the UVP directly from the core of the problem. It will provide value where it makes the most sense for the customers.



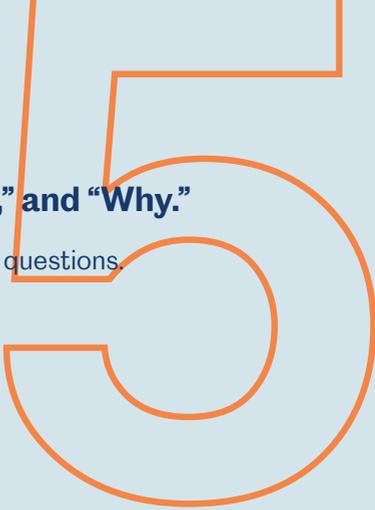
TIP. Target the early adopters.

At the moment, your solution does most likely not correspond to the demands of the mass market. Therefore, there is no point in addressing it now. Focus on the early adopters. Use clear, target-oriented and unique messages (see examples that follow).



TIP. Focus on the long-term value.

It is more important to show the value than the functions of your product or service. A good UVP sticks to the customer's mind and generates a benefit even after using the product.



TIP. Answer the “What,” “Who,” and “Why.”

The goal is that your UVP answers all three questions.



TIP. Put yourself in your customer’s shoes.

Walk a mile in your customer’s shoes to avoid falling in love with your own idea. Take a step back and ask yourself: what could persuade me as the customer to stick with the solution?

To give you a better idea of a UVP, here are some examples from successful companies:



MailChimp.

Marketing automation platform and e-mail marketing service

Build Your Brand. Sell More Stuff. Send Better Mail.

NETFLIX

Netflix.

Streaming service of movies and TV-shows

Watch Anywhere. Cancel Anytime.





Duolingo.

Online language learning service

Learn A Language. For Free. Forever.



Dollar Shave Club.

Provider of razors and accessories

Look, Feel, And Shave Like A Million Bucks. Without Paying It.

What can also help is creating a so-called «High Concept Pitch». It lets you present your idea in a nutshell with the help of a simple and catchy comparison, or, in other words, describe your core aim in a fragment of a sentence. The high concept pitch is valuable because it is easy to remember.

Examples include:

- **Youtube: Flickr for video**
- **LinkedIn: Facebook for business**
- **Netflix: Spotify for Series**

Task

Formulate the unique value proposition of your business idea and try to orientate yourself towards your vision. These two components of your idea often go hand in hand.

Take time to brainstorm for your unique selling proposition. Try to write down all the advantages of your idea, to think how your idea differs from existing solutions and how you can communicate this crisply. You can find a template of the value proposition canvas in the digital tool box. The canvas helps you derive and formulate your value proposition.



Unfair Advantage – Give your business a copy protection

Profitable products, services, and the associated business model draw attention and are often copied. The threat of another market player copying and optimizing your idea often means that success is for a limited time only. So it's crucial that you think about where your unfair advantage lies. Specifically: how do you want to protect yourself from being copied?

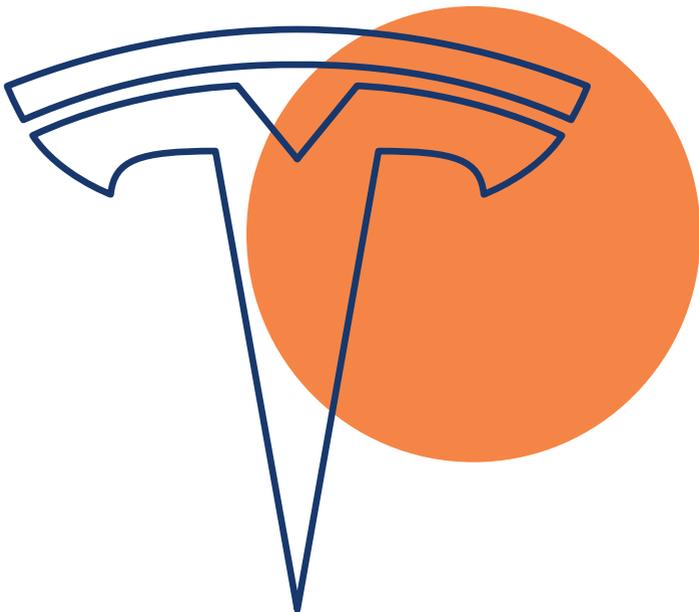
While the unique selling point gives you a short-lived competitive advantage and eases the market entry, the unfair advantage helps you maintain your market position and expand upon it.

Here are a couple of strategies for creating an unfair advantage:

- **Insider information**
- **A well-known brand**
- **Acquired reputation**
- **A secret recipe**
- **Charismatic and convincing personalities**
- **Submitted patents**
- **Existing partnerships**
- **Existing community**
- **Existing customer base**
- **Google Ranking Optimization (SEO)**

Example

The carmaker Tesla has a clear unfair advantage in its charismatic CEO Elon Musk. The trademark Tesla is firmly linked to the achievements and activities of its founder. Tesla profits from Musk's public image as a visionary and a savior of society. Another example of interconnection between a brand and a person was Steve Jobs and Apple. As long as favorable properties of these illuminating figures are transferred to the brand and product, competitors can hardly gain market share with technically advanced solutions.



Earnings Model – Show how you want to build a financially sustainable business

— Your solution can be smart and witty and your UVP utterly convincing, but if you cannot generate a profit on the long run, your business idea is doomed to fail. This is why it makes sense to plan your earnings model early on and consider how you bring cash in or save costs with your idea. The earnings model describes the strategy that outlines how your business generates revenue and profit respectively.

The five following questions will help you with the development of the earnings model:

- **What service will you provide to the customer?**
- **Where and how will your service be provided?**
- **How often will the customer make use of the service?**
- **Which channels will you use?**
- **How much does the customer pay for each service?**

Example

Coming back to the consulting company that wants to offer tax optimization courses, this means:

Which service will be provided to customers?

A 90-minute course on the subject of tax savings including aperitifs.

Where and how will this service be provided?

In a centrally located rented office space, by a certified tax consultant.

How often will the customer make use of the service?

On average, three courses per customer.

Which channels will be used to access the service?

For the time being, only in analog form on site (maximum 40 participants/ course), in the long run also in the form of digital webinars.

How much does the customer pay for each service?

CHF 150 - per course.

Take the five critical questions as a starting point and try to formulate three different answers for each item. Play with different variants and try to develop an exciting combination of service, channel, and price.

Here are some of the most commonly used revenue models by companies and startups for further inspiration.

Revenue model	Overview
Investment sale	Sales of products directly to customers
Pay-per-use	Costs are dependent on actual use
Flatrate	A fixed amount allows access to a service for a specific period.
Rent / Lease	A temporary right to use the specific product for a particular period.
Licensing	The right to use intellectual property for a limited time.
Franchising	Franchisor grants license to use the brand name, products & corporate identity to franchisees.
Advertising	Sell access to customers for placing ads.
Affiliation with partners	Fees and commissions from other websites for a purchase a customer made on that website.

Examples

Möbel Pfister (furniture),
HP (laptops and accessories)



Swisscom (roaming mobile phone subscriptions),
Axpo (energy service provider)



Netflix (leasing movies and TV series)
Spotify (streaming music)



BMW (motor vehicle manufacturer) Swiss Prime
Site (real estate investment company)



Microsoft Office (software package)
Adobe Creative Cloud (software package)



MC Donald's (fast food chain)



Google Adwords (advertising system for
displaying online ads) SRF (private TV provider)



Skyscanner (metasearch engine for flight bookings)
Trivago (metasearch engine for hotel bookings)

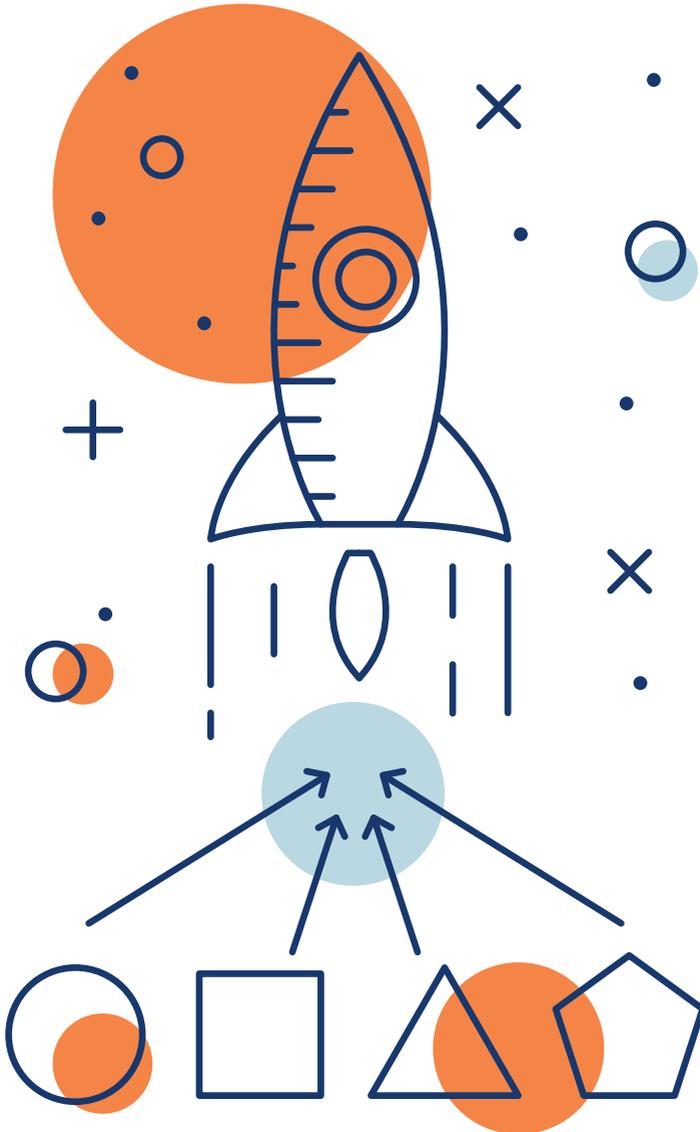


You do not have to generate any effective income at this point nor to calculate key figures. It is essential that you can conclusively show how you can earn money with your idea (with a product/service for customers) or save money (with a product/service for your organization).

By now, you have gone through the Lean Canvas up to the fields «Key Metrics» and «Costs.» Both dimensions will increasingly gain importance as you progress with your project. For the moment it is enough if you fill in the field «Key Figures» with your measurable goals/objectives for the next phase (what do you want to prove?) and think about the possible costs of your idea. You have to pay particular attention to the costs when your idea is about a physical product: the related costs are usually higher than with a digital product.

With the development of one or more earning opportunities, you have the tools for a first interim assessment of your idea. Now its time to take a closer look and check if the individual parts of the Lean Canvas connect and synergize. Hopefully, you will have a good feeling about the bigger picture of your idea and its potential. If you are unsure about it, take a step back and recheck the corresponding assumptions carefully. You may drop by at Bluelion and discuss your canvas with our team.

The next level is about transforming your results into a convincing pitch and get ready to present it in front of potential investors or an expert jury.



Move on once you:

- Have a clear understanding of your major competitors and their strategic positioning.
- Can show the market potential through top-down and bottom-up approaches.
- Have developed a unique value proposition and have an idea on how to create an unfair advantage.
- Have created one or a couple of earnings models.



The most important takeaways from this booklet:

A significant number of competitors is not necessarily a drawback. You can learn a lot from your competitors.

High market potential is a mandatory requirement, but not a guarantee for success.

A unique selling proposition is central in order to differentiate yourself from your competitors.

The sustainable success of your idea directly correlates with the creation of added (economic) value.

What to expect from the next booklet (Your success pitch)?

-  You will learn the central forms of a pitch.
-  You will know what pitch to use in which situation.
-  You will be able to pitch your business idea using the established investor pitch scheme.
-  You will learn different versions of an investor pitch.
-  You will receive general tips and tricks on how to present and sell yourself.

Literature

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