TRANSFORMACIÓN
DIGITAL PARA A
INTERNACIONALIZACIÓN

Topic 3: Business Model

April 19th 2022 - May 10th 2022

Welcome to the Digitalisation for international trade course!

This is the third topic of the programme: **"Business Model"**, which aims to develop the concepts associated with the second domain of digital transformation: Competition and Value. Here you will begin to understand how your company can generate greater customer value by leveraging the different stakeholders that make up your value chain.

Contents: business model, canvas, platforms, business relationships

The **objective** of this document is to present the main relevant concepts that will serve as a guide to deepen your business model, and that will allow you to gain the knowledge and skills necessary to transform your company.

Take up the challenge! Let's keep learning together

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Business model

A business model is a framework for finding a systematic way to unlock long-term value for an organisation, while delivering value to customers and capturing value through monetisation strategies. A business model is a holistic framework for **understanding, designing and testing** your business hypotheses in the marketplace.

What are the main components of a business model?

While there is no single way to define a business model, there is a standard tool called "Canvas". This is an excellent tool to start mapping and understanding what are the pieces that enable value creation in a company.

1. **Key partners:** The strategic relationships that the company creates with other companies or individuals.
2. **Key activities:** The activities or tasks that are integral to the operation of the business. These can be divided into secondary activities, processes, sub-processes, etc.
3. **Key resources:** Assets that are required to operate and deliver the value proposition of the company.
4. **Value proposition:** The fundamental need that the company intends to satisfy for its customers. The raison d'être (‘why’) of the company. *(This concept was worked on in detail in Class 1: Value Proposition).*
5. **Customer relationships:** The type of interactions the company has with its customers and the level of support it gives them to deliver greater value.
6. **Distribution channels:** Different methods the company uses to deliver its products or services and its value proposition to customers.
7. **Customer segments:** The different groups of customers that the company interacts with.
8. **Cost structure:** How a company spends money on its operations. Key costs and the company's level of attention to costs.
9. **Revenue streams:** The sources of the company’s cash flows.

Business model

KEY PARTNERS

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

- Who are your key partners/suppliers?

- What are the motivations for the partnerships?

KEY ACTIVITIES

The most important things a company must do to make its business model work

- What key activities does your value proposition require?
- What activities are important the most in distribution channels, customer relationships, revenue stream…?

KEY RESOURCES

The most important assets required to make a business model work

- What key resources does your value proposition require?
- What resources are important the most in distribution channels, customer relationships, revenue stream…?

VALUE PROPOSITION

The bundles(s) of products and services that create value for a specific Customer Segment.

- What core value do you deliver to the customer?

- Which customer needs are you satisfying?

CUSTOMER RELATIONSHIP

The types of relationships a company establishes with specific Customer Segments.

- What relationship the target customer expects you to establish?
- How can you integrate that into your business in terms of cost and format?

DISTRIBUTION CHANNELS

Describes how a company communicates with and reaches its Customer Segments.

- Through which channels that your customers want to be reached?
- Which channels work best? How much do they cost? How can they be integrated into your and your customers' routines?

CUSTOMER SEGMENTS

The different groups of people or organizations an enterprise aims to reach and serve.

- Which classes are you creating values for?

- Who is your most important customer?

COST STRUCTURE

All costs incurred to operate a business model.

- What are the most cost in your business?

- Which key resources/ activities are most expensive?

REVENUE STREAM

The cash a company generates from each Customer Segment.
- For what value are your customers willing to pay?
- What and how do they recently pay? How would they prefer to pay?
- How much does every revenue stream contribute to the overall revenues?

There are many iterations of the traditional business model "Canvas", some examples are:

- **Lean Canvas:** focuses on building ideas and business models under conditions of uncertainty that startups often encounter. In these situations, the problem and the solution, as well as key metrics, are essential pieces.
- **Social Business Model Canvas:** helps to design social businesses by adding Social Value, Impact Measurement or Surplus. The latter refers to where profitable investments should be made.
- **Business Model Architect Canvas:** the building block of the Value Proposition is subdivided into Customer Value, Positioning, Price Level and Experience Cycle. In addition, the Pricing Model is part of the Revenue Stream building block.
- **The Service Business Model Canvas:** a theoretical approach that divides each Canvas building block into three layers: the customer, the partner and the business perspective.

Important

Remember that while there are different representations of a business model, they all aim to understand and analyse all the components that make it possible to deliver and capture value in a business.

Use the tool you are most comfortable with and can get the most out of!

Types of business relationships

B2B (Business to Business)

The term describes the business relationship between two or more organisations. It is often applied between suppliers, where one company becomes a customer of another.
This type of relationship became popular with the rise of outsourcing, as companies could transfer part of their operations to other companies and focus on core business activities.
This type of relationship has also become very common among service providers. Examples of B2B companies are those that produce and sell raw materials and consulting firms.

B2C (Business to Consumer)

This is the most traditional relationship we know, the one that guides any organisation that focuses on the end consumer. Examples of B2C companies are supermarkets, chain stores and e-retailers of end-consumer products such as fashion, household appliances and technology.

B2E (Business to Employee)

This relationship is used to designate the business relationship between a company and its employees, although it has always existed, the term only began to spread recently when companies began to understand the impact that this relationship has on the performance of the company as a whole and on the relationship it has with its external customers. Some examples of this relationship are discounts, payment facilities such as payroll deductions, benefits for family members, among others.
This relationship is of great importance because it considers employees as promoters of the brand, as well as potential buyers of the products and/or services offered by the brand.

Types of business relationships

B2G (Business to Government)

This is the term that describes the commercial relations between companies and the public administration. In this case, tenders are usually held to define who will be the government's suppliers.
An example of companies that maintain this type of commercial relationship with the government are those that sell electrical or construction materials for public works (infrastructure projects), or even contractors that provide services.

B2B2C (Business to Business to Consumer)

It describes a type of relationship that has become more common with the rise of online shopping. For, in some cases, it is not necessary for the online shop to have a product in stock, but rather to have logistics that allow for on-demand purchasing.
A clear example of this are marketplaces that function as virtual shopping centres, where it is possible to buy products from several different establishments "in the same place".

C2C (Consumer to Consumer)

This type of commercial relationship involves two or more consumers. This relationship is very common, for example, in the automotive market, when the owner of a used vehicle advertises it and negotiates its sale, thus getting the best deals.
Nowadays, this type of relationship has gained more ground, through websites such as OLX and Mercado Libre.
Social media is also another important medium in C2C transactions, as it is possible to find buyers for anything from clothing and footwear to smartphones and other electronic goods.
For example: The used goods selling groups that form on social networks and instant messaging services such as WhatsApp have greatly boosted this type of trade.

Types of business relationships

D2C (Direct to Consumer)

Finally, there is also the direct-to-consumer relationship, where the manufacturer or distributor of a product sells it directly to the final consumer, bypassing intermediaries. This type of relationship can be very advantageous in terms of price, because distribution costs are reduced. An example of this are construction companies that sell their properties directly to the end consumer, even offering real estate loans at lower costs than financial institutions.
This type of relationship has gained strength with the change in consumer habits towards organic products, thus connecting farmers with the end consumer.

TIP

Remember that these relationships are NOT mutually exclusive, which means that you may find the same company applying several of the above business relationships.

Platform Business model

A platform is a business that creates value by facilitating direct interactions between two or more different types of customers.

While there are many types of platforms and business models that arise from them, there are three common characteristics that all platforms must meet:

1. **Different types of customers:** To be a platform, the business model must serve two or more distinct stakeholders, or types, of customers. (These can be buyers and sellers, software developers and consumers, merchants and cardholders and banks, etc.).

   The need for distinct sides explains why a communication network like Skype **is not a platform**: although it connects customers to each other, the customers are all of the same type.

   The unique dynamics of platforms arise because they bring together different parties who play different roles and provide and receive different types of value.

Platform Business model

2. **Direct interaction:** Platforms should allow these two or more parties to interact directly, i.e., with a certain degree of independence. On a platform such as Airbnb or eBay, the two parties are free to create their own profiles, set and negotiate prices and decide how they want to present their services or products. This is a fundamental distinction between a platform and a reseller or sales channel.

   The independence of interaction is the reason why our definition of platforms **does not include** a supermarket that connects brands to buyers or a vertically integrated consulting firm that connects clients to its hired employees.

3. **Facilitation:** Even if interactions are not dictated by the platform, they must take place through it and be facilitated by it. This is why our definition of platforms **does not include** a franchise business such as McDonald's, which provides brand licensing, training and support services to individual owners who open branches.

   Although franchisors enable, in a sense, trade between franchisees (e.g. restaurant owners) and end consumers (e.g. restaurant customers), that trade does not flow through the original enterprise, and only one party (the franchisee) is in some way affiliated with the original franchisor.

TIP

The characteristics presented above demonstrate that technology is only an enabler of the platform business model, which supports the interactions that take place in customer networks.