

Business Modelling... For record industry types

- **Business Model:** a rationale for creating, delivered & capturing value (the logic of how a comp. plans to make \$\$\$)
- **“Freemium” Model:** one customer segment financing another customer segment
 - The people who pay for upgraded options allow everybody else to use a limited version for free.
 - eg. Skype and conference calls (\$) compared to regular one-one person calls for free
 - eg. Garageband is free, Logic costs money
 - **If you’re not paying to use it, you’re the product**
 - you are being trained to get used to the free one so that you are likely to buy the better one
- **“Long-Tail” Model:** (sell a high volume (a lot) of a low volume (a few) of hits, vs. selling a low volume of a high volume of **niche** products)
 - I’m going to make lots of money through a lot of small things

1. Customer Segments

- a. Target market (group of people with **shared** or **similar** characteristics, tastes, and or behaviours)
 - i. Your business model has to target a particular group of people
 - b. often grouped into distinct **segments**, based on even more specific shared needs, behaviours and or other attributes
 - c. product of difficult decision making concerning who to **ignore**
 - i. whoever is out is just as important with who is in
 - d. the **basis** of any viable model
- What qualifies as a **“Segment”**?
 - Needs require and justify a distinct offer
 - Reached through different distribution channels
 - Require different types of relationships
 - Substantially different profitabilities
 - Willing to pay for different aspects of the offer
 - **Mass Market**
 - **Doesn’t distinguish** between customer segments
 - **Broadly** similar needs and problems
 - eg. consumer electronics (ipod, record players, car stereos, radios, ect.)
 - **Niche Market**
 - Catered to **“niche”** needs/traits
 - Value proposition, distribution channels and customer relationships are **tailored** to suit very to extremely specific needs
 - eg. car parts manufacturers (podcasts, internet radio, expander plug-ins, ect.)

- **Segmented**
 - broad market organized according to **similar but nonetheless varied** needs or assets or tastes
 - iTunes vs. Vinyl vs. Cassette vs. bandcamp...
 - eg. Credit Suisse: -\$gs/+ \$500gs (reference monitors vs. hi-fis, audiophile vs. 120 kpbs, completist vs. casual)
- **Diversified**
 - serves two **unrelated** customer **segments** with very different needs and problems (*Still* part of the broader market)
 - eg. physical vs. virtual media (ie. formats and their implicit demographic content)
- **Multi-Sided**
 - *upstream (music supervisors who need music) and downstream (music producers making awesome tracks looking for something to put it to)*
 - serve two or more **interdependent** customer segments
 - eg. credit card users and merchants
 - **check out the music licensing directory**

2. Value Propositions

- a. Aggregate of bundle of **benefits** a company offers a **specific** customer segment
 - b. Solves the problem(s) or satisfies the need(s) of a **particular** CS
 - c. reason why a CS chooses one company over another
 - d. usually **innovative/disruptive** or a “**value-added**” (Napster vs. iTunes)
- **Newness**
 - satisfies an **entirely new** set of needs customers didn't perceive because there was no similar offering before
 - eg. cellphones and apps: ethical investment funds, **ipods and miniaturization** (not digitization) of music
 - **Performance**
 - improving product performance or service
 - eg. computers in general, better graphics, improved storage and thus sound quality, ect.
 - i'm waiting on this before I invest too heavily in cloud services
 - **Customization**
 - tailored to specific needs to individual customers or customer segments
 - eg. “genius” style playlisting; concept behind many streaming music apps, (Pandora or spotify vs. radio)
 - **Value-Added**
 - Design improvements (eg. band camp & resolution)
 - brand/status (eg. beats by Dr. Dre: API or SSL)
 - price or price reduction: orgen helps tailor a product to a particular CS

- related to design, and often targeted to a particular demographic
 - **Price/Price Reduction**
 - often helps tailor a product of a particular CS
 - related to design, and often targeted to a particular demographic (Logic Express vs. Logic Studio or Pro Tools HD)
 - **Convenience/Usability**
 - the so-called “dad app”...
 - iPod/iTunes: simplified record shopping, miniaturization of music libraries
 - iCloud: needs to be simpler IMHO...
3. **Channels**
- a. how a company communicates with and reaches its CS **to deliver a value proposition**
 - b. eg. Social Media vs. Radio vs. TV vs. Print vs. Word or mouth
- **Functions**
 - **Raise Awareness** about what your company does or Sells
 - Help Cs evaluate your **Value Proposition**
 - allow CS to purchase specific products &/or services
 - deliver the value proposition
 - provide post-purchase consumer support
 - **Key Questions**
 - How does our CS **Want** to be reached? (eg. spam email)
 - What channel are we using now?
 - Are our channels integrated?
 - Which channels work best?”
 - Which channels are most cost efficient?
 - Can our channels be integrated with CS routines?
 - **Owned/Partnered**
 - Owned channels (ie. DL direct from Brainfeeder) lead to higher profit margins but usually require higher overhead
 - Partnered channels (ie. DL thru iTunes) leads to lower margins but usually require lower overhead
 - **Channel Phases**
 - each channel usually has **5** distinct **phases** (eg. iTunes interface)
4. **Customer Relationships**
- a. describes the types of relationships a company **has** with specific CS
 - b. companies should clarify the CRs they **want** with their CS
 - c. relationships can **range from personal to automated**, and have 1+ of the following **motivations**:
 - i. CS acquisition
 - ii. CS retention
 - iii. Upselling

- d. eg. **mobile network operators** initially pursued CRs via 1: now the market is saturated, they tend to focus on 2, and 3
- **Personal Assistance**
 - relationship based on human interaction
 - two way communication between people
 - by phone, email, facebook, twitter, etc.
 - usually focused on channel phases #3 (purchase) and 5 (after sales)
- **Dedicated Personal Assistance**
 - a single customer rep is matched to an individual client
 - the account manager concept, the business manager, the booking agent...
 - eg. sweetwater sound (can reverse on you, too)... here Channels are crucial
- **Self Service**
 - Company maintains no direct relationship with customers
 - Provides all the necessary means for customer to help themselves
 - eg. bandcamp, soundcloud, CDBaby, tunecore, youtube, twitter, ect.
- **Automated Services**
 - Mixes a sophisticated form of customer self-service with automated process
 - eg. personal online profiles, cookies based net usage
 - Multi-segmented bandcamp and soundcloud, for instance, but also CDBaby
- **Communities**
 - Creates, foments, concretizes some user community
 - eg. gearsluts
- **Co-Creation**
 - Tweaks the usual customer-Vendor relationship to co-create value
 - usually requires and capitalizes on the desire for customer "content"
 - eg. remix competitions, reviews on iTunes or amazon, comments on soundcloud tracks, YouTube comments

Think about my business model

Think how I'm being leveraged

Track Expenses

Jan 28

5. Revenue Streams

- a. cash a compay generates from each CS
- b. Each RS can have **different pricing merchanisms** (ie fixed list, bargaining auctioning...)
- c. business models can involve **two different RS**
 - i. **transactions** revenue resulting from 1x customer payments
 - ii. **Recurring** revenues from ongoing payments to deliver either a VP to customer or provide purchase
- **Asset Sales**

- selling ownership rights to a product
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- **Usage Fee**
 - Revenue generated through **use** of a particular service
- **Subscription Fee**
- **Lending/Renting/Leasing**
 - revenue generated by **temporarily** granting someone the exclusive right to use an asset for a fixed period in return for a fee
- **Licensing**
 - revenue generated by giving customer **permission** to use protected IP in exchange for licensing fee
 - allows rights holders to generate **multiple revenue streams from a single property**, without having to manufacture a product or commercialize a service
- **Brokerage fee**
 - revenue generated from **intermediation services** performed on behalf of 2+ parties
 - eg. commission; connecting two people together, ie. getting a musician into a good producer
- **Advertising**
 - revenue generated from fees for **advertising** a product, service or brand
 - ie. pretty much anything that has advertising: music can be ranked according to ad utility; etc
- **Pricing**
 1. Fixed Menu Pricing
 - i. prices are predefined. based on static variables
 - b. **List: fixed prices** for individual products, services or other value propositions (eg. 99 per DL)
 - c. **product feature dependent:** price depends on the number or quality of VP **features** (eg. iPod storage)
 - d. **Customer Segment Dependent:** price depends on the type and characteristic of a CS (eg guitar lessons; audio-engineering)
 - e. **Volume Dependent:** price as a function of the quantity purchased (boc sets, 3 for 1 sales, \$1000 per track; etc)
 2. Dynamic Pricing
 - i. prices change based on market conditions
 - b. **negotiation:** price **negotiated** between two or more partners depending on negotiation power and/or skills (eg. booking fees, royalty rates, production fees)
 - c. **yield management:** price depends on inventory and time purchase, normally for **perishable** resources such as hotel rooms airline seats (eg. studio time)
 - d. **real-time-market:** price is established based on **supply and demand** (eg. production and studio fees, booking fees, concert tickets, licenses)

- e. **auctions:** price determined by outcome of **competitive bidding** (eg. often royalty rates limited auctioning of rare memorabilia, or personalised songs, booking, etc.)

5. Key Resources

- o describes the most important assets required to make a business model work
- o physical, intellectual or human
- o owned, leased or acquired from key partners
- o different KR are needed depending on the business model (eg. manufacturer requires capital-intensive production facilities)
- **Physical**
 - o physical **assets** such as manufacturing facilities, building, vehicles, machines, systems, point-of-sales system, and distribution networks
 - o typical **capital-intensive**
 - o et. recording studios; recording technology; inventory
- **Intellectual**
 - o resources like brands, proprietary knowledge copyrights, etc.
 - o difficult to develop but offer substantial value
 - o music, music creation systems, and music delivery systems are all IP
 - o eg. label-brand (Universal, Brainfeeder, Nonesuch, Alpha Pup) Music itself (copyright content); iTunes depends on software and related intellectual property; SONY red-book standard
- **Human**
 - o particularly prominent in certain business models, especially in knowledge-intensive or creative industries
 - o eg. musicians, producers, entrepreneurs, celebrities, **RELATIONSHIPS & SALES**
- **Financial**
 - o capital is money that grows
 - o capital begets capital (C-C')
 - o not really our concern right now, but knowing that \$\$\$\$ is a key resource helps conceptualize future growth strategies

6. Key Activities

- o what a company **must** do to make its business model work
- o **SELLING: ALWAYS BE CLOSING**
- o detect & acquiring **talent**
- o eg. Labels must acquire content & demand; producers must create content
- **Production**
 - o straightforward value creation
 - o includes aesthetic goods such as record concert & live promotions
 - o eg. live shows sell cords & merch; create value; etc.
- **Problem Solving**

- usually offers solutions to individual customers (entertainment is a problem, as is **discretionary income**)
- virtual formats: lower overheads = cheaper prices
- virtual contents: even lower overheads = cheaper prices
- eg. privacy...
- **Platform/Network**
 - business models based on a platform or network KEY RESOURCES are dominated by a platform or network-related KEY ACTIVITIES
 - content is used to sell the delivery system
 - eg. **iTunes, bandcamp, soundcloud**

7. Key Partnerships

- **4 Kinds of partnerships**
 - strategic alliances between non-competitors (iTunes, Google & True North)
 - **coopetition**: strategic partnerships between competitors (label funded tour support for **festival tours**)
 - Joint ventures to develop new business (beats music & AT&T = family plans v. Spotify's single-use license)
 - buyer-supplier relationships to assure reliable supplies (duplication services; etc.)
- **Optimization & Economy of Scale**
 - Most common buyer-supplier relationship optimizes allocation of resources and activities
 - it is illogical for a company to own all resources and perform activity itself
 - eg. duplication of physical media; collection of publishing royalties; etc.
- **Reduction of Risk & Uncertainty**
- **acquisition of particular**
 - these partnerships extend one company's capabilities by relying on another firm's services, resources, et.
 - eg. Brainfeeder distributes through CDBaby; **Gaslamp Killer** (is Brainfeeder's brand recognition as a resource to acquire traffic for his personal bandcamp page)

8. Cost Structure

- a. describes all cost incurred by a business model
 - b. some models are more cost driven than others (no-frills business are modelled on low cost structures)
 - c. 2 broad classes of business model: cost-driven and value driven
- **2 classes of model**
 - cost-driven
 - focus on minimizing costs wherever possible
 - requires low price value proposition, maximum automation, and extensive outsourcing
 - eg. no frills airlines; naxos

- **value-driven**
 - focus on value creation
- **Characteristics of cost structures**
 - **fixed costs**
 - **variable costs**
 - **economies of scale**
 - **economies of scope**

Unbundled Companies

- **Economies of Scale**
 - lowered cost through high volumes
- **Economies of Scope**
- **Unbundled Prompts**
 - economic conflict
 - product innovation = early market entry enables charging premium prices and acquiring large market share: speed is key
 - Customer Relationships = high cost of customer acquisition makes it imperative to gain large **wallet share**; economies of **scope** are key (upselling)
 - Infrastructure Management = high fixed costs make large volumes essential to low unit costs; economies of **scale** are key (cheap hardware sells expensive software)
- **Unbundled prompts**
 - competition
 - product innovation= battle for talent; low entry barriers (ideas); many small boutique stars thrive
 - Customer Relationship = battle for scope' rapid consolidation; a few big players dominate (big enough to bundle)
 - infrastructure Management = battle for scale; rapid consolidation; a few big players dominate (we **own** that)
 - ie google
- **unbundled prompts**
 - **cultural conflict**
 - product Innovation = employees centred; coddle creative stars
 - Customer Relationship = highly service oriented; **customer 1st**
 - Infrastructure Management = **cost** focused; stress standardization, predictability, efficiency
- **Long Tail Model**
 - based on the concept of selling more for less
 - large number of niche products, each of which sells relatively frequently
 - can be as lucrative as the traditional model (ie. sell more of less)
 - Requires **low inventory** costs and **strong platforms** to make niche content readily available

- Often the platform itself is the Value
- **The Long Tail Model**
 - coined by Chris Anderson in 2006, to account for media retail
 - Tied to three economic triggers, all of which lower overhead
 - democratization of tools of production
 - democratization of distribution
 - falling search costs
 - primary challenge of any niche content is finding interest buyers. LTM platforms have powerful **search and recommendation engines**, user ratings, and **community forums**
 - an LTM almost always eliminates entry barriers concentrated by large traditionally modelled businesses
 - the LTM platform is almost always **multi-sided** (amazon, bandcamp, iTunes, etc.) but LTM is mostly concerned about **developing** and **delivering** a CS

Entertaining affluent youth is the best way to make money

February 4

Artists aren't making money

the active players in the industry monetize our behaviour

-multisided platform is how this is done now

Multi-Sided Platform

- Brings together two distinct but interdependent CS
- only valuable if CS are present
- platform creates value by facilitating interactions upstream, downstream, ect.
- **network effect**: platform grows in value to the extent it attracts more users
 - The platform becomes a verb
- eg. Visa, Google, Xbox, Facebook, bandcamp, iTunes, amazon, etc.
- Ad revenue enables free offers
- 1 side of the platform attracts users for advertisers.. audience delivery

value problem

- the platform must attract and serve all groups simultaneously to create value... but for one CS to be present, the other must be present...
 - usually solved by using one CS to subsidize 1+ CS... freemium model... so then the important question becomes: which side(s) to subsidize...
- you need upstream consumers

Freemium

- blend free services with paid premium services
- characterized by large user base, benefitting from a largely free and no-strings

- attached offer
- conversion rate is usually less than 10% of total user base
- **key metrics**
 - average cost of the free service
 - conversion rate
- conversion facilitated by constraining use
- eg. dropbox, flickr, Cloud storage, etc.

Bait & Hook

- characterize by an attractive, inexpensive or free initial offer which encourages continuing future purchases of related products and services
- loss leader (give away things eg, give away free iphone, but you're stuck with a 3 year contract)
 - razor and blades. you buy a decently priced razor but you have to keep buying more blades. Same with CDs and CD players
- key = the "lock-in" (often through IP licensing or patents)

Open Business Models

- create and capture value by systematically collaborating with outside partners
- two types, generally
 - outside-in: exploit external ideas within the firm

Business Model Canvas

- value proposition
- key partners
- key activities
- key resources
- customer relationships
- customer segments
- channels
- cost structure
- revenue streams

Midterm - business model canvas

- **Take something small that you use and analyze the model.**
- **start with a little 1 paragraph road map**
 - **"this is a model for ...bandcamp..."** .5 page
- 1. **Explain the business model canvas** 1.5 page
 - Just use "Business Model Canvas" as the heading*
 - broad strokes**
 - consumer behaviour**
- 2. **Model** .5 page
 - using the canvas**

3. Explain the canvas' constituent parts 2 page
a. headings are fine

25 February

1. Business Model Design

Customer-centric design

- all about designing something for customer experience
- successful innovation **requires** a deep understanding of customers, including environment, daily routines, concerns and aspirations
- goal
 - integration of model within broader culture
 - generate new behaviour paradigms
- **CHALLENGES:**
 - don't just ask what do you want?
 - which customers to heed?
- **GENERAL PRINCIPLE:**
 - study margins of incumbent model segments (you are studying unmet needs)
- **Understanding & Designing Experience**
 - compelling
 - captures the users interest
 - exploring
 - user friendly interface
 - interaction
 - extend
 - referring

Market Segmentation

- geography
- demography
- occasions
- benefits
- psychographics
- behaviour

insight group

Prototyping

- thinking tool, not necessarily the actual business model
- ideation: make abstract concepts tangible'facilitate exploration of new ideas
- data is only a single input (wolfe on wall street wannabes)
- favours on-linear, opportunistic thinking
- begins, most often, with **what if?**
 - **upstream: prototyping**
 - **downstream: customer-centric**

define the problem

identify many options
refine solution ideas
execute the best

Elaborated Canvas

- make the idea work (how you demonstrate proof of concept)
- think through obstacles to launch
- estimate market potential
- elaborate relationships between building blocks
- do some basic fact checking

Business Case

- explore the viability of the idea
- turn the model into a spreadsheet to estimate the model's earning potential
- calculate costs and revenues
- estimate profit potential
- run financial scenarios based on different assumptions

Field-Test

- study customer acceptance
- include prospective or actual customers in the test
- look closely at: viability and allure of the VP, Channels, and Pricing mechanisms

4 March

2. Business Model Design, 2

Ideation (in a nutshell)

- all that is solid.... ignore the status quo & forget the past
- suspend concerns over operational issues & competition
- team driven (all 9 blocks)
- 2 main phases
 - idea generation (quantity over quality)
 - synthesis (narrow down based on viability)

Key Team Considerations

- Team Composition
 - all 9 blocks represented
- Immersion
 - sufficient research done
- Expansion
 - each block expanded
- Criteria Selection
 - which blocks matter most
- Prototyping
 - model each innovation

How to do Ideation Most Effectively

- **one man**
 - The Notebook
 - ideate: brainwrite 25 ideas, possibly ideate using 1-2 other I-Tools (like free association or concept mapping)
 - Idea quota: 25-30
 - Time: 15-30 min
 - The Eureka Seeker
 - First ideate (like in 1), then image (using imagination exercises), then incubate
 - Idea quota: 50-100 + 1 breakthrough
 - Time: Weeks, months to even years
- **Team**
 - The Brainstorm
 - Ideate and imagine by mixing Brainstorming and Pool Brainwriting
 - Thereby integrate 4-6 I-Tools (such as Metaphors or What if?) to broaden the scope of ideas
 - Involve 1 Team (6-8 heads)
 - Idea quota: 300++
 - Time: 2-3 hours
 - The Idea Playground
 - Ideate and imagine using 8-12 I-Tools to stimulate out-of-the-box ideas
 - Consider hiring external ideation expert (to facilitate)

Epicenters of innovation

- resource driven
- offer driven
- finance driven
- combination driven
- customer driven

Scenarios

- guide design of new models or provoke innovative disruptions to existing models (usually focused on CS or RS)
- 2 types
 - customer segments (how products used by whom to serve what purpose, want, or need)
 - future environments (how the model could compete given a set of variables.... DON'T PREDICT!)

Business Model Design

- using visual tools to construct and discuss meaning

- turns tacit (unstated knowledge) assumptions about a model into concrete data
- 2 techniques
 - post-it notes
 - sketches
- improve 4 processes: understanding, dialogue, exploration & communication

Storytelling

- new or innovative business models challenge the status quo by arranging things in unfamiliar ways... resistance is the most common reaction to unfamiliarity
- storytelling suspends disbelief in the unfamiliar to allow for consideration of innovation
- 1 protagonist, simple
- nowadays, the paradigm, is distributed (diffuse)
- **The Hero's Journey - Joseph**
- **Why?**
 - make the new tangible: suspend disbelief, quickly outline broad strokes of your model before getting tangled in details
 - clarification: illustrate how your business model solves customer problems (for investors)

18 March

Environmental Consideration

- how you figure out your exit strategy