

MANUAL

# INNOVATIVE BUSINESS MODEL DESIGN

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# Contents

1	Preface	3
2	Authors' Profile	4
3	Introduction	5
4	Understanding Customer Demand	6
5	Value Proposition Design	13
6	Business Model Development	17
7	Bibliography	32

# Preface

1

This manual aims to actively promote, guide and sustain innovative and competitive new business ideas. Students learn about analyzing customer demand, they receive guidance on how to create value for the customer and to build innovative business models.

Our approach is based on the experiences of the Self Management Initiative Leipzig (SMILE) where we supported more than 550 start-ups over the last fifteen years.

Please contact our website [www.sept.uni-leipzig.de](http://www.sept.uni-leipzig.de) for further information.

Utz Dornberger

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# Authors' Profile

2



## Prof. Dr. Utz Dornberger

Prof. Dr. Utz Dornberger is the Director of the International SEPT Competence Center (SME Promotion and Training) at Leipzig University. His academic and professional focus lies primarily in innovation management in SMEs, innovation policies, promotion of entrepreneurship and internationalization processes. Currently, he is also the Director of Self-Management Initiative Leipzig (SMILE), promoting entrepreneurial spirit and start-up creation. His international experience in consultancy, coaching and education in private, institutional and government sectors covers five continents and over 50 countries.

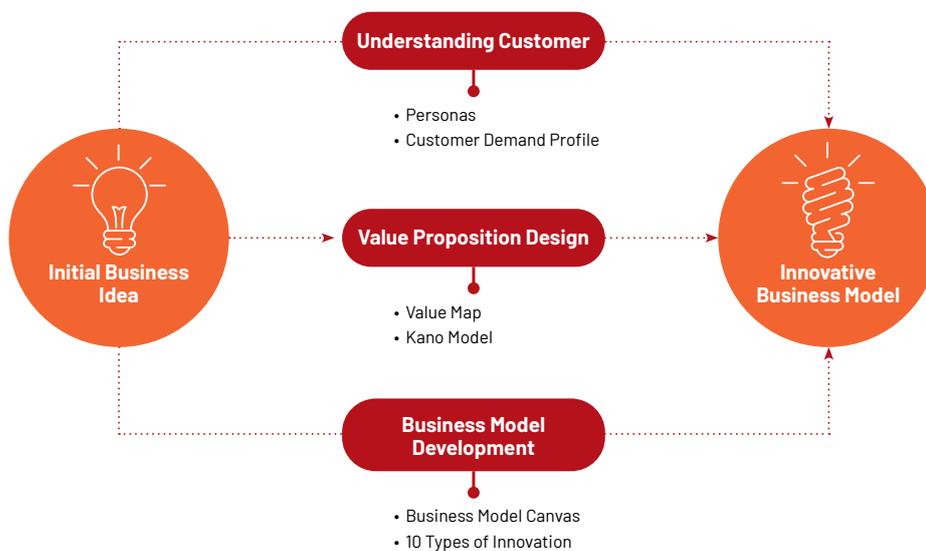
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# Introduction

3

Our approach for innovative business model design starts with a preliminary business idea and is based on the following principles:

- The starting point is the analysis of the customer needs and wishes. A deep **understanding of customer demand** is a prerequisite for the development of innovative business ideas.
- The next step focuses on the capability to **design a value proposition** for new products and/or services that is able to address the needs of the customers.
- Finally, an **innovative business model** has to be developed in order to establish a sustainable business concept in the market.



# Understanding Customer Demand

4

A deep analysis of the customer's demand is very important in developing innovative business ideas, because the competitive advantage of companies in an environment of ongoing changes lies in the capability to innovate in new products, services or business models that are able to address the needs of the customers.

Here we present two management tools helping us to understand customer demand:

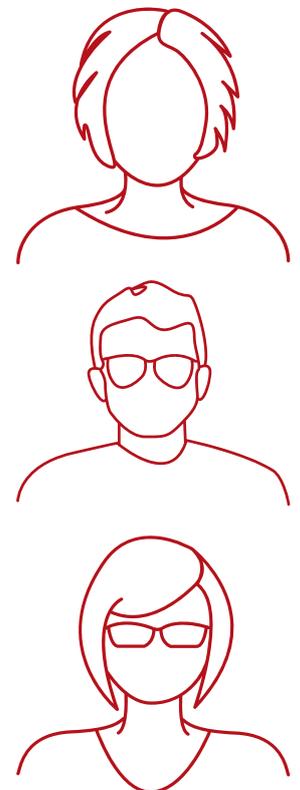
- Personas
- Customer Demand Profile

## PERSONAS

Personas are detailed, accessible archetypes, which are representative for actual groups of users and their needs. They are based on research with real people and constructed out of specific data about these real people, but not directly based on individual people.

Personas "humanize" the usually big quantity of customer information, which exists within a company, in a way, that the "fuzzy customer" is transferred into concrete users, which represent the focused target groups. The advantage of this tool is that it is much easier to keep information in mind and refer to them during the development process, which is related to real people (in our case Personas), then remembering hard facts from market research reports. It is also easier to develop for a specific person instead of developing for "the user".

Personas are not reflective of every customer or marketing segment and they are ideally based on qualitative user research like observational studies, contextual inquiry, interviews, etc.



## Why Personas?

Normally each team member has at the beginning of the start-up project its very own view and expectations how the final product or service should look like. One of the most fundamental bases for a successful development is a common and data-based understanding of the customer within the team. This is important for a focused and aligned cooperative team work.

In general, service or product development projects are set up to target as many as possible customers. This makes it difficult to focus on the relevant aspects and leads often to products or services with a vast of complexity, because features are implemented for almost every imaginable customer in the world. The development of products or services for markets is problematic because they are consumed by individual customers and not by "markets". Personas allow the development for a restricted number of concrete defined customers. They define who is a target customer and who is not. This limits the options and enables better decisions which features should be implemented and which don't. The quality of a service or product can benefit from the limitation of features or options (Apple provides at the beginning just one iPhone model with two options the customer can choose. One is the capacity of the memory and the other is the color.)

Product attributes and features which satisfy one customer can obsess other Customers (e.g.: a disco with loud music in a holiday complex). A customer satisfaction level of 50% will not be reached if we satisfy all customers up to 50%. The customers should be separated into groups and solutions should be developed which satisfy single groups 100%. Personas are in these circumstances an optimal way to do so.

## What are Personas?

- Archetypes representative of actual groups of customers and their needs
- Based on research with real people
- Ideally based on qualitative and/or quantitative customer research: observational studies, contextual inquiry, interviews, etc.
- Not reflective of every customer segment
- Personas represent behavior patterns, not job descriptions

# PERSONAS DEVELOPMENT PROCESS

Personas can be developed in a process which consists of four phases.

1. Data collection
2. Persona conception and creation
3. Deployment
4. Usage

## Data Collection

A deep and profound understanding of the customer's requirements is necessary for the development of Personas. Personas should be developed in a scientific way and base on concrete facts. Hence the starting point of the true development should be the creation of a user information data base. The data in the data base has to be collected and transformed into an adequate uniform format. To keep the costs of the Persona development in strict boundaries it is advisable to use already existing data as far as possible. A list of potential data sources follows. The list makes no claim of completeness.

- Existing market or user studies
- Field studies like interview
- Target group reports
- Market segment analysis

Additional the following data sources can be helpful to.

- Results of usability tests
- User profiles (extensive descriptions of real users)
- Actors of use cases
- Documentations of customer observations
- User requests

## Persona Conception and Creation

The development of the Personas can be performed in three steps.

**The first step** is to identify groups of users, which are important for the business area. The development of categories, although they are based on assumptions, helps to structure the data analysis and creates a link between the present view on the customers and the data driven Personas, which have to be created. User categories can be defined through descriptions of user rolls, user targets or user groups, which are important for the business.

**The second step** is to define persona skeletons for each group of users, which were defined in the previous step. Persona skeletons are lists of basic characteristics which you derive from the users in each category. You can pick one single customer of the group and orientate your proceeding on him/her.

Examples for basic Persona characteristics are:

- a name and picture
- demographics (age, education, ethnicity, family status)
- job title and major responsibilities
- goals and tasks in relation to your service or product
- a quote that sums up what matters most to the persona with relevance for your service

**In the third step** one can add more detailed information to the basic skeletons to form complete Personas. Individualized details and storytelling elements give Personas real personality and context. Personas become specific with details that make them real: names, families, pet peeves, homes, jobs, type of computer used, goals, tasks, needs, etc.

Select a picture for the Persona that "feels right". Add additional pictures which show the persona in context (at work or at leisure time). Show members of their family, their house, office or other locations. You can also show other relevant details like: pets, car, friends, favorite magazine, favorite places or technology the Persona uses.

## Personas Presentation

The following two cases provide an example how one can present a personas in order to share with other members in the team as well as the company.

## Consumer Personas



**Name** Lin  
**Age** 27  
**Gender** Female

**Hobbies**  
playing tennis  
gym  
watching movies

**Who am I**  
Family status  
got married, boyfriend (James)

Ethnic/cultural background  
born in Germany,  
parents immigrated from China

**Job description**  
Chef Designer at Arts4U Inc.,  
developing new designs

**Salary**  
2.500 € monthly

**Buying behaviour**

- looks for a romantic, relaxed dining experience
- bar facility
- good décor
- relaxing environment
- likes to test
- no offers

**Education**  
studied graphic design in Germany

**Statements**  
"Romance is part of my life"

## Business Customer Personas



**Name** James Winter  
**Age** 55  
**Gender** Male

**Who am I**  
Family status  
married, 2 kids  
(school, university)  
Education  
MBA Stanford

**Goals and Challenges**

- Value most
- job security, family recognition for success, church
- Biggest challenge
- managing people, keeping all balls on air
- Biggest objections
- appearance, not state of the art, liability, look dumb

**Communication Preference**  
email, phone, uses internet for getting information about suppliers reads Economist and Best Supplier Magazine social networks (Linkedin)

**Job Position**  
Purchasing Manager,  
Reports directly to CEO,  
2 staff member in his unit  
Performance measure  
Operation efficiency, cost reduction.

**Company**  
Greenfield Technologies Inc., Welding equipment, 100 employees, \$20M Turnover

**Statements**  
"Do it right at the first time"

## CUSTOMER DEMAND PROFILE

The Customer Demand Profile describes a specific customer segment in a business model in a more detailed way. Following the approach by Osterwalder et al. (2014) one could differentiate here between: customer jobs, pains, and gains.



Source: Osterwalder et al. 2014

### Customer Jobs

Customer jobs describe the things the target customers are trying to get done in their work or in their life. Here we can differentiate between several types of jobs:

- Functional jobs: when customers want to complete a specific task
- Social jobs: how customers want to be perceived by others
- Personal/emotional jobs: when customers seek a specific emotional state
- Supporting jobs: when customers act as co-creator of value, transmitter of value

Sometimes even a combination of several type of Customer Jobs can be identified in the market in a specific customer segment.

### Customer Pains

Customer Pains describe anything that hinders a target customer using a product or service in the market. Here one can differentiate between undesired outcomes, obstacles, and risks:

#### Undesired outcomes

here we can differentiate between:

- Functional level: a solution doesn't work
- Social level: customer looks bad doing this
- Emotional level: customer feels bad doing this

In developing new products or services we very often do not consider the customer pains. But here we have a lot of opportunities to design innovative solution.

### Obstacles

There can be a lot of obstacles related to a use of a product or service in the market. One very important obstacle is related to the time the customer has to invest in using the product or service. Another obstacle can be related to getting an access to the product or service.

### Risks

Risks are related to negative consequences for the customer, e.g. customer might lose credibility using a service or product.

## Customer Gains

Customer Gains can be translated into additional benefits the target customer may want. These additional benefits are either desired by the customers (it mean directly expressed) or they are more representing a latent demand. Here the company would surprise the customer when they are responded by a new product or service. Once again one can distinguish different types of Customer Gains

- Functional utility
- Social gains
- Positive emotions
- Cost savings

In the development process of a customer demand profile one should always focus on the 3 to 5 most important Customer Jobs, Pains and Gains.

### Attention

- Include also social and emotional jobs.
- Act like an anthropologist and „forget“ your offering.
- A good customer demand profile should be full of sticky notes.
- Make gains and pains tangible (How long is „too long“).

# Value Proposition Design

5

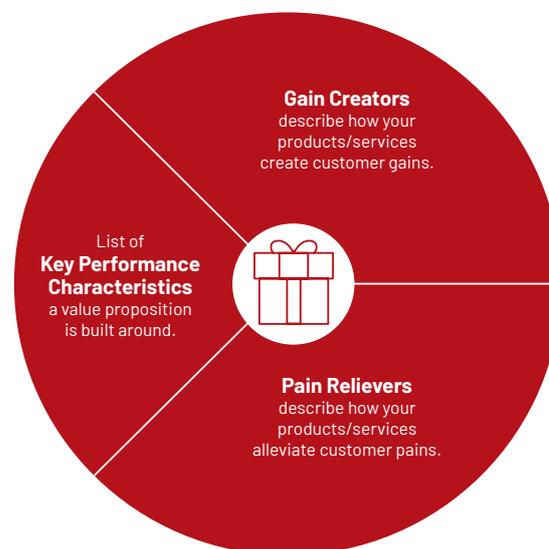
The value proposition for business idea can be designed based on a deep understanding of customer demand. It is important that the value proposition clearly responds to all important aspects of the customer needs.

Here we present two management tools helping us to understand customer demand:

- Value Map
- Kano Model

## VALUE MAP

The Value Map presents how a company intends to create value for the target customers. It is a perfect tool to describe in more detail the Value Proposition. Following the approach by Osterwalder et al. (2014) one could differentiate here between: key performance characteristics, pain relievers, and gain creators.



Source: Modified from Osterwalder et al. 2014

## Key Performance Characteristics

It represents a list of all characteristics the customers can see in the “shop window” of the company. In order to structure this listing one could differentiate between basic and performance characteristics:

### Basis characteristics

- “Must have”
- Not mentioned by the clients
- The supplier does not advertise them
- Represent a market “threshold”

### Performance characteristics

- Essential decision-factors for the customer
- Directly compared to the ones of the competitors
- Directly related to the customers’ satisfaction
- Clients are disappointed if the functionality or quality decline

Here it is important to list especially the most important performance characteristics.

## Pains Relievers

Pain Relievers describe how exactly the new product/service alleviate specific customer pains. Here it is important to show how the company is eliminating or reducing all the barriers the customer could have in using the new product or service. Companies should focus on pains that matter to customers, in particular extreme pains, because it is very difficult for a company to provide pain relievers for every pain identified in the customer demand profile. Thus, one should provide solution for only few extreme pains but they have to be alleviate extremely well.

## Gain Creators

Gain Creators describe how a new product/service creates additional customer benefits focusing on unexpected benefits. Gain Creators are often missed when they are absent but they can make a difference. They finally may cause enormous satisfaction and therefore contribute to long-term customer loyalty.

### Attention

- List only the bundle of products and services that jointly form a value proposition for a specific customer segment.
- Great value propositions are about making choices (be honest not unrealistic).
- It is impossible to reduce all pains.

## KANO MODEL

The “Kano Model” is a useful complementary tool to develop the “Value Map”. Professor Noriaki Kano developed this systematization method for attributes or characteristics of products / services in the 1980s.

Customer preferences are described in three levels:

### Basic Characteristics/Attributes

Basic attributes do not cause extra enthusiasm, they are a “must have” and are not mentioned by the clients. The company does not even advertise them. The basic attribute represents a market “threshold” – without this attribute, the company cannot enter the market. A typical example is a bed in a hotel room.

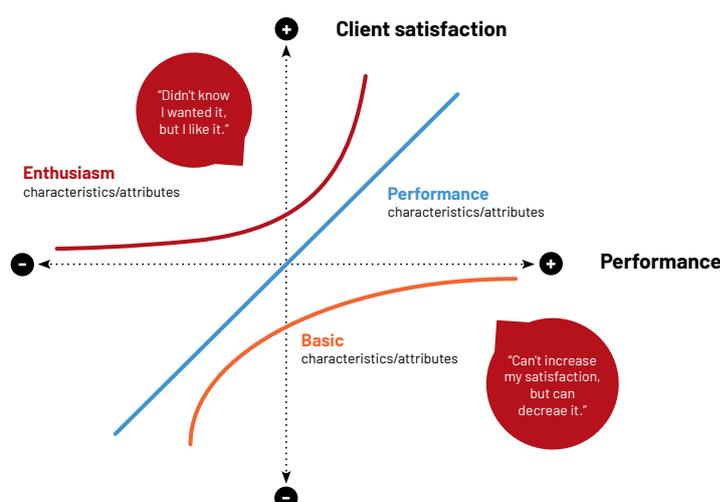
### Performance Characteristics/Attributes

Performance attributes are essential decision-factors for the customer. The customer will compare this specific attribute directly to the ones of the competitors. These attributes are also directly related to the customer’s satisfaction – when the functionality or quality decline they become disappointed. An example is the size of the hotel room.

### Enthusiasm Characteristics/Attributes

Enthusiasm attributes contribute to retain the customer in the long term. These unique attributes are not missed when they are absent; they offer unexpected benefits and can cause enormous customer satisfaction. One example is a personal trainer in the gym of the hotel.

## Graphical Illustration of the Kano Model



## Practical Example

The hotel example can illustrate the different attributes of customer satisfaction:

Free internet is a basic attribute for a business client of a hotel. The client expects this service. The hotel cannot increase his satisfaction providing free internet. But if the hotel does not offer this service the client gets highly unsatisfied.

A swimming pool is a performance attribute. The client compares the offer with competitors. A bigger pool, extensions like a whirlpool, etc. can increase customer satisfaction.

A personal fitness trainer is an enthusiasm attribute. It is not expected by the client. In absence, it cannot influence his satisfaction, but if available, it increases strongly his satisfaction. Thanks to this unique feature, the hotel retains his client.

### Attention

- Customer expectations are not fixed, they can change over time: Free internet was eventually an enthusiasm attribute some years ago, now it's a basic attribute. Companies have to analyze customer behavior, react quickly, improve performance attributes and develop constantly new enthusiasm attributes.
- Consider that different customer segments have different preferences: A business client has different expectations than a vacationer.

# Business Model Development

6

## BUSINESS MODEL CANVAS

This guide supports in describing the business model around an innovative business idea. This is of particular importance because the business model canvas explains in more detail the value proposition, as well as its production and delivery to the target customer.

According to Osterwalder et al. (2010) a business model can best be described through nine basic building blocks that show the logic of how a company create and deliver value as well generate revenues and profit. The nine blocks cover all main areas of a business and are structured in a so-called business model canvas. The business model canvas is like an executive summary describing the business strategy which need to be implemented through organizational structures, processes, and systems.



Source: Modified from Osterwalder et al. 2010

## CUSTOMER SEGMENTS

The Customer Segments represent the first building block of the business model canvas which an entrepreneur has to identify and describe in detail. It defines the different groups of people (B2C) or organizations (B2B) an enterprise aims to reach and serve.

A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore.

Customer groups represent separate segments if:

- Their needs require and justify a distinct offer
- They are reached through different distribution channels
- They require different types of relationships
- They have substantially different profitabilities
- They are willing to pay for different aspects of the offer



A company can focus on larger market segments, niche markets or several target groups. In all cases, it would be necessary to understand in more detail the demand of the respective customer which would make it necessary to analyze deeply the Customer Profile.

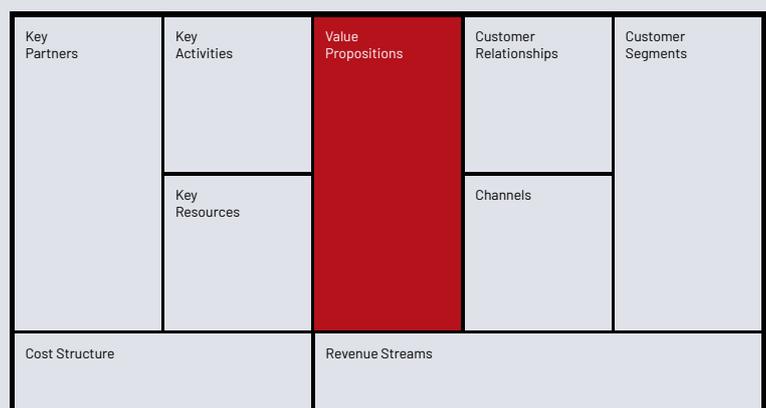
## VALUE PROPOSITIONS

The building block Value Propositions describes the bundle of products and services that create value for a specific Customer Segment. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.

Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes (Osterwalder et al., 2010).

Values may be

- Quantitative (e.g., price, speed of service)
- Qualitative (e.g., design, customer experience)



According to Osterwalder et al. (2010) one can differentiate between several types of a value propositions:

## Newness

Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. This is often, but not always, technology related. 3D printers, for instance, will create a whole new set of applications of this technology in a lot of different economic sectors. They allow a decentralization of production and facilitate customization. On the other hand, social innovations such as micro-insurances for poor people have little to do with new technology.

## Performance

Improving product or service performance has traditionally been a common way to create value. Here one could take the automobile sector as an example creating cars with lower fuel consumption. The logistic sector is a good example for using modern technology in order decrease shipping times.

## Customization

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

## Design

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.



A product may stand out because of superior design.

## Brand/Status

Customers may find value in the simple act of using and displaying a specific brand. Driving a Porsche car signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest "underground" brands to show that they are "in."

## Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. Even sometimes services can be offered for free to mass customers (e.g. Skype internet communication or Google search engine). But in this case, additional premium services are necessary to cover the costs of a free service for a particular Customer Segment.

## Accessibility

Making products and services available to customers who previously lacked access to them is another way to create value. Here one can think in a lot of service provided to poor people, e.g. microfinance. But buying a specific product can also provide an access to a particular group of people (e.g. buying Nike sport shoes allows teenager to get accept by others to join the groups).

## Cost Reduction

Helping customers reducing costs is an important way to create value. The IT Outsourcing sector is here a good example. Outsourcing of call center services allows customers to focus on running their airlines.

## Risk Reduction

Customer's value reduces emerging risks when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

## Convenience/Usability

Making things more convenient or easier to use can create substantial value. Here the use of the internet to provide access to services (like shopping, banking etc.) at customer's home is a good example.

## CHANNELS

The building block Channels describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition (Osterwalder et al., 2010). Channels are customer touch points that play an important role in the interaction between the customer and the company.



Every company has to develop and to use a mix of channels transferring a Value Proposition to the market. A company can reach its customers through its own Channels, through partner Channels, or through a mix of both. Here one could distinguish five type of channels:

- Communication Channel
- Evaluation Channel
- Purchasing Channel
- Delivery Channel
- After Sales Service Channel

## Communication Channels

Here we talk about the channels companies use in order to create awareness on the customer site. Especially new products and service need to be communicated to the customers. Classical marketing tools to implement advertising activities can play a key role here. Furthermore new approaches like social media marketing should be taken into consideration. A crucial problem is the cost of advertising which could be very often not managed by start-up companies.

## Evaluation Channels

A key problem of customers is the assessment of new products and services before buying them. Especially in new services with high level of intangible elements, the customer does not know how to evaluate the service quality. In the case of very new services, customers can't even obtain judgements from friends and family members, because of newness of the service and the missing references. Companies providing channels that allow customers to evaluate easily their Value Proposition will reduce customer pains in the buying decision process.

## Purchasing and Delivery Channels

Very often, both channels go hand in hand. But there exist also examples where customers use an online channel provided by a company to purchase a product but the delivery channel is managed by another company, e.g. a logistic service provider.

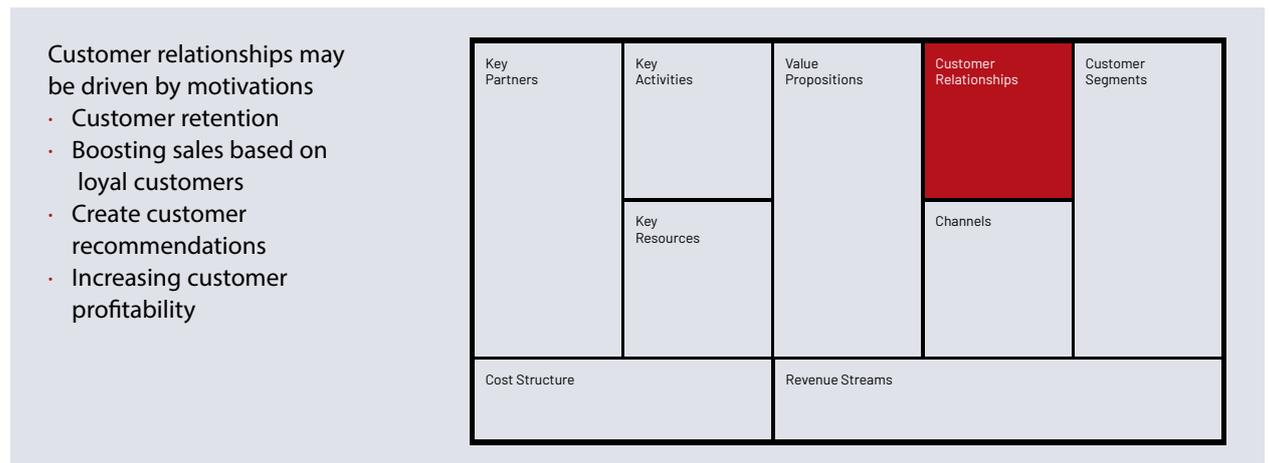
## After Sales Service Channels

In many economic sector companies sell a product but also provide additional services. A typical example is warranty service. Furthermore, companies could provide training or maintenance services related to a product.

## CUSTOMER RELATIONSHIPS

The building block Customer Relationships describes the types of relationships a company establishes with specific Customer Segments (Osterwalder et al., 2010).

There exist a large number of options to create Customer relationships, e.g. personal assistance, automated services communities, co-creation, love marks, lock-in effect, etc.



Here, some selected options creating Customer Relationships will be presented.

### Personal Assistance

In many services the necessary human interaction between customer and staff of the service provider plays an important role in creating relationships. The customer can communicate with a real company representative to get help during the services provision process. This interaction can be managed via different channels: point of sale, through call centers, by e-mail, by internet or through other means. Sometimes companies opt for a dedicated personal assistance where key account managers develop and maintain personal relationships with important customers.

### Automated Services

According to Osterwalder et al. (2010) this type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).

### Communities

Increasingly, companies are implementing user communities to become more involved with customers and to facilitate connections between community members.

Communities can offer several functions to customers as well as companies:

- Customers can exchange knowledge and solve each other's problems
- Communities can help companies better understand their customers
- Companies can advertise new products or service via its community
- Communities can be used to develop ideas for new product and service development

## Co-Creation

More and more customers are seeking for being involved in the creation as well as production process of new services. Customers who are involved in a co-creation process are normally developing very strong relationships with the respective service provider.

## Love Marks

Some companies are able to develop very strong brands, where customers are really "fall in love" with their products. This is one of the best but also very costly (marketing cost) ways to create strong relationship with customers.

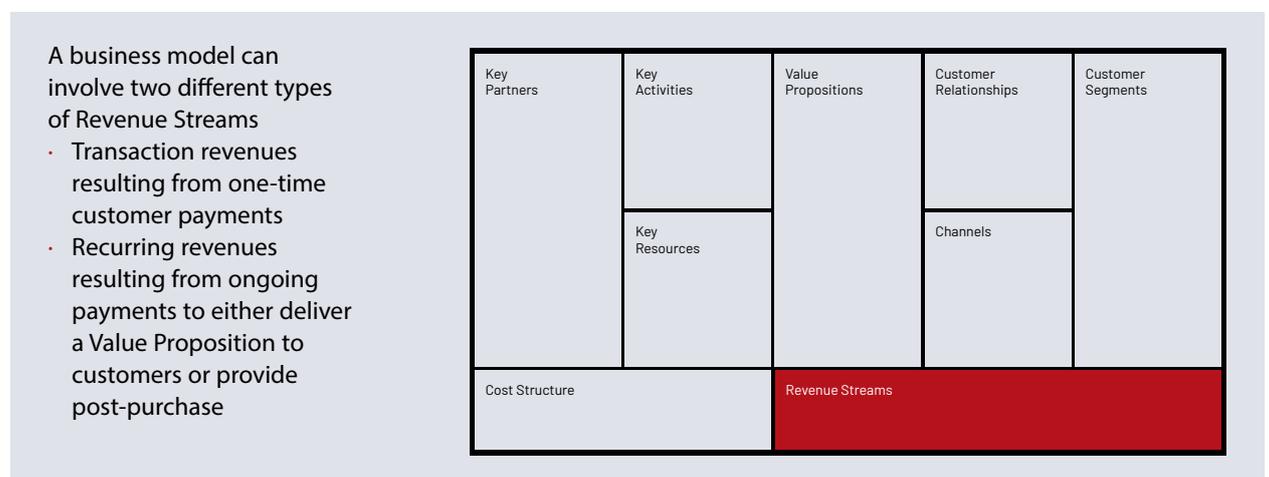
## Lock-in Effect

Companies providing products like printer or wet razors sell the printer or razor handle at a relatively low price. They generate their main profit selling ink cartridges or razor blades which only fits to their device. The customer would have relatively high switching costs if she/he wants to use a competitor product.

## REVENUE STREAMS

The building block Revenue Streams represents the way how the company generates cash flow from each Customer Segment.

First of all the size of the Revenue Streams depends very much on the pricing model the company is implementing for the new product or service. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management (Osterwalder et al., 2010).



Here, some selected options for generation Revenue Streams will be presented.

## Asset Sale

The most widely understood Revenue Stream derives from selling ownership rights to a physical product.

## Usage Fee

This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays.

## Subscription Fees

This Revenue Stream is generated by selling continuous access to a service.

## Lending/Renting/Leasing

This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee.

## Licensing

This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows rights holders to generate revenues from their property without having to manufacture a product or commercialize a service.

## Brokerage Fees

This Revenue Stream derives from intermediation services performed on behalf of two or more parties.

## Advertising

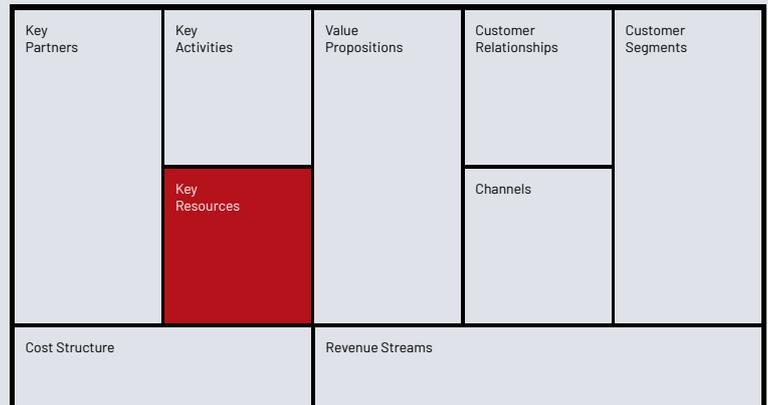
This Revenue Stream results from fees for advertising a particular product, service, or brand.

## KEY RESOURCES

The building block Key Resources describes the most important assets required to make a business model work.

Key resources are the basis of every business model and make it possible to design a Value Proposition, operate on markets, build customer relationships and achieve profit. Different Key Resources are needed depending on the type of business model. It is necessary to emphasize that the design of the business model affects the types of Key Resources.

- Key resources can be:
- physical, financial, intellectual or human
  - owned or leased by the company or acquired from key partners



For each business, we can differentiate between four types of key resources:

- Physical resources involve for example productions plants, transportation facilities, machines or distribution systems.
- Intellectual resources could be brands, patents, or copyrights to create value.
- Human resources in form of well-trained and qualified personnel are normally important for every business.
- Financial resources could be, among others, cash or lines of credit.

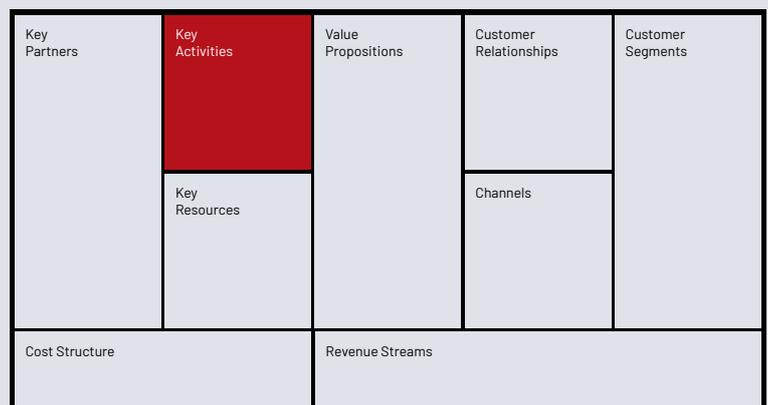
## KEY ACTIVITIES

The building block Key Activities describes the most important activities a company must implement to make its business model work.

Key Activities of a company shall depend upon the type of business model. The aim is to operate successfully on markets, build customer relationships and achieve profit.

Key Activities differ depending on business model type:

- Production
- Problem solving
- Platform/network



## Production

Production activities are the core activities of manufacturing companies. This includes, for example, the processes of designing and making a product.

## Problem Solving

The aim of problem solving activities is to provide solutions to specific problems. The professional service sectors, e.g. business consulting or health care sector are typical examples.

## Platform/Network

In addition, there are platform or network activities. Here, platform management, service provisioning or platform promotion are Key Activities.

## KEY PARTNERSHIPS

The building block Key Partnerships describes the network of suppliers and partners that make the business model work.

Business partnerships, e.g. supplier relations and other alliances aim at supporting companies to reduce risks or to gain access to resources.

Different types of partnerships:

- Strategic alliances between non-competitors
- Coopetition: strategic partnerships between competitors
- Joint ventures to develop new businesses
- Buyer-supplier relationships to assure reliable supplies



## Optimization and Economy of Scale

According to Osterwalder et al. (2010), optimizing the allocation of resources and activities belongs to the most basic form of partnership (e.g. buyer-supplier relationship). Furthermore, companies cannot do it all themselves. For this purpose, optimization and economy of scale partnerships aim at reducing costs.

## Reduction of Risk and Uncertainty

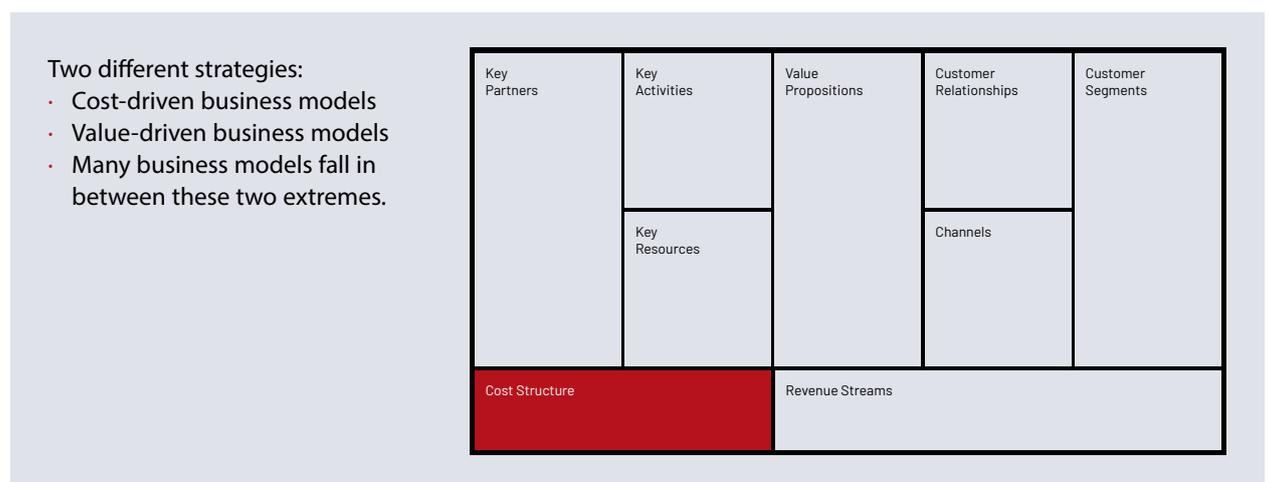
Competitive environments are characterized by uncertainty. Sometimes, strategic alliances with competitors are limited to one specific area while competing in another.

## Acquisition of Particular Resources and Activities

The aim of many companies is to extend their own capabilities by building relationships with other players in order to access specific resources and perform activities. Sometimes, the reasons are connected with a lack of knowledge, licenses, or access to prospective clients.

## COST STRUCTURE

The building block Cost Structure describes all costs incurred to operate a business model. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships.



## Cost-Driven

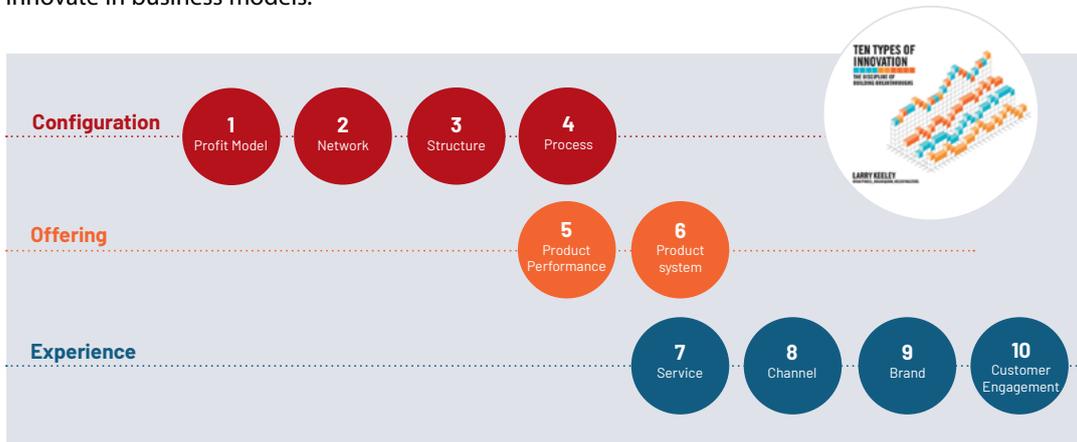
The core focus of Cost-driven business models is on minimizing costs. According to Osterwalder et al. (2010), this approach aims at creating a lean Cost Structure. This includes, for example, low price Value Propositions, high degree of automation or extensive outsourcing.

## Value-Driven

The value-driven business model focuses on value creation. There is less concern for cost implications. The example of first-class hotels shows us high price Value Propositions and a high degree of personalized services.

## 10 TYPES OF INNOVATION

Larry Keeley et al. published in 2013 a very insightful book about 10 Types of Innovations. His categorization of innovation types is based on a deep analysis of a large number of business models of mainly well-known US companies. We consider the 10 Types of Innovation as a very helpful tool to discuss the ways how one could further innovate in business models.



Source: Keeley, L. et al. 2013

The following pages, based on Perkin (2013) will present a short description of each type of innovation according to Keeley et al. (2013).

### Product Performance

Focus on the development of distinguishing features and functionality: This involves for example new products, or improved features and qualities. This is the most visible and easiest form of innovation for competitors to copy.

### Product System

The creation of complementary products and services: This issue is related to how individual products or services might be brought together to create new capability or improved scalability. Here, many factors come into play (e.g. integration, modularity, interoperability). One example is the development of ecosystems that take value from one place and use it to enhance experience at another place.

### Profit Model

How to gain profit: Innovative profit models could change established pricing or revenue generation structures. Furthermore, they have particular potential since in manufacturing industries the dominant profit model might go unquestioned for decades.

### Network

How you connect with partners to create value: The focus of Network innovations is on capitalizing on their own strengths whilst harnessing the advantage that might be derived from prospective partners. This might include risk sharing activities associated with the development of new capabilities.

## Structure

The organization of talent, resources or assets: Structure innovations can create unique value or efficiencies. They can enhance productivity and collaboration, help attract qualified employees and improve performance.

## Process

Designing and implementing unique or superior processes: Process innovations involve a significant level of change that can drive greater capability, adaptability or efficiency. The development of unique processes can prove difficult for competitors to access and can yield advantage for extended periods of time.

## Service

Supporting and amplifying the value of your offerings: Improving performance, use and loyalty through improved design or service provision, fixing customer pain points and helping to ensure seamless customer journeys. This can push the average into the remarkable, and create a particular experience.

## Channel

The way in which your offerings is brought to customers: The focus of Channel innovations is on finding new or multiple ways to transfer products and services to the consumer, creating a particular experience with minimal friction.

## Brand

The representation of your offerings and business: Innovations in the way that consumers might recognize and associate your brand, the distinct identity and promise of your offering. That means to incorporate multiple customer touch points; these can confer value, meaning and intent to the offering.

## Customer Engagement

Fostering compelling interactions: The development of more meaningful customer relations derived from deep understanding of customer aspirations and needs. Helping people to “find ways to make parts of their lives more memorable, fulfilling, and delightful - even magical”.

## INNOVATION TACTICS

For very of the 10 Types of Innovation Keeley et al. could identify several innovation tactics which were implemented by companies around the world in order to provide a more innovative business model to their customers. In the following, one can see as an example the innovation tactics which belong to the Innovation Type “Channel”:

<b>Diversification</b> Add and expand into new or different channels.	<b>Flagship Store</b> Create a store to showcase exemplary brand and products.	<b>Go Direct</b> Connect directly to the customer skipping traditional retail channels.	<b>Non-Traditional Channels</b> Use novel channels to reach your customers.
<b>Pop-up Presence</b> Create a attractive, notable but temporary environment to demonstrate and sell your offerings taking advantage of a trend or seasonal product.	<b>Indirect Distribution</b> Use partners as resellers that deliver the offering to the final client.	<b>Cross-selling</b> Suggest and sell additional/complementary product or service to an existing customer that enhance their experience.	<b>On-Demand</b> React promptly and flexible, and deliver goods and services whenever or wherever they are demanded.
<b>Context Specific</b> Offer timely access to goods and services that are appropriate for a specific location, occasion or situation.	<b>Experience Center</b> Create a space that encourages your clients to experience and test your offerings – but purchase them through a different (and often lower-cost) channel.	<b>Multi-Level Marketing</b> Sell bulk or packaged goods to an affiliated but independent sales force that turns around and sells for you.	

Here, one can see the innovation tactics which belong to the Innovation Type “Profit Model”:

<b>Premium</b> Establish a higher price than competitors because of your superior offer (better features, experience, service, brand, design, etc.).	<b>Cost Leadership</b> Keep variable costs low and compensate through high-volume sales.	<b>Scaled Transactions</b> Achieve high volume and large scale sales to maximize margins, when unit costs are relatively fixed.	<b>Microtransactions</b> Sell items for one dollar or cents in order to provoke impulse purchases at high volume.	<b>Forced Scarcity</b> Offer a limited quantity or establish a limited time to access an offer, in order to increase demand and/or prices.	<b>Subscription</b> Predict cash flows by receiving customers' one-time or recurring fee in advance in order to have access to your offer during certain time.	<b>Membership</b> Charge a payment to provide different benefits that non-members do not have.
<b>Installed Base</b> Develop a “core” offer for small margins, or even losing money, in order to create demand and loyalty; then make profit on additional products and services.	<b>Switchboard</b> Connect buyers and sellers; the more actors on each side, the more valuable the switchboard.	<b>Auction</b> Enable the potential buyers to set the price of a good or service.	<b>User-defined</b> Ask customers to establish the price they want to pay.	<b>Freemium</b> Provide free basic services and at the same time offer premium services (advanced or special features) with a cost.	<b>Flexible Pricing</b> Vary the price for a good or service according to its demand.	<b>Float</b> Receive up-front payment for an offer that is not build yet; earn interest on that money before delivering the good/service.
<b>Financing</b> Collect revenue not directly from the sale of a good, but from structured payment plans and after-sale interest.	<b>Ad-Supported</b> Offer a service or information for free to a crowd and at the same time selling this crowd as potential customers to others.	<b>Licensing</b> Permit the use of your offering in a specific way for a certain amount of money.	<b>Metered Use</b> Customers pay only for what they use.	<b>Bundled Pricing</b> Sell in one transaction two or more items that could be sold alone.	<b>Disaggregated Pricing</b> Give customers the opportunity to buy just and only what they want, no more.	<b>Risk Sharing</b> Do not claim standard fees/costs if certain measures/goals are not reached; yet gain huge profit when they are accomplished.

## APPLYING INNOVATION TACTICS

We use these Innovation Tactics in order to discuss their potential application in business models of start-ups. Here, the idea is to copy successful tactics and implement them in a new business model. The Innovation Types and the respective Tactics are targeting different building blocks in the business model canvas, as one can see in the following figure. In this regard the 10 Types of Innovation concept provides a very helpful tool to further innovate in a business model:

- Product Performance and Product System as well as Service Innovation Tactics are strongly related with the Value Proposition in the Canvas.
- Branding and Channel Innovation Tactics could be used to innovate in Customer Relationship as well as Channel building block.
- Profit Model Innovation Tactics could be applied to design ways of Revenue Streams.
- Process and Structure Innovation Tactics are related with Key Activities and Resources building blocks.
- Network Innovation Tactics can be used to develop innovative Key Partnerships.



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7

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