What is a Business Model?

It is essential to understand the concept of a business model. A business model describes the way in which you run your business. You can chose to describe the general business model of your business, or you can chose to delve more deeply into it and describe one or more of the many business models of your business.

A business model can be compared to the rules of a board game. Such rules describe how the game should be played, what role each player has, and what props are parts of the game. The rules also clearly indicate the purpose of the game and how it is won.

When it comes to describing business models, the rules of the game are the same: it is all about understanding the dimensions, the components and the mechanisms that form part of the business models.

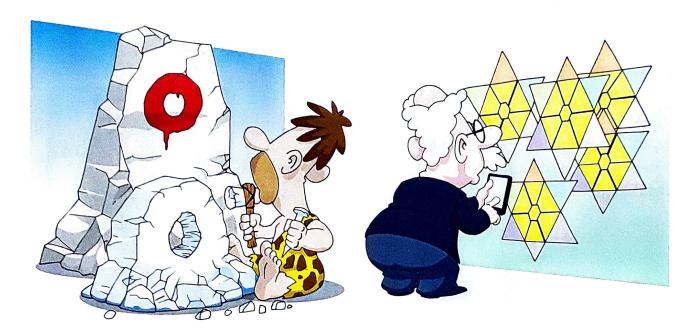
When you have acquired an understanding of the seven dimensions of the BeeStar, your knowledge will enable you to:

- · Improve your existing business models
- · Spot potential business models
- · Experiment with new ideas and concepts for your business models
- · Study existing business models and possibly copy dimensions from one business model to another
- · Remember and retain your view of the business models of your business

One Business – Several Models

When...

- · the world was less global;
- · the Internet was less predominant; and
- · developments happened at a slower pace than today,
- ...we considered businesses to have only one model.



However, today when globalisation in more ways than one has blurred the boundaries between countries, economies, lines of business and companies, it makes sense to support the concept that each business is made up of several business models (The Business Model Cube, Lindgren 2013).

When in your day-to-day work you address the many business models of your business, you will open yourself to a completely new insight into your business models and to completely new opportunities to trim, renew or replace them. As a result, you will be better equipped to keep up with the innovation pace, will be more flexible and smart in your business model innovation and will consequently be more competitive.

'As Is' and 'To Be'

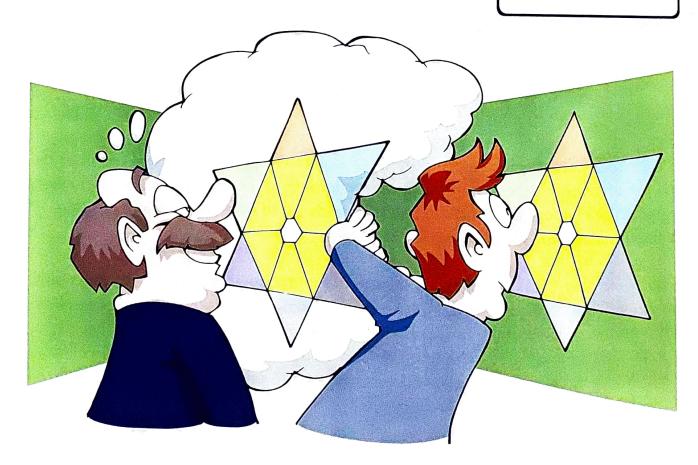
When working with your business models, it is important for you to be able to distinguish between 'As Is' models and 'To Be' models.

An 'As Is' model shows you a picture of the way in which your model looks and operates today. The 'As Is' model is already on its way to exiting the market. Working with 'As Is' models is particularly difficult because you need to focus on the way the model actually operates and not on how you may previously have wanted it to operate. It takes courage to look at the real picture, but it is also through such courage that you and your business will gain crucial insight into your business model. Such insight will tell you why the model works or does not work.

A 'To Be' business model is a model that is under preparation and has not been introduced on the market yet. When working with 'To Be' models, you fill out the BeeStar in accordance with the way in which you want the business model to look and operate.

Is the business model on the market?

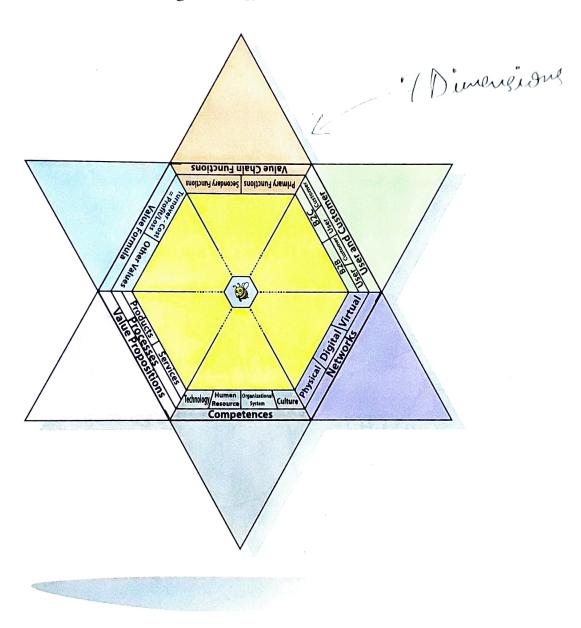
Yes = As Is No = To Be



What is the BeeStar?

The BeeStar is a visual tool to use when you describe your business models. The BeeStar simplifies the complex realities of your business and illustrates the way your business model is (As Is) or the way you want it to be (To Be). Furthermore, the BeeStar tool works particularly well at facilitating dialogue and discussion.

We have chosen to present the business model as a six-pointed star. In the centre of the star (the yellow field) you will see the seventh dimension which holds the other six dimensions together. All business models consist of these seven dimensions (The Business Model Cube, Lindgren 2013).



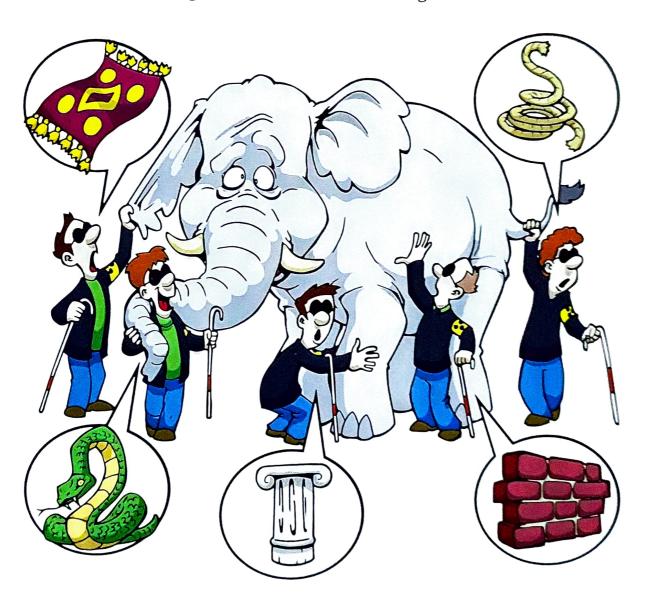
When describing a business model you work your way around the board – through the seven dimensions. Often, you will begin in the Value Propositions triangle, but basically you can take your starting point in any triangle that makes the most sense to you and your business. Use the marker that came with your BeeStar. This marker will write on the shiny surface of the BeeStar; it dries quickly and can easily be removed with a damp cloth.

To maintain a clear picture there are two rules that you need to follow when working with the BeeStar:

- 1) Use one BeeStar for each business model. It will help you if you have more than one BeeStar at your disposal. Our experience shows that when working with business models many companies realise that what they previously considered one business model actually turns out to consist of two or more models.
- 2) Never mix 'As Is' and 'To Be' on the same BeeStar. It is important to distinguish between what actually happens in a business model and what you want to happen. If you see something that you wish to change, use the BeeBoard. Jot down your idea on one of the magnets and place it in one of the bubble squares. Alternatively, you can fill out a new BeeStar with your 'To Be' model. Both ways will ensure that you do not forget that this change has not taken place yet.



You will gain most benefit from working with business models if you work together with colleagues or employees. Examine your business model, discuss it and fill out the BeeStar together. Note that even when you consider the same business model and the same body of information, this does not necessarily mean that you have the same understanding or interpretation of the business model. It is therefore important that you discuss the features that you see and experience. Question each other, discuss your interpretation and help each other to understand the business model. It is during such meetings and discussions that exciting ideas are formed.





Value Propositions

Any business model will propose a value whether to the users, the customers, the suppliers or the employees. We use the expression Value Propositions to denote such values.

A value proposition is often meant to generate a profit in terms of money. However, the objective can also be to generate other values. In the case of a website from which users can retrieve knowledge, the value will correspond to "the wish to disseminate a certain knowledge". Likewise, with a sponsorship to a local sports club the value will correspond to "helping a certain group of people and thereby achieving publicity".

We divide the values into three different categories:

1) Products

Products represent physical and concrete things.



Examples include food, a mobile phone, a treadmill, an apartment, a road, a brochure.

2) Services

Services are activities or advantages that one part offers another part. However, services will not lead to the ownership of something.

Examples include a haircut, repair jobs on your car, inspection of your boiler, household contents insurance, right of use of berth, car rental, first aid course, or online computer games.



A process may consist of e.g. a series of products, a series of services or a combination of those.

Processes are often formed by a series of products, services and processes. Such processes will often be completed within a given period of time.



An Example:

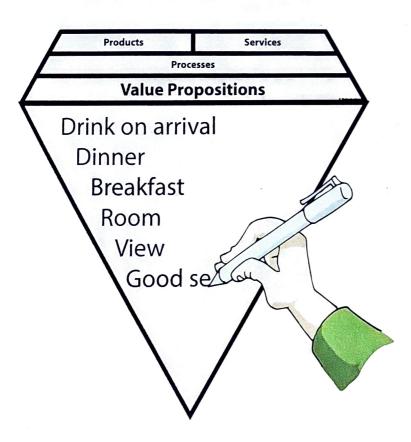
A weekend stay at a hotel is a process. The stay will consist of check-in at the reception (a service), handing over of keys (a service), and availability of a room (a service). Add to this a drink served upon arrival (a product), a dinner in the evening (a product) and directions on walks and events in the area (a service). The stay or the series of services take place during the course of 24 hours. Consequently, the weekend stay constitutes a service provided for a limited duration of time.

The concept Value Proposition thus covers products, services and processes.



This is how you do it

Examine and consider the values that your business model offers to the user or the customer. Note down the information in the triangle named **Value Propositions**.



Study the Value Propositions

When you note down the values of your business model on the BeeStar, you and your business will obtain a comprehensive view of the nature and amount of values that your business model offers. You will also realize what values your business model does not offer.

This will help you to recognize the number of values that are actually being offered and whether the values are properly arranged, i.e. whether the values are being offered in the correct order.

Questions to ask yourself

- · What values do you believe that your business model proposes to the user and/or the customer?
- · Is that value a product, a service or a process?
- · What values does the user or the customer believe that your business model proposes?
- · What values does the user or the customer want your business model to propose?
- · Does the value proposed correspond to the demands of the customer?
- · Does your business model propose values that no one appreciates?
- · Are the values cost-intensive or cost-neutral



User or Customer?

All business models address users or customers. When working with this point of the star, you need to decide on the identity of the user and/or of the customer. We need to distinguish between the two.



A **customer** hands over money in exchange for the value that the business model proposes.



A **user** does not hand over money for the value that the business model proposes – at least he/she does not pay directly.

Even though the user does not pay money, users can be of great value to a business as users often pay with other values. A business model that addresses users may e.g. attract customers who pay for upgrades, ads, improved services, more content etc. Facebook, Skype, LinkedIn, Twitter and Google are examples of business models that have come into existence through users and that have been constructed around users. Such constructions have made the structural base for other business models that involve paying customers.

Some business models address private customers. We call such models "Business to Consumer" (B2C) models. Other business models address. We call such models "Business to Business" (B2B) models.

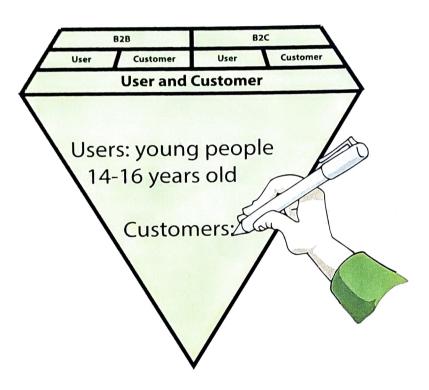
Examples of users and customers:

Users	
B2C:	B2B:
Facebook users	Businesses who use the website of the tax authorities
Users who search for information on google.com	Businesses who search for informa- tion on Google
Citizens who obtain information from the local authorities	Businesses who make use of the local recycling centre
People who read the free newspapers such as Metro	Companies who make use of EU's information site
People who visit a national park	Businesses who use the public waste and recycling system

Customers	
B2C:	B2B:
The young woman in the clothes store	The bakery that sells bread to Wallmart
The woman shopping on-line	A broadcast tele- vision network who sells advertising time
The family who visits a museum	Freight carriers who transport goods for other freight carri- ers (TNT, DHL)
A man who sends for a plumber	A telephone service provider who sells communication solutions to companies
The boy who sub- scribes to a sports magazine	Amazon who sells advertising for other businesses

This is how you do it:

Examine and consider the users and/or customers that your business model addresses. Note down your users and customers on the BeeStar in the triangle named Users and Customers.



Consider the Users and Customers of the Business Model

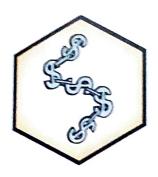
When you note down names of the users and customers on the BeeStar and subsequently consider that point of the star, you and your business will realize who pays or does not pay for the values that your business model proposes. This will help you to decide which users and customers are important to your business model, and which users and customers your business model actually addresses.

In order to better understand why they utilize your business, it may be beneficial to you to contemplate the business model of the user or customer in question. If there is no "match" between your user/customer and your own business model, you may end up with no sale at all or with a business exchange that will later cause difficulties for you – and for your customer.



Questions to ask yourself

- · Who are the customers and/or the users that your business model addresses?
- · Are those customers B2C or B2B users/customers?
- · What users and/or customers are important to your business model?
- · To which customers and/or users is your business model actually related?
- · What business model does the user/customer operate?
- · Why does the user/customer respond to your business model?
- · Is there agreement between your business model and the user and/or customer?



Value Chain Functions

Value chain functions are functions or assignments that occur in the business model value chain. Regard these functions as a series of functions that make it possible for the business model to propose its values to users, customers, network partners, employees and others.

Primary Value Chain Functions

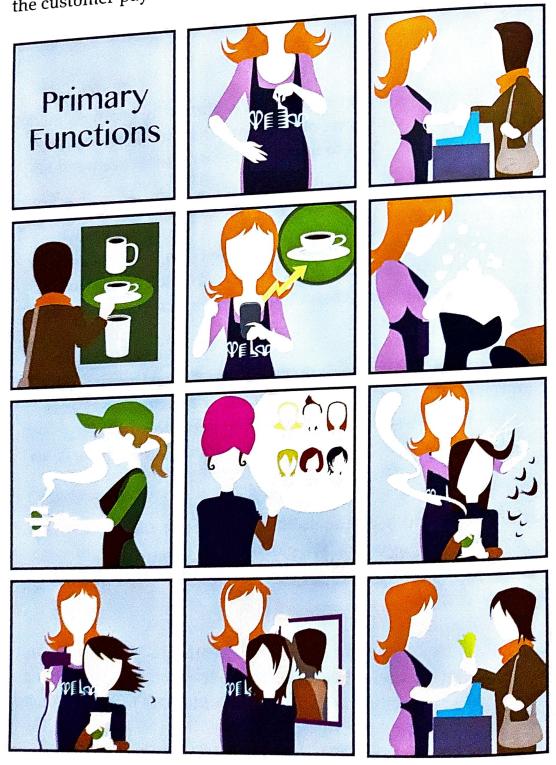
To explain the value chain functions we will use an example from a hairdresser. At this hairdresser they operate a business model that they have called "Cut&Go". In this scenario the customers enter the hairdresser's without first having made an appointment.

The value chain functions of Cut&Go can be described in the following way: The hairdresser ensures that the equipment is in place and ready to be used (scissors, comb and anything else that is needed). The hairdresser greets the customer, washes his/her hair, decides on the hair-do, offers coffee, cuts the hair, blow dries it. And then the customer pays.

Thus, the value chain functions include all the links that create or add value to the product, to the service and/or to the process. We can also put this in another way: you need to describe all the activities that are carried out as links of the value chain; in the order that they are carried out.

Remember to include the activities that are carried out by external suppliers. Let us assume that at the hairdresser they do not brew the coffee themselves but have the next-door coffee bar supply their excellent coffee. This would result in a value chain like this:

Preparation, greeting of customer, the customer decides on the kind of coffee, the hairdresser texts the coffee bar, the hair is washed, the coffee bar assistant arrives with the coffee, the hairdo is decided on, the hair is cut, the hair is blow-dried, and the customer pays.



Secondary Value Chain Functions

You need to distinguish between primary and secondary value chain functions. There will often be small but important support functions that are essential to the correct functioning of the business model.

At the hairdressers they also sell hair products. Therefore, they consistently strive to demonstrate a need with the customer. For instance, the hairdresser will say "Your hair is very dry. I would recommend that you apply a moisturizer when you wash your hair." Later, when the customer is about to pay, the hairdresser will ask: "Do you have a moisturising product at home?" In order to be able to sell the hair product, it is necessary for the hairdresser to include a supply function in his business. Such necessary supply functions are called secondary value chain functions.

Our value chain function now looks like this:

Primary functions: Preparation, greeting of customer, the customer decides on the kind of coffee, the hairdresser texts the coffee bar, the hair is washed, (the coffee is brewed at the next-door coffee bar), the barista arrives with the coffee, the hairdo is decided on, the hair is cut, the need for an additional product is demonstrated, the hair is blow-dried, the customer is encouraged to buy an additional product, and the customer pays.

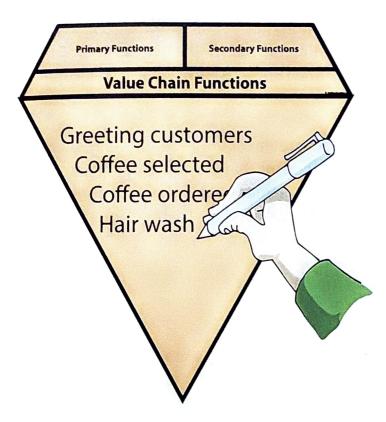
Secondary functions: research and purchase of hair products, unpacking of goods and shelving.

Often a business will need to discuss the nature of the primary and secondary functions – and often you will discover that you and your colleagues each have your individual way of looking at a function.

This is how you do it

Examine and consider the value chain functions that are carried out in your business model. Which of them are primary and which are secondary functions?

Note down your answers on the BeeStar in the triangle named Value Chain Functions.



Consider the Value Chain Functions

When you and your business spend time considering the value chain functions you will gain a view of the number of value chain functions needed for your business model to be able to propose its values. You will discover which value chain functions are being paid for and which are costing you time and money. In this way you will be better prepared to find out which value chain functions your business model is actually providing and which value chain functions matter. It is also essential that you consider the way in which your user and customer assess the value chain functions and the way in which they experience the execution of the value chain functions. Some customers seem to need a huge number of value chain functions – i.e. products and services that start from scratch and include the right raw materials and values. Others are indifferent to such aspects and just need the service to be as fast or as inexpensive as possible.

Some customers even wish to take part in the execution of the value chain $function_8$ or may even want to take over the execution. You see this e.g. when a customer takes it upon himself to arrange his travels but need the travel agency to book the flight and the first stopover.

Thus, we need to consider the value chain functions of our business model in order to understand the business model. Understanding the model will help us to improve our business model, to make it more efficient and to create more value e.g. for our customers.

It is crucial for our business that there is exact agreement between the value chain functions that we provide and the value chain functions that our users and customers demand. It is also crucial that we do not provide too many value chain functions compared to the payment (or to other values) that we receive. That will lead to the death of our business and of our business model.

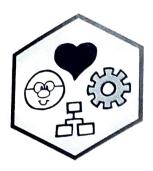
Value Chain Functions

- the functions that add value to the product, the service or the process

Questions to ask yourself

- 1. What functions (links) are provided or will be provided in the business model?
- 2. Which value chain functions are the primary ones?
- 3. Which value chain functions are secondary?

- 4. Are there value chain functions that could be provided in a better (or more cost-effective) way?
- 5. Are there value chain functions that we need to add in order to give the customer the best possible experience?
- 6. Are any of the value chain functions superfluous?



Competences

This dimension describes the internal competences that each business model applies. Competences can be of many different kinds. In the BeeStar we divide the competences into four main categories: Technology, Staff Resources, Organisation, and Culture.

1) Technology

We define technology as "a means that man uses to create, recreate and develop his living conditions; material as well as immaterial". The concept *technology* thus embraces techniques, knowledge, organisation and materials either separately or in combination. Technology is taken into use in order to create the values that the business model offers. In some cases the technologies applied will be technologies (materials) that form part of the product. In other cases the technologies are tools (e.g. machines, robots, IT solutions) that are used to manufacture a product or to provide a service. Finally technology can be applied in the form of a tool used to manage the manufacturing process or to carry out the manufacturing (i.e. a mechanism for designing, analysing or controlling).

The BeeStar works with three kinds of technology:

<u>Product and service technologies</u> — raw material, material, service methods

<u>Production technologies</u> — tools, machinery, assembly of machinery

<u>Process technologies</u> — that ensure the execution and order of the performance of the value chain functions. Process technology deals with the production of values e.g. a product, a service or a process.

Examples of technology

Technologies

Product and service technologies



Production technologies



Process technologies



Raw material such as iron or soil

Tools
e.g. hammer, saw,
measuring equipment
for measuring oxygen
concentration in blood

Software technology managing the sequence of moulding processes or securing the expedient sequence of a production.

Material such as batteries, plastic, wooden beams Machinery
e.g. a coffee maker or a
machine for moulding
tablet covers

Process technology determining the sequence of production machines or the manmade processing of milk to cheese

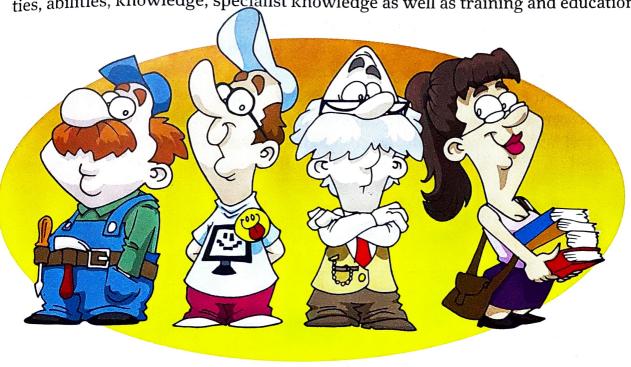
Service methods
e.g. such methods that
are employed to maintain lifts in apartment
buildings or the service
method employed in a
restaurant.

Assembly of machinery E.g. a production plant for the production of chicken meat (slicer, wrapping machines) or a collection of fitness equipment

2) Staff Resources

Staff resources cover the human competences and qualifications that are an integral part of the business model.

When considering your staff resources you need to think of aspects such as capacities, abilities, knowledge, specialist knowledge as well as training and education.



Examples of staff resources:

- · The competences of a road labourer
- The competences of a hospital nurse
- The competences of a fashion designer
- · The competences of a production manager
- · The competences of a managing director

3) Organisation

The organisational system shows how your business model tries to organise the value chain functions needed in the business model. It also reveals the interaction between staff resources and technologies.

An Example

McDonald's may seem a large and unclear organisation with many different assignments and areas of responsibilities. However, in reality there is a very specific organisational system behind every McDonald's restaurant and behind any business model of the McDonald's. McDonald's is divided into regional areas for which the McDonald's franchising system management team is responsible, and into practical areas which McDonald's employees manage.

McDonald's has a number of managers who manage McDonald's in terms of finance, procurement, logistics, social services, culture etc. Likewise, the chief executive officer of McDonald's has a number of employees who each have their own practical field of responsibility corresponding to that of the McDonald's management

