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BUSINESS MODELS

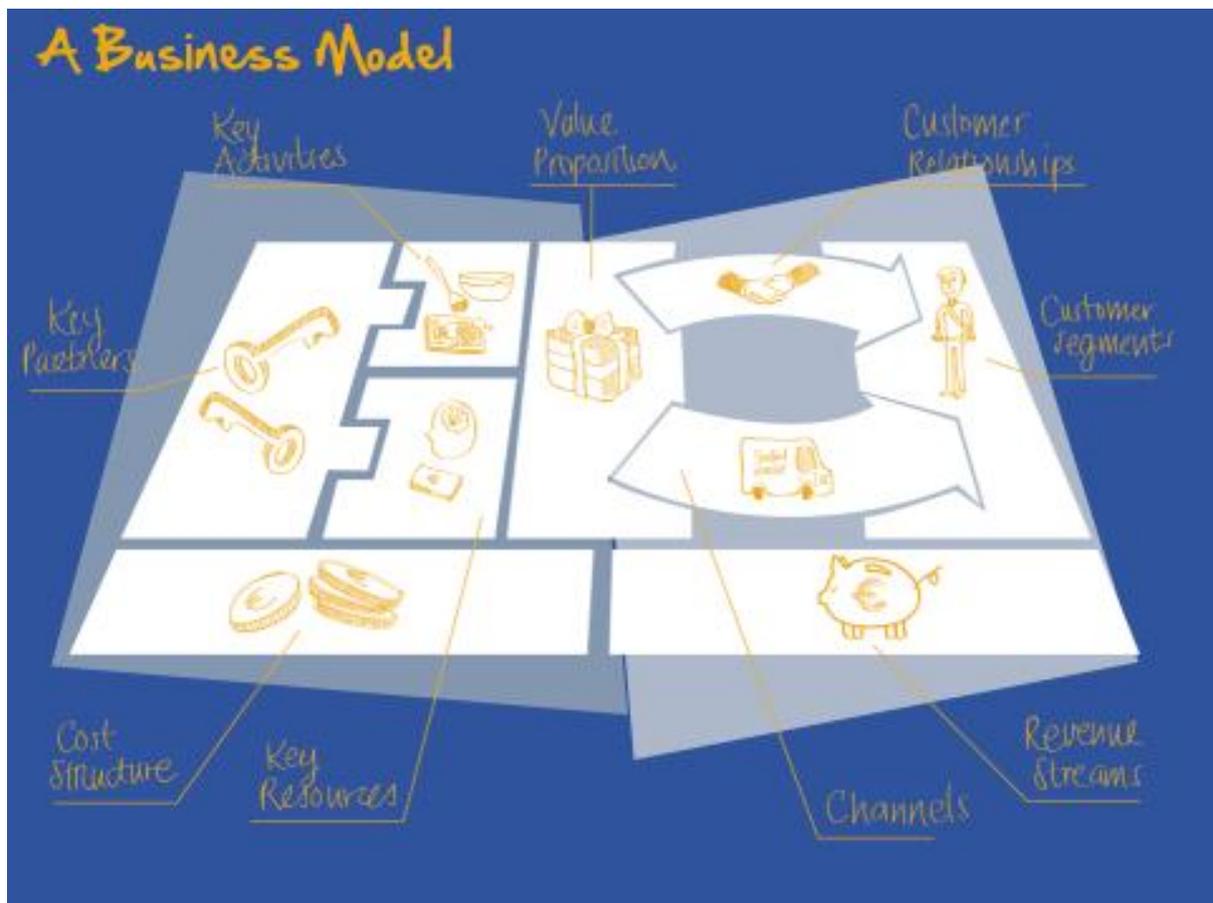
High performance. Delivered.

The graphic features a central cloud-like shape containing the word 'analytics' in a stylized, handwritten font. Surrounding the cloud are various colorful icons: question marks, stars, and arrows. A large yellow arrow points from the cloud towards the right, where the slogan 'High performance. Delivered.' is written. Below the cloud, the words 'BUSINESS MODELS' are written in a clean, sans-serif font.

What does a business model look like?

The diagram below shows what a typical business model would look like. It's a mixture of the business's inputs and outputs, what it costs them to make a product and how much they sell it for. It's broken down into two main areas, *Cost structure* and *Revenue Streams* and together the balance of these make up the *Value Proposition*.

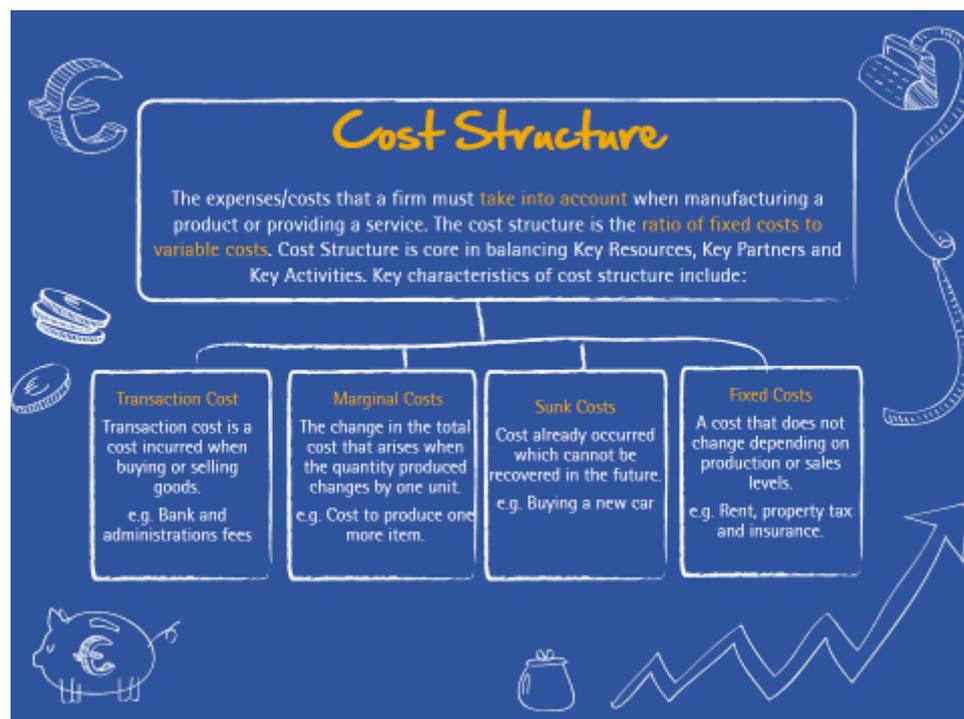
The Cost structure is how a business will finance the production of a product, so let pretend you want to make shoes. Before you even get to make your first pair of shoes you have to first build the factory, which means you'll need to buy land, and buy machines to manufacture the shoes. You'll also need to pay someone to work with the machines and pay some to manage those people. You'll also need to buy raw materials to make the actual shoes. You have to do all this before you even start thinking about what the shoes will look like! So all of these activities make up the price of a product, or from you as a business owner, the cost.



For your shoe business, even before you look for land for your factory, you'll need to think about your Revenue Streams. You'll have to decide who you are going to sell the shoes to, your target customer, and why they'll buy the shoes. You'll also have to think about how you are going to sell them, in shops, online. Understanding these questions will help you decide how many pairs of shoes you'd expect to sell.

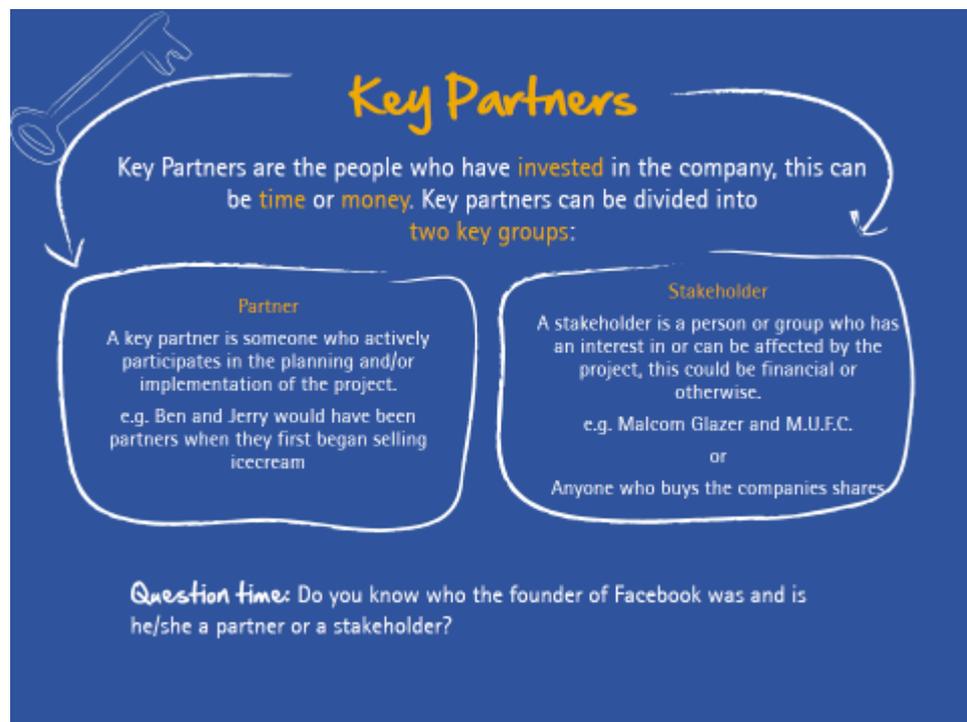
The balance between the cost structure and the revenue streams will decide how profitable, or valuable, your product is. This is important because for when you want to raise money to start buying land and your factory as you'll need to raise capital by showing your idea to fund your venture. For examples, let's say you decide you want to start producing bright pink school and work shoes for men and you're only going to sell them over the phone. You're also planning on setting up the factory in the middle of New York City and only hire Doctors to run your machines, you will have a hard time finding someone to give you money to start building your business.

What makes up the Cost structure?



Key Partners

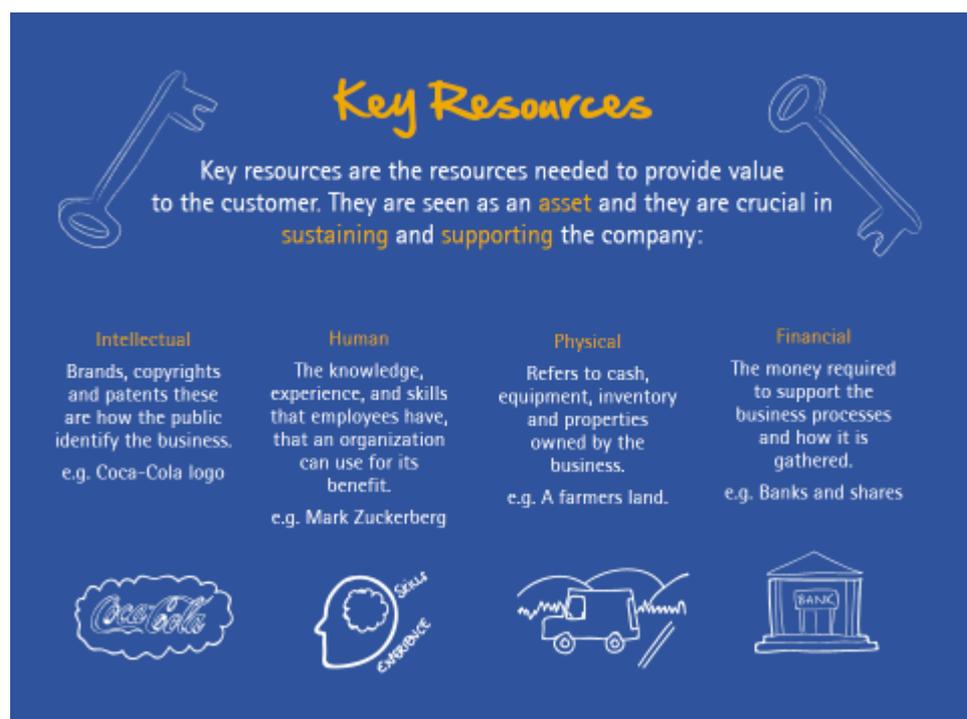
Key Partners are the money behind the start of the company. In order to start a company you need to have investors. A lot of companies will start small and as they grow they will gain more and more investors. Even companies like Microsoft that started out with Bill Gates and Paul Allen in their garage grew by getting investors and by selling shares in the company. Now the company is value is approximately \$230Billion. An investor can be a partner, which would be



someone who set the company up with you, which means you've both put money in. Or an investor can be a stakeholder who can put money in to gain a share of your company might take part in some high level decision making.

Key Resources

Key Resources are what the business needs to make the product, the factory, the raw materials etc. For companies that don't produce a physical product like Facebook or a law office, the key resources are the buildings for the offices and the people.



Key Activities

Key Activities are the actions needed to produce the product and also the activities to help sell the product. This could include any marketing that's done or even research into new products.

Key Activities

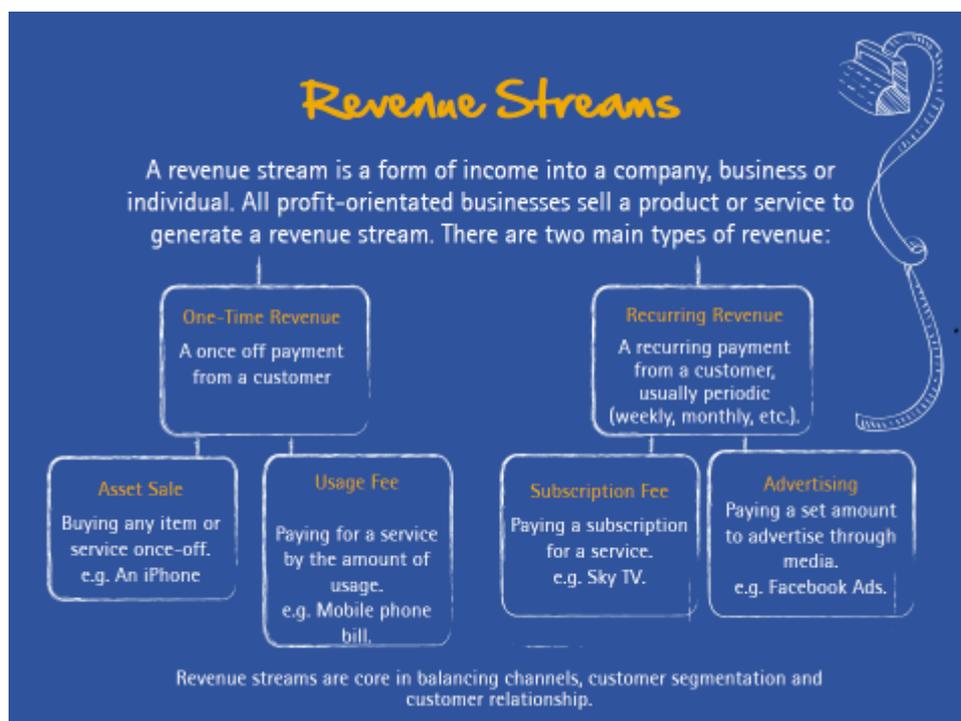
Key activities are the crucial process involved in **delivering** the finished **product** to the **consumer**.

This would include making the product but it is also the activities that you do to attract, nurture, educate and sell to potential and existing customers.



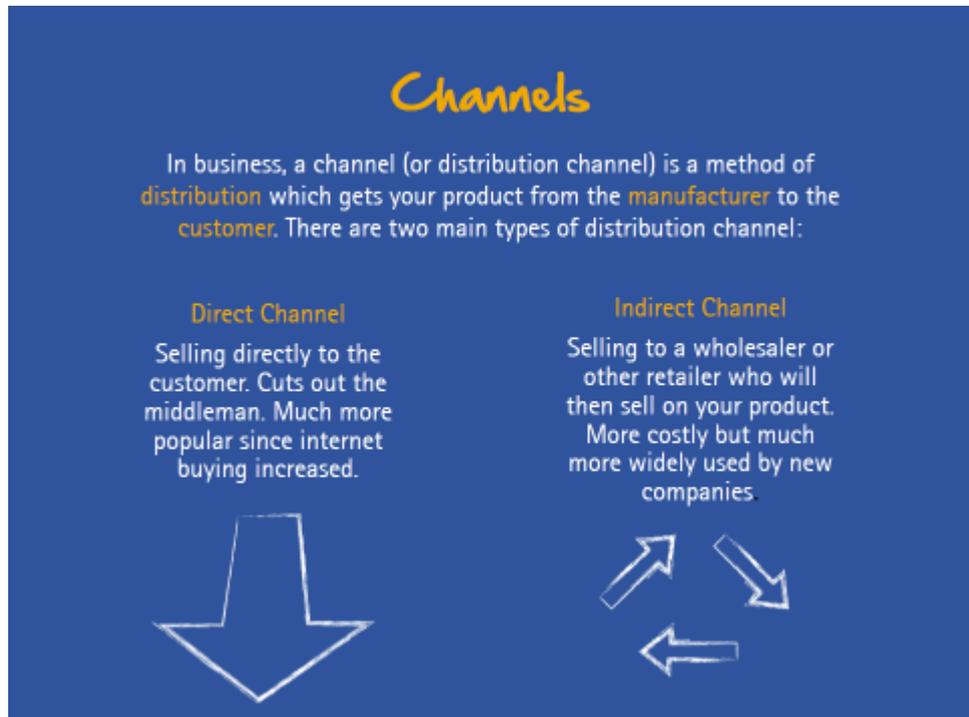
Question time: If your company doesn't have a physical product, e.g. Google, what are your **key activities**?

What makes up Revenue Streams?



Channels

There can be advantages and disadvantages for each of the different distribution channels available to business. For a custom made products like a custom build pc or dress, a direct channel is best option. It will allow for the customer to deal directly with the manufacture and minimise the risk of an unhappy customer. It will also increase the profit or can decrease the selling price as a third party does not have to get a share of sale. Why would a company want to reduce their selling price rather than just incurring the increase in profit? Using a direct channel for your product might mean that you limit the area's you can sell to, or to amount of customers you have. The advantages for a companies using an indirect channel included; they won't have to keep a high level of stock on



site which means they have more space for production or the company won't have to invest in a delivery van. What are some disadvantages to an indirect channel?

One of the most important areas of business is to know your audience. This can mean two things, firstly, who are your customers and, secondly, how do I reach out to them?

Customer Segments

To answer the first question you'll need to do some research on your product, find out who is interested in your product. You will also need to understand the different markets available. Why are there ads for children's movies late at night?

Customer Segments

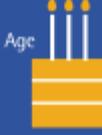
Customer Segmentation:

- The breakdown of a target market into specific segments.
- Each segment is organised by a specific attribute of the person e.g. Age, Gender or Location.
- Analytical research is composed on each segment to find out what type of advertising they find most appealing.

Gender



Age



Location



Customer Relationships

To answer the second question you need to understand why your customer segmentation would like your product. You might also need to understand how they talk about it, different language they use, and where is the best place to advertise your product. Where would be the best place to advertise hear aids?

Customer Relationships

Customer Relationship Management, known as C.R.M., is the process of building and keeping an active consumer base which continues to purchase or subscribe to your product or service.

Customers are the biggest asset to any company, without them companies would have

e.g. Offers regular promotions to reward loyal customers.



Question time: A new company are considering making a new range of Apps to predict leaving cert papers based on the past papers. They want to know what size market they'll be able to tap into, estimate the market size and suggest ways that they could build customer relationships before the launch.

Value Proposition

Finally, once your costs and revenue are balanced and you think you can make a profit you then have your value proposition. After your business is up and running and you start to gain market share, which is how much your product sells versus the competitor's product, there are ways of increasing your value proposition. Building a brand or consistently getting good reviews can increase your value proposition as it will increase your market share without you changing your costs or deliver methods.

Value Proposition

What makes these products so desirable?

A **value proposition** is a business or marketing statement that shows the value that the product or service offers the customer

Each of the products below all target their specific audiences by promising the customer a high performance product which has some competitive advantage on the market.

Value proposition is achieved through a balanced combination of the business models core values, cost structure and revenue streams.

