



Prifysgol Cymru
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University of Wales
Trinity Saint David

Business Planning

Trawsnewid Addysg; Trawsnewid Bywydau
Transforming Education; Transforming Lives



www.uwtsd.ac.uk

Key Dates

- Deadline reminder:

Assignment 1- Using an entrepreneur of your choice, critically evaluate their entrepreneurial motivations and characteristics using appropriate academic models.

Submission date: 22nd May 2020.

Objectives of today's session

- To clearly understand the differences between:
 - Business Idea
 - Business Model
 - Business Plan

Lateral thinking

- Lateral thinking is the process of using information to bring about creativity and insight restructuring. Lateral thinking can be learned, practiced and used. It is possible to acquire skill in it just as it is possible to acquire skill in mathematics.
- <https://www.edwdebono.com/lateral-thinking>

Lateral thinking

- With logic you start out with certain ingredients just as in playing chess you start out with given pieces. But what are those pieces? In most real life situations the pieces are not given, we just assume they are there.
- We assume certain perceptions, certain concepts and certain boundaries.
- Lateral thinking is concerned not with playing with the existing pieces but with seeking to change those very pieces.
- Lateral thinking is concerned with the perception part of thinking. This is where we organise the external world into the pieces we can then 'process'.
- A healthy human brain does not want to always be creative, it is designed to figure out how to do things or how to think about things and then 'locks' that automatic response or behaviour into a subconscious process so that your conscious brain can focus on other matters.

Why is lateral Thinking important?

- Problem solving
- Finding new ways of doing things
- Inventions
- Innovation

Lateral thinking puzzles

- Lateral thinking puzzles are strange situations in which you are given a little information and then have to find the explanation. They are solved through a dialogue between the quizmaster who sets the puzzle and the solver or solvers who try to figure out the answer

TASK - Puzzle 1

- A man walks into a bar and asks for a drink of water. The bartender gives the man a drink of water, but the man says the water is no good. The bartender thinks for a minute, pulls out a gun and points it at him. The man says, "Thank you," and walks out.
- Why?

SOLUTION?

TASK - Puzzle 2

- Five pieces of coal, a carrot and a scarf are lying on the lawn. Nobody put them on the lawn but there is a perfectly logical reason why they should be there. What is it?

SOLUTION?

Review of last week's lecture

- No clear **definition** of entrepreneurship
 - Just those who are innovators?
 - Those who run a family business?
 - They all are willing to 'venture' leave their 'comfort zone'.
 - Entrepreneurs will look to start up a business no matter what the state the economy is in or what resources they currently have.

Review of last week's lecture

- Different reasons (**motivations**) why people become entrepreneurs
 - Necessity
 - Social factors: product of their environment
 - Economic factors
 - Psychological Factors: innate drive that makes them entrepreneurial
- Nature v nurture argument

Last week's tutorial

- We looked at business ideas and business models
- What's the difference between the two?
- Business model:
 - How you plan to make money
 - Involve how you will add value i.e. make customers buy your product
 - What's different about your product

On: Day Month Year
Iteration: No.

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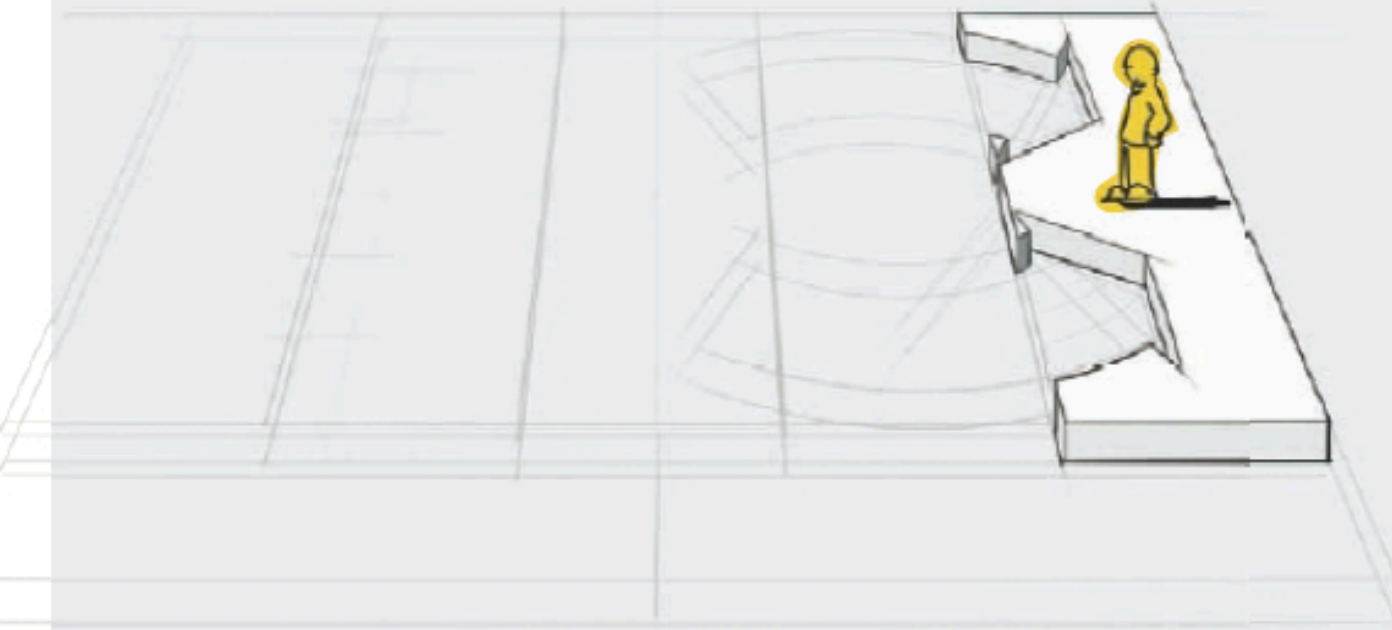
Customer Segments

The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. 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. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

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*

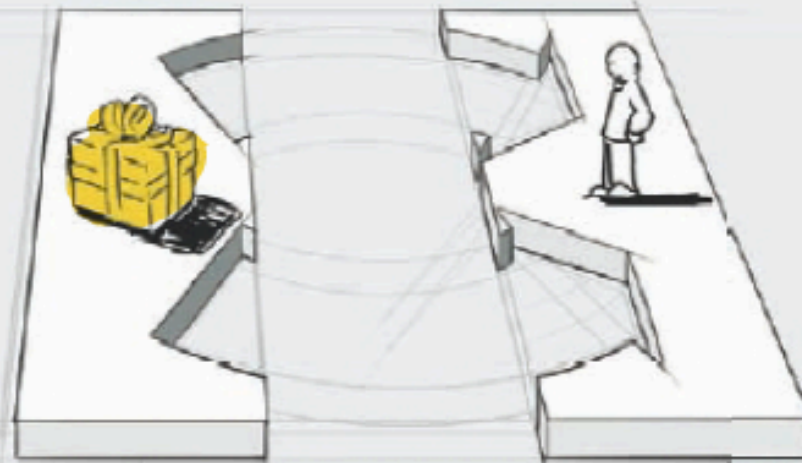


2 Value Propositions

The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment

The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. 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.

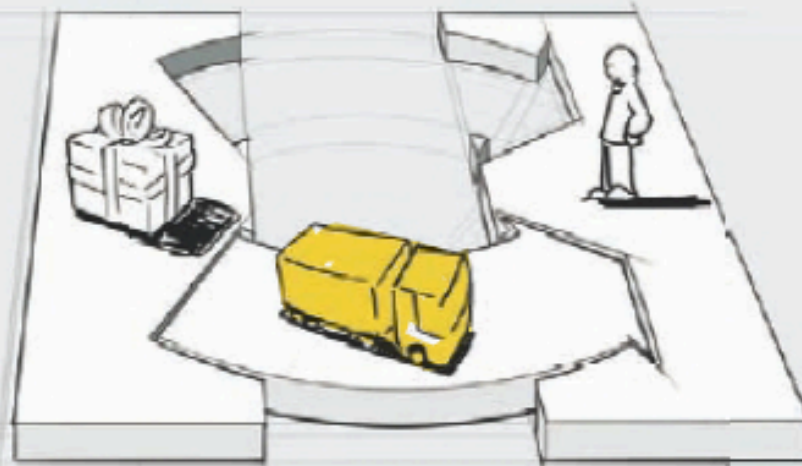


Channels

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition

Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience. Channels serve several functions, including:

- *Raising awareness among customers about a company's products and services*
- *Helping customers evaluate a company's Value Proposition*
- *Allowing customers to purchase specific products and services*
- *Delivering a Value Proposition to customers*
- *Providing post-purchase customer support*



Customer Relationships

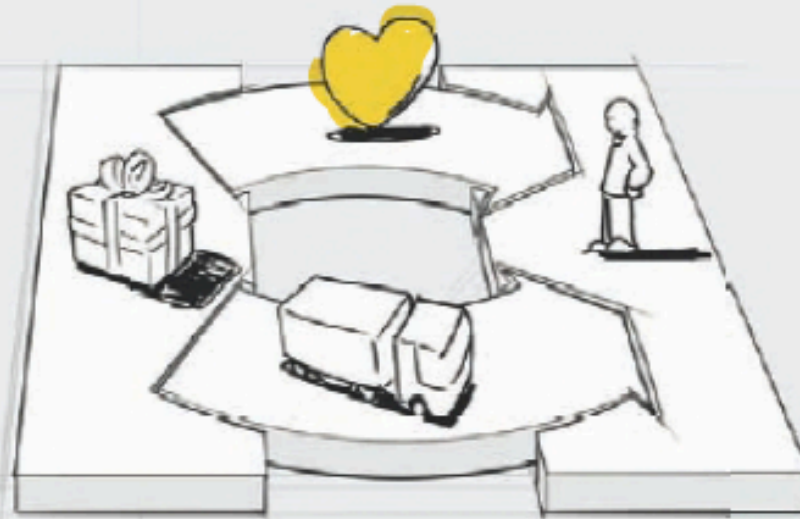
The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments

A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:

- *Customer acquisition*
- *Customer retention*
- *Boosting sales (upselling)*

In the early days, for example, mobile network operator Customer Relationships were driven by aggressive acquisition strategies involving free mobile phones. When the market became saturated, operators switched to focusing on customer retention and increasing average revenue per customer.

The Customer Relationships called for by a company's business model deeply influence the overall customer experience.



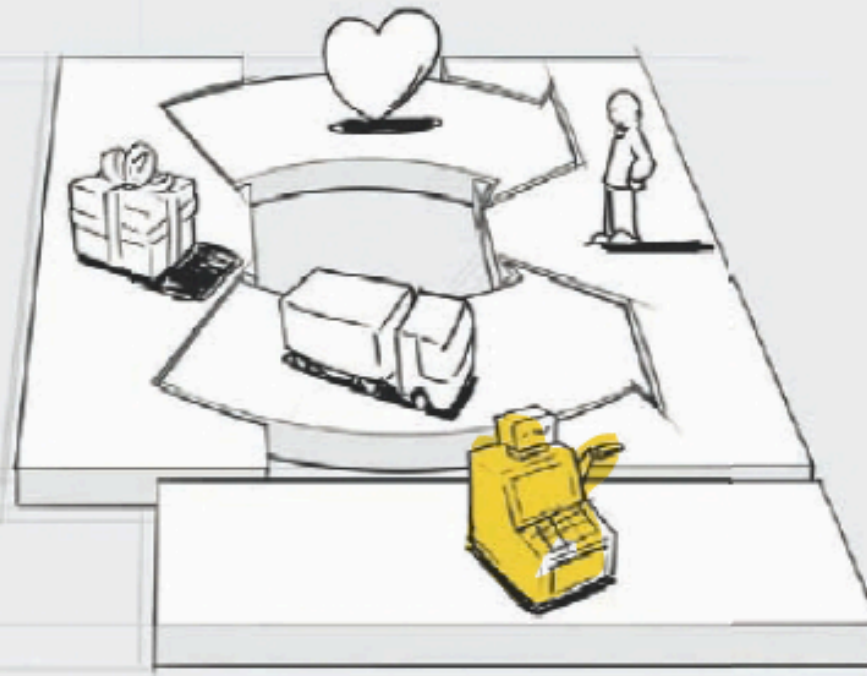
5 Revenue Streams

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, For what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

A business model can involve two different types of Revenue Streams:

1. *Transaction revenues resulting from one-time customer payments*
2. *Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support*

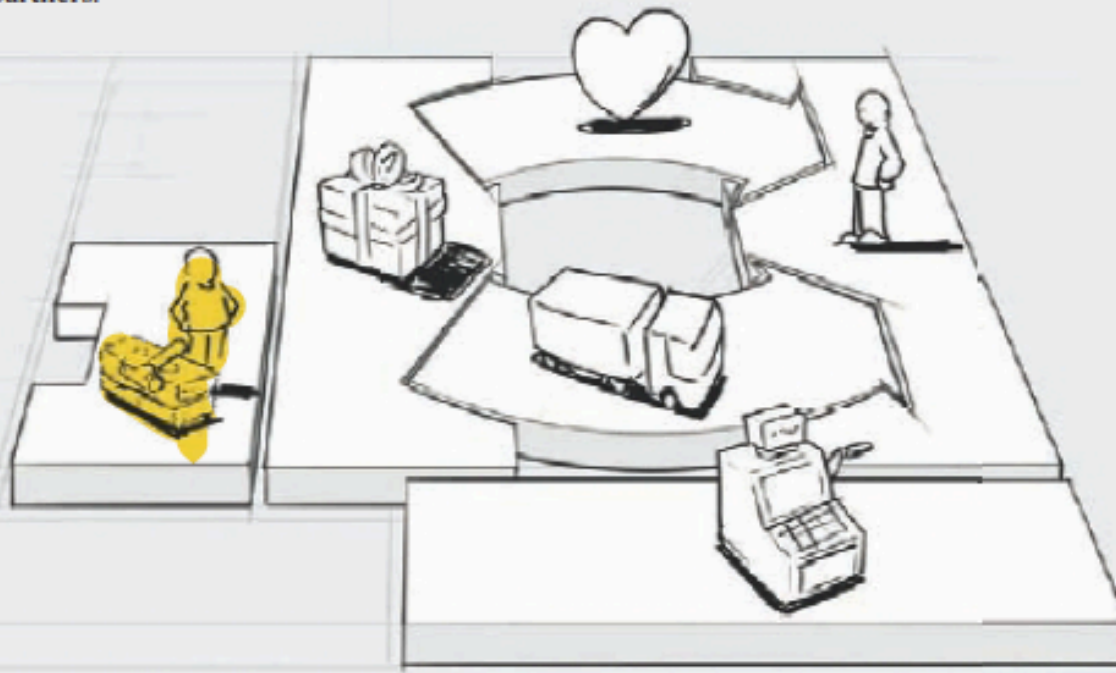


Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work

Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources.

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



Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development.

For PC manufacturer Dell, Key Activities include supply chain management. For consultancy McKinsey, Key Activities include problem solving.



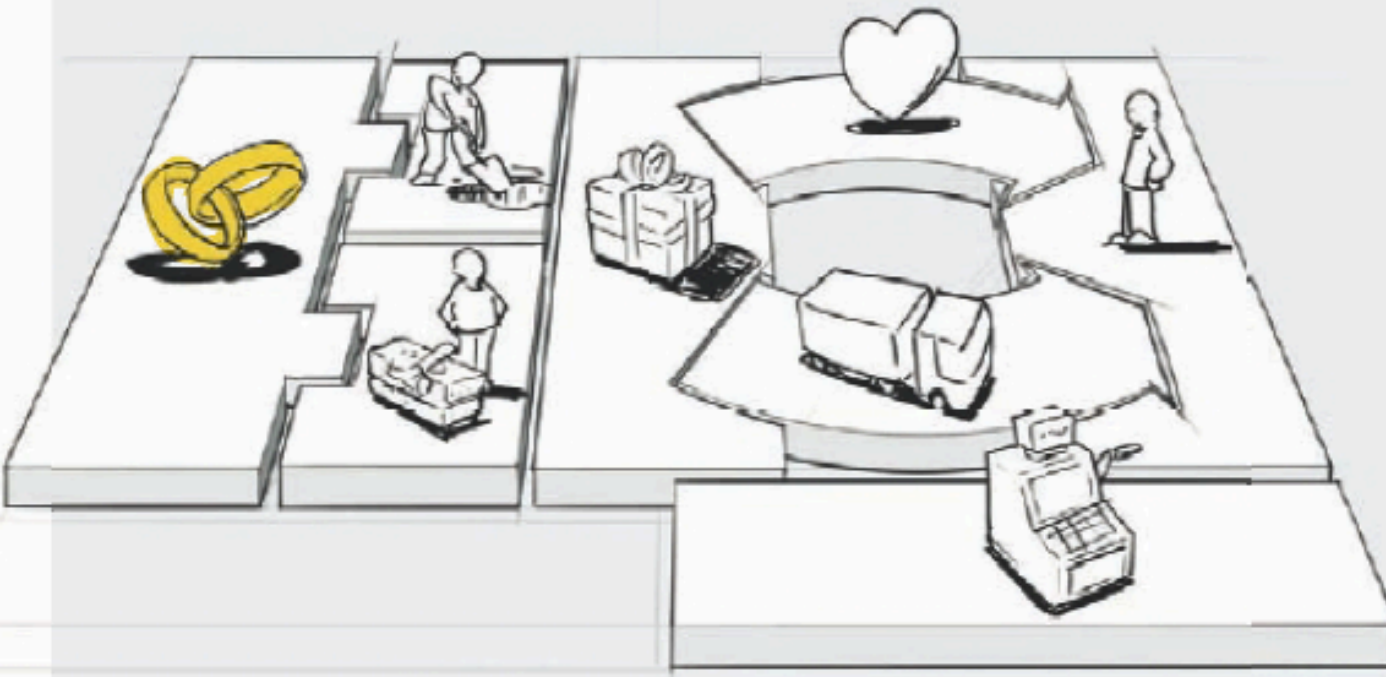
Key Partnerships

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

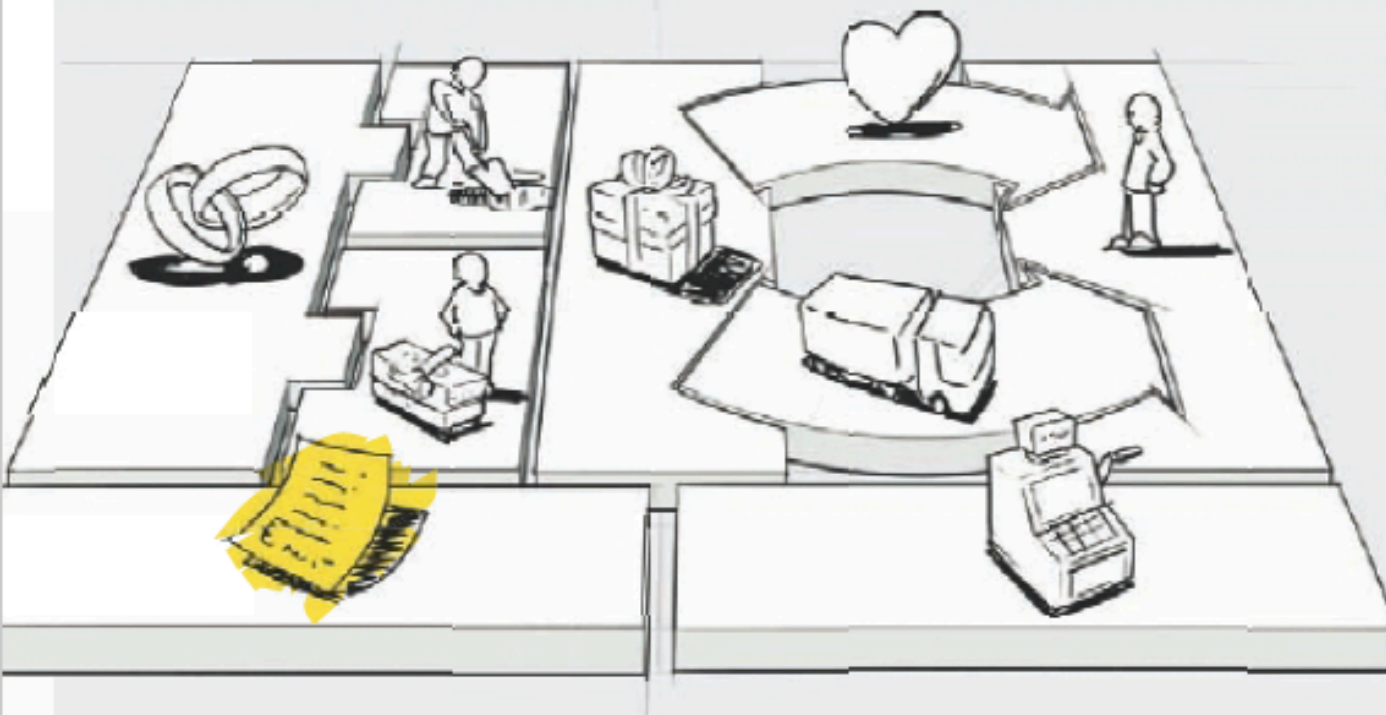
1. *Strategic alliances between non-competitors*
2. *Coopetition: strategic partnerships between competitors*
3. *Joint ventures to develop new businesses*
4. *Buyer-supplier relationships to assure reliable supplies*



Cost Structure

The Cost Structure describes all costs incurred to operate a business model

This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called “no frills” airlines, for instance, have built business models entirely around low Cost Structures.



The Business Model Canvas

Designed for:

Designed by:

On: Day Month Year
Iteration: No.

Key Partners  Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform? KEY PARTNERS ARE IMPORTANT BECAUSE: Specialize in what we cannot Reduce in up-front cost and complexity Improve the performance of our business CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Key Activities  What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Value Propositions  What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Customer Relationships  What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Customer Segments  For whom are we creating value? Who are our most important customers? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility
Key Resources  What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Channels  Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Cost Structure  What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Revenue Streams  For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility	Revenue Streams  For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues? CHARACTERISTICS Channel Performance Channel strategy "Winning the channel" Range Brand Name Price Cost Reduction Risk Reduction Access to Customer loyalty, credibility

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Nespresso Case Study



Nespresso Case Study



<http://www.nespresso.com/uk/en/pages/coffee-landing-page>

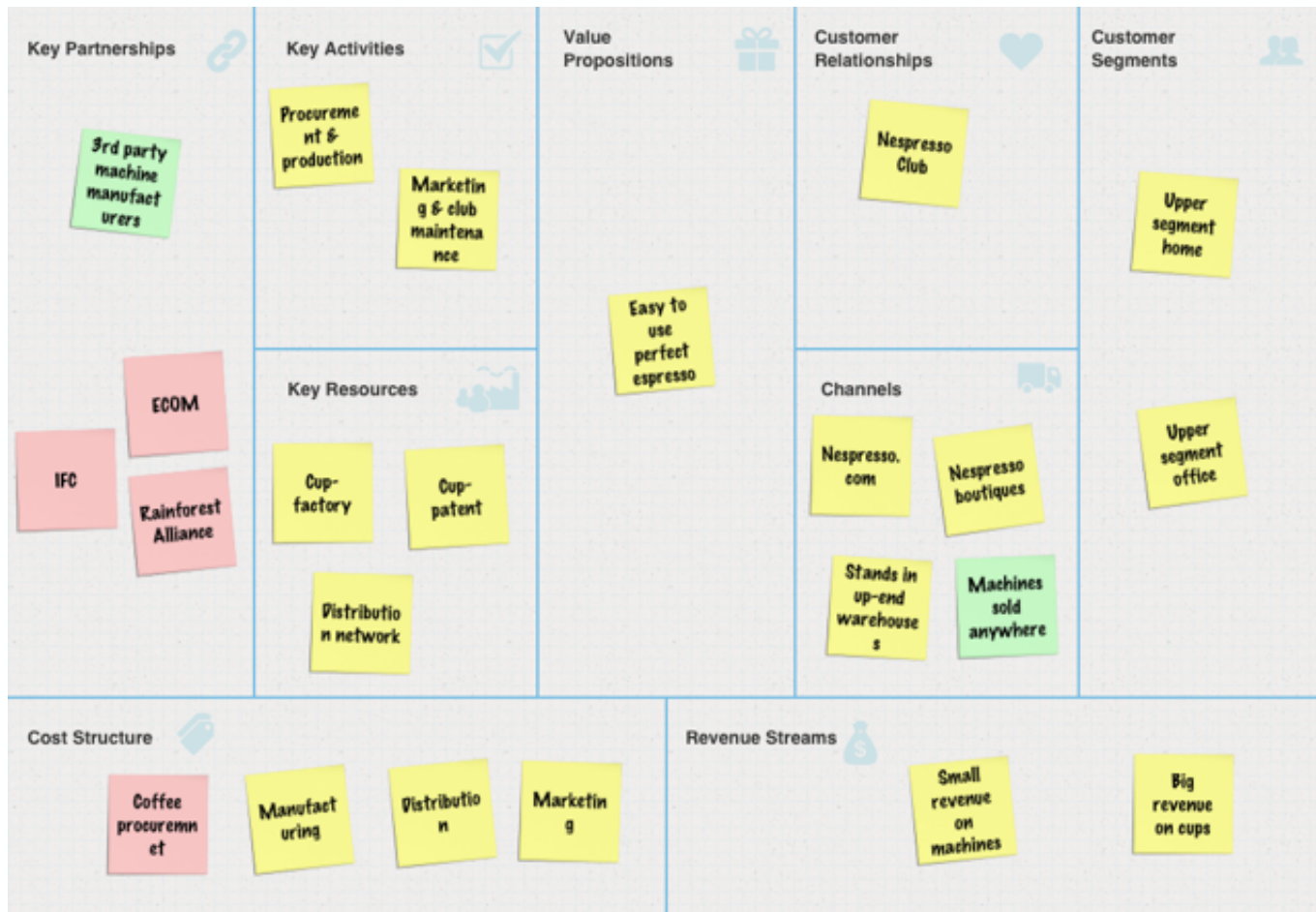
Nespresso Case Study

- Nespresso's business model wasn't built in a day. Since its first patent in 1976, Nespresso fiddled around with the technology for 10 years, before incorporating the company in 1986. The company decided to service the business-to-business market in the 1990's, in joint venture with a machine manufacturer that also maintained a sales force. This model failed, and almost bankrupted the company. Around 2000 Nespresso innovated in its business model and worked it out to what it currently is: a model which shows a year-on-year growth rate of around 25% ([the fastest growing division at Nestlé](#)), and which noted revenues of over Euro 2.4 billion in 2010.

TASK

Using the Business Model Canvas, fill in the model based on the information you have received about Nespresso.

Compare your model to the one below



<https://valuechaingeneration.com/2011/12/28/from-business-model-to-value-chain-impact-revisiting-the-nespresso-case/>

Business Model Canvas revisited

- Business Model Canvas:
- Key partners
 - Who are your key partners/suppliers/distribution/research and development?
 - What are the motivations for the partnerships?
- Key activities
 - What key activities does your value proposition require?
 - What activities are important the most in distribution channels, customer relationships, revenue stream...?
- **Value Proposition**
 - What core value do you deliver to the customer?
 - Which customer needs are you satisfying?
- Customer Relationship
 - What relationship that the target customer expects you to establish?
 - How can you integrate that into your business in terms of cost and format?
- Customer Segment
 - Which classes are you creating values for?
 - Who is your most important customer?

Business Model Canvas revisited

- Key Resource
 - What key resources does your value proposition require?
 - What resources are important the most in distribution channels, customer relationships, revenue stream...?
- Distribution Channel
 - Through which channels that your customers want to be reached?
 - Which channels work best? How much do they cost? How can they be integrated into your and your customers' routines?
- Cost Structure
 - What are the most cost in your business?
 - Which key resources/ activities are most expensive?
- Revenue Stream
 - For what value are your customers willing to pay?
 - What and how do they recently pay? How would they prefer to pay?
 - How much does every revenue stream contribute to the overall revenues?

Competitive strategies

- 3 fundamental strategies to achieve sustainable competitive advantage.....

Competitive strategies

- Cost Leadership Strategy
 - Lowest cost
- Differentiation strategy
 - The customer may pay more for a particular characteristic of the product or service
- Focus strategy
 - Focus of particular segments or niches e.g. car insurance for women

Which strategy is best for your business plan?

- Cost leadership?
 - Could you work at very low cost cheaper than the competition? Possibly? Lower overheads working from home.
- Differentiation strategy
 - Mass market, heavy branding think Coke and Nike
- Focus strategy
 - Small geographical area or students, very personalised service

Evaluating the Business Idea

- The Business Model Canvas good but it is general:
- Covers basic information on **customers**
- Covers basics in terms of **resources**

What other information would be good to start a business?

TASK

What other information would be good to start a business?

- If you were to start a vegetarian Indian restaurant in Swansea what information would you require to decide if it was a worthwhile decision to do so?

Evaluating the Business Idea

- You need to understand your competitors
- You need to understand the marketplace you are about to compete in.
- How are you going to attract customers?
 - Marketing strategies
- Detailed finances needed
- Day to day running (operations)

Resources: Capital

- Financial
- Human – managerial or industry experience plus training.
- Social – Networks: friends and commercial contacts.

- Money
- Employees
- Customers
- Landlord
- Suppliers

What do you need to prove to get those resources in your business?

- CREDIBILITY
- How do you get it?

Business Plan (detailed)

Business Model (outline)

Business Plan

- Broadly the Business Plan will address:
 - Viability- customers, competition, marketing strategy and profitability of the business
 - Resources – people and other resources but most importantly money that's needed to finance the start-up and how it will be repaid. Cash flows.
 - Credibility –track record and experience.

DISCUSS

What is the use of a business **plan** internally?

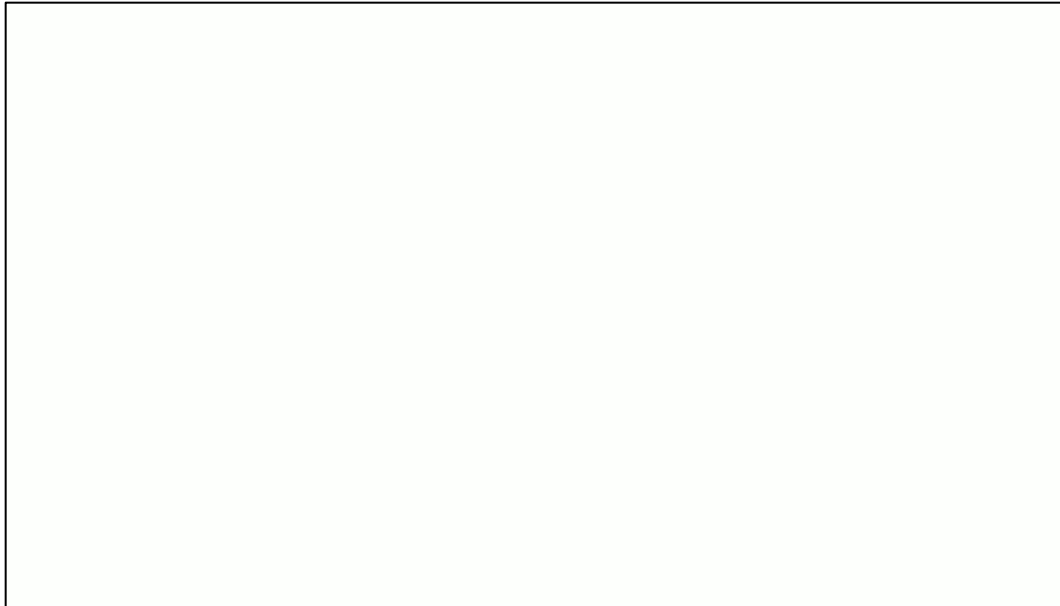
To Plan...

- To focus your efforts, set objectives and company direction.
- To enable you to spot potential pitfalls before they happen – how do you do so (SWOT / PESTLE).
- To set realistic targets that allow some flexibility - without steering away from core objectives - for some 'fine tuning' along the way.
- To enable you to track your growth.
- To structure the financial side of your business.
- To raise finance.

Very Useful Link

- <https://www.gov.uk/starting-up-a-business/start-with-an-idea>

VIDEO



<https://www.youtube.com/watch?v=D8XMS7n8N9Q>

How do we translate our ideas into reality?



Need to Evaluate if the Business Plan will work

- How?

RESEARCH!

What sort of things do you need to research?

Evaluating the Business Idea

- You need to find customers?
- You need to understand your competitors
- You need to understand the marketplace you are about to compete in.
- How are you going to attract customers?
 - Marketing strategies
- Ensure you have sufficient resources – MONEY!

Knowing your customers

- Too much focus on the product itself and not of the market for the product can lead to failure.
 - Who is going to buy?
 - Why?
 - What needs do they want the product to meet?
 - Is the customer reachable?
 - Distribution
 - Market new/mature?
 - Growing /declining market
 - How big is the market
 - Is the product unique?
 - Is the market highly concentrated or fragmented

Why is it important to know your customer base?

- By doing this you will be able to estimate the sales potential of your market.
- Then you can determine the scale and nature of resources you need.
- ...not always easy if it is a totally new product i.e. iPad where customers could not initially foresee how it would be used.
- Or start the business small scale and carefully monitor outcomes.

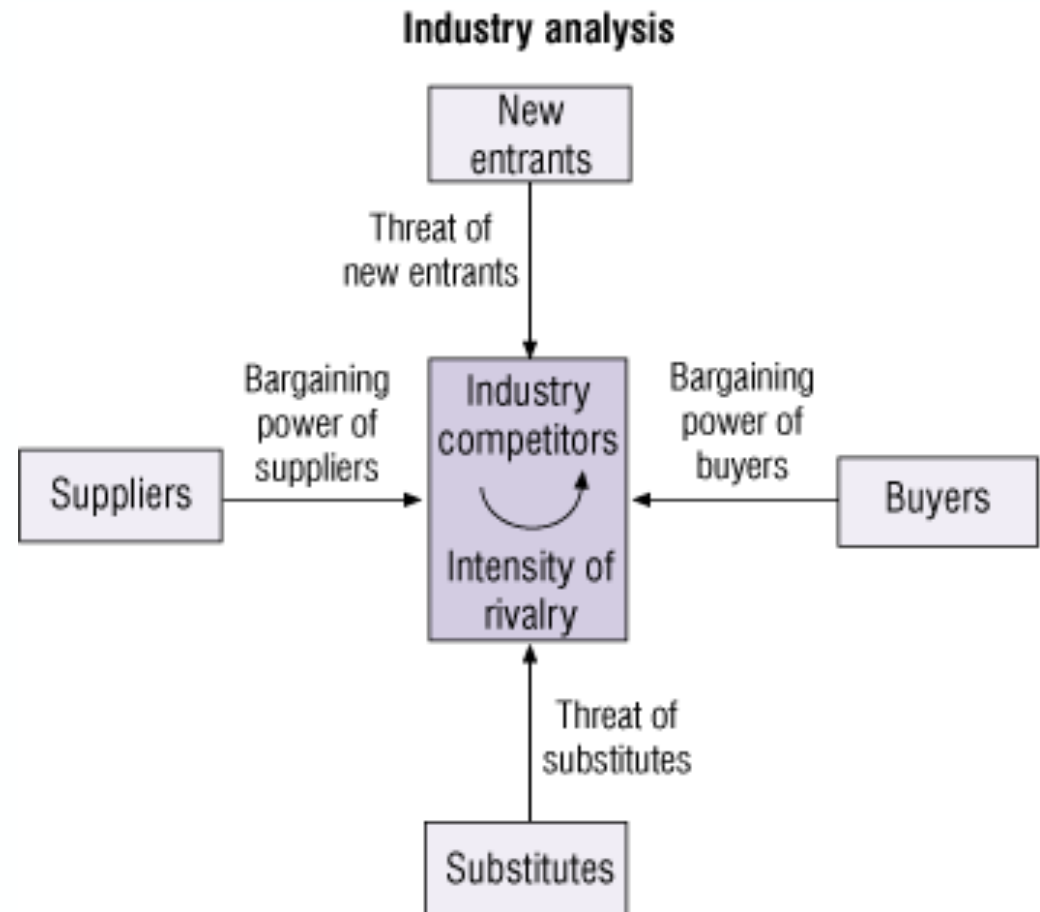
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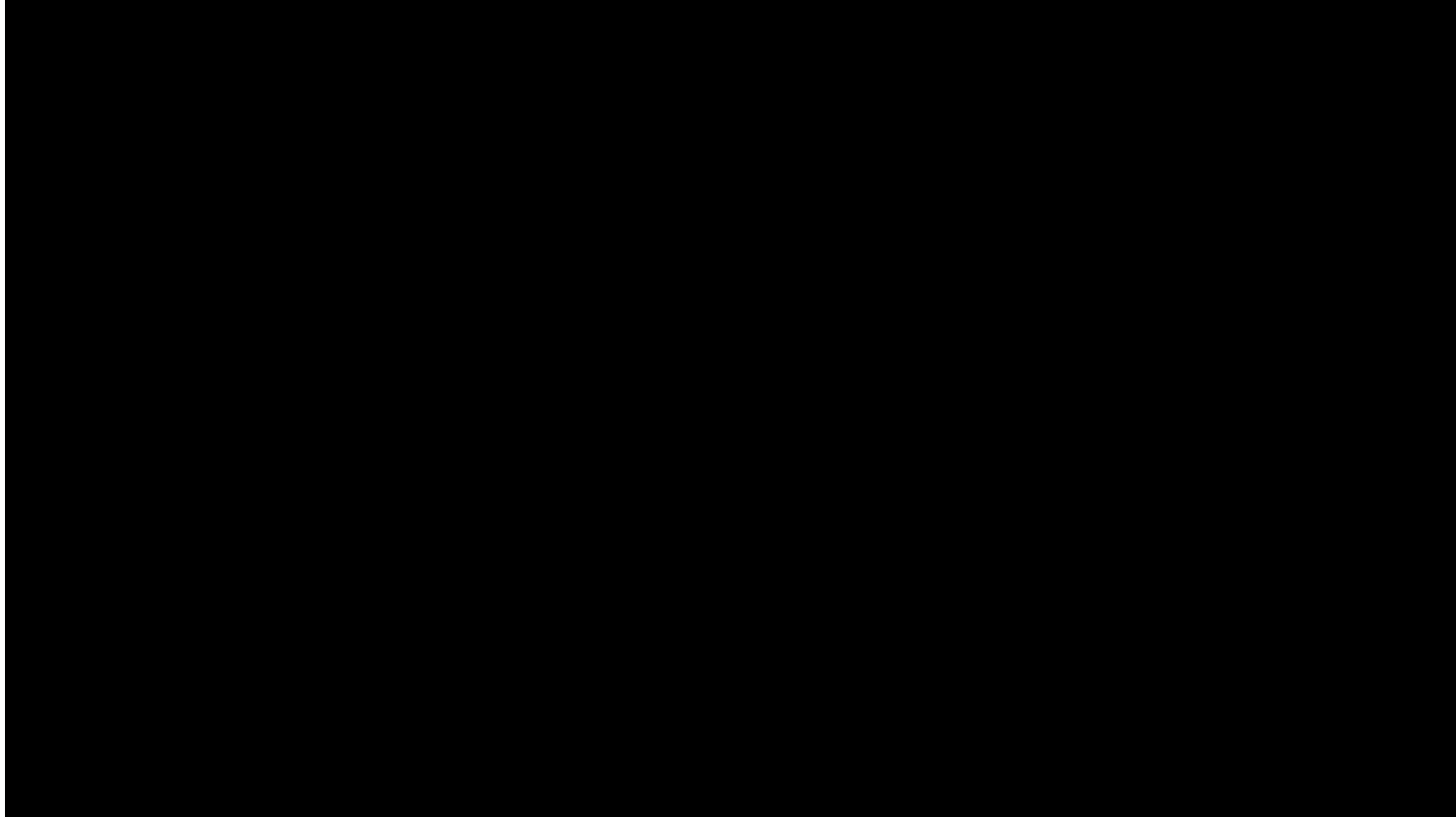
A Model for Structural Analysis: PORTER'S "FIVE FORCES" MODEL OF COMPETITION

Competition is the result of:

- the threat of new entrants
- the threat of substitute products
- the intensity of rivalry between competing firms
- the power of suppliers
- the power of buyers



VIDEO



https://youtu.be/mYF2_FBCvXw

Threat of new entrants/ Barriers to Entry

- Economies of Scale: high fixed costs: high volumes of sales needed
- Product differentiation/brand loyalty
- Capital requirements
- Switching costs: financial, time and inconvenience.
- Access to distribution channels
- Cost advantages: patent rights, know-how, govt subsidies
- Access to resources of raw materials on favourable terms

Threat from substitute products

- Substitutes offer differing ways of meeting the same customer need. e.g. flying to France is a substitute for catching the Ferry.
- When firms are faced with threats from substitute products demand for their products is relatively sensitive to price.

Bargaining power of suppliers

- One or two dominant suppliers
- Other customers in different industries
- Supplier's products vital to the customers business
- Suppliers may produce a differentiated product which buyers need to obtain
- Switching costs for buyers may be high

Bargaining power of Customers/buyers

- Purchases are substantial % of sales: customers in a strong position
- Customer will be in a weaker position if most purchases come from one supplier
- Level of switching costs
- Strong brand which customers feel they must have.
- Customer knowledge
- Higher product quality, less price-sensitivity

Rivalry

- More intense the rivalry within an industry the more profitability is affected.
- Competitive action may take the form of price competition, advertising battles, sales promotion campaigns, new products, improving after sales service etc.

Summary



A VEGETARIAN INDIAN RESTAURANT IN SWANSEA

On: Day Month Year
 Iteration: No.

