MODULE 1: DETRIVIALIZING SHARED VALUE

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TODAY'S SCHEDULE

- Introduction

- The course structure

- **Keynote: Business model and shared value as concepts**

- Preparing for Thursday

- Q&A

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TRANSDISCIPLINARY APPROACH

VIABLE
Business

DESIRABLE
Human

FEASIBLE
Technology

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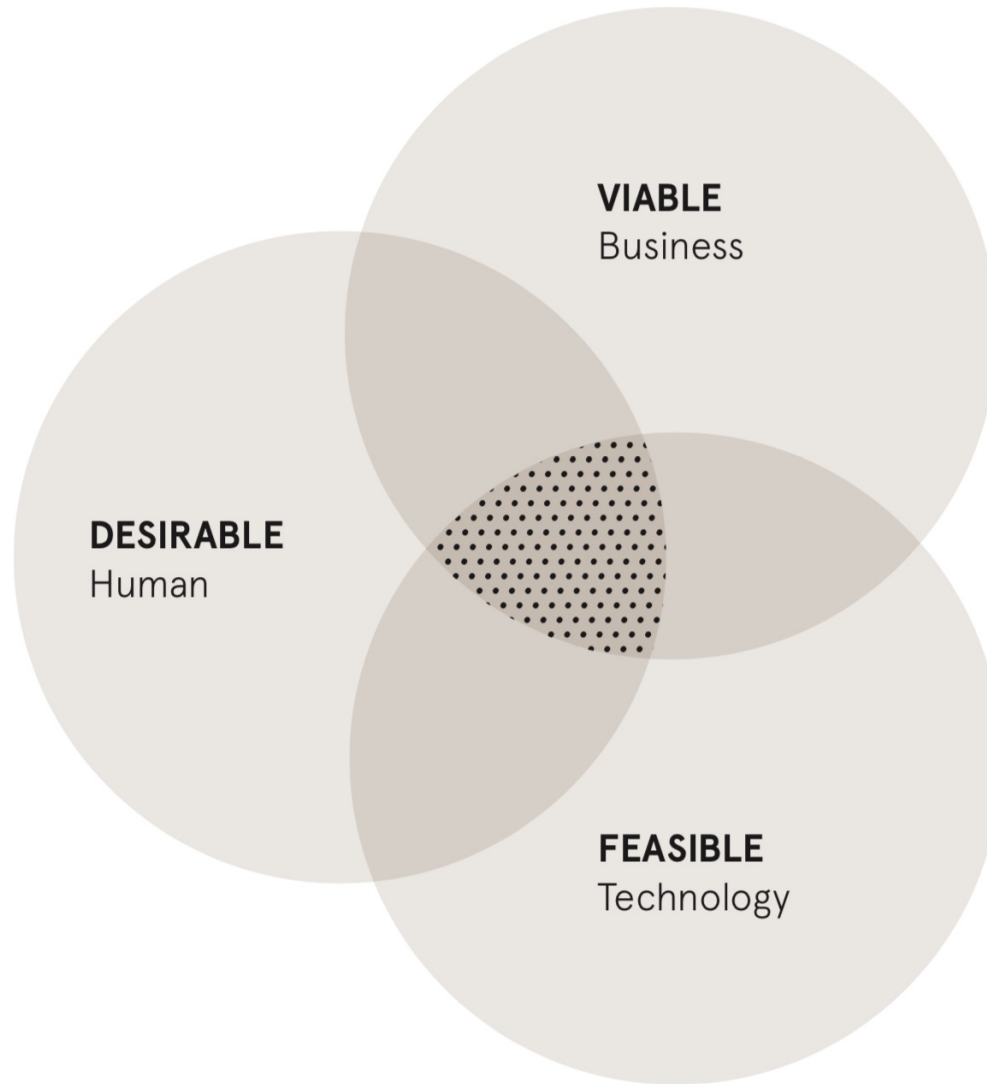
WHAT IS BUSINESS MODEL?

BUSINESS MODEL BASIC ELEMENTS

Value target

Value proposition

Value constellation

Value capture

Who is our customer?
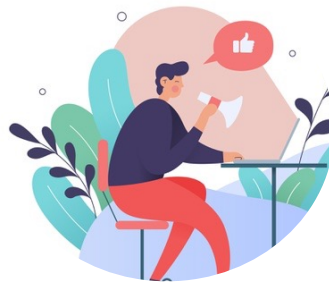
What value do we deliver?

How do we deliver the value?

Why do we do this?

Value creation + value capture

Value creation + value ~~capture~~

Value sharing among
the contributors

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HOW HAS BM EVALUATION CHANGED?

Shared Value Investing

ECONOMIC PURISTS	ETHICAL INVESTING	SUSTAINABILITY INVESTING	IMPACT INVESTING	SHARED VALUE INVESTING
Nonfinancial factors are irrelevant to security analysis	Negative screens that exclude "bad" industries or companies	Rank companies on comprehensive list of ESG criteria	Invest in profit making businesses with a **core social purpose**	Identifying companies that are improving economic value **through** addressing social problems and opportunities
Taking social factors into account is inconsistent with fiduciary responsibility by necessarily resulting in suboptimal financial returns	Unrelated to company financial performance	Many factors are not material to social or economic performance	Mostly private equity Limited number of "pure play" companies	**All** companies can create shared value Focuses only on factors that are **material** to economic performance A **natural extension** of traditional investment analysis

Source: Harvard Business School

WHY INVESTING LOGICS MATTER?

- The fundamental purpose of investing for society is to **allocate capital** to companies who can earn an **attractive return**

- Investors create the greatest societal value by **selecting** companies that will use capital well, **monitoring** their fundamental performance, and **intervening** to improve that performance

- The essential social role of investors is **multiplied** by recognizing and **capitalizing** on the shared value opportunity

→ All these are critical when evaluating BMs

DISCUSSING THE SHARED VALUE CONCEPT

Let's discuss in groups

- Is shared value something more than neatly wrapped marketing message and "sustainability or responsibility wash"?

- How to embrace value sharing in business?

REFLECTING THE READINGS

- Michael Porter: Why business can be good at solving social problems. https://youtu.be/0iIh5YYDR2o (video)

- Crane, A., Palazzo, G., Spence, L. J., & Matten, D. (2014). Contesting the value of "creating shared value". California management review, 56(2), 130-153.

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BUSINESS MODEL IS A MIDDLE LEVEL CONCEPT

descriptions are neither so general that they fail to distinguish the main differences between firms…

…nor are they so absolutely particular that they cover every last detail of contract and activity. (Baden-Fuller & Morgan, 2010)

DIVERSITY IN BUSINESS MODEL DEFINITIONS

Author	Definition
Teece	How a firm delivers value to customers and converts payment into profits
Zott & Amit	A system of interdependent activities that transcends the focal firm and spans its boundaries
William	model offers advantages meaning more
Gar	for turning cost
Itan	el, a business ystem
Yunus, ega	constellation
Casadesus & Ricart	The logic of the firm, the way it operates and how it creates value for its stakeholder
Demil & Lecoq	The way activities and resources are used to ensure sustainability and growth
Sabatier, Rousselle & Mangematin	Cross roads of competence and consumer needs

Value proposition

Value Constellation

Value sharing/capture mechanism

VALUE PROPOSITION

A value proposition is a <u>promise</u> of value to be delivered, communicated, and acknowledged.
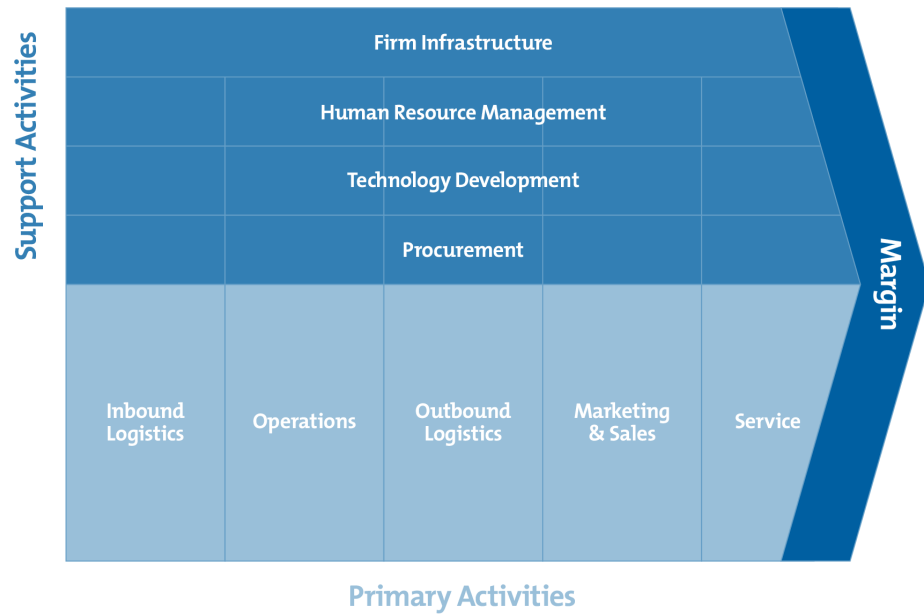
Example value propositions:
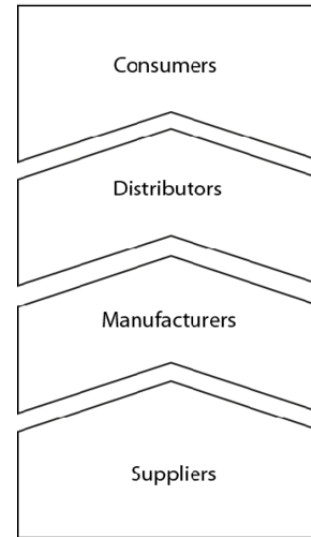
UBER- – The Smartest Way to Get Around

Slack – Be More Productive at Work with Less Effort

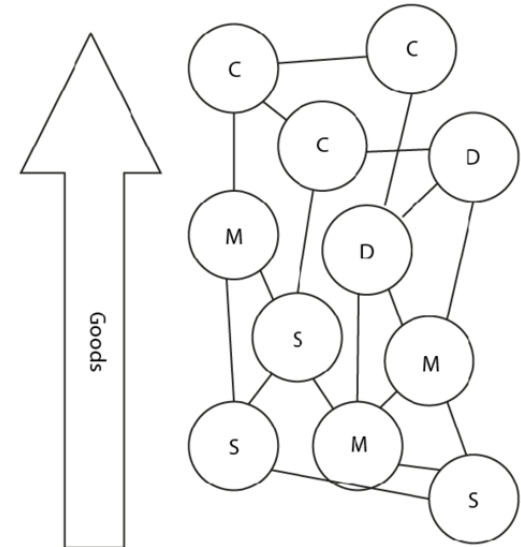Digit – Save Money Without Thinking About It

VALUE CONSTELLATION

PROFIT MECHANISM I.E. VALUE SHARING

The way in which the company earns profits. There might be primary mechanism and then secondary mechanism and also non monetary benefits.

E.g. Subscription (monthly fee), transaction, advertising, licensing, sponsorship etc.

+ value sharing formula among parties involved in value creation
+ governance mechanism of the sharing formula

VALUE TARGET

INTEGRATIVE CONCEPT: BUSINESS MODEL TRIANGLE

What do you offer to the customer?

What?

Value proposition

Why does the business model generate profit?

Who?

Profit mechanism

Value chain

Why?

How?

How is the value created?

Who is your target customer (segment)?

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Gassman et al, 2014
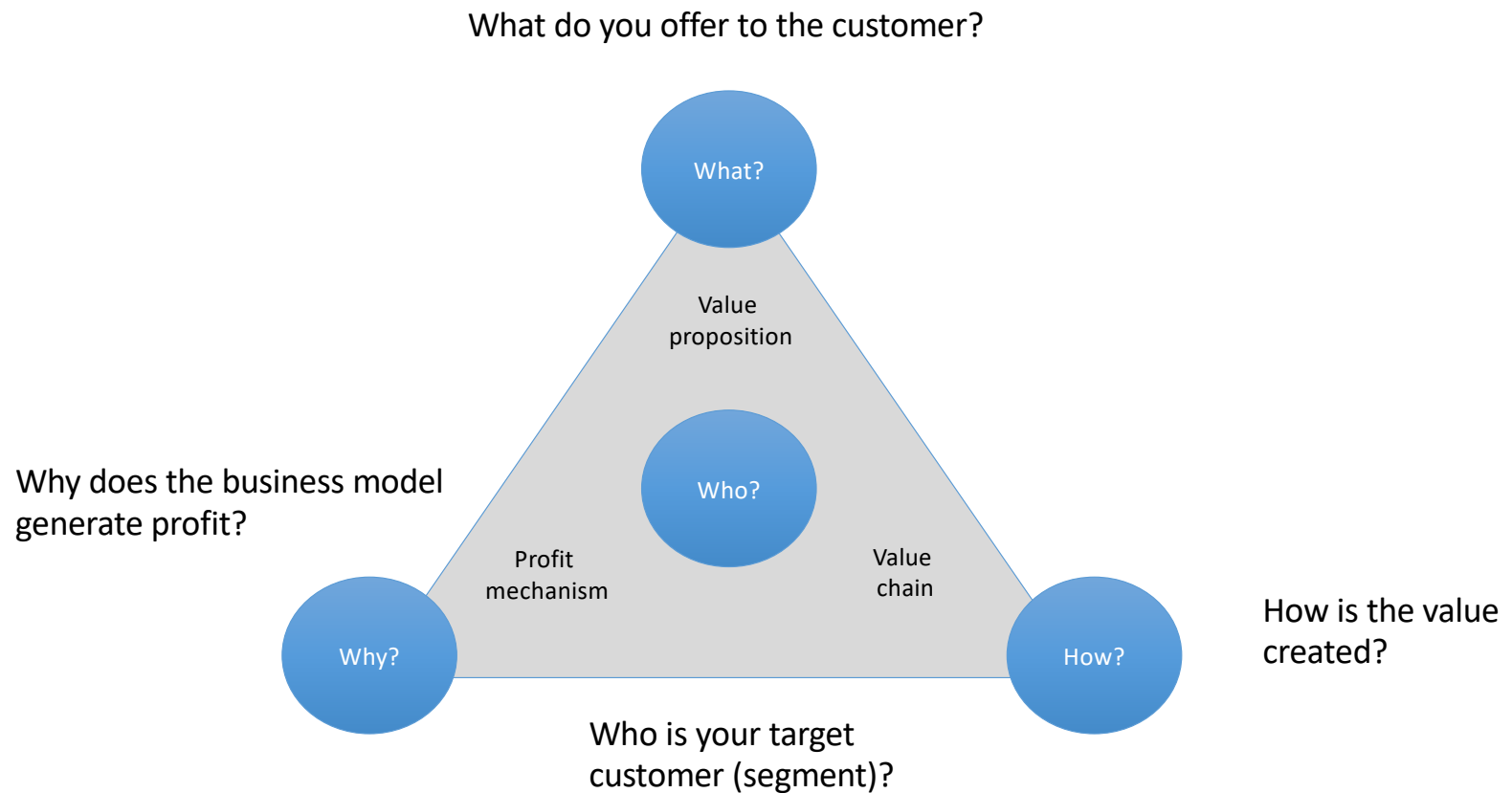
MODELLING A BUSINESS OR BUSINESS PROTOTYPE

MODELING THE BUSINESS MODELS –

DIFFERENT LEVELS OF ABSTRACTION

Level of abstraction

Narratives

Archetypes

Graphical frameworks (ontologies)

Specified graphical frameworks

Meta-models

Firm and its network (Exchange partners)

Activity systems

FIGURE 21.2 Business models at different levels of abstraction from 'reality'

Massa & Tucci, 2014
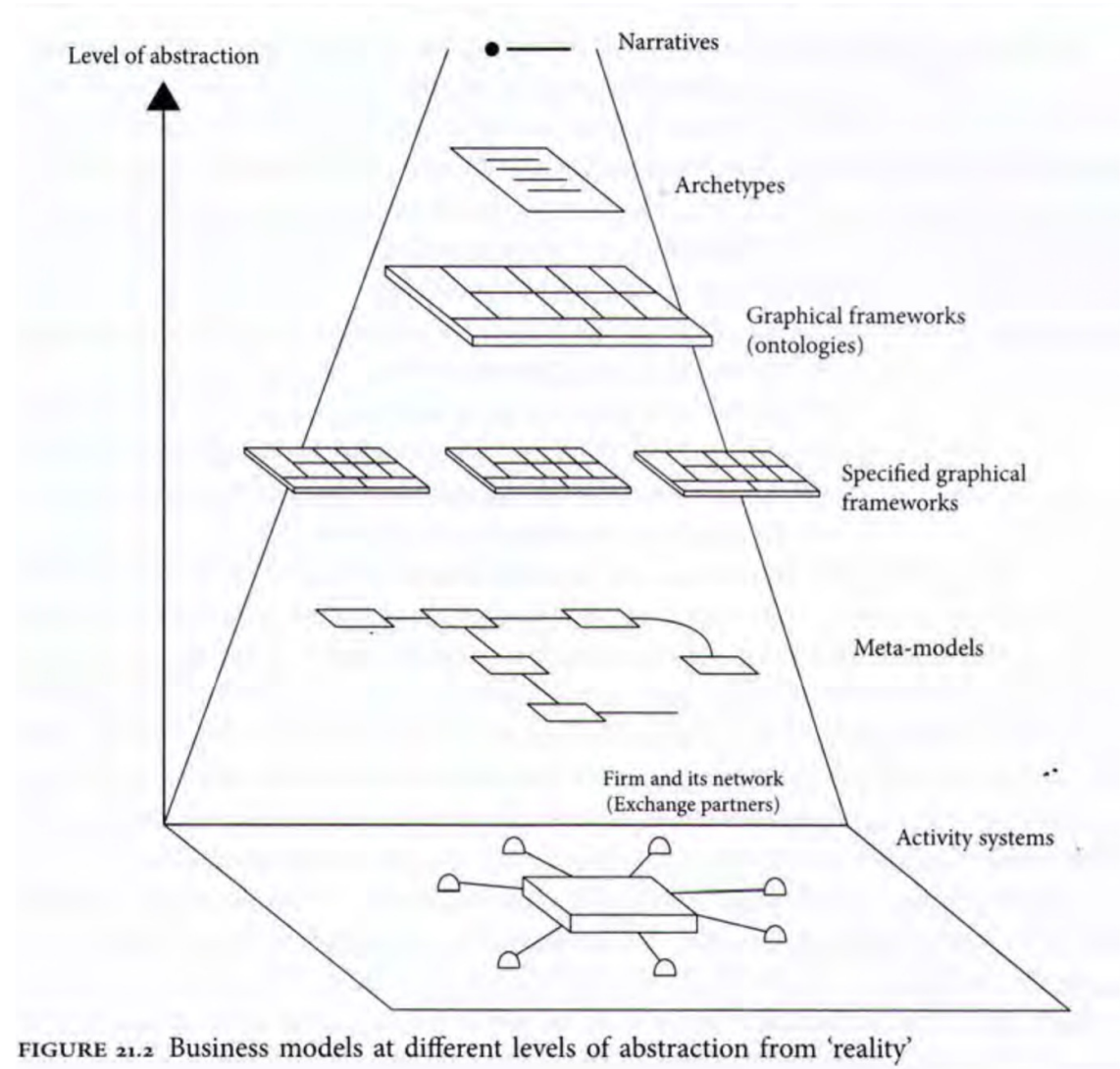
BUSINESS MODELING: NARRATIVES

Sendbird, 2016

BUSINESS MODELING: ARCHETYPES

Archetype: Maximise material and energy efficiency'.

Value proposition	**Value creation & delivery**	**Value capture**
Products or services that use fewer resources, generate less waste and emissions and create less pollution than products/ services that deliver similar functionality.	Activities and partnerships aimed at using fewer resources and generating little waste, emissions and pollution. Focus is on product and manufacturing process innovation, but may extend to wider changes. New partnerships and value network reconfigurations to improve efficiencies and reduce supply chain emissions (e.g. transport).	Costs are reduced through the optimised use of materials and reducing waste, and compliance leading to increased profits and competitive pricing advantage. Positive contribution to society and environment through a minimised environmental footprint.

Archetype: Create value from "waste"

Value proposition	**Value creation & delivery**	**Value capture**
The concept of 'waste' is eliminated by turning existing waste streams into useful and valuable input to other production.	Activities and partnerships to eliminate life cycle waste, close material loops and make best use of under-utilised capacity. Introduction of new partnerships (e.g. recycling firms), potentially across industries, to capture and transfer waste streams.	Economic and environmental costs are reduced through reusing material, and turning waste into value. Positive contribution to society and environment through reduced footprint, reduced waste and reduced virgin materials use.

Main framework table

	Technological			Social			O...
Groupings	Technological			Social			O...
Archetypes	Maximise material and energy efficiency	Create value from waste	Substitute with renewables and natural processes	Deliver functionality rather than ownership	Adopt a stewardship role	Encourage sufficiency	Repurp... for soci... environm...
Examples	Low carbon manufacturing/ solutions	Circular economy, closed loop	Move from non-renewable to renewable energy sources	Product-oriented PSS - maintenance, extended warrantee	Biodiversity protection	Consumer Education (models); communication and awareness	Not for pr...
	Lean manufacturing	Cradle-2-Cradle	Solar and wind-power based energy innovations	Use oriented PSS- Rental, lease, shared	Consumer care - promote consumer health and well-being	Demand management (including cap & trade)	Hybrid business Social enter... (for prof...
	Additive manufacturing	Industrial symbiosis	Zero emissions initiative	Result-oriented PSS- Pay per use	Ethical trade (fair trade)	Slow fashion	Alternat... ownersh... cooperat... mutua... (farmer... collectiv...
	De-materialisation (of products/ packaging)	Reuse, recycle, re-manufacture	Blue Economy	Private Finance Initiative (PFI)	Choice editing by retailers	Product longevity	Social a... biodivers... regenerat... initiatives ('net positive')
	Increased functionality (to reduce total number of products required)	Take back management	Biomimicry	Design, Build, Finance, Operate (DBFO)	Radical transparency about environmental/ societal impacts	Premium branding/ limited availability	Base of pyramid solutions
		Use excess capacity	The Natural Step	Chemical Management Services (CMS)	Resource stewardship	Resource stewardship	Localisation
		Sharing assets (shared ownership and collaborative consumption)	Slow manufacturing			Frugal business	Home based, flexible working
			Green chemistry			Responsible product distribution/ promotion	
		Extended producer responsibility					"Patient / slow capital" collaborations

Bocken et al, 2014

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BUSINESS MODELING:
GRAPHICAL FRAMEWORKS TO BUILD PROTOTYPES

The Business Model Canvas

Designed for: Designed by: Date: Version:

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?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities
What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES
Production
Problem Solving
Platform/Network

Key Resources
What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

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
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

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?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

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?

CHANNEL PHASES
1. Awareness
   How do we raise awareness about our company's products and services?
2. Evaluation
   How do we help customers evaluate our organization's Value Proposition?
3. Purchase
   How do we allow customers to purchase specific products and services?
4. Delivery
   How do we deliver a Value Proposition to customers?
5. After sales
   How do we provide post-purchase customer support?

Customer Segments
For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

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?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

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?

TYPES
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation (bargaining)
Yield Management
Real-time-Market

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BUSINESS MODELING: META-MODELS, ACTIVITY SYSTEMS...

EXAMPLES?

BMD?   **BMR?**

KEY TAKEAWAYS

- Business model consist basic elements that define the logic: value proposition (to target customers), value constellations (as means of delivery) and value capture/sharing formula

- There is an ongoing shift toward the logic of value sharing in business (models)

- Business model is a middle range concept and guided by strategy also known as business logic

- Diverse definitions, converging into 3 elements

- Modeling a business requires selection of abstraction level

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PREPARING FOR THURSDAY

- Same workshop runs three times: 9-11 (Classroom), 11-13 (Classroom), and 13-15 (Zoom).

- You have already selected a group in Sisu.

- We will run a set of tasks: instructions will be in Mycourses so you will know what needs to be done.

- Tasks are done in teams of 4-6 persons. Teams are posted in MyCourses. New teams each week.

- We will soon go to small groups in which you can discuss with your team shortly. Three things we need you to do for Thursday:

  1. **Watch the instruction video**

  2. **Select** a case company

  3. **Familiarize yourself with** the case company (generally, using webpages)

  4. **Read the article** (individually)

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Questions?

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Office Hour by Scheduled Appointment

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