

A Competitive Business Model

This first article examines the business model and why a competitive business model has to be what every new venture must deliver in order to survive and grow.

We start with a definition of the business model. The author favours the simple definition of the business model – how a business generates revenue and profit from its operations in sensing, serving and satisfying its customers. In other words the business model is ‘how a business makes money’. Learning how to make money is a basic entrepreneurial skill and necessity that is unfortunately still not taught at business school.

Every business needs to think about how it will determine a competitive business model. In doing so the entrepreneur needs to think about the environment (or the context) of the business as much as the business itself and how it will operate in that environment. Typically the environment is defined in terms of the forces that act on the business model such as the PESTLE forces (e.g. technology advances in software as a service), industry forces (e.g. direct and indirect competitor activity), market forces (e.g. customer needs evolution) and macro economy (e.g. capital markets).

Today the entrepreneur has multiple tools to build a competitive business model. These are being used increasingly by start-ups and include the business model canvas, business model type analysis and business model design tools among others.

By way of an example of how one start-up has developed a competitive business model using such tools is Pobble Education, an education company that is improving literacy standards in primary schools across the world (and creating a more literate world) by teaching children creative writing and connecting them to a worldwide audience for their written work via a digital platform. Pobble is two years old has grown to 22 employees, is doubling sales from quarter to quarter and so far has created over 30,000 child authors with an audience in over 100 countries of the world.

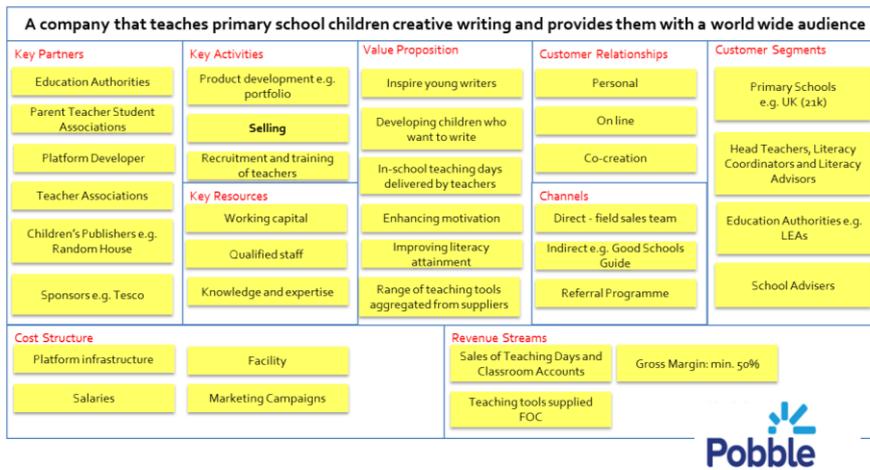
The competitive business model can be described as having:

A persuasive value proposition

The value proposition is at the heart of the business model and is increasingly being designed and developed using the business model canvas and the intrinsically related value proposition canvas tools.

Pobble used both tools in generating its unique value proposition that serves four principal customers – primary schools, local education authorities, pupils and parents.

Business Model Canvas



The entrepreneur should view the business canvas as a live canvas and update it on a regular basis so that it reflects how the entrepreneur sees the business and of course how the business reflects the changing business environment. Also the entrepreneur should view his business model as a set of hypotheses that need to be validated with customers which in the case of Pobble is with the four customer segments.

Validation is all about speaking with the primary customer and asking the four key questions – what works, what doesn't, what's missing and what can be improved and gathering feedback and making changes to shape the model until it represents the most competitive business model.

In a rapidly changing world, the need to be refining the business model canvas and with it the Value Proposition is a must to fully define a winning value proposition and thus a competitive business model.

Multiple customer acquisition channels

The successful business will often engage multiple customer acquisition channels. There are some twenty customer acquisition channels including affiliate marketing, business development, content marketing, direct sales, email, on-line (traditional) advertising PR, resource marketing, social and display advertising, SEM, viral marketing and website.

In the example Pobble combines a) a multi-sided platform based website that connects various customer segments in a way that allows pupils, teachers and parents across the world to read stories written by pupils and posted by teachers in different schools that have subscribed to online service display such work with b) a freemium internet service offering tools for schools aggregated from a variety of suppliers for example lesson plans and writing aids and c) direct sale of teaching days, assembly sessions and parent evenings.

Importantly thinking this way about the different customer acquisition channels offers opportunities to generate new and higher revenues than otherwise would have been possible and with that rapidly scaling the start-up business.

A strong customer focused operation

The last decade has brought a new thinking about how businesses might create value for customers and the business and an increasingly customer focused operation.

There are so many approaches to designing a business model that is customer focused from the traditional ways driven by market research providing customer insights to applying ways used successfully by businesses in different sectors in different regions of the world to design their business models.

Strong customer insight is what brought the idea of creating a worldwide audience for pupils' written work to the front for Pobble which has built a strong customer focused operation. Pobble's founders who are primary school teachers imagined what it would be like to give pupils a worldwide audience for their work and immediately recognised the value in terms to improving literacy attainment, connecting stakeholders including parents and saving money for schools.

An economically viable business model

A new business venture has to show an economically viable business model if it is to survive and grow. This together with a strong IP position and superior processes, capabilities and resources are the basis of a sustainable competitive advantage which every start-up should seek to achieve.

In practice economic viability means four things:

- Revenues are sufficient to cover costs both P&L costs and capital expenditure
- Customer life time values compared to acquisition and retention costs and time to acquire customers are viable
- Gross margin is sufficient to cover the major costs of staff, equipment, rent and administration
- Operating cash is favourable where the business keeps cash tied up in inventory and fixed assets down to a minimum and gets customers to pay quickly (ideally in advance) and have suppliers on credit term

A customer funded business model where the company has the customer's cash before it delivers the products or service is increasingly being used by entrepreneurs to achieve economic viability.

Five types have been described viz. matchmaker e.g. Airbnb, pay-in-advance e.g. Flat-Club, subscription e.g. Spotify, scarcity-based e.g. Rue La La and service to product e.g. Intercede. A business can operate a combination of these types. Indeed Pobble operates a subscription and pay-in-advance revenue models.

A competitive business model is an imperative that entrepreneurs need to harness in order to build a successful new business venture.

This is the first of twelve articles in the series of what entrepreneurs need to achieve in planning for success of a new business venture. The second article describes the imperative to have 'a great business plan'.