DEPATMENT OF BUSINESS AND MANAGEMENT

MASTER THESIS IN PLANNING AND CONTROL

HOW DO FOOD START-UP'S CREATE THEIR OWN BUSINESS MODEL?

THE CASE STUDY OF RISPARMIO SUPER

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Plans are worthless, but planning is everything.
Dwight D. Eisenhower
US President 1948 - 1953

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INTRODUCTION

In my thesis, I address the characteristics of the food start-up's business model. I will then focus on the case study of Risparmio Super which is an innovative Italian start-up operating in the food market with a good future outlook.

I have decided to study the Food Retail Market because it's an area that I am interested in. I intend to study this field because I am intrigued as to how the previous predictions related to the Food Retail Market were proved wrong by food start-ups.

I have chosen to analyse the case study of Risparmio Super because I have been given the opportunity to work closely with LVenture Group (an Italian Venture Capital Fund) who has Risparmio Super in their company portfolio. LVenture Group has been helping me to make contact with the CEO of Risparmio Super who is more than happy to help me with my research.

In order to find the reasons as to why these start-ups were successful I will first expose the main analysis tool of my thesis (The Business Model Canvas) and how to implement it. I will then evaluate the Food Retail Market and I will focus specifically on the food start-up.

The final aim of my thesis will be to examine Risparmio Super's business model and apply the knowledge that I have gained from writing the rest of my thesis to this company. By doing this I will be able to suggest a potential future long term strategy and advise them how to implement their business model.

Chapter 1
THE BUSINESS MODEL: WHAT IS IT? HOW DOES IT WORK?

"No business plan survives
the first customer contact" (Steve Blank)

1.1 **An Introduction of Business Model**

Models can be used to help make all kinds of business decisions. In organisations, from self-employed sole traders through to major multinational companies, almost all initiatives require a financial or commercial evaluation. This is often done within a Business Plan. An analysis is then usually performed during the creation of a business model. Unfortunately, great business ideas do not always receive the support they deserve. The Business Models that provide the commercial justification for the idea are often poorly structured and, in some cases, simply commercially inaccurate. The result is a misleading view of the financial strength of the idea[1].

Furthermore sticking to a business plan document works for a known future, but in the real world, there is not a reliable way to predict the future. The start-ups work constantly under an uncertain future, therefore plans fail in start-up.

In today's complex and fast-moving business environment, firms may have a wide variety of strategic and operational choices. A business model helps managers to explore difficult choices, using sets of assumptions to represent alternative future operating environments. It also helps to develop a clearer understanding of the pattern of relationships between the variables and the possible outcomes. In the end, it is the

[1] Tennet J. and Friend G., Guide to Business Modelling, The Economist Newspapaer Ltd., Wiley & Sons Inc., Hoboken New Jersy, 2011, p.1

decision maker's judgement that is important, but a well-designed model can make the application of that judgment easier.

1.2 **Business Model Definition**

The term business model originates from the writings of Peter Drucker[2]. The popularity of this expression grew and as a result, the term 'business model' has made its way into management vocabulary. But there is still a lot of confusion about what business models are and how they can be used[3]. Many executives remain confused about how to use this concept. For example, one recent Accenture study conducted on 70 executives from 40 companies reveals that 62% of the executives found it hard to describe how their company makes money (the basis of business model)[4].

Many authors throughout the last few years (1998 - 2002) have produced definitions of the term "business model" however none of these definitions appear to have been accepted fully by the business community. This may be due to emanation from many different perspectives.

Scott Shafer, Jeff Smith and Jane Linder tried to develop an affinity diagram though the many different definitions given for the term business model. The affinity diagram identified four main categories of business model components: strategic choice, creating value, value network and capturing value.

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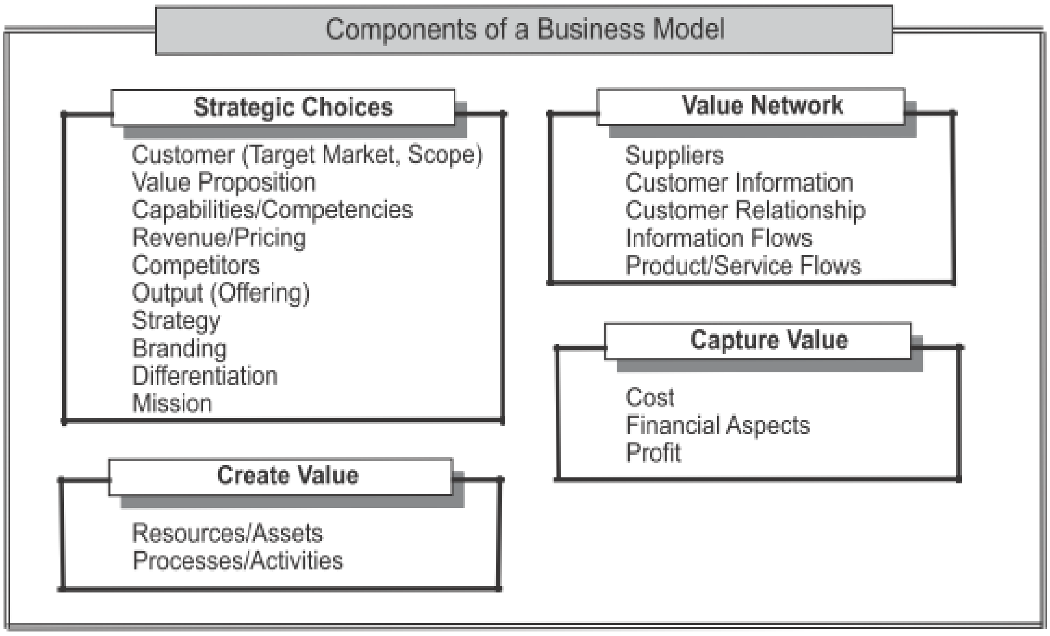
2 Drucker P., The Theory of the Business, Harvard Business Review, September 1994

3 Shafer S., Smith J. and Linder J., "The Power of Business Model", in Business Horizons, 2005, 48, pp. 199 - 207, p. 200.

4 Linder J. and Cantrell S., "Changing Business Model Fluidly", in Accenture Institute for strategic change, 2000.

Table 1-1 Components of Business Model Affinity Diagram



Source: The Power of Business Model, Shafer, Smith, Linder

The definition given by these authors lays on the following two principles:

1. The definition should integrate and synthesize the previous work done in this area.
2. The definition should be simple enough so that it can be easily understood, communicated and remembered.

The authors came out with the following definition: a business model is a representation of a firm's understanding of core logic and strategic choices for creating and capturing value within a value network[5].

This definition includes four key terms. The first key term is core logic. It suggests that a properly crafted business model can help make the assunptions underneath the business idea clear and can also show the relationship with the strategic choises. This is the second key term. The business model is related to the strategy. The terms creating and capturing values refers to two fundamental functions that every organization should care about if they want survive against the market competition.

[5] Shafer S., Smith J. and Linder J., "The Power of Business Model", in Business Horizons, 2005, 48, pp. 199 - 207, p. 202.

Once defined what a business model is, we can also define what is not a business model, for example strategy. In order to find out the relationship between the business model and the strategy, we need to first define ‘strategy’. Unfortuantely, as Henry Mintzenber notes in his book ‘The Rise and Fall of Strategic Planning”, the strategy can be viewed in at least four different ways: as a pattern, plan, position or perspective”[6].

However, all of these different views have one thing in common; the decision making element. Business models reflect strategic choices and their operating implications. It should facilitate the analysis, testing and validation of the cause-and-effect relationships between strategy and the business model. The business model can be viewed, for example, as floor plan designed by an architect to satisfy the desiderata of the future house-owners and it shows the design choices that have been made. If the future house-owners change their mind on some of their original strategic choices (such as the position of the bedroom) the business model can lead them to revisit their original choices[7].

1.2.1 *Four Problems of the Business Model Definition*

The business model definition coined by Scott Shafer, Jeff Smith and Jane Linder, is made up by the previous four key terms. This is directly followed by four common problems associated with the creation and use of a business model, they are the following:

1. Flawed assumptions underlying the core logic:

   A firm moves into a danger zone if its business model’s core logic is based on flawed or unproven assumptions about the future. It is decisive that once a set of strategic choices has been made, the resulting business model be checked to ensure that implicit and explicit cause-and-effect relationships are well-grounded as well as logical[8]. Moreover, the resulting business model should be analysed to ensure that the set of choices are consistent and equally supportive of one another.
2. Limitations in the strategic choices considered:

[6] Mintzberg H., The Rise and the Fall of Strategic Planning, Free press, New York, 1994, p. 18.
[7] Shafer S., Smith J. and Linder J., “The Power of Business Model”, in Business Horizons, 2005, 48, pp. 199 - 207, p. 203
[8] Shafer S., Smith J. and Linder J., “The Power of Business Model”, in Business Horizons, 2005, 48, pp. 199 - 207, p. 203

One of the largest mistakes that entrepreneurs usually make is addressing in their business model only a portion of the firm's core logic for creating and capturing value. As a result, this fallacy can easily lead the executives into overestimating his or her model's chance of success in the marketplace.

3. Misunderstanding about value creation and value capture:
   A lot of executives tend to put more effort into the value creation part of the business model than into the value capture portion that is often ignored or at least, toned down.
4. Flawed assumptions about the value network:
   Sometimes, a model mistakenly assumes that the existing value network will continue unchanged into the future[9]. However, building a business model on the long-term assumption that this arrangement will continue may be a mistake.

1.3 **The Business Model Canvas: A Shared Language for Describing, Visualising and Changing Business Models**

Literature has provided very diverse interpretations and definitions of a business model. A systematic review and analysis of manager responses to surveys defines business models as the design of organizational structure to enact a commercial opportunity[10].

In my thesis, I chose to use the definition of business model provided by Alex Osterward. He defines it as the rationale of how an organization creates, delivers, and captures value[11]. According to Alex Osterward, the business model should be a shared understandable language that facilitates description and discussion. The business model concept must be simple, relevant and intuitively understandable, but must also not oversimplify the complexities of how enterprises function.

The business model concept has been applied and tested around the word and is already used in well-known international organizations such as Deloitte, IBM, Government service of Canada and many more.

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[9] Shafer S., Smith J. and Linder J., "The Power of Business Model", in Business Horizons, 2005, 48, pp. 199 - 207, p. 206

[10] George G. and Bock AJ., "The Business Model in Practice and its Implications for Entrepreneurship Research", in Entrepreneurship Theory and Practice, 2011, pp. 83-111

[11] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 14

This new shared language for businesses can allow the open minded entrepreneur to manipulate old business models, respond in a quick and effective way to the new incurring market threats and create new block buster strategic alternatives.

Without such a shared language, it is difficult to systematically challenge assumptions laid behind a business model and innovate successfully.

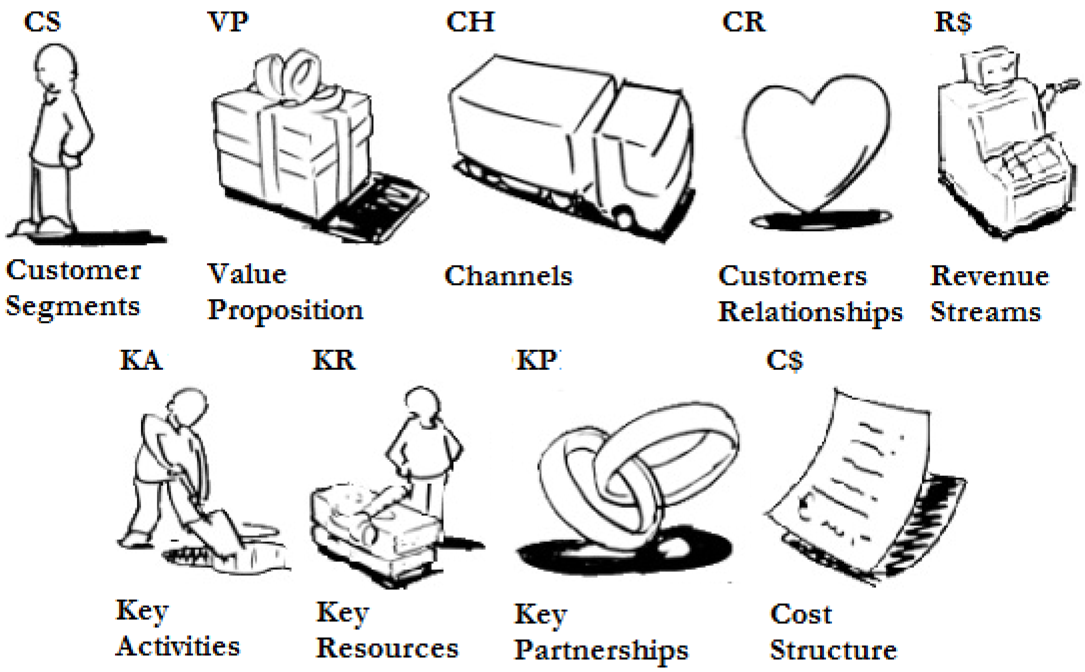
To sum up, the business model canvas shows how a business makes money and it should be used like a blue print for a strategy to be implemented though organizational structures, processes and systems.

1.4 **The Nine Buildings Blocks**

Osterward and Pigneur strongly believe that the Business Model Canvas is best described through nine basic building blocks. These show how a company makes money.

The nine building blocks are usually represented in the Business Model Canvas with the following symbols:

Picture 1-1 Nine Building Blocks



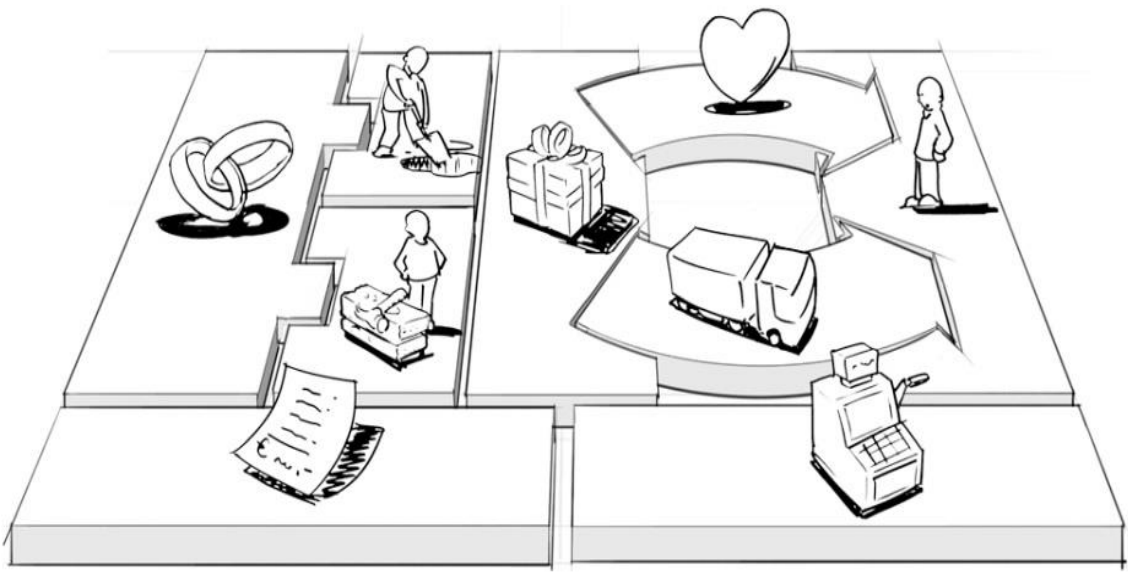
Source: Business Model Generation

The nine blocks cover the four most important areas of a business organization:

- Customers
- Offers
- Infrastructure
- Financial viability

Simply listing the nine building blocks is not enough to complete the process. What is needed is to map them out in a Business Model Canvas.

Picture 1-2 Business Model Canvas



Source: Business Model Generation

In the following pages I am going to describe and make examples of each of these nine building blocks.

1.4.1 *Customer Segmemts*

The customer segments building block defines the different groups of people or organizations an enterprise aims to reach and serve.

Customers represent the core of any business organization and as a result, that of any worthy business model. To completely satisfy customers, a company usually divides a broad target market into sub-groups of customers who have common needs, common behaviour or other attributes and priorities. By using this information they are then able to design and implement strategies to target them[12].

A useful way to distinguish customer segments between each other is to ask yourself the following questions:

- Does the specific customer segments needs require and justify a distinct offer?
- Are they reached through different distribution channels?
- Do they require a different type of relationship?
- Do they have a different type of profitability?
- Are they willing to pay for different aspect of the offer?

If the answer to these questions is yes, then these customers represent a different and separate segment.

A business model may define one or several, large or small, customer segments. Subsequently, an organization must make a really conscious choice about which segment it wants to serve and which segment it wants to ignore. Once this decision is made, a business model can be carefully designed around a deeper understanding of specific customer needs.

There are different types of customer segments. Here are some examples:

- *Mass Market* – This is the group of end consumers who occupy the overwhelming mass of a bell curve for common household products[13]. The business model is completely focused on the large group of customers with broadly similar needs and problems. This type of business model is often implemented by public utility companies.
- *Niche Market* – This is the subset of the market on which a specific product is focused. The market niche defines the products features aimed at satisfying specific market needs, as well as the price range, production quality and the demographics that is intended to impact[14]. In this case the business model would be entirely tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships. Also, the

[12] Kotler P. and Lane Keller K., Marketing Management, Prentice Hall, 2006, p. 236
[13] http://www.investopedia.com/terms/m
[14] http://www.entrepreneur.com/article/49608

companies who choose to serve this type of customer segment are the companies that follow a concentrated marketing strategy. Instead to of going after a small share of a large market, a firm goes after a large share of one or more smaller segments[15].

- *Segmented* – Business models consider customer segments with a slightly different segment with similar but varying needs and problems. As a result, the business model of those companies offer to each segments a slightly different value proposition.
- *Diversified* – Business models serve at least two different customer segments with very different needs and behaviours. This is different from segmented customers, as the organisation decides to reach two unrelated customer segments to help their needs and to solve their problems[16] and therefore totally differentiates its value propositions, distribution channels and customer relationships. For instance, Amazon.com is known primarily for selling goods. They differentiated their business by selling 'cloud computing' services and started to focus on a new B2B segment.
- *Multi-Sided Platforms (MSPs)* – Multi-Sided Platforms (MSPs), which bring together two or more interdependent groups of customers, have recently risen to economic and business prominence in many industries. Any MPS performs one or both among two fundamental functions: reducing search costs and reducing shared transaction costs among its multiple sides. Choosing the relevant platform 'sides', deciding which fundamental activities to perform and trading off depth against scope of MSP functions[17].

1.4.2 *Value Proposition*

The value proposition describes the group of products and/or services that creates value for a specific customer segment. Each value proposition is a select collection of products and/or services that provides for the requirements of specific

[15] Kotler P. and Arstrong G., Principles of Marketing, 14th edition , Pearson Hall, 2011, p. 202
[16] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 27
[17] Hagiu A., "Multi-sided Platform: from micro foundations to design and expansion strategies", in Harvard business school educational, Harvard Business Review, 07-094, November 15th 2007

customer segments. In this sense, the value proposition is a mix of benefits that companies offer to customers. On the one hand, some value propositions can be innovative and represent a new or unsettling offer. On the other hand, some of it may be similar to current market offers, but with some added features and characteristics.

Value propositions create value for the clients though a distinct mix of elements that may be quantitative or qualitative. The following list contains some of those elements[18]:

- *Newness* – Some value propositions fulfils a completely new set of needs that customers previously didn't receive because they were not offered any similar product and/or service. In the highly competitive market, it has become less likely for them to offer products and/ or services, but not impossible. Indeed, mobile phones created a brand new industry based on mobile telecommunication.
- *Performance* – Improving product or service performance has traditionally been a common way to create value; however it does have some limits.
- *Customization* – Tailoring a product or a service based on the specific needs of a particular customer segment has always created value. In recent years, the concept of mass customization and customer co-creation has gained importance. This approach allows for customized products and services, whilst at the same time, still taking advantage.
- *"Getting the Job Done"* – This refers to the type of value generated by "getting the job done" for the customers.
- *Design* – This could be an essential part of the value proposition for some types of products. The only activities that provide value for Apple's customers are the design and the programming. Therefore, Apple retained only these two activities in the USA. They outsourced the rest of it to foreign companies to benefit themselves as it will cost them less.
- *Brand/Status* – Sometimes the value for customers result simply from the brand and the status represented by the product or the service. After buying a Ferrari you receive lots of added extras. To express a few, you become a part of the

[18] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 23

Ferrari Owners' Club, you get the opportunity to visit the Ferrari factory and are able to take Ferrari driving courses.

- *Price* – A classical way to deliver value to the costumers segment is to offer a similar value proposition at a lower price. The companies that offer this type of value preposition usually enforce a cost leadership strategy[19]. This strategy basically consists of lowering the operation costs of the whole industry leveraging on the economy of scale and scope.
- *Risk Reduction* – Customers are always incurring in a risk when they purchase a product or a service. This risk is when the customer buys a product and it's not what they expected it to be, e.g. if they were to purchase a new washing machine and it broke down before the years warranty was over then they would be disappointed as there is a high risk that it will potentially break again when the warranty is over. This risk is particularly high for the so called 'experience goods' where the characteristics of the product are difficult to observe in advance[20].
- *Accessibility* – Making a product available where it was not available before is a well known way to create value for the customers. In the last few years, this concept has been reinterpreted by new innovative enterprises. These new initiatives reformulate their business model, making accessible a product or a service to some customer segments who previously could not afford it. To illustrate this point, in Italy, some start-ups began to provide a new service that enables customers to rent expensive suits for only one night. In this way, these suits are made accessible to a large portion of customers.
- *Convenience /Usability* – Creating products more convenient or easy to use is one of the most undervalued ways of creating value but it is one of the most powerful at the same time. By making the iPod really simple to use, Apple achieved a dominating position in a market that analysts believed would not able to make profit again.

[19] Stahl M. and Grigsby D., Strategic Management, Blackwell Publishing, 1997
[20] Nelson P., Information and Customer Behaviour, Journal of political Economics, Vol. 78, No. 2, 1970, pp 311 - 329

1.4.3 *Channels*

The channels shows in which way a company communicates with its customer segments to deliver this value proposition.

Channels are the customer touch points that play a vital role in customer experience. Channels serve five main functions. They are:

1. Raising awareness among customers about a company's products and services.
2. Helping customers evaluate a company's value proposition.
3. Allowing customers to purchase specific products and services.
4. Developing a value proposition for customers.
5. Providing post-purchase customer support.

Each channel can cover some or all of these functions. We can distinguish between direct channels and indirect ones[21], as well as between owned channels and partner channels.

Finding the right combination of channels to satisfy how customers desire to be reached is crucial in bringing a value proposition to the market[22].

Table 1-2 Channel Types

CHANNEL TYPES				
Direct		**Indirect**		
Sales Force	Web Sales	Parteners	Wholesaler	Own Stores

Source: Adapted from Business Model Generation

An organization can reach its customers through its own channels, partner channels, or an assortment of both. Owned channels can be direct, such as an internal network of salesmen or a website, or they can be indirect, such as retail stores owned or controlled by the organization. Partner channels are indirect and give a whole range of options. These could be one of the following: wholesale distribution, retail, or partner-owned websites. Partner channels result in lower margins, but they allow an organization to expand its reach and they can profit from partner strengths, owned

[21] Peter P., Donnely J., Pratesi and C., Marketing, Mc-Graw Hill, January 2013, p. 327
[22] Kotler P. and Arstrong G., Principles of Marketing, 14th edition, Pearson Hall, 2011, p. 341

channels. Direct ones have higher margins, but can be costly to put in practice and to run. The whole idea is to find the perfect balance between the different types of channels, to integrate them in a way to create value for the customer, and as a result, increase revenues.

1.4.4 *Customer Relationships*

Customer relationship management is perhaps the most important concept of modern marketing. A good customer relationship management creates customer satisfaction. In turn, satisfied customers remain loyal and talk favourably to others about the company and its products[23]. Relations can range from personal to automated and they may be driven by the following motivations:

- Customer Acquisition
- Customer Retention
- Boosting Sales

We can distinguish between several categories of customer relationships, with many co-existing in a company's relationship:

- *Personal Assistance* – This relationship is based on human contact. The customer is able to converse with a real customer assistant who can aid them with their purchase. This service may also continue after the transaction has been completed.
- *Dedicated Personal Assistance* – To offer to a customer a dedicated assistance is the most personal type of relationship that a firm can provide to a customer. This type of customer relationship is broadly used in the business to business market[24]. This market normally deals with far fewer but far larger buyers than the business to consumer marketer does. The main characteristics of this market is that the purchases process is more complex, in fact, it involves more professional buyers and every purchase involves a lot of money compared to the customer market. These two main characteristics justify this expensive type of customer relationship.

[23] Kotler P. and Arstrong G., Principles of Marketing, 14th edition, Pearson Hall, 2011, p. 12
[24] Han S., Wilson D. and Dant S., Buyer Supplier Relationship Today, Industrial marketing management, Vol. 22, No. 4, November 1993, pp. 331 - 338

- *Self-Service* – Some companies have no direct relationships with the customers. The only thing that these companies want provide is their product or service. A good example of this is 99 cent shops in Europe, or pound shops in the UK. These shops do not have any customer assistance, the only people that they employ are the checkout staff and they only help the customers to pack their shopping at the checkout and ensure that they leave the shop satisfied.
- *Automated Services* – This type of relationship combines customer self-service with an automated process. For instance, personal online profiles give customers access to customized services. Automated services can distinguish individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations)[25].
- *Communities* – Companies are often more willing to use communities to raise their customer's awareness. Facilitating online communities could provide a great opportunity for the companies to better understand their customers and improve their products based on the opinions of their communities. One of the best examples of a company sponsoring its community is the Harley Owners Group (H.O.G.). Harley Davidson gives to Harley owners an organized way to share their passion and show their pride, as the Harley Davidson CEO said: "There are only a few products that are so exciting that people will tattoo your logo on their body"[26]. The worldwide club now numbers more than 1,500 local chapters and one million members[27].
- *Co-creation* – Some companies improved the traditional customer relationship model. These companies include the customers in their processes for implementing a new product or provide a new service. As a result, facing an initial cost for collecting data from the customer, the companies demolish the risk of failing to launch a product on the market.

[25] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 29
[26] Rifkin G., How Harley Davidson Revs its Brands, Marketing, Media & Sales, No.9, 08/1997
[27] Schermerhorn J., Hunt J. and Osborn R., Organizational Behaviour, 8th Edition, John Wiley & Sons Inc., 2012

1.4.5 *Revenue Streams*

The revenue stream characterises the cash flow of a company. This comes from each customer segment that the company decides to serve. Each revenue stream could potentially have different price systems, such as a fixed list of prices, bargaining, auctioning, market, volume dependent, or yield management[28].

A business model can contain two different sorts of revenue streams:

1. Transaction revenues resulting from one-time customers payments.
2. Recurring revenues resulting from constant payments to either deliver a value proposition to customers or provide post-purchase customer support.

There are several ways to generate revenue streams:

- *Asset Sale* – This is the most used way to generate a revenue stream. In this case, the company simply sells their products or provides their services.
- *Usage Fee* – This revenue stream is generated by a certain service being used. The more a service is used, the more the customer pays[29]. For example, a hotel charges its guesses based on the number of nights they stay in the room they booked.
- *Subscription Fees* – This revenue stream is derived by selling ongoing access to a service. Sky TV allows its customers to watch sports and films as long as they pay the monthly fee. Another example is Netflix. They also enable customers to watch films and TV series for a monthly fee.
- *Lending/Renting/Leasing* – This revenue stream is created by temporarily allowing someone the ownership right to use a particular asset for a certain period in return for a set fee. This is an advantage for the lender because it provides recurring revenues. Lessees, on the other hand, enjoy the benefits of incurring expenses for a shorter period of time, rather than facing the full costs of ownership. Barclays Cycle Hire in London is a good example. They allow customers to rent bikes for the day in Central London. The first thirty minutes is

[28] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 35
[29] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 31

free, then every thirty minutes after that costs £2[30]. The Barclays Cycle Hire has led to many people cycling around the city rather than getting the tube or a taxi.

- *Licensing* – This is a contract between two parties; the licensor and the licensee. The contract demands that the licensor gives permission to the licensee to exploit the patent or the assets that belongs to the licensor. In return the licensee will pay the licensor a royalty[31]. These royalties can represent another source of revenues in the company's business model.
- *Advertising* – This is a source of revenues that comes from fees that allows a product or a brand to be advertised though the channels or other asset that belongs to the company. In the last few years, the new communications and internet technologies enable the advertising industries to invent lots of new advertising systems. An incomplete list of is as follows: ADS advertising, sponsorship links on Google, QR Code etc.

1.4.6 *Key Resources*

The key resources are the most important asset needed to make a business model work. Every business model requires them, and it is only through them that companies generate value propositions and revenues[32]. Different key resources are needed depending on the type of business model.

Key resources can be:

- *Financial:* Includes resources and/or financial guarantees such as capital funding or lines of credit.
- *Physical:* Physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks.
- *Intellectual:* Proprietary knowledge, patents and copyrights, partnerships, and customer data bases are increasingly important components of a strong business model.

[30] http://www.tfl.gov.uk/modes/cycling/barclays-cycle-hire
[31] Caroli M., Economia e Direzione delle Imprese Internazionali, 2nd edition, McGraw Hill, Milano, Jenuary 2012
[32] http://www.ecommerce-digest.com/key-resources.html

- *Human:* People are chiefly prominent in certain business models. For example, the human resources of pharmaceutical company.

Bear in mind, interactions between key resources is a resource as well.

1.4.7 *Key Activities*

The Key Activities are the most important things a company must do to acquire a sustainable competitive advantage over their competitors on the marketplace. The key activities are required to create and offer a value proposition completely different from the value propositions from the other competitors. As a result, the companies' customers will be able to clearly distinguish between the products and services provided by the company. Consequently, if the company really does create value for the customer segment then the company will increase their revenues. Key Activities differ depending on the industry where the company is established and the characteristics of the company's business model. For instance, for PC manufacturer Dell, Key Activities include supply chain management[33]. For consultancy company McKinsey, Key Activities include problem solving[34]. Key Activities are important in any business building block, but they are specifically prominent in the following:

- *Production:* Activities relate to designing, making, and delivering a product in considerable quantities and/or of greater quality. These kinds of activities are central in the business models of manufacturing companies.
- *Problem Solving:* These types of activities involve coming up with new solutions to distinct customer problems. This is the typical activity of consultancies, hospitals and in general in all of the service organizations. The business model of these firms requires activities such as knowledge management and continuous staff training.
- *Platform/Network:* Creating or maintaining platforms can be a key activity. In this case, the activities are related to platform management, service provisioning and platform promotion. An example of a business model designed with platform as a key activity could be E-Bay or Visa. E-Bay's business model requires the

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33 Buddress L. and Johnson I., Dell Push-Pull: An Order Fulfilment and Supply Chain Strategy, Institute of Supply Chain Management, Inside Supply Management, October 2011

34 Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 36

company to frequently improve and maintain its platform: the website at eBay.com. Visa's business model requires activities related to its Visa credit card transaction platform for merchants, customers, and banks.

1.4.8 *Key Partnerships*

The network of suppliers and partners that make the business model work are called Key Partnerships in the Business Model Canvas. 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[35].

For an analytical purpose, we can distinguish between four different types of partnerships:

1. *Strategic Alliance Between Non-Competitors*
2. *Competition: Strategic Partnership Between Competitors*
3. *Joint Ventures To Develop New Businesses*
4. *Buyer-Supplier Relationships To Assure Reliable Supplies*

There are three main motivations that can help to make the decision to create a new partnership:

- *Optimization and Economy Scale* – Usually the basic form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities because it is not possible for a company to own all the resources or enforce every activity by itself. Optimization and Economy of Scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure[36].
- *Reduction of Risk and Uncertainty* – In a highly competitive environment characterized by high uncertainty, partnerships can help to hedge risks characterized by uncertainty. For instance, in the automotive industry the companies tend to be vertically integrated in the early stages of their value chain. They then carry out a business differentiation strategy in the last phase of their value chain. In this way the automobile company reduces the cost of the

[35] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 37
[36] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 39

research and design. As a result, they also share the risks related to a successful project.

- *Acquisition of Particular Resources and Activities* – Few companies own all of the resources or perform all of the activities described by their business models. These kinds of activities are often called key resources. They extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers[37].

1.4.9 *Cost Structure*

Once you understand the efficiency side of your business model and how your business model works then you will also have an idea of the cost structure.

Accountancy books usually define the cost structure as a relative proportion of fixed and variable costs in an organization. Managers often have some latitude in trading-off between these two types of costs. For example, fixed investments in automated equipment can reduce variable labour costs[38].

However, from the business model point of view, the cost structure describes all costs incurred to make a business model work. These costs come directly from the other three building blocks that construct the efficiency side of the Business Model Canvas. Commonly enough, every firm should minimize its costs and try to run their business as lean as they possibly can. Consequently, it would be useful to make a distinction between the two main definitions of business model cost structures. The definitions are as follows:

1. *Cost-Driven* – This business model cost structure focuses on minimizing costs wherever it is possible. This strategy aims to get a lean cost structure[39] and is usually combined with a lower price value proposition and a cost leadership business strategy. The companies that implement this type of cost structure usually have high quality control and an efficient intern audit department. A

[37] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 39
[38] Garrison R., Noreen E. and Brewer P., Managerial Accounting, 14th edition, McGraw Hill, 2012, pp. 200
[39] Ries E., The Lean Start-up, 1st edition, Crown Business, US, New York, 2011

good example of firm who adopted this type of business model cost structure is Ikea and Ryanair.

2. *Value-Driven* – Some other companies concentrate their efforts on the Value Creation segment of their business model. These companies usually adopt a premium price value proposition and a differentiation business strategy. Typically, the companies that operate in luxury field have a value driven cost structure business model.

These definitions represent the two extremes of a considerable amount of cost structures.

The variables to take into consideration in order to analyse and modify a cost structure are as follows:

- *The Percentage of Fixed Costs and Variable Costs* – This indicator could be vital in setting the cost structure of a company. Having a high percentage of fixed costs over the variable costs could enable the company to reduce its costs to benefit the economies scale and operative leverage. On the other hand, it could be a problem in potential business reorganization.

  The variable costs percentage is another main parameter to take into account when a company sets their cost structure. A high percentage of variable costs can make the cost structure of a company lean[40]. On the contrary it would not enable the company to benefit from the economies of scale.
- *Economies of Scale* – In microeconomics, Economies of Scale are the cost advantages that enterprises obtain due to size, output, or scale of operation, with cost per unit of output generally decreasing with an increasing scale as fixed costs are spread out over more units of output[41]. If a firm were able to reach the optimal volume of production then it would benefit from the average cost reduction and as a result, would engage in a price challenge with its competitors.
- *Economies of Scope* – In business management literature, Economies of Scope refers to lowering the average costs per unit for a firm in producing two or more

[40] Maurya A., Running Lean, 2nd edition, O'Reilly Media, February 2012

[41] Koshal R., Ecomonies of Scale, Journal of Transport Economics and Policy, London School of Economics and Political Sciences, 1972

products or operating in two or more business[42]. This cost reduction is based on the common and recurrent use of proprietary know-how or on a physical asset[43]. For example, in a diversificated company the purchase division can be centralised on a corporate level and working for all the businesses of the company.

[42] Panzar J. and Willig R., Ecomonies of Scope, The American Economic Review, American Economic Association, Vol. 71, No. 2, May 1981

[43] Teece D., Economies of Scope and the Scope of the Enterprise, Journal of Economic Behaviour & Organization, Vol.1, No. 3, 1980, pp. 223 - 247

Chapter 2
THE BUSINESS MODEL PATTERNS:
HOW TO DESIGN AND IMPLEMENT A BUSINESS MODEL?

2.1 **Business Model Patterns**

This chapter both describes and analyses business models with the same features. Osterwalder & Pigneur recognise various business models as being prototypal[1]. These models are based on criteria that they named Business Models Patterns.

As evidence of this, Teece considers firms as organisations that create, deliver and capture value. Then they use a business model to design and sculpt this value.

The process of designing a good business model is situational. Uncertainty and risk could possibly weaken the business model design process. This means that interactive learning and a willingness to adjust is needed to make the design process successful[2]. Business models are dynamic. They change structure very quickly in order to suit market challenges. In this chapter, I will evaluate the business model patterns that have been developed over time to help define ideas so that they may help create original solutions and innovative business model designs.

2.2 **Overview**

To begin with, I will discuss the business model patterns that David J. Teece found in his article titled: ‘Business Models, Business Strategy and Innovation’. Then I will analyse the Business model patterns found by Osterward and Pigneur.

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[1] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p 55

[2] Teece D., Business Models, Business Strategy and Innovation, Elservier, Long Range Planning 43, pp. 172 - 194

In his studies, Teece found traditional and over the internet business models[3]. In many industries he discovered different successful business models such as:

- Hub and Spoke Model
- Razor-Razor Blade Model
- Sponsorship Model
- Multiple Revenues Model

The Hub and Spoke Model is a design that makes a network of routes simpler and as a result, makes transportation much quicker. This model combines a strong central hub with several different spokes. For example, all the airline traffic goes through one big central hub, which makes the whole system more efficient.

The Razor-Razor Blade Model is derived from Gillette, which was the first company to commercialize disposable razor blades. They sell razor handles at a lower price and they then rely on other products in order to create an installed-customers base. As a result, the organisation makes profits by its follow-up disposable razor blades. Through this, the company earned a high margin. In Gillette's business model, patents have been needed because they were able to block competitors from copying the razor blades for Gillette razor handles at a cheaper price[4]. The lock-in solution used by Gillette has allowed them to provide its disposable razor blades as a market leader in shaving products.

Sponsorship is a main part of the sports clothing business models. Companies such as Nike, Adidas, Reebok, and Puma are putting into practice this business model strategy. This model is built on the ability of an organisation to sponsor sport clubs, teams, and players. These companies provide teams and players with sport kits and sponsorship money in exchange for them to be able to sell replica products based on the image of the team or player. This gives the companies an opportunity to promote their related or unrelated products to the customers. In this way, organisations create brand awareness and authenticity. Thus, companies have to leverage their sponsorships accurately.

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[3] Teece D., Business models, Business Strategy and Innovation, Elservier, Long Range Planning 43, pp. 172 - 194

[4] Picker R., Gillette's Strange. History with Razor and Blade Strategy, Harvard Business Review, September 2010

The Multiple Revenues Model shows the fact that there are several different business opportunities available on the market to achieve success. This model suits best performing artists, who for instance, might earn money from a combination of live performance, CDs, DVDs, or online music sales through platforms such as concerts. To sum up, many business opportunities are available and the particular business model chosen depends on the marketplace.

On the other hand, Osterwalder and Pigneur considered the Unbundling, the Long Tail, Multi-Sided Platforms, Free and Open innovation as other Business Model Patterns built on fundamental concepts of business literature[5]. As they pointed out, an organization can integrate several patterns in its business model at once.

The Unbundling Business Model is a pattern constructed on three different types of businesses. Each business has different types of necessities. The company is likely to flourish if it splits into constituent businesses. This allows them to avoid disagreements amongst departments.

The main idea behind the Long Tail Business Model is "selling less for more". This type of business model pattern takes advantage of the niche market and aggregates large numbers of 'non- hit' items that can be as profitable as 'hit' items based on traditional models.

The Multi-Sided Platforms Business Model is a pattern that joins together two or more different groups of customers and offers to them different value propositions. This pattern delivers value by connecting two or more different groups of customers that companies had previously thought could not be linked together.

The Free Business Model depends on at least one paying customer segment while the other segments are funded with a free of charge product or service.

The Open Business Model is a pattern that creates and delivers value by systematically working together with third parties.

In the following sections, I will provide more details on Osterward's and Pigneur's business model patterns.

[5] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 55

2.3 **Unbundling Business Model**

Business Models can be unbundled into three different types of businesses:

1. Customer Relationship Management
2. Product Innovation
3. Infrastructure Management

Hagel and Singer argue that the companies should separate these three types of businesses and focus on only one of the three internally[6]. However, each type of business has different economic, competitive, and cultural priorities that should be unbundled into single parts to avoid disagreements and make it more productive.

According to this idea, industries have experienced a shift of power. This made companies with economies of scale and large customer- installed bases to no longer be competitive. The advantages of size, reputation, and integration began to weaken, while creativity, speed and flexibility began to dominate. Many new companies have gained success through specialized products and services.

The root of this idea is that the interaction costs are time and money consuming. The interaction cost addresses an important role in business organization because they establish how companies manage operations and generate long-term relationships with third parties. When the interaction costs of performing an activity internally are lower than the costs of performing it externally, a company will tend to incorporate that activity into its own organization rather than form a contract with an outside party to perform it. All else being equal, a company will organize in whatever way minimizes overall interaction costs[7].

The following table shows the three different business types that I previously mentioned. For each one, I will discuss the economic, competitive, and cultural characteristics.

[6] Hagel J. and Singer M., Unbundling the Corporation, Harvard Business Review, March 1999

[7] Coase R., The Problem of Social Cost, The Journal of Law and Economics, University of Virginia, Vol. 3, October 1960

Table 2-1 Three Core Business Types

	Product Innovation	Customer Relationship Management	Infrastructure Management
Economics	Early market enables charging premium prices and acquiring large market share. *Speed is key*	High cost of customer acquisition makes it imperative to gain large wallet share. *Economies of scope are key*	High fixed costs make large volumes essential to achieve low unit costs. *Economies of scale are key*
Culture	Battle for talent, low barriers to entry, many small players thrive	Battle for scope, rapid consolidation, a few big players dominate	Battle for scale, rapid consolidation, a few big players dominates.
Competition	Employee centred, coddling the creative stars	Highly service oriented, customers comes-first mentality	Cost focused, stresses standardization, predictability and efficiency

Source: Adapted from Business Model Generation

The companies who follow a Product Innovation Business Model focus on the early market or creating new markets with their new innovative products. Their revenues mainly come from the customers paying a premium price. The key in this type of business model is speed. In fact, whoever implements a new innovative product or service can lead the market and benefit from the first mover advantage, guaranteed by the patent that they made. These enterprises usually shape a company culture that facilitates their innovation.

The Customer Relationship Management business model emphasises the businesses portfolio strategies and the benefits of enlarging the enterprises scope that derives from economies of scope. These companies are highly customer oriented and they put most of their efforts into acquiring a larger portion of customers and building loyal relationships with them.

Infrastructure Management considers building and managing platforms for high volume and repetitive tasks. The companies that adopt this business model typically profits from the economies of scale and implement a Cost Leadership Business Strategy. As a result, these companies centre their attention on cost control activities or in general, on all the others activities that improves the companies efficiency.

Each business plays a unique role. The scope is to isolate these businesses and focus on only one internally at once, because each business is driven by different components that can conflict with the others, undermining the entire development of the business model and producing undesirable results.

2.4 **The Long Tail Business Model**

The term Long Tail was coined by Chris Anderson in 2004. This expression describes the retailing strategy of selling a large number of unique items with relatively small quantities sold of each instead then selling fewer popular items in large quantities[8]. Anderson proved that this retail strategy is more profitable then selling the same item in large quantities. There are two reasons why this strategy is more lucrative. The first is that, in this way, a company can satisfy a greater amount of customer segments instead of only one large segment. The second reason is that a company can charge a premium price for each item sold, rather than on only one item.

Anderson focuses his research mainly on the Media Industry. He studied Netflix video rental company and its ability to license large amounts of niche movies. Even if Netflix rented each movie on an irregular basis, the high volume of aggregate revenues of niche market movies made the company highly profitable in comparison to the rival Blockbuster, which was selling a small number of bestsellers movies[9]. However, Anderson stated how this business model may be applied in other industries as well. Lulu.com is a successful case of an online book-publishing website, where high volumes of writers are submitting and selling small quantities of 'non- hit' items.

Osterwalder and Pigneur developed the Business Model Pattern from the information they learned from the book published by Anderson in 2006 titled: 'The

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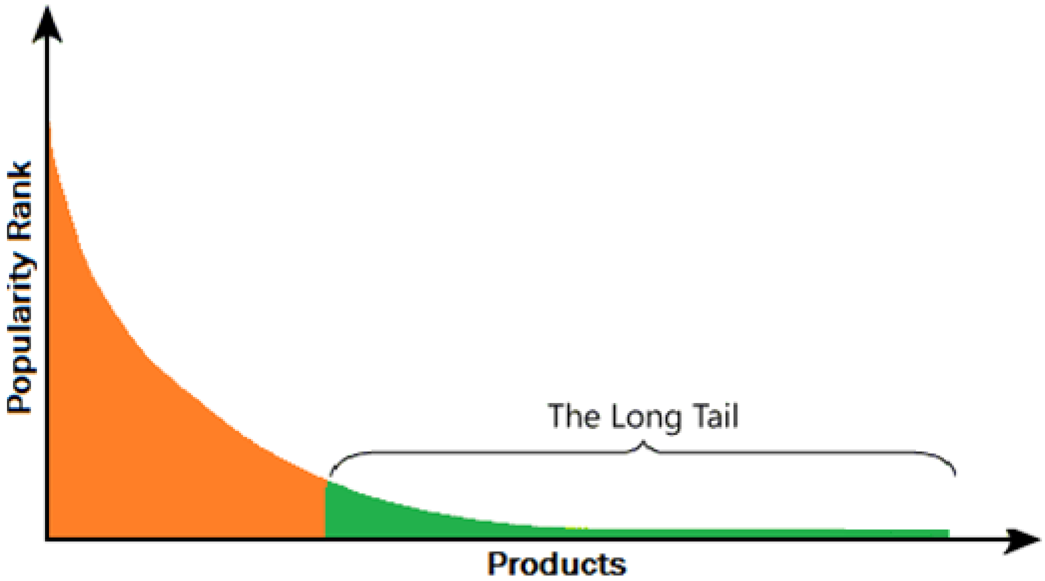
[8] Anderson C., The Long Tail, Wired Magazine, issue 12.10, October 2004

[9] Anderson C., The Long Tail: Why the Future of Business is Selling Less of More, Goodreads Author, Hyperion, July 2006

Long Tail: Why the Future of the Business is Selling Less for More?' This pattern describes how to implement a business model by aggregating sales from 'non- hit' products. This sales strategy is equally profitable and effective compared to sales from small numbers of 'hit' products. However, low inventory costs and powerful platforms are required to make the business model work and to easily match the customer requirements[10].

The picture that succeeds shows on the horizontal axis the number of products the company holds. On the vertical axis, the rank of popularity that indicates how many times each product is purchased.

Chart 2-1 The Long Tail



The orange area defines the 'hit' products. These products represent about 20% of the total market sales where products sell in very high volumes. On the other hand, the green area shows the long tail products zone, where each product is sold at lower volumes.

[10] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 67

2.5 **Multi-Sided Platform Business Model**

This is a pattern that joins together two or more different, but independent groups of customers. This type of business model pattern creates value by linking these distinct groups of customers in a new innovative way that has never been implemented by any other firm before[11]. The critical success factor for this business model is applying a platform that is able to attract all groups of customers that the company means to serve. As a result, the value of a platform for a specific group of customers depends directly on the number of customers in other areas. The main problems of a Multi-Sided Platform are related to understanding which side should be subsidised to properly promote the growth rate of each side[12]. Normally, two-sided networks consist of a 'Subsided Side' and a 'Money Side'. The 'Money Side' attracts networks as it gives them the ability to gain access to the 'Subsided Side' that in-turn is willing to pay for services offered by the said 'Money Side'[13]. This is known as the 'Cross-Side' network effect.

The article written by Eisenmann, Parker and Van Alstyne explains that two groups of customers attracted to each other represent an example of network effect. With two-sided network effects, the platform's value to any given user largely depends on the number of users on the network's other side. Value grows as the platform matches demand from both sides[14]. It is apparent how both sides of the platform are equally important; the value is found by facilitating the interactions between the two groups of people. However, the difficulty of two-sided platforms is understanding which side needs to be subsidised and how to price it correctly to encourage users to pay.

The typical example of a Multi-Sided Platform business model is E-Bay. It brings together the buyers and sellers of goods into one online platform. In some cases, platforms rely on physical products while others rely on services.

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[11] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 78

[12] Hagiu E., Invisible Engines: How Software Platform Drive Innovative and Transform Industries, Schmalensee, 2006

[13] Envas D., Managing the Maze of Multi Sided Markets, Strategy & Business, Marketing, Sales & Media, Issue 32, Fall 2003

[14] Eisenmann T., Parker G. and Van Alstyne M., Strategies for Two Sided Markets, Harvard Business Review, 2006

Another example of this type of business model is Monster.com. It is a service that connects people who want to buy and people who what to sell goods through its website, like E-Bay.

One relevant example of a Multi-Sided Platform is the Metro newspaper. This is a free daily newspaper which is available worldwide, reaching almost all large cities[15]. It immediately reaches a large audience that attracts advertising industries.

2.6 **Free as a Business Model**

An attractive value proposition has always been to offer customers free of charge products or services. Successful business models based on this value proposition are difficult to build. Most of the time companies that provide their products free of charge struggle to make profit. The main problem is how to offer something for free and earn money at the same time. A part of the solution is based on the significant cost reduction of producing some giveaways, especially the ones based on an online data storage capacity[16].

There a few patterns that can make a business model sustainable, based on offering a free of charge value proposition. Business models centred on advertising, for example, is a well established pattern in business practices. In the last few years, the business management studies invented other free patterns such as the so-called Freemium Model and the Bait & Hook business model pattern.

To confirm the importance of these patterns gained in the business sciences, Chris Anderson showed that the rise of new free-of-charge offers is closely related to the fundamentally different economics of digital products and services[17].

Osterward and Pigneur identify three broad categories of Free Business Models that have developed over the years: Advertising, Freemium and Bait & Hook Model.

Free Business Models based on advertising is a particular form of the Multi-Sided Platform Pattern that I previously discussed. In this case, one side of the platform is

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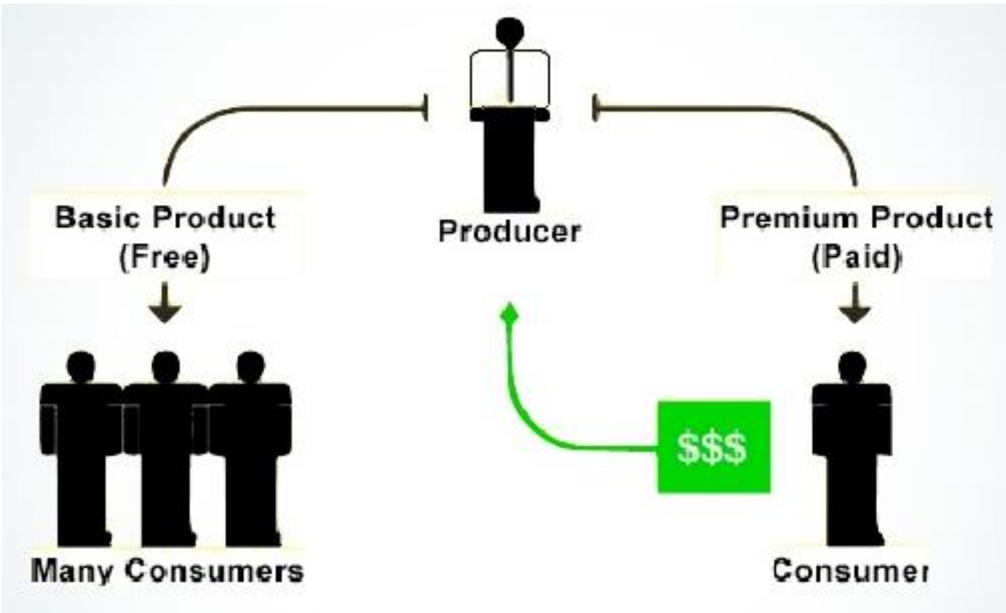
[15] http://www.metronews.com/
[16] De la Iglesia J. and Gayo J., Doing Business by Selling Free Services, web 2.0, Springer, 2009, pp. 1- 14
[17] Anderson C., FREE: The Future of a Radical Price, Hyperion, July 2009

designed to attract users with free contents, products or services[18]. The other side of the platform generates revenues by selling space to advertisers.

The term was first coined by Jarid Lunki but it gained popularity after Fred Wilson wrote an article titled 'My Favourite Business Model'. This article was featured in his blog called AVC and today is one of the most common business models[19]. This business model pattern is usually based on a two side platform: the free side where users can benefit from services provided for free and the premium side where the company provides an improved service charging a fee. In this way, the premium users of the platform sustain the majority of free users in the platform enabling this business model to be successful. The success of this new type of business model it due to the fact that it has been facilitated by the increasing of digitalization of goods and services offered via the Web.

Picture 2-1 The Freemium Business Model Pattern



In an article found in Wired Magazine, Chris Anderson explains exactly how the Freemium Business Model concept makes profit: "The traditional free sample is the promotional candy bar handout or the diapers mailed to a new mother. Since these samples have real costs, the manufacturer gives away only a tiny quantity. But for digital products, this ratio of free to paid is reversed. A typical online site follows the '1 Percent

[18] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 92
[19] Lukin J., My Favourite Business Model, AVC blog, NYC, 23 March 2006

Rule; 1% of users support all the rest. In the Freemium Model that means for every user who pays for the premium version of the site 99% others use the basic free version. The reason this works is that the cost of serving the 99 percent is close enough to zero to call it nothing'[20].

Most online businesses focus on finding new ways to attract customers in order to spread technological costs over a larger audience. Every year, it would bring the marginal cost of technology for each additional customer close to zero.

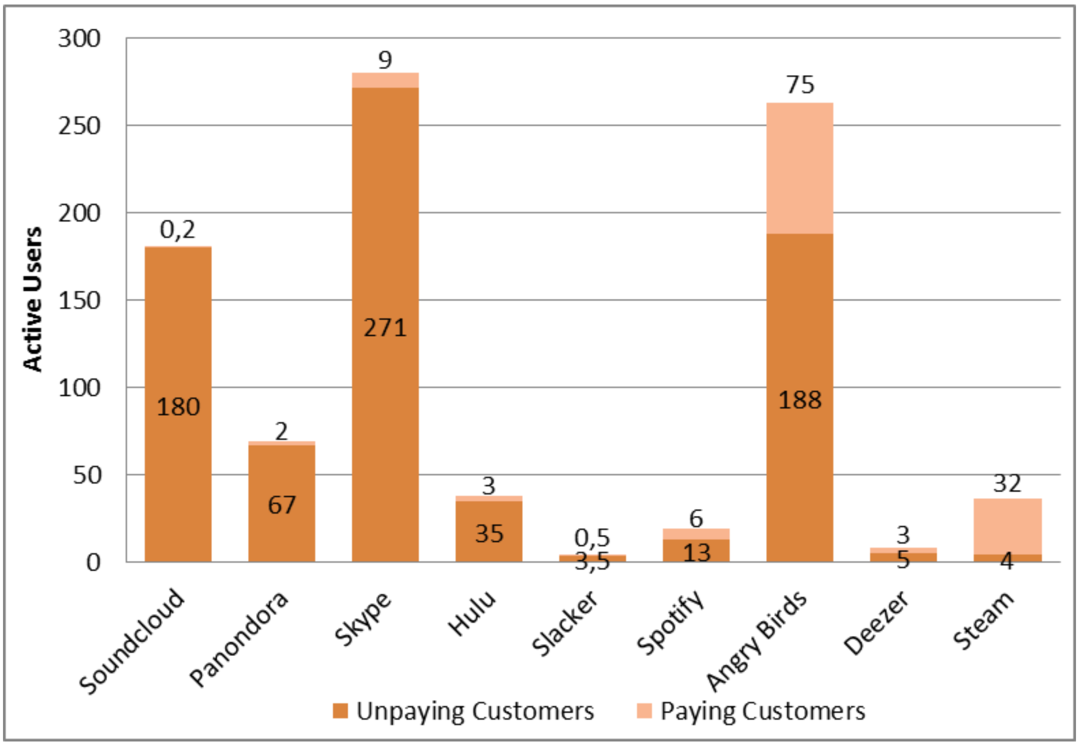
A significant example of the Freemium Business Model is Google. This company provides Google search engine free of charge to all users. On the other side of the platform, there are the advertisers attracted by Google's users that pay fees for sponsorship links and ADS advertising[21].

The following graph gives an idea of the rate of conversion from an un-paying user to a paying user based on a sample of internet based companies.

[20] Anderson C., Free! Why $0,00 is the Future of Business, Wired Magazine, February 2008

[21] Teece D., Business Models, Business Strategy and Innovation, Elservier, Long Range Planning, 2010, 43, pp. 172 - 194

Graph 2-1 Conversion Rate in Freemium Companies



Source: Adapted from Music Industry Blog, 2013

The last model that Osterward and Pigneur found in their research is the so-called Bait & Hook Model. This business model pattern is characterised by a luring initial free offer that encourages customers to purchase related products or services in the future. This pattern is also known as the 'Loss Leader' or 'Razor Blade' model[22].

In the Loss Leader Pattern the initial money-losing generates profit from future follow-up purchases. Wall-Mart, for example, sells lower priced products such as DVDs because it lures customers into the store giving way to the opportunity to buy some other products[23].

The Razor Blade Pattern is centred on linking free initial products with the subsequent items in which a company gains a high margin. In this pattern, managing the 'Lock-in Effect' is vital because as long as the product can be copied then the company can apply this type of business model. The first company to install this type of business

[22] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 104
[23] Tuttle B., Walmart's New Loss Leader: Cheap Gas, Business, Time magazine, June 2009

model pattern was Gillette[24]. As I previously mentioned, this company gains profit from selling razor handles at a lower price and they then rely on other products in order to create an installed-customers base.

2.7 **Open Business Model**

'Open Innovation' and 'Open Business Models' are two terms promoted by Henry Chesbourgh[25]. He claims that organizations can create more value if they share and integrate their knowledge, assets and intellectual properties with outside partners, rather than running their innovation process on their own.

Chesbourgh observed that, in the Open Business Model, a company can create value in two ways: from the 'Outside-In' and the 'Inside-Out'.

'Outside-In' refers to when a company gathers external ideas, technology or intellectual property into its business model and starts the development process[26].

'Inside-Out' is when a firm licences or sells its products, technologies, knowledge or untouched assets to other companies. Chesborough proved that in this way, the companies are more likely to profit from the items listed above by licencing, joint ventures or spin-offs.

Information Technology and the Internet have made this gap smaller, allowing companies to perform successfully in this field. In the past, Research and Development (R&D) was considered a critical strategic asset, it was even able to protect companies from competitors in many sectors[27]. However, recently, start-up companies produce very little or no research on their own, but instead they develop new ideas to market with a completely different approach.

Cisco, for example, is an organisation that embraced a business innovation strategy. The technology needed to run its business came from an external business partner by partnering or investing in other companies[28]. In this way, Cisco maintains its R&D results without supporting the entire cost of doing so on its own.

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[24] http://news.gillette.com/about/history
[25] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, p. 110
[26] Chesbrough H., Open Business Model: How to Thrive in the New Innovation Landscape, Harvard Business School Press, 2006
[27] Chesbrough H., The Era of Open Innovation, MIT Sloan Management Review, No.3, April 2003
[28] Anand M., Accelerating Open Innovation on All Fronts at Cisco, Cisco blog, November 2014

We need to ask ourselves the question, is internal R&D still a strategic asset? This question allows us to discuss the difference between Open and Closed Innovation Business Models[29]. The following table summarises both of the principles of Open and Closed Innovation.

Table 2-2 Summary of Open and Closed Innovation Principles

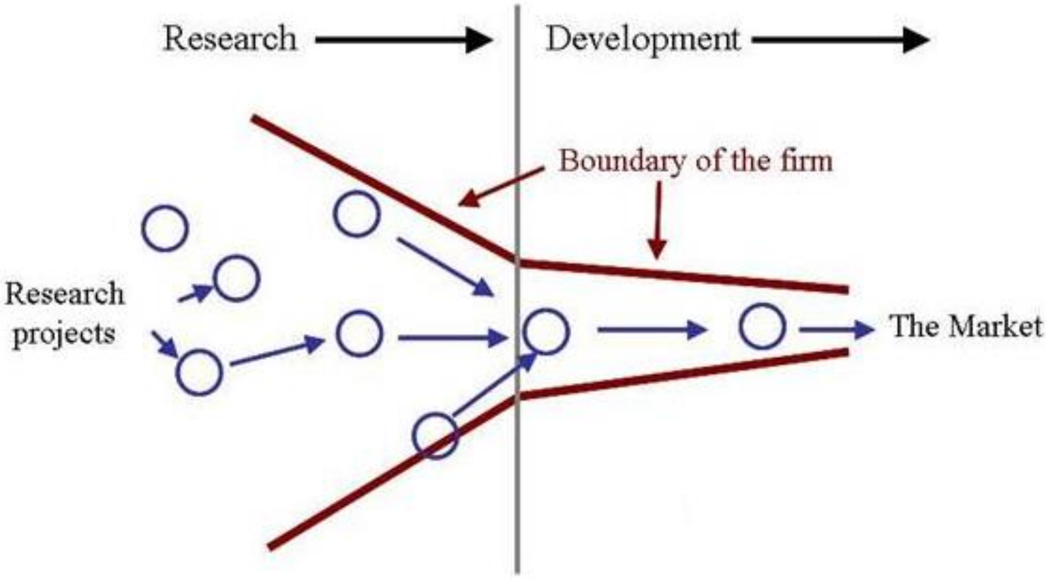
PRINCIPLES OF INNOVATION	
Closed	**Open**
The smart people in our field work for us.	We need to work with smart people both inside and outside our company.
The profit from research and development (R&D), we must discover it, develop it and ship it ourselves.	External R&D can create significant value; internal R&D is needed to claim some portion of that value.
If we conduct most of the best research in the industry, we will win.	We don't have to originate the research to benefit from it.
If we create the most or the best ideas in the industry, we will win.	If we make the best use of internal and external ideas, we will win.
We should control our innovation process, so that competitors don't profit from our ideas.	We should profit from others use of our innovations, and we should buy others intellectual property (IP) whenever it advances our own interests.

Source: Adapted from Chesbrough, 2003

According to the Closed Innovation Model, the secret of successful innovation is down to the control and ownership of the Intellectual Property (IP).

[29] Enkel E., Gassmann O. and Chesbrough H., Open R&D and Open Innovation: Exploring the Phenomenon, Volume 39, Issue 4, September 2009, pp. 311 - 316

Picture 2-2 Closed Innovation Model



This model believes that companies must generate their own ideas and then develop, manufacture, market, distribute and service it themselves. Consequently, companies that invested more than other market players in R&D generally discover a larger amount of innovations, which therefore enables them to gain a leading positon in the marketplace. This leading position was guaranteed by a patent or the properties of their intellectual work. As a result, these properties allow the innovative companies to develop even more new ideas for products/services.

This approach worked very well for most of the 20^{th} Century and it has dominated the way the innovation process is perceived in the main section of the leading industries.

Chesbrough originally defined Open Innovation as: "a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology"[30].

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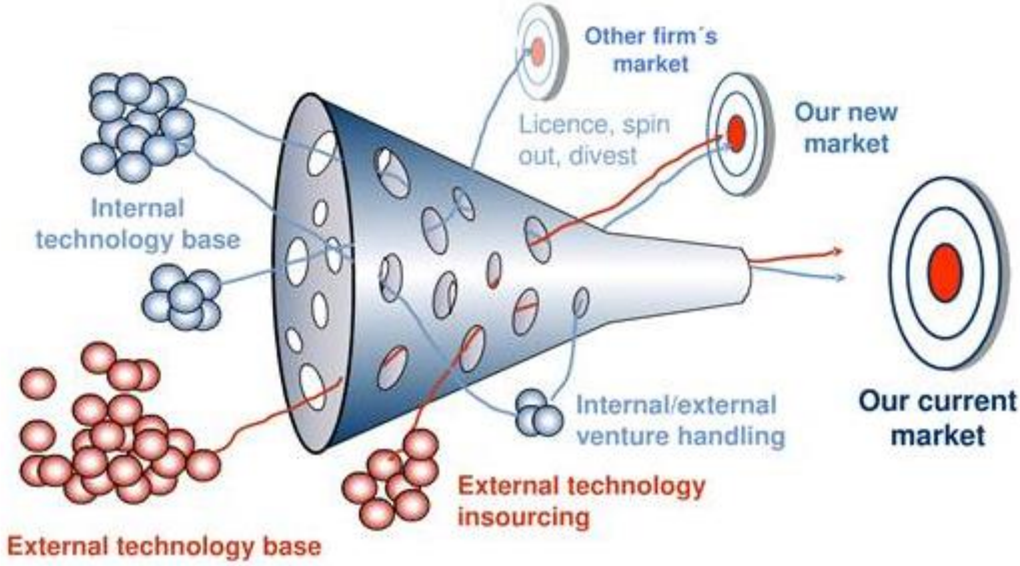
[30] Chesbrough H., The Era of Open Innovation, MIT Sloan Management Review, No.3, April 2003, p. 14

Picture 2-3 Open Innovation Model



Towards the end of 20th Century, the scenario changed and companies were no longer able to control their innovations. This is due to many factors such as: the increasing amount of knowledge, workers, and the growing availability of private venture capital.

In this changed scenario, a new idea stared to be developed by a network of members such as universities or research institutes. Each member of this network represents a source of innovation (knowledge or skill to utilize) that facilitates the innovative process by sharing knowledge and ideas.

In short, according of the Innovation Business Model Paradigm, a company should not focus on protecting its intellectual proprieties. This is because in this mutated environment, controlling the resources is not the key to success. Instead, strategic moves are finding new alternative ways of doing business from how others use these technologies.

In this new world, the way of creating and delivering value is embedded within the integration of outside knowledge, products, and intellectual property into the innovation process. However, the internal resources create value as well because knowledge, technologies or products within an organisation may be made available to third parties through licensing, joint ventures, or other arrangements.

Nowadays, many established companies such as Procter & Gamble (P&G) are changing their business model from a Closed Innovation to an Open Innovation business model.

There are several patterns that a company can follow to design its own business model. Every company is different from each other and as a consequence, has different needs and operates in a different market with different characteristics. Consequently, the business model patterns that I previously described represent an archetype of the most common business model patterns that a company may implement. Every company designs and tailors its own business model based on its specific needs. In reality, the firm may implement their business model using different patterns or by using a combination of the patterns mentioned in this chapter.

Chapter 3
AN OVERVIEW OF FOOD MARKET, THE FOOD START-UP FRAMEWORK AND THE BUSINESS MODEL OF THE E-COMMERCE COMPANIES

3.1 **A Brief Introduction of the Food Retail Market**

In the previous two chapters I described the main analytical tool (The Business Model Canvas) and I look at how companies use it in reality. I decided to study the Food Retail Market in my thesis because it's an area that I am interested in. I wanted to study this field because I was intrigued as to how the previous predictions related to the Food Retail Market were proved wrong by food start-ups. These predictions were that the Food Retail Market wasn't suitable for any new innovations since it was believed to be a traditional market, influenced by local taste that doesn't allow change. However, this was proved wrong by the increasing number of food start-ups that were growing at a fast rate. These new food start-ups that discredited the previous predictions all provide internet based services. The reason for their success was due to the fact that they implemented their business model using the opportunities provided by the new digital environment.

3.2 **An Overview of the Food Retail Market**

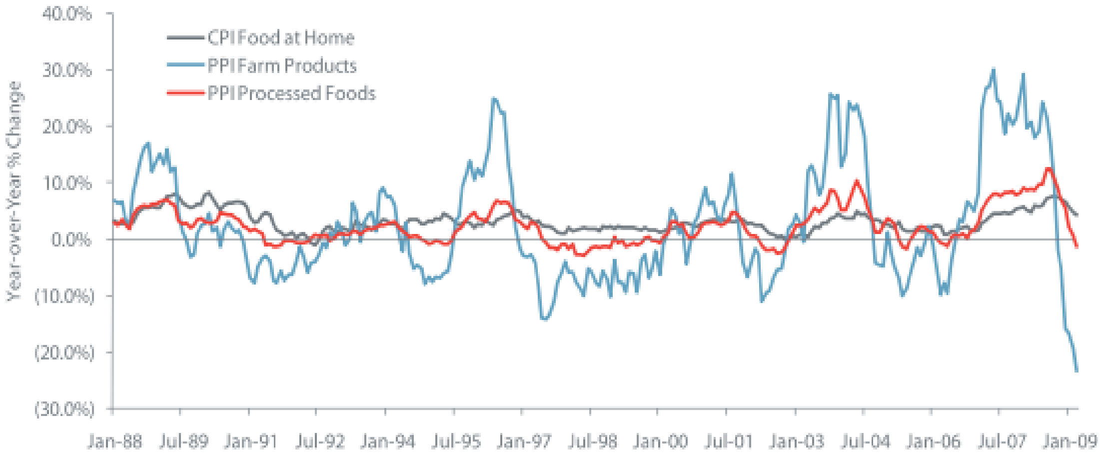
The key macroeconomic factors impacting performance of the food retail industry is customer confidence and the CPI/PPI spread.

Following the 2009 global financial crisis, customers generally tend to look for the same product in different retailers and compare prices, due to higher levels of price sensitivity[1]. The similarity of products means that customers are not so loyal to the retailers and choose to shop elsewhere, should the price be better.

[1]Food Retail in Europe Report, MarketLine Industry Profile, June 2014, p.16

On the other hand, as the following graph shows, both PPI (Produce Price Index) for farm products and processed foods are above the CPI (Customer Price Index). This gives an opportunity to food retail chains to enhance gross margin[2].

Graph 3-1 CPI/PPI Spread



Source: The Bureau of Labour Statistics

To begin, I will describe the Food Retail Market in the European Union and then I will focus my analysis on the Italian Food Retail Market.

According to the market data provided in the last Food Retail Report of MarketLine, the European Food Retail Industry grew by 1.3% in 2013 to reach a value of $1,858.4 billion. The compound annual growth rate of the industry in the period 2009 – 2013 was 2.3%[3]. In 2018, the European Food Retail Industry is forecasted to have a value of $ 2,175[4], an increase of 17.1% since 2013. Despite moderate growth, the degree of competition between players in this market is really high. The two main reasons that led to this high degree of competition is the low level of both product differentiation and consumers switching costs combined with a challenging and volatile industry environment.

In contrast, the Italian Food Retail Industry has declined over the last five years. In fact, this industry had total revenues of $ 178.1 billion in 2013, representing a

[2] Food Retail Industry Insights Report, Duff & Phelps, 2013, p.3
[3] Food Retail in Europe Report, MarketLine Industry Profile, June 2014, p.7
[4] Food Retail in Europe Report, MarketLine Industry Profile, June 2014, p.10

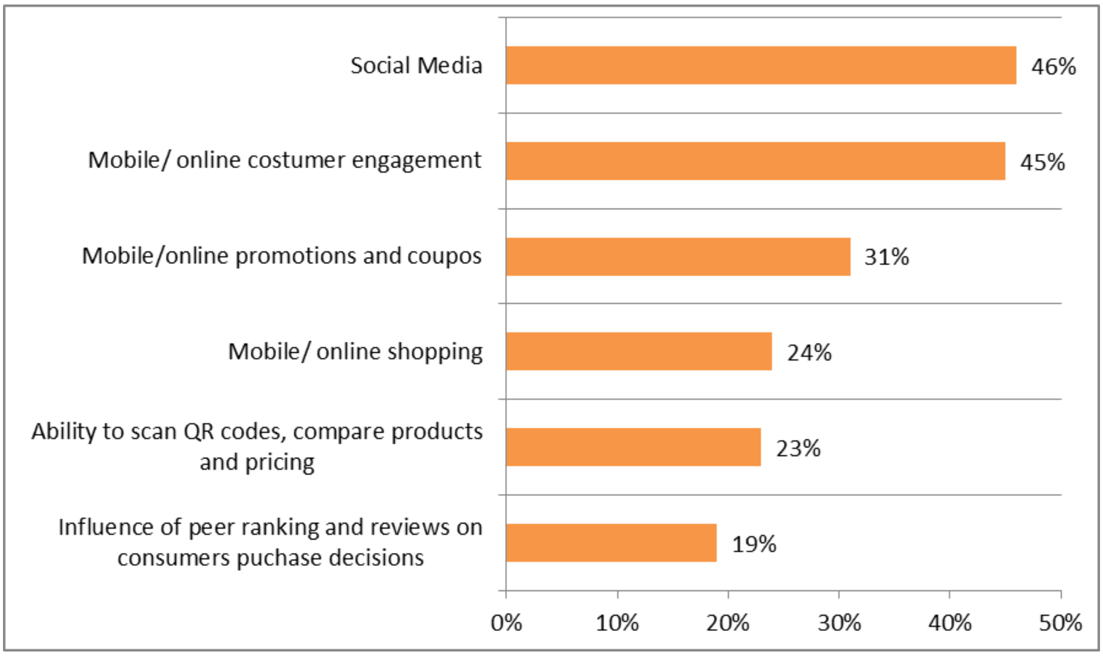
Computed Annual Rate of Change (CAGRs) of -1.5% between 2009 and 2013[5]. The industry is forecast to stagnate in the 2015 followed by a slow recovery in the years up to 2018. Italy accounts for 9.6% of the European Food Retail Industry value. The degree of rivalry between players is fierce due to the weak growth of the industry, limited differentiation of the products and low switching costs of the customers[6].

A survey completed by KPMG on the Food and Beverage Industry shows that the next change in this market will be driven by the digital channels and social media. This survey found that executives realized that technology is the main drive for the growth and increasing customer engagement. On one hand, technologies accelerate the rate of change. On the other hand, they enable companies to find new ways to do business. In addition to this, the survey discovered that almost two-thirds of food executives said that they have adopted, or plan to adopt, cloud technologies into their business strategies and operations[7]. These executives believe that the growth of the revenues in the next few years will be driven by innovative products and by raising their market share.

The following graph shows what types of technology will have a significant impact in this industry, according to the Food and Beverage managers.

[5] Food Retail in Italy Report, MarketLine Industry Profile, June 2014, p.9
[6] Food Retail in Italy Report, MarketLine Industry Profile, June 2014, p.12
[7] Food and beverage Industry Outlook Survey, KPMG, 2013, p.2

Graph 3-2 Technologies That Will Have a Significant Impact in This Industry (according to Food and Beverage managers)



Source: Adapted from Food and Beverage Industry Outlook Survery, 2013

The obstacles of the potential future improvement could weaken customer confidence and prolong unemployment in this industry.

3.3 **Food Start-Ups: A General Framework**

As I discussed in the previous paragraph, the growth of the Food Industry will be driven by innovative products and services. Most of these innovations come from the new start-up companies that operate in the Food Retail Market. In this section, I will discuss a general framework for the food start-ups that Ezra Galstron (Venture Capitalist with Chicago Ventures) produced in his article published on a his blog, BreakingVC. Based on his experience gained in AgLocal, Food Genius, and Morsel, he classified the food start-ups into three main categories, as illustrated in the following picture.

Table 3-1 On Demand Food Landscape

Source: BreakingVC Blog

The first category is Food 1.0. In Food 1.0 the online shopping start-ups require an advanced scheduling system and for each item to be selected individually from thousands of Stock Keeping Units (SKUs), which is basically an online supermarket. These companies usually own big warehouses where they stock food, and deliver via a Hub and Spoke Model. The weakness of the start-up's that belong I this category is that the main expense that they have to cover is maintenance expenses.

Food 2.0 is the second category that Galstron mentioned in his article. This is a technological improvement to start-ups in the Food 1.0 category. The difference is that they are made for the Top Chef culture. These start-ups deliver the ingredients and cooking instructions directly to the customer's house. To sum up, these companies provide an answer to the popular question "What's for dinner?" as well as eliminating any food prep time.

The final category is Food 3.0. The food companies in this category offer easy ordering via the use of a mobile app. They also offer tailored menus, and deliver food in as little as ten minutes after purchasing. This experience gets rid of all friction from the food experience. It completes the evolution of reducing cognitive overhead to a couple of menu options and a simple mobile app.

Instacart cannot be sorted into any of these three sections. This is because Instacart is a Food 1.0 company that is slightly different as it offers an on-demand delivery without running a warehouse of its own. It is able to do this by selecting real items from actual shops. This is different from the start-ups in Food 1.0 since they own storage buildings, inventory and delivery vans. Instacart can leverage the existing prepared food counters of high end retailers such as Whole Foods to deliver a deeply curated, high quality set of ready-made foods[8]. Given prepared foods importance to grocery retail as one of their few high margin items, there are big incentives to partner with Instacart in ways that facilitate better logistics and allow food to stay warm on the way to the consumer[9].

3.4 **Business Models in E-Commerce**

All the new food start-ups mainly operate in an E-commerce field; however this is not the only area that they operate in. In this section, I am going to evaluate how the companies that work in a digital environment make their own business model.

3.4.1 *The Value Proposition in the Digital Environment*

As the world becomes more digital and business environments become more turbulent, the boundaries between these two worlds are not as high. The first issue that arises is how to transfer the traditional value creation conception into the digital space. In this chaotic world, products and services are complex, customised and made-up. In this case, it is useful to see value as an experience created through use by each customer upon the enactment of digital service. In this market, what the customers and firms exchange between each other is application of capabilities, skills and knowledge. To create value, firms and customers assemble and utilize these offerings in context, to

[8] BreakingVC Blog, July 2014
[9] Venture Beat Blog, July 2014

realize value[10]. In this new Service-Dominant Logic, the importance of the characteristics of customers and the context in which they use these services is vital.

The dominant strategy paradigm at the firm level of analysis is the Resource Based View (RBV) in which competitive advantage accrues to firms that have control of strategically important resources, such as assets and capabilities. In the basic form of the Resource Based View, the resources must be Valuable, Rare among the competitors, Imperfectly Imitable and Non-Substitutable. This can be referred to as VRIN. In the digital environment, the VRIN conditions are difficult to hold since in this environment the capabilities evolve and become obsolete quickly[11]. Since the value in this ecosystem is co-created, co-converted and co-captured, one of the biggest problems that the firms that operate in the digital world have to face is that they need to find the right balance between Value Creation, Value Conversion and Value Capture.

3.4.2 *The VISOR Model*

The Information Systems Design Theory was developed by Wallsetal. It focused on theory building and theory testing for the design product and the design process. The design theory is made up of three main components: Meta-Requirements, Meta-Design and the Kernel Theories[12].

The term Meta-Requirements is used because design theory does not look at one single problem, but a group of problems. The second component is the Meta-Design which describes a class of artefacts that hypothetically meet the Meta-Requirements. The last component is the Kernel Theories that governs the design requirements.

These components can be classified into five categories:

1. Value Proposition
2. Interface
3. Service Platform
4. Organizing Model

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[10] Vargo S. and Lusch R., Service-Dominant Logic: Containing the Evolution, Journal of the Academy of Marketing Science, Springer, 2008, 68, pp. 1 - 17

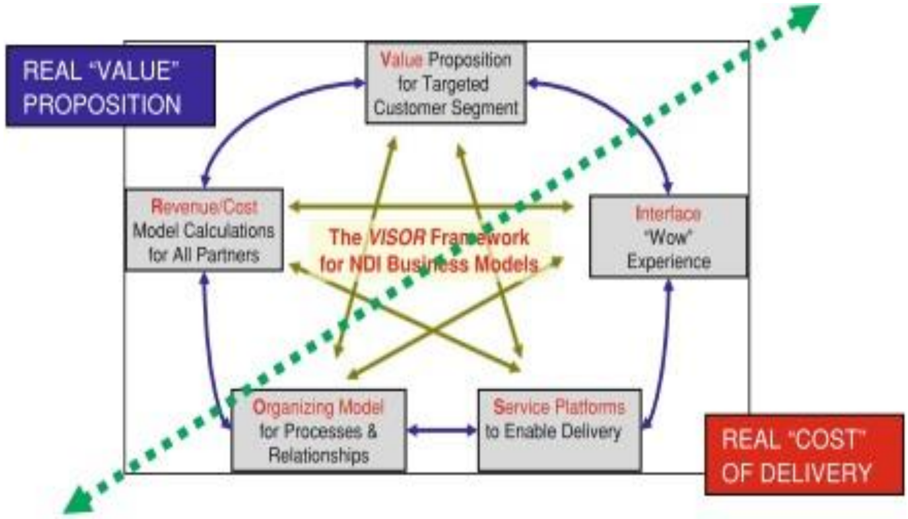
[11] El Sawy O. and Periera F., Business Modelling in the Dynamic Digital Space, Springer Heidelberg, New York, 2013, p.6

[12] El Sawy O. and Periera F., Business Modelling in the Dynamic Digital Space, Springer Heidelberg, New York, 2013, p.21

5. Revenue Model

These five categories compose the so called VISOR Model which attempts to integrate the different approaches in the business model development in the Digital Environment[13]. The following picture illustrates the VISOR Model.

Picture 3-1 The VISOR Model



Source: Business Modelling in the Dynamic Digital Space

Through the VISOR Model prospective, a successful business model is able to align the respective components of the VISOR Model:

- Value Proposition – This addresses why a customer should be willing to pay a premium price for the products or the services provided by a company.
- Interface – The success of delivering a value for the customer depends mainly on the user interface experience. The interface should be user friendly and should generate a positive experience
- Service Platform – A platform is a piece technical architecture that allows compatible complements to use it. The IT platforms are needed to deliver products and services, as well as improve the value proposition.
- Organizing Model – This describes how an enterprise organises its process in order to effectively and efficiently deliver value to the customers. According to

[13] El Sawy O. and Periera F., Business Modelling in the Dynamic Digital Space, Springer Heidelberg, New York, 2013, p.21

Allee, an organization creates value through a complex dynamic exchange between one or more enterprises and customer supplier and community[14].

- Revenue Model – If the business model was settled properly then the combination of the value proposition, the way that a company delivers its value and the investment in IT platforms, should generate revenue that exceeds costs.

[14] Allee V., Reconfiguring the Value Network, Journal of Business Strategy, Volume 21, Issue 4, 2010, pp. 1 - 6

Chapter 4
THE CASE STUDY OF RISPARMIO SUPER: AN INNOVATIVE ITALIAN FOOD START-UP

4.1 **Who Is Risparmio Super and What Do They Do?**

Risparmio Super is the first Italian website and the second website in Europe that gathers and compares supermarket product prices online and offline. It helps customers to save time and money. At the same time, they help large scale retail trade industries to analyse the behaviour of customers and to study the prices that their competitors set.

In which way does Risparmio Super create value for both customers and the retailers?

The customers are always looking for special offers, coupons and deals but it takes a lot of time and effort and most people do not have enough time do it. Risparmio Super offers customers a completely free service that helps them to find and choose the cheapest supermarket in their neighbourhood according to their needs. This allows them to save up to 15% on their shopping[1]. On top of this, Risparmio Super gives their users coupons and deals tailored to their needs based on the grocery basket that they put together on the company website. Furthermore, if the customers choose to sign up on the website, they will get a weekly alert telling them which supermarket is best suited to them. In this way, an average customer can save up to 1000 € per year on grocery shopping[2].

On the other hand, the retails and the brands spend hundreds of thousands of euros on advertising and coupons. For example, in the USA market 332 billion coupons were distributed only in 2010[3]. Although these companies spend so much money on advertising and coupons, it’s really hard for them to tailor the right coupons for each customer. Risparmio Super helps retails and brands to solve their problems using these

[1] Forno L., Stile Magazine, 9th August 2011
[2] http://www.risparmiosuper.it/
[3] Coupon Facts Report, NCH Marketing Services, 2010

three main methods. The first one is the web advertising that allows the companies to advertise their products during the customer's online research. The second solution is mobile couponing. This is a new innovative way for the enterprise to send to customers a bar code on their mobile phone. This then allows them to receive a discount on the products they buy. The third solution is to analyse how customer behaviour changes after a change in the products price. They also analyse the competitors' price in real time, aggregating online and offline data about the customers and turning them into digital data that the firms can use for their further analysis and setting their strategy.

In a nutshell, the company with its super price comparator provides a service that can solve two issues with one solution.

4.2 **How Was Risparmio Super Established?**

Barbara Labate, the CEO of Risparmio Super, developed her new blockbuster business idea a few years ago when she received a Fulbright Scholarship for studying for her master degree at Columbia University. As a student, she didn't have much money and she quickly discovered how difficult it is compare the prices of products in different local stores.

She thought that it would be handy to have a device that finds coupons and deals related to products that she needed. However, she recognised that this was a case of Asymmetrical Information. She was able to recognise this after attended a class on the topic made by the Nobel Prize winner Joseph Stiglitz[4]. In this case she knew that the Asymmetrical Information existed because large scale retail industries knew much more about products than the customers did.

With her new business idea, she entered a business plan competition in 2003 and she won second place. After living in the USA, she came back to Italy when she started to work for a company where she met her first business partner. Together, with her new business partner, she was able to establish her first start-up that allowed her to deliver and launch on the market place new business ideas related to the mobile environment[5]. This venture enabled them to get in contact with the biggest Italian mobile service

[4] www. italianbusiness.org
[5] Mattina N., Nicola Mattina Blog, 9th October 2012

provider and the main Italian phone companies. After this, with her business partner she created a new a mobile service for downloading Holy imagines from the 19^{th} Century. Meanwhile, with the help from her new business partner Zion Nahum, she was developing her new business idea which would later become Risparmio Super. Zion had a similar business idea to Barbara's but it involved electronic products. As a result, they collaborated and this allowed them to provide their first basic service that covered five supermarket chains in the city of Milan.

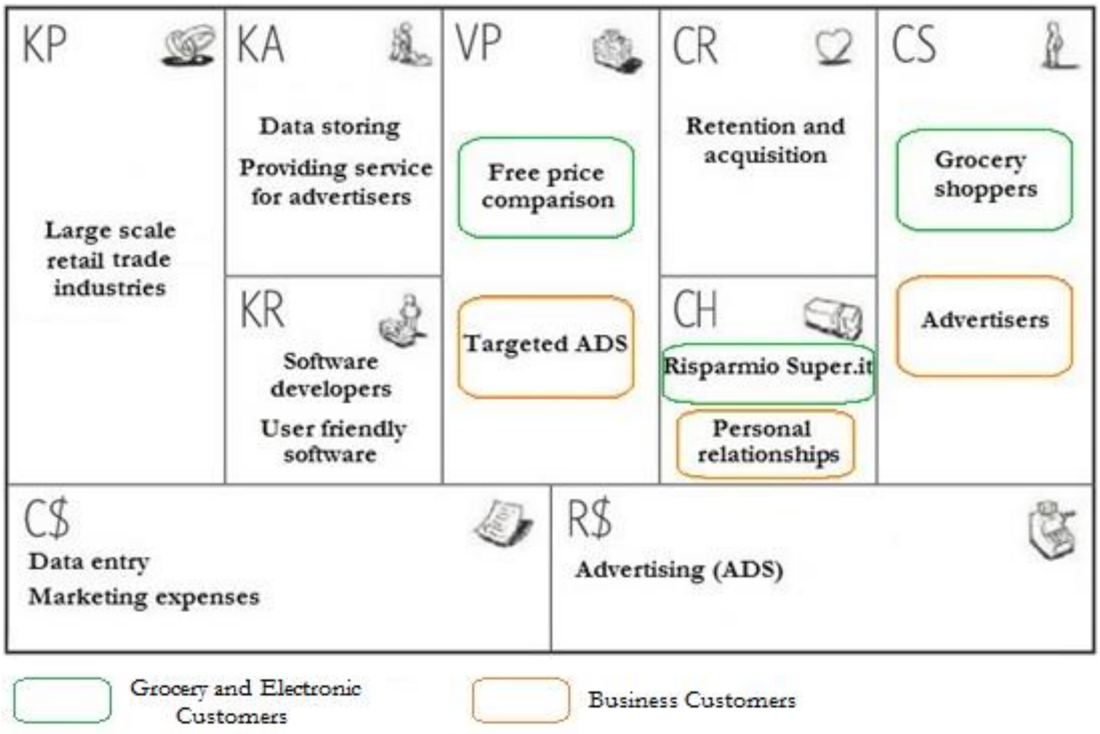
That first basic service had a lot of issues to solve, for instance, the biggest problem was how to compare similar but not identical products based on the same unit of measure. In July of 2010[6], the three founders of Risparmio Super applied for the Mind the Bridge Project and they were selected from the first thirty candidates. Although they arrived at the finals, they didn't win the competition but they still learned a lot from it. They financed the business with their own savings for another 6/7 months until they had been selected by LVenture Group and Zernike Meta Group for co-financing[7]. Risparmio Supers incredible journey had only just begun.

4.3 **First Business Model Formulation**

In this section I would like to describe the First Business Model Formulation of Risparmio Super. I will focus on explaining the links between the Nine Building Blocks of their initial business model, explaining how the business model works and what type of business model it is. I will also present the strengths and weaknesses of this first business model and explain how they guided the company to the current formulation of their business.

[6] Wired Magazine, September 2014
[7] http://lventuregroup.com/

Table 4-1 The First Business Model Formulation



Source: Personal Elaboration

Risparmio Super divided its customers in two main segments: a consumer segment composed by grocery shoppers and a business segment composed by the advertisers.

The start-up had a specific Value Proposition for each group of customers. They provided a free of charge price comparison service for all grocery shoppers. In this way it enabled all users to find the cheapest supermarket to suit their shopping list in their neighbourhood. On the other hand, the company offered a tailored advertising service to the advertisers based on the products researched by the users.

The only touch point between the company and grocery shoppers is the website where the customers make their shopping list and as a result, receive advertising aimed at their needs. By contrast, the company interacts with the advertisers through a close network of personal relationships consisting of the marketing organisers.

Risparmio Super aims to acquire the largest number of users that it can and attempts to retain the current users, trying to turn them in loyal customers. The reasons why a company would try to enlarge its customer base as much as possible is really simple; in this world of online services, more users means more money.

The last building block to complete the value side[8] of this business model is the Revenue Stream. In the first formulation of their business model, Risparmio Super's revenues were streamed mainly from the fees paid by the advertising industries.

On other side of the business model (the efficiency side), there are the infrastructures that the company needs to create and deliver value to its customer segments and the structure of cost that comes from the infrastructures.

Without a doubt, the key resource that Risparmio Super needs to survive the market is user friendly software that makes the website easy to use for everyone. Consequently, software developers are a Key Resource because the website will need to be altered regularly as the company rapidly grows.

In addition, in order to survive on the market, the company should also be able to perform well some Key Activities. These include data storing and providing services for the advertising companies.

The Key Partners for the company are large scale retail trade industries. The contracted agreements that Risparmio Super made with these industries helps it to leverage its business model and enlarge its scope.

The business idea of the start-up it is highly sustainable as its infrastructure does not generate a large cost structure. The core costs that the company sustained were wages paid for data entry and marketing costs to advertise Risparmio Super's website.

As I mentioned in the second chapter, even if there is not a specific nomenclature for the business model patterns, there are five main patterns according to Alexander Osterwarlder and Yves Pigneur. In this particular case, the business model pattern of Risparmio Super can be traced back to a Free as Business Model Pattern based on advertising. This business model pattern is a particular form of a Multi-Sided Platform Pattern where on one side of the platform (in this case, the website) is designed to attract users with a free of charge service of price comparison. The other side of the platform generates revenues by selling space to advertisers.

In this final section, I will discuss the strengths and weaknesses of the first formulation of Risparmio Super's business model.

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[8] Osterward A. and Pigneur Y., Business Model Generation, self-published, 2010, pag. 49

The first strength that I will look at is the low infrastructure cost that reduces the financial requirements and enables the company to invest a larger amount of its financial resources on the Key Activities and Key Resources. In this way, it is able to maximize efficiency and at the same time it is able to focus on value creation. This is shown by the fact that the company was raised with a small amount of capital.

The second strength that I will evaluate is the fact that Risparmio Super is an excellent innovative business idea since it facilitates the interaction between two different customer segments such as grocery shoppers and advertisers. No one in Italy has linked these two groups of customers in same way in which Risparmio Super has.

The third strength that I will discuss at is the user friendly website, indeed many people, even those that are usually reluctant to technology in general, find Risparmio Super's website intuitive and easy to use[9].

The last strength that I will focus on is the data storing project that could be a competitive advantage because only one competitor (Nielsen) has recorded data prices since August 2009. This last potential strength has led the company to change its future business model. This will benefit them as they will make a substantial amount of money from it.

Despite these strengths, the first business model formulation also has some weaknesses. The first of these is that the companies usually have a limited amount of money for their budget for advertising. As a result of this, the companies that offer advertising services only have a restricted amount of money to rely on. This does not give Risparmio Super a high chance to improve in this business so a change in its business model is required.

In addition, the advertising expenses of the companies are affected by the economic situation, for example the companies tend to spend a reduced amount of money when the economy declines. This represents the second weakness of the first business model formulation of Risparmio Super that I would like discuss. With the business model designed in this way, the growth of the start-up is related to the macroeconomic situation so when the economy suffers from a recession, the company must reduce its scope.

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[9] Interview with Risparmio Super CEOs

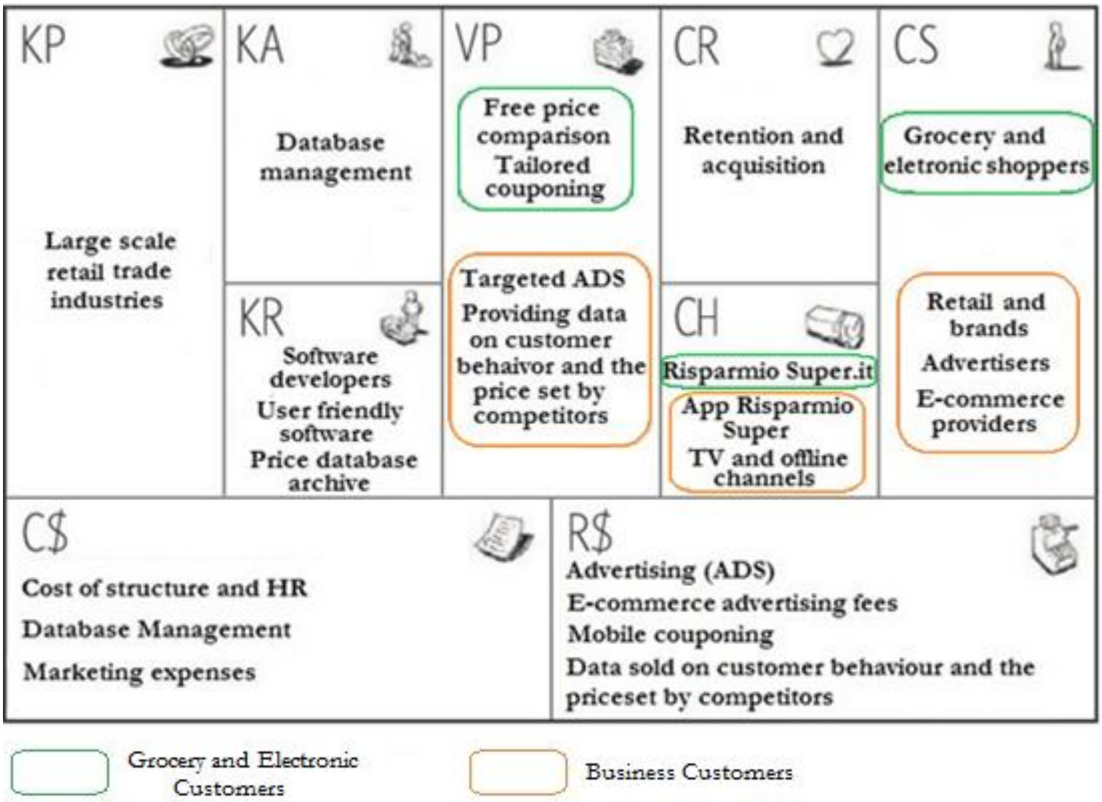
The last weakness that I will evaluate is the small market share that Risparmio Super has. The business model that belongs to the pattern 'Free as Business Model', based on advertising, works well only when the product or the service is used by a large segment of market costumers. However, in this early stage of its life, the start-up has a small market share. Consequently, the company is always seeking new investors who bring capital by making the company more established in the market place.

Over the years, Risparmio Super constantly reformulated its business model in an attempt to maintain the strengths of the first business model. By doing this they tried to grow stronger, thus resulting in a new source of revenue. Due to weaknesses, the company attempted to find a solution that enabled them to both remove the weaknesses and transform them in into strengths.

4.4 **Current Business Model**

As I mentioned in the previous section, Risparmio Super continues to change their business model making it fit better to the current stage of the business and at same time adapting it to the present market situation. These changes were essentially driven by the necessity to remove the business models weaknesses and improve the number of its strengths. As a result, in this section I will discuss the reasons why they changed their previous business model and how they developed their new ideas.

Table 4-2 The Current Business Model Situation



Source: Personal elaboration

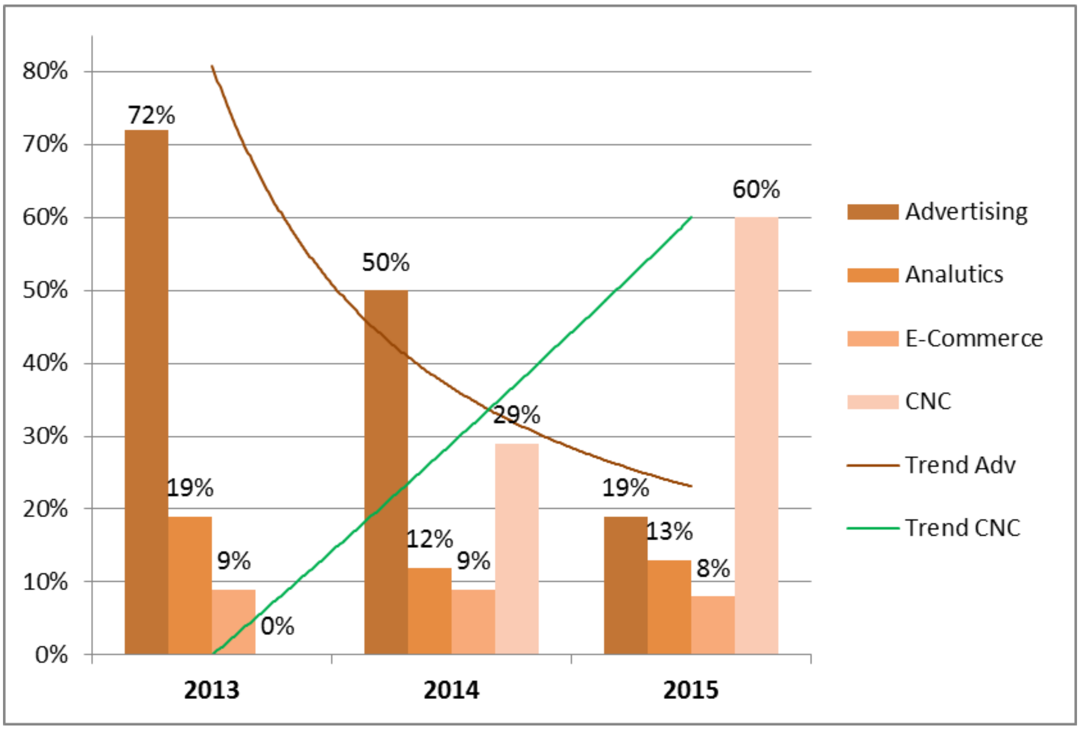
In order to eradicate the weaknesses that I listed before, the company found out that the price database archive could be used to achieve a competitive advantage because it allows them to profile customer behaviour and compare the prices set by different large scale retail industries for the same item. They discovered that there were only a few companies able to provide this data to the retailer and the brands. On the other hand, the brands and the retails are willing to pay a lot of money for this data because they are a good foundation to set their strategies.

Therefore, the price database archive became a new Key Resource, the database management became a Key Activity and the data sold on customer behaviour and the prices set by the all the retail and brands for each item, became a primary source of revenues.

Subsequently, Risparmio Super added the retailer and the brands to the customer segment in their business model. Risparmio Super offered to provide these businesses with real time data about customer behaviour and information on the prices set by other retailers and brands. They also added the E-commerce providers to the customer segment on their business model.

On the other hand, in order to serve a large number of users Risparmio Super chose to adopt cloud solutions[10]. They did this because the internet site and the mobile app began to gain popularity and as a result, got the attention of the E-commerce providers who wanted to advertise their own products on Risparmio Super's website. In this way, the companies reached a compromise that was able to benefit both parties and in particular, Risparmio Super, who can now count on a new stream of revenues not related to the advertising decisions made by the retailer and brands. This makes their revenues stream less dependent on the economy cycles and as a result, it becomes more stable. In order to show how Risparmio Super's business model has evolved in the last few years, the following graph illustrates the change in the composition of the company's revenues.

Graph 4-1 The Evolution of the Revenues' Breakdown



Source: Personal Elaboration on Risparmio Super's Data

This graph demonstrates how the composition of Risparmio Super's revenues has changed between the first and the current business model formulation. This is shown

[10] Interview with Risparmio Super CEOs

though the statistics that say that in 2013, the main revenues of the start-up come from advertising. On the contrary, in 2015, the statistics illustrates that the main part of the revenues came from the Click and Collect service which is a service that wasn't even implemented in the first business model formulation. To sum up, the graph above reveals the shift in Risparmio Super's business model through the evolution of their revenues breaking down.

In order to improve the number of contacts, Risparmio Super added some more channels to the existing once. First of all, they developed a new mobile app that enabled the grocery and electronic shoppers to benefit from Risparmio Super's services on their mobile phone wherever they are. Currently, 30% of Risparmio Super's users make their online shopping though the company app. The company also occasionally used television and offline advertising to publish their services.

The counterpart of the improvement that they made on their business model is a reasonable cost for database management and an expansion in their cost structure due to personnel expenses and fixed costs.

To sum up, by leveraging on their price database the company can now satisfy a new and more profitable segment of customers. Furthermore, it enables them to get a new revenue stream less related to the macroeconomic situation and on the advertising budget decisions that the retail companies make. Additionally, their current business model formulation permits the company to acquire a bigger market share and as a result, they become more established. At the same time, Risparmio Super was able to remove all the weaknesses of its first business model formulation by enlarging its business, by finding more diversified sources for revenues and by finding new investors and business partners.

4.5 **Risparmio Super and Their Competitors**

In this segment, I will evaluate the similarities and differences between all of Risparmio Super's competitors and I will explain why this start-up has a competitive advantage over the other challengers who have a similar value proposition of their company. To be precise, the comparison between the competitors is based on their business models, and in particular on their value proposition. Consequently, the reader should not be surprised if I will make a comparison between companies that have different sizes, operations and that belong to different industries.

Risparmio Super's competition, in no particular order, is as follows:

- My Supermarket UK
- Dove Conviene
- Mounsier Drive
- Tu-carrito
- Nielsen

The easiest way to show how Risparmio Super has a competitive advantage over the other players is by observing the following table.

Table 4-3 Risparmio Super's Compertitive Advantage

	Risparmio Super	**My Supermarket UK**	**Dove Conviene**	**Mounsier Drive**	**Tu-Carrito**	**Nielsen**
Real Time Price Compilation	✓	✓	✓	✓	✓	
Aggregation of Online Prices	✓		✓	✓	✓	✓
Aggregation of Offline Prices	✓					✓
Find Coupons and Deals	✓	✓	✓			
Tailored Coupons	✓					
Find The cheapest Shop in The Neighbourhood	✓	✓		✓	✓	
Provide Data on Customer Behaviour and The Prices Set By All Retail Companies For Each Item	✓					✓
Database Price Archive	✓					✓
Online Shopping	✓	✓				
Home Shopping Delivery Option	✗	✓				

✓ **Services Provided** ✗ **Services not provided (Planned to provide soon)**

Source: Personal Elaboration

This table shows where Risparmio Super's success comes from. My Supermarket UK provides services such as online price comparison for customers, searches for relevant deals and provides the option for home delivery. However, Risparmio Super is still able to achieve success because My Supermarket UK does not provide tailored coupons, they do not have a price data base archive and they don't deliver data on customer behaviour and prices set by all of the other retail companies. Even though Risparmio Super does not offer home deliveries, it could potentially be a future option. I will discuss this possibility later on in this chapter.

Dove Conviene is another Italian start-up that operates in the same food field as Risparmio Super. Dove Conviene is similar to Risparmio Super because they provide their users with a price comparison service. Mounsier Drive and Tu-Carrito are also food start-ups. They compare online food prices and find the cheapest shop in the customer's neighbourhood. However, these three companies do not aggregate offline prices like Risparmio Super does and this gives Risparmio Super an advantage over all of them.

The last competitor is Nielsen. This company is the only one of Risparmio Super's challengers that has a price database archive and provides data on customer behaviour and prices set by all retail companies. As I mentioned previously, whoever has the biggest database dominates the market. Currently, the only two companies that have such a database uploaded since August 2009[11] are Risparmio Super and Nielsen.

4.6 **How Does Risparmio Super Plan to Grow Their Business?**

In the following paragraph, I will evaluate how Risparmio Super plans to expand their business. I will focus specifically on their short term plan. These short term plans will help the company more at this current point in time because the future market situation is uncertain and this makes it difficult for them to decide which long term plan to use.

Recently, Risparmio Super made an agreement with Carrefour, which is one of the largest hypermarket chains in the world and which is also well incorporated in to Italian society. This agreement stated that a new service would be offered by both of the

[11] La Pira R., Il sole 24 ore, 6th February 2010

companies. They named it ‘Click and Collect’ This kind of service has been provided for a few years in other European countries such as The United Kingdom, but it is first time that it has been offered to Italian customers.

This new service enables Risparmio Super’s customers to do their shopping and pay for it though either Risparmio Super’s website or Risparmio Super’s mobile app. They are then able to come to the closest Carrefour in their neighbourhood to collect what they just bought online.

The ‘Click and Collect’ service has a lot potential and it could present a really good opportunity for the company to develop their business, as long as they successfully make some other agreements with large scale retail trade industries[12]. Currently, the companies have been bargaining to make the same type of contract with the other large Italian retailers. These negotiations are not yet over and continue to happen between the Italian retailers. This situation could be both an opportunity and threat for the company because on the one hand, they can benefit from a first mover advantage. On the other hand, if they don’t get these contracts, one of their competitors can make the same contract first and then erode the competitive advantage that Risparmio Super has achieved.

In a few words, Risparmio Super has a good chance to improve its business by making more ‘Click and Collect’ contracts. However, if they do not put it into practice soon then other companies will take the opportunity instead.

4.7 **My Suggestion for a Possible Future Improvement**

In this last section, I would like to expose my personal suggestion as to how Risparmio Super could improve their business model in the medium-long term. In my own view, a good way for the company for improve their business model could be to add the services that Instacart offers to its customers in USA.

Instacart, currently the most well-funded and fastest growing start-up in the emerging food space, is an anomaly. Instacart is merely a digital grocery store and deliver via a Hub and Spoke Model. It differentiates by offering on-demand delivery by leveraging the ‘people economy’, as opposed to scheduled trucks. It achieves this by

[12] Colletti G., La Repubblica degli Inventori, 25th June 2014

picking real items from real stores as opposed to Peapod, Fresh Direct and Amazon Fresh who own proprietary warehouses, inventory and delivery trucks thereby leveraging the best of brand preference with the advantages of on-demand delivery. Still, on the surface, Instacart seems to ignore the trending consumer preference towards making choices easier via focused curation, or reducing friction via ready meals or pre-prepped ingredients[13].

If I was to improve Risparmio Super's business model in any way then I would provide customers with the same service Instacart provides their customers.

A strength of this improvement is that Instacarts strategy has been proven to be successful in the American market. As a result, there is a high possibility that the service would thrive also in Italy.

Risparmio Super would benefit from not having a warehouse of their own, like Instacart, as it means that they don't need any new capital. They do not need a warehouse since they will be employing delivery drivers to purchase the products that they intend to deliver directly from the supermarkets. These drivers will then take these items straight to the customer's home. As a result, a warehouse is unnecessary for them as there is nothing that they need to store.

Following this, there are no other providers of such service in the whole of Italy. This would benefit Risparmio Super as they would receive the first mover advantage. By gaining this advantage, they would become market leaders.

A final strength is that Risparmio Super already has extensive experience in the Food Retail Market. This experience makes them highly capable to offer this home delivery service.

Although there is much strength associated with this service, there are also a couple of weaknesses. The first of these is the competition presented by E-commerce companies and large scale trade retail industries. This would be a problem for Risparmio Super as these larger companies will attempt to buy them out, as they did with Instacart.

Another considerable weakness is that Risparmio Super needs to gain capital to add this service to their already extensive list of facilities. This is an entry barrier for Risparmio Super because in this type of business, the only way to generate an adequate revenue stream is to invest a lot capital into the infrastructure.

[13] www.venturebeat.com

The last weakness is that Italian customers behave in a different way to American customers. Italian customers shop in a more traditional way in the sense that they like to physically visit the shop and do their shopping by themselves. American customers differ as they are more at ease shopping online since they are more confident at using new online technology. This would prove to be a problem for Risparmio Super because they would have to wait for the Italian customers to change their shopping habits in order to allow the business to succeed.

The CEO of Risparmio Super has predicted that the behaviour of Italian customers will change within at least two years[14]. It would be best for them to invest their time and money into providing a home shopping delivery service like Instacarts once this change has occurred. Until the opportunity arises, all Risparmio Super can do is strengthen their infrastructure, preparing them for this potential change to their business model.

[14] Interview with Risparmio Super CEOs

CONCLUSIONS

I began my thesis by describing the main analysis tool, which is the business model. Literature has provided wide plethora of interpretations and definitions of a business model and I chose to use the business model definition provided by Alex Osterward. He defines it as the rationale of how an organization creates, delivers, and captures value. The name of this definition is 'Business Model Canvas' and it is made up of nine Building Blocks. The first building block is the Customer Segments. This is the people or the organization which a company creates value for. In the Value Proposition segment, it describes the specific value proposition that combines products and services to create value for each customer. The Channels describes which touch points allow companies to interact with customers and shows how to deliver value to them. Customer Relationship outlines the relationships that a company establishes with each customer segment. The Revenue Streams makes it clear how, and through which price mechanisms, the business model captures value. Key Resources shows which assets are indispensable in the business model. Key Activities shows which activities a company really needs to be able to perform well. The Key Partners segment shows who can help the company leverage its business model, since a firm cannot own all Key Resources and perform all key activities by themselves. Once you understand how your business model's infrastructure works then you also have an idea of its Cost Structure. The Business Model Canvas should be understood as a general framework, a shared language that facilitates discussion and allows the entrepreneur to manipulate their business models and respond in a quick way to the new incurring market threats. As a result, every business model needs to be adapted to each business.

In the second Chapter, I described various business model prototypes that Osterwalder & Pigneur recognised. They named them Business Model Patterns. These authors called the following patterns the Unbundling, The Long Tail, Multi-Sided Platforms, Free and Open innovation business model patterns. The Unbundling Business Model is a pattern constructed on three different types of businesses. Each business has different type of necessity. The company is likely to flourish if it splits into constituent businesses. This allows them to avoid disagreements amongst departments. The Long Tail Business Model is centred on the motto: 'selling less for more'. This business model pattern proved that selling a large numbers of 'non- hit' items can be as profitable as selling one 'hit' item. The Multi-Sided Platform is a pattern that joins together two or more different groups of customers and offers to them different value propositions. The Free business model depends on at least one paying customer segment, while the other segments are funded with free of charge products or services. The Open business model is a pattern that creates and delivers value by systematically working together with third parties. There are several patterns that a company can follow to design its own business model. Consequently, the business model patterns that I previously described represent an archetype of the most common business model patterns that a company may implement. Every company designs its own business model based on its specific needs.

In the third chapter, I decided to study the Food Retail Market because it's an area that I am interested in. I wanted to study this field because I was intrigued as to how the previous predictions related to the Food Retail Market were proved wrong by food start-ups. The reason of the success of these new food start-ups was due to the fact that they implemented their business model using the opportunities provided by the new digital environment. In this chapter, I evaluated a survey that proved that innovations will drive the future Food Retail Market growth. Since a large number of these innovations come from food start-ups, I described their boundaries and their structure. As a consequence, the last scenario that I assessed in this chapter is how the company that operates in a digital environment implements their business model.

In my final chapter, I focused my attention on the case study of Risparmio Super. They are the first Italian website that collects and compares supermarket product prices. With the service that they provide, they offer one solution for two issues. With the knowledge that I acquired from collaborating with LVenture Group (an Italian Venture Capital Fund) and from the help and data that I was provided with by Risparmio Super's CEO, I was able to study the evolution of the business model from the first formulation through to the current formulation. This allowed me to make an accurate analysis of their business model. I evaluated the reasons as to why Risparmio Super has a competitive advantage over their competitors and the areas where they could make a potential future improvement of their business model. The last area that I covered in this chapter is how Risparmio Super plans to grow according to its CEO, and my personal suggestion as to how to improve their business model in the long run, based on the example of Instacart.

The overall aim of my thesis was to examine start-ups and how they work. I wanted to use the knowledge that I learnt to produce my own suggestion as to how Risparmio Super can expand their business. I suggest that they do this by becoming the first Italian start-up to provide a home shopping delivery service, without using a warehouse to store the inventory that they intend to deliver. The main condition that is necessary for this change to be successful is that Italian shoppers change their shopping habits, so that they are more similar to that of American shoppers.

My potential improvement to Risaparmio Super's business model would be successful for a number of reasons. The first reason is that home delivery services have already been successful in the USA, shown through the company Instacart. This company is successful in their home delivery service as they use independent delivery workers. This means that they have no infrastructure costs and most importantly, no warehouse expenses.

This leads us to the second strength of my long term strategy. Risparmio super are able to take advantage of the fact that they won't need to use a warehouse. This means that they don't need new capital to implement this new strategy.

The final strength that Risparmio Super would benefit from if they implemented this new idea is the fact that they already have the capabilities, the knowhow and the infrastructure to put into practice this strategy.

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