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THE LEAN START---UP: BUSINESS MODEL CANVAS ANALYSIS AND APPLICATION

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To those who believe in the Progress.

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ABSTRACT

Innovation has always been the fuel for the progress. Everything can be innovated: the design of a product, a new process or a better way to deliver a service. Even the way a business is planned can be innovated. This thesis aims to analyze, describe and apply the most recent methodologies of strategic planning, considering theories like *Customer Development* and *Business Model Canvas.*

Divided in three parts, it starts with a particular focus on the critical aspects of developing a business plan in a start---up or in a new business unit and what are the methodologies to innovate the strategy planning. The second part is an in---depth description of the *Business Model Canvas* framework and the related techniques such as *Customer Development*.

The third part is the application of the model in a new start---up project where I am directly involved as partner, *Augmented Reality Technology Experience (ARTE)*, an innovative form of artistic exhibition based on the usage of new digital creative technologies.

1. INNOVATION THROUGH BUSINESS, THE LEAN START---UP METHOD

"Progress is impossible without change, and those who do not changetheir minds cannot change anything else" (George Bernard Shaw).

1.1 INTRODUCTION

It seems hard to reach a general definition for the word "Innovation": with no doubt considering only technological innovation is a narrow approach. In a general view, to innovate means creating a change (in a positive way) in anything established. In the first half of the XX century, the economist Joseph Schumpeter, who contributed greatly to the study of innovation, argued that innovation is essential for the industrial change. An invention, according to him, is something purely scientific, while innovation is "making something new" in the economic system: it could be a new product, market or process. Schumpeter considers the scientific progress as exogenous to the economic system, and he does not analyze the effects of economic and social factors on scientific development, either the relations between the latter and innovation itself.

Innovation is the creative response of companies and not the simple adaptive reaction to the changing economic environment, it takes place both in small as in large enterprises, the size is neither necessary nor sufficient to drive it. Therefore, in business, innovation is the fuel to growth. The rapid advancements in transportation and communications over the past few decades, in particular Internet, have dramatically modified the concepts of key resources and comparative advantage typical of the old war.

Many important founders of nowadays greatest tech companies gave their opinion on why it is important to innovate in business. For example, when Steve Jobs said with no fear that "*Innovation distinguishes between a leader and a follower* ", he wanted to remark that companies face everyday a fork, to be the leader, creating innovative businesses, or to be the followers trying to adapt to the leader's changes. With even more direct words, Robert Noyce (Intel Co – Founder) said: "*Innovation is everything. When you're on the forefront, you can see what the next innovation needs to be. When you're behind, you have to spend your energy catching up."* So, for having competitive advantage in a company, one of the necessary skills is the ability to bring innovation as a first mover or in the "best way" for the targeted market, investing resources without wasting them to catch up competitors.

1.2 WHEN THE FAILURE LEADS TO SUCCESS

Innovation becomes even more critical when it is the time to launch a new enterprise, both that it is a new tech company or an initiative within a large company, since it has always been a hit---or---miss proposition. For decades the formula which leads to success has always been the same: write a business plan, pitch it to investors to collect money, organize a team, develop the product/service and start selling it as hard as possible.

But recent researches show that most of the start---ups fail. Carmen Nobel, Senior Editor of HBS Working Knowledge, says in his web article "*Why Companies Fail and How Their Founders Can Bounce Back" (Harvard Business School, 7 March 2011)*, that "the statistics are disheartening no matter how an entrepreneur defines failure". In fact, he adds, if failure means liquidating all assets, with investors losing most or all the money they put into the company, then the failure rate for start---ups is 30 to 40 percent, according to Shikhar Ghosh, a senior lecturer at Harvard Business School who has held top executive positions at some eight technology---based start---ups.

If failure refers to failing to see the projected return on investment, then the failure rate is 70 to 80 percent. And if failure is defined as declaring a projection and then falling short of meeting it, then the failure rate is a whopping 90 to 95 percent. "

The reasons behind this discouraging data can be summarized in two key concepts. From one hand Ghosh explains that most start---ups fail due to lack of foresight, lackof wiggle room in the business plan, bad timing, or lack of funding. But from theother one, he also adds that too much funding for an unstable business model cantake what would have been a small failure into a huge one.

In such a high---risk environment, where the probability to fail seems much higher than the one to success, an innovative approach, called "the lean start---up", has been developed by the contribution and support of many relevant characters of the Silicon Valley. In particular three techniques have been realized to lead new ventures to a less-risked path. In 2005, Steve Blank, who has moved from being an entrepreneur in hi---tech start---ups to teaching entrepreneurship at U.C. Berkeley, Stanford University, Columbia University, has formalized the *Customer Development* methodology in his book *"The Four Steps to the Epiphany"*. Then, Alexander Osterwalder and Yves Pigneur have provided the *Business Model Canvas*, a visual framework to define a company business model. At last but not least, Eric Ries has applied the theories of the *lean thinking* to formalize the *agile development.* Before analyzing the methodologies it is important to understand what are the assumptions that have been used as driver.

1.3 THE LEAK OF THE PERFECT BUSINESS PLAN

In his article *"Why the Lean Start---up Changes Everything"* (Harvard Business Review, May 2013), Steve Blank explains that the typical approach entrepreneurs have used, due to the conventional methodologies, is first to write a business plan, a static document that describes the size of an opportunity, the problem to be solved and the solution that the new venture will provide.

It is a quite complex document with a lot of pages enriched by marketing analysis and financial forecasts from three to five years. Even if it is very useful to be presented to stakeholders and potential investors, due to its complexity and its visual nature (the “small book” format), it does not fit well to its strategic planning function. In fact, reviewing the company strategy through the business plan is rather complicated, since it is divided by all the functional areas typical of a company --- like marketing, operations, sales --- and it lacks of a visual framework, which could easily let to change parts having a general view on how those changes will modify the entire business strategy.

Blank criticize the business plan, focusing on the digital industry, for three main reasons. First, saying that “*No Business Plan Survives First Contact With A Customer”,* he stress the fact that typically entrepreneurs, once having raised the necessaries funds, start building and launching their product before having a real feedback from the customers they are serving, and that, too often, they learn too late that customers do not need or want many of the product features. In fact, the business plan is typically used by companies to present the existing strategies and operations to be performed, for example in the case of a line extension of a product. But in this context, customers, market and product are known. By contrast, the entrepreneur who creates a start---up faces a number of unknown elements. In this situation, writing a static document is not efficient in a dynamic phase, in which the primary objective is to research, through a repetition of hyp othesis and tests, the more effective business model. Second, he observes that a five---year financial forecast is quite an ambitious prevision for a business that does not have a track record and, even if the forecast is an useful way to understand the revenue model, it usually becomes a waste of time, since the revenue model it is not tested yet. Third, he remarks the difference between large companies and start---ups: while existing companies are big organizational complexes which follow a master plan, executing a business model, start---ups rather are looking for one. This distinction shapes the lean definition of start---up: “*a temporary organization designed to search for a repeatable and scalable business model”*.

1.4 BUSINESS PLAN VS BUSINESS MODEL

Having defined what a start---up is, it is necessary to focus on the key concept of business model. According to Alexander Osterwalder *"a business model describes the rational of how an organization creates, delivers and captures value."* In other wordsit is the set of organizational and strategic solutions through the company acquirescompetitive advantage. Basically, a company creates value when helps its costumersdoing a "critical" task, satisfying a need and/or solving a problem. The success orfailure of a business strictly depends on the ability of the company to create valuefor its customers. So, the first activity when creating a new start---up, or re-designingan existing business, should be searching for a proper business model, in order toknow what to do, how do to it and for which customers deliver value.

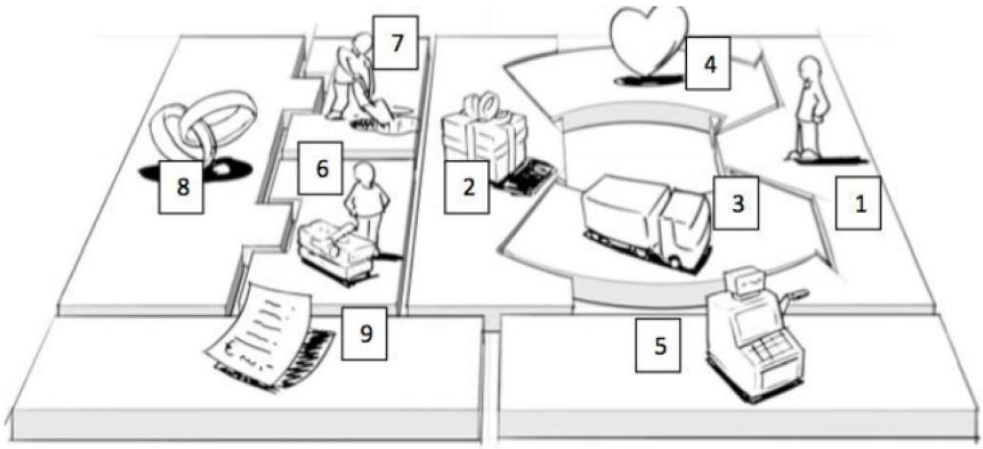
Rather than planning and researching for months "inside the building", writing a document that explains the execution of an untested business model, the lean method suggests as a key principle that on day---one entrepreneurs accept to have only a series of hypothesis about their business model. This series of hypothesis need to be tested through a process called *Customer Development* which is going to change day---by---day the framework designed on day one. Therefore, a business modelis designed to change rapidly, adapting to what is found "outside the building" intalking to customers, as Blank explains. Since it is a very dynamic element, also itsrepresentation must be done with a model that reflects this nature. The *BusinessModel Canvas* in this context is more effective than the Business Plan. First of all,what is usually explained in 30---40 pages is summed up in a board. In addition it iseasy to change, since in the areas of the Canvas , elements are summarized. Finally,it offers an overview that allows to highlight connections and critical factors betweenthe areas.

The business plan can be considered a good exercise to implement and refine the various parts of a business model, especially when the financial part is developed in order to plan what actions need to be implemented to make the organization profitable. However the business plan of a start---up does not contain real facts but assumptions, which needs to be validated through a direct comparison with the market. Indeed, the lean method consider the business plan as a “final document", which must be drawn up only after the validation of the business model. In this way, takes place its main function, the fund-raising, especially if paying attention to adapt the plan according to the audience who is going to read it (banks, business angels, venture capitalists, partners, prospective partners, etc..).

2. THE BUSINESS MODEL CANVAS

2.1 THE CANVAS

The *Business Model Canvas* is a strategic tool which through a visual language helpsto create and develop innovative business models: it represents how a companycreates, delivers and captures value.



[1]

The *Business Model Canvas* is a framework where is featured, through nine basic building blocks, the logic of how a company intends to be profitable. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems (OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010, page 15).

[1] *Figure based on* OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010*pages 18---19*

The blocks are:

1. Customers Segment: the segment targeted by the company;
2. Value Proposition: which contains the products / services the company is offering, considering the problems and needs solved.
3. Channels: the contact and distribution channels with customers.
4. Customer Relationships: the relationships with customers.
5. Revenue Streams : the cash flow structure generated by the model;
6. Key Resources: the resources the company needs to operate;
7. Key Activities: the activities to make operative the company's business model;
8. Key Partnerships: the partners with whom the company will have to form alliances;
9. Cost Structure: the cost structure the company has to sustain.

2.2 CUSTOMER SEGMENTS

The Customer Segments block describes the different groups of people and / or organizations to which the company directs its value proposition. This block is essential in order to build the products / services portfolio around the specific needs of a particular customer segment. To locate the customers segments in a precise way, it is useful to categorize groups in relation to behaviors, needs and other attributes (i.e. gender, nationality, income, etc..) that people have in common. Customers can be separated also considering how they are reached through distribution channels and the types of relationships they require. Another way is to divide them by their willing to pay for different aspects of the offer. First of all, a business model may establish one or several Customer Segments that represent a large group of people or a small one.

The decision about which segments to serve and which segments to ignore is crucial and an organization has to make a conscious choice. After having selected the segments, a business model can be carefully designed around a strong understanding of specific customer needs. (OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010 page 20). Defining the Customer Segments identifies the type of market where the company is going to make the positioning. If the business model does not distinguish between different customers, it is focused on a mass market. In this situation, the value proposition, distribution channels and customer relationships are fully standardized, focusing on one large group of customer with similar characteristics and needs (i.e. Coca Cola). The opposite happens when the business model targets a niche market, focusing a specific and specialized customer segment and developing the value proposition, distribution channels and customer relationships to its specific needs, as *Rolex* watches company does. When the business model aims to different groups of customer with similar but varying needs and problems, it plays in a segmented market --- adapting the value proposition to each segment – while if the customers have very different needs it plays in a diversified market.

For example, *Virgin Group* moved from music production to travel and mobile phones. A particular case occurs when an organization serves two or more interdependent Customer Segments, like for a newspaper company which needs both a large reader base and advertisers. In this situation the business model requires all the segments to operate.

2.3 VALUE PROPOSITION

The Value Proposition (V.P.) block indicates the products / services portfolio that represents value for a specific customer segment. When developing the V.P. entrepreneurs have to think about why customers should choose their product / service, since this section distinguishes organization uniquely, determining the success or failure of the company's business model.

An effective V.P. creates value through a distinct mix of elements catering to that segment's needs (OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley& Sons, 2010 p. 23). First it is relevant to analyze in which way the V.P delivers value: it could be innovative, representing a new or disruptive offer focusing on elements like design, customer experience or bringing new technologies to create a new industry --- like the launch of cell phones did in the past decade – or be similar to already existing market offers, adding features and attributes or improving those already on the market, like a lower price, better performance, higher speed of service and more. Second it is important to test customer segments needs and see if the V.P. is matching with them. The Business Model Canvas offers an almost mandatory, pushing anyone who wants to create his own business model to start right from the analysis of the Customer Segments block in order to create a proper V. P..

2.4 CHANNELS

The Channels block describes how the company reaches a certain customer segment to deliver its value proposition. Channels are the points of contact with the customers segments, covering five different phases:

1. Create awareness among customer due to the products / services offered.
2. Help customers evaluate the value proposition
3. Allow customer segments to buy the products / services
4. Deliver the value proposition.
5. Support customers in the after sales.

Channel Types			Channel Phases				
Own	Direct	*Sales force*					
		Web sales	**1. Awareness** How do we raise awareness about our company's products and services?	**2. Evaluation** How do we help customers evaluate our organization's Value Proposition?	**3. Purchase** How do we allow customers to purchase specific products and services?	**4. Delivery** How do we deliver a Value Proposition to customers?	**5. After sales** How do we provide post-purchase customer support?
		Own stores					
Partner	Indirect	*Partner stores*					
		Wholesaler					

2

Channels can be owned by the company itself, being direct channels (sales force and web---site) or outsourced (such as partners stores, wholesalers and web channels owned by partners). If the business model is based on direct channels, the costs incurred by the company will be clearly higher, but in this case it will also have higher margins due to greater effectiveness of the channel itself. Indirect channels, on the contrary, allow the company to support lower costs and to have a capillary diffusion and faster growth of the brand. Each channel must be managed in relation to the others by taking into account the customers to whom it is addressed.

2.5 CUSTOMER RELATONSHIPS

The Customer Relationships block describes the type of relationship the company establishes with the different customer segments. This section outlines the ways in which the organization acquires, retents and boosts sales due the relationships between customers. The different types of relationships an organization decides to have with customer segments support and structure even better the customer experience. The customers "community" helps the company to have an awareness of needs of its targeted customers and spread the various initiatives from time to time, about products / services it provides, and new value propositions that wants to bring to the market.

[2] OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010 page 27

The Business Model Canvas identifies several ways in which companies can decide

(in reference to their business model) to relate to their clients. It can be a direct relationship like group assistance, with employees managing a whole customer segment and personal assistance, with a very intimate relationship (i.e. financial advisors) or an indirect one, like self-service, which allows customers to get everything they need by theirself, and web communities based on social networks. An interesting kind of relationship is the co-creation, where the client actively participates in making the choices that modify the company's products (for example the brand Activia gave the opportunity to customers on the web, through Facebook, to choose the new flavors to put into production.) At the operational level, it is therefore strategically important to understand how to integrate the different types of relationships with the business model that is being built and what kind of relationship is more functional for a specific customer segment. This allows both to make appropriate choices, either to harmonize the flow of the process.

2.6 REVENUE STREAMS

The Revenue Stream block represents the revenues a company gets by the sale of products / services from each customer segment. The variables to be taken into account in the composition of this block are the price and the payment methods, both fundamental to adjust cash flows and make a business model sustainable. Pricing mechanisms depends on the decision between fixed or dynamic prices. In the first case, prices are based on static variables like volume, characteristics of a customer segment, features of the products, while, in the second case, prices change based on market conditions.

Price is an important element in building a business model but, as mentioned earlier, is certainly not the only variable that makes a model sustainable: the payment method completes the process of business design and gives to R.S. block the ability to provide important information about how cash is generated.

Fixed Menu Pricing Predefined prices are based on static variables		Dynamic Pricing Prices change based on market conditions	
List price	Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature dependent	Price depends on the number or quality of Value Proposition features	*Yield management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent	Price depends on the type and characteristic of a Customer Segment	*Real-time-market*	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

[3]

In fact, in the first days of a new venture it is likely to have the R.S. block without real economic values: they will be inserted through the collection of data coming from any market analysis in progress. There are different methods of payment that generate different revenue streams. One of the sources of income is definitely the assets sale. This is the best known source of income, and also the one that is best associated with a certain kind of products such as cars, books, clothing, etc... Another source of revenue comes from the use of a particular service paying a usage fee. Telephone companies generate this kind of revenue stream when allow customers to pay a certain amount based on the actual minutes of talk time. The cash flow can be also generated by a subscription fee, selling continuous access to a service, as gyms do. A company may decide to use a patent or intellectual property while maintaining the property and generating revenues by licenses or lease assets for a specified time (i.e. car rental). In the process of business design of a startup it is important to reflect on each of these components: what are customers paying for, how are the payment methods and how much is the price.

[3] OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010 page 33

2.7 KEY RESOURCES

The Key Resources block encompasses strategic assets that a company must have to create and sustain its business model. Each activity is characterized by key resources which can be physical, intellectual, financial and human. Physical activities include tangible property such stores, equipment, technologies, machines and everything that physically a company needs to have to produce or sell a particular product / service. Intellectual property rights include the know---how of a company, patents, trademarks, copyrights, projects developed, the partnership and the customer database. Human resources are important in every business model, especially if it is in the services industry, for example people are a core resource in a consulting firm. Financial resources include details of financial assets such as lines of credit, cash or a stock option pool for hiring key employees.

2.8 KEY ACTIVITIES

The Key Activities block describes the strategic activities that must be performed to create the Value Proposition, reach customers, maintain relationships with them and generate revenue. In other words, this block determines which are the most important processes the company has to develop in order to operate its own business model. Activities vary according to the type of business model: for a consulting firm key activities are focused in advising services (the resolution of some problems and simplification of some processes), for a food company key activities can be identified with the specific production process which allows to offer products in the market. They can be categorized in three types: production activities, typical of manufacturing companies in which it is essential to design, make, and deliver a product; problem solving activities, related to coming up with new solutions to individual customer problems; maintenance / development of platforms / networks activities, related to platform management, service provisioning, and platform promotion (OSTERWALDER A., PIGNEUR Y., *Business Model Generation,* Wiley & Sons, 2010 page 37).

Key activities in the Business Model Canvas are only the most important activities (those that determine the competitive advantage), not all the activities that are part

of the business. Along with key resources and key partners, key activities will determine the cost structure of the company will have to bear. To make easier the B.M.C. analysis it is good to always keep a clear and concise overview of its business model, this will help the translation of the Canvas in subsequent strategic planning documents.

2.9 KEY PARTNERSHIPS

The Key Partners blocks defines the network of suppliers and partners necessary to the company's business model. In fact there are external players that are strategic because allow to fully realize the business model and increase the chances of success in the market. It is possible to distinguish between different types of partnerships: strategic alliances between non-competitors or strategic partnerships between competitors (*Coopetition*); Joint ventures to develop new businesses and buyer-supplier relationships to assure reliable supplies. The creation of partnership s aims to make the company able to respond to different needs, internal and external, which are not included within its business model. The main motivations to establish partnerships can be identified in optimizing the business model, through buyer-supplier partnership which aims to economies of scale and cost reduction; risk reduction and uncertainty in a competitive environment (i.e. the Blu Ray developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers) and acquisition of particular resources and activities, to share technologies, knowledge, licenses, or access to customers.

2.10 COST STRUCTURE

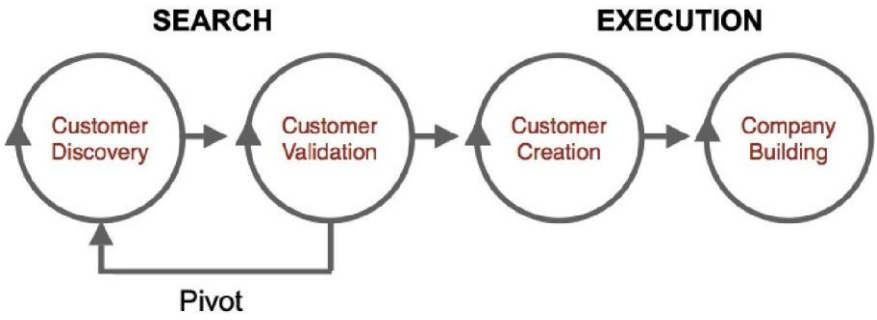
The Cost Structure block determines the costs that the company incurs to make running a business model. In the process of designing the Business Model Canvas cost structure is defined at the end because it comes almost directly from the structure of the blocks related to key activities, key partners and key resources. For some types of activities keeping costs down becomes absolutely central to being able to provide its value, for others it is not so important because their value proposition is based exactly on the value created in terms of status, service, innovation, etc... For this reason it is possible to distinguish in two broad classes of business model: cost-driven business models --- an example is *Curves*, a gym for women that allows to have fitness programs lasting only 30 minutes with a very low cost-structure that involves few key resources and few key activities – and value-driven business models, like luxury brands (i.e. *Rolex*), which focus on value creation through a high investment in the resources, R&D and customization of the products/ services. By analyzing the cost structure, a business model may have one or more of the following characteristics: costs can be fixed, if the costs remain the same regardless of the volume of the goods or services produced (rent, salaries, production facilities) or variable, depending on the volumes of goods and services produced. In the cost-structure analysis is crucial to underline the possible presence of economies of scale and / or economies of scope to understand the grade of scalability of a business model.

When outlining the C.S. block it is important to pay attention to key resources, key partners and the key activities to realize which of these elements will cost more, if there are alternatives or if, to achieve a particular outcome, it is necessary to support all the costs planned. A business model becomes sustainable only if revenues are higher than costs. Otherwise, it is possible that there are errors in the price strategy for the product / service offered or that resources are not optimized. Paying attention to all these features gives the opportunity to anticipate errors that once in the market become difficult to correct in the short---term.

3. CUSTOMER DEVELOPMENT

3.1 THE MODEL

The Customer Development Model (CDM), formalized by Steve Blank in *The Four Steps to the Epiphany,* starts from the consideration that the management practices that are used by large companies to design and launch new products (product management) are not applicable to a startup. Making a start---up, in fact, does not mean developing a new product, but searching a market for this product and finding customers, starting from those who are worn by inclination to experiment new products. They are those that Rogers called the *Early Adopters* in his "Technology adoption lifecycle ", the model that allows to identify the different existing clusters of adopters of new technologies (Rogers 1962). The Customer Development is the process that helps the entrepreneur to navigate the path along which he discovers and learns about his company's customers and the market in which customers move. Along this route, the startup must prove that there is a potential market, make sure that someone is willing to pay for the solution offered, and finally, to actually create the market for its product. These activities of discovery, learning and testing are what makes a startup unique. The model developed by Steve Blank is divided into four steps: customer discovery, customer validation, customer creation and company building.



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[4] *Figure based on the Customer Development representation elaborated by S. Blank*

3.2 THE FOUR STEPS

Step 1: Customer discovery

The goal of customer discovery is to identify customers and understand if the problem the startup wants to solve is actually important to them. To do this, it is necessary to face the reality of "*getting out of the building*" to learn directly from potential customers; the results of this search will help to understand what features

are really important to customers and to focus on the way to present the product.

The goal of this stage is to organize a series of focus groups and gather information to develop a list of desirable features. In a startup, product characteristics are defined by the founders: what it is essential to figure out is whether there is a fit with customers and a possible market.

Step 2: Customer validation

The goal of customer validation is to develop a repeatable and field-tested sales process, demonstrating that the startup has actually found customers and a market. If this happens it is possible to say that the startup has built a business model and that was able to test a series of hypotheses, identifying a sale price, distribution channels and so on. If, and only if, this process is repeatable, then it is possible to move to the next step, climbing and then building the company itself.

Step 3: Customer creation

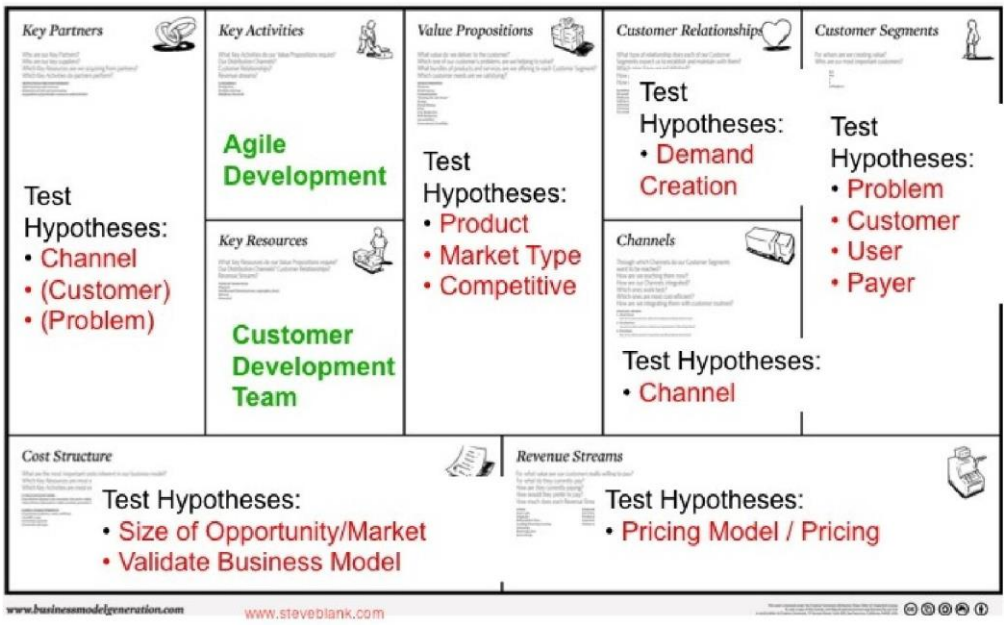
The customer creation step starts from the early sales success and its goal is to support the product demand. The process varies greatly depending on the characteristics of the market: some startup enters existing markets while others in total new markets, and still others are trying to re-segment existing markets by focusing on price or on a niche. Each of these markets requires different strategies. For example, investing a lot of money in advertising makes sense if a company is entering an existing market because customers already know what product the company is selling. On the other hand, it could be a waste of money if entering a new market, because potential customers do not even know what the company is talking about, since they do not have any terms of comparison.

Step 4: Company building

The company building step represents the transition from an informal organization, based on learning and discovery, in a formal structure with departments and VPs of sales, marketing and so on. It is a very delicate phase since a common error is to anticipate the timing, putting together a company that is not yet able to support the activities on its own resources and in which the sales volumes fail to cover the costs of the organization.

3.3 RELATION WITH THE BUSINESS MODEL CANVAS

The combination between Business Model Canvas and Customer Development, as Steve Blanks explains, can be a successful way to find out a proper business modelfor a new venture. In fact, if in his original concept the Canvas was a snapshot of thebrainstorming work done by team members being, using it as the "launch--pad" forsetting up the hypotheses to test, and a scorecard for visually tracking iterations andpivots during customer discovery and validation transforms it from a static planningtool to a dynamic one. Therefore after having designed the business model, the nextstep is to translate each one of the nine business model canvas blocks directly into aset of Customer Discovery hypotheses.



[5]

[5] www.steveblank.com

4. PROJECT ARTE

[6]

4.1 SCENARIO

Creative digital technologies have set the foundations of the landscape of the wholesystem of cultural offer: the Museums, considered mostly up to the past decade "Temples of the Art", today are ready to become sensible organisms capable of introducing new paradigms of interaction/fruition in the relationship betweenVisitor/Artwork. Creative digital technologies, so, play a key role in the determination of the aforesaid transformation, allowing the definition of new languages and experimentations capable of multiplying the layers of narration of theArtwork, introducing the possibility of conceptualizing new temporal dimensions andthe creation of new paradigms in scenography. In this new scenario, with the birth ofthe Information Society guided by the development of the new I.C.T. technologies, the traditional Artwork, while keeping its value of single cultural good, can be multiplied and replicated in a multi---layer communication system which can not onlypopularize in different ways and times (on or off-line), but it can also decontextualizeallowing its existence in different dimensions. The new replicability condition generates new "terms of usage" which, in turn, asks for the "Digital Creative" to plannew forms with/through new spaces to traditional Artworks, supplying for them new models of fruition.

[6] *The ARTE logo is property of Rebel Alliance Empowering. All rights reserved.*

To allow that, the experience of museum fruition becomes a real event, the need ofthe definition of new languages becomes, inevitably, a floor of comparison andexperimentation necessary to shift towards new scenography paradigms whichrequire, in the logic of planning processes, interdisciplinary directing know---hows: onone hand, so, we'll have the comparison between technical specificities capable ofcontrolling and exploiting at the highest level technological possibilities; on the otherhand, all of those humanistic specificities capable of allowing the usage of technologies which permit to work on the multiplication of the layers of narration ofthe Artwork itself, showing a stratification of the senses

which, if on a side permits a deeper knowledge, on the other it enriches the tour leveraging the Experimental Dimension. It is the project of the Technological/Humanistic relation, which is interdependent and collaborative, which becomes an important object of innovation.

Therefore, the articulation of the scenography moves from a narrative ---spatial model, in which the traditional encyclopedic/chronologic hierarchy is surpassed (which was once defined only by the expert Humanist), to give space to a new System of Cultural Supply which takes place alternating layers of close---up systemic narration moving towards a spatial-performative model which solicits the participation of the visitor, getting close and closer to the paradigm of the game in which the new technologies are called to surprise and perform the space and the relation between Artwork and Spectator, up to reaching the spatial model simulated in which the real space "joins" the virtual one opening up to the new and compelling dimensions of the Experiential Fruition offered by the new technologies for Augmented Reality (AR) . The result of this new methodical paradigm – which sees the joint collaboration as cross disciplinary and interdependent in the definition of the new museum languages, the expert Humanist and the Digital Creative technology expert (Digital Artists)--- is realizing new formats inside the Edutainment genre for museum scenography, which can leverage on instruments and languages and find in digital technologies the Ideal System in a Shape to immerse the visitor in an environment which proposes not only as "The Place of Knowledge", but also as "Place of Entertainment".

4.2 COMPANY PROFILE[7]

Rebel Alliance Empowering (RAE) is an integrated system of multidisci plinary consultancy professionals and an international management and production network for the Digital Content Industry. The aim of RAE is to self-

determining to have the right instruments capable of responding efficiently to the urgent strains and to the expanding difficulties which characterize competition not only to the market of Cinema industry, but even in the other segments of the Digital Content Industry, as the ones referring to Culture and Entertainment, Company Communication and Virtual Simulation Environment applied to others industries. For what concerns the organizational aspects, the building of Rebel Alliance Empowering System is inspired to scientific principles and innovation concepts defined and introduced with the innovative and not---so---new theories which are making their way in the field of new forms of work organization, moving from a "single---company prospective" to a "inter-organization".

Its mission is to optimize digital contents, stereoscopic and visual effects production of innovative projects from the creative, technical and managerial while defining cost-effective and efficient solutions. Rebel Alliance is comprised of an experienced network of high---end professionals operating in cinema, audiovisual and new media industries, together with its integrated Glocal system to design, support and manage the digital pipeline. Rebel Alliance comprises a core team of vfx (visual studio effects) supervisors, producers, creative and digital content management experts and interfaces with a broad range of vfx nodes, digital contents facilities and vendors in North America, Europe and Middle East.

[7] *The paragraph is not a personal elaboration, and it is written under the consensus of Rebel Alliance Empowering. |All the information are retrieved from http://nl.linkedin.com/company/rebel---alliance-fx—italia——middle—east.*

First founding members are John Attard and Vittorio Dublino. John with the scope to design and develop a simple pipeline to allow creatives to concentrate on creativity as opposed to technology with methodologies and infrastructure focused on maximizing creativity through non-linear and true collaboration; Vittorio with the final aim to apply new model of productive organization and to research and develop methodologies to facilitate the communication processes of the humanistic and technological areas for the multimedia production and digital content creation. Since its inception Rebel Alliance has created a Hub in Rome and Los Angeles, recently in Milan and now in Abu Dhabi --- United Arab Emirates. Each Hub creates and maintains relationships with other

nodes (i.e. visual effects/post companies, vfx supervisors, digital artists, professionals...) in its local area. The nature of Rebel Alliance is that as the network gets bigger the number of nodes that work with it, increases exponentially, as the benefits of being involved with Rebel Alliance mpowering are as important to the visual effects houses as they are film production companies.

4.3 THE PROJECT

The idea of creating an artistic exposition format in the "edutainment" genre, basedon the usage of new Digital Creative Technologies, has deep roots either in thesynthesis of the research and development activities in the Humanistic field, and inthe productive activities in the field of technology developed in the scope of theCultural and Entertainment Industry (and in general in the wider branch of the Digital Contents Industry) operated through years by the Rebel Alliance Empoweringand the Artecnologia (Research and study Center for Digital Culture, new languages for Communication and Multimedia) --- in collaboration with Universities and Research Institutions.

Specifically, the "ARTE" format is inspired by the many conceptual activities practiced in the past by the components of the current Artecnologia/Rebel Alliancework group in the marketing branch for the new services of cultural tourism, enhanced by the definition of the project of the first permanent Virtual Archaeological Museum built in Italy near the Herculaneum archaeological excavations; and from theoretical research and development in the Science of Communication fields, Ontology and Cognitive Sciences as preparatory work for theexecutive planning of the format for the valorization of the Cultural Heritage "HistoryCity/Tunnel of the Past". This humanistic---based knowledge, when associated to the technical know---how

accumulated by Rebel Alliance Empowering through years – with its productive experiences in the usage of new Creative Digital Technologies techniques and technologies – either in cinema and in entertainment, allowed the identification of a technical work package focused on visualization, interaction, new output devices and on the identification of tools for the upcoming Virtual/Digital Museum of the Future, which are useful for the development, in collaboration with its partners, of forms of interactive and immersive Educational Programs.

4.4 AIMS OF THE FORMAT

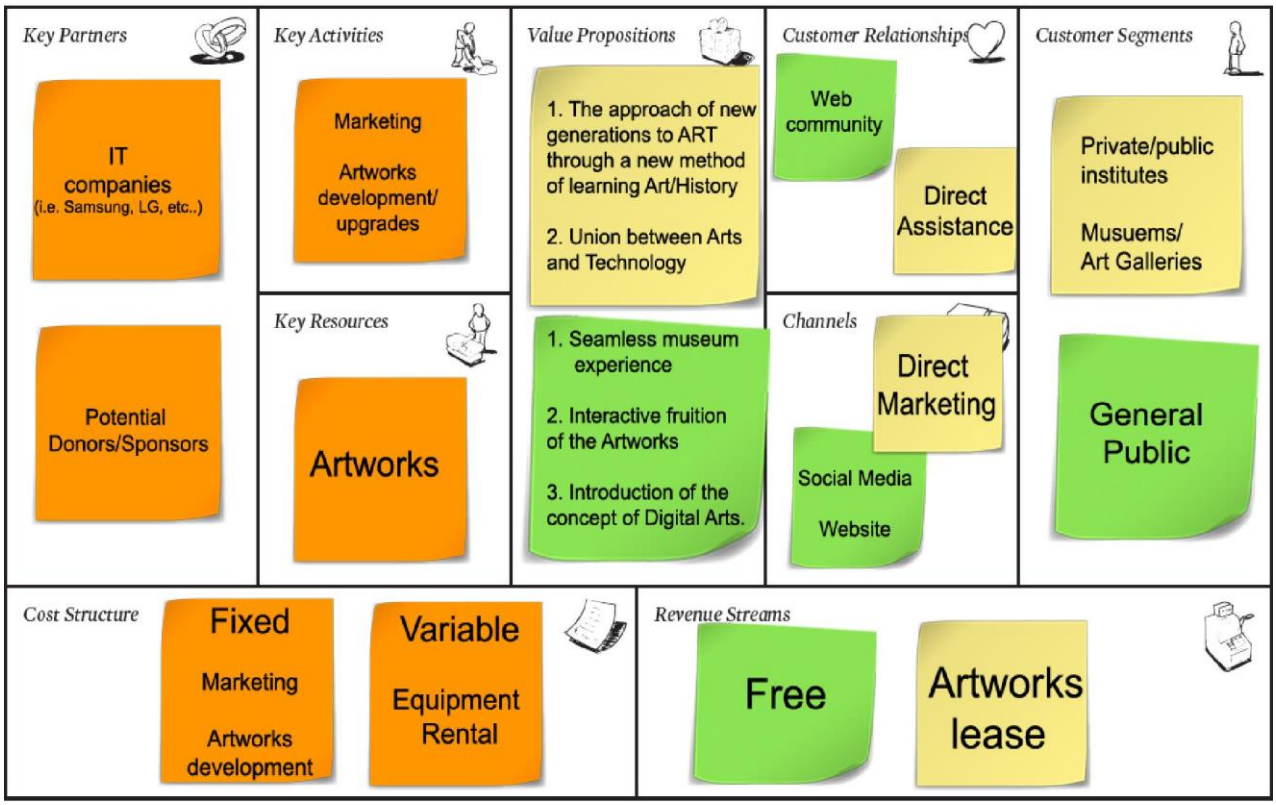
The Virtual Museums (VM) are a new model of Cultural Communication, which is focused on the creation of a custom way, involving and interactive, of improving our comprehension of the World that surrounds us. The term "VM" is an acronym which represents, so, the different types of Digital Creations in the segment of the Cultural Industry, referring to the Industry of Digital Contents. Although the Idea of Virtual Museum is not new to the professionals, the development and the implementation of research in this specific field has not yet produced results such that the many companies, which operate in the Digital field, could commit to this segment to gain a structural leading role in this specific field of the Cultural Industry.

In opposition, it is well known that the domination of Virtual Museums is one of the deal layers of applications of the Digital Contents Industry for the development of new businesses and at the same time solve the problems in favor of the Community. In many cases, we are still in front of a disconnection between theoretical research, which develops instruments which have a poor interest for their wide industrial application which, instead, builds the plans to gain profit from research. This segment, so, hasn't reached yet a sufficient level of maturity which has been reached, for example, by some branches of

the Digital Cultural Entertainment Industry such as Cinema or Video-games, to be so widespread as it should be, either for social or economic importance. Therefore, it is clear to see that the operators capable of developing today's sustainable industrial plans, oriented towards the design of the so-called Museum of Future (concept which will affirm themselves together with the worldwide development of the global Information Society and the parallel penetration of the Digital Culture in all of the social layers of populations), will assume a competitive advantage and a leading role in the specificity of this significant branch of the Cultural Industry.

Because these new forms of diffusion of Knowledge will gain, in the next few years, a leading and strategic role such as the common---usage instruments in the common Cultural communication in the History of Man (ad in the Heritage of a nation in particular), in didactics and education, such as in the divulgation of Science itself. With the definition of the Digital Renaissance project, Rebel Alliance Empowering has determined, since a few years, a framework in which it has focused its mission and its objectives in this specific segment of the Cultural Industry of Digital Contents. Objectives which have been pursued with a strategy which gains, as its own competitive advantage, the application of its knowledge and its creative/technical know---how which have been already experimented (with successful results) in other important segments of the Digital Contents Industry, such as Movies, Live shows and events.

4.5 ARTE BUSINESS MODEL CANVAS



8

The figure is a digital representation of the business model canvas related to the ARTE project. Usually the canvas is made by a wall-poster where several notes are attached, but due to the aim of this paper I used a template. Referring to the book suggestions, ARTE can be categorized as a multi---sided platform, where two different and interdependent customer segments are present. In particular one segment is characterized by private / public institutes and museums / art galleries: this segment can be defined as the "core segment", since it is the one that generates revenue by the artwork leasing. The value proposition wants to mark the un ion between art and technology, stressing the impact that the format is going to have, in particular with new generations, but also with general public and art/history experts.

[8] *Personal elaboration, template downloaded by www.businessmodelgeneration.com*

For this reason its channels are focused on a direct marketing approach, made by personal presentation of the project to the major authorities / museums managers in order to let them understand the format in a clear and personalized way, a teaser is now under development and is going to be showed to the Qatar Minister of Tourism. The customer relationship strategy is direct and made by a personal assistance, giving to this segment the opportunity to customize the format to its own needs: for example a museum could want more spots than a mall, or a particular artwork, due to the characteristics of the exposition room. On the other side there is the general public segment, that, even if it is not supposed to generate revenues, is fundamental for the application of the business model due the interdependence with the other segment, the audience base represent, in fact, the main attraction for the institutes, both in a commercial than in a cultural way . Its value proposition stresses the innovative and technological features of ARTE underlining the interactive aspect and, at the same time, introduce the recent concept of Digital Art, positioning the project as pioneer in the market. Considering the segment characteristics (all---age people, with a dynamic behaviour and innovative attitude) the channels and relationships strategy are focused on social networks and website, in order to create a community to give news about the upcoming events hosted and to let customers have a contact with the company. In the future, a merchandising strategy based on t---shirts and small accessories is going to be confirmed after the first series of events.

The canvas gives a quick and visual approach about the business model structure, in the center of the canvas the two value propositions, figured with different colors to facilitate the comprehension, are connected with their own customer segment, channels, customer relationship and revenue stream. The right side of the canvas is balanced with the left one: to the deliver the value proposition to customer, passing through channels, and to keep them, using customer relationship, it is necessary to develop key activities, which need their own key resources, and to create a network with key partners.

In particular, the main key resources are the artworks, considering the digital videos that can be reproduced, using the newest video technologies (holograms, 3D, augmented reality, water screens and more). For this reason the key activities can be synthetized in the artworks development, concerning the production work made by Rebel Alliance video makers, and in the marketing for both the customer segments, considering the already specified channels and relationships strategy. To support the model, information technology companies are considered as possible key partners to create strategic alliances. The partnership with these companies can give a significant cost reduction through the free lease of video technologies (screens, LCDs, videoprojectors) in change of brand visibility in the expositions. Other companies or foundations can represents potential sponsors / donors, due to the cultural background of the project ARTE, to get a financial help and to ex pand the brand exposure. Activities, resources and partners generate a cost structure that has to be sustained by the revenue streams. The main fixed costs are characterized by marketing and administrative costs, considering the expenses for promotion, website and social media team maintenance plus the legal expenses, including trademark registration fees. Variable costs include the artworks development, which vary considering the number of artworks and the technology applied, and the equipment rental, which is bond to the artworks typologies.

4.6 TEASER

In order to keep the lean approach to the project, the Rebel Alliance management team has decided to create a Minimum Viable Product (MVP) using a teaser called Phase 0. This decision is moved by two reason: first, the agile development has reduced initial costs and production time with the creation of digital hologram called "Spirit of the Art", giving the chance to quickly fund---raise from investors, and second to adapt the project to incoming stakeholders, in particular to institutes / museum customer segment.

4.7 INCOMING POSSIBILITIES

The innovative peculiarities which characterize the format, are so for what concerns its commercial profile. In fact, this has been thought, obviously, to be inserted as a referring outline represented by the traditional cultural circuits, either institutional (Museums) and commercial (Art Galleries), but also in places which we do not specifically refer to as places of culture, for example (as a mean of example, not exhaustive) Galleries in malls: in this specific case the format, besides fulfilling its institutional role (education) will be considered also an attractive instrument in a strategic context for shopping entertainment, to gain new costumers and/or extend their average stays in the structure. So, ARTE isn't just an art exhibition characterized by the typical dynamics of the cultural industry. The characteristics of the format – which need a scenography capable of easing either its transportability and its ubiquity – allow the elaboration of a commercial plan which provides, basing on its localization, either only income from direct resources (e.g. ticket sale), or only income from indirect resources (e.g. income from the grant of the temporary usage of the format as costumer attractive in commercial structure) or hybrid direct/indirect income.

The ubiquity characteristics own of the digital usage allow, moreover, to play the event at the same time in different places while in the same unit of time, easing the participation of the sponsors which are willing to start promo-advertising strategies at the same time in different cities or even different nations. At a glance, the realization of contents and related fruition platforms of the ARTE format has been thought to produce incomes which are represented by the direct selling to a paying audience and/or the indirect selling of the cultural event to an eventual sponsor--- target. For this reason, for example, the technologies used in the implementation of fruition platforms of digital contents will be chosen, as far as possible, among the consumer/prosumer technologies which are already offered by the market or in a startup phase, so to encourage the eventual partnership of technical sponsors.

ARTE is a cross---media format capable of producing income from accessory services. As seen the ARTE format is an example of innovative product which uses the Digital Story-Telling as a new communicational language and new digital creative technologies as a service platform defining a new dimension in the experiential cultural fruition. The choice falls on this language with the objective of creating the background for the realization of a Cultural Social Trend around an integrated project integrated with cross---media specs. It is important to highlight, in fact, how much this important planning aspect is considered, for what concerns the development of the business, as one of the objectives pursued with the production of the format is shown with the will of managing the Content with the exact aim of creating Cultural Attractors/Activators capable of becoming objects of trans---media entertainment in a logic of consumption inserted in the social phenomenon of the new Converging and Participatory Cultures. The result will be obtained with the creation of complex narrative structures, open and non-sequential, potentially capable of being distributed in parallel through different media.

In this way the Content become a crossmedia franchise, tended to exploit ad continuum the ARTE Experience also outside the primary context of fruition of the Cultural Product. With the adoption of this planning solution, the ARTE Experience will be not only a fruition on different tech devices, but also the starting point of a process of "Cultural convergence in the brains of the single users and of their social interaction" ("Converging Culture", The cultural logic of media convergence"; prof. H. Jenkinks USC, Los Angeles – MIT Massachusetts Institute of Technology, Boston), which will benefit either the "Cultural Raw Material", treated through the ARTE format, and the development of its business through the exploitation of accessory services: for example, Cultural Merchandising and Collateral Events.

CONCLUSIONS

The lean start---up is becoming a strong trend and many consultants and companiesare moving from a static planification to dynamic one, in order to fit better to thequick changes of the markets. Depending on the industry of activity, the use ofinnovative ways of business planification, that do not expect a rigid financial forecast, marketing plan and moreover, can give significative advantage in terms ofcost reduction and time consumption withouth effecting the customer satisfaction, since every step forward to the research of a profitable business model has to betested. In the digital industry these models fit pretty well: information technologyallow a step---by---step development that gives the opportunity to have a continuosfeedback from customers and, starting from a Minimum Viable Product, to quicklyadapt products features to their needs. On the contrary, in more traditional industries, like the food industry or the automotive industry for example, the leanapproach can still be used in the very first moments of a new start---up or of a newbusiness line (if the business model behind is very innovative) but, due to the highinvestment and the physical production time, it is necessary to have a traditionalbusiness plan with an accurate financial forecast and a scenario analysis in order toget funds and execute an effective strategy. However it is not surprising that newventures are considered more innovative: they are born from a new idea, andsurvive by finding creative ways to make that idea profitable. In contrast larger companies, even if have more resources to invest in new ventures, focus on executing an existing business model — to make sure it operates efficiently and satisfies customers. In conclusion it is essential to understand the smooth difference between finding a business model and executing one: the first is an experimentation process that requires to talk with potential costumers, in order to make the necessary adjustments that can not be guided by a business plan, while the second isthe whole package of actions and operations that let the model effective.

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