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InnoTools

INNOTOOLS: INNOMODEL

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INTRODUCTION

The development of this document is the result of the implementation of the contract BMP1/1.2/2370/2017, for the project "Innovations Platform and Tools for increasing the innovation capacity of SMEs in the Balkan – Innoplatform", financed by the EU transnational cooperation programme "Balkan - Mediterranean" 2014-2020. The project "Innoplatform" is implemented under Priority Axis 1 - "Entrepreneurship and Innovation", SO2: Innovative territories and Investment priority 3d – supporting the capacity of SMEs to grow in regional, national, and international markets, and to engage in innovation processes.

OVERALL OBJECTIVE OF THE PROJECT

Developed by 6 PPs covering all 5 countries of the Balkan MED area, the main project objective is to facilitate innovation and support the commercialisation of innovation in SMEs with a focus on growth and internationalization.

MAIN ACTIVITIES TO ACHIEVE THE DEFINED MAIN OBJECTIVE:

1. assessing the current national and regional environment and its challenges when it comes to innovation, growth and internationalization of businesses;
2. advancing existing knowledge and developing common understanding on business model innovation with a focus on internationalization;
3. developing a set of specific tools to support the capacity of SMEs to introduce product and process innovations;
4. establishing a network of Centres of Excellence in Innovation as the knowledge and expertise holders providing advice and guidance to SMEs, consultants and public actors across the region; and
5. raising awareness and disseminating expertise through info days, trainings and conferences.

EXPECTED RESULTS OF THE PROJECT:

1. National and regional assessments on the current environment for innovation, growth and internalization; and
2. Two specific web based services (1) InnoScorecard for assessing and ranking the nations/regions; and (2) InnoRegion, a collaborative and informative web based service focused on the dominant industry in the region of each partner.
3. Common knowledge and understanding on business model innovations for internationalization in a form of a Study and Guidelines developed though field research
4. Set of innovations tools based on web 2.0 (InnoTools) to strengthen SMEs capacity to systematically and successfully introduce product and process innovations
5. Establishment of 6 Centres of Excellence to provide outside expertise and support SMEs in introducing innovations and facilitating their cooperation with the research institutions.

I BACKGROUND

The importance of innovation for economic development and growth is explicitly stressed in the European Union's economic policy and is confirmed in the assumptions of the most recent strategy for Europe. According to the Europe 2020 strategy the major driving forces, leveraging countries' development and competitiveness will be: research, innovations and education. "Innovation Union" flagship describes innovation in various aspects including new or upgraded products, processes, services, new business models, and new forms of organization and collaborations. Innovation is defined as an advantageous eco-system for new ideas' generation and implementation. The focus is placed on innovation in SMEs, identified as the backbone of the EU economy. According to Eurostat data, the number of SMEs in all EU countries exceeds 99% of total companies' number. They employ an increasing number of people which makes SMEs the prevailing part of the economy and its driving force. Therefore European Commission policy in relation to SMEs is mainly focused on the promotion of entrepreneurship and skills; fostering the innovation and growing potential; the improvement of their access to markets and strengthening dialogue and consultation with SME stakeholders. Most SMEs, especially micro- and small ones, are independent and do not belong to any enterprise group, but medium-sized enterprises are often part of a group. This is most widely spread in manufacturing and to a lesser degree in innovative and knowledge-intensive business services, where SMEs traditionally play an important role.

The growth and innovation generating potential of SMEs has been the subject of many studies during the last decades. SMEs are also important in terms of employment and gross value added, especially in smaller countries such as the Balkan-Mediterranean programme countries. In all countries SMEs are open to internal and international trade. According to SME's Performance Review (EC DG E&I), the Balkan MED region lags behind the EU average when it comes to innovations in SMEs. At the same time according to the Global Competitiveness Index, the region as a combination of efficiency driven (Macedonia, Albania, Bulgaria) and innovation led economies (Greece and Cyprus) lags behind the averages in both groups. Balkan MED is also regionally uneven and may benefit from a stronger transnational cooperation, especially in research and innovation.

There are a number of obstacles SMEs encounter when trying to apply innovations in their products, services and management:

- Deficiency of a strategic plan, particularly in innovation planning and development
- Inappropriate management, which does not tolerate risk taking, failure or anything "out of variance"
- Lack of resources or time for innovation planning, management and execution
- No processes, models or approaches available for moving ideas into execution
- Deficiency of education/training on creative problem solving, idea management and innovation management concepts

These weaknesses could be alleviated by business plans and innovation support management, whether done by independent experts, by special innovation centers or by online web-based tools. These innovations tools, services and guidelines will be useful in strengthening the capacity of SMEs to introduce process and product innovations. The advantages of this approach are the following:

- The web-based services will be available 24x7 regardless of location, while the established Centre of Excellence could assist SMEs from a limited area;
- The web-based services will grant the SMEs a number of scenarios they could follow or adjust to their specific needs;

- The web-based services could be applied as a complement to the local Centre of Excellence. The SME could try various scenarios in their business model creation and innovation support using the web-based tools and then they can contact the CoE experts to adjust the details, to obtain assistance in product prototyping or to discuss the process or product innovation.

The major purpose of each enterprise is to become a successful organization which achieves its goals efficiently. With purpose to do so, SMEs often establish a set of principles the management department follows. As it is known, the innovation development and management is not a single step, but a continuous process, which requires dedicated efforts for innovation culture, mindset and discipline within and across the company. Based on this assumption, SMEs could use the web-based services with purpose to examine new models, products or services and evaluate their plans against different scenarios.

II. GENERAL TERMS – DEFINITION AND SCOPE

There are several general terms used in all InnoTools Guidelines. These are:

SMEs (Small and Medium Enterprises) are defined as "enterprises, or enterprises that employ a maximum of 250 employees with an annual turnover/annual balance sheet that does not exceed 50 million euro." (European Commission, 2005). In the process, we make clear distinction of:

- Micro enterprises - consist of 10 or fewer employees and have annual turnover/annual balance sheet that does not exceed 2 million euro;
- Small enterprises - have 50 or fewer employees and an annual turnover/annual balance sheet of maximum 10 million euro; and
- Medium enterprises - have 250 or fewer employees with annual turnover/annual balance sheet that is no more than 50 million euro.

In InnoPlatform, the focus is placed on the number of employees.

EU uses the definitions of **innovations** coming from the OECD Manual (OECD, 2005), which recognizes four distinctive types of innovations:

- "A **product innovation** is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics." (p. 48).
- "A **process innovation** is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software." (p. 49)
- "A **marketing innovation** is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing." (p. 49)
- "An **organizational innovation** is the implementation of a new organizational method in the enterprise's business practices, workplace organization or external relations." (p. 51).

Business Model Innovations have not yet been sufficiently operationalized neither as a separate type of innovation, nor as a combination of other innovation types. InnoPlatform perceives BMIs as changes of all three components of the business models: 1) value creation, 2) business systems, and 3) revenue generation. In operational terms, innovation activities which result in all four types of innovations are recognised as business model innovations.
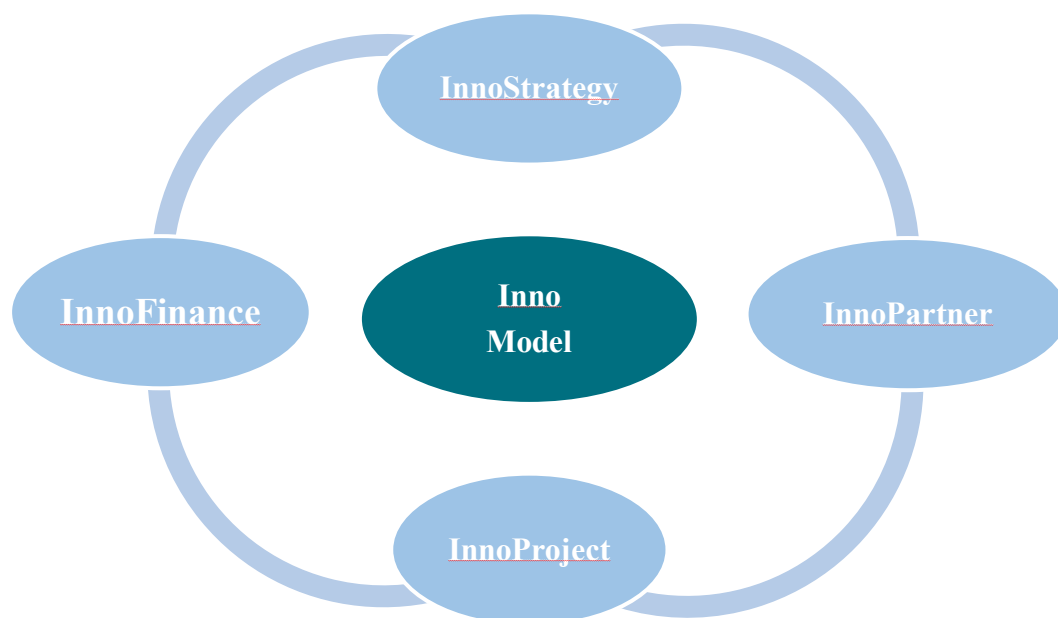
III. INNOMODEL

3.1. Description

InnoModel is one of the tools from the 5 InnoTools:

1. **InnoModel** is knowledge derived from the Business Canvas model. The main aim of the InnoModel is to provide a snapshot of the current business model of SMEs and start-ups as a reflection of their strategic approach, i.e. business strategy.

2. **InnoStrategy**, is a know-how on how to methodologically connect the critical elements of SMEs development strategy, the technological plan, and the plan for positioning of new product/service at markets. The main aim of InnoStrategy is to provide a systematic approach towards the development of innovations, creating a good base for every individual innovation project the SME plans to undertake in the near future.

3. **InnoPartner**, is a know-how on how to identify, approach and solicitate Partners for Innovation activities deriving from SME's technological strategy and identified needs in the process of developing and launching new products and services. The main aim of the InnoPartner is to provide a systematic approach in the acquisition of new technology and knowledge required for the innovation projects of SMEs.

4. **InnoFinance**, is a know-how on how to approach the financial evaluation and assessment of the company given its business model, and to assess and evaluate its potential innovation projects. The main aim of InnoFinance is to provide a systematic approach in deciding which projects should be pursued given a company's development goals.

5. **InnoProject**, is a know-how on how to successfully introduce new products/services at the market. The focus of InnoProject is on a single new product/service; therefore, the tool reflects the knowledge from the new product development processes adjusted to the context of SMEs.

Figure 1. InnoTools

Source: Project InnoPlatform, (2018)

3.2. The InnoModel Concept

The idea of business canvas was initially proposed by Alexander Osterwalder based on his earlier work on Business Model Ontology [1]. InnoModel contains 9 basic parts, describing the model various aspects. Its purpose is for SMEs to question themselves in respect of their business with regard to the topics and to post the answers into the correlating block of the proposed canvas.

The basic canvas blocks are as follows:

- **Key Partners.** The purpose of this block is to optimize operations and reduce risks, and cultivate a partner-network: buyer-supplier relationships, cooperation with competitors, etc. For both SMEs and startups it is important to create alliances with partners, for example when competing in the market and combining knowledge and specialization. Essential information will be acquired by knowing in advance which partners may constitute a valuable relationship. The SME should answer the following basic questions:
    - o Who are the key partners/suppliers?
    - o What are the motivations for the partnerships?
- **Key Activities.** This block describes the most important activities in achieving a company's value proposition. By having knowledge of the basic activities of the SME, a good understanding of their value proposition will be obtained. These activities are not limited to the production and services, but also about a problem-solving approach, networking and the quality of the product and/or service. When the company knows what the added value for the customer brings, this will lead to a better relationship with existing customers. Moreover, it may be helpful in the targeting of new customers therefore, and making it easier to compete with the rivals. The SME should answer the following basic questions:
    - o What activities are most important in distribution channels, customer relationships, and revenue stream?
    - o What key activities does their value proposition require?
- **Value Proposition.** The purpose of this block is to describe the collection of products and services the business offers to meet the needs of their customers. The value proposition is what distinguishes the company from its competitors. This distinction focuses on issues such as price, service, speed and delivery conditions on the one hand, and on the other hand on quality including design, brand status and customer experience and satisfaction. The SME should answer the following basic questions:
    - o What core value does the SME deliver to the customer?
    - o Which customer needs is the SME satisfying?
- **Customer Relationship.** This block identifies the type of relationship the SME wants to create with their customer segments. The broader the customer base the more important it is to divide your customers into different target groups. Various forms of customer relationships include: personal assistance, dedicated personal assistance, self-service, automated services, communities, co-creation. Each customer group has specific needs and the organization invests in different customers by anticipating their needs. A quality product or service will ensure good and stable customer relationships in the future. The SME should answer the following basic questions:

- o What relationship the target customer expects the SME to establish?
- o How can the SME integrate that into their business in terms of cost and format?

- **Customer Segment.** This block identifies which customers the SME targets respecting their different needs. As companies often provide services to more than one customer group, it is sensible to divide them into customer segments. By identifying the specific needs and requirements of each group and which value they attach to this, products and services can be designed better to meet these needs and requirements. This will lead to greater customer satisfaction, which in turn will contribute to a good value proposition. Various segments can be divided into the following categories: mass market, niche market, segmented, diversify, multi-sided platform / market. The SME should answer the following basic questions:
  - o Which classes is the SME creating values for?
  - o Who is the SME's most important customer?

- **Key Resources.** The purpose of this block is to describe the resources that are necessary to create value for the customer. They are means that a company needs to serve its customers. Resources can be broadly categorized as physical (assets such as business equipment), intellectual (knowledge, brands, patents, know-how, etc.), financial (funds flows and sources of income) or human. Intellectual resources include among other things. The financial resources are related to funds flow and sources of income. The SME should answer the following basic questions:
  - o What key resources does their value proposition require?
  - o What resources are important the most in distribution channels, customer relationships, revenue stream?

- **Distribution Channels.** This block identifies the ways how the company delivers the value proposition to their targeted customers. Each organization deals with communications, distribution and sales channels, which include the way in which the SME communicates with their customers. The purchase location and the delivery of the product and/or services provided are important elements. Channels to customers have five different stages: awareness of the product, purchase, delivery, evaluation & satisfaction and after sales. In order to make good use of the channels and to reach as many customers as possible, it is advisable to combine off-line (traditional shops) and online (web shops) channels. Effective channels will distribute the value proposition in a fast, efficient and cost-effective way. The SME should answer the following basic questions:
  - o Through which channels will the customers be reached?
  - o Which channels work best? How much do they cost? How can they be integrated into your and your customers' routines?

- **Cost Structure.** The purpose of this block is to describe the most important monetary consequences while operating under different business models. By exploring the cost structure, an SME will estimate what the minimum turnover must achieve to make a profit. The cost structure considers economies of scale, constant and variable costs and profit advantages. It is obvious that more investments must be made than the organization is generating in revenue, the costs will have to be adjusted. Often an organization will choose the

trade-off between using or deleting a number of key resources in order to decrease the costs. The SME should answer the following basic questions:

- o What are the highest costs in their business?
- o Which key resources/ activities are most expensive?
- o For what value are the customers willing to pay?

- **Revenue Stream.** This block describes the way a company makes income from each customer segment. In addition to the cost structure, the revenue streams will provide better understanding of the revenue model of an SME. For example, how many customers does an organization need on an annual basis to generate a profit? How much revenue does it need to break even? The revenue streams are the most important cost drivers. There are several ways to generate a revenue stream: asset sale, usage fee, subscription fees, lending/leasing/renting, licensing, brokerage fees, advertising. The SME should answer the following basic questions:

- o For what value are their customers willing to pay?
- o What and how have they recently payed? How would they prefer to pay?
- o How much does every revenue stream contribute to the overall revenues?

3.3. InnoModel elements in detail

InnoModel contains a template of a business plan, where the abovementioned building blocks are its composite elements. The blocks provide a detailed view of all business success key drivers. Its major advantages include:

- This model is concise, but exhaustive. On the contrary, traditional business plan descriptions could be very long and difficult to read and understand;
- The model is flexible and could be easily tailored to any kind of SME. It will take much shorter to adjust a single page plan.

The InnoModel structure could be summarized as provided in Figure 2:
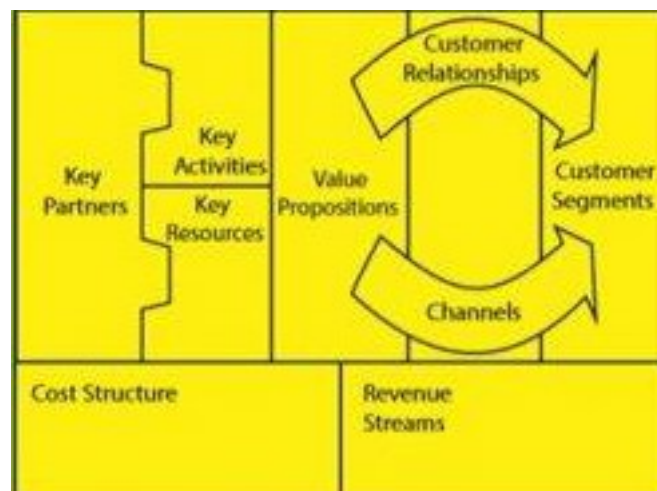
Key Partnerships

Key partners are the first important element of the business plan that each SME should determine in order to optimize operations and reduce risks: buyer-supplier relationships, cooperation with competitors, etc. This block requires the company to describe the network of

suppliers and partners that make the business model work. The SME should determine their key partners/suppliers as well as the motivations for their partnerships. Key partners refer to those partners an SME is not able to work normally without and therefore play important role in business relations. Of course, partnerships are not static and could vary during the business lifecycle since the market circumstances often change. Therefore, the SME should answer the following important questions:

- Which partnerships are critical to their business?

- Who are their critical suppliers?

- Which of their suppliers and partners are sourcing their key resources?

- What type of partnerships would suit their needs?

Companies use partnerships for various reasons, generally for mutual benefit. That is why partnerships are becoming a cornerstone of many business models. When forming a partnership, evaluating the impact on the clients is important. SMEs create alliances to optimize their business models, reduce risk, or acquire resources. It can be useful to distinguish between the motivations for creating partnerships:

- *Optimization and economy of scale*. The most widespread form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. These may include access to certain hardware or software, a large social media following, or a strong network of industry professionals in an SME's area. Optimization and economy of scale partnerships are usually formed to reduce costs, often involve outsourcing or sharing infrastructure with the purpose of a business potential that will increase as a result. Strategic partnerships grow the opportunity for SMEs to share their good practices with one another in a way that benefits all parties involved.

- *Reduction of risk and uncertainty.* Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products. In addition, strategic partnership between SMEs could bring them access to new markets and new customer groups.

- *Acquisition of particular resources and activities.* It is difficult for SMEs to possess all the needed resources or to perform all the activities described by their business models. Rather, they extend their capabilities by relying on other companies to play the role of suppliers or to perform certain services, as well as to acquire knowledge, licenses, or access to customers.

- *Access to new products, services or markets.* The diversification of products and services is among the primary purposes of the created partnerships. Access to new or different customers, ideas, materials, and expertise will give your business the

opportunity to improve current products and create new ones. Similarly, expanding to new markets, geographical or virtual, could boost profit, so finding partners in such fields could be critical in reaching new customers.

The SME can distinguish between four different types of partnerships:

- Strategic alliances between non-competitors
- Competition: strategic partnerships between competitors
- Joint ventures to develop new businesses
- Buyer-supplier relationships to assure reliable supplies

Key Activities

This block describes the most important activities an SME must do to make its business model work. Each business model includes a number of key activities. This term refers to the most critical actions an SME should take to operate successfully. Similarly to Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. Key Activities vary depending on the selected business model type. For example, they may include software development, supply chain management, problem solving, etc. Therefore, the SME should answer the following important questions:

- Based on their value proposition, what kinds of activities are critical to the business?
- What kinds of activities are the most important to their distribution channels?
- What kinds of activities are important if the SME wants to maintain their customer relationships?
- What kinds of activities are fundamental to their revenue streams?

Key Activities can be broadly categorized as follows:

- **Production**. These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activity is widespread in the business models of manufacturing firms.
- **Problem solving.** Key Activities of this type relate to finding new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.
- **Platform/network.** Business models designed with a platform as a Key Resource are dominated by platform or network related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. Online retailer's or payment companies' business model requires that the SME continually develops and maintains its platform. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

The Value Propositions will obviously have the most profound impact on the kind of activities the SME carries out. However, as the business grows, the company may begin to include

unnecessary activities within this block as well. To prevent this, a method referred to as the Minimum Viable Product [2] is proposed. The idea is to explore the most basic version of their product or service made through a single cycle of the build, measure and learn loop. Most often, managers believe that for a product to be successful, it must provide maximum value to the customers. While determining the key activities, SMEs should deal with the tradeoff between increasing the activities and therefore the expenses and the restrictions of limited resources, so each SME should be selective with the customers it chooses (Customer Segments) and the kind of value it provides (Value Proposition).

TYPICAL ACTIVITIES

The Key activities building block creates a bridge between the value propositions and the customer segments' needs. Some typical key activities that are commonly practiced by most organizations are listed below:

1. Research & Development

Although SMEs rarely possess their own R&D department, it should conduct some typical functions of a research department:

- **New Product / Service Research.** Before a new product or service can be produced, the company first has to explore the marketing possibilities, customer target groups, the design of the product, the expected production costs, similar products of the competitors, how long it will take to produce sufficient amounts of the product, etc.

- **New Product Development.** The research stage leading to the product development.

- **Existing Product Updates.** Existing products have to be upgraded based on evolving consumer needs or new entrants into the product category in the market. These changes can additionally be focused on product drawbacks that need resolving.

- **Quality Checks.** SMEs should conduct quality checks of their products on regular basis with purpose to assure they are up to the quality standards set by the company.

- **Innovation**. The SME should also keep in touch with innovations and new trends within the industry and ensuring that their product stays in line with these trends.

2. Production

Production management consists of a number of activities, which are outlined below:

- **Selection of product and design. T**he first step of an SME is to select the right product and the right design for the product. This is a critical decision because the combination of the right product (Value Proposition) and the right design (Key Activities) will determine the success or the failure of the SME. Value engineering and analysis are also included in this activity.

- **Selection of Production Process.** This stage consists of deciding what production process the SME will use, including the proper technology, machines, inventory management system, etc.

- **Selection of Production Capacity.** The SME production management must have full knowledge of the expected demand for the product and set the production capacity accordingly, since either a shortage or a surplus of the product may lead to problems for the company. Break-even analysis [3] is the most common method, used by production managers to predict the necessary capacity.

- **Production Planning and Control.** The SME manager is responsible for the routing and scheduling of the product, as well as for monitoring and controlling the production process. Routing is aimed at creating a smooth flow of work by discovering the easiest and most economical flow of work. Scheduling, on the other hand, refers to the timing of activities. The purpose of control is to compare planned production with actual one, setting baselines, exploring possible deviations and correcting them to meet the fixed deadlines.

- **Quality and Cost Control.** In the contemporary world consumers look for the maximum quality for the lowest price. Hence, each SME should continuously improve the quality of the product and also reduce costs so their product can remain competitive in the market in terms of price.

- **Inventory Control.** Inventory Control is fundamental to a production driven business because it keeps track of the resources, preventing both overstocking and understocking.

- **Maintenance and Replacement of Machines.** The SME manager must constantly monitor machinery and schedule regular maintenance. This activity ensures that there are no unexpected breaks in production.

3. Marketing

The Marketing specialists are responsible for the growth of the SME by exploring the market possibilities and the value it provides to its customers. The functions of the marketing department are presented below:

- **Strategy.** Nevertheless, usually SMEs take a relatively small market share; it is a good idea to create a marketing strategy for the company, based on its overall vision and missions. As a next step, this strategy should be realized by defining specific objectives based on it.

- **Market Research.** The SME has to be aware of the market the company is operating in including the strengths and weaknesses of the product according to the customer, potential competitors in the market to whom the company may lose market share or weaker competitors from whom the company can get market share.

- **Product Development.** The marketing team should work together with the product development team constantly. This is done by analysing market areas for which the SME can develop a product to address an unmet need. After the product is developed, the marketing team is also involved in pricing the product.

- **Communications.** The SME should conduct communication with all stakeholders while going out in the market. This communication varies from press releases to online product reviews, advertisements, e-mails, etc.

- **Sales Support.** This activity aims to provide the sales team with customer leads, as well as promotional materials for potential customers.

- **Events.** The SME should regularly participate or organize events such as seminars, product launches, exhibitions, etc.

4. Sales & Customer Services

These services play a key role in the purchase and post purchase behavior and experience of customers. The SME should build a description of constant customers and examine their experience (both positive and negative) with products / services. They fulfill the following responsibilities on behalf of the company:

- **Handling Problems.** The SME should provide a help desk service to the customers calling in with questions or complaints. Some customer representatives are empowered to solve the problem on the spot by providing a replacement or returning the money. Others may act as gatekeepers who take information and then route it to the relevant departments.

- **Assisting in Sales.** This activity aims at increasing the sales of the organization and may include educating customers on the value propositions the product offers or upselling by telling customers how to upgrade their services for improved quality.

Key Resources

Key resources are defined as the main financial, intellectual, physical or human assets that an SME requires to create a value offering, market and deliver it to the consumers. It is important to begin with listing the necessary resources to get a clear idea of what final product or service the company needs to create for the customer, and which resources are dispensable. Based on the final list of resources, the SME can decide on how much it needs to invest in these key resources to operate a sustainable business. In this Building block, the most important part is to come up with an answer to the following questions:

- What key resources do the Value propositions require?

- What key resources are needed for the distribution channels?

- What key resources are needed for the customer relationships?

- What key resources are needed for the revenue streams?

Key resources, such as materials, equipment, skilled labor, and specialists, determine the key benefits of creating an end product or service. They are directly related to the number and type of key activities the company is engaged in. Their quality will affect the sustainability and profitability of the organization. An important aspect is how the change in demand will affect the core resources.

Key resources can be categorized into four broad types:

- The *Physical resources* are tangible resources that a company uses and they include equipment, inventory, buildings, manufacturing plants and distribution networks.

- The *Intellectual resources* are intangible resources like brand, patents, IP, copyrights, customer lists, customer knowledge and partnerships.

- The *Human resources* are the most important assets of an organization.

- The *Financial resource* includes cash, lines of credit and the ability to have stock option plans for employees.

Depending on their key resources, SMEs can be categorized into the following three types:

- **Product Driven Businesses.** These are companies that focus all their functions on the creation and sale of a product with unique characteristics and a customer segment. Their Key resources are intellectual and human.

- **Scope Driven Businesses.** These are dedicated to providing a value proposition to a particular customer segment. Such businesses have key resources in their well-developed intelligence about their target customer segment, an established set of processes and in some cases infrastructure such as specialized service centers.

- **Infrastructure Driven Businesses.** These achieve profitability through leveraging their developed and implemented infrastructure.

Value Proposition

A value proposition is a promise of value to be delivered and represents the primary reason for a customer to buy from the SME the product or service. In its core, value proposition is a clear statement that:

- explains how the product solves customers' problems or improves their situation (relevancy),

- delivers specific benefits (quantified value),

- tells the ideal customer why they should buy from the company and not from the competition (unique differentiation).

The value proposition needs to be in the language of the customer and should comply to their attitude and intensions. The value proposition should be outlined as the first thing the visitors see on the home page, but also should be visible in all major entry points of the company's website. It is usually a block of text (a headline, sub-headline and one paragraph of text) with a visual (photo, hero shot, graphics):

- Headline (Attention grabber). It explains what is the end-benefit the SME is offering in one short sentence. Can mention the product and/or the customer.

- Sub-headline or a 2-3 sentence paragraph. A specific explanation of what the SME does/offers, for whom and why is it useful.

- Bullet points list. Enumerates the key benefits or features.

- Visual. Images communicate and take attention much faster than words. Show the product, the hero shot or an image reinforcing your main message.

The value proposition should be clear and easy to understand: what is the product / service, for whom and how is it useful? In addition, it is a good idea to communicate with the concrete results a customer will get from purchasing and using the offered products and/or services and emphasize how it is different or better than the competitor's offer. It should answer the questions below:

- What product or service is the company selling?

- What is the end-benefit of using it?

- Who is the target customer for this product or service?

- What makes the SME's offering unique and different?

The value proposition could be either a new product / service or a new disruptive offer or an upgraded one, i.e. added value of an existing product. There are various types of value proposition:

- **Newness**. Some value propositions are based on the newness or novelty factor that they provide. They satisfy a new customer need, because either it was not identified previously, or there was a similar product. This element usually comes into play for technology-intensive products.

- **Performance**. Better performance is the basis of many product offerings over the years on improved performance versions of the same products. The software and hardware industries are good examples of this type of value propositions.

- **Customization**. The contemporary market proclaims the self-expression and individualism of the modern consumer. They expect the products they use to be unique and to express their personality, especially in some specific Customer Segments. Providing the option to adjust the product to the consumer's preferences adds value for the customer. Traditionally, customization has resulted in prohibitively expensive products, but today this option provides the opportunity for customers to put their personal stamp on a product while still providing economies of scale.

- **Getting the job done.** In this case, the product helps a consumer to reach the end goal. This kind of products or services enhance the customer's productivity and helps the customer to focus on more relevant details.

- **Design**. The design of many products is intangible, but important element of their value proposition – clothes, accessories, shoes, etc.

- **Brand/Status.** Design and brand/status can be considered jointly because their appeal is quite similar. Just like people will show loyalty to a brand because of its design,

people will also show loyalty to a design because of the perceived status the brand name itself lends to the owner or user. Ultimately, a brand/ status intensive product will help the customer look and feel in control, important and part of the mainstream.

- **Price.** Offering the same or similar product at a lower price creates value in many Customer Segments. However, in the contemporary market organizations competing on price, or in some cases, even offering free services, usually they have different business models to sustain the organization. In the case of free products / services, companies get their revenues by advertising or premium services.

- **Cost Reduction.** Reducing customers' costs is another way for creating value. For example, hosted services in IT sector are common example of reducing costs by relieving companies of the expenses and time for buying, installing and administrating their own software and hardware.

- **Risk Reduction.** Reduced risks also create value. For example, the abovementioned-hosted services are with lower risk level with respect to security, than software on company's own premises or the one-year service warranty received when buying a used car. In the last example, the risk of buying a second hand vehicle is diminished by the comfort of having the warranty.

- **Accessibility**. Extended access to products and services could create value for the customer. This feature is widespread in the IT industry, for example with web-based applications and services, accessible 24x7 from any location. Similarly, variations in business models have both led to offering accessibility to unserviced customers.

- **Convenience/Usability.** Easy to use products / services create additional value to the customer. Providing consumers with a product that increases their convenience or is characterized by ease of use is a very strong value proposition and one on which some companies have built empires and legends around.

Customer Relationships

Customer relationships are defined as relationships established between different customer segments and the company, and are extremely important for customer experience maximization and best targeting of the products / services. The Building Block Customer Relationships allows users to describe connections with their customers. Connecting with a customer base is important in keeping reputation as a caring organization, to create financial success and sustainability. These relationships are established and maintained with each Customer Segment. In this Building block, the most important part is to come up with an answer to the following questions:

- What is the relationship that the target customer expects you to establish?

- How can you integrate that into your business in terms of cost and format?

- What type of relationships does each of our Customer Segments expect us to establish and maintain with them?

- ✓ Atmosphere

- ✓ Customer service

- ✓ Interactions

- Which customer relationships have we established?

  - ✓ Preconceived notions about the industry

- How do we get, keep and grow customers?

- How are they integrated with the rest of our business model?

- How costly are they?

Customer Relationships can be broadly categorized as follows:

- **Personal Assistance:** In this kind of relationship the company interacts with the customer directly through an employee who provides the human touch by assisting the customer. Customers have the opportunity to interact with a sales representative while they are making their purchase decision or with a customer services representative for after sales services.

- **Dedicated Personal Assistance:** This kind of relationship is characterized by a very close interaction between the customer and the company through a dedicated representative who is assigned a set of clients and is personally responsible for the entire experience the customer has with the company. This kind of relationship takes some time to develop and is characterized by the representative knowing traits of the customer that he uses to customize the customer experience with the company.

- **Self-Service places.** Customers are given resources to help themselves. This model has been getting more and more popular as organizations seek cost-cutting measures that will reflect in the prices given to customers.

- **Automated Services** are customized self-service relationships where the historical preference of the customer is taken into account to enhance his/ her shopping experience. They are the next level of self-service and they are usually much more customized, which is why they can be likened to personal assistance.

- **Communities**. Creating communities of clients allows clients to share their experiences and come up with common challenges and solutions. Customers are able to connect with other customers for help. In this way, not only does the company form a personal relationship with its customers, but these bonds are strengthened by the additional relationships customers form with one another.

- **Co-Creation.** Customers are able to create value for the company. Companies can obtain benefits from the involvement and participation of customers in the innovation process. This gives customers greater ownership over the product and service and often results in the creation of product or brand champions in the market.

- **Transactional**. The company interacts with the customer on a transactional basis.

- **Long-term.** A long-term relationship between the company and the customer is established - like the company interacts with the customer on a recurring basis.

In the Building Block Customer Relationships, users can select which one(s) pertain to their organization and reflect how. In it they write down a type of customer relationship their business utilizes and the process is repeated for many customer relationships their business appeals to.

The relationships are dependent on three main motivations:

- **Customer acquisition.** Customer acquisition is the process of persuading a customer to select the organization's product. A number of methods are available for acquiring customers, some of them are:

  - ✓ **Search Engine Optimization:** The more people are sharing an SME's brand and a company's name, the higher the content will rank in search results. This is one of the most effective ways of getting the product noticed by target customers.

  - ✓ **Email Marketing**: the resulting traffic directed at an organization from search engine optimization can give SMEs access to a rich resource of potential customers. When customers subscribe to receive information and news regarding the product, SMEs have managed to acquire a customer.

  - ✓ **Conversion Rate Optimization**: the more the SME starts attracting customers, the stronger the chances are of acquiring them by making minor changes to their content and outlook.

  - ✓ **Social Media Marketing**: Social media can elevate the product or service significantly in an SME's target customer segment's estimation.

  - ✓ **Analytics**: Companies use data gleaned from one or more of these resources and analyze it to better understand their customers.

- **Customer Retention.** Customer Retention refers to the long-term relationship a company establishes with its customers. The more repeat customers an SME has, the more help to acquire additional customers. Below are some strategies that businesses can use to retain their customers and form long-term relationships with them:

  - ✓ **Stand for Something**: In order to build the customers' loyalty to brands, an SME can select what its brand stands for, such that the customers identify with.

  - ✓ **Utilize positive social proof:** Websites that provide customers information on the usefulness of a product are more likely to help the company retain customers in the long term.

  - ✓ **Invoke the inner ego:** Implicit egotism can be a very effective weapon. For this goal, SMEs need to know the customers' wants, needs and desires, to be able connect with them and show them how the company and its products are an extension of themselves.

- ✓ **Use the words they love to hear:** Certain words have a deep impact on the buying behavior of customers, and if the product fulfills the promise of these words, customer retention becomes easier.

- ✓ **Reduce pain points and frictions**: If an SME resolves a problem for a customer, it will be retaining him for much longer.

- ✓ **Realize that budget is negligible:** Giving a discount, even if it is a small one, will keep the customer.

- ✓ **Utilize surprise reciprocity:** Surprising the customer by providing them a discount or a free add-on, will keep the customer.

- ✓ **Make it personal:** By providing a personal service to the customers, SMEs increase their chances of getting a repeat customer.

- ✓ **Speed is secondary to the quality:** The customers are more likely to come back if the SME doesn't reduce the quality at the expense of speed of service.

- ✓ **Customers enjoy businesses who know them:** The more time is given to the customer for providing a level of personalization, the more likely he is to believe that the SME really knows him and therefore continues to pull him back to the brand.

- ✓ **Choose the right platform:** It is important to know what communication channel is preferred by customers and to utilize this channel to keep their presence ensured in the customer's psyche.

- ✓ **Get people started:** Loyalty programs are more likely to be used if companies get past the customer's initial resistance and ensures that customers are automatically signed up for such schemes.

- ✓ **Get ideal customers to be VIP's:** People appreciate being assigned to a particular customer class, if there is a class below them in the program.

- **Boosting sales (upselling).** SMEs are always focused on increasing their sales and often use a strategy which requires representatives to convince the customer to buy more of their company's products. Typically there are two successful techniques:

  - ✓ Get to know the customer's profile, particularly focusing on their economics, demographics, preferences and social aspirations.

  - ✓ Using fear by suggesting to the client to know that the product may go out of stock due to demand or getting them to buy after sales services.

A really helpful step is to create a User Journey Map of SME's customers as they interact with the business. This helps clarify the points of engagement between a company and their customer and the approaches used to relate to customers. This will also help start to define operations as a business and also help to identify opportunities for automation.

Through the offered innovative services and certification programs and training seminars, which offer a lot of useful information, users can build relationships with many businesses.

Channels

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition, Communication, distribution, and sales Channels that comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience. Channels serve several functions, including:

- Raising awareness among customers about a company's products and services

- Helping customers evaluate a company's Value Proposition

- Allowing customers to purchase specific products and services

- Delivering a Value Proposition to customers

- Providing post-purchase customer support

The major questions SMEs have to answer are as follows:

- Through which Channels do their Customer Segments want to be reached?
- How are they reaching them now?
- How are their Channels integrated?
- Which ones work best?
- Which ones are most cost-efficient?
- How are they integrating them with customer routines?

We can distinguish between the following basic types of channels:

- Based on their approach in reaching customers:
  - ✓ **Direct** – for example in-house sales force or a Web site
  - ✓ **Indirect** – like retail stores owned or operated by the organization
- Based on their ownership:
  - ✓ **Owned –** could be direct or indirect. Owned channels and particularly direct ones have higher margins, but can be costly to put in place and to operate.
  - ✓ **Partner –** they are indirect and span a whole range of options, such as wholesale distribution, retail, or partner-owned Web sites. Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths.

Channel of distribution refers to those people, institutions or merchants who help in the distribution of goods and services. Kotler and Armstrong [4] define channel of distribution as "a set of independent organizations involved in the process of making a product or service available for use or consumption". Channels of distribution bring economy of effort and help to cover a vast geographical area, and also bring efficiency in distribution including transportation and warehousing. Retailers, Wholesalers are the common channels of distribution. Channels of distribution provide convenience to customer, who can get various

items at one store. If there were no channels of distribution, the customer would have faced many difficulties.

An SME can choose between reaching its customers through its own Channels, through partner Channels, or through a mix of both. The purpose is to find the right balance between the different types of Channels, to integrate them in a way to create a great customer experience, and to maximize revenues. Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to market. Channels have five distinct phases and each channel can cover some or all of these phases.

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

All kinds of Channels: communication, distribution, and sales comprise an SME's interface with customers. Channels are customer touch points that play an important role in the customer experience.

Channels serve several functions, including:

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

In InnoModel canvas channels could be chosen using the following approaches:

1) Brainstorming – the purpose is to determine the most suitable channel and the reason it is

2) Ranking - each channel should be ranked according to its potential, cost, volume and ease of testing

3) Prioritizing – selecting the best channels of all enumerated

4) Testing – all the above-mentioned decisions are based on assumptions. Hence, it is important to start learning fast and ensure cost is as low as possible. For example, the top 3 channels could be tested and moved away from the center based on the effectiveness. On the contrary, the least promising result could be removed and replaced with one of the channels outside of the selected top 3.

Customer Segments

Customer segments describe the target group of people for whom the products and/or services are intended for. The general customer set could be divided into distinct groups based on psychological factors like their needs, preferences, behavior, interests or demographic factors like age, gender, nationality, geographic location, etc. and other peculiarities. An SME or a startup could select one or more target groups as their customer segments while target groups could vary over time.

It is crucial for an SME or a startup to carefully select the customer segment, since by focusing the attention to right customer segment(s), the organization could increase their profit. At first sight, one could think that selecting as many segments as possible is the best choice, but each SME or startup has limited resources and could not be effective enough in covering all possible customer segments. In practice, there is always a trade-off between aiming at many customer groups and therefore increase the profit and dealing with limited resources and deal with risk. For this purpose, the SME should develop a value proposition and apply a business model, which is optimal regarding the selected customer segment(s).

Each customer segment could be described with the following characteristics:

- The target group has specific needs that have to be addressed by the offered product or service
- The product / service needs a specific distribution channel
- Each customer group could use specific type of the product, adjusted to their particular needs and brings profit to the organization
- The customers have substantially different profitabilities
- The customers are willing to pay for different aspects of the offer

Customer segments could be broadly divided into the following types:

1. **Mass segment** – it comprises products and services with a general purpose, which are not intended for a particular part of the population. The distribution channels and value propositions are designed for the consumption of a large number of people with broadly similar needs and problems.
2. **Niche segment** – this market is intended for extremely small number of customers with very particular needs and strongly defined characteristics. The distribution channels, value propositions and customer relationships are designed for these specific target group preferences. A niche market is quite opposite from a mass market, focusing on a very specific group of customers.
3. **Segmented market share** – this segment includes customers with very small variations in their needs and requirements, so the distribution channels and value propositions are defined according to these customized preferences. A segmented market is one in which SMEs have multiple different groups of customers with different sets of needs and problems and the company would provide the same product or service with slightly different value propositions to meet the varying customer needs.

4. **Diversified segments** – an SME or a startup could choose various customer segments. As an example, online sellers (books, music, clothes, equipment, etc.) are good example of diversified segments, since the customers are not limited in their demographic or social characteristics. A diversified market is similar to a segmented except that it utilizes entirely different sets of value propositions to cater to unrelated customer segments rather than just slightly altering the product.

5. **Multi-sided Markets** - this business model serves several interdependent Customer Segments. For example, a free newspaper needs a large reader base to attract advertisers, and advertisers to finance production and distribution. Both segments are needed to make this business model work. Multi-sided markets serve interdependent customer segments. For example, an online payment company interacts with both the bank institutions, and the retail customers who accept those cards.

Customer profile should be described by examination of the customer's preferences in more detail. The customer profile creation will contain the customer archetypes / personas definition:

- Who are the customers? The company should define their age, gender, position, etc.
- How do customers buy? What is their approximate discretionary budget?
- What is their motivation to buy and what are they influenced by? What media do they read, listen and watch?
- What are customer's habits, preferences and intensions?

A good way to think about customer profiles block is to treat it as the demographic information of your customers. Information the SMEs want to predict and test for this section could include age, gender, urban/rural, income level, personal preferences (diet, transportation, habits), time spent working, etc. Something to keep in mind here is that if the customer is going to use the product, they are going to have to give up something else (time to use another product, efforts for switching from current product, etc.). The same applies to a startup looking to serve other businesses, except it will be slightly different data, such as what industry is the business in, what would your product or service replace for that company, how much money does the company make, etc.

There are several databases and websites available that provide a fairly comprehensive overview of many of these demographics. The purpose of the experiments should be to correlate your value propositions and their relative importance to each customer segment. After finishing this examination, the SME will have a better understanding of which types of people will be its key customers. It is crucial to the business to have a thorough understanding of their specific lifestyle (what time they get up, how often they eat, do they drive or take the bus, etc.) Understanding the target market will allow the business to provide more value more effectively to their most important customers.

To better serve their customers, companies commonly group them into segments distinguished by common needs, common behaviors, or other attributes. Finally, SMEs make a conscious decision as to which segments to serve and which segments to ignore, thus

allowing them to focus on matters that vitally affect their business. Customers require separate segments if they meet the following conditions:

1. Need and justify a distinct customer offer

2. Are reached through different Distribution Channels

3. Require different types of relationships segments

4. Have substantially different profitabilities

5. Are willing to pay for different aspects of the offer

Koch and Nieuwenhuizen [5] recommend a simple weighting table for two-product comparison:

Question	Yes Score	No Score
Are the competitors in the two products or areas the same?	-30	+30
Are the relative market shares (RMS) of the SME and the leading competitors roughly the same in the two products or areas?	-50	+50
Are the customers the same in the two products or areas?	-20	+20
Are the customers' main purchase criteria and their order of importance roughly the same in the two products or areas?	-30	+30
Are the two products substitutes for each other?	-10	+10
Are the prices of the two products (for equivalent quality) or in the two areas roughly the same?	-20	+20
Is an SME's profitability roughly the same in the two products or areas?	-40	+40
Are the cost structures in the two products or areas similar (i.e. roughly the same proportion of cost in raw materials, in manufacturing, in marketing and selling, etc.)?	-10	+10
Do the products or areas share at least half of their costs (i.e. use common labor, machines, premises and management resources for at least half of their total costs)?	-30	+30
Are there logistical, practical or technological barriers between the two products or areas that only some competitors can surmount?	+20	-20
Is it possible to gain an economical advantage by specializing in one of the products' areas by gaining lower costs or higher prices in that product's area as a result of focusing on it?	+30	-30
Total		

If the total is a positive number the two products or areas should be treated as separate business segments.

Cost Structure

This building block describes the most important costs incurred while operating under a particular business model, including creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called "no frills" airlines, for instance, have built business models entirely around low Cost Structures. When an SME defines how to create value, maintain customer relationships, and generate income, it will see costs incurred on each of these levels.

The cost structure of a business can be placed into one of two categories:

1. Cost-driven. This cost structure focuses on minimizing costs wherever possible. This process can include high automation, extensive outsourcing, low price Value Propositions, and the leanest possible cost structure.

2. Value-driven. With the value-driven cost structure, an SME focuses on how they create the best value for each customer segment. This can include a highly personalized service and exclusive services, for example premium Value Propositions and a high degree of personalized service usually characterize value-driven business models.

A Cost Structures can have the following attributes:

• **Economies of scale.** Cost advantages that a business enjoys as its output expands. Many companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

• **Economies of scope.** Cost advantages that an SME enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

• **Fixed cost.** Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

• **Variable cost.** Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

• **Economies of scale.** The higher the volume, the lower the overall cost per unit. Economies of scale are a benefit enjoyed by many companies with a high output quota. The reason costs fall with higher volumes is because higher volumes spread fixed costs more thinly, making the cost per unit fall dramatically; hence the average cost per unit is reduced. Therefore, a bigger company will have a lower cost per unit output than a smaller company, or a company with more facilities will have more of an advantage

than one with fewer facilities. Not only do economies of scale help lower fixed costs, they may also help reduce variable costs by creating synergies and increasing efficiency.

- **Economies of scope.** Economies of scope refer to the reduction of costs when a business invests in multiple markets or a larger scope of operations. The average cost of production is therefore expected to decrease if a company opts to increase the number of goods it produces. An SME will have a structure in place, already along with all the departments such as Marketing, Finance or HR operating, so the company can increase their scope and hence economize the entire structure. Economies of scope based on product diversification are only achieved if the different products have common processes or share the use of some resource. Hence spending on marketing the products or distribution channels may lessen per unit if both products require similar marketing efforts or use the same distribution channel.

Revenue Streams

This building block measures the earnings an SME generates from each customer segment (costs must be subtracted from revenues to create earnings). When targeting each target audience, managers have to think about what each group is willing to pay. When SMEs realize that different groups of customers are willing to pay at different levels, they can get different revenue streams to apply to each of these groups.

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

• **Transaction revenues** resulting from one-time customer payments

• **Recurring revenues** resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support

When deciding which type of revenue stream fits well in the communication with a customer segment, the SME should answer the following questions:

- How are they currently paying?
- How would they prefer to pay?
- Does a certain method of revenue contribute more to overall earnings?
- For what value are customers really willing to pay?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues in terms of percentages of the total?

The proposed Revenue Streams represent the ways your company generates cash from each Customer Segment.

There are several ways to generate Revenue Streams:

✓ **Asset sale.** The most widely understood Revenue Stream derives from selling ownership rights to a physical product.

✓ **Usage fee.** This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays.

✓ **Subscription fees.** This Revenue Stream is generated by selling continuous access to a service.

✓ **Lending/Renting/Leasing.** This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership.

✓ **Licensing.** This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows rights holders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties. Similarly, in technology sectors patent holders grant other companies the right to use a patented technology in return for a license fee.

✓ **Brokerage fees.** This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sales transaction executed between credit card merchants and customers. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

✓ **Advertising.** This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years, other sectors, including software and services, have started relying more heavily on advertising revenues.

When setting up revenue streams, it is important to recognize that an effective price for the product and/or service will be arrived at through the process of elimination. Different iterations of prices should be listed and evaluated. It is important in the end to take a break and reflect on possible avenues open to you as a business.

3.4. Industry-Specific Innomodel Templates

Application Development InnoModel

Application Development InnoModel helps to summarize all the important factors of the app development process and keep everything in one place.

This model will be useful for all those involved in the process of app development or plans to start working on the app including:

- Startup founders
- Management
- Project Managers
- UI/UX designers
- Designers
- Content Managers
- Marketers

Based elements:

- ***Concept*** – describe your app concept in this box.

Main questions:

o What is your app about?
o What should it do now and in the future?
- ***Team*** – list the names and roles of your team members who is involved in the process of app development
- ***Version and Date*** – the version of the app the users are working on and date
- ***Problem***

Main questions:

- o Which question are you solving?
- o Why is it urgent?
- • *MVP (Minimum Viable Product)* is a strategy used for fast and quantitative market testing of a product or product feature.
  MVP in five steps:
  1. Figure out What Problem You're Solving, and For Whom;
  2. Analyze Your Competitors;
  3. Define the User Flow;
  4. List All Necessary Features and Prioritize Them;
  5. Build, Test, and Learn.
     - o The first testing stage is conducted by Quality Assurance engineers, who work to improve the quality of the product when it is not yet released.
     - o Alpha testing - users generally give an alpha build of their product only to a limited focus group
     - o The beta testing period takes 1–2 weeks to get sufficient feedback; based on it the users may consider implementing changes in the following versions of their product.
- • *Platforms/ Languages/ Price /Budget*
  Price – summarize the costs.
  Budget – the amount of money users or their clients are able to spend on the app development.
- • *Target group*

Main questions:

- o Who are those people?
- o What are they doing?
- o Why will they buy or use your app?

Create Empathy map - An empathy map is a collaborative visualization used to articulate what we know about a particular type of user.

Based elements:

- o The segment Says contains what the user says out loud in an interview or some other usability study.
- o The segment Thinks captures what the user is thinking throughout the experience. Main questions: What occupies the user's thoughts? What matters to the user?
- o The segment Does encloses the actions the user takes.
- o The segment Feels is the user's emotional state, often represented as an adjective plus a short sentence for context.
  Main questions: What worries the user? What does the user get excited about? How does the user feel about the experience?

EMPATHY MAP
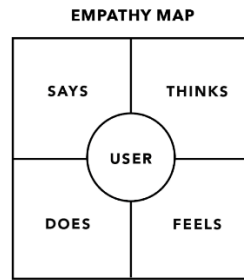
- *Characteristics* – identifying the features of the app.

Main question: What should your app allow you to do?

- *Discovery.* Main question: How will users find your app?
- *Success factors* – the factors that will help users to succeed.
- *Core functions* **–** the core features of your app and prioritize them.
  Main questions:
    o What is most important for your target audience?
    o What is necessary in MVP?
  Swap Sort is extremely useful when you need to put a set of ideas into priority order.
  1. Identify the problem
  2. Make special sections on your board
  3. Identify the criteria
  4. Invite collaborators
  5. Pairwise swapping
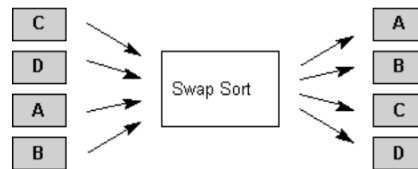
- **Discards** – apps or solutions users will leave behind for you.

Main questions:

  o What people use now to solve the same problem?
  o How much users will 'pay' (invest time or money) for moving to your app, what will they earn?
- *Vision*

Main questions:

  o How you see the future of your app?
  o How many users will you have?
  o How many problems will you solve?

X.2. Product/Market fit InnoModel

This template is suitable for users who want to understand who their customers are, what can be done to connect with them and meet their expectations.

The template is divided into two segments:

- a customer segment: This segment helps users with an initial analysis of your target audience. The pre-launch stage is when users define their market and their target audience.
    - o Characteristics
    - o Problems and needs
    - o Channel
    - o User experience

    The main questions:
    - o Who are your target clients?
    - o How can you define them and group them?
    - o What are the problems that they want to solve by using your service or product?
    - o How do they plan to use your product or service?
    - o What do your customers get by using your product or service?

- a product segment: This segment helps with analysis after the launch, when you evaluate how your app fits into the overall market. The Beta-testing stage is when users analyze their minimum viable product (MVP) to see how it fits in the market and what they should do to improve it.
    - o Alternatives
    - o Key features
    - o Value proposition
    - o Key metrics

After a three-month or nine-month period after product release, the users have to check if they acquire as many users as they planned (or have approached the desired number). The positive answer means that their product satisfies the existing demand on the market.

If at least 30 to 40 percent of people have shown interest in their product, then users have achieved product/market fit.

X.3. Startup InnoModel

Startup InnoModel allows users to structure their startup activities and help them keep all the important information on a single page.

Based elements:

- *Company name*
- *Team members*
- *Solution*
- *Question*
- *Viability*
- *Existing alternatives*
- *Target groups*

- *Goals*
- *Discards*
- *Success factors*
- *MVP*
- *User acquisition*
- *Value*
- *Vision*

X.4. Project InnoModel

Based elements:

- *Project name*
- *Motivation*
- *Participants*
- *Goals*
- *Users*
- *Activities*
- *Deliverables*
- *User Benefits*
- *Risks*
- *Milestones*
- *Constraints*
- *Scope*

IV. CONCLUSION

The described InnoModel visual thinking tool will help SMEs and startups while creating a business model. The tool allows easy, visual representation for decision makers to ponder upon. It provides a breakdown of the major considerations impacting the business and also makes clear the direction the organization is taking through its business model. It is not a single step tool, but a part of the whole business lifecycle and can be used to evaluate current and potential tweaks in the business model and their impact. The InnoModel tool allows the executive team to understand how the 9 building blocks relate to each other and the different ways these relationships can be changed to increase efficiency or effectiveness. An opportunity or innovation can be observed and developed through the use of InnoModel. The tool encourages teams to keep their suggestions short and simple enough to fit on Post-it Notes. It allows easy access and shareability. Pictures of the completed model or simply physically passing it around so people can grasp its gist as well as add to it, if need be, make InnoModel a very portable and convenient tool.

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