

# **Developing a Winning Business Model**

**(May 24, 2016)**

WHAT IS A  
BUSINESS MODEL?



it's  
a term that many of us  
frequently use

but  
do we really understand  
business models well enough?





what  
actually is a business model?  
tell me!



it  
describes the rationale of how  
an organization creates, delivers,  
and captures value

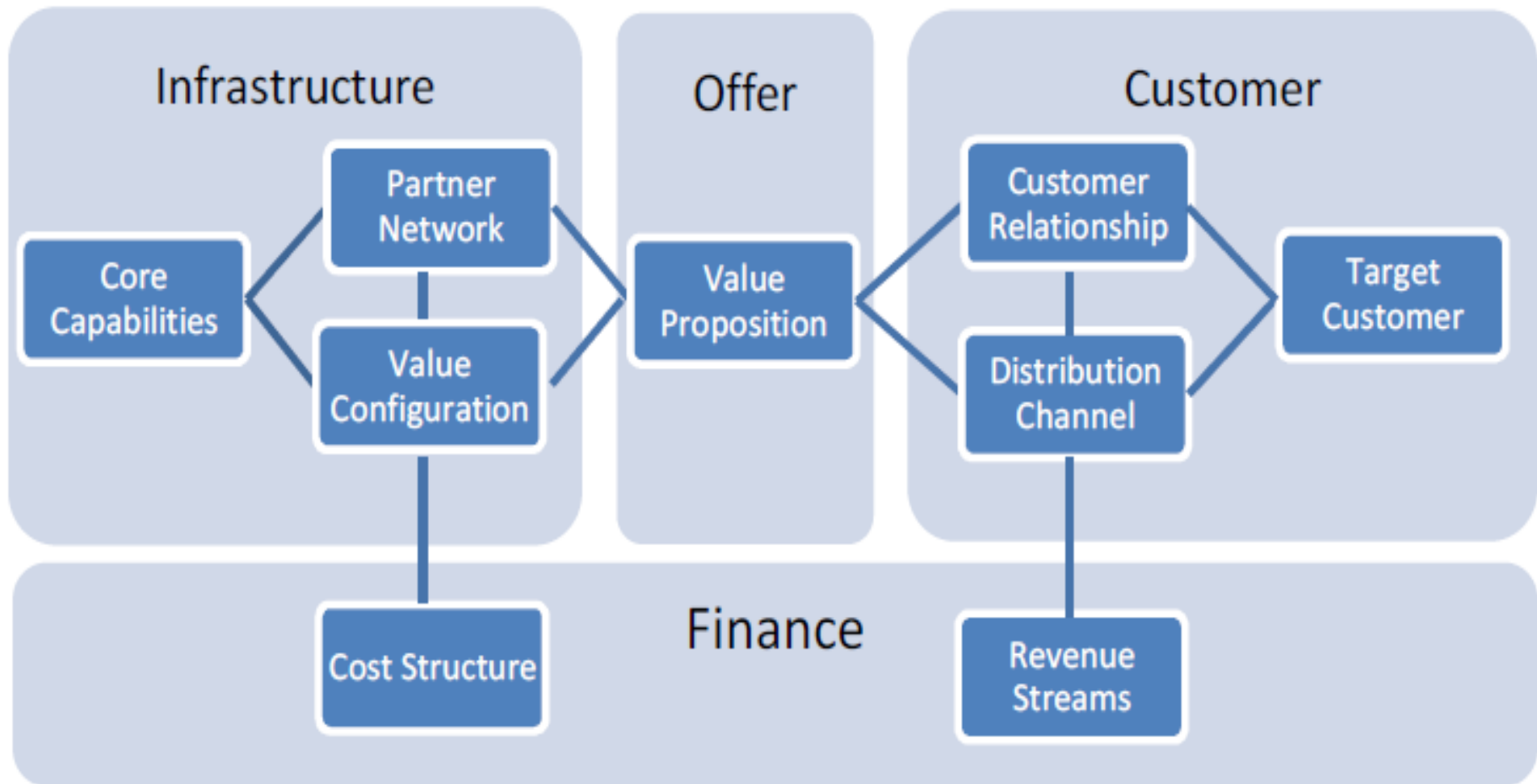


***A business model describes the structure and strategy behind a business case, and includes elements such as value proposition, key activities, key resources, cost structure and revenue streams. The aim of a business model is to help structure an initiative in a way that leads to a positive business case, one that leads to initiating the activity.***



a  
business model includes nine  
basic building blocks





**These building blocks can be grouped, and are defined, under the following headings:**

## **Infrastructure**

**Core capabilities** are the capabilities and competencies necessary to execute a organization's business model,

The **Partner network** means the business alliances that make up the business model,

The **Value configuration** refers to the rationale that makes a business mutually beneficial for a business and its customers.

## **Offering**

The **Value proposition** means the products and services a business offers.

## Customers

A **Target customer** refers to the target audience for a business's products and services.

**Distribution channel** is the means whereby a organization delivers products and services to customers. This includes the organization 's marketing and distribution strategy.

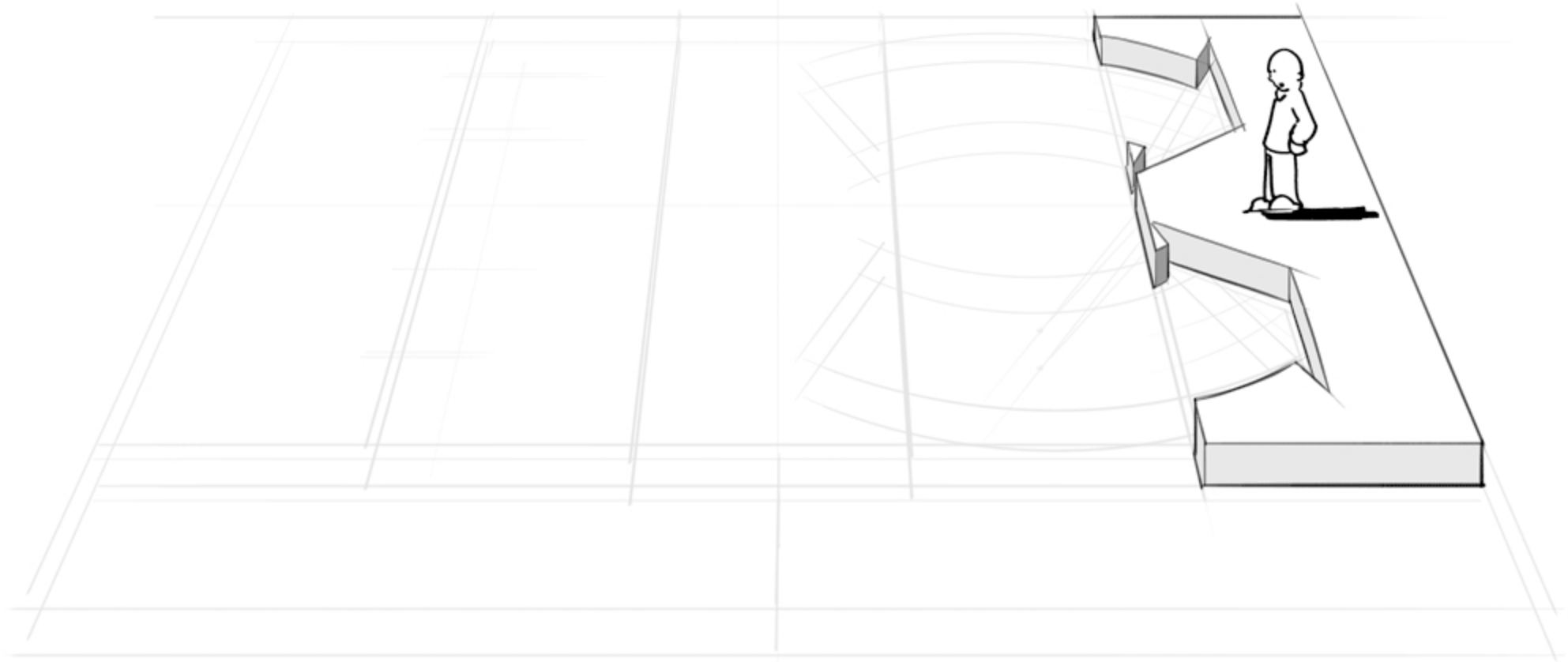
**Customer relationship** refers to the links a organization establishes between itself and its different customer segments and the management thereof.

## Finances

**Cost structure** refers to the way in which the company's products are monetarised to produce revenue.

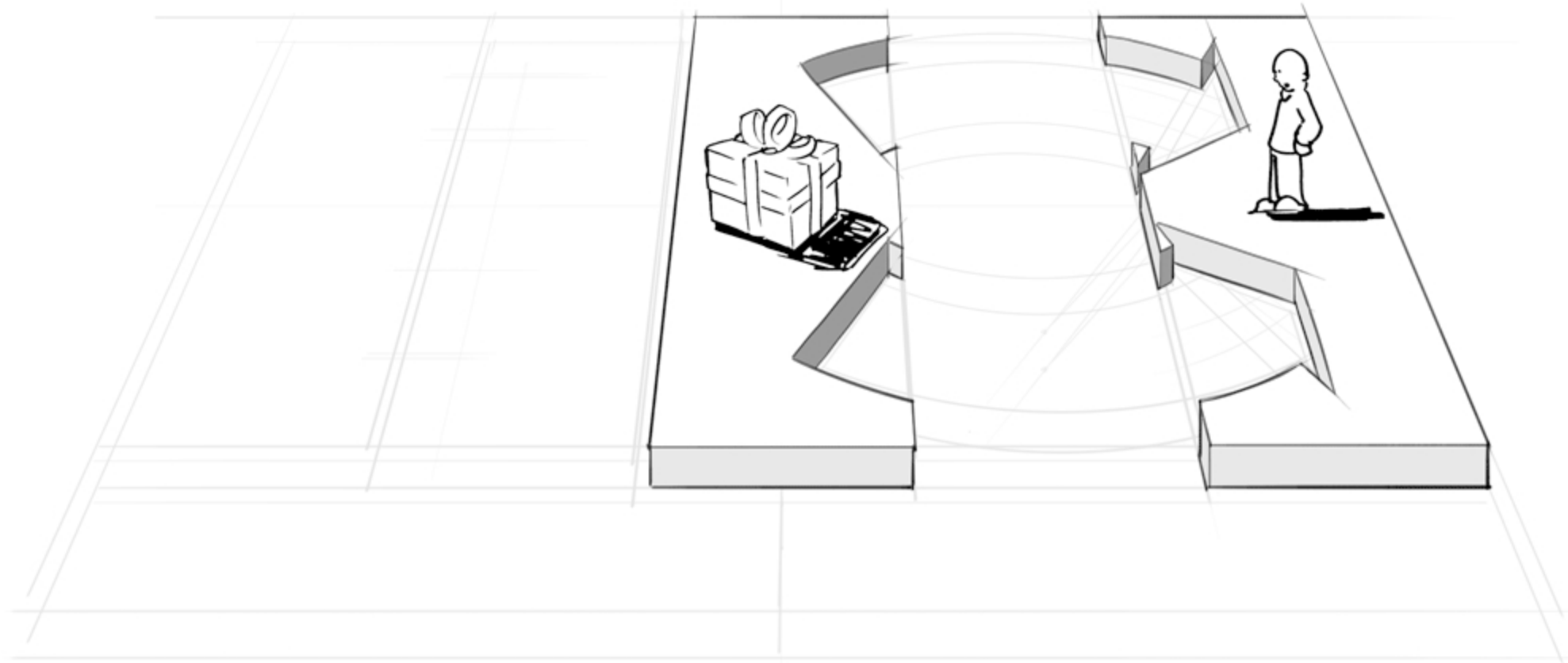
**Revenue** is the way a company makes money through a variety of revenue flows, i.e. the company's income.

# CUSTOMER SEGMENTS



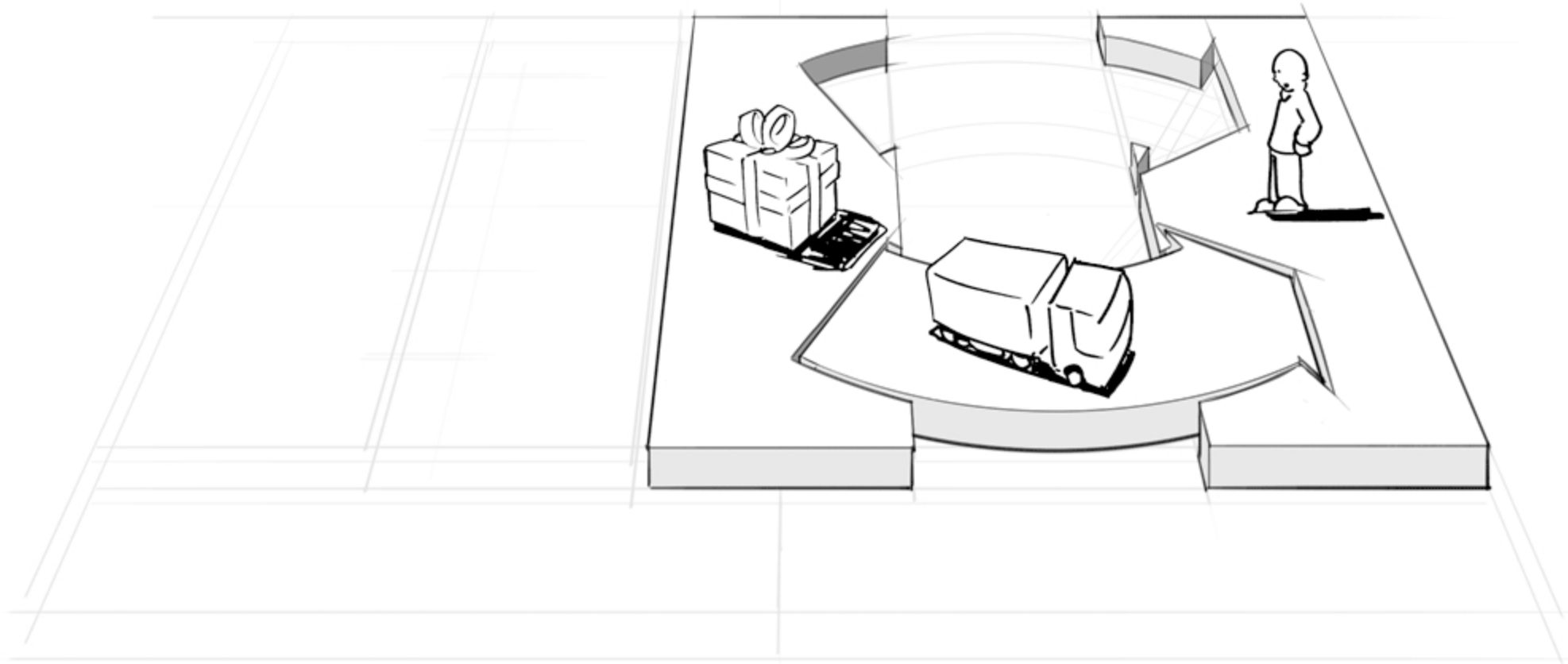
For whom are we creating value? Who are our most important customers?

# VALUE PROPOSITIONS



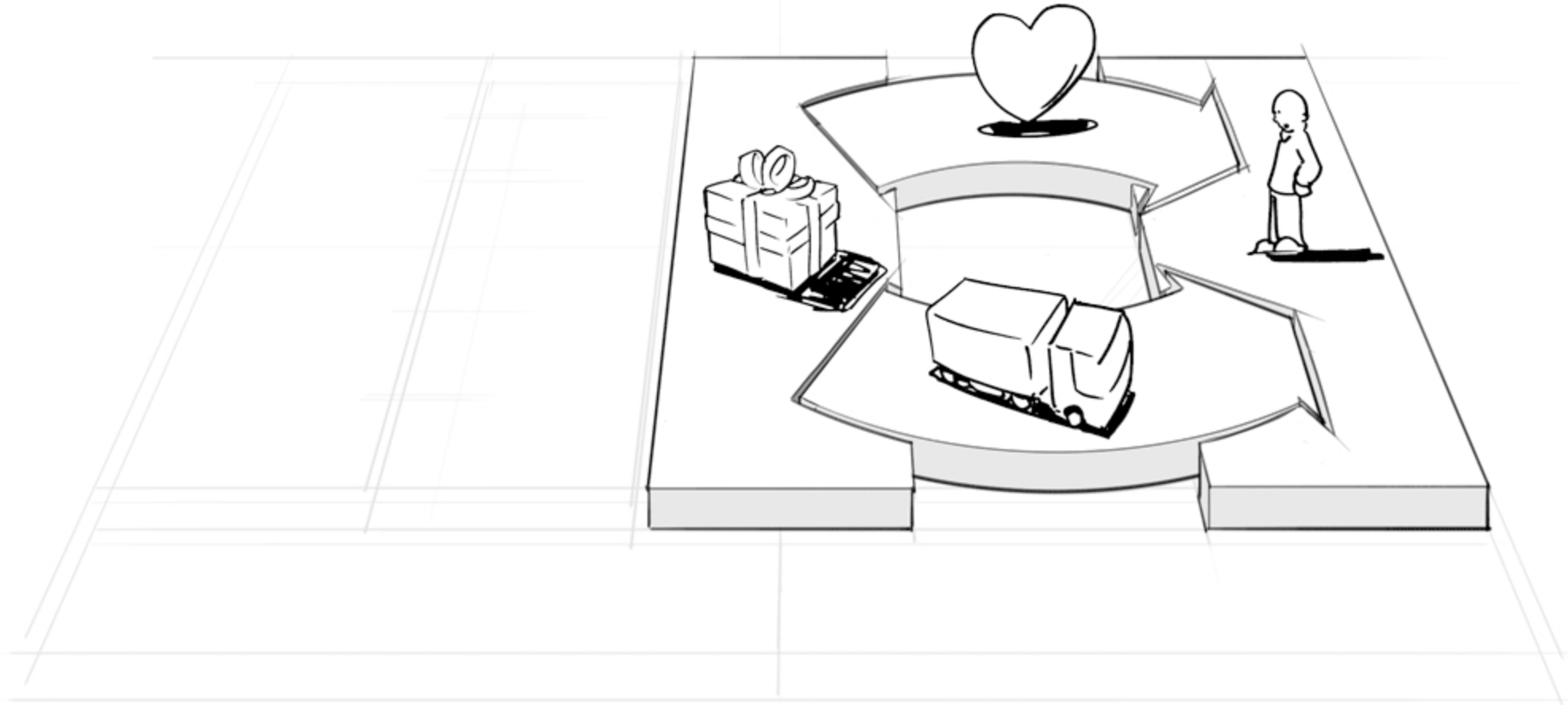
What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?

# CHANNELS



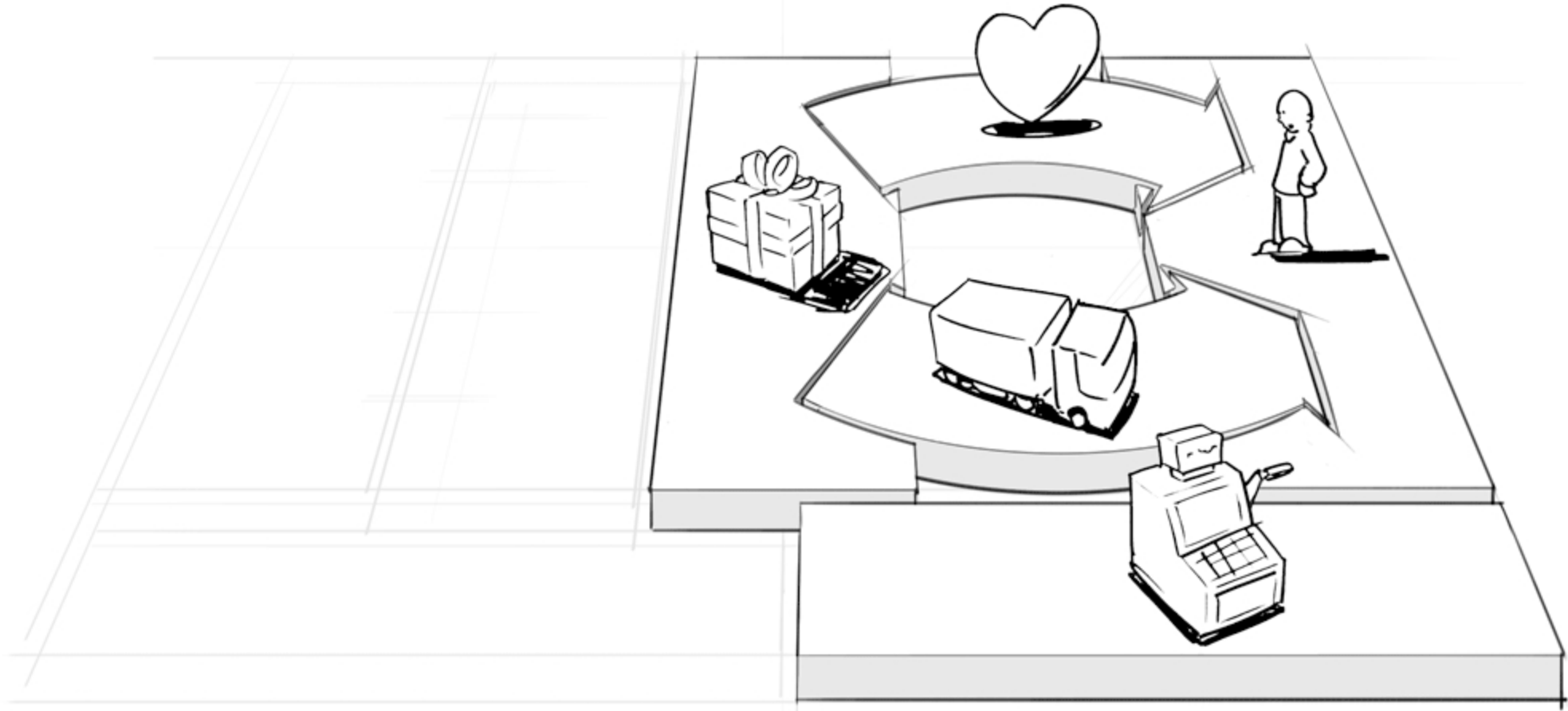
Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?

# CUSTOMER RELATIONSHIPS



What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?

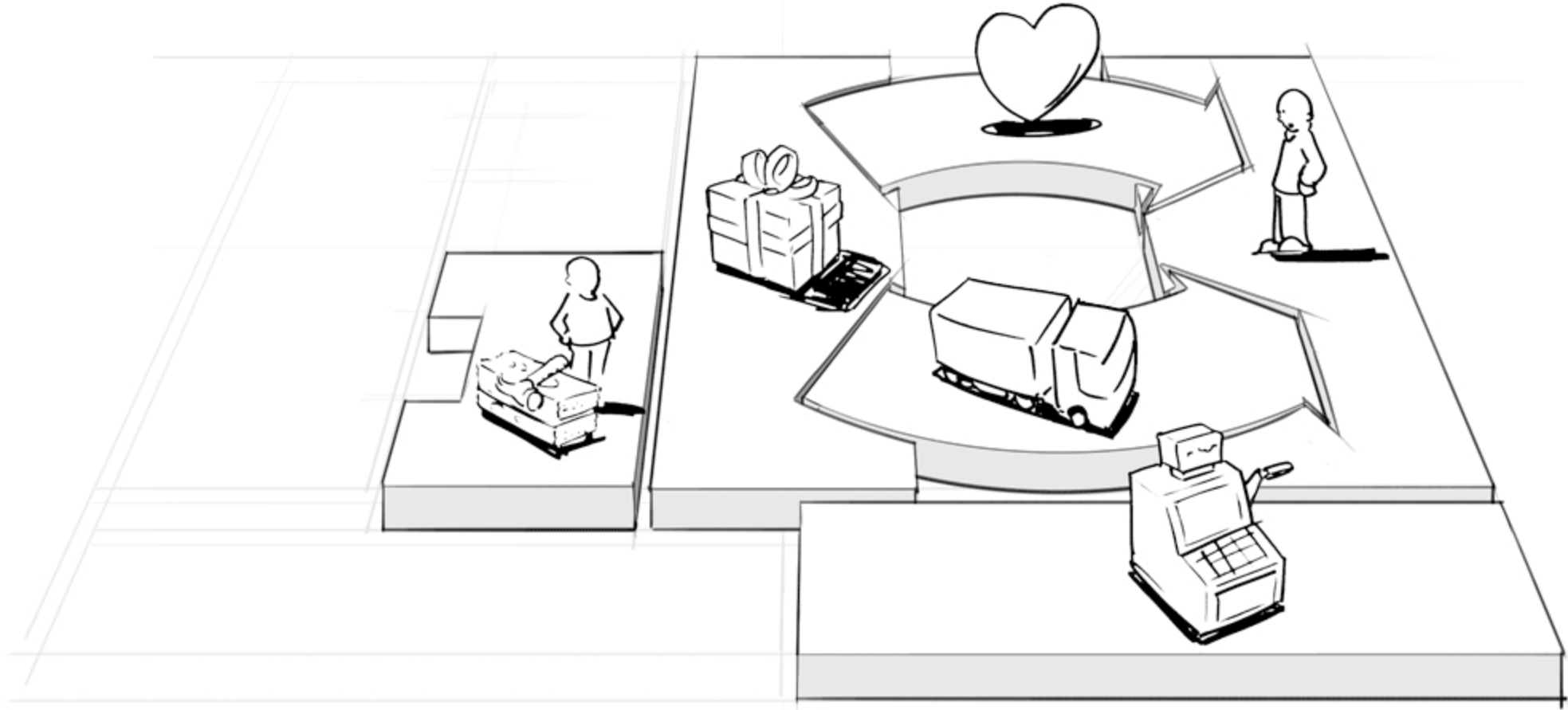
# REVENUE STREAMS



For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?

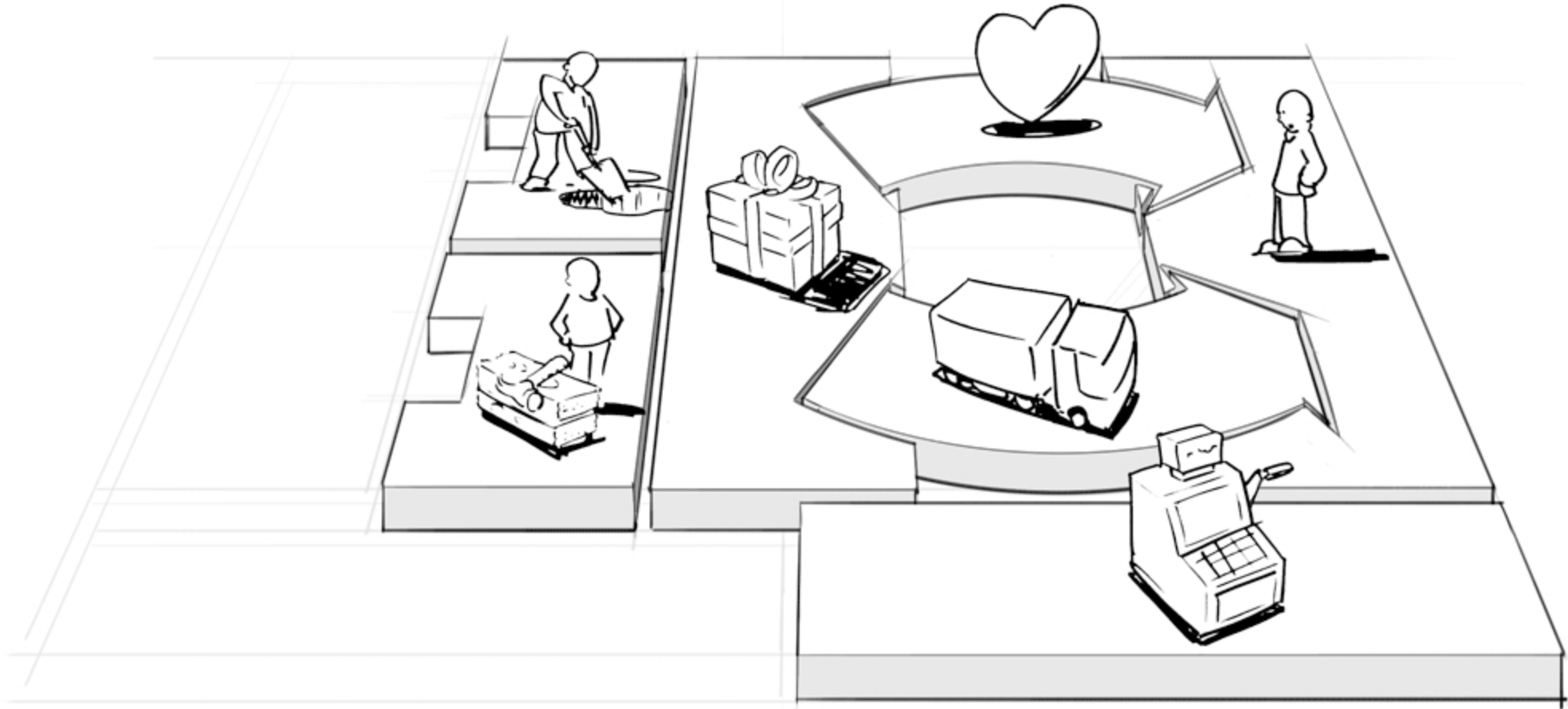


# KEY RESOURCES



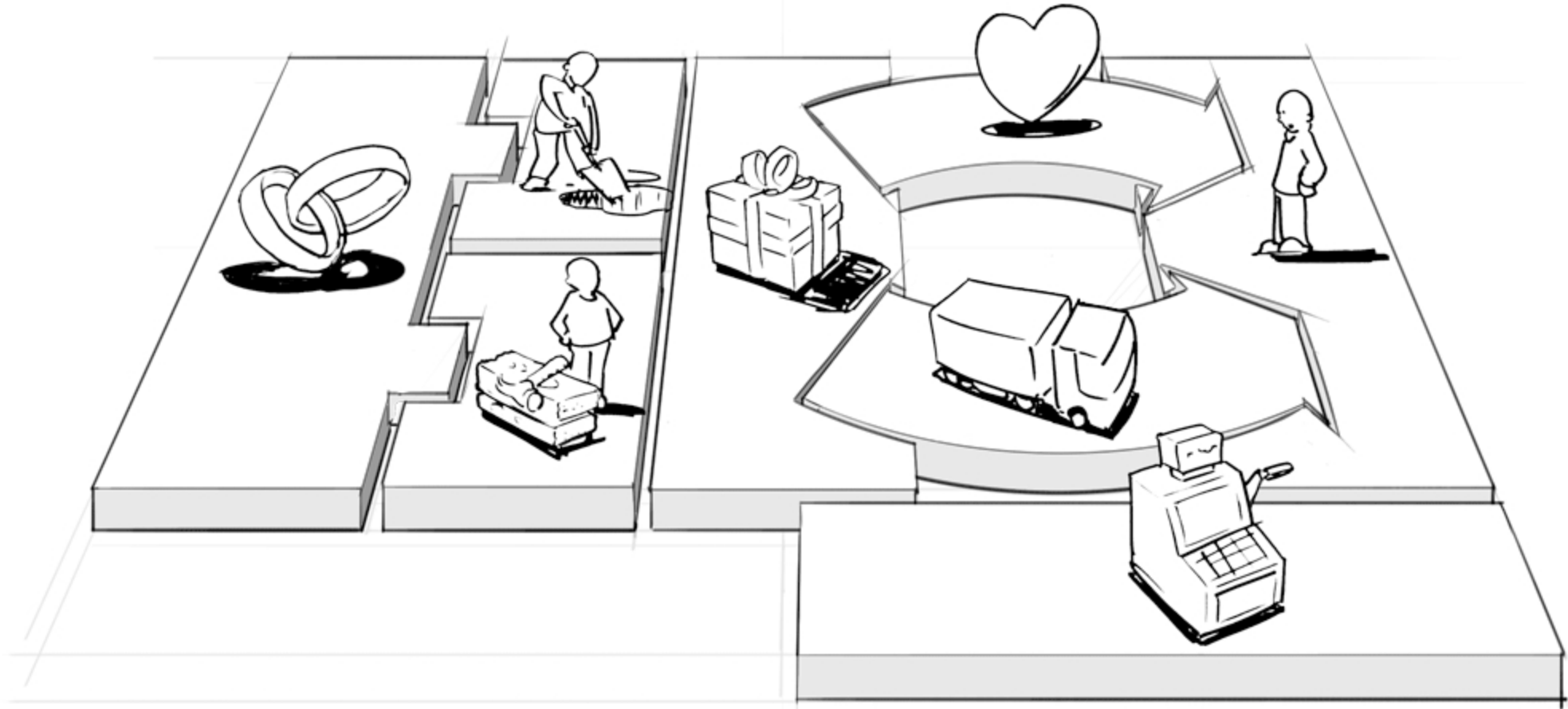
What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?

# KEY ACTIVITIES



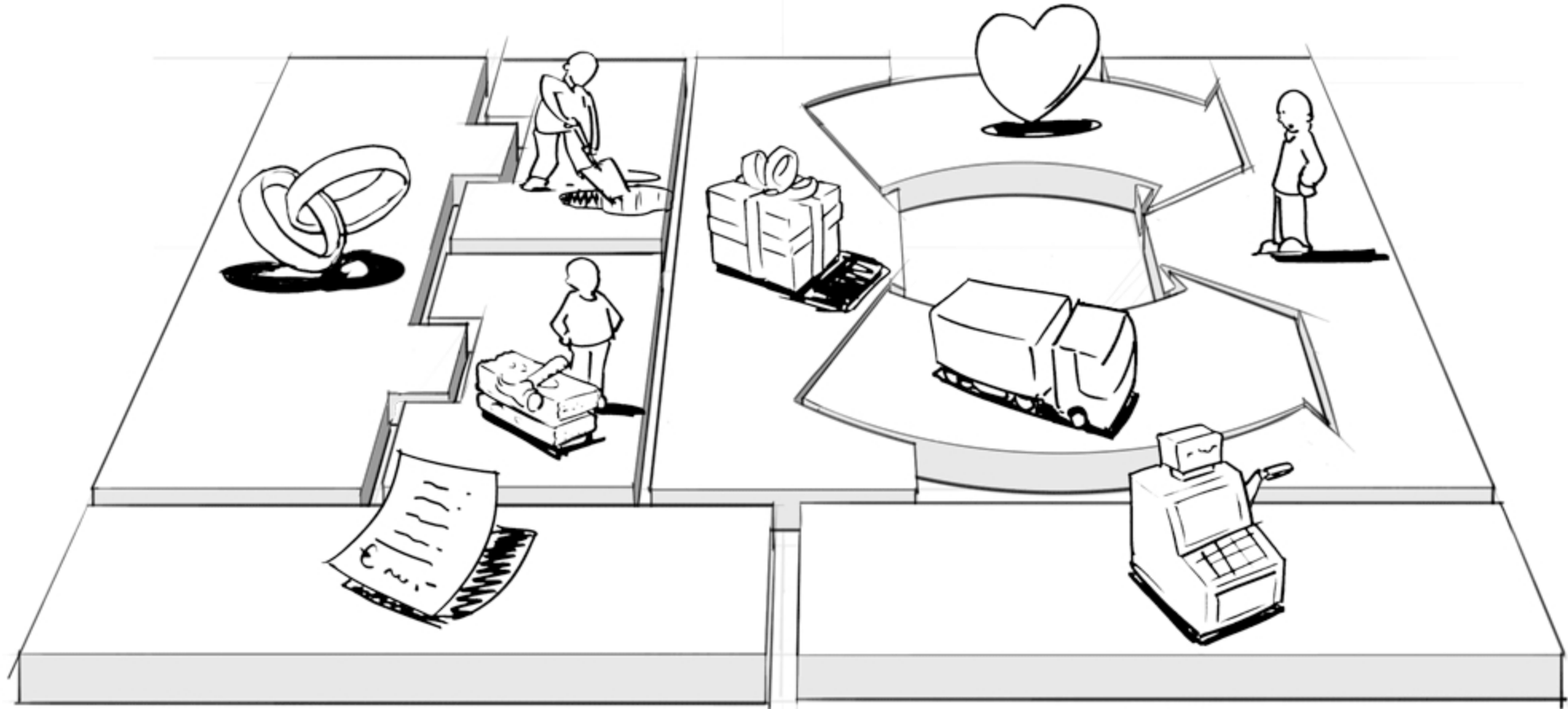
What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?

# KEY PARTNERS

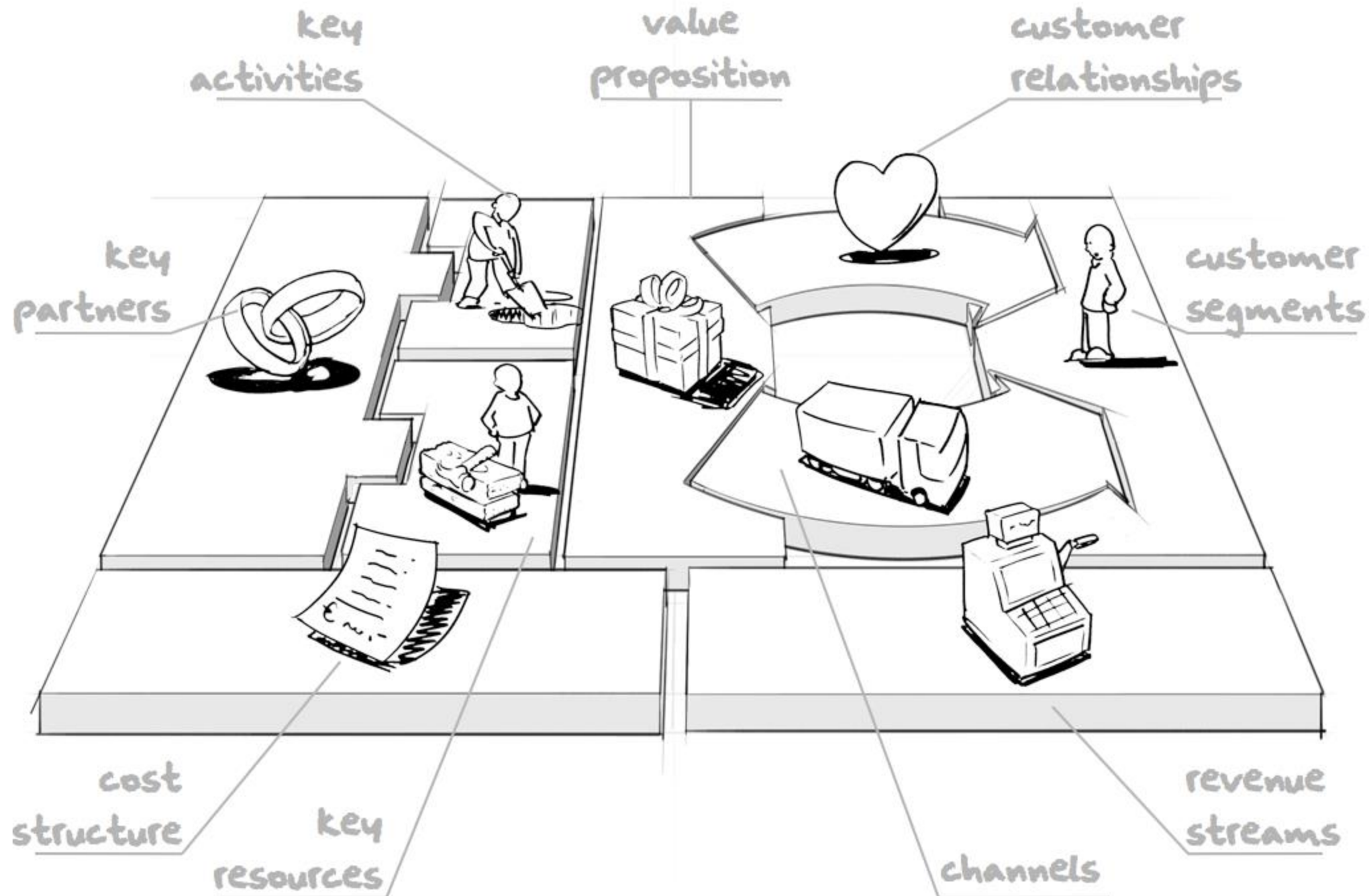


Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?

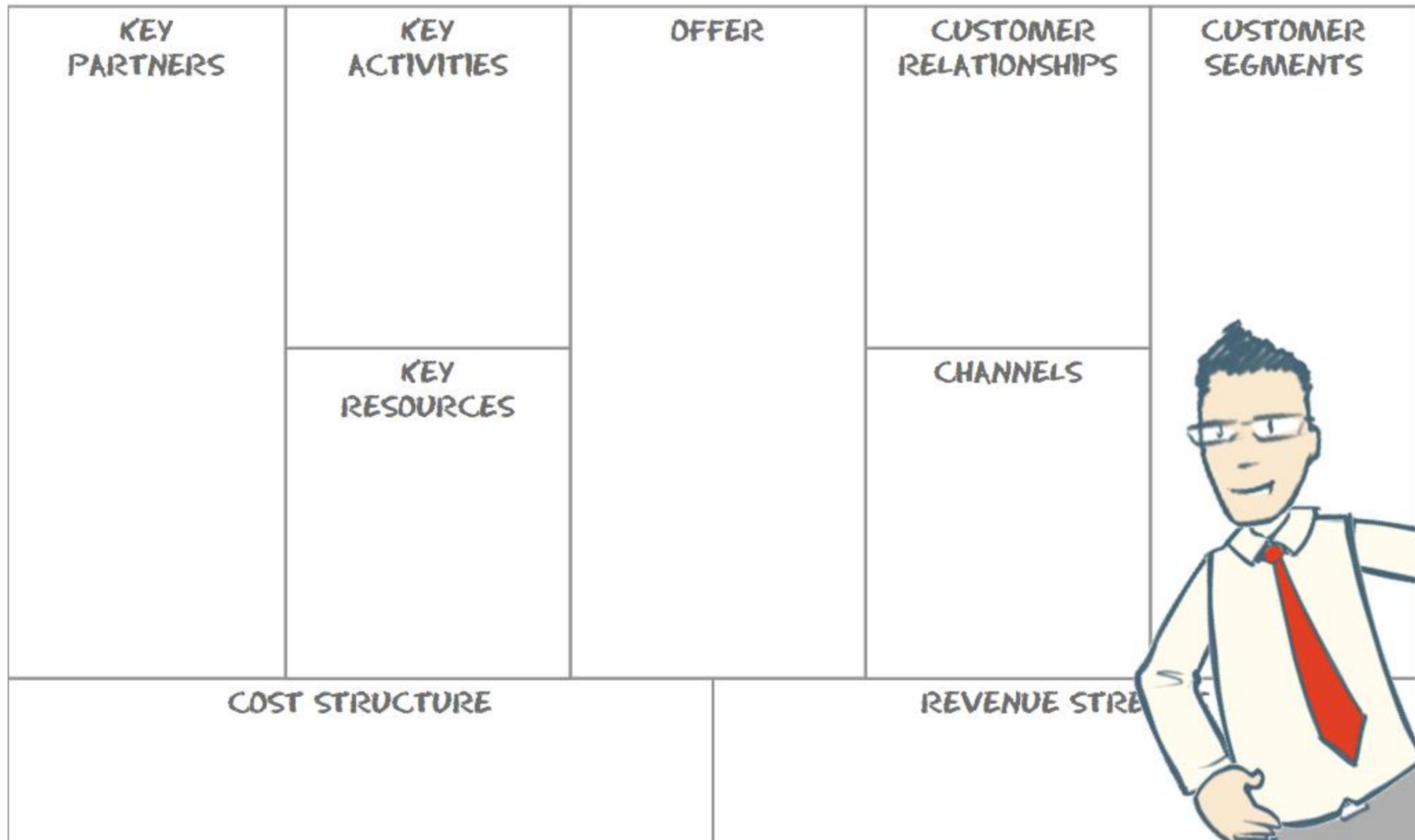
# COST STRUCTURE



What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?



# THE BUSINESS MODEL CANVAS



# **General Consideration**

- 1. Governments create business environments and business models are configured to respond by extracting maximum value for the business from the opportunity available,**
- 2. There is no universal business model that can be used to introduce and sustain all different forms of new and renewable energy technology in the market place,**

### **3. Successful business models are those that conform to the existing business conditions such that they:**

- Extract maximum value for the business,**
- Control key elements of the value chain,**
- Provide a positive value stream to all participants,**
- Have multiple revenue streams,**
- Are hedged against changes in product prices and other revenue determinants,**
- Respond to customer requirements,**
- Are sustainable over time.**



- 4. All business models are subject to failure if there is a change in the commercial conditions on which they are predicated. If the project drivers change, or are removed, it is probable that the revenue stream will fail,**
- 5. An unsuccessful business model is one that is unable to adapt to changing commercial conditions,**
- 6. The success of a business model often depends upon the people involved and the partnerships established.**

# **Case Study**

# **Solar Power Purchase Agreement Model - Residential**

- **SunRun is a San Francisco based company dedicated to providing energy using a home solar service and is the first company to offer a residential power purchase agreement (PPA) in the United States. It offers residential customers the means of accessing clean solar power through a PPA similar to the type used by commercial buyers, utilities and large-scale solar power plants.**
- **Customers pay an initial deposit of US\$1,000 and thereafter they pay only for energy delivered and not the equipment for delivering it. The equipment is installed, monitored, maintained, and insured by SunRun. There is no lease or purchase of equipment, so the customer is spared the cost and hassle of buying and maintaining the system.**
- **By entering into a monthly service agreement with SunRun, a homeowner's energy costs are set for at least 18 years at about 13 cents per kilowatt hour. The average cost for electricity from a utility is currently around 30 cents per kWh and rising.**

# Business Model Configuration

- *Core capabilities:*

SunRun offers commercial solar power services that remove the complexity and cost of equipment installation, operation and maintenance for a small residential consumer. All infrastructure is provided at little or no cost to the customer, this includes:

- Project financing,
- Equipment procurement and installation,
- System management, operation and maintenance.

## ***Partner network:***

- SunRun oversees the design and construction of the solar electricity system by one of its equipment supply and installation partners and has recently entered into a partnership with SPG Solar, Inc, a leader in the design and installation of photovoltaic power systems. SPG Solar has experience in electrical engineering, construction and project development and provides solar technology and professional design-build services.
- SunRun is in partnership with US Bank Corp for project funding and to guarantee of Power Purchase Contracts.

## ***Value configuration:***

**The reasons why the business is mutually beneficial for itself and its customers are:**

### **Customers;**

- **Benefit by reducing the cost of their electricity by 17 per KWh,**
- **Do not have to purchase solar panels themselves,**
- **Do not have to worry about maintenance and repair of their power supply,**
- **Obtain energy from a renewable, clean source,**
- **Get credit from the utility company when a home produces more energy than it needs.**

### **Business;**

- **SunRun is guaranteed payment for the life of the power purchase contract,**
- **It can obtain federal and state rebates for the installation of solar.**

## ***Value proposition:***

- **SunRun installs and maintains the PV system at the customer's home,**
- **It sells the electricity generated at a lower price than that offered by a conventional utility,**
- **The solar panels are custom made for the customer's home,**
- **SunRun monitors the system using commercial metering systems,**
- **Sunrun is responsible for system repairs and optimization and also takes care of any damage to the panels that that results from severe weather,**
- **SunRuns guarantees the system will deliver the agreed amount of energy over the life of the contract.**

### ***Target customer:***

The target customers for SunRun are residential home owners that are looking to reduce their electricity bills. Companies and businesses may also benefit from PPA's and services are applicable to anyone wishing to invest in a clean renewable form of energy production.

### ***Distribution channel:***

SunRun distributes its electricity directly to residential and other customers on whose property it has installed solar panels. Maintenance services are also delivered directly to the customer.



## ***Customer relationship:***

**SunRun provides all its customers with ongoing support through the sale of electricity, repair and maintenance of its solar panels throughout the life of the contract. In the event that a customer moves from the residence the following options are available:**

***Transfer the agreement.*** This option lets the customer share the cost of solar power with the new homeowner; they pick up the contract where the original customer left off. There is no charge for transferring the agreement.

***Pay out the remainder of the 18-year contract.*** The new homeowner can pay out the rest of the contract and have free electricity and maintenance with no further bills from SunRun. The resale value of the home can be marked up accordingly.

***Purchase the system.*** The customer agreement lists the buyout price for specific years. If the new homeowner purchases the system they will not get our free maintenance and repairs, but they will have full ownership of the system.

## ***Cost structure:***

**Installation of a solar system at a residence can range between US\$20,000 and US\$60,000, depending, primarily, on the size of the system and its output. This cost can be substantially lowered for SunRun with the help of both state and federal rebates. Customers pay a small upfront installation fee (around \$1000) and a monthly rate comprised of a set value for every KWh of electricity used.**

## ***Revenue streams:***

**All of SunRun's income comes from the contracts set up with individual customers. It makes money through selling the power produced by its panels to customers.**

## Factors for Success

- **SunRun has developed a standardized system design to reduce up-front costs, has obtained bulk purchasing discounts from the largest PV manufacturers, and has developed a structured financing approach to minimize risk and provide reasonable return to third party investors.**
- **The customer obtains renewable energy with little or no capital investment and minimal hassle at a price less than, or equal to, their standard utility rate, under a long-term fixed price agreement that provides a hedge against volatile energy prices.**
- **By targeting residential customers SunRun maximizes the potential for serving multiple sites and spreading individual customer risk.**

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