

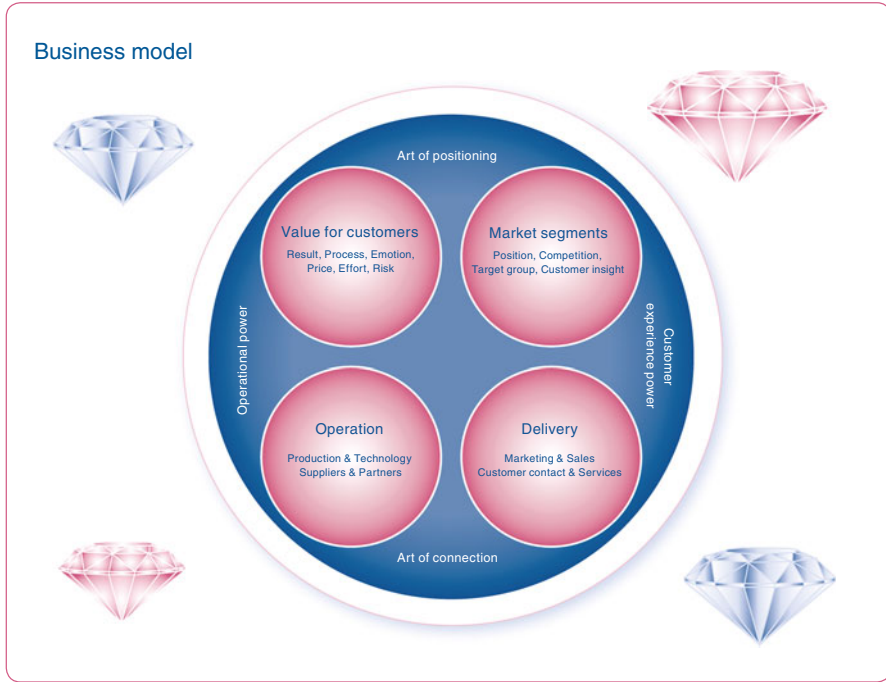
Chapter 2

What is a Business Model?

It is one thing to have a terrific, but something else for it to be effected in a manner that creates value. A business model helps to systematically define the manner in which the organization creates value and for whom. It consists of four components which each answer a number of fundamental questions:

- *Market segments: For which customers does the brand want to exist? Which market segment do we want to serve or are we serving? On the basis of relevant segmentation methods, market focus is applied to position, competition, target group, and customer insight.*
- *Customer value: Which value are we providing in the lives of customers? This is the value that current or future customers expect and experience with your product or services, expressed in terms of results and benefits divided by costs and efforts.*
- *Delivery: What does this require in the organization's interaction with customers? Via which channels will value for the customer be delivered? This describes the requirements of the organization to secure, serve, and retain customers.*
- *Operation: How are we going to realize value for our customers? This describes the requirements which the operation (which often takes place behind the scenes for the customer) must meet to actually deliver to the customer and to raise the results above the costs.*

Of course these elements do not work independently. The actual value is created by the entire model, the synergies between the elements and the alignment with the vision.



2.1 Market Segments¹

The vision lays down who the organization is and wants to be. It can use one or more brands to serve the market. The definition of market segments identifies the market in which the organization realizes its vision and for which customers. The process starts by determining ways of segmenting the market relevant to the brand(s). Once the organization is clear about the way(s) in which the market is segmented and on which segments the organization wants to focus, these market segments can be assessed and defined by the following four questions:

- *Position:* What is the current position of the organization in these market segments?
- *Competition:* What is the competitive environment?
- *Target group:* What is the target group in terms of volumes, accessibility, and profitability?
- *Customer insight:* What is the unique customer insight by which the segments want to be served?

A vision is incredibly important. It sets the organization in motion and reflects who the organization is and what it wants to be. A beautiful dream, however, is by

¹For segmenting, reference is also made to Kemperman and Trampe (2012).

far not yet a brilliant business model, as that is formed by a business together with its customers. This has to be embedded in the business operations and environment. In order to gain insight into the business model as a whole, it must be clear who the customers are, what they are being offered, and how that is organized. In sum, this must produce such a result in value creation for all parties concerned that they are (and continue to be) prepared to invest their energy and funds in the organization.

The initial question in a business model is: who is the customer? Management literature implicitly and automatically assumes that this relates to one type of customer that chooses, buys, uses, pays for, and replaces the product. That simple starting point, however, is often not borne out in practice. Many businesses operate in a chain: they deliver a component or subcomponent of a product that is then sold on by their direct customer or that customer's customer to the end customer. If they modify their component in such a way that the entire product gains in value for the end customer, this adds value to the middleman too.² Often, however, it is even less one-dimensional. The decision-maker, the buyer and the user are often not the same party; and then there are the different segments within each of these groups.³ LinkedIn has consumers that partially pay for services. They earn the most by furnishing recruiters with data on these users. A professional sports club generates higher revenues if it has a larger public and more fans. It does so in part through ticket sales and merchandising, but especially via sponsorship and the media, for instance via advertisers during broadcasts of their matches. Zappos earns good money by making customers happy, but also generates good extra income by teaching other companies how they can do the same. Within healthcare there are often several "customers" as well. Whereas the focus is ultimately on the patient, the overall picture is less one-dimensional. Take, for instance, the situation in which medicine prescribed by a specialist and paid for by the insurer is first delivered to the patient via the hospital by the hospital pharmacy and then by its own in-house pharmacy. In this case, the patient can be defined as the primary customer for whom, if things are right, the other parties are all working together. If other players are very important in the business model, they can also be included as a separate customer group, partner, or service provider.

A customer group can be classified in different segments. In the process, the focus is on which way(s) of segmenting is/are relevant to the organization. It is then relevant to analyze which position the organization already occupies in these segments, against whom it is competing and how big the segments are in terms of numbers and financially. The most fundamental question then is which insight the brand offers into the needs of customers. Aside from analysis and testing, this requires creativity and fundamentally putting yourself in the customer's shoes.

More traditionally specific and factual criteria, such as geography and income, are often easier to measure and objectify. Logically, when it comes to patients in the healthcare sector, it is first and foremost about the health of individuals. A distinction is made between people who are healthy, individuals with an increased risk, those with an acute condition and patients with a chronic disorder. Further, physical

²Kemperman et al. (2000).

³Kemperman et al. (2013).

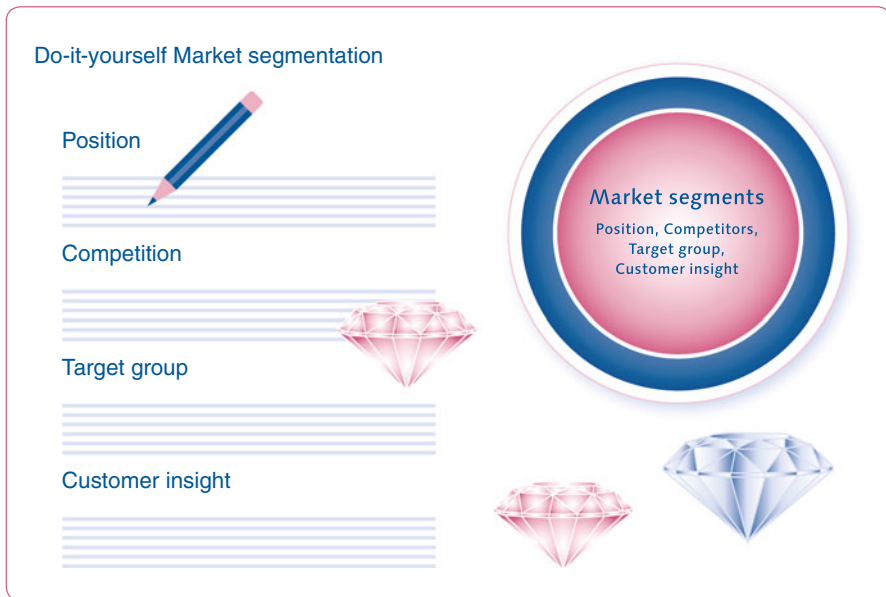
condition, age and educational level are important in connection with additional risks and disorders. And the situation at home must also be taken into consideration. Non-mobile individuals living on their own are more inclined to become lonely. Male pensioners whose wives have recently died run a strong risk of dying due to the fact that they do not care well for themselves (what is not the case for female pensioners).⁴ Aside from this kind of traditional and easily measurable segmentation criteria, there are also more abstract segmentation criteria (such as norms and values). In this way, for instance, the extent to which someone feels like he/she is responsible for his/her own body and health and is actively doing something about that, can be looked at. The same goes for the extent to which someone complies with the recommendations of a healthcare practitioner—or not at all. Another example is the social-political perspective as regards the right to healthcare and a customer's own deductible, the religious-moral perspective regarding existential issues, and the willingness and possibility of travelling to obtain healthcare. The customer groups that the organization serves and the various segments within the customer groups can be defined based on the following questions:

- *Position*: What is the organization's current position in these market segments? This relates to the "photo" of the current customer base in numbers, turnover, and margin. It also concerns the "film" that preceded this photo. Today's customers often became customers yesterday or the day before. It is wise to realize, therefore, where the organization's customers come from, how they became customers, how long they have been a customer already, and how the customer base has developed.
- *Competition*: What is the competitive environment? This concerns the general competition on the market, but in particular also the organizations that focus on the same market segments, and their existing and historical positions in relation to these customers. In that regard, the competition can be much broader than merely the suppliers of the same product. When people feel uncertain about the economy and their future, the bank account and mortgage repayments suddenly become important competitors with a luxurious holiday or a new car.
- *Target group*: What is the target group in terms of volumes, accessibility, and profitability? This concerns the customer groups, the market segments within those groups and their characteristics. It is about numbers, as well as the extent to which (1) their communication channels are open and (2) they require a supplier, and (3) the financial margin in these market segments.
- *Customer insight*: What is the unique customer insight used to serve the segments? This relates to the most essential and fundamental needs in the market segment for which the organization is currently providing or wants to provide. It is not just about the clearly formulated desires of customers that had been clear to customers and competitors alike from the beginning. It is in particular also about the latent or underlying needs for which the organization stands head and shoulders above the competition in providing and being able to provide. In that respect, the challenge is to get to the core issue, whereby the ultimate customer

⁴With thanks to Jan Willem Kuenen, who pointed out this phenomenon to the authors.

insight can be rather simple. For instance: if people have lunch at 12.00 am and dinner at 7.00 pm, they will be hungry during the commute home. That is therefore an ideal time to sell a nutritious and convenient bite to eat at the railway or petrol station.

Almost equally important as the choice concerning who your customer is, is the choice concerning who your customer is *not*. A brilliant business model demands clear choices. It is almost impossible to be everything to everyone. Part II of this book highlights different examples in this regard. One of them is Patrick Lund Dental Happiness, which chooses customers for whom their teeth are really important. Another example is Healthways, which selects groups of customers whom they expect to be able to make demonstrably healthier at affordable prices. A clearer choice of target group makes it much easier to truly deliver value to customers. And it is precisely the discussion of this point that the following element of the business model turns to.



2.2 Customer Value⁵

Once it is known how the brand(s) will be positioned for which market segment, it is possible to specify the value the organization wants to deliver with the brand(s) from the customer's perspective. What do customers get? What do they have to give

⁵For value for the customer, reference is also made to Heskett et al. (2003) and Kemperman et al. (2000).

up in return? And what changes in their lives as a result of this exchange? The value from the customer's perspective can be defined by the following six questions:

- *Result*: What do I get?
- *Process*: How do I get it?
- *Emotion*: How will it make me feel?
- *Price*: How much will it cost?
- *Effort*: What do I have to do to get it?
- *Risk*: How much risk is involved?

The value *of* a customer is important to the organization, but the relationship starts with the question as to what the value *is for* the customer. Without customers, you have no work to do and you will not get paid. If the value for the customer cannot be clearly formulated, the organization is not in business. The connection between the selected market segments and the value delivered to these customers can be described as “the art of positioning.”

For the customer, it is ultimately not about the promises made by the organization based on its identity, positioning, market segmentation and the products delivered or services provided. It is about the difference that this makes for customers themselves in their lives (or in the business operations for professional customers). What changes because I am a customer of this organization compared to the situation in which I choose a competitor or opt to do nothing? In that regard, the value for the customer does not relate to what the business delivers, but rather what the customer anticipates and experiences. This is defined from the customer's perspective. In order to clearly identify what the value is for the customer, additional questions like “what” and “why” must often be posed. The challenge is to reply to the following questions from the customer's perspective: How do I benefit from the product or service? What does it help me with? What does it solve or resolve for me? When asking these questions, do not forget the comparative perspective, because this is likely not the only provider in the world. So what does the organization do differently when compared with the competition?

The value that the organization has for a specific customer is not clear-cut. It depends on the timing, the place, the product and the behavior of customers themselves. The organization can, however, define which value they want to promise and fulfill, and this provides an important tool for guidance. At the business model level, this concerns the value for the customer at the level of the entire organization or a brand thereof. This can then be specified for different market segments, products, and services or specific customers. In that regard, the entire term of the customer relationship or series of transactions must often be reviewed. Even before a product or service is purchased, customers have to make an effort to orient themselves, to reduce uncertainty as a result thereof and to obtain a better picture of what they will receive or must give later on.

The value that the customer attributes to an organization's products and services comes about through a mix of different elements.⁶ These are the elements that the

⁶Kemperman and Van Engelen (1999), Kemperman et al. (2000), Heskett et al. (2008), Kemperman and Trampe (2012), and Geelhoed et al. (2014).

customer expects to receive upon purchase and then experiences afterwards. They are listed below with a couple of short sample questions that customers might have if they purchase a mobile phone and a subscription.

For elements that cause the value to appreciate, the value for customers increases if they receive more of these elements (and decreases if fewer are received):

- *Result:* What type of product or service do I receive? Do the new telephone, apps, and provider perform well? Do I always have a good signal and a quick connection? Does this telephone have all the functionalities that I want? Does it have enough memory for what I want?
- *Process:* How do I get it? Am I being properly advised about which device and subscription match my needs? Am I being assisted quickly and competently if I have any questions, complaints or problems?
- *Emotion:* How will it make me feel? What kind of feeling do I get from the brand and what is it like to have and use this telephone? What do my friends think about it? Does this suit me and does it reinforce who I want to be?

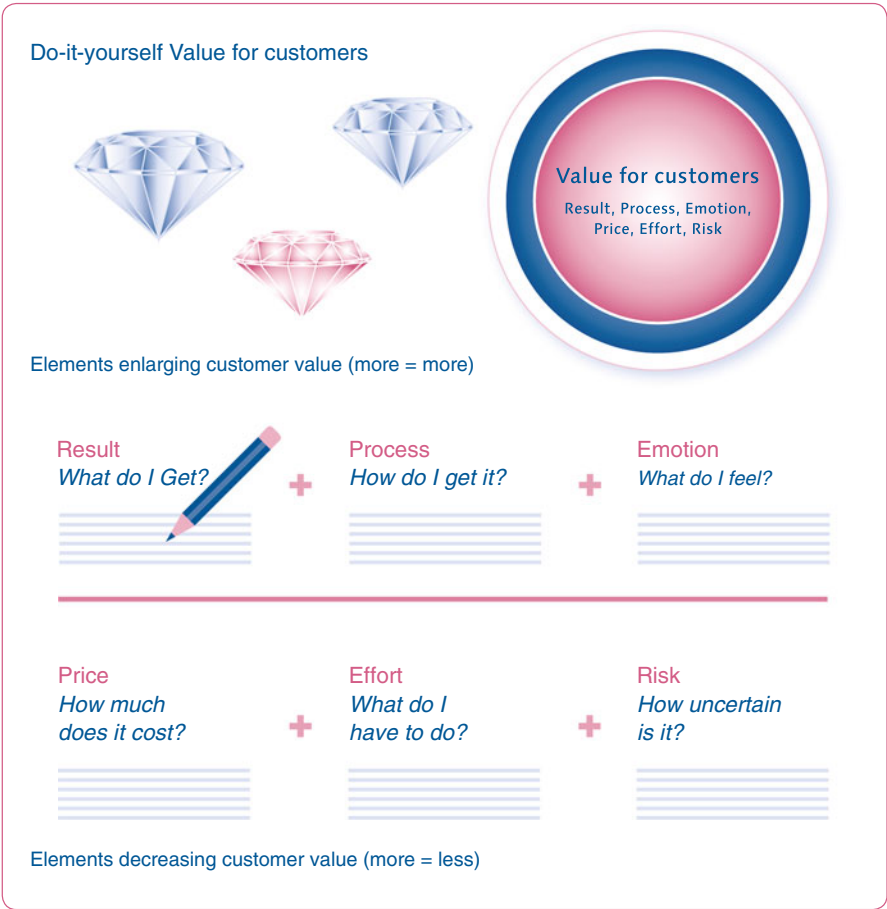
For elements that cause the value to depreciate, the value for customers decreases if they receive more of these elements (and increases, of course, if fewer are received):

- *Price:* How much does it cost? Do I pay now and then not too much every month? What are the fixed and variable costs and how would they change if I were to use the device in a different way?
- *Effort:* What do I have to do to get it? Does it cost me a lot of time to figure out which device and subscription I should purchase and how these work? Does it cost me a lot of time to use or to learn how to use this device?
- *Risk:* How much risk is involved? If the device breaks down or if I switch to a new provider, do my costs double? Are all apps and interfaces available both now and in the future? Can I count on the provider not abusing my independence and privacy after I have made my choice?

It is, of course, attractive to customers to have a product or service with the biggest possible value at the lowest possible price. It is, however, mostly about the ratio—the customer value must be a good and logical deal for the customer. Determining what that value is for the customer by placing yourself in their shoes and investigating it, can help to optimize the ratio. During that process, a brand can define on the basis of which element(s) present in the total mix the company wants to use its product or service to truly distinguish itself and where it is fine with offering the same as the competition.

The value that an organization promises and that a customer expects and experiences forms the core of the “contract” between the brand and the customer. In that regard, there is always an exchange ratio. You want, of course, to deliver value to your customer, but at the same time customers must also return value to you or someone else has to do that for them. Otherwise, you might just as well put an immediate end to the relationship. The joint “contract” of what the customer receives and gives depends on a product, which is emotional or functional to a certain degree. It can be agreed implicitly or explicitly. The implicit perception of what a customer receives and gives can ultimately be just as concrete as formal legal agreements. Examples of this include what happens if customers leave, start protest campaigns,

or spread negative publicity, even if they are perhaps wrong in formal legal terms. Many brilliant business models distinguish themselves because on this point they are more transparent, so that it is clear to customers not only what they receive and give, but also how that relates to the costs and the organization’s revenue model.



2.3 Delivery⁷

Once it is clear what value has been promised to which customers on the basis of the vision and brand positioning, this has to be implemented through delivery and operation. Delivery relates to the organization’s activities where the interaction for and

⁷For delivery, aside from Kemperman et al. (2013) reference is made to Frei and Morriss (2012), Grönroos (2000) and Osterwalder and Pigneur (2010).

with the customer takes place. This includes the actual product transactions during the sale, as well as the relationship as a whole and the contact moments before and after the sale/service. Delivery can be defined by the following four elements:

- *Marketing*: What does brand and customer communication look like?
- *Sales*: How are activities organized to canvass and retain customers?
- *Customer contact*: Which channels are used to contact customers?
- *Services*: How are services for and with the customer arranged?

The theoretical framework for brilliant business models has a top focused on promises and a bottom aimed at the fulfillment thereof:

- *Promise*: The organization's higher and audacious goals as well as the brand's essence, roots and promise define which value the selected market segments can expect.
- *Fulfill*: Based on the organization's core values and core qualities and the brand's values and proof, the promised value for the customer must be realized in operation and delivery.

The value that the customer was promised must be realized in operation and delivery. What the organization creates for the customer in the delivery and operational processes is the organization's product. Delivery relates to the activities where the interaction between the customers and the organization takes place. The manner in which the delivery is implemented for the market segments on which the organization focuses determines the strength of the customer experience. Depending on the nature of the products, there can be years between contact moments, such as when buying a home. It can be about a series of transactions that occur in quick succession, for instance as with buying groceries. It can also be a combination of a sustainable, physical product combined with services, as is the case to an increasing extent for cars and equipment. The interaction between customer and organization can itself also be the product. Examples of this are certain services like training courses, massages or theme parks, as well as the provision of healthcare.

The identity, positioning and promises in relation to the customer generate focus for an organization. Subsequently, a clear choice must be made in delivery and operation as regards the aspects on which the organization really wants to differentiate itself and on which it wants to be at the same level as the most important competitors (or even opt to deliver somewhat less).

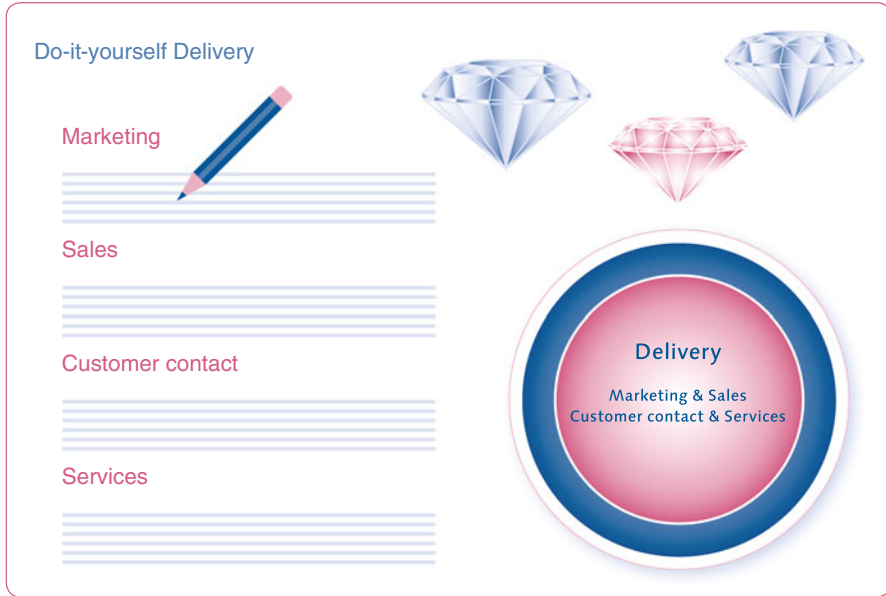
The design of the delivery starts with a proper analysis of the customer's contact points with the organization. To that end, the organization is analyzed from the customer's perspective and the significant brand touch points that shape the customer experience are identified. The journey that the customer makes through the organization is not a given, but rather can be designed and shaped by the organization with the aim of delivering the desired customer value to the desired market segments.

A significant part of the design of the delivery is the channel strategy. The organization uses the channel strategy to determine the channels by which it is going to deliver value to the customer. The question is simply how customers can purchase their services from the organization and use them. To what extent and at what

moment is contact face-to-face, by telephone, on paper or online? The selected channels must be in line with the brand positioning, the promised value for the customer and the nature of the products delivered and services provided. If this emphasizes the personal, human relationship, voice response technology and the Internet will not suffice. If customers are promised that they will not have to make much of an effort, the delivery must be designed in such a way that they do not lose their way or have to figure out a lot on their own. If you want to keep things affordable, you can require customers to do as much as possible themselves and teach them to do it as long as it ends up being a good deal for the customer. Within healthcare, an important part of the work requires direct contact with customers. At the same time, it is desirable to have customers do a lot themselves and resolve issues among themselves where possible. In the process, though, for healthcare practitioners for instance, it is often extremely important in daily practice to work very closely together with other healthcare practitioners in a chain. At the organizational level, it might be desirable to maintain intensive professional relations with other parties, such as healthcare insurers, pharmacists, and suppliers of equipment among other things.

An organization's delivery can be defined by the following components:

- *Marketing*: What do brand and customer communication look like and how is that integrated into the product? This relates to the communication about the organization and the media used to that end. It also concerns the communication material supporting the recruitment and retention process and the services plus the role of the customers and persons directly involved themselves in communication, such as via social media, word-of-mouth advertising, and referrals.
- *Sales*: How are sales and customer retention activities organized? This relates to the channels being used and the people deployed. Is there, for instance, physical contact and/or orders via the Internet? This also concerns the design of the contact points as well as the experience and self-motivation for the customer. Recruitment and retention can relate to a specific group of customers who decide, use, and pay on their own. It can also concern various parties who co-determine, refer, pay, or recommend.
- *Customer contact*: How is the customer contact process designed and what does that contribute to the product or the service delivered to the customer by the organization? This relates to the various contact moments with existing customers and the channels used to that end. Is there, for instance, contact by telephone or online, are there service locations or door-to-door campaigns? What is the role of the employees and the customers themselves in this relationship? Where does a transfer with or between partners or suppliers occur and how does that work for the customer?
- *Services*: How are additional services for and with the customer arranged and what do these processes contribute to the product? What kinds of services are offered? What happens to the services at the practical and emotional level in the relationship and what does that demand of employees and the customer?



2.4 Operation⁸

Needless to say, the term “operation” here does not refer to medical treatment, but rather to the organization’s activities “behind” the delivery and therefore often behind the scenes. A streamlined operation forms the heart of the organization. It serves as the backbone for the delivery and commonly provides opportunities and challenges for the realization of synergies and cost-efficiencies. The operation can be defined by the following four components:

- *Production*: How are production activities organized?
- *Technology*: What technology and knowledge are needed for production and delivery?
- *Suppliers*: What requirements and selection criteria do suppliers have to meet?
- *Partners*: What existing or other partners are required and what do they add?

In the traditional view of industrial, physical products, products were made in the operation phase before being marketed and sold in the delivery phase. As delivery is increasingly a significant part of the product,⁹ this requires a more intensive coordination between delivery and production. In short, the art of establishing a solid link between operation and delivery has become more important. The challenge in

⁸For operation, aside from Kemperman et al. (2013) reference is made to Porter (1980), Porter (1985) and Osterwalder and Pigneur (2010).

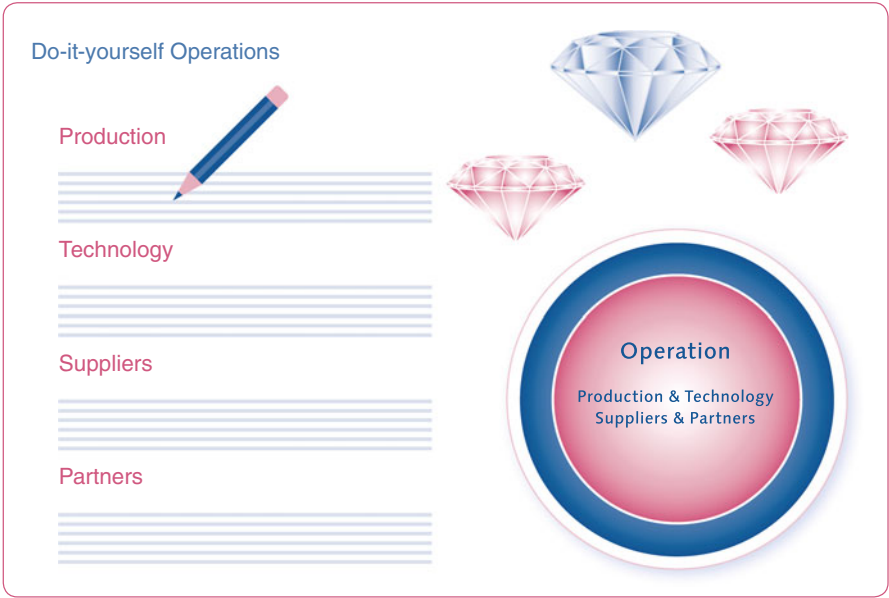
⁹Reddy et al. (1993).

the operation process is to support the interaction with and the delivery of value to the customer as properly and efficiently as possible. Consequently, a proper operational strategy is not in the least focused inwards. The operation process must fulfill the promises in connection with the delivery process.

Aside from their “own” employees in the production process, suppliers and partners are also increasingly being integrated in the delivery process. Examples of this include outsourcing services for customers to suppliers, new forms of cooperation with partners with whom the customer is jointly served, and intensive collaboration and information exchange in the chain. The connection this demands between delivery and operation can be complicated, certainly because organizations generally also want to save on the total costs in the chain at the same time. This is where an organization can make conscious choices that suit its vision, positioning, and promises. If the personal, human contact is *the* key to fulfilling its promises, that aspect must be deeply embedded in its business model and its own best people must be used to that end. What should happen if the primacy truly lies in streamlined, error-free processes with maximum and demonstrably concrete, technical results? In that case, people must also be spoken to respectfully, but that need not be done in a manner that still impresses the customer several weeks later.

The operation of an organization can be defined by the following components:

- *Production*: How are production activities organized? What do the production processes look like if no personal customer contact exists and what are the resulting contributions to the organization’s product(s)? How are employees enabled to effectively and efficiently perform their daily work?
- *Technology*: What technology and knowledge are needed for production and delivery? What does this demand of the company’s own managers, specialists and employees? How is the knowledge present in individuals maximized, so that everyone does what he/she is best at? How do you organize the company so that people are not deployed above or below their level? What does this demand in terms of training and decision-support systems plus recording and transferring information? What are the requirements for supporting technology, equipment, and instruments?
- *Suppliers*: What requirements and selection criteria do suppliers have to meet? What do the production processes of suppliers look like and what do they contribute to the organization’s product(s)? What is demanded, for instance, of pharmacists and suppliers of equipment, instruments, and aids in the healthcare sector?
- *Partners*: What other partners are required and what value do they add? Is there a need for joint venture partners other than suppliers in the operation or delivery? Which production processes do partners have and what type of contribution does that make to the organization’s product(s)? How is, for instance, the cooperation between different healthcare providers organized in the provision of healthcare?



Brilliant Business Models in Healthcare

Get Inspired to Cure Healthcare

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