Acumenology

business support

THE BUSINESS MODEL CANVAS EXPLAINED

A guide to help you understand and develop a simple one-page business plan that focuses on key elements and leaves out the unnecessary stuff

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Introduction

If you are thinking of starting a business, you will need to put your thoughts down and plan your startup via a business plan.

Whilst there are a lot of templates freely available, which one is best suited will depend on the purpose of your plan.

Here are just a few of the reasons you might need to do a business plan.

- To clarify and set out your thoughts when starting a business
- To give your business direction, define your objectives, set out strategies to help you achieve your goals.
- To raise funding – probably one of the most common reasons

To see some other reasons CLICK HERE

In this Business Guide, we focus on the Business Model Canvas (BMC)
A single page format that is favoured from everyone from startups to blue chip organisations such as P&G, Nestle, Lego, Microsoft, Google many more.

Although it maybe just one page, completing it with the required information will take time and patience.

Do not rush it, as otherwise the information may not be accurate, meaningful or relevant and thereby will negate your reason for doing the business plan in the first place.

If you are starting a business, you may wish to use the BMC in conjunction with a financial plan or even as the basis for a pitch deck presentation.

To further help you, Acumenology has produced a series of Business Guides on a range of relevant topics.
You can find these at: www.acumenology.co.uk/business-guides

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What is The Business Model Canvas?

The BMC is best described as a simple one-page business plan that sets out key elements of a business or product and leaves out the unnecessary stuff.

It can be used by startups to document a new business idea or, by management of existing businesses as a tool to set out the organisations or specific product's value proposition, infrastructure, customers, and financial requirements.

The Business Model Canvas

The BMC is readily available as a free download from a host of sources.

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Advantages of the Business Model Canvas versus a traditional Business Plan

The reason for its popularity and the advantages it offers are as follows:

- **Short & simple**

  Since the information is presented on a single page it is very visual and easy to understand.

- **Customer focused**

  Central to the BMC is a clear and concise customer value proposition which is the coherence between what you are selling and, what the customer needs.
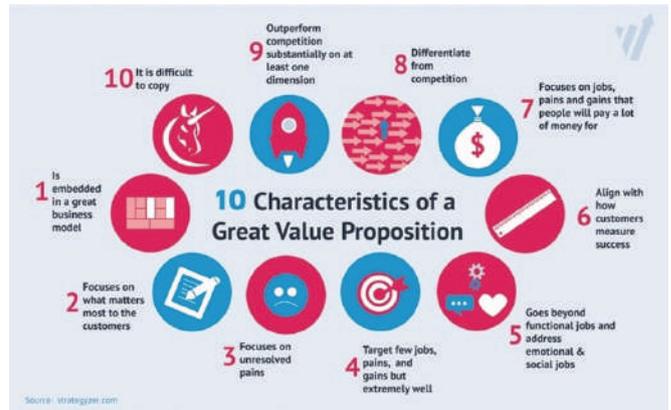
- **Focused**

  It removes any irrelevant information and focuses only on key elements.

- **Flexible**

  It is quick and easy to make changes as you develop your ideas.

- **Shows connections**

  The single page visual nature shows how the different parts of the model interrelate to each other. This can be difficult in a traditional business plan.
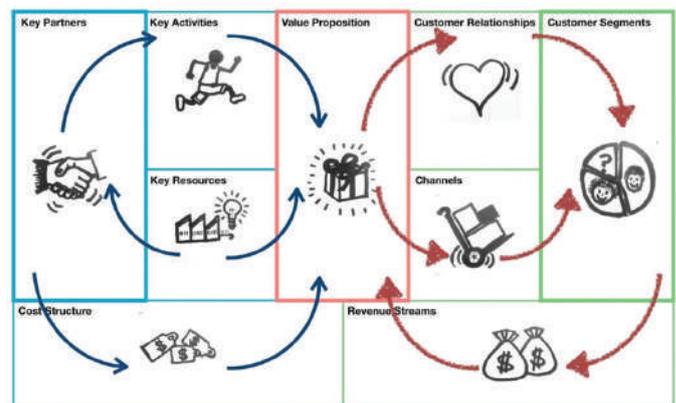
- **It works**

  It's not only suitable for startups. It is a tool used by many major organisations who have all realised the effectiveness of the BMC.

Here are some examples from well-known businesses.

Business Model: Air BnB

Business Model: IKEA

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Components of The Business Model Canvas

There are nine components that comprise the BMC. We will go into these in detail later in this guide, but briefly the components are:

1. ## Customer Segments
    Who are your customers?

2. ## Value Proposition
    Why would customers buy from you? What advantage do you provide or need you satisfy?

3. ## Channels
    How is your offering delivered to the market?

4. ## Customer Relationships
    How do you acquire, retain and grow your customers?

5. ## Revenue Streams
    How does your business generate income?

6. ## Key Resources
    What unique strategic resource does your business have or require?

7. ## Key Activities
    What activities does your business perform to deliver your value proposition?

8. ## Key Partnerships
    What non-key activities can you outsource to enable you to focus on your key activities?

9. ## Cost Structures
    What are the major costs incurred by your business?

Broadly speaking the elements on the left-hand side of the Value Proposition represent costs to the business, whilst elements to the right-hand side represent revenue.

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The Business Model Canvas explained

5.1 Customer Segments

Customer segmentation divides potential customers into groups that are similar in certain ways, such as age, gender, interests and spending habits.

Note

Customers should be at the heart of any business for without customers, there is no business.

In order to better serve customers, group them into distinct segments with common needs, common behaviours, or other relevant attributes.

A business model may define one or several large or small customer segments and an organisation must make a conscious decision about which segments to serve and which to ignore.

Once this decision is made, a business model can be designed around understanding and satisfying customer needs.

Customer groups represent separate segments where:

- Their needs require and justify a distinct offer
- They are reached through different distribution channels
- They require different types of relationships
- They have different profitabilities
- They are willing to pay for different aspects of the offer

Consider the following questions

- For whom are you creating value?
- Who are your most important customers?
- What products and services will you offer to each customer segment?

5.2   Value Proposition

The Value Proposition is the foundation for any offering and is the reason why a customer buys from one over the other.
It should describe the value delivered to each customer segment.

The Value Proposition can be quantitative (price, efficiency) or qualitative (customer experience) or a combination.

Some of the most common value propositions are:

- Newness.
- High Performance.
- Ability to customize.
- Design.
- Brand/Status.
- Price.
- Cost reduction.
- Risk reduction.
- Convenience.

Consider the following questions for each of your Customer Segments

- What problems do you solve for each Customer Segment?
- What needs do you satisfy?
- What value do you deliver to the customer?

5.3   Channels

Channels are how your customer comes in contact with and buys your product or service.

You can have direct channels such as your website, store, sales force or partner with a third party such as wholesalers, platforms like eBay/Amazon, affiliates or even Google adwords.

Channels play an important role in the customer experience and can serve several functions such as:

- Raising awareness among customers about your 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.

Examples of channels

Social media	Email marketing
Networking	Public speaking
Viral marketing	Blogs
Search engine marketing	Affiliates
PR	Trade shows
Offline marketing	Social marketing

Consider the following questions when considering the Channels to reach your customer

- How are you going to tell your chosen customer segment about your value proposition?

- Where are your customers?

- Through which Channels do the Customer Segments wish to be reached?

- How are they being reached now?

- Which ones work best?

- Which ones are most cost-effective?

5.4   Customer Relationships

Customer Relationships is defined as how a business interacts with specific customer segments

A company should clarify the type of relationship it wants to establish with each Customer Segment and it can range from personal to automated.

The best way to do this is by mapping a customer journey in detail.
That is how do customers find out about you, investigate whether to buy your product, purchase it and how are they managed after purchase.

Customer Relationship building should provide answers to the question of how you get, retain, and grow your customers.

Useful reading:

How to create an effective customer journey map.
(Examples and templates)

Restaurant customer journey map example
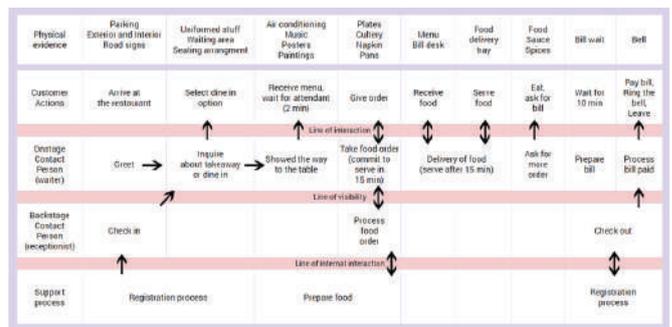
Consider the following questions
Get: How do customers find out about you and make their initial purchase?
For example, this could be through advertising on Google.

Keep: How do you keep customers?
For example, excellent customer service or a loyalty scheme might help retain customers.

Grow: How do you get our customers to spend more?
For example, you could send out a monthly newsletter to keep them informed about your latest products.

- What type of relationship does each of your Customer Segments expect you to establish and maintain with them?

- Which ones have you established?

- How costly are they?

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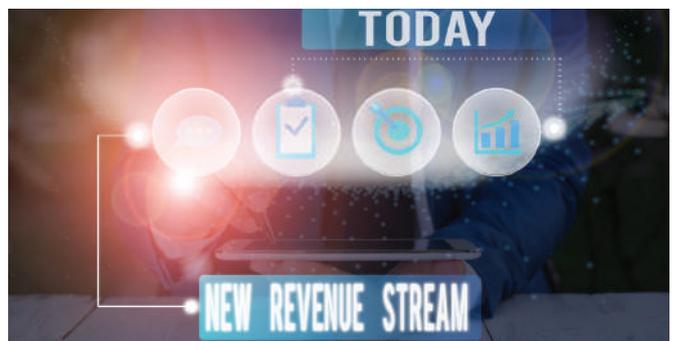
5.5   Revenue Streams

Revenue Streams represents the cash a company generates from each Customer Segment (to calculate earnings costs must be subtracted from revenues)

This may sound simple, but it isn't.
You need to figure out what strategy you will use to obtain the greatest value from your customer.

The Revenue Streams should be linked to the Customer Segments and associated Value Propositions

Some revenue models to consider

Pay-per-product	Fee for service
Fixed rate	Subscription
Referral fees	Freeium

Consider the following questions for each Customer Segment

- What is each Customer Segment willing to pay?
- What do they currently pay?
- How do they currently pay?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues?

5.6 Key Resources

Key resources sets out the assets required to make your business work.

Every business model requires resources that allow it to create and deliver its Value Proposition, reach markets, maintain relationships with Customer Segments and, earn revenue.

Resources required will vary depending on your business. For example, a microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources.

Broadly speaking resources can fall into one of four categories:

Physical: such as buildings, vehicles, machines, and distribution networks.

Intellectual: such as brands, specialist knowledge, patents and copyrights, partnerships and, customer databases.

Human: sometimes your people will be your most key resource.
This is particularly true in creative and knowledge-intensive industries.

Financial: such as lines of credit, cash balances etc
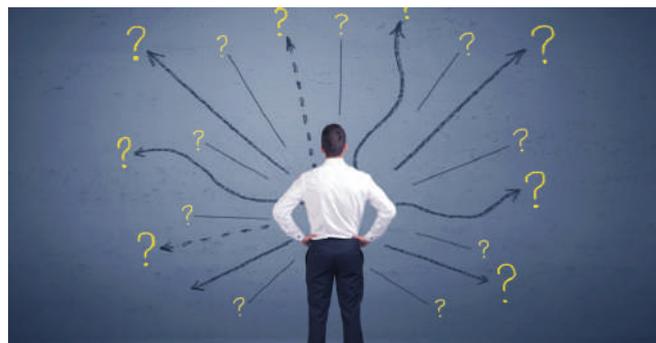
Questions to consider

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

5.7 Key Activities

Key activities are what you need to do to make your business model work and should be directly related to your Value Proposition(s).

Different Value Propositions may require different activities and you should focus on those that are core to delivering your Value Proposition and ignore the minor ones.

Some examples:
Microsoft's Key Activity would include software development.
Dell's would be supply chain management and for consultancy McKinsey, it would include problem solving.

5.8 Key Partners

Key Partners is the network of suppliers and partners you need to make your business work and deliver your Value Proposition.

Companies form partnerships for many reasons, and in some cases they are a cornerstone of a business model.

There are usually three reasons for creating a partnership:

- Economies of scale.
- Reduction of risk and uncertainty.
- Acquisition of resources or activities (e.g. music for Spotify).

Questions to consider

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

5.9 Cost Structures

Cost Structure describes the most important costs incurred to operate the business.

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.
Low-cost airlines have built their business models entirely around low-Cost Structures.

Questions to consider

- What are the costs to achieve my businesses key activities?
- What are the costs of my key resources and key partnerships?
- How much does it cost to achieve the value proposition for my customers/users?
- Are there additional costs to running a business?
  - Legal?
  - Insurance?

It is also important also to place a monetary value on your time as a cost.

- How much would it cost you to hire you?
- What is the opportunity cost of running your business?

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Business Model Canvas example explained

The best way to understand a Business Model Canvas is to see an example of a business you are familiar with.

The BMC is explained, and it will give you a good idea how to develop one for your own business.

Example Skype

Business Model Canvas: Skype

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
Payment Providers	Software Development	Free Internet & Video Calling	Self-service	Free Users
Telecoms Partners	**Key Resources** Software Developers Software	Cheap Calls to Phones	**Channels** skype.com Headset Partnerships	Users Who Want to Call Phones

Cost Structure	Revenue Streams
Software Development	Free
	Prepaid Calls Hardware Sales

www.expertprogrammanagement.com

Skype Business Model Canvas explained

The Skype Business Model Canvas shows that it has two Value Propositions:

- The ability to make calls over the Internet, including video calls, for free.
- The ability to make calls to phones cheaply.

Skype operates a freemium business model, meaning the majority of Skype's users (the Free Users customer segment) use the service for free to make calls over the internet, with just 10% of users signing up to the prepaid service.

The Customer Relationship shows customers typically have a self-serve relationship with Skype.

The Channels Skype uses to reach its customers are its website, skype.com, and partnerships with headset brands.

Looking at key partnerships, key activities, and key resources together, the main thing to notice is that Skype is able to support its business model of offering cheap and free calls because it doesn't have to maintain its own telecoms network like a traditional telecom's provider.

Skype doesn't need that much infrastructure at all, just backend software and the servers hosting use accounts.

Note: The diagram and information above was taken from **Expert Program Management**

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Business Model Canvas Template

There are many templates that are freely available. However, Google Docs provides a good template, but you need to have a Gmail account or be signed up to Google Drive or Docs.

We cannot guarantee this will work with but give it a go.

To download your Business Model Canvas Template in Google Docs – <u>CLICK HERE.</u>

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Conclusion

The Business Model Canvas may seem simple because the information is displayed on one page, but it is only as good as the sum of its parts.

Its value lies entirely in ensuring you are thorough and robust in gathering and inputting the information.....and this may take time.

Whilst the BMC may not be suitable for all businesses but, should you decide to use it for your purpose we hope the information provided will make your task that little bit easier.

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