

MODULE

How to build a sustainable business: Create your Business Plan

SHORT DESCRIPTION

This module introduces the concept of a business model canvas, which can help you support your design of your business. This can help you define your business clearly, so you can explain it to business partners and funders: What is your core product? How is it organised? Who are your business partners? What are your delivery channels? etc.

CONTENT

Defining your business model

When you establish a new company, it is important to have a clear business model. What is your overall business idea? What are your key activities in the business? How do you create value to your customers? How do you generate a profit? These questions should be clarified before you start your business. This is not to say that the answers cannot be modified and further developed in later phases, but at least some preliminary answers are needed.

This module will help you do this with the help of the nine building blocks in Osterwalder's Business Model Canvas (Osterwalder, 2010). This tool can help you produce a clear picture of your business in one sheet. This can help you better define your business for yourself, for potential partners, and for banks and potential funding institutions.

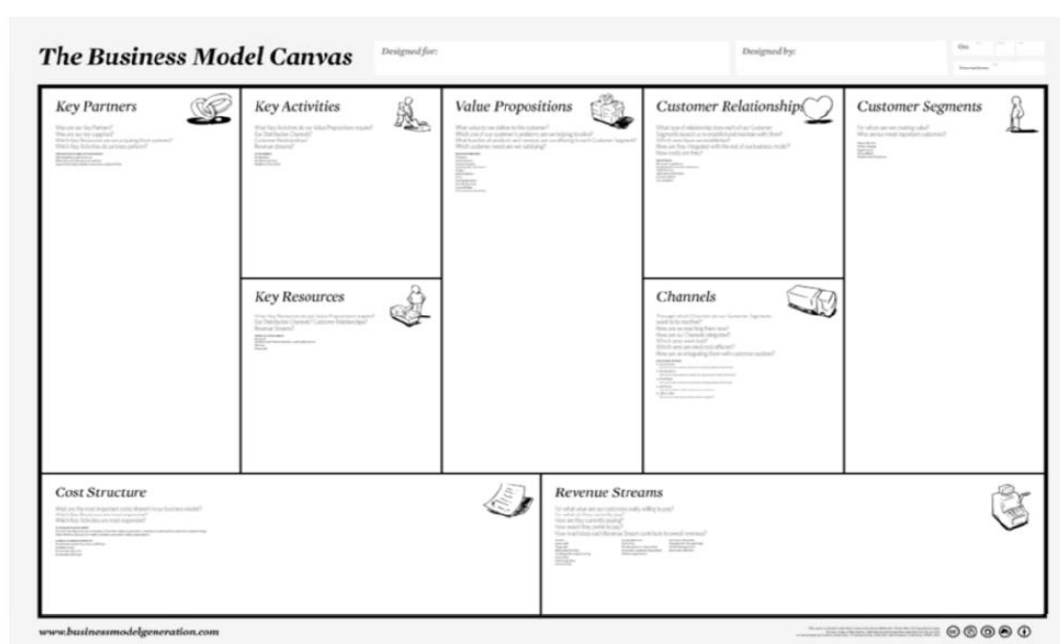


The Business Model Canvas

Osterwalder has created a canvas based on nine building blocks depicted in a business model canvas. They are:

1. Customer value proposition
2. Customer segments
3. Channels
4. Customer relationships
5. Revenue streams
6. Key resources
7. Key partners
8. Key activities
9. Cost structure.

If you are able to describe each of these nine building blocks, you will have a clear picture of your business. The idea is that having everything in one-sheet enables you to get a good overview of all elements of your business.



Source: *Business Model Canvas: nine business model building blocks*, Osterwalder, Pigneur & al. 2010

The canvas includes the customer or the demand side as well as the supply side. The demand site is depicted on the right side and includes Customer segments, Customer relations and Channels. The supply side is depicted on the left side, and it includes Key partners, Key activities, and Key resources. The value proposition is depicted in the middle, but it is normally seen as belonging to the demand side. At the bottom we find the financial factors: Cost structure (depending on the supply) and Revenue streams (depending on the demand).

The **Customer value proposition** is a key factor for any business model. It describes the value of your product or service for the customer and explains why the customer will choose your product instead of turning to your competitors. Here you should explain why your product is better than any other existing alternatives on the market. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with new features and attributes added.

In the **Customer segments** field you must specify who your target customers are. The customer segment can be defined according to location (local, regional, national, or global), according to age group, income group or psycho-graphic characteristics.

The **Channels** Building Block describes how you will communicate with and reach the Customer Segments defined above. Channels are customer touch points that play an important role in the customer experience. This includes marketing channels as well as channels for delivering products or services. Communication with customers includes raising awareness among customers about a company's products and services; and enabling customer feed-back on the Value Proposition.

The channels include also channels through which the customer can purchase specific products and services and delivery of a Value Proposition to customers. Examples of channels can be the World Wide Web or a physical with a specific location.

Delivery of after sale services is also included in this building block.

Customer relationships includes the relationship with customers in all phases of the transaction:

- Customer acquisition
- Customer retention
- Boosting sales (up-selling)

Customer relations can be either personal or automated. It is important to specify, whether your company wants to focus on one-time customers or customers who may perform several repeating transactions over time. For certain business models customer relations forms an important part of the perceived customer value proposition.

The Revenue streams denote the streams of income for the company. Revenues are generated through payments from customers. These payments may be generated through purchase of specific products or services, but other payment models are possible. New innovative business models have been created through creation of new ways to generate revenue from products or services existing on the market already.

Key resources describes the most important assets you need for setting up and operating your company. There can be many very different types of key assets. In almost any kind of business, financial means will be a key asset. Key resources will however often include particular skills, intellectual property rights or patents as well. Access to inexpensive labor with adequate skills can also be a key resource.

Key partners include suppliers as well as well as others, who you depend on for carrying out your business operations. Key partners may in certain cases include competitors as well. The way you collaborate with key partners and your relative strength in relation to them may be important for your chances for maintaining a profitable business. Key partners may help you to be introduced at new markets, but they may also be able to squeeze your profit through unfair pricing.

Key activities include key operations to make your business model work. The kinds and organization of key activities differ substantial from business to business. In a brick and mortar production company, key activities may include standard routine operations, as the most important activity. In other companies customer handling or research and development will be in focus. The organization and company structure must reflect the different kinds of key activities.

The **Cost structure** includes all costs incurred by the operations of the company. This includes the costs of key activities as well as the costs of supplies, customer relations, delivery channels etc. An important aspect of the costs are whether they have to be covered up-front and whether they are scale dependent.

A key aspect of the creation of a viable business is to analyze the relation between the different building blocks. The advantage of the business model canvas is that it provides an overview of all elements of the business model at one sheet.

Example: Business Model for a Coffee Shop

Anna wants to setup her own coffee shop, where she can serve coffee for her friends, as this target group is a bit narrow, she expands it to be urban excited coffee drinkers. Therefore, she will make a shop serving coffee for her friends and other exotic coffee drinkers passing by.



The value proposition is to deliver a unique coffee experience, where people can taste new kinds of coffee. For this she needs to have a shop within the urban center, where she can serve the coffee. The customer relationship is mass customization, as the service offered is similar for all customers. The key resources needed are thus a shop, coffee grinders and maybe Wi-Fi to attract more customers. The key activities will be to find and order the right coffee and serve it for customers in the shop. Key partners will be coffee distributors, a landowner (from who the shop can be rented), and maybe a food distributor, if food is going to be served. The major cost items will be coffee, food, rent, labor, and overheads. The revenue will come from selling coffee and food.

Example of a Business Model Canvas for Coffee shop

Key Partners Exotic coffee distributors Land owner Food and beverage distributor	Key Activities Operate shop Find and order unique coffees	Value Propositions Unique coffee experience Wide selection of coffee varieties	Customer Relationship Mass customisation	Customer Segments Urban exotic coffee drinkers
	Key Resources Coffee grinders Unique locations in urban cities Wi-Fi		Channels Urban centre boutique	
Cost Structure Coffee beans Food Rent for location Labour			Revenue Streams Unique cups of coffee Food	

Different types of Generic Business Models

Anna develops her business model around the unique coffee experience offered to exotic coffee drinkers. Thereafter, all the other factors are developed in order to provide the value proposition to the selected customer group.

However, a business model can be centered around any other set of building blocks as well. Mobile operators provide an example of how new business models have been created through alternative ways to create revenue streams by the use of new pricing models. Some operators created a new business by offering a new pricing scheme without subscription charge, where the minute charge had to be paid up front. Later other offered flat rate services, where all costs had to be covered by the subscription.

New business models can be initiated from the supply side too. You may be in position of a particular key resource for instance a patent or a physical location, and the task will then be to find out how this resource can be developed to become a viable business. Other examples are depicted below:

Examples of Epicenters for business models development

Resource Driven	How to make use of a given resource or competence
Service Driven	How to market a new product or service
Customer Driven	Make use of a certain customer need

	Financially Driven	Introduce new ways of payment or financing of existing products/services	
	Channel Driven	Make use of a specific sales and delivery channel for instance online.	

GUIDELINES/TIPS

- Start with a business idea. Your idea does not need to be completely new, as long as you address a need on a specific market.
- Identify your resources – What are your resources in terms of knowledge, skills, networks and financial means. How do they fit with your business idea, and how can you apply them to make your business profitable?
- Establish your business processes – You need to have an idea of the activities needed to make your business model work. Decide whether each process should be carried out inside the company or outsourced to a business partner.
- Decide on the kind of business partners you need. How much will you depend on other business partners? Do you have right partners in your network?
- Establish coherence among the nine building blocks – Don't just fill in the nine building blocks one by one. Make sure that they are strongly related and support each other.
- Leave room for innovation – Don't see your business plan as a static document. Review it often and implement changes if needed.

EXTERNAL RESOURCES/ TOOLS

<https://www.speedytemplate.com/forms/business-model-template-3.pdf> - Business Model Generation

<https://www.strategyzer.com/expertise/business-models> - What is a business model?

<https://www.investopedia.com/terms/b/businessmodel.asp> - What is a Business Model

<https://www.aha.io/roadmapping/guide/product-strategy/what-are-some-examples-of-a-business-model>
- What are business models?

<https://www.youtube.com/watch?v=s-TWYN6F6LU> - Making of a Business Model Canvas
<http://www.youtube.com/watch?v=2FumwkBMhLo>

<https://www.youtube.com/watch?v=ZFQ7N-vWDSM> - WEBINAR: Introduction to Business Model Innovation

<https://www.youtube.com/watch?v=0X4XOdnL1Bs> - How to Develop a New Business Model in 1 Hour or Less

https://www.youtube.com/watch?v=DL6myRFdC_g - The 9 Most Successful Business Models Of Today