



AN ENTREPRENEUR ACADEMY WORKBOOK

# BUSINESS MODEL CANVAS

## **Lesson 3: Business Model Canvas**

“To achieve great things, two things are needed; a plan and not quite enough time.”

- Leonard Bernstein

## **When it comes to transitioning an idea into a business, the Business Model Canvas is a time-saving shortcut to the traditional business plan process and will quickly give you insights into the viability of your idea.**

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Business colleges and consultants used to drone on and on about the importance of a business plan. Anyone who has tackled one in the early stages of business will tell you that it is daunting to do and about as useful as a dusty ream of paper lying on a shelf. Oh, wait! That's what a business plan becomes... eventually.

Conductor Leonard Bernstein was onto something when he came up with the quote for this section. A business plan takes a long time to craft, and in that time, you could be acting on your new idea before someone else steals your thunder with a similar product or service. A Business Model Canvas is an easy way to visually and quickly describe how your business is going to make money. It covers who your customers are, how you deliver value to them, what the supply chain needs to look like and how you're going to finance it – all on one page.

Just as an artist uses the canvas to paint a picture, the Business Model Canvas allows you to describe your ideas. It also gives you a way to create a pretty clear business model on just one sheet of paper. This model can be used for any type of business, from a niche market that focuses on the needs of a smaller group of customers to a mass market that communicates with the largest possible audience.

While many startups waste precious time writing endless pages for a business plan destined to collect dust, savvy entrepreneurs use a Business Model Canvas to quickly formulate their model. A business plan is essential if you're going after a loan with a bank, but the Canvas can outperform a business plan in specific ways:

- *Readable: A single page is preferable to*

*the 30 to 50 pages the Small Business Administration recommends for a business plan.*

- *Focused: Business plans include lots of fluff that provides no value to the reader. The Business Canvas Model layout requires you to be succinct and to get to the point.*
- *Flexible: It's easier to make changes and pivot with a Business Canvas than a business plan.*
- *Customer-centric: By design, the focus is on the customer, not the product or service.*
- *Connected: The one-page model quickly shows how each critical segment of the business is interconnected versus a business plan where these connections aren't as obvious or even addressed.*
- *Responsive: People will take the time to read a one-page document and provide you with tangible, actionable feedback. Try that with a 30 to 50 page business plan.*

The Business Model Canvas was created by Alex Osterwalder and Yves Pigneur in their book with the catchy title – Business Model Generation. Yes, it's still in print, and yes, it's on Amazon in printed and Kindle formats. The Business Model Canvas covers these main areas:

- *Customer Value Proposition*
- *Customer Segments*
- *Distribution Channels*
- *Customer Relationships*
- *Revenue Streams*
- *Key Resources*
- *Key Partners*
- *Key activities*
- *Cost Structure*

Many of these elements, of course, are found in a traditional business plan as well. But the canvas provides a quick overview without all the support materials that are required by a lender. Business plans are great when you're

meeting with a banker, but who is going to lend any money to a first-time entrepreneur who's in startup mode anyway?

In stark contrast to a traditional business plan which requires an MBA to understand it, the Business Canvas Model can be understood quickly by just about anyone.

As your business grows, the canvas can grow with you. Because it's easy to update, you can use it as a guidepost as your business expands and matures. You can also use it as a brainstorming tool to test new ideas or changes to the existing model.

## The basic building blocks

There are nine basic building blocks in the Business Model Canvas: Customer Value Propositions, Customer Segments, Distribution Channels, Customer Relationships, Revenue Streams, Key Resources, Key Partners, Key Activities and Cost Structure.

Some of this you've already tackled in your Ideation Stage lesson. The research and data you collected there can be summarized and placed in the relevant section of the canvas

**see appendix page 11**

## Customer Segments

You can pull these straight out of your Ideation Stage exercise. Customer segments are the groups of people or businesses that have a problem that your product or service will solve. You can take your existing customer base and break them down further into geography, gender, age, behaviors, preferences, interests, etc. so that you can meet their needs with even higher specificity.

As you look at your customers/audience, stack rank them to see who you should focus on first and who you can focus on later or ignore altogether. Once you have the segments, create customer personas for each. This persona can include their worries and fears, online behavior, professions, influencers,

hopes and dreams, desires, and what would make their life easier.

There are several ways to look at your customer segment:

- *Mass market: This model doesn't break customers into segments. Instead, it focuses on the general population or a large group of people with similar needs, such as mobile phones.*
- *Niche market: This is focused on a specific group of people who have something in common, such as runners who buy athletic shoes.*
- *Segmented: This would be a market that has slightly different needs, allowing you to create various groups from the main customer segment.*
- *Diversified: Just what it sounds like, a segment composed of customers with very different needs.*
- *Multi-sided: This model serves interdependent customer segments with different products or services (think credit card companies who have businesses and consumers as customers).*

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## Customer Relationships

Now that you have your customers segmented, it's time to think about the type of relationship you will have with each and how you will interact with them.

- *Personal assistance: Interaction with a specific customer is by email, phone or other direct means, including in-person interactions.*
- *Dedicated personal assistance: A dedicated representative – think sales rep or personal shopper – is assigned to a customer or customers.*
- *Self-service: The customer helps themselves, but you're available if they have a question or need support.*
- *Automated services: The transaction is digital, electronic or delivered by a machine. ATMs are a good example.*
- *Communities: Customers help one another*

- solve their problems or address their needs. Gaming forums are a good example.*
- *Co-creation: Customers are involved in the creation of the product or service. YouTube would be an example of a relationship that is co-creative.*

If the relationship is unclear, a journey map may help. It will help you identify the various stages customers will go through when interacting with your company. It will also help you get a sense of how you will acquire, retain and expand your relationships with your various customers.

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## Distribution Channels

Your Distribution Channels establish how you will deliver your value proposition to each customer segment, from communications and support to supply chain logistics – warehousing, packaging and transportation.

Channels serve several functions:

- *Expanding the knowledge of customers about products and services offered by a company.*
- *Assisting customers in evaluating the value proposition and delivering on that proposition.*
- *Facilitating the ordering and delivery of products and services by customers.*
- *Supporting customers after the purchase.*

Your Distribution Channels establish how you will deliver

- *Awareness: The customer learns about your value proposition through advertising, marketing and sales.*
- *Evaluation: The customer evaluates your product and forms an opinion.*
- *Purchase: The actual acquisition of your product or service.*
- *Delivery: When and how the product is delivered.*
- *After-Sales: Supporting the purchase with technical and customer support.*

Each customer segment may require a different distribution channel or mix of channels. Some may be totally within your control; others may depend on other partners to execute. The key is to figure out the right balance of channel types, so each contributes to and improves the customer experience and satisfaction while increasing revenue.

## Revenue Streams

This one is pretty straightforward. Revenue streams articulate how you generate money by selling, renting or leasing products and services. A revenue stream could be transaction-based (i.e., a one-time payment) or through recurring revenue (ongoing payments for continuing or post-sale services, such as subscriptions).

You can generate revenue in several ways:

- *Asset sales: Selling the ownership rights for a product or service to a buyer.*
- *Usage fee: Charging the customer for the use of a product or service for a specific term.*
- *Subscription fee: Charging the customer for using a product regularly and consistently.*
- *Lending/leasing/renting: The customer pays for the exclusive rights to an asset for a specific period of time.*
- *Licensing: The customer pays to use the company's intellectual property.*
- *Brokerage fees: Revenue is generated by serving as an intermediary between parties.*
- *Advertising: Charging the customer to advertise a product or service on a company-owned channel.*

## Key Activities

The principal activities you list in your Business Model Canvas should cover how you will fulfill your value proposition, reach your customer segments and maintain productive customer relationships while generating revenue.

This is where the rubber meets the road. There are three basic categories for this section:

- *Production: This covers the design,*

*manufacture and delivery of a product in significant quantity and quality.*

- *Problem solving: Finding new solutions to individual problems that are faced by customers.*
- *Platform/network: Creating and maintaining a platform that can support partner or third-party products or services.*

## Key Resources

This one should be fairly obvious. What resources are required to engage in your key activities, create your value proposition and generate revenue? These resources include human (employees), financial (cash, credit lines, liquid assets), intellectual (brands, patents, copyrights, intellectual property) and physical (real estate, equipment, inventory).

## Key Partners

Who can go it alone these days? In this square jot down all the suppliers and external companies you need to carry out the key activities. These can be strategic partnerships between non-competitors, partnerships with new partners, a partner you're developing new business with or suppliers who will ensure the reliable delivery of supplies or raw materials.

## Cost Structure

Here you'll want to identify all the costs that are associated with operating your business model. Costs include creating and delivering on your value propositions, maintaining customer relationships that result in a transaction, and expenses related to starting and operating your business.

There are two ways to think about costs. You can be:

- *Cost-driven, i.e., minimizing costs whenever possible, or*
- *Value-driven, focusing on providing maximum value for the customer. Think Ford vs. Tesla, or Android vs. Apple.*

## Value Propositions

We've mentioned value propositions throughout, but what are they? This is the heart of your business model. It's your unique

solution(s) – a product or service – that solves a problem your customer segment faces or that creates value for them.

It should be unique and different from that of your competitors.

Here are value propositions of some well-known businesses:

*"Expect More, Pay Less."* - Target      *"Save Money. Live Better."* - Walmart

*"Music for Everyone."* - Spotify

*"The World's Catalog of Ideas."* Pinterest

In just a couple of words, the entire purpose of the company, product or service is articulated. Value propositions can be quantitative (price and speed of a service) or qualitative (a superior experience or design).

## Wrapping up.

Remember that your Business Model Canvas doesn't need to be War and Peace. It is short and to the point for a reason. It is meant to be nimble and visual, so you can easily update it as you move forward with your business. It should give you an instant picture of your plan and its many moving parts at any point in the arc of your business. Use it as your roadmap for starting and running your business and as a springboard for doing a larger, more detailed business plan down the road if you are working with financial backers, bankers, venture capitalists or angels.

Share it with your partners and workers. It is an excellent tool for understanding a business, even a complex one. It will also help you map further ideation as you refine your model, determine the need for new products or services or find new customer streams.

# Assignments

Complete a Business Canvas for your idea by answering these questions:

## **Value Proposition**

What are you building and for whom?  
What pain are you solving?  
What gain are you creating?  
What will your customers pay for?  
What's in it for the customer?  
Does it solve a need or a problem that your customer has?  
Can you see the target market you wish to serve and why they would want this?

## **Customer Segments**

Who are they?  
Where are they?  
What will they do with your product or service?  
Are you selling in a physical channel or in a virtual or web channel?  
Who are your customers? And what is the journey you'd like them to experience with you?  
How does your product or service resolve their needs?  
Can you make a picture of them as an archetype?  
What other websites or products do they buy?  
What are their demographics, psychographics, and interests?

## **Channels**

How does your product get to your customers?  
Physical or virtual?  
How do you find the channels that will provide the delivery, packaging and transportation to you?  
Do you have back up channels in case of a disaster or supplier interruption?

## **Customer Relationships**

How do I keep them?  
How do I grow them?  
What's the journey they will have?

## **Revenue Streams**

**What is the value that your customers are paying for?**  
**What streams of revenue do you plan to create?**  
**How much revenue do you anticipate from each segment of your customer base?**  
**What is your strategy for acquiring revenue?**  
**Will you have online sales?**  
**In-person transactions?**  
**Will you be a subscription or licensing based business?**

### **Key Resources**

**How will you finance the business?**  
**What kind of machines do you need?**  
**Are there any specific kinds of people you will need?**  
**How about Patents or intellectual property?**  
These take time, so you may want to think about this upfront.  
**How about the resource of time? Will you be dedicated to this creation once you begin, or will you ramp up slowly?**  
**Where will you work? Office? Home? Garage? Co-working space? Incubator?**

### **Key Stakeholders**

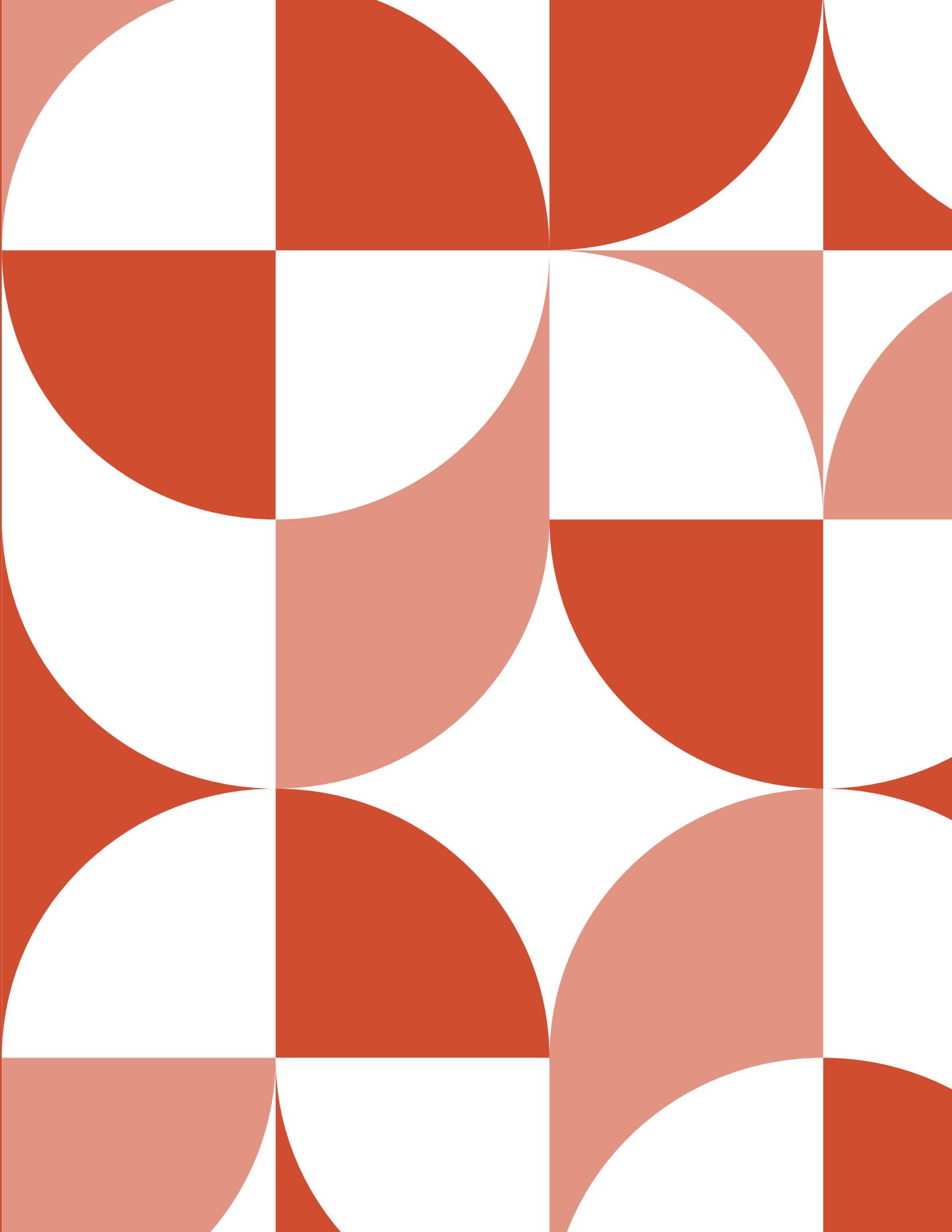
**Who are the key people working with you and your business?**  
**Do you need any partnerships to start the business?**  
**Are there friends and family you want to work with, or those you definitely do not?**  
**Are there any alliances or groups of customers you want to tap into?**  
**Who has a strong interest in this business and who will want to help you sustain it?**

### **Key Activities**

**What fundamentally are you doing to make the business work?**  
**What are you expert at?**  
**What do you need to learn? What expertise do you need to master to make your company the best at what it does?**

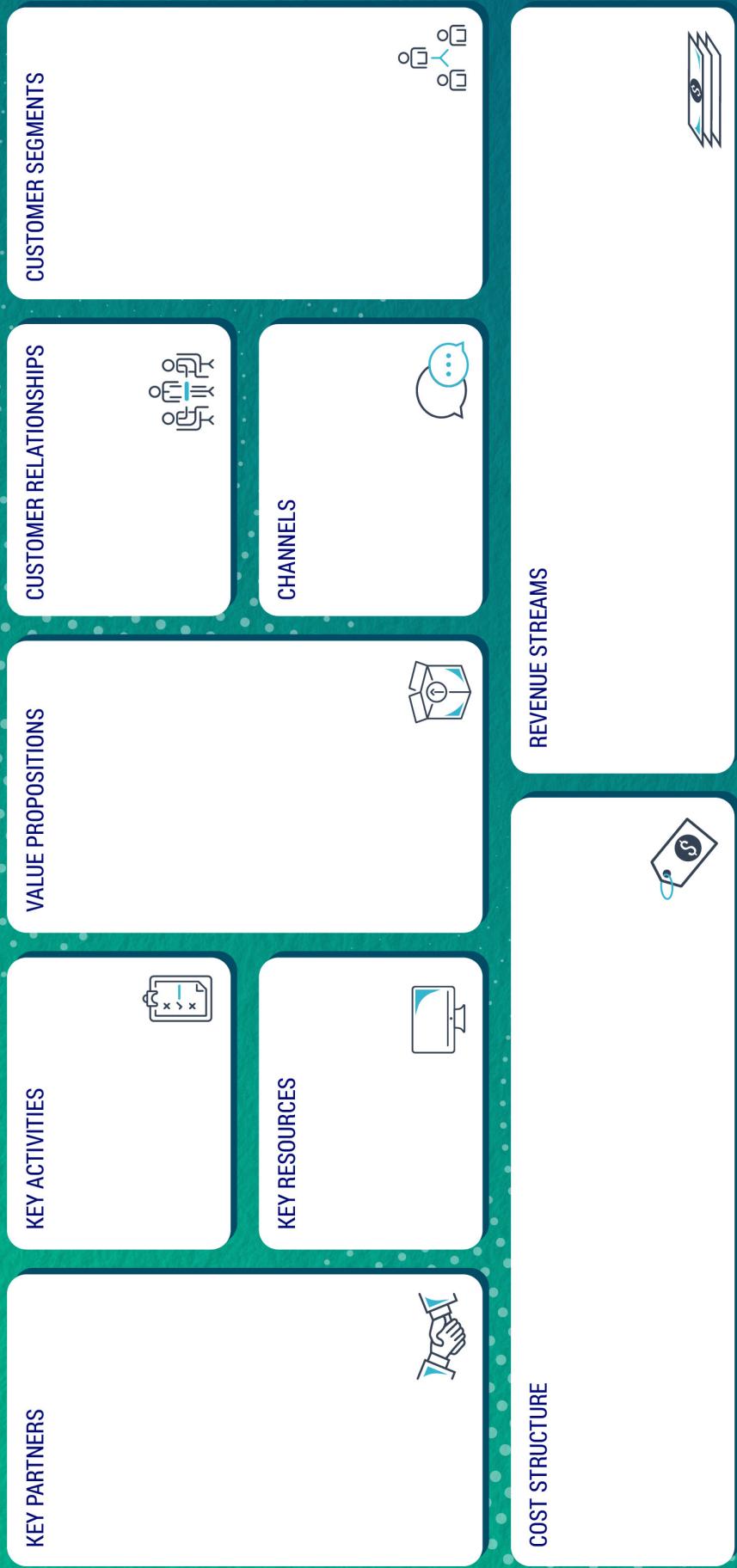
### **Cost structure**

**What are the BIG costs for your business?**  
**What will be your fixed and variable costs?**  
**What will be your loss leaders**  
**How do you take in money? Venmo? Credit card?**



## **Appendix: Pages 11-13**

# BUSINESS MODEL CANVAS



## Personal Information

Online Behavior

Worries & Fears



What influences her?

Background

Age:

Marital Status:

Children:

Location:

Income:

Education:

What she's looking for?

Hopes & Dreams

How to make her life easier?

