

HATCH

Entrepreneurs

Introduction

Strap in safely, because working on start-up can be a very bumpy roller coaster ride.

There will be ups and there will be downs, change is inevitable. However it doesn't need to be bumpy journey. Making a huge commitment mentally, physically, financially, socially comes with huge risks. We understand this and want to make your journey as smooth as possible.

In our workshops we offer practical solutions and learning experiences to real problems.

However we wanted to provide you with a resource that explains in theory the essence of what starting up a business looks like. Thus included in this guide you will find the building blocks of putting a business together using the Business Model Canvas™

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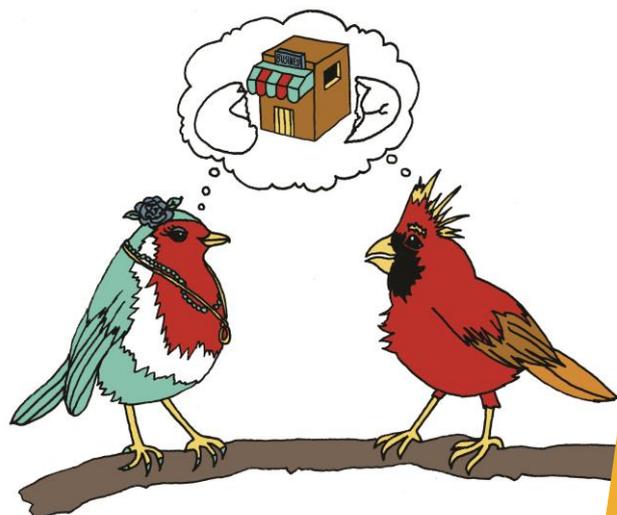
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Customers

Customer Segments (CS): To build an effective business model, a company must identify which customers it tries to serve. Various set of customers can be segmented base on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristics of selected group of clients. The different types of customer segments include:

- Mass Market: There is no specific segmentation for a company that follows the Mass Market element as the organization displays a wide view of potential clients.
- Niche Market: Customer segmentation based on specialized needs and characteristics of its clients.
- Segmented: A company applies additional segmentation within existing customer segment. In the segmented situation, the business may further distinguish its clients based on gender, age, and/or income.
- Diversify: A business serves multiple customer segments with different needs and characteristics.
- Multi-Sided Platform / Market: For a smooth day to day business operation, some companies will serve mutually dependent customer segment. A credit card company will provide services to credit card holders while simultaneously assisting merchants who accept those credit cards.

Channels (CH): A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both.

Customer Relationship (CR): To ensure the survival and success of any businesses, companies must identify the type of relationship they want to create with their customer segments. Various forms of customer relationships include:

- Personal Assistance: Assistance in a form of employee-customer interaction. Such assistance is performed either during sales, after sales, and/or both.
- Dedicated Personal Assistance: The most intimate and hands on personal assistance where a sales representative is assigned to handle all the needs and questions of a special set of clients.

Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.

Finances

Cost Structure (CS):

This describes the most important monetary consequences while operating under different business models.

- Classes of Business Structures:
 - Cost-Driven - This business model focuses on minimizing all costs and having no frills. i.e. Ryan Air/ EasyJet
 - Value-Driven - Less concerned with cost, this business model focuses on creating value for their products and services. i.e. Louis Vuitton, Rolex
- Characteristics of Cost Structures:
 - Fixed Costs - Costs are unchanged across different applications. i.e. salary, rent
 - Variable Costs - These costs vary depending on the amount of production of goods or services. i.e. music festivals
 - Economies of Scale - Costs go down as the amount of good are ordered or produced.
 - Economies of Scope - Costs go down due to incorporating other businesses which have a direct relation to the original product.

Revenue Streams (RS):

The way a company makes income from each customer segment. Several ways to generate a revenue stream:

- Asset Sale - (the most common type). Selling ownership rights to a physical good. i.e. supermarkets, car dealerships etc.
- Usage Fee - Money generated from the use of a particular service i.e. UPS
- Subscription Fees - Revenue generated by selling a continuous service (Netflix/ LoveFilm)
- Lending/Leasing/Renting - Giving exclusive right to an asset for a particular period of time, i.e. Leasing a Car
- Licensing - Revenue generated from charging for the use of a protected intellectual property.
- Brokerage Fees - Revenue generated from an intermediate service between 2 parties, i.e. Broker selling a house for commission
- Advertising - Revenue generated from charging fees for product advertising.

Module 1 - Introduction & Competency Balance

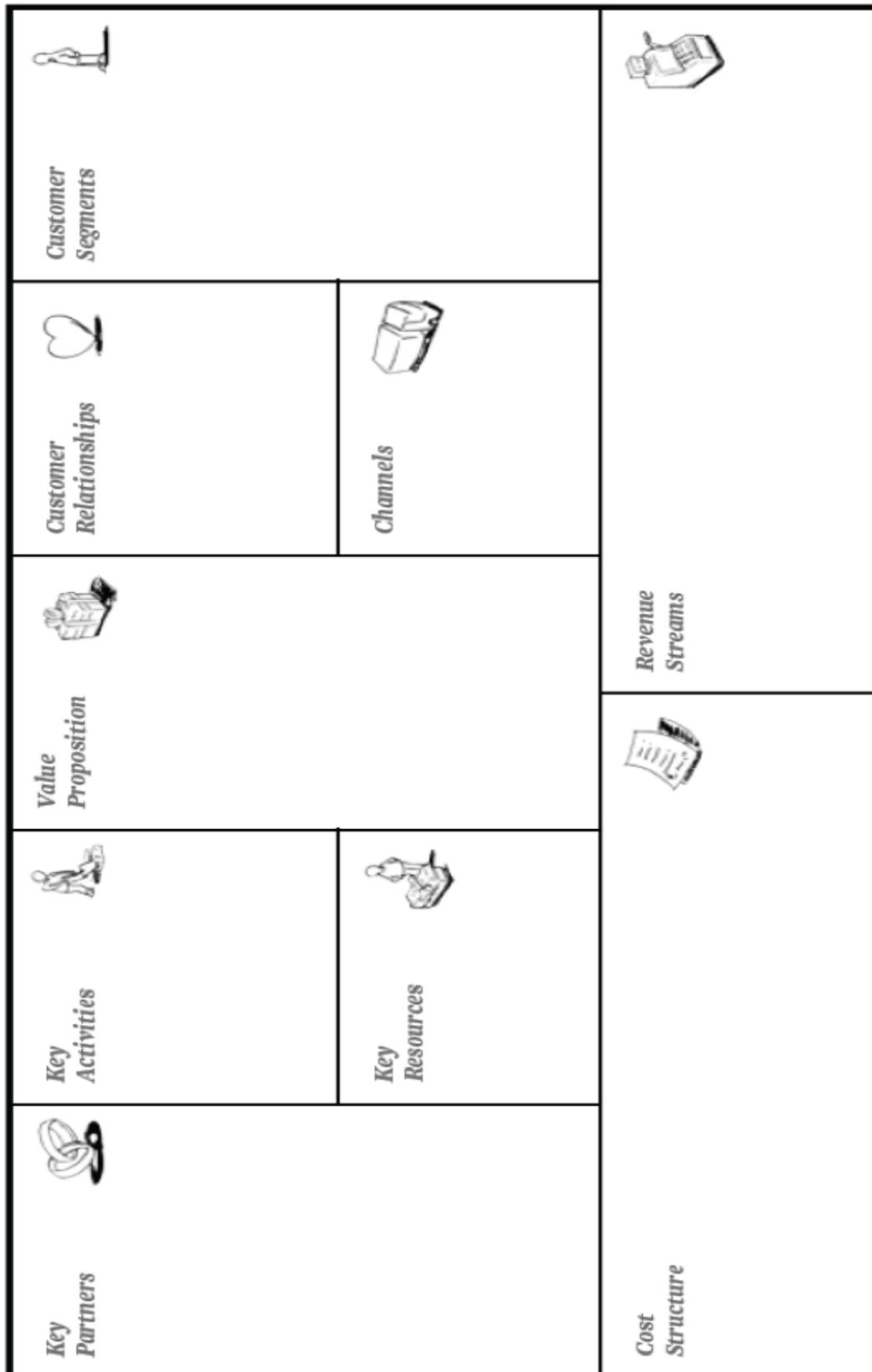
1. Communicate your vision (for the project/ business)

2. Assess your competencies (through the competency balance)

3. What are your personal strengths, abilities and boundaries/ challenges?

Module 2 - Introduction to YEA Business Model Canvas & Progress Planning.

Using Pages 5 & 6 write a definition of each block in given section, give an example as to how this objective would apply to your business

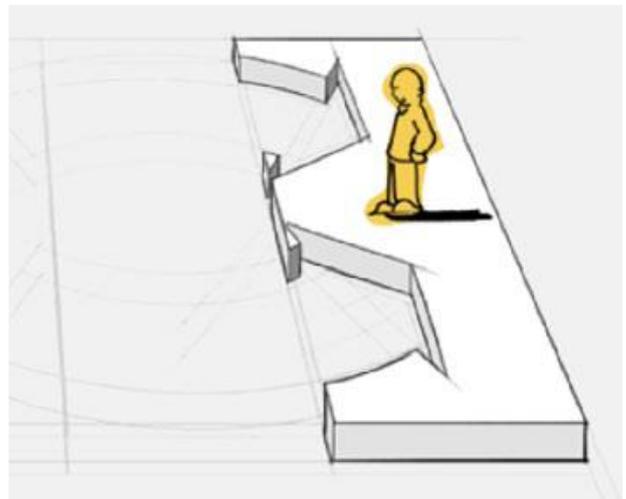


Now prepare a prioritised task list to complete those objectives:

Priority	Task	Details of what you need to do to get this task done	Hard deadline
1.			

Module 3 - Who are my Customers/ Clients?

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviours, or other attributes. Participants describe the different customer segments for their project/ business. A group of customers represents a distinct segment if they have distinct needs and you offer them distinct value



propositions (e.g. a newspapers serves readers and advertisers), or if they require different channels, customer relationships, or revenue streams. Once the BMC has been completed (basic) the design a short questionnaire that will be used to find out more about the customers. Participants adapt/ amend their individual progress plan to feature any changes/ needs.

List the type of customers (customer segments) you have:

Who are my customers?

-
-
-

Who are my primary (most important/largest revenue generating) customers?

-
-
-

Describe your typical customer, by creating a customer profile:

Jiggly Puff - Ent



Behaviours

- Is an entrepreneur! Freelancer or creative
- Short on money and short on time
- May feel overwhelmed by the idea setting up a business
- Socially conscious

Facts & Demographics

- Young 18-30
- working part time or full time
- Lives in Lambeth

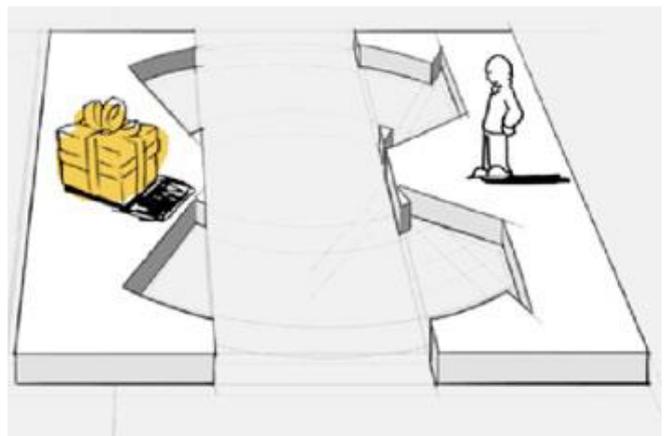
Needs & Goals

- Business Admin
- Have a successful business
- Building a team of support
- Earning enough to pay themselves (support family) and others

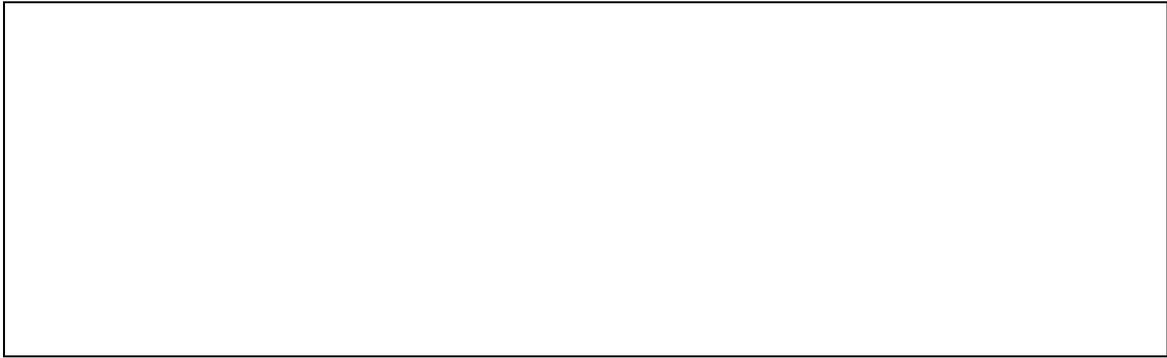
Create a questionnaire to find out more about what problems your customer faces when trying to access your product or service (if at all). Get the questionnaire filled in and get feedback from your customer (what they thought of your questionnaire).

Module 4 - The Value Proposition (Offer)

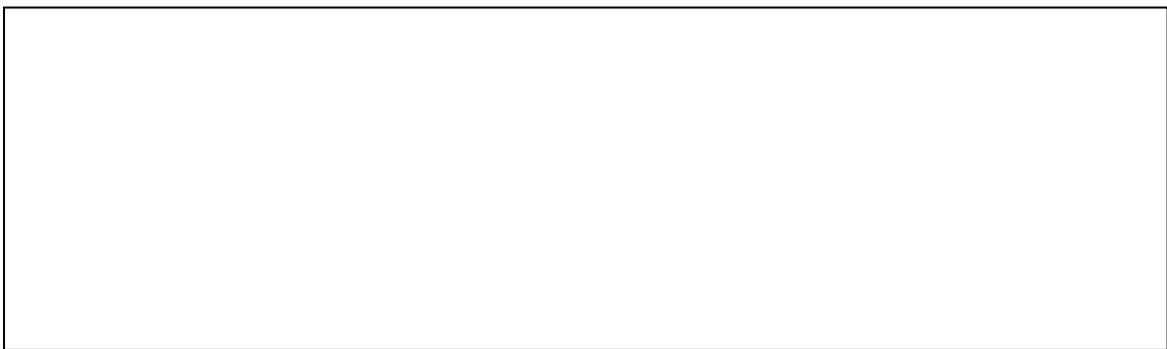
The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment. The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.



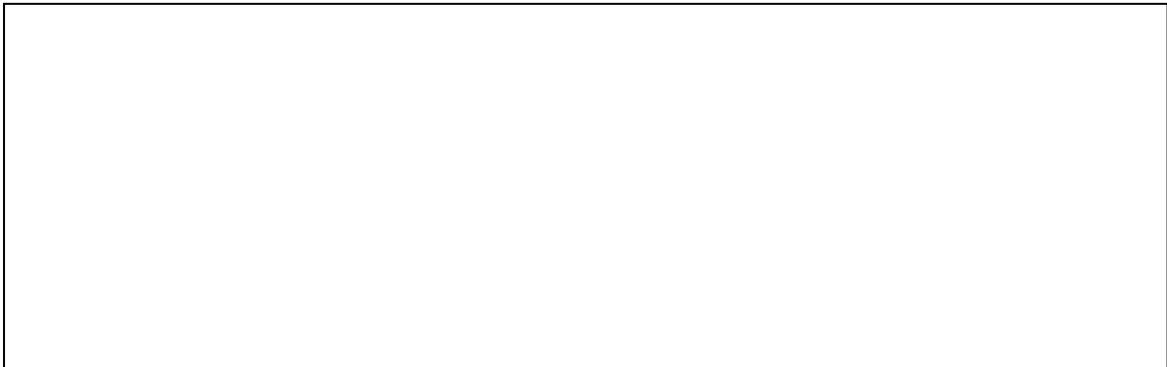
What value do we deliver to the customer?

A large, empty rectangular box with a thin black border, intended for the user to write their answer to the question above.

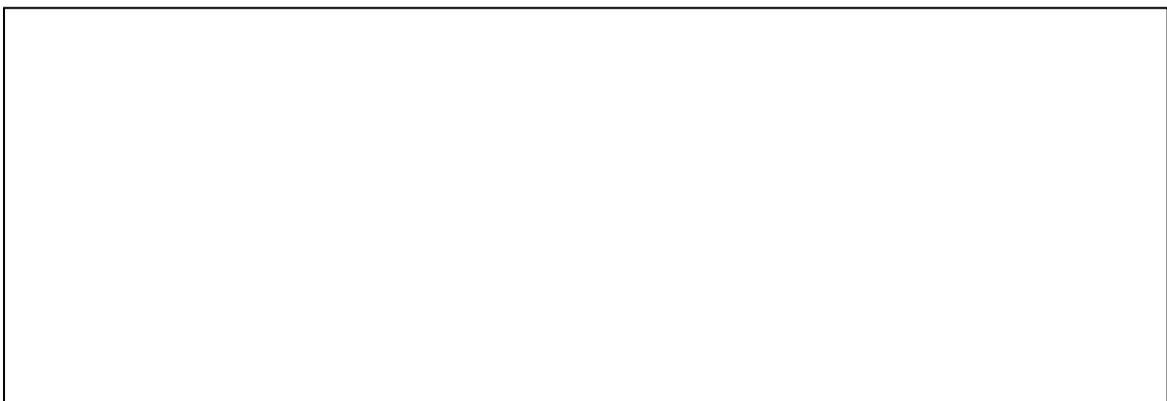
Which one of our customer's problems are we helping to solve?

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Which customer needs are we satisfying?

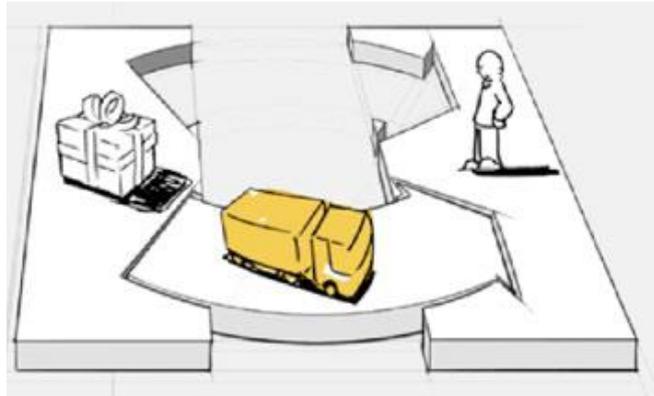
A large, empty rectangular box with a thin black border, intended for the user to write their answer to the question above.

What bundles of products and services are we offering to each Customer Segment?

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Module 5 - Channels

The Channels Building Block describes how a company communicates with its Customer Segments to deliver a Value Proposition. Participants will analyse their projects/ business BMC & learn what channels are & how they are used as



communication, distribution, & sales Channels. They comprise a company’s interface with customers. Channels are customer touch points that play an important role in the customer experience. Channels serve several functions, including:

- Raising awareness among customers about a company’s 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

Research two other companies that deliver a similar service/product to yours and research all the methods of communication they use:

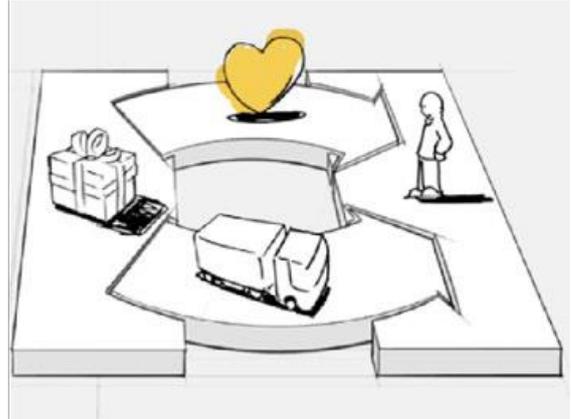
Which of these channels is most useful i.e. generates the largest number of leads:

Which channels will you organisation use and how regularly (when)?

Channels	Regularity/Point of contact

Module 6 - Customer Relationships

The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments. A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to



automated. Customer relationships may be driven by the following motivations:

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

Research and list the types of customer relationships can be developed between a company and its clients?

Which of these do you use/should you use to interact with your clients?

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, for what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

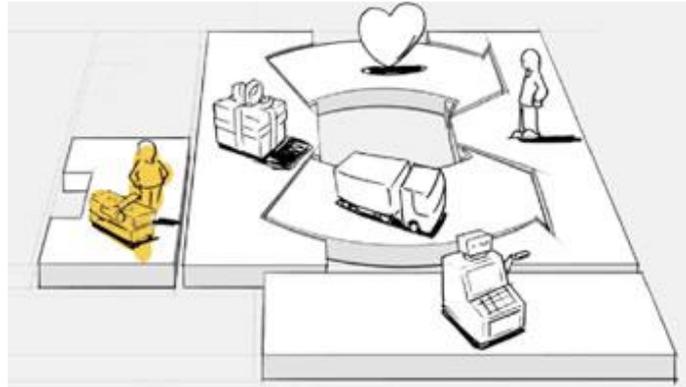
For what value are our customers really willing to pay?

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?

1. Understanding important concepts of how the business will generate revenue
2. Being able to fill in spreadsheets to build key financial documents such as Profit & Loss Statement, Balance Sheet
3. Ability to identify appropriate financing (from customers, grants, investors etc.)

Module 8 - Key Resources



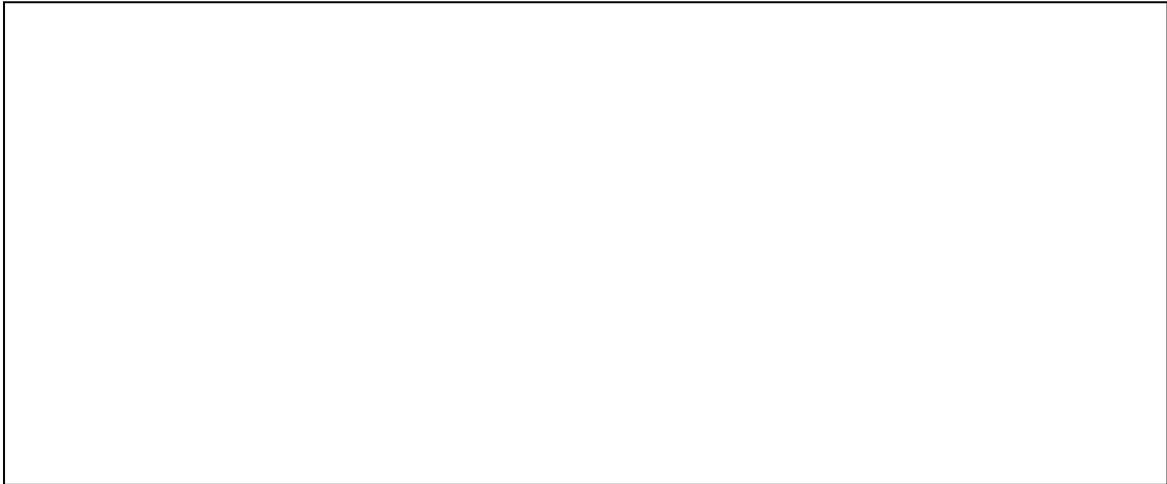
The Key Resources Building Block describes the most important assets required to make a business model work. Every business model requires

Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

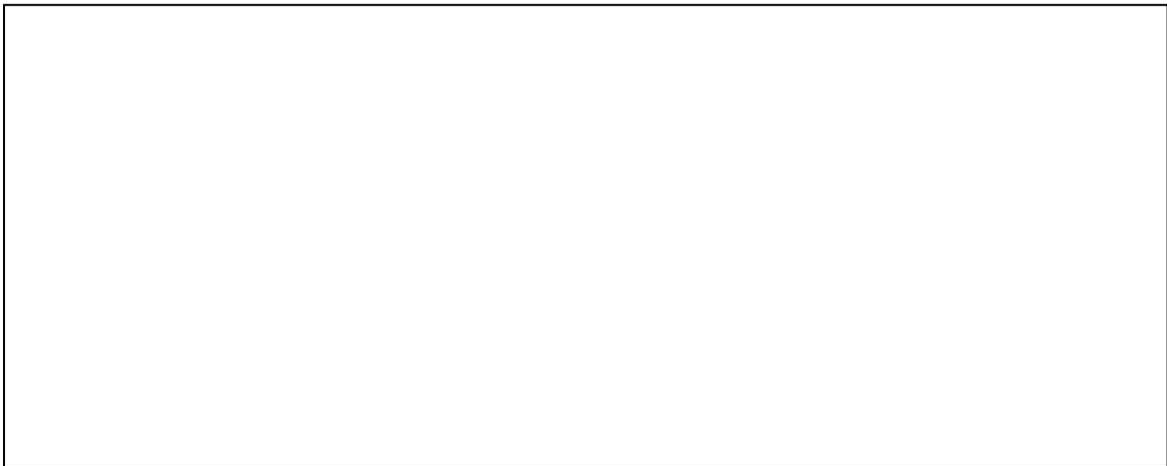
Below list your key resources that you require to run your business, in the column on the right list which segment (distribution/customer relationships/revenue streams/etc.) needs this resource to function, e.g. online sales tracker needed for cost structuring.

Key resource	Channel

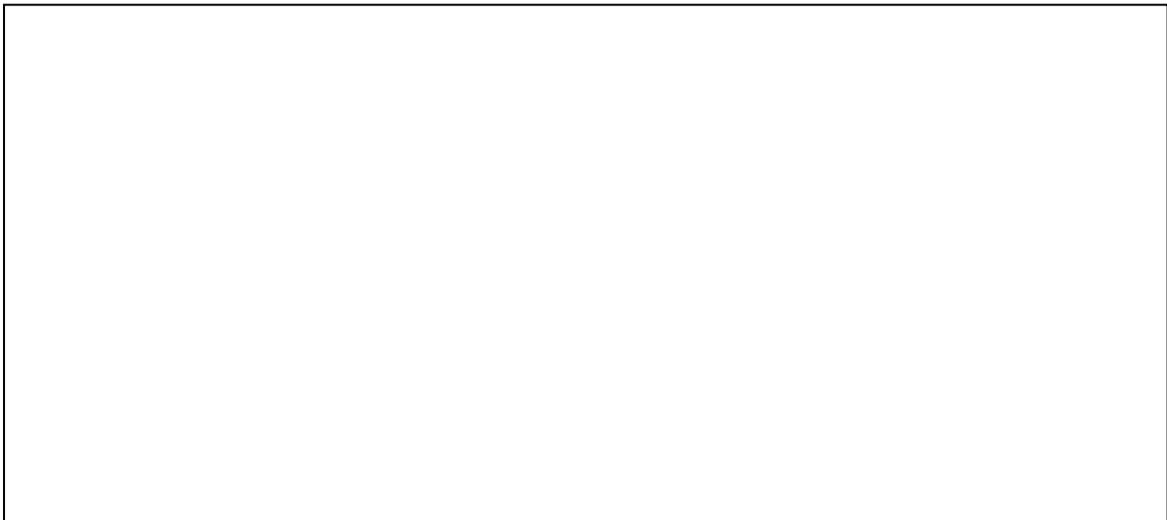
Who are the project's/ business key partners (suppliers, distributors etc.)?



Which key resources are you acquiring from partners?

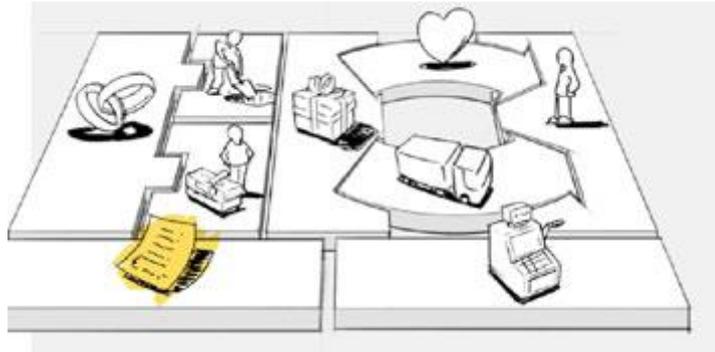


Which key activities do partners perform?



Module 11 – Finances (Revenues and Costs)

The Cost Structure describes all costs incurred to operate a business model. This building block describes the most important costs incurred while operating under a particular business model. 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.

There are two broad classes of business model Cost Structures (many business models fall in between these two extremes):

1. Cost-driven: Cost-driven business models focus on minimizing costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing.
2. Value-driven: Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models.

In this module, participants learn to understand what costs their project/ businesses are incurring and what effect they have on their bottom line (profit/ surplus) as well as understanding how to build their financial models.

Learning Outcome:

List your revenue streams:

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How much money does each revenue stream generate? Which revenue stream is the most profitable?

List your outgoing costs:

-
-
-
-

How much does each key resource cost? Which Key resource is the most expensive?

How much does each key activity cost in total? Which key activity is the most expensive?

Your next step is to research key financial documents such as Profit & Loss Statement, Cash Flow Statement, and Balance Sheet - then create these documents.

Module 12 Evaluation of YEA BMC

How is the BMC useful for my business?

Entrepreneurs can use BMC to varying degrees of implementation and to varying degrees of success. See below for a breakdown of the various levels of implementation:

- Level 0 Strategy – The Oblivious: Focus on products/value propositions alone rather than the value proposition AND the business model.
- Level 1 Strategy – The Beginners: Use the Business Model Canvas as a checklist.
- Level 2 Strategy – The Masters: Outcompete others with a superior business model where every one of the business model building blocks reinforce each other (e.g. Nintendo Wii, Nespresso, and Dell).
- Level 3 Strategy – The Invincible: Continuously disrupt themselves while their business models are still successful (e.g. Apple, Amazon.com).

Business models that outperform others do so in various ways, for example by...

- Disrupting the existing market (e.g. Dell).
- Creating a hard-to-copy competitive advantage (e.g. Apple app store ecosystem).
- Establishing game-changing cost and/or profitability structures (e.g. Nintendo Wii)
- Creating entirely new markets (e.g. Nespresso).

Assessing the basics

Every business model has a product and/or service at its centre that focuses on a customer's job-to-be-done. I call this the Value Proposition. So before even turning to your business model as a whole, you need to ask yourself some basic questions related to your Value Proposition and the Customer Segments that you are targeting.

- First, ask yourself how well your Value Proposition is getting your target customer's job done. For example, if a user of a search engine is trying to find and purchase the latest Nike running shoe, the measure of success will be how well the search engine helps the user get this job done.
- Secondly, ask yourself how many people or companies there are with a similar job-to-be-done. This will give you the market size.
- Thirdly, ask yourself how important this job really is for the customer and if she actually has a budget to spend on it.

That's it as to the basics. However, even the greatest products are having an increasingly hard time to achieve a long-term competitive advantage. That is the reason why you need to shift your focus away from a pure product/market segment oriented approach towards a more holistic business model approach. Below are eight questions to assess your business model design. Rank your business model's performance on a scale of 0 (bad) to 10 (excellent) for each question.

1. How much do switching costs prevent your customers from churning?

The time, effort, or budget a customer has to spend to switch from one product or service provider to another is called "switching costs". The higher the switching costs, the likelier a customer sticks to one provider rather than leaving for products/ services of a competitor.

A great example of designing switching costs into a business model is Apple's introduction of the iPod in 2001. Do you remember how Steve Jobs heralded his new product with the catchphrase "thousand songs in a pocket"? Well, that was more than a product innovation focusing on storage. It was a business model strategy to get customers to copy all their music into iTunes and their iPod, which would make it more difficult for them to switch to competing digital music players. In a time when little more than brand preferences were preventing people from switching from one player to another this was a smart move and laid the foundation for Apple's subsequent stronghold on music and later innovations.

2. How scalable is your business model?

Scalability describes how easy it is to expand a business model without equally increasing its cost base. Of course software- and Web-based business models are naturally more scalable than those based on bricks and mortar, but even among digital business models there are large differences.

An impressive example of scalability is Facebook. With only a couple of thousands of engineers they create value for hundreds of millions of users.

Only few other companies in the world have such a ratio of users per employee. A company that has pushed the limits even further is the social gaming company Zynga. By building games like Farmville or CityVille on the back Facebook, the world's largest social network, they could benefit from Facebook's reach (and scale) without having to build it themselves.

A company that quickly learned its lessons regarding scalability was peer-to-peer communication company Skype in its early days. Their customer relationship collapsed under the weight of large numbers, when they were signing up ten thousands of users per day. They quickly had to adapt their business model to become more scalable.

3. Does your business model produce recurring revenues?

Recurring revenues are best explained through a simple example. When a newspaper earns revenues from the sales at a newsstand they are transactional, while revenues from a subscription are recurring. Recurring revenues have two major advantages. Firstly, the costs of sales incur only once for repetitive revenues. Secondly, with recurring revenues you have a better idea of how much you will earn in the future.

A nice example of recurring revenues is Red Hat, which provides open source software and support to enterprises based on a continuous subscription basis. In this model clients don't pay for new software versions because it is continuously updated. In the world of Software as a Service (SaaS) these types of subscriptions are now the norm. This contrasts with Microsoft, which sells most of its software in the form of licenses for every major release.

However, there is another aspect to recurring revenues, which are additional revenues generated from an initial sales. For example, when you buy a printer, you continue to spend on cartridges, or when you buy a game console, you'll continue to spend on games. Or have a look at Apple. While they still earn most of their revenues from hardware sales, the recurring revenues from content and apps is steadily growing.

4. Do you earn before you spend?

This one goes without saying. The more you can earn before spending, the better. Dell pioneered this model in the computer hardware manufacturing industry. By assembling on order after selling directly they managed to escape the terrible inventory depreciation costs of the hardware industry. Results showed how powerful it is to earn before spending.

5. How much do you get others to do the work?

This is probably one of the least publicized weapons of mass destruction in business model design. What could be more powerful than getting others to do the work while you earn the money?

In the bricks and mortar world IKEA gets us to assemble the furniture we buy from them. We do the work. They save money. On the web Facebook gets us to post photos, create and participate in conversations, and "like" stuff. That's the real value of Facebook, entirely created by users, while they simply provide the platform. We do the work. They earn the sky-high valuations of their shares.

Previously mentioned Red Hat crafted another smart business model based on other people's work. Their entire business model is built on top of software developed by the open source software development community. This allowed them to substantially reduce their development costs and compete head-on with larger companies like Microsoft. A more malicious business model in which others do the work is the one practiced by so-called patent trolls. In this model patents are purchased with the sole intention of suing successful companies to extract payments from them.

6. Does your business model provide built-in protection from competition?

A great business model can provide you with a longer-term protection from competition than just a great product.

Apple's main competitive advantage arises more from its powerful business model than purely from its innovative products. It's easier for Samsung, for instance, to copy the iPhone than to build an ecosystem like Apple's app store, which caters to developers and users alike and hosts hundreds of thousands of applications.

7. Is your business model based on a game changing cost structure?

Cutting costs is a long practiced sport in business. Some business models, however, go beyond cost cutting by creating value based on a totally different cost structure.

Skype, for example, provides calls and communication almost like a conventional telecom company, but for free or for a very low cost. They can do this because their business model has a very different cost structure. In fact, Skype's model is based on the economics of a software company, while a telecom provider's model is based on the economics of a network company. The former's costs are mainly people; while the latter's cost include huge capital expenditures in infrastructure.

Similarly, Bharti Airtel, one of the world's largest mobile network providers, has substantially modified its cost structure by getting rid of their entire network and IT. By buying in network capacity on a variable cost basis from a consortium around network equipment manufacturer Ericsson and IBM, they can now offer among the lowest prices for mobile telephony globally. Red Hat, which was mentioned previously, also built its business model on a game changing cost structure: by smartly building its own model on top of other people's work.