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Business is in Business Model

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Introduction

The business ecosystem Today witness countless innovative business models. Entirely new industries are forming as old ones crumble. Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves.

How do you imagine your organization's business model might look two, five, or ten years from now? Will you be among the dominant players? Will you face competitors brandishing formidable new business models?

A business model describes a value proposition for customers and other participants; an arrangement of activities that produces this value, and associated revenue and cost structures.

When entrepreneurs in new start-ups have entered old industries with new business models in recent years they have frequently changed industry dynamics and competition in radical ways.

The new models often involve more complex interrelationships than traditional models and create value for participants besides the customer and generate profits for more parties than the seller.

For example, Uber and Bolt in the taxi industry, Spotify in the music and movie industry, Airbnb in the tourism sector have conquered the world with their new models.

This shows that both entrepreneurs and managers, whose organizations may be threatened by new startups, need to understand business models.

Business models are particularly useful when explaining more complex business interrelationships that generate value and profits for more parties than just a buyer and seller.

Consequently, the business model concept is commonly discussed in relation to today's strategy.

The failure of many MSMEs mostly is as a result of wrong business models or duplication of existing business models which are not clearly understood leading to ill implementation.

Subsequently, we will be discussing MSMEs Business Models and Business Strategy to assist MSMEs position their business for sustainable growth and development.

How to Create a Business Model

There is no "one size fits for all" when making a business model. Different professionals may suggest taking different steps when creating a business and planning your business model.

Here are some steps you can take to create a business model:

a. **Identify your audience**: Most business models will start with either defining the problem or identifying your audience and target market. A strong business model will understand who you are trying to target so you can craft your product, messaging, and approach to connecting with that audience. In a simple term, identify your customers before starting a business.
b. **Define the problem**: In addition to understanding your audience or customers, you must know what problem you are trying to solve. Without a clear and identified problem or a need, your business may struggle to find its footing if there isn't a demand for your services or products.
c. **Understand your offerings**: With your audience or customers and problem in mind, consider what you are about to offer. What products are you interested in selling, and how does your business experience or expertise match that product? In this stage of the business model, the product is tweaked to adapt to what the market needs and what you're able to provide.
d. **Document your needs**: With your product selected, consider the hurdles your company will face. This includes product-specific challenges as well as operational difficulties. Make sure to document each of these needs to assess whether you are ready to launch in the future.
e. **Find key partners**: Most businesses will leverage other partners in driving company success. For example, a wedding planner may forge relationships with venues, caterers, florists, and tailors to enhance their offering. For manufacturers, consider who will provide your materials (e.g. raw materials) and how critical your relationship with that provider will be.
f. **Set monetization solutions**: Until now, we haven't talked about how your company will make money. A business model isn't complete until it identifies how it will make money. This includes selecting the strategy or strategies that will determine your business model type. This might have been a type you had in mind but after reviewing your customers or clients needs, a different type might now make more sense. Therefore, flexibility is very important in developing your model.
g. **Test your model**: When your full plan is in place, perform test surveys or soft launches. Ask how people would feel paying your prices for your services. Offer discounts to new customers in exchange for reviews and feedback. You can always adjust your business model, but you should always consider leveraging direct feedback from the market when doing so.

Why use Business Model Canvas:

The Business Model Canvas is a strategic management tool to quickly and easily define and communicate a business idea or concept.

It is a document which works through the fundamental elements of a business or product, structuring an idea in a coherent way.

As seen in the diagram below, the right side of the Business Model Canvas focuses on the customer (external), while, the left side of the canvas focuses on the business (internal).

Both external and internal meet around the value proposition, which is the exchange of value between your business and your customer/clients.

Some important reasons why using Business Model Canvas are:

a. To quickly draw a picture of what the idea entails,
b. It allows everyone to get an understanding of your business and to go through the process of making connections between what your idea is and how to make it into a business.
c. It looks at what kinds of customer decisions influence the use of your system.
d. It allows everyone to get a clear idea of what the business will likely be.

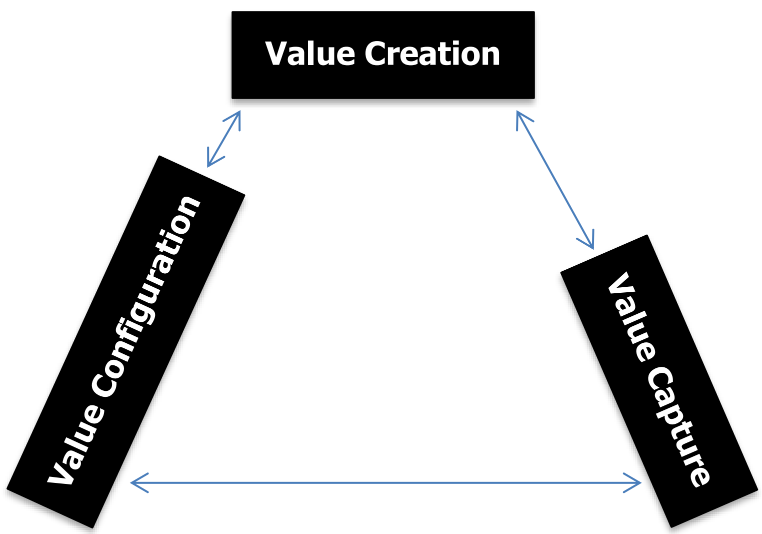
Business Model as a Strategic Business Plan

A business model describes the rationale of how an organization creates, delivers, and captures value.

It is a strategic planning tool used by Entrepreneurs, Managers, Directors, CEOs etc. to illustrate and develop their business.

It described business transactions and interrelationships between various parties and is best explained in terms of three interrelated components:

a. Value creation
b. Value configuration
c. Value capture



The first of the components emphasizes **value creation**; a proposition that addresses a specific customer segment's needs and problems and those of other participants. It intend to answer the question, "what is offered to what customer segment"?

Value creation is a key part of a business model and describes what is offered and how value is thus created for the various parties involved: customers, partners and other participants. The main concern here is thus the targeted customer segment and how their needs are fulfilled and their problems solved, but also how to create value for any other parties involved.

The second component is the **configuration** of the resources and activities that produce this value. Here attempt to answer the question, "how is the value proposition structured"? gain prominence.

Thus, value configuration explains how various interdependent resources and activities in the value chain underlie the value proposition, for example technology, equipment, facilities, brands, managerial processes, etc. These factors are part of an activity system that not only explains what activities create value, but how they are linked and what participants perform them. While this system is centered on the organization it can also involve activities conducted by customers, partners, and other participants.

The third component, **value capture** focus on revenue streams and cost structures that allow the organization and other stakeholders to gain a share of the total value generated. The relevant question to answer here is "why does the model generate a margin"?

Business model also describes the cost structure of resources and activities and the revenue stream from customers and any other parties. In addition, value capture shows how the value created will be apportioned between the organization and any other stakeholders involved. Value capture component also describes how profit is made while for non-for-profits and the public sector there are of course no expectations of financial gain.

The template of a business model is further divided into nine building blocks (popularly known as the nine building blocks of business model canvas):

1. Key Partners,
2. Key Activities,
3. Key Resources,
4. Value Proposition,
5. Customer Relationships,
6. Channels,
7. Customers Segments,
8. Cost Structure,
9. Revenue Streams

We shall be discussing these nine building blocks one after another with appropriate examples and illustrations for ease understanding.

MSMEs models will be discuss extensively to provide a working document for business owners and managers to improve their business performance.

Key Partners

In any business or organization, some activities are outsourced and some resources are acquired outside the enterprise.

The **Key Partners Building Block** describes the network of stakeholders such as manufacturers, suppliers, distributors, consultants and other collaborators that make the business model work.

Key partners are relationships that companies have with other entities or individuals that help the business model to work (for instance, suppliers, manufacturers, consultants or advisors). These partnerships are a helping hand needed to succeed in areas that would be inefficient for the company to take care by itself.

Some key questions that are useful to understand the content of this block are:

a. Who are our Key Partners?
b. Which Key Resources are we acquiring from partners?
c. Which Key Activities do partners perform for us?

Companies forge partnerships for many reasons. One of which is to perfect the business skills of the company and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

Types of Partnership

We can distinguish between four different types of partnerships, which are ***Strategic Alliances*** between non-competitors. ***Co-opetition,*** which the strategic partnership between competitors that will still work together to reach a common goal (for instance creating Awareness of an industry). ***Joint Ventures,*** which are usually meant to develop new businesses or synergies, and ***Buyer-Supplier*** relationships to assure reliable supplies.

It can also be useful to distinguish between three motivations for creating partnerships:

1. Optimization and economy of scale

This is the most basic form of partnership or buyer-supplier relationship and is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. Optimization and economy of scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

2. Reduction of risk and uncertainty

Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products.

3. Acquisition of particular resources and activities

Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. A mobile phone manufacturer, for example, may license an operating system for its handsets rather than developing one in-house. An insurer may choose to rely on independent brokers to sell its policies rather than develop its own sales force.

Illustrative Examples:

Apple

Most important Key Partners for Apple are Original Equipment Manufacturers (OEM) as, for example, Foxconn that counts 200+ workers only in Shenzen, Chain. This is Buyer-Supplier Relationship.

A way to innovate a business model could involve having new/additional key Partners. That is what happened when iTunes Store was opened and Apple started dealing with App Developers and Record Companies. That could be considered as Strategic Alliances.

Airbnb

Most important Key Partners for Airbnb are:

a. **Buyer-Suppler Relationship**: Insurances, Investors, Payments Processors
b. **Joint Ventures**: Tesla Motors ("to bring charging stations to select host' homes along the West Coast")
c. **Strategic Alliance**: Sponsored Events

Also here, a way to innovate a business model could involve having new/additional Key Partners. That is what happened when Airbnb involved Freelance Photographers to increase the hosts retention.

Going forward with your business, the following questions need answers:

a. What is your company's motivation for working with these key partners?
b. Is there something specific that only they can provide?
c. Do they help lower costs?

Key Activities

. . . by performing a number of Key Activities, the Key Activities Building Block describes the most important things a company must do to make its business model work

Every business model calls for a number of Key Activities. Key activities are specific activities or tasks that are fundamental to the operation of your business. These are the most important actions a company must take to operate successfully.

Like Key Resources, they are required to create and offer a Value Proposition, Reach Markets, maintain Customer Relationships, and Earn Revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker like Microsoft, Key Activities include software development. For a Supermarket or Grocery Stores, Key Activities may include Inventory Management. For PC manufacturer like Dell, Key Activities include supply chain management, and for consultancy firms like Goddmmaste Consulting and Investment Company Ltd, Key Activities include problem solving.

Few things to consider about **Key Activities** are:

a. What key activities are necessary to deliver your **Value Proposition**?
b. What activities set your company or business apart from others?
c. What **Distribution Channel** our **Key Activities** require?
d. How do your **Revenue Stream**, **Distribution Channels**, and **Customer Relationships** differ from competitors?
e. Do you need to produce specific niche resources?
f. Do you need to streamline to keep costs and prices low?

Key Activities can be categorized as follows:

1. Production

These activities relate to designing, manufacturing, and delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

2. Problem solving

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem-solving activities. Their business models call for activities such as knowledge management and continuous training.

3. Platform/network

Business models designed with a platform as a Key Resource are dominated by platform or network related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform.

eBay's business model requires that the company continually develop and maintain its platform: the Web site at eBay.com.

Visa's business model requires activities related to its Visa credit card transaction platform for merchants, customers, and banks.

Microsoft's business model requires managing the interface between other vendors' software and its Windows operating system platform.

Key Activities in this category relate to platform management, service provisioning, and platform promotion.

While examining all of the nine core blocks of your business model canvas may help you define your key activities, there are three to four primary questions you must ask yourself:

a. What Key Activities do your value propositions require?
b. What Key Activities do your channels require?
c. What Key Activities do your customer relationships require?
d. Do you have a clear picture of all the key activities you have to perform to produce your output?

Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work. Resources are the assets that organizations have or can call upon. A layman way of thinking of this is that resources are 'what we have.

Every business model requires Key Resources. Your resources allow your enterprise or business to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

In other words, Key Resources are the assets necessary to operate and deliver your value proposition. For example, a diamond mining company cannot operate without mining equipment.

Alternatively, an automotive company cannot operate without the human capital and expertise that goes into designing cars. The latter encompasses in addition to resources, capabilities.

Resources and capabilities of an organization contribute to its long-term survival and potentially to competitive advantage.

Here are a few things to consider about key resources:

a. What specific assets are necessary to operate your business and deliver your **value proposition**?
b. What resources do your distribution **channels** and **revenue streams** need to functions?
c. What resources are needed to maintain **customer relationships** and customer satisfaction?
d. Does your company require significant capital or human resources?

Different Key Resources are needed depending on the type of your business and business model. A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources.

Key resources can be physical, financial, and human. Key resources can be owned or leased by the company or acquired from key partners.

Physical resources: includes but not limited to; Machines, buildings, raw materials, patents, databases, computer systems.

Financial resources: includes but not limited to; statement of financial position (Balance sheet), cash flow, suppliers of funds.

Human resources: includes but not limited to; Managers, employees, partners, suppliers, customer

There would be no point in having state-of-the-art equipment if it were not used effectively. The efficiency and effectiveness of physical or financial resources, or the people in an organization, depend not just on their existence, but on the systems and processes by which they are managed, the relationships and cooperation between people, their adaptability, their innovative capacity, the relationship with customers and suppliers, and the experience and learning about what works well and what does not.

Value Propositions

Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment. It is arguably the most important element of the business model canvas template. It seeks to solve customer problems and satisfy customer needs. It is the primary driver of business operations.

Your Value Proposition is the reason why customers turn to your company over another. It solves your customer's problem or satisfies your customer's 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, your Value Proposition is an aggregation, or bundle, of benefits that your company offers customers. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.

For example, Spotify's value proposition, "**Music for everyone**", eloquently states its **mission** and offering. Spotify wants to be a music streaming platform that has music selections for everyone.

Here are few things to consider about your value propositions:

a. What exactly is your company trying to give to customer?
b. What problem is your company trying to solve and what needs are your company satisfying?
c. How do you offer something different that satisfies the demands of your **customer segments** (e.g. price, quality, design, status, etc.)?

Your Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment's needs. Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience).

Going forward with your business, the following questions need answers:

a. What value do we deliver to the customer?
b. Which one of our customer's problems are we helping to solve?
c. Which job are we helping the customer get done?
d. Which customer needs are we satisfying?
e. What bundles of products and services are we offering to each Customer Segment?

Customer Relationship

Customer Relationships describe the types of relationships your company establishes with specific Customer Segments. These are the different types of interactions a company has with its customers.

For example, a designer suit company will provide significant help for the customer, tailoring to their needs and working directly with them to create the suit they want. Conversely, telecommunications companies often have poor reputations and customer relationships as many practice aggressive and predatory sales practices through their call centers. Compared to telecommunications companies, the designer suit company has significantly richer and more fulfilling customer relationships.

Here are few things to consider about customer relationships:

a. What type of relationship does your company have with its customers? For example, do you provide dedicated assistance or are they expected to self-serve their needs through provided support channels?
b. How does the business interact with customers and how this differ between **customer segments**?
c. Does your company frequently communicate with customers?
d. How much support is provided by your company?

Your company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships are established through different Channels. Relationships can range from personal to automated, from transactional to long-term, and can aim to acquire customers, retain customers, or boost sales (upselling). The type of Customer Relationships you put in place deeply influence the overall customer experience.

Your business model needs to answer the following questions:

a. What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
b. Which ones have we established?
c. How costly are they?
d. How are they integrated with the rest of our business model?

Channels

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Channels are the different structures and methods that are used to deliver your company's products or services and value proposition to its customers.

Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience. They includes: sales network, wholesalers, online retailers or own internet sales.

It is important to consider all channels of a company and make sure they are functioning cohesively. For example, a company like Amazon needs to consider how its fulfillment centers and shipping services are integrated to send out timely shipments.

Here are few things to consider about channels:

a. How do you deliver your **value proposition**?
b. How do you reach your **customer segment**? What channels are used?
c. Are your supply, distribution, marketing, and communication channels well-integrated and cost-efficient? Are they being utilized effectively?

Channels serve several functions, including:

a. Raising awareness among customers about a company's products and services
b. Helping customers evaluate a company's Value Proposition
c. Allowing customers to purchase specific products and services
d. Delivering a Value Proposition to customers
e. Providing post-purchase customer support

Your business model needs to answer the following questions:

a. Through which Channels do our Customer Segments want to be reached?
b. How are we reaching them now?
c. How are our Channels integrated?
d. Which ones work best?
e. Which ones are most cost-efficient?
f. How are we integrating them with customer routines?

Customer Segment

The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve. This includes users who might not generate revenues, but which are necessary for the business model to work. Customers comprise the heart of your business model.

Without (profitable) customers, your company or business cannot survive for long. In order to better satisfy your customers, you may group them into distinct segments with common needs, jobs-to-get-done, common behaviors, or other attributes.

Your business model may have one or several large or small Customer Segments. You must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, your business model can be carefully designed around a strong understanding of specific customer needs and jobs-to-be-done.

Customer groups represent separate segments if:

a. Their needs require and justify a distinct Value Proposition
b. They are reached through different Distribution Channels
c. They require different types of relationships
d. They have a substantially different profitability
e. They are willing to pay for different aspects of the Value Proposition

There are different types of Customer Segments. Here are some examples:

a. Mass market,
b. Niche market,
c. Segmented market,
d. Diversified market,
e. Multi-sided platforms (or multi-sided markets)

Your business model needs to answer the following questions:

g. For whom are we creating value?
h. Who are our most important customers?

Cost Structure

The Cost Structure describes all costs incurred to operate a business model. In other words, it refers to how a company spends money on operations.

Cost structure consists of the company's key costs and the company's level of focus on costs. This building block basically 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**.

Some business models, though, are more cost-driven than others. So-called "no frills" airlines, for instance, have built business models entirely around low Cost Structures.

Naturally enough, costs should be minimized in every business model. But low Cost Structures are more important to some business models than to others.

Therefore it can be useful to distinguish between two broad classes of business model Cost Structures:

a. Cost-driven, and
b. Value-driven (many business models fall in between these two extremes)

If a company is cost-driven, it focuses on minimizing costs and, thus, prices for customers. Alternatively, if a company is value-driven, it focuses on creating value for its customers, with less focus on cost.

An example of this would be a comparison between fashion retailers, Forever 21 and Gucci. Forever 21 is a fast-fashion company focused on delivering the newest styles at low costs – a cost-driven company. Alternatively, Gucci is a luxury brand focused on delivering high-quality clothes and accessories designed with the latest trends in the fashion industry – a value-driven company.

Here are a few things to consider about cost structure:

a. What are the key costs in your company's business model,
b. What are the major drivers of cost?
c. How do your **key activities** and **key resources** contribute to the cost structure?
d. How do your costs relate to your **revenue stream**?

e. Is your company properly utilizing economies of scale?
f. What proportion of costs are fixed and variable?
g. Is your company focused on cost-optimization or value?

Cost Structures can have the following characteristics:

a. **Fixed costs**: Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.
b. **Variable costs**: Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, supermarket or proceri stores, are characterized by a high proportion of variable costs.
c. **Economies of scale**: Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.
d. **Economies of scope**: Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

Your business model needs to answer the following questions:

a. What are the most important costs inherent in our business model?
b. Which Key Resources are most expensive?
c. Which Key Activities are most expensive?

Revenue Streams

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). In other words, it is the company's source of cash flows.

Revenue streams are the final element of the business model canvas template. They are the different ways your company's value proposition generates money. A company might have multiple revenue streams.

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 example, Apple has multiple revenue streams between its variety of products and its services, such as Apple Music.

Here are a few things to consider about revenue streams:

a. Does your company have multiple methods of generating revenue?
b. What is the pricing strategy for the products offered by your company?
c. Through what **channels** do your customers pay?
d. Does your company offer multiple forms of payments (up-front, payment plans, financing, etc.)?

A business model can involve two different types of Revenue Streams:

a. Transaction revenues resulting from one-time customer payments
b. Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support

Your business model needs to answer the following questions:

a. For what value are our customers really willing to pay?
b. For what do they currently pay?
c. How are they currently paying?

d. How would they prefer to pay?
e. How much does each Revenue Stream contribute to overall revenues?

The nine business model Building Blocks form the basis for a handy tool, which we call the Business Model Canvas.

Our Competence

We provide Business Support and Consulting Services including; business registration (Business Name and Registered Company) with the CAC, Business Advisory Services, Accounting & Tax Services, Business Development Services, Strategy, Financial Statement Preparation, Management & Financial Consulting Services, Human Resources & Succession Planning, Research & Development, Training and Knowledge Development etc.

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