

Module 12 – Business Model Canvas Trainee notes



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Introduction to the Module

A new business or a start-up business is a novel entrepreneurial effort, often with little resources, that in order to be viable, needs to reach a Sustainable and Enhanced Business Model as soon as possible. In other words, an enterprise that has the potential to grow and develop into a sustainable business.

A new enterprise / start-up, is like a newborn: either it will survive and will age, or fail and die. A business under construction, faces the acute problem of turning the business idea into a credible business proposition.

The question that arises is what is the roadmap, what are the steps we need to take to cover this distance?

Through the structure of the course, the participants will discover how this question is answered by the concept and methodology of Business Canvas.

Although Business Model Canvas tends to be associated by many to start-ups, particularly in the field of technology and information, it is in fact a business tool for capturing or describing, evaluating and improving the Business Model of any business effort.

The following course is based partly on Business Model Canvas's "inventor", Alex Osterwalder, describing the assessment and improvement of the business model for greater competitiveness. The course contains the proposed methodology, as well as indicative questions about the different phases of capturing, evaluation and improvement.

It concerns any business that produces and promotes products, services or ideas, off or on line, with a conventional marketing mix or exclusively via an online platform.

Consequently, participants to the specific course will be able to:

- Get a benchmark, especially if they have limited business experience.
- Investigate & develop a business idea quickly, with measurable risk & effective, without wasting valuable resources.
- Create a tool to help effectively communicate with third parties (investors, partners, suppliers, etc.) on issues such as what value creators do for whom, what you need, what you need, what are the prospects for sustainability.
- Create a more professional, more accurate and easier to implement Business Plan.

Chapter 1 – Business Plan –Business Model

What is a Business Plan?

The business plan includes the enterprise's business model (ie how the business works and how it produces money) as well as additional elements of (a) the overall market and the company's competitive strategy; (b) an implementation plan; and (c) which he will implement.

Business plan is the plan that describes what the business is, what goals it has and how it will eventually succeed in implementing its strategy within the market.

Nevertheless, a dominant role in the business plan (or business plan) plays the business model. But the business plan is wider.

What is a Business Model?

A model that shows how a business uses its resources to offer customers higher value than its competitors and how it makes money from it

It answers to the following questions:

- What is the value offered,
- who is it offered to,
- who pays,
- how much,
- how often,
- how to distribute the product / service to the customers

The answers to these questions determine the basic business model sections.

How a Business Model Helps me?

The basic benefits are the following:

- It allows the organization of complex ideas in smaller parts.
- It helps to quickly assess the viability of my idea.
- It helps to revise the idea if it does not generate revenue.
- It describes the logic of how an organization creates, distributes, and safeguards the added value it offers.

Differences between a business plan and a business model

Each business plan includes a business model within it.

A Business model is the internal operation of the business: what value is offered to customers, who are ultimately the customers of the business, what resources are needed for its operation and ultimately how it generates revenue.

Our business model shows how the business works and how it produces money. We would say that the business model is fairly introverted because it only concerns the business.

Business plan on the other hand necessarily includes all the business model elements, but it also has additional elements.

The business plan expands by making a wider analysis of the market the company is targeting, has a specific implementation plan and a support team that can implement it.

The business model can be written on a sheet of paper and is ideally presented to an investor within a minute, but the business plan wants a more extensive analysis.

Chapter 2 – What is Business Model Canvas

A business under construction faces the acute problem of turning the business idea into a credible business proposition. This gap is attempted to be covered the concept of Business Model Canvas, which presents a two-dimensional representation of the components of a business plan organized into four key modules: Value proposition, Customer, Infrastructure and profitability.

Business Canvas is a graphical representation of the Business Model and can be used as useful guide to shape a business proposal. The business model of a business is thoroughly described with the help of nine structural elements or key issues:

- 1) The clientele
- 2) The value provided by products / services
- 3) The channels used to approach clients
- 4) The client relationships formed
- 5) The basic resources
- 6) The activities required to create value for customers
- 7) Collaborations and partnerships with third parties
- 8) The revenue generated
- 9) The operating cost

The Business Model Canvas was initially proposed by Alexander Osterwalder based on his earlier work on Business Model Ontology. Since the release of Osterwalder's work in 2008, new canvases for specific niches have appeared. The Business Model Canvas can be printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with post-it note notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis. It is distributed under a Creative Commons license from Strategyzer AG and can be used without any

Chapter 3 – Analysis of Business Model Canvas

The business model of a business is thoroughly described with the help of nine structural elements or key issues, which are analysed in the following sections. In order to fill in each section there are questions that help us to understand the content of each key element. The instructions and questions below are in any case general and indicative, and need to be adapted to any specialized business effort.

Element 1. Customer Segments

- Who are our customers?
- What are their needs?
- What they want to do?

Market segmentation is one of the most important processes in modern marketing. This process takes a large heterogeneous market and divides it into smaller segments (or sub-markets) that present more homogeneous characteristics with regard to the product or service of a business.

With this division, the entrepreneur can find many segments from which the ones that have the best prospects are being selected, ie the so-called target markets where it concentrates its efforts and resources on marketing. The time when one could make a product "all for all" has passed. Those who attempt to produce chameleon products usually fail. Of course, this does not mean that a company cannot have a product targeting large ranges of markets, it simply means that if the business discovers specific needs and covers them with the appropriate product or service within a market, the chances of success are higher.

Segmentation Criteria

1. Geographical Criteria: the market is divided by region, city, population density, climate (Kotler and Armstrong, 2005). The reason why this form of market segmentation is chosen is the fact that consumers in different regions have different lifestyles and different needs.

2. Demographic criteria: the market is divided into different segments based on age, gender, income, occupation, social class, religion, family size.

3. Psychographic criteria: characteristics such as personality or place of life determine the consumer's purchasing decision and are used as segmentation criteria for the market.

4. Purchasing behaviour criteria: In this case, market segmentation is based on certain characteristics of consumer buying behaviour such as the desired benefit from the specific product, the quantity purchased, the effect of marketing strategies in specific categories of consumers (price, advertising, and projection), product use rate, consumer attitudes towards the product.

Segmentation methods

The first method is segmentation of a market based on demand variables and consumer preferences (needs, consumption, use of products etc.) and then a description of the sections with individual characteristics (area, income, age etc) and approaches (SMEs, interests, occupations, etc) of their consumers. The second method is grouping consumers based on their individual characteristics and ways of approaching them, and then checking whether the segments are different in terms of demand, preferences and behaviour variables of interest.

Element 2. Value Proposition

- What we offer in each category of customers?
- In which of their problems do we answer?
- With what products/services?

Value proposition is the declaration of the tangible results-benefits obtained by the customer using a product / service. The Value Proposition is the basis of every business activity of any kind of form. It is our Idea translated into product and / or service useful to others. It is what we provide to the world to solve a problem and, accordingly, to make a profit.

Value Proposition is the one that links every entrepreneur to the world. A value proposition should be a clear statement that explains how a product solves a pain point/ problem, communicates the specifics of its' added benefit and states the reason why it's better than similar products on the market. The ideal value proposition is concise and appeals to a customer's strongest decision-making drivers.

A Value proposition generates value for a Customer Group through a discrete mix of assets that serve the needs of this group. Values can be quantitative (eg price, speed of service) or qualitative (eg design, customer experience). The following non-exhaustive list can contribute to value creation for the customer.

Innovative - meeting an unmet need

Example: Virtual Theatre, Smartphone, Online auctions, crowdfunding, MOOCs

Performance - better / cheaper / faster / more flexible / funniest

Example: Amazon, e-Bay, weendy.com, the USB stick.

Functionality - full service integration

Example: Xerox copier service, IBM's B-Model revolution, Catering

Price— same standards in lower price

Example: Potato movement, micro-loans, generic drugs, rental city bikes, Ryanair

Personalization - Provide the same service / product adopted to each customer's needs

Example: Dell computers, Nike shoes...

Link customers to value proposition

- A value proposition aims to provide our clients with solutions that meet their needs / desires.
- It has as prerequisite to understand what our customers need
- Based upon customer study it is actually a tool to insert innovative ideas into the market
- It answers to questions such as: What do our clients do now and why this should change? What benefits will they get or how these can be increased? Which "sore spots" they fix? What attributes of the offered product/service contribute towards the aforementioned ;
- Validation is required based on actual usage.

Element 3. Channels

- Through which channels are our products and services accessible?

- Which channels work more efficiently?
- What is more expensive?
- Which channels are we using now?
- What's the potential?

Channels mean sales channels here. Sales Channels is a way to bring products or services to the market so they can be bought by consumers. A sales channel can be direct if an enterprise sells directly to its customers or indirect if an intermediary, such as a retailer or a dealer, is involved in selling the product to customers. They are the critical contact points of the business with customers. The business can sell to the consumer itself, but can also sell indirectly through affiliates. For example, soft drinks companies do not have their own shops where consumers go, but instead they use intermediaries for selling and delivering.

A company can collaborate with other business partners and at the same time have its own network. For example, insurance companies also have their own network, but sell products through banks as well as through other insurance broker companies.

The channels are a lot and the way we choose them is decisive in our overall business model. There is no right and wrong channel. The issue is to get the product to the final consumer at the optimum way.

Element 4. Customer Relationships

- How do our various customers expect to communicate and interact? (Personally, Remotely, Incentive-based?)
- What ways of communication have we established?
- Which will we consolidate in the future? How much do they cost?

Relationship with customers is all this experience the consumer has when he interacts with the business. It is the development of an ongoing connection between a company and its customers. The relationship involves marketing communications, sales support, technical assistance and customer service. The relationship is measured by the degree of customer satisfaction through the buying cycle and following receipt of goods or services.

First attempts by companies to watch their clients started with the creation of a Complaints Department. A phone or office addressed to a disgruntled customer to find a solution to his problem.

Developing Marketing and understanding Customer Value, or more appropriately Customer Lifetime Value, has brought to the forefront Customer Service and the creation of corresponding departments. Businesses now do not only pay attention to solving problems: they try to achieve better communication and have a closer relationship with the customer.

The customer 'gains' an ever-greater value.

There are so many examples and approaches like personalized, smart and customer-driven approaches.

The business can let the customer self-serve (self-service).

It can offer service with an employee, but this service can reach the point of exclusive personal service. For example, in private banking, the client has a personal adviser.

The relationship can be a co-creation relationship, an example of a Facebook user who creates content, and this pulls other users into the medium. Youtube also encourages uploading videos and making

money from advertisements, but each video is an extra product for the platform that attracts even more users to the media.

All these issues are about building customer relationships.

Several businesses use the term Customer Care. They give importance to the human side of the customer. They emphasize the integrated customer service and the overall relationship with him.

Nowadays, the internal and external business environment is changing rapidly. Technology is evolving, contact frequency is growing, communication channels and channels are getting bigger, competition lurking. Today, more than ever, it is essential to optimize each customer's moment of truth with the business.

Customer Care is not enough to meet and satisfy the needs and desires of the 21st century customer. From Customer Care Business Passes to Customer Experience!

Customer Experience is the images, perceptions a client has of his overall business relationship.

Consciously and subconsciously includes elements and feelings from the customer's contacts at all stages, in all ways, through all means your business uses.

To prefer your brand, product, service, business, the customer must feel that he / she enjoys a Positive Customer Experience every time he / she comes in contact with you: in the store, on the site, in the call center , social media, mobile app.

More simply, if your client like you on a long-term basis, you will keep it. If not, you will lose him.

Element 5. Revenue Streams

- What price are our customers willing to pay?
- What are they paying now?
- Where do they pay?
- How do they prefer to pay?
- How much each revenue stream contributes to total revenue?

Revenue Streams are the ways and pricing mechanisms by which the business captures value. Revenue streams come from successful value-for-money. It is the money the company draws from each category of customers (the cost should be deducted from revenue to generate profit).

Revenue streams can be divided into categories:

- Transfer of ownership. It is the most traditional way in which, for example a contractor has created a home to sell it, and the client acquires full ownership and can resell or even destroy his property.
- Use fees. For example a hotel, while providing us with accommodation, it does not give it to us, but it charges us for the time we will stay. The same is true for telecom companies, storage companies etc. The customer acquires the right to use, not acquire the property. Generally, the more the customer uses the services, the more they are charged.
- Subscriptions. The model looks a bit like the previous one, but the difference is that you pay for the subscription for a period and you can the service as much as you like. For example in a gym there are no limitations on the days you go, in an on-line game there is no limit to the hours you play and when you have pay-TV you can see as many hours as you want.

- Rental. You rent something for a while and you treat it almost like your own, but it belongs to someone else. However, the owner pays his / her costs such as maintenance, taxes, etc. Typical case of renting a house, but there are also many other cases of renting (cars, equipment, wedding dresses etc.)
- Licensing. Typically here are cases using intellectual property, say with a patent. Someone wants to use the patent of a business and gets permission by paying fees. The same thing happens in the music industry with the Intellectual Property belongs to its owner and he gives permission to use it.
- Brokerage. For example Airbnb arranges for residents to find accommodation and landlords to find short-term tenants. Its remuneration results from facilitating the closure of any such small agreement. This is called brokerage.
- Advertising. It's a business that promotes other businesses. For example Facebook and Google have a huge portion of their ad sales revenue. Traditionally all media (television, radio, press) rely on this form of revenue

Element 6. Key Resources

Which main resources / means are required for:

- The proposed value?
- Communication and distribution channels?
- Customer relations?
- Revenue streams?

The key resources are describing the most important assets required to operate a business model. These are the resources that allow a business to create and deliver a value proposition, reach markets, maintain relationships with customer segments, and earn revenues.

Since that the external environment of a business is changing rapidly (customer expectations are volatile, technology is changing sharply), the specific characteristics of each business (its resources and capabilities) make up a more solid basis for planning and implementing any strategy. This is the core aspect of the theory called "Theory of Resources and Competences of a Company"

Resources may be:

Coming from nature. For example, a quarry needs access to suitable ore.

Material goods. For example, vehicles, buildings, machine.

Copyrights. A publisher gets permission from the writer to publish, a technology developer may need to pay permission to use specialized patents.

Human. A pharmaceutical company needs appropriate staff to do research and develop new pharmaceutical products and a design company needs creative designers.

Financials. All businesses need financial resources, but they have to be attached to a particular business model. For example, Mercedes has a special model that it finances on its own loans the growth of sales through its partners. This requires additional financial resources that are integrated into the operation of the particular business model that only concerns sales growth in some countries.

Element 7. Key Activities

- What do we need to do to get this model running?
- What critical internal business processes are required for:
 - The proposed value?
 - The Communication and distribution channels?
 - The Revenue streams?
 - To sensitize customers and build customer relationships
 - Make value proposition through Focus on Production, Development, Troubleshooting or Maintenance and Development
 - Channel selection and control, quality control and performance optimization
 - Customer relationships through data collection and analysis, proactive and imaginative communication
 - Flows of revenue through accounting, financial planning, investment analysis and reporting

The main activities do NOT include how companies will sell more. This applies to all. The main business activities exist as a sub-sector in the Business Model Canvas for any business that differentiates itself from others and where to emphasize

For example, in an airline whose fuel cost is a very important final cost factor, a particular activity is to limit the risk on fuel prices.

A major industrial producer (eg General Electric) may have as its main activity the control of the supply chain in order to continuously reduce its costs. A major software company has as main activity to update the software to keep up with new technology and data security standards.

Element 8. Key Partners

- Who are our key partners (exclude customers)?
- Who are our main suppliers?
- What basic resources do we get from each partner?
- What basic activities does each partner perform?

A Business Partner is a third party involved in the business of another economic entity. The term business partner has a wide range of points. The most common is being a person who, together with another person, plays an important role in the ownership, management or creation of a company. The term is also used for two companies that cooperate, largely, like a computer manufacturer that works with another company that supplies the computer manufacturer with accessories. The partners or partners of a business exist, because the business cannot and does not deserve to do all the work on its own internally (or else in-house).

A simple example is when the company is not large enough and it is almost impossible to have an exclusive legal counsel, so it works on a case-by-case basis with an external lawyer. In addition, other companies outsource the selection of staff. There is no time and expertise to take the company 200 resumes, evaluate them, interview, perform a second round of interviews etc. The reasons that dictate these collaborations are clearly to optimize the result at the lowest cost.

However, the business model talks about the main partners. Therefore, they should have a prominent role in the operation of the business. For example, a smartphone manufacturer buys the screen's external glass from another manufacturer of this special hardware. Without this glass there is no smartphone. This is why the company is a Key Partner. On the contrary, the company from which the smartphone manufacturer buys paper for its printers is not a Key Partner.

Businesses today are not just partners or only competitors. Moreover, even in the classic example of smartphones, while Apple and Samsung are competitors in the final product the smartphone, they are also partners in individual mobile components.

Earlier, Apple bought processors and memories from Samsung and will now buy screens as well. Forbes also writes that Samsung's biggest supplier of iPhones in 2018 will be Samsung. This is called "English co-opetition", which is a combination of co-operation and competition. It is precisely the strategic cooperation between competitors. And what is the conclusion? That they know how to work on their business models and we buy their mobiles and make their models successful.

Element 9. Cost Structure

- What are the biggest costs for our business model?
- What are the main Resources at the highest cost?
- What are the core activities at the highest cost?

By Cost Structure we mean the participation of each type of output in the total cost of a business. The cost structure not only refers to costs directly related to the production of a product (or the provision of a service), but also takes into account all the costs incurred in operating the business. Therefore, both payroll and utility costs, as well as product promotion costs and sales costs in general are analysed. The management of a business, knowing its cost structure, gains an advantage over its competitors as:

- Knowledge of the current cost structure leads to a better and more accurate calculation of the unit price for each product produced / disposed.
- Analysing the costs of the cost structure can help identify points in the process that can be improved by increasing efficiency and more responsible use of available resources.

In general, we can divide businesses into those based on low cost (for example, low-cost aviation) and value-driven (for example, Apple in electronic devices, Rolex on watches and the five star hotels to stay).

Everyone wants to reduce costs, but some have it in their blood, because there is also the final value proposition to customers, to offer the cheapest product. Others will look more at the quality of the product or service and justify a price higher than the competition.

The cost structure is related to the overall business model. For example, enterprises based on industrial production have very high percentage of fixed costs and relatively small percentage of variable costs.

On the contrary, legal firms have a high variable cost, depending on the number of assumptions they undertake, because each case requires different needs engagement by qualified personnel.

Chapter 4 – Example of enterprise “Family Honey”

In our example we mention a company producing and distributing honey and also making special packaging with personal label, let's call it “Family Honey”. We will discuss how to approach a seemingly saturated market with problematic features such as:

- Imports of low quality and cost from other countries
- Promotional offers and price battle on shelves
- Sales almost everywhere (Supermarkets, Grocery stores, Flee markets, Biological Shops, E-shops).
- No sectoral advertising and scientific support

We will see how a small family business can diversify into the market by using the customer-driven SAVE model logic as reflected in the Business Model Canvas area of Marketing.

The process is simple enough for someone to think creatively and apply the sales equation $\text{Sale} = (\text{Performance} + \text{Emotion}) / \text{Price}$ and the "recipe" of effective communication inherent in the model SAVE (Solution, Access, Value, Engagement) which is:

- Know your prime prospect
- Know your Prime Prospects problems
- Position your brand as a solution to a problem
- Communicate effectively

Business Model Canvas "mandatory" guides the businessman to follow this customer-centric approach, with four modules of Value Proposition, Customer Segments, Customer Relationships and Channels and the 4P (Product, Place, Price, Promotion).

Step by step application of Business Model Canvas to “Family Honey”

1. Customer Segments.

“Family Honey” is addressing to customers who want to buy healthy nutrition products like honey and honey related products such as royal jelly, pollen, etc. Also the company is addressing to online shoppers of traditional products. “Family Honey” is found also in selected hotels but due to the potential of a personalised labeling feature, apart from the hotels themselves, their guests are possible customers also.

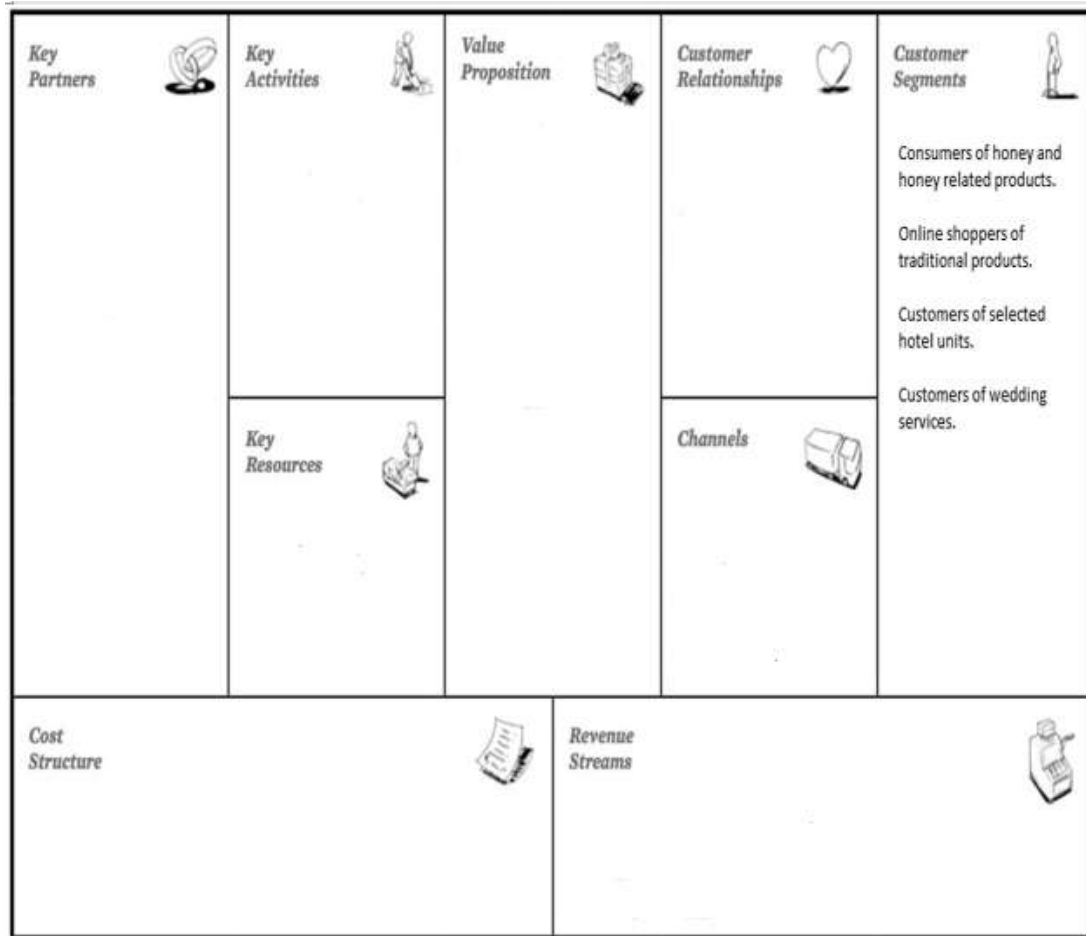


Figure 2: Step 1 - Customer Segments

2. Value Proposition

“Family Honey” offer’s high quality honey with rich flavor in “personal” labeling packages. The personal labels will ensure that all the customers will have unforgettable moments in their marriage or in their vacations. Also all the company’s products are beneficial for the health. One of the company's greatest strengths is that it can send all its products wherever the customer is completely free.

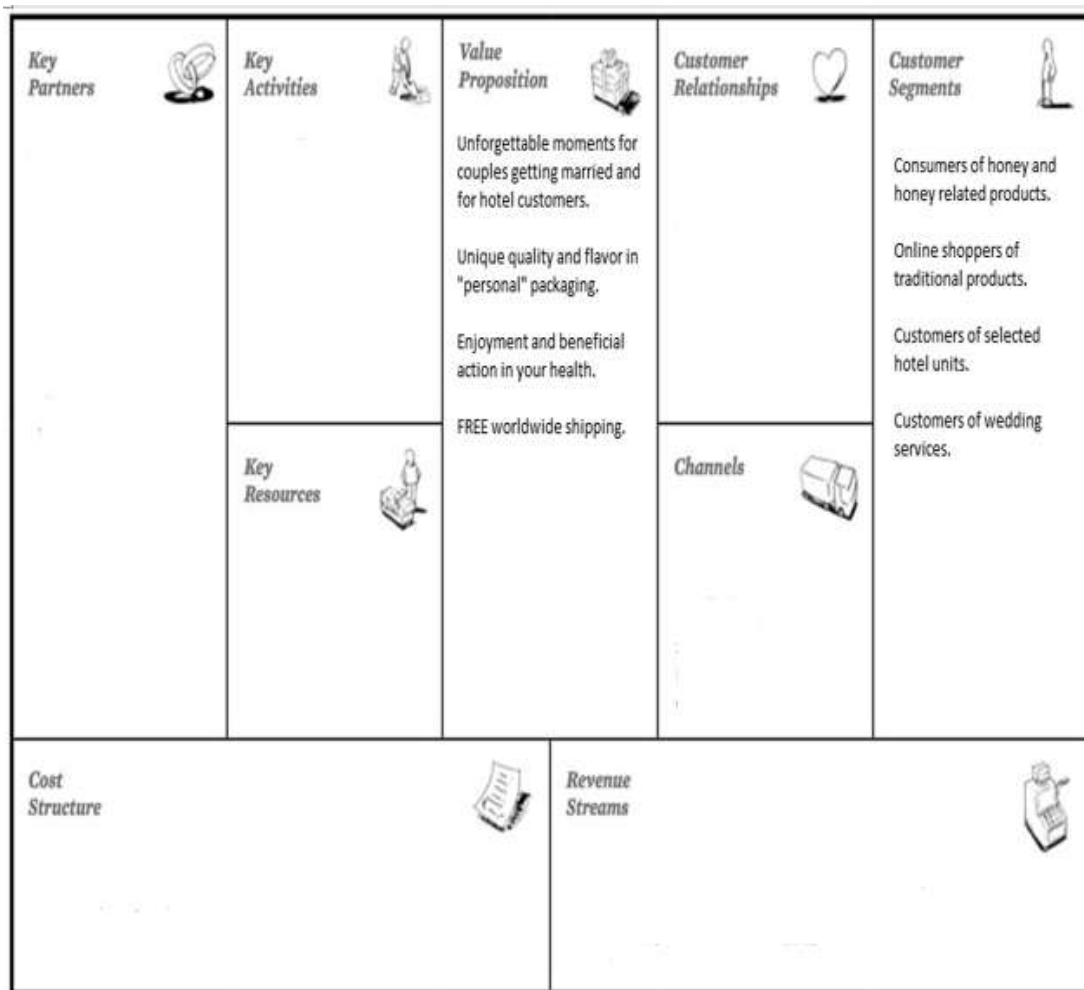


Figure 3: Step2 - Value Proposition

3. Channels

The sales channels are the telemarketing, newsletter, mobile marketing, QR code e-shopping and Home delivery. The most efficient channel is judged the internet and social media, which many potential customers can reach by giving “giveaways” promoting product samples so they can tempt them to buy something more.

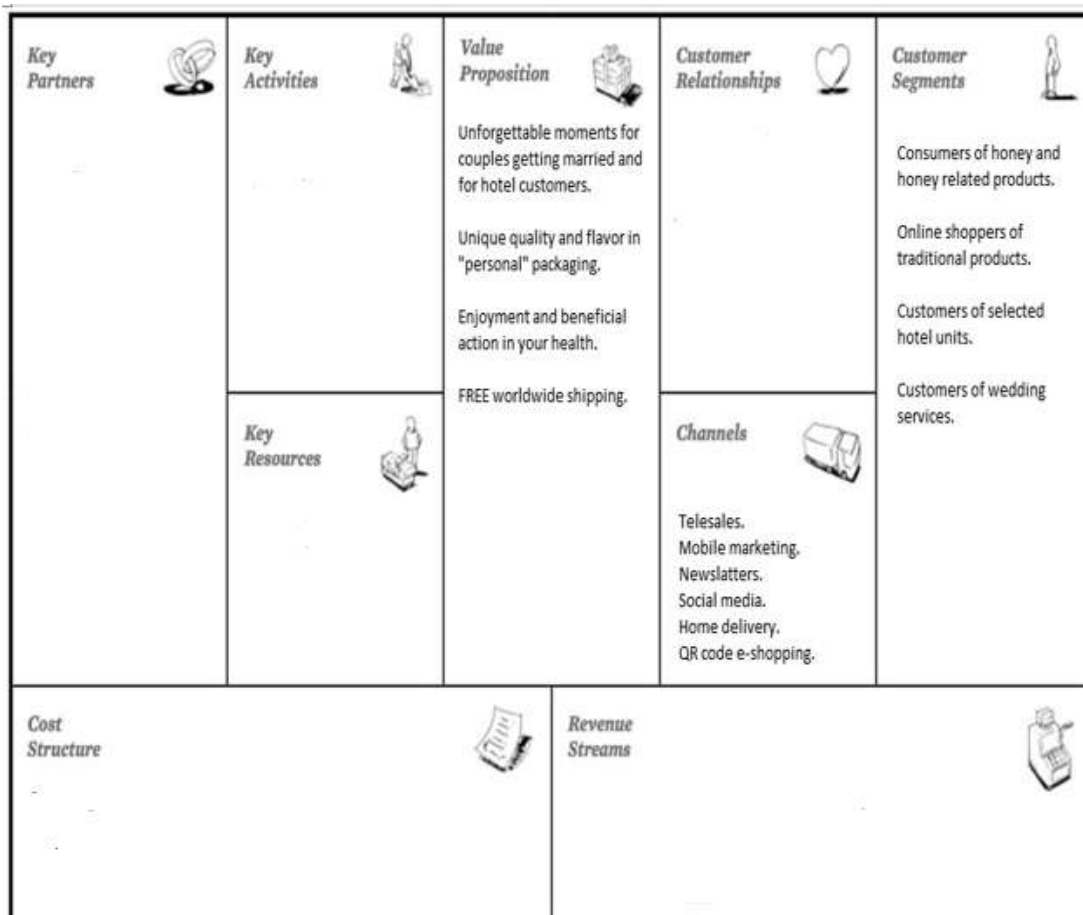


Figure 4: Step 3 - Channels of communication

4. Customer Relationships

A serious approach is being sought in order to perceive company's credibility and professionalism. "Family Honey" provides direct personal service with respect to the customer through telemarketing and internet with communication via email, the company also uses Customer Relationship Management techniques at Customers Life Cycle.

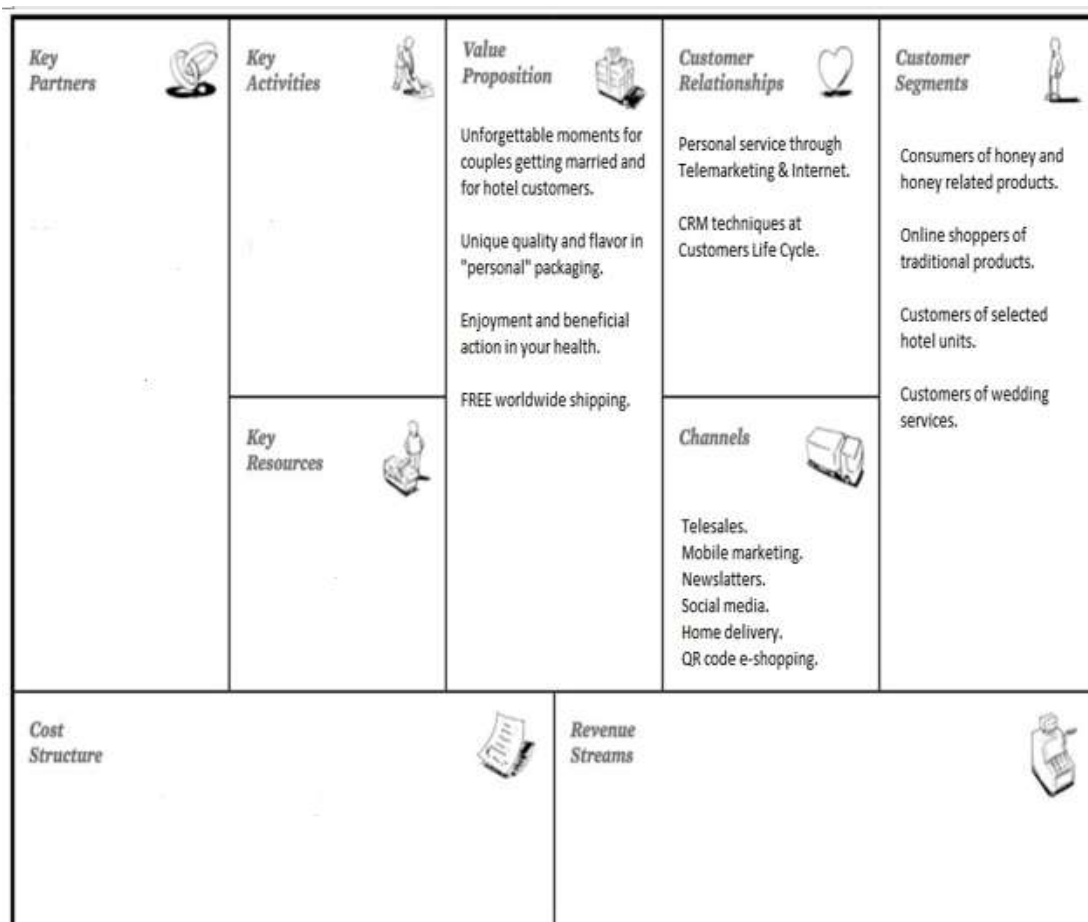


Figure 5: Step 4 - Customer Relationships

5. Revenue Streams

The customers are willing to pay for “Family Honey” products knowing that the product are buying is high quality and very tasty plus is also good for their health. Also one possible revenue is packaging the company’s products along with third company’s products like French toasts or butter products.

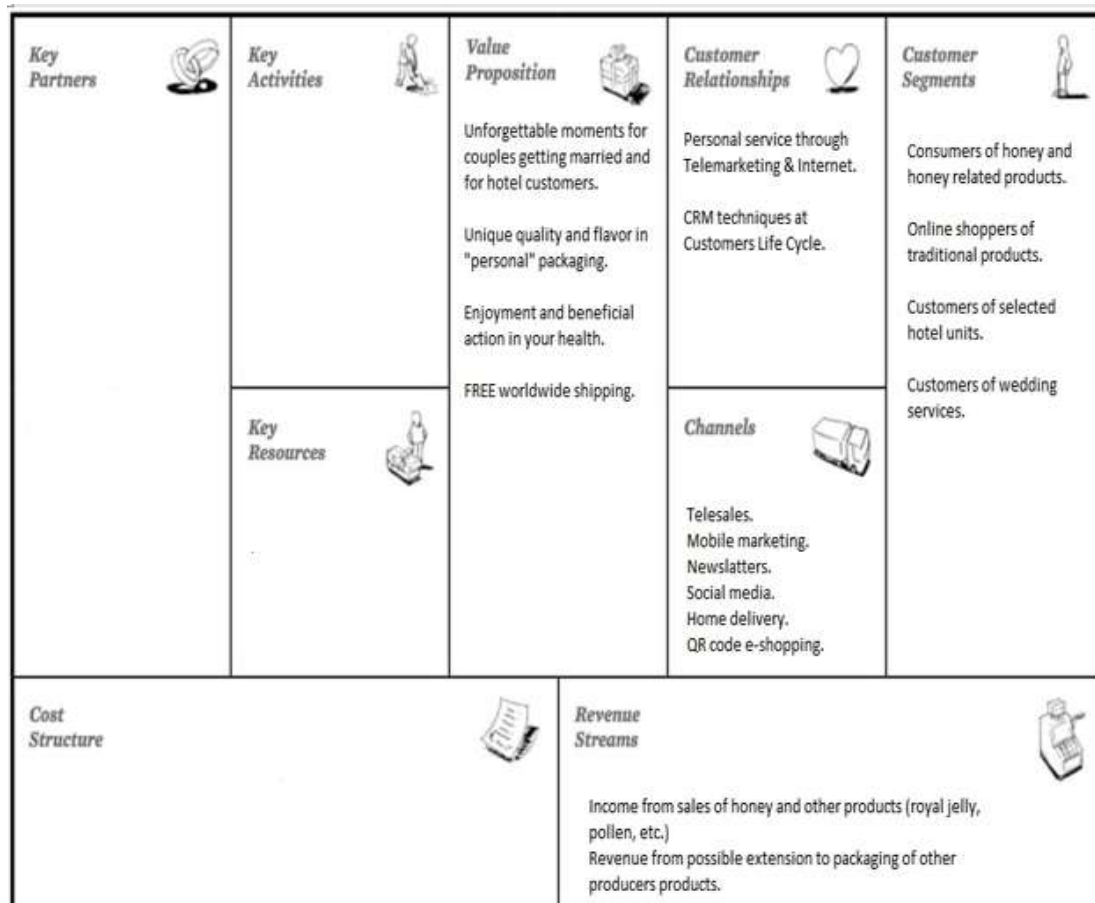


Figure 6: Step 5 - Revenue Streams

6. Key Resources

The critical resources that are needed to create value for customers are both physical and intangible. The key resource of the company is the know-how of beekeeping. Also the company has the appropriate equipment for beekeeping so the employees have the proper safety precautions to do their work. The company uses the appropriate labeling equipment so it can offer to consumers the ability of making their own personal labels. Moreover, the company has advanced Internet Technology facilities.

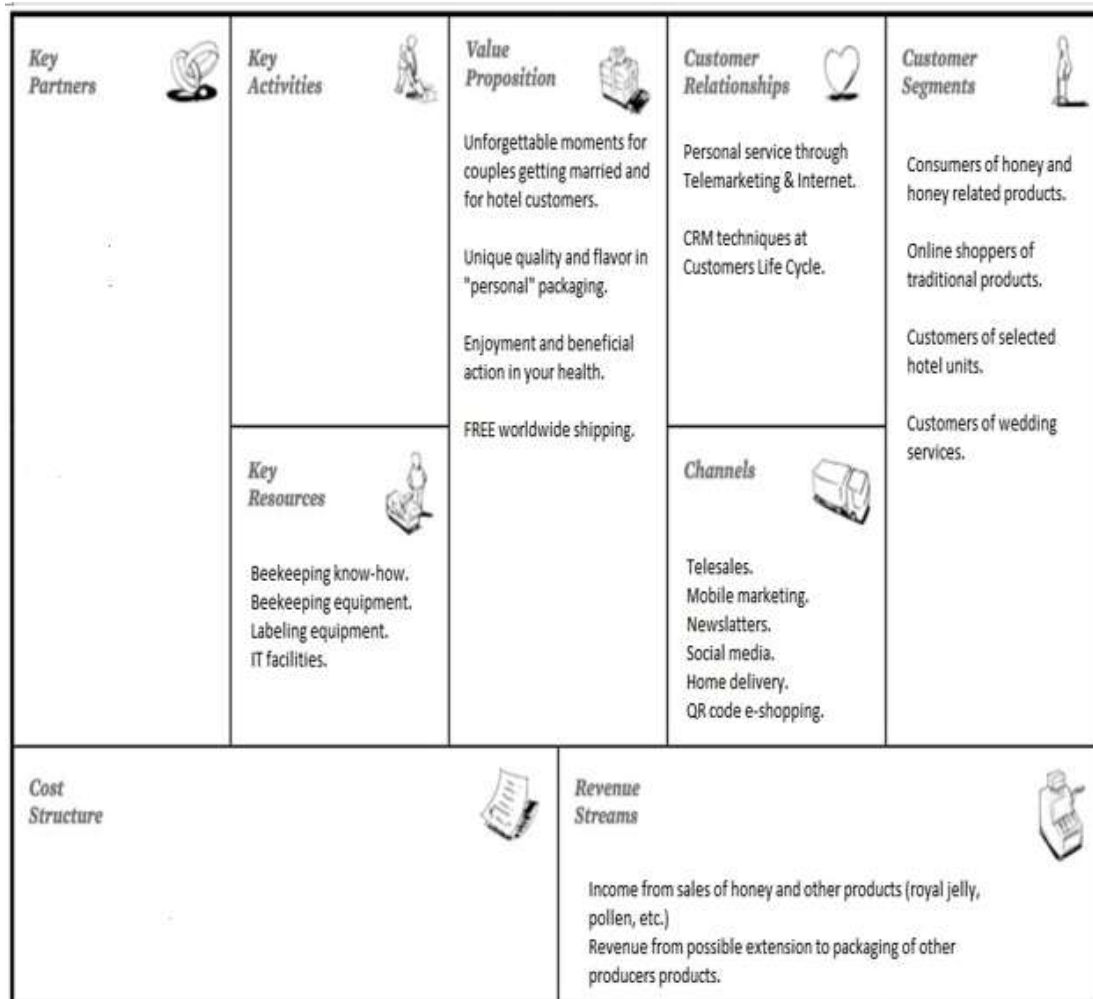


Figure 7: Step 6 –Key Resources

7. Key Activities

“Family Honey” key activities is the production of honey and honey related products, packaging and the ability of “personal” labeling. The key activities required by the proposed value and communication and distribution channels are daily work with response emails, serving customers with positive behavior, time and energy.

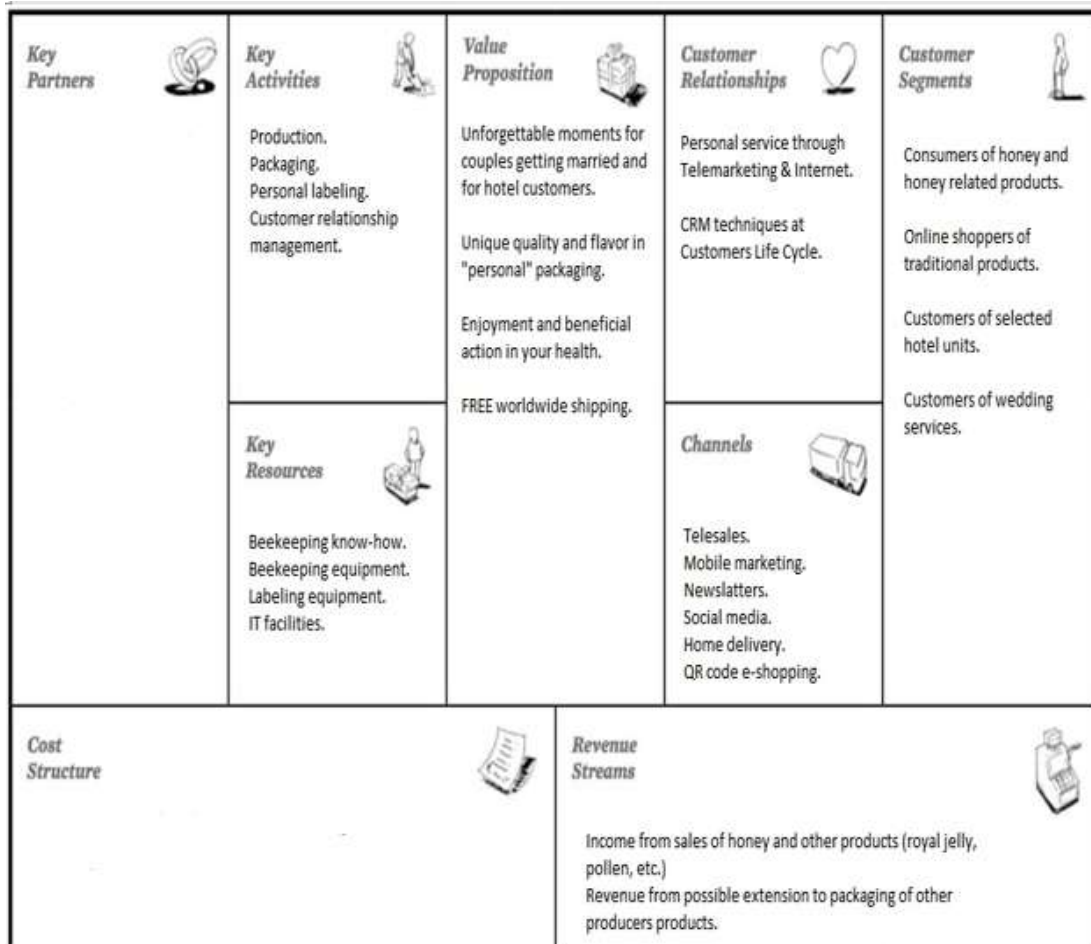


Figure 8: Step 7 - Key Activities

8. Key Partners

Company's key partners are suppliers of beekeeping and packaging items. The company who is assigned the management of the e-shop, IT technicians and internet providers, graphic designers for the packaging of the products. Also hotel owners so the company can distribute the products to large hotel units. Wedding planner companies promoting "Family Honey" products into their business.

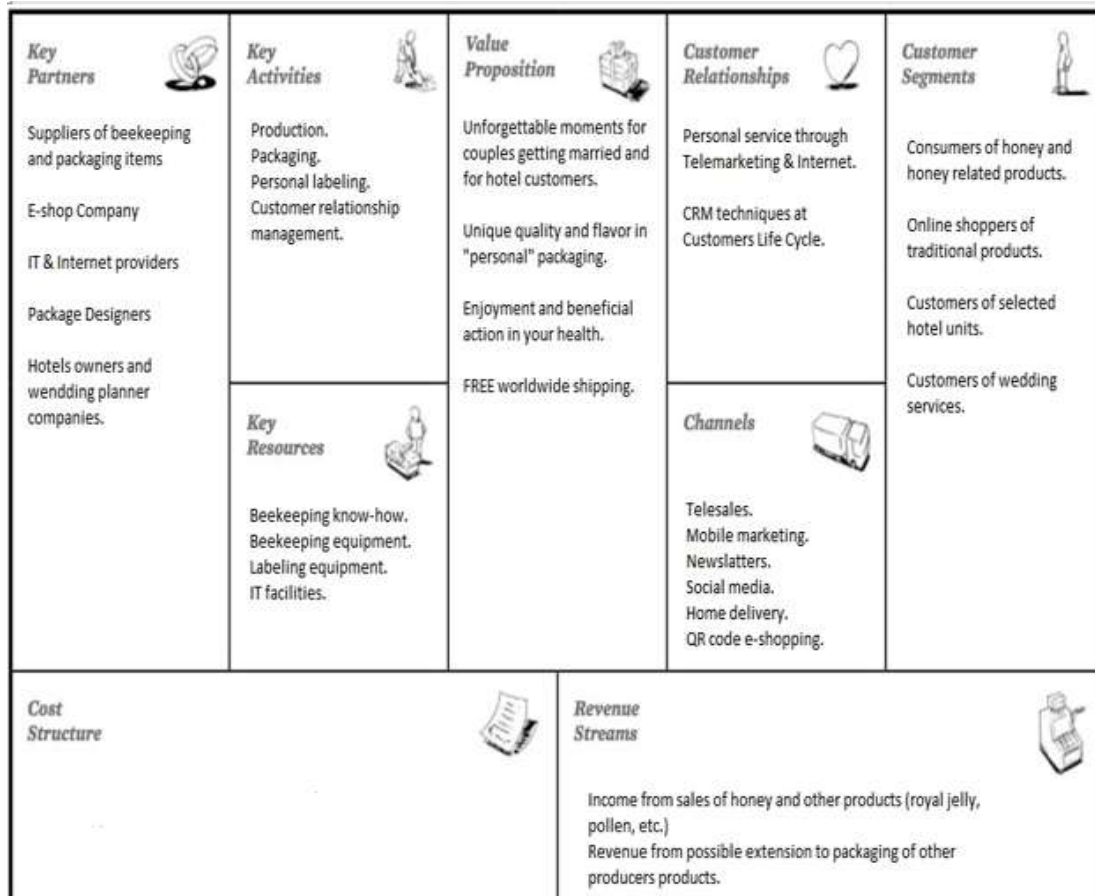


Figure 9: Step 8 - Key Partners

9. Cost structure

The cost structure is compiled by operating and marketing costs, the salaries/wages which the company is obligated to provide to the employers/collaborators, the costs of the appropriate consumable items and raw materials for the products manufacturing, plus other minor expenses.

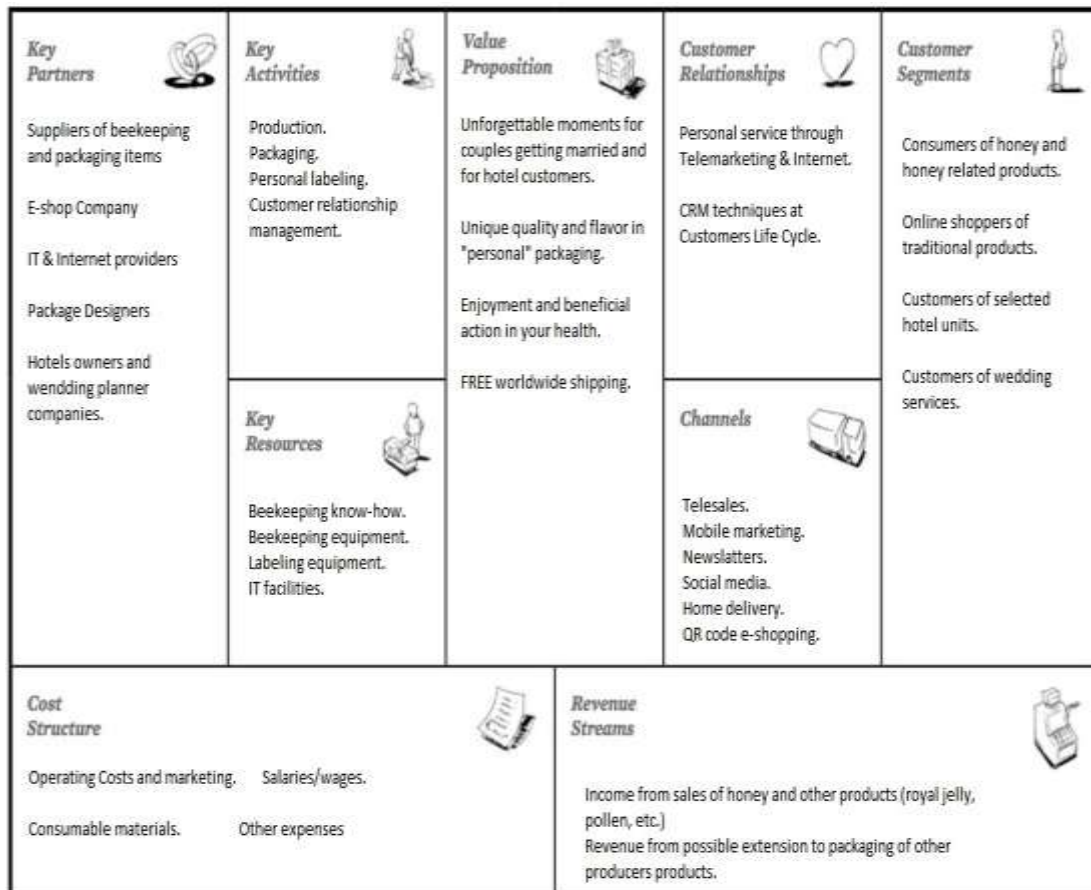


Figure 10: Step 9 - Cost Structure