

BUSINESS MODEL - OSTERWALDER

In the true world of the entrepreneurial start-up, it's not the business plan that leads to success. Venture capitalists say that, "as soon as the business plan is written, it's obsolete." The start-up must move quickly to prototype and test their product or service; and customer interaction is critical. Too often, teams focus on writing a business plan and never actually interact with their target customers...

Business Model Overview

The critical elements of a business model provide a "framework" that describes how a company will operate. Forming an interrelated "blueprint", these essential business model building blocks cover an organization's "customers, offer, infrastructure and financial structure.

- **Customer Segments**

Target one or more types of customers – this is the "heart" of your model. "Mass" markets and "niche" markets require starkly different approaches, while "segmented" customer bases share similarities, but their needs vary slightly. Companies with "multi-sided platforms" sell to two or more groups; for example, a credit card company cultivates businesses to accept its card as well as account holders to use it.

- **Value Propositions**

These "bundle[s] of benefits" lead clients to do business with your company rather than with your competitors; create value by inventing something new, improving your product's "performance" or "tailoring" your offering to specific needs.

- **Channels of Distribution**

Select the best "customer touch points" to communicate value and to distribute and sell your products and services. Internet sales, retail locations and wholesalers exemplify channels that enable customers to experience, assess and buy what you're selling.

- **Customer Relationships**

Establish different ways to serve distinct market segments: "Personal assistance" from a service representative can coexist along with automated service or self-service. Amazon "co-create[s]" value for all its users with customer-written product reviews. Determine what it is you want customers to say and feel about your product or service.

- **Revenue Streams**

This is the life blood of a business model; income flows through from direct sales or from ongoing payments such as rentals, licenses or subscriptions. Each type of revenue stream may demand a different "pricing mechanism," either a "fixed" price or a "dynamic," negotiated price. For instance, a "perishable" hotel room sells for varying rates, depending on season and availability.

- **Key Resources**

These most important assets can take several forms – "physical, financial, intellectual or human" – depending on what a company does. They range from executive talent and intellectual property rights to physical plant and credit lines; key resources may be "owned or leased." These key resources are what are needed to create and launch the business.

- ***Key Activities***

Company personnel routinely perform critical tasks that engage customers and turn a profit. For example, a manufacturer produces an item, a consultancy solves problems and companies like eBay and Visa manage “platform/ network activities” that link various groups. Examine what your key activities might be to launch and sustain the business.

- ***Strategic Partnerships***

Joining with other entities can expand or protect your market share in a highly competitive industry: Consider supplier links, joint ventures and “strategic alliances.” Tactical partnerships with rivals, or “coopetition,” can lessen risk or provide savings. Companies also can reduce costs or gain access to vital resources by outsourcing or subcontracting.

- ***Cost Structure***

Whether yours is a “cost-driven” or “value-driven” business, offering low-priced services like discount airline tickets or creating exceptional value like a top hotel – determines your model’s cost structure. Outlays represent “fixed and variable” expenses; bigger companies can pursue economies of scale and “scope” from large-scale production and distribution.