Lecture 6

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SMALL BUSINESS MANAGEMENT

An Entrepreneurial Emphasis

What is business model canvas

- It identifies products or services that company plans to sell, target market, and any anticipated expenses.

- Business models are important for both new and established businesses.

- **business model canvas** is a strategic tool to define a business idea and describes how an organization creates , delivers value

Why we use Canvas ?

- It is a global design.
- Simple components .
- Designed professionally.
- Showing the basic steps of the small business.

The importance of Canvas

1. Help new , developing companies attract investment, recruit talent, and motivate staff.

2. BMC is a great tool that offers focus, flexibility, and transparency.

3. You no longer require tens of pages of a traditional business plan to understand the business details.

4. BMC in a single page explains the core elements that drive the business and leave out all the un-necessary.

What are the 9 elements of business model canvas?

The Business Model Canvas consists of nine essential parts:

✔ Customer Segments.

✔ Value Proposition.

✔ Revenue Streams.

✔ Channels.

✔ Customer Relationships.

✔ Key Activities.

✔ Key Resources.

✔ Key Partners.

✔ Cost Structure.

Key partners

What external partnerships should you invest in?

- Mentors?
- Lawyers?
- Distributors?
- Suppliers?

Key activities

What will your business spend the most time doing?

Product development?
Sales? Other?

Key resources

What will it cost for:

Manufacturing?
Intellectual property?
Human resources?

Value proposition

Customer relationships

What types of interactions will your customers expect to have with you?

Channels

How will customers find out about you?

How will you get products to them?

Customer segments

Who are your paying customers?

Do you have any non-paying customers?

How large is this group?

Do you have multiple customer segments?

Cost structure

How much <u>time</u> and <u>money</u> will be required to do this?

Revenue streams

- How might you make $ from this?
- What value, other than money, are you hoping to create?

Customer segments

1. **Customer segments**

• The different groups (segments) an enterprise aims to reach and serve.

• Customers are the heart of any business model.

• To better satisfy customers , a company may group them into distinct segments with common needs or common behaviours.

Segmented:

Market segmentation is a process that consists of sectioning the target market into smaller groups that share similar characteristics, such as age, income, behaviour, needs.

Knowing your market segmentation will help you target your product, sales, and marketing methods

Customer segments can be:

• Mass market: that do not distinguish between different customer segments

Business model focus on one large group, like Pepsi , Coca-Cola.

• Niche market: that serve to specific , specialized segments .

The business model is tailored to the requirements of a niche market.

- **Multi – sided platforms (or multi – sided markets):** serve two or more interdependent customer segments . Both segments are required to make the business model work. Ex: online marketplaces like e-bay and amazon, which connect buyers and sellers , ride-sharing services like uber, which connect drivers and riders

- **Diversification**

❑ **Related diversification** A company may decide to diversify its activities by expanding into markets or products that are related to its current business.

❑**Unrelated diversification** :A strategy in which a company seeks growth by adding products and markets of a kind unrelated to its existing products and markets

2- Value Proposition

- The Value Proposition Canvas is a framework which can help ensure that a product or service is positioned around what the customer values and needs.

- The Value Proposition Canvas was initially developed by Dr Alexander Osterwalder as a framework to ensure that there is a fit between the product and market.

- It describes the bundle of products and services that create value for a specific customer segment to satisfy his / her need or solve a problem.

- The value proposition is the reason why customer turn to one company over another.

- Value may be quantitative (price – speed of services) or qualitative (design – customer experience) .

It's where you discuss questions…

- What is the unique solution to the issue that your customers will face?

- How will your product or service be innovative to your competitors?

3- channels

Are customer touch points that play an important role in the customer experience

Communication, Distribution, and Sales Channels comprise a company's interface with customers, ex: wholesaler, retailer

4-Customer Relationships:

It describes the types of relationships a company establishes with specific customer segments. Relationships can range from personal to automated.

Several Categories of Customer Relationships:

- Personal Assistance: human interaction with a real customer.

- dedicating personal assistance: dedicating a customer specifically to a client

- Self-service: no direct relationship. Customers help themselves.
- Automated Services: sophisticated form of customer self-service with automated processes (ATM).
- Communities: build user communities to become more involved with customers
- Co-creation: engaging customers to assist with the design of new and innovative products, and other co-creative processes.

5-Revenue streams

- A company's revenue streams represents the cash a company generates from segment .

1. <mark>How does the business earn revenue from the value propositions?</mark>
❖ Calculate the revenue annual?
❖ Calculate the profit margin percentage ?
❖ Calculate the net profit finally ?
2. <mark>How does the company make money from each customer segment?</mark>

A business model can involve 2 types of revenue streams

- Transaction revenue : A transaction that is generally of a short-term, from one- time customer payments, ex: purchase of goods, sale of fixed assets

- Recurring revenue : Is a business model that relies on repeat purchases from customers. A company that uses a recurring revenue model can often predict their future income more accurately.

- There are several ways to generate revenue streams:

1- Asset Sale: Generate revenues from selling ownership. ex: a rental car company or may sell a group of cars via an asset sale contract

2- Advertising: Generate revenue from fees for advertising a particular product, service, or brand in your channel, app, website, etc.

How do you generate revenue from advertising?
1. Choose your target segments.
2. Optimize the number of ADS displayed.
3. Track the Ads' Performance
4. Increase Content Quality.

3- Licensing: Generate revenue by giving customers permission to use intellectual property in exchange for licensing fees.

6-key partners

Key Partners are external entities or organizations that collaborate with a business to enhance its operations

Describes the network of suppliers and partners that make the business model work.

Partnerships is needed to help enterprise focus on its core competencies.

value.

7- key activities

The key activities of a business are all the tasks and responsibilities that need to be done to make the business model work. This might include production tasks, marketing , and problem-solving.

✔ What uniquely strategic does the business do to deliver its proposition?

✔ What is the company main duty ?

8- key resources

key resources are the primary assets you will need to complete your key activities and allow the business model to work successfully . This could include employees, finances, equipment, or intellectual property

• What unique strategic assets which the business must compete by ?

• What are the company resources for doing its product or service ?

- The cost structure defines all the costs the business will incur during operation, including variable costs and fixed costs.

- It can be useful to distinguish between 2 broad classes of cost structure.

Cost driven: focus on minimizing costs wherever possible to offer low price value proposition.

Value driven: is one of the most powerful ways to operationalize process-improvement focus on creation, ex: luxury hotels

Cost structures can have the following characteristics:

Fixed cost :that remain the same despite the volume of production ex: salaries, rents.

Variable cost: that very proportionally with the volume of production ex: materials, energy.

THANK YOU