

# From business models to business plans

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11 November 2013



The odds...

On day one, a start up is a faith-based initiative.....(Steve Blank)



The odds...

# How do you progress from idea to a business model?



# Definition of a business model

- A business model describes the rationale of how an organization creates, delivers and captures value
  - A business model needs to fulfil the following criteria
    - ❖ simple
    - ❖ relevant
    - ❖ intuitively understandable
- = Recipe for how the company intends to make money
- = Needs to cover four main areas of business: offer, customers, infrastructure, financial viability

# The nine building blocks for a business model



Four areas of business can be broken down into nine building blocks

- Customer segments – An organisation serves one or several customer segments
- Value propositions – Solving customer problems or satisfying needs
- Channels – Delivery of value to customers through communication, distribution and sales
- Customer relationships – How organisation maintains relationships with customers
- Revenue streams – Value proposition successfully delivered to customers
- Key resources – Assets required to offer all the above mentioned elements
- Key activities – Activities performed to implement all these elements
- Key partnerships – External/outsourced resources that these activities require
- Cost structure – How much all the above costs

Alexander Osterwalder, Business model generation, 2010

# Introducing the business model canvas








**The Business Model Canvas**

Designed for: \_\_\_\_\_

Designed by: \_\_\_\_\_

DATE: \_\_\_\_\_

Version: \_\_\_\_\_

<p><b>Key Partners</b></p>  <p>Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from partners? Which key channels do we use to get to our market? Which key activities do we perform on their behalf? Which key resources do we need to perform on their behalf? Which key channels do we need to get to our market? Which key activities do we need to perform on their behalf?</p> <p>8.</p>	<p><b>Key Activities</b></p>  <p>What key activities do we do to create value for our customers? Do our customers do these activities? Customer relationship management? Channel management? Infrastructure management? Production? Distribution? Logistics? Procurement? Human resources management? Finance management? Legal management? Government relations management? Public relations management? Security management? Compliance management?</p> <p>7.</p>	<p><b>Value Propositions</b></p>  <p>What value do we deliver to our customers? What benefits do our customers expect from us? What do our customers want to buy from us? What do our customers want to avoid from us? What do our customers want to be different from us? What do our customers want to be better than us? What do our customers want to be more than us? What do our customers want to be less than us? What do our customers want to be more than us? What do our customers want to be less than us? What do our customers want to be more than us? What do our customers want to be less than us?</p> <p>2.</p>	<p><b>Customer Relationships</b></p>  <p>What type of relationship do we want with our customers? How do we want to interact with our customers? How do we want to deliver value to our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers? How do we want to get paid by our customers?</p> <p>4.</p>	<p><b>Customer Segments</b></p>  <p>Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting? Which customer segments are we targeting?</p> <p>1.</p>
<p><b>Cost Structure</b></p>  <p>What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model? What are the major costs to our business model?</p> <p>9.</p>		<p><b>Revenue Streams</b></p>  <p>How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue? How do we generate revenue?</p> <p>5.</p>		

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# 1. Customer segments

- Definition of the different groups or organisations a company/enterprise aims to reach and serve
- Questions to ask:
  - For whom are we creating value?
  - Who are our most important customers? B2B vs B2C
  - Where do they live?
  - How old are they?
  - How much do they earn?
  - Where do they “hang” out?
  - How will they interact with the products?
- Types of customer segments:
  - Mass market (e.g. Consumer products)
  - Niche market (e.g. Luxury items)
  - Diversified market (e.g. Amazon)
  - Multi-sided markets (e.g. Credit cards)

Alexander Osterwalder, Business model generation, 2010

## 2. Value propositions

- Describing the bundle of products/services that create value for a specific customer segment
- Questions to ask:
  - What value do we deliver to customers?
  - Which one of our customer's problems are we solving?
  - What is your company's competitive advantage?
  - Which customer needs are we satisfying?
  - What bundles of products and services are we offering to each customer segment?
- Types of value propositions (quantitative or qualitative):
  - Newness
  - Performance
  - Customization
  - “Getting the job done”
  - Price
  - Risk/cost reduction
  - Design
  - Convenience/usability
  - Accessibility

Alexander Osterwalder, Business model generation, 2010



# 3. Channels

- Describing how a company communicates with and reaches its customer segments to deliver its value propositions
- Questions to ask:
  - Through which channels do our customers want to be reached?
  - How are we reaching them now?
  - How are these channels integrated?
  - Which channels works best?
  - Which ones are the most cost-efficient?
  - How are we integrating them with customer routines
- Types of channels:
  - Sales force
  - Web sales
  - Own stores
  - Partner stores
  - Wholesaler



Alexander Osterwalder, Business model generation, 2010

# 4. Customer relationships

- Describing the types of relationships a company establishes with specific customers

- Questions to ask:

- What type of relationship does each of our customer expect us to establish and maintain with them?
- Which ones have we established?
- How costly are they?
- How are they integrated with the rest of our business model?

- Categories of relationships:

- Personal assistance
- Dedicated personal assistance
- Self-service
- Automated service
- Customer communities
- Co-Creation

# 5. Revenue streams

- Describing the cash a company generates from each customer segment. (Revenue – costs = earnings/profits)
- Questions to ask:
  - 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?
- Types of revenue streams:
  - Asset sale
  - Usage fee
  - Subscription fees
  - Lending/renting/leasing
  - Licensing
  - Brokerage fees
  - Advertising

## 6. Key resources

- ▀ Describing the most important assets required to make a business model work

- Questions to ask:

- What key resources do our value propositions require?
- What resources do our distribution channels require?
- What resources do our customer relationships require?
- What resources do our revenue streams require?

- Categories of resources:

- Physical assets (e.g. facilities, machines, etc.)
- Intellectual resources (e.g. brands, copyrights, patents, etc.)
- Human resources
- Financial resources and/or guarantees

# 7. Key activities

- Describing the most important things a company must do to make its business model work
- Questions to ask:
  - What key activities do our value propositions require?
  - What key activities do our distribution channels require?
  - What key activities do our customer relationships require?
  - What key activities do our revenue streams require?
- Categories of key activities:
  - Production (e.g. Designing, making and delivering a product)
  - Problem solving (e.g. Coming up with new solutions)
  - Platform/Network (e.g. Service provision, interface management, platform promotion)

## 8. Key partnerships

- Describing the network of suppliers and partners that make a business model work
- Questions to ask:
  - Who are our key partners?
  - Who are our key suppliers?
  - Which key resources are we acquiring from partners?
  - Which key activities do partners perform?
- Motivations for partnerships:
  - Optimization and economy of scale
  - Reduction of risk and uncertainty
  - Acquisition of particular resources and activities



Alexander Osterwalder, Business model generation, 2010

# 9. Cost structure

## ■ Describing all the costs incurred to operate a business model

- Questions to ask:

- What are the most important costs inherent in our business model?
- Which key resources are the most expensive?
- Which key activities are the most expensive?



- Categories of cost structures:

- Cost-driven (= minimizing costs)
- Value-driven (= focus on value creation)

- Characteristics:

- Fixed costs
- Variable costs
- Economies of scale
- Economies of scope

Alexander Osterwalder, Business model generation, 2010






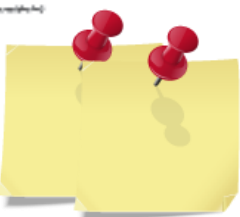



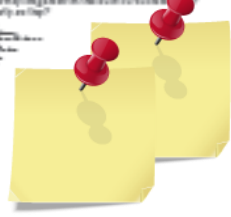

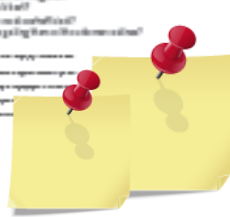






# The business model canvas - filled

## The Business Model Canvas

Designed for:

Designed by:

DATE: / /  
BY: / /

<b>Key Partners</b>  Who are my partners? Who are my suppliers? Which key resources are being brought in? Which key activities are being outsourced? Can I get a better deal? Can I get a better deal? Can I get a better deal? 	<b>Key Activities</b>  What key activities do we do? Do our customers care? Can we do it better? Can we do it faster?  <b>Key Resources</b>  What key resources do we have? Do our customers care? Can we do it better? Can we do it faster? 	<b>Value Propositions</b>  What value do we deliver to the customer? What are the benefits we provide? What are the features we offer? What are the benefits we offer? 	<b>Customer Relationships</b>  What type of relationship do we want? How do we build it? How do we maintain it? How do we improve it?  <b>Channels</b>  Through which channels do we reach our customers? How do we reach them? How do we reach them? How do we reach them? 	<b>Customer Segments</b>  Who are our customers? Who are our customers? Who are our customers? 
<b>Cost Structure</b>  What are the major costs? What are the major costs? What are the major costs? 		<b>Revenue Streams</b>  How do we make money? How do we make money? How do we make money? 		



# The business model canvas - filled

**The Business Model Canvas**

Designed for: \_\_\_\_\_

Designed by: \_\_\_\_\_

On: \_\_\_\_/\_\_\_\_/\_\_\_\_

at: \_\_\_\_\_

<b>Key Partners</b> What are my partners? What are my suppliers? Which resources are they bringing to me? Which risks do they help me to avoid? What do they want from me? What do I want from them? What do they want from each other? What do I want from each other? What do they want from the market? What do I want from the market? What do they want from the industry? What do I want from the industry?	<b>Key Activities</b> What key activities do we do to create value? Do we deliver channels? Customer relationships? Revenue streams? What do we do to create value? What do we do to create value? What do we do to create value? What do we do to create value? What do we do to create value? What do we do to create value? What do we do to create value? What do we do to create value?	<b>Value Propositions</b> What value does this offer to the customer? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do? What does the customer want to do?	<b>Customer Relationships</b> What type of relationship do we want with our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers? How do we create value for our customers?	<b>Customer Segments</b> Which customer segments are we targeting? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments? What are our main segments?
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## II. Customer development - Introduction

- **Customer discovery:** Business model development and testing of hypotheses
- **Customer validation:** Testing whether the business model is repeatable and scalable



- **Customer creation:** Building end-user demand and ramping up sales
- **Company creation:** Transitioning from a start-up to a company focused on executing a validated model



Steve Blank & Bob Dorf, The Start-up Owner's Manual, 2012

# A few words on customer discovery...



- Drawing the canvas is easy...testing & validating your hypotheses is really, really hard!
- No business model survives the first contact with customers ...Failure is an integral part of the search for a business model.
- The facts/insights are not inside this building...get outside!
- Learning that a hypothesis is wrong is not a crisis. A pivot is not a failure, it's a normal part of the process...
- If possible, build a minimally viable product (MVP). Great way to get customer feed-back!

# Writing a business plan

## What is it?

- A business plan is a communication tool
- A snapshot of your business at one point in time – constantly evolving!!!

## What is it used for?

- Raise funding
- Part of a broader communication strategy towards investors & other stakeholders

# Defining your objectives

Are you:

- raising Angel funding?
- applying for a grant?
- applying for a loan?
- raising Venture Capital?



Tailor the business plan and its message  
to your audience!

Picture taken from Vector stock

# What are investors looking for?

Investors are looking for...


- **Product leadership**
- **A big future market share**
- **Start up lead by an exceptional team**



*“Nigel Grierson, MD, Doughty Hanson & Co Ltd”*

# Understanding your audience

## Investors are...

- Time constrained
- Under pressure; all competing for the next 
- Usually not experts on the technology
- Unforgiving

# What can you do...

...to maximize your chances?

- Get the main message across in the first two paragraphs
- State clearly potential rewards for the investor
- Explain business case in plain English
- Use your chance to make a great first impression




# Structure – what to include

Guy Kawasaki (2004), The Art of the Start, Portfolio

1. Executive Summary
2. Problem – What is the problem?
3. Solution – What are you doing to solve it?
4. Business Model – How are you going to make money?
5. ‘Underlying Magic’ = technology – Competitive advantage
6. Marketing and sales – How are you reaching your customers?
7. Competition – Who is your competition?
8. Management team – Describe your team
9. Financial projections and key metrics – BS, P&L and cash flow
10. Current status, accomplishments to date, timeline and use of funds

# Executive Summary

- Should be maximum 2 pages
  - Your written equivalent to an elevator pitch
  - Probably the only part that will be read, thus:
-  The most important part of the business plan!

# Executive summary structure

One paragraph to cover each:

1. The Problem
2. The Solution
3. The Size of the Opportunity
4. The Business Model
5. Your 'Underlying Magic' = technology
6. The Management Team
7. Financial rewards
8. Funding required

# Communicating your vision

- The business plan tells a story
- Excite your reader
- Use action words
- Write in a formal manner; avoid jargon
- Be precise and focused

# Practical tips

## George Orwell's 5 rules for effective writing:

1. Never use a metaphor or other figure of speech which you are used to seeing in writing.
2. Never use a long word where a short one will do.
3. If it is possible to cut a word out, always cut it out.
4. Never use the passive where you can use the active.
5. Never use a foreign phrase, a scientific word, or a jargon word if you can think of an everyday English equivalent.

George Orwell, Politics and the English language, 1946

# Polish your document

- Well designed cover page
- Short paragraphs
- Big enough fonts; at least 12pt
- Headings numbered and properly formatted
- Diagrams clearly labelled
- Symbols and abbreviations well explained
- Spelling mistakes

# Summary

- Phrase your business proposition around the customer's problem
- Devise a plan of how to test your assumptions
- Gather as much evidence as you can for your business model:

## Use the business model canvas

- Expect to change your business model along the way – revisit often
- Think about your business plan as a communication tool
- Understand the investor's mindset
- Use effective writing to get your message across

# Resources

## Books, Tools & Resources:

- Guy Kawasaki, The Art of the Start, 2004
- Steve Blank & Bob Dorf, The Start-up Owner's Manual, 2012
- Steven Gary Blank, The Four Steps to the Epiphany, 2007
- Steve Blank's library of useful tools: [www.steveblank.com](http://www.steveblank.com)
- LivePlan, [www.liveplan.com](http://www.liveplan.com)
- Business model canvas download: [www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)
- Alexander Osterwalder and Yves Pigneur: Business model generation, 2010
- Paul Graham's Essays: <http://paulgraham.com/index.html>
- Y-Combinator Start-up Library: <http://ycombinator.com/lib.html>
- Hacker News: <http://news.ycombinator.com/>