

CONTENTS

What is a business model?

The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ What to do with it

**At the core of every successful business is a business model.**

**The business model describes what the business does and how it makes money.**

**If you're thinking about starting your own business, a great first step is understanding how business models work and what model will make sense for you.**



# The Big Picture

## Business Models

### CONTENTS

#### What is a business model?

##### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ What to do with it

## What is a business model?

Think of a business model as a map of everything a business does in order to serve its customers and make a profit.

Most independent businesses tend to have relatively simple business models.

But however simple or complex your business is, it pays to understand all the building blocks and how they fit together.

### *Is a business model the same thing as a business plan?*

No. A business plan is usually a formal written document that describes—sometimes in great detail—a business' strategy, including its business model. The good news is that you can model your business without a writing a formal plan.

# The Big Picture

## Business Models

### CONTENTS

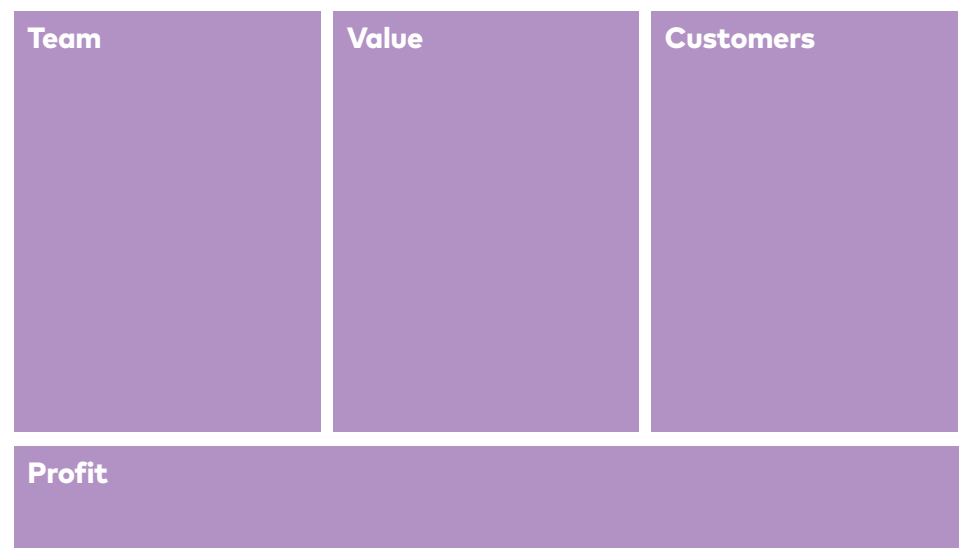
What is a business model?

#### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ What to do with it

## The Business Model Canvas

We're going to focus on one of our all-time favorite business tools: the Business Model Canvas.\*



The canvas sets up a clear mental model for understanding businesses. Having this kind of visual model makes it easier to structure your ideas, see potential blind spots, have more productive conversations and make better decisions.

The canvas was created by Alex Osterwalder and Yves Pigneur and described in their 2008 book, "Business Model Generation" [[Amazon](#), [IndieBound](#), [Library](#)] and available under the Creative Commons license. You can learn more at [Strategyzer](#).

\*We've taken the liberty of simplifying the language we use to describe the model, but other than that, the structure and ideas are the same.

# The Big Picture

## Business Models

### CONTENTS

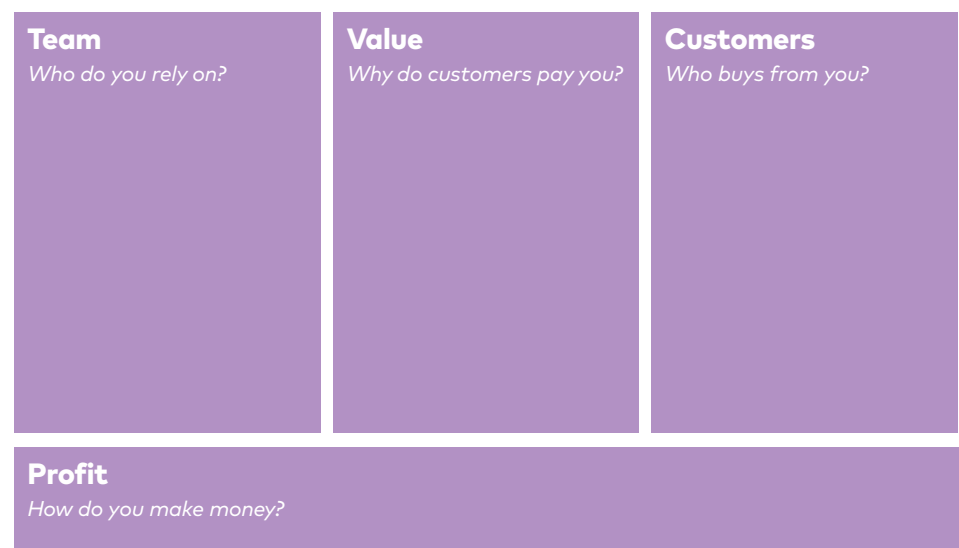
What is a business model?

#### The Business Model Canvas

- ▶ **How does the canvas work?**
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ What to do with it

### How does the canvas work?

The canvas lays out the basic building blocks that are a part of any business, no matter how complex.



Your **team** is made of the people you rely on. These could be business partners, employees, mentors or suppliers.

Your products and services are an offering that has **value**. It's the reason people pay you and the foundation on which relationships with customers are built.

Your **customers** are the people who buy things from you. Many businesses will have several different types of customers.

Your **profit** is the difference between what your customers pay you and what it costs to make and deliver your products and services.

# The Big Picture

## Business Models

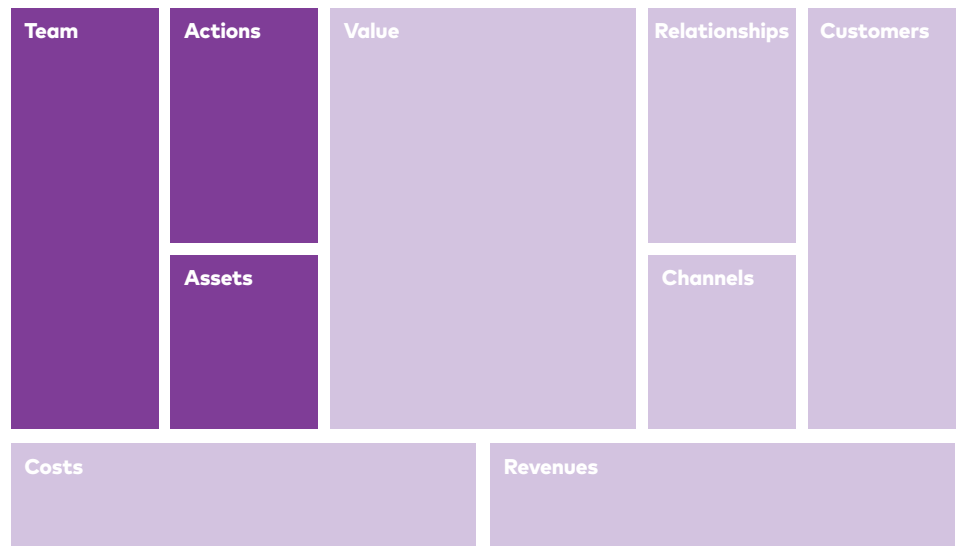
### CONTENTS

What is a business model?

#### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ **Team**
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ What to do with it

### Team



Your **team** is made of the people you rely on. They could be business partners, employees, suppliers and even mentors or advisors. Thinking of your team broadly in this way opens you up to new possibilities for collaboration and mutual benefit.

Every team takes certain **actions** to create value for customers. These actions may be highly-specialized—for example, research and development in technology companies—or more straightforward things like buying the ingredients to prepare food for a restaurant.

Often the actions a team takes use **assets** available to them. These assets can take many forms: from physical resources or supplies, to human skills, expertise or knowledge to even financial or capital resources.

# The Big Picture

## Business Models

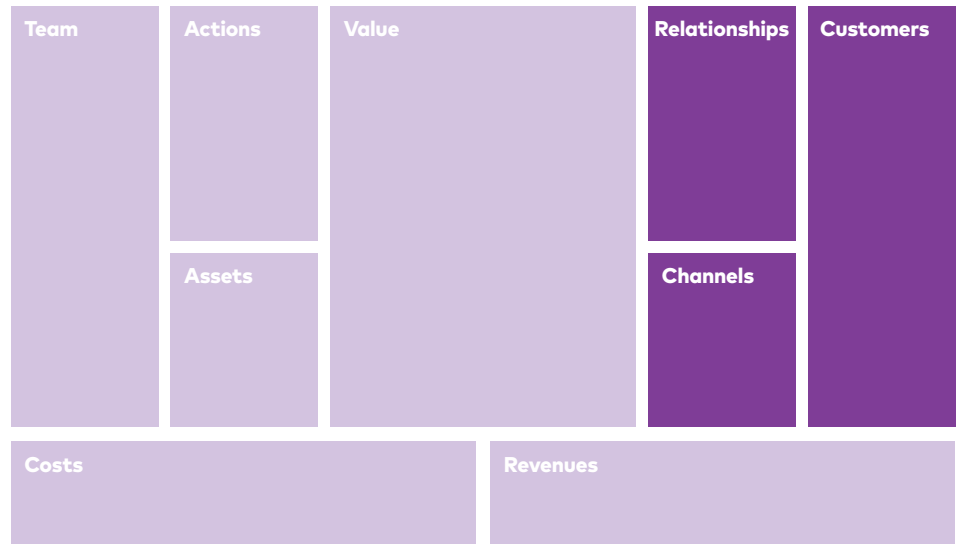
### CONTENTS

What is a business model?

#### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ **Customers**
- ▶ Value
- ▶ Profit
- ▶ What to do with it

### Customers



Your **customers** are the people or businesses who buy from you. Understanding your customers and what they value is critical to your success. It's also important to remember that you'll have different types of customers or "customers segments," and what matters to one group will not matter to another.

Businesses reach their customers through **channels**. These channels can be physical locations such as stores, virtual channels such as e-commerce websites or even business channels such as resellers or distributors. The choices you make about your channels will directly impact your profits and customer satisfaction.

Over time, businesses build and maintain **relationships** with their customers. Some of these relationships are built on frequent transactions—think about your favorite local coffee shop—and others are more infrequent. Some relationships are very strong and last for years while others are weaker and may only last for a single transaction.

# The Big Picture Business Models

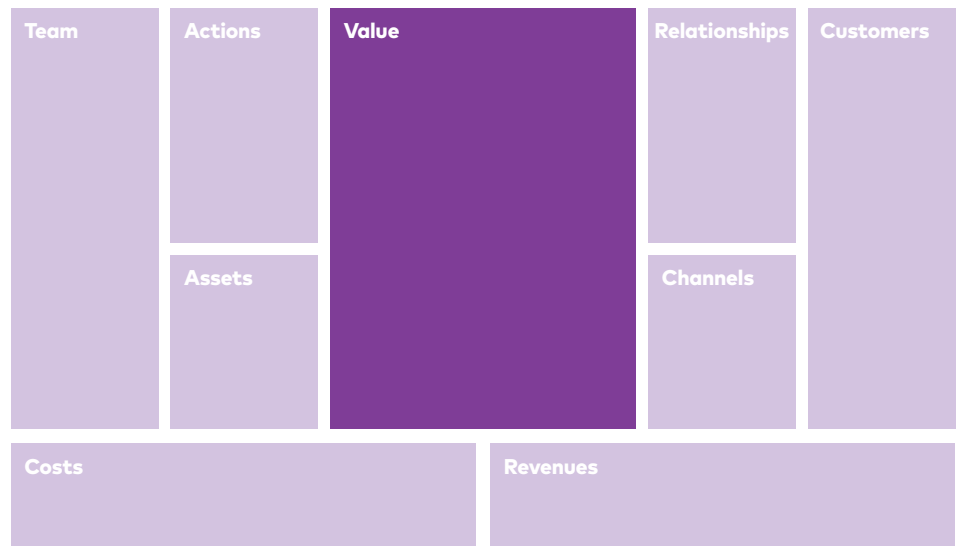
## CONTENTS

What is a business model?

### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ **Value**
- ▶ Profit
- ▶ What to do with it

## Value



"Price is what you pay, value is what you get". —Warren Buffett

Businesses live and die by their ability to create and deliver something of **value** that customers will pay for. Understanding how value is created, delivered and perceived is one of the most challenging things for any business person.

Remember that value can be any combination of functional, psychological, emotional, or financial benefits.

When thinking about value, challenge yourself to get beyond thinking just about the product or service you provide—your offering—and think about the value that customers derive from that offer.

# The Big Picture

## Business Models

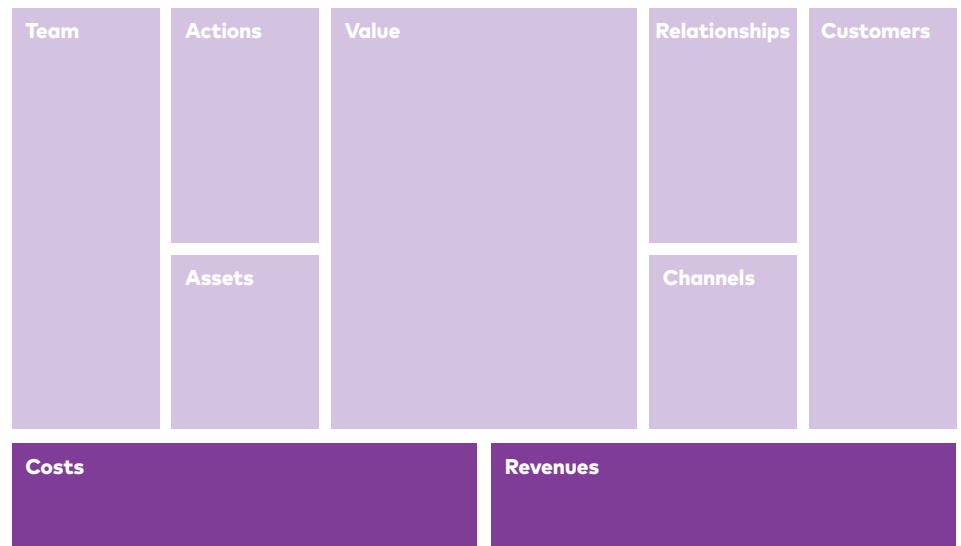
### CONTENTS

What is a business model?

#### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ **Profit**
- ▶ What to do with it

### Profit



The goal of every for-profit business is to create and deliver value for customers while returning a **profit**. No business will survive for long if it operates at a loss.

At the most basic level, profit is the difference between the **cost** you incur to create value (the left side of the canvas) and the revenue you receive from your customers as payment for that value (the right side of the canvas).\*

Costs can include **fixed costs**—such as rent or salaries—that remain the same regardless of how much business you do and **variable costs**—such as raw materials or shipping.

Revenues will come from a variety of different sources and different customer types depending on your business. These can include anything from simply selling a product or service to licensing agreements, subscriptions and commissions.

\*Calculating profit can get more technical than this simple formula. For an overview, check out our [Finance Basics](#) guide.



# The Big Picture

## Business Models

### CONTENTS

What is a business model?

#### The Business Model Canvas

- ▶ How does the canvas work?
- ▶ Team
- ▶ Customers
- ▶ Value
- ▶ Profit
- ▶ **What to do with it**

### *What to do with it*

Now that you understand the basics, think about how various business fit in.

Most follow well-established patterns and vary only in the details. Others are a mix of different models recombined to form new businesses.

What do models in your industry look like? What tweaks could you make to better create value for your customers? We've included a **worksheet** if you want to sketch out some ideas.

And remember that every business is a journey—whatever you map out today will probably be different tomorrow. The point of the exercise is to keep on the lookout for new opportunities and be there to meet them as they arise.

Want to map out your own business model canvas? Download this **handy business model canvas worksheet** to get started.