Building A Strong Business Model

A guide for startups, social enterprises and boards who want to change the world

How This Guide Works

This eBook is designed to help inspire your thinking, and refine your ideas.
You can go cover to cover, or flick through it – up to you.

I've filled the book with the tips and tricks I've learned from advising over 205 enterprises, as well as quotes from some of my favourite business thinkers.

I hope you use it to create something remarkable.

To start your Business Modelling journey, begin on Page 3

To learn about each of the nine boxes, go to Page 9

To review your first Canvas, jump to Page 41

To create new and better models, skip to Page 57

Using The Canvas

A Business Model Canvas is a tool that helps create and assess business ideas.

The Canvas was created by Strategyzer, and has been used by both startups and large companies alike.

It's free to use – all you need to do is print one out, or sketch one out on a sheet of paper/whiteboard.

A canvas is a visual description of your idea, which creates clarity for your team, your investors and yourself.

It won't magically make your idea profitable, and it won't do the work for you.
Instead, it makes you ask good questions - and good questions enable great ideas.

- It will ask you if there are other people who could be your customers.
- It will ask if there are other explanations as to why people buy from you.
- It will ask if there are better ways of structuring your team.
- It will ask if you're charging your customers the right amount.

Most importantly, it will keep you accountable.
All the little comforting lies we tell ourselves are hard to ignore when they're out in the open, and that makes for a better business.

There's one question that's missing from the canvas, so it's important that we think about it now:
Why do you want to start this business?
Or if you're already up and running
Why does your business exist?

Using The Canvas

J.P. Morgan said that behind every decision are two reasons:

The good one and the real one.

Let's be frank about the real reasons. What factors are driving your decisions?

- Is it about making money?
- Is it about creating change?
- Is it about building your dream job?
- Is it about building an empire?
- Is it about a decision made by your board?
- Is it about doing something you're proud of?

If there's a reason why we're committed to a particular industry, we can use that as a design constraint.

We're also establishing which elements of the idea are flexible – the things that we would happily change if a better option comes along.

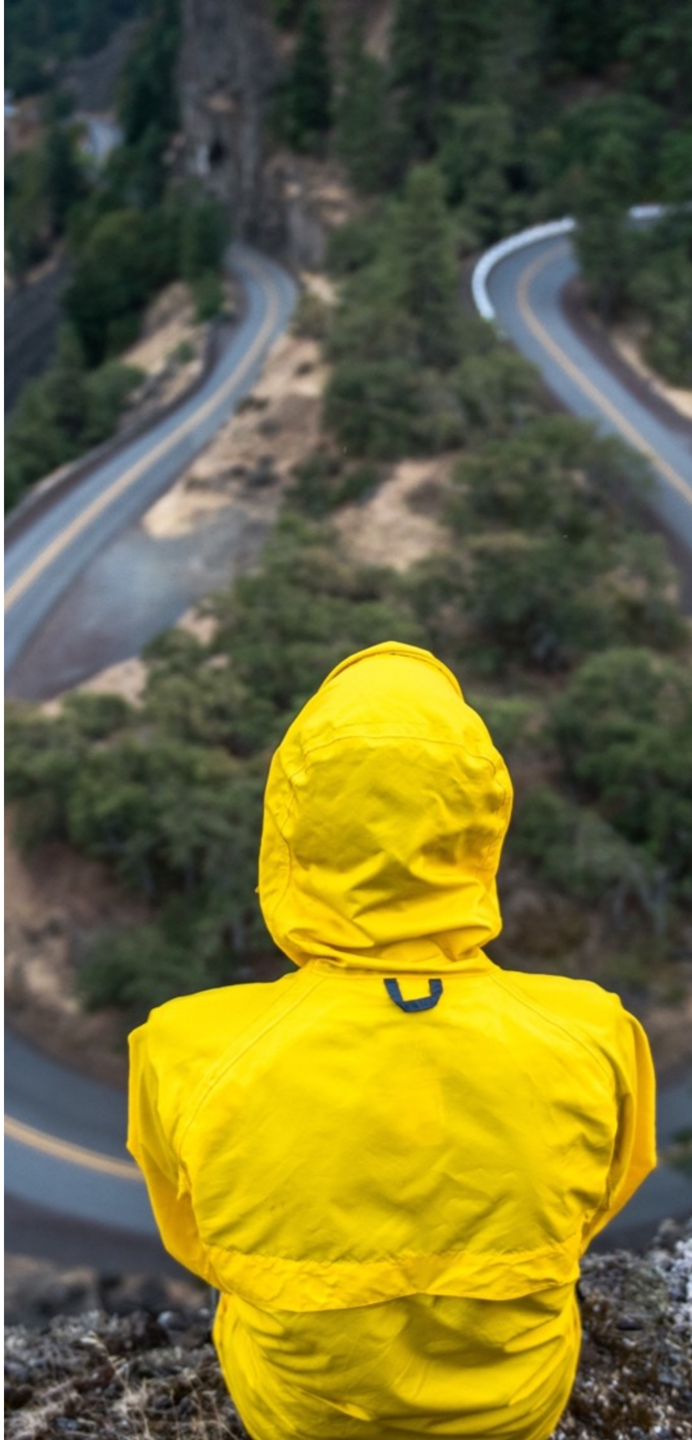
This avoids problems like
"Look, my boss said it has to be a retail store, so stop talking about online platforms!"

"I don't want to run a wholesale business from a warehouse, I want to run a cool café"

"Yes it creates impact, but where's the profit for our parent company?"

We call this **Intent.**

No cliché mission statements; a simple description about why you're building this business.
That way, we know what elements are up for discussion, and which are untouchable.



Using The Canvas

Here are some from my clients:

“We want to create stable lives for young people, which comes from stable jobs and stable relationships”

“We want to create a cash cow that provides $100k of surplus to fund our charity”

“To change the way people think about the clothes they buy”

“To build a job that provides me with freedom and excitement”

“To prevent waste from ending up in landfill”

“To fulfil the Christian Mission, and spread God’s word”

“To create new business units that ensure (our organisation’s) longevity”

None of them say:

“To create a cool bar on High St that sells $18 cocktails”

-OR -

“To sell minimalist, mid-priced Swiss watches online”

They might each be a great **how**, but not a clear enough **why**.

Four questions to determine your Intent
What is your why?
How will you make decisions in the future?
What does success look like?
What will you never do?

If you can’t state your position in eight words, you don’t have a position.

— Seth Godin

Three Lenses

Now that you have a clear articulation of your Intent, we can get into the nine boxes of the Canvas.
Each box asks you a set of questions about one aspect of your idea.

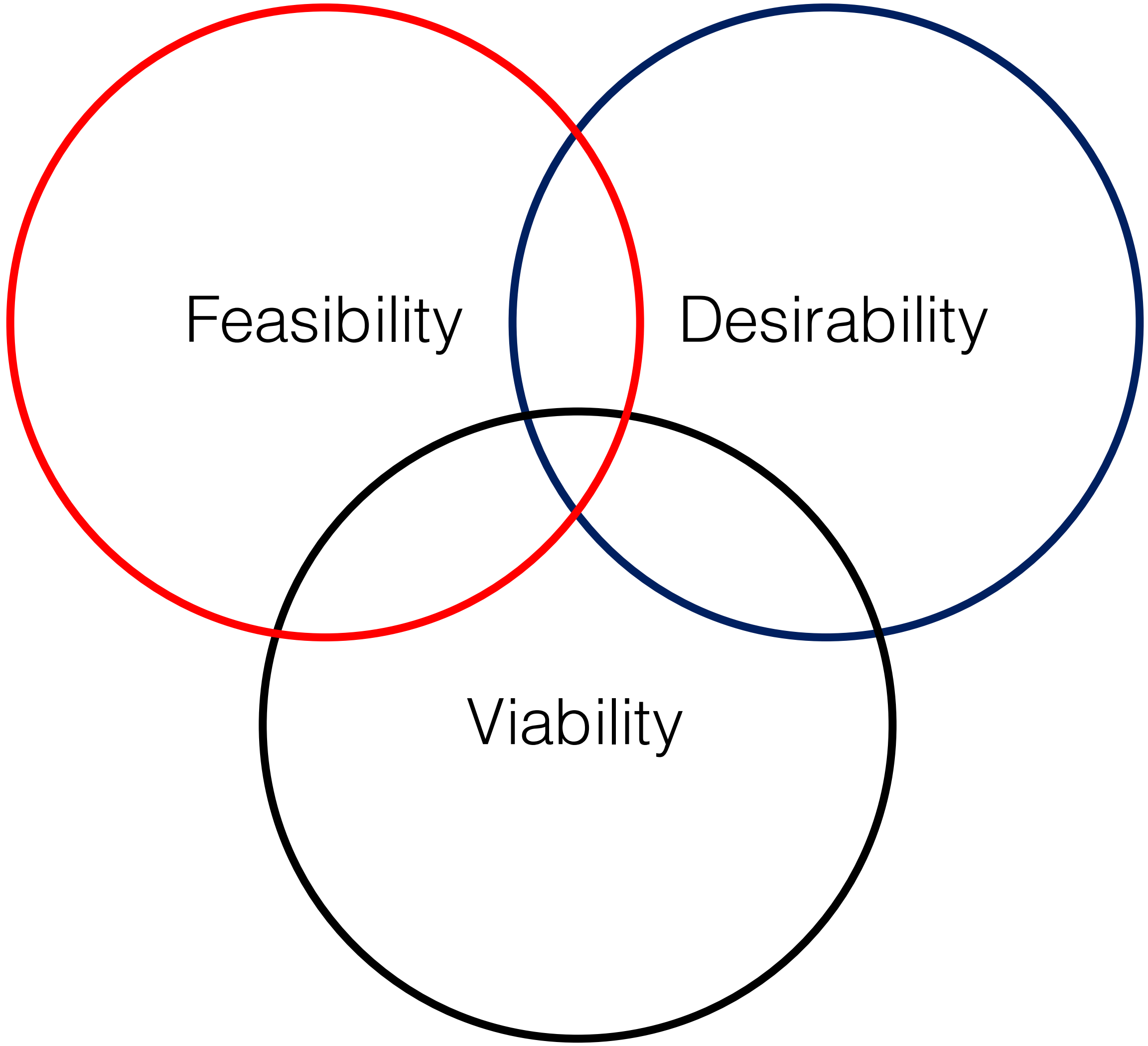
At first it might look like nine independent checklists, but soon they'll start working together like gears.

A helpful way of thinking about it is with IDEO's Three Lenses of Innovation.

We call them Lenses, because they're a way of examining one side of your business.

Each lens will highlight different strengths and weaknesses, and by looking at all three, we can create strong ideas that consistently make money.

They are: **Desirability, Feasibility** and **Viability.**



IDEO.com

Three Lenses

Desirability is about understanding your customer, what motivates them, how they engage with you and what makes or breaks a purchase decision.

We need to be desirable to our customer, or else we'll have no sales.

Feasibility is about how you make everything happen behind the scenes.
This includes hiring the right people, using the right tools, working with the right partners, and focusing on the right set of core activities.

We need to run in a way that's constantly feasible, or else we'll implode.

Viability is about the dollars:
How many we earn and how many we spend.
No matter your legal structure, you'll need a surplus to survive – meaning there's money left over at the end of the day.

We need to be financially viable, or else we'll go bankrupt.

Our idea needs to sit at the heart of these three lenses.
Designing a business like this is tough, and it will take a fair few goes to get it right.

That's what is so good about a canvas – it's disposable, it's free and it's quick to sketch out.
That makes it easy for us to create an idea, test it, and fix any weaknesses.

You'll probably find it easy to tick off two of the three.

That third one is the killer, and it can't be ignored.

Three Lenses

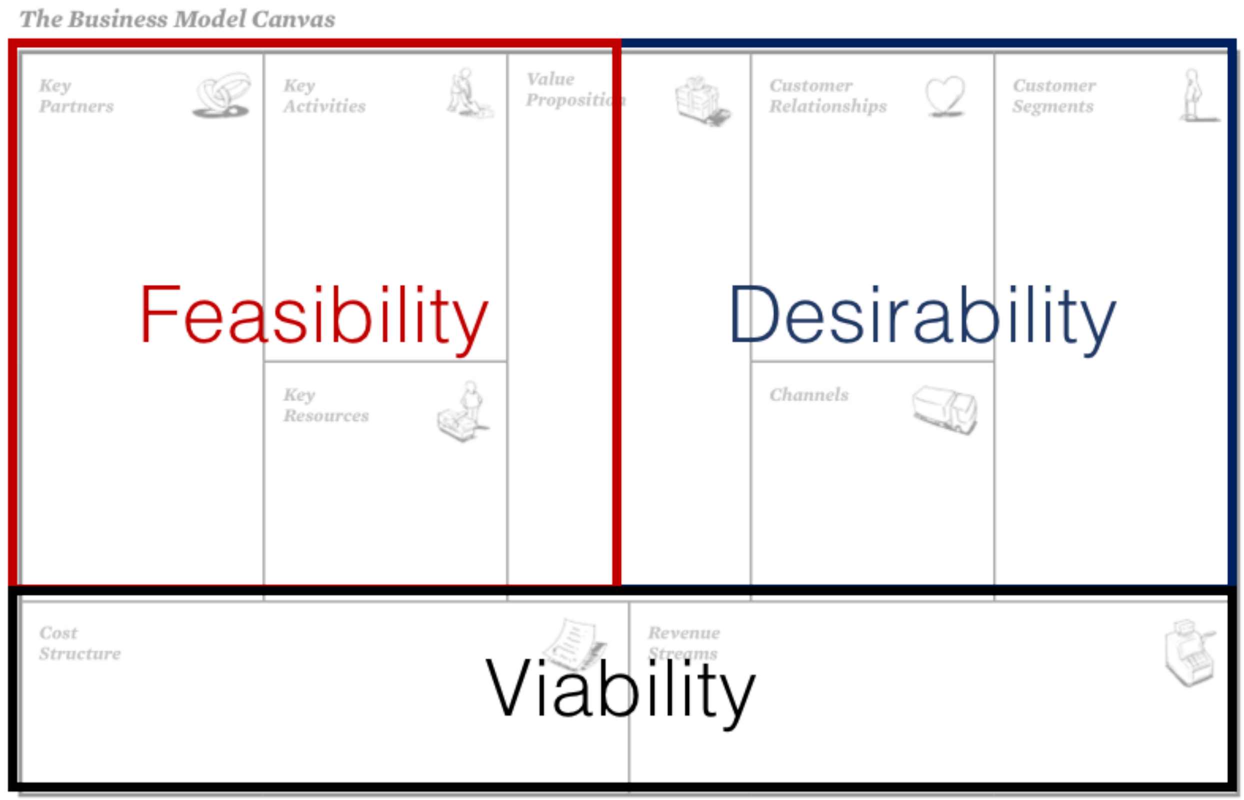
Nine boxes might sound like a lot; however these are simply better ways of describing our three lenses.

Desirability is explored through **Customer Segments, Customer Relationships, Channels** and **Value Proposition**.

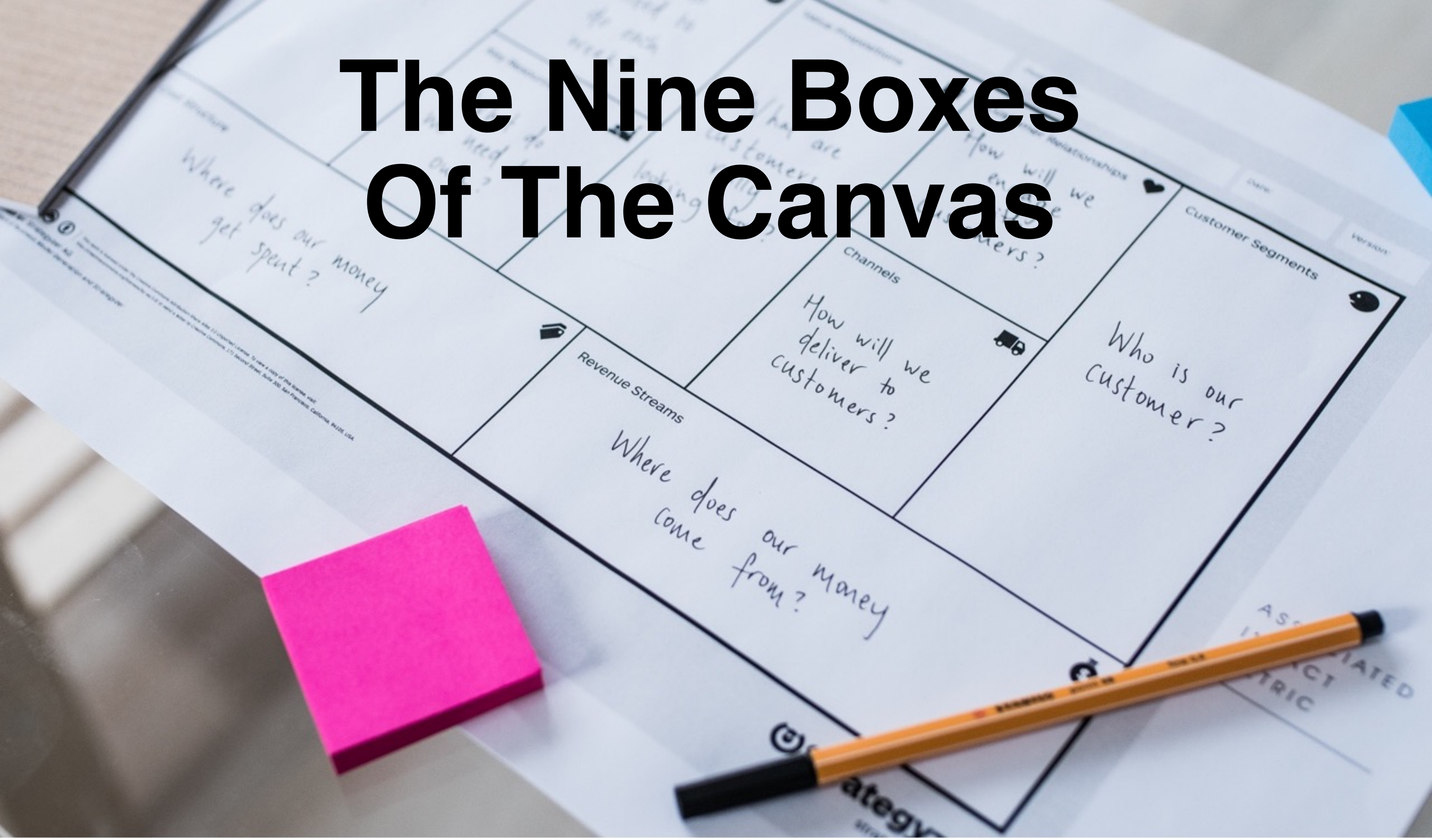
Feasibility is explored through **Key Resources, Key Activities** and **Key Partners.**

Viability is explored through **Cost Structure** and **Revenue Streams**.

Grab your canvas, and let's get started on the first box: **Customer Segments**…



The Nine Boxes Of The Canvas



Customer Segments

Our first task is to understand is: Who is our customer?
Without that piece of information, all the other parts of the canvas are useless.

You can't design a good model without this knowledge; a strategy is only "good" if it matches our customer's preferences and budget.

In every business (and especially in social enterprises), there are three types of people:

A Customer – who makes a decision and pays us money.
An End User – who ends up experiencing our product/service
A Beneficiary – the person or group who are better off thanks to our product/service.

For your business, these might all be the same person, or it could be three different people.

As an example; who is the **Customer** of a primary/elementary school?
Who pays and who makes a decision?
It's firstly the parents, who shop around and make a purchase decision.
It's also the government; the department of education who fund the school and allow it to operate.

The young child is the **End User**.
They're the ones who attend the classes and run around the playground.
They experience the service each day, despite not paying for it.

The **Beneficiary?**
Society.
All of us.
We've collectively agreed that our society is better for everyone having a primary education.

A customer is somebody who you need to persuade and delight, because they are the person who is making a purchase decision.

Customer Segments

By contrast, who is the customer of a high school?
It's still the parents and the government, but now we have a third voice; the student.
Sure, they're not paying for their school fees from their own pocket, but they get a vote in the process.
That means a high school has three groups to appease:

They're selling **high academic performance** to parents.
They're selling **cost efficiency** and **compliance** to the government.
They're selling the **sports facilities** and **broad range of subjects** to the students.

Who is the customer of a university?
Now it's predominantly the student.
They take on the debt; they make the call.
The customer and end user are now the same person.

We also have two types of university student, local and international.
They both attend the same classes, but pay very different amounts.
We sell them different stories, and offer different value propositions.
For that reason, we should treat them as two separate customer segments.

It's common in social enterprise to have the customer be quite separate from the beneficiary, which is why storytelling and Value Proposition design is so important.

If we're asking our customer to make a purchase that benefits someone else, we'll need to tell a compelling story about how their purchase will help other people.

Customer Segments

Painting The Picture
Now we know who our customer is, how do we describe them?

The first area to explore is the Demographics – the kind of thing you'd fill in on a census.

These are descriptors like age, gender, height, race, location, wealth, maybe even occupation.
e.g. "*We're selling to 35-45 year old women who live in the outer suburbs*"

Demographics are useful, but limited. What's often more interesting for social enterprise is the Psychographics.

Psychographics are invisible and powerful – but reveal themselves through our attitudes, worldviews and beliefs.

This could be who our customer votes for, how they feel about homelessness, how conscious they are about their "carbon footprint", what sort of ideas they value and how they make trade-offs.

e.g. *"We're selling to environmentally conscious consumers who enjoy herbal tea and minimalist design"*

What does someone need to believe in order to see enormous value in what we offer?

Customer Segments

You probably have more than one customer segment, but you shouldn't have more than five or six.
Remember, two seemingly different people who buy the same product for the same reason are the same customer segment – even if they look nothing alike.
Vice versa, two identical twins can buy the same product for different reasons, and be in two different customer segments.

For this reason, it's useful to create customer personas – examples of your typical customer that are based on real people.
e.g. Susan might represent one segment, Terry represents another.

This makes it easier to humanize them, to walk in their shoes and think about their motivations. It's also helpful for the next few boxes, where you can ask yourself
"Would Susan really care about…?"

Four questions for your business
Who is my customer?
Are they separate from the end user and beneficiary?
How do we describe their demographic and psychographic characteristics?
Who would be a good persona to use as a reference point?

An organisation must make a conscious decision about which segments to serve and which segments to ignore.

– Alexander Osterwalder

Value Proposition

Without a doubt, Value Proposition is the hardest, most misunderstood element of the Business Model Canvas.
In fact, the Strategyzer team wrote a second book on just this topic, *Value Proposition Design*.

It's hard is because we need to explore our customers' hidden yet powerful motives.
Like with our Intent, there's often a good reason and a real reason behind every decision, and we need to understand both of them.

Our job is to step inside our customer's minds, and see what makes or breaks their decisions.
By forming a deep understanding of what drives them, we can create offers that they will love, rather than twisting their arms with sales tactics.

The first thing we need to do is create a unique Value Proposition for each Customer Segment.
People buy the same product at the same time for completely different reasons, and we need to identify each of them.

For example, you may have five people standing in line at a café.
Sarah is there for the **caffeine**, she has a big meeting coming up and hasn't had much sleep.
Hannah is there for a **catch-up with friends**, and the café is a nice space.
Ben is there for the **coffee flavour profile**, keen to try the new Kenyan Roast.
Emma heard about the café from a food blog, and is there out of **FOMO**.
Tom is a traveller who really just wants to go to the **bathroom**, and feels obliged to buy something.

Five separate motivations, five separate Value Propositions.

They say in marketing: People don't buy products and services; they buy enhanced states of being.

Put more simply, people don't buy ¼ inch drill bits, they buy ¼ inch holes.

Value Proposition

Jobs To Be Done
One useful way of thinking about our customers is to ask what jobs they are trying to do?

Some jobs are **Functional**, like getting from A to B, taking the kids to school, cleaning the gutters, buying water when you're thirsty, etc.

Some jobs are **Social**, like participating in what your friends are doing, looking like a responsible parent, appearing to be professional, etc.

Some jobs are **Emotional**, like feeling sophisticated, the urge to travel the world, indulging our passions, avoiding shame, etc.

For each of these jobs, our customer has positive things they want to achieve (Gains), and/or negative things they wish to avoid (Pains).

An Example You've Experienced Before
When we're shopping for a car, all three types of job come into play.

Firstly, there are Functional considerations like fuel economy, number of seats, cup holders and the amount of storage available.

We would like to tell ourselves that these are the reasons why we pick our cars.
But car companies know better than that.
They learnt long ago to sell to the other two jobs – Social and Emotional.

Social jobs are about lifestyle; how your car will enable you to do more adventurous things on the weekend, since it can fit a kayak on the roof.
Maybe it's for work, and your vehicle needs to project your success to your customers.

What car brands do you associate with real estate agents?
Probably BMW and Audi, rather than a practical Daihatsu or an extravagant Lamborghini.

Value Proposition

Emotional jobs are about expressing ourselves; making us feel accomplished, sexy, safety conscious, energetic, dignified, part of the in-crowd.

That's why we care about the colour of the car, the leather seats and convertible roof. It's why we identify with certain brands and are repulsed by others – even if they all satisfy the same functional requirements.

This is an uncomfortable topic, because we all like to think that we're rational, intelligent shoppers.
We're not.
Instead, start by looking at what really drives customers' behaviour, continuously asking *"Why?"*
Then look at your own decision making process, and be honest.
What social and emotional factors are driving you?

Louis Vuitton sell leather goods, but what do they really sell?
Status.
Success.
Elegance.
A symbol of the elite.
You can buy a fake Louis in Bali, but it won't give you the same feeling.
The real Value Proposition is in the story we tell ourselves and the image we project to the world.

The Big Issue sell a magazine, but what do customers really buy?
A warm feeling.
A genuine, meaningful interaction.
The feeling of giving a hand-up.
In fact, if you ask The Big Issue's customers about their purchase, they mostly don't care for the magazine itself.
It's a means to an end; a non-confrontational way of helping a person in need.

Value Proposition

Uber offer the same functional service as a taxi, so why did customers switch?
Convenience and comfort.
People like seeing the little car icon inching closer on their screen, it takes out the anxiety of waiting on the street for a cab.
People like good hospitality, even if it only involves 45 cents worth of bottled water and Mentos.
PayPal is easier than paying by cash or card, it relieved a pain point.

IKEA sell furniture in an inconvenient manner, so why are they so popular?
It's the satisfaction of "building" it yourself; a mixture of pride and money "saved" known as The IKEA Effect.
People also wander the store for inspiration – stealing ideas that will make their homes feel modern, comfortable and inviting.

Netflix sell access to content, but not physical ownership.
What makes them so appealing?
Low-risk participation.
Instead of risking $40-$60 on the DVDs of a new show, you can sample as much content as you like for a fixed price, removing all resistance to trying something new.
The real gain is the ability to see what everyone's talking about –
House of Cards, *Stranger Things*, *Orange Is The New Black*, allowing you to join in the conversation.

It turns out, people don't care about ownership, rather they want to access their content anywhere in the world.

It isn't the whiskey they choose, it's the image.

– David Ogilvy

Value Proposition

Pain or Gain?
The difference between a Pain and a Gain is blurry, but it comes down to framing.
Does my customer see their current situation as a problem, or is it adequate but they desire for something more?

Take deodorant for example.
Men's and women's deodorant is virtually identical at a chemical level, but is sold in very different ways.

For men, it's about Gain Creation.
Axe/Lynx sells the idea of desirability, usually to teenage boys.
Spray this and girls will find you irresistible.

Rexona sell the idea of elite performance, the promise that you too can be like your favourite sportsmen.

Old Spice sell the idea of masculinity, the idea that your grandpa's favourite cologne is manly, and if you wear it you can be manly too.

All ridiculous when you think about it, and all extremely popular with their audience.

For women, it's about Pain Relief.
Dove sell the promise of reduced skin irritation, for people who are unhappy with normal deodorant.

Nivea sell shame aversion - heaven forbid you were to have white marks on your top!

Rexona sell assurance, removing the fear of unexpected exercise causing you to break a sweat.

Is this demeaning?
Absolutely.
Unfortunately, it also seems to work, today's marketers responding to the psychology of their customers.

Four questions for your business
What jobs does my customer have to do?
What does my customer want?
Why do they want that?
And why do they really want that?

The decision of pain vs gain is up to you.

Keep in mind, pains are roughly twice as powerful of a motivator as gains.

Customer Relationships

Not every business engages with its customers in the same way.

Some build a loyal following, whereas others are temporary and transactional.
Some sales require an appointment or face to face conversation, whereas others are purely electronic.
Some brands are cheeky and playful, some are proud and formal, whereas others are totally plain.

None of these are right or wrong, but they do need to match our customer and value proposition.

You wouldn’t buy a designer handbag from a vending machine.
You wouldn’t expect to have a long application process to buy fish & chips.
You wouldn’t assume that customers will stay forever loyal to one brand of umbrella.

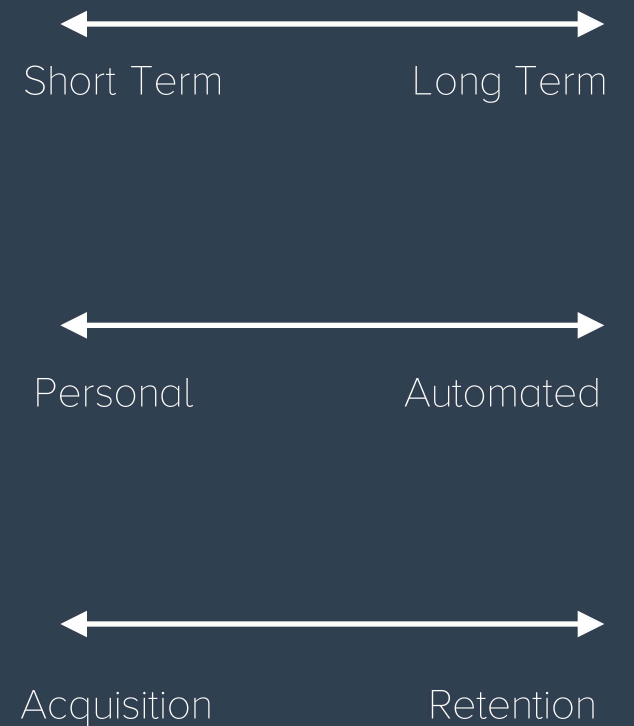
That’s why we need to be clear on the type of relationship our business intends (or needs) to have with our customers.

There are three spectrums that can help visualise our preferred style of relationship.

#1 Is this a short term or long term relationship?
Some relationships are short and sharp, which can be great.
Others take more time, and some even last for decades.
For example, think of your doctor.
Is it an after-hours, bulk billing clinic where you see a different doctor every time?
Or is it the family GP, who has known you for over 20 years?
Both types of relationship are great, but they fit very different value propositions.

For many businesses, the aim is to turn a short term relationship into a long term relationship.
These can be profitable, but generally our customers are hesitant to make commitments.
A business needs to understand its customers, in order to incentivise them to come back.

Three Spectrums



Customer Relationships

#2 Is this a personal or automated relationship?
I have never met anyone from Spotify.
Have you?
I have never heard of anyone buying a house from someone they didn't like.
Have you?

Some customers need a personal interaction – maybe it's to answer their questions, ease their anxieties or to help people talk themselves into a purchase.

Even then, some customers are hoping that they will engage with the same person each time.

Some customers would rather an automated buying process – as Amazon, eBay and StubHub have demonstrated.

Each of these have benefits and shortfalls, with many businesses opting for a combination of the two.
The question is, what level of personal interaction best matches your Value Proposition?

#3 Are we focused on acquiring customers or retaining customers?
Whilst it's true that every business needs to acquire and retain each customer, most are more reliant on one process than the other.

Think of it like this:
What would it take for you to change banks? Change is annoying, so it would have to be something lucrative, like several hundred dollars or a vastly better interest rate.

People are naturally reluctant to change. That's why some types of company are acquisition focused – they spend their energy competing tooth-and-nail for your business. Once they've won you over, contact drops to the bare minimum.

Win a customer once, and the retention happens automatically.

Customer Relationships

By contrast, think about the different supermarkets you've visited.
Are you loyal to one over the others?
Would you walk an extra 600m to shop at Coles instead of Woolworths?

Everyone has experienced all the major competitors, we know how they work.
But when you move house, can Woolworths persuade you to stay with them even if Coles becomes more convenient?

These are retention focused businesses, who run schemes with rewards cards and cheap petrol offers.
They're designed to create loyalty and ensure repeat business, because repeat business is extremely profitable.
That means constantly re-advertising to existing customers, because they could very well leave tomorrow.

Again, this is a spectrum – you can sit anywhere along the line, and it can be different for each customer segment or product.

The important part is that this forces you to think through and articulate your acquisition and retention strategies.

Now we have a grasp on how our customers expect to engage with our company, and what we need to provide in order to keep the relationship healthy.
Only one thing remains: Tone

> Trust and attention.
>
> These are the scarce items in a post scarcity world.
>
> — Seth Godin

Customer Relationships

Some companies talk like robots.
Some are fun and playful.
Some are sophisticated and elegant.
Some are borderline rude.

It’s important to think through how you’d like your communications to be perceived, and how you intend to relate to your customer.

Are you trying to be the equivalent of a butler in a suit and tie?
Or are you trying to be like the cheeky friend whose emails make people smile?

In public speaking, a good presenter knows whether they’re trying to persuade, entertain or inform.
Customer Relationships require the same insight.
Is your aim to cross-sell, deliver technical data, or brighten your customer’s day?

All of the above?
Then you’d better have some talented writers on your team, because these are valuable advantages that are hard to get right.

Which brands do you have a good relationship with?

What do they do to create such a positive, effective engagement style?

Four questions for your business
Are our relationships long term or short term?
Are they personal or automated?
Are we focused on acquisition or retention?
What tone do our communications have?

Invest that little bit of time to make it a little bit more human or, depending on your brand, a little funnier, a little more different, or a little more whatever. It’ll be worth it.

- Alexis Ohanian

Channels

A Channel is your method of bringing happiness to your customer.
Technically speaking, it describes the way you physically deliver your Value Proposition to each Customer Segment.

You won't have to invent a new Channel – instead you're choosing the most appropriate Channel for your Customer Segment and their desired Value Proposition.

Here's a hypothetical example.
You're sitting on a bus, and there are eight other passengers.
Every single one of them is reading the new Harry Potter book - a remarkable coincidence.
So remarkable in fact, that you start asking them about their book (let's also assume you're the weird person who strikes up conversations on a bus).

The first person is a 33-year-old barista who grew up with the books. He bought his copy from **Dymocks** in the city, having gone there to browse in his lunch break.

The second is a 42-year-old school mum, who ordered pre-ordered two copies through the school's **book catalogue** – one for her, one for her teenage son.

The third is a 27-year-old junior executive on her way back from the airport. She bought her copy in **Singapore airport**, wanting something to read on the flight home.

The fourth is 20-year-old student, whose copy just arrived. He wanted the cheapest option and was happy to wait, so went through **Book Depository**.

The fifth is a 14-year-old student, who had camped outside his **local bookstore** for hours on launch day, with 150 others all dressed as various Hogwarts characters.

The sixth is a 36-year-old consultant, who is reading hers on a **Kindle**. She downloaded the book last night at 3am, and wanted something weightless for travelling.

The seventh is 22-year-old graphic designer, who has also opted for an eBook, but this time on his **iPad**.

The eighth is a 49-year-old retail manager with her headphones in. She downloaded the **audiobook.**

Channels

What's interesting here is that the book itself is not the only Value Proposition.

Instead, the method of consuming the book has a great deal of influence over customer behaviour, with each Customer Segment gravitating to their preferred benefit:
Price, convenience, experience, weightlessness, immediacy, etc.

This is why Channels make or break a model. We aren't picking in isolation, but designing the best option for our customer given their various wants and needs.

There are two types of Channel to consider for your business.

The first one is your **Acquisition Channel** – how you first encounter and entice your customers.
The second is your **Delivery Channel** – how you physically provide the benefits to your customers.

This is important, because they're often not the same.

You might pick a new phone provider by visiting their store in a shopping centre, but afterwards only every engage with them online.

You might research a restaurant through a review site, then go and enjoy the experience in person.

Or you might hear about a tradesperson through word of mouth, but then schedules a face-to-face appointment to talk about the job.

A channel should fit naturally with our Customer Segment.

A channel should fit naturally with our Value Proposition.

Channels

Every business needs to be an expert at both of its Channels.
If you acquire people online, you need to dominate at SEO (Search Engine Optimisation).
If it's via foot traffic, you'd better have great signage and a nice fitout.
If it's via word of mouth, you need to be going above and beyond for each customer, especially as the transaction concludes.

It's worth experimenting with some *"What if…?"* hypotheticals.

- What if we switched to a digital delivery model in order to reduce prices?
- What if we recruited a partner to operate a difficult channel for us?
- What if we started advertising in different places in order to entice a different market?
- What if we stocked our product in other people's stores?
- What if we cut 80% of our channels to just focus on the top performer?

If we get this right, we'll see big spikes in our revenues, referrals and customer satisfaction. Win-Win.

Four questions for your business
Where do we first engage our customers?
What channels best match our value proposition?
Are we experts at our chosen channels?
What creative alternatives could suit our customers?

Key Resources

What does your business depend on?
What can't you afford to lose?

Irreplaceable elements are Key Resources, the vital ingredients and components that are required for your Value Proposition to exist.

Picture a game of Jenga.
You try and gently remove one of the blocks…and you get it out.
Success!
That obviously wasn't a key part of the tower.

If you remove a block and the whole thing collapses, you've found a key part of the structure, which you can't afford to remove (and you need to get better at Jenga).

This is what makes something a Key Resource – without it, your whole business collapses.
By listing them all here, we can find ways to protect them, backing them up and ensuring the business's longevity.

- It could be a person, like the founder or a vital team member.
- It could be a special building or location.
- It could be your equipment and machinery.
- It could be your intellectual property, like a trade secret or a unique recipe.
- It could be a patent, that stops imitators.
- It could be your brand, a name customers recognise and trust over the rest of the market.

Interestingly, it's not the same for every business – even within the same industry.

We pay much more for a meal prepared by a celebrity chef, because it adds to the experience and the story.
That doesn't mean every restaurant needs to list an individual chef on their Key Resources. Sometimes the chef is replaceable, sometimes they're not.

Key Resources

The same goes for buildings.
If you had to move 300 metres down the road, would your business model still work?
If it would be fine, then that particular building probably isn't a Key Resource.
If it would be a disaster, then we know that our current premises are vital to our success, so we'll list them here.

Brands are interesting – every company has one, but not all of them are powerful.
Is your customer willing to pay more for a product because it bears your brand?
If yes, then your brand is a Key Resource that needs maintenance and attention.
If customers don't care, then let's not include our brand in this box.

Key Resources are expensive to own, but they can be invaluable.
That also means it's worth outsourcing the less important functions to a Key Partner, someone who is an expert in that field.

Vice Versa, it can sometimes be worth pulling a feature in-house, like how Netflix create their own shows or how Apple run the App Store.

Four questions for your business
What are our key resources?
Do we have a plan for defending/retaining these resources?
Are there opportunities to move something off to a partner?
Are there opportunities to in-source something that's currently owned by a partner?

An exciting question to ask is:

What should we outsource and what should we do ourselves?

Key Activities

We've made a lot of promises by this point:
"We'll acquire 100 customers a month"
"We'll deliver a top quality service"
"Our staff always go the extra mile"
"We're going to keep innovating"
"We'll hire an elite team and grow quickly"

Yes, they're all good things.

The question is: what needs to get done in a typical week in order to keep the model running?

How will you and your team spend your time?

- Chasing customers?
- Manufacturing a product?
- Delivering a service?
- Managing a network of contractors?
- Delivering stock to other stores?
- Operating your own sales channels?
- Brokering new partnerships?
- Recruiting new team members?

You'll note that there are a lot of things to be done, and not a lot of space in the Key Activities box.
That's no accident.

Our job as entrepreneurs is to decide which activities we won't do, in order to maximise those that are most important.

For example, **IKEA** focus relentlessly on minimising their production costs, and spend almost no time on assembly.
This is also critical to the success of their Value Proposition.

Nespresso spend their time running their own sales channels, and no time growing coffee or manufacturing machines.

Netflix focus on creating original content, not on shipping DVDs to customers like they used to. This has been made possible by increased internet speeds.

Thank You don't run their own shopfronts, instead partnering with major supermarkets. Their most important activities are creating a great brand and developing new product lines that their customers will love.

Key Activities

Airbnb spend their time coordinating two sides of the market – their renters and their hosts.
That means prioritising their customer experience and their advertising, but they don't maintain or refurbish any property themselves.

Which of your activities can't be easily substituted?

Every company does some accounting, but accounting isn't generally a key activity – unless you're an accounting firm.
The same goes for recruitment, cleaning, advertising and running events.

We want to list the activities that must be done to a 5-star standard in order for each Value Proposition to be possible.

Four questions for your business
Which activities are most important?
What are we sacrificing in order to prioritise the most important activities?
What activities could be outsourced to a Key Partner?
What activities could we move in-house?

Strategy

is

Sacrifice

– David Ogilvy

Key Partners

Your business has some friends – groups who take some weight off your shoulders. These are individuals or organisations who enable your operation to run smoothly, letting you focus on what's most important.

Your idea sits in a value chain – the complete process by which a product or service is made and delivered.
There's a good chance that you don't do everything yourself; someone either sits before you or after you in the chain, and we need to keep them happy.

For example, someone else might create the raw ingredients that your company combines into something special.

Maybe you're subletting retail space from a larger organisation, or you're stocking your product in other people's stores.

Perhaps you have partners who refers a lot of customers, or have an advertising platform that helps people discover your business.

Maybe you require permission from a regulator, someone who isn't paying you but who can make your life miserable if they get upset.

Partners are great.
A good partnership can transform your sales – by either increasing your traffic, or doing something better than you could yourself.

- **7 Eleven** slurpees are "Powered by **Coca Cola**" rather than creating their own inferior cola flavour

- **Intel** are component specialists, so most computer companies use them as a supplier of microprocessors

- Most café's don't roast their own coffee, so form partnerships with large (or artisan) brands, like **Vittoria** or **Proud Mary**.

- Aid organisations in the developing world rely on local government partnerships in order to continue to operate.
  Upsetting the government is a huge risk to their survival.

Key Partners

There's a catch; partners can't be controlled like resources, so they require deliberate attention and management.

Failure to do so can result in a competitor locking up an exclusive deal, or worse – your partner becomes your competitor.

Every deal needs to be win-win, and we need to be clear on what's in it for the other party.

Partnerships are about specialisation.
It's the decision to funnel your energy and expertise towards your strengths, and outsourcing your weaknesses.

These arrangements allow you to swap fixed costs for variable costs – buying only a finished product, rather than paying for all the research, development, machinery, etc.

What business are you in?
Understanding your business allows you to make good decisions about where to double your efforts, and where to cut your losses and form a partnership.

It's why two companies in the same industry can be in very different businesses.
Think of Netflix focusing on content creation, Amazon moving into retail, or Facebook constantly changing its features.
They're not focused on incrementally refining their craft, but instead are obsessed with serving their customer – and are willing to form creative partnerships to make people happy.

The way to fill in this box is to track the external people who have been mentioned in the other boxes – such as suppliers, stockists, donors, supporters, regulators, channels etc.

We have two points of innovation:

creating possibilities,

and eliminating dependencies.

Key Partners

Opportunities exist behind the *"What If?"* questions:

- *Is there a partner who could manufacture Resources cheaper than we can do it ourselves?*
- *Who else could stock our products?*
- *What other services could benefit from integrating our features?*
- *How can we use our spare capacity to solve problems for other companies?*
- *Whose brand could we leverage to build our credibility?*
- *What services will other businesses require in the future that don't exist today?*

Dependencies are dangerous, because they present significant risk.
If we have a key partner who could sink our business with a single decision, then we either need to find a backup or create a retention strategy.

By identifying these dependencies early, we can find ways of defending against disaster.

Four questions for your business
What business are we in?
Who has a speciality we can leverage?
What partnerships would be valuable in the future?
Where are we overly dependent on a partner?

We need to watch out for three traps:

- Bottlenecks
- Monopolies
- Key person risk

Cost Structure

So far, we've made a lot of big claims on the canvas – all the Resources we're going to purchase, people we'll employ, Activities we're going to perform, Channels we'll operate, Relationships we'll manage…
These things aren't cheap.

We need to get a sense of our financials, to see if we actually make money from each sale, and quantify how many sales are required to break even.

That's why it's so important to understand our cost structure – it tells us the total amount we're due to spend, but also the format in which we spend it.
For example, we need to know which costs are one-offs, and which are ongoing.
We also need to understand which costs are fixed, and which costs are variable.

One-Off Costs
Startup costs are an initial hurdle; items and services that are necessary to begin trading, but then last for many years.
This includes fitting out your shop or office, building your website/platform, designing your brand identity, and buying any machinery required to deliver your Value Proposition.

On paper, there are long term advantages to buying things upfront.
Per unit, it's generally cheaper to own things yourself.
The catch is, that advice only works if you know you're going to be around for many years.
For a startup, you're better off renting, borrowing or bluffing your way through, shrinking the risk and cost of testing a new venture.

Ongoing Costs
Most costs are a continuous financial drain – such as raw materials, staff time, annual licences, rent, utilities, and maintenance of your equipment.
It's important that you know how much cash you spend in a typical month.

e.g. We spend $40,000 in month 1, but then only $8,000 per month for the rest of the year.

Cost Structure

Fixed Costs
These are the purchases that cost a flat rate, no matter how much (or how little) you use them.
Rent is a great example; you pay your landlord the same amount irrespective of how many customers come through the door.
Same for lighting, heating and internet.

These are generally items or licenses that are binary – you have them or you don't.
They're also things that aren't directly consumed by your customer, and aren't "used up" in the process of making a sale.

e.g. Our fixed costs are $3,000 per month, even before we make any sales.

Variable Costs
These are the items that are directly used in serving a customer, and which vary based on your total number of sales.
For example, if you double your sales, you'll use twice the number of shopping bags, paper cups, shipping costs, raw ingredients, etc.
It also may mean that you need to perform maintenance on your equipment more frequently, or need to roster more staff on busy days.

Some costs are semi-fixed.
This means they are fixed up until a certain point, but then you suddenly have to pay more.
For a café, a single coffee machine might be able to produce a maximum of 100 coffees per hour.
As soon as you want 101 coffees per hour, you need a second machine, and a second barista.

That means the café makes a good profit when doing between 50-100 per hour, but not as much profit when doing 105 per hour.
When it gets up to 130, profits start looking strong again.

For other businesses, these tipping points might be the amount of traffic your site can handle, or the capacity of your warehouse.
These costs are flat, until you need to upgrade to something much bigger.
Maybe it's the number of staff you need each day, or the need for a second shopfront.

e.g. Each pair of shoes we sell costs us $25 in materials, manufacturing and shipping.

Cost Structure

Two Principles

There are two rough principles worth noting here:

#1 Fixed costs are generally more economical than variable costs.

As you attract more customers, your revenues increase but your fixed costs stay the same.

#2 Variable costs reduce your breakeven point.

You start from zero, rather than from a negative number.
Let someone else pay the cost of creating the Resource, so that you can just pay for what you need.

Which one does your idea need?
If you're a large company, moving to own your own methods of production can save serious cash.
It can also be a huge distraction, and create headaches when things go wrong.

If you're a small company, outsourcing production to a partner creates variable costs, which is a much safer way of operating.
It also makes you reliant on that partner, which can get tricky.

Quantifying Invisible Costs

It's easy to let invisible costs sneak up on us; things like the cost of acquiring a new customer, or the cost of retaining an existing customer.
By tracking the total amount spent on acquisition, then dividing by the number of customers added, we can find the average amount spent to bring on each new client.
The same goes for retention.

By understanding how much these things cost, we may discover that **some customer segments aren't worth chasing.**

It's possible that we're losing money with each customer we acquire.

Four questions for your business

Where does our money get spent?
Which costs are one-off and which are ongoing?
Which are fixed and which are variable?
Could we change our cost structure to improve our chances of success?

Costs are like fingernails.

You have to cut them constantly.

– Carlos Alberto Sicupira

Revenue Streams

Our business models are built a lot of assumptions - about our customers and the Value Propositions that they desire.
It's easy to make big sweeping statements about
"Oh, customers will support us because we're social"
or
"People really want a premium version of (our product/service)"

Now we need to support those claims.
It's not enough to simply list Value Propositions that sound good, they have to be worth something to our customer.

Price is the test of value proposition.
It's about getting customers to say (in the words of Michael Scott):

"Hey man, I love you, this many dollars' worth"

So when we come to the Revenue Streams box, we're looking to understand three things:

- What does each Customer Segment buy?
- How much does each customer spend per transaction?
- How many purchases do they eventually make?

Armed with this knowledge, we can build a rough financial model and start making decisions about which customers are worth pursuing.

Customers and Items
The first question to ask is: do all of our customers buy the same things, or are they different?

For example, a brand like Apple might sell the same iPad to each customer for different reasons, whereas a company like Ford sells completely different cars to each type of customer.

This helps us track who is responsible for each type of sale, so we can decide which segments deserve close attention.

The number one theme that companies have when they really struggle is they aren't charging enough for their product.

— Marc Andreesen

Revenue Streams

Average Purchase Size
We need to understand how much someone spends in a single transaction.
For a café, there's a difference between the amount spent on a coffee vs coffee and cake, vs buying lunch.

For a bookseller, it might be the number of books someone buys at a time – is it different in a store than it is on a site like Book Depository?

We want to learn what triggers each type of purchase, and understand the price sensitivity of each transaction.

This also tells us how easy it is to up-sell or cross-sell to our customer, depending on their preferences and mindset.

Numbers of Purchases
How often does a happy customer come back?
Will we see them more than once a year?
More than once a quarter?
Or do they make one purchase and they're set for life?

By understanding how our customers use our products and services, we can predict their spending patterns and forecast our future revenues.

We can also design offers and promotions that prompt more sales, such as discounts, VIP specials, or rewards for making referrals.

Revenue Streams

Designing The Price
Once we have an idea as to how our customers behave, we can start designing clever pricing strategies.

There are three main approaches to pricing, and it's important that we consider all three.

The first is **Cost-Plus** pricing.
This is what retailers like supermarkets do, where they take the wholesale cost, add a margin (say 40%), which sets the price for the customer.
If costs go up, so does the price.

The second is **Market Based** pricing.
This is where we examine the nearest competitors offering a substitute product/service, and base our pricing on theirs.
We know a rough "acceptable range", above which we'll lose customers, and below which we'll attract customers.
Petrol stations and banks tend to operate in this manner, as do most industries that sell a commodity product.

The third is **Value Based** pricing.
This is where you determine how much the item or service is worth to the customer, then set the price accordingly.
This is why drinks at sporting events and music festivals are so expensive, because they're perceived as being worthwhile at almost any price.
If customers think the whole market is too expensive, they will choose to do nothing.

To form a pricing strategy, we need to understand how much it costs to produce each item/service, which gives us a price floor.
We then need to set the price not much higher than direct competitors, and certainly not higher than what customers are happy to pay.

> Are you chasing mice or hunting antelope?
>
> – Tim Ferriss

Revenue Streams

Willing and Able
There are two numbers that need to be determined: how much our customer is **willing** to pay, and how much they're **able** to pay.
They are not the same thing.

Your customer may see great value in what you sell, but not have the budget to buy anything (like me when I walk into a Tesla dealership).

Vice versa, they may have the ability to pay, but a natural aversion to spending certain amounts (like my adamant refusal to pay extra for seat allocation on a flight).

We need to have both.
We need a willingness to pay, and a demonstrated ability to pay.
If someone is missing one of these, they might be our Channel, referrer or Key Partner, but not our customer.

Four questions for your business
Do our price points confirm our value proposition?
Do we understand our customer's purchase behaviour?
Have we created an appropriate pricing strategy?
Are our customers both willing to pay and able to pay?

What Now?
On the next page you'll find a blank Canvas – print as many as you like.
You can start by mapping a business you know well, then try mapping your own idea.

The Business Model Canvas

Designed for:	Designed by:	Date:	Version:

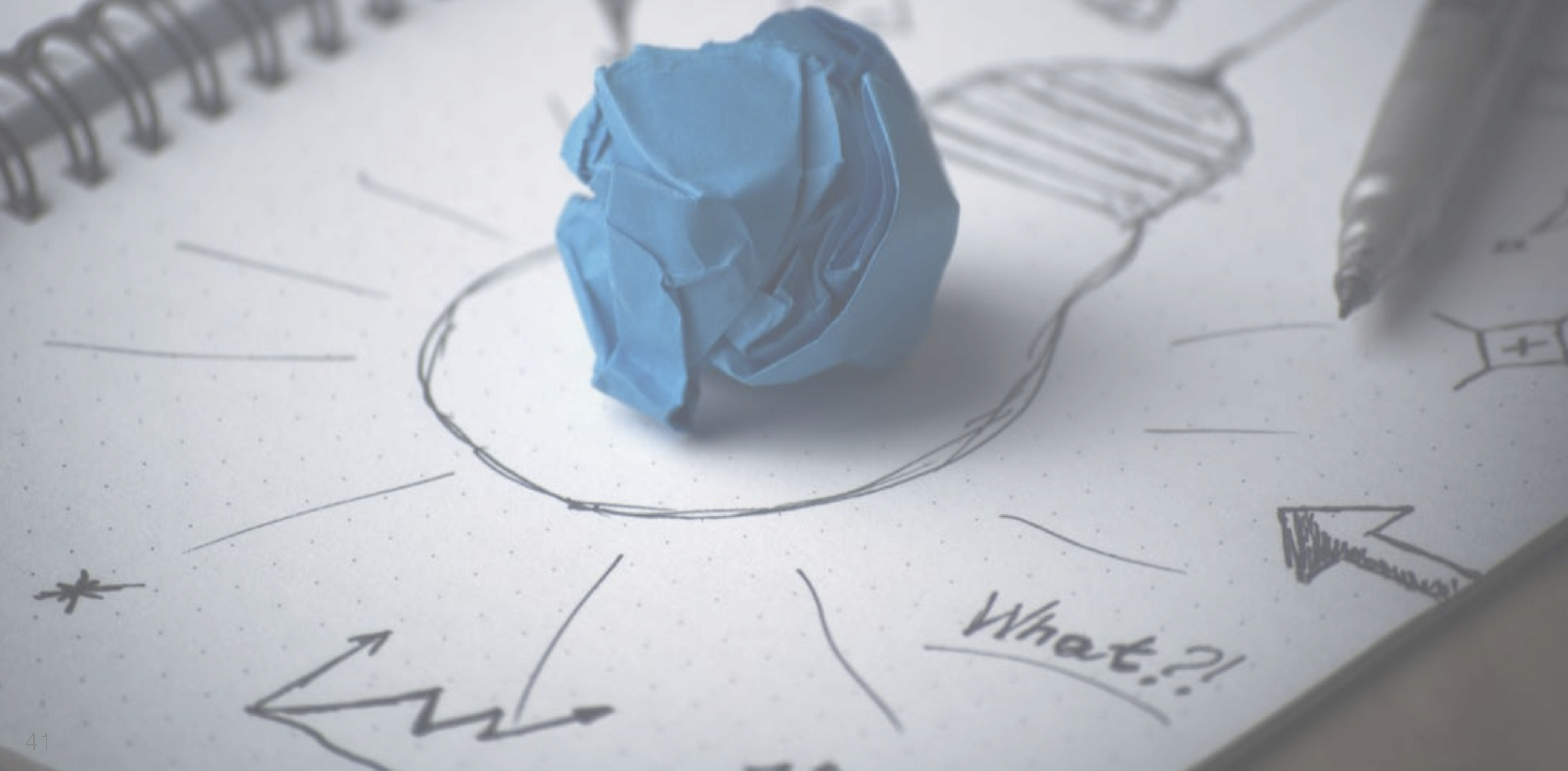
Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	

Cost Structure	Revenue Streams

DESIGNED BY: Strategyzer AG
The makers of Business Model Generation and Strategyzer

Strategyzer
strategyzer.com

Reviewing And Reinventing Your Canvas



After Your First Model

You've just finished your first canvas.
Now is the time to step back, and take it all in.

The first thing we need to ask:
Does this look like our business?
It's strange seeing our idea in this template, but it should resemble our enterprise.

The second question is:
Are there alarm bells going off when we look at the Canvas?
Alarm bells are great – something in our gut tells us that there's a weakness.
If we listen and take action, we can make improvements that strengthen the organisation.

The third question is:
What tests can we do to validate our model?
Testing is wonderful, because it can prove/disprove our core assumptions, without much costs and without any embarrassment.

Think of it this way:
Since there are faulty assumptions built into our idea somewhere, would you rather discover them now or later?
In private or in public?

We naturally resist testing because we're worried, but it's the other way around.

Testing reduces risk.
Testing helps you feel more comfortable about the guesses you've made.

After Your First Model

The fourth question is:
What if we change part of our model?
What would it look like if we sold to a different customer?
Or if we kept the same customer, but offered them something else?
Could we change our pricing structure?
Could we change our delivery channel?

It's important that we explore alternative models, because they might end up earning us more money and create more social impact.
Designing new ideas is both fun and rewarding, and costs nothing – just paper, pen and inspiration (coffee and alcohol each provide slightly different forms of inspiration, and both are useful).

We can't afford to fall in love with our first idea.
Yes, it's a good model, but it's not perfect.
Take some photos of this first Canvas for your records, then move onto a new blank Canvas.

The idea that we run with might be version 10 or 11, so let's work through some iterations.

If we want to build something innovative, we'll have to step into the unknown.
We can't mimic another company, but we can copy the thought processes that led to their success.

The first draft of anything is shit.

– Ernest Hemingway

Alarm Bells

If there are any issues with the business model, let's get them out on the table now – in an environment where they are easy to address.

Alarm bells create panic.
They also save lives.
By understanding the issue early, we give ourselves the best chance of survival.

Sometimes it's a false alarm, like when your hot shower sets off your smoke detector.
That's why we approach these alarm bells with optimism and curiosity – either there's no issue, or we get to find our weaknesses and fix them.

Here are some examples of alarm bells and red flags that should prompt further exploration.

"We only have one customer"
The issue here is that all of your eggs are in one basket.
One huge customer can kickstart a business, but they can't be relied upon.
The model needs to be appealing to a deeper market of customers, so that one customer doesn't have unfair leverage over prices and contract terms.
If the idea is only appealing to one customer, maybe it's not the right idea?

"We are dependent on one staff member"
Bootstrapping is the art of improvising with limited resources, and it's the best way to start a new business.
Over time, bootstrapping creates bottlenecks – if only one person can deliver your Value Proposition, then they become irreplaceable.
That means the business can't grow quickly, and there's a great deal of risk around that person leaving.
You either need to be able to afford to recruit specialised staff, or become great at training new people in your methodologies.
Otherwise your founders can never step back from day-to-day operations, and you've created a job instead of a business.

Alarm Bells

"We operate a lot of Channels"
It's easy to engage with your customers on a number of fronts – email, web, shopfront, social media, package delivery, etc.
However, it is tough to do these well.
Can you dedicate enough energy and attention to master each of your Channels?

If not, it's time to start making cuts, getting back to the essential elements and over-delivering on each interaction.

"We have lots of Key Activities"
It's hard to be truly great at thirteen different things.
Too many activities divide your energy and attention, leading to mediocrity across the board.
Ask yourself: what business are we really in? Which activities are best done by your team, and how do you handball the others to a Key Partner?

"We can't articulate why customers will choose us over our competitors"
Your Value Proposition needs to be more appealing than the competition.
If you can't explain why your offer is better for your customers, how on earth will they reach that conclusion on their own?

Don't forget your hidden, dangerous competitor; it's called "Doing Nothing" and it's both cheap and easy.
People don't care for minor improvements – your idea needs to be significantly better than what's currently on offer, or else people will stick with what's comfortable.

"We are all things to all people"
You can't please everybody.
It's better to have a smaller, loyal customer base who love you, than to try and be generally liked by the entire market.
Kevin Kelly talks about the need to have "1,000 true fans" who will be your core customer base and act as your evangelists.
Find your niche and delight them.
As Seth Godin said – *nobody gets a Suzuki tattoo.*

Alarm Bells

“Our customers aren’t paying anything”
If you use a service and don’t pay for it, *you’re not the customer, you’re the product*.

Yes, we need to engage and delight the end user, but we also need to thoroughly understand the motives of the person who is paying our invoice. What are they looking for? How do they make decisions?
How do they measure success?

“Customers only make one purchase”
Repeat customers are efficient – winning them once leads to a stream of sales.
It’s much cheaper to retain a customer than it is to bring in somebody new.

If the model doesn’t allow for repeat business, then you’ll need to constantly engage new prospects.
It also means that your customer base may dry up over time – exhausting your market just as you approach your breakeven point.

“We can’t find enough customers to do any testing”
If you can’t find enough people for a test, then there’s either an insufficient market or you’re looking in the wrong places.
Your model should address a real pain point - one that is shared by a large enough niche.

“We need to push uphill to make sales”
People should want what you sell.
Sure, you might need some momentum, but things should get easier over time as you find your tribe and build a base of happy customers.

If you’re always twisting arms, maybe it’s time to find a business you can push downhill.

Alarm Bells

"Our model relies on generosity/altruism"
Generosity is fleeting; a brief and refreshing experience for your customer, not the main basis of their decision making.
You want to pair social good with something that solves a problem for your customer.
Charity is quickly exhausted, whereas self-interest stays motivated forever.
If this is your main value proposition, then you either need to dominate at customer acquisition or customer retention, preferably both.

"We have a high breakeven volume"
The danger is that you find a heap of customers who love you, and yet you still go bankrupt.
By structuring the model so that it takes fewer sales to break even, you give yourself the best chance of survival.
It might be time to explore a switch to variable costs, renting rather than buying, and forming clever partnerships.

.

"Our model requires large upfront investment"
As Robert Herjavec says, you want to invest to **support** the sales, not to **create** the sales.
That is; to make something popular, then use investment to decrease your production costs.
If you invest before you're popular, you take a huge risk that you can't afford to get wrong.
If you can't avoid the upfront costs, at least do some serious testing to validate that there is a strong market who are delighted by your price points.

If any of these sounds all too familiar, it's time to experiment some new business model designs.
Grab a Canvas or a whiteboard, and dream up something slightly mad – new customers, new value propositions, new ways of delivering your service, new price points.

Life becomes stressful when it takes a lot of sales to break even.

Testing

Does the idea of running a test make you nervous?

Are you hoping to avoid calling customers and make a pitch?

I get it.
It makes me nervous too.

A test is essentially a mini-confrontation for an entrepreneur.
Our hopes and ambitions come up against the self-centred indifference of our customers, and the results aren't always inspiring.

But let's change the way we look at this situation:
The confrontation will happen at some point. Would you like it to be early, before you've sunk a lot of time, money and reputation into the idea?
Or would you rather invest into the business, buy equipment and train staff, only to then discover that your forecasts were way off?

Testing sounds risky, but it actually reduces risk.
Finding a flaw is cause for celebration, because we get to address the issue early.

Better yet, it's not a broad "The business doesn't work", but a more precise diagnosis as to where we need to make a change.
Testing helps us pinpoint which elements are going well, and which ones require some innovation.

What should I test?
The idea is that we test the most critical assumptions.

In other words: Which assumptions, if wrong, would be disastrous?

Let's look at some examples, and see if any of these would be good for your business.

Your customers are the judge, jury and executioner of your value proposition.

They will be merciless if you don't fit fit.

— Alexander Osterwalder

Testing

Have we validated market size?
You'll want to be confident in the depth of your customer base, that you won't serve all of your potential customers within the first two months.
This can be done through research, or through shadow testing – building a registration page for your customers before the enterprise actually exists.
Crowdfunding is another great tool, allowing you to develop a sense of how many paying customers are interested in your idea.

Have we validated our Value Proposition?
Do our customers like our Value Proposition enough to pay for it?
Are they willing to put money down now in order to secure their spot in line?
Pre-orders are great, as they demonstrate our customer's willingness and ability to pay.
If we get a lot of traffic but no sales, then our Value Proposition isn't compelling enough, or we're talking to the wrong customers.

Have we validated our partnership agreements?
Just because people have made nice verbal offers in the past doesn't mean they're committed.
For our Key Partners and suppliers, we want to be confident that they're still excited about working with us.
This avoids a last minute panic, when we have customers lined up and no partner to help fulfil their orders.

A Memorandum of Understanding (MoU) is a useful tool, having each party state in writing that they agree to a particular set of terms, e.g. price, quantities, turnaround times, exclusivity, etc.

Have we validated our ability to deliver?
On paper, it's easy to ramp up production and serve many customers at once.
In reality, it might be a complete mess.
By starting small and scaling up gradually, you can test your ability to deliver products and services to customers under pressure, and quickly learn what skills, equipment, technology and partnerships are required to make the business run smoothly.

Testing

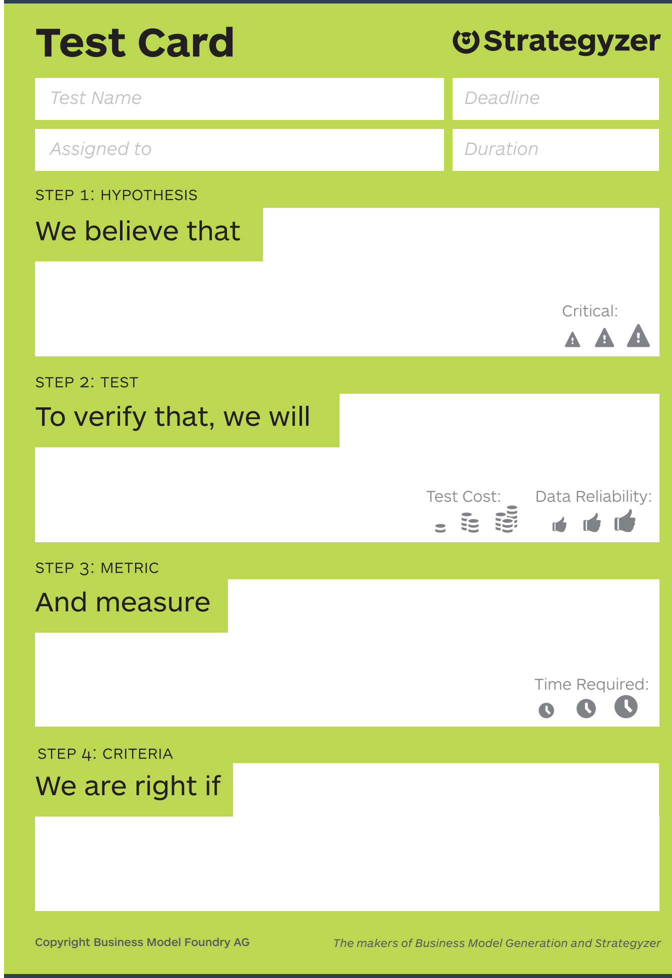
Have we validated our price points?
The right pricing structure can make or break a startup.
Too low and you miss out on a surplus, too high and you scare customers away.
You want to test what happens if our prices were a little higher or a little lower.
It may mean deciding to drop prices in exchange for more sales.
It may mean deciding to raise prices substantially; fewer sales with much higher total revenue.
These tests can be done in person, or by A/B variations online that show different prices to half of your audience, and measuring the change in their behaviour.

How to design an experiment
The easiest way to think about these questions is with the Strategyzer Test Cards. This is a single page that prompts you to articulate what you're looking to define, what you'll measure and how you'll know if you're correct.

Each test should measure one thing, and have a clear pass/fail criteria set out at the start.
This avoids ambiguity and misdiagnosis, or the temptation to "shoot the arrow and paint the target around it"

A good test needs to have an appropriate sample size – so that you're confident that their answers are representative of the broader community.

For reporting back to your team, the Strategyzer Learning Card can produce a nice summary of your findings.


Test Card Strategyzer

Test Name | Deadline
Assigned to | Duration

STEP 1: HYPOTHESIS
We believe that
Critical:

STEP 2: TEST
To verify that, we will
Test Cost: Data Reliability:

STEP 3: METRIC
And measure
Time Required:

STEP 4: CRITERIA
We are right if

Copyright Business Model Foundry AG
The makers of Business Model Generation and Strategyzer

Strategyzer.com

Testing

Setting up Gates
As much as you want the new business model to succeed, you don't want to be blinded by optimism.
Instead, let's prove the idea to ourselves, the team and investors.

A Gate is a neat way of tracking successful tests. It's a simple, conditional statement that sets some criteria for moving forward, such as:

"Once we have 500 customers who have pre-ordered, we'll begin production"

"Once we raise $90,000, we'll hire our next team members"

"If we can get these three partners to sign MoU's, we'll go live with the website"

If the idea makes it through the Gate, let's celebrate and charge towards the next hurdle.
If not, celebrate a little as well.
You've just avoided disaster, and can work out what sort of pivot is needed in order to get back on track.

Innovation is hard

because

"Solving problems

people didn't know

they had"

And

"Building something no

one needs"

look identical at first.

— Aaron Levie

What If?

Designing new business models is exciting – conversations full of optimism and intrigue, especially when you sense that this idea is a winner.

It's important that we don't fall in love with our first idea.
Yes, it's a good idea, and there are several aspects that will probably succeed.
But an idea being exciting does not mean that it has earned permanence.

It's more likely that this idea contains the DNA of a highly successful model, but it needs to go through some refinement in order to get it out.

What If?

Michelangelo famously described his sculpting mentality:

"I saw the Angel in the marble, and carved until I set it free"

Michelangelo would spend months looking for the right block of marble, visiting the best quarries in Italy until he found what he needed.

He'd then travel back home with the block, a long process in those days, to begin work on his next masterpiece.
You can imagine the scene: Michelangelo standing alongside a huge white slab.
He knew what it contained, but to the outside world it was just a chunk of rock.

That's your model right now.

First, you need the right base – in this case, the right customers in the right industry.
If this is wrong, then you'll run into enormous difficulty further down the track, like marble with a flaw running through its centre.

Once you're happy with the base, you can start taking measurements and drawing up plans, which may vary over time as more information becomes available.

Michelangelo once took over a huge piece of marble that been ruined by another artist – who had drilled a hole in the wrong spot.

He studied the block, and saw how this flaw could be factored into his design.

It was this marble that Michelangelo turned into David, arguably the most famous sculpture in history.

This is the mindset an innovator needs – willing to do something different, and willing to work with uncomfortable ideas.

For us to create something new, either nobody will have thought of it before, or they wrote it off as being too hard, or they tried and couldn't make it work.

What If?

A good way of exploring these ideas is to take an existing/known idea and then change one element.
These are called Design Constraints, which are *"What If?"* questions that inspire creative thinking.

Here are some examples that you can apply to your own "block of marble":

What if we had to offer the same Value Proposition to the same Customer Segment, but through a different product/service?

What if we had to offer the same product/service to a different Customer Segment – what would be different about the Value Proposition?

What would happen if we gave our core product away for free?
Where else would we make money?

What if our service delivery had to move to an entirely digital platform?
How could we serve customers without ever meeting them in person?

Which of our Key Partner's Activities could we do better ourselves?

What headaches could we remove through outsourcing?
Which Key Resources and Activities could be palmed off?

If we wanted to massively increase prices tomorrow, what would need to change within our Customer Segments and service delivery?
What would a premium model look like?

What problems will our Customer Segments be concerned about in five years' time?

What If?

You'll be surprised by the opportunities that sit slightly to the side of your idea.
Better yet, you'll be surprised at how a small change can open up a whole new market, and yet other drastic changes may not diminish your Value Proposition at all.

Monster asked: What if we partnered with Dr Dre to make headphones a fashion statement?

Louis Vuitton asked: What if we positioned **RM Williams** as a luxury brand?
Could we make boots look and feel high-end?

Thank You asked: What if we took our branding approach to baby care?
What would conscious customers buy for their child?

Qantas asked: What if we started our own budget airline?
What if we gave our customers the ability to select exactly which services they wanted?

Tesla asked: What if we made a battery that eliminate peak electricity prices, even for households without solar panels?

Old Spice asked: What if we could make our product desirable to today's young men, instead of their grandparents?

Burberry asked: What if our military trench coats could be repositioned to the public as a fashion statement?

World Vision asked: What if we created a fundraising activity that made young people feel the effects of poverty?
Could that empathy prompt them to raise funds?

Using these questions, let's now create three or four alternate models.

You can use the next page or a whiteboard, and map out your new ideas.

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

Key Activities

Key Resources

Value Propositions

Customer Relationships

Channels

Customer Segments

Cost Structure

Revenue Streams

DESIGNED BY: Strategyzer AG

The makers of Business Model Generation and Strategyzer

Strategyzer

strategyzer.com

Building Better Business Models

The BM Environment

An idea is not simply good or bad, it usually depends on the context.
For example, you may have dreamed up a version of Uber ten years ago, but without 4G internet, smartphones and the “Sharing Economy” movement, your idea wouldn’t have gone very far.

Our model might be fantastic on paper, but inappropriate for our context today.

To explore this in more detail, let’s look at Strategyzer’s **Business Model Environment**.

This describes four factors that we can’t control, but which can help or hinder our idea.

They are:

Industry Forces – other businesses who offer similar Value Propositions to similar Customer Segments. These could be existing competitors, new entrants or substitutes.

Key Trends – the evolving parameters of the law, culture and technology, which may change whether an idea is possible or acceptable.

Market Forces – our constantly changing Customer Segments and their expectations.

Macro-Economic Forces – the financial health of society and each person in it. This affects our customers’ willingness and ability to pay for different things.

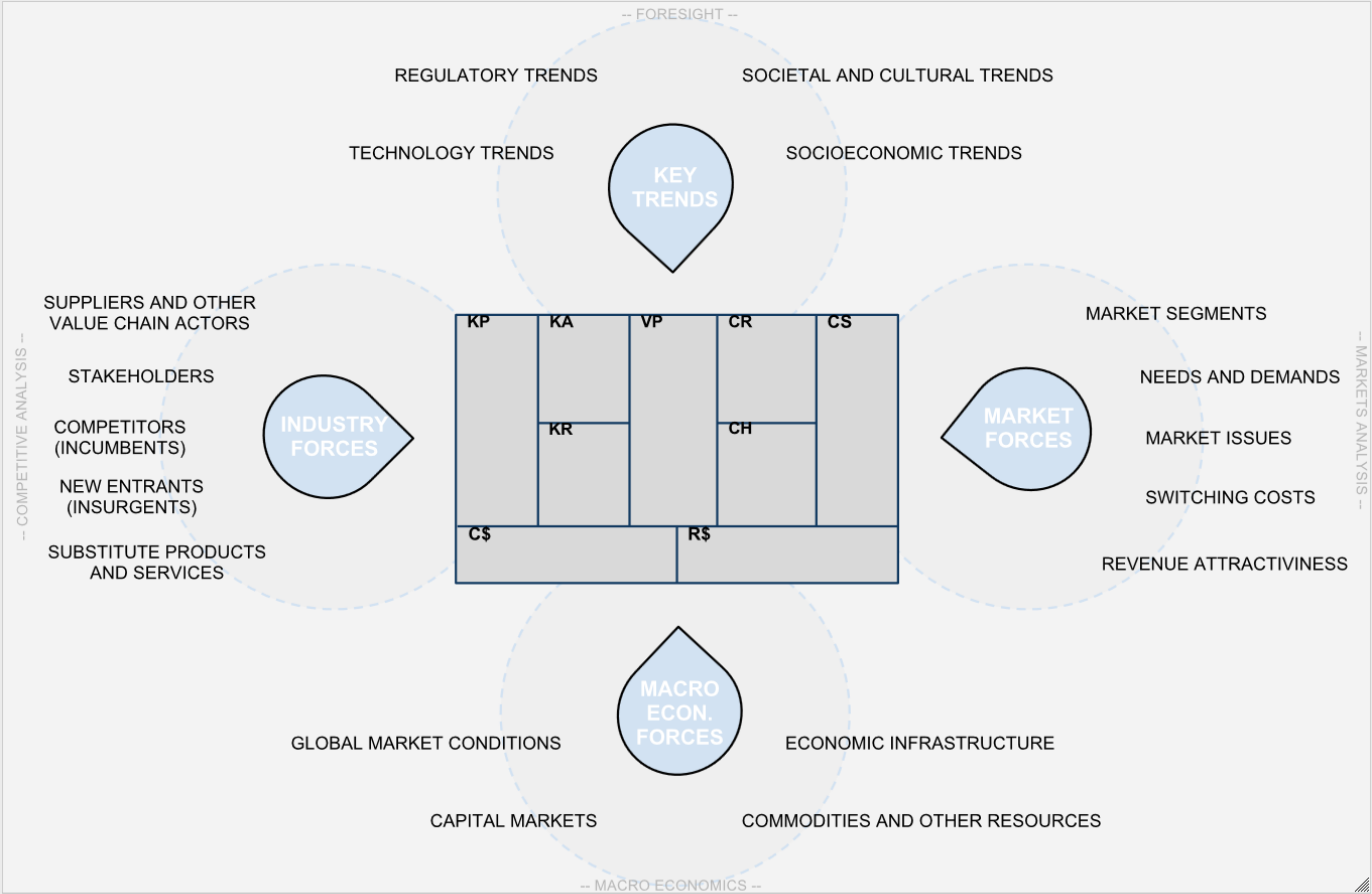
Nothing is as

powerful as

an idea whose time

has come.

– Victor Hugo


-- FORESIGHT --
REGULATORY TRENDS
SOCIETAL AND CULTURAL TRENDS
TECHNOLOGY TRENDS
KEY TRENDS
SOCIOECONOMIC TRENDS
-- COMPETITIVE ANALYSIS --
SUPPLIERS AND OTHER VALUE CHAIN ACTORS
STAKEHOLDERS
COMPETITORS (INCUMBENTS)
INDUSTRY FORCES
NEW ENTRANTS (INSURGENTS)
SUBSTITUTE PRODUCTS AND SERVICES
KP
KA
KR
VP
CR
CH
CS
C$
R$
MARKET SEGMENTS
NEEDS AND DEMANDS
MARKET FORCES
MARKET ISSUES
SWITCHING COSTS
REVENUE ATTRACTIVINESS
-- MARKETS ANALYSIS --
MACRO ECON. FORCES
GLOBAL MARKET CONDITIONS
ECONOMIC INFRASTRUCTURE
CAPITAL MARKETS
COMMODITIES AND OTHER RESOURCES
-- MACRO ECONOMICS --

The BM Environment

Industry Forces
They say Scottie Pippen would have been the best basketballer in the world – except Michael Jordan played at the exact same time.

That's the great tragedy – something can be both fantastic and completely overshadowed.

As entrepreneurs, we need to be aware of our competitors – not to control them, but to avoid engaging in a losing battle.

If our product or service will be comprehensively defeated, then let's go elsewhere.

This is also known as moving away from a "Red Ocean" (full of blood and sharks) to a more secluded and tranquil "Blue Ocean".

It's also worth exploring the barriers to entry within an industry.
Some are prohibitively expensive to enter, like semiconductors, cars or phone towers.
That means there will be a few strong players who are hard to beat.

Alternatively, starting your own catering business or fashion label requires a smaller investment, but there will be a large number of rivals doing the same thing.

The trick here is understanding competitive advantage, and pushing this advantage as hard as possible.

Some brands have the advantage of being cool, or innovative, or rebellious, or cheap, or ethically conscious, or funny, or well designed, or specialist, or exotic, or patriotic.

Generally speaking, every major brand collapse you can think of started with the abandonment of their competitive advantage.

Kodak invented digital cameras, then neglected the technology.

Department stores thrived on convenience, but their disdain for internet shopping made their services harder to engage with.

Nokia and **Motorola** had the phone market covered, then sat on their hands as two others took their innovative reputation away.

The BM Environment

Key Trends

In Australia, we've recently had controversy over the popularity of Uber.
Our government sold limited numbers of taxi licenses (which were going for over $500,000 each in 2011), which are now worthless.

The taxi industry chose to ignore the power of smartphones, by which customers could track their ride, pay without cash, rate their driver, etc.
When a new alternative presented itself, customers voted with their wallets and switched to Uber.

The taxis thought the law would protect them, and they were wrong.

The government chose not to outlaw Uber, and so a giant industry has suddenly become much more competitive.

This is the power of social, technological and political trends – irreversible progress and change that can affect business models in sudden and occasionally unpleasant ways.

Technology enabled P2P music sharing to thrive, and political pressure shut it down.

4G mobile internet has changed how customers use their phones.

Automation is eliminating entire fields of work, and creating new ones in the process.

Copyright law is changing how businesses innovate, and new precedents are being set each month.

Good entrepreneurs stay up to date with culture, the law and the possibilities presented by technological developments.

If they don't, their competitors certainly will.

The BM Environment

Market Forces
Customer Segments are not set in stone.
Think of your favourite brands:
Are they the same as they were five years ago?
Ten years ago?
Customers will change over time – partly because their needs will change, and partly because their attitudes will change.

There's another way of looking at this:

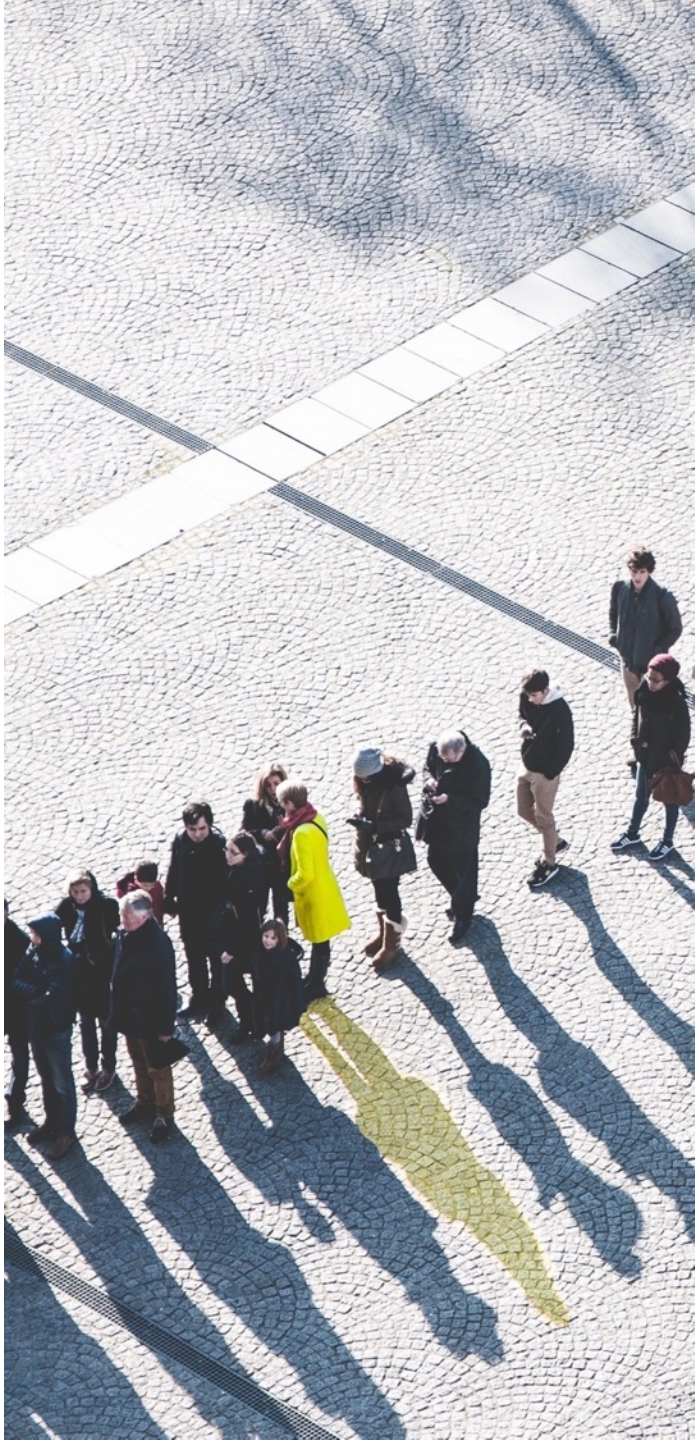
New types of customers with new needs will emerge, and there is an opportunity to create a model that delights them.

A great example of this is the selfie stick – mocked for being uncool, yet countless millions have been sold in the past five years. That's because customers suddenly had a high definition camera on them at all times, and social media accounts that let them share their lives with the world.

Or look at the demand for gluten free foods – what used to be an obscure health requirement is suddenly common, and the gluten free customer segment increased exponentially.

What needs are currently going unsatisfied?

Which groups of customers haven't found a brand that understands them?



The BM Environment

Macro-Economic Forces
Customers are constantly thinking about their money – and emotion tends to trump reason. We can see it in our own spending:
Sometimes we're fearful, sometimes we're optimistic.
Sometimes we want to be conservative, sometimes we want to show our wealth/success.

Entrepreneurs need to understand how the economy will affect their customer's decision making.
In other words, we need to sense their mood and tailor our model to match their wallets.

For example, many of the world's largest countries (e.g. China) are rapidly developing a "middle class", who are suddenly able to afford to travel and buy their first car.

Simultaneously, house prices and slow wage growth are affecting young people in Australia, which in turn affects their spending.

It's important to note that these factors aren't on the Business Model Canvas because they're not things that you can control.
The Canvas is about areas that can be designed and altered - things you're able to influence.
The Business Model Environment framework is important, because it reminds us to look out the window every so often.

It's like checking the weather – you can't change it, but you can dress for it.
By constantly staying up to date with forecasts, you avoid being caught out in a storm.

I think of problems as gold mines.

The world's biggest problems are the world's greatest opportunities.

– Peter Diamandis

Adding In Metrics

The Canvas is taking shape, and we even have a few iterations to choose from.
So how can we tell which models are stronger than others?
It turns out, we need to add a little bit more information.

For example, do we know how deep the market is?

Do we know how many purchases each customer makes in a year?

Can we identify how much it costs to acquire a new customer?

Are we able to tell how many units we need to sell in order to break even?

These aren't trivial; metrics allow us to understand exactly how **desirable**, **feasible** and **viable** our ideas are.

Without good metrics, we're flying blind.

"You keep using that word..."
A metric just means "a good way of measuring something".

You and I do this naturally in our daily lives:

- Food can be measured in calories, or by grams/percentage of fat, sugar and protein.
- When researching cars, we look at fuel consumption in litres per 100km, as well as the ANCAP safety rating.
- **Michelin** award the world's best restaurants 1, 2 or 3 hats, whereas **Zomato** and **Yelp** aggregate star ratings from customers.
- Movies can be assessed by their **IMDB**, **Rotten Tomatoes** or **Metacritic** scores, and they each mean slightly different things.

Adding In Metrics

These numbers massively shape our decision making process.
A high ranking on **IMDB** or **TripAdvisor** can generate a lot of interest.
People naturally avoid any product or service rated 3 stars or below, even if they don't quite understand why it achieved that rating.

Here are some examples of metrics worth adding to your Canvas.
Pick and choose the ones you like, but at least have a quick think about each of them.

Let's start with the market itself, and our Customer Segments box:

Total Market Size = How large is the market?
This is about the maximum number of people that could be interested in our product/service.

"There are 4,000 people who live and work within 500 metres of our café"

"There are 20,000 people in our city who are passionately against bottled water"

% Market Share = What proportion of the market could/have we captured?
This isn't a precise science, but you should have some sort of rationale behind your answer.

"We believe we can realistically serve 20% of that market"

"There's a lot of competition, so we might only get 3% of those customers"

Expected Market Size = Total Market Size x % Market Share.
This tells us how many customers we can expect (often as a maximum).
If we want more, we need to grow the market, or steal customers away from our competitors.

"We can therefore expect to sell to 600 customers in the first year"

Metrics give us points of comparison, which when combined with our Intent, allow us to make great decisions.

Adding In Metrics

That gives us a neat framework for estimating our potential customer base.
How do we now estimate how much each customer will spend?
Here are a few for the Revenue Streams box:

 # Purchases per customer = How many items does one customer need/want to buy in a given time period.
This helps us calculate the maximum number of sales to expect.

“We notice that our 800 regular customers tend to come in twice a week, so that’s up to 1,600 total visits on an average week.”

Average Sale Price = How much a customer spends while they’re with you.
This tells us how lucrative each customer is, and which types of products are proving to be popular.

“Customers average $4.50 per person, which is probably one coffee each, plus a quarter of them buy a muffin as well”

Total expected sales = # Purchases x Average Sale Price.
This tells us how much revenue we can expect to see.

“If we get 1,600 purchases per week, at an average of $4.50 each, we can anticipate a revenue stream of $7,200 per week.”

Customer Lifetime Value = How much money a customer spends, grand total.
This is calculated by adding up of all their purchases they will make at your business.

“Customers spend $18,000 on a car, plus $500 on servicing per year for the next eight years. That’s a CLV of $22,000, plus they might buy their next car from us too”

“Our tourist customers spend $40-50 but only once, whereas our local customers spend $15 per week, 30 times per year. We should be focusing on attracting more locals!”

“We make no margin on selling Nespresso machines, but we sell a lot of Pods over the next 3 years, so each customer brings in over $1,300 of revenue”

Metrics are for doing,

not for staring.

Never measure

because you can.

Measure to learn.

Measure to fix.

- Stijn Debrouwere

Adding In Metrics

To make sense of the financial impact of each sale, here are some metrics for the Cost Structures box:

Contribution Margin = Revenue – Variable Costs.
This is the amount "left over" to pay for all your fixed costs, like rent and utilities.

"We sold $10,000 worth of coffee, which cost us $2,500 to produce, so we have $7,500 left to pay for all our other bills"

Contribution Margin per unit = Contribution Margin / # Units Sold.
This tells you how much each item sold contributes towards your fixed costs.

"We sold 3,000 coffees, so each coffee contributed $2.50 towards our rent and bills"

Breakeven Point in units = Total Fixed Costs / Contribution Margin per unit.
This tells you how many units you need to sell in order to break even, like a hurdle.

"Our rent and bills are $6,000, so we need to sell 2,400 coffees to break even".

Margin of Safety = (# Units Sold – Breakeven Point) in units, divided by # Units Sold.
This tells you how much "breathing room" you have, and how much your sales can drop before you start losing money.

"We're selling 600 coffees above Breakeven, so on 3,000 coffees that's a 20% Margin of Safety"

Volume for Target Profit = Fixed Costs + Target Profit, divided by Contribution Margin per unit.
Once you've decided on a target profit, this tells you how many units you need to sell.

"Since we want to earn $2,000 profit, we need to sell 3,200 coffees. That means if we increase our sales by about 7%, we'll be really happy"

Adding In Metrics

Customer Relationships can make or break a business model. Here are some metrics that help describe their behaviour:

Cost Per Acquisition = How much we spend to entice a new customer.
We might spend a lot of money on a promotional campaign, then measure its effectiveness by how many new customers it brought in.

"We spent $5,000 on marketing, and it brought us 100 new customers. That's $50 per customer, so it will only be worthwhile if those new customers become regulars"

"Our approach is to offer 50% off their first visit. We lose $15 per new customer, but it's well worth it for the amount they will spend over the next year"

"We spend 10c per click through Facebook ads, and one in eight clicks leads to a sale. That's just 80c per customer!"

Cost Per Retention = How much we spend in order to keep customers coming back. This might be through meetings, calls, vouchers or discounts.

"We have lunch with our major customers every three months. It costs a fair bit, but nothing compared to the new work it generates"

"Our long term customers receive a 20% discount on future purchases. That can be up to $50 per order, but it ensures a loyal relationship that generates a lot of revenue over time"

"When a customer threatens to close their account, our retention team are authorised to offer a gift of $200 if they stay with us. This is much cheaper than attracting a new customer"

You can't make a lousy charity good by having a low overhead.

— William MacAskill

Adding In Metrics

Churn Rate = How quickly our customers leave.
It's easy to measure sales, but that doesn't tell us if we're selling to new customers, or to our regulars.
If we had 2,000 subscribers last year, and 2,000 this year, how many people in total have used our service in the last 12 months?
2,000?
4,000?
6,000?
They each mean very different things for our model.

"We get about 1,500 likes per post, but these aren't the same group each time. We have quite a high churn rate, which influences the style of post we create in a typical month"

"Our growth is low but so is our churn. Once people sign up, they're with us for a while"

Finally, here are some metrics for forecasting our customer's purchasing habits:

Basket Size = How much our customers buy at a time.
Like a supermarket, there's a big difference between shoppers who use a trolley versus a handbasket.

"Our customers tend to prefer a recurring monthly payment rather than a cheaper annual payment"

"People tend to order more than one book at a time from our website, that's why we use algorithms to create personalised suggestions"

Adding In Metrics

Order Velocity = How quickly someone comes back.
Instead of simply categorising customers as "once" or "repeat", we can measure whether they come back twice or ten times in a year. This is an important distinction, and it influences how a brand can prompt a repeat order.

"Most people who buy a new car don't want to think about cars again for at least three years – that's when we re-establish contact"

"If a user has a good experience, they tend to return to the app within 7 days. If their account is inactive for more than two months, they'll probably never return"

Size of Wallet = How much money a customer has available to solve a particular problem.
We can experiment with premium Value Propositions, but if customers can't afford them then it won't succeed.

"We know our customers can afford a $20,000 car, but not a $30,000 one. That's shaped our pricing strategy, we'll try to push them from 21k to 24k, or 25k to 28k, but 32k is off the table"

"Our customers have to go to tender for anything over $5,000. That's why we set our services at $4,999"
"Melbournians just aren't ready to pay more than $5 for a latte"

Try these for yourselves – especially the ones that make you uncomfortable.

Metrics help us judge our ideas dispassionately, enabling us to either avoid disaster or support a winning idea.

Describing Social Impact

Some people believe that the canvas needs extra boxes for social impact.
I am not one of those people.

That's because I often see social entrepreneurs create some sub-par Value Propositions, and compensate by talking about all the good things that they will do for their beneficiaries.

The problem is, without a strong Value Proposition, customers won't stick around long enough to fund the social impact, and the whole thing sadly implodes.

There are three ways in which your model can create impact – and they're not mutually exclusive.
It comes back to our three lenses:
Desirability, **Feasibility** and **Viability**.

If you stand for something, you will always find some people for you and some against you.

If you stand for nothing, you will find nobody against you, and nobody for you.

— Bill Bernbach

Describing Social Impact

Desirability - our product/service itself creates positive social impact
This is a model where the sale of a product/service does something good for the world:

- It might be a re-useable bag or cup, which prevents plastic and paper from going into landfill.
- It might be a nutritional food or fitness program – helping people become healthier.
- Maybe it's something that generates awareness and changes minds – the act of distribution can build momentum for your cause
(e.g. ten thousand people saw our film on mental illness or protecting oceans).

These are models where the aim of the game is throughput – the more we sell, the more impact we make.
We're looking to create change within our customers, and by delighting them with a compelling value proposition, we can ensure that they'll stay with us for years to come.

We should be able to describe our impact in the Customer Segments or Value Propositions boxes, as part of the benefits our customers receive.

Describing Social Impact

Feasibility - our business operations create positive social impact
In the process of running an enterprise, we spend a lot of money on things like raw ingredients and payroll.
These dollars can be channelled towards helping people or the planet, even if our customer never hears about it.

For example, you might be employing people with a disability, or asylum seekers, or who are homeless/long term unemployed.

By providing an accessible job, you create income, stability, dignity and meaning for a vulnerable group of people.

Groups like **STREAT**, **Asylum Seekers Resource Centre** and **The Big Issue** do this really well.

You also might use ethically sourced materials – like **Fairtrade** cocoa or coffee.

Maybe you stock another ethical company's products, and you can choose to promote/support partners that align with your values.

These all fit in the Key Resources, Key Activities and Key Partners boxes.

Describing Social Impact

Viability - our finances create positive social impact
By generating a surplus/profit, an organisation can funnel money towards important work that may not have a natural revenue stream.
This allows an organisation to fund aid/advocacy projects and make donations thanks to their margins.

By setting appropriate (and high) price points, and by being vigilant in monitoring where our money is spent, an enterprise can build up a surplus and give it away.
Kinfolk Café does this well, enabling customers to vote for which causes should receive $50k+ each year.
Thank You donate 100% of their profits to aid projects in the developing world, and have given $5m to date.

This model relies on a profit.

If there is no extra money left over, there's nothing to be donated.

As such, this model is often paired with one of the other impact methodologies.

This fits in the Cost Structure box, by listing "XX% of extra proceeds go towards…"

Describing Social Impact

Which one should we use?
People like to debate over which of these is the superior option, but I'm not interested in that argument.
The more interesting question is: *"Does this actually work?"*
Are you good at your proposed impact model?

If it's **Desirability**, your job is to become great at marketing and understanding your customer's pain points.

If it's **Feasibility**, your job is to design clever ways of substituting in people/resources that aren't used by most large companies.

If it's **Viability**, your job is to grow and defend your margins, to ensure there's something left over at the end of the year.

Your canvas should reflect your **Intent**.
The impact you want to create should be visible in these nine boxes – no need to add in anything else.

It's also worth exploring *"What If?"* regarding these models.
Just because you've always assumed one approach was the one for you, doesn't mean it's the only way forward.
In fact, many enterprises I work with find ways of incorporating all three types of benefit.

Have a think about what modifications could be made to boost your impact.

Could a small tweak to your model double the amount of change you create?

Great companies start because founders want to change the world, not make a fast buck.

— Guy Kawasaki

Pitching Your Model

Now that you have a strong business model, let's look at how you can persuade others to support you.

I love working with social entrepreneurs, who bring a passionate blend of impact, business acumen and startup hustle.
They're also terrible at pitching their ideas to investors.

Not because they don't have enough to talk about, but because they "bury the lede" and go into way too much detail.

Too often we bombard our audience with information, saying the right thing at the wrong time.

Here are some tricks for creating a powerful presentation that will win over your investors, and help grow your enterprise.

It's Not That Complicated
Everybody should be able to describe their model in under three sentences.

You're looking for a quick story that highlights the customer, their problem, your solution, and why they'll love you.

Here's a great template, try it for yourself:

"You know how ____(group)___ need/want to __________.

Well, we ______(action)_______ which can help __________.

That means __(end result)___."

Pitching Your Model

Lessons From Shark Tank
There's a lot to be learned from the successful entrepreneurs on Shark Tank. We can identify three rounds of questions from the Sharks, which occur in a specific order:

Firstly, the Sharks want to **understand your business**.
We need to start by describing the industry we're in, who we're selling to, and why our customers are interested in making a change. Only after those topics have been addressed can we get specific about our social impact.

Secondly, the Sharks want to see that you **know the important numbers**.
This means we need to have a good grasp on costs, prices, margins and breakeven volumes.
The Sharks might have differing opinions about your choices, but it's vital that you at least have answers to their basic questions.

Finally, the Sharks are deciding whether or not **they can participate**.
They ask the entrepreneur about their vision for the future, and some *"What If?"* questions.

This can only happen once the Sharks have a clear understanding of how your model works and how your financials are structured.
No surplus = no business.

Your prospective investors might not be Sharks, but they need the same information in the same order.
By structuring your pitch in the right order, you free up your audiences minds to think about the big questions, rather than straining to understand what you're on about.

> No matter what I think, sales will prove me wrong.
>
> – Kevin O'Leary

Pitching Your Model

I'd suggest the following order:

1. Context / Problem: What is currently missing from the world?

2. Your solution: What type of business you're operating (You'd be stunned at how many people only mention this at the end)

3. Identifying Customer Segments and Value Propositions

4. Identifying how the back end of the business is structured

5. High level financial metrics: cost per unit, revenue per unit, margins, breakeven points

6. Impact: who you help, how it fits with the rest of the model, social impact targets, etc.

7. Success so far: testing, pre-orders, current sales, etc.

8. Plans for the future and opportunities for growth

9. The team: who are you and why should your audience like you?

10. Call to action: What do you want your audience to do now?

Pitching Your Model

The three rules of public speaking
Be interesting, be interesting, be interesting.

As soon as you're at the front of the room, you have to earn the audience's attention.
Attention is not a given, especially when everyone has a phone and a stack of emails to think about.
Why would you want to present a dull pitch to a room of glazed-over eyes?

Your pitch should change depending on your audience.
The content might not change, but the emphasis and proportions should be tailored.

If you have investors, focus on **market validation and the financials**.
For customers, focus on the **Value Proposition**.
For partners, focus on **growth and mutual benefits**.

By knowing who is in the room, you avoid putting your foot in it, or wasting an opportunity.

You're going to get questions, and that's good.
No questions = the audience zoned out.

Start thinking about what the logical/common questions will be.
You don't want to be surprised by a basic question, and you'll give a much better answer if you've thought about it before.

There are three types of questions:
1. Questions about the idea, because the audience didn't understand the model.
These might be your fault, especially if they keep coming up.

2. *What-If* questions about the future, competitors, opportunities and ideas.
These are sometimes useful, and can spark new ideas or partnerships.

3. Statements from your audience poorly disguised as questions.
These are just the worst.
Try to brush these off.

You also may decide to build the common questions into the rest of the pitch, and address them as part of your talk.

Pitching Your Model

Can you explain why you'll succeed where others have failed?
This is a delicate balance.
If your idea sounds too hard, the audience will either lose focus or openly question your capability.
If your idea sounds too easy, the audience will assume that someone cleverer/more powerful will quickly overtake you.

Your aim is to simultaneously explain why your offer doesn't already exist, your unfair advantage, and why a copycat couldn't launch a better version of your business next week.

Remember, your business model is constantly evolving.
Use the feedback you receive from your audience to strengthen the idea, and keep on dreaming up new iterations of your enterprise.

> The start of all great marketing is to have a great product.
>
> — Guy Kawasaki

Making It Great

You now have a Canvas that you like, and it looks pretty good.
But how do you make it great?

Here are five principles that you can use to strengthen your idea, patch up weaknesses, and stumble upon the small tweaks that will ramp up growth.

Great models have the right pricing structure
Pricing is so important for a new idea.
Too high and you scare off customers.
Too low and you miss out on valuable cashflow.

A clever pricing structure can entice your customers to give you a shot, and then incentivise them to make a second, third or tenth purchase.

There is no universally perfect price point, it's more a matter of finding what is most appropriate for your industry and your customers.

Remember, the three angles are **Cost Based**, **Market Based** and **Value Based** pricing.

Great models have been validated through testing
A good model has validated all three of our lenses:
It's proven to be **Desirable** – our customers love it, and are keen to come back again
It's proven to be **Feasible** – we've made our product/delivered our service without burning ourselves out
It's proven to be **Viable** – we're making a surplus from each transaction

This is not a thought experiment, we've actually gone and made sales and trialled the business at small scale.
Tests give honest feedback, whether we like what we found or not.

Even a disappointing test is useful, better to lose a small amount to learn a big lesson than to overinvest in a flawed idea.

Making It Great

Great models have growth plans
Everyone has a plan to grow that sounds like "we plan to scale up in the next six months". The trouble is, very few people can articulate how they're going to do it.

Mumbling something about social media and word of mouth doesn't count.
You need an action plan: What are we going to test, which channels are we going to focus on, what enticements we're going to use to drive acquisition rates, what incentives we'll offer to boost retention rates, etc.

These sound scary, but they're quite straightforward.
We naturally assume growth comes from big marketing budgets and media stunts, but those aren't reliable or measureable enough.

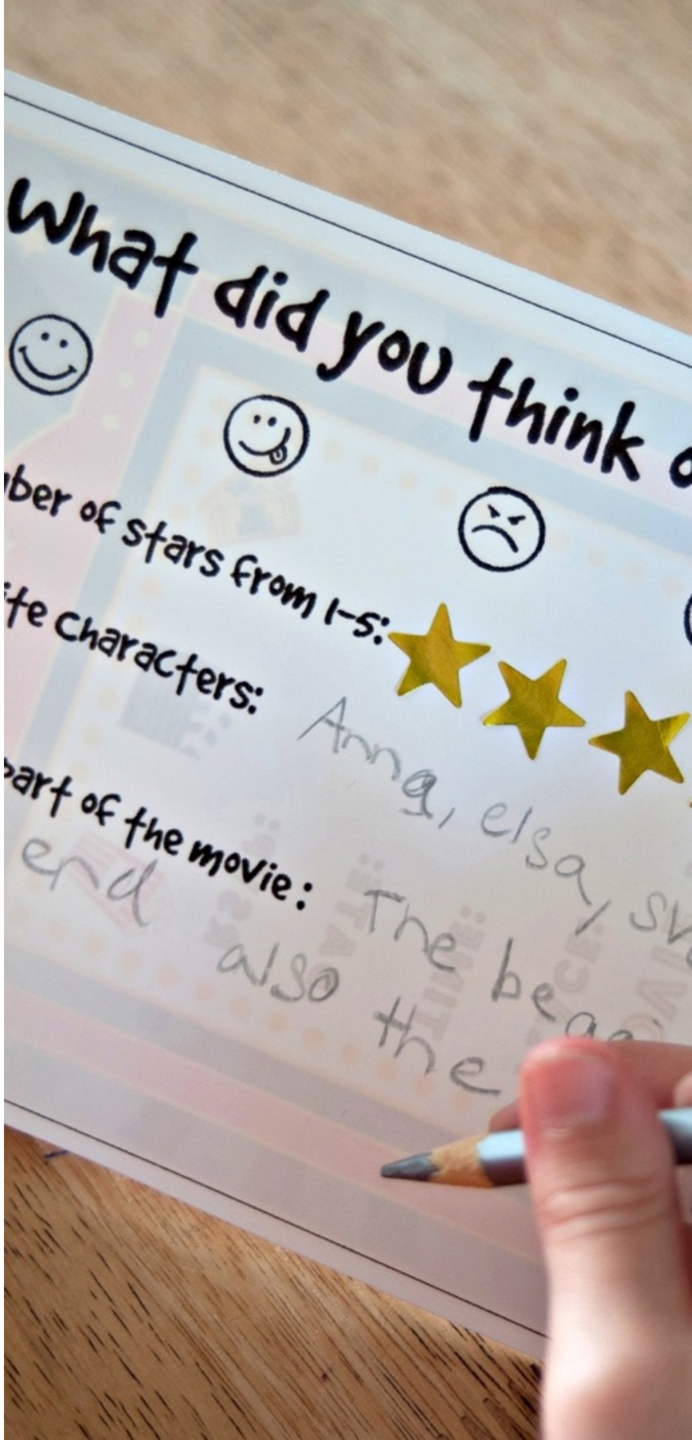
Growth comes from trialling a series of small experiments, carefully measuring which ones seem to work, then repeating the cycle again and again.

Great models gather feedback
There are two types of feedback that need to be gathered.
The first type is **verbal** – what we hear from customers, partners, investors and our own support network.
This can be useful, although is sometimes watered down in order to make us feel better.

The second type is **non-verbal**.
Customers vote with their wallet and with their feet.
Sure, if we deliver something that's a 3/10 we'll hear about it, but what about the 7/10's? They tend to quietly walk away, not complaining, but not returning either.

Our job as entrepreneurs and business modellers is to learn from customer's behaviour, not just their words.

In the words of David Ogilvy:
"Customers don't know what they feel, don't say what they know, and don't do what they say.
Market research is three steps removed from real behaviour"



Making It Great

Great models proactively make themselves obsolete
Business models have an expiration date. Given that, who would you like to stumble upon the model that makes your business obsolete?
Your competitors?
Or yourselves?

So much innovation comes from finding ways to improve your current ideas.
If you stop looking, your business will stagnate, and suddenly you'll be overrun by your rivals.

Look at **Kodak, Blackberry, Nokia, Motorola, Taxis, Borders** or **Blockbuster**.
They had millions and millions of happy customers, complacency took hold, and their demise was quick and painful.

For examples of companies who do reinvention well, look at **Amazon** or **Nespresso** – who keep changing their business and the way they're perceived, or companies like Google or Virgin who are constantly exploring new.

Of course, what these five principles have in common is that they take time and diligence, and their results aren't immediately visible.

That's what strategy is about – foregoing a quick buck, in order to make something that will be thriving for years to come.

The Business Model Canvas isn't magic, and it won't automatically make your idea a success.
But by drawing out the hidden opportunities (and threats) that surround your business, it can give you the best possible chance of building something remarkable.

The big misconception that people have, that in the beginning a new film is a baby version of the final film,

when in fact the final film bears no relationship to what you started off with.

– Ed Catmull

What Next?

Thank you for reading this guide on building strong Business Models – I hope you've been able to make your ideas more resilient.

Let's look at the main traps that lie ahead, the activities that can ramp up your income, the best books to read, and how you can get in touch with me in the future.

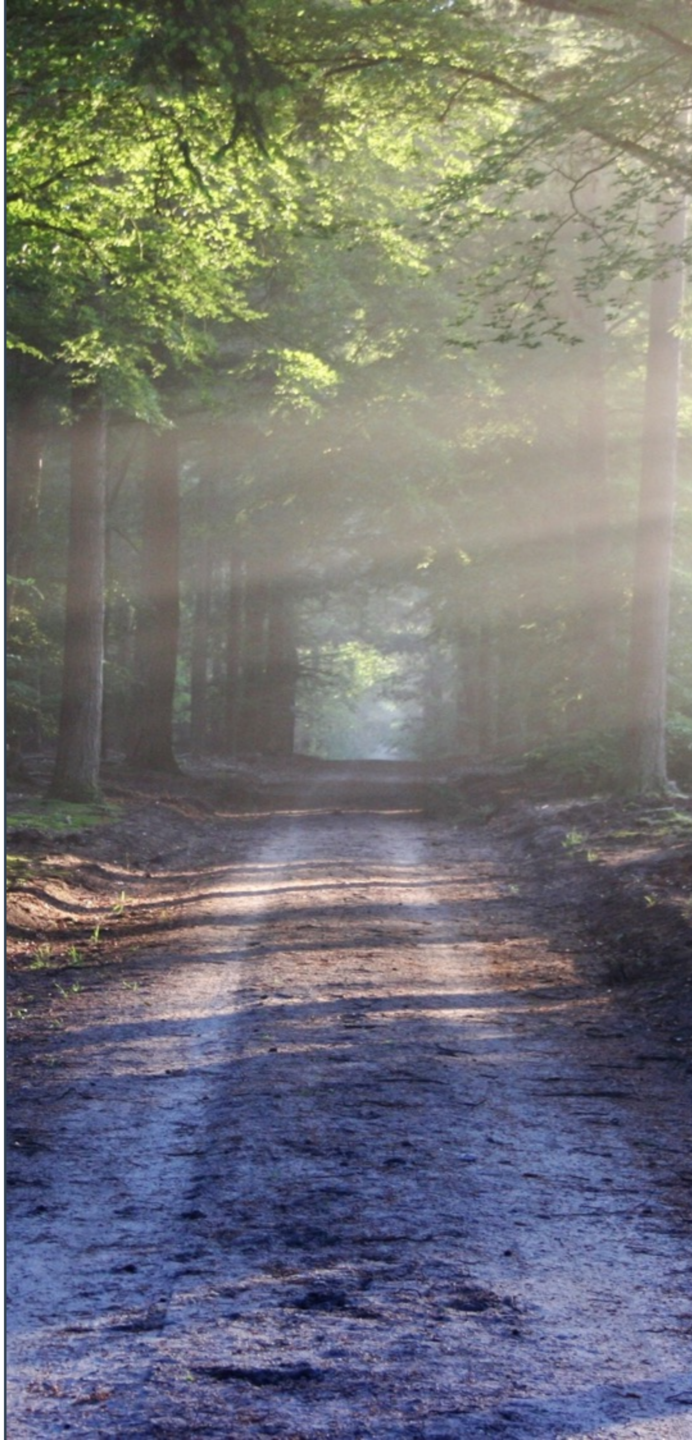
Top Traps
There are four temptations in front of you, each with the potential to reduce your chance of success.
They are:

Trap #1: Complacency
Your model is never "finished", just like how sport is never "finished".
It's not always a sprint, but there are more hurdles, changes and opportunities ahead.
By staying on your toes, you can jump at good offers that seem to emerge out of nowhere.

Trap #2: Falling In Love
Yes, your Model is great.
No, it isn't perfect.
Yes, you'll need to change it in the future.
No, that's not a bad thing.

Falling in love with a Business Model seems like a better scenario than becoming complacent, but it's equally dangerous.

This is doubly so if you've invested your ego into the Model, because negative market feedback will feel confronting, like a personal attack.



What Next?

Trap #3: Obsessing Over Investment
An investor will not change your fortunes.
I meet so many entrepreneurs who believe that investment will solve their problems, but that's not the case.

Investment magnifies the attributes of a business.
If it's working, investment can make it work even better.
If there's a fatal flaw then investment will only make things worse.
Your next priority is to address the gaps by changing the way you operate, not by bringing in someone else's money.

More importantly, a good investor will spot these issues anyway, and either back away or decrease their valuation.
Either way, fixing the model is more practical – and cheaper for you in the long run.

Trap #4: Measuring The Wrong Things
Vanity metrics are a dangerous trap, because they focus on numbers that make us feel good rather than the things that keep the business healthy.

Realistically, you can't focus on more than a few key numbers, so they need to be ones that correspond with the financial wellbeing of your enterprise, like total sales, spend per customer or churn rate.

Tracking increases in clicks or page views is satisfying, but ultimately doesn't do you a lot of good unless they lead to increased revenues.

> Vanity metrics are the numbers you want to publish on Techcrunch to make your competitors feel bad.
>
> – Eric Ries

What Next?

Valuable Activities
These are the most practical extension areas I'd focus on if I were you:

Activity #1: Validation & Experimentation
As we've already discussed, this is the art/science of matching our guesses with reality.
It might not be comfortable, but it sure beats going out of business.
New ideas should start as quick Canvases, but then proceed as experiments. It might be with a small sample group of customers, a pop-up site, a crowdfunding campaign or ghost testing (offering to sell something that doesn't yet exist).

Activity #2: Growth Hacking
This is the process of trialling small experiments that boost your sales conversion rates.
It might be through re-arranging your web layout, changing the placement of "Buy Now" buttons, adjusting price points, altering the wording you use in your marketing, the frequency and timing of your emails, etc.
Each of these might increase acquisition or retention by a few percentage points, and by running a tonne of experiment you'll see a big ramp up in customer engagement.

Activity #3: Monitoring Your Financials
Profit margins can dissolve quickly, especially when you're excited or distracted.
In the midst of all this innovation and optimism, don't take your eye off the bottom line – you need constant cashflow, and at least be breaking even.
Financials might not sound like fun, but they enable you to do some incredible things, both for yourself and your social mission.

Activity #4: Ideating New Versions
You have the chance to stay ahead of your competition by proactively designing new (and better) business models.
The canvas is not something to be laminated and stuck on a wall, it's a skill for turning ideas into businesses, and you get better over time.

Whenever you think of a potential variant of your enterprise, grab a whiteboard or some paper and map out what it could look like.
If you don't, someone else might...

Are you paralyzed with fear?

That's a good sign.

Fear is good.

Like self doubt, fear is an indicator.

Fear tells us what we have to do.

Remember one rule of thumb:

the more scared we are of a work or calling,

the more sure we can be that we have to do it.

- Steven Pressfield

What Next?

Books

I'm often asked for book recommendations, and my answers generally depend on the person and their circumstances. For your next few months, I highly recommend the following books:

Value Proposition Design – *Alexander Osterwalder and Yves Pigneur*
The best book on exploring and testing new value propositions.
The Value Proposition Canvas is an excellent tool, well worth your time.

Leaders Eat Last – *Simon Sinek*
New businesses need a good culture, shared vision and strong leadership. Simon knows how to create all three, and it's full of captivating stories.

All Marketers Are Liars – *Seth Godin*
Good storytelling can make or break your idea – especially as you pitch to customers, partners and investors.
Seth will redesign the way you tell your story, and you'll see lasting benefits.

Branding in 5 and a Half Steps – *Michael Johnson*
Michael has captured the strategy and graphic design elements of marketing, and fused them in a simple, elegant way.
Inspirational, memorable and enjoyable.

Growth Hacker Marketing – *Ryan Holiday*
Ryan introduces the core philosophies and tactics that will help you identify and improve the most important numbers in your growth plan.
It's short, sharp, and a great introduction to the topic.

Oversubscribed – *Daniel Priestly*
An excellent guide to designing offers that capture your customer's attention, using exclusivity and over-delivering to create strong demand and loyal followers.
Full of great stories and examples.

The Hard Thing About Hard Things – *Ben Horowitz*
A brutal and compelling book about what it takes to be a CEO.
I wouldn't call it inspiring, but it will certainly make you a better (and more realistic) leader.

Ask Isaac

I want your idea to become a thriving business, and hopefully I can help out.

You can find my articles at isaacjeffries.com which cover business modelling, value proposition design, financials, social impact, service design and more.

There's also a signup form to join my mailing list – I send out new eBooks, articles and links to great content.

If you have questions about your business model and how you can make it stronger, please send them through, and I'll answer either via email or through the site.

I also do freelance work, such as workshop facilitation for your team/board and consulting for social enterprises.

If that's of use, please get in touch at isaac@isaacjeffries.com