What is a business model?

The term business model refers to a company's plan for making a profit. It identifies the products or services the business plans to sell, its identified target market, and any anticipated expenses.

Business models are important for both new and established businesses.

They help new, developing companies attract investment, recruit talent, and motivate management and staff. Established businesses should regularly update their business plans or they'll fail to anticipate trends and challenges ahead. Business plans help investors evaluate companies that interest them.

A common misunderstanding around business models is to confuse them with the monetization strategy or the revenue model of a company. While this is an essential piece of the puzzle, it is just one of the components of a successful business model.

A business model is a critical element for any startup success as it is what unlocks value in the long-term. In a way, developing a business model isn’t only about monetization strategies.

Indeed, that is way more holistic. To develop a business model, companies need to create value for several stakeholders. Thus, a business model is about what makes users go back to your service or product. It is about how businesses can get value from your solution. It is about how suppliers grow their business through it.

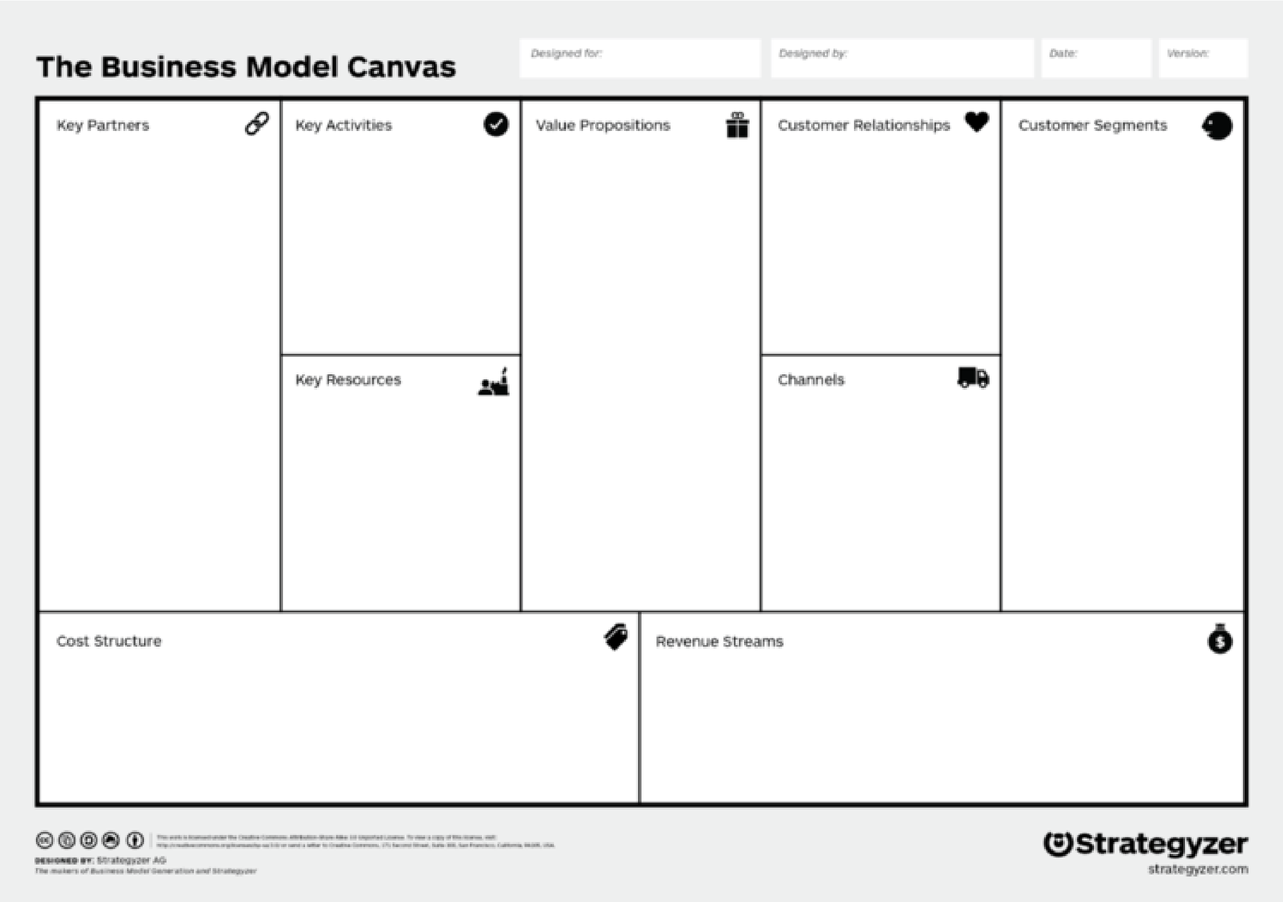
A business model is all those things together. In short, when those pieces come together, that is when you can say to have a business model.

A good business model is a combination of several operations, customer acquisition, retention, supply chain management, besides monetization.

The primary aim of a business model is to generate value for several players.

Although there is not a single way to define a business model, a useful tool to create a business model is the Business Model Canvas.

It is a single page with nine connected boxes, which show how all parts of your business work together for success.



In the next Chapters we will explain every single area of the Business Model Canvas.

Key Partners

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work.

Questions to ask:

- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources are we acquiring from partners?
- Which Key Activities do partners perform for us?

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships, which are strategic alliances between non-competitors, coopetition: strategic partnerships between competitors, joint ventures to develop new businesses, and buyer-supplier relationships to assure reliable supplies.

It all begins with your partners. If you don't have the right partnerships in place, you don't have a business at all. That is the starting point of your business model. Finding the right partners is critical.

The success of your business and the traction depend upon your ability to identify and offer your partners a compelling reason to do business with you.

Key Resources

Your Key Resources describe the most important assets required to make your business model work.

Questions to ask:

- What Key Resources do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue Streams?

Every business model requires Key Resources. Your resources allow your enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model.

A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources. Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work

Questions to ask:

- What Key Activities do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue streams?

Your business model calls for a number of Key Activities. These are the most important actions your company must perform to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues.

And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development. For PC manufacturer Dell, Key Activities include supply chain management. For consultancy McKinsey, Key Activities include problem-solving.

In short, those are the activities needed to make your value proposition attractive for your key partners. The more your organization acts as an enabler of business relationships among several players the more its value proposition consolidates.

Value Propositions

Your Value Proposition describes the bundle of products and services that create value for a specific Customer Segment.

Questions to ask:

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which job are we helping the customer get done?

- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each Customer Segment?

Although the value proposition is not listed as the first element, this is the first thing you should assess. It is the starting point. Without a good value proposition it would be hard to develop a business.

Without knowing the core values for your customers or partners and what needs you are satisfying, or what problems you're solving for them you might have a product but not a business.

Your Value Proposition is the reason why customers turn to your company over another. It solves your customer's problem or satisfies your customer's need.

Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, your Value Proposition is an aggregation, or bundle, of benefits that your company offers customers. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.

For example, an Apple device is not just a device, but it's a distinctive object, an unique experience. The message is: I am an Apple user so I'm different from the others.

Channels and Customer Relationships

Your Customer Relationships describe the types of relationships your company establishes with specific Customer Segments.

Questions to ask:

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

Your company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships are established through your different Channels.

Relationships can range from personal to automated, from transactional to long-term, and can aim to acquire customers, retain customers, or boost sales (upselling). The type of Customer Relationships you put in place deeply influence the overall customer experience.

A good relationship channel with the customer is important for several reasons:

- To get a constant feedback about your product or service. What is working? What is not working? Which elements need improving?
- To inform your customers or former customers about your news, products improving, special offers, etc…
- To solve your customers problems.

Cost Structure

Your Cost Structure describes all costs incurred to operate your business model.

Questions to ask:

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?

This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs.

Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called “no frills” airlines, for instance, have built business models entirely around low-Cost Structures.

Revenue Streams

Your Revenue Streams represent the ways your company generates cash from each Customer Segment.

Questions to ask:

- For what value are our customers really willing to pay?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues in terms of percentages of the total?

If customers comprise the heart of your business model, Revenue Streams are its arteries. You must ask yourself, for what value is each Customer Segment truly willing to pay? Successfully answering that question allows your firm to generate one or more Revenue Streams from each Customer Segment.

Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management. A business model can involve transactional revenues resulting from one-time customer payments (e.g. a sales), or recurring revenues (e.g. a subscription).

Segmentation

This is the first important step of the marketing process.

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

The four bases of market segmentation are:

- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation
- Geographic segmentation

Demographic segmentation

- Age
- Gender
- Family size
- Income
- Occupation
- Education
- Religion
- Ethnicity
- Nationality

Geographic segmentation

- Nation
- State

- Region
- Country
- Valley
- Village
- City
- District
- Neighborhood
- Etc…

Behaviouralistic segmentation

- Purchasing Behaviour: purchasing approach, role in purchesing decision, difficulty level of the purchasing path, etc.
- Benefits sought: problem solving, staus/identity, price, etc.
- Usage: mass using, niche using, professional using, etc.
- Occasion or timing: seasonal occasion, recurring occasion, rare occasion, etc.
- Customer Satisfaction - Customer Loyalty
- Interest: mass interest, sepecif interest, niche interest.
- Engagement-level
- User status: non-users, prospect (potential buyer), first-time buyer, regular users, defector (ex user who have switched to a competitor)

Lifestyles and Psychographics segmentation

- Personal character
- Motivation
- Personality
- Attitude
- Social class

Identify Your target

First of all note that a useful segmentation should include these six characteristics. A segment should be:

- 1) **Identifiable**.
  You should be able to identify customers in each segment and measure their characteristics, like demographics or usage behavior.
- 2) **Substantial**.
  It's usually not cost-effective to target small segments — a segment, therefore, must be large enough to be potentially profitable.
- 3) **Accessible**.
  It sounds obvious, but your company should be able to reach its segments via communication and distribution channels. When it comes to young people, for example, your company should have access to Twitter and Tumblr and know how to use them authentically — or, as Clearblue smartly did, reach out to celebrities with active Twitter presences to do some of your marketing for you.
- **4) Stable.** In order for a marketing effort to be successful, a segment should be stable enough for a long enough period of time to be marketed to strategically. For example, lifestyle is often used as a way to segment. But research has found that, internationally, lifestyle is dynamic and constantly evolving. Thus, segmenting based on that variable globally might not be wise.
- **5) Differentiable.** The people (or organizations, in B2B marketing) in a segment should have similar needs that are clearly different from the needs of other people in other segments.
- **6) Actionable.** You have to be able to provide products or services to your segments. One U.S. insurance company, for example, spent a lot of time and money identifying a segment, only to discover that it couldn't find any customers for its insurance product in that segment, nor was the organization able to design any actions to target them.

How to understand your potential customer profile?

Above all, understanding your customers cannot be successful without knowing where to source for quality data. We have various tools that are available to collect either primary or secondary data. The most commonly used research tools comprise:

- **Surveys**
  Conducting surveys can help you understand the geographic preferences of your customers and potential customers. You can adopt several research survey approaches, including random sampling and conjoint analysis methods. You may survey your employees in different regions to know what customers expect.
- **Internal Sources**
  Internal sources can help you gather a substantial count of data around your customers. We can collect sales data from scanners. Booking data can also be available from loyalty programs or online purchase history.
- **Website Data**
  You can rely on web traffic tracking by region to identify regions where your web traffic is coming from. You can detect differences in purchase preferences by conducting an analysis of products that ship to different regions.
- **Social Media Profiles**
  Social media profiles can help you come up with geographical segments. From social media, for example, you can get insights into the location preferences of your clients. Social media platforms can help you conduct target messaging by zip code or area.
- **Secondary Data Sources**
  You can build and execute your geographic segmentation strategy with the help of third part technologies and agencies. With the help of search engines, for instance, you can target the right customers in the right regions.
- **Experimental Studies**
  Experimental data can come from laboratory or field experiments. You might want to test how your customers are responding to an advertisement. You can then use the results from the advertisement to segment your customers.

Other sources could be from co-joint analysis when customers are asked to pick among product attributes.

From data to personas

Targeting activity is practically a data collection activity. The purpose is to collect as much as possible information, about your target group.

The next step is to create a realistic profile of your potential customer, using data you previously collected.

This step is the creation of the Buyer Personas.

Buyer Personas are Key to addressing every marketing activity.

What is a Buyer Persona?

A buyer persona is a detailed description of someone who represents your target audience. This is not a real customer, but a fictional person who embodies the characteristics of your best potential customers.

You can give them a face using stock photography.

The idea is to think about and speak to this model customer as if they were a real person. This allows you to craft marketing messages targeted specifically to them. Your buyer persona will guide everything from product development to your brand voice to the social channels you use.

Since different groups of people may buy your products for different reasons, you might need to create more than one buyer persona. You can't get to know every customer or prospect individually. But you can create a customer persona to represent each segment of your customer base.

How to create a Buyer Persona?

- Compile personal data:

    Age

    Location

    Language

    spending power and patterns

Interests

Challenges

Stage of life

- Identify customer pain points.
  What problems or hassles are your potential customers trying to solve? What's holding them back from success? What barriers do they face in reaching their goals?

- Identify customer goals.

  This is the flip side of pain points. Pain points are problems your potential customers are trying to solve. Goals or aspirations are positive things they want to achieve.

  Those goals might be personal or professional, depending on the kinds of products and services you sell. What motivates your customers?

- Understand how you can help.

  Now that you understand your customers' pain points and goals, it's time to create a really clear picture of how your products and service can help. As part of this step, you'll need to stop thinking about your brand in terms of features and dig deep to analyze the benefits you offer to customers.

  Ask yourself three key questions for each of the pain points and goals you've collected:
  - How can we help?
  - What are your audience's main purchasing barriers?
  - Where are your followers at in their buying journey?