The business framework has 10 components. V2

What is the purpose of this article?
Enable a discussion regarding the key components of a company intended to last for the long-term.

The audience for this article includes:
1) Founders, boards of directors, C-Suite, investors and others.
2) Companies of any point in their life, ranging from early stage to long-established

This article does not provide tax, legal, or financial advice.

What are the critical learnings in this article?
1) The critical questions are: what is the purpose of your company; what are your company's values, morals, and ethics; and how is your talent, and talent management, competitively differentiated?
2) Always think about competitive differentiation. Competitors can include long-established companies as well as insurgents backed by large amounts of capital.

What is a business framework?
1) The business framework outlines the 10 sets of discussion components regarding what is needed for an long-term company.
2) The 10 components of the business framework are all inter-related(e.g., every component requires talent):

#01 What is the purpose of your company?
What is the purpose of the company? Why does the company exist? The description of the purpose of the company should be positive and outwardly focused on how you benefit customers and society. For example, Nike's "authentic athletic performance," rather than "sell lots of shoes made in China." Is the purpose of the corporation to make as much money as possible? How should the company benefit society? Or, should it?

Larry Fink, in his 2018 letter to CEOs, said "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate…..Without a sense of purpose, no company, either public or private, can achieve its full potential…..And ultimately, that company will provide subpar returns to the investors"[1]

#02 What are your company's values, morals, and ethics?
What are the company's values, morals, and ethics? These are often referred to as culture.

<u>Values:</u> Values are what someone thinks and feels internally and the rules by which they make decisions about what they should or should not do. Values have different importance, which are helpful when people need to trade off or balance one value versus other values. You make a decision based on what you believe is "the right thing to do."

<u>Morals:</u> You are judged by others as to whether or not your actions are moral or immoral. Morals reflect external observable actions and behaviours. Morals are decisions, actions, and behaviours which people feel are right or wrong, good or bad. Morals are actions and behaviours arising from one or more values. Not all values are related to morals. Morals are based on a broader perspective than just the individual.

<u>Ethics:</u> Ethical decisions, actions, and behaviours are based on following a documented set of standards or principles. Many companies and professions have a Code of Ethics.

Values, morals, and ethics should also tie back to the purpose of the corporation. Is the sole purpose to make as much money as possible, constrained by laws, regulations, and company policies?

#03 How is your talent, and talent management, competitively differentiated?
You need the appropriate talent at the board and C-Suite, and throughout your company.
1) The right talent will figure out how to succeed in a rapidly changing and competitive world
2) Do you have the right talent in the right places to succeed?
3) Do you have the right processes and technology to attract, retain, develop, and exit talent?

#04 How is your corporate governance competitively differentiated?

1) Corporate governance is focused on the board of directors. Governance exists throughout the company, at all levels, and should be aligned with corporate governance.
2) A definition of corporate governance: “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and members of the company’s ecosystem. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. “[2]
3) Governance will dramatically evolve from the early stage with only two founders, to a company with thousands of global employees.

Some companies have published a set of decision-making principles. A famous example is Bridgewater Capital (a $150 billion investment fund). Ray Dalio, the founder, has published many of his beliefs in the book “Principles”.

#05 What are your value creation plans?

1) The long-term value creation plan which include the long-term cash flow forecast, capital allocation, and talent creation/allocation. Your company may not always provide value to every member of your ecosystem. There may e value destruction. E.g. Cutting employment in one country as part of moving jobs to a lower cost country.
2) There will not be a single value creation plan e.g. the board of directors, CEO, business unit leaders will all have their own value creation plans.

#06 How do your ecosystem members perceive your competitively differentiated value proposition?

The definition of a business ecosystem: “A business ecosystem is the network of organizations—including suppliers, distributors, customers, competitors, government agencies, board of directors, C-Suite, employees, society, and so on—involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive as in a biological ecosystem.” [3]

What is the value of taking an ecosystem perspective? Members who have no direct involvement with your company may have a massive impact on your company. e.g. social license to operate.

A value proposition is the ecosystem members’ perception of value. This perception can be influenced by facts, emotions, family and friends, social media, etc.

What is a customers value proposition?

1) The value proposition = (All the customer achieved benefits) / (All the customer incurred costs)
2) You will only succeed if the customers believe your value proposition is better than the alternatives, which may include the status quo.

#07 What is your competitively differentiated business model canvas?

<u>#07a What is a business model canvas?</u>

Who is your customer, why they buy from you, and how do you make a profit?

Your business model describes, for a single point in time:

1) The value the company enables its customers to achieve.
2) The resources and capabilities to create, market, and deliver this value.
3) How to generate profitable and sustainable revenue streams.

<u>#07b What are the 9 elements of a business model canvas?</u>

1) Who are your target customer segments? Some segments may not provide any revenue. E.g. Google seeks to provide the best search experience, which enables Google to generate advertising revenue.

1) What is the customer’s perceived value proposition of your solution? How are you competitively differentiated? The value proposition includes all of the customers’ costs and benefits associated with adopting your solution, which includes any transition costs from existing solutions. All the customer achieved benefits can include both financial and non-financial factors (e.g. time savings, convenience, status, etc.). All the customer incurred costs can include financial (purchase costs, costs to switch to your company, other adoption costs, and ongoing costs) and non-financial (time, inconvenience, loss of status, etc.).

2) What are your customers’ expectations of their relationship with you? E.g., if it’s a software product, how often will there be updates with new features? How easy will it be to install a new version? Will customer service be a chatbot or a live person? Etc.

3) What will be your channels to the customer?
    a) Communications channels with potential customers?

b) Sales channels which result in a sales transaction?
c) Logistics channels which deliver the product or service to the customer?

4) Who are your key partners? A partner is more than a channel. A partner may be: enhancing your credibility due to their reputation; adding value to your solution due to their resources; or enabling you to close sales.
5) What are the key activities? Which processes and actions are required to manage partners, channels, and resources in order to enable customers to achieve their value proposition.
6) What are the key resources to enable customers to achieve their value proposition? These include: intellectual property, technology, people, contracts, financial and physical assets.
7) What is the cost structure to create and deliver the value proposition?
8) What are the revenue streams? These could include: subscription-based per person per month, free for a basic service, with multiple tiers of extra services with fees, etc.

#08 How is you capital and cash management competitively differentiated?
A monthly free cash flow forecast, with detailed assumptions is critical. You need to understand, and model, what drives revenue and costs. A rapidly scaling business will have negative cash flow, and likely negative accounting profits. You need to be able to understand and describe this to both investors and employees.

#09 How is your investor management competitively differentiated?
You must define your target investors and how they will enable value creation within your company. Start building relationships with investors before you need the capital. Ask potential investors if it is alright to include them on your monthly investor update. Shareholders will require additional detailed communications and meetings.

#10 How is your exit management competitively differentiated?
Your company will almost always have an exit, some of which include:

1) Sale – planned or hostile takeover
2) Windup
3) The founders will leave the company at some point, even if it's by death. You need to first establish founder expectations regarding exit and potential risks, such as unexpected death. Processes and legal frameworks should be in place to deal with the risks. Planned exits, including selling stock as part of an IPO, need careful planning. The founders need to take into account their personal family, tax, and financial situations.

What are your next steps?

1) Create a commonly understand set of definitions.
2) Create a set of questions, customized for your company.

What further reading should you do?

1) What is the purpose of your company?
http://koorandassociates.org/corporate-governance/what-is-the-purpose-of-your-company/
2) What is corporate governance?
http://koorandassociates.org/corporate-governance/what-is-corporate-governance/
3) Why are values, morals, and ethics important?
http://koorandassociates.org/values-morals-and-ethics/why-are-values-morals-and-ethics-importan
4) Is your company planning to fail?
http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/

Footnotes:
[1] https://corpgov.law.harvard.edu/2018/01/17/a-sense-of-purpose/
[2] Based on "G20/OECD Principles of Corporate Governance", 2015 https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf
[3] Adapted from Investopedia 2021 Jan 20