What is a Business Model Canvas? V3

What is the purpose of this article?
This article enables a discussion about what should be in your BMC (Business Model Canvas). The BMC is the story of who your customer is, why they buy from you, and how you make a profit. The story consists of both narrative text and numbers.

The audience for this article includes:
1) Founders and leaders of early stage companies
2) Company and business unit leaders
3) Leaders of major customer focused changes.

What are the critical learnings in this article?
The BMC is valuable because it helps:
1) Startup founders figure out how to create a successful startup and communicate it. Startup pitch decks are largely comprised of the material in the BMC.
2) Leaders of companies focus all the employees on success by communicating what makes the company successful.
3) Leaders of existing companies figure out how to launch and communicate new initiatives.

The BMC process is one of fast and iterative learning. i.e. don't spend a fortune to build something no-one wants to buy.

A What is a BMC(Business Model Canvas)?
1) A BMC describes how a company creates value for itself while enabling customer to achieve value from the products and services your company provides.
2) The BMC is a one page slide, with bullets, outlining the 9 components: customer segments, customer value proposition, customer relationships, channels, key partners, key resources, key activities, cost structure, revenue streams.
3) The BMC has a supporting document with further facts, analysis, and assumptions regarding each of the 9 components. This supporting document will have links to other documents in your company.
4) The BMC describes a single point in time. There will likely be multiple BMCs as the company grows and changes. There may also be multiple BMCs to reflect scenarios – no one can
5) The BMC is not the overall implementation plan. E.g.

What is the value of a BMC?
The one page slide:
1) Forces the business leaders to think through the most critical points regarding their customers and their solution. It's easy to write lots – it can be a challenge to determine what are the most critical points.
2) Enables easy discussion and communication with others e.g. C-Suite, employees, investors, and others.

The supporting document is the central hub for everything the startup, or new initiative leader, is learning. All the facts, analysis, and assumptions in the BMC and pitch deck are from the supporting.

The pitch deck, and pitching process, is used by early stage companies and by established companies. Even established company leaders need to be able to clearly explain what they're doing in a few minutes with a few slides.

Speed is critical in todays fast changing world. In week one, many customers (or potential customers) will be contacted as the one page BMC evolved. The supporting document also evolves. The initial pitch presentation will be ready within two weeks – it will likely contain many assumptions.

What does the one page slide look like?
I've attached a link to examples of a Business Model Canvas from Steve Blank's Stanford University 5-day program. I recommend looking at the BMC for "Cratiso", which illustrates the BMC changing every day and even during the course of a day. This BMC was created in 5 days and illustrates the value of quickly talking to lots of potential customers.
https://drive.google.com/drive/folders/1stUQmVtKaFQUeHZtwZuu09RcbHorUHcb

B How does a BMC evolve?

1) On day 1 the BMC may be 100% assumptions. Assumptions are validated by meeting with potential customers, users, channel, partners, etc.
2) You will have more than one BMC, representing different points in time. An early stage startup may have a revised BMC every day.
3) Your company may have multiple BMC's e.g. different divisions, operating in different markets, with different solutions.

C The BMC has nine components.

How do you read this section?
1) There is a definition of each of the nine components.
2) Then there are a series of questions you need to answer for each component.

#1 Customer Segments
Definition
These are the target customers and users. Each customer and user segment will have its own value proposition.

Questions to answer include:
1) Who exactly will you be creating value for?
2) Who are the cash paying customers? Who are the users? E.g. Google has users who pay no cash to do searches. Google has advertisers who pay cash. Without users, Google. would have no customers.
3) What are their problems and needs?
4) What are the geographic, social, and demographic characteristics of your customer segments?
5) How many customers are willing and able to pay to address their problems and needs?

#2 Customer Value Proposition
Definition
A value proposition is the customers perception of value.
This perception can be influenced by: facts, emotions, family & friends, social media, etc.

The value proposition = (All the customer achieved benefits) / (All the customer incurred costs)
All the customer achieved benefits can include both financial and non-financial (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.)

The value proposition also needs to be competitively differentiated.

Questions to answer include:
1) What value does each customer segment expect to receive from your solution?
2) What's the customer need or problem that they will open up their wallet for?
3) Do people agree that you are solving a high value problem or need?
4) What does the customer believe will be the impact of your solution? E.g. 10 times improvement in something?

#3 Customer Relationships
Definition
What type of customer relationship do your customers expect to have with you?

Questions to answer include:
1) How will you get, keep, and grow customers?
2) Why type of relationship does each customer segment expect you to establish and maintain?
3) What types of relationships have you already established?
4) What is the cost of each type of customer relationship?

#4 Channels
Definition
Channels are how to connect the value proposition to the target customer. There are three different types of channels:
1) Communications – used to communicate with potential customers. There may be many communications channels.
2) Sales – where customers and sellers agree on the transaction. Usually there are fewer sales channels than communications channels.
3) Logistics – how to deliver the solution to the customers.

Questions to answer include:
1) How does the value proposition get to the customers and users?
2) How will you be selling and distributing?
3) Through what types of channels do the customers want to be reached? In other words, what channels are most effective? E.g. website, app, social media, face-to-face, marketplaces, etc.
4) What channels already exist?
5) Which channels are most cost efficient?
6) Which channels are integrated with customer processes?

#5 Key Partners
Definition
A partner may also be a channel, if the answer is "yes" to one of the following questions:
1) Who are the key partners and suppliers?
2) What exactly are you acquiring from them?
3) What are they going to do and when?
4) Is the partner a leading entity with a brand and market position that adds to your credibility?
5) Does the partner add expertise and resources to your product solution in a way that increases the value of the product for the end customer?
6) Is the partner (and their brand/expertise/resources) required to land contract with the key target customers?

Questions to answer include:
1) Who are the key partners?
2) Who are the key suppliers?
3) What key activities, supporting your value propositions, do your partners perform?
4) How effective are your current partners and suppliers?
5) What types of partners and suppliers do you need?

#6 Key Resources
Definition
Key resources mean any relevant intellectual property (IP), technical expertise, human resources, financial and physical assets, key contracts and relationships. In other words, resources refer to anything within your control that can be leveraged to create and market your value proposition (e.g., a patent pertaining to your value proposition, key contacts within the industry).

Questions to answer include:
1) What resources are necessary to:
    a) Enable the customer to achieve their value proposition?
    b) Maintain channels and partnerships?
    c) Build relationships with customers?
    d) Build revenue?
2) What resources exist today?
3) How effective are they?

#7 Key Activities
Definition
The key processes that are required to weave together your resources with those offered by your partners to deliver the value proposition, manage channels and relationships, and generate revenue. Examples of key activities include R&D, production, marketing, sales and customer service.

Questions to answer include:
1) What are the most important things you need to do to make the business model work? What key activities are necessary to:
   a) Enable the customer to achieve their value proposition?
   b) Maintain channels and partnerships?
   c) Build relationships with customers?
   d) Build revenue?
2) What activities exist today?
3) How effective are the current activities?

#8 Cost structure
Definition
The cost of delivering the value proposition, including the resources needed and key activities involved. We want to answer the following key question

Questions to answer include:
1) What are the most important costs in the business model?
2) What are the largest costs?
3) What are the fixed costs and variable costs?

The financial cost details will be in the monthly cash flow forecast, summarized into a one-page cash flow forecast.

#9 Revenue Streams
Definition
How will you charge your customers and what will you charge?

Questions to answer include:
1) What is the specific value the customers are willing to pay for?
2) What is the revenue strategy for each customer segment e.g. How will the customer be paying – usage, subscription, one-time, freemium, etc.
3) How much are they paying today?
4) What is the pricing model? How will you set the price for each customer segment and revenue strategy?
5) How are they paying today? i.e. the customers current revenue strategies and pricing.

The revenue cost details will be in the monthly cash flow forecast, summarized into a one-page cash flow forecast.

What are your next steps?
1) Take the free video course "How to build a startup"
https://www.udacity.com/course/how-to-build-a-startup--ep245
Take detailed notes. There is little value in passively watching without taking notes.
2) Start to build your BMC.

What further reading should you do?
The following is just one of many PowerPoint and word BMC templates on the web.
https://neoschronos.com/download/business-model-canvas/ppt/

Appendix How do you communicate the evolution of the BMC?
1) All assumptions in italics. On day one of launching the startup, it's likely that all of the entries will be assumptions.
2) ~~When assumptions are invalidated, due to input from customers, users, and other fact-based analysis, the assumption is crossed out, with a footnote referencing the document which contains the rationale for invalidation.~~
3) When an assumption is validated, there is a footnote referencing the document which contains the rationale for validation.
4) You won't be able to show all of the invalidated assumptions. New assumptions will be made. Only the most important validations will remain on the BMC. Less important validations will be dropped from the one-page BMC. You may decide to keep an appendix which contains all the of the invalidations and validations.