

# Worksheet 1.4.1: First Draft Business Model

## Background

The business model is probably the most important tool for planning a startup. It has the following functions:

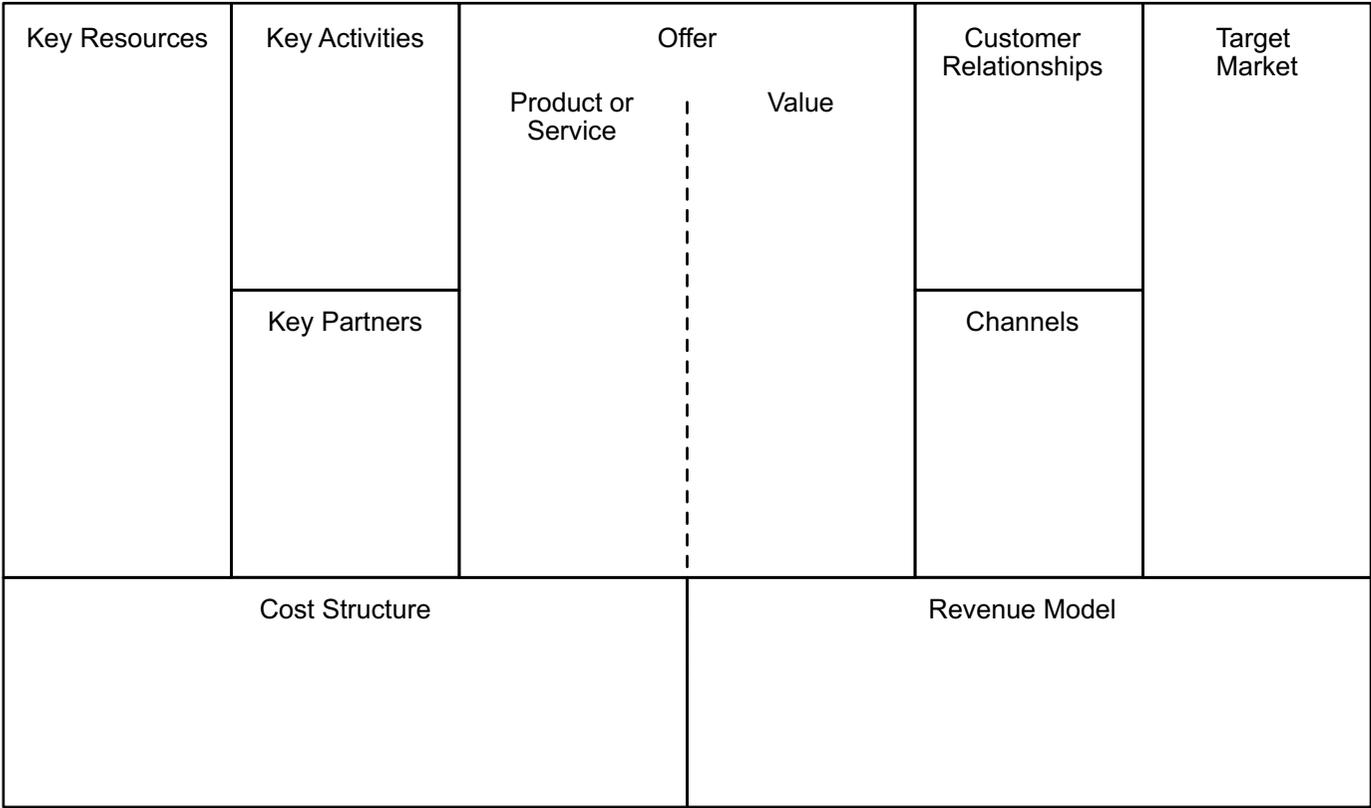
- to help the founders to discuss and design their company,
- to explain to investors how the founders plan to earn money,

A business model describes the building blocks that you will need in order to make your offer available to customers and to earn money with it.

## The Template

In this worksheet, we use a slightly modified version of the well-known Business Model Canvas (BMC) by Alexander Osterwalder. It consists of ten (instead of the original nine) elements, which are organized as a symmetrical template. The difference lies in the central element: In Osterwalder's original, it is called "Value Proposition", in the variation used here, this element is split into two parts, called "Product or Service" and "Value" respectively.

The left-hand side of the template is concerned with the product and its creation, while the right-hand side deals with the customers and the relationships with them.



## Exercise 1: Target Market

The target market is the set of potential customers for whom you are developing your product or service. You have already defined your target market in Chapter 1.2 *Target Market* and only need to copy the result here.

If your startup has more than one target market or market segment, you should create a business model for each of them. This is especially true if you have a multi-sided market.

 How is/are your target market(s) defined?

## Exercise 2: Offer

Your offer has two components: the product or service and the customer value. In later versions of the model, you might choose to include customer benefits (Chapter 2.1 *Customer Benefits*) with the Value.

For example, for a nail studio, the field “Product or Service” might contain “grooming and decoration of fingernails”, while the field “Value” might say, “feeling attractive”.

 You have already written down definitions of your product and its value in Chapter 1.3 *Solution Concept*, so you only need to copy them to the template.

### Exercise 3: Channels

Channels are the means by which your startup has contact with your target market. They include all phases of the purchase and use of the product, for example:

- How customers learn about the product  
Examples: TV advertising, trade journal, Google Adwords
- How customers obtain information about the product  
Examples: Web site, data sheet, telephone conversation
- How customers purchase the product  
Examples: Web-Shop, Retail stores, Amazon
- How customers receive support or answers to questions  
Examples: Email, telephone support, FAQ on the web site
- How the performance of the product is upheld  
Examples: Automatic updates, maintenance and repair by a service partner

Bearing in mind the entire life cycle of your product, ...

 What channels do you plan to use?

## Exercise 4: Customer Relationships

Here, you describe the kind of relationship you plan for your startup to have with its customers. Strong customer relationships can enable ...

- the acquisition of new customers,
- the retention of existing customers,
- upselling to existing customers.

Here are some examples of types of customer relationship:

- No relationship at all, for example an anonymous online service
- Personal relationship with a salesperson
- Telephone support via a call center
- Email newsletter
- Internet forum where employees respond to customer questions and comments

Customer relationships can have a significant influence on the profitability of your company, because they affect customer loyalty and your image in your customers' minds.

 What kinds of customer relationship do you plan to have?

## Exercise 5: Revenue Model

The revenue model describes how your company is paid by your customers. For example, a photocopier manufacturer might sell the copier, rent it out for a monthly fee or charge a fee for each copy made.

Some common types of revenue model are:

- Asset purchase (e.g. shopping in a supermarket)
- Rent (e.g. apartment, rental car)
- Leasing (e.g. industrial equipment)
- License fee (e.g. e-books)
- Pay-per-use (e.g. energy, water)
- Subscription (e.g. newspaper, Software as a Service)
- Transaction fee (e.g. Ebay, Airbnb)

Startup business ideas are occasionally based on the introduction of new revenue models, for example renting out toys or clothing rather than selling them.

 What revenue model do you plan to implement?

## Exercise 6: Key Activities

Key activities are the things your startup does in order to operate its business model.

Some examples of key activities are:

- Assembling the product (e.g. BMW, Airbus)
- Advising clients (e.g. SAP, McKinsey)
- Operating a data center (e.g. Facebook, Dropbox)
- Researching and writing articles (e.g. New York Times, Newsweek)
- Advertising offers and managing bookings (e.g. Airbnb, Opodo)

Because they are central to its success, companies have to perform their key activities exceptionally well.

 What activities must your startup carry out in order to create and market its product?

Activities such as bookkeeping or personnel management that do not help to explain the creation and marketing of the product should not be included.

## Exercise 7: Key Resources

Key resources are the specific assets that your startup needs in order to execute its business model. There are various categories of resources, for example:

- Financial resources, for example in order to finance leasing
- Physical resources such as machines and vehicles
- Infrastructure, for example factories or computer centers
- Human resources such as software developers or consultants with specific skills
- Legal resources such as patents or certifications

Here, too, you only need to write down resources that you specifically need in order to operate your business model. Every company needs desks and chairs, but these do not contribute to explaining how they do business.

Your startup must either own its key resources or have guaranteed access to them. If your startup's competitive position depends on a certain resource, it is better to own the resource.

 What are the key resources on which your startup depends?

## Exercise 8: Key Partners

Your startup will depend on external partners for products or services, for example special components, advertising channels such as Facebook or sales platforms such as Apple's App Store.

You might also choose to outsource certain activities in the interest of efficiency or simplicity. Computer servers are one common example: any IT company could operate its own servers, but it is usually much cheaper and simpler to outsource them to a service such as Amazon AWS.

 Who are the key partners on whom your startup depends?

Again, you do not need to mention partners who provide generic services or goods such as accountants or office suppliers.

## Exercise 9: Cost Structure

This section contains a list of the costs incurred in order to execute your business model. These may include costs for ...

- Key activities such as customer support or production,
- Outsourced services and purchased goods,
- Licenses and fees

- Marketing
- Infrastructure

This field should only contain costs that are directly related to the business model. Expenditure for a secretary or bookkeeping is not relevant. Furthermore, only the types of costs are required, you should not enter any amounts in Euros.

 What will your startup have to pay for in order to operate its business model?

## Summary and Outlook

The first draft of your business model contains many assumptions. The chances are that it will change many times during the planning of your startup as you research your market and talk to potential customers. You should therefore always treat it as provisional.

## Link

- [Worksheet 1.4.1 at founders-playbook.de:](https://founders-playbook.de/plausibility/business-model/)  
[founders-playbook.de/plausibility/business-model/](https://founders-playbook.de/plausibility/business-model/)