

What is a Business Model Canvas? V4

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 customers are, why they buy from you, and how you make a profit.

The audience for this article includes:

- 1) Early-stage company founder, leaders, and investors.
- 2) Established company and business unit leaders.
- 3) Boards of directors, C-Suite, and investors.

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

You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?

- 1) The purpose of your BMC is to provide an easy to understand one page framework which communicates who your customers are, why they buy from you, and how you make a profit. The one-page framework is supported by additional detailed information.
- 2) If your company has a single BMC, then everything to create and run your company is within the scope of your BMC. The bulk of the information will be within your supporting documentation.

A-What is the purpose of your BMC?

- 1) The purpose of your BMC is to provide an easy to understand one-page framework which communicates who your customers are, why they buy from you, and how you make a profit. The one-page framework is supported by additional detailed information.

B-What is the value of your BMC?

- 1) It focuses on who your target customers are and their perception of your value proposition.
- 2) It directly ties your internal value creation to your customers perception of their value creation.
- 1) It enables competitive advantage by identifying your unique value proposition.
- 2) It provides a common language for leaders, employees, and others.
- 3) It should be easy to create, update, and enable scenario planning.
- 4) It enables fast and easy brainstorming.
- 5) The initial version may be based on assumptions, which can then be validated or rejected.

It is a tool which helps leaders learn

C-What does your BMC look like?

- 1) Your 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.
- 2) Your BMC has a multi-page 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.
- 3) Your company may have multiple BMCs. E.g. if you have different types of customers with different problems and needs which require different solutions.

D-What does the one page slide look like?

I've attached a link to one example of a Business Model Canvas from Steve Blank's Stanford University 5-day program for startups. The startup was called "Cratiso". This BMC was created in 5 days, sometimes changing in the course of a single day. It illustrates the value of quickly talking to lots of potential customers.

<https://koorandassociates.org/wp-content/uploads/2025/02/business-model-canvas-cratiso.pdf>

E What are the 9 components of your BMC?

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.

F- Are all the parts of your company in your BMC?

What if you are a company with a single BMC?

- 1) Every company component is in your BMC. E.g. Board of Directors mandate, company policies.

What if you have multiple BMCs? E.g. you are a multi-division established company.

- 1) Your BMC is no longer self contained e.g. There may an overall board of directors. Your BMC will reside within your company's business framework. I will be publishing a revised version of that framework by the end of February, 2025. At that time, I will include the link here.

G-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 and supporting document.

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 and may be included in the supporting documentation. You may decide to keep an appendix which contains all the of the invalidations and validations.