

# WIRED FOR RESULTS: BONUS GUIDE

## CHAPTER 5: THE RULES OF THE GAME

### Understanding the Business Model Canvas

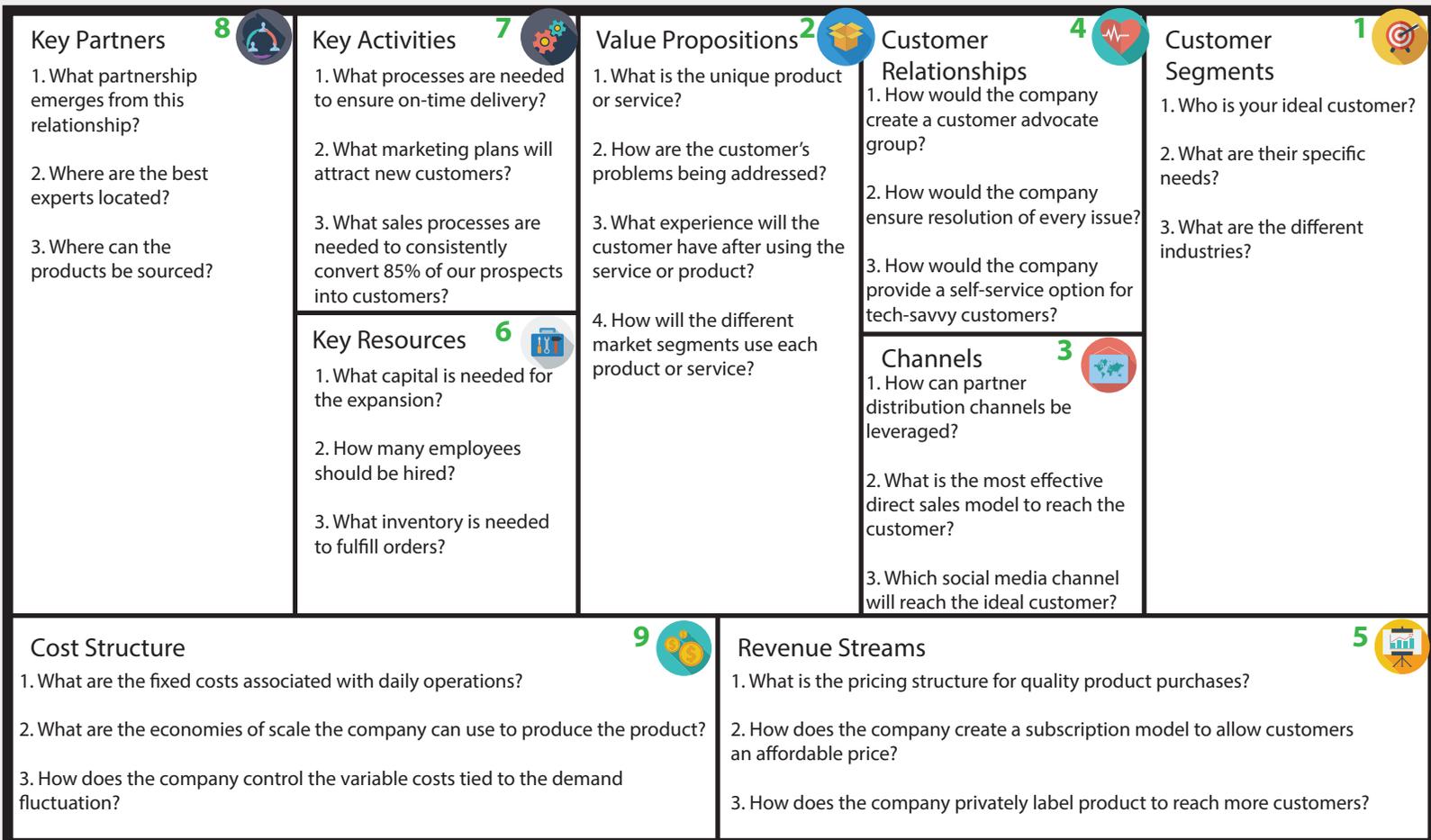
In the Rules of the Game, it is important to know which model to use when examining the internal structure of your business. Optimizing business processes allows the business to pull the necessary levers to reduce costs as well as increase revenue. With focused effort, this will have a direct effect on the bottom line.

Consulting firms like Accenture and PricewaterhouseCoopers have been conducting business process reengineering engagements as well as strategic positioning recommendations for companies for several decades.

The Business Model Canvas<sup>(1)</sup> designed by Alex Osterwalder of Strategyer has provided a simple yet effective tool for any business owner as a visual overview of the business.

The Business Model Canvas divides into nine different segments and is independently analyzed while complementing the other segments of the business. This Business Model Canvas will reveal the areas needing greater focus to make the entire business operate in balance with each segment.

# The Business Model Canvas



Each segment is described as a building block process to create the complete picture of the business. We begin with:

## 1. Customer Segment



This refers to the types of customers serviced by the business and segmented in different ways. They align by the top-line revenue that is generated by the business. We discussed these models in detail ranging from Solopreneurs, small business, medium size business and large businesses.

Another way to view the customer segmentation is to align the specific needs and group customers. For example, your business focuses on a niche that caters to a unique interest such as pet owners. Another example is segmenting by class of business such as Corporate versus Cable Providers. The possibilities are endless. However, the key is to understand your ideal customer's needs and the customer they wish to serve in the case of a business-to-business model.

## 2. Value Proposition



This refers to the products and services the business provides to its customers. It is also how the business distinguishes itself in a crowded marketplace. In Chapter 1: The Promise additional material, we discussed how companies could differentiate themselves when they focus on a specific area of the business.

For example, Walmart distinguishes itself by providing low cost with the highest quality with their focus on the excellent distribution network. Nordstrom is a retail clothing chain that is known for their outstanding customer services. The products and services combined with how they deliver will shape the value proposition of any company.

## 3. Channels



Channels refer to the delivery of the value proposition to the ideal customer in each of the segments. Gaining the attention of the ideal customer is complicated due to the number of options available in the past five years. These options range from social media to partner distribution channels and direct solicitation. In choosing the best channels, the business owner must balance cost effectiveness with the efficiency of reaching the ideal customer with the right message.

## 4. Customer Relationship



This refers to creating a lifetime customer for your service or product. The lifetime value of a customer is the key to sustainable growth because it establishes a foundation for ongoing operations. Amazon's customer relationships model exemplifies that no matter how big the company, the customer can always reach the CEO to resolve a problem.

Customer loyalty is a continual effort. Customer relationships can range from 24/7 customer service assistance to automated diagnostics and technology that resolve issues when detected. Chapter 4: The Engagement discusses in detail how to create exceptional customer relationships.

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## 5. Revenue



Revenue refers to the pricing models and ways the business will generate revenue and provide a wide range of options depending on the market. For services-based companies, they can collect fees for their services, share in the customer's revenue generation, or a combination of both. For product based businesses, they can directly sell the product, create a subscription model for a specific period of the use of the product, and license their intellectual property. The options are endless and allow for pricing creativity depending on the customer's demand and the competition.

## 6. Key Resources



This refers to the people, property, and capital that are used to service the customer's demands and delivers on the value proposition. Several options are available to deliver on the commitments made during the sales cycle. Every business has a set number of employees who serve as the foundation of the company.

Proper inventory levels are required to fulfill orders on a timely basis. To augment this base, contractors, partners, partnership and other forms of business arrangements can be created to deliver on the original Promise. Some businesses, like real estate, require the leverage of capital to fulfill an obligation. The balance between costs and revenue are constantly measured to ensure the business remains healthy while delivering on its commitments.

## 7. Key Activities



Key Activities refers to the processes and activities needed to produce the product or service to meet the customer's demand. For physical products, scheduling the assembly of these products is critical to maintain optimal production levels and satisfy demand. For services, the project management of the professional experts ensures the delivery on time and on budget. Continuous improvement of processes and infrastructure is needed to keep costs under control while keeping the output quality at its highest.

## 8. Key Partners



Key Partners refers to augmenting this base. Contractors, alliances, partnership and other forms of business arrangements can be created to deliver on the original Promise. Several factors are taken into consideration when extending the relationships outside the core business infrastructure. As in the other segments, the balance between cost effectiveness, timely delivery, and profits weigh into the most prudent decision to make in fulfilling the customer's need.

## 9. Costs Structure



Costs Structure refers to the different types of operating costs incurred through normal business operations. Every business has fixed costs that are required to open the doors for business. Variable costs relate to the ebb and flow of the business when delivering the goods and services to a customer. Bulk purchases and other economies of scale are taken into consideration when large purchases are needed.

REFERENCE- CHAPTER 5

(1) The Business Model Canvas. Strategyzer. <http://www.businessmodelgeneration.com/canvas/bmc>