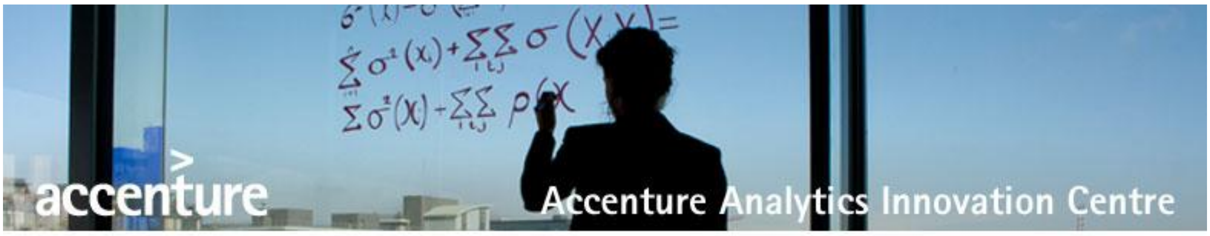

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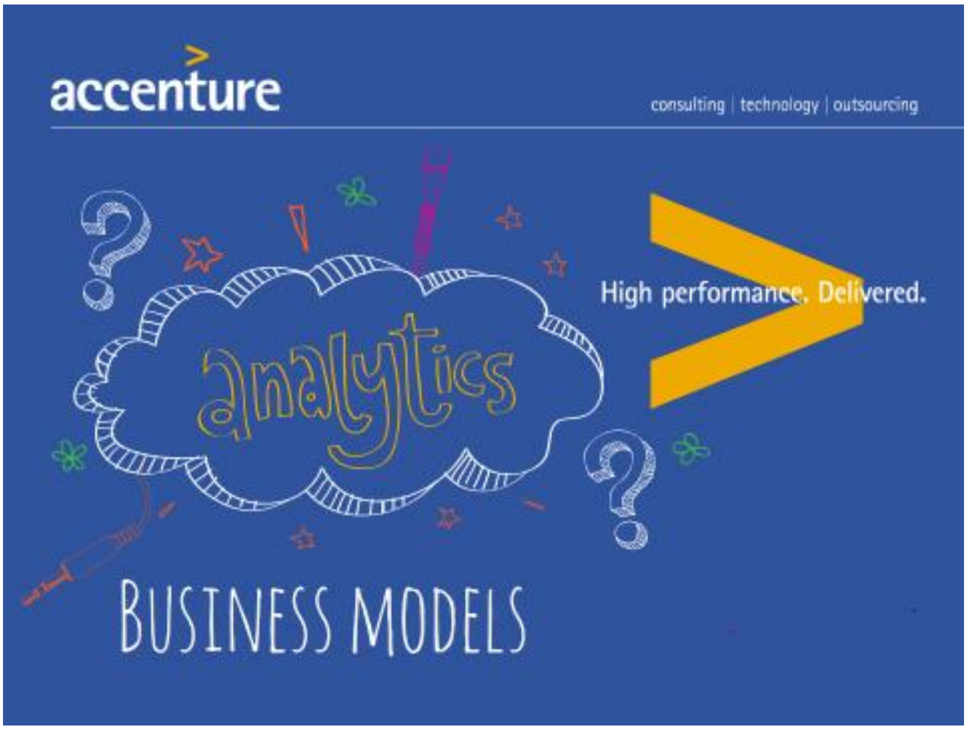
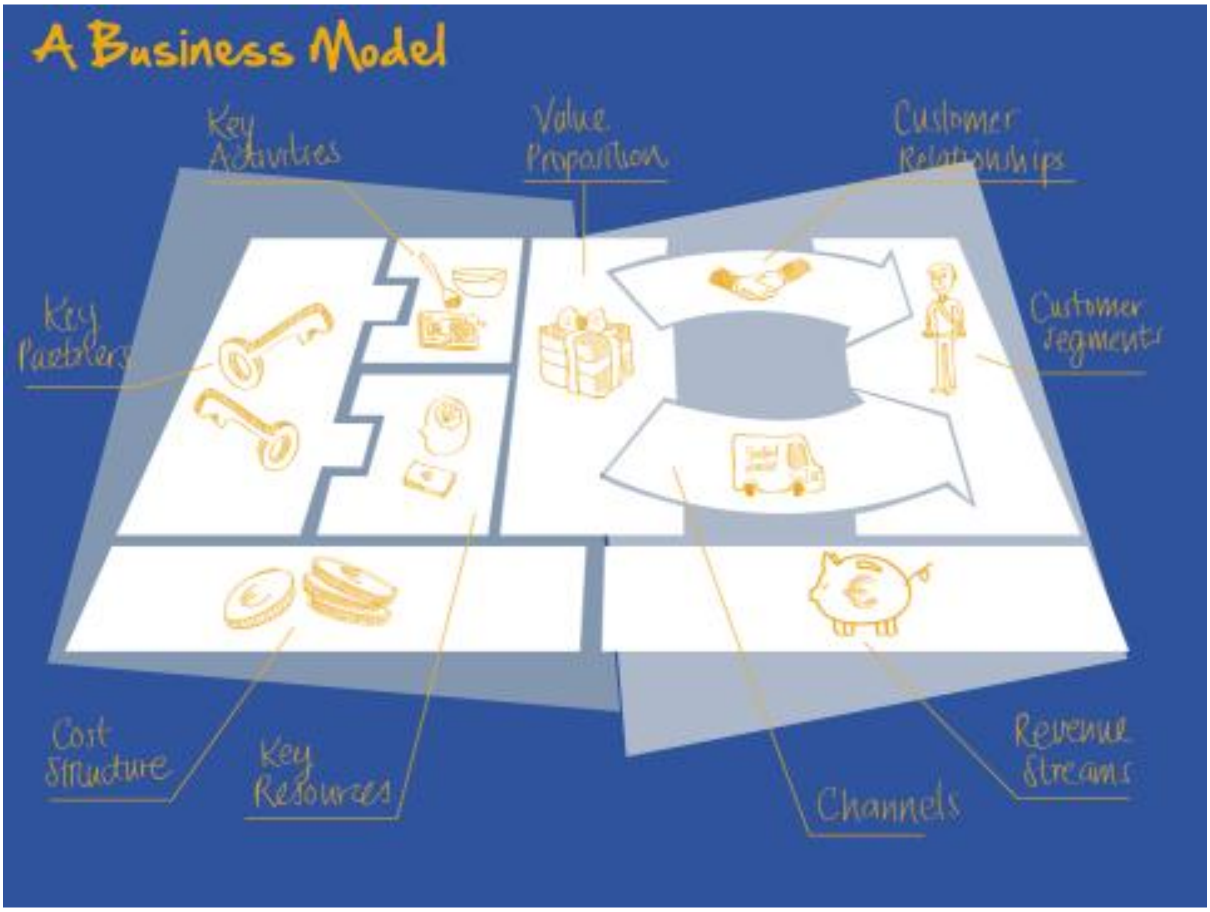


What does a business model look like?

The diagram below show’s what a typical business model would look like. It’s a mixture of the businesses inputs and outputs, what it costs them to make a produce and how much they sell it for. It’s broken down into two main areas, *Cost structure* and *Revenue Streams* and together the balance of these make up the *Value Proposition*.

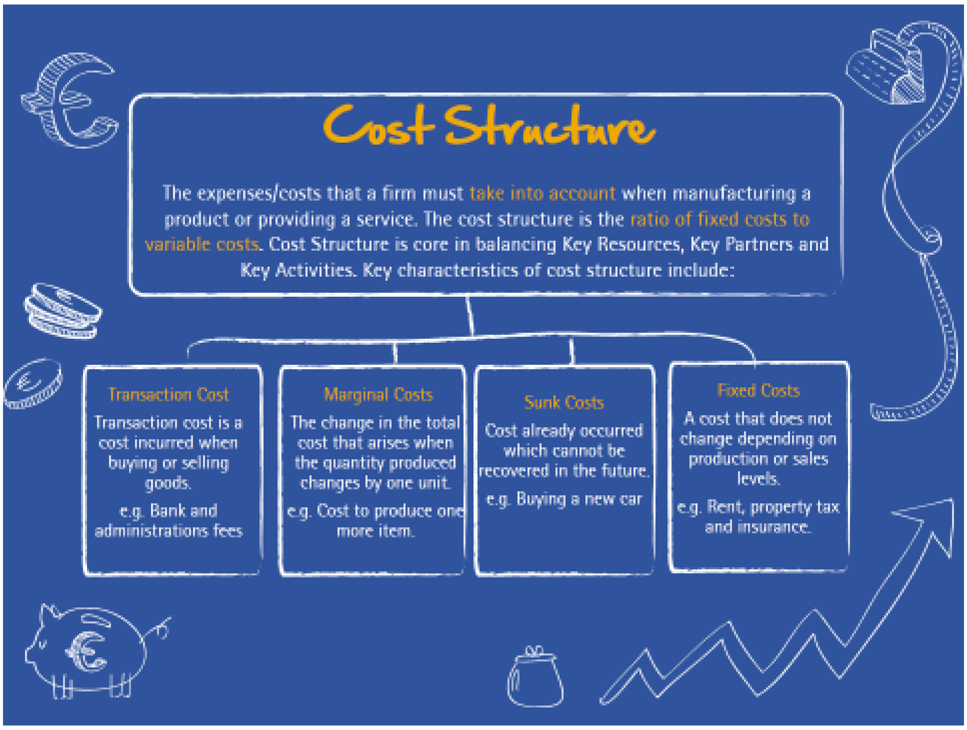
The Cost structure is how a business will finance the production of a product, so let pretend you want to make shoes. Before you even get to make your first pair of shoes you have to first build the factory, which means you’ll need to buy land, and buy machines to manufacture the shoes. You’ll also need to pay someone to work with the machines and pay some to manage those people. You’ll also need to buy raw materials to make the actual shoes. You have to do all this before you even start thinking about what the shoes will look like! So all of these activities make up the price of a product, or from you as a business owner, the cost.



For your shoe business, even before you look for land for your factory, you’ll need to think about your Revenue Streams. You’ll have to decide who you are going to sell the shoes to, your target customer, and why they’ll buy the shoes. You’ll also have to think about how you are going to sell them, in shops, online. Understanding these question will help you decided how many pairs of shoe’s you’d expect to sell.

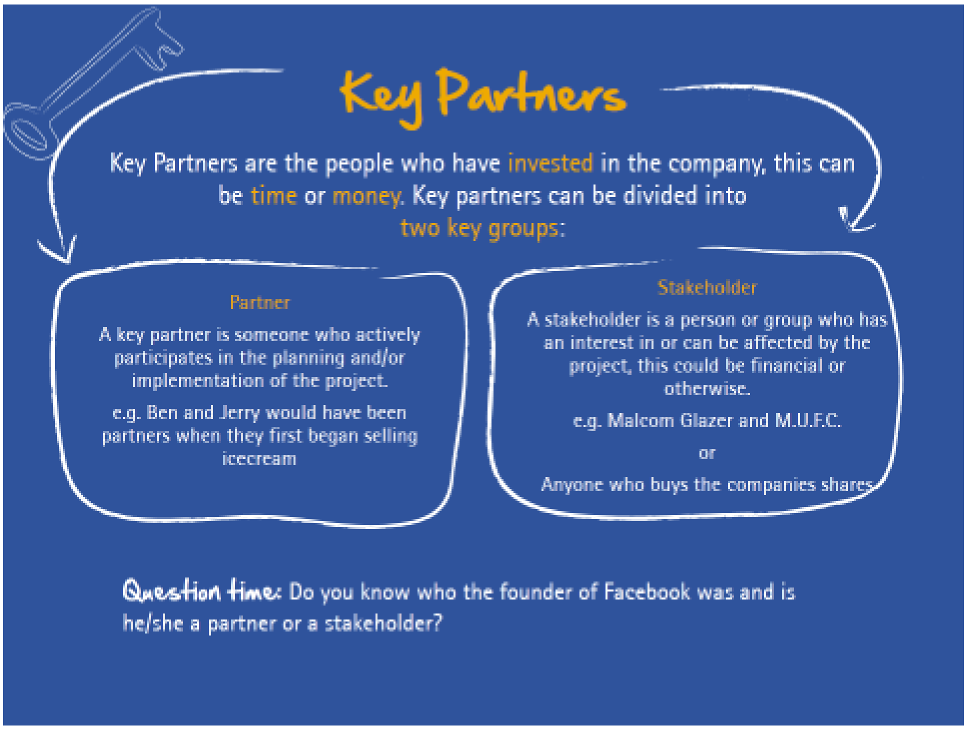
The balance between the cost structure and the revenue streams will decide how profitable, or valuable, your product is. This is important because for when you want to raise money to start buying land and your factory as you'll need to raise capital by showing your idea to fund your venture. For examples, let's say you decide you want to start producing bright pink school and work shoes for men and you're only going to sell them over the phone. You're also planning on setting up the factory in the middle of New York City and only hire Doctors to run your machines, you will have a hard time finding someone to give you money to start building your business.

What makes up the Cost structure?



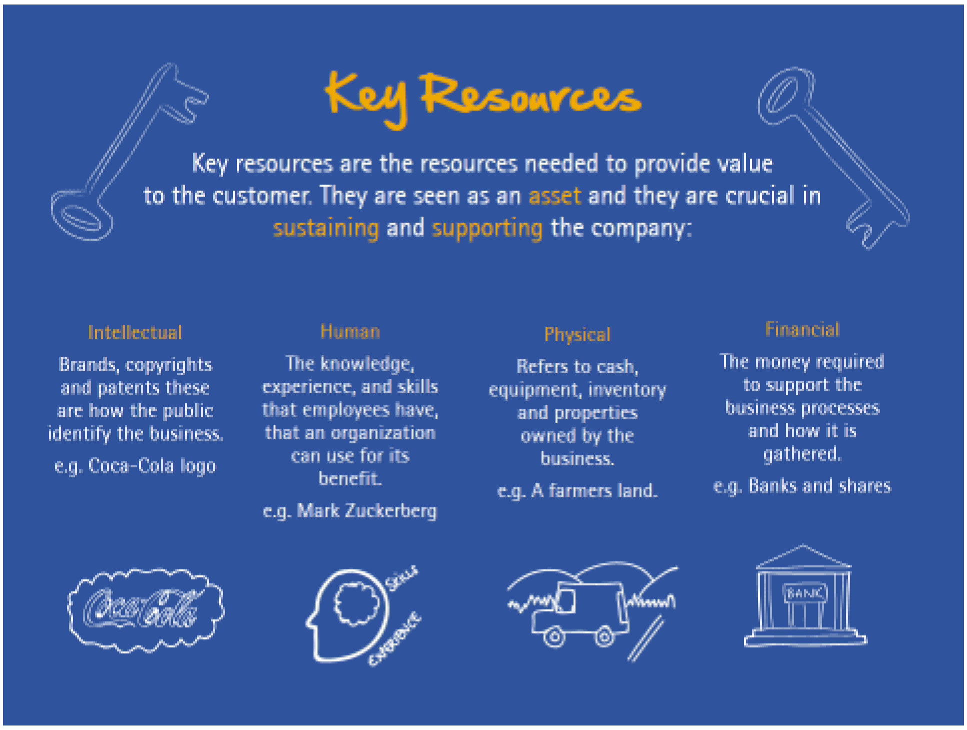
Key Partners

Key Partners are the money behind the start of the company. In order to start a company you need to have investors. A lot of companies will start small and as they grown they will gain more and more investors. Even companies like Microsoft that started out with Bill Gates and Paul Allan in their garage grew by getting investors and by selling shares in the company. Now the company is value is approximately $230Billion. An investor can be a partner, which would be someone who set the company up with you, which means you've both put money in. Or an investor can be a stakeholder who can put money in to gain a share of your company might take part in some high level decision making.



Key Resources

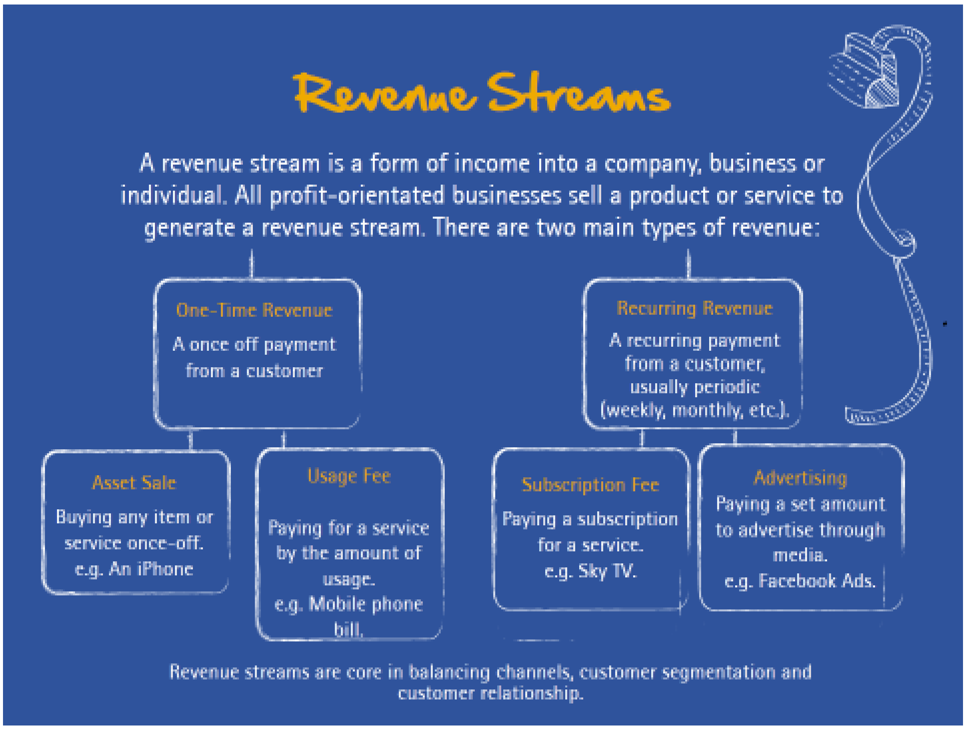
Key Resources are what the business needs to make the product, the factory, the raw materials etc. For companies that don't produce a physical product like Facebook or a law office, the key resources are the buildings for the offices and the people.



Key Activities

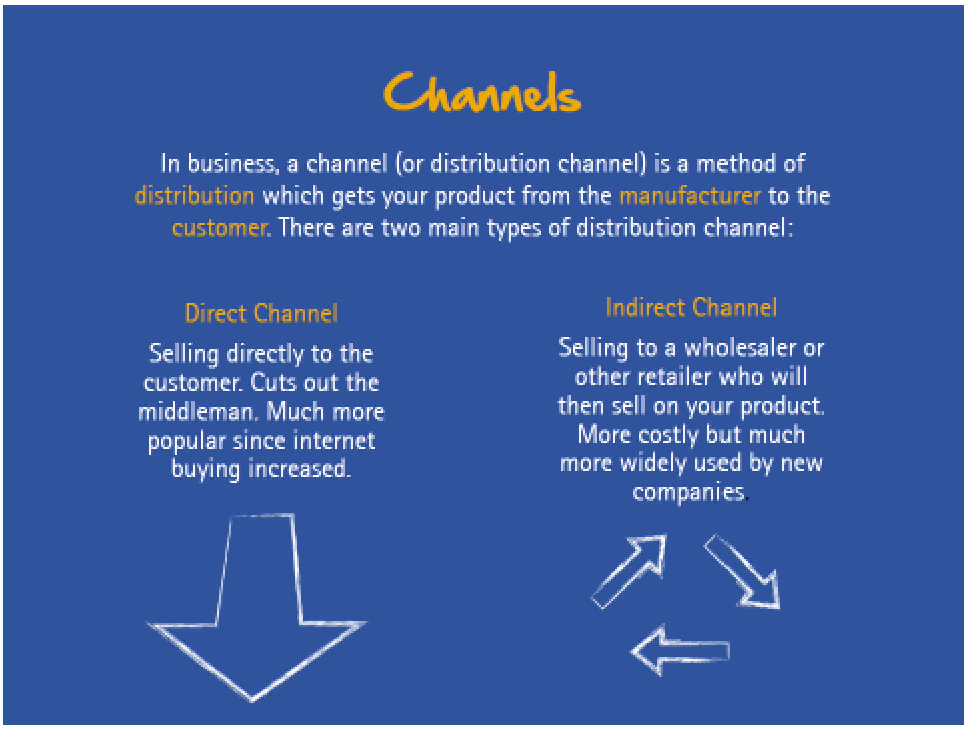
Key Activities are the actions needed to produce the product and also the activities to help sell the product. This could include any marketing that's done or even research into new products.

What makes up Revenue Streams?



Channels

There can be advantages and disadvantages for each of the different distribution channels available to business. For a custom made products like a custom build pc or dress, a direct channel is best option. It will allow for the customer to deal directly with the manufacture and minimise the risk of an unhappy customer. It will also increase the profit or can decrease the selling price as a third party does not have to get a share of sale. Why would a company want to reduce their selling price rather than just incurring the increase in profit? Using a direct channel for your product might mean that you limit the area's you can sell to, or to amount of customers you have. The advantages for a companies using an indirect channel included; they won't have to keep a high level of stock on site which means they have more space for production or the company won't have to invest in a delivery van. What are some disadvantages to an indirect channel?



One of the most important areas of business is to know your audience. This can mean two things, firstly, who are your customers and, secondly, how do I reach out to them?

Customer Segments

To answer the first question you'll need to do some research on your product, find out who is interested in your product. You will also need to understand the different markets available. Why are there ads for children's movies late at night?

Customer Relationships

To answer the second question you in understand why your customer segmentation would like your product. You might also need to understand how they talk about it, different language they use, and where is the best place to advertise your product. Where would be the best place to advertise hear aids?

Value Proposition

Finally, once your costs and revenue are balanced and you think you can make a profit you then have your value proposition. After your business is up and running and you start to gain market share, which is how much your product sells versus the competitor's product, there are ways of increasing your value proposition. Building a brand or consistently getting good reviews can increase your value proposition as it will increase your market share without you changing your costs or deliver methods.