ILRI MANUAL

68

INITIATIVE ON
Sustainable Animal Productivity

Training manual on entrepreneurship and canvas business plan development

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Preface

The International Livestock Research Institute (ILRI) hired a consultant to prepare this entrepreneurship and canvas model business plan development manual with the view of motivating the potential entrepreneurs in the Women in Business (WiB) project to develop their businesses. The manual aspires to inculcate an entrepreneurial mindset and culture to motivate women in business ventures to become self-reliant citizens.

Module 1: Entrepreneurship development

Module objective

To motivate the learners to acquire entrepreneurial qualities and enable them to apply the new learning points in their future businesses.

Learning objectives:

By the end of this module, learners will:

- Understand the meaning of 'entrepreneurship' and 'entrepreneur'
- Assess the qualities of an entrepreneur
- Evaluate their entrepreneurial qualities and find out their strengths and weaknesses
- Develop an action plan to capitalize on their strengths and improve their limitations

Session 1: Basic issues on entrepreneurship

The word 'Entrepreneurship' is derived from the French verb entreprendre which means 'to undertake'. The term entrepreneurship thus refers to the following:

Entrepreneurship is perceived as a change process by which individuals or groups of individuals undertake the risk of creating a new enterprise. The individuals or groups of individuals are what we call entrepreneurs. It is a wide range concept. The concept is still evolving and we cannot put our finger on one succinct definition. But a widely accepted definition that appears to capture the essence reads as follows:

'*Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment to providing value for some product or service. The product or service itself may or may not be new or unique but the value must somehow be infused by the entrepreneurs by securing and allocating the necessary skills and resources*' (Ronstadt 1984).

- The process of identifying opportunities in the marketplace, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long-term gains. It involves creating wealth by bringing together resources in new ways to start and operate an enterprise.
- The processes through which individuals become aware of business ownership and then develop ideas for and finally initiate a business.
- The art of identifying viable business opportunities and mobilizing resources to convert those opportunities into a successful enterprise through creativity, innovation, risk taking and progressive imagination' (ILO 2009).

Entrepreneurship thus embraces these interwoven processes:

- The use of resources not merely to solve problems but to take advantage of opportunities.
- The process of innovation reallocates resources to new opportunities.
- Value addition to the original resource in such a way as to satisfy a human need.
- Business creation and founding.
- Taking an idea and working through it to change it into a profitable business opportunity.
- A new combination of resources, new methods of production and new and improved products or services.

Entrepreneurship is a practice and a process that results in creativity, innovation and enterprise development and growth. It refers to an individual's ability to turn ideas into action involving and engaging in socially useful wealth creation through the application of innovative thinking and execution to meet consumer needs, using one's labour, time and ideas. Engaging in entrepreneurship shifts people from being 'job seekers' to 'job creators', which is critical in countries that have high levels of unemployment. It requires a lot of creativity which is the driving force behind innovation.

Reflection question

Having seen the above definition, how do you define entrepreneurship in your understanding?

Session 2: Who is an entrepreneur?

An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service which satisfies customer needs. Entrepreneur refers to the person and entrepreneurship defines the process. Both men and women can be successful entrepreneurs; it has nothing to do with gender. All entrepreneurs are business persons, but not all business persons are entrepreneurs.

Think of a person who sits by the roadside leading to your home and who has been selling the same type of food, from the same size of saucepan or pot, from the same tabletop and may not have been able to change their standard of living to any appreciable extent. Such a person may be a business person but not an entrepreneur.

An entrepreneur is therefore a business minded person who always finds ways to improve and grow in business. An entrepreneur can also be defined as a professional who discovers a business opportunity to produce improved or new goods and services and identifies a way in which the resources required can be mobilized.

Finally, an entrepreneur is someone who constantly scans the environment looking for changes that can provide opportunities for creating new growth oriented businesses.

Entrepreneurs assume significant accountability for the risk and the outcomes of new enterprises, ventures or business ideas. An effective and successful entrepreneur shows creativity and innovation in business and is an example for other people.

An entrepreneur is an individual who:

- has the ability to identify and pursue a business opportunity;
- undertakes a business venture;
- raises the capital to finance his/her business;
- gathers the necessary physical, financial and human resources needed to operate the business venture;
- sets goals for her/his business;
- initiates appropriate action to ensure success; and
- Is willing to take the risk;
- Is a job creator not a job seeker;
- Makes something out of nothing.

Reflection question

Having seen the above explanation, how do you describe entrepreneurs in your understanding?

Session 3: Benefits/importance of entrepreneurship

Entrepreneurship is one of the main economic factors (capital, land, labour and entrepreneurship) and has several benefits as outlined below:

- Entrepreneurship allows one to undertake different forms of self-employment.
- Entrepreneurs are their bosses allowing them to get more job satisfaction and flexibility in the workforce.
- Encouragement of the processing of local materials into finished goods for domestic consumption as well as for export.
- Healthy competition encourages higher quality products in the market thereby making more goods and services available to consumers.
- Developing new markets.
- Promoting the use of modern technology in small-scale manufacturing to enhance higher productivity.
- Freedom from dependency on the jobs offered by others.
- Possibility of achieving great accomplishments.
- Pay tax to the economy.
- Create employment opportunities for the community.

Reflection question

Having seen the above explanation, how do you describe the role of entrepreneurship in your understanding?

Session 4: Characteristics of successful entrepreneurs

Research findings have repeatedly revealed that resource, finance and technical skills are not sufficient to achieve business growth and success. All other things being equal, some businesses succeed while others fail because of one missing critical element, namely entrepreneurship, which is a driving force for private sector development.

Surveys and interviews with successful entrepreneurs have worldwide demonstrated that there are common traits, which a majority of them possess and practice as a way of life. The successful entrepreneur takes initiative, incubates new ideas, seizes a business opportunity based on these ideas, exerts energy to achieve results within the framework of a vision for growth and success and creates added value to society. Such people are, of course, to be nurtured from within the micro, small and medium enterprise operators and people who are psychologically prepared to start up new businesses.

4.1 Opportunity seeking and initiative

An opportunity is a favourable set of circumstances that creates a need for a new product, service or business. It includes access to credit, working premises, education and training, among others. An entrepreneur always seeks out and identifies opportunities. He/she seizes an opportunity and converts it into a realistic and achievable goal or plan.

4.2 Risk taking

The best entrepreneurs tend to:

- Set their objectives where there is a moderate risk of failure and take calculated risks

- Gain satisfaction from a job well completed
- Not be afraid of public opinion, scepticism
- Take responsibility for their actions.

An entrepreneur needs to consider the following issues before taking a risk:

- Is the goal set realistic?
- How big is the potential reward for this risk?
- How big is the potential loss?
- What is the probability of failure with this risk?
- How can I minimize the potential negative effects of taking this risk?
- What kind of support or resources do I need to have in place to help minimize or prevent potential negative effects from this risk?
- What further information do I need before taking this risk?
- What past experiences do I need to review to inform the strategy for taking this risk?

4.3 Demanding efficiency and quality

Efficiency

- Being efficient means producing results with little wasted effort.

Quality

- The ongoing process of education, communication, evaluation and constant improvement of goods and/or services to meet the customer's need in a way that exceeds the customer's expectations.
- A characteristic of the product or service that makes it fit to use. It makes a product, process, or service desirable.
- The ability of a product or service to meet a customer's expectations for that product or service.

The importance of quality management in entrepreneurship is reflected in the competitiveness of the business. There is always a demand for quality products and efficient services. Quality plays an important role in this new era of globalization because it confers certain benefits which include:

- Reduction of waste: Striving to maintain quality means examining all processes that contribute to the creation of a product, to remove non productive processes and waste. If businesses keep to their standard of maintaining the quality of the product, the number of defective products will be reduced. Consumers prefer to buy quality products. Hence quality products and/or services help in increasing the market share and ensure that they will not be returned.
- Cost effectiveness: Striving to ensure quality helps businesses to minimize the chances that they will make mistakes. As a result, the costs of redoing work or changing the product after it has been sold are greatly reduced.
- An increase in market share: Customers prefer to buy the same product again and again if they are satisfied with the quality. If they are satisfied with the quality of a product, then they will not only purchase the product and/or services more than once, but they will also recommend it to their friends. As a result, this contributes to an increase in the company's market share.

- Better profitability: Better quality of product satisfies customers. Increased customers mean increased sales, increased shares in the market and consequently increased profits.
- Social responsibility: By providing quality products and services, a company is more likely to be able to fulfil its responsibility to the community and meet standards set by the government.
- Reputation: Quality of goods and services improves the reputation of the business for competition in the market and growth.

Time management

- Entrepreneurs believe that time management is the source of life for their business success. They give due attention to their time management when they produce goods or render services. They strive to reduce time during production, delivery and networking so that they reduce costs and sell at affordable prices.
- Time management refers to a range of skills, tools and techniques used to manage time when accomplishing specific tasks, projects and goals. Time management is about getting more value out of your time and using it to improve the quality of your life.
- Initially, time management referred to just business or work activities, but eventually, the term broadened to include personal activities.

4.4 Persistence

An entrepreneur always makes concerted efforts towards the successful completion of a goal. An entrepreneur perseveres and is undeterred by uncertainties, risks, obstacles, or difficulties which could challenge the achievement of the ultimate goal.

4.5 Commitment to work contract

Entrepreneurs put an extraordinary effort to complete the job and keep their promises in terms of delivery time and standard. They try their best to finish the job as per the agreed upon time with their clients. They do not give lame excuses to postpone delivery time. They say ‘my word is my bond’ to show that once they promise, they go the extra mile to deliver on time and satisfy their customers.

4.6 Information seeking

Successful entrepreneurs do not depend on guesswork. Entrepreneurs believe that information is power. Entrepreneurs spend time collecting information about their customers, competitors, suppliers, relevant technology and markets by being personally involved or letting others gather pertinent information to make informed business decisions.

Types of information that are important for business:

An entrepreneur should have sufficient information and seek additional information on various factors that are relevant to his/her intended new business activity. The different types of information required are indicated below:

Market

- Market segments for low-, middle- and high-income groups
- Competitors and similar products
- Sales forecast
- Strategic business location

Supply

- Machines/equipment
- Raw materials
- Other assets like office furniture
- List of suppliers and prices

Infrastructure

- Business premises available
- Size of premises and rooms
- Power, water and other facilities
- Transport facilities

Business management

- The organizational form of the business
- Needs in accounting and accounting courses
- Availability of qualified personnel
- Training facilities for staff and owner

Finance

- Microfinance loan conditions
- Government financial facilities

Legislation

- Commercial code
- Business registration process
- Tax obligations
- Tender procedures

4.7 Goal setting

A goal—Is a general direction or long-term aim that you want to accomplish. It is the result one wants to attain. Entrepreneurs begin their business with the end in mind and they use their goal as a road map to travel.

Objectives—Are specific and measurable. They can be output objectives, or they can be attitudinal or behavioural. But most of all, they can be measured. They are concise. They are specific. Think of the word '**object**'. You can touch it, it's there, it's actual and it's finite. An entrepreneur must have a goal and an objective which is specific, measurable, attainable relevant and time bound (SMART).

- Specific: Great goals are well defined and focused. The moment you focus on a goal, your goal becomes a magnet, pulling you and your resources toward it. The more focused your energies are, the more power you generate.

- Measurable: A goal without a measurable outcome is like a sports competition without a scoreboard or scorekeeper. Numbers are an essential part of the business. Put concrete numbers in your goals to know if you're on track.
- Attainable: Far too often, entrepreneurs can set goals which are beyond their reach. Dream big and aim for the stars but keep one foot firmly based on reality.
- Relevant: Achievable business goals are based on the current conditions and realities of the business climate. For example, you may desire to have your best year in business or increase revenue by 50%, but if a national economic crisis is looming and three new competitors just opened in your market, then your goals are not relevant to the realities of the market.
- Time based: Business goals and objectives just do not get done when there's no timeframe tied to the goal setting process. Whether your business goal is to increase revenue by 20% or to find two new clients, it is important to choose a time frame to accomplish your goal.

Example of SMART goals:

- **Specific**: I will start a sheep fattening business in Akaki subcity, Addis Ababa, Ethiopia.
- **Measurable:** I will sell 10 sheep and earn 35,000 Ethipian birr (ETB) (USD 1 = ETB 53.8450 at 10 February 2023).
- **Attainable**: I will make 20 sheep ready for selling in the coming six months.
- **Relevant**: Selling sheep will allow me to benefit financially from my agricultural education and passion.
- **Time bound**: I will start the business within one month, start selling within three months and expand my business within one year.

4.8 Systematic planning and monitoring

Planning is deciding the future in terms of what to do, when to do, where to do, how to do, by whom to do and using what resources. An effective entrepreneur therefore usually plans his/her activities and accounts as best as they can for unexpected eventualities.

Entrepreneurs have a habit of breaking down large tasks into manageable small and step-by-step tasks to complete within the expected time. Entrepreneurs also monitor their progress and take appropriate action whenever they find areas of improvement.

4.9 Persuasion and networking

Persuasion is

- A way of convincing someone to get something or make a decision in your favour.
- Inducing or taking a course of action or embracing a point of view through argument, reasoning, or entreaty; to convince.
- To succeed in causing a person to do or consent to something; to win someone over, as by reasoning or personal forcefulness.
- To cause to believe; to induce, urge, or prevail upon successfully.

Importance of persuasion in business

- We purchase goods from people.

- We sell goods to people.
- We need support from people.
- We work with people.
- Without people, i.e. suppliers, workers and most importantly customers, there is no business.

Networking is an extended group of people with similar interests or concerns who interact and remain in informal contact for mutual assistance or support.

Business networks

In the business environment, we network with customers, suppliers, competitors, various firms, different organizations, government offices and family, among others.

Factors that affect persuasion and networking:

- Socio cultural background and perceptions.
- Communication skills (both verbal and nonverbal).
- Negotiation skills.

4.10 Self-confidence and independence

Self-confidence is the state of being certain that a chosen course of action is the best or most effective given the circumstances. Confidence can be described as a subjective, emotional state of mind, but is also represented statistically as a confidence level within which one may be certain that a hypothesis will either be rejected or deemed plausible. Self-confidence is having confidence in oneself when considering a capability. Overconfidence is having unmerited confidence—believing something or someone is capable when they are not.

Characteristics of a self-confident person

A person with self-confidence may exhibit some of the following characteristics:

- Risk taking: Willingness to take risks and go the extra mile to achieve better things.
- Independent: Entrepreneurs like to be their masters and want to be responsible for their own decisions.
- Perseverance: Ability to endure and survive setbacks and continue to build confidence in whatever you do in business.
- Able to learn to live with failure. Entrepreneurs are going to make mistakes. They are human. But they learn from these mistakes and then move on.
- Ability to find happiness and contentment in work.
- Doing what you believe to be right, even if others mock or criticise you for it.
- Admitting mistakes and learning from them.

Reflection question

Having seen the above explanation, how do you describe the major entrepreneurial characteristics in your understanding?

Session 5: Self-assessment of entrepreneurial qualities

Activity: Complete a self-assessment of your entrepreneurial qualities

Go through the statements below and score yourself to the best of your ability and as honestly as possible. Do not take too long thinking about any one answer, your first guess is probably the most accurate. Use the scoring key below.

Scoring:

5 – Always; 4 – Often; 3 – Sometimes; 2 – Rarely; 1 – Never

Table 1 Self-assessment of entrepreneurial qualities

		1	2	3	4	5
1	Enjoy doing things on my own. Nobody has to motivate me to get started on a task					
2	If I make up my mind to do something, I do not let anything stop me					
3	I do not hesitate to undertake risks related to creating and operating an enterprise					
4	I plan my time and resources well so I produce high quality products					
5	I assess the time and capacity I have before I commit to accomplishing a job					
6	I act upon the opportunities that needs and problems present					
7	I keep trying again and again despite great challenges and failure					
8	I work hard to try to foresee potential risks so as to prevent future risk					
9	I make personal sacrifices to complete jobs to keep my word and meet promised deadlines					
10	I always strive for improvement and progress despite feedback from people that they are satisfied with my work					
11	Before undertaking my job I try to gain as much information about it as I can and verify the accuracy of the information I am receiving					
12	I set short- and long-term goals for my personal life and business					
13	I do everything I can to accomplish set business goals, through careful planning and implementation					
14	I team up well with others for tasks which I cannot accomplish on my own					
15	I am able to make decisions on my own, incorporating the suggestions and ideas of others as part of that process					
16	I collect all the necessary information I need before I start a job or task					
17	I set goals based on the resources and skills I have					
18	I have the skills to persuade and communicate with people					
19	I regularly evaluate my job performance, looking for areas of improvement					
20	I am happy with my work and am confident that I will make progress and improvement in the future					

Analysis of the result

Analysis one: Each statement is focused on different entrepreneurial qualities as stated below.

Table 2. Result analysis

- Question 1 + Question 6 =Opportunity seeking
- Question 2 + Question 7 =Perseverance
- Question 3 + Question 8 =Risk taking
- Question 4 + Question 10 = Demand for efficiency and quality
- Question 5 + Question 9 = Commitment to work contract
- Question 11 + Question 16 = Information seeking
- Question 12 + Question 17 = Goal setting
- Question 13 + Question 19 = Planning
- Question 14 + Question 18 = Persuasion and networking
- Question 15 + Question 20 = Self-confidence

Now evaluate how you ranked yourself for that characteristic (based on your score for each of the questions). For example, if you rated yourself a '5' for both questions 1 and 6, then according to the key above, you have a strong opportunity seeking trait. If you rated yourself a '1' or a '2' for questions 14 and 18, then perhaps persuasion and networking are not among your strengths right now—and could be skilled for you to work on.

Analysis two: Add up your total score from all the numbers you wrote in each row. Write your total sum here and then interpret it below:

Total sum = _______________

Table 3. Result interpretation

	50: Limited entrepreneurial qualities at the moment. It does not mean you are not meant to be a businessperson. It only means that you should spend more time preparing yourself to handle any problems you might face once you start a business
Between 50–80: Average—Some gaps need to be filled or improved upon. You	
	might consider upgrading your knowledge or skills. Consider taking some
	courses
>80	Good entrepreneur—Keep it up and continue to develop

Entrepreneurship characteristics action plan

Based on your analysis of the self-assessment, please answer the questions below.

1. Identify three characteristics of an entrepreneur for which you scored the highest mark.

____

____

____

2. Identify three characteristics of an entrepreneur for which you scored the lowest.

3. Prepare an action plan which will help you to improve upon three characteristics of an entrepreneur for which you score the lowest.

4. Working with a partner, either trade worksheets, or talk about your weakest characteristics and ideas for improvement. See if your partner has any further ideas for what you can do to improve on your weaknesses and then do the same for him/her.

Tips to strengthen entrepreneurial skills

If you do not have enough of the qualities and abilities necessary to open/strengthen your own business there are many ways to improve your business skills and alter your characteristics. You can:

- Talk to people in business so you can learn from them.
- Get some training; enrol in a course to study specific areas you need to improve in.
- Get work as an assistant/apprentice to a successful business person.
- Read books that will help you develop your business skills.
- Read articles about businesses in the newspapers and think about their problems and methods.
- You might want to think about finding a partner who complements your strengths and weakness, instead of going into business entirely on your own.
- Often people have not had much experience or practice in a business situation. If your number of weaknesses is high, go through the personal assessment exercise again and try and understand how the attitudes and characteristics described affect how a business is run. Try to develop the skills and attitudes described by applying them in your daily activities, for instance:
- Practice discussing the advantages and disadvantages of any situation or idea.
- Increase your motivation by making a plan for your future.
- Study successful business people and learn that your success depends mostly on your efforts.
- Develop the ability to consider and assess a problem and take risks.
- Think about and learn how to deal with crises situations better.
- Talk to your family about the difficulties of running your own business and persuade them to support you.
- Become more open to new ideas and other people's views.
- When things go wrong, analyse what happened and improve your ability to learn from mistakes.
- Increase your commitment to work and realize that only hard work brings success.

Supplementary activity

Identify an entrepreneur in your locality and indicate the qualities you have observed in him/her that makes him/her a successful entrepreneur. Use Table 4 to record your observations.

Table 4. Characterizing an entrepreneur

Characteristic	How this characteristic is seen in the entrepreneur

2. Based on your observation, what characteristics or work approach would you like to imitate in your life?

Reflection question

Having made a self-evaluation on entrepreneurial qualities, how do you perceive your qualities? Are you ready to start your business?

Module 2: Business plan preparation

Module objectives:

By the end of the module, participants will be able to explain the value of having a business plan, understand what a business plan is and how to develop a simple business plan. The module objective is to enable participants to produce a business plan that can be implementable.

Session 1: What is a business plan?

A business plan is the most essential document to starting, building and managing a successful business and is an effective tool for raising the necessary capital and capturing the interest of investors. It is the document that clearly and concisely defines the goals and objectives of a business and outlines the methods for achieving them. It is also an excellent communication instrument for investors and suppliers interested in understanding the operations and goals of the business.

A business plan is a roadmap to success. A business plan is a written summary that describes and analyses a business and presents a plan for its near-term future. A business plan is a document that explains what your business does, who does it, how you do it and whether what you do is profitable and where you want your business to go in the future.

‘Simply put, a business plan is a written representation of where a company is going, how it will get there and what it will look like once it arrives’ (Ernst and Young et al. 1993).

A business plan is a document that summarizes the operational and financial objectives of a business and contains detailed plans and budgets showing how the objectives are to be realized. Because the business plan contains detailed financial projections, forecasts about your business's performance and a marketing plan, it's an incredibly useful tool for business planning.

Session 2: Strategic plan vs business plan

Table 5 below shows the various characteristics of a strategic plan and those of a business plan.

Table 5. Characteristics of a strategic plan against those of a business plan

Characteristic	Strategic plan	Business plan
Time frame	3 to 5 years	1 to 3 years
Focus	The general direction of the business with an emphasis on vision, mission, objectives and action plan	More specific with emphasis on a particular investment plan with implementation details
Contents	Includes a SWOT analysis (strengths, weaknesses, opportunities and threats)	Describes the business characteristics and how to make operational the overall goals with marketing and financing plans

Session 3: Benefits of business planning

- It forces the would be entrepreneurs to establish written goals and objectives for their proposed businesses.
- It enables potential entrepreneurs to assess the viability of their business opportunities on paper.
- It assists in identifying the potential customers, marketing opportunities, pricing strategy, promotional activities, distribution strategy and the competitive conditions needed for the business success.
- It establishes the financial needs of a business and suggests possible sources of financing.
- It helps to identify critical factors for the successful entry and growth of a business in a given marketplace.
- It exposes entrepreneurs to the whole planning, budgeting, forecasting and reporting process necessary for starting and expanding a business.
- It increases the 60% likelihood of achieving.
- Helps to work smarter, not harder.

A business plan can be used by many different people for many different purposes. For instance, the following Table 6, shows different parties and their interests.

Table 6. Uses of a business plan

User	Interests
Owner	Growth and profitability; viability and financing of the project; ability to monitor performance
Management	The future viability of the business; new project; ability to monitor staff performance
Staff	The future viability of the business; growth and stability of employment
Supplier	Creditworthiness; ability to generate growth and sell products/services
Customer	Qualifications of staff; services offered
Collaborator	Products produced/services offered
Investor	Profitability (return on investment)
Lender	Creditworthiness and ability to repay the loan with cash flow (and collateral)

Reflection question

Having seen the above explanations, how do you describe a business plan and its importance for your business?

Session 4: Canvas business plan

What is a business model canvas?

A business model is simply a plan describing how a business intends to make money. It explains who your customer base is and how you deliver value to them and the related details of financing. And the business model canvas lets you define these different components on a single page.

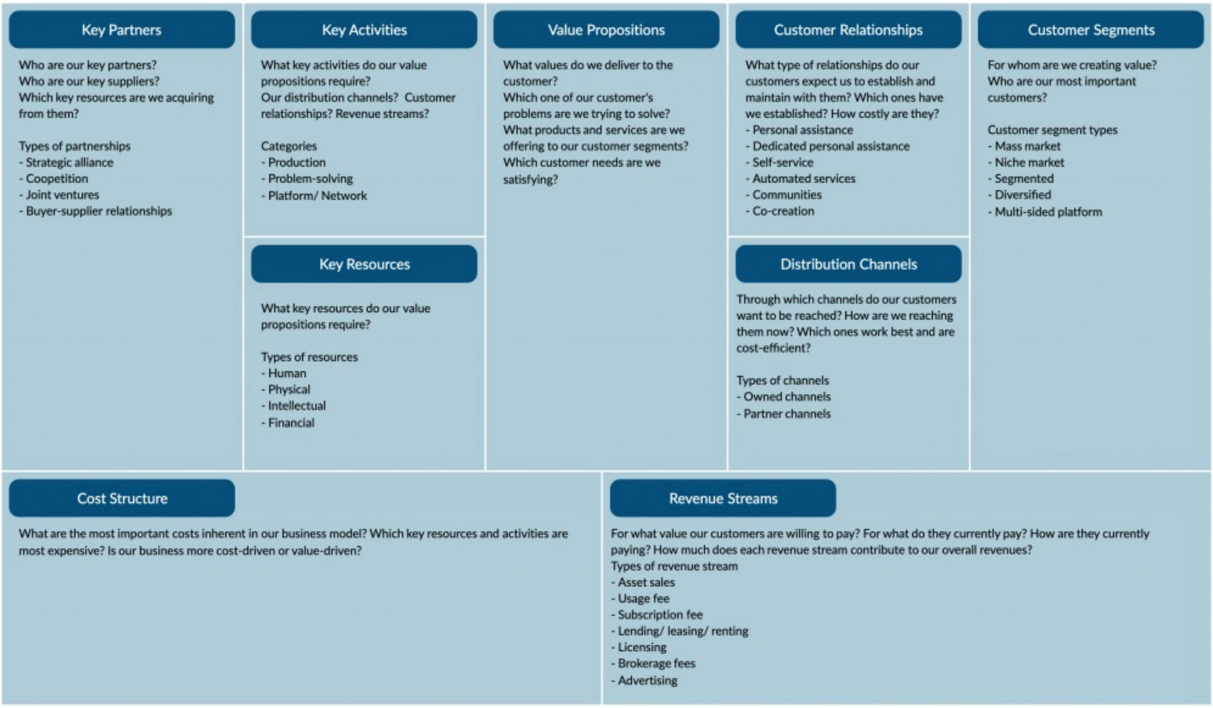
The business model canvas is a strategic management tool that lets you visualize and assess your business idea or concept. It's a one page document containing nine boxes that represent different fundamental elements of a business.

The business model canvas beats the traditional business plan that spans several pages, by offering a much easier way to understand the different core elements of a business.

The right side of the canvas focuses on the customer or the market (external factors that are not under your control) while the left side of the canvas focuses on the business (internal factors that are mostly under your control). In the middle, you get the value propositions that represent the exchange of value between your business and your customers.

The business model canvas was originally developed by Alex Osterwalder and Yves Pigneur and introduced in their book ‘Business model generation’ as a visual framework for planning, developing and testing the business model(s) of an organization. Figure 1 shows a business model canvas.

Figure 1. Business model canvas.



Why you need a business model canvas

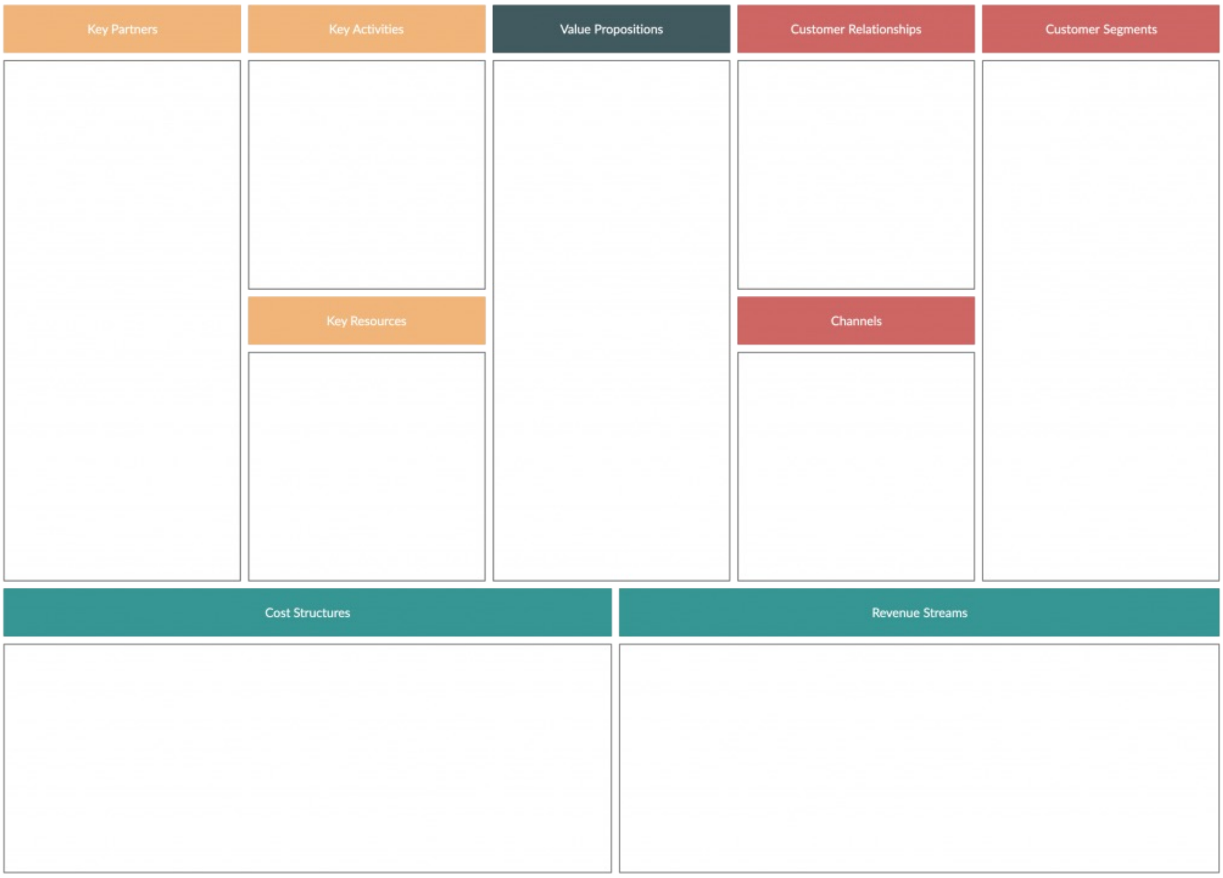
- The business model canvas provides a quick overview of the business model and is devoid of unnecessary details compared to the traditional business plan.
- The visual nature of the business model canvas makes it easier to refer to and understand by anyone.
- It’s easier to edit and it can be easily shared with employees and stakeholders.
- The business model canvas can be used by large corporations as well as startups with just a few employees.
- It clarifies how different aspects of the business are related to each other.
- You can use a business model canvas template to guide a brainstorming session on defining your business model effectively.

How to make a business model canvas

There are nine building blocks in the business model canvas and they are: customer value proposition, customer segments, channels, customer relationships, revenue streams, key resources, key partners, key activities and cost structure.

When filling out a business model canvas template such as the one shown in Figure 2 below, you will brainstorm and research each of these elements. The data you collect can be placed in each relevant section of the canvas.

Figure 2. Business model canvas template.



What are the nine components of the business model canvas?

1. Customer segments
2. Customer relationships
3. Channels
4. Revenue streams
5. Key activities
6. Key resources
7. Key partners
8. Cost structure
9. Value proposition

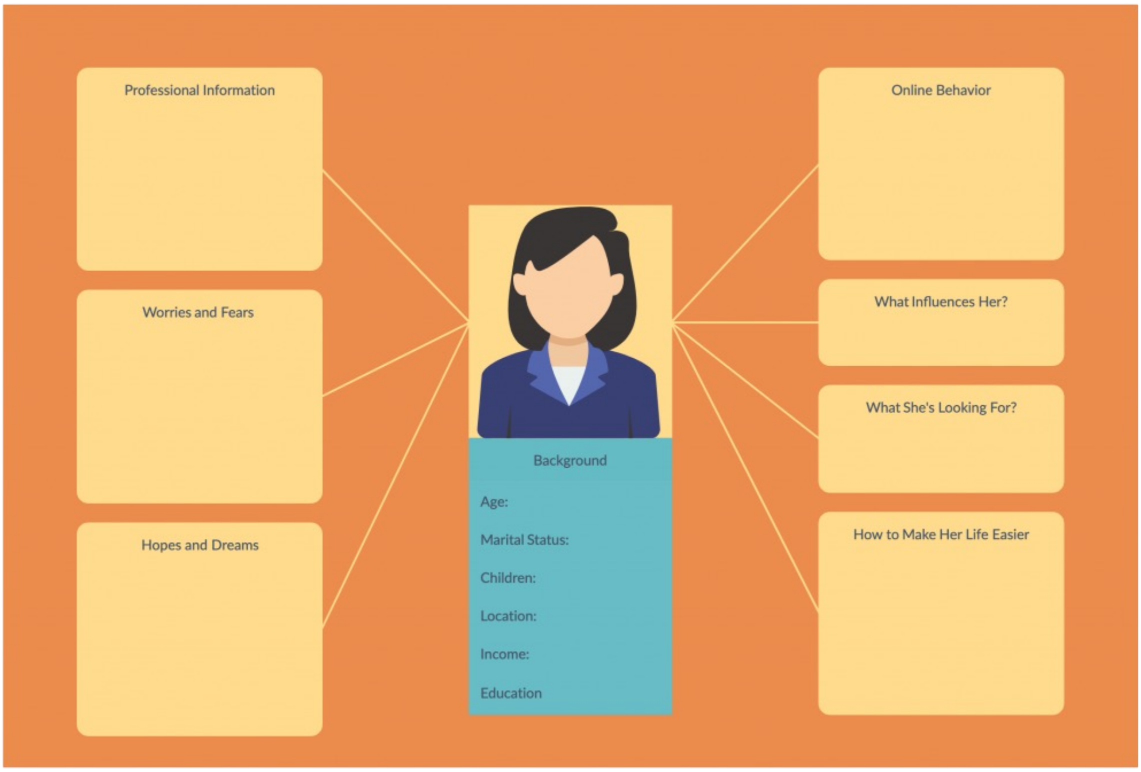
Customer segments

These are the groups of people or companies that you are trying to target and sell your product or service to.

Segmenting your customers based on similarities such as geographical area, gender, age, behaviours, interests etc. allows you to better serve their needs, specifically by customizing the solution you are providing them.

After a thorough analysis of your customer segments, you can determine who you should serve and ignore. Then create customer personas for each of the selected customer segments as demonstrated in Figure 3 below.

Figure 3. Customer personas.



There are different customer segments a business model can target and they are:

- **Mass market**: A business model that focuses on mass markets does not group its customers into segments. Instead, it focuses on the general population or a large group of people with similar needs. For example, a product like a phone.
- **Niche market:** Here the focus is centred on a specific group of people with unique needs and traits. Here the value propositions, distribution channels and customer relationships should be customized to meet their specific requirements. An example would be buyers of sports shoes.
- **Segmented**: Based on slightly different needs, there could be different groups within the main customer segment. Accordingly, you can create different value propositions, distribution channels etc. to meet the different needs of these segments.
- **Diversified**: A diversified market segment includes customers with very different needs.
- **Multi sided markets**: This includes interdependent customer segments. For example, a credit card company caters to both their credit card holders as well as merchants who accept those cards.

Customer relationships

In this section, you need to establish the type of relationship you will have with each of your customer segments or how you will interact with them throughout their journey with your company.

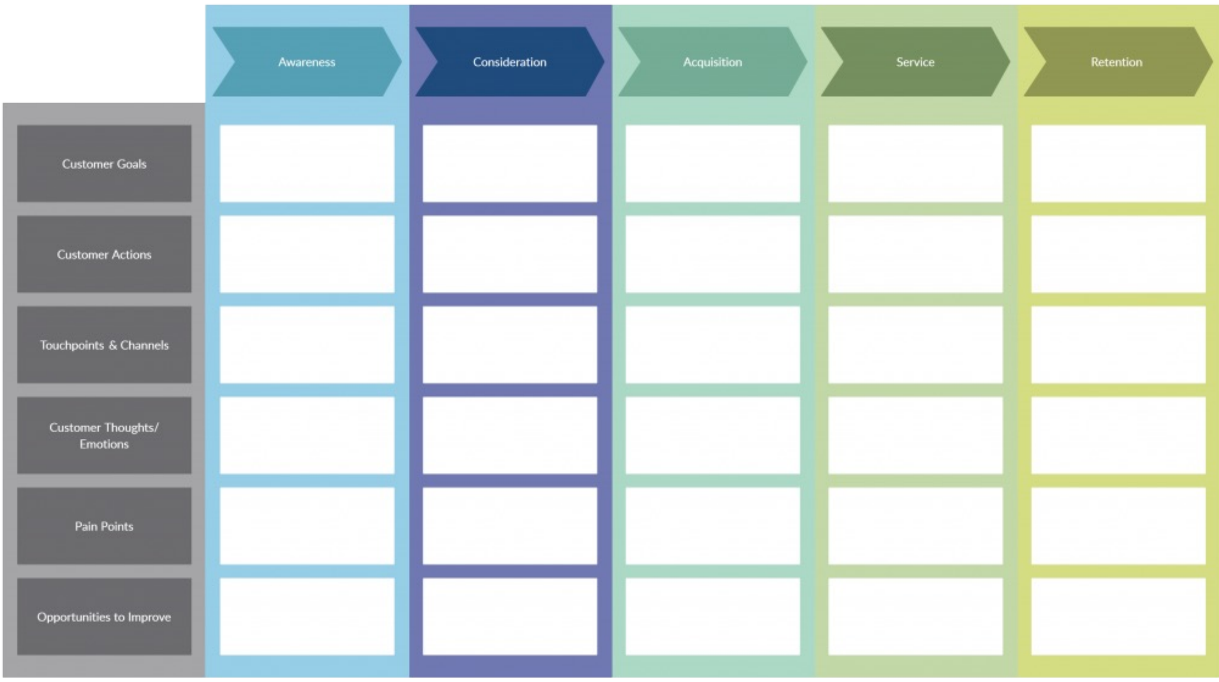
There are several types of customer relationships:

- **Personal assistance**: You interact with the customer in person or by email, through phone call or other means.
- **Dedicated personal assistance**: You assign a dedicated customer representative to an individual customer.
- **Self-service**: Here you maintain no relationship with the customer, but provide what the customer needs to help themselves.

- **Automated services**: This includes automated processes or machinery that helps customers perform services themselves.
- **Communities**: These include online communities where customers can help each other solve their problems concerning the product or service.
- **Co-creation**: Here the company allows the customer to get involved in the design or development of the product. For example, YouTube has allowed its users to create content for its audience.

You can understand the kind of relationship your customer has with your company through a customer journey map. Figure 4 shows a sample customer journey map. It will help you identify the different stages your customers go through when interacting with your company. And it will help you make sense of how to acquire, retain and grow your customers.

Figure 4. Customer journey map.



Channels

This block is to describe how your company will communicate with and reach out to your customers. Channels are the touchpoints that let your customers connect with your company.

Channels play a role in raising awareness of your product or service among customers and delivering your value propositions to them. Channels can also be used to allow customers the avenue to buy products or services and offer post-purchase support.

There are two types of channels:

- **Owned channels**: Company website, social media sites, inhouse sales etc.
- **Partner channels:** Partner owned websites, wholesale distribution, retail etc.

Revenue streams

Revenue streams are the sources from which a company generates money by selling its product or service to customers. And in this block, you should describe how you will earn revenue from your value propositions.

A revenue stream can belong to one of the following revenue models:

- **Transaction based revenue**: Made from customers who make a one-time payment
- **Recurring revenue**: Made from ongoing payments for continuing services or post-sale services

There are several ways you can generate revenue from:

- **Asset sales**: By selling the rights of ownership for a product to a buyer
- **Usage fee**: By charging the customer for the use of its product or service
- **Subscription fee**: By charging the customer for using its product regularly and consistently
- **Lending/leasing/renting**: The customer pays to get exclusive rights to use an asset for a fixed time
- **Licensing:** Customer pays to get permission to use the company's intellectual property
- **Brokerage fees**: Revenue generated by acting as an intermediary between two or more parties
- **Advertising**: By charging the customer to advertise a product, service or brand using company platforms

Key activities

What are the activities/tasks that need to be completed to fulfil your business purpose? In this section, you should list down all the key activities you need to do to make your business model work.

These key activities should focus on fulfiling its value proposition, reaching customer segments and maintaining customer relationships and generating revenue.

There are 3 categories of key activities:

- **Production**: Designing, manufacturing and delivering a product in significant quantities and/or of superior quality.
- **Problem solving**: Finding new solutions to individual problems faced by customers.
- **Platform/network**: Creating and maintaining platforms. For example, Microsoft provides a reliable operating system to support third-party software products.

Key resources

This is where you list down which key resources or the main inputs you need to carry out your key activities to create your value proposition.

There are several types of key resources and they are:

- **Human** (employees)
- **Financial** (cash, lines of credit etc.)
- **Intellectual** (brand, patents, IP, copyright)
- **Physical** (equipment, inventory, buildings)

Key partners

Key partners are the external companies or suppliers that will help you carry out your key activities. These partnerships are forged to reduce risks and acquire resources.

Types of partnerships are:

- **Strategic alliance:** A partnership between non-competitors
- **Competition**: A strategic partnership between partners
- **Joint ventures**: Partners developing a new business
- **Buyer–supplier relationships**: Ensure reliable supplies

Cost structure

In this block, you identify all the costs associated with operating your business model.

You'll need to focus on evaluating the cost of creating and delivering your value propositions, creating revenue streams and maintaining customer relationships. And this will be easier to do so once you have defined your key resources, activities and partners.

Businesses can either be cost driven (focuses on minimizing costs whenever possible) and value driven (focuses on providing maximum value to the customer).

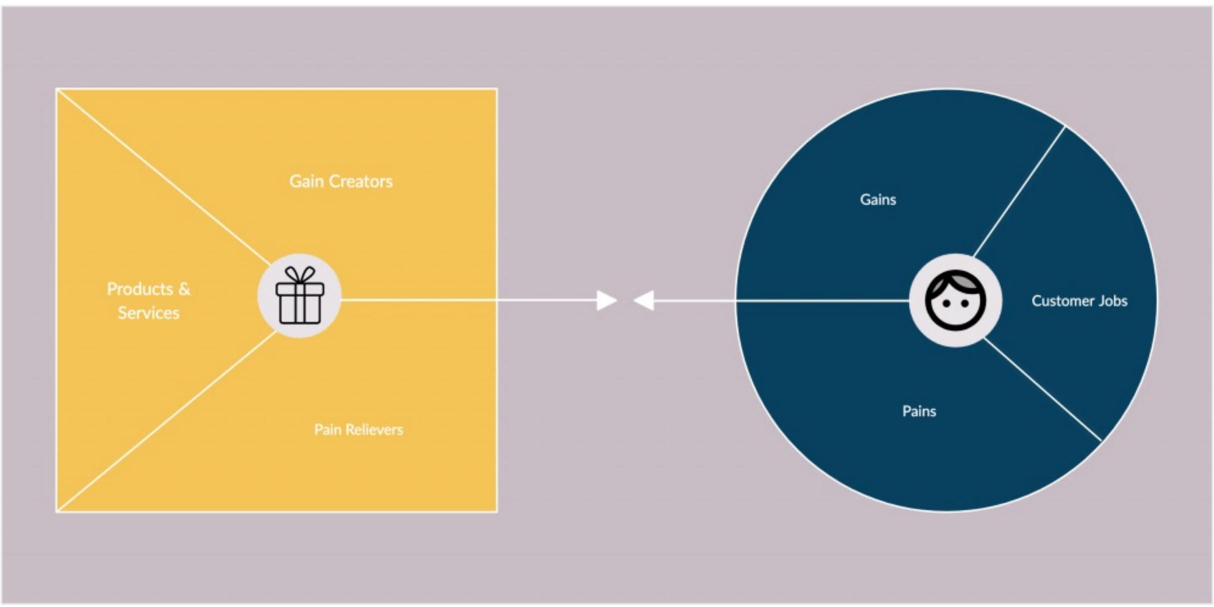
Value propositions

This is the building block that is at the heart of the business model canvas. And it represents your unique solution (product or service) for a problem faced by a customer segment, or that creates value for the customer segment.

A value proposition should be unique or should be different from that of your competitors. If you are offering a new product, it should be innovative and disruptive. And if you are offering a product that already exists in the market, it should stand out with new features and attributes.

Value propositions can be either quantitative (price and speed of service) or qualitative (customer experience or design). Figure 5 shows the value proposition canvas.

Figure 5. Value proposition canvas.



What are your thoughts on the business model canvas?

Once you have completed your business model canvas, you can share it with your organization and stakeholders and get their feedback as well. The business model canvas is a living document, therefore after completing it you need to revisit it and ensure that it is relevant, updated and accurate.

What best practices do you follow when creating a business model canvas? Do share your tips with us in the comments section below.

How to create a business model canvas:

- Use a creative business model canvas template to identify the following nine business segments. Invite your team to collaborate on it with a secure diagram share link.
- Identify the key business partners. This includes people that you want to help you realize your business idea, like suppliers, investors, partners etc.
- Decide on the actions you need to take to ensure that your business delivers on its promises and carries out development projects smoothly.
- List down the key resources you need to develop and launch your product and operate as a business.
- To specify your unique value proposition, figure out what you are going to offer to your customer and how your business stands out from your competitors.
- Segment your customers by understanding who they are. You can use user personas to record the information you find about each segment.
- Establish how you are going to build your relationship with your customers. Write down the guidelines needed to grow your customer base.
- List down the most appropriate channels you can use to communicate, sell and promote your product to your customers.
- Understand how much your key resources and key activities are going to cost. Are these costs aligned with your value proposition?
- Identify the values your customers are willing to pay for and how they prefer to do so. Also, consider how every revenue stream contributes to the overall revenue.
- Share your business model canvas with key stakeholders with a diagram edit/review link to get their feedback. You can use comment discussion threads to analyse needed changes.

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