

## Your Turn—Create a Business Model for Your Venture

Let's go to the template shown in Figure 4.9. It asks you to specify approaches in each of the major dimensions of the business model described in this chapter. Using the template makes this easy. Just follow these steps:

Business Model Dimensions		The Approach for Your Venture	Rationale for That Approach
<b>1</b>	<p><b>Revenue Model</b></p> <p>Products and services                      The structure and nature of revenue?                      The number of distinct revenue streams?                      Pricing relative to competition?                      Recurring revenue?</p>		
<b>2</b>	<p><b>R&amp;D Model</b></p> <p>Build technology or buy?                      Focus of "value-add" in product /service R&amp;D?</p>		
<b>3</b>	<p><b>Production Model</b></p> <p>Manufacturing—internal or outsourced?                      Gross margin targets on products and services.</p>		
<b>3</b>	<p><b>Go-To-Market Model</b></p> <p>Channel ?                      Strategy for building awareness                      Startup approach versus ramp-up approach?</p>		
<b>3</b>	<p><b>How do these Drive Financial Performance?</b>                      Revenues, gross margins, and net operating margins</p>	<b>4</b>	<p><b>Taken as a Whole, is this Business Model Distinctive Relative to Competitors in the Marketplace ?</b></p>

**Figure 4.9** Define Your Business Model Template

Think back to the venture you developed in the previous chapter. It identified your (1) target market niche, (2) target customer(s) within which the niche and their primary activities or uses that you will be solving or improving, (3) your products and/or services offerings, and (4) the positioning of those offerings relative to competitors. These should have been summarized in your *venture concept statement*. Take out your completed version of that template and keep it handy for the next steps.

### Step 1: Define the Revenue Model

Take out your Venture Concept Template completed for the prior chapter. Now, turn to Figure 4.9. Begin at the top row—the Revenue Model. Describe what you propose to be the structure and nature of your venture's revenues and the rationale for that approach. What is your product–service mix? How many streams of revenue are you shooting

for? Will there be recurring revenue? (We hope so!) Can you achieve premium pricing? And, what is your product-service mix for which you will be charging money? As you answer these questions, think beyond the startup phase to a scaled-up version three to five years down the road. You want to design the structure and nature of revenues with that scaled-up business in mind. Map all of this out on a whiteboard, and then fill in the worksheet. For your choices, state your reasoning for that decision (in the second two columns with the arrow labeled as *1*). Show this to your friends or colleagues. See what they think. Are there analogies in the market that help show that your revenue model is in fact feasible? How is it the same, or different, than current players who operate in your chosen market niche?

## Step 2: Define the Models for R&D, Production, and Sales

Do the same for your approach to R&D, manufacturing or production (fulfillment for services), and for branding and distribution. Once again, always ask yourself why your approach for each area makes sense and if there are analogies in the marketplace. What is the reasoning for these decisions? Also, we want you to anticipate the learning in Section II of this book by already thinking about the financial implications for the amount of startup capital needed to start your company and get to the moment of actual product or service launch. Be smart about this. If there are suppliers or channel partners with good reputations in your market niche, consider working with them. In the beginning of any venture, your goal should be to minimize fixed costs (Lease office space, do not buy the building!) and instead, make them variable expenses. The less you have to raise, the less stock you have to give up as a founding team. Then, of course, the goal is to provide enough value in your products or services so that you can charge a sufficient price to generate the operating profit needed to grow the business—and potentially, bring some of these external activities *back into* the business as part of a scaled-up business model.

## Step 3: Integrate

Take a step back. Consider all of the above steps as a whole. How well do the four rows integrate? This first pass should be in a logical sense. Do the strategies form a cohesive whole? Following the arrow starting at No. 3 on the template, work vertically down the columns, reading your own words and reflect as you do so. Is there a tight fit, or does one piece seem out of alignment with the others? Re-examine your reasoning behind the different approaches and try to make a more cohesive, powerful business model.

## Step 4: Financial Outcomes From the Business Model

Next, what do you expect to generate in terms of gross margins for each dollar of revenue, and net or operating margins (before taxes, depreciation, interest, and amortization—for example, any of the “funny business” in corporate accounting)? What do other companies in your same field of business generate in terms of gross and operating profit/EBITDA (earnings before interest, taxes, depreciation, and amortization)? How have the most successful startups in your industries “scaled” in terms of ramping up their revenues over the first five years of business? Beyond this, how do similar firms in your industry charge customers? What is their product-service mix? How and where do they do their R&D and manufacturing? Where can customers buy their products or services? Given the approaches in your current business model, is your venture competitive? How is it better or distinctive relative to competitors? A little digging on the Internet for news stories and product announcements, or a visit to points of sale or with current customers, will help you answer these questions. “I don’t know” is not an acceptable answer if you are serious about starting a venture.

## Step 5: Internal Corporate Venture Business Model Difference Template

Only for corporate entrepreneurs: If your project is to start a business within a business, then fill out the template in Figure 4.10. Use it to highlight the difference between your venture and the core business of the corporation. Then, highlight differences in the two respective business models, for example, the structure and nature of revenues, and the approaches to R&D, production, and channels. If you have not already done so, read the My M&M’S case in the back of this book.

	Core Business	New Venture
<b>Business Strategy</b> <ul style="list-style-type: none"> <li>• Target market</li> <li>• Target customers/uses</li> <li>• Products/services</li> <li>• Competitive positioning</li> </ul>		
<b>Business Model</b> <ul style="list-style-type: none"> <li>• Revenue structure and margins</li> <li>• R&amp;D approach</li> <li>• Production/Supply approach</li> <li>• Go-to-market approach</li> </ul>		

**Figure 4.10** The Differences Between Internal Corporate Ventures and Core Business Template

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Make no mistake: Steps 1 through 4 can be a lot of work. For you corporate entrepreneurs, Step 5 can be both fun to do and frustrating as you try to sell it to your senior management. You might as well start the process now because without their support, your venture is grounded. Your goal is to find that one or two executive champions who will provide the “air cover” you require and help sell the other senior staff.

As you work the business model template, have a computer handy because this will allow you to check on the Web for competitors and analogous business model situations. Also, this type of work is best done in teams. Working by yourself does not necessarily give you the objectivity and broader experiences required to think deeply and creatively about the business model for your venture. Running your ideas by a trusted outside party is certainly a good idea at this point.

And we also encourage you to organize a show and tell session for your business model with your professor and your classmates. Show your listeners your Venture Concept Template from the last chapter and the Business Model Template from this chapter. The two templates should represent a powerful synergy that is the essence of any new venture. *This is the time to be bold. Speak with conviction.*