

Reader Exercises

Let's create a business model for your venture. Go to the template shown in Figure 5.7. 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
Revenue Model Types of revenue Frequency of revenue Price level relative to competitors Multiple streams of revenue		
R&D Model Build technology or buy? What is the "focus" of internal versus external R&D?		
Production Model Manufacturing—internal or outsourced? Logistics—internal or outsourced?		
Go-To-Market Model Channel? Strategy for building awareness		
	<i>Taken As A Whole, Do These All Fit Together?</i> How does this business model compare to other firms already in the market?	

Figure 5.7 Define a Business Model Template

Think back to the venture focus and product/services strategy you developed in previous chapters. You should have (a) your target industry segment/niche, (b) the target customer(s) within that niche and their primary uses that you will be improving, (c) your products and/or services offerings, and (d) the positioning of those offerings relative to competitors. This is a great foundation from which to develop a business model.

Step 1: Define the Revenue Model

Begin at the top row—the revenue model. Write in a phrase or two to describe the four dimensions of your revenue model. If you are selling both products and services, you will need to specify the type, frequency, and price level relative to competition for each, respectively. More generally, how many streams of revenue are you shooting for? Will there be recurring revenue? (We hope so!) Can you achieve premium pricing?

As you answer these questions, think beyond the startup phase to a scaled-up version of your business three to five years down the road. Map this out on a whiteboard, and then fill in the worksheet. For your choices, state your rationale for anything that doesn't seem obvious. 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 Go-to-Market

Do the same for your approach to R&D, manufacturing or production (fulfillment for services), and 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 behind 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 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 your models for revenue, R&D, production, and go-to-market. How well do the four rows in Figure 5.7 for your venture integrate? Do they make for a single powerful, cohesive whole? If not, re-examine your reasoning for the dimensions that seem to be out of fit. You need to get this right!

At this point, we encourage you to organize a show-and-tell session for your business model with your professor and your classmates. Show your product or service concept, your proposed portfolio, and your business model as a package. *This is the time to use your business model to start bringing a full Venture Concept together.*

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