

# THE 9 BUILDING BLOCKS

The Business Model Canvas categorizes the processes and internal activities of a business into [9 separate categories](#), each representing a building block in the creation of the product or service. These categories represent the four major aspects of a business; customers, offer, infrastructure, as well as financial viability. All 9 categories are listed and explained below.

## 1. Customer Segments

The total customer pie is divided into segments based on the manner in which an organization's products or services address a specific need for the segment. The customer segment is an essential part of an organization's business model and is key to ensuring that the product features are aligned with the segments characteristics and needs.

To carry out an effective customer segmentation, a company must first know its customers, both through their current and future needs. Then the organization must list its customers in terms of priority, including a list of potential future customers. Finally, the company should do a thorough assessment of its customers by understanding their strengths and weaknesses and exploring other kinds of customers who may benefit the company more if they are to focus on them.

Various customer segments are as below;

1. **Mass Market:** An organization opting for this type of customer segment gives itself a wide pool of potential customers because it feels that its product is a relevant need amongst the general population. A potential product for such an organization could be Flour.
2. **Niche Market:** This customer segment is based on highly specific needs and unique traits of its clients. An example of an organization with a niche customer segment is Louis Vitton
3. **Segmented:** Organizations adopting the segmented approach create further segmentation in their main customer segment based on slight variations in the customer's demographics and resultantly, their needs.
4. **Diversify:** An organization with a Diversified Market Segment is flexible in the iterations of its product or service tweaking it to suit the needs of segments with dissimilar needs or traits.
5. **Multi-Sided Platform/ Market:** This kind of segment serves customers who have a relationship to each other, i.e. blogging sites need a large group of active bloggers to attract advertisers. And they need advertisers to create cash flow. Hence, only by creating a pull with both segments will the blogging site be able to have a successful business model

## 2. Value Propositions

An organization's value proposition is the combination of products and services it provides to its customers. [Osterwalder](#) stated that these offerings need to be unique and easily differentiated from competition. Value propositions can be divided into two categories:

1. **Quantitative:** this stresses the price or efficiency of the product or service
2. **Qualitative:** this value proposition highlights the experience and results the product and its use, produce.

The value proposition provides value through a number of attributes such as customization, performance, “getting the job done”, brand/ status, design, newness, price, cost and risk reduction, accessibility, as well as convenience/ usability.

When creating your product’s value proposition, the first question an entrepreneur must ask himself is, what problem he is solving through his offered product or service. Then one needs to look into how the product, service or overall experience can be improved so that it provides greater value than the competition. Finally, it is imperative to identify the core value that your business provides. One way to identify this value is for an owner to specify what he/ she wants customers to remember about their interaction with the company.

### **3. Channels**

The medium through which an organization provides its value proposition to its customer segment is known as a channel. There are various options for channels available to an organization, and the selection is based on the channel that is the quickest, most efficient with the least amount of investment required. There are two basic kinds of channels; Company owned channels such as store fronts or Partner Channels such as Distributors. A company can opt to choose either one or employ a combination of both.

For an entrepreneur, the first step in dealing with channels is to identify the customer channels. Touch points with customers can be limited or diverse depending on company strategy. Then he/ she needs to evaluate the strength of the channel by conducting an [SWOT](#) analysis on the channel. Finally, the company can identify and build new customer channels.

### **4. Customer Relationships**

An organization must select the kind of relationship it will have with its customer segment in order to create financial success and sustainability. Customer Relationships can be categorized as follows;

1. **Personal Assistance:** In this kind of relationship the company interacts with the customer directly through an employee who provides the human touch by assisting the customer presale, during the sale and even may provide after sales services.
2. **Dedicated Personal Assistance:** This kind of relationship is characterized by a very close interaction between the customer and the company through a dedicated representative who is assigned a set of clients and is personally responsible for the entire experience the customer has with the company.
3. **Self-Service:** Self-Service places the onus of the customer experience on the tools the company provides for the customer to serve him or herself.

4. **Automated Services:** These are customized self-service relationships where the historical preference of the customer is taken into account to improve the overall experience.
5. **Communities:** In today's electronic age creating communities of clients allows organizations to communicate with them directly. This allows for an enhanced client experience because the community allows clients to share their experiences and come up with common challenges and solutions.
6. **Co-creation:** The customer has a direct hand in the form the company's product or service will take.

For an entrepreneur, the priority is to identify the type of relationship he/ she has with the customer. Then the value of the customer must be evaluated in terms of the frequency of his expenditure on the firm's product and services. Loyal customers are relationships that the company should aim to invest in as they will yield steady revenue throughout the year.

## 5. Revenue Streams

A revenue stream is the methodology a company follows to get its customer segments to buy its product or service. A revenue stream can be created through the following ways;

1. **Asset Sale:** the company sells the right of ownership over the good to the customer.
2. **Usage Fee:** the company charges the customer for the use of its product or service.
3. **Subscription Fee:** the company charges the customer for the regular and consistent use of its product or service.
4. **Lending/ Leasing/ Renting:** the customer pays to get exclusive access to the product for a time-bound period.
5. **Licensing:** the company charges for the use of its intellectual property.
6. **Brokerage Fees:** companies or individuals that act as an intermediary between two parties charge a brokerage fee for their services.
7. **Advertising:** a company charges for others to advertise their products using their mediums.

When setting up revenue streams, it is important to recognize that an effective price for the product and/or service will be arrived at through the process of elimination. Different iterations of prices should be listed and evaluated. It is important, in the end to take a break and reflect on possible avenues open to you as a business.

## 6. Key Resources

These are the assets of the organization fundamental to how it provides value to its customers. Resources can be categorized as human, financial, physical and intellectual.

For an entrepreneur, it is important to begin with listing your resources. This gives you a clear idea of what final product or service your company needs to create for the customer and which resources are dispensable, resulting in cost savings for your company. Once the final list of resources is available, the

company can decide on how much it needs to invest in these key resources to operate a sustainable business.

## 7. Key Activities

Activities that are key to producing the company's value proposition. An entrepreneur must start by listing the key activities relevant to his/her business. These activities are the most important processes that need to occur for the business model to be effective. Key activities will coincide with revenue streams. Now it is important to evaluate which activities are key by adding or removing some and evaluating their impact.

## 8. Key Partnerships

To create efficient, streamlined operations and reduce risks associated with any business model, an organization forms partnerships with its high-quality [suppliers](#). Key partnerships are the network of suppliers and partners who complement each other in helping the company create its value proposition. Partnerships can be categorized as follows;

- Strategic alliance between competitors (also known as cooptation),
- Joint ventures and
- Relationships between buyers and suppliers.

An entrepreneur must begin by identifying its key partners followed by making future partnership plans. This can be done through an evaluation of the partnership relationship to judge which characteristics of the relationship need improvement and what kind of future partnerships will be required.

## 9. Cost Structure

This defines the cost of running a business according to a particular model. Businesses can either be cost driven i.e. focused on minimizing investment into the business or value driven i.e. focused on providing maximum value to the customer.

Following are some traits of common cost structures;

1. **Fixed Costs:** costs that remain the same over a period of time
2. **Variable Costs:** as the name suggests, these costs vary according to a variance in production
3. **Economies of Scale:** costs decrease as production increases
4. **Economies of Scope:** costs are decreased by investing in businesses related to the core product.

The first step for an [entrepreneur](#) is to obviously identify all costs associated with the business. A realistic understanding of the costs of the business is one of the hallmarks of a good business model. After identification, it is important to list all the costs on the canvas, so they are visually present and then create plans for each cost. Some costs may be decreased through certain measures while others may go up if you decide that an investment in a particular section will result in future gains.