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The Business Model Canvas for Mentors

The Venture Mentoring Team  
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# What is a Business Model?

- Describes how a new venture creates, delivers, and captures value.
- Evidence is gathered from talking to people, investigating and asking questions.
- Built over time by collecting evidence that what you are creating works.
- Helps entrepreneurs understand what they are doing.
- Types of Business Models:
  - Innovation, disruption, differentiation, and imitation.

**Startup: Temporary organization in search of a scalable business model.**

## Let's Say It Again

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... how a company *creates,*  
*delivers, and captures*  
*value.*

Key Partners



Key Activities



Value Propositions



Customer Relationships



Customer Segments



Key Resources



Channels



Cost Structure



Revenue Streams



**THE  
VENTURE  
MENTORING  
TEAM**



In other words

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**We will use the canvas**  
***as a "Discovery Map"...***

Key Partners



Key Activities



Value Propositions



Customer Relationships



Customer Segments



**Right-side of BMC –  
*Customer Focused***

Channels



Cost Structure



Revenue Streams



Key Partners



Key Activities



Value Propositions



Customer Relationships



Customer Segments



**Left-side of BMC –  
Company Infrastructure  
Focused**

Channels



Cost Structure



Revenue Streams



**THE  
VENTURE  
MENTORING  
TEAM**



In other words

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The Business Model  
*measures value to the  
business.*



Key Partners



Key Activities



Value Propositions



Customer Relationships



Customer Segments



**What we do...**

**Drive  
hypothetical  
value...**

**For these  
people.**

Key Resources



Channels



**What we have...**

Cost Structure



Revenue Streams



# The 9 Interlocking Components

## *Value Propositions*



What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products and services are we offering to each Customer Segment?

Which customer needs are we satisfying?

### **CHARACTERISTICS**

*Newness*

*Performance*

*Customization*

*"Getting the Job Done"*

*Design*

*Brand/Status*

*Price*

*Cost Reduction*

*Risk Reduction*

*Accessibility*

*Convenience/Usability*

# The 9 Interlocking Components

## Channels



Through which Channels do our Customer Segments want to be reached?

How are we reaching them now?

How are our Channels integrated?

Which ones work best?

Which ones are most cost-efficient?

How are we integrating them with customer routines?

### CHANNEL PHASES:

1. Awareness  
*How do we raise awareness about our company's products and services?*
2. Evaluation  
*How do we help customers evaluate our organization's Value Proposition?*
3. Purchase  
*How do we allow customers to purchase specific products and services?*
4. Delivery  
*How do we deliver a Value Proposition to customers?*
5. After sales  
*How do we provide post-purchase customer support?*

## Customer Segments



For whom are we creating value?  
Who are our most important customers?

Mass Market  
Niche Market  
Segmented  
Diversified  
Multi-sided Platform

## Customer Relationships



What type of relationship does each of our Customer Segments expect us to establish and maintain with them?  
Which ones have we established?  
How are they integrated with the rest of our business model?  
How costly are they?

### EXAMPLES

Personal assistance  
Dedicated Personal Assistance  
Self-Service  
Automated Services  
Communities  
Co-creation

# The 9 Interlocking Components

## Key Activities

What Key Activities do our Value Propositions require?  
Our Distribution Channels?  
Customer Relationships?  
Revenue streams?

**CATEGORIES**  
Production  
Problem Solving  
Platform/Network



## Key Resources

What Key Resources do our Value Propositions require?  
Our Distribution Channels? Customer Relationships?  
Revenue Streams?

**TYPES OF RESOURCES**  
Physical  
Intellectual (brand patents, copyrights, data)  
Human  
Financial



## Key Partners

Who are our Key Partners?  
Who are our key suppliers?  
Which Key Resources are we acquiring from partners?  
Which Key Activities do partners perform?

**MOTIVATIONS FOR PARTNERSHIPS:**  
Optimization and economy  
Reduction of risk and uncertainty  
Acquisition of particular resources and activities



# The 9 Interlocking Components

## Revenue Streams

For what value are our customers really willing to pay?  
 For what do they currently pay?  
 How are they currently paying?  
 How would they prefer to pay?  
 How much does each Revenue Stream contribute to overall revenues?

### TYPES:

Asset sale  
 Usage fee  
 Subscription Fees  
 Lending/Renting/Leasing  
 Licensing  
 Brokerage fees  
 Advertising

### FIXED PRICING

List Price  
 Product feature dependent  
 Customer segment dependent  
 Volume dependent

### DYNAMIC PRICING

Negotiation( bargaining)  
 Yield Management  
 Real-time-Market

## Cost Structure

What are the most important costs inherent in our business model?  
 Which Key Resources are most expensive?  
 Which Key Activities are most expensive?

### IS YOUR BUSINESS MORE:

Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)  
 Value Driven (focused on value creation, premium value proposition)

### SAMPLE CHARACTERISTICS:

Fixed Costs (salaries, rents, utilities)  
 Variable costs  
 Economies of scale  
 Economies of scope

# The Value Proposition

## What is a Value Proposition?

A **Value Proposition** is the specific way that your product or service helps people in your **Customer Segment**.

- We either:
  - Provide the customer a gain
  - Or take away a pain!



## In other words

### I. Newness



New technology.  
New invention.  
New product category.



## In other words

### 2. Performance



**Bigger.**

**Better.**

**Faster.**

**More effective.**



## In other words

### 3. Customization



Product or service designed for *specific* customer

Technology recommends products or services for *specific* customer (like how Amazon recommends books)

## In other words

### 4. “Getting the Job Done”



Enhances customer's productivity

Gives customer time and space  
to focus on other things



## In other words

### 5. Design

vibram® livetingers®



Style  
Look  
Feel  
Color

## In other words

### 6. Price



Priced to sell to a new customer segment

Similar to existing products and services at a lower price



## In other words

### 7. Risk Reduction



Makes people safer

Makes people **feel** safer

Guarantees to fix problems for a certain amount of time

## In other words

### 8. Status



Makes customers look  
powerful, important or cool

# The Value Pyramid (Bain & Company)



What? Is Maslow involved here?

# The Elements of the Value Pyramid

## Examples of companies exhibiting Elements of Value

### SOCIAL IMPACT ELEMENTS

*What value to society?*

**Self  
transcendence**  
TOMS  
Seventh Generation

### LIFE CHANGING ELEMENTS

*How does it change my life?*

**Provides hope**  
GNC  
Solid Gold

**Self  
actualization**  
Harley-Davidson  
Leica

**Motivation**  
Weight Watchers  
Fitbit

**Heirloom**  
Patek Philippe  
Bentley

**Affiliation &  
belonging**  
Sierra Club  
Boston Red Sox

### EMOTIONAL ELEMENTS

*How does it feel?*

**Reduces anxiety**  
PayPal  
AAA

**Rewards me**  
American Airlines  
Starwood

**Nostalgia**  
Disney  
Lego

**Design /  
Aesthetics**  
Nike  
Lululemon

**Badge value**  
BMW  
Prada

**Wellness**  
WebMD  
CVS Health

**Therapeutic  
value**  
L'Occitane  
Dr. Scholl's

**Fun/  
Entertainment**  
Busch Gardens  
Celebrity Cruises

**Attractiveness**  
Hugo Boss  
Victoria's Secret

**Provides  
access**  
Ancestry.com  
iTunes

### FUNCTIONAL ELEMENTS

*What does it do?*

**Saves time**  
E-Z Pass  
Zappos

**Simplifies**  
Google  
Samsung

**Makes money**  
Vanguard  
American Funds

**Reduces risk**  
Symantec  
MetLife

**Organizes**  
The Container Store  
TurboTax

**Integrates**  
Microsoft Outlook  
Apple

**Connects**  
Facebook  
Verizon

**Reduces effort**  
Cuisinart  
Amazon

**Avoids hassles**  
Amex  
USAA

**Reduces cost**  
Walmart  
Prius

**Quality**  
Tumi  
Patagonia

**Variety**  
Etsy  
CarMax

**Sensory  
appeal**  
Starbucks  
Sephora

**Informs**  
Wikipedia  
Consumer Reports

INWARDLY-FOCUSED VALUE

OUTWARDLY-FOCUSED VALUE





# The Customer Segments Building Block

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- defines the different groups of people or organizations an enterprise aims to reach & serve.
- targeting profitable customers

# How to Segment Customers?

- their needs require and justify a distinct offer
- they are reached through different Distribution Channels
- they require different types of relationships
- they have substantially different profitabilities
- they are willing to pay for different aspects of the offer

# Types of Customer Segments

- **Mass market** : focus on one large group of customers with broadly similar needs/problems
- **Niche market** : specific requirements
- **Segmented** : slightly different needs/problems
- **Diversified** : very different needs/problems
- **Multi-sided platforms** (or multi-sided markets) : serve 2 or more interdependent customer segments

# The Channels Building Block

- describes how a company **communicates** with and **reaches** its Customer Segments to **deliver** a Value Proposition
- communication, distribution, and sales channels comprise a company's **interface with customers.**



# How to Create and Understand Channels

- through which Channels do our Customer Segments want to be **reached**?
- how are we **reaching** them now?
- how are our Channels **integrated**?
- which ones **work best**?
- which ones are most **cost-efficient**?
- how are we integrating them with **customer routines**?

# Mix of Channel Types

Channel Types		Channel Phases				
Own	Direct					
	Sales force					
	Web sales	<b>1. Awareness</b> How do we raise awareness about our company's products and services?	<b>2. Evaluation</b> How do we help customers evaluate our organization's Value Proposition?	<b>3. Purchase</b> How do we allow customers to purchase specific products and services?	<b>4. Delivery</b> How do we deliver a Value Proposition to customers?	<b>5. After sales</b> How do we provide post-purchase customer support?
Partner	Indirect					
	Own stores					
	Partner stores					
	Wholesaler					

- **Partner Channels** lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths.
- **Owned Channels** and particularly direct ones have higher margins, but can be costly to put in place and to operate.





# The Customer Relationships Building Block

- describes the types of relationships a company **establishes** with specific Customer Segments
- relationship can range from **personal to automated**
- driven by **motivations** : customer *acquisition*, customer *retention*, and boosting sales (*upselling*)

# How to Build Relationships with the Customer Segment?

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- what type of relationship does each of our Customer Segments expect us to establish and maintain with them?
- which ones have we **established**?
- how **costly** are they?
- how are they **integrated** with the rest of our business model?





# Examples of Categories of Customer Relationships

- personal assistance
- dedicated personal assistance
- self-service
- automated services
- communities
- co-creation

# The Revenue Streams Building Block

- represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)
- the firm generate one or more Revenue Streams from each Customer Segment.
- Each Revenue Stream may have different pricing mechanisms.

## Two Types of Revenue Streams

- **Transaction revenues** resulting from one-time customer payments
- **Recurring revenues** resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support

# How to Understand Revenue Streams

- For what value are our customers really willing to pay?
- For what do they currently pay?
- How are they currently paying?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues?



# Several Ways to Generate Revenue Streams

- Asset sale
- Usage fee
- Subscription fees
- Lending/Renting/Leasing
- Licensing
- Brokerage fees
- Advertising

# Pricing Mechanisms

Fixed Menu Pricing Predefined prices are based on static variables		Dynamic Pricing Prices change based on market conditions	
<i>List price</i>	Fixed prices for individual products, services, or other Value Propositions	<i>Negotiation (bargaining)</i>	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
<i>Product feature dependent</i>	Price depends on the number or quality of Value Proposition features	<i>Yield management</i>	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
<i>Customer segment dependent</i>	Price depends on the type and characteristic of a Customer Segment	<i>Real-time-market</i>	Price is established dynamically based on supply and demand
<i>Volume dependent</i>	Price as a function of the quantity purchased	<i>Auctions</i>	Price determined by outcome of competitive bidding

# How Do They Make Money?



Product & service  
sales



Subscription to a  
service



Ad revenue

**KICKSTARTER**

Commission



Freemium



# The Key Resources Building Block

- These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn Revenues
- Key resources can be physical, financial, intellectual, or human.
- Key resources can be owned or leased by the company or acquired from key partners.





# What are the Key Resources in Your Business?

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- What Key Resources do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue Streams?

# The Categories

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- Physical Assets
- Intellectual
- Human
- Financial

# The Key Activities Building Block

- describes the most important things a company must do to make its business model work
- Key Resources required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn Revenues.
- Key Activities differ depending on business model type

## What Key Activities do?

- What Key Activities do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue streams?

# Key Activities Categories

- **Production** : designing, making & delivering a product in substantial qty or superior quality
- **Problem solving** : coming up with new solutions to individual customer problems.
- **Platform/network** : dominated by platform or network-related Key activities (networks, software, brands, etc)

# The Key Partnerships Building Block

- describes the network of suppliers and partners that make the business model work
- Four different types of partnerships:
  1. Strategic alliances between non-competitors
  2. Coopetition: strategic partnerships between competitors
  3. Joint ventures to develop new businesses
  4. Buyer-supplier relationships to assure reliable supplies

## Who and Which?

- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources are we acquiring from partners?
- Which Key Activities do partners perform?





## 3 Motivations for Creating Key Partnerships

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1. Optimization and economy of scale
2. Reduction of risk and uncertainty
3. Acquisition of particular resources and activities





# The Cost Structure Building Block

- describes **all costs incurred to operate a business model**
- Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs.
- Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships.

# How To Measure Costs

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?
- Two broad classes of business model Cost Structures: **cost-driven** and **value-driven** (many business models fall in between these two extremes)



# Classes of Business Model Cost Structures

- **Cost Driven** (focus on minimizing costs wherever possible)
- **Value Driven** (instead focus on value creation):
  1. **Fixed Costs** (Costs that remain the same despite the volume of goods or services produced)
  2. **Variable Costs** (Costs that vary proportionally with the volume of goods or services produced)
  3. **Economies of Scale** (Cost advantages that a business enjoys as its output expands.)
  4. **Economies of Scope** (Cost advantages that a business enjoys due to a larger scope of operations.)

# top Takeaways

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***...three lessons about  
Business Models***

- 1. The business model identifies how you create, deliver, and capture value.**
- 2. Customers have jobs to be done – and job context drives associated needs**
- 3. Start by assessing if your targeted job is truly top-of-mind for the customer**

- 1. The business model identifies how you create, deliver, and capture value.**
- 2. Different Customer Segments typically require different business models.**
- 3. Start by assessing if your targeted job is truly top-of-mind for the customer**

- 1. The business model identifies how you create, deliver, and capture value.**
- 2. Different Customer Segments typically require different business models.**
- 3. The search for a beachhead segment starts with finding customers that have a compelling reason (need) to buy.**

Key Partners



Key Activities



Value Propositions



Customer Relationships



Customer Segments



**Does the customer  
have a compelling  
reason to buy?**

Channels



Cost Structure

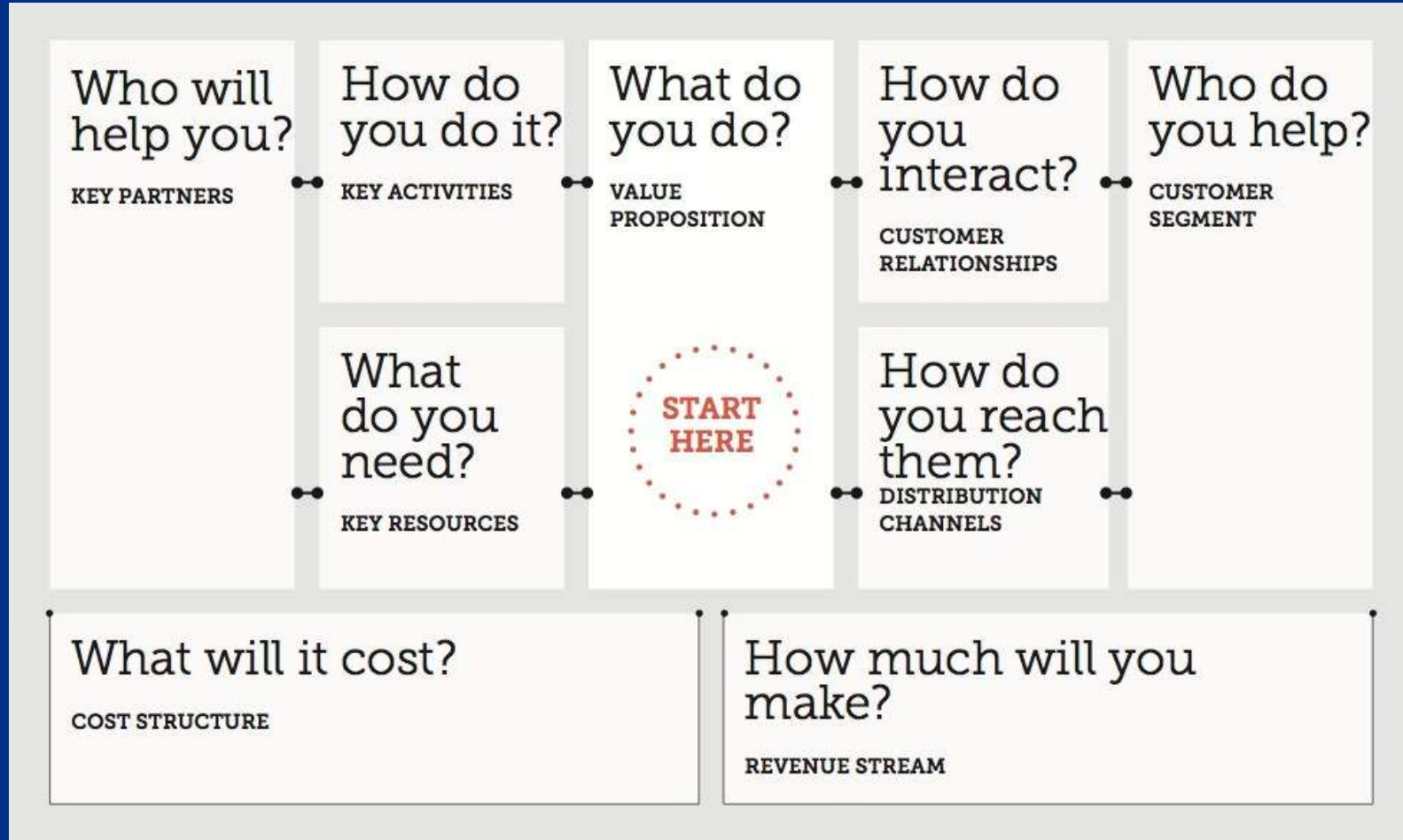


Revenue Streams





## In other words



# BMC: Uber



# BMC: Airbnb



# BMC: Netflix

