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How to build your startup The business model

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Definition

The business model is the main part of the business plan. It is the basis of the company's overall strategy. It describes how the company will make money by defining what it will sell, how it will sell it and who it will target.

To create a business model, you must:

- conduct a market study.
- choose your target.
- determine its positioning.
- evaluate its profitability.
- define your strategy.

Conduct a market study

Conducting a market study is the first step to follow. It is carried out at the stage of reflection. A coherent business model is based on a perfect knowledge of the target market. It allows to :

- Know the size of your market.
- Find out about the competition and about similar offers on the market.
- Identify the needs of the customers.
- Establish a strategy to follow in order to gain a place in the market.

Choose your target

An offer must have a precise target. By defining the type of clientele concerned by the offer because it is impossible to meet the needs of everyone. The choice of the target facilitates the communication actions and the implementation of the global strategy of the company.

Determine its positioning

Determining your strategic positioning involves:

- the choice of price.
- sales typology.
- competitive advantages.

Example of a strategic choice:

- Post lower prices.
- Offer higher quality products.
- Choose for a different distribution model.

Evaluate its profitability

Evaluate its profitability in order to make a financial forecast. By asking yourself the following questions :

- How much is the initial investment?
- What profits can be generated?
- What are the expenses to be made?
- How are the expenses covered?

Define your strategy

Define your strategy in order to guarantee the profitability of your business. Defining the strategy allows to propose an action plan in order to seize market shares and to identify the necessary means to develop the activity. By taking into account :

- human resources.
- marketing and sales efforts.
- logistics organization.

Business Model Canvas

A Business Model Canvas is a tool that allows to formalize a business model simply through a synthetic table, composed of :

- The value proposition : The value proposition (your offer) provides a solution to a problem or satisfies a need. The offer is inseparable from the customer you are targeting. Have you imagined all the possibilities to stand out from your competitors, by innovating either by the proposed offer, or by the use that is made of it, the means implemented or the commercial strategy.
- Distribution : This is all the communication and distribution means you put in place to reach your customers. It is the way your customer will come in contact with your offer, and an opportunity to stand out.
- Customer Relationships This section describes the types of relationships a company builds with your customer segments. This goes beyond the product or service sold, for example: ensuring the loyalty of your customers, acquiring new ones, facilitating the act of purchase, even increasing the frequency of purchase.
- Income : This is all the money generated by your activity. They can be punctual or recurrent, fixed (price of a catalog, a package, a subscription, a rental, advertising) or variable (depending on the conditions: real time, auctions, customized, etc.).

- Key resources : these are all the material resources (manufacturing site, furniture, equipment, vehicles, premises, etc.), immaterial resources (patent, copyright, skills, expertise, database, etc.), human resources and financial resources that the company must bring together to produce an offer that meets your customers' expectations. Key resources can be owned, leased or obtained from key partners.
- Key activities : these are the most important things a business needs to do to make its business model work. For example, saying that you sell products is not enough: is it buying/selling, or designing and manufacturing, or is it a marketplace (internet)? In the latter case, the real activity of the company will be to manage a website and a logistics center.
- Key partners : these are the company's external allies thanks to whom you can develop and improve your offer. A good partnership relationship can also guarantee you certain advantages over your competitors: price control, exclusivity of a know-how, control of the production cycle, etc. Here are some examples of key partners: suppliers, subcontractors, experts, prescribers, former customers, etc.
- Cost structures Finally, it is necessary to evaluate all the costs that are essential for the proper functioning of the activity.
 - Variable costs: these depend on the level of activity of the company and increase as the activity increases (purchase of goods, commissions, raw materials, etc.).
 - Fixed costs: these are incompressible expenses that are independent of the activity (insurance premiums, rent, human resources, etc.).

Business Model Examples

Freemium

Freemium is a model that combines a free offer with a paid offer that allows access to the full functionality of the product. This strategy, known as market penetration, aims to attract a maximum number of customers, to make the company's services or products known and to encourage customers to pay for a more advanced version. Deezer, the music streaming service, for example, uses this business model, with the paid version containing no advertising.

Subscription

Subscription requires the customer to pay on a monthly or annual basis to access the company's services. This allows the company to benefit from regular cash flow and the subscriber to benefit from preferential rates. This business model is used by Netflix.

Direct sales

Direct sales correspond to a business model with no intermediary between the customer and the seller. It is essentially a model used in local commerce, directly from the producer to the consumer or in home sales.

Affiliation

Affiliation consists in selling the product of a third person or company through its own website. The affiliate attracts traffic to his pages and redirects users to the merchant site. For each sale, the affiliate receives a commission, usually a percentage of the price paid by the buyer.

Leasing of goods or services

In the case of leasing of goods or services, the customer no longer buys the product, but rents it for a fixed or indefinite period of time at a price generally lower than the market price.

The low cost

The low cost business model proposes very attractive prices to attract more customers by drastically reducing the offer of products or services proposed. The low cost business model seeks to be as close as possible to the consumer's needs by presenting simple products without any options.

Note that a single company can have one primary business model and several secondary business models. In any case, this choice is not definitive. One should not hesitate to regularly question the business model to improve the performance of the activity and anticipate the appearance of a new competitor.