

### Business Financial & Strategic Management (Part 2)

#### The Business Model Framework

Every business model consists of four key interdependent elements.

##### Customer Value Proposition (“CVP”):

A product or service solution for a problem that customers are currently facing or specific need that they have.

##### Profit Formula:

The unique way your company creates value for itself and its owners/shareholders.

Your profit formula must define the business models: -

- **Revenue Model:** Volume/Quantity x Price (ideally with a good gross margin built in);
- **Cost Structure:** Direct costs, indirect costs, and general operating overheads;
- **Margin Model:** The operating profit per unit needed to cover overhead costs and achieve financial targets;
- **Resource Velocity:** How quickly money will flow through your company from the sales/services provided to customers/clients– that is, it has very good cashflow processes in place.

##### Key Resources:

The people, technologies, facilities, and funding a business needs to successfully deliver its CVP to customers.

##### Key Processes:

These are the essential tasks that bring your company’s CVP and profit formula into fruition - such as manufacturing, service offerings, sales, training, and research & innovation.

#### Designing a New Business Model

Business model innovation process consists of four repeatable steps:-

- Discover your customers’ jobs-to-be-done:** Stop asking your customers what they want and start asking them what they need to accomplish. Study their lives until you understand every detail of the problems they face. Instead of hiring a marketer to collect this information, use the Internet and/or your website to connect with your customers directly.
- Design the new CVP:** Once you identify an important job-to-be-done, develop a CVP that addresses it in a powerful way. The CVP must clearly define what your company will sell, which payment scheme it will use, and how it will make its products or services available to customers.
- Develop the profit formula:** To identify the most effective strategy for delivering value to your company, you must work backward by creating a reverse income statement. This means developing a profit goal first and then testing out different revenue models, cost structures, inventory, and staff utilisation until you accomplish the goal.

d) **Identify the key resources and key processes:** Determine which processes and resources need to be in place in order for your company to deliver its new **CVP**.

### Getting Your Business Model & Strategy Right

So how can you best approach getting your business model aligned with your overall strategic objectives, in a structured way?

The diagrams below illustrate how you might go about the process and the various steps to be addressed.

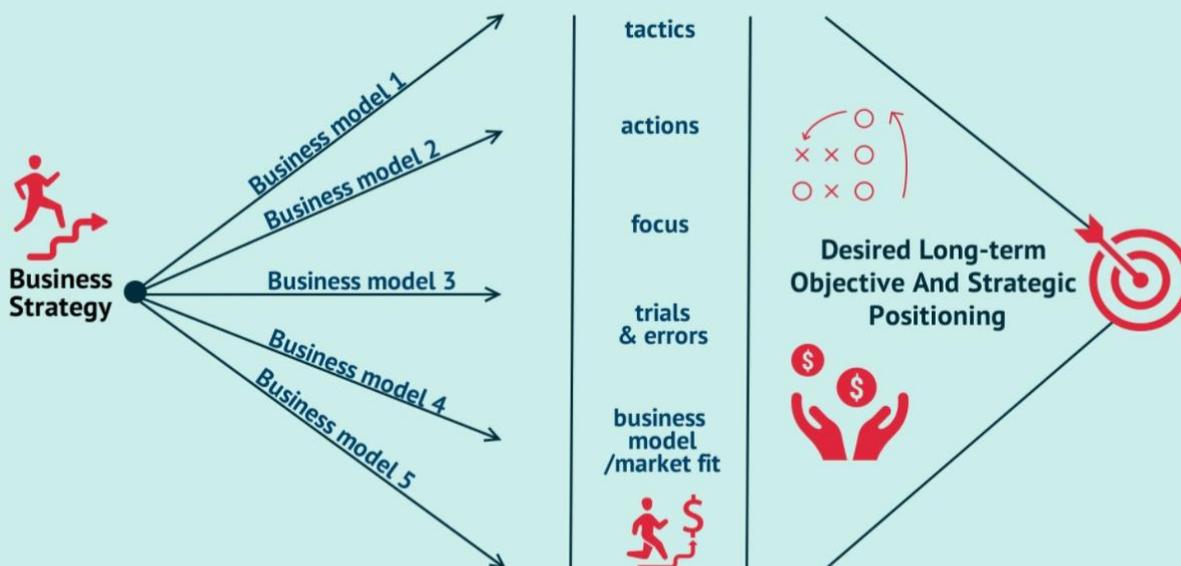
# Business Model Defined

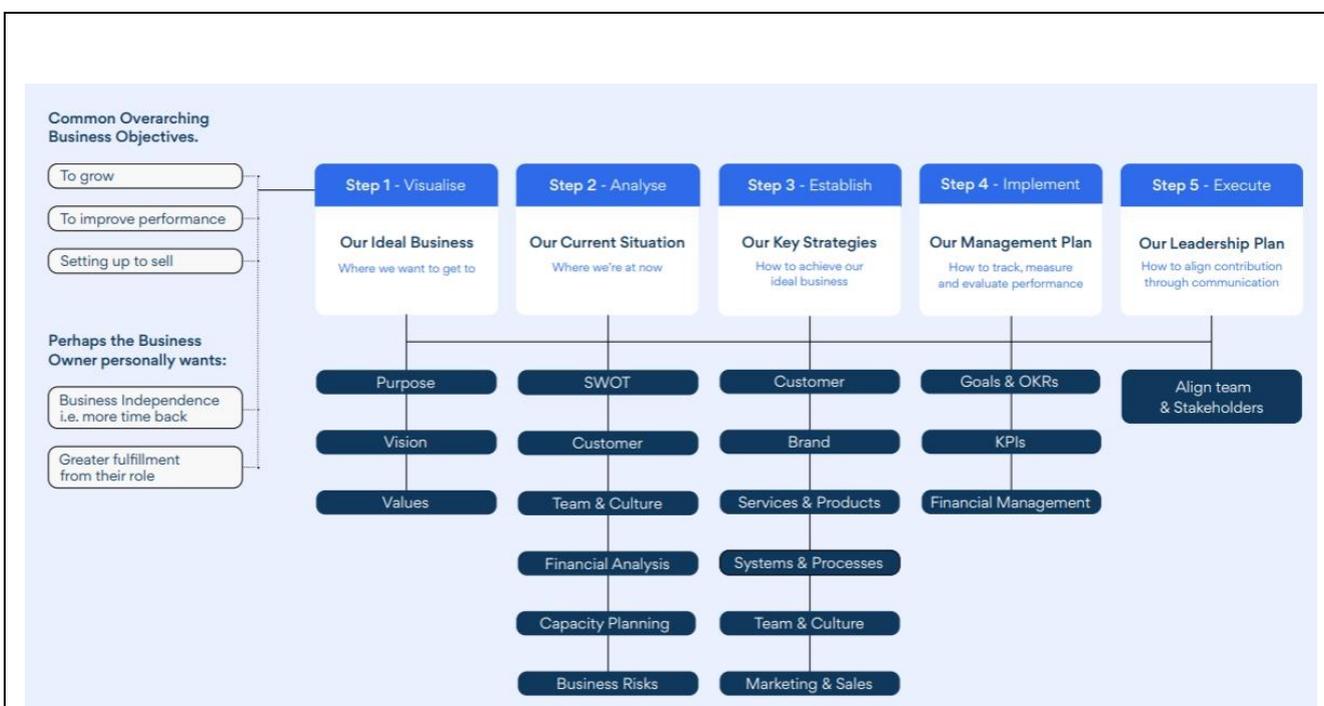
- Describes the rationale of how an organization creates, delivers, and captures value (economic, social, cultural, or other forms of value).
- In theory and practice, it is used for a broad range of informal and formal descriptions to represent core aspects of a business:
  - Purpose
  - Target Customers
  - Strategic Business Units (what the business sells)
  - Strategies
  - Infrastructure and Organizational Structures
  - Trading Practices, and
  - Operational Processes and Policies.
- The process of business model construction is part of business strategy.

From Wikipedia

## Business Model vs. Business Strategy

A business strategy is a deliberate vision to get toward a desired long-term goal. A business model is a great tool to execute a business strategy. Yet while achieving a long-term goal a business strategy set a vision, mission and value proposition that can be executed through several possible business models. When one of the drafted business models encounters the favor of the market that is when a business strategy becomes successful!





## Business Purpose

Why is defining a 'Purpose' important? It's the meaning behind 'why' the business exists; keeping everyone focused on the bigger picture and the impact being made as an organisation. If we're to distil down the meaning of a business 'purpose,' it would be - the underlying motivation as to why the business exists in the marketplace.

**A purpose usually stems from either:-**

- A sense of meaning and/or fulfilment;
- A belief in doing things differently, better or perhaps more ethically and sustainably;
- A passionate motive behind what you do.

The answer is intended to continually inspire the businesses employees along the journey to achieve what's defined as the aspirational and ideal business.

### **Financial Impact:**

It's hard to put an exact figure on the impact of having a purpose versus not having one.

To some, defining it may seem simple and 'fluffy', but it is important to establish, because it will ensure the businesses resources (time, energy and the cost of all of that) are more effectively utilised, by:-

- Driving the motivation and attitudes of the business culture
- Aligning and motivating the team
- Streamlining and acting as a moral compass for business decision making
- Influence the service and products the business provides

Clearly defining why the business exists in the marketplace and sharing this belief, will also act as an underlying force that attracts like-minded stakeholders; people who also believe in what the business is trying to achieve.

And, by stakeholders we mean:-

- Ideal customers
- The right staff
- Aligned key strategic partners; whom refer customers

Attracting the right people (i.e., stakeholders) can only positively influence the business's bottom line.

## The right questions to ask:

A purpose usually stems from the Founders initial vision behind starting the business, but it's very common for it to evolve over time. Your marketing department will be linking it with your brand strategy and positioning - so it's likely they will have an influence on its formation along with your Founder/s.

### To unearth:

- When our business was first established, what did it set out to achieve or do?
- What are our strong beliefs for the role our business plays in our community?
- Thinking about our industry - how are we trying to do things differently, better or perhaps more ethically?
- Where do we collectively and commonly find joy in the work and value our business provides?

### In Summary:

- How do we define and articulate our purpose?
- How can we better ingrain our purpose in our high level decision-making?

## Business Vision & Aspirations

## The right questions to ask:

Some find it easier to start with defining what they DO NOT want the business to resemble, to help paint a clear picture of what the ideal scenario actually is.

### To unearth:

- **Overall:** 5 years from now, what do we **NOT** want our business to look like?
- **Business Financial Aspiration:**
  - 5 years from now, what's our ideal turnover?
  - What's our ideal profit?
  - What's the business ideally valued at?
- 
- **Customers:** 5 years from now, who are our ideal customers?
- **Brand:** 5 years from now, what do we want our reputation to be known for?
- **Service/Products:** 5 years from now, what services do we want to be offering?
- **Systems/Processes:** 5 years from now, what processes/software do we aspire to have in place?
- **Team/Culture:** 5 years from now, who is in our business and how many staff do we have?
- **Marketing/Sales:** 5 years from now, what's our ideal retention and acquisition rate - scenario?

## The right questions to ask:

To unearth the core set of business values:

- What does our business believe in?
- What attitudes do we rely on to conduct ourselves in the way we see is 'right'?
- What does our business value in great customer service?
- What do we value when it comes to our customer relationships?
- What character traits do we look for in people, when we are hiring?
- What does a healthy workplace culture resemble to us?

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