

Building a business model for success



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Whether you're just starting out or have an established business, a well-planned business model can help position your company for success in the marketplace. And, it can help you attract investors, suppliers, and lenders.

In this article, we'll look at the basics of building a business model that makes sense for your company in today's environment.

Let's start with a definition.

What is a business model?

A business model is exactly what it sounds like. It is a model – or diagram – of how a business will work.

Your business model helps you identify what you need to establish, operate, and make a profit from your business. Most important, it highlights the decisions you need to make to have your business succeed.

Think of your business model as a blueprint and dynamic resource. It is a map of where you are and where you want to go with the business. However, as you learn more and as the business environment around you changes, you will want to update or expand your business model accordingly. The time it takes to build your model is time very well spent.

What's in a business model?

Your business model will show how your products or services will provide value to customers and produce revenue that will allow you to survive and grow. It should include the following four elements:

- **Element 1: Value proposition** – the unique or differentiating value your business will provide to its customers. For example, a gourmet food store's value proposition might be to provide a wide variety of high quality organic or artisanal goods and personalized service.
- **Element 2: Target market** – the customers your business will serve; the specific types of people or businesses who will gain from using your product or services. For example, the gourmet food store's target market could be affluent individuals that are discriminating, health conscious food lovers within a specific geography.
- **Element 3: Value chain** – key processes that will be performed to deliver the product or service you provide, and any external partners who will be needed to help you perform them. For example, the key processes in the gourmet food store might be sourcing of goods from local organic farmers and suppliers, inventory control, merchandising and in-store operations, and financial operations.

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- **Element 4: Revenue stream** – all the sources of business revenues and the contribution each source makes to the total profit picture. In the gourmet food store example, these could include receipts from food purchases and food delivery fees.

Typical business models

Though there are many different business models, below are some of the most common business models; for each of these, consider what will be the value proposition that will enable your business to win customers and compete with other businesses.

- **Manufacturing:** You plan to make or assemble products that will be sold to customers – either directly or via distributors. Consider what will make your business more competitive – for instance, will you produce innovative products based on specialized technology that can be sold at a premium or will you have a highly efficient manufacturing process that will make you a low cost producer of commodity products that can be sold under other companies' brand?
- **Distribution/reselling:** You plan to acquire products made by others and sell them to customers at a higher price than you purchased them. As a distributor, will you specialize in a specific set of products or a broad set?
- **Retailing:** You plan to open a store that sells products made by yourself or others, or provides a service such as dry cleaning. What will make your store different? For example, will it be the quality of its merchandise, its low prices, or its fashion-forward goods and merchandising?

- **Consumer or trade services:** You plan to offer services to individuals and businesses such as plumbing, landscaping, or repair to businesses or homeowners. Consider what will help you get loyal customers – for instance, will you have special pricing through a subscription/monthly service plan or a customer loyalty program?
- **Professional services:** You plan to use your expertise to provide services such as legal, medical, engineering or consulting services to businesses or individuals. Will you be a specialist or a generalist service provider?
- **E-commerce:** You plan to sell products or services primarily over the Internet. There has been an explosion in the types of innovative web-based business models; do further research on successful models that have been adapted and develop one that fits your business. With the growth of online shopping, E-commerce may also be a component of any of the above business models.

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Citibank understands the many challenges of building a solid foundation for your business in today's economy. Speak with a Citibank Business Specialist for solutions that can help you build your business.