Appendix: Business Model Elements and their Usage

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- **Content:**
  - How is each element defined?
  - Why is it relevant to my business plan?
  - What are key terms I should know related to each element?
  - What are some key questions for consideration for each element?
  - What are some examples of how each element influences real-world decisions?

Governance: How an organization makes decisions in the market

- Having a clearly defined internal governance structure helps determine who is ultimately responsible for each action, objective and goal
- In evaluating a potential partner, understanding the governance structure associated with a given business model can help uncover:
  - What objectives actors will prioritize
  - How they will respond to both market trends and policy
  - Who they recognize as relevant stakeholders
- Some questions for grant recipients to consider include:
  - Who are all of the stakeholders involved in investment decisions in your organization? In partner organizations?
  - Once an investment is made, who has responsibility for its oversight?
  - Are there external regulations that may influence the decision-making process?

Example:

"I want to launch a financial service offering for my organization"

- **Who are key stakeholders involved in making this decision?**
  - My Chief Executive Officer
  - My Chief Financial Officer
  - Partner bank Chief Financial Officer
- **Who has responsibility for the oversight of this service?**
  - Myself
  - My CFO
  - Loan officers from partner bank
- **Are there external regulations that may influence this process?**
  - Yes, there are lending restrictions associated with working through a partner bank
- **Implications:**
  - I need to know what the primary considerations of my CEO, CFO and the partner bank officers are to gain their approval of this service offering
  - Examples:
    - Proof of demand for this service
    - Potential costs to my organization
    - Potential split of revenues from customer interest payments)

Financial Structure: How an organization raises capital for start up or expansion and tracks financial performance

- Looking at an organization's financial structure allows it to evaluate its sources and uses of program funding and track them over time
- Key elements of a firm's financial structure include:
  - **Income Statement:** An accounting of sales, expenses and profit for a given period
  - **Pro Forma:** A descriptive term for a financial statement such as an income statement or balance sheet that has one or more assumptions or hypothetical conditions built into it (e.g., forecast sales for a specific period)
  - **Hurdle Rate:** The required rate of return on an investment above which the investment is profitable, below which it is not
- Some questions for programs to consider in evaluating financial structure include:
  - What are the revenues and payment streams for the business?
  - What is the cost to operate the business?
  - What are the cost and revenue drivers for the business?
  - How does the business finance investments?

The Income Statement allows a program to track its cash flows over time and evaluate its services

The purpose of the income statement is to track a company's profitability over time

Revenue is the total amount of money received by the company for goods sold or services provided during a certain time period. *Program Examples*: Interest paid by customers on loans, fees paid by contractors for training

Cost of Goods Sold are the direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. (also known as **variable costs**). *Program Examples*: Cost of loan buy down, contractor training material development

Gross Margin is the difference between sales revenues and production costs, excluding costs associated with overhead, payroll, interest and taxes. It is generally used to determine the incremental value of sales. *Program Use*: Measure what services are most profitable

Overhead is the operating expenses of a business which cannot be attributed to any one specific business activity, but which are still necessary for a business to function (also known as **fixed costs**) *Program Examples*: Reporting administration, rent, utilities

Net Profit is the total amount a firm makes after all expenses have been accounted for. Positive net profit is critical for a business to stay viable over time. *Program Use*: Measure long term sustainability

Sample Income Statement

Revenues	2010	2011	2012 (Forecast)	Total
Customer Interest Payments	$ 600	$ 700	$ 800	$ 2,100
Contractor Training Fees	$ 40	$ 80	$ 100	$ 220
Total Revenues	**$ 640**	**$ 780**	**$ 900**	**$ 2,320**
Cost of Goods Sold (COGS)				
Initial Fund Investment	$ (2,000)	$ -	$ -	$ (2,000)
Loan Buy Down Cost	$ (300)	$ (400)	$ (500)	$ (1,200)
Contractor Sales Training Materials	$ (20)	$ (40)	$ (50)	$ (110)
Total COGS	**$ (2,320)**	**$ (440)**	**$ (550)**	**$ (3,310)**
Gross Margin (Tot Revenue - COGS)	**$ (1,680)**	**$ 340**	**$ 350**	**$ (990)**
Overhead Costs				
Program Admin	$ (10)	$ (10)	$ (10)	$ (30)
Rent & Utilities	$ (100)	$ (120)	$ (135)	$ (355)
Total Overhead Cost	**$ (110)**	**$ (130)**	**$ (145)**	**$ (385)**
Net Profit (Tot. Revenue - Tot. Cost)	**$ (1,790)**	**$ 210**	**$ 205**	**$ (1,375)**

Assets & Infrastructure: How an organization invests in overhead, its brand and its people

The purpose of the balance sheet is to highlight the book value of a business

- Assessing the benefits and costs associated with an asset enables management to identify opportunities for creating additional value or reducing costs to a business
- Various types of assets that may count towards the value of a business include:
  - Fixed Assets (e.g. buildings)
  - Inventory
  - Equipment
  - Brand Value
  - Trainings/Certifications
- Assets are typically recorded and tracked on a financial statement called a balance sheet
- Some questions for consideration in expanding a business or partnering with other firms include:
  - What type of investment (e.g., buildings, equipment) is needed to operate this business? How costly are these assets and are economies of scale a factor?
  - How important are non-physical assets (e.g., Brand, Certifications) on the success of the business?

Sample Balance Sheet

Assets	2010	2011	2012 (Forecast)
Accounts Receivable	$ 500	$ 700	$ 800
Software	$ 1,000	$ 1,000	$ 1,000
Equipment	$ 700	$ 700	$ 700
Intangible Assets			
Brand Value	$ 2,000	$ 2,200	$ 2,400
Total Assets	**$ 4,200**	**$ 4,600**	**$ 4,900**
Liabilities			
Accounts Payable	$ (200)	$ (400)	$ (500)
Total Liabilities	**$ (200)**	**$ (400)**	**$ (500)**
Net Assets	**$ 4,000**	**$ 4,200**	**$ 4,400**

Service Offering: What goods and services an organization provides to the market

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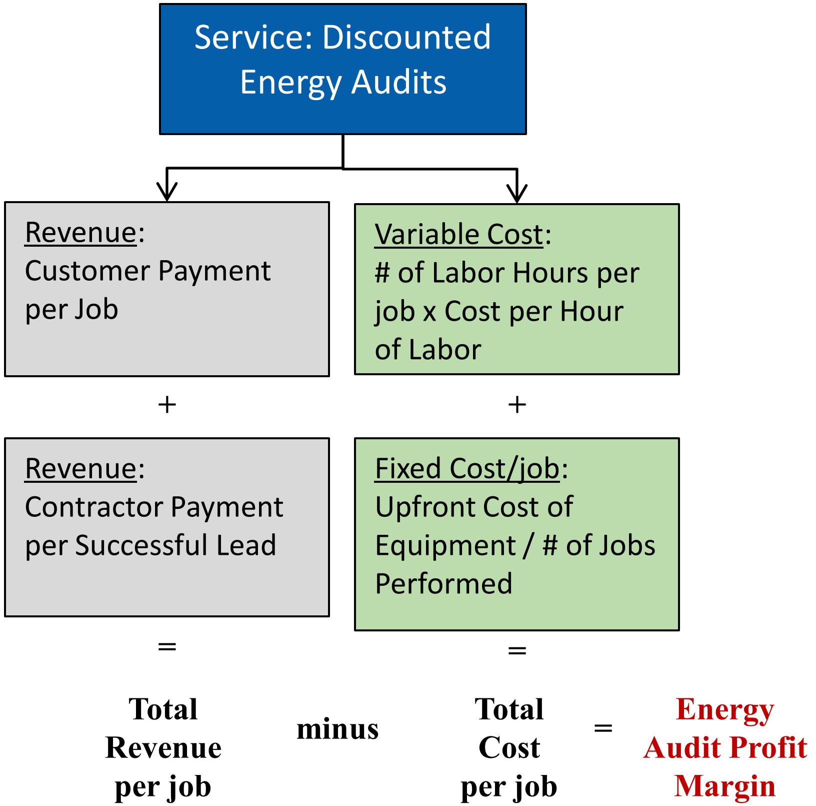
- Uncovering opportunities to diversify core business offerings or enter into partnerships may increase customer traffic and consumption over time
- Strategic partnerships are one way for an organization to provide additional services without additional investment
- Things that influence service offerings a program or partner may consider include:
  - Range of service offerings my organization and/or partner organization currently provides
  - How well an organization's service offerings align to its core program strengths
  - Required margins on an average service offering
  - Level of demand in market for each service offered
- Some questions for an organization to consider are:
  - What are my organization's key strengths and service offerings?
  - Are there alternatives/competitors to these services in the market?
  - What are the key strengths and weaknesses of potential partners? Can a strategic partnership help my organization expand its service offerings or control its costs?

What services an organization offers ultimately drive its asset requirements, revenues, costs and profits

Example:



Customer: Who an organization's target market is and how they reach them

- Identifying customer segments associated with each business model can help to measure probability of success for partnerships and service offerings
- The customer element of the business model includes understanding market demographics and generating demand through education, outreach and marketing
- Strategic partnerships can help improve an organization's reach and/or brand image in the market
- Core components and metrics associated with a customer outreach plan include:
  - Marketing and Lead Generation Efforts
  - Cost per lead
  - Customer Demographics
  - Key partnerships
- Some key questions for consideration around customer engagement include:
  - Who are the target customers to be served?
  - What is the overall demand for each service being provided?
  - Can a strategic partnership help me capture a larger share of the market?