Appendix: Business Model Elements and their Usage

• 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.

### Sample Income Statement

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012 (Forecast)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Interest Payments</td>
<td>$600</td>
<td>$700</td>
<td>$800</td>
<td>$2,100</td>
</tr>
<tr>
<td>Contractor Training Fees</td>
<td>$40</td>
<td>$80</td>
<td>$100</td>
<td>$220</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$640</td>
<td>$780</td>
<td>$900</td>
<td>$2,320</td>
</tr>
</tbody>
</table>

| **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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$500</td>
<td>$700</td>
<td>$800</td>
</tr>
<tr>
<td>Software</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
</tr>
<tr>
<td><strong>Intangible Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand Value</td>
<td>$2,000</td>
<td>$2,200</td>
<td>$2,400</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$4,200</td>
<td>$4,600</td>
<td>$4,900</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$(200)</td>
<td>$(400)</td>
<td>$(500)</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$(200)</td>
<td>$(400)</td>
<td>$(500)</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$4,000</td>
<td>$4,200</td>
<td>$4,400</td>
</tr>
</tbody>
</table>

The purpose of the balance sheet is to highlight the book value of a business.
Service Offering: What goods and services an organization provides to the market

- 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:**

![Diagram of Service: Discounted Energy Audits](image)

- **Revenue:**
  - Customer Payment per Job
  - Contractor Payment per Successful Lead

- **Variable Cost:**
  - # of Labor Hours per job x Cost per Hour of Labor

- **Fixed Cost/job:**
  - Upfront Cost of Equipment / # of Jobs Performed

\[
\text{Total Revenue per job} - \text{Total Cost per job} = \text{Energy Audit Profit Margin}
\]
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?