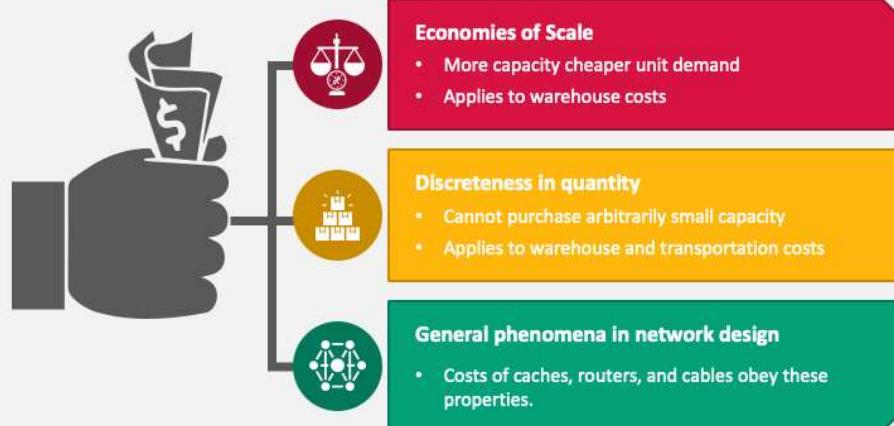


## Cost Structure (Business Model Canvas)

### COST STRUCTURE

Features of Cost Structure



#### 1. Definition

**Cost Structure** describes **all the major costs** a company incurs to operate its business model.

It answers the question:

**What are the most important costs required to run the business?**

#### 2. Importance of Cost Structure

Understanding costs helps entrepreneurs to:

- Know whether the business is **profitable**
- Control and reduce **unnecessary expenses**
- Choose between **cost leadership or value differentiation**
- Align costs with **revenue streams**

*A business cannot survive if costs are higher than revenues.*

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### **3. Key Questions to Ask**

*When defining the cost structure:*

- *What are the most expensive resources?*
- *Which key activities cost the most?*
- *Are costs fixed or variable?*
- *Is the business cost-driven or value-driven?*

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### **4. Types of Costs**

#### **1 Fixed Costs**

*Costs that do not change with production or sales volume.*

- *Examples: rent, salaries, insurance, software licenses*
- *Paid regularly*

 *Common in: manufacturing, offices, service companies*

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#### **2 Variable Costs**

*Costs that change according to activity level.*

- *Examples: raw materials, packaging, transaction fees*
- *Increase when production increases*

 *Common in: retail, production, logistics*

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#### **3 Semi-Variable (Mixed) Costs**

*Costs with both fixed and variable components.*

- *Example: electricity, internet, commissions*

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### **5. Cost Structure Characteristics**

#### **◆ Cost-Driven Model**

Focuses on **minimizing costs**.

- *Low prices*
- *High efficiency*
- *Standardized products*
- *Example: low-cost airlines, discount stores*

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◆ **Value-Driven Model**

Focuses on **creating high value**, not minimizing costs.

- *Premium products/services*
- *High quality, customization*
- *Example: luxury brands, consulting firms*

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## 6. Major Cost Categories in BMC

◆ **Key Resources Costs**

- *Human resources (employees, experts)*
- *Physical assets (equipment, buildings)*
- *Intellectual resources (software, patents)*
- *Financial resources (interest, fees)*

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◆ **Key Activities Costs**

- *Production*
- *Marketing & advertising*
- *Research & development*
- *Customer service*
- *Distribution & logistics*

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◆ **Key Partnerships Costs**

- *Outsourcing services*
- *Supplier contracts*
- *Licensing and royalties*

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## 7. Example (Simple Case)

**Mobile App Startup**

- *Fixed costs: developer salaries, cloud hosting*
- *Variable costs: payment gateway fees, customer support*
- *Marketing costs: online advertising*
- *Licensing costs: software tools*

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## 8. Relationship with Other BMC Blocks

*Cost Structure is directly linked to:*

- **Key Resources** → what you pay for
- **Key Activities** → what costs money to do
- **Key Partnerships** → outsourced costs
- **Revenue Streams** → profitability depends on the balance

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## 9. Classroom Exercise

*Ask students to:*

1. *Choose a business idea*
2. *List fixed and variable costs*
3. *Identify the highest cost*
4. *Decide whether the business is cost-driven or value-driven*

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## 10. Key Takeaway

*Cost Structure shows where the money goes.*

*A strong business model carefully controls costs while delivering value to customers.*