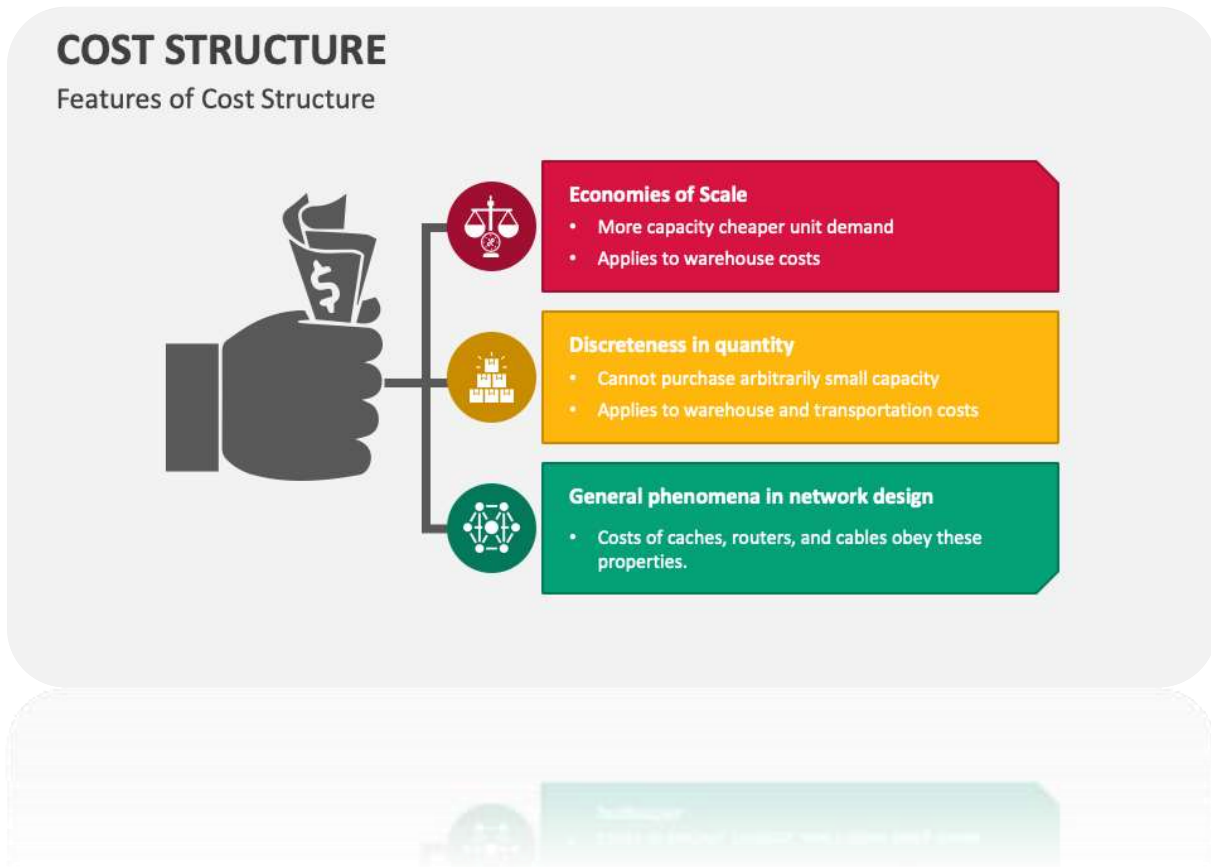


Cost Structure (Business Model Canvas)



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.

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**?*
-

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*

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*

3 Semi-Variable (Mixed) Costs

Costs with both fixed and variable components.

- *Example: electricity, internet, commissions*
-

5. Cost Structure Characteristics

- ◆ **Cost-Driven Model**

Focuses on *minimizing costs*.

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

◆ *Value-Driven Model*

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

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

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)*
-

◆ *Key Activities Costs*

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

◆ *Key Partnerships Costs*

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

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*
-

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.