

Cost Structure

The cost structure is related to all costs incurred from operating your business model. It's the outcome of your choices regarding key resources, activities, and partnerships.

- What are the most important costs to make your business model work?
- What Key Resources are more expensive?
- What Key Activities are more expensive?

Your business can be:

- **Cost Driven** (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
- **Value Driven** (focused on value creation, premium value proposition)

Ask yourself questions about your venture:

- Fixed costs (independent of the goods/services you produce) salaries, rents, utilities)
- Variable costs (These costs vary depending on the amount of goods or services produced/sold)
- Expensive activities, resources, etc.
- Economies of Scale (Costs go down as the amount of good are ordered or produced)
- Economies of Scope (Costs go down due to incorporating other businesses which have a direct relation to the original product.)

How much goods/services do you need to sell in order to get to the point where your costs/expenses & revenue are equal? By what time you will be able to achieve the "break-even" stage?

Your costs need to be smaller than your revenue streams. Otherwise your business model won't be sustainable

Fixed costs can translate into variable costs if you outsource some resources.