



VARZA SCHOOL · THE FOUNDATIONAL 100

What a Business Really Does: Creating, Delivering, and Capturing Value

Chapter 11 · Track 2 — Starting and Understanding a Business

THE QUESTION IT ANSWERS

What must repeatedly happen for an activity to become a viable business rather than a hobby, project, or stream of transactions?

CONCEPTS DEFINED

Business · Value creation · Value delivery · Value capture · Customer · Offer · Key activity · Cost structure

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track moves from personal decisions to an operating business. A business is examined as a repeatable system that creates value, coordinates people and resources, accepts risk, collects evidence, and converts activity into cash and durable capability.

Central question: What must repeatedly happen for an activity to become a viable business rather than a hobby, project, or stream of transactions?

A business survives when it creates an outcome customers value, delivers that outcome reliably, and captures enough value to replace consumed resources, absorb risk, and renew capability. Revenue without delivery discipline or margin without customer value is temporary.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish business in plain and professional language.
- Define and distinguish value creation in plain and professional language.
- Define and distinguish value delivery in plain and professional language.
- Define and distinguish value capture in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Business

Working definition. Business is an organized and repeatable system that combines resources, capabilities, relationships, and risk to create value for customers and capture enough value to remain viable.

A business is more than a product or registration certificate. It must repeatedly solve a relevant problem, deliver the promised result, collect consideration, and renew the resources it consumes. This is where operational activity and financial reporting meet.

Simple example. A repair shop creates value by restoring equipment and captures value through service fees that exceed the full cost of labor, parts, facilities, risk, and capital.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Value creation

Working definition. Value creation is the process of producing an outcome that a customer, beneficiary, or stakeholder considers more useful than the resources sacrificed to obtain it.

Value begins in the user's reality. Features, effort, and internal cost do not create value unless they improve an outcome that matters to someone. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Faster delivery may create value for a retailer by reducing lost sales even when the physical product is unchanged.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Value delivery

Working definition. Value delivery is the coordinated activities that make a promised benefit available at the required quality, place, time, and experience.

A strong offer can fail financially when operations cannot deliver it consistently. Delivery therefore joins sales promises to capacity, inventory, service, and control. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. An online seller creates little usable value if orders are accepted but stock is unavailable or deliveries are unreliable.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is

missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Value capture

Working definition. Value capture is the portion of created value that an organization retains through price, margin, recurring relationships, data, capability, or strategic position.

Revenue is one form of value capture, but durability matters. A sale that destroys cash, trust, or future capacity may capture less value than its invoice suggests. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A software company captures value through subscription fees while preserving reusable code and customer relationships.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Customer

Working definition. Customer is a person or organization that evaluates an offer, accepts commercial terms, and provides or commits consideration in exchange for value.

The user, payer, buyer, and beneficiary may be different parties. Master data and commercial design should identify each role when it affects price, tax, credit, delivery, or support. The concept should be measured at the smallest level that still supports a real action.

Simple example. An employer may buy a health service, employees may use it, and an insurer may settle part of the invoice.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Offer

Working definition. Offer is a defined combination of product, service, access, terms, support, and expected outcome presented to a customer.

An offer is wider than the item sold. It includes quantity, quality, timing, guarantees, payment terms, exclusions, and the evidence of acceptance. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A maintenance offer may include quarterly inspections, emergency response, spare parts limits, and a twelve-month service period.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Key activity

Working definition. Key activity is a repeatable action or process that must be performed well for the business model to operate.

Link key activities to capacity, cost, quality, evidence, and owner. Activity without a defined result is difficult to improve or price. This is where operational activity and financial reporting meet.

Simple example. Credit assessment is a key activity for a wholesaler that sells on thirty-day terms.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Cost structure

Working definition. Cost structure is the pattern of resources and obligations required to operate a business, including fixed, variable, direct, indirect, committed, and discretionary costs.

Cost structure shapes break-even, scalability, downside resilience, and pricing freedom. The same revenue can be safe under one structure and fragile under another. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A consulting firm may have mostly labor costs, while a factory carries equipment, energy, inventory, and maintenance commitments.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Business, Value creation, Value delivery, Value capture, Customer, Offer, Key activity, and Cost structure describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Value-capture remainder

Captured value remainder = Revenue – Full relevant cost – Required risk and capital allowance

This management view asks whether the business retains enough after renewing the system.

Boundary: It is not a formal accounting line and depends on the decision-specific cost and capital definitions.

Unit contribution

Unit contribution = Unit revenue – Unit variable cost

Contribution shows how each additional unit supports fixed cost and profit within the relevant range.

Boundary: Do not ignore capacity constraints, returns, customer service, or step costs.

Worked case — Busy is not the same as viable

A meal-delivery startup sells 1,000 orders in a month at CU 30 each.

Item	Amount or observation
Revenue	CU 30,000
Food and packaging	CU 14 per order
Delivery and payment fees	CU 8 per order
Monthly kitchen and team fixed cost	CU 11,000
Refund and waste estimate	CU 1,500

Calculation and reasoning

1. Variable cost is $1,000 \times (14 + 8) = \text{CU } 22,000$.
2. Contribution is CU 8,000 before fixed cost.
3. After CU 11,000 fixed cost and CU 1,500 refunds and waste, the simple result is negative CU 4,500.
4. Management must improve customer price or value, variable economics, density, waste, or fixed-capacity use rather than treating order growth alone as success.

What the result means

The startup creates and delivers customer value, but it is not yet capturing enough to renew the system. The case demonstrates why all three parts of the business definition must be present.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Observe a meaningful customer problem and define the promised outcome.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Design the activities and resources required to deliver that outcome repeatedly.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Specify how and when the customer will provide consideration.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Test whether captured value renews resources, funds obligations, and rewards accepted risk.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes business, customer_segment, offer, value_proposition, key_activity, resource, revenue_stream, cost_pool, operating_metric. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Turn information into a decision, a control, or a question; otherwise it is only decoration.
- Begin with the real event, not the accounting label.
- Keep value, cash, profit, and ownership distinct until their relationship is proven.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Evidence-based customer validation before major fixed commitment.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Unit economics and cash timing reviewed together.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Quality and customer-outcome measures beside sales targets.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Defining the business by its product instead of the customer outcome

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Counting activity or followers as value capture

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Growing sales that consume more cash and capacity than they create

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Cutting essential delivery quality to improve a short-term margin

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain business in plain language and in professional terms?
- ☐ Can I explain value creation in plain language and in professional terms?
- ☐ Can I explain value delivery in plain language and in professional terms?
- ☐ Can I explain value capture in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Business to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Value creation. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Value delivery could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Value delivery: the coordinated activities that make a promised benefit available at the required quality, place, time, and experience.",
    "Value capture: the portion of created value that an organization retains through price, margin, recurring relationships, data, capability, or strategic position.",
    "Customer: a person or organization that evaluates an offer, accepts commercial terms, and provides or commits consideration in exchange for value.",
    "Offer: a defined combination of product, service, access, terms, support, and expected outcome presented to a customer.",
    "Key activity: a repeatable action or process that must be performed well for the business model to operate.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S003 — OECD-INFE, *Core Competencies Framework on Financial Literacy for MSMEs*.** 2018; accessed 2026-08-31. Financial capability for entrepreneurs and small-business managers. Source: https://www.oecd.org/en/publications/oecd-infe-core-competencies-framework-on-financial-literacy-for-msmes_220101c9-en.html
- **S007 — U.S. Small Business Administration, *Plan your business*.** accessed 2026-08-31. Business plans, market research and startup-cost planning. Source: <https://www.sba.gov/counseling/plan-your-business/>
- **S009 — U.S. Small Business Administration, *Manage your business*.** accessed 2026-08-31. Ongoing compliance and financial management. Source: <https://www.sba.gov/counseling/manage-your-business/>
- **S010 — World Bank, *SMEs Finance*.** accessed 2026-08-31. Working-capital access and modern SME finance channels. Source: <https://www.worldbank.org/ext/en/topic/competitiveness/small-and-medium-enterprises-smes-finance>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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