



Business Model Generation

A Handbook for Visionaries, Game Changers, and Challengers

by Alexander Osterwalder and Yves Pigneur
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Take-Aways

- Simple approaches to business modeling encourage strategic thinking and holistic design.
- The “Business Model Canvas” is a flexible template for conceiving, completing and assessing business models.
- Business models should focus on nine interrelated parts, covering a company’s “customers, offer, infrastructure and financial viability.”
- “Segment” your customer base and determine what kind of client “relationships” your company needs to develop.
- Figure out your firm’s “value proposition” and which “channels” you’ll use to deliver your products and services.
- A company’s “key activities” determine its “revenue streams” and “cost structures.”
- Joining up in “key partnerships” with suppliers or even competitors can add to your organization’s “key resources.”
- Your models must take into account outside forces such as the economy and competition.
- Even the most successful business-model designs are vulnerable to obsolescence.
- Proactive companies regularly innovate by reviewing their existing business models.

Rating (10 is best)

Overall	Applicability	Innovation	Style
9	9	9	10

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Relevance

What You Will Learn

In this Abstract, you will learn: 1) What the nine elements of a business model are; 2) How to use the “Business Model Canvas” to create new enterprises and reinvigorate existing companies, and 3) Why proactive companies routinely reassess their business models.

Recommendation

A different kind of business world calls for a different kind of business manual, and that’s what Alex Osterwalder and Yves Pigneur have achieved in their New Age guide to contemporary business modeling. Abetted by their “Business Model Innovation Hub” – with 470 online collaborators in 45 countries – Osterwalder and Pigneur practiced what they preached when they applied their modeling concepts to the book’s production. And the concepts are not just theories: major companies such as IBM and Ericsson are converts to the “Business Model Canvas,” a low-tech template for brainstorming and visualizing corporate roles and processes. The book’s breezy, colorful format, replete with photos, drawings, charts and graphics, belies its intensely researched and reality-grounded content. A big sheet of paper and a slew of Post-it notes are all you need to get started; that, and the combined creativity, intellect and persistence your team brings to the project. *getAbstract* heartily recommends this comprehensive, pictorial handbook to entrepreneurs and business leaders looking to create or redesign their business models.

Abstract

“Design Tomorrow’s Enterprises”

Upstart technologies and lightning-fast implementation drive various new business models that are radically altering industries and commerce. Just look at how Apple’s iPod has revolutionized the music industry, how Skype has turned the telecommunications field upside down and how Grameen Bank has “popularized microlending” as a new form of finance. A business model – defined as “the rationale of how an organization creates, delivers and captures value” – can launch an entrepreneur’s new idea or readjust the thrust of an existing company.

The Swatch Group is a case in point: Previously specializing in high-end watches, the Swiss company diversified into the production of the low-priced Swatch line of watches in response to Asian rivals. The Swatch Group has thrived in both the upper and lower segments of its market largely because it chose to serve these segments by using different business models. Swatch is an example of a company that manages not just one but a “portfolio” of business models.

Constructing a Business Model

Strategizing an innovative business model, a process which sometimes can resemble structured chaos, demands a fresh approach to creativity. The “Business Model Canvas” delivers a framework for focused brainstorming and staff inspiration. Major companies such as Ericsson, IBM and Deloitte have adopted it for their “business model generation.”

The Business Model Canvas provides a flexible template for capturing the nine essential parts of a business model. The “canvas” is usually a large piece of paper with sections

“In today’s climate, it’s best to assume that most business models, even successful ones, will have a short lifespan.”

“A business model can best be described through nine basic building blocks that show the logic of how a company intends to make money.”

“Customers comprise the heart of any business model.”

“The Value Proposition is the reason why customers turn to one company over another.”

“Communication, distribution and sales Channels comprise a company’s interface with customers.”

“Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models.”

for each of a model’s elements. Participants in the design process move handwritten Post-it notes, representing proposed components of the model, around the canvas; each note conveys an idea’s individual impact on the whole picture. A business model is a dynamic system, not a collection of independent parts, so a change to one element is likely to have an impact on one or more of the others. Alteration of any of the aspects of a model-in-development is easy because of this visual, “building block” style of paper-based strategizing.

This purposely simplistic approach maximizes broader strategic thinking while minimizing debate about operational details. Using Post-it notes with short bits of text is an effective way to build each of the primary elements of a business plan in a systematic way. The Business Model Canvas technique encourages you to think about your organization as a whole, rather than as discrete, disconnected operating activities and administrative functions.

Nine Building Blocks

The essential elements of a business model provide a “shared language” that describes how a company works. Forming an interrelated “blueprint” for innovation, these nine building blocks cover an organization’s “customers, offer, infrastructure and financial viability.” They are:

1. **“Customer segments”** – Target one or more types of customers in this “heart” of your model. “Mass” markets and “niche” markets require starkly different approaches, while “segmented” customer bases share similarities, but their needs vary slightly. Companies with “multi-sided platforms” sell to two or more groups; for example, a credit card company cultivates businesses to accept its card as well as account holders to use it.
2. **“Value propositions”** – These “bundle[s] of benefits” lead clients to do business with your company rather than with your competitors. Create value by inventing something new, improving your product’s “performance” or “tailoring” your offering to specific needs.
3. **“Channels”** – Select the best “customer touch points” to communicate value and to distribute and sell your products and services. Internet sales, retail locations and wholesalers exemplify channels that enable customers to experience, assess and buy what you’re selling.
4. **“Customer relationships”** – Establish different ways to serve distinct market segments: “Personal assistance” from a service rep can coexist along with automated service or self-service. Amazon “co-create[s]” value for all its users with customer-written product reviews.
5. **“Revenue streams”** – These are the “arteries” of a business model; income flows through them from discrete sales or from ongoing payments such as rentals, licenses or subscriptions. Each type of revenue stream may demand a different “pricing mechanism,” either a “fixed” price or a “dynamic,” negotiated price. For instance, a “perishable” hotel room sells for varying rates, depending on season and availability.
6. **“Key resources”** – These most important assets can take several forms – “physical, financial, intellectual or human” – depending on what a company does. They range from executive talent and intellectual property rights to physical plant and credit lines; key resources may be “owned or leased.”

“It is illogical for a company to own all resources or perform every activity by itself.”

The Business Model Canvas “is a hands-on tool that fosters understanding, discussion, creativity and analysis.”

“The Business Model Canvas works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with Post-it notes or board markers.”

“The challenge of innovation is developing a deeper understanding of customers rather than just asking them what they want.”

7. **“Key activities”** – Company personnel routinely perform critical tasks that engage customers and turn a profit. For example, a manufacturer produces an item, a consultancy solves problems and companies like eBay and Visa manage “platform/network activities” that link various groups.
8. **“Key partnerships”** – Joining with other entities can expand or protect your market share in a highly competitive industry: Consider supplier links, joint ventures and “strategic alliances.” Tactical partnerships with rivals, or “coopetition,” can lessen risk or provide savings. Companies also can reduce costs or gain access to vital resources by outsourcing or subcontracting.
9. **“Cost structure”** – Whether yours is a “cost-driven” or “value-driven” business, – offering low-priced services like discount airline tickets or creating exceptional value like a top hotel – determines your model’s cost structure. Outlays represent “fixed and variable” expenses; bigger companies can pursue economies of scale and “scope” from large-scale production and distribution.

Finding the “Patterns”

Business models tend to follow certain conceptual styles, or patterns. For instance, the “unbundled” business model posits that three broad functions within a company – “customer relationship, product innovation and infrastructure” – should operate separately because of their different “economic, competitive and cultural imperatives.” For example, a private bank should focus on its core client relationships and outsource its operations either to a third party or to its own transaction-processing affiliate.

The “long tail” business model provides for the sale of a wide variety of personalized products to a mass market of small-quantity buyers. Online video provider Netflix and e-book publisher lulu.com can offer specialized films and texts to a huge audience – and make a profit – due to the Internet’s “democratization” of content production and distribution. Long-tail business models overturn the traditional concept of having to sell a single standardized “hit” product in large quantities to consumers. Lego adapted the long-tail model when it augmented its conventional, mass-market toy sales with customer-generated kits. While still small and not yet profitable, the user-designed toy kits serve as a “complement” to Lego’s ongoing business.

“FREE” business models center on giving products and services to certain customers in order to attract others. In this multisided platform model, Google displays advertising to users of its popular search engine based on their search terms: Google’s ability to generate advertising revenue depends on the mass-market appeal of its online search engine. Similarly, publishers distribute free but advertiser-supported newspapers to readers. A variation, the “freemium” model, offers a basic service or product gratis, but sells a premium version of the giveaway.

“Open” business models demonstrate how partnerships can expand productivity and reduce costs. For example, Procter & Gamble dramatically increased the productivity of its internal research and development by collaborating with external research organizations and with its own retired scientists and professionals.

Catalysts, Controls and Constraints

Any one of four catalysts – or a combination of them – can trigger a new business model: 1) a decision to make greater use of underutilized assets, 2) a new offer to customers, 3) a change in customer service or 4) a finance-related innovation. Online retailer Amazon drew on its underexploited technology platform by diversifying into commercial sales of

“Today, different business models compete in the same markets, and boundaries between industries are blurring – or disappearing altogether.”

“New, game-changing business models emerge from deep and relentless inquiry.”

“Business model innovation rarely happens by coincidence. But neither is it the exclusive domain of the creative business genius.”

“Take a fresh look your model regularly. You may need to overhaul a successful model sooner than you thought.”

excess data-storage and computer-server capacity. Mexico-based cement manufacturer Cemex grew rapidly after cutting its delivery time to four hours from the industry-standard two days. Copier manufacturer Xerox overcame resistance to its machines’ purchase price by leasing rather than selling them.

Designers use a variety of tools and techniques that can help you shape your business model: Employ “customer insights” to see the world from your clients’ perspectives; use “ideation” by asking “what if?” to raise new visions; and make concepts real and compelling by “storytelling.” To manage the business-modeling process, follow these “brainstorming rules”: Prepare in advance and remain focused on the problem or opportunity at hand. “Think visually” by capturing ideas in a few words or sketching them, keeping the attention on abstract design and off operational detail. Using the Business Model Canvas and Post-it notes gives everyone involved in the design process a common idiom with which to communicate.

Properly built models account for existing constraints imposed by the company’s “design space,” its external environment. Analyze and assess four external forces: competitive pressures, customer demands, industry trends and macroeconomic conditions. Careful analysis of industry trends, for example, will clarify the nature and number of competitors that your firm faces.

Reviewing and Rebuilding Business Models

Like an individual who gets an annual checkup, a company can stay healthy by regularly reassessing its business models’ current viability and future promise. Consider using a SWOT analysis to examine your company’s “strengths, weaknesses, threats and opportunities” within each of the nine elements of its business model. A SWOT study can reveal the current condition of a business model, as reflected in its strengths and weaknesses, and can help you predict possible changes in the future as opportunities and threats arise.

Each of a business model’s nine elements is subject to repair or renewal. For example, Nestlé greatly improved one of its business models via channel expansion: One of the largest food companies in the world, Nestlé struggled to sell its Nespresso coffee and machines to commercial buyers such as restaurants and offices. But when it switched Nespresso’s sales channel to direct mail and redirected its marketing toward high-income households, the line took off.

Persistence pays in business modeling, but you need patience to counter the pitfalls in each phase of the design process. Avoid committing to a particular design too soon, and make sure your team members feel secure enough to express bold ideas. Companies improve the outcomes of their modeling process to the extent that top management supports an honest, exhaustive vetting of ideas, not just once but on a recurring basis.

Virtually all business models eventually become obsolete, so proactive companies actively conceive and pursue new models. One side benefit of continual business-model design and redesign is a healthy lack of respect for long-held assumptions.

About the Author

Alex Osterwalder is an author, speaker and adviser on business-model innovation. **Yves Pigneur** is a professor of management information systems at the University of Lausanne in Switzerland.