

## STRATEGY

# A Better Way to Think About Your Business Model

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The business model canvas — as opposed to the traditional, intricate business plan — helps organizations conduct structured, tangible, and strategic conversations around new businesses or existing ones. Leading global companies like GE, P&G, and Nestlé use the canvas to manage strategy or create new growth engines, while start-ups use it in their search for the right business model. The canvas's main objective is to help companies move beyond product-centric thinking and towards business model thinking.

To start, it lets you look at all nine building blocks of your business on one page:



[https://www.youtube.com/watch?time\\_continue=137&v=QoAOzMTLP5s&feature=emb\\_title](https://www.youtube.com/watch?time_continue=137&v=QoAOzMTLP5s&feature=emb_title)

Each of these nine components contains a series of hypotheses about your business model that you need to test (click or tap for a bigger version):

|  |  |   |   |   |
|--|--|---|---|---|
| <b>KEY PARTNERS</b><br>Who are our key partners?<br>Who are our key suppliers?<br>Which key resources are we acquiring from our partners?<br>Which key activities do partners perform? | <b>KEY ACTIVITIES</b><br>What key activities do our value propositions require?<br>Our distribution channels?<br>Customer relationships?<br>Revenue streams?<br><br><b>KEY RESOURCES</b><br>What key resources do our value propositions require?<br>Our distribution channels?<br>Customer relationships?<br>Revenue streams? | <b>VALUE PROPOSITIONS</b><br>What value do we deliver to the customer?<br>Which one of our customers' problems are we helping to solve?<br>What bundles of products and services are we offering to each segment?<br>Which customer needs are we satisfying?<br>What is the minimum viable product? | <b>CUSTOMER RELATIONSHIPS</b><br>How do we get, keep, and grow customers?<br>Which customer relationships have we established?<br>How are they integrated with the rest of our business model?<br>How costly are they?<br><br><b>CHANNELS</b><br>Through which channels do our customer segments want to be reached?<br>How do other companies reach them now?<br>Which ones work best?<br>Which ones are most cost-efficient?<br>How are we integrating them with customer routines? | <b>CUSTOMER SEGMENTS</b><br>For whom are we creating value?<br>Who are our most important customers?<br>What are the customer archetypes? |
| <b>COST STRUCTURE</b><br>What are the most important costs inherent to our business model?<br>Which key resources are most expensive?<br>Which key activities are most expensive?      |  |   | <b>REVENUE STREAMS</b><br>For what value are our customers really willing to pay?<br>For what do they currently pay?<br>What is the revenue model?<br>What are the pricing tactics?   |   |

Nespresso, a fully owned daughter company of Nestlé, is a great example of a powerful business model. It changed the face of the coffee industry by turning a transactional business (selling coffee through retail) into one with recurring revenues (selling

proprietary pods through direct channels). Here's what their strategy looks like on the canvas (full-screen mode works best):

| Sketch Out Your Hypothesis   |                       |   |                          |   |
|--|-----------------------|---|--------------------------|---|
| The business model canvas lets you look at all nine building blocks of your business on one page.<br>Each component of the business model contains a series of hypotheses that you need to test. |                       |   |                          |  |
| KEY PARTNERS   | KEY ACTIVITIES        | VALUE PROPOSITIONS  | CUSTOMER RELATIONSHIPS   | CUSTOMER SEGMENTS   |
| Machine manufacturers  | Production            | Nespresso machines  | Acquire & lock-in        | Households  |
| Coffee growers   | Marketing & branding  | Nespresso pods  |                          |   |
|  | B2C distribution      |   |                          |   |
|  | KEY RESOURCES         |  | CHANNELS                 |   |
|  | Distribution channels |   | Retail                   |   |
|  | Patents               |   | Mail order & call center |   |
|  | Coffee                |   | Nespresso.com            |   |
|  | Production facilities |   | Nespresso stores         |   |
|  | Marketing & branding  |   |                          |   |
| COST STRUCTURE   |                       | REVENUE STREAMS   |                          |   |
| Production   |                       | 1 x machine sales   |                          |   |
| Marketing & branding   |                       | Repetitive pod sales  |                          |   |
| B2C distribution   |                       |   |                          |   |

The canvas is one of the three key principles of the lean start-up approach. For the other two, read Steve Blank's May 2013 article "[Why the Lean Start-Up Changes Everything.](#)"