BUSINESS MODEL GENERATION

Summarized by Th.M.S

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Introduction

Delivering higher value to the customers is crucial for remaining competitive in the market. A business model explains how an organisation creates, delivers and captures value. The current research reviews the business model generation process. All the components of the business model are reviewed in this research.

Business Model Canvas

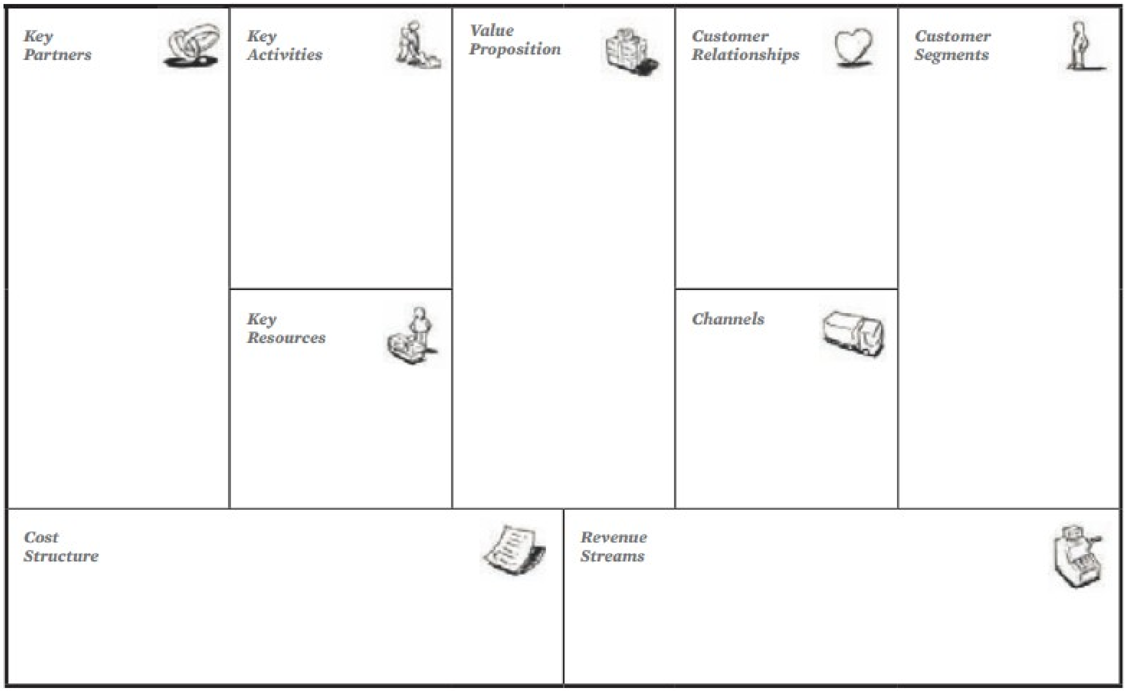

Figure 1: Business Model Canvas

(Source: Osterwalder & Pigneur, 2010,pp-44)

Customer Segments

The customer segment in a business model indicates a different group of people that are served by the organisation (Osterwalder & Pigneur, 2010). The business activity centres on the customers. Without having profitable customer groups, the businesses cannot survive in the market. The business model highlights one or several customer groups and their requirements. Based on the model, the organisations can determine whether they need distinctive products for all the customer groups or maintain different types of relationships with them.

Value Proposition

The value proposition describes the products and services that create value for a specific customer segment. It can be defined as a bundle of products and services that fulfil the requirement of specific customer groups (Osterwalder & Pigneur, 2010). Identification of value proposition helps the organisations to understand why the customers return to the organisation. The value proposition depends on several factors such as new names of the product or service, performance, customisation, requirement fulfilment, unique design, associated with the product and price. The value can be added in terms of cost or risk reduction, improvement of accessibility and usability.

Channels

Channels constituted another important building block of the business model (Osterwalder & Pigneur, 2010). It indicates how the company communicates with different customers and delivers a value proposition. Businesses can review their communication, distribution and sales strategies by analysing the channels. These are used for raising awareness among the customers about the brand, assisting them to evaluate the value proposition of the business, enabling them to purchase products and services and receive post-purchase customer support. The channels can be broadly categorised as direct and indirect. The direct channels include websites, salesperson and stores of the organisation. The indirect channels include the partner stores and wholesaler networks.

Customer Relationships

The customer relationship indicates the type of relationship maintained by an organisation with specific customer segments. Maintaining customer relationship is necessary for acquiring them, retaining them and improving sales. Customer relationship management also influences the overall experience of a customer with the organisation. It can be maintained in various ways such as providing personal essay at assistance, enabling the customer to access self-service, offering automatic services, facilitating the customer to join communities and promoting co-creation. The organisations need to integrate the customer relationship management strategies with the rest of the business model for optimising success.

Revenue Stream

The revenue stream is another building block of the business model (Osterwalder & Pigneur, 2010). It represents how is customer segment of the organisation generates earnings. Revenue streams are critical parts of the organisation as this enables a business to survive in the market by generating cash flow. Reviewing the revenue streams is necessary to understand whether the customers are willing to pay for the products and services of the organisation. The revenue can be generated by several pricing mechanisms such as fixed pricing, bargaining, market dependent pricing, and volume-dependent pricing. The ways to generate revenue streams are selling assets, charging usage fee, subscription fee and licensing. The organisations also required to determine how the customers preferred paying to improve their experience.

Key Resources

Identification of key resources is necessary to mind the most important assets of an organisation for generating value (Osterwalder & Pigneur, 2010). These resources are also useful for maintaining a positive relationship with the customer segments. The resources can be categorised into four types, namely the physical, intellectual, human, and financial. The physical resources include manufacturing facilities and machinery. These resources are necessary for manufacturing products and services. The intellectual resources include brand, proprietary knowledge, patents and copyrights. Intellectual resources are essential for enhancing the distinctiveness of an organisation. The human resources include organisation. Efficient human resources deliver quality services to the customers. Finally, financial resources such as cash are a credit to the organisation have an instrumental role to execute the operational activities and make Investments.

Key Activities

Key activities of an organisation indicate the most important processes for the business model (Osterwalder & Pigneur, 2010). The key activities typically include production, problem-solving, and networking. Production is essential to create products and services in adequate quantity and maintaining quality standards. Problem-solving is necessary to identify new solutions. Finally, networking is crucial for making business relationships and growing.

Key Partners

The key partnerships indicate the contribution of a network of partners and suppliers to the business model (Osterwalder & Pigneur, 2010). The partnership can be categorised into four types, namely, strategic alliance, coopetition, joint ventures and buyer-supplier relationship.

Cost Structure

The cost structure describes how cost incurred to the business model (Osterwalder & Pigneur, 2010). Based on the cost structure, the business can be categorised into different types such as cost-driven, value-driven, fixed cost, variable cost, economies of scale and scope.

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Patterns

Identification of business patterns reveals the similarities and dissimilarities letters among Business models. Based on the patterns the business models are categorised into five types.

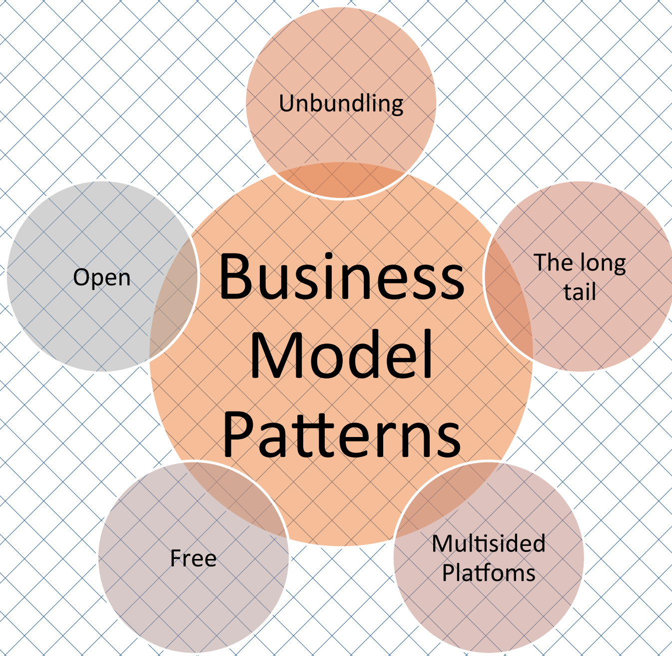

Figure 2: Business Model Patterns

(Source: Osterwalder & Pigneur, 2010,pp-56)

The unbundling model indicates that businesses are of three types, namely customer relationship business, product innovation business and infrastructure business (Osterwalder & Pigneur, 2010). Each of these models has different competitive economic and cultural attributes. Private Banks are an example of an unbundled business model. The product innovation section focuses on making early market entry and acquiring a large share. Faster development of the new product is the key to success for this section. Customer relationship management aims at reducing the high cost of customer acquisition retaining them. This action is highly service-oriented and emphasizes fulfilling the requirement of customers first. Infrastructure management is a unit which focuses on reducing high fixed cost for enhancing the profitability of the organisation. This unit prioritises achieving high economies of scale. The infrastructure management activities and highly cost-focused and gives importance to standardizing the business processes to reduce unit cost. It also aims at improving the predictability and efficiency of the business units.

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The long tail organisations offered a large number of niche products to attract different customer groups (Osterwalder & Pigneur, 2010). The aggregate sales are generated from the nature items for has a small number of bestseller items found for the largest portion of the revenue. Long-tail businesses need low inventory cost due to their focus on an infrequent niche market. However, having a presence on strong platforms to connect with specific buyers is crucial for the survival of these organisations. Online streaming platforms such as Netflix can be considered as an example of long-tail organisation. The organisation facilitates the users to subscribe to a smaller number of niche movies infrequently whereas the majority of the revenue is generated from its other collection.

The value in multisided platforms is created by facilitating interaction between these groups. Google's business model can be considered as an example of multi-sided platforms. The organisation connects advertisers, websurfers and content creators to create value for each group (Osterwalder & Pigneur, 2010). The free business model facilitates at least one of the customer segments to be benefited from a free of charge offer. These non-paying customers are funded by another element of the business model for another customer group. Newspapers follow the free business model by providing some part of the content free of cost to their readers. The free content is funded by advertisers on the online version of the paper. The freemium model or the blended model to offer free and paid services is observed by the web services such as Yahoo and software services Red Hat.

The open business model can be used by organisations for creating and capturing value through collaboration with outside partners. Procter & Gamble is an organisation that follows the open business model (Osterwalder & Pigneur, 2010). The organisation connects external scientists to the Research and Development units. Therefore, it can create innovative products through interaction between external and internal partners.

Design

Business design techniques are used for creating more efficient and innovative business models.

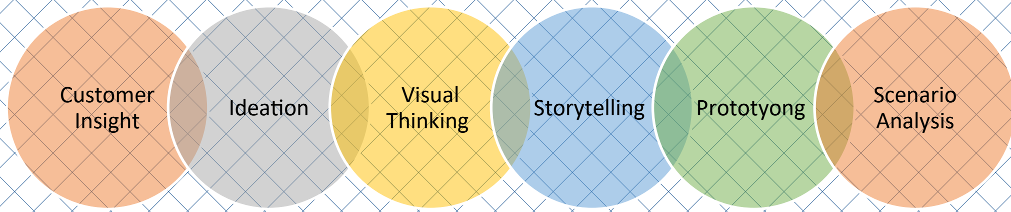

Figure 3: Business Model Design Techniques

(Source: Osterwalder & Pigneur, 2010,pp-126)

Customer insights, ideation, visual thinking, prototyping, storytelling and scenarios are six design techniques used in the business (Osterwalder & Pigneur, 2010). The customer insights technique facilitated the organisations to adopt the customer perspective as a guiding principle for the business model. An empathy map is used to obtain meaningful insight from the customer data. The ideation technique focuses on identifying and evaluating different alternative for a business model and choosing the most suitable one. What-if questions are used to generate ideas for creating innovative business models. Brainstorming is another technique that is used for generating ideas and implementing those in Business models. The visual thinking technique involves the use of visual tools such as sketches and diagrams for generating Business models. Prototyping is another technique for generating Business models. With prototyping, the abstract ideas are implemented into reality (Osterwalder & Pigneur, 2010). So, positive and negative aspects of these ideas are identified. The prototyping can be done at different scale including outlining and pitching a rough idea, developing an elaborated Canvas, creating a business case, and field test. The storytelling technique involves describing the innovative business models in unfamiliar ways. The new ideas are typically resisted in the business. However, the use of storytelling technique enhances engagement with the listeners and reduces resistance. Analysing scenarios is another business model designing technique. Reviewing the scenarios help businesses to understand the effectiveness of different channels, relationship management techniques, and solutions to different problems.

Strategy

The strategy has an instrumental role to make successful business models.

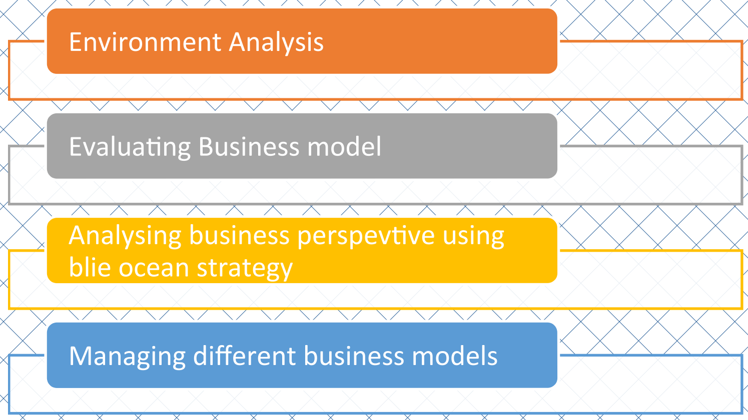

Figure 4: Business Strategy Analysis

(Source: Osterwalder & Pigneur, 2010,pp-200)

The models are developed by analysing the business environment, evaluating the effectiveness of the model, reviewing the perspective of the business model on Blue Ocean Strategy and managing multiple business models. The business environment is reviewed to identify the impact of regulatory, technology, social and cultural trends on the business model (Osterwalder & Pigneur, 2010). The industrial forces such as the activities of suppliers and value chain actors, stakeholders, competitors and substitute products are also reviewed in the business context. Finally, the organisations need to analyse the impact of market and macroeconomic forces. The market forces include the effect of needs and demands and switching costs whereas the macro-economic forces include global market conditions, capital market, economic infrastructure and commodities. The business model evaluation can be done using SWOT analysis. It provides an idea about the new opportunities, threats, strengths and weaknesses of the businesses. The Blue Ocean Strategy questions the value proposition of the business and assists the organisations to explore new customer segments. Implementation of this strategy is useful for creating new industries through product differentiation. To remain successful in the market, businesses need to manage multiple models. Sometimes the organisations transform themselves completely to create a new model whereas another time the organisations integrate the new models into an existing business.

Process

The business model design process includes 5 phases - -mobilising, understanding, designing implementing and managing (Osterwalder & Pigneur, 2010).

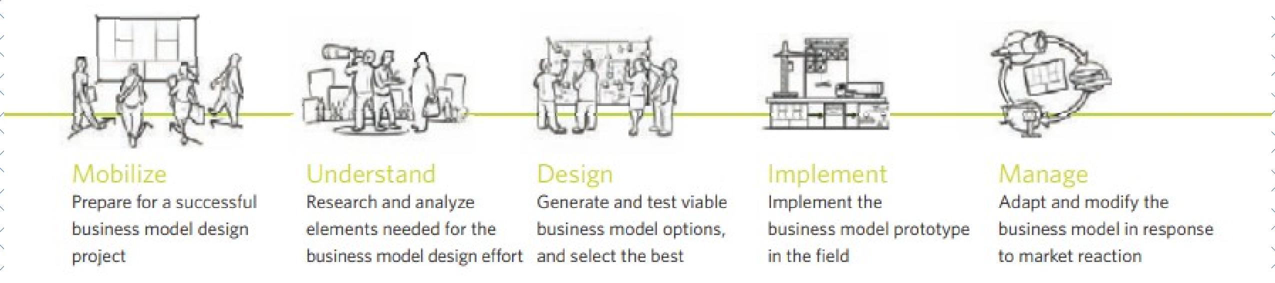

Figure 5: Business Model Generation Process

(Source: Osterwalder & Pigneur, 2010,pp-200)

While designing the business model, an organisation can experience several challenges such as identifying the right model, testing the model before launching it completely, adopting the new model, making changes continuously to incorporate the market feedback and managing uncertainty. The existing organisations required to develop an appetite for creating new models to survive in the market for the long term. In the mobilise phase, an awareness of the importance of a new business model is created within the organisation (Osterwalder & Pigneur, 2010). The use of business model Canvas and storytelling can be effective at this stage to reduce the resistance. The understand stage focuses on researching and analysing the elements that are important for creating a business model. Businesses can use several design techniques such as obtaining customer Insight, visual thinking, analysing scenarios and evaluating the business environment to understand the new model. The design phase focuses on generating and testing viable business model options and choosing the most suitable alternative. The model prototype is implemented in a Fourth Stage. The pros and cons of the model are identified at this stage and the model has adjusted accordingly. The fifth stage deals with managing the business model according to market reaction. At this stage, the management monitors and evaluates the performance of the model and make the necessary adjustment to optimise the benefits.

Conclusion

As indicated in the book, the business model Canvas includes 5 building blocks. Each block represents how the business generates and delivers value to the customers. The blocks should be integrated to enhance business success. The business patterns indicate similarities between models.

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Typically five patterns are observed. Businesses need to choose the most suitable pattern according to the nature of customers. Six design techniques are used by businesses to create a business model. These techniques involve the incorporation of customer insights, idea generation, and use of visual thinking, prototyping, storytelling and scenario analysis. The business strategies focus on analysing the environment, evaluating the model, promoting differentiation and managing multiple models. Finally, the process of business model generation includes 5 different stages. At each stage, the businesses need to use the model Canvas, design technique and strategies.

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References

Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: a handbook for visionaries, game changers, and challengers*. John Wiley & Sons.