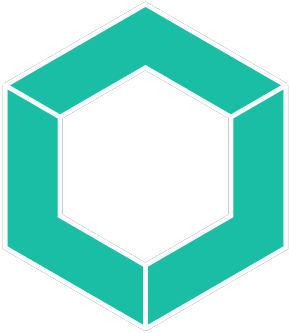
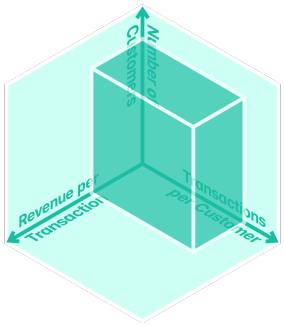
The Value Cube

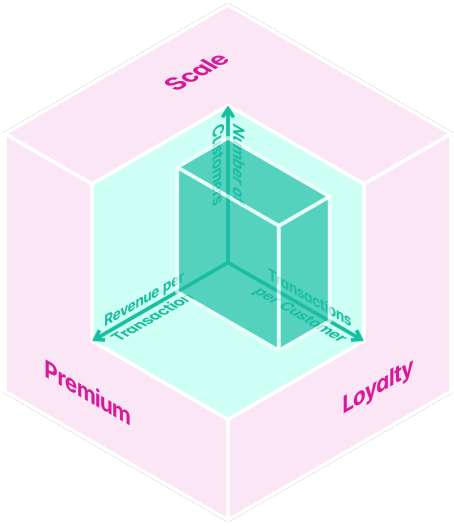


The Value Cube is a visual and conceptual framework that helps ideate, analyse, and evaluate new and existing business models. It shows how complex business models are built from simple interacting components, and how to leverage them for successful strategies.

For every business, there are three ways to make more money: gain **more customers**, conclude more **transactions per customer**, and generate more **revenue per transaction**.



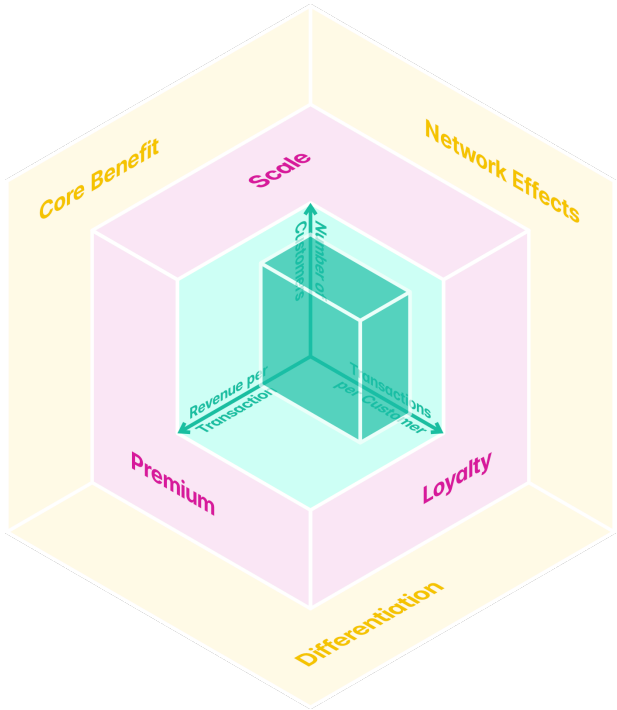
The overall volume of a business can therefore, in a simplified way, be expressed as “number of customers x number of transactions per customer x revenue per transaction”.



There are three universal strategies to maximise each of these figures: **scale** the business (to increase the number of customers), create customer **loyalty** (to increase the number of transactions per customer), and establish **premium** pricing (to increase the revenue per transaction).

These strategies can be combined, but only certain combinations make sense – keeping customers for longer (loyalty), for example, is perfectly compatible with gaining more customers (scale), but a high price (premium) will make it harder to reach more of them.

To make any of these strategies work, a business has to deliver **value** to its customers – they will only pay the business if the perceived value they receive (expressed in monetary terms) is greater than the price the business is charging. This value can take three specific forms, each of which is more closely related to some strategies than to others:

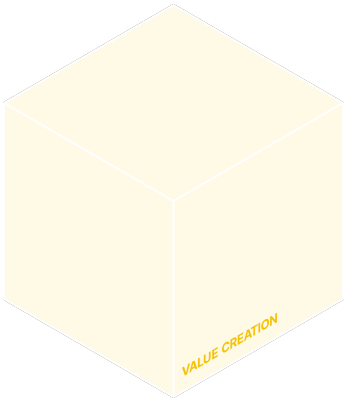


Core benefit (what customers can do with the product), which helps with scale and premium; **network effects** (how customers profit from other people using the product), which helps with scale and loyalty; and **differentiation** (what the product offers that competing products don’t), which helps with loyalty and premium.

Every business model is, explicitly or implicitly, an individual configuration of these components and their relationships. The Value Cube can help understand, shape, and leverage them.

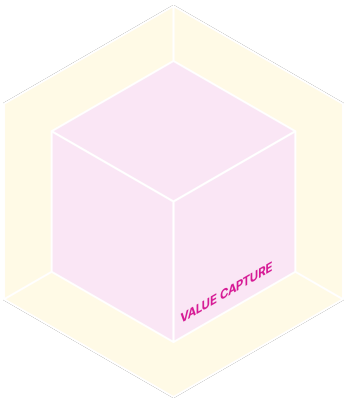
To explore the framework more deeply, let's have a look at how business models are built in a bit more detail.

Building Blocks of a Business Model



The core of a viable business model is simple: A supplier **creates value** for customers, for which they pay the supplier. By being paid, the supplier **captures** part of that value to turn it into revenue and profit.

A supplier's offering has value for the *customer* if its perceived benefits outweigh its cost. The customer will be willing to pay the supplier for the offering if they think its value is higher than that of the closest alternative.



The selling price determines how much value is being captured by the *supplier*. For them to be willing to trade, it must at least cover the supplier's cost (break-even); beyond that, it will contribute to the their profits.

A successful trade between customer and supplier only happens when these two points of willingness meet.

The supplier's profits are the *producer surplus* of the created value: The customer has paid more than what the supplier would have been willing to make the sale for, which equals what was necessary to create the value. Conversely, any saving on the part of the customer is a *consumer surplus* – the customer has paid less than they would have been willing to pay for the value provided.

Both surpluses can grow when *costs* come down: The break-even point is lowered, so suppliers can either increase profits and hence producer surplus, or reduce prices and thus increase consumer surplus.

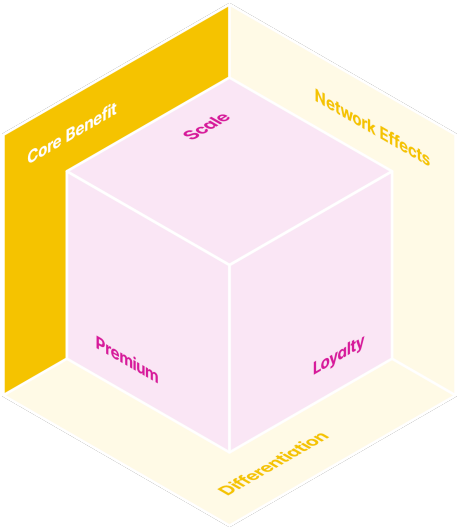
Value creation and capture are *intrinsically linked*. On the one hand, suppliers can create value without capturing any of it – but by itself this is not a viable business model. The production cost would have to be covered from some other source. On the other hand, suppliers can't capture value without creating it. They may be able to capture more value while creating less, though, which is easier the stronger a supplier's market position is.

Even the most complex business models are built from these simple components.

Modes of Value Creation and Capture

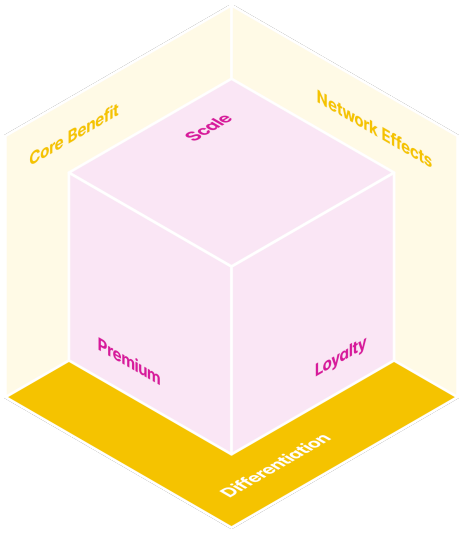
We can heuristically distinguish different modes of value creation and capture, i.e. strategies that suppliers can pursue to create and capture value:

Value Creation



Core benefit: the immediate use value of a product or service that is independent of external factors. Examples are being able to talk to someone over a long distance on a telephone (literally “distant voice”), having the current time displayed close by on a watch, or being able to get from A to B autonomously in a car.

In a new market without or with little competition, providing a core benefit might be enough to support a viable business model. In more mature and competitive markets, other modes of value creation might have to augment it.

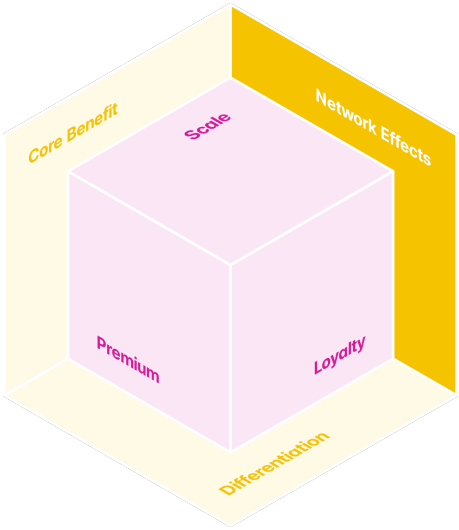


Differentiation: how a product or service differs from other offerings with the same core benefit in an attribute valued by buyers. Differentiation, as business economist Michael Porter noted in his influential work on competitive advantage, “can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors”. It might, for example, be grounded in longevity, a superior user experience, a particular image, ethical production standards, or an emotional attachment to the supplier.

Examples include: Long-lasting and hard-wearing tools; luxury watches or expensive cars, which provide the same core benefit as cheaper models, but elevate social status; fair-trade products, which are chosen not for functional, but ethical reasons.

As markets and technologies evolve, differentiation can “decay” – what was once perceived as a unique, differentiating attribute might become expected and thus part of the core benefit over time.

Network effects: the value for one customer depends on other customers using the same product or service – it is higher the more people are using it. Network effects can be based on



- *actual networks*, which can be physical (e.g. the phone network) or digital (e.g. social networks like Facebook, Twitter or Instagram). The value of using the network is proportional to the number of its nodes (Metcalfe's Law).

- *platforms*, e.g. street markets or operating systems. Both are more attractive for vendors the more users they have, and more attractive for users the more vendors are offering products (physical goods or software applications) on the platform.

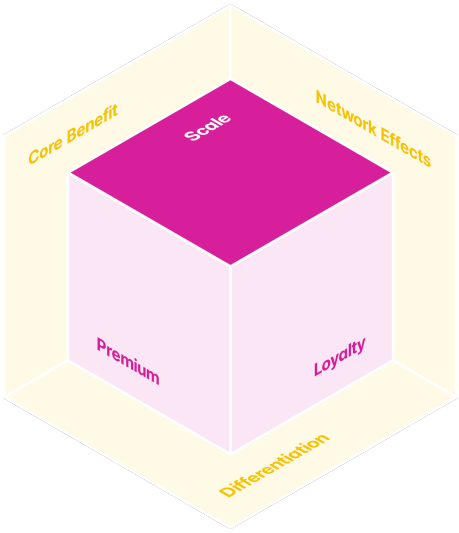
- *habits*, i.e. behaviours that spread through populations – the more people behave in a certain way, the more valuable this behaviour becomes. Examples are following social norms, using terms like "googling", or bandwagoning on trends.

From networks to platforms to habits, network effects become less direct. The more direct a network effect is, the better it can be defended by the supplier(s) creating it, as building the underlying infrastructure is more expensive and access to it can be better controlled.

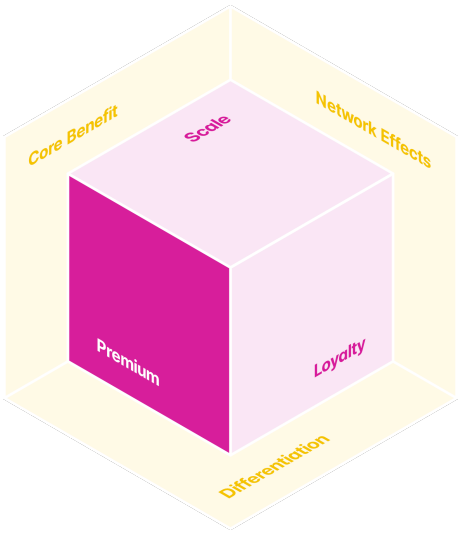
Direct network effects can also ground emergent core benefits once the network is established – think of the phone network or social networks, where the connections the network enables have become their core benefit.

Value capture

Scale: selling the product or service to as many customers as possible. This requires minimising marginal cost per customer, which can be done in two ways: by producing an offering as cheaply and in high volumes as possible, or by having as many customers as possible using it.



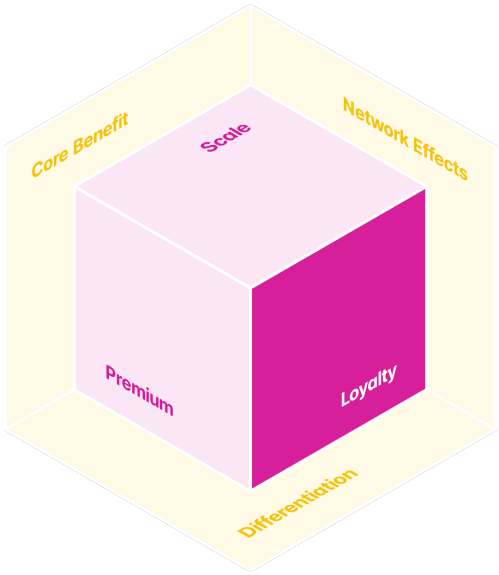
Examples are mass-produced and fast-moving consumer goods, but also digital content, apps, and networks. Generally, scale-oriented business models have high initial or fixed costs and low ongoing or variable costs. As a result, such models are relatively easy to defend once they are up and running.



Premium: selling the product or service at as high a price as possible. This means increasing the perceived value for the customer so they are ready to pay more, by either providing a compelling core benefit or a strong differentiation from other offerings.

Examples are reliable and long-lived consumer products or professional tools, but also luxury and custom-made items or exclusive services, whose perceived value is often determined by high prices. Such offerings might induce loyalty towards their supplier, but are bought in low quantities per product by individual customers.

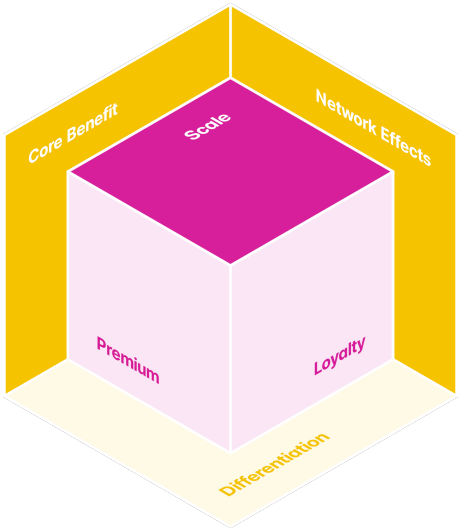
Loyalty: keeping customers for as long as possible. This means customers stay with a product or service and pay for it continuously, or they buy the product or related offerings from the same supplier repeatedly, because doing so provides more value than switching.



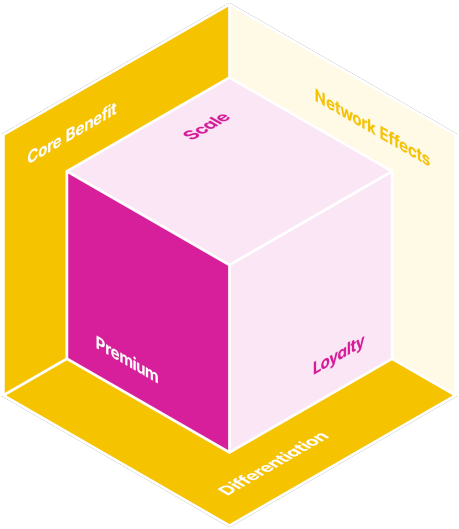
Subscriptions can be thought of as a loyalty model. They offer lower prices for longer-term commitments, make switching to alternatives costly by adding effort, or tie past investments to staying, such as viewing or listening data and the resulting recommendations on streaming platforms. Another example are social networks, where having your friends on the network increases the relative value of staying versus switching.

Creation/Capture Fit

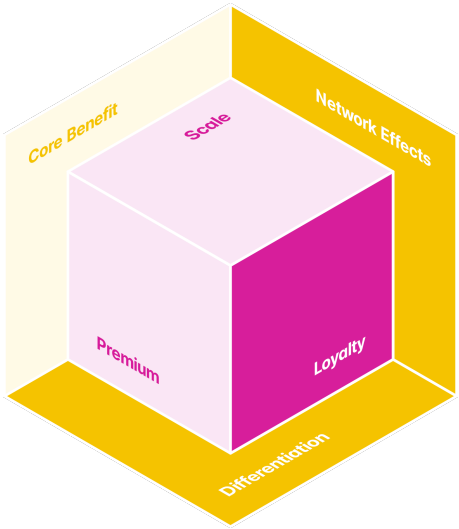
These examples already hint at an important relationship between value creation and capture: You have to create the right kind of value in order to effectively use a certain mode of capture.



To support *scale*, an offering has to focus on *core benefit and/or network effects*: To increase volume and attract a large number of customers, a product or service either needs to be as inexpensive as possible, making it more likely its benefits outweigh its cost. Or it needs to leverage network effects to start a virtuous circle between customer acquisition and value of the offering.



To support a *premium* model, an offering has to prioritise *core benefit* and/or *differentiation*: To justify high prices, a product or service either needs to provide a high use value over its lifetime. Or it has to enable the customer to do things with it they can't do with alternatives, e.g. distinguish themselves by owning or using it. Often high prices contribute to such a distinction because they enable the signalling of wealth, social status or group affiliation.



To support a *loyalty*-based model, *differentiation* and/or *network effects* are key: To keep users from switching, a product or service can leverage unique features or past use to increase differentiation, i.e. make alternative offerings less attractive or valuable. If the value of an offering is determined by the number of users, i.e. network effects, and that number is higher than for its alternatives, then this will also make switching less attractive.

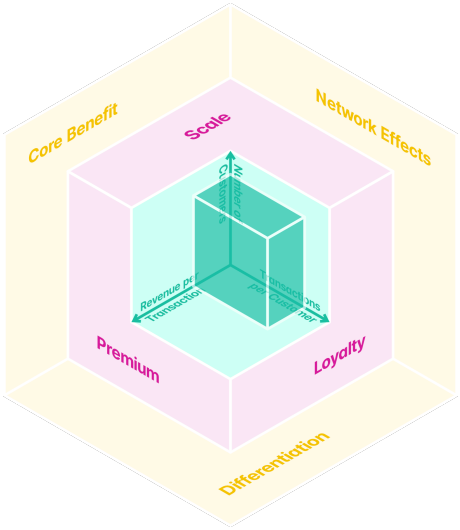
A good fit between modes of value creation and capture is the hallmark of a successful business model.

Capture Modes, Goals, and Metrics

Generally, a business model is successful if it captures sufficient value (which is, as we just saw, in turn enabled by appropriate modes of value creation). The

different modes of value capture have different goals, the achievement of which is measured by different metrics:

- Scale means maximising the *number of customers*.
- Premium means maximising *revenue per transaction*.
- Loyalty means maximising the *number of transactions per customer*.



Every real-world business model will optimise *all three metrics* to varying degrees, and the overall value captured can be expressed as the product of all three metrics (number of customers x number of transactions per customer x revenue per transaction).

But different capture strategies require different qualities of a product or service and different capabilities and activities of the supplier. Thus successful business models *prioritise one of the modes* over the others and hence measure success primarily with *one of the metrics*. “Do a bit of everything” strategies usually don’t lead to more resilience, but to being “stuck in the middle”, as Michael Porter calls it.

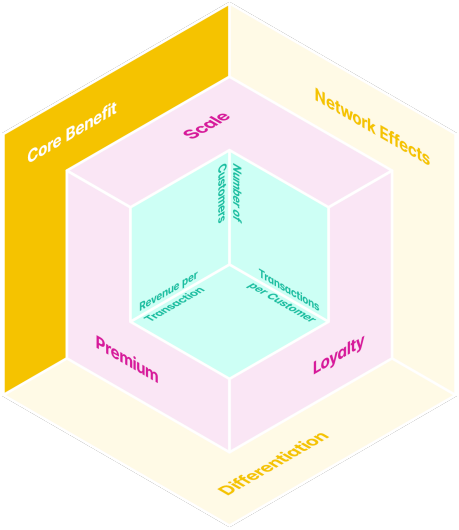
Put the other way around, product attributes and supplier capabilities should inform which strategy to choose and hence which metric to optimise for. How product and supplier are positioned in the market determines which strategies are appropriate and promising.

Creation Modes and Market Conditions

It is possible to optimise capture without optimising creation, but that either tends not to be very sustainable, or must be based on a power asymmetry: A supplier can scale the production and thus reduce the cost of their offering without also reducing its price and thus adding benefit – but if they don’t have a monopoly on the technology needed for scaling, someone else will use it to undercut them. Similarly, if they increase the price and thus their margin without adding differentiation or core benefit, absent collusive pricing competitors will use the opportunity to provide more value by charging less than them.

Single-mode model

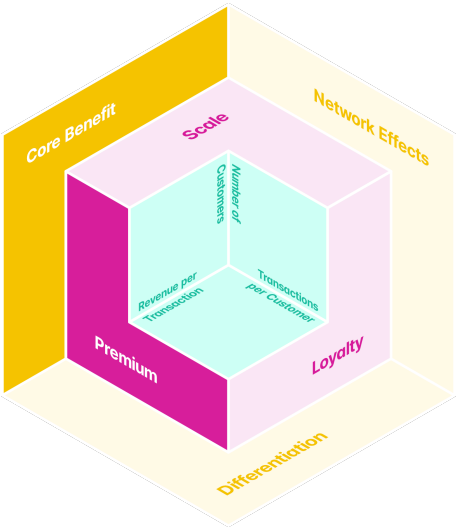
Apart from providing the chance to control prices, monopoly situations enable suppliers to *rely on the core benefit* of their offering: Without direct competition, there is no need for additional value via differentiation or network effects. This is



the case in new markets with the natural (if temporary) monopoly of the first mover. We call this focus on the core benefit, i.e. only one mode of value creation, the *single-mode model* of value creation.

New markets are based on new and still immature technologies or product categories. In such a context, products or services tend to exhibit what business theorist Clayton Christensen calls a *performance gap*: "product functionality and reliability are not yet good enough to address the needs of customers in a given tier of the market". If this is the case,

> firms must compete by making the best possible products, [which means] they cannot simply assemble standardized components, because [that] would force them to back away from the frontier of what is technologically possible. When the product is not good enough, backing off from the best that can be done means that you'll fall behind.



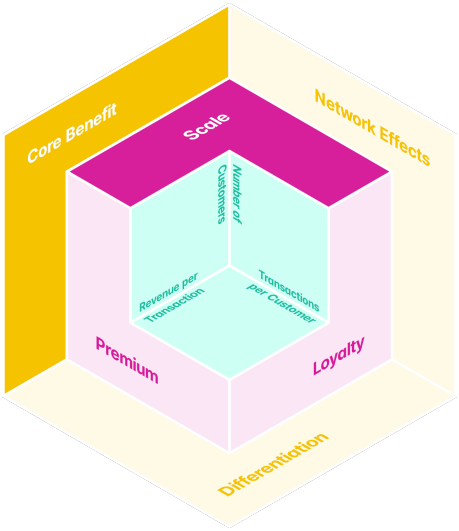
Early in technological and market evolution, proprietary or integrated solutions have an advantage over standardised or modular ones. Since this comes at the price of higher costs, the natural fit for products at this evolutionary stage is a *premium* model. Focusing on *scale* before arriving at the needed product or service quality would be dangerous.

This has been the case for cars with internal combustion engines before Henry Ford (who introduced standardisation) and was mirrored in the evolution of the EV market. Consider the example of Tesla: By moving from small-batch series (Roadster) to luxury cars (Model S and X) to mainstream models (Model 3), they first closed the performance gap on a premium model and only then began to scale.

The exclusive focus on core benefit is challenged after the performance gap has been closed: If an offering is good enough to meet the needs of its target customers, competing on core quality or performance becomes increasingly hard as the market gets crowded with other good-enough offerings.

The default reaction to this is starting to compete on price, moving from premium towards *scale*, and switching from integration to modularisation and outsourcing to drive down costs, while trying to maintain the performance level. If successful, the resulting position is what Michael Porter has called *cost leadership*. Another

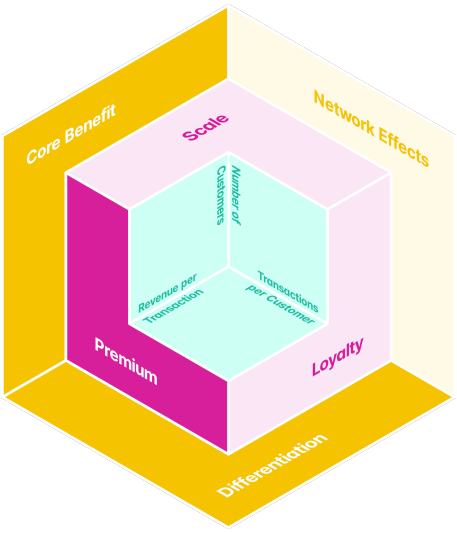
option is to switch to a *new underlying product or service* which is currently lower-performing, but is cheaper to produce, already caters to a lower-end market segment, and has untapped performance potential. This is Clayton Christensen's *disruptive innovation* strategy.



A third option is to extend the focus to include other modes of value creation.

Dual-mode models

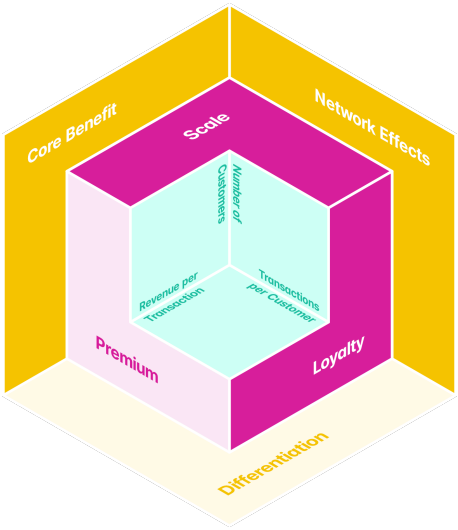
In more mature and competitive markets, suppliers might want to add a second mode of value creation and switch to what we call a *dual-mode model*. This is a common model once suppliers have to deal with stronger and more diverse competition: By adding either *differentiation* or *network effects* to their strategy, they start building additional moats against their competitors, striving either for dominance in a specific market segment (differentiation) or preserving a monopoly position in the whole market (network effects).



These two strategies belong, as complexity economist W. Brian Arthur put it in his groundbreaking work on the information economy, to two different worlds: The world of *diminishing* and the world of *increasing returns*. Whereas differentiation is a viable strategy in markets where scale and growth are *limited* by rising costs or diminishing profits, network effects enabled by information technology lead to returns *increasing* with scale: After recovering high up-front costs, models like digital networks and platforms reduce marginal cost and increase marginal profit with each additional customer.

This can result in a lock-in effect once a critical mass of customers is achieved: Market dominance at a certain point in time can get "locked in" for a considerable duration – see e.g. Microsoft in the 1980s and 1990s or Facebook in the 2000s and 2010s. It also means that market dominance is not only a result of superior value, but at times also of timing, luck, and sheer force, providing either the fortunate first mover or the ruthless conqueror with immense rewards. This is why venture capital is the appropriate instrument to finance new businesses in

this area, and how start-ups like Uber have been trying to gain market dominance.



Business models based on network effects have become dominant in information technology, shaping what is sometimes described as "platform capitalism". They follow a logic that business analyst Chris Dixon has called "come for the tool, stay for the network". Consider the example of Instagram: They started with providing creative filters for photos (*core benefit*), then established and grew a network of users (*network effects* enabling *scale*), and finally arrived at extremely strong incentives for their users to stay (*network effects* inducing *loyalty*). This enabled them to sit out threats of new market entrants like Snapchat, countering their differentiation by just copying features.

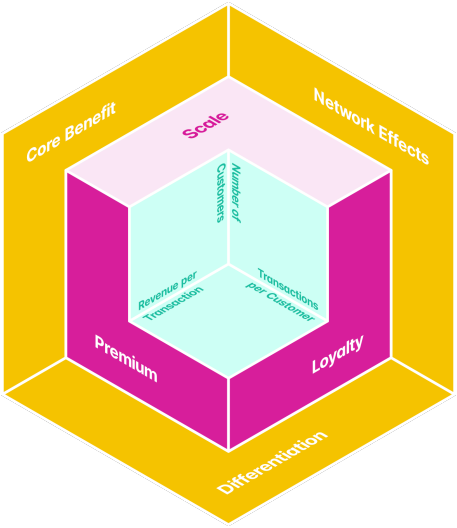
But while companies like Instagram, Google, and Facebook are driving a lot of today's economic dynamics and are often considered to embody today's economic paradigm, markets based on differentiation are still dominant in terms of overall revenue and employment. Even Apple, often regarded as a key example of this paradigm, is in its hardware business very much part of the world of diminishing returns.

Differentiation is not only a remnant of older industries, though: Whenever the marketable resource is scarce, differentiation will be required to compete successfully. Google and Facebook may depend on information and attention, which is both abundant (or being manipulated to stay so). Hence they are able to commoditise their suppliers (content creators and users). But streamers like Spotify, Apple, Netflix, and Disney market creative content, which is scarce. Hence they depend on differentiated suppliers and strive for exclusive content.

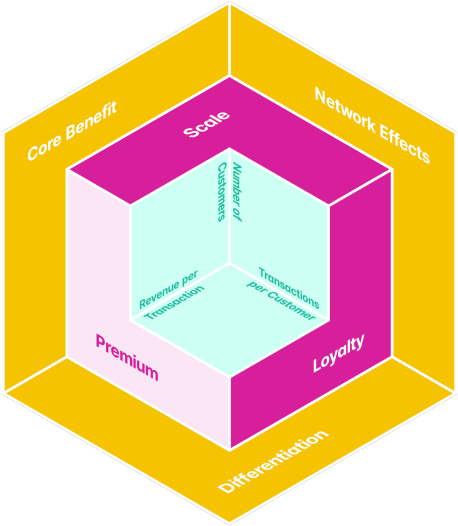
Conversely, highly differentiated content creators have an advantage in platform capitalism – just think of the surge in personal media brands on YouTube and TikTok, in podcasts and newsletters. This means the dichotomy between differentiation and network effects persists *within* the information economy – platforms use network effects, creators use differentiation, and one party's successful use of one mode depends on the other party's successful use of the other.

Triple-mode models

The dichotomy also makes clear why adding a third mode to a business model is rarely a good idea: The nature of a product or service determines which world it belongs to and hence whether an appropriate business model should focus on differentiation or on network effects. In addition, the management techniques and culture needed for these strategies are very different and hard to combine. So on the *level of a product or service*, a triple-mode model is too complex and contradictory to be managed successfully.



Where we do see examples of functioning triple-mode models is the corporate or *portfolio level*: Apple, for example, successfully combines a differentiation-oriented hardware business with network-effects based services and an ecosystem strategy. Even so, Apple struggles to handle the resulting complexity well: Its services like iCloud or Apple Maps are notoriously clunky, especially compared to its products, and its ecosystem-oriented strategy regularly invites criticism of focusing too much on the exploitation of established value propositions and too little on the exploration of new ones. Despite these criticisms, being able to combine three modes has made Apple one of the most sucessful businesses of all time.



Another example of a successful triple-mode model can be found on an *industry level*, i.e. beyond the boundaries of a single supplier company: Car manufacturers are clearly part of the world of diminishing returns and as such working in a dual-mode model focused on differentiation. But by successful lobbying, they have been able to convince governments to invest heavily in road networks, thus providing the third mode of value creation externally. Of course such an externalisation strategy is only viable in the long term and by spreading cost and efforts over multiple suppliers. If done successfully, it can create decades-long prosperity for whole industries – but the cost of this is borne by society, on more than one level in the case of the car industry.

Examples

How does all of this translate into concrete, real-world business models? Especially the ones everybody is talking about? Let's have a look at five cases:

Bait and Hook

Two well-known examples for this business model are razor blades and printer ink. In both cases an inexpensive initial purchase (razor, printer) is followed by the continuous purchase of relatively expensive supplies (blades, ink). While this might look like a loyalty-based model at first, it really is a mischievously smart two-stage *premium* model.

Consider the example of the printer ink: First a printer is given away almost for free (bait), delivering a *core benefit* at low cost, driving *scale*. This then creates an extraordinarily strong *differentiation* for the ink needed to print: It's the only one that can be used with the printer already owned by the customer (hook). This enables extreme premium pricing of the product at the core of the mode, the printer ink – which, per litre, is more expensive than human blood.

Of course such a model invites disruption, e.g. the Dollar Shave Club subscription model for razor blades or generic refill ink for printers.

Freemium

In the structurally similar freemium model, a free basic version of a product is combined with a paid-for premium version. Examples are free-to-play games, free mobile apps with in-app purchases, and online platforms with different account levels like LinkedIn.

Let's look at the latter in some more detail: Basic account and profile are free, unlocking *core benefit* and *scale* through low cost. Since LinkedIn's free account is not ad-supported, there is no value capture at this stage, though. So to capture value, LinkedIn needs enough users of the free account to upgrade to a paid one.

This is motivated through increased *core benefit* (more features) and continued access to *network effects* (generated by previous use of the platform): Users are incentivised to upgrade because they hit usage limits, and they are kept from switching to a (potentially less costly) alternative because of the investments already made in the form of network building (*loyalty*).

While LinkedIn can leverage network effects created by users of the free account to make a paid account more attractive, upgrade incentives of *differentiation*-oriented products need to rely on a successful transfer of loyalty to the paid product (as do publishing brands like the New York Times) or on hard, data-

based lock-ins (as do apps like Notion). In these cases, the free product version is basically just a sales tool, not a value creator for the paid one.

Bundling

Bundling is a common model in content industries: From music albums to cable bundles and software suites, it packages individual products and offers them for a total price lower than the sum of the individual prices.

Bundling succeeds when customers value the products less than this sum, but more than the bundle price. They gain from it because they pay less than they would be willing to, thus maximising their *core benefit* and increasing consumer surplus. Suppliers gain because they are selling more than they would be when only selling individual products, thus maximising producer surplus, i.e. profit. This works for content because its marginal costs are low and additional "copies" of the product need to contribute less to the overall return.

In short, bundling enables *scale* by attracting customers that otherwise wouldn't buy a product. Seen through this lens, subscription can legitimately be interpreted as bundling: Subscribers pay for products – content items – they wouldn't buy individually. This explains, as venture capitalist Chris Dixon predicted in 2012, "why subscription models like Spotify should ultimately win out over à la carte models like iTunes", and why Apple itself switched to a subscription model with Apple Music: if priced appropriately, both consumer and producer surplus are higher in the subscription model, making it the superior offering.

The increased consumer surplus also supports subscription's *loyalty* effects: It makes sense to stay with the subscription even if individual items aren't of interest for a consumer, as long as their overall surplus is higher than that of individually purchasing the items of interest.

Aggregator

The dominant business model in today's information economy is what business analyst Ben Thompson has called the aggregator. It is a consequence of how the Internet has changed market dynamics:

When distribution costs for products are practically zero, as is the case for digital goods like content, distribution of the product isn't a problem anymore whose solution can be monetised – everyone can access any content from anywhere. This also means every supplier of content is in a global competition with every other supplier. As a result, the traditional business models of content suppliers and distributors, which were based on solving distribution and on regional monopolies, are failing.

The hard problem to solve now for suppliers is access to users in a global competition for attention, and for users access to what's relevant among the Internet's endless supply of content. This is what aggregators do: By making relevant content accessible through search (Google) or social networks (Facebook), they solve the users' problem (*core benefit*). This attracts more users, which improves the quality of the solution (*network effects*) and solves the suppliers' problem – getting their content to users.

Google, Facebook, Netflix & Co. first aggregate users by providing superior value, then suppliers by providing access to the aggregated users, and leverage the emerging network effects for unprecedented *scale*. In the case of Google, Facebook and other social networks, value is captured not by having users pay, though, but advertisers – who are also suppliers of content they need to get to users. Ultimately, the users' attention to ads pays for the content they access for free. Thus such aggregators run three-sided business models, with scale on each of these sides driving more scale on the others.

The end result is a lock-in or winner-takes-all effect, which adds *loyalty* to scale: Once users and suppliers are part of a large network, it's unattractive for them to switch to a different (and probably smaller) one. This makes effective regulation crucial but challenging: Since aggregator models are predicated on providing superior user value, conventional US-style regulation focused on consumer welfare has no traction. Breaking up aggregators might just lead to new aggregators emerging as long as the underlying market dynamics stay the same. And since large networks tend to attract users and data from smaller ones, more innovative approaches like data portability often turn into an advantage for incumbents, not smaller competitors.

Aggregation, the resulting modularisation of suppliers, and the challenges for effective regulation aren't limited to content: Amazon, for example, is pursuing the same strategy for physical goods, even though their distribution costs are still relevant. Instead of treating this fact as a limitation of their ambition, Amazon leverages it for even more growth by integrating physical distribution into their business model – in 2020, already a third of all US parcels were delivered by Amazon's own logistics network, and their share of the logistics market keeps growing.

Platform

It has become increasingly clear that traditional, differentiation-oriented business models can't *compete* against aggregators, but are *complementary* to them (at best). But recently another model has become a promising contender: the platform.

As Ben Thompson explains, aggregators "internalize their network effects and commoditize their suppliers" – they act as gatekeepers between users and suppliers, limiting the suppliers' capacity for *differentiation* and forcing them to compete mainly on price, i.e. *core benefit*. But this also means there is

> a platform alternative — that is, a company that succeeds by enabling its suppliers to differentiate and externalizing network effects to create a mutually beneficial ecosystem.

Platforms are different from aggregators in that they don't monopolise the customer relationship but rather facilitate a direct connection between suppliers and their customers, giving suppliers an opportunity to differentiate themselves. This also means that platforms profit from the success of differentiated products using them, while bearing no risk if they fail. For an example, consider the contribution of so-called killer applications like VisiCalc and Lotus 1-2-3 to the success of computing platforms like the Apple II and the IBM PC – while Apple and IBM profited enormously from them, they didn't bear any of the individual development risks. As Thompson puts it, platforms "succeed (or fail) in the aggregate".

Shopify is an example of a platform that takes on an aggregator, in this case Amazon: As their COO Harley Finkelstein states, they aim to "create more value for [our customers'] partners than we capture for ourselves". This claim echos Bill Gates's definition of a platform: "A platform is when the economic value of everybody that uses it exceeds the value of the company that creates it." Shopify provides a unified interface between independent merchants, referral partners, template designers, software developers, and 3rd party logistics providers, who all compete in their specific domain, but contribute to and profit from a growing overall ecosystem.

This enables *differentiation* on the part of the suppliers and externalises the *network effects* to them, while granting much the same *direct benefit* for end customers as the aggregator Amazon in terms of user experience and logistics performance. Shopify's value capture thus leverages *premium and loyalty* potential for their customers' business models to increase *scale and loyalty* for their own.

The result is exponential growth for Shopify, which by the end of 2021 had already almost half the total sales volume of Amazon Marketplace and is now everyone's favourite example of how business model innovation can solve monopoly challenges seemingly intractable by government intervention.

How to Use the Cube

Use Cases

The Value Cube can serve three different, but related purposes:

- **Ideation** of new business models: describe new ideas in terms of value creation and capture modes; brainstorm different combinations of modes; vary and recombine components of existing models.

- **Analysis** of new and existing business models: describe models in terms of value creation and capture modes; spot and explore connections, patterns, and creation/capture fit; find explanations for observed and predictions for expected performance.

- **Evaluation** of new and existing business models: describe observed or expected model performance in terms of goal metrics; compare and assess predictions and observations; identify strengths, weaknesses, opportunities and threats.

In all three cases, the Value Cube offers a language and canvas to help find shared mental models and thus create **shared understanding** of what you are building and selling.

When working on existing or fully articulated products and business models, it makes sense to use the Value Cube **inside-out**: Start with goal metrics and actual or expected performance, contextualise and explain performance by describing value capture, and then relate that to current or potential modes of value creation.

Conversely, when working on product or business model innovation it makes sense to use it **outside-in**: Start by describing potential or planned modes of value creation, relate that to fitting modes of value capture, and then derive appropriate goal metrics to describe expected performance.

Process

In all scenarios, finding or creating patterns and particularly uncovering (the absence of) a **creation/capture fit** is essential; the recommended steps to work with the Value Cube are organised around this task. Throughout the process, use the Value Cube as a (virtual or physical) **canvas** to map facts, ideas, and data.

1. **Gather data**
   Collect facts and ideas about value creation and capture, as well as data about actual or expected performance. Document these with (virtual or physical)

sticky notes on the canvas; this allows you to move things around, iterate on your mapping, and develop an adequate and helpful representation of your business model.
Result: An adequate textual and visual represention of the model under consideration.

2. **Spot patterns**
   Find connections between facts, ideas, and data. Identify and mark known or interesting new arrangements, with a particular focus on how the model's implementation of value creation and capture modes adds up: Do the modes support each other, i.e. is there a creation/capture fit? And if so, how is it structured?
   Result: A map of patterns and (the absence of) the creation/capture fit.

3. **Identify challenges**
   Use dot voting to mark strengths and opportunities (green) as well es weaknesses and risks (red). Besides a value creation/capture fit or mismatch, these can for example be identified by constructing a Wardley Map for the business model to analyse its market context. Mark where amplification or mitigation is needed and describe these issues.
   Result: A list of challenges to the business model.

4. **Develop strategies**
   Explore strategic options, making full use of the output of the previous steps. Most options can be grouped under the following headings:
   - *Improve performance:* increase core benefit or differentiation by improving the underlying product or service, aiming for value capture via premium pricing (product leadership).
   - *Reduce cost:* increase direct benefit by reducing production and distribution cost while preserving performance, aiming for value capture via scale (cost leadership).
   - *Switch underlying product:* increase long-term potential for core benefit and/or target lower-end markets by switching to a product or service earlier in its lifecycle, aiming for value capture via scale (disruptive innovation).
   - *Extend value creation:* add a second mode of value creation to the existing one, particularly differentiation or network effects, aiming for value capture via scale or loyalty.
   - *Shift value creation:* change the the focus of the product or service strategy, e.g. by specialising (shift towards differentiation) or becoming a platform (shift towards network effects).
   - *Shift value capture:* change the focus of revenue generation, e.g. by moving into a premium market segment or to a subscription model.

Other frameworks

The Value Cube can (and should!) be used in conjunction with other frameworks that complement its focus on the structure and patterns of value creation and capture. Examples are

- the *Business Model Canvas* (to describe implementation details of a business model),
- the *Product Field* (to make sense of and coordinate the development of an underlying product or service),
- the *Business Model Navigator* (to scan and explore the possibility space of business model patterns),
- *Wardley Maps* (to analyse and asses the changing strategic landscape in which a business model is operating, with a focus on market and technology evolution).

To get the most out of combining these frameworks with the Value Cube,

- map the different components of the framework you use to those of the Value Cube to make sure nothing gets lost in translation;
- separate the concerns of the different frameworks you use to maximise the return on use for every one of them.

Final Advice

Practice! As every good tool, the Value Cube becomes more useful and thus valuable with repeated use.

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