

**Book: Business Model Generation**

**Author(s): Alexander Osterwalder, Yves Pigneur**

**Part 1:**

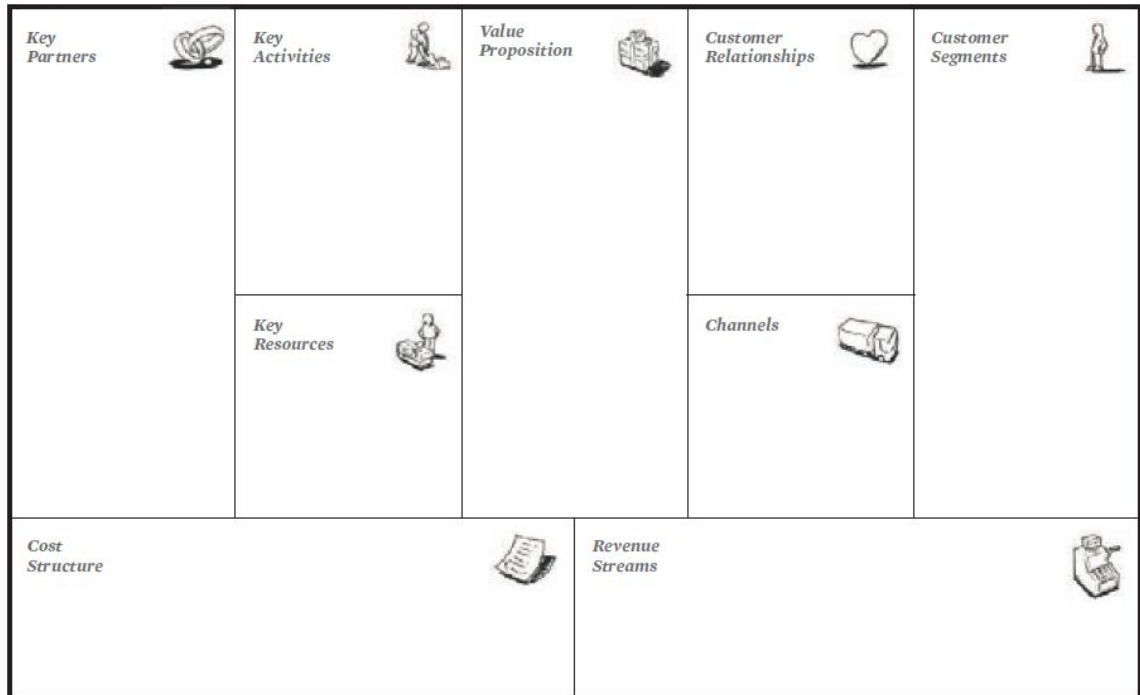
**Canvas** - 9 building blocks

- Customer Segments (CS)
  - Mass market - broadly similar needs and problems (i.e. consumer electronics)
  - Niche market - specific and specialized (i.e. supplier-buyer rel. like car part manu. dependent on purchases from major auto manu.)
  - Segmented - distinguish between market segments with similar but varying needs and problems
  - Diversified - two unrelated CS w/ very different needs and problems
  - Multi-sided platforms/markets - two or more interdependent CS. For example, credit card company needs a large base of cardholders AND a large base of merchants that accept those credit cards (i.e. Visa vs. American Express)
- Value Propositions (VP)
  - Newness - entirely new set of needs that had not been previously satisfied
  - Performance - improvements in product or service performance
  - Customization - tailoring products and services to the specific needs of individual customers or CS
  - “Getting the job done” - self-explanatory
  - Design
  - Brand/Status - “coolness” factor
  - Price
  - Cost Reduction - Reduce costs and effort to buy/sell, middleman
  - Risk Reduction
  - Accessibility - making products and services accessible to those who previously could not afford/get them
  - Convenience/Usability - more convenient, easier to use
- Channels
  - Partner vs. Own, Direct vs. Indirect
    - Partner Indirect
      - Wholesaler
      - Partner Stores
    - Own Indirect
      - Own Stores
    - Own Direct
      - Sales Force
      - Web Sales

- Channel Phases
  - Awareness
  - Evaluation
  - Purchase
  - Delivery
  - After Sales
- Customer Relationships
  - Personal Customer Service
  - Dedicated CS
  - Self-Service
  - Automated Services
  - Communities
  - Co-creation
- Revenue Streams
  - Two Types: Transaction from one-time payment (purchasing of unit) and Recurring from ongoing payments (biweekly seed/nutrient/recipe shipments)
  - Ways to generate revenue
    - Asset sale - physical product
    - Usage fee - pay per use, more usage = more payment
    - Subscription fees - continuous access to a service. I.e. gym membership
    - Lending/Renting/Leasing - Right to asset for fixed time and fee
    - Licensing - permission to use intellectual property in exchange for fee (i.e. media and technology sectors)
    - Brokerage Fees - transaction fees for service or commission for recruitment, matching buyer and seller, etc.
    - Advertising
  - Pricing Mechanisms
    - Fixed Menu based on static pricing
      - List price, feature dependent, CS dependent, function of quantity purchased
    - Dynamic Pricing based on changing market conditions
      - Negotiation between 2+ partners, dependent on inventory and time of purchase (i.e. airline seats), based on supply and demand, auctions based on bidding
- Key Resources
  - Physical
  - Intellectual
    - Brand, Software, New Tech, Patented Technology that could be used in various companies
  - Human

- Crucial in knowledge-intensive and creative industries
  - Financial
- Key Activities
  - Production (Manufacturing)
  - Problem Solving
  - Platform/Network
- Key Partnerships
  - Four Types
    - Strategic Alliance between non-competitors
    - “ “ “ “ “ competitors
    - Joint ventures to develop new businesses
    - Buyer-Supplier Relationships to assure reliable supplies
  - Three Motivations to Create Partnerships
    - Optimization and economy of scale - reduce overhead, share infrastructure
    - Reduced Risk and Uncertainty
    - Acquisition of certain resources and activities
- Cost Structure - All costs incurred to operate Business Model
  - Cost-driven or value-driven or somewhere in-between
    - C-D minimize costs anywhere, and everywhere
    - V-D focus on high degree of personalized service to justify higher costs
  - Fixed Costs
  - Variable Costs
  - Economies of Scale - as company grows, can purchase more in bulk and lower cost per unit
  - Economies of Scope - growth in operations can support of 1+ products

## The Business Model Canvas



### Part 2:

#### Patterns:

- Pattern 1: Unbundled Business Models
  - 3 Core Business Types
    - Product Innovation
    - Customer Relationship Management
    - Infrastructure Management
    - Can have a combination of them in a business model

THREE CORE BUSINESS TYPES			
	Product Innovation	Customer Relationship Management	Infrastructure Management
Economics	Early market entry enables charging premium prices and acquiring large market share; speed is key	High cost of customer acquisition makes it imperative to gain large wallet share; economies of scope are key	High fixed costs make large volumes essential to achieve low unit costs; economies of scale are key
Culture	Battle for talent; low barriers to entry; many small players thrive	Battle for scope; rapid consolidation; a few big players dominate	Battle for scale; rapid consolidation; a few big players dominate
Competition	Employee centered; coddling the creative stars	Highly service oriented; customer-comes-first mentality	Cost focused; stresses standardization, predictability, and efficiency

- Pattern 2: The Long Tail
  - Selling less of more → offer large number of niche products, require low inventory costs and strong platforms to make content readily available when there is an interested buyer. For example, traditional bookstores → online booksellers (Lulu.com, anyone can publish on demand w/o a publisher and sell direct to interested customers)
- Pattern 3: Multi-Sided Platforms
  - Creates value by facilitating interactions between different customer segments, “network effect” → grows in value to extent of attracting more users. Examples include: Google, Apple.
  - Key Resource = platform; KA = platform management, service, platform promo; VP = attracting CS, Matching diff. CS, Reduce costs through channel transactions; Costs = dev. And maintain platform; CS = 2+ needed; RS = each CS produces different RS, dynamic pricing, some full → some subsidized
- Pattern 4: FREE as a business Model
  - 1+ CS benefits from continuous free usage; non-paying are financed by paying CS. Examples = advertising, newspapers
  - Freemium - general service free, premium costs \$. Examples: Hulu, Spotify, Skype. Usually paying for Ad-Free or Limited and/or additional services.
  - Open Source - Red Hat: people pay for continuous access, unlimited service support, security of direct interaction w/ legal owner of product.
    - Platform is most essential asset; Substantial fixed costs, minimal cost for service on free accounts, separate costs for premium accounts; CR

automated and low cost to handle large number of customers; RS = converts from free → premium

- Need to account for: # of Users, fixed costs to run, % of free and premium users, cost of service for each CS, growth/loss of customers in user base, customer acquisition costs, cost for company to deliver premium service to premium user
- Bait & Hook Model; Example: Free Mobile Phones, Razors
  - Usually get one part for free, but need to pay recurring costs
    - I.e. Free phone, but monthly subscription to service in order to use. Free Razor Handle, but need to buy replacement blades fairly frequently (i.e. Dollar Shave Club)
  - Bait = Product, Hook = Product or Service needed for continued use
  - Focus on: Delivery of product/service; branding; subsidized initial costs; instant gratification from cheap or free initial product; Low Fixed RS, High Recurrent RS
- Pattern 5: Open Business Models

PRINCIPLES OF INNOVATION	
Closed	Open
The smart people in our field work for us.	We need to work with smart people both inside and outside our company.
To profit from research and development (R&D), we must discover it, develop it, and ship it ourselves.	External R&D can create significant value; internal R&D is needed to claim some portion of that value.
If we conduct most of the best research in the industry, we will win.	We don't have to originate the research to benefit from it.
If we create the most or the best ideas in the industry, we will win.	If we make the best use of internal and external ideas, we will win.
We should control our innovation process, so that competitors don't profit from our ideas.	We should profit from others' use of our innovations, and we should buy others' intellectual property (IP) whenever it advances our own interests.

- “Connect and Develop” - P & G. Innocentive → connect organization with research problems to solve with researchers around the world, eager to solve problems.
- “Outside-In” - Have a problem, need help finding a solution, or accessing the rights to a solution that already exists. “Inside-Out” - Have a lot of un- or under-utilized R & D results internally that could be utilized by those who need them for a set cost

	<b>Unbundling Business Models</b>	<b>The Long Tail</b>	<b>Multi-Sided Platforms</b>	<b>FREE as a Business Model</b>	<b>Open Business Models</b>
<b>CONTEXT (BEFORE)</b>	An integrated model combines infrastructure management, product innovation, and Customer Relationships under one roof.	The Value Proposition targets only the most profitable clients.	One Value Proposition targets one Customer Segment.	A high-value, high-cost Value Proposition is offered to paying customers only.	R&D Resources and Key Activities are concentrated in-house: <ul style="list-style-type: none"> <li>Ideas are invented "inside" only</li> <li>Results are exploited "inside" only</li> </ul>
<b>CHALLENGE</b>	Costs are too high. Several conflicting organizational cultures are combined in a single entity, resulting in undesirable trade-offs.	Targeting less profitable segments with specific Value Propositions is too costly.	Enterprise fails to acquire potential new customers who are interested in gaining access to a company's existing customer base (e.g. game developers who want to reach console users)	The high price dissuades customers.	R&D is costly and/or productivity is falling.
<b>SOLUTION (AFTER)</b>	The business is unbundled into three separate but complementary models dealing with <ul style="list-style-type: none"> <li>Infrastructure management</li> <li>Product innovation</li> <li>Customer relationships</li> </ul>	The new or additional Value Proposition targets a large number of historically less profitable, niche Customer Segments—which in aggregate are profitable.	A Value Proposition "giving access" to a company's existing Customer Segment is added (e.g. a game console manufacturer provides software developers with access to its users)	Several Value Propositions are offered to different Customer Segments with different Revenue Streams, one of them being free-of-charge (or very low cost).	Internal R&D Resources and Activities are leveraged by utilizing outside partners. Internal R&D results are transformed into a Value Proposition and offered to interested Customer Segments.
<b>RATIONALE</b>	IT and management tool improvements allow separating and coordinating different business models at lower cost, thus eliminating undesirable trade-offs.	IT and operations management improvements allow delivering tailored Value Propositions to a very large number of new customers at low cost.	An intermediary operating a platform between two or more Customer Segments adds Revenue Streams to the initial model.	Non-paying Customer Segments are subsidized by paying customers in order to attract the maximum number of users.	Acquiring R&D from external sources can be less expensive, resulting in faster time-to-market. Unexploited innovations have the potential to bring in more revenue when sold outside.
<b>EXAMPLES</b>	Private Banking Mobile Telco	Publishing Industry (Lulu.com) LEGO	Google Video game consoles from Nintendo, Sony, Microsoft Apple iPod, iTunes, iPhone	Advertising and newspapers Metro Flickr Open Source Red Hat Skype (versus Telco) Gillette Razor and blades	Procter & Gamble GlaxoSmithKline Innoverventive

## Part 3:

### **Design:** Techniques and Tools for Better Product Design and Development

- **Technique #1 : Customer Insights**
  - Successful Innovation requires a deep understanding of customers, including environment, daily routines, concerns, and aspirations beyond just asking customers what they want
  - New business models can be built based on different CS in existing models; For example, Zipcar for urban dwellers who need cars from time to time but it is a hassle to own them, and EasyJet for lower and middle class CS who rarely fly but now have the option
  - Shift perspective to Customer-centric business model design
    - What job(s) do they need done, how can we help?
    - What are their aspirations?
    - How can we fit their routines?
    - What relationship should we have with customers?
    - What values are they willing to pay for?
  - The Empathy Map (Brainstorm all possible CS, Choose 3, Profile 1)
    - What does she see?
      - Environment, friends, current market. Describe what the customer sees in her environment.
    - What does she hear?

- What people around her say, who/what influences her. Describe how the environment influences the customer.
  - What does she *really* think and feel?
    - What is really important (maybe not public) to her, moves her, keeps her up at night. Describe dreams/aspirations.
  - What does she say and do?
    - What do her and her friends talk about? What is her attitude about life and daily happenings? Pay attention to the difference between what someone says and what they actually think or feel based on real conversations and actions.
  - What is the customer's pain?
    - Biggest frustrations? Obstacles between her and her achievements? Which risks does she fear taking?
  - What is the customer's gain?
    - What does she really want/need to achieve? How is that success measured? Think of strategies she might use to achieve goals
- Technique # 2 : Ideation - the process of creating a large number of business model ideas and successfully isolating the best ones
  - Business Model Innovation
    - Resource-Driven: expand/transform BM based on existing infrastructure/partnerships
    - Offer-Driven: create new VP that affect other parts of BM
    - Customer-Driven: based on customer needs, facilitated access, or increased convenience
    - Finance-Driven: driven by new RS or reduced cost structures
    - Multiple-Epicenter Driven
  - Ask the "What If" questions often
  - Process
    - Team Composition
      - Key Question: Is team diverse enough to generate fresh BM ideas? List everyone's strengths, experience, interests
    - Immersion
      - Key Question: Which elements need to be studied before generating BM ideas? Gen. Research, Empathy Map
    - Expanding
      - KQ: What innovations are possible for each BM building block? Focus on quantity, not quality. Brainstorm as many ideas as possible for each building block.
    - Criteria Selection
      - KQ: What are most important criteria for prioritizing BM ideas? Determine criteria for reducing total number of ideas to just a few.



Examples: est. time to implement, revenue potential, possible customer resistance, impact on competitive advantage

- “Prototyping”
  - What does the complete BM look like for each shortlisted idea? Create a shortlist of 3-5 ideas. Use BM Canvas to sketch out and discuss each idea as a BM prototype.
- Brainstorming Rules:
  - Stay focused w/ problem statement
  - Enforce rules → no judgment, one conversation at a time, quantity over quality, visual, encourage wild ideas
  - Think visually → write ideas down, sketch them out, post-it notes. Can move ideas around, regroup them, etc.
  - Prepare with immersion activity related to problem statement (i.e. field trip, discussions w/ customers)
- Technique # 3: Visual Thinking
  - Essentially filling out a Business Model Canvas with visuals rather than words
  - Post-it notes, drawings
  - Understand the essence
    - Capturing the big picture through sketching and showing relationships between ideas and processes and why they are important in the BM
  - Enhance Dialogue
    - Collective reference point - turn implicit assumptions into explicit information
    - Shared language and understanding helps focus discussion with visuals to talk about individual business elements and how they are related
  - Explore Ideas
  - Improve Communication
  - Visual Storytelling Activity
    - Map your BM with words and concepts
    - Represent each concept visually in a way that conveys the message
    - Define the storyline and how you want to tell it, can start at diff. BB
    - Tell the story
- Technique # 4: Prototyping

Old Thinking	New Thinking
Few BM dominate industry	Multiple BM in and across industries
Outside-In: industry defines BM	Inside-Out: BM transform industry
Linear	Opportunistic Thinking

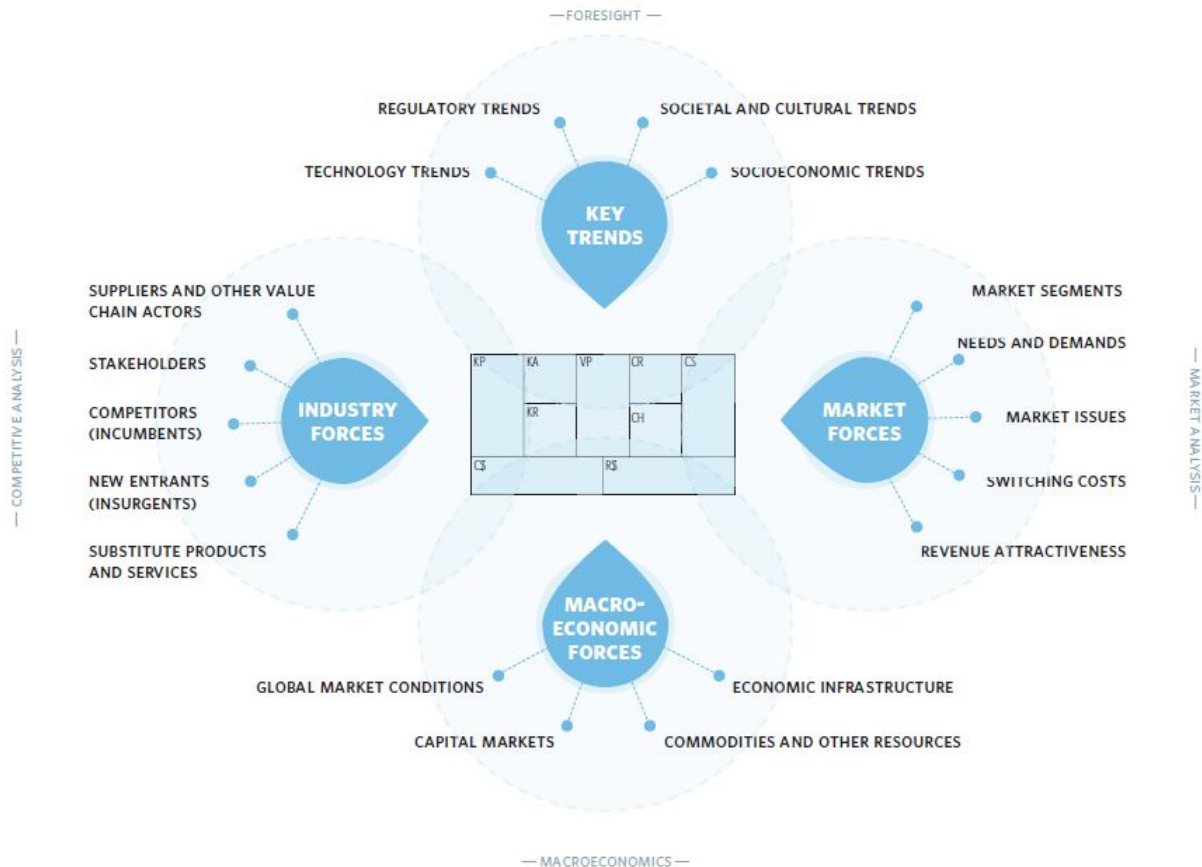
Early choice of BM	Exploratory Search for BM
Implementation Focused	Design-Focused
Efficiency Focused	Value and Efficiency Focused

- Design Attitude: Willingness to explore crude ideas, rapidly discard them, take the time to look at multiple possibilities before choosing a few
- Different Scales of Prototyping
  - Napkin Sketch (Outline & Pitch) : Outline idea, Include VP, Include main RS
  - Elaborated Canvas (What it would take to make it work) : Develop full canvas, think through logic, estimate market potential, understand relationship between BB, basic fact-check
  - Business Case (Viability) : Create full canvas w/ data, est. costs and revenue, est. profit potential, financial scenarios based on diff. assumptions
  - Field Test (Acceptance & Feasibility) : Prepare case for model, prospective or actual customers, test VP, Channels, Pricing and/or other elements in the market
- Technique # 5 : Storytelling
  - Introduce a new idea, pitch to investors, engage employees
  - Look at an idea from both the company and customer perspectives
  - Techniques for telling an engaging story
    - Talk & Image, Video Clip, Role Play, Text & Image, Comic Strip
    - SuperToast activity
- Technique # 6 : Scenarios
  - Current Environments: how products/services are used, by whom, and customer concerns/desires/objectives
  - Future Environments: imagine possible scenarios in future and how they would affect the BM
    - i.e. Business as usual vs. changes in the way things are done

#### **Part 4:**

#### **Strategy:**

- Business Model Environment: Context, Design Drivers, and Constraints
  - Four main areas of environment
    - Market Forces, Industry Forces, Key Trends, Macroeconomic Forces



- **Market Forces**
  - Issues: affect customer landscape, shifts, future of market
  - Segments: most important CS, biggest growth potential, decline in some segments, some segments fly under radar that might be worth looking at
  - Needs and Demands: unsatisfied needs/demands, where is increase/decline
  - Switching Costs: why do customers stay loyal to company, what costs prevent switching from one company to another, is it easy to find/purchase similar offers, how important is brand
  - Revenue Attractiveness: what is worth paying for, are cheaper products and services readily available
- **Industry Forces**
  - Competitors
  - New Entrants
  - Substitute Products and Services
  - Suppliers and Other Value Chain Actors
  - Stakeholders
- **Key Trends**
  - Tech: opportunities or threats, which emerging tech are being adopted
  - Regulatory: new rules, regulations, taxes that could affect BM, market, demand

- Societal/Cultural: shifts that could affect BM, could influence buyer behavior
- Socioeconomic: demographic trends, income & wealth distribution in market, level of disposable income, spending patterns, portion of population in urban v. rural settings
- Macroeconomic Forces
  - Global Market Conditions: boom or bust, GDP growth rate, unemployment rate
  - Capital Markets: ease of obtaining capital investment (seed, venture, public, market, credit, etc.), cost of doing so
  - Commodities and Other Resources: cost of materials for product, ability to obtain resources easily, cost, future cost projections
  - Economic Infrastructure: strength of current market infrastructure, access to customers and suppliers, rate of individual and corporate taxes, public services available for organizations, overall quality of life
- A good BM should be adaptable to changing environments and factors, should be agile and consistently updated to stay on top of trends and forces over time
- Evaluating Business Models
  - SWOT (Strengths, Weaknesses, Opportunities, Threats) Assessment of each building block. Highlight Key points; Black = eliminate, Grey = reduce, Blue = create, White = unchanged
- Business Model Perspective on Blue Ocean Strategy
- Managing Multiple Business Models

## **Part 5:**

### **Process:**

- Design and Innovation:
  - Satisfy Market: Fulfill an unmet need
  - Bring to Market
  - Improve/Disrupt Market
  - Create Market
- 5 Phases from Uncertainty → Clarity/Focus
  - Mobilize
    - Frame Objectives
    - Test preliminary business ideas
    - Plan
    - Assemble Team
  - Understand
    - Scan environment (observe)
    - Study potential customers (survey)
    - Interview experts (e-mail leaders in field)
    - Research of current market (trial + failures)

- Collect ideas and opinions
  - Design
    - Brainstorm
    - Prototype
    - Test
    - Select
  - Implement
    - Communicate and involve
    - Execute
  - Manage
    - Scan environment
    - Continuously assess current BM
    - Rethink initial model
    - Align BM throughout enterprise
    - Manage synergy or conflict between existing models
- Business Plan
  - Executive Summary
  - The Team
  - The Business Model
    - Vision, Mission, Values
    - How our BM works
    - VP
    - Target Markets
    - Marketing Plan
    - Key Resources and Activities
  - Financial Analysis
    - Breakeven analysis
    - Sales Scenarios & Projections
    - Capital Spending
    - Operating Costs
    - Funding Requirements
  - External Environment
    - The Economy
    - Market Analysis and Key Trends
    - Competitor Analysis
    - Competitive Advantages of our BM
  - Implementation Roadmap
    - Projects
    - Milestones
    - Roadmap
  - Risk Analysis

- Limiting Factors and Obstacles
- Critical Success Factors
- Specific known risks and countermeasures