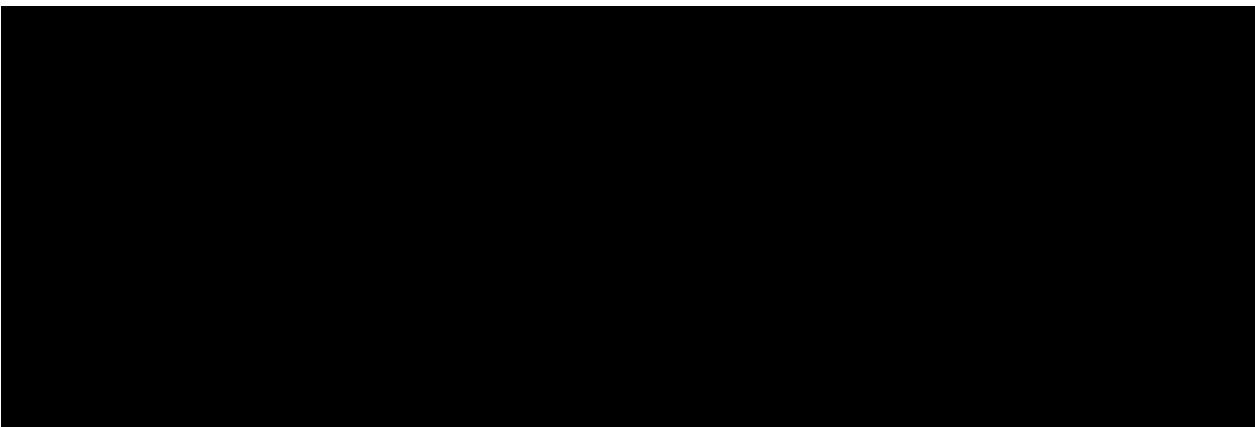


11.2

Designing the Business Model



According to Alexander Osterwalder and Yves Pigneur, the authors of *Business Model Generation*, a business model “describes the rationale of how an organization creates, delivers and captures value.” Nevertheless, there is no single definition of this term, and usage varies widely.^[29]

In standard business usage, a **business model** is a plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture’s offerings are made and distributed to the end users; and the how income will be generated through this process. The business model refers more to the design of the business, whereas a business plan is a planning document used for operations.

Each business model is unique to the company it describes. A typical business model addresses the desirability, feasibility, and viability of a company, product, or service. At a bare minimum, a business model needs to address revenue streams (e.g., a revenue model), a value proposition, and customer segments. In non-jargon English, this means you want to address what your idea is, who will use it, why they will use it, and how you will make money off it.

29 Alexander Osterwalder and Yves Pigneur. *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. Hoboken, NJ: Wiley, 2010.

A canvas is a display that would-be entrepreneurs commonly use to map out and plan different components of their business models. There are several different types of canvases, with the business model canvas and the lean canvas being the most commonly used. There are hard-copy canvases modeled after an art canvas as well as digital versions. The original physical canvases are meant to serve as visual tools, used with sticky notes and sketches.

As developed by Osterwalder and Pigneur, the **business model canvas** has nine components, as shown in [Figure 11.6](#).

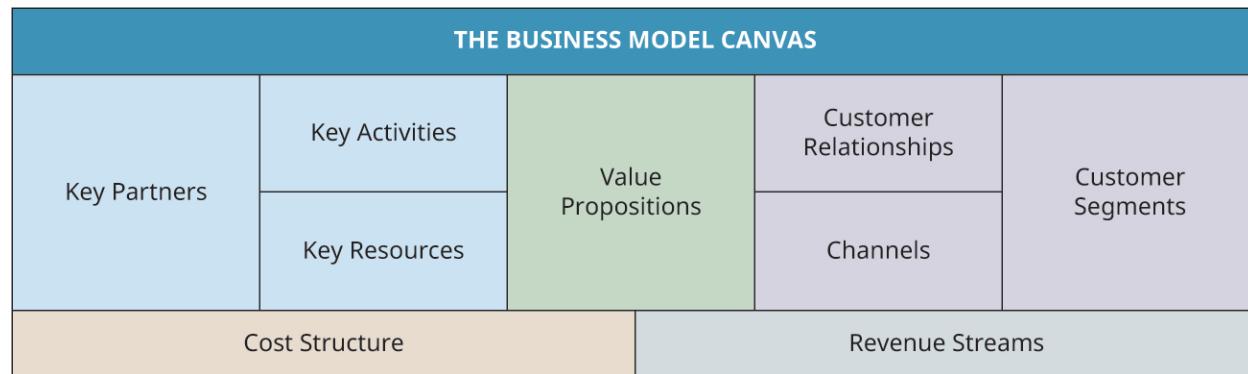
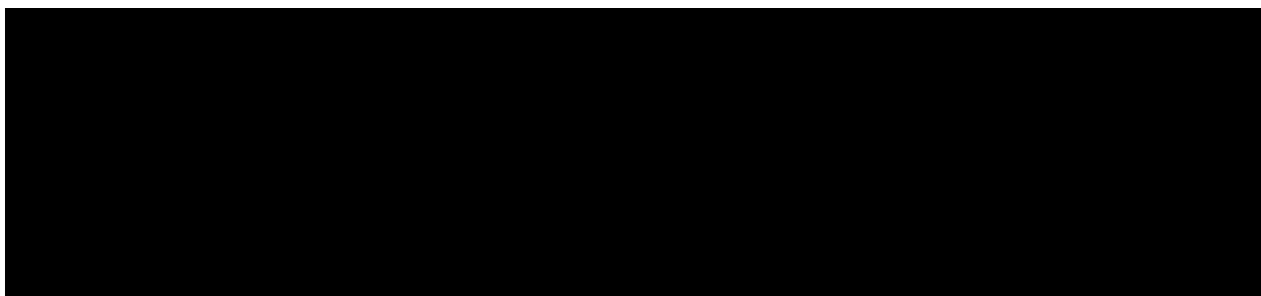


Figure 11.6 The business model canvas can be used to map or lay out the initial concept of your business.
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Osterwalder and Pigneur wrote *Value Proposition Design* as a sequel to *Business Model Generation*. Their value proposition canvas is a plug-in that complements the business model canvas, going in depth on activities such as encouraging entrepreneurs to address and tackle customer pains, gains, and jobs-to-be-done trigger questions, and designing pain relievers and gains. The complementary and accompanying activities and resources can be useful for a deeper dive into and understanding of customer value creation in the form of value proposition, although there are other approaches to conceptualizing your value proposition. For Christensen, the originator of the disruptive innovation and jobs-to-be-done theories, a value proposition is a product that helps customers do a job they've been trying to do more effectively, conveniently, and affordably.

Finding the intersection of your customers' problems and your solutions is how you create a unique value proposition, according to the entrepreneur Ash Maurya, the author of *Scaling Lean* and *Running Lean*. In *Running Lean*, Maurya offers the following formula for creating an initial value proposition in the canvas, as shown in [Figure 11.7](#).

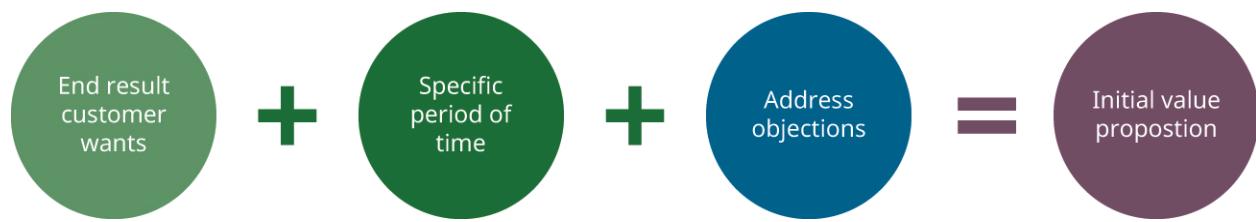
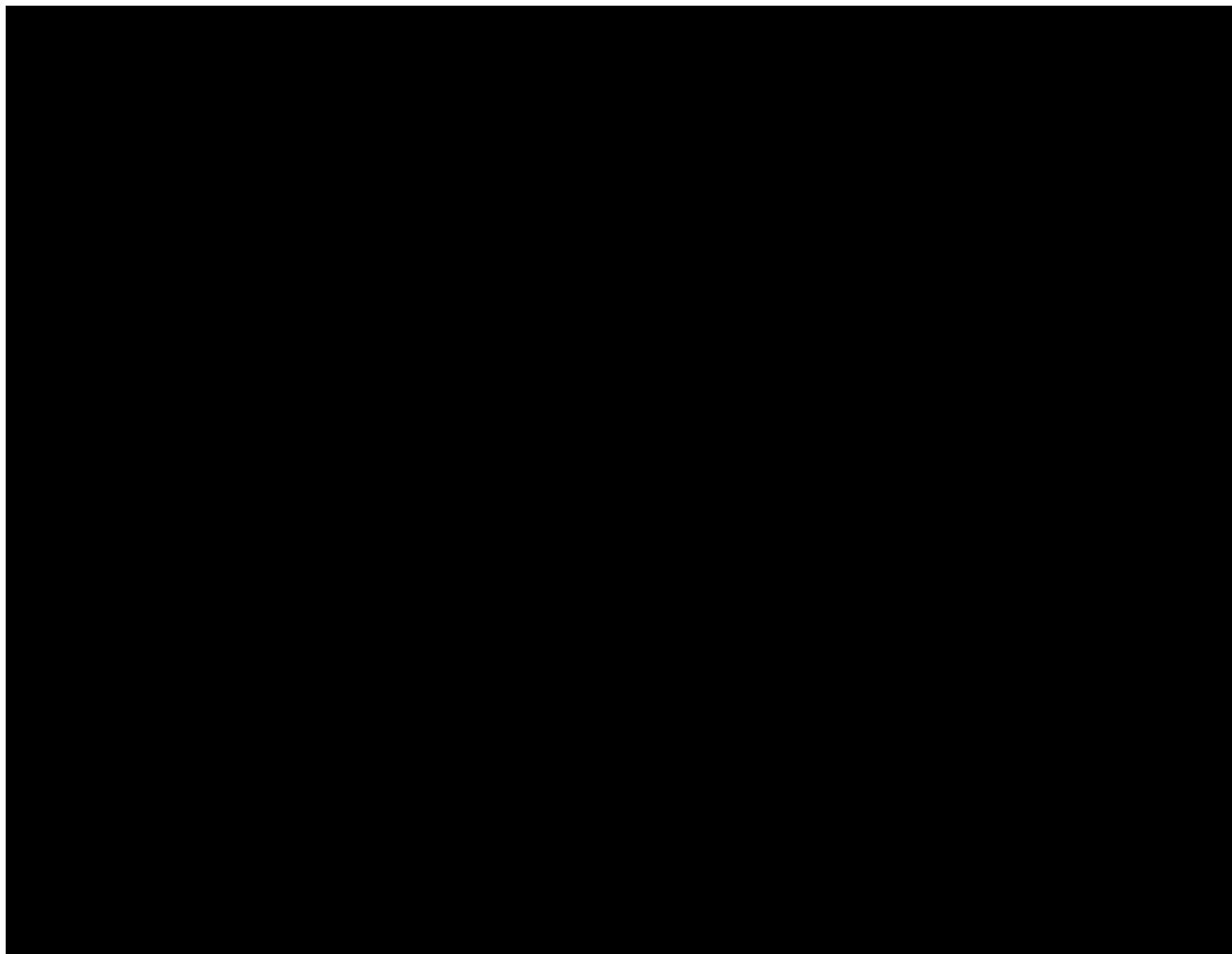


Figure 11.7 Maurya's formula to determine value proposition considers customer needs and potential objections within a specific period of time. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)



Business Model Canvas^[34]

As Osterwalder and Pigneur describe it, according to *Media Innovation and Entrepreneurship*, their business model canvas blocks include revenue streams, customer segments, value propositions, cost structures, channels, key activities, key partners, key resources, and customer relationships.

Early on, your greatest focus should be on the right side of the canvas because:

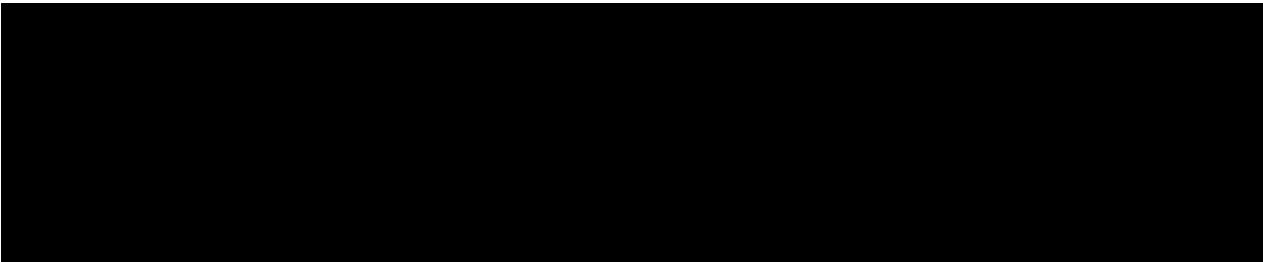
- These are, in many ways, the most critical aspects of starting a new venture (customer segments, value propositions, channels, and revenue streams).
- The most fluid (revenue streams, channels, and value propositions will likely differ for the differing customer segments and, as you iterate and adapt throughout the customer discovery process, could likely change).
- These follow a logical temporal order (there's no need to focus on the costs of building a company if you won't have customers).

In a follow-up to business model generation, the Strategyzer team created a second canvas, the value proposition canvas: <https://www.strategyzer.com/canvas/value-proposition-canvas>. The value proposition

34 Germán Coppola. "What Is an Empathy Map, and Why Is It Valuable for Your Business?" *Medium*. November 28, 2017. <https://medium.com/swlh/what-is-an-empathy-map-and-why-is-it-valuable-for-your-business-14236be4fdf4>

35 This material is based on original work by Geoffrey Graybeal and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

canvas is a new tool that pulls out the customer segment and value proposition blocks of the business model canvas, and encourages more in-depth exploration of those blocks to achieve a good fit between the two. The value proposition canvas tool looks at customer pains, gains and jobs to be done on the customer side and painkillers, gain creators, and products and services on the value proposition side.^[36]



When you peel away the language used to describe business models, the early startup planning stages come down to a series of questions. When it comes to formulating a business model for a startup concept, another popular framework used in entrepreneurial circles is that of desirability-feasibility-viability (Figure 11.10). This framework forces the entrepreneur to address broad questions about the startup concept:

- Desirability: How desirable is the product? Who will use it and why?
- Feasibility: How feasible is this idea? What are the costs of making it? How practical is the concept?
- Viability: Will this idea remain viable? How will it make money? How will it be sustained over time?

These questions then begin to connect to form a narrative about where the startup concept came from, whom it serves, why it's needed, how it will make money, and how it will be sustained in the future.

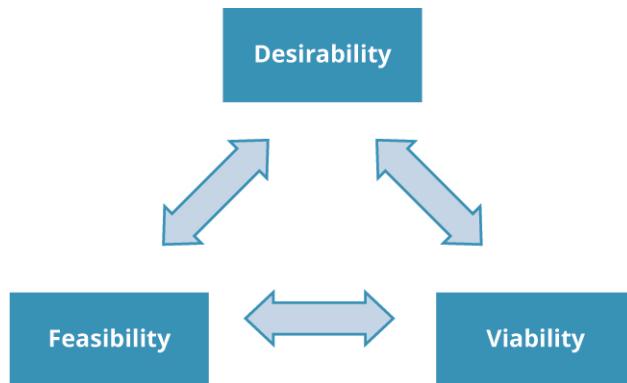


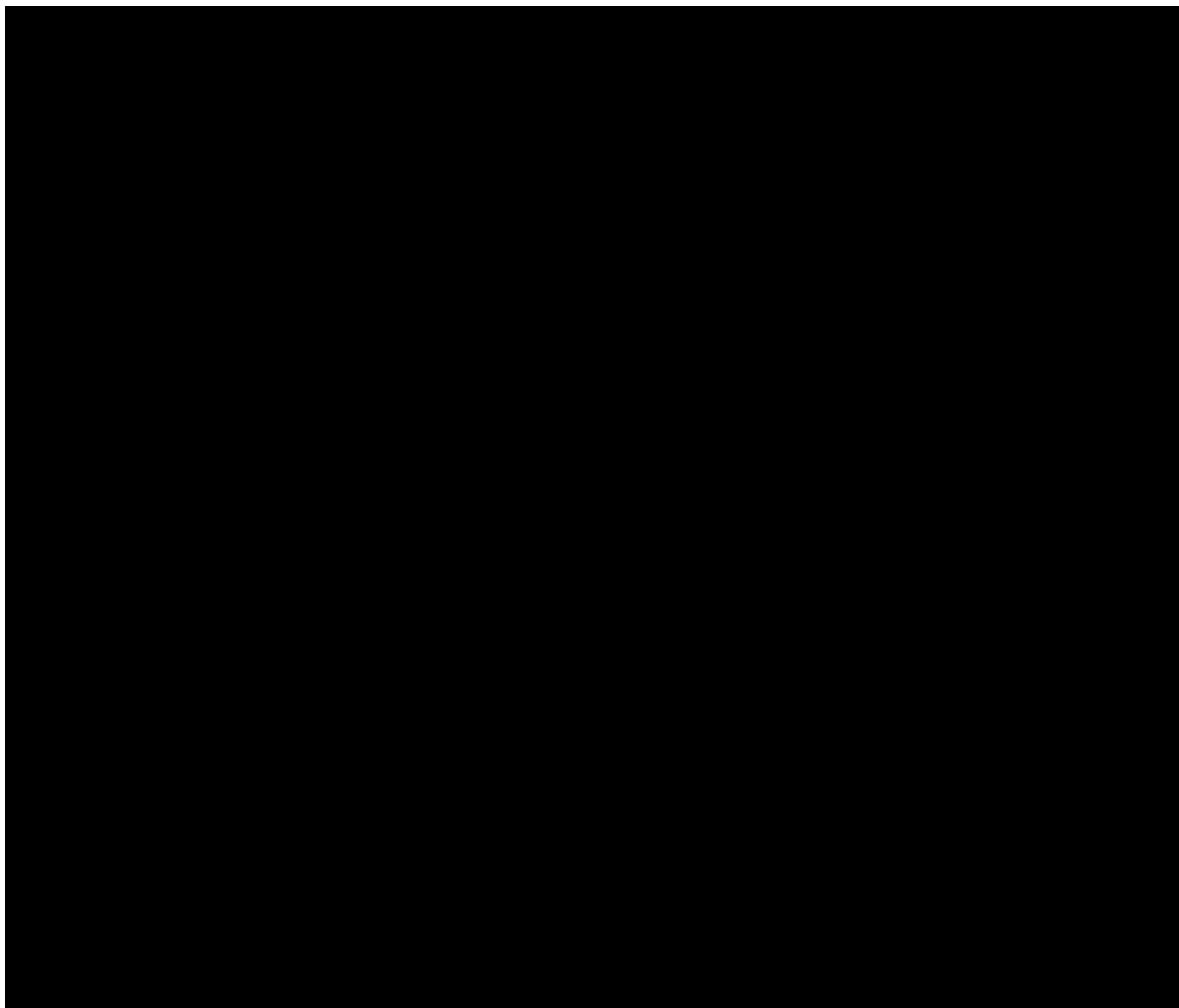
Figure 11.10 The framework of desirability, feasibility, and viability form a story about a company's startup.
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The value propositions, customer relationships, customer segments, and channels address the assumptions that will create customer value (desirability). The cost structure and revenue stream blocks are aimed at viability, or overcoming flawed business models. The key partners, key activities, and key resources are about execution and address feasibility. The risk of poor execution can undermine your assumptions that you chose the right infrastructure to execute your business model (feasibility). The risk of solving an irrelevant customer job (sometimes derisively labeled “a solution in search of a problem”) undercuts desirability in your business. The risk of a flawed business model would hamper the financial assumption that your business will earn more money than you spend (viability). Adaptability is about the assumption that you chose the right business

36 Michelle Ferrier and Elizabeth Mays. *Media Innovation and Entrepreneurship*. The Rebus Foundation, 2017. <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

model within the context of external factors such as technology change, competition, and regulation.

The business model canvas is not an exhaustive planning tool by any means.^[37] ^[38] The risk of such external threats is not specifically addressed on the canvas blocks. The external threats not specifically covered by the canvas blocks can be designed for adaptability, that is, the business model canvas is a necessary but insufficient component of determining the viability of the business idea/concept. There are many elements not included in the canvas that entrepreneurs must address. Industry analysis, including a competitive analysis, for example, falls “off canvas” but is important nonetheless.



37 Jennifer van der Meer. "Do You Suffer from Value Proposition Confusion?" *LinkedIn*. October 19, 2016. <https://www.linkedin.com/pulse/do-you-suffer-from-value-proposition-confusion-jennifer-van-der-meer/>

38 "The Value Proposition Canvas." *Strategyzer*. n.d. <https://strategyzer.com/canvas/value-proposition-canvas>

39 Ash Maurya. "Why Lean Canvas vs Business Model Canvas?" *Medium*. February 27, 2012. <https://blog.leanstack.com/why-lean-canvas-vs-business-model-canvas-af62c0f250f0>

40 "Social Business Model Canvas." *Business Model Toolbox*. 2013. <https://bmtoolbox.net/tools/social-business-model-canvas/>

41 "The Business Model Canvas Reinvented for Social Business." *Tandemic*. n.d. <http://www.socialbusinessmodelcanvas.com>

42 Ayse Guclu, J. Gregory Dees, and Beth Battle Anderson. "The Process of Social Entrepreneurship: Creating Opportunities Worthy of Serious Pursuit." *Duke/Fuqua case*. 2002. https://centers.fuqua.duke.edu/case/knowledge_items/the-process-of-social-entrepreneurship-creating-opportunities-worthy-of-serious-pursuit/

43 Lindsay Clinton and Ryan Whisnant. "Model Behavior: 20 Business Model Innovations for Sustainability." *SustainAbility*. February 2014. https://sustainability.com/wp-content/uploads/2016/07/model_behavior_20_business_model_innovations_for_sustainability.pdf