

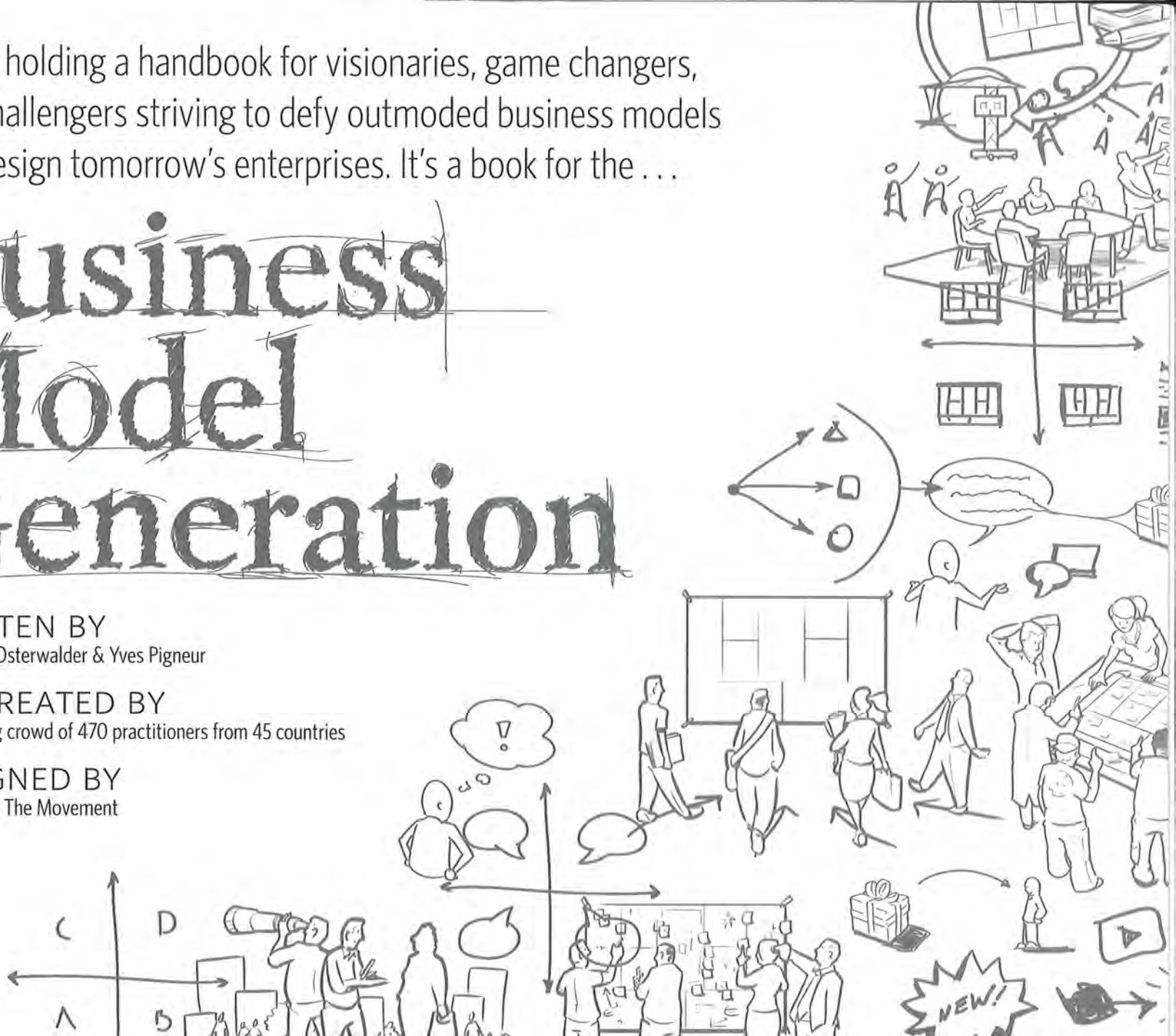
You're holding a handbook for visionaries, game changers, and challengers striving to defy outmoded business models and design tomorrow's enterprises. It's a book for the ...

# Business Model Generation

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Today countless innovative business models are emerging. Entirely new industries are forming as old ones crumble. Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves.

How do you imagine your organization's business model might look two, five, or ten years from now? Will you be among the dominant players? Will you face competitors brandishing formidable new business models?

This book will give you deep insight into the nature of business models. It describes traditional and bleeding-edge models and their dynamics, innovation techniques, how to position your model within an intensely competitive landscape, and how to lead the redesign of your own organization's business model.

Certainly you've noticed that this is not the typical strategy or management book. We designed it to convey the essentials of what you need to know, quickly, simply, and in a visual format. Examples are presented pictorially and the content is complemented with exercises and workshop scenarios you can use immediately. Rather than writing a conventional book about business model innovation, we've tried to design a practical guide for visionaries, game changers, and challengers eager to design or reinvent business models. We've also worked hard to create a beautiful book to enhance the pleasure of your "consumption." We hope you enjoy using it as much as we've enjoyed creating it.

An online community complements this book (and was integral to its creation, as you will discover later). Since business model innovation is a rapidly evolving field, you may want to go beyond the essentials in *Business Model Generation* and discover new tools online. Please consider joining our worldwide community of business practitioners and researchers who have co-created this book. On the Hub you can participate in discussions about business models, learn from others' insights, and try out new tools provided by the authors. Visit the Business Model Hub at [www.BusinessModelGeneration.com/hub](http://www.BusinessModelGeneration.com/hub).

Business model innovation is hardly new. When the founders of Diners Club introduced the credit card in 1950, they were practicing business model innovation. The same goes for Xerox, when it introduced photocopier leasing and the per-copy payment system in 1959. In fact, we might trace business model innovation all the way back to the fifteenth century, when Johannes Gutenberg sought applications for the mechanical printing device he had invented.

But the scale and speed at which innovative business models are transforming industry landscapes today is unprecedented. For entrepreneurs, executives, consultants, and academics, it is high time to understand the impact of this extraordinary evolution. Now is the time to understand and to methodically address the challenge of business model innovation.

Ultimately, business model innovation is about creating value, for companies, customers, and society. It is about replacing outdated models. With its iPod digital media player and iTunes.com online store, Apple created an innovative new business model that transformed the company into the dominant force in online music. Skype brought us dirt-cheap global calling rates and free Skype-to-Skype calls with an innovative business model built on so-called peer-to-peer technology. It is now the world's largest carrier of international voice traffic. Zipcar frees city dwellers from automobile ownership by offering hourly or daily on-demand car rentals under a fee-based membership system. It's a business model response to emerging user needs and pressing environmental concerns. Grameen Bank is helping alleviate poverty through an innovative business model that popularized microlending to the poor.

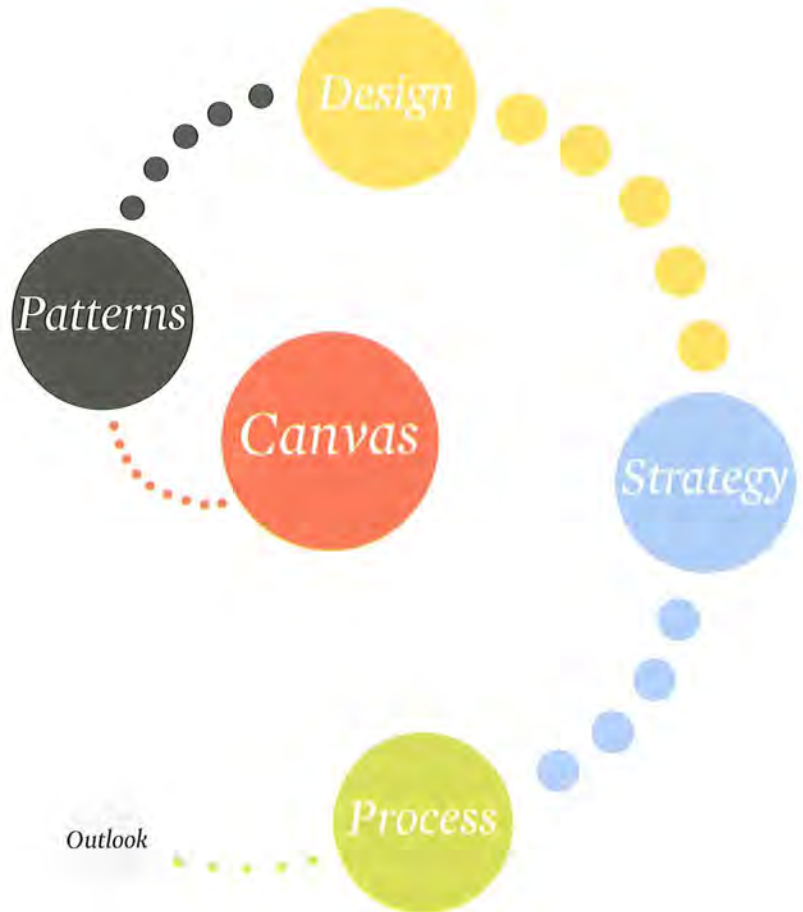
But how can we systematically invent, design, and implement these powerful new business models? How can we question, challenge, and transform old, outmoded ones? How can we turn visionary ideas into game-changing business models that challenge the establishment—or rejuvenate it if we ourselves are the incumbents? *Business Model Generation* aims to give you the answers.

Since practicing is better than preaching, we adopted a new model for writing this book. Four hundred and seventy members of the Business Model Innovation Hub contributed cases, examples, and critical comments to the manuscript—and we took their feedback to heart. Read more about our experience in the final chapter of *Business Model Generation*.

# Table of Contents

The book is divided into five sections: ① The Business Model Canvas, a tool for describing, analyzing, and designing business models, ② Business Model Patterns, based on concepts from leading business thinkers, ③ Techniques to help you design business models, ④ Re-interpreting strategy through the business model lens, and ⑤ A generic process to help you design innovative business models, tying together all the concepts, techniques, and tools in *Business Model Generation*. ● The last section offers an outlook on five business model topics for future exploration. ○ Finally, the afterword provides a peek into “the making of” *Business Model Generation*.

Afterword





## **Canvas**

- 14 Definition of a Business Model
- 16 The 9 Building Blocks
- 44 The Business Model Canvas

## **Patterns**

- 56 Unbundling Business Models
- 66 The Long Tail
- 76 Multi-Sided Platforms
- 88 FREE as a Business Model
- 108 Open Business Models

## **Design**

- 126 Customer Insights
- 134 Ideation
- 146 Visual Thinking
- 160 Prototyping
- 170 Storytelling
- 180 Scenarios

## **Strategy**

- 200 Business Model Environment
- 212 Evaluating Business Models
- 226 Business Model Perspective on Blue Ocean Strategy
- 232 Managing Multiple Business Models

## **Process**

- 244 Business Model Design Process

## **Outlook**

- 262 Outlook

## **Afterword**

- 274 Where did this book come from?
- 276 References

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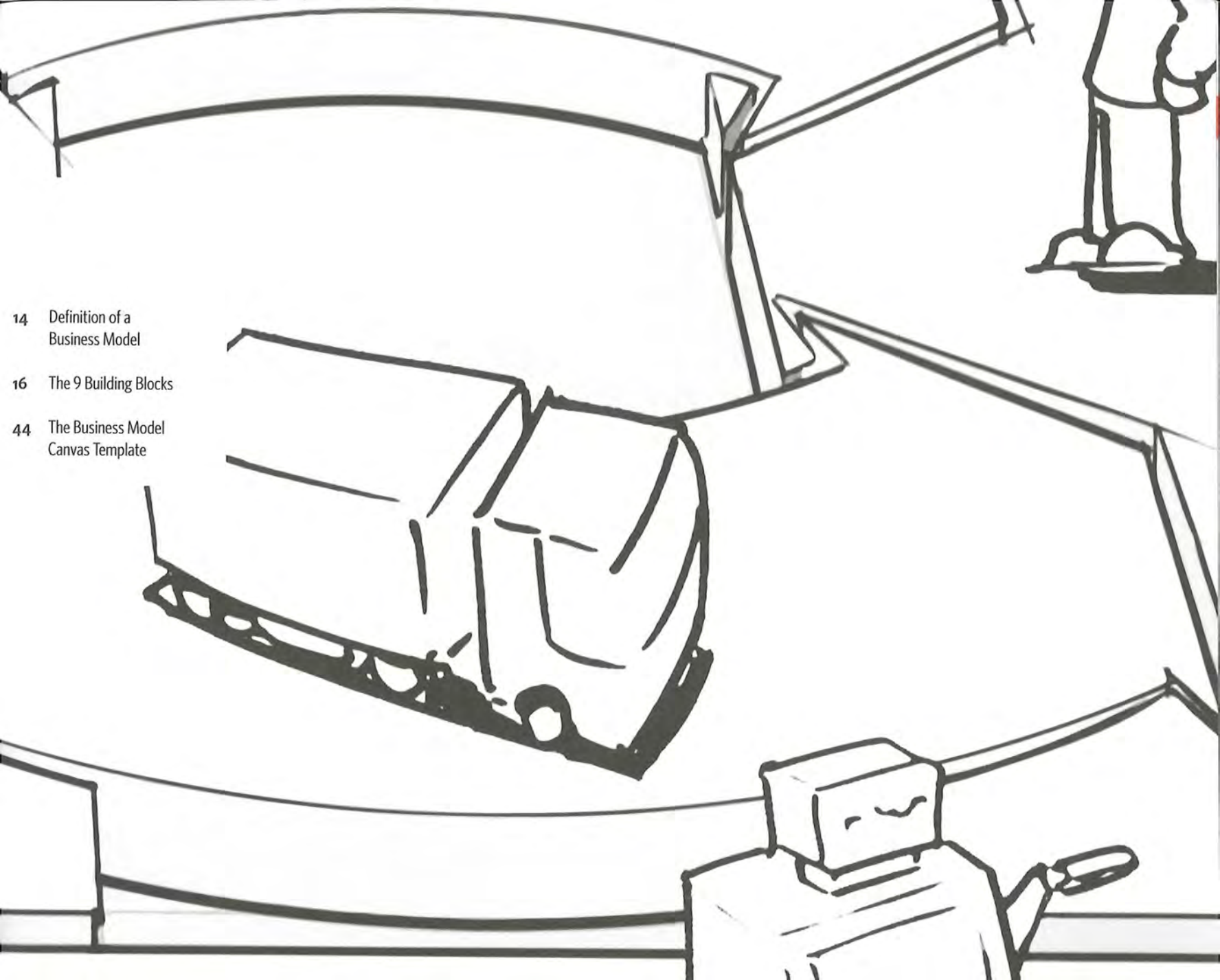
*was*



# *The Business Model Canvas*

*A shared language for describing, visualizing,  
assessing, and changing business models*





14 Definition of a Business Model

16 The 9 Building Blocks

44 The Business Model Canvas Template

### Def. **Business Model**

A business model describes the rationale of how an organization creates, delivers, and captures value

The starting point for any good discussion, meeting, or workshop on business model innovation should be a shared understanding of what a business model actually is. We need a business model concept that everybody understands; one that facilitates description and discussion. We need to start from the same point and talk about the same thing. The challenge is that the concept must be simple, relevant, and intuitively understandable, while not oversimplifying the complexities of how enterprises function.

In the following pages we offer a concept that allows you to describe and think through the business model of your organization, your competitors, or any other enterprise. This concept has been applied and tested around the world and is already used in organizations such as IBM, Ericsson, Deloitte, the Public Works and Government Services of Canada, and many more.

This concept can become a shared language that allows you to easily describe and manipulate business models to create new strategic alternatives. Without such a shared language it is difficult to systematically challenge assumptions about one's business model and innovate successfully.

We believe a business model can best be described through nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.



# The 9 Building Blocks



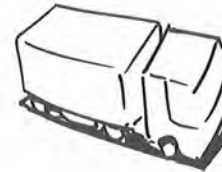
## 1 Customer Segments

*An organization serves one or several Customer Segments.*



## 2 Value Propositions

*It seeks to solve customer problems and satisfy customer needs with value propositions.*



## 3 Channels

*Value propositions are delivered to customers through communication, distribution, and sales Channels.*



## 4 Customer Relationships

*Customer relationships are established and maintained with each Customer Segment.*



## 5 Revenue Streams

*Revenue streams result from value propositions successfully offered to customers.*



## 6 Key Resources

*Key resources are the assets required to offer and deliver the previously described elements ...*



## 7 Key Activities

*... by performing a number of Key Activities.*



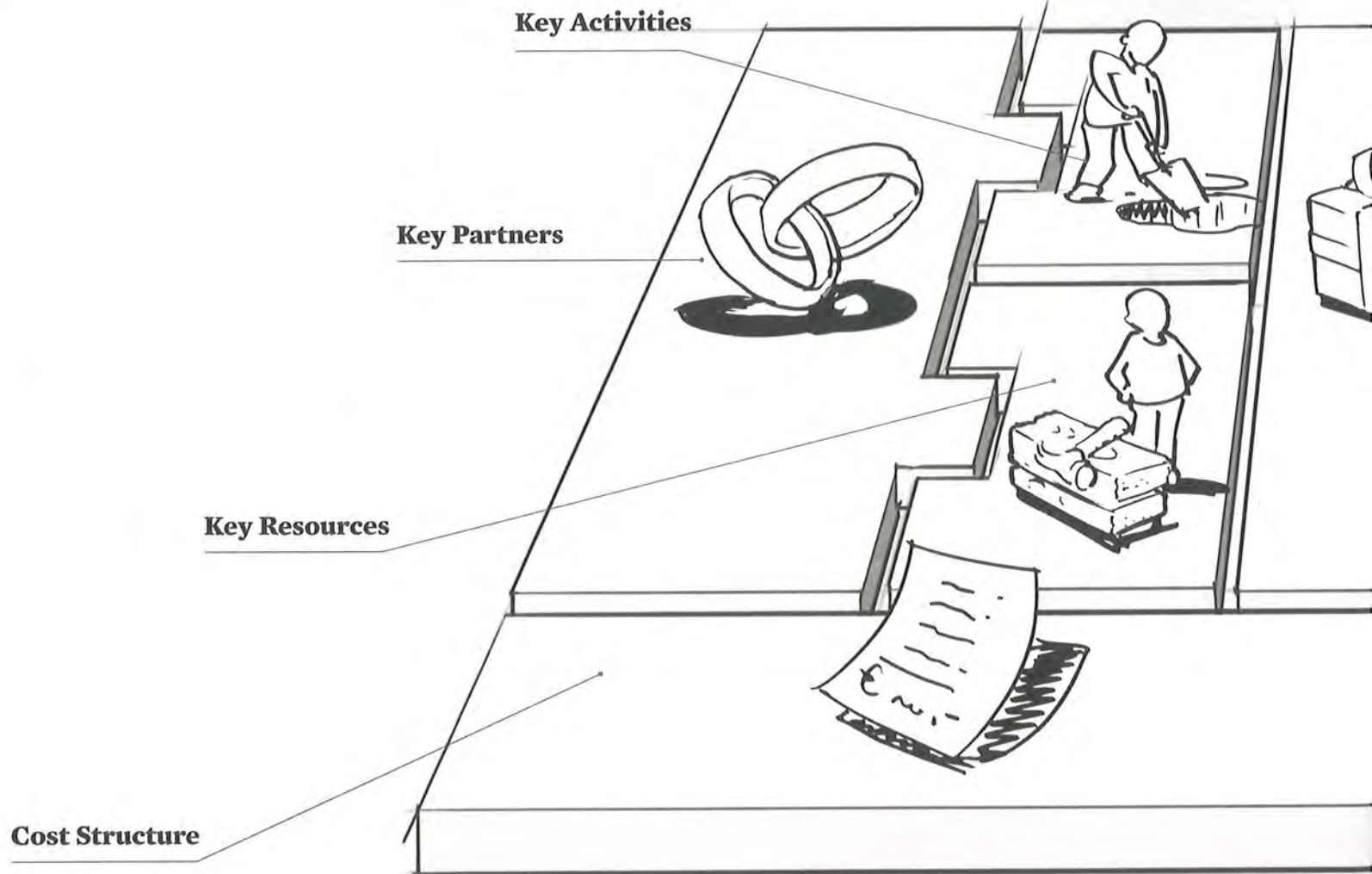
## 8 Key Partnerships

*Some activities are outsourced and some resources are acquired outside the enterprise.*

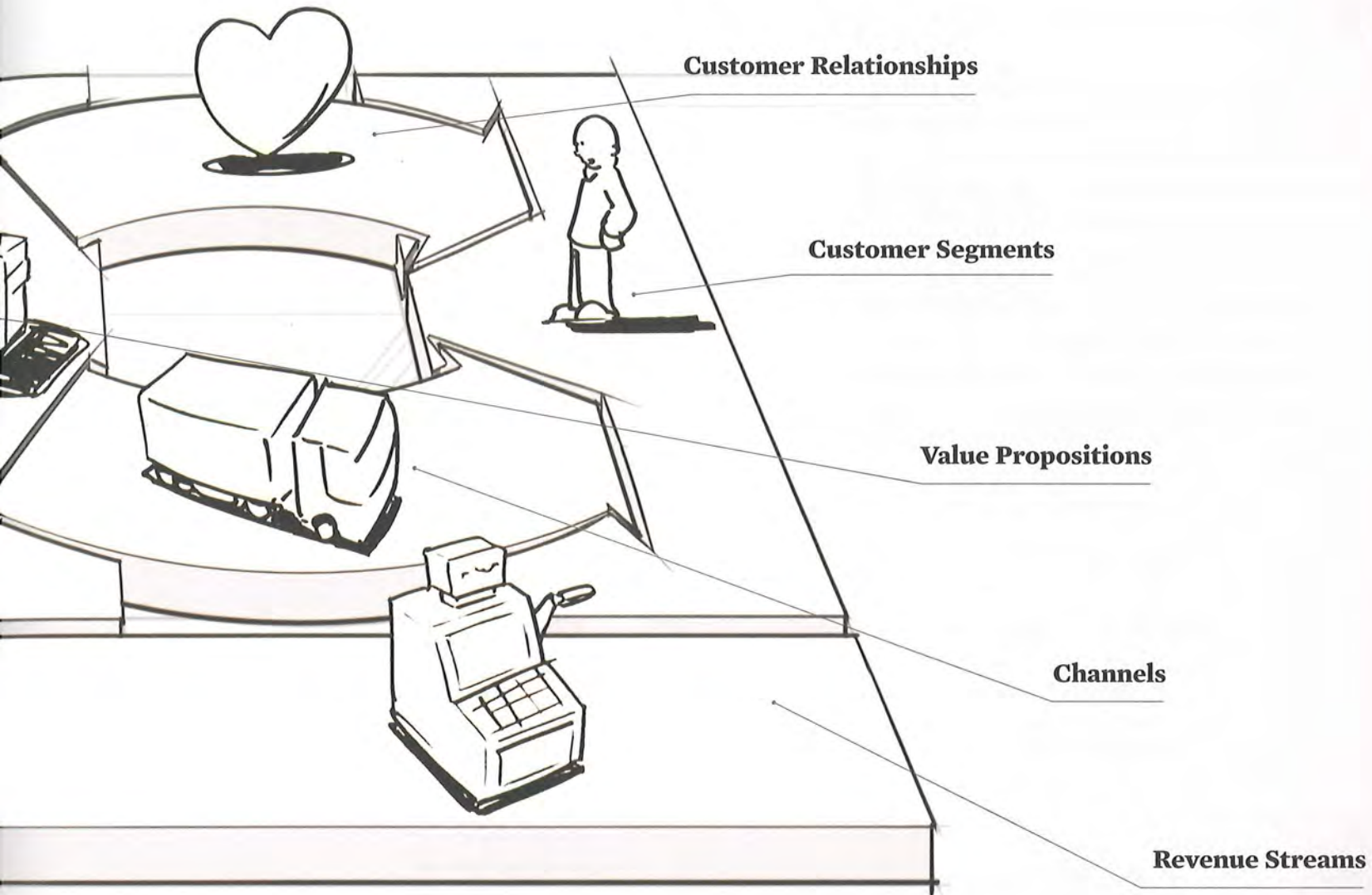


## 9 Cost Structure

*The business model elements result in the cost structure.*







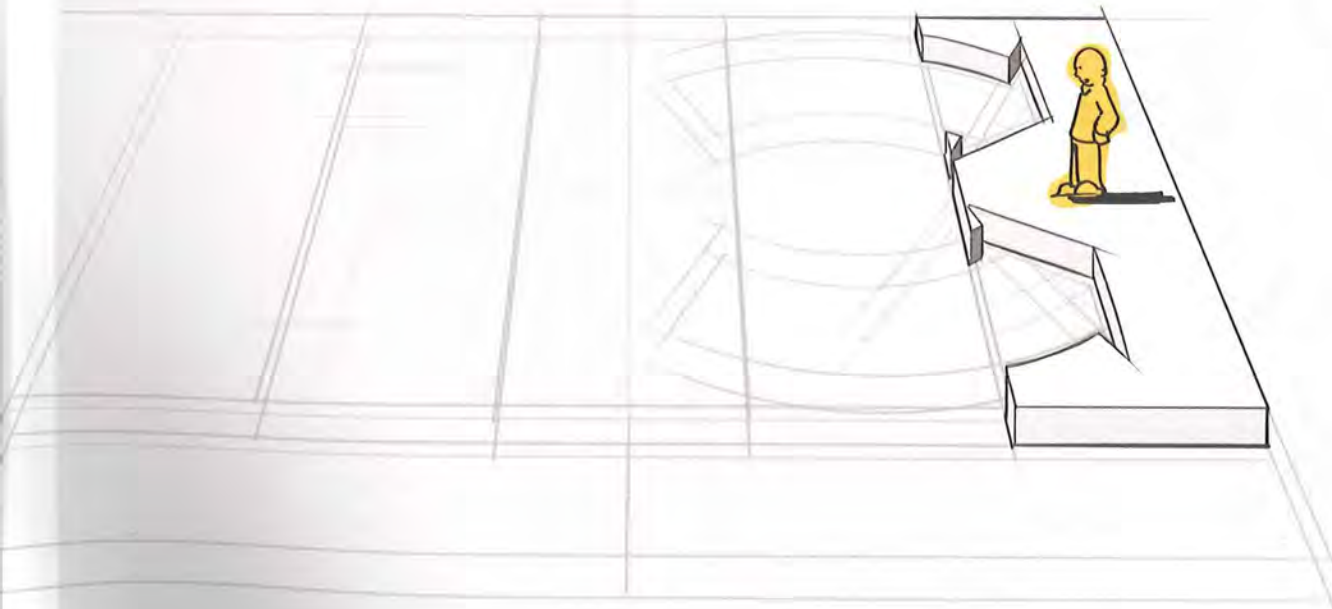
# Customer Segments

**The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve**

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

Customer groups represent separate segments if:

- *Their needs require and justify a distinct offer*
- *They are reached through different Distribution Channels*
- *They require different types of relationships*
- *They have substantially different profitabilities*
- *They are willing to pay for different aspects of the offer*



# For whom are we creating value? Who are our most important customers?

*There are different types of Customer Segments.*

*Here are some examples:*

## **Mass market**

Business models focused on mass markets don't distinguish between different Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships all focus on one large group of customers with broadly similar needs and problems. This type of business model is often found in the consumer electronics sector.

## **Niche market**

Business models targeting niche markets cater to specific, specialized Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships. For example, many car part manufacturers depend heavily on purchases from major automobile manufacturers.

## **Segmented**

Some business models distinguish between market segments with slightly different needs and problems. The retail arm of a bank like Credit Suisse, for example, may distinguish between a large group of customers, each possessing assets of up to U.S. \$100,000, and a smaller group of affluent clients, each of whose net worth exceeds U.S. \$500,000. Both segments have similar but varying needs and problems. This has implications for the other building blocks of Credit Suisse's business model, such as the Value Proposition, Distribution Channels, Customer Relationships, and Revenue streams. Consider Micro Precision Systems, which specializes in providing outsourced micromechanical design and manufacturing solutions. It serves three different Customer Segments—the watch industry, the medical industry, and the industrial automation sector—and offers each slightly different Value Propositions.

## **Diversified**

An organization with a diversified customer business model serves two unrelated Customer Segments with very different needs and problems. For example, in 2006 Amazon.com decided to diversify its retail business by selling “cloud computing” services: online storage space and on-demand server usage. Thus it started catering to a totally different Customer Segment—Web companies—with a totally different Value Proposition. The strategic rationale behind this diversification can be found in Amazon.com's powerful IT infrastructure, which can be shared by its retail sales operations and the new cloud computing service unit.

## **Multi-sided platforms (or multi-sided markets)**

Some organizations serve two or more interdependent Customer Segments. A credit card company, for example, needs a large base of credit card holders and a large base of merchants who accept those credit cards. Similarly, an enterprise offering a free newspaper needs a large reader base to attract advertisers. On the other hand, it also needs advertisers to finance production and distribution. Both segments are required to make the business model work (read more about multi-sided platforms on p. 76).

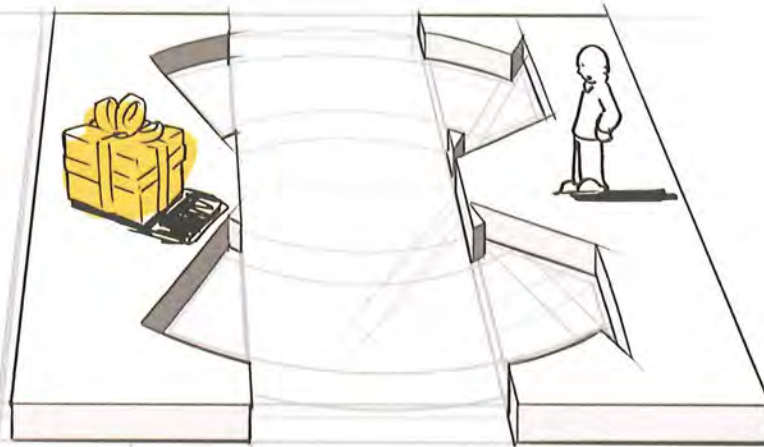


## 2 Value Propositions

**The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment**

The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.

Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.



What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying?

What bundles of products and services are we offering to each Customer Segment?

*A Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment's needs. Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience).*

*Elements from the following non-exhaustive list can contribute to customer value creation:*

#### **Newness**

Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. This is often, but not always, technology related. Cell phones,

for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.

#### **Performance**

Improving product or service performance has traditionally been a common way to create value. The PC sector has traditionally relied on this factor by bringing more powerful machines to market. But improved performance has its limits. In recent years, for example, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand.

#### **Customization**

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.



### **"Getting the job done"**

Value can be created simply by helping a customer get certain jobs done. Rolls-Royce understands this very well: its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls-Royce a fee for every hour an engine runs.

### **Design**

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

### **Brand/Status**

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest "underground" brands to show that they are "in."

### **Price**

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easyJet, and Ryanair have designed entire business models specifically to enable low cost air travel. Another example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population. Increasingly, free offers are starting to permeate various industries. Free offers range from free newspapers to free e-mail, free mobile phone services, and more (see p. 88 for more on FREE).



**Cost reduction**

Helping customers reduce costs is an important way to create value. Salesforce.com, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

**Risk reduction**

Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

**Accessibility**

Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

**Convenience/Usability**

Making things more convenient or easier to use can create substantial value. With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.

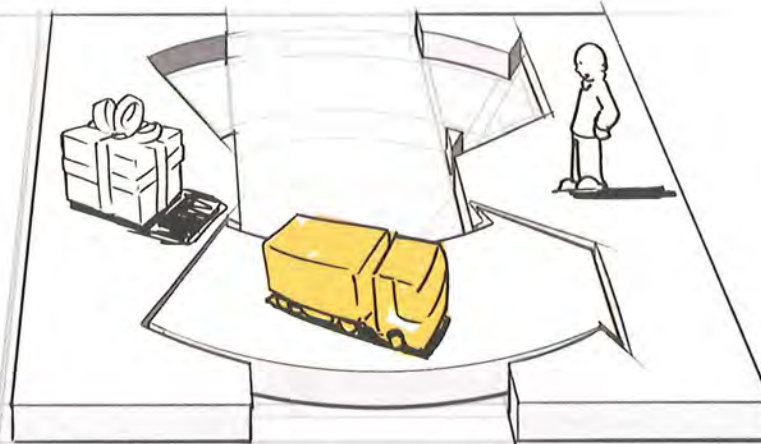
# Channels

**The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition**

Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience.

Channels serve several functions, including:

- *Raising awareness among customers about a company's products and services*
- *Helping customers evaluate a company's Value Proposition*
- *Allowing customers to purchase specific products and services*
- *Delivering a Value Proposition to customers*
- *Providing post-purchase customer support*



Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?

*Channels have five distinct phases. Each channel can cover some or all of these phases. We can distinguish between direct Channels and indirect ones, as well as between owned Channels and partner Channels.*

Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to market. An organization can

choose between reaching its customers through its own Channels, through partner Channels, or through a mix of both. Owned Channels can be direct, such as an in-house sales force or a Web site, or they can be indirect, such as retail stores owned or operated by the organization. Partner Channels are indirect and span a whole range of options, such as wholesale distribution, retail, or partner-owned Web sites.

Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths. Owned Channels and particularly direct ones have higher margins, but can be costly to put in place and to operate. The trick is to find the right balance between the different types of Channels, to integrate them in a way to create a great customer experience, and to maximize revenues.

## Channel Types

## Channel Phases

Own	Direct	Sales force	<b>1. Awareness</b> How do we raise awareness about our company's products and services?	<b>2. Evaluation</b> How do we help customers evaluate our organization's Value Proposition?	<b>3. Purchase</b> How do we allow customers to purchase specific products and services?	<b>4. Delivery</b> How do we deliver a Value Proposition to customers?	<b>5. After sales</b> How do we provide post-purchase customer support?
		Web sales					
Partner	Indirect	Own stores					
		Partner stores					
		Wholesaler					



# Customer Relationships

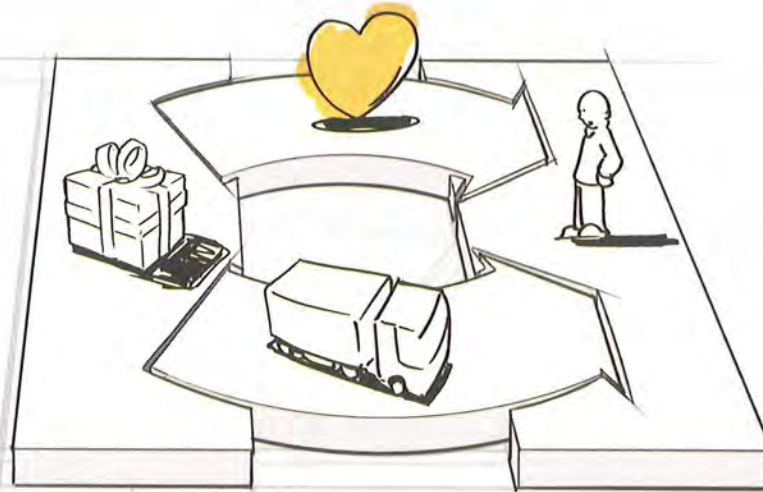
**The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments**

A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:

- *Customer acquisition*
- *Customer retention*
- *Boosting sales (upselling)*

In the early days, for example, mobile network operator Customer Relationships were driven by aggressive acquisition strategies involving free mobile phones. When the market became saturated, operators switched to focusing on customer retention and increasing average revenue per customer.

The Customer Relationships called for by a company's business model deeply influence the overall customer experience.



What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?

*We can distinguish between several categories of Customer Relationships, which may co-exist in a company's relationship with a particular Customer Segment:*

#### **Personal assistance**

This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. This may happen on-site at the point of sale, through call centers, by e-mail, or through other means.

#### **Dedicated personal assistance**

This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals. Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.

#### **Self-service**

In this type of relationship, a company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

#### **Automated services**

This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).

#### **Communities**

Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and

solve each other's problems. Communities can also help companies better understand their customers. Pharmaceutical giant GlaxoSmithKline launched a private online community when it introduced *alli*, a new prescription-free weight-loss product.

GlaxoSmithKline wanted to increase its understanding of the challenges faced by overweight adults, and thereby learn to better manage customer expectations.

#### **Co-creation**

More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others, such as YouTube.com, solicit customers to create content for public consumption.

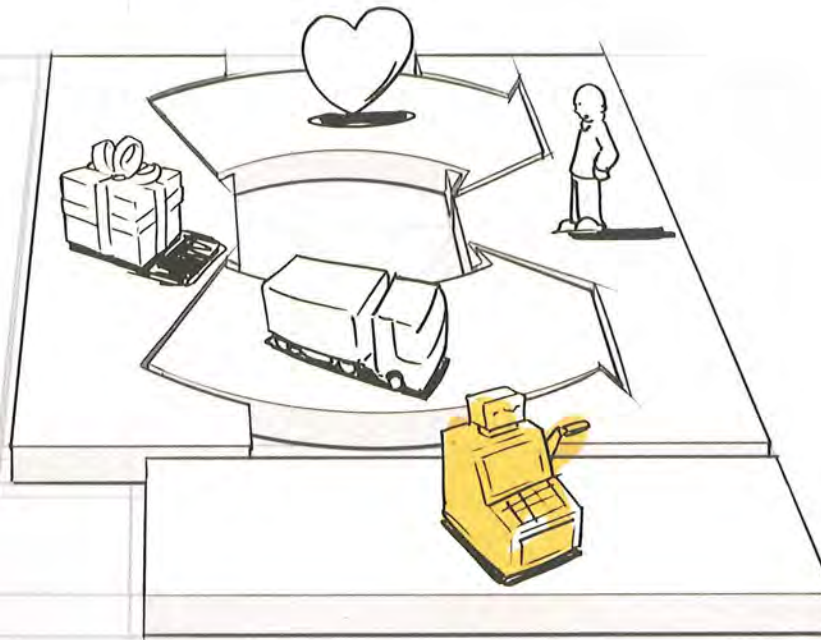
# 5 Revenue Streams

**The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)**

If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, For what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

A business model can involve two different types of Revenue Streams:

1. *Transaction revenues resulting from one-time customer payments*
2. *Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support*





For what value are our customers really willing to pay?  
 For what do they currently pay? How are they currently  
 paying? How would they prefer to pay? How much does  
 each Revenue Stream contribute to overall revenues?

*There are several ways to generate Revenue Streams:*

#### **Asset sale**

The most widely understood Revenue Stream derives from selling ownership rights to a physical product. Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

#### **Usage fee**

This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays. A telecom operator may charge customers for the number of minutes spent on the phone. A hotel charges customers for the number of nights rooms are used. A package delivery service charges customers for the delivery of a parcel from one location to another.

#### **Subscription fees**

This Revenue Stream is generated by selling continuous access to a service. A gym sells its members monthly or yearly subscriptions in exchange for access to its exercise facilities. World of Warcraft Online, a Web-based computer game, allows users to play its online game in exchange for a monthly subscription fee. Nokia's Comes with Music service gives users access to a music library for a subscription fee.

#### **Lending/Renting/Leasing**

This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs

of ownership. Zipcar.com provides a good illustration. The company allows customers to rent cars by the hour in North American cities. Zipcar.com's service has led many people to decide to rent rather than purchase automobiles.

#### **Licensing**

This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows rightsholders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties. Similarly, in technology sectors, patentholders grant other companies the right to use a patented technology in return for a license fee.



**Brokerage fees**

This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sales transaction executed between credit card merchants and customers. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

**Advertising**

This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years other sectors, including software and services, have started relying more heavily on advertising revenues.

*Each Revenue Stream might have different pricing mechanisms. The type of pricing mechanism chosen can make a big difference in terms of revenues generated. There are two main types of pricing mechanism: fixed and dynamic pricing.*

## Pricing Mechanisms

### Fixed Menu Pricing

Predefined prices are based on static variables

*List price* Fixed prices for individual products, services, or other Value Propositions

*Product feature dependent* Price depends on the number or quality of Value Proposition features

*Customer segment dependent* Price depends on the type and characteristic of a Customer Segment

*Volume dependent* Price as a function of the quantity purchased

### Dynamic Pricing

Prices change based on market conditions

*Negotiation (bargaining)* Price negotiated between two or more partners depending on negotiation power and/or negotiation skills

*Yield management* Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)

*Real-time-market* Price is established dynamically based on supply and demand

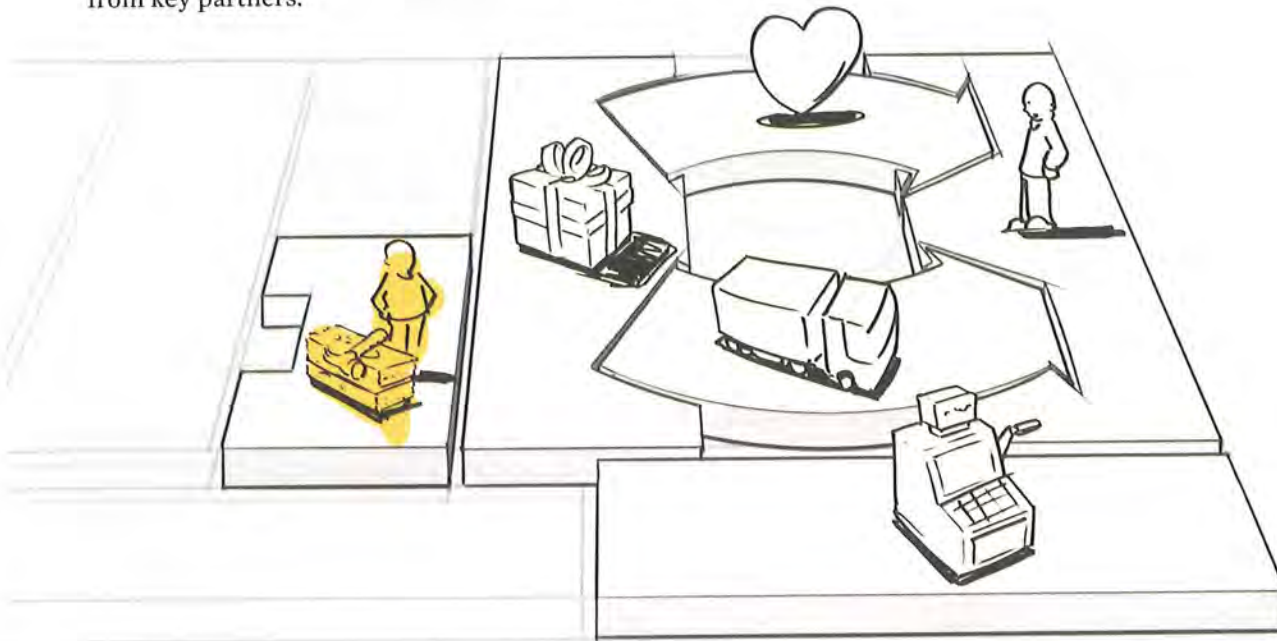
*Auctions* Price determined by outcome of competitive bidding

# Key Resources

**The Key Resources Building Block describes the most important assets required to make a business model work**

Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources.

Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.



# What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?

*Key Resources can be categorized as follows:*

## **Physical**

This category includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks. Retailers like Wal-Mart and Amazon.com rely heavily on physical resources, which are often capital-intensive. The former has an enormous global network of stores and related logistics infrastructure. The latter has an extensive IT, warehouse, and logistics infrastructure.

## **Intellectual**

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when success-

fully created may offer substantial value. Consumer goods companies such as Nike and Sony rely heavily on brand as a Key Resource. Microsoft and SAP depend on software and related intellectual property developed over many years. Qualcomm, a designer and supplier of chipsets for broadband mobile devices, built its business model around patented microchip designs that earn the company substantial licensing fees.

## **Human**

Every enterprise requires human resources, but people are particularly prominent in certain business models. For example, human resources are crucial in knowledge-intensive and creative industries. A pharmaceutical company such as Novartis, for example, relies heavily on human resources. Its business model is predicated on an army of experienced scientists and a large and skilled sales force.

## **Financial**

Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to borrow funds from banks and capital markets, then use a portion of the proceeds to provide vendor financing to equipment customers, thus ensuring that orders are placed with Ericsson rather than competitors.

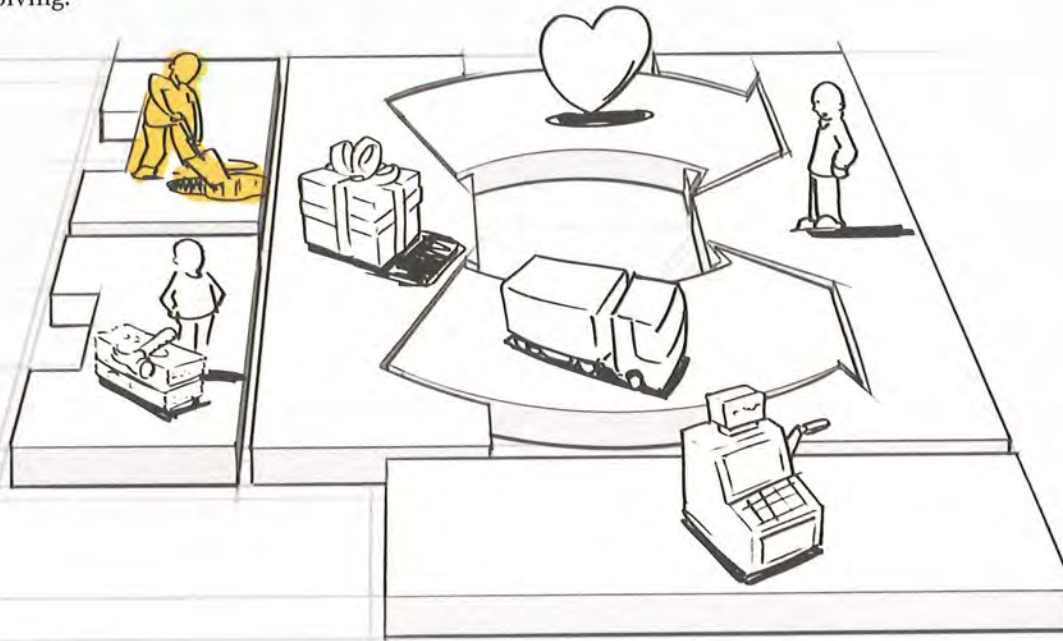


# Key Activities

**The Key Activities Building Block describes the most important things a company must do to make its business model work**

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development.

For PC manufacturer Dell, Key Activities include supply chain management. For consultancy McKinsey, Key Activities include problem solving.



# What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?

*Key Activities can be categorized as follows:*

## **Production**

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

## **Problem solving**

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.

## **Platform/Network**

Business models designed with a platform as a Key Resource are dominated by platform or network-related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. eBay's business model requires that the company continually develop and maintain its platform: the Web site at eBay.com. Visa's business model requires activities related to its Visa® credit card transaction platform for merchants, customers, and banks. Microsoft's business model requires managing the interface between other vendors' software and its Windows® operating system platform. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

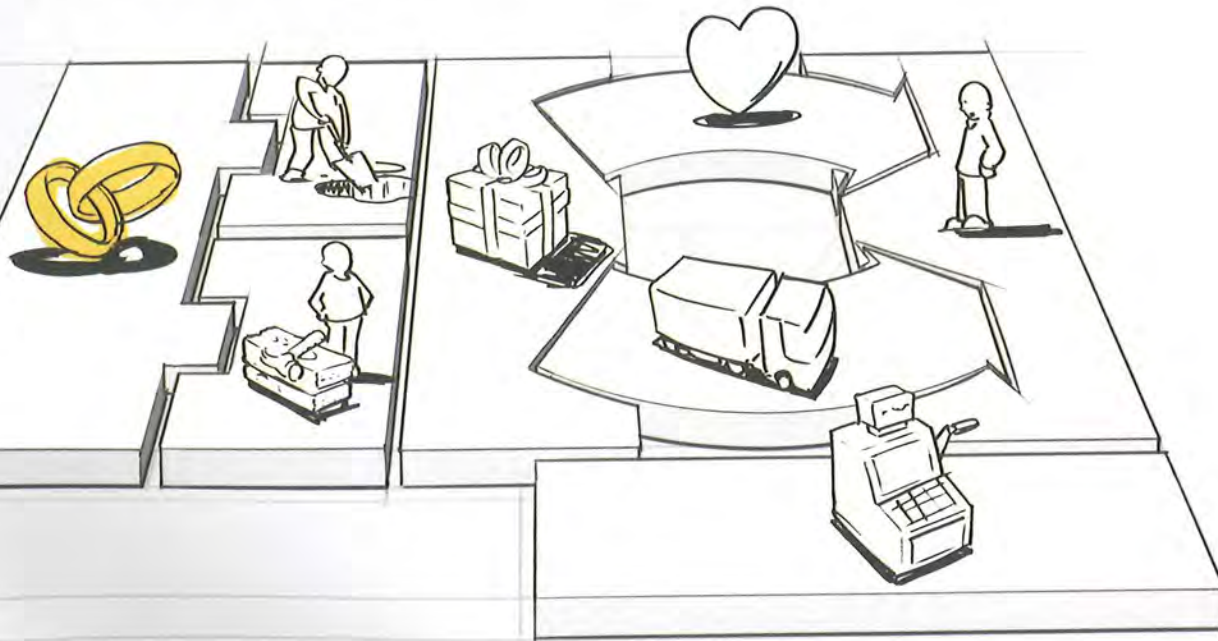
# Key Partnerships

**The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work**

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

1. *Strategic alliances between non-competitors*
2. *Coopetition: strategic partnerships between competitors*
3. *Joint ventures to develop new businesses*
4. *Buyer-supplier relationships to assure reliable supplies*



Who are our Key Partners? Who are our key suppliers?  
 Which Key Resources are we acquiring from partners?  
 Which Key Activities do partners perform?

*It can be useful to distinguish between three motivations for creating partnerships:*

#### **Optimization and economy of scale**

The most basic form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. Optimization and economy of scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

#### **Reduction of risk and uncertainty**

Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed

by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products.

#### **Acquisition of particular resources and activities**

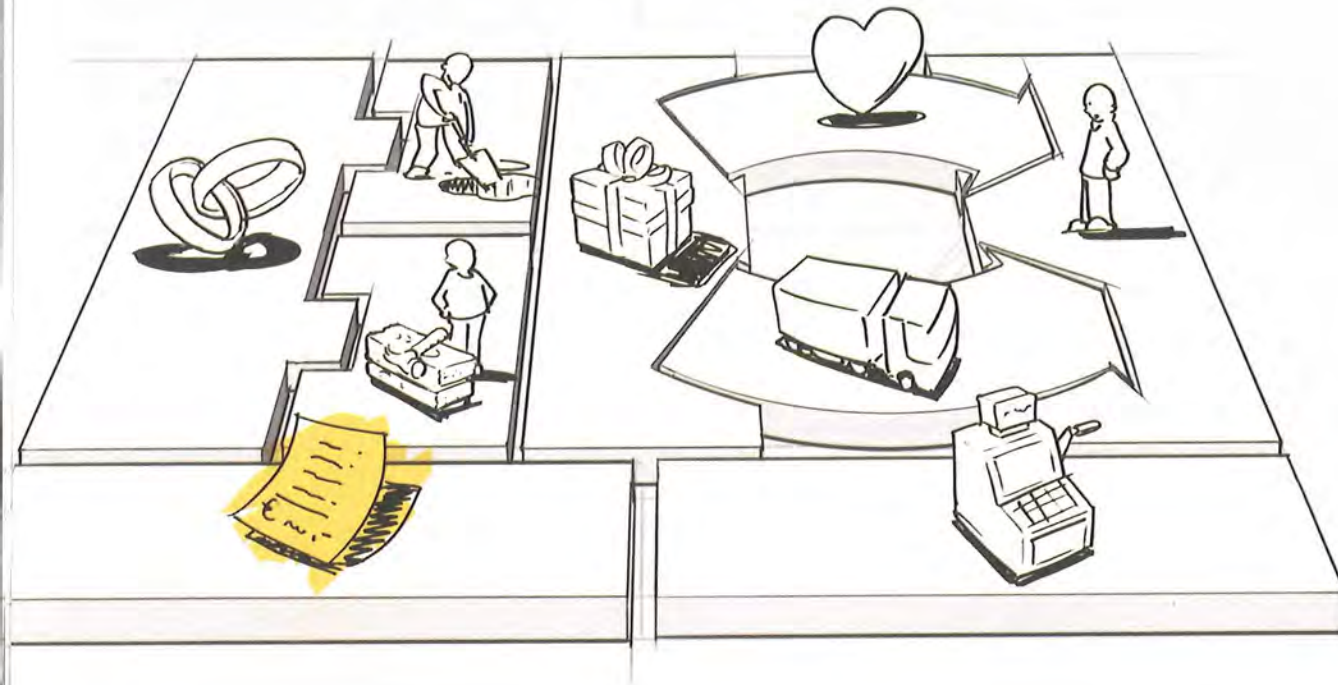
Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. A mobile phone manufacturer, for example, may license an operating system for its handsets rather than developing one in-house. An insurer may choose to rely on independent brokers to sell its policies rather than develop its own sales force.



# Cost Structure

**The Cost Structure describes all costs incurred to operate a business model**

This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called “no frills” airlines, for instance, have built business models entirely around low Cost Structures.



# What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?

*Naturally enough, costs should be minimized in every business model. But low Cost Structures are more important to some business models than to others. Therefore it can be useful to distinguish between two broad classes of business model Cost Structures: cost-driven and value-driven (many business models fall in between these two extremes):*

## **Cost-driven**

Cost-driven business models focus on minimizing costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing. No frills airlines, such as Southwest, easyJet, and Ryanair typify cost-driven business models.

## **Value-driven**

Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models. Luxury hotels, with their lavish facilities and exclusive services, fall into this category.

*Cost Structures can have the following characteristics:*

## **Fixed costs**

Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

## **Variable costs**

Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

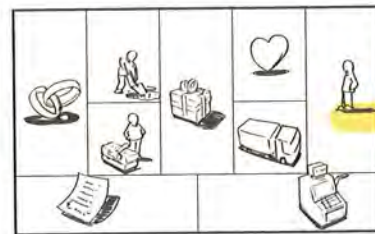
## **Economies of scale**

Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

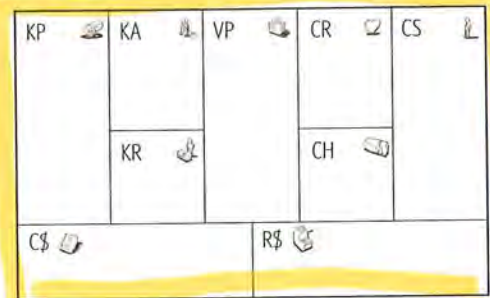
## **Economies of scope**

Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

**The nine business model Building Blocks form the basis for a handy tool, which we call the *Business Model Canvas*.**



### ***The Business Model Canvas***

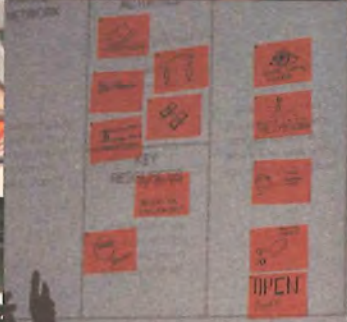


This tool resembles a painter's canvas—preformatted with the nine blocks—which allows you to paint pictures of new or existing business models.

***The Business Model Canvas works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements*** with Post-it® notes or board markers.

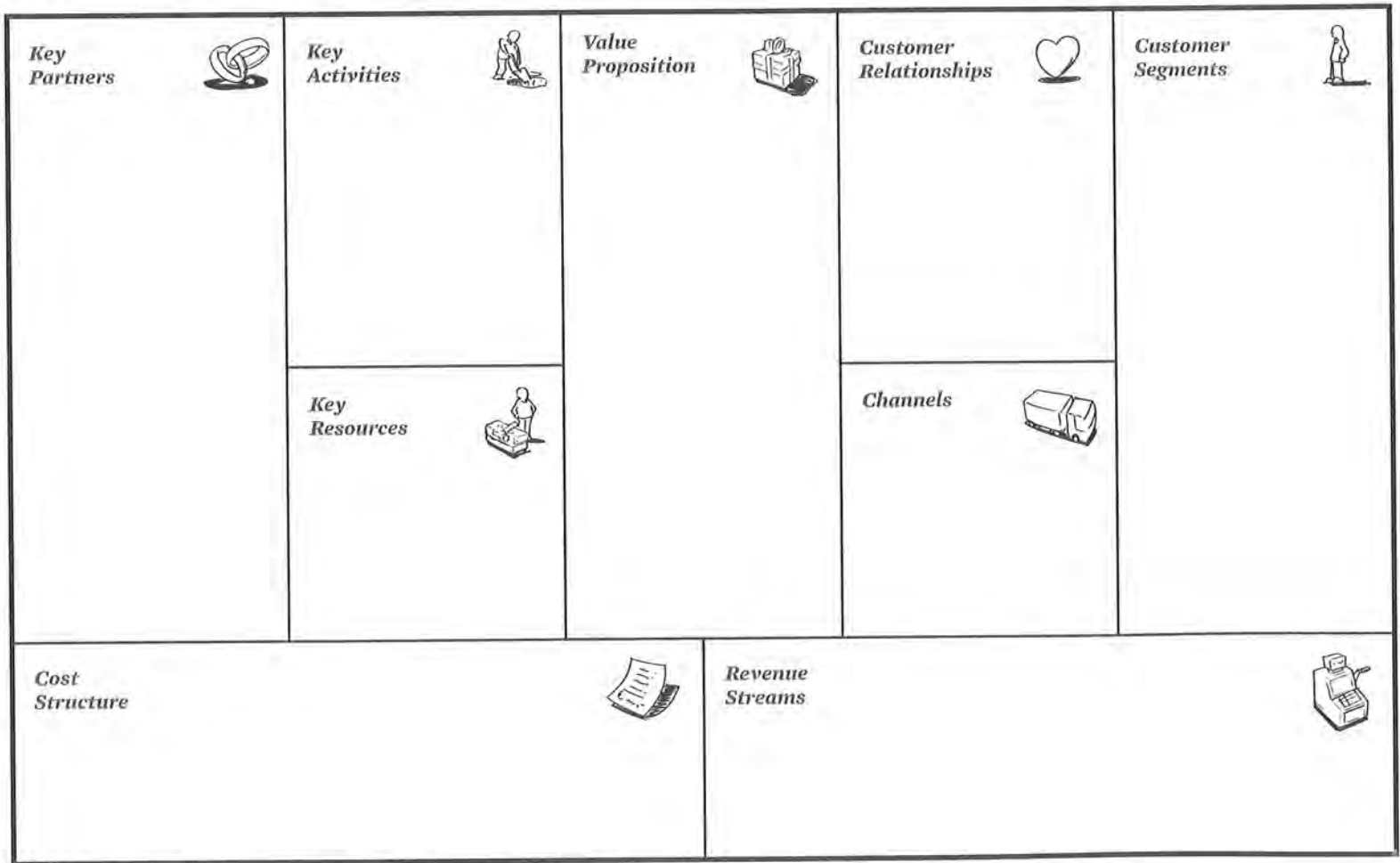
It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.







## The Business Model Canvas

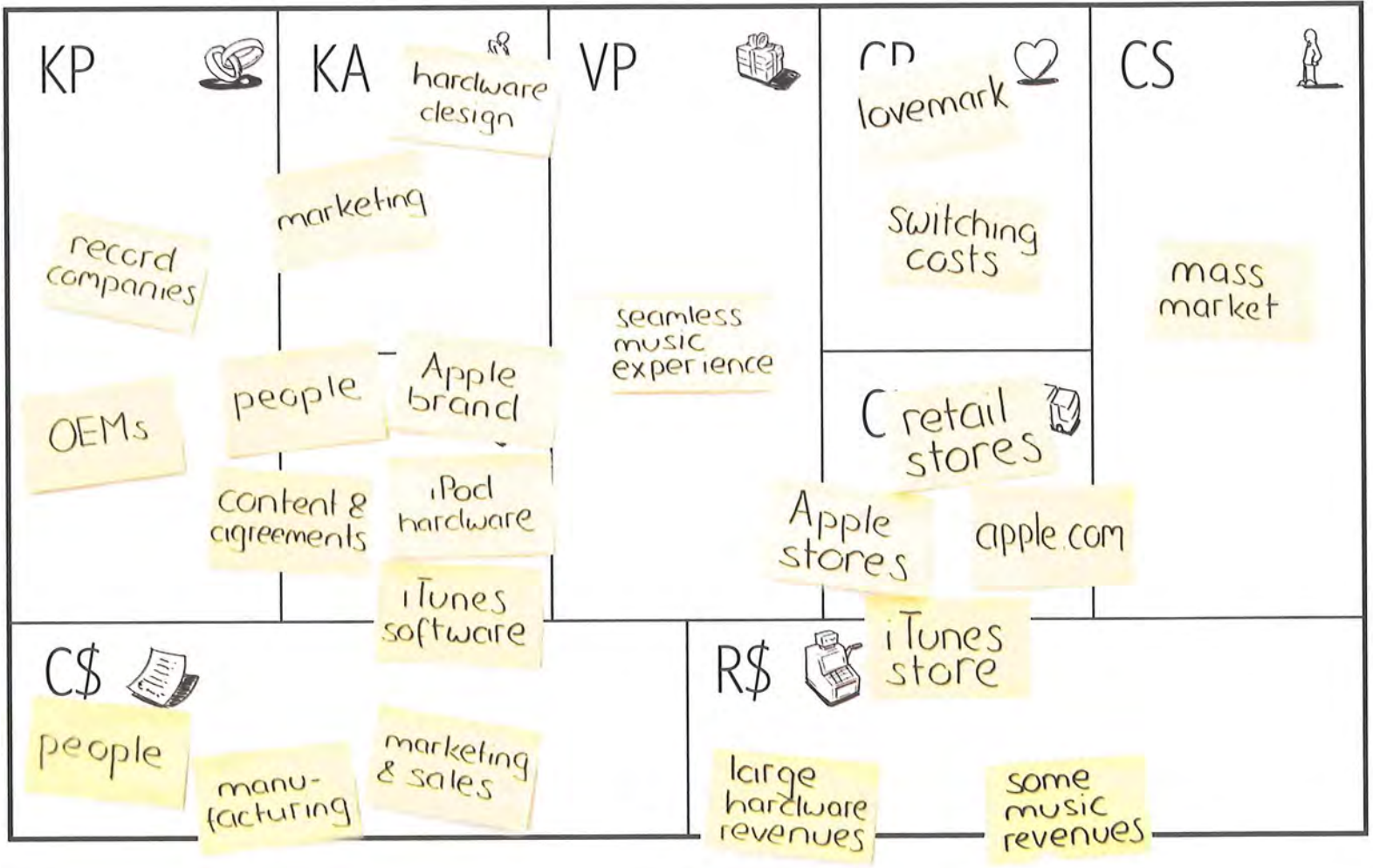


For a large poster-size version of *The Business Model Canvas*, visit [www.businessmodelgeneration.com](http://www.businessmodelgeneration.com).

① PLOT THE  
CANVAS  
ON A  
POSTER

② PUT THE  
POSTER ON  
THE WALL

③ SKETCH OUT  
YOUR BUSINESS  
MODEL



# Example: Apple iPod/iTunes Business Model

In 2001 Apple launched its iconic iPod brand of portable media player. The device works in conjunction with iTunes software that enables users to transfer music and other content from the iPod to a computer. The software also provides a seamless connection to Apple's online store so users can purchase and download content.

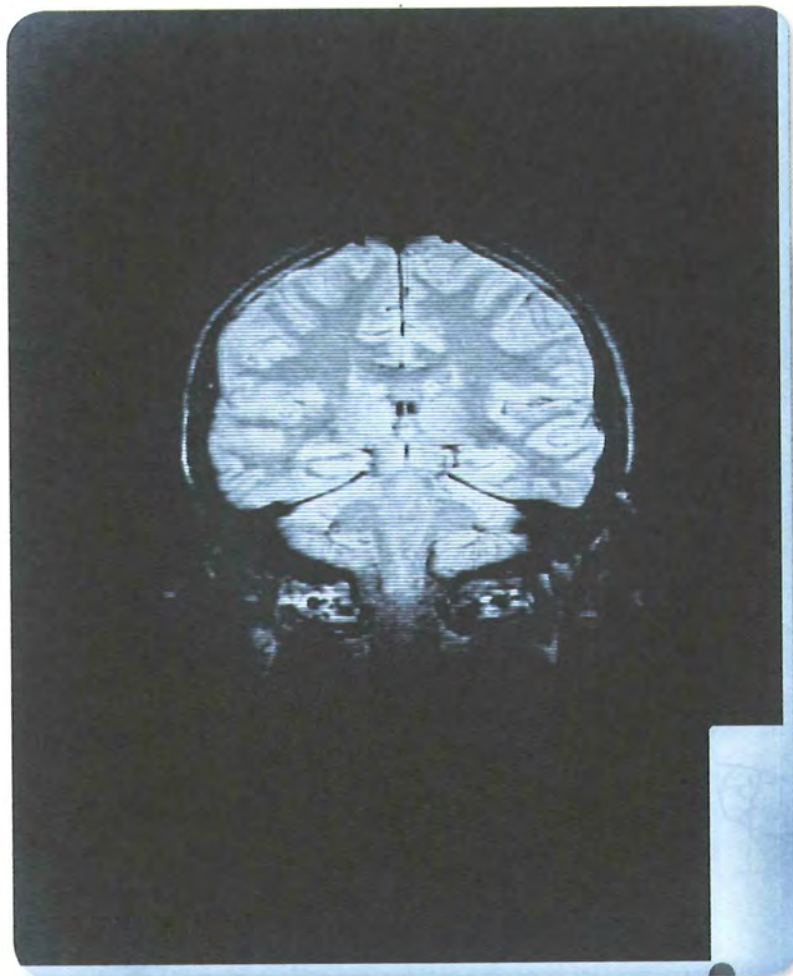
This potent combination of device, software, and online store quickly disrupted the music industry and gave Apple a dominant market position. Yet Apple was not the first company to bring a portable media player to market. Competitors such as Diamond Multimedia, with its Rio brand of portable media players, were successful until they were outpaced by Apple.

How did Apple achieve such dominance? Because it competed with a better business model. On the one hand, it offered users a seamless music experience by combining its distinctively designed iPod devices with iTunes software and the iTunes online store. Apple's Value Proposition is to allow customers to easily search, buy, and enjoy digital music. On the other hand, to make this Value Proposition possible, Apple had to negotiate deals with all the major record companies to create the world's largest online music library.

The twist? Apple earns most of its music-related revenues from selling iPods, while using integration with the online music store to protect itself from competitors.



**LEFT BRAIN**  
logic



**RIGHT BRAIN**  
emotion

KP	KA	VP	CR	CS
	KR		CH	
C\$		R\$		

**LEFT CANVAS**  
efficiency

**RIGHT CANVAS**  
value

# HOW DO YOU USE THE CANVAS?

The public sector is often challenged to implement private sector principles. I have used the Canvas to help a department view itself as a service-oriented business,

establishing externalized as-is and to-be business models.

It has created a whole new conversation around describing and innovating the business.

*Mike Lachapelle, Canada*

I consult with small companies on using the freemium business model. This model involves giving core products away for free, which is very counterintuitive to most businesspeople. Thanks to the Business Model Canvas, I can easily illustrate how it makes financial sense.

*Peter Froberg, Denmark*

I help business owners plan their transition and exit from their companies. Success depends on sustaining long-term company viability and growth. Key to this is a business model innovation program. The Canvas helps us identify and innovate their business models.

*Nicholas K. Niemann, United States*

I'm using the Business Model Canvas in Brazil to help artists, cultural producers, and game designers to envision innovative business models for the Cultural and Creative Industries. I apply it in the Cultural Production MBA at FGV and in the Innovation Games Lab at COPPE/UFRJ Business Incubator.

*Claudio D'politto, Brazil*

When you typically think of a business model, the conclusion is that it is a 'for profit' business. However, I found that the Canvas is also very effective in the non-profit sector. We used it to

## DESIGN + ALIGN

members of the leadership team during the formation of a new non-profit program. The Canvas was flexible enough to take into account the goals of this social entrepreneurial venture, and bring clarity to the true Value Proposition of the business and how to make it sustainable.

*Kevin Donaldson, United States*

I wish I had known the Canvas years ago! With a particular tough and complicated print-to-digital project within the publishing industry it would have been so helpful to

show all project members in this visual way both the big picture, their (important) own roles in it and the inter-dependencies.

Hours of explaining, arguing, and misunderstanding could have been saved.

*Jille Sol, Netherlands*

A close friend was looking for a new job. **I used the Business Model Canvas in order to assess her personal business model.**

Her core competences and Value Proposition were outstanding but she failed to leverage her strategic partners and develop appropriate Customer Relationships. This adjusted focus opened new opportunities.

*Daniel Pandza, Mexico*



Imagine 60 first-year students, knowing nothing about entrepreneurship. In less than five days, thanks to the Business Model Canvas, they were able to pitch a viable idea with conviction and clarity. They used it as a tool to cover all the startup-building dimensions.

*Guilhem Bertholet, France*

I use the Business Model Canvas to teach early stage entrepreneurs across a wide range of industries as a much better way to

## TRANSLATE THEIR BUSINESS PLANS INTO THE BUSINESS PROCESSES

that they (will) need to operate their businesses and to ensure that they are focused properly on being customer-centric in a way that makes the business as highly profitable as it can be.

*Bob Dunn, United States*

I have used the Canvas with a co-founder to **design a business plan** for a national level contest held by *The Economic Times, India*. The Canvas enabled me to think through all the aspects of the startup and put together a plan that VCs might find well thought out and attractive to fund.

*Praveen Singh, India*

We were asked to redesign the language service of an international NGO. The Business Model Canvas was especially helpful to **show the links between the needs of people's day-to-day work and a service** that was felt too specialized, considered only as an afterthought, and far away from their priorities.

*Paola Valeri, Spain*

As a startup coach I support teams to create new products and design their businesses. The Business Model Canvas does a great job assisting me to

remind the teams to think holistically about their business and prevents them from getting stuck on details. This helps to

make their new venture a success.

*Christian Schüller, Germany*

The Business Model Canvas has allowed me to establish a common language and framework with colleagues.

I've used the Canvas to explore new growth opportunities, assess uses of new business models by competitors, and to communicate across the organization how we could accelerate technology, market, and business model innovations.

*Bruce MacVarish, United States*

The Business Model Canvas has helped several health care organizations in the Netherlands to **make the move from a budget driven governmental institution to an entrepreneurial value-adding organization.**

*Huub Raemakers, Netherlands*

I used the Canvas with senior managers of a public company to help them restructure their value chain due to changes in sector regulation. The key success factor was to understand which new Value Propositions could be offered to their clients and then translated into internal operations.

*Leandro Jesus, Brazil*

WE USED 15,000 POST-ITS AND MORE THAN 100 METERS OF BROWN PAPER

to design a future organizational structure in a global manufacturing company. The key of all activities was, however, the Business Model Canvas. It convinced us by its practical applicability, simplicity, and logical cause-and-effect relationships.

*Daniel Egger, Brazil*

I used the Canvas to do a

## REALITY CHECK

for my new startup Mupps, a platform where artists can make their own music apps for iPhone and Android phones in minutes. You know what? The Canvas made me even surer of the possible success! So I gotta go, work to do!

*Erwin Blom, Netherlands*

The Business Model Canvas has proven to be a very useful tool for capturing ideas and solutions for e-commerce projects. Most of my clients are SMEs and the Canvas helps them to clarify their current business models and understand and focus on the impact of e-commerce on their organizations.

*Marc Castricum, Netherlands*

I applied the Canvas to help a company align key staff in order to determine shared goals and strategic priorities, which were used during the planning process and incorporated with the BSC. It also ensured that the chosen initiatives were clearly driven by the new strategic priorities.

*Martin Fanghanel, Bolivia*



# 5 Phases

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The business model design process we propose has five phases: Mobilize, Understand, Design, Implement, and Manage. As previously mentioned, the progression through these phases is rarely as linear as depicted in the table on the right. In particular, the Understanding and Design phases tend to proceed in parallel. Business model prototyping can start early in the Understanding phase, in the form of sketching preliminary business model ideas. Similarly, prototyping during the design phase may lead to new ideas requiring additional research—and a revisiting of the Understand phase.

248 Finally, the last phase, Manage, is about continuously managing your business model(s). In today's climate, it's best to assume that most business models, even successful ones, will have a short lifespan. Considering the substantial investment an enterprise makes in producing a business model, it makes sense to extend its life through continuous management and evolution until it needs complete rethinking. Management of the model's evolution will determine which components are still relevant and which are obsolete.

For each process phase we outline the objective, the focus, and which content in *Business Model Generation* supports that phase. Then we outline the five phases in more detail, and explain how the circumstances and focus can change when you are working with an existing business model in an established organization.

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## OBJECTIVE

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## FOCUS

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## DESCRIPTION

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## BOOK SECTIONS



## Mobilize

Prepare for a successful business model design project

### Setting the stage

Assemble all the elements for successful business model design. Create awareness of the need for a new business model, describe the motivation behind the project, and establish a common language to describe, design, and analyze and discuss business models.

- Business Model Canvas (p. 44)
- Storytelling (p. 170)



## Understand

Research and analyze elements needed for the business model design effort

### Immersion

You and the business model design team immerse yourselves in relevant knowledge: customers, technology, and environment. You collect information, interview experts, study potential customers, and identify needs and problems.

- Business Model Canvas (p. 44)
- Business Model Patterns (p. 52)
- Customer Insights (p. 126)
- Visual Thinking (p. 146)
- Scenarios (p. 180)
- Business Model Environment (p. 200)
- Evaluating Business Models (p. 212)



## Design

Generate and test viable business model options, and select the best

### Inquiry

Transform the information and ideas from the previous phase into business model prototypes that can be explored and tested. After an intensive business model inquiry, select the most satisfactory business model design.

- Business Model Canvas (p. 44)
- Business Model Patterns (p. 52)
- Ideation (p. 134)
- Visual Thinking (p. 146)
- Prototyping (p. 160)
- Scenarios (p. 180)
- Evaluating Business Models (p. 212)
- Business Model Perspective on Blue Ocean Strategy (p. 226)
- Managing Multiple Business Models (p. 232)



## Implement

Implement the business model prototype in the field

### Execution

Implement the selected business model design.

- Business Model Canvas (p. 44)
- Visual Thinking (p. 146)
- Storytelling (p. 170)
- Managing Multiple Business Models (p. 232)



## Manage

Adapt and modify the business model in response to market reaction

### Evolution

Set up the management structures to continuously monitor, evaluate, and adapt or transform your business model.

- Business Model Canvas (p. 44)
- Visual Thinking (p. 146)
- Scenarios (p. 180)
- Business Model Environment (p. 200)
- Evaluating Business Models (p. 212)

## Computer-Aided Business Model Design

### Improving the process

Mike, a senior business analyst with a large financial group, wraps up the first of a two-day workshop he is facilitating with a group of 24 executives. He collects the business model prototypes and ideas that participants sketched on large Canvas posters and hurries to his office.

There, Mike and his team enter the ideas into a collaborative computer-aided business model design program to further develop the prototypes. Other business analysts working overseas add resource and activity cost estimates, as well as calculations of potential Revenue Streams. The software then spits out four different financial scenarios, with business model data and prototype diagrams for each plotted on large posters. The following morning Mike presents the results to the executives, who have gathered for the second day of their workshop to discuss the potential risks and rewards of each prototype.

This scenario doesn't yet describe reality, but that is changing rapidly. A Business Model Canvas printed on a large poster and a big box of Post-it notes will always be a very powerful tool for triggering creativity and generating innovative business model ideas. However, we extended this paper-based approach with the help of the computer, the Internet, and the iPad. Turning a prototype business model into a spreadsheet is time-consuming, and each change to the prototype usually requires a manual modification of the spreadsheet. Therefore we developed the Business Model Toolbox, Web and iPad-based platform that combines the speed of a napkin sketch with the smarts of a spreadsheet.



### Scratching the Surface: a Prototype

The Business Model Toolbox makes the creation, storage, manipulation, tracking, and communication of business models far easier. The toolbox also supports collaborative work on business models for geographically disparate teams. With this software our aim is to bring the same computer support to business models than what we take for granted when we design, simulate, and build airplanes or develop software across continents. Inventing innovative business models certainly requires human creativity, but computer-aided systems can help us manipulate business models in more sophisticated and complex ways.

*Try our prototype of computer aided business model editor free at [www.businessmodeltoolbox.com](http://www.businessmodeltoolbox.com)*



## CAD's Influence Past, Present and Future

An example from the field of architecture is helpful in illustrating the power of computer-aided design. In the 1980s so-called Computer-Aided Design (CAD) systems started becoming more affordable and slowly were adopted by architectural firms. CAD made it much easier and cheaper for architects to create three-dimensional models and prototypes. They brought speed, integration, improved collaboration, simulation, and better planning to architecture practices. Cumbersome manual tasks, such as constant redrawing and blueprint sharing, were eliminated, and a whole new world of opportunity, such as rapid visual 3-D exploration and prototyping, opened up. Today paper-based sketching and CAD happily co-exist, each method retaining its own strengths and weaknesses.

In the realm of business models, too, computer-aided systems could make many tasks easier and quicker, while revealing as-yet

unseen opportunity. At the least, CAD systems could help visualize, store, manipulate, track, annotate, and communicate business models just as the Business Model Toolbox does.

More complex functions could involve manipulating layers or business model versions, or moving business model elements dynamically and evaluating the impact in real-time. Systems might facilitate business model critiquing, provide a repository of business model patterns and off-the-shelf building blocks, simulate models, or integrate with other enterprise systems (e.g. ERP or business process management).

Computer-aided business model design systems like the Business Model Toolbox will likely evolve in step with interface improvements. Manipulating business models on wall-sized touch screens would bring computer-aided design closer to the intuitive paper-based approach and improve usability.

### Paper-based

- Paper or poster-based Canvases can be easily created and used just about anywhere
- Paper and poster-based Canvases impose few barriers: no need to learn a specific computer application
- Very intuitive and engaging in group settings
- Fosters creativity, spurs ideation when used on large surfaces

### Computer-aided

Easy to create, store, manipulate, and track business models

- Enable remote collaboration
- Quick, comprehensive financial, other simulations
- Provide business model design guidance (critiquing systems, business model database, pattern ideas, control mechanisms)

- Napkin sketches to draw, understand, or explain business models
- Collaborative brainstorming sessions to develop business model ideas
- Collaborative assessment of business models

- Collaborative business model design with remote teams
- Complex manipulations of business models (navigation, business model layers, merging models)
- Deep, comprehensive analysis



## Implementing Business Models in Organizations

We've laid out the fundamentals of business model innovation, explained the dynamics of different patterns, and outlined techniques for inventing and designing models. Naturally there is much more to say about the implementation that is critical to a business model's success.

We've already addressed the question of how to manage multiple business models (see p. 232). Now let's turn to another aspect of implementation: turning your business model into a sustainable enterprise, or implementing it in an existing organization. To illustrate, we've combined the Canvas with Jay Galbraith's Star Model to suggest aspects of organizational design you may want to consider when executing a business model.

Galbraith specifies five areas that should be aligned in an organization: Strategy, Structure, Processes, Rewards, and People. We place the business model in the middle of the star as a "center of gravity" that holds the five areas together.

### Strategy

Strategy drives the business model. Do you want to grow 20 percent in new market segments? Then that should be reflected in your business model in terms of new Customer Segments, Channels, or Key Activities.

### Structure

The characteristics of a business model determine the optimal organizational structure for its execution. Does your business model call for a highly centralized or decentralized organizational structure? If you will implement the model in an established business, should the new operation be integrated or spun off (see p. 233)?

### Processes

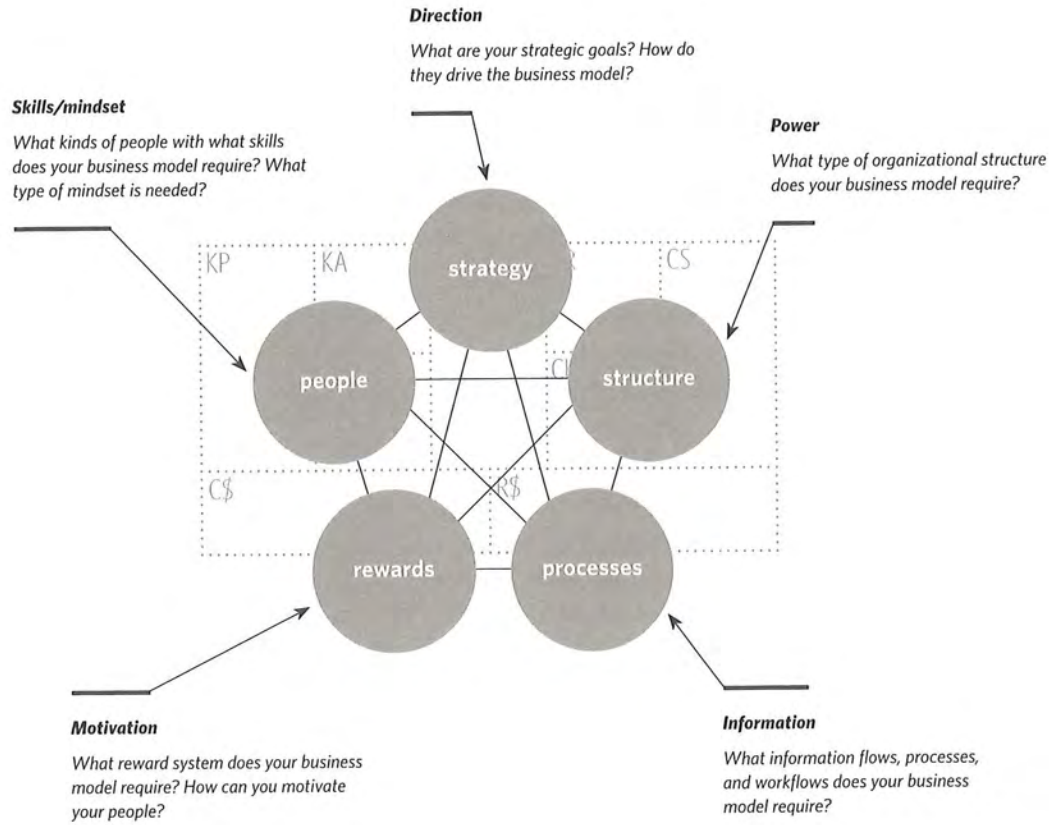
Each business model demands different processes. Operations run under a low-cost business model should be lean and highly automated. If the model calls for selling high-value machines, quality processes must be exceptionally rigorous.

### Rewards

Different business models require different reward systems. A reward system must use appropriate incentives to motivate workers to do the right things. Does your model require a direct sales force to acquire new customers? Then your reward system should be highly performance oriented. Does your model depend heavily on customer satisfaction? Then your reward system must reflect that commitment.

### People

Certain business models call for people with particular mindsets. For example, some business models call for particularly entrepreneurial mechanisms to bring products and services to market. Such models must give employees significant leeway, which means hiring proactive, but dependable, free-thinkers.



## Aligning IT with Business

Aligning information systems and business goals is fundamental to the success of an enterprise. Chief executives officers ask their chief information officers (CIOs), Do we have the right IT? How do we know? How can we best align our business with our technology systems?

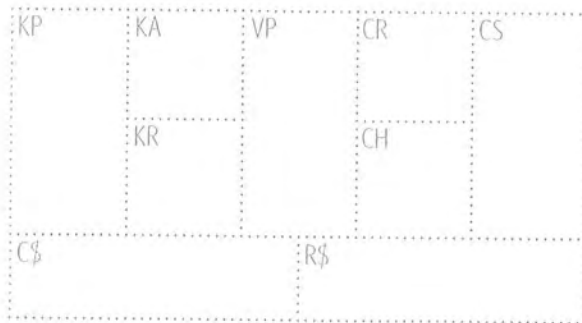
Information technology research and advisory firm Gartner highlights this issue in a report called "Getting the Right IT: Using Business Models." Gartner asserts that the Business Model Canvas is a powerful tool that helps CIOs quickly grasp how a business works without getting bogged down in operational details. Gartner recommends that CIOs use the Business Model Canvas to align IT and key business processes. This helps them align business and IT decisions without diving too deeply into tactical issues.

We find it useful to pair the Canvas with an Enterprise Architecture approach. Many of the various Enterprise Architecture concepts describe the enterprise from three perspectives: the business perspective, the applications perspective, and the technology perspective. We recommend using the Canvas to guide the business perspective, then align the business with the applications and technology perspectives.

In the application perspective, you describe the portfolio of applications that leverage aspects of your business model (e.g. recommendation systems, supply chain management applications, etc.) and you describe all the business model's information requirements (e.g. customer profiles, warehousing, etc.). In the technology perspective you describe the technology infrastructure that drives your business model (e.g. server farms, data storage systems, etc.).

Authors Weill and Vitale propose another interesting way to explore IT alignment. They pair categories of IT infrastructure service with business models. Weill and Vitale propose aligning business models with application infrastructure, communications management, data management, IT management, security, IT architecture, channel management, IT research and development, and IT training and education.

On the opposite page we've brought these elements together in a graphic to help you pose some fundamental questions regarding business and IT alignment.



strategy  
business model  
operational models



How can IT support the processes and workflows required by my business models?

Where in my business model does security play an important role and how does that influence my IT?

What information do I need to capture, store, share, and manage to improve my business model?

Do I need to invest in IT training and education to leverage my business model?

How does my application portfolio leverage the specific dynamics of my business model?

Could investments in IT research and development improve my business model in the future?

How will IT architecture, standards, and interface choices limit or leverage my business model?

Which technology infrastructure is required and crucial to the success of my business model (e.g. server farms, communications, and so on)?