

Business Model Canvas

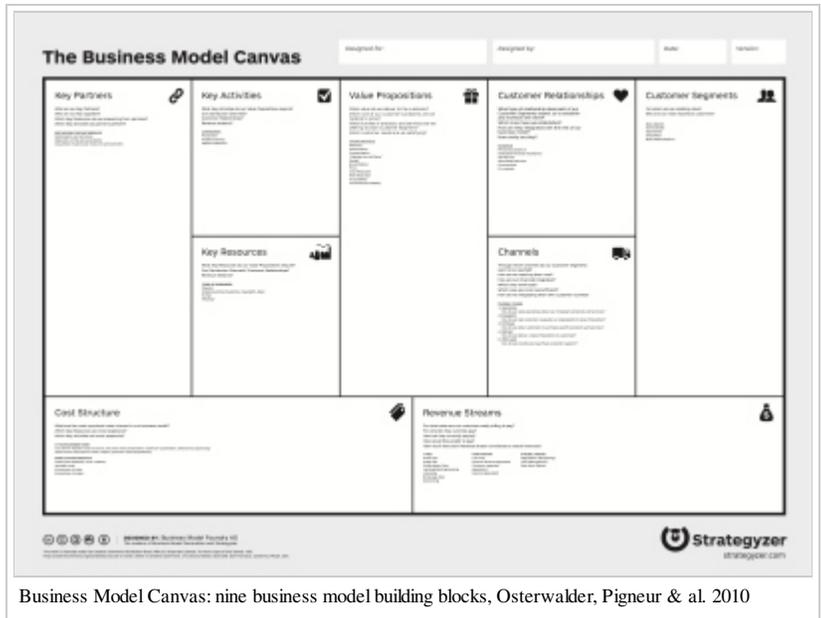
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The **Business Model Canvas** is a strategic management and lean startup template for developing new or documenting existing business models.^{[1][2]} It is a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances.^[3] It assists firms in aligning their activities by illustrating potential trade-offs.

The Business Model Canvas was initially proposed by Alexander Osterwalder^[4] based on his earlier work on Business Model Ontology.^[5] Since the release of Osterwalder's work in 2008, new canvases for specific niches have appeared, such as the Lean Canvas.^[6]

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The Business Model Canvas

Formal descriptions of the business become the building blocks for its activities. Many different business conceptualizations exist; Osterwalder's work and thesis (2010,^[3] 2004^[5]) propose a *single reference model* based on the similarities of a wide range of business model conceptualizations. With his *business model design template*, an enterprise can easily describe their business model.

- *Infrastructure*
 - **Key Activities:** The most important activities in executing a company's value proposition. An example for Bic would be creating an efficient supply chain to drive down costs.
 - **Key Resources:** The resources that are necessary to create value for the customer. They are considered an asset to a company, which are needed in order to sustain and support the business. These resources could be human, financial, physical and intellectual.
 - **Partner Network:** In order to optimize operations and reduce risks of a business model, organization usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.
- *Offering*
 - **Value Propositions:** The collection of products and services a business offers to meet the needs of its customers. According to Osterwalder, (2004), a company's value proposition is what distinguishes itself from its competitors. The value proposition provides value through various elements such as newness, performance, customization, "getting the job done", design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability.
 - The value propositions may be:
 - Quantitative- price and efficiency
 - Qualitative- overall customer experience and outcome
- *Customers*
 - **Customer Segments:** To build an effective business model, a company must identify which customers it tries to serve. Various sets of customers can be segmented based on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristics of selected group of clients. The different types of customer segments include:
 - **Mass Market:** There is no specific segmentation for a company that follows the Mass Market element as the organization displays a wide view of potential clients. e.g. Car
 - **Niche Market:** Customer segmentation based on specialized needs and characteristics of its clients. e.g. Rolex
 - **Segmented:** A company applies additional segmentation within existing customer segment. In the segmented situation, the business

may further distinguish its clients based on gender, age, and/or income.

- **Diversify:** A business serves multiple customer segments with different needs and characteristics.
- **Multi-Sided Platform / Market:** For a smooth day-to-day business operation, some companies will serve mutually dependent customer segment. A credit card company will provide services to credit card holders while simultaneously assisting merchants who accept those credit cards.
- **Channels:** A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both.
- **Customer Relationships:** To ensure the survival and success of any businesses, companies must identify the type of relationship they want to create with their customer segments. Various forms of customer relationships include:
 - **Personal Assistance:** Assistance in a form of employee-customer interaction. Such assistance is performed either during sales, after sales, and/or both.
 - **Dedicated Personal Assistance:** The most intimate and hands on personal assistance where a sales representative is assigned to handle all the needs and questions of a special set of clients.
 - **Self Service:** The type of relationship that translates from the indirect interaction between the company and the clients. Here, an organization provides the tools needed for the customers to serve themselves easily and effectively.
 - **Automated Services:** A system similar to self-service but more personalized as it has the ability to identify individual customers and his/her preferences. An example of this would be Amazon.com making book suggestion based on the characteristics of the previous book purchased.
 - **Communities:** Creating a community allows for a direct interaction among different clients and the company. The community platform produces a scenario where knowledge can be shared and problems are solved between different clients.
 - **Co-creation:** A personal relationship is created through the customer's direct input in the final outcome of the company's products/services.
- **Finances**
 - **Cost Structure:** This describes the most important monetary consequences while operating under different business models. A company's DOC.
 - **Classes of Business Structures:**
 - **Cost-Driven -** This business model focuses on minimizing all costs and having no frills. e.g. SouthWest
 - **Value-Driven -** Less concerned with cost, this business model focuses on creating value for their products and services. e.g. Louis Vuitton, Rolex
 - **Characteristics of Cost Structures:**
 - **Fixed Costs -** Costs are unchanged across different applications. e.g. salary, rent
 - **Variable Costs -** These costs vary depending on the amount of production of goods or services. e.g. music festivals
 - **Economies of Scale -** Costs go down as the amount of good are ordered or produced.
 - **Economies of Scope -** Costs go down due to incorporating other businesses which have a direct relation to the original product.
 - **Revenue Streams:** The way a company makes income from each customer segment. Several ways to generate a revenue stream:
 - **Asset Sale -** (the most common type) Selling ownership rights to a physical good. e.g. Wal-Mart
 - **Usage Fee -** Money generated from the use of a particular service e.g. UPS
 - **Subscription Fees -** Revenue generated by selling a continuous service. e.g. Netflix
 - **Lending/Leasing/Renting -** Giving exclusive right to an asset for a particular period of time. e.g. Leasing a Car
 - **Licensing -** Revenue generated from charging for the use of a protected intellectual property.
 - **Brokerage Fees -** Revenue generated from an intermediate service between 2 parties. e.g. Broker selling a house for commission
 - **Advertising -** Revenue generated from charging fees for product advertising.

Application

The Business Model Canvas can be printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with post-it note notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.^[7]

The Business Model Canvas is also available in web-based software format.

Alternative forms

The Business Model Canvas has been used and adapted to suit specific business scenarios and applications.^{[8][9]} Examples include:

- Product-market fit
- Supply chain
- Cash flow

See also

- Business process modeling
- Business plan
- Business reference model
- Product/market fit

References

1. Barquet, Ana Paula B., et al. "Business model elements for product-service system." *Functional Thinking for Value Creation*. Springer Berlin Heidelberg, 2011. 332-337: They stated that "The Canvas business model was applied and tested in many organizations (eg IBM and Ericsson), being successfully used to easily describe and manipulate business models to create new strategic alternatives."
2. De Reuver, Mark, Harry Bouwman, and Timber Haaker. "Business model roadmapping: A practical approach to come from an existing to a desired business model." *International Journal of Innovation Management* 17.01 (2013): They describe the business model canvas as the "Most prominent.. popular tool that makes it simple for practitioners to design business models in a creative session."
3. *Business Model Generation* (<http://www.businessmodelgeneration.com>), A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, self published, 2010
4. The Business Model Canvas (http://nonlinearthinking.typepad.com/nonlinear_thinking/2008/07/the-business-model-canvas.html) nonlinearthinking.typepad.com, July 05, 2008. Accessed Feb 25, 2010.
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6. "How to create your Lean Canvas" (<http://leanstack.com/LeanCanvas.pdf>). LeanStack. January 2014. Retrieved January 2014.
7. Business Models: Do the right thing (<http://blog.bizzdesign.com/business-models-do-the-right-thing>)
8. Business Model Canvas for User Experience (<http://grasshopperherder.com/business-model-canvas-for-user-experience/>)
9. Lean Model Canvas vs. Business Model Canvas (<http://practicetrumpstheory.com/2012/02/why-lean-canvas/>)

Further reading

- 2010. *Business Model Generation*, A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, Wiley published.

External links

-  Media related to Business Model Canvas at Wikimedia Commons
- Mapping Business Models (a Knowledge Game) (<http://www.businessmodelalchemist.com/2010/01/mapping-business-models-a-knowledge-game.html>)
- Alexander Osterwalder: The Business Model Canvas (<http://www.youtube.com/watch?v=2FumwkBMhLo>), a 3-minute video introduction to the Business Model Canvas, 6 February 2012
- Alexander Osterwalder: Tools for Business Model Generation (<http://ecorner.stanford.edu/authorMaterialInfo.html?mid=2875>), a 53-minute video discussing the Business Model Canvas in detail. *Stanford Entrepreneurship Corner*, 26 January 2012
- Business Model Fiddle (<http://bmfiddle.com/>), an online tool for creating and sharing business models. Includes templates for the Business Model Canvas as well as other canvas types.
- Business Model Canvas Explained (video) (<https://www.youtube.com/watch?v=QoAOzMTLP5s>)
- Quora: What should everyone know about the Business Model Canvas? (<http://www.quora.com/What-should-everyone-know-about-the-Business-Model-Canvas>)
- The Canvas Kit for Nonprofits (<http://nonprofitcavaskit.com/>), a step-by-step process to prototype revenue models

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