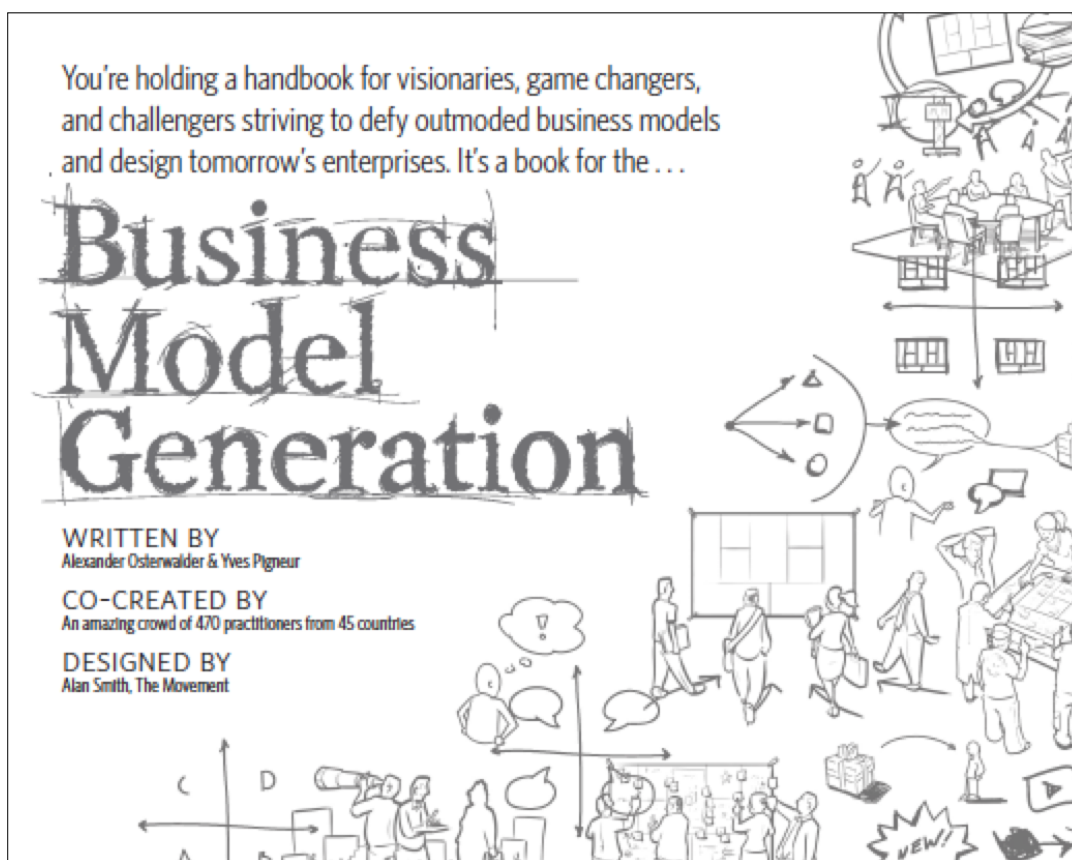


Primer – Business Model Generation



Osterwalder, A., Pigneur, Y. (2010), Business Model Generation, Hoboken, NJ: Wiley, ISBN: 0-470-87641-7

Table of Contents

Background Business Model Generation	3
Alexander Osterwalder	3
Yves Pigneur.....	3
Business Model	3
Business Model Canvas	4
Building Blocks	6
Infrastructure	6
Key Activities	6
Key Resources	6
Key Partners.....	6
Offering	7
Value Propositions	7
Customers	7
Customer Segments	7
Channels.....	7
Customer Relationships	7
Finances	8
Cost Structure	8
Revenue Streams.....	8
Patterns	9
Unbundled Business Models	9
The Long Tail	10
Multi-Sided Platforms	10
Free as a Business Model.....	11
Open Business Models	11
Design	13
Customer Insights.....	13
Ideation	14
What If Questions.....	15
Visual Thinking	17
Prototyping.....	17
Storytelling	17
Scenarios.....	17
Strategy	18
Business Model Environment.....	18
Evaluating Business Models.....	18
Managing Multiple Business Models	19
Process	19
Appendix	Error! Bookmark not defined.
Contact.....	Error! Bookmark not defined.

Background Business Model Generation

Alexander Osterwalder

Alexander Osterwalder is a business theorist, consultant, entrepreneur, speaker and business model innovator. Together with Professor Yves Pigneur, he invented the Business Model Canvas, a practical tool to visualize, challenge and (re-)invent business models. The book itself was produced using/ with a new business model.

The Canvas is used by leading organizations around the world, like Coca Cola, GE, P&G, Mastercard, Ericsson, LEGO, or 3M.

Value Proposition Design is a sequel of his million copy best seller Business Model Generation.

Yves Pigneur

Yves Pigneur is co-author of Business Model Generation and a professor of management and information systems at the University of Lausanne. He has held visiting professorships in the United States, Canada, and Singapore. Yves is a frequent guest speaker on business models in universities, large corporations, entrepreneurship events, and international conferences.

Business Model

A business model – defined as “the rationale of how an organization creates, delivers and captures value” – can launch an entrepreneur’s new idea or readjust the thrust of an existing company.

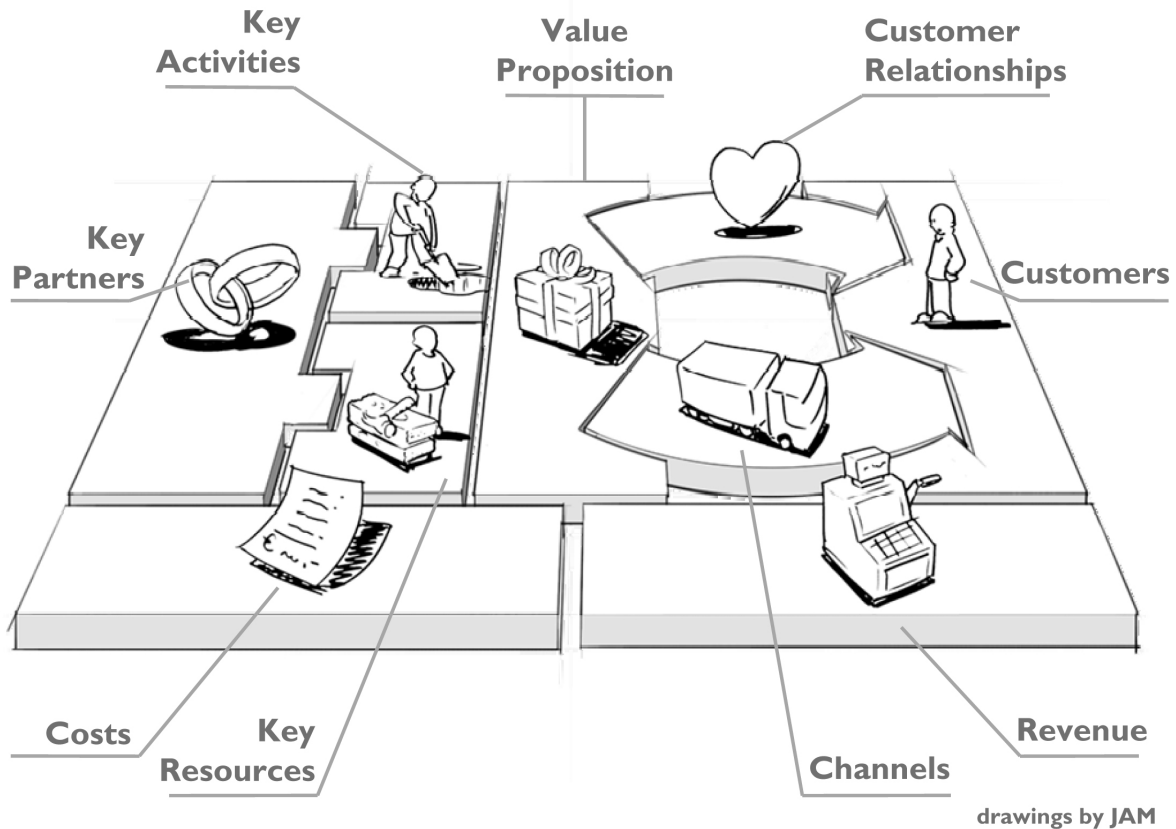
Business model innovation is about creating value for companies, customers, and the society. It is about replacing outdated models.

*E.g. 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.*

*E.g. **Skype** brought us 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.*

Business Model Canvas

The Business Model Canvas is a strategic management and lean startup template for developing new or analyzing and updating existing business models. It is a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and financial viability. It assists firms in aligning their activities by illustrating potential trade-offs.



Business Model Canvas

The Business Model Canvas was initially proposed by Alexander Osterwalder based on his earlier work on Business Model Ontology.

Strategic Creativity
Business Model Generation
 Daniela AlinaPlewe (PhD)
 All rights reserved.

The Business Model Canvas provides a flexible template for capturing the nine essential parts of a business model.

A business model is a dynamic system, not a collection of independent parts, so a change to one element is likely to have an impact on one or more of the others. Alteration of any of the aspects of a model-in-development is easy because of this visual “building block” style of paper-based strategizing.

Designed for:
Designed by:
Date:
Version:

The Business Model Canvas

<p>Key Partners </p> <p>Who are our Key Partners? Which are our Key Suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Distribution and delivery Acquisition of jobs and capability Acquisition of particular resources and activities</p>	<p>Key Activities </p> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p>CATEGORIES: Production Problem Solving Infrastructure</p>	<p>Value Propositions </p> <p>What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? Which bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Performance Customization "Designed to order" Risk Design/Process Price Cost Reduction Risk Reduction Accessibility Convenience/Usability</p>	<p>Customer Relationships </p> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Personal assistance Dedicated Personal Assistance Self-Service Automated Services Co-creation Co-investor</p>	<p>Customer Segments </p> <p>For whom are we creating value? Which are our most important customers?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Mass Market Niche Market Segments Channels Multi-sided Platform</p>
<p>Key Resources </p> <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p>CATEGORIES: Physical Intellectual Humant (Special talents, expertise, ideas) Financial Social</p>	<p>Channels </p> <p>Through which Channels do our Customer Segments want to be reached? How are we reaching them best? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: 1. Direct sales 2. Retailers 3. Partners 4. Own or hire third customers evaluate our organization's Value Proposition? 5. Partners 6. Referrals from customers to business specific products and services? 7. Delivery 8. After sales 9. How do we ensure post-purchase customer support?</p>			
<p>Cost Structure </p> <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Variable Costs (Production, distribution, customer acquisition, customer relationship management, support) Fixed Costs (Research and development, infrastructure, salaries, rent) SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Fixed Costs Variable Costs Acquisition of jobs Acquisition of capital</p>	<p>Revenue Streams </p> <p>For what value are our customers really willing to pay? For what do they currently pay? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Fees Asset sale Royalty fee Subscription fees Licensing/rental/leasing Advertising Donations Investments</p> <p>SECTIONS FOR ADDITIONAL INFORMATION ARE HERE: Revenue streams Product/Service dependent Customer segment dependent Channel dependent Price sensitive</p>			

DESIGNED BY: Business Model Foundry AG
 The makers of Business Model Generation and Strategyzer

This work is licensed under the Creative Commons Attribution-ShareAlike 3.0 Unported License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-sa/3.0/> or email a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.

Strategyzer
 strategyzer.com

Business Model Canvas

This purposely-simplistic approach maximizes broader strategic thinking while minimizing debate about operational details. Using Post-it notes with short bits of text is an effective way to build each of the primary elements of a business plan in a systematic way. The Business Model Canvas technique encourages you to think about your organization as a whole, rather than as discrete, disconnected operating activities and administrative functions.

Building Blocks

The essential elements of a business model provide a shared language that describes how a company works: Customer Segments, Customer Relationship, Value Proposition, Channel, Revenue Stream, Key activities, Key partners, Key resources & Cost structure.

Forming an interrelated blueprint for innovation, these nine building blocks cover an organization's **Infrastructure, Offer, Customers** and **Financial Viability**. They are:

Infrastructure

Key Activities

The Key Activities show which things need to perform well.

Company personnel routinely perform critical tasks that engage customers and turn a profit. For example, a manufacturer produces an item, a consultancy solves problems and companies like eBay and Visa manage platform/network activities that link various groups.

Key Resources

Describe the infrastructure to create, deliver and capture value.

The Key Resources show which assets are indispensable in your business model.

These most important assets can take several forms – physical, financial, intellectual or human – depending on what a company does. They range from executive talent and intellectual property rights to physical plant and credit lines; key resources may be owned or leased.

Key Partners

The Key Partners show who can help you leverage your Business Model.

Since you won't own all key resources nor perform all key activities yourself.

Joining other entities can expand or protect your market share in a highly competitive industry: Consider supplier links, joint ventures and strategic alliances. Tactical partnerships with rivals, or co-opetition, can lower risks or provide savings. Companies can also reduce costs or gain access to vital resources by outsourcing or subcontracting.

Offering

Value Propositions

For each segment you have a specific Value Proposition which come in bundles of products and services.

These “bundles of benefits” lead clients to do business with your company rather than with your competitors. Create value by inventing something new, improving your product’s performance or tailoring your offering to specific needs.

Customers

Customer Segments

These are all the people of organizations that you are creating value for. This includes simple users and paying customers.

Target one or more types of customers in this heart of your model. Mass markets and niche markets require starkly different approaches, while segmented customer bases share similarities, but their needs vary slightly. Companies with multi-sided platforms sell to two or more groups; for example, a credit card company cultivates businesses to accept its card as well as account holders to use it.

Channels

The Channels describe through which channels you are interacting with your customers and delivering value.

Select the best customer touch points to communicate value and to distribute and sell your products and services. Internet sales, retail locations and wholesalers exemplify channels that enable customers to experience, assess and buy what you’re selling.

Customer Relationships

They outline the type of relationship you are establishing with your customers.

Establish different ways to serve distinct market segments: Personal assistance from a service rep can coexist along with automated service or self-service. Amazon co-creates value for all its users with customer- written product reviews.

Finances

Cost Structure

Once you understand your Business Model's infrastructure you also have an idea of its Cost Structure.

Whether yours is a cost-driven or value-driven business, – offering low-priced services like discount airline tickets or creating exceptional value like a top hotel – determines your model's cost structure. Outlays represent fixed and variable expenses; bigger companies can pursue economies of scale and scope from large-scale production and distribution.

Revenue Streams

The Revenue Streams make clear how and through which pricing mechanism your business model is capturing value.

These are the arteries of a business model; income flows through them from discrete sales or from ongoing payments such as rentals, licenses or subscriptions. Each type of revenue stream may demand a different pricing mechanism, either a fixed price or a dynamic, negotiated price. For instance, a "perishable" hotel room sells for varying rates, depending on the season and availability.

Patterns

Business models with similar characteristics, similar arrangements of business model Building Blocks, or similar behaviors are called „Business Model Patterns“. The goal in defining and describing these business model patterns is to recast well-known business concepts in a standardized format – the Business Model Canvas.

Concepts upon which the patterns are based include **Unbundling**, **The Long Tail**, **Multi-Sided Platforms**, **FREE**, and **Open Business Models**.

Unbundled Business Models

The concept of the “unbundled” corporation holds that there are three fundamentally Different types of businesses: Customer Relationship businesses, product innovation businesses, and infrastructure businesses.

Each type has different economic, competitive, and cultural imperatives.

The three types may co-exist within a single corporation, but ideally they are “unbundled” into separate entities in order to avoid conflicts or undesirable trade-offs.

Three Core Business Types

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

Private Banking (p 60-61 see copies attached)

Mobile Telco

The Long Tail

Long tail business models are about selling less of more:

They focus on offering a large number of niche products, each of which sells relatively infrequently.

Aggregate sales of niche items can be as lucrative as the traditional model whereby a small number of bestsellers account for most revenues.

Long Tail business models require low inventory costs and strong platforms to make niche content readily available to interested buyers.

Book Publishing Industry (p 70-71 see copies attached)

Lego

E.g. Lego adapted the long-tail model when it augmented its conventional, mass-market toy sales with customer-generated kits. While still small and not yet profitable, the user-designed toy kits serve as a complement

*E.g. Online video provider **Netflix** and e-book publisher **lulu.com** can offer specialized films and texts to a huge audience – and make a profit – due to the Internet's democratization of content production and distribution*

Multi-Sided Platforms

Multi-sided platforms bring together two or more distinct but interdependent groups of customers. Such platforms are of value to one group of customers **only** if the other groups of customers are also present.

The platform creates value by **facilitating interactions** between the different groups.

A multi-sided platform grows in value to the extent that it attracts more users, a phenomenon known as the **network effect**.

Google (p 80-81 see copies attached)

Wii/PSP/X Box (p 82-83 see copies attached)

Apple

Free as a Business Model

In the free business model **at least one** substantial Customer Segment is able to **continuously benefit** from a free-of-charge offer. **Different patterns** make the free offer possible. Non-paying customers are financed by another part of the business model or by another Customer Segment.

Advertising: a multi-sided platform model (p 92 see copies attached)

Newspapers: free or not free (p 93 see copies attached)

Freemium: get the basics for free, pay for more (p 96 see copies attached)

Open Source: Freemium with a twist (p 97 see copies attached)

Skype (p 98 see copies attached)

The Insurance Model: Freemium upside down (p 100 see copies attached)

Bait and Hook (p 104 see copies attached)

Open Business Models

Open business models can be used by companies to create and capture value by systematically **collaborating with outside partners**. This may happen from the “**outside-in**” by exploiting external ideas within the firm, or from the “**inside-out**” by providing external parties with ideas or assets lying idle within the firm.

Procter & Gamble: Connect and Develop (p 112 see copies attached)

Glaxo Smith Kline’s Patent Pools

The Connector: Innocentive (p 114 see copies attached)

Outside-In Pattern, Inside-Out Pattern (p 116 see copies attached)

Principles Of Innovation

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

Strategic Creativity
Business Model Generation
 Daniela Alina Plewe (PhD)
 All rights reserved.

Overview		Unbundling Business Models	The Long Tail
CONTEXT (BEFORE)	An integrated model combines infrastructure management, product innovation, and Customer Relationships under one roof.	The Value Proposition targets only the most profitable clients.	
CHALLENGE	Costs are too high. Several conflicting organizational cultures are combined in a single entity, resulting in undesirable trade-offs.	Targeting less profitable segments with specific Value Propositions is too costly.	
SOLUTION (AFTER)	The business is unbundled into three separate but complementary models dealing with <ul style="list-style-type: none"> ▪ Infrastructure management ▪ Product innovation ▪ Customer relationships 	The new or additional Value Proposition targets a large number of historically less profitable, niche Customer Segments—which in aggregate are profitable.	
RATIONALE	IT and management tool improvements allow separating and coordinating different business models at lower cost, thus eliminating undesirable trade-offs.	IT and operations management improvements allow delivering tailored Value Propositions to a very large number of new customers at low cost.	
EXAMPLES	Private Banking Mobile Telco	Publishing Industry (Lulu.com) LEGO	

Multi-Sided Platforms	FREE as a Business Model	Open Business Models
One Value Proposition targets one Customer Segment.	A high-value, high-cost Value Proposition is offered to paying customers only.	R&D Resources and Key Activities are concentrated in-house: <ul style="list-style-type: none"> ▪ Ideas are invented "inside" only ▪ Results are exploited "inside" only
Enterprise fails to acquire potential new customers who are interested in gaining access to a company's existing customer base (e.g. game developers who want to reach console users)	The high price dissuades customers.	R&D is costly and/or productivity is falling.
A Value Proposition "giving access" to a company's existing Customer Segment is added (e.g. a game console manufacturer provides software developers with access to its users)	Several Value Propositions are offered to different Customer Segments with different Revenue Streams, one of them being free-of-charge (or very low cost).	Internal R&D Resources and Activities are leveraged by utilizing outside partners. Internal R&D results are transformed into a Value Proposition and offered to interested Customer Segments.
An intermediary operating a platform between two or more Customer Segments adds Revenue Streams to the initial model.	Non-paying Customer Segments are subsidized by paying customers in order to attract the maximum number of users.	Acquiring R&D from external sources can be less expensive, resulting in faster time-to-market. Unexploited innovations have the potential to bring in more revenue when sold outside.
Google Video game consoles from Nintendo, Sony, Microsoft Apple iPod, iTunes, iPhone	Advertising and newspapers Metro Flickr Open Source Red Hat Skype (versus Telco) Gillette Razor and blades	Procter & Gamble GlaxoSmithKline Innocentive

Pattern Overview

Design

The tools and attitude of the design profession are prerequisites for success in the business model generation.

A designer's business involves relentless inquiry into the best possible way to create the new, discover the unexplored, or achieve the functional.

A designer's job is to extend the boundaries of thought, to generate new options, and, ultimately, to create value for users. This requires the ability to imagine "that which does not exist."

Designers use a variety of tools and techniques that can help you shape your business model: **Customer Insights, Ideation, Visual Thinking, Prototyping, Storytelling, and Scenarios.**

Customer Insights

Successful innovation requires a deep understanding of customers, including environment, daily routines, concerns, and aspirations.

"If I had asked my customers what they wanted, they would have told me a faster horse" – Henry Ford

Shifting your Perspective:

Business model innovators should avoid focusing exclusively on existing Customer Segments and set their sights on new or unreached segments. A number of business model innovations have succeeded precisely because they satisfied the unmet needs of new customers.

E.g. Apple's iPod

The company perceived that consumers wanted a seamless way to search, find, download, and listen to digital content, including music, and were willing to pay for a successful solution

Apple's view was unique at a time when illegal downloading was rampant and most companies[1]

New business models build on Customer Segments located at the periphery under incumbent models:

E.g. EasyJet made air travel available to lower- and middle-income customers who rarely flew

E.g. Zipcar allowed city dwellers to eliminate the hassles of metropolitan car ownership. Instead, customers who pay an annual fee can rent automobiles by the hour

Recommended design technique:

Empathy Map (Maps out: What does the customer SEE? What does the customer HEAR? What does the customer SAY and DO? What does the customer THINK and FEEL? PAIN GAIN)

Ideation

Ideation is a creative process for generating a large number of (business model) ideas and successfully isolating the best ones.

Ideation has two main phases: **Idea generation**, where quantity matters, and **synthesis**, in which ideas are discussed, combined, and narrowed down to a small number of viable options.

Suggested approaches: Epicenters of Business Model Innovation, “what if” questions

Epicenters of Business Model Innovation

Four epicenters of business model innovation can be distinguished:
resource-driven, offer-driven, customer-driven, and finance-driven.

Resource-Driven

Resource-driven innovations originate from an organization’s existing infrastructure or partnerships to expand or transform the business model.

E.g. Amazon Web Services was built on top of Amazon.com’s retail infrastructure to offer server capacity and data storage space to other companies

Offer-Driven

Offer-driven innovations create new value propositions that affect other business model building blocks.

E.g. When Cemex, a Mexican cement maker, promised to deliver poured cement to job sites within four hours rather than the 48 hour industry standard, it had to transform its business model. This innovation helped change Cemex from a regional Mexican player into the world’s second largest cement producer

Customer-Driven

Customer-driven innovations are based on customer needs, facilitated access, or increased convenience. Like all innovations emerging from a single epicenter, they affect other business model building blocks.

E.g. 23andMe – personalized DNA testing

Finance-Driven

Innovations driven by new revenue streams, pricing mechanisms, or reduced cost structures that affect other business model building blocks.

E.g. Xerox 914 (lease at \$95 per month, 2000 free copies, 5 cents per copy)

Multiple-Epicenter Driven

Innovations driven by multiple epicenters can have significant impact on several other building blocks.

*E.g. Hilti from selling tools outright, toward renting sets of tools to customers
substantial change in Hilti's Value Proposition
but also in its Revenue Streams, which shifted from onetime product revenues
to recurring service revenues*

What If Questions

“What if” questions are merely starting points. They challenge us to discover the business model that could make their suppositions work.

E.g. Ikea furniture buyers picked up components in flat pack form from a large warehouse and assembled the products themselves in their homes? What is common practice today was unthinkable until IKEA introduced the concept in the 1960s

E.g. Rolls-Royce (maintenance price for every hour an engine runs)

E.g. Skype (free voice calling over Internet)

E.g. Car2go by Daimler (car rental anywhere in the city)

The Ideation Process

The ideation process can take several forms. A general approach to producing innovative business model options:

Team Composition

Members should be diverse in terms of seniority, age, experience level, business unit represented, customer knowledge, and professional expertise.

Immersion

The immersion phase could include general research, home work on customer, technology, trends, business models.

Expanding

During this phase the team expands the range of possible solutions, aiming to generate as many ideas as possible. The goal of this phase is quantity, not quality.

Criteria Selection

The criteria will be specific to the context of your business, but could include things such as estimated implementation time, revenue potential, possible customer resistance, and impact on competitive advantage.

Prototyping

With criteria defined, the team should be able to reduce the number of ideas to a prioritized shortlist of three to five potential business model innovations.

Brainstorming Rules

To manage the business-modeling process, follow these brainstorming rules:

Stay focused on a well honed statement

Enforce rules

such as deferring judgment, go for quality, encourage wild ideas, etc.

Think visually with post-it notes, sketches, etc.

Prepare, with an immersion exercise beforehand

Visual Thinking

Sketches help people better describe, discuss, and understand issues. Visualize with Post-it notes and drawings to understand the essence and enhance dialogue, explore ideas, improve communication and tell a visual story.

Prototyping

Use Prototyping for pre-implementation, visualization and testing. It is a tool of inquiry, infuses a design attitude, which includes the willingness to explore crude ideas, rapidly discarding them. Take time to examine multiple possibilities, accept uncertainty until design direction matures. The scale of a business model prototype can be anything from a rough sketch of an idea on a napkin to a detailed Business Model Canvas to a field-testable business model.

Storytelling

Use storytelling to introduce the new (provoke ideas/justify change/introducing tangibility), pitch to inventors (for clarification) and engage employees. Typical starting points are the choice of protagonist, the company's perspective (employee observer) and the customer perspective (customer jobs).

Scenarios

Like visual thinking, prototyping, and storytelling, scenarios render the abstract tangible. There are different types of scenarios, the first describes different customer settings: how products or services are used, what kinds of customers use them, or customer concerns, desires, and objectives. Such scenarios build on customer insights.

A second type of scenario describes future environments in which a business model might compete. The goal here is to imagine possible futures in concrete detail.

Strategy

Four strategic areas are introduced: the **Business Model Environment**, **Evaluating Business Models**, a **Business Model Perspective on Blue Ocean Strategies**, and how to **Manage Multiple Business Models** within an enterprise.

Business Model Environment

To get a better grasp on your business model “design space,” it has been suggested to roughly map four main areas of your environment. These are market forces, industry forces, key trends, and macroeconomic forces.

If you’d like to deepen your analysis of the landscape beyond the simple mapping, back each of these four areas by a large body of literature and specific analytical tools.

Evaluating Business Models

Regularly assessing a business model is an important management activity that allows an organization to evaluate the health of its market position and adapt accordingly.

Two types of assessment are outlined:

A big picture assessment and SWOT, a set of checklists (p 217-223) for assessing a business model’s strengths, weaknesses, opportunities, and threats.

Keep in mind that assessing a business model from a big picture perspective and assessing it from a Building Block perspective are complementary activities. A weakness in one Building Block, for example, may have consequences for one or several other Building Blocks – or for the entire model. Business model assessment, therefore, alternates between individual elements and overall integrity.

Business Model Perspective on Blue Ocean Strategies

To achieve value innovation, Kim and Mauborgne propose an analytical tool they call the **Four Actions Framework**. These four key questions challenge an industry’s strategic logic and established business model:

Which of the factors that the industry takes for granted should be eliminated?

Which factors should be reduced well below the industry standard?

Which factors should be raised well above the industry standard?

Which factors should be created that the industry has never offered before?

E.g. Cirque du Soleil

Eliminate: star performers, animal shows, aisle concession sales, multiple show arenas

Reduce: fun & humor, thrill & danger

Raise: unique venue

Create: theme, refined environment, multiple productions, artistic music & dance

This revamped Value Proposition allowed Cirque du Soleil to broaden its appeal to theatergoers and other adults seeking sophisticated entertainment

Managing Multiple Business Models

The different choices of business model in bringing an idea to the market is described by examining three examples:

Integration

E.g. integration of each SMH (Swatch Group) watch brand across the high, mid and low segments

Autonomy

E.g. Car2go care rental startup from Daimler

Separation

E.g. complete independence of Nespresso SA from Nescafe

Process

The process provides a starting point upon which just about any organization can customize its own approach. The process has five phases: **Mobilize, Understand, Design, Implement, and Manage.**

Four Objectives

Business model innovation results from one of four objectives:

Satisfy markets

E.g. Tata Nano, NetJets, GrameenBank, Lulu.com

Bring new product to market

E.g. Xerox 914, Swatch, Nespresso, Red Hat

Improve market

E.g. Dell, Nintendo Wii, IKEA, BharatiAirtel, Skype, Ryan air, Amazon.com, Better Place

Create market

E.g. Diners Club, Google

Five Phases

The proposed business model design process has five phases:

Mobilize – 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, analyze and discuss business models*

Use: Business Model, Canvas Storytelling

Understand – 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*

*Use: Business Model Canvas, Business Model Patterns, Customer Insights,
Visual Thinking, Scenarios, Business Model Environment,
Evaluating Business Models*

Design – 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*

*Use: Business Model Canvas, Business Model Patterns, Ideation, Visual Thinking,
Prototyping, Scenarios, Evaluating Business Models, Business Model Perspective
on Blue Ocean Strategy, Managing Multiple Business Models*

Implement – Execution

Implement the selected business model design.

*Use: Business Model Canvas, Visual Thinking, Storytelling, Managing Multiple
Business Models*

Manage – Evolution

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

*Use: Business Model Canvas, Visual Thinking, Scenarios, Business Model Environment,
Evaluating Business Models*

Online Tools

Business Model Generation comes with a series of exercises that you can complete online with assessment tools that show you how you are using the Business Model Canvas. And, last but not least, you get access to a whole series of checklists, templates, and posters that you can immediately use in your work.

<http://businessmodelgeneration.com/book>