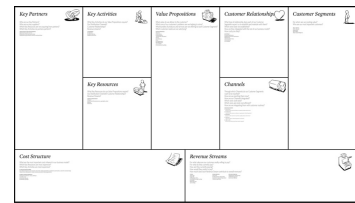


3.1.2 Business Model Canvas

- *Aim*

“By business model, we understand the logic to create, deliver and capture value for the organisation.” Alexander Osterwalder, Yves Pigneur, 2010. Business Model Canvas (BMC) allows to develop an in-depth understanding of businesses and develop connections between what ideas are and how to transform ideas into a business.



It looks at what kinds of customer decisions influence the use of their systems and enables the management to quickly draw a picture of what the idea entails, a quick overview of the business model, and is devoid of unnecessary details compared to the traditional business plan. It also allows the organisational workforce to get a clear idea of what the business will likely be in the near to far future. One of the main benefits of BMC is that it makes the idea(s) of the management easier to refer to and understand. It is easier to edit, and it can be easily shared with employees and other key internal and external stakeholders. It clarifies how different aspects of the business are related to each other.

HE teachers while teaching this tool to students in the classroom will need to explain each of the nine dimensions (i.e., value proposition, customer segments, customer relationships, channels, key activities, key resources, key partners, revenue streams and cost structure) in detail. The overall aim of their lecture on BMC should be to explain the overall concept of BMC to students, then its use and applicability. In the following sections, teachers will get a greater understanding on what is this tool is about (general) and how it can be used within the classroom to make students understand the concept. HE teachers can use BMC to guide a brainstorming session on defining their business model effectively.

- *Description*

A business model is simply a plan describing how a business intends to make money. It explains their customer bases, how students deliver value to them, and the related financing details and BMC enables them to define these different components on a single page. BMC is a strategic management tool used by managers to develop new business models and present existing ones, define, and communicate a business concept or idea fast and easily. They may envision and evaluate their business idea or concept with a one-page paper. This one-page document contains nine boxes representing distinct critical parts of a business. It works through the fundamental elements of a company or product, consistently organising a concept. The right side of the BMC is dedicated to the customer (external), while the left side is dedicated to the company (internal). The value proposition, which is the exchange of value between their firm and their consumer or clients, brings together external and internal elements.


The business model canvas was initially developed by Alex Osterwalder and Yves Pigneur and introduced in their book 'Business Model Generation as a visual framework for planning, developing, and testing the business model(s). Table 2 presents definitions of business model as perceived by several leading scholars.

Author	Definition of Business Model
Timmers (1998) – LINK	Architect and service flow, which includes a description of the company's activities and revenue sources.
Stewart and Zhao (2000) – LINK	How the business intends to make money and keep it long-term.
Amit and Zott (2001) – LINK	Structure that is ready to generate profit.
Plé et al., (2008) – LINK	A company's decisions to create a profit. These resources and knowledge are used to produce value through the firm's products, whether they are operated internally or externally.
Casadesus-Masanell and Ricart (2010) – LINK	How the company develops and distributes weight to its customers.
Osterwalder and Pigneur (2010) – LINK	The logic through which an organisation creates, delivers, and captures value.
Zott et al., (2011) – LINK	How a firm operates and produces value.
Nielsen and Lund (2012) – LINK	Relationships may make value at the operational, tactical, and strategic levels when the company's strategic choices are consistent.

Table 2: Business Model Definitions (*Adapted from Source: Bonazzi and Zilber, 2014*)

- **Key Features**

Osterwalder and Pigneur (2010) proposed nine key features of BMC:

Symbol	Components	Definition
	Value Proposition	Product and service packages and the values given to consumer segments.









	Customers Segments	A company's target is to achieve, serve, and provide value for various groups of people or organisations.
	Customer Relationships	Relationship types that a company may tailor to their consumer groups.
	Channels	How a business connects with and reaches out to its consumers to offer value.
	Key Resources	The most crucial resources for the business model to succeed.
	Key Activities	The most critical steps a firm must take for its business strategy.
	Key Partners	A network of suppliers and partners supports the business concept.
	Revenue Streams	A network of suppliers and partners supports a company model.
	Cost Structure	Costs associated with operating a company model.

Table 3: Business Model Components
(Adapted from Source: Osterwalder and Pigneur, 2010)

- **Value Proposition:** The Value Proposition is foundational to any business or product. It is the basic principle of value exchange between a company and its customers or clients. In general, a customer's value is exchanged for money when the business solves their problem or relieves their pain. Questions to ask when defining business/product:



- *What value do businesses deliver to their customers?*
- *What is the problem that the start-up is trying to solve?*
- *Why would someone need to solve this problem?*
- *What is the trigger for this problem?*

Tips for Value Proposition:

→ Looking at consumer segments and determining where the product or service addresses the issue for customers, based on Maslow's Hierarchy of Needs, is an intelligent method to tackle this for users or customers.

→ If you offer your product or service to another company, you are an essential partner in helping them achieve their Value Proposition for their clients.

→ It's critical to understand its goals for its customer segments and where business/product/service fits within the value chain.

- **Customer Segment:** Customer segmentation is the process of dividing a customer base into groups of people who have common characteristics, such as age, gender, hobbies, and purchasing patterns. Questions to ask when determining Customer Segments are:



- Who are our team solving the problem for?
- For whom are the businesses creating value for?
- Who are the people that will value our value proposition?
- Are there other solutions or businesses?
- What are the characteristics of different solutions?
- Does our value proposition appeal to who?
- Does it appeal to white-collar workers or people aged 15 to 28, or infants?
- What are the characteristics of the people who are looking for the solution or value proposition?

HE teachers need to also consider the market size and the number of individuals in the Customer Segment. This will assist students in understanding the market from both a local and macro level. A great place to start understanding the customer is to create customer personas for each of their Customer Segments. They can read the guide to [Persona Development](#).

- **Customer Relationship:** Customer relationships are defined as how a business interacts with its customers e.g., events (one-to-many), third-party contractors, in-person (one-to-one), online, phone, and online. Questions to ask when determining Customer Relationship are:



- Do you meet with them in person?
- Or over the phone?
- Or is business predominantly run online so that the relationship will be online too?
- What type of relationship does each of our customer segments expect?
- How are they integrated with the rest of our business mode?
- How costly are they?

Creating a User Journey Map of consumers' interactions with the company is a practical step. HE teachers can use this map to clarify the contact points between businesses and their consumers and the kinds of communication utilised to communicate with them. This will also aid in the definition of operations as a business and the identification of automation prospects.

- **Channels:** Channels are defined as the avenues through which the customer meets the business and becomes part of the sales cycle. This is generally covered under the marketing plan for business. Questions to ask when determining different communication channels are:



- *How will you tell your customer segment about the value proposition?*
- *Where are your customers?*
- *Are they driving a car and listening to the radio?*
- *Are they at an event or conference?*
- *Are they on social media?*
- *Do they watch TV shows?*
- *How are the channels integrated?*
- *Which channel is most effective and cost-efficient?*

Understanding how to reach customers is so crucial to the business. Thus, HE teachers can make use of different channels and explain the concept of Channels within the BMC e.g., public speaking, guerrilla marketing, SEM (Search Engine Marketing), SEO (Search Engine Optimisation), blogs, social media, email marketing, networking, promotions, affiliates, unconventional pr, trade shows, community building, offline advertising etc.

- **Key Activities:** A business or product's activities to achieve the value proposition for consumers are the Key Activities of a business or product. Questions to ask when determining different communication channels are:



- *What activities does the business undertake to achieve the customer's value proposition?*
- *What is the resource used?*
- *Time?*
- *Expertise?*
- *Distribution of product?*
- *Technical development?*
- *Strategy?*
- *Offer resources (human/physical)?*
- *What actions does it take you and your staff to achieve value exchange?*

HE teachers can make use of designing, consulting, web development as different key activities while explaining the BMC tool to students in a classroom session.

- **Key Resources:** Key refers to the resources required by the business to do business. Questions to ask when determining different types of resources are:



- *What practical resources are needed to achieve the key activities (actions) of the business?*
- *What key resources does your value proposition require?*
- *What resources are most important in distribution channels, customer relationships, and revenue stream?*

HE teachers can use hosting, internet connection, people (staff), instruments (computers, oven etc.), places (office space, laboratories etc.), moveable property (bike, car etc.) as different key resources while explaining the BMC tool to students in a classroom session.

- **Key Partners:** Are a list of external firms, suppliers/providers, and or other entities needed to complete key activities, and offer value to the consumers. These partners are key to achieve the value the business promises to the customer/consumers. Questions to ask when determining different types of resources are:



- *Who are the key partners/suppliers/distributors?*
- *What are the motivations for the partnerships?*
- *Which key activities do each key partners perform?*
- *If the business cannot achieve their value proposition, who else does the management rely on?*

HE teachers can make use of different examples related to key partners while explaining the BMC tool to students in a classroom session. For example, if a grocery store requires to sell food items such as bakery products, the business owner will make use of the local baker to supply fresh bread to the store. HE teachers can make use of similar examples to explain to students in more detail.

- **Cost Structure:** These are businesses cost drivers. Business managers need to evaluate the costs of running their business according to their business model as determined by the key activities, resources, partners, and channels. Questions to ask when determining different types of resources are:



- *How much does it cost to achieve business's key activities?*
- *How does the cost structure affect the profitability margin of the business?*

- *How much does it cost to achieve the value proposition for customers?*
- *Are there additional costs to running a business e.g., insurance, etc.?*
- *What is the cost of my business?*
- *It is essential also to place a monetary value on time as a cost.*
- *How much would it cost you to hire you?*
- *What is the opportunity cost of running the business?*
- *What is the cost of my key resources and key partnerships?*

HE teachers can make use of different examples related to cost structures while explaining the BMC tool to students in a classroom session. For example, firstly, HE teachers need to explain to the students whether the chosen business example is cost driven, or value driven? Thereafter, they can then define the related characteristics e.g., fixed costs (salaries, rents, utilities), variable costs, and or economies of scale. HE teachers can make use of similar examples to explain to students in more detail.

- ***Revenue Streams:*** Revenue streams are the methods by which a business converts its value proposition or solutions to a customer's problem into the monetary benefit. It is crucial to understand how to price a business based on pain of buying in exchange for solving the customer's problem. Questions to ask when determining different types of resources are:
 - *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 of the business?*

HE teachers can make use of different examples related to revenue streams e.g. firstly, HE teachers need to explain to the students whether the chosen business example is focused on fixed pricing (i.e., list price, product feature dependent, customer segment dependent, or volume dependent) or dynamic pricing (i.e., negotiation, bargaining, yield management, or real-time market) strategy or both strategies? HE teachers can make use of similar examples to explain to students in more detail.

- ***Benefits***

BMC facilitates managers in understanding a business model in a structured way. Using this canvas will lead to insights about the customers, what value propositions are offered through different channels, and how company makes money. Managers can also use the BMC to understand the ins and outs of their own organisational business model or that of their competitors.

Following are specific benefits of BMC that HE teachers can experience in a classroom setting:



Figure 7: BMC Benefits

It is vital to stay ahead of the curve and developing a BMC instead of a business plan is far more appropriate. This tool is a tried and tested methodology for innovating in both startups and large enterprises, and well accepted among the business and management scholars whilst teaching across universities. The nine key features of BMC help business managers document an in-depth, succinct, and clear definition of their business. By focusing on facets besides product development, BMC also offers a competitive edge to launch a profitable startup.

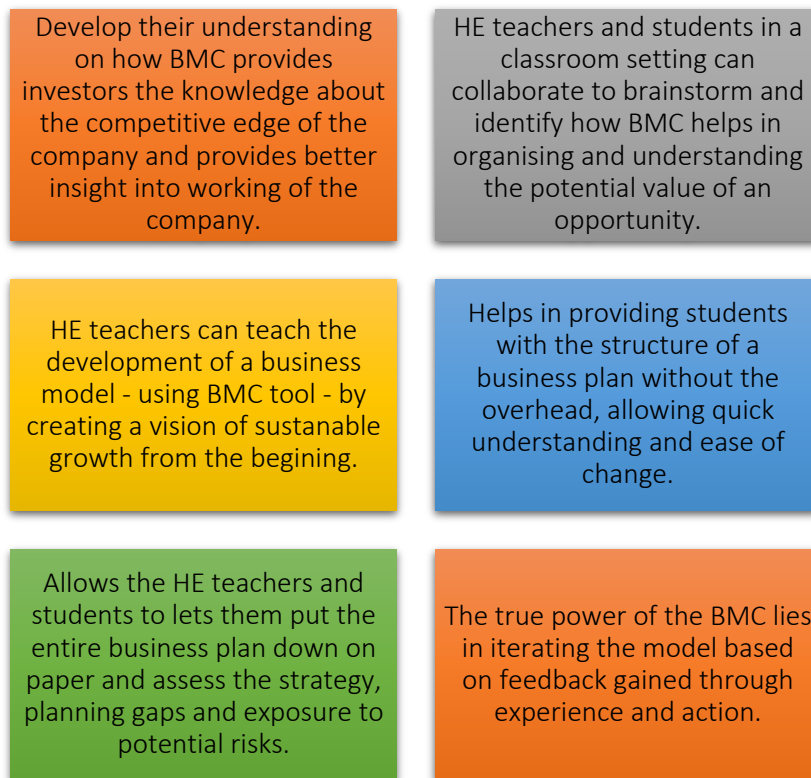


Figure 8: Benefits for Teachers and Students in using the BMC Tool

- **Implementation**

To introduce students to the nine key features of the BMC, it is suggested that HE teachers ask students a set of business model hypotheses and then place each one of them in the appropriate box of the BMC. Before beginning the implementation of BMC, students may also suggest finding the purpose of ideas with the “[Pilot your purpose](#)” tool. Entrepreneurship is not only about creating companies but also about helping yourself by helping others. It can be pointed out that students can use entrepreneurial skills no matter their career.

BMC implementation means that an organisation’s efforts consider profit, people, ideas, and businesses. The primary question is how companies may put BMC into effect, from theory to practice. HE instructors can use the following structure to explain how to use and apply this tool in a classroom setting:

- **Describe the Purpose/Problem Definition:**

- **General Overview:** To make the most efficient use of classroom time, students need to watch the introduction videos before the class.
 - Getting from Business Idea to Business Model – [Link](#)
 - Visualising Your Business Model – [Link](#)
 - 9 Steps to Creating a Successful Business Model – [Link](#)

Print enough copies of the [AirBNB Business Model Canvas](#) worksheets before the class. If using the [Google Docs version](#) for students to complete online, share this link with them.

share their BMC, talking through any differences or matches they are uncertain about. Reconvene the class and ask students to share the assumptions they filled in. Progress around the type, asking for students' beliefs for the boxes and discussing any discrepancies or disagreements. In this step, students will learn:

- Why assumption identification, and assumption validation, are critical to creating successful companies.
- Why iterations and experimentations are the keys to validating their business assumptions.
- How to communicate their business model validation process

○ **Analyse the Data and Reflect on the Outcome:**

- **General Overview:** It is critical to teach this vital step for analysing the data as it is one of the significant benefits of teaching the BMC over traditional business plans. Once entrepreneurs have a prioritised list of their riskiest assumptions, they can design experiments to test each of those assumptions in order of their prioritised risk.
- **Classroom Activity:** Ask students to check their validated blocks on their BMC versions. The actual learning from the tool occurs when students test their hypotheses with in-class exercises. These exercises help students deeply consider their initial ideas for the model. The activity also requires students to provide more details for each canvas element, which can be used later in the final business plan. But the goal of the BMC is to offer a plan on how to validate the hypotheses, not that they be perfect. Students may need help conducting their experiments, analysing the results, and making changes to their execution to analyse and understand the outcomes. In this step, HE teachers may guide to compare versions or coach students to their ideas. In this step, students will learn:
 - The pitfalls of business plan.
 - How can an entrepreneurial mindset impact their lives going forward?
 - Reflect on their business model validation process.

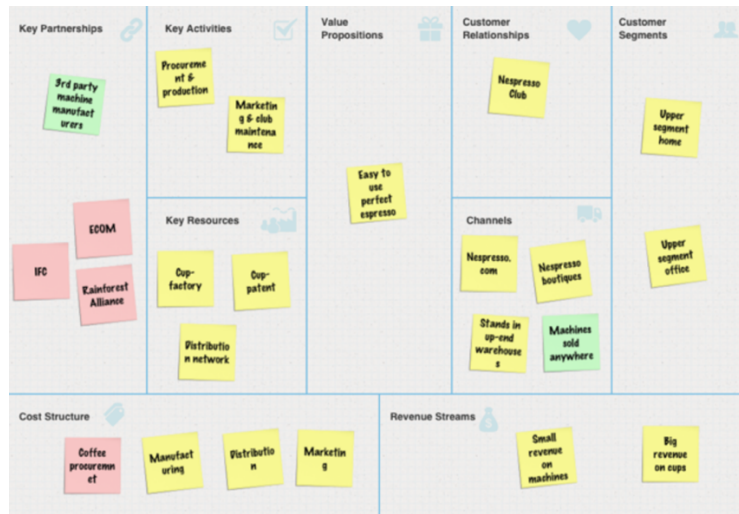
● **Examples of Organisations using BMC Tool**

Real-life examples should ideally drive every concept. Here are some of the examples of big corporate giants using BMC:

Nespresso, a fully owned daughter company of Nestlé, is a great example of a powerful business model. It changed the face of the coffee industry by turning a transactional business (selling coffee through retail) into one with recurring revenues (selling proprietary pods through direct channels).

The Nespresso logo consists of the word "NESPRESSO" in a bold, black, sans-serif font. The letter "N" is stylized with a curved underline that extends to the left.

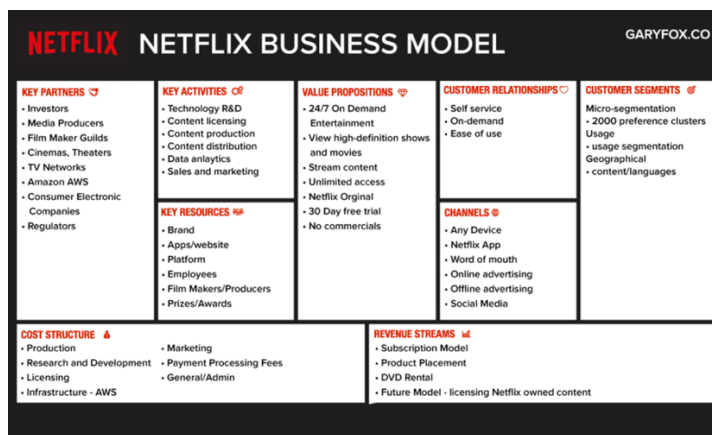
When the Nespresso business model is drawn out on the business model canvas, the overview looks more or less like this:



NETFLIX business model is replicated by several competitors. Netflix business model is a platform that offers on-demand streaming of video for a subscription fee.

NETFLIX

Another way to understand Netflix business model is to use BMC. Here is an illustrate of NETFLIX business mode canvas.



Amazon is known to be the largest online retailer worldwide that functions at a diverse pace in their product offerings.

amazon

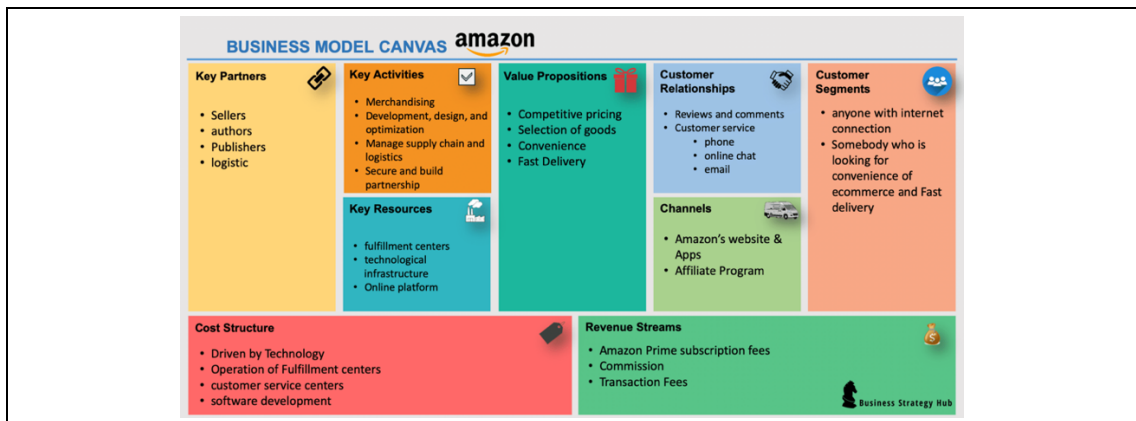


Table 4: Examples of the Use of BMC

- **Additional Examples on the Use of the BMC Tool**

Following are specific resources to understand BMC in more detail e.g., relevant articles.

- **Articles:**

- Innovation and Business Model: A Case Study about Integration of Innovation Funnel and Business Model Canvas – [Link](#)
 - From Theory to Practise: Innovation Roadmap (Turkish) – [Link](#)
 - Osterwalder Business Model Canvas Matching – [Link](#)
 - Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers – [Link](#)

- **Digital Tools to Generate BMC:**

- BMC with Strategyzer – [Link](#)
 - BMC with Miro – [Link](#)
 - BMC with Canvanizer – [Link](#)
 - BMC with Ciz.io – [Link](#)

- **Links to General Learning Resources**

Following are general resources to understand BMC in more detail e.g., links to YouTube video clips and other weblinks.

- **YouTube Videos:**

- Getting from Business Idea to Business Model – [Link](#)
 - Visualising Your Business Model – [Link](#)
 - 9 Steps to Creating a Successful Business Model – [Link](#)
 - Ceres Case Study – [Link](#)

- **Other Weblinks:**

- Five Big Benefits of the BMC – [Link](#)
 - How to BMC Explained? – [Link](#)
 - Teaching the Business Model Canvas – [Link](#)
 - The 9-Step Business Model Canvas Explained – [Link](#)

