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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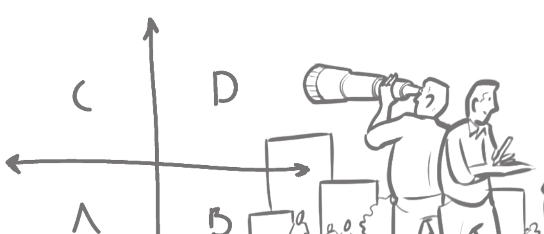
Alexander Osterwalder & Yves Pigneur

CO-CREATED BY
An amazing crowd of 470 practitioners from 45 countries

DESIGNED BY
Alan Smith, The Movement



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Raym Crow
Mark Evans DM
Susan Schaper

Are you an entrepreneurial spirit?

yes ______ no ______

Are you constantly thinking about how to create value and build new businesses, or how to improve or transform your organization?

yes ______ no ______

Are you trying to find innovative ways of doing business to replace old, outdated ones?

yes ______ no ______

If you've answered "yes" to any of these questions, welcome to our group!

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.

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.

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*.

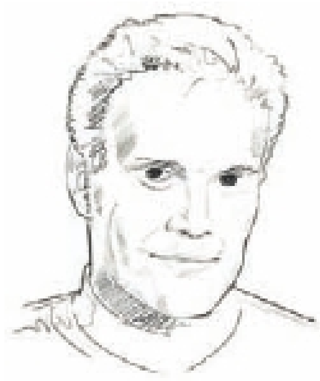
Seven Faces of Business Model Innovation

The Senior Executive

Jean-Pierre Cuoni,
Chairman / EFG International

Focus: Establish a new business model in an old industry

Jean-Pierre Cuoni is chairman of EFG International, a private bank with what may be the industry's most innovative business model. With EFG he is profoundly transforming the traditional relationships between bank, clients, and client relationship managers. Envisioning, crafting, and executing an innovative business model in a conservative industry with established players is an art, and one that has placed EFG International among the fastest growing banks in its sector.



The Intrapreneur

Dagfinn Myhre,
Head of R&I Business Models / Telenor

Focus: Help exploit the latest technological developments with the right business models

Dagfinn leads a business model unit at Telenor, one of the world's ten largest mobile telephone operators. The telecom sector demands continuous innovation, and Dagfinn's initiatives help Telenor identify and understand sustainable models that exploit the potential of the latest technological developments. Through deep analysis of key industry trends, and by developing and using leading-edge analytical tools, Dagfinn's team explores new business concepts and opportunities.

The Entrepreneur

Mariëlle Sijgers,
Entrepreneur / CDEF Holding BV

Focus: Address unsatisfied customer needs and build new business models around them

Marielle Sijgers is a full-fledged entrepreneur. Together with her business partner, Ronald van den Hoff, she's shaking up the meeting, congress, and hospitality industry with innovative business models. Led by unsatisfied customer needs, the pair has invented new concepts such as Seats2meet.com, which allows on-the-fly booking of meetings in untraditional locations. Together, Sijgers and van den Hoff constantly play with new business model ideas and launch the most promising concepts as new ventures.

The Investor

Gert Steens, *President & Investment Analyst / Oblonski BV*

Focus: Invest in companies with the most competitive business models

Gert makes a living by identifying the best business models. Investing in the wrong company with the wrong model could cost his clients millions of euros and him his reputation. Understanding new and innovative business models has become a crucial part of his work. He goes far beyond the usual financial analytics and compares business models to spot strategic differences that may impart a competitive edge. Gert is constantly seeking business model innovations.

The Consultant

Bas van Oosterhout, Senior *Consultant / Capgemini Consulting*

Focus: Help clients question their business models, and envision and build new ones

Bas is part of Capgemini's Business Innovation Team. Together with his clients, he is passionate about boosting performance and renewing competitiveness through innovation. Business Model Innovation is now a core component of his work because of its high relevance to client projects. His aim is to inspire and assist clients with new business models, from ideation to implementation. To achieve this, Bas draws on his understanding of the most powerful business models, regardless of industry.

The Designer

Trish Papadakos, *Sole Proprietor / The Institute of You*

Focus: Find the right business model to launch an innovative product

Trish is a talented young designer who is particularly skilled at grasping an idea's essence and weaving it into client communications. Currently she's working on one of her own ideas, a service that helps people who are transitioning between careers. After weeks of in-depth research, she's now tackling the design. Trish knows she'll have to figure out the right business model to bring her service to market. She understands the client-facing part—that's what she works on daily as a designer. But, since she lacks formal business education, she needs the vocabulary and tools to take on the big picture.

The Conscientious Entrepreneur

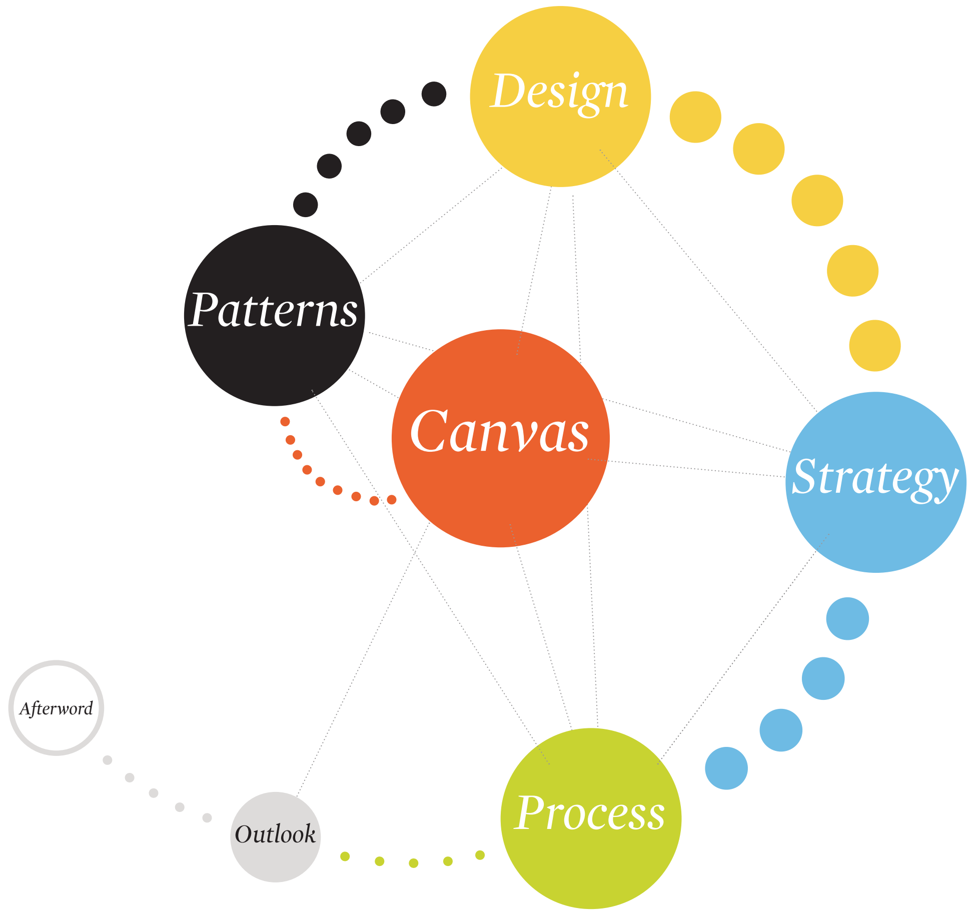
Iqbal Quadir, *Social Entrepreneur / Founder of Grameen Phone*

Focus: Bring about positive social and economic change through innovative business models

Iqbal is constantly on the lookout for innovative business models with the potential for profound social impact. His transformative model brought telephone service to over 100 million Bangladeshis, utilizing Grameen Bank's microcredit network. He is now searching for a new model for bringing affordable electricity to the poor. As the head of MIT's Legatum Center, he promotes technological empowerment through innovative businesses as a path to economic and social development.

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*.



1 Canvas

2 Patterns

3 Design

4 Strategy

5 Process

Outlook

Afterword

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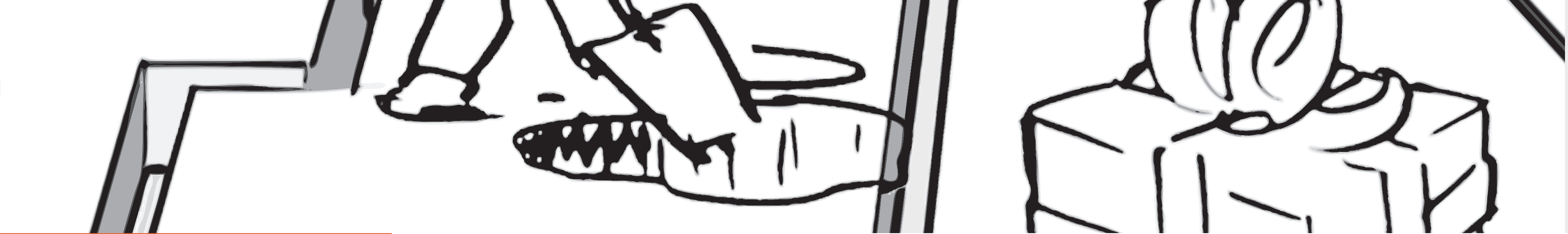
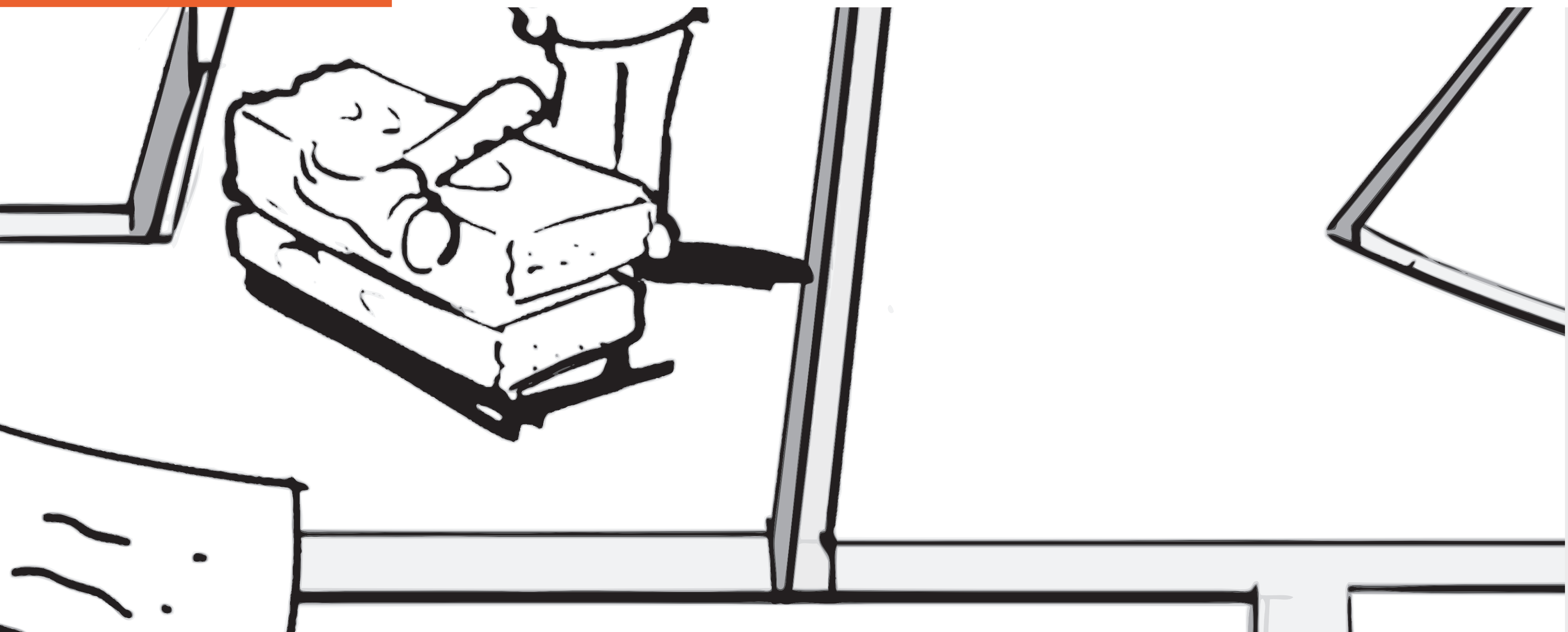
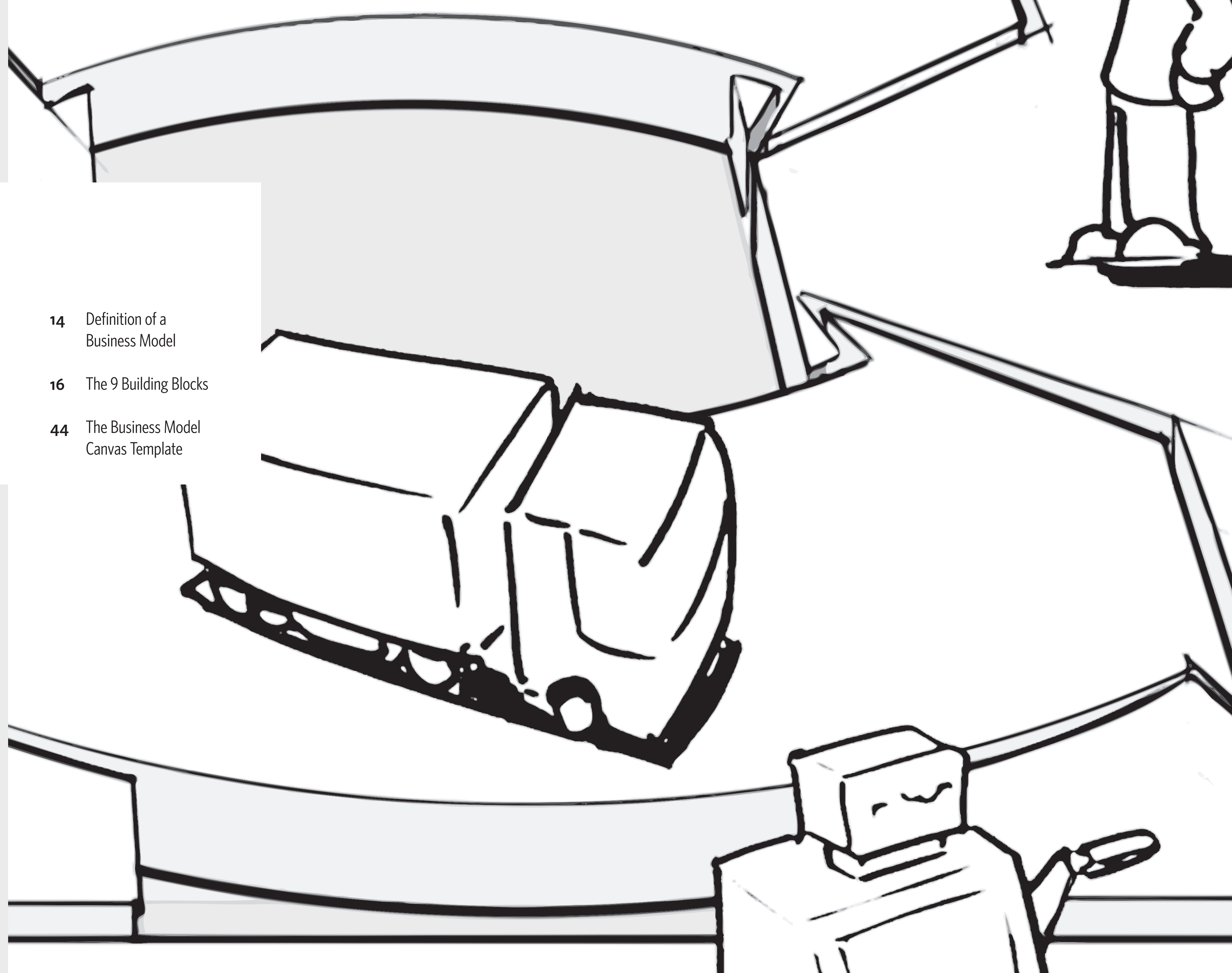


The Business Model Canvas

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





Def_ Business Model

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

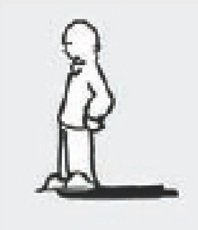
The starting point for any good discussion, meeting, or workshop on business model innovation should be a shared understanding of what a business model actually is. We need a business model concept that everybody understands: one that facilitates description and discussion. We need to start from the 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



CS

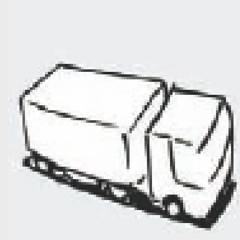
1 Customer Segments

An organization serves one or several Customer Segments.

VP

2 Value Propositions

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



CH

3 Channels

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

CR

4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.

R$

5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.

KR

6 Key Resources

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

KA

7 Key Activities

… by performing a number of Key Activities.

KP

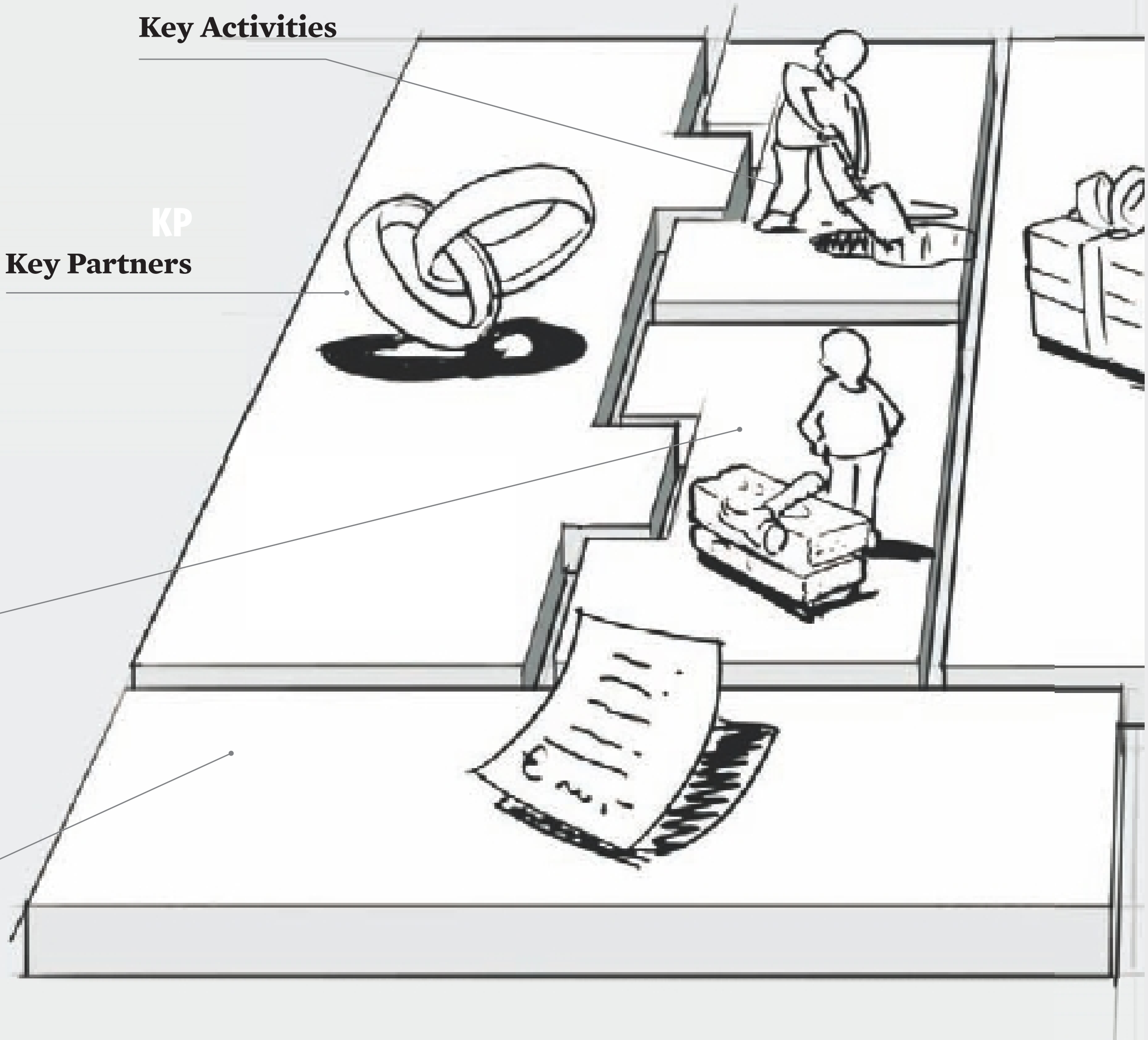
8 Key Partnerships

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

C$

9 Cost Structure

The business model elements result in the cost structure.


KA
Key Activities
KP
Key Partners
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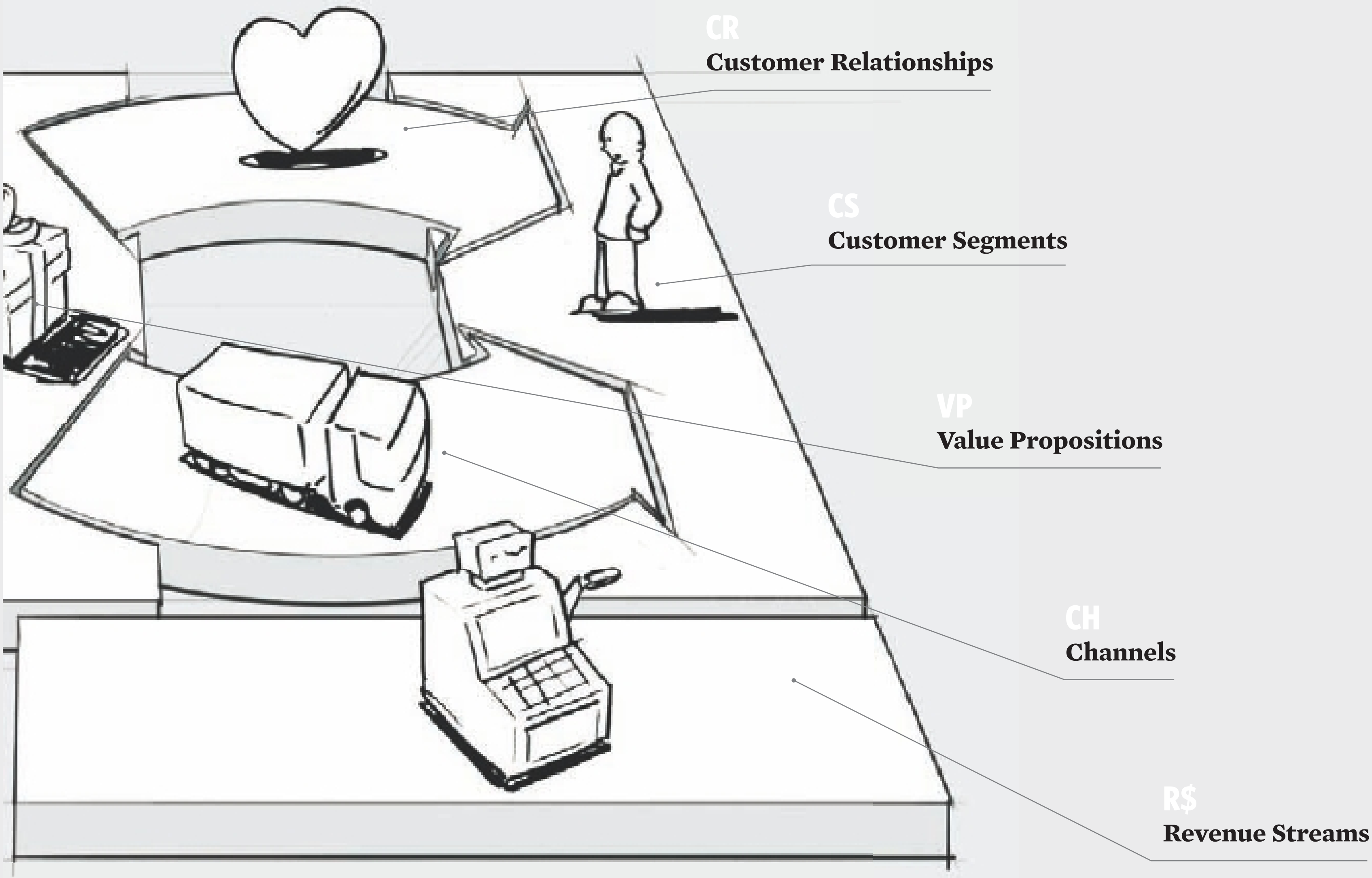
Key Resources
C$
Cost Structure


CR
Customer Relationships
CS
Customer Segments
VP
Value Propositions
CH
Channels
R$
Revenue Streams

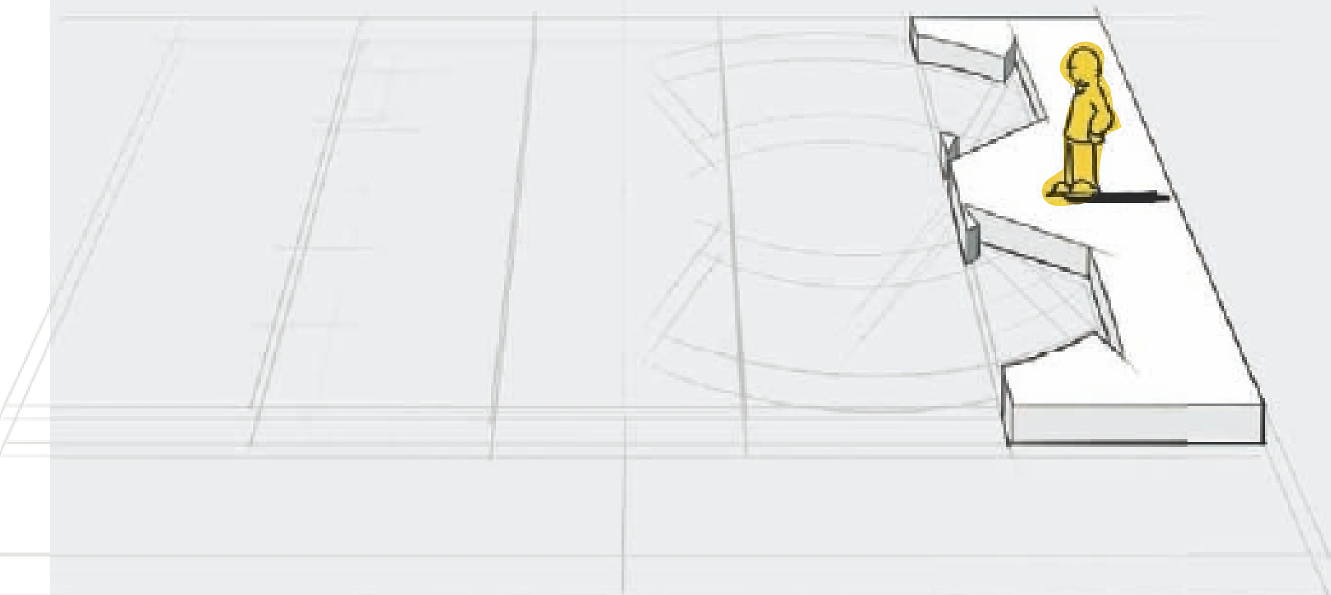
1 Customer Segments

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).

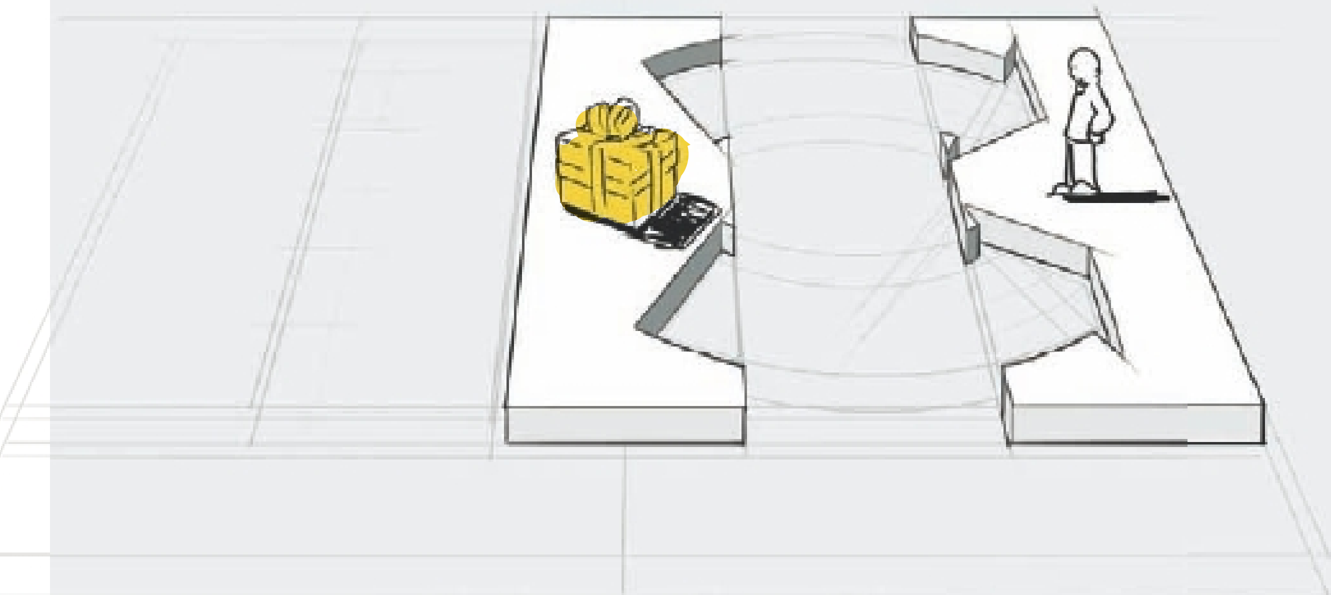
2

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.

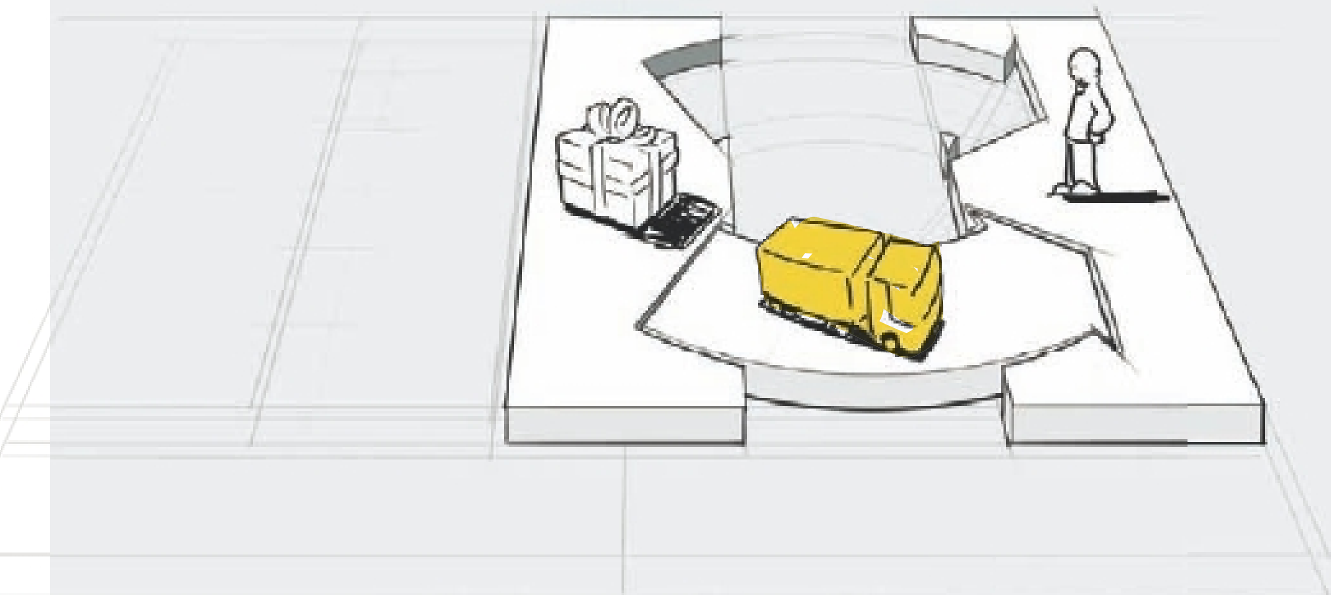
Convenience/usability
Making things more convenient or easier to use can create substantial value. With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.

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

4

Customer Relationships

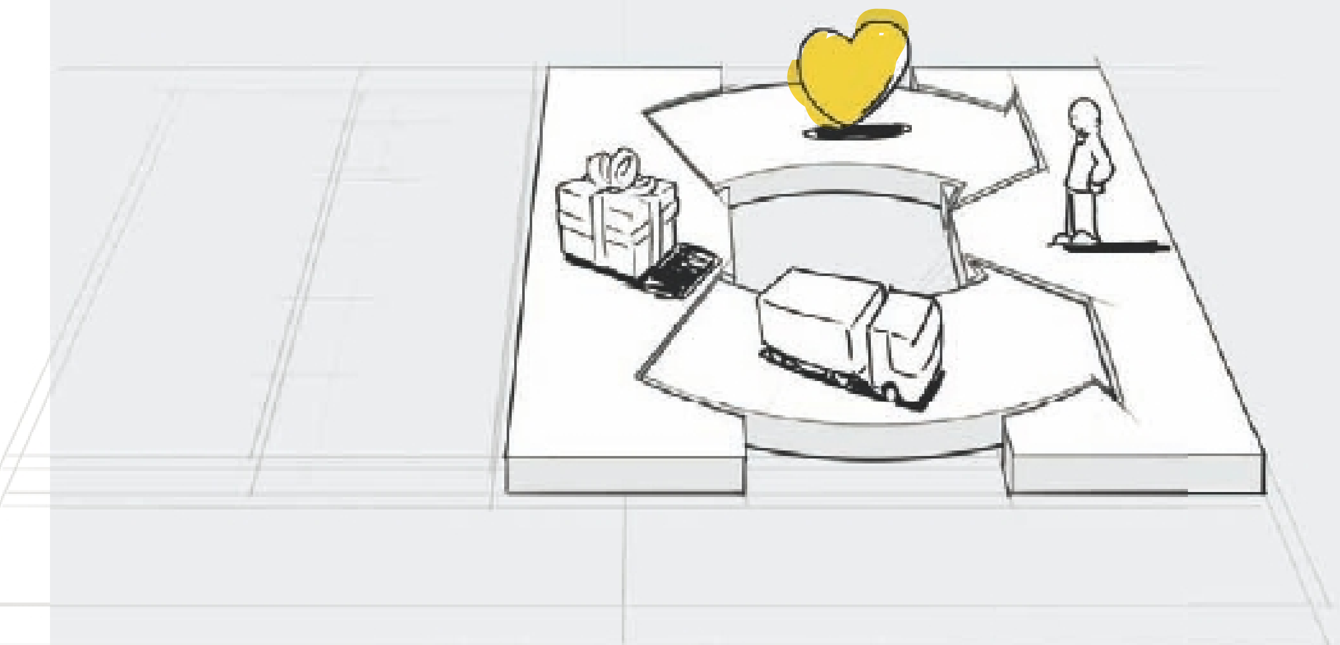
The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments

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.

R$

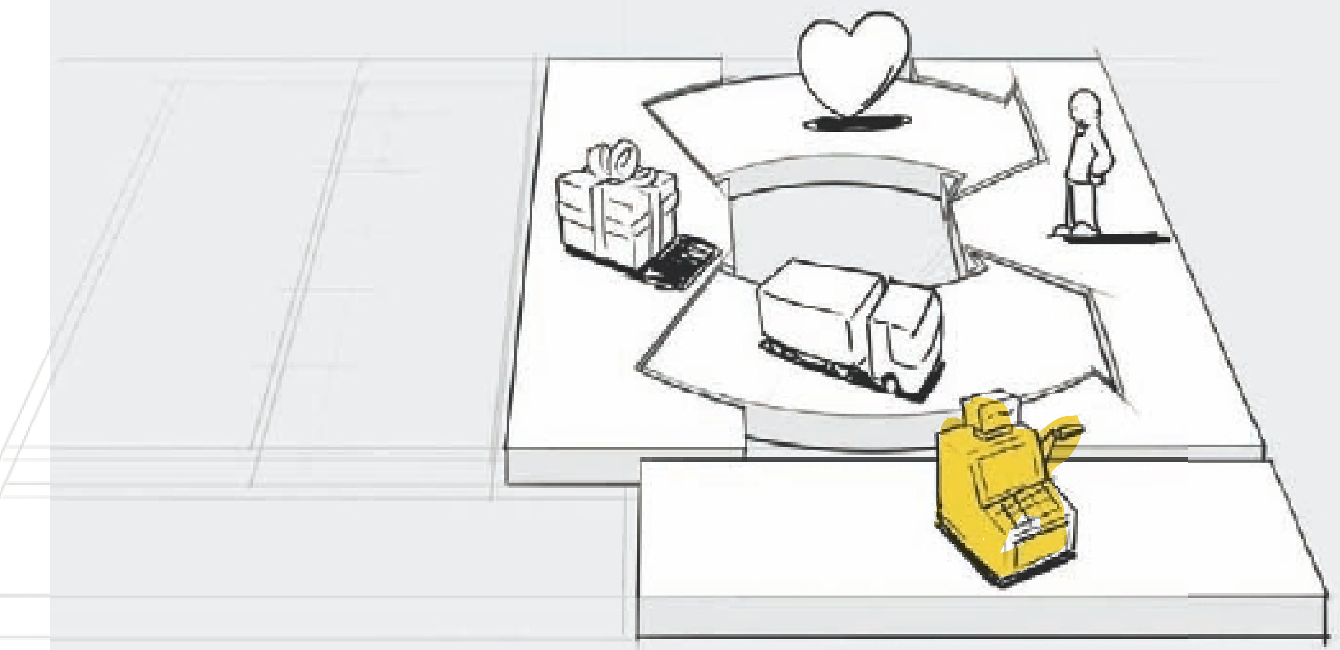
5 Revenue Streams

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 rights-holders 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		**Dynamic Pricing** Prices change based on market conditions	
List price	Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature dependent	Price depends on the number or quality of Value Proposition features	*Yield management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent	Price depends on the type and characteristic of a Customer Segment	*Real-time-market*	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

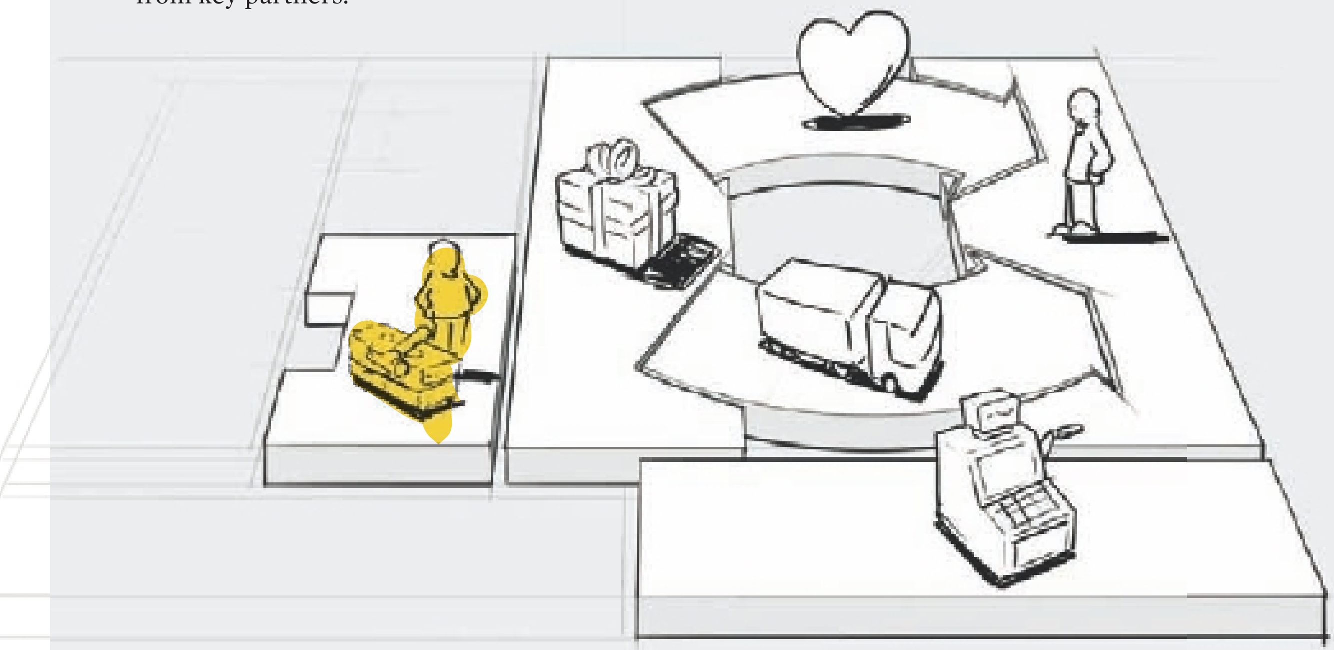
6

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 successfully 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.

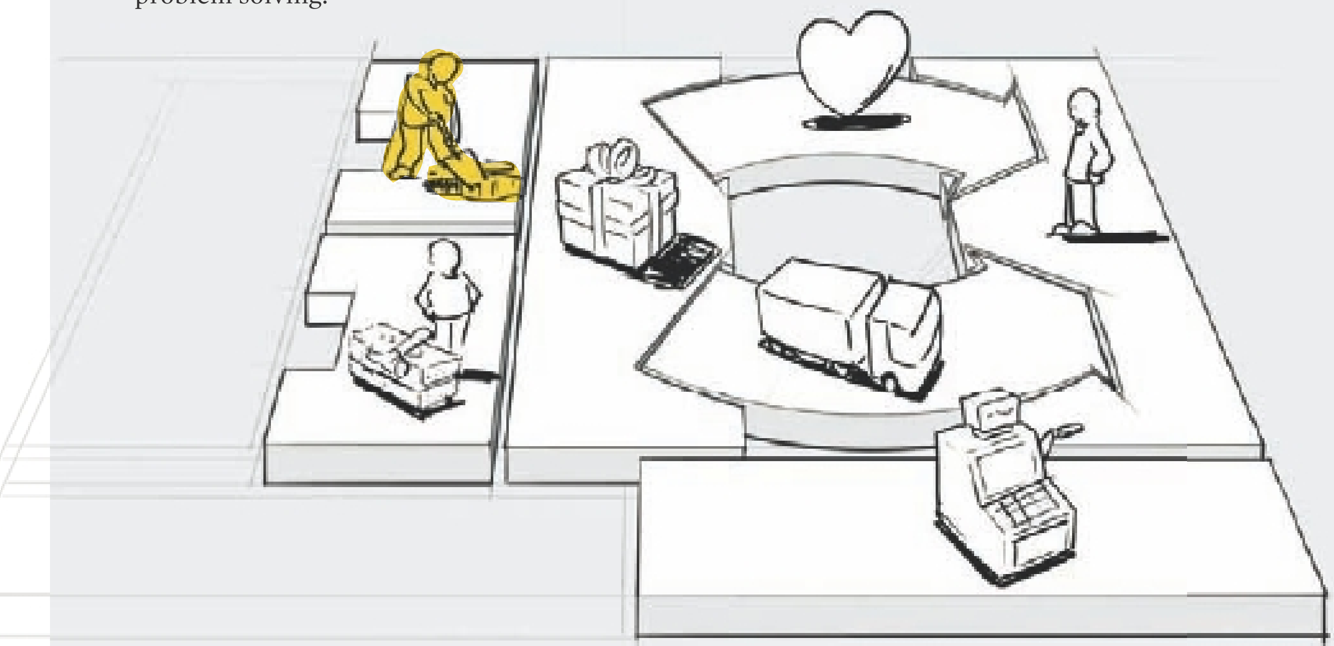
Financial
Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to 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.

7 *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.

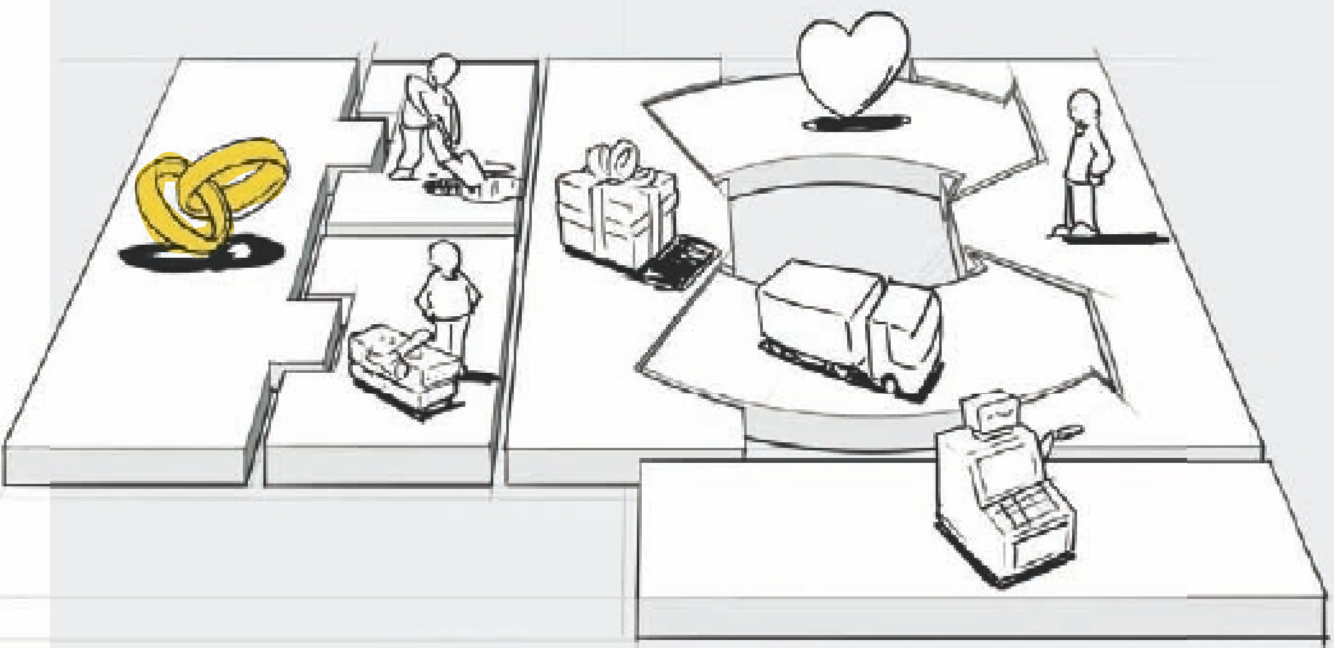
8 Key Partnerships

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

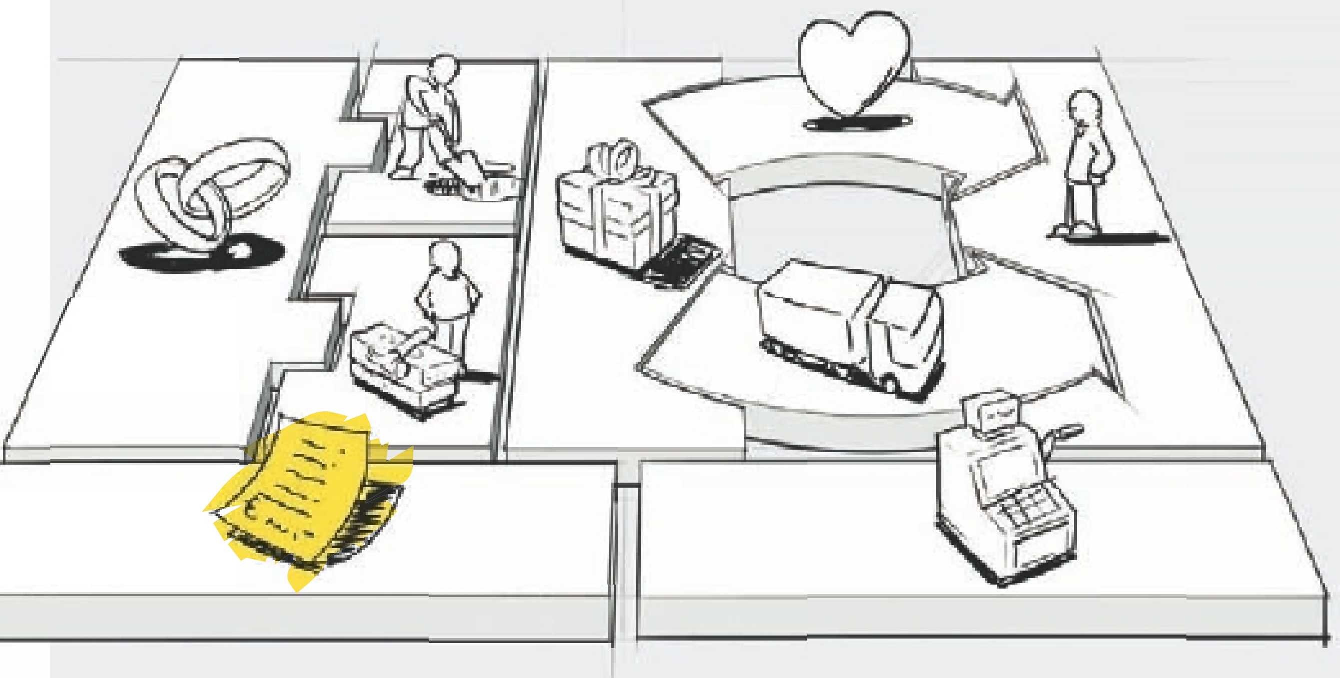
Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, 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.

C$

9 *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.

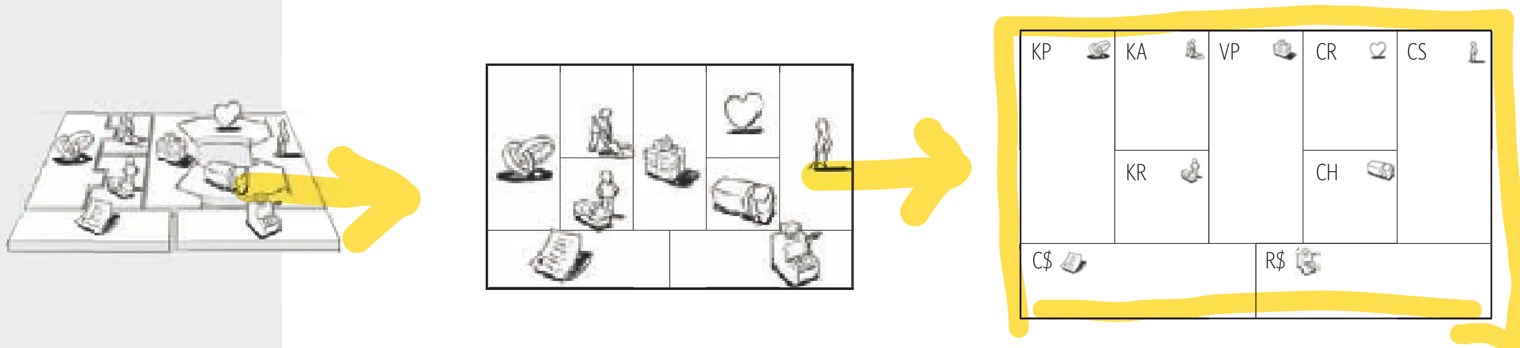
Variable costs
Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

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.*

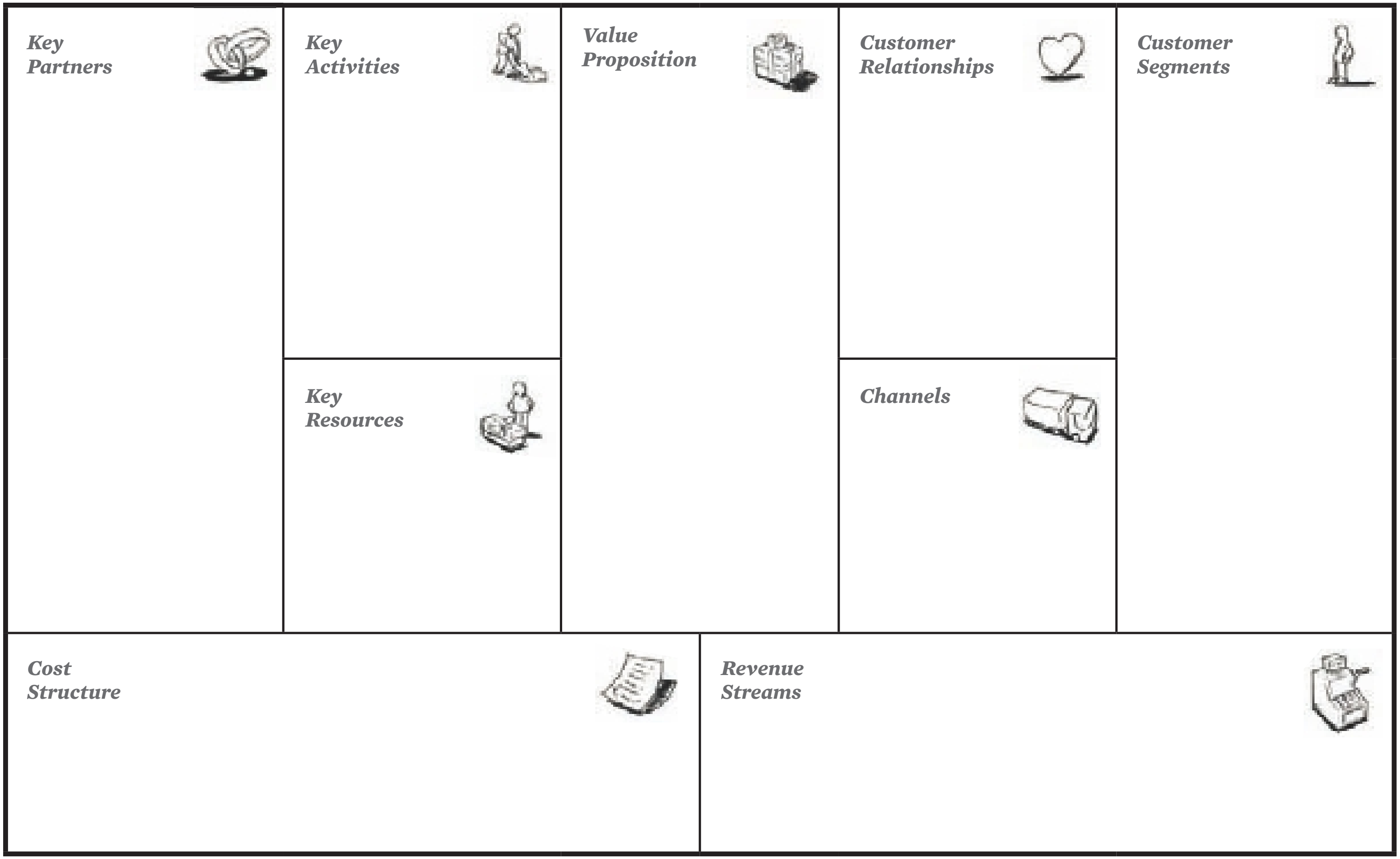
The Business Model Canvas

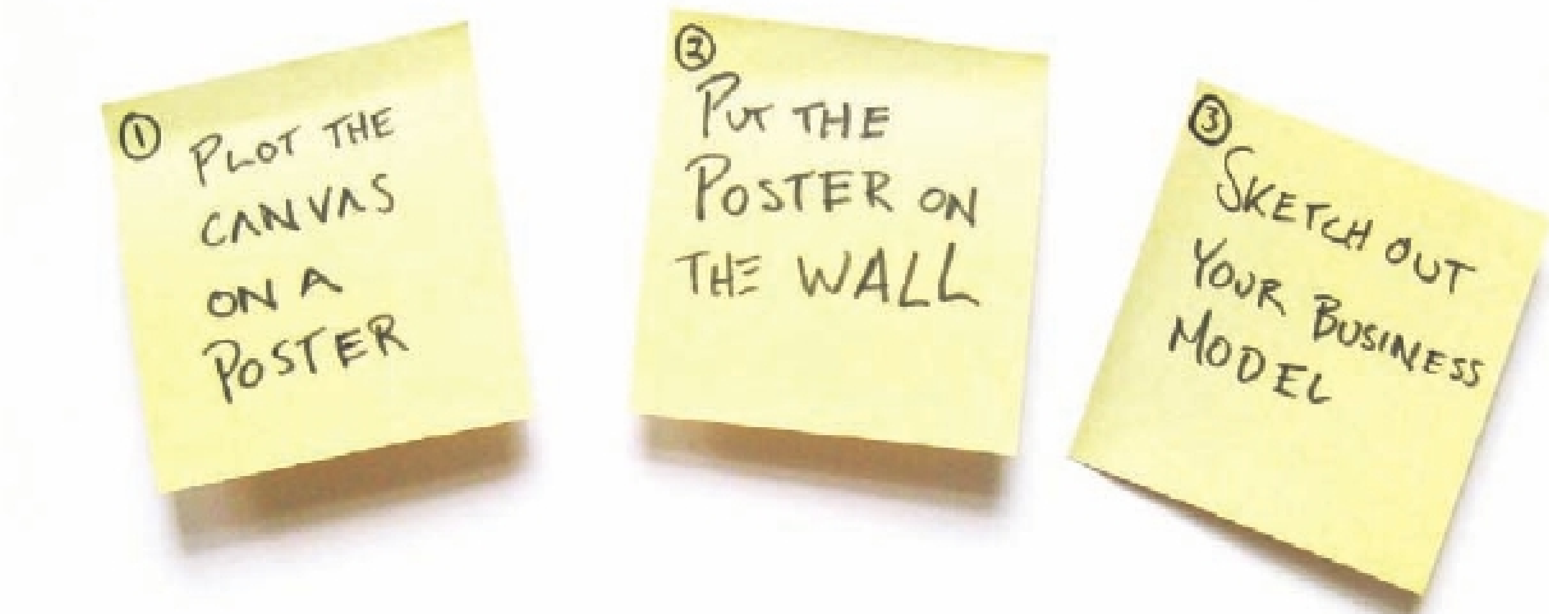


This tool resembles a painter's canvas—preformatted with the nine blocks—which allows you to paint pictures of new or existing business models. ***The Business Model Canvas works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements*** with Post-it® notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.

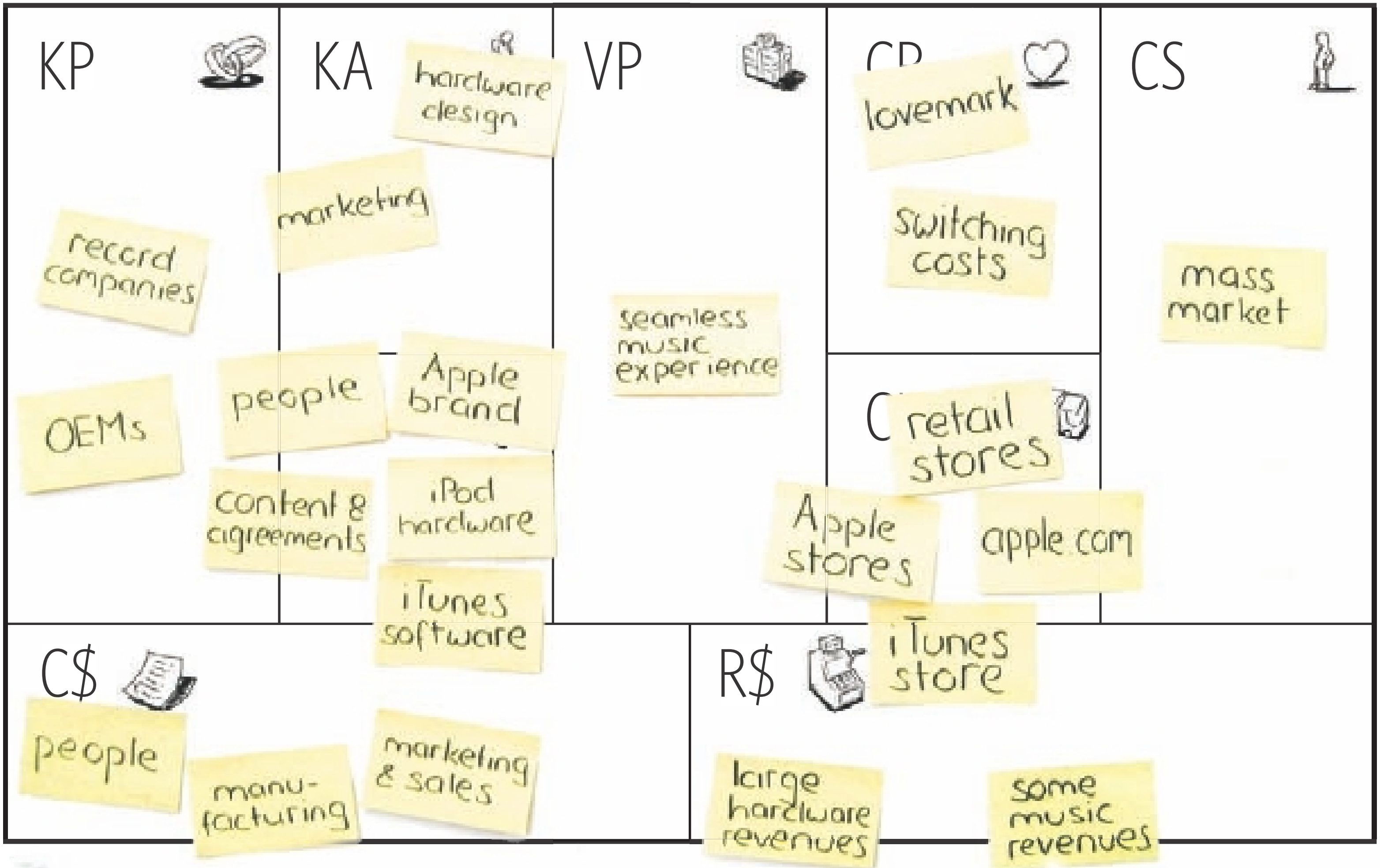

COST STRUCTURE
OPEN

The Business Model Canvas





1 PLOT THE CANVAS ON A POSTER
2 PUT THE POSTER ON THE WALL
3 SKETCH OUT YOUR BUSINESS MODEL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hardware design
marketing
record companies
OEMs
people
Apple brand
content & agreements
iPod hardware
iTunes software
seamless music experience
lovemark
switching costs
mass market
retail stores
Apple stores
apple.com
iTunes store
people
manu-facturing
marketing & sales
large hardware revenues
some music revenues

Example: Apple iPod/iTunes Business Model

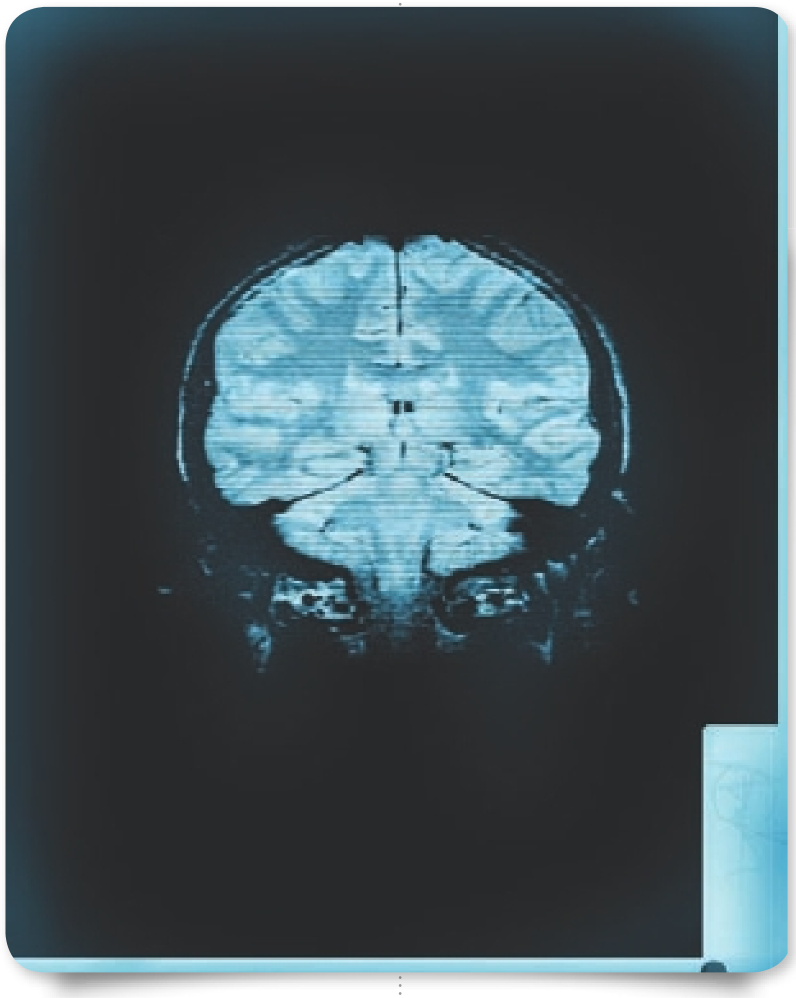
In 2001 Apple launched its iconic iPod brand of portable media player. The device works in conjunction with iTunes software that enables users to transfer music and other content from the iPod to a computer. The software also provides a seamless connection to Apple's online store so users can purchase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

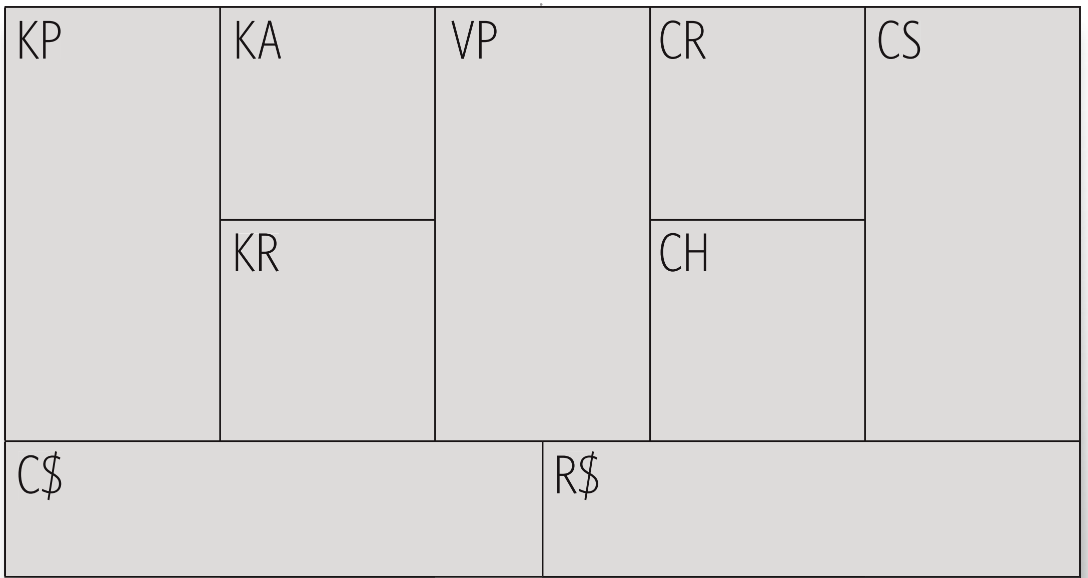
The twist? Apple earns most of its music-related revenues from selling iPods, while using integration with the online music store to protect itself from competitors.

LEFT BRAIN
logic



RIGHT BRAIN
emotion

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'Ipolitto, 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 mis-understanding 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

Patt

erns

“Pattern in architecture is the idea of capturing architectural design ideas as archetypal and reusable descriptions.”

Christopher Alexander, Architect

This section describes business models with similar characteristics, similar arrangements of business model Building Blocks, or similar behaviors. We call these similarities business model patterns. The patterns described in the following pages should help you understand business model dynamics and serve as a source of inspiration for your own work with business models.

We've sketched out five business model patterns built on important concepts in the business literature. We've "translated" these into the language of the Business Model Canvas to make the concepts comparable, easy to understand, and applicable. A single business model can incorporate several of these patterns.

Concepts upon which our patterns are based include Unbundling, the Long Tail, Multi-Sided Platforms, FREE, and Open Business Models. New patterns based on other business concepts will certainly emerge over time.

Our goal in defining and describing these business model patterns is to recast well-known business concepts in a standardized format—the Business Model Canvas—so that they are immediately useful in your own work around business model design or invention.

Patterns

Un-Bundling Business Models

Def_ Pattern No. 1

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.

[REF·ER·ENCES]

1 • "Unbundling the Corporation." *Harvard Business Review.* Hagel, John, Singer, Marc. March–April 1999.

2 • *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market.* Treacy, Michael, Wiersema, Fred. 1995.

[EX·AM·PLES]

mobile telecom industry, private banking industry

1 John Hagel and Marc Singer, who coined the term “unbundled corporation,” believe that companies are composed of three very different types of businesses with different economic, competitive, and cultural imperatives: Customer Relationship businesses, product innovation businesses, and infrastructure businesses. Similarly, Treacy and Wiersema suggest that companies should focus on one of three value disciplines: operational excellence, product leader-ship, or customer intimacy.

2 Hagel and Singer describe the role of Customer Relationship businesses as finding and acquiring customers and building relationships with them. Similarly, the role of product innovation businesses is to develop new and attractive products and services, while the role of infrastructure businesses is to build and manage platforms for high volume, repetitive tasks. Hagel and Singer argue that companies should separate these businesses and focus on only one of the three internally. Because each type of business is driven by different factors, they can conflict with each other or produce undesirable trade-offs within the same organization.

3 On the following pages we show how the idea of unbundling applies to business models. In the first example, we describe the conflicts and undesirable trade-offs created by a “bundled” business model within the private banking industry. In the second example we show how mobile telecom operators are unbundling and focusing on new core businesses.

THREE CORE BUSINESS TYPES

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

Source: Hagel and Singer, 1999.

Private Banking: Three Businesses in One

Swiss private banking, the business of providing banking services to the very wealthy, was long known as a sleepy, conservative industry. Yet over the last decade the face of the Swiss private banking industry changed considerably. Traditionally, private banking institutions were vertically integrated and performed tasks ranging from wealth management to brokerage to financial product design. There were sound reasons for this tight vertical integration. Outsourcing was costly, and private banks preferred keeping everything in-house due to secrecy and confidentiality concerns.

But the environment changed. Secrecy became less of an issue with the demise of the mystique surrounding Swiss banking practices, and outsourcing became attractive with the breakup of the banking value chain due to the emergence of specialty service providers such as transaction banks and financial product boutiques. The former focus exclusively on handling banking transactions, while the latter concentrate solely on designing new financial products.

Zurich-based private banking institution Maerki Baumann is an example of a bank that has unbundled its business model. It spun off its transaction-oriented platform business into a separate entity called Incore Bank, which offers banking services to other banks and securities dealers. Maerki Baumann now focuses solely on building Customer Relationships and advising clients.

On the other hand, Geneva-based Pictet, the largest Swiss private bank, has preferred to remain integrated. This 200-year-old institution develops deep Customer Relationships, handles many client transactions, and designs its own financial products. Though the bank has been successful with this model, it has to carefully manage trade-offs between three fundamentally different types of businesses.

The figure opposite depicts the traditional private banking model, describes trade-offs, and unbundles it into three basic businesses: relationship management, product innovation, and infrastructure management.

Trade Offs

1 The bank serves two different markets with very different dynamics. Advising the wealthy is a long-term, relationship-based business. Selling financial products to private banks is a dynamic, fast-changing business.

2 The bank aims to sell its products to competing banks in order to increase revenues—but this creates a conflict of interest.

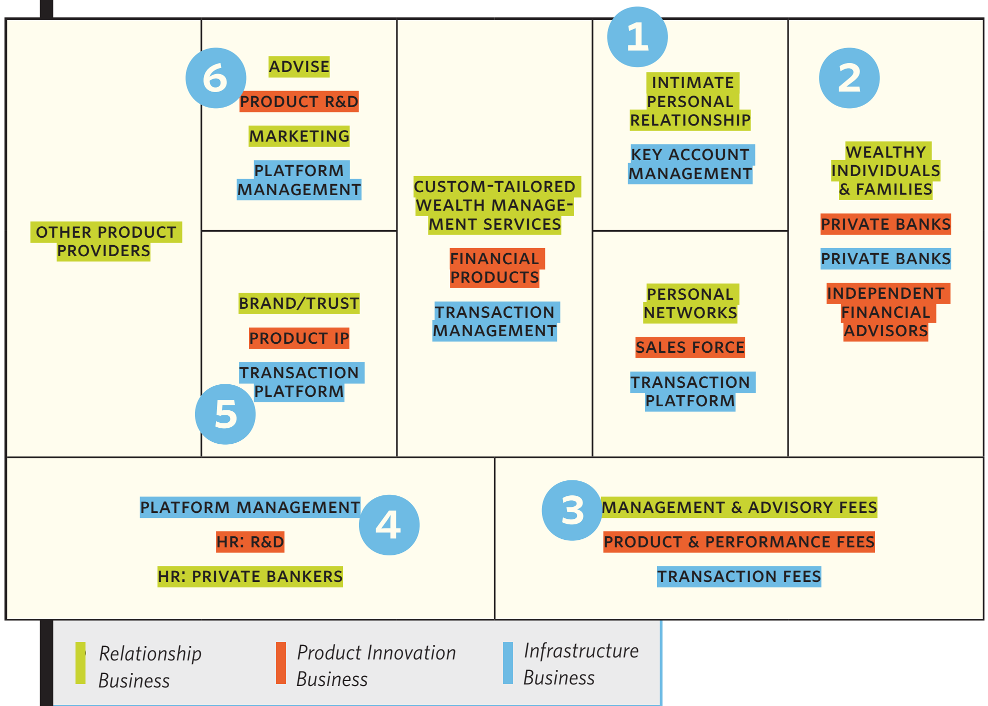
3 The bank's product division pressures advisors to sell the bank's own products to clients. This conflicts with client interest in neutral advice. Clients want to invest in the best products on the market, regardless of origin.

4 The cost- and efficiency-focused transaction platform business conflicts with the remuneration-intensive advisory and financial products business, which needs to attract costly talent.

5 The transaction platform business requires scale to drive down costs, which is difficult to achieve within a single bank.

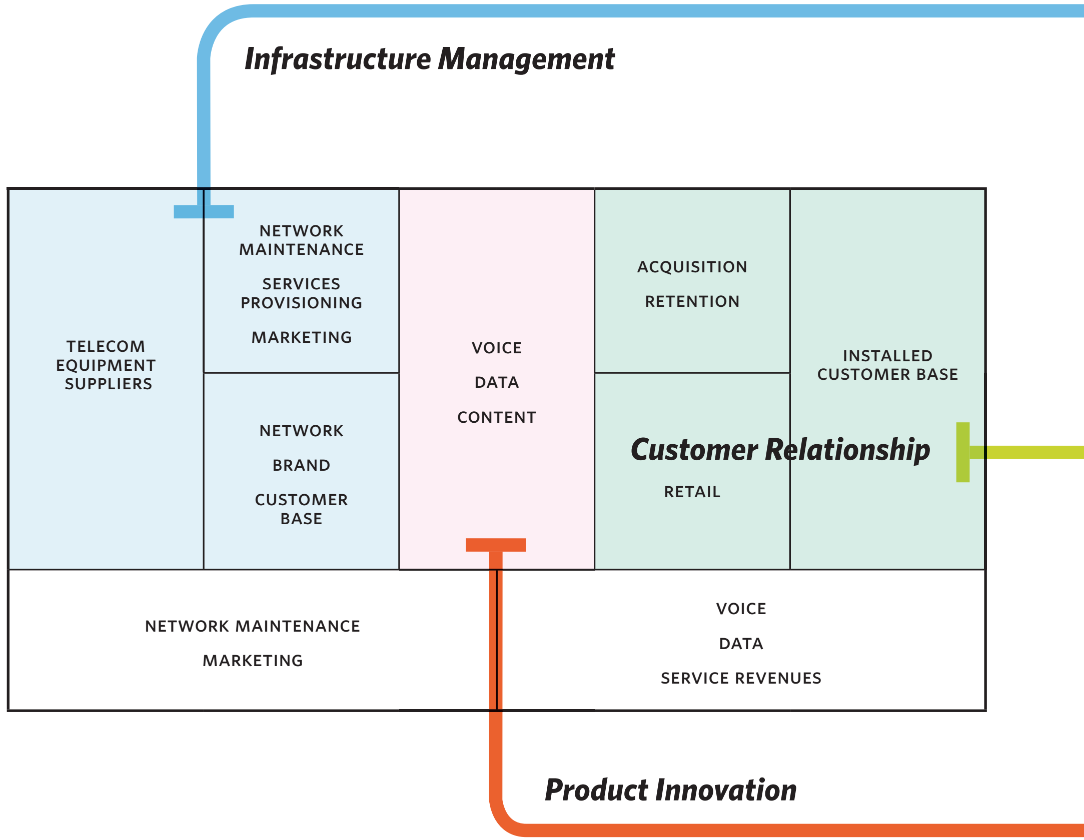
6 The product innovation business is driven by speed and quick market entry, which is at odds with the long-term business of advising the wealthy.

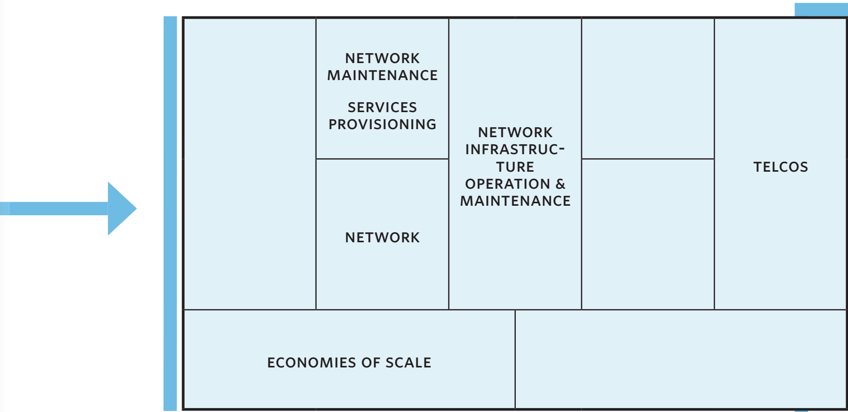
The Private Banking Model



Unbundling the Mobile Telco

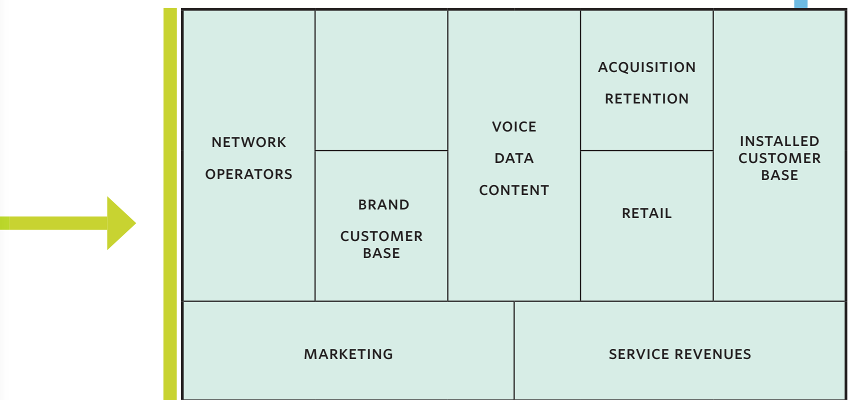
Mobile telecommunication firms have started unbundling their businesses. Traditionally they competed on network quality, but now they are striking network sharing deals with competitors or outsourcing network operations altogether to equipment manufacturers. Why? Because they realize that their key asset is no longer the network—it is their brand and their Customer Relationships.





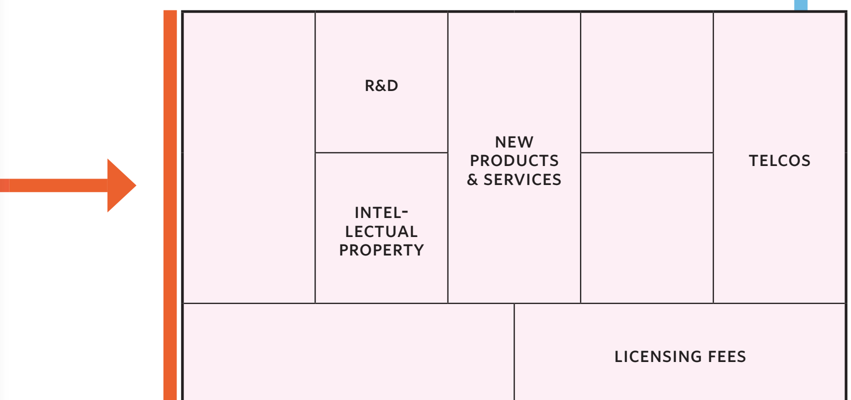
Equipment Manufacturers

Telcos such as France Telecom, KPN, and Vodafone have outsourced operation and maintenance of some of their networks to equipment manufacturers such as Nokia Siemens Networks, Alcatel-Lucent, and Ericsson. Equipment manufacturers can run the networks at lower cost because they service several telcos at a time and thus benefit from economies of scale.



Unbundled Telco

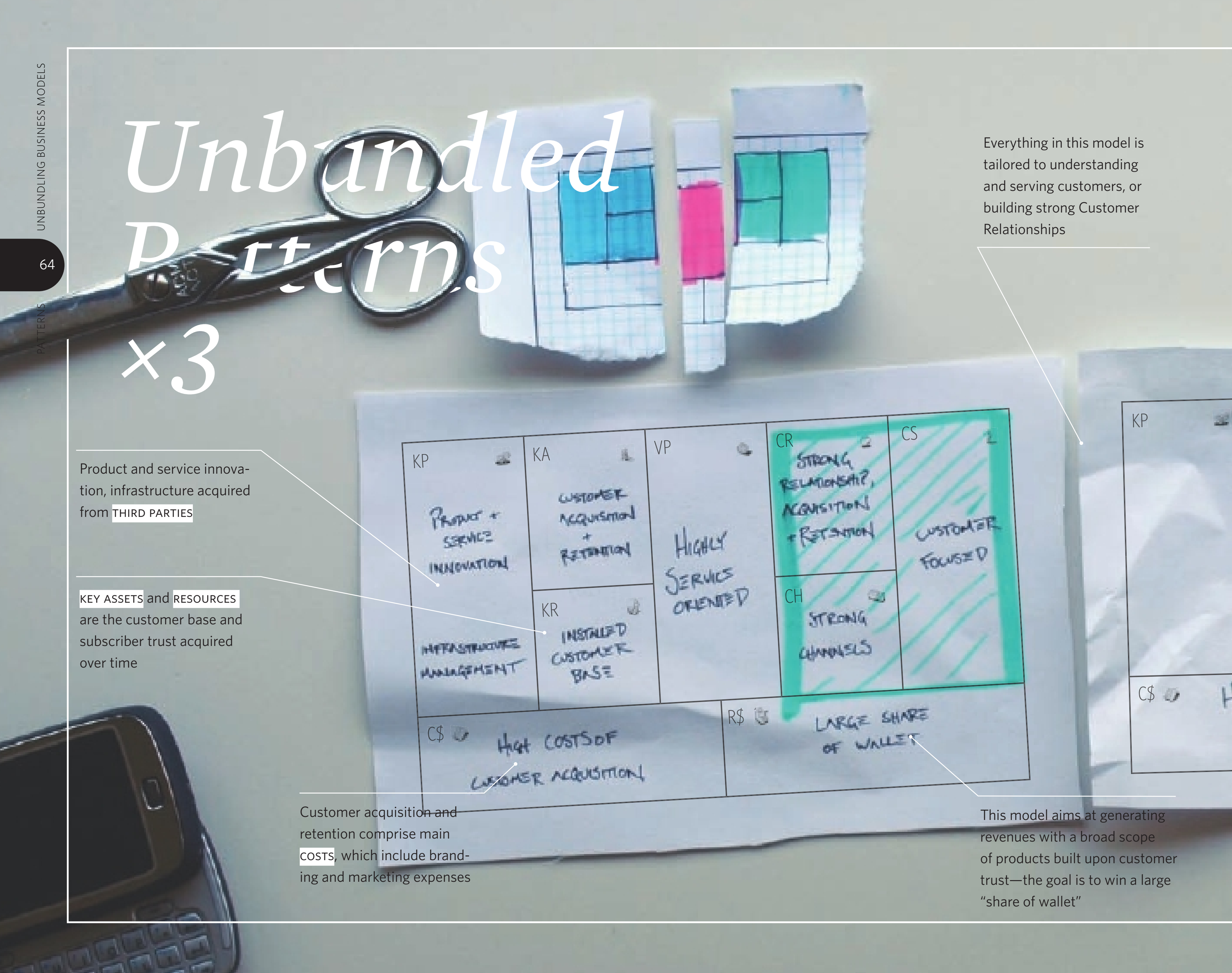
After unbundling its infrastructure business, a telco can sharpen its focus on branding and segmenting customers and services. Customer relationships comprise its key asset and its core business. By concentrating on customers and increasing share of wallet with current subscribers, it can leverage investments made over the years acquiring and retaining customers. One of the first mobile telcos to pursue strategic unbundling was Bharti Airtel, now one of India's leading telcos. It outsourced network operations to Ericsson and Nokia Siemens Networks and IT infrastructure to IBM, allowing the company to focus on its core competency: building Customer Relationships.



Content Providers

For product and service innovation, the unbundled telco can turn to smaller, creative firms. Innovation requires creative talent, which smaller and more dynamic organizations typically do a better job of attracting. Telcos work with multiple third-parties that assure a constant supply of new technologies, services, and media content such as mapping, games, video, and music. Two examples are Mobilizy of Austria and Sweden's tat. Mobilizy focuses on location-based service solutions for smartphones (it developed a popular mobile travel guide), and tat concentrates on creating advanced mobile user interfaces.

Unbundled Patterns ×3



Everything in this model is tailored to understanding and serving customers, or building strong Customer Relationships

Product and service innovation, infrastructure acquired from THIRD PARTIES

KEY ASSETS and RESOURCES are the customer base and subscriber trust acquired over time

Customer acquisition and retention comprise main COSTS, which include branding and marketing expenses

This model aims at generating revenues with a broad scope of products built upon customer trust—the goal is to win a large "share of wallet"