

Video Transcript

Introduction to the Business Model Canvas

The business model canvas is a great visual tool for defining, describing, or developing the business model for your organization. Originally developed by Alexander Osterwalder, the concept of the Business Model Canvas is invaluable as an aid to communicating how the business operates by clearly identifying the nine basic building blocks of the business and how they are inter-related.

Customer Segments

The first building block is customer segments. The key client groups that the organization serves. Each group should have distinct needs that require different channels and relationships to generate value. Ask, Who are our most important customers? Who are you creating value for? What types of relationship does each segment want? This may mean that you need to decided not to serve certain groups of customers, so that you are using your resources efficiently. The way in which you create value for your customers is described as the value proposition.

Value Proposition

Value proposition is that aspect of your product or service that distinguishes you from the competition. How do you create value for your customers? This can include the way in which you design your offering or create a premium brand. It could be that you offer a unique experience, or that you provide something at a significantly lower price point than your competition. Value can also be created not by price but by speed of delivery, or an enhanced service. Ask, yourself how you create value for your customers. Are you removing a pain or providing something people want?

Channels

The third basic building block describes how the value proposition is communicated and delivered to your customers. How do you raise awareness of your brand and your offerings? How do you help you customers to evaluate the value that you bring? What routes can your customers use to buy the products and services that you provide? How do you deliver your value proposition and what support do you offer once a sale has been made? Each customer segment will expect a different type of experience when they engage with your business, and this is explored in the next building block, customer relationships.

Customer Relationships

How does your organization interact with each of your customer segments? This can range from a personal interaction to self-service or automated experiences. Or it could include a more collaborative relationship through a sense of shared communal experience, or even working

with customers to jointly create offerings. These first four building blocks are essentially concerned with the customer, who we serve and how we do it.

Key Activities

The key activities block then describes those things that we need to do to be successful in delivering your value proposition. This could be producing a product that meets certain standards or quality (production), or in providing a service that removes a pain or problem (problem) on behalf of your customer. The third type of activity (platform) is in providing a space where other vendors and customers can exchange products or services, such as an online marketplace. Once we know what value we create for our customers, we can understand what our customers are willing to pay, how they pay, and what they would like to pay.

Revenue Streams

The revenue streams block explores the mechanisms used to derive fees from each of the customer segments. These can include transactional sales for physical assets or the usage of a service, fees paid to make use of a service or product temporarily such as a subscription to a streaming service or the hire of construction tools, or even license fees paid for the use of a brand. Revenues can also be based on commissions, or brokerage fees, and for providing promotional access to an audience. Now that we understand our customers and how we exchange value for revenues, we can consider the internal building blocks.

Key Resources

These include the key resources that are needed to delivery the value proposition and to create revenues. These assets can include the physical facilities, equipment or vehicles. You may have intellectual assets such as patents, copyrighted material or know how. Resources can also include your people and your financial position. Some resources that are needed for the business model to work are not available to you from within your business. These are obtained through partnering with other organizations and providers.

Key Partnerships

Key partnerships defines who it is that we need to work with to deliver the business model. Who are your key suppliers? Are there key activities that are provided by someone else? There are four types of partnerships: Strategic alliances with non-competitors, cooperating with traditional competitors, working jointly with a third party to create a new business venture, or transactional relationships that assure a reliable source of supply.

Cost Structure

The final building block considers the costs associated with each of the other eight elements of the business model. Consider, What resources cost the most? Which activities are the most expensive? What is the cost structure and how are charges incurred in operating your business model? These could be fixed costs that do not change as your levels of business fluctuate, or

they could vary in proportion to the volume of business that you are doing. You should also consider how costs can be apportioned over a range of activities as the scale of your business increases. For example, unit prices may be reduced as you buy higher volumes. And similarly, economies of scope may be enjoyed as you expand operations so that key activities support multiple channels.

Together the nine basic building blocks provide you with an overview of how your business creates and delivers value, how the various elements inter-relate, what they cost to delivery and how much revenue they generate. It's also a great way to articulate your business model to others. However, the business model canvas is perhaps most useful when it's used to challenge each element of the existing business model to generate new ideas and concepts. It comes to life when you systematically ask "What if?" for each of the elements. For example, "What if we didn't need to be in the room when delivering training?" could be the spark that leads to the development of a new online learning business model. This is particularly relevant when a business is forced to re-examine its business model in response to macro-environmental conditions removing one or more of the basic building blocks. For example, when the social distancing measures undertaken to combat COVID-19 result in your main channels to your customer being closed. By using the business model canvas to understand your traditional model, you will be able to explore new models that deliver sustainable strategic alternatives.

To learn more about the business model canvas, we recommend that you read *Business Model Generation* by Alexander Osterwalder and Yves Pigneur or visit the Strategyzer website. We should point out that Optima Training is in no way affiliated with Strategyzer, we just admire the work that they do.