

DESIGNING & TESTING BUSINESS MODELS

AlexOsterwalder.com
[@business_design](https://twitter.com/business_design)

SteveBlank.com
[@sgblank](https://twitter.com/sblank)





where do I come
from, what do I do?








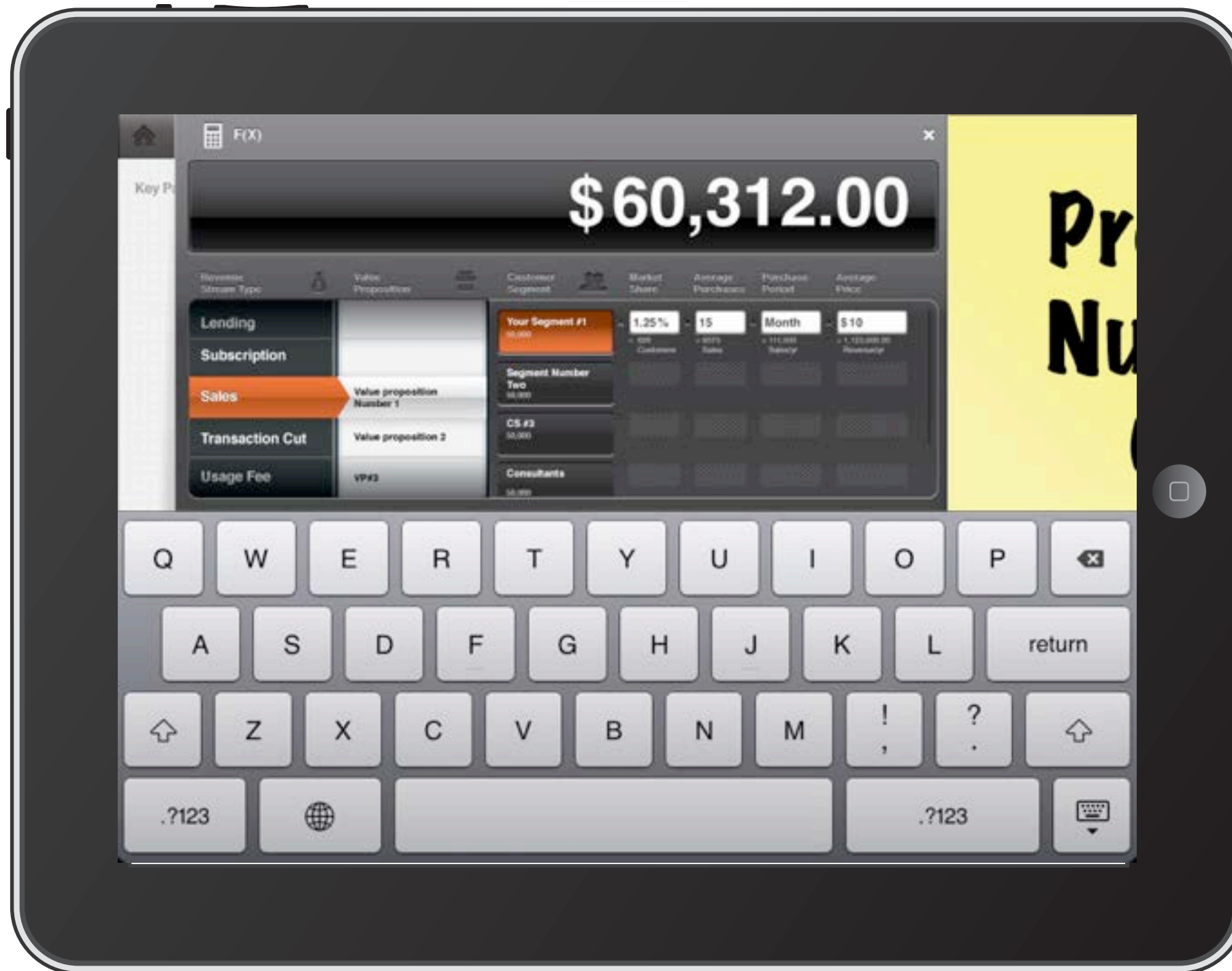
my workplace







my current MVP

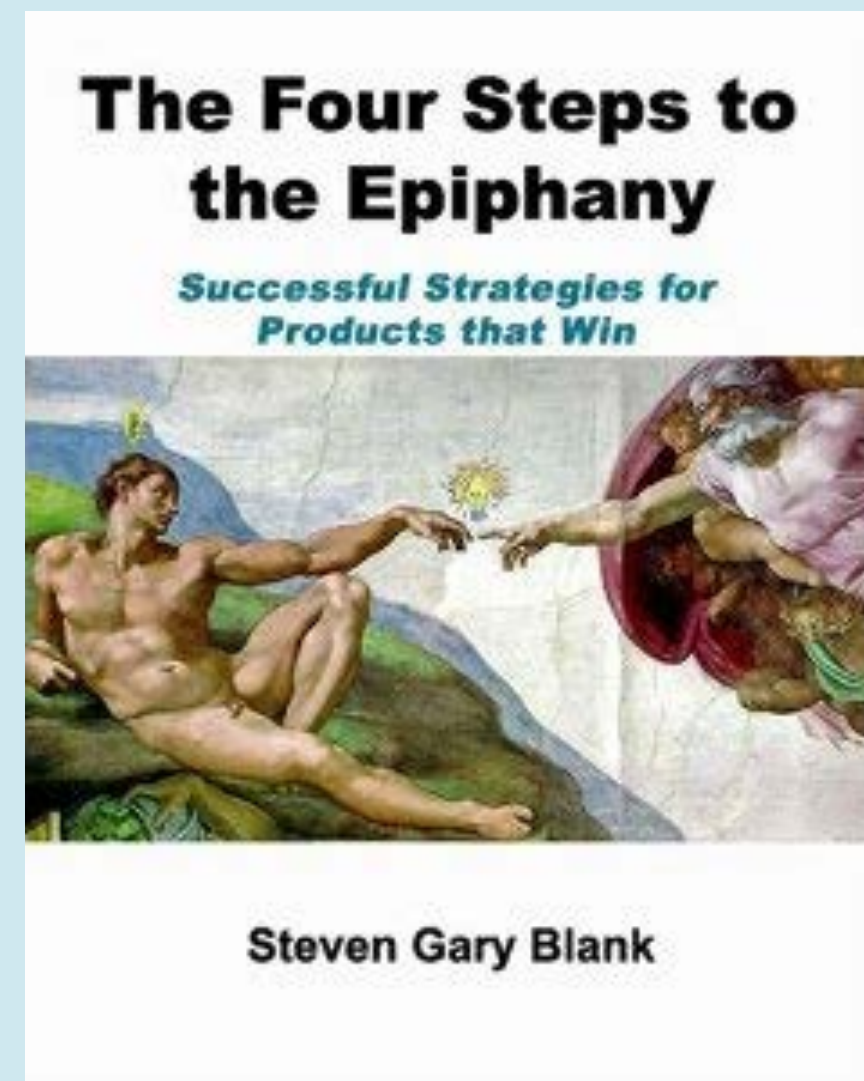


BusinessModelGeneration.com/toolbox

this workshop day combines two global bestsellers



+



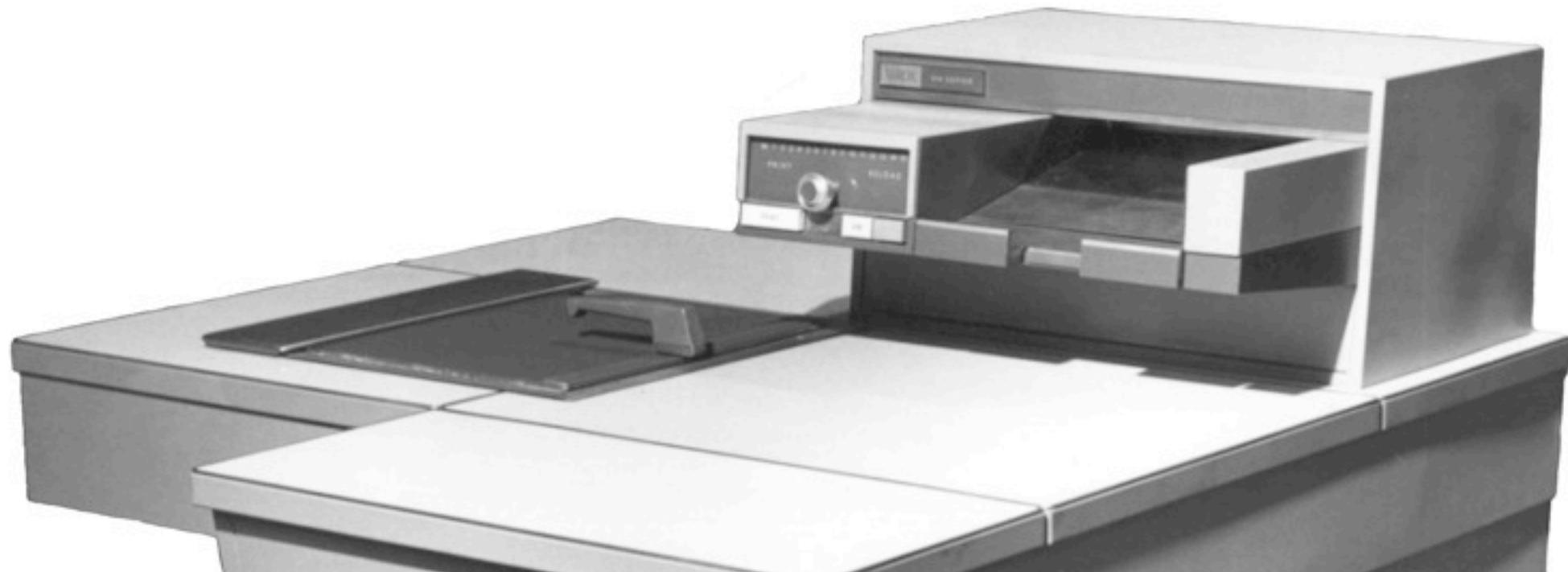


Swiss Time Machine

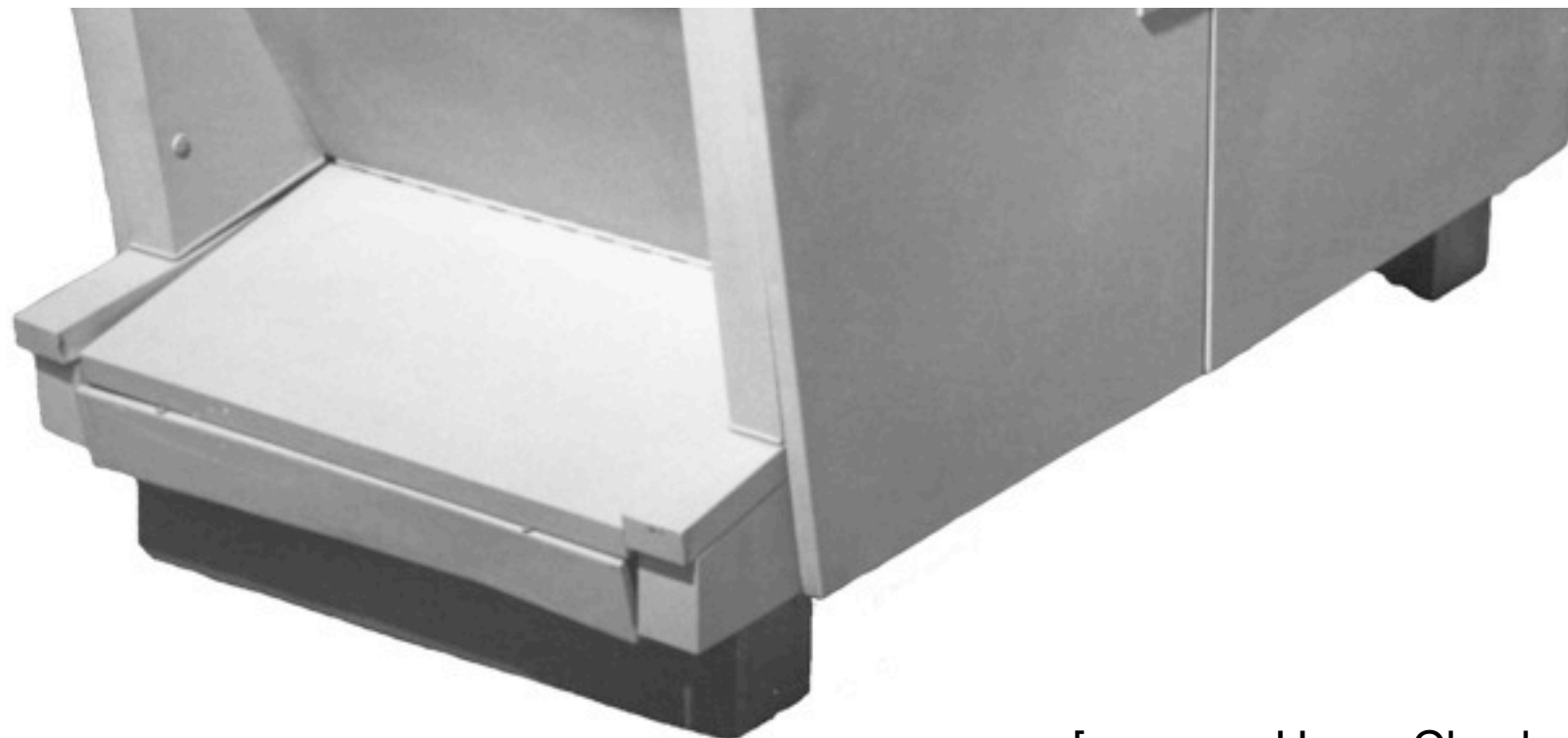
1958



[sources: Henry Chesbrough, photo: life.com]



revenue growth of 41%
compounded for the next 20 years

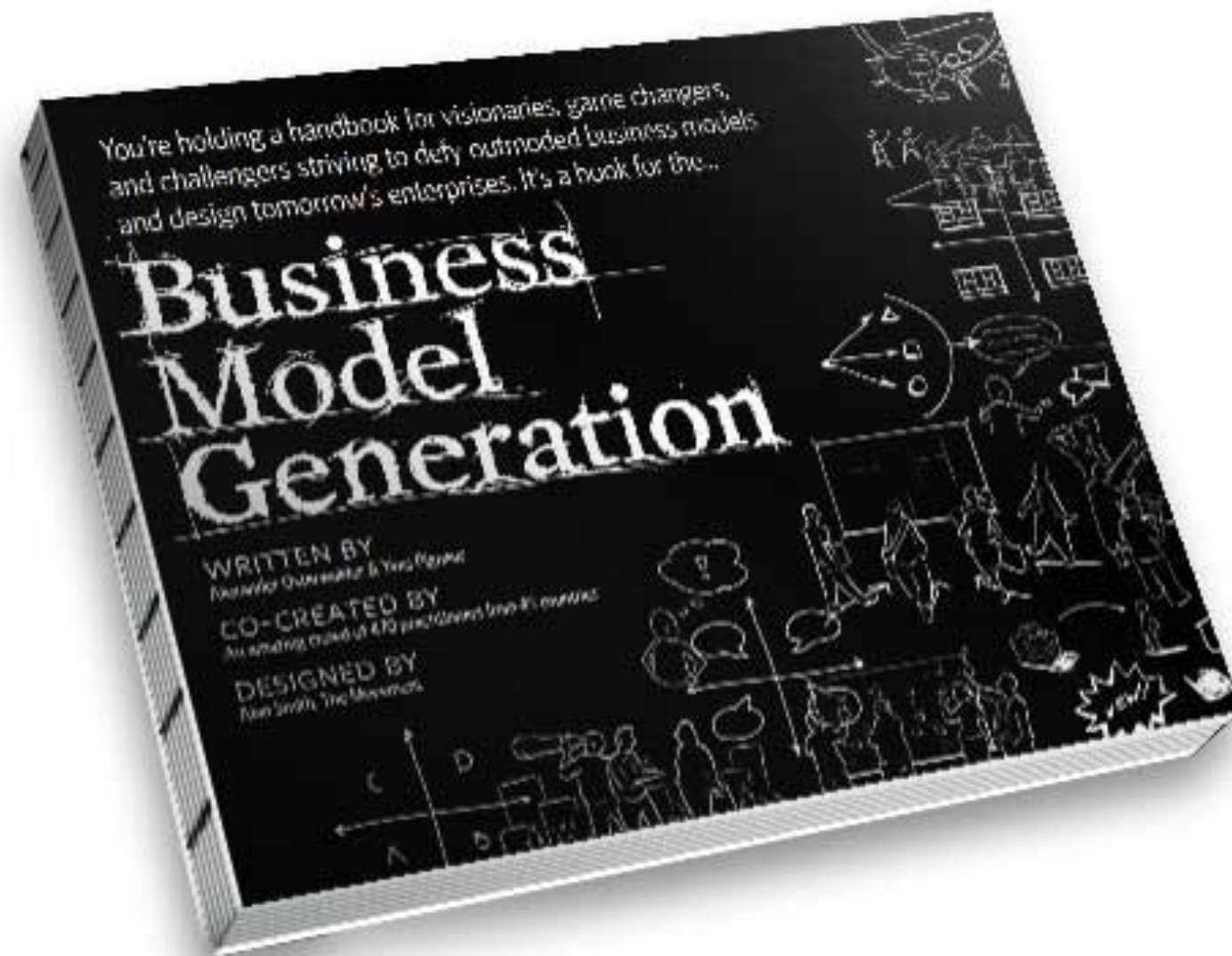


[sources: Henry Chesbrough, photo: xerox.com]



Swiss Time Machine

2009



BusinessModelGeneration.com

1,000,000

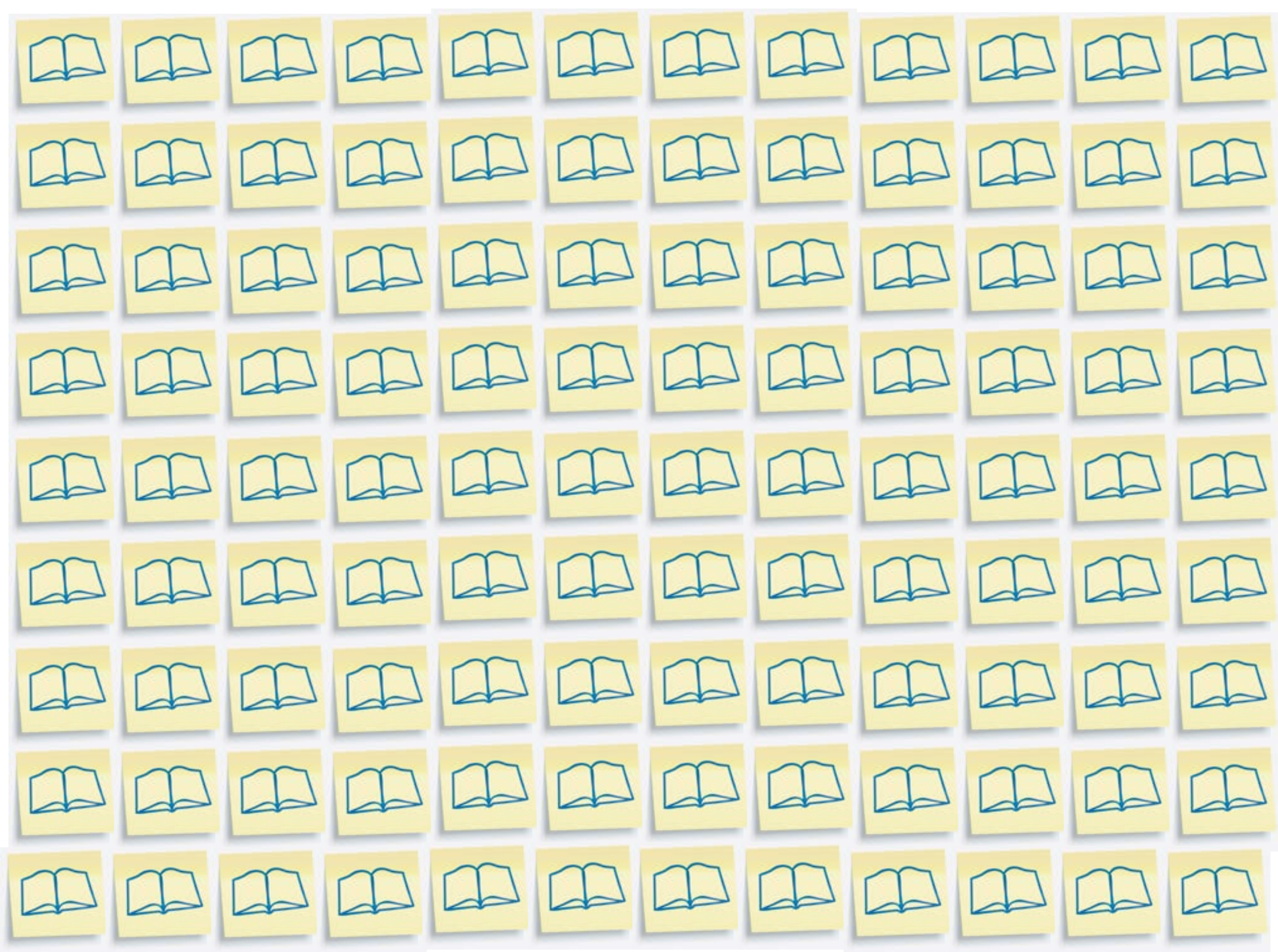
new book titles were
published in the U.S. in '10

11,000

new business books
appear every year

12%

decline of sales in major
bookstore chains ('07-'09)





so what did
we do?

we changed the product...

Canvas

Patterns

Design

Strategy

Process

came o

The 9 Building Blocks



CS
Customer Segments
An organization serves one or several Customer Segments.



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



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



CR
Customer Relationships
Customer relationships are established and maintained with each Customer Segment.



RS
Revenue Streams
Revenue streams result from value propositions successfully offered to customers.



KR
Key Resources
Key resources are the assets required to offer and deliver the previously described elements.



KA
Key Activities
...by performing a number of Key Activities.



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

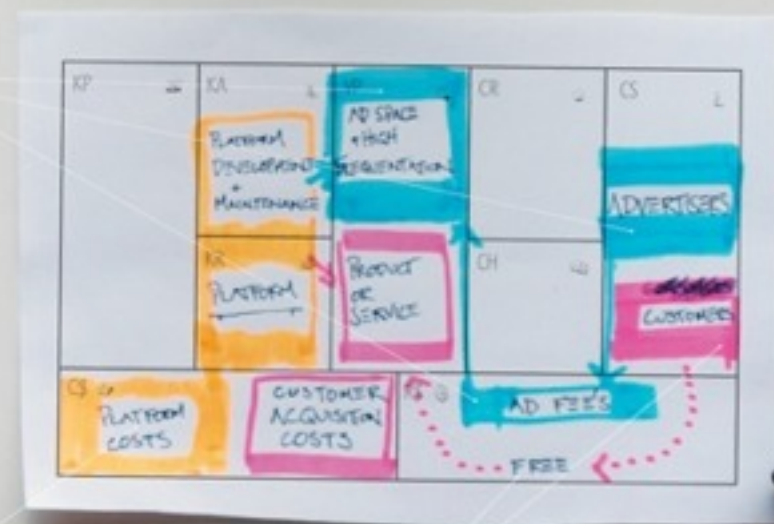


CS
Cost Structure
The business model elements result in the cost structure.

Free Advertising Pattern of Multi-Sided Platforms



With the right product or service and high traffic, the platform becomes interesting to advertisers, which in turn allows charging fees to subsidize free products and services.



Main costs relate to developing and maintaining the platform; traffic-generation and retention costs may also arise.

Free products or services generate high platform traffic and increase attractiveness to advertisers.

Design

Technique...No.1

Customer Insight

VALENTINE'S DAY, 2008

Outside an office building on the outskirts of Oslo, four Norwegian teenagers wearing American style "letter" jackets and baseball caps are engaged in a lively discussion with a man in his 50s ...

... The teenagers are young, hip snowboarders answering questions posed by Richard Ling, a senior sociologist working for Telenor, the world's seventh largest mobile operator. Ling is interviewing the group as part of a study to gain insights into the use of photos and photo sharing over social networks. Now that nearly every mobile phone sports a camera, photo sharing is of keen interest to cellular operators. Ling's research will help Telenor capture the "big picture" of photo sharing. He focuses not just on existing and potential new mobile photo sharing services, but on broader issues, such as the role photo-sharing plays with respect to trust, secrecy, group identity, and the social fabric linking these young men. Ultimately, his work will enable Telenor to design and deliver better services.

BUSINESS MODEL ENVIRONMENT: CONTEXT, DESIGN DRIVERS & CONSTRAINTS

BUSINESS MODELS ARE DESIGNED AND EXECUTED IN SPECIFIC ENVIRONMENTS. Developing a good understanding of your organization's environment helps you conceive stronger, more competitive business models.

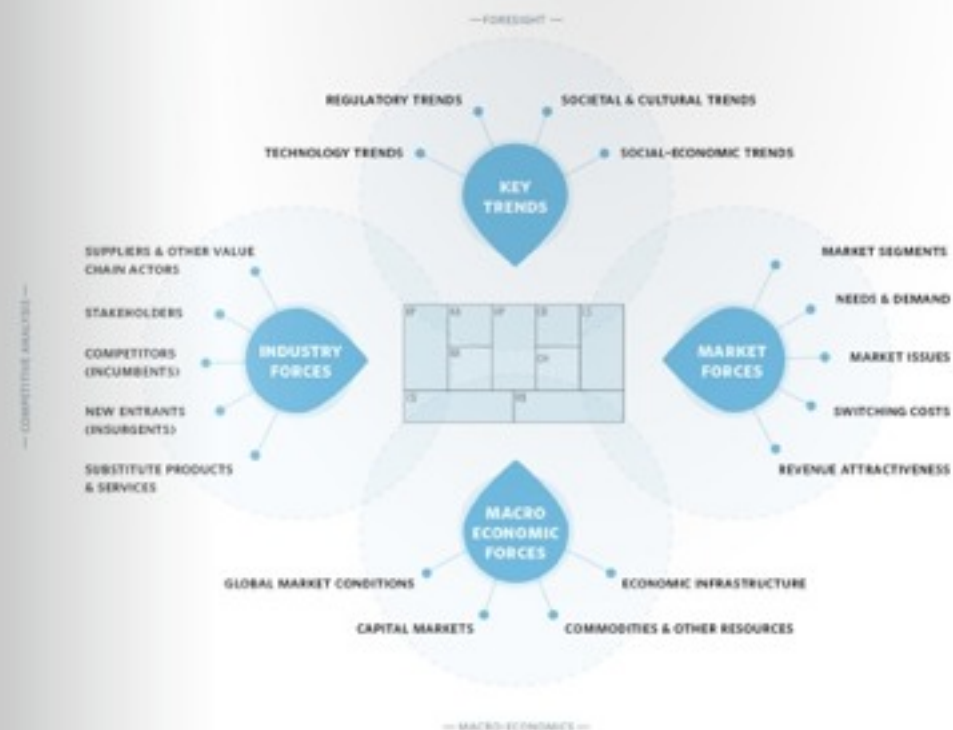
Continuous environmental scanning is more important than ever because of the growing complexity of the economic landscape (e.g. networked business models), greater uncertainty (e.g. technology innovations) and severe market disruptions (e.g. economic turmoil, disruptive new Value Propositions). Understanding changes in the environment helps you adapt your model more effectively to shifting external forces.

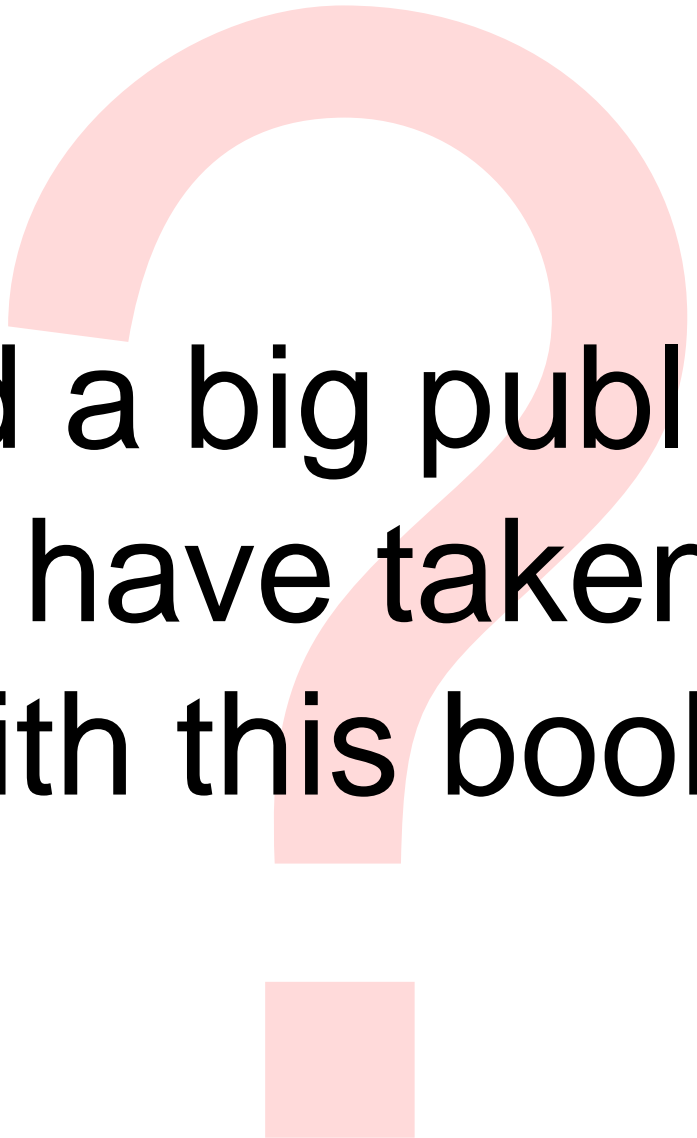
You may find it helpful to conceive of the external environment as a sort of "design space." By this we mean thinking of it as a context in which to conceive or adapt your business model, taking into account a number of design drivers (e.g. new customer needs, new technologies, etc.) and design constraints (e.g. regulatory trends, dominant competitors, etc.). This environment should in no way limit your creativity or predefine your business model. It should, however, influence your design choices and help you make more informed decisions. With a breakthrough business model, you may even become a shaper and transformer of this environment, and set new standards for your industry.

To get a better grasp on your business model "design space," we suggest roughly mapping four main areas of your environment. These are 1) market forces, 2) industry forces, 3) key trends, and 4) macroeconomic forces. If you'd like to deepen your analysis of the landscape beyond the simple mapping we propose, each of these four areas is backed by a large body of literature and specific analytical tools.

In the following pages, we describe the key external forces that influence business models and categorize them using the four areas just mentioned. The pharmaceutical industry, introduced in the previous chapter, is used to illustrate each external force. The pharma sector is likely to undergo substantial transformation in coming years, though it is unclear how the changes will play out. Will biotechnology companies, which are currently copying the pharmaceutical sector's blockbuster drug model, come up with new, disruptive business models? Will technological change lead to transformation? Will consumers and market demand force changes?

We strongly advocate mapping your own business model environment and reflecting on what trends mean for the future of your enterprise. A good understanding of the environment will allow you to better evaluate the different directions in which your business model might evolve. You may also want to consider creating scenarios of future business model environments (see p. 186). This can be a valuable tool for jumpstarting business model innovation work or simply preparing your organization for the future.





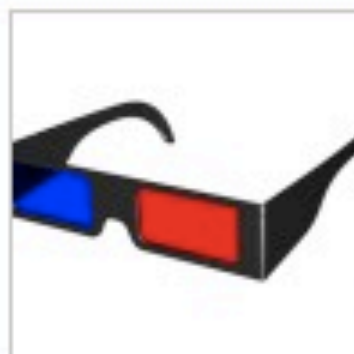
would a big publishing
house have taken us on
with this book?

No!

we changed the business model...

“ you can't write about
business model innovation
without an innovative
business model ”

All Members (405)

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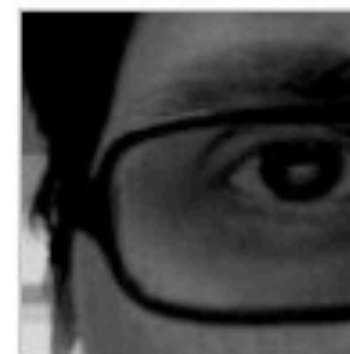
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Male
Oslo
Norway

★ [Feature](#)



\$24. -

\$36. -

\$54.5

\$81.1

\$250.-

Results

TOP 10

Business



Fiction

1

Business
Model
Generation

Business
Model
Generation

JEFFREY
ARCHER
Only
Time
Will
Tell

JEFFREY
ARCHER

JEFFREY
ARCHER

JEFFREY
ARCHER

2

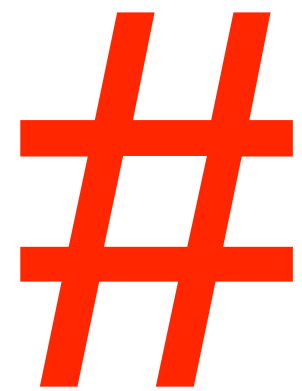
BIG SHOT

BIG SHOT

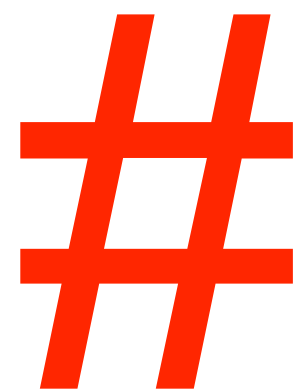
BIG SHOT

BIG SHOT

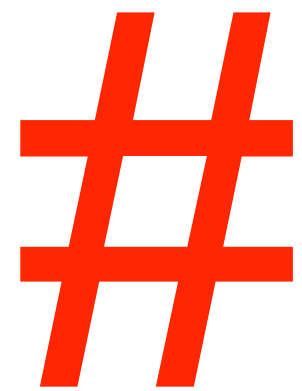
ROOM

A large, bold, red hash symbol (#) is positioned on the left side of the image.

in the top 10 of softcover
business books in the US

A large, bold, red hash symbol (#) is positioned on the left side of the slide.

170'000+ English #bmgen
copies in print (June 2011)



18 #bmgen translations
upcoming in 2011

more importantly...

ERS



ERICSSON

3M



telenor

Deloitte



Public Works and
Government Services
Canada

avGroup





business models
enable (new) products
and technologies and
help solve (entirely
new) customer
problems



the 100
Million dollar
question

how do you search for the
right business model?



1

understanding
business models

2

prototyping alternatives
of “what could be”

3

evaluating your
business model design

4

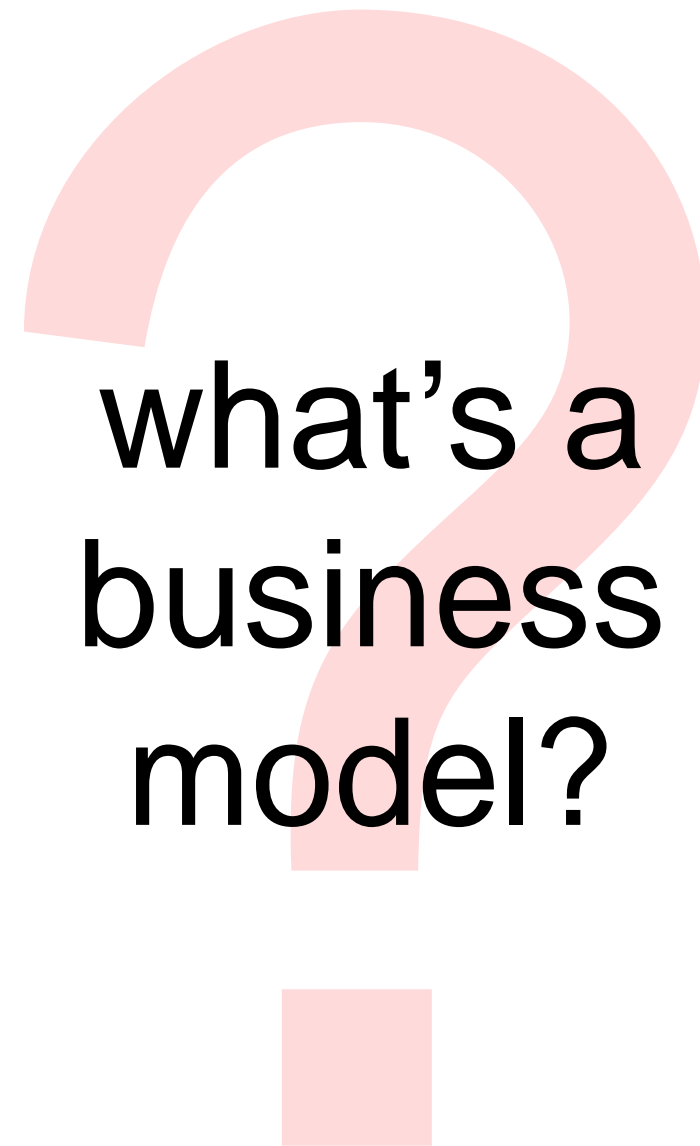
testing business models
with customer development



but hey,
what is a
business
model
anyways?

THE VITAL PART OF A
CONSIDERATION

11. **DEFINITION.**—A
thing which induces a p
tract. It is the subst
inducing the parties t
ment. SUFFICIENT

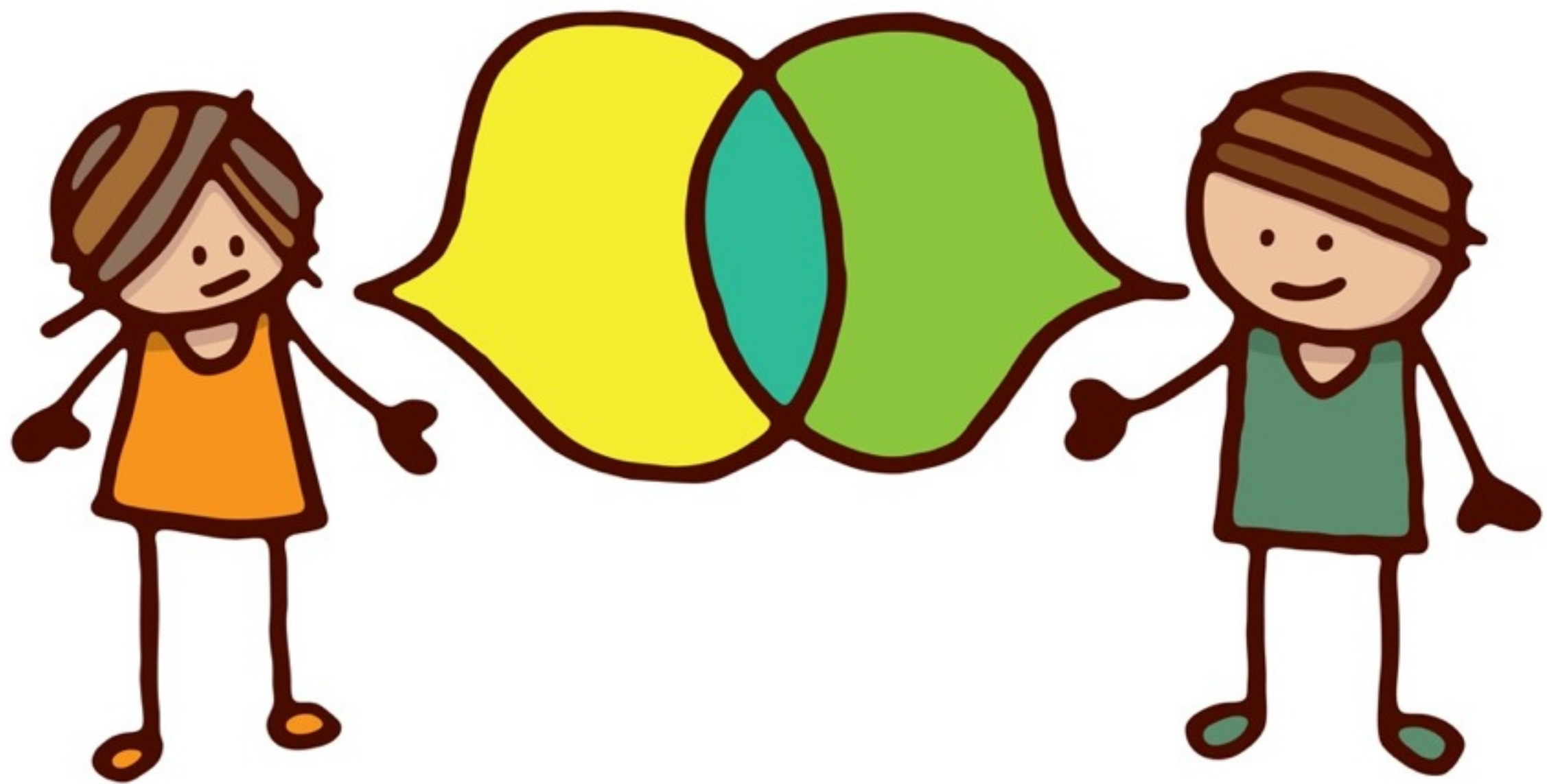


what's a
business
model?

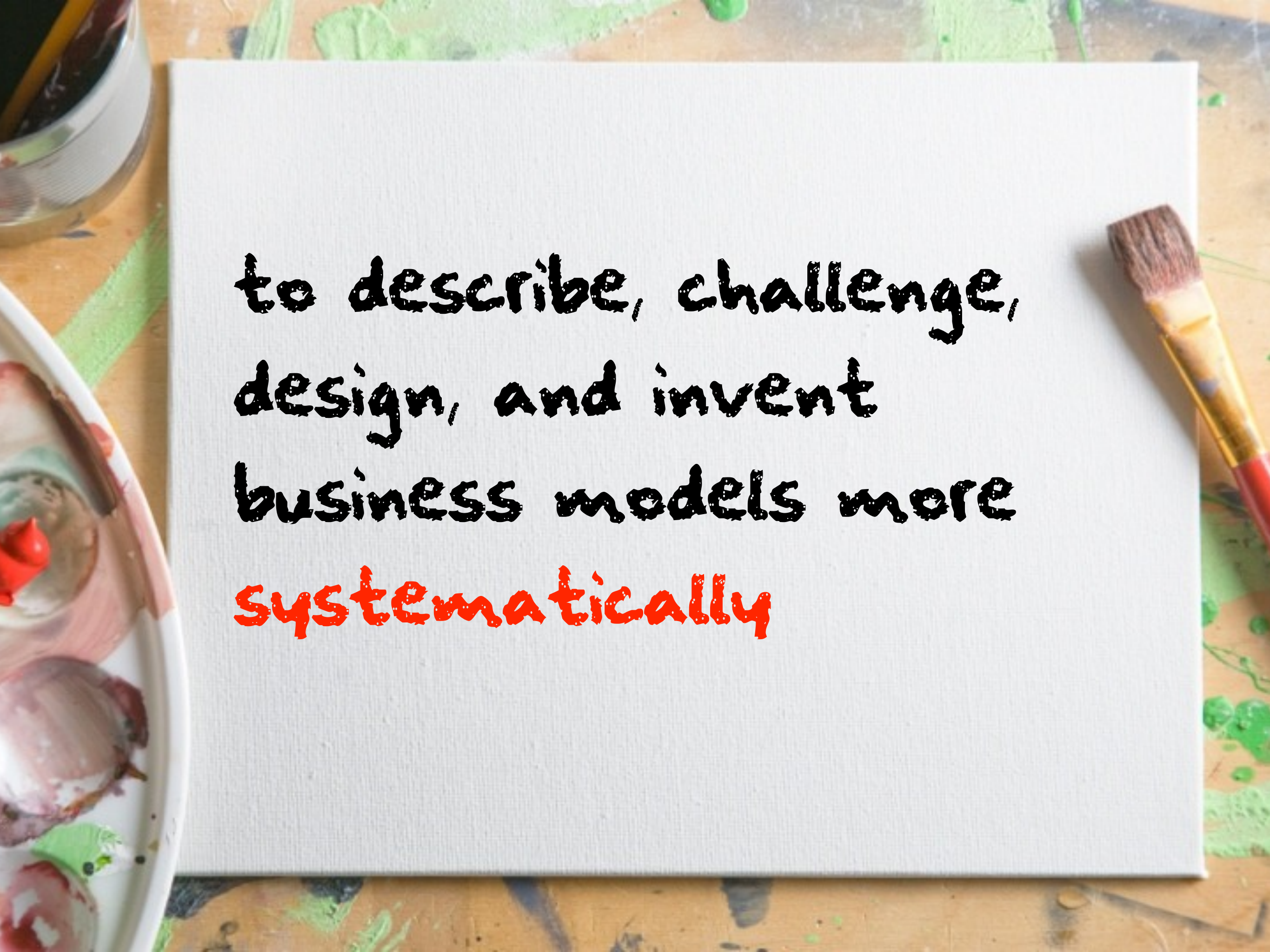









BUSINESS MODEL CANVAS



to describe, challenge,
design, and invent
business models more
systematically



9

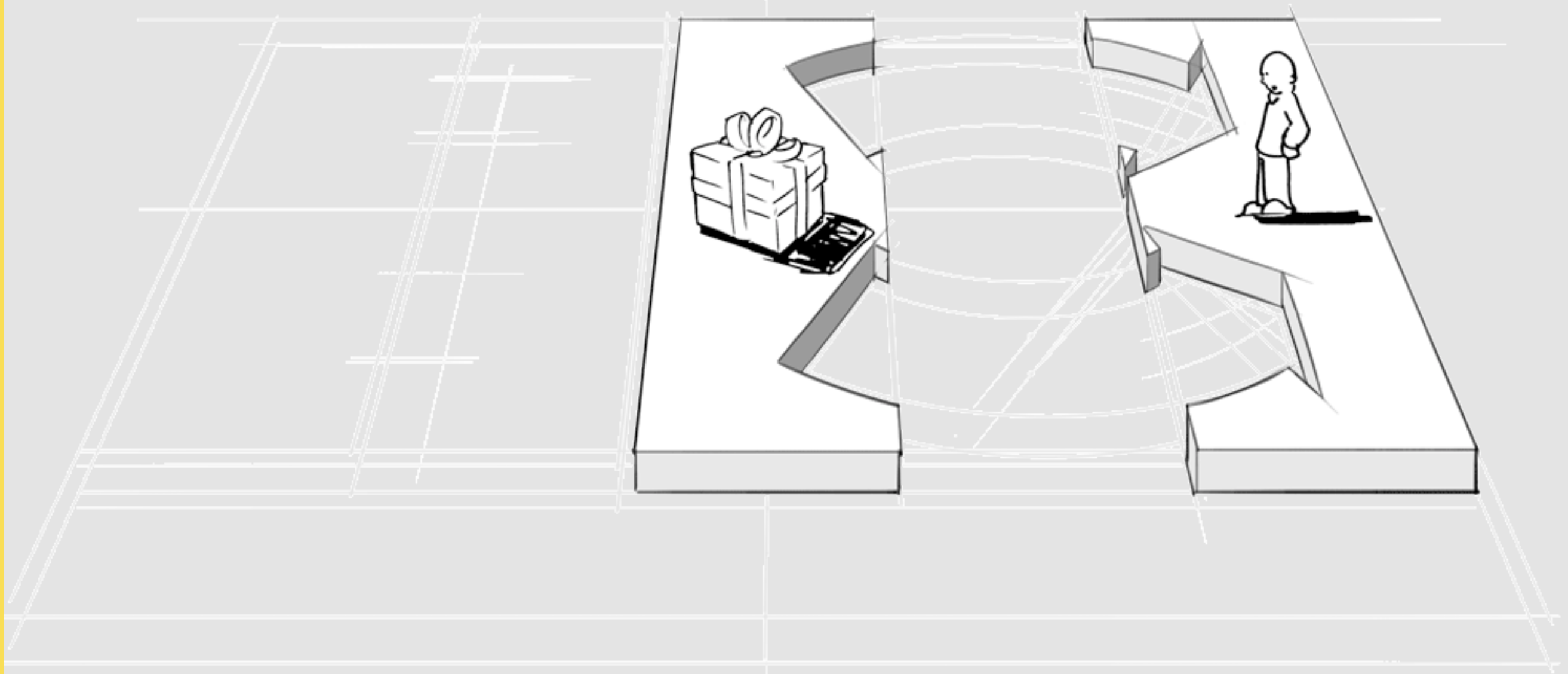


BUILDING
BLOCKS

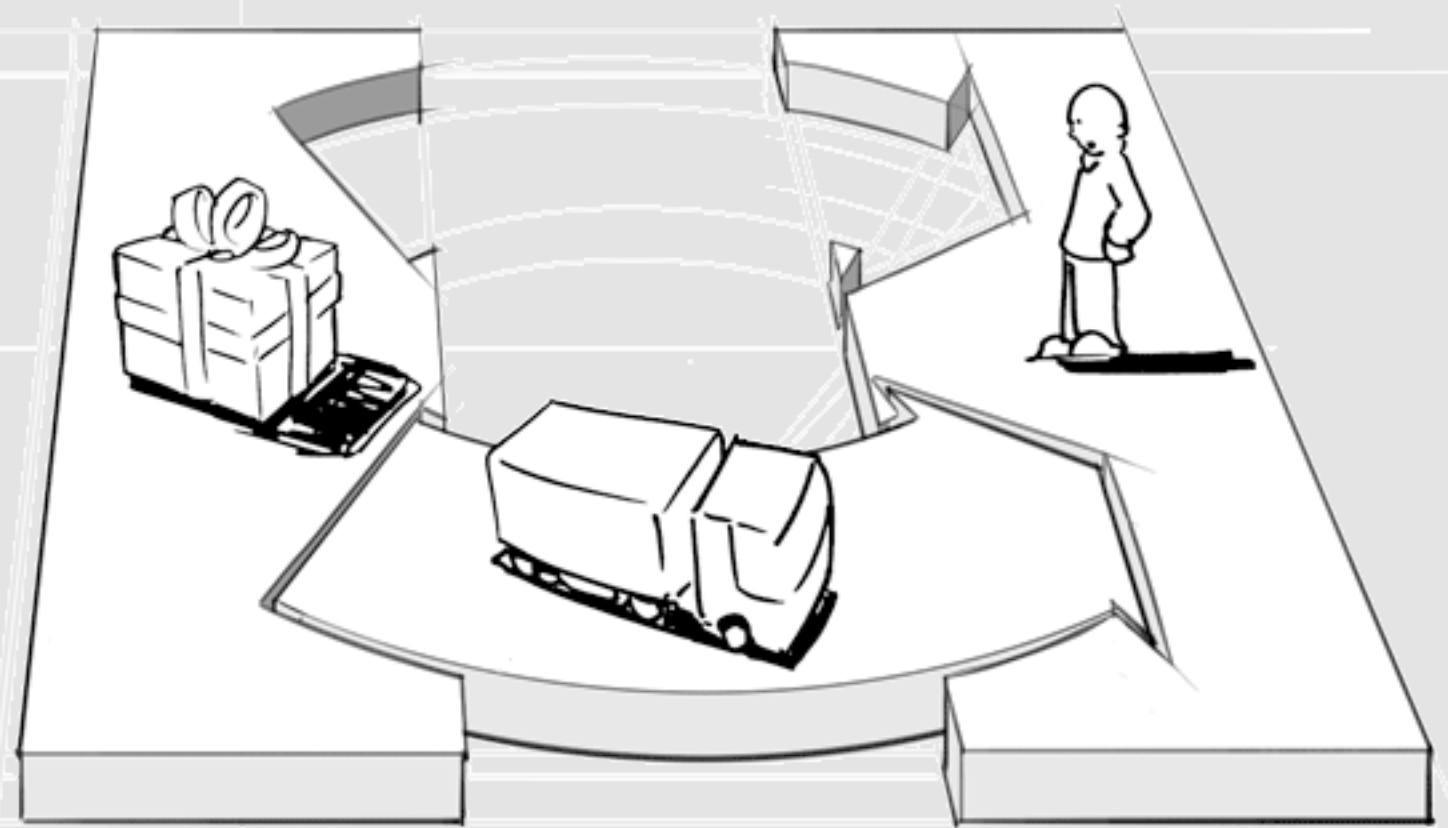
CUSTOMER SEGMENTS



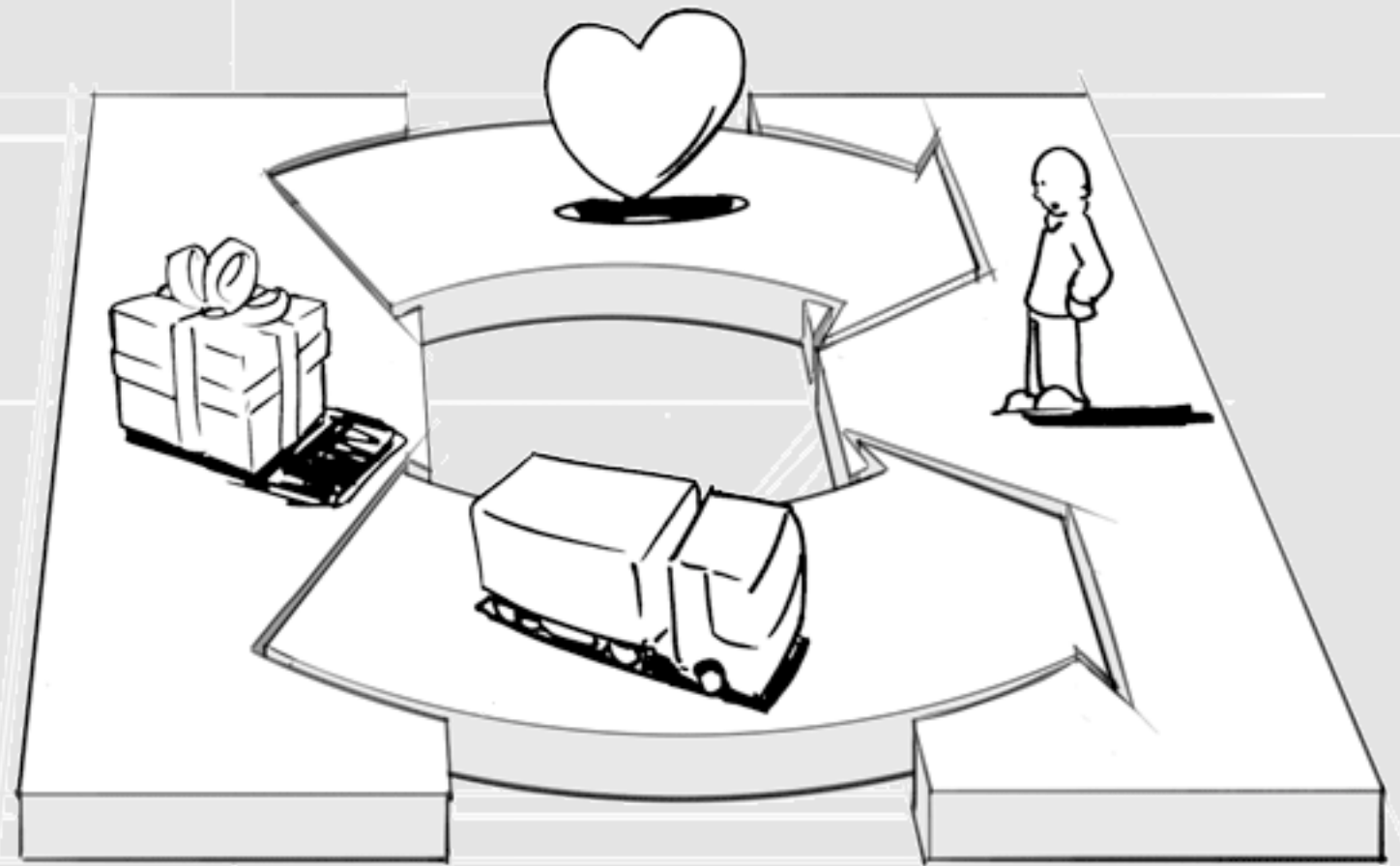
VALUE PROPOSITIONS



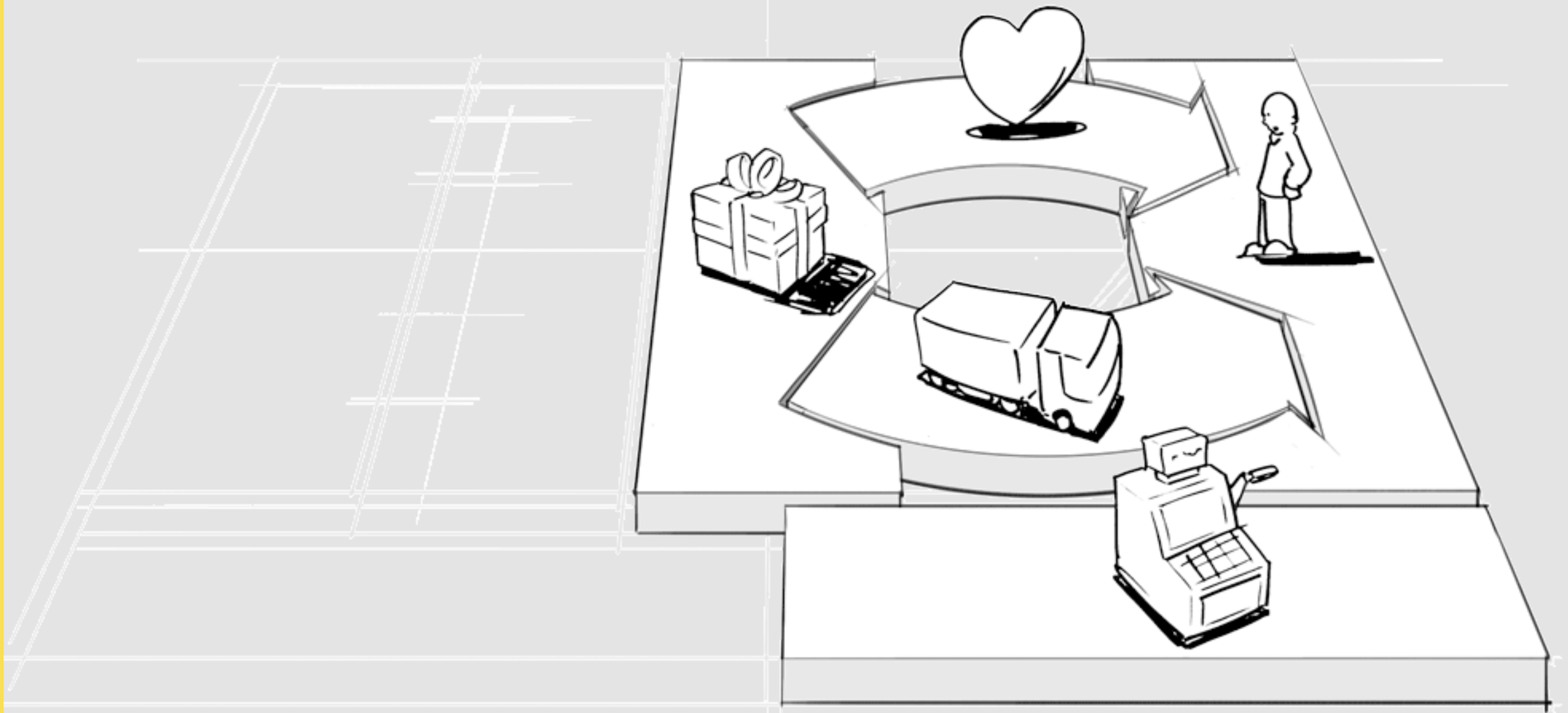
CHANNELS



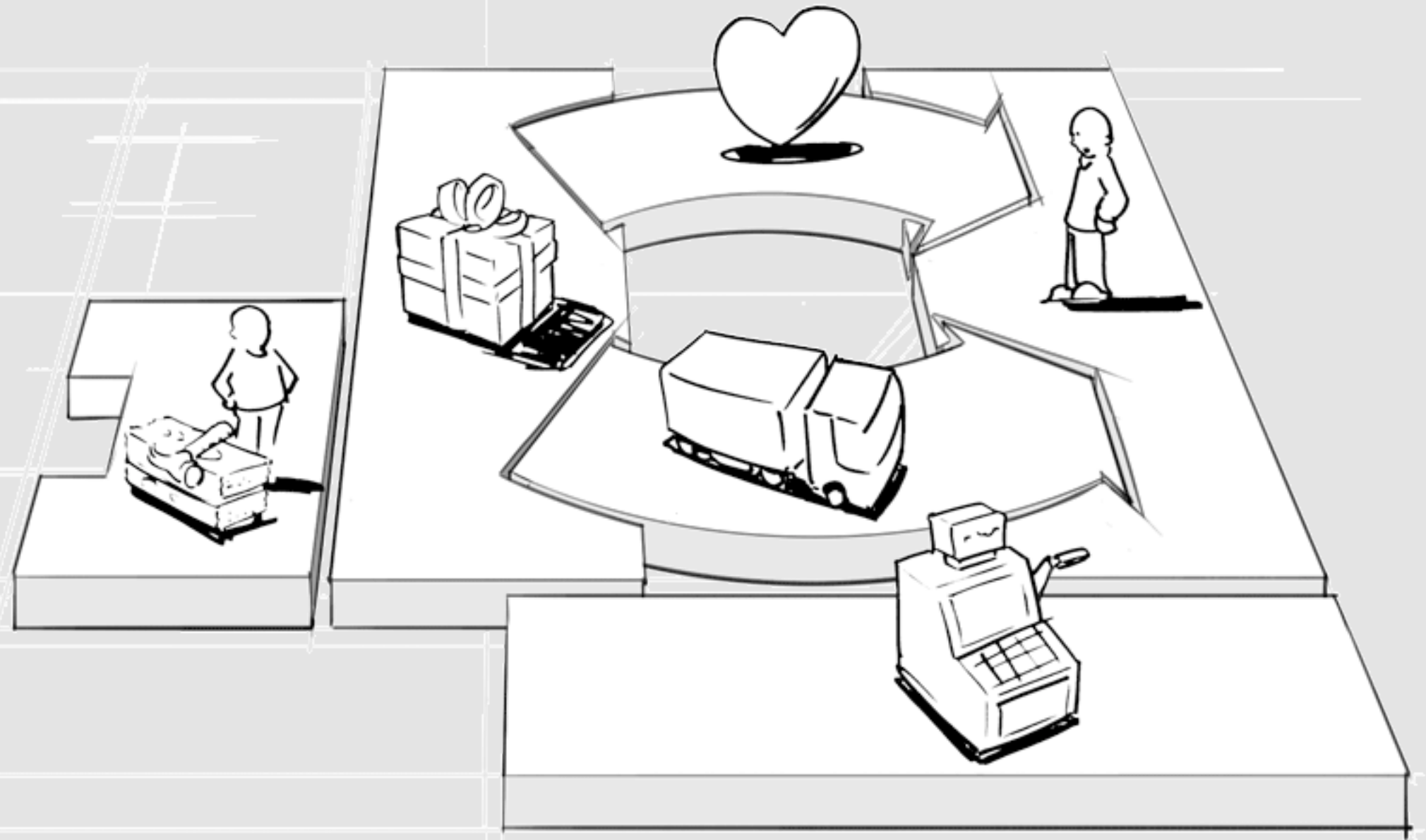
CUSTOMER RELATIONSHIPS



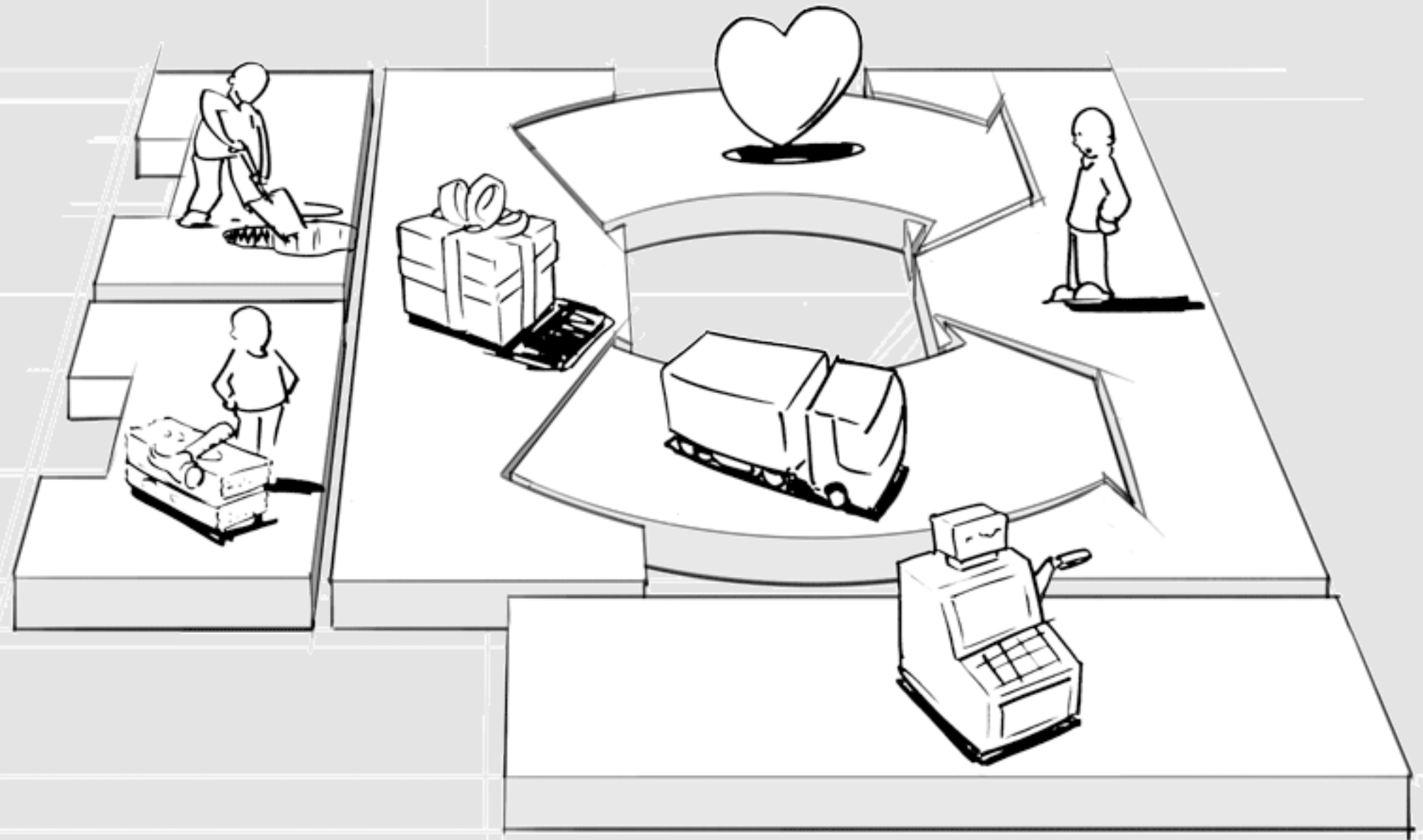
REVENUE STREAMS



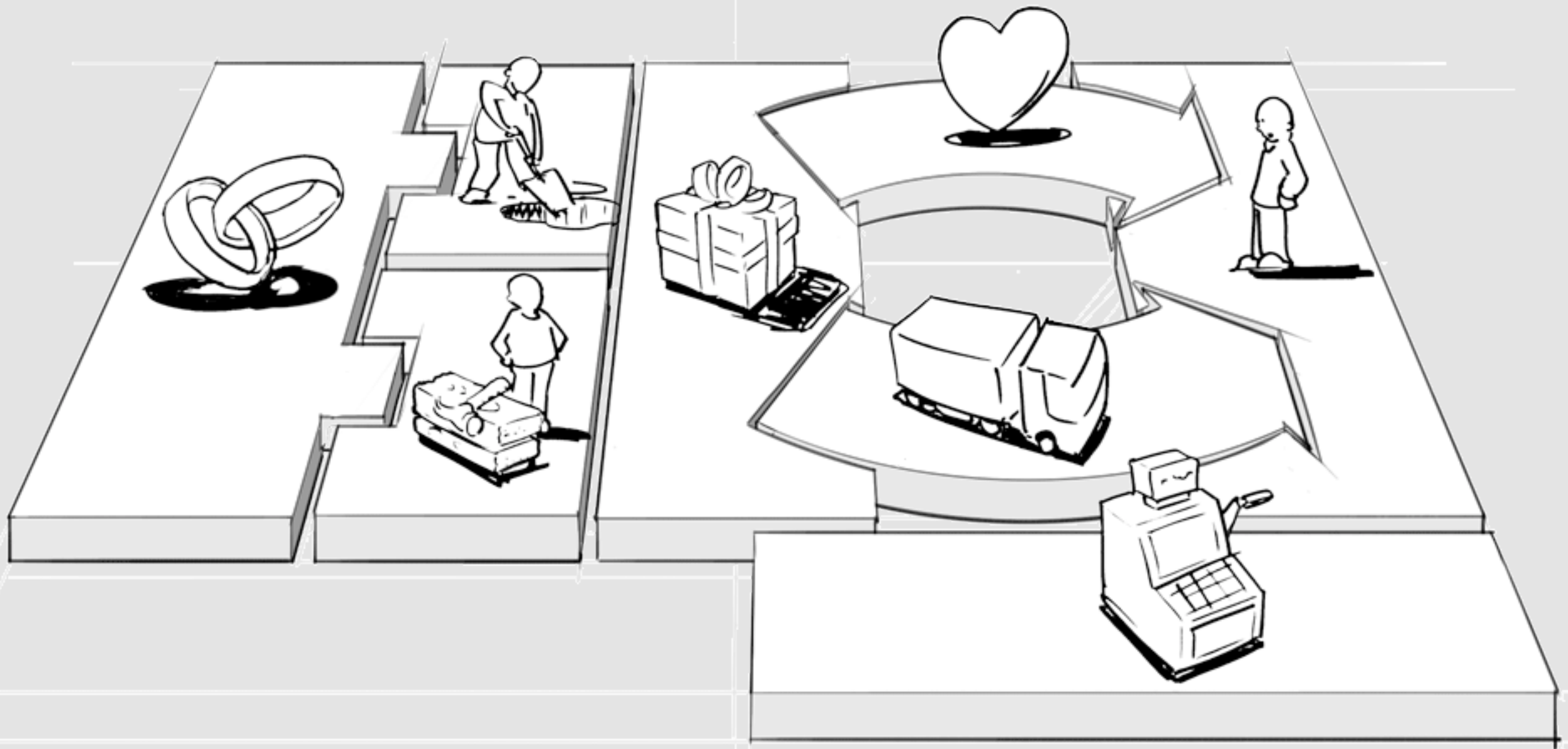
KEY RESOURCES



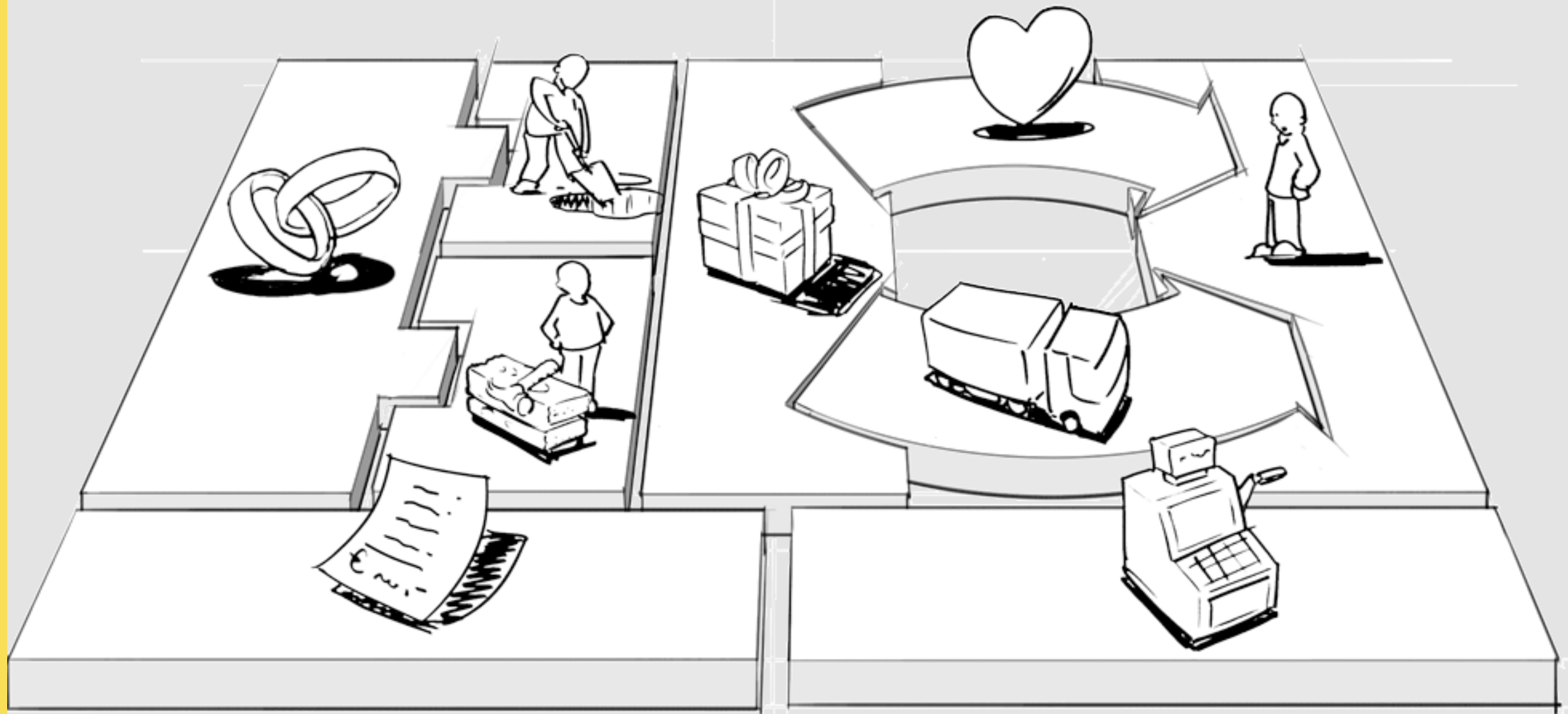
KEY ACTIVITIES

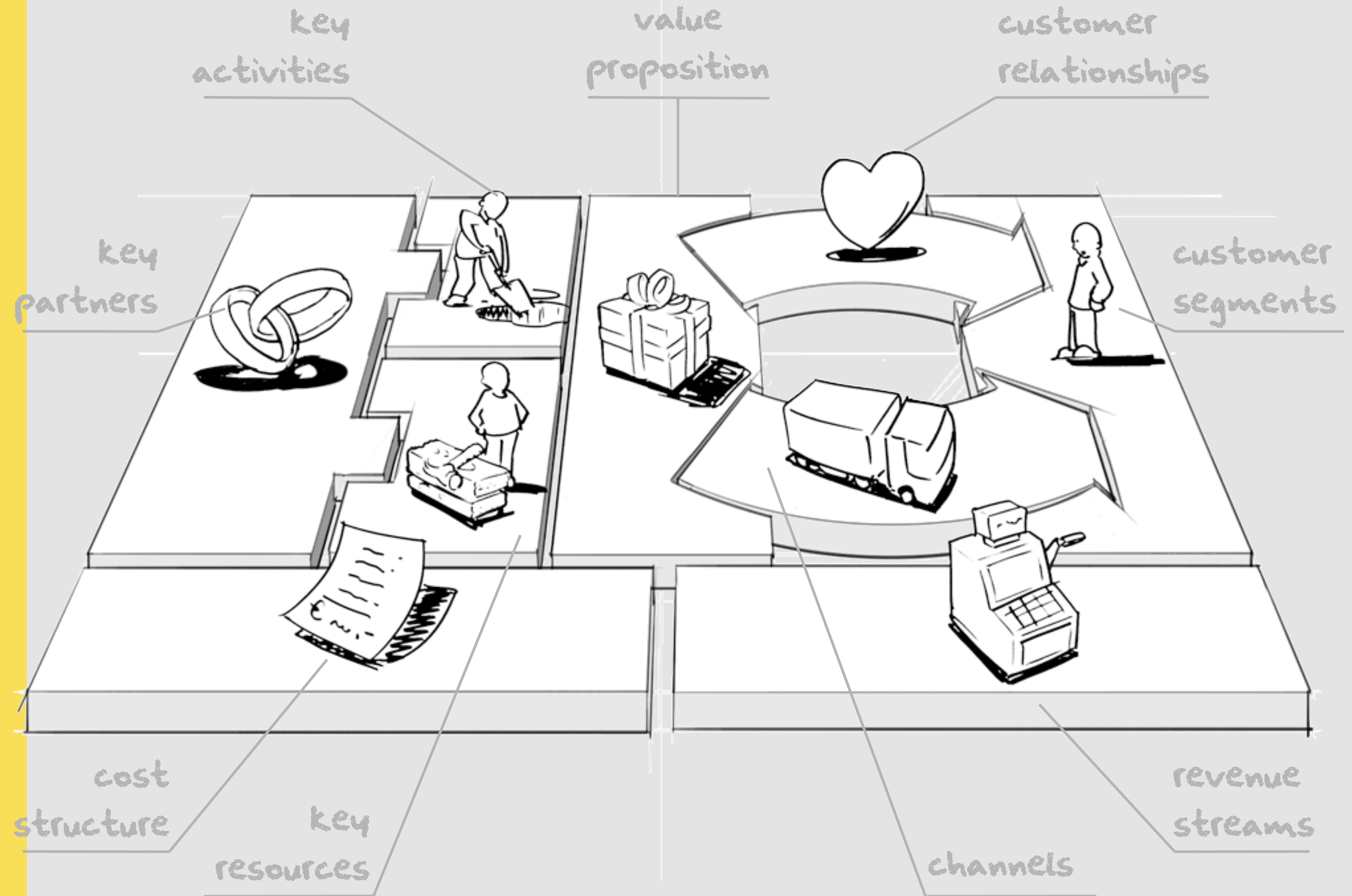


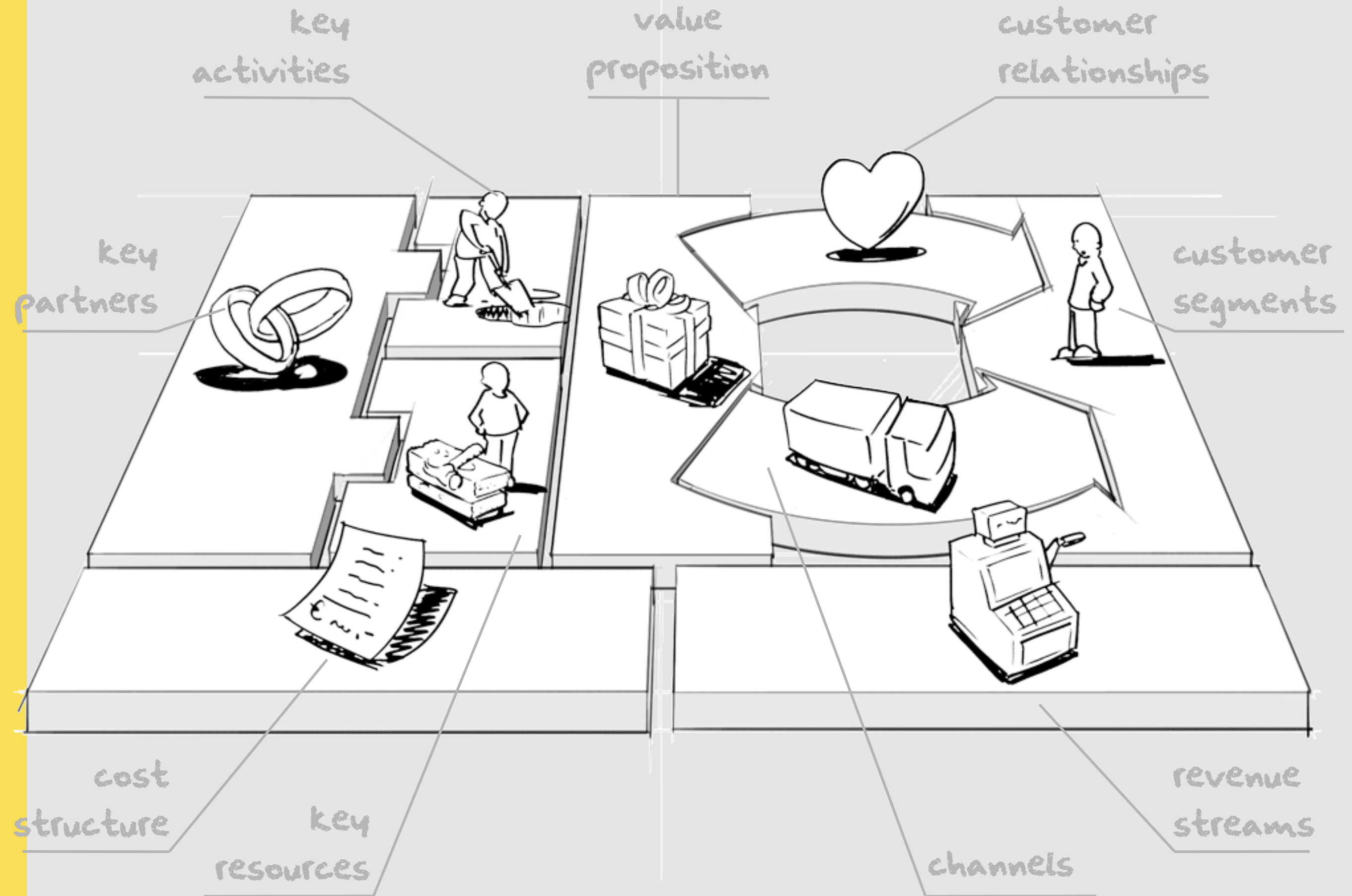
KEY PARTNERS



COST STRUCTURE







Iteration:

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BusinessModelGeneration.com/canvas

illustration





how much **less** or **more** do
the Swiss pay per gram of
coffee consumed at home
compared to a decade ago?





600% to
800%
more



NESPRESSO



Nespresso
changed the
business model
for espresso



RESULTS



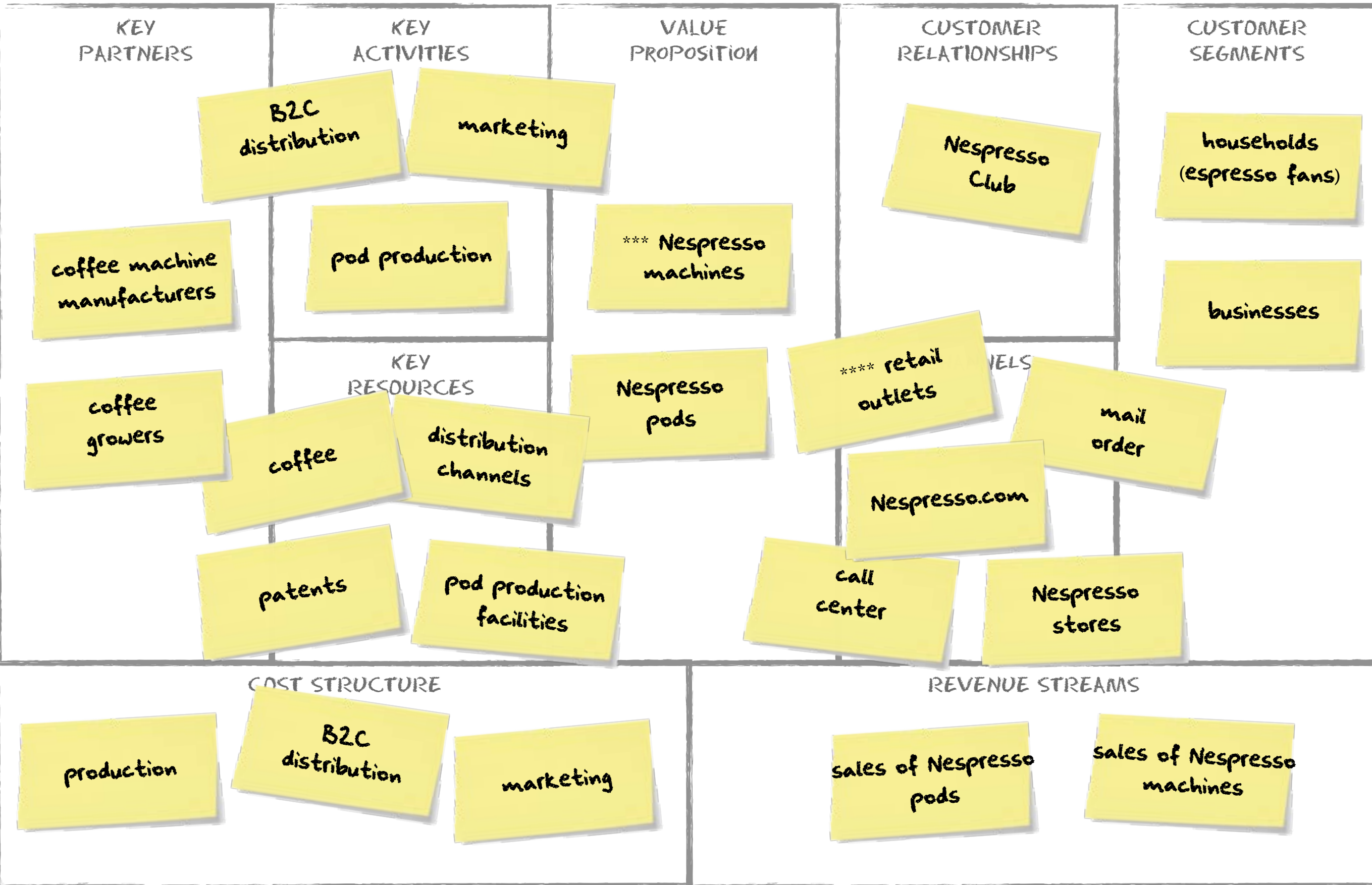
own
recycling
containers

one of the fastest-
growing businesses in
the Nestlé group

average growth of
30% p.a. since 2000

global sales of
3.8+ billion USD

NESPRESSO'S BUSINESS MODEL

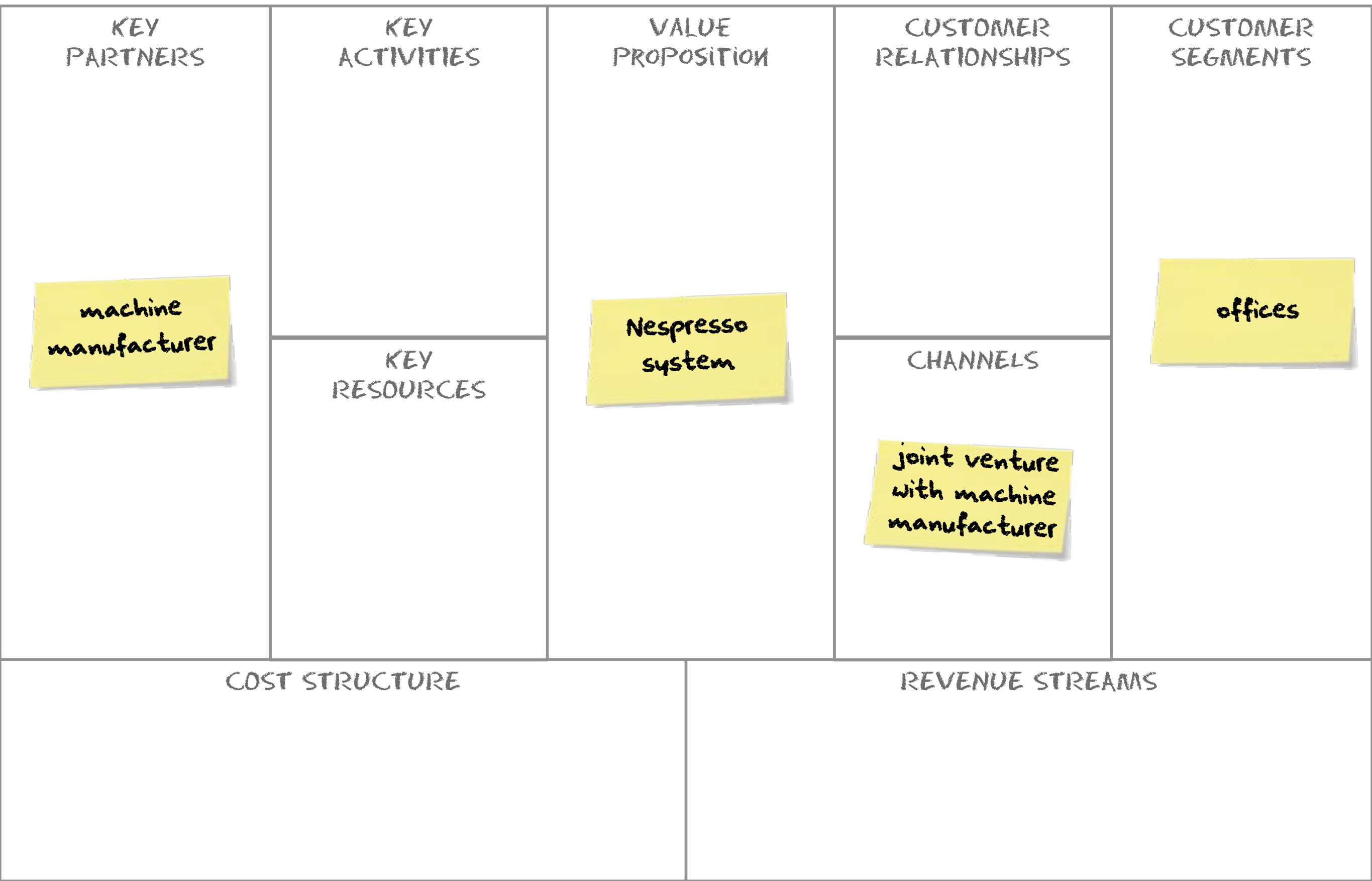




but Nespresso almost failed in
1987 due to a nonperforming
business model



NESPRESSO'S 1987 MODEL





now Nestlé is building a
portfolio of business models
in their coffee business



NESCAFÉ.
Dolce
Gusto.















The Business Model Canvas

Designed for:

Designed by:

On:
Duration:

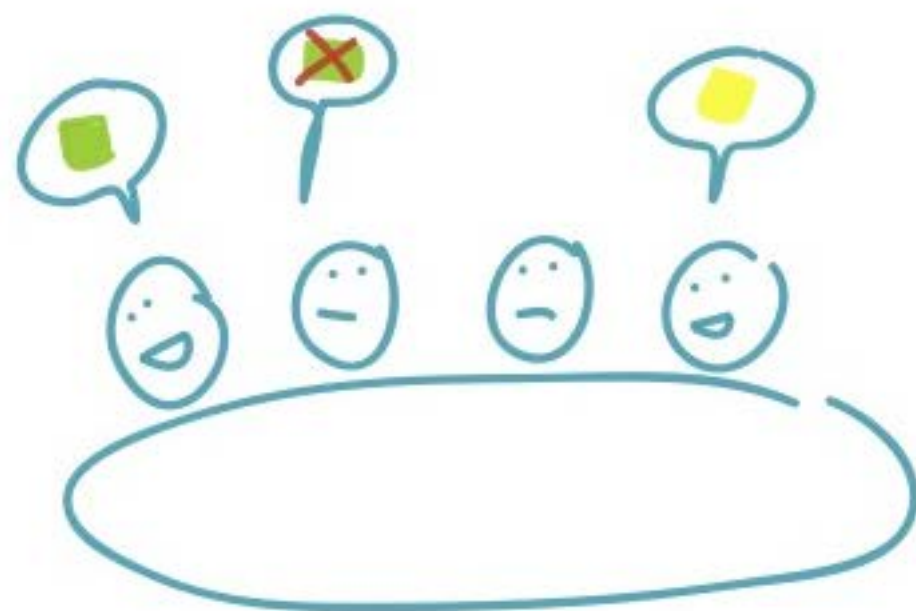
Key Partners  <p>Who are our Key Partners? Who are our Key Suppliers? Which Key Resources do we acquire from partners? Which Key Activities do partners perform?</p> <p><small>Key Partnerships: Distribution Fulfillment Procurement Logistics Research and Development Selling and Distribution</small></p>	Key Activities  <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><small>Key Activities: Production Distribution Platform Development Infrastructure Logistics Selling and Distribution Customer Relationship Management Human Resources Management Procurement Research and Development</small></p>	Value Propositions  <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? Which bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p><small>Value Propositions: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources New Channels New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>	Customer Relationships  <p>What type of relationship does each of our Customer Segments expect with us and what are we willing to build? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p><small>Customer Relationships: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>	Customer Segments  <p>For whom are we creating value? Who are our most important customers?</p> <p><small>Customer Segments: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>	
Key Resources  <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><small>Key Resources: Human Resources Physical Resources Financial Resources Intellectual Resources Social Resources Technological Resources Organizational Resources Cultural Resources Legal Resources Political Resources Environmental Resources Economic Resources Technological Resources Organizational Resources Cultural Resources Legal Resources Political Resources Environmental Resources Economic Resources</small></p>		Channels  <p>Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones are best? Which ones are most cost-effective? How are we integrating them with our business model?</p> <p><small>Channels: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>			Revenue Streams  <p>How do our customers really want to pay? How do they currently pay? How are they currently paying? How much does each Revenue Stream contribute to our business?</p> <p><small>Revenue Streams: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>
Cost Structure  <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p><small>Cost Structure: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>		Revenue Streams  <p>How do our customers really want to pay? How do they currently pay? How are they currently paying? How much does each Revenue Stream contribute to our business?</p> <p><small>Revenue Streams: New Products New Services New Channels New Relationships New Revenue Streams New Cost Structures New Business Models New Customer Segments New Key Partners New Key Activities New Key Resources</small></p>			

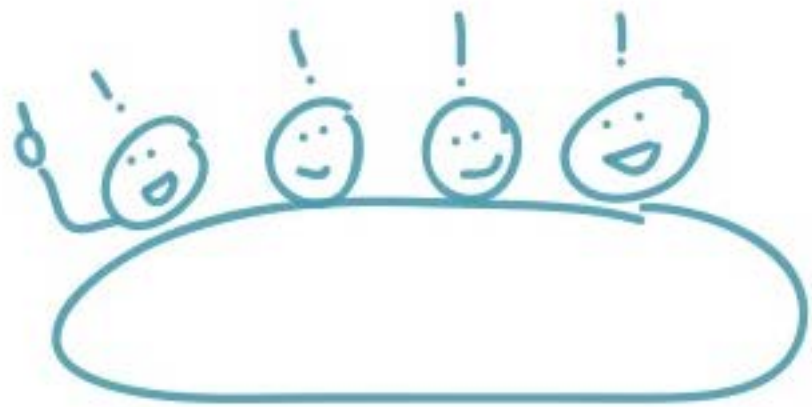
www.businessmodelgeneration.com

This is a template for the Business Model Canvas. It is not a business plan. It is a tool for generating business ideas. It is not a business plan. It is a tool for generating business ideas.

BusinessModelGeneration.com/canvas

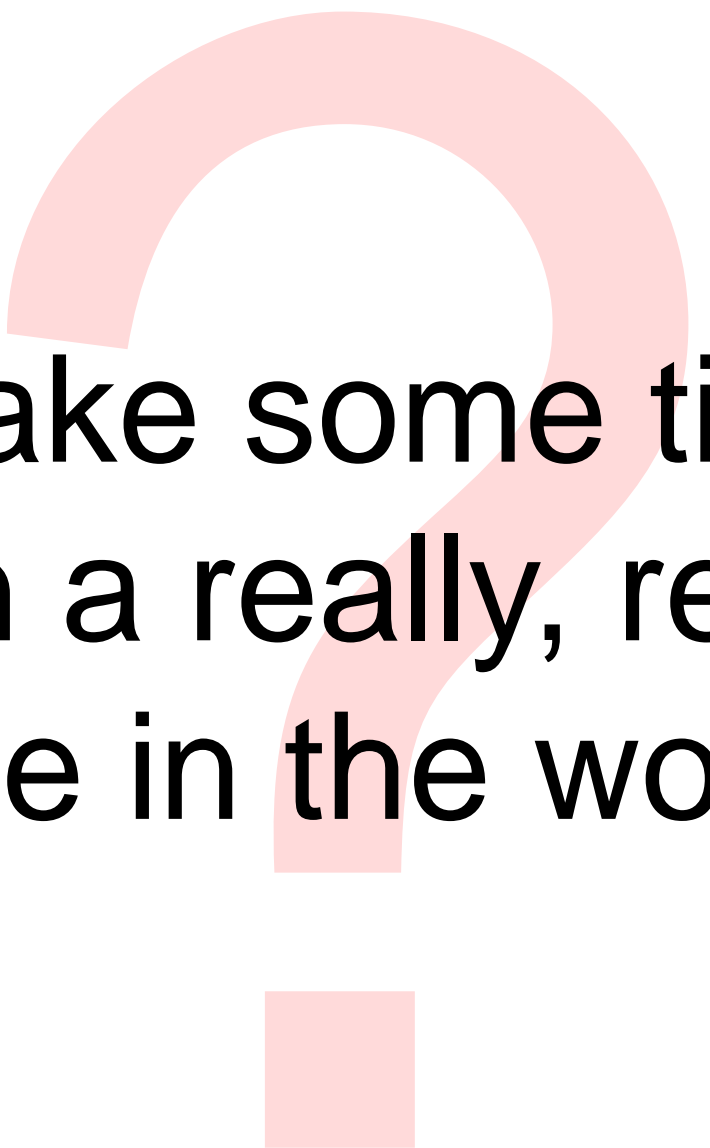






2

prototype
alternatives
and ask
yourself what
could be



let's take some time to
work on a really, really big
issue in the world?

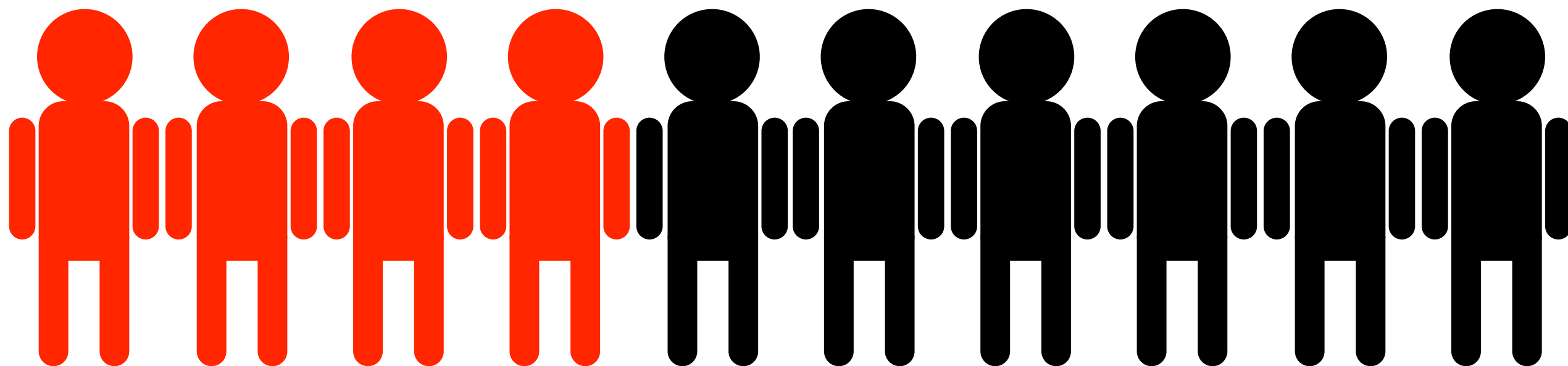


access to
proper
sanitation

2.6 billion

people lack

access



4 out of 10 people in the world lack
even the most simple latrine to perform
their needs

2.6 billion
people
just got their
own toilet.





- * single-use toilet bag
- * self-sanitizing
- * biodegradable
- * turns into fertilizer
- * (mainly) targeted at poor people
- * low production cost
- * people already pay for sanitation

THE BUSINESS MODEL CANVAS

KEY
PARTNERS

KEY
ACTIVITIES

OFFER

CUSTOMER
RELATIONSHIPS

CUSTOMER
SEGMENTS

KEY
RESOURCES

CHANNELS

COST STRUCTURE

REVENUE STREAMS



*mini
brainstorming
session*

come up with as many business
model ideas as possible for the
Peepoo bag (not full Canvases)

- * single-use toilet bag
- * self-sanitizing
- * biodegradable
- * turns into fertilizer
- * (mainly) targeted at poor people
- * low production cost
- * people already pay for sanitation

make rough
prototypes of the
different alternatives
to analyze, evaluate
and compare them

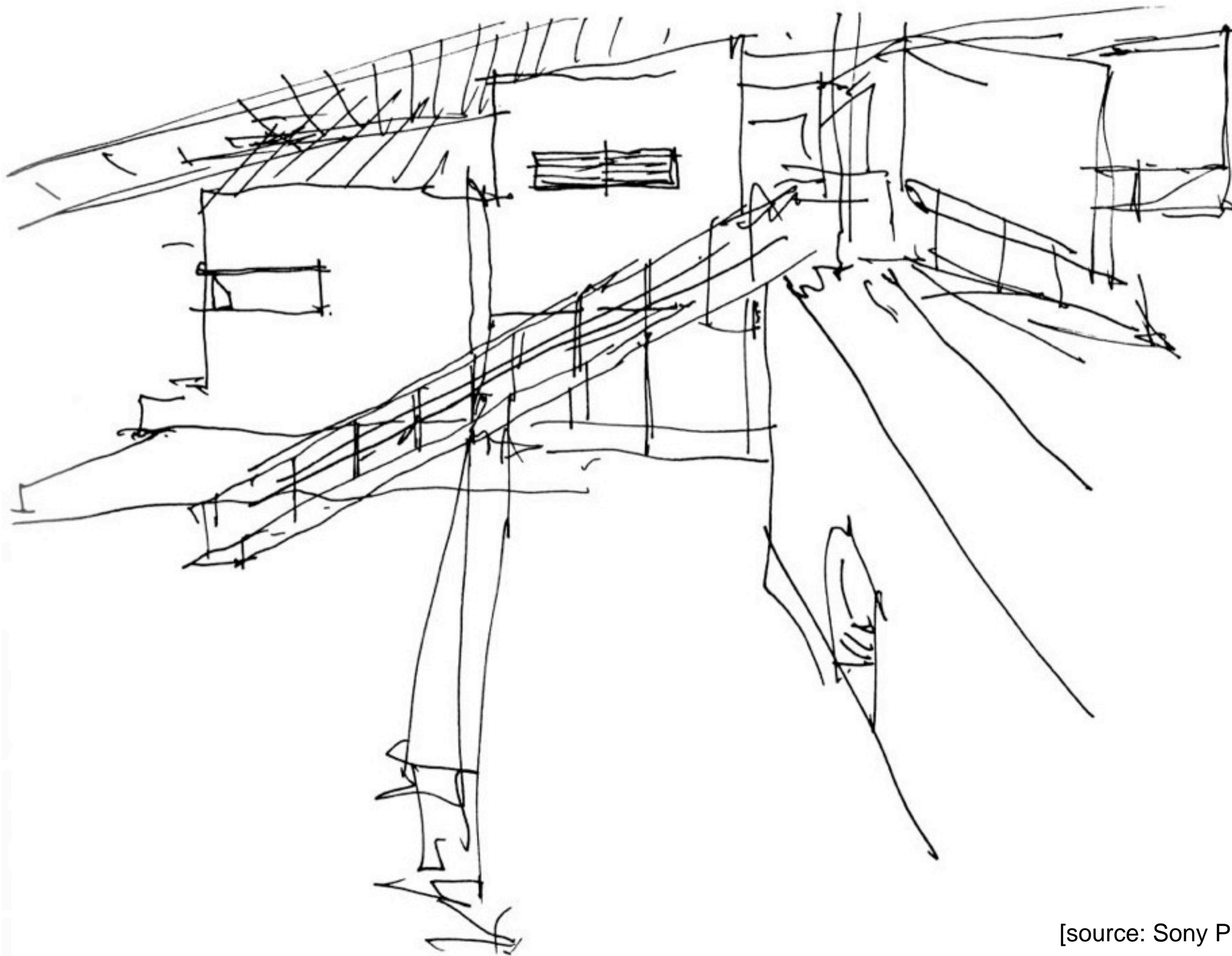


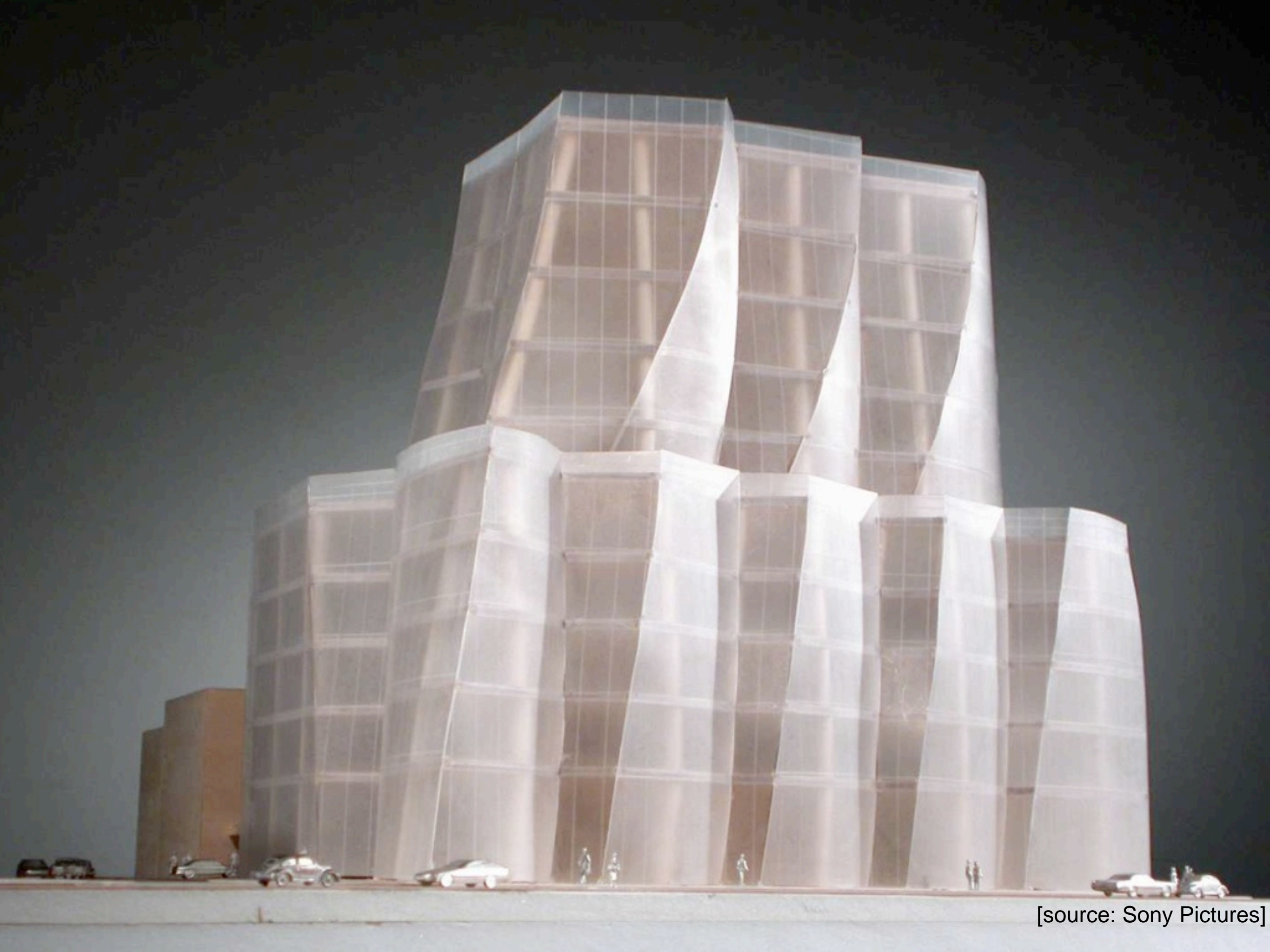
Frank
Gehry

[source: Sony Pictures]







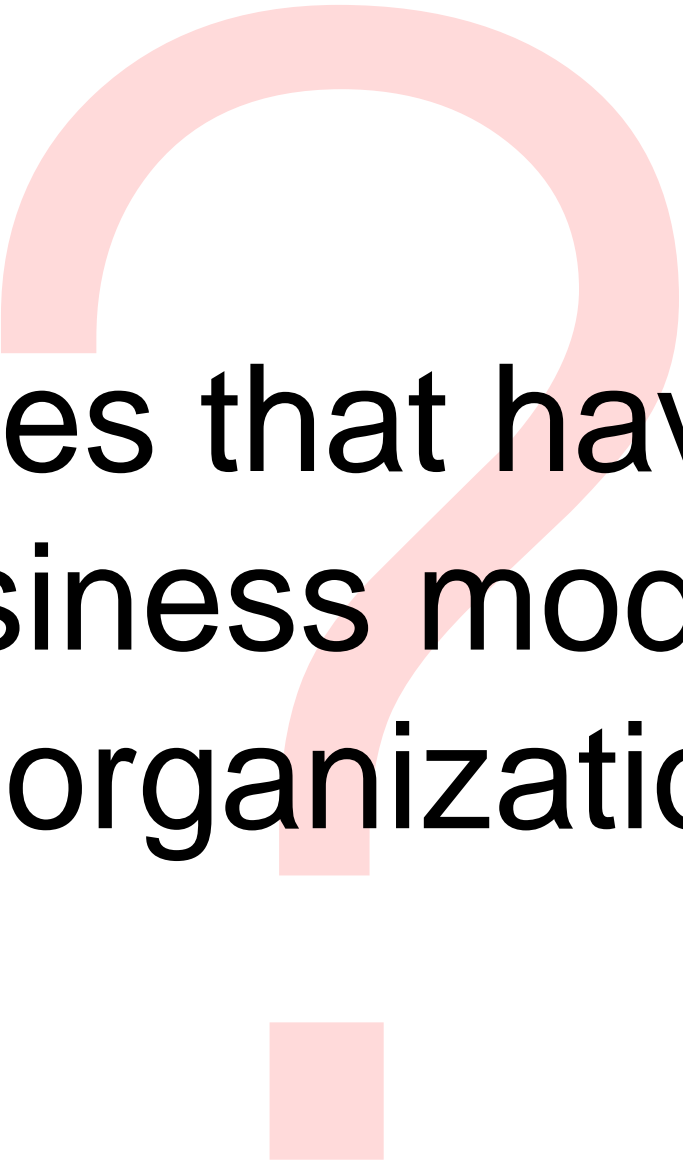


[source: Sony Pictures]

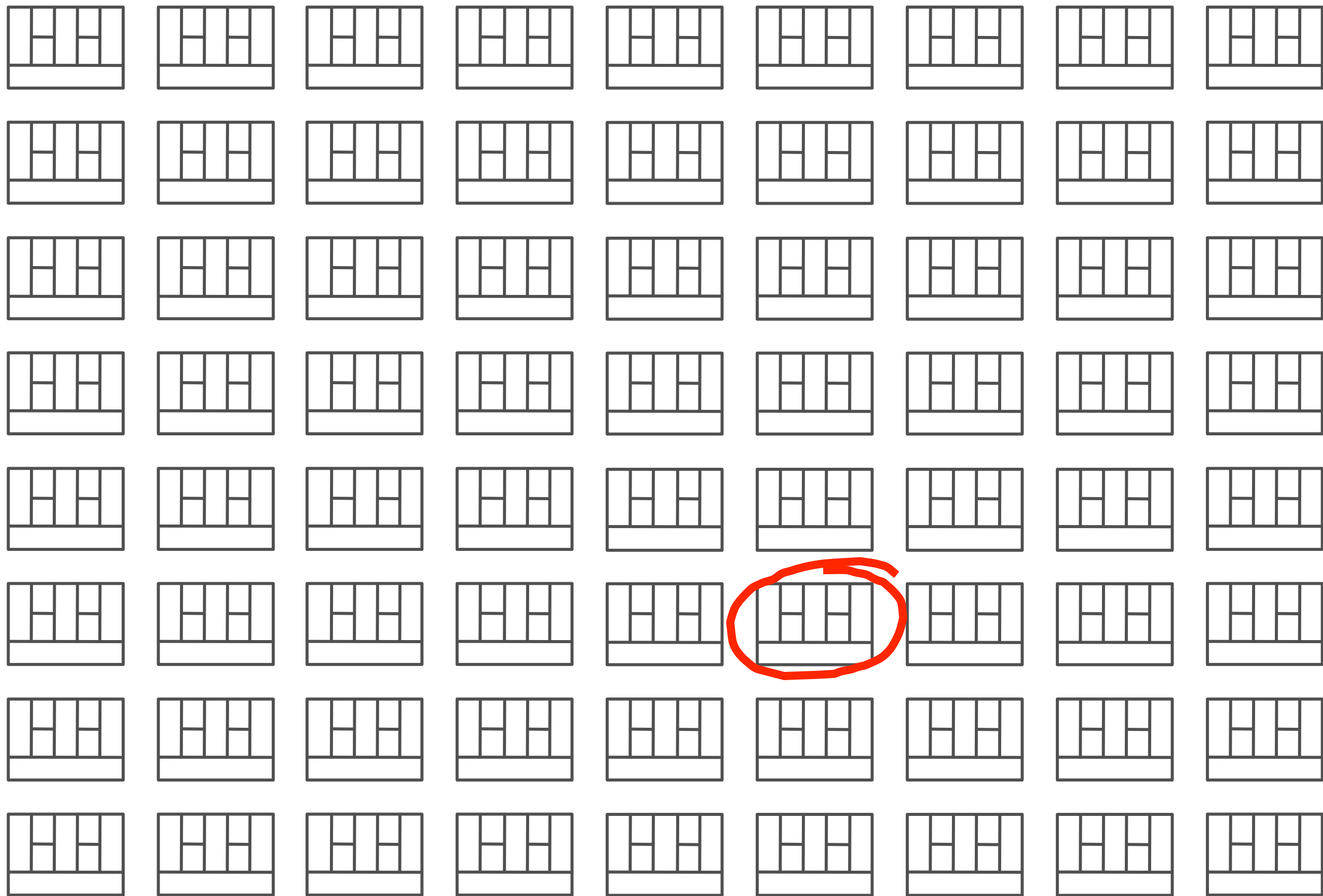


[source: Wikimedia Commons]





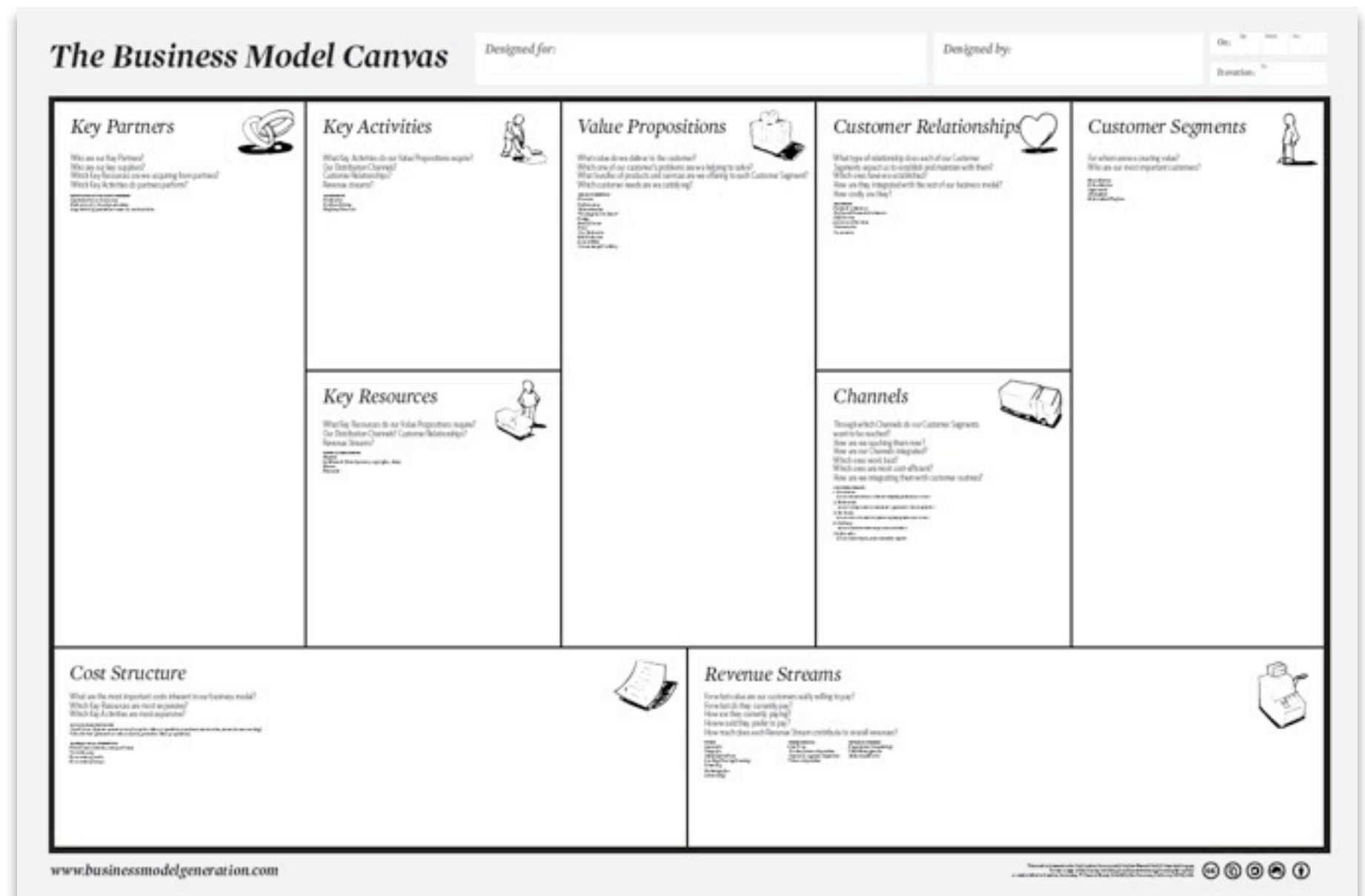
what does that have to do
with business models and
my organization?



no architect would
build something that
resembles his first
sketch

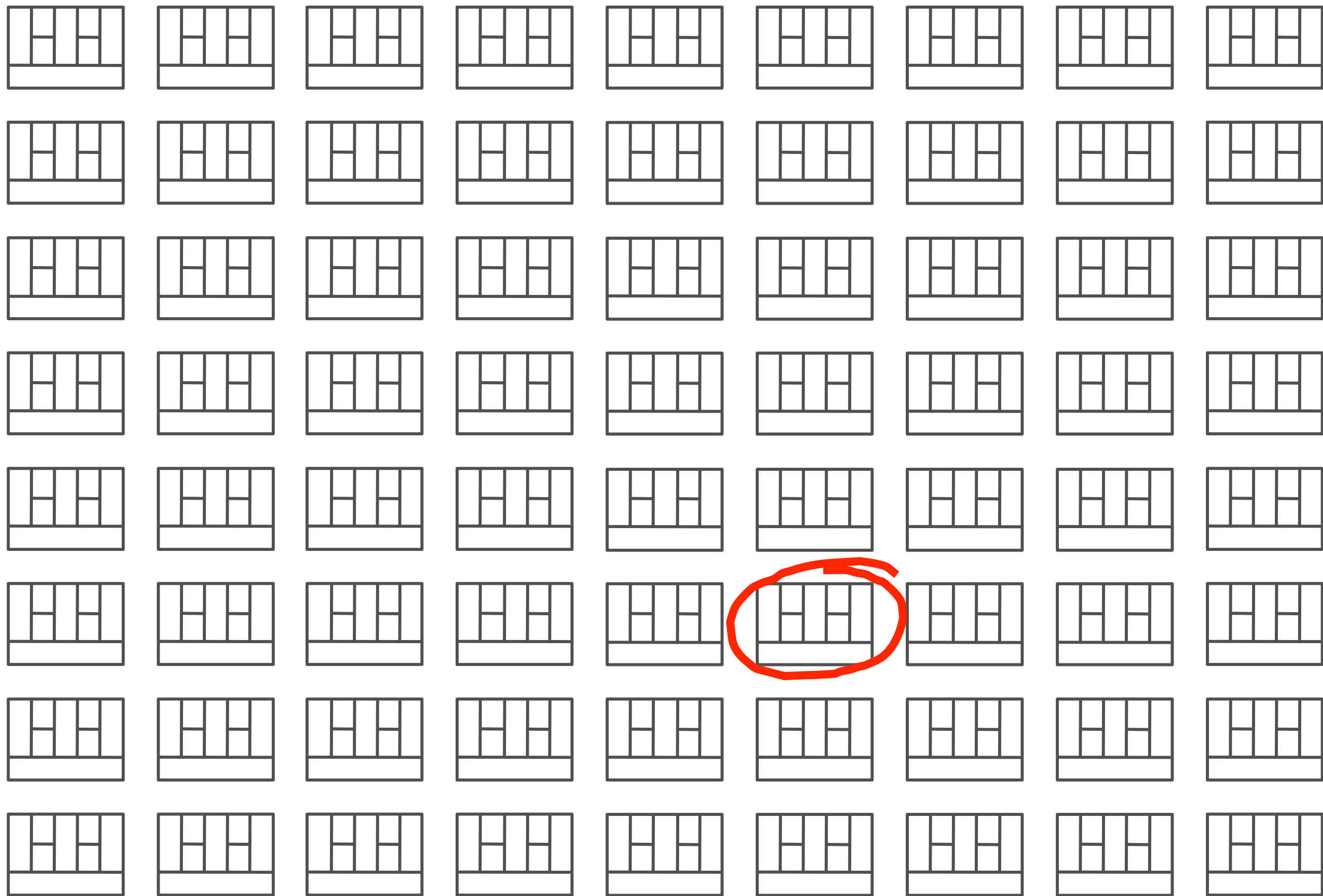


what does that
mean for us?

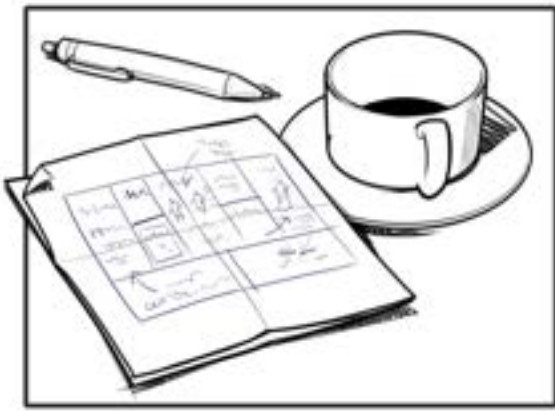


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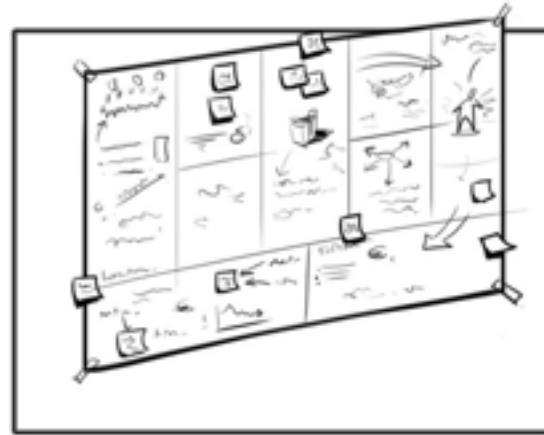




business model prototyping



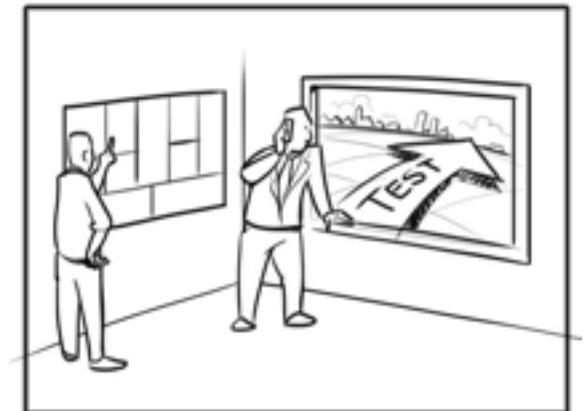
napkin sketch



Canvas



business case



field test

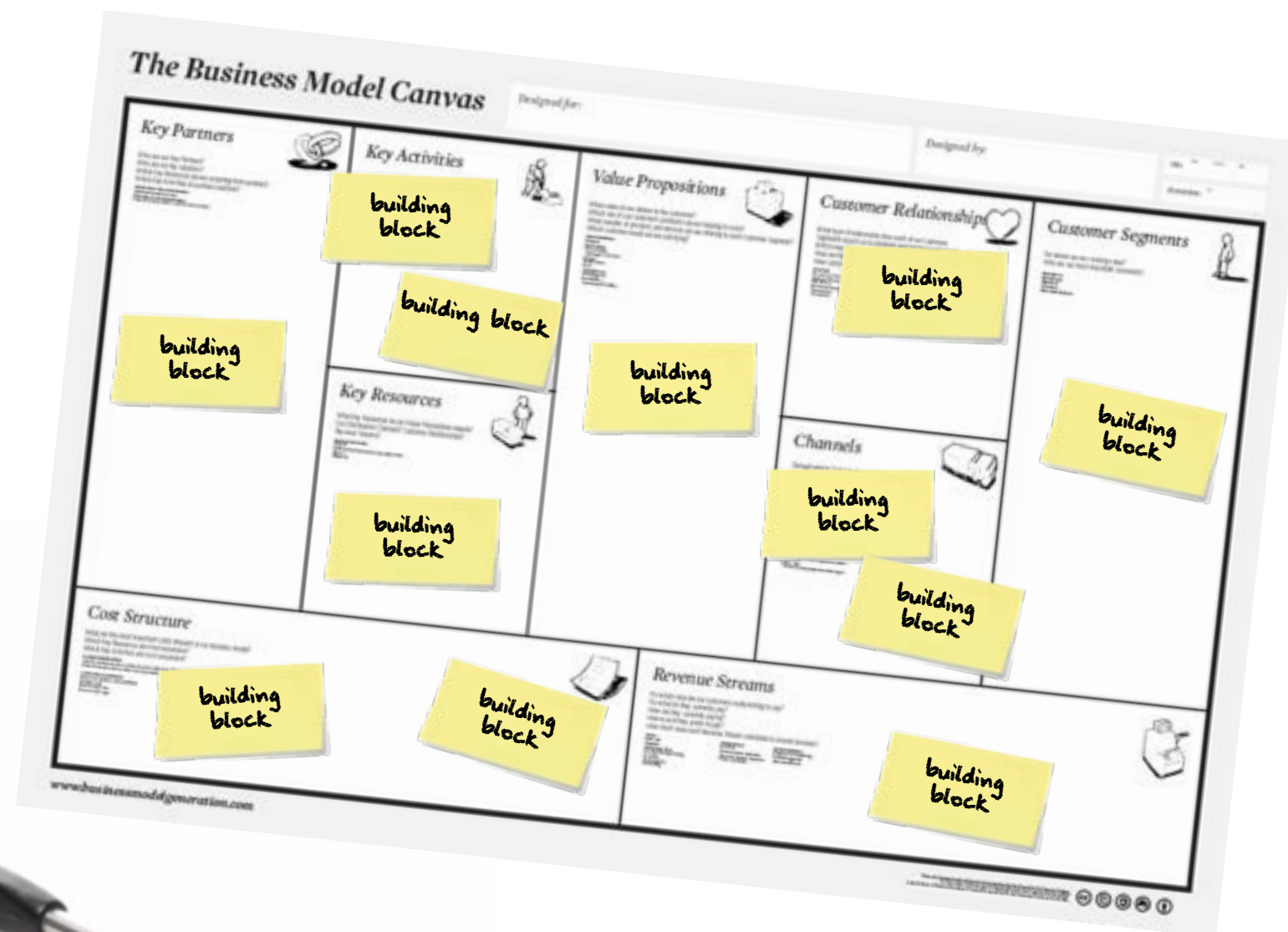
“ prototyping is the
conversation you
have with your
ideas ”

Tom Wujec



3

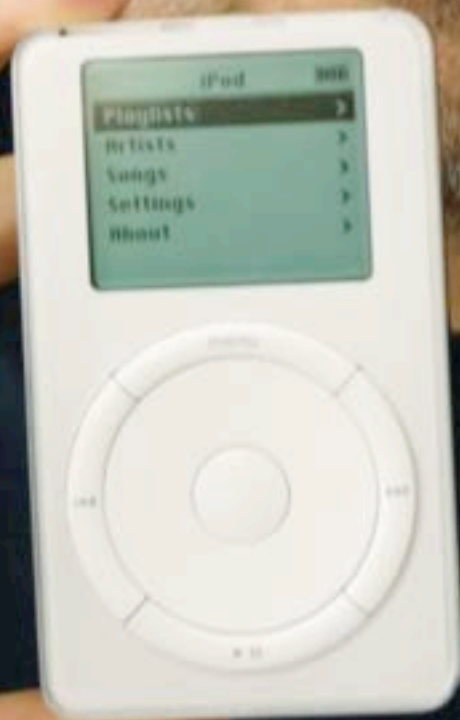
evaluate
your
business
model
design



SWITCHING COSTS

How easy or difficult is it for customers to switch to another company?

with
this amazing device
you can have thousand
songs in a pocket





...and
you'r screwing us
because it has just
become more difficult to
switch devices

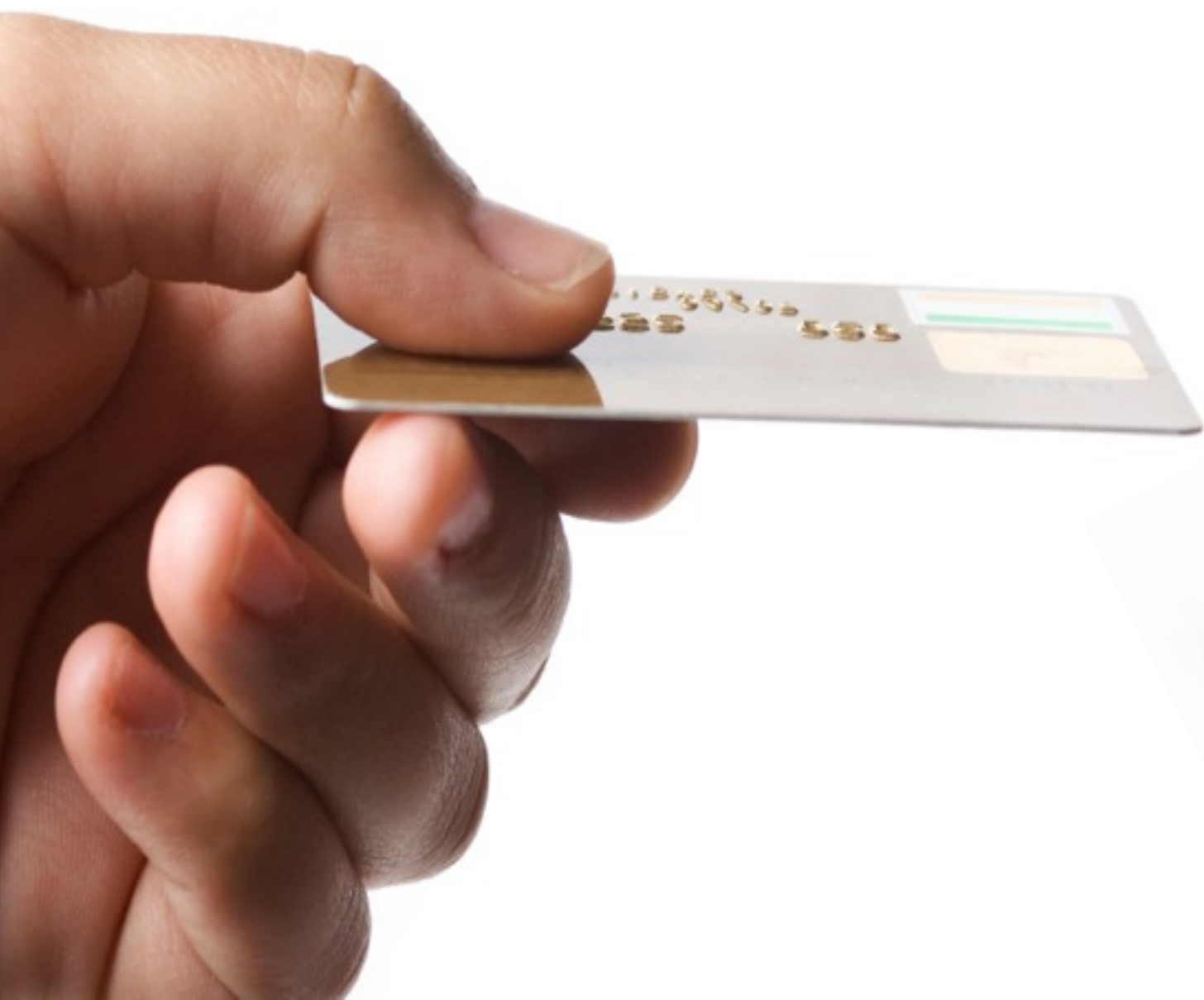
RECURRING REVENUES

Is every sales a new effort or will it result in follow-up revenues and purchases?
How evenly distributed are your revenues through the year?



EARN BEFORE YOU PAY

Are you earning money before
you are spending it?



GAME CHANGING COST STRUCTURE

Is your cost structure substantially different and better than those of competitors?



phone
calls will be totally
free in the future

GETTING OTHERS TO DO THE WORK

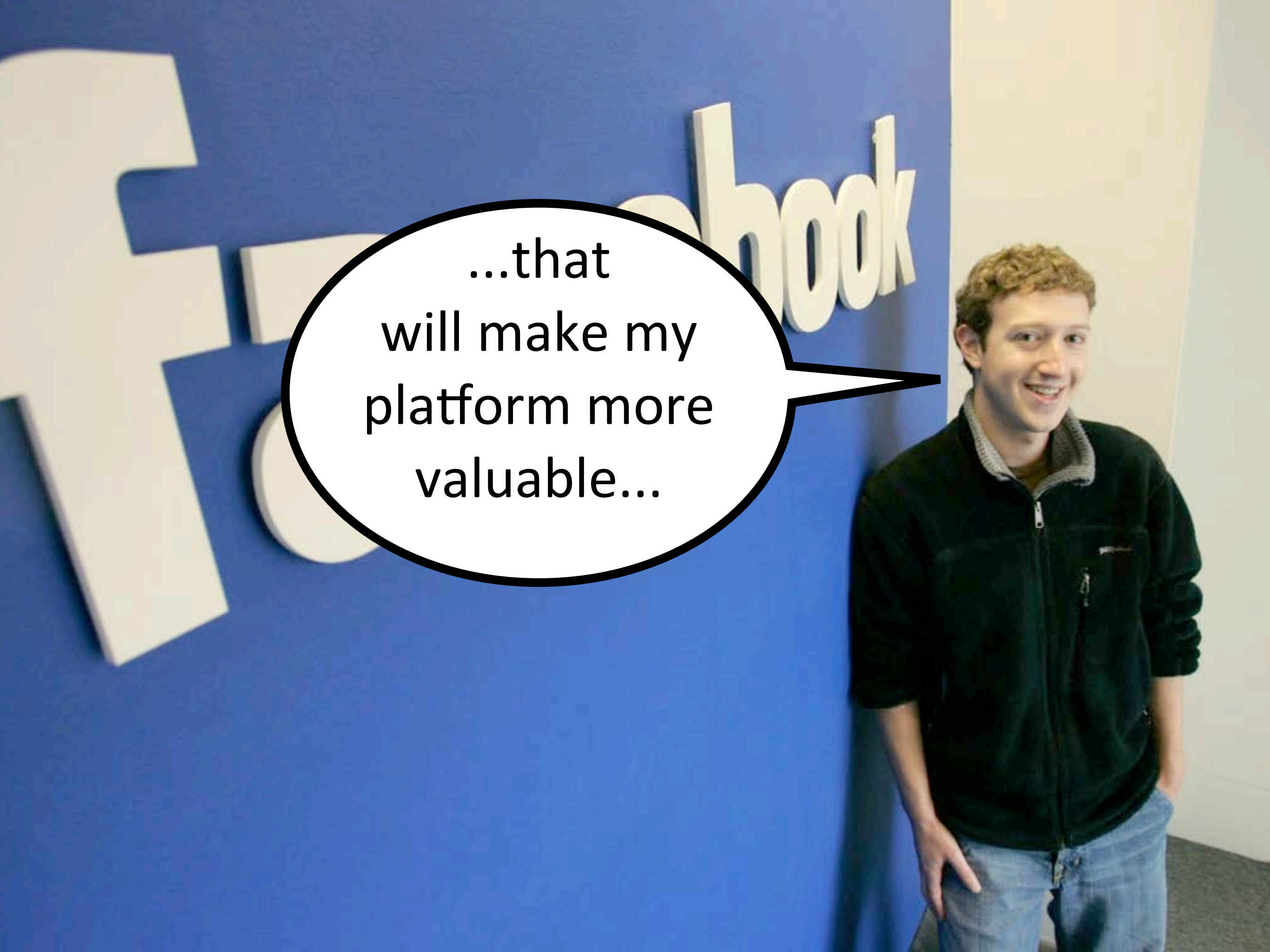
How much does your business
model get customers or third parties
to create value for you?

Facebook

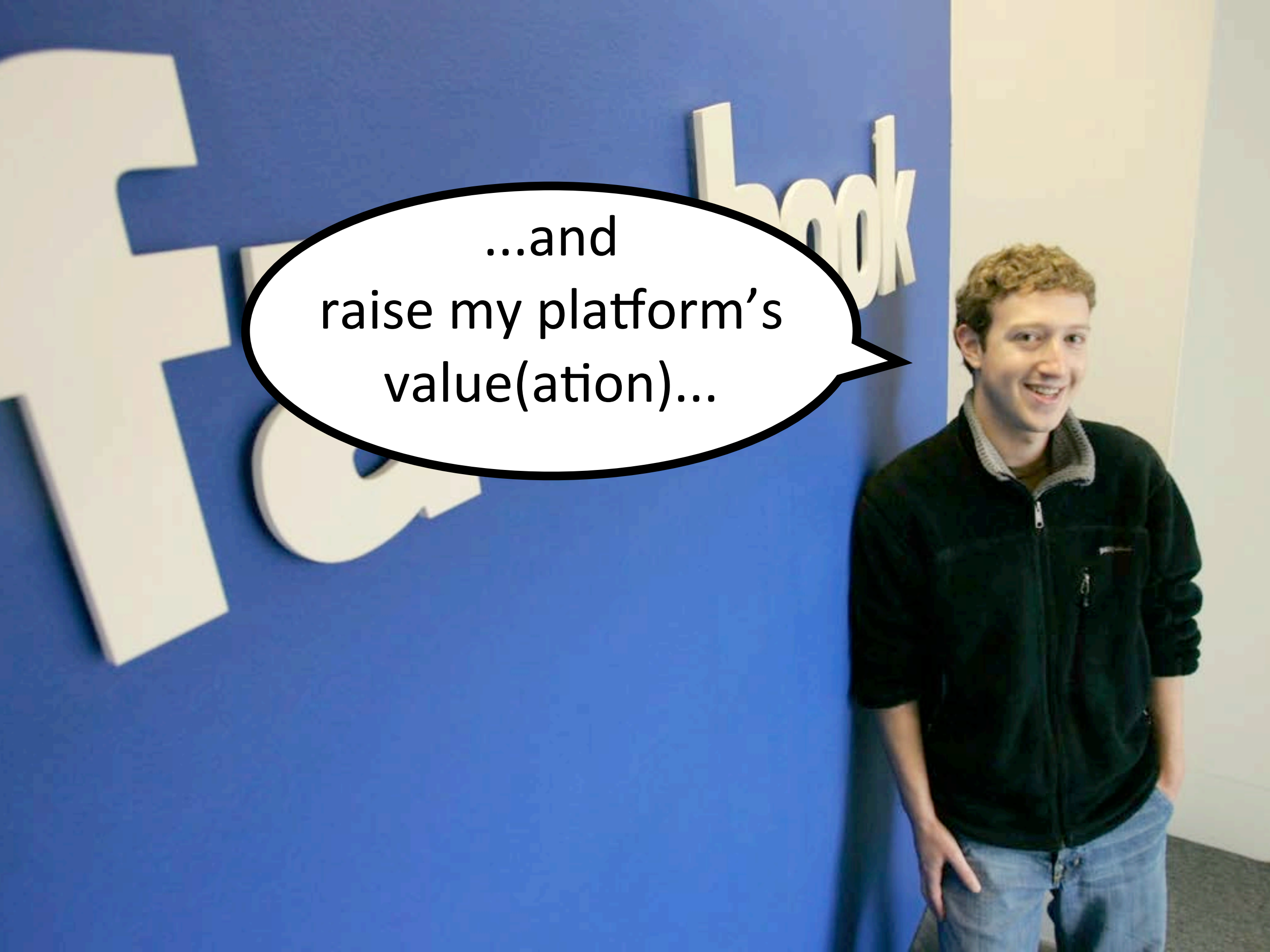


go
ahead and share
on your facebook
page...



A photograph of Mark Zuckerberg standing in front of a blue wall with large white 3D letters spelling 'Facebook'. He is wearing a dark green zip-up jacket over a grey collared shirt and blue jeans. A white speech bubble with a black outline is positioned to his left, containing the text:

...that
will make my
platform more
valuable...

A photograph of Mark Zuckerberg standing in front of a blue wall with large white letters spelling 'Facebook'. He is wearing a dark jacket and jeans, smiling. A white speech bubble with a black outline is superimposed over the image, containing the text:

...and
raise my platform's
value(ation)...

SCALABILITY

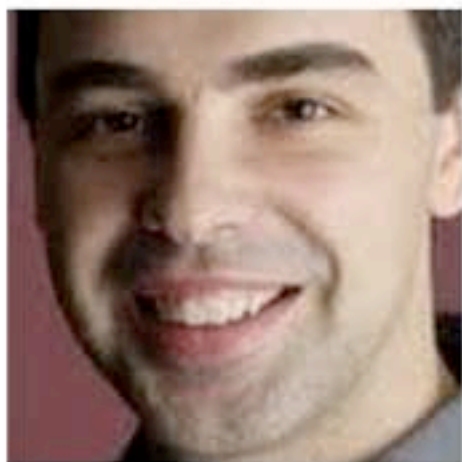
How rapidly and how easily can you grow your business model without hitting roadblocks (e.g. infrastructure, customer support, etc.)?

Cityville



VIRALITY/ NETWORK EFFECT

How viral is your business model?
How substantial are the benefits to
share with others?



Larry Page

Posts About Photos Videos



Larry Page · Jun 30, 2011 (edited Yesterday 12:52 AM) · Public

Fun day kiteboarding in Alaska. Pretty cold and gusty. These are from a while ago.

[kite \(6 photos\)](#)



+370

80 shares · Adele zhou, Ajit Pillai, Akos Veres, Andrej Karpathy, Andrés de Rojas, Ang Li, Bar...

164 older comments from Dobromir Montauk, Larry Page, Yuval Ararat, Philip Wang, David Grill...



Najam Khan · Fantastic..

11:47 AM

Have Larry in circles (3183)



[View all »](#)

[Report this profile](#)



Larry Page · Jun 30, 2011 · Photos · Public

59 people commented on this photo.



PROTECTION FROM COMPETITION

How much is your business model
protecting you from competition?

a product/
technology focus is
just not enough
anymore





*break-out
session*

Iteration: 100

View all 4 comments on the [Open Access version](#) of this article on [Research Square](#)

BusinessModelGeneration.com/canvas

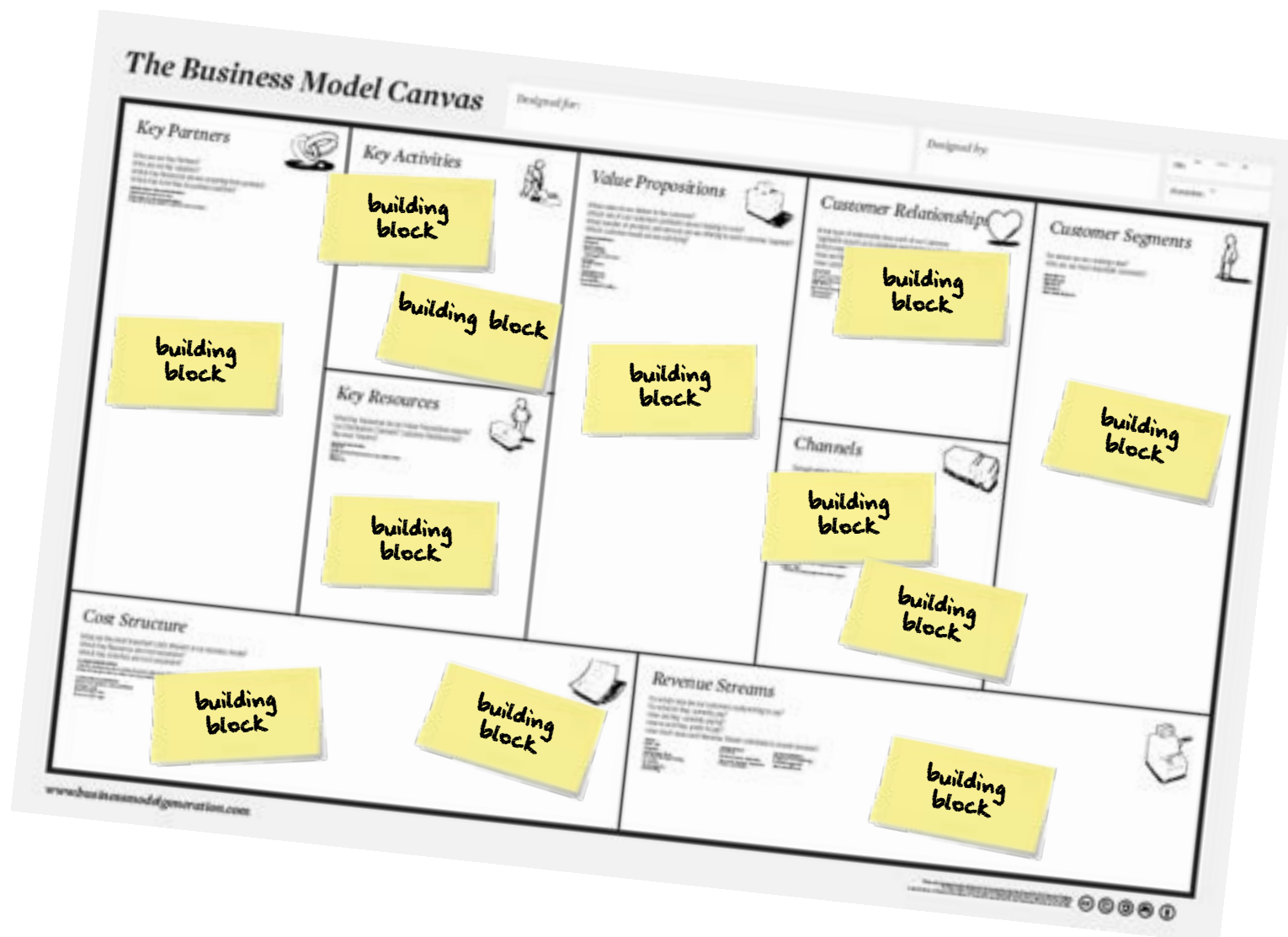
THE BUSINESS MODEL CANVAS

KEY PARTNERS	KEY ACTIVITIES	OFFER	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
	KEY RESOURCES		CHANNELS	
COST STRUCTURE			REVENUE STREAMS	

4

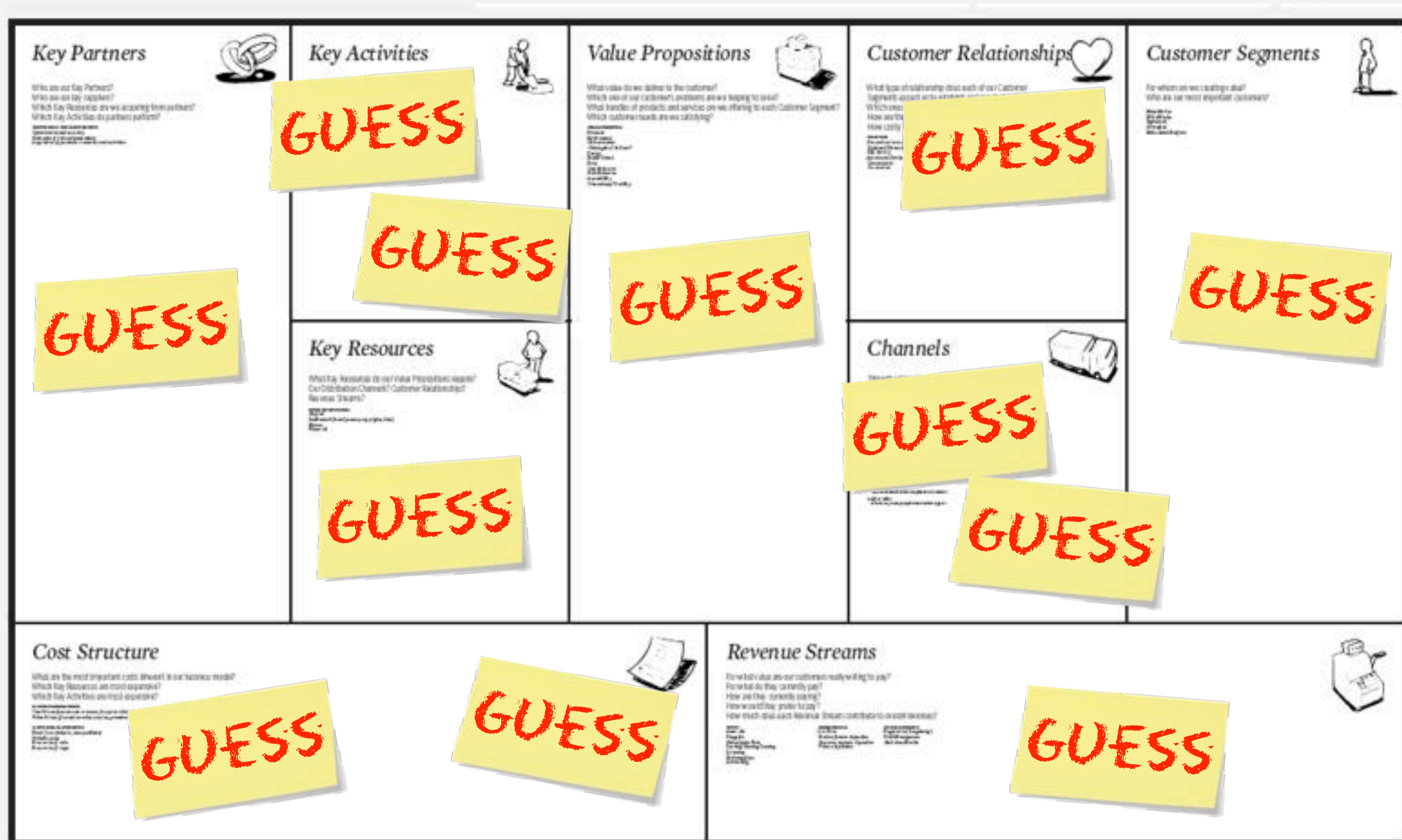
testing
business
models with
customer
development

a business model might look great on paper...



.. but after all it is only a...

... a set of hypotheses



The Four Steps to the Epiphany

*Successful Strategies for
Products that Win*



Steven Gary Blank

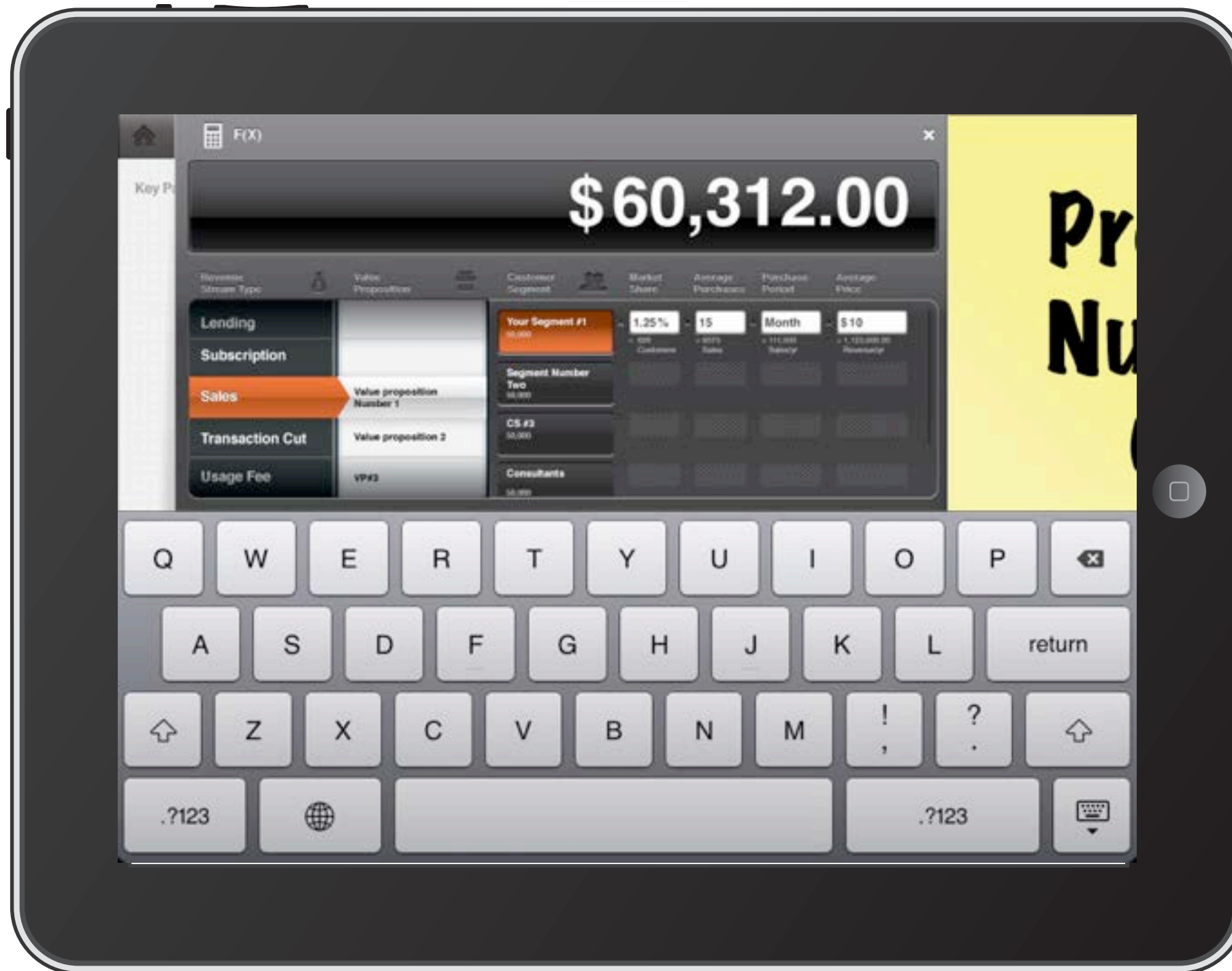
StevenBlank.com/books.html

THANK YOU!

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