



Business Model Canvas

JOHN BESSANT
Managing Innovation

Exploring innovation using the Business Model Canvas

Business models are important because they provide the architecture for creating value out of new ideas. Simply having a good idea for a new product or service is not enough if we can't answer some key questions about how to take it forward. For example:

- Who are we going to sell it to?
- Why would they value it?
- What stops other people copying us and offering the same thing?
- Who do we need to help us create and deliver our offering?
- How much will it cost us to create and deliver the offering – and how much more will we charge for our product or service to cover that and give us a surplus?
- How will we sustain this business in the future?
- How will we grow it?
- Etc.

These questions are important not only for businesses looking to create commercial value – they also apply to the public sector and to social innovation. Thinking about the underlying architecture for delivering a service like healthcare may lead us to new ways of framing the problem – for example, the creation of the National Health Service in the UK in 1947 represented a fundamental shift towards delivering healthcare to citizens which was free at the point of delivery. The Open University offered university-level education delivered largely via distance learning routes to a huge market not able to enter higher education via traditional school and qualification-based routes.

Social entrepreneurs (see for example Aravind, Freeplay or Mowozza) face the challenge of thinking through carefully their ideas for changing the world. Simply having warm feelings about doing good is not a strong basis for creating a platform on which to deliver important social services – there is a need for clear thinking about the above questions.

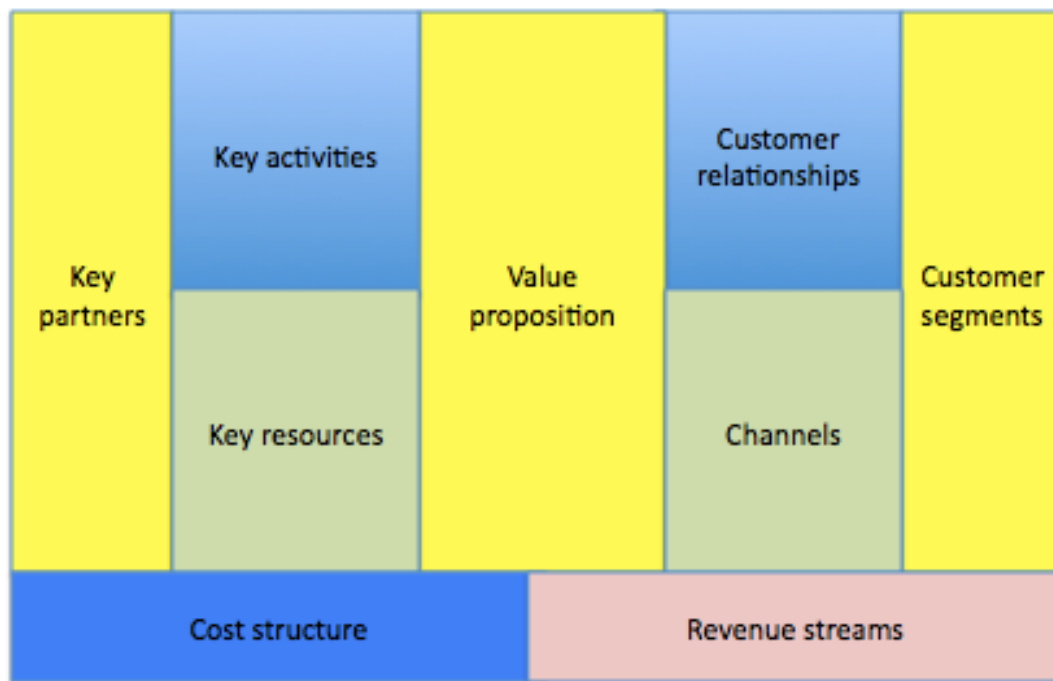
Business models are important for two reasons – first because without one we are simply gambling and second because we can change them. Business model innovation is an example of 'paradigm' innovation (see the 4Ps framework) in which changes in the way we frame what we do can be a powerful source of opportunity. And changing the overall architecture drives changes in other directions – for example the business model around low cost flying required extensive process innovation to drive down costs, product innovation (in the service offering) and position innovation in terms of targeting and reaching new customer segments.

Designing business models

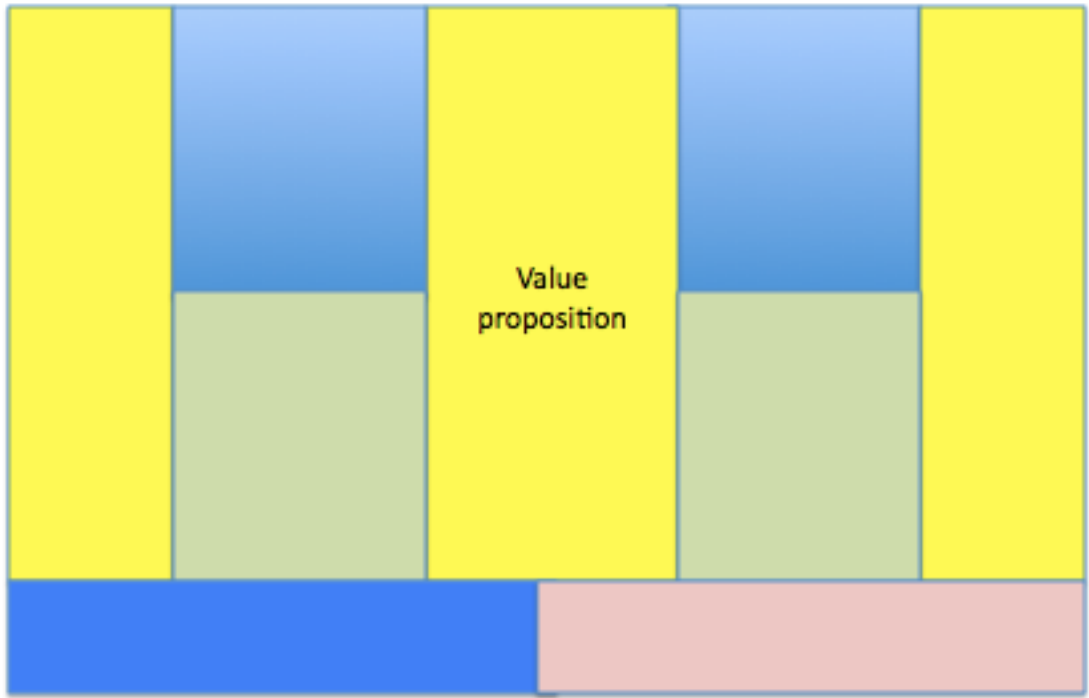
Business models represent answers to questions like those posed above and there are many tools available which provide frameworks for thinking about them systematically. As with any tool the value comes by providing a focus around which discussion and debate can take place rather than as a simple device for producing ready-made answers. One of the robust approaches to BMI is a tool originally developed by Alex Osterwalder, Yves Pigneur and colleagues called the Business Model Canvas and it uses the simple metaphor of drawing a picture of what the possible new business model might look like.

The Business Model Canvas

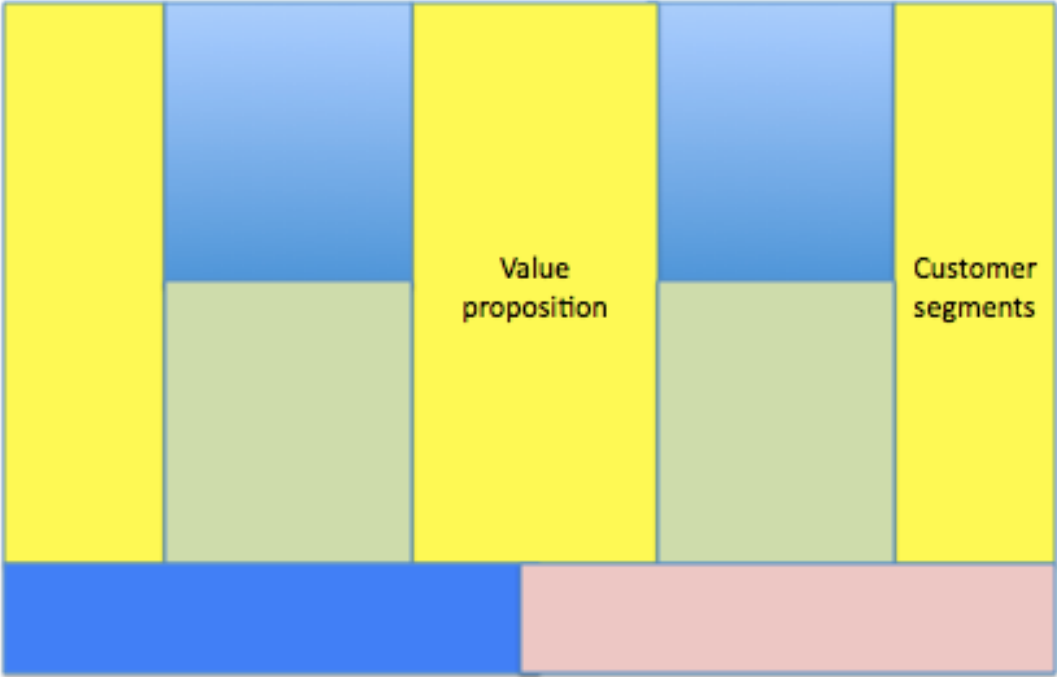
The tool is based on a simple framework – canvas – which can be quickly sketched out on paper to provide a focus for systematic exploration. It looks like this:



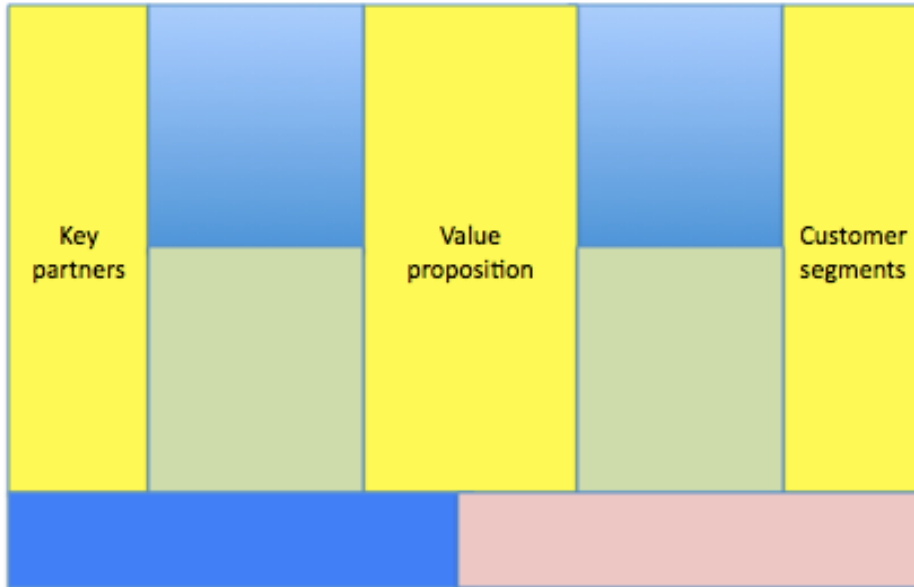
And the idea is to populate each area with answers to key questions. We can begin with the central idea – the ‘value proposition’ (VP). Put this in the centre of the canvas – and the key questions here are about value. What is it about our idea that people will value and why? Is it some particular function that they don’t already have, is it cheaper, is it better designed, does it meet a need? Is it just about price or are there other non-price factors – quality, design, choice, etc. which they value?



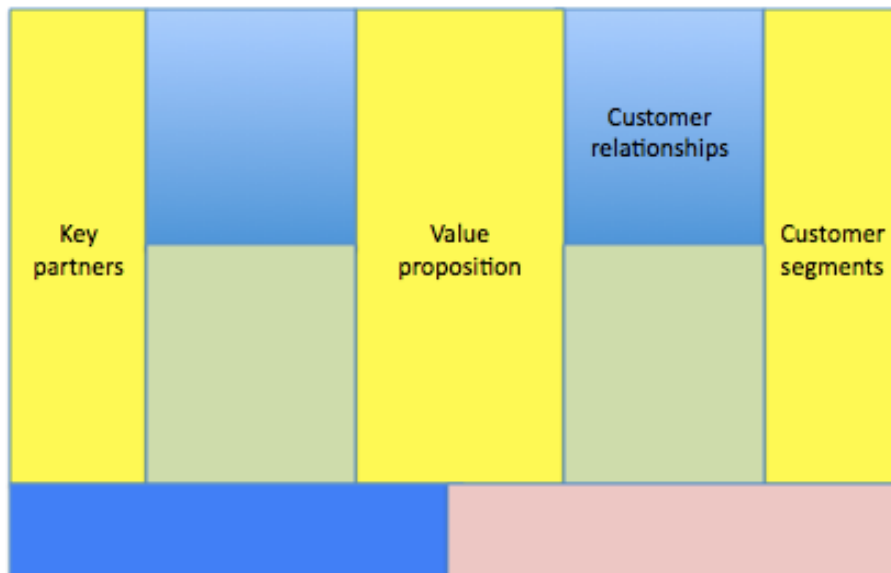
The next question is about the market – who is it for? Remember markets are made up of different kinds of people with different needs so the more you can separate – segment – out the different groups and understand them the sharper your targeting of the product or service you want to offer them. Who are the most important? Do we want to target one segment or try and reach many with slightly different offers?



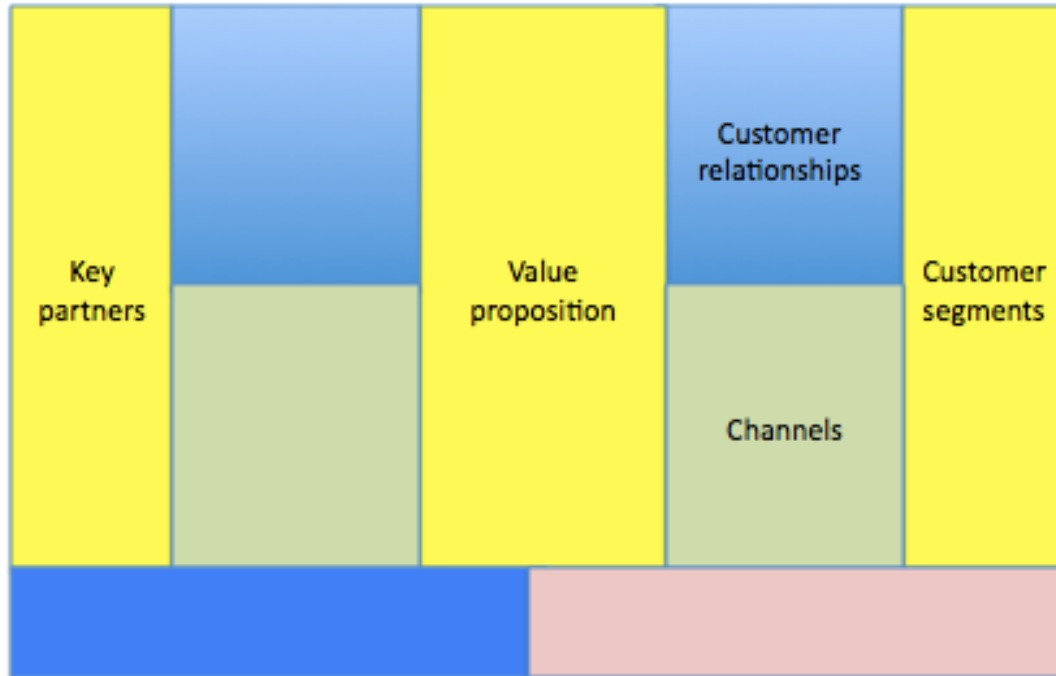
The next question is about who we can work with to deliver that value proposition. Who are our key partners? Suppliers of goods, services, knowledge? How much control do we have over this and how reliable is our ability to deliver? Who do we need to work with? How do we manage our relationships with them?



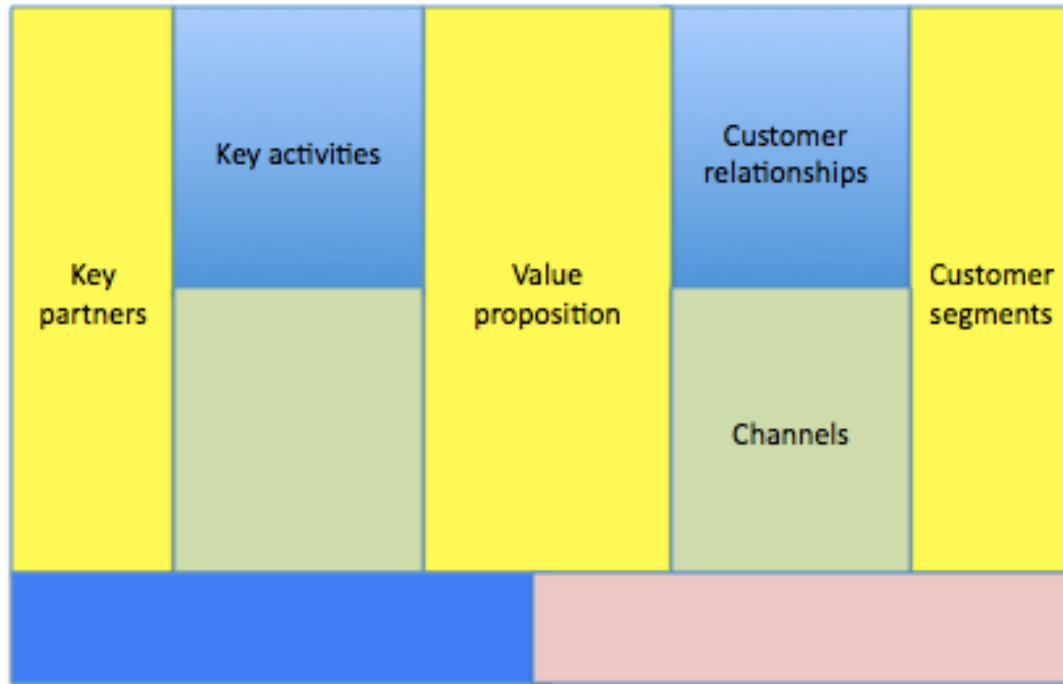
Now let's look more closely at our customer segments and consider how we build relationships with them. Are we working on a one-to-one personal link or is it a standardized offering? How do we understand and get close to them? What kind of relationship do the customers want from us and how do we create and maintain that? And how much does it cost us to do so?



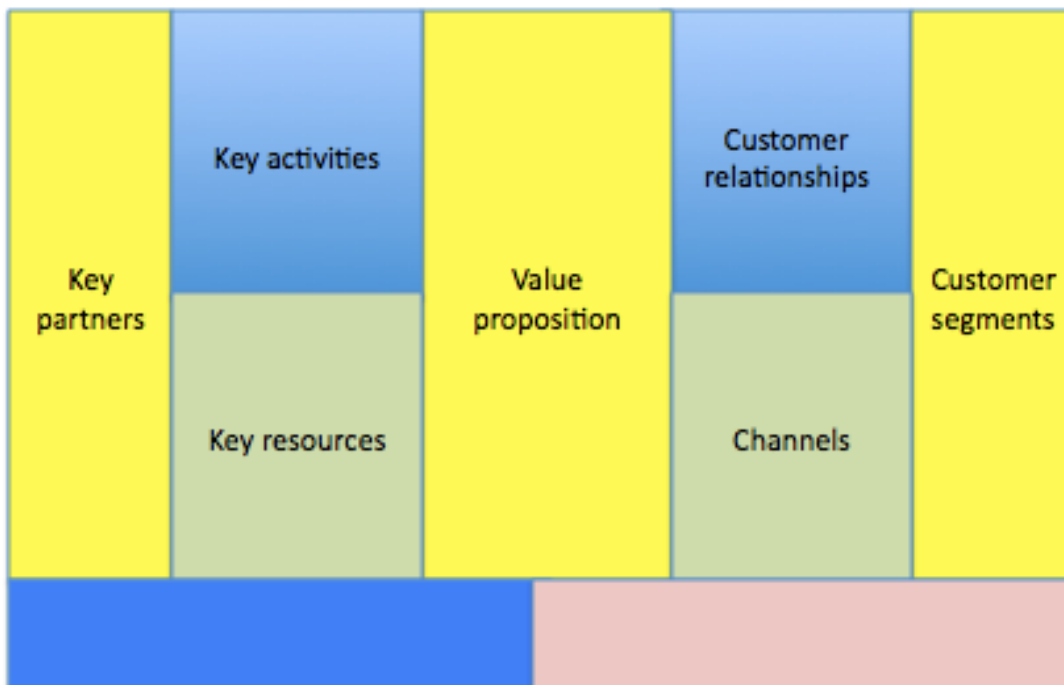
Staying with this relationship, how do we reach our segments? Which channels can we use? Face-to-face, internet, mail, physical shop front? How do they become aware of us and how do we develop the connection? How much does it cost and which are the most effective?



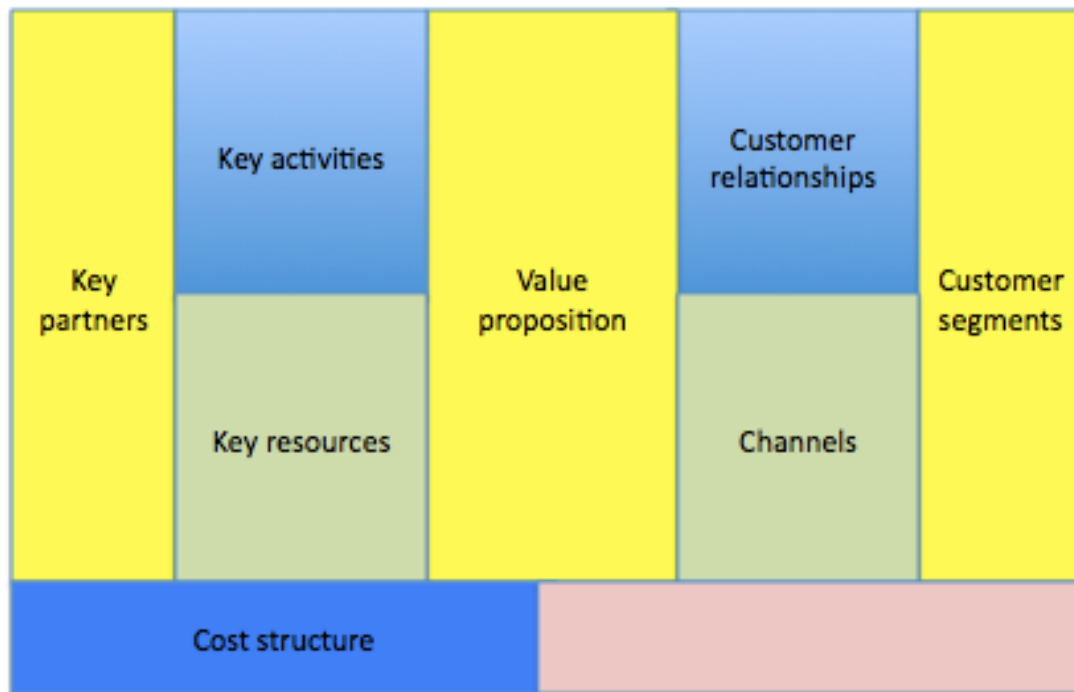
Back to our supply side – what are the key activities which we need to carry out to deliver our value proposition? What are our key processes in creating and delivering our offering? Which are critical and which could someone else offer? What differentiates us and how do we maintain and manage those key activities? Which ones do we need to protect and invest in?



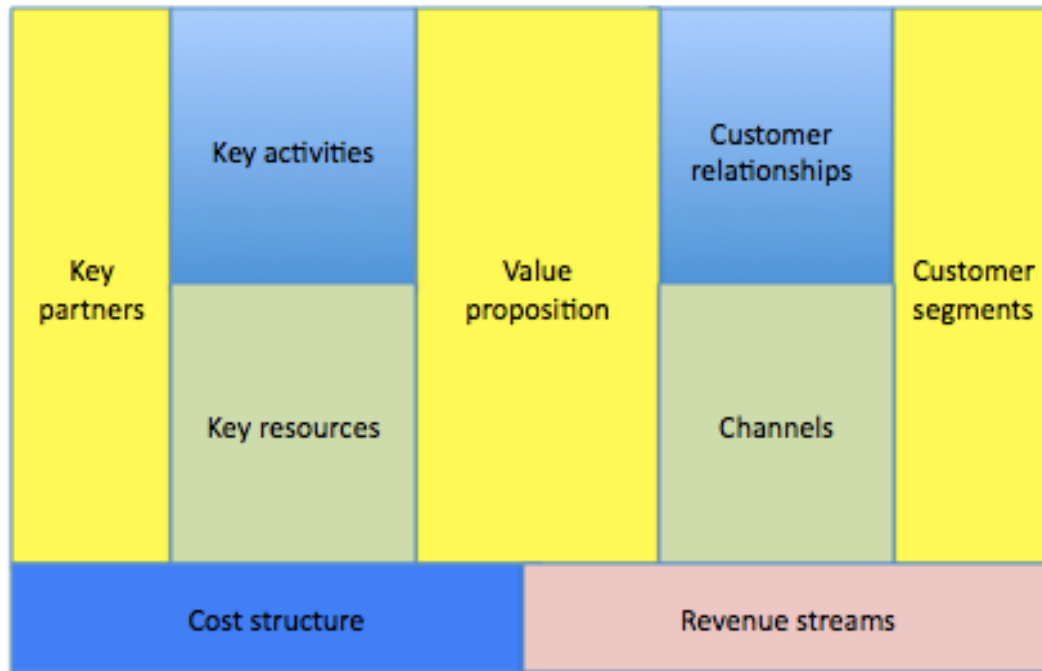
Linked to this, what are the key resources which we need to create and deliver our offering? Specialized knowledge, key equipment, special people, key location, etc.? Again what do we need to differentiate ourselves and how do we maintain, protect and build on those key resources?



Next we need to look at how much this costs and how those costs break down – the cost structure. What are the key costs we incur in creating and delivering our offering? Which ones are most important?



The other side of the coin is how we get revenue from selling our value proposition to customers. What will they pay for and are there different revenue streams which we can tap? For example sales, rentals, subscriptions, licence fees, etc.?



The point of the canvas is that it offers an organized framework for asking key questions around business models. Robust models should have plenty of detail in each box whereas a sparsely populated canvas probably means you haven't thought too hard about how the business is going to start – or be sustainable in the long term. Most important the canvas provides a discussion focus around which groups can explore and challenge ideas about different business models.

Activity:

Take an idea for an innovation and working alone or in groups develop a Business Model Canvas for it as the basis for a presentation to a group of potential sponsors.