**Business Model Innovation (BMI)** refers to the creation, or reinvention of a business itself. Whereas innovation is more typically seen in the form of a new product or service offering, a *business model innovation* results in a different type of company that competes not only on the value proposition of its offerings, but aligns its profit formula, resources and processes to enhance that value proposition, capture new market segments and alienate competitors.

Wikipedia (26/11/2011)
BM as starting point for your analysis (Johnson et al. 2008)

Customer Value Proposition (CVP)
- Target customer
- Job to be done
- Offering

Profit Formula
- Reverse model
- Cost structure
- Marginal model
- Resource velocity

Key Resources needed to deliver the customer value proposition:
- People
- Technology, products
- Equipment
- Information
- Channels
- Partnerships, alliances
- Brand

Key Processes:
- Processes: design, product development, sourcing, manufacturing, marketing, hiring and training, IT
- Rules and metrics: margins, requirements for maintenance, credit terms, lead times, supplier terms
- Norms: opportunity size needed for investment, approach to customers and channels
Structure of BM Generation

1. BM canvas
2. BM patterns
3. Techniques to design BMs
4. Re-interpreting strategy through a BM-lens
5. A generic process to design BMs
6. Outlook on 5 BMs
Definition of a Business Model

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

BM: 9 basic building blocks

The 9 Building Blocks
A BM can best be described through 9 basic building blocks that show the logic of how a company intends to make money. The 9 blocks cover the 4 main areas of a business: customers, offer, infrastructure, and financial viability. The BM is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.
BM: 9 basic building blocks

A BM’s 9 building blocks

Key activities
Key Partners
Key Resources
Cost structure
Customer relationship
Customer
Value propositions
Channels
Revenue stream
Block 1: Customer Segments

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
- Niche market
- Segmented
- Diversified
- Multi-sided platforms (or multi-sided markets)
  - A credit card company

Block 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.
Block 2: Value Propositions

- Newness
- Performance
- Customization
- “Getting the job done”
- Design
- Brand/Status
- Price
- Cost reduction
- Risk reduction
- Accessibility (Netjets: fractional private jet ownership)
- Convenience/Usability (iPod – iTunes)

Block 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
Block 3: Channels

<table>
<thead>
<tr>
<th>Channel Types</th>
<th>Channel Phases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Awareness</td>
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<tr>
<td></td>
<td>2. Evaluation</td>
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<tr>
<td></td>
<td>3. Purchase</td>
</tr>
<tr>
<td></td>
<td>4. Delivery</td>
</tr>
<tr>
<td></td>
<td>5. After sales</td>
</tr>
<tr>
<td>Sales force</td>
<td>How do we raise awareness about our company’s products and services?</td>
</tr>
<tr>
<td>Web sales</td>
<td>How do we help customers evaluate our organization’s Value Proposition?</td>
</tr>
<tr>
<td>Own stores</td>
<td>How do we purchase specific products and services?</td>
</tr>
<tr>
<td>Partner stores</td>
<td>How do we deliver a Value Proposition to customers?</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>How do we provide post-purchase customer support?</td>
</tr>
</tbody>
</table>

Block 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)**
### Block 4: Customer relationships

- 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 (call centers)
- Dedicated personal assistance (private banking)
- Self-service
- Automated services (online help)
- Communities
- Co-creation (Amazon.com)

### Block 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.
Block 5: Revenue Streams

- 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 (selling ownership rights to a physical product)
- Usage fee (telecom; hotel; package delivery service)
- Subscription fees (selling continuous access to a service)
- Lending/Renting/Leasing (Zipcar.com)
- Licensing (permission to use intellectual property)
- Brokerage fees (intermediation service; Credit card)
- Advertising (media industry; internet companies (Google))

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.

Block 6: Key resources


Key Resources can be categorized as follows:

- Physical
- Intellectual
- Human
- Financial (GE)
Block 7: Key Activities


Key Activities can be categorized as follows:

- Production
- Problem solving (solutions for the customers)
- Platform/network (Visa = transaction platform for merchants, customers and banks)

Block 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
Block 8: Key partnerships

- 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 (suppliers – optimize the allocation of resources and activities)
- Reduction of risk and uncertainty (JV)
- Acquisition of particular resources and activities (access to customers; acquire knowledge, licenses)

Block 9: Cost structure

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive? Which Key Activities are most expensive?

*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
- any business models fall in between these two extremes

*Cost Structures can have the following characteristics:*

- Fixed costs
- Variable costs
- Economies of scale
- Economies of scope
Business model canvas

De 9 BM building blocks form the basis for a tool, which we call the Business Model Canvas.
The two sides of the canvas

The Business Model Canvas

Left canvas
Efficiency

Right canvas
Value

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

Christopher Alexander, Architect

Patterns

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.
1. Unbundling BMs

Pattern No. 1

- The concept of the "unbundled" corporation holds that there are three fundamentally different types of business: 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.

2. The long tail

Pattern No. 2

LONG TAIL BUSINESS MODELS are about selling less of more: They focus on offering a large number of niche products, each of which sells relatively infrequently.

- Aggregate sales of niche items can be as lucrative as the traditional model whereby a small number of bestsellers account for most revenues.
- Long Tail business models require low inventory costs and strong platforms to make niche content readily available to interested buyers.
- Example (Netflix, eBay, Youtube, Facebook, etc.)
3. Multi-sided platforms

Pattern No. 3

MULTI-SIDED PLATFORMS bring together two or more distinct but interdependent groups of customers.

- Such platforms are of value to one group of customers only if the other groups of customers are also present.
- The platform creates value by facilitating interactions between the different groups.
- A multi-sided platform grows in value to the extent that it attracts more users, a phenomenon known as the network effect.

4. FREE as a business model

Pattern No. 4

FREE

- In the FREE business model at least one substantial Customer Segment is able to continuously benefit from a free-of-charge offer.
- Different patterns make the free offer possible.
- Non-paying customers are financed by another part of the business model or by another Customer Segment. (vb Innocentive)
5. Open business models

Pattern No. 5

**OPEN BUSINESS MODELS** can be used by companies to create and capture value by systematically collaborating with outside partners.

- This may happen from the "outside-in" by exploiting external ideas within the firm, or from the "inside-out" by providing external parties with ideas or assets lying idle within the firm.
- **Examples:** C+D at P&G
- CSK: patent pools
- Innocentive as the connector
Design?

- Design = a number of techniques and tools from the world of design that can help you design better and more innovative business models.

- A designer’s business involves relentless inquiry into the best possible way to create the new, discover the unexplored, or achieve the functional.

- A designer's job is to extend the boundaries of thought, to generate new options, and, ultimately, to create value for users. This requires the ability to imagine “that which does not exist.” We are convinced that the tools and attitude of the design profession are prerequisites for success in the business model generation.

BM design techniques

- Business people unknowingly practice design every day. We design organizations, strategies, business models, processes, and projects. To do this, we must take into account a complex web of factors, such as competitors, technology, the legal environment, and more. Increasingly, we must do so in unfamiliar, uncharted territory. This is precisely what design is about. What business people lack are design tools that complement their business skills.

- The following pages explore six business model design techniques:
  1. Customer Insights
  2. Ideation
  3. Visual Thinking
  4. Prototyping
  5. Storytelling
  6. Scenarios
It is necessary to go for a re-interpretation strategy through the lens of the BM canvas. This will help you constructively question established BMs and strategically examine the environment in which your own BM functions.

Four strategic areas:
1. BM Environment
2. Evaluating BMs
3. BM perspective on Blue ocean strategy
4. Managing Multiple BMs
1. BM environment

Ex. Environment changes in the pharma sector

Example:

The pharma sector is likely to undergo substantial transformation in the coming decade, 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 BMs?
- Will technology change lead to transformation?
- Will consumers and market demand force changes?

- Impact on Key Resources & Key Activities:
  - Market analysis: What KR do we need to develop or acquire in light of the ongoing shift from treatment to prevention?
  - Market analysis: What does the convergence of treatment, diagnostics, devices, and support services mean for our key resources and activities?
  - Competitive analysis: Is it necessary to acquire smaller firms to fill product pipelines?
  - Competitive analysis: Which of the KR emerging among new actors in the value chain need to be developed in-house?
  - Key trends: Which new KA will prove advantageous when personalized drugs and diagnostics are widely used?
  - Macro-economy: Do universities and other educational institutions furnish a sufficient amount of qualified talent?
2. Evaluating BMs

- Assessment of Amazon.com

Amazon.com’s main strengths and weaknesses in 2005:

- **KP**: Fulfillment
- **KA**: IT Infrastructure & Software
- **VP**: Online Retail Shop
- **CR**: Customized Online Profiles & Recommendations
- **CS**: Amazon.com (& Overseas Sites) Affiliates

**Opportunities Amazon.com explored in 2006**:

- **KP**: Fulfillment of Infrastructure & Software
- **KA**: IT Infrastructure & Software
- **VP**: Online Retail Shop
- **CR**: Customized Online Profiles & Recommendations
- **CS**: Amazon.com (& Countries) Affiliates

**Symptoms in the Use of Activities and Resources for New Offers**

- **TWO TOTALLY NEW CUSTOMER DESIGNS WHICH ARE UNDERSERVED AS TO THE PROPOSED OFFER**
- **NEW REVENUE STREAMS WITH SIMILAR MARRIAGES THAN RETAIL**
3. BM perspective on BOS

Example: Nintendo’s wii
4. Managing multiple BMs

- Problem of Ambidextrous companies
- Separation vs Integration (synergies)
- Centralized / decentralized