

Business Model Design

A STRATEGIC APPROACH TO ANALYZING AND CHANGING THE WAY YOU DO BUSINESS

Michael Lachapelle

What is the issue?

Business in the 21st century is characterized by an unprecedented rate of change, the nature of which is redefining the foundational beliefs of last century's businesses.

Why is it important?

Every organization has a business model, whether that model is expressed explicitly or is understood implicitly. What determines an organization's success is how well it understands and evolves its business model. With barriers to entering markets disappearing and innovation and disruption coming from new interests in the industry as well as outsiders using new technologies, every business must explicitly understand and design its business to ensure relevance to customers, sustainability, and growth.

What can be done?

Business leaders must adopt a designer mindset and support this with methods drawn from design and visual thinking as well as the tools developed for business models and value proposition design.

MANAGEMENT ACCOUNTING GUIDELINE

GUIDELINE

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Introduction to the Concept

Nespresso, one of the most successful and creative businesses of the last 20 years has rewritten the formula for a product-based business model in the coffee industry. The company is worth in excess of US \$4 billion as a result of building a business model that splits its offerings into two distinct product lines (coffee pods and coffee machines), designing separate strategies for each line. The machines are sold through a broad network and the one-time sales are shared with retailers. The manufacturing of the machines is outsourced to eight partners, leaving Nespresso to focus on research and design. The pods, recurring sales, are distributed through Nespresso-owned channels. Nespresso manufactures its own pods, a process it controls tightly.

Nespresso almost failed when it first launched. Its initial business model design offered the machine and pods as a bundled product, sold to businesses through other coffee machine manufacturers. Parent company Nestlé nearly shut Nespresso down, until a new CEO came up with the idea to offer the two products separately, designing a unique strategy for each. Nespresso's technology and products didn't change; the key to success involved changing the business model.

In its simplest expression, a business model is an organization's rationale for how it creates and delivers value that its customers/clients/members consider important, and how the organization captures a value in return. The concept of the business model is relevant to organizations of all sizes across all industries, sectors, and associations. Any organization or enterprise that creates value for a target group will have a business model, one that is either recognized and externalized or internalized and intuitive.

This guideline will introduce the business model canvas, a key tool for describing, designing, and challenging the way organizations do business, and creating innovation, prototyping new ways to do business.

The business model canvas ([Figure 1](#)) is a framework that allows organizations to describe any business model using nine fundamental building blocks. The term *canvas* is used because the framework, like a painter's canvas, is a creative space to visually represent ideas and elements of the business model. The business model canvas serves as the blueprint for how the organization is to implement the business strategy.

FIGURE 1: THE BUSINESS MODEL CANVAS

The Business Model Canvas

Designed for: _____ Designed by: _____ Date: _____ Version: _____

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure		Revenue Streams		

DESIGNED BY: Business Model Foundry AG
The history of Business Model Generation and Strategyzer

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Strategyzer
strategyzer.com

Source—[Strategyzer.com](https://www.strategyzer.com)—Business Model Generation authors A. Osterwalder & Y. Pigneur

The canvas framework ([Figure 1](#)) consists of three core areas:

- The customer-facing area (front stage), which consists of the target groups for whom value is created, the value proposition that creates the benefits customers expect, the channels through which the business interacts with its customers, and the strategies by which the business manages their customer relationships.
- The infrastructure (back stage), which includes the activities, resources, and partnerships required to build and deliver value to customers.
- The financials (sustainability) of the business, which balance revenues and costs.

Businesses face many challenges facilitating internal strategic alignment, promoting and creating innovation, integrating companies or new leaders, and communicating internally and externally. To overcome these challenges, the organization requires a common language and shared understanding of the business that allows a structured and repeatable process to sharing, designing and changing the business.

What is RAISE and How does it Apply to the Business Model Design?

In the current global economy, the business environment is always changing. Some changes are so dramatic that everybody notices them, but others may slowly creep up over the years before they can no longer be ignored.

Fortunately, the business model design is one such tactic than an organization may employ to address how it will respond to these ever-evolving business challenges. The business model can also ensure an organization focuses on what matters most (versus reactively responding to “fires” or “crises”)—its customers or core stakeholders—in an effort to respond to external market forces and focus an organization’s efforts.

A useful ideology for showcasing the importance of the business model design is CPA Canada’s RAISE philosophy (where Resilient + Adaptive + Innovative = Sustainable Enterprises) in the implementation of the business model design. The RAISE philosophy can help guide an organization (or enterprise) towards a unique strategy that provides an ongoing sustainable edge. The key drivers are explored next.

Organizations today must demonstrate their **resilience** in the face of constant turmoil and disruption. They need to respond quickly to these constant and unexpected external changes while at the same time sustaining regular business operations. The business model design refocuses an organization’s efforts back to what is important as these crises arise and enables organizations to isolate such problems proactively so that strategic focus and awareness are maintained.

Organizations more than ever need to be **adaptive** in their ability to adjust to these ongoing market shifts in the competitive landscape. Given this changed environment, they need to be nimble and flexible enough to “proactively” respond to any and all competitive or market changes. The business model employs methods to adapt.

Opportunities to **innovate** are typically a primary contributor to organizational success and longevity. However, it is one area that many fail to adequately explore or execute upon. The business model design is one such vehicle that can be leveraged to communicate the importance of innovation in achieve its strategic and operational objectives.

Embracing such drivers as key components of an organizations strategic and operational plans and decisions, ensures an organization’s (or enterprise’s) **sustainable** competitive edge. Combining the resilient, adaptive and innovative drivers of success results in a unique and robust strategy for adopting and implementing the business model design as explored throughout the course of this guideline.

Business in the 21st Century—the New Reality

The marketplace is in turmoil. Market reach has become a global phenomenon, with location constraints disappearing. An organization’s competitors and partners may no longer be geographically nearby. Its biggest competitor may not even be in the same industry. Think of what Uber and AirBnB, software companies, are doing to the transportation and travel industries. Uber does not own a fleet of cars (or drive any). AirBnB does not own hotels (or host guests). Yet both of these companies have had a serious impact on their respective industries.

The rise of new markets in China, Brazil, and India as well as rapidly disappearing barriers to entry in established markets are changing the face of global business. Organizations more than ever need to demonstrate resilience (the resilient in RAISE) in the face of turmoil and disruption.

Technology shifts are dizzying. Technology has redefined not only the way we communicate but also the way we transact business and how we expect businesses to interact with their customers. Electronic transactions (e.g., loyalty swipe cards, RFID chip cards, tap and go payments, and direct transfers) are sweeping the marketplace, redefining how we engage and purchase. The newest battleground is e-wallets, which aim to replace credit and debit cards. Social and mobile computing have rewritten the rules of business and they continue to create new rules and new expectations.

Customers are more informed. Customers have access to information like never before. Through networks and social media, customers have access to opinions and reviews. Consumers are checking competitors pricing while in a store and checking availability elsewhere, before making the decision to purchase the item in the current store. Often a company's customers are more informed about products than the company's salespeople are.

We have to learn to challenge ideas we may have previously considered orthodox in order to adapt (the adaptive in RAISE) to a marketplace that is messy, often unclear, and rapidly changing. Mobile technology, social networks, and social media have made customers expect interactions with organizations to be immediate, responsive, and transparent.

Today's environment of fast-paced market change has resulted in shorter product development cycles, reduced shelf life of products and services, empowered consumers, and a massive change in the nature of engagement with customers. Companies today are under constant pressure to innovate, often driven by pressure from competitors outside the industry. The 20th century media industry (film, television, video, music) has been massively disrupted by non-media companies who first redefined how people watch video and are now entering the field of production: Amazon (an online sales company), Apple (a technology company), and Netflix (a distribution company) have become more than distribution systems for content, they are now competitors in content development.

Many, if not most, of our strategic tools and approaches were formed to cope with the challenges of the previous century. The business model, along with companion approaches like customer insight, agile methods, design and visual thinking, form the 21st century strategic tool set that help businesses operate and innovate effectively. This is a perfect example of how the drivers of RAISE are used in practice.

Importance of a Shared Language

Fundamental to any functionally distributed organization is the challenge of building a common understanding of the business. It is nearly impossible for a single executive or leader to solve strategic challenges alone: they require the input of various parts of the business and often the support of external experts. Therein lies the challenge: how to reach a consensus on strategy with a group of people who see the business very differently.

Marketing professionals do not see the business the same way finance or product development professionals see it. The same issues arise in social impact, member-based or government organizations with multiple programs and services. People will view the business with the blinders or filters associated with their perspective on the business. This has an enormous impact when strategic discussions require cross-functional or cross-program direction. How do you achieve a consensus between people who have such divergent points of view to agree on and understand a common perspective?

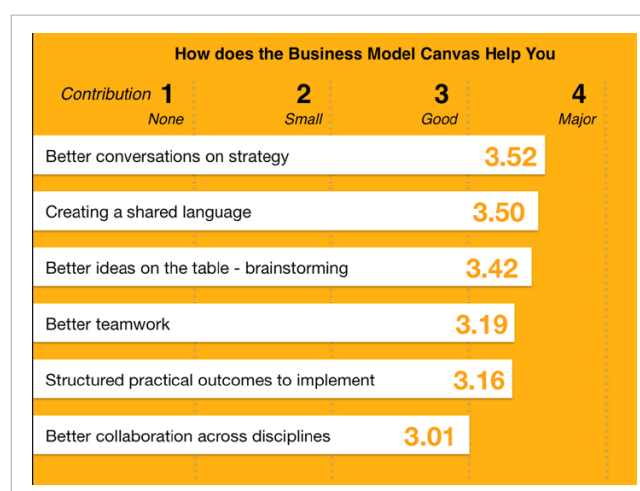
One solution is to have these people share their ideas and interpretations — formalize and externalize them — with the group so they can be understood. The business model approach focuses attention on the use of a visual tool, the business model canvas, to build a common understanding using a shared language.

The business model canvas is a framework composed of the nine essential building blocks of any organization's business (listed later in this document). It allows people to capture ideas and share them visually to improve understanding and discussion.

Using the Business Model Canvas

Alexander Osterwalder (co-creator of the business model canvas) and his team surveyed organizations and business executives around the world on how they use the canvas and how the canvas creates value for them (Figure 2). They found that the main benefit of the canvas was that it facilitated a common language that led to better strategic conversations and better ideas.

FIGURE 2: HOW DOES THE BUSINESS MODEL CANVAS HELP YOU?



Source — [Strategyzer.com](https://www.strategyzer.com): Business Model Canvas Field Research Report

The Business Model Canvas

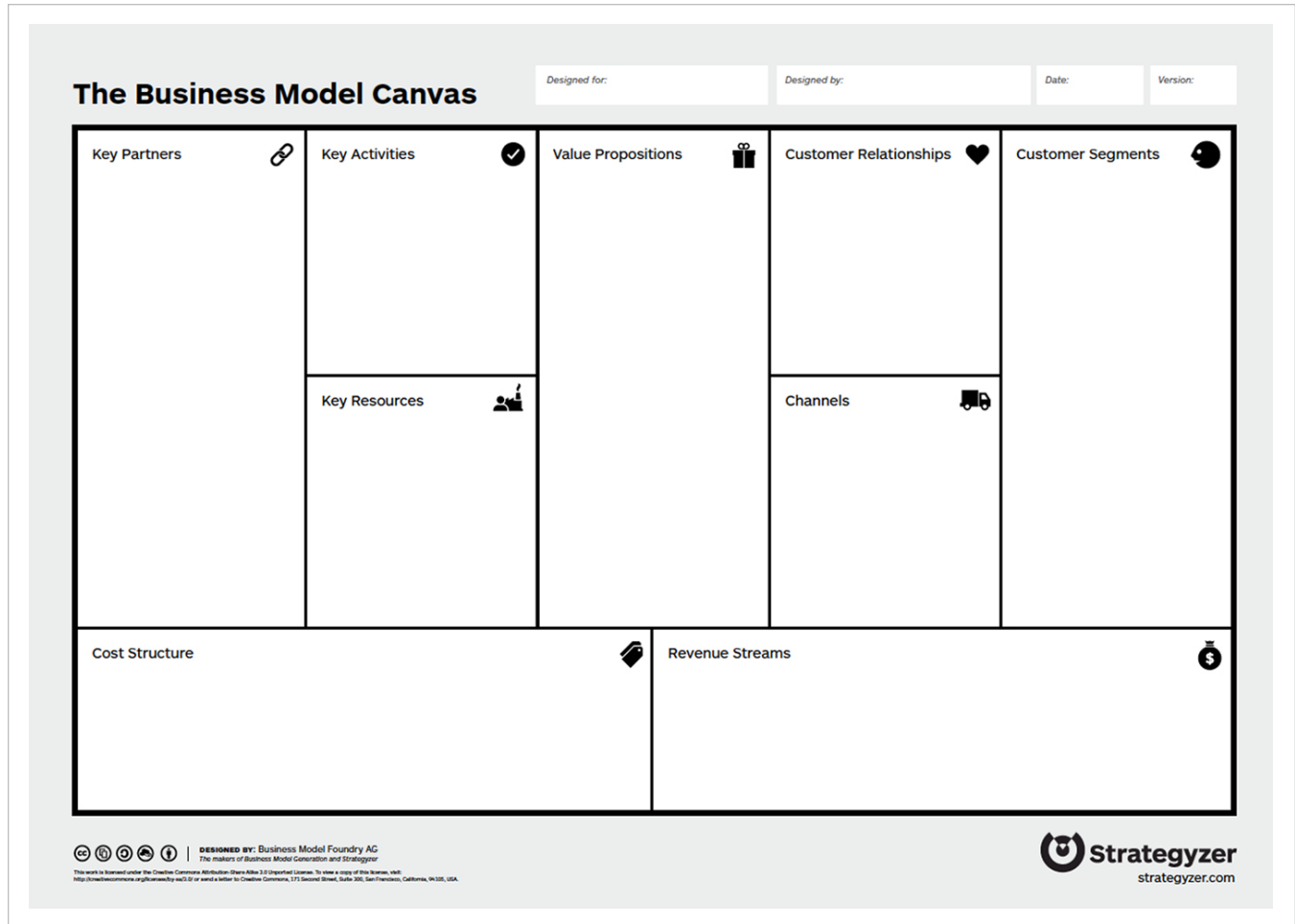
The business model canvas facilitates the understanding of the organization's existing business, enables efforts to change the business, or to create new businesses and ventures.

A business model can be described through nine core building blocks:

1. Customer segments for whom you create value
2. Value proposition that is important to the customers
3. Channels through which you reach customers
4. Customer relations you establish to acquire and retain customers
5. Revenue streams you generate
6. Key activities you must do to be successful
7. Key resources you need to run the business
8. Key partners to support and help you run the business
9. Cost structure to run the business model

The nine components are mapped out in a framework structure called the business model canvas (Figure 3).

FIGURE 3: THE BUSINESS MODEL CANVAS



Source—[Strategyzer.com](https://www.strategyzer.com)—Business Model Generation authors A. Osterwalder & Y. Pigneur

Using the business model canvas an organization can map out its entire business model in one image. This works for established companies executing their current business as well as innovating new products and services, not-for-profit, membership-based organization, as well as start-ups and social ventures.

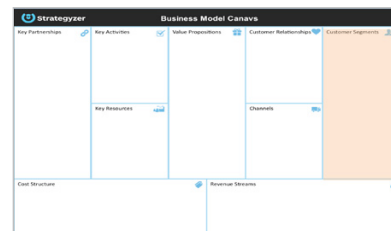
The power of this approach lies in the ability to apply the business model concepts and to use the tool at various levels within an organization: the whole enterprise, specific sectors or business lines, individual business units, or particular solutions, products, and/or services.

The Business Model Canvas Components

Customer Segments (CS)

Customer segments represent the people or organizations for which you are creating value. This includes users (non-paying) and paying customers.

A business model may define one or more “segments” of customers, differentiating them by their needs. Customer segments and their needs should be defined by the outcomes the customers are trying to achieve, most effectively identified by the “jobs” they are trying to get done, or the “problems” they are trying to solve.



Customers are motivated by what they have to do rather than who they are. Creating segments based on the outcomes they are trying to achieve is known as outcome-driven innovation. Each segment’s needs become the drivers of the value proposition design. The nature of a customer’s job may be function (to achieve something), social (how they are perceived), or emotional (how they feel).

Hilti took it further. Understanding that construction companies purchase the tools their workers’ use, Hilti addressed a whole new set of jobs: helping construction companies avoid downtime when tools needed to be maintained or replaced. This insight was the inspiration for moving from a one-time sales (with service added on) approach, to a subscription-based tool service that removed the pains of tool maintenance, the cost of tool replacement, and the downtime associated with unavailable tools. This helped construction companies accomplish their desired outcomes: completing projects on time and on budget.

Guiding Questions to Ask About Customer Segments

- For whom are you creating value?
- What is the “job-to-be-done” of your customers?
- What problems are your customers trying to solve?
- How will you group (i.e., segment) your customers based on their jobs and problems?

The Hilti Case Study – Harvard Business School

Hilti, a construction tools manufacturer, is a prime example of the importance of an organization understanding its customers’ job-to-be-done. The Harvard Business School case study is often cited as the root of this approach. In researching the sales of hand drills, Hilti found that customers buy them not because they want to own a drill but because they have projects that require holes to be drilled. That is the job customers have to do. Once Hilti pinpointed this as the motivation, it allowed them to identify two distinct types of customers who share the same job of drilling holes: construction workers and home renovators, each with their own set of outcomes, problems, and needs. Construction workers need heavy duty, durable, easily maintained tools that are used every day. Home renovators require lighter duty tools for occasional use, which will be stored for long periods. This guided Hilti to cater to each group, designing two very different product lines.

Value Proposition (VP)

The value proposition is the benefit your customers will get from a product, a service, or a bundle of products and services you offer. The offer (solutions, products, or services) should not be confused with or equated to a value proposition.

For customers of FedEx, the value proposition is the “peace of mind” of knowing packages will get to the correct destination on time. What FedEx offers is a variety of shipping methods and timeframes, insurance, guarantees, online real-time tracking, and delivery confirmations.

The offer addresses the gains (i.e., outcomes) the customers are hoping to achieve, solves their problems, or delivers value that exceeds the expectations of the customer. Additionally, the offer addresses the pains (i.e., barriers) the customers may experience getting their job done or solving their problem. When the offer effectively addresses needs created by the gains and pains, the value proposition is delivered to the customers and product-market fit is achieved.



Guiding Questions to Ask About Value Propositions

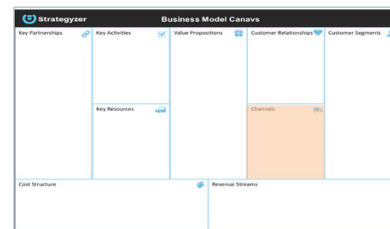
- What are you delivering that is of value to the customer?
- What need are you satisfying that helps the customer get a job done or solve a problem?
- What are the key gains (outcomes) and pains (barriers) you are addressing for the customer?

Channels (CH)

Channels represent the touch-points the business will use to interact with its customers. There are two aspects to channels.

The first aspect that consists of communications with customers: letting them know what the business has on offer and how to access the offers. Social media networks (e.g., Facebook and Twitter) and mobile computing have revolutionized how businesses communicate with their customers.

The second aspect involves the mechanisms used to transact business with customers. A bricks and mortar business will have physical store locations. A business that sells directly to customers in the customers' workplace may need a sales force. An internet-based business will be concerned with processing sales transactions, collecting payments, and delivery methods.



Guiding Questions to Ask About Channels

- How do you communicate with your customers?
- How are products and services delivered or distributed?
- How is business transacted with customers?
- Which channels are direct (i.e., owned and controlled by you) or indirect (i.e., through partners)?

Groupon's Business Channels

The past few years for Groupon, the daily deals company, have been very turbulent, but the company has made some shifts in how they operate. Part of the issue with this company has always been the channels used for signing companies for the program and how they communicate with their coupon users. Core to Groupon's business, and a large part of its cost structure, is the sales channel of a necessary sales force on the street to get businesses to sign up to Groupon's deals. As the company has tried to stabilize, it has shifted its channels from daily push emails on deals to a platform where coupon users can search for deals of most interest to them. This shift in communication approach required a very effective website (with solid search functionality as its critical channel) and investment in marketing to bring the consumers to the website.

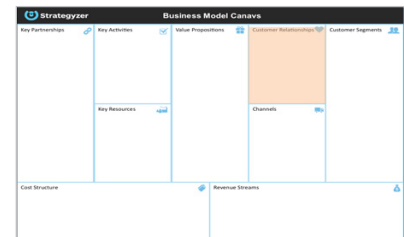
Customer Relationships (CR)

Customer relationships articulate the way in which a company interacts with its customers as well as strategies for customer acquisition and retention.

The business must consider the nature of its relationship with customers: short term or long term, automated or personal. Think of Amazon and Netflix as examples of companies that have automated relationships: their customers are global and they maintain individual profiles, which the company mines for information (as well as the activity associated with each profile). In contrast, Rogers' Small Business Help Line for its business phone service is a personal relationship focussed on problem solving. Companies must understand the nature of the relationship customers want and how best to scale this relationship across the market.

The customer relationships component also includes the company's strategies for acquiring new customers, keeping their current customers engaged, and increasing customer interaction. These are commonly referred to as the business's Get-Keep-Grow strategies. Online communities and user forums are a common method for companies to engage and retain customers as well as provide access to other users as a means of troubleshooting issues the customer may encounter.

Customer relationships often involve the qualities of an offer (e.g., local, fair trade, ease of use, frictionless purchasing), brand, or the discounts and incentives that get new customers to try the product or service for the first time. For example, Tim Horton's uses its "Canadian" brand very effectively to attract customers and build its



Guiding Questions to Ask About Customer Relations

- What kind of relationship do your customers want?
- What are your strategies to attract new customers?
- How will you retain your customers' participation?
- How will you get your customers to increase their interactions with you?

reputation. Customer relationships can also include retention strategies such as loyalty programs and incentives to keep customers coming back or increasing their activity. Tim Horton's also relies on its famous "Roll Up The Rim" to win contest to attract and retain customers. Other examples of retention strategies are affinity and loyalty programs that leverage the progression and reward dynamics to keep customers engaged with the company.

Dollar Shave Club Re-defines the Shaving Industry

For many years, the shaving industry has been a stable, known dynamic of customers purchasing cheap or promotional razors and expensive blades, required to accompany these razors. This strategy was so successful that it became a label for a business model pattern: "razor and blade." The increasing costs of the blades and the profits companies were reaping from the blades, coupled with customers' frustration at the retail level (with the expensive blades often locked away) drove the disruption of the shaving product industry. The game changed in 2011 with the launch of Dollar Shave Club. Using a lighthearted, humorous social media strategy along with membership-based acquisition and retention strategies, the company disrupted the industry. The company's viral YouTube videos and extremely active Twitter and Facebook interaction with customers brought a new dynamic to the men's grooming industry. In 2016, Dollar Shave Club was acquired by Unilever for a reported \$US1 billion. The case study that accompanies this guideline explores this further.

In a traditional "razor and blade" business model, customer acquisition is based on a promotional, free, or inexpensive "bait" product (e.g., the razor) and a high-margin disposable product (e.g., the blades) with the company relying on extensive patents to "lock-in" customers to the product. This pattern also uses retail-based advertising and product placement strategies for customer attention. Dollar Shave Club radically changed this by eliminating the retail component, opting instead for a direct sales (dis-intermediating) model. The company's customer acquisition and retention is based, not on the product, but on the social and emotional impact of the whole experience (i.e., buying, enjoying, and using the product). Social media engagement (e.g., newsletters, humorous videos) drive viral and network effects.

Additional Guidance—Differentiating Customer Relations and Channels

This is a common area of uncertainty for those new to the business model canvas. What is the difference between the channels you use and customer relationship approaches?

Customer relationships (CR) are about the **strategies** the business will follow in Get-Keep-Grow while channels (CH) are about the **mechanisms** companies use to deliver on those strategies.

A business may have an acquisition strategy (i.e., how to bring customers in) that involves using social media to make offers or special deals. The mechanisms the company chooses as channels may be limited to Facebook and Twitter. Another company, in the fashion industry for example, may have a similar customer acquisition strategy, but it may choose to use more visual platforms like Instagram or Pinterest as channels to promote their products.

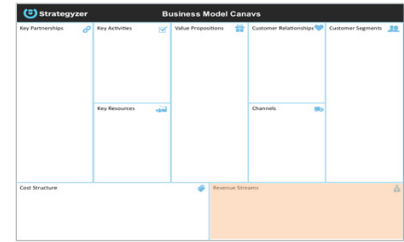
Revenue Streams (R\$)

Revenue streams are the means by which businesses capture value from its customers. At the strategic level, revenue streams are concerned with the types of revenues captured as the return value rather than the specific pricing formula.

The revenue streams can be transactional (e.g., unique sales) or recurring (e.g., ongoing interactions such as subscriptions or memberships). Revenue streams can involve fixed, negotiated, or dynamic pricing.

There are business models in which products or services are provided without charge to act as an engagement incentive with the customer. The “freemium” service usually involves a lower quality or reduced functionality, or may be a limited-time, limited-capacity offer. Companies hope to spur customers to purchase the chargeable products and services. Skype is a great example of this model. Millions of people around the world make video or voice calls for free through the base service. However, if you want to make conference calls or phone a land-line or mobile number, you have to pay for the “upgraded services.”

In recent years, with the success of the software as a service (SaaS) model, companies have shifted from a product or upgrade sales model (i.e., transactional revenues) to an online service requiring a subscription (i.e., recurring revenues). Great examples of this are Adobe and Intuit Quickbooks.



Guiding Questions to Ask About Revenue Streams

- What value are customers willing to pay for?
- How often will they pay? Transaction or recurring?
- What is the revenue type? Sales, subscription, use, license, advertising?
- To what customer segment-value proposition is the revenue connected?

The Shift to Recurring Revenue

Intuit, creators of the small business accounting software Quickbooks, has made a concerted effort to shift its clients from purchasing and installing software locally (i.e., a one-time sales transaction) to subscribing to a cloud-based software as a service (SaaS) model (i.e., recurring monthly subscription revenue). Intuit’s lowest level product, Easy Start, is now only offered as a subscription, cloud-based service, and to encourage users to shift to the subscription model, the company no longer supports locally installed software.

Is “Free” Really Free?

Facebook is widely considered an icon of the revenue strategy of selling acquired data and intelligence to third parties. The strategy is based on providing a service to users for “free,” then gathering and mining user data. The resulting data and intelligence is sold to advertisers and other product-service providers. This approach is often characterized by the phrase: if you don’t pay for the product, then you are the product.

Additional Guidance—Having a balanced business model

Each business model has a unique critical relationship between customers, the value the business creates for customers, and the revenue generated. To have a balanced business model there should never be an orphan among these three components. Every customer segment must have at least one related value proposition and revenue stream. There should never be a revenue stream that is not related to a value proposition and a customer segment. Likewise, a value proposition must be targeted to at least one customer segment and have a revenue stream.

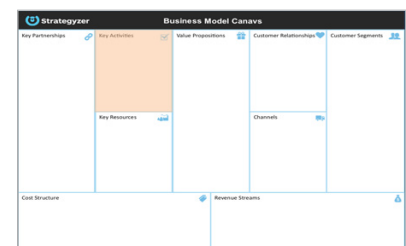
When value is provided to customers for free (e.g., Skype’s free video call service), it is important to track that free revenue stream. Such business models may be financially unsustainable for the company over the long term. It is strongly recommended to identify free products or services as a revenue stream since they may be free now but may have a fee in the future. Tracking the “free” revenue stream allows companies to assess the impact of the offer and the customer segment on the financials of the business.

A further consideration, one that is important to governments and not-for-profits, is the “third party funded” business model pattern. In this model Party A pays the business to deliver services or products to Party B. The business may receive no money from Party B, but it may acquire data as an alternate form of revenue. The data collected is used to justify to Party A how effective the business has been. Many government-based business models suffer because they do not include data-gathering as a fundamental part of their business model.

Key Activities (KA)

The Key Activities are the most important things the business must do make the business model successful.

Activities are the capabilities necessary for the business to be successful. It is important here to focus on the critical activities for the particular business in question to be successful, rather than a broad list of the business’s day-to-day activities. Typical elements in the key activities block of a business model may include: IP creation, design (e.g., product or software), manufacturing, marketing, supply chain management, membership/subscription management, and content creation.



A business's key capabilities will vary depending on the type of business:

- Value-added businesses (e.g., manufacturing, retail) must concern themselves with supply chain, product or service creation, marketing, and distribution.
- Solution businesses (e.g., consulting, health services) must be concerned with problem acquisition, finding and choosing solutions, and implementing those solutions.
- Networking businesses (e.g., marketplaces, multi-sided platforms) must focus on connecting customers, providing services to the network, and enabling interactions with the network infrastructure.

Guiding Questions to Ask About Key Activities

- What are the core activities necessary for the business's success?
- What type of business is it? Value-added, problem solving, or networking?
- Which key activities will be done in the business, or outsourced?

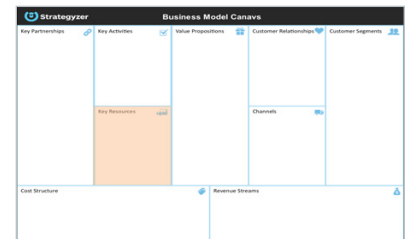
The key activities component is often susceptible to information overload. It is very easy to get bogged down in detail when looking at activities. Key activities must be kept at a strategic level (i.e., capabilities), not at an operational level (i.e., processes).

Key Resources (KR)

The key resources are the most important assets required to make the business work.

There are four types of key resources the business has to consider:

- Intangible resources are those intellectual or virtual resources necessary to run the business (e.g., intellectual property, patents and copyrights, data).
- Tangible resources are the physical resources necessary to run the business (e.g., facilities, vehicles, machines, IT infrastructure).
- Human resources are comprised of people and expertise (e.g., sales force, subject matter expertise).
- Financial resources, which differ from revenue in that they are specific to capital investment (e.g., loans, guarantees, line of credit, stock), are used to launch or expand the business.



Additional Guidance—Identifying necessary resources and activities

The infrastructure components of key activities and key resources are the “create value” part of the definition of a business model. As a business identifies its activities and resources, it is a good practice to check them against the value propositions (i.e., have you identified all the elements

Guiding Questions to Ask About Key Resources

- What tangible resources does the business need (e.g., plants, stores, IT)?
- What intangible resources does the business need (e.g., data, licenses)?
- Which human resources are critical to the business's success (e.g., expertise, people)?
- What finances does the business need to build, launch, or grow?

necessary to create those value propositions?). Likewise, it is important for the business to check activities and assets against customer relationship strategies and channels to make sure it accounts for all elements.

Key Partners (KP)

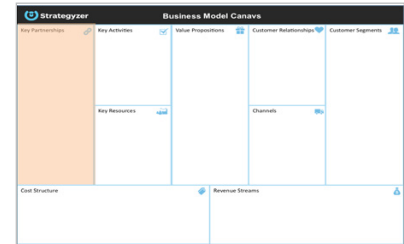
Key partners form the network of suppliers and other supporters a business relies on to be successful.

Businesses very rarely have all the resources they need to run the business independently. Businesses require partnerships in order to acquire the resources they need to operate, reduce risks, or optimize the business by providing scale.

Partnerships can be built on strategic alliances, joint ventures, or buyer-supplier relationships. Relationships with partners can involve operational integration or activity outsourcing. It is essential for every partnership to recognize and acknowledge the value created for each partner.

In general, there are three reasons for the creation of partnerships:

1. Scale— one partner provides the other access to new customers, new markets, or economies of scale.
2. Resources— one partner provides the other resources or assets it does not have.
3. Risk reduction— one partner helps the other reduce risks associated with the cost of production or marketplace change.



Guiding Questions to Ask About Key Partners

- Who are the company's suppliers?
- Who is providing resources the company needs?
- Who is integrated into the company's activities?
- Who is providing support to the company's key activities (e.g., outsourced, open innovation)?

The Partnerships of Giants

The athletic company Adidas entered into a partnership with Sennheiser to create sport-oriented headphones. Adidas, experts in athletics and authentic performance products, was looking for a new product to extend their offering to their market. Lacking expertise in audio electronics, it turned to Sennheiser, experts in sound and headphones, which was looking to expand into new markets. For Adidas, the partnership was about gaining resources and expertise in specialized product development. For Sennheiser, the partnership was about gaining access to a new market and the scale Adidas brand can offer.

Cost Structure (C\$)

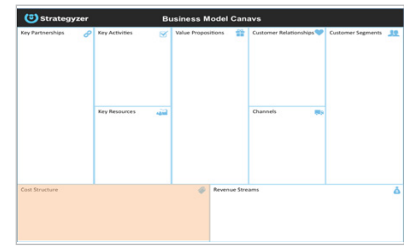
Cost structure relates to the costs a business incurs to operate its business.

Which costs will have the most impact on the business? The business's costs are derived from considering the other components of the model: activities, resources, and partnerships.

Like key activities, cost structure is a component that can often become bogged down by detail. Cost structure is not concerned with a line-item level of detail. The purpose of this area is identifying the cost centres related to infrastructure and delivery.

The type of costs should also be considered. Costs may be fixed (e.g., rent, equipment), remaining the same despite the business's volume (e.g., sales transactions or production). Costs may be variable (e.g., manufacturing supplies), varying proportionally with the volume of business. Costs may also be associated with key partners (e.g., licensing, outsourced manufacturing).

In some cases, executives or representatives of the business may want to see costs include items such as salaries and operational costs. In such cases, one may include a cost centre titled Salary General and Administration (SG&A) as a catchall.



Guiding Questions to Ask About Cost Structure

- What are the business's most important cost centres?
- What type of costs are they (e.g., fixed or variable)?
- What are the most expensive key activities and resources?
- What are the costs inherent in the business's key partnerships?

How to Use the Business Model Canvas

The business model canvas is an extremely effective framework and tool for companies to understand, design, and change the way they do business. Most people, even those very familiar with the canvas, often fail to appreciate the many ways organizations can use this tool.

The business model canvas can be used in four key areas:

1. Strategy
2. Innovation
3. Organizational alignment
4. Investing

Using the Canvas as a Strategic Tool

The canvas can be an integral part of an organization's strategic planning process. Understanding the dynamics of one's business (i.e., its strengths and weaknesses as well as external constraints and influences) is a key building block of a strategic plan. The canvas is a "blueprint" of the strategy.

The canvas can be a part of business-unit planning. It creates a shared language between business units and each unit can extrapolate its business as part of the whole company (e.g., nested models).

The canvas can serve as a dashboard to track progress. By establishing metrics in each of the critical components of the canvas (or those in which change initiatives are happening), businesses can track the progress of its initiatives. Businesses can colour-code strategic initiatives to set them apart, visually.

The canvas can be used to design and evaluate partnerships. Businesses can map out the current state of its business model and compare it with the business model of a potential partner to assess the quality of fit as well as benefits of a partnership.

The canvas can be used for competitive analysis. A business environment analysis focuses on key trends and changes in the market. Businesses can go further and sketch out models of key competitors to better understand the landscape.

Organizations can use the canvas to map out each of its various business lines along the continuum of improving existing models to inventing new models. In doing so, the canvas becomes a key tool for managing a “portfolio” of business models, an important component of long-term strategy.

In each of these areas, the business model canvas is a key tool for supporting, integrating, and aligning strategic conversations.

Using the Canvas as an Innovation Tool

Innovation (the innovation in RAISE) is an uncertain and often messy process. The front end of the innovation process, the search for a business model that works, is discovery driven and requires the building and testing of ideas. This is where the business model canvas originated.

The book *Business Model Generation* (Osterwalder and Pigneur, Wiley, 2010) was predicated, in large part, on looking at how companies design, test, and build new growth engines. The business model canvas, the main tool of the book, can be used to prototype ideas for business change.

The canvas can be used as a template to develop new ideas in multidisciplinary innovation teams, or for ideas submitted across the organization. With a clear understanding of the organization’s business model, the canvas can be used as a test structure or as a core component of the business case for how an innovation project will improve the business. It is a tool for comparing products, services, or ideas from different business units.

In a business-to-business (B2B) environment, the canvas can be used to map out the business models of customers. By mapping their models, organizations can better understand customers and their needs. It allows companies to adapt (the adaptive in RAISE) to better serve customers.

The business model canvas can be a key tool and template for the generation and testing of ideas and, when combined with design thinking approaches and customer development process, makes a powerful innovation enabler.

Using the Canvas to Build Organizational Alignment

The business model canvas can be used as part of a new executive's orientation give them a better understanding of the business's strategy and the executive's involvement, particularly if the person is new to the organization. The canvas has also been used during transitions of board members in volunteer-based and not-for-profit organizations.

The canvas can be used to share and disseminate strategic directions of the organization. By creating a common language and a commonly understood frame of reference, the canvas (the blueprint of the strategy) can be a powerful communication tool. This works even more effectively where the strategic direction is being co-created across the organization.

Possibly the most potent use of the business model canvas is to provide a shared language across the various functions of the organization (e.g., product/service development, operations, finance, marketing, and sales). Often the business unit an employee belongs to will frame their view of the business based on their lens. For example, finance may see the business in a very different way than marketing. The canvas and its nine components create a commonly understood language and a complete reference of the business front and back stage as well as financial.

Using the Canvas to Evaluate Investment

The canvas, which provides a view of the business as a whole, helps executives understand the continuum of innovation, from improving existing models to inventing new ones, which in turn allows them to make better decisions on allocating resources across the portfolio of innovation.

The business model canvas assists with mergers and acquisitions. It can be used to sketch out the business models of two or more organizations and assess the fit of the two businesses. From the organization-unit perspective, where integrations are happening, the canvas can be used to better communicate the business to new leadership. Where there are multiple acquisitions, the canvas can be used to align the new businesses with the strategy, direction, and operations of the larger organization.

The canvas can also be used in developing an exit strategy, preparing a position statement and addressing key issues ahead of a sale or acquisition, or taking the business through an IPO.

In Summary

The term "business model," as a concept, represents the rationale of how an organization or enterprise creates and delivers a value that is important to its target customers. The term "customer" (or, alternatively, user, consumer, client, or member) is defined as the person or organization for which a business creates value. All organizations have a business model, even if that model is intuitive or an internalized understanding of how the business works.

The business model canvas, a framework based on nine core components, provides organizations a common language to share, communicate, analyze, and change their business models. The business model canvas is, most importantly, a strategic tool organization's can use to think about their business and to prototype new ideas, products, and services.

The canvas can be used in all sectors (i.e., private, public, not-for-profit, and government) and at many levels within an organization. It can be used at an enterprise level or at a business unit level. It can be used with product lines, individual products and services or to prototype potential innovations or new directions.

Professional accountants in business by their very nature can leverage their know-how and expertise in guiding organizations towards implementing such a unique customer-centric and competitive strategy. The ability of the business model design to drive alignment and focus across an organization demonstrates how powerful a tool it can be (if implemented correctly).

This facilitates the ability for an organization to maintain and sustain itself as a resilient, adaptive, innovative and sustainable enterprise (per the RAISE philosophy) in competitive marketplaces. Ultimately these drivers will aid both the professional accountant and organizations in ensuring successful adoption while equipping themselves to engage in the Canadian ideal of good business.

Appendix A – Resource Reference List

The reference list in this appendix is a good starting point for more information on the business model canvas. There are many free and open videos and reference materials available on the internet.

Books

Osterwalder, A. and Yves Pigneur, *Business Model Generation*. John Wiley & Sons Inc., 2010.

Alexander Osterwalder et al., *Value Proposition Design*. John Wiley & Sons Inc., 2014.

Blank, S. and Bob Dorf, *The Startup Owners Manual – Step By Step Guide to Building A Great Company*. K&S Ranch Publishing, 2012.

Johnson, Mark W., *Seizing The White Space (explanation of the “job-to-be-done”)*. Harvard Business School Publishing, 2010.

Tools

The Business Model Canvas is released under a Creative Commons licence and is free to use. The requirement for use is proper attribution of the source of the tool. The canvas may be downloaded for free at: www.strategyzer.com – Select canvas in the menu, click on the BM canvas to download

Speakers & Blogs

Alexander Osterwalder: alexosterwalder.com

Steve Blank: steveblank.com

Patrick van der Pijl: designabetterbusiness.com/teammember/patrick-van-der-pijl

Video Resources

BM Generation Explained: overview of the BM Canvas

www.youtube.com/watch?v=QoAOzMTLP5s

M. Lachapelle on Business Models: BM dynamics and platform model

www.youtube.com/watch?v=gLi8yldHYbl

Steve Blank: How corporations can learn about innovation from start-ups

www.youtube.com/watch?v=AX0EnxpkZ6I

Clayton Christensen: Understanding customer's job-to-be-done

<https://www.youtube.com/watch?v=Q63PZR7mG70>

Alexander Osterwalder: The Business Model Canvas

<https://www.youtube.com/watch?v=2FumwkBMhLo>

About the Author

Michael Lachapelle has more than 17 year's experience in business design, enterprise business analysis, strategic management, and product and service innovation. He has worked with clients from many sectors: private, public, not-for-profit, member-based organizations and government. His clients range from established multi-national organizations and businesses to small enterprises and early-stage startups. An independent consultant, Michael works with senior executives and founders helping them better align, communicate and change the way they do business. He coaches individuals and small teams; helps organizations implement business design methods, and facilitates product, service and business innovation initiatives. Michael is currently the only Strategyzer certified Business Model Canvas coach and consultant in Canada, and one of 29 world-wide.



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This publication is one in a series on *Business Model Design*. The entire series of [overview](#), [guideline](#), [case study 1](#) and [case study 2](#) are available on our [website](#). For additional information or for general inquiries, please contact us at mags@cpacanada.ca.

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