

Business Model Design

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

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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

OVERVIEW

Introduction to the Concept

Why is it important to understand your business rather than your product?

In the 1970s, Converse controlled almost 80 per cent of the US athletic shoe market. But by 2000 the company—an originator of the athletic shoe in 1908 and creator of the iconic canvas high-cut basketball shoe (the “Chuck Taylor”) in the 1920s—was bankrupt and in 2003 Nike bought Converse. Why would Nike buy the competitor it had effectively removed from the market?

In the 1970s and 1980s, Nike, Adidas, and Puma entered the market and began to convince consumers they needed a different shoe for each sport and activity, effectively changing people's perceptions of athletic shoes. Then they introduced new features (e.g., air bladders) and a cool image as a purchase driver. Converse remained focused on a simple, high quality athletic shoe. Its focus on its product, much like Kodak's inaction on the shift to digital photography, was out of step with the market.

Nike saw something that no one at Converse ever saw about Converse's market and its business.

In the 1950s and 1960s, Converse running shoes were the symbol of rebellion (think James Dean). By the 1980s, rockers and punks were wearing Converse. By the 1990s grunge rockers and fashionistas were solidly committed to their Converse shoes.

There was a counter-culture customer segment and a vast market Converse didn't see because of their commitment to athletics—fashion. Nike bought Converse and dropped the athletic orientation in favour of the brand's counter-culture image and made Converse one of the most popular fashion shoes in history. By 2011, Converse was selling 70 million pairs worldwide and by 2015 revenues had almost reached USD\$2B.

The lesson: success isn't necessarily about the product; it's about the business model you wrap around that product.

The Concept of a Business Model

Any organization's business model is about the relationship between the organization and the people for whom the organization creates value. Customers, clients, users, members, or consumers; the term may be specific to the organization's context, but each refers to a target for whom the organization creates value. In this way, these terms are synonymous.

An organization's business model is built on its understanding of the value the organization creates for its customers. Whether the value is important to the organization is irrelevant; all that matters is whether the organization's customers see the value as important.

The second aspect of a business model is *how* an organization creates the value for its customers. What infrastructure is required to create value? What core assets are required? What relationships does the organization require in order to create and deliver the necessary value to your customers?

The last aspect of a business model is the value an organization captures from its customers. For the most part, this value comes in the form of monetary revenues, but in some special cases (e.g., third-party funded models or social innovation) the value captured may be an alternate currency such as data or impact.

According to Osterwalder & Pigneur (2010):

A business model is the rationale how an organization creates and delivers a value that is important to the customer, and captures a value in return.

That is as complicated it gets. The definition of a business model is the logic and strategy by which an organization systematically, repeatedly, sustainably creates and delivers value that is important to its customers, capturing value in return.










The Business Model Canvas


The tool we use to document and make business models explicit and visual is the business model canvas, which was developed by Alexander Osterwalder and Yves Pigneur in their book *Business Model Generation* (Wiley, 2010).


The business model canvas makes it easy to understand, analyze, and design an organization's existing business; prototype different and innovative ideas about how to change the existing business; or create new businesses.

The business model canvas contains the nine fundamental building blocks of any organization's business:

1. Customer segments
2. Value proposition
3. Customer relationships
4. Channels
5. Key activities
6. Key resources
7. Key partners
8. Revenue streams
9. Cost structures

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 						


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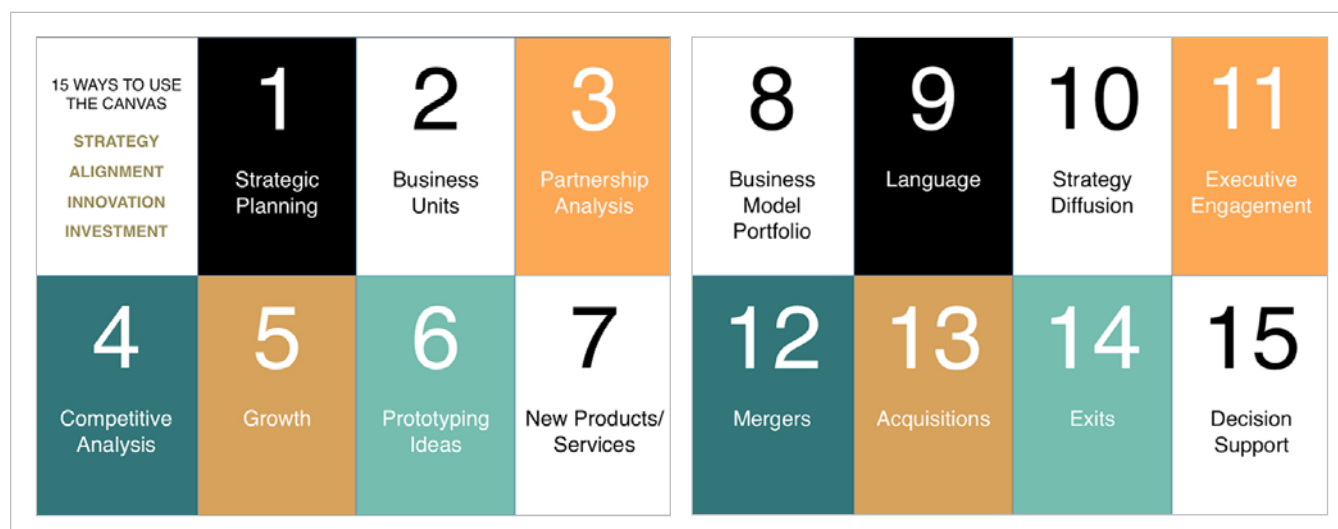

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How is the Business Model Canvas Used?

The business model canvas is an extremely effective framework and tool for understanding, designing, and changing the way one does business. Most people, even those very familiar with the canvas, often fail to appreciate the many ways in which the tool can be used within an organizational context.

There are four key areas of business in which the business model canvas can be applied: strategy, innovation, organizational alignment, and investing.

1. Using the canvas as a strategic tool:
 - part of the strategic planning process
 - part of business unit planning
 - design and evaluate partnerships
 - used for competitive analysis
 - map out each of the various business lines
2. Using the canvas as an innovation tool:
 - design, test and build new growth engines
 - prototype ideas for business change
 - a template to develop new ideas
 - better understand your customer and their needs
3. Using the canvas to build organizational alignment:
 - bring new executives onboard
 - disseminate strategic directions of the organization
 - shared language across the organization
4. Using the canvas to evaluate investment:
 - making better investment decisions and decision support
 - mergers and acquisitions
 - exit strategy



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How does the Business Model Design Ensure an Enterprise is Sustainable (RAISE)?

The business model design not only changes the way organizations effectively do business, it also provides an innovative, repeatable and sustainable method to derive ongoing value to an organization's customer base while it reaps ongoing value in return.

In turn, this model addresses the CPA Canada RAISE philosophy (whereby Resilient + Adaptive + Innovative = Sustainable Enterprises) for success. At its core, the RAISE philosophy can help guide an organization (or enterprise) towards a unique customer-centric and competitive strategy that provides an ongoing sustainable edge. The business model leverages these philosophy drivers by developing resiliency in the face of challenges within competitive customer environments, adapting to sudden market changes, and innovating in response to the ever-evolving market needs. When these drivers of success are combined and leveraged, the outcome is a highly sustainable enterprise. This concept is explored further in this [guideline](#).

How do Professional Accountants in Business Add Value?

A professional accountant (CPA) in business who understands the business model of the organization can not only be an integral strategic partner to other areas of the organization while promoting the RAISE philosophy and enabling the organization to be resilient, adaptive, innovative, and sustainable. The skillset of the professional accountant allows them apply connections to the nine fundamental building blocks of the business model canvas.

Understanding an organization's business model involves more than the ability to represent it with a graphic. It involves knowing the various elements the model encompasses and how these elements connect to the organization's operational structure, activities, processes, and goals.

A successful business model design implementation initiative both draws on and sharpens the skills and expertise of professional accountants in business in several ways, in the following forms to ensure sustained value:

Creating Value

- **Formulation of the business model:** The professional accountant can work as a facilitator and leader within the executive management team on the business model using the business model canvas. They can play a key role in defining a sustainable path for the organization towards the development and understanding of the organization's business model.
- **Tactical involvement:** The professional accountant is a major contributor in deriving tangible and effective tactics from the higher-level strategies of the organization's business model.

Enabling Value

- **Strategic analytics and ongoing assessment:** The professional accountant plays an important role in managing performance as well as recommending performance measures that will ensure that the organization's operations support its business model.
- **Operational participation:** The professional accountant is a major contributor to the operational activities required to ensure the organization delivers value to its stakeholders. The professional accountant must be actively involved in linking the components of the business model to the day-to-day activities of the organization.

Reporting Value

- **Presentation of information:** The professional accountant develops and presents financial and non-financial information to senior management to aid organizational decision making. Appropriate presentation of this information is critical for the organization to make appropriate decisions.



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