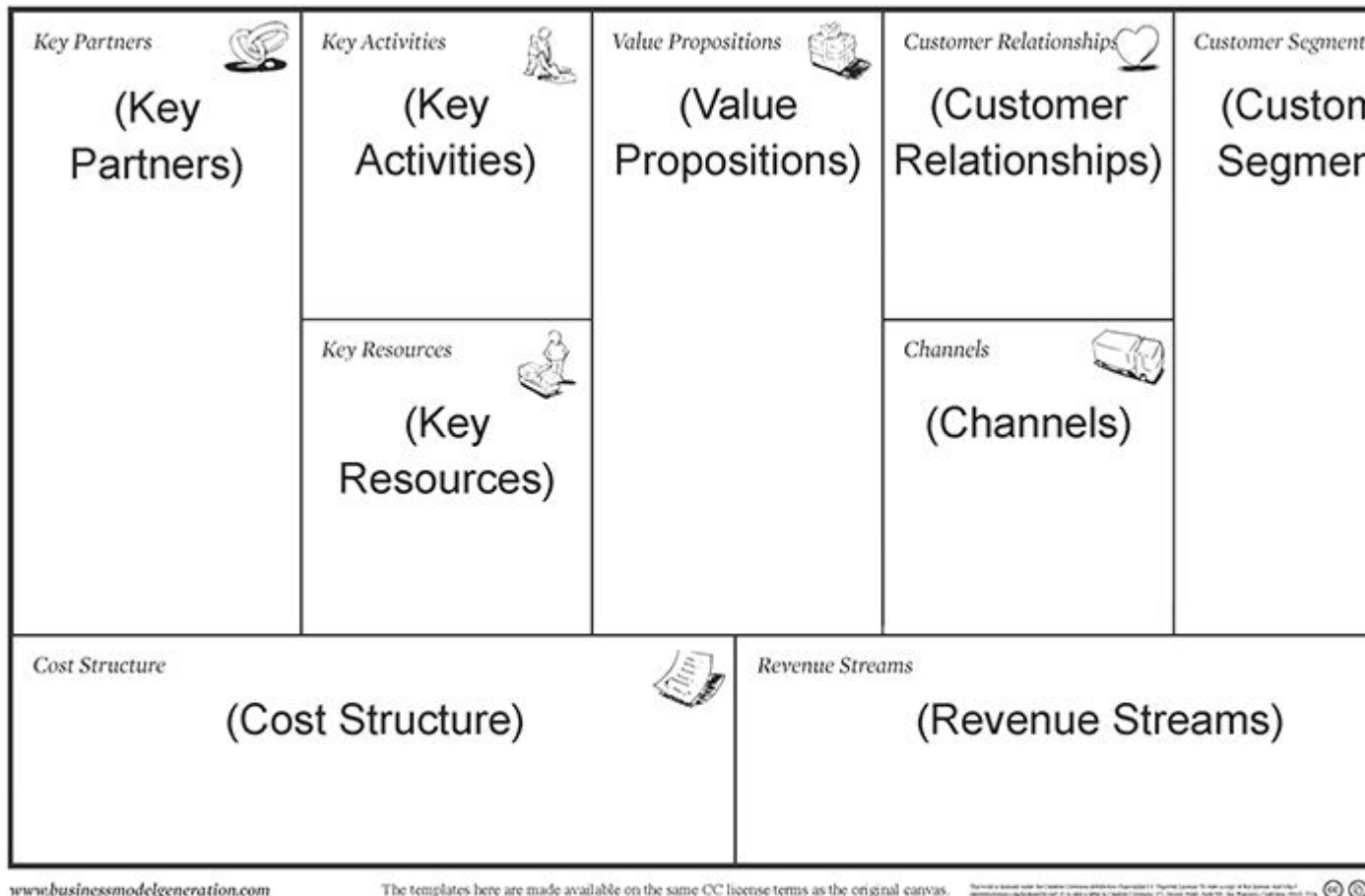


The Business Model Canvas

What's the Business Model Canvas?

The Business Model Canvas gives you the structure of a business plan. The Canvas has nine elements:



Together these elements provide a pretty coherent view of a business' key drivers—

1. **Customer Segments**: Who are the customers? What do they think? See? Feel? Do?
2. **Value Propositions**: What's compelling about the proposition? Why do customers buy, use?

3. **Channels**: How are these propositions promoted, sold and delivered? Why? Is it working?
4. **Customer Relationships**: How do you interact with the customer through their 'journey'?
5. **Revenue Streams**: How does the business earn revenue from the value propositions?
6. **Key Activities**: What *uniquely* strategic things does the business do to deliver its proposition?
7. **Key Resources**: What unique strategic assets must the business have to compete?
8. **Key Partnerships**: What can the company *not* do so it can focus on its Key Activities?
9. **Cost Structure**: What are the business' major cost drivers? How are they linked to revenue?

The Canvas delivers three things:

1. **Focus**: The Business Model Canvas improves clarify and focuses on what's driving the business (and what's non-core and getting in the way).
2. **Flexibility**: It's a lot easier to tweak the model and try things (from a planning perspective) with something that's sitting on a single page.
3. **Transparency**: A picture is a thousand words, the team will find it easier to understand your business model and be much more likely to buy in to your vision when it's laid out on a single page.

How do I get started?

Fill out the elements for your business and then ask yourself ‘Does this make sense?’ ‘What are the most important linkages and components of the model?’

Step 1 (of 10): Customer Segments

For purposes of using the canvas you should make sure you can answer these questions:



1. Segment Dimensions

Do you have a single or multi-sided market? If you have a multi-sided market you'll have at least as many segments as you have sides. An example of such a market is a media company who have readers on the one side and advertisers on the other, both are customers with different needs, objectives and motivations for consuming your product.

2. Segment Composition

If the segment dimensions are the ‘macro’ analysis of your customer base, then looking within each segment at individual customer types as ‘Personas’ is the ‘micro’. As with economics, this is where most of action happens. You should be able to visualize these Personas- what kind of shoes do they wear? And you should understand what they think, see, feel, and do in your product area. Be sure to list both buyers and users of your product (many Personas will be both).

3. Problems, Needs, Habits & Current Alternatives

What job are you doing for the customer? What need are you fulfilling? There are no new behaviors- make sure that you can identify an existing need/problem and identify specific alternatives that your customer uses today. If you're not sure, go out and observe, talk to some representative people. You'll

want to be able to clearly link your Value Propositions back to these in the next section.

Output: a list of Personas, organized by Customer Segment if you have more than one segment. I recommend trying to prioritize them- Who would you pitch first if you could only pitch one? Who next? And so forth...

Notes: If you're spending a lot of time on this first item, **that's OK** (and it's probably good). The Canvas is a tool, not a strategy and not all the nine blocks are equal. The pairing of Customer Segments and Value Propositions is really the 'independent variable' that should be driving everything else in your business model.

Step 2 (of 10): Value Propositions

Which of the Problems or Needs that you identified in your Personas are you fulfilling? What is unique about your Value Propositions and why does your customer prefer them to their Current Alternatives? You may have a whole lot of these- and that's fine. When you're getting going with this, jot them all down on a whiteboard, index card, Post-It, etc. But then rank them and you'll probably want to winnow out all but the most critical. What things do you do that actually cause a customer to pick you over a competitor or alternative?



At the outset a start-up business might think its largest customers are on board because of cost savings while it turns out that reducing the customer's time and risk to get new services to market is the most important for them. It's not that other things aren't important, but they aren't the top Value Proposition for the customer. This makes a difference on how

we a product is sold and should change the focus on how the business plan is operationalized for customers.

Once you've isolated these, try mapping them to the Customer Segments; it will look something like this:

This mapping says 'We have 3 personas. Persona 1 cares about VP 1 & 2. Persona 2 cares about VP 2; Persona 3 cares about VP3. (One segment only so segments not noted)'.

Output: a prioritized list of Value Propositions and linkages from each Personas to the VP's relevant to them.

Notes: Again, this pairing is the key driver for most business models. Maybe you feel like you're in good shape on understanding the customer's world but you don't have any validation on whether the Value Propositions are clicking because this is a new venture? If you're not sure, that's OK and good for you for acknowledging the uncertainty! It's the responsible thing to do. The key is to write down those assumptions, prioritize them, and figure out the quickest and cheapest way to prove or disprove them. That's what Lean/Startup is about.

Step 3 (of 10): Channels

Channels includes entities you use to communicate your proposition to your segments, as well as entities through which you sell product and later service customers. For example, if you sell bulbs for light houses and there's a website all light house attendants purchase equipment, that site is a sales Channel. If you use Google AdWords, that's a Channel, too (for getting attention). If you use a third party



company to service the bulbs when they break, that's also a Channel.

Output: a list of important Channels, linked to Personas or Segments if they differ substantially. Make notes on what steps are relevant for each- promotion, sales, service, etc

Notes: Channels and Customer Relationships, define your interface with the Customer. It's important to think all the way through the customer 'journey' in specific terms. For most businesses, the way they get a customer's attention is different than the way they on-board them or support them over the long term. Think how to gain customers attention, their interest, their desire and how to call them to action. Once this is achieved look at how you on-board a new customer and how you retain them and make repeat sales. This can be done on a storyboard.

Another consideration is whether your channels will give you enough visibility into the user, including, for example, a way to follow up with users. Not sure? Document your assumptions Lean Startup style and figure out how you'll quickly prove or disprove them.

Step 4 (of 10): Customer Relationships

How does the customer interact with you through the sales and product lifecycle? Do they have a dedicated personal contact they see? Call? Is all the interaction over the web? Do they never see you at all but instead talk to a Channel? A few litmus test questions you may want to ask yourself at this point:

- Can the Value Proposition be delivered to the Customer this



way? All the way through from promotion, to sale, to post-sale service?

- Can you make the numbers work?

- Is there a premium support product you need to create/test?

Many companies have rejected the false choice of ‘Do we provide phone support or not?’ instead offering personal support for a reasonable charge.

Output: a description of Customer Relationships, with notes if they differ across Customers (between Segments or among Personas within a Segment) or across the customer journey.

Notes: If you’re a start-up, be sure to document and review critical assumptions here. Also, the focal items are in a kind of specific order- you should validate your Segments and their relationship to the Propositions above all else. If this means you provide personal support in the early days (a ‘concierge test’ in [Lean Startup](#) terms) to do discovery and validation of Segments and Propositions, that’s OK. You can subsequently test the Customer Relationship models.

Step 5 (of 10): Revenue Streams

At this point, you should map Segments to Propositions to Revenue Streams. The example below says ‘Revenue stream 1 is driven by Persona 1’s involvement with Propositions 1 & 2; Revenue Stream 2 is driven by Persona 2’s involvement with Proposition 2; and Revenue Stream 3 with Persona 3’s involvement with Proposition 3.’ That’s relatively diverse- yours may be much simpler and that’s fine.

Output: a list of Revenue Streams, linked (mutually) to

Personas (or Segments if the mappings are the same within a set of Personas) and Value Propositions

Notes: If you have a start-up or are re-engineering the business, this is a time to look at where you're driving revenue and whether it aligns with the rest of your focal points. Are you charging on value? Perceived value? They say everyone loves their banker; hates their lawyer. Why is that? Is there an actionable analog in your business?

Congratulations on making it halfway! At this point, you may want to step back and look at the picture you've created about your Offering and Customers. The next four steps deal with your 'Infrastructure', the plumbing you need to execute:

Step 6 (of 10): Key Activities

These are the crucial things the business needs to do to deliver on its propositions and make the rest of the business work- for example, if selling through 3rd parties is part of the model, then activity around channel management is important.



For a product-driven business, this probably includes ongoing learning about users and new techniques to build better product. If you're focused on doing a bunch of things for a particular set of customers (ex: comprehensive IT for law offices), this probably includes maintaining superior expertise on the segment(s) and creating or acquiring products and services that are a good fit, whatever that entails. For an infrastructure business (ex: electric utility), it probably

includes keeping the infrastructure working reliably and making it more efficient.

You'll then want to consider how the Key Activities (and/or Key Resources) drive your Value Propositions:

Outputs: a list of Key Activities linked to your business' Value Propositions.

Notes: One question this analysis should raise for you is whether or not certain Activities and Resources are actually core, actually focal to your business, something you'll want to think through.

Step 7 (of 10): Key Resources

Key resources are the strategic assets you need in place, and you need in place to a greater or more targeted degree than your competitors. The Business Model Canvas proposes that there are three core business types: product, scope, and infrastructure. These tend to have similar types of Key Resources.



The following diagram describes how Key Activities drive the accrual of Key Resources:

Outputs: a list of Key Resources linked to your business' Key Activities.

Notes:

Product-driven businesses have a differentiated product of some sort. Key Resources in product-driven businesses are typically key talent in critical areas of expertise and accumulated intellectual property related to their offering.

Scope-driven businesses create some synergy around a particular Customer Segment. For example, if you started a business that would take care of all the IT needs for law firms, that would be a scope-driven business. These businesses typically have key knowledge about their segment, a repeatable set of processes, and sometimes infrastructure, like service centers.

Infrastructure-driven businesses achieve economies of scale in a specific, highly repeatable area. Telecommunications is traditionally an infrastructure business. Retailers focused on retail are primarily infrastructure-driven businesses. The Key Resources for this type of business are various types of physical or virtual infrastructure.

Step 8 (of 10): Key Partnerships

At this point, hopefully the Canvas has helped you sharpen and articulate your business' focal points. What Activities and Resources are important but not aligned with what's uniquely strategy for you? What's outside of your business type? Could partners do some of those? Why? Which?



Map Key Partners to Key Activities. If an activity is key, it's still part of your business model. This is a way to denote which specific Partners are handling various Key Activities for you.

Output: a list of Key Partnerships with notes on their relationship to Key Activities.

Step 9 (of 10): Cost Structure

You've worked to understand how your Key Activities drive your propositions and hence your revenue. How do they drive costs? Are those costs well aligned with the key Value Propositions? Are the costs more fixed or variable as you test different business models? Are they more linear with your scaling or more fixed? You'll want to have these in mind as you tweak your model.



For purposes of linking things together, look at how your Key Activities drive your Cost Structure:

If there are major cost components that don't map to a Key Activity, take a closer look at those costs.

Output: a list of Cost Structure elements with notes on their relationship to Key Activities.

Congratulations- you have a working canvas! The section below offers a few analytical ideas and suggestions for next steps.

Step 10 (of 10): Applications, Analysis & Next Steps

Core Applications

The most core and obvious applications of the Canvas are to ask:

- Does it make sense?
- Could it be better?
- Does the rest of my team understand and agree? Have additional ideas?
- (rinse and repeat at least quarterly)

Competitiveness

The canvas does a good job of helping you figure out your business, which is a good place to start. You also want to look at the competitive environment and think about if and how you get and maintain a long term competitive advantage. Look at Michael Porter's Five Forces framework for more reading on competition and ask yourself how does my business proposition hang together?

Action

The act of doing follows the act of planning. The Canvas provides a good “big picture” view of how a business strategically fits into its markets and industry and how it intends to compete against and disrupt incumbent players. The next act involves marshalling resources identified by the plan and creating a cohesive action plan to make it a reality.