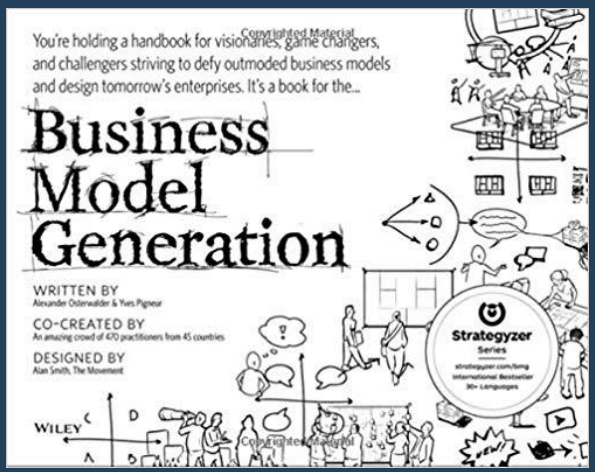
Business Model Generation



Year of publication: 2010
Author: Alexander Osterwalder and Yves Pigneur
278 pages
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Originally distributed under the name of Business Model Generation, the work has an incredible joint effort of co-authors, with 470 employees from more than 45 different countries.
Osterwalder and Pigneur brought together and modeled the various ideas and concepts for creating this flexible and easy-to-understand guide to creating innovative business models!
This book has a lively and colorful format, full of figures, drawings, graphs and pictures that help you better understand its content full of deeply researched information, based on real experiences.

Score

9

9 Aplicability
7 Inspiration
7 Innovation
9 Impact on results
9 Structure

Main ideias of the book

- The nine main elements of a business model Canvas;
- Know what the business model standards are;
- The Canvas to create and reinvent companies, strengthening and improving their performance;

For whom is this book suitable?

This book is recommended for all entrepreneurs, business man and marketers looking for an introduction to effective business models.
In addition, the book can be enjoyed by readers, regardless of profession, who seek and want to better understand the key elements of business and market.

Overview of the book

Make the plan for the companies of the future

According to the authors, the new technologies and their rapid implementation in organizations allow the emergence of the most diverse business models that are drastically changing the routine of industries and, consequently, of commerce.
A well-known example is Apple with iTunes. The company was able to revolutionize the music industry with its innovative application.

Companies should focus on one of three value disciplines: operational excellence, product leadership, or customer intimacy

Definition of Business Model

According to the book: "A business model describes the logic of creating, delivering, and capturing value by an organization".
In this way, business models are a good way to create or improve the products or services of an enterprise, strategically defining the key elements involved in aggregating value for specific customer service.

Building a Business Model

The strategic planning of an innovative business model is a very complicated process and, as Alexander and Yves describe it, can resemble structuring "chaos", requiring a good deal of creativity.
The Canvas business model is an excellent framework to aid brainstorming, instigating critical thinking, inventiveness, and the ingenuity of the employees involved, overcoming the previous difficulty.
The Canvas methodology is applied in several large companies. The book features three memorable examples: IBM, Ericsson and Apple.

The Business Model Canvas

The Canvas template is a flexible and dynamic framework that presents itself as a great way to describe the nine essential components of a business model in graphic form.
Unlike the linear model, the Canvas frame is usually made on a sheet of paper that is divided into nine subframes or blocks, each representing the components of the business model.
In this way, it is possible to identify in a quick and quite visual way the main points of an enterprise, the complex relation between them and, according to the authors, it is possible to raise the logics that the companies intend to use to make money.

The participants of the methodology describe, in Post-its, their proposals and ideas in the format of short texts related to each of the blocks.
Thus, it is possible to raise the primary elements for the business plan in a systematic and simplified way. There is no set order to start filling of the frame, that is, it can be started by any segment of the frame.
The advantage of using the Post-its is its easy handling. Since Canvas is a dynamic framework, each of the individual ideas can impact the process as a whole, so they can be constantly altered.

Changing aspects of the model in development is also facilitated due to the visual characteristic of Canvas and its separation by blocks. However, the method encourages thinking in the organization as a whole and not in a timely manner.

The nine building blocks

The key elements of a business model provide a quick way to share and describe how a company works for all employees.
These elements are arranged in nine blocks, covering: customers, offers, infrastructure and financial viability in an innovative way; check out the next sections!

Customer Segments

The mass market and the niche market present a very different approach. While the mass market works with general products called head tail, segmented markets (niche) focus on variety or long tail.
The authors portray that to work with Canvas you must select the types of clients that will be targets of your business model and whom your company wants to serve. Generally, some companies select more than one base or group of customers.
As a general way to choose your share of customers from the market, you must identify to what types of people your company generates the most value and together which are your most important customers - that justify the existence of your company.

Customer Relationships

The authors point out that a company establishes ways of relating to the markets of distinct segments in three different ways:

> *Warm-Up: The Silly Cow Exercise To get your team's creative juices flowing, it can be helpful to start an ideation session with a warm-up such as the Silly Cow exercise*

- **Personal Assistance**: human interaction between clients and consumers;
- **Self-service System**: you give your client the ability to serve himself with his own effort.
- **Automated Systems**: the customer does not spend any energy, just wait while the product reaches him.

The type of relationship your company will choose depends on the branch of operation. But keep in mind that this impacts directly on the user experience, whether it is positive or negative, so the decision to relate is extremely important.

Value Proposition

Also called Bundle of Benefits, the value proposition, or added value of the product or service is precisely what makes customers prefer to do business with you rather than with your competitor.
Pigneur and Osterwalder point out that for this it is very important that you be able to satisfy the needs of your customers!
The generation of value happens through new products with differential points and innovative features. Improving product performance is also a great way to do it.

Channels

The channels of a company are its portal of communication and interaction with customers. It is through them that the enterprise can achieve the desired market share, and show the value of its goods to consumers.
Seek to select the best ways to connect, distribute and sell your products and services. Nowadays, the internet is the main communication channel.
However, the book also provides information on retail and wholesale stores: they enable, in addition to the display of products to customers, testing, evaluation and even direct purchase.

Cost Structure

Covers all costs the company has related to key activities and resources (which will be described in the next sessions), used to keep the business model running.
Companies can be classified for their costs in two different ways:

- Cost-Oriented: Optimization and cost reduction;
- Value Oriented: Focuses on the value added to the product (cost in the background);

Regardless of your business rating, the authors recommend that you offer discounts and promotions to attract customers, offsetting the cost with profit.

Key Partners

The book highlights that strategically joining with other companies can help you expand and protect your market share, since there is a high competitiveness in the contemporary market.
In this way, it is possible, through the tactics of partnership and alliance with market rivals, or "coopetition" (cooperation + competition), reduce risks and reduce costs through outsourcing, for example.

Revenue Streams

Revenue streams are the so-called arteries of a model, or, more intuitively, all money generated. Cash flow generated from product sales to segmented customers or periodic payments such as licenses and signatures are examples.
Each type of revenue source requires different pricing mechanisms; according to the authors, they can be fixed price or dynamic price (negotiable or variable). The price of hotels, for example, may vary depending on the time of the year.

Key resources

Key resources are one of the most important factors for a company because, according to Alexander and Yves, it is through them that the organization manages to keep its business plan in place.
They can be of several types: physical, financial, intellectual, depending on the area of activity of your company. An example of a physical resource may be raw materials or production equipment, such as Lathes and Millers.

Key activities

Key activities comprise all necessary and routine actions, fundamental for engaging clients and generating profits; as well as key resources, they help keep your business plan operating.
An example of key activity may be the use of knowledge management or consulting services for troubleshooting.

> *There's not a single business model . . . There are really a lot of opportunities and a lot of options and we just have to discover all of them." Tim O'Reilly, CEO, O'Reilly*

Standard Business

Business models have a tendency to follow certain patterns or similarities, as Alexander and Pigneur point out. They highlight in the book some types, such as Disaggregated Business Models, Long Tail, Free Model and Open Models.

Disaggregated Business Models

This type of model presents three basic types of business: Product Innovation; Customer Relationship Management and Infrastructure Management. But because of their different economic, cultural and competitive aspects, they are separated or disaggregated.
In this way there is no intersection or junction of each one of the businesses, that is, there is no common relation between the three elements. An example presented in the book is that of a private bank, which can directly serve key customers and outsource other services.

> *A level 5 leader is an individual who combines extreme personal humility with an intense professional will*

The Long Tail Business Model

The Long Tail concentrates on the sale of a wide variety of custom and small niche products to the various segmented markets.
Alexander and Yves explain that this type of sale can be as lucrative as the traditional, mass-market model that has unique products of little variety. The authors also highlight the low cost of stocks of the Long Tail.

The Free Model

Free business model generally revolve around offering products or services for free to certain types of customers targeting others.
The authors highlight a specific variation of this model called the "freemium" system. It basically consists of the provision of basic and incomplete services in which users must pay for the full version.

Open Business Models

According to Alexander and Yves, in this type of model a company aims to collaborate with another external organization in order to add value to its business and also increase its productivity.
The book is an example of the P & G conglomerate that has increased the internal productivity of its research by collaborating with universities and other companies in their research.

Reviewing and Remodeling Business Models

A company needs to make a diagnosis on a regular basis, seeking to assess the feasibility of its used business model and its suitability for future use.
The book recommends using SWOT analysis to check the condition of Strengths, Weaknesses, Opportunities, and Threats of your company with respect to each of the nine business elements.
This analysis makes it possible to raise the current condition of the current business model, reflecting its strengths and weaknesses. In addition, it allows predicting possible future changes through achievable opportunities along with associated threat escalation.

Importance of Change

The authors reveal that it is not good practice to stick to business models, because with constant evolution combined with time, eventually they will become obsolete, requiring changes, search for improvements or even new models.

> *A verdadeira pergunta não é: qual é o papel da tecnologia? Em vez disso, a grande dúvida é: de que forma as empresas que trilharam o caminho da excelência pensam diferente sobre tecnologia?*

Okay, but how can I apply this in my life?

The book presents us with ways to guide our business through simple models, raising the nine main and vital aspects for its construction, each one with its particularity and importance.
The book also brings the whole step by step to apply the Canvas methodology, not exhausting the subject, but rather seeking to instil readers into an innovative, creative capacity, aiming at continuous improvement.

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