

ENTREPRENEURSHIP AND DESIGN THINKING

LECTURE 6: BUSINESS MODEL CANVAS

LECTURER: STEPHEN GITHII

Starting Point

- Are you entrepreneurial spirited? yes _____ no _____
- Are you constantly thinking about how to create value and build new businesses, or how to improve or transform your organization? yes _____ no _____
- Are you trying to find innovative ways of doing business to replace old, outdated ones? yes _____ no _____

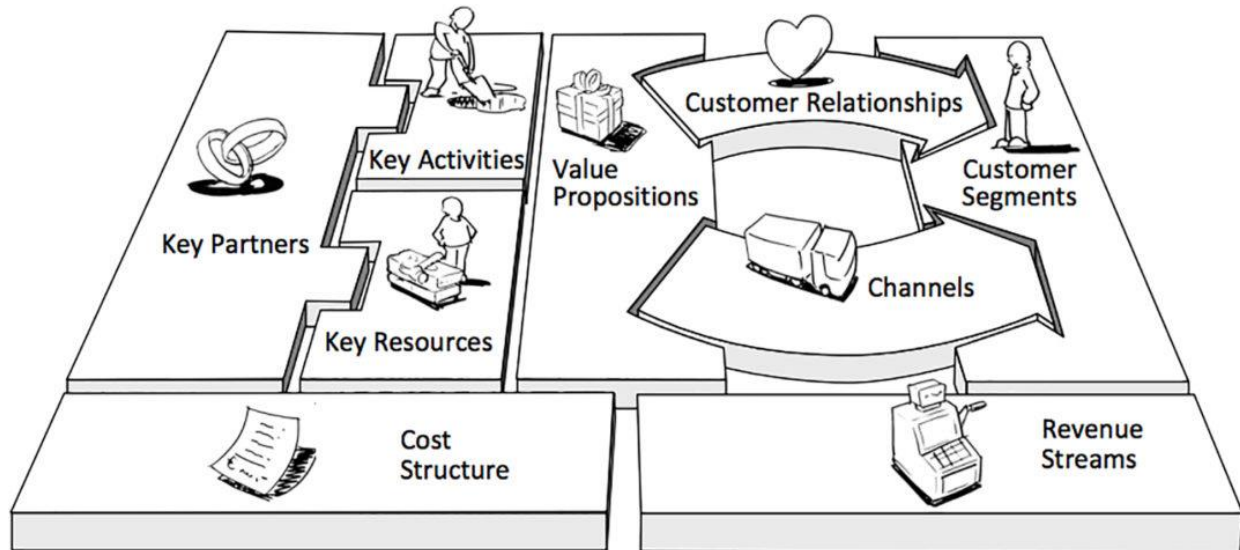
If you have answered “yes” to any of these questions,

- Welcome to Business Model Canvas (BMC), in this lecture we will look at a tool that will help you visualize an idea or business you are having.

Learning Outcomes

- i. Understand the nine building blocks of BMC
- ii. Gain the ability to visualize and map out a business model in a single page
- iii. Articulate clear value proposition that address the need of different customer segments
- iv. Analyze and improve business models

What is Business Model Canvas (BMC)?



Adapted from 'Business Model Generation', Alexander Osterwalder, Wiley 2012.
www.businessmodelgeneration.com
Licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported License.

Let us start from a Business Model

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

BMC?

- A shared language for describing, visualizing, assessing, and changing business models

So why BMC?

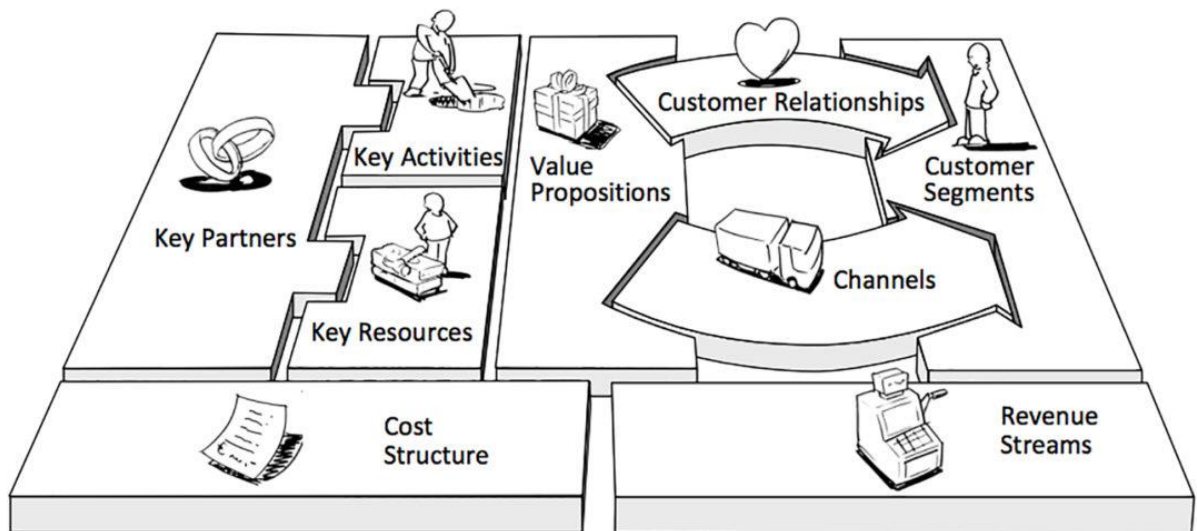
- When you already have a business idea- about to launch a business
- Positioning your model and business in a dynamic competitive environment
- Re-designing/rethinking your business model
- Reality check- you need to check if the business is still on course

Who has used it successfully?

- Xerox- photocopier leasing in 1959
- Diners club introduction of credit cards in 1950
- iPods versus iTunes
- Grameen bank
- Uber
- Netflix

Components of BMC

- 9 components see the diagram
- Think of them as a jigsaw puzzle- every component is important



Adapted from 'Business Model Generation', Alexander Osterwalder, Wiley 2012.
www.businessmodelgeneration.com
Licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported License.

•

Let us break it down- The nine building blocks

- **Customer Segments** -An organization serves one or several Customer Segments
- **Value Propositions**- It seeks to solve customer problems and satisfy customer needs with value propositions.

- **Channels**- Value propositions are delivered to customers through communication, distribution, and sales Channels.
- **Customer Relationships** -Customer relationships are established and maintained with each Customer Segment.
- **Revenue Streams** -Revenue streams result from value propositions successfully offered to customers.
- **Key Resources**- Key resources are the assets required to offer and deliver the previously described elements . . .
- **Key Activities** - by performing a number of Key Activities.
- **Key Partnerships** -Some activities are outsourced, and some resources are acquired outside the enterprise.
- **Cost Structure** The business model elements result in the cost structure.

1. Customer Segments

- Defines the different groups of people or organizations an enterprise aims to reach and serve.
- Without (profitable) customers, no company can survive for long. **True or False?**
- An organization must make a conscious decision about which segments to serve and which segments to ignore- **you cannot satisfy everyone**
- Customer groups represent separate segments if:
 - Their **needs** require and justify a distinct offer - **not universal**
 - They are reached through different Distribution **Channels**
 - They require different types of **relationships**
 - They have substantially **different profitability - high value client**
 - They are willing to pay for **different aspects** of the offer

Activity in team: Questions to be answered using your business/idea:

- *For whom are we creating value?*
- *Who are our most important customers?*

Different customer segments you can think of:

- Mass – Most electronics target the mass market
- Niche- car parts manufacturers
- Segmented- for example banks have; Personal, corporate, SMEs sections
- Diversified- Amazon has a very wide offering to its customers

- Multi-sided platform- Credit cards and free newspapers

2. Value Propositions (VP)

- 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 and why you are unique in the market.
- It is the brand promise to your customers
- Simply put VP is a statement or phrase that tell us how your brand/product/service will benefit us-as your customers (Zehner, 2024)
- Some possible VP
 - Newness- iPhone
 - Performance- Apple MacBook pride itself on power performance
 - Customization -Nike By You allow customers to design their own shoes, Dell too
 - Design - Apple iPhone are known for their sleekness and minimalist design
 - Price- nano, fly 540, Ryanair give low prices as they do not have frills
 - Cost reduction- Walmart provide wide range and at lower price- “saves money, live better”
 - Risk reduction- PayPal, anti-virus companies
 - Accessibility - Microsoft Office 365 offering tools accessible to people with disabilities such as voice command
 - Convenience- Uber, bolt offer easy way to book your ride.

Activity in team: Questions to be answered: Using your business/idea

- *What value do we deliver to the customer?*
- *Which one of our customers' problems are we helping to solve?*
- *Which customer needs are we satisfying?*
- *What bundles of products and services are we offering to each Customer Segment?*

3. Channels

- 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.

Functions of a channel

- 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

Team Activity: Questions to be Answered using your business/idea:

- *Through which channels do our customer segments want to be reached?*
- *How are we reaching them now?*
- *How are our channels integrated?*
- *Which ones work best?*
- *Which ones are most cost-efficient?*
- *How are we integrating them with customer routines?*

Types of Channels

- **Direct**- allows you to interact with customer directly-Sales people, your store, online
- **Indirect**- There is an intermediary between you and customer (partner stores, wholesalers)

4. Customer Relationships

- Describes the types of relationships a company establishes with specific customer segments.
- 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 - the need to have more customers
- Customer retention - the need to keep the acquired customers
- Boosting sales (upselling)- Good relationship is likely to boost sales

Types of relationships

- Personal assistance- on site, call, email
- Dedicated personal assistant like in banking
- Self-service-purchasing air ticket
- Automated services- password reset
- Communities- for instance in social media
- Co-creation- such as You-tube

Activity: Questions to be Answered: for your business/idea

- *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?*

5. Key Resources

- Describes the **most important assets** required to make a business model work.
- There could be so many resources, but which ones are a **must** have?
- Every business model requires these Key Resources
- These resources allow an enterprise to create and offer a value proposition, reach markets, maintain relationships with customer segments, and earn revenue.
- The resources vary with the type of business
- They can be categorized as; **physical** (buildings, land, car), **financial** (money), **intellectual** (trade secret, trademark, copyright), or **human** (skilled, experienced labor force).

-Think about a microchip company versus a mining company-

Activity: Questions to be Answered: for your business/idea

- *What Key Resources do our Value Propositions require?*
- *What Key Resources do our Distribution Channels require?*
- *What Key Resources do our Customer Relationships require?*

- *What Key Resources do our Revenue Streams require?*

6. Key Activities

- Describes the **most important** things/actions a company **must** do to make its business model work.
- What **must** we do for our model to hold?
- They also differ from business to business

Types of activities

- Production
- Problem solving
- Platform/network

-Think of bread maker versus a university-

Team Activity: Questions to be Answered:

- *What Key Activities do our...*
 - *Value Propositions required?*
 - *Our Distribution Channels?*
 - *Customer Relationships?*
 - *Revenue streams?*

7. Key Partnerships

- Describes the network of suppliers and partners that make the business model work.
- Companies create alliances to optimize their business models, reduce risk, or acquire resources and activities.
- It represents those people/organizations that if we do not work with our business will collapse
- Think of a three-legged stool which cannot stand if one of the legs is removed who are these “legs” in your business?

Types of partnership

- Strategic alliances between non-competitors
- Competition: strategic partnerships between competitors
- Joint ventures to develop new businesses

- Buyer-supplier relationships to assure reliable supplies
- Customer partnership to guarantee you market, more of what farmers do

Team Activity: Questions to be Answered:

- *Who are our Key Partners?*
- *Who are our key suppliers?*
- *Which Key Resources are we acquiring from partners?*
- *Which Key Activities do partners perform?*

8. Cost Structure

- Describes **all costs/expenses** incurred to operate a business model.
- Creating and delivering value, maintaining customer relationships, and generating revenue all incur costs
- Costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships
- Ordinarily, costs should be minimized in every business model
- But low-cost structures are more important to some business models than to others.
- There are two broad classes of business model Cost Structures:
 - **cost-driven** – more focused on reducing cost
 - **value-driven**- Focus on value/quality without minding cost much

-If you think of a university, what cost must be borne? -

Team Activity: Questions to be Answered:

- *What are the most important costs inherent in your business model?*
- *Which key resources are the most expensive?*
- *Which key activities are the most expensive?*

9. Revenue Streams

- Represents the cash a company generates from each customer segment
- If customers comprise the heart of a business model, revenue streams are its arteries
- Each revenue stream may have different pricing mechanisms

Types of Revenue Streams

- Recurring revenue- this represents income from ongoing payments like subscriptions (gym, Netflix, zoom), membership (clubs, associations)
- Transactional based revenue- When you make sale to one time customer.

Several ways of generating revenue streams

- Asset sales
- Usage fee- telcos companies
- Subscription fee- gym, Netflix
- Lending/leasing/Renting- car rentals
- Licensing –media, fast food, software
- Brokerage fee- real estate
- Advertising- Google, YouTube, Facebook

Team Activity: Questions to be Answered:

- *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?*

Topic Review

- BMC is a tool that provides a visual framework for developing, describing, and analyzing a business model.
- It makes us understand how business creates, deliver, and captures value for its customers
- In our next lecture we will look at marketing requirements for an entrepreneur.

Reference

Zehner M. (2024), *Guide to Value Proposition Statements that Capture & Convert*.
SendGrid. <https://sendgrid.com/en-us/blog/value-proposition-statements> accessed on 10/10/2024