Business Model Canvas

Every organisation has a business model: the way it creates value for customers and earns money from it. Alexander Osterwalder and Yves Pigneur made this idea visible in their book Business Model Generation, published in 2010. Their Business Model Canvas is a single page with nine building blocks. Teams fill it in together, often with sticky notes, so that everyone sees the whole business at a glance. The canvas works for start-ups, for new products and for checking an existing business.

1. Customers and Value

The canvas starts on its right side, with the customer. Customer Segments are the groups of people or organisations that we want to serve. The Value Proposition is the bundle of products and services that solves a problem or meets a need for each segment. A business can serve one segment or several, and each may need a different value proposition. These two blocks belong together, because value only exists for a particular customer.

Example: A food truck owner names her customer segment: office workers on a short lunch break. Her value proposition meets their need: a hot, healthy lunch in five minutes.

At work: Reem, a product manager at a fitness company, plans an online coaching service. She defines the customer segment as busy working parents, and the value proposition as twenty-minute home workouts with a personal coach.

2. Channels and Relationships

Next, we ask: how does the value reach the customer? Channels are the ways we communicate with customers, sell to them and deliver our offer, such as shops, websites or apps. Customer Relationships describe the kind of contact that each segment expects, from self-service to personal help. Good channels and relationships help us win customers, keep them and sell them more.

Example: A small bookshop uses two channels: the shop itself and a simple website. Its customer relationship is personal: the owner remembers what each regular reader likes and suggests new books.

At work: Reem chooses her channels: the app stores and posters in the company's gyms. For the customer relationship, each parent gets a weekly video call with the same coach.

3. Resources, Activities and Partners

The left side of the canvas shows what the business needs in order to deliver its value. Key Resources are the most important assets, such as people, equipment, money or knowledge.

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Key Activities are the most important things that the business must do well. Key Partnerships are the suppliers and partners who often help with what we cannot, or prefer not to, do ourselves.

Example: A wedding photographer's key resources are her camera and her skill. Her key activities are taking and editing photos, and her key partners are wedding planners who send her clients.

At work: Reem lists the key resources: qualified coaches and the app. The key activities are creating workouts and running the calls, and a software company becomes a key partner that builds the app.

4. Revenue and Costs

At the bottom, the canvas shows the money. Revenue Streams describe how each customer segment pays, for example through a one-time purchase, a subscription or a fee. The Cost Structure lists the most important costs of running the model. When we put the two side by side, we see quickly whether the business can really make a profit. If the costs are higher than the revenue, we may need to change some blocks.

Example: A gym's revenue streams are monthly memberships and personal training sessions. Its cost structure includes rent, equipment and the trainers' salaries.

At work: Reem compares the blocks: the revenue stream is a monthly subscription, but the weekly calls make coaches the biggest cost. She changes the customer relationship to two calls a month. Now the numbers make sense.

Conclusion

In summary, the Business Model Canvas shows nine building blocks on one page: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure. Its strength is that we see how the blocks affect each other. A canvas is not a final plan but a picture of our best guesses, so we test it with real customers and update it often. One page and a few sticky notes can save months of work on the wrong idea.

Sources

- Osterwalder, A. and Pigneur, Y. (2010). Business Model Generation. Wiley – https://www.strategyzer.com/books/business-model-generation
- Strategyzer: The Business Model Canvas – https://www.strategyzer.com/library/the-business-model-canvas
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