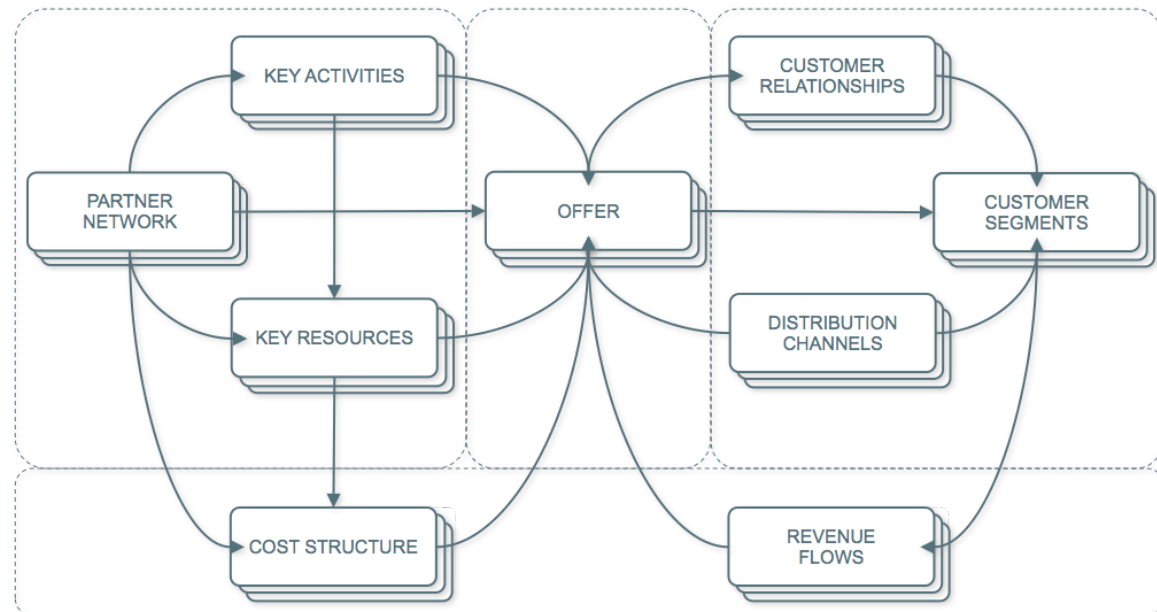


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## What actually is a Business Model?

The business model of a company is a simplified representation of its business logic. It describes what a company offers its customers, how it reaches them and relates to them, through which resources, activities and partners it achieves this and finally, how it earns money.

### The Building Blocks of a Business Model :



# CUSTOMER SEGMENT

## Who are our customers?

### **Our groups of customers with distinct characteristics**

Customers are the livelihood of every company since the revenue streams come from them. Successful organizations understand their customers. They strive to propose them an adequate offer that caters to their needs. They recognize how to create value for them. They know how to reach them and they are aware of which relationships to build with them. Most importantly, from the enterprise perspective, successful companies know how to turn satisfied customers into revenue streams.

A clear description and understanding of a company's customers is an integral part of every business model. More precisely every company must ask itself if it is serving distinct customer groups with different needs and/or characteristics.

### **List the customer groups we are serving. Regroup them in terms of different needs and ways of reaching them or as to profitability.**

- ✓ Who do we create value for?
- ✓ Do any of these customers merit to be grouped into a distinct category, because...
  - ... we propose them a distinct offer?
  - ... we reach them through different communication and distribution channels?
  - ... we entertain different relationships with them (e.g. more personal)?
  - ... they have a substantially different profitability?

Once we have answered these questions and identified the different customer segments which our business model is serving we should describe each of them in a little more detail. This description can include various characteristics, such as demographic and geographical information, core needs and aspirations.

After completing the descriptions of our different customer segments we should classify our existing customers among the identified segments. This is a good test of the segments we have come up with. Finally, we should add some statistical information on each segment, such as the number of current customers, profitability, growth potential, etc.

## VALUE PROPOSITION

### what do we offer each of our client?

#### **A bundle of products and services that satisfies a specific customer segment's needs**

Your offer is what attracts your clients. It is the value that they are willing to pay for. This value can be described as a value proposition for each customer segment. It portrays a specific bundle of products and services. A business model may consist of one or several value propositions for each of its customer segments.

In the next step of describing our business model we outline the value proposition we offer each customer segment by answering another set of questions.

- ✓ facilitate research and reduced transaction costs
- ✓ speed up distribution
- ✓ improve the quality of service
- ✓ improve facility and experience of buying
- ✓ improve the transparency of information by opening up the information system
- ✓ develop a sense of community, and improve the diffusion of knowledge,
- ✓ bind complementary products

#### **Identify the value you create for each distinct customer segment by describing the bundle of products and services you offer them.**

- ✓ What do we offer the market?
- ✓ What is the specific bundle of products and services you offer each of our customer segments?
- ✓ Which customer needs does each value proposition cover?
- ✓ Do we offer different service levels to different customer segments?

With the description of our client segments and the corresponding value propositions we have already outlined the heart of our business model. This is the kernel of our business model, but yet only the most basic part. A holistic view of our business comprises more building blocks, which we will describe in the following pages.

## DISTRIBUTION CHANNEL

### how do we reach each of our client segments?

#### **The channels through which we communicate with our customers and through which we offer our value propositions**

A company reaches its customers through various communication and distribution channels. They represent the interface between a company, its value propositions and its customers. These customer touch points include advertising, retail outlets, sales teams, websites, conferences, sales affiliates and many more. The means a company can use to reach its customers have multiplied over the years. This has left managers with a large set of design choices to reach their customers.

Communication and distribution channels have become increasingly important in business model design. A good and integrated channel design can be a powerful tool for differentiation and competitive advantage. For example, cost intensive channels should be used for very profitable clients, while unprofitable clients should be served through cost efficient channels.

#### **Identify the channels through which we offer our value propositions to each customer segment**

- ✓ Through which communication and distribution channels do we reach our markets?
- ✓ How well does each channel work?
- ✓ How expensive or cost efficient is each of our channels?
- ✓ Through which communication and distribution channels do we promote and deliver each value proposition?
- ✓ Through which channels do we reach each customer segment?

## CUSTOMER RELATIONSHIP

### how do we relate to our clients over time?

#### **The types of relationships we entertain with each customer segment**

Getting relationship management right in our business model is crucial today to satisfy customer's expectations. For instance, customers paying a high price for a product or service will expect a high touch relationship, while customers paying a cheap price do not expect more than automated, yet customized relationships. A sound business model has a clear strategy for customer relationship management for each customer segment.

#### **Identify which types of relationships we have built and which we maintain with each customer segment**

- ✓ Do we develop and maintain different types of client relationships in our business model (e.g. more or less intense, more or less personal)?
- ✓ How resource intensive is each of these client relationship types in terms of time consumption and other costs?
- ✓ For each client segment, which client relationship types and mechanisms do we develop and maintain?

## REVENUE STREAM

### how do we earn money?

#### **The streams through which we earn our revenues from our customers for value creating and customer facing activities**

Our business model's sustainability depends on the revenues we can capture from our value creating and customer facing activities. Revenue streams come from one or several segments of clients who are willing to pay for the value they get from our offer. These revenue streams come in the form of selling, lending, licensing, commissions, transaction fees or advertising fees.

#### **Identify which types of revenue streams we earn from each of our customer segments and value propositions**

- ✓ What are our revenue streams?
- ✓ What are the revenue streams from each customer segment and value proposition?
- ✓ How much is each revenue stream's contribution to overall revenues in terms of percentages?

Outlining the revenue streams for each customer segment carefully will help us draw a clearer picture on each segment's contribution to overall revenues. This provides the basis for further reflection on how to innovate in our business and revenue model.

## KEY RESOURCE

based on which assets are we running our business?

### **The key resources and capabilities we need to make our business model function**

At the basis of every business model there is a set of key resources a company must dispose of to make its business model work. These key resources include classical ones such as human resources and tangible assets. Increasingly, business models are also built on intangible assets that are difficult to quantify, such as brand equity and expertise of a specific domain.

For a retail bank, for example, some of the general key resources of their business model are brand, people and reliable IT systems.

### **Identify the key tangible and intangible resources which are the fundament of our business model**

- ✓ What are the main resources we rely on to run our business model?
- ✓ For which main issues to solve are they required?
- ✓ How does each of these resources relate to our value propositions and their corresponding customer segments, channels and relationships?

## KEY ACTIVITY

### what activities are required in our business model?

#### **The most important activities or processes that have to be performed to run our business model**

To implement a business model a company needs to translate its main issues to solve into a set of business processes. It may dispose of these activities itself or bring them in through a network of partners.

#### **Identify which main business processes we cover in your business model**

- ✓ What are the main activities we operate to run our business model?
- ✓ On which key resources do they rely?
- ✓ To which value propositions, channels or relationships do they contribute?

## PARTNER NETWORK

### with which partners do we leverage our business?

#### **The partners and suppliers we work with**

Today's Business Models are more and more the result of a network of partnerships, joint ventures, cooperation and alliances between different companies. Partners are involved, for example, to complement the value proposition, to bring in specialist competencies or to help deliver to clients.

Every company must ask itself if and how it can leverage its own business model by partnering with other companies. This includes the question of what a company wants to do by itself and what it wants to do with partners. It also includes the question of leveraging one's own value proposition by combining it with the value proposition of strategic partners.

#### **Outline with which partners and suppliers we work to implement your business model**

- ✓ Which partners and suppliers do we work with
- ✓ Which key resources do they relate to?
- ✓ To which value propositions, channels or relationships do they contribute?

It is suggested to start with our most important partners or suppliers and describe which key resources they supply and which key activities they perform.

## COST STRUCTURE

### where are our most important costs?

#### **The costs we incur to run our business model**

The cost structure is a direct result of all the other building blocks of the business model. Ideally costs should be traceable back to each business model block. In this manual we will use a light approach by simply listing the most important costs incurred and only if easily possible will we link them to a building block.

#### **Identify our most important cost positions resulting from our business model**

- ✓ What are the most important cost positions in our business model?
- ✓ Can the cost positions be easily connected to a business model building block?
- ✓ Can costs be calculated for each customer segment?

It is required to point out the most important cost positions of our business model, such as, for example, marketing, customer relationship management, production, R&D, etc.

## BUSINESS MODEL ASSESSMENT

Key questions to assess our business model	
Customer Segments	<ul style="list-style-type: none"> <li>• Do we know our customers and their needs good enough?</li> <li>• Are some customer groups likely to defect soon?</li> <li>• Do we regroup different customer segments well enough</li> </ul>
Value Proposition	<ul style="list-style-type: none"> <li>• Does our value proposition still cater well enough to our clients' needs?</li> <li>• Do we know how our customers perceive our value proposition?</li> <li>• Are our competitors offering similar value propositions at similar or better prices?</li> <li>• How well are our customers served by other competitors?</li> </ul>
Revenue Streams	<ul style="list-style-type: none"> <li>• How sustainable are our current revenue streams?</li> <li>• How diversified are our revenue streams?</li> <li>• Are we dependant on too few revenue sources (e.g. from some big clients)?</li> <li>• How well do we price our value proposition?</li> </ul>
Communication and Distribution Channels	<ul style="list-style-type: none"> <li>• Do we have a well thought-through communication and distribution channel design?</li> <li>• How well do we reach our clients?</li> <li>• Do we know how successful our channels are in terms of customer acquisition?</li> <li>• How well are our different channels integrated?</li> <li>• Do we know how cost efficient are our channels are?</li> <li>• Do we use the right channels for the right clients (e.g. in terms of profitability)?</li> </ul>
Customer Relationships	<ul style="list-style-type: none"> <li>• Do we have a customer relationship strategy?</li> <li>• How good are our relationships with our best customers?</li> <li>• Do we spend too much time and money in relationships with unprofitable clients?</li> <li>• How well are we doing in managing our customer relationships (e.g. follow-up, etc.)</li> </ul>
Key Resources	<ul style="list-style-type: none"> <li>• How efficient are we in managing resources?</li> <li>• Do we take profit from the resources and capabilities we have?</li> </ul>
Key Activities	<ul style="list-style-type: none"> <li>• How efficient are we in managing activities?</li> <li>• Do we focus well enough on what is essential?</li> <li>• Do we do too much ourselves?</li> </ul>
Partner Network	<ul style="list-style-type: none"> <li>• Do we use partners enough?</li> <li>• How well do we work with our existing partners and suppliers?</li> <li>• How dependent are we on our existing partners and suppliers?</li> </ul>
Cost Structure	<ul style="list-style-type: none"> <li>• Is our cost structure appropriate (e.g. low cost business model = low cost structure)?</li> <li>• Do we clearly understand which parts of our business model have the highest costs?</li> <li>• How lean is our cost structure?</li> </ul>

## BUSINESS MODEL INNOVATION

Key questions to improve and innovate our business model	
Customer Segments	<ul style="list-style-type: none"> <li>• Are there new customer segments we could serve?</li> <li>• Could we regroup/segment customers better according to their needs?</li> </ul>
Value Proposition	<ul style="list-style-type: none"> <li>• Could we offer our different customer segments more tailored needs?</li> <li>• Do our customers have other needs we could satisfy relatively easily by ourselves or with partners?</li> <li>• Could we complement our value proposition through agreements with partners (e.g. joint value propositions)?</li> </ul>
Revenue Streams	<ul style="list-style-type: none"> <li>• Could we introduce new revenue streams (e.g. lending/renting instead of selling)?</li> <li>• Could we do more cross-selling (e.g. offer our customers other products of our company or of partner companies)?</li> </ul>
Communication and Distribution Channels	<ul style="list-style-type: none"> <li>• Could we increase our customer base by better using our channels?</li> <li>• How can we better use expensive channels for highly profitable clients and cost efficient channels for unprofitable clients?</li> <li>• Can we better integrate our channels (e.g. better link websites with physical outlets)?</li> <li>• Could we introduce new communication and distribution channels to reach our customers (e.g. partner distribution agreements)?</li> </ul>
Customer Relationships	<ul style="list-style-type: none"> <li>• What level of personalization do each of our customer relationships require (e.g. dedicated relationship manager or automated self-service)?</li> <li>• How can we spend less time and resources on unprofitable clients?</li> <li>• Should we introduce frequent buyer programs?</li> </ul>
Key Resources	<ul style="list-style-type: none"> <li>• Are our resources adapted perfectly to our value proposition?</li> <li>• Are there some key resources that could be provided better or cheaper by partners?</li> </ul>
Key Activities	<ul style="list-style-type: none"> <li>• Are there activities and resources we would better outsource to partners?</li> <li>• How could we streamline activities and resources?</li> </ul>
Partner Network	<ul style="list-style-type: none"> <li>• Which partners could help us complement our value proposition?</li> <li>• Which suppliers could help us streamline our business model?</li> </ul>
Cost Structure	<ul style="list-style-type: none"> <li>• Are there ways we could reduce our cost structure (e.g. partnering, outsourcing, new suppliers, etc.)</li> </ul>