Are you an entrepreneurial spirit?

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Are you trying to find innovative ways of doing business to replace old, outdated ones?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've answered "yes" to any of these questions, welcome to our group!

You're holding a handbook for visionaries, game changers, and challengers striving to defy outmoded business models and design tomorrow's enterprises. It's a book for the business model generation.

Today countless innovative business models are emerging. Entirely new industries are forming as old ones crumble. Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves.

How do you imagine your organization's business model might look two, five, or ten years from now? Will you be among the dominant players? Will you face competitors brandishing formidable new business models?

This book will give you deep insight into the nature of business models. It describes traditional and bleeding-edge models and their dynamics, innovation techniques, how to position your model within an intensely competitive landscape, and how to lead the redesign of your own organization's business model.

Certainly you've noticed that this is not the typical strategy or management book. We designed it to convey the essentials of what you need to know, quickly, simply, and in a visual format. Examples are presented pictorially and the content is complemented with exercises and workshop scenarios you can use immediately. Rather than writing a conventional book about business model innovation, we've tried to design a practical guide for visionaries, game changers, and challengers eager to design or reinvent business models. We've also worked hard to create a beautiful book to enhance the pleasure of your "consumption." We hope you enjoy using it as much as we've enjoyed creating it.

An online community complements this book (and was integral to its creation, as you will discover later). Since business model innovation is a rapidly evolving field, you may want to go beyond the essentials in *Business Model Generation* and discover new tools online. Please consider joining our worldwide community of business practitioners and researchers who have co-created this book. On the Hub you can participate in discussions about business models, learn from others' insights, and try out new tools provided by the authors. Visit the Business Model Hub at www.BusinessModelGeneration.com/hub.

Business model innovation is hardly new. When the founders of Diners Club introduced the credit card in 1950, they were practicing business model innovation. The same goes for Xerox, when it introduced photocopier leasing and the per-copy payment system in 1959. In fact, we might trace business model innovation all the way back to the fifteenth century, when Johannes Gutenberg sought applications for the mechanical printing device he had invented.

But the scale and speed at which innovative business models are transforming industry landscapes today is unprecedented. For entrepreneurs, executives, consultants, and academics, it is high time to understand the impact of this extraordinary evolution. Now is the time to understand and to methodically address the challenge of business model innovation.

Ultimately, business model innovation is about creating value, for companies, customers, and society. It is about replacing outdated models. With its iPod digital media player and iTunes.com online store, Apple created an innovative new business model that transformed the company into the dominant force in online music. Skype brought us dirt-cheap global calling rates and free Skype-to-Skype calls with an innovative business model built on so-called peer-to-peer technology. It is now the world's largest carrier of international voice traffic. Zipcar frees city dwellers from automobile ownership by offering hourly or daily on-demand car rentals under a fee-based membership system. It's a business model response to emerging user needs and pressing environmental concerns. Grameen Bank is helping alleviate poverty through an innovative business model that popularized microlending to the poor.

But how can we systematically invent, design, and implement these powerful new business models? How can we question, challenge, and transform old, outmoded ones? How can we turn visionary ideas into game-changing business models that challenge the establishment—or rejuvenate it if we ourselves are the incumbents? *Business Model Generation* aims to give you the answers.

Since practicing is better than preaching, we adopted a new model for writing this book. Four hundred and seventy members of the Business Model Innovation Hub contributed cases, examples, and critical comments to the manuscript—and we took their feedback to heart. Read more about our experience in the final chapter of *Business Model Generation*.

Seven Faces of Business Model Innovation

The Senior Executive

Jean-Pierre Cuoni,
Chairman / EFG International

Focus: Establish a new business model in an old industry

Jean-Pierre Cuoni is chairman of EFG International, a private bank with what may be the industry's most innovative business model. With EFG he is profoundly transforming the traditional relationships between bank, clients, and client relationship managers. Envisioning, crafting, and executing an innovative business model in a conservative industry with established players is an art, and one that has placed EFG International among the fastest growing banks in its sector.

The Intrapreneur

Dagfinn Myhre,
Head of R&I Business Models / Telenor

Focus: Help exploit the latest technological developments with the right business models

Dagfinn leads a business model unit at Telenor, one of the world's ten largest mobile telephone operators. The telecom sector demands continuous innovation, and Dagfinn's initiatives help Telenor identify and understand sustainable models that exploit the potential of the latest technological developments. Through deep analysis of key industry trends, and by developing and using leading-edge analytical tools, Dagfinn's team explores new business concepts and opportunities.

The Entrepreneur

Mariëlle Sijgers,
Entrepreneur / CDEF Holding BV

Focus: Address unsatisfied customer needs and build new business models around them

Marielle Sijgers is a full-fledged entrepreneur. Together with her business partner, Ronald van den Hoff, she's shaking up the meeting, congress, and hospitality industry with innovative business models. Led by unsatisfied customer needs, the pair has invented new concepts such as Seats2meet.com, which allows on-the-fly booking of meetings in untraditional locations. Together, Sijgers and van den Hoff constantly play with new business model ideas and launch the most promising concepts as new ventures.

The Investor

Gert Steens, *President & Investment Analyst / Oblonski BV*

Focus: Invest in companies with the most competitive business models

Gert makes a living by identifying the best business models. Investing in the wrong company with the wrong model could cost his clients millions of euros and him his reputation. Understanding new and innovative business models has become a crucial part of his work. He goes far beyond the usual financial analytics and compares business models to spot strategic differences that may impart a competitive edge. Gert is constantly seeking business model innovations.

The Consultant

Bas van Oosterhout, Senior *Consultant / Capgemini Consulting*

Focus: Help clients question their business models, and envision and build new ones

Bas is part of Capgemini's Business Innovation Team. Together with his clients, he is passionate about boosting performance and renewing competitiveness through innovation. Business Model Innovation is now a core component of his work because of its high relevance to client projects. His aim is to inspire and assist clients with new business models, from ideation to implementation. To achieve this, Bas draws on his understanding of the most powerful business models, regardless of industry.

The Designer

Trish Papadakos, *Sole Proprietor / The Institute of You*

Focus: Find the right business model to launch an innovative product

Trish is a talented young designer who is particularly skilled at grasping an idea's essence and weaving it into client communications. Currently she's working on one of her own ideas, a service that helps people who are transitioning between careers. After weeks of in-depth research, she's now tackling the design. Trish knows she'll have to figure out the right business model to bring her service to market. She understands the client-facing part—that's what she works on daily as a designer. But, since she lacks formal business education, she needs the vocabulary and tools to take on the big picture.

The Conscientious Entrepreneur

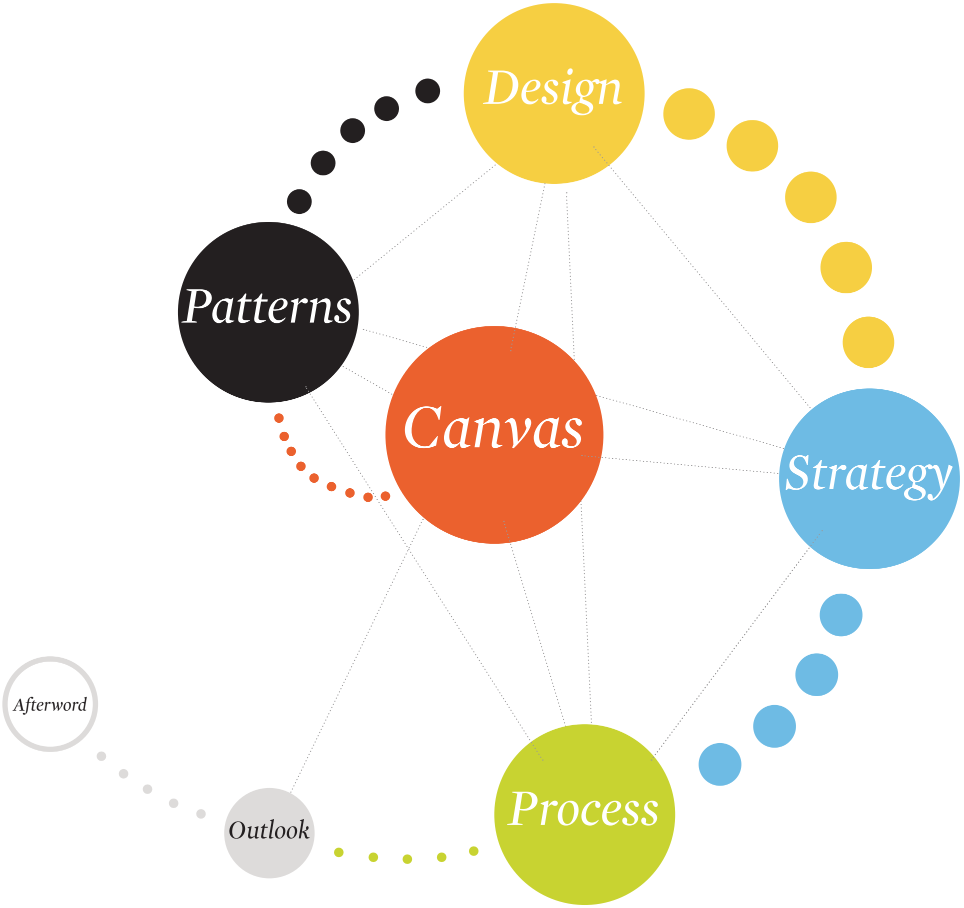
Iqbal Quadir, *Social Entrepreneur / Founder of Grameen Phone*

Focus: Bring about positive social and economic change through innovative business models

Iqbal is constantly on the lookout for innovative business models with the potential for profound social impact. His transformative model brought telephone service to over 100 million Bangladeshis, utilizing Grameen Bank's microcredit network. He is now searching for a new model for bringing affordable electricity to the poor. As the head of MIT's Legatum Center, he promotes technological empowerment through innovative businesses as a path to economic and social development.

Table of Contents

The book is divided into five sections: 1 The Business Model Canvas, a tool for describing, analyzing, and designing business models, 2 Business Model Patterns, based on concepts from leading business thinkers, 3 Techniques to help you design business models, 4 Re-interpreting strategy through the business model lens, and 5 A generic process to help you design innovative business models, tying together all the concepts, techniques, and tools in *Business Model Generation*. The last section offers an outlook on five business model topics for future exploration. Finally, the afterword provides a peek into "the making of" *Business Model Generation*.



Car

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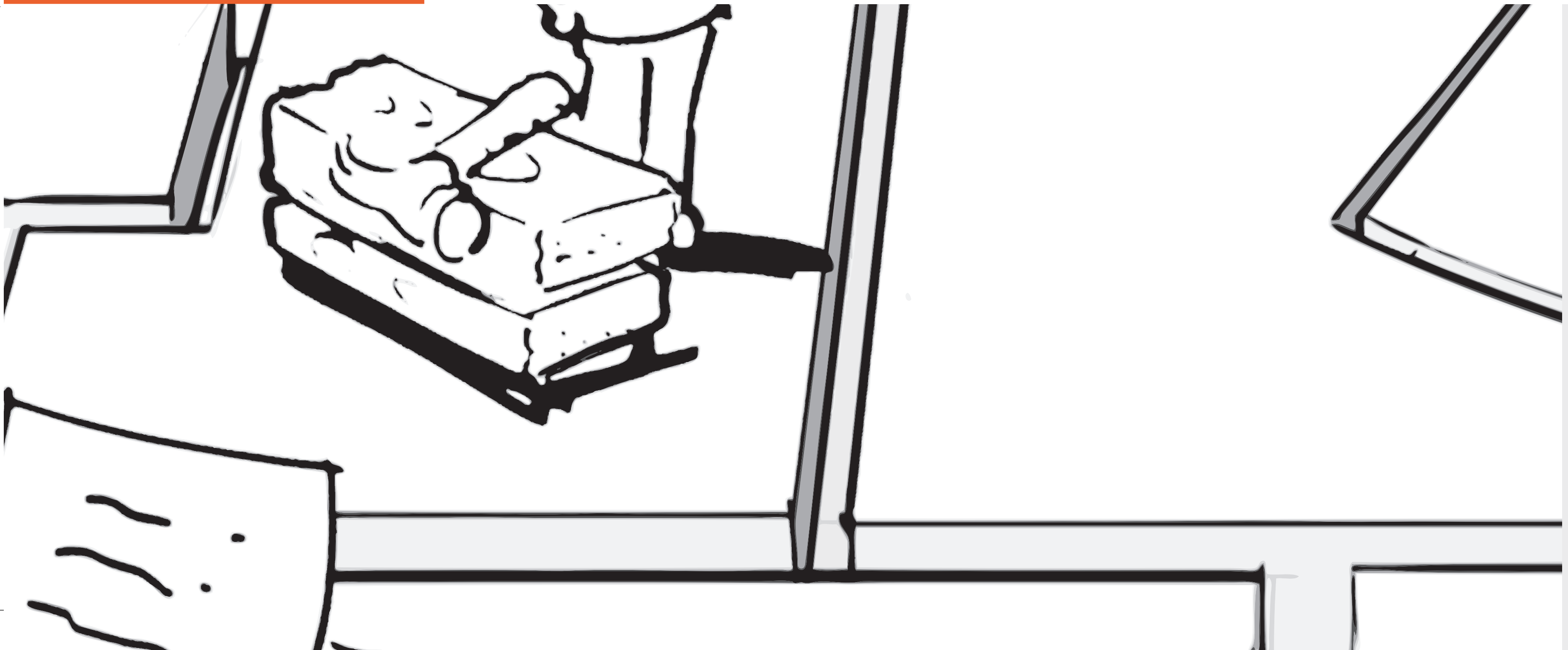
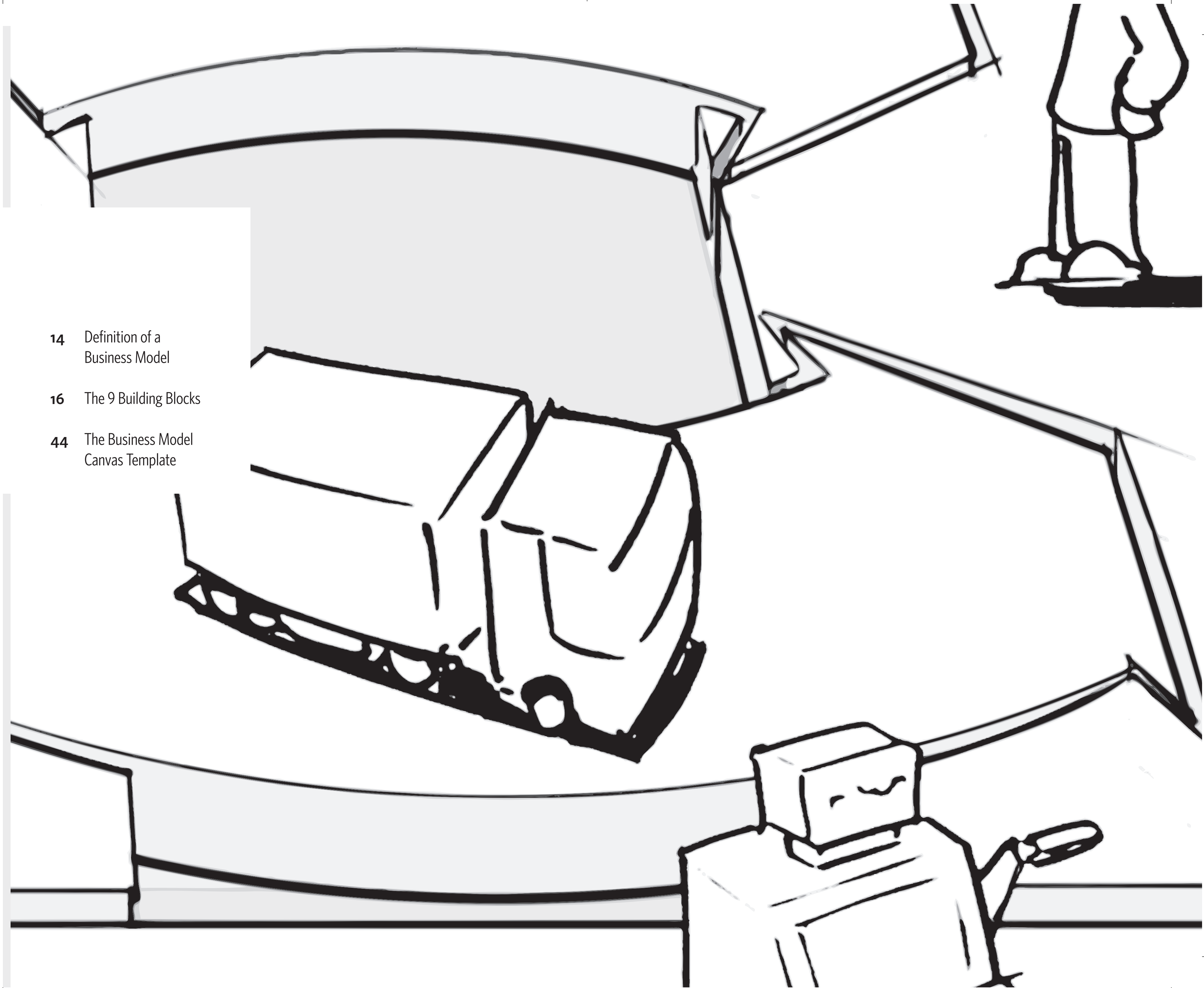
The Business Model Canvas

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





Def_ Business Model

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

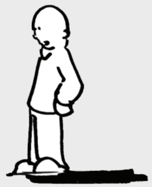
The starting point for any good discussion, meeting, or workshop on business model innovation should be a shared understanding of what a business model actually is. We need a business model concept that everybody understands: one that facilitates description and discussion. We need to start from the same point and talk about the same thing. The challenge is that the concept must be simple, relevant, and intuitively understandable, while not oversimplifying the complexities of how enterprises function.

In the following pages we offer a concept that allows you to describe and think through the business model of your organization, your competitors, or any other enterprise. This concept has been applied and tested around the world and is already used in organizations such as IBM, Ericsson, Deloitte, the Public Works and Government Services of Canada, and many more.

This concept can become a shared language that allows you to easily describe and manipulate business models to create new strategic alternatives. Without such a shared language it is difficult to systematically challenge assumptions about one's business model and innovate successfully.

We believe a business model can best be described through nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems.

The 9 Building Blocks



CS

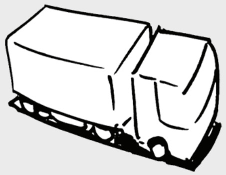
1 **Customer Segments**

An organization serves one or several Customer Segments.

VP

2 **Value Propositions**

It seeks to solve customer problems and satisfy customer needs with value propositions.



CH

3 **Channels**

Value propositions are delivered to customers through communication, distribution, and sales Channels.

CR

4 **Customer Relationships**

Customer relationships are established and maintained with each Customer Segment.

R$

5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.

KR

6 Key Resources

Key resources are the assets required to offer and deliver the previously described elements …

KA

7 Key Activities

… by performing a number of Key Activities.

KP

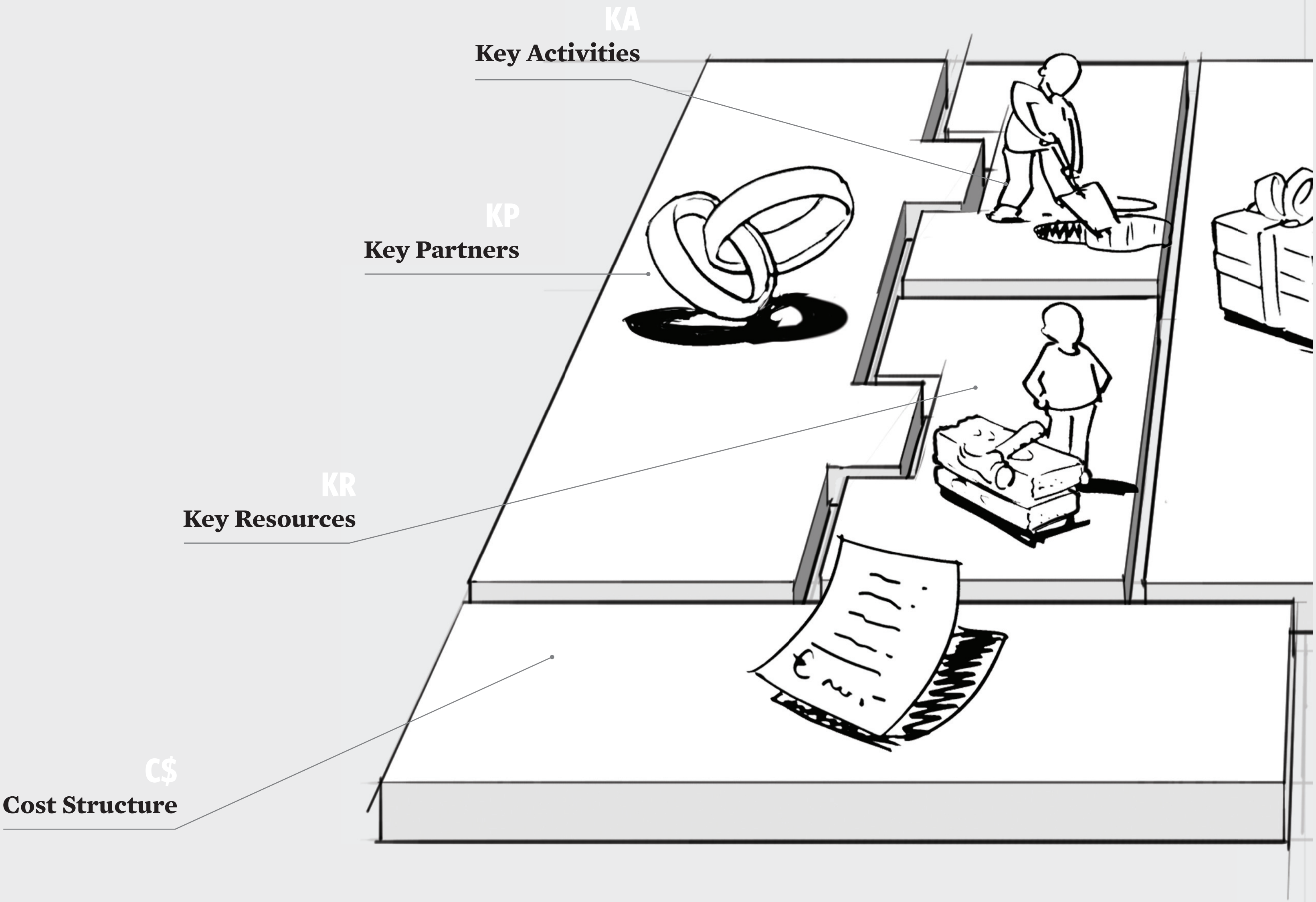
8 Key Partnerships

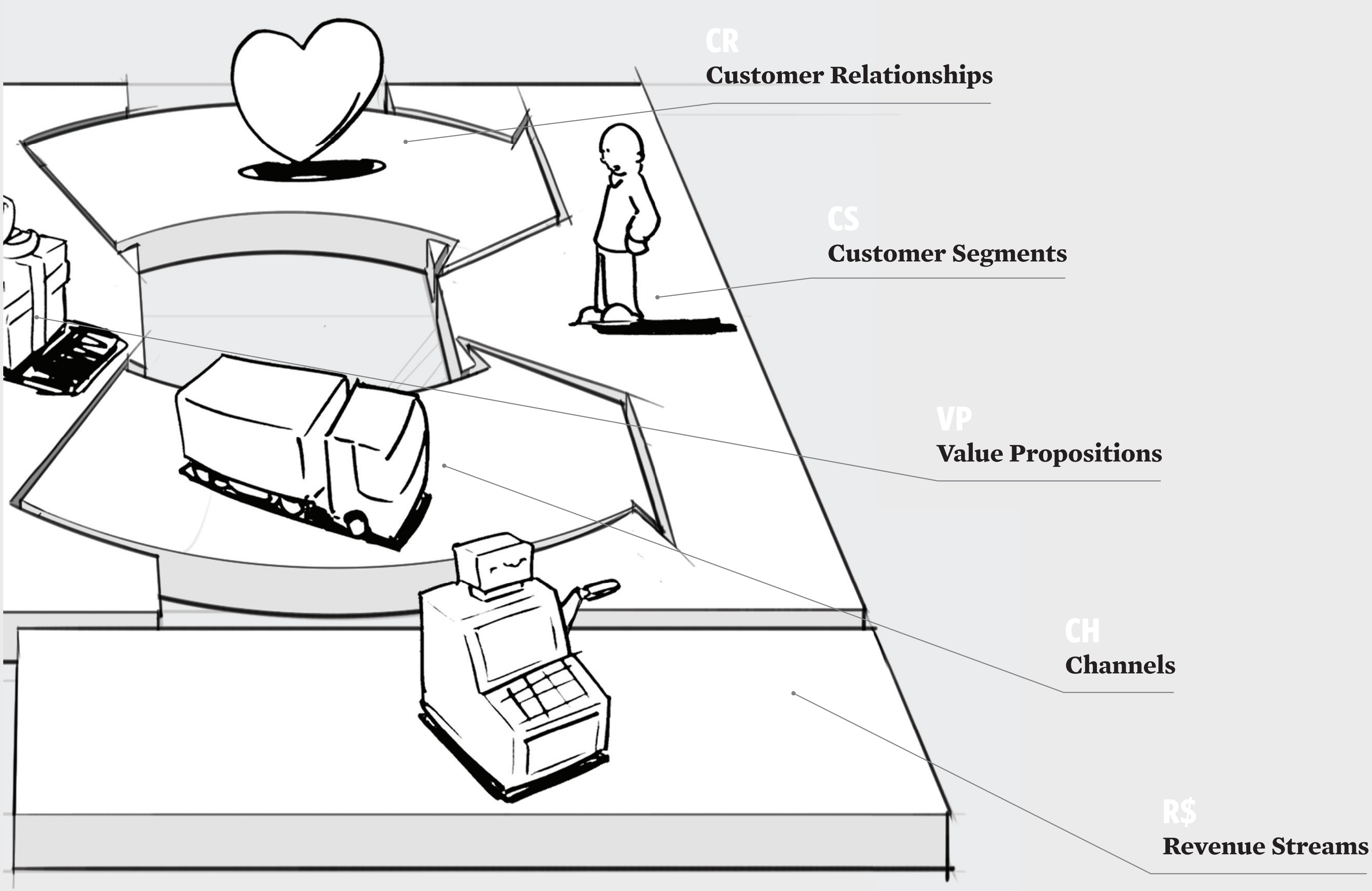
Some activities are outsourced and some resources are acquired outside the enterprise.

C$

9 Cost Structure

The business model elements result in the cost structure.


KA
Key Activities
KP
Key Partners
KR
Key Resources
C$
Cost Structure


CR
Customer Relationships
CS
Customer Segments
VP
Value Propositions
CH
Channels
R$
Revenue Streams

1

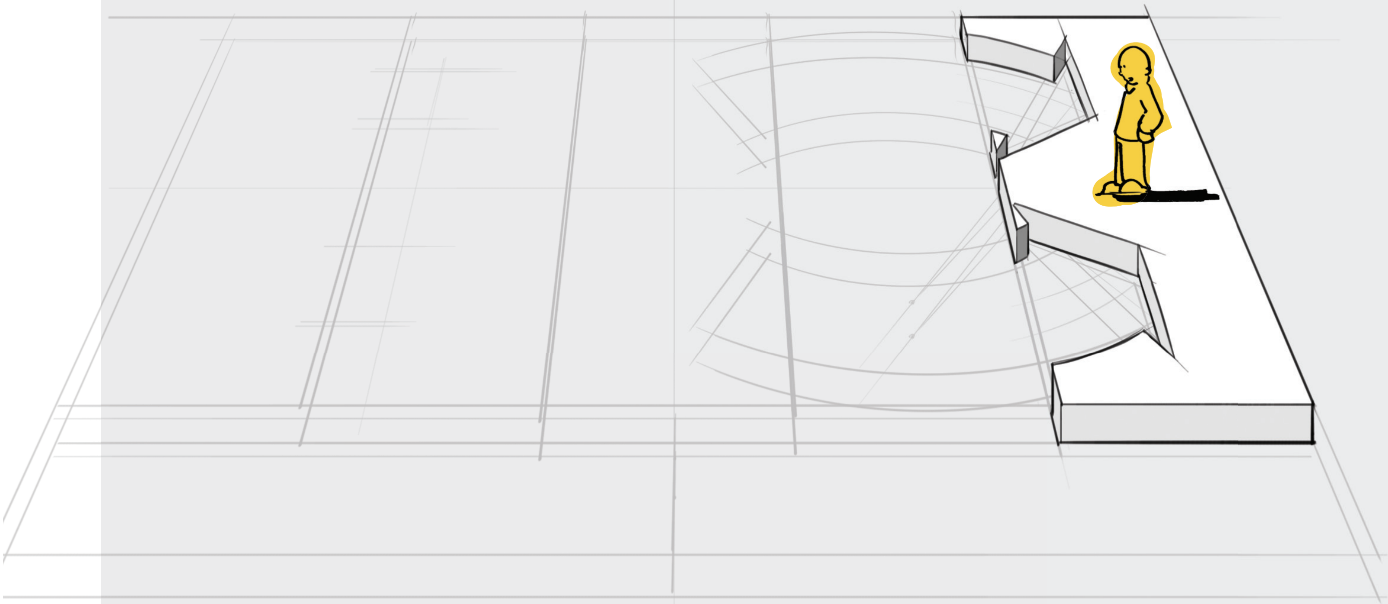
Customer Segments

The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

Customer groups represent separate segments if:

- *Their needs require and justify a distinct offer*
- *They are reached through different Distribution Channels*
- *They require different types of relationships*
- *They have substantially different profitabilities*
- *They are willing to pay for different aspects of the offer*



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

There are different types of Customer Segments. Here are some examples:

Mass market

Business models focused on mass markets don't distinguish between different Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships all focus on one large group of customers with broadly similar needs and problems. This type of business model is often found in the consumer electronics sector.

Niche market

Business models targeting niche markets cater to specific, specialized Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships. For example, many car part manufacturers depend heavily on purchases from major automobile manufacturers.

Segmented

Some business models distinguish between market segments with slightly different needs and problems. The retail arm of a bank like Credit Suisse, for example, may distinguish between a large group of customers, each possessing assets of up to U.S. $100,000, and a smaller group of affluent clients, each of whose net worth exceeds U.S. $500,000. Both segments have similar but varying needs and problems. This has implications for the other building blocks of Credit Suisse's business model, such as the Value Proposition, Distribution Channels, Customer Relationships, and Revenue streams. Consider Micro Precision Systems, which specializes in providing outsourced micromechanical design and manufacturing solutions. It serves three different Customer Segments—the watch industry, the medical industry, and the industrial automation sector—and offers each slightly different Value Propositions.

Diversified

An organization with a diversified customer business model serves two unrelated Customer Segments with very different needs and problems. For example, in 2006 Amazon.com decided to diversify its retail business by selling "cloud computing" services: online storage space and on-demand server usage. Thus it started catering to a totally different Customer Segment—Web companies—with a totally different Value Proposition. The strategic rationale behind this diversification can be found in Amazon.com's powerful IT infrastructure, which can be shared by its retail sales operations and the new cloud computing service unit.

Multi-sided platforms (or multi-sided markets)

Some organizations serve two or more interdependent Customer Segments. A credit card company, for example, needs a large base of credit card holders and a large base of merchants who accept those credit cards. Similarly, an enterprise offering a free newspaper needs a large reader base to attract advertisers. On the other hand, it also needs advertisers to finance production and distribution. Both segments are required to make the business model work (read more about multi-sided platforms on p. 76).

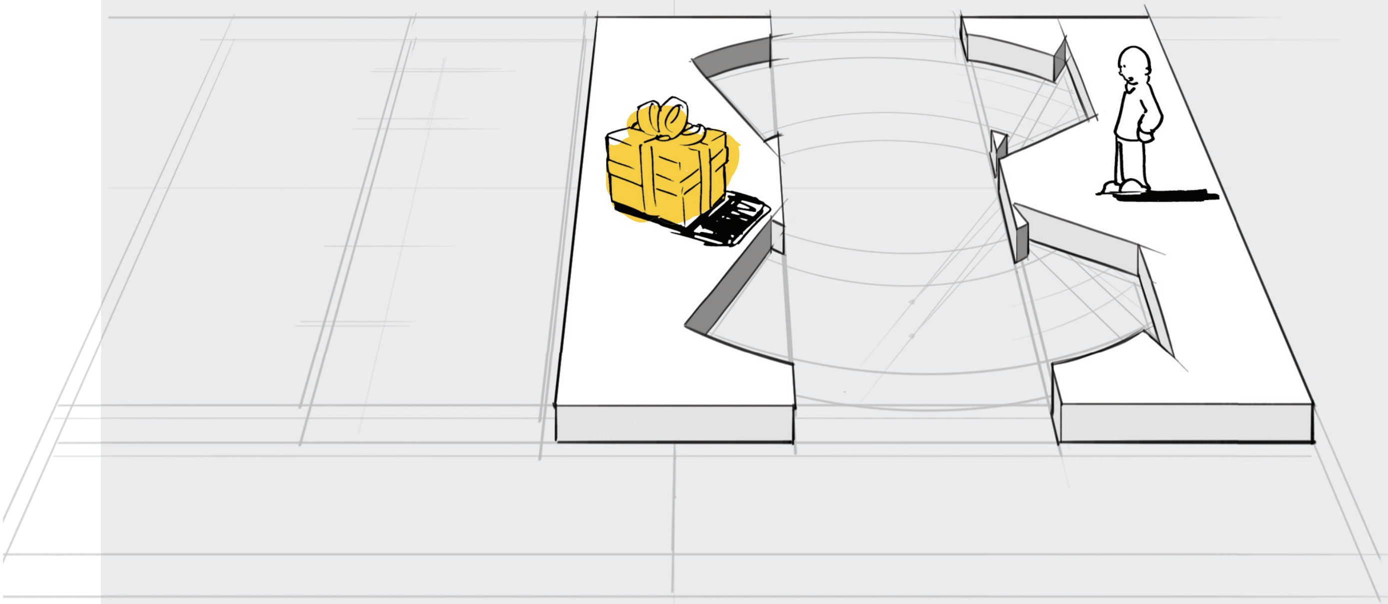
VP

2 *Value Propositions*

The Value Propositions Building Block 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. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.

Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.



What value do we deliver to the customer? Which one of our customer's 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?

A Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment's needs. Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience).

Elements from the following non-exhaustive list can contribute to customer value creation.

Newness

Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. This is often, but not always, technology related. Cell phones, for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.

Performance

Improving product or service performance has traditionally been a common way to create value. The PC sector has traditionally relied on this factor by bringing more powerful machines to market. But improved performance has its limits. In recent years, for example, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand.

Customization

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

"Getting the job done"

Value can be created simply by helping a customer get certain jobs done. Rolls-Royce understands this very well: its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls-Royce a fee for every hour an engine runs.

Design

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

Brand/status

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest "underground" brands to show that they are "in."

Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easyJet, and Ryanair have designed entire business models specifically to enable low cost air travel. Another example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population. Increasingly, free offers are starting to permeate various industries. Free offers range from free newspapers to free e-mail, free mobile phone services, and more (see p. 88 for more on FREE).

Cost reduction

Helping customers reduce costs is an important way to create value. Salesforce.com, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

Risk reduction

Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

Accessibility

Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

Convenience/usability

Making things more convenient or easier to use can create substantial value. With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.

CH

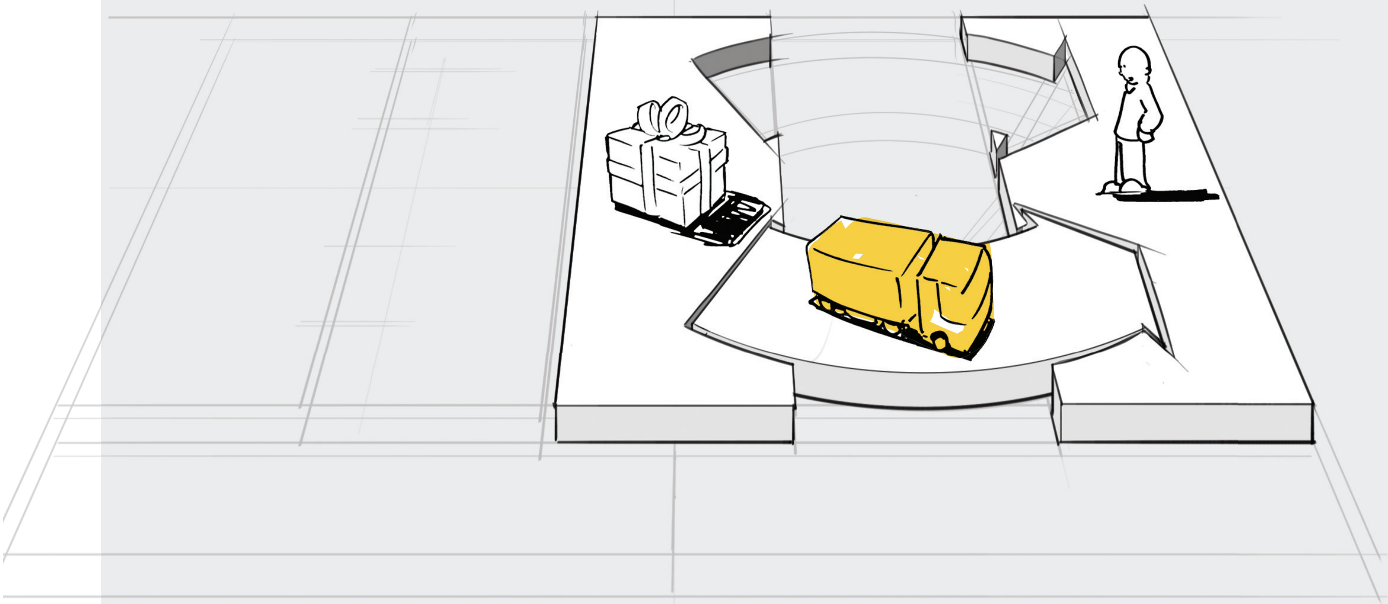
3

Channels

The Channels Building Block 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. Channels serve several functions, including:

- *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*



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?

Channels have five distinct phases. Each channel can cover some or all of these phases. We can distinguish between direct Channels and indirect ones, as well as between owned Channels and partner Channels.

Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to market. An organization can choose between reaching its customers through its own Channels, through partner Channels, or through a mix of both. Owned Channels can be direct, such as an in-house sales force or a Web site, or they can be indirect, such as retail stores owned or operated by the organization. Partner Channels are indirect and span a whole range of options, such as wholesale distribution, retail, or partner-owned Web sites.

Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths. Owned Channels and particularly direct ones have higher margins, but can be costly to put in place and to operate. The trick is to find the right balance between the different types of Channels, to integrate them in a way to create a great customer experience, and to maximize revenues.

Channel Types			**Channel Phases**				
Own	**Direct**	*Sales force*	**1. Awareness** How do we raise awareness about our company's products and services?	**2. Evaluation** How do we help customers evaluate our organization's Value Proposition?	**3. Purchase** How do we allow customers to purchase specific products and services?	**4. Delivery** How do we deliver a Value Proposition to customers?	**5. After sales** How do we provide post-purchase customer support?
Own	**Direct**	*Web sales*					
Own	**Indirect**	*Own stores*					
Partner	**Indirect**	*Partner stores*					
Partner	**Indirect**	*Wholesaler*					

4 Customer Relationships

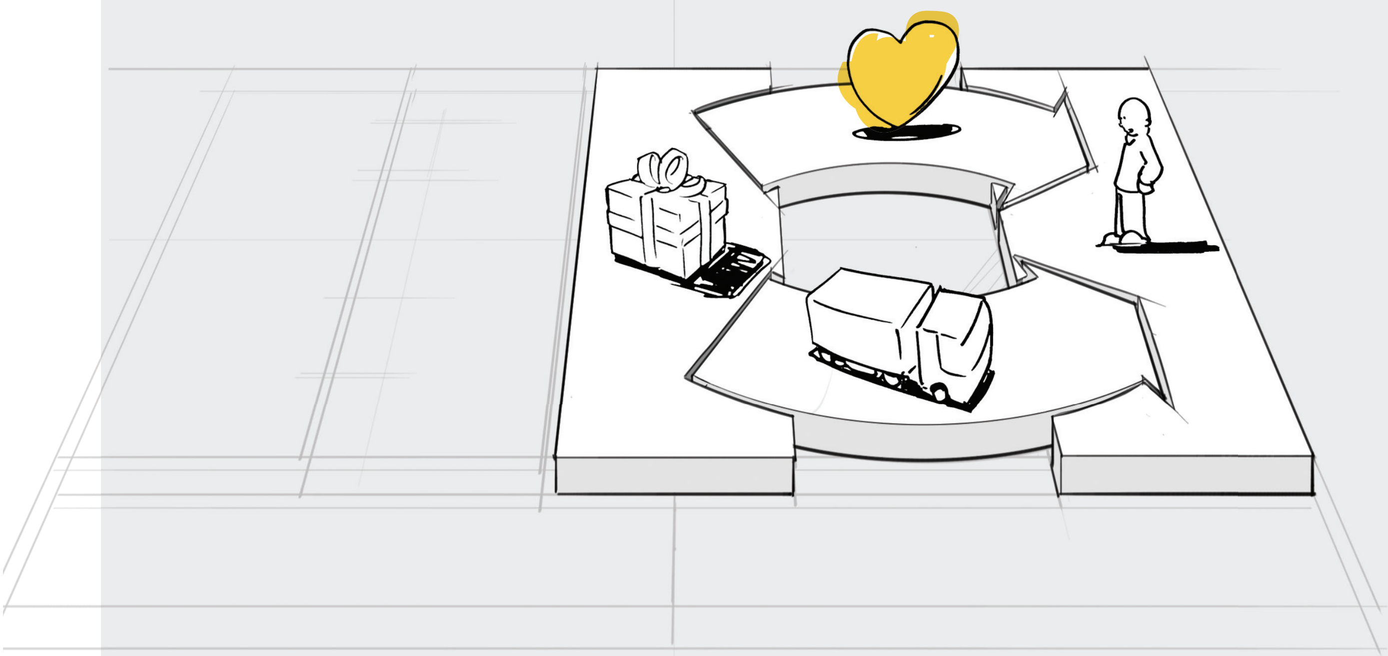
The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments

A company should 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*
- *Customer retention*
- *Boosting sales (upselling)*

In the early days, for example, mobile network operator Customer Relationships were driven by aggressive acquisition strategies involving free mobile phones. When the market became saturated, operators switched to focusing on customer retention and increasing average revenue per customer.

The Customer Relationships called for by a company's business model deeply influence the overall customer experience.



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?

We can distinguish between several categories of Customer Relationships, which may co-exist in a company's relationship with a particular Customer Segment:

Personal assistance
This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. This may happen on-site at the point of sale, through call centers, by e-mail, or through other means.

Dedicated personal assistance
This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals. Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.

Self-service
In this type of relationship, a company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

Automated services
This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).

Communities
Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and solve each other's problems. Communities can also help companies better understand their customers. Pharmaceutical giant GlaxoSmithKline launched a private online community when it introduced *alli*, a new prescription-free weight-loss product.

GlaxoSmithKline wanted to increase its understanding of the challenges faced by overweight adults, and thereby learn to better manage customer expectations.

Co-creation
More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others, such as YouTube.com, solicit customers to create content for public consumption.

R$

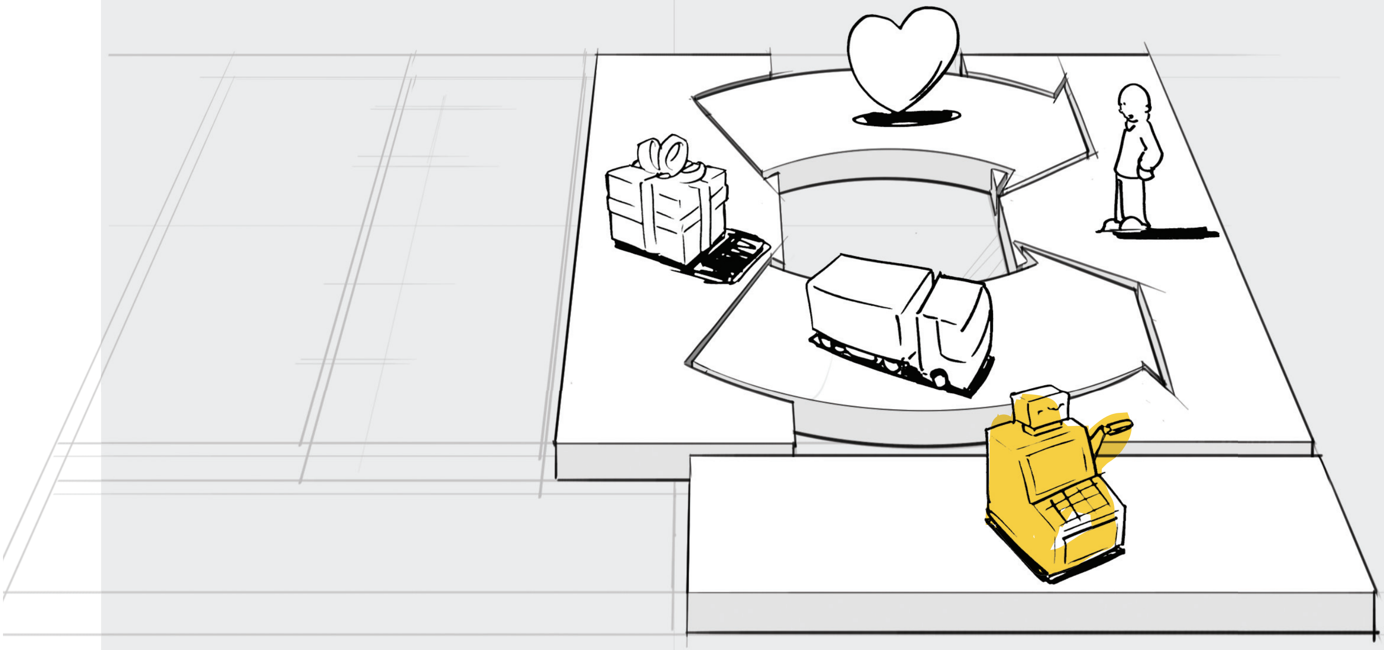
5 Revenue Streams

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, For what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

A business model can involve two different types of Revenue Streams:

1. *Transaction revenues resulting from one-time customer payments*
2. *Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support*



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?

There are several ways to generate Revenue Streams:

Asset sale
The most widely understood Revenue Stream derives from selling ownership rights to a physical product. Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

Usage fee
This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays. A telecom operator may charge customers for the number of minutes spent on the phone. A hotel charges customers for the number of nights rooms are used. A package delivery service charges customers for the delivery of a parcel from one location to another.

Subscription fees
This Revenue Stream is generated by selling continuous access to a service. A gym sells its members monthly or yearly subscriptions in exchange for access to its exercise facilities. World of Warcraft Online, a Web-based computer game, allows users to play its online game in exchange for a monthly subscription fee. Nokia's Comes with Music service gives users access to a music library for a subscription fee.

Lending/Renting/Leasing
This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership. Zipcar.com provides a good illustration. The company allows customers to rent cars by the hour in North American cities. Zipcar.com's service has led many people to decide to rent rather than purchase automobiles.

Licensing
This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows rights-holders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties. Similarly, in technology sectors, patentholders grant other companies the right to use a patented technology in return for a license fee.