

## PROTOTYPING ECOSYSTEMS AND BUSINESS VALUE

# BUSINESS MODEL CANVAS

The Business Model Canvas is a high-level approach to co-create and visualize the key components of a business model that allows you to iteratively test and refine various options.

<b>Duration</b>	Approximately 3–4 hours (depending on group size)
<b>Physical requirements</b>	Space, Business Model Canvas templates, pens, camera
<b>Energy level</b>	Low
<b>Researchers/Facilitators</b>	1 or more
<b>Participants</b>	5–15 people who have a sound knowledge of the different parts of the service concept (select a good mix from all levels of your organization to capture the business case holistically)
<b>Research techniques</b>	Co-creative workshops, interviews
<b>Expected output</b>	Research data (specifically bugs, insights, and new ideas), photos, pitch(es) for new business models

Considering business models is an inherent part of any service design process. Any changes of organizational structures, processes, software, products, services, stakeholder relationships, or customer groups affect different parts of a business model – in return, most changes of a business model affect the employee or customer experience, and therefore shouldn't be done without an accompanying service design process.

However, the process of writing a complete business plan to define a business model is a bad match for the quick and iterative working style of service design. Instead, you need tools to quickly visualize a business model so you can iteratively test and refine various options. These tools should not be a substitute for a classic business plan, which you often still need – for example, for investment decisions by external stakeholders. Instead, such tools can complement a business plan: prototyping and testing various scenarios can help you understand the impact of various options on the employee and customer experience as well as on the business. Based on a refined and tested business



model, you can then easily detail out an extensive business plan.

With the Business Model Canvas, you can quickly sketch out the business model of existing services or products, whether physical or digital, or prototype the business model of new concepts. It is intended to be used as a tool in an iterative design process. The template was developed by Alexander Osterwalder based on his scholarly work on the ontology of business models. In his PhD thesis, he compared different business model conceptualizations and identified their similarities. These became the building blocks of his Business Model Canvas:<sup>01</sup>

- **Value Propositions:** Summarizing what value a company delivers to its customers.
- **Customer Segments:** Describing the company's most important customers.

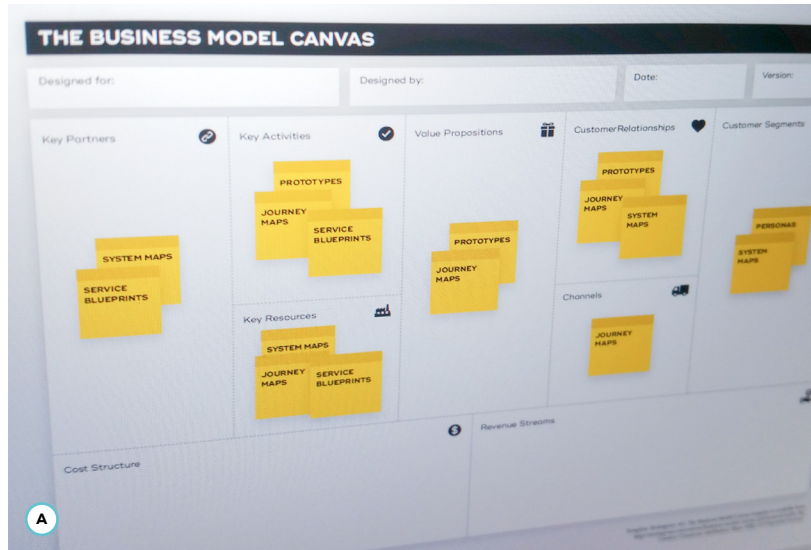
- **Channels:** Highlighting through which channels customers want to be reached and which ones work best and are most cost-efficient.
- **Customer Relationships:** Visualizing what type of relationship each customer segment expects the company to establish and maintain with it.
- **Key Activities:** Showing the key activities that value propositions, channels, customer relationships, revenue streams, and so on require.
- **Key Resources:** Illustrating the key resources that value propositions, channels, customer relationships, revenue streams, and so on require.
- **Key Partners:** Describing the closer ecosystem in which a company operates.
- **Cost Structure:** Outlining the most important cost drivers of a business model.
- **Revenue Streams:** Identifying potential revenue sources of a business model.

The good news is, you often do not have to start from scratch. The upper seven building blocks of the Business Model Canvas are directly connected to key service design tools like journey maps, personas, system maps, prototypes, and service blueprints (see image A on the following page).

Considered a strategic management tool, the Business Model Canvas helps to connect and balance customer-centric tools with “hard facts” such as resources, revenue streams, and cost structures. Hence, this framework creates a common ground for designers and managers to talk about new service concepts within any organizational structure.

The lower blocks (cost structure and revenue streams) help you to estimate the potential financial impact of a business model. These financial blocks themselves depend on the estimation of costs related to key partners, key resources, and the key activities needed to offer a value proposition, as well as revenues derived from the value proposition when it is offered to customer segments, through channels, and in a defined customer relationship.

<sup>01</sup> You can find more on the Business Model Canvas in Osterwalder, A., & Pigneur, Y. (2010). *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. John Wiley & Sons.



**A** Business Model Canvas and connected service design tools.

## Step-by-step guide

### PREPARATION

The Business Model Canvas is a very flexible tool, and there is not one prescriptive way to use it. However, as a start, following these simple steps might help:

- 1 Review scope and clarify prototyping questions:** Briefly reflect. What is your scope? What do you want to learn from this prototyping activity? Do you want to test the whole experience or just a part? Which parts are you most interested in?
- 2 Who to invite:** Invite the right people to work beside your core team for the exercise (this might include people who know the background, people with no preconceptions, experts, representatives of the implementation team, people who will deliver the service, users, controllers, management, etc.).
- 3 Prepare the Business Model Canvas template (and other service design tools you already have):** If you can't print a large one on paper, simply



sketch the template on a large sheet of paper. It helps if you have personas, stakeholder maps, customer journeys, and prototypes at hand as well.

## Step-by-step guide USE/RESEARCH

**1 Fill in the upper seven boxes:** If available, use information from other service design tools to fill in the blocks about the value proposition, customers (customer segments, channels, customer relationships), and infrastructure (key processes, key resources, key partners). See the image above for a basic mapping of key service design tools onto those blocks.<sup>01</sup>

**2 Fill in the lower two boxes:** Go through the infrastructure blocks to identify cost drivers and go through the customer blocks to find potential revenue streams. Once you have both cost and revenue structures, put



- A** Using the Business Model Canvas, you can quickly sketch out the business model of existing services or products, whether physical or digital, or prototype the business model of new concepts.
- B** Using information from other service design tools helps fill in many of the blocks in the Business Model Canvas – or an existing Business Model Canvas can kick-start many service design tools. The discussion of the cost and revenue streams that follows is an important milestone and can change the direction of a concept considerably.

<sup>01</sup> See #TiSDD 3.6, *Business Model Canvas*, for a more detailed description of this mapping.



numbers to them and estimate costs and revenues.

- 3 **Create alternatives, iterate, and refine:** Search for missing information and try to fill these gaps. Prototype and test if your business model is sustainable. Then start creating alternative business models and test potential options you have for the infrastructure blocks (change partners, processes, or resources) as well as for revenue streams (other customer segments, channels, customer relationships). Compare different models, iterate, and combine and refine them.

### Method notes

- **Use of sticky notes:** We recommend using a large paper template, sticky notes, and thick felt tip pens. Using sticky notes helps you to focus on the most important aspects and minimizes the risk of getting lost in detail. Rule of thumb: if you cannot fit any more sticky notes into one

of the boxes, your discussion is already too detailed.

- **Working with multiple customer segments:** If you are delivering different value propositions to different customer segments within one canvas (e.g., a hotel booking platform has at least two core customer segments, the hotel guests and the hotels themselves), try to use one color of sticky notes for each customer segment and their respective value propositions and a different color for the other customer segment.
- **Compare to competition, market, and trends:** The business model also needs to be analyzed and challenged with respect to competition, market forces, industry forces, and future trends. For example, it can be very useful to also fill in a couple of canvases for your main competitors and compare your strengths and weaknesses. ◀