The Business Model Canvas: A Useful Tool

A summary prepared by Qafila for founder applicants

Relevant to Questions 35 to 46 of the Qafila Founder Application (Section 6, Your Business Model).

About this summary

This is a summary written by Qafila of the following work:

> Sandra Navalli and Damon Phillips, "The Business Model Canvas: A Useful Tool," Columbia CaseWorks, Tamer Center for Social Enterprise, Columbia Business School, ID#200404, published 6 November 2019.

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The canvas itself was created by Alexander Osterwalder. The eleven block version described here is a modification by Anne Busquet and Damon Phillips (2015), which adds two blocks to Osterwalder's original nine. A blank template is available free at strategyzer.com.

Why a canvas rather than a business plan

A business model describes how an organisation creates, delivers and captures value. Traditionally this is written as a business plan: a document covering the marketing, financial and operational aspects of a business, using projections to estimate future revenue and the costs of running the enterprise. Banks and investors often require one.

The difficulty is that a typical business plan runs to fifteen or twenty pages and is hard for a reader to absorb. It also hides a problem. The first time you turn an idea into a business model, many of your assumptions are unstated, and those assumptions usually need testing with real customers. Testing them produces new information that changes the model.

The Business Model Canvas was designed to solve this. It sets the whole model on a single page so that it can be described, discussed and changed quickly. Osterwalder built it to be, in his words, simple, relevant and intuitively understandable. It communicates a venture in a nutshell, which matters because presenting an idea briefly is a large part of entrepreneurial work.

The canvas is meant to be a living document. Each version should reflect new insights, outside feedback and facts gathered from the market. Your first version is rarely the one you end up implementing.

How the canvas is arranged

The canvas is split into two halves. The left side concerns the efficiency your business derives from its activities. The right side concerns how you generate value.

The blocks are numbered, and the first few times you fill one in you should follow that order, because each block informs the next. Once you are familiar with it, you move back and forth between blocks as your thinking develops.

The eleven blocks

1. Customer segments (Question 35)

The different groups of people or organisations you aim to reach and serve. For whom are you creating value? Who are your most important customers, the ones who will value what you offer most? What are your customer archetypes, meaning the demographics, motivations and way of life of the people you are trying to reach?

The article uses Dove body wash, which targets middle income women between twenty five and fifty who value the nourishing qualities of soap over the glamour of a beauty product. That clear picture of the customer then shapes advertising, packaging and much else. For a new venture, your initial focus should be on your most important customers rather than on everyone you could eventually serve.

2. Value propositions (Question 36)

The bundle of products and services that create value for a specific customer segment, and in particular for your most important customers. What value will you deliver? Which customer problem are you solving, or which need are you satisfying? What bundle are you offering to each segment? What is the minimum viable version of it?

The example is the iPhone. Until its launch, mobile phones were clumsy and focused on technology. Apple built a product whose value lay in its design and in an interface that made the phone easy and pleasant to use, then integrated it with its other products so that customers stayed within Apple's system.

3. Channels (Question 37)

How a business communicates with and reaches its customer segments to deliver a value proposition. Through which channels do your customers want to be reached? How are other businesses reaching them now? Which channels work best, and which are most cost efficient? How will you fit your channels to the routines customers already have?

The article uses Super Bowl advertising: CBS charged a record 5.25 million dollars for a thirty second commercial during Super Bowl LIII, watched by an estimated 98 million people, and brands judged it worthwhile because of the audience it reached.

4. Customer relationships (Question 38)

The types of relationship you establish with each segment. What relationship does each segment expect you to establish and maintain? Which relationships have already been established, by you or by competitors? How costly are they to maintain, and how do they fit with the rest of your model?

Macy's is the example. Its rewards programme creates different relationships with different tiers of customer, from a free bronze level with modest benefits up to higher tiers earning larger discounts, free shipping and cash back, with the manner of communication changing at each level.

5. Revenue streams (Question 39)

The cash a business generates from each customer segment, described in the article as the arteries of a business. For what value are your customers willing to pay? What do they currently pay for? How are they paying now, and how would they prefer to pay? How much does each stream contribute to overall revenue? Several streams can make a business model healthier and more sustainable.

McDonald's is the example. Recognising that revenue from fast food might decline as consumers grew more health conscious, it revamped its menu towards healthier options, was able to charge a premium for them, and grew almost three percent year on year.

6. Competition, or key competitors (Question 40)

The other offerings in the market, and how differentiated your value proposition is. Who are your potential competitors? How are your potential customers currently solving their problems or meeting their needs? What do your competitors have that you do not? What do you have that they do not?

Uber is the example. It launched in 2010 competing with black car services, positioning itself as a faster alternative by recognising that those services lacked the technical ability to use algorithms and smartphones. It later used the same strengths against traditional taxis.

7. Key resources (Question 41)

The assets required to make the business model work: what allows you to create and offer a value proposition, reach markets, maintain customer relationships and earn revenue. What key resources does your value proposition require? What assets do you need to meet your revenue forecasts? What are your main distribution channels? What is needed to maintain and cultivate customer relationships?

The pharmaceutical industry illustrates this. At its peak the industry employed over 100,000 sales representatives, and even now more than 65,000 at a cost of 13 billion dollars, because those representatives are the vital point of contact with the doctors who decide which medicines patients receive.

8. Key activities (Question 42)

The most important actions the company must take to make its model work. What activities does your value proposition require? What must you do to form relationships with customers and meet your revenue expectations? Which activities differentiate you from the competition and give you a right to win customers?

Eat Offbeat, a New York catering company providing meals from around the world prepared by refugees, is the example. Hiring and training a dedicated, high quality team of refugee chefs was difficult, but it was the backbone of the value proposition and therefore its key activity.

9. Key partners and stakeholders (Question 43)

The network of suppliers, partners and other external parties that make the model work. Who will be your key partners? Who will be your key suppliers and vendors? Which key resources are you acquiring from partners, which activities do they perform, and are there other critical stakeholders needed for the venture to be viable in the longer term?

Amazon is the example. It first built relationships with delivery companies such as UPS and FedEx to fulfil overnight and quick delivery, and that network became a competitive advantage others found hard to match. The article also notes how such relationships can change: Amazon has since moved into logistics itself, and FedEx ended its ground delivery partnership in 2019.

10. Cost structure (Question 44)

The main costs incurred to operate the model. What are the most important costs inherent in your business model? Which key resources are most expensive? Which key activities are most expensive?

Refoundry, a furniture manufacturing and entrepreneurship training business for formerly incarcerated people, shows the distinction. A large share of its costs are fixed: warehouse rent, insurance, utilities, heavy machinery, vehicles. These do not change with the number of units produced. Variable costs, such as reclaimed wood, paints, varnishes and shipping, do. The article stresses that a realistic understanding of both fixed and variable costs prevents unpleasant surprises later.

11. Company values, or vision and values (Question 45)

The core mission of the company and the values under which you intend to operate. What will you and the business stand for? What is the mission of your business? What values will you uphold at any cost, and what will your business not stand for under any circumstances?

Although values are usually the last block filled in, the article calls them the north star guiding all the others. H&M is offered as a warning. The company claimed values based on a fundamental respect for each individual, but a series of human rights violations came to light, including child labour in Myanmar, Bangladesh and Cambodia, with children as young as fourteen working twelve hour days for less than fifteen cents an hour. Consumer confidence fell and first quarter profits in 2018 dropped 62 percent, the company's lowest point in over a decade.

The Social Impact Canvas

There is a second version of the canvas for ventures, whether for profit or nonprofit, that pursue a social or environmental mission. The article notes that the line between conventional and mission driven ventures is blurring, and that many businesses now consider a triple bottom line of profits, people and environment.

The social version keeps most blocks and changes four things.

12. Impact metrics, a new block (Question 46)

How will your social or environmental impact be measured? What metrics help you run the venture? What impacts do your stakeholders care about? What is the baseline case, meaning the situation that would exist if your venture did not? What resources are needed to maintain this reporting?

Impact is often harder to measure than revenue or profit, and investors in social enterprises may ask to see impact metrics annually or more often, because impact is usually why they invested. ConBody, a New York fitness company founded by Coss Marte using workout techniques he developed in prison and staffed by formerly incarcerated trainers, could measure several things: the number of formerly incarcerated people employed, reduced recidivism from creating livable wage work, or greater public awareness of the criminal justice system through Marte's speaking.

Choosing what to measure consistently depends on the mission and values of the company and on what investors and board members care about. Marte treats employing the maximum number of formerly incarcerated people as the primary measure of success.

13. Surplus, a new block (Question 46)

What are you doing with your profits? Nonprofit social enterprises are often registered as tax exempt entities, so any surplus must return to operations: new programmes, training that benefits employees or customers, additional talent, or operational improvements, ideally all aligned to increasing impact.

Greyston Bakery in New York is the example. It is known for Open Hiring, under which people are employed without interviews, résumés, background checks or applications. Its profits have been channelled into workforce development and youth programmes, community gardens, and Issan House, a thirty five unit facility providing supportive housing to formerly homeless individuals living with HIV or AIDS, which affects 5,400 members of the community.

14. Current solutions, replacing key competitors

How is the problem being solved currently? A social enterprise must be a better alternative than the existing system, so the block asks you to survey the whole landscape: public sector initiatives, nonprofits, NGOs, other social enterprises and businesses. You must identify what sets your venture apart and why you have a right to win, whether for customers, funding or talent. Potential collaborations should also be considered, not only competition.

Your advantage may come from work history, education in the field, lived experience, a disruptive idea, proprietary information or technology, or access to appropriate sources of investment. ConBody again: many New York fitness classes shared its price range and demographic, but none had the credibility of being run by formerly incarcerated people who had perfected their workouts in prison cells, and none hired at that scale to reduce recidivism.

15. Beneficiary and customer segments, and revenue and funding streams

Social enterprises often serve beneficiaries who cannot pay the full cost of what they receive, which means income comes from funders as well as customers: government aid or fee for service arrangements, grants from philanthropic organisations, or donations from corporations, family offices and individuals. Because the people paying differ from the people benefiting, it is important to identify both key funders and beneficiary segments early, and to build feedback and measurement processes that confirm your products and services genuinely serve beneficiaries.

The article warns of mission drift, since funders may hold other interests and objectives not tightly aligned with your mission. It also compares sources: corporations may have sizeable corporate social responsibility budgets and foundations may offer multiyear support, but both can be hard to reach and heavily competed for, while government and grant funding is often more accessible but comes with long waits and substantial paperwork before, during and after payment.

Using the canvas in practice

The article makes several practical suggestions.

Print the canvas on a large sheet, A3 or eleven by seventeen inches or bigger, and fill the boxes using sticky notes, so that ideas can be generated, evaluated, discarded or kept during individual or group work.

Review existing examples from other businesses or social ventures before attempting your own.

Expect to revise it continually as you gather information from customers, markets, competitors, partners, advisers, mentors, funders and employees.

Use it to bring people onto the same page: founding team members, investors, funders, board members, advisers and employees.

It is used by new founders evaluating their own ideas and by established companies such as IBM, Deloitte and Nespresso when considering new revenue streams or products.

Presenting your idea

A large part of developing a venture is communicating it. Founders present the same idea repeatedly to funders, investors, employees, distributors, marketing partners and other stakeholders, and finding opportunities to sell the idea and gather feedback is part of the work.

A typical presentation built on the canvas runs about five to seven minutes. That is more than an overview of the concept and longer than an elevator pitch, which is usually thirty to sixty seconds. Using the canvas as a guide, the article suggests covering:

An overview of the venture: name, concept, location, ownership.

The value you and others bring to it, meaning why a funder should invest in you.

The services or products offered.

The market, with a few data points if you have them.

Competition.

Differentiation.

Marketing strategy.

Financial projections. The article calls this key. Be specific about start up costs, expected revenues and breakeven wherever possible. The exact amounts matter less than having the right line items, meaning the right categories of revenue and expense. The numbers may be educated guesses, refined as you gather information and test your ideas.

Its advice on delivery: be confident, offer specifics, make eye contact, smile, engage the audience, memorise the key points rather than reading from notes, thank the audience and invite questions, and if you do not know an answer, try to answer with something you do know. And while funders may expect ambition, the article says it should be balanced with a healthy dose of realism and an understanding of what the challenges might be.

A worked example from the article

The article uses Nespresso, the coffee subsidiary of Nestlé, to show how a business model changes over time. It is the only direct to consumer brand in the Nestlé portfolio and is credited with changing the coffee industry from a transactional business, selling machines to households, into a source of recurring revenue through the sale of single serving pods.

In 1979 Eric Favre pitched Nestlé a prepackaged single serve capsule used with a simplified espresso machine. Nestlé made both and launched in Switzerland and Japan. It failed: production problems left machines working poorly, offices found the capsules too expensive, and restaurant patrons were accustomed to the sound, look and technique of a traditional machine. By 1986 Nestlé had established Nespresso as a separate company with more autonomy, brought in a marketing expert, shifted focus from the technology towards affluent households, and outsourced manufacturing. But as a business to business company it lacked channels to reach consumers directly, relied on mail order and telephone centres where staff earned small commissions with no quality control, and customer satisfaction stayed low.

In 1988 a veteran consumer product specialist reorganised it again: sharing machine manufacturing across several companies to cut risk and cost, tightening relationships with coffee growers, and expanding distribution. Nespresso then grew rapidly, selling pods directly through e commerce alongside retail. The grower relationships gave it a credible claim to sustainable sourcing ahead of competitors, and investment in brand and machine design let it command a premium price.

The point of the example is that a business model is rarely right the first time, and that the blocks are connected. Changing the customer segment forced changes to channels, partners, key activities and cost structure in turn.

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