



## Introduction - Definition of the Business Model

The literature presents many different definitions of business models.

Generally speaking, **“the business model can be described as a system of interconnected and interdependent activities that determines the way the company ‘does businesses’ with its stakeholders. In other words, a business model is a bundle of specific activities – an activity system – conducted to satisfy the perceived needs of the market. It specifies which parties within or as business partners conduct which activities, and how these activities are linked to each other”.** (Zott & Amit, 2017, p.20)

At a higher level of detail, the business model relates to the way the enterprise operates and creates value for stakeholders (Casadesus-Masanell, Ricart, 2010), with emphasis being placed on various aspects of the enterprise’s functioning.

Examples of definitions of a business model:

A business model is *“A method of building and using resources in order to offer customers an offer better than the competition and generating profits in the short and long term”.* (Afuah & Tucci, 2000)

A business model incorporates *“Total decisions of management, concerning, inter alia, payroll, contracts, real estate location, vertical integration, sales and marketing initiatives, etc., and the impact of these decisions on how value is created for the customer and on the way the company operates in general”.* (Casadesus-Masanell & Ricart, 2011)

The business model may be thought of as a description of an organization’s logic and methods through which daily operations are run (Falencikowski, 2013).

Based on an analysis by Porter (2001), a **business model is a description of an enterprise’s activity that provides it with profits.**

A comprehensive approach towards mapping business models may illustrate the methods a company adopts towards generating revenue, sustaining operations and offering value to customers. **Business models are able to help entrepreneurs maximize profits, while also providing an avenue to develop and sustain a permanent competitive advantage.**



## Classification of the Business Models

One of the most general classifications with regard to market relationships is:

1. **B2C (Business-to-Customer)** – enterprises try to attract individual clients. This is the model that has been most developed since 1995.
2. **B2B (Business-to-Business)** – enterprises direct their goods and services to other enterprises. This type of business model generates the highest cash flow.
3. **C2C (Customer-to-Customer)** – in this case, the possibility of exchanging goods between consumers is organized, e.g. through online auctions.
4. **P2P (Peer-to-Peer)** – consists of using the Internet in such a way that users directly share files, without having to transfer them through the main server.
5. **M-commerce (Mobile Commerce)** – refers to wireless devices through which transactions are made. It uses a wireless connection in laptops, telephones, etc.

## Developing of the Business Models

In developing business models, the following principles should be taken into consideration:

- ensuring the implementation of two basic functions for enterprise and entrepreneurship, i.e. marketing and innovation,
- productive use of resources,
- profit imperative and its relation to business risk,
- innovative value creation for the customer and added value,
- gaining a competitive position on the market.



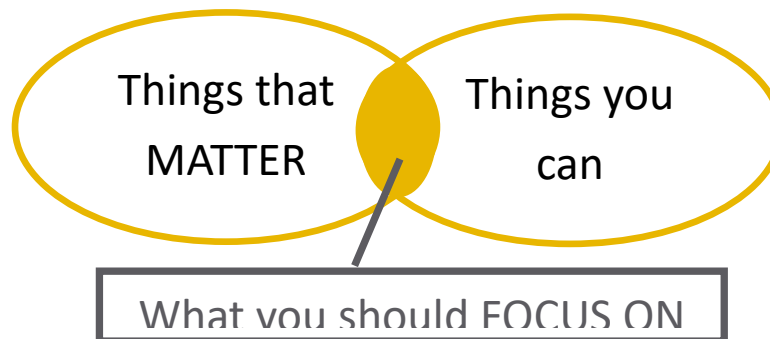
## How can an entrepreneur use the BM

The business model (BM) is the starting point for a company to gain a sustainable competitive advantage and thus maximize profits. However, a model that is well suited to the specifics of the enterprise enables entrepreneurs to effectively achieve their goals.

- The list of possibilities for using the business model in the current operations of an enterprise is long:
- a business model is a tool that specifies the product offer, communication, distribution and sales channels,
- enable the definition of target groups of the company's products,
- it is the basis for the optimization of innovative technologies and the creation of marketing strategies,
- may be used as a tool to promote changes in the company and adapt it to the current (changing over time) market situation.

## What are the benefits of having a BM?

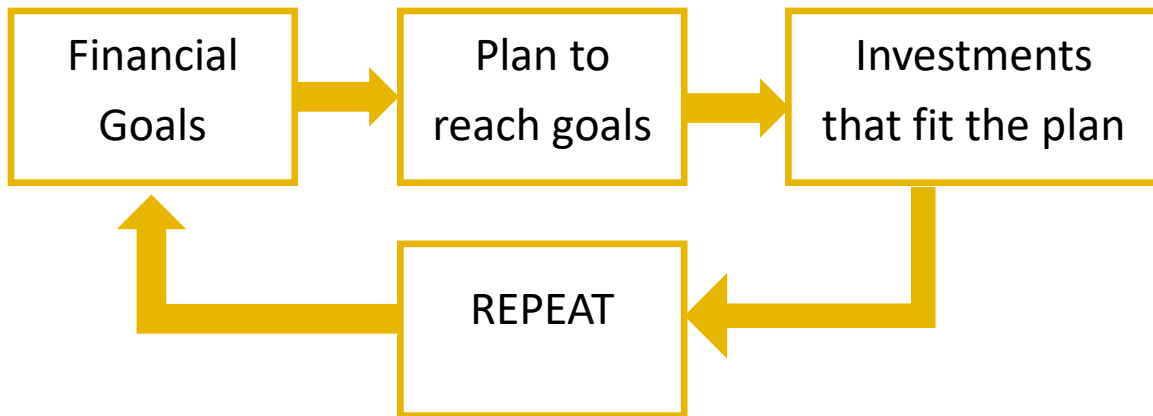
One of the key benefits of having a business model (BM) is the **company's know-how documentation which is developed and constantly updated at the stage of business analysis**, without which it is impossible to legally protect the so-called "Business secrets", particularly in the area of operating methods. **This allows avoiding commissioning further costly business and pre-implementation analyses.**





The business model also enables the organization:

- to be informed about the products and services offered,
- allows for a comprehensive and better description and grouping of processes,
- allows a better understanding and more effective management of these processes.



One undoubted benefit of having a business model is the **effective implementation of the company's goals and the more effective day-to-day management of the company, including making organizational decisions** regarding, for example, the implementation of new management techniques or IT systems, and the identification of areas of the company in which changes should be made and the subsequent consequences.

**Briefly speaking, the business model allows you to answer the following questions:**

- **where does the company get the money from?**
- **what does it sell,**
- **to whom it sells,**
- **when is success achieved?**



### The Business Model Canvas

One of the most frequently used business model templates is the **Business Model Canvas**, developed by Alexander Osterwalder in cooperation with 470 practitioners from 45 countries. The Business Model Canvas consists of nine basic areas that make up the process of generating profits by the enterprise and these refer to the main areas of business activity.

<b>The Business Model Canvas</b>		Designed for:	Designed by:	Date:	Version:			
<b>Key Partners</b> <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p><b>KEYNESIAN ROLE FUNCTIONS</b> Specialization and economies Reduction of risk and uncertainty Expansion of particular resources and activities</p>	<b>Key Activities</b> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p><b>KEYNESIAN ROLE</b> Production Problem Solving Platform/Network</p>	<b>Value Propositions</b> <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p><b>KEYNESIAN ROLE</b> Innovation Performance Customization "Selling the old better" Design Brand/Status Price Cost Reduction Risk Reduction Accessibility Convenience/Quality</p>	<b>Customer Relationships</b> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our Business Model? How costly are they?</p> <p><b>KEYNESIAN ROLE</b> Personal assistance Personalized attention Self Service Automated Services Communities Co-creation</p>	<b>Customer Segments</b> <p>For whom are we creating value? Who are our most important customers?</p> <p><b>KEYNESIAN ROLE</b> Mass Market Segmented Diversified Multi-sided/Network</p>	<b>Key Resources</b> <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><b>KEYNESIAN ROLE</b> Physical Intellectual Human Financial Social</p>	<b>Channels</b> <p>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?</p> <p><b>KEYNESIAN ROLE</b> 1. Direct sales How do we take orders about our company's products and services? 2. Indirect sales How do we help customers evaluate our organization's value proposition? 3. Partners How do we allow customers to purchase specific products and services? 4. Resellers How do we deliver a Value Proposition to customers? 5. Other sales How do we provide and purchase customer support?</p>	<b>Cost Structure</b> <p>What are the most important costs inherent in our Business Model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p><b>KEYNESIAN ROLE</b> Cost driven channel and structure, low price value proposition, maximum automation, extensive outsourcing Value driven channel and structure, customer value proposition</p> <p><b>KEYNESIAN ROLE FUNCTIONS</b> Fixed costs (rent, taxes, utilities) Variable costs Economies of scale Economies of scope</p>	<b>Revenue Streams</b> <p>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 profit/loss?</p> <p><b>KEYNESIAN ROLE</b> Asset sale Usage fee Subscription Fee Licensing/Partnership Advertising Transaction fee Rental License fee Product/Service dependent Customer segment dependent Volume dependent Asset sale Usage fee Subscription fee Licensing/Partnership Advertising Transaction fee Rental License fee Product/Service dependent Customer segment dependent Volume dependent</p>



## Elements of the Business Model Canvas

### Customer Segments

This refers to the definition of the target group or groups of customers, recipients of the company's product offer. Defining the right target group is crucial because customers are the source of income. By identifying the most important features and needs of customers, segmentation enables the company to better adjust its offer to them (customers with similar characteristics should be in one segment).

Guiding questions:

- Who is the customer?
- Who is the product intended for?
- Who is the value offered to?
- Who pays?

#### Customer Segments



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

*Mass Market*  
*Niche Market*  
*Segmented*  
*Diversified*  
*Multi-sided platform*



## Value Proposition

This refers to a certain value offered to customers, i.e., a set of products or services that are important to them and that meet customer expectations to a greater extent than the products offered by the competition. The value proposition aggregates the benefits that the customer will receive.

Guiding questions:

- What values does the company generate for customers?
- What do customers pay for?
- What is crucial for them?
- What customer problems are solved by the company's offer?
- What products are offered?

### Value Proposition

What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products and services are we offering to each Customer Segment?

Which customer needs are we satisfying?



### CHARACTERISTICS

*Newness*

*Performance*

*Customization*

*"Getting the Job Done"*

*Design*

*Brand/Status*

*Price*

*Cost reduction*

*Risk reduction*

*Accessibility*

*Convenience/Usability*



### Channels

This relates to the ways in which the enterprise delivers the value proposition to the customer, i.e., communication, distribution, sales channels. They indicate the points of contact between the customer and the company and its brand.

Guiding questions:

- Where are the company's customers?
- What channels does the company use when establishing contact with the customer?

#### Channels

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?



#### CHANNEL PHASES

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 Value Proposition to customers?*
5. *After sales – How do we provide post-purchase customer support?*





## Customer Relationships

This refers to the characteristics of the relationships that the enterprise establishes with its customers when communicating the value proposition. It may either be a very personal relationship or a fully automatic service. The company should clearly define what kind of relationship it wants to enter into with its clients.

Guiding questions:

- What kind of relationship do customers expect from the company?
- Do they expect personal support or fast and automated service?
- Is the way of establishing relationships with customers integrated with other areas of the business model?

### Customer Relationships



What type of relationship does each of our Customer Segments expect us to establish and maintain with them?  
Which ones have we established?  
How are they integrated with the rest of our business model?  
How costly are they?

#### EXAMPLES

*Personal assistance*  
*Dedicated personal assistance*  
*Self-service*  
*Automated services*  
*Communities*  
*Co-creation*



## Revenue Streams

This refers to an indication of how the product or service on offer will generate income or value, i.e., for what value and how much are customers willing to pay. A company may have a slightly different pricing mechanism for each customer segment.

Guiding questions:

- What are customers willing to pay for?
- How much should they pay and what do they pay for?
- Which parts of the product or service are free, and which must be paid for?
- What number of customers / products/ services sold will be the break-even point for the company?

### Revenue Streams

For what value are our customers 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?



#### TYPES

*Asset sale*

*Usage fee*

*Subscription fees*

*Licensing*

*Brokerage fees*

*Advertising*

*Lending/Renting/Leasing*

#### FIXED PRICING

*List price*

*Product feature dependent*

*Customer segment dependent*

*Volume dependent*

#### DYNAMIC PRICING

*Negotiation (bargaining)*

*Yield management*

*Real-time market*



## Key Resources

This refers to the indication of resources, i.e., tangible, and intangible assets needed for customers to receive the appropriate value. For one enterprise there may be machines, raw materials, infrastructure, or production materials, for another, human capital.

Guiding questions:

- What key resources are needed to offer the value proposition?
- What resources do the channels for reaching clients and the relationships with them require?

### Key Resources

What Key Resources do our Value Proposition require?  
Our Distribution Channels? Customer Relationships? Revenue Streams?



### TYPES OF RESOURCES

*Physical*  
*Intellectual (brand patents, copyrights, data)*  
*Human*  
*Financial*



## Key Activities

This refers to the identification of activities that are key to creating and delivering the value proposition to the clients. As with resources, the type of key activities which are identified depends to a great extent on the nature of the business.

Guiding questions:

- What actions must the enterprise take to deliver the value proposition to its customers?
- What actions do the channels of reaching the clients and establishing relationships with them require?

### Key Activities

What Key Activities do our Value Proposition require?  
Our Distribution Channels?  
Customer Relationships?  
Revenue Streams?



### CATEGORIES

*Production*  
*Problem solving*  
*Platform/Network*



## Key Partners

This refers to the identification of companies or organizations whose products or services are necessary to offer the value proposition. Suppliers or subcontractors often become key partners.

Guiding questions:

- Who are the key partners?
- What external organizations are necessary for the operations of the enterprise?
- What key resources and activities are implemented by the company's partners?

### Key Partners

Who are our Key Partners?

Who are our suppliers?

Which Key Resources are we acquiring from partners?

Which Key Activities do partners perform?



### MOTIVATIONS FOR PARTNERSHIPS

*Optimization and economy*

*Reduction of risk and uncertainty*

*Acquisition of particular resources and activities*



### Cost Structure

This refers to the indication of all expenses incurred in connection with the functioning of the business model. Costs are easiest to calculate when the key resources, activities and partners of the company's business model are known.

Guiding questions:

- What costs does the business model generate?
- What financial outlays are generated by key resources, activities, partners?

#### **Cost Structure**

What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?



#### **IS YOUR BUSINESS MORE**

*Cost Driven (leanest cost structure, low price proposition, maximum automation, extensive outsourcing)*

*Value Driven (focused on value creation, premium value proposition)*

#### **SAMPLE CHARACTERISTICS**

*Fixed costs (salaries, rents, utilities)*

*Variable costs*

*Economies of scale*

*Economies of scope*



# The Business Model Canvas

All these elements create the Business Model Canvas, which has the form of a board on which appropriate areas are written.

You can download the high-definition printable Business Model Canvas here:

<http://bit.ly/3kn33jh>

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