

9.2: Designing the Business Model

LEARNING OBJECTIVES

By the end of this section, you will be able to:

- Define a business model and its purpose
- Describe a business model canvas
- Describe a lean model canvas
- Describe a social business model canvas

According to Alexander Osterwalder and Yves Pigneur, the authors of *Business Model Generation*, a business model “describes the rationale of how an organization creates, delivers, and captures value.” Nevertheless, there is no single definition of this term, and usage varies widely.²⁹

In standard business usage, a **business model** is a plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture’s offerings are made and distributed to the end users; and the how income will be generated through this process. The business model refers more to the design of the business, whereas a business plan is a planning document used for operations.

Each business model is unique to the company it describes. A typical business model addresses the desirability, feasibility, and viability of a company, product, or service. At a bare minimum, a business model needs to address revenue streams (e.g., a revenue model), a value proposition, and customer segments. In non-jargon English, this means you want to address what your idea is, who will use it, why they will use it, and how you will make money off it.

A canvas is a display that would-be entrepreneurs commonly use to map out and plan different components of their business models. There are several different types of canvases, with the business model canvas and the lean canvas being the most commonly used. There are hard-copy canvases modeled after an art canvas as well as digital versions. The original physical canvases are meant to serve as visual tools, used with sticky notes and sketches.

As developed by Osterwalder and Pigneur, the **business model canvas** has nine components, as shown in Figure 9.2.1.

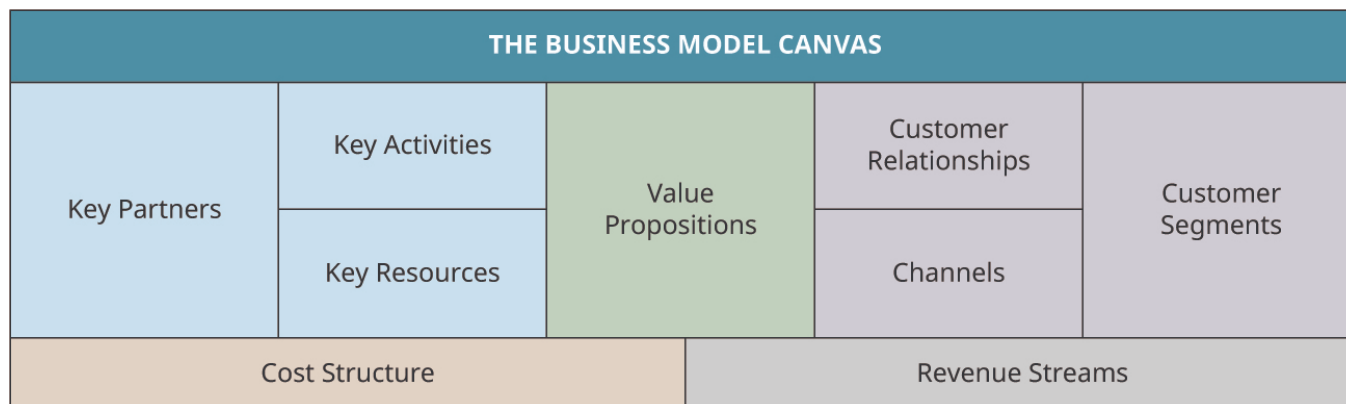


Figure 9.2.1: The business model canvas can be used to map or lay out the initial concept of your business. (CC BY 4.0; Rice University & OpenStax)

LINK TO LEARNING

Visit this site [to see examples of completed Business Model Canvases for a variety of industries](#) for a deeper understanding of how the different categories are filled in.

Osterwalder and Pigneur wrote *Value Proposition Design* as a sequel to *Business Model Generation*. Their value proposition canvas is a plug-in that complements the business model canvas, going in depth on activities such as encouraging entrepreneurs to address and tackle customer pains, gains, and jobs-to-be-done trigger questions, and designing pain relievers and gains. The complementary and accompanying activities and resources can be useful for a deeper dive into and understanding of customer value creation in the form of value proposition, although there are other approaches to conceptualizing your value proposition. For

Christensen, the originator of the disruptive innovation and jobs-to-be-done theories, a value proposition is a product that helps customers do a job they've been trying to do more effectively, conveniently, and affordably.

Finding the intersection of your customers' problems and your solutions is how you create a unique value proposition, according to the entrepreneur Ash Maurya, the author of *Scaling Lean* and *Running Lean*. In *Running Lean*, Maurya offers the following formula for creating an initial value proposition in the canvas, as shown in Figure 9.2.2.



Figure 9.2.2: Maurya's formula to determine value proposition considers customer needs and potential objections within a specific period of time. (CC BY 4.0; Rice University & OpenStax)

Maurya deviated from the standard business model canvas to create the lean canvas. It overlaps the business model canvas in five of the nine components: customer segments, value proposition, revenue streams, channels, and cost structure (Figure 9.2.3). Rather than addressing key partners, key activities, and key resources, the lean canvas helps you tackle problems, solutions, and key metrics instead.

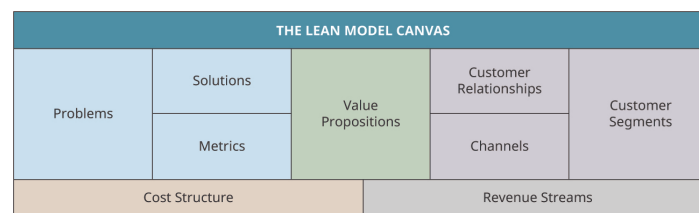


Figure 9.2.3: The lean model canvas is a modification of the Business Model Canvas. (CC BY 4.0; Rice University & OpenStax)

LINK TO LEARNING

Visit this site [to see examples of completed Lean Model Canvases from some major companies](#) for a deeper understanding of how the canvas can be applied.

While the business model canvas and the lean canvas are similar in format, there are differences in how they are used. It is generally accepted that the lean canvas model is a better fit for startups, whereas the business model canvas works well for already established businesses. The lean canvas is simpler; the business model canvas provides a more complete picture of a mature business.

LINK TO LEARNING

Watch this Railware video that demonstrates how the lean canvas model might be applied to startups to learn more. In the case example in the video, the lean canvas model is applied to the successful P2P ride-sharing app Uber, as if it were a startup.

Both the business model canvas and the lean canvas are designed for constant iterations, allowing for multiple versions and changes throughout the entrepreneurial process. Part of that process involves customer discovery; thus, the canvases invoke customer-focused design. The target customer is integrated into the canvas from the start through the use of a customer empathy map and a number of design-thinking ideation activities.³⁰ The **customer empathy map** is a portrayal of a target customer—the most promising candidate from a business's customer segments—that explores the understanding of that person's condition from their perspective to understand his or her problems and needs (Figure 9.2.4). Osterwalder and Pigneur used a customer empathy map as part of the design ideation phase of developing a business model canvas. There are differing versions of customer empathy maps, but most seek to answer common questions pertaining to the customer, such as:

- With whom are we empathizing?
- What do they need to do?
- What do they see?
- What do they say?
- What do they do?
- What do they hear?
- What do they think?

Phillips, Proctor & Gamble, Microsoft, and Yeti are examples of well-known companies that make use of customer empathy mapping because, according to the journal *Entrepreneur*, every transaction can be turned into a meaningful and valuable customer interaction.³¹ Once a company analyzes the results of customer mapping exercises, it may very well lead to new products that serve customer needs and/or wants.

For example, Philips used empathy mapping to detect a high level of fear in young patients immediately before an MRI medical procedure, so it invented a miniature version of the CAT scan equipment used in the procedure called the “kitten scanner” along with toy animal characters that were used to dispel the fear of MRIs among children. Proctor & Gamble created a new advertisement that was released for the 2012 Olympics visualizing the trials and tribulations of mothers raising young athletes, demonstrating Proctor and Gamble’s awareness that some of its customers wanted or needed empathy for the sacrifices they had made to help their children succeed. Likewise, Microsoft has attempted to demonstrate empathy with customers’ privacy concerns by developing an interactive website that explains not only how data is stolen but also how we can better protect our own data.³²

On their company website, the now-famous Yeti cooler company publicly extols the value of empathy mapping, explaining that it leads to better products. Yeti doesn’t just create one on its own, it actually asks its clients to work with the company to create an empathy map.³³ Thus, empathy mapping for Yeti is part of its product development process.

Customer empathy maps also strive to address customer pains (in this case, fears, frustrations, and anxieties) and gains (wants, needs, hopes, and dreams).³⁴



Figure 9.2.4: An empathy map portrays the target customer in order to understand the market needs. (CC BY 4.0; Rice University & OpenStax)

LINK TO LEARNING

Strategyzer offers six videos outlining the business model canvas that total about 12 minutes; specifically they cover the prototyping journey from ideation to visualization of conceptualization.

Business Model Canvas³⁵

As Osterwalder and Pigneur describe it, according to *Media Innovation and Entrepreneurship*, their business model canvas blocks include revenue streams, customer segments, value propositions, cost structures, channels, key activities, key partners, key resources, and customer relationships.

Early on, your greatest focus should be on the right side of the canvas because:

- These are, in many ways, the most critical aspects of starting a new venture (customer segments, value propositions, channels, and revenue streams).
- The most fluid (revenue streams, channels, and value propositions will likely differ for the differing customer segments and, as you iterate and adapt throughout the customer discovery process, could likely change).
- These follow a logical temporal order (there’s no need to focus on the costs of building a company if you won’t have customers).

In a follow-up to business model generation, the Strategyzer team created a second canvas, the value proposition canvas: <https://www.strategyzer.com/canvas/value-proposition-canvas>. The value proposition canvas is a new tool that pulls out the customer segment and value proposition blocks of the business model canvas, and encourages more in-depth exploration of those blocks to

achieve a good fit between the two. The value proposition canvas tool looks at customer pains, gains and jobs to be done on the customer side and painkillers, gain creators, and products and services on the value proposition side.³⁶

LINK TO LEARNING

Read this blog that [provides a walk-through of how to fill in a value proposition canvas](#) to learn more.

When you peel away the language used to describe business models, the early startup planning stages come down to a series of questions. When it comes to formulating a business model for a startup concept, another popular framework used in entrepreneurial circles is that of desirability-feasibility-viability (Figure 9.2.5). This framework forces the entrepreneur to address broad questions about the startup concept:

- Desirability: How desirable is the product? Who will use it and why?
- Feasibility: How feasible is this idea? What are the costs of making it? How practical is the concept?
- Viability: Will this idea remain viable? How will it make money? How will it be sustained over time?

These questions then begin to connect to form a narrative about where the startup concept came from, whom it serves, why it's needed, how it will make money, and how it will be sustained in the future.

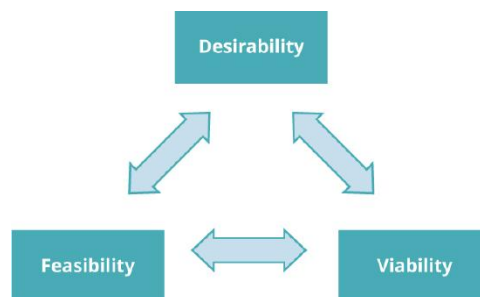


Figure 9.2.5: The framework of desirability, feasibility, and viability form a story about a company's startup. (CC BY 4.0; Rice University & OpenStax)

The value propositions, customer relationships, customer segments, and channels address the assumptions that will create customer value (desirability). The cost structure and revenue stream blocks are aimed at viability, or overcoming flawed business models. The key partners, key activities, and key resources are about execution and address feasibility. The risk of poor execution can undermine your assumptions that you chose the right infrastructure to execute your business model (feasibility). The risk of solving an irrelevant customer job (sometimes derisively labeled “a solution in search of a problem”) undercuts desirability in your business. The risk of a flawed business model would hamper the financial assumption that your business will earn more money than you spend (viability). Adaptability is about the assumption that you chose the right business model within the context of external factors such as technology change, competition, and regulation.

The business model canvas is not an exhaustive planning tool by any means.^{37, 38} The risk of such external threats is not specifically addressed on the canvas blocks. The external threats not specifically covered by the canvas blocks can be designed for adaptability, that is, the business model canvas is a necessary but insufficient component of determining the viability of the business idea/concept. There are many elements not included in the canvas that entrepreneurs must address. Industry analysis, including a competitive analysis, for example, falls “off canvas” but is important nonetheless.

The Lean Model Canvas

The **lean model canvas** is Ash Maurya's adaptation of the original business model canvas. As we noted earlier, gone are the customer relationships, key activities, key partners, and key resources blocks. Instead, a problem block is added, because as Maurya explains, “Most startups fail, not because they fail to build what they set out to build, but because they waste time, money, and effort building the wrong product. I attribute a significant contributor to this failure to a lack of proper ‘problem understanding’ from the start.” Maurya next added a solution block to the lean model canvas, which corresponds well with features on a minimum viable product (MVP). The lean model canvas also adds an “Unfair Advantage” block, similar to the block for competitive advantages or barriers to entry found in a business plan.³⁹

Social Business Model Canvas

As you've noticed by now, the core canvas components are common throughout the various versions. Many of the blocks of the **social business model canvas** are similar to those used in the business model canvas and the lean model canvas.⁴⁰ A few differences, as developed by Tandemic, focus on areas unique to social entrepreneurship ventures. For example, the new areas added include measures of what kind of social impact you are creating or developing, measures of surplus to address what happens with profits and where you intend to reinvest them, and measures of beneficiary segments, and social and customer value propositions.⁴¹ These could be measures such as the number of trees planted, number of refugees housed and fed, jobs created, or investments made—depending on the venture. Social impact looks at an organization's social mission beyond the bottom line. Measurement can differ among social entrepreneurs, but in terms of the canvas, impact measures are an effort to establish quantifiable metrics.

Social impact can be hard to measure, but nonetheless, many social entrepreneurs aim for long-lasting impact.⁴² A 2014 report by the think tank, consultancy, and member network SustainAbility lists cooperative ownership, inclusive sourcing, and the “buy one, give one” model as three forms of social impact.⁴³ In addition to the Tandemic social business model canvas, there are other versions of similar canvases used for social entrepreneurship. For instance, Osterwalder adapted the business model canvas for mission-driven organizations into a mission model canvas.⁴⁴ There's also a social lean canvas that adds purpose (explaining your reason for creating the venture in terms of social or environmental problems) and impact sections (describing the intended social or environmental impact).⁴⁵

LINK TO LEARNING

This completed social business model canvas for the popular peer-to-peer lending platform Kiva illustrates how the business model canvas can and perhaps should be adapted for social entrepreneurship ventures.

WHAT CAN YOU DO?

TOMS Shoes

Toms Shoes is perhaps one of the best-known companies for adopting a social entrepreneurship purpose into its business model. Part of its early success hinged on the fact that for every pair of shoes a customer bought, the company donated a pair of shoes to someone in need. The company won a prize in 2006 for its innovative solution to poverty. This “1-for-1 business model,” sometimes commonly called the “Toms model” after the shoe company that popularized it, gained traction among other companies that followed suit in similar fashion, seeing both the social and the financial successes in the Toms model. Warby Parker is another example of a company that does essentially the same: A customer purchases a pair of eyeglasses, and the company donates a pair (although Warby Parker pays a third party to procure the glasses, as eyeglasses require an individual prescription, whereas shoes do not).

- Can you think of an innovative social entrepreneurship business model?

WHAT CAN YOU DO?

The Birthday Party Project



Figure 9.2.6: The Birthday Party Project helps provide celebrations to honor the birthdays of homeless children. (credit: modification of "children's birthday table" by "Efraimstochter"/Pixabay, CC0)

Paige Chenault wanted homeless children in Dallas to feel special on their birthdays. Many have never experienced a birthday party. So this professional event planner sprang into action in January 2012. She launched the Birthday Party Project (<https://www.thebirthdaypartyproject.org/>), a nonprofit group whose mission is to celebrate the lives of homeless children (ages one to twenty-two). The group organizes monthly birthday parties with partner shelters. Since its inception, the concept has spread beyond Texas to cities across the United States, including Atlanta, Chicago, Los Angeles, New York, and San Francisco. In six years, the Birthday Party Project has celebrated 4,800 birthdays with 30,000 kids in attendance, eaten 40,000 cupcakes, cracked 30,000 glow sticks, and performed 1,100 renditions of "Happy Birthday."

- Identify a need in your community that could become a social entrepreneurship business, as Paige discovered with an initial passion project.

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