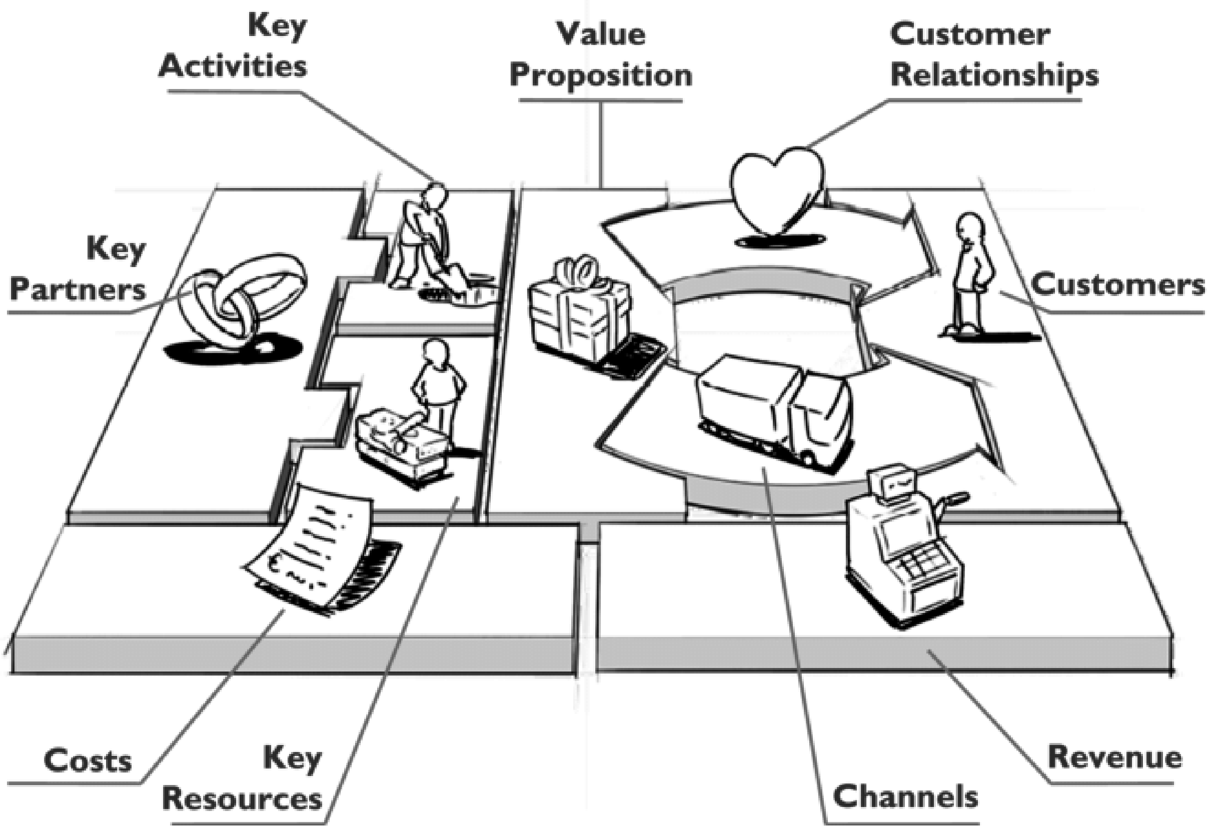
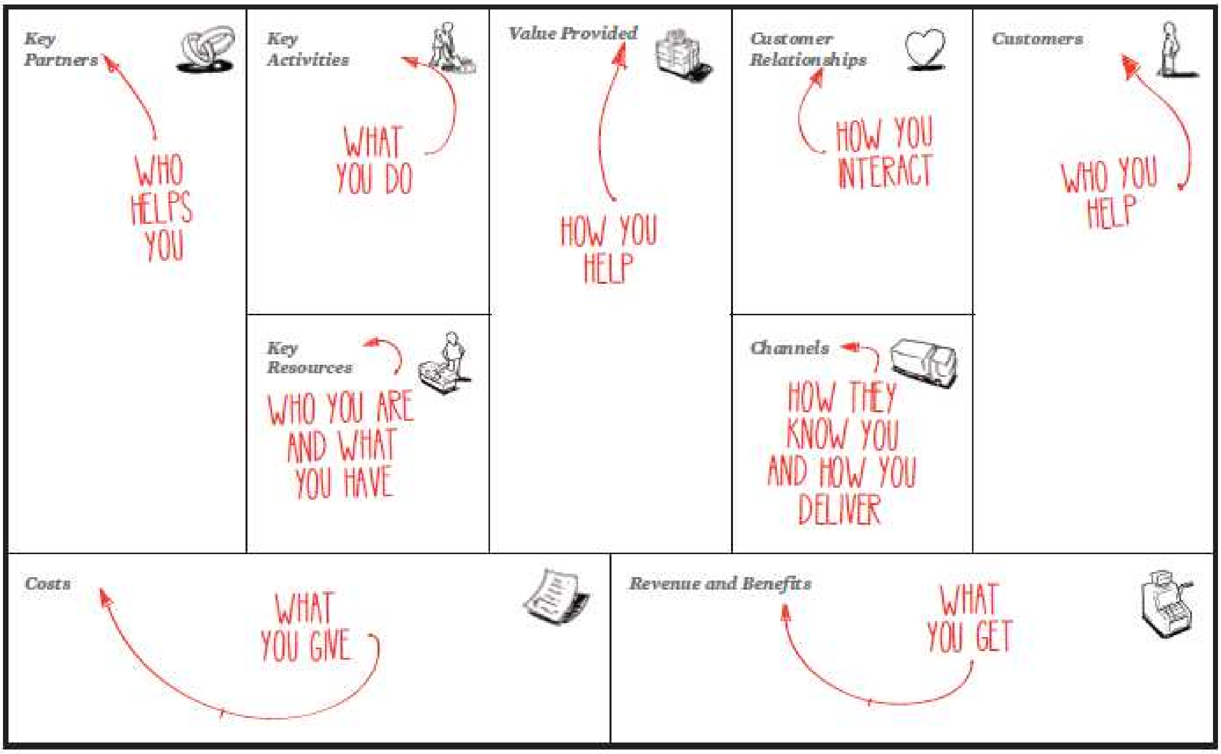
Business Model Canvas

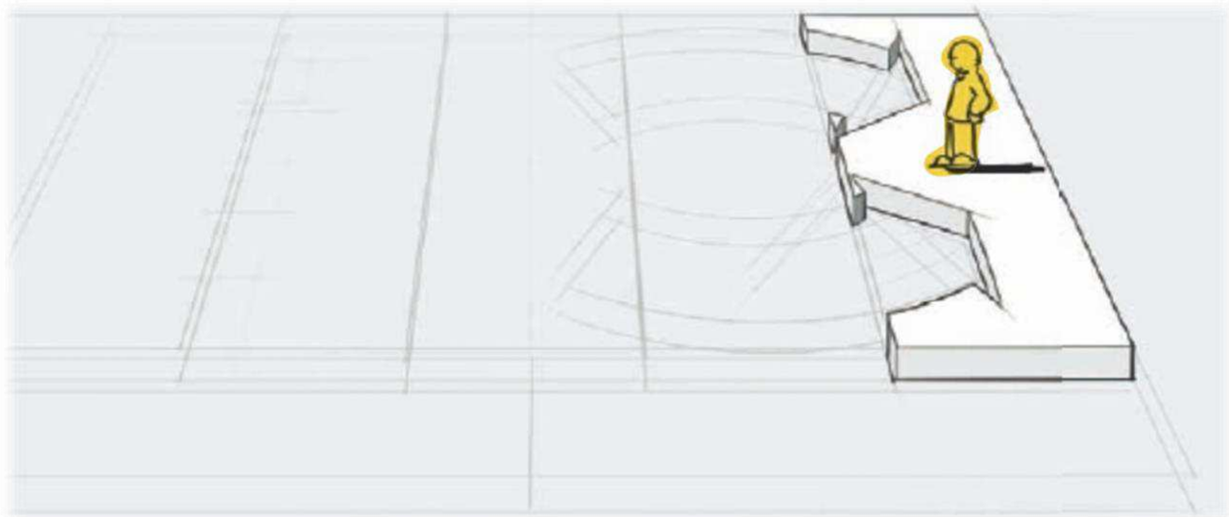
A business model describes the rationale of how an organization creates, delivers, and captures value.

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.





1 - CUSTOMER SEGMENTS:



The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve. There are different types of Customer Segments. 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 profitability
• They are willing to pay for different aspects of the offer

There are different types of Customer Segments:

- **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.

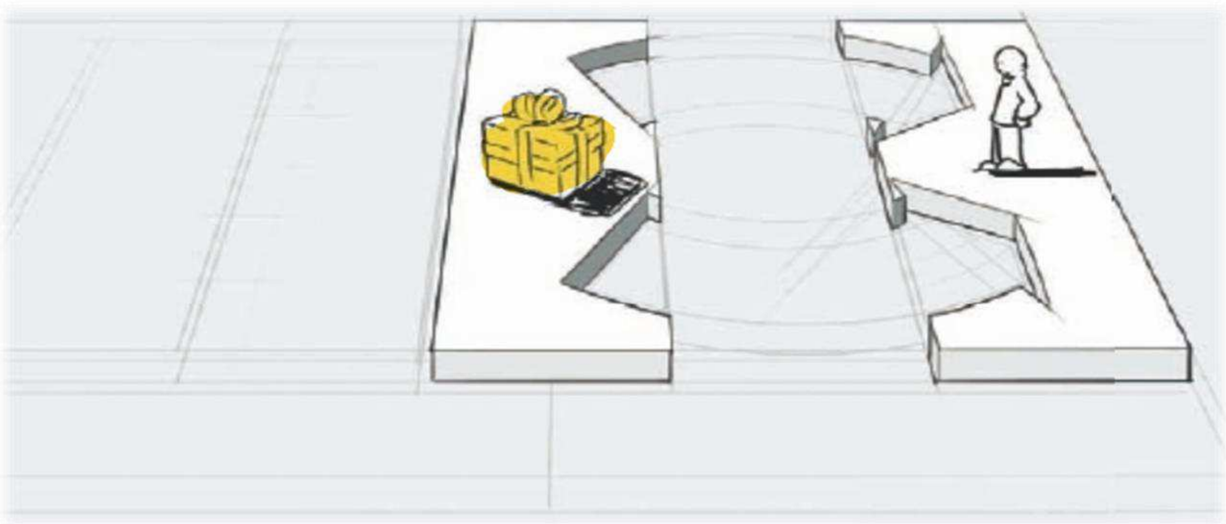
- **Diversified**

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

2-Value Preposition



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.

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). The below elements 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.. 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.

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.

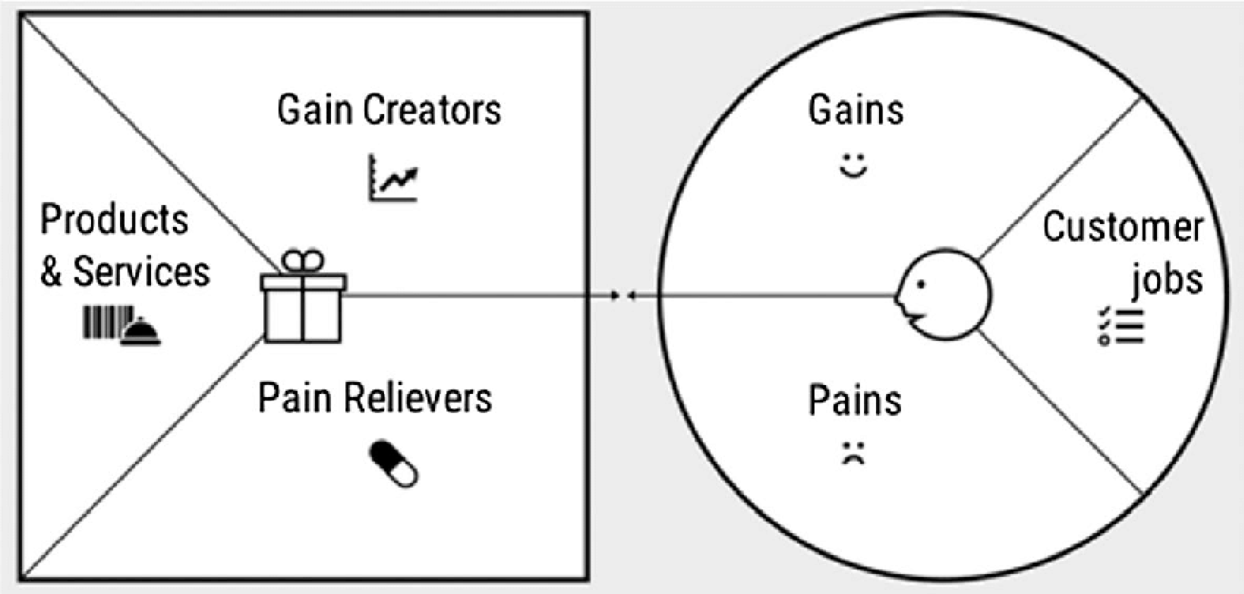
Accessibility

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.

VALUE PREPOSITION CANVAS



What is the Value Proposition Canvas?

The Value Proposition Canvas is a tool which can help ensure that a product or service is positioned around what the customer values and needs.

The Value Proposition Canvas was initially developed by Dr Alexander Osterwalder as a framework to ensure that there is a fit between the product and market. It is a detailed look at the relationship between two parts of the Osterwalder's broader Business Model Canvas; customer segments and value propositions.

The Value Proposition Canvas can be used when there is need to refine an existing product or service offering or where a new offering is being developed from scratch.

The Value Proposition Canvas is formed around two building blocks – customer profile and a company's value proposition.

Customer Profile

- Gains – the benefits which the customer expects and needs, what would delight customers and the things which may increase likelihood of adopting a value proposition.
- Pains – the negative experiences, emotions and risks that the customer experiences in the process of getting the job done.
- Customer jobs – the functional, social and emotional tasks customers are trying to perform, problems they are trying to solve and needs they wish to satisfy.

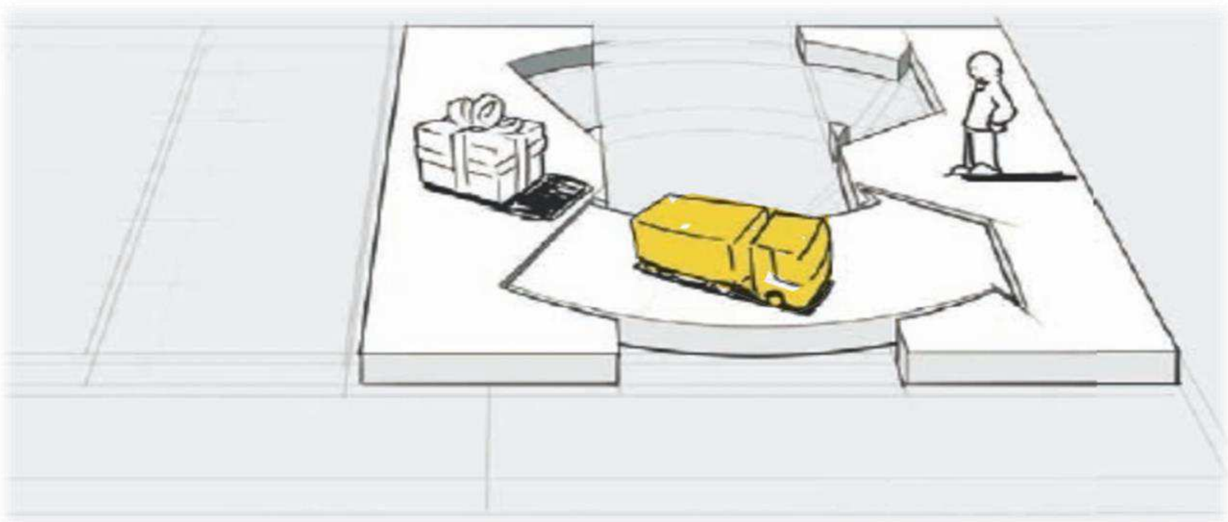
A customer profile should be created for each customer segment, as each segment has distinct gains, pains and jobs.

Value Map

- Gain creators – how the product or service creates customer gains and how it offers added value to the customer.
- Pain relievers – a description of exactly how the product or service alleviates customer pains.
- Products and services – the products and services which create gain and relieve pain, and which underpin the creation of value for the customer.

Achieving fit between the value proposition and customer profile
After listing gain creators, pain relievers and products and services, each point identified can be ranked from nice to have to essential in terms of value to the customer. A fit is achieved when the products and services offered as part of the value proposition address the most significant pains and gains from the customer profile.
Identifying the value proposition on paper is only the first stage. It is then necessary to validate what is important to customers and get their feedback on the value proposition. These insights can then be used to go back and continually refine the proposition.

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

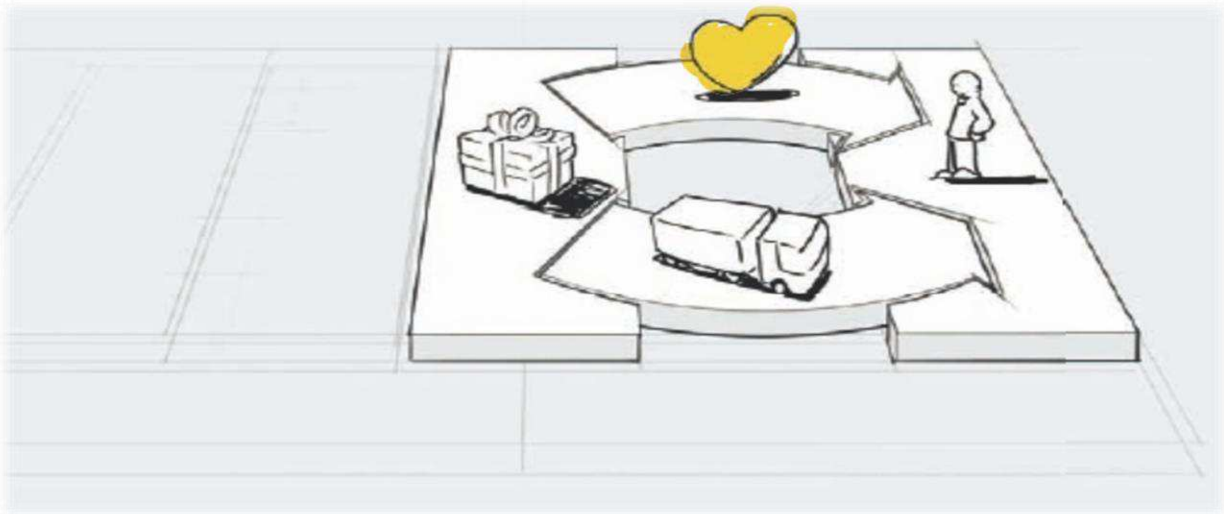
Channel Types & Phases

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?
		Web sales					
	Indirect	*Own stores*					
Partner		*Partner stores*					
		Wholesaler					

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.

4- CUSTOMER RELATIONSHIPS



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.

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 onsite 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**

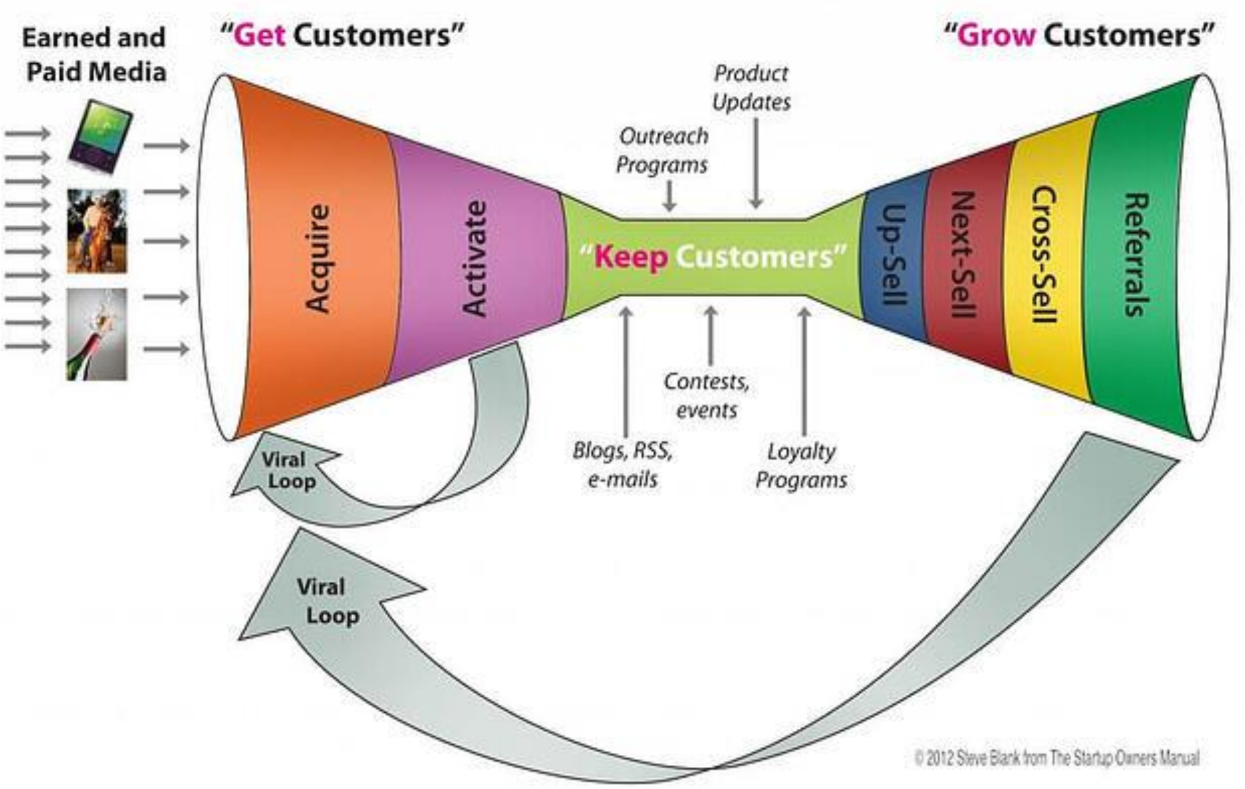
This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related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



Customer relationship management can be broken down into 3 sections based on Steve Blank's customer relationship funnel; get, keep, grow.

GET. How you acquire customers and get them to purchase products.
KEEP. Keeping customers for long periods rather than loosing customers you've spent time, money and resources acquiring. It's a lot more expensive to get customers than to keep and grow them.
GROW. Sell existing customers more products and gain more engagement.
Customer knowledge drives the get-keep-grow. To understand this, it is vital to refer back to the value proposition canvas (defining the problem you are solving), your customer archetype and understanding who is your customer- in context.
4 question customer recap:
What's their role? (Customer's role within their different responsibilities of life)
Who are they? (Within a company, What organization do they work for, Who influences them)
How do they buy? (Players in the buying decision. Economic buyer? Users?)
What matters? (What pain is being solved, what gain is your product creating?)
GET
Get is all about how do I get my customer interested. Looking at web and mobile customer relationships, earned and paid media is what drives the customer into the funnel. Diagrammatically, this is the left part going into the funnel representing all the demand creation activities, all designed to feed the sales funnel. Activities that attract

customers into the funnel are known as **demand creation activities**. These can be further broken down into paid and earned.

1- Demand creation activities

A- Paid demand creation activities

For Example: public relations agency, advertising agency, webinars, emails, SEM & SEO (google Adwords, facebook ads, etc)

Your paid demand creation activities will depend highly on the type of content your archetype consumes. Content marketing strategies must consider if they are into blogs, news, tech journals, radio, television, etc. For example if you notice you're customers rely heavily on blogs your are going to want to place emphasis on getting the correct keywords for your own blog and position banners and ads on blogs where your most likely to find your customer. The key point here is match your demand creation activities to what you know about your archetype. When you are paying for demand creation, make sure match what you know to what you are going to be paying for.

B- Earned demand creation activities

For example: publications in journals, conferences/ speeches, blogs, guest blogs, guest articles, social media (Firm social media pages: Facebook, Twitter, LinkedIn, Instagram etc …)

Your earned demand creation activities are for free. These are all activities that you can do for free that will get the attention of your key customer archetypes and helps drive them into your acquisition activities.

2- Acquire & Activate

Acquiring is how we want to get customers to out site, mobile, or cloud app. This is strongly related with earned and paid media which drive customers to have a look at **you**.

Once acquired you want to see action. To become active, customer pay for something, sign up, become a user, engage with the web or app and do something. As we saw with the google example, increasingly users are just monetized by getting payers to pay for the fact that we have many users.

freemium users actually end up paying for the full package. This means that we started with 5,000 user visits (at the cost of €1,500). Then For our revenue model, the real metric we are interested in is the customer acquisition cost (CAC). How much is it going to cost us to acquire a customer on the right hand of the GET funnel? How does it work to get an activated customer, and how much does it cost?

KEEP

Keep is all about keeping customers engaged and keeping **churn** to a minimum. Key tools to implement in keeping cusomters include:

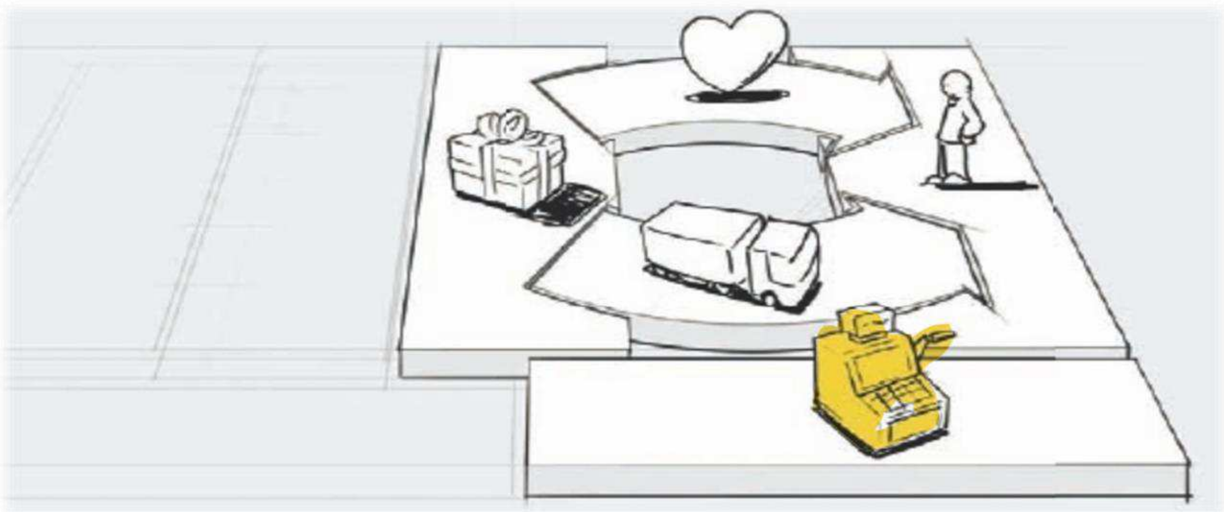
loyalty programs, contests and events, blogs/email, social media

GROW

Growth is all about selling to existing customers., Remember that it is a lot cheaper to sell more to existing customers than it is to acquire new customers.
4 questions to your growth strategy:
Can I unbundle some of the packages? Unbundling meaning, can I somehow decompose the product into several pieces with different charging schemes. Most people just want the base product. Make use of this and put a premium on your premium features.
Can I up-sell the product? This is based on understanding your customer archetype's aspirations. Think about the quality and the features of a product and creating an up-sell strategy specific to your customers aspirations. How can you exceed their expectations?
Can I cross sell my products? Are there any accessories or companion products that your customers are aware of?
How can we get satisfied customers to refer us? This generates the outer viral loop. Happy customers are a great way to bring in new customers through word of mouth.

Lifetime Value
Customer lifetime value (LTV) is a key concept in customer relationships. To effectively calculate how much you can spend on customer acquisition on the left of the funnel, you need to understand the customer lifetime value. The concept depicts how much customers will spend with you. from the beginning to the very end of the relationship. Customer LTV can be increased through reducing churns and growing sales with existing customer.

5- REVENUE STREAMS



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:

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

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 patent holders grant other companies the right to use a patented technology in return for a license fee.

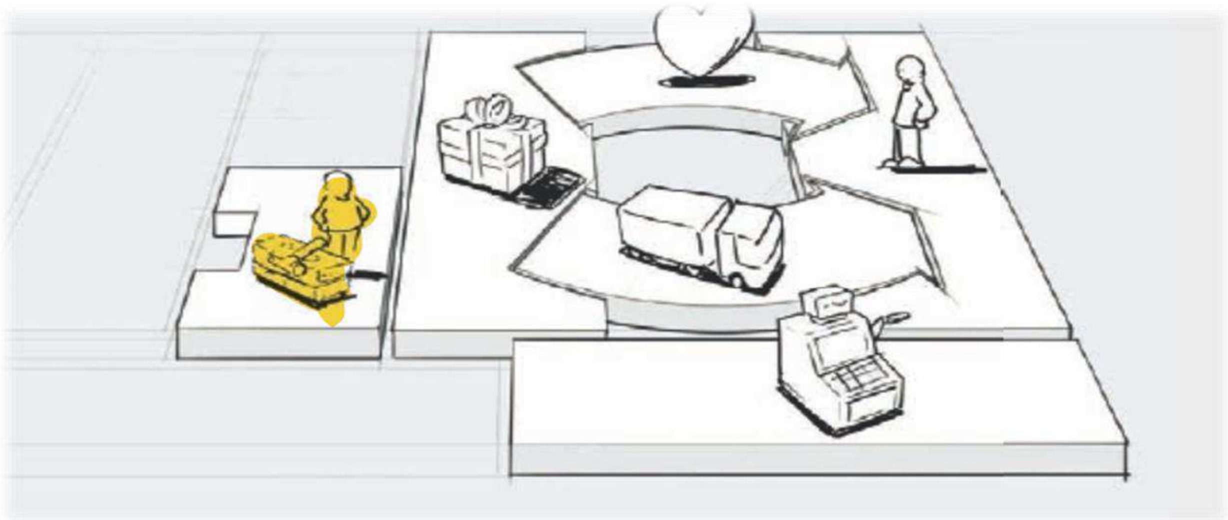
Brokerage fees

This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sales transaction executed between credit card merchants and customers. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

Advertising

This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years other sectors, including software and services, have started relying more heavily on advertising revenues. Each Revenue Stream might have different pricing mechanisms. The type of pricing mechanism chosen can make a big difference in terms of revenues generated. There are two main types of pricing mechanism: fixed and dynamic pricing.

6-KEY RESOURCES



Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work.

Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources. Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

Key Resources can be categorized as follows:

Physical

This category includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks. Retailers like Wal-Mart and Amazon.com rely heavily on physical resources, which are often capital-intensive. The former has an enormous global network of stores and related logistics infrastructure. The latter has an extensive IT, warehouse, and logistics infrastructure.

Intellectual

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when successfully created may offer substantial value. Consumer goods companies such as Nike and Sony rely heavily on brand as a Key Resource. Microsoft and SAP depend on software and related intellectual property developed over many years. Qualcomm, a designer and supplier of chipsets for broadband mobile devices, built its business model around patented microchip designs that earn the company substantial licensing fees.

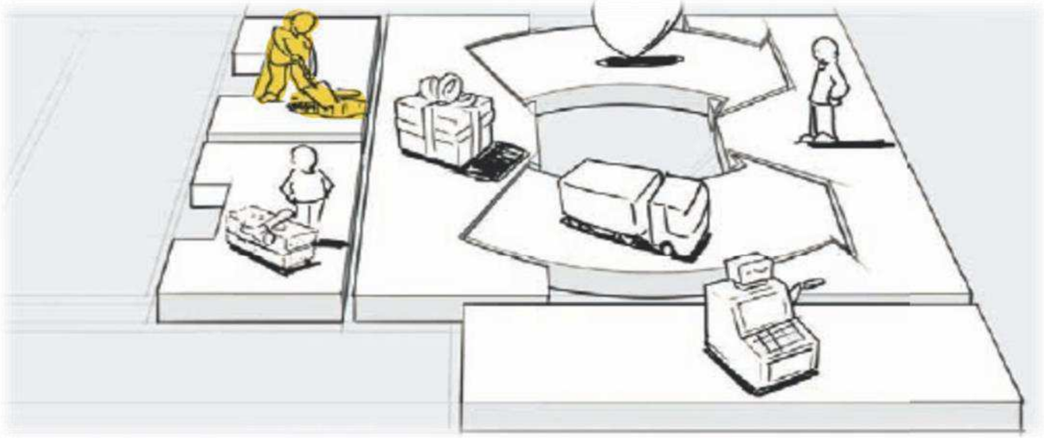
Human

Every enterprise requires human resources, but people are particularly prominent in certain business models. For example, human resources are crucial in knowledge-intensive and creative industries. A pharmaceutical company such as Novartis, for example, relies heavily on human resources: its business model is predicated on an army of experienced scientists and a large and skilled sales force.

Financial

Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to borrow funds from banks and capital markets, then use a portion of the proceeds to provide vendor financing to equipment customers, thus ensuring that orders are placed with Ericsson rather than competitors.

7- KEY ACTIVTIES



Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work.

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development. For PC manufacturer Dell, Key Activities include supply chain management. For consultancy McKinsey, Key Activities include problem solving.

Key Activities can be categorized as follows:

Production

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

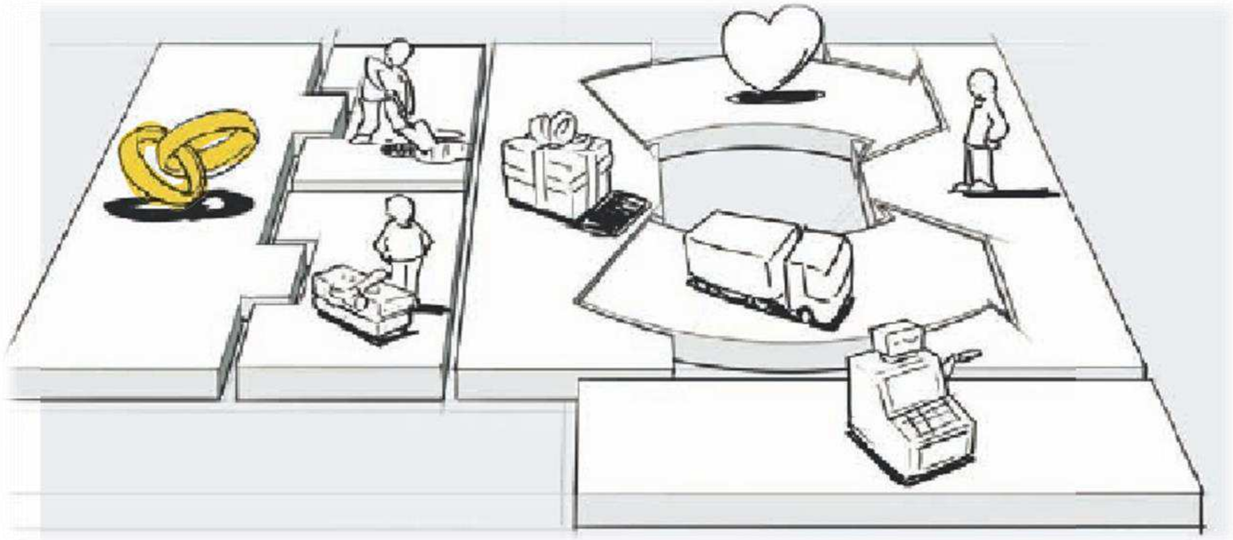
Problem solving

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.

Platform/network

Business models designed with a platform as a Key Resource are dominated by platform or network-related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. eBay's business model requires that the company continually develop and maintain its platform: the Web site at eBay.com. Visa's business model requires activities related to its Visa® credit card transaction platform for merchants, customers, and banks. Microsoft's business model requires managing the interface between other vendors' software and its Windows® operating system platform. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

8- KEY PARTENERS



Key Partners

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

- Strategic alliances between non-competitors
- Coopetition: strategic partnerships between competitors
- Joint ventures to develop new businesses
- Buyer-supplier relationships to assure reliable supplies

It can be useful to distinguish between three motivations for creating partnerships:

Optimization and economy of scale

The most basic form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. Optimization and economy of scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

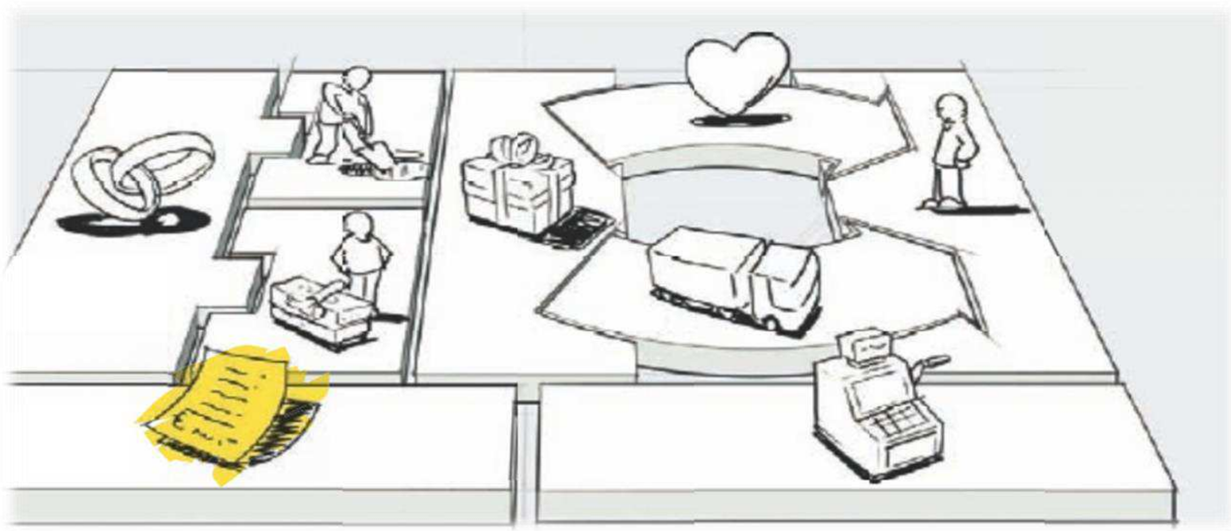
Reduction of risk and uncertainty

Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products.

Acquisition of particular resources and activities

Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. A mobile phone manufacturer, for example, may license an operating system for its handsets rather than developing one in-house. An insurer may choose to rely on independent brokers to sell its policies rather than develop its own sales force.

9- COST STRUCTURE



Cost structure

The Cost Structure describes all costs incurred to operate a business model.
This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called "no frills" airlines, for instance, have built business models entirely around low Cost Structures.
Naturally enough, costs should be minimized in every business model. But low Cost Structures are more important to some business models than to others.
Therefore it can be useful to distinguish between two broad classes of business model Cost Structures: cost-driven and value-driven (many business models fall in between these two extremes):

Cost-driven

Cost-driven business models focus on minimizing costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing. No frills airlines, such as Southwest, easyJet, and Ryanair typify cost-driven business models.

Value-driven

Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models. Luxury hotels, with their lavish facilities and exclusive services, fall into this category.

Cost Structures can have the following characteristics:

Fixed costs

Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

Variable costs

Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

Economies of scale

Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

Economies of scope

Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

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