1. Customer segments

Customer groups represent separate segments if:

1. customer segments

The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve

- Their needs require and justify a distinct offer
- They are reached through different distribution channels
- They require different type of relationships
- They have substantially different profitability
- They are willing to pay for different aspects of the offer

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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.

2. Value proposition

2. value proposition

The Value Proposition 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.**
- → The Value Proposition is an aggregation, or bundle, of benefits and values that a company offers customers.
- → Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience).
- → Elements from the following non-exhaustive list can contribute to customer value creation:

01. Newness	02. Performance	03. Customization
04. "Getting the job done"	05. Design	06. Brand/Status
07. Price	08. Cost reduction	09. Risk Reduction
10. Accessibility	11. Convenience / Usability	

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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.
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).

3. Channel

3. channel

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.

→ **Channels are customer touch points that 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

→ **Channels have five distinct 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?
Own	Direct	*Web sales*					
Own	Indirect	*Own stores*					
Partner	Indirect	*Partner stores*					
Partner	Indirect	*Wholesaler*					

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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 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
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 relationship

4. customer relationship

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)

→ **Several categories of Customer Relationships**

1. Personal Assistance	**2. Dedicated Personal Assistance**	**3. Self-Service**
4. Automated Services	**5. Communities**	**6. Co-Creation**

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The Customer Relationships called for by a company's business model deeply influence the overall customer experience.

5. Revenue stream (1/2)

5. revenue stream

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.

5. Revenue stream (2/2)

5. revenue stream

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

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

1. Asset sale
2. Licensing
3. Brokerage fees
4. Lending/ renting/ leasing
5. Usage fee
6. Subscription fees
7. Advertising

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6. Key resources

6. 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.**

7. Key activities

7. 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	Problem Solving	Platform/Network

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What Key Activities Do Our Value Propositions Require? Our Distribution Channels? Customer Relationships? Revenue Streams?

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 partners

8. 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	Reduction of Risk and Uncertainty	Acquisition of Particular Resources and Activities

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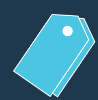
Who are Our Key Partners? Who are Our Key Suppliers? Which Key Resources are We Acquiring from Partners? Which Key Activities Do Partners Perform?

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



9. 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 and some are value-driven. So-called "no frills" airlines, for instance, have built business models entirely around low Cost Structures.
- Cost structures can have the following characteristics: fixed costs, variable costs, economies of scale and economies of scope

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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.

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

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.

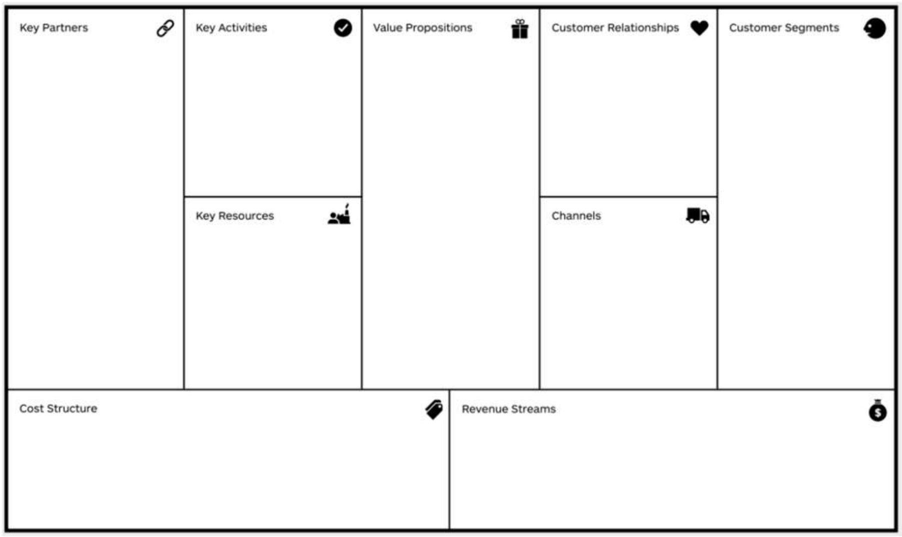
ECONOMIES OF SCALE

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.

Business Model Canvas



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