

## Business models in strategic management



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# Introduction

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Since the early 2000s, a new language has entered the realm of strategic management. Whereas the field used to talk primarily in terms of value propositions, generic strategies and competitive advantage, more recently, these ideas have been displaced or perhaps, absorbed, within a new language of business models.

Driven by forces such as the knowledge economy, the growth and spread of the Internet, and the emergence of new and powerful mobile technologies such as smartphones, organisations are having to rethink the way they structure their organisations, attract customers, and seek to achieve an advantage in the marketplace. This is happening at a frantic pace as long-established and previously dominant industry players are increasingly being challenged, disrupted and in many cases, beaten by small start-ups that seemingly appear out of nowhere.

In this free course, *Business models in strategic management*, you will be introduced to the theory and practice of business models as they have developed in strategy literature. In particular, you will explore the emergence of the business model idea, types of business models including those using the internet (e-business models) and how business models can be designed.

Inherent in this course is the idea that, despite being more frequently used in business, business models are not limited to the business context. Neither are they meant for strategic planning in organisations only. Rather they may have wider applications in our lives. For instance, you could apply them for building strategies of your professional development and career growth.

This OpenLearn course is an adapted extract from the Open University course [B302 Strategic management](#).

# Learning Outcomes

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After studying this course, you should be able to:

- recognise how to distinguish among, and make use of, different types of business models
- understand how to build a business model by using a business model canvas tool
- develop a business model canvas for professional development and career growth.

# 1 The emergence of the business model idea

In Video 1, Professor Baden-Fuller talks about the reason why business model literature has become so popular, and not just among academics. He also introduces you to the different possible definitions of business models.

Video content is not available in this format.

**Video 1** Definition of business models



The term 'business model' is equally applicable to private and public limited companies, but it is possible to see how most of the concepts associated with business models are applicable to organisations in the public and third sectors, as will be seen in the sections that follow.

## Activity 1 Conceptualising business models

Allow about 5 minutes

Choose one statement from the below that best describes a business model.

- ☐ A business model shows how a company makes money.

This is partially correct. Business models show how a company generates revenues by creating value for customers.

- ☐ A business model reflects how a company creates value for its customers.

This is partially correct. Business models show how a company generates revenues by creating value for customers.

- A business model shows how a company makes money AND a business model reflects how a company creates value for its customers.

Business models reflect how a company generates revenues. They also indicate how the company creates value for its customers.

According to an extensive literature review of 216 academic papers published between 1995 and 2016, three interpretations of the meaning and function of 'business models' have emerged from the management literature (Massa *et al.*, 2017, p. 76):

1. business models as attributes of real firms having a direct real impact on business operations
2. business models as cognitive/linguistic schema
3. business models as conceptual representations/descriptions of how an organisation functions.

You will look at each of these in more detail in the following sections.

## 1.1 Business models as attributes of real firms

This first interpretation of the meaning of a business model is focused on explaining how firms do business.

A short definition of a business model is:

*how a company makes money*

(Birkinshaw and Goddard, 2009, p. 81)

Two more structured definitions maintain that:

*A business model [is a] set of activities, as well as the resources and capabilities to perform them—either within the firm, or beyond it through cooperation with partners, suppliers or customers.*

(Zott and Amit, 2010, p. 217)

*[It depicts] the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.*

(Zott and Amit, 2010, p. 219)

### Example 1: Socremo

Socremo is a bank in Mozambique, in south-east Africa. Its business model helps to extend banking services to the low-income population by offering micro-credits. These are designated for starting up micro businesses such as counters and kiosks for sales of home-grown fruit and vegetables, and traditional art.



## 1.2 Business models as cognitive/linguistic schema

Business models are made up of different cognitive schemata, or interconnected concepts. These schemata are concepts that create a shared understanding of how a firm creates value thanks to its activity and its network of partners.

### Example 2: Deliveroo

The concept behind Deliveroo is that its app connects restaurants, potential clients and riders working as intermediaries. In this business model, value is created through the combined activities of the restaurant and the rider who relate to the client by the app platform. The clients benefit from the standardised interaction with the restaurant and so does the restaurant, which receives an order without having to deal with clients directly.



## 1.3 Business models as conceptual representations of how an organisation functions

This view considers business models as formal conceptual representations. The word 'formal' differentiates this view from the view of business models as cognitive/linguistic schema because cognitive and linguistic schemas are not fully formalised. In contrast, in the view of business models as conceptual representations, they can be represented in a formal way (written and/or graphical).

A definition of business models in this view is:

*A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.*

(Osterwalder et al., 2005, p. 10)

A similar definition puts forward the idea of business models made of different components, or blocks:



*the concept refers to the description of the articulation between different [business model components] or 'building blocks' to produce a proposition that can generate value for consumers and thus for the organization.*

(Demil and Lecocq, 2010, p. 227)

Business models' literature is relatively young and there is no agreement on how to formally represent a business model on paper. In this course, however, you will learn about a popular way of representing business models: a business model canvas.



A business model canvas is a tool for visualisation of a business model that helps to make sense of how an organisation creates value. Designing a business model canvas is a creative process that involves strategic decision makers at various levels of an organisation. In this process, the work of strategic teams resembles that of an artist aiming to express their thoughts and ideas on canvas; hence the name business model canvas.

You will explore this tool and how you can apply it in greater detail in Section 4 on designing business models.

## 1.4 Test your knowledge

Now you have considered the three different interpretations of the meaning and function of 'business models', complete Activity 2 to test your knowledge.

### Activity 2 What are business models?

Allow about 5 minutes

Select from the options below the answer that most fully describes what a business model is.

- ☐ Business models may be viewed as attributes of real firms.

This is partially correct.

- ☐ Business models may be represented as cognitive and linguistic schemata.

This is partially correct.

- ☐ A business model of an organisation may be viewed as representations of how it functions.

This is partially correct.

- ☐ All of the above.

This is correct. Business models may be interpreted in different ways. All the three statements are possible interpretations of what a business model may be. Business models may be viewed as attributes of real firms. They may also be represented as

cognitive and linguistic schemata. Finally, they may be viewed as representations of how an organisation functions.

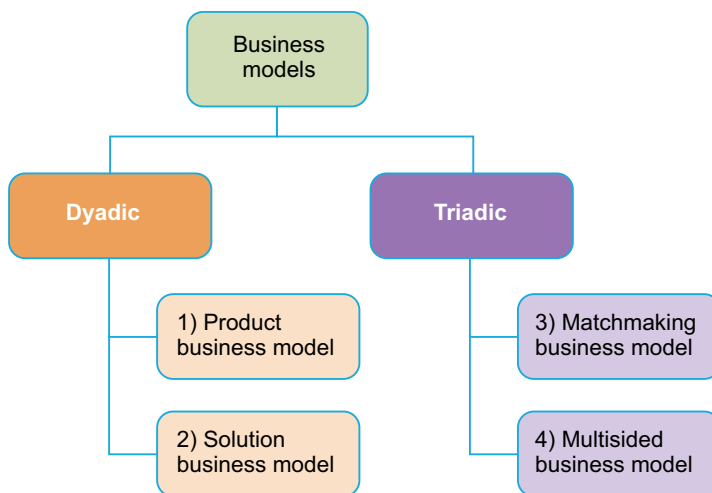
Now you have developed an understanding of what a business model is, you will next consider the different types of business models.

## 2 Types of business models

In order to understand how business models contribute to our understanding of strategy, you will now look at the different types of business models. Several classifications have been proposed. This section looks at the typology of business models proposed by Baden-Fuller *et al.* (2018).

This typology is based on the way value is created and captured. The process of value creation and capture can involve two parties: in this case the business model is called **dyadic**. If it involves three parties, the business model is **triadic**.

The different types are outlined in Figure 1.



**Figure 1** Dyadic and triadic business model types

It is important to note that although the whole idea behind business models comes from for-profit organisations, the same principles are applicable in public and third sectors, since organisations are required to be sustainable in the sense of balancing costs and revenues.

### 2.1 The product business model

This is probably the most common form of business model: selling products or services to clients, intended as final customers but also other businesses.

The rationale behind this business model is that the producer, or the seller, offers a product or service on the market. The value chain requires just a limited interaction after the purchase. The customer benefits of the value of the product are after its purchase: for instance, a customer will use shampoo after they have purchased it from the supermarket. The following animation represents this model.

Interactive content is not available in this format.



**Animation 1** Product business model

Business models of this type need to:

- identify who customers are;
- understand how to create demand for their products/services;
- decide how to capture value: this includes the definition of the unit price and some discounts for quantity.

It could also include the introduction of more articulated mechanisms such as freemium. A combination of the words 'free' and 'premium', a freemium is defined as:

*a type of business model that involves offering customers both complementary and extra-cost services. A company provides simple and basic services for free for the user to try; it also offers more advanced services or additional features at a premium.*

(Segal, 2019)

An example of freemium is Skype. The software can be downloaded at no cost and its basic service is free to use. For example, there is no charge for calling from a computer to another computer. However, in addition to these basic services available for free, Skype offers some premium services customers need to pay for. These services include computer-to-computer calls involving large numbers of users and computer-to-phone calls.

## 2.2 The solution business model

This business model is focused on the creation of a tailored solution for the customer. In comparison to the product business model, the engagement with the customer is much greater. Simple examples are haircutting or make-up services, which are focused on clients' unique needs. Other examples are custom-made and designed furniture and kitchens. Similarly, in B2B (business-to-business) markets, software customisers provide tailored solutions to their clients. An example is WIPRO, a large Indian corporation offering digital, technology and business solutions to other businesses. For instance, it offers artificial intelligence (AI) platforms for business clients, industry platforms for manufacturers of consumer goods and transport platforms for cargo process management of air cargos.

The animation below represents this model.

Interactive content is not available in this format.



**Animation 2** Solution business model

The boundary line between product and solution business models is not clear-cut: there are some cases where the customisation is remarkable although the product is still not fully tailored to the needs of the customers. For instance, mass customisation combines the benefits of the product model with the possibility of offering large numbers of possible combinations. An example of mass customisation is the possibility of buying a laptop of

the same brand and model with different Ram and hard drive sizes, or a car with different options.

Business models of this type are required to:

- identify potential customers
- create a trust relationship with the customer in order to understand customer needs
- tailor the product/service in order to satisfy the needs of the customer
- control the relationship with the customer to enhance its engagement, while other activities, component products and services can be outsourced
- define a price based on the value perceived by the customer. This may differ significantly from the cost, as it happens for strategic consulting where client companies pay quite high prices for a consultant's day in comparison with the relatively lower daily cost of the person employed.

## 2.3 The matchmaking business model

This is the business model of a firm which controls a platform where sellers and buyers of products or services can meet and trade. Typical examples of this business model are Deliveroo and Just Eat, which control platforms where restaurants sell their food to customers and both these parties (restaurants and customers) pay a fee to the platform organiser. Platforms do not only exist online, though: local markets are typically controlled by local authorities which rent spaces to sellers for annual fees. The difference is that buyers at the local market just pay the seller for their purchase and do not directly pay the platform organiser. The same applies with the online market place eBay, which does not charge the buyer for purchasing items or using the platform.

Another interesting example of this type of business model is stock markets: initially they were physical places where stocks were traded in person, while now, almost all exchanges are digitised.

The following animation shows how the matchmaking business model works.

Interactive content is not available in this format.



**Animation 3** Matchmaking business model

Digital technologies have opened vast possibilities and allow more sellers and buyers to access the market: think about how the availability of smartphones and broadband mobile connection gave rise to services like Uber and Lyft, which connect drivers and passengers through online platforms, accessible from smartphone apps.

Having success with this type of business model is difficult and requires fulfilment of several elements:

- identifying what buyers and sellers will trade, such as a service or goods
- facilitating buyers and sellers interacting on the platform, in a way that the offer is available when buyers look for it: for instance, having enough drivers to satisfy

transport demands without leaving many buyers unsatisfied and in search of alternatives

- creating a good level of trust between the buyers and sellers: buyers want to be sure that they will receive what they were promised in terms of quality and delivery time, sellers look for secure payments. PayPal as a payment system is suggested by eBay, its parent company, to assure buyers a quick solution for problems around missed delivery or unsatisfactory quality of purchased items. This is because it offers a series of protections for sellers and buyers such as the possibility of getting refunded if the product does not match the description on the website
- develop charging mechanisms to capture value from transactions: these are typically based on a fee to be paid when a transaction takes place
- directly control the development of the marketplace and engagement of customers on both sides of the marketplace, without outsourcing these two critical activities to third parties.

## 2.4 The multisided business model

In this triadic business model, the firm is a platform organiser and provides different products or services to different groups of customers. The feature of this model is that a group of customers get benefits from the use of the product or service by the other group.

A first group of customers is called consumer beneficiary. They receive a product or service at a price that is below the cost because the difference is paid by a second group of customers, named paying customers. This latter group gain benefit from creating value for the consumption of the first group.

Typical examples of this business model are free newspapers, where the consumer beneficiary receives the newspaper for free, paid by advertisers (paying customers). The two customer groups create complementarities between each other. Facebook also clearly embodies this business model, providing users with free access to a social network and making revenues from advertisers whose offers are targeted to specific groups of customers.

Another example is services provided to customers in exchange for their data, which are of interest to a second group of customers, who use the data to do marketing analyses and research. This is the case for firms that collect credit data from their customers: that data is then used by other paying customers to offer loan services to clients.

The following animation exemplifies the functioning of the model.

Interactive content is not available in this format.



**Animation 4** Multisided business model

Managing this business model means controlling how the two groups of customers receive benefit from the consumption of the other. To be successful in this business model it is important to:



- identify **beneficiaries**—the diverse groups of people or organisations which in some way may be interested in an offered product or service
- identify **products** and **services** beneficiaries may be interested in
- determine how the **consumption** takes place
- produce a **benefit** for beneficiaries.

In Activity 3, you will be introduced to the business model of a non-profit organisation, Shelter. This charity operates in the UK helping homeless people to find support. In the following video, Shelter CEO, Polly Neate, explains how Shelter works.

### Activity 3 Beneficiaries of Shelter

Allow about 25 minutes

#### Part 1

Watch the video and try to identify the different types of beneficiaries interested in the activities of Shelter.

Video content is not available in this format.

**Video 2** Business model of Shelter



While watching the video, you may have noted that Shelter's business model involves diverse beneficiaries including homeless people, public sector, local authorities and donors. Would you think Shelter is a multisided business model? Why? Write down your interpretation of Shelter's business model in the box below.

*Provide your answer...*

## Part 2

Now watch Video 3, in which Professor Baden-Fuller interprets the business model of Shelter.

Video content is not available in this format.

**Video 3** [Discussing Shelter's business model](#)



Does your interpretation agree with what Baden-Fuller has argued? Note down your thoughts in the box below.

*Provide your answer...*

## 2.5 Test your knowledge

In Activity 4 you will learn how to identify different types of business models, understand how they create value for customers and how the firm can capture that value.

### Activity 4 Identifying and reflecting on business models

Allow about 5 minutes.

Drag and drop the correct business model type to the correct firm.

Interactive content is not available in this format.

**Interactive 1** [Business models](#)

Now you have learnt about types of business models, this is the time to consider business models used in e-commerce.

## 3 E-commerce business models

Due to the power of the internet and the rise of the platform economy – where people and organisations use platforms in their economic activity – more and more business models are being designed and developed specifically for the online marketplace.

In Activity 5 you will look at the impact of digital change on Netflix's business model design.

### Activity 5 The impact of digital change on business model design

Allow about 10 minutes.

In Video 4, Professor Baden-Fuller discusses how digital change has influenced business model design, using the example of Netflix. Watch the video and note down the impacts of digital change on business model design.

Video content is not available in this format.

#### Video 4 Digital change influencing business model design



*Provide your answer...*

While watching the video, you may have noted that the flexibility of choice for customers and strategic decision makers is critical to business model design in the digital world. It allows for fast adaptation to the unique preferences of customers. It also allows designing business models that can be amended and easily substituted when strategists need to change the way an organisation generates value.

Activity 5 suggests that, in the digital era, business models of many firms rely on e-commerce activities. Laudon and Traver (2014) suggest that such activities involve being an e-tailer, a community provider, a provider of content and portals, a transaction broker, a

market creator, and/or a service provider. These activities define seven major business models:

- e-tailer
- community provider
- content provider
- portals
- transaction broker
- market creator
- service provider.

You will look at each of these in turn next.

### 3.1 E-tailer

Online retail shops come in different sizes, from the giants Amazon and Alibaba, to small and specialised online shops selling specific products such as parts for furniture, rare music discs, or handcrafted clothes.



The source of revenues is the sale of goods. Strong entry barriers make success very difficult: establishing a successful e-tailer requires building a strong brand and targeting a precise customer that may enable the e-tailer to target the offer to specific needs. Other elements that need careful management are expenses and inventory: they should be kept low to reduce the need for capital.

### 3.2 Community provider

Online platforms where individuals interact for different reasons are not a new phenomenon, but they certainly became well-known with the diffusion of Facebook. Numerous other platforms also exist, including LinkedIn, Twitter and Instagram. Individuals interact because they share interests or friendships, or want to buy and sell goods or services.



The main source of revenue for the provider is advertising on its online platform. In some cases, such as online dating, there may be a subscription fee based on a freemium model where some features are enabled by the payment of a monthly fee. In other cases, such as comparison sites, there could be revenues generated by referrals when a purchase is made upon the suggestions of some advice from the community leading to the affiliate website.

As advertising is fundamental to generating revenues, it is important to keep the interest in the community high. When the community is thematic (e.g. medical advice, technology

assistance), community members require frequent guidance, suggestions and recent news. Given these needs, the breadth and depth of knowledge of the moderators, facilitators or experts of the community enable the possibility of keeping the conversations alive and offering support to members. Skilled personnel who run the community and viral marketing techniques may enhance the possibilities of success.

### 3.3 Content provider

Content providers are distributors of online content, such as news, music, videos, games and artwork, and are important players in the online scene. Digital media (video games, video-on-demand, ePublishing and digital music) is a growing market worth \$129 billion, with a growth projection to 156.8 billion US\$ in 2023 (Statista, 2019). Europe is the third largest digital media market following the US and China, but is the fastest growing. Video games are by far the largest segment of the market.

# NETFLIX

Not all content providers ask for subscription fees: some get money from advertising or from partner promotions on websites and apps.

Content is the critical asset required to have a competitive advantage: publishers, movie studios and video game companies control valuable assets that are difficult to imitate and very expensive to recreate. For example, the control of Marvel by the Walt Disney Company allows for the creation of movies and TV series with heroes of the Marvel Cinematic Universe, such as Captain America, Black Widow, Ironman, Thor and Scarlet Witch, who all also appear in the Avengers movies.



### 3.4 Portals

Initially born as gateways to the Internet, portals like Yahoo and MSN are collectors of different services and content, including news, email, video streaming and calendars. They do not sell directly to customers, but make revenue from advertising, steering users to external websites and charging for some premium services, such as professional email accounts or online storage. First mover advantage enables providers to build a large user base and reduce competition.

### 3.5 Transaction broker

Transaction brokers offer services that customers used to handle personally – going to physical shops, or making calls and sending emails. Some examples are financial services, travel services and job placement services. A typical example is the popular



website [www.booking.com](http://www.booking.com). These brokers charge transaction fees for their services, such as the purchase of commodities or stocks or the conversion between different currencies. By using these online services, customers get the advantage of saving time and accessing lower prices granted by the service provider, who is able to aggregate a large demand without increasing its workforce. Job placement websites such as [www.monster.com](http://www.monster.com) attract jobseekers and employers. Employers pay fees to put their job adverts on the website and are charged a fee when the position is filled. Attracting large number of users create the externality that makes this type of business model successful.

## 3.6 Market creator

Market creators offer platforms for developing transactions and exchanges, enabling buyers and sellers to meet in virtual places. The diffusion of the internet has favoured the separation of markets from physical spaces. Typical examples are eBay and Etsy.



Market creators make money by charging a fee for each transaction on their platform, or asking merchants to pay a fee to access the marketplace. Having the financial resources and the marketing capabilities to create an extensive base of users grants the success of this business model.

## 3.7 Service provider

While e-tailers trade goods, service providers offer services online. A typical example is online document backup and sharing services such as Dropbox, OneDrive or GoogleDocs, of which the latter also integrates several editing features.



As they are web-based, service providers cannot offer certain types of services, such as dentistry or car repairs, but they can offer comparisons and make arrangements. They can even provide grocery services.

Success in this type of business model is based on the marketing capability to build trust and communicate reliability to potential customers.

## 3.8 Test your knowledge

Based on what you have learned in Section 3, complete Activity 6.

### Activity 6 Ebay's business model

Allow about 5 minutes

Consider e-Bay, an American company that provides a virtual space where buyers and sellers can meet. What is its business model?

- ☐ E-tailer
- ☐ Market creator
- ☐ Service provider
- ☐ Portal

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#### Discussion

The correct answer is: market creator.

Market creators offer platforms for developing transactions and exchanges, enabling buyers and sellers to meet in virtual places. E-Bay is the company that offers a virtual space (virtual market) where buyers and sellers can meet and develop their transactions and exchanges.

If you answered incorrectly revise the section on e-commerce business models.

Now you have learnt about the different types of business models, as well as business models which are used in e-commerce. Next you'll learn how to design business models.

## 4 Designing business models

Now that you have developed an understanding of what a business model is and can identify the main types, you will explore how business models can be designed using a framework to approach their development.



In the sections that follow you will look at how the nine building blocks of the business model canvas are presented, starting with the definition of customer needs and value proposition.

### 4.1 Business model canvas

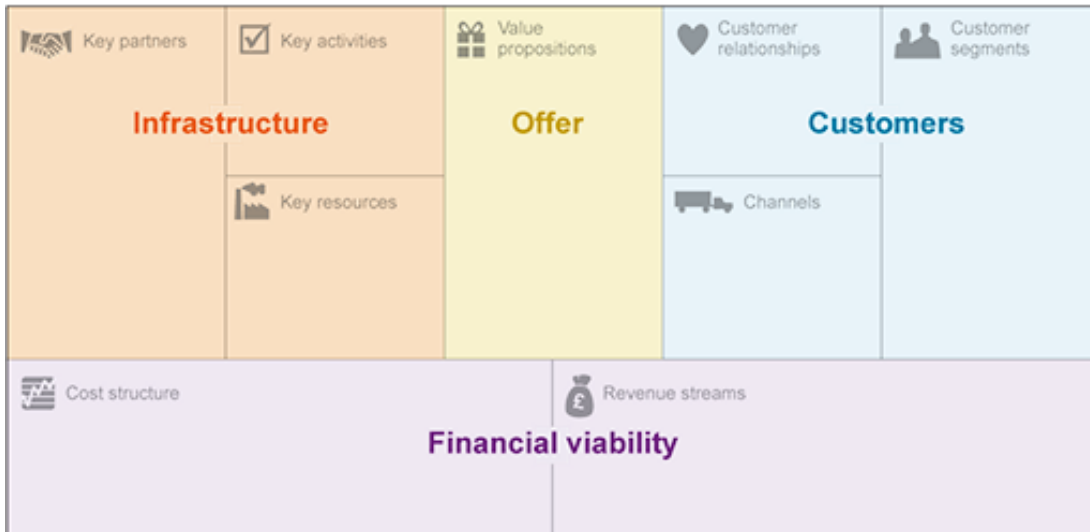
‘How can we systematically invent, design, and implement these powerful new business models? How can we question, challenge, and transform old, outmoded ones?’

(Osterwalder et al., 2010, p. 5)

The author answers this question by offering a business model canvas—a tool for visualising the design of business models. It helps to detect outmoded elements in business models and to transform old models into new ones.

A business model canvas comprises nine building blocks that cover four main areas of a firm: offer (value proposition), customers, infrastructure, and financial viability (as shown in Figure 2).

### The Business Model Canvas



**Figure 2** The nine building blocks and the four areas of a business model canvas

#### 4.1.1 Offer (value proposition) area

The offer, or value proposition, is embedded in the business model canvas and explains how value is created for the customer. The value proposition is shown in the value propositions block of the business model canvas. The value propositions block is also known as the value map and shows how the business model creates value for the customer. The components of the value map (or value propositions) are:

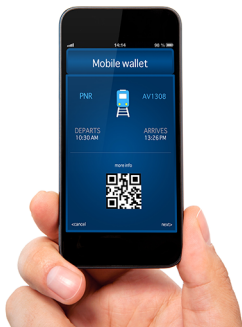
- **Products and services:** these are what the organisation offers. They help customers in completing their customer jobs, satisfying their needs and creating value for customers. Products and services can range from physical assets, such as clothes, to online services such as music streaming. The value proposition typically combines more than one product or service, such as the possibility of buying a fridge online and the delivery and installation service.



- **Pain relievers:** these describe how products and services reduce customers pains, or problems. It is unlikely that all customers' problems could be solved, but the most relevant could be addressed by the value proposition. For instance, the possibility of having medicines delivered at home may be a useful service for people with mobility problems. During the coronavirus pandemic in 2020, this service became an important pain reliever for customers who, being at a higher risk of fatal outcomes in case of contracting the Covid-19 virus, were advised to shield (stay home) and could not travel to pharmacies.



- **Gain creators:** these describe how the products and services provided can create benefits for the customers. Again, it is not possible to address all customer gains with gain creators, but the value proposition can tap into the most relevant gains. An example of a gain creator is buying train tickets with a possibility of having their e-versions sent to the buyer's email address and a possibility of downloading them onto a smartphone. In this case, a customer gains by having easy access to a ticket via email or on the phone in case its hard copy is lost. For those travelling for business purposes, this service has an additional benefit: a speedy recording of the ticket purchase in the business' accounting system.



These last two components of the value map are useful for representing the value creation for the customer. Pain relievers and gain creators can be designed in order to reduce customer pains and provide customer gains, respectively. To evaluate the fit of the value proposition with customer needs, two questions should be asked:

1. Is the value proposition providing essential customer gains?
2. Is the value proposition reducing extreme customer pains?

### Activity 7 Identifying and reflecting on the value proposition of Starling Bank

Allow about 20 minutes.

Watch Video 5 and make notes on the value proposition of Starling Bank (value map) before comparing your answer to the response given in the Discussion below. You should focus your response on the following key elements of the value map of Starling Bank:

1. Products and services
2. Pain relievers
3. Gain creators.

Video content is not available in this format.

**Video 5** The value proposition of Starling Bank



*Provide your answer...*

#### Discussion

##### 1. Products and services

Starling bank offers its customers a bank app and a possibility for performing all their transactions online. This application is both a pain reliever and a gain creator of the bank's business model.

##### 2. Pain reliever

The bank's customers are typically not sure how much money they have in their current account. Therefore, in the design of its value proposition, Starling Bank has offered a solution to this problem by making it possible for the customers to use the app for full control of, and direct access to, their account. The app allows seeing the immediate balance change after each transaction; hence the availability of the information on how much money has been spent and remains in the current account. The customers can also receive notifications about their expenses immediately.

##### 3. Gain creator

Customers want to save time by accessing their bank accounts from mobile devices. Starling Bank has created a simple bank account accessible from a smartphone application. The banking app proposed by Starling is designed to be accessible for all people. It also enables people to get full control of how their money is spent.



It is impossible to think about a value proposition without considering the customers it is designed for. Therefore, the next section will focus on the customer.

### 4.1.2 Customers area

Customers are shown in the customer area of the business model canvas. The customers area has three components: customer segments, customer relationships and channels. It is located in the right-hand corner of the business model canvas shown in Figure 3.



**Figure 3** The customers area of the Business Model Canvas

## Customer segments

A customer segment is a group of customers having common characteristics (e.g. age, gender, location, lifestyle and interests). For instance, an organisation may choose to serve millennials as its customer segment.

A millennial is a person born between 1981 and 1996. Millennials rely on digital technologies, prefer personalisation in customer relationships, and expect to be attended via multiple customer channels (Davies, 2016).

## Customer relationships

Customer relationships portray the type of relationship established with each customer segment. Osterwalder *et al.* (2010, p. 29) distinguish six types of customer relationships:

- **Personal assistance**

A representative is accessible to the customer in person or through a media (e.g. by phone, online). The representative supports the customer during the process.



- **Dedicated personal assistance**

The customer has a dedicated assistant, which is the typical situation of some wealth management services which provide a key account manager for the customer, or in

some law firms where corporate clients refer to a lawyer who represents the law firm and is responsible for serving the client.



- **Self-service**

There is no direct relationship between the company and its customer, so customers help themselves in the purchase. An example would be the use of vending machines.



- **Automated services**

This mode of service combines self-service with customisation based on automatic profiling of the customer, who will then receive personalised information. In doing so, it tries to personalise the relationship with the customer. An example is the ordering process on Amazon, which profiles the customer's product preferences and uses this information to propose complementary products. Similarly, Netflix records the preference of customers for particular genres (e.g. adventure, drama, sci-fi) and automatically proposes new movies and series that match with customer preferences.



- **Communities**

Communities of customers can serve the purpose of exchanging knowledge among other clients or potential customers, answer questions and solve problems. They are also important for collecting valuable information on products and services. It is the typical situation of software development, where communities develop around a specific software.



- **Co-creation**

Some services are co-created by customers. This means that customers participate in the design, development and/or production of a product or a service. This is what happens with YouTube, whose videos are uploaded by users of the popular platform. Similarly, TripAdvisor's reviews are created by users.



### Activity 8 Customer relations quiz

Allow about 5 minutes.

Co-creation is:

- ☐ when an organisation chooses to design, develop, and produce a product or a service together with customers

Congratulations. This is the correct answer. Co-creation is when customers participate in the design, development and/or production of a product or a service.

- ☐ when customers produce and sell a product independently

This is incorrect. Revise the section on customer relations.

- ☐ when several companies produce a product or a service together

This is incorrect. Revise the section on customer relations.

- ☐ when an organisation chooses not to involve customers

This is incorrect. Revise the section on customer relations.

True or false. Communities of customers can serve the purpose of exchanging knowledge among other clients or potential customers, answer questions and solve problems.

- ☐ True

Correct. Communities of customers can serve the purpose of exchanging knowledge among other clients or potential customers, answer questions and solve problems. They are also important for collecting valuable information on products and services. It is the typical situation of software development, where communities develop around a specific software.

- ☐ False

This is incorrect. Revise the section on customer relations.





## Channels

Channels are interfaces between the company and its customers. A channel combines activities, people and organisations to deliver a product or a service to customers.

This building block of the canvas tries to answer the question: How do businesses reach customers? Osterwalder *et al.* (2010, p. 27) defines five types of channels shown in Table 1. The channels may be combined.

**Table 1 The five types of channels**

Control of the channel	Type of channel	Channel	Examples
Own	Direct	Sales force	Some fashion houses have a factory outlet near their production facilities or in large commercial areas to sell directly to customers at discounted prices.
			
Web sales	Direct	Line	Direct Line sells its insurance policies online through its website.
			
Indirect	Own stores	Sale force	H&M sells clothes in its shops, providing customers with a basic assistance by its sale force.



Partner

Partner stores

In some Hilton Hotels customers can find fast food and other partner stores.



The same happens for online, with the partnership between e-tailers and fashion brands, such as the partnership between Alibaba and Valentino (see [this article for more information](#)).

Wholesaler

Car manufacturers sell cars to dealers that work as their wholesalers.



(Adapted from Osterwalder *et al.*, 2010, p. 27)

### Activity 9 Channels quiz

Allow about 5 minutes

True or false. An organisation must always opt for one channel.

- ☐ True

This is incorrect. Revise the material about channels.

- ☐ False

Congratulations. This is the correct answer. An organisation can use different channels in combination.

True or false. Sales force, web sales and own stores are examples of partner channels.

- ☐ True

This is incorrect. Revise the material about channels.

- ☐ False

Congratulations. This is the correct answer. Sales force, web sales and own stores are examples of own channels.

Now you have looked into customer area of the business model canvas you will move onto the next area— the infrastructure area.

### 4.1.3 Infrastructure area

The infrastructure area is shown in Figure 4.





**Figure 4** The infrastructure area of the Business Model Canvas

The infrastructure area focuses on three elements needed to deliver the value proposition: resources and capabilities, core activities, and key partners.

- **Resources and capabilities**

The resources are assets an organisation can use in its activities. These may include buildings, financial, human resources, customer bases, and partner networks. A capability is an organisation's ability to use resources. Examples include a capability to develop and maintain partner networks, and a capability of managing customers and their experiences. For instance, the business model infrastructure of a British Media and Telecommunications Conglomerate, Sky Group Limited, benefits from its customer management capability. Today the company has more than 24 million customers, which it manages by researching their preferences, offering subscriptions and developing new products such as Sky TV bundles (e.g. Sky TV and Netflix, Big Screen at Home, Family Fun and Film, and Build Your Own Bundle).



- **Core activities**

The core activities are key activities performed by the organisation to make the business model work. They depend strictly on the type of business model offered by the organisation. If it is a product business model, some production or operational activities would take place in order to deliver a product or a service. In the case of matchmaking or multi-sided business models, activities are concentrated on running a platform, promoting its diffusion and providing customer service and support to clients. For instance, the core activity in Airbnb, an internet based service offering short-term home rentals, is running a platform linking lodgers and guests.



- **Key partners**

Key partners are fundamental for every business model. Which activities are delivered by partners? This is a fundamental question that this building block tries to answer. For instance, partners can help in reaching customers through particular



indirect channels: this is the case of wholesalers of kitchen appliances who create promotional offers to local customers according to their knowledge of the market.

Another question that this building block aims to answer is: which resources are provided by our supply partners? This means, for instance, understanding what suppliers are able to mobilise: some retailers work with logistics providers to deliver their products to customers. These providers may control a fleet of vehicles and also warehouse facilities.

Finally, there is a question as to who delivers our products and/or services to customers? For example, retailers can select the logistics providers most suitable for their purpose: for instance, they may employ flight couriers for urgent deliveries. Also, they may partner with a national courier service for national deliveries. For instance, the infrastructure of the UK-wide online sales of Waterstones, a British book sales chain, relies on its partnership with Royal Mail, a British postal service and courier company.



### Activity 10 Infrastructure quiz

Allow about 5 minutes

Select from the options below the answer that most accurately completes the sentence: The infrastructure area of a business model canvas includes:

- ☐ Resources and capabilities

This is partially correct, however, resources and capabilities are not the only element in the infrastructure area.

- ☐ Core activities

This is partially correct, however, core activities are not the only element in the infrastructure area.

- ☐ Key partners

This is partially correct, however, key partners are not the only element in the infrastructure area.

- ☐ All of the above

Congratulations. This is the correct answer. Indeed, resources and capabilities, core activities and key partners are the three elements in the infrastructure area.

Select from the options below the answer that most accurately completes the sentence: Key partners may be:

- ☐ Supply partners

This is partially correct, however, supply partners are not the only type of partners an organisation may consider.

- ☐ Delivery partners

This is partially correct, however, delivery partners are not the only type of partners an organisation may consider.

- Design partners

This is partially correct, however, design partners are not the only type of partners an organisation may consider.

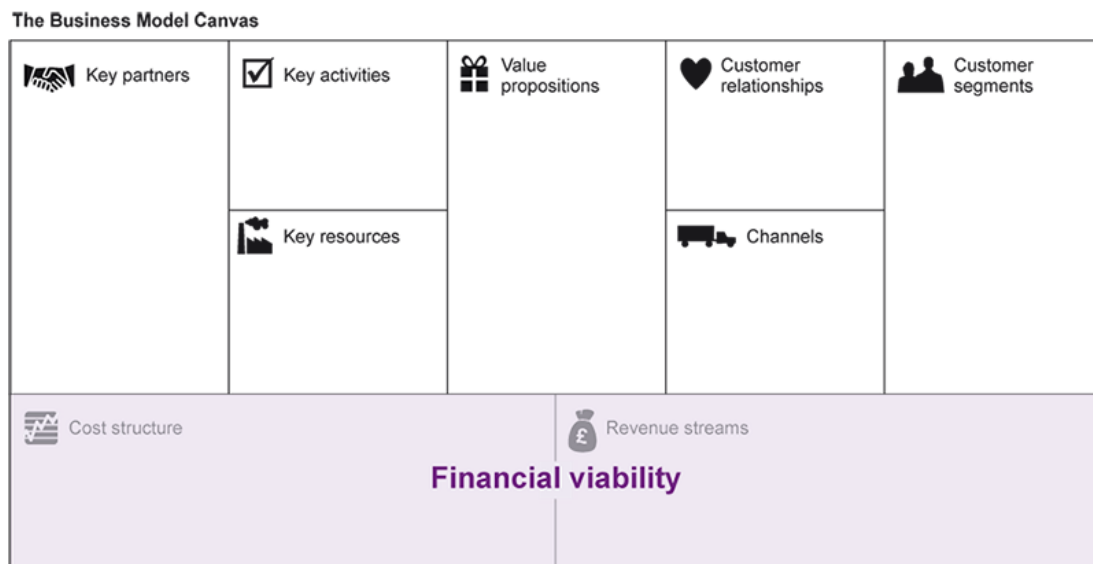
- All of the above

Congratulations. This is the correct answer. An organisation may consider partners for supply, delivery and design of a product or a service.

Now you have learned about Area 3 of the business model canvas, infrastructure, you will move on to look at the final area—the financial viability.

#### 4.1.4 Financial viability area

The financial viability area is located in the lower part of the business model canvas (see Figure 5). It focuses on the money a value proposition costs versus what it generates as a revenue. Therefore, the financial viability is composed of two elements: revenue streams and cost structure.



**Figure 5** The financial viability area of the Business Model Canvas

- **Revenue streams**

The revenue streams are revenues that the business model generates. The key question at issue here is: 'What value are customers willing to pay for?' (Osterwalder *et al.*, 2010, p. 31). In the business models of fast couriers such as DHL, a German multinational delivery service provider, and FedEx, an American multinational delivery services company, the revenue streams rely on the customers' willingness to pay more for speedy deliveries.



It is also important to clarify how revenues are collected or, in other words, how customers pay. The two possibilities are shown in Figure 6.

Pricing mechanisms			
Fixed menu pricing		Dynamic pricing	
Predefined prices are based on static variable		Prices change based on market conditions	
List price	Fixed prices for individual products, services, or other value propositions	Negotiation (bargaining)	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature or dependent	Price depends on the number or quality of value proposition features	Yield management	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent	Price depends on the type and characteristic of a customer segment	Real-time-market	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quantity purchased	Auctions	Price determined by outcome of competitive bidding

**Figure 6** Pricing mechanisms

- **Cost structure**

Cost structure identifies the costs underlying the business model. A business model involves using resources. Each resource has its own cost. Therefore, the key question to be considered here is: 'What costs are generated by the resources employed?'

Also, a business model involves a series of activities an organisation needs to perform to generate value. Therefore, an additional important question here is 'What are the costs associated with the activities of the business model?' For instance, some customers see value in greener solutions with carbon neutral deliveries; yet, it is costly to develop such offers. Usually more innovative, they require additional investments of time, attention and money to develop. Also, they do not always reflect the conventional meaning of efficiency measured in financial terms. This may be the case of green solutions. Yet, despite their higher costs, green value propositions are at the core of business models in many companies. For example, DPD, the largest parcel delivery company in Europe, offers carbon-free bicycle deliveries to customers interested in, and ready to wait and pay more for, green solutions.



Now you have considered all the different areas of the business model canvas, you will consider your own business model canvas.

## 4.2 Putting knowledge into practice

Now you have learnt about the key building blocks of a business model canvas, this is the time to consider building your own business model canvas by using an example of Starling Bank.

### Activity 11 Building a business model canvas: an example of Starling Bank

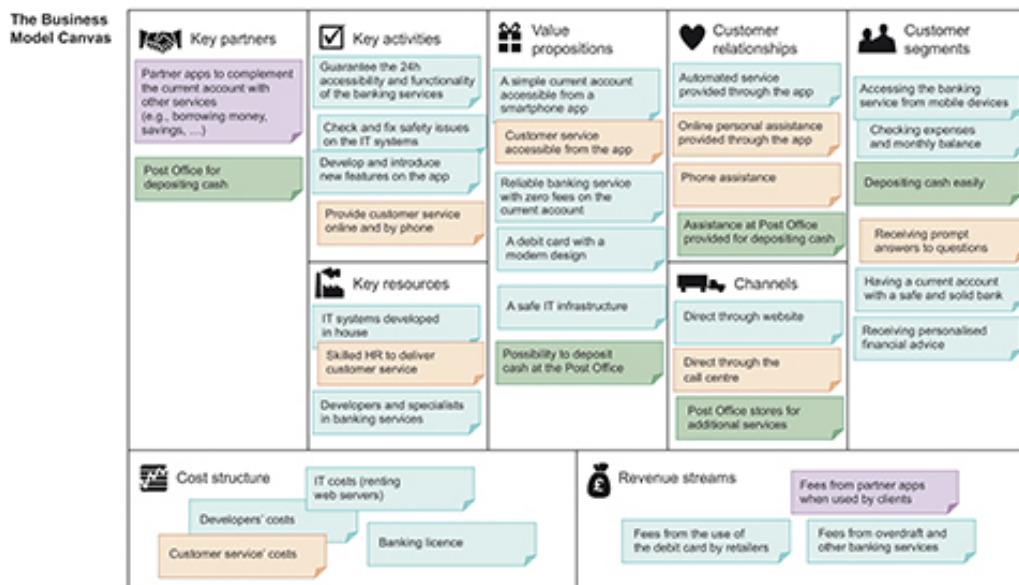
Allow about 25 minutes.

The business model canvas of Starling Bank is rather complex. In representing it, the focus here is primarily on the business model for retail customers. The following video shows how to develop a business model canvas.

Watch Video 6 and consider two possible ways of developing a business model canvas. Write your ideas in the box below. Save your notes and compare your ideas with those in the discussion box.

Video content is not available in this format.

#### Video 6 The business model canvas



Provide your answer...

#### Discussion

It is possible to prepare a business model canvas in two ways. The first is by filling a block at a time and moving to the next one. This is how it is done during the first part of the video. The advantage of this approach is that the different aspects of a block are considered all together, avoiding inconsistencies among them. The second way is by working on a single aspect across all the blocks. In this way it is possible to check for consistency across the different blocks.

As you have noticed from the video and the discussion, it is important to balance all the building blocks in the business model canvas. Therefore, any information introduced in one block will affect what happens in other blocks of the canvas.

## 5 Using business models in your life

So far in this course, business models have been referred to in the context of organisations where they are used more frequently. However, business models can have a wider range of applications. Therefore, you do not need to be a business owner or a strategic manager in an organisation to start using business models. Instead, business models may be useful for one's strategic planning not only in the context of organisations, but also in a variety of other contexts. For instance, you can choose to apply a business model concept to your personal development to consider how your personal development activities add value to your life and career growth. To this end, the business model conceptualisation may be of interest to various users including ballet dancers and composers considering a new repertoire needed to take their performance to the next level, artists willing to promote and sell their work, book writers willing to publish a new book or book series, freelance journalists willing to tap a new area and bloggers willing to expand the number of subscriptions on their pages.



**Figure 7** Personal growth

For this reason, this final section of the course will look at how you could apply business models in your personal and professional development.

### 5.1 Business models for professional development

The idea of using business models for professional development comes from Clark *et al.* (2012). The authors suggested that business models may be used to re-invent careers and take them to a new level. In this new application of business models, the business model canvas remains a valuable way to visualise one's ideas. The new business model canvas is shown Figure 8.



**Figure 8** A business model canvas for professional development

The business model canvas has the same nine building blocks which are integrated into four areas: offer area, infrastructure area, customer area and financial viability area. However, unlike the business model canvas used for strategic planning in organisations, the business model canvas for professional development asks questions related to its designer's career strategy. You will now explore these questions in greater detail.

### 5.1.1 How do you help? *Value proposition*

Another way to think about this question is by considering the value you add. Perhaps, your value comes from the ability to solve a problem for your employer or for customers you work with or plan to target. Alternatively, you may be valuable because you help your employer to achieve important goals, or you do something that contributes to your society. For example, while thinking of what her future baking enterprise, [Miss Macaroon](#), could offer in Birmingham (UK), Rosie Ginday MBE dreamt of something more than baking and selling macaroons. Her dream was to help young people gain skills needed to change their lives.





### Activity 12 Your value proposition

Allow about 15 minutes.

Think about your answer to the question 'How do you help?' and make notes in the box below. Perhaps, your answer includes such phrases as 'In each project of our team, I innovate by bringing in new ideas that no one has suggested before and that have been successfully implemented', 'I have a new book that will demonstrate easy approaches to learning mathematics fast' or 'I have a proposal how to serve customers faster without investing into this change'.

Provide your answer...

### 5.1.2 What do you do? *Core activities*

The next question you need to ask yourself is 'What do I do?' While answering this question, you should think about activities that determine your work. For instance, is your focus on teaching, researching, designing, coaching, or managing? It is also possible that you might be thinking of moving from one core activity to another. For example, if you have been doing sports professionally, then you might move on to a coaching career.



### Activity 13 Your core activities

Allow around 15 minutes

Think about your answer to the question 'What do you do?' and make notes in the box below. It is possible that your answer will include phrases such as 'I teach', 'I consult', and 'I perform'.

Provide your answer...

### 5.1.3 Who are you and what do you have? *Resources*

So far in this section you have defined how you add value and what you do in your professional development business model. This is now the time to consider your resources. What do you have? For instance, what are your skills, capabilities, talents, and knowledge that help you to perform your core activities and achieve your goals?

In the post-pandemic era, a new normal has emerged where some skills may become more important. Jones (2020) suggests that to succeed professionally one will need to develop five essential skills:

1. be able to adapt to the changing world



2. be creative by bringing in new ideas
3. be emotionally intelligent (ability to make sense of emotions, feelings and thoughts of other people)
4. be technologically savvy to be able to use diverse digital products, software and platforms
5. be able to stand out in the digital space.



### Activity 14 Your resources

Allow around 15 minutes

Think about your answer to the question 'What do you have?' and make notes in the box below. It is possible that your answer will include phrases such as 'I have superior quantitative skills', 'I am good at networking' and 'I have a capability of multi-tasking'.

*Provide your answer...*

#### 5.1.4 Who helps you? *Partners*

Your work affects your life and the people you live with and interact with professionally. It is important to consider the role of these people in your career and professional development. How can they help you to implement what you have defined as an offer in your answer to the 'How do you help?' question? For example, while thinking about who helps you, you may consider members of your family, your friends and acquaintances, and some of your colleagues. These may be your superiors or mentors who like your approach and are willing to support you.



### Activity 15 Your partners

Allow around 15 minutes

Think about your answer to the question 'Who helps you?' and make notes in the box below. You may include someone from your family, a close friend, someone who is interested in mentoring you, or it may be your colleague or co-author.

Provide your answer...

### 5.1.5 Who do you help? *Customers*

This question focuses on the individuals and organisations who could benefit from your offer. For example, a blogger may think about the audience their blogging activity may help. Likewise, a freelance journalist may think about the magazines, media groups and audiences their publication(s) contribute to, or a freelance tutor in mathematics may consider the different types of students – such as beginners and advanced learners – who they can help.



#### Activity 16 Your customers

Allow around 15 minutes

Think about your answer to the question 'Who do you help?' and make notes in the box below. While answering this question, think about it in relation to your answer to the first question '[How do you help?](#)' (Activity 12). In other words, who will benefit from your offer? It is possible that your list includes various groups, organisations and audiences who are most likely to benefit from your offer.

For instance, if you are a book author, you may want to consider the specific type of reader who will benefit from your book. If your offer is an academic book that makes an introduction to a particular discipline, then your readers may be students studying this discipline for the first time or teaching staff delivering lecturers and tutorials in this discipline. However, if your offer is historical fiction, then you may consider choosing your readers from a spectrum ranging from those prioritising an engaging plot to those interested in a deep understanding of the historical context.

Provide your answer...

### 5.1.6 How do you interact? *Customer relations*

This question refers to the relationships you have with those you help and your answer will depend on your answer to the question '[Who do you help?](#)'.

Having answered the question 'Who do you help?', you have identified your customers. Now is the time to think about how you communicate with these people, groups and organisations. Such communications may be online or in a face-to-face format. You need to consider what type of communication works better with those you help. Since the end of 2000s and especially in the post-pandemic era, online communications have become even more important. Nowadays, it is hard to imagine that some relations may rely on

face-to-face communications exclusively. Instead, the two communications are often used in a complementary manner, with one supporting the other. For example, a professional freelance psychologist may run a blog on a range of themes around mental wellness and personal development, with most communications, such as videos for its audience, brief publications and one-to-one sessions, being online. However, they may consider having some events in a face-to-face format. These may be events aiming to promote their services in nearby areas and could be provided at no cost to the audience.



### Activity 17 Your customer relations

Allow around 15 minutes

Think about your answer to the question ‘How do you interact?’ and make notes in the box below. While answering this question, think about it in relation to your answer to the question ‘[Who do you help?](#)’ (Activity 16). For example, you may want to [communicate with some of those you help online, or there may be those who would prefer to interact with you in a face-to-face format.](#)

The online versus face-to-face classification is simple and you may move one step further in thinking about specific nuances of your communications. For example, what type of online communications do you use or intend to use? Will they be synchronous – when communications occur in a real time regime – suggesting the simultaneous engagement of the participants? Possible examples of synchronous communication include live streaming, phone interviews, video conferencing, instant messaging, and virtual 1-to-1 or group meetings. Or will they be asynchronous, when those communicating do not interact simultaneously? These may take the form of email correspondence, SMS messaging, and pre-recorded videos and audios.

*Provide your answer...*

#### 5.1.7 What do they think of you? *Channels*

Now you have thought about who you help and how you interact with them, it is the time to consider what your customers think of you. In the light of your professional development, this question is related to your professional reputation in the eyes of those you help. For example, which professional membership organisations or networks do you belong to? A writer of children’s books may strengthen their profile by joining the Society of Children’s Book Writers and Illustrators, an international non-profit organisation whose mission is ‘to support the creation and availability of quality children’s books in every region of the world’ (SBCWI, no date). They may also develop a LinkedIn profile. Likewise, someone aiming to advance their career in figure skating and take part in national competitions in the UK will need to become a member at the British Ice Skating, the UK National Governing Body for the sport of Ice Skating in all its forms.



Another aspect to consider with this question is your visibility. For instance, where can your customers find you, see information about your successes and plans, and get in touch with you? You may have your own internet page or blog. You may rely on word-of-mouth communications by interacting with those who can help spread the word about the quality of work you do. In this case, your existing customers may recommend you to someone or send a link from your page to their networks on social media sites, such as Facebook, Twitter and Instagram. Alternatively, you may post a message about your product or service on a public notice board in a membership organisation.

### Activity 18 Your channels

Allow around 15 minutes

Think about your answer to the question 'What do they [your customers] think of you?' and make notes in the box below. While answering this question, think about it in relation to your answers to the questions '[Who do you help?](#)' and '[How do you interact?](#)'. As there are multiple channels, such as internet pages, blogs, word-of-mouth communications, networks, social media sites such as Facebook, Twitter and Instagram, and public notice boards in membership organisations, you should focus on those which you think may be more important to your success and will attract the customers you are interested in.

Provide your answer...

## 5.1.8 What do you have? *Sources of income*

The question 'What do you have?' is tagged to 'Sources of income' in the business model canvas. However, this does not mean that answers relating to income are the only possible response to this question. You may not necessarily be interested in income only. You may want to consider nonmonetary benefits too, such as professional reputation and recognition. Also, you may not be able to generate income at each stage of your professional development straight away, but what you do now may enhance your professional reputation and may help you to generate income in the long term. In other words, some of your current activities may not necessarily be a source of income at the moment, but they may bring in some non-monetary benefits (e.g. recognition, fame, reputation, and influence) that could be sources of future income.

For example, a graduate in charity management, social studies, zoology or medicine may apply for a volunteering post at [www.adzuna.co.uk](http://www.adzuna.co.uk) or [www.freevolunteering.net](http://www.freevolunteering.net) to gain some initial experience needed for a future paid job. In this case, the volunteering job will not bring any income (although there is a possibility that expenses directly incurred with the volunteering activity will be reimbursed). In the short-term, this job may not be considered as a source of income, however it may bring in some valuable experience

needed to get a future well-paid job where such experience will be required. Likewise, to enhance their reputation, a young developer may want to contribute as a volunteer to an open source product such as [www.ubuntu.com](http://www.ubuntu.com) available to users for free.



### Activity 19 Your sources of income

Allow around 15 minutes

Think about your answer to the question ‘What do you have?’ and make notes in the box below. While answering this question, consider not only income but also nonmonetary benefits that will generate income in the long run.

*Provide your answer...*

#### 5.1.9 What do you give? *Cost structure*

This is the final building block and involves you thinking about all the expenses related to your offer. Again, like in the question ‘What do you have?’, the answer to the question ‘What do you give?’ may be given in both monetary and nonmonetary terms. In other words, your expenses may also be measured in terms of time, energy, reputation damage in case of failure, risk to health and disrupted work–life balance (e.g. lack of attention to your family, friends, and hobbies).



### Activity 20 Your cost structure

Allow around 15 minutes

Think about your answer to the question 'What do you give?' and make notes in the box below. While answering this question, think about your expenses in both monetary and nonmonetary terms. This will reveal a better picture of what you give while producing your offer. You may mention time, attention and stress, or you could include some financial expenses that are not immediately evident. For instance, your offer may require you to adopt a regime which is more costly. Specifically, to pursue your dream in a large city, you may have to get up and commute at earlier hours when public transport is not available and there is the need to use more expensive private hire vehicles. This may involve eating out which is also more expensive. Staying extra hours at work implies paying extra sitter costs for those with parental and caring responsibilities.

*Provide your answer...*

## 5.2 Putting knowledge into practice

In the last nine activities (Activities 12 to 20), you focused on the building blocks of your business model canvas and answered questions that could help you to advance your professional development and career growth. The next step is to consider possible links between your answers to the different questions posed to you on your career strategy.



## Activity 21 Your business model canvas

Allow around 15 minutes

Review your answers to Activities 12 to 20 and amend any that you think need changing when considering the possible links between them. You may add, remove, or change your answers in your business model canvas. Then include your finalised answers in the blank business model canvas in the link below.

Your value proposition

*Display of content entered previously*

Your core activities

*Display of content entered previously*

Your resources

*Display of content entered previously*

Your partners

*Display of content entered previously*

Your customers

*Display of content entered previously*

Your customer relations

*Display of content entered previously*

Your channels

*Display of content entered previously*

Your sources of income

*Display of content entered previously*

Your cost structure

*Display of content entered previously*

[Blank business model canvas](#)

You can now use the completed business model canvas to visualise your professional growth. Keep it at hand to plan steps needed to achieve your professional goal and to monitor areas you need to improve in. Perhaps, you need to strengthen your relationships with partners to attain your professional objectives. It is also possible that you will need to revise your channels to become more visible to those you help.



## Conclusion

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You have now reached the end of this course. The focus has been on one of the key elements of strategy—business models. By this time, you have learnt what business models are and how to distinguish among their different types. You have also learnt how to build a business model by using a business model canvas tool.

The key idea to take away from this course is that strategy is not limited to the business context. Neither is it limited to only organisations. Rather it may have wider applications in our lives, and, for this reason, the course showed how to apply business models beyond organisations, for example for strategic planning of your professional development and career.

In the final part of this course, you developed your personal business model canvas to advance your professional goal. Congratulations on this achievement! We hope that you have found this experience enjoyable and useful for what you do professionally. You may wish to revisit this course at a later time to re-engage with your favourite themes and experiment with building business models for your new projects.

This OpenLearn course is an adapted extract from the Open University course [B302 Strategic management](#).

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