

Book Review

Business Model Generation: A handbook for visionaries, game changers and challengers

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INTRODUCTION

The book entitled “Business Model Generation: A Handbook for visionaries, game changers and challengers” though written by Osterwalder and Pigneur (2010) was also co-created by 470 practitioners from 45 countries. The book is thus a good example of how a global creative collaboration effort can contribute positively to the business and management literature and subsequently to the advancement of society (Alam and Hoque, 2010; Alam et al., 2010a, b).

Consisting of five main chapters (Canvas, Patterns, Design, Strategy and Process) and two additional chapters Outlook and Afterword, “Business Model Generation” should be read by those motivated to “defy outmoded business models and design tomorrow’s enterprises” (front cover). The objectives of the five main chapters in the book are as follows:

- To present the Business Model Canvas – a tool which can be used to describe, analyze and design business models.
- To present leading business thinkers’ concepts in the form of Business Model Patterns.
- To present techniques to aid readers design business models.
- To show how business modeling is central to the discussion of strategy
- To present a generic process, taking advantage of the material described above and which is applicable to innovative process model design.

“Business Model Generation” presents itself as a useful review of the literature (Kalula, 2010) on business models and still (in Outlook) presents topics for future exploration. Lastly, Afterword shows how the book was a co-creation effort thus enabling future authors to follow their example in producing an innovative book relevant to academics and practitioners alike, around the globe.

Before proceeding to do an in-depth review of “Business Model Generation” we shall first have a look at other publications by the authors (Osterwalder, 2004; Osterwalder and Pigneur, 2002; Osterwalder et al., 2005; and Fritscher and Pigneur, 2010) which led up to this book.

A review of Osterwalder and Pigneur’s work leading up to the book “Business Model Generation”

Osterwalder, the first author of the book “Business Model Generation” we are reviewing, attained the degree of Doctor of Management Information Processing at the Universite de Lausanne – Ecole des Hautes Etudes Commerciales, in 2004, under the supervision of Pigneur (co-author), a Professor in the Information Systems Department. As a research assistant, under Professor Pigneur, Osterwalder “taught and conducted research on business models” (Osterwalder, 2004, p.1) which is where he admittedly rediscovered his interest in developing countries, initially developed during his undergraduate degree in political science. The title of the PhD thesis is “The business model ontology: A proposition in a

design science approach". Osterwalder's higher education was all undertaken at the Universite de Lausanne, a notable institution located in the most competitive nation worldwide (World Economic Forum, 2010) – Switzerland – which continues its global leadership into 2010-2011 from the 2009-2010 rankings.

Revealing himself to be concerned with social issues, Osterwalder dedicated his doctoral thesis "To all those people out there fighting poverty in the world" and we see that this general objective is a main aim of the current volume being reviewed in so far as there is a concern for the "entrepreneurial spirit", for creating value and new businesses, in sum for improvement and transformation, a search for "innovative ways of doing business to replace old, outdated ones".

Entrepreneurship (namely upstarts that challenge the "old guard") and business model innovation (Lee and Yu, 2010) are seen to be major drivers of economic growth and well-being, as Osterwalder and Pigneur state in "Business Model Generation". In order to communicate their message "Business Model Generation" is not a "typical strategy or management book", indeed we believe that this should be the objective of current and future academic efforts as other efforts to eradicate poverty from the world have failed to date, and we need to rethink development and sustainability (Oloruntegbe, 2010). "Business Model Generation" conveys "the essentials of what you need to know, quickly, simply, and in a visual format" as other work has also sought to accomplish (Oliveira and Ferreira, 2010a, b, c, 2011; Alam et al., 2010b).

Previous publications by Osterwalder and Pigneur include an international conference participation with "An e-business model ontology for modeling e-business" (Osterwalder and Pigneur, 2002). In this publication these authors state that business models "can help companies understand, communicate and share, change, measure, simulate and learn more" about their businesses (Osterwalder and Pigneur, 2002, p.75). Four pillars support their theory and these are product innovation (including the company's value proposition to the target customer segment), customer relationship (involving the information strategy with target customers to develop their trust and loyalty), infrastructure management (involving resources in a partner network and the performance of infrastructure and logistics issues) and financials (encompassing the revenue model and the cost model and consequently profit and loss) (Osterwalder and Pigneur, 2002). Business models are seen to bridge the gap between strategy (the positioning, objectives and goals of the company) and business processes (involving the understanding and implementation of strategic information), indeed there often exists "quite a substantial gap between these two 'worlds'" (Osterwalder and Pigneur, 2002, p.77). Business models are about communication (Osterwalder and Pigneur, 2002; Oliveira and Ferreira, 2010c) and by using ontologies (Uschold et al., 1998; Osterwalder, 2004; Oliveira and Ferreira, 2010a, b, c, 2011) one can "create a shared and common understanding of the domain and facilitate communication between people and heterogeneous and widely spread application systems" (Osterwalder and Pigneur, 2002, p.78).

Another publication and involving another co-author (Tucci) of Osterwalder and Pigneur's is "Clarifying business models: Origins, present and future of the concept" (Osterwalder et al., 2005). In this paper there is again the aim to clarify concepts involved in the business model domain and especially in regard to Information Systems (IS). A survey these authors undertook of an IS community shows "a divergence of understanding among people and particularly between business-oriented and technology oriented ones" (Osterwalder et al., 2005, p.3). Sixty-two respondents of the survey produced divergent definitions of "business model". A total of 54 definitions were produced, 44 of which could be grouped into major groups under "value/customer-oriented business model definition" (25 definitions or 55%) and "activity/role-oriented business model definition (EM – enterprise models)" (19 definitions or 45%). The former is the one favoured by Osterwalder et al. (2005) and seen to be more "outward looking". Business models are seen to be "the blueprint of how a company does business" (Osterwalder et al., 2005, p.4), carrying on from previous work by Osterwalder and Pigneur (2002) in so far as business models are "the translation of strategic issues, such as strategic positioning and strategic goals into a conceptual model that explicitly states how the business functions" (Osterwalder et al., 2005, p.4), the business model thus serving as a "building plan". The business model may also be seen to be "a conceptual view of a particular aspect of a specific company" (Osterwalder et al., 2005, pp.5-6) as Oliveira and Ferreira (2010c) suggested when they refer to pattern sequences and workflow participant narratives (Figure 1).

Osterwalder et al. (2005) very relevantly performed a tracing of the management term (string) "business model" in a large number of scholarly reviewed journals (Osterwalder et al. (2005, p.6) do state that "the search included several variations of the original term ["business model"] like "e-business model", "new business model" or "Internet business model"). This query revealed a significant increase in popularity of the term "business model" – up from seven appearances in the full text of journal articles in 1990, to 66 appearances in 1997, and to 667 appearances in 2003 (Business Source Premier database of scholarly business journals).

Osterwalder et al.'s (2005) research revealed also that "business model" appeared for the first time in an academic article by Bellman et al. (1957¹). What these researchers also discovered was that the popularity of the term not only increased but that it also increased in accordance "with the advent of the Internet in the business world and the steep rise of the NASDAQ stock market for technology-heavy companies... Oddly, the number of times the term "business model" appeared in a business journal (peer-reviewed and non-peer reviewed) follows a pattern that resembles the shape of the NASDAQ market index... [suggesting] that the topic of business models probably has a relationship with technology" (Osterwalder et al., 2005, p.7).

¹ In the second-to-last paragraph of the "Applications to the Business World – Simulation" section.

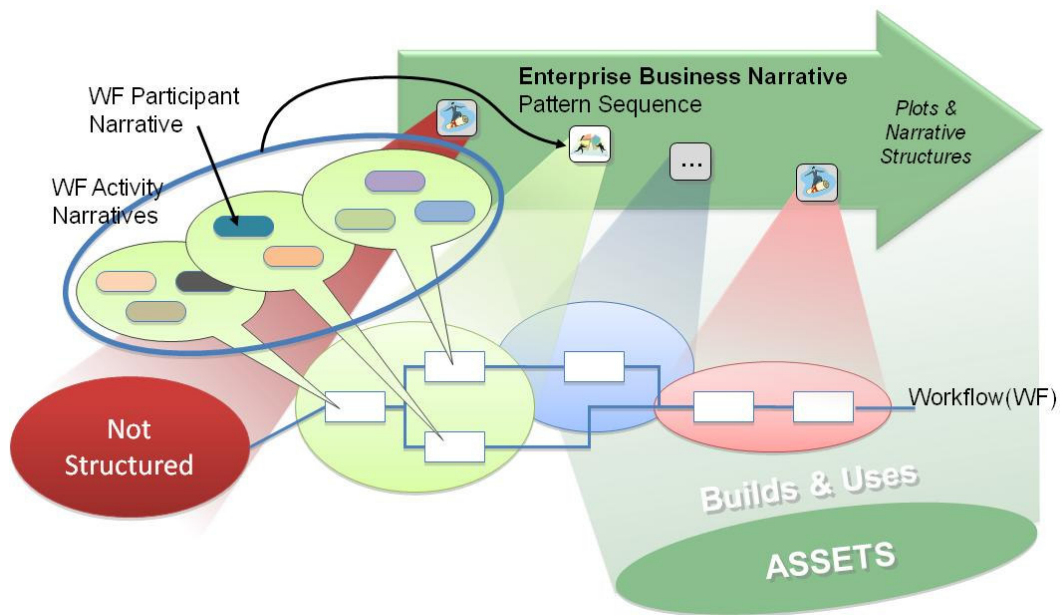


Figure 1. The Enterprise Business Narrative involving multiple Workflow (WF) Participant Narratives (Oliveira and Ferreira, 2010c).

Fritscher and Pigneur (2010) is an example of another very recent article in which we can find hints as to what is in Osterwalder and Pigneur's (2010) book "Business Model Generation". This recent article presents the Business Model Ontology Canvas (Figure 2) which builds notably upon the Business Model Ontology of Osterwalder and Pigneur (2002) mentioned earlier.

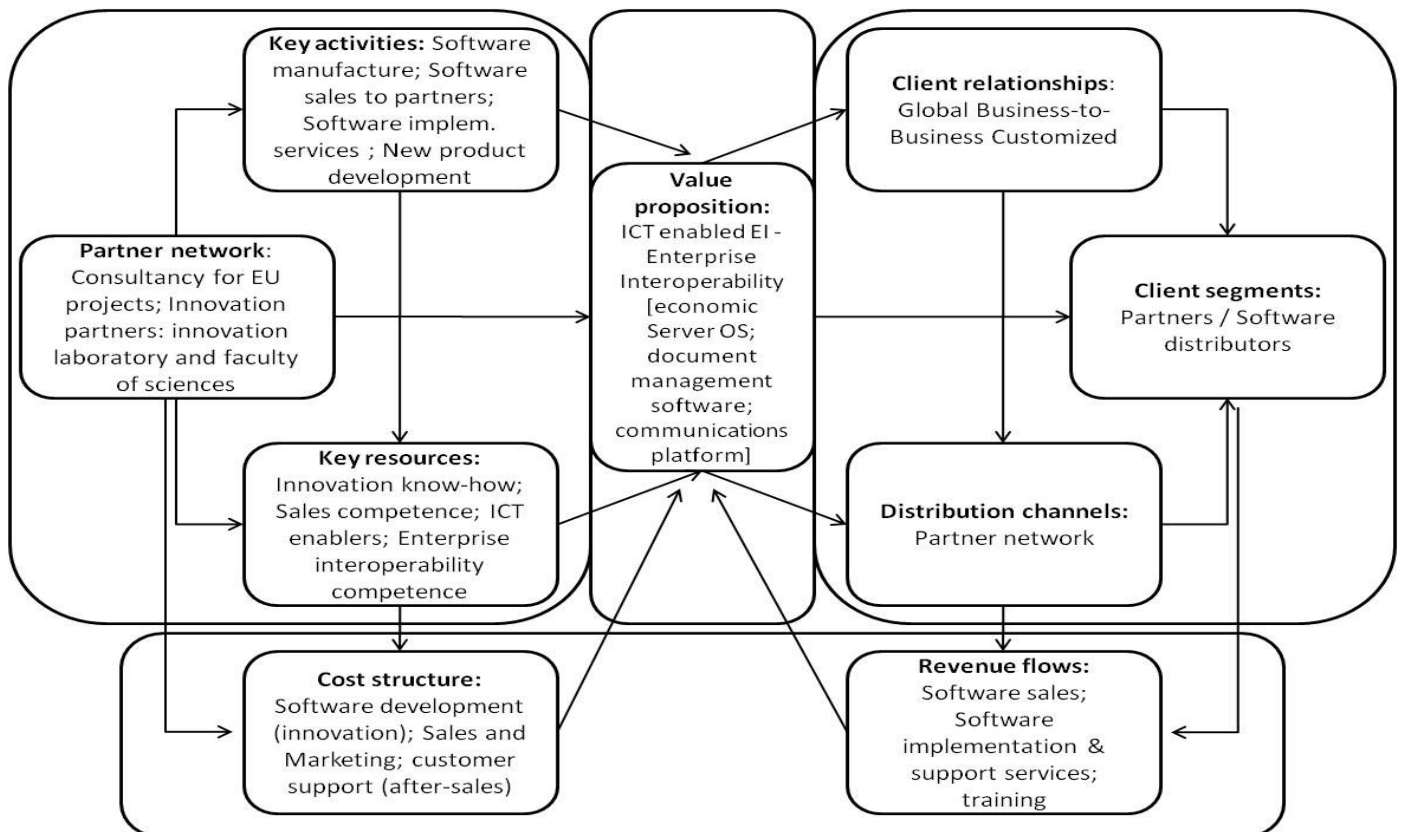


Figure 2. The Business Model Ontology Canvas (based on Fritscher and Pigneur, 2010).

Fritscher and Pigneur (2010, p.28) present a diagram and tool (made up of nine building blocks) (Figure 2) “derived from an in-depth literature review of a large number of previous conceptualizations of business models” with the objective to “help to support task modeling in engineering and process management”. However, this tool is also fit to help at the strategic level (in the context of business) due to its flexibility, which makes possible “creative thinking and user-friendly interactions” (Fritscher and Pigneur, 2010, p.28). This canvas is dealt with in both narrative and visual detail in the book “Business Model Generation” (Osterwalder and Pigneur, 2010).

Figure 2 is the result of our research at a highly innovative software manufacturer located in Portugal. In order to explain the business, how it works, we resorted to the Business Model Canvas, as shown. The picture reflects, for example, that this company handles its customers as partners. This is made explicit in the model and illustrates the semantic richness of the business canvas business modelling approach. This highly effective visual representation is simpler than using pure narrative and more generalizable too (Langley, 1999).

A closer look at the book “Business Model Generation”

In the previous section we saw several scientific publications leading up to “Business Model Generation”. This book adopts an approach very different to what we have seen earlier. First of all, the examples are presented pictorially. Secondly, exercises and workshop scenarios, which can be used immediately, complete the content. We thus witness, in the writing of this book, an approach not favoured by most scientific publications, scientific journals in particular. In so doing, however, the authors have managed to design a very practical book about business model innovation which is the type of book which can make a difference to practitioners (especially in developing countries) who are oftentimes estranged from academia, due to the complexity of some (if not most) of its content. The creative design, for example, is evident throughout, a task undertaken by Alan Smith (co-founder of the change agency The Movement). The authors are quick to mention however that a worldwide community of practitioners and researchers, from the business realm, also co-created this book (the online community is at www.BusinessModelGeneration.com/hub, “the place to be to exchange knowledge and experience on business model innovation” as they state in their online Welcome message²).

The concept of business model innovation has been around for centuries (the authors give the example of the founding of the Diners Club credit card in 1950, a business model innovation at the time; and speak also of Xerox, in 1959, when they started leasing photocopiers and introduced the per-copy payment system; but the mechanical printing device invention in the 1400s and the quest for different applications also qualifies as a business model innovation). What has changed is the scale and speed with which they now transform industry, an “extraordinary evolution” now addressed by Osterwalder and Pigneur. Apple (iPod/iTunes with online music), Skype (with very low-cost global calling rates) and the Grameen Bank (alleviating poverty) are all recent examples of innovative business models. What Osterwalder and Pigneur (2010) now offer is a way to systematize business model invention, design and implementation. The approach is one geared to practice, rather than preaching, and has depended upon the contributions of 470 community members, as mentioned earlier.

Chapter 1 describes the Business Model Canvas (Figure 2) – “a shared language for describing, visualizing, assessing, and changing business models”. Each of the nine building blocks of the Business Model Canvas is described in pictorial and narrative detail, but so is what one should do with the canvas once it has been created (for example, translate business plans into the customer-centric business processes that early stage entrepreneurs will need).

Chapter 2 describes business model patterns (characteristics, arrangements and behaviours which re-occur), five in particular useful for business model design or invention. For example Pattern N°1 – Unbundling – refers to the need to ideally unbundle (in order to avoid conflicts and/or trade-offs) the three fundamental types of business: customer relationship management businesses, product innovation businesses, and infrastructure management businesses. Interesting references connected to each pattern are given.

Chapter 3 provides a number of specific (six) design techniques to help design business models: Customer Insights, Ideation, Visual Thinking, Prototyping, Storytelling and Scenarios. Each is introduced using a story, for example about how adopting a customer perspective can be a guiding principle for an entire business model. The chapter includes technique demonstrations, exercises and suggestions as well as book references at the end.

Chapter 4 is about strategy and about how the lens of the Business Model Canvas may be used to re-interpret strategy. The path to be followed will involve constructive questions about existing business models and the environment will also be an object of analysis. SWOT (strength, weakness, opportunity and threat) analysis may be performed for each Business Model Canvas building block.

Chapter 5 focuses on process and a generic business model design process, which is adaptable to the uniqueness of each project, is proposed. This process involves five phases, each of which is described. Mobilize (to set the stage) is the first phase and Manage your business model (continuously) is the last phase. The Business Model Canvas is a tool used across each of the phases.

In conclusion, this practical book is the result of rigorous research undertaken over the last decade and can be used as a handbook to improve business models. A major advantage of the book is its graphics, which communicate its message clearly, hand-in-hand with its straightforward narrative. Despite this, however, academics can also enjoy the book as a wealth of references is provided, so that certain aspects may be studied more in-depth if required.

² www.BusinessModelGeneration.com/hub accessed on the 20th December, 2010.

The book will be of great assistance to students, researchers, and practitioners looking for “powerful, simple, tested tools” leading to superior business model implementations. We expect that this innovative book will be of use to the Business Model Generation located in the four corners of the globe.

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