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BUILDING BRIDGES BETWEEN BUSINESS MODEL CONCEPTS: THE CANVAS AND DOBLIN'S TEN TYPES

Michał JASIEŃSKI & Magdalena RZEŹNIK

Abstract: Conceptual similarities between two popular business model frameworks (Osterwalder's and Pigneur's Canvas and Keeley's et al. Ten Types) are discussed. We also present examples of Doblin's innovation tactics that are simple and universal ideas that may serve as tools for the reinvention of each of the building blocks of business models. A powerful reinvention of an enterprise's business activity must go beyond product innovation and include all components of the business model. However, there is a lack of academic research supporting either business model concept.

Keywords: business model, innovation, reinvention

1. Introduction

The new research paradigm compels us to search for business models hidden in everyday activities of business organizations (1; 2). Once we uncover them and name their building blocks, we can start the process of reinventing them, with a hope of making the organizations more innovative and competitive (3; 4). However, since any hot area of academic and semi-academic activity spawns numerous theoretical concepts and research methodologies, it is easy to forget that many of them are talking about the same things. They use different names and may even focus on somewhat different aspects, but the underlying essence is identical. We believe that unification of model structures and some kind of consensus are possible.

For example, among the 19 conceptual papers on business models compiled by Morris et al. (5), there were 86 distinct terms used to describe the structural components of business models. Various business model concepts varied from 3 to 8 in the number of components, with 5.4 components per model, on average. Assuming two or three terms to describe a component, only 15-20 terms would be sufficient to describe an entire average business model. Although we would never suggest that there is a need for total unification of concepts, there is a substantial redundancy in the terminology in this field [see also (1)]. While academic discussions thrive on such conceptual opulence, it may hinder application of explicit business model thinking in business practice. For managers and entrepreneurs terminological overload is a barrier.

Ujwary-Gil (6) attempted to build an even longer bridge over an unnecessary conceptual divide. She noticed a striking resemblance between the business model camp, usually associated with strategic management, and the intellectual capital camp, populated by scholars of knowledge management. Not surprisingly, researchers in both camps talk about the same issues, but use non-overlapping terminologies. Simplification through unification and translation of terms should make re-invention of all aspects of business activity more likely, whether they belong to strategic management or intellectual capital domains.

Both major concepts are mutually entangled. Intellectual capital that comprises human, structural and relational/social capital [see (6) for review] may be considered part of the key resources or activities of the organization or relationships (with partners and clients) maintained by it. They all are components of its business model. At the same time, the organization's business model, as a concept maintained in the minds of employees [see (7)], may be thought of as an asset or intellectual property [see e.g. (5)], contributing to the organization's intellectual capital.

There are two recent examples of popular, successful and sensible approaches to the concept of the business model that we would like to focus on. The first was developed in 1998 in the consulting firm Doblin, led by Larry Keeley, and recently re-formulated (8) [see also (9)]. The second, known as "the Canvas" was proposed by Alexander Osterwalder and Ives Pigneur and made popular in their bestselling book [(10); see also (11)]. Since their attractive and user-friendly form makes them very likely to be read by business and management practitioners, we feel it would be useful to show where these two approaches overlap and where they diverge. It is worth emphasizing that all these discussions apply equally well to for-profit and non-profit organizations – we use the term "business" for simplicity.

The Ten Types model (8) classifies its components in three broad categories: Configuration (comprising the components which focus on internal "metabolism" of an enterprise: Profit Model, Network, Structure, and Process), Offering (focusing on an organization's core products or services), and Experience (which includes the customer-oriented components of the business model: Service, Channel, Brand, and Customer Engagement). The Canvas's model (10) has nine components (or modules) and they form one group focused on the efficiency of functioning (Key Resources, Key Activities, Key Partners, and Cost Structure) and the second group – focused on value (Customer Relationships, Customer Segments, Channels, and Revenue Streams). At the center is the module Value Proposition focused on solving customer problems and satisfying their needs.

2. Similarity between business model components

2.1. Formulating and building the value offer

The central module of Canvas, namely "Value Proposition", describes all material and immaterial benefits that the customer derives from the offer, be it a product or a service, thanks to its superior features and functionality. The Doblin model splits it into three components. "Product Performance" should be understood more broadly than a traditional functionality: e.g. simplicity or environmental sustainability have become important characteristics for modern customers. "Product System" focuses on the possibility of selling the product together with other products or services, starting with simple product bundling, but also using the principles of interoperability, modularity, or complementarity of the entire LEGO-like "ecosystems" of products. Finally, "Service" may take the form of plain customer support or may involve various warranties or guarantees that reassure the customers and help build a strong bond between them and the company (see Canvas's "Customer Relationships").

2.2. Building and cultivating social capital by reaching partners and customers

Doblin's single "Network" module emphasizes that both external and internal cooperative interactions (covered by Canvas's "Customer Relationships" and "Key Partners" modules, the latter referring to outside people and organizations that the enterprise collaborates with) are driven and maintained by common mechanisms. Co-opetition is also a form of networking, but occurring among competitors (12). Underlying all these relationships are interactions based on reciprocity that, according to Axelrod's (13) theory of cooperation, build trust and loyalty. Trust is the basis of social capital-oriented organizational culture. In fact, cultivating long-term "Customer Relationships" and building knowledge of "Customer Segments" (both Canvas's modules) allows the organization to achieve, what Doblin's model calls, "Customer Engagement". Two important forms of networking (from the perspective of building the value proposition) are lean entrepreneurship [when customers test the prototypes; (14)] and co-creation, when customers are already involved at the stage of product development (15).

Doblin's approach does not distinguish a separate module focused on developing knowledge about distinct groups of customers that may have different problems, needs or tastes, because the existence of such knowledge is implicit in the concept of a network. Doblin's "Channel" and Canvas's "Channels" modules cover all the ways through which the value proposition may reach the customers and users, i.e. through communication, distribution, and sales (each existing also in the e- prefixed forms).

2.3. Assets, organizational culture and skills

"Structure" and "Process" are Doblin's equivalents of, respectively, "Key Resources" (the human and material assets required to offer and deliver the value proposition) and "Key Activities" (the types of activities involved to offer and deliver the value proposition) in Canvas. These modules are responsible for turning the idea of the customer value proposition into reality through fully utilizing the existing resources, infrastructure, know-how, and talent in the organization.

2.4. Facing financial constraints and possibilities

Doblin's "Profit Model" corresponds mostly to the "Revenue Streams" component in the Canvas focused on money flowing in, i.e. the ingenious ways an enterprise uses to obtain income when it successfully offers and delivers the value proposition. The Canvas's "Cost Structure" module (the costs that must be borne by the enterprise to be able to create and sell the value proposition) finds its echoes in several Ten Types' components, such as "Process" and "Structure" (when e.g. standardization of assets or product designs or lean production lead to cost reduction).

2.5. Brand

Finally, if all goes well, the entire business activity of an organization should result in a lasting impression left by the organization's business activity in the minds of the customers. Doblin's approach considers it of such importance that it received its own module ("Brand"). The brand is an outcome of carefully cultivated "Customer Relationships" applied to properly identified and researched "Customer Segments". Moreover, the brand

created by the organization has impact on its interactions with business partners, so there is also a connection with the “Key Partners” module in the Canvas. Finally, the company’s brand may become so valuable and worth protecting that it could be treated as one of its “Key Resources”. Also, when the customers affiliate with the brand to achieve desirable social status, the brand becomes a valuable part of the “Value Proposition”.

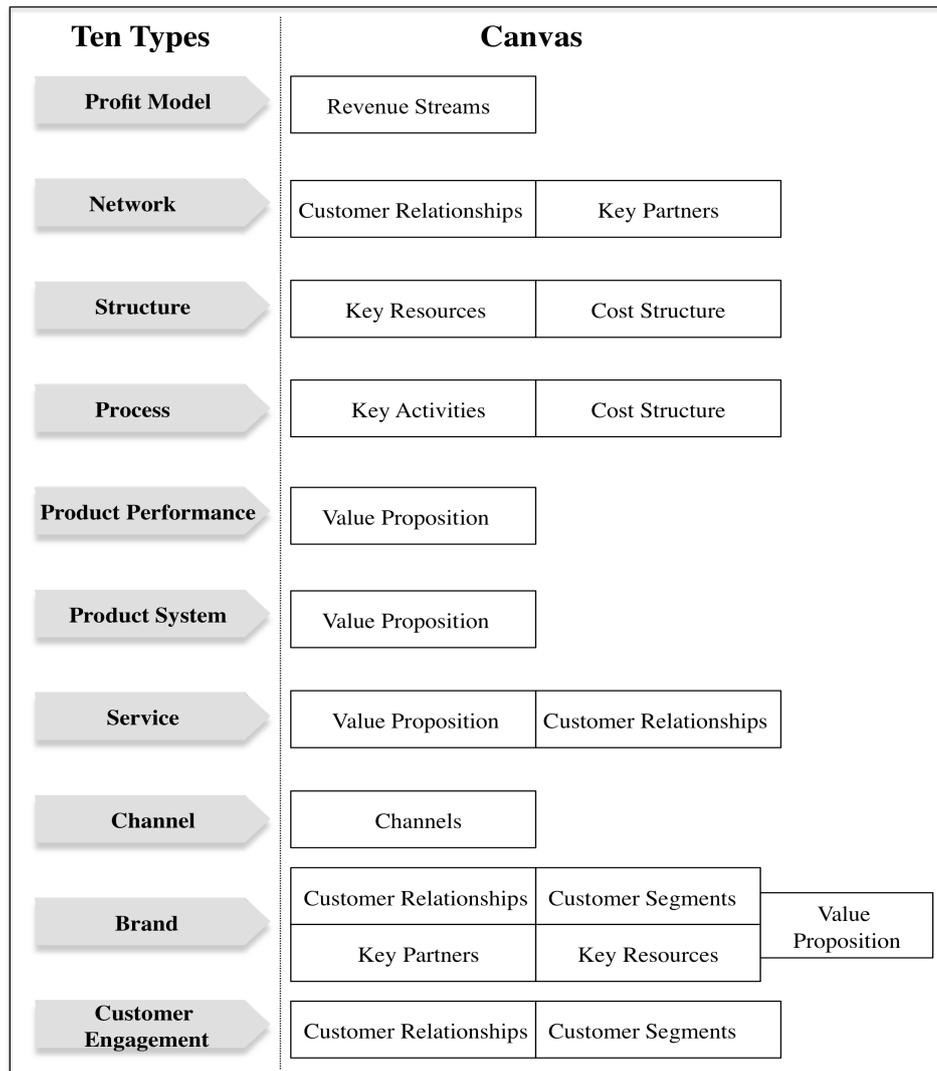


Figure 1 – Suggested links between components of two business model concepts.

3. Universal tools for reinvention: Doblin's innovation tactics

Once we establish that there is similarity of the two approaches, we may apply Doblin's excellent set of over 110 "innovation tactics" to help with reinvention of Canvas-based or other types of business models. Such tactics have great heuristic value and may be applied to any other business model structure. Similarly, Jasiński and Rzeźnik (16) showed how two sets of heuristic tools, originating from marketing (Osborn's SCAMPER) and engineering (Altsuller's TRIZ) might be useful for management and organization, more specifically – for each of the nine components of the Canvas. What follows below are examples, drawn from Keeley et al. (8), of ten innovation tactics, one per each of the Doblin's ten components of the business model.

Profit Model: The tactic "Freemium" involves offering essential services as free of charge whereas charging only for premium services. For example, the social network LinkedIn makes substantial profits from directing consumer interest or inquiries into its additional services. Those services support e.g. the process of headhunting and recruiting skilled professionals.

Network: "Alliances" are built in order to strengthen competitive advantage in cooperation through sharing risks and revenues. A good example of building alliances is Apple's iTunes and its revolution based on a free platform, which has totally transformed the media industry. Steve Jobs and his team convinced the recording labels (owners of rights to content) to enter the symbiotic relationship and allow the sales of even single songs. This ecosystem is being developed and nowadays the iTunes Store not only offers music but also films, TV episodes, and apps.

Structure: "Competency Centers" are created as professional support for companies based on the best resources, practices and expertise, to help them be more effective and efficient in their business environment. This tactic is used successfully by Glaxosmithkline Consumer Healthcare, the producer of over-the-counter drugs and cosmetics. GSK provides open-space working conditions for the professionals representing different areas such as innovation, R&D, marketing, sales etc. to enable free discussions and creativity.

Process: "User Generated" is the tactic used to involve users in the process of creating a stronger offering and allow them to supervise the content. An example of the company that has adapted this tactic is Craigslist – an online platform for classified advertisements, operating in 70 countries. Using the platform is very simple and does not require any special skills, so users are able to create and add classified ads themselves.

Product Performance: The purpose of the tactic "Focus" is creating a value offer for a specified group of customers. The most famous example of its application is the iconic product of Harley-Davidson. It is recognizable to almost everyone, because it holds constantly to the same features and values as originally, several decades ago: the look and engine sound are integral to the brand. Thus, the company remains focused on its devoted customers.

Product System: "Complements" as the tactic is used when the company enriches its offering by linked or supplementary products or services. An illustration of this tactic may

be the example of Harry Potter stories. After the success of the first book, J. K. Rowling continued not only with publications of successive adventures of the young wizard, but also created the official website about her as the author, and the Harry Potter shorter stories.

Service: The tactic “Guarantee” aims to eliminate the risk of a client’s wasting time or money from faulty product or mistakes when purchasing. For example, GE Aviation, the world leader in the production of aircraft engines, offers service OnPoint Solutions that contains a combination of other services, such as material and asset management, maintenance, and potential financing options. The main revolution of the OnPoint is a worldwide system that provides rapid response of service teams accessible 24/7 to guarantee optimal engine operation. The service is priced by the flight hour.

Channel: We are dealing with the tactic “Diversification” when a company incorporates new or expands existing channels of distribution. For instance, Caterpillar, the global manufacturer of construction and mining equipment, in the late 1990s decided to share with other companies its expertise and experience in supply chain management. Consequently, the enterprise expanded its offering by CAT Logistics which became the channel supporting its clients in solving their own supply chain problems.

Brand: Using the “Values Alignment” tactic results in the company's brand being identified with a set of consistent values or major ideas, such as equality, freedom, opportunity etc. The example is Whole Foods Market selling a wide variety of healthy-lifestyle products. At the same time, the retailer tries hard to promote small local food producers through loan programs.

Customer Engagement: The tactic “Community and Belonging” aims to build relationships to help people to feel affiliation with a group or a movement. Weight Watchers is an American company active in about 30 countries that offers various products and services supporting ways to lose and maintain body weight by the clients. Their core philosophy, based on a science-driven approach, is not only to help clients to lose weight but also to form helpful habits, eat smarter, get more exercise and provide support. As the example of facilitating and assisting in gaining the "weight objectives" by their clients the company launched a new service Weight Watchers Online for Men.

4. Is business model useful as a concept?

It is difficult to determine how well a given business model formulation reflects the true functioning of the company. One can indirectly infer the model’s quality by asking if it has any explanatory or predictive power with respect to the company’s business success. For example, can the concept help with answering if there are any long-term benefits from being innovative? Although one would assume that the connection between innovativeness and business performance is self-evident, obtaining quantitative evidence for it is a challenging task, because of the multitude of confounding variables [see e.g. (17)].

Keeley et al. (8) showed that while moderately innovative companies included on average 1.8 business model components (out of 10) in their reinvention, top innovators (i.e. companies listed high in innovativeness rankings) – integrated 3.6 components. Furthermore, companies that incorporated more components in the reinvention of their business models had (after the period 2007-2011) better market performance (as measured

by average stock price), compared to the overall S&P 500 index. In fact, the more components were involved in the process of reinvention, the better the performance. Innovating only 1 or 2 components improved market performance by 50% and 3-4 components – by almost 70%. However, those companies that introduced innovations in 5 or more components of their business model had more than 2 times (over 200%) better performance than the overall large-capitalization market (8).

The process of reinvention must therefore clearly be broad-based, i.e. should include as many components (types) as possible. Limiting innovative actions to product improvement, although important (18), is no longer sufficient to maintain competitiveness, partly because such innovations are the easiest for competitors to copy (8). In addition, any organization must make the process of reinvention evidence-based, i.e. based on research results. Therefore, organizations should use tools developed by knowledge management, e.g. such as bibliometric citation analysis (19) which allows managers and entrepreneurs to be able to utilize insights originating in the best academic research.

Finally, one must observe that neither of the discussed business model concepts has received any support from actual management and organization research (as shown by the absence of citations and refereed publications listed in the Web of Science). The popularity of both models results so far only from their attractive and user-friendly form, simple and jargon-free writing style, and easy to understand cases and examples. However, there is a lack of validated tools with which to study the relevance of these business model concepts. There is a need for constructing quantitative indexes that could serve as covariates in broad studies of the correlations between business model structure and company performance.

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Michał Jasiński, Ph.D.
 Magdalena Rzeźnik, M.Sc.
 Center for Innovatics
 Nowy Sącz Business School - National-Louis University
 Zielona 27, 33-300 Nowy Sącz, Poland
www.inko.wsb-nlu.edu.pl
 tel. (+48) 18-44-99-470
 e-mail: jasienski@post.harvard.edu, magda.rzeznik@gmail.com