Business Model Generation

By Alexander Osterwalder and Yves Pigneur


Reviewed by Wolfgang Grassl

“A business model describes the rationale of how an organization creates, delivers, and captures value” (p. 14)

Few books in the business literature can truly be called breakthroughs. This may be one. Alexander Osterwalder and Yves Pigneur, professors of information technology at the University of Lausanne, have produced what may be the first book on business models written for the general public. It relies on the more technical work that Osterwalder did in his doctoral dissertation in 2004, submitted under Pigneur, and that both researchers have since conducted individually and jointly.

Business models are a somewhat elusive concept that is suspended in mid-air between computer science and strategic management; the term is more often used than clarified. Somewhat vague definitions abound or else they are precise but in a form that is accessible only to narrow target groups. This book makes a big break with this rule. Not only does it not lack in precision and clarity; it is replete with examples, and all this in a magisterial graphical presentation that makes it appealing also to readers who are visual types and would hardly be attracted by the technicalities of the literature on information systems. Osterwalder and Pigneur present little or no theory, but they offer a model of business models that is then applied to many cases. Their language is plain and abstains from technical jargon, and much is explained through drawings rather than words.

The Business Model Canvas is the structure common to all models. It consists of nine components (“building blocks”) arranged in a particular way that is somewhat reminiscent of Porter’s model of a value chain. At the core of a business model lies a value proposition, which links the use of key resources and the performance of key activities by key partners to build customer relationships through channels operated to reach customer segments. The stream of revenues generated by these components is held against the cost structure associated with them. The Canvas is the leitmotif of the book, and all business models presented are fitted into this mold. This structure provides the backdrop for considering selected patterns of business models (unbundling components, diversity based on the “long tail” hypothesis, multi-sided platforms, “free” products, and “open” business models), techniques to help design business models (from customer insights via prototyping to scenarios), and lastly a re-interpretation of strategy through the lense of business models. The book concludes with a systemic exposition of the business model design process and an outlook to “beyond-profit” business models. The examples presented on the way include a great variety of cases, from Skype to Lego®, and from GlaxoSmithKline to Swatch Group.

The authors located business models at a higher place in a hierarchy of explanatory levels than at the ontology of business. A value proposition, for example, presupposes value as coming about by persons having intentional attitudes towards objects. The absence of any explicit philosophical mooring of the model structure presented is perhaps the greatest weakness of the book. Levels are mixed and confounded, for example when persons (both key partners and customers) are presented as being on the same level with key resources and with key activities involving these resources. Ontological clarification would surely place pre-existing resources at a different level from activities involving these resources, and from a value creation that is driven by the interaction of both the supply and demand side. The Business Model Canvas is itself a horizontal and synchronic
model of thought in which value is created as related to a value proposition while financial operations are at its base. But not all nine building blocks are equally “natural” components of the Canvas. Channels of distribution are the privileged element of the traditional four elements of the marketing mix whereas product, price, and communication decisions must be assumed to be included in the creation of a value proposition. This is neither well-justified nor natural. But neither is E. Jerome McCarthy’s model of the “four P’s”, which only has the advantage of having already been taught in business courses for half a century. Despite all the persuasive power of the book due to its simple language, streamlined presentation, and impressive graphics, it never becomes clear why the nine-component structure is superior to, for example, a twelve-component structure of business models as suggested elsewhere (Nanonen, S. and Storbacka, K. (2009), “Business model design: conceptualizing networked value co-creation,” International Journal of Quality and Service Sciences 2: 43-59).

Since this book primarily targets practitioners, it does not discuss some of the more elusive questions about business models. Neither does it relate the model to much of the strategy literature (although it does mention Jay Galbraith’s Star Model and the Blue Ocean Strategy). It seeks simplicity and applicability and for these trades in deeper and more comprehensive discussion of what business models are. It presents its basic scheme – the Business Model Canvas – in convincing enough a manner and illustrates it with sufficient examples that the authors may well have established a standard or paradigm for future work on business models, at least in management. The book expressly seeks to provide a blueprint for business innovators – and to the extent that this is possible at all, it succeeds. The work is highly recommended to practitioners and analysts alike, and to all those interested in innovation.