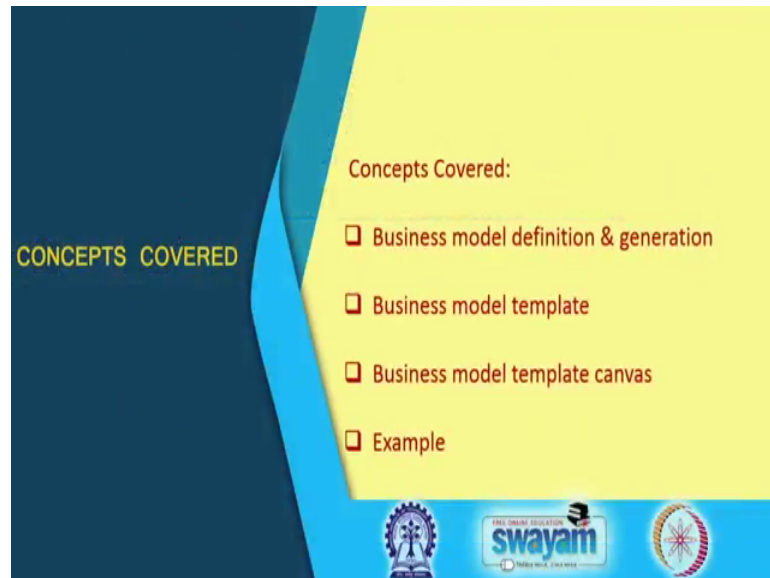


Entrepreneurship Essentials
Prof. Manoj Kumar Mondal
Rajendra Mishra School of Engineering Entrepreneurship
Indian Institute of Technology, Kharagpur

Lecture – 09
Business Model Generation - I

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Hello and welcome to this session of Entrepreneurship Essentials. Our today's topic is Business Model Generation. To be more particular it is about business model canvas, but business model canvas is part of business model generation. Business, this topic is going to cover defining business model, and then talking about a template of business model, which is precisely business model canvas, and then were going to give an example, how business model canvas can be used to formulate business model per se.

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Business Model: Definition

- A business model is an opportunity for a business with all its features including risks, advantages, complexities, customer segment, market structure & potential, competition landscape, socio-political challenges and opportunities, commercial attractiveness, environmental challenges, techno-economic feasibility, profitable sustainability, growth potential, legal tenability and the execution plan.
- A business model describes the rationale of how an organization creates, delivers, and captures value – Alexander Osterwalder

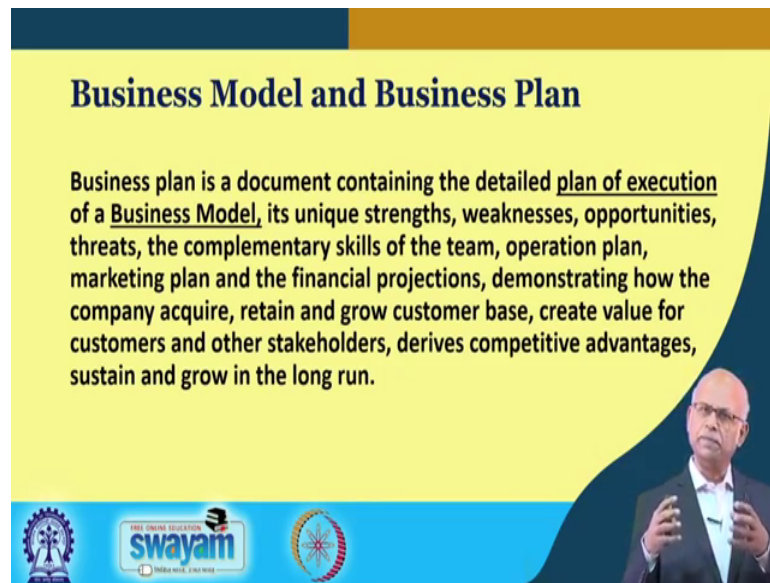
The slide features a yellow background with a dark blue header and footer. A portrait of Alexander Osterwalder is visible on the right side. The footer contains logos for Swamyam and other educational institutions.

To start with let us define, what is business model? Business model, when someone tells you that I am working on a new business model or existing business model world, whenever somebody refers to a business model what comes to your mind. So, you definitely would like to know, what it is about, what is the business, at the back of this business model.

Then what is its strengths, weaknesses, what is the possibility of making profit which kind of customer, what kinds of complexity. So, it kinds of all pervasive about business that start from creating an enterprise to finally making profit. So, it definitely includes the opportunities as a whole meaning its strength, weaknesses of threats, and then what is the competition landscape, socio-political challenges, opportunities, and then commercial attractiveness, environmental challenges, techno economic feasibilities etcetera, etcetera. It covers everything that anybody would like to understand, the attractiveness of a business of a business proposition.

As Alexander-Osterwalder, who actually is a founder of business model canvases puts it. A business model describes the rationale of how an organization creates, delivers, and capture values perhaps for different stakeholders. Now, there is a common confusion about business model and business plan. So, this is the definition of business model.

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Business Model and Business Plan

Business plan is a document containing the detailed plan of execution of a **Business Model**, its unique strengths, weaknesses, opportunities, threats, the complementary skills of the team, operation plan, marketing plan and the financial projections, demonstrating how the company acquire, retain and grow customer base, create value for customers and other stakeholders, derives competitive advantages, sustain and grow in the long run.

The slide features a yellow background with a dark blue curved border on the right side. At the bottom, there is a blue banner containing logos for 'swayam' and 'THE ONLINE EDUCATION' along with a speaker in a suit.

Next slide, I am going to define business plan, so the distinction will be so obvious having known business model. Now, business plan actually is a documentation of business model that contains the detailed plan of execution of the business model.

It contains its unique strengths, weaknesses, opportunities threats, the complementary skills of the team, it contains the operational plan, it contains marketing plan, the financial projections. So, as to understand it is commercial or financial viability, then it contains all other important points that makes it stands out from the crowd, so that is what is business plan meaning is a document containing little execution of the business model. So, they are not definitely the same, but there refers to the same.

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Business Model

- Starting from identifying the pain point, Business Model innovation includes developing solutions, sustaining profitable growth and creating value for companies, customers, and society.
- It is about innovating new products, process, services, and businesses replacing outdated models.
- Apple created an innovative new business model with its iPod digital media player and iTunes online music store.
- Skype brought us cheap global calling and free Skype-to-Skype calls with an innovative business model built on peer-to-peer technology.
- Grameen Bank, in Bangladesh, is promoting social entrepreneurship and alleviating poverty through innovative microlending to the poor.

The slide features a yellow background with a dark blue header and footer. At the bottom left, there are logos for 'THE ONLINE EDUCATION swayam' and another circular logo. On the right side, there is a small video inset showing a man in a suit speaking.

So, again talking about business model. The same thing perhaps, I have been telling for in every slide, every sessions, it is starts from identifying a pain, then business model. Then you once you identify the pain, then you build all other ideas starting from a solution, then putting infrastructure etcetera, etcetera is the business model.

Then it is about innovating new product, process, service, and business replacing outdated business models. So, apple created a new innovative business model around IPod. They came up with IPod, and then they have made they allowed customers, customers to download music from iTune stores, so customer had a new experience.

In this regard, one should understand that you can offer the same product that custom or the competitors offering. But, you give the customer some kind of new experience, and that customer is going to like and product becomes a winning products, experience matters a lot. When everything is equal, just give a little bit of twist in the product, so that the customer gets a new kind of experience that enemas them, you have a winning proposition.

Like Skype gave us free Skype-to-Skype call facility, and then they have a wonderful business proposition. Similarly, Grameen bank in Bangladesh, they have come up with a with a model that gives micro loan to poor people to make them empower them to become an entrepreneur or do whatever they do like a farmer he or she I can purchase

their seeds, and then plough their own land etcetera, etcetera, so that is how they are creating their alleviating poverty, and empowering people to become entrepreneur.

But, then these are kind of easier said than done. How do we understand, suppose we identify a pain point, and then how to understand its strengths or whether this is really attainable business model meaning, whether this is a nice business model to pursue how to understand that. So, for that we actually need to need to develop the business model in details.

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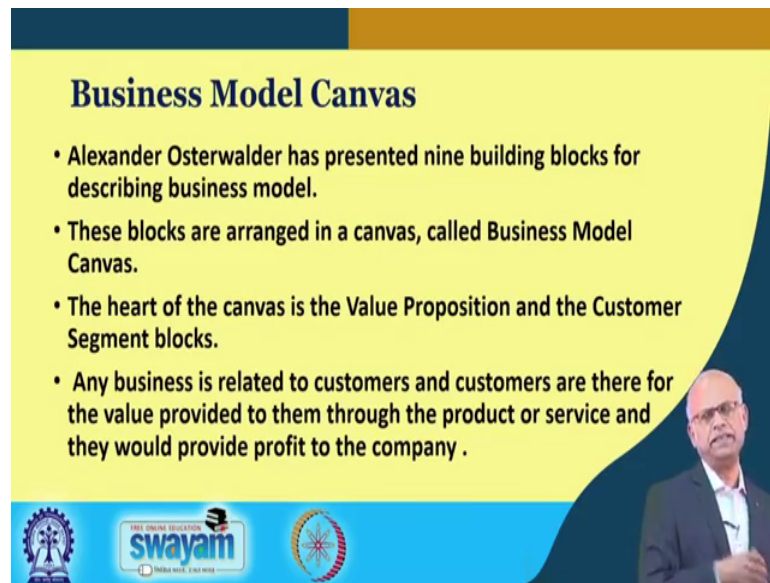
Business Model Template

- Thankfully for us, a template is available for business model.
- It has been propounded by Alexander Osterwalder.
- It is known as Business Model Canvas.

swayam

So, for developing that a template perhaps helps us a lot meaning that if there is a template, that will be something like a ready reckoner that tells you step by step as to what all you have to take care, so that nothing is left unattended that would be better. Thankfully, we have at least one template available that was developed by Osterwalder, and it is known as business model canvas.

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Business Model Canvas

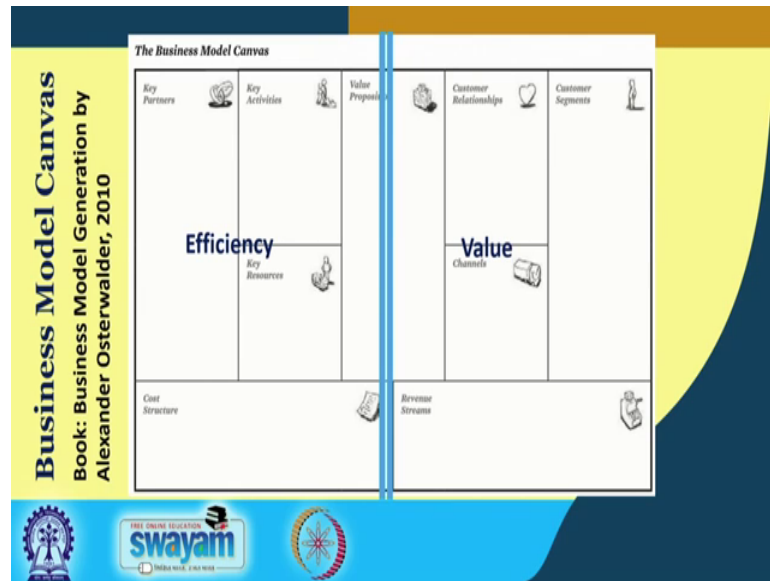
- Alexander Osterwalder has presented nine building blocks for describing business model.
- These blocks are arranged in a canvas, called Business Model Canvas.
- The heart of the canvas is the Value Proposition and the Customer Segment blocks.
- Any business is related to customers and customers are there for the value provided to them through the product or service and they would provide profit to the company .

swayam

Our today's discussion is around business model canvas. Osterwalder has proposed that there was nine core blocks meaning, nine core ideas that is to be attended to completely define a business model. And he brought this 9 items, and put that in the form of blocks, and all the blocks are placed in a canvas that is called business model canvas.

So, what are this blocks, and what are this how the canvas looks like is the discussion today. So, eventually we would like to know that any business is related to customers. Customers are there for the value provided to them through the product or service, and because we provide them value, they are ready to pay profitable price that is profitable to the company.

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And here is the canvas that kind of precisely does that meaning, the canvas has two sides. On our right is the value that a company would like to provide to a customer. So, the right hand side is all about customer about the value that is to be given to the customer or will be appreciated by the customer, then how you kind of make the customer aware about the value proposition that you have.

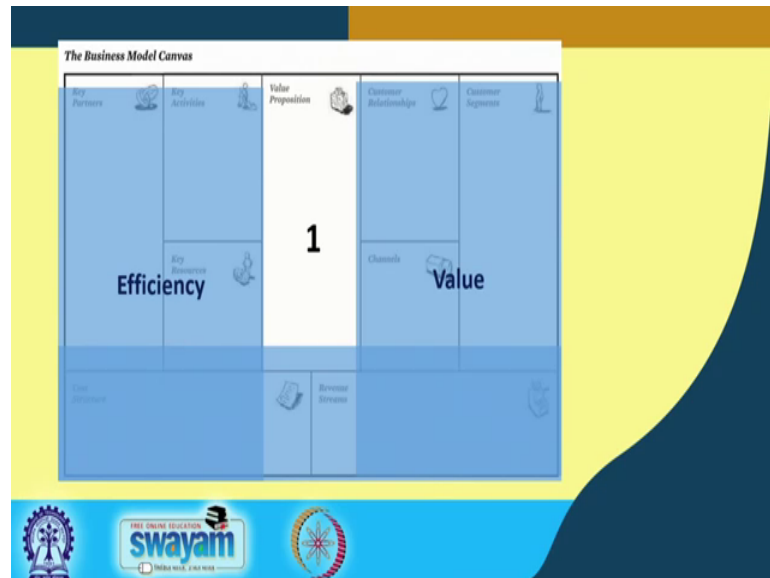
And then how do you reach the value to the customer, and then how do you acquire customer, how do you kind of grow customer base, and then retain them etcetera are all on the right hand side. Including at the bottom of the right hand right side right hand side part is the revenue model that means, how when you give the value to the customer would give you the price, and that should create profit for us, so bottom is the finance or revenue model.

On the left is the is the value creation process the resources that go into producing the value proposition, and the heart of the thing is the value proposition the heart of the thing that you see the two lines is the block, where you have the value proposition. So, value proposition on your right is the customer whom you give the value on your left, how you create the value.

The bottom part on the left is the cost structure meaning to create this value, what is your what is the cost that you incur means, what are the cost items, so that you have a fair idea

how to cut cost or how to make it cost effective, so that eventually when customer pays you the price you make profit.

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So, it starts from the center of the canvas, incidentally the book from where this has been taken is a book for business model generation by Alexander Osterwalder and others, we have the reference at the bottom. But, then they have identified customer as the core. So, they give they have given serial number 1 to customer segment, but majority of the internet resources, I enquired I have checked they all put number 1 on value proposition that is the heart of the business model canvas. Whatever that is let us follow this process as far as we are concerned, we are going to follow this.

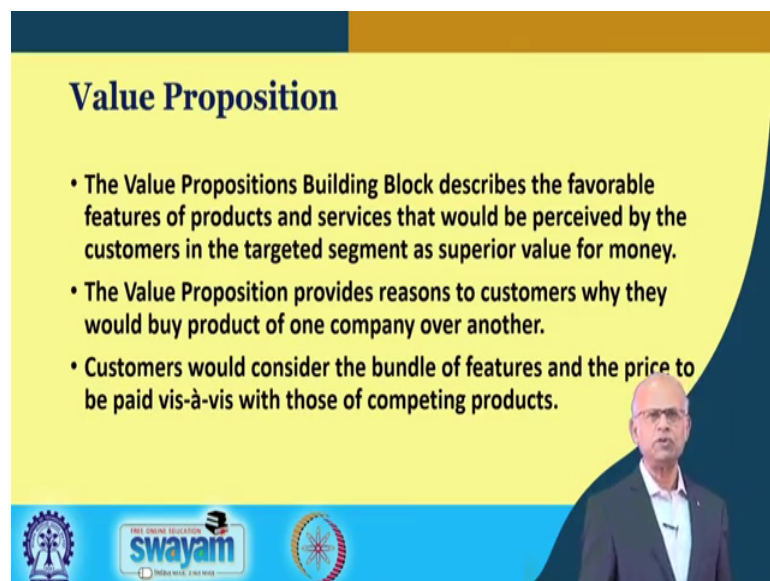
So, what cool of the business model canvas is the value proposition, obviously what Osterwalder points out is that. Unless there is a customer, what value you are thinking of. So, there has to be a customer. So, you know what his or her pain is and then you formulate, whether you can you can develop something that he or she will perceive to be of value. So, customer definitely central to a business, no argument against that.

So, once you identify the customer, once you identify the pain point the customer segment is identified, then you think of the value, so that number block number 1 is the value proposition. So, you list the one two you list serially, the values that you are capable of providing, and the values that your customer might be perceiving to be value for their money. So, central point is the value proposition.

Now, suppose yes the previous class we have talked about a taxi aggregator, what should be the value. The value should value is enormous actually it is a wonderful example of a of a wonderful business model. Taxi aggregator gives enormous amount of value, it gives the convenience of getting a taxi right at the door, then because it is it is done, because they have optimized the down time of taxi. So, they can offer it at a lower cost, lower price, and then once you are in the taxi, there is a navigator.

So, you do not have to worry about the direction, then the taxi driver is a registered driver. So, you do not have to worry about security, then you do not have to pay cash. Even if you there is no cash out to your pocket, if you have a digital wallet, you can pay from your wallet so on and so forth. They can formulate many other things to entice customer customers to come to their fold. So, all these are part of value proposition, there may be many more.

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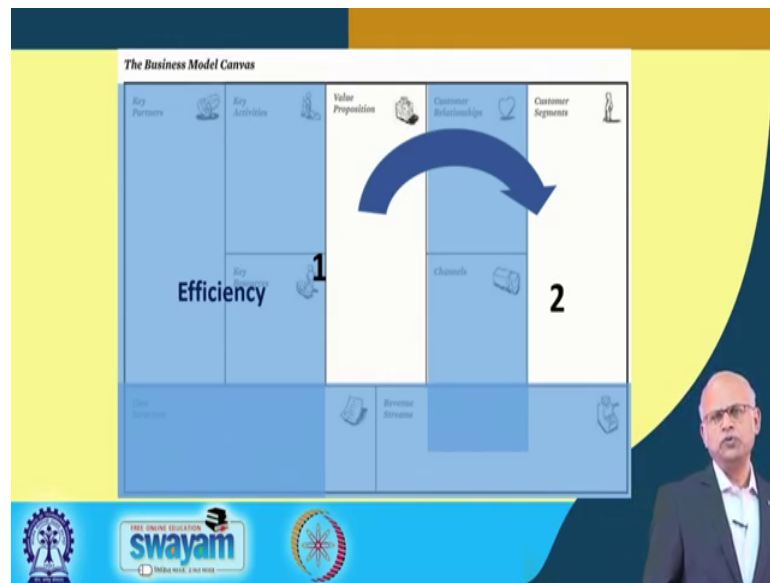
Value Proposition

- The Value Propositions Building Block describes the favorable features of products and services that would be perceived by the customers in the targeted segment as superior value for money.
- The Value Proposition provides reasons to customers why they would buy product of one company over another.
- Customers would consider the bundle of features and the price to be paid vis-à-vis with those of competing products.

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So, value proposition provides reasons to customers for them to buy your product or service.

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Now, point number 2 or as far Alexander Osterwalder is number 1 actually is the customer segment. So, if you have a business, obviously there is a customer that a customer, there is no business, so which customers. So, you identify the customer first. So, once you identify the customer, then you know the pain point. So, you identify similar kind of people or people of similar kind of pain, whatever that pain is. Suppose, you are thinking in terms of a taxi aggregator, then people like office goers. They hire a taxi or any other transport public transport may be.

So, they if you offer them a cheaper alternative to the standard taxi service, then obviously they are going to be your customer. So, they are your primary target audience. So, office goers, make a wonderful segment. There may be many other people, may not be office goers, but many other people with the similar kind of pain like there may be say tourists, who land in airport. And then they want a want to hire a taxi at a kind of a lower rate, at the same time they can pay, they can trust, they can like the registered drivers etcetera.

So, tourists may be another segment oh part of the segment. So, there may be diversified people, but then they have a similar kind of pain. So, segmentation is a different topic altogether, we will cover that in a separate lecture, but customer segment for our discussion is of similar pain. So, once we know the pain that we are trying to alleviate, we know the customer segment. And then once we know the customer segment, it

becomes easy for us to do the remaining part of our business model, decide about the remaining part of our business model.

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Market Segment

- Market segmentation is the act of dividing a broad consumer or business population into sub-groups of consumers based on some type of shared characteristics relevant for marketing particular product or service.
- Dividing the market for common characteristics such as shared needs, common interests, similar lifestyles or even similar demographic profiles.
- Identify high yield segments – that is, those segments that are likely to be the most profitable or that have growth potential.

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So, here is some write of about customer segment. So, we should identify actually high yield segment, where you know similar kind of pain, and there is a huge number of people. So, we can reach out to them easily or we can we can identify the logistic as to how to reach the product to them etcetera that makes wonderful sense.

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More About Segment

- Distinct groups with common needs, common behaviors, common taste or other attributes. A business model may define one or several large or small Customer Segments to meet their specific needs.

Customer groups represent separate segments if:

- Their needs, behavior, and conveniences are unique and they are ready to pay the extra price (or revenue) justifying additional cost to meet them.

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More about segment. Distinct groups with common needs as I said, common behaviors, common tests, etcetera, you can read that at leisure. Let us move forward.

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So, this is again another statement made by Osterwalder himself. The features of the product or services include newness, performance, customization, getting the job done, design price a design price brand, etcetera. Let us not dwell in detail.

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Next in the line-up is the channel. Channel means is channel through which you communicate with the customer. Communicate in the sense first thing is you tell them

that you have a unique value proposition, which is superior compared to the competitors meaning that if customer is already, buying something or taking some service from some company.

So, you tell them that look our product is superior compared to theirs in this disrespect or it is cheaper or whatever. So, channel the first thing about the channel is to reach out to the company to tell them about your about the value proposition. Next is to make them evaluate your product or service. So, you provide some kind of say customer review or something, so that they can see the review and then realize wow five star that means it is a wonderful product let us buy.

Third is make them make it easy for them to purchase, maybe online purchase or say its a all across the country you have retailers etcetera, which is very costly very difficult to maintain. So, you decide whether you allow customers to buy online. And then eventually how customer returns, if they are not happy or how they can exchange, their old products with new products, how they are going to get the after sell service or how you are going to troubleshoot etcetera are contained in channels.

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Channels

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

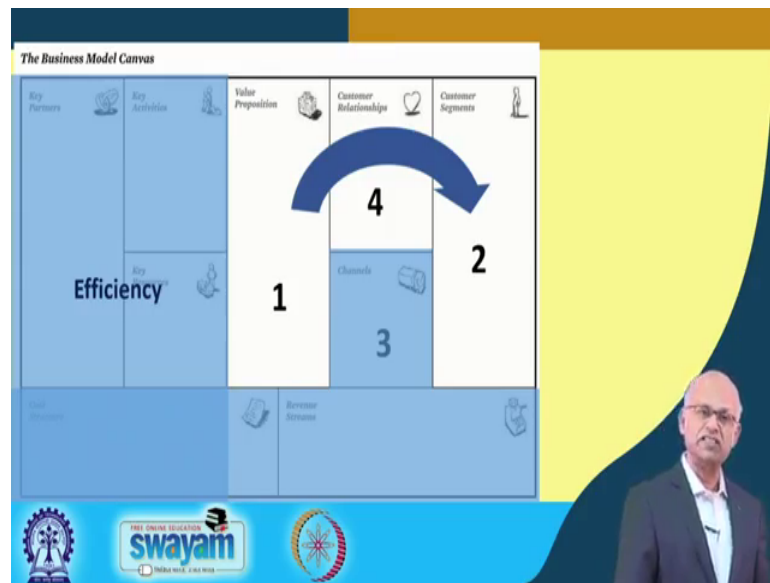
It includes:

- creating awareness among customers of the value proposition.
- Helping customers evaluate a company's Value Proposition.
- Facilitating easy purchase of the product or service by the customers.
- Delivering the product or service conveniently to customers.
- Providing after-sale customer support as part of value proposition.
- Allowing to return in case of mismatch. Some exchange may also be included.

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So, channels include all of all of them.

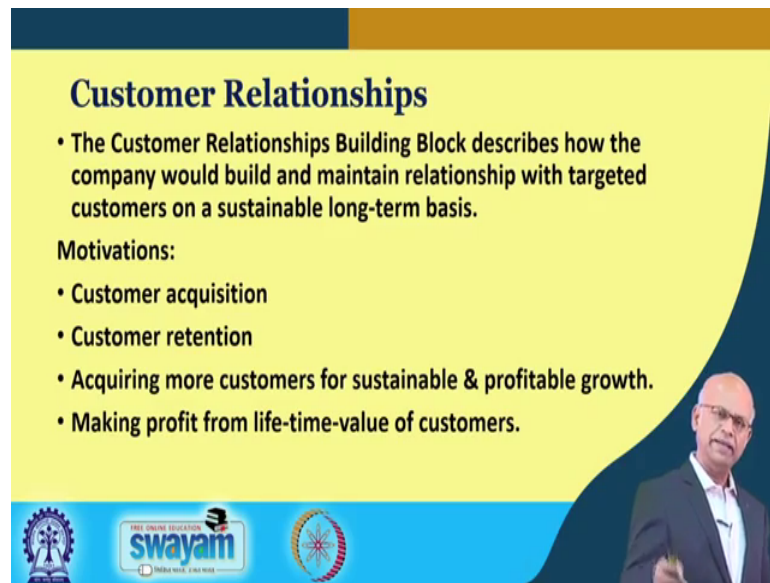
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So, after channel, we have customer relationship, it is very important. You may acquire some customer by you know talking about them or using whatever entice them into your fold, but then you have to retain them. Acquiring customer, retaining them, and then growing customer base are the three things that is most important for a business that is that is going to guarantee the business is growing.

So, retention of customer is highly related to relationship, you build a relationship, so customer will remain with you. However, do that you may offer better after cell service, you may offer some kind of loyalty points that every time they buy the gate trial tip some bonus points, and then they can use that for buying in the future etcetera.

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Customer Relationships

- The Customer Relationships Building Block describes how the company would build and maintain relationship with targeted customers on a sustainable long-term basis.

Motivations:

- Customer acquisition
- Customer retention
- Acquiring more customers for sustainable & profitable growth.
- Making profit from life-time-value of customers.

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So, there are many points through which you can actually build relationship. Most important among them is how you respond, after they buy the product. You try to help them setting up, you try to help them whenever there is a trouble you immediately take care of that, and then time and again you try to communicate with them. And another important thing is that you upgrade your product, tell them that you know new version is available.

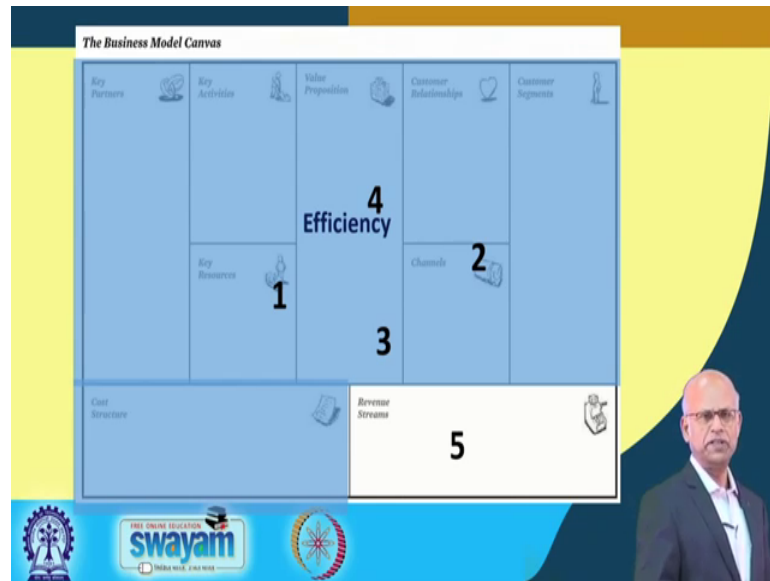
So, try to give them better value, even after they buy the product, so that they become customer throughout their life. You know acquiring a customer is very costly, sometimes it is lakhs of rupees, it is unbelievable. Even I did not believe at the beginning, but then data actually show that customer acquisition cost is very heavy, why do people a spend lakhs of rupees to acquire a customer, because a customer keeps on buying throughout their throughout his or her life.

And then throughout life, you actually create a lot of value that is called lifetime value of a customer. And that is how many e-commerce companies like Flip kart is incurring losses. They are burning cash in terms of thousands of crores. Still their valuation is tens of billions something like twenty billion dollar, why so because they have a huge registered users.

So, at some point of time many of these users are actually cash positive now meaning that they are actually giving profit to flip kart, but then they are acquiring new customers.

So, they are incurring lakhs of rupees for that, and in the process in total they are running on loss, so they are burning cash. But, otherwise they have a huge customer base, and maybe within a couple of years or 3, 4, 5 years down the line. They are going to be they are going to make lot of money like Amazon, who were burning cash earlier, but now they are in profit.

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Fifth in the series is revenue model for which the business actually is the value to the customer. Revenue model is nothing but the money that customer gives to the company in return or in exchange for the goods, and services that you give or the value that we give ok. There are two terms actually popping up on the screen. One is efficiency, another is value. So, I forgot to discuss that the efficiency is on the left side, value is on the right side. Value means the value proposition, efficiency means you use your resources efficiently to create the value in the process you make a profit. So, efficient application of resources, efficient exploitation of your partners and activities to generate to make a competitive product or service, and then customer pays premium for quality for other features in the process you make money.

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Revenue Streams/Model

- The Revenue Streams Building Block represents the cash a company generates from each Customer Segment
- If customers comprise the heart of a business model, Revenue Streams are its arteries.
- A company must ask itself, For what value is each Customer Segment truly willing to pay?
- Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment.

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Now, revenue model includes the money that they give then it may includes also some kind of advertisement that you may actually put it on your website or anywhere along with your product. You can promote others product with your products or maybe some kind of consultancy fees that you may gain or maybe you sublet some of your infrastructure or you do some job work, and get some commission for that or some kind of some kind of fees for that.

So, all these actually are part of the revenue model. And obviously, revenue model and cost a structure that is in block number nine the difference between the two gives the profit, so one should understand what these models are where you can make it slightly more revenue, how you can do it with a slightly lesser cost is going to define the profitability.

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So, next in the line is after number five is number six obviously, and this is your key resources. The things that actually helps you to convert into the service or into product like inputs. Like say hardware and software or say plant, and equipment, raw material. So, you have the raw material, you have the plant and machinery to convert the raw material into finished goods, so that you offer as value or value you kind of bundle value in your product etcetera. So, everything that facilitates this conversion of input to output is your resources that may be intangible that may be tangible.

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Key Resources

- The Key Resources Building Block describes the most important assets required to make a business model work
- These resources allow an enterprise to create the Value Proposition.
- Depending on type of business, different Key Resources are needed.
- A E-car manufacturer requires batteries, whereas a battery manufacturer requires materials such as lithium, cobalt, nickel, manganese, graphite, copper and aluminium.
- Key resources can be physical, financial, intellectual, or manpower
Key resources can be owned or acquired from key partners.

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Suppose, you are developing software so manpower or technocrats or technicians are your key resource that is convert that is helping you to convert their intellectual knowledge into product software's. So, it may be both intangible as well as tangible. So, you can read them later.

Key resources can be physical, financial in financial may be suppose you are a finance company a fin tech company for that matter or it can be intellectual, like consultancies. If for any consultancy firm, they give consultancy it can be manpower, it can be even there are contract companies in US, but and there is even in India also there are contract companies, who keep people in their payroll.

And then they engage them or deploy them in other organization on a monthly basis or an hourly basis, they get money out of that like security for example. Even in software industries these technicians or technocrats, they are all on the bench, and then sometimes they are in the field. So, whenever they are on the bench, they are noting whenever they are in the field they earn money.

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Seven in the list is the key activities that is whatever you would do, suppose you produce something, suppose you make software, suppose you do consulting, so processing everything into finished goods is your activity. The resources that helps you to do the activities. So, whatever the whatever your resources are doing to convert your input into output is the key activities. Suppose for a bank, the key activities is to collect money, and



then give loans to the process loan application, and give loan, and then recovery, and then give customer services etcetera.

For a taxi aggregator, it is just it is a plethora of jobs like maintaining a fleet of taxis under them, registered under them. And then maintaining customer requests, then managing logistic, managing portal, database, loyalty points etcetera, etcetera. So, whole lot of things are under activities.

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Key Activities

- The Key Activities Building Block describes the important processes or actions through which it delivers the value.
- For a car maker, Key Activities include manufacturing and supply chain management. For a software consultancy firm, Key Activities include problem solving.





So, here they are.

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The Business Model Canvas

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
8	7	1	4	2
	Key Resources		Channels	
	6		3	
Cost Structure		Revenue Streams		
9		5		



The number-8 is key partners. Key partners actually facilitates, you to create this value proposition meaning that you need resources, you need activities, you need to cut costs, so you need money, so cheaper money. So, the partners actually provide some of them. Suppose, you need you need money for maintaining wallet or you get money in the wallet, and you want to put that for a profitable proposition, so bank is a partner. Suppose, for this car Aggregator Company, you have you need data new to maintain database, you cannot maintain server. So, you have to hire a server in the cloud, you need a web portal, you need you need whatnot you need software maintenance. So, everything you cannot do everything. So, you have to you need partner, software companies, you need waive hosting companies, you need data server companies, you need a banker who will manage your money, then you need software for navigation.

So, you cannot actually maintain all of them as a standalone company. So, these are your partners who helps you why, why are they partners because unless you have a relationship with them your cost structure will go high. If you have a relationship, you can actually leverage on that relationship and then everything comes at a low cost number one number two you become their favoured or preferred customer. So, they take care of troubleshooting whenever you are doing business; otherwise, if you are not preferred then you are at the lower level in their priority, so that is definitely not something that is you preferred sorry.

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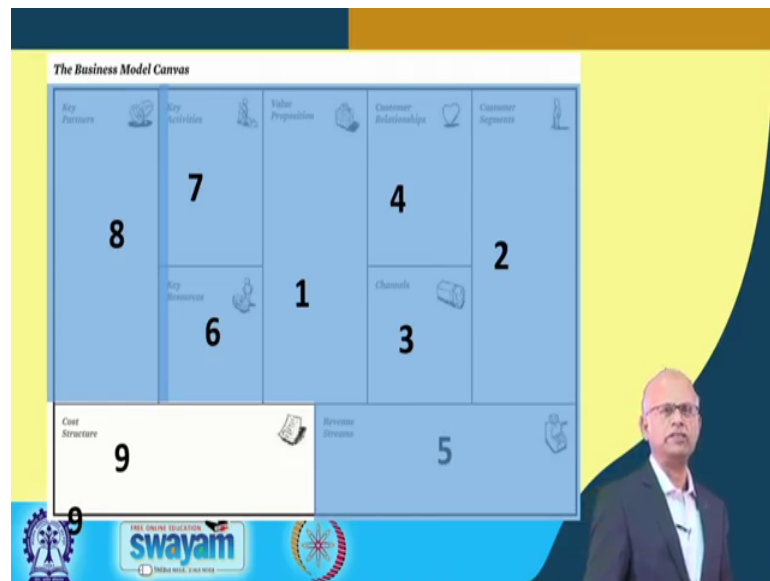
Key Partnerships

- The Key Partnerships Building Block describes the network of suppliers and facilitators who provide key resources.
- Companies create alliances to optimize their business models, reduce risk, or acquire resources.
- Key Partners include key suppliers of inputs, funding, consulting, manpower providers, investors.

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So, here is some points about key partners something as I mentioned.

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Then the last one is the cost of structure not last but not the least because cost actually will determine how much cash you are burning your cost is more than your revenue you are gone or at least for the time being it is not a good proposition. But then moving forward you can if you can show that moving forward your revenue is increasing at a faster clip then your cost definitely there can be rosy future waiting for you.

So, cost structure includes, includes say for example, salary for your staff, rent for your for the premises that you have that you hire, then the commission that to pay for a for any kind of services that you gain, for water, for electricity, for transport, for licence, for even for trade license for whatever you pay, for GST - goods and services tax, anything that you have to pay to maintain your business, and to create this value proposition like raw material cost, like utility cost, electricity cost, everything comes under cost structured.

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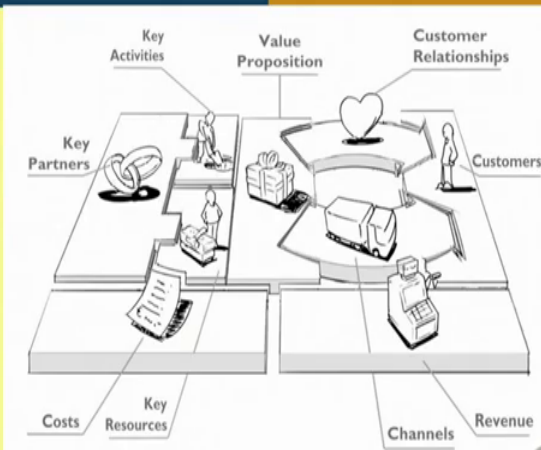
Cost Structure

- The Cost Structure describes all costs incurred to operate a business model
- Cost to be incurred in creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs.


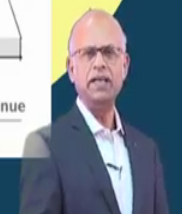


So, once you know your cost structure well then end your revenue structure well, you can actually sit back and estimate whether this business is going to give you profit or not. So, preparing projected financials requires a good knowledge about your cost structure and your revenue model. Now, we are at the fact end of the business model canvas.

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Book: Business Model Generation by Alexander Osterwalder

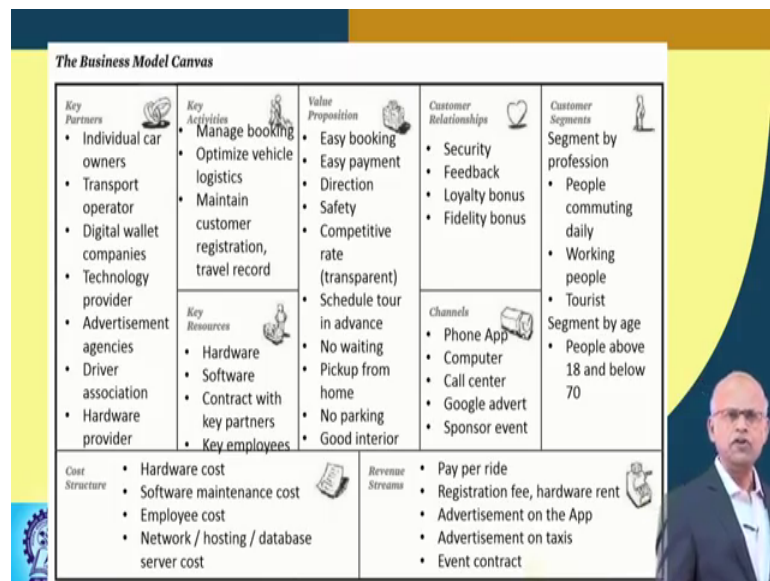


So, you can pretty much realize that once you have a fair idea about the business model canvas, you kind of have a bird's eye view about the entire business issues not really entire, but then whole lot of business issues which should be captured in a business

model. There are many others of course, and there are criticism of about the business model canvas people say that this is narrow, this is this does not have many, many other perspective like say competition perspective is not here like say social perspective is not here environmental perspective is not here.

So, likewise there are many, many points which are a kind of presume to be there by this it is not explicitly there, but then it is a holistic representation of business model. So, this kind of it is a kind of a ready reckoner that once you have them then you take all the blogs that I have taken care of all of them you can feel slightly more comfortable, then you think of other things. So, if you are making a presentation of a in a business plan competition or suppose you are making a presentation of your own business ideas before investors, obviously if you take care of a business there is a slide on your in your a slide deck about business model canvas perhaps people are going to appreciate that you have kind of taken care of majority of the things.

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So, time is short. So, I will not really elaborate, I have done this taxi aggregator business model canvas, I have prepared this for you. So, just go through them, pausing the slide you can go through them and understand. These are not exhaustive because the area was small and the texts are so heavy. So, I did not put too many texts, but then there are primary points, there are other points as well.

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Criticism of Business Model Canvas

- It does not have any reference to exogenous forces.
- It focuses mostly on economic value and not environmental and social value.
- How to create competitive advantages, entry barrier, scaling business and such.
- Overly simplistic and narrow in terms of diversity of business challenges.

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So, there are various criticism as I said nothing actually business models are so very complex and there are so very so many important other points even at the beginning of the of this deck I have mentioned about definition of a business model you can see how I would diversified the points are. So, it is very difficult to put that in a canvas, but then Osterwalder has done a wonderful job trying to do this. So, definitely criticisms are there, but a still it is a wonderful thing.

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References

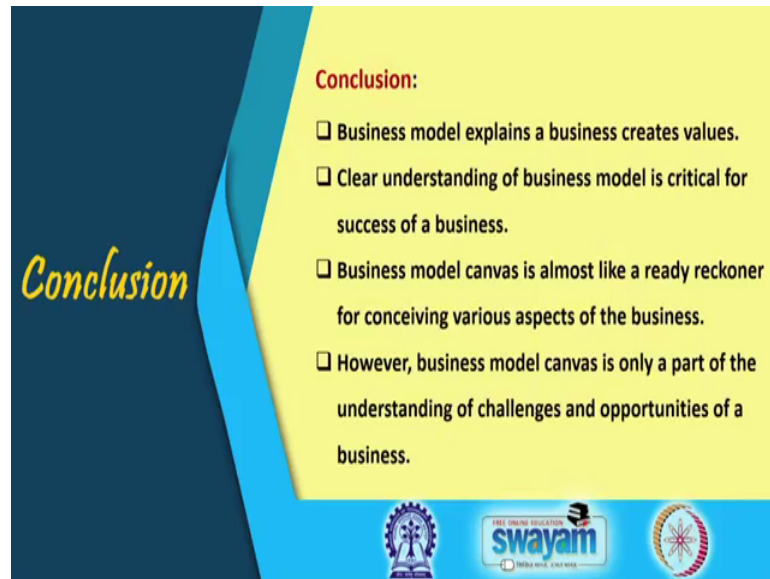
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These are some of the references and not much about conclusion.




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Conclusion

Conclusion:

- ❑ Business model explains a business creates values.
- ❑ Clear understanding of business model is critical for success of a business.
- ❑ Business model canvas is almost like a ready reckoner for conceiving various aspects of the business.
- ❑ However, business model canvas is only a part of the understanding of challenges and opportunities of a business.

So, thank you very much.