

# BUSINESS ARCHITECTURE & BUSINESS MODELS

Austin, Texas, USA - September 16, 2014

Steve DuPont

# BUSINESS MODEL COLLABORATION TEAM



Member	Title
Steve DuPont	Senior Enterprise Architect, The Boeing Company
Karen Erwin	Director, IT Strategy/Business Performance Services, NTT Data
Linda Finley	President, Leadership Advantage
Frank Fons	Senior Business Architect, STA Group
J. Bryan Lail	Business Architect Fellow, Raytheon Company
Stephen Marshall	Business Architect, IBM Global Business Services

# OVERVIEW

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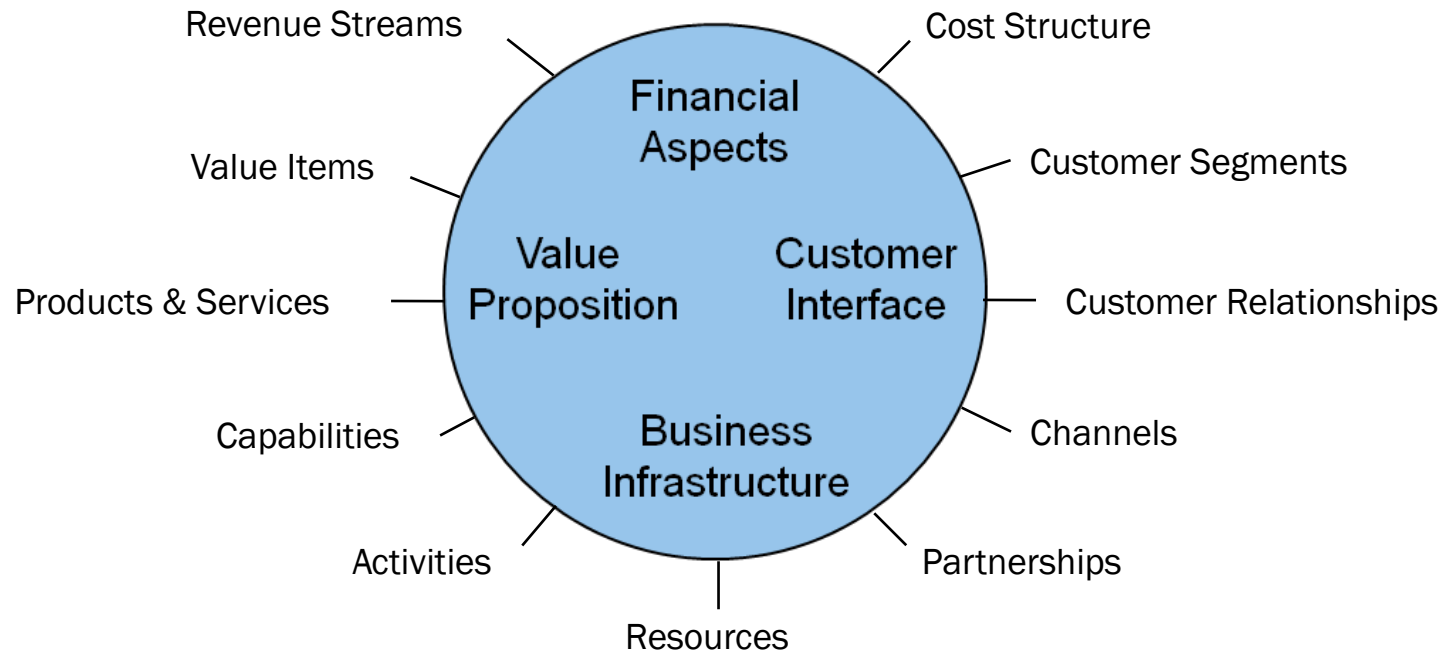
- Introduction and Directions (20 min)
- Tutorial – Business Model Canvas (20 min)
- Exercise – Using Business models for 3 Scenarios (50 min)
- Audience Input into BIZBOK® Update (15 min)

# INTRODUCTION

# BUSINESS MODEL



*“A business model describes the rationale of how an organization creates, delivers, and captures value”\**



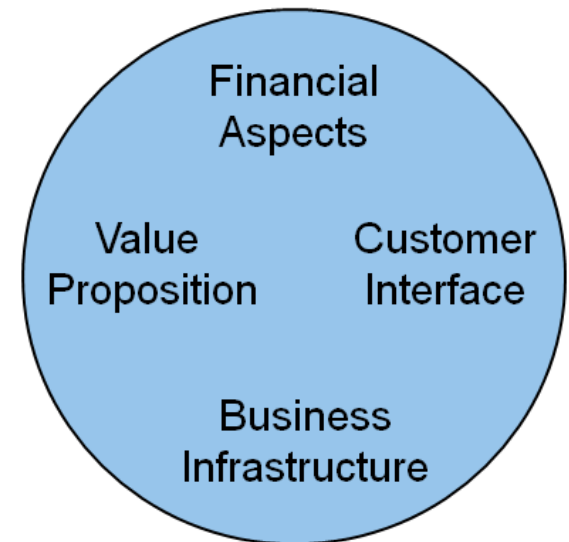
## Business Model Aspects

\*Alexander Osterwalder and Yves Pigneur, *Business Model Generation*, (Self Published, 2010)

# WHY THE FOCUS ON BUSINESS MODELS?



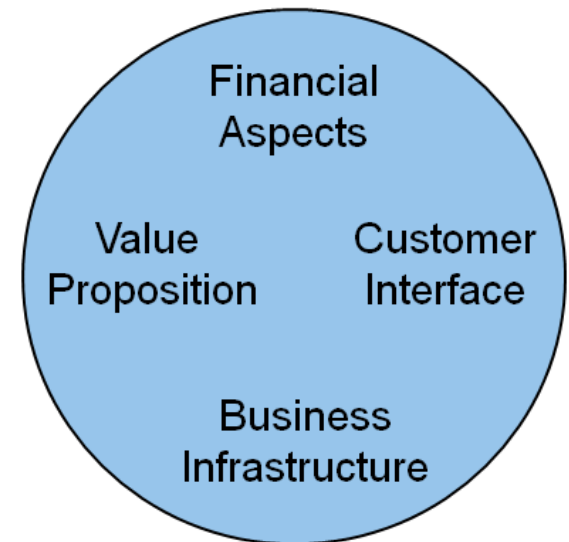
- Attention on business model innovation
- The need to describe business complexities
- The need to decrease time to market
- Shrinking business model life cycles
- Maturing business model frameworks
- Accessible methods and tools



# WHAT ARE BUSINESS MODELS USED FOR?



- Capture and communicate business concepts
- Develop and validate strategies, goals, and plans
- Assess a business from a variety of internal and external perspectives
- Integrate strategies and goals across multiple lines of business
- Establish a common set of perspectives and goals to ensure business models are deployed effectively

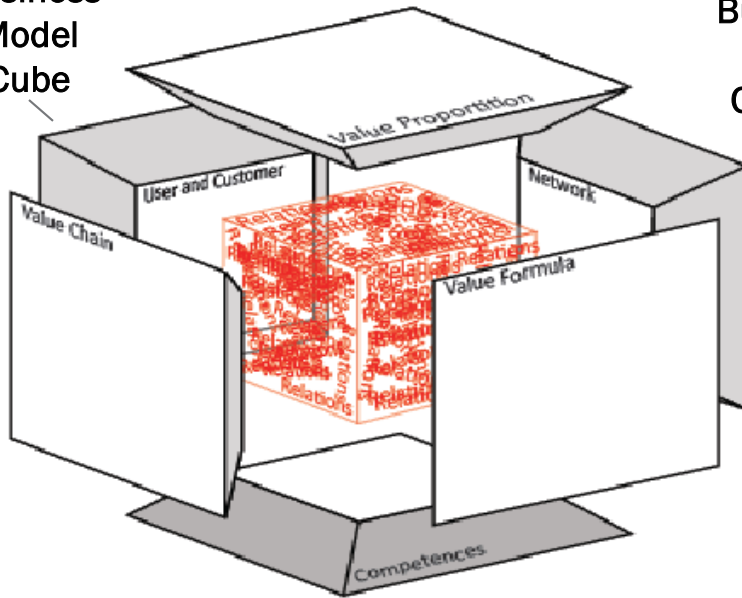


# BUSINESS MODEL FRAMEWORKS

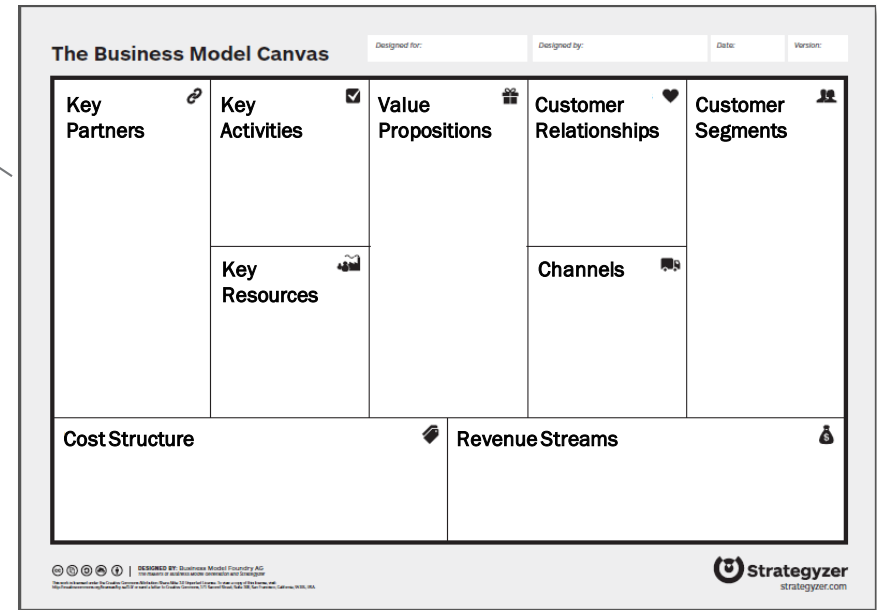


*A business model framework is a conceptual structure for organizing the elements, relationships, representations, and classifications of one or more business models*

Business Model Cube



Business Model Canvas



Peter Lindgren 2012, and the EU NEFFICS project

Alexander Osterwalder et al., 2010












# CLOSE-UP: BUSINESS MODEL CANVAS




**The Business Model Canvas**

Designed for: \_\_\_\_\_ Designed by: \_\_\_\_\_ Date: \_\_\_\_\_ Version: \_\_\_\_\_

Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 			Revenue Streams 	

DESIGNED BY: Business Model Foundry AG  
the makers of business model generator and Strategyzer

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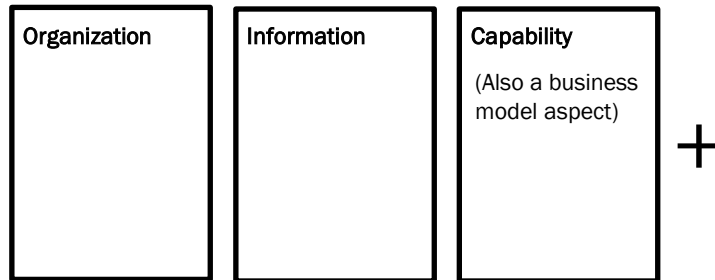
 **strategyzer**  
strategyzer.com

# BUSINESS MODELS AND OPERATING MODELS

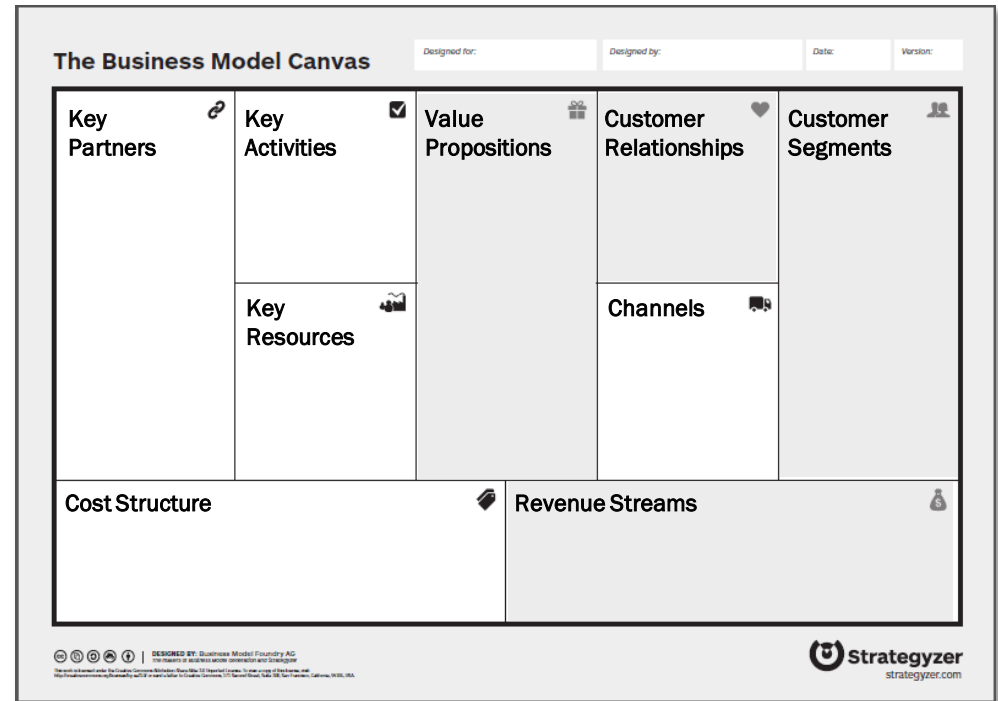


An operating model (OM) describes:

- How an organization's business models are implemented
- The necessary level of integration and standardization across business infrastructure elements

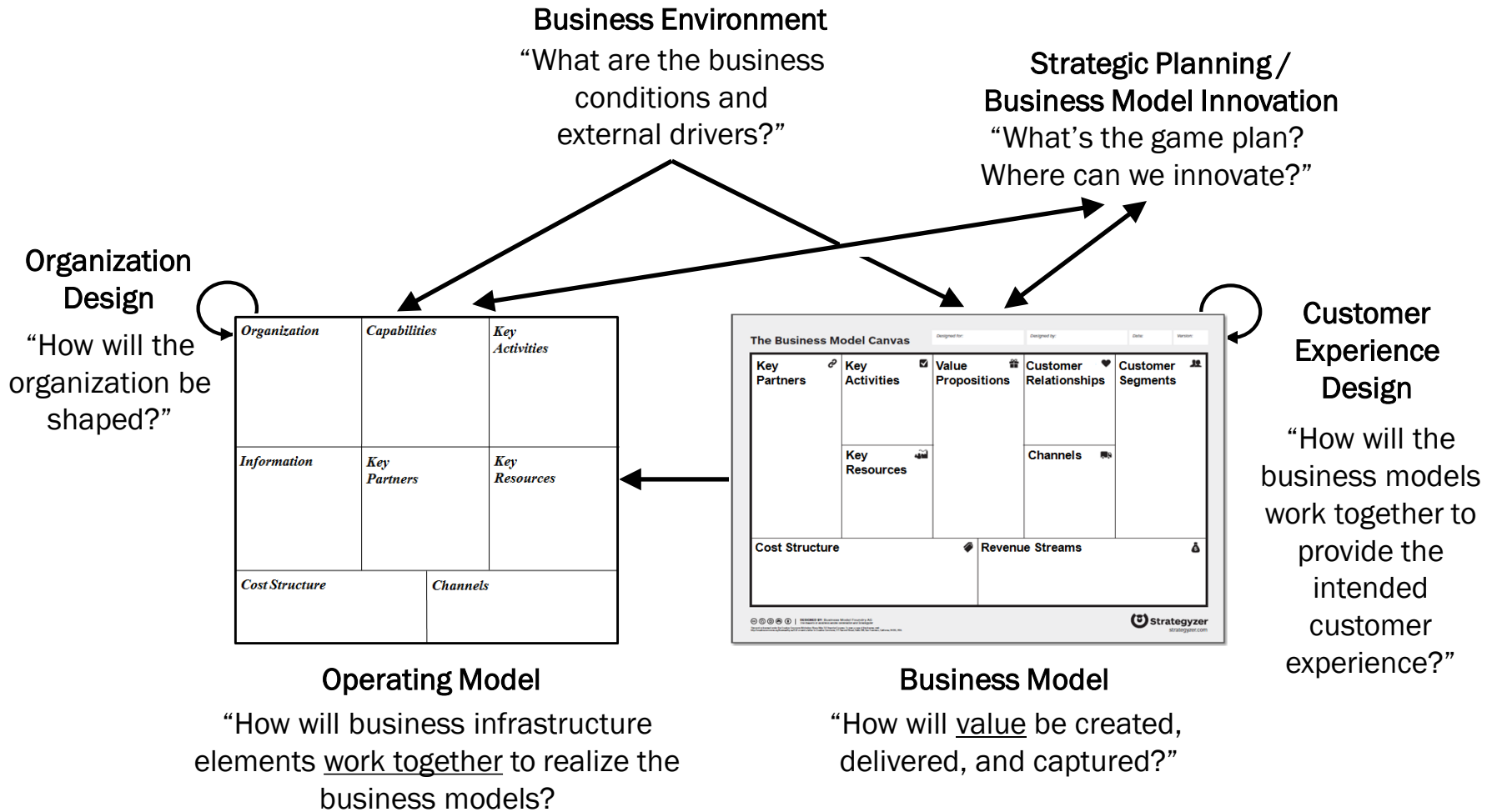


## Business Model Aspects



## Operating Model Aspects

# CONTEXT

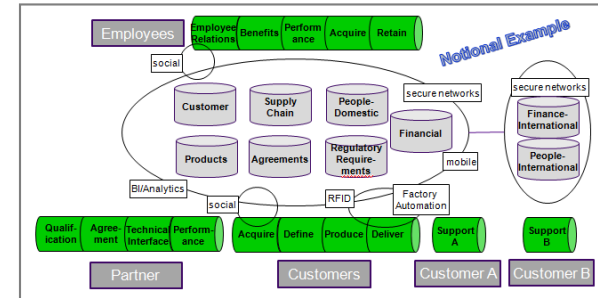
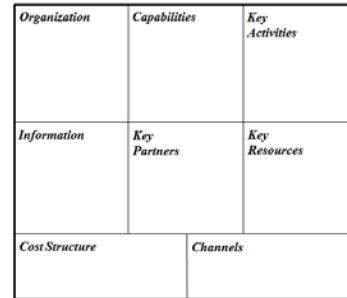
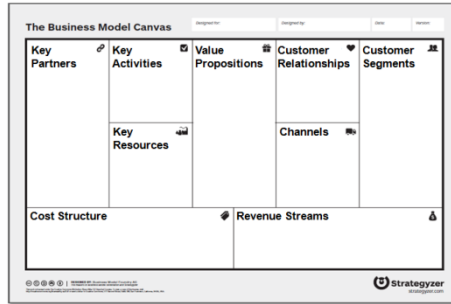


# BUSINESS MODELS & OPERATING MODELS ARE KEY ARCHITECTURE PERSPECTIVES



## Business Models and Operating Model Summary Views

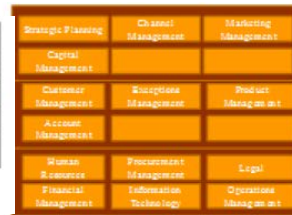
Summary Views



embodied in



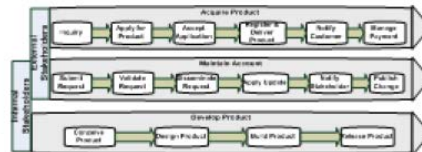
Organization Models



Capability Map



Business /Domain Mappings



Value Streams



Information Map

Detail Architecture Blueprints \*

\*Source: Business Architecture Guild, "A Guide to the Business Architecture Body of Knowledge (BIZBOK®)."

# CONTEXT WITHIN BUSINESS ARCHITECTURE DESIGN



## Design Phases

Initial Discussions



Information Gathering



Conceptual Design / Feasibility

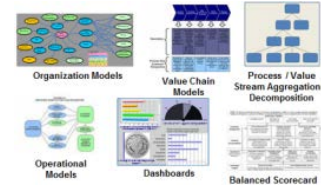


Design Development



## Building Architecture

## Business Architecture



- Business models
- Operating models

# DIRECTIONS

# STATE OF THE PRACTICE: BUSINESS MODELS

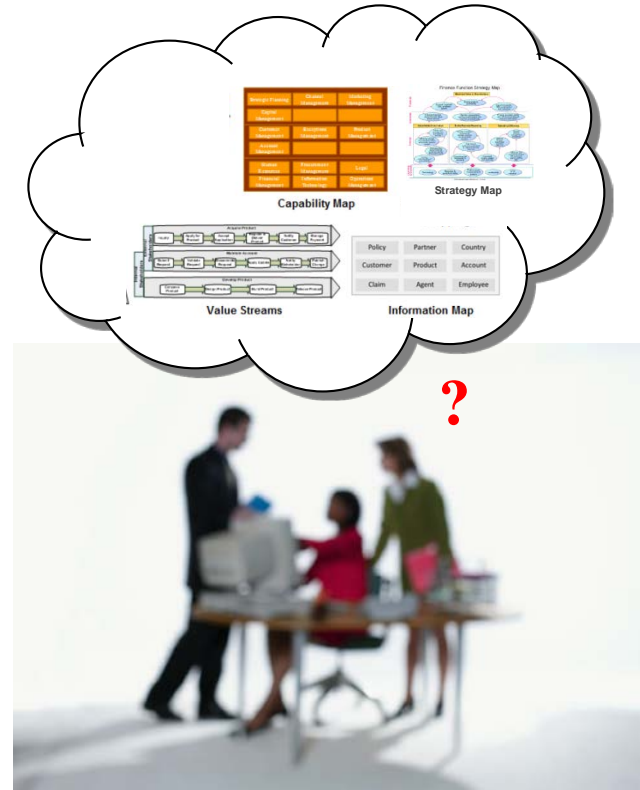
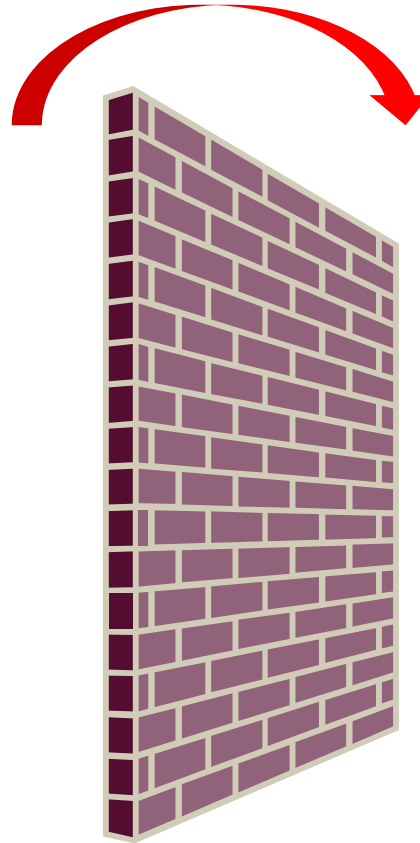
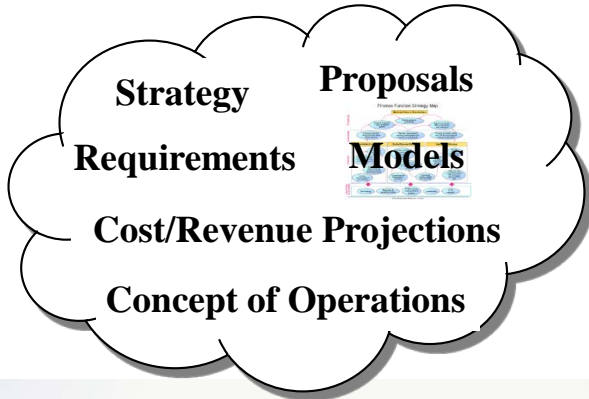


“Many managers do not really know what a business model is, let alone have an explicit model of their own business.”

“...in spite of the intensive research carried out in this field in the past 15 years, the concept still remains very fuzzy in its definition, purpose and operationalization.”

*Yariv Taran, “Rethinking It All: Overcoming Obstacles to Business Model Innovation,”  
Center for Industrial Production, Aalborg University, 2011.*

# TODAY

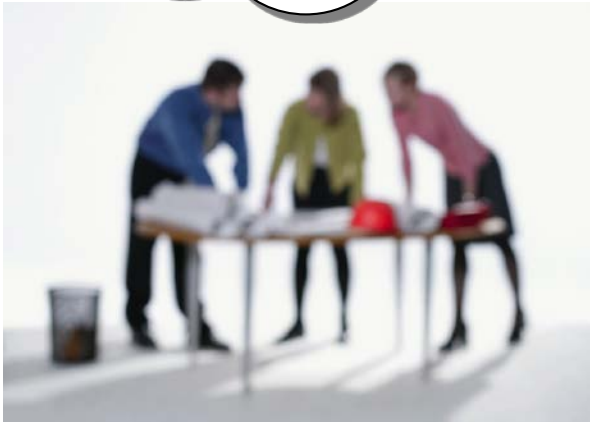
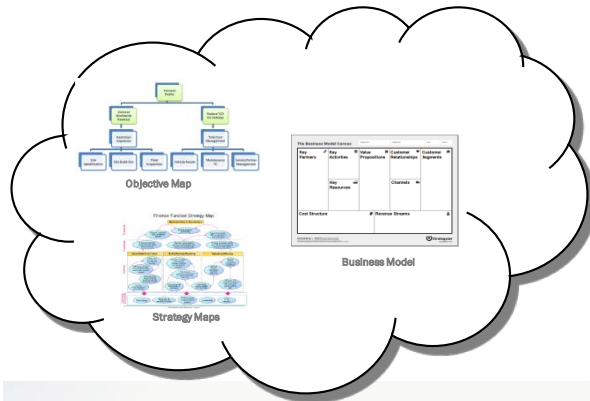


**Strategic Planning**

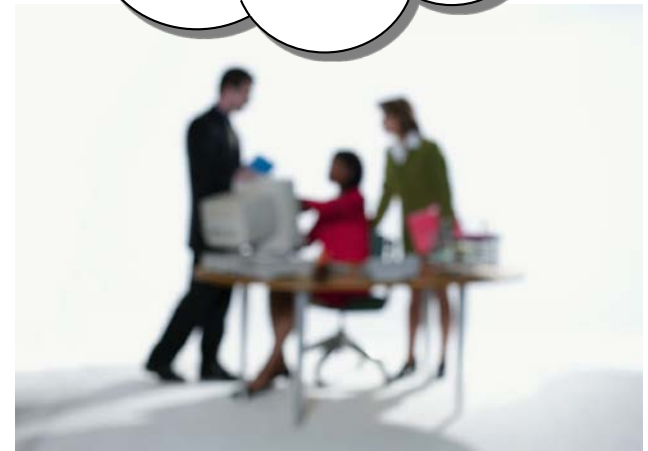
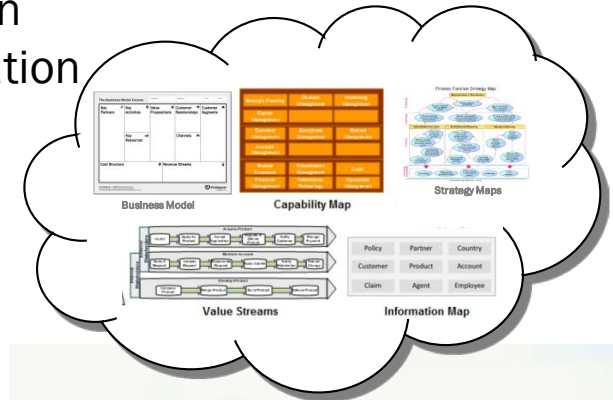
**Business Architecture Design**



# FUTURE



- Customer experience design and business model innovation drive strategy
- Rapid business model iteration and analysis
- Business model simulation



- Common language and models for strategy and architecture

## Strategic Planning

## Business Architecture Design

- Aligned frameworks



# SUMMARY

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- Business models are a key business architecture perspective
- Innovation is becoming business model-centric
- Business models are a unifying concept for business innovation, strategy, and business architecture
- Customer experience design and integrated business model design work together synergistically
- Future: Increased role of business architecture in strategic and business planning

# BUSINESS MODEL CANVAS TUTORIAL

September 2014 Austin Summit

Karen Erwin

# BUSINESS MODEL CANVAS TUTORIAL

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## Outline

- Introduction
- Breaking Down the Canvas
- Convergent Thinking with Strategy
- Probing Questions
- Recommendations: Literature & Complementary Models to Explore

# BUSINESS MODEL CANVAS TUTORIAL



## Introduction

- Expected outcomes:
  - Provide a basic understanding of starting a BMC
  - Understand how questions/analysis of a business model blend with other models such as strategy mapping
  - Provide foundation for a quick application – “mini” case work to follow this tutorial
- Reinforcement of Steve DuPont’s “floor plan analogy:”
  - The business model illustrates important functions to meet requirements and objectives
  - Essentially, a business model explains how the entity “makes money”

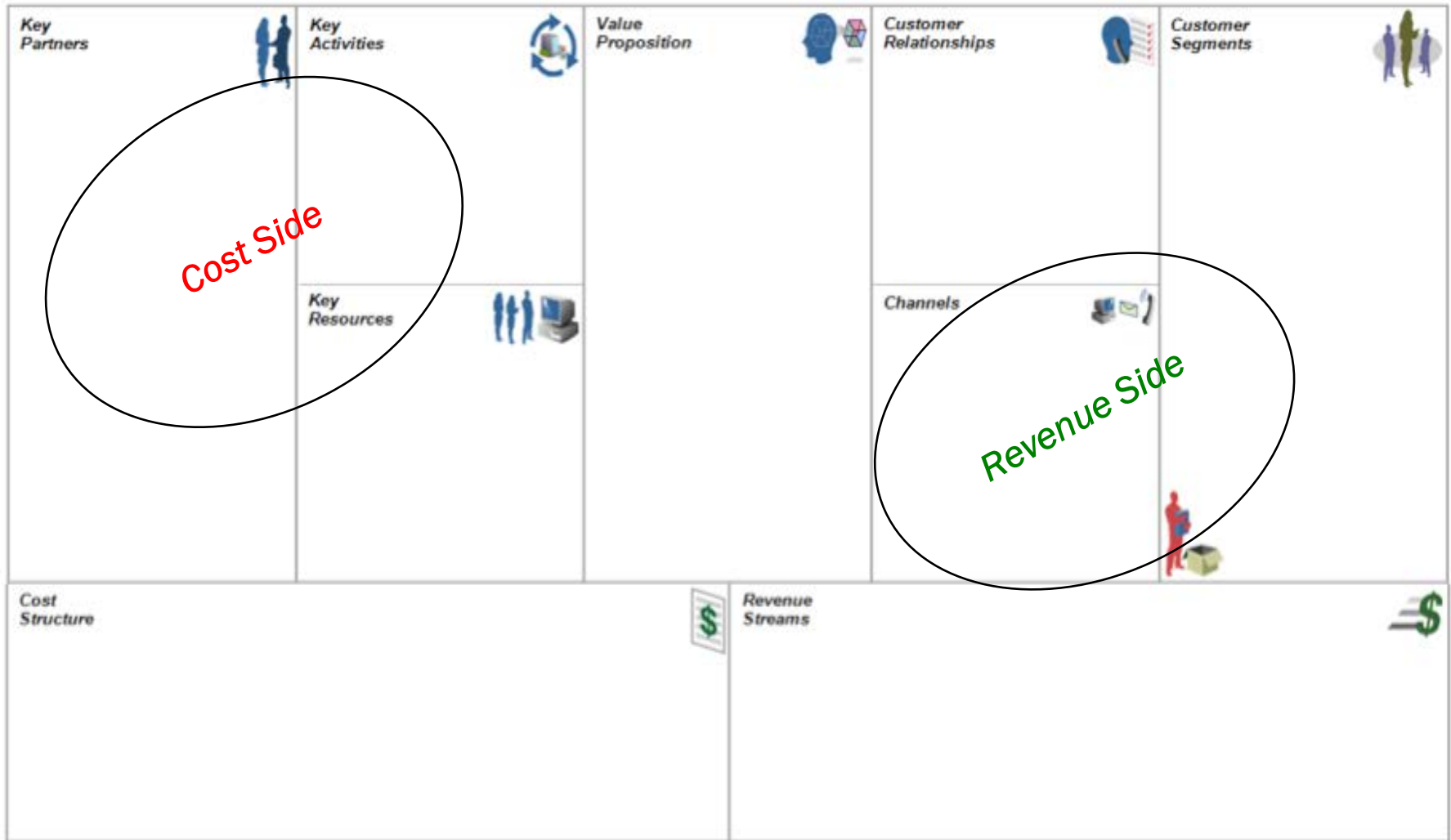
# BREAKING DOWN THE CANVAS

Using the Business Model Canvas (BMC)

Created by










Alexander Osterwalder & Yves Pigneur, 2010

# BUSINESS MODEL CANVAS TUTORIAL



# BUSINESS MODEL CANVAS TUTORIAL



<p><b>Key Partners</b> </p> <ul style="list-style-type: none"> <li>• Network that makes the business model work. Can be alliances, suppliers, distribution channels, such as VARs.</li> <li>• List by name &amp; service.</li> <li>• Note: partners can also be customers.</li> </ul>	<p><b>Key Activities</b> </p> <ul style="list-style-type: none"> <li>• Key tasks/actions supporting the value proposition, maintaining relationships; reaching markets; generating revenue.</li> </ul> <p><b>Key Resources</b> </p> <ul style="list-style-type: none"> <li>• Outline the most important assets.</li> <li>• Think about all aspects including labor, intellectual capital like patents, technology and access to capital markets.</li> </ul>	<p><b>Value Proposition</b> </p> <ul style="list-style-type: none"> <li>• Value created for each customer segment. Think about unique customer needs being solved; examine your unique competitive advantage.</li> <li>• Consider price-to-value, risk/cost reduction, design or competency advantages, even brand/status angles.</li> </ul>	<p><b>Customer Relationships</b> </p> <ul style="list-style-type: none"> <li>• How the company gets, grows and keeps customers.</li> <li>• Consider bidding proposals/contracts; self service; affinity groups</li> </ul> <p><b>Channels</b> </p> <ul style="list-style-type: none"> <li>• Distribution to get product/service to market; touch points.</li> <li>• Consider direct/indirect sales; VAR's; after sales; mail order; Web-based interaction; "bricks &amp; mortar."</li> </ul>	<p><b>Customer Segments</b> </p> <ul style="list-style-type: none"> <li>• Organize by product or service. Then group by common needs, behaviors or other attributes for prioritization/specialized value. e.g.: industry verticals for B2B, mass market, niche, by income.</li> </ul>
<p><b>Cost Structure</b> </p> <ul style="list-style-type: none"> <li>• Look at the most important costs in the business model to support key activities, resources and partners. As examples, consider items like labor unions, contract manufacturing, other outsourcing, partner discounting.</li> <li>• Consider fixed, variable and economies of scale.</li> </ul>		<p><b>Revenue Streams</b> </p> <ul style="list-style-type: none"> <li>• Describe revenue streams &amp; pricing mechanisms, such as list vs. discount, for each customer segment. Consider subscription, rental, licensing, service/consulting, user fees, "click charges," interest rate spreads, and maintenance contracts.</li> <li>• Understand "how we make or can make money."</li> </ul>		

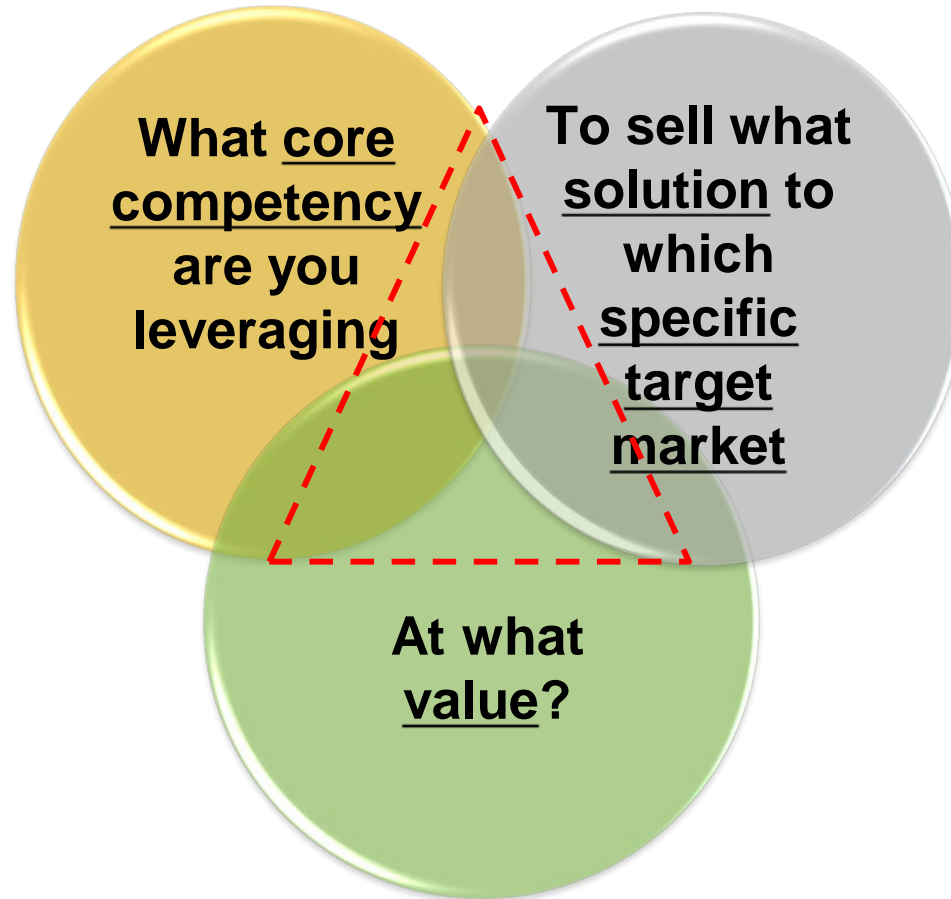


# CONVERGENT THINKING WITH STRATEGY

# BUSINESS MODEL CANVAS TUTORIAL



Sweet spot of strong strategy



# PROBING QUESTIONS

# BUSINESS MODEL CANVAS TUTORIAL



## Probing Questions At the Building Block Level – Revenue Side

- Customer Segment
  - How are market segments performing against plan? Why? What are the underlying market dynamics?
  - Who are the most important/largest revenue generating customers? Does the 80/20 rule apply? Is there a customer set to walk away from or build? Are there complimentary products/services to offer (cross selling?) or add for a new emerging market segment?
- Customer Relationships
  - What is it like for our customers to deal with us throughout the life cycle from initial establishment through service & maintenance? Do we measure it? Should we be?
  - Are we only worried about customer satisfaction – or are we investing in customer loyalty? What is our orientation – would we say we are striving for customer intimacy?
  - Why do we get, grow and work to keep customers the way we do? What if it were done differently? What can we learn from the different approaches by customer segment?
- Channels
  - What kind of a job are we doing in delivering/communicating value to customer segments?
  - Do our distribution channels still make sense? How do our customers want us to “got to market?” Does their opinion vary by segment?
  - Should there be more or reduced channel integration? How do we affect change in a profitable manner?
- Value Proposition
  - Does our stated value prop match our customer segments? If not, what’s missing?
  - What is our market penetration? What kind of a job are we doing solving each market segment’s problems? Do we know what we are trying to solve?
  - Do we have a value proposition that differentiates us from the competition?
  - Can we do anything to disrupt the market before someone else does? How smart are we in thinking about current competition, substitutes or emerging players?
- Revenue
  - Are we building recurring revenue streams? Can we turn new opportunities or new ideas into annuities?
  - Should we be looking at creative pricing mechanisms such as gain sharing?
  - Do we have the capability across all the “building blocks” to scale?

# BUSINESS MODEL CANVAS TUTORIAL



## Probing Questions At the Building Block Level – Cost Side

- Key Partners
  - What kind of a job do we do in leveraging partners? Do we track their performance against established goals? Are we satisfied with performance? How have they contributed to reducing risk and uncertainty, creating economies of scale, and/or generating revenue in our go-to-market strategies?
  - Are some of our partners also customers/how's that working?
  - Do we need new partners for emerging/changing activities?
- Key Activities
  - We think we understand our key capabilities to create our articulated value – but do we really?
  - Why do we do the things we do? What if we did things differently?
  - Have our business drivers changed? What are our pain points?
- Key Resources
  - What resources are indispensable in our model and executing against our vision? When is the last time we evaluated them?
  - What is our balance of in-sourcing versus outsourcing and the quality of goods and services provided? Do we need to re-examine?
  - Are there substitutions and trade-offs to our current resource pool? Where can we use technology for greater leverage and competitive advantage?
- Cost
  - How costly are our customers – by segment and individually? If we are losing money on a customer, why? Do we need to examine the costs of maintaining relationships? Do we have to “fire” a customer – or how do we get them back into profitability?
  - How are our gross margins? What can we do to increase GM? Which key resources/activities are most expensive? Do we have a good “ABC” cost understanding by product line?
  - Do we earn before we spend? If not, why? Are we smart about buying “on margin?”

# RECOMMENDATIONS: LITERATURE & COMPLEMENTARY MODELS TO EXPLORE

# BUSINESS MODEL CANVAS TUTORIAL



## Complementary Models To Explore:

- Five Forces Model; Michael Porter, Harvard
- Balanced Score Card; Robert S. Kaplan & David P. Norton
- MIT's Four Operating Models: Coordination, Unification, Diversification & Replication; MIT Sloan Center for Information Systems Research

## Helpful Literature:

Book/Article	Of Note
BIZBOK® 3.3	Business Architecture Guild's current and to-be updated BoK section on Business Modeling.
Business Model Generation; Alexander Osterwalder & Yves Pigneur	BMC's paperback primer from the model's creators with creative input from 470 practitioners. <i>(Note: follow-up book expected soon: Value Proposition Design).</i>
Business Architecture, The Art and Practice of Business Transformation; William Ulrich and Neal McWhorter	Easy to read 200 page paperback authored by Guild co-founders focusing on a business friendly framework to transform organizations.
Business Architecture – a Practical Guide; Jonathan Whelan & Graham Meaden.	Business Architecture text book authored by two experts from the United Kingdom.

# BUSINESS MODEL CANVAS TUTORIAL



## Helpful Literature:

Book/Article	Of Note
Enterprise Architecture as Strategy; Jeanne Ross, Peter Weill & David C. Robertson.	Textbook focusing on the critical importance of EA for business execution; introduces MIT's four operating models examining business standards & processes.
A More Beautiful Question – The Power of Inquiry to Spark Breakthrough Ideas; Warren Berger.	2014-released book exploring the art of better questioning ( <i>Why &amp; What If</i> before <i>How</i> ) to ignite business change and innovation.
Open Business Models/How to Thrive in the New Innovation Landscape; Henry Chesbrough.	Discusses managing intellectual property differently to innovate more openly.
Seizing the White Space: Business Model Innovation for Growth and Renewal; Mark Johnson.	Presents four building blocks which the author believes make business models works.



# BUSINESS MODEL CANVAS TUTORIAL



## Helpful Literature:

Book/Article	Of Note
The Business Model Innovation Factory; Saul Kaplan	Provides innovators with a set of 15 principles to guide business model innovation in the face of disruptive markets and competition.
“Rebuilding Your Business Model,” Harvard Business Review.	Published compendium of 10 HBR articles on business models driving growth.
“Why Lean Start Up Changes Everything,” Harvard Business Review, May 2013.	An issue that focused on entrepreneurship, this article featured the BMC and its original context to help start-ups shape their businesses.
“Unbundling the Corporation,” Harvard Business Review, March 1999.	This article argues there are three kinds of businesses – those that predominantly focus on attracting customers, developing product or managing overseas operations.

# BUSINESS MODEL CANVAS TUTORIAL



## Helpful Literature:

Book/Article	Of Note
“Reinventing Your Business Model,” Harvard Business Review, December 2008.	Great business models can reshape industries. The authors provide guidance on how to determine if your firm should alter its own.
“Business Model for Horizontal Integration of Health and Human Services,” American Public Human Services Association, 2012.	A public sector attempt to solve some systemic issues by taking a business model approach.

# BREAKOUT EXERCISE

September 2014 Austin Summit

J. Bryan Lail

# BREAKOUT EXERCISE INSTRUCTIONS



- This is where we practice using the Business Model Canvas
- The room will be split into three teams by location, each with a canvas
- We're handing out your business scenario (each team's is unique) with guidance on steps and timing, along with helpful questions
- Quickly read the scenario and choose your facilitator to work at the canvas (stickies and markers provided)
- You'll have 30min total to work quickly through your scenario and then nominate a presenter to give a 4min out brief to the whole audience  
**1:40-1:45 Instruction 1:45-2:15 Work Session 2:15-2:30 Team Outbriefs**
- Scenario presenters answer these two questions:
  1. What did your team find most useful in working through the canvas?
  2. Where were the challenges or improvement opportunities?

# HANDOUTS

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The handouts will be one of the following three scenarios (two slides each) and then two pages of questions to help think through any of the canvas cells

We will have the handouts available electronically on the website labelled as the three scenarios, plus ~40 copies for each team

# SCENARIO 1 BUSINESS INNOVATION

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Company: Xanadu is a leader in leading edge technology in smartphones, focused on customers who need the newest in collaboration tools and business apps

Situation: Global sales peaked in 2012 at \$5.6B and declined 5% in 2013 with a similar estimate for 2014, market research indicates a decline in customer satisfaction

Need: Xanadu must reassess and prioritize their business capabilities (activities, roles, core investments) to drive customer satisfaction back up and lead their core market

# SCENARIO 1 BUSINESS INNOVATION



Your challenge: Use the canvas and your business architect toolset to drive a focus on key capabilities to meet the need

## Approach:

- Quickly sketch out the customer segment/channels and value proposition
- Spend the most time on how and where the model of the business (what is done, who does it, how they do it) itself could shift to grow market
- What are the key capability gaps?
- What do those imply about new value streams across the business in terms of activities, roles and changing investments?
- How will this specifically lead to growth in revenue or other outcomes?

# SCENARIO 2 BUSINESS DEVELOPMENT



Company: Oriental Occidental Bank is a state chartered commercial bank, targeting the Chinese American community in Southern California. It was created 20 years ago as a savings & loan with focused services to this ethnic community.

Situation: During the past decades, Oriental Occidental Bank has grown organically and through acquisitions, which have – for the most part – been focused in the same market niche.

Need: The bank has decided to leverage its significant penetration in the U.S. Asian American market and the growth in U.S./China commercial activity to expand internationally in China. Strategic alliances are a critical success factor.



# SCENARIO 2 BUSINESS DEVELOPMENT



Your challenge: Use the canvas and your business architect toolset to focus on key capabilities to provide international services in business banking.

## Approach:

- Identify your customer segments by product/service. As you look at your customer relationships, identify your channels and the types of partners needed to go-to-market. Are there partners to consider in both the U.S. and China?
- What are the key capabilities and therefore the needed activities & resources?
- Agree on a value proposition.
- What are the expected revenue streams?
- Given the channels, partners, activities and resources, what are the cost structures? What is the fastest way to get to market and make money with this new strategy?

# SCENARIO 3 PRODUCT INNOVATION



**Company:** Xylla (“Zilla”) Motors is a market leader in high performance sports cars since their inception in 1980 with recent revenues of \$46B. 10 years ago, Xylla entered into the economy and luxury car markets with moderate success. The company has traditionally had a “hands off” relationship with their dealer network who have been undergoing consolidation in the last 15 years.

**Situation:** Sales have declined 10% and 6% for their economy and luxury car sales respectively despite high survey results for product performance and reliability. Customers biggest issues are 1) maintenance costs and scheduling; 2) consumer electronics and integration; and 3) declining resale value. Xylla’s dealers complain of insufficient technical support for their maintenance operations. Xylla doesn’t have strong consumer electronics competencies or IT Platform development experience. They are also behind in developing a comprehensive mobile strategy.

**Need:** Xylla’s Board of Directors have decided to re-establish growth in their economy and luxury car segments through product and service innovation. Their goal is to improve their overall customer experience with their products with a focus on driving, maintenance, and customer support experiences.

# SCENARIO 3 PRODUCT INNOVATION



Your challenge: Use the canvas and your business architect toolset to drive a focus on key capabilities required to meet their goals for growth.

Approach:

- Quickly sketch out the customer segment/channels and value proposition
- Spend the most time on how and where the business model could change to meet their goals
- What are the key capability gaps?
- What do those imply about new value streams across the business in terms of activities, roles and changing investments?
- What new key resources will Xylla require to make its business model successful?
- What new Partnering arrangements should Xylla consider?
- How will this specifically lead to growth in revenue or other outcomes?

# PROBING QUESTIONS FOR REVENUE SIDE



- Customer Segment
  - How are market segments performing against plan? Why? What are the underlying market dynamics?
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# PROBING QUESTIONS FOR COST SIDE



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# **BUSINESS ARCHITECTURE & BUSINESS MODELS - WRAP UP**

Austin, Texas, USA - September 16, 2014

Frank Fons

# WHAT WOULD YOU AS PRACTITIONERS DO WITH BUSINESS MODELS

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- How are you currently using business models?
- How could or should that use of business models change in the future?
- What is greatest value in using business model concepts within the practice of business architecture?

# WHAT SHOULD WE ADD TO THE BIZBOK®?



- Enhanced connection of Business Models to Capability Maps?
- Enhanced connection of Business Models to Information Maps?
- Enhanced connection of Business Model Innovation to Strategy Maps?
- Operating Models and relationship to Business Models ?
- Enhanced connection to Value Stream Maps?
- Anything Else?



# WHAT SHOULD WE ADD TO THE BIZBOK®?



- Thank you for your contributions.
- Please send any additional thoughts on business models and business architecture best practices and deliverables and what would be helpful in the BIZBOK® to our team at

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