

Study Unit 8

Design Thinking: Implementation Phase & Business Model Generation

Study Unit Outline

- Introduction
- Defining Business Model Generation
- Business Model Generation Canvas
- Given Goals versus Imagined Ends

Study Unit Duration

This study unit requires a 40 hours of formal study time.

You may spend an additional 2-3 hours for revision

Introduction

This study unit deals with the last phase of the design thinking method which is the implementation phase. Particularly, you will study how to implement ideas through business models. In this study unit you will be introduced to the business model generation and the business model generation canvas which is a tool used for business modeling as well a method for coming up with business model innovations.

Learning Outcomes of Study Unit 8

Upon completion of this study unit, you will be able to:



8.1 Define Business Model Generation.

8.2 Describe the nine building blocks of the business model generation canvas.

8.3 Illustrate the difference between the given goals versus imagined ends.

8.4 Link design thinking with business model innovation.

Terminologies

Business Model Generation	Describes the logic of how an organization creates, delivers and captures value.
Business Model Generation Canvas	A visualized tool which represents the nine main building blocks of an enterprise.

8.1 Design Thinking: Implementation Phase and Business Model Generation

So far, you have become familiar with the basic concepts of innovation and entrepreneurship process management. Besides, we discussed on the design thinking process which consisting of three overlapping spaces. After the inspiration and ideation spaces, we are now going to discuss the implementation phase. In particular, we will focus on implementing ideas through the business models. In this study unit you will be briefly introduced to the business mode canvas which is a tool for business modeling as well a method for coming up with business model innovation.

The issues we discussed in the previous chapters help us to define our problem and search for potential solutions. Now, we are moving to actions necessary to implement solutions and turn them into innovations. We want to implement our ideas, be successful and happy about it. But, what should we do in order to get there. Let's assume that either we created or found an opportunity and we have already spent much time talking about that. Then what kind of action are we supposed to take? Basically, we need to either have an existing firm or establish a new organizational structure that will help to implement the idea, to bring innovation to the market. In line to what we have learned this building process is rarely unidirectional as the actions we take to build and shape organizations are in both directions. Our idea will influence what kind of organization we build and at the same time building the organizational structures themselves is likely to transform our idea. Overall, the organizing process around novelty is the very essence of entrepreneurship, either a new start ups or so called intrapreneurship in existing organizations.

Entrepreneurship and innovation require an understanding of organizations and organizational structures. Regardless of whether this is a new business startup, a single person business, or a large private or public sector organization, innovation is implemented through and embedded in layers of an organization. First, there is overall planning level, the strategy level of an organization. This layer deals with vision, long term goals and objectives of the organization. On the bottom, there is the implementation level, process layer. This layer deals with the operational aspects of the business that is how are everyday tasks and work hours organized. Production and operation manuals that address exactly how and how much an organization produces are embedded in this level. In between is a layer that is most interesting one for entrepreneurship and innovation, the business model layer. This layer deals with the architecture of an organization. Essentially, the

business model layer is about how the organization is built to create value and earn money from whatever products or services they offer and this is what makes this layer interesting for entrepreneurship and innovation.

Table 1 Organizational layers

Level	Layer	Focus
Planning	Strategy	Vision, Goal and Objectives
Architectural	Business Model	Value creation and money earning logic
Implementation	Process	Organization and work flow

8.1.1 Definition of Business Model

Business model “describes the rational of how an organization creates, delivers and captures value (Osterwalder and Pigneur 2010).” A business model is something very universal for all organizations. All organizations are involved in some form of value creation, delivery and capture. Private business may emphasize profit and public organizations cost coverage. Thus, business model describes the value propositions that a company delivers to its customer segments. There are two fundamental aspects; value creation and for whom you are creating value. Furthermore, the business model describes the architecture of the organization and its network of partners that makes the value creation and delivery to the customers’ work. Finally, it looks how the whole process generates revenue streams either profitably or at least sustainably.

In principle, the business model process is as follows. First, the entrepreneur identifies and proposes the right business logic which responds to market conditions. For example, if this is about commercializing a very new technology, the right business model design addresses how customers may get in touch and be familiar with it and how compatibility with existing system can be achieved. After that, the entrepreneur will work on how the business model is going to be financed. If this is an existing company, the entrepreneur might look for internal funding options or raise the stock market capital. If this is an entrepreneur starting a new venture, he/ she might search for venture capital or for a business angel. If that is successful, the business model has to be

implemented that is after you build the architecture in your hand, actual factors and offices should be built. People have to be hired and they should know what they should do.

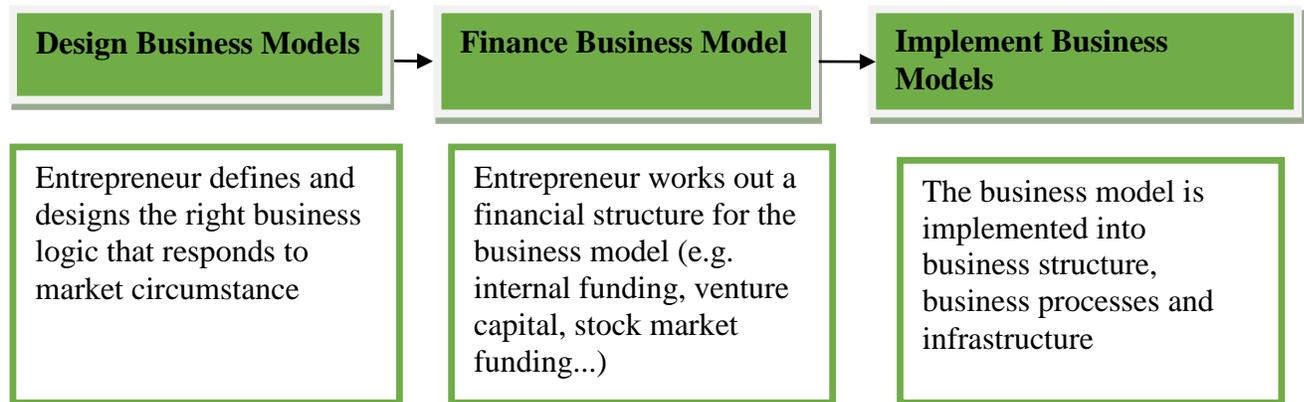


Figure 8.1 - Summary of business model structure

This process does not take place in isolation. The business model builds the middle and connects ground for the business strategy and the business organization layers and it does connect to the internal information systems of an organization. External factors that influence the business models are the social and legal environment, customer demands, and technological change. Furthermore, competitive forces in the business model environment shape the business model. However, competition is not part of the actual business model. It is part of the environment the business model is embedded in. As it has been mentioned earlier, business model and business modeling are interesting aspects of the entrepreneurship and innovation process. Because, the business model embodies the actions we need to take to turn an opportunity into a business idea. It is about how creative and innovation we are in building this architecture that defines entrepreneurial success. In conclusion, just focusing on product innovation is not enough anymore. Running a desirable, feasible and viable business is depending on the business model innovation. So, apart from new product, service or process innovations we need new business models that address new ways of creating and capturing value. If business model generation is becoming more important we have to start with a common understanding of what it actually is. For this, we need simple, relevant and intuitively understandable business model concept. What we need to do when words don't work? Dan Roam, author of "Blah Blah" said the following. "Any problem can be made clearer with a picture." So, we need a visual business model.

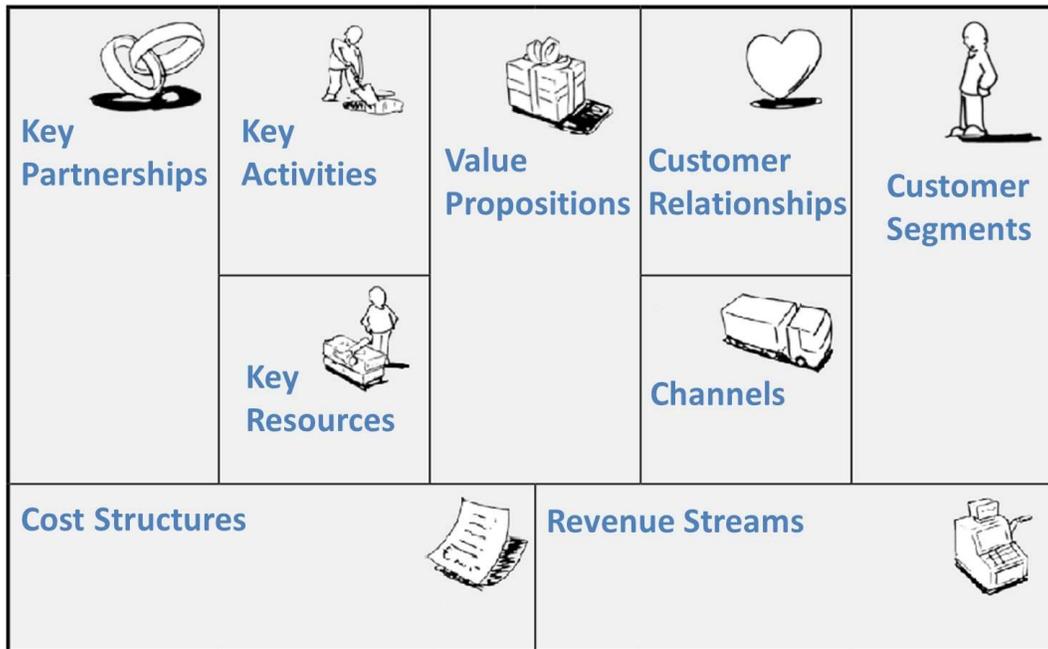


Figure 8.2 - Business Model Generation Canvas (Osterwalder and Pigneur, 2010)

Let us now briefly look at the business model canvas which consists of nine building blocks. In the middle, we have the parcel which is the value proposition that is the value that you are proposing to your customers (the guy on the right building block). The value proposition refers to the specific attributes of the product or service you are going to deliver. For example, a less invasive drug, a more comfortable travel experience or a seamless access to audio files where ever you are. The area with heart symbolizes the kind of relationship you are going to build with the customer that is how you are going to inform him/her about value you propose and how you are going to maintain this relationship, for example, through customer support or an online community.

The truck symbolizes the distribution channels. How are you going to physically deliver the value? This depends on your product or service and can literally be a truck or virtual highway. The cash register at the bottom right building block symbolizes revenue streams you are going to get by delivering the value to your customers. Moving to the left side of the canvas, the guy trying to dig a hole in the ground represents key activities that you need to perform to be able to produce the value and deliver it. In order to deliver these activities, you need tools that is key resources

represented by the guy with the hummer. Such key resources are your employees, your technology and others such as licenses, your physical assets such as building and offices and the intangible assets that you need such as knowledge, brand and reputation. Since it is difficult for organizations, especially for startup companies to perform all the key activities by themselves and they need key partnerships symbolized by marriage ring building block. These partners can perform some of the key activities and provide resources. However, all of this will consume money symbolized by the cost sheet in the bottom of the left building block. Ultimately, your costs have to be at least equal with your revenues to be able to sustain your business model.

8.1.2 The Business Model Canvas

In this part, you will be introduced to the business model canvas and its uses. The business model canvas describes the business model through the basic building blocks that shows how a company proposes to create, deliver and capture value.

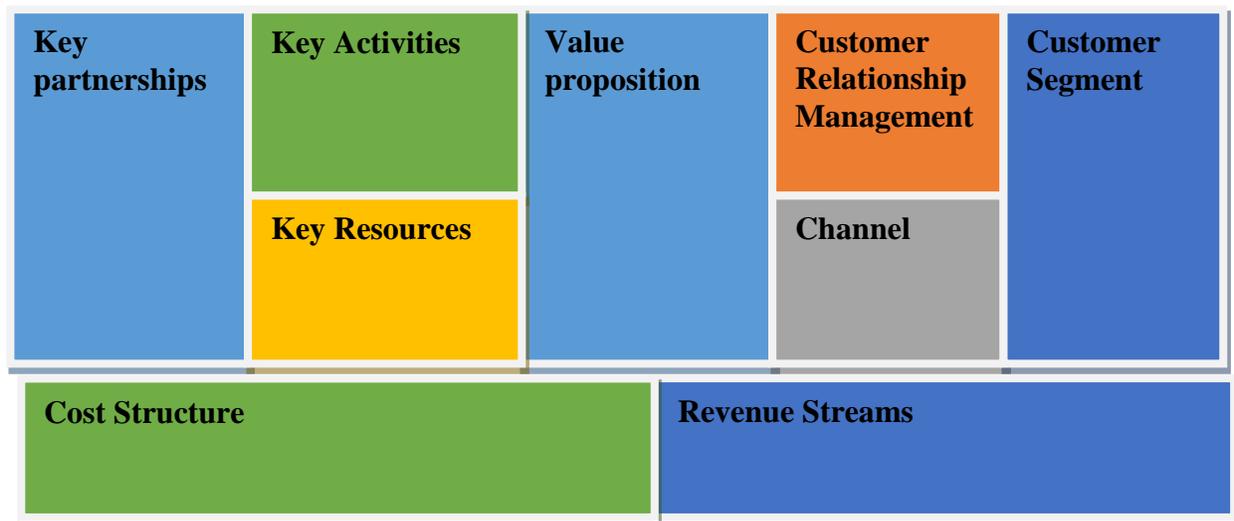


Figure 8.3 Business Model Canvas

Description on each of the 9 building blocks has been done in the previous section. So, in here the focus is on the summary of what the canvas will help with. First, the canvas helps to describe and think through the business models. The business model canvas can help us understand how organizations actually make money or at least how they are able to deliver and finance what they are doing. For future innovation managers and entrepreneurs, it can be useful to understand the

current value creation logic of an organization and see whether there is a room for change and improvement. Therefore, why we use the business model canvas is due to the following reasons. It facilitates a shared understanding through providing a shared language. It also helps to systematically challenge assumptions and initiative changes. Further, it is simple and covers the four main areas of business viz. customers, offer, infrastructure and financial viability. It also serves as a design for a business strategy which is executed through organizational structures, processes and systems. Moreover, business model canvas helps to develop and test new business which leads to business model innovations.

For entrepreneurship and innovation, the canvas can be useful to communicate an idea. You can use the canvas to communicate a very rough idea/more elaborated one. For a rough idea the canvas can be useful to explore enabling factors that is what would it take to make the idea work. Later on, the canvas can be filled with more detailed information that can be turned into feasibility and viability study. Furthermore, it helps to test ideas and allows you to test the ideas right there on a paper. When you do that it can lead to all types of innovations and combinations. In summary, the canvas allows for entrepreneurs to experiment at different scales. You can sketch out many prototypes and learn from exploring all ideas even the absurd ones without any other consequences that are wasted on a piece of paper. For this course, we are using a design thinking approach and there is a good fit between the canvas and design thinking approach. The canvas can help to address some of the said overall constraints we talked about in the design thinking content. The value proposition and the customer aspect address **desirability**. The key features to deliver the value addresses **feasibility** and the cost and revenue streams address **viability**.

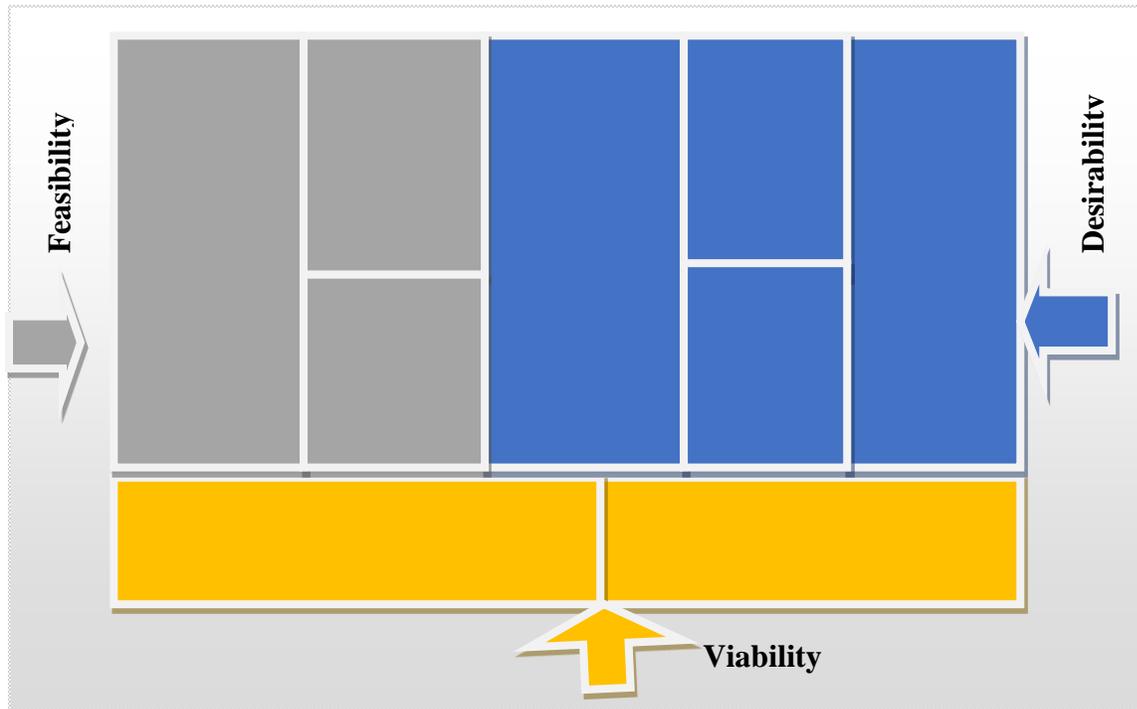


Figure 8.4 - Business Model Canvas and Design Thinking

In addition, process wise the canvas is also a good fit because it can be used in all design thinking spaces. As it allows for prototyping at different scales, the canvas can be used as a game for exploring. It can also be made more detailed for implementation. It facilitates feedback and testing because it provides a shared understanding. In conclusion, the canvas can help creating options from which to choose from. The prototyping aspect is particularly important also for business modeling. The problems are if we freeze and refine ideas too quickly we risk pushing a worst solution to the end of the project.

Quote: *"If you freeze an idea too quickly, you will fall in love with it. If you refine it too quickly you will become attached to it and it becomes very hard to keep exploring, to keep looking for better. The crudeness of the early models in particular is very deliberate."* Jim Glymph

Remember, at the beginning of the innovation process, the focus is about quantity. Many ideas increase likelihood of one good idea. Experimenting with ideas very early helps us to roughly assess the quality of many ideas. This is something that might be difficult for us to do, to rapidly come up with many ideas and let them go off then.

8.1.2 Given Goals versus Imagined Ends

One of the major things that makes innovation and entrepreneurship difficult is that we are dealing with uncertain outcomes. Most of our educational and professional experience is on goal driven thinking. We have to produce a predetermined outcome and our task is to find the best possible way to achieve it. So, what we do is select a means that will help us reach our goal in the best way. This can be called causal or managerial thinking. However, as entrepreneurs, when we are dealing with innovation we have this very disturbing problem that the outcome is by definition uncertain. So, scholars recently found out that what successful entrepreneurs and innovators tend to do is to reverse the thinking process. In the absence of a pre-determined goals, they focus on a pool of given means and start to imagine possible new ends that could be the outcome of using a given set of means. Imagined ends are not predetermined and all shaped by new means and new insights along the way. This can be called entrepreneurial/ effectual thinking.

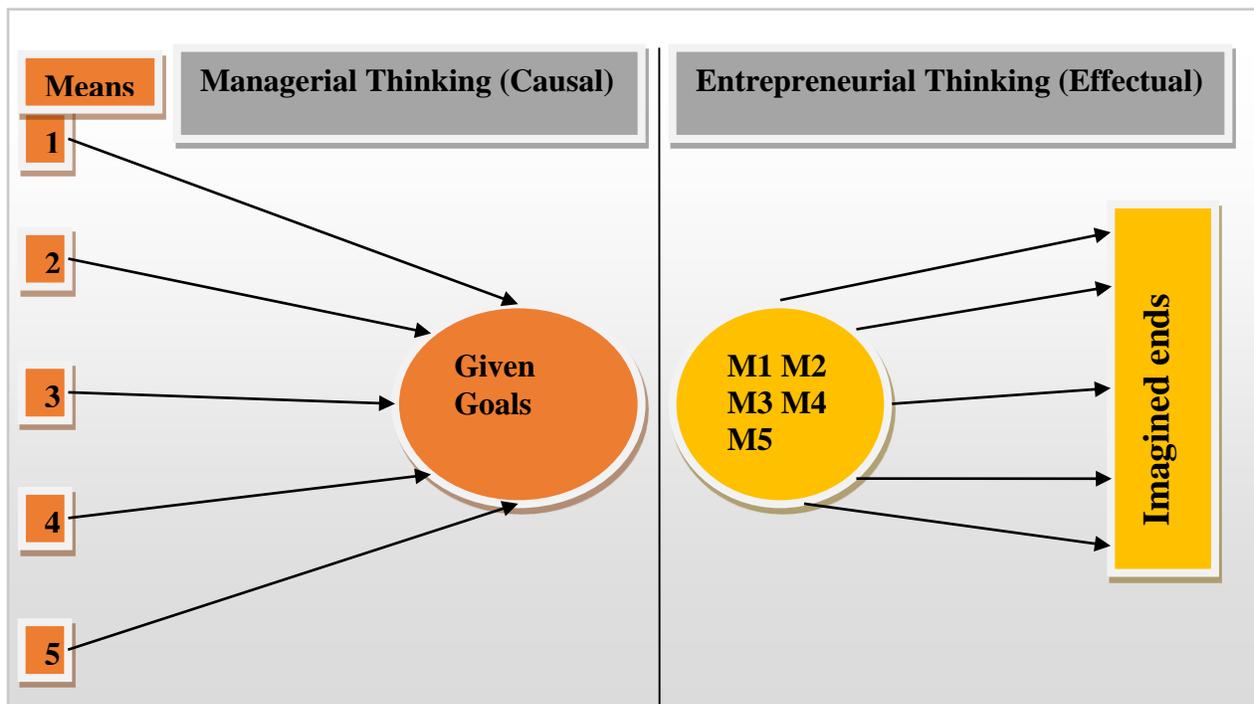


Figure 8.5 - Given Goals versus Imagined Ends (Sarasvathy, 2008)

What makes this way of thinking so difficult for us is that we are accustomed with the linear reasoning in line with the goal driven approach. Thus, even when we hear iterations we tend to think about a step by step process just making a wrong step and going one step back, adjusting the

right direction and go ahead again. Yet, thinking about iterations as a step by step process is still very linear orientated. Innovation and entrepreneurship is like standing at the gate of a corridor and it is impossible to see what it holds, until you proceed. New and unintended opportunities can arise as you choose to open doors and windows; enter the rooms and leave them again. In doing so, you are going to learn and build an insight. Your actions and experiences will shape your path.

Self-Review Questions

1. How do entrepreneurs implement their innovative ideas?
2. What is Business Model Generation?
3. Sketch the business model generation canvas together with its nine building blocks?
4. What is value proposition?

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