

## Business Model Canvass and Psychology – Mechanical Complexity in a Paper Sheet

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### Abstract

The easiest way to find business model is by using business model canvas. The Business Model Canvas (BMC) is a strategic model approach for business owner who want to watch their business operates from above. From above meaning with one sight but all the activities and important agenda could be seen simultaneously. This paper aims to elevate and explore the Business Model Canvas (BMC) as one of the greatest invention of knowledge in the theory of business management history. Designed by scholars as well as business practitioner, a powerful tool in making decision while knowing company current situation and position, and so on in the form of one sheet of canvas. It is like a mechanical watch where we can see the complexity at once. The paper highlights BMC theory itself, then brief history. Lastly, the elaboration BMC's nine elements with supporting case study on each element will be written on this paper. The research method used in this paper is descriptive method with case studies, news, articles, journals approach.

**Keywords :** Strategic management, business model canvas, Alex Osterwalder,

### 1. Introduction

There is increasing number of people want to earn extra money, so the chose to be an entrepreneur is an option. To make it successful, a solid business plan is a must. The plan or the goal can be easily portrayed with a business model. A business model can be described of as a system of how a company operates and does business with its customers. It represents “the design or architecture of the value creation, delivery, and capture mechanisms of a firm (Westerveld, Fielt, Desouza and Gable 2023). Business models are important for both new and established businesses. The business model theory also can be found anywhere such as university in Management department, short class seminar, online learning, or else. However, not all people can get such information effectively. The information of how understand the business itself, and ease them to conduct strategic moves. Back in 2005, there was a concept theory developed at that time about how to oversee and understand a business generates profit. The theory was discovered by a man whom wanted to finish his management phd degree, Alex Osterwalder. Along with his professor, Yves Pigneur, they complete and published the theory on a module called “Business Model Generation”. Not until A decade later, the theory going globally and effectively utilized by SME's and large multinational companies until today in 2023.

The Business model canvas is designed to measure the feasibility of a business idea. The Business Model Canvas (BMC) is a instrument for strategic management that companies can use to describe their business key factors and ideas (B. Fakieh , A. AL-Ghamdi , and M. Ragab 2022). The BMC offers a one-page concentrated template that allows the firm to document fundamental elements of the business, its products, and services or to structure a business idea in a comprehensible way. BMC cover all nine fundamental elements. Firms utilize the BMC for many reasons, one of the reason is to illustrate how a new idea applied, execute and work in the business process, to understand the business by linking with the idea, to recognize the various kinds of customer decisions that

effect the use of the business process, to provide a clear idea of what the business is likely to be, and to achieve a continuous transition to utilizing information systems. **The focus of the paper is about elaboration of Business Model Canvas (BMC).** The paper was drawn from the fact that BMC theory still young and should be appreciated more and more. It is necessary to learn and put it on management book for university student. Also, it is useful for young entrepreneur who want to start a business and understand the both external and internal environment on that business so they can easily plan and simulate the cycle process of how a business can make money sustainably.

## 2. Literature Review

2.1 History of BMC. It was in 2005, Alex Osterwalder, a Sweden scholar who are going to finish his phd degree and writing his thesis about his invention about “canvassing” a business. Later on when he finish his degree at his 30’s of age, along with his teacher, professor Yves, develop this idea and then publish it into a booklet named “Business Model Generation”. Apart from his career as an academist, Alex Oserwalder also runs his own business and is a management consultant. Therefore, the embryo of BMC was created due to the many things that correlate with business management theory and the practice of daily life. BMC today is starting to be discussed and applied around the world, this is evidenced by the emergence of scientific journals and academic writings that link their business to this BMC theory. All of these writings come to a positive conclusion that BMC is a functional and vital tool. This is supported that BMC makes it easy for anyone to want to see how a business works.

2.2 What is BMC. The terminology of BMC itself consist of word “business model” and “canvass”. Canvas which mean sheet of painting canvas. A sheet of canvas in which templated with 9 fundamental elements that interconnect with each other. While business model is a model, cycle, pattern of proses activities that result in exchanging values and money or a transaction within organization. Therefore, it was named business model canvas because there is a process of activities and transaction painted in a one concentrated page of canvas. The building block of BMC it self consist of nine elements of strategic management . They are; key partners, key activities, key resources as the internal factors, customer relationship, customer segments, and customer channels as the external factors, and value proposition as to meet up the all elements in one place, cost structure as the spending routine on a firm, and revenue streams to ensure the maximization of the return on investment.

### 2.3 Components of the Business Model Canvas

2.3.1 Key Partners. Ratnawati (2019) revealed that partnership is a form of cooperation of two or more mutually beneficial business actors. Partnership occurs when two or more parties are willing to support each other and complement each other to achieve common goals. A company requires a network of partners to help it progress and expand its operations within its primary markets. Particularly, the key partners includes to the external companies such as suppliers, contractors, vendor or parties that the firm need to reach or implement its key activities and deliver desired value to the customer. For instance; an event organizer company organize a musical concert. The company still require to choose and use their stage arrangement, audio engineering, visual entertainment vendor to successfully perform the show. They do not own and operate every devices, but they rely on the vendor to professionally perform those specialized task. Another example of major influence of key partners is Apple inc and Foxconn. The majority of apple product’s components include processor chip are manufactured and assembled by China’s leading exporter and the Taiwanese-owned company (Chan, Pun and Selden. 2013).

2.3.2 Key Activities. Key Activities defines the most vital things a enterprise must do to make its business model work (Hodiashchev 2017). Essentially, these are the crucial tasks that the firm must achieve in order to reach its business purpose, in other words, to meet the Value Proposition, achieve its Customer Segments, sustain a Customer Relationship, and eventually produce Revenue Streams. Key Activities vary according to the organization’s Business Model. For software maker Microsoft, Key Activities include software development. For PC manufacturer Lenovo, Key Activities include supply chain management. For consultancy Boston Consulting, Key Activities include problem solving. Key Activities has its categories, they are; production, problem solving, and platform/network. In production, it covers all actions related to product development, manufacturing, and delivery. It usually involves significant quantities of a product. This is the dominant activity in the business models

focused on manufacturing. In problem solving, it is the core activity of organizations looking for unique solutions to specific problems. Hospitals, consultancies, and most service providers are good illustrations. These are enterprises that involve a lot of knowledge management, as well as a focus on continuous learning and training. Lastly, Platform/network: Networks, combination platforms, software, and brands can function as platforms. The company develops the platform and works continuously to keep it running, through platform management and promotion, in addition to providing services accordingly.

2.3.3 Key Resources. Seppänen (2009) article categorize key resources of the company are; Physical resources, intellectual property, human and financial. Those assets which are absolutely essential for the business model to work. They describe all the valuable things that will be needed for a firm to actually distribute on the promise (or value proposition) they are making to their target customers. Physical resources refer to assets for instance; infrastructure, equipment, real estate, delivery vehicles, inventory and principally any assets that are grounded in the physical world; ie. made up of atoms. For example, a ferronickel smelter company needs a location, furnace & kiln equipment, nickel ore, dump truck, excavator and office building, and so on. **Intellectual property** means the rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation for a certain period of time (World Trade Organization, 2020). In an progressively online business around the globe, intellectual property resources are incredibly valuable. This includes things like any patents, copyrights or other legal protections that they might have on their products or processes. It also incorporates to a brand, proprietary software and systems and data warehouses that a company may have collected through business activities. **Human Resources** are people power. This include team of in-house experts, contractors, or even just an individual person if he or she are a solopreneur. Understanding the role that human resources and talent will play in broader business model is a key piece of the canvas; how dependent an individual on highly skilled talent (e.g. niche software developers) or are more dependent on a high volume of low-skilled workers (e.g. Deliveroo delivery drivers). **Financial resources** is capital. This could include investments, grants, lines of credit, or even just cash on hand. Other common financial resources are invoices (if that company selling on credit) or accounts receivable (if that company selling products or services before they've been paid for). Some business models have higher capital demands than others, in which case being clear about the financial resources needed up front and throughout are crucial. A Company can have all the other forecasts and projections going in the right direction, but if they run out of cash, everything will end in a matter of time.

2.3.4 Value Propositions. Bailetti, Tanev and Keen (2020) states that that The Value Proposition Canvas focuses on understanding customers' problems and producing products or services that solve them. Telling people that they have a great product doesn't make them want it. They can produce an awesome product with all the bells and whistles, but if it fundamentally doesn't help customers, or they don't explain the value clearly, customers won't buy it. Value propositions also helps the business in decision making and positioning of the product. It is more than just a graphical representation of customer wants. Businesses can align their strategies according to customer needs. This can help to produce a product which customers want. For instance; among other competitors in electric vehicle, Tesla Motors have their own unique brand image than car companies like Hyundai or Lexus. Both offers same quality of comforts and efficiency, but still owning a Tesla product have more beyond that. Tesla took a unique approach to establish itself in the market. Instead of trying to build a relatively affordable car that it could mass-produce and market, it took the opposite approach, focusing instead on creating a compelling car that would create a demand for electric vehicles (Zucchi 2022).

2.3.5 Customer Relationships. In management theory, customer relationship management (CRM) is a part of company activity. According to Mainela and Ulkuniemi (2012) Customer Relationship refers to a company maintain good relationship with both their prospective and loyal customers. A harmony and positive relationship tend to keep the customer to be loyal and not going to other competitor. When the economic relationship between the business parties ends at the point of project completion, personal relationships are often maintained and may be utilized in some future projects bidding process. Every business should decide what type of relationship they want to build with each of its customer segments. Relationships may be personal or automated but it is likely that a business might use a combination of approaches for different stages though the customer journey. Customer

relationships influence the overall customer experience for each of customer segments. Maintaining customer relationship will automatically adding more point to cost structure element. This because a business must add budget or cost to performing them. This activity usually under the control in sales department. For example, an advertising agency treat their clients such as FMCG product. The optimal treatment for this activity would be dinner gathering, or sending parcel at the certain events such as company's important person's birthday, religious day, new year, or any memorial events.

**2.3.6 Channels.** The term channel in marketing was first used to describe the existence of a trade channel bridging producers and users (Pelton, Strutton and Lumpkin, 2001). According to Davies and Chambers (2017) a business channel refers to the waterway that the business uses to reach its customers, with a particular focus on delivering their respective products and services. In essence, the channels that the business uses must be not only efficient but also convenient for the customers, to ensure ease in the accessibility of their products and services. This enhances the company's brand image through improved place utility. Ojasalo and Ojasalo (2018) support the above claims, arguing that a company can deliver its value proposition to its target and potential customers using different channels; however, the most effective channels are those that deliver the company's value proposition through means that are not only fast and efficient but also cost-effective. Likewise, Pedersen, Gwozdz, and Hvass explains that the different channels that the company can use to reach its potential and target clients include its channels or store fronts, partner channels or major distributors, or a combination of both.

**2.3.7 Customer Segments.** Customer segmentation is the process of dividing customers into groups based on common characteristics so companies can market to each group effectively and appropriately (Cooil, Aksoy, and Keiningham, 2007). In business-to-business environment, a company tend to segment customers based on a extensive range of factors, including: Industry, number of employees, products previously purchased from the company, and location. While In business-to-consumer environment, firms usually segment customers based on demographics that include: Age, gender, marital status, Location (urban, suburban, rural), Life stage (single, married, divorced, empty-nester, retired, etc. Segmentation allows firms to better tailor their marketing efforts to various audience subsets. Those efforts can relate to both communications and product development. Specifically, segmentation helps a company: Create and communicate targeted marketing messages that will resonate with specific groups of customers, but not with others (who will receive messages tailored to their needs and interests, instead). Select the best communication channel for the segment, which might be email, social media posts, radio advertising, or another approach, depending on the segment. Identify ways to improve products or new product or service opportunities. Establish better customer relationships. Apple target customer segment comprise well-off individuals who are willing to pay extra for technology products and services with advanced design, functions and capabilities. A general set of characteristics shared by Apple target customer segment comprise appreciating design, quality and performance of technology products and services over their prices (Darbinyan 2021).

**2.3.8 Cost Structure.** According to (Suzan and Nabilah, 2020) companies in operating their business activities require sacrifices in the form of expenses or costs. in general the cost is an economic source that is sacrificed by using a unit of currency as a measurement issued for certain purposes. While (Carter and Usry, 2014) argues that costs are expenses, sacrifices or exchange rates carried out in the hope of receiving benefits in the future. A number of costs spend by a company called "cost structure" in business model canvas. The Cost Structure element of the Business Model Canvas shows the monetary cost of operating as a business. Cost structure represents all the costs a business will incur under a specific business model, especially those costs to maintain the key resources that make up the core business model. Operational costs encompass expenditure related to employees, infrastructure, activities, and partnerships. These costs are defined by three other BMC building blocks: value proposition, revenue streams, and long-term customer relationships. To gain clarity on the exact cost structure, however, it is important businesses also detail key resources, activities, and partnerships. These are a few of the questions a business must consider when creating its cost structure: The fundamental costs of the business model, key activities cost the most to perform, key resources cost the most to perform, how do the key activities influence costs, the collaboration of key activities with he value proposition, and changes in costs become variable or remain fixed by considering other structures. T cost structure element identify all the costs associated with

operating its business model. A business have to concentrate on assessing the cost of creates and delivers value propositions, generates revenue streams, and maintain customer relationships. Cost structure will be easier to determined once a business have defined its key resources, activities, and partners. Businesses can either be cost-driven (focuses on minimizing costs whenever possible) and value-driven (focuses on providing maximum value to the customer). In Restaurant business, the owner will have to spend regularly on food; fresh, raw foods, condiments and for the human resource they are include; waiter, chef, cleaning service. Lastly for the utilities such as gas, water, electricity and garbage cleaning. All of the cost mentioned are the important and they should be taken care of one by one and if there is one component miss, it will creates inefficiency.

2.3.9 Revenue Stream. Remeňová, K. and Jankelova, N. 2018 indicates that Revenue stream is one of the operational components that shows how the business gets money and where to get it. Understanding revenue streams are sources that contribute to replenishing company cash, either directly through the process of exchanging products/services or indirectly such as grants, investments. The goal of the revenue stream is to generate entire ownership cash for the company. Therefore, financial sources that require short-term returns such as debt cannot be classified as revenue streams. Revenue streams have various crucial functions for business. Without a neat revenue stream structure, the company will experience an imbalance that has an impact on profitability. The first function of a revenue stream is to show how a business gets money and profit to fund its business processes. When included in a proposal, the revenue stream profile appears in the list of products or business lines. The next revenue stream function describes the strongest sources of profit generation for a business. By knowing the best revenue streams, companies will be able to focus more on strengthening these sources. Conversely, if there is a revenue stream with poor performance, a company and its team can decide to fix or delete it altogether. Then, ensuring a realistic business financial strategy. In the context of accounting, a revenue stream is something that cannot be reported explicitly. Accountants or financial divisions generally write revenue streams as “cash”, “grant”, “tax amnesty”, and so on. However, the structure of the revenue stream plays an important role in determining the financial strategy. For example, if the structure of the revenue stream is mostly controlled by sales cash, then the finance division may decide to allocate some of the cash to investments, so that a new revenue stream is formed (namely shares). The next function of the revenue stream is to help firms as an entrepreneur to estimate turnover and profit. Apple inc gather its revenue not only from selling electronic devices such as laptop, phone, tablets, or headphones. They have more revenue from selling subscription online music and movie streaming, music albums from labels, insurance (apple care).

### 3 Conclusion

As time goes by, there will be newer innovation approach that could be more simpler and convenient. The emerge of business model canvas in middle 2000's has been proved that this invention utilized by various firms or industry and effectively show benefits until post pandemic in 2023. The availability of academic journal resources about ulitization of bmc, articles, and in social media like explanation videos in youtube, reflects numerous of individual support and feel its effectiveness of this strategic approach.

BMC deserves to be used as basic knowledge in building a business whether for beginners, or even advanced levels in a corporation. Large multinational companies until individuals such as hustlers or freelancers can also use it. Therefore, it is necessary for this BMC theory to be included in the management education curriculum, especially lessons on entrepreneurship, strategic management, or anything related in every university of management program. The value that companies offer their customers is integral to ensure customer loyalty to the company's brand, as well as the continuous consumption of the firm's products and services. As such, with an elaborate BMC framework, these firms know how to work with each component of the framework to successfully achieve and deliver on their respective value propositions. The value that companies offer their customers is integral to ensure customer loyalty to the company's brand, as well as the continuous consumption of the firm's products and services. As such, with an elaborate BMC framework, these firms know how to work with each component of the framework to successfully achieve and deliver on their respective value propositions.

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