Guest editorial

Introduction to the special issue: the business model canvas and customer development

A business model is a framework to assist in developing and communicating how an organization creates, delivers and captures value from customers. Osterwalder and Pigneur (2010) published the business model canvas (BMC or "canvas") to help organizations articulate their business model. The canvas evolved from the dissertation work done by Osterwalder (2004). The essence of his dissertation was to find commonalities across the disparate business models that had previously appeared in the literature. The BMC ultimately unites the fragmented business model literature using nine elements that appeared across the various models in the literature: customer segment, value proposition, customer relationships, channels, key activities, key resources, key partnerships, revenue streams and cost structure. The design of the canvas, with key partnerships on the left and customer segments on the right, follows Porter's (1985) value chain framework. While the BMC was initially developed primarily to help existing companies, it became rapidly (and almost rabidly) adopted by the entrepreneurship community.

At the turn of the millennium, the prevailing concept of the new venture development process followed the traditional, large company, waterfall or Stage-Gate (Cooper, 1990) development process. It started with developing a product around an initial idea, conducting a feasibility analysis, writing a new venture business plan, raising capital to produce and promote the product and eventually launch. Marketing was a function that fully depended upon product development and, maybe, market research done toward the end of the business planning process. Outcomes of this process generally had a low chance of success.

In the first decade of the 2000s, Blank (2005, 2013) challenged this existing dominant view, suggesting that it did not handle the high level of market uncertainty that exists in many new ventures, particularly in software and technology. Blank (2005) articulated a "customer development" process, which combines the new product development process and market/customer research. The customer development process (also known as Lean Startup) involves iterative, rather than sequential, product development and customer testing. Upon learning about Osterwalder's BMC, Blank and Dorf (2012) adopted it as the framework for organizing the customer development process. This customer development process involves back-and-forth interaction with prospective customers and other market participants. It seeks to iteratively test hypotheses about every aspect of the business model, beginning with understanding customer needs and testing potential product and service ideas to meet those needs, using prototypes or minimum viable products. Insights from these tests lead to reworking designs of these offerings, which are then subsequently retested. Thus, it is an iterative process of finding product–market fit.

Why this special edition

The efforts of Blank and Dorf (2012), Reis (2011), Osterwalder and Pigneur (2010), Osterwalder *et al.* (2014) and many others to disseminate customer development and BMC have resulted in widespread adoption and dissemination among academics and practitioners; however, they have received little research attention in the academic community.

This special edition of the *Journal of Research in Marketing and Entrepreneurship* (*JRME*) seeks to strengthen the theoretical base, as well as the practitioner implications, of

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business models in new venture marketing and to strengthen our thinking on BMC, in particular. Prior thinking and research on business models has pursued questions in several contexts, including:

- how online business models have competed with, and disrupted, industries previously dominated by traditional business models;
- the nature of business models and their role in strategic management;
- the relationship between business models and firm performance; and
- the role of business models in the performance of markets and industries (Zott *et al.*, 2011).

In this special issue, five articles are concerned mostly with the third of these topic areas as it applies to new ventures. As improving the success of new ventures is of great interest to practitioners and scholars, alike, this focus among the articles is not surprising.

The articles in this special edition

Five articles were selected through the double-blind review process of the *JRME*. Three of the five use qualitative, exploratory data collection to deepen our understanding of how to use the BMC to frame business model decisions in startup and/or existing ventures. A fourth article used quantitative data. Three of those four articles looked at milestone success measures for startups using the canvas. In two of the articles, the authors gathered data from angel investors and their willingness to invest in startups. The final article considers business model elements in the context of established companies competing against each other – and cooperating, as well, using secondary data as its principal data source. Methodology will be discussed further below.

Sort *et al.* (2018), in the article "Using the business model canvas to improve investment processes," focused more on communication performance than on financial or survival performance. The authors' interviews revealed that the BMC was a good framework for providing a shared language between entrepreneurs and angel investors. More specifically, the BMC can achieve one of its objectives, in that it serves as a basis for a shared language for "describing, discussing and designing business models" (Osterwalder and Pigneur, 2010, p. 199). The 13 cases demonstrated clear differences between the seven entrepreneurs that used and the six that did not use BMC. In particular, those that used the canvas in the investment meetings were much more effective in communicating with the angels. It helped entrepreneurs make the business case, which the angels desired over the typical focus mainly on the technical aspects of the product. Further, the authors found that entrepreneurs that used the BMC received more positive feedback and were more likely to obtain angel financing than were entrepreneurs that chose to forego the use of BMC. This demonstrates that, while it may not signal the end of business plans, BMC can be used as a tool to present and evaluate the potential of new ventures.

Crick *et al.* (2018), in their article "Angel investors' predictive and control funding criteria: the importance of evolving business models" examine angel investors' responses to business models of startup ventures in New Zealand. In particular, the article's authors explore the use of the BMC to assess and design interactions with partners and other stakeholders. The authors use effectuation theory (Read *et al.*, 2009; Sarasvathy, 2001) to make the distinction between designing with prediction (a traditional marketing planning approach) versus designing to control as events unfold (an effectuation approach). The different perspectives represent differences in managing uncertainty. The authors' data support the observation that a control (effectual) approach is more adept in handling unknowable market uncertainty, often faced by entrepreneurs, than is a prediction-based (driven by market research) approach. However, differences in startup situations or "ecosystems" can require startup processes to alter the balance required between prediction and control in designing the business model. The authors note that startups in a small market – New Zealand, in their study – may arrive at product–market fit through trial-and-error iteration (effectual activities). However, the entrepreneur, to grow or show growth potential, may need to show the likelihood of being able to scale the size of the business to compete in international markets. To show this scaling ability, it may require investors to be convinced by predictive arguments rather than by trial-and-error activity (which may be impossible to accomplish in international markets at so early a stage). To convince international investors of the viability of the redefined business model, the entrepreneur may need to find network connections that can help prove scalability in sufficiently large international markets. The situation may also require the entrepreneur to "evolve" the business model to something that can address international markets and create more growth. This finding is a good reminder that different ecosystems may require adaptation of the standard approach to customer development within the BMC framework. It also raises an issue of practical constraints (e.g. need for more revenue) that may limit the use of an effectuation approach to discovering a viable business idea.

Perhaps the most surprising result in these articles surfaced in the findings reported in the article by Ladd *et al.* (2018), "Does the business model canvas drive venture success?" The authors examined the relationship between validating hypotheses about the elements of the BMC and winning an award in a pitch competition. They had expected, following principles of customer development and lean startup, that when startup teams test and validate hypotheses in all the elements of the BMC, they would tend to perform better than startup teams that tested fewer hypotheses. Instead, they found that higher performance, in terms of winning vs not winning, was only related to business models that tested customer segments, value propositions, key activities or key partnerships. Additionally, they found that the specific combination of customer segments, value proposition and channels was related to a higher rate of success. Further, they found that the only component where more hypothesis testing led to greater success was for customer segments. These findings suggest the central importance of customer segments in developing and testing business models, a point explored in greater depth in the next article.

One outcome that may have the most impact on practice and thinking arises from the article by Ojasalo *et al.* (2018), "Service logic business model canvas." The authors establish an important connection between the BMC and service dominant logic (SDL). In the course of extensive group interviews with researchers and practitioners, the authors developed a service logic-based BMC (dubbed the service logic BMC, or SLBMC). This effort advances the thinking on both new venture business models and on practitioners' actions to develop and launch new ventures. The authors point out that prior thinking on business models in new ventures reflected a goods dominant logic; in this article, they show that SDL is also consistent with the BMC framework. Their model highlights the active role of the customer by including customers' view in every cell of the canvas, forcing companies to have much greater consideration of the customer viewpoint. Thus, their revised canvas fits in well within the customer development/lean startup framework. Similarly, their model works within an entrepreneurial marketing framework.

Use of the SLBMC by practitioners potentially creates better performance for new ventures by way of better discovery of customer needs (embedded in customers' day-to-day stories), co-creation of better value in product and service combinations and better application of the iterative hypothesis testing activities of the customer development approach to early stage marketing. While the procedures specified in the SLBMC are potentially resource-intensive and time-consuming for the entrepreneur/marketer, the authors suggest starting with a “light” application of the SLBMC, thus giving them guidance on how to implement SDL. This could be done under the time and financial constraints of the new venture and begin the iterative trial-and-error testing of ideas framed in the canvas. This is in line with using the canvas as more of a brainstorming tool than detailed plan. The more thorough application of the SLBMC could then emerge as more resources become available. The implications that can be drawn from this discussion of the SLBMC and the startup process set the stage for future research, both on the theoretical and the practical side.

Daidj *et al.* (2018), in their article “Toward new coopetition-based business models”, also discuss the co-creation of value. In this article, the authors consider why cooperative aspects of business competition should be addressed when examining business models. While the book *Business Model Generation* (Osterwalder and Pigneur, 2010) includes a section on the business model environment, including competitors, the canvas itself does not explicitly consider co-operative relationships with competitors in creating value. Daidj *et al* discuss the situation of Netflix, in France, competing with Amazon at the retail level in entertainment, yet also cooperating with Amazon in the data storage market that supports both the companies’ retail offerings. Additionally, Netflix uses several competitors as channels to customers, such as Orange’s set-top boxes. While this type of competition may be beyond the scope of consideration for young startups, it raises the reminder that an entrepreneur might do well to keep such coopetition in mind for future business model structuring. Netflix serves as a good example of both a pivot (Reis, 2011) and business model innovation. As noted in the article, Netflix changed from a rental model to subscription. They changed little else about their business model, yet they succeeded in knocking out the dominant competitor at the time – Blockbuster. In the context of the BMC, this was simply a change in revenue strategy.

What this special edition contributes – where do we go from here

Even though the canvas was based on dissertation research, it is often thought of as simply a teaching or consulting tool. One reason some scholars have stated that they do not use the canvas in their research is that there are very few research articles upon which to build (and cite), which makes it difficult to pass muster with reviewers. We aim to help alleviate this concern and hope that this special issue will inspire future research on the canvas. Doing so will strengthen the usefulness of the canvas as both a teaching and consulting tool. The authors of the articles in this special issue illustrate that while it is early in the process of developing thinking and practice around the BMC and its role in customer development, there are important questions to address in scholarly research.

Future research could seek more clarity about Ladd’s finding that in the early stages of customer development, it pays for the entrepreneur/marketer to focus on just a subset of BMC elements, rather than the entire canvas. Before providing this advice to students or practitioners, more research about the effectiveness of testing the nine elements of the BMC should be conducted. Future research should be conducted regarding not only the impact of testing particular components of the model but also how the components work together. This may require using structural equation modeling. Temporal aspects of the canvas should also be considered. For example, is it sufficient in early startup to focus only on product–market fit (Value Propositions and Customers Segments)? At what stage does testing financial feasibility (Revenue Streams and Cost Structure) begin to be most relevant?

Numerous other questions can emerge from temporal considerations. For instance, the hypothesis testing process of customer development within the BMC frame might be hypothesized to improve the entrepreneur/marketer's understanding of how customers perceive value, which in turn, leads to changes in products or services and then bringing customers to rate the offering as superior to competitors' offerings. This hypothesized sequence could be explored and later tested in the same research effort intended to examine the efficacy of particular components or combinations on new venture performance.

The research conducted by Ojasalo *et al* suggests using a "light" version of the complete SLBMC design – a first pass through the entire BMC that models all nine elements (with each element reworked to reflect a SDL). From the entrepreneur's point of view, doing a light SLBMC, while focusing more intently on hypothesis testing in Ladd's limited set of elements, could be done within an acceptably limited resource and time budget. However, a chance would exist that flaws in the business model would remain hidden until a full-fledged SLBMC is tested. The pros and cons of an approach that combines the findings of Ladd and Ojasalo could be examined in research with randomly selected startups or a convenience sample of startups in, say, an accelerator. Modifying the canvas is licensed under creative commons, so the SLBMC is one of many alternatives to the original canvas. However, it is one of the few that is theoretically derived. This makes it a good candidate for testing the effectiveness of a modified canvas versus the original.

Future research could also explore a set of issues arising from both the Crick article and the Daidj article. In these two articles, the authors suggest that the circumstances of the market or competitive environment may force adaptation of the BMC to reflect these case-specific themes. Crick noted that founding a new venture launched in or targeted toward a small market may not generate enough resources to support growth potential that would interest later-stage funding sources. This might force entrepreneurs to adapt an initial BMC to one that could be tested internationally, addressing market segments of sufficient size and growth rate. This raises the question of how customer development would proceed in such a situation. Testing a BMC in an international market could easily be cost prohibitive. Crick *et al* suggest finding potential business partners that can help fund the international business model, but it is likely that it will take a special kind of investor (investors that are comfortable with effectuation approaches to new venture development), under special circumstances (the existence of quasi-predictive market information), before they would fund exploratory customer development in an early-stage, international BMC. However, with modern communication technology, it may be relatively easy to test international markets. So, another research question might be to examine the best tools for testing business model components in a global setting.

A similar situation faced Netflix, as described by Daidj, forcing Netflix to deal with complex value networks. Netflix added value to their video offerings through partnerships with competitors, e.g. Amazon, that Netflix was competing with in other aspects of its business. This suggests potential for further research to understand if and how the BMC can be used to test hypotheses about complex partnership arrangements. It also suggests further research into how existing companies can use the BMC. The Daidj article also raises another theme that should probably attract attention in future research. Business models need to change over time to adapt to changing customer needs, competitor actions and market conditions. Netflix's change from pay-per-rental to subscription led to tremendous success. This suggests that future researchers may look at simple tweaks at a business model that may lead to substantial business model innovation. Also, there is a host of practical questions having to do with management practices to first understand value sought by existing and prospective customers, and then to co-create value with these customers.

Three additional research streams, not covered in the articles in this special issue, are that of teaching, creativity/design thinking and application to the marketing–entrepreneurship interface. As previously mentioned, the BMC is widely used for teaching prospective entrepreneurs – both in a traditional academic setting (e.g. universities) and other settings, such as incubators, accelerators, Lean LaunchPad and others. There is a common wisdom that using the canvas in a classroom setting is beneficial. However, we would benefit greatly from research into best practices for teaching the canvas. Additionally, the canvas likely has value outside of entrepreneurship. For example, the nine components can be mapped to cover much of a typical introduction to marketing textbook. So, future research can look at the pedagogical implications to teaching marketing using the BMC.

Another stream of research can focus on the inherent creativity or design thinking built into the customer development process and the BMC books – *Business Model Generation* (Osterwalder and Pigneur, 2010) and *Value Proposition Design* (Osterwalder *et al.*, 2014). The customer development or lean startup process involves the iterative development and testing of hypotheses. More specifically, the process is outlined as the following: hypothesis, design experiment, test, insight and return to hypothesis (Blank, 2012, p. 38) or generate a hypothesis, design/build, measure and learn and return to design/build (Osterwalder *et al.*, 2014, p. 185). Both of these are similar to models of the creative process and design thinking process. In fact, creativity and design thinking are rampant throughout both *Business Model Generation* and *Value Proposition Design*. This suggests that there should be potential research questions revolving around creativity and/or design thinking in use of the canvas and customer development.

Finally, Hansen and Eggers (2010) outlined four perspectives of the marketing-entrepreneurship interface. The perspectives are:

(1) commonalities between marketing and entrepreneurship;
(2) using a marketing lens on entrepreneurial issues;
(3) using an entrepreneurial lens on marketing issues; and
(4) something unique emerging from the combination of marketing and entrepreneurship.

As noted above, the canvas is both used in entrepreneurship and has overlap with marketing. This makes it a potential framework for studies on the marketing-entrepreneurship interface.

Methodologies

The research methods chosen by the special issue authors reflect the early stage of theory development in this topic area. Methodologies were mostly exploratory and data collection was mostly qualitative. The articles also illustrate the difficulty that researchers have in making progress in advancing knowledge about business models and new ventures. It is difficult to define the relevant variables, both independent and dependent. If we are trying to measure "business models," what exactly does this mean? Ladd used validated BMC hypotheses recorded in a new venture development program. This represents progress in measuring business models, but still leaves some doubt as to what exactly is being measured and what the theoretical connection to performance is. Daidj discussed business models as complex strategic relationships and activities that created value for customers and generated revenues and costs.

Performance is perhaps a little more tractable, but when we are concerned with early-stage performance of a new venture, financial performance may be misleading or meaningless. Accordingly, measuring performance in the new venture's early stages will require creativity and persistence to make progress. Several of the special issue articles used acquisition of funding as a measure of performance, which is useful given the early stages of new venture development they were discussing. Of course, not all new ventures seek angel funding. Some are even self-funded through cash flow from operations from the very beginning of their lives. Also, obtaining early stage funding may be useful as an indicator of performance, but it certainly is not a guarantee of future financial performance.

Conclusions

While these issues just scratch the surface of theory and methodology issues, the authors of these articles have made a start at making sense of these ideas and practices. We believe that this special issue will make a contribution of accelerating progress toward furthering our understanding and making practical use of new knowledge about the BMC and customer development in new ventures.

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