BUSINESS MODELING
BASED ON BUSINESS MODEL GENERATION BY ALEX OSTERWALDER & YVES PIGNEUR

Greg Horowitt
T2 Venture Capital
WHAT IS A BUSINESS MODEL?

A business model is a way of articulating the flow and dependencies of how an organization creates, delivers and harvests value.
WHY IS THIS IMPORTANT?

To organize your thoughts, understand options, assert hypotheses, and formulate ways to test them.
WHAT IS A BUSINESS CANVAS?

A visual and flow form way of illustrating your business model
Why business modeling vs. business planning?

• Business plans are static documents and startups are dynamic
• No business plan survives first contact with the customer (variation on Sun Tzu’s ‘Art of War’)
• Companies without product and no sales must develop hypotheses and a way to test them
• Your assumptions are more relevant to potential investors than a spreadsheet with financial models and a ‘hockey stick’ ramp
• Able to remodel as you ‘pivot’
CUSTOMER SEGMENTS

which customers and users are you serving?
which jobs do they really want to get done?
VALUE PROPOSITIONS

what are you offering them? what is that getting done for them? do they care?
how does each customer segment want to be reached?
through which interaction points?
CUSTOMER RELATIONSHIPS

what relationships are you establishing with each segment? personal? automated? acquisitive? retentive?
REVENUE STREAMS

what are customers really willing to pay for? how?
are you generating transactional or recurring revenues?
which resources underpin your business model? which assets are essential?
KEY ACTIVITIES

which activities do you need to perform well in your business model? what is crucial?
which partners and suppliers leverage your model?
who do you need to rely on?
what is the resulting cost structure?
which key elements drive your costs?
1. Plot the canvas on a poster
2. Put the poster on the wall
3. Sketch out your business model
PATTERNS

- Unbundling
- The Long Tail
- Multi-Sided Platforms
- Free
- Open Business Models
Unbundling the Corporation

John Hagel and Mark Singer

- Three businesses in one
  - Customer relationship management
  - Product Innovation
  - Infrastructure management

- Three economic imperatives
  - Economic
  - Competitive
  - Cultural

- Examples
  - Banking
  - Telecommunications
The Long Tail

• Selling less of more
  • Examples: Netflix, eBay, YouTube, Facebook
• Lego, M&M
Multi-sided Platforms

• Brings together two or more separate, but connected groups of customers
• Value is generated only if one group is present with another group
• Example: eBay, Google, Apple iTunes and App Store, Pinterest
• Network effect increases value
Free

- One set of customers can always benefit from free of charge offers
- Subsidized by another group
- Examples: Skype, Google, Pandora, Spotify, Facebook
- Upgrade to Freemium model (Skype, Mozy)
- Bait and Hook (most US cellular carriers, Gillette)
Open Business Model

• Use external innovation sources to grow business
• Sell innovation to external partners
• Can be inside-out, or outside-in
• P&G
• GSK (patent pools for underserved diseases)
• Apple App Store
DESIGN
Business Model - The Empathy Map

Think and Feel?
- I want to show my friends how dare I am!
- I like collecting things
- What if people cheat on their photos?
- It's free, why not giving it a chance?
- I can access easily
- Is it secure?

Hear?
- Can I challenge anyone?
- The app is free!
- Can I win money for challenges?
- Can anyone see my photos?
- What happen if I don’t have friends?
- This app allow me to meet friends and do challenges together?
- Guys! I found a new app to challenge each other! Download it, it will be funny!
- I see my friends doing funny things, great!
- I want to challenge everyone in the world!

See?
- Who else apart from me and my friends will have access to my photos?
- I can access easily
- How to challenge friends using the mobile phone
- Look their friends challenges
- Win money sharing their content

Say and Do?
- What conditions have the app? Is it legal?
- I don’t want stragers to see my photos
- My friends don’t want to download the app, how can I play then?
- I want to have fun with friends
- I don’t want to pay for an app
- I want to manage all referred to me and my profile

PAIN
- I don’t want stragers to see my photos

GAIN
- I want to challenge everyone in the world!
Ideation

- Brainwriting and Brainwalking, Silly Cow, Worst Idea
- Lateral Thinking (Atlassian’s FedEx day)
- Using the 9 building blocks of the Canvas
- What if?
- Prototyping
- Visual Thinking
  - Post-it™ Notes
  - Drawing
- Storyboarding
- Scenario planning
STORYTELLING
Give life to the intangible
Create clarity
Engage me
STRATEGY
Business Model Environment

Driving Trends
- technology trends
- regulatory trends
- societal & cultural trends
- socio-economic trends

competitors (incumbents)
new entrants (insurgents)
substitute products & services

Industry Forces
- suppliers & other value chain actors
- stakeholders

Market Forces
- market segments
- market issues
- needs & demand
- switching costs
- revenue attractiveness

Business Model
- Partner Network
- Key Activities
- Key Resources
- Offer
- Customer Relationships
- Distribution Channels
- Customer Segments
- Cost Structure
- Revenue Streams

Macro-economic forces
- global market conditions
- capital markets
- commodities & other resources
- economic infrastructure

competitive analysis
marketing analysis
macroeconomic analysis

foresight
STRENGTHS

YAY!

WEAKNESSES

OPPORTUNITIES

THREATS
PROCESS
5 Phases of Business Model Process

• Mobilize
• Understand
• Design
• Implement
• Manage
**Production and Logistics**
Anything beyond content creation is outsourced to readily available service providers.

**Differentiation**
An entirely different format, business model, and story for the book makes it stand out in a crowded market.

**Community**
The book is co-created with practitioners from around the world who feel ownership thanks to attribution as contributing co-authors.

**Buyers**
Paying customers are not only readers, but co-creators and companies that want customized books for their employees and clients.

---

**The Canvas of Business Model Generation**

**KP**
The Movement (Design) Ning Platform Amazon.com 3rd Party Logistics Company Publishers

**KA**
Content Production Hub Management Guerilla Marketing and Word-of-Mouth Logistics

**VP**
Blog and Visibility on the Web Business Model Hub Powerful Methodology

**CR**
Business Model Hub .com Business Model Event, Amsterdam

**CS**
Visionaries, Game Changers, and Challengers Entrepreneurs, Executives, Consultants, Academics, Companies

---

**Revenues**
The book was financed through advanced sales and fees paid by co-creators. Additional revenues come from customized versions for companies and their clients.

**Design**
- Content Production
- Printing
- Distribution

**Hub Membership Fees**
- Advance & Post-Publication Sales
- Free Give Away Canvas Section
- Fees for Customized Versions
- Royalties from Publishers

---

**Reach**
A mix of direct and indirect Channels and a phased approach optimizes reach and margins. The story of the book lends itself well to viral marketing and word-of-mouth promotion.