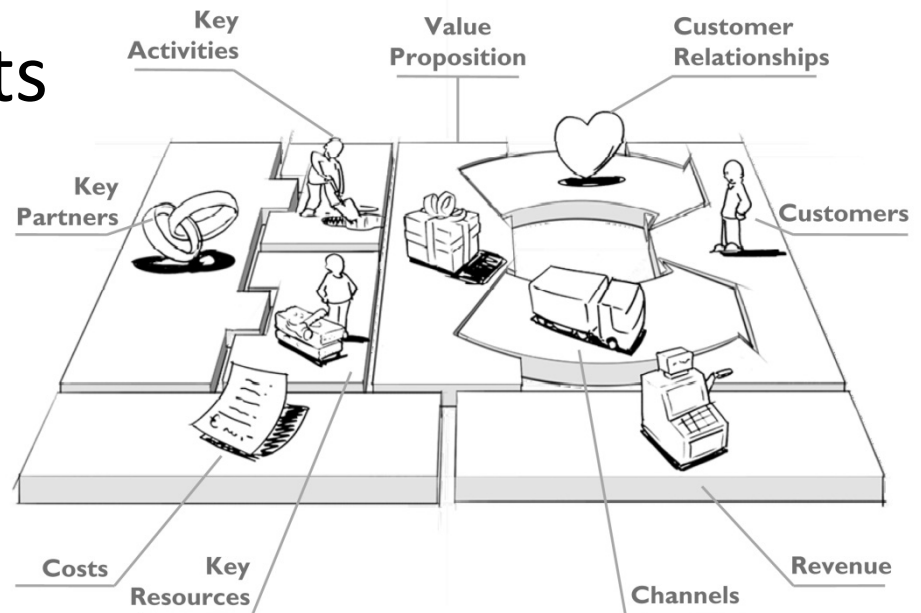


# Business Models

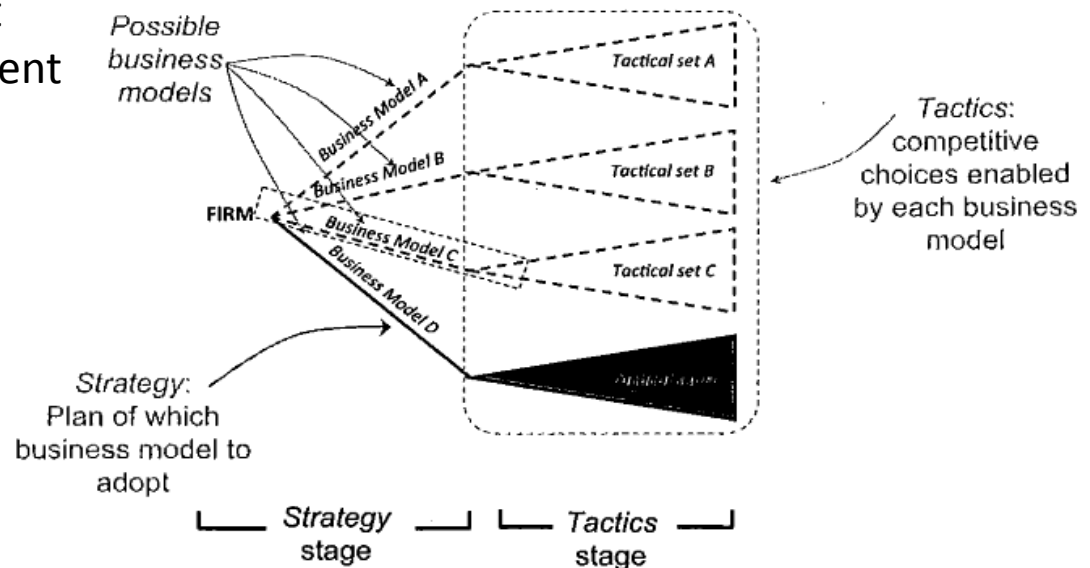
- Patterns
- Pivots
- Scalability
- Reinforcing circuits



drawings by JAM

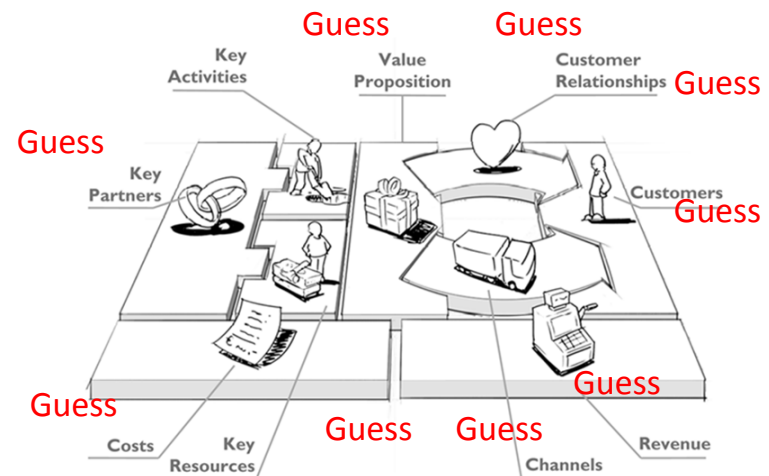
# Business model

- Business model is the logic of an enterprise:
  - explains how the enterprise operates and creates value
  - a “machine” of many interlinking parts. Designs differ to suit purpose
  - design and building the model reflect the strategy
- Strategy is a plan. It determines the choice and details of the business model
- Tactics are the residual choices available within the chosen business model
- Many more different forms of business model have emerged to respond to today’s:
  - rapidly changing environment
  - pace of technology development
  - dynamics of the Internet



# Business model canvas

- A business model describes the rationale for creating, delivering and capturing value.
- The canvas is a shared language for describing, visualising, assessing and changing business models.
- 9 elements:



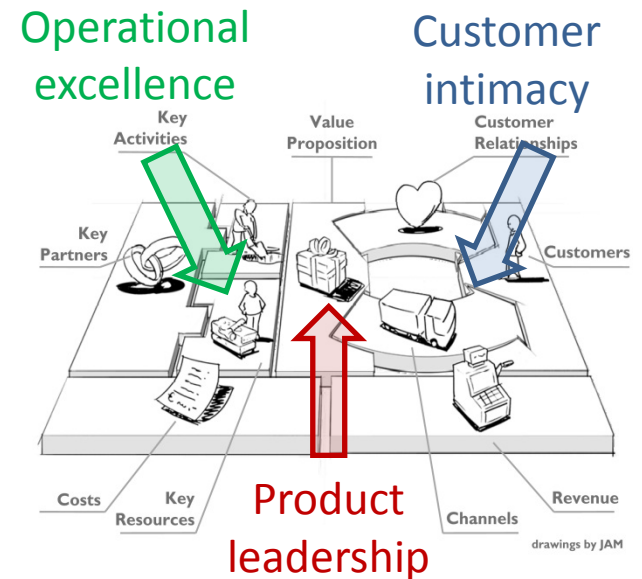
# Business model patterns

- Some similar patterns
- They can inform and inspire your model development
- A single model can incorporate the elements of several patterns
- Popular patterns
  - Unbundled
  - Long tail
  - Multi-sided
  - Free
  - Open



# Unbundled

- Three fundamentally different types of business:
  - Customer relationship: finding and acquiring customers
  - Product innovation: develop new and attractive products
  - Infrastructure: build and manage platforms for high volume and repetitive tasks
- Unbundle to avoid conflicts and trade-offs
- Focus on one of three value disciplines:
  - Customer intimacy
  - Product leadership
  - Operational excellence



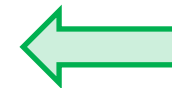
# Unbundled mobile telecommunications

- Traditionally competed on network quality

- Now:

- Equipment manufactures

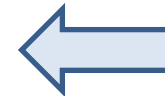
- Benefit from scale



Operational  
excellence

- Segmenting customers and services

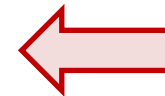
- Brand is key asset



Customer  
intimacy

- Content providers

- An array of smaller and innovative companies



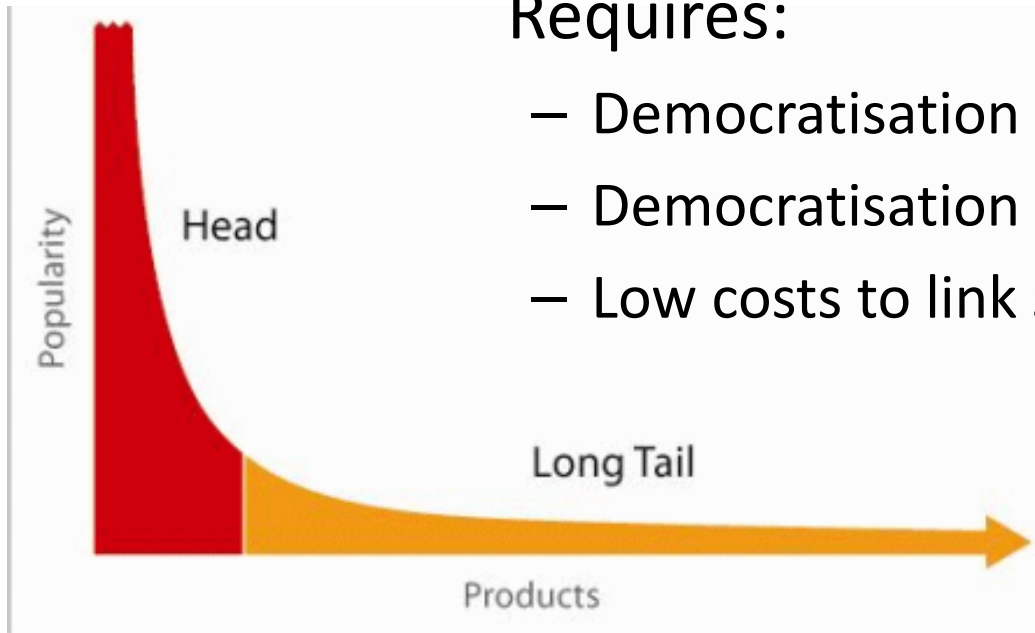
Product  
leadership

# The Long Tail

- **The head** sells a small number of items in large volumes
- **The long tail** sells a large number of niche items each with a small volume.

Requires:

- Democratisation of production tools
- Democratisation of distribution
- Low costs to link supply and demand



# Transformation of publishing

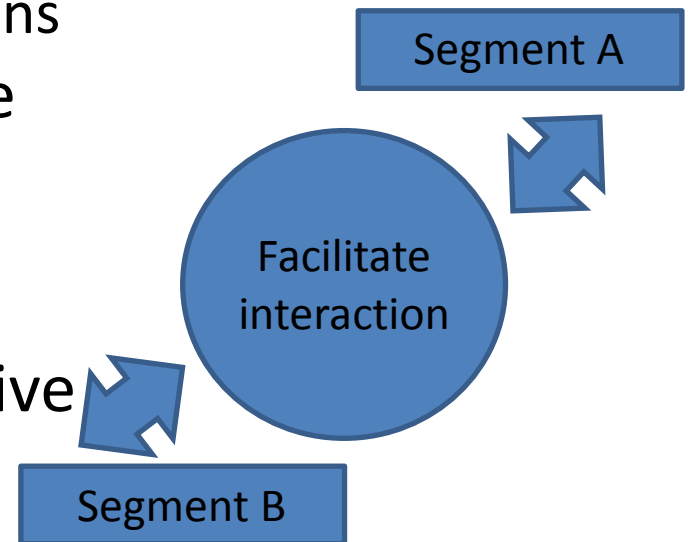
- Traditionally unprofitable to edit, design, print, promote and distribute books that sell poorly.
- Now:
  - Web based tools for authors to craft, print and distribute their books through an online marketplace
  - Books are printed on-demand based upon orders
  - A two-sided platform that connects authors and readers with a long tail of user-generated niche content
  - No cost of failure





# Multi-sided platforms

- Create value and/or reducing costs by intermediating between two or more interdependent customer segments with different value propositions
- Benefits from:
  - network effect of attracting more users
  - Relatively low cost platform operations
- Each segment is a potential revenue stream. Although, some more than others.
- Chicken or egg. Can subsidise one group, if one side more price sensitive



# Google's business model

- Advertisers, web surfers and content providers are brought together around Google's search engine
- **Advertisers** can publish advertisements and links to target audiences by bidding on ad-related key words (The more popular the more expensive) using Adwords
- **Web surfers** receive free use of
  - Web search (Google.com)
  - E-mail (Gmail)
  - Maps (Google maps)
  - Photo album (Picasso)
  - Etc.
- **Content providers** can receive revenue from selected advertisers by subscribing to AdSense
- Revenue from Key word auctions pays for free search and monetising content





# Apple's evolution

- iPod was initially a stand-alone device to store copies of CDs and on-line music
- iTunes Music Store integrated with iPod connected music rights-holders directly with buyers
- App Store for iPhone channels application developers to consumers for a royalty
- Now a multi-sided platform based upon its App Store



# *Free* as a business model

- At least one customer segment is able to benefit from a free-of-charge offer because of subsidy from another part of the business
- High demand for free products/services but who pays?
- Free patterns:
  - multi-sided platforms
  - Basic services for free and pay for premium services
  - Bait and hook
- Benefits from:
  - a customer segment that benefits from a continuous supply of free product and a percentage who will pay for a premium version
  - high price elasticity
  - cost of free products is next to nothing (e.g. incremental cost of software)
  - Some source of revenue

# Freemium: Basics for free pay for more

- Blend free basic services with paid premium services
- Some free users convert to paying premium users
- A small fee paying segment subsidizes the free users
- Benefits from low cost basic services and high conversion rates.

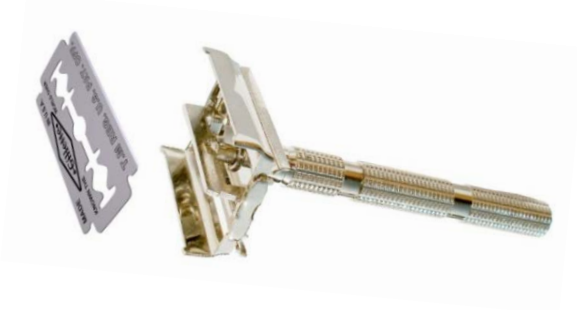
Free + Premium  
= Freemium



- Enables free calling services via the Internet
- Cost structure is completely different from traditional telecom. Free calls are fully routed through the Internet using peer-to-peer technology user hardware as infrastructure. Very little dedicated infrastructure required.
- Users pay for access to landlines and mobile phones. Skype can bundle these services through wholesale carriers at low cost.
- Skype has 663 million registered users as of September 2011.
- On 10 May 2011 Microsoft acquired Skype Communications for US\$8.5 billion.

Telecom operators initially didn't understand why Skype would offer calls for free and didn't take the company seriously. Now the largest provider of cross-border voice communications.

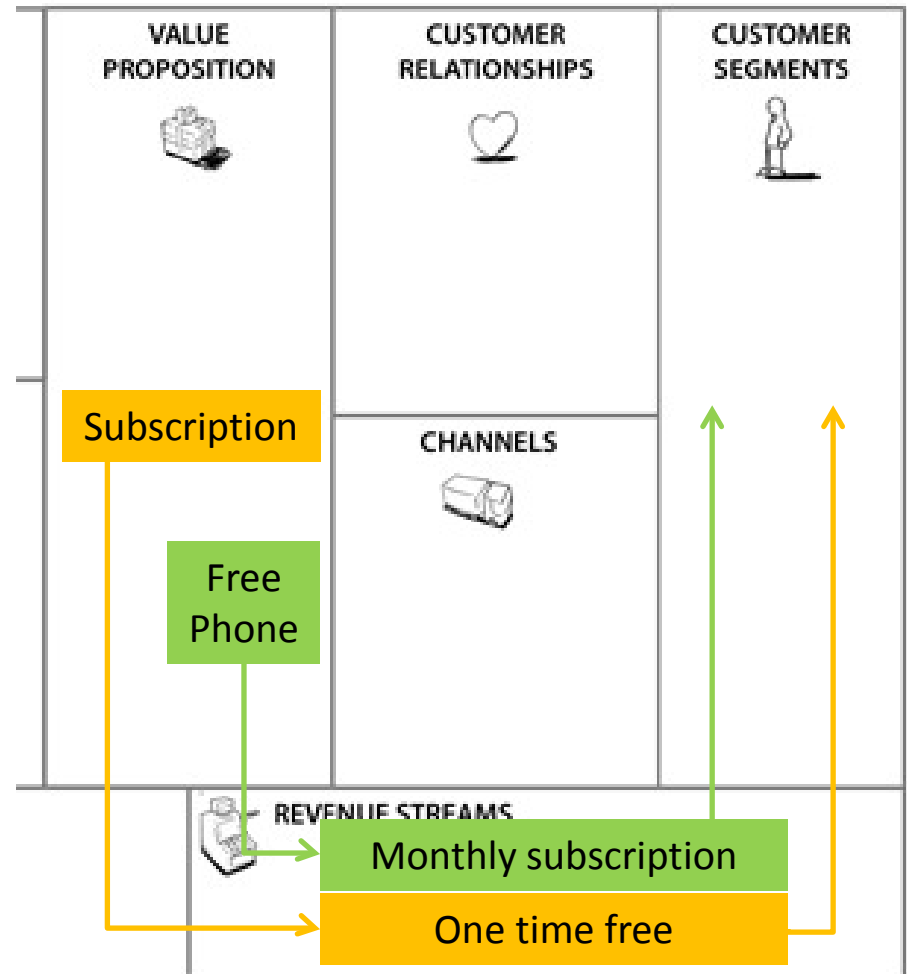
A disruptive business model.



# Razor and razor blade

**vodafone**

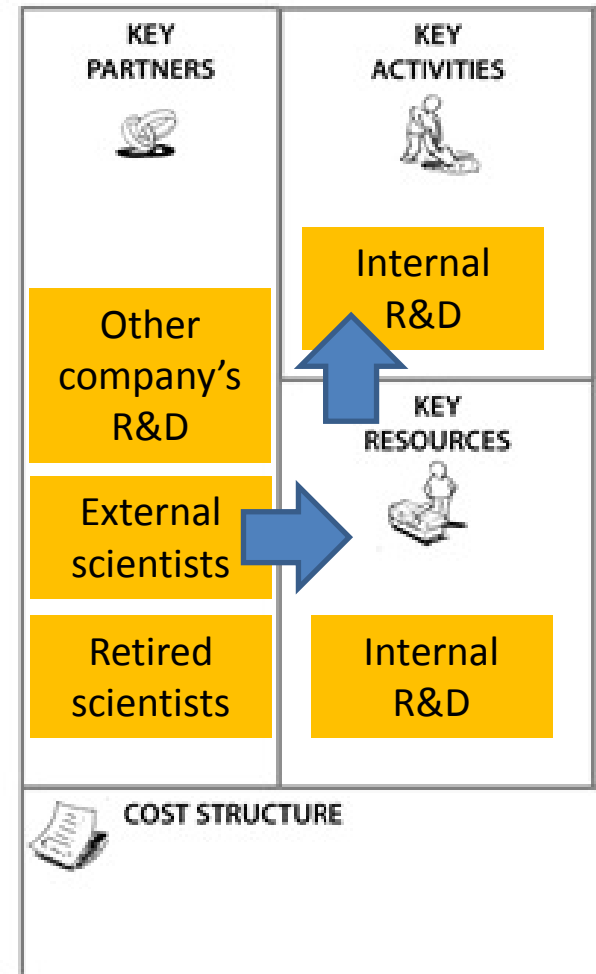
- An attractive, inexpensive or free initial offer that encourages continuing future purchases of related products and services
- Operators provide instant gratification with a free or low cost offer that later generates recurring income
- Depends upon:
  - Locking in customer with initial offer
  - Controlling the “lock in” important
  - High recurring margin



# Open business model



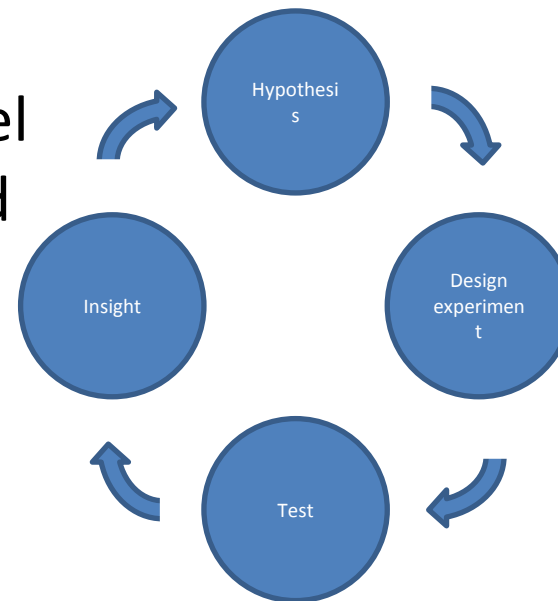
- Capture value by systematically collaborating with outside partners:
  - Outside-in by exploiting ideas from others
  - Inside-out by providing external parties with ideas or assets lying idle
- Outside-in: P&G
  - Technology entrepreneurs systematically develop relationships with other researchers and hunt for solutions
  - Internet platforms to connect with expert problem solvers (e.g. InnoCentives)
  - YourEncore solicits knowledge from retirees
- Inside-out: IBM
  - Rembrandts in the attic





# Get the idea: Start-up Guide (S. Blank)

- Hypothesise a business model
- Test the problem and solution
- Evaluate and pivot
- Update business model
- Find an advisory board



# Summary

- Business models can make a big difference
- Patterns are useful to suggest new models
- Business models are not static
- Pivots are changes in business models to either react to a competitive threat or create a competitive advantage
- Look for scalability
- Look for positively reinforcing cycles