Business Models
What’s new?

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CMU Center for Innovation & Entrepreneurship
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The Business Plan is Dead!

Long Live Business Planning!
The Accelerators

Startup mentors discuss strategies and challenges of creating a new business.

Business Plans Are an Historic Artifact

BRADFELD: In 1987 when I started my first company (Feld Technologies), I wrote a business plan for a course at MIT that I was in called 15.375: New Enterprises. The textbook for the course was Jeffry A. Timmons' classic book “New Venture Creation” and the course ended with the submission of a written business plan.

I went on to create a company, with my partner Dave Jilk, that bore very little resemblance to that business plan. When I reread the plan several years ago for amusement, it motivated me to go dig up plans for other successful companies that I was a co-founder of or early investor in, including NetGenesis and Harmonix. In each case, the business plans were big, long, serious documents that had only a minor semblance to actual business
WHAT IS A BUSINESS MODEL?

BusinessModelGeneration.com
Twitter: business_design
it's a term that many of us frequently use
but
do we really understand business models well enough?
what actually is a business model? tell me!
it describes the rationale of how an organization creates, delivers, and captures value
a business model includes nine basic building blocks
For whom are we creating value? Who are our most important customers?
VALUE PROPOSITIONS

What value do we deliver to the customer? Which one of our customer’s problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?
Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?
What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?
For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?
Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?
What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?
nice big picture of a business, isn’t it?
now let's turn this concept into a useful tool!
<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Offer</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
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<tbody>
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<td>Key Resources</td>
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<tr>
<td>Cost Structure</td>
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<tr>
<td>Revenue Streams</td>
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</tbody>
</table>
does that look useful?
we call this tool the business model canvas
you can get your **free poster** version online
### The Business Model Canvas

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What are our key partners?</strong>&lt;br&gt;Who are they?&lt;br&gt;What are we offering them?&lt;br&gt;What benefits do our partners derive?</td>
<td><strong>What do we do?</strong>&lt;br&gt;What are the activities we perform?&lt;br&gt;How do we deliver our value proposition?</td>
<td><strong>What are our core value propositions?</strong>&lt;br&gt;What do our customers get?&lt;br&gt;What is the outcome of using our product/service?</td>
<td><strong>How do we keep our customers?</strong>&lt;br&gt;What keeps our customers loyal?&lt;br&gt;What are our customer touchpoints?</td>
<td><strong>Who is using our product/service?</strong>&lt;br&gt;What are their characteristics?&lt;br&gt;What are their needs?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What are our key resources?</strong>&lt;br&gt;What do we need to run our business?</td>
<td><strong>What do our channels need to do?</strong>&lt;br&gt;What channels do we use to reach our customers?&lt;br&gt;How do we acquire customers?</td>
<td><strong>What are our primary revenue streams?</strong>&lt;br&gt;What do we sell?</td>
</tr>
</tbody>
</table>
BusinessModelAlchemist.com/tools
THANK YOU

AlexOsterwalder.com
Twitter: business_design
Game Changers in your Generation?

World Wide Web

Open Source Software

LAMP Stack

Cloud Computing
The Long Tail

What Business Models were Enabled?
"We sold more books today that didn't sell at all yesterday than we sold today of all the books that did sell yesterday."

Josh Petersen, Amazon Employee explaining the long tail to a colleague that did not get it
"Netflix members love watching instantly, but we've come to recognize there is still a very large continuing demand for DVDs by mail," said Andy Rendich, Netflix Chief Service and Operations Officer. "By better reflecting the underlying costs and offering our lowest prices ever for unlimited DVD, we hope to provide a great value to our current and future DVD-by-mail members."

Verdict?  

15.71% Love it  

84.29% Hate it  

Source: Huffington Post
“Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base.”   Fred Wilson, Union Square Ventures
Freemium Services

Pandora

LinkedIn

Flickr
Virtual Goods?!?

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<tr>
<th></th>
<th>Year Ended December 31,</th>
<th>Three Months Ended March 31,</th>
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<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Consolidated Statements of Operations Data:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$19,410</td>
<td>$121,467</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>10,017</td>
<td>56,707</td>
</tr>
<tr>
<td>Research and development</td>
<td>12,160</td>
<td>51,029</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>10,982</td>
<td>42,266</td>
</tr>
<tr>
<td>General and administrative</td>
<td>8,834</td>
<td>24,243</td>
</tr>
<tr>
<td>Total costs and expenses</td>
<td>41,993</td>
<td>174,245</td>
</tr>
<tr>
<td>Income (loss) from operations</td>
<td><strong>$(22,583</strong></td>
<td><strong>$(52,778</strong></td>
</tr>
<tr>
<td>Interest income</td>
<td>319</td>
<td>177</td>
</tr>
<tr>
<td>Other income (expenses), net</td>
<td>187</td>
<td>(209)</td>
</tr>
<tr>
<td>Income (loss) before income taxes</td>
<td><strong>$(22,077</strong></td>
<td><strong>$(52,910</strong></td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>(38)</td>
<td>(12)</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td><strong>$(22,115</strong></td>
<td><strong>$(52,822</strong></td>
</tr>
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Shout-out for Non-Tech Innovative Business Model

Co-opted Customer to Provide Key Activities to Improve the Value Proposition
New Models for Partnering

Business Development 2.0: Web Services

Infrastructure
- Amazon Web Services™

Data
- Calais

Communications
- Twitter

Algorithms

Alex Iskold for Read/WriteWeb
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