

Business Models

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Agenda

With thanks to:

Peter Russo

Business Models vs. Business Plans

- ❑ A Business Model is a company's strategic plan
 - ❑ High level
 - ❑ Revenue model
 - ❑ Sustainable advantage
 - ❑ Competitive standing
 - ❑ Exit
- ❑ A Business Plan is a company's operational plan
 - ❑ Operational
 - ❑ Costs
 - ❑ Financing
 - ❑ Management team

Understanding Your Business Model

- ❑ What IS it?
- ❑ How to look at it
- ❑ What to do about it

What IS a Business Model

- ❑ Description of the key decisions and trade offs that define a business
- ❑ How do/will we make money?
- ❑ Answers the questions:
 - ❑ How will we charge for our product/service?
 - ❑ Who will we charge?
 - ❑ How will we sell?
 - ❑ What processes will be managed internally?
 - ❑ Outsourced?
 - ❑ What critical factors will define our success?
- ❑ The income statement describes the business model

It All Starts with a Value Proposition

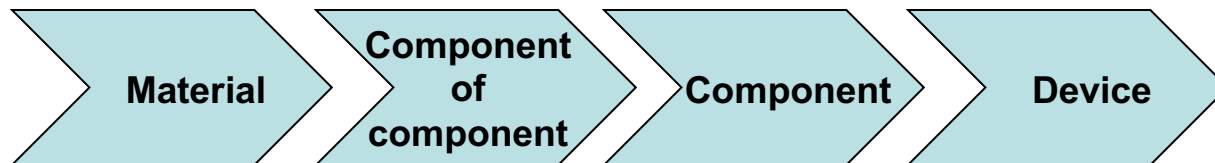
- ❑ How do we help a customer get an important job done?
- ❑ Value proposition becomes more compelling when:
 - ❑ Job is important to customer
 - ❑ Customer dissatisfaction is high
 - ❑ Our solution IS significantly better than alternatives
- ❑ Look for situations where:
 - ❑ Current solutions don't have real job in mind
 - ❑ We can design a solution that is a better fit

.....Then We Need a Target Customer

- ❑ ...And a way to get to them
 - ❑ Distribution channel
- ❑ ...And a way to deliver value to them
 - ❑ Value configuration

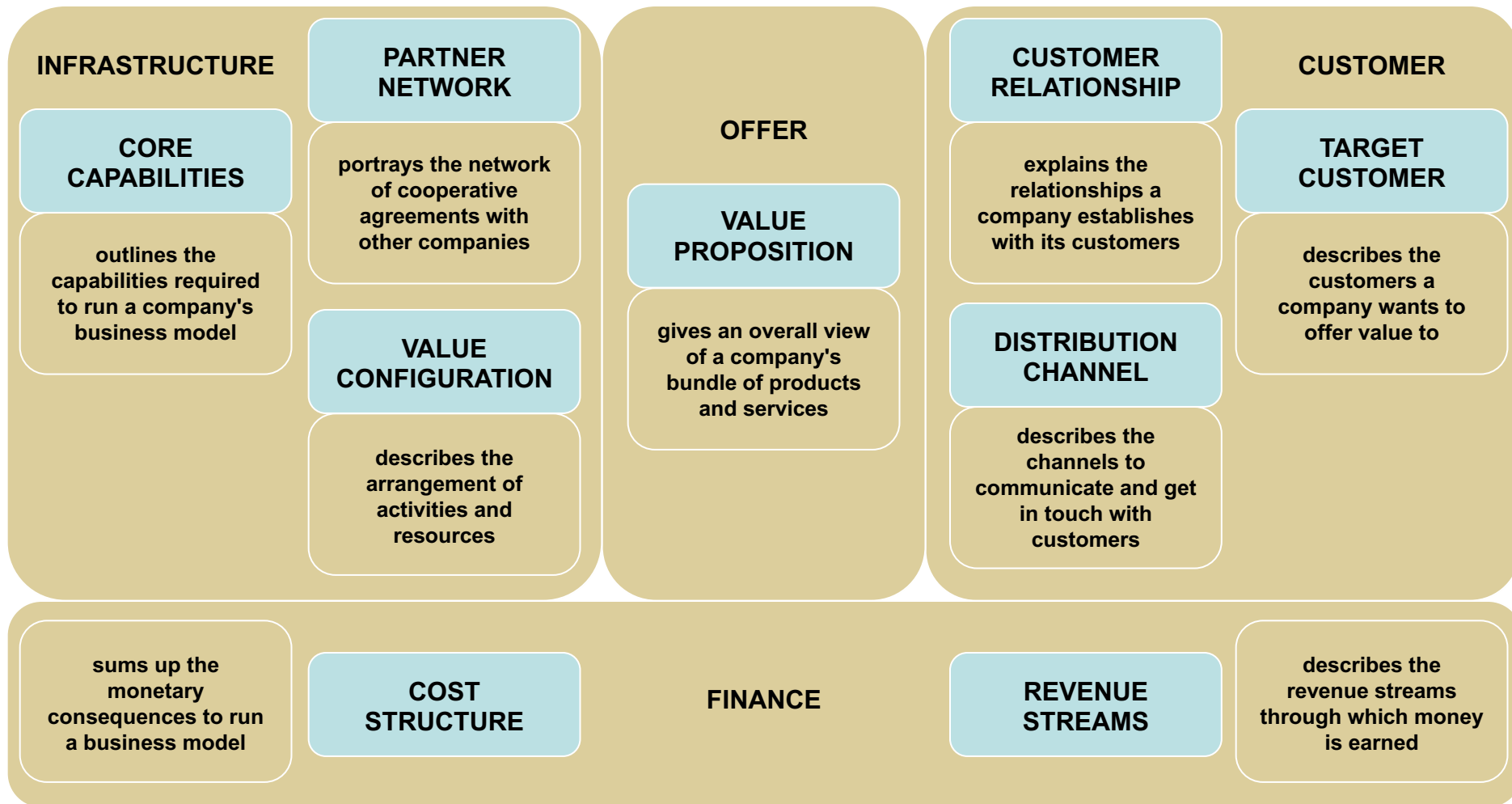
The Fundamental Strategic Question

- ❑ Where in the supply chain does your technology fit?
 - ❑ How far forward in the supply chain does the technology's value add let you integrate?
 - ❑ The further forward you go, the more value you capture
 - ❑ e.g., a new material



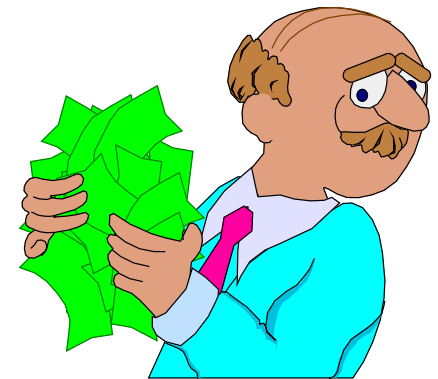
- ❑ Most supply chains have been so disaggregated that you can usually find a contract manufacturer

Putting it All Together – the Business Model Canvas



Revenue Sources

- ❑ What will be the company's revenue streams?
 - ❑ Single
 - ❑ Multiple (different products/services)
 - ❑ Interdependent (razor blades/razor)
 - ❑ Loss leader (free?)
- ❑ Revenue models
 - ❑ Volume or unit-based product sales
 - ❑ Subscription/membership
 - ❑ Advertising-based
 - ❑ Licensing & syndication
 - ❑ Transaction fee
 - ❑ Knowledge



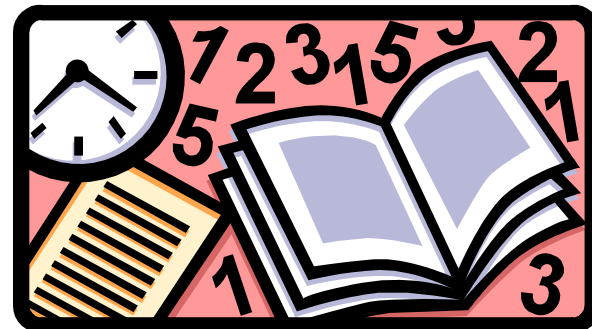
Analysis of Revenues

- ❑ Define revenue streams
- ❑ If interdependent or loss leader:
 - ❑ Likelihood of realizing the attractive business
- ❑ Which model(s) will we use
 - ❑ What behavior is likely to result?
 - ❑ Who is most likely attracted to us ?
 - ❑ Do we have other options?
- ❑ How long does it take to realize cash flow?

Analysis of Costs

- ❑ Cost drivers
 - ❑ Are they primarily fixed, variable, etc.
 - ❑ How much volume can fixed cost base support?
 - ❑ How will drivers change over time?
- ❑ Cost centers
 - ❑ What are our largest cost centers?
 - ❑ Can any offer us a strategic cost advantage?

Remember: this is about how we deliver value to our customers!

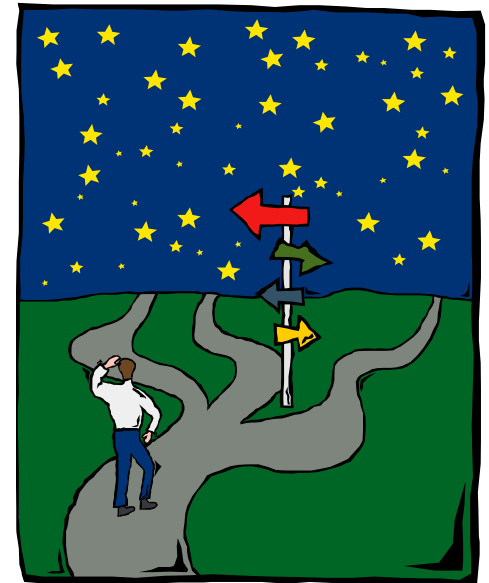


Investment Size and Timing

- ❑ How much cash will we need in total?
 - ❑ When?
- ❑ When does cash flow turn positive?
- ❑ When do we reach cash break-even?
 - ❑ Then what?

Final Step – What Do We Want to Be When We Grow Up?

- ❑ Why are we doing this?
- ❑ What constraints do we operate under?
- ❑ What alternatives do we have?
 - ❑ To reduce cash required
 - ❑ To speed up breakeven
 - ❑ ... Or time to market
 - ❑ To minimize risk
- ❑ What are the tradeoffs?



What Do We Mean by the Virtual Company Model?

- ❑ A virtual company is fully integrated
 - ❑ All the functions of a normal operating company
 - ❑ Manufacturing
 - ❑ Sales
 - ❑ Marketing
 - ❑ etc.
 - ❑ But they are outsourced
 - ❑ Contracted for
 - ❑ No permanent headcount

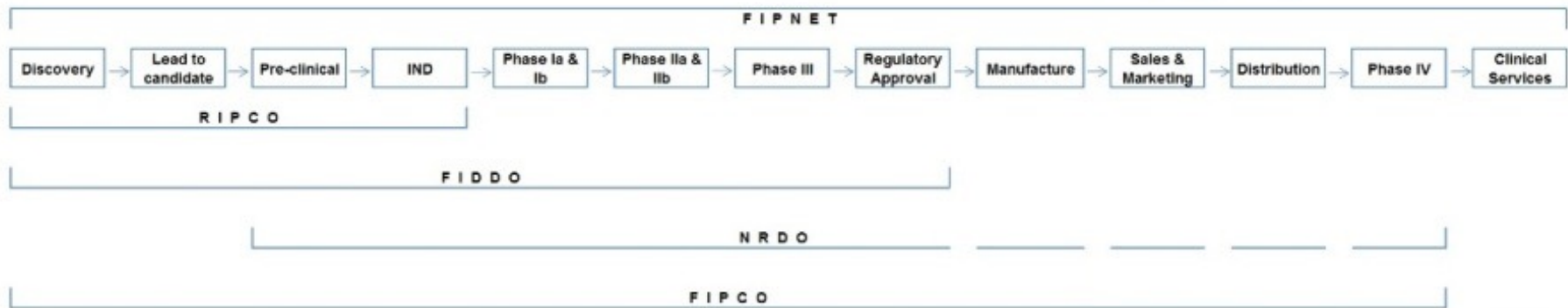
The Licensing Model

- ❑ Only captures 5-10% of the revenues
 - ❑ Won't justify investment
 - ❑ Can't build a fully integrated company
 - ❑ Not same as a virtual company
- ❑ Need to partner at an early stage
 - ❑ Partner pays for development
 - ❑ Sells product
 - ❑ Pays royalties
- ❑ Unlikely to be able to exit
 - ❑ Therefore can't attract investment
 - ❑ Grants only option
- ❑ Partner may be only potential acquiror

Biotechnology Company Business Models

Common business models in the biotech sector

FIPNET companies control their product throughout the whole value chain, but contract for complementary assets at one or more points on the chain.



- ❑ FIPCO or FIBCO – Fully integrated (bio)pharmaceutical company
- ❑ RIPC O or RIPC O – Royalty income (bio)pharmaceutical company
- ❑ FIDDO – Fully integrated drug discovery and development
- ❑ FIPNET – Fully integrated pharmaceutical network.
- ❑ NRDO – No research, development only

The Impact of Digital

- ❑ Software-hardware integration
 - ❑ Improving the customer experience
 - ❑ Hardware no longer king
- ❑ Apple didn't invent the MP3 player
 - ❑ RIO, 1998
 - ❑ Sued by RIAA
 - ❑ Lost
 - ❑ Apple iPod November 2001
 - ❑ Successful
 - ❑ Major impetus was iTunes Store
 - ❑ 2003
 - ❑ Changed how music is sold
 - ❑ Biggest music retailer in the world



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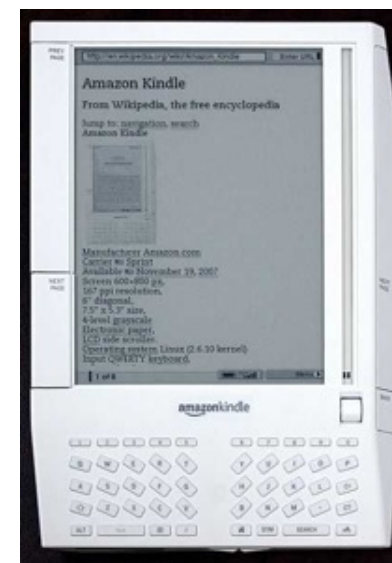
iTunes 10.6

With iCloud, everything you've bought on iTunes is now on every device you love.



The Impact of Digital

- ❑ Amazon didn't invent the eReader
 - ❑ Sony did:
 - ❑ Data Discman (CD-based) 1992
 - ❑ LIBRle (first eInk-based) 2004
 - ❑ Software in Japanese
 - ❑ Had to connect to a computer to download books
 - ❑ Limited book selection
 - ❑ A device
 - ❑ Amazon launched Kindle in 2007
 - ❑ Wireless
 - ❑ Broad selection of eBooks
 - ❑ From Amazon!
 - ❑ A system to buy and read books
 - ❑ Transformed book publishing and pricing
 - ❑ \$9.99 books



Internet Business Models

- ❑ Scalability
 - ❑ Global businesses with millions of customers can be created quickly.
- ❑ Leverage:
 - ❑ Near zero marginal cost.
- ❑ Disruptive
 - ❑ Can tackle huge markets,
 - ❑ Education
 - ❑ Finance, with Internet based business models.
- ❑ Winner-take-all
 - ❑ Dominant business an order of magnitude more valuable than competitors

Internet Business Models

- ❑ Costs to start a company plummeting
 - ❑ Cloud computing
 - ❑ SaaS
 - ❑ Example later
 - ❑ The V1.0 model
 - ❑ Launch a Minimally Viable Product (“MVP”)
 - ❑ Test market
 - ❑ Get feedback
 - ❑ Generate early revenues
 - ❑ Develop V2.0

The “Golden Garbage” Model – Internet Version

■ BuzzFeed

- Blogging sharing site
- 85 million monthly visitors
- Founder Luis Von Ahn
- Challenge: Quickly translating quirky prose into foreign languages
- Solution: Partnership with
 - Language learning site
 - Students practice translating
- Von Ahn founded Captcha
 - Started using scans of books
 - Old typefaces tough to scan
 - Google, Amazon



Type the characters you see in the picture below.

Finding

Platform Technologies – Sell Them or Use Them

- ❑ The key strategic issue:
 - ❑ Do you sell the technology and let others capture the value add
 - ❑ Or keep the technology to yourself and capture the value add yourself



- ❑ Historically, pop corn seed was all bred from Purdue 20 (Purdue Univ.)
 - ❑ Redenbacher started selling Purdue 20 based seed popcorn
- ❑ Bought Chester Farms with Charlie Bowman
 - ❑ Started breeding his own seed
 - ❑ Came up with the ideal popcorn hybrid in 1965
 - ❑ Could have sold it to others
- ❑ Decided to sell to consumers directly
 - ❑ Launched in 1970
 - ❑ Captured 1/3rd of the retail market
- ❑ Bought by Hunt Wesson Foods
 - ❑ Reportedly >\$ 6 million



- ❑ Harry J. Hoenselaar invented a spiral ham slicing machine in 1944
- ❑ Patent issued in 1948
- ❑ Tried to sell to big meatpackers
 - ❑ No interest
- ❑ Developed his own curing, smoking and baking process and a sweet glaze
- ❑ Founded HoneyBaked Hams in Detroit, MI in 1957
- ❑ Still family owned
 - ❑ 40 company stores
 - ❑ 400+ franchisees
- ❑ The best!



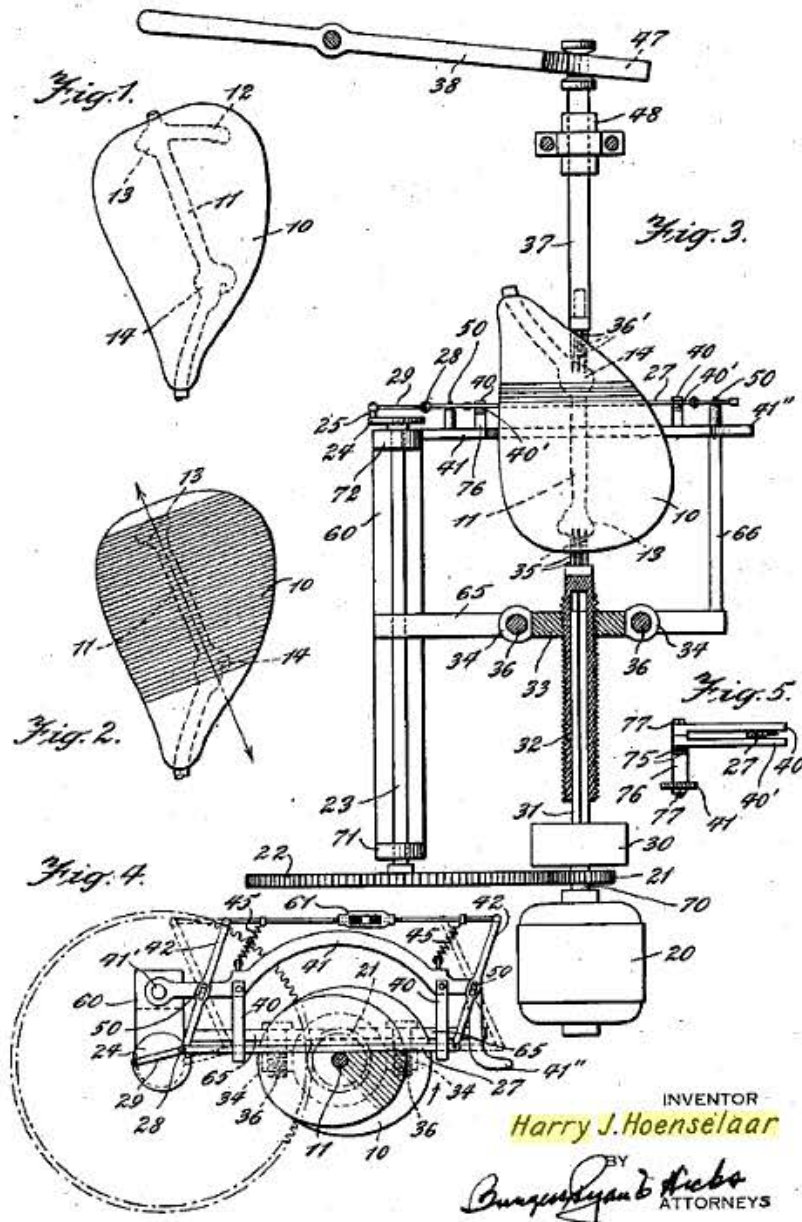
May 10, 1949.

H. J. HOENSELAAR

2,470,078

APPARATUS FOR SLICING HAM ON THE BONE

Filed Sept. 7, 1944



INVENTOR

Harry J. Hoenselaar

BY

Burgess & Siebs
ATTORNEYS

Business Model Drives Tactics

- ❑ What Were Soccer Clubs' Revenue Streams in the 1960's?
 - ❑ Gate admissions
 - ❑ Transfer fees
 - ❑ What behavior does that drive?
 - ❑ Keep live games off TV
 - ❑ Keep everyone coming through the turnstiles



What are Soccer Teams Revenue Streams in 2012?

- ❑ TV
 - ❑ Domestic
 - ❑ International
- ❑ Sponsorship
 - ❑ Uniforms
 - ❑ Stadium naming rights
- ❑ Apparel
- ❑ Luxury suites
- ❑ Transfer fees
- ❑ Gate admissions
- ❑ Concessions



Business Model Drives Tactics

- ❑ What behavior does this induce?
 - ❑ Maximize TV coverage
 - ❑ Sunday, Monday games
 - ❑ Staggered start times
 - ❑ Sign foreign players



The Art of the Pivot

- ❑ Sometimes things change so much, you need more than an update
 - ❑ A Pivot!
 - ❑ Think of it as an Audible
- ❑ A quick change of direction
 - ❑ Grounded in what you've learned
 - ❑ Keep one foot in the past
 - ❑ Place one foot in a new possible future
 - ❑ Moves away from the original vision in a controlled manner
- ❑ This is why management team quality is so important to investors
- ❑ Not done lightly:
 - ❑ Identify trends from real data and real market experience
 - ❑ Reconfirmed by multiple sources
 - ❑ Optimize the basic product/market fit
 - ❑ Without leaving a hole or divot in company's market or credibility.



Some Pivots

- ❑ Customer problem pivot
 - ❑ Same product, new market
- ❑ Market segment pivot.
 - ❑ Same product, new problem for same customers
- ❑ Technology pivot.
 - ❑ Repurposing the current technology platform to solve a new problem
- ❑ Product feature pivot
 - ❑ Add new product features based on customer feedback
 - ❑ Remove current product features based on customer feedback
- ❑ Revenue model pivot
 - ❑ Premium → commoditized
 - ❑ Sale → subscription

Some Pivots

- ❑ Sales channel pivot
 - ❑ Direct sales → a distribution channel/ecommerce/white-labeling/strategic partners, etc.
- ❑ Product versus services pivot
 - ❑ For a complex product, bundle support services with the product
 - ❑ Educational offerings
 - ❑ Sell a service that delivers the product at the core.
- ❑ Major competitor pivot
 - ❑ A major new player or competitor jumps into your space
 - ❑ Charge ahead blindly, or execute a pivot to differentiate and stay alive?

Some Famous and Effective Pivots

Company	Year	Original Business	Became	New Business	Outcome
Odeo	2006	Podcast directory service			
Iminlikewithyou	2006	Dating site			
The Point	2008	Group Fundraising			
Burbn	2010	Mobile microblogging site			
Fab.com	2011	Gay social network			

Business Model Innovation

- ❑ Sometimes a business model innovation is as important as a technology innovation
- ❑ Remember Pets.com?



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Royal Canin Veterinary Diet

Life After Death

- ❑ PetFlow
 - ❑ =Pets.com 2.0!
- ❑ Founded 2010
 - ❑ \$10 mm VC investment
 - ❑ Revenues:
 - ❑ \$13 mm 2011
 - ❑ \$30 mm 2012
 - ❑ Still loss making
- ❑ Competition:
 - ❑ Mr. Chewy
 - ❑ Wag.com (Quidsi, acquired by Amazon for \$545 mm)

What Changed?

	Pets.com	Petflow
Capital raised	\$110 mm	\$10 mm
Business model	Order	Subscription - 50-60%
Cloud computing	\$7-10 mm to launch	\$50k to launch - Amazon Web Services
Website	In-house	Outsourced
Fulfillment	\$1-2 mm in-house	Outsourced - Capacity LLC, \$4-5/order*
Broadband	48.5 mm	232.1 mm
On-line commerce	1.2% in 2000	7.2% in 2012
Online Pet-Supply Market	\$100 mm	\$3 billion
Marketing	\$25 mm, inc Superbowl	\$200k/month internet search ads

* Opened own warehouse in 2011



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"I save \$100/yr
on shaving now.
Basically, I'm a
genius."

- Jeff

OUR BLADES



DELIVERED EACH MONTH



How Many Variations Can There Be on the Razor/Razor Blade Model?

- ❑ Sell the capital item at low profit
 - ❑ The Razor
- ❑ Make the money on the consumable
 - ❑ The Razor Blade
- ❑ A start-up razor company?
 - ❑ How about a subscription model?
 - ❑ \$1 million seed round
 - ❑ Andreessen Horowitz
 - ❑ Kleiner Perkins Caufield & Byers
 - ❑ Products sourced in China
 - ❑ [Marketed by a viral online video campaign](#)
 - ❑ Cost \$4,500 to make
 - ❑ Supported by an accelerator – Science Inc.

Questions?

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