

What is a business model? (and why you need one)

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May 2014

Getting to know each other

- What business are you in? (Do you want to be in)
B2C B2B B2G M2M Platform
- What stage are you at?
- Are you going to look for investment?

Getting to know each other

Steven Forth

- Partner at Rocket Builders
(focus on pricing & innovation)
- Founder at Nugg, LeveragePoint
Recombo
- Investor at [eFund](#)
- [@StevenForth](#)



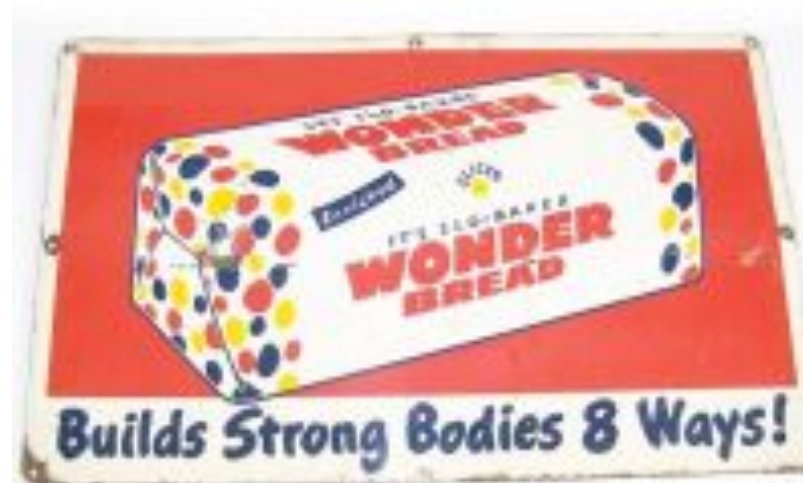
You've come up with



*"the greatest thing
since sliced bread"*

It may take a while ...

- ❑ Sliced Bread
 - Idea: 1912 invention
 - Brought to Market: 1928
 - Adoption: 1930
- ❑ Not until a company named Wonder Bread began marketing the benefits of sliced bread, did it take off as a concept.

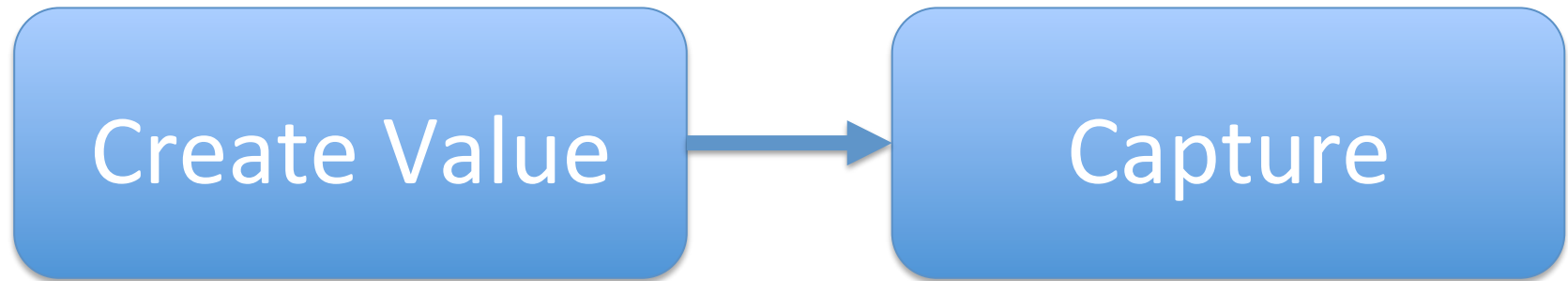


What is a business model?

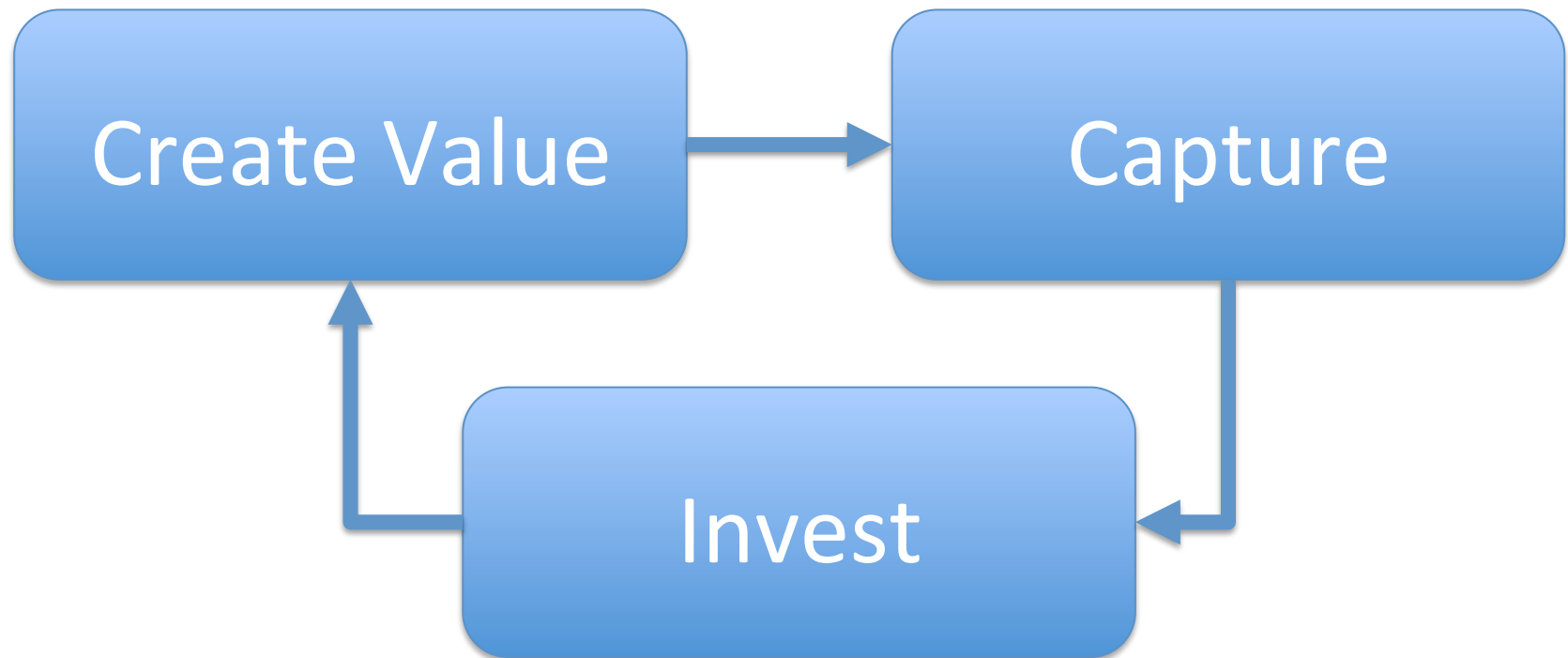
How you provide value to your customers

Create Value

And capture it in profit



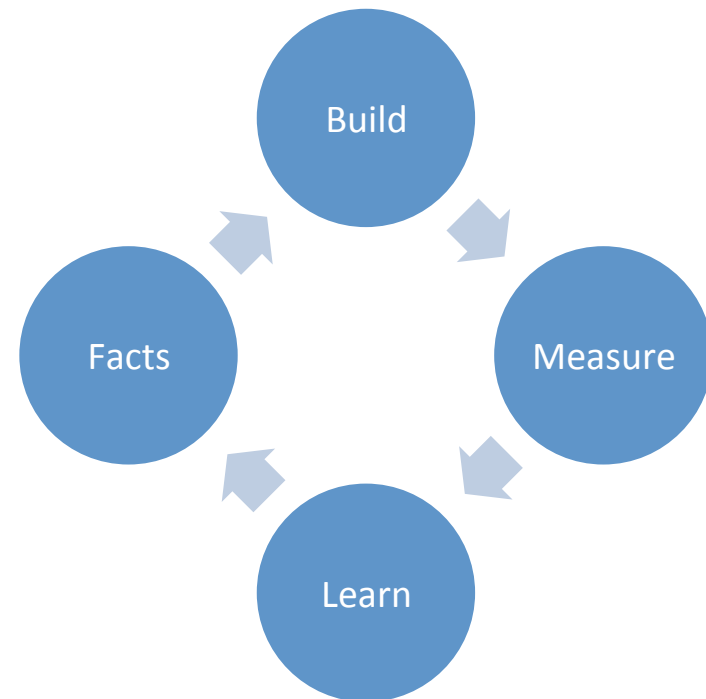
Then reinvest in innovation



Steve Blank – From Hypothesis to Reality

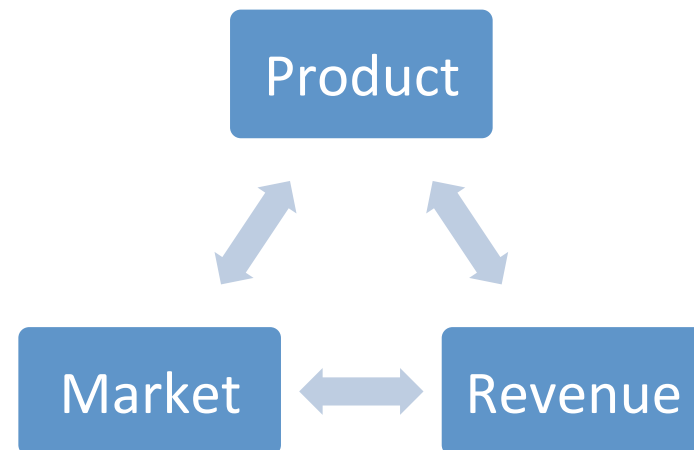
Start-ups ‘search’ for a business model

1. Hypothesis - Build, Measure, Learn
2. Create facts and proof
3. Re-release based on reality



Successful Growth Companies

1. Minimum Viable **Product** evolves to become.....
2. ... the product demanded by the market including a viable **revenue** model
3. Addressable **market** with an 'engine of growth' or a clearly defined niche market



Why? – Steve Blank



Expressing your business model

1. Can you say it (in less than a minute) so someone else can repeat it?
2. Can you draw it?
3. Can you put it into a spreadsheet?

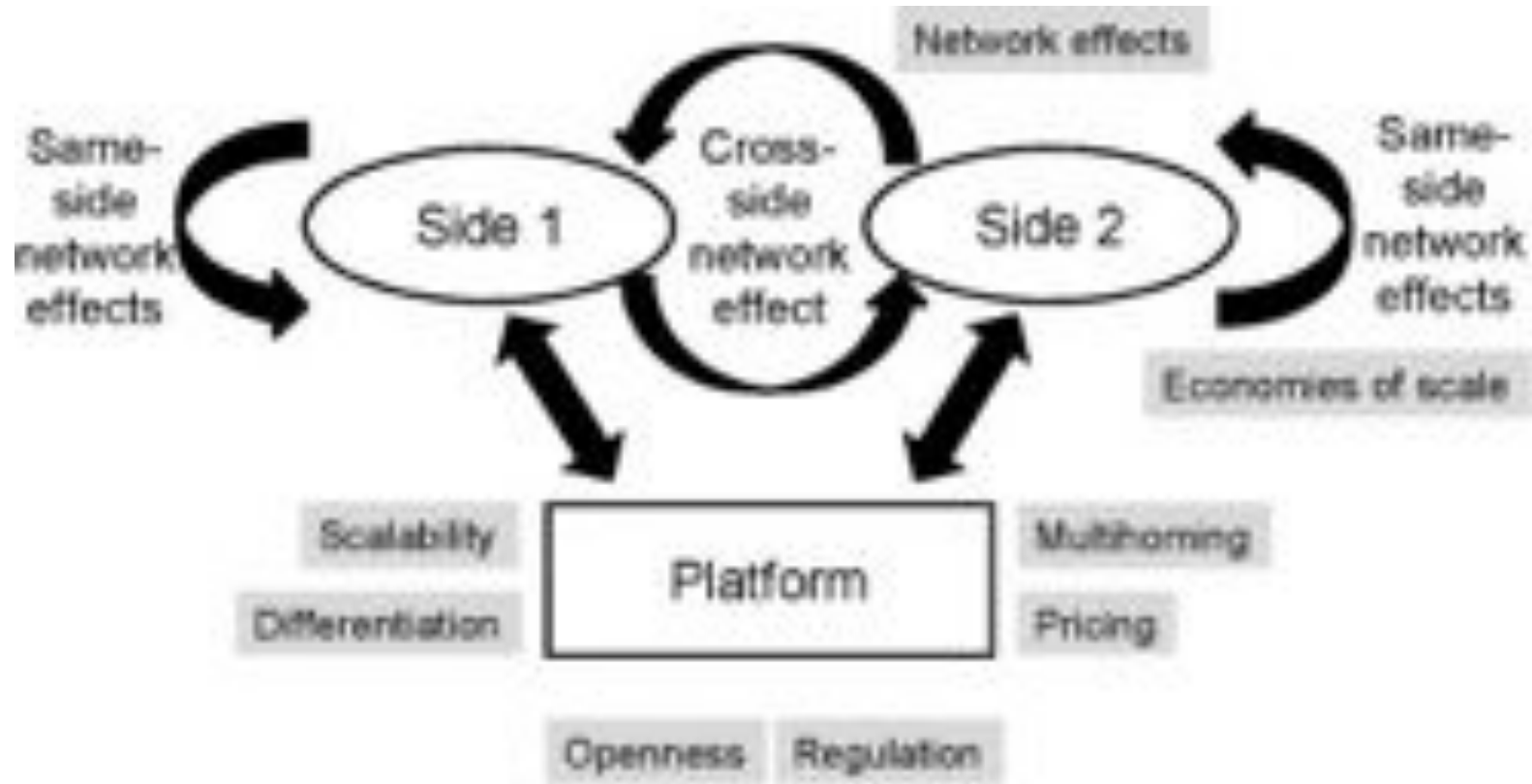
Innovate on your business model

- ❑ Many of us spend too much time innovating on our technology and then our product
- ❑ Spend more time innovating on your business model
- ❑ Especially the create and capture value parts

Types of Business Model

Market Structure	Go-to-Market	Delivery
Value - Pricing		
B2B B2B2B B2B2C B2B2G B2C C2B2C B2G B2B2G M2M	<ul style="list-style-type: none"> • Advertising <ul style="list-style-type: none"> • Click through • Banner • Location aware • Product Placement • eCommerce • Social • Inbound • Outbound • Channel <ul style="list-style-type: none"> • Push • Pull • OEM 	<ul style="list-style-type: none"> • Mobile • On Line • On Premise • In Hardware • As Hardware • As a Service • As a Component

Two sided business model are complex



“Mobile Networks as a Two-Sided Platform - Case Open Telco” by Yrjö Raivio and Sakari Luukkainen in [Journal of theoretical and applied electronic commerce research](#)

Can you draw your business model?

- ☐ You should be able to draw your business model on a whiteboard
- ☐ One Friday, give everyone a blank piece of paper and some crayons
- ☐ Everyone goes into a 'corner' and draws their business model

The Business Model Canvas

The Business Model Canvas

Designed for: Designed by: Date: Version:

Key Partners Who are the key partners that the business needs to reach its vision? Which resources do they provide? Which risks do they help to reduce? Which activities do they help to perform? Which channels do they help to reach? Which segments do they help to reach?	Key Activities What key activities must the business perform to make its business model work? Which resources do they require? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?	Value Propositions What value does the business create for its customers? Which resources do they require? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?	Customer Relationships What type of relationship does the business establish with its customers? Which resources do they require? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?	Customer Segments Which segments of the market does the business target? Which resources do they require? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?
	Key Resources What key resources must the business possess to make its business model work? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?		Channels How does the business reach its customers? Which resources do they require? Which risks do they help to reduce? Which segments do they help to reach?	
Cost Structure What are the major costs that the business incurs to make its business model work? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?			Revenue Streams How does the business generate revenue? Which risks do they help to reduce? Which channels do they help to reach? Which segments do they help to reach?	

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You have to get to a spreadsheet

- ☐ The spreadsheet is central so you have to build it yourself
- ☐ You need to show how you think your funnel will work (and you have to have a funnel in the model – your Pirate Metrics)
- ☐ Build your Profit & Loss model

How to use the spreadsheet

- ☐ Call out your key assumptions
- ☐ Track these against reality (every day if you can)
- ☐ Use them to work out the metrics that matter
- ☐ Expect to go through the spreadsheet model with investors
- ☐ Make sure you go through the spreadsheet model with your team

The Investment Readiness Level

The Investment Readiness Level by Steve Blank

Based on NASA's work on judging when a new technology is ready for adoption

Tests the hypotheses in your business model canvas

The 'thermometer'

Investment Readiness Level



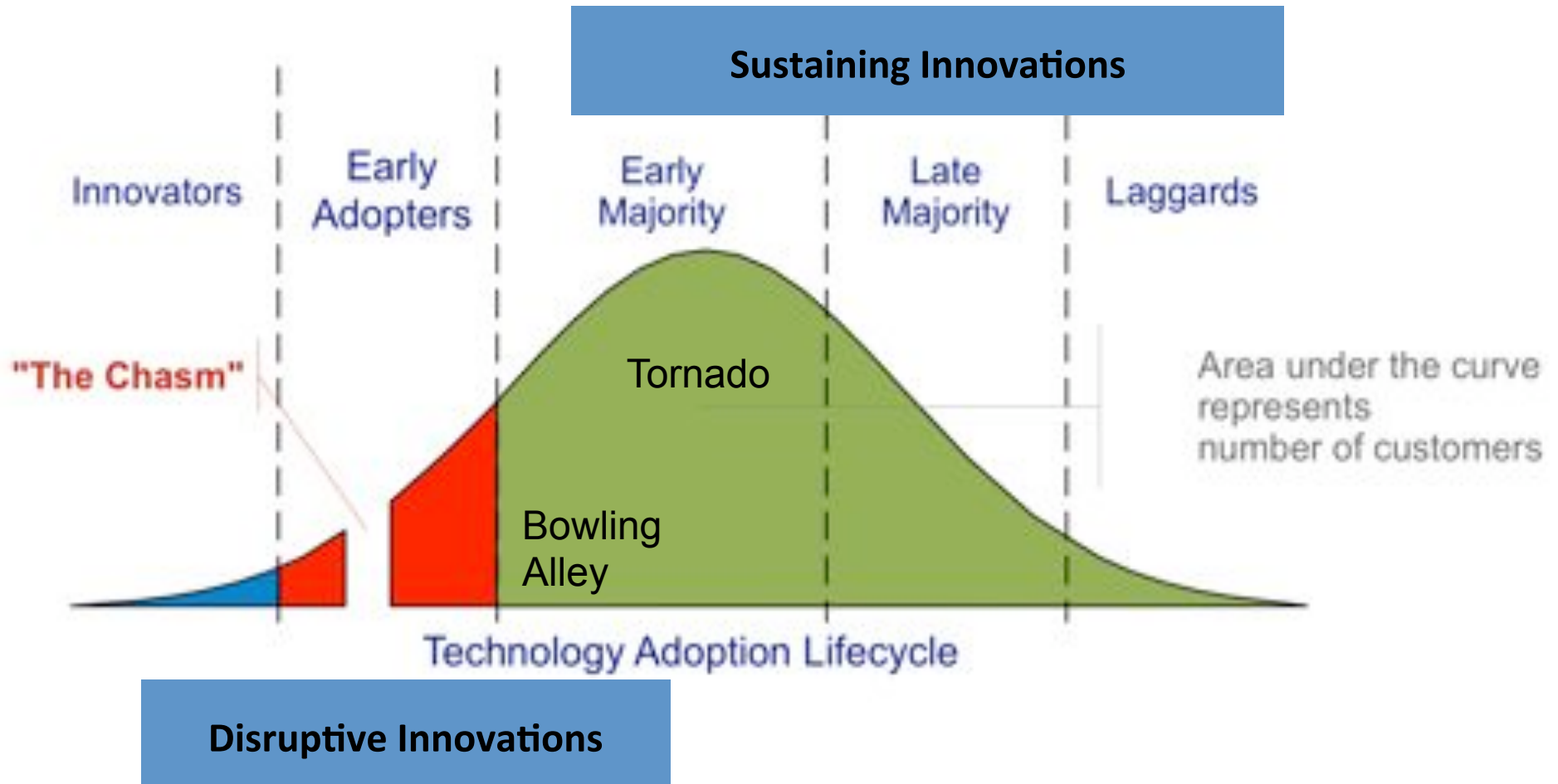
[The Investment Readiness Level](#) by Steve Blank

Searching for a scalable business model

- ❑ What is the long-term value of your customers? (LTV)
- ❑ What are your Customer Acquisition Costs? (CAC)
- ❑ LTV/CAC must be > 3 (preferably > 5)

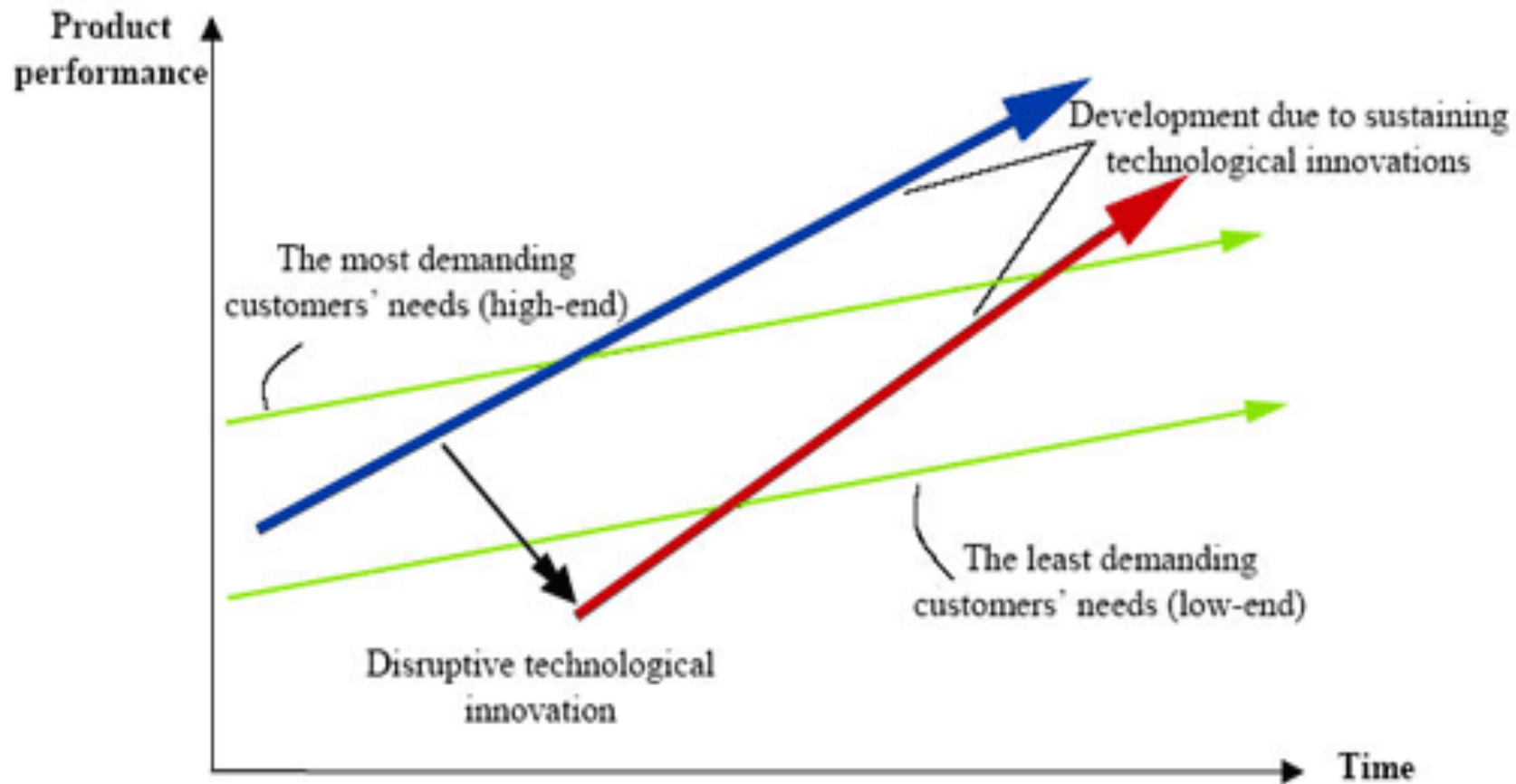
Technology Adoption Cycle

(Geoffrey Moore)



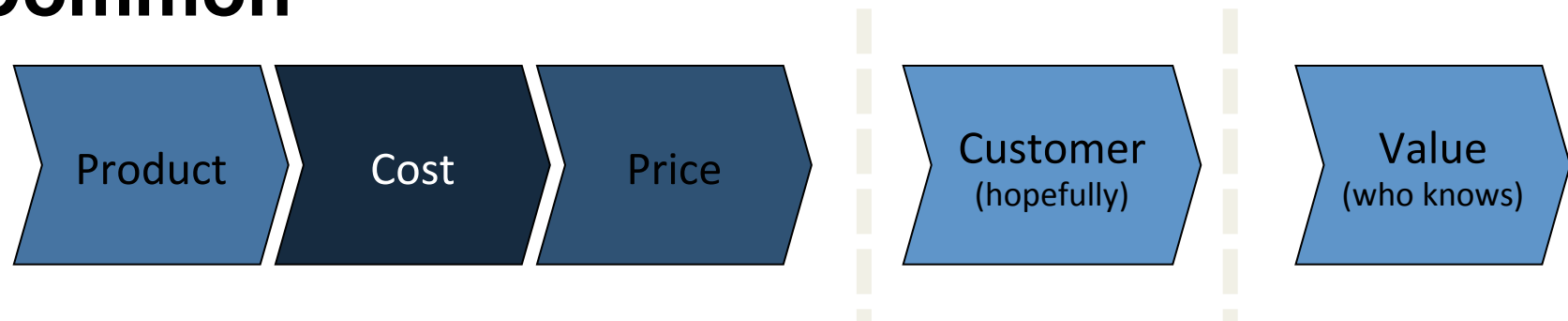
Sustaining vs. Disruptive Innovation

(Clayton Christensen)

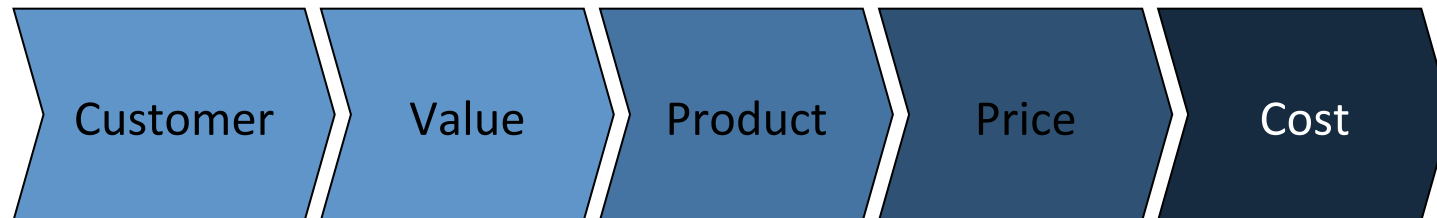


Order of Events

Common



Compelling



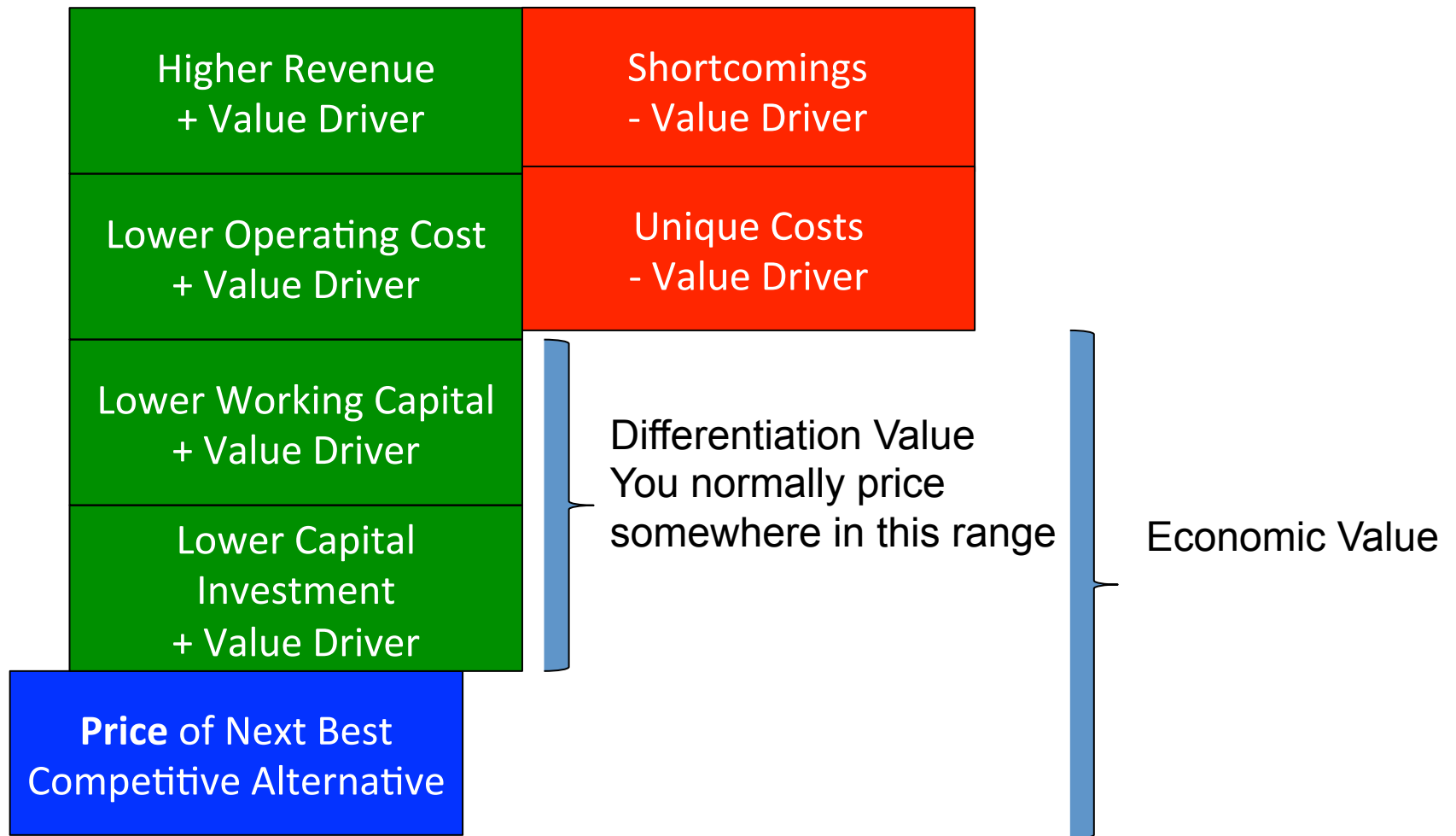
What do we mean by value?

Value is

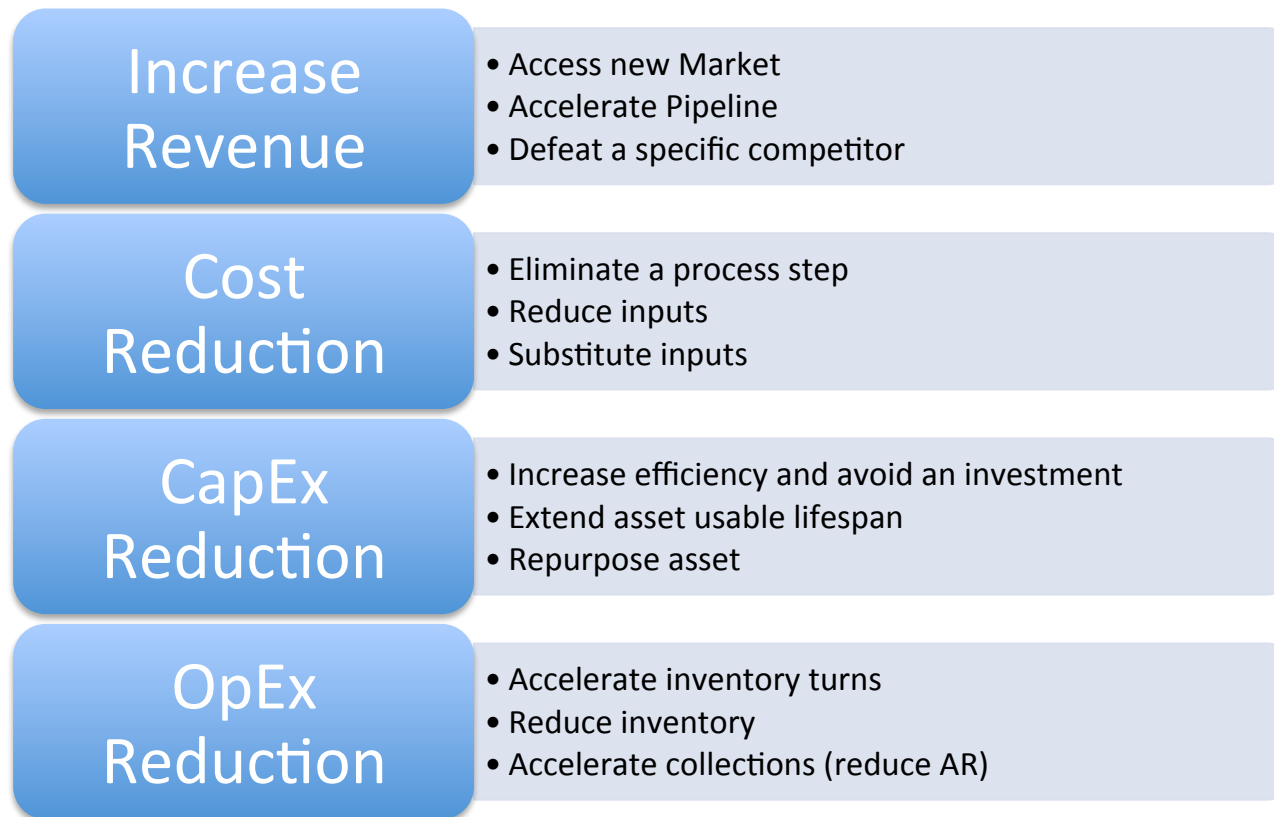
- ☐ For the **customer**
(has nothing to do with cost of your inputs or how cool you are)
- ☐ Relative to an **alternative**
(there is always an alternative – even if it is ‘doing nothing’)
- ☐ **Economic** (quantifiable in dollars) and **Emotional**
(in some cases there are other important ways to quantify value, like Quality Adjust Life Years in healthcare)

Economic Value Estimation (EVE)®

(Tom Nagle)

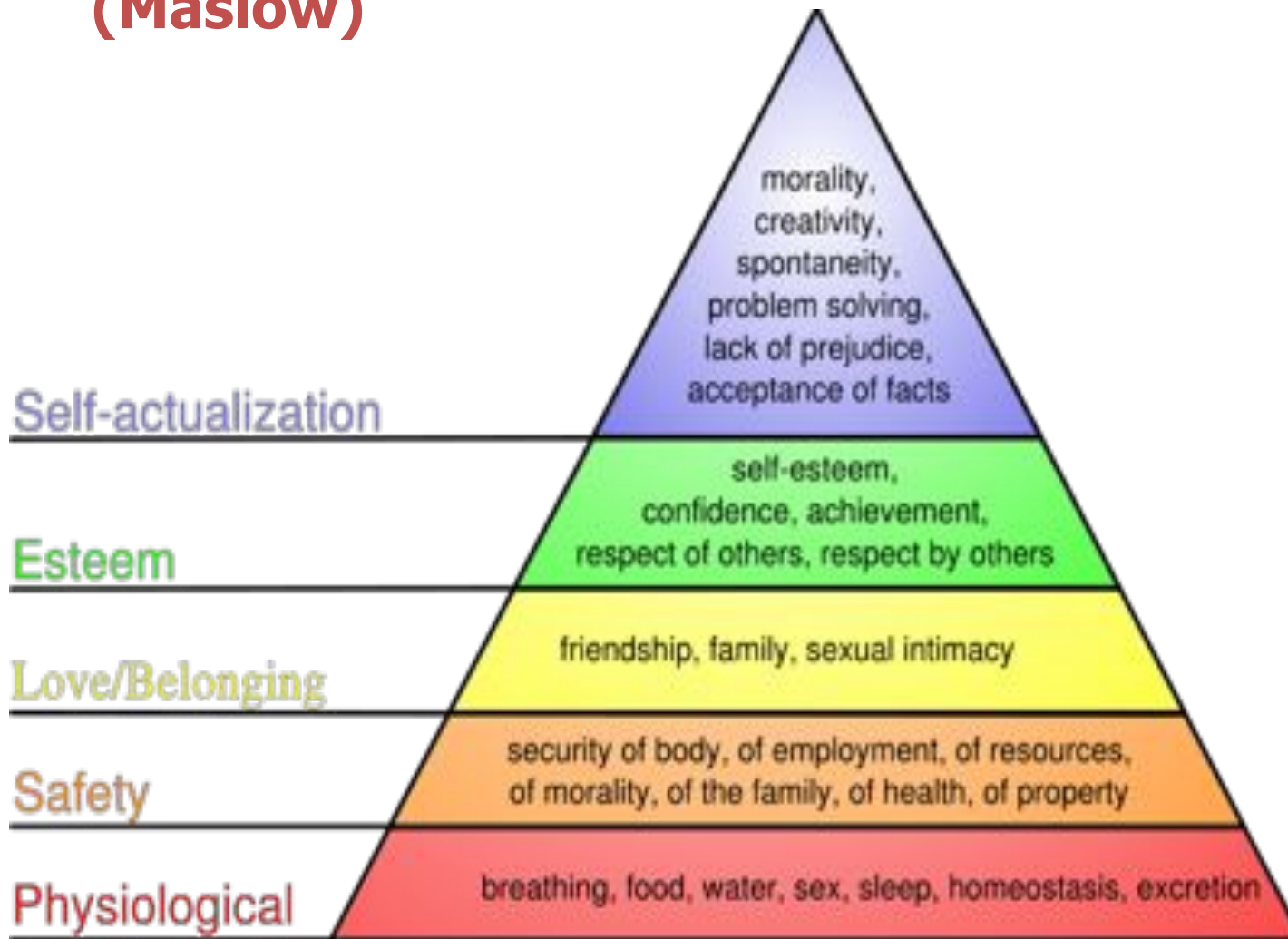


Examples of Value Drivers

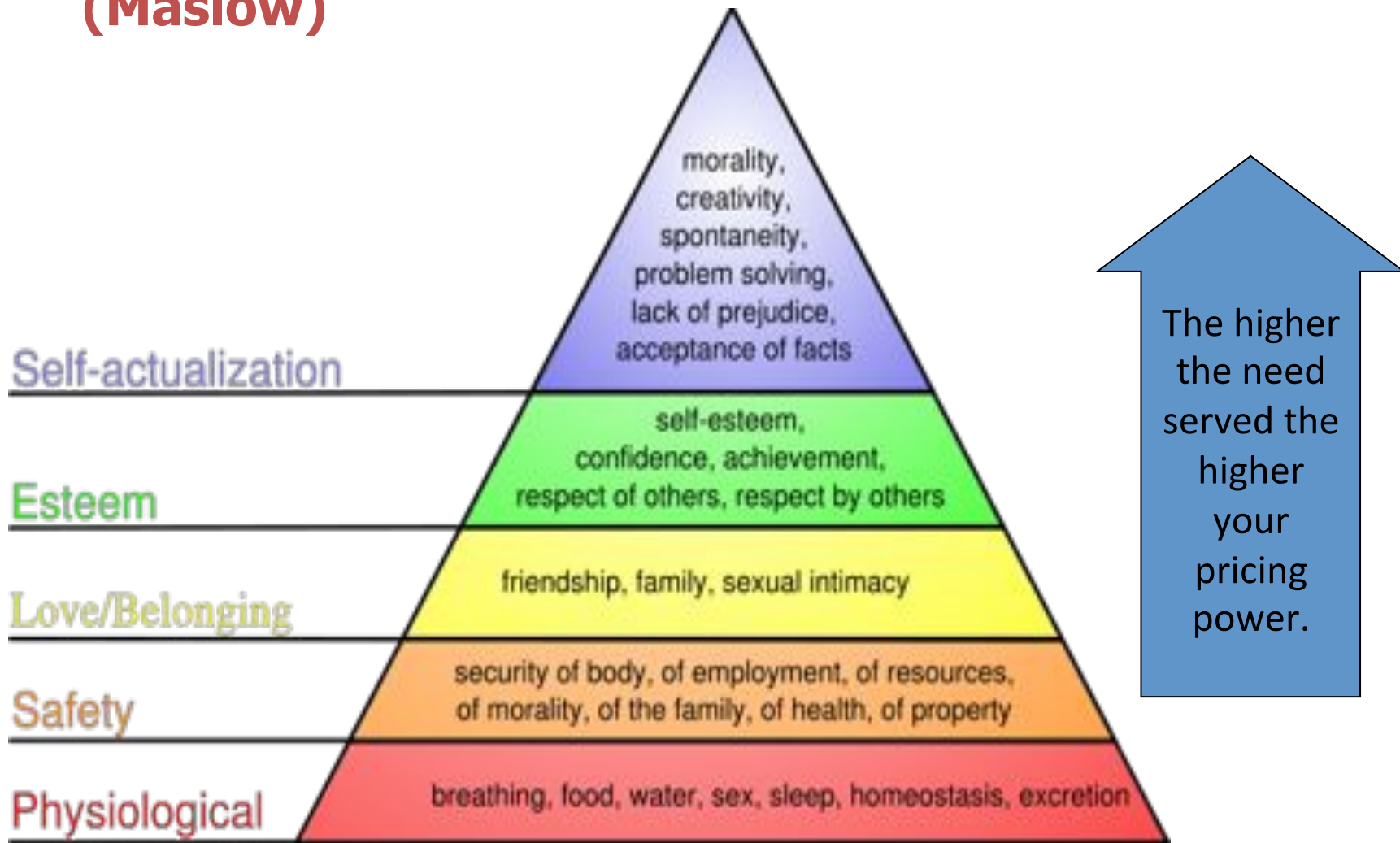


What are two other possible sets of value drivers that are missing here?

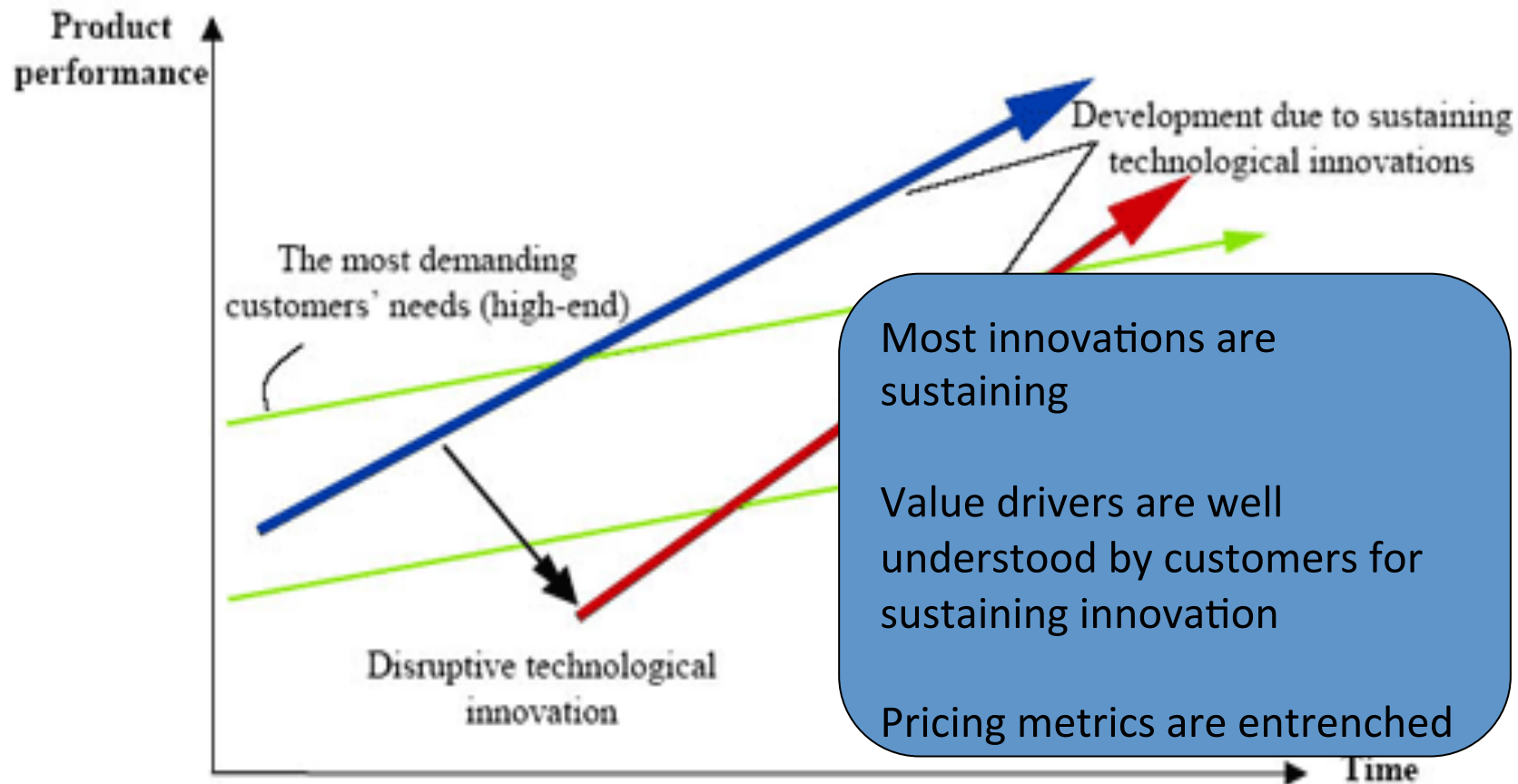
Emotional value (Maslow)



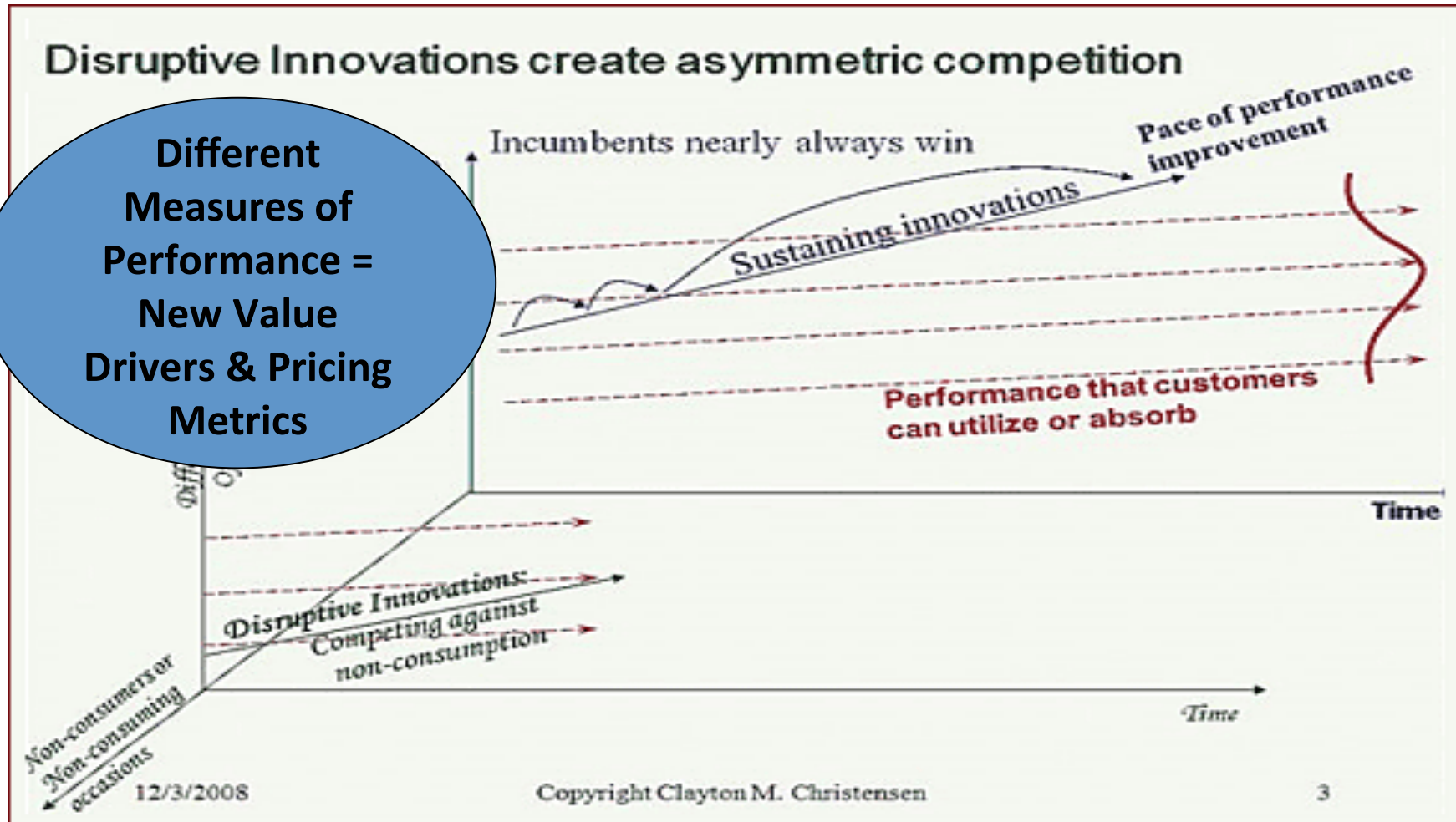
Serve higher needs (Maslow)



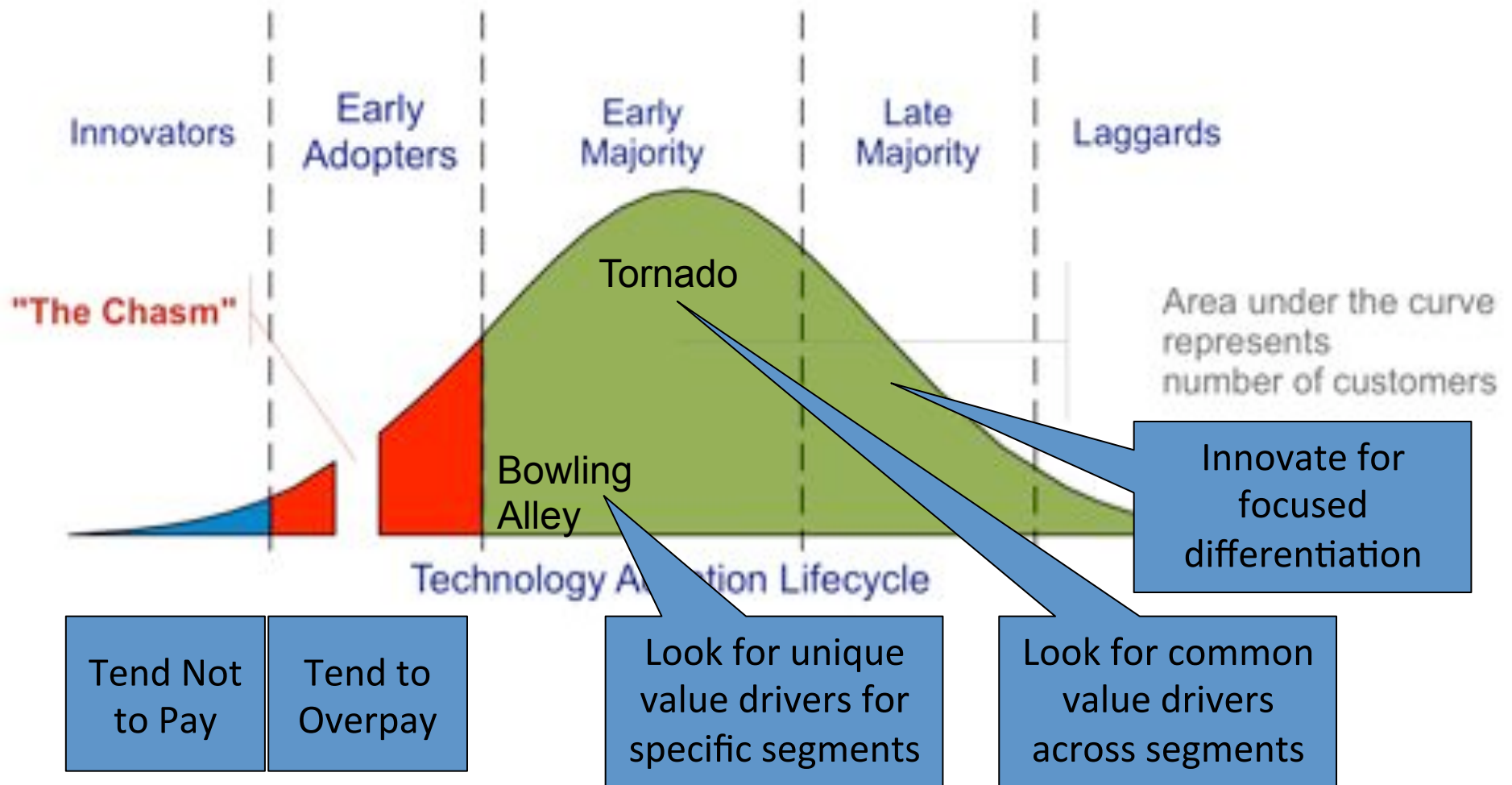
Sustaining Innovation and Pricing



Disruptive Innovation and Pricing



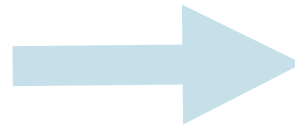
Technology Adoption Cycle & Pricing



What is a value metric? And why it matters

The unit of use by which
a customer gets value from your
offer

Gallons of paint or square feet covered?



Marketing qualified leads or Sales qualified leads?



Marketing Automation
(Hubspot
Hootsuite
Eloqua
Marketo etc.)

The Pricing Metric and the Value Metric

The pricing metric is the unit by which you set a price

It is a more important choice than the actual price

You are looking for a pricing metric that tracks the value metric

Choice of a pricing metric is an important opportunity for innovation – it should be part of your innovation thinking

Innovation on the value-pricing metric

The ability to instrument cloud software to measure use and to integrate with other systems opens many new possible pricing metrics

The Internet of things makes it possible to extend this to the physical world

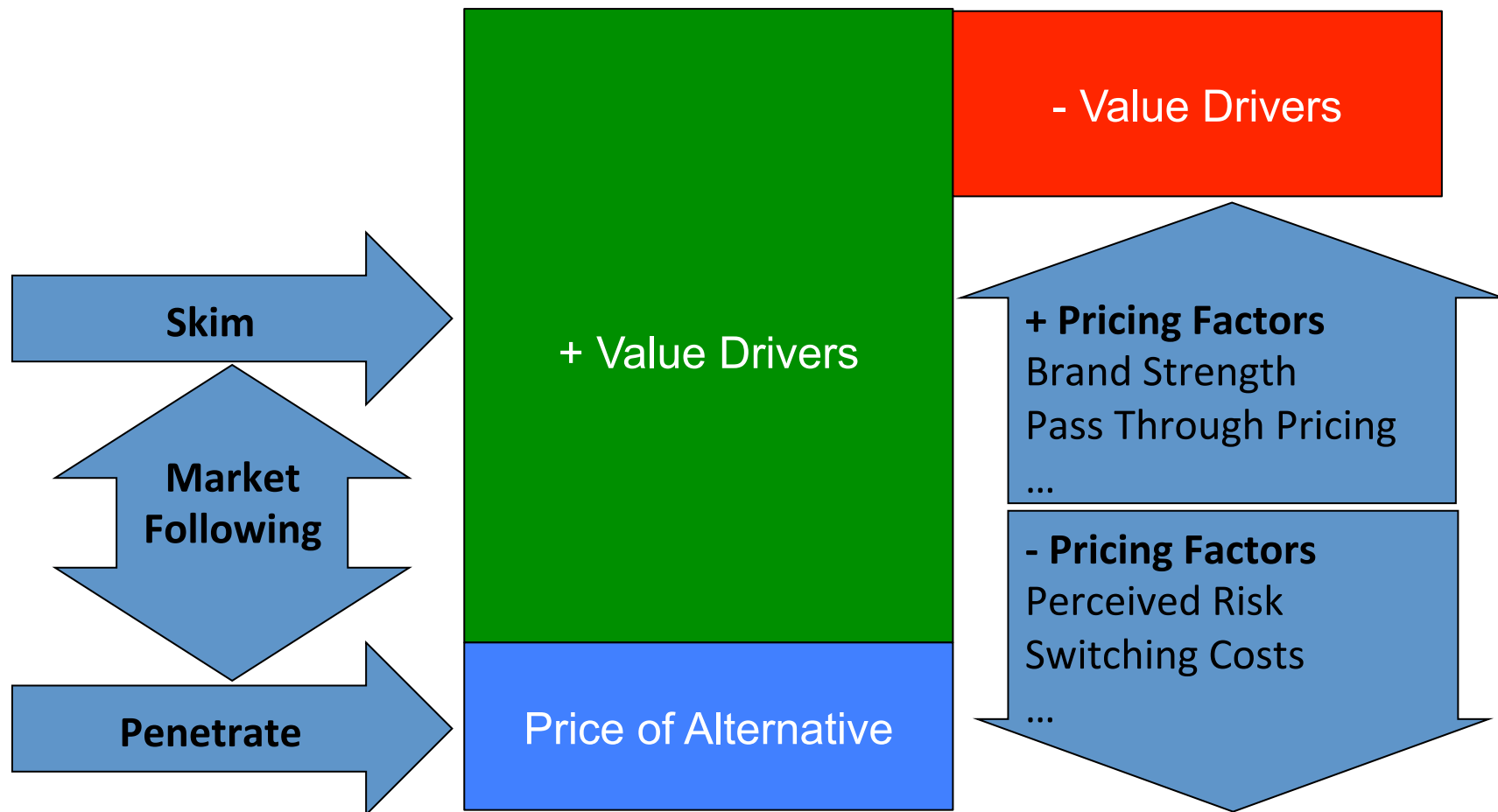
We are in the golden age of pricing metric innovation

Some innovative pricing metrics

- ❑ Building lighting company that charges a percentage of energy saved over a three-year contract
- ❑ Filter company charging by a combination of throughput and quality of throughput
- ❑ Collaboration company charging per group instead of per user
- ❑ Apple, salesforce.com, Netflix, are all examples of companies that innovated on their pricing metric

How much value to claim?

Pricing Power & Pricing Strategy



You need to

- ☐ Understand your value
(for a segment relative to competitors)
- ☐ Build your pricing power
- ☐ Pick ONE pricing strategy
 - Skim
 - Follow
 - Penetetrte

A Note on 'Freemium'

What kind of freemium?

1. Free trial or version as a step to conversion
(Hubspot)
2. Free users add value to paying users (LinkedIn)
3. Two-sided market
(My Best Helper)

(In most cases you will have to have one or more of these forms of Freemium – so know which one you are executing on.)

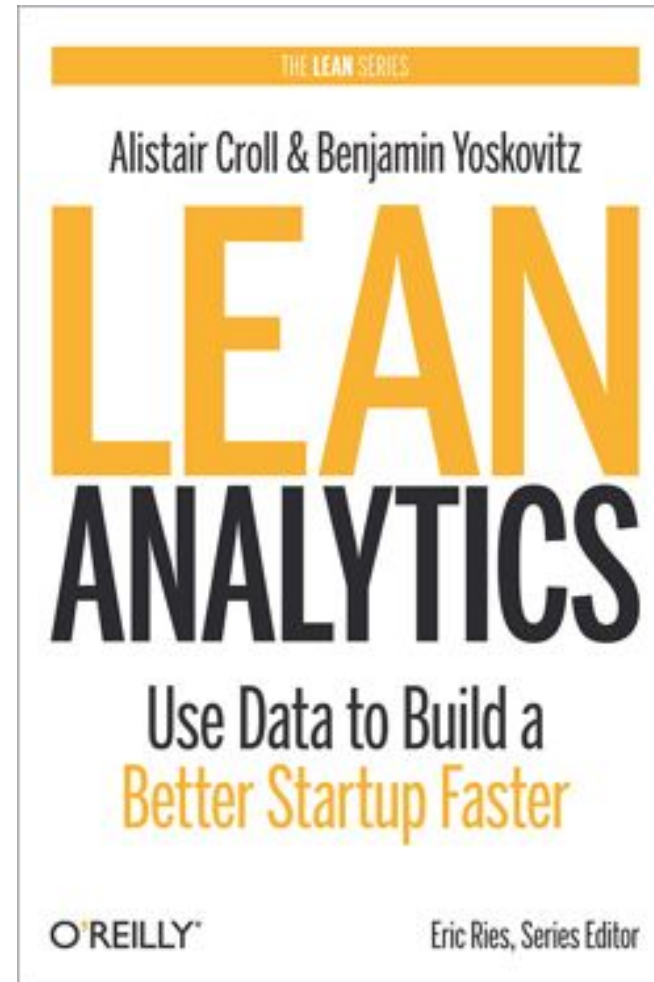
Why metrics matter

- ☐ They can validate your business model
- ☐ Give you the info to course correct
- ☐ Help you to test hypotheses
- ☐ Metrics to help demonstrate value



A great sourcebook

- Well aligned with the Lean Start-Up methodology
- Provides detailed process on how to apply and improve metrics
- And use them to test your business model



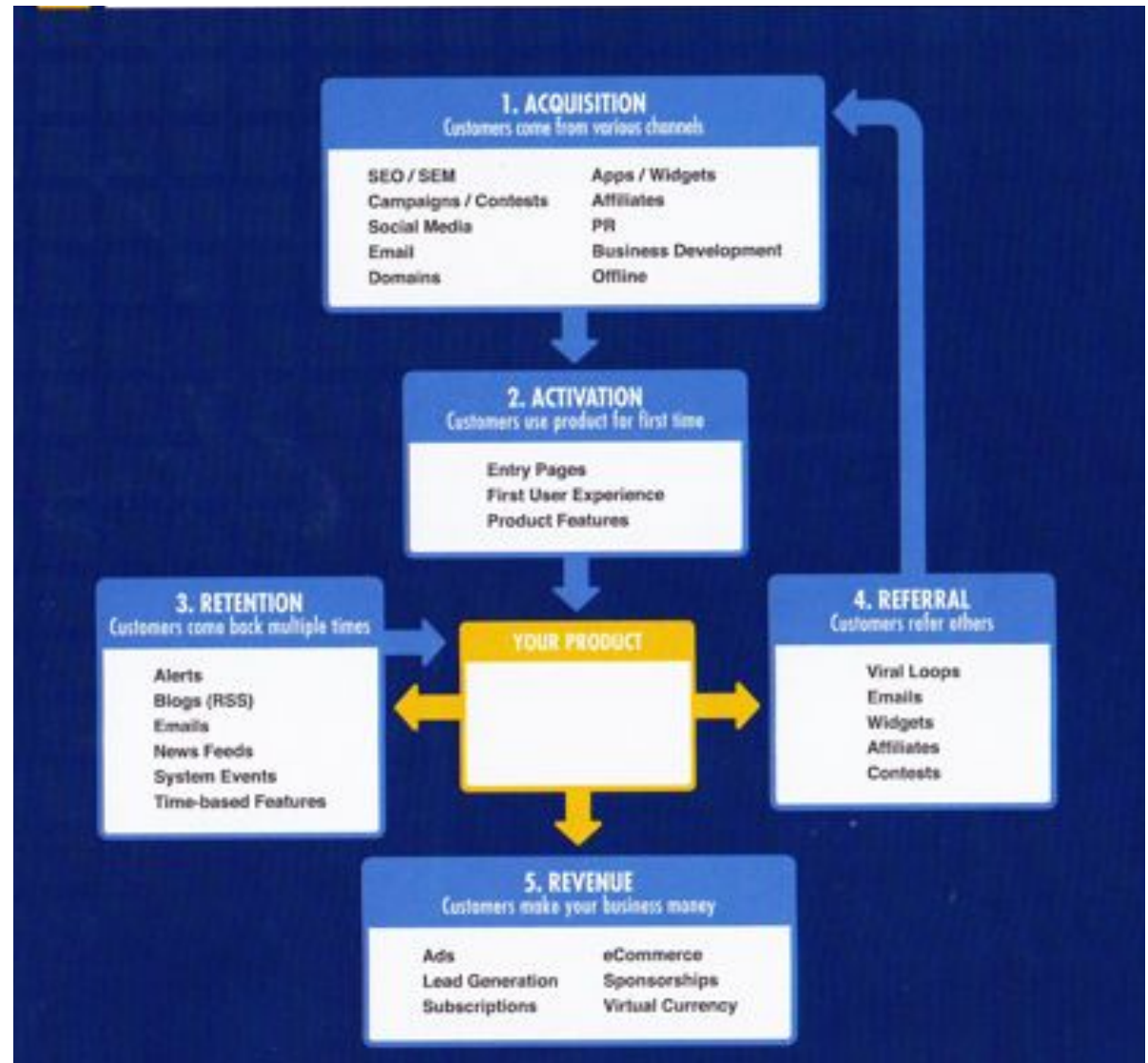
Avoid vanity metrics

- ❑ Avoid vanity metrics
 - Metrics that always go up
 - Metrics that anyone can collect for any business mode (how you understand metrics is part of your differentiation)
- ❑ Some vanity metrics
 - Web traffic
 - Facebook likes
 - Retweets
 - etc.

What metrics

- ☐ The metrics that test your assumptions (from your business model)
- ☐ Start with the metrics that demonstrate your differentiated value (this is why you need a value model)
- ☐ Then test your pipeline metrics (from the top down – you have to get to conversion metrics)
- ☐ You need to get to Lifetime Value of a Customer and Customer Acquisition Costs

Pirate Metrics



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Courtesy of KISS Metrics

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LTV and CAC

- ❑ Lifetime Value of a Customer (LTV)
= (Average Selling Price x Months x Percent Churn) – Cost to Serve
- ❑ Customer Acquisition Costs (CAC)
= Marketing Costs + Sales
- ❑ Ideally these should be done by segment x offer
- ❑ Months to recover CAC
(Impacts cashflow and determines investment requirement)

Financial Metrics still matter

☐ Revenue

- Scalable & repeatable revenue
- Potential to upsell (impacts your LTV)

☐ Cashflow

- How does your business model impact cashflow (Why are SaaS models tougher?)

☐ Expenses – who do you pay?

- Payroll
- Government
- Suppliers that can shut you down
- Cash burn

Follow up with us

☐ Coaching on

- Business models
- Go-to-market
- Pricing
- Investment strategy

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