Creating Killer Business Models

By David Keener

Introduction

- Why am I doing a talk on business models?
- My background with startups
- Introduce the "Business Model Canvas"
  - A technique for designing business models
- Discuss business model patterns
  - Using real-world examples
- Some final thoughts

But First, a Warning

SURGEON GENERAL'S WARNING: This talk contains no Ruby code. At all. If Ruby code examples are required for your continued health and well-being…this is not the talk for you.

Why?

Why on Earth Would I Give a Talk on Business Models to a Bunch of Ruby Developers at a Ruby Conference?

Because…

- We're not JUST Ruby developers…

Because…

- We're not JUST Ruby developers…
- We're not JUST "polyglot programmers"…
  - a term coined by Neal Ford, by the way

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We Are Advisors…

- Working with clients to understand their business needs
- Helping clients to identify and prioritize business objectives
- Advising clients on how to use technology to accomplish their business objectives

Understanding business models can help us

We Are Entrepreneurs…

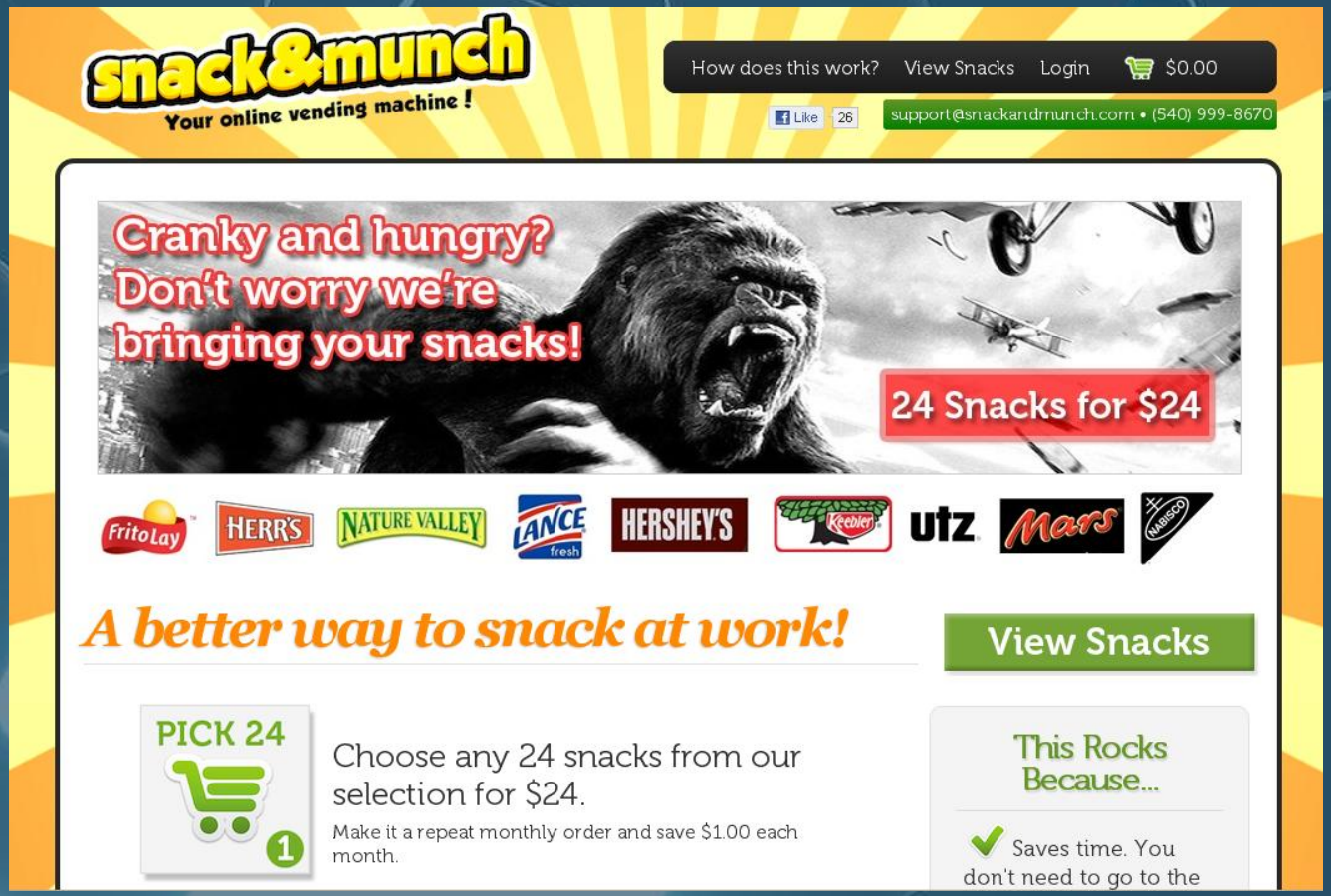
- Many of us have worked for startups…
- Or are working for a startup right now…
- Or are considering creating our own start-up

Understanding business models can help us

Snack&Munch

A startup from Amar Youssef (attendee)

Custom snack packs delivered



http://www.snackandmunch.com

My Entrepreneurial Background

- Co-Founded CareerBank.com
  - Moderately successful; sold to OnTarget Jobs
- Co-Founded RubyNation Conference
  - Successful non-profit initiative
- Co-Founded DevIgnition Conference
  - Successful non-profit initiative

- I've worked for startups
- I've helped "incubate" potential startups

This is what it looked like when it launched in 2000.

AND the business model worked.

A video contest fielded with Votridea

Incubated By MetroStar Systems

What Is a Business Model?

"A business model describes the rationale of how an organization creates, delivers and captures value."

- Alexander Osterwalder & Yves Pineur, from "Business Model Generation"

Some Background

- Alexander Osterwalder & Yves Pineur
  - Did a dissertation on business model innovation in 2004
- Formed an online community
  - The Business Model Hub (costs $ to join)
  - Solicited ideas from around the world

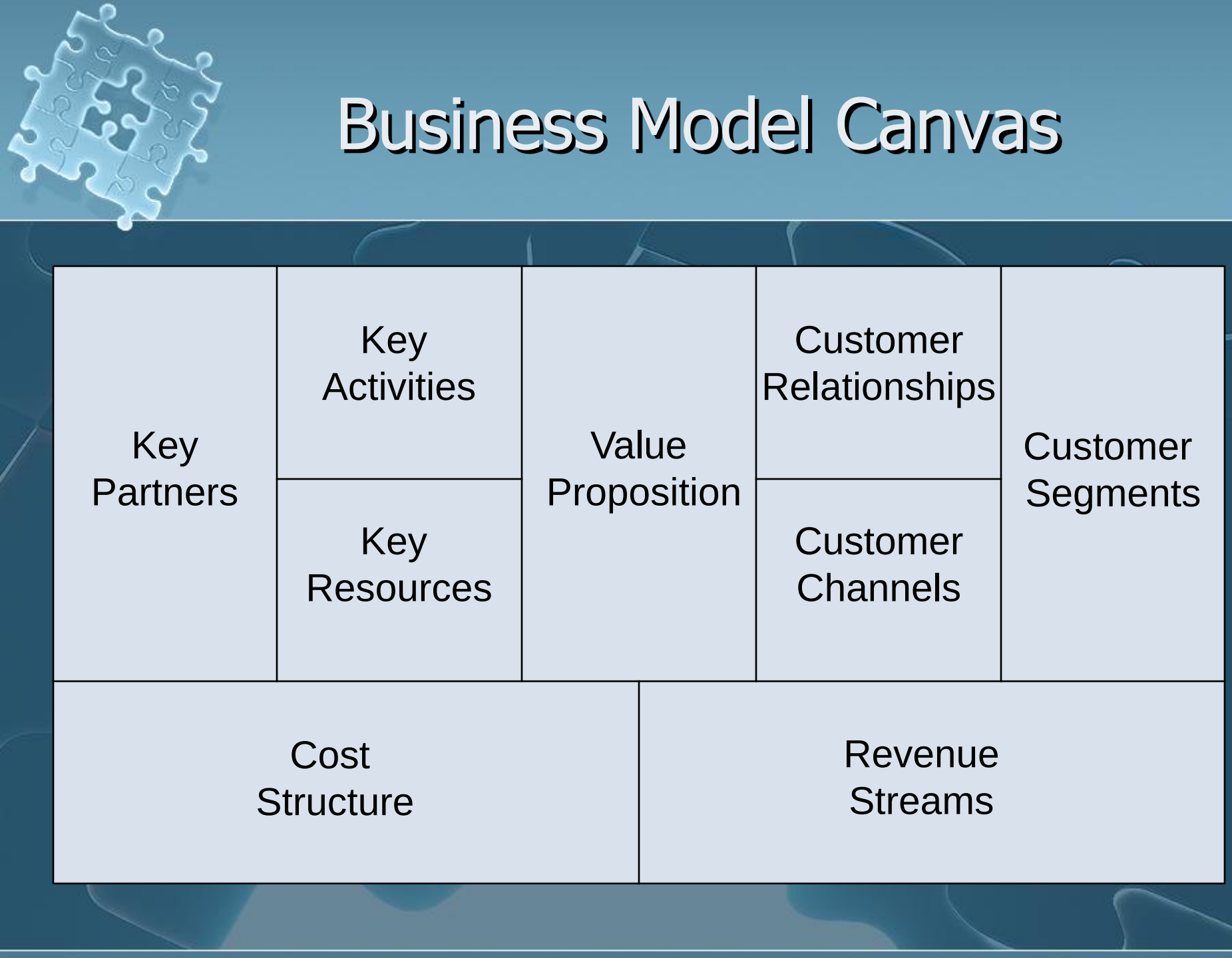
1. Identified 9 key business components
2. Developed the "Business Model Canvas"

Key Business Components

The community identified 9 key business components…

- Value Proposition
- Customer Segments
- Customer Channels
- Customer Relationships
- Revenue Streams
- Key Activities
- Key Resources
- Key Partners
- Cost Structure

Business Model Canvas



Value Proposition (VP)

Products or services…

- That create value for customers
- Solve customer problems
- Fulfill a customer need

* This is the component techies are usually most familiar with… we often *build* the applications that provide value

VP: CareerBank

- Focuses on accounting, finance and banking niche
- Helps job seekers find jobs
- Helps employers find job candidates
- Helps advertisers reach individuals in this niche
  - The IRS was a regular advertiser

Getting it Wrong

- Kodak thought it sold film…
- Kodak was actually in the business of "preserving memories"

The advent of digital photography caused a major disruption for Kodak

VP: Snack&Munch

"Your online vending machine"

- Provides a large choice of snacks
- Sells them as a bulk package (25)
- Lets users create customized packages
- Delivers them
- Supports recurring deliveries

Customer Segments (CS)

Customer Segments are groups of customers that have distinct characteristics

- They have different needs
- Reached through different channels
- Pay for different things
- Have different profitability levels

CS: CareerBank

- Job Seekers
  - Search for jobs
  - Apply for jobs online
  - Will not pay for services!
- Employers
  - Search for qualified candidates
  - Review online applications
  - Will pay for services
- Advertisers
  - Get message out to targeted audience

CS: Facebook vs. MySpace

MySpace

- Market leader in 2007
- Targeted teenagers
- Interface alienated adults

Facebook

- Targeted wider audience

Market Share of US Internet Visits to Top 20 Social Networking Sites

February 2007*

Rank	Name	Domain	Market Share
1	MySpace	www.myspace.com	80.74%
2	Facebook	www.facebook.com	10.32%
3	Bebo	www.bebo.com	1.18%
4	BlackPlanet.com	www.blackplanet.com	0.88%
5	Xanga	www.xanga.com	0.87%

Result: FaceBook is undisputed heavyweight champ

Customer Channels (CC)

How an organization reaches its Customer Segments to:

1. Communicate
2. Deliver its Value Proposition

Focus is on getting the Value Proposition to the customer

CC: Two Examples

- CareerBank.com
  - All activities automated through web site
- Snack&Munch
  - Automated through web site
    - Catalog of Products
    - Ordering of Products
  - Product delivery via Fedex

Customer Relationships (CR)

Defines the type of relationship an organization will have with customers

Some examples:

- Personal – investment banking
- Automated – CareerBank
- Community – LinkedIn

Affects:

- sales
- customer retention
- customer aquisition

CR: EngineYard

- I had a problem with an EngineYard server
- I tweeted about my frustration
- I got an impressively quick response

Twitter Chain

Response Time: 22 minutes

CR: LivingSocial

- Now that EngineYard has set the bar with customer support by Dr. Nic…
- I expect Chad Fowler to help me if I have any problems with Living Social

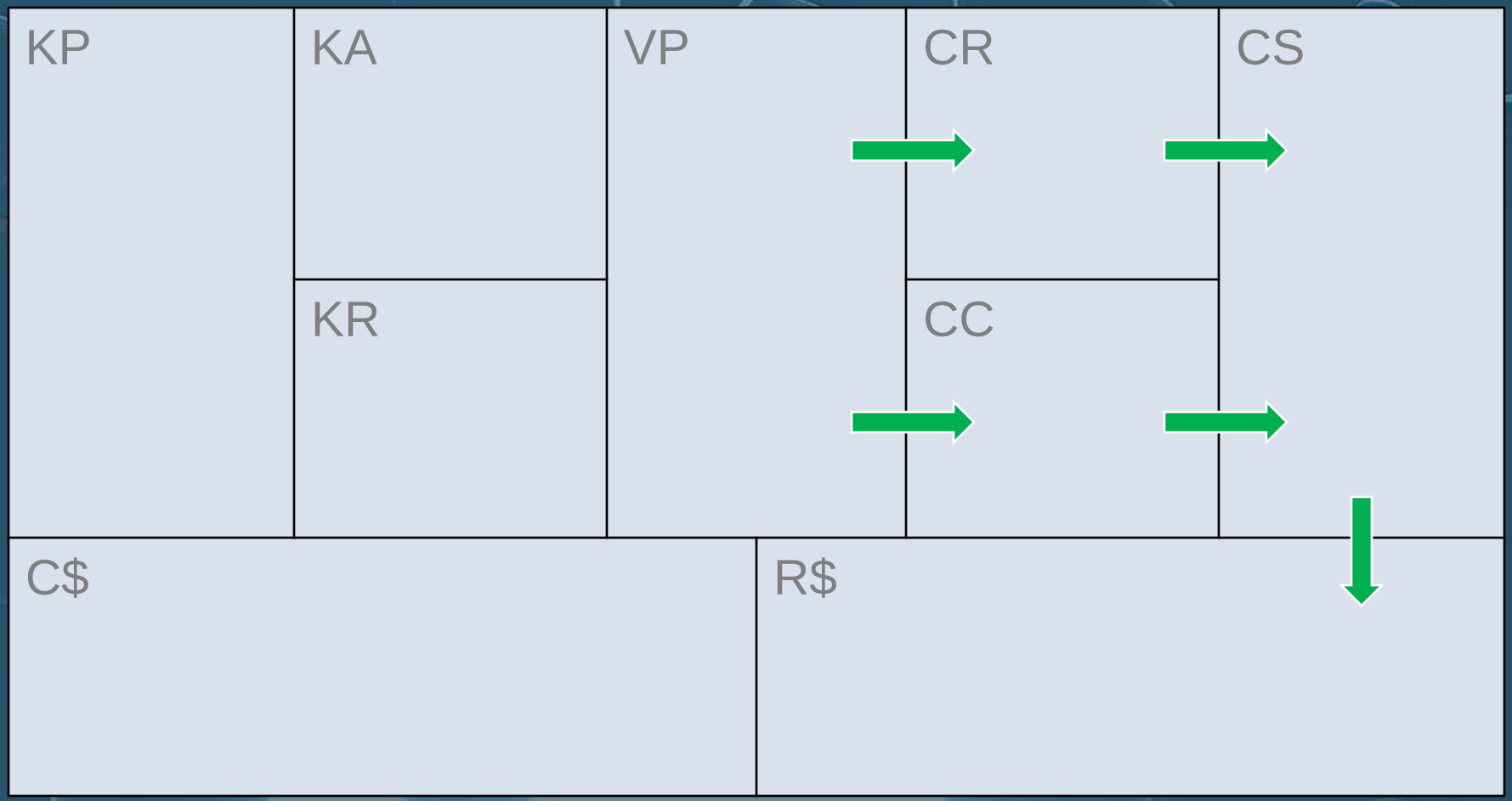
Photo by Duncan Davidson

Revenue Streams (R$)

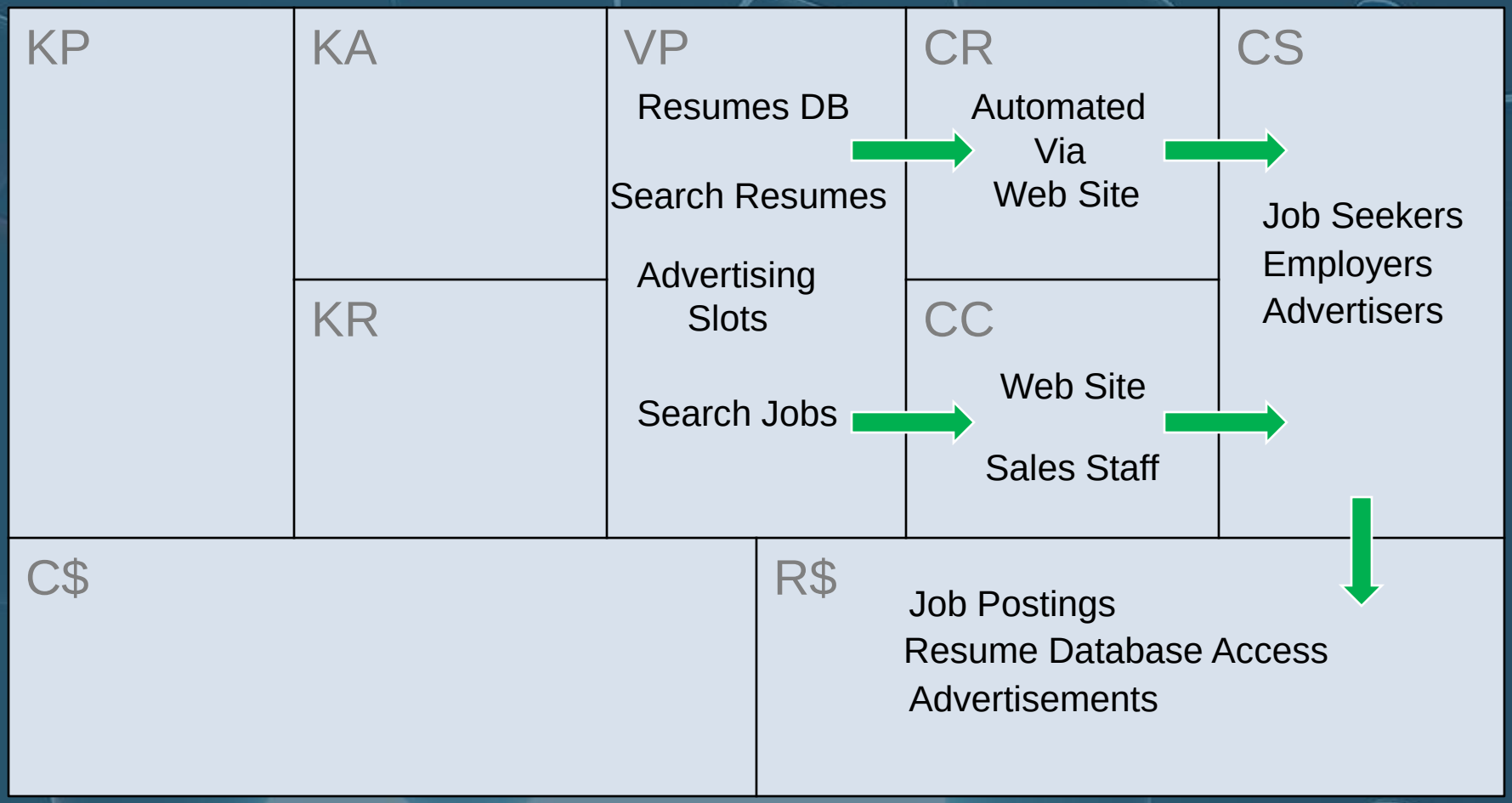
Revenue streams represent the cash received from a customer segment

- Transactional Revenue
- Recurring Revenue

Canvas Again



CareerBank Canvas...



Key Resources (KR)

Key resources are the assets required to make a business model work

- Physical – factories, machinery, etc.
- Intellectual Property – brands, patents…
- Human Resources – Rubyists…
- Financial Resources

Key Activities (KA)

Key activities are the actions that an organization must perform to make its business model work

- EngineYard must continually enhance its software
- Amazon must maintain its cloud infrastructure
- CareeBank used a sales team to sell products rather than just rely on the automated web site

Key Partners (KP)

No company can do everything. Organizations rely on key partners to help make their business model work

Partners can be:

- Suppliers
- Risk Mitigators – movie studios sharing costs
- Etc.

KP: CareerBank

- Partner w/ State Board of Accountancy
  - Partnered with most state orgs
- Partner with accounting-related sites
  - Shared with 1000's of accounting-related sites
- Revenue Split
  - 50% of something is better than 100% of nothing
- Major entry barrier for competitors

Cost Structure (C$)

The cost structure represents all costs required to operate a business model

Profit is R$ - C$

CareerBank Again

How to Use the Canvas

- Good way to visualize a business model
- Can assemble a team to brainstorm business models using a large, wall-mounted canvas and yellow stickies
- Use as a “common language” to discuss business models with others

Business Model Patterns

Just as patterns are useful in software development, there are also patterns that apply to businesses

Here are a few examples…

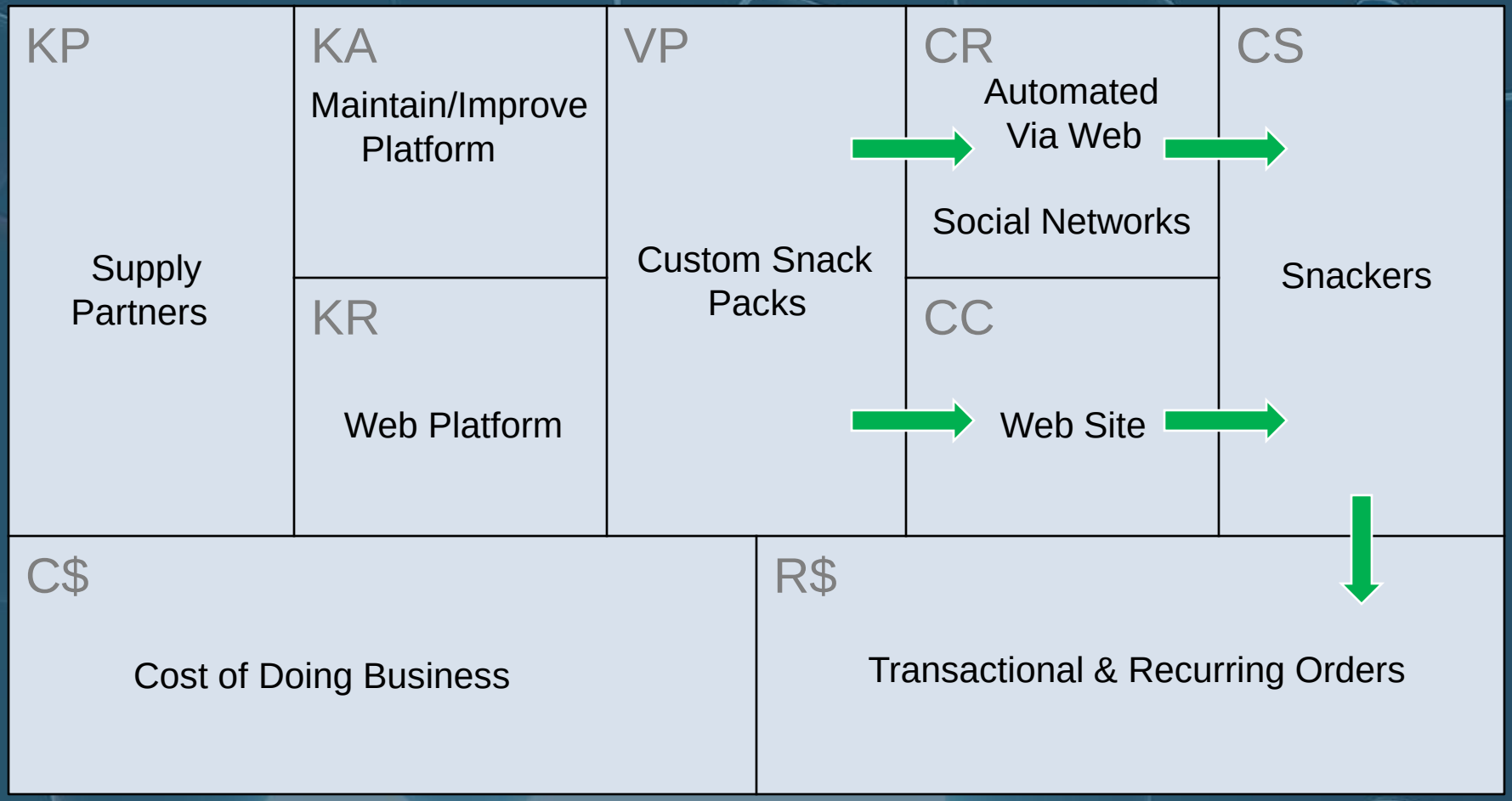
CareerBank.com

- CareerBank is a "Multi-Sided Business"
- In order to work, the site must attract two customer segments
  - Job Seekers
  - Employers
- The Employer customer segment subsidizes the Job Seekers

Pattern: Multi-Sided Business

- Brings together 2 or more customer segments
- Works only if other groups are present
- Creates value by facilitating interactions
- Grows in value by attracting more users (the network effect)

Snack&Munch

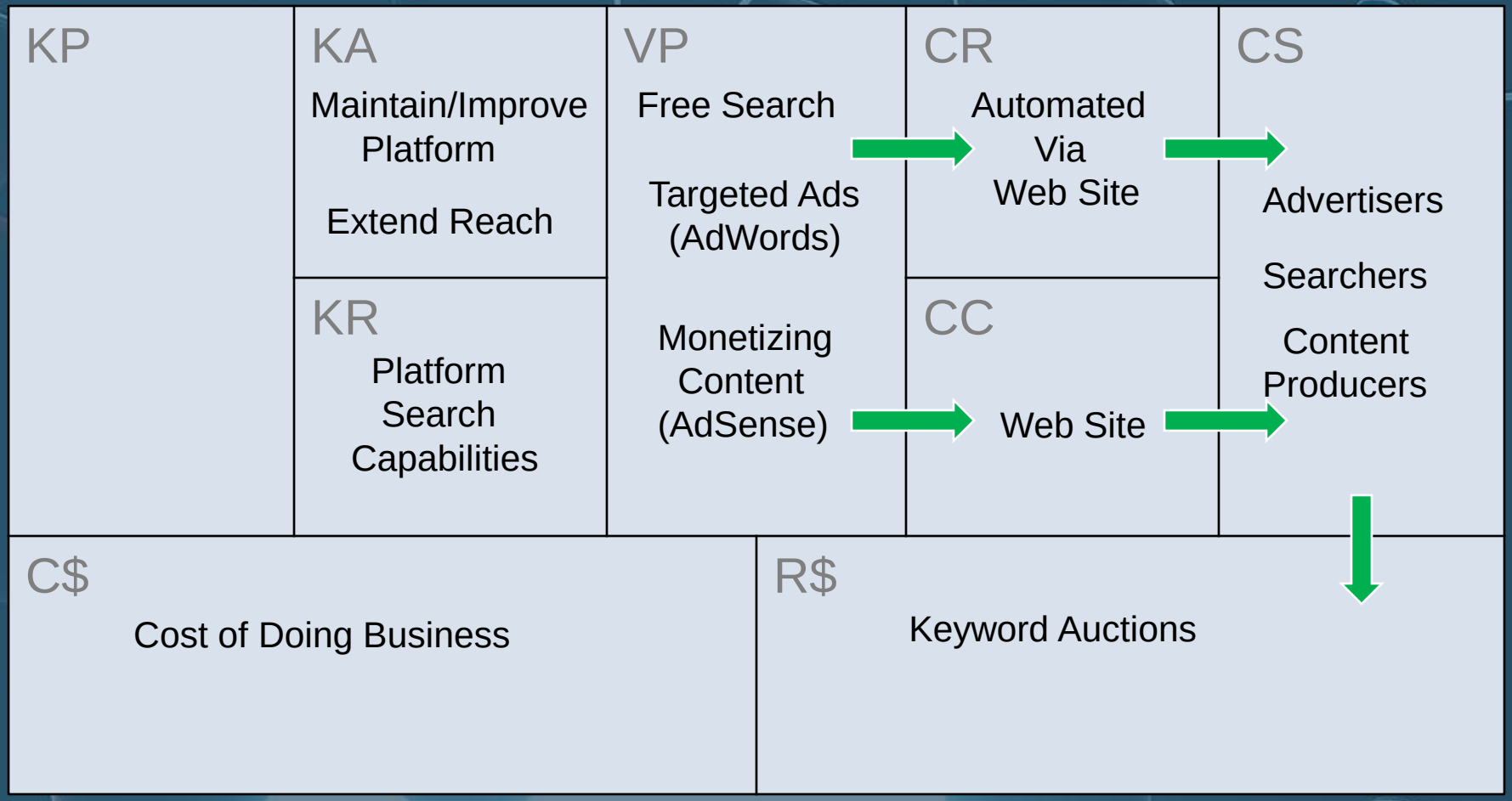

KP
Supply Partners
KA
Maintain/Improve Platform
KR
Web Platform
VP
Custom Snack Packs
CR
Automated Via Web
Social Networks
CC
Web Site
CS
Snackers
C$
Cost of Doing Business
R$
Transactional & Recurring Orders

Hey…

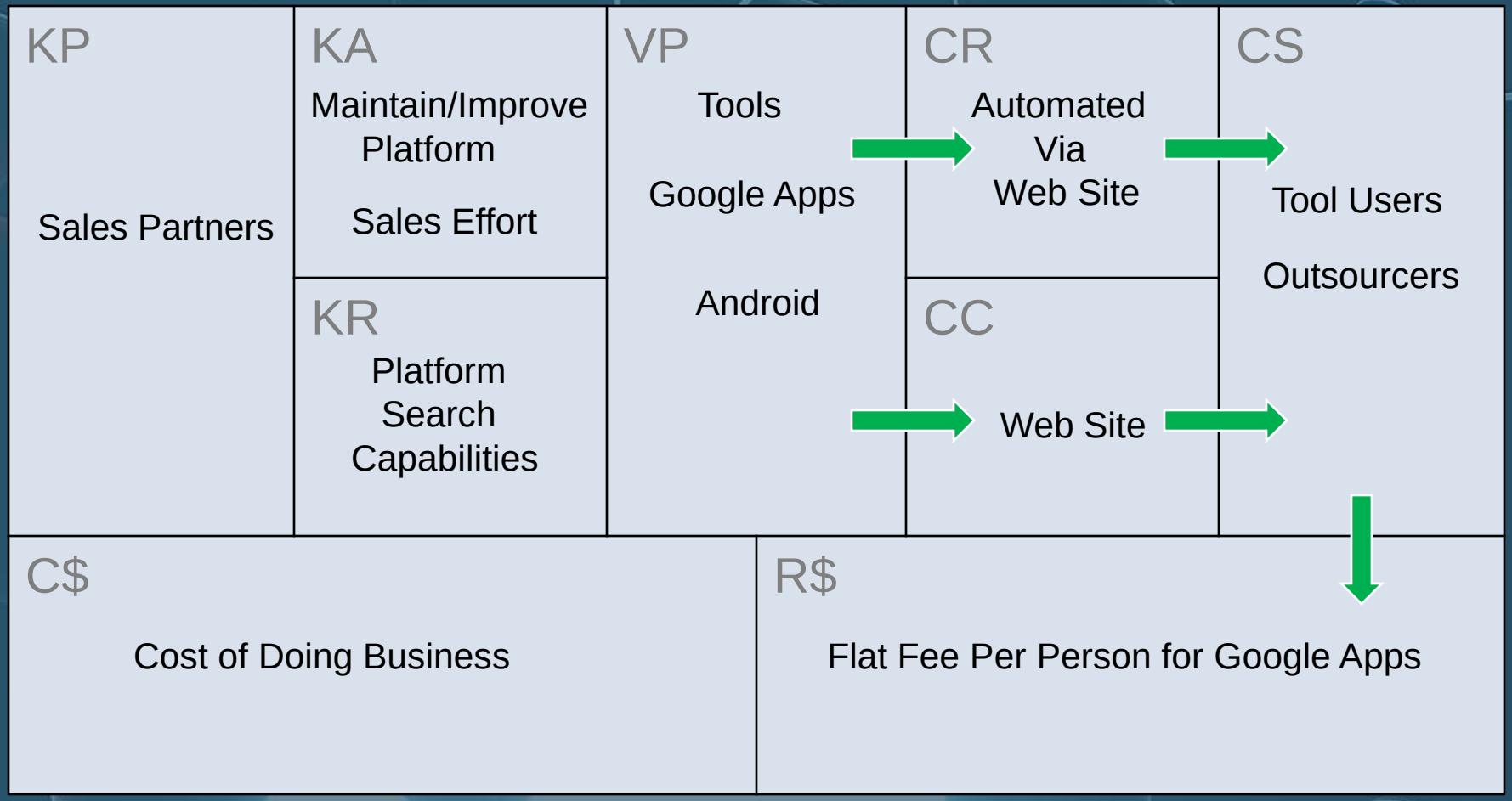
… this is kind of fun

Let’s try analyzing a more challenging business

Google: Multi-Sided Business



Google Redux



Pattern: Infrastructure Provider

- Provides infrastructure that other orgs can't or don't want to support themselves
- Focus allows provider to be better at what it does than anybody else
- Makes money from the scale of its operations

Pattern: Unbundlers

- An organization can "unbundle" capabilities (such as infrastructure maintenance & support)
- Allows organization to focus on core capabilities – "do what they do best"

Example: 50% of banks outsource their banking applications to Jack Henry

What About Android?

- The Value Proposition that sticks out is ‘Android”
- It’s not really a Value Proposition at all

Warren Buffet Says…

"In business, I look for economic castles protected by unbreachable 'moats'."

- Warren Buffet

- An "economic castle" is a great business
- A "moat" is an entrance barrier that prevents other from duplicating that business

Android Is A…

Android is a “moat”…

- It’s a defensive mechanism by Google
- To prevent anyone from owning the smartphone market
- To prevent the creation of a major segment of the Internet where it can’t advertise
- That’s why it’s free

Resources

- "Business Model Generation" by Alexander Osterwalder & Yves Pineur
- "The Long Tail" by Chris Anderson

Conclusion

- The Business Model Canvas provides a "language" for communicating the nature of a business
- A new analysis tool in your toolbox
- A way to experiment on paper with how a business can be organized

Maybe you'll end up with
the tropical island…

Questions

Feel free to contact me:

dkeener@keenertech.com
david.keener@gd-ais.com
Twitter: dkeener2010
Blog: http://www.keenertech.com

GENERAL DYNAMICS

We're also looking for some good Rubyists…