

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



Because...

- We're not JUST Ruby developers...
- We're not JUST "polyglot programmers"....
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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

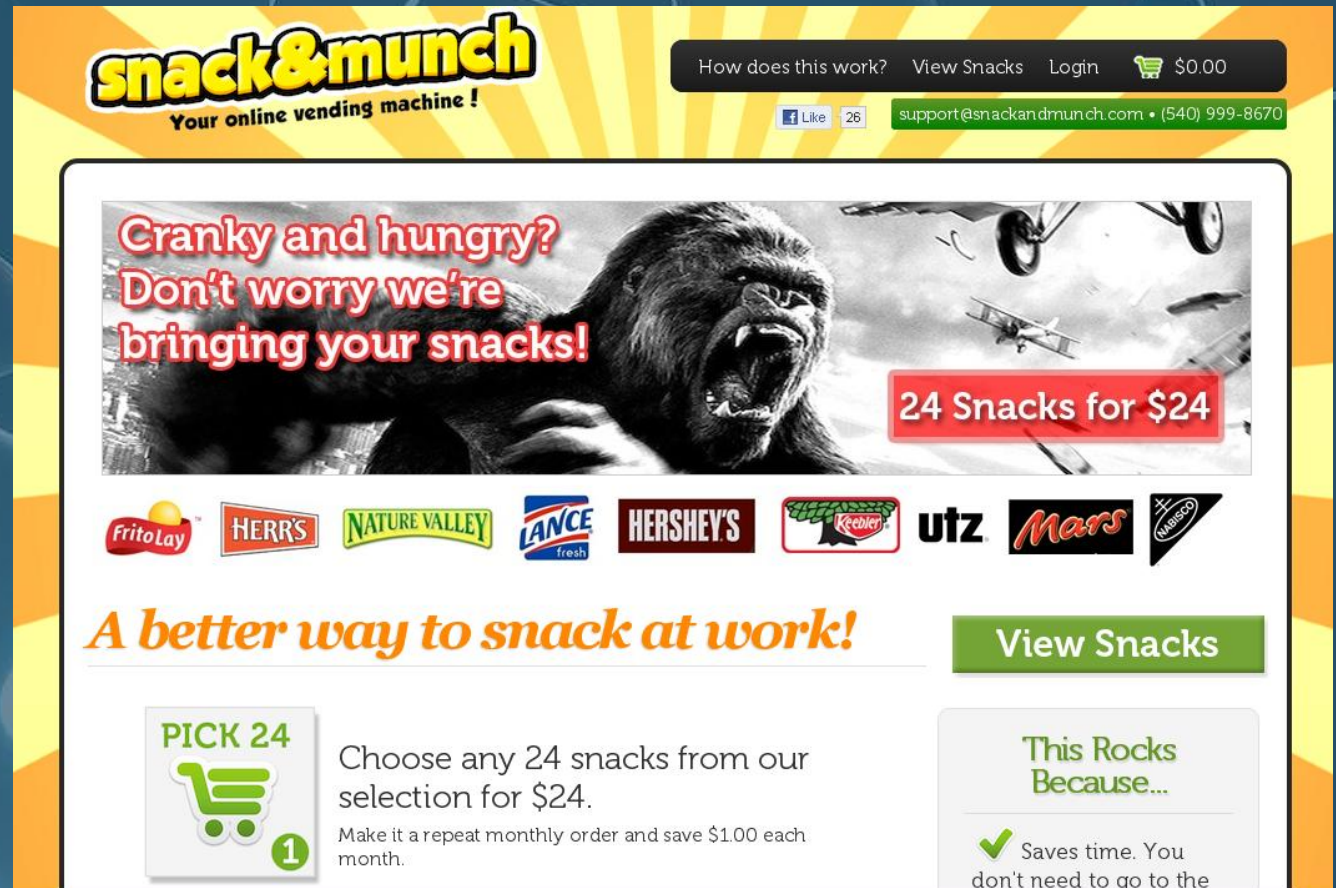
Understanding business models can help us



Snack&Munch

A startup
from Amar
Youssef
(attendee)

Custom
snack packs
delivered



The screenshot shows the Snack&Munch website with a yellow and orange striped header. The logo "snack&munch" is in yellow and black, with the tagline "Your online vending machine!" below it. Navigation links include "How does this work?", "View Snacks", "Login", and a shopping cart icon showing "\$0.00". Social media links for Facebook (26 likes) and a support email/phone number are also present.

The main content area features a large image of a roaring gorilla with the text "Cranky and hungry? Don't worry we're bringing your snacks!" and a red box stating "24 Snacks for \$24". Below this is a row of snack brand logos: FritoLay, HERR'S, NATURE VALLEY, LANCE fresh, HERSHEY'S, Keebler, utz, Mars, and M&S.

The slogan "A better way to snack at work!" is displayed in orange. A green "View Snacks" button is on the right. A "PICK 24" section shows a shopping cart icon with a "1" and the text "Choose any 24 snacks from our selection for \$24. Make it a repeat monthly order and save \$1.00 each month."

A box on the right titled "This Rocks Because..." contains a green checkmark and the text "Saves time. You don't need to go to the".

<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.



CareerBank.com

[Search Jobs](#) [Store Your Resume](#) [Career Resources](#) [Post a Job](#) [For Employers](#) [Help](#)

CareerBank.com

The #1 website for careers related to accounting and finance.

Today In Accounting

[Survey Finds Consumer Interest in On-line Trading Flat](#)
Electronic Accountant

[IRS/New York in Bed on Tax Delinquents](#)
Electronic Accountant

[Schwab CEOs Get Nod From Morningstar](#)
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ACCOUNTING RESOURCES ON THE NET

Career Tools

Search our national database of career opportunities for your next job. Or post your resume and let the companies come to you!

[Sign up now!!!](#)

Attention Recruiters!

Looking for a few good candidates? We've got thousands of them. Use the career site that focuses on Accounting and Finance to find the best workers in the industry.

[Find out more...](#)

Feature Articles

► [Privacy and the Online Job Hunt](#) - A lot of sites on the web, especially career sites, ask individuals for

[Home](#)
[First Time User?](#)

[Resources](#)
[Panel of Experts](#)
[Salary Survey](#)

[About Us](#)
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[Press Releases](#)
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[FAQS](#)

Arthur Andersen



KPMG



Welcome To...

[Washington Sports/Ent.](#)
[Santos, Postal & Co.](#)
[Fannie Mae Found.](#)
[PaineWebber](#)
[Dooz Allen & Hamilton](#)
[Old Kent Fin. Corp.](#)
[Artisan Entertainment](#)
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Salary Survey



Free Newsletter

Your Email

A video
contest
fielded with
Votridea

Incubated
By
MetroStar
Systems

Sign In

Statement Arts Presents...

A Single Drop of Water PHOTOGRAPHY COMPETITION 2010

HOME PHOTOS JUDGES ABOUT RULES FAQs CONTACT US

statement ARTS
Art for a Conscious World

COMPETITION CATEGORIES

A SINGLE DROP OF WATER • WATER IN OUR DAILY LIVES • WATER SCAPES
CLEAN WATER INITIATIVES • UNDER 25 • PEOPLES' CHOICE

\$3,500 IN PRIZE MONEY AND PRIZES
WINNING ENTRIES WILL BE EXHIBITED IN NEW YORK CITY
ENTRY DEADLINE: DECEMBER 15, 2010

ENTRY FEE: \$25 (\$15 IF UNDER 25 YEARS)
EARLY BIRD SPECIAL, GET \$10 OFF IF YOU ENTER BEFORE NOVEMBER 7

[Enter Now](#) [Learn More](#)

Random Photos

Random	Recently Added	Top Rated	More...	
 164 views ★ 2.50	 236 views ★ 2.34	 271 views ★ 3.58	 105 views ★ 1.75	 143 views ★ 2.48

How to Participate?
EASY AS...



SIGN UP FOR AN ACCOUNT



UPLOAD YOUR ENTRY

Recent Activity

-  David McVicar shared The green house window • 20 hours ago
-  David McVicar shared Playful in Seattle - on Friday
-  bird waiting for a drop
David McVicar and 130 people shared this.
-  my world in a water droplet
David McVicar, Johnny Nguyen and 15 people shared this.
-  The green house window
David McVicar and 7 people shared this.
-  Walking On Sunshine
43 people shared this.

Sign In
[f Sign In with Facebook](#)
Don't have a Facebook account?
SIGN UP FOR ONE NOW

Tell a friend about the Contest!
(and get them to vote for you)

[Share](#) | [f](#) [t](#) [g+](#) [e](#)

Who's Been Here?



[View All](#)

Sponsors

CALUMET
PHOTOGRAPHIC
IT'S WHERE THE PROS GO



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

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



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 acquisition



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



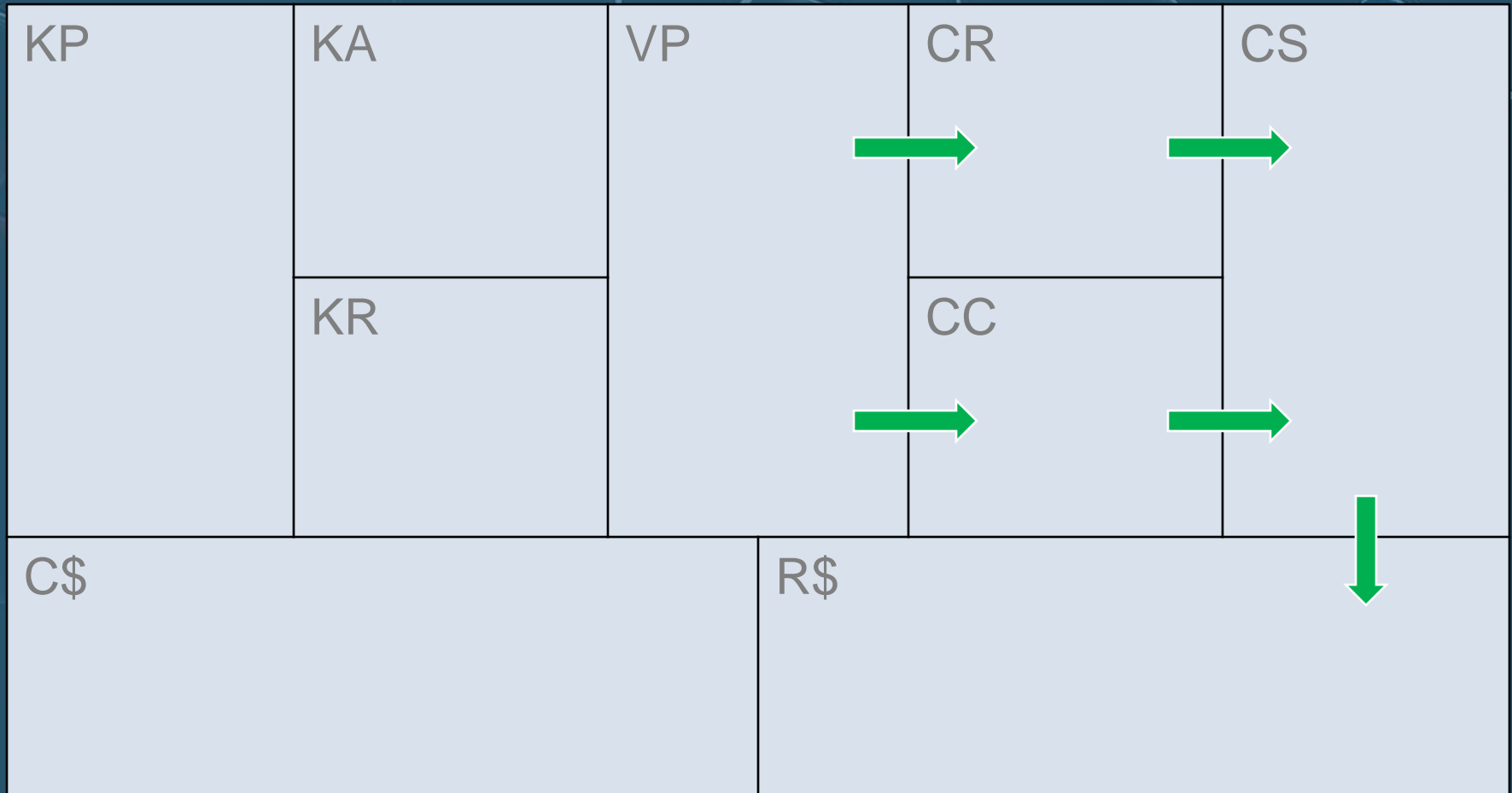
Revenue Streams (R\$)

Revenue streams represent the cash received from a customer segment

- Transactional Revenue
- Recurring Revenue

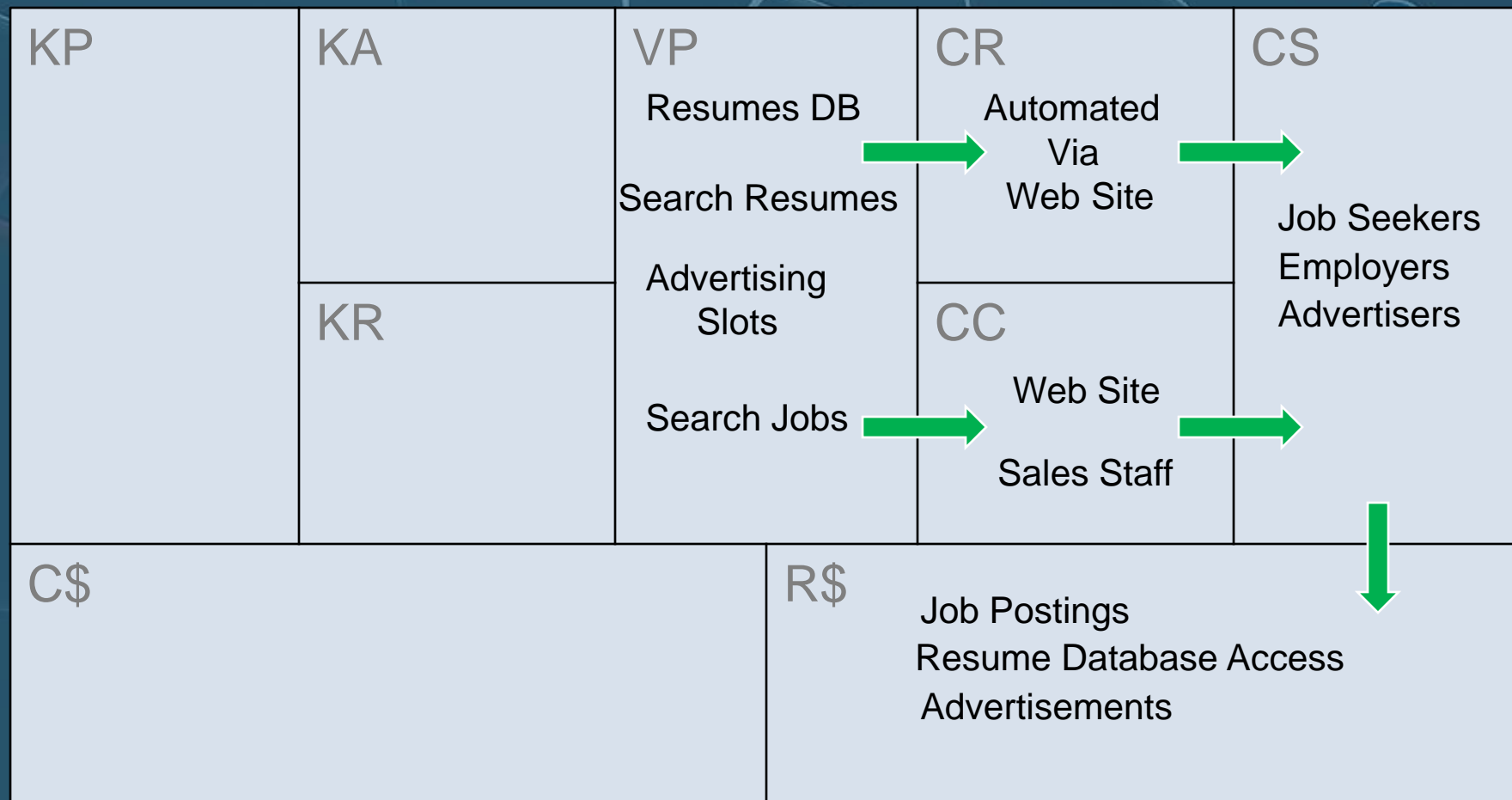


Canvas Again





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

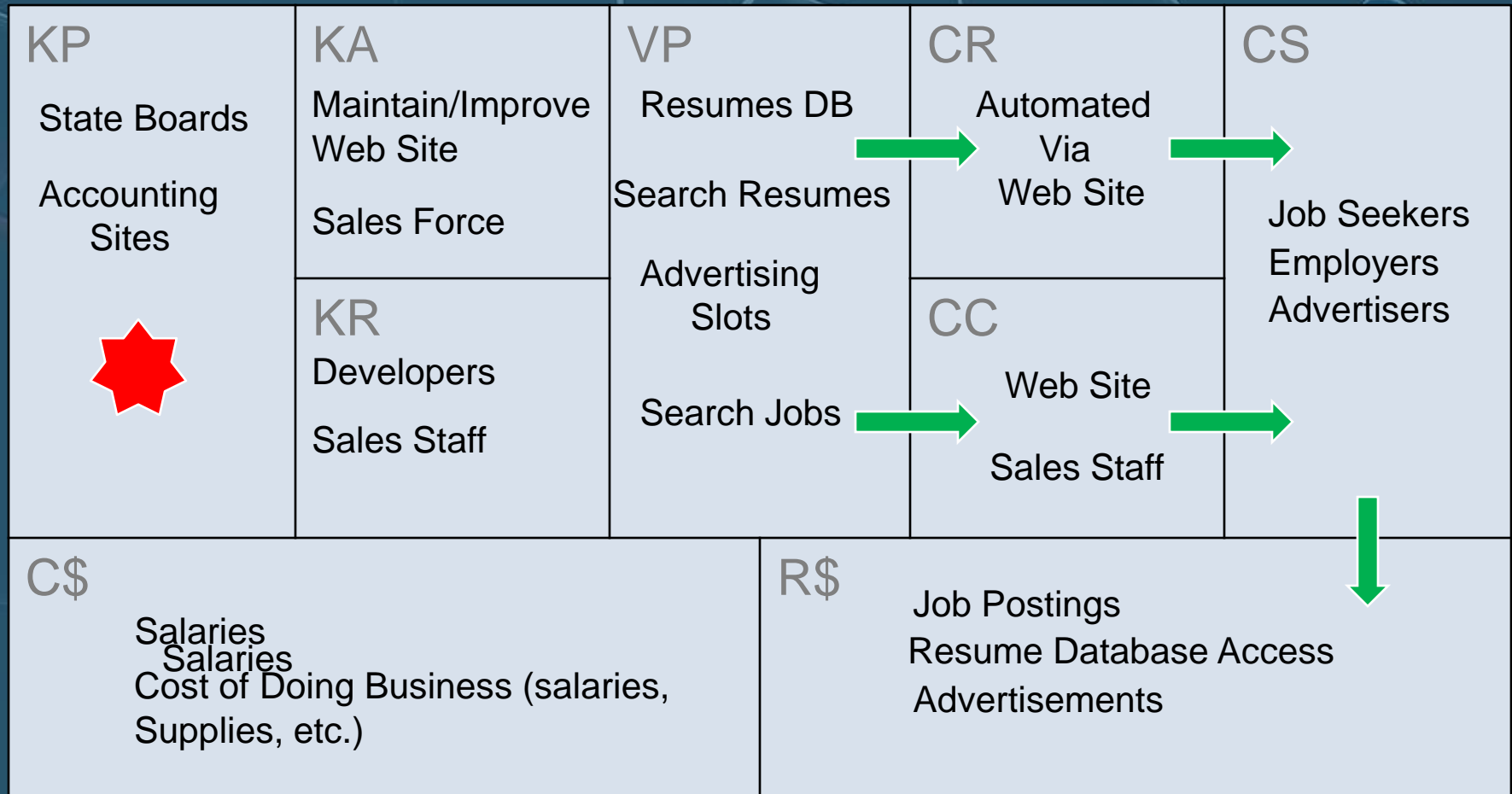


Cost Structure (C\$)

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

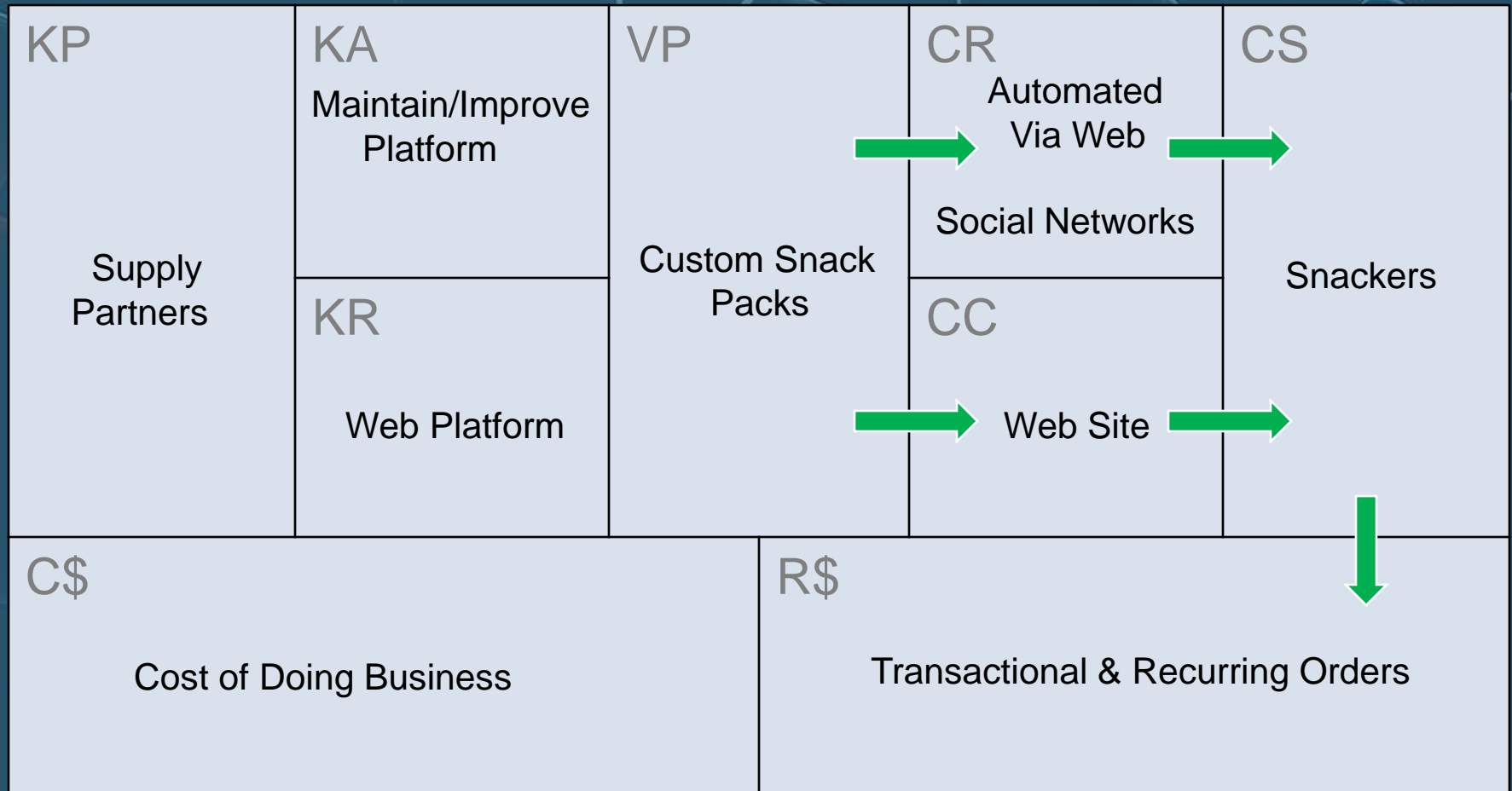


Pattern: Multi-Sided Business

- 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






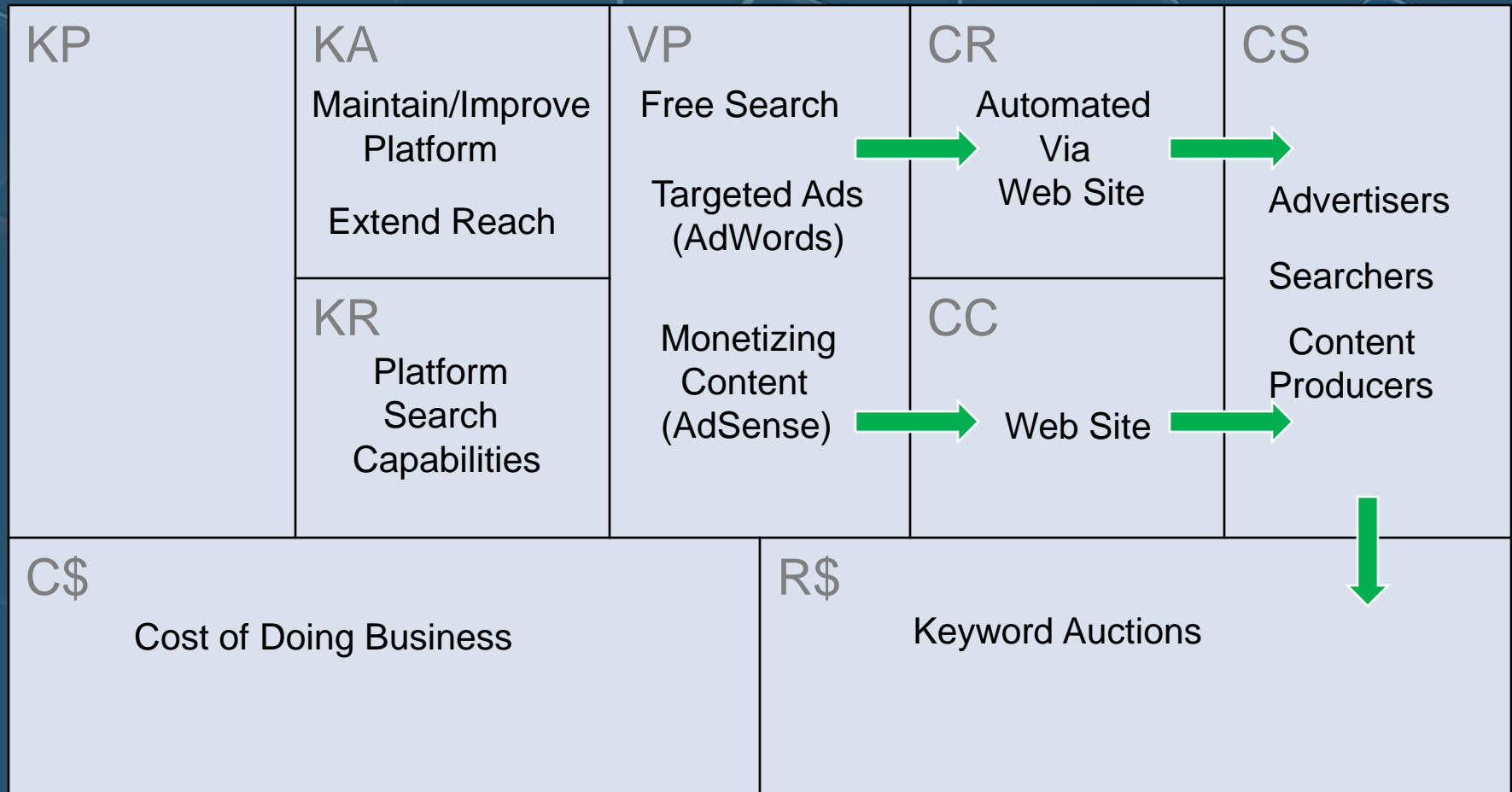
Hey...

... this is kind of fun

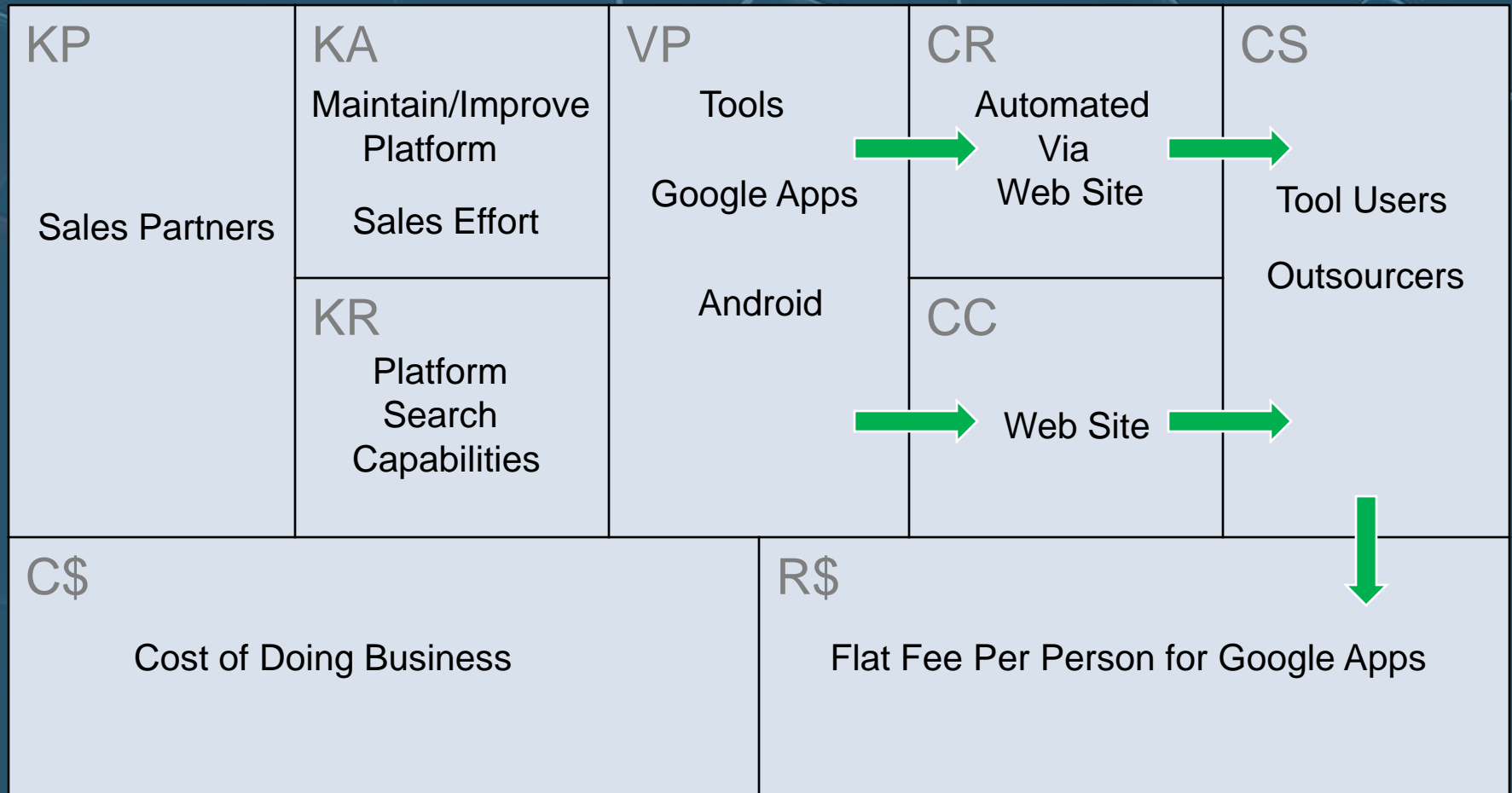
Let's try analyzing a more challenging
business



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

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GENERAL DYNAMICS

We're also looking for some good Rubyists...