10 Questions to Ask

Before you believe in a Business Model

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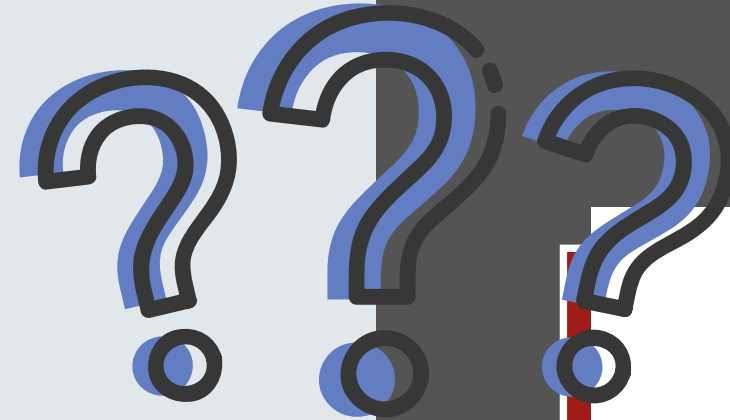
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Some **business models** are inherently more attractive than others, yet investors and other stakeholders often **don't ask the obvious questions**. **Here's a checklist** that makes sure you are not one of them.

Question 1

Are we able to create switching costs once we have a customer working with us?

Some of the most powerful business models in use today depend on the fact that it is **inconvenient, expensive or time-consuming for customers to switch to another provider.** For years, this was a fundamental driver of the success model for retail banks - once you have filled out all the paperwork, established your credit rating, set up all your direct deposits and transfers, to do that all over again to work with another financial institution is a real pain, so most people don't bother.

Question 2

Are we transactional or relational in our purchase patterns?

Business models that are based on ongoing flows of a relationship of some kind tend to be more profitable than business models that are purely transactional. A fascinating place in which this is playing out today is how food delivery companies, such as DoorDash and UberEats, are creating relationships with customers that are ongoing, on the backs of the restaurants desperate enough for business to yield control of their customers to the digital giants.

Question 3

How interchangeable is our user interface?

Some user interfaces to access a product or service are easily interchangeable. Take ATM machines - once you've learned to use one, you can pretty much use them all. Or the QWERTY keyboard - since it became a standard decades ago, everybody uses it so there is no big difference between providers. On the other hand, some offerings have user interfaces that have something about them that causes users, once they have learned to operate them, to prefer to continue to use the one they know.

Question 4

Painkillers or vitamins?

This question is inspired by the observations made by David Kidder, of Bionic, that really groundbreaking innovations are major painkillers. In other words, they aren't nice to have, optional or just intriguing. They solve an immediate, pressing and urgent problem for the people using them.

Question 5

Do we have the opportunity to take advantage of network effects?

This question gets at whether something about the offer increases to the extent that there are more users, more connections or more activity connected to it, making it more valuable as more of these add-ons accumulate. This is the secret sauce behind the popularity of platform business models, in which companies try to match two sides of markets and take a little cut of all the transactions that happen there.

Question 6

Once and done, or ongoing problem?

A tricky aspect of capitalism is that ironically you are often better off (economically) treating a chronic problem than you are offering a complete solution to a constituent's problem. The result is that true cures for problems tend to come at a very steep price, as that is the providers' only opportunity to make a profit.

Question 7

Transactional or relationship oriented?

This factor gets at all those intangibles that surround an economic transaction. If I'm buying a commodity whose prices are known and transparent, there is no particular need to establish a relationship with the person I am buying from. I just place my order and away we go!

Question 8

Does it matter?

Many entrepreneurial businesses have failed when, even if they do make an improvement in the customers' experience, the improvement is marginal or insufficient to overcome the inertia of simply continuing to do what the customer has always done.

Question 9

The initiative creates a platform for interactions

As the value of products and services becomes subsumed by what R "Ray" Wang calls "Data Driven Digital Networks" the importance of having some kind of platform strategy increases. A standalone offering, while not necessarily a bad thing, doesn't offer the exponential growth potential of many platform business models.

Question 10

Lone Ranger or co-created?

While the popular imagination just loves the idea of Steve Jobs arriving on a clamshell and single-handedly inventing uniquely desirable products that change the world, such standalone approaches to innovation tend not to work. Instead, the more powerful models today are bringing together communities of participants - users, developers, makers, designers and more - to envision and create new offerings. Once you are part of the community, it becomes very difficult to leave it, particularly if you had a hand in creating key aspects.

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