

The Death of Business Models

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ESTRAD

April 4, 2017

Who am I?

In conclusion,

HATE

LOVE

Research



Practice

Trademarks* that have become generic

- Band-Aid
- Bubble wrap
- Chap stick
- Dumpster
- Fiber glass
- Frisbee
- Hula hoop
- Jacuzzi
- Jeep
- Jet ski
- La-Z-Boy
- Lava lamp
- Memory stick
- Photoshop
- Ping Pong
- Polaroid
- Popsicle
- Realtor

- Rollerblade
- Scotch tape
- Super glue
- Superhero
- Teflon
- Vaseline
- Velcro
- Walkman
- Xerox
- Ziploc

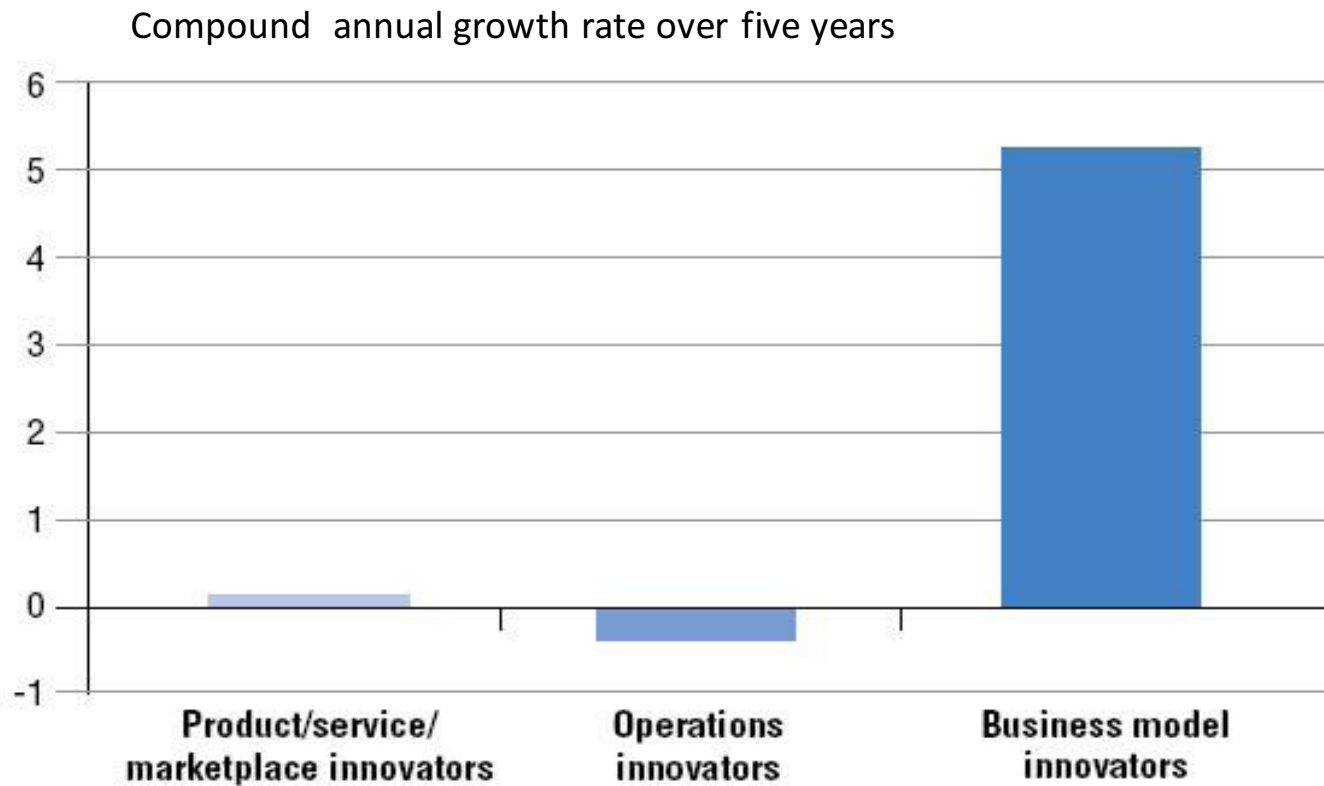
- **Aspirin**
- **Cellophane**
- **Dry ice**
- **Escalator**
- **Heroin**
- **Laundromat**
- **Thermos**
- **Trampoline**
- **Videotape**

Is the business model canvas™ next?

Types of Innovation

- Technology innovation
- Product & service innovation
- Process innovation
- Business Model innovation

Operating Margin Growth in Excess of Competitive Peers



[Source: IBM, CEOs are expanding the innovation horizon: important implications for CIOs]

Examples

- McDonalds
- Microsoft
- Dell
- eBay
- WalMart
- FedEx
- Apple's ipod+iTunes
- Amazon
- Lego
- Tata Motors
- Zara
- Google
- Gillette
- GE Engine
- Ikea
- Xerox

Role of Business Model innovation in technological innovations

- The Haloid Case
- Model 914

Business Model Definitions

Timmers
(1998)

- "an architecture of the product, service, and information flows, including a description of the various actors and their roles; a description of the potential benefits for the various actors; a description of the sources of revenues."

Magretta
(1998)

- "stories that explain how enterprises work"

Amit &
Zott (2001)

- "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities."

Some Business Model Definitions

Linder &
Cantrell
(2000)

- "the organization's core logic for creating value.... (BM) explains how it makes money."

Afuah &
Tucci
(2003)

- "The first determinant of a firm's performance is its BM. This is the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so.... The model is what enables a firm to have a sustainable competitive advantage."

Some Business Model Definitions

Afuah
(2004)

- “the set of *which* activities a firm performs, *how* it performs them, and *when* it performs them as it uses its resources to perform activities, given its industry, to create superior customer value (low-cost or differentiated products) and put itself in a position to appropriate the value.”

Shafer et
al. (2005)

- “a representation of the firm’s underlying core logic and strategic choices for creating and capturing value within a value network”

Value Network: “The context within which a firm... works with suppliers and channel partners in order to respond profitably to the common needs of a class of customers” (Christensen)

More Business Model Definitions

Chesbrough &
Rosenbloom
(2002)

- “the heuristic logic that connects technical potential with the realization of economic value.”

Morris et al.
(2005)

- “how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”

Wirtz (2000,
2011)

- “the depiction of a company’s internal production and incentive system. A BM shows in a highly simplified and aggregate form which resources play a role in the company and how the internal process of creating goods & services transforms these resources into marketable information, products, and/or services. Therefore a BM reveals the combination of production factors which should be used to implement the corporate strategy and the functions of the actors involved.”

“heuristic”: learning by trying and self-discovery: method in which learning takes place through discoveries that result from investigations made ; exploratory problem-solving techniques that utilize self-educating techniques

Even More Business Model Definitions

Johnson et al. (2008)

- "four interlocking elements that, taken together, create and deliver value"

Casadesus et al. (2010)

- "a reflection of the firm's realized strategy"

Teece (2010)

- "articulates the logic, the data, and other evidence that support a value proposition for the customer, and a viable structure of revenue and costs for the enterprise delivering that value"

Why Is Business Modeling Important?

How Does It Benefit Managers & Organizations?

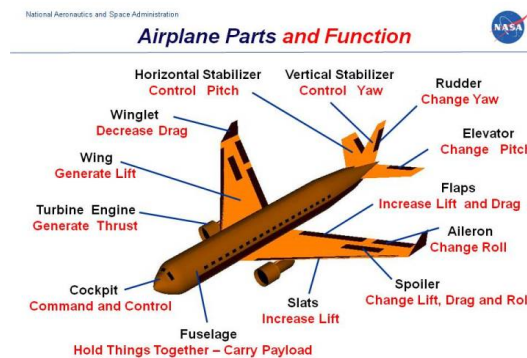
1. Understand venture as a whole & how elements fit
2. Create more value for customers
3. Capture more value through profits and growth
4. Drive innovation in the venture
5. Optimize production and operational processes as well as partnerships
6. Reduce failure rates

What is a Business Model?

“stories that explain how enterprises work”

The business model “forces managers to think rigorously about their business. A business model’s great strength as a planning tool is that it focuses attention on how all the elements of the system fit into a working whole.”

-Joan Magretta

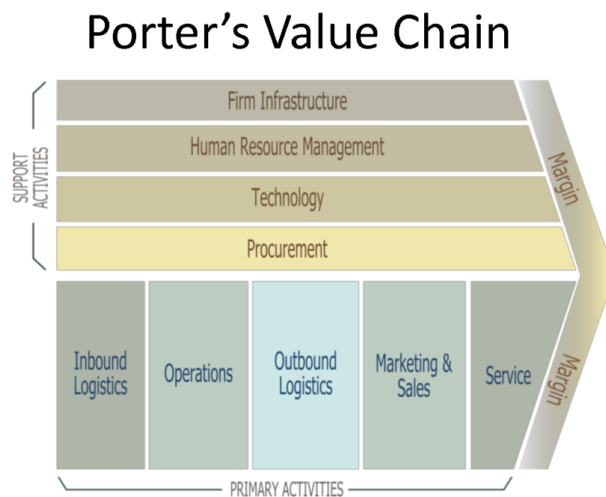


Joan Magretta, “Why Business Models Matter,” *Harvard Business Review*, 2002

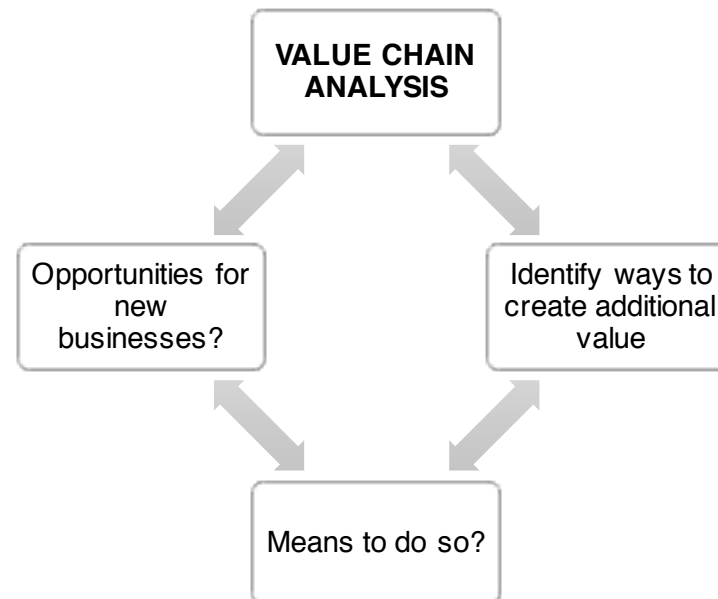
How Business Models Can Emerge

value chain

The string of activities that moves a product from the raw material stage, through manufacturing and distribution, to the end user.



Source: *Competitive Advantage. Creating and Sustaining Superior Performance* by Michael E. Porter



Functions of the Business Model

- Articulate value proposition
- Identify market segment to target
- Define structure of value chain required to distribute offering
- Describe position of firm within value network
- Specify revenue generation mechanisms & estimate cost structure & profit potential
- Has something to do with strategy and competitive advantage*

Source: Chesbrough, "Business Model Innovation: It's Not Just About Technology Anymore," *Strategy & Leadership*, 2007.

Value Chain: Activities by which a company adds value to a product, including production, marketing, and after-sales service.

Value Network: "The context within which a firm... works with suppliers and channel partners in order to respond profitably to the common needs of a class of customers" (Christensen)

* Note that scholars disagree re. the relationship between business models and strategy (e.g., Magretta, Chesbrough, and Osterwalder see it differently)

FOR

AGAINST

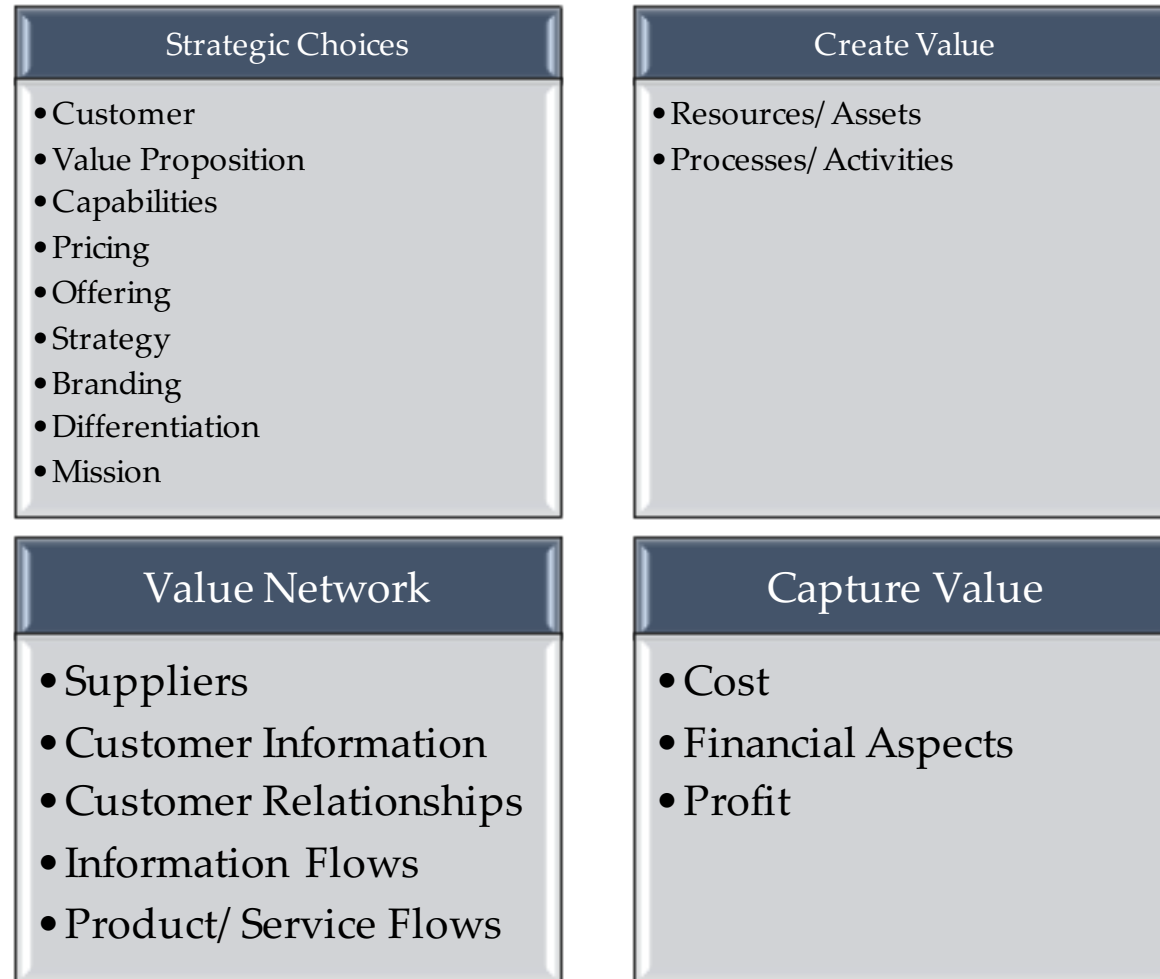
**“The business plan
is dead.”**

--The business model

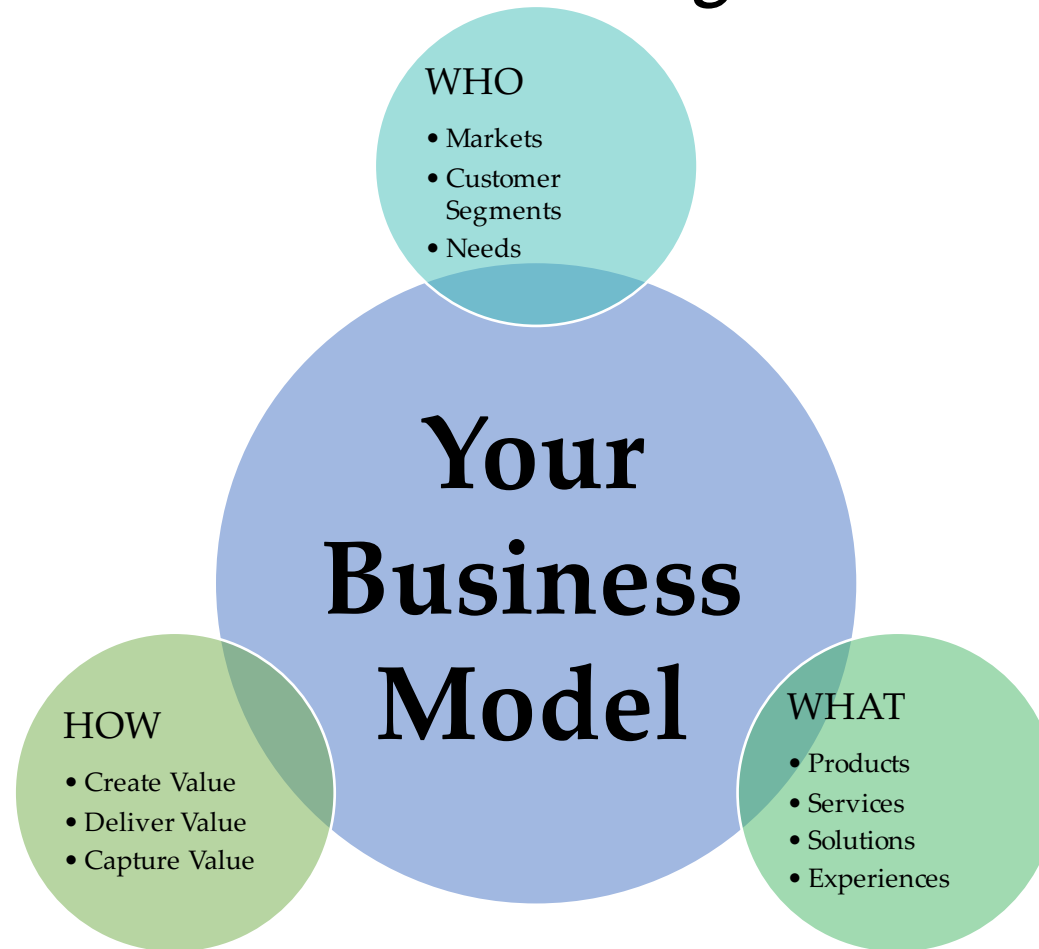
Business Plan: A written document that carefully explains every aspect of a new venture (30-40 pages)

Business Model: Rationale for how an organization creates, delivers, and captures value (1 page)

A Business Model Framework: *Shafer, Smith, & Linder (2005)*



Other Business Model Frameworks: *Innovation Management*



Source: Marc Sniukas, "Making Business Model Innovation Happen," *Applied Innovation Management*, Innovation Management, 2012

Common Conception of a Business Model

How a venture makes money



Origins of the Term:

- **1957:** Bellman et al., "On the Construction of a Multi-Stage Multi-Person Business Game," *Operations Research* 5 (4), 469-503.
- **1960:** See also Jones, "Educators, Electrons, and Business Models: A Problem in Synthesis," *Accounting Review* 35 (4), 619-626.



Thought Experiment:

To what extent can the success of the following ventures be attributed to product excellence?



Business model canvas and lean methodology has crowded out most deep thinking in new venture creation.

Alex's Definition of Business Model



“the rationale for how an organization creates, delivers, and captures value”



Alexander Osterwalder & Yves Pigneur, *Business Model Generation* (Wiley, 2010). Rationale: reasons serving to account for something; a reasoned exposition of principles. Saul Kaplan offers a similar definition: “story of how an organization creates, delivers, and captures value.” Saul Kaplan, *The Business Model Innovation Factory* (Wiley, 2012)

Background



- Alexander Osterwalder and Yves Pigneur 2004
 - ***The Business Model Ontology - a proposition in a design science approach***
- *... design science means designing a business model framework that helps managers and IS specialist express the business logic of a firm in a new way, abandoning the former informal business logic descriptions.*
- Management Information Systems (MIS) context of ICT, ecommerce, ebusiness

Knowledge of the Problem Domain

phenomenon that will disappear in time because most business models will have some ICT component.

Authors	Definition	Taxonomy	Components	Representation Tool	Ontological Modeling	Change Methodology	Evaluation Measures
(Afuah and Tucci 2001; 2003)	X		X				X
(Alt and Zimmermann 2001)		X	X				
(Amit and Zott 2001)	X						
(Applegate 2001)	X	X					
(Bagchi and Tulske 2000)							
(Chesbrough and Rosenbloom 2000)			X				
(Gordijn 2002)				X	X	X	X
(Hamel 2000)			X				X
(Hawkins 2001)	X						
(Linder and Cantrell 2000)	X	X	X			X	
(Magretta 2002)	X		X				
(Mahadevan 2000)			X				
(Maitland and Van de Kar 2002)			X				
(Papakiriakopoulos and Poulymenakou 2001)						X	
(Peterovic, Kittl et al. 2001)	X		X			X	
(Rappa 2001)	X	X					
(Stähler 2002)			X				
(Tapscott, Ticoll et al. 2000)	X	X		X		X	
(Timmers 1998)	X	X					
(Weill and Vitale 2001)	X	X	X	X			

Table 2: Business model authors list (partially based on (Pateli 2002))

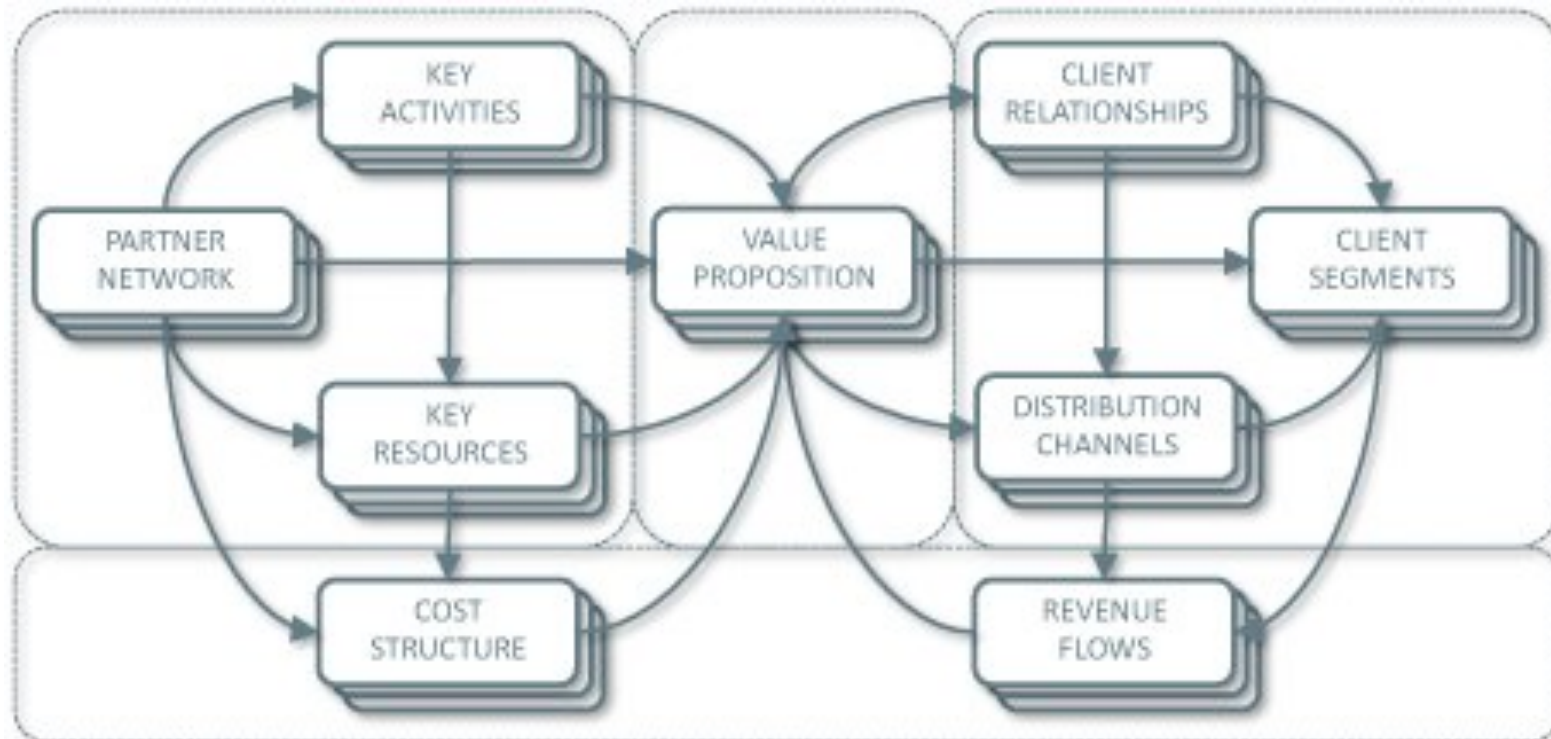
Table 2 summarizes the contributions of the most important business model authors. The first two columns of the table name author and year of contribution and the following columns reveal the major

Business model ontology	Stähler 2001	Weill and Vitale 2001	Petrovic, Kittl et al.	Gordijn 2002	Afuah and Tucci 2003	Tapscott, Ticoll et al. 2000	Linder and Cantrell 2000
Value Proposition	Value Proposition	Value Proposition, strategic objective	Value Model	Value offering	Customer Value		value proposition
Target Customer		Customer Segments		Market Segment	Scope		
Distribution Channel		Channels	Customer relations model				channel model
Customer Interface			Customer relations model				commerce relationship
Value Configuration	Architecture		Production Model	e3-value configuration	connected activities, value configuration	b-webs	commerce process model
Capability		Core competencies, CSF	Resource Model		capabilities		
Partnership	Architecture	e-business schematics		Actors		b-webs	
Cost Structure				Value exchange	cost structure		
Revenue Model	Revenue Model	Source of revenue	Revenue Model	value exchange	pricing, revenue source		pricing model, revenue model

Table 17: Business Model Ontology compared to Literature Review (part 1)

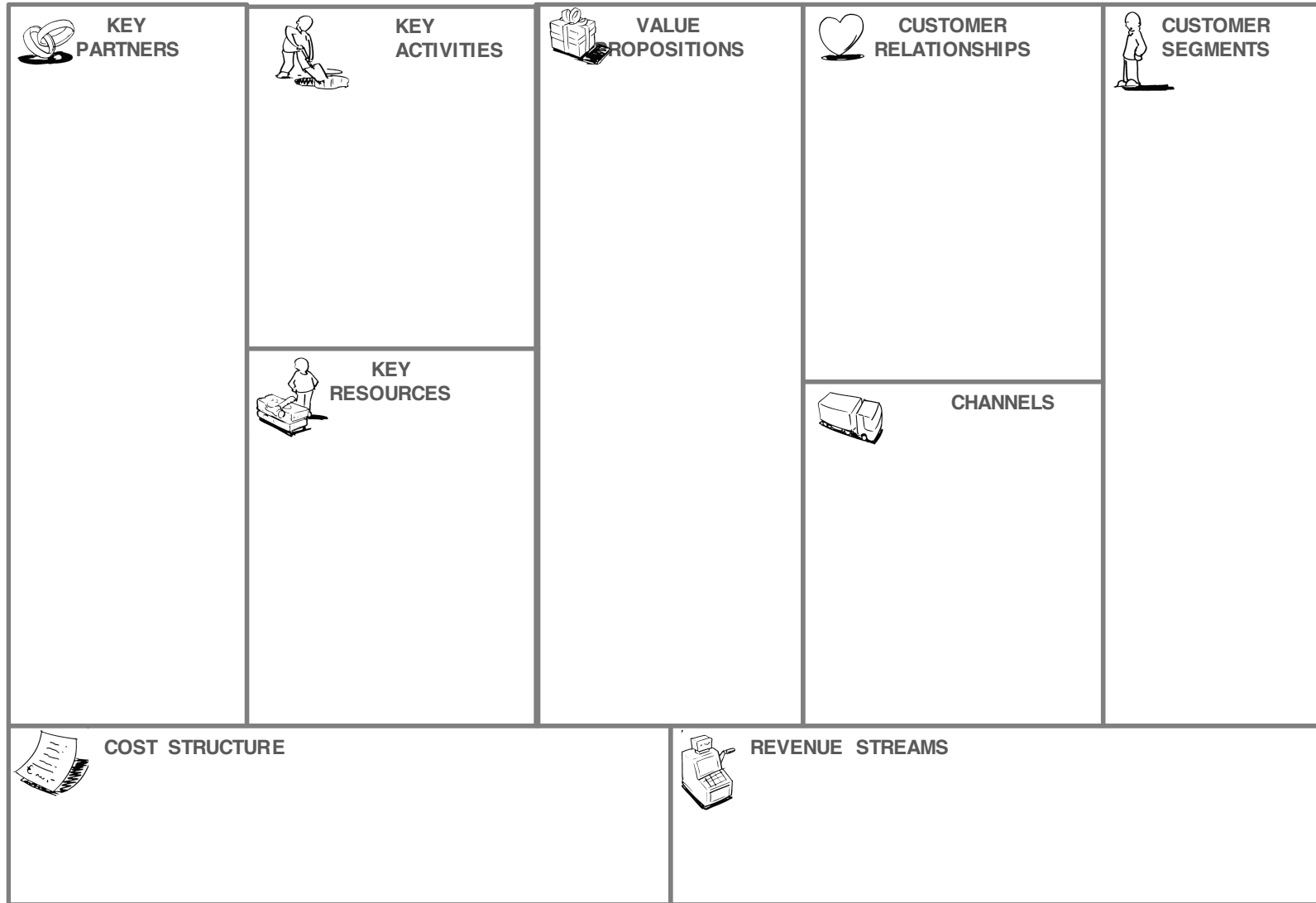
“The dissertation does NOT aim at the following

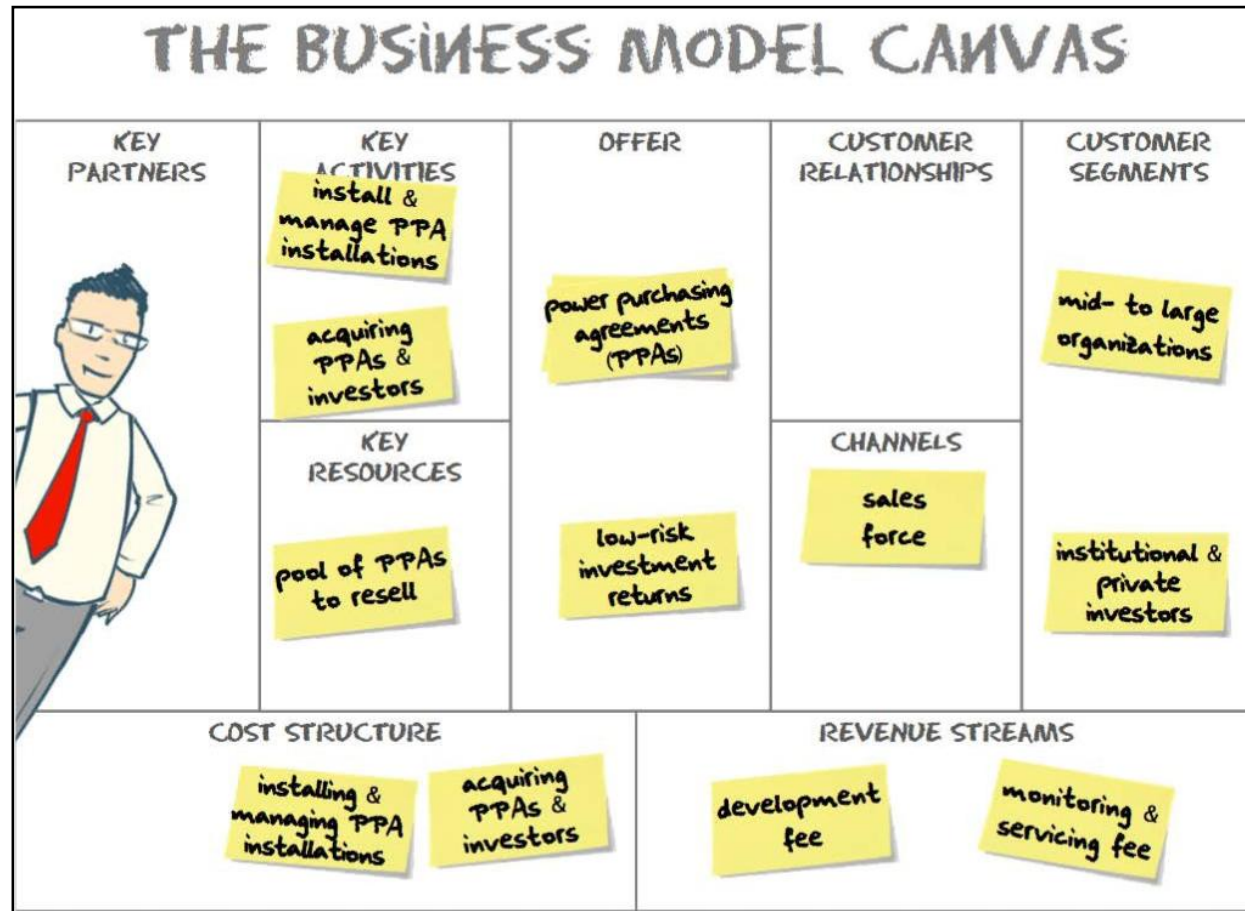
- Modeling the whole enterprise. The dissertation focuses on the business model, i.e. the logic of how an enterprise earns money - it does not aim at describing the entire enterprise.
- Modeling and explaining business model success. The success of a business model relates not only to its design but to its implementation which is not part of this dissertation.” (p.9)



When the methodology is repackaged it is oversimplified.

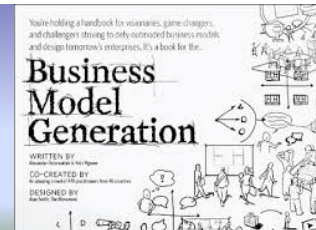
Business Model Canvas (BMC)





The book itself as an example of business model innovation:

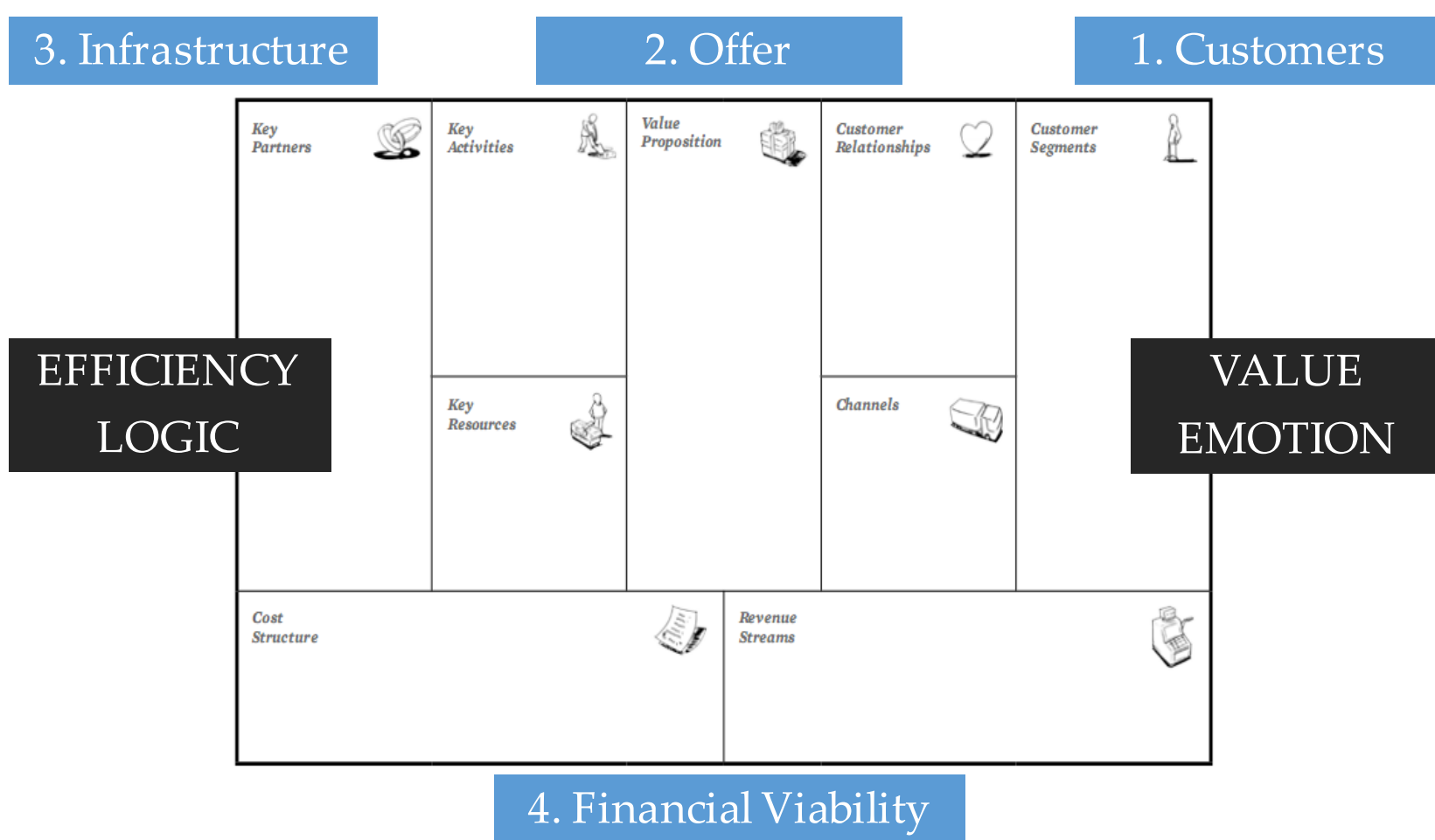
- 1) 470 members of the Business Model Innovation Hub contributed cases, examples, and comments on book drafts
- 2) Charged people \$24 to \$243 to join the book platform



9 Building Blocks at a Glance

- 1. Customer Segments:** A venture serves one or several CSs
- 2. Value Propositions:** It seeks to solve customer problems and satisfy customer needs with VPs
- 3. Channels:** VPs are delivered to customers through communication, distribution, and sales Channels
- 4. Customer Relationships** are established and maintained with each CS
- 5. Revenue Streams** result from VPs successfully offered to CSs
- 6. Key Resources** are the assets required to offer and deliver the previously described elements...
- 7. Key Activities:** ... by performing a number of KAs
- 8. Key Partnerships:** Some activities are outsourced and some resources are required outside the enterprise
- 9. Cost Structure:** The business model elements result in the CS

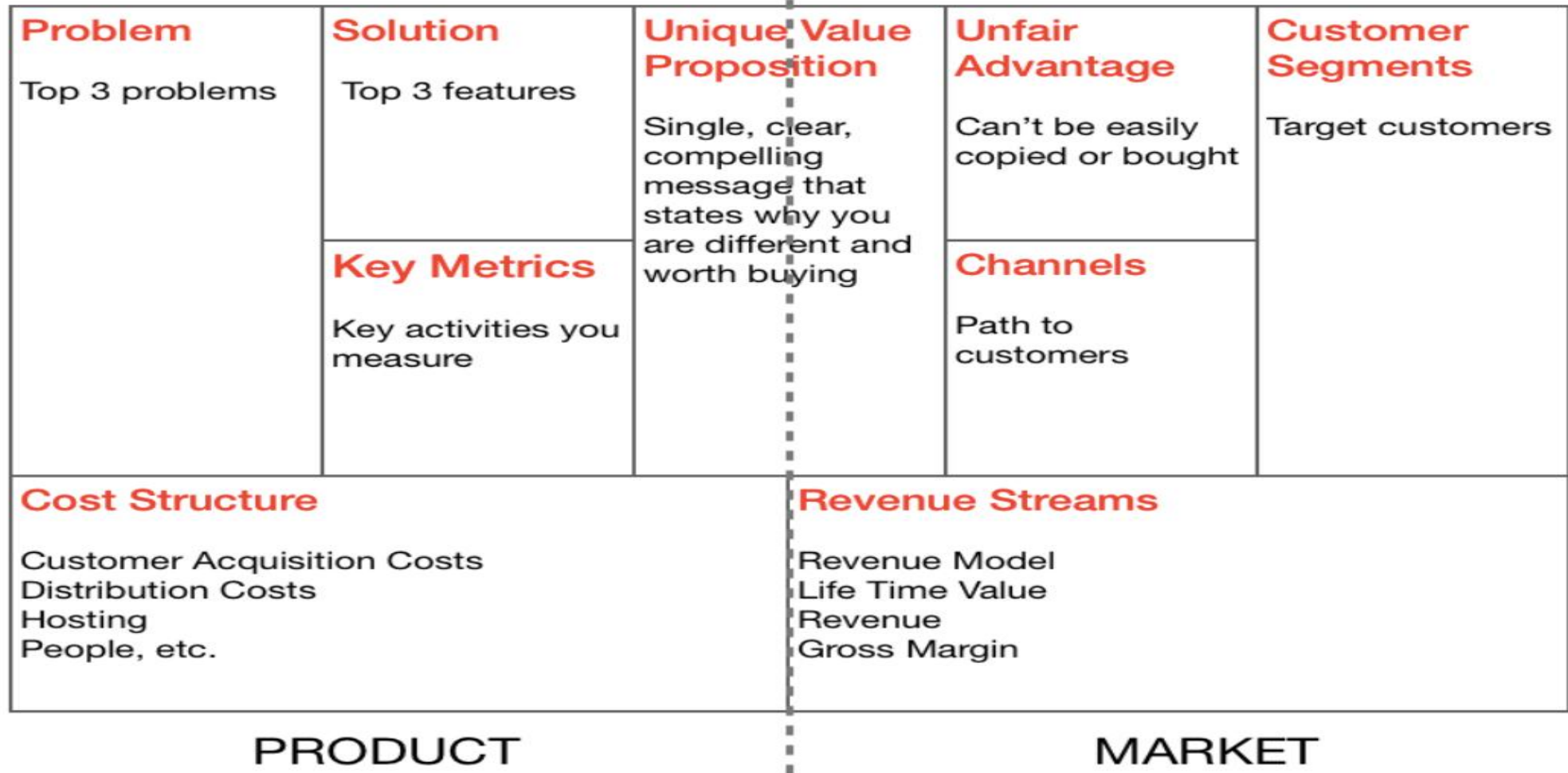
Four Main Areas of a Business



A few of the shortcomings

- The business model canvas mixes levels of abstraction
- Interaction
- Time
- Dynamism
- Customer Development* – Product-Market Fit
- Not designed for a startup originally

Lean Canvas

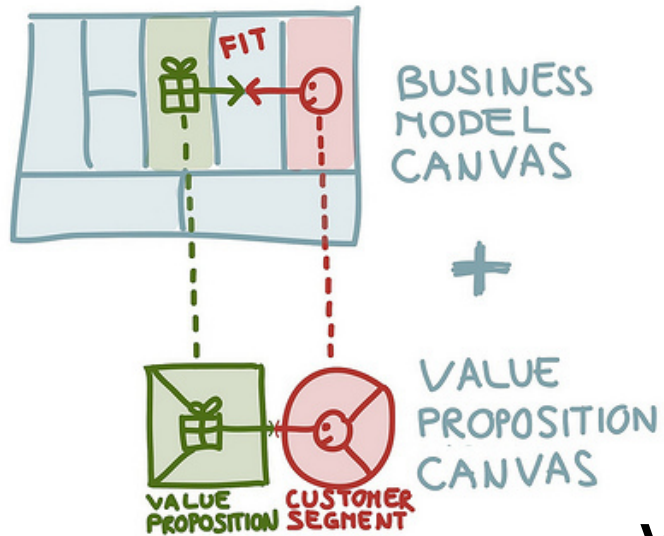


Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Oops!!

- Core startup/entrepreneurial question
 - Problem
 - Solution
 - Value Proposition
- Value Proposition Canvas (2012)

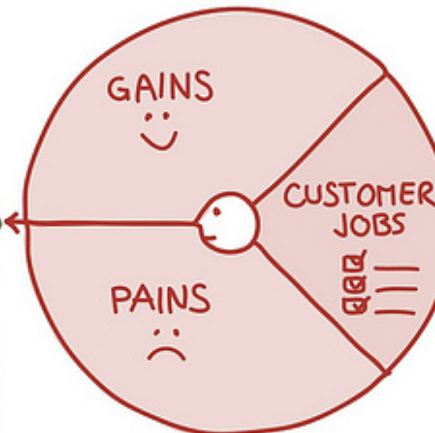
Customer Value Canvas



Value Map

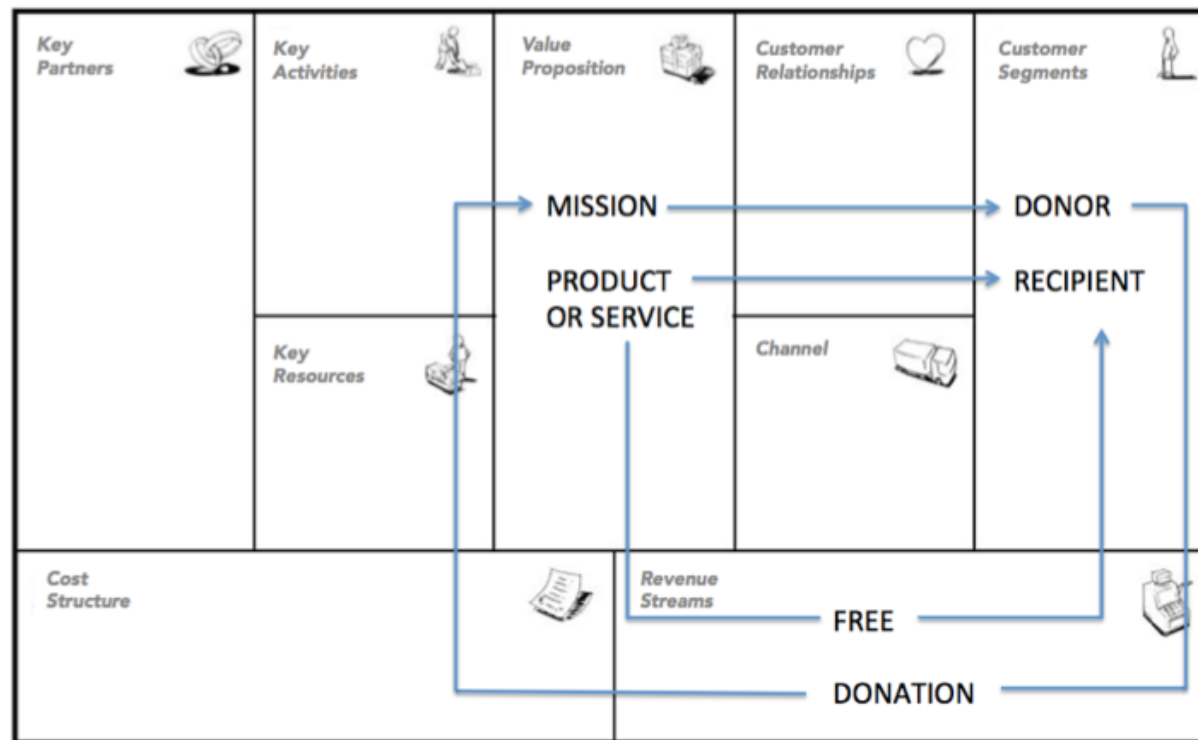


Customer Profile

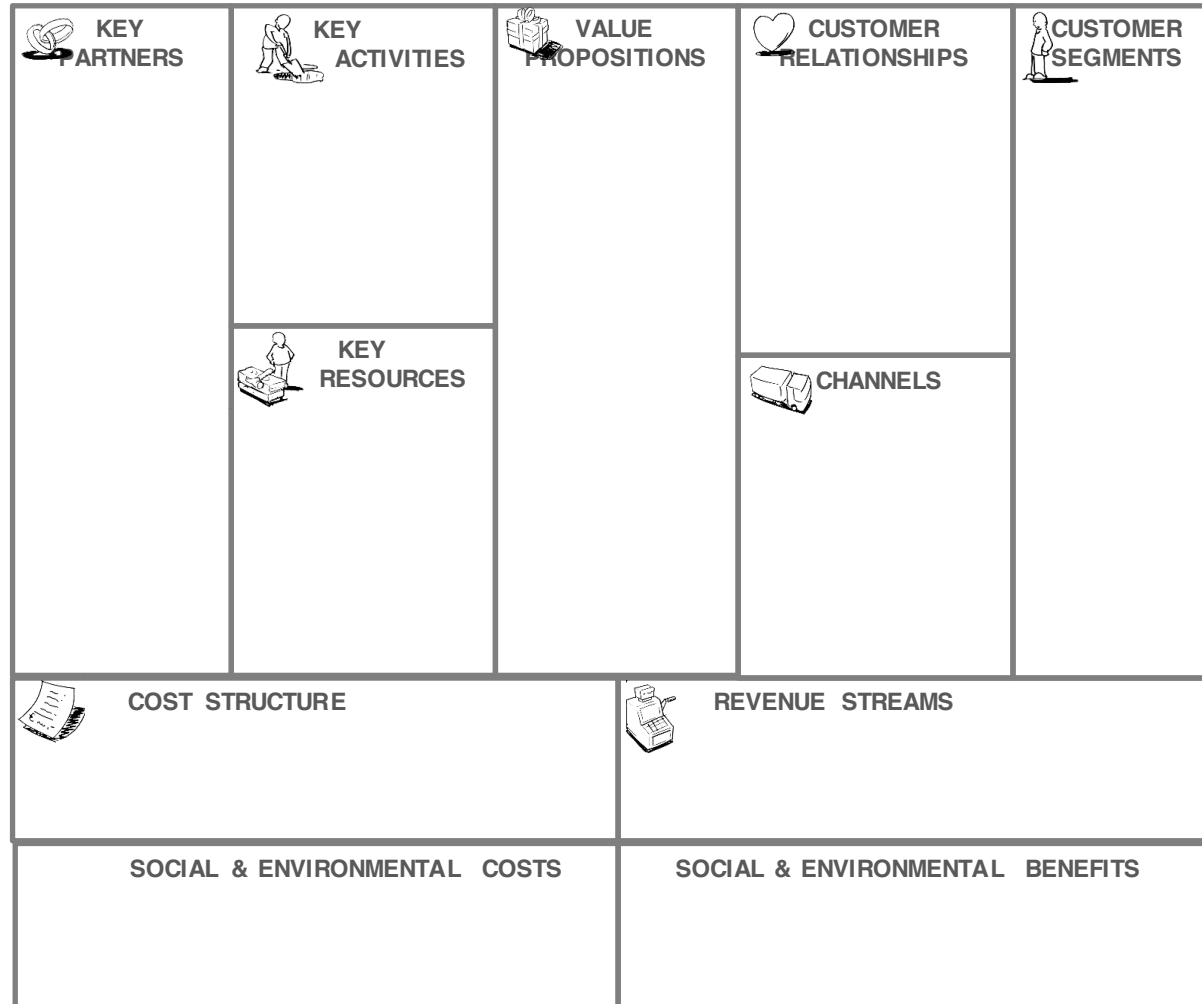


- http://www.businessmodelgeneration.com/downloads/value_proposition_canvas.pdf
- <http://www.franciscopalao.com/english/value-proposition-canvas-get-to-know-your-customers-and-improve-your-value-proposition/>

Beyond-Profit Business Models: Third-Party Funded Models



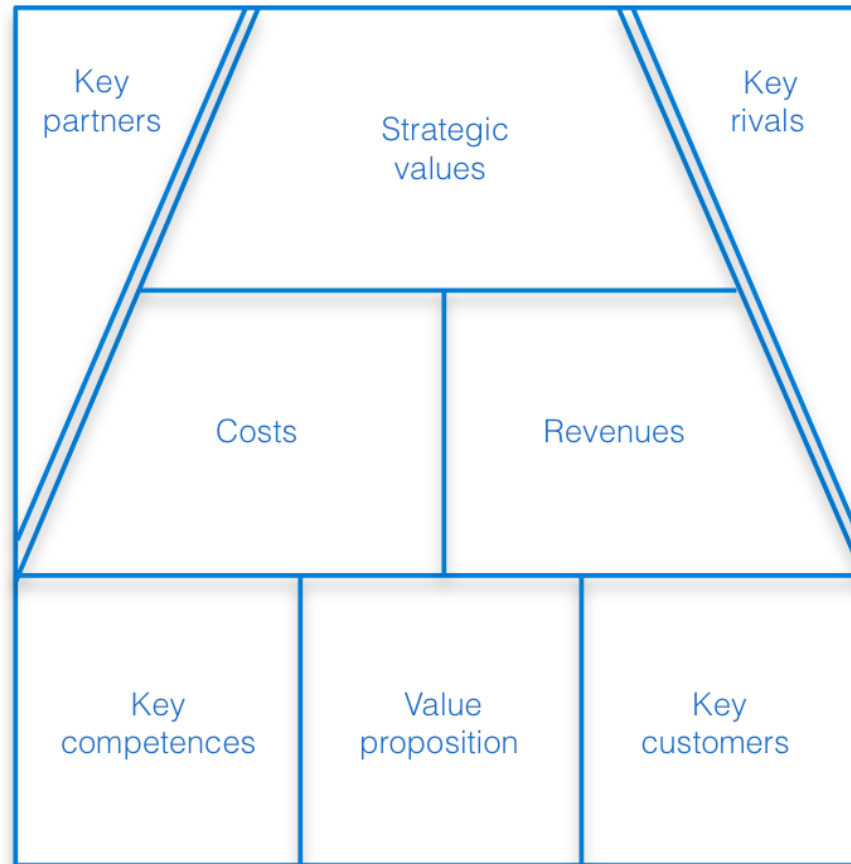
Beyond-Profit Business Models: Triple Bottom Line Models



Osterwalder & Pigneur, *Business Model Generation*

Business Model Canvas: Not the Only Game in Town

Value Model Canvas



Kraaijenbrink, "Beyond the Business Model Canvas: The Value Model Canvas," July 13, 2012

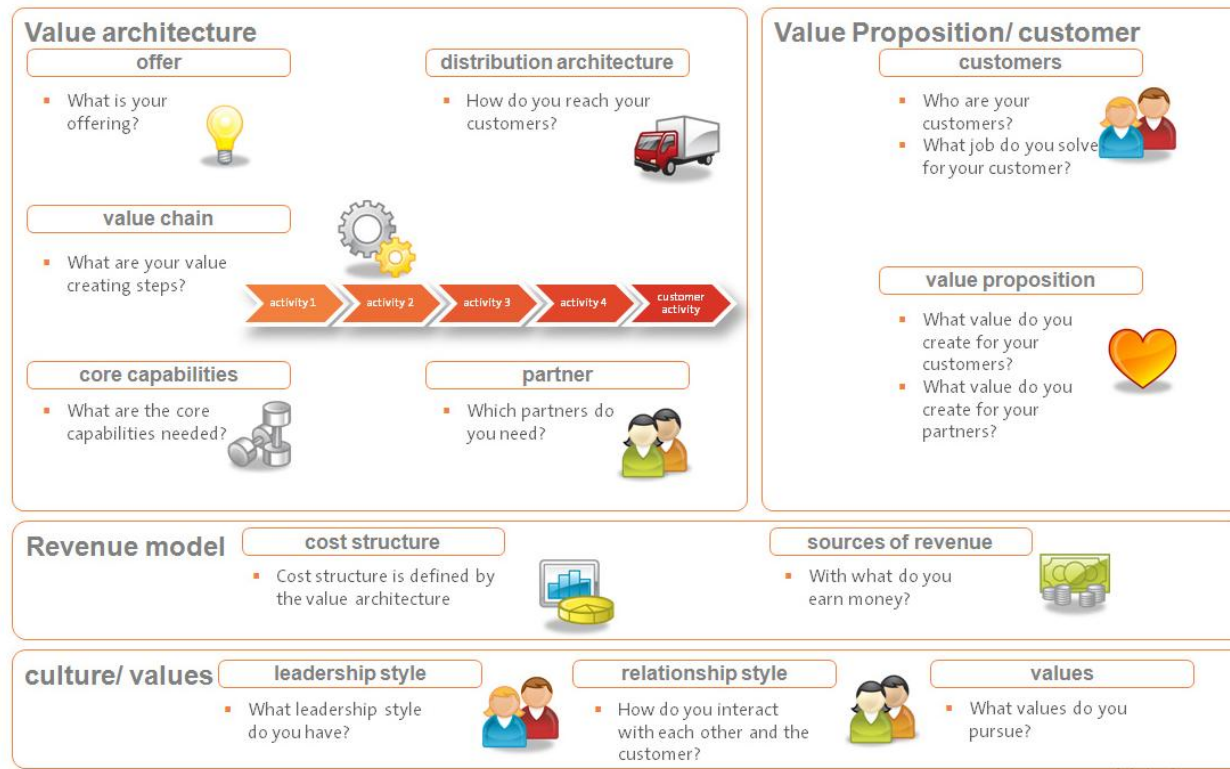
Kraaijenbrink, "Three Shortcomings of the Business Model Canvas: The Value Model Canvas," July 9, 2012

Business Model Canvas: Not the Only Game in Town

Business Model Innovation Canvas

What business are you in? Your business model

fluidminds
the business innovator



Source: Fluid Minds

Business Model Canvas: Not the Only Game in Town

Social Business Model Canvas

Social Business Model Canvas



<p>Key Resources</p> <p><i>What resources will you need to run your activities? People, finance, access?</i></p>	<p>Key Activities</p> <p><i>What programme and non-programme activities will your organisation be carrying out?</i></p>	<p>Type of Intervention</p> <p><i>What is the format of your intervention? Is it a workshop? A service? A product?</i></p>	<p>Segments</p> <p>Beneficiary</p>	<p>Value Proposition</p> <p>Social Value Proposition</p> <p>Impact Measures</p>
<p>Partners + Key Stakeholders</p> <p><i>Who are the essential groups you will need to involve to deliver your programme? Do you need special access or permissions?</i></p>		<p>Channels</p> <p><i>How are you reaching your beneficiaries and customers?</i></p>	<p>Customer</p> <p><i>Who are the people or organisations who will pay to address this issue?</i></p>	<p><i>How will you show that you are creating social impact?</i></p> <p>Customer Value Proposition</p> <p><i>What do your customers want to get out of this initiative?</i></p>
<p>Cost Structure</p> <p><i>What are your biggest expenditure areas? How do they change as you scale up?</i></p>		<p>Surplus</p> <p><i>Where do you plan to invest your profits?</i></p>	<p>Revenue</p> <p><i>Break down your revenue sources by %</i></p>	

Inspired by The Business Model Canvas

Source: Social Innovation Lab

Business Model Canvas: Not the Only Game in Town

Social Enterprise Canvas

THE SOCIAL ENTERPRISE CANVAS

Designed for		Designed by		Date	
				Iteration #	
Vision <i>What are the intended long-term outcomes?</i>	Value Propositions <i>What value are we providing? How are we making people's lives better?</i>	Stakeholders Beneficiaries/Customers <i>For whom are we creating value?</i>	Relationships <i>What type of relationship does each stakeholder segment expect us to have with them? What information will they want? How frequently will we interact?</i>	Channels <i>How will goods and services be delivered? Through which channels do our customers, beneficiaries, partners & providers want to be reached? Which channels are most effective?</i>	Key Resistances <i>What alternatives are there? Who benefits from the status quo? What potential roadblocks are there?</i>
		Providers/Contributors <i>For whom are we getting resources?</i>			
Opportunity Statement <i>How will we take advantage of the current conditions? What is the hypothesis for change?</i>					
Potential Consequences <i>How might social, economic and environmental systems be negatively impacted?</i>		Influencers			
		Competitors <i>For resources or market share?</i>			
Key Activities <i>What key activities do our value propositions require? Our distribution/communication channels? Resource streams?</i>		Key Resources <i>What capital, labor, intellectual, natural, social and physical resources do we need?</i>		Resource Streams <i>How are resources acquired? For what value are our customers really willing to pay? Do customers pay with capital, information, labor or items? What other providers do resources come from?</i>	

Based on "The Business Model Canvas" at www.businessmodelgeneration.com
 This version designed by Danielle Olson (with input from many others)

Non-profit For-profit Hybrid Other _____



Source: DRO Design, www.drodesign.com

Common Language

Esperanto

Business Modeling

What's next?

Lean Startup

End of Part I

Lean Startup Movement

1. Business Model Canvas - Osterwalder
2. Customer Development- Steve Blank
3. Agile Engineering— Eric Reis

Customer Development- Steve Blank

- The hypotheses testing emulates the scientific method – pose a business model hypothesis, design an experiment, get out of the building and test it. Take the data and derive some insight to either
 - 1) Validate the hypothesis,
 - 2) Invalidate the Hypothesis or
 - 3) Modify the hypothesis

Agile Engineering– Eric Reis

- Minimal Viable Product (MVP)
- Continuous deployment
- Split Testing
- Actionable metrics
- Pivot
- Build–Measure–Learn

Lean Startup Issues

- When the methodology is repackaged it is oversimplified
- Metric bias
- The drive to be minimal can lead to entrepreneurs to consider sacrificing on quality when they shouldn't
- The drive to eliminate uncertainty can kill artistic vision
- The Lean Startup model encourages features vs. whole products
- You're asking the wrong questions?
- You're testing the wrong thing?
- Among others

“But, the business model -

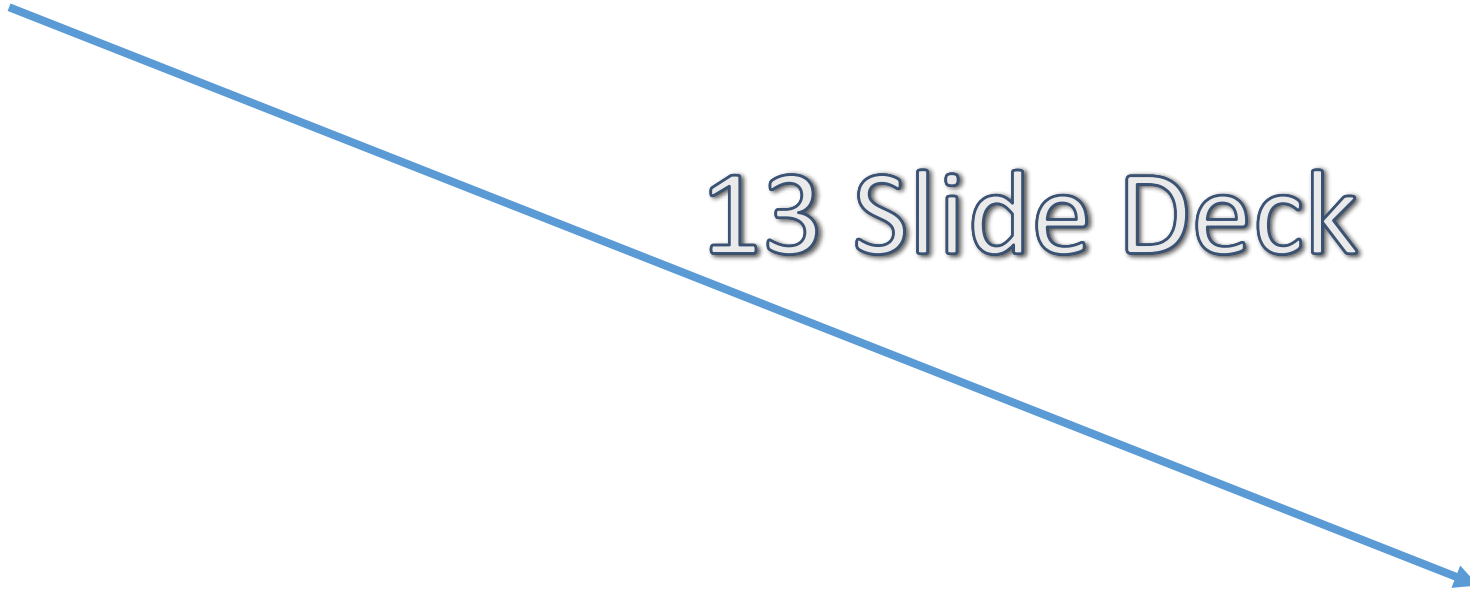
- is not a guarantee for success as it has to be implemented and managed. ·
- is something else than the company's business process model”

Osterwalder

Business Plan

13 Slide Deck

1 Page

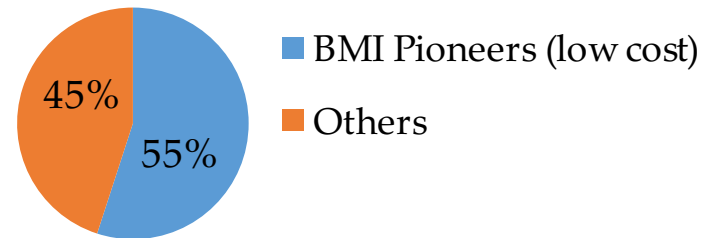


Right tool for the right job

A fool with a tool is still a fool.

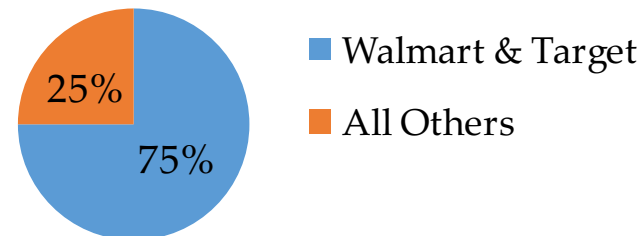
Business Model Pioneers:

Airlines. % of market value of all carriers in the industry that were BM pioneers (low-cost U.S. airlines) vs. others that were not BM pioneers



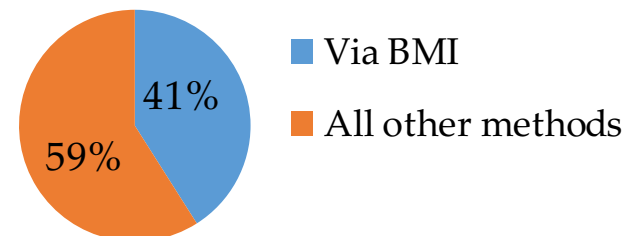
Business Model Pioneers: Retail.

% of total value of the retail sector, BM pioneers vs. others



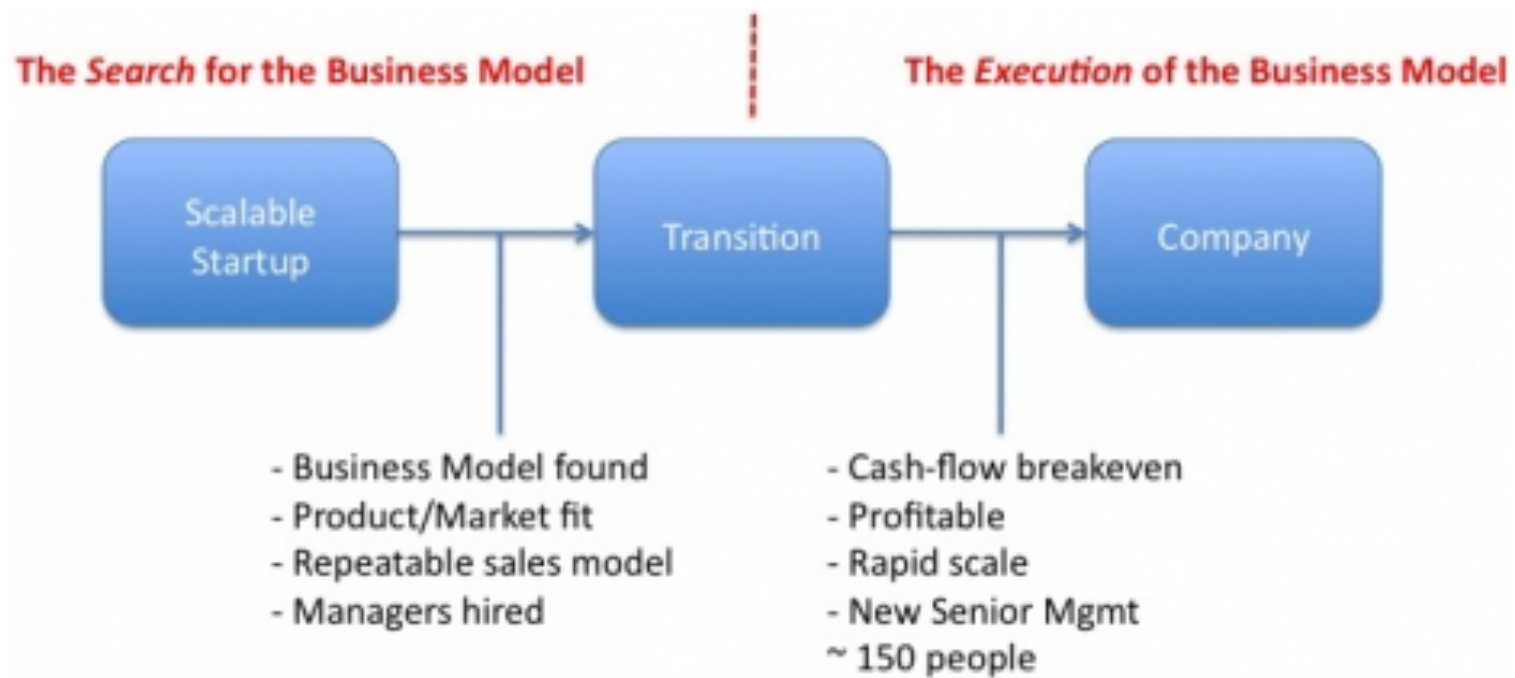
New Entrants into Fortune 500.

% companies from last 25 years that grew their way into Fortune 500 via business model innovation (BMI)



So what next?

The New Venture Process



Source: Steve Blank

(Not) Limitations of the Business Model Canvas

What isn't included that is also important?

1. Competition
2. Strategy (depending on your conception of Business Model)
3. Industry and market forces and trends (PESTLE)
4. Creating and delivering value for whom?
5. Purpose (or mission), values, & vision?
6. Resource consumption, externalities, sustainability, CSR
7. Legal, regulatory, ethical considerations
8. Deeper financial analysis
9. Risk analysis & mitigation
10. "Founder fit": individual & team fit with the venture
11. Leadership, culture, execution, alignment, etc. (see below)
12. Implementation

FOR

AGAINST

**“The business model
is dead.”**

--The business plan

Business Plan: A written document that carefully explains every aspect of a new venture (30-40 pages)

Business Model: Rationale for how an organization creates, delivers, and captures value (1 page)

Neither right nor wrong

Neither good nor bad

Not THE way, just A way

Gresham's law

THE CULT OF LEAN STARTUP

The Last Word

"We cannot afford to have our success breed a new pseudoscience around pivots, MVPs, and the like. This was the fate of scientific management, and in the end, I believe, that set back its cause by decades."

Eric Reis

In conclusion,

HATE

LOVE

Terrence@kth.se
Terrence@TerrenceBrown.net
web: www.terrencebrown.net
Twitter: [terrence_brown](https://twitter.com/terrence_brown)
Instagram: [askdrbrown](https://www.instagram.com/askdrbrown)
Coming soon : www.askdrbrown.com

Blank Intentionally