

Nuts and Bolts of New Ventures

MIT - IAP (MIT 15.s21)

Business Models

Richard Kivel

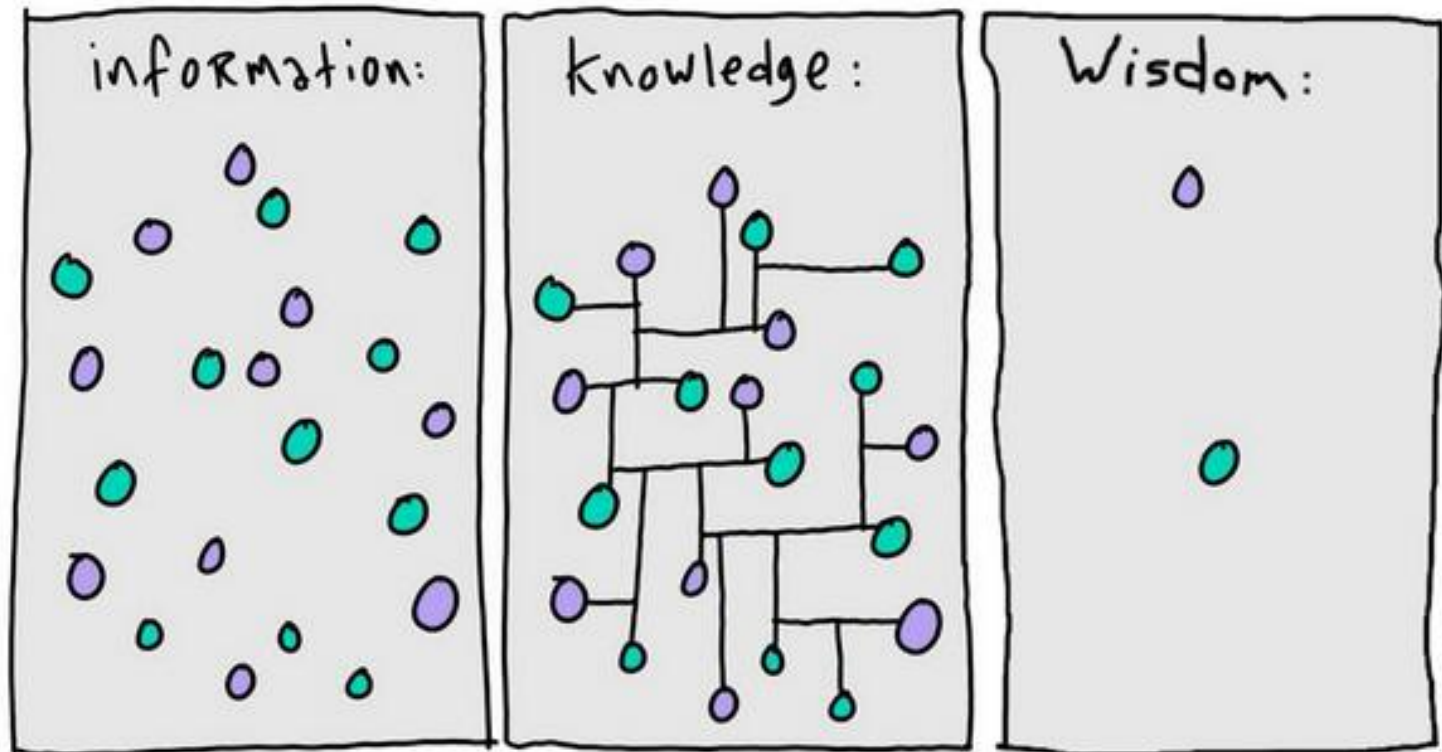
- Chairman / Rhapsody Biologics
- Executive Chairman / ViS Research
- kivel@mit.edu
- **Twitter: @Kivel1**

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My Simple Goal Today



The Foundation of ANY Good Business:

The Business Model

def: A method by which a firm uses its resources (cash, technology and people) to offer its customers better value than its competitors and make money doing so.

It tells who pays, how much and how often.



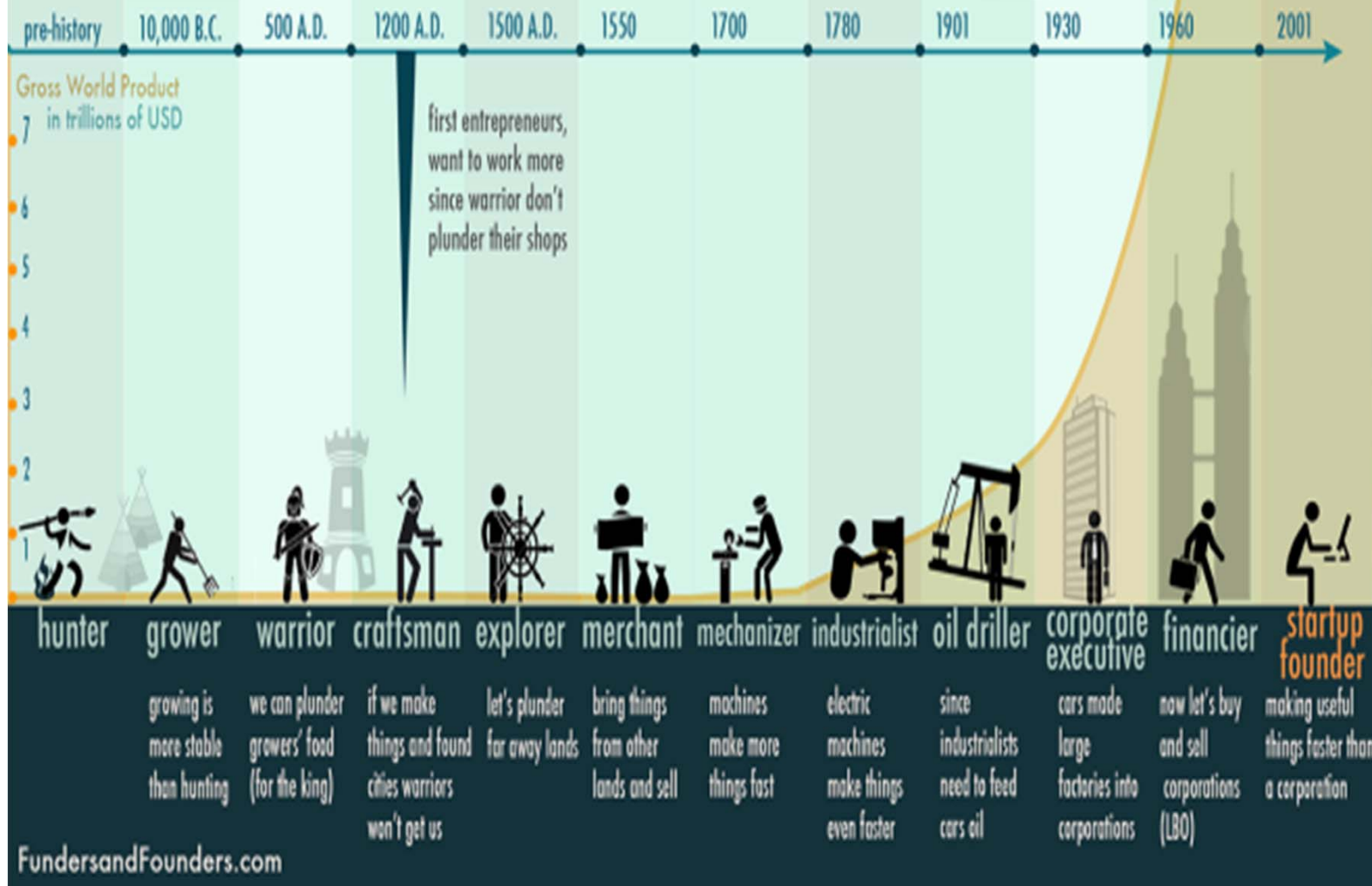
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THE HISTORY OF OPPORTUNITY

by Anna Vital

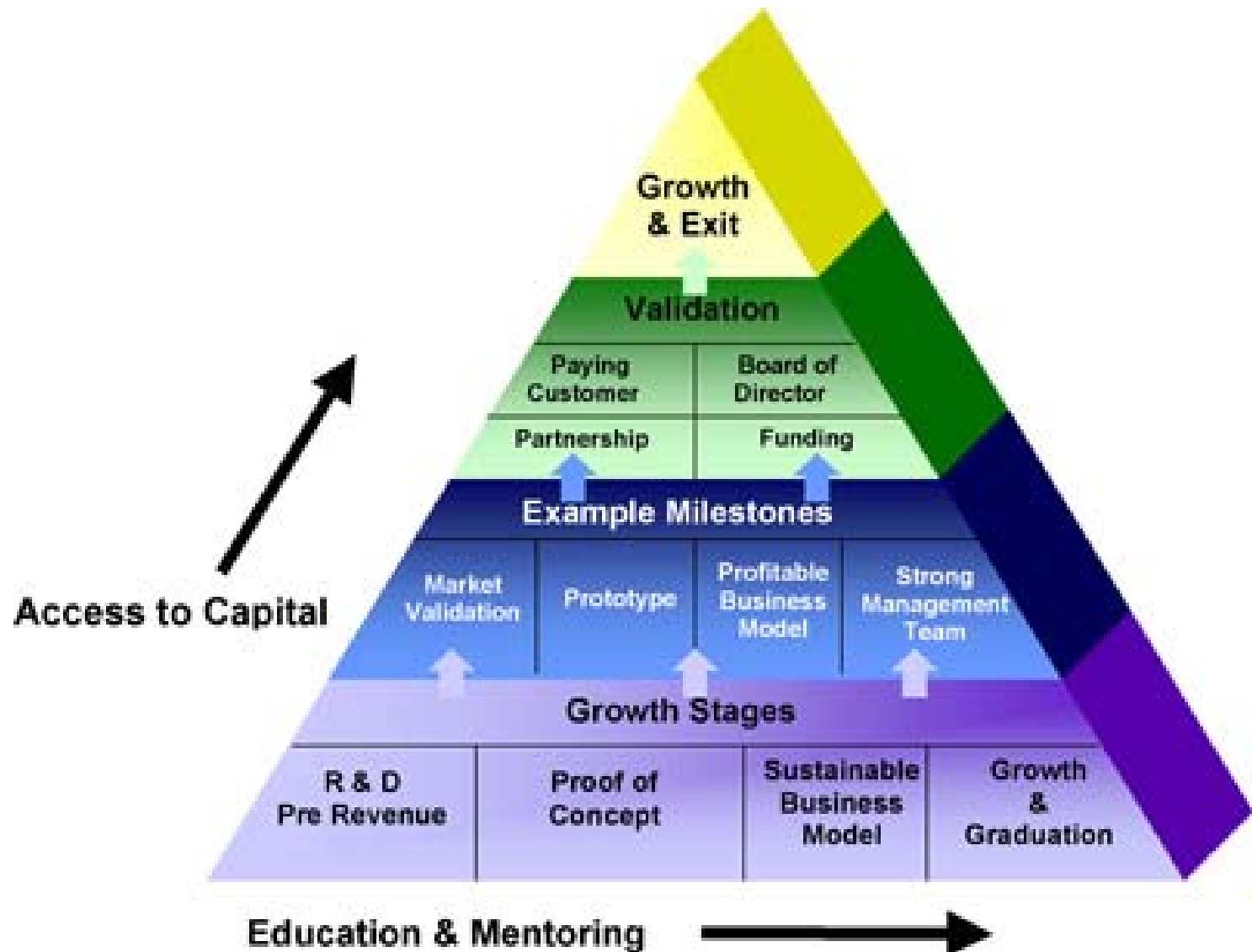
How Humans Created Value and Made Money

in 2012
Gross World Product
\$71 trillion



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From Ideas to the Market



SUCCESS



**WHAT PEOPLE THINK
IT LOOKS LIKE**

SUCCESS



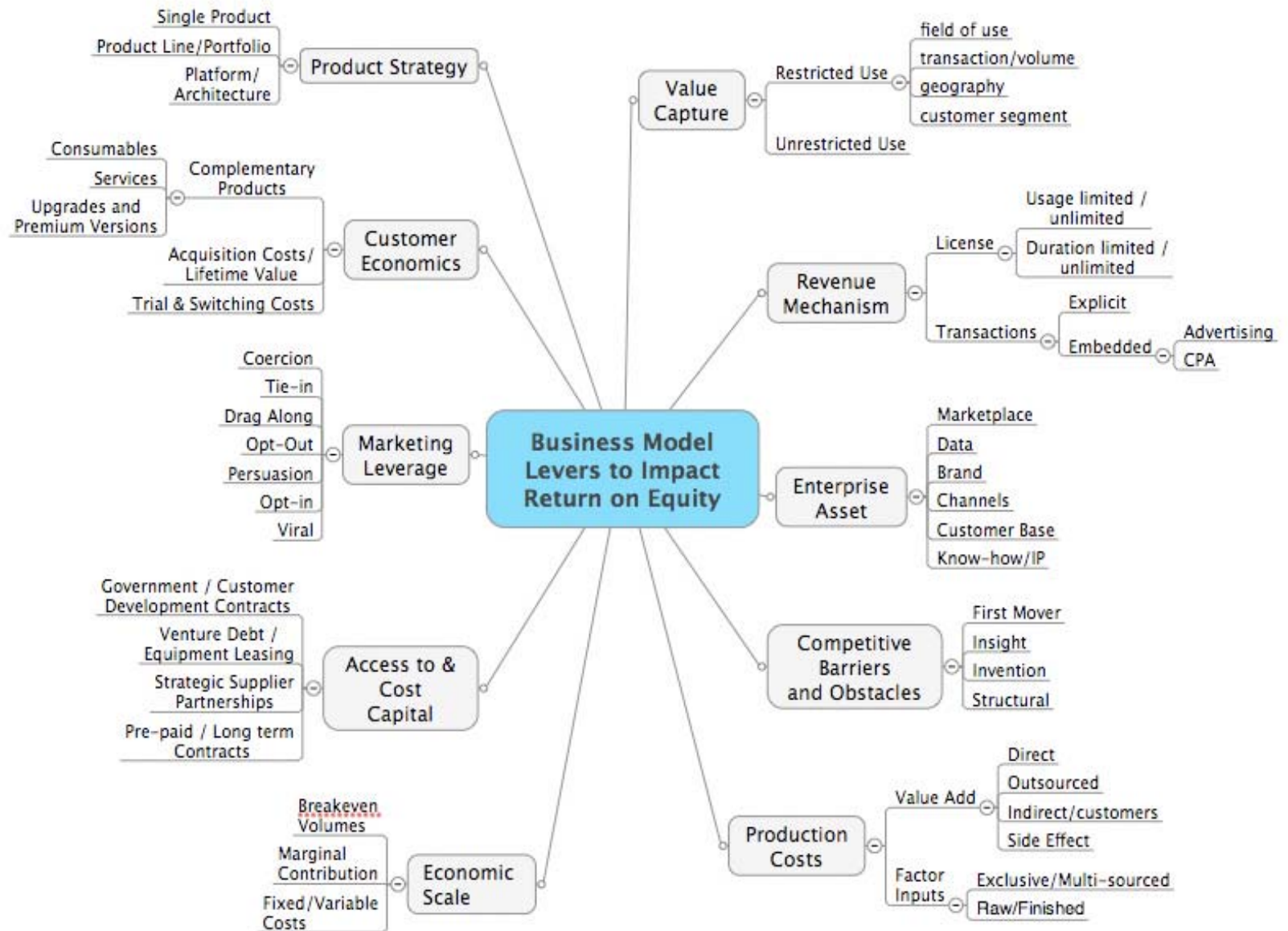
**WHAT IT REALLY
LOOKS LIKE**

WWW.ATBREAK.COM



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Highly Complex

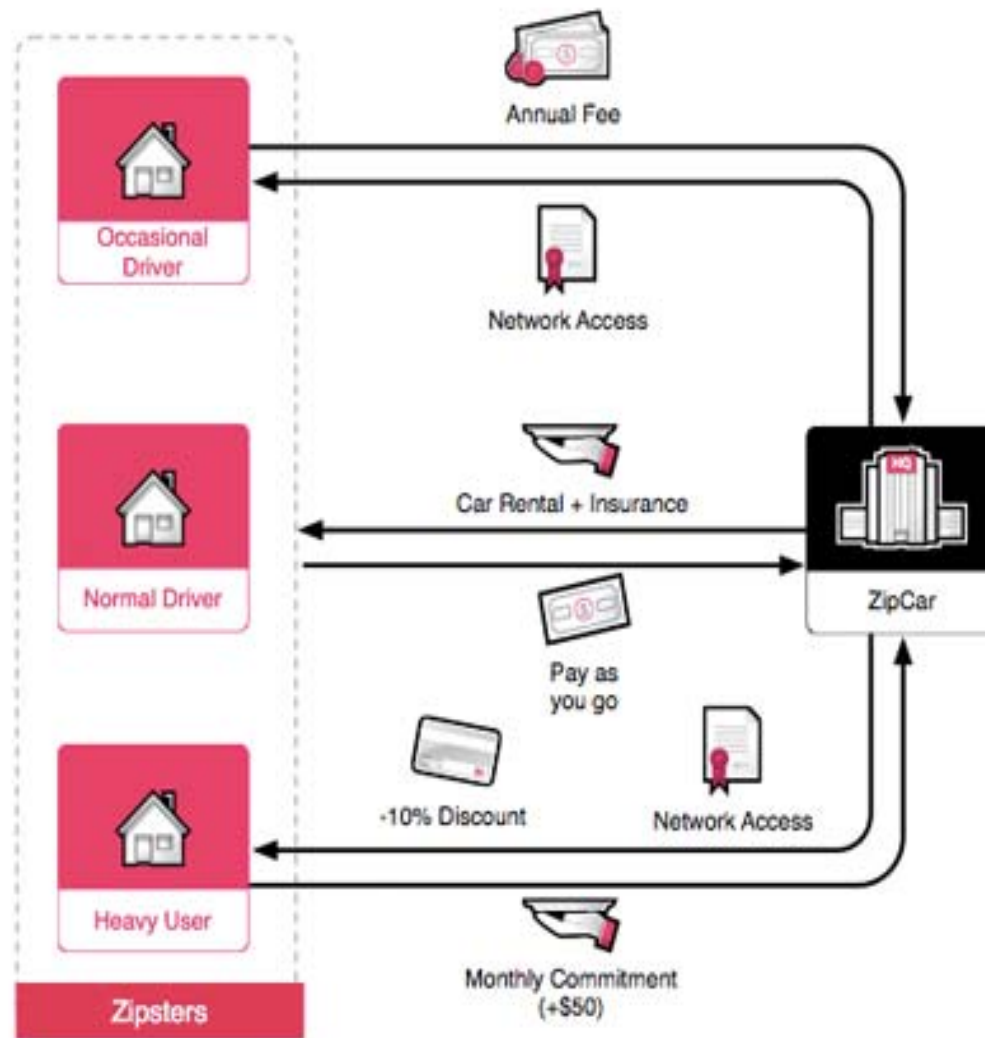


Simplified



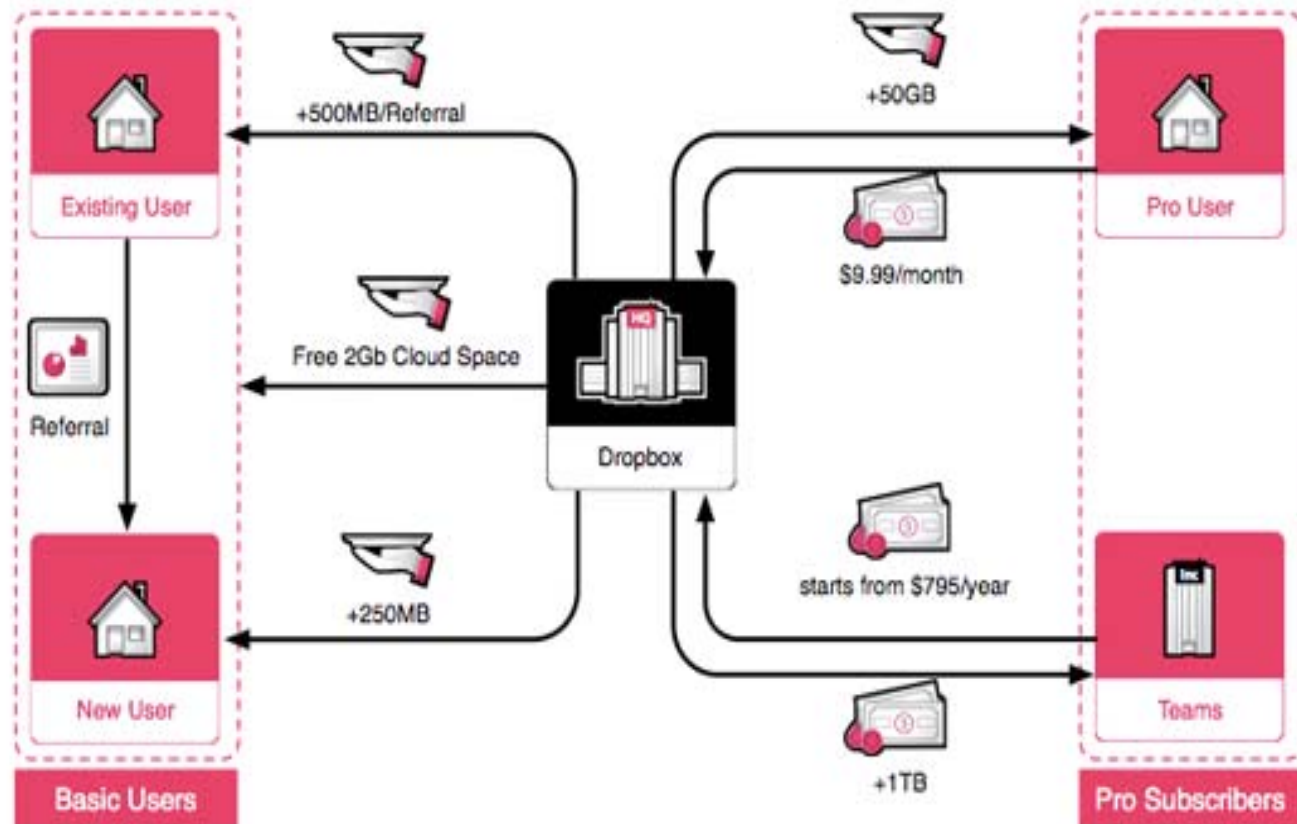
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ZipCar



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DropBox



Your Business Model is NOT your Business

Business Model Innovation is critical
to developing a quality business,
attacking new markets and driving
profitability



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Components of the Business Model



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Components of the Business Model

- 1. Value Proposition**
- 2. Market Segment**
- 3. Value Chain Structure**
- 4. Position in the Value Network**
- 5. Revenue Generation and Margins**
- 6. Competitive Strategy**
- 7. Stage of Development**



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Value Proposition

- A description of the customer problem
- The solution that addresses the problem
- The value of this solution from the customer's perspective (price, speed, design)

Market Segment

- The target audience
- Recognizing that different market segments have different needs



Value Chain Structure

- The firm's position in the value chain
- Activities in the value chain
- How the firm will capture part of the value that it creates in the chain.

Position in the Value Network

- Identification of competitors
- Identify complementary companies and technology
- Identify network-effects that can be utilized to deliver more value to the customer.



Revenue Generation and Margins

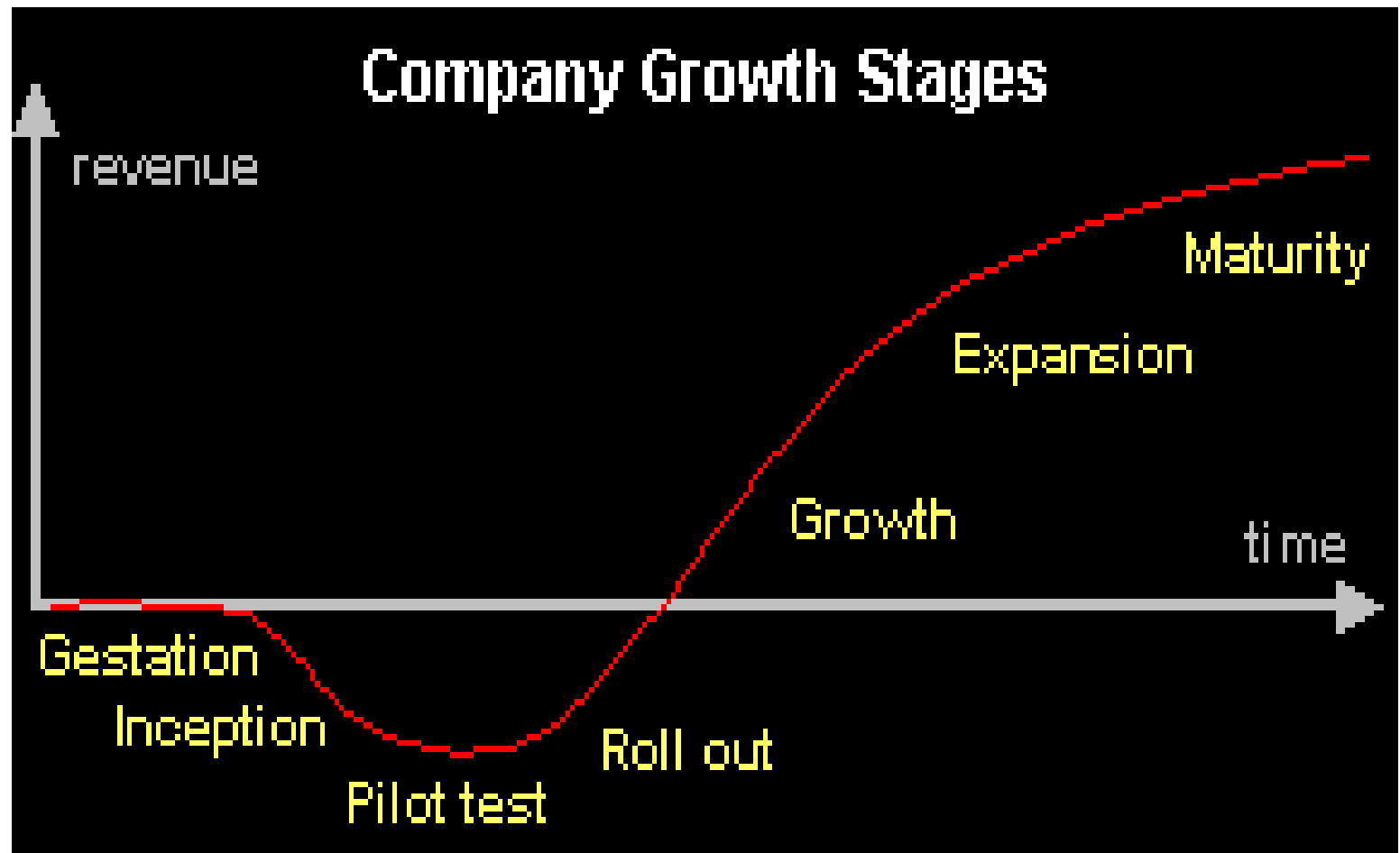
- How revenue is generated (sales, leasing, subscription, support, etc.)
- The cost structure
- Target profit margins.

Competitive Strategy

- How will the company attempt to develop a sustainable competitive advantage?
- How will it use that advantage to improve the competitive position in the market?



Where Are You on the Field



Google Website Launched Sept 4th 1998

Google!

Search the web using Google!

10 results



Google Search

I'm feeling lucky

Index contains ~25 million pages (soon to be much bigger)

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Get Google! updates monthly!

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What is Changing in your Space

Price of 1 Gb of storage:

1981 \$3000000

1987 \$500000

1990 \$100000

1994 \$10000

1997 \$100

2000 \$10

2004 \$1

2012 \$0.10



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What Business Model and Why?

- Apple - Dell
- Citibank - American Express
- SouthWest - Virgin Air
- Patek Philippe - Swatch
- Cuisinart – Nespresso
- Bentley – Cadillac
- Vertu – Nokia
- AT&T vs. SKYPE



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Innovative Business Models



Business model example: Amazon - Leveraging assets



Business model example: Apple - Providing convenient solutions



Business model example: Etsy - Mass customization of arts and crafts



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Innovative Business Models

ZARA

Business model example: Zara – Time to Market is everything business model

Gillette

Business model example: Gillette - The razor and blade business model



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New Models Changing Old Industry

The P2P Revolution: Etsy, Kickstarter, Paypal, Craigslist

Just In Time: Dell

One Day, One Deal: Woot, Groupon, LivingSocial, Moolala

Name Your Price: Priceline



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Summary

- **Value Proposition**
- **Market Segment**
- **Value Chain Structure**
- **Position in the Value Network**
- **Revenue Generation and Margins**
- **Competitive Strategy**
- **Stage of Development**



Success consists of going from failure to failure without loss of enthusiasm.

~Winston Churchill



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Thank you

Richard Kivel
kivel@mit.edu

Twitter: @kivel1

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