Nuts and Bolts of New Ventures
MIT – IAP (MIT 15.s21)

Business Models

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January 22nd 2014
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.
THE HISTORY OF OPPORTUNITY
How Humans Created Value and Made Money

Pre-history
10,000 B.C.
500 A.D.
1200 A.D.
1500 A.D.
1550
1700
1780
1901
1930
1960
2001

Gross World Product
in trillions of USD

First entrepreneurs, want to work more since warriors don’t plunder their shops

Hunter
Grower
Warrior
Crafter
Explorer
Merchant
Mechanizer
Industrialist
Oil Driller
Corporate Executive
Financier
Startup Founder

Growing is more stable than hunting

We can plunder growers’ food (for the king)

If we make things and found cities, warriors won’t get us

Let’s plunder far away lands

Bring things from other lands and sell

Machines make more things fast

Electric machines make things even faster

Since industrialists need to feed cars oil

Cars made large factories into corporations

Now let’s buy and sell corporations (LBO)

Making useful things faster than a corporation

FundersandFounders.com
From Ideas to the Market
SUCCESS
WHAT PEOPLE THINK
IT LOOKS LIKE

SUCCESS
WHAT IT REALLY
LOOKS LIKE

WWW.ATBREAK.COM
Highly Complex

Business Model Levers to Impact Return on Equity

- Product Strategy
  - Single Product
  - Product Line/Portfolio
  - Platform/Architecture
  - Consumables
  - Services
  - Upgrades and Premium Versions
  - Complementary Products
  - Acquisition Costs/Lifetime Value
  - Trial & Switching Costs

- Value Capture
  - Restricted Use
  - Unrestricted Use
  - field of use
  - transaction/volume
  - geography
  - customer segment

- Revenue Mechanism
  - License
  - Duration limited/unlimited
  - Explicit
  - Embedded
  - Advertising
  - CPA

- Marketing Leverage
  - Coercion
  - Tie-in
  - Drag Along
  - Opt-Out
  - Persuasion
  - Opt-in
  - Viral

- Enterprise Asset
  - Data
  - Brand
  - Channels
  - Customer Base
  - Know-how/IP

- Access to & Cost Capital
  - Venture Debt/Equipment Leasing
  - Strategic Supplier Partnerships
  - Pre-paid/Long term Contracts

- Competitive Barriers and Obstacles
  - Government/Customer Development Contracts
  - First Mover
  - Insight
  - Invention
  - Structural

- Production Costs
  - Value Add
  - Outsourced
  - Indirect/customers
  - Side Effect
  - Factor Inputs
  - Exclusive/Multi-sourced
  - Raw/Finished

- Economic Scale
  - Breakeven Volumes
  - Marginal Contribution
  - Fixed/Variable Costs
Simplified
ZipCar

- Occasional Driver
- Normal Driver
- Heavy User

- Annual Fee
- Network Access
- Car Rental + Insurance
- Pay as you go
- -10% Discount
- Network Access
- Monthly Commitment (+$50)
Your Business Model is NOT your Business

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

Company Growth Stages

- Revenue
- Time
- Growth
- Expansion
- Maturity
- Inception
- Pilot test
- Roll out
- Gestation

MIT Sloan Management
Google Website Launched
Sept 4th 1998
What is Changing in your Space

Price of 1Gb of storage:
1981 $300000
1987 $500000
1990 $100000
1994 $1000
1997 $100
2000 $10
2004 $1
2012 $0.10
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
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
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
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
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
Thank you

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Special thanks to everyone and anyone who contributed to this presentation whether they know it or not. I am grateful for their ideas, data, slides and images