

# Business Model Innovation / (Corporate) entrepreneurship

Using the lean startup approach as a fast-track  
to business model innovations

Prof. Dr. Nils Högsdal,  
HdM Stuttgart, April 14th 2015

# Prof. Dr. Nils Högsdal:

## Academic career



- Studies of Business Administration at the University of Tuebingen and Texas A&M University 1993-1999
- Ph.D. student at the university of Tuebingen from 1999 – 2004 (full time until 2000)
- Various teaching assignments from 1997 onwards
- Design of a number of management simulations with a focus on Entrepreneurship
- Accepted a full-time professorship at Hochschule der Medien (Stuttgart Media University) in 2012
- Focus of research: Lean Startup and Management Wargaming

# Prof. Dr. Nils Högsdal: Entrepreneurial Experience



- An Entrepreneur having
  - Asset Deal and new venture (1999)
  - Growth with a strategic Investor (2001)
  - Internationalisation with a new strategic Investor (2005)
  - Exit as a shareholder (2008)
  - Professor for Corporate Finance & Entrepreneurship (2012) at der Hochschule der Medien in Stuttgart
  - New „Master in innovative Entrepreneurship“ together with the (Technical) University of Stuttgart
- Coach and Investor for startups
- Inventor of the German High-School competition „Jugend Gründet“
- Regular trips to Silicon Valley

# Learning Objectives

- Understand why the traditional business plans has been put on notice
- Understand why the lean startup approach is the way to go
- Discuss the use of the tools in the corporate world

# Structure

1. Lego Serious Play
2. Business Models
3. The Lean Startup approach: origin and development
4. Corporate Entrepreneurship
5. Conclusion and outlook

Let's Play!

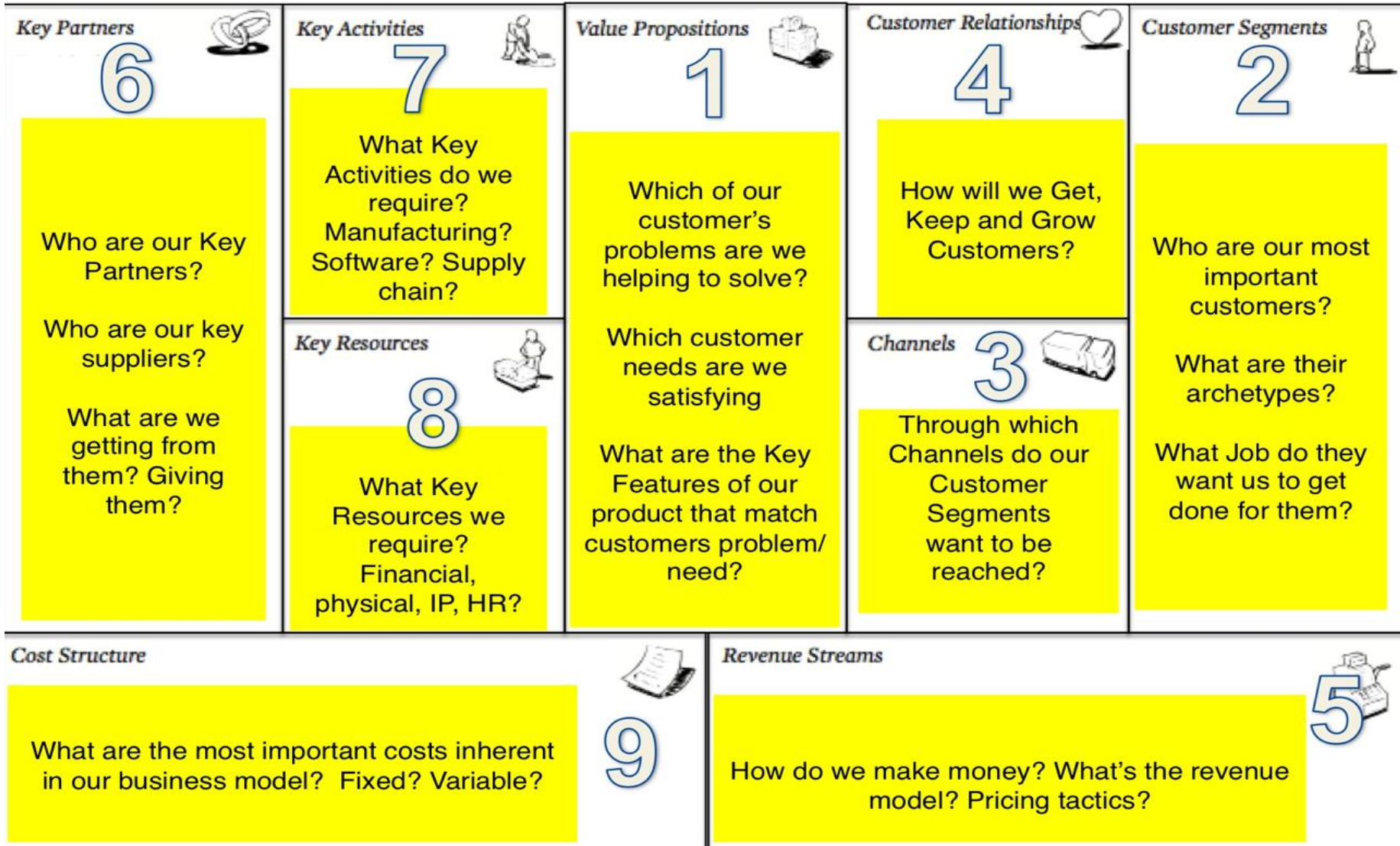
# 1. LEGO SERIOUS PLAY

# Your challenge

- Your challenge
  - Each table has access to a Lego Serious Play Starter Set
  - Take 30 minutes to design a business
  - Explain what the business is providing
  - Think of revenues streams, ressources and activites



# Your business model






Business Models

## **2. „WHAT IS YOUR BUSINESS?“ (PETER DRUCKER)**

# A quick quiz: the business of coffee

- Question: by what percentage did the annual spending on coffee increase over that past 15 years?

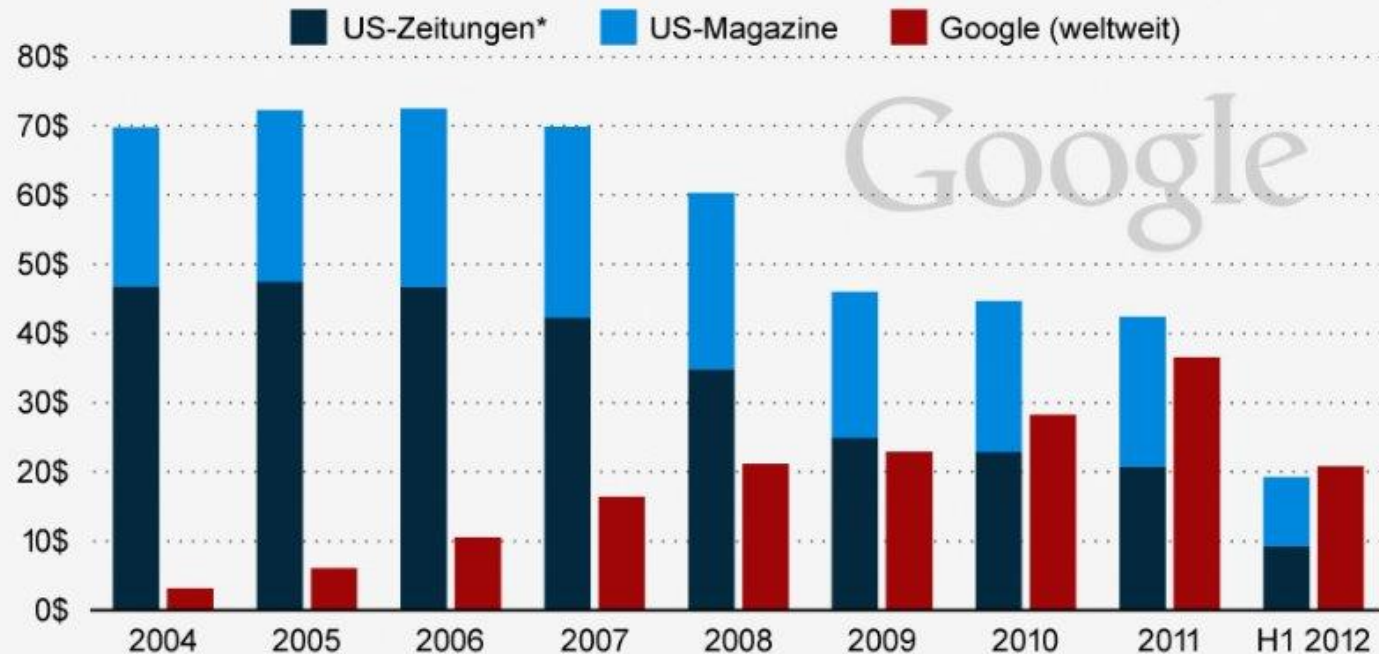


Sie sind **der Grund**, weshalb sich ungeachtet der Bohne, die letztlich in die Tasse kommt, **der Preis, den viele hierzulande pro Tasse zahlen, in den wenigen Jahren locker versechsfacht hat**, weil die einzeln verpackten Miniportionen viel teurer sind als das herkömmliche Pfund Bohnen. Das lässt die Gewinne von Kaffeeunternehmen wie Nespresso sprudeln. Und deswegen wächst der Umsatz der Branche insgesamt auch in traditionellen Kaffeeländern weiter, selbst wenn der Pulverabsatz ganz leicht sinkt. Mehr als jeder dritte Haushalt hat laut Erhebungen des Kaffeerösters Tchibo bereits eine Pad-Maschine, fast jeder achte einen Kapselautomaten.

# Print as a business model?

## Google übertrifft Print in den USA

Werbeumsätze von 2004 bis 2012 in Milliarden US-Dollar



\* ohne Werbung auf Zeitungs-Webseiten

# Examples for Business Models

- What is the business of the following companies:
  - Apple
  - Google
  - Facebook
  - Your trusted local newspaper
- Keep the following questions in mind
  - What is the value created for clients and partners?
  - How is the value generated and what is the „packaging“ for various partners?
  - Where are the revenues coming from?



# A little more: the 55 patterns

## 4. The 55 business model patterns

[http://www.im.ethz.ch/education/HS13/MIS13/Business\\_Model\\_Navigator.pdf](http://www.im.ethz.ch/education/HS13/MIS13/Business_Model_Navigator.pdf)

No	Pattern name	Affected BM components	Exemplary companies	Pattern description
1	ADD-ON	What Value	Ryanair (1985), SAP (1992), Sega (1998)	The core offering is priced competitively, but there are numerous extras that drive the final price up. In the end, the customer pays more than he or she initially assumed. Customers benefit from a variable offer, which they can adapt to their specific needs.
2	AFFILIATION	How Value	Amazon Store (1995), Cybererotica (1994), CDnow (1994), Pinterest (2010)	The focus lies in supporting others to successfully sell products and directly benefit from successful transactions. Affiliates usually profit from some kind of pay-per-sale or pay-per-display compensation. The company, on the other hand, is able to gain access to a more diverse potential customer base without additional active sales or marketing efforts.
3	AIKIDO	Who What Value	Six Flags (1961), The Body Shop (1976), Swatch (1983), Cirque du Soleil (1984), Nintendo (2006)	Aikido is a Japanese martial art in which the strength of an attacker is used against him or her. As a business model, Aikido allows a company to offer something diametrically opposed to the image and mindset of the competition. This new value proposition attracts customers who prefer ideas or concepts opposed to the mainstream.
4	AUCTION	What Value	eBay (1995), Winebid (1996), Priceline (1997), Google (1998), Elance (2006), Zopa (2005), MyHammer (2005)	Auctioning means selling a product or service to the highest bidder. The final price is achieved when a particular end time of the auction is reached or when no higher offers are received. This allows the company to sell at the highest price acceptable to the customer. The customer benefits

ed?

# All the 55 patterns :-)

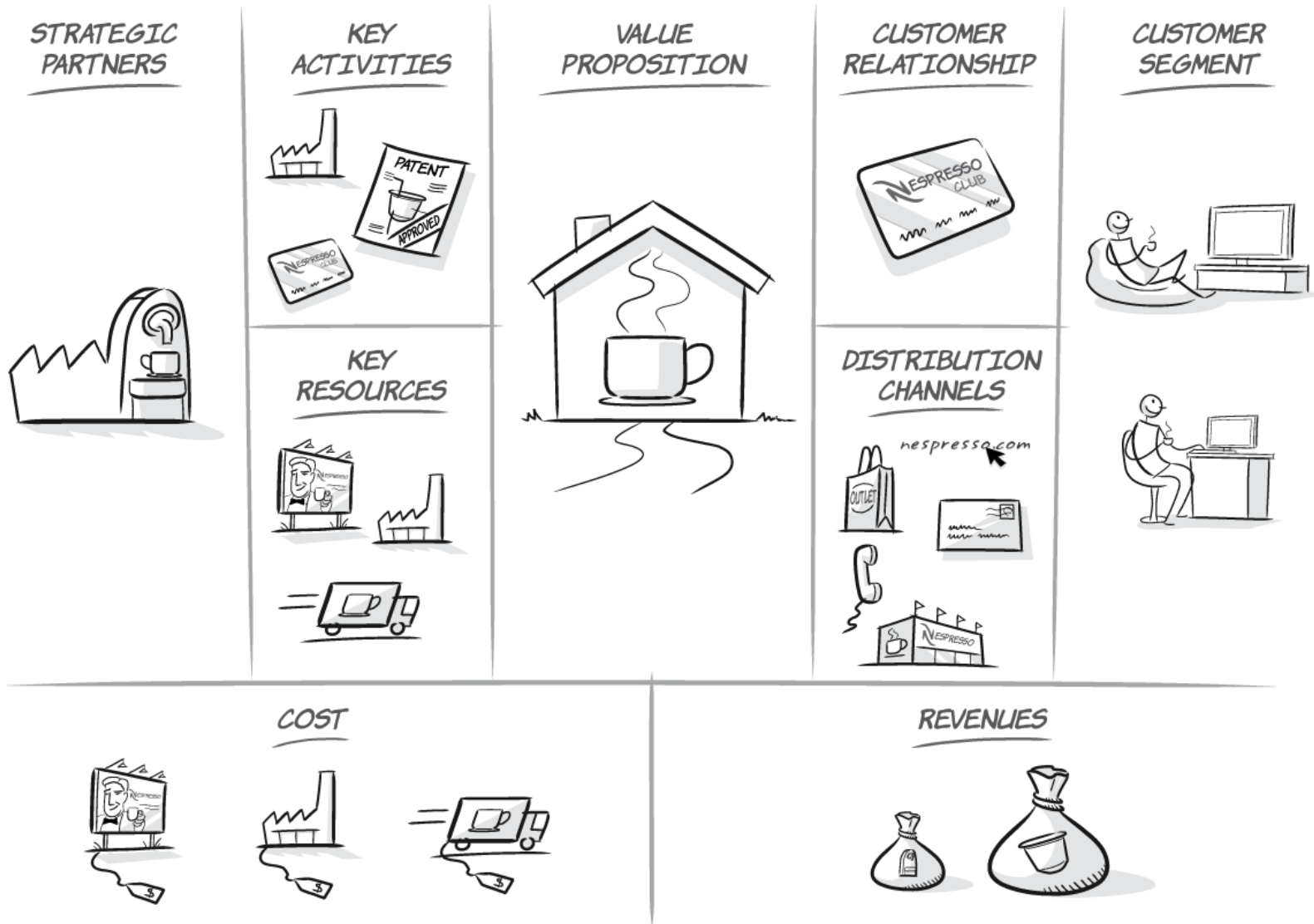
<b>Add-On</b> (Model 1)	<b>Direct Selling</b> (Model 12)	<b>Integrator</b> (Model 23)	<b>Orchestrator</b> (Model 34)	<b>Self-Service</b> (Model 45)
<b>Affiliation</b> (Model 2)	<b>E-Commerce</b> (Model 13)	<b>Layer Player</b> (Model 24)	<b>Pay Per Use</b> (Model 35)	<b>Shop-In-Shop</b> (Model 46)
<b>Aikido</b> (Model 3)	<b>Experience Selling</b> (Model 14)	<b>Leverage Customer Data</b> (Model 25)	<b>Pay What You Want</b> (Model 36)	<b>Solution Provider</b> (Model 47)
<b>Auction</b> (Model 4)	<b>Flatrate</b> (Model 15)	<b>License</b> (Model 26)	<b>Peer-To-Peer</b> (Model 37)	<b>Subscription</b> (Model 48)
<b>Barter</b> (Model 5)	<b>Fractionalized Ownership</b> (Model 16)	<b>Lock-In</b> (Model 27)	<b>Performance-Based Contracting</b> (Model 38)	<b>Supermarket</b> (Model 49)
<b>Cash Machine</b> (Model 6)	<b>Franchising</b> (Model 17)	<b>Long Tail</b> (Model 28)	<b>Razor and Blade</b> (Model 39)	<b>Target The Poor</b> (Model 50)
<b>Cross Selling</b> (Model 7)	<b>Freemium</b> (Model 18)	<b>Make More Of It</b> (Model 29)	<b>Rent Instead of Buy</b> (Model 40)	<b>Trash-To-Cash</b> (Model 51)
<b>Crowdfunding</b> (Model 8)	<b>From Push-To-Pull</b> (Model 19)	<b>Mass Customization</b> (Model 30)	<b>Revenue Sharing</b> (Model 41)	<b>Two-Sided Market</b> (Model 52)
<b>Crowdsourcing</b> (Model 9)	<b>Guaranteed Availability</b> (Model 20)	<b>No Frills</b> (Model 31)	<b>Reverse Engineering</b> (Model 42)	<b>Ultimate Luxury</b> (Model 53)
<b>Customer Loyalty</b> (Model 10)	<b>Hidden Revenue</b> (Model 21)	<b>Open Business Model</b> (Model 32)	<b>Reverse Innovation</b> (Model 43)	<b>User Designed</b> (Model 54)
<b>Digitalization</b> (Model 11)	<b>Ingredient Branding</b> (Model 22)	<b>Open Source</b> (Model 33)	<b>Robin Hood</b> (Model 44)	<b>White Label</b> (Model 55)

# Example of revenue streams

- Products
  - Upfront payment
  - Leasing / Rent
  - Pay-per-Use
- Services
  - Pay per use
  - Contract, Bundles, Product as a service
  - Revenue Sharing / Cost Saving
- IP
  - License
  - Rent
  - Freemium
- ...





# Back to Nespresso



# The Business Modell as the new holy grale

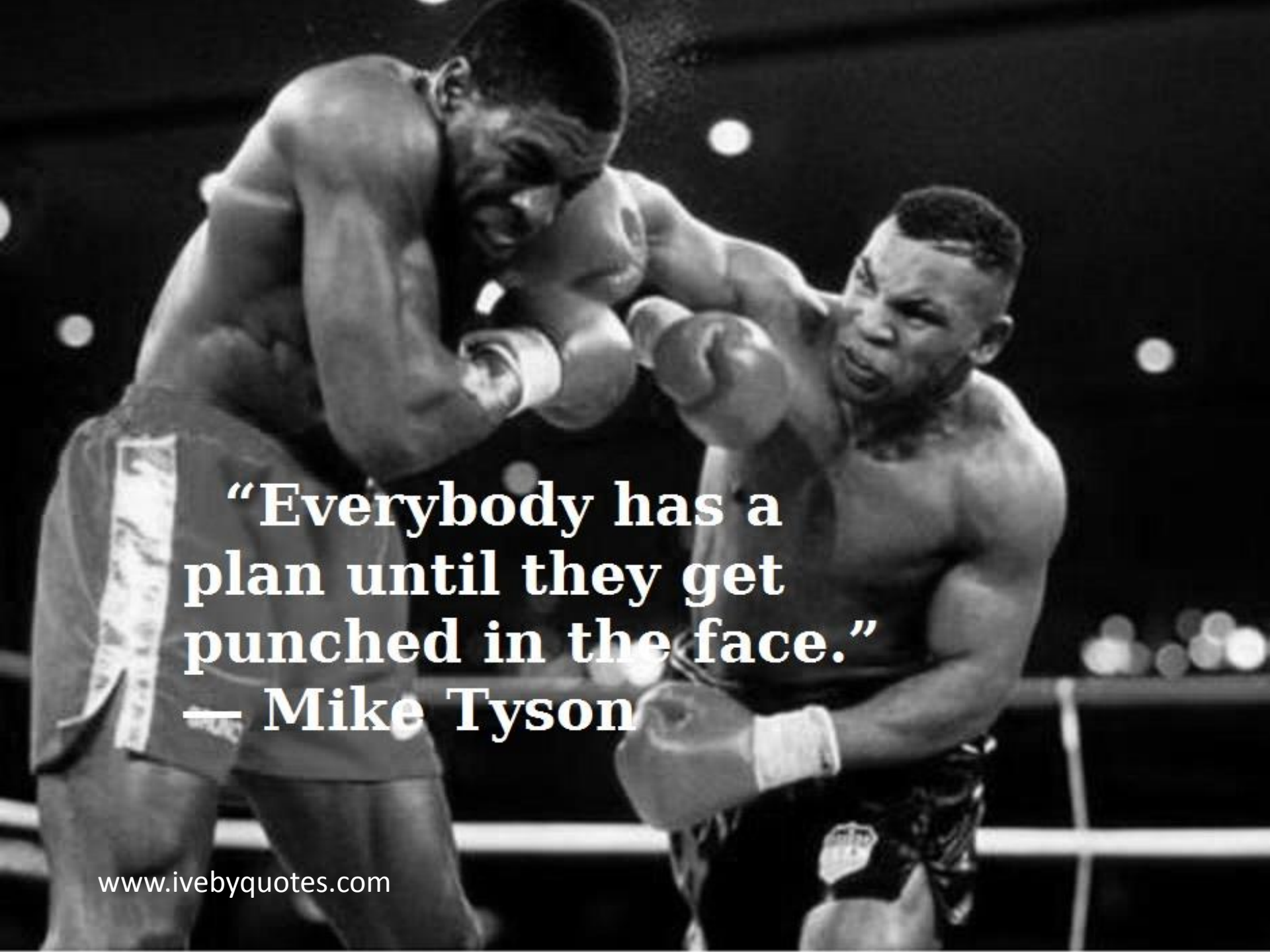
Incremental innovation has been and continues to be main performance engine, but business model innovation expected to play a bigger role moving forward

	In the past	Going forward	Change	
<b>The improvement of existing products or services</b>	83%	79%	-4pts	 <p>The improvement of existing products or services</p>
The development of entirely new products or services	63%	66%	+3pts	
The development of new business processes to improve profitability	61%	63%	=	
The development of more affordable new products and services	56%	56%	=	
The development or improvement of products customized to local needs	55%	53%	=	
<b>The development of new business models</b>	46%	52%	+6pts	<p>The development of new business models</p> 
The development of more sustainable processes, products or services	44%	48%	+4pts	
The development of new customer services	39%	42%	+3pts	

Source:  
[http://www.ge.com/sites/default/files/Innovation\\_Overview.pdf](http://www.ge.com/sites/default/files/Innovation_Overview.pdf)

Developping Business Models

## **3. THE LEAN STARTUP APPROACH**



**“Everybody has a  
plan until they get  
punched in the face.”  
— Mike Tyson**

# Food for thought

- Question 1: what percentage of startups fail?
  - Answer: depending on the statistics:  
between 60% and 95%
  - Only 5% of the startups execute according to their  
their business plan
- Question 2: Why do startups fail?
  - Lack of capital/funding?
  - ...
  - A flaw in the business model!

# Report: 75% of Venture-backed Start-ups Fail

BY JOHN MCDERMOTT

One Harvard Business School professor says that a high number of venture-backed start-ups kick the bucket, while the industry says otherwise.



91 SHARES

<http://www.inc.com/john-mcdermott/report-3-out-of-4-venture-backed-start-ups-fail.html>

When it comes to venture capital, maybe you shouldn't believe the hype.

About 75% of U.S. venture-backed start-ups fail, according to Harvard Business School senior lecturer Shikhar Ghosh.

The failure rate [Ghosh reported to the \*Wall Street Journal\*](#) is far higher than industry reported failure rates, which range from 20% to 30%. The National Venture Capital Association, for instance, estimates that only 25% to 30% of venture-backed start-up fail completely.

Ghosh told the outlet that venture capitalists "bury their dead very quietly."

But the discrepancy may be due to different definitions of failure, he added. Ghosh's research estimates 30% to 40% of high potential start-ups end up liquidating all assets--a failure by any definition. But if a start-up failure is defined as not delivering the projected return on investment, then 95% of VC companies are failures, Ghosh said.

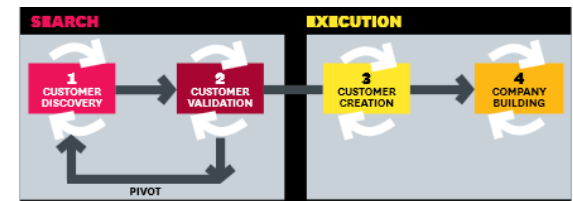
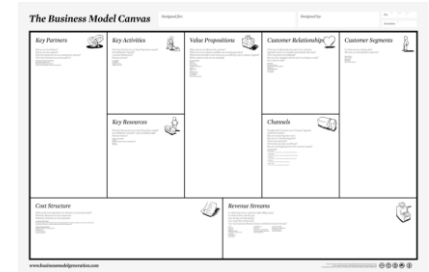
# Lean Startup

## Framework and definition

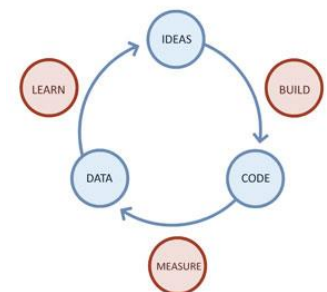
- Definition: a startup is
  - **temporary** organization designed **to search**
  - for a **repeatable and scalable business model**
- Startups Fail Because They Confuse *Search* with *Execute*
- The Lean Startup Framework **comprises a set of tools and processes** aimed at **validating hypothesis about customers** early while staying **agile** in the process

# Key Elements

- Structure: The Business Model Canvas
- Process: Customer Discovery/ Development /... process
- Individual Concepts such as
  - „Minimum Viable Product“
  - „Pivot“
  - Innovation in small batches (Continuous deployment/split testing) and
  - Build-Measure-Learn (Actionable Metrics)

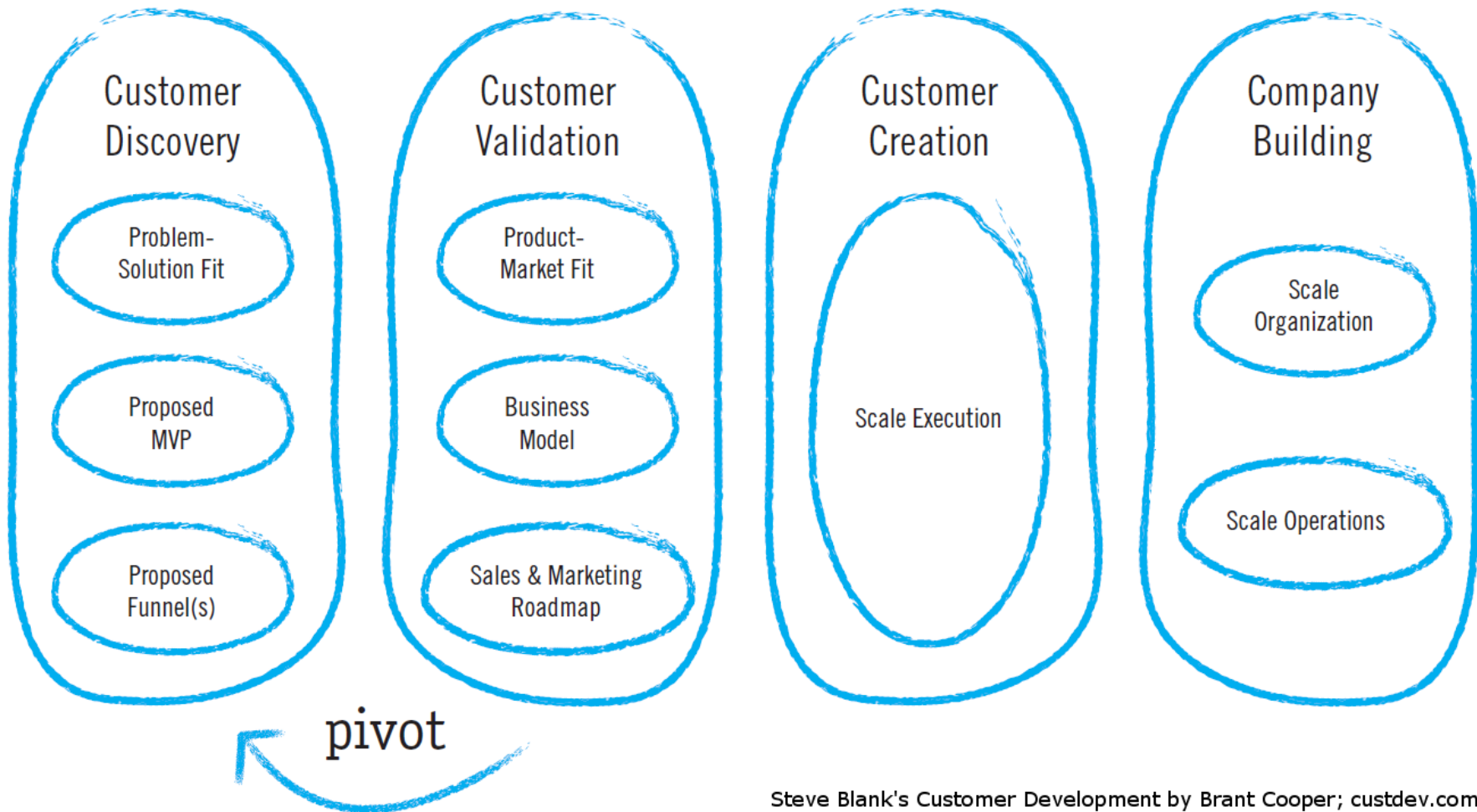


Minimize TOTAL time through the loop



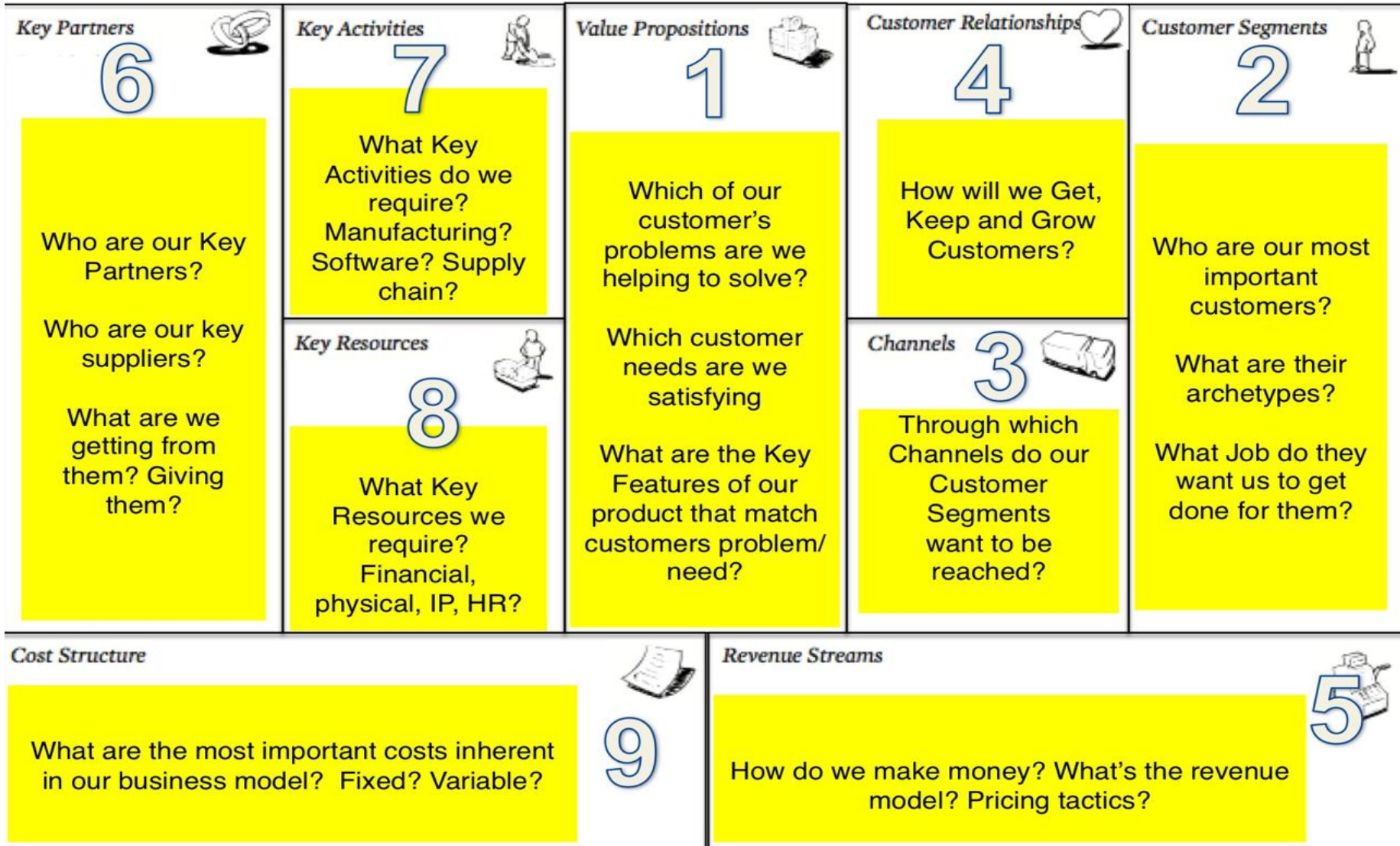


# Customer Development is *how you search* for the model



Steve Blank's Customer Development by Brant Cooper; custdev.com

# Back-up: Business Model Canvas



Innovation

# 4. CORPORATE ENTRRENEURSHIP

# From grassroots to mainstream?

<https://archive.harvardbusiness.org/cla/web/pl/product.seam?c=25903&i=25905&cs=f85785d3580feb87e2bce1535af10c2f>

## Harvard Business Review



REPRINT

### SPOTLIGHT ON ENTREPRENEURSHIP

# Why the Lean Start-Up Changed Everything

by Steve Blank

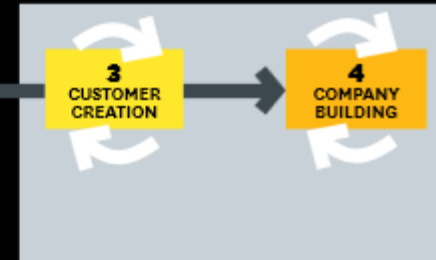
## Listen to Customers

During customer development, a start-up searches for a business model that works. If customer feedback reveals that its business hypotheses are wrong, it either revises them or “pivots” to new hypotheses. Once a model is proven, the start-up starts executing, building a formal organization. Each stage of customer development is iterative: A start-up will probably fail several times before finding the right approach.

### SEARCH



### EXECUTION



- 1** Founders translate company ideas into business model hypotheses, test assumptions about customers’ needs, and then create a “minimum viable product” to try out their proposed solution on customers.
- 2** Start-up continues to test all other hypotheses and tries to validate customers’ interest through early orders or product usage. If there’s no interest, the start-up can “pivot” by changing one or more hypotheses.
- 3** The product is refined enough to sell. Using its proven hypotheses, the start-up builds rapidly ramping up marketing and sales spending, and scales up the business.
- 4** Business transitions from start-up mode, with a customer development team searching for answers, to functional departments executing its model.

# The Business Modell as the new holy grale

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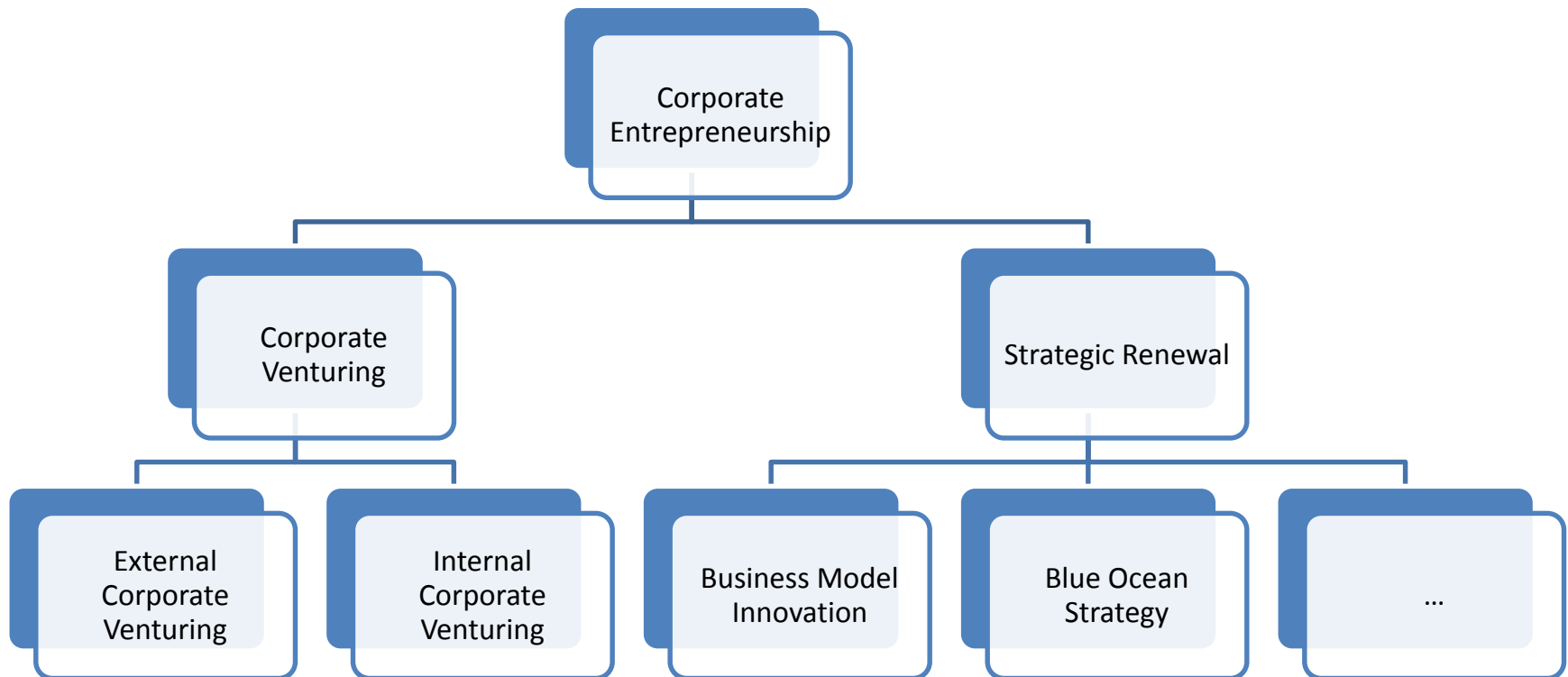
# Definition: Corporate entrepreneurship

“Corporate entrepreneurship encompasses two types of phenomena and the processes surrounding them:

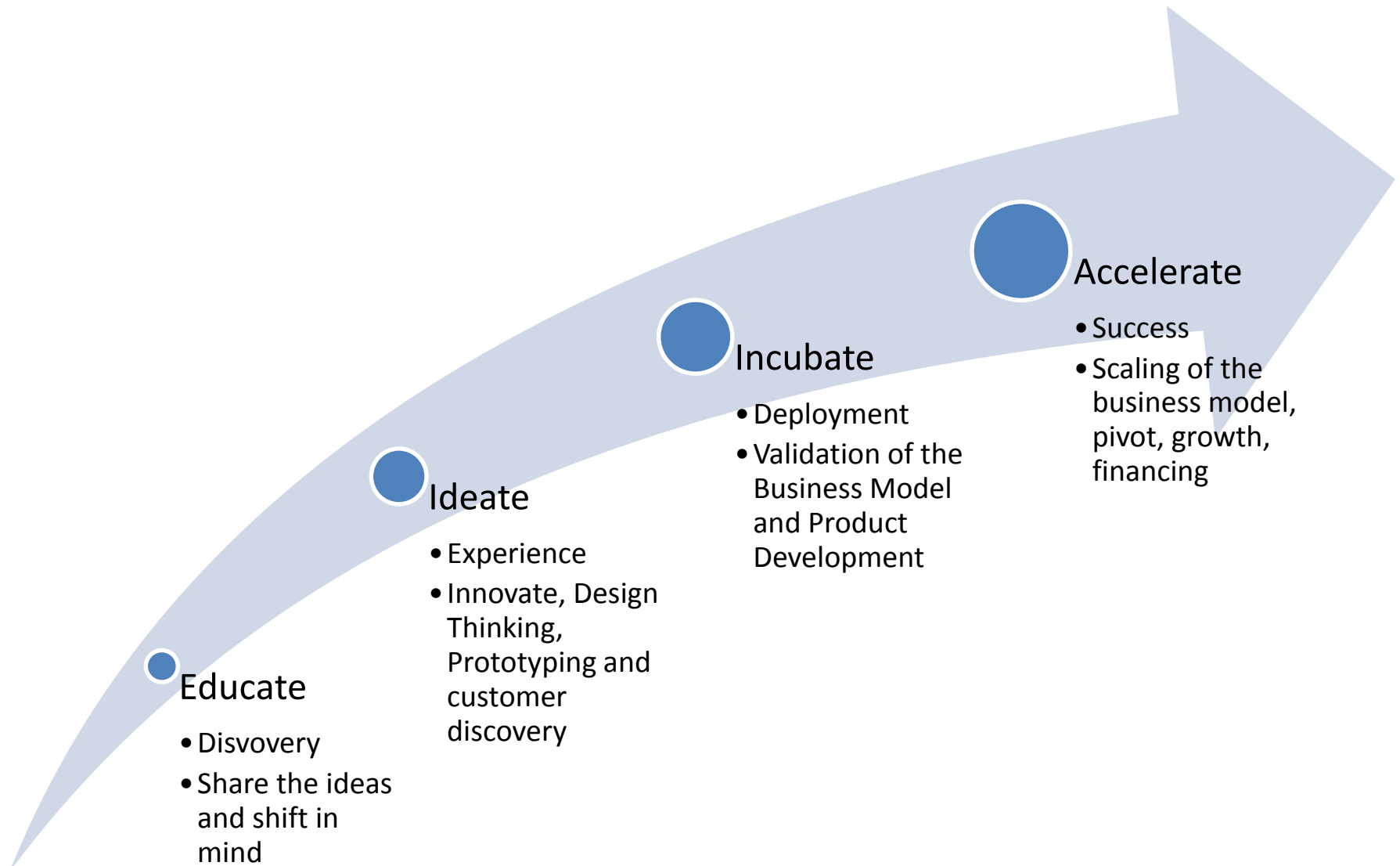
1. The birth of new businesses within existing organizations, i.e. internal innovation or venturing, and
2. the transformation of organizations through renewal of the key ideas on which they are built, i.e. strategic renewal.”

(Source: Guth and Ginsberg, Corporate Entrepreneurship 1990, p. 5).

# Overview



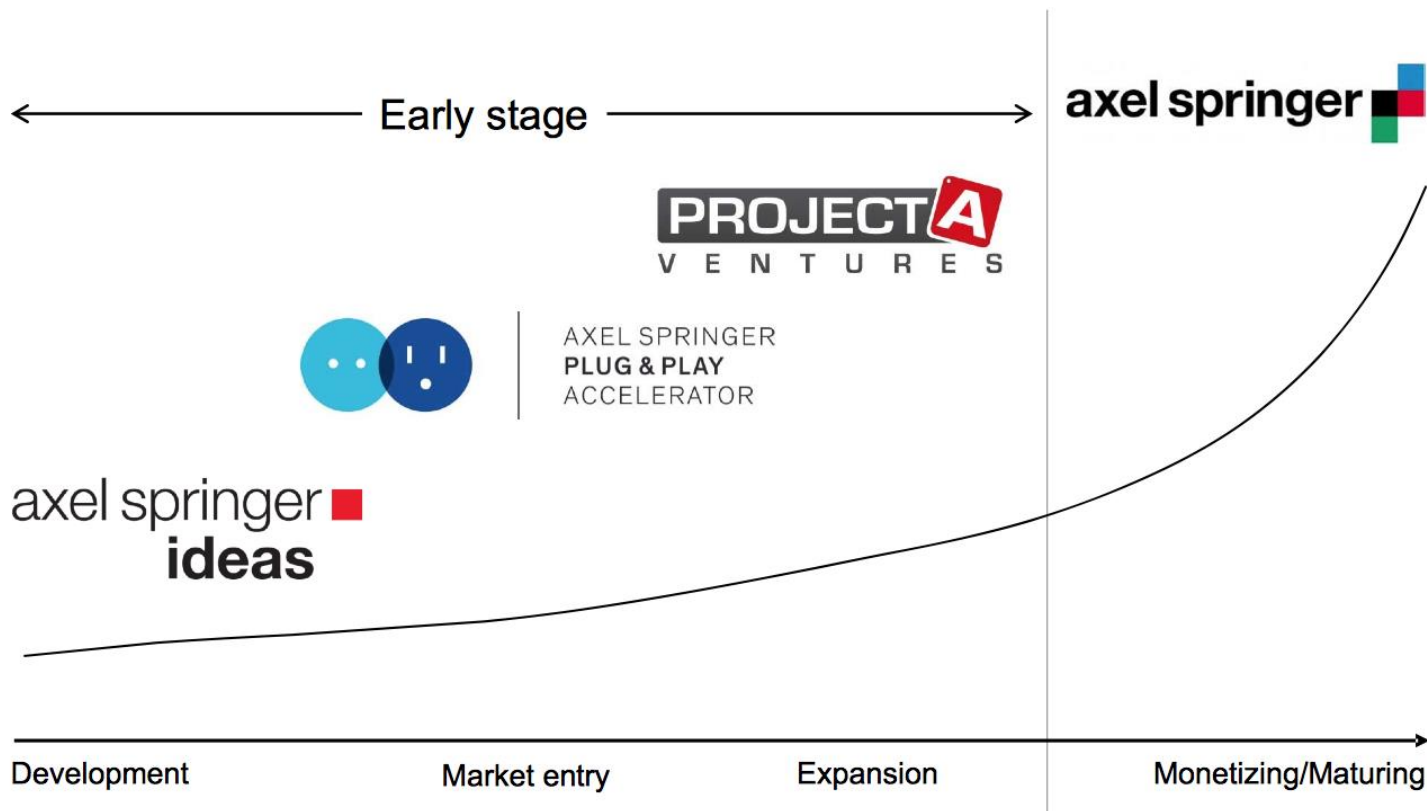
# (Corporate) Entrepreneurship as a process





# Case Study: Digital growth by Axel Springer

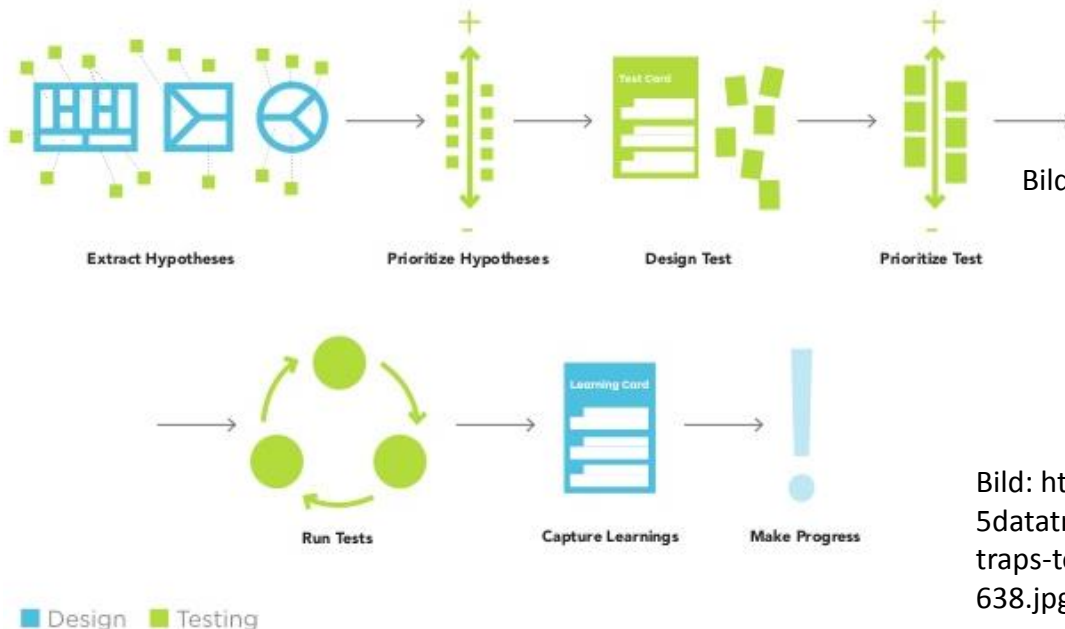
## Participation in Project A bridges the gap between early stage and later stage investments



# Just out: Value Proposition Design (Autoren von Business Model Generation)

- Based on the “Job-to-be-Done”-Approach
- Goal: to achieve Product-Market-Fit

## Overview of the Testing Process



How to create products and services customers want. Get started with...

## Value Proposition Design

strategyzer.com/vpd

Written by  
Alex Osterwalder  
Yves Pigneur  
Greg Bernarda  
Alan Smith

Designed by  
Trish Papadakos

WILEY



Bild: [https://strategyzer.com/assets/vpd/vpc\\_book\\_longshadow.png](https://strategyzer.com/assets/vpd/vpc_book_longshadow.png)

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# Value Proposition Design Progress Board

## The Progress Board

Use the progress board to manage and monitor your tests and assess how much progress you are making toward success.



Get Progress board poster

STRATEGYZER.COM / VPD / TEST / 3.4



What did I test already?

Use the Value Proposition and Business Model Canvases to track which elements you have tested, validated, or invalidated.



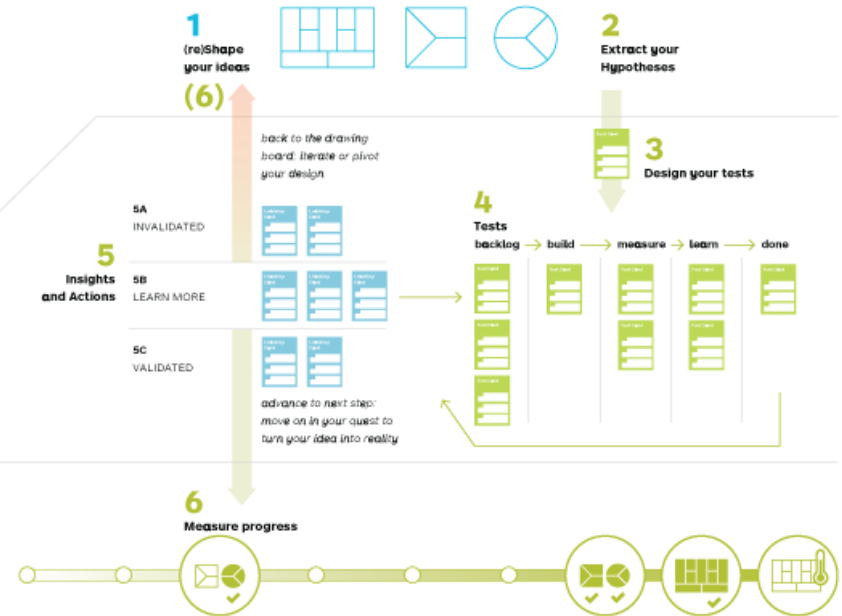
What am I testing, and what did I learn?

Track the tests you are planning, building, measuring, and digesting to learn and make your insights and follow-up actions explicit.



How much progress did I make?

Keep score of how much progress you are making.



STRATEGYZER.COM / VPD / TEST / 3.4

Quelle: [https://steveblank.files.wordpress.com/2014/10/5\\_value\\_proposition\\_design\\_progress\\_board.png](https://steveblank.files.wordpress.com/2014/10/5_value_proposition_design_progress_board.png)

# Conclusion and hypothesis

- The lean startup approach provides a framework when it comes to the development of innovative business models
  - While the tools are not completely new, the approach sets a fairly comprehensive framework for the application
  - The data-driven approach is suggesting that there is an advantage in this context for using the lean startup methodologies
  - The approach is not only applicable for new ventures, but also in general for developing new business models which is an increasing priority for established businesses
- The tools and methodologies are likely to stick as the once-in-a-decade management concepts like the balanced scorecard
- Time will tell which term will be used for it, but for us it is a big opportunity for the entrepreneurship discipline to leave a mark on business administration.

# Origins and key contributors

- Steve Blank
  - Four steps to epicany
  - The Startup owner' manual (with Bob Dorf)
- Eric Riess
  - Term used in a blog post in 2008
  - Actual book published in 2011 (German 2012)
- Alexander Osterwalder and Yves Pigneur
  - Business Model Generation
  - The Business Model Canvas as a new management tool
- A number of other works with similar concepts (e.g. „Great by choice“, „The \$100 Startup“ and also to mention „Kopf schlägt Kapital“ as well as „Geschäftsmodelle entwickeln: 55 innovative Konzepte mit dem St. Galler Business Model Navigator“)

# Related concepts

- Design thinking and entrepreneurial design
- Effectuation
- Ideas from Lean Manufacturing and Lean Management
- Agile Development Practices from IT
- Blue Ocean Strategy
- ...

# Acknowledgements

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