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The Startup Business Model



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**DEMOS
HELSINKI** ✓

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A startup has three options

1. Go bankrupt
2. Be acquired
3. Establish a **business model**

A small minority of startups have the luxury of being able to choose between alternative *exits*.

Business model is an answer to
two fundamental questions.

How does the company
create value?

How does the company
capture value?



Benedict Evans

@BenedictEvans



Following

It's vastly easier to make a product (or what looks like one) than it's ever been before. Doesn't follow it's also easier to make a business



RETWEETS

110

FAVORITES

92



6:36 PM - 4 May 2014

Having a **product is critical**, but it does not mean having a business

1. The nature of software
2. App Store distribution
3. Complex industrial structures
4. Venture funding
5. External R&D for big companies

The nature of software makes product development easy

1. Development tools contain complexity
2. High quality components available for free
3. No time to manufacture
4. Capital costs are scalable
5. Distribution is easy

App Store distribution

(Google Play even worse)



Free



£0.79

Increasingly **complex industrial structures** mean that the value and its capture takes often place at different levels and places.

Example – Google

Value is created by providing anything (word processors, search engines, mobile phones, etc.) for free.

Value is captured by Google charging for advertising in those free things.

Example – Apple

Value is created by providing an ecosystem of devices, services and applications that create a seamless user experience.

Value is captured by Apple charging for expensive hardware that grants access to the ecosystem.



iPod innovation

Hard drive with earplugs (gadget)

Physical distribution (Apple stores)

Digital distribution (iTunes service)

Content (contracts and DRM)

Design and user experience

An industry **fuelled by venture funding** turns easily into a race to grow and capture market share unprofitably.

Tech startups can be seen as **a form of externalized research and development** activity for big companies.

Potential buyers are looking for new products that fit *their* business models.

The rise of the
Startup Business Model

In the Startup Business Model,
value is created by developing a
product–market fit and a **story**
about great business model.

The value is captured by **selling the startup** to a big company (instead of selling to your own customers).

The real business is to sell the company not its products!

The model can creep in inconspicuously:

1. Entrepreneurship is nerve-racking
2. May look like a low risk approach
3. Great if you want to work for a big company...

But the Startup Business Model is
NOT a way to build major
success stories.

It can be a trap:

1. Destroys team focus
2. Signals a lack of ambition (or even desperation)
3. Working for a big company may not be that fun...

Product \neq BUSINESS

A business needs a business model

But a model does not make a business

Focus on the product but don't avoid working
and trying out business models