

Building Breakthrough Business Models

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Let's Face an Uncomfortable Fact: Most New Ventures Fail

- Why...
- Most new businesses fail because the business model doesn't work!
 - Too little cash coming in...
 - Too much cash going out.

Let's Take a Look at How Today's Start-up Process Works



My Assertion: Today's Start-up Process, Like Ali G's Pitch, Is Seriously Flawed

- Driven by business plans based on naïve and unfounded assumptions
- All in support of a “Plan A” that rarely works
- And it's not the entrepreneur's fault...

Plan A or Plan B?

“I’ve made more money on Plan B than I ever made by sticking to Plan A!”

Why, Then, All the Blood, Sweat and Tears?

- Pages of prose
- Reams of spreadsheet data
- And the hockey-stick projections
- All in support of the perfect Plan A
(that probably won't work!)

A Question for You...

“Why will or won’t Ali G’s plan for an ice cream glove work?”

So, is there a solution to the flawed start-up process?

- A rigorous solution, perhaps, for getting from your Plan A that probably won't work
- To a better Plan B, a better business model, based on
 - *Real* data
 - For a *real* product or service
 - From *real* customers

The Conventional Business Modeling Approach

- Turn on Excel
- Make silly “assumptions” (SWAGs) lacking in real evidence
- Tweak the cells to create a “hockey stick” pro forma
- Voila, you’ll soon be rich!

So, how can you develop a business model that really stacks up?

- Turn off Excel and consider the five building blocks of every business model
 - What's your revenue model?
 - Your gross margin model?
 - Your operating model?
 - Your working capital model?
 - And your investment model.

A Process to Get You There



The Key Steps in Apple's Journey

- Analogs
- Antilogs
- Leaps of faith
- Hypotheses to rigorously test the most crucial leaps of faith

Steve Jobs on Analog and Antilog

“Picasso had a saying: he said good artists copy, great artists steal... and we have always been shameless about stealing great ideas.”

The First Building Block: Your Revenue Model

- Plan A → Plan B for two guys who wanted to enter the fishing industry...

Another Building Block: Your Gross Margin Model

- A Plan A that is working so far



The Third Building Block: Your Operating Model

The Ryanair logo, featuring the word "RYANAIR" in a bold, white, sans-serif font, centered within a dark blue rectangular background.

An Overlooked Building Block: Your Working Capital Model



Lest We Forget: Your Investment Model

- Two vastly different business models for VoIP telecom technology



What Do Most of these Examples Have in Common?

- All (except Zynga and Costco) built their eventual success not on Plan A, but on Plan B
- For each of them, their breakthrough was a business model whose strength was anchored in just *one* of the five business model elements

On Which Elements Did Each Break Through?

- Apple's and Princess' revenue models
- Zynga's gross margin model
- Ryanair's operating model
- Costco's working capital model
- Skype's investment model
- On which element can *you* break through to a better business model?

Putting Process and Framework Together: The Business Model Grid

Business Model Element	Analogs	Antilogs	Leaps of Faith	Hypotheses
Revenue Model				
Gross Margin Model				
Operating Model				
Working Capital Model				
Investment Model				

Can this Work for You? The Proof of the Pudding



What Do They Have in Common?

- None stuck to their original business model
- All became household names by abandoning Plan A and getting to Plan B

Lots More Examples, in Start-ups and More

- China's Shanda: Revenue model
- Japan's Toyota: Gross margin model
- India's Oberoi Hotels: Operating model
- USA's Dow Jones: Working capital model
- Spain's Zara: Multi-dimensional model
- And many more, in visionary companies of all sizes and kinds

A Closing Thought on Why Business Plans Don't Deliver

- Most of the time, Plan A doesn't work.
Why?
- There's simply too much that you simply don't know
 - Some things you *know* you don't know
 - Others you *don't know* you don't know

A Tell-Tale Phrase in Too Many Business Plans

“We believe that...”

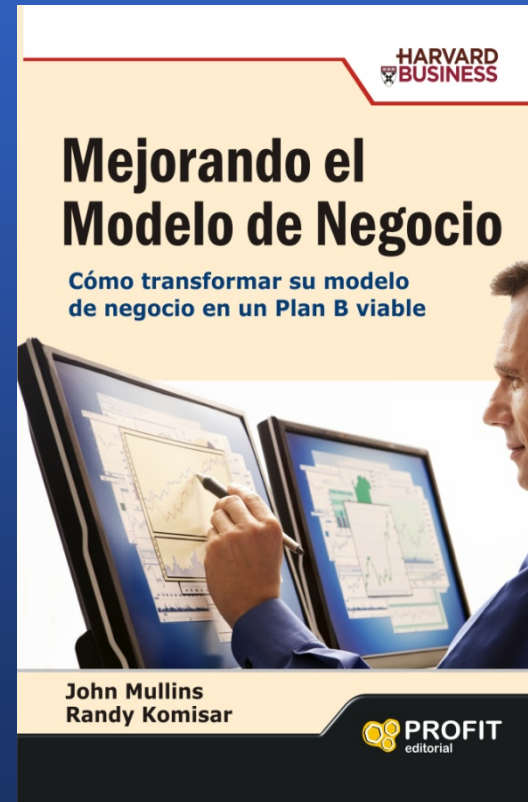
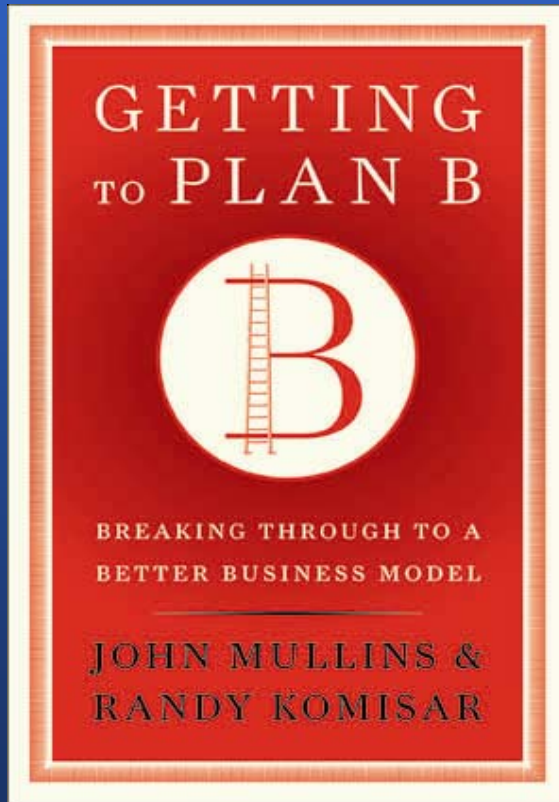
There Is a Solution...

- Stop working on your business *plan* for Plan A
- And get on with your *business*, your journey to a more vibrant Plan B
 - Find some analogs and antilogs
 - Identify your most crucial leaps of faith and some hypotheses to examine them
 - Build a dashboard to guide your journey
 - Get out there and learn

But Don't Take it Just from Me

Number 1 Book:
“Best Books for
Business Owners”, 2009
Inc. Magazine

For the Rest of the Story, in Bookstores Now...



Questions?

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www.getting-to-plan-b.com

Financing the Entrepreneurial Business Programme

- The practical skills to secure or provide investment for fast-growth businesses, social and otherwise
 - Programme details
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 - Contact: David Ratcliffe
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