

Business Model Patterns

Based on book Business Model Generation by
A. Osterwalder & Y. Pigneur



Business Model Pattern

By A. Osterwalder & Y. Pigneur

- ▶ “Pattern in architecture is the idea of capturing architectural design ideas as archetypal and reusable descriptions.”

Christopher Alexander, Architect

- ▶ Business Models with similar characteristics, similar arrangements of business model Building Blocks, or similar behaviors can be distilled into the form of Business Model Pattern.

The Long Tail (1)

coined by Chris Anderson

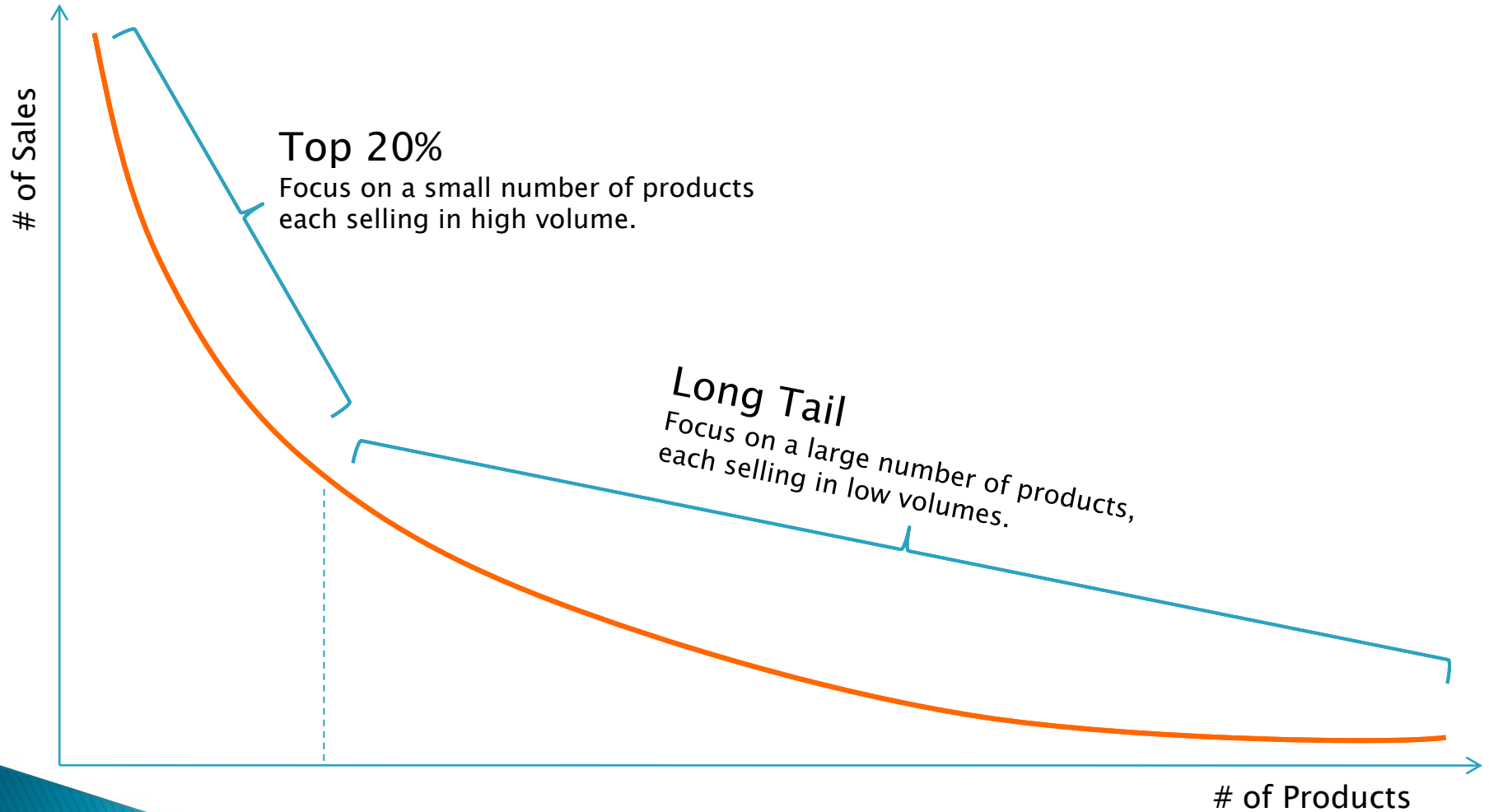
Long Tail Business Models are about **selling less of more**

- focus on offering a large number of niche products, each of which sells relatively infrequently
- aggregate sales of niche items can be as lucrative as the traditional model whereby a small number of bestsellers account for most revenues

Long Tail business models require **low inventory costs** and **strong platform** to make niche content readily available to interested buyers.

The Long Tail (2)

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The Long Tail Enablers

according to Chris Anderson

Democratization of tools of production

- falling technology costs gave individuals access to tools that were prohibitively expensive just few years ago
- amateurs can record movies, produce short films, design simple software

Democratization of distribution

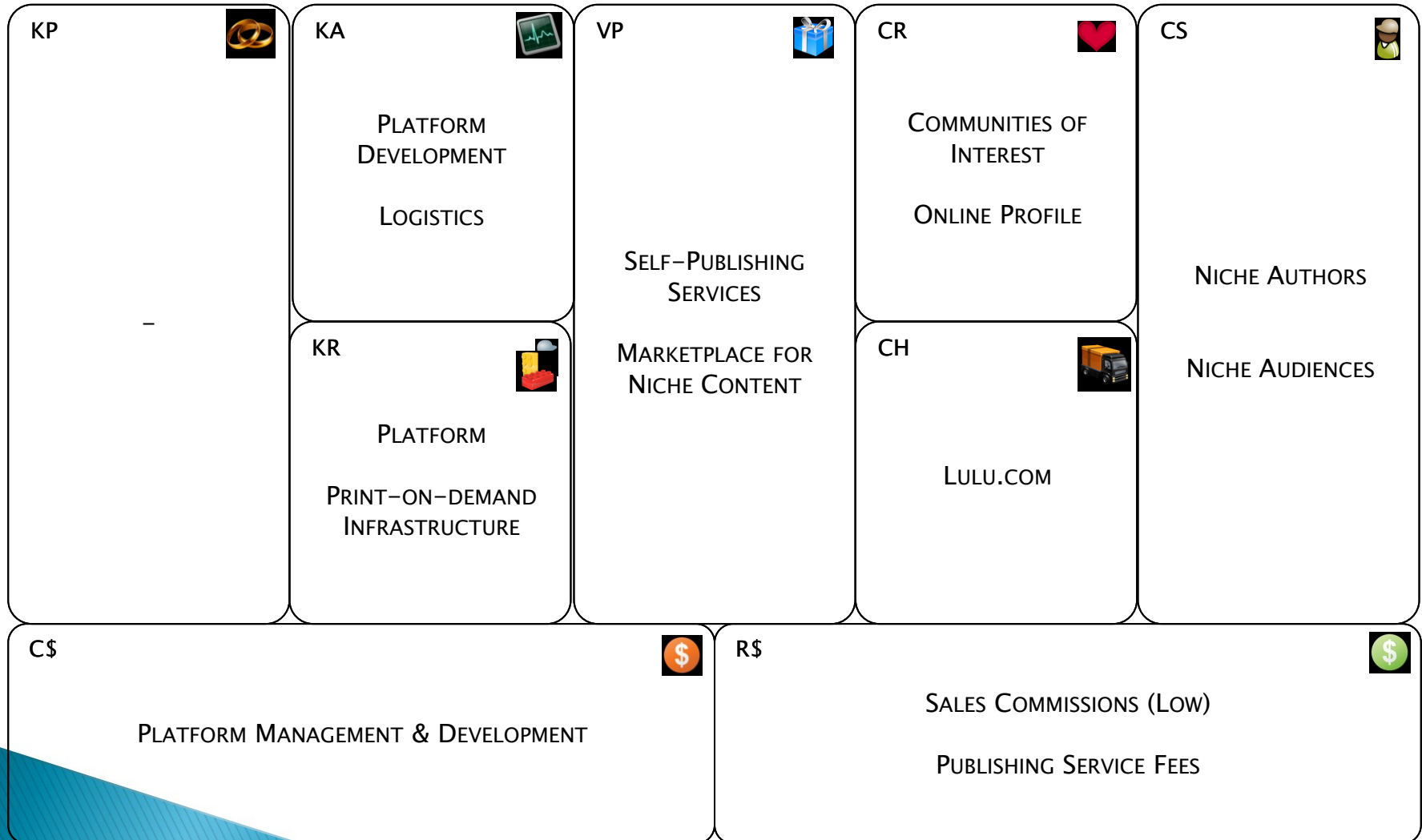
- Internet dramatically lowered inventory, communications, and transaction costs, opening up new markets for niche digital products.

Falling search costs to connect supply with demand

The Long Tail Example

Lulu.com

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Multi-Sided Platforms

By A. Osterwalder & Y. Pigneur

Multi-Sided Platforms (MSPs) bring together two or more distinct but **interdependent groups of customers.**

- MSPs are of value to one group of customers **only** if the other groups of customers are also present
- MSP creates value by **facilitating interactions** between the different groups
- A MSP grows in value to the extent that it attracts more users, a phenomenon known as the network effect.

Known for long time, but proliferated with the rise of **information technology.**

Multi-Sided Platforms Examples

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Segments linkage examples

- Credit cards providers link
 - merchants with cardholders
- Computer OS producers link
 - HW manufacturers, application developers, and users
- Newspapers link
 - readers with advertisers
- Video gaming consoles producers link
 - game developers with players

The key is that the platform must attract and serve all groups **simultaneously** in order to create value.

MSPs often face a “chicken and egg” dilemma.

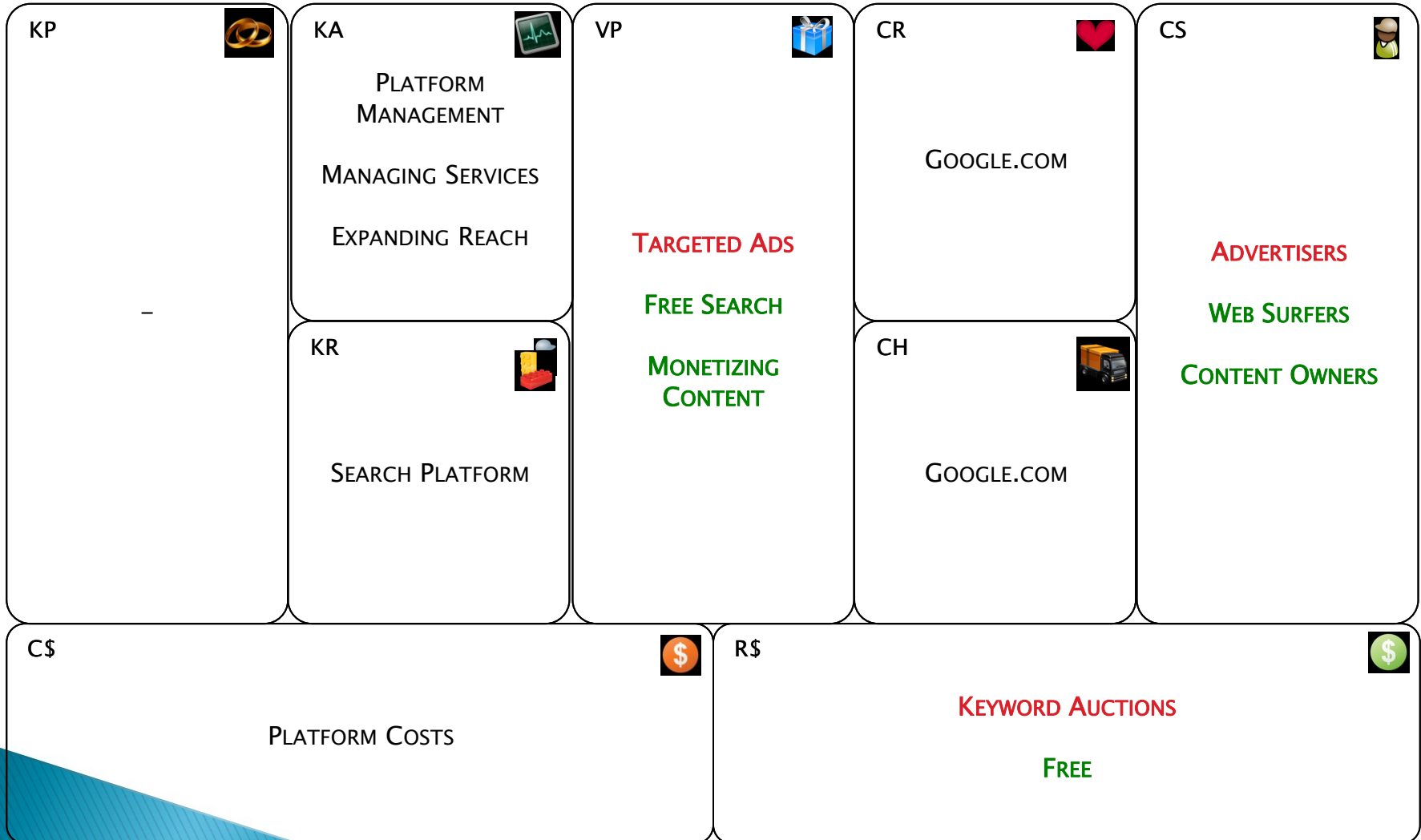
MSPs: Chicken and Egg Dilemma Solution

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- ▶ Subsidizing one of the Customer Segment
 - by inexpensive or free VP to attract users of the platform's other side
- ▶ Examples
 - Metro newspapers
 - Microsoft
- ▶ Question to be answered:
 - which side to subsidize and how to price correctly?
 - can we attract sufficient numbers of customers for each side of the platform?
 - which side is more price sensitive?
 - can that side be enticed by a subsidized offer?
 - will the other side of the platform generate sufficient revenues to cover the subsidies?

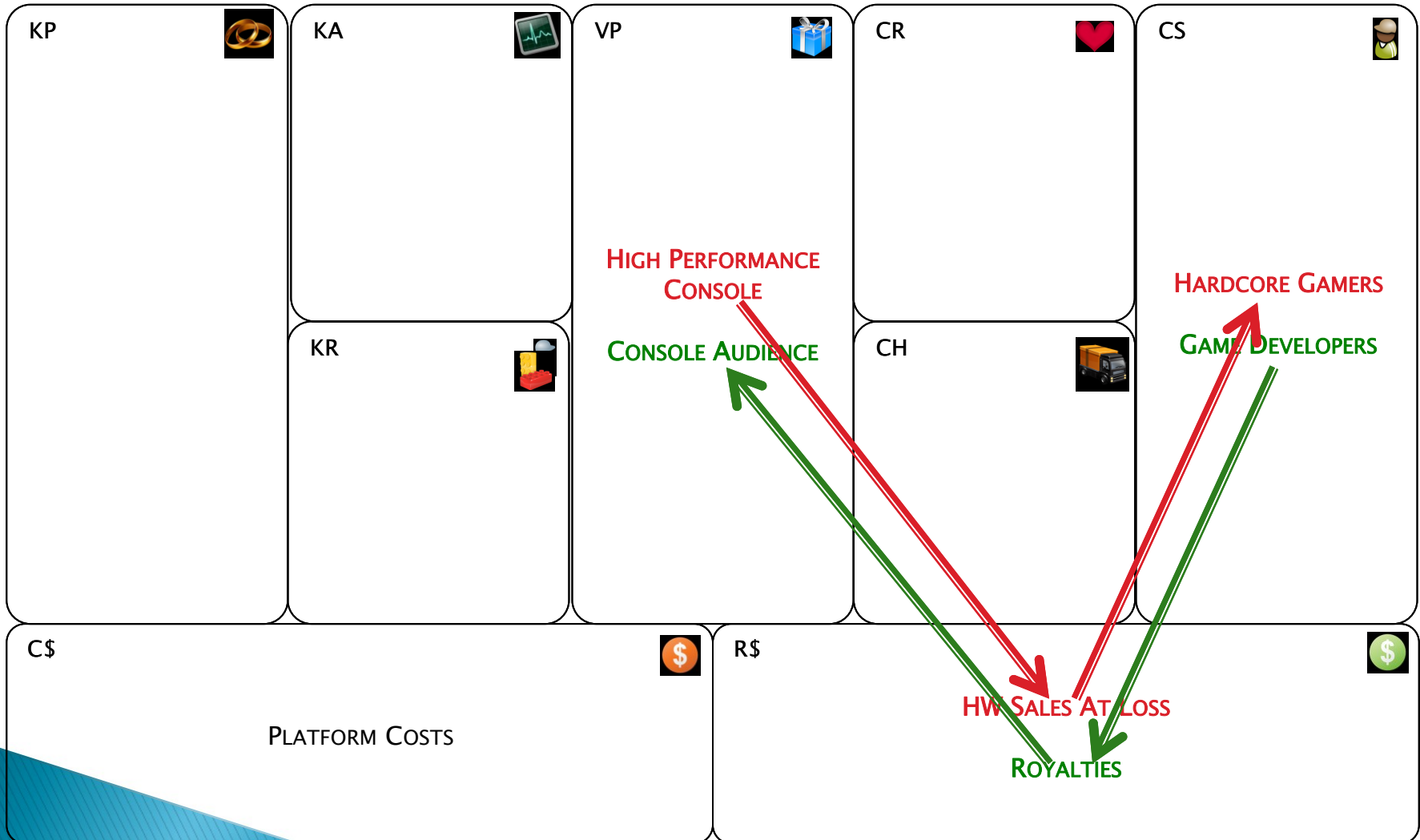
MSP Example Google.com

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MSP Example PSP/Xbox

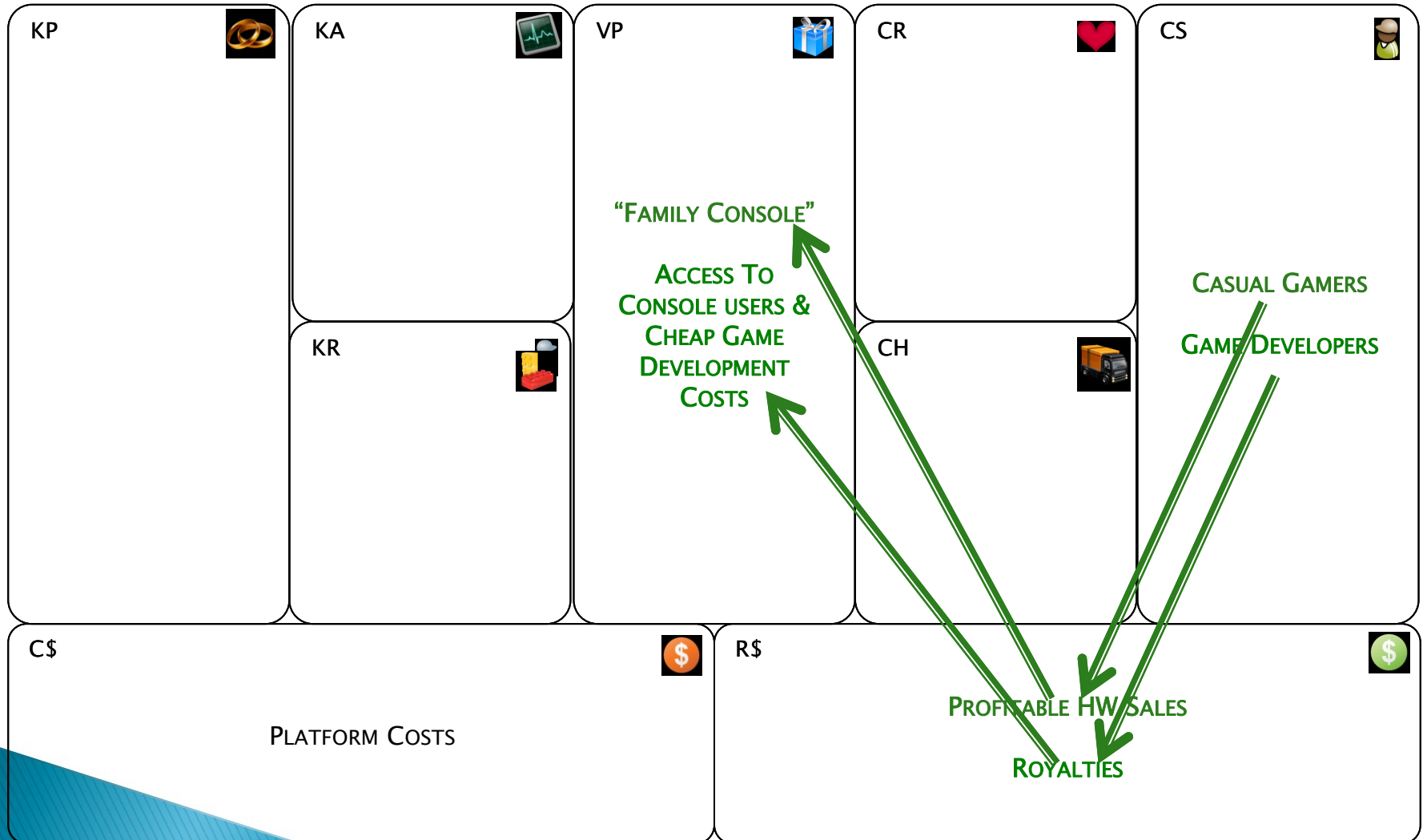
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MSP Example

Wii's Double impact

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FREE as Business Model

By A. Osterwalder & Y. Pigneur

In the Free Business Model at least one substantial CS is able to continuously benefit from a free-of-charge offer

Non-paying customers are financed by another part of the business model or by another CS

However, to make profit, an organization offering free products or services must still generate revenues somehow

The question is

- how can you systematically offer something for free and still earn substantial revenues?

Free Business Model Patterns

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Free based on MSP (e.g. Advertising)

- see previous slides

Freemium model

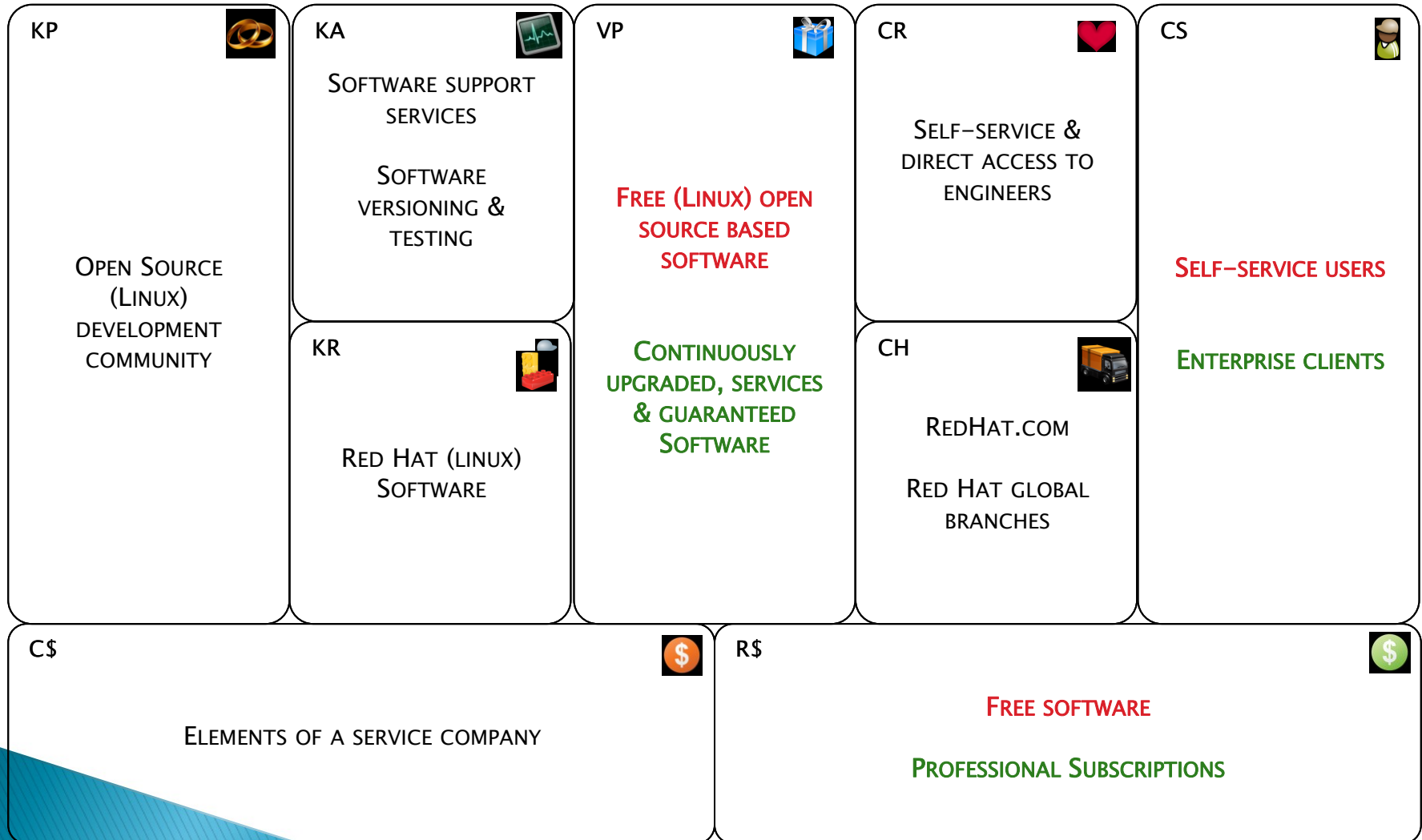
- provides basic services for free and premium services for a fee
- typical for web based services

Bait & Hook

- free or inexpensive initial offer lures customers into repeat purchases

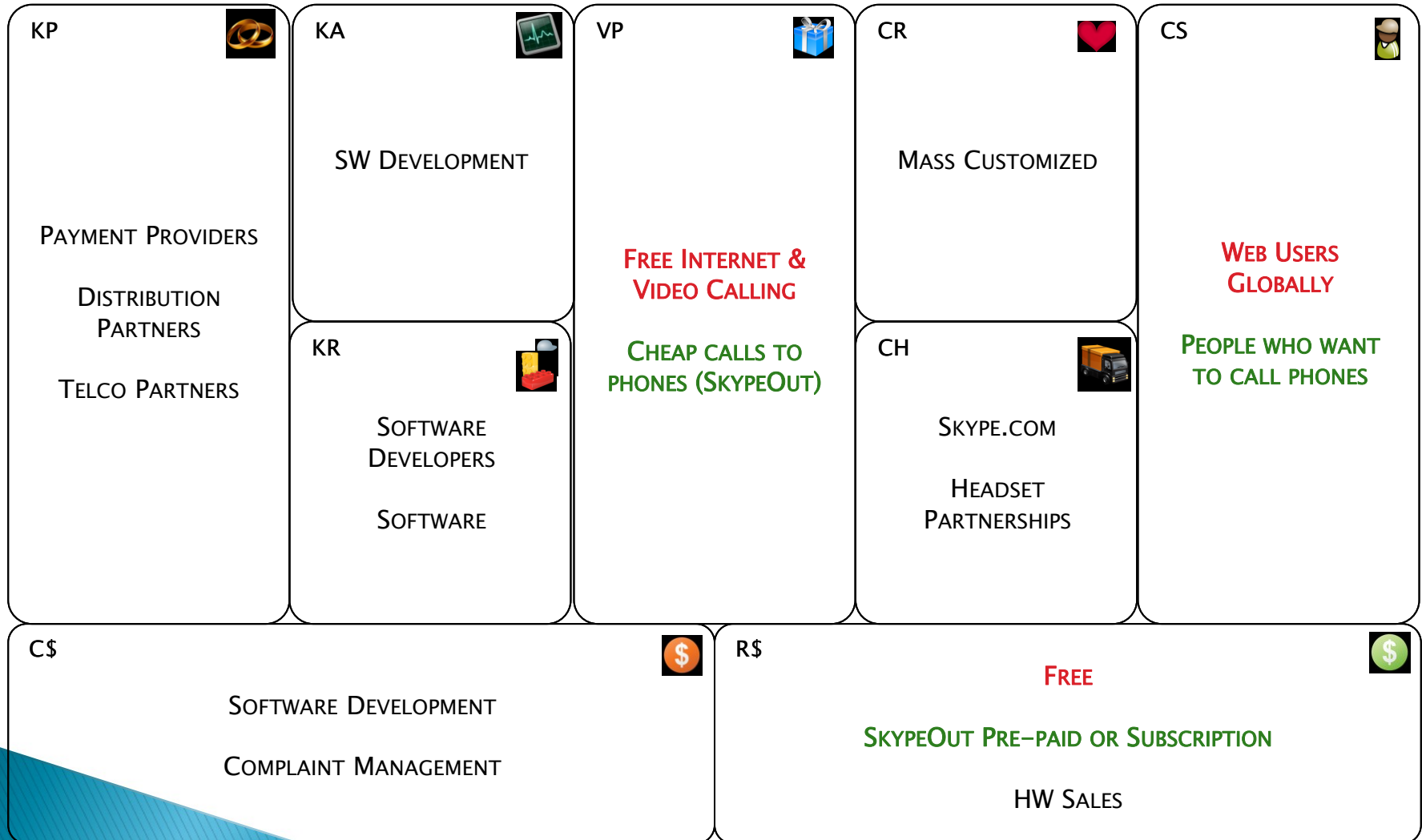
Freemium Example Open Source (Red Hat)

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Skype Free Services

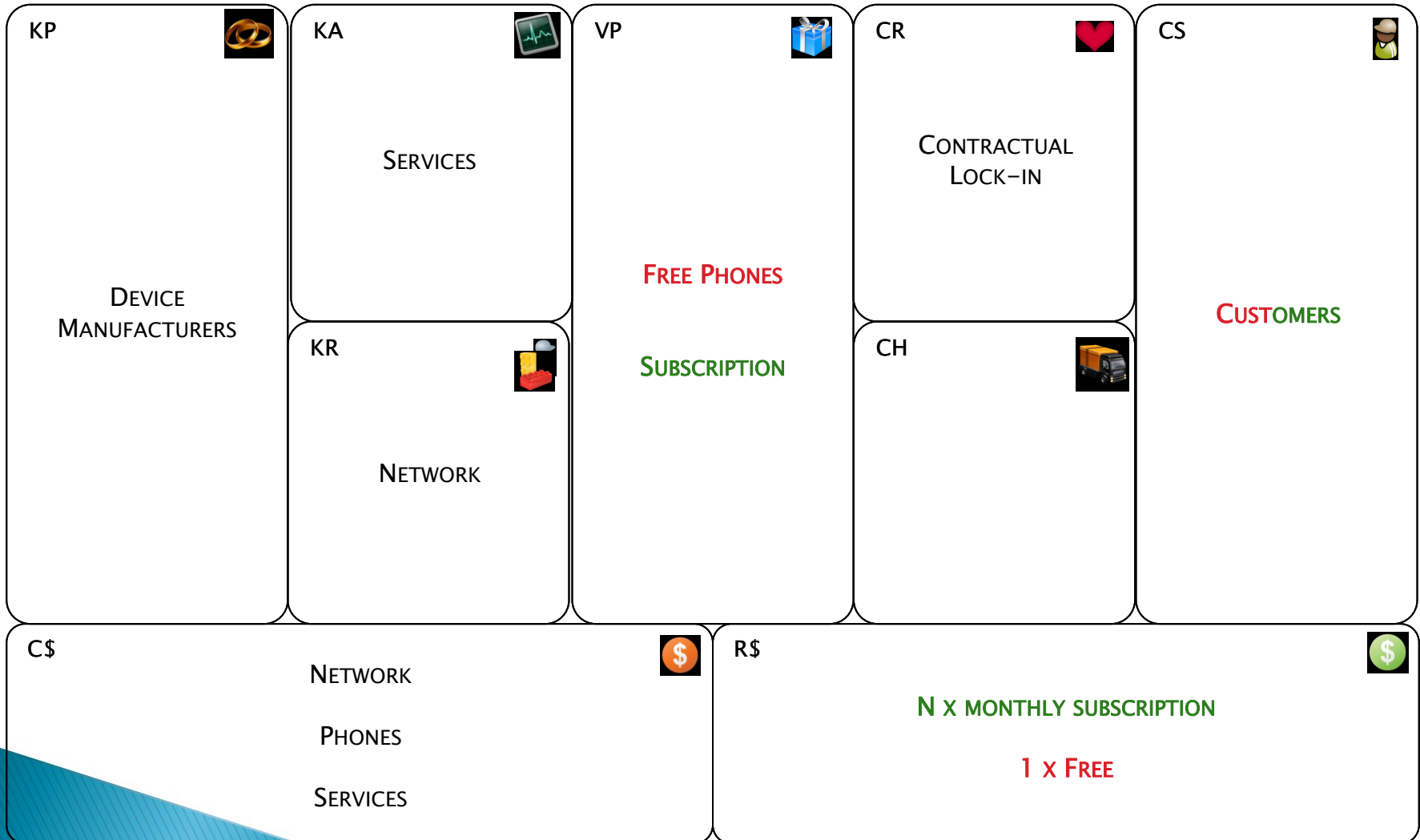
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Bait & Hook Examples

Free mobile phones

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Multiple Business Model

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How to implement innovative business models within long-established organizations?

They already have their business models

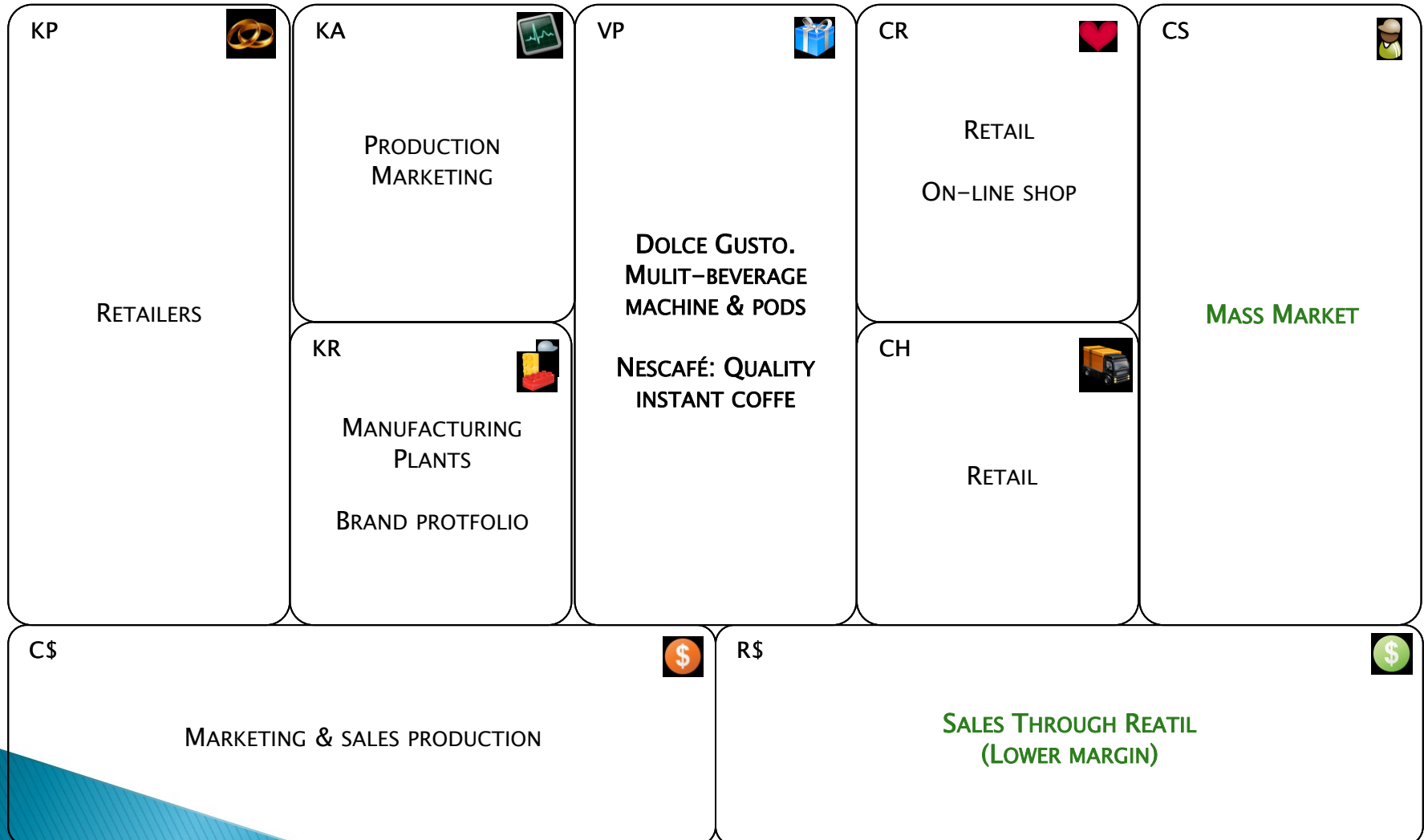
It is necessary to find synergy across business models

- Integration
- Autonomy
- Separation

The Nespresso Success Model

Nescafé

By A. Osterwalder &
Y. Pigneur



The Nespresso Success Model

Nespresso

