

DEVELOPING YOUR BUSINESS MODEL

Professor Todd Zenger

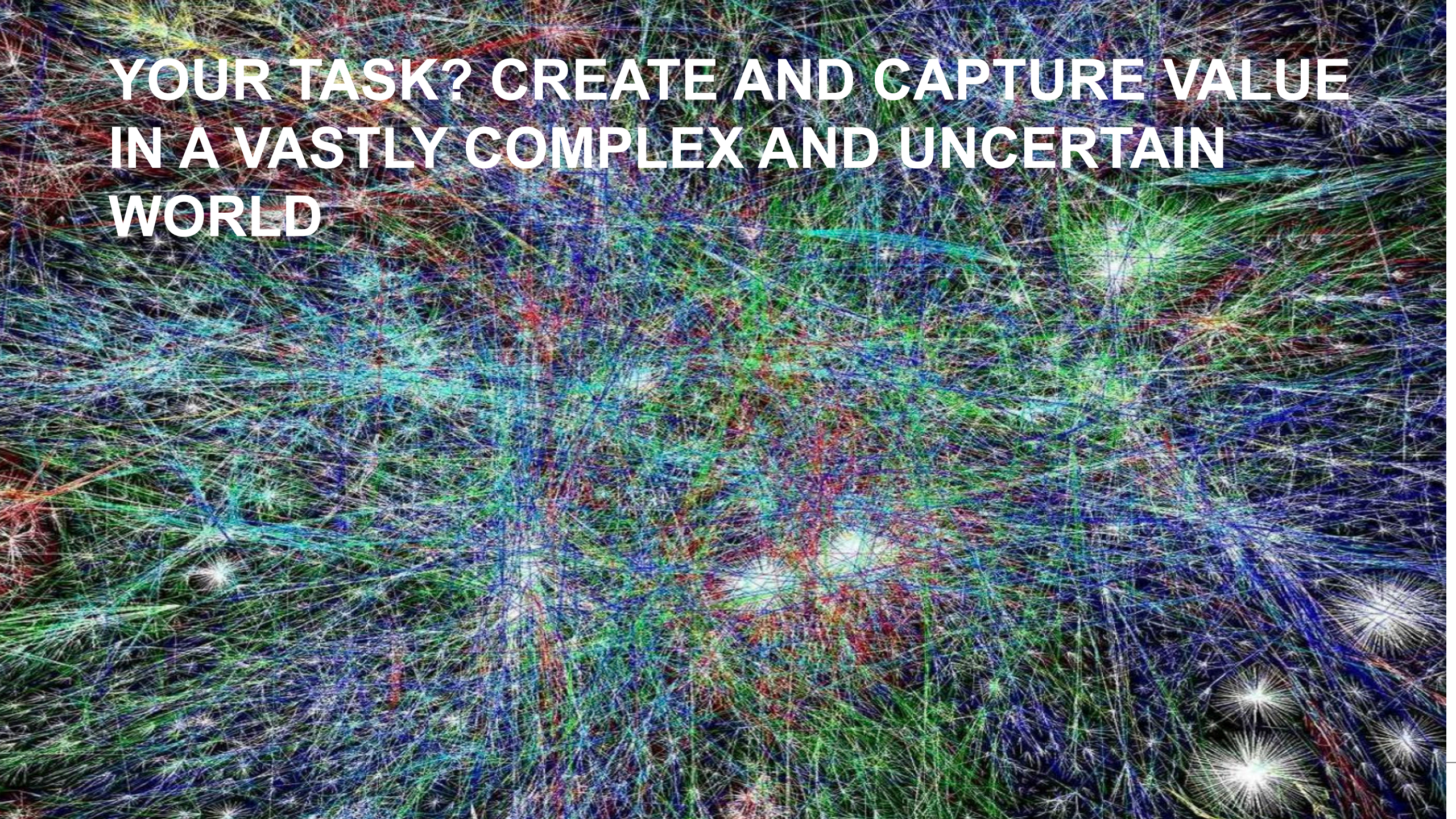
ABOUT ME


- Widely publish on topics of strategy and entrepreneurship
- 20 years as department/area chair in strategy & entrepreneurship here or at Washington University in St. Louis
- Edit the journal, *Strategy Science*
- Academic Director, MBC
- Academic Director, Goff Strategic Leadership Center
- Pushing an effort to rethink entrepreneurship and strategy as a quasi-scientific process of theory forming and theory testing

MY OBJECTIVE IN THIS LECTURE ...

- Shape how you think about yourself as an entrepreneur
- Introduce an alternate perspective from those currently taught on how to entrepreneur
 - Lean startup
 - Business model canvas
- Inspire you to first articulate a theory for your firm

**YOUR TASK? CREATE AND CAPTURE VALUE
IN A VASTLY COMPLEX AND UNCERTAIN
WORLD**



A man in a grey suit stands with his back to the camera, his hands clasped behind him. He is looking at a wall of numerous golden gears of various sizes. The gears are arranged in a way that creates a sense of depth and complexity. The lighting is warm, highlighting the metallic texture of the gears. The overall scene suggests a focus on engineering, problem-solving, and the intricate nature of a great problem.

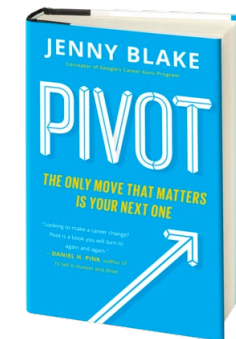
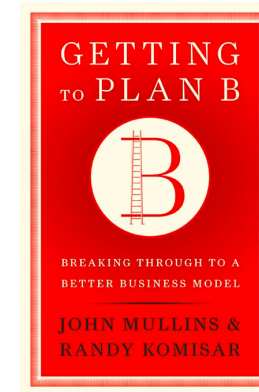
Formulate and Solve a Great Problem

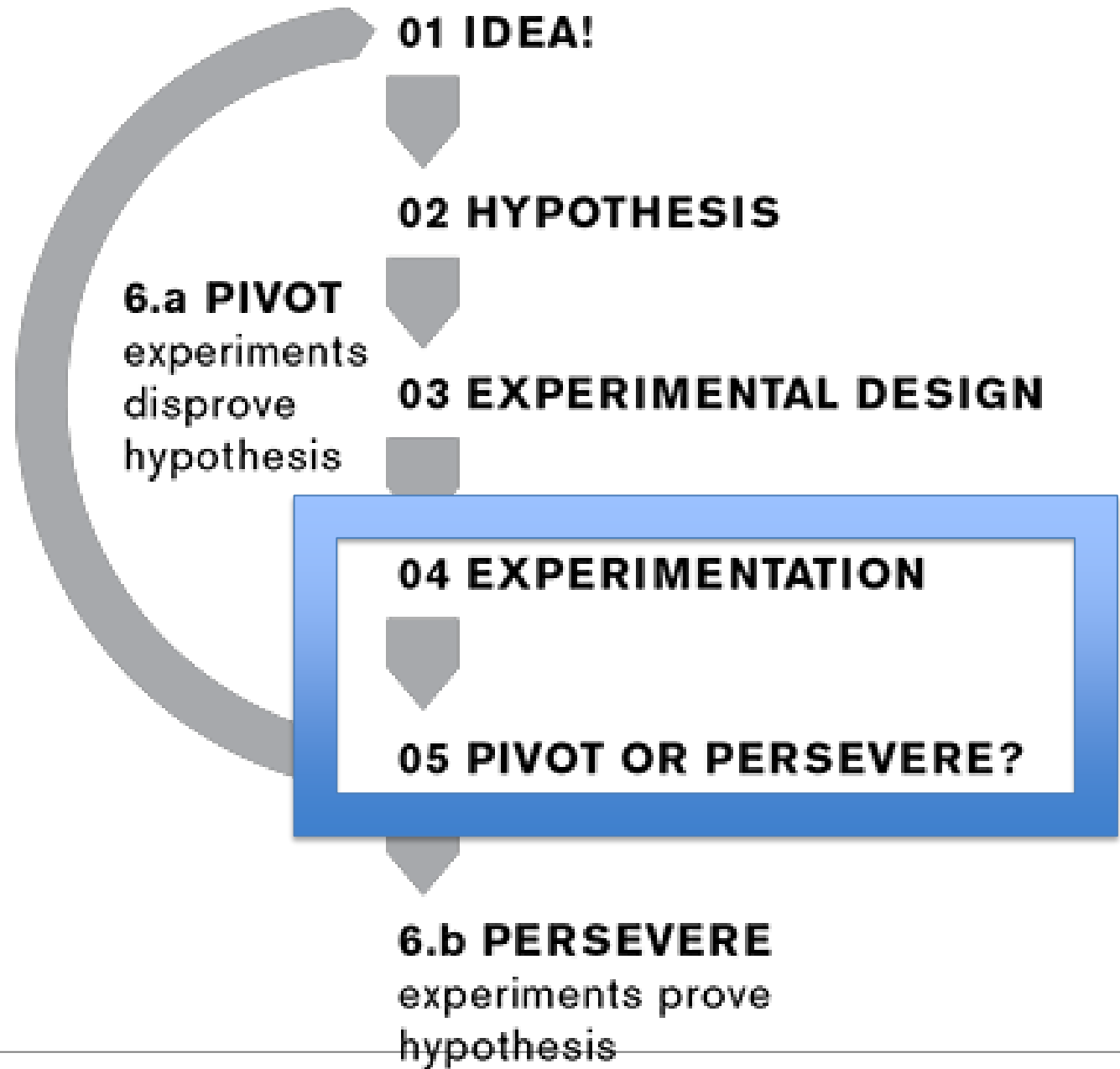
A deep field image of the universe, showing a vast field of galaxies in various colors (blue, yellow, red, white) and orientations (spiral, elliptical, irregular) against a black background. The galaxies are scattered across the frame, with some appearing as bright, multi-pointed stars and others as diffuse, glowing clouds. The overall scene is a rich, multi-colored tapestry of cosmic structures.

Most of space is empty

WHY WE NEED SOMETHING MORE THAN CURRENT TOOLS

LEAN STARTUP

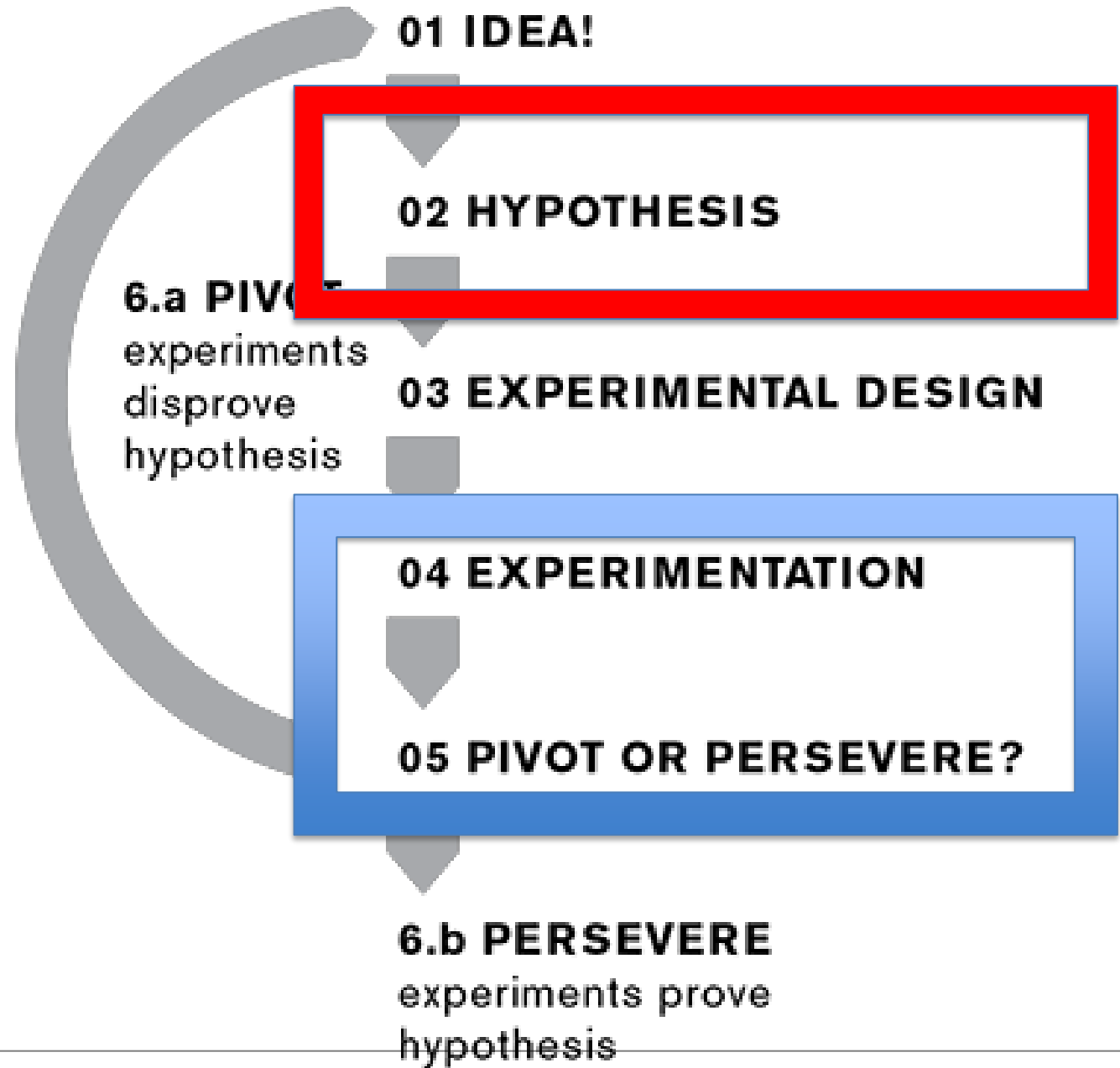




LEAN STARTUP

“The central hypothesis of the lean startup methodology is that if startup companies invest their time into iteratively building products or services to meet the needs of early customers, they can reduce the market risks and sidestep the need for large amounts of initial project funding and expensive product launches and failures.”

In other words, experiment and get customer feedback!



LEAN STARTUP

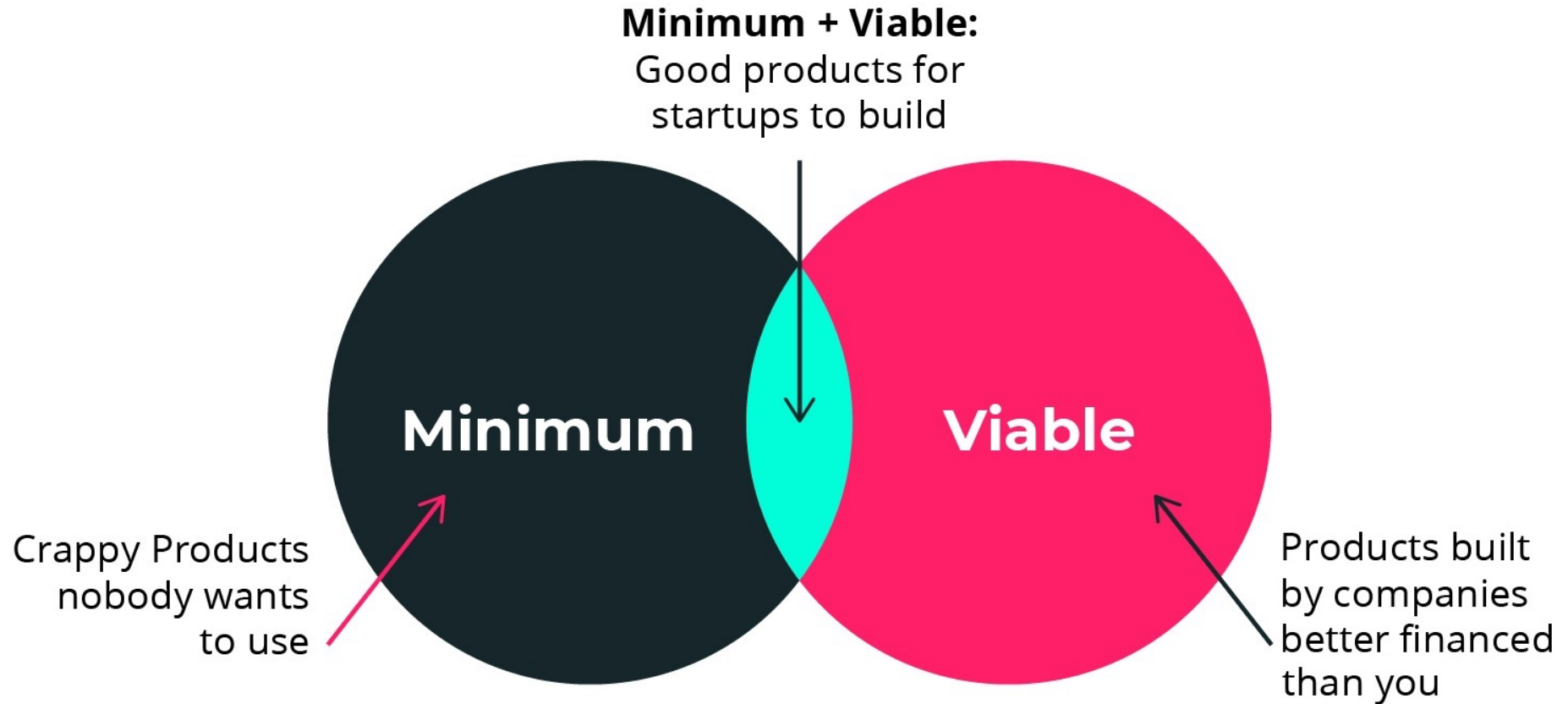
HYPOTHESIS = GUESS

“hypothesis is just a fancy word for *guess*” ([Blank and Dorf, 2012](#): 37)

This is NOT how scientists approach the process!

THE PROBLEM: SEARCHING WHERE FEEDBACK IS EASY

LEAN STARTUP



THE MVP

- Develop the simplest version of the product that you can think of (MVP)
- Listen to what the market tells you and gather feedback
- Make adjustments based on feedback or PIVOT
- Rinse and repeat



"I'm searching for my keys."



“It isn’t the customer’s job to know what they want.” – Steve Jobs

“if I’d asked customers what they wanted, they would have told me, ‘a faster horse’!” – Henry Ford

PROBLEMS WITH LEAN STARTUP

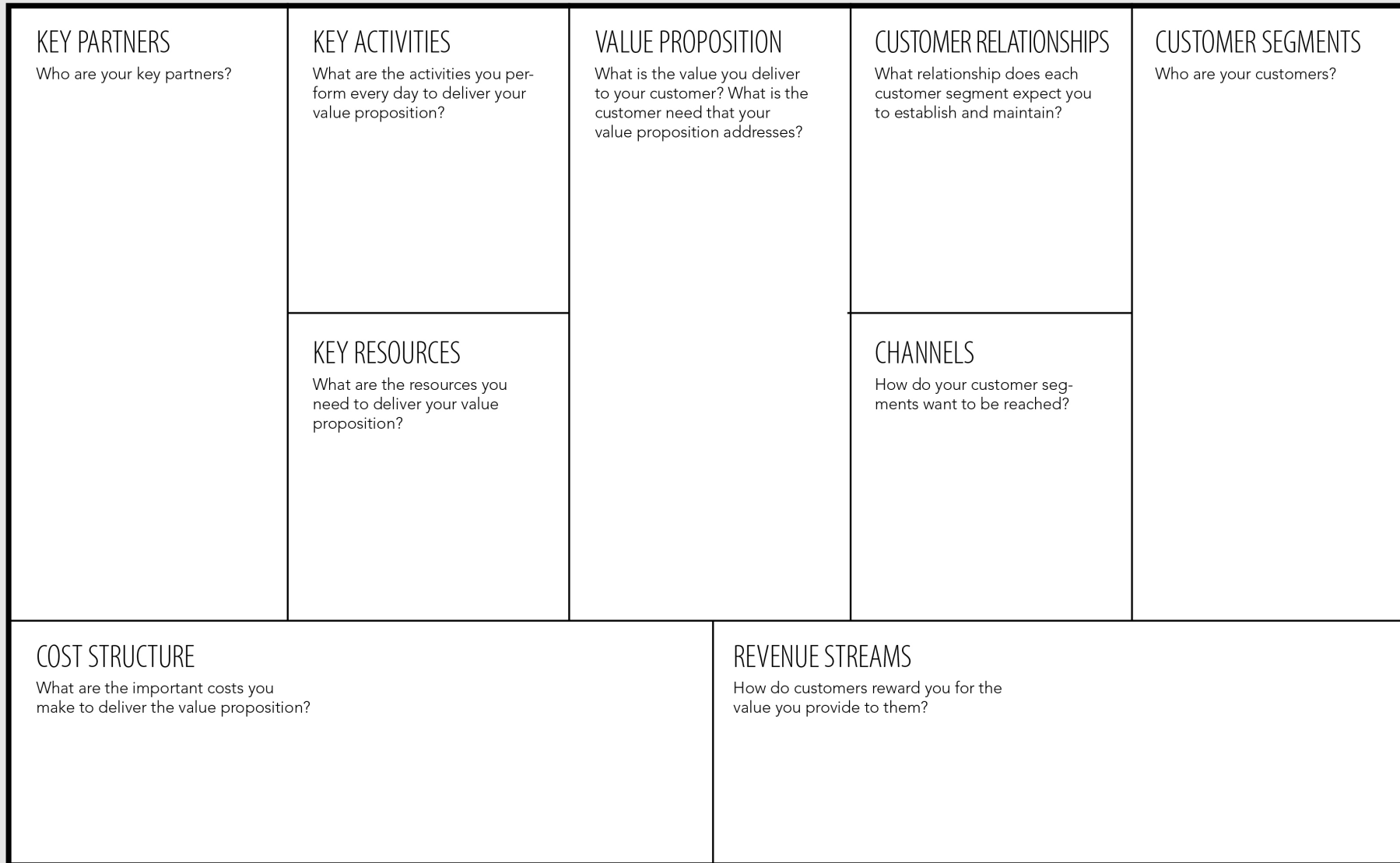
- 1) The tools of lean startup were derived from lean manufacturing which is designed to foster continuous improvement. They do the same for startups—focus on continuous improvement rather than breakthrough value creation.
- 2) Heavy emphasis on doing via experimentation and feedback rather than thinking. Reflects their belief that “hypothesis is just a fancy word for guess” (Blank and Dorf, 2012: 37)

BUSINESS MODEL CANVAS

Business Model Canvas—an effort to “map everything, but without any clear sense of what the canvas is a map of.”



BUSINESS MODEL CANVAS



DESIGNED BY **BUSINESS MODEL FOUNDRY AG**

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BUSINESS MODEL CANVAS

Walking through the nine business model elements does not provide the basis for a useful map, or the basis for a unique or useful strategy or theory.

But none of this meaningfully provides startups with specific guidance about the firm's own unique strategy, commitment, and point of view. Thus a well-developed business model might instead be thought about as an aspirational ending point, and not a starting point for generating hypotheses or experiments.

WHAT IS THE ALTERNATIVE?

ENTREPRENEUR AS SCIENTIST

Academy of Management Review, , In-Press |

Entrepreneurs as scientists: A pragmatist approach to producing value out of uncertainty

Thomas Markus Zellweger [✉](#) and Todd R Zenger

Published Online: 20 Oct 2021 | <https://doi.org/10.5465/amr.2020.0503>

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Abstract

Building on pragmatism, we advance an entrepreneur-as-scientist perspective and depict entrepreneurs as engaging in causally inferential action by forming beliefs, testing these beliefs, and responding to the feedback received. However, this sequence of entrepreneurial actions arrives with a set of companion doubts, namely doubt about product-market fit because the entrepreneurs' beliefs are self-chosen, doubt about feedback validity from false positives or false negatives, and doubt about over- and underfitting in responses to feedback. We discuss the rationality of heuristics deployed by the entrepreneur to overcome these doubts. Our insights contribute to the micro-foundations of entrepreneurial action and strategy by explaining how entrepreneurs generate the information to produce value out of uncertainty.

Strategy

New Ways to Compete: Build a Theory, Then a Strategy

by Todd Zenger

April 29, 2015



Research Article

Entrepreneurs as theorists: on the origins of collective beliefs and novel strategies

[Teppo Felin](#) [✉](#) [Todd R. Zenger](#)

ENTREPRENEUR AS THEORIST (FIRST)



SPOTLIGHT ON STRATEGY FOR TURBULENT TIMES

What Is the Theory of Your Firm?

Focus less on competitive advantage and more on growth that creates value. *by Todd Zenger*

HBR.ORG
Harvard Business Review

JUNE 2013
REPRINT R13006



Research Article

Entrepreneurs as theorists: on the origins of collective beliefs and novel strategies

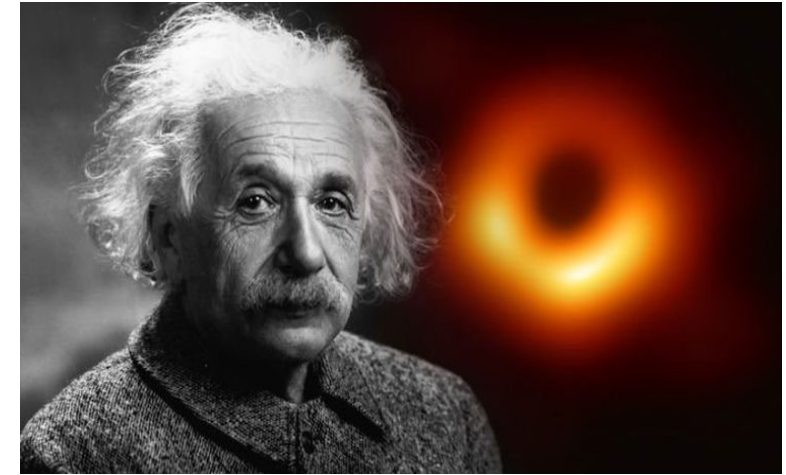
Teppo Felin ✉ Todd R. Zenger

MBR MANAGEMENT AND BUSINESS REVIEW

A Grassroots Initiative to Bridge Practice, Education, and Research.

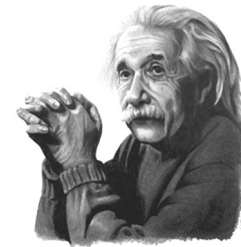
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COMPOSING THEORIES





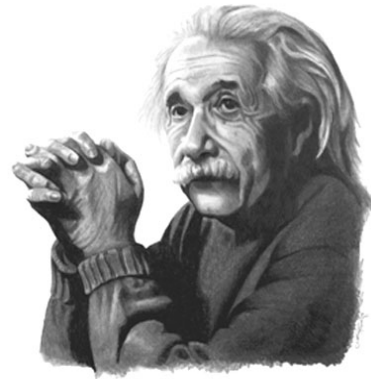
Vast opportunities for value creation are sitting in front of us unseen because we lack the theory necessary to see them.



“whether you can observe a thing or not depends on the theory which you use” - Einstein



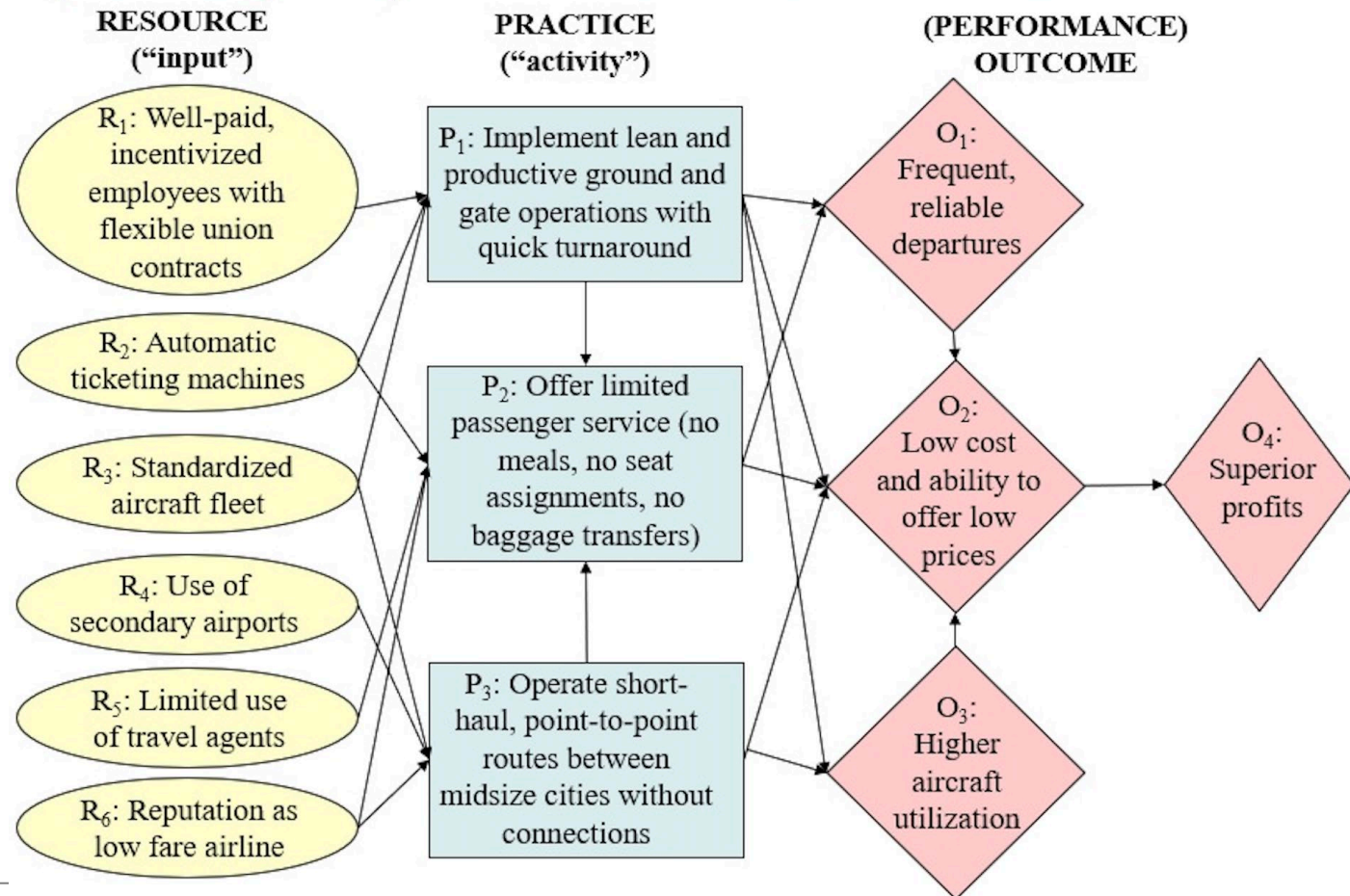
Just as a powerful academic theory reveals better scientific experiments that accelerate knowledge creation, a powerful entrepreneurial theory illuminates better strategic experiments and enables value creation.



HOW DO THEORIES HELP US SEE?

- Provide a causal logic through which to see hidden value—value unseen by others
- Provide vehicle through which to direct and interpret experiments and data

SOUTHWESTERN AIRLINES ACTIVITY SYSTEM (PORTER, 1996) AS A “THEORY OF CHANGE”



THE SCIENCE BEHIND THE (TRULY) SCIENTIFIC APPROACH

A Scientific Approach to Entrepreneurial Decision Making: Evidence from a Randomized Control Trial

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THEORY

Beliefs Common	Core Problem

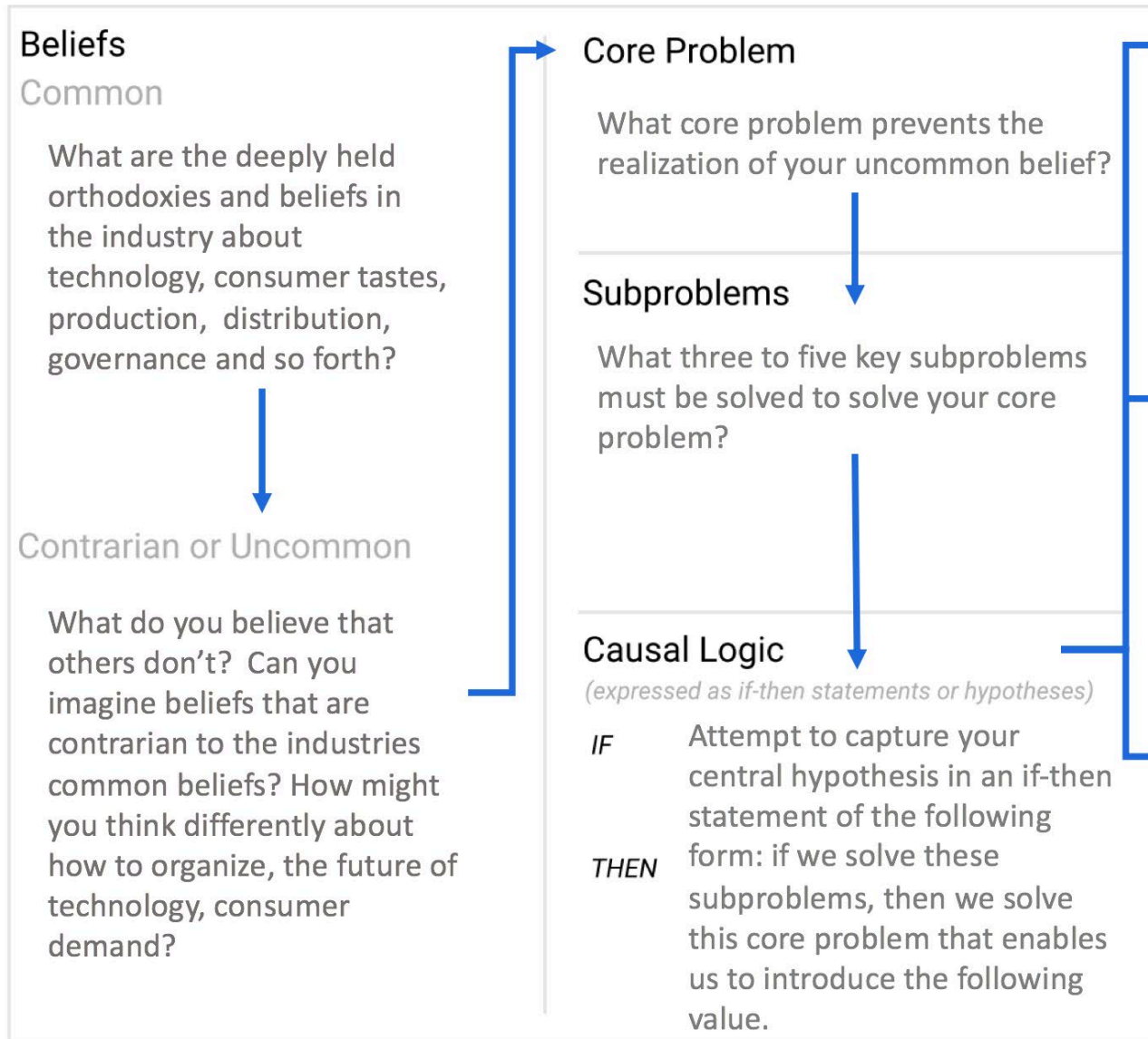
	Subproblems

Contrarian or Uncommon	Causal Logic <i>(expressed as if-then statements or hypotheses)</i> <i>IF</i> <i>THEN</i>

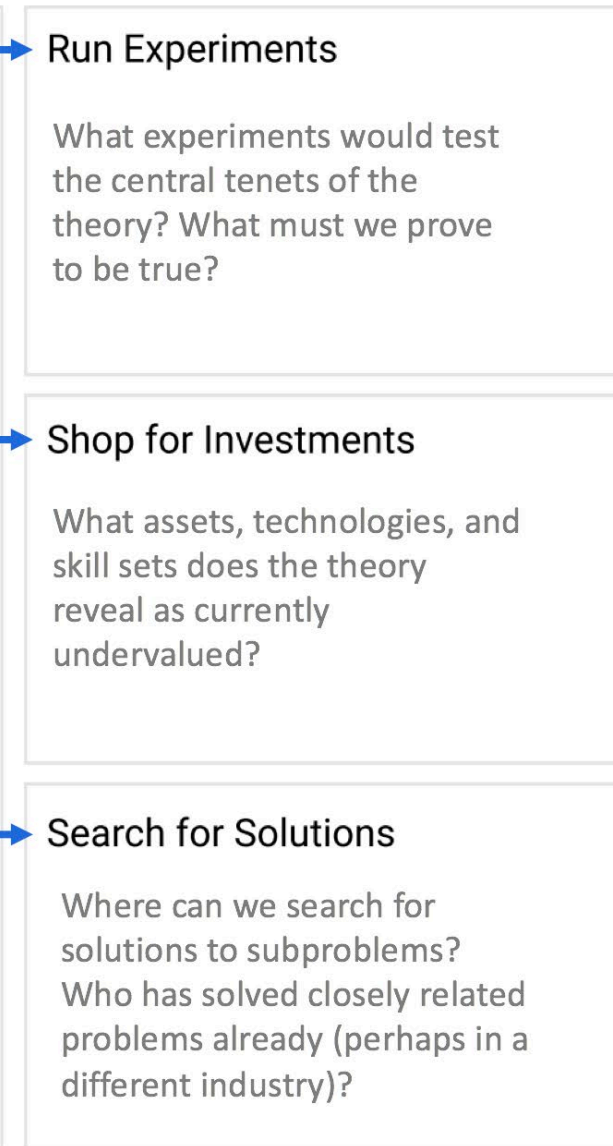
ACTIONS

Run Experiments
Shop for Investments
Search for Solutions

THEORY



ACTIONS



COMMON AND CONTRARIAN BELIEFS

	Common Belief	Contrarian Belief
Computing	“there is no reason for any individual to have a computer in his home” (DEC’s Ken Olsen)	“a computer on every desk and in every home” – Bill Gates Computers as a mass market product. -- Steve Jobs
Discount Retailing	High density urban and mostly suburban locations	Small towns – Sam Walton
Hotels	Consistent quality, brand names	People will rent their homes to strangers -- Airbnb

THEORY

Beliefs

Common

- Consolidation in the hotel industry will persist
- Established hotel brands are hard to compete with
- People value a consistent, "clinical" and professional accommodation experience
- Startups don't fare well in the hotel industry

Contrarian or Uncommon

- There is vast idle "hotel capacity" (people's homes) in any city
- People are willing to rent from and to strangers when traveling
- B&B and couch surfing-type home-sharing could be done on a large scale
- Many people want a varied, more human and flexible hotel (or accommodation) experience with a local, artisanal flavor
- People could use the extra income from renting their homes

Core Problem

How can we broker safe, easy and reliable access to idle "hotel capacity," offering a lower cost, local accommodation experience for customers?

Subproblems

- How can we efficiently match idle capacity to demand?
- How can we facilitate secure payment between strangers?
- How do we develop trust between strangers?
- How do we facilitate efficient and professional property listing?

Causal Logic

(expressed as if-then statements or hypotheses)

IF we can efficiently match providers and seekers, facilitate secure payment, and generate a mechanisms that facilitates trust

THEN we can introduce a robust new service that provides customers with safe and reliable provision of lower cost accommodations with a local flavor

ACTIONS

Run Experiments

- Experiment with locations with big events like South by Southwest, political party conventions
- Start in New York City

Shop for Investments

- Hire photographers to professionalize listings
- Solicit funding
- Get into Y Combinator

Search for Solutions

- Examine the trust, payment, customer and other solutions of eBay, Craigslist and other Internet platforms
- Explore demand via social media

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MORE READING

Lean startup and the business model: Experimentation revisited ☆

Teppo Felin ^a  , Alfonso Gambardella ^b , Scott Stern ^c , Todd Zenger ^d 

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