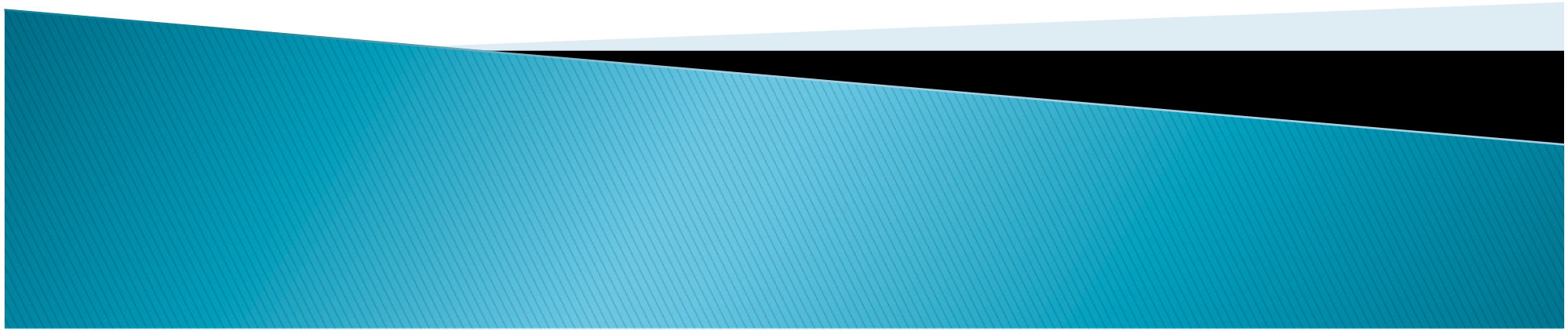
Business Model Patterns

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

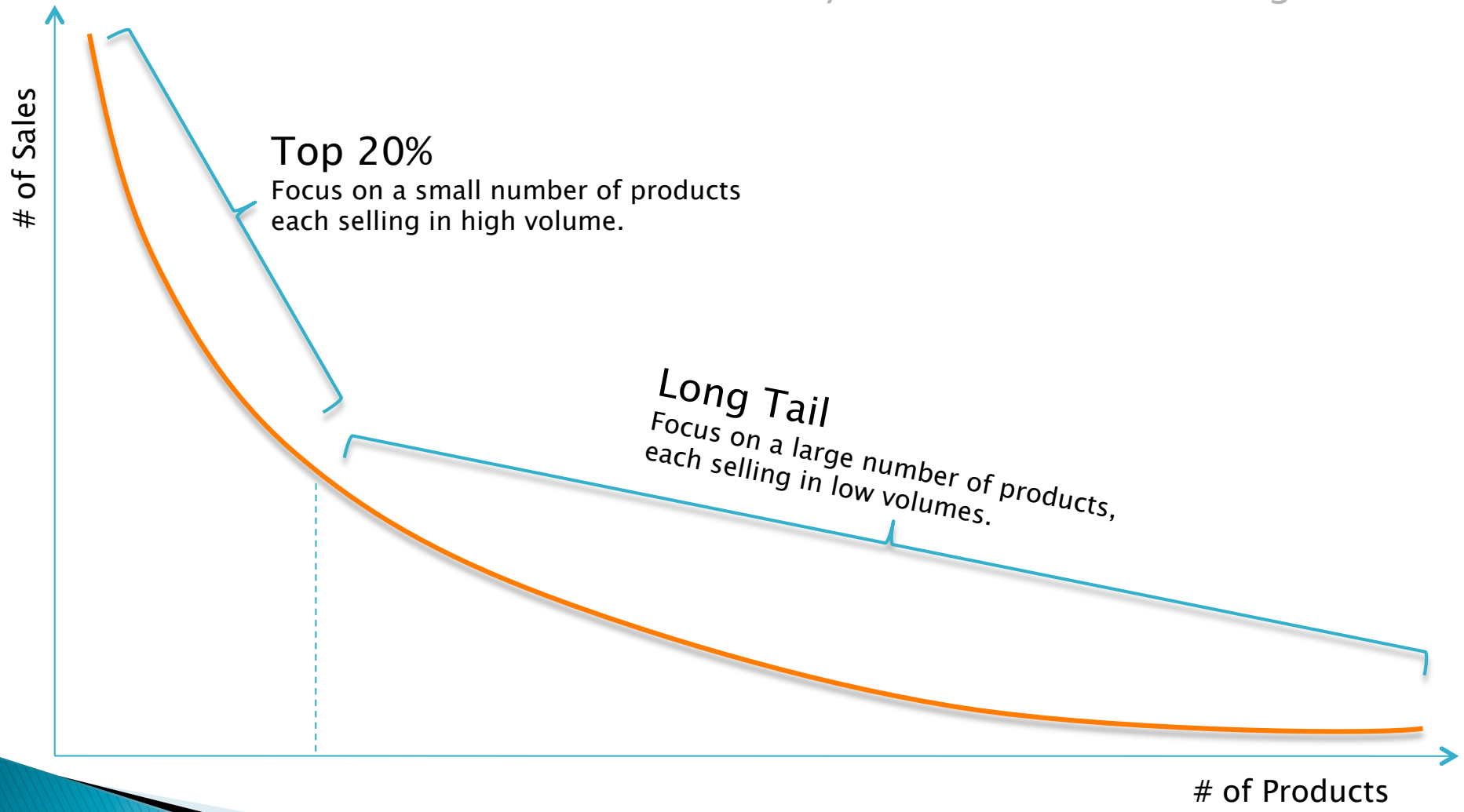
Long Tail Business Models are about **selling less of more**

- 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)

By A. Osterwalder & Y. Pigneur



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

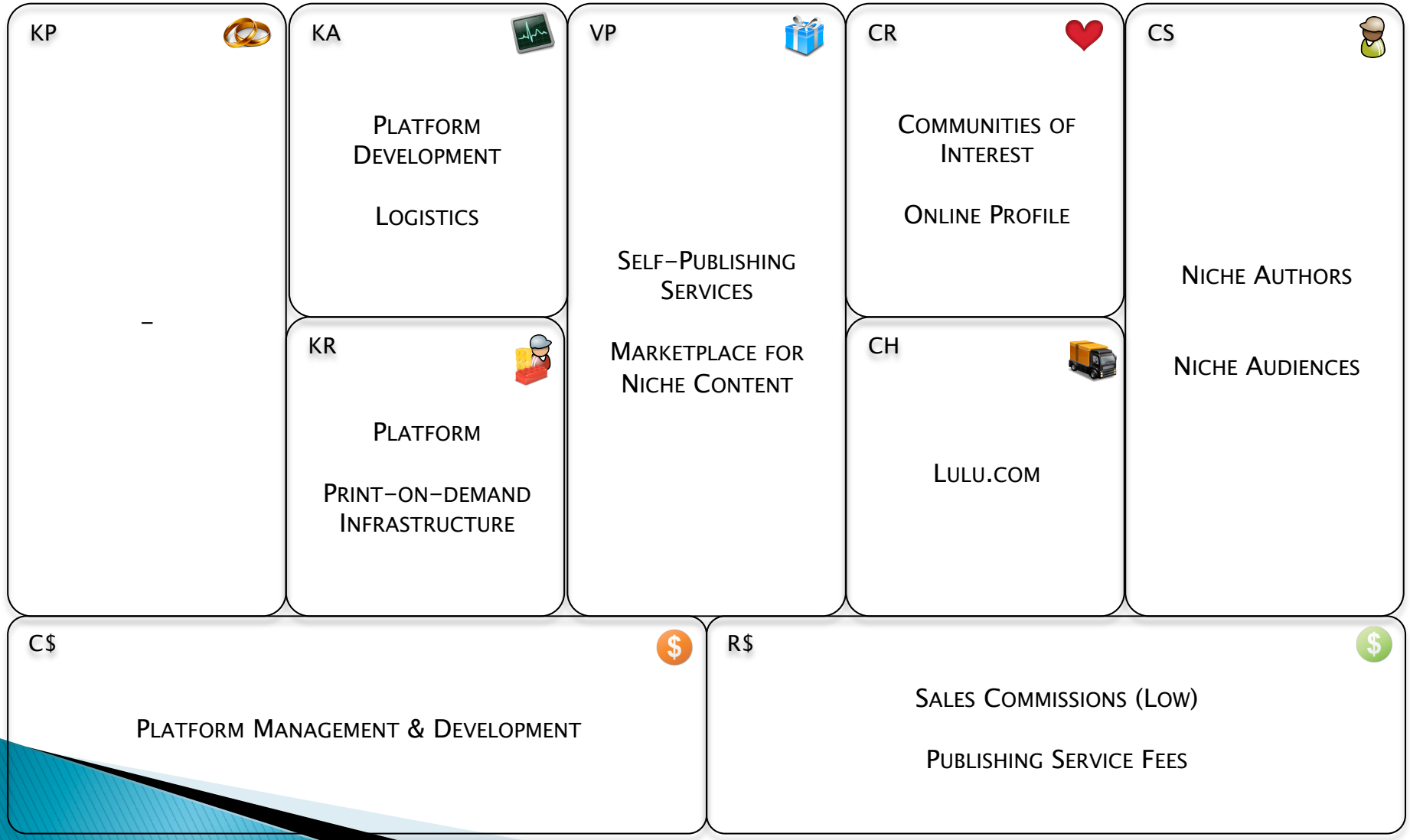
Democratization of distribution

- 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

By A. Osterwalder & Y. Pigneur



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

By A. Osterwalder & Y. Pigneur

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.

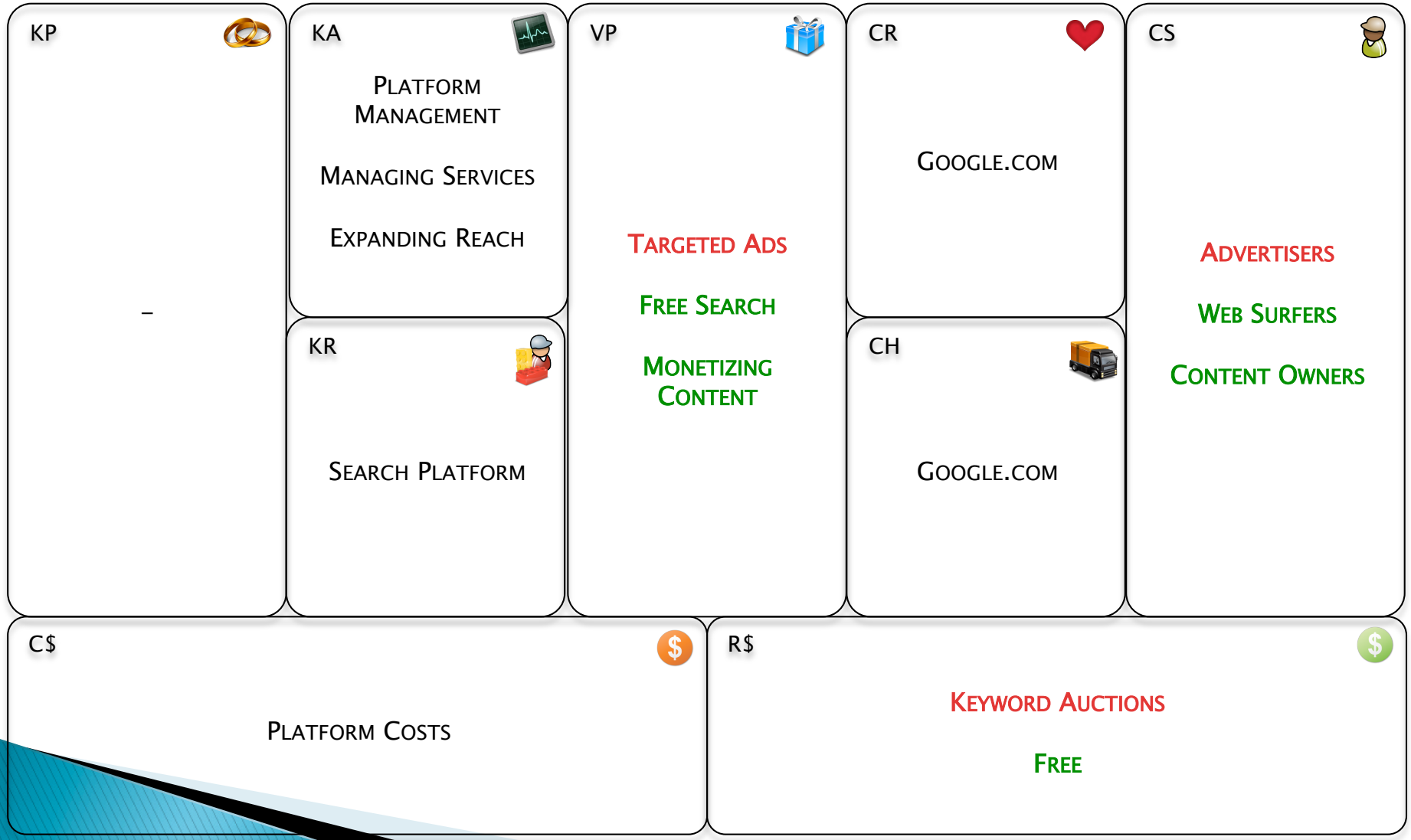
MSPs: Chicken and Egg Dilema Solution

By A. Osterwalder & Y. Pigneur

- 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?

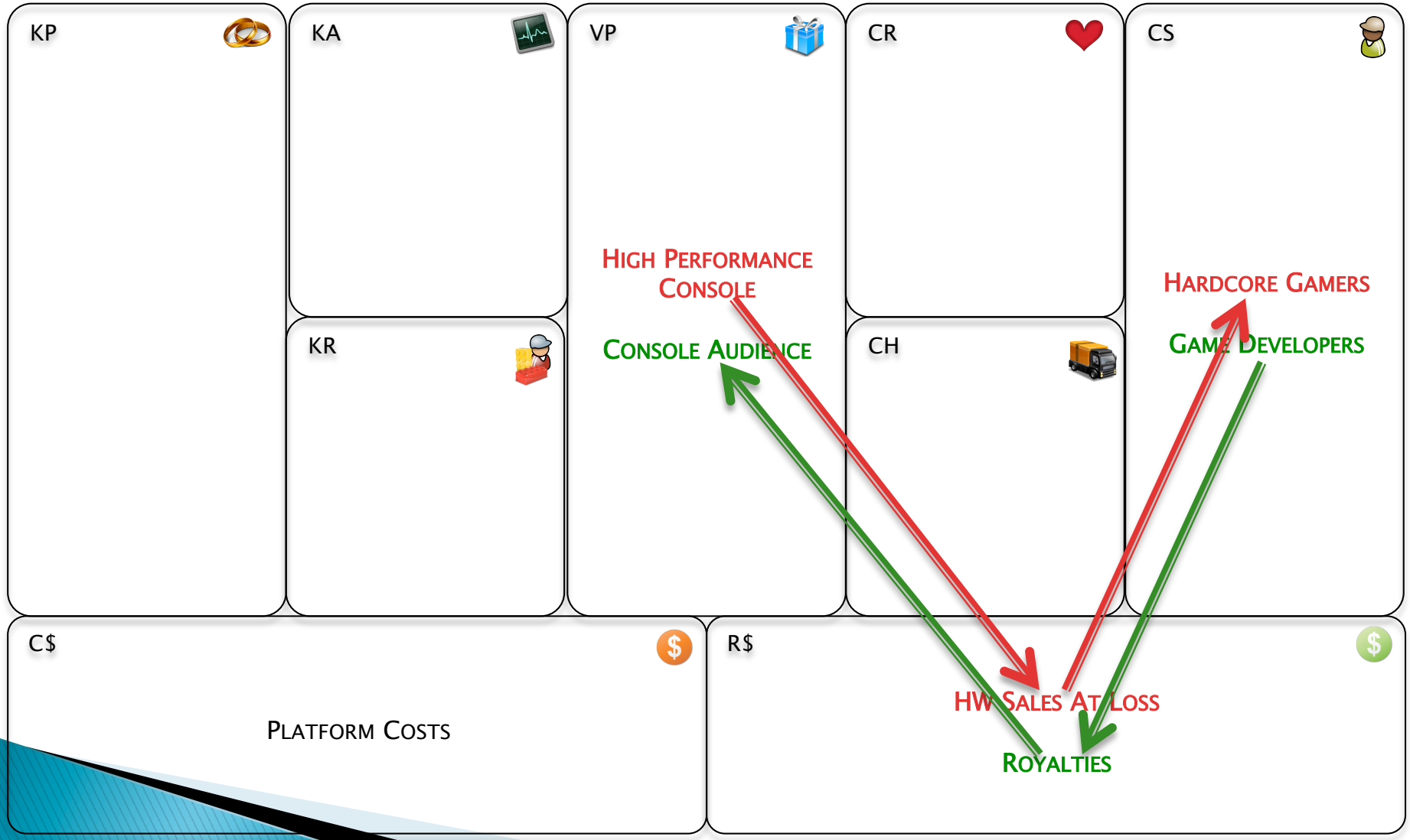
MSP Example Google.com

By A. Osterwalder & Y. Pigneur



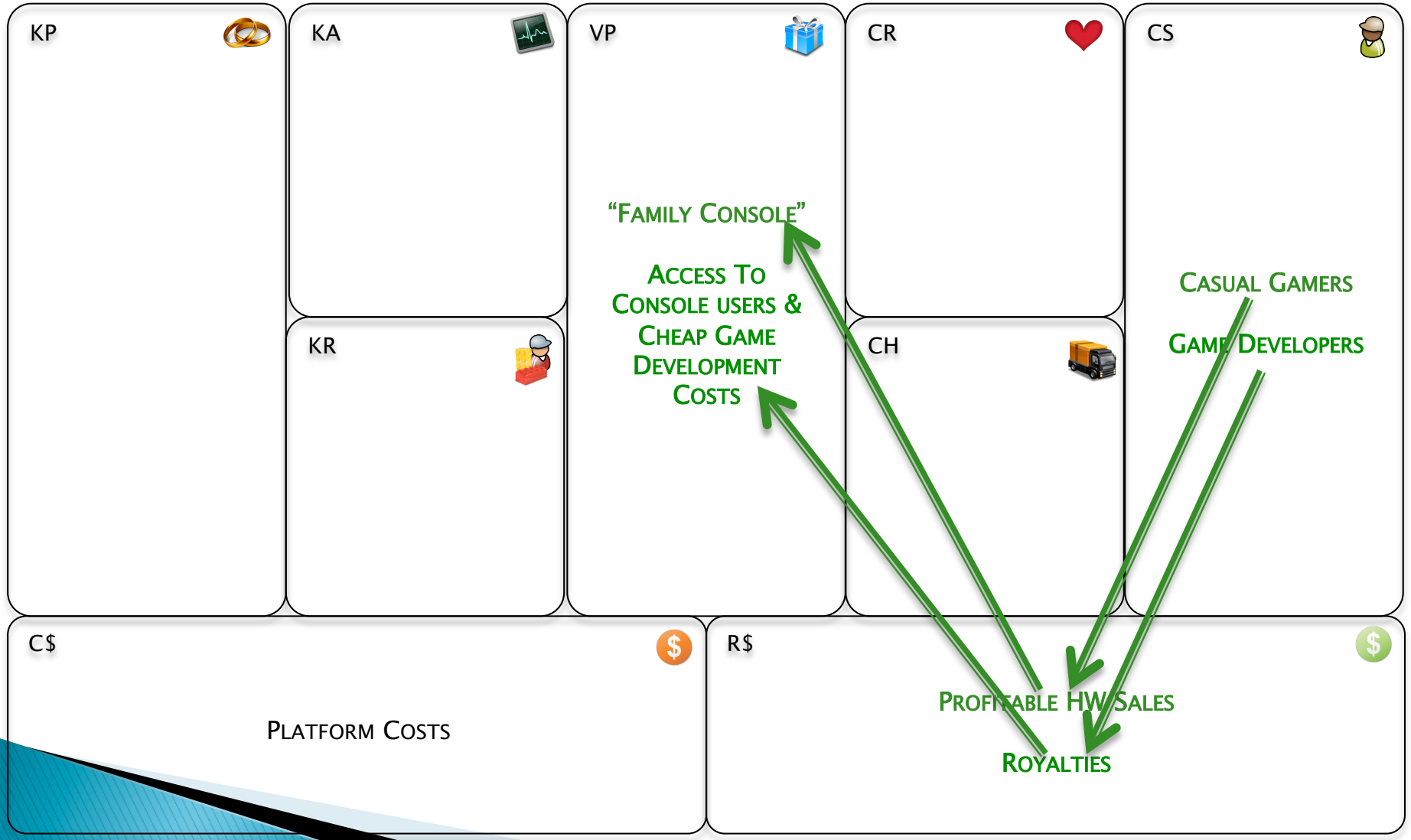
MSP Example
PSP/Xbox

By A. Osterwalder & Y. Pigneur



MSP Example
Wii's Double impact

By A. Osterwalder & Y. Pigneur



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

By A. Osterwalder & Y. Pigneur

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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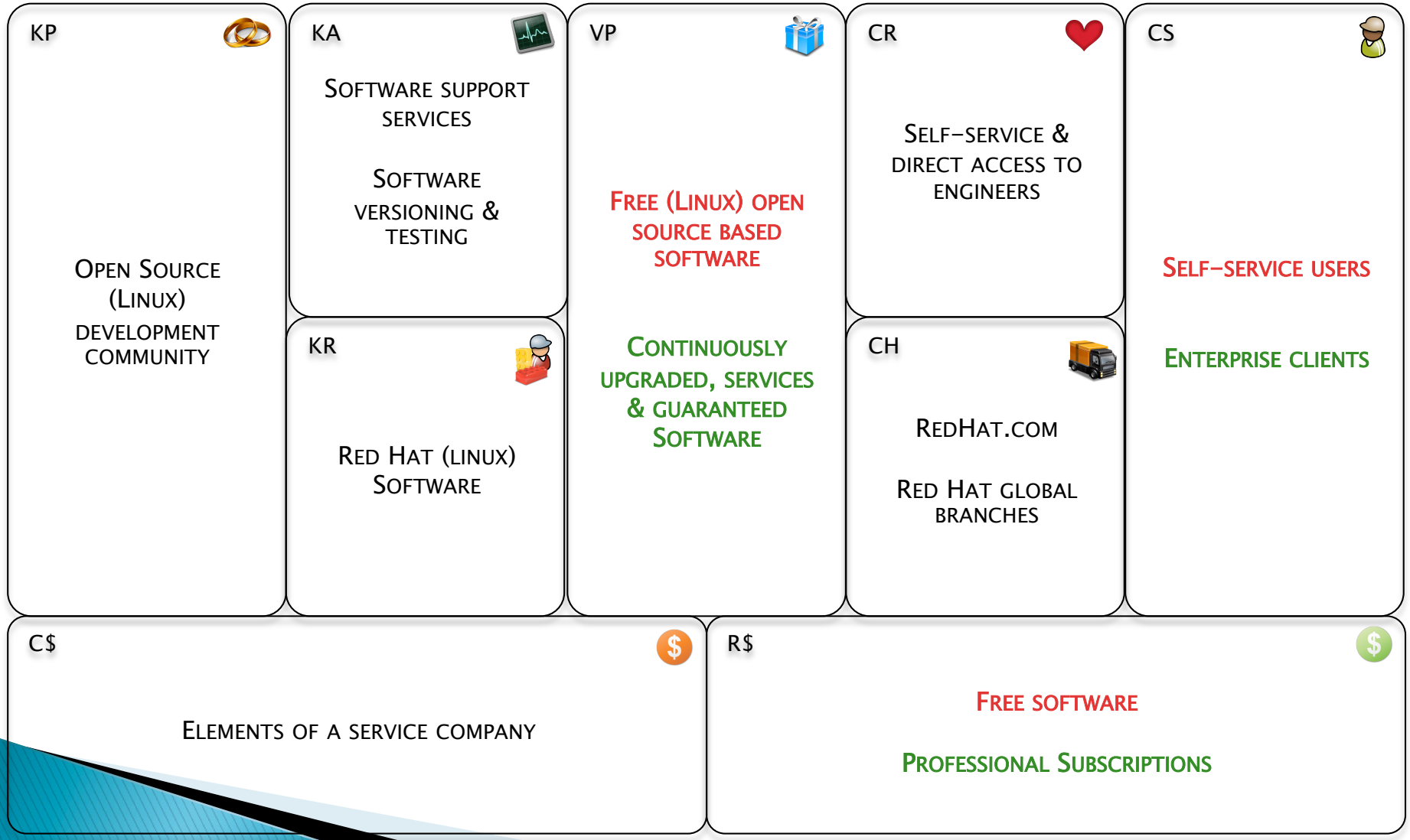


Skype Free Services

By A. Osterwalder & Y. Pigneur

KP

Payment Providers

Distribution Partners

Telco Partners

KA

SW Development

KR

Software Developers

Software

VP

Free Internet & Video Calling

Cheap calls to phones (SkypeOut)

CR

Mass Customized

CH

Skype.com

Headset Partnerships

CS

Web Users Globally

People who want to call phones

C$

Software Development

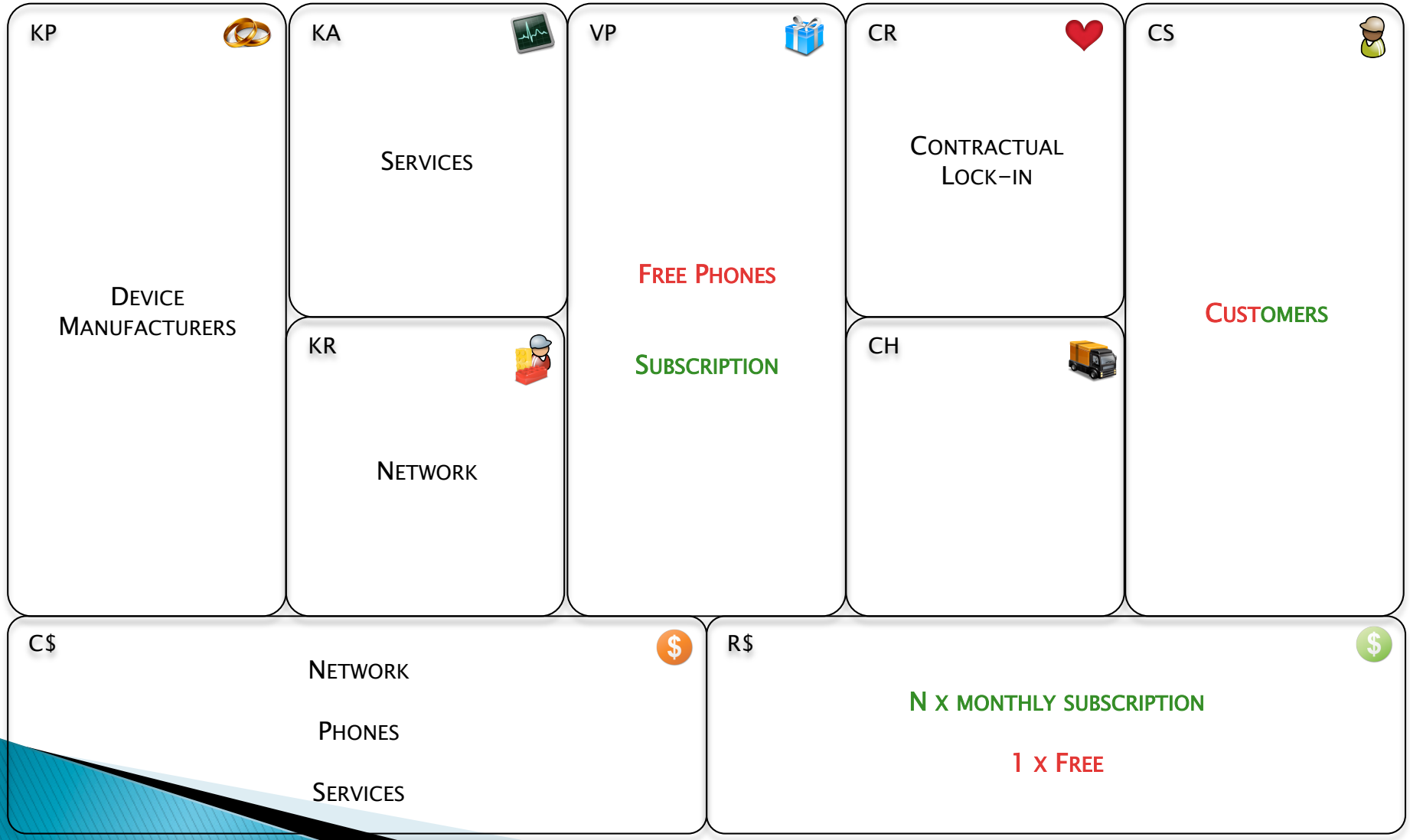
Complaint Management

R$

Free

SkypeOut Pre-paid or Subscription

HW Sales

Bait & Hook Examples
Free mobile phones

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