



Stanford eCorner

Rapid Business Model Testing

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A successful startup does not flower solely from a great product or idea, says Ann Miura-Ko, partner at FLOODGATE Fund. She argues that success stems from the ability to grow a business around that great idea. The venture ecosystem, a flush customer base, accessible distribution channels and manufacturing - all of these factors must converge into a business model that is both viable and scalable. Fortunately, the Internet allows companies to rapidly test business models, for example, through the use of social media leveraged with demand creation and flexible pricing structures.



Transcript

The second element of the democratization of innovation is the fact that we could very quickly test business models. And the reason why this is important is because a startup is ultimately about whether or not just an idea or a product works, it's about whether or not you can actually create a business around it. Whether or not the ecosystem will support it, the customers will buy it, if the channels will support it and if the manufacturers will actually create it. Because of that we need to be able to test all of these different facets of our business model and do so quickly. The beauty of the Internet is that first of all you can have a direct dialogue now with your customer. In one of my classes if I ask my students to test out a web start up they can go out and interview 300 people in a bat of an eye and be able to tell you if that product was attractive to that group of people or not. And it's not unusual for our students to do so. Think of the people who have actual resources to put to bear on that. The second thing is that you could also do demand creation leveraged with social networks and few companies have really proven this out. A simple example is Groupon where they'll come back and have people post on to their Facebook walls the offers that they have and then that spread the word to all of their friends.

There are incentives for other to compact in and sign up for those offers. And most of the Groupon traffic actually comes from Facebook. We've also seen this in one of my portfolio companies ModCloth where we put various Facebook fan pages and the women who actually shop on Maude Cloth will also post things to their Facebook wall. As a result we see a lot of traffic coming in from Facebook. This ability to do crowd generation of customer acquisition is extraordinarily powerful; something that hasn't existed until very recently. The third element of the speed of testing our business model that I've seen most recently is the flexible pricing structures that I see. And one example might be in the idea subscription pricing. The reason why subscription pricing is actually has been really interesting because you can change it. And you can change it for half of your customers and for another half of your customer you can have a totally different pricing structure and you can AB test. This kind of infrastructure has never existed before.

And then also the fact that subscription pricing is so low, you can now directly have the user purchase your products instead of going out and having to go through a CIO or an executive to buy your products. You could go directly to the people who are interested in using your product. And now even with an enterprise that's user has a power to purchase your products. Because of that the buying cycles have actually been decreased.