



Stanford eCorner

Using Business Models to Beat the Competition

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January 26, 2012

Video URL: <http://ecorner.stanford.edu/videos/2879/Using-Business-Models-to-Beat-the-Competition>

Author Alexander Osterwalder and serial entrepreneur Steve Blank discuss the importance of blending a strong, clear story with the building blocks of the business model canvas to outperform competitors. Osterwalder also elaborates on the power of pattern recognition in developing new models.



Transcript

Let's say you are an engineer, right? You have an idea or a vision of a product here. And you said, well, you know there are a couple of more things to create a business. Oh, I need a customer, right? Right. Oh, I need to reach the customer. Oh, I need actually activities and resources to do this and at the end of the equation revenues are bigger than costs. So, you just fill out the boxes. But I think you can go a step further is the second level is when, yes, you fill out the boxes, but you understand that there are connections between the different pieces. And that was the Nespresso example you use. It's exactly what I just shown there that they have a real story. They have a strategy between the machine and the pods to create recurring revenues at a very high margin, all the money goes into their pockets, right? And I think when you came for our class, you saw our students already starting with level one, which is, gee, the biggest step for most entrepreneurs is just trying to figure out what were the hypothesis is a level one example.

And when you kind of get that and get out of the building, then you realize this is another game to be played. And the thing to remember for those of you doing start-ups or want to compete even in an existing company, if your competitor is playing a level one strategy, that is just simply customer product market fit, but you figured out a Nespresso strategy where you're using other pieces of the Business Model Canvas, you could kill them every time even though technically they might have a better product. My favorite example is Microsoft. Anybody ever believe DOS was the world's best engineering solution to an operating system? Microsoft played a channel game on a way that was chess when everybody else was playing checkers as a strategy. And Bill Gates' biggest contribution to business was not technology. It was the ability to use the channel and distribution and pricing in a way that was actually if you drew it out, the other pieces of the Business Model Canvas that no one else saw because they were playing on a technology level of, gee, I got this value proposition. Look at my features. Right. And the best play that I found to get people to develop this idea of a story... Yeah.

...and connections between the pieces was, in a workshop I was always puzzled that people were just throwing these post-it notes on the board at the beginning. Yeah. So, I force them to do something in a different way. They said, hey, the worst thing you can do when you explain your business model is put everything on the slide and show that, why? Because that's cognitive murder, okay? It's information overload. Nobody can follow your story and you'll have a hard time explaining it. So, I get them to start from a blank canvas and you can even do this by yourself just to figure out what's the story here. And I get them to put up one post-it note or one building block at a time to walk the audience through the business model. So, that would be something like this, hey, I'm addressing this customer segment and this is the job that they want to get done. Today in the market, nobody actually gets that job done. So, this is what I'm offering them, so they can get the job done, and you know what? They are willing to pay this much to get it done.

But if I want to do that I need these key resources at these costs and so on. So, if you're at that level, you're at level two,

you really can walk me through a strategy. That's a big difference to level one. And is there more levels or is this kind of like a Zen-like thing where I... It's not enough, you want another level, okay. So ... Every consultant needs multiple levels, so it could keep coming back. Don't insult me, I'm not a consultant, I'm an entrepreneur. No, not you, I mean, people who make a living off of your work. Right, which is fun that people likes to use it.

So, there is a level three and a level three is when you don't just understand your own story but you start understanding those business model dynamics that exist in different business models. So, you can understand, hey, Google, that's actually something that with complicated terms, you'd call it a double-sided market. We have several pieces that fit together and you'll find the same dynamics in several business models.