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Translate Your Idea into a Compelling Business Model

EVERY GREAT BUSINESS starts with a great idea. You probably wouldn't be reading this book unless you already had at least the glimmerings of a business idea. In this chapter, you'll learn how to take your raw, perhaps unproven, idea and measure its likelihood of success—then enhance, improve, and solidify it.

Elements of the Business Model

A business model is the idea that underlies a successful business. It describes how the business creates value for customers, delivers that value to them, and captures a portion of the value for its owners. Every successful business, no matter how large or small, complex or simple, operates according to a business model that makes sense. (Of course, some large, complex companies operate according to several business models at once, since they include divisions or departments that create, deliver, and capture value in varying ways. But don't let that confuse you.) Therefore, one of the most important steps you need to take as an entrepreneur is to transform your business idea into a business model that shows how you'll create, deliver, and capture value.

There are many ways to think about a business model. One of the most effective is described and illustrated by Alexander Osterwalder and Yves Pigneur in their best-selling book *Business Model Generation* (New York: John Wiley & Sons, 2010). In their structure, a business model includes nine basic elements:

- **Customer segments.** The specific, different groups of customers the business serves—that is, the identified customers for whom it will create value.
- **Value propositions.** How the business solves problems and meets the needs of its customers, creating value for them in the process.
- **Channels.** How the business reaches its customers and delivers the value to them—for example, through direct online sales, retail distribution channels, Value Added Resellers, company-owned storefronts, or affiliate programs.
- **Customer relationships.** The ways in which the business connects with, relates to, and retains customers.
- **Revenue streams.** Where the money comes from: how the business generates income from the value propositions it offers to customers.
- **Key resources.** The assets required to create and deliver the value propositions to customers—for example, physical assets such as buildings and machinery, and human assets such as employees with particular skill sets.
- **Key activities.** What the business does to make the business model work, such as inventing, buying, building, distributing, operating, and so forth.
- **Key partnerships.** Outside organizations, such as suppliers and partners, who help the business model work.
- **Cost structure.** The costs that the business incurs in operating its business model.

These nine elements can be mapped in a diagram that Osterwalder and Pigneur called the Business Model Canvas (see Figure 1.1), which provides a standardized, visual way of analyzing, developing, and

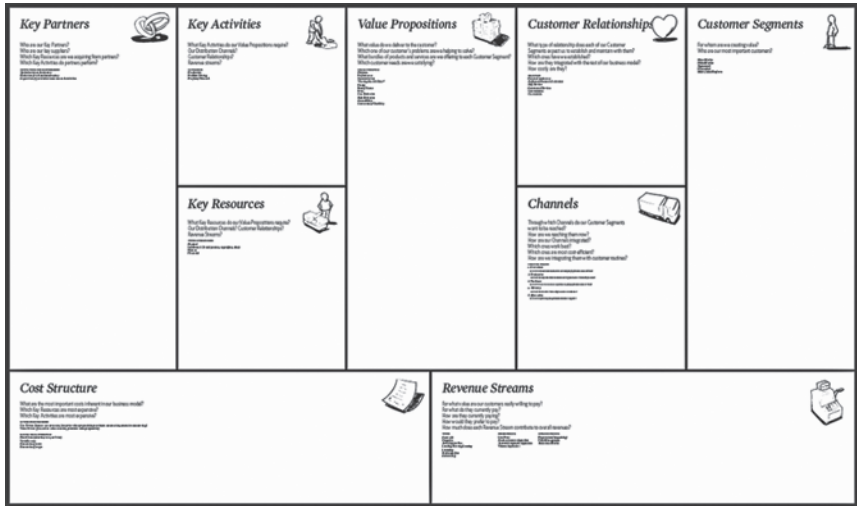


Figure 1.1 Business Model Canvas

refining your ideas. One benefit of the nine-element model in the canvas is that it forces you to think through all the key pieces that need to be in place to make a business idea into a viable basis for a profitable, self-sustainable company.

Their original Business Model Canvas is available in PDF format for you to blow up and put on the wall, where you can work on it with your founding team. But the tool soon proved so useful that several interactive online versions—many of them free—were developed so that you and your colleagues could work on it remotely together.

Today, with the explosion of Artificial Intelligence (AI), there are additional tools now available—some of them free—that will go even further, and automatically and instantly build out an entire Business Model Canvas for *your* business simply on the basis of a one-sentence description! Links to these tools, as well as the original book, and several excellent follow-on works by the original authors and others, can be found online by clicking the adjacent QR code.



Be sure, however, not to let the power of AI lead you down the garden path (something I'll reiterate many times in this book). The tools available today are truly amazing, but they are just *tools*. There is no such thing (at least yet) as an AI entrepreneur, and the reason you are reading this book is because *you* are the entrepreneur. Blindly taking as gospel every line that one of these Canvas-generating tools writes for you is an almost certain way of screwing things up. Instead, use their suggestions as a jumping off point for further thought and investigation by you and your founding team. Don't simply lock in the initial output. Instead—as you should always do with AI models—use your chosen AI tool as a brilliant assistant or cowriter with whom you will continuously iterate to develop an even better business model than either you or the machine could do on your own.

The Importance of Understanding Your Business Model

These days, it seems like everyone is a wannabe entrepreneur—just as everyone used to be an aspiring actor or have the Great American Novel in their back pockets. And while I have heard many clever ideas for products and services over the years, in my experience, the number one differentiator between an aspirant and a real founder is that the former is in love with their product, but the latter is in love with their business model. I have often had discussions with other investors about certain companies that have approached us for funding, and we have all had the same reaction: “I can't wait to buy the product when it comes out . . . but no way would I invest in the company!” That is because a product or service can be cool, or innovative, or beautiful, or even useful, but it only becomes a viable business if the aggregate economics of the value being created is significantly more than the aggregate economics of the costs of operating the business. And if you are aiming for a scalable business, then you're further looking for a viable business that gets better—not worse—as it gets bigger.

How can you determine whether your business idea has the potential to become a multi-billion-dollar unicorn? In general, there is a simple math equation that estimates basic viability by multiplying four factors:

Number of potential purchasers ×
Percentage of capturable market share ×
Absolute dollar amount of each sale ×
Percentage margin of profit =
Total potential profit

The perfect new business idea would be one that would check all four boxes—that is, it would be appropriate for a very large number of potential purchasers, be plausibly attractive to a high percentage of those possible customers, generate sales with high dollar value, and promise a high profit margin on each sale. And then, to make it truly scalable, you’d want to check a fifth box: the business would need to get even better as it got bigger.

For example, if you were trying to evaluate a concept for a house-cleaning business, it would be great if everyone in the world needed their house cleaned, if you had a way of locking up the entire global market and servicing every house in the world, if everyone would be willing to pay a large amount for this service, and if your cost to clean a house was low and dropped with every additional customer. I assume you would take that business, right?

Unfortunately, these five propositions turn out not to be true in regard to house cleaning—which explains why no one has yet ascended to the top of the *Forbes* list of the world’s richest billionaires by launching an international house-cleaning business.

As you might imagine, business concepts that check all the boxes are exceedingly rare. However, when you look at successful businesses, you’ll discover that even three out of the five can make for a viable—and even potentially scalable—business.

For example, before “space tourism” became a defined market category with billionaire-financed ventures such as SpaceX, Blue Origin,

and Virgin Galactic, it had to start somewhere. And that “somewhere” was the business of sending tourists up for a visit to the International Space Station (ISS) without having to build your own rocket. In the 1990s there was obviously not a giant market for that, since the ISS could only accommodate one visitor every few years. But it so happens that beginning in 1998 one of my portfolio companies actually did that! Why? How? Because with a ticket price of over \$50 million per person, they had decent margins, and for over two decades they had a 100% market share. It was also a business, believe it or not, that could be started relatively inexpensively, because their customers paid in full, in advance, before the company was required to pay the Russian government (which was hard up for cash) the cost of the actual experience. And while it wasn’t scalable per se, the company then leveraged its experience into allied areas such as zero-gravity airplane flights, astronaut training, and jet fighter missions.

When you do the analysis of your model, it’s important to be clear about what the business is actually doing. Let’s go back to the idea of a house-cleaning business. It would be problematic to try to grow house cleaning into a truly large business. The logistics of service delivery around the world would make it extremely difficult to eke out a decent profit margin, and the minimal cost of entry by competitors (who need only a van, some tools and supplies, and a few employees to set up a rival cleaning company) means that you would probably never develop a large market share.

But if we’re talking about something like Angi or Thumbtack, the first thing we need to realize is that the business these companies are in is not actually house cleaning. Instead, it is “lead generation and/or booking and intermediating payment for house cleaners.” Looked at in that way, it completely changes the equation. Your marketing and service delivery costs are at internet scale, and therefore both low and decreasing the larger you get. However, the value you are delivering to the person willing to pay for it (the actual house cleaner) is quite high relative to their opportunity costs (which means you can extract a decent margin), and because you can target everyone on the internet, you have a sizable addressable market (even if only the top 1% would

be willing to pay to have their houses cleaned). It's for that reason that both of these companies are today worth billions of dollars.

This is also the case for other apparently small or low-margin businesses, such as taxis (Uber), errands (TaskRabbit), cups of coffee (Starbucks prepay cards), and free radio (Pandora, Spotify, IHeartRadio, etc.). Once you add in the dozens of potential future revenue streams for each of these enterprises based on their same existing infrastructure (Uber providing “just-in-time” delivery services, hourly bike and scooter rentals, and dispatching for autonomous taxis, among others; online music sites selling concert tickets and memorabilia; Starbucks selling music and coffee machines, etc.), these apparently quixotic businesses become potentially very large profit centers.

One way to get into the right mindset is to study the business models that have been developed and employed by other company founders—including both the successes and the failures.¹ Some great companies have been launched by adapting a business model from one industry to another, or by tweaking a familiar and proven model in a way that unleashes a remarkable flood of new resources, customer demand, or technological creativity. In certain circumstances, it's possible to create a successful new company by simply altering one of the nine business model elements in the Business Model Canvas as applied by competing businesses in the same market sector—for example, by discovering and applying a new channel for delivering value to customers; by devising a new way of forging intimate, lasting relationships with customers; or by identifying ways of improving the cost structure of the business and thereby making it more profitable.

¹ A great place to examine other companies' business models in an easily digestible form is businessmodelgallery.com, which has re-created over 200 well-known models in Business Model Canvas format. Browse through them by industry or type of company to be inspired.

Developing a Scalable Startup Business

The subtitle of this book is “25 Steps to a Scalable, High-Growth Business,” and the word *scalable* is included for a very good reason. There are many enterprises that are successful, profitable, and contributing much to society, but that would be unrealistic, unprofitable, or at least overly challenging for you to start building as a one-person startup on your way to becoming a unicorn.²

If you’re reading this book, then you are unlikely to be building a Death Star, opening a barber shop, or offering xylophone master classes in your living room. That’s because while all of those might be interesting opportunities, for different reasons none of them are scalable.

There are three characteristics that together make a startup business model truly scalable.

- **You have to be able to start small.** Unless you happen to be the long-lost daughter of the Palpatine emperor, the odds are that you do not have enough capital to build your first Death Star³, nor will you be able to raise the funds to do so. The ideal startup is one that can be bootstrapped from its own early revenues—or at least funded from the founder’s personal savings account.
- **Your marginal costs must drop over time, so that each additional dollar of revenue costs less than the previous dollar.** This is the core of what most people mean when they discuss business scalability. For example, Amazon’s Kindle publishing business is scalable because, after the cost to Amazon of selling the first digital copy is taken into account, each additional copy is almost pure profit. By contrast, if you wanted to expand your barbershop, the second shop would cost you almost exactly as much as the first one (for rent, equipment, and barber salaries). Since no business is infinitely scalable

² A *unicorn*—a term coined by venture capitalist Aileen Lee in 2013, refers to a company with a market capitalization of over \$1 billion.

³ In case you are curious, students at Lehigh University worked out that the cost for just the steel to build the Death Star would be about \$1.2 quintillion in 2025 dollars, which is 13,000 times the world’s gross domestic product.

(that is, there is no business where all costs drop to absolute zero), an associated consideration is relative scalability, which means that a business needs to be scalable over a longer range than its competitors.

- **Your scalability needs to be built into your business model, rather than relying on any special exogenous factors.** McDonald's, for example, as of 2025 had 42,000 restaurant locations around the world. And they are opening more than six new restaurants every single day, including weekends! They would not be able to do that if they had to find world-class *cordon bleu* chefs for each location. Similarly, if your business depends on recruiting a never-ending supply of xylophone virtuosos who are also good teachers, I'm afraid that it is simply not scalable.

Getting your business model right is Chapter 1 of this book for a very good reason: if you don't truly understand what you are doing, why you are doing it, and how you will create economic value from it, your entire entrepreneurial journey will be doomed from the start. Every year I see many hardworking, passionate, and smart founders whose ventures will never have a chance because their business models, the foundations of their entire startup, either have fundamental flaws, or—even, worse—are nonexistent. Don't be one of them.

