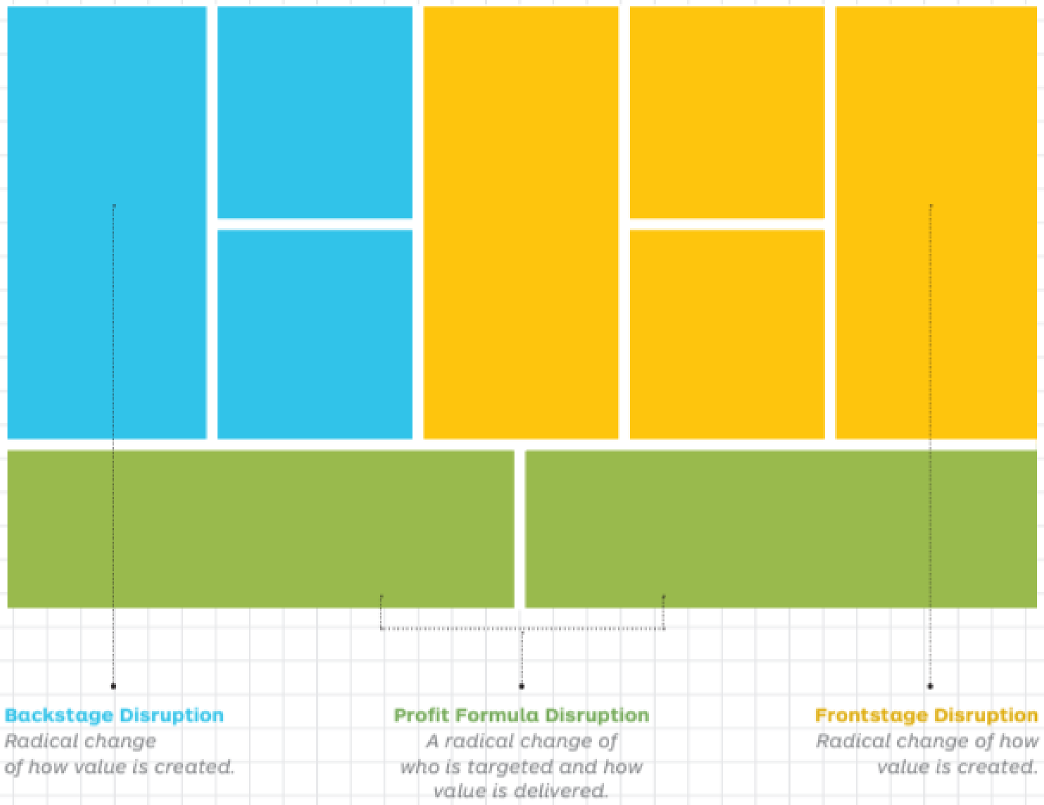


Epicenters

38 Business model patterns can originate in the frontstage (customer-driven), backstage (resource-driven), or profit formula (finance-driven) of a business model.

Invent Pattern Library

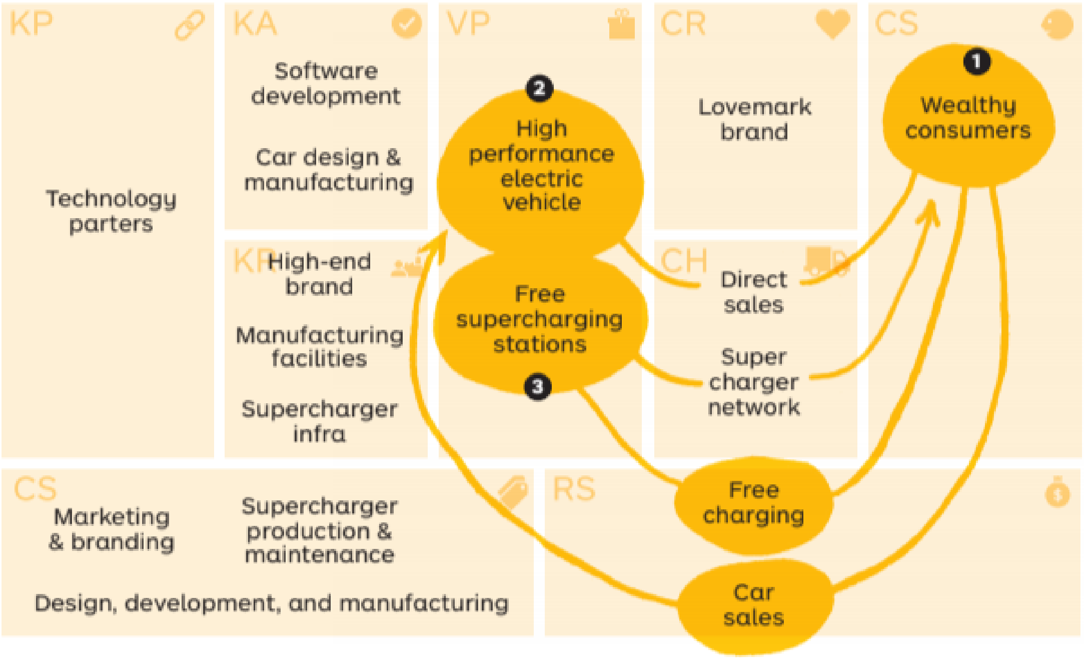
Visionary
2012 ~~~ 2019

Tesla Motors

In 2012 Tesla envisions a large untapped market (high-end electric vehicles) where nobody else sees one. With the Model S they create the right value proposition to unlock the opportunity.

Tesla was founded in 2003 with the goal of commercializing electric vehicles, starting with luxury sports cars and then moving on to affordable, mass market vehicles. In 2008, Tesla began selling its Roadster. Its first breakthrough was in 2012 when it launched the Model S. Tesla's first "affordable" car, the Model 3, was announced in 2015 and produced in 2017.

Prior to Tesla, the market for electric vehicles was relatively insignificant and was served by utilitarian and unremarkable models. Tesla was the first car manufacturer to view the market for electric vehicles differently: Tesla saw a significant opportunity by focusing on performance and the high end of the market.



1 Envision a Large, Untapped Market, Where Nobody Sees One

Tesla identifies a potential market of environmentally conscious, wealthy consumers who are interested in electric vehicles, but not at the expense of comfort, performance, and design.

2 Create Customer Gains in New Ways

With the Model S, Tesla taps into the aspirations of its initial customer segment. In 2013, it is called the "best car ever tested," and becomes the best selling car in eight of America's 25 wealthiest zip codes.[1]

3 Relieve Customer Pains in New Ways

Tesla recognizes its customers' fears over battery range. It substantially improves the speed of charging and creates its own network of free superchargers in high traffic areas.

+ Lovemark Brand

Tesla built up a lovemark brand in record time. It inspired significant brand loyalty because of its dedication to saving the planet, high-quality vehicles, and personal customer service. In 2014, the Tesla Model S was voted the "most loved car in America."

+ Direct Distribution

From the start Tesla sold its cars directly (through the Internet, gallery-like stores in urban malls, and its owner loyalty program) to educate customers on the cars' features.

Disintermediator
2012 ~~ 2016

Dollar Shave Club

In 2012, Dollar Shave Club (DSC) launches with a viral marketing campaign and disrupts the market for men's shaving products by selling directly to consumers.

Dollar Shave Club spotted consumer inconveniences, where most saw an over-served market. In the shaving market, men had to choose between (supposedly) high-tech razors or low-cost, low-functionality tools. DSC aimed to change this by providing an end-to-end customer experience with affordable shaving products.

In 2012, DSC launched its online store and quickly disrupted the overpriced men's razor blade market. It purchased its products from wholesalers, removed the traditional physical retail channel, and sold razors and blades online at a lower price.

DSC focused heavily on online marketing to replace the reach of the eliminated middleman. Its launch video with founder Michael Dubin showcased the brand's sense of humor and went viral. Editorial content accompanies each delivery, often with a humorous twist.

The company was acquired by Unilever in 2016 for approximately $1 billion.[15]

1 **Eliminate (or Go Around) the Middleman**

DSC cuts out retail stores to sell directly. On the upside, this means saving margins traditionally paid to retailers. On the downside, it means losing the broad market reach of retailers.

2 **Build an Optimized Direct Channel**

The company launches its online store in 2012, which gives it full control over the customer experience, relationships, and data. DSC uses this channel to continuously test its product line and optimize its value proposition.

3 **Differentiate Your Value Proposition**

DSC competes on an end-to-end customer buying experience with affordable products. Its flexible subscription plans allow members to buy their first product for just $1 and then choose the products and shipping frequency.

4 **Replace the Reach of the "Historic" Middleman with Innovative Marketing**

Because DSC can't rely on the reach of a retailer, it creates visibility and brand recognition with its viral videos. DSC keeps consumers coming back with educational videos and editorial content delivered with its unique brand voice.

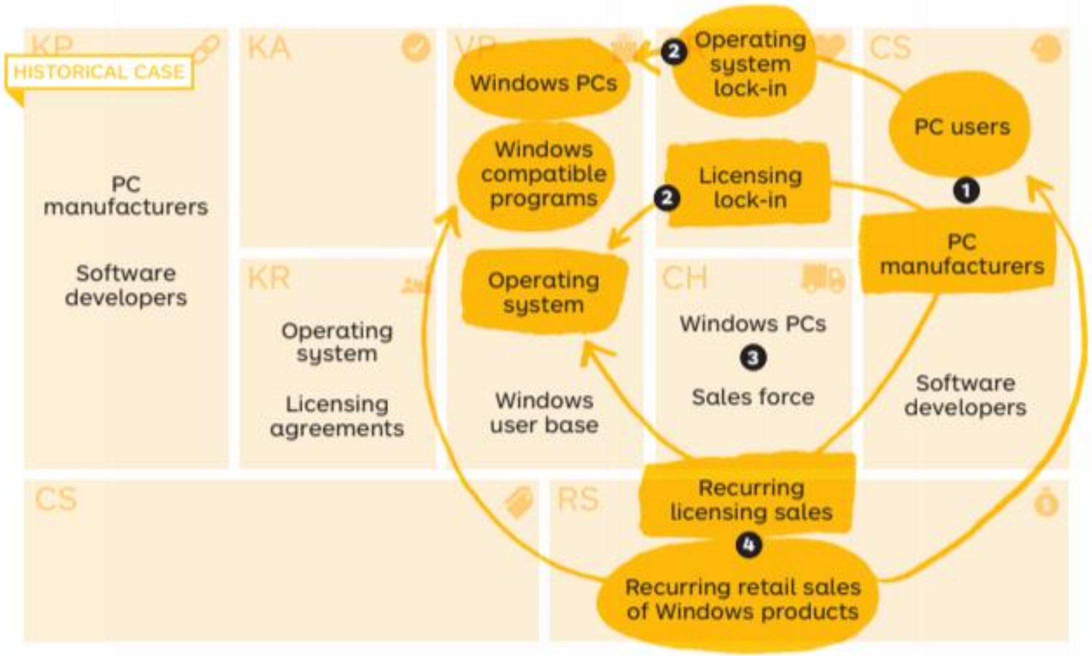
Stickiness Scaler
1990 ~~~ 2014

Microsoft Windows

In 1990 Microsoft got 30 PC manufacturers to preinstall Windows 3.0 on their machines. That move effectively locked in millions of users into the Microsoft ecosystem and generated recurring revenues for over two decades.

Microsoft originally launched Windows in 1985 as an add-on to MS-DOS, the original operating system of the PC. However, in 1990, when Microsoft launched Windows 3.0, it leveraged its relationships with PC manufacturers to preinstall the operating system (rather than shipping it separately). More than 30 manufacturers agreed to include the program for free and preinstalled it with every machine. As a result Windows rapidly gained in popularity—shipping over one million copies just two months after launch.[24]

Once consumers had learned how to use Windows and compatible programs, most of them were reluctant to invest the time, cost, and effort to learn a new operating system and new programs. PC users effectively got themselves locked into the Microsoft ecosystem once they purchased their first Windows-equipped PC.



1 Spot a Market with Low Switching Costs for Customers

The early computer market is rather fragmented, and each computer manufacturer operates their own unique operating system. At this time it is relatively easy for customers to switch from one system to another.

2 Create a Value Proposition That Locks Customers In

Windows 3.0 increases switching costs in three ways: (1) PC manufacturers preinstall Windows, increasing the effort needed to switch, (2) the graphical interface and new features steepen the learning curve, (3) Microsoft builds an ecosystem of Windows-compatible software to lock customers in via interoperability.

3 Focus on Scaling First-Time Customer Acquisition

Microsoft scales first-time customer acquisition of Windows 3.0 users in 1990 by getting 30 of the main PC manufacturers to preinstall Windows 3.0 and sign long-term licensing agreements. That puts Windows in the hands of millions of users and effectively locks them in.

4 Enjoy the Benefits of Lock-in

Due to the learning curve and software compatibility advantages, customers continuously come back to buy Windows PCs. This lock-in guarantees recurring licensing royalties from PC manufacturers and Windows sales to retail customers for over two decades.

+ Boost Windows Compatible Software

A key component of Microsoft's lock-in strategy is to boost acquisition of developers to quickly increase the number of software applications available for the Windows ecosystem: Windows-compatible software rises from 700 before the launch of 3.0 to 1,200 one year later, and 5,000 by 1992.[25]

Delegators
1956 ~~~ 2019

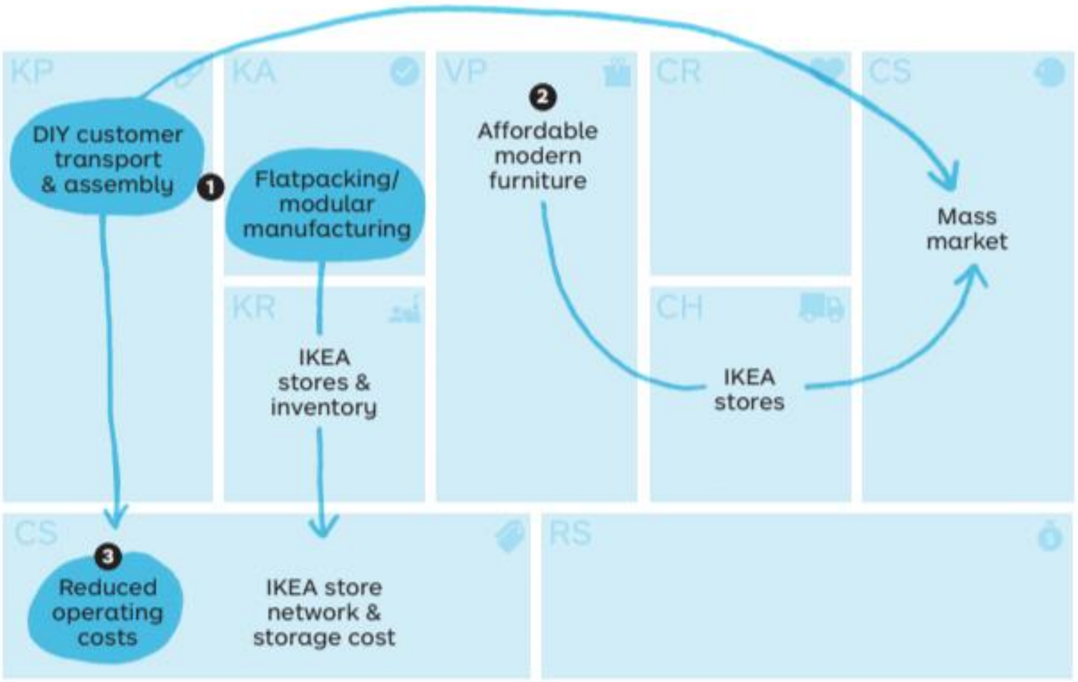
IKEA

In 1956, IKEA introduces "flatpacking" and turns customers into a free workforce that takes over part of the traditional furniture manufacturing value chain. Customers buy furniture in pieces in stores and assemble it in a DIY fashion at home.

IKEA was founded in 1943 on a vision of offering "a wide range of well-designed, functional home furnishing products at prices so low, that as many people as possible will be able to afford them."

In 1956, the stores introduced furniture through the "flatpacking" method: furniture was sold in pieces and customers assembled it at home. By reducing transportation, assembly, and inventory costs, IKEA was able to scale aggressively, locating wherever it had willing customers.

IKEA's ability to leverage the work done by its customers enabled it to grow to 433 stores in 49 global markets, serving more than 957 million customers for a retail revenue of €41.3 billion in 2019.[49,50]



1 Identify How Others Can Create Value for You for Free

In 1956 IKEA adopts flat-pack, ready-to-assemble furniture that is easier and cheaper to transport from factory to retail centers. The company sees an opportunity in getting the customer to take over that part of the value chain.

2 Develop a Value Proposition

Because of flatpacking, IKEA can keep more furniture in stock and offer more affordable prices than competitors. Customers find the modular pieces they want to purchase in IKEA's open storerooms, then transport and assemble them at home.

3 Reap the Operational Savings from Getting Others to Do the Work

IKEA reaps substantial operational cost savings from getting customers to perform part of the work. Since storerooms also act as warehouses, customers select furniture, pick up the flatpacks, then transport and assemble them all at their own cost.

+ Modular Design and Manufacturing

Flatpacking, price differentiation, and customer assembly encourage IKEA to embrace a very modular, simple, clean, and minimalist design for which the company is known globally, which also simplifies manufacturing.

+ Overall Savings from Flatpacking

Flatpacking doesn't just enable cost savings from enlisting customers to do part of the work: it leads to overall cost savings in the manufacturing, storage, and mass transportation of furniture from factories to retail centers.

Xerox

In 1959, Xerox launches the first plain paper photocopier, the Xerox 914. Rather than just selling the machine, they generate long-term, recurring revenues from each photocopy made.

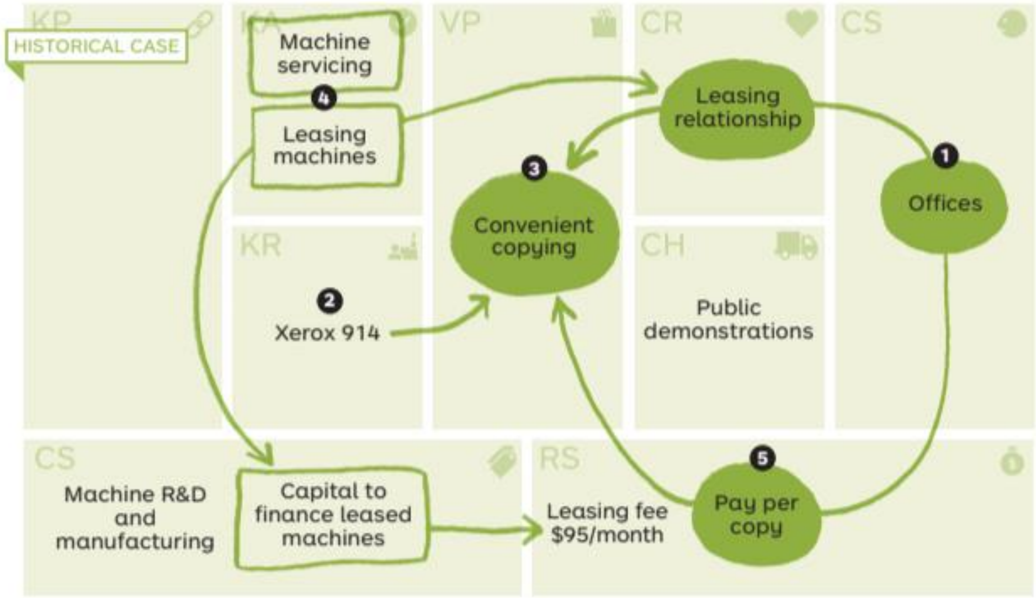
In 1959, Xerox revolutionized access to information by inventing and commercializing the first plain paper photocopy machine, the Xerox 914. The 914 took over a decade and a significant R&D budget to develop.

The machine was revolutionary: averaging 2,000 copies a day or 100 times more than the average business copier at the time.[67]

Because the 914 was expensive, it adopted a leasing model to make it more affordable. Customers were able to cancel the lease with only 15 days' notice, demonstrating Xerox's confidence in its value proposition.

Xerox added a pay-per-copy plan in order to monetize what they believed would become a copy addiction, but included the the first 2,000 copies for free. It's thanks to this innovative business model that earnings from the technology far exceeded earnings had they just sold the machine.

By 1962, the commercial copying business was worth $400 million, up from $40 million a decade before. By then the Xerox name had become synonymous with photocopying.[68]



1 Identify Recurring Job-to-Be-Done

Chester Carlson, a patent office employee, struggles with the cumbersome job of copying documents. At the time, the average business copier produces 15 to 20 copies per day.

2 Create Asset to Monetize Continuously

To address the challenge, Carlson invents and patents a new technique called xerography. Together with what later becomes Xerox, he develops the first plain paper photocopying machine, the Xerox 914, which averages 2,000 copies per day.

3 Design the Value Proposition

Xerox believes that once workers become familiar with the power of photocopies, they will be addicted to the convenience and copy more than ever before. Xerox offers the first 2,000 copies for free and a pay-per-copy plan after that.

4 Acquire Customers

Xerox recognizes that its copier is too expensive and new for mass adoption. It adopts a leasing model to make the machine affordable and get it into offices. Instead of Xerox selling it for $29,500, customers lease it for $95 a month.[69]

5 Earn Recurring Revenue

Each machine is fitted with a counter to tally the monthly usage. After the first 2,000 copies, customers pay 4 cents a copy. This allows Xerox to continuously monetize its value proposition through recurring revenue.

Freemium Provider
2006 ~~~ 2019

Spotify

In 2006, Spotify launches a free online music service to compete against freely available, pirated music. Its main revenue source comes from users upgrading to a premium subscription.

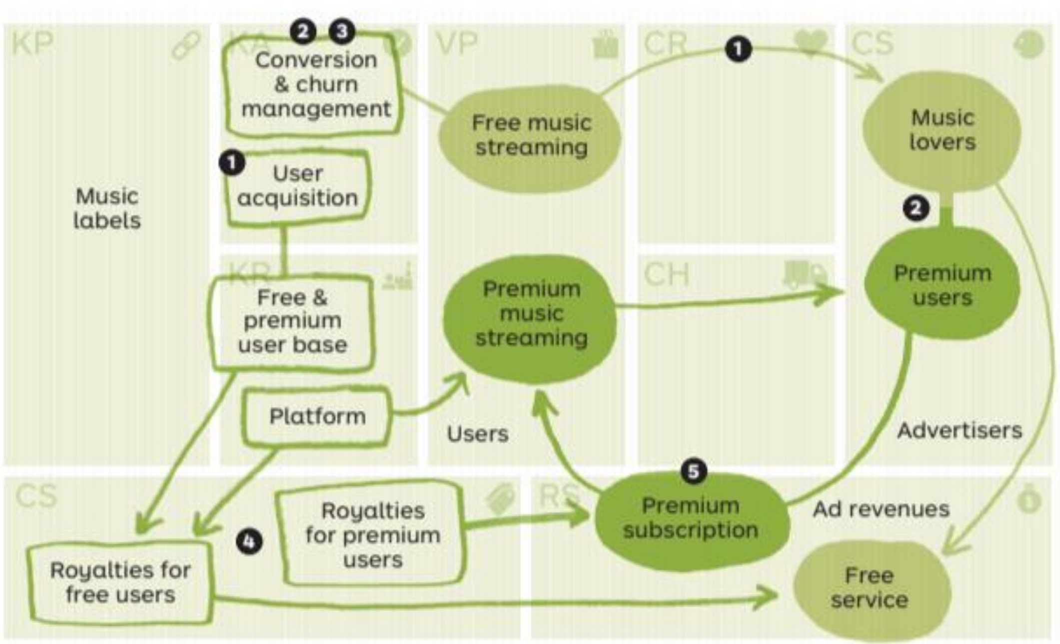
Spotify is a music streaming platform that gives users access to a large catalog of music. It uses a freemium revenue model that offers a basic, limited, ad-supported service for free and an unlimited premium service for a subscription fee.

Spotify relies heavily on its music algorithms and its community of users and artists to keep its premium experience delightful. Its premium subscriber base has grown from 10% of total users in 2011 to 46% in 2018.[80]

From the start Spotify saw itself as a legal alternative to pirated music and paid song purchases on iTunes. Spotify pays a significant portion of its revenue in the form of royalties to music labels. It has paid close to $10 billion in royalties since its launch in 2006.[81]

The company accelerated the shift from music downloads to streaming and disrupted Apple iTunes in the process.

For the first time in company history, Spotify made a profit in 2019.[82]



1 Attract a Large Base of Users with a Free Service

Spotify's free music streaming service gives users access to a catalog of millions of songs. The free service has basic functionality and users have to listen to messages from advertisers that partially subsidize the free service.

2 Convert Free Users to a Premium Value Proposition

Spotify has been extremely successful at converting free users to paid users. Its premium service has additional features and it removes advertising. In 2018, 46% of Spotify's users are premium users, who generate 90% of its total revenues.

3 Manage Retention and Churn

Like in any subscription model a user's lifetime value (LTV)—how much Spotify can earn from a user over time—increases the longer the company can retain users. This is called managing customer churn. In the first half year of 2019, Spotify's premium subscriber churn rate fell to a record low of 4.6%.[83]

4 Balance Cost of Free and Premium

Spotify pays record labels close to 52% of the revenue generated by each stream. Over 85% of music streamed from Spotify belongs to four record labels: Sony, Universal, Warner, and Merlin. In 2018, Spotify pays €3.5 billion in royalties for premium users and €0.5 billion for free users, which equates to 74% of overall costs.[84]

5 Finance It All with Your Revenue Stream from Premium

The particularity of the freemium model is that you need to be able to cover the costs of free and paying users. Spotify's user base grows to over 248 million users in 2019 for which it needs to pay royalties. Of those users, 54% consume (limited) music for free.[85]

Netflix

Netflix shifts from a mail order DVD rental company to an online streaming platform in 2007 when Internet speeds and consumer devices align with Reed Hastings's vision of "movies on the Internet."

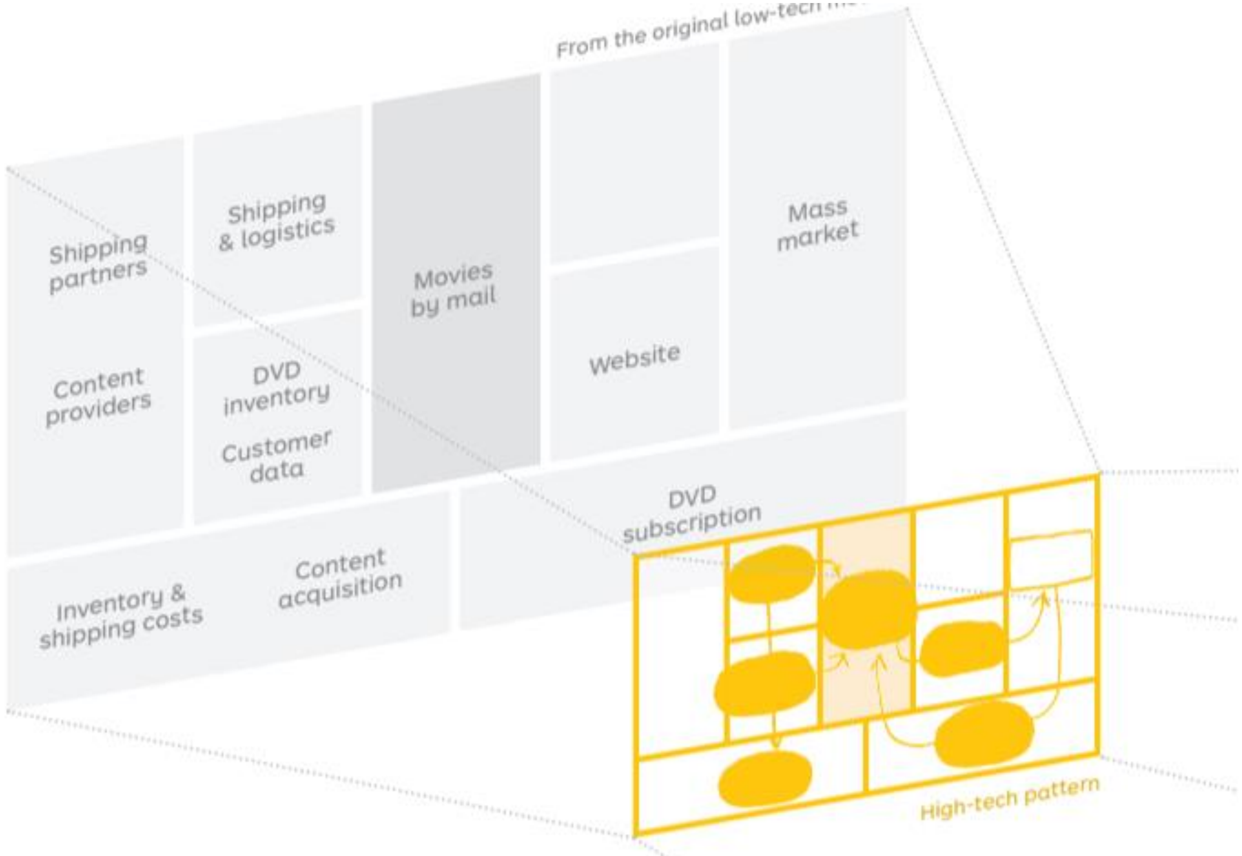
In 1998 Reed Hastings and Marc Randolph launched Netflix as an online DVD rental service. They believed it was the right product and service for the Internet at the time.

Yet from the start the founders had a vision of a video streaming platform. Netflix invested 1 to 2% of its revenue in downloading services, waiting patiently to transform its business model toward streaming with increasing Internet bandwidth.[3]

In 2007, Netflix successfully shifted from low tech to high tech, replacing physical DVDs with online streaming as its main source of revenue.

Revenues grew tenfold in the following decade, with physical DVD shipping no longer constraining scalability. By 2018, 96% of revenue came from streaming.

Netflix adapted its business model again in 2013 and began producing original content. In 2019, Netflix spent an estimated $15 billion on content.[4]



1 From Low-Tech to High-Tech Value Proposition

Netflix launches as an online DVD rental business in 1998, with the vision to move to streaming as soon as Internet speeds permit. In 2007 it makes that vision a reality and shifts to streaming content online.

2 From Low-Tech to High-Tech Activities

To deliver streaming Netflix executes a major shift in key activities. They move from labor-intensive activities such as shipping and logistics to tech activities such as streaming platform development and maintenance. Netflix also expands into licensing and producing content.

3 From Low-Tech to High-Tech Skills and Resources

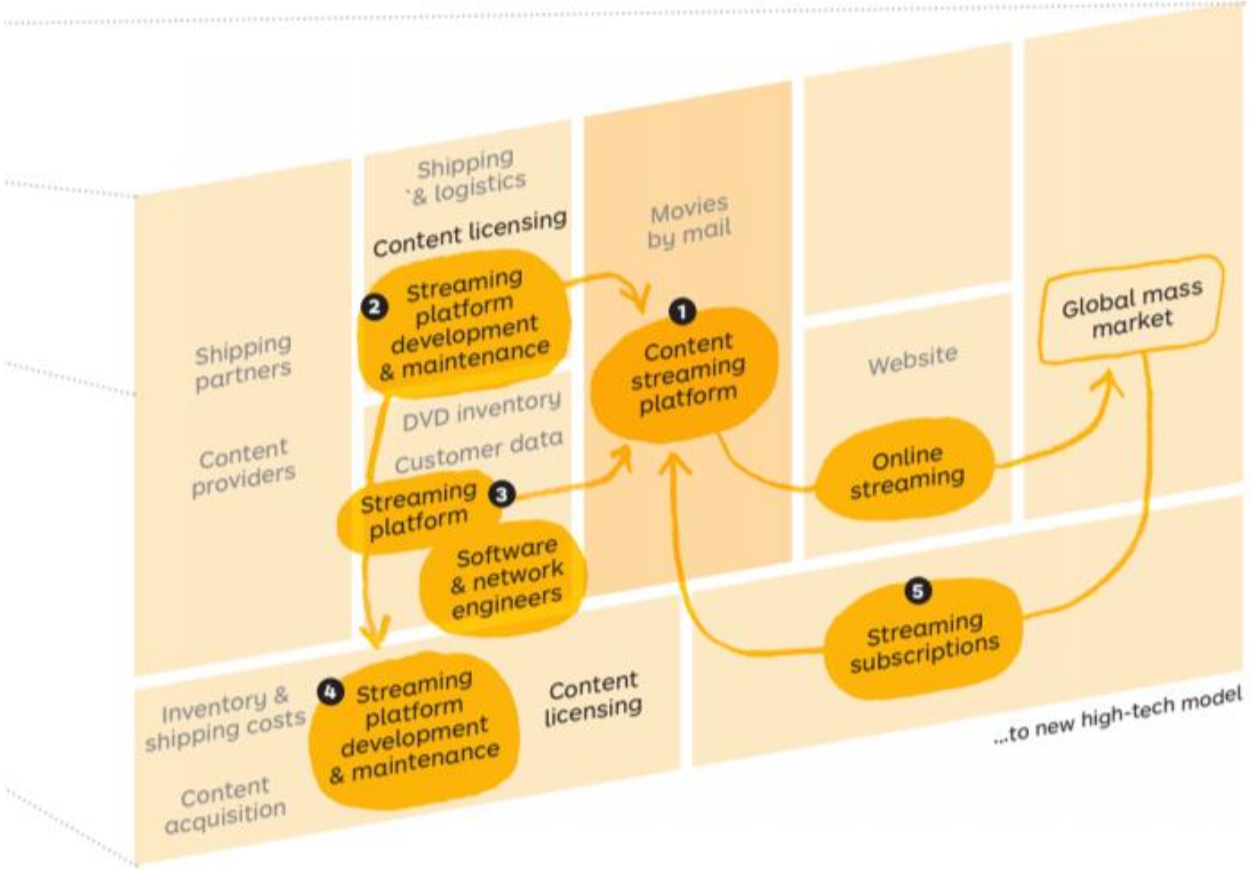
Streaming results in major changes to key resources, with the streaming platform replacing the DVD inventory. Software and network engineering skills become central. Customer-viewing data and recommendation algorithms gain even more importance with the shift to streaming. Data drives content investment decisions and helps customers find relevant content.

4 From Low-Tech to High-Tech Costs

With the major shift in activities and resources Netflix's cost structure evolves from that of a logistics company to one of a software and platform company. Main costs are now platform development and maintenance. In the future Netflix will also increase its investments in content licensing and their own production.

5 From Low-Tech to High-Tech Revenues

Netflix experiments with several subscription plans. To boost growth in 2007 it lowers the price of its streaming plan to $9.99 per month (compared to its DVD subscription of $19.95 per month in 2004). While revenue per customer declines, the ease of access and global reach leads to high customer growth and subsequently greater revenues from its high-tech streaming value proposition.



10%
of U.S. TV viewing

Netflix now accounts for 10% of U.S. TV viewing time. Netflix says it streams 100 million hours a day to TV screens in the United States.[5]

158
million

Paid subscribers globally as of September 2019.[6]

"DVDs will continue to generate big profits in the near future. Netflix has at least another decade of dominance ahead of it. But movies over the Internet are coming, and at some point it will become big business."

—REED HASTINGS IN 2005,
Netflix founder