SimplySeven

IE Business Publishing

IE Business Publishing and Palgrave Macmillan have launched a collection of high-quality books in the areas of Business and Management, Economics and Finance. This important series is characterized by innovative ideas and theories, entrepreneurial perspectives, academic rigor and practical approaches which will make these books invaluable to the business professional, scholar and student alike.

IE Business School is one of the world's leading institutions dedicated to educating business leaders. Palgrave Macmillan, part of Macmillan Group, has been serving the learning and professional sector for more than 160 years.

The series, put together by these eminent international partners, will enable executives, students, management scholars and professionals worldwide to have access to the most valuable information and critical new arguments and theories in the fields of Business and Management, Economics and Finance from the leading experts at IE Business School.

SimplySeven

Seven Ways to Create a Sustainable Internet Business

Erik Schlie

Professor and Associate Dean, IE Business School

Jörg Rheinboldt

Managing Director, M-10

Niko Marcel Waesche

Managing Partner, Cafelido Capital and Consulting

palgrave
macmillan

© Erik Schlie, Jörg Rheinboldt & Niko Marcel Waesche 2011

Softcover reprint of the hardcover 1st edition 2011 978-0-230-30817-6

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2011 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN 978-1-349-33894-8 ISBN 978-0-230-34967-4 (eBook)
DOI 10.1057/9780230349674

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1
20 19 18 17 16 15 14 13 12 11

CONTENTS

<i>List of Tables</i>	viii
<i>Acknowledgments</i>	ix
1 Think outside the box, constantly experiment and evolve	1
The Airbnb story	1
“Dance like an idiot and don’t sell anything”	2
Don’t think, just test	7
The search for the perfect business model	13
Getting started	16
<i>SimplySeven</i> – that’s it	19
The making of this book	23
2 The first building block – services sales	26
Plain and straightforward	26
A business model with problems	31
“Can I skype you?”	34
3 The second building block – subscriptions	38
The heaviest weapon in the arsenal	38
The rise and fall of AOL	40
The “Bouncer Effect”	43
In the “dog house”	45
The future of clubs	46
Getting people to subscribe	47
4 The third building block – retail	48
Don’t treat online like offline	48
The million books project	50
Early death in May 2000	51
Being good at bricks is not enough	53
The “Long Tail” vs. “superstar economics”	55
Fighting the clutter	57
The future of the shop is personal	58

5	The fourth building block – commissions	61
	Don't believe your clients are stupid	61
	The beauty of C2C	64
	Listings * ASPs * Conversion Rates = GMV	66
	Fraud	67
	The B2B trap	68
	Beware of the smart client	70
	Reports of the death of the intermediary	72
6	The fifth building block – advertising	74
	You force it, you lose it	74
	Spam and pushy banners	77
	Search revolution	78
	“The wisdom of money”	80
	The death of the newspaper	82
	The sexiness of statistics	84
	Advertising as a service	87
7	The sixth building block – license sales	90
	You will need all your friends	90
	Intellectual property 300 years after Queen Anne	91
	The indecisive history of computing platforms	94
	Distributed distribution	97
	“Stay hungry. Stay foolish.” – the rebirth of Apple	98
	Platform building best practice	102
	The “Battle of Platforms” in entertainment	105
	Micro license sales – evolution continues	108
8	The seventh building block – financial management	111
	Making money with money	111
	The mysteriously slow growth of financial services online	113
	George W. Bush wrecks the party	116
	The brave and few	117
	Investment in Internet real estate	118
	Investment in Internet traffic	119
	Spread betting services	119
	Internet-based B2B, B2C, C2C and even C2B loans	119
	Substitute for the informal economy	121
	Our favorite so far: Weatherbill	121

9	It's a freemium world	122
	Paying nothing	122
	You can live on love alone	123
	Chris Anderson's 5%/95% rule	124
	A web powered by small deeds of heroism	127
	The reciprocal donation economy and innovation	128
	A fairy tale with a GNU	130
	One million lines of code	132
	Three million articles	134
	Donated power for business	137
	Competing with free	139
	The Facebook dilemma	141
	It's a freemium world	144
10	The future of web business is personal	147
	Methods and tools to guide customers	147
	Flexible payment infrastructures	148
	Payment as web services	149
	Fast-track companies taking advantage of payment web services	151
	Virtual currencies and coupons	152
	Mobile payments everywhere	155
	Guiding the customer	157
	Examples of personal businesses on the web	159
	Reputation and trust as an opportunity	160
	Back to the basics	161
Appendix	Stress-testing the <i>SimplySeven</i>	163
	The selection criteria	163
	Initial results: seven confirmed and unevenly distributed	164
	Retail leads in sales	169
	Market valuations – advertising, again	172
	Margins – the beauty of aggregation	173
	Key financial indicators	174
	<i>Interviews</i>	177
	<i>Notes</i>	179
	<i>Index</i>	188

LIST OF TABLES

1.1	The <i>SimplySeven</i> building blocks	20
1.2	The <i>SimplySeven</i> and founding years of leading Internet companies	22
9.1	Comparison of AT&T and Skype in 2007	140
A.1	<i>SimplySeven</i> Internet company universe	166
A.2	Total business model revenue	170
A.3	Top five revenue	170
A.4	Top five average monthly revenue/average monthly users	171
A.5	Many users and rapid growth – the advertising business model	171
A.6	Top five enterprise value/revenue	173
A.7	Top five operating income margin	174
A.8	Key financial indicators (list)	174
A.9	Key financial indicators (bubble chart)	175

ACKNOWLEDGMENTS

This book started out with the three of us getting together on weekends to discuss Internet business models. We did not know these sessions would turn into a book someday. From the start, we used the *SimplySeven* framework in our consulting work, to discuss monetization with entrepreneurs and in the courses we have taught. It has guided us in running our own companies and as investors. During this time, we collected new ideas and continually tweaked the framework. For this reason, it is impossible to thank all that have helped with this book. But at least let us try to acknowledge some of our biggest contributors – without whom this book would surely not have existed.

A heartfelt thank you goes to Aljoscha Kaplan. Aljoscha began supporting us from the beginning as Research Assistant. Since then, he has assumed many more roles than that, helping the book along in many important ways. Julia Stauf also worked as Research Assistant, as well as Michael Heim. Michael was responsible for the financial analysis of the business models and for building our universe of representative Internet companies.

We have consulted many friends to get feedback and input about areas we were unsure about. Kenneth Neil Cukier provided insight into some of the concepts very early on. David Ko is a physicist and the founder of Kurtosis Capital Partners in London. David sharpened our thinking about financial risk. We hasten to point out that any faults with the financial chapter are entirely our own. This applies to the other chapters as well, of course. The co-founder of Europe's largest affiliate advertising network, Thomas Hessler of Zanox, explained the intricacies of affiliate advertising to us. A dear friend in Paris, Julie Kang, provided us with insight into the endurance and tenacity required running a small retail business in the real world and on the Internet.

In early 2011, we carried out interviews with leading thinkers, investors and entrepreneurs in the States and Europe. A list of the interview partners can be found at the end of this book. Each and every interview partner set aside valuable time. We know that this was a significant investment and we wish to express our deep gratitude for the time and the insight.

We also want to thank here those who helped us (and trusted us) to provide personal introductions to the interview partners: Matt Bannick, Chris Barter, Albrecht von Breitenbuch, Jason Montgomery Brown, Frédéric Court, Kenneth Neil Cukier, Steven Dietz, Kerstin Ebock, Frerk-Malte Feller, Paul Graham, Christopher Grew, Lawrence Lessig, Jessica Livingston, Roland Manger, Gabriel Graf Matuschka, Yuri Milner, Stephan Schwahlen, Reshma Sohoni and Michelangelo Volpi.

Countless improvements to the book came as suggestions from the students we taught with different versions of this material over a period of years. They were the guinea pigs for the first versions of this material. We want to thank the students of the London School of Economics and Political Science Department of Management (2011), the Leuphana University Bachelor Program (2010), the Citigroup Entrepreneurship Program in the American Academy, Potsdam (2009), Zeppelin University, Friedrichshafen (2009), the Master of Public Policy Classes of the Humboldt Viadrina School of Governance (2010 and 2011) as well as the Technical University for Design in Berlin (BTK), way back in the Winter Semester of 2006/7.

We are very thankful to IE Business School in Madrid, the academic hub where Erik works, and want to acknowledge especially the wonderful support by IE colleagues Cynthia Fernández, Oswaldo Lorenzo and Marco Trombetta. Dean Santiago Íñiguez de Ozoño has been a continuing source of encouragement throughout the project. IE is one of the leading business schools in the world; an international institution dedicated to educating business leaders through programs based on core values of global focus, entrepreneurial spirit and a humanistic approach. *SimplySeven* is one of the first books in the new IE Business Publishing Program – in association with Palgrave Macmillan. The objective of the IE Business Publishing Program is to initiate global dialogue combining academic insight and practical business experience.

We would be delighted if this book was not the end of the many exciting discussions about Internet business models we have had, but rather a new beginning with a larger community. We hope that our web site www.SimplySeven.net and the associated Facebook page /SimplySeven will become a forum for continued discussion. The web site and Facebook already contain feedback to earlier versions of some of our thinking.

Speaking of the web site, Jan Persiel created it, putting in some serious overtime. He is a master in combining communication design and web technology – drawing on countless years of experience (he doesn't want to count them). The funky illustrations on the site were created by Alexander Gellner. Alexander is a Berlin-based designer specialized in

illustrations, cartoons and motion graphics. Alexander works pro bono for The Red Cross of Germany.

We look forward to the ongoing discussion on the web. We are convinced that the most valuable insight on the topic of Internet business models will surely come from you; the book is only the beginning. Enjoy the book, please join us on the web, and take care.