Abstract

Entrepreneurial Learning:
The Three Dimensions of Business Model Iteration

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In Entrepreneurship Education a paradigm shift is happening. For two decades the writing of business plans has been in the center of most entrepreneurship curricula. In a business plan the entrepreneur had to develop a well thought through business concept and tried to win the support of investors for it. Based on the management practice of venture capitalists a business plan was key to rationalize the investment decision. But business plans are based – at least partly based - on opinions (Blank 2006), assumptions (McGrath/MacMillan 1995), or guesses (Osterwalder/Pigneur 2010) that still have to be verified. The portfolio approach of VCs reveals the fact that a startup investment decision is not based on reliable information. The future is not as sure as the business plan predicted it to be.

Today entrepreneurs know that most business will not be implemented the way they were originally planned and empirical research support their reluctance to plan in detail for something as uncertain as the future of an innovative startup in an unproven market (Lang et al. 2005). The writing of a business plan (with detailed revenue and cost scenarios) without any proof of concept often does not lead to a positive investment decision. Instead of writing a 50-page business plan before the start today´s entrepreneurs first pitch for smaller (informal) investments (e. g. with a 10-Page Powerpoint presentation). With this first small investment they explore the market, try to find pilot customers and draft a business model that demonstrate the ability of the new product or service to fulfill customer´s needs. Having found the customers and a first revenue model, they look for financial partner with whom they finally write a full-blown business plan for the rollout – knowing that their business model is still not ready and that they still need to understand the customer and the logic of the market (or the industry).

The presentation and the full paper will integrate the concepts of Discovery Driven Planning (by McGrath/MacMillan, 1995), Getting-to-Plan B (by Mullins/Komisar 2009) and Customer Development (by Blank 2006) to a three-dimensional framework of entrepreneurial learning. The three dimensions are: a) The business model development Process – b) Tracking Metrics – c) Learning.
a) The iterative business model development process is based on the idea of agile software development- Agile Development replaces long and expensive processes of software development according to detailed written specifications by shorter steps that were run together with the user.
b) Tracking Metrics is the ability of the startup to measure the assumptions from the business plan and to find out to which degree they are correct or not. Our approach recommends to measure customer´s reactions even before the act of buying (e. g. during the sales funnel).

c) Finally the entrepreneurs competence to read market signals and to learn that mean to adapt the business model has to be analysed. Entrepreneurs develop their business model in an iterative process that includes the testing of assumption according to milestones. The idea of testing assumptions as part of the entrepreneurial management is supported by a basic article from the Noble laureate F. A. v. Hayek (Wettbewerb als Entdeckungsverfahren / “Competition as a discovery process”, 1968) and new findings of the Startup Genome Project (Marmer et al. 2011) and Eric Ries (2011).

This three dimensional concept that is based on own research projects (Ripsas/Zumholz 2011) will help startups and established companies that introduce innovations to the market to reduce the risk of financial losses.

Literature

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