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Stef van der Meulen
Ivan Villagomez Garcia

Jönköping International Business School, May 2012
Master’s Thesis within Business Administration: Strategic Entrepreneurship

Title: The Evaluation of Business Models by Venture Capitalists

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Subject terms: Business Models, Venture Capitalists, Venture Capital Funds, evaluation, instrument, perception, criteria.

Abstract

The purpose of this study is to identify the role a business model plays for Venture Capitalists (VCs) when analysing a new venture proposal for funding. The primary data for this research was collected through six qualitative interviews conducted during a two month period. Furthermore, the gathered data was evaluated in accordance with the information found in current literature which describes the term ‘business model’ as well as specific evaluation criteria for it. The findings from this research demonstrate that the perception of the role of a business model is strongly similar among the VCs whom were interviewed. They all argued that a business model plays a secondary role in the evaluation process and see it as a part of a business plan. At the same time, this research could pinpoint the fact that no specific instrument including explicit evaluation criteria is currently being implemented by the VCs in question in order to evaluate a business model.

Notwithstanding this study cannot be generalized since the pool of applicants included only six Investment Managers working in Venture Capital Funds in Sweden and Mexico. At the same time, even though the geographical differences exist, the evaluation process resulted quite similar amongst them. Evidence from this study has demonstrated that the current ambiguity of the meaning of the term ‘business model’ is the most frequent perceived challenge to the evaluation of these. Therefore, our interest to shed more light into the topic was encouraged.
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<tr>
<td>BMI</td>
<td>business model innovation</td>
</tr>
<tr>
<td>BMS</td>
<td>business model scorecard</td>
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<tr>
<td>e.g.</td>
<td>exempli gratia</td>
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<td>et al.</td>
<td>et alia</td>
</tr>
<tr>
<td>etc.</td>
<td>et cetra</td>
</tr>
<tr>
<td>i.e.</td>
<td>id est</td>
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<td>SJT</td>
<td>social judgment theory</td>
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<td>VC</td>
<td>venture capital</td>
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<td>VCs</td>
<td>venture capitalists</td>
</tr>
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<td>VCF</td>
<td>venture capital fund</td>
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<tr>
<td>VCFs</td>
<td>venture capital funds</td>
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<td>VCM</td>
<td>venture capital model</td>
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</table>
1 Introduction

“If you always do what you always did, you will always get what you always got.” (A. Einstein). As the previous quote states, in order to achieve a different outcome for a specific purpose it is required to alter the way one has done things. Inspired by this, the research aims at providing a deeper understanding of the role of a business model. The reason behind this is the authors’ acknowledgement through personal observations of the true value of the appropriate use of a well formulated business model in the field of new venture proposal evaluation by venture capital funds (VCFs).

1.1 Background

When starting a new venture, entrepreneurs assume that success can be found just around the corner. They commonly think that simply because there might be a clear presence of market prospects, inventive business ideas, acceptable resources and a skillful team the venture’s success is almost guaranteed. But why do some ventures go wrong in spite of all the previously mentioned factors being present? A potential reason for this could be the way the chosen business model functions. Even though the case of failing business models is commonly present, little or no focus by scholars has been set in order to agree on a concise definition of what a business model is (Teece, 2010). Therefore, no general agreed definition of a business model has been developed and second to none effort is present on trying to create a clear functional research on the topic (Morris, Schindehutte and Allen 2005).

When mentioning the term ‘business models’ various meanings arise in our brain. In fact investigators on this topic have developed a vast amount of definitions failing to agree upon a concise one (Demil and Lecoq, 2010). This leaves the door open for further research to be endured in order to accurately explain the term (Zott, Amit and Massa, 2011). Previously, this term did not pertain its own independence or focus it deserved given the fact that it was only considered as belonging to the strategy of a business plan (Seddon, Lewis, Freeman and Shanks, 2004).

1.2 Problem

In the past, business models were not considered a major factor for venture capitalists (VCs) when analysing a new venture’s capability. According to Zacharakis and Meyer
(1998), since the 1970s until the early 1990s VCFs used to focus primarily on factors such as; characteristics of the entrepreneur, product and service characteristics, market characteristics, financial characteristics as well as others in order to evaluate the likelihood of providing funding to venture proposals. At the beginning of the 21st century Franke, Gruber, Harhoff and Henkel (2008) found that the order of the criteria VCFs used to evaluate new ventures shifted into four major groups related to; the product service offering, the market/industry, the start-up team and the financial returns to be expected.

It has not been until the last decade that business model innovation (BMI) has gotten a greater spotlight from VCFs as well as from the academic world (Zott, Amit and Massa, 2010). This is the case, given the fact that the practice of innovating a company’s business model has resulted in organizational success for recent thriving companies such as Google or Apple (Amit and Zott, 2001). These companies have focused their innovation mostly on their business model and practice. Therefore, it has finally started to receive the attention that to our opinion it deserves. This statement is confirmed by Franke et al. (2008, p. 479) as the study suggests for further research on the topic. They argue that; “it may be fruitful to investigate the assessment of business models related to the evaluation of other aspects of venture proposals.”

In a supportive addition, Günzel and Wilker (2009) state that business model pattern identification currently is a common undergoing practice. They also encourage for further research on this matter. Therefore, this study foresees to contribute to the provision of these techniques which will help VCs by improving the identification and evaluation of business models.

1.3 Purpose
The goal of this study’s purpose targets the main characteristics of the aforementioned problem that the authors of this research will investigate. This is the main reason why we have chosen to follow a twofold structure. By doing so this study contributes both in an explanatory and evaluative way. Firstly, the explanatory purpose focuses on the role of a business model when analysing a proposal for new venture funding by a venture capital fund (VCF). This approach will try to identify the significance of the role and the reason(s) behind this within the scope of VCs.
Secondly, the evaluative (normative) purpose focuses on how something ought to be (Lipson, 2005). Therefore, this purpose focuses on finding out if it may be fruitful for VCs to possess an instrument that facilitates the evaluation of business models.

1.4 Research Questions

The structure of the research questions is inspired on Whetten’s (1989) components of theory. He presents information about the importance of sensitivity to the competing virtues of parsimony and comprehensiveness. According to Whetten (1989) the steps commence with ‘what’ which refers to the main factors that compose the topics of interest. Followed by the ‘how’ which resembles if the aforementioned factors of the relationship(s) is/are affected. Moving on to the ‘why’ which establishes the reasons and evidence of the interaction factors leading to compellingness. Finalized by ‘who, where, when’ which indicate the limitations to the previously mentioned steps related to their discovered relationship(s) after testing these. This process results in the following research questions:

**Q1:** What is the role of a business model when evaluating a proposal for new venture funding by VCFs?

**Q2:** What are the criteria considered when VCs evaluate a business model?

**Q3:** What kind of instrument would be fruitful for VCs to evaluate business models?

1.5 The Structure of the Report

In the first chapter of the report the provided information aims at grasping the readers’ attention with an introduction of the topic of interest. As a result, a clear understanding of the main aspects of this study which include; the background, problem, purpose and research questions can be reached. The answers to the research questions are found in the final section of this research. Chapter 2 provides a scientific approach of the previously conducted academic research. Whereas Chapter 3 explains the way this study is conducted. Chapter 4 includes the analysis and interpretation of the conducted in-depth, semi-structured interviews with six VCs. In Chapter 5 the derived results are concluded, discussed and our contribution to the field of study is stated.
1.6 Delimitations

According to Boyce and Neale (2006) there are several delimitations that could affect the outcome of a research. After careful analysis the authors of this study believe that the following are the possible delimitations this study may encounter:

- **Prone to bias:** Given the fact that VCs may want to demonstrate that their pre-established evaluation criteria function correctly their answers provided during the interview may be biased. A strong focus was put on the design of the questions asked to the interviewees so that the answers of these allow for minimal bias of their responses.

- **The lack of a concise definition of a business model:** As previously stated in this study, up to this date, the research on the term ‘business model’ has failed to reach a consensus on a definition for this term. This situation has encouraged the authors to base their primary definition of a business model based on one developed by Baden-Fuller and Morgan (2010). This choice of main definition chosen may not be agreed upon by the rest of the academic world.

- **Population size:** This implies that this research is restricted to a sample size rather than the population conveying a large pool of applicants, making it more difficult for a generalization on the results to be developed.

- **Not generalizable:** It is usually the case that generalizations of the results of conducted in-depth semi-structured interviews of a specific study cannot be made. The reason for this being that often small samples are picked and random sampling methods are not implemented. Notwithstanding, in-depth semi-structured interviews still provide valuable information especially when functioning as an add-on to other methods of data collection.

It is clearly understood that an overall generalization may not be provided since our pool of candidates is relatively small. However, the results gathered will serve as a reference for further in-depth studies that wish to provide a generalization of the topic.
1.7 Definitions
The meaning of the following terms has been adapted according to the authors’ interpretations. The reason for this, being that there are differential definitions formulated by other authors. The authors of this research selected the following concepts:

- **Business model**: A business model clearly describes the way a company creates and captures value (Baden-Fuller and Morgan, 2010). See paragraph below Table 2 for reasoning.

- **Business model innovation**: The implementation of a new idea or method on a business model in order to improve the functionality of the business, its products, or services provided (Giesen, Berman, Bell and Blitz, 2007).

- **Venture capitalist**: Venture Capital (VC) is an independently managed, dedicated pool of capital that focuses on equity or equity-linked investments in privately held, high-growth companies (Hudson and Evans, 2005).

- **Venture capital investment funds**: An independently managed, dedicated pool of capital that focuses on equity or equity-linked investments in privately held, high-growth companies (Ruhnka and Young, 1987).

2 Theoretical Background
This chapter of the study denotes the theoretical background within the topic of this research. The theories referred to in this chapter are used as the foundation for this study. The theoretical background provides support by presenting our topic of interest within the perspective of other studies in the same discipline. As it is of great importance for all research studies to underpin primary data with secondary sources of literature such as; articles, journals, books and other sources of relevant literature (Lipson, 2005). Evaluating both sets of information obtained is useful to compare and relate the findings with the existing academic literature.

2.1 Business Models
The focus on business models is recent. As a proof, when searching for information on the topic most of it has been developed in the last ten to fifteen years (Demil and Lecoq, 2010). The relationship of the increment precisely in this period of time can be related to the e-business expansion which can be associated to the ‘new economy’ (Morris et
al., 2005). One may assume that after 10 to 15 years of incremental development on the topic of business models which include a numerous quantity of articles published, seminars, conferences, etc. it would have been easier for either researchers or the business world to finally formulate a mutually accepted definition and study path on the topic. Unfortunately, the outcome turned out to be different. Once again, progress of the topic has been obstructed in different ways by the difficulty on agreeing over the main factors composing a business model (Zott et al., 2010). According to Zott et al. (2010) there is little to none insights available regarding the high number of conditions of a business model. A few of these include available regarding the high number of conditions of a business model. A few of these include the following:

- **The particularities that make a model suitable**
- **The form in which business models interact with organizational variables**
- **The presence of generic model types**
- **The dynamics of a model evolution**

As a result, even though, the existence of interdependence among key components has been identified, research has failed to explain in detail how it happens. It is also important to mention that research has failed to establish a clear methodology to evaluate the quality of a business model (Morris et al., 2005).

A study that searched for the functionality of the term business models in management articles dating from the 1970s - 2000s was conducted by Ghaziani and Ventresca (2005). The results were based on the outcome provided by the ABI/INFORM database which resulted in over 1,700 articles that included the term ‘business model’. It is important to note that out of this 1,700 articles only under 170 of them were promulgated within the mid-1970s and mid-1990s. The rest of the published articles (over 1,500) were written between the mid-1990s and the 2000s. This striking increase on the number of publications clearly shows a sudden, growing interest on the term. According to several researchers (Zott et al., 2010) the interest on the term by the academic and business world suffered a major boom between 1995 and 2010. This sudden emergence of the growing number of business model literature was the result of the invention and wide-use of the Internet which revolutionized the way business were made (Amit and Zott, 2001). This in turn required for scholars and business researchers to re-develop the way business and business models were seen (Seddon et al., 2004). In order to try and
do this in an accurate way the new research had to restart the ongoing one which up until that point had experienced a halt (Zott et al., 2011).

Figure 1 clearly depicts the sudden growth of business model articles in the business/management fields. The label PnAJ identifies those articles Published in non-Academic Journals, whereas the label PAJ identifies articles Published in Academic Journals.

![Figure 1: Business Model Articles in the Business/Management Field](image)

When trying to understand Figure 1 above, the boost in growth can be clearly comprehended by a massive increase in business model articles found in non-academic journals.

2.1.1 Business Model Definitions

The various differences in the current operational definitions of the term have caused the eruption of substantive challenges for researchers to define the nature and elements of the term (Osterwalder, Pigneur and Tucci, 2005). As a result, it has become an even more difficult task to accurately state what composes an effective model (Seddon et al., 2004). This situation results in disorientation in the terminology (Demil and Lecoq, 2010).

At the most rudimentary level, a business model is defined solely in terms of the firm’s economic model. Stewart and Zhao (2000, p. 289) approach the model as; “a statement of how a firm will make money and sustain its profit stream over time.” The most basic definition of a business model is expressed specifically regarding the firm’s economic

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1 Source: Zott et al. (2010)
model (Stewart and Zhao, 2000). Among the existing definitions of the term, the most prominent ones refer to the strategic elements of it. Referring to strategic elements of the definition, the overall path emphasizes factors such as; the firm’s market positioning, interactions across organizational boundaries and growth opportunities (Osterwalder et al., 2005).

In general, business models have been defined as shown in Table 1 below.

Table 1: How Business Models Are Defined²

<table>
<thead>
<tr>
<th>Definition Type</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>A statement</td>
<td>Stewart and Zhao, 2000</td>
</tr>
<tr>
<td>A description</td>
<td>Applegate, 2000; Weill and Vitale, 2001</td>
</tr>
<tr>
<td>A representation</td>
<td>Morris et al., 2005; Shafer et al., 2005</td>
</tr>
<tr>
<td>An architecture</td>
<td>Timmers, 1998; Dubossen-Torbay et al., 2002</td>
</tr>
<tr>
<td>A conceptual tool or model</td>
<td>Osterwalder, 2004; Osterwalder et al., 2005; George and Bock, 2009</td>
</tr>
<tr>
<td>A structural template</td>
<td>Amit and Zott, 2001</td>
</tr>
<tr>
<td>A method</td>
<td>Afuah and Tucci, 2001</td>
</tr>
<tr>
<td>A framework</td>
<td>Afuah, 2004</td>
</tr>
<tr>
<td>A pattern</td>
<td>Brousseau and Penard, 2006</td>
</tr>
</tbody>
</table>

A study conducted by Zott et al. (2010) was developed in order to show that on average the studies conducted on the topic of business models lack a specific definition of the concept. Their research included 103 business model publications which were reviewed and the results were the following:

- 37% of the publications fail to state a definition
- 44% define the concept according to the authors’ understanding of it
- 19% just use existing definitions when stating the meaning of the term

As it can be noted, this study clearly shows that current publications are either undermining the importance of the meaning of the term, conceptualizing it, or just referring on existing definitions previously developed by scholars. As a result, this non-existent

² Source: Own elaboration
clearness of a concise definition encourages disarray and dispersion instead of an overall agreement.

Given the lack of clarity and a concise definition of what a business model is, the authors’ of this research have decided to consider six existing definitions of the terms as the most accurate ones. The choice of these was given the fact that out of the various definitions that exist, these are the ones that to our perspective provide a better understanding of the term. Before stating our final selected definition, this study will introduce the selected definitions and their authors in Table 2 below.

Table 2: Selected Business Model Definitions

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Year</th>
<th>Definition</th>
<th>Papers citing the definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timmers,</td>
<td>1998</td>
<td>“The business model is an architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the source of revenues.” (p. 8)</td>
<td>Hedman and Kalling, 2003; Morris et al., 2005; Zott and Amit, 2007; Zott and Amit, 2008; Santos et al., 2009; Bock et al., 2010; Zott and Amit, 2010</td>
</tr>
<tr>
<td>Amit and Zott,</td>
<td>2001</td>
<td>“The business model depicts the content, the structure, and the governance of transactions designed so as to create value through the exploitation of business opportunities.” (p. )</td>
<td></td>
</tr>
<tr>
<td>Chesbrough and Rosenbloom,</td>
<td>2002</td>
<td>“The business model is the heuristic logic that connects technical potential with realization of economic value.” (p. 529)</td>
<td>Chesbrough et al., 2006; Chesbrough, 2007a, 2007b; Teece, 2007, 2010</td>
</tr>
<tr>
<td>Davila et al,</td>
<td>2006</td>
<td>“Business models describe how the company creates, sells, and delivers value to customers, and it includes in the description the supply chain, targeted customer segments and the customer’s perception of the delivered value.” (p. 14)</td>
<td></td>
</tr>
<tr>
<td>Baden-Fuller and Morgan,</td>
<td>2010</td>
<td>“A business model clearly describes the way a company creates and captures value.” (p. 5)</td>
<td>Demil and Lecocq, 2010</td>
</tr>
<tr>
<td>Teece,</td>
<td>2010</td>
<td>“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value.” (p. 179)</td>
<td>Gambardella and McGahan, 2010</td>
</tr>
</tbody>
</table>

Source: Own elaboration
When selecting an appropriate definition(s) for this study to base itself on, it was crucial to identify in these the two most important characteristics which to our opinion a business model entails, these are; ‘value creation’ and ‘value capture’. As it can be seen, all of the six definitions stated above focus their description of the term on providing an understanding that business models create and deliver value in different ways. Therefore, based on our selected definitions and in our opinion the term can be best defined as: “A business model clearly describes the way a company creates and captures value (Baden-Fuller and Morgan, 2010).” The reason behind this is that according to the authors of this research the aforementioned definition provides a more concise description of what a business model is.

2.1.2 Business Model Innovation

Various definitions of innovation have been developed over the years. However, the Austro-Hungarian economist Schumpeter was the first to recognize the importance of understanding innovation. Schumpeter (1934) states simply that innovation is carrying out new combinations. He also states that there are five cases of innovation:

1. Introduction of a new good
2. Introduction of a new method of production
3. Opening a new market
4. Opening a new source of supply
5. New organization of an industry, like the creation or breach of a monopoly position

Even though Schumpeter’s definition was developed almost 80 years ago, it is still comprehensive (Foster, 1986; Goffin and Mitchell, 2010). Innovation differs from invention since an invention in only the formulation of news ideas for products or services and innovation is about the practical application of transforming new inventions into successful marketable products or services (Schumpeter, 1934). One can say that innovation is invention plus commercial exploitation.

There are different types regarding innovation based on the impact. The framework illustrated below in Figure 2 displays these different types of innovation (Davila, Epstein and Sheldon, 2006).
Incremental innovation leads to small improvements and creating as much value as possible from existing products/services or processes without making significant changes or major investments (Davila et al., 2006). Semi-radical innovation involves substantial change to either in business model and technology of an organization— but not both. It is a way to break away from incremental innovation but still rely on a subset of core competencies (Utterback, 1994). A radical innovation is a significant change that simultaneously affects both the business model and the technology of a company (Cooper and Smith, 1992). Radical innovations usually bring fundamental changes to the competitive environment in an industry (Henderson and Clark, 1990).

Prosperous organizations combine both business model and technology change in order to attain innovation. In like manner, to successfully integrate a vigorous model of innovation into the business mindset the company must balance both its business and technology elements of innovation. Referring to this, there are six levers of innovation which are clearly illustrated below in Figure 3 (Davila et al., 2006).

---

4 Source: Davila et al. (2006)
5 Source: Davila et al. (2006)
Innovation itself calls for changes into one or more of these six elements shown above. For the purpose of this study the authors will only go in depth in regard to the three levers of BMI.

The first lever of BMI innovation being ‘value proposition’ refers to alterations in the value offer of a product or service. What this basically means is offering not only a completely fresh product or service to the market place, but it may also include offering just an elaborate proffer for an ongoing project. The next lever of BMI innovation being ‘supply chain’ refers to the process of value creation and delivery to the industry. Modifications to this lever are normally unperceived by the customers since these commonly happen within close doors of the company. When a change in this lever occurs it usually alters different steps of the supply chain. This change can have its effect felt on a company’s organization process, its collaborators and its functioning way when developing and supplying its products and services. The third and last element of BMI being ‘target customers’ refers to the modifications of the entity the company is selling its products and services to (target audience). These normally take place during a company’s process of customer segment identification. These customers are the ones who have not been focused on in the past, so the company now concentrates its promotion, sales and supply networks to attract these. Table 3 below provides an overview of the types and levers of innovation.

Table 3: The Levers for the Three Types of Innovation

<table>
<thead>
<tr>
<th>Types of Innovation</th>
<th>Value Proposition</th>
<th>Supply Chain</th>
<th>Target Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>Small change in on or more of the six levers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-Radical</td>
<td>Significant change in one or more of the six levers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Radical</td>
<td>Significant change in one or more of the three levers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Giesen et al. (2007) developed a framework for BMI because interviewed business leaders had difficulty defining BMI. Figure 4 below illustrates the three different main types of models distinctive but are often used complementary.

---

6 Source: Davila et al. (2006)
Industry models refer to innovation within the supply chain by moving into new industries, redefining existing ones or creating completely new ones. Revenue models innovate in generating revenue by reconfiguring the value proposition or offering new pricing models. Enterprise models focuses on innovating the structure of the enterprise and the role it plays in new or existing value chains by changing the extended enterprise and networks with employees, suppliers and customers. To conclude, we can state that these three different types of models have the same implications as the ones earlier mentioned by Davila et al. (2006).

2.1.3 Business Model Evaluation

So far only limited progress has been made in establishing criteria for evaluating models (Morris, Schindehutte, Richardson and Allen, 2006). This section identifies and describes the relevant established criteria mentioned in the current literature.

Amit and Zott (2001) identified in their analysis four different major value drivers for evaluating business models. These four different criteria are mentioned as design themes and emphasis on e-businesses. Nevertheless, they state that these criteria also could be applied to offline businesses. Figure 5 below depicts the four sources of value creation.

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7 Source: Giesen et al. (2007)
- **Efficiency**
This criterion points to transaction efficiency and suggests that transaction efficiency increases as the costs per transaction decrease. The lower the costs and hence the more valuable it will be.

- **Complementarities**
This refers to whenever a bundle of goods together provides more value than the total value of having each of the goods separately. One can say that it can be defined with respect to outputs or inputs to the determinants of a business model’s profit function. It emphasizes on adding more value when they are together than when they are alone.

- **Lock-in**
This is the extent to which customers are motivated to engage in repeat transactions (loyalty) and by the extent to which partners have incentives to maintain their associations. Hence, it prevents the migration of customers and partners to competition. One can say lock-in is manifested as switching costs.

- **Novelty**
This is based on Schumpeter’s (1934) view which refers to traditional sources of value creation through innovations. It aims at the introduction of new products or services, new methods of production, distribution, marketing, or the tapping of new markets. In addition the authors mention the structuring of transactions.

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8 Source: Amit and Zott (2001)
The study of Morris et al. (2005) continued to shed the light on possible criteria for evaluating business models. Though, the article points out only two evaluation criteria which are described below.

- **Fit**

  According to Morris et al. (2005) a relevant criterion is ‘consistency’ and this can be described in terms of both internal and external fit. Internal fit includes both consistency and reinforcement within and between the components of a business model, whereas external fit focuses on the consistency between the choices in the different areas of the business model and conditions in the external environment.

- **Evolution**

  This criterion focuses on the possibility of emergence of the business model. The reason for this is that some entrepreneurs start with partially formed business models and incomplete strategies. A business model could evolve from the foundation level toward a more complete articulation of the proprietary and rules levels.

In a later article of the same the authors (Morris et al., 2006) it is stated that limited progress has been made in establishing criteria for evaluating models or their underlying components (Barney, Wright and Ketchen, 2001; Dubosson-Torbay et al., 2002). Moreover, the authors suggest several other sample criteria for assessing the overall model. Despite, they do not go into depth with the suggested criteria.

- **Uniqueness** (the ability of how the business model differs from the rest)
- **Profit potential** (the capacity of making money in future business)
- **Comprehensiveness** (the completeness of a broad scope)
- **Imitability** (the capability not to be imitated or copied)
- **Robustness** (the ability to withstand changes in assumptions about underlying internal or external conditions)
- **Sustainability** (the ability to be maintained at a certain rate or level)

Table 4 below shows an overview of the selected criteria provided in current literature.
Table 4: Overview of Evaluation Criteria in Current Literature

<table>
<thead>
<tr>
<th>Source</th>
<th>Evaluation criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amit and Zott (2001)</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Novelty</td>
</tr>
<tr>
<td></td>
<td>Lock-in</td>
</tr>
<tr>
<td></td>
<td>Complementarities</td>
</tr>
<tr>
<td>Morris et al. (2005)</td>
<td>Fit</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Evolution</td>
</tr>
<tr>
<td>Morris et al. (2006)</td>
<td>Uniqueness</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Profit potential</td>
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<tr>
<td></td>
<td>Comprehensiveness</td>
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<tr>
<td></td>
<td>Imitability</td>
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<tr>
<td></td>
<td>Robustness</td>
</tr>
<tr>
<td></td>
<td>Sustainability</td>
</tr>
</tbody>
</table>

2.1.4 **Theoretical Underpinnings of Business Models**

The business model concept focuses mainly on the business strategy and the theory behind it (Morris et al., 2005). More specifically, the concept bases itself on the value chain concept as well as putting an emphasis on value systems and strategic positioning (Porter, 1996). The business model concept can also be related to the resource-based theory since it embraces the main focus of it which is competitive advantage (Wernerfelt, 1984). When referring to the firm’s ability to properly function within the larger value creation network, the business model can be connected to the strategic network theory (Jarillo, 1995). Notwithstanding, the business model regards both vertical integration and competitive strategy of a firm and this can be related to transaction cost economics (Williamson, 1981).

The majority of the existing perspectives on business models include the managerial action taken in order to produce them (Morris et al., 2005). This is the part were management of a firm has to take into account the firm’s value proposition, select the actions it will implement within the firm, as well as ascertain the right way in which the firm accommodates into the value creation network. According to Schumpeter’s (1934) theory of economic development, value happens from special compounding of resources that derive innovations, on the other hand transaction cost economics places transaction efficiency and boundary decisions as sources of value. Having a firm position itself within

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9 Source: Own elaboration
the larger value network can result critical in order for it to create value. Therefore, the
firm should set up efficient relationships with partners, suppliers and customers.

Business models approach the internal aptitudes that define a firm’s competitive advan-
tage either implicitly or explicitly. This can be related to the resource-based theory
which provides an overview of where the firm is perceived as a cluster of capabilities
and resources (Barney et al., 2001). The following specific activities can develop a
competitive advantage to the firm, these are; the efficient implementation of several
specific activities in the firm’s internal value chain, remarkable assortment among those
activities, or exceptional administration of the assemblage between the firm and other in
the value network. In addition to, the resource advantage theory is relevant where the
model bears proprietary innovative elements (Hunt, 2000).

The business model research is the part where the economical side of the venture is ex-
tendedly accentuated. Consistent with Schumpeterian theory, an efficient model in-
cludes exclusive combinations that amount to remarkable value creation, therefore gen-
erating higher financial returns to the firm (Schumpeter, 1934). Also, both the growth
and financial ambitions of entrepreneurs differ considerably. The ambitions are related
to the firm’s association to the both the entrepreneur’s life and career which are the
main factors influencing the company’s goals. Therefore, a business model will be dif-
f erent for ventures having more moderate against more ambitious goals. Instead, the ef-
fec tuation theory proposes that entrepreneurs make assumptions about the future, estab-
l ish what can be done and as a result goals will eventually appear (Wiltbank and Sar-
vathy, 2002).

Another theoretical view addresses business models as synonymous traits of a system
that composes the firm’s constructive keystone. According to Petrovic, Kittl and Tek-
sten (2001, p. 2): “The systems theory views a business as an open system with varying
levels of combinatorial complexity among subsystems and bounded by the environment
and open information exchange.”

Since there are several theories needed to completely explain the business model con-
cept, Amit and Zott (2001) relate each contributing theoretical perspective and their de-
gree of impact towards each of their evaluation criterion. Table 5 below displays the
theoretical degree of impact on each evaluation criteria.
Table 5: Theoretical Anchoring of Sources of Value Creation\textsuperscript{10}

<table>
<thead>
<tr>
<th>Source of Value Creation</th>
<th>Efficiency</th>
<th>Complementarities</th>
<th>Lock-in</th>
<th>Novelty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value chain analysis</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Schumpeterian innovation</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Resource-based view</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Theory of strategic networks</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Transaction cost economics</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

To conclude, the theory behind the design and application of business models is still ambiguous. There is currently no single theory which can effectively capture the distinct factors that apportion to a business model (Amit and Zott, 2001; Morris et al., 2006). Therefore, all the previously stated theories are used as a background for this research which will positively affect the validity of it by avoiding possible bias.

2.2 Venture Capital

According to Hudson and Evans (2005, p. 1) based on Lerner’s (2000) previous study: “Venture capital is an independently managed, dedicated pool of capital that focuses on equity or equity-linked investments in privately held, high-growth companies.” In order to be eligible for a potential investment the entrepreneur or venture has to go through a VC financing process. Ruhnka and Young (1987) constructed a venture capital model (VCM) after having interviewed 73 U.S. VCFs about key features of the development process for new businesses. The VCM is primarily strategic and market-oriented in focus rather than organizational or structural and consists of the following five sequential stages:

1. Seed Stage
2. Start-up Stage
3. Second Stage
4. Third Stage
5. Exit Stage

The first stage concerns seed funding. This is a set-up stage where an entrepreneur approaches a VCF to acquire funding for their idea. In this stage the focus is put on convincing the VCs about the investment needed for the potential idea. The VCs will in the

\textsuperscript{10} Source: Amit and Zott (2001)
meanwhile investigate the preliminary market assessment (economic feasibility) and working prototype (technological feasibility) of the presented idea or concept.

If the idea qualifies for further investigation and potential investment it will then move on to the start-up stage for screening. This stage indicates that the investigation of the feasibility of the business idea has generally progressed to the point of having a formal business plan together with an analysis of the market and a formed management team. After being screened and assessed during this stage the investment opportunities will quickly reach a ‘Go/No Go’ decision in an average of less than six minutes, and less than 21 minutes on proposal assessment (Hall and Hofer, 1993).

During the second stage the idea has been transformed into a product or service and is therefore market receptive to the first order or sales. This is when the venture needs to try to squeeze in between its competitors with the purpose of increasing its market share. Continuing with the ongoing process, the full management team is now in place to prove that it can manage the development of the venture. In this stage the evaluation criteria used is the same as that for the start-up stage but with less subjectivity, a greater degree of in-depth analysis and more concentration on the financial forecasts of the proposal’s budget (Riquelme and Rickards 1992; Golis 1998). According to Fried and Hirisch (1994) the evaluation process is estimated to take an average of 97 days, ranging between 52 and 142 days.

The third stage emerges into a continuation or expansion of the previous one in terms of what is accomplished. The venture tries to keep gaining market share and has significant sales and orders. This does not apply for all ventures as some need more working capital to grow and could face several other problems including; growing receivables, the lack of profitability and/or a need to modify or reposition a product (Ruhnka and Young, 1987).

The exit stage is the last stage in the process for VCs. By then the venture should have gained a fair amount of market share. The focus in this stage is put on the VCs’ perspective (achieving an exit vehicle) by establishing a record of profitability.

Nevertheless, Hudson and Evans (2005) point out in their study that there are several other names for process stages that can be applied to make a distinct decision-making process consisting of a number of stages. These are summarized below in Table 6.
Table 6: Stages in Venture Capitalists’ Management Process\textsuperscript{11}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Search</td>
<td>Deal origination</td>
<td>Search</td>
<td>Generating deal flow</td>
</tr>
<tr>
<td>2</td>
<td>Screening</td>
<td>Initial Screen</td>
<td>Proposal screening</td>
<td>Proposal assessment</td>
</tr>
<tr>
<td>3</td>
<td>Evaluation</td>
<td>Evaluation</td>
<td>Due diligence</td>
<td>Due diligence</td>
</tr>
<tr>
<td>4</td>
<td>Deal structuring</td>
<td>Deal structuring</td>
<td>Deal structuring</td>
<td>Deal structuring</td>
</tr>
<tr>
<td>5</td>
<td>Venture board meetings and operations</td>
<td>Post investment activities</td>
<td>Monitor progress</td>
<td>Venture operations</td>
</tr>
<tr>
<td>6</td>
<td>Cashing out</td>
<td>Cashing out</td>
<td>Cashing out</td>
<td>Cashing out</td>
</tr>
</tbody>
</table>

\textsuperscript{11} Source: Hall and Hofer (1993)

2.2.1 Due Diligence Report

One of the most important sources of information used to evaluate new venture proposals by VCs is the due diligence report which is the output of a VCM (Dixon, 1989; Wright and Robbie, 1996; Manigart, Wright, Robbie, Desbrieres and De Waele, 1997). The due diligence report consists of various evaluation criteria needed to make decisions with regard to the investment of venture proposals.

There is no sufficient research on business models as a source of information used to evaluate investment decision-making in current literature (Franke, Gruber, Harhoff and Henkel, 2006). However, Franke et al. (2008) conducted a survey of the literature focusing on key studies investigating VCs’ evaluations of venture proposals. Table 7 below provides an overview of prior research into the VC evaluation criteria.
According to Franke et al. (2008) all the evaluation criteria can be collocated into four major groups, namely evaluation criteria related to:

1. The product/service offering
2. The market/industry
3. The start-up team
4. The financial returns to be expected from the new firm

Additionally, Khanin, Baum, Mahto and Heller (2008) conducted a study to review the literature on VC investment criteria from its early beginnings (Wells, 1974; Poindexter, 1976) to current studies (Silva, 2004; Khanin, 2006). The authors identified the most important decision criteria of investment in new ventures discussed in the literature as:

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12 Source: Franke et al. (2008)
1. Top management team
2. Market and market growth
3. Product
4. Risk
5. Returns
6. Exit
7. Deal
8. Strategy
9. Customer
10. Competition

It is remarkable to note that none of these studies (Franke et al., 2008; Khanin et al., 2008) identified the business model as a source of information in the evaluation criteria for proposals. A reason for this could be that it is not explicitly an evaluation criterion but rather that components of a business model overlap other criteria.

2.2.2 Points of Critique

Notwithstanding, Franke et al. (2006) point out that several studies revealed that previous research results might be misled due to:

1. Methodological shortcomings, because most of the studies in this area rely on post hoc methodologies which typically suffer from problems of recalling past information (Zacharakis and Meyer, 1998; Shepherd and Zacharakis, 1999).
2. Biases in the decision process of VCs (Zacharakis and Meyer, 2000; Shepherd, Zacharakis and Baron, 2003).

In addition, Franke et al. (2006) analysed systematic distortions of VC evaluations that derive from the similarity between the VC and the start-up team. The results portrayed clear evidence that VCs with prior experience on working in either start-ups or large firms will tend to prefer teams with individuals coming from these backgrounds. Also, VCs who themselves have an engineering or managerial education tend to rate teams in which both competencies are present much higher than VCs who do not have this background. To conclude, their findings clearly show that similarity biases do play a significant role in VCs’ assessments of start-up teams, which implies that the similarity between the evaluator and the members of the start-up team will impact the VC’s evalua-
tion decisions. However, important to note is that the notion of similarity or dissimilarity between VCs and the new venture is more likely to make sense with respect to team characteristics than, e.g. with respect to the business model of the new venture.

2.2.3 Theoretical Underpinnings of VC Decision Making

According to Zacharakis and Meyer (2000) the social judgment theory (SJT) provides a theoretical reference to much of the past research on VC decision criteria. The focus of the SJT theory is to pinpoint the inference that the people in charge of making a decision bear access to ‘real’ information, but rather identifies information by proximal cues (Strong, 1992). Its evolution as a methodology and a view for comprehending human judgement happened during the 1960s and 1970s. Therefore, the SJT theory yields a theoretical reference to the majority of the former research on VC decision criteria (Wells 1974; Poindexter 1976; Tyebjee and Bruno 1984; Hall and Hofer 1993). A widely used theoretical approach of the SJT theory is the Brunswik’s Lens model. This model gained importance as a systems-oriented instrument for evaluating the decision making process of humans (Brunswik, 1956)

A more up to date research by Shepherd et al. (2003) proposes a second essential extend to the former research on VC decision criteria. The authors base their research on the cognitive theory, which refers to the study of how people in general sense, think, remember and solve problems (Neisser, 1967). Consequently, they discovered that the background of VCs bears a critical influence on their decision making. This is in line with the points of critique on VC decision making by Franke et al. (2006).

To finalize, Hudson and Evans (2005) comment that there is little empirical evidence to support a steady framework or theory which can be implemented to the VC decision making process. This is the case, especially in the scanning and classifying stages of the decision making process.

3 Methodology

This chapter of the research mentions both, the method and the scientific approach of this study as well as highlighting different aspects of it. Furthermore, it renders a deeper insight on the data collection method and the form this study is primarily endured.
3.1 Method

In order to provide a better understanding of the topic of interest, this research engaged in the recapitulation of information by conducting in-depth semi-structured interviews with Investment Managers working for VCFs. These interviews, which belong to the category of qualitative research, constitute the primary empirical data source of this study. The respondents chosen for this study were not specifically selected from a large pool of prospects; they were rather chosen for their interest on the main topic of this study (i.e. Investment Managers working for a VCF). The usefulness of the data gathered was implemented analysing and comparing the responses acquired from the interviewees with the theoretical framework of this research in order to develop an analysis, conclusion and further recommendations.

3.1.1 Philosophy of Science

The philosophy of science refers to a researcher’s chosen account and philosophical assumptions that determine the impact on how a topic is perceived; rather than the uncorrected vision of the researcher. A paradigm embraces the conclusive assumptions of the researcher (Kuhn, 1970), whereas a methodological approach tries to put together the researcher’s assumptions of reality as well as providing a foundation for how the data should be accumulated, classified and introduced (Arbnor and Bjerke, 1996). A paradigm explicates both the preconditions and inferences that are conversely explicit or implicit that a researcher bears before conducting research. Therefore a paradigm is referred to as a theory that describes how both the knowledge and the researcher’s previous experiences will not only influence how the problem is perceived, but further how it is answered.

The two existing paradigms which are; the functionalist and the interpretive, exemplify different ways of conducting analyses and have contrary ramifications on the way to study social phenomena (Clark and Fast, 2002). The functionalist paradigm bases itself on the conception that reality is unbiased and focuses on functionality and structures. Research based on this paradigm is executed through observation, whilst suggesting predictions indulges explanations. On the other hand, in the interpretive paradigm it is thought that reality is subjective and this happens through intersubjective experience among individuals. Therefore, reality is built in the social world and society is distinguished from participation rather than observation. This is based on ideal-
ism/subjectivism that includes hermeneutics (Clark and Fast, 2002). Hermeneutics refers to the way in which humans construct knowledge through understanding. It also infers that people in general develop knowledge by searching for meaning in their actions. This is the case because human beings are considered to be interpretive beings that set their own subjective understanding of reality.

The authors decided to base this research on the hermeneutic tradition. For the reason being that this research makes use of qualitative research which implies subjectivity and interpretations of human beings, in this case Investment Managers of VCFs. The purpose seeks to understand the people’s interpretations and the collected data as subjective information because it is the perception of the people being interviewed. In a supportive addition, Silverman (1993) points out that positivism is often linked to quantitative research because it aims at testing correlation between variables, whereas hermeneutics is often linked to qualitative research because the interpretative social science deals with observation and descriptions.

3.1.2 Qualitative Research

It is not uncommon for people to change their point of view as they speak (Gubrium and Holstein, 2002). According to Gubrium and Holstein (2002) qualitative research refers to what people say, the way they act and the artefacts they use. The primary reason behind the wide usage of this method by researchers is the importance given to the findings of patterns or themes between a specific type of respondents. Therefore, for this research a qualitative approach is applicable in order to discover the VCs’ pattern when defining and classifying the role of a business model as well as analysing new venture proposals.

As mentioned earlier, the only sources of empirical information gathered for this study were in-depth semi-structured interviews. The collected data can be classified as qualitative due to the fact that it attempts at answering questions by analysing both the diverse social settings as well as the individuals who belong to these (Miles and Huberman, 1994). Six different candidates were used to gather this data. All of the participants were chosen due to their acceptance to cooperate with this research. The strategy of the authors was to keep an open mind since scarce pre-established knowledge of the six interviewees’ personal background was present. Hence, the authors are unable to influence or alter the respondents’ answers. Nevertheless, it can be considered positive to
interact with the respondents (Miles and Huberman, 1994). For this reason we made use of semi-structured interviews.

3.1.3 Quality Assessment of the Research
As for any research it is vital that the authors strive for valid and reliable results. Validity refers to the accuracy and the trustworthiness of data, instruments and findings in research (Bernard, 2006). Another aspect that is of great importance is external validity better known as generalizability. This relates to the extent to which results from data can be generalized to other situations or other groups of interest (Lancaster, 2005). Therefore, we investigated to what extent the data and results could be generalized to other situations as aforementioned in section 1.6 Delimitations. A common threat to internal validity is reliability. This concept refers to whether repeated measurements or assessments provide a consistent result given the same initial circumstances (Last, 2001).

3.1.4 Data Collection
This research made use of semi-structured interviews. This structure allows the interviewer to have a number of questions on the schedule. However, the interviewer is free to act as interesting new details arise and at the same time the respondent is free to provide an answer as he or she sees fit. This type of interviews results in the collection of data which does not have to belong to a pattern. The advantage of this technique is that the data does not need to match to preset variables; it is simpler to study dynamic and change certain situations. Whereas with structured techniques all the different variables used are already known, with semi-structured techniques it is viable to commence with an incomplete knowledge of variables. This is a positive way of acquiring more in-depth data and being able to further explore a specific situation.

The data collection process of this study commenced by sending 23 personal emails to several contacts referred to the authors by the Swedish Venture Capital Association and contacts from our own personal network. Out of these 23 potential interview candidates six responded with a positive answer; their reply mentioned their willingness to participate. According to Baker and Edwards (2012, p. 8): “A small number of cases, or subjects, may be extremely valuable and represent adequate numbers for a research project.” In a supportive addition, Morse (1994) recommends at least six participants for a
qualitative study. The interviewees were chosen based on Lincoln and Guba’s (1985) guidelines for ‘purpose sampling’. This implies choosing interviewees who could apprise us on our research questions regarding the role of a business model for VCFs when analyzing a new venture proposal. Therefore, our pool of applicants included VC Investment Managers which are involved in the process of evaluating venture proposals for VCFs. After the respondents confirmed a specific date and time for the interviews to take place, the authors of this research sent out a document containing the fixed interview questions one week before the date of each interview. The reason for this is that the interviewees would be more prepared when answering questions. Nevertheless, the six interviewees were informed about the structure of the interviews. The interviews were conducted in March and April 2012. Only one of the authors of the study conducted all the interviews to make sure that all of the interviewees received similar information and impression. These were conducted both by using Skype (Voice-over-Internet program) and each interview took approximately 30-45 minutes. Directly after the audio information was gathered the interviews were transcribed verbatim, see Appendix 2. The transcripts were later sent to the interviewees for approval which is based on the concept of respondent validation, in order to eliminate the risk for incorrect use of quotations and misinterpreted information (Yanow and Schwartz-Shea, 2006).

3.1.5 Data Analysis
Trochim (2006) made the distinction between two methods of reasoning; a deductive (top-down) and an inductive (bottom-up) approach. These two reasoning methods bear a contrasting ‘feel’ when conducting a research. Through its own nature, more specifically at the beginning, inductive reasoning is profusely exploratory and open-ended. On the other hand, deductive reasoning can be considered to be narrower in nature and is related with assessing corroborating observations (Trochim, 2006). However, the abductive approach is to be perceived as a mixture of the aforementioned approaches (Dubois and Gadde, 2002). The abductive approach is considered to be useful if the main objective of the researcher is to explore new things, more specifically other relationships and variables. The main focus of it relates to the creation of new notions and the generation of theoretical models instead of corroborating existing theories. It emphasizes more on improving existing theories instead of trying to develop new ones. This approach constructs a beneficial combination through the mixture of existing theo-
retical models and innovative concepts derived from testing these with real life situations.

As previously mentioned, the interviews conducted with the Investment Managers were transcribed verbatim. After the finalizing the transcription process the authors started coding the data gathered. Coding refers to a data reduction process in which the authors extract the parts of the interviews which are relevant to their research questions (Richards, 2005). The main focus is put on coding which emphasises on using the coding results to uncover ideas and take enquiry further. It could be said that coding is not only about labelling all parts of documents referring to the topic of interest, but instead putting them together in order to be analysed so that the reasoning about the topic can be conducted. The coding reduction process in this research is based on quotations from the interviewees. After analysing the data carefully the authors created four significant categories; perception of the definition, the role of a business model, evaluation of business models and business model evaluation criteria. Richards (2005) refers to this method as topic coding this alluding to a list of what the authors expect to be their main topics and code the relevant data at them.

4 Empirical Data Analysis

This chapter of the research provides a comparison of the empirical findings with the previously presented theoretical background in order to demonstrate the current perception of VCs towards the role of a business model when evaluating new venture proposals.

4.1 Analysis

The first part of the analysis being based on descriptive coding introduces the reader to the different backgrounds of the companies and interviewees in question (Richards, 2005). Continuing with topic coding of the gathered data resulted in the following categories; perception of the definition, the role of a business model, evaluation of business models and business model evaluation criteria. A comparison of the empirical findings with the chosen theoretical background is applied in order to derive accurate results.
4.1.1 Presenting the VCFs

Almi Invest

Almi Invest was founded in 2009 by Almi Företagsspartner together with regional investors. The firm invests in Swedish companies with exciting, scalable business models and motivated entrepreneurs. It manages a total of SEK 1 billion. Almi Invest is organised into seven regional VCFs, each with a team of Investment Managers who have a solid knowledge of the local business community. Each fund has a Fund Manager who also works as an active Investment Manager. Unlike most VCFs this VCF invests in a wide range of business. They stress that a strong team of entrepreneurs, a scalable business model and an initial revenue stream are more important than the line of business in which they invest. Initial investments range from SEK 2-4 million adding up to SEK 10 million during the lifetime of an investment. Half of Almi Invest capital comes from European Union structural funds, which account for an investment of SEK 500 million (Almi Företagsspartner AB, 2012).

Industrifonden

With offices in Stockholm, Gothenburg, Malmö and Linköping Industrifonden is a VCF which invests in small and medium-sized Swedish companies with international growth potential. It manages a total of SEK 3.8 billion, of which SEK 1.4 billion is invested in companies. All investments are made on commercial terms together with entrepreneurs and other investors. Industrifonden was founded as an independent fund by the Swedish government in 1979 and therefore it receives no government funding. The way it operates is stated in the funds by law and its board of directors is selected by the Swedish Government. The company’s revenues are returned to the business for new investments. With over 30 years of experience as a partner for investors, entrepreneurs and companies in Sweden their focus is on creating value in their portfolio companies. They do this by taking a long-term approach as well as playing an active role in building this value in their portfolio companies. This is possible thanks to the evergreen structure of the fund and their strong capital base. All investments are made for a limited period of time and the timing of exits is decided from on a case by case basis. They mostly invest in companies in IT, telecommunications, electronics, life sciences, industrial technology, energy and environmental technology. These companies should have no more than 250 employees and a maximum of SEK 400 million in sales. For
Industrifonden to invest, a company must have strong management, a unique business concept and good prospects of profitability in a growing, international market (Industrifonden, 2010).

*Latin Idea Ventures*

Latin Idea Venture is a Mexico-based Private Equity Fund that was founded in early 2000 and has raised four funds for the purpose of investing in mid-to-later stage venture companies where the use of technology/innovation is a driving force in their growth. It manages at total of USD 20 million of which USD 4 million is invested yearly in companies. With more than 85 years of combined experience in Angel Investing, Venture Capital, Private Equity, Investment Banking, Operations and Strategic Consulting in Mexico, Latin America, the US, the Middle East and North Africa, Latin Idea Venture’s team is a group of seasoned professionals with strong track and regional experience. Since 2000, Latin Idea Venture has been instrumental in the development of the VC industry in Mexico, being among the first asset managers to raise institutional capital for early-stage investments, and promoting growth and development of the TMT (Technology, Media and Telecommunications) and Services sectors, earning a reputation as an active partner that takes a hands-on approach in the growth process of its portfolio companies (Latin Idea Ventures, 2012).

### 4.1.2 Presenting the Interviewees

**Håkan Krook**

Håkan is 45 years old and works as an Investment Manager at Almi Invest where he is responsible for the region of Western Sweden. He obtained a Master of Science in Business and Economics degree from Karlstad Business School and has more than 20 years of experience from working with fast-growing companies in different sectors, mainly technology ones.

**Christer Navjord**

Christer is 61 years old and works as an Investment Manager at Almi Invest where he is responsible for the region of North-central Sweden. He obtained a Master of Science in Business and Economics degree from the University of Uppsala and has enjoyed a long career within venture capital both as an investor and an entrepreneur.
Mikael Karlsson
Mikael is 40 years old and works as an Investment Manager at Almi Invest where he is responsible for the region of Stockholm and Eastern-central Sweden. He obtained a Master of Science in Business Economics and a degree in Electrical Engineering from the Linköping University and has over 13 years of experience in the Nordic VC market.

Thomas Carlström
Thomas is 60 years old and works as an Investment Manager in the business unit Industrial Growth at Industrifonden. He obtained a Master of Science in Engineering degree from KTH Stockholm and has been working at Industrifonden for over 15 years.

Hadar Cars
Hadar is 47 years old and works as an Investment Manager in the business unit Technology at Industrifonden. He obtained a Master of Science in Mechanical Engineering degree from KTH Stockholm and MBA degree from INSEAD and has many years of professional experience from senior positions in different high-tech companies and from venture capital investments in the technology sector.

Carlos Escamilla
Carlos is 26 years old and works as an Investment Manager at Latin Idea Ventures. He obtained a BA in Financial Management from ITESM in Mexico City. He also studied Business Valuation at the London School of Economics and Political Science in London, U.K. Previously he worked as a financial risks and investor relations analyst for an insurance company based in Mexico. Table 8 below provides a list of our interviewees.
### Table 8: Overview Interviewees

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Number of interviews</th>
<th>VCF</th>
<th>Position in the company at the time of the interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Håkan Krook</td>
<td>1</td>
<td>Almi Invest</td>
<td>Investment Manager</td>
</tr>
<tr>
<td>Christer Navjord</td>
<td>1</td>
<td>Almi Invest</td>
<td>Investment Manager</td>
</tr>
<tr>
<td>Mikael Karlsson</td>
<td>1</td>
<td>Almi Invest</td>
<td>Investment Manager</td>
</tr>
<tr>
<td>Thomas Carlström</td>
<td>1</td>
<td>Industrifonden</td>
<td>Investment Manager</td>
</tr>
<tr>
<td>Hadar Cars</td>
<td>1</td>
<td>Industrifonden</td>
<td>Investment Manager</td>
</tr>
<tr>
<td>Carlos Escamilla</td>
<td>1</td>
<td>Latin Idea Ventures</td>
<td>Investment Manager</td>
</tr>
</tbody>
</table>

### 4.1.3 Perception of the Definition

Table 9 depicts the gathered answers from the VCs in question when asked to define what a business model is, followed by an analysis of the responses combined with the literature used in this research.

Table 9: Quotations from Interviewees on the Perception of the Definition

<table>
<thead>
<tr>
<th>Christer Navjord:</th>
<th>“It is a description of what I said; is there a customers’ problem to solve? Market segments, how the market is. You have to describe the market. How do you do business on this? Is it possible to earn money on this? It is a way of seeing if you are alone on the market or are there competitors? If you solve a problem then you can always have a positive margin.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christer Navjord:</td>
<td>“I think a lot of people cannot tell what the difference between a business model and a business plan is.”</td>
</tr>
<tr>
<td>Thomas Carlström:</td>
<td>“The way companies get a hold of the customers’ money, the best way.”</td>
</tr>
<tr>
<td>Håkan Krook:</td>
<td>“A way a company earns money, the way they make money out of their offers it can be a product or duty.”</td>
</tr>
<tr>
<td>Mikael Karlsson:</td>
<td>“I would say that it is a link between the product or concept or service and the customer.”</td>
</tr>
<tr>
<td>Hadar Cars:</td>
<td>“I am not 100% sure but I would get it is the strategy approach by which a company adds value and brings in the revenue.”</td>
</tr>
</tbody>
</table>

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13 Source: Own elaboration  
14 Source: Own elaboration
Carlos Escamilla: “A business model is a document in which you explain what is the product or service your business offers, who will it benefit, how will it benefit the people you are planning on to and what are you plans for growth.”

According to Seddon et al. (2004) it has become an even more difficult task to accurately state what composes an effective model. This situation has resulted in disorientation in the terminology (Demil and Lecoq, 2010). Table 9 above shows the gathered answers provided by our interviewees when asked to state in their own words the definition of a business model. As previously stated, the difficulty to accurately state a concise definition of the term is a common occurrence and this was not the exception. After analyzing the provided definitions it can be clearly noted the difficulty to reach a consensus, even though the stated definitions gathered from the answers are closely related. The two most important characteristics belonging to the description of a business model being ‘value creation’ and ‘value capture’ are present directly or indirectly in the respondents’ definitions. This can be related to this research’s selected definition: “A business model clearly described the way a company creates and captures value.” Out of the six recorded definitions the one that resembles our definition the most is the one provided by Hadar Cars whom stated: “I am not 100% sure but I would get it is the strategy approach by which a company adds value and brings in the revenue.” Even though the definition provided by Hadar Cars is closely aligned to the authors’ definition due to the use of specific words like ‘value’ and ‘revenue’ he was doubtful when answering the question. He was not completely sure of his knowledge given the lack of an existing definition of the term. This doubtfulness on the definition of a business model was a common occurrence when asking the six VCs to state it. Before providing us with their response all of them stopped for a second to think, they were doubtful and insecure even though most of them had at least 10 years of experience on the job. The reason behind this can be associated with the little knowledge specifically on business models. Five of the respondents commented that they had not studied any literature about the topic, while only one mentioned that he had attended conferences which focused specifically on business models. Therefore it is not surprising for the majority of the respondents to have related a business model directly to a business plan, as Christer Navjord stated: “I think a lot of people cannot tell what the difference between a business model and a business plan is.” This incidence was repeated among our respondents even though they
had different age, educational backgrounds and more or less years of professional experience. The only thing they all have in common is their position as VCs, more specifically as Investment Managers. This comes to prove that the ambiguity of a business model can be closely related to the fact that even though one may assume that after ten to fifteen years of development on the topic it would have been easier for either researchers or the business world to create a mutually accepted definition and study path on the topic, the outcome turned out to be different (Zott et al., 2010).

4.1.4 The Role of a Business Model

The following Table 10 depicts the gathered answers from the VCs in question when asked about the role of a business model when evaluating a new venture application, followed by an analysis of the responses combined with the literature used in this research.

Table 10: Quotations from Interviewees on the Role of a Business Model15

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Quotation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christer Navjord</td>
<td>“The business model is very critical and important for me because that is what I am investing in.”</td>
</tr>
<tr>
<td>Christer Navjord</td>
<td>“It is very important to have a nice business model, but the people may be wrong. So I try to do this structure where I start meeting the people first and if I get this feeling in my stomach that they are not a good management team then I do not proceed.”</td>
</tr>
<tr>
<td>Thomas Carlström</td>
<td>“Yes we do, it is a part of what we are evaluating a company on when we are considering the company’s ability to grow, to become a bigger company. I think it is an important part, but as I said it is more in the total pattern. It is an important part for us.”</td>
</tr>
<tr>
<td>Håkan Krook</td>
<td>“We think a business model is important but we also see that our best investments have very often the ability to change the business model a number of times before they find the right one.”</td>
</tr>
<tr>
<td>Mikael Karlsson</td>
<td>“In order to be a commercial success the business model is core.”</td>
</tr>
<tr>
<td>Hadar Cars</td>
<td>“There has been a lot of innovation within this field over the past years I think. I mean in the old time you were just supposed to have your product and your service. The business model was basically how many payments you got from your customers.”</td>
</tr>
</tbody>
</table>

15 Source: Own elaboration
<table>
<thead>
<tr>
<th>Hadar Cars:</th>
<th>“It is critical to have a focused business model, to see if there aren’t any better approaches to other better structures.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlos Escamilla:</td>
<td>“It is really, really important to have a good business model and with good business model I am not saying that your business is good or bad but to clearly reflect your strategy for your company in the document. For VCs it is a really basic document that we ask for in every investment because that is the way we can evaluate the potential of the company.”</td>
</tr>
<tr>
<td>Carlos Escamilla:</td>
<td>“Yes, ask every time for a business model and if they do not have one, we ask them to develop one.”</td>
</tr>
</tbody>
</table>

When trying to identify and understand the role of a business model and its importance to VCs it is crucial to pinpoint the major boom the interest of the term suffered by both the academic and business world between 1995 and 2010 (Zott et al., 2010). This sudden development of the business model literature was the result of the invention and wide-use of the Internet which revolutionized the way business were made (Amit and Zott, 2001). As a result, both scholar and business researchers were forced to re-develop the way business and business models were seen (Seddon et al., 2004). Successful companies of the Internet boom like Google or Apple are some examples of companies who implemented and used their business model as their start-up core (Teece, 2010). During the interviews the VCs in question were asked about the importance of business models when analysing a new venture proposal. This was the case in order to gather up-to-date evidence of current importance of a business model. The interviewees’ answers agreed upon one perception; business models are definitely important. As Mikael Karlsson stated: “In order to be a commercial success the business model is core.” All of the interviewees stated also that given the importance of this factor, if a new venture application did not already have a business model they would require its members to develop one. As Carlos Escamilla stated: “Yes, I ask every time for a business model and if they do not have one, we ask them to develop one.” Alternatively, if the entrepreneurs failed to create a business model because of a lack of clearness of what the term means the VCs would ask specific question on the spot in order to get the crucial information from them and get a more concise picture of it. As Christer Navjord stated: “Sometimes I have to give them help to describe it by asking them questions, but we do not talk about business models, we talk about how do you do your business? And how do you earn money? Some-times you have to put in down in a practical way for you not to be too
complex for them.” Even though they all agreed about the overall importance of a business model when analysing a new venture proposal, the respondents’ answers clearly show that it is not only about having an effective business model, but being able to adapt your existing business model to the market conditions which are constantly shifting. As Håkan Krook stated: “We think a business model is important but we also see that our best investments have very often the ability to change the business model a number of times before they find the right one.” Another important aspect to note is how all of the six VCs agreed on the idea that business models strictly belong to the business plan instead of considering it a separate piece. They made reference to the business model being an important factor that complements the business plan therefore providing a more concise and efficient overview of the venture. As Thomas Carlström stated: “To be frank now, from my experience I think it is an integrated part. You could probably say that there are some people that say that the business plan is part of the business model.” Alternatively, this research was able to identify that according to the gathered answers, an effective business model by itself may not be the most decisive factor for VCs when deciding to invest or not on a new venture. Instead they function as a piece of a bigger puzzle. As Christer Navjord stated: “It is very important to have a nice business model, but the people may be wrong. So I try to do this structure where I start meeting the people first and if I get this feeling in my stomach that they are not a good management team then I do not proceed.”

4.1.5 Evaluation of Business Models

The following tables depict the gathered answers from the VCs in question when asked to describe the way they evaluate a business model and if they use a specific instrument for it. This is followed by an analysis of the responses combined with the literature used in this research.

| Christer Navjord: | “I have to ask them questions about the business model, sometimes I tell them: “You have to describe the business model.” Sometimes I ask them questions that are in the business model or at least what I call a business model. It is a little bit hard sometimes.” |

16 Source: Own elaboration
| Thomas Carlström: | “Myself I am not thinking very much on the business model, I just see it as a part of the business plan.” |
| Thomas Carlström: | “I would not say that we have any instruments. It is I think for us, more about experience which we have acquired from different companies. When we look at the company we ask ourselves; does this model function?” |
| Håkan Krook: | “We call the customers and we ask them; what do they think about the company, the product, the business model, we look at the competitors and other well-functioning companies before we invest.” |
| Håkan Krook: | “I would say that it is part of the commercial due-diligence.” |
| Mikael Karlsson: | “No, I do not think so, it is part of the business plan. It is an intuitive part, perhaps in the sense that often in business plans there are really poor descriptions of the business model.” |
| Mikael Karlsson: | “We have not got any specific instrument as you ask further on. It is much a discussion with the company and the entrepreneur to truly understand how the insight really is in terms of number of these evaluation criteria that you mention here.” |
| Hadar Cars: | “I think it is an integrated part of the business plan.” |
| Hadar Cars: | “I do not have any structured approach myself frankly. So, of course it is important to have one and there are certain evaluations of the business models and sometimes their innovation. For me I find it completely new.” |
| Carlos Escamilla: | “We do not have any particular software or any other instrument that helps us evaluate business models. It is simply like, I do not know, the expertise of our fund. Is evaluating this types of models based on our own experience.” |

According to Zacharakis and Meyer (2000) the Social Judgment Theory (SJT) can be used as a theoretical reference to much of the past research on VC decision criteria when evaluating new venture applications. The main focus of the SJT theory is to highlight the belief that the people in charge of making a decision bear access to ‘real’ information, but rather identify information by proximal cues available in their environment (Strong, 1992). When analysing the information provided by our interviewees the SJT theory can be closely related to their answers. Their use of proximal cues in their environment in order to evaluate business models is clearly present, although they may use different approaches. This is the case especially given the fact that all of the interviewees do not evaluate the business model in a separate way from the business plan, for them these are closely related to each other. At the same time they have been undergoing the evaluation process for a numerous amount of years in this way, therefore
making it a common practice. As Mikael Karlsson stated; “No, I do not think so, it is part of the business plan. It is an intuitive part, perhaps in the sense that often in business plans there are really poor descriptions of the business model.”

It can be also noted that another way of using the available instruments in their environment is the way the VCs implement different techniques when evaluating business models and these may differ in practice. For example, Thomas Carlström stated; “I have to ask them questions about the business model, sometimes I tell them: You have to describe the business model. Sometimes I ask them questions that are in the business model or at least what I call a business model. It is a little bit hard sometimes.” The previous statement refers to the usage of specific questions asked directly to the entrepreneur(s) in order to gather the information needed for him to personally evaluate the new venture. On the other hand a different approach is taken by Håkan Krook who evaluates the business model by actively contacting the current available market directly to gather their point of view on the new product or service. He stated: “We call the customers and we ask them; what do they think about the company, the product, the business model, we look at the competitors and other well-functioning companies before we invest.” However, there is one factor which is considered to be the most important one by the VCs in question in which they all agree upon, this being ‘experience’. They all agreed that their own experience plays a crucial if not the most important part when deciding to proceed or not with providing funding to new ventures. They have gathered this experience by a considerable amount of years of experience working in different industries as well as in the position they currently hold. As Thomas Carlström stated: “It is I think for us, more about experience which we have acquired from different companies. When we look at the company we ask ourselves; does this model function?” This way of thinking can be closely associated to the cognitive theory, which refers to the study of how people in general sense, think, remember and solve problems (Neisser, 1967). As a result, it was discovered that the background of VCs has a critical influence on their decision making process.
Table 12: Quotations from Interviewees on a Business Model Instrument

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Quotation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christer Navjord:</td>
<td>“No, not really, I do not really use an instrument and could not mention one.”</td>
</tr>
<tr>
<td>Christer Navjord:</td>
<td>“I think of course that I would be fruitful, yes. It is better to have a structure, to follow a structure.”</td>
</tr>
<tr>
<td>Thomas Carlström:</td>
<td>“It is very hard to put specific factors into an instrument or to calculate, but of course if you can find one that might be useful, definitely, so yes.”</td>
</tr>
<tr>
<td>Håkan Krook:</td>
<td>“Yes, in a really early stage before you have revenue it would be good idea to have some kind of instrument or small marketing evaluation instrument to test the business model at an early stage.”</td>
</tr>
<tr>
<td>Mikael Karlsson:</td>
<td>“It could be useful to have some sort of more formal support instrument, at the same time that kind of discussion really depends on the core competence of the Investment Manager.”</td>
</tr>
<tr>
<td>Hadar Cars:</td>
<td>“It could probably be, I would have to see the instrument first to later comment if it is fruitful or not, I cannot, because there are so many parameters.”</td>
</tr>
<tr>
<td>Carlos Escamilla:</td>
<td>“Yes I think it would be useful but I also think that you also need a significant background on getting to know the entrepreneurship side of business and to really understand what is behind a company in order complement the instrument you are describing.”</td>
</tr>
</tbody>
</table>

On the other hand, when asking the VCs if they used a specific instrument in order to evaluate business models their responses were completely related to each other. They all mentioned that currently they do not implement the usage of any specific instrument but rather evaluate them in different ways which were mentioned in the paragraph above of this study. As Carlos Escamilla stated: “We do not have any particular software or any other instrument that helps us evaluate business models. It is simply like, I do not know, the expertise of our fund. Is evaluating this types of models based on our own experience.” Notwithstanding, even though the current usage of an instrument to evaluate business model is currently not being used by the VCs in question, when asked if they think it would be fruitful for a instrument of that sort to be developed they all agree upon its creation. A positive reaction was immediately heard, they commented on the usefulness of it. As Christer Navjord stated: “I think of course that I would be fruitful, yes. It is better to have a structure, to follow a structure.” Even though the six VCs consider the development of an instrument useful, they stressed that the time where this

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17 Source: Own elaboration
might be really fruitful would be during the early stage of a new venture proposal. They argued that during the early stage, before there is any revenue present it is essential to test the business model and if needed to change and adapt it to the market’s response. As Håkan Krook stated: “Yes, in a really early stage before you have revenue it would be good idea to have some kind of instrument or small marketing evaluation instrument to test the business model at an early stage.”

4.1.6 Business Model Evaluation Criteria

Table 13 depicts the gathered answers from the VCs in question when asked about the specific criteria they would use in order to evaluate a business model, while Table 3 shows the list of criteria they were asked to choose from. This is followed by an analysis of the responses combined with the literature used in this research.

Table 13: Quotations from Interviewees on the Evaluation Criteria

<table>
<thead>
<tr>
<th>Christer Navjord:</th>
<th>“I probably evaluate every one of these criteria in a way more or less I think.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Håkan Krook:</td>
<td>“I would then all I would say.”</td>
</tr>
<tr>
<td>Mikael Karlsson:</td>
<td>“As I said more or less every criteria you mentioned is important when you are trying to start a company.”</td>
</tr>
<tr>
<td>Hadar Cars:</td>
<td>“The most important ones on your list I would say of course ’efficiency’, ’profit potential’ highly important, ’lock-in’ highly important, ’internal consistency’ good. All of them are relevant I guess.”</td>
</tr>
<tr>
<td>Carlos Escamilla:</td>
<td>“I would definitely use all of them.”</td>
</tr>
</tbody>
</table>

According to Morris et al. (2005) only limited progress has been made in establishing criteria for evaluating business models. In a later article Morris et al. (2006) stated that limited progress has been made in establishing criteria for evaluating models or their underlying components (Barney et al., 2001; Dubosson-Torbay et al., 2002). In addition, a study conducted by Morris et al. (2005) was able to propose a six-component framework for the same purpose. Also Amit and Zott (2001) were able to identify four different major value drivers for evaluating business models. Based on the previous stated literature the authors of this research were able to combine the derived criteria from the three aforementioned studies on the topic resulting in a list of criteria available for our interviewees in order to evaluate which of these 12 criteria they would use. The reason behind this was to grasp a better understanding of the focus of the criteria a VC

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18 Source: Own elaboration
focuses on when analysing a business model in order to develop a specific instrument to facilitate the evaluation process for them. The 12 selected criteria can be seen in Table 14 below. When interviewing the VCs, the second to last question asked to them referred to the importance of the criteria. They were asked to mention which of these were the most important to them when evaluating a business model. The answers gathered from the VCs clearly show an overall agreement that all of the criteria are important when combined. As Christer Navjord stated: “I probably evaluate every one of these criteria in a way more or less I think.” This statement was also confirmed by Håkan Krook who stated: “I would use them all I would say.” On the other hand, even though a general agreement was reached related to the positive consideration of all the criteria, more specifically 2 of the 12 came forward as highly important. These are: ‘efficiency’ and ‘profit potential’. As Hadar Cars stated: “The most important ones on your list I would say of course ‘efficiency’, ‘profit potential’ highly important. All of them are relevant I guess.”

The last question asked to our interviewees during the interview encouraged them to mention any other criterion which to their opinion were needed to be used when analysing a business model. We asked them this in order for our research not only to base itself on the available literature on the topic but also to get first-hand information from the main actors of the evaluation process which are VCs. The overall answers matched referring to the ‘flexibility of adaptation of the business model’. As Carlos Escamilla stated: “I would say that a real important issue to consider is the ‘flexibility of adaptation’. So in case the market changes the trends in the country you are based on you have to be really flexible in order to adapt the business model to be able to sell your thing to the new market.” This is in line with what Håkan Krook stated: “We think a business model is important but we also see that our best investments have very often the ability to change the business model a number of times before they find the right one.” These answers have provided the authors of this research with a better understanding of the criteria a VC focuses on when evaluating a business model. Table 14 below provides the output of the evaluation criteria.
<table>
<thead>
<tr>
<th>Source</th>
<th>Evaluation criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amit and Zott (2001)</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td>Novelty</td>
</tr>
<tr>
<td></td>
<td>Lock-in</td>
</tr>
<tr>
<td></td>
<td>Complementarities</td>
</tr>
<tr>
<td>Morris et al. (2005)</td>
<td>Fit</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td>Evolution</td>
</tr>
<tr>
<td>Morris et al. (2006)</td>
<td>Uniqueness</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td>Profit potential</td>
</tr>
<tr>
<td></td>
<td>Internal consistency</td>
</tr>
<tr>
<td></td>
<td>Comprehensiveness</td>
</tr>
<tr>
<td></td>
<td>Imitability</td>
</tr>
<tr>
<td></td>
<td>Robustness</td>
</tr>
<tr>
<td></td>
<td>Sustainability</td>
</tr>
<tr>
<td>Personal Interviews</td>
<td>Adoption of flexibility</td>
</tr>
</tbody>
</table>

5 Conclusions

This chapter of the research aims at providing a synopsis of the main topics stated in the analysis and resume the main purpose of this research. At the same time a discussion and the authors’ suggestions for further research follow. Moreover a description of the contribution of this research to current literature on the topic in question is stated. Lastly a critique of method mentions the possible setbacks the way this research was conducted.

5.1 Conclusions

The main purpose of this study revolves around the task of researching the role and importance of business models for VCs when evaluating new venture proposals. In order to get a better understanding and provide more concise answers, our research questions are directed by putting the focus on three main angles. First of all, to find out what the role of a business model is. Secondly, to establish the evaluation criteria that need to be considered and thirdly to find out what kind of instrument would be fruitful for VCs in order to evaluate business models. The primary data was gathered by conducting interviews with six Investment Managers from three different VCFs.

19 Source: Own elaboration
After carefully analysing the information gathered from the responses of the interviewees paired up with the academic literature provides a comparison that demonstrates the current perception of VCs towards the role of a business model when evaluating new venture proposals. The following conclusions can be observed:

- It is difficult to reach a consensus on the perception of the definition even though the interviewees’ answers were closely related to each other. The reason for this may be related to the lack of a concise definition in literature and the little to none prior knowledge the VCs have on the topic.

- All of the interviewed VCs believe that a business model is important when evaluating a new venture proposal as long as it is used as an aid for the business plan, so we can conclude that it plays a secondary role in the overall evaluation process. All of the VCs require the entrepreneurs to state what their business model encompasses in furtherance to get a wider picture of its functionality. They use it as a binding piece of a bigger puzzle.

- The VCs in question do not evaluate business models separately from the business plan and currently do not implement a specific instrument for it. They evaluate them by using their own approach which is mostly based on experience. Nevertheless they believe that it would be fruitful to develop an instrument that could be used during the early stage of a new venture. More specifically before there is any revenue present, in order to test the functionality of the business model and modify it if required according to the market’s response.

- All VCs agree upon using all of the criteria presented to them which were gathered from the current literature, nonetheless some specific criteria like: ‘efficiency’ and ‘profit potential’ were mentioned as highly important. A new criterion several VCs agreed upon to add to the existing ones is ‘flexibility of adaption’. According to the VCs, the entrepreneurs need to be able to prove the functionality of these criteria within their business model in order to be considered for venture capital funding.

5.2 Discussion

On the basis of this research we have reached a series of practical implications that can be applied. These implications are brought up by our own critical judgement and pertain the objective of supporting and encouraging VCs to evaluate business models more in-
depth. It also aims at providing an extra source of help for VCs whom may find themselves facing adversity during the evaluation process of a new venture proposal. Meaning that they could use the information presented in this research as guidance which can expand their understanding concerning the role and the evaluation criteria regarding a business model.

5.3 Contributions
By making use of an abductive approach which emphasizes more on improving existing theories instead of trying to develop new ones, the authors of this study believe they made a beneficial input through the mixture of existing theoretical business model evaluation criteria. The combination of three academic articles resulted in a total of 12 evaluation criteria. These criteria were surveyed among our interviewees in order to identify their possible beneficial value when evaluating new venture proposals. The analysis made clear that all of these 12 criteria were considered important concerning this matter. Nevertheless, one more criterion being ‘adoption of flexibility’ was added based on the positive answers towards it given by the VCs in question. Based on the findings from the primary data it became clear that there is currently no instrument used by VCs to evaluate business models. However the VCs do believe this could be fruitful during the early stage of a new venture proposal. At the same time the authors of this research believe that this study also contributes by shedding more light into the topic of business model evaluation which academics have until now struggled to study in depth (Morris et al., 2006; Franke et al., 2008).

5.4 Further Research
We feel that this field of research has a lot of room for improvement. For instance, the academic literature available for VCs on how to evaluate business models is relatively scarce (Morris et al., 2006). It is our opinion that a more established, helpful guideline could be created by academics. This guideline should include a deeper understanding on the steps needed to accurately evaluate a business model and what happens during and after this process. During the process, VCs need a better explanation of the role a business model plays during the evaluation process of a new venture proposal. Also, researchers should develop an instrument aimed at providing VCs with a concise and clear image on how a business model functions. Moreover, to indicate where the strengths and weaknesses of the business model are present. The instrument could be
based on the 13 evaluation criteria found in literature and outcomes from the interviews with the VCs in question. Also the authors discovered that the VCs value some criteria more important than others (i.e. ‘efficiency’ and ‘profit potential’). Therefore it could be fruitful for further research to investigate which criteria are more important than others.

In general this is bound to be of great importance to any VC since often the perception of the term ‘business model’ is ambiguous (Amit and Zott, 2001; Morris et al., 2006). This situation creates a high degree of uncertainty on new venture proposals, which could result in a less accurate evaluation process. On the other hand in order to acquire a functional proof of these findings, further research is required to test the accuracy of the aforementioned criteria and evaluation methods. At the same time this research stresses that a consensus on the definition of the topic needs to be reached in order to consistently expand the VCs knowledge and focus of it, hence making business models play a more important role in the evaluation process of new venture proposals.

5.5 Critique of Method

In order to improve the overall validity of this study two points of critique need to be mentioned for possible further research to be able to improve these. The authors of this study could have also made use of quantitative research. By doing so it could have been possible to let the VCs rank the provided evaluation criteria in order to analyse which of these criteria are more important than others. Besides in furtherance to increase the reliability of our findings a larger pool of respondents could have been interviewed.
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Appendix 1: Interview Questions

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<th>Evaluation criteria</th>
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Appendix 2: Transcripts of the Interviews

Interview with Håkan Krook, Investment Manager at Almi Invest.

Stef van der Meulen: Good morning, this is Stef van der Meulen speaking.

Håkan Krook: Good morning Stef, this is Håkan. How are you?

Stef van der Meulen: I am doing fine, what about you?

Håkan Krook: I am doing fine as well, thank you for asking.

Stef van der Meulen: Before we start I will first explain the structure of this interview. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in the thesis?

Håkan Krook: Yeah, that is fine.

Stef van der Meulen: I think we can start the interview then. Håkan can you tell me a little bit about yourself?

Håkan Krook: I am the CEO of the company. I have a business degree and you can find my CV on our website www.almiinvest.se. I have a very long background, more than 20 years of experience from working with fast-growing companies in different sectors mainly technology ones. I have worked with both smaller and larger companies as an owner, entrepreneur and also working as a CFO for a number of larger companies. I also had my own corporate finance butik in Stockholm for 5 years focusing on advising young Swedish high-growth companies. And I am 45 years old, I started to work for this company 3 years ago having 200 million SEK to invest in high-growth companies.

Stef van der Meulen: You just mentioned that you focus mostly on high-tech companies.
Håkan Krook: Yes, my last job was for a Swedish Technology company development factory for hybrid cars.

Stef van der Meulen: Interesting, is there a specific industry that you focus on funding?

Håkan Krook: No, not at all. If take question number two about the company’s vision. Our vision is to increase the growth rate in the region by investing in Swedish promising growth companies. Increase the growth in the region is one of our main goals, another one is to have a good profit on our investments and the third one is to increase the amount of the Venture Capital in the region by investing together with other private companies. That is why it is very important for us to make the profit out of our investments so we can convince other privately held companies to invest together with us. We must have a very trust-worthy company to the private investors.

Stef van der Meulen: Ok, how many new venture applications do you receive on average every year you would say?

Håkan Krook: We do not have any specific industry. We invest in all industries. We have made 120 investments around Sweden and 20 in my region in 2 and a half year’s time. And we receive approximately 100 applications each year in this region and we invest in around 5 to 7 companies a year. So it is around 5 to 7% of the companies we invest in. We invest in ventures yearly approximately 30 to 40 million SEK.

Stef van der Meulen: Thank you for drawing a little bit of a background about you and the company. Now we would like to go a little bit more into depth in our study and what believe that could be interesting. So the first question is; do you have any prior knowledge such as; literature or been to conferences or workshops regarding business models.

Håkan Krook: Yes, we have been to one or two conferences during the last 10 years focusing on business models, but that is just it. We define a business model as: “A way a company earns money, the way the make money out of their offers it can be a product or duty.” That is the business model, how to make money out of your product.

Stef van der Meulen: Yes, that is very clear and interesting for us since we did some research on the topic and there is no consensus on what a business model is, there are so many definitions. It is always interesting to see how someone defines a business model personally.
Håkan Krook: It is very varied that description in my view, but there are number of things which are involved in a business model. And we think a business model is important but we also see that our best investments have very often the ability to change the business model a number of times before they find the right one, what actually makes the customers really happy so that the growth can happen. So you need to have a business team in the company that can make fast adjustments in the business model, that is important.

Stef van der Meulen: How do you evaluate business models?

Håkan Krook: We call the customers and we ask them; what do they think about the company, the product, the business model, we look at the competitors and other well-functioning companies before we invest.

Stef van der Meulen: Do you do that separately from the business plan?

Håkan Krook: No, not separately I would say that it is part of the commercial due-diligence.

Stef van der Meulen: That is interesting to hear, do you use an instrument to evaluate business model besides benchmarking?

Håkan Krook: No.

Stef van der Meulen: So you just use benchmarks?

Håkan Krook: Yes, benchmarks and telephone interviews.

Stef van der Meulen: Do you personally think that it would be fruitful to develop an instrument to evaluate the business model?

Håkan Krook: Yes, might be a good idea if you can make a test, but especially in a really early stage it could be a good idea. The best that we can do is to find a company that already has a proof of this model. We very much hope so that our future companies make use of your business model evaluation by getting the company onboard to start buying their product. But, in really early stage before you have revenue it would be good idea to have some kind of instrument or small marketing evaluation instrument to test the business model at an early stage.
Stef van der Meulen: That is what we are thinking about, and that is why we talk about evaluation criteria.

Håkan Krook: Yes, I think that could add value at an early stage before you have revenue in the company.

Stef van der Meulen: And, if you see the table in our list. Which of the following criteria would you use to evaluate business models?

Håkan Krook: I would them all I would say. ‘Evolution’ not so important. I am not sure what you mean by ‘imitability’.

Stef van der Meulen: If it is easy to copy the business model.

Håkan Krook: Oh, ok, that is very good. You need to have a strong position so that is very important of course. I would say that all of these criteria are relevant but as I told you the people that can change the business model and improve it, that is why we need to evaluate, that is very important.

Stef van der Meulen: I was mentioned the same thing before while talking to another Investment Manager and he also showed us that the team was more important than the business model and the business plan.

Håkan Krook: Exactly, it is all about people, people building companies.

Stef van der Meulen: We believe it is still fruitful to develop a instrument in an early stage to evaluate business models, not only for Venture Capitalists but also for entrepreneurs, to see how good the business model is or to see how they can improve.

Håkan Krook: Yes, absolutely.

Stef van der Meulen: Are there any evaluation criteria missing according to you apart from the people you we talking about?

Håkan Krook: I think you covered most of it. You also need to have not only efficiency it needs to be driving a large number of interests but that is maybe within efficiency. I would say that, but I am happy with that.

Stef van der Meulen: Is there anything you would like to add to this interview?
Håkan Krook: No, I am really happy with that.

Stef van der Meulen: Thank you very much.

Håkan Krook: You are welcome, bye.
Interview with Christer Navjord, Investment Manager at Almi Invest.

Stef van der Meulen: Good morning, this is Stef van der Meulen speaking.

Christer Navjord: Good morning, can you hear me?

Stef van der Meulen: Yes, perfect. So first of all how are you doing?

Christer Navjord: I am doing well. How about you?

Stef van der Meulen: I am doing great. Before we start I will first explain the structure of this interview. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in the thesis?

Christer Navjord: Yes, that is ok.

Stef van der Meulen: I think we can start the interview. Let’s start with question one. Could you tell please tell us about yourself?

Christer Navjord: Have you looked at our website? So that you know a little bit about Almi Invest?

Stef van der Meulen: Yes, I read the information in your profile.

Christer Navjord: You have done your research then.

Christer Navjord: Well, first of all I am, I do not know if you mean how old I am but I am 61 years old. I have hopefully a lot of experience in doing business, to invest in new companies. I have done that both privately and now I am employed by Almi Invest. Almi Invest is a company, one company out of seven in Sweden who invest in early stages. Hopefully you have read about that in our website. And I am living in Dalarna and I am investing in companies in this region, in the county of Dalarna and the county of Gävleborg. We call it a region but it depends on what you mean a region is. We do
not use the word region in Sweden, we try to do it but really we do not, instead with use the word ‘counties’. I do not know if you are familiar with that?

Stef van der Meulen: Yes, I read on your background information that defined them as seven pieces not regions.

Christer Navjord: Yes and my region is Dalarna and Gävleborg. And we are owned by a company called Almi Företag. I do not know if you are familiar with that, but they are dealing with loans to companies and we are investing in companies. So, it is a little bit different with similar companies. We invest in early stage companies, for us is quite early but they have to have a customer, they have to be doing business for some years. So, it depends on what you mean by early stages. I am responsible for this company, I am the Managing Director, that is a very nice title but we are only 2 employed in the company so it does not matter really which title we have. I think my title is mentioned as Fund Manager.

Stef van der Meulen: Yes and the Fund Managers are considered Investment Managers, I saw.

Christer Navjord: Yes, but I am responsible for the company’s board, but I am really working on the field and I am investing in companies and I am very involved in the companies. We try to be an active partner in the company and that means that we really try to focus not on the daily business of it but on the board of the companies. So, it takes a lot of time doing that when you have invested in various companies. We have now eight companies, but we make the decisions on 12 working companies. So it takes a lot of time for me to follow these companies. But the very big part of it for me is before the investment, when you do it, but the work starts when you have done it.

Stef van der Meulen: Ok.

Christer Navjord: That is very important to value. Then it starts and you try to find a way to earn the money you want to earn in the companies. I have a good exit strategy, hopefully. I attended the University of Uppsala in 1961, hopefully I have a lot of experience to give to the companies then. I have made my mistakes, I have made my investments and made mistakes and I have always learned from these mistakes. But, when
things go well you never think about it. When there are problems, you always have to think about it. This is just a little overview of myself.

Stef van der Meulen: I think you have answered question 1 perfectly. A little introduction about the company where you come from, where you are and what you did. It creates an atmosphere so I know where we are and where we are going.

Christer Navjord: I have worked in several different branches, so you can be 61 and still be in the same place in 40 years and you can always rely on your experience. But I have been in very different branches and I have learned a lot and I am still learning a lot and I am still curious.

Stef van der Meulen: That is good. So you talked a little bit about the company. What is the company’s vision?

Christer Navjord: To create development in the region. I think the owners want us to do this by investing in good companies who develop the region. But, we talked about vision and my goals and I have one goal which is to bring money to the companies so that we can invest more. It is very easy for me, but for the owners it is a little bit different because it is a state-owned company and then you have to think about how you develop the region. So we are a little bit of a piece of a puzzle to fit in to develop the region, but my goal is to earn money for the company by doing good exits. So if you talk about the vision of the company it would be to develop the region by investing.

Stef van der Meulen: You mentioned that you focused on different things not only in one. You are 61 and have a lot of experience. But is there a specific industry you focus on funding?

Christer Navjord: No, not really. We are very broad in that way, but of course there are branches in which we do not invest in. We do not talk about what we don’t invest in. Mostly risky businesses, so I do not want to mention these. But there are branches in which we do not invest in. We do not talk about it but really the risk is too high but there are discussion within the board to decide if a branch is too risky to invest in. If you look at our website you saw we invested in a company called Mackmyra Whiskey. You can always discuss it, and then you can decide if it is not a good business, but we think this is a good business. But you have that debate all the time.
Stef van der Meulen: If we talk about new venture applications a year, how many would there be on average?

Christer Navjord: 20 to 30 million SEK per year. Could be more, could be less, but I think this is what we have done so far. And this year is probably the same.

Stef van der Meulen: That is how much you invest on right?

Christer Navjord: Yes

Stef van der Meulen: And then, how many companies would apply for this in general?

Christer Navjord: On a yearly basis, could be 50, 60, 70, 80, but we can also have 100. But now we are a little bit, I would say 1 or 2 a week. That could be 60 to 70 companies. I talked about more companies but ones that really apply are around 60 to 70. I meet a lot of companies but they are not in the stage of investing, so you have to follow the start-up companies, you have these incubators in our regions and I try to be close to them but it would take those 1 to 3 years to really apply for funding.

Stef van der Meulen: Ok, thank you. I think I have covered a little bit of what your company does and a little bit of background information about you. Now we come a little bit more to our study. We focus more on the business model aspect within the Venture Capital process and how important it is. Do you have any prior knowledge like literature, conferences you have been to, workshops you followed about business models?

Christer Navjord: Not really. I tried to think about this question, but that is nothing that I think about when I meet a company. But of course the business model is very critical and important for me because that is what I am investing in, but for me it is a business model. In this stage of a company the management is very important or the owners of the company because I cannot say a percentage. But, it is very important to have a nice business model, but the people may be wrong. So I try to do this structure where I start meeting the people first and if I get this feeling in my stomach that they are not a good management team then I do not proceed. I try to follow, I try to understand their business plan, but if the people are wrong, if I do not feel that they can do this, then I do not do it. It is really simple, but I feel this is ok, you have a good management and they know what they are doing and know how to handle it and it is good for the market then I move further. I try to read and I try to understand the business plan and the business
model of course. There are important things of course, I saw your criteria list and of course you have to focus on which type of service or product you want to develop. And I try to figure out if the timing is right on the market. Then I have to do a little bit of research on the market, how is the market for this, because if you go in too early you have to put in more money or it could be too late and someone has already done this before. It is a way of taking steps to go in and see and feel if it is possible to do, to make money on and to figure out if there is a market, if you solve a problem for the customer. If you solve a problem for the customer it is the right way, if there is a demand for the product. If there is no demand for the product then I think you understand you have to put in a lot of money into this because there is a lot of marketing and a lot of PR to make for the customer to understand. So it is a little bit of a step by step process for me to evaluate both the business plan and the business model.

Stef van der Meulen: We will go a little bit later about that, how you see it. So you have a little bit of a prior knowledge as say about business models but you focus more on the team, etc. But how would you define a business model according to you?

Christer Navjord: It is a description of what I said; is there a customers’ problem to solve? Market segments, how the market is. You have to describe the market. How do you do business on this? Is it possible to earn money on this? It is a way of seeing if you are alone on the market or are there competitors? If you solve a problem then you can always have a positive margin. In the early stages, if you can earn money and how to develop it. Revenue generation of course and competitive strategy. Because if you say that there are competitors then you are lying, because you always have competitors in the market. That is a little bit of how I look into a business model, you have to describe this in the business plan for me otherwise I am out of it. But that is the way I do, I always ask for it, I do not say no if you have a business plan and you have a business model then you are all welcome. I always ask for it of course. I try to help my companies. I try to help the owner or whoever it is we are coaching. I do not know if I answered your question?

Stef van der Meulen: Yes, you defined what a business model is according to you. The thing is, it is a really broad definition and we looked into the literature about it and what is now a business model and there is no consensus about what a business model is. There are over 200 terms at least of what a business model is or what to include, etc. So
we finally created our own definition and talked about this or at least the ones we identified ourselves the most with since we are not academics. But is also interesting to see how other people see it, because it is a really broad term and it is hard to describe.

Christer Navjord: Yes, I think a lot of people cannot tell what the difference between a business model and a business plan is. It is always this question, so I always ask for a business plan. And then I see, have you given the description of what I want to have? I do not openly talk about the business model.

Stef van der Meulen: Do you evaluate business models separately from a business plan?

Christer Navjord: If they can understand what I am talking about of course I talk about business model, but they do not always know the difference. Sometimes I have to give them help to describe it by asking them questions, but we do not talk about business models, we talk about how do you do your business? And how do you earn money? Margins and all of that. Then they give me the description of that and that is ok for me.

Stef van der Meulen: Do you consider a business model important for Venture Capitalists when they evaluate a new proposal?

Christer Navjord: Of course, yes. That is the core in the business plan. All the description about that is ok, but you have to describe this. What we build our company on.

Stef van der Meulen: So you just answered it like, sometimes people who apply for funding do not explicitly have their business model separately and they don’t know exactly how to tell you and you will realize this once you read the business plan.

Christer Navjord: Yes and there is always questions and answers. I tried to help them because if I find it very interesting, if a company is interesting, they are earning money, there’s a market, good team, then I try to help them of course. It depends what background they have. If they have been to University of Jönköping they have probably learned about business models, but it is not always the case.

Stef van der Meulen: And how do you evaluate business models?

Christer: Navjord The way we talked about it, I look into it and I try to make research if I have to do it. I always have to search the market, I always try to understand and sometimes I have to ask them: Who is your customer? Where is your customer? Who do you
send your invoice to? Who is on the invoice? They have to tell me how do they do business and sometime I have to ask them about the invoice. Could you give me a description of the invoice? And your margins are? And so on and so forth. Is there a profit? Sometimes you have to put in down in a practical way for you not to be too complex for them. You can miss a lot of good opportunities if you use these words that are going around in this branch that I am familiar with but they are not. I have been in a lot of different businesses, I know a little bit on how to do business, but I know they never used this term business model, or seldom used it. You have to make them write a business plan because normally 8 to 20 companies who apply do not have a business plan. It is a pity but it is like that. So, I need to ask them for a business plan, then I have to ask them questions about the business model, sometimes I tell them; “you have to describe the business model.” Sometimes I ask them questions that are in the business model or at least what I call a business model. It is a little bit hard sometimes.

Stef van der Meulen: There is not right or wrong, everybody has their own perception.

Christer Navjord: If you interview a guy on the investment company and they are investing in the 50 to 100 million SEK stage they probably always talk about business models for the company. That is up to the company. I do not talk that kind of companies. I only talk to ones in an early stage. At the early stage you are very focused on their product, their service, they are still building that and hopefully they are skilled in making this of course. It is a little bit different in which development stage you are. If you are in the start-up then you probably knew only about their product, how good it is.

Stef van der Meulen: Ok, I still have to ask this question. Do you use an instrument for evaluating business models?

Christer Navjord: No, not really, I do not really use an instrument and couldn’t mention one.

Stef van der Meulen: You already mentioned that if you evaluate a business model it is practical most of the time. You discuss it with the people when they hand in their business plan and then you research it, etc. Right?
Christer Navjord: Of course I do that, I check the development. I probably look at all the criteria you have written in the interview questions sheet. I try to answer all the questions referring to the criteria you have sent me. I think so, yes.

Stef van der Meulen: So, if you would use an instrument to evaluate business models you would use all the criteria went sent you?

Christer Navjord: In some way yes, some I do not really know what they are. When you talk about ‘lock-in’, I do not quite sure understand what you mean.

Stef van der Meulen: I can tell you what it means. ‘Lock-in’ focuses actually on switching costs. When a company sells a product or service towards a customer, the customer has bought this product or service. The switching costs are for example the cost of switching to the competitors.

Christer Navjord: I do not think it is a priority but sometimes it is ok to do that, you are earning money. The customer does not switch easily.

Stef van der Meulen: Exactly, so it prevents actually the customers or strategic partners to switch to competitors.

Christer Navjord: It could be a problem of the market, because the customers look into this and it is a lock-in meaning that they do not want to buy it. Of course I try to think about his, but I have not invested in a company that has had that problem.

Stef van der Meulen: Is there anything missing according to you? You said if I would discuss it or evaluate it I would use this as well or maybe it is not there in the list?

Christer Navjord: No, do not think so. I probably evaluate every one of these criteria in a way more or less I think.

Stef van der Meulen: So, you would agree that it might be fruitful to develop an instrument that will help you evaluate business models?

Christer Navjord: Yes, I would be happy.

Stef van der Meulen: That is good.

Christer Navjord: It would be very interesting. I am still learning and I am curious.
Stef van der Meulen: It seems actually that when you focus on an internet company the business model becomes more and more important according to literature. We are thinking that there is not yet an instrument to evaluate business models. We found some criteria, but we wanted to be sure if it could be useful and that is what we are testing right here.

Christer Navjord: I think of course that I would be fruitful, yes. It is better to have a structure, to follow a structure. It is better to do that. Of course it is. I do not say that I do not have a structure because I think I have a structure but I don’t have a name for it. I think you talk about the business model and this is quite good.

Stef van der Meulen: Thank you for answering the questions so far. Is there anything you would like to add?

Christer Navjord: No, not about business models. I think we talked about the importance of a very skilled team, this is very important to me. You may have a well structured business model but without an effective it would be nothing.

Stef van der Meulen: Yes, exactly. The business model is amazing though without a good team you will not get far.

Christer Navjord: But a good team without a business models could be very expensive. You would have a problem probably.

Stef van der Meulen: Thank you so much for participating in our research, so far. I really appreciate that you took the time to answer our questions. We will transcribe the interview and send it to you for approval.

Christer Navjord: Yes, nice to meet you.

Stef van der Meulen: Thanks again, good bye.

Christer Navjord: Good bye.
Interview with Mikael Karlsson, Investment Manager at Almi Invest.

Stef van der Meulen: Good morning Mikael, this is Stef van der Meulen speaking.

Mikael Karlsson: Good morning.

Stef van der Meulen: How are you doing?

Mikael Karlsson: Fine thank you, and you?

Stef van der Meulen: Excellent, thank you for asking. I will tell you a little bit more about the interview, how this is going to work. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in our thesis?

Mikael Karlsson: Yes, that is ok.

Stef van der Meulen: I think we can start the interview then. Mikael can tell us a little bit about yourself?

Mikael Karlsson: Absolutely! Right now I am the so called Fund Manager for two of the seven funds. We cover funding within Sweden. I will come back to it later because I think that there are a couple of questions which answers will talk about the whole Almi Invest group. And I think it is more interesting that just talking about me.

Stef van der Meulen: Yes, that is fine. It is more to have an introduction before the interview instead of going directly towards our questions.

Mikael Karlsson: I have been in the venture industry for the last 13 years. The first five years were within the private sector, early stage investments in Copenhagen. For the last seven-eight years I have been working for a public funden structure. Initially within the sixth stage and three years at Almi Invest. So I jumped into Almi Invest when they launched, we started up its operations approximately three years ago when I join the firm. Educational wise I have a combined background. I am an Electrical Engineer from
Linköping University and also I have a Master’s Degree in Business Administration from Linköping University. I have also venture education.

Stef van der Meulen: Sounds very interesting.

Mikael Karlsson: Yes, I am 40 years old and that is about it.

Stef van der Meulen: Yes, now we have a little bit more image of who are you and where you come from, your background, etc. How would you describe the company’s vision or Almi Invest’s vision?

Mikael Karlsson: It is a bit different perhaps from traditions Venture Capital companies. We have some kind of structural idea of our fund and I mean, when we conduct operations the idea was that the Swedish market was not working and the market could not really support the change from seed to late stage. There is some seed money out there but there is really a huge gap in the early stage funding. That is really our idea from the pot to be really a company or a fund that would link these chains together.

Stef van der Meulen: Ok, and is there a specific industry that would focus on funding?

Mikael Karlsson: No, we are really broad because we have the money from the European Union and from regional investors. The idea is for the money to be available for every industry. We focus more on companies with a need of capital in an early stage needing between 5-15 million SEK and they have nobody else to get this funding from. We are more focused on a certain stage rather than a specific industry.

Stef van der Meulen: It makes sense, ok. If we talk about the applications you receive on average every year, how many new venture applications do you receive?

Mikael Karlsson: I have not got that figure exactly, but if we talk about the Almi Invest group in total. I would say that we receive approximately 500 applications per year.

Stef van der Meulen: And how many of these applications receive funding?

Mikael Karlsson: We have just passed 100 investments from the beginning and that is per year, so I would say that somewhere between 30 and 40 investments a year.

Stef van der Meulen: Yes, that makes sense. Thank you for a little bit more background on Almi Invest. We have a clear image right now. We will not go a little bit more into
detail with our topic of interest for our thesis. This is business models as you could have already seen in the questions. So, do you have any previous knowledge like literature, articles, books or conferences you have been to, workshops about business models?

Mikael Karlsson: I saw your question about the amount of capital, regarding that one we invest between 150 and 200 million SEK a year.

Stef van der Meulen: Ok, great. And do you think it actually from since the first year you started investing until now?

Mikael Karlsson: The first year was a bit lower. From 2011 we have reached the pace that we will hopefully maintain for years to come.

Stef van der Meulen: I will now return to the questions I just asked about the prior knowledge of business models.

Mikael Karlsson: I have no form of theoretical knowledge. I have not had the opportunity to study it as a specific topic. But I took at course at the KTH School for Managers and in that course we put a lot of effort in discussing business models. But I have not studied it in a theoretical point of view, no.

Stef van der Meulen: You still know some basic information and that is fine to know.

Mikael Karlsson: We read a lot of those Harvard Business review articles and so on.

Stef van der Meulen: We are all familiar with these. So how would you define a business model according to you?

Mikael Karlsson: That is a tricky one, I have not made any specific chart own definition. I would say that it is a link between the product or concept or service and the customer. Some kind of link there to commercialize what they have, I would say.

Stef van der Meulen: Yes, there is no right or wrong of course. The reason we ask this is that there is actually now accepted definition on what a business model actually is, there is no consensus as we would say.

Mikael Karlsson: I would say it is a commercial link between the product or service and the market.
Stef van der Meulen: Thank you for defining it according to you. In the role of a Venture Capitalist, do you consider a business model important when you evaluate a new venture?

Mikael Karlsson: Yes, I do.


Mikael Karlsson: For us I would say that it is unusual for the business model itself to be decisive or to be the main reason for us to invest. I think it is really seldom that we see companies and do the analysis in that way, but at the same time the lack of a business model can be a deal breaker. If the company cannot present some sort of trustworthy structure it for sure can be a deal breaker when we look into a company. I mean, we do not invest in products or services, we invest in what we believe would be commercial success. In order to be a commercial success the business model is core. For me it indicates some sort of understanding of the market, how they define it and present their business model. Providing an insight on how the market really reacts and functions and the customer also how are they used to buy and how will they buy in the future.

Stef van der Meulen: Ok, and when we talk about these business models, when you evaluate them since you say that they are core. Do you evaluate them separately from the business plan?

Mikael Karlsson: No, I do not think so, it is part of the business plan. It has just come to my last answer that there are certain Venture Capitalists that do invest in companies that are really immature in terms of business models. If the service is showing tremendous demand in the market, and they really do not know how to commercialize on that, there are Venture Capitalists that actually invest in that kind of structures and companies. But we are really cautious, we do not really like that. Regarding your question if we evaluate the business model separately from the business plan, we say no. It is an intuitive part, perhaps in the sense that often in business plans there are really poor descriptions of the business model. I often see good discussions and good descriptions of the product or service and there are rather good analysis of the market and so on, but as I said, the link between the product and the potential success on the market is really crucial and I would say that kind of strategic knowledge and insight and put that into writing is often lacking.
Stef van der Meulen: Yes, I have heard that before. They have it clear in their heads but they do not really elaborate on it in the business plan. The Venture Capital Managers have to really ask questions to find out if based on that information that is the business model.

Mikael Karlsson: Of course, it is also a good description of how the company looks right now and it is also often a good description of how the company would look like in let’s say three years. But, the strategic root from now till then is often too backed.

Stef van der Meulen: At Almi Invest, how do you actually evaluate business models?

Mikael Karlsson: We have not got any specific instrument as you ask further on. It is much a discussion with the company and the entrepreneur to truly understand how the insight really is in terms of number of these evaluation criteria that you mention here. For me it is really key to get a good understanding of the fit in terms of how the market or customers really act now and in the future and have they really noticed the prospect potential fully? And sustainability too, those would be the main criteria for me. More or less every one of your criteria are in plan.

Stef van der Meulen: So, before we go into the criteria mentioned in the table I have another question. Since you do not really have an instrument for evaluating business models and mostly discuss them while having the business plan and discuss it with the entrepreneurs, do you think it would be fruitful to develop an instrument to evaluate business models?

Mikael Karlsson: Perhaps. I do not really know how it would look like, but it is of course of the main boxes that we must have a check in before going forward towards an investment. We do that to as I said have a discussion with the company, by doing some sort of external analysis focusing on perhaps seeing the company that are already out there selling their stuff in the market and pinpointing what has been success and not. It could be useful to have some sort of more formal support instrument, at the same time that kind of discussion really depends on the core competence of the Investment Manager. And, it is always a bit tricky to have a more fixed support system, because it is normally up to the individuals to try and understand and discuss. But I would of course look into it if there would be some good alternatives out there, but I have not seen any.
Stef van der Meulen: That is what we discovered as well. The business model becomes more and more important these days actually since the Internet boom, you can think of Google or Apple, etc. But there is actually no way to discuss or evaluate business models. So we were actually thinking about creating for example some kind of balance score card for a business model. And it would be useful probably for the early stages of course to see where the business model is lacking, what it is really good at, so that the Venture Capital Manager has an understanding as well as the entrepreneur.

Mikael Karlsson: I mean that is also, some kind of really crucial thing to understand in terms of evaluating the entrepreneur. His or her ability to go out and try some kind of business model and really learn from that and take the adjusted model to the market and that is my take away from the field works I have done. For example within the new venture education where we discussed why a number or European successful start-ups have been so successful and the ability to go out there and try to understand why these worked or not, and then go out again. This was something that stood out in terms of trying to analyse the key success factors.

Stef van der Meulen: I think almost at the last question already. If something else does not pop-up of course. If you look at the table of the criteria we found already so far. Which one of these would you use for evaluating business models according to you?

Mikael Karlsson: In my view the fit is crucial, if talk about ‘fit’ in the sense of really being aware of what is the logic of the market so you really understand the forces that drive the customer to you. So, the market fit or customer fit is really important I think, I would say also ‘profit potential’. You see so many companies out there that they do not realize that they cannot be successful using their current business model and that’s terrible, maybe strange, but that is also something key for me. ‘Sustainability’ is also important I think. As I said more or less every criteria you mentioned is important when you are trying to start a company.

Stef van der Meulen: That was a really useful answer for us, probably. Are there any evaluation criteria missing according to you after reading these?

Mikael Karlsson: Not that comes to my mind. I think it is fine.
Stef van der Meulen: Ok, great. I just want to ask you if have anything you would like to add to this interview?

Mikael Karlsson: No, I do not think so. I think it is interesting to look upon business models and Venture Capitalists. It is changing and the last couple of years you have seen some many new parts of models and much new thinking. At the same time it is not that easy to define a specific instrument that would be useful, but if there is something out there for sure we would look at it. This area where you focus on is really interesting.

Stef van der Meulen: We have the same feeling that business models are very interesting and the innovation part in business models have changed in the last 10 years so increasingly and we are thinking about how do Venture Capitalists see this? Then we are looking into criteria, how a business model could be evaluated and there was hardly any academic publications about it. But I think it would still be good to indicate for an entrepreneur and Venture Capital Manager to see how it scores or what the strengths and weaknesses of a business model are. And of course there are many reasons for a Venture Capital Manager to invest like the team, the product, service, etc. But I think that the importance of a business model is increasing.

Mikael Karlsson: Yes, sure. I mean after the investments we always discuss the business models. We have the information from the inside I would say, so that at a board level we discuss the information all the time. It is obviously a really crucial part of the potential success of a start-up.

Stef van der Meulen: Ok, I really want to thank you for participating in our interview.

Mikael Karlsson: Sure, good luck!

Stef van der Meulen: Thanks again.

Mikael Karlsson: Thank you, bye.

Stef van der Meulen: Good bye.
Interview with Thomas Carlström, Investment Manager at Industrifonden.

Stef van der Meulen: Good morning, this is Stef van der Meulen speaking.

Thomas Carlström: Good morning Stef.

Stef van der Meulen: How are you doing?

Thomas Carlström: I am doing fine, thank you.

Stef van der Meulen: I will tell you a little bit how this interview is going to work before we start. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in the thesis?

Thomas Carlström: Yes, you can.

Stef van der Meulen: I think we can start the interview then. So, Thomas, Could you tell us a little bit about yourself? And what position you hold in the company? What is your educational background?

Thomas Carlström: My name is Thomas Carlström. I am working as an Investment Manager at Industrifonden. Industrifonden is a foundation with the state functioning as a supervisor for its operations. Industrifonden is not receiving money every year, we are working with the amount of capital that was given to us 15 years ago. We are working strictly in the same manner as a private fund.

Thomas Carlström: I am a Civil Engineer from KTH in Stockholm. I am growing in this occupation. I have been working for quite many years in the Swedish industry especially in the chemical industry in companies like; Akzo Nobel, Stora. I have also been a Management Director and Company Manager and so on in this kind of companies. And I have also been the Managing Director for a smaller company with about 100 people
employed working with machinery mainly focusing in the mechanical industry. I am 60 years old now, an old man. I have been working for 15 years at Industrifonden.

Stef van der Meulen: So you are working as an Investment Manager at Industrifonden? Can you tell me, what is the company’s vision?

Thomas Carlström: What is the company’s vision? Industrifonden is acting actually to modernize and evaluate the growth of small Swedish companies in order to help them become big companies. We are investing in big companies while they still are small. That is our purpose.

Stef van der Meulen: As you told me, you have a background in engineering. Are there specific industries you as Industrifonden focus on when funding new ventures or existing ventures?

Thomas Carlström: In the whole of Industrifonden we have three business units, one is Life Science which is mainly working with automatic medical fields, another one is Technology and Clean Tech which focuses on small clean tech companies and I devote my time in the Technology sector. Nowadays I work in what you call “Industrifinans” which is actually dealing with companies at a later stage, companies which have existed for a while and have a track record. These are in a position in which they want to grow by implementing new ideas; they take new capital in order to do so. So our focus is very broad, we are working with a very broad spectrum companies.

Stef van der Meulen: Could you tell me average, how many new venture applications or requests, because I understand it is not always a new venture, also growing companies with the need of a new cash injection to grow. How many applications do you get of these per year on average?

Thomas Carlström: At Industrifonden we have about, this is not a very exact figure, but about applications 200 every year. It is a bit hard to say exactly because that depends on how you treat these. Some applications you get by telephone and can be rejected immediately, there are also other ones which put more effort in before they are turned down. But I would say about 200 applications per year.

Stef van der Meulen: And how much do you invest in these businesses yearly on average?
Thomas Carlström: You can say that we are in total investing approximately SEK 200-300 million. Sometimes is less in new applications and more in following financing in the second and third round and so on.

Stef van der Meulen: Because there are different stages, this is also being discussed in our thesis. So we talked a little bit about you and what your background is and about Industrifonden, what your position is, etc. Now we are going to talk a little bit more about business models.

Stef van der Meulen: Do you have any prior knowledge, I would say workshops, conferences, literature reviews that you have read like articles for example about businesses models?

Thomas Carlström: I understand that this is your focus and maybe I could make you disappointed here. I am not very skilled in business models. Of course I have read some about it. As I said, engineers have not studied it at the business school. But for me it is more an integrated part. I have some prior knowledge yes, but not very deep.

Stef van der Meulen: That is also positive, it does not matter. There is no right or wrong in interviewing.

Thomas Carlström: Good.

Stef van der Meulen: So, you have a little bit of knowledge.

Stef van der Meulen: How would you define a business model according to you with your knowledge that you have gained so far?

Thomas Carlström: For me it is actually the way companies get a hold of the customers’ money, the best way. Which of course includes a lot of other things, but it is not very academic

Stef van der Meulen: Yes, somehow it is, somehow it is not, but thank you for your definition. We actually read a lot of articles about it and there is no consensus about what a business model is. So all these academics have a never ending battle of what is a business model, so it is really interesting to see how the people in the field see business models instead of just having a look on the literature.
Stef van der Meulen: Next question. Do you consider a business model important for Venture Capitalists when you are evaluating a venture?

Thomas Carlström: Yes we do, it is a part of what we are evaluating a company on when we are considering the company’s ability to grow, to become a bigger company. I think it is an important part, but as I said it is more in the total pattern. It is an important part for us.

Stef van der Meulen: Would you evaluate the business model these days separately from the business plan or as you say it is really integrated and you do not look at it separately?

Thomas Carlström: To be frank now, from my experience I think it is an integrated part. You could probably say that there are some people that say that the business plan is part of the business model, I do not know. But the normal thing is, when you are talking to companies when they are getting an application from a company which is normally often a telephone call, e-mail or something like that. The first thing you are asking them is; do you have a business plan? Very seldom; do they have a business model. It is more; do you have a business plan? And ask if you do not have it, we ask them to summarize it. And the business plan is also a very important part of how are you going to get money from your customer in the next stage. How are you going to get paid by your customer? And things like that. And that refers of course to the business model but myself I am not thinking very much on the business model, I just see it as a part of the business plan.

Stef van der Meulen: So, if I could paraphrase you, you would say that: “The components of a business model are integrated in the business plan and that is the way you evaluate it.”

Thomas Carlström: Yes.

Stef van der Meulen: But how would you evaluate a business model? If it is separate from the business plan?

Thomas Carlström: What do you mean?

Stef van der Meulen: Do you have any instruments for example to evaluate, or criteria you have a look at?
Thomas Carlström: It would be reporting figures into some kind of a model and looking at it, something like that. Is that your question, actually?

Stef van der Meulen: Yes.

Thomas Carlström: No, I mean frankly at Industrifonden we are more than 15 Investment Managers and I would say that we have each a different way of working, but I would not say that we have any instruments. It is I think for us, more about experience which we have acquired from different companies, we are co-owners of some companies because we have been dealing with a thousand companies in our time. So it is mostly based on experience and when we look at the company we ask ourselves; does this model function? And so on.

Thomas Carlström: So do you feel disappointed?

Stef van der Meulen: No, no, it is really good for our research because the answer could also be No. We started realizing that for example during the internet boom when companies started, their business models were more important these days. And sometime people talk more about business models rather than business plans, if we are talking for example on e-businesses. We were wondering since there has been a boom actually also in the literature about business models if it also applies for Venture Capital Managers since these are important things when talking about these new businesses to get funding. If the answer is ‘no’, that could be an outcome as well.

Thomas Carlström: Yes, but now you have to consider that for some reason you just happened to end up in my knees so to say. And coming back to one of your questions, regarding in which field are we working in. We are broad but for myself I focus more on traditional industry companies. I think we should finish this interview but if you like I should ask some of my colleagues that are working in let’s say the ‘new’ industry.

Stef van der Meulen: That would be great. We actually do not want to specify directly only on e-businesses, etc, so traditional businesses as well. We have to take everything in consideration, but if you could ask one of your colleagues to even have another interview it would be amazing.

Thomas Carlström: I could ask them because I understand what you mean, we are talking about new companies in society so to say. There are new business models coming
up and to some matter nothing and to some matter much. I think this could be useful for you.

Stef van der Meulen: That would be very fruitful. Thank you for suggesting it. And I would suggest like you said to finish first this interview and then we can come back on it.

Thomas Carlström: Yes, I will ask some colleagues.

Stef van der Meulen: Thank you.

Thomas Carlström: It might be that they have some other instruments or may be thinking in another way more focused on business models, yes.

Stef van der Meulen: So, as you just said I will ask the question again. Do you use an instrument for evaluating business models?

Thomas Carlström: No.

Stef van der Meulen: No, you do not use one at all.

Stef van der Meulen: Then the question would be, not how do you evaluate a business model, I have a feeling you kind of already answer this question by saying that you look at the whole business plan.

Thomas Carlström: It is by experience.

Stef van der Meulen: Experience as well, that is interesting to know.

Stef van der Meulen: So I think we are almost at the last question. As you could probably see in the questions.

Thomas Carlström: Actually, I think this is the most difficult part of the interview.

Stef van der Meulen: Which of the following criteria, if you see the table would you use to evaluate business models?

Thomas Carlström: This is tricky because now you are really dealing with very sophisticated words which more or less go into each other. I would choose of course ‘efficiency’ it is a very very important, of course also has be to ‘novelty’ and now this is from my experience, in my world.
Stef van der Meulen: Yes, we are interested in that. Do you consider anything else from the list mentioned in the table as important when you would for example evaluate a business model?

Thomas Carlström: Yes, of it can be ‘robustness’ this is also important. Frankly, I want to put words on some of these things but ‘profit potential’ of course. These are very important words I think.

Stef van der Meulen: According to you, is there anything missing when talking about this criteria? Is there anything you would add? For example you mentioned ‘experience’. Is there any criterion you would say: “Oh I think this should be taken into consideration, or you thought about business model evaluation criteria that is not in the table below?”

Thomas Carlström: The word ‘robustness’ for me it is a well-proven or experienced, it is tested if you understand what I mean.

Stef van der Meulen: Yes.

Thomas Carlström: I think that this is important, but for me it is ok.

Stef van der Meulen: But there is no criterion according to you that is not in the table.

Thomas Carlström: I mean, if you would like to add ‘experience’ as a word for itself or well-proven, but for me maybe it is part of the ‘robustness’. Otherwise this could be a criterion too.

Stef van der Meulen: Let me paraphrase again what you said, ‘efficiency’ is very important for profit potential and ‘robustness’, and if you could add anything you would mention ‘experience’.

Thomas Carlström: Yes.

Stef van der Meulen: I think that are the most important things at the moment for what we are researching. Is there anything you would like to add about business models, about your company, anything you would like to add? Or do you have any questions?

Thomas Carlström: No, just wanted to say that the business model is very important even if you do get today much information about what a business model is. It is the
back of our brains because it is a very important part of the business plan for us. When you are evaluating companies for myself, most traditionally industrial companies, it is very important to see how using a ‘robust’ model to do so. When selling machinery it is very important also the money from surveys and so on, so they have some revenue screens that are more equal over the year than each machinery sales. You have to consider this even if you do not talk specifically about business models today.

Thomas Carlström: Otherwise it is ok for me.

Stef van der Meulen: Actually, one questions popped-up in my head while having this conversation. You said that you do not make use of an instrument to evaluate business models separately because you look at the business plan. For example, if I would create a business model instrument in order to evaluate them, let say, for example, a balance scorecard with criteria. Is that useful for a Venture Capitalist you would say?

Thomas Carlström: There is a difference here, if you work with very young companies which you could say that actually the most of the companies we work with are in an early stage. It is very hard to put specific factors into an instrument or to calculate, but of course if you can find one that might be useful, definitely, so yes.

Stef van der Meulen: Thank you. I think we have got everything we need so far. I would like to explain to you that we will transcribe this conversation, we will send it to you again, we will ask for your approval before putting it in our thesis.

Thomas Carlström: Ok.

Stef van der Meulen: And as you mentioned maybe we can conduct an interview with one of you colleagues. That would be perfect, someone from another field.

Thomas Carlström: Sure.

Stef van der Meulen: Thank you very much Thomas, we really appreciate it taking the time to answer this interview and explain what Industrifonden is about.

Thomas Carlström: You are welcome, my pleasure.

Stef van der Meulen: We will keep in touch, have a wonderful day.

Thomas Carlström: Goodbye.
Interview with Hadar Cars, Investment Manager at Industrifonden.

Stef van der Meulen: Good morning, this is Stef van der Meulen speaking.

Hadar Cars: Hey Stef, good morning. How are you?

Stef van der Meulen: I am doing fine, what about you?

Hadar Cars: Very fine, thanks.

Stef van der Meulen: Before we start I will first explain the structure of this interview. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in our thesis?

Hadar Cars: Yes, how will this be done?

Stef van der Meulen: We will transcribe this verbatim, so exactly what you say.

Hadar Cars: Ok.

Stef van der Meulen: Hadar, can you tell me a little bit more about yourself?

Hadar Cars: Yes, I am an Investment Manager at Industrifonden. Educational background I have an Engineering degree from KTH, also a Master of Science and an MBA. I am 47 years old I have been work both in large corporations, I have been an entrepreneur, I have been founding a company to apply for a Swedish treaty license which we did get. And I have been working as a Venture Capitalist for a little bit more than 10 years. So as you can see I have been doing a little bit of many things.

Stef van der Meulen: Sounds like an interesting career so far.

Hadar Cars: Yes, I think so.
Stef van der Meulen: Could you tell me a little bit more about Industrifonden? What is the company’s vision for example?

Hadar Cars: Industrifonden is a public foundation with the purpose to invest in Swedish early stage companies. We invest in big companies while they are small. We want to help entrepreneurs to grow their exciting businesses by providing them with the capital, competence, networking, and so forth. So we have around 400 million Euros of money spent and a really good structure.

Stef van der Meulen: So as the company is growing your give them a cash injection to really boost their growth.

Hadar Cars: Exactly. We work very much like a typical Venture Capital Fund.

Stef van der Meulen: Would you say that there is a specific industry that you focus on funding?

Hadar Cars: Industrifonden has three business units, one is Technology which I am working in, we have telecom, media, software investments. Then we have another business unit working with Life Science. Then have a third one working with Industrial Finance or Industrial Growth it is more at a later stage, it is more a traditional industry. Both we and Life Science work more with equity and investments, loans, venture loans.

Stef van der Meulen: That makes sense for me. Could you tell me how many new venture applications you receive on average each year?

Hadar Cars: I am not sure but I think Industrifonden would receive something like maybe 500. In the Technology stage where I am working at you would say 200+ a year to 300.

Stef van der Meulen: It is a more commonly approached business unit within Industrifonden?

Hadar Cars: Yes, I would say so. There are more businesses in our side I think.

Stef van der Meulen: And how much capital do you invest in these ventures yearly?

Hadar Cars: In my business area we have a target to invest around 200 million SEK per year.
Stef van der Meulen: Thank you for describing your background and the company’s background. It is a little bit clearer for me right now, thank you. What we will do now is to go a little bit more into depth to our topic of research which are business models as I explained before. Do you have any prior knowledge when you think about literature, conferences you have been to, workshops you have attended about business models?

Hadar Cars: Not any particular focused discussion around business models or conferences about business models. Obviously I learned some while studying for my MBA and I mean a business model is of course a part of the business plan. I have discussed it to some levels but not as a particular topic as far as I can remember.

Stef van der Meulen: Ok, so you have a little bit of knowledge about business models but no specific as you would say.

Hadar Cars: I have learned obviously through my career as a Venture Capitalist. I have seen many business models and I try to understand them of course, but I do not remember having a conference or rather particular book about that topic. I am not sure if it has been touched upon in any business cases and stuff like this during my grad years and so forth.

Stef van der Meulen: And how would you define a business model?

Hadar Cars: How would I define a business model? I am not 100% sure but I would get it is the strategy approach by which a company adds value and brings in the revenue. I feel it is a little bit fluffy. The main business process in the company that brings in the revenue.

Stef van der Meulen: Yes, I can agree with you upon that.

Hadar Cars: What is your definition then?

Stef van der Meulen: The thing is I would explain a little bit more before I give the definition we would like to use in our thesis. We really went into depth with this topic based on academic literature. There is no consensus or no agreed upon definition about business models, so it is so broad there are over 1500 terms of what a business model should be. The one we could identify the most with since we cannot create our own definition since we are not academics. We would say: “The way a company captures value and how it creates value.”
Hadar Cars: I think so as well.

Stef van der Meulen: Yes, but somehow it is the same as your mentioned.

Hadar Cars: Value is a better word than revenue, I agree.

Stef van der Meulen: Yes, I think you used the word value on your definition. It is interesting to see how every person has a different point of view on what a business model is. But somehow we all end up telling the same just using different words.

Hadar Cars: Yes.

Stef van der Meulen: But, do you consider a business model important for Venture Capitalists when you evaluate a new venture?

Hadar Cars: Yes.

Stef van der Meulen: Could you elaborate on that?

Hadar Cars: I mean, there are quite a few innovations in business models the last years when it comes to delivery and payment models, like offering a service and all those things. Models which are new or newish and which have created a lot of objectives in that space you have all the ‘freemium’ business models in internet delivered services and apps. There are many innovative companies which have interesting business models. It is important to understand how you are going to reach your market initially or how you would reach your customers and how you bring in the value of having reached those customers.

Stef van der Meulen: Yes, exactly.

Hadar Cars: It is very important.

Stef van der Meulen: Yes, because we did some research as well of course, and you could see that after the internet boom you could say that the amount of business models and the variety increased so rapidly. As you gave examples, have a look at Google or Apple with ITunes.

Hadar Cars: Exactly.
Stef van der Meulen: So, it is really interesting to see how a Venture Capitalist sees a business model. It depends a little bit on the background of course and the area you focus on.

Hadar Cars: Yes. There has been a lot of innovation within this field over the past years I think. I mean in the old time you were just supposed to have your product and your service. The business model was basically how many payments you got from your customers.

Stef van der Meulen: Would you say that you evaluate business models separately from a business plan?

Hadar Cars: No, I think it is an integrated part of the business plan. You have to understand the business model to evaluate these revenue projections to make sure that these are realistic and feasible.

Stef van der Meulen: Ok, what would you do if the business model is not clear to you but they have a good business plan? How does it work?

Hadar Cars: If they have failed to explained the business model so to speak in the business plan that is clearly not a good sign. I mean, a company has to be very clear on how they plan to go to the market and how they plan to make money on it, on what they are doing. I think it is a very fundamental component of any business plan.

Stef van der Meulen: Yes and how do you evaluate business models?

Hadar Cars: I saw in your document that you have some structured approach or an instrument that you are thinking about developing, but I do not have any structured approach myself frankly. So, of course it is important to have one and there are certain evaluations of the business models and sometimes their innovation. For me I find it completely new. So how do I evaluate a business model? Overall the relation of the reality and the projection and statistics. Ask the entrepreneur different questions in order to make sure that they have thought things through.

Stef van der Meulen: So if I understand you correctly you have a discussion with the entrepreneurs about the business model, that’s how you evaluate it.
Hadar Cars: Yes, I will be critical to have a focused business model, to see if there are not any better approaches to other better structures.

Stef van der Meulen: So now he have also answered question 11. Do you use an instrument for evaluating business models? You said no and explained why. But do you think it is fruitful to develop an instrument to evaluate business models?

Hadar Cars: It could probably be, I don’t see in front of me exactly how that instrument would work. I would have to see the instrument first to later comment if it is fruitful or not, I cannot, because there are so many parameters. You might think as an example, I know a company I am directly involved in had a ‘freemium’ model where customers were given access to limited instruments asking them if they want to pay a monthly fee for the service. That was a way to figure out if it was a good idea to do this or not. They decided to go a different way than ‘freemium’ they would give the customers one month free access to the full set of instruments and then it would start costing. So basically changed a little bit the model to try free instead of ‘freemium’ and it was a lot of experimentation to try to understand really what was the best way to capture value. But it would be hard to see how an instrument would work, but I think it would be interesting to take a look, but I am not sure. I guess that you are developing one.

Stef van der Meulen: Yes, we are busy with and this is a part of the interview as well to see how you think about it. What we think about right now is that we found some evaluation criteria in literature. There was not much available but we worked hard for it, and we came up with some evaluation criteria and we are thinking about some kind of balance scorecard to use both for entrepreneurs and Venture Capitalists at an early stage probably to see how their business model is doing, what are they lacking, what is good, and then probably new details can arise. So it is more a balance scorecard to see where you are with your business model. Therefore we believe it could be useful and fruitful at an early stage for the Venture Capitalists to discuss it with the entrepreneur, but also for the entrepreneur to see where he or she is at with his or her business model. So what is good about it and what is not so good. Then you can think about it more clearly.

Hadar Cars: I think it is very important for them to know to be open-minded when they launch a business and be quick to change the model and experiment with the model. Because it is very difficult to judge from the beginning on how exactly it would play
out. But obviously you have to think hard before you launch and you have to be quick to modify and adjust and that is quite easy to do, frankly. If you do a business model with different control groups and see which one seems to work best then there would be more possibilities.

Stef van der Meulen: So you can see the criteria we have listed so far in our table. Which of the following criteria would you use to evaluate business models? Would you use them all? Would you use a couple of them?

Hadar Cars: Let’s see, ‘efficiency’ is of course interesting to look at. ‘Complementarities’ I am not 100% sure what you mean by it. Complementary to what?

Stef van der Meulen: Yes, the ‘complementarities’ refers to for example if you bundle your goods in the business model then they can add value to the total value of each single good for example. So you integrate more products and services.

Hadar Cars: Yes, I understand but I do not think it is relevant probably. The rest of the criteria on the list can all be important I guess. The most important ones on your list I would say of course ‘efficiency’, ‘profit potential’ highly important, ‘lock-in’ highly important, ‘internal consistency’ good. All of them are relevant I guess. ‘Imitability’?

Stef van der Meulen: ‘Imitability’ refers to if it is easy to copy or not.

Hadar Cars: Yes, one important aspect in some business models is do you need to reach a certain fail before you get some revenue items to start kicking in. It can be important to understand, or certain cost items are less important. You have to look at dynamic things that can evolve all the time with regards to the revenue of the company that can basically kill the business if you get it wrong.

Stef van der Meulen: Could there be according to you some evaluation criteria that are missing?

Hadar Cars: Maybe, evolution for example how will the parameters play out as you grow. What happens in the beginning might now happen when you are a grown company. Then is important to understand in the beginning if you can live through that and handle the minimum costs in case you do not get the extra revenue you are planning to get until you reach a certain level. It is quite complex.
Stef van der Meulen: As you just point out, for example you need to reach a certain point in the scale to become more successful and get the profit you are hoping for. And if you do not reach that point in a certain amount of time you could fail.

Hadar Cars: Yes, I get it. And you might now get revenues that you planned. You have to understand the dynamics as the company grows.

Stef van der Meulen: Yes. Is there anything you would like to add to the interview?

Hadar Cars: No, I think it would be interesting to see the instrument.

Stef van der Meulen: Yes, we will of course keep you updated. We will let you know. All the Venture Capitalists we have spoken to so far have been very interested in it. In general there is no instrument that they use and they are all really curious how it would look like.

Hadar Cars: Yes, but good luck.

Stef van der Meulen: Thank you very much for your time.

Hadar Cars: Good luck.

Stef van der Meulen: Bye.
Interview with Carlos Escamilla, Investment Manager at Latin Idea Ventures

Stef van der Meulen: Good morning, this is Stef van der Meulen speaking.

Carlos Escamilla: Hello Stef, good afternoon. How are you?

Stef van der Meulen: I am doing fine, what about you?

Carlos Escamilla: I am great, thanks.

Stef van der Meulen: Before we start I will first explain the structure of this interview. The questions are semi-structured which implies that extra questions can be asked when interesting details arise. The interview will take approximately 30 till 45 minutes. The topic of this thesis concerns business models. Moreover how Venture Capitalists see the importance of a business model and how they evaluate business models when companies or ventures apply for funding. The interview will be transcribed verbatim, which means exactly the words used during the interview and we will send this to you for approval. In terms of confidentiality, I would like to ask you if we could use your name in our thesis?

Carlos Escamilla: Yes, no problem.

Stef van der Meulen: Carlos you tell me a little about yourself? What position you hold in the company? Educational background and age?

Carlos Escamilla: Ok, my name is Carlos Escamilla, I am from Mexico. I was born in Mexico-city and have lived here ever since. My educational background is, I have a major in Finance from Tec de Monterrey in Mexico-city and after that after finishing my professional degree I started working at Latin Idea Ventures which is a Venture Capital Fund here in Mexico. I started as an Intern and then I was promoted to a Junior Analyst and now an Investment Manager. What else? Well I am 26 years old and I am planning to make an MBA abroad in Cornell University and after that I am planning to go back to Mexico and become Senior Manager at the firm.

Stef van der Meulen: Ok, thank you very much for that, for describing a little background about yourself. Now could you please tell us a little bit more about the company’s vision?
Carlos Escamilla: Ok, well I explain you first who we are. So Latin Ventures is one of the first institutional Venture Capital Funds in Mexico and what we basically do is we fundraise money in order to invest it in young technological companies. So what we are looking for is to become like the go to fund when you are a young company who has a technological component in its product or service and need money for growth. And when you go with us, what we do is; first we evaluate your business and liability of your business model and after that we propose you an evaluation and invest in your company. We are not a passing investor what we do is actually is we give you money but we do not expect to see you every quarter or every year only. We are real investors once we invest in your company we will help you grow your business because that is part of our expertise. So we will institutionalize your company in order to be a potential target for a strategic player or possibly make an IPO so we provide you with that. As a summary our vision is to become like the best Venture Capital Fund in Mexico and attract the best investments in the region.

Stef van der Meulen: Thank you very much for that. Now I think you provided us with a great understanding of what your company does and the vision of it. Now moving on to the next question, could you tell me if there is a specific industry you company focuses on funding?

Carlos Escamilla: Yes, we focus on technological companies but the main focus of our fund is to invest in the TMT and services sector. TMT stands for technology, media and telecom. So right now in our first fund we have a portfolio of five companies; two are technological, one is media and the other two telecom. Ok, so that is our specific focus in terms of sectors. The part of services it is kind of broad but what we ask for in any kind of business that we are evaluating is that they have a technological component in the product or service that they offer.

Stef van der Meulen: Perfect, could you please tell me how many new venture applications do you receive on average every year?

Carlos Escamilla: Ok, here in Mexico it is kind of different than in the States or Europe because the industry is young. So if you are a young business that is looking for capital there are not so many options as you would have in the States or Europe. So we receive a lot of new opportunities even though most of them do not comply with our investment
requirements. So for example we receive more than 250 maybe 300 investment opportunities in one year, but from that less than 20% could be. Oh I am sorry, like 80% of those 300 investments do not comply with our requirements. So this means for example most of the companies that we get business plans from are too young or are not from the industries we target or maybe are too mature. So from the pool of 300 businesses we actually take a deep dive in terms of due-diligence about like 40 or 50.

Stef van der Meulen: Ok, so you would say you would get, let me see if I understand you right? You receive up to 300 applications a year and out of those 300 applications you actually follow through maybe about 20% of those? Meaning around 60 applications?

Carlos Escamilla: Yes, that is right.

Stef van der Meulen: Perfect, let’s say how much capital do you invest in new ventures yearly?

Carlos Escamilla: Ok, well in the fund we do not measure that in as terms of time. But for example I will explain you how it works. When you are a new investment and you come with us, we evaluate you and in case we are comfortable with the company we are looking at and we decide to invest in you. Ideally we would invest between three and five million dollars on the first trench. But we look to invest up to a total of 15 million dollars in through out to one year or maybe a couple of years. So for example I can give you three to five million dollars today and then another three or four next year and in six months after I can give you another four or five.

Stef van der Meulen: Just to make sure I understand you correctly so you normally give let’s say up to five million dollars a year and then you keep following up with the company and if you think the progress is going according to plan you give them an extra five.

Carlos Escamilla: Yes that is true up to 15 million. That is our limit.

Stef van der Meulen: Per year?

Carlos Escamilla: Not per year, per company.

Stef van der Meulen: You would invest on average five million in ventures a year.
Carlos Escamilla: On each company yes. I would say so because we are able to invest in three or four companies a year and we can give each of those companies three to five million dollars, let’s say on the first month but we can keep on funding the companies in case they are performing well and they need more money.

Stef van der Meulen: So you would say, you would fund four companies per year you give them up to five million dollars a year, you would say that is 20 million dollars a year that you would invest in ventures.

Carlos Escamilla: Yes and that is based on a 100 million dollar fund.

Stef van der Meulen: Ok, so the total fund is 100 million dollar?

Carlos Escamilla: Yes and the amount you planning to invest in yearly and the amount you lent your partners is around 20 to 25% per year.

Stef van der Meulen: So if you would find enough ventures a year that would actually sum up to 100 million that would not be a problem? Do you use the 100 million completely?

Carlos Escamilla: There is not a restriction, but I find it hard to believe that you can find enough investments in order to invest the 100 million because all the prospects that you take in order to evaluate the business takes, I don’t know maybe from two till four months.

Stef van der Meulen: So you have the facility to invest from zero to a 100 million a year.

Carlos Escamilla: Yes, I would top it at 20, 25. That is the reality.

Stef van der Meulen: Thanks very much. Now moving a little bit more to our topic which is business models. I would like to ask you, do you have any prior knowledge? I would say, have you read any literature? Attended to conferences? Participated in workshops about business models before?

Carlos Escamilla: While regarding business models before I gain into the fund I had did not have any, well I understood what was a business model but did not had any extra insights on the matter. So what I have learned from business models while at my job is as being internal self-developed knowledge. And what else? Typically we read literature
on the matter but it is mostly, I don’t know books about Venture Capital or Entrepreneurship or that kind of industries. Besides that I have not attended any workshops or conferences about developing this business models. It is been more like a self-developed skill.

Stef van der Meulen: How would you define a business model?

Carlos Escamilla: Ok, define a business model. A business model is a document in which you explain what is the product or service your business offers, who will it benefit, how will it benefit the people you are planning on to and what are you plans for growth. That is the way I would define it.

Stef van der Meulen: There is actually no concise definition of what a business model is, there is actually thousands of definitions and academics have not been able yet so far to reach a consensus on the topic. So there is no real right or wrong. So it is interesting to see that the people that work in Venture Capital Funds perceive the definition. Moving on do you consider a business model important for Venture Capitalists while evaluating a new venture?

Carlos Escamilla: Yes, it is really really important to have a good business model and with good business model I am not saying that your business is good or bad but to clearly reflect your strategy for your company in the document. So for Venture Capitalists it is a really basic document that we ask for in every investment because that is the way we can evaluate the potential of the company.

Stef van der Meulen: You do require people to at least, in order to consider the venture proposal you do look at the business model, right?

Carlos Escamilla: Yes, ask every time for a business model and if they do not have one, we ask them to develop one.

Stef van der Meulen: So you ask for business models, but how do you evaluate business models?

Carlos Escamilla: How I evaluate a business model? While there are several angles from which you have to evaluate the business models. So the first one is the visibility of the project. So the visibility of the project is looking at the macro environment that their product or service will be targeting. So that means we look at it from a market perspec-
tive so we try to understand how possible it is for your company to get to a determined market. Ok so that is our first approach, our second approach would be the consumer adoption so that is from the other side. So first we evaluate the market and then how likely is your product to reach that market. And that means how much resources you would need and in what would you have to invest in terms of marketing, logistics and all that kind of different issues that might arise when you are developing your company. And also from the financial perspective, we take a really deep dive in your numbers. We develop an internal model that allows us to project the growth your planning and we are trying to challenge the numbers until what point your business would be profitable or not. So we try to evaluate the financials of your company and how much money you would need and also try to get a reasonable evaluation for both parties. So when we give you an offer you will not feel like you are being ripped off and we are feeling we are doing a good deal.

Stef van der Meulen: Ok, thank you very much for that. So you say, you do evaluate business models but my question is do you evaluate business models separately from a business plan?

Carlos Escamilla: Well I believe that they are both part of the due-diligence most Venture Capitalists would perform in your company. Right? So the business model is actually how you are going to take your company, well what is the rationale behind the product or service your offering and that must be clearly shown in your business plan.

Stef van der Meulen: Just to summarize what you said; you do not evaluate business models separately from a business plan. You think that the business model is a part of the business plan.

Carlos Escamilla: Yes, well the business model is the core of your company. It is the way you going to do business and the strategy going to follow with your business model. You have to reflect all of that in a written document that is the business plan.

Stef van der Meulen: Ok, so do you use any specific instrument for evaluating business models?

Carlos Escamilla: Well, no. We do not have any particular software or any other instrument that helps us evaluate business models. It is simply like, I don’t know, the exper-
tise of our fund. Is evaluating this types of models based on our own experience. So no, we do not have any particular instrument for that.

Stef van der Meulen: Well, that is fine because we are thinking of developing one. We found out that there is really no instrument out there currently existing. If you look at the table in the interview questions sheet of the evaluation criteria, which of the following criteria would you use to evaluate business models?

Carlos van der Meulen: I would definitely use ‘efficiency’, ‘novelty’, I do not understand what is ‘lock-in’?

Stef van der Meulen: ‘Lock-in’ is like, how do you keep your customer from moving to a competitor.

Carlos Escamilla: Yes, definitely that is an important issue. The ‘evolution’, the ‘profit potential’ and ‘sustainability’. And in case I could add any other criteria, I would say that a real important issue to consider is the ‘flexibility of adaptation’. So in case the market changes the trends in the country you are based on you have to be really flexible in order to adapt the business model to be able to sell your thing to the new market, right? One other thing is, if your business model is based on recurrent revenues or in one-time revenues. And that is a big concern for us, because recurrent revenues is what grand you, well not grand you but they are a good indication if your business is promising or not.

Stef van der Meulen: So just going back to which to the criteria you chose from the table you mention; “‘efficiency’, ‘novelty’, ‘lock-in’, ‘evolution’, ‘profit potential’.” Is there anything missing?

Carlos Escamilla: Yes, ‘sustainability’.

Stef van der Meulen: Those six will be the main ones for you to use?

Carlos Escamilla: I mean each of them are I think important, but the most important ones are the ones you just said.

Stef van der Meulen: But if you have the opportunity to use all of them, would you use all of them?

Carlos Escamilla: Yes, I would definitely use all of them.
Stef van der Meulen: Moving on to the last question, do you think it would be fruitful to develop an instrument to evaluate business models?

Carlos Escamilla: Yes I think it would be useful but I also think that you also need a significant background on getting to know the entrepreneurship side of business and to really understand what is behind a company in order complement the instrument you are describing.

Stef van der Meulen: So you think it is useful as long as you complement it with knowledge of entrepreneurship.

Carlos Escamilla: Yes that is right.

Stef van der Meulen: Is there anything you would like to add to this interview?

Carlos Escamilla: No, not really.

Stef van der Meulen: Ok, thank you for your time I really appreciate your cooperation, I know that you are a busy person.

Carlos Escamilla: You are welcome, bye.