



CASES for DTU course "Knowledgebased Entrepreneurship"

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EndoMondo: designing a profitable business model

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Background:

In December 2007, three colleagues at McKinsey, Copenhagen, decided to live out their dream of being entrepreneurs. They left their jobs as management consultants to pursue an idea of changing the way you do sports whether you are at elite level or merely someone who wishes to keep in shape.

The vision of their start-up was to create a mobile service that makes sports more exciting, to make the service available to a large group of physically active people and thus create a community of EndoMondo users.

Question is: how can you make money out of this?

There are many different kinds of motivation for doing sports. Tracking the training and monitoring the progress motivates some of us whereas others need a friend to play with or compete against or even a coach. The founders wanted to meet all of these needs to reach both recreational as well as more ambitious athletes.

In September 2008, the alpha version of endomondo.com was officially launched in connection with the world's largest running race, the DHL race in Copenhagen with 100.000+ participants. Based on feedback from the first users, the beta version of endomondo.com was launched in July 2009. In the years to come, the founders worked hard on improving the services and at the time of recording this case (October 2012), the company development is still in full swing with the numbers of EndoMondo users to be counted in the 10+ millions.

From the beginning the EndoMondo founders were convinced that first priority was to focus on attracting users to the site, and once users were signed in, to create value for them in order to make them stay. The strategy was to attract the users by offering a real attractive site free of cost, and then make money out of it. The question of how still pended at start-up time.

Starting up and attracting the first users was possible via the founders' own means. But, they also knew from very early on, that to go all the way to a really popular site with a very high hit rate, they needed professional venture capital investors that would appreciate the company's ability to expand the user base.

EndoMondo has been successful in growing the user base through "critical mass" and consequently, quickly after launch, the founders started screening for potential investors. The investors were impressed by the user base – but also wanted to know how and when the company would generate revenue.

The problem:

EndoMondo analyzed several business models that would create a revenue stream. A particular challenge was to keep the focus on the target groups (the users) as well as balancing initiatives against resources and competences currently available in the company.

However, the greatest challenge was to figure out how to design payable products to a user group that expected free premium services.

Your task:

Suggest and explain at least three different business models that would create a revenue stream given that you have a significant and rapidly expanding user group of sporting people with frequent visits to your site and daily use of your free app/mobile phone tracking and recording services

The founders' considerations

The management considered the following issues when evaluating different business models:

1. Will focus be removed from expanding the user base?
2. Will the company be able to create synergy between the business areas – and continue to grow?
3. Will the company need to hire additional people with knowledge about the new business area-/s?
4. Will it require costly product development?
5. Does the company know enough about the user base i.e. target group?

Business models that were considered:

1. Merchandising – selling of sports related products, advertised to own user base
2. Sponsored events
3. Heat Maps – information about peoples behavior in terms of physical activity
4. Events – Live map implemented on organizers website
5. Additional features on client and web (e.g. advanced statistics, advanced audio, coaching, event module, corporate reports and more)
6. Corporate packages – companies internal and external health campaigns.

What happened

The early company development strategies were trying to balance growth against revenue with a pressure from venture capital to focus on revenue. Merchandising/Web shop was the first business area. Products however were not selected with synergy in mind. The crucial selection criterion was: “can we sell it to our existing user base”? - instead of considering “can we acquire new users through the web shop – and thereby grow the user base while generating revenue”?

The management quickly learned that a new business area had to *“both generate revenue and grow the user base”!*

With this lesson learned, EndoMondo has successfully developed a profitable business activity within the following business areas:

1. The web shop – adds value to the users and creates “EndoMondo Ambassadors” = more users. The company chose to outsource this service since the field was

not familiar to the management and required significant organizational remodeling.

2. Corporate/Enterprise solutions – the platform is sold to a third party that can use it for a “specific” event where EndoMondo is also branded. This is an important marketing feature that keeps users on board after the event.
3. Social Elements – e.g. challenges, competitions (both global as well as regional) and banner advertising – increases the user base as well as results in even more commitment from the users. Adds value to existing users and thereby increases customer loyalty.
4. Pre-load mobile solutions
5. Paid apps with premium features