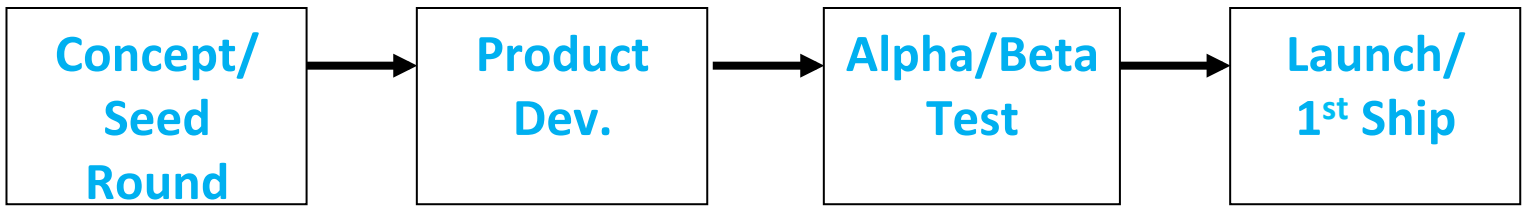
Business Models & Customer Development

www.steveblank.com

Capstone Project Criteria

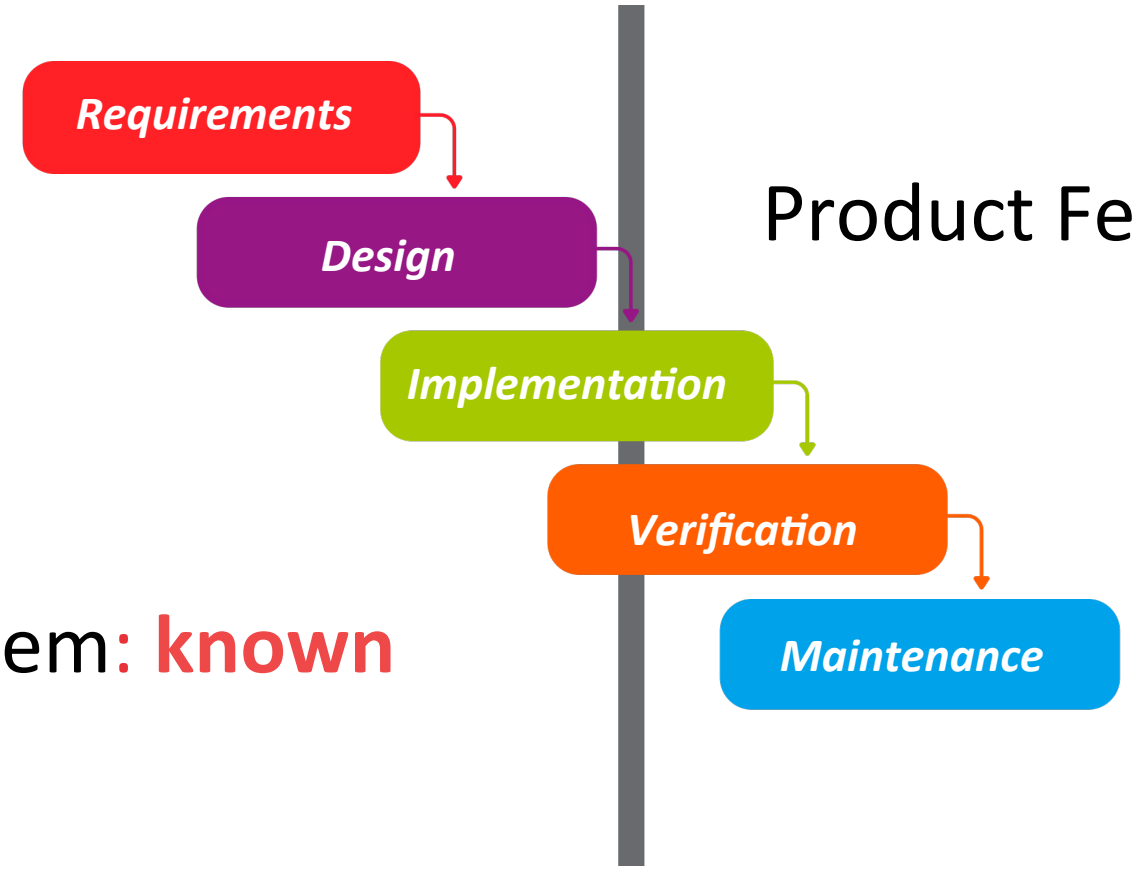
- Customer driven
- Team oriented
- User friendly
- Content
- Community needs
- Funding

Product Introduction Model



Waterfall / Product Management

Execution on Two “Knowns”

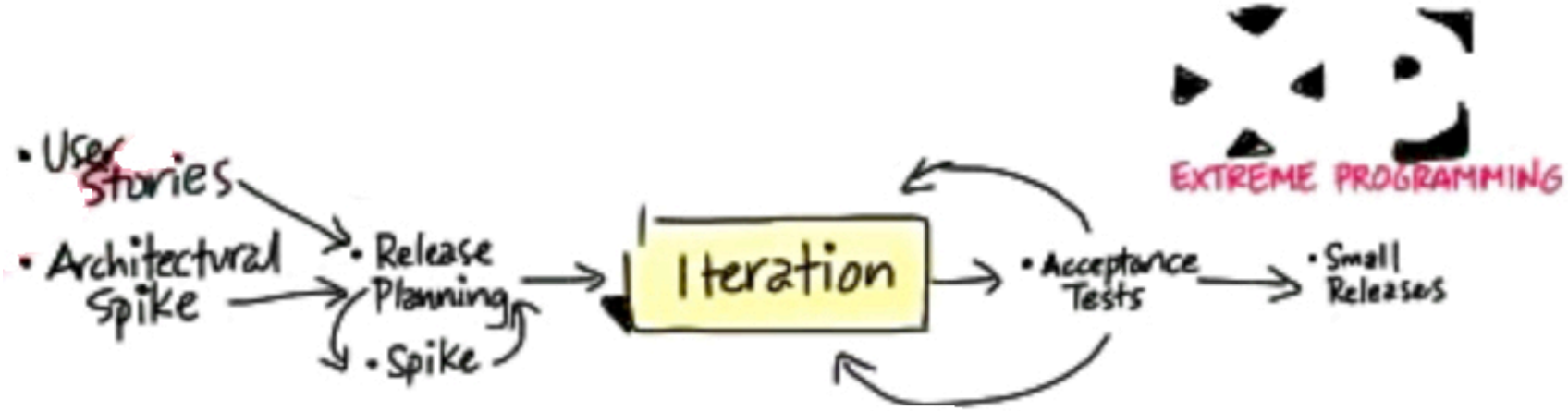


Product Features: known

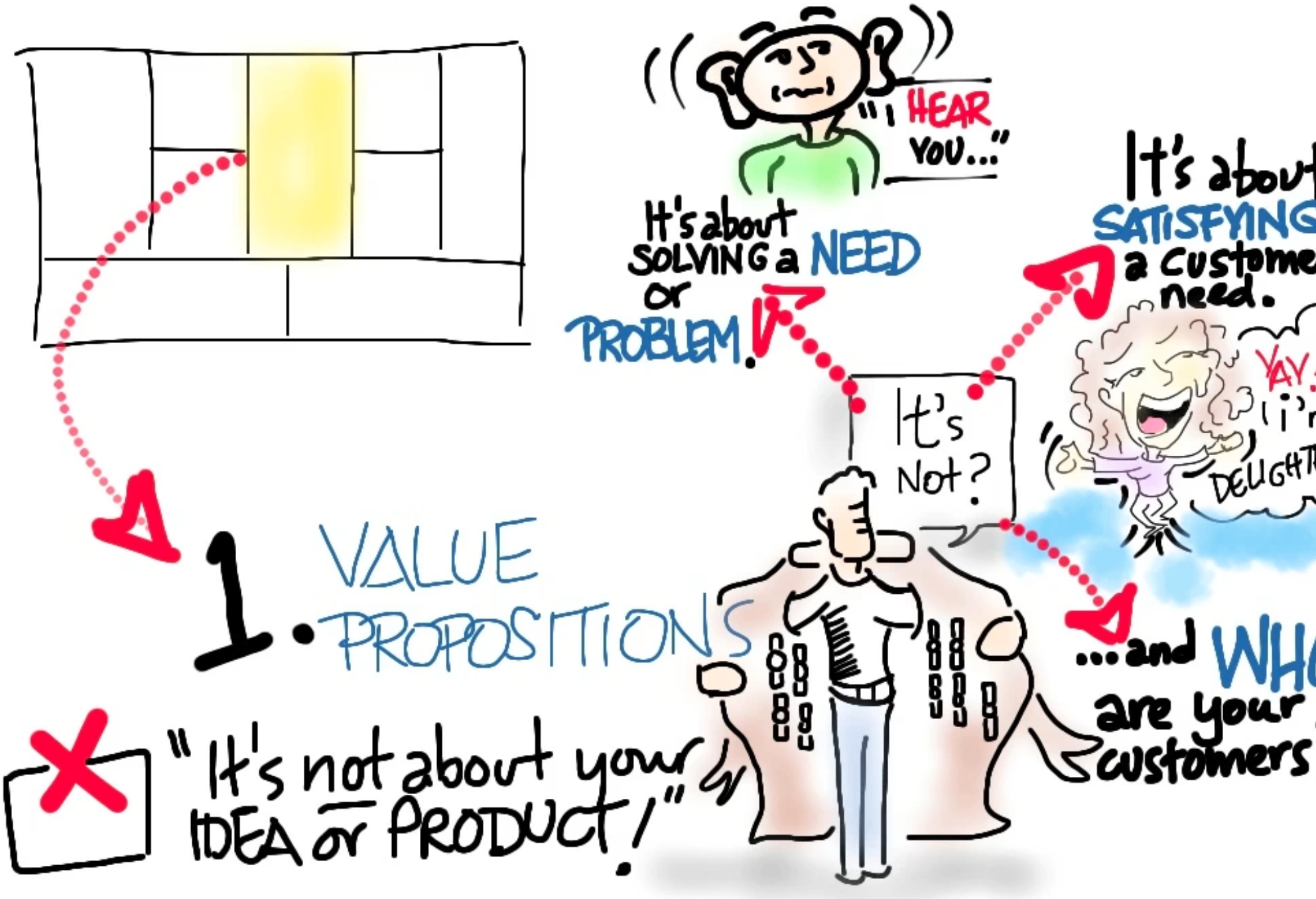
stomer Problem: known

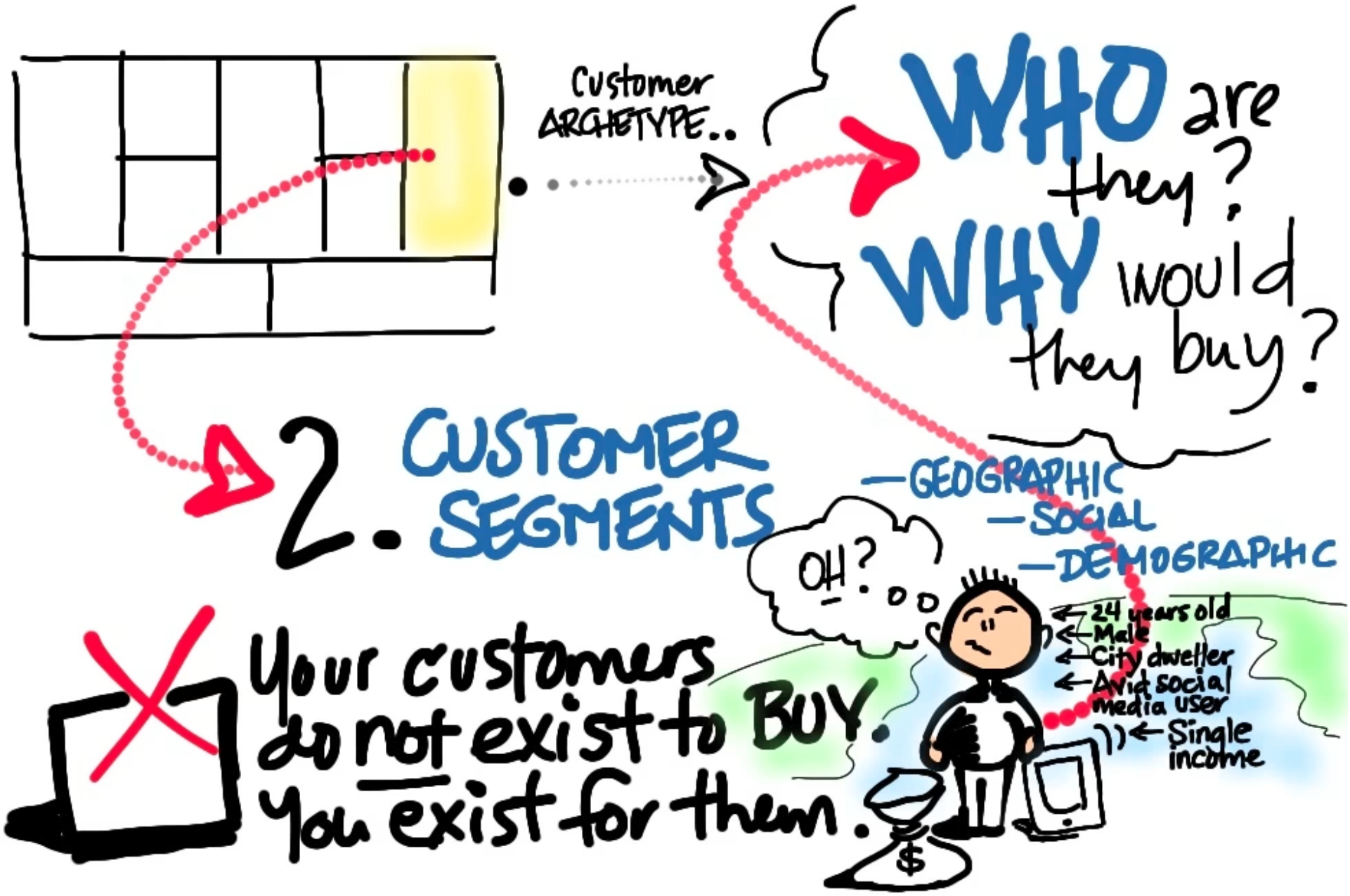
Source: Eric Ries
http://startuplessonslearned.blogspot.com

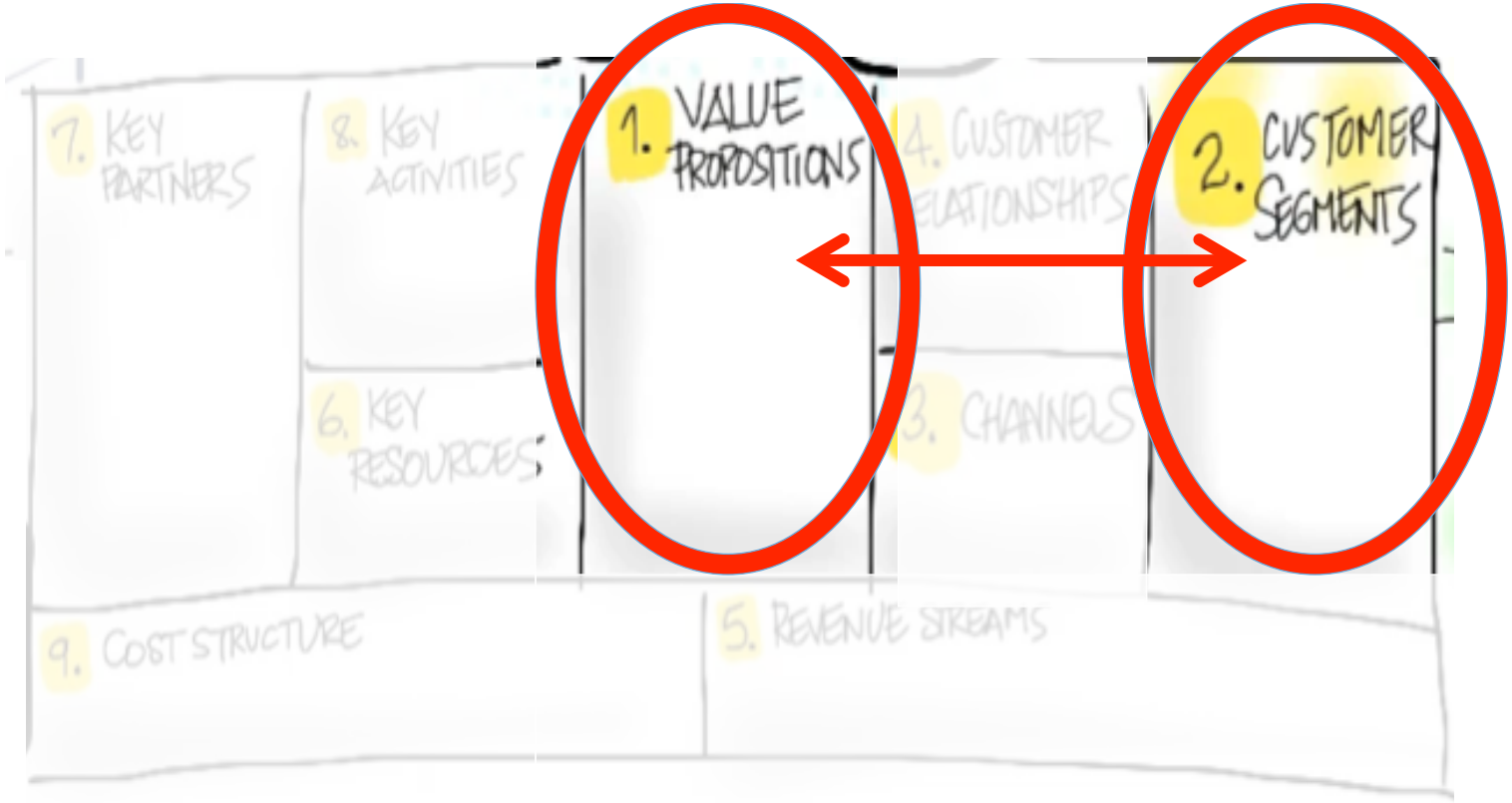
Agile Development



Brilliant inventions fail from a lack of customers more often than from a failure of product development


"I HEAR YOU..."
It's about SOLVING a NEED or PROBLEM!
It's Not?
It's about SATISFYING a custome need.
YAY!
DELIGHT
1. VALUE PROPOSITIONS
"It's not about your IDEA or PRODUCT!"
...and WHO are your customers


Customer ARCHETYPE..
WHO are they?
WHY would they buy?
2. CUSTOMER SEGMENTS
—GEOGRAPHIC
—SOCIAL
—DEMOGRAPHIC
OH?
24 years old
Male
City dweller
Avid social media user
Single income
Your customers do not exist to BUY.
You exist for them.



Product/Market Fit

9 Guesses

The Business Model Canvas

Designed for:

Designed by:

On: Day Month Year

Iteration: No.

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS:
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Guess

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES
Production
Problem Solving
Platform/Network

Guess

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Guess

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Guess

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?

Guess

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?

Guess

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Guess

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE:
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS:
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Guess

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES:
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation(bargaining)
Yield Management
Real-time-Market

Guess

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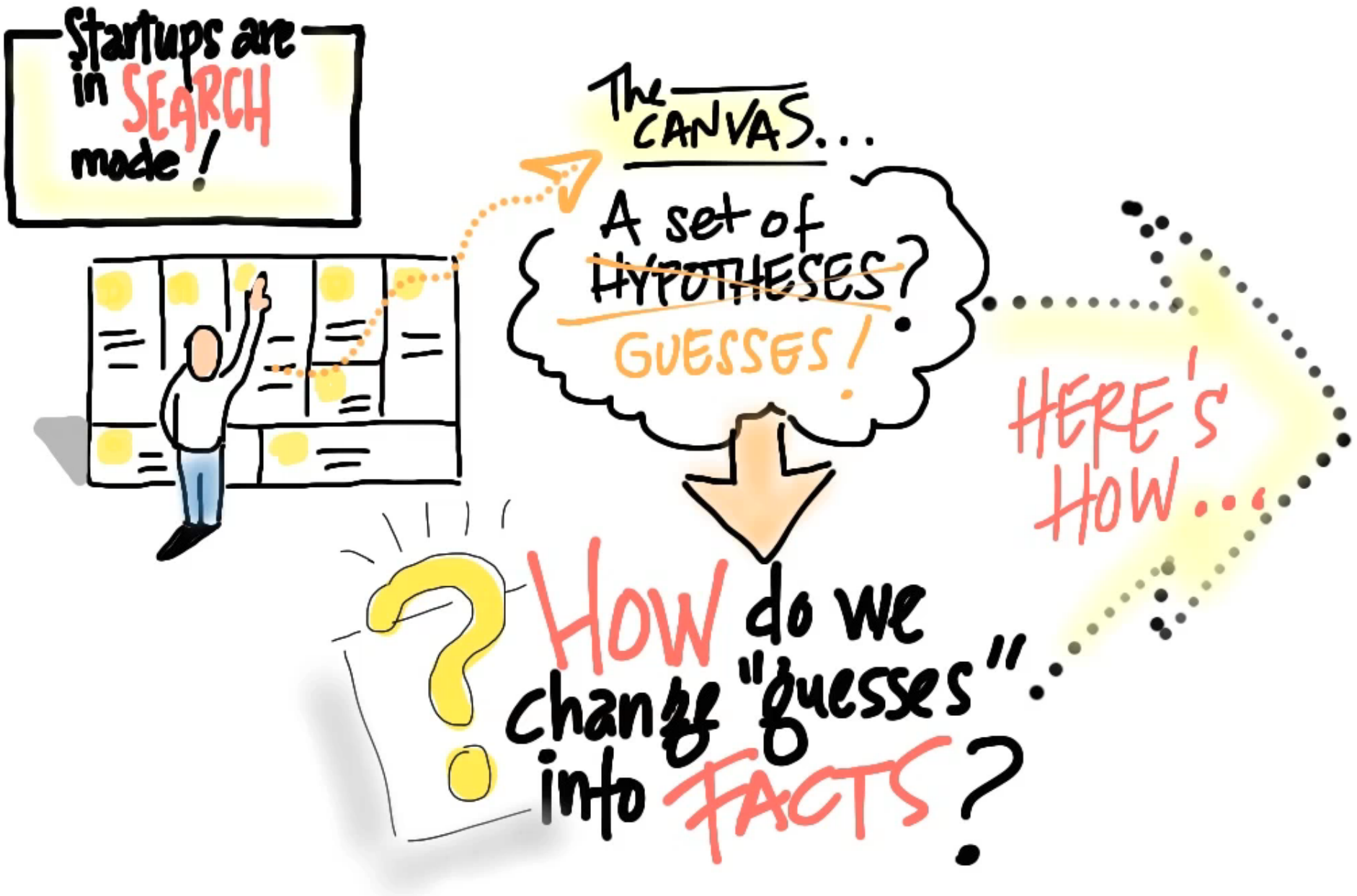
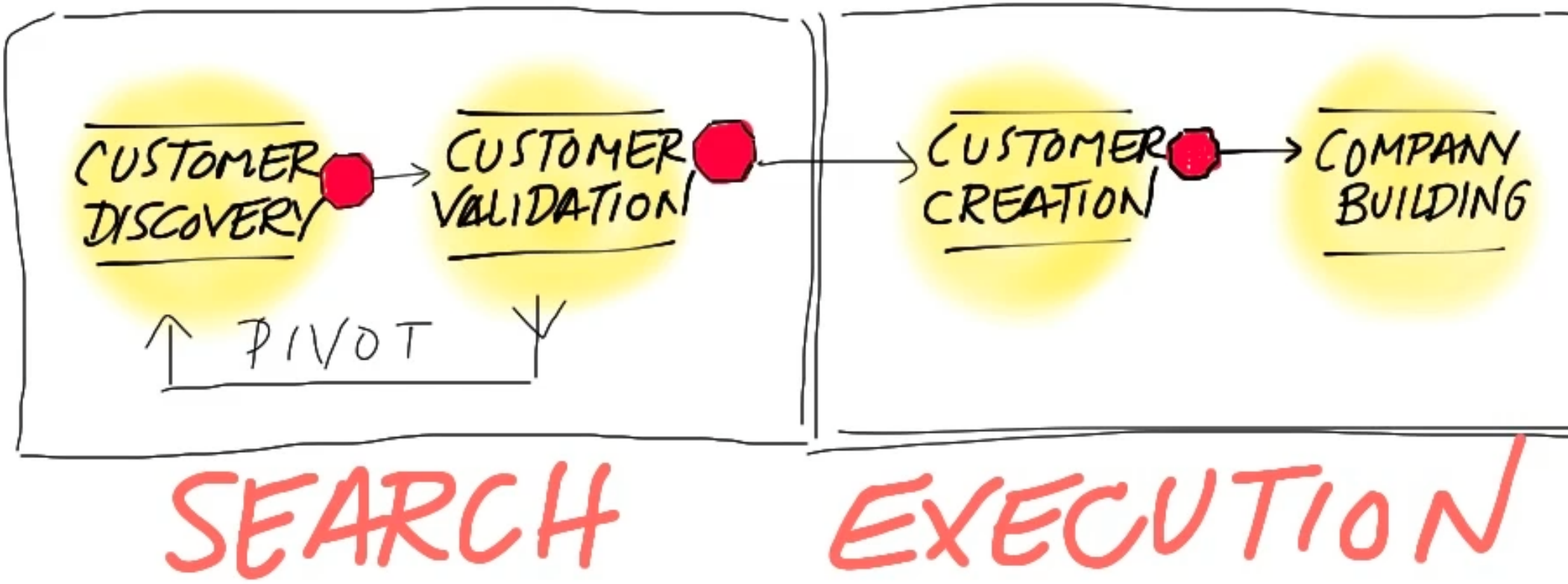
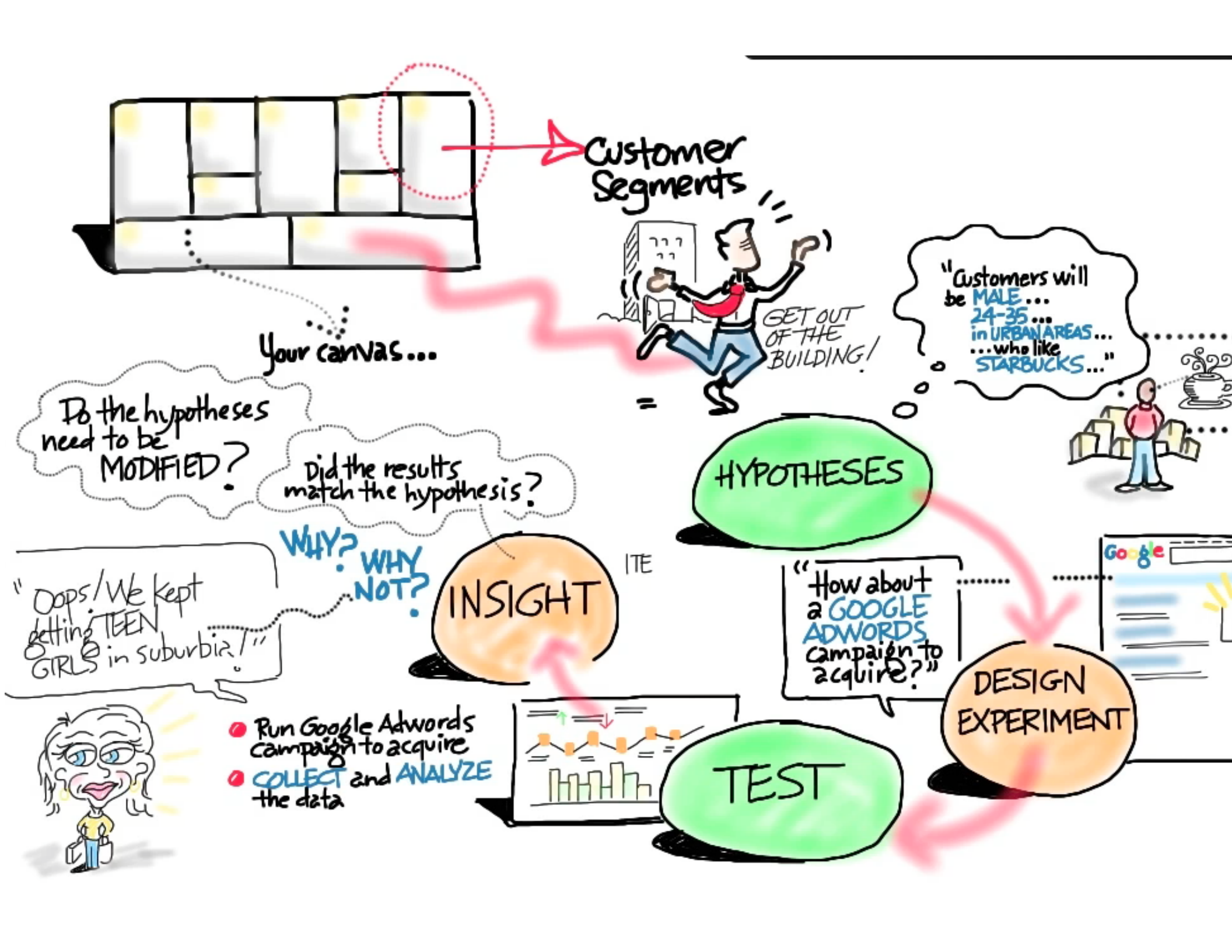

Startups are in SEARCH mode!
The CANVAS...
A set of HYPOTHESES? GUESSES!
HERE'S HOW...
HOW do we change "guesses" into FACTS?

The CUSTOMER DEVELOPMENT PROCESS

In other words...




Customer Segments
Your canvas...
=
GET OUT OF THE BUILDING!
"Customers will be MALE... 24-35... in URBAN AREAS... ...who like STARBUCKS..."
HYPOTHESES
"How about a GOOGLE ADWORDS campaign to acquire?"
DESIGN EXPERIMENT
Google
TEST
Run Google Adwords campaign to acquire
COLLECT and ANALYZE the data
"Oops! We kept getting TEEN GIRLS in suburbia!"
WHY? WHY NOT?
INSIGHT
ITE
Do the hypotheses need to be MODIFIED?
Did the results match the hypothesis?

The CUSTOMER DEVELOPMENT PROCESS, continued...

TEST your GUESSES... and LOOK for INSIGHTS!

- Mark up your old canvas.
- ... but don't discard your learning.

START a NEW CANVAS.

- New hypotheses...
- New experiments...
- New tests...

...and GET OUT of the BUILDING!

Minimal Viable Product

Continued...

Because customers didn't have input, many products were made that didn't satisfy customers' WANTS and NEEDS.

WASTE!

- of TIME...
- of PEOPLE...
- of MATERIAL...
- of RESOURCES...

HOW ABOUT SOMETHING DIFFERENT?

MINIMAL VIABLE PRODUCT

1. Build the minimum features in order to get FEEDBACK.

2. QUICKLY and ITERATIVELY GET CUSTOMER FEEDBACK...

3. As you get more feedback, you can ADD MORE FEATURES.

PIVOT

SPEED: On the web, you can reach thousands of customers in a short amount of time.

TEMPO: Like a metronome tempo is CONSTANT, CONSISTENT, and RELENTLESS.

Click Click

PIVOTS are the RESULT of HYPOTHESIS TESTING and EXPERIMENTATION.

REMEMBER!
Hypothesis testing involves FAILURE!

CUSTOMER DISCOVERY → CUSTOMER VALIDATION

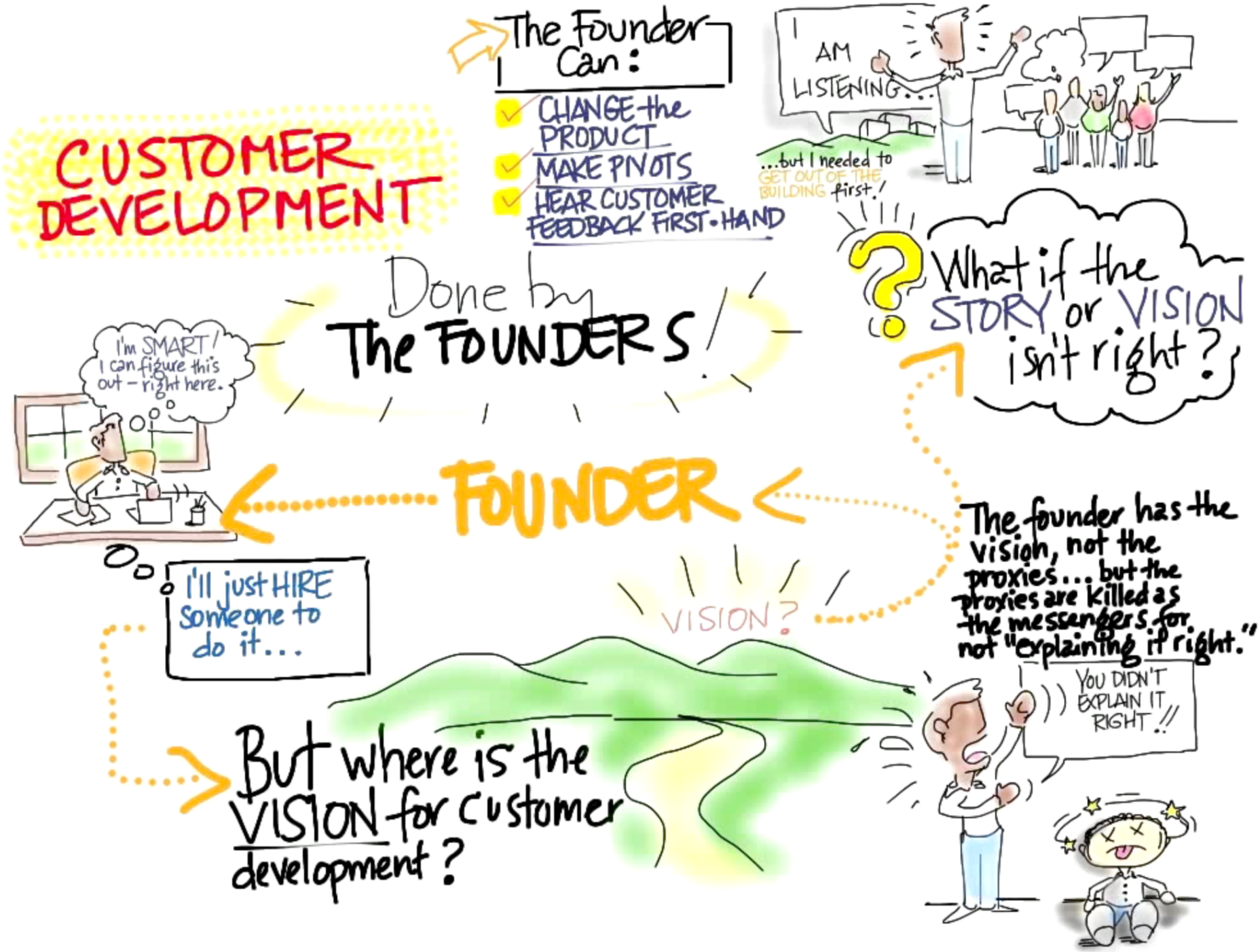
PIVOT

What do you do when HYPOTHESES do not match REALITY?

A PIVOT is a SUBSTANTIVE CHANGE to one or more business model components.

An ITERATION is a minor change...

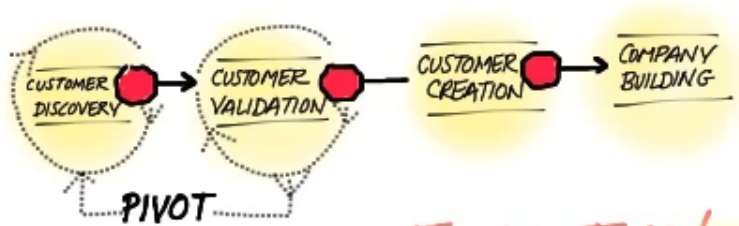
FIRE the HYPOTHESIS, not the FOUNDER.


CUSTOMER DEVELOPMENT
The Founder Can:
CHANGE the PRODUCT
MAKE PIVOTS
HEAR CUSTOMER FEEDBACK FIRST-HAND
I AM LISTENING...
...but I needed to GET OUT OF THE BUILDING first.
Done by
The FOUNDERS
What if the STORY or VISION isn't right?
I'm SMART! I can figure this out - right here.
FOUNDER
I'll just HIRE someone to do it...
VISION?
The founder has the vision, not the proxies... but the proxies are killed as the messengers for not "explaining it right."
YOU DIDN'T EXPLAIN IT RIGHT!!
But where is the VISION for customer development?

The CUSTOMER DEVELOPMENT Process, continued...

Your "STACK" of canvases is a chronicle of your startup OVER TIME!

- Look for INSIGHTS in the NUMBERS.
- You may have some "GRUMBLE GRUMBLE" moments → 2nd then an EPIPHANY.
- SEARCH. DISCOVERY. VALIDATION.

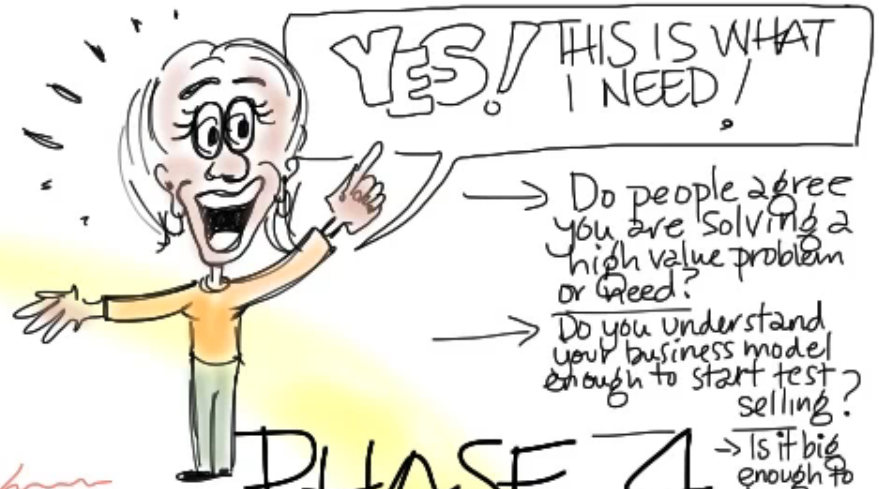


SEARCH

EXECUTION

→ Build high fidelity app or prototype
→ Test your understanding of the customer's agreement that you have the solution

→ The match between your VALUE PROPOSITION and CUSTOMERS is called PRODUCT/MARKET FIT.



→ Do people agree you are solving a high value problem or need?
→ Do you understand your business model enough to start test selling?
→ Is it big enough to be a business?

PHASE 4
Verify or Pivot

PHASE 3
Test the Solution

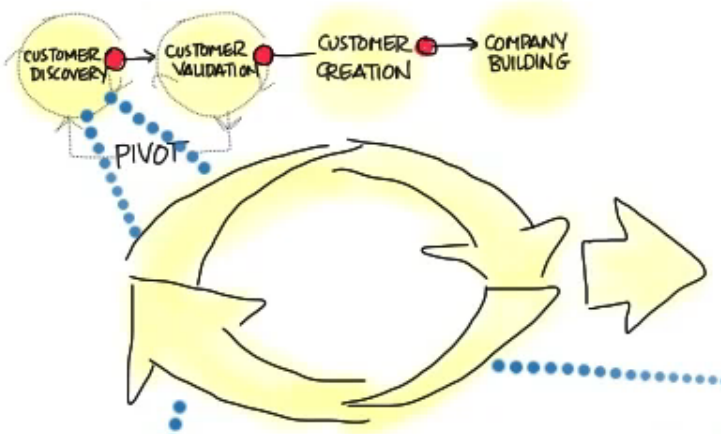
→ Get out of the building
→ Build wireframe or prototype
→ Test your understanding of the customers problem or need.

PHASE 2
Test the problem

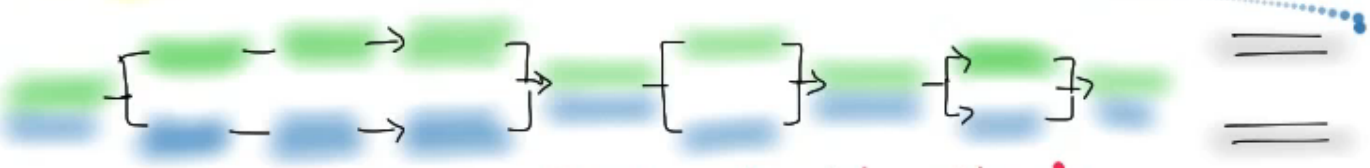
PHASE 1

- State HYPOTHESIS
- Draw BUSINESS MODEL CANVAS

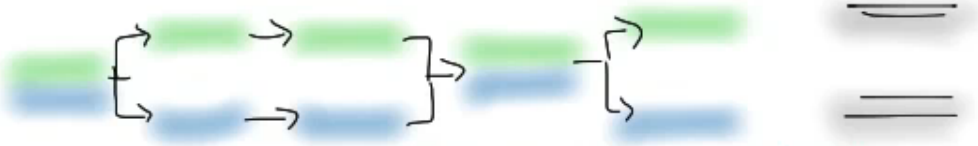
Draw canvas inside the building...



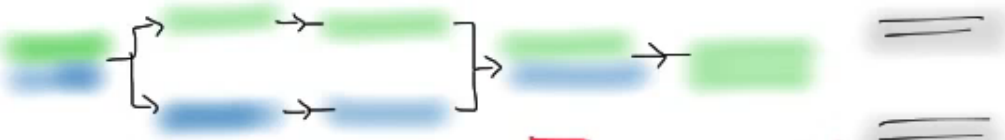
CUSTOMER DISCOVERY



STEP 1: State Your Hypothesis



STEP 2: Test the Problem



STEP 3: Test the Solution

STEP 4: Pivot or Proceed