

startup business modelling

CHELTENHAM CONSULTANTS

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are you a
startup?



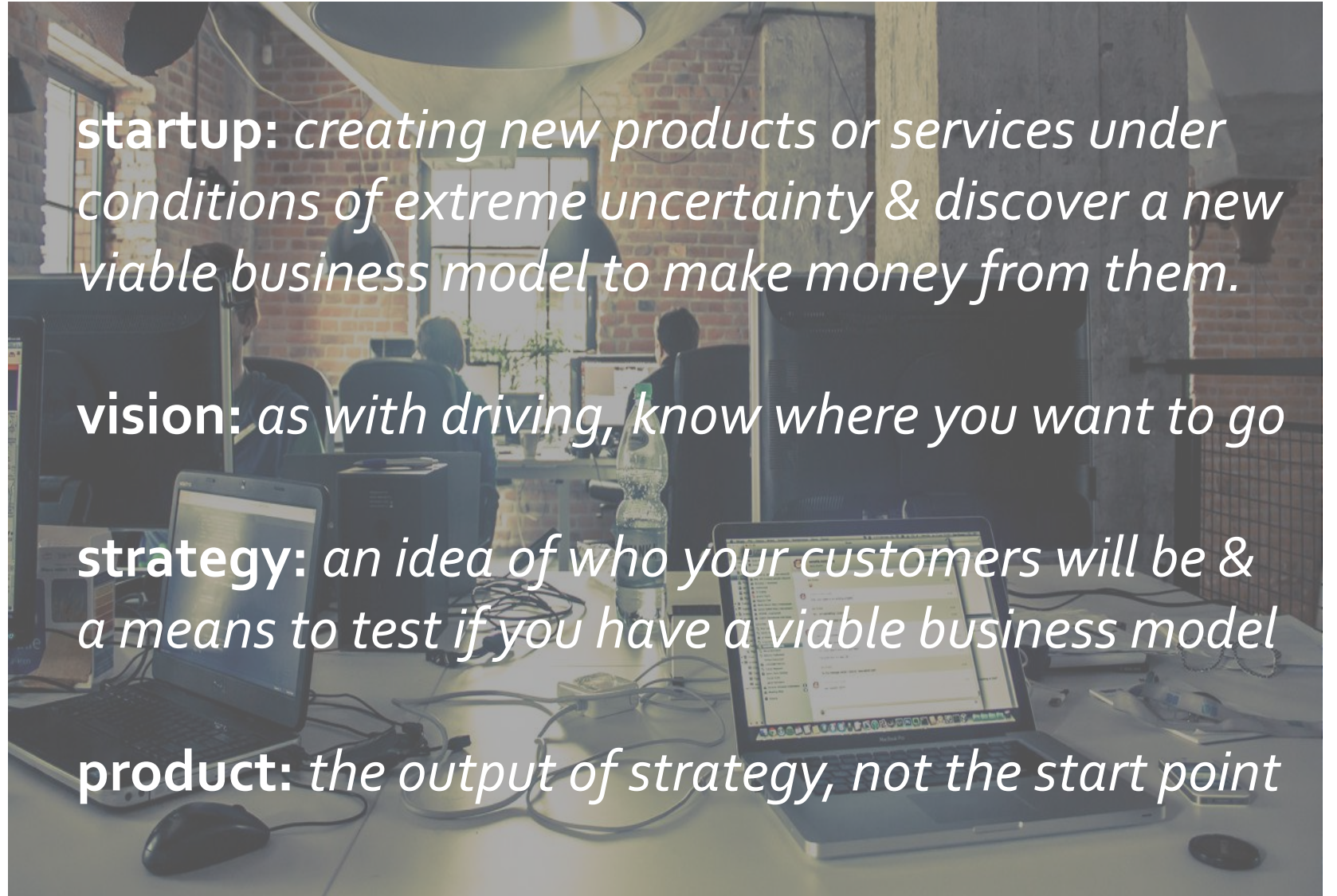
creation in
condition of
extreme
uncertainty

startup: *creating new products or services under conditions of extreme uncertainty & discover a new viable business model to make money from them.*

vision: *as with driving, know where you want to go*

strategy: *an idea of who your customers will be & a means to test if you have a viable business model*

product: *the output of strategy, not the start point*



**why startups
fail**

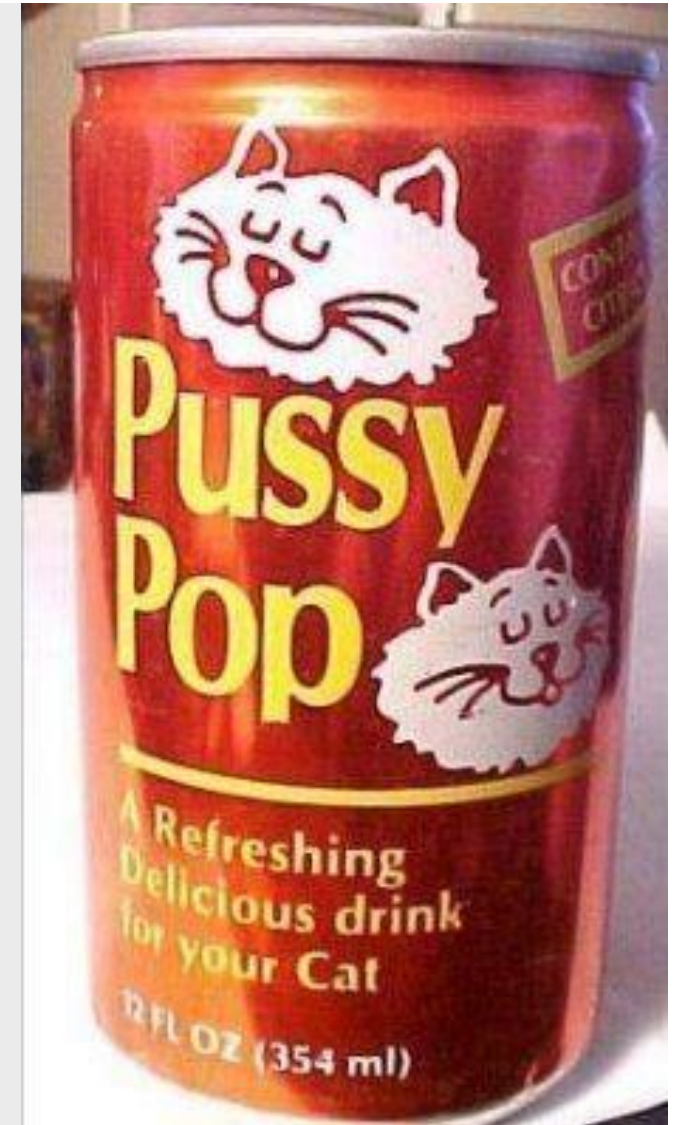
building
something
people don't
want

Too much belief in the idea

No process to validate

False consumer assumptions

Untested business model



a startup is
not ...

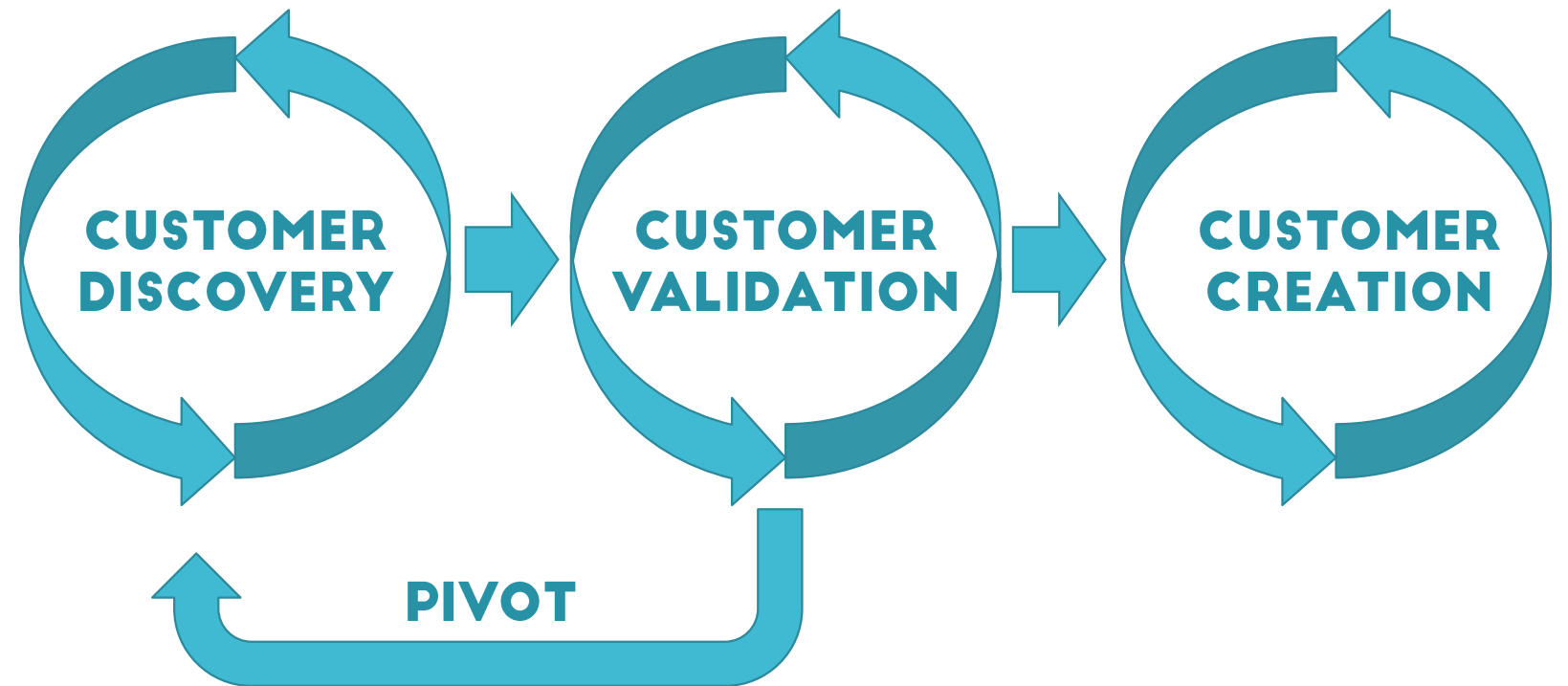
a mini version
of a big
company

- Does not need a comprehensive business plan
- A finished product to launch
- Detailed financial models for x years

Experiment instead of plan and deliver.
Find a *viable business model* via *validated learning*

**customer
development**

the original
ideas from
Steve Blank



customer discovery, validation & creation

what to do
before you
build a
company

- **Discovery:** Your business model hypotheses (*guesses*) & the plan to test customer reactions to them, to turn them into *facts*.
- **Validation:** Experiments to see if the resulting business model is *repeatable* & *scalable*. Discover who influences & decides a sale. The economic buyer & their budget. Customer Acquisition Costs.
- **Creation:** build end-user *demand* and drive into sales channel to scale business

market types

new, existing,
cloned, or re-
segmented

- **new market:** customers can do something they couldn't do before.
Challenge is to create demand.
- **existing market:** product is cheaper, faster, better (e.g. less effort)
- **cloned market:** adapted from a different domain or country
- **re-segmented market:** create a niche in a current market or grow an area next to the main market, e.g. low-cost entrants

market size

estimate first
to decide if it is
worth
proceeding

Total Addressable Market (TAM)

All possible customers

Served Available Market (SAM)

Customers I will be able to reach with my
sales channel

Target Market (TAM)

My most likely buyers

vision

vital to acquire
your early
adopters



What do you want to change?

**How will you get people to change
behaviour?**

What will the world look like in 3 years?

lean startup
approach

succeed or fail
faster



Is the idea viable?

Is there a market?

Will it work?

lean startup
approach

validated
learning

Is the idea viable?
rapid business modelling

Is there a market?
get MVPs in front of customers

Will it work?
test key business
model assumptions

why lean?

removes the
waste of
building
something
people don't
want


Incomplete designs, not-yet-validated assumptions & business models are **Work In Progress** (WIP)

Hypotheses about customers should **pull** work from our product / service development

By going from **push** to **pull** we reduce batch sizes and WIP so become lean

lean startup movement

fast becoming
the standard
approach at
leading
business
schools



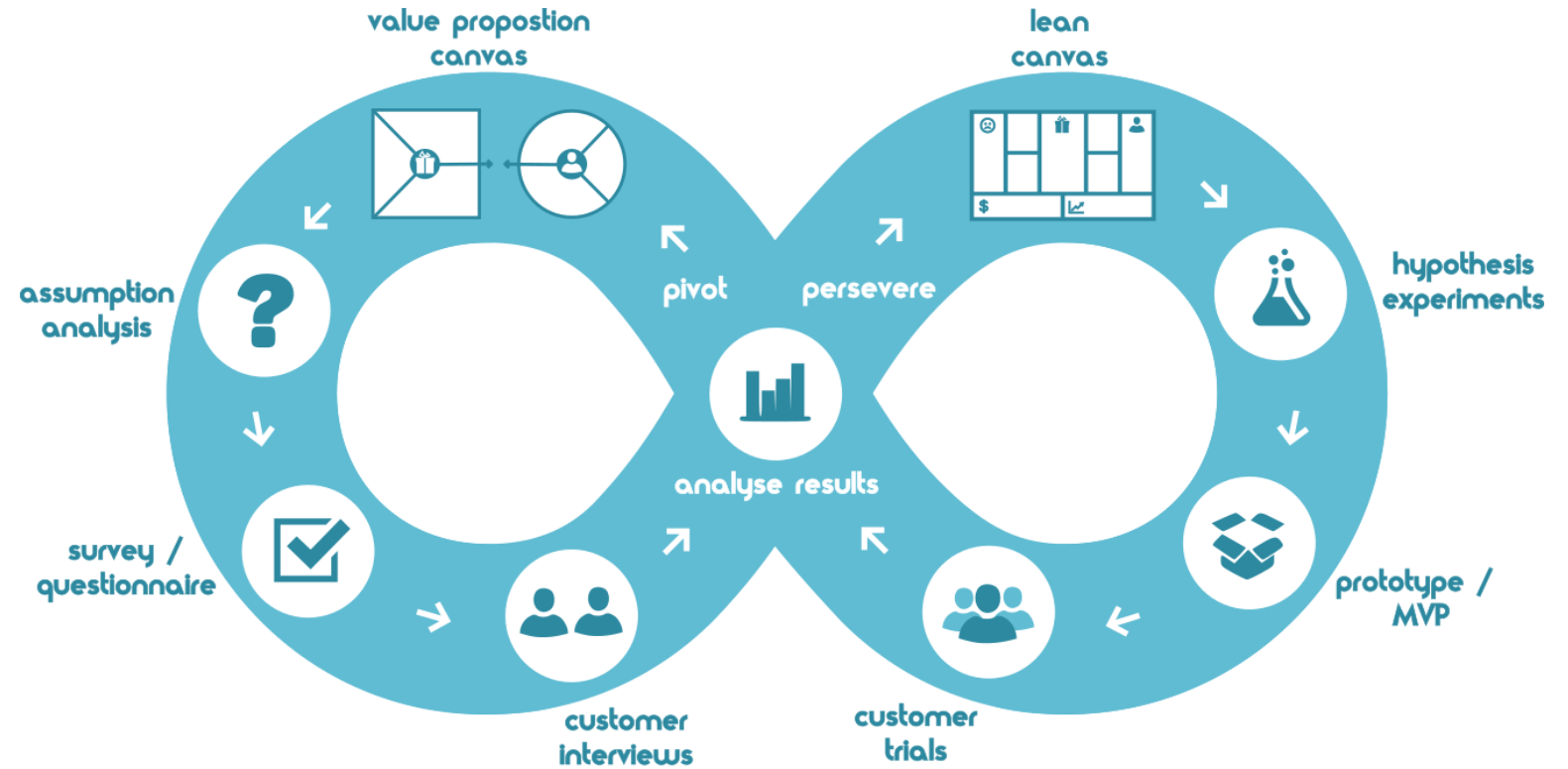
Berkeley - *"Steve Blank's 8 week course has spawned major successes. Students hit the streets with a constantly evolving prototype in hand, and talk to dozens and dozens of people – possible partners, prospective investors, and especially potential customers."*

NYU's Entrepreneurial Institute - *"lean startup methodology ... underpins a lot of what we do. When you have a good idea you go out and talk to customers"*

Harvard Business School - *"It's now just permeated everything we do around entrepreneurship at HBS,"*

Continuous Lean Innovation Process

iterate to turn
market
guesses into
facts



continuous lean innovation process

value proposition canvas V1

product –
market fit
starts with
knowing your
customer

value proposition



what to design
and build

customer segment



why – based on
observation

customer profile

create an
archetype of
customers to
engage with
first



Segment customers by:

- demographics, geographics, lifestyle, profession, attitudes etc.
- buying cycle

Create an **archetype**, e.g. *'Frank – busy professional who relaxes by cooking for his partner and friends. Willing to spend to make these nights memorable occasions.'*

customer archetypes

for your team
to relate to &
emote with
your
customers



Meet Bridget

Age early 30s

Marital Status Married

Kids No, but plan to

Job Manager at a consulting firm

Dog Riley (lab poodle)

Monthly spent on Riley \$400-\$500

Pains Inflexible schedule, hard to arrange dog walker, feel bad to leave the dog home, no way to interact with Riley while away, stresful, sensitive stomach, exhausted after daycare, emotional

Motivation curiosity, obsession, affection

Influencer dog trainer, dog breeder, FB page for dog owners

customer profile - jobs

their tasks,
problems and
needs



What your target customers want done

- **functional jobs:** tasks to do, problems to solve
- **social jobs:** network, gain status, look good
- **emotional jobs:** feel positive, secure, etc.
- **satisfy basic needs:** communication, sex

customer profile - pains

negative
emotions, risks
and undesired
costs



Ranked experiences before, during or after getting the job done

- **too costly:** time, money, effort
- **feel bad:** frustrations, headaches
- **as-is solution failures / barriers to adopt**
- **main customer difficulties & challenges**
- **adverse social consequences**
- **risks & fears:** financial, social, technical
- **common customer mistakes**

customer profile - gains

benefits
expected,
desired or
surprised by

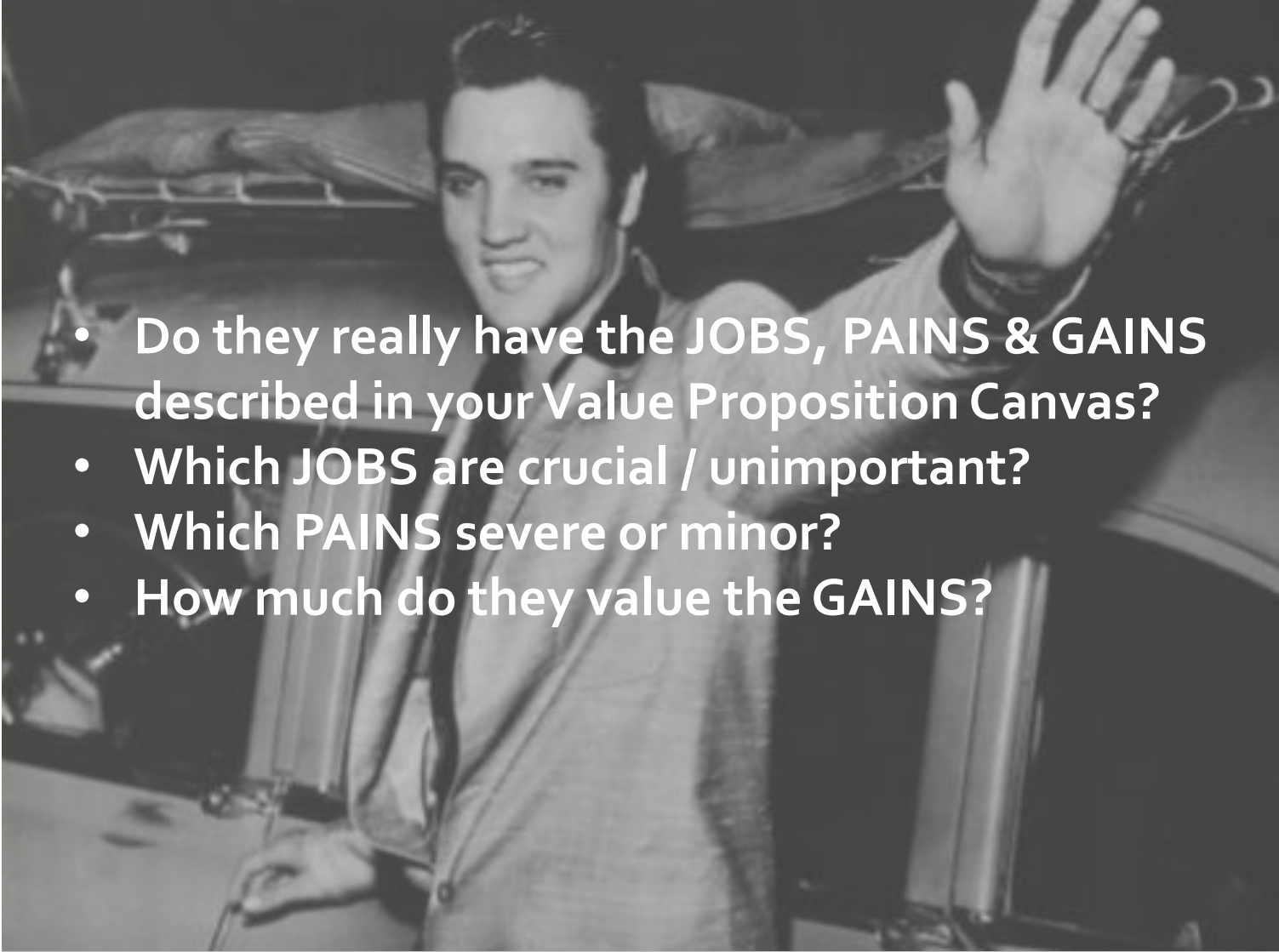


Ranked gains according to relevance to
your customer (substantial > insignificant)

- **savings:** time, money, effort
- **delights:** features, performance, quality
- **makes job or life easier**
- **main customer difficulties & challenges**
- **positive social consequences**
- **what customers seek or dream about**

get out of the
building

test the
customer
assumptions in
your VP
Canvas

- 
- Do they really have the **JOBS, PAINS & GAINS** described in your Value Proposition Canvas?
 - Which **JOBS** are crucial / unimportant?
 - Which **PAINS** severe or minor?
 - How much do they value the **GAINS**?

customer interviews

tips from Giff
Constable for
early customer
development
interviews

- **One person at a time.** *Focus groups are a distraction filled mess*
- **Know your goals & questions.** *Decide who to talk to (age, gender, location, affluence, profession, etc.) & the questions to test your assumptions.*
- **Separate behaviour & feedback.** *First focus on their mindset, e.g. to a problem & behaviour – don't let them talk about solutions & features until later.*

customer interviews

see more advice on
giffconstable.com

- **Be psyched to hear what you don't want to hear.** *Avoid confirmation bias. The deeper insight is a bigger opportunity*
- **Disarm politeness training.** *Tell them you don't want to waste all your money building the wrong thing, so be brutal!*
- **Ask open-ended questions.** *What motivates you to do x? Why? Tell me more about that (poor) experience?*

customer interviews

read Giff
Constable's
free book –
'Talking to
Humans'

- **Listen, don't talk.** *Don't rush to fill the space when a customer pauses. Learn don't sell!*
- **Follow your nose & drill down.** *Use Five Whys - but try not to annoy them!*
- **Repeat back an important idea.** *To check its right and let them think & elaborate.*
- **Ask for introductions.** *Get more leads.*
- **Write up quickly.** *Details will fade fast. Look for patterns, use your judgement on their body language, as what people say is not always what they do.*

value proposition – products & services

what helps to
get the
customer's job
done?



Ranked according to importance to your customer (crucial -> trivial). Products & services can be:

- **tangible**, e.g. goods, face-to-face service
- **digital**, e.g. streams, recommendations
- **intangible**, e.g. copyrights, QA
- **financial**, e.g. investment, services

value proposition – pain relievers

eliminate the
negatives and
reduce costs &
risks



How products & services alleviate customer pains to create value. Ranked by pain intensity (intense -> light)

- *consider same things as 'customer profile – pains'*

value proposition – gain creators

eliminate the
negatives and
reduce costs &
risks



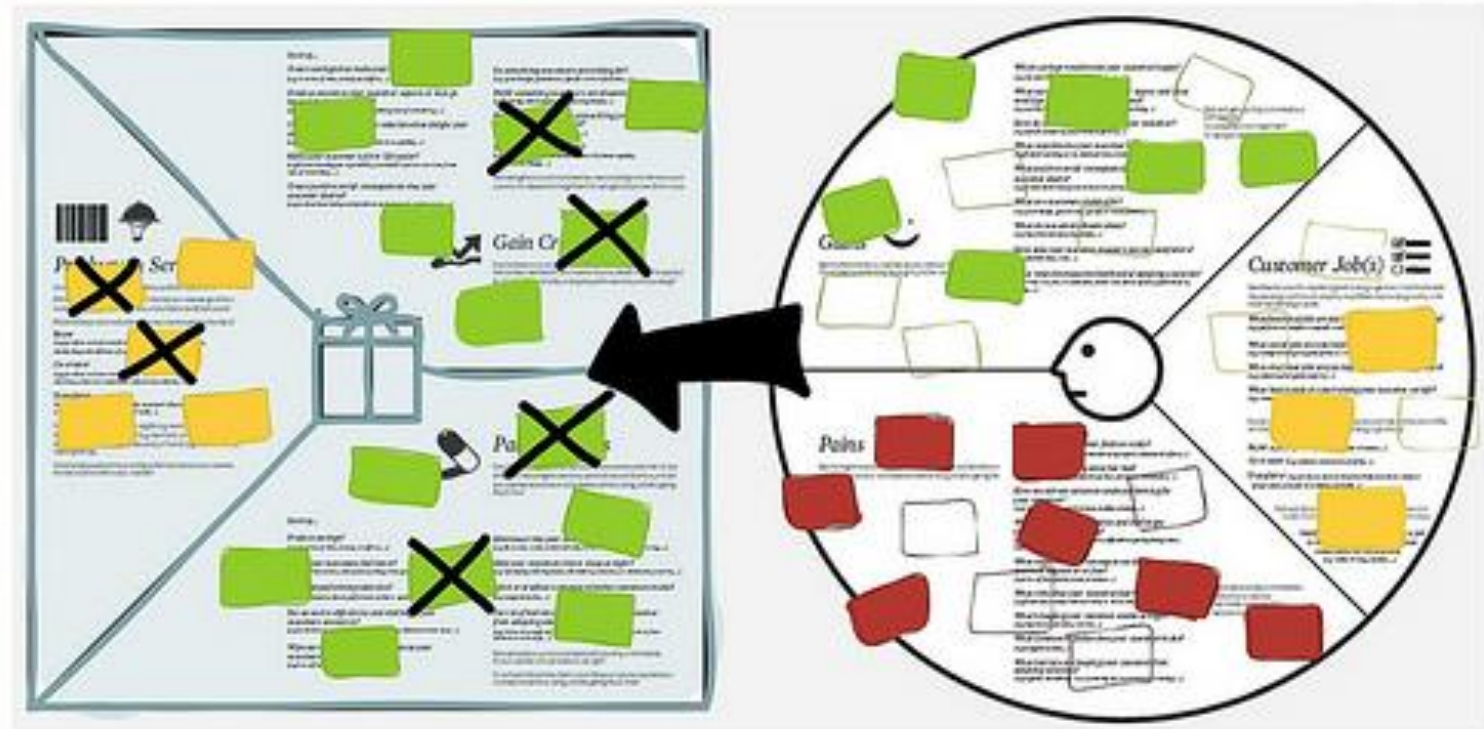
How products & services create expected benefits, fulfil desires or surprise. Ranked by importance to customer (substantial -> insignificant)

- *consider same things as 'customer profile – gains'*

insight-driven value proposition

adjust which
pains / gains to
focus on based
on customer
insights

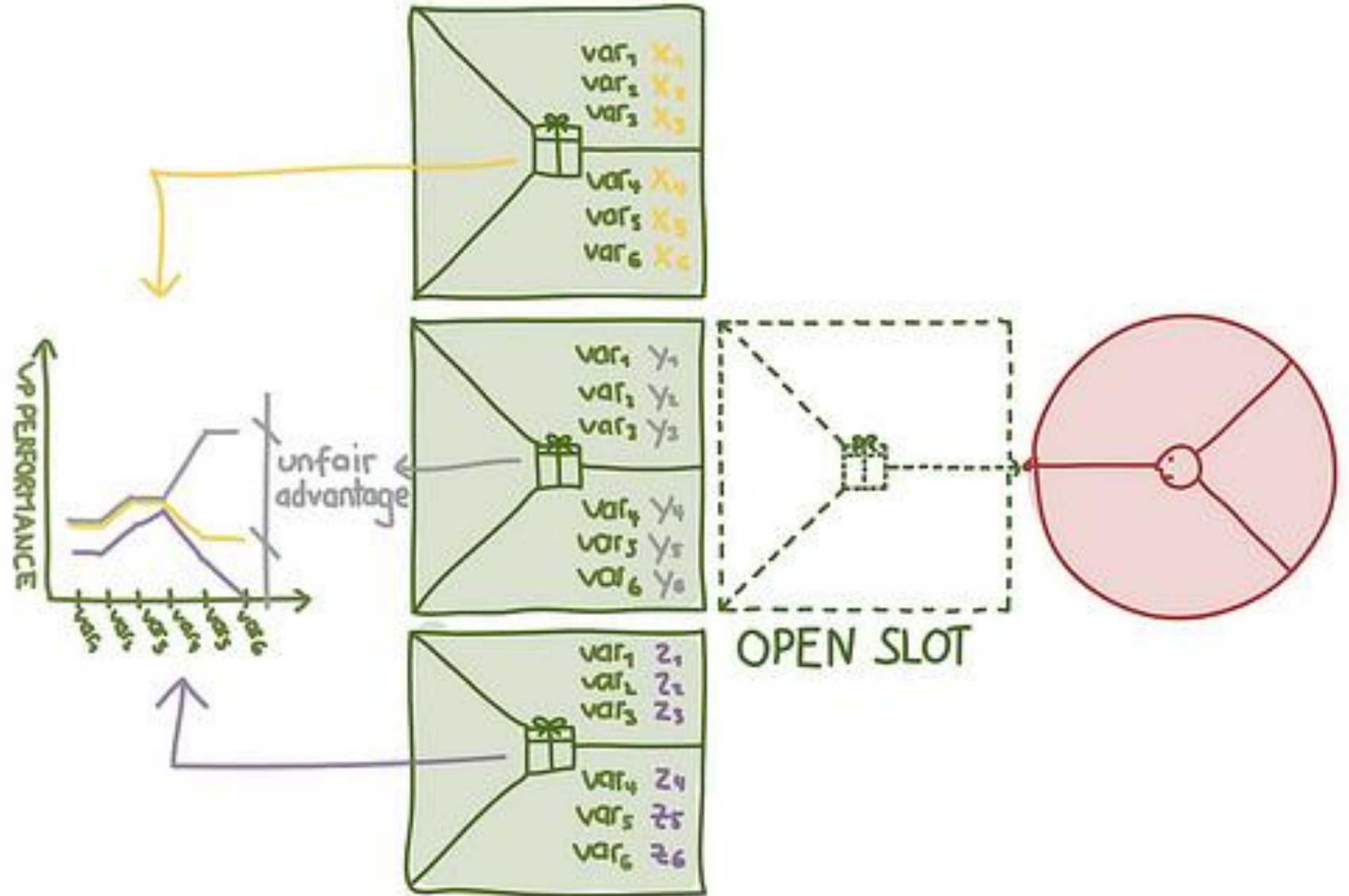
redesign value proposition based on insight
and before building anything



try to address fewer PAINS & GAINS
but more completely

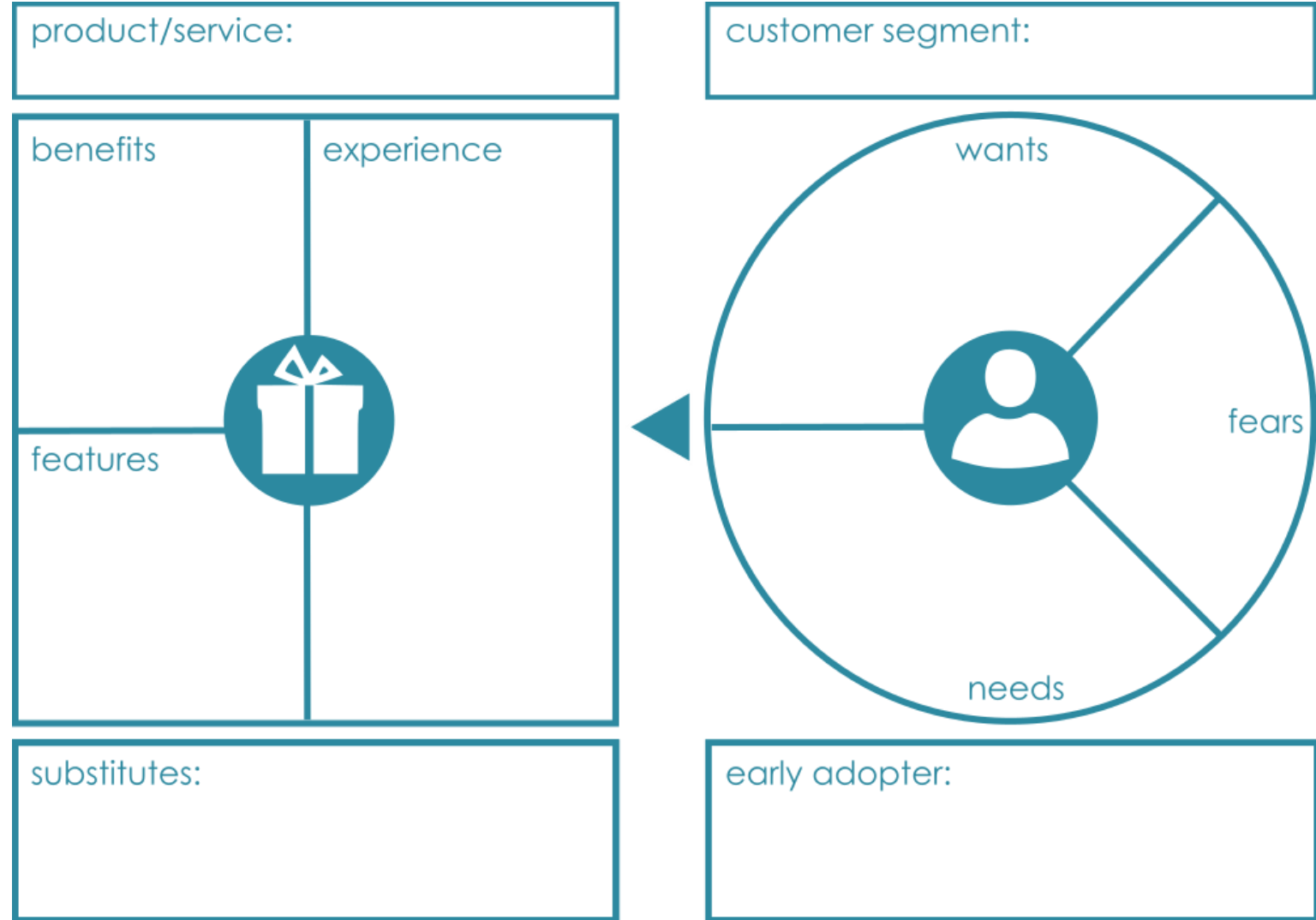
compare
value
propositions

map several to
same variables
(cost, quality,
etc.)



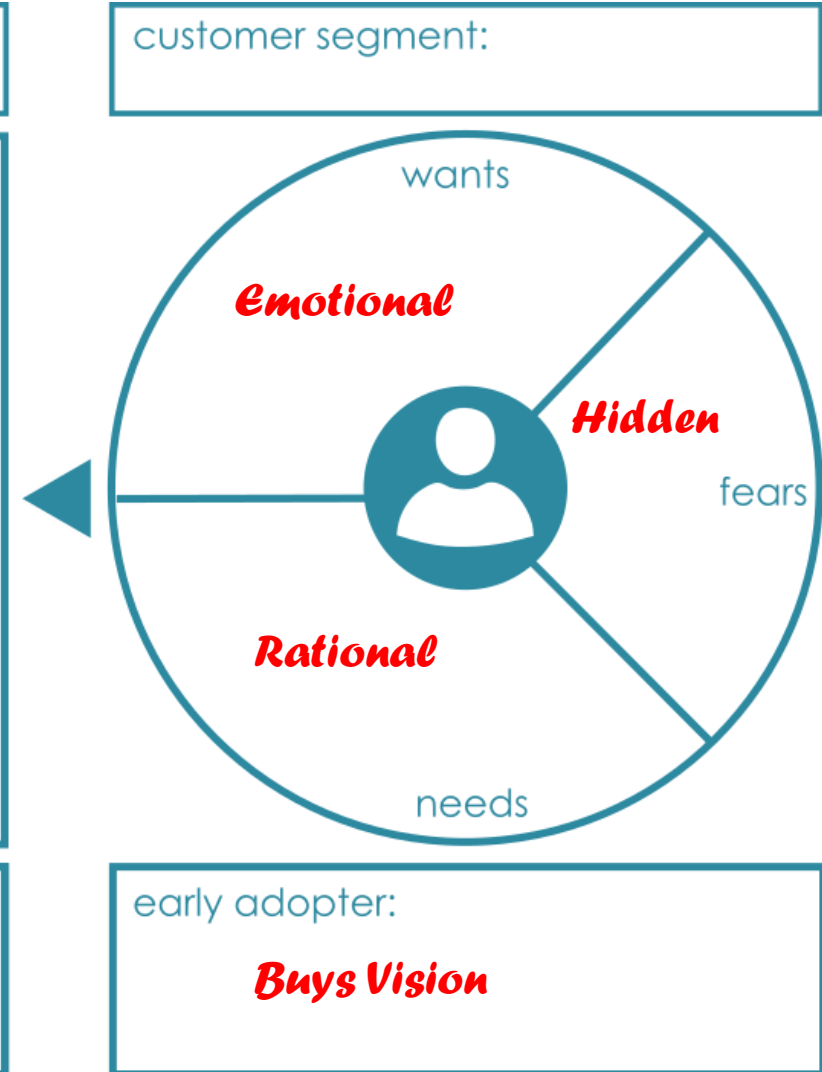
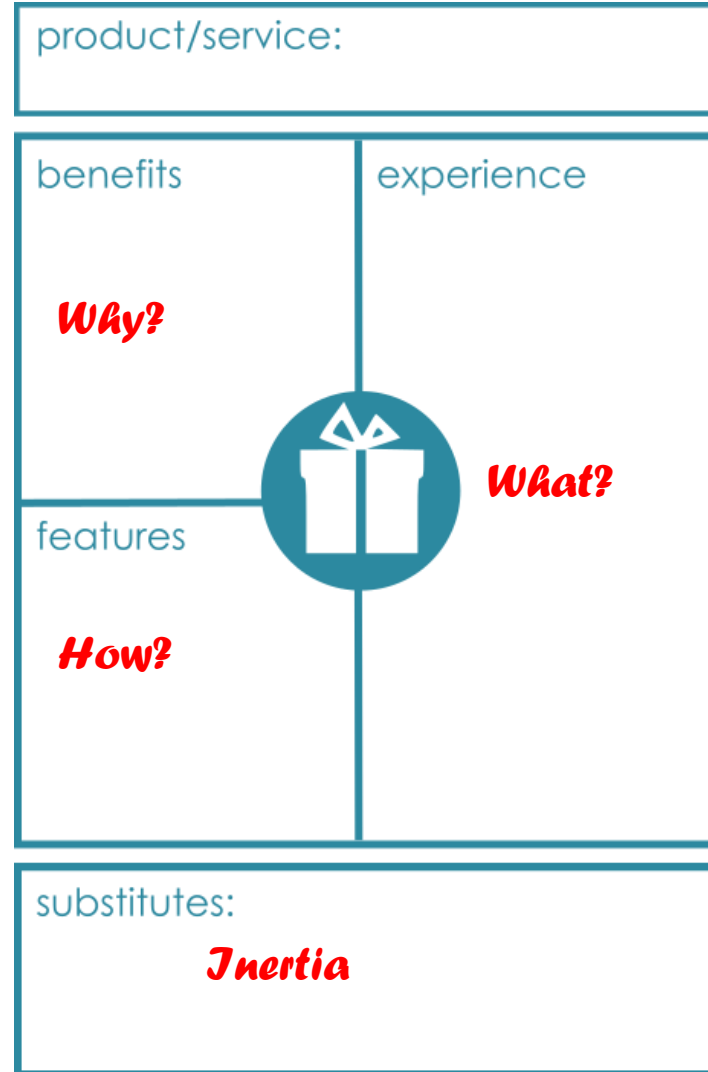
value canvas

understand
your customer
in even greater
depth



value canvas

intersection of
what you
make/provide
& why people
buy/use it



value canvas

how it refines
the value
proposition
canvas



Product / Service Proposition – Makes you think more about how it will appear to customers – the *marketing* element



Customer – Guides you to empathise & gain insights on the *behavioural psychology*

value canvas

Product / Service Value



- **Features** - How does your product / service work – *key attributes*? What are the reasons to believe in it?
- **Benefits** – Why does make your customer's life better?
- **Experience** – What does it feel like to own/use your product? *The basis of market positioning and brand essence.*
- **Substitutes** – existing *coping behaviours*

value canvas

Customer Behaviour & Psychology



- **Needs**- Rational things to get done?
Latent / unrealised needs?
- **Fears** - Hidden motivators? Risks to mitigate? What not to miss out on? What risks to switch to your product / service?
- **Wants** – Emotional decision drivers: things we want to be, do or have.
- **Early Adopter** – Feels the need most acutely. Buys into vision

customer interviews / surveys

designed to
test your
assumptions
on product-
market fit

- **Research First** – Search online for everything relating to your target market: blogs, social media, news
- **Assumption-based** – What does your value proposition depend on? Write out questions to test assumptions about customers
- **Don't Lead** – Open questions elicit a more genuine response

value canvas

example



lean canvas

business
modelling for
early stage
startups

problem	solution	unique value proposition	unfair advantage	customer segments
substitutes	metrics	high-level concept	channels	early adopters
costs			revenue	

lean canvas

summarise
from Value
Proposition
Canvas

1. **Customer Segments** - What customers are you targeting – *better to create one canvas per segment*
2. **Problem** - What problem that these customers have will you solve & what do they currently use
3. **Solution** - Your answer to these problems
4. **Unique Value Proposition** - A single statement that sums up why people should buy / use it

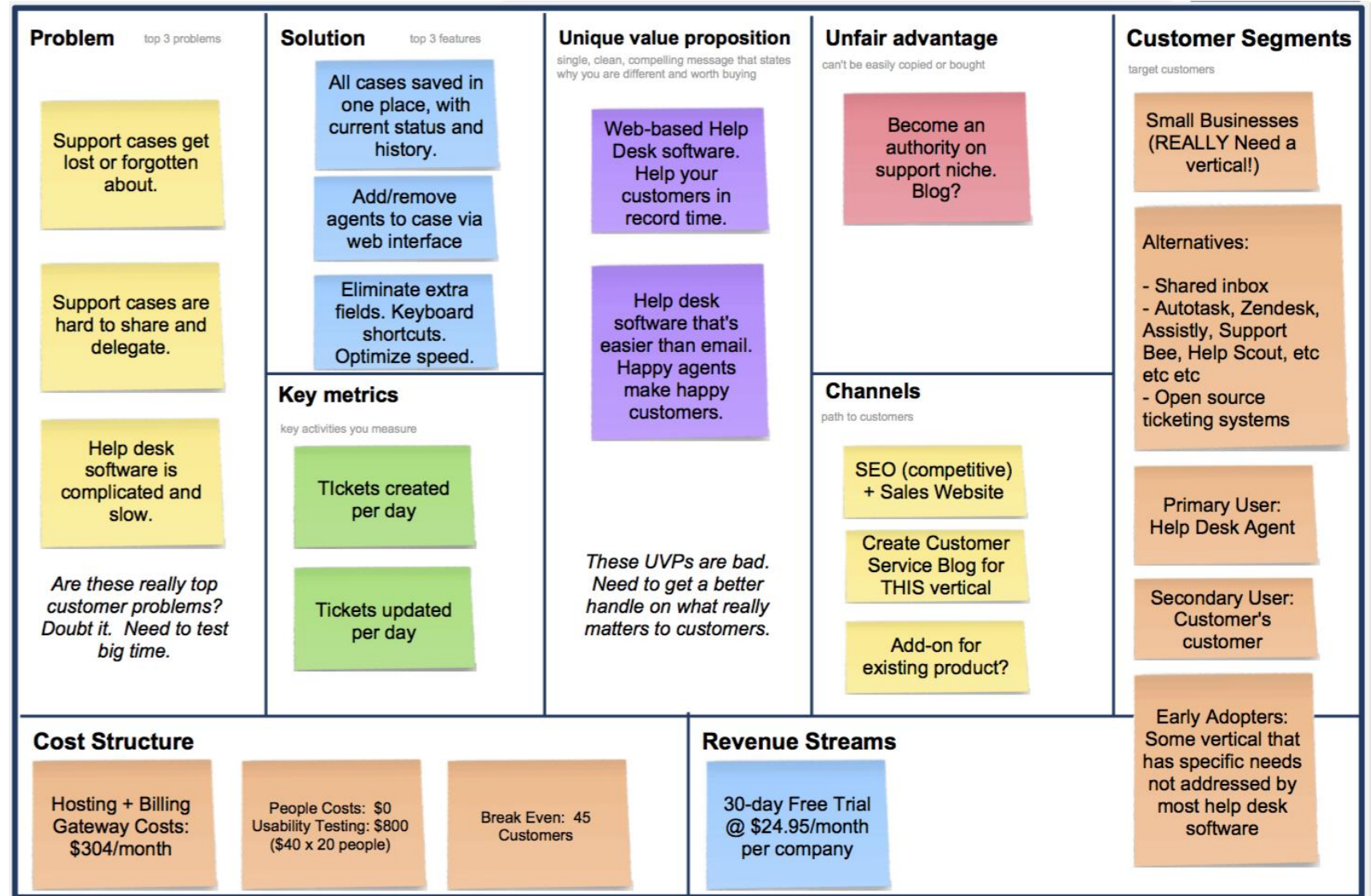
lean canvas

high level commercial model

5. **Channels** - How will the product or service be distributed / marketed
6. **Revenue Streams** - How will you make money
7. **Cost Structure** - What costs will there be
8. **Key Metrics** - How will you measure value and growth
9. **Unfair Advantage** - What competitive edge do you have

lean canvas

example



hypotheses

one page that
sums up a key
market guess
& how to turn
it into fact

1. **Hypothesis** – A key assumption, taken from your lean/business model canvas
2. **Experiment** – How you will validate it
3. **Metrics** – The pass/fail test to apply
4. **Result & Learning** – What trials/interviews with customers revealed

The *value & growth hypotheses* are most important. Then one per business block

metrics

geared to pass
/ fail your leaps
of faith on
acquisition,
retention,
growth &
monetisation

- **Actionable** – Not *'Site hits grew by x'* but *'Doing y produced z customer behaviour'*
- **Accessible** – Email every employee a report of experiment results
- **Auditable** – Ability to spot check with real customers

Remember *metrics are people* so should reflect a customer behaviour anyone can understand.

minimum viable product

remove any feature, process or effort that does not contribute to the learning you seek

HOW TO BUILD A MINIMUM VIABLE PRODUCT

NOT LIKE THIS



1



2



3



4

LIKE THIS



1



2



3



4

experiments & failure

experiment to
discover a
viable business
model

"I can never find the thing that does the job best until I find the ones that don't."



Design experiments to test key assumptions
Select sufficient size & type of cohort (test group)
Be empirical and act on results

experiment canvas

what to test
and how

EXPERIMENT CANVAS			www.thecorporatestartupbook.com									
TESTED ASSUMPTION	<div></div>			<div></div>			<div></div>			<div></div>		
IMPACTED BUSINESS MODEL BLOCK	<div></div>			<div></div>			<div></div>			<div></div>		
	First iteration	Second iteration	Third iteration	First iteration	Second iteration	Third iteration	First iteration	Second iteration	Third iteration	First iteration	Second iteration	Third iteration
COHORT	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
EXPERIMENT	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
FAIL CRITERIA	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
TIME BOX	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
RESULT	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
LEARNINGS	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
DECISION	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>

Successful companies execute a known business model efficiently.

Successful startups search for viable new business models efficiently

innovation plan & output

Who do we need to test it?

What do we need to build?

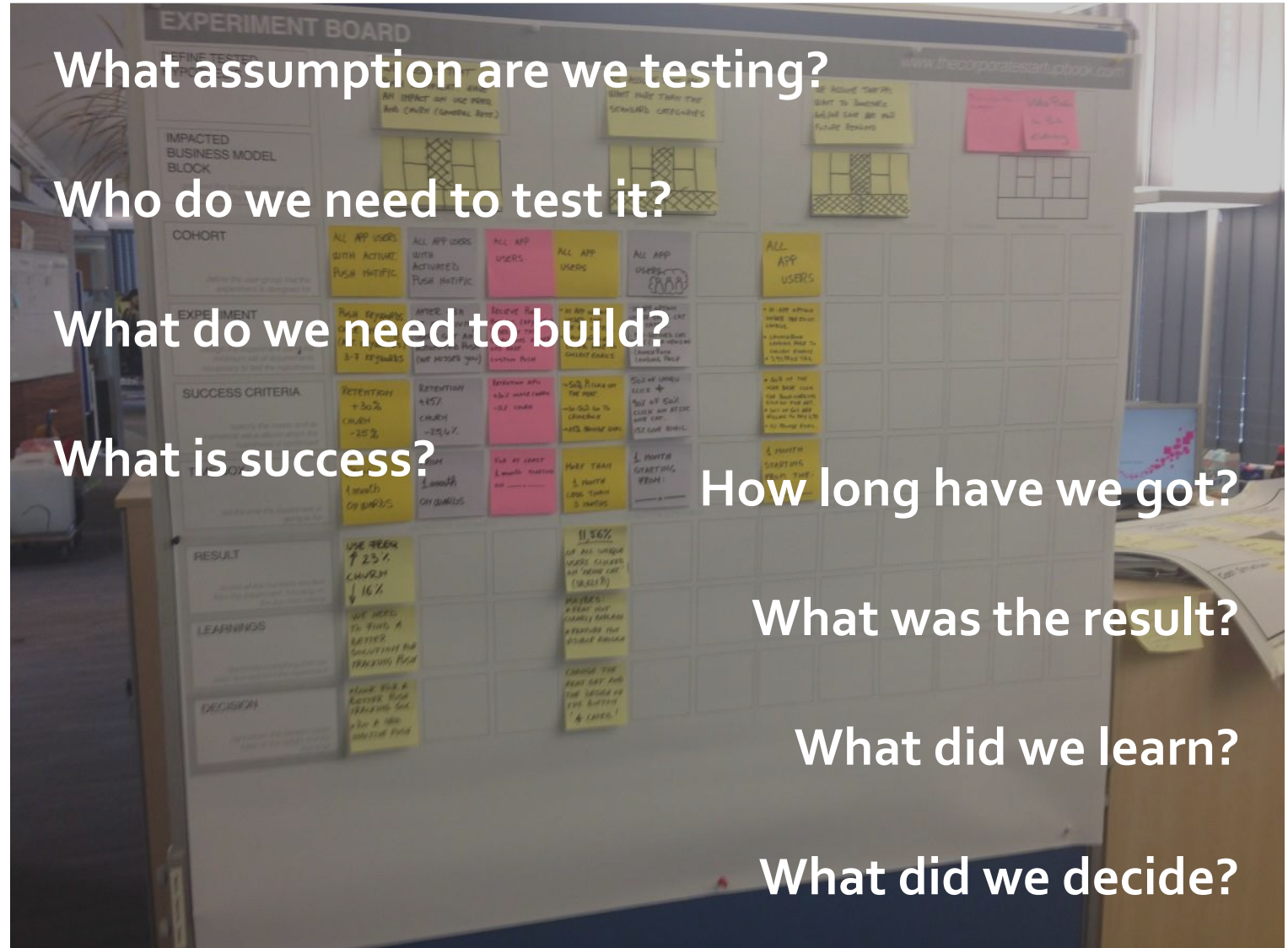
What is success?

How long have we got?

What was the result?

What did we learn?

What did we decide?



lean
innovation
management

fail fast to find
a genuine
disruption



fail fast


**10 x the number
of initiatives**

in 1/5 the time

**= 50x more
innovative**

**be prepared
to pivot**

based on what
you learn
about value
and growth




Based on insights from learning, make a fundamental change in strategy.

- **Customer** – target a different type or segment of the market
- **Value** – change how to help customers' lives
- **Growth** – alter how you acquire or retain customers

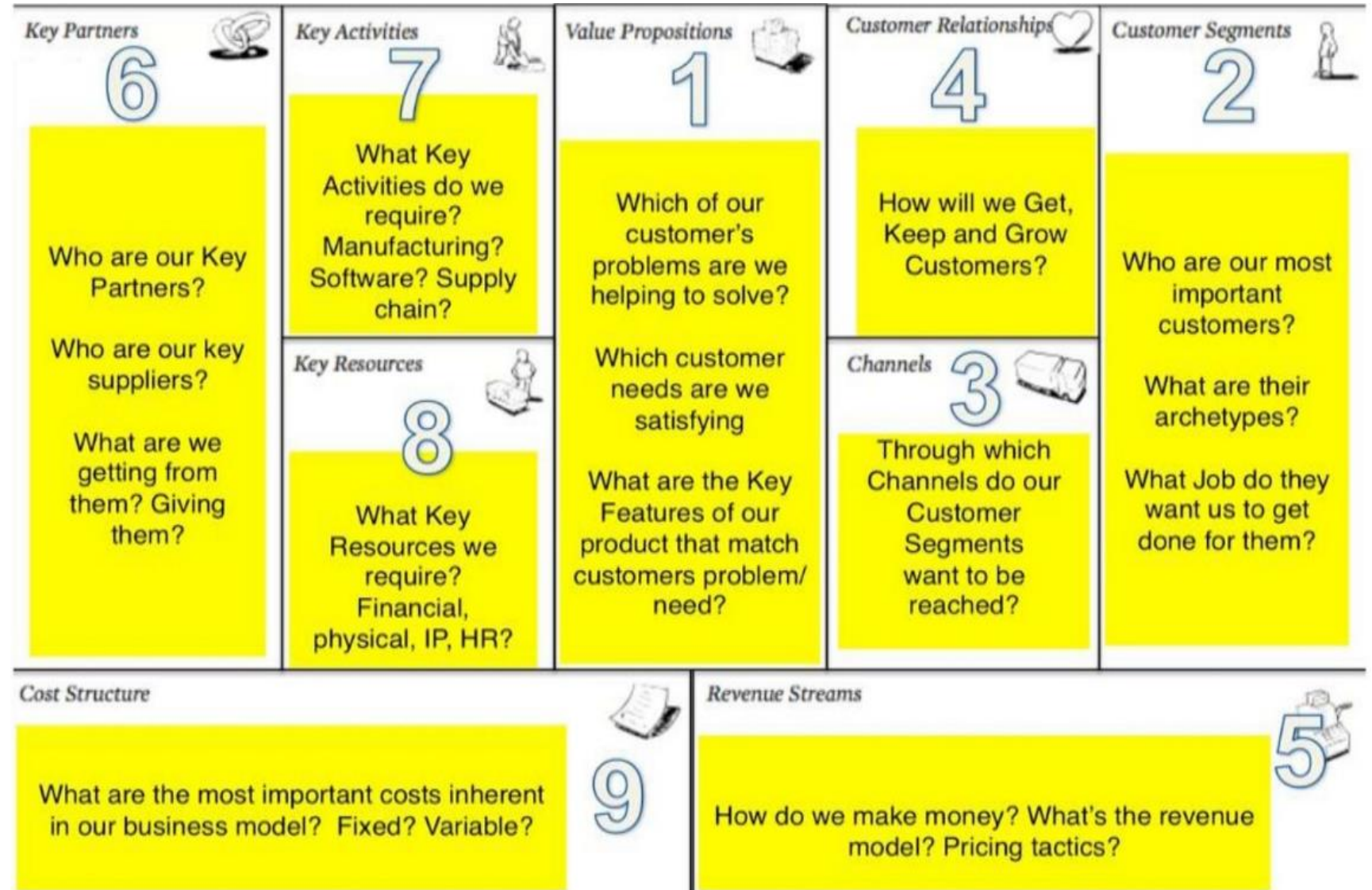
types of pivot / refinement

if the whole
model must
change, it is a
pivot

- 
- **Zoom-in** – single feature becomes whole product
 - **Customer Need** – discovery of the real problem
 - **Engine of Growth** – e.g. from viral to paid
 - **Channel** – e.g. sell direct via the Web
 - **Platform** – from app to platform or vice-versa
 - **Revenue** – from low to high margin
 - **Technology** – often a sustaining innovation to retain customers

business model canvas

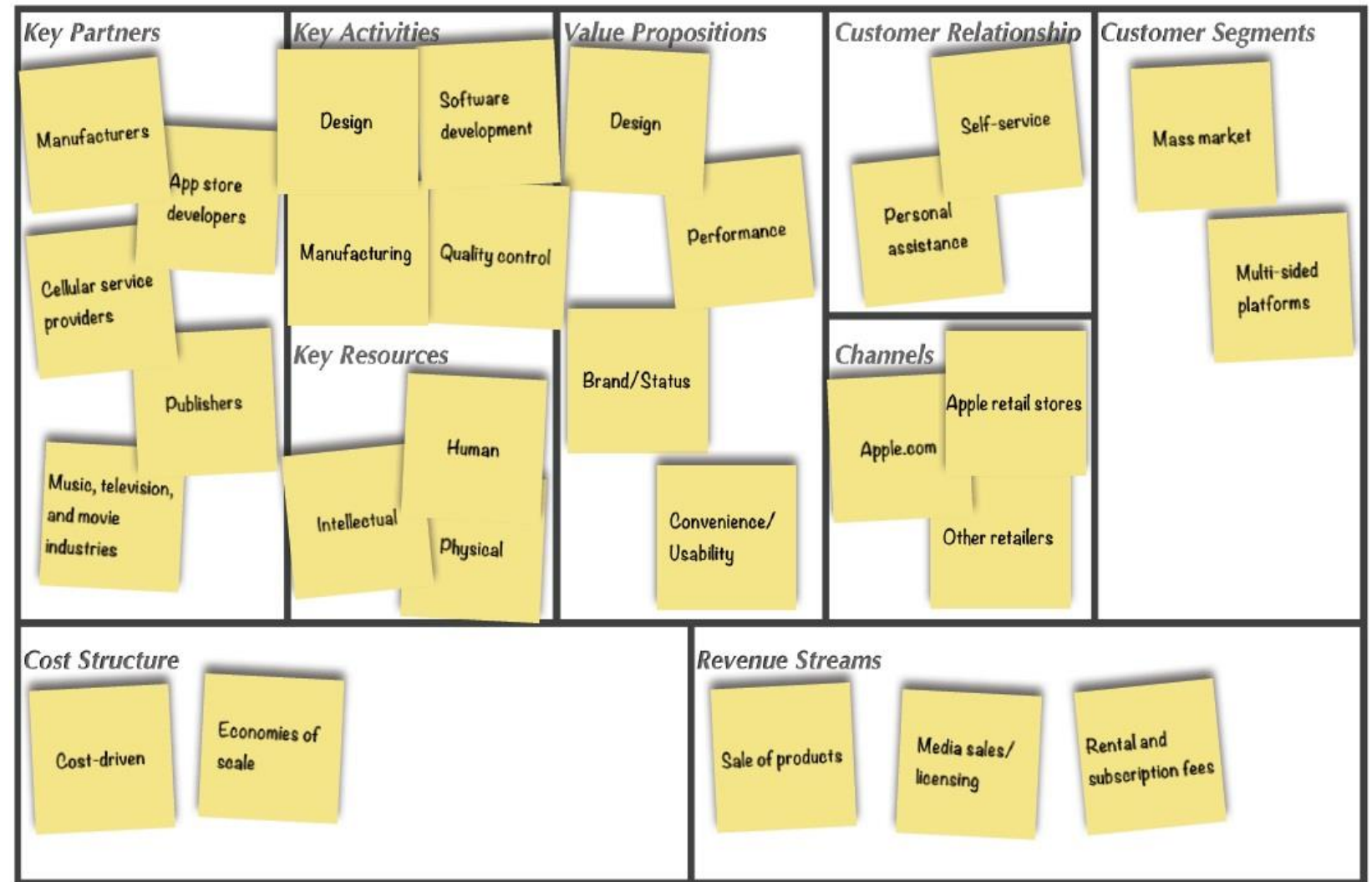
more well known
& used than lean
canvas so can
share with
investors /
mentors



business model canvas

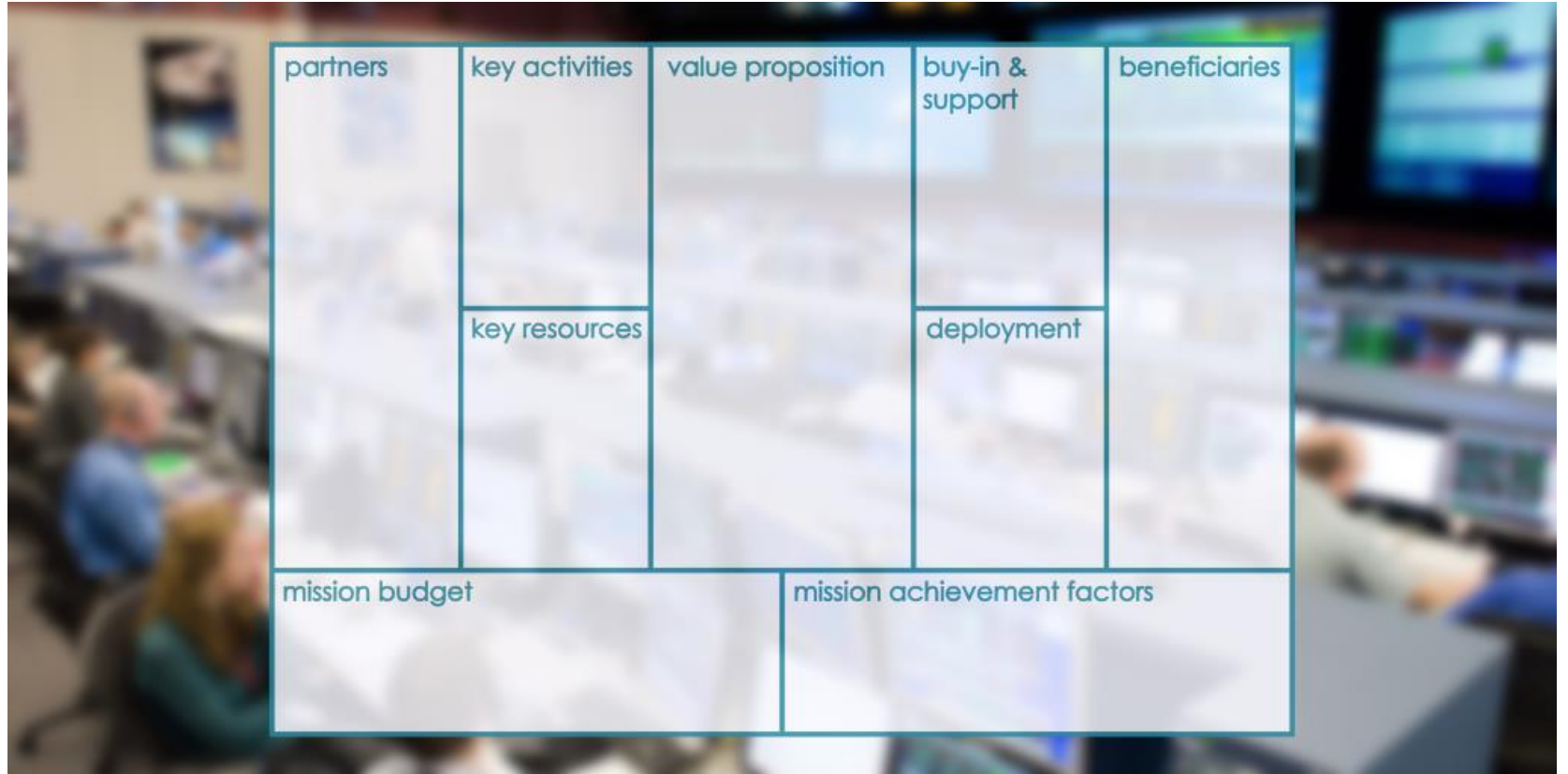
applicable to
any business –
theme bars to
Apple

Business Model Canvas: Apple



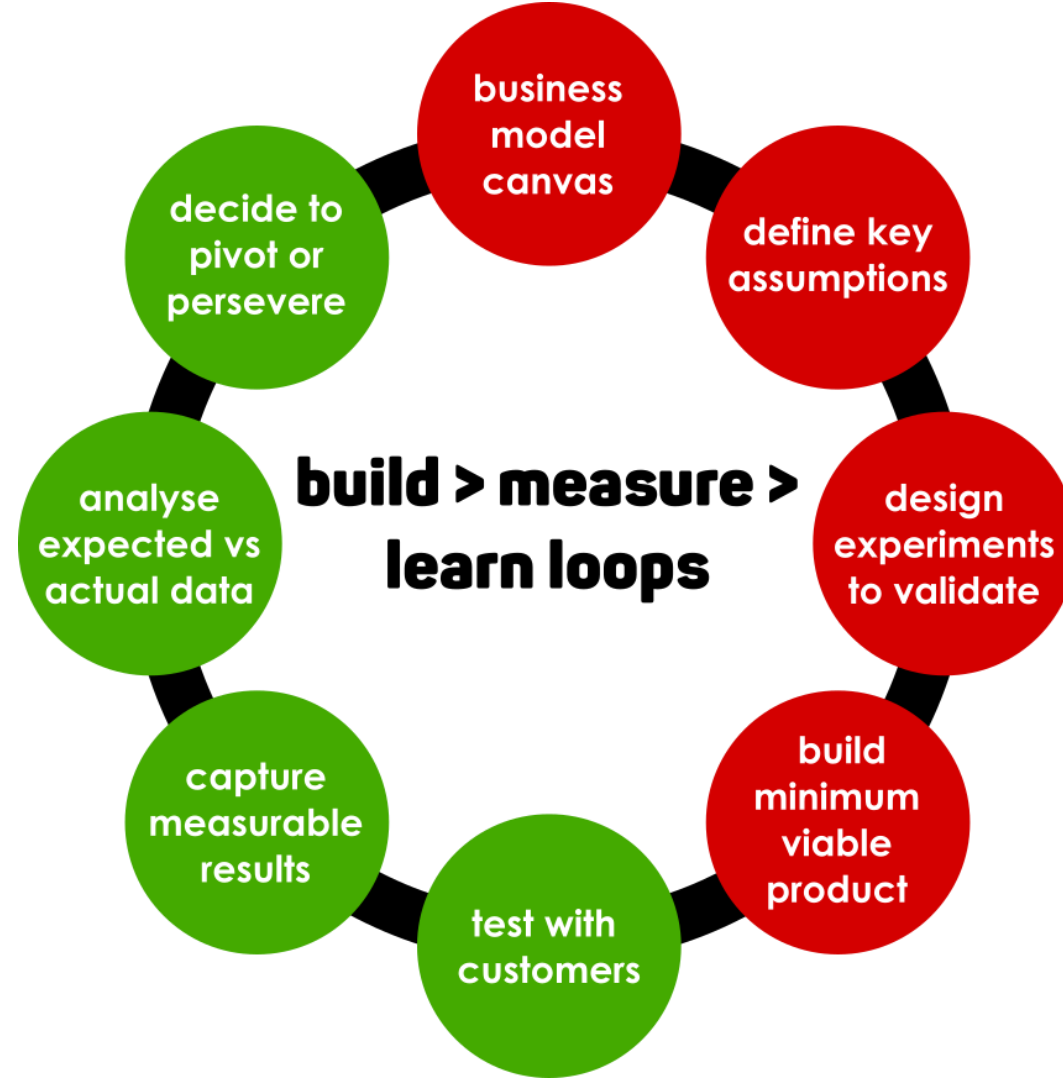
mission model canvas

applicable to
public services,
e.g. DoD –
when
motivation is
not money



fast learning iterations

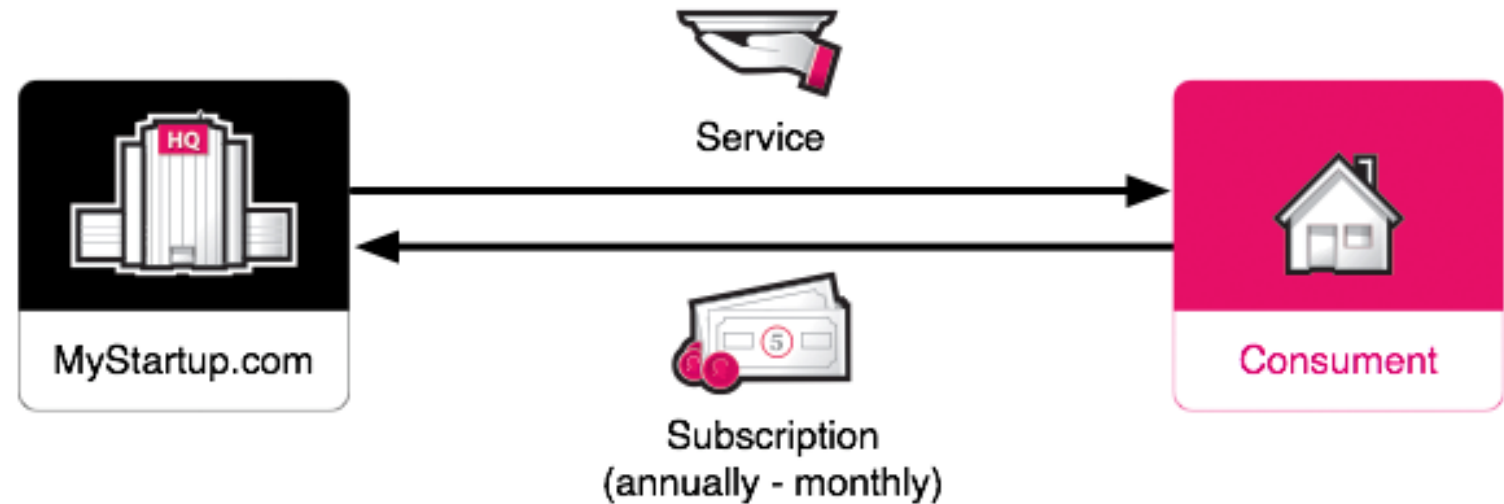
figure out what to learn, then what to measure, then experiment to gain validated learning



show me the
money

model value &
revenue flow

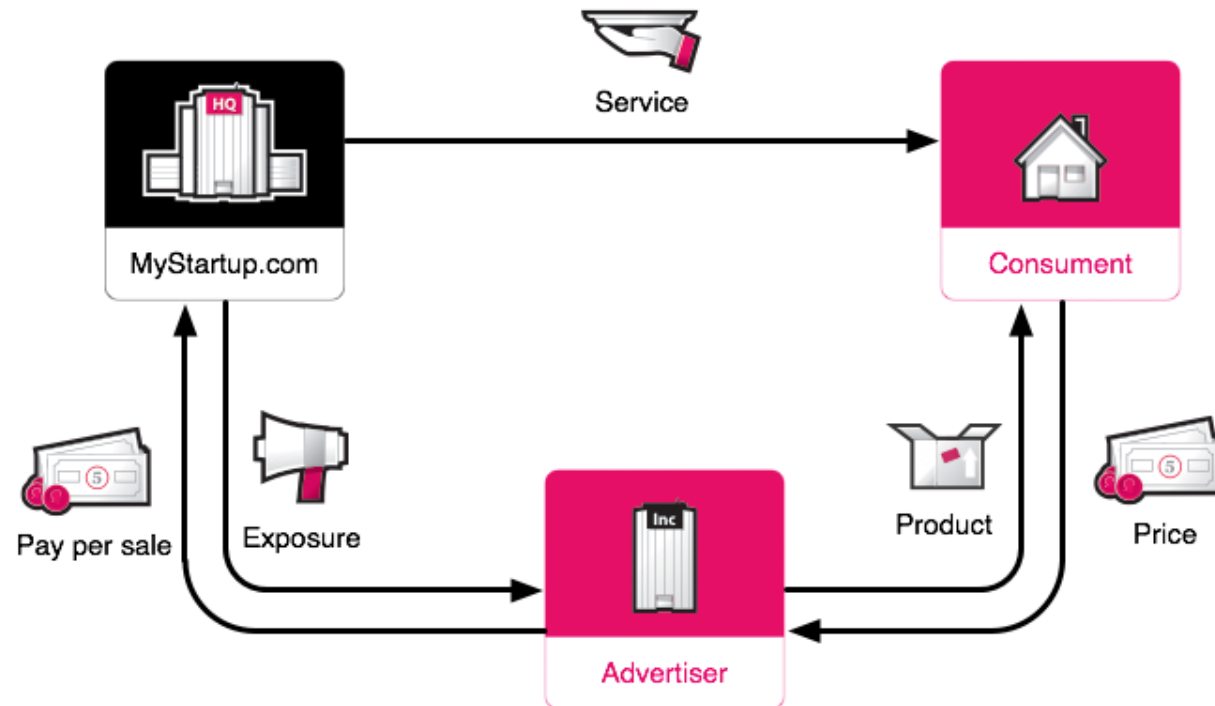
start with your main value / revenue
transfer, e.g. subscription model



show me the
money

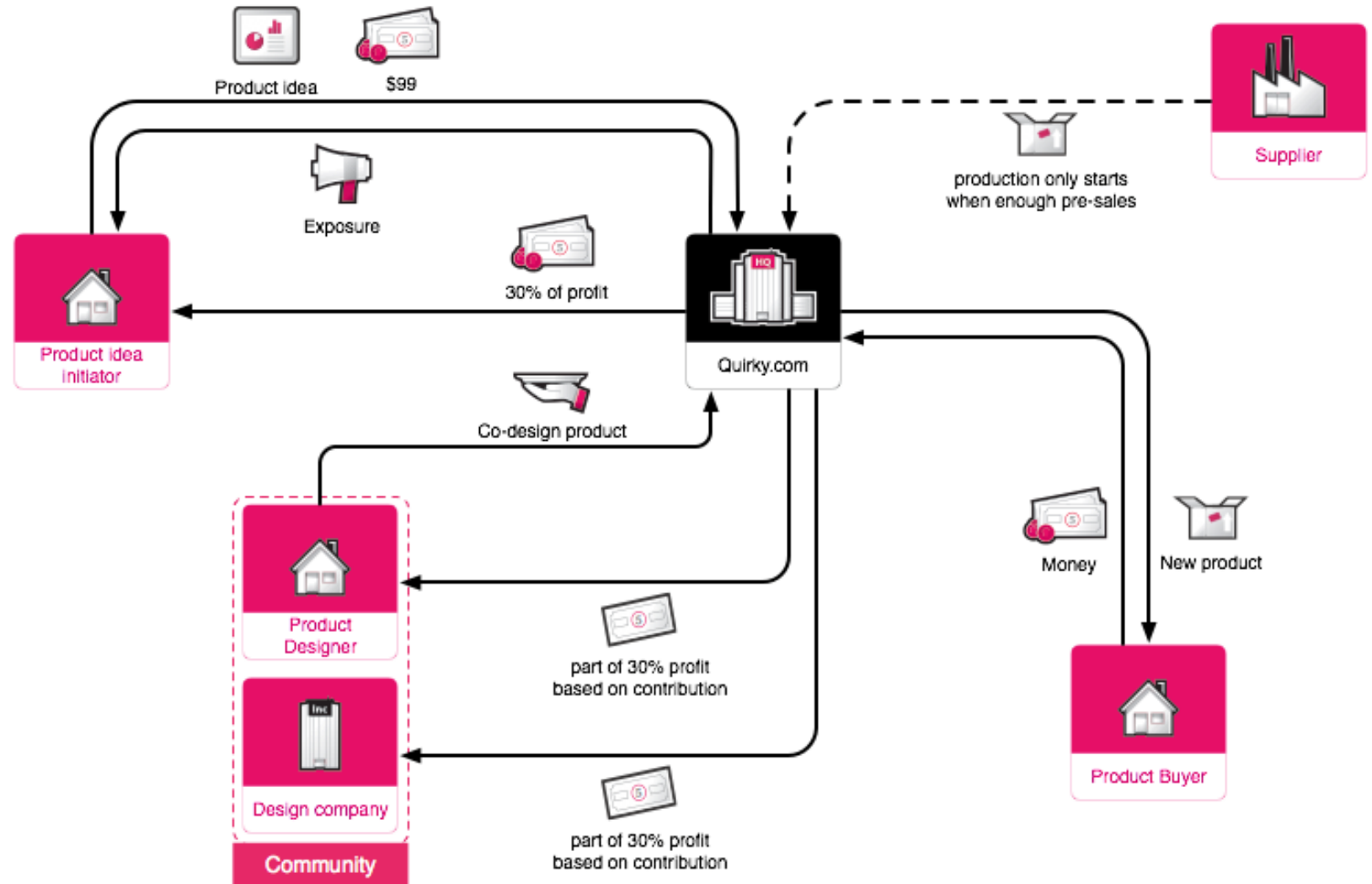
Get the free
modelling
tools from
*Board of
Innovation*

add or alter to include more stakeholders
(additional market sides) e.g. advertisers



show me the money

learn form and reuse the examples on the *Board of Innovation* site



show me the
money

create your
own flow to
show investors

6 stakeholders



My company



Companies



Consumers



Suppliers



Non-profit



Government

10 items to transfer



product



service



experience



exposure



reputation



money



less money



data



right



credits

competition & market traction

Art of War -
use your small
size to your
advantage

- Know your competition & the market leaders weakness, e.g. niche
- Keep your long-term strategy hidden
- Stand out from other startups by being more lean
- Demonstrate a deeper insight into customers needs & problem
- Push the why and vision to gain traction
- Partner with those who buy into the vision and fill your skills gap, e.g. media students

investment readiness levels

an innovation
management
yardstick



investment readiness reviews

make yourself
attractive to
investors

investment readiness review



Assumptions validated by customer interviews & trials?

Insight-driven product / service - market fit?

Right metrics & tests to show business model viable?