

Launching Your Startup Using Lean Startup and Customer Discovery

Session 3

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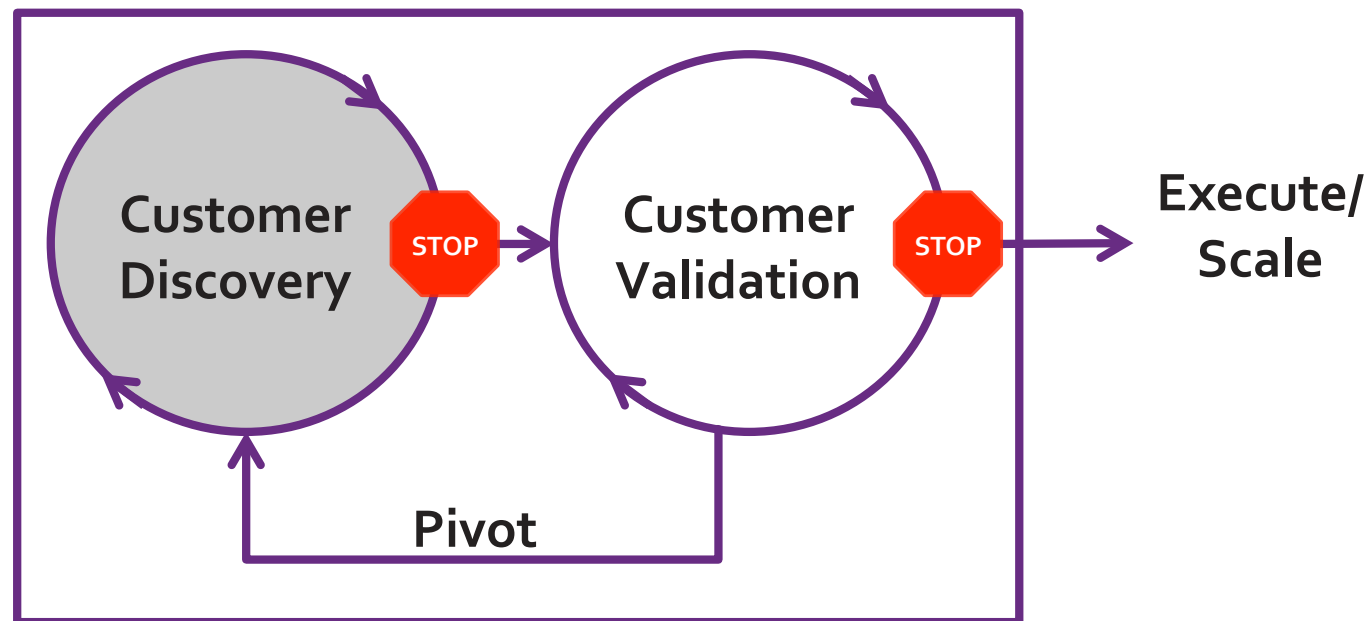


Customer Discovery

Overview



Recap: Search for Business Model



Do our customers have a big enough problem (or desire)?
Does our proposed solution solve it?

Problem – Solution - Fit



Phases of Customer Discovery

1. State your hypotheses
 - Across your entire business model (canvas)
2. Test the problem
 - Design tests & execute
 - Develop customer understanding
3. Test the solution
4. Pivot or
proceed to Customer Validation



For Customer Development, The Channel Matters – A Lot!

Product	Virtual	<ul style="list-style-type: none"> • Enterprise Software (SAP, Oracle, ...) • Shrinkwrap Software (video games etc.) • Health/ Life Insurance • Stocks, Bonds 	<ul style="list-style-type: none"> • Google, Twitter, Zynga, Facebook • Stocks, Bonds • Movies, Music, Books • <i>SaaS, Cloud SW, Apps</i>
	Physical	<ul style="list-style-type: none"> • Food • Cars, Planes, Steel • Solar Panels • Household Goods 	<ul style="list-style-type: none"> • Shoes: Zappos, Zalando • Books: Amazon • Movies: Netflix • Consumer electronics
		Physical	Virtual/Web Channel
		Channel	

- **Book 1: The Strategy Guide** provides background on, and an overview of the Business Model and Customer Development processes
- **Book 2: The Web/Mobile** e-book provides all the step-by-step process detail you'll need to create a solid, sustainable startup doing business in the web/mobile channel, and
- **Book 3: The Physical Channel** e-book offers the same for startups using physical channels

For best results, start your reading with the Strategy Guide.

Blank, Dorf: The Startup Owner's Manual Vol. 1

Structure of e-book: separate "books" for web channel vs. physical channel



Example for Different Approaches

Customer Discovery, Step 2: Test the Problem

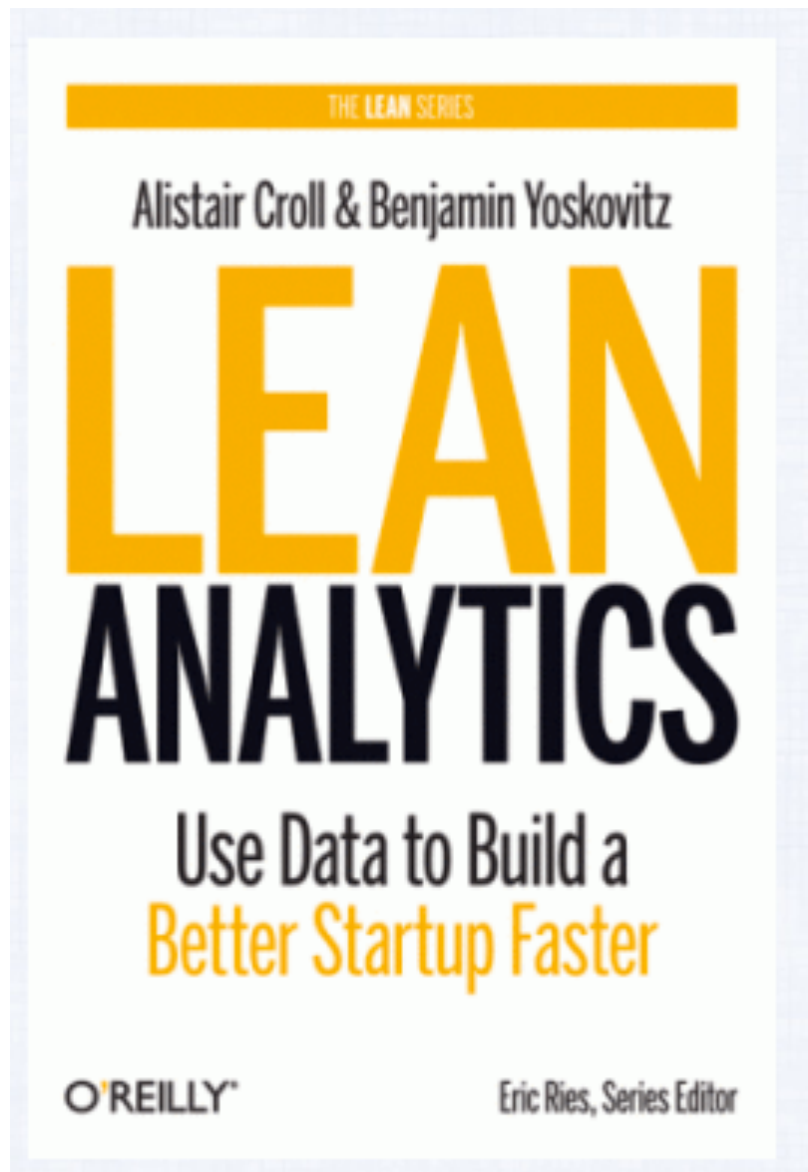
- Objective for both channels
 - Find **Earlyvangelists**
 - Build customer understanding
- Physical channel
 - Get out of the building
 - Talk to customers (structured interviews)
- Web channel
 - Build “low fidelity” MVP
 - Run tests, analyze results (analytics)



Test Hypotheses

Design Tests & define pass/fail criteria upfront

- E.g. for physical channel:
talking with 50 potential customers:
Pass if > 40 confirm hypothesis
- E.g. in web channel: A/B tests
 - Implement a change that is suitable to test hypothesis
 - Serve the change to 50% of your visitors,
serve the original version to the other 50%
 - Measure differences in behaviors and outcomes



Croll, Yoskovitz: Lean Analytics –
Using Data to Build a
Better Startup Faster;
O'Reilly, 2013

See also
leananalyticsbook.com



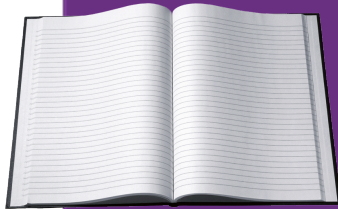
State Business Model Hypotheses

Customer Discovery starts here



Exercise – Identify Hypotheses

Write



List hypotheses/
assumptions/ beliefs
that are hidden in
your canvas

Carefully comb through your business model canvas and ask yourself:

- What's really “proven”/ backed up by data?
- Vs. what are just our own beliefs?
- Focus on customer segments, their needs and problems, and your value proposition



How to State Hypotheses

Blank/ Dorf: Write a short document on each major area of business model

- Bulleted lists, no “prose” (easier to maintain)
- Short: ca. 1-2 pages per area
- Support through detailed checklists in the book

Alternative:

Ash Maurya: focus on customer problem and value proposition first => Lean Canvas



Blank/Dorf: Checklists for Hypotheses

Chklist	Topic	Channel
3	Market Size - <i>Total market opportunity for company</i>	All
4	Product Vision - <i>Long-term vision & 18-month schedule</i>	All
5	Product Features and Benefits <i>What is the product and why will people buy it?</i>	All
6	Customer Segments <i>Who are our customers and what problem do they have that will drive them to use our product?</i>	All
7	Channels - <i>Distribution channel</i>	All
8	Market Type - <i>New vs. resegmented</i>	All
9	Customer Relationships - <i>How to get, keep, and grow customers</i>	Ph vs. Web
10	Key Resources – <i>How to find and secure external resoures that are critical to the startup's success</i>	All
11	Partners – <i>Who do we need and what's the value exchange?</i>	All
12	Revenue and Pricing – <i>Does it make financial sense?</i>	All



Zoom In: Focus on Customer Problem with the Lean Canvas

Derived from the Business Model Canvas

De-focus “Customer Relationships” and “internal” topics (left-hand side of canvas)

- Key Partners
- Key Activities
- Key Resources

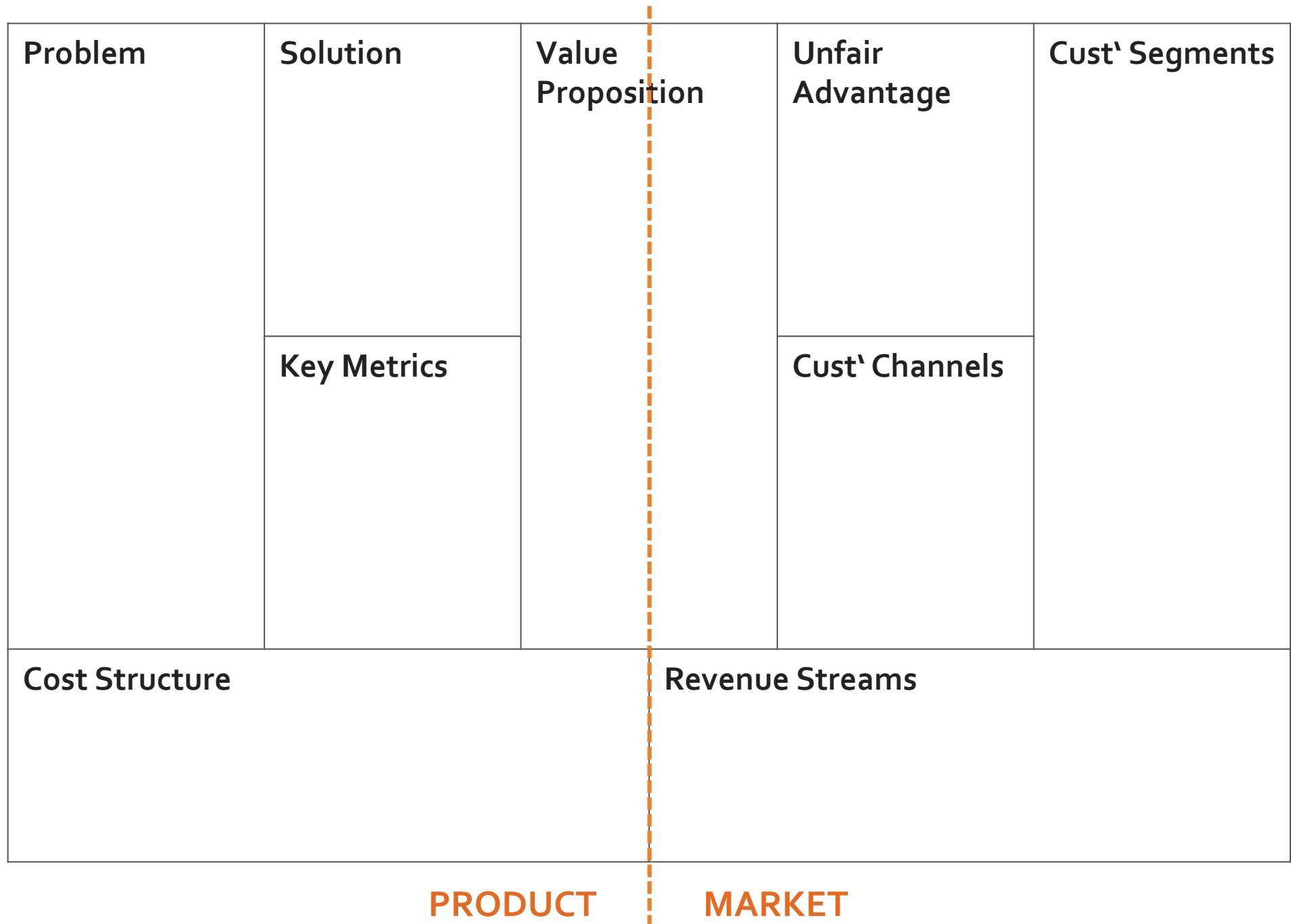
Add focus on

- **Customer Problem:** pain point, a real business problem (or strong desire)
- **Solution:** How we solve the problem
- **Unfair Advantage** – versus the competition (e.g. network effect)
- **Key Metrics**

Source: Ash Maurya: practicetrumpstheory.com/2012/02/why-lean-canvas/

Key Partners Problem	Key Activities Solution	Value Proposition	Cust' Relationships Unfair Advantage	Cust' Segments
	Key Resources Key Metrics		Cust' Channels	
Cost Structure			Revenue Streams	

Source: practicetrumpstheory.com/2012/02/why-lean-canvas/



Source: practicetrumpstheory.com/2012/02/why-lean-canvas/

Problem	Solution	Value Proposition	Unfair Advantage	Cust' Segments
	Key Metrics		Cust' Channels	<div>1</div> <div>2</div>
Cost Structure			Revenue Streams <div>4</div> <div>3</div>	

<Company> Lean Canvas - <Version Description>

Source: practicetrumpstheory.com/2012/02/why-lean-canvas/

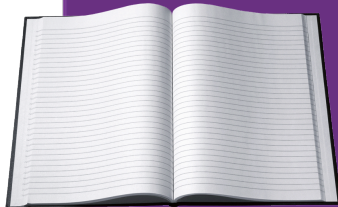
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Problem	Solution	Value Proposition	Unfair Advantage	Cust' Segments
	Key Metrics		Cust' Channels	
Cost Structure			Revenue Streams	



Exercise: Lean Canvas

Write



Using the Business Model Canvas as a basis, do a “zoom in” on customer problem, solution, using the Lean Canvas

Lean Canvas

- What are your customer segments?
- What’s really the customer problem?
- How do you solve the customer problem?
- How do you measure success (key metrics)?
- What’s your value proposition?
- Do you have an unfair advantage?

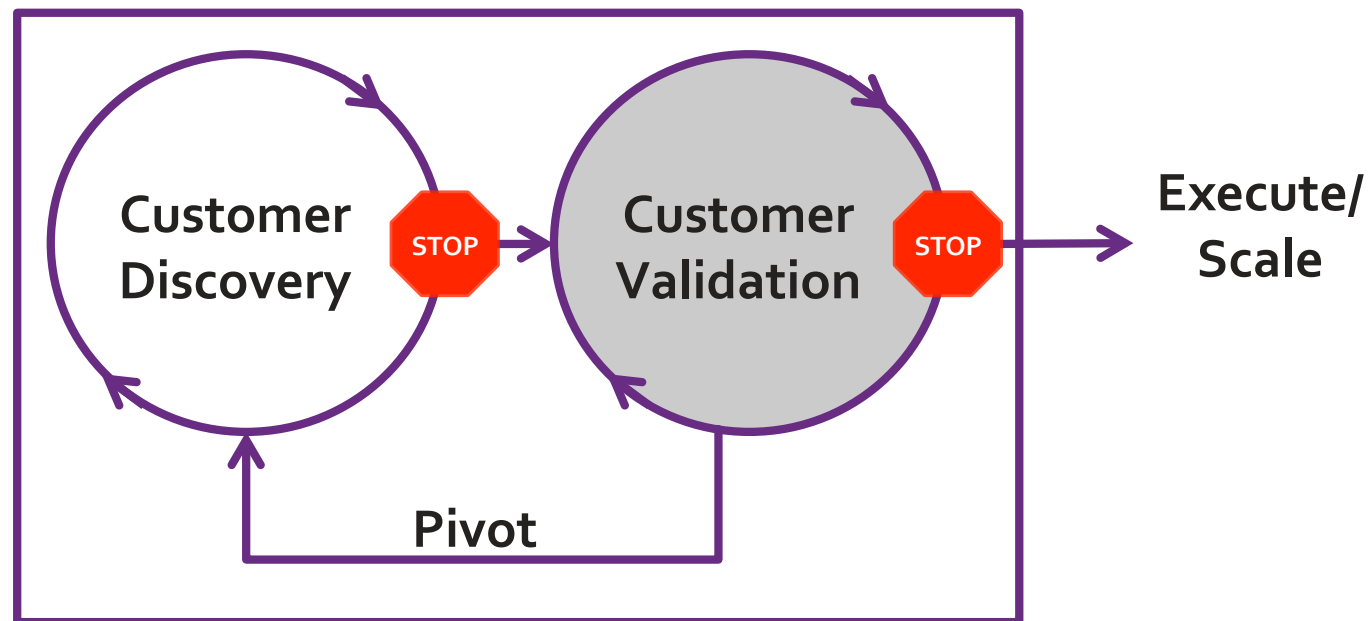


Customer Validation

Overview



Recap: Search for Business Model



Is there a big enough market
for our solution?

Can we develop a repeatable
sales process?

Solution – Market - Fit



Phases of Customer Validation

1. Get ready to sell
 - Initial Positioning
 - Develop a **repeatable** sales process
Physical channel vs. web channel
2. Sell to “Earlyvangelists”
 - Physical channel vs. web channel
3. Develop Positioning
 - For product and company
4. Pivot or Proceed



Positioning Template

- For (target customer/ end user)
- Who wants/ needs (compelling reason to buy)
- The (product name) is a (product category)
- That provides (statement of key benefit)
- Unlike (main competitor)
- The (product name) (key differentiation)

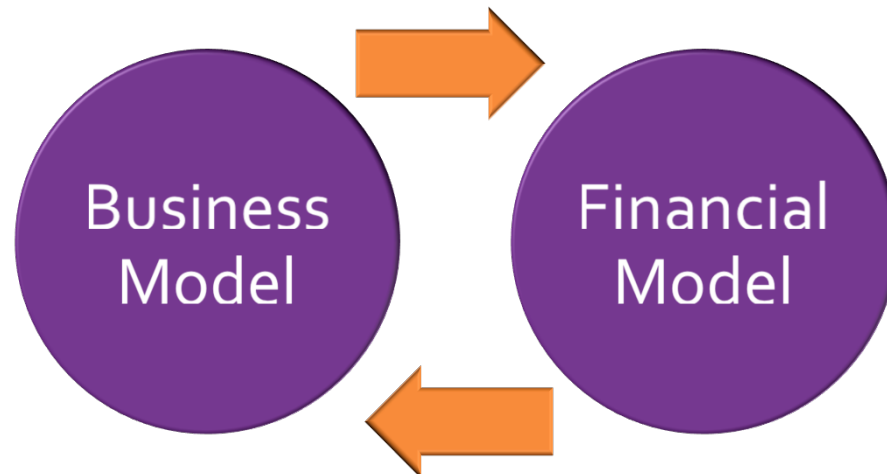


Building a Financial Model

... that's useful to the startup founders



Business Model Drives Financial Model ...



... and the financial model helps discover assumptions in the business model

- Once you need to put numbers into a spreadsheet, you discover very quickly where your unproven assumptions are
- Or where you don't even have assumptions



Financial Reporting of Public Companies

Income Statement,
Profit & Loss
Statement,
P&L

Cash Flow Analysis

Balance Sheet

Reporting =>
rear-mirror view

Regulated by

- US: GAAP
- Int'l: IFRS
- *Country regulations, e.g. D: HGB*



Income Statement/ P&L - Structure

Revenue

Revenue

- Cost of Goods Sold (COGS)
or Cost of Revenue

= Gross Profit

- Expenses

- Other Operating Expense

= Operating Profit

- Other Expenses
(not related to ongoing
operations)

Net Profit

= Net Profit



Income Statement/ P&L Structure

Revenue

- Cost of Goods Sold (COGS)
or Cost of Revenue

= Gross profit

- Other Operating Expenses

= Operating profit

- Other Expenses
(not related to ongoing
operations)

= Net Profit

Revenue

- Cost of Goods Sold (COGS)
or Cost of Revenue

= Gross profit

- Research & Development (R&D)
- Sales & Marketing (S&M)
- General & Administration (G&A)
- Other Operating Expenses,
e.g. appreciation/ depreciation

= Operating profit

- Other revenue/gains
- Other expenses/losses
- Financing costs (interest)

= Pre-Tax Profit

- Taxes

= Net Profit



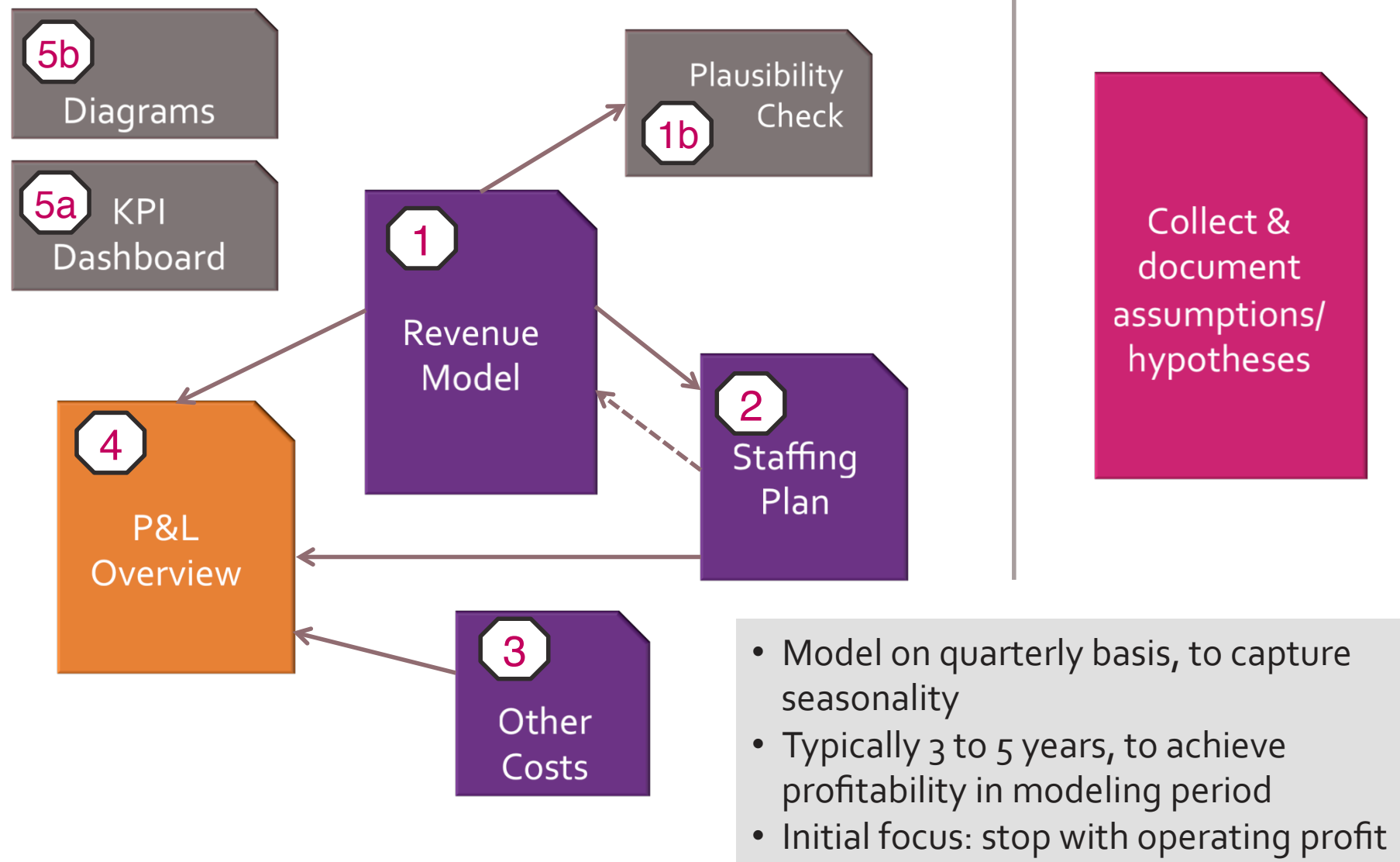
Microsoft: Income Statement for FY2013

(In millions, except per share amounts)

Year Ended June 30,	2013	2012	2011
Revenue	\$ 77,849	\$ 73,723	\$ 69,943
Cost of revenue	20,249	17,530	15,577
Gross profit	57,600	56,193	54,366
Operating expenses:			
Research and development	10,411	9,811	9,043
Sales and marketing	15,276	13,857	13,940
General and administrative	5,149	4,569	4,222
Goodwill impairment	0	6,193	0
Total operating expenses	30,836	34,430	27,205
Operating income	26,764	21,763	27,161
Other income	288	504	910
Income before income taxes	27,052	22,267	28,071
Provision for income taxes	5,189	5,289	4,921
Net income	\$ 21,863	\$ 16,978	\$ 23,150



P&L-Model- Approach





Top-Down-Revenue Model Does NOT Work for New Ventures



Our product addresses a 100 Mio € market today and the market will grow to 3 Bio € in 5 years from now.

If we take just 1% market share, that's 30 Mio € in year 5!

Well,...
ahem

And how exactly will you do that – taking 1% market share?



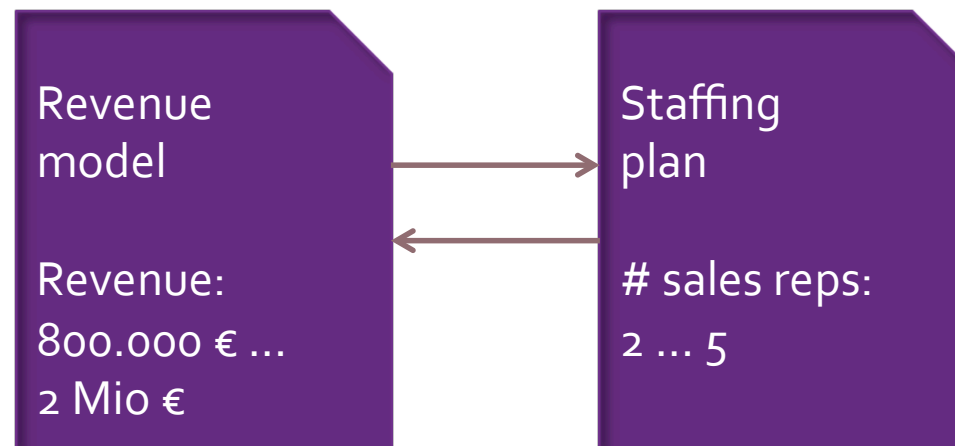
Revenue model must be
built bottom-up!



Prerequisites for Revenue Model Sales Model

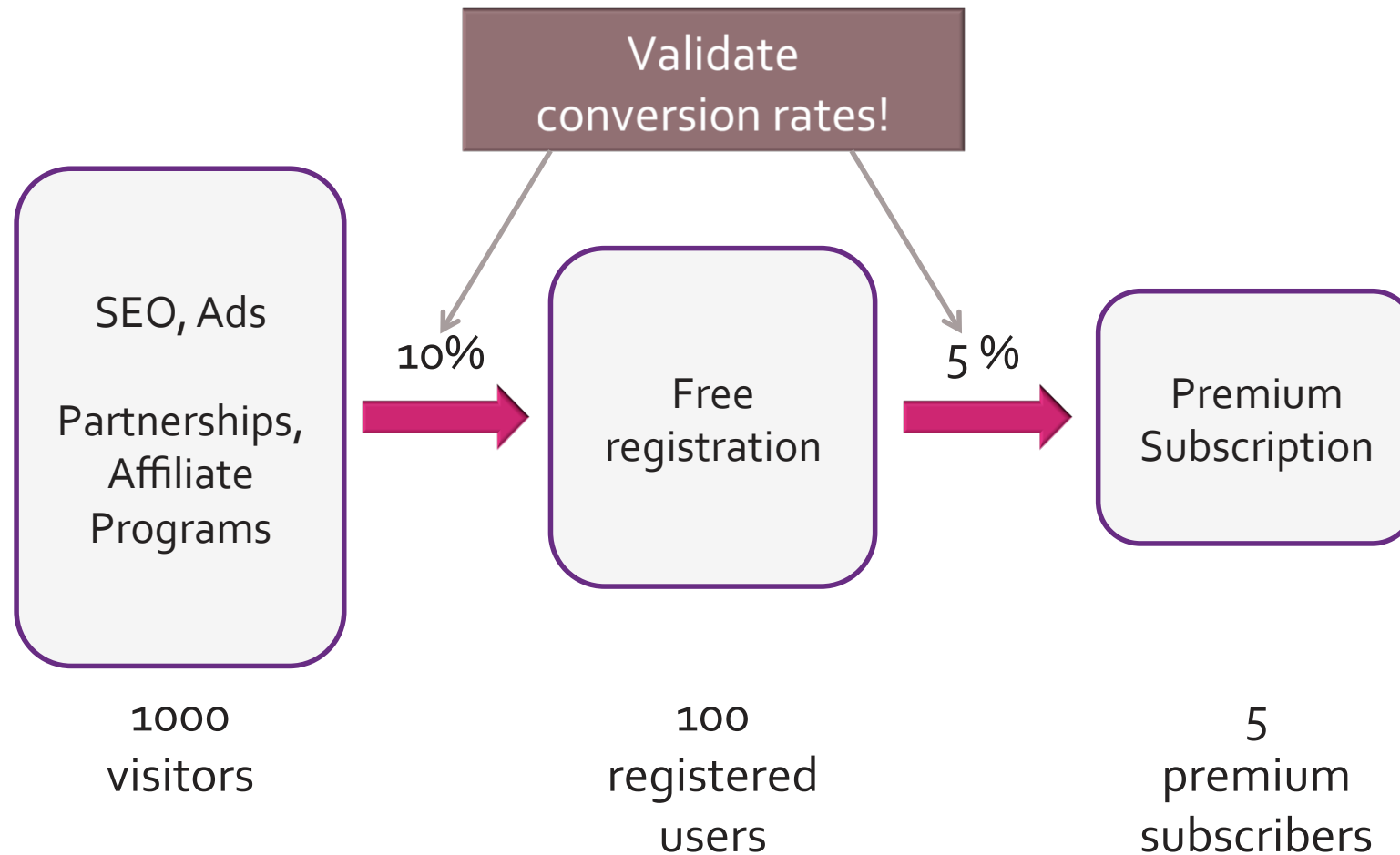
Example 1: Enterprise direct sales, software licensing business model

- Typical deal size: 100.000 €
- Length of sales cycle: 6 months
- Number of deals closed/ sales rep/ year: 2
- Result: 400.000 € of revenue/ sales rep/ year





Example 2: Web Sales Model



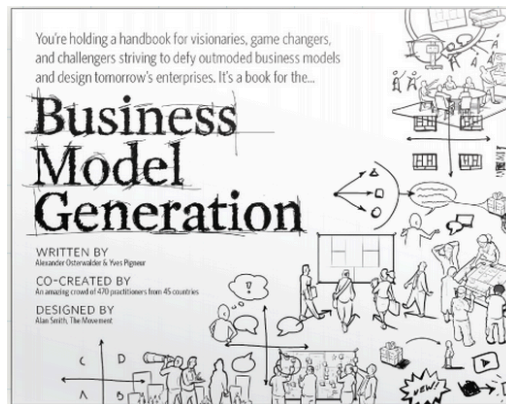


Global resources for startups

Where to go from here



Recommended Reading



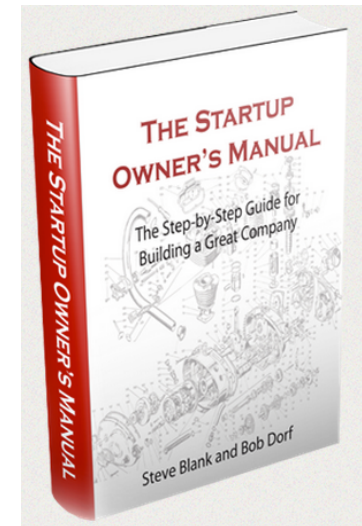
How to generate ideas
for business models &
document them
in a business model
canvas

Steve Blank
Why the Lean
Startup
Changes
Everything
HBR,
May 2013

Introduction to
Lean Startup and
Customer
Development



Approach /
philosophy for
using "validated
learning" to
improve the odds
of success



Detailed
manual how to
do Customer
Development



Lean Startup and Customer Development

Steve Blank's Web Page

- Blog steveblank.com/
- **Startup tools!**
steveblank.com/tools-and-blogs-for-entrepreneurs/

The Lean Startup Page theleanstartup.com/

- With links to Lean Startup resources
- Esp. **Lean Startup Meetups**
via lean-startup.meetup.com/
or via the Lean Startup Wiki
leanstartup.pbworks.com/w/page/15765228/Meetups
→ Find one or start one!



Entrepreneurship Education

- On Udacity [udacity.com](https://www.udacity.com)
(recorded class)
 - Class by Steve Blank:
[How to Build a Startup](#) – free
- Stanford Venture Lab on NovoEd (MOOC)
online.stanford.edu/courses/platform/NovoEd
 - Classes on Technology Entrepreneurship – free
- Commercial vendors, e.g. General Assembly [generalassembly.ly/](https://www.generalassembly.ly/)
 - Low-cost online classes



Stanford | ONLINE

Technology Entrepreneurship Part 1

Instructor:

Chuck Eesley, Assistant Professor, Management Science & Engineering, Stanford University

You can take this course for free!





Connect with the Global Startup Community

→ Startup Weekend
startupweekend.org/

→ Find one or start one!



→ Startup Digest startupdigest.com/

→ “personalized insider newsletter for all things startup in your area”

→ Plus startup reading lists



MIDDLE EAST & NORTH AFRICA

Beirut

Israel

Morocco

Egypt

Istanbul

Palestine

Iran

Kuwait

United Arab Emirates



Wrap Up

Including the final pitch round



Closing Round for Startups

3 Minute-Pitches

Imagine pitching to a potential investor or business angel

Suggestions what to cover – in no particular order

- Introduction of the two founders
- What your startup offers – and to whom
- Why that is an exciting business opportunity
- Where you currently are
- What you want from the angel/ investor



Closing Round for Startups

3 Minute-Pitches

You have a maximum of 3 minutes

→ Shorter is even better

Your pitch will be evaluated by everyone else on

→ **Clarity**: How clear/ understandable is what you're doing / what the business opportunity is

→ **Attractiveness** of the investment opportunity: would I want to invest here?

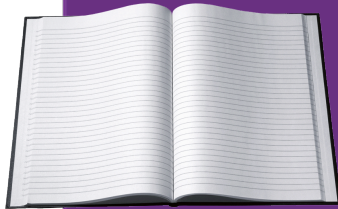
You have 5 minutes now to prepare

→ Use your Business Model Canvas and your Lean Canvas!



Feedback Round

Reflect



How has your thinking about building a startup changed?

Feedback questions

- What did you learn?
- What was especially useful for you?
- What would you like to see changed or improved in this training?

Think Big.
Start Small.

Leancamp mantra