Business Models & Customer Development

www.steveblank.com
Capstone Project Criteria

- Customer driven
- Team oriented
- User friendly
- Content
- Community needs
- Funding
Product Introduction Model

1. Concept/Seed Round
2. Product Dev.
3. Alpha/Beta Test
4. Launch/1st Ship
Waterfall / Product Management

Execution on Two “Knowns”

Customer Problem: known

Product Features: 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.
1. Value Propositions

"It's not about your idea or product!"

It’s about solving a need or problem.

Hear you...

It's about satisfying a customer need.

Yay! I’m delighted...

...and who are your customers?
2. **Customer Segments**

Customer Archetype...

Who are they?
Why would they buy?

GeoGraphic
Social
Demographic

Oh?

Your customers do not exist to buy. You exist for them.

- 24 years old
- Male
- City dweller
- Avid social media user
- Single income
Product/Market Fit
9 Guesses

The Business Model Canvas

Key Partners

Key Activities

Value Propositions

Customer Relationships

Customer Segments

Key Resources

Channels

Cost Structure

Revenue Streams

www.businessmodelgeneration.com
Startups are in **SEARCH** mode!

The **CANVAS**...

A set of **HYPOTHESIS**s? **GUESSES**!

**HERE'S HOW...**

**HOW do we change "guesses" into FACTS?**
The Customer Development Process

In other words...

Customer Discovery → Customer Validation → Customer Creation → Company Building

↑ PIVOT ↓

SEARCH EXECUTION
Your canvas...

Do the hypotheses need to be MODIFIED?

Did the results match the hypothesis?

"Oops! We kept getting TEEN GIRLS in suburbia!"

"Why? WHY NOT?"

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Customer Segments

"Customers will be MALE... 24-35... in URBAN AREAS... who like STARBUCKS..."

GET OUT OF THE BUILDING!

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HYPOTHESES

"How about a GOOGLE ADWORDS campaign to acquire?"

INSIGHT

TEST

DESIGN EXPERIMENT

- Run Google Adwords campaign to acquire
- COLLECT and ANALYZE the data
The Customer Development Process, continued...

3. Test your GUESSES... and LOOK for INSIGHTS!
   - Mark up your old canvas.
   - But don't discard your learning.

4. START a NEW CANVAS.
   - New hypotheses...
   - New experiments...
   - New tests...

...and GET OUT of the BUILDING!
Minimal Viable Product

Continued...
"THIS ISN'T WHAT I WANTED!"

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

How about something different?

Minimal Viable Product

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

WASTE!

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

2. QUICKLY and ITERATIVELY get CUSTOMER FEEDBACK...

What do you think?

"CHANGE THIS!"

"IT'S BETTER, BUT..."

"THUMBS UP!"

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

Pivots are the result of hypothesis testing and experimentation.

What do you do when hypotheses do not match reality?

A pivot is a substantive change to one or more business model components.

You're fired, not the founder.
CUSTOMER DEVELOPMENT

The Founder Can:
- Change the Product
- Make Pivots
- Hear Customer Feedback First-hand

What if the STORY or VISION isn't right?

The Founder has the VISION, not the proxies... but the proxies are killed as the messengers, for not "Explaining it right."

But where is the VISION for customer development?

I'll just HIRE someone to do it...

I'm SMART! I can figure this out - right here.

But if I'm right, you didn't EXPLAIN IT RIGHT!!

AM LISTENING... but I needed to GET OUT OF THE BUILDING first.
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 EPHANANY.

SEARCH. DISCOVERY. VALIDATION.
PHASE 1

- State HYPOTHESIS
- Draw BUSINESS MODEL CANVAS

PHASE 2

- Test the problem

PHASE 3

- Test the solution
  - Hey! Is this what you NEED?

PHASE 4

- Verify or Pivot
  - 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?

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

- Get out of the building
- Build wireframe or prototype
- Test your understanding of the customer’s problem or need
CUSTOMER DISCOVERY

STEP 1: State Your Hypothesis

STEP 2: Test the Problem

STEP 3: Test the Solution

STEP 4: Pivot or Proceed