

Welcome to CIE's Start Lean Business Course!

CONGRATULATIONS ON COMPLETING THE START SIMPLE BUSINESS COURSE!

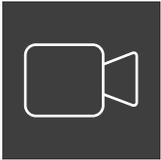
In the Start Simple Business Course, you outlined the basics of your business idea and conducted a feasibility check with an Opportunity Discovery Canvas and a cash flow projection based on assumptions about how your business might work—hundreds of “what-ifs.” In this course, you will learn about “lean startup” strategies to take your Start Simple assumptions out for a road test. At the end of this course, you will learn strategies testing your assumptions while finding concrete information to build a business that is ready to grow.

WHY DO THIS? TWO REASONS:

1. Businesses often fail because they build something no one wants. To avoid building a “solution looking for a problem,” lean startup strategies will help you confirm that, in fact, enough people want your product or service to generate sufficient income for you, and to justify the effort involved in building a business.
2. The fear and uncertainty of a new business often stops people from taking that first step. They take class after class, talk about their idea endlessly with friends and family, even write a business plan, but never actually get started. This class aims to reduce the uncertainty by testing your assumptions and reducing your fear of the unknown by getting you out into your market to talk to potential customers. And, who knows, you might make a sale or develop a lead for a customer along the way!

CLASS FORMAT

If you are expecting a class where you can just sit back, listen to lectures, and do exercises out of a notebook, you are in for a surprise. You are going to be pushed out of your comfort zone—in a good way.



VIDEOS | This course follows *How to Build A Startup*, an online video course available for free at Udacity.com. The course is taught by Steve Blank, a college professor and entrepreneur who has been one of the leading voices in the lean startup movement. Throughout the videos, Steve Blank talks as if you are part of a team of founders working on a tech startup. Don't worry about that—that's his background, and the method applies to all sorts of startups. Some of the videos delve too deeply into business theory for our purposes—don't worry about that, either—we'll be skipping them. If you feel you're in over your head, don't panic. Use the class discussions to put these concepts into terms you can use in your own search for a business model that works.



HOMEWORK | One of the tenets of the lean startup movement is to have direct contact with real people to get firsthand knowledge of the market and of the needs of your potential customers. Therefore, every week you will “get out of the building” to talk to potential customers, suppliers, competitors, and mentors. ***Be prepared to conduct five to ten personal interviews a week. This is critical to the success of the process.*** Depending on your business, you may also be creating websites, marketing materials, product prototypes and YouTube videos!



DISCUSSIONS | Discussions are different from lectures—this is where you'll need to jump in, ask questions, offer feedback to your classmates, and speculate on how you can use the techniques you're learning to develop your business. Each week, you will come to class ready to share about your experiments and the results and get feedback from the facilitator and your peers who will serve as your business team. Be prepared to hear the truth—no one helps you by telling you your product or service is good when it isn't!

THE DISCOVERY PROCESS: TURNING GUESSES INTO VALIDATED FACT

Hypothesizing is central to the lean startup process. Hypothesizing is just a fancy word for guessing.

In this class, you'll be making assumptions about your business, creating experiments to test those assumptions and then sharing what you learned with the class. Huh?

What that really means is that you'll start by making a guess about what you will learn ("I'm guessing half the people I talk to eat fast food at least three times a week."). Then you'll talk to people to see if your guess was correct or not—by asking people about their problems, what they think about your product, the price, etc. Whether your guess was right or wrong, you always "win the bet", because you'll know more than you did before—*without spending a lot of money*.

If your guess is ~~wrong~~ invalidated, you make a new hypothesis for your next round of interviews. You gradually home in on what your customers problems are, what the possible solutions are (that customers would pay for) and how much they would pay as you continually revise each area of your business.

This is a "Build-Measure-Learn" cycle that is essential to the lean startup process:

1. Don't think of your "wrong" guesses as failures—call it **validated learning**. You know some idea is right or wrong *because you've tested it*, and
2. As a business owner, you should always be listening, testing, and learning—about your customers, your products, and your business.

At the end of this course, you should have a much better idea of what will work in your business and what won't. Some of you may feel you've proven your concept and be very close to actually starting your business. Feel free to cut to the head of the line and launch while still in the course—your insights while actually in business will be invaluable not only to you, but to your classmates.

So, let's get started!



THE LEAN METHOD

In this session you will...

Meet your instructors & classmates

Get an introduction to Lean Startup Method

Start creating a Business Model Canvas for your business idea

Prepare for the Customer Discovery Process



TOPICS

- **GETTING TO KNOW EACH OTHER**
- **THE LEAN STARTUP METHOD**
- **THE BUSINESS MODEL CANVAS**
- **THE CUSTOMER DISCOVERY PROCESS**

ASSIGNMENTS

- Register for *How to Build a Startup* (<https://www.udacity.com/>)
- WORKSHEET 1.1** *Business Model Canvas*
- WORKSHEET 1.2** *Customer Profile*
- WORKSHEET 1.3** *Customer Contact List*
- WORKSHEET 1.4** *Customer Interview Script*

OBJECTIVES

- X Understand the course format and how to get the most out of the program
- X Understand the difference between a big business and a startup
- X Understand the lean method and key concepts (Minimal Viable Product | Product-Market Fit | Customer Development (Discovery & Validation) | Pivots, Iterations, & Iterative Failure)
- X Start creating your Business Model Canvas
- X Start preparing for the Customer Discovery Process



DISCUSSION

THE LEAN METHOD

WHAT WE NOW KNOW ABOUT STARTUPS

UDACITY LESSON 2.3

- Startups are not smaller versions of large companies.
- Business management tools are irrelevant in the first chaotic years of a startup. Eventually, they are important, but at first, they just get in the way!

STARTUPS SEARCH. COMPANIES EXECUTE. UDACITY LESSONS 3.1 & 3.2

- A “company” is an organization that sells a product or service in exchange for revenue and profit.
- A “startup” is (1) a temporary organization, (2) designed to search (3) for a **business model**.
- A business model is how a company creates value for customers in exchange for revenue.
- We use a Business Model Canvas to map it out. The Business Model Canvas is not a traditional org chart, but a more useful way to visualize and track the discovery of the key elements of a business.

THE LEAN PROCESS UDACITY LESSON 2.4

- Conventional wisdom is to start with a business plan. No business plan survives first contact with customers. The first year of a startup is completely unpredictable.
- For a startup, we don’t need a business plan yet. Instead, we need a **business model discovery plan**, i.e., a strategy for how to turn a chaotic and unknowable future into a business model that will generate predictable and repeatable revenue.
- A Business Model Canvas helps you organize your assumptions about every part of your business idea so that you can “get out the building” and validate those assumptions in the real world. It is a score card for validated facts about your business.

LEAN CONCEPTS

1. Minimum Viable Product (MVP) UDACITY LESSON 4.6

- Start with the minimum features needed to get feedback
- Get out into the market and talk to people to quickly and iteratively get customer feedback
- Add or change features based on what you learn

2. Customer Development & Product-Market Fit

Customer development is the process finding “product-market fit” through customer discovery and customer validation.  UDACITY LESSON 4.2

- Customer ***Discovery***—do people actually have the problem you are trying to solve?  UDACITY LESSON 4.8
- Customer ***Validation***—does your solution actually solve the customer’s problem?  UDACITY LESSON 4.10

Here are the steps in the customer discovery process:

STEP 1: Put your guess about the problem and solution down on your BMC

STEP 2: Test the problem (get out of the building with your MVP)

STEP 3: Test the solution (to find product-market fit)

STEP 4: Verify or pivot

3. Pivots, Iteration, & Iterative Failure UDACITY LESSON 4.7

- What do you do when your guess is wrong? PIVOT!
- Fire the MODEL, not the Founder!
- Failure is your friend. Fail often (by rapid prototyping), fail cheap (with an MVP), and fail forward (ROI = information/validation).

THE BUSINESS MODEL CANVAS

USING THE BUSINESS MODEL CANVAS | UDACITY LESSONS 1.3 & 4.1

- In the beginning, we mostly have a lot of guesses.
- We can use the BMC to organize the guesses around each aspect of our business model.
- For each guess, we can then design an experiment to determine whether the guess is right or wrong – i.e., to turn the guesses into facts.
- And then we get out to talk to people in the market.

TOUR OF THE BUSINESS MODEL CANVAS | UDACITY LESSONS 3.3 TO 3.11

- Value Propositions
- Customer Segments
- Customer Relationships
- Channels
- Revenue Streams
- Key Activities
- Key Resources
- Cost Structure
- Key Partners

CASE STUDY: JERSEY SQUARE | UDACITY LESSON 4.16



HOMEWORK

1. UDACITY

Go to [Udacity.com](https://udacity.com) and register for *How to Build a Startup*. Refer to it throughout the course to prepare for each session or reinforce your learning. Check back to refresh your memory.

2. BUSINESS MODEL CANVAS

Using **WORKSHEET 1.1 - BUSINESS MODEL CANVAS**, build your own Business Model Canvas and use it to start organizing your initial assumptions about your business idea. You can make a big one to hang on your wall and use post-it notes for each of your assumptions.

3. CUSTOMER DISCOVERY

Begin preparing your Customer Discovery process. Your goal is to *learn as much as you can about your customers* to determine if your proposed product/service meets their need in a compelling way. To do this, you will conduct personal interviews with as many potential customers as you can. Your interviews with these potential customers will continue throughout the course.

Here are the steps to follow:

STEP 1: Using **WORKSHEET 1.2 - CUSTOMER PROFILE**, describe what you think is true about your customers.

STEP 2: Using **WORKSHEET 1.3 - CUSTOMER CONTACT LIST**, list “first degree contacts.” These are people you know who fit your customer profile.

STEP 3: Using **WORKSHEET 1.4 - CUSTOMER INTERVIEW SCRIPT**, develop a script for your customer interviews.

REMEMBER: *The purpose of your interviews is **not** to sell your product or service, but to identify the pain points of your customer and the gains that they expect the solution (i.e., your product or service) to provide. You also need to verify that your customers are who you thought they were. In-person interviews or video chat are both acceptable. You are not going to ask people what they think or what they would do, you are going to measure what they are doing currently.*

STEP 4: Schedule at least 5 interviews each week. You can include people you’ve already interviewed as well as new people that you have not yet interviewed.

STEP 5: Conduct the interviews throughout the course, document each interview and share what you’re learning with your team in the next course session.

4. LOOKING AHEAD

Feel free to preview *Lesson 2: Value Proposition* in the Udacity classroom.

WORKSHEET 1.1

THE BUSINESS MODEL CANVAS

Designed for:

Designed by:

Date:

Version:

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?

OPTIMIZATION & ECONOMY
REDUCTION OF RISK & UNCERTAINTY
ACQUISITION OF PARTICULAR RESOURCES & ACTIVITIES

KEY ACTIVITIES

What Key Activities do our Value Propositions require?

Our Distribution Channels?
Customer Relationships?

Revenue streams?

PRODUCTION
PROBLEM SOLVING
PLATFORM/NETWORK

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?

NEWNESS
PERFORMANCE
Customization
"Getting the Job Done"
DESIGN
Brand/Status
PRICE
Cost Reduction
Risk Reduction
ACCESSIBILITY
CONVENIENCE/USABILITY



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?

How costly are they?

PERSONAL ASSISTANCE
DEDICATED PERSONAL ASSISTANCE
SELF-SERVICE
AUTOMATED SERVICES
COMMUNITIES
CO-CREATION



CUSTOMER SEGMENTS

For whom are we creating value?

Who are our most important customers?

MASS MARKET
NICHE MARKET
SEGMENTED DIVERSIFIED
MULTI-SIDED PLATFORM



KEY RESOURCES

What Key Resources do our Value Propositions require?

Our Distribution Channels?
Customer Relationships?

Revenue Streams?

PHYSICAL
Intellectual (Brand Patents, Copyrights, Data)
HUMAN
FINANCIAL



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?

Which ones are most cost-efficient?

How are we integrating them with customer routines?

1. AWARENESS | How do we raise awareness about our company's products and services?
2. EVALUATION | How do we help customers evaluate our organization's Value Proposition?
3. PURCHASE | How do we allow customers to purchase specific products and services?
4. DELIVERY | How do we deliver a Value Proposition to customers?
5. AFTER SALES | How do we provide post-purchase customer support?

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?

COST DRIVEN (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
VARIABLE COSTS
ECONOMIES OF SCALE
ECONOMIES OF SCOPE
VALUE DRIVEN (focused on value creation, premium value proposition)
FIXED COSTS (salaries, rents, utilities)



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?

ASSET SALE
USAGE FEE
SUBSCRIPTION FEES
LENDING/RENTING/LEASING
LICENSING
BROKERAGE FEES
ADVERTISING
LIST PRICE
PRODUCT FEATURE DEPENDENT
CUSTOMER SEGMENT DEPENDENT
VOLUME DEPENDENT
NEGOTIATION (bargaining)
YIELD MANAGEMENT
REAL-TIME-MARKET



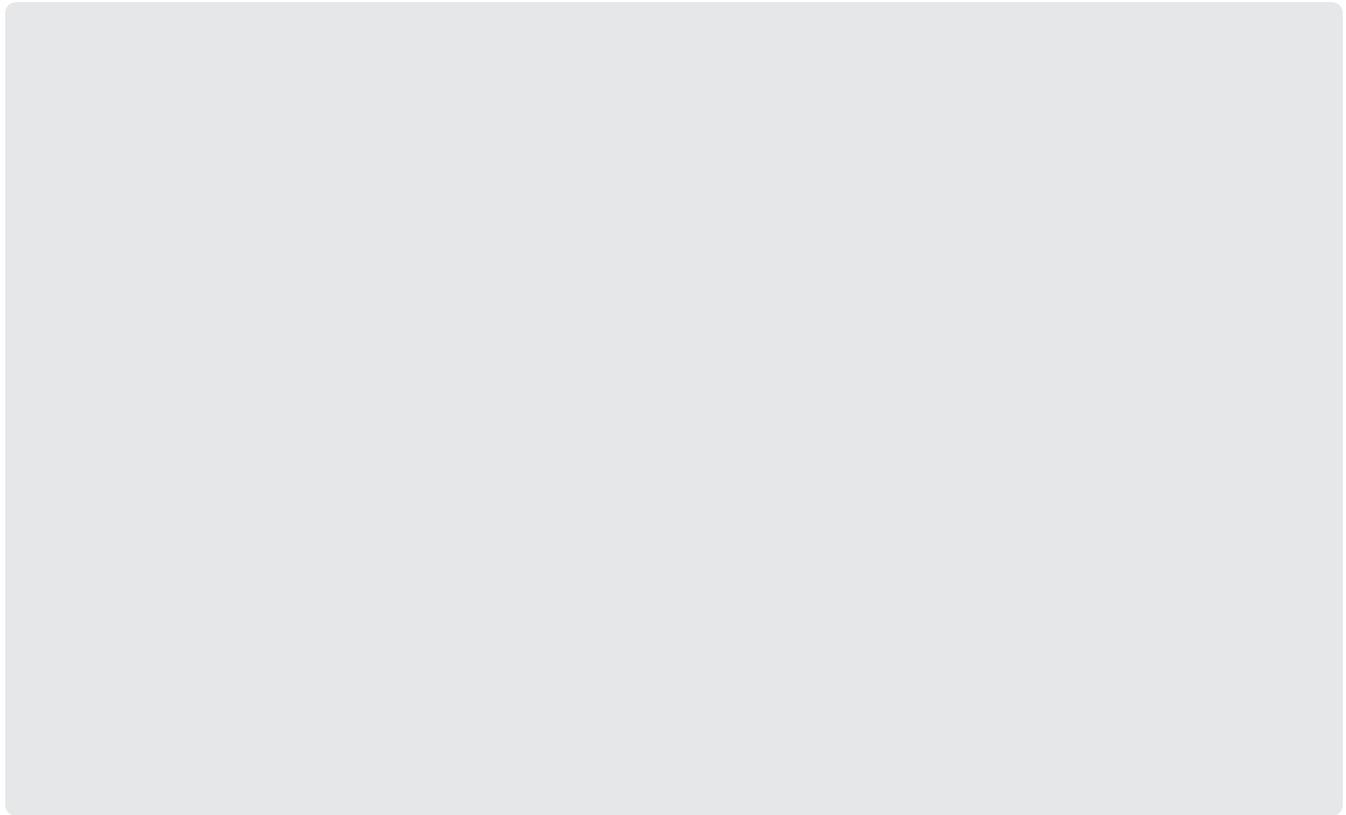
BUSINESS MODEL FOUNDRY AG | The makers of Business Model Generation and Strategyzer
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strategyzer.com

WORKSHEET 1.2: CUSTOMER PROFILE

Write a description of who you think your customer is. You can also put this into the Customer Segments on your BMC. This will guide your initial contacts. Depending on your product, there may be several groups of customers. Describe each group.



Depending on your product, different data on these customers will be pertinent. If you are selling a B2C product or service, lifestyle factors will likely be important: age, income, education, family size, urban/suburban/rural, etc. If your product is B2B, there are different questions to be answered: who is the decision-maker for this purchase? Note that business customers often have several levels of decision-makers who influence the purchase decision.

Through each interview, you will want to define:

- The customer's problems/needs.
- How painful are these problems/needs? *Especially compared to other problems they may be having.*
- Where this person is on the "problem recognition scale"¹:

LATENT | *They have a problem but don't know it*

PASSIVE | *They have a problem but aren't motivated to solve it*

ACTIVE (OR URGENT) PROBLEM | *They recognize a problem and are searching for a solution*

VISION | *They have an idea for solving the problem and may have even created a primitive or patchwork solution but are prepared to pay for a better solution*

¹ From "Startup Owner's Manual," by Steve Blank, K&S Ranch, Inc. Publishers. 2012

WORKSHEET 1.4:

CUSTOMER INTERVIEW SCRIPT

This provides a template to help you develop a script for your customer interviews. The following information is drawn from “*Running Lean*,” by Ash Maurya (O’Reilly, 2012). Maurya suggests the following script when you actually begin conducting your interviews:

WELCOME (2 MINUTES)

Explain why you are meeting and what you hope to gain. You will also reassure this person that you are not trying to sell them anything.

Example:

“Thanks for taking time to talk with me today. I am currently working on a (business idea). I got the idea when/because (state how, including problem). But before I get ahead of myself, I want to check with other (customer group) to see whether this product is worth building.

In this interview I’d like to describe the main problems we’re solving and hear your thoughts on them. I don’t have a finished product yet, and I’m here to learn. *I’m not trying to sell you anything* (stress this).”

COLLECT DEMOGRAPHICS (2 MINUTES)

Gather some pertinent information that will help you further define your customer segments. DO NOT ASK QUESTIONS ABOUT INCOME! You may find your interview ending abruptly. Don’t pay for interviews--this information is not reliable.

Example for a personal chef service:

- How big is your household?
- How many adults living in the home?
- Do both parents work full-time? Outside the home?
- How often do you dine out, or bring in take-out?
- How many meals are prepared at home?
- Do you cook “from scratch”, or use prepared entrees (e.g., frozen, deli counter)?
- What, if any, social media channels do you use? Do you follow any bloggers? (==> how do you get information and connect with your family/friends/community)

TELL A STORY (2 MINUTES)

Illustrate the top three problems with a story.

Example (using personal chef business again):

“When I was a full-time working mom, I was busy all the time, plus stressed-out and tired. I always felt guilty about not spending more time with my kids. I was usually too busy or too tired to prepare a healthy dinner for my family, and I’ve heard all the statistics about the importance of dinner with the family.

I'm not working now, and my kids are grown. My niece just had a baby, so I spent a couple of weeks helping around the house and cooking meals. I enjoy cooking, and I wanted to give her the rest and support after childbirth that I didn't get to enjoy. I also filled her freezer with easy-to-reheat meals. She has thanked me so many times, I started wondering if this isn't a service that I could provide for families."

PROBLEM RANKING (4 MINUTES)

State the top three problems *YOU THINK YOUR CUSTOMER HAS* and ask them to rank them:

Example (personal chef)

1. Do you find you have no time to cook?
2. Do you find having a family meal is difficult with conflicting schedules (work, sports, school)?
3. Do you find you would rather spend time with your family than in the kitchen?

EXPLORE CUSTOMER'S WORLDVIEW (15 MINUTES)

This is the most important part. Your job here is to sit back and listen. "The best script is no script."

Go through each of the problems you stated and ask the interviewee about how they handle these problems in his/her life. Listen closely to their answers. Use their body language as a judge of how enthusiastic they are about the problems and solutions discussed. These answers may conflict with their ranking of problems in previous answers. That's OK. Keep listening and asking open-ended questions to really try to understand.

If they state new problems, explore those as well, trying to get a thorough understanding. New ideas for products or services may pop up, something the interviewee really gets excited about. Even better.

WRAPPING UP (2 MINUTES)

Ask the subject if you may follow up as your project progresses.

1. When you get a prototype/plan/offering, would this person be willing to see the product?
2. Can this person introduce/refer you to other people who fit your customer profile?

DOCUMENT RESULTS (5 MINUTES)

Spend five minutes documenting the interview while it is still fresh.

THE VALUE PROPOSITION

In this session you will...

Learn about Value Proposition

Share your assumptions about your customer pains

Interview potential customers to find out more about, and rank, their pains



TOPICS

- PAINS, GAINS & MVP
- CUSTOMER FEEDBACK FORUM
- RANKING PAINS

ASSIGNMENTS

- WORKSHEET 1.1
Business Model Canvas Value Proposition
- WORKSHEET 2.1
Tools for Building a Customer Feedback Forum
- CUSTOMER DISCOVERY INTERVIEWS
- WORKSHEET 2.2
Pain Ranking Form

OBJECTIVES

- X Understanding your value proposition
- X Start building an online customer feedback forum
- X Conduct more customer interviews
- X Identify and rank your customers' pains
- X Update the Value Proposition on your BMC to document what you are learning about your customers' pains and gains.



DISCUSSION

PAINS, GAINS & MVP

The concept of a **Minimal Viable Product (MVP)** is central to the lean startup strategy. The name of the game is developing a product or service with only the features needed to solve the *pains* of your target market by providing the *gains* they are seeking so you can quickly get out into your market to test and validate your assumptions about your value proposition.  **UDACITY LESSON 5.4**

PAIN KILLERS

- What's the customer's problem/need that your product/service will solve/satisfy? Is it an important problem? Why haven't they been able to solve it? Start with *hypotheses* about the pain, then get out of the building and *validate* or *pivot*.  **UDACITY LESSON 5.12**
- Look for both *problems* and *needs*. They are different. Solving problems is great but satisfying a need might help you reach more customers.  **UDACITY LESSON 5.13**
- Rank the pain in terms of *intensity* (how BIG is the pain?) and *frequency* (once in a while, or ALL THE TIME?).  **UDACITY LESSON 5.14**

GAIN CREATORS

- What solution are customers looking for? What benefits do they hope the solution will provide? How will a customer's life be different with your product/service? What will make their lives easier? What will make them happy and delighted? Start with *hypotheses* about the gains, then get out of the building and *validate* or *pivot*.  **UDACITY LESSON 5.15**
- Rank the gains in terms of *relevance* (does the gain REALLY MATTER?) and *frequency* (once in a while, or ALL THE TIME?)

FAST PITCH – THE PROBLEM

Using your business as a case study, follow the steps below to prepare a three-minute "fast pitch" about the problem you intend to solve with your product or service. Your classmates will offer strategies to test them.

STEP 1: Take 10 minutes to jot down your assumptions about your customer's top three pains in order of importance and frequency.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it's time to get out of the building to start validating!



HOMEWORK

1. BUILD AN ONLINE CUSTOMER FEEDBACK FORUM

This assignment will help you build a select community of people who best represent your ideal customer and who will give you feedback about the assumptions you are trying to validate as you develop your business model.

Review **WORKSHEET 2.1 - TOOLS FOR BUILDING A CUSTOMER FEEDBACK FORUM** for suggestions on various social media platforms and how to get them started.

Create a social media platform and begin posting content that you believe is interesting and helpful to your prospective customers. Plan to post at least 2x per week (daily is better). See how big an audience you can “serve” by the end of the class. Remember—you’re not selling! You’re trying to discover the problem and develop a solution by building an audience that trusts and likes you enough to respond to your content and give you information.

2. CUSTOMER DISCOVERY INTERVIEWS: UNDERSTANDING THE PROBLEM

To develop your value proposition (i.e., your solution to your customers’ problem), you need to understand in detail what, exactly, is the problem you hope to solve. Talk to potential customers to learn about, and rank, the problem.

Use the Customer Interview Script that you designed last session to interview 5-10 potential customers to get a better understanding of the problem your business will solve.

Using **WORKSHEET 2.2 - PAIN RANKING FORM**, ask your customers to rank the pains.

Update your Business Model Canvas and be prepared to share what you've learned with your team at the next session.

3. LOOKING AHEAD

Feel free to preview *Lesson 3: Customer Segments* in the Udacity classroom.

WORKSHEET 2.1: TOOLS FOR BUILDING A CUSTOMER FEEDBACK FORUM

I. BLOGS

Free blogs can be created easily and quickly at Weebly.com, Blogger.com and Wordpress.com (not .org). The demos on those sites will show you how to get started.

Example: Seth Godin has led the field explaining how to market creatively and “change everything.” His blog posts (<http://sethgodin.typepad.com>) are a combination of original content and citing posts from other sources. He has built a following in the millions, has written numerous extremely successful books (some which are collections of his blog posts), and is a highly sought-after speaker. His blog is a model of building an audience by sharing information that is important to them.

Allow comments—you may want to allow moderated comments, which gives you a chance to OK the comments before they appear on your blog. This prevents profanity or spam from appearing on your blog. Receiving an email notification when someone posts to your blog allows you to moderate in a timely manner.

II. FACEBOOK PRODUCT/BUSINESS PAGE

Facebook has a feature that allows you to create a business or product page, separate from your personal page. Facebook is an accessible platform for photos, videos and posts. Don't get too worried if you haven't picked out the perfect business name or haven't designed your logo yet. Remember, this is about serving your customers so that they will, in turn, respond to your posts with feedback.

Example: <https://www.facebook.com/quickandeasydinner> is a page offering quick and easy dinner recipes.

Here's a good post on creating a Facebook Business page: <https://blog.hubspot.com/blog/tabid/6307/bid/5492/how-to-create-a-facebook-business-page-in-5-simple-steps-with-video.aspx>

III. VIDEO

YouTube or Vimeo are two sites where you can upload videos. If you have the use of a smart phone, you can create videos and upload videos to YouTube. If your business idea lends itself to a visual medium or demonstrations, this can be a great way to build an audience.

Example: KnittingHelp.com is now posting to YouTube, but started out hosting its own videos, and rapidly built a huge following in the knitting world (lest you think that's a small market, there are 60 million knitters in North America). Note that they now have a discussion forum (more customer problems!) a store, and other features.

Be sure to allow comments for your videos.

IV. OTHER SOCIAL MEDIA PLATFORMS?

If you know of some other social media platform specific to your users, go ahead and use it!

WORKSHEET 2.2: PAIN RANKING FORM

Name:

Source:

Contact Info:

DEMOGRAPHICS

Household size:

Adults:

Children & ages:

Number of full-time working adults:

of dinners prepared outside the home:

of meals "from scratch":

PROBLEM 1 *(e.g., I have no time to cook, and as a result we eat too much take-out food)*

Pain Level

Frequency

How do you address this problem today?

PROBLEM 2: *(e.g., It's hard to find time for a meal with the demands of work, school, sports & activities)*

Pain Level

Frequency

How do you address this problem today?

PROBLEM 3: *(e.g., I'd rather spend time with my family than time in the kitchen, even if it means we eat less healthful meals)*

Pain Level

Frequency

How do you address this problem today?

Notes:

Referrals:

CUSTOMER SEGMENTS

In this session you will...

Learn about Customer Profiles and Customer Segments

Share your assumptions about customer gains and minimum features

Build a prototype of your MVP Solution

Interview potential customers and demo MVP Solution



TOPICS

- LESSONS LEARNED FROM LAST SESSION
- CUSTOMER PROFILES
- MVP SOLUTION DEMO

ASSIGNMENTS

- WORKSHEET 1.1
Business Model Canvas Customer Segments
- BUILD AN MVP SOLUTION PROTOTYPE
- WORKSHEET 3.1
Demo Script
- MORE CUSTOMER DISCOVERY INTERVIEWS
- WORKSHEET 3.2
Gain Ranking Form

OBJECTIVES

- X Understand your Customer Profiles & Customer Segments. are most important to your customers.
- X Start building a prototype of your MVP Solution.
- X Conduct more customer interviews.
- X Rank which gains and which features of your MVP Solution are most important to your customers.
- X Update Value Proposition & Customer Segments on your BMC to document what you are learning about your customer profile and the gains and features that are most important to them.



DISCUSSION

LESSONS LEARNED

Share what you learned last week about your customers' pains and gains.

Were you able to validate your original assumptions about the pain? Did any of your assumptions change?

Talk about the social media platform you launched as your customer feedback forum. If you have a computer/projector in the classroom, show your site.

DEVELOPING A CUSTOMER PROFILE

- The lean startup strategy is *relentlessly customer focused*.
 **UDACITY LESSON 6.1**
- You need to understand everything about your customer, what specifically is the pain they have and the gain they seek, what motivates them into action (i.e., purchasing your product/service). Start by asking what are your customers trying to get done? Which of those "jobs" are the most important? What does the day in the life of your customer look like?
 **UDACITY LESSONS 6.2 AND 6.3**
- The goal is to develop a detailed *customer profile*. The customer profile is also sometimes called the *customer persona*, or the *customer archetype*, or the *ideal customer*. The customer profile should include *geographic* information, *demographic* information, and *psychographic* information. *And it should be validated!*  **UDACITY LESSON 6.6**

*NOTE

If you have multiple customer profiles, each type of customer might be a separate customer segment. Each customer segment may need its own value proposition, minimum viable product/service, acquisition strategies, distribution channels and revenue/pricing model.

- Consider the Jersey Square case study.  **UDACITY LESSON 6.26**

FAST PITCH – THE SOLUTION

Using your business as a case study, follow the steps below to prepare a three-minute “fast pitch” about your proposed solution. Your classmates will offer strategies to test them.

STEP 1: Take 10 minutes to jot down your assumptions about the following:

- The top three gains your customers are seeking.
- The top three features of your MVP Solution your customers will consider important.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it's time to get out of the building to start validating!



HOMEWORK

You have been conducting Customer Discovery interviews. You are beginning to verify your understanding of your customer's biggest problems – their “pain points.” You have verified that the problem they want you to solve is important to them, not “it would be nice.” You are now beginning to think about your value proposition—the solution to their problem.

This is your first round of the “Build—Measure—Learn” cycle. You are now hypothesizing about a solution to your customer's problem. If your hypothesis is incorrect (note: you don't fail, you just get unexpected results), you ask yourself how you can use the information gained to revise (or pivot) your proposed solution.

1. BUILD AN MVP SOLUTION PROTOTYPE

Create a visual aid of your solution. This can be a description, a brochure, a sketch, a video-- whatever you feel will convey the idea of what your solution is.

2. CUSTOMER DISCOVERY INTERVIEWS: UNDERSTANDING THE SOLUTION

Using **WORKSHEET 3.2 - SOLUTIONS INTERVIEW SCRIPT**, update the Customer Interview Script that you designed in the first session to include a demo of your MVP Solution.

Continue your customer interviews, but now use your MVP Solutions prototype to suggest a solution to their problems. LISTEN to the feedback you receive. Interview some of the original group and add some new ones from your referrals.

Using **WORKSHEET 3.3 - GAIN RANKING FORM**, ask your customers to rank the gains they seek and the features of your MVP Solutions that are most important to them.

Update your Business Model Canvas and be prepared to share what you learned with your team at the next session.

3. VALIDATE YOUR CUSTOMER PROFILE

Go back through all your interview notes and check your assumptions about your Customer Profile and Customer Segments. Are your assumptions about who your customers are still correct? Are you discovering new customer segments? Update your Business Model Canvas and be prepared to share what you learned about your customer profile with your team at the next session.

4. LOOKING AHEAD

Feel free to preview *Lesson 4: Customer Relations* in the Udacity classroom.

WORKSHEET 3.1: DEMO SCRIPT

Add the following to the Customer Discovery Interview Script you developed in the first session to include a demo of your proposed MVP Solution.

DEMO (15 MINUTES)

Describe your proposed solution. Go through each of the top problems you have heard from your customers and illustrate or explain how your solution solves each one. After each explanation, ask if they have any questions or suggestions.

Example (using personal chef business again):

I'm proposing a shopping and meal prep service for families. You will have the chance to select meals for the week online. I will do the grocery shopping, deliver groceries to your home, prep the meals, and clean up the kitchen afterwards. (...go over three biggest problems and how this solves them).

ASK: Which features appeal the most? Which is least important? Are there any features that are not necessary? Are there any features missing?

TEST PRICING (3 MINUTES)

Don't ask the customer the price they would pay. Instead, tell them the price you will charge. The best price is one the customer accepts, but with a little resistance.

Example (using personal chef business again):

"So, for my shopping and meal prep service, I will charge \$200 per week. Would you pay \$200 per week to provide your families with healthy meals five nights a week and greatly reduce your purchases?"

WORKSHEET 3.2: GAIN RANKING FORM

Name:

Source:

Contact Info:

DEMOGRAPHICS

Household size:

Adults:

Children & ages:

Number of full-time working adults:

of dinners prepared outside the home:

of meals "from scratch":

SOLUTION *(e.g., Eliminate or greatly reduce fast food consumption)*

Priority Ranking

Additional Comments

SOLUTION *(e.g., Have healthy meals prepared and ready to reheat.)*

Priority Ranking

Additional Comments

SOLUTION *(e.g., More time to spend with family)*

Priority Ranking

Additional Comments

Notes:

Referrals:

CUSTOMER RELATIONSHIPS

In this session you will...

Learn about Demand Creation

Learn about Customer Acquisition Costs and Lifetime Value

Learn how to use CAC and LTV to measure the effectiveness of your demand creation strategies

Learn about the Sales Funnel

Share your assumptions about how you will get, keep and grow customers

Interview potential customers to understand low-cost strategies to get, keep and grow customers

TOPICS

- LESSONS LEARNED FROM LAST SESSION
- DEMAND CREATION
- THE SALES FUNNEL

ASSIGNMENTS

- WORKSHEET 1.1
Business Model Canvas Customer Relationships
- WORKSHEET 4.1
Sales Funnel
- MORE CUSTOMER DISCOVERY INTERVIEWS

OBJECTIVES

- X Understand the concept of Demand Creation.
- X Know how to use CAC and LTV to measure the effectiveness of your Demand Creation strategies.
- X Understand the Sales Funnel and how to use it to create effective Demand Creation strategies.
- X Conduct more customer interviews.
- X Update Customer Relationships on your BMC to document what you are learning about strategies to get, keep and grow your customers.



DISCUSSION

LESSONS LEARNED

Share the results of your MVP Solutions demos. If you have been posting on your social media platform, share the results to date on user engagement.

DEMAND CREATION

- **CUSTOMER ARCHETYPES** |  **UDACITY LESSONS 8.1 & 8.3**

Once again, it all starts with the *Product-Market Fit* between your *Value Proposition(s)* and your *Customer Segment(s)*. Review your BMC to see what you are learning about your Value Proposition and your Customer Segments.

- **PAID DEMAND & EARNED DEMAND**

To create demand for your business, you can either pay for it, or you can earn it.

Paid Demand |  **UDACITY LESSON 8.4**

Paid demand is marketing that costs you money. It might include, for example, your logo, your website, business cards and brochures, a sign on your building, or advertising. Most businesses rely on paid demand to get started.

Earned Demand |  **UDACITY LESSON 8.5**

Earned demand happens when happy customers spread the word about your product or service. This is the best kind of demand, because it is free, but it takes time to develop.

- **MEASURING THE EFFECTIVENESS OF DEMAND CREATION STRATEGIES**

To measure the effectiveness of your demand creation strategies, we can compare the costs to acquire a customer to the amount the customer spends for your products/services over the customer's lifetime.

Customer Acquisition Costs

If you add up all your out-of-pocket marketing costs over a period of time (a year, a month, or even a day) and divide it by the number of new customers acquired during that period, you can determine your Customer Acquisition Costs (CAC).

Customer Lifetime Value

If you add up the average amount customers spend on your products and services over the life of their relationship with you, you can determine customer Lifetime Value (LTV).

Your goal is to minimize Paid Demand, maximize Earned Demand, and maximize LTV relative to CAC over time.

THE SALES FUNNEL

A Sales Funnel is a useful tool for organizing your demand creation strategies. It will help you visualize how you will get, keep and grow your customers to minimize Customer Acquisition Costs and maximize Lifetime Value.  **UDACITY LESSON 8.6**

- **GET**  **UDACITY LESSONS 8.8, 8.9 & 8.10**

How will you acquire customers? Getting customers means *notifying, acquiring, and activating*. Activation makes getting customers go *viral* (i.e., creates earned demand) by leading potential customers through a process of (1) awareness, (2) interest, (3) consideration, (4) purchase, and (5) word of mouth.

- **KEEP**  **UDACITY LESSON 8.11**

How can you keep customers once you acquire them? It takes a lot of work (and money) to get customers. Once you have them, you want to keep them. Keeping customers means reducing *churn*. In the businesses you frequent, what rewards do you receive for continuing to buy there? Punch card with freebie? Frequent flyer miles? Weekly specials? Referral discounts? Thank-you notes?

- **GROW**  **UDACITY LESSON 8.12**

Can you get your customers to buy more? Strategies for growing customers include *next sell, upsell, cross sell, unbundling, and referrals*. The idea is to increase the *LTV* (i.e., the life-time value) of your customers by reducing *churn* and increasing the ratio of *CAC* (i.e., customer acquisition costs) to *LTV*.

- **CONSIDER THE JERSEY SQUARE CASE STUDY**

 **UDACITY LESSONS 8.19 & 8.20**

FAST PITCH – CUSTOMER RELATIONSHIPS

Using your business as a case study, follow the steps below to prepare a three-minute “fast pitch” about your proposed solution. Your classmates will offer strategies to test them.

STEP 1: Take 10 minutes to jot down your assumptions about the following:

- The top three low-cost ways to get customers.
- The top three low-cost ways to keep customers.
- The top three low-cost ways to grow customers.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it’s time to get out of the building to start validating!



HOMEWORK

You have been conducting Customer Discovery interviews. You are beginning to verify your understanding of your customer’s biggest problems – their “pain points.” You have verified that the problem they want you to solve is important to them, not “it would be nice.” You are starting to understand the value proposition that will provide the gains customers are seeking. Now, we need to start thinking about ways to get the word out into your market.

1. BUILD A SALES FUNNEL

Using **WORKSHEET 4.1—SALES FUNNEL**, start organizing your ideas about how you plan to get, keep and grow customers. Think about both *physical* strategies as well as *virtual* strategies.

Physical Funnels

Many physical funnels (TV, radio, national print publications) are too expensive for a start-up. Less expensive physical channels do exist, and can be something as simple as business cards, brochures, flyers, and are especially good for local or regional businesses. Direct mail, phone solicitation,

and personal selling are all channels that fall somewhere in-between. Your physical funnel techniques depend on your industry and your business idea.

Virtual Funnels

Whether your product is digital or physical, these days every business needs an online presence. Starting to build your online presence now will give you a head start in:

- building expert status (i.e., your reputation as an expert in your field—the “go to” person)
- acquiring followers
- nurturing relationships (building community) with those followers
- testing new ideas for your value proposition

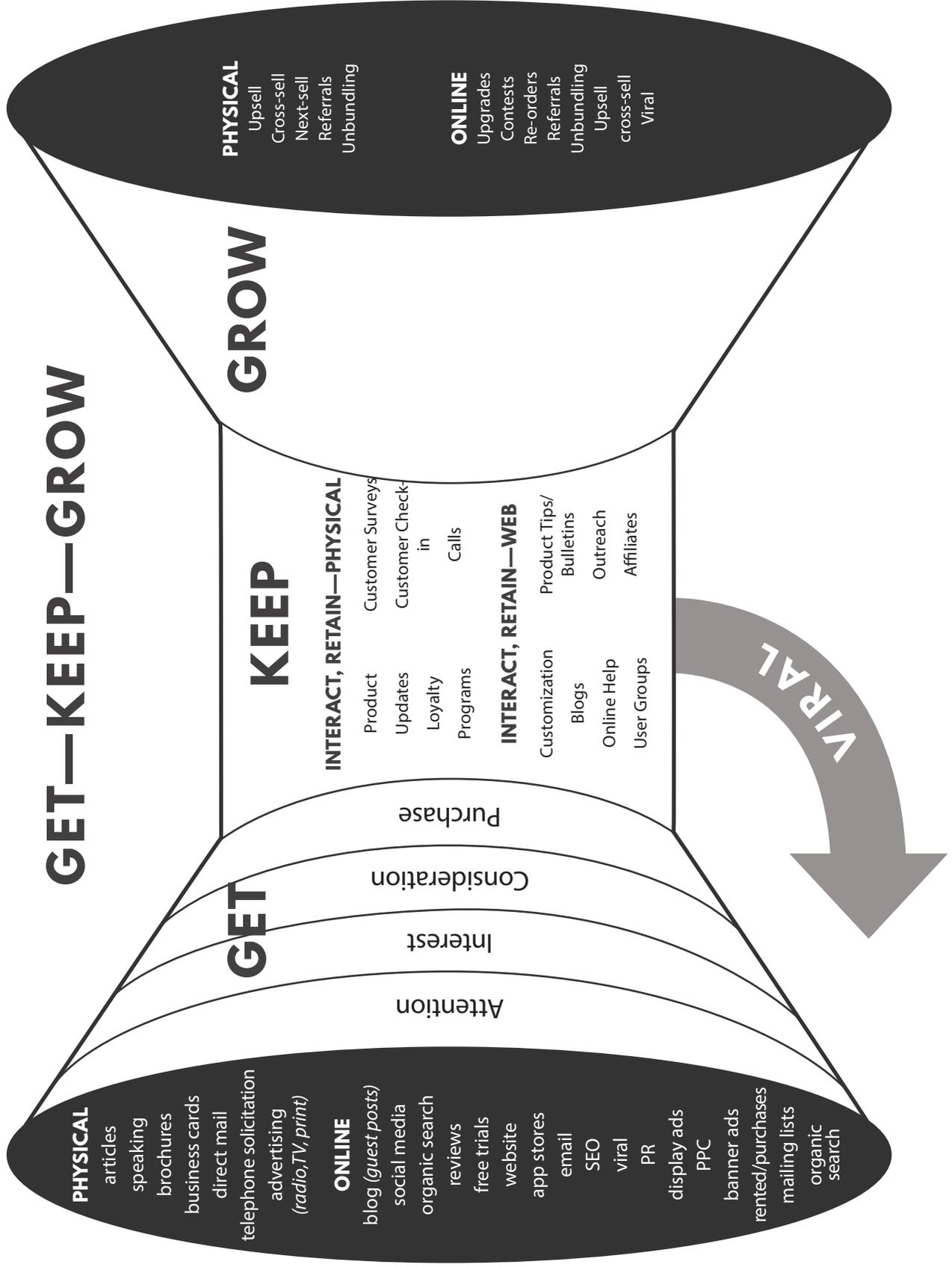
2. CUSTOMER DISCOVERY INTERVIEWS: UNDERSTANDING CUSTOMER RELATIONSHIPS

In your interviews this week, ask about how your customers find out about new products and services. Referrals? Social media? Community events? The local paper? Be prepared to share what you learned with your team at the next session.

3. LOOKING AHEAD

Feel free to preview *Lesson 5: Customer Channels* in the Udacity classroom.

WORKSHEET 4.1: SALES FUNNEL



CUSTOMER CHANNELS

In this session you will...

Learn about Customer Channels

Learn about Channel Economics

Draw a Channel Diagram

Share assumptions about your initial Customer Channels

Interview potential customers to validate planned Customer Channels



TOPICS

- LESSONS LEARNED FROM LAST SESSION
- CUSTOMER CHANNELS
- CHANNEL ECONOMICS
- CHANNEL DIAGRAMS

ASSIGNMENTS

- WORKSHEET 1.1
Business Model Canvas
Customer Segments
- MORE CUSTOMER DISCOVERY INTERVIEWS
- CHANNEL DIAGRAM

OBJECTIVES

- X Understand Customer Channels and Channel Economics.
- X Analyze the Channel Economics for your initial customer channel.
- X Develop assumptions about best initial customer channel for product distribution.
- X Update Customer Channels on your BMC to document what you are learning about the most appropriate sales and distribution strategies.
- X Conduct channel partner interviews



DISCUSSION

LESSONS LEARNED

Share the results of your get-keep-grow interviews. If you have been posting on your social media platform, share the results to date on user engagement.

CUSTOMER CHANNELS

Customer Channels = distribution. Distribution is how your products get from your company to your customer. Whether you chose physical or virtual or some combination of both, there are multiple strategies. You can't use them all. Key to success is picking one or two that will get you started.  **UDACITY LESSONS 7.1 & 7.2**

The concept of Supply Chains is closely related to Customer Channels. Supply chain: "a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer." (Wikipedia)

There is a big difference between physical channels and virtual channels.

- For a *physical* channel, you might interview wholesalers, retailers, landlords, commercial real estate agents (who often find tenants for commercial spaces). For a brick-and-mortar location, you will discover the difference between street-level storefront and second-floor office, between hip neighborhoods and suburbia, etc.

*NOTE

Part of this information is understanding what percentage markups are standard for the industry you are in. For example, in a clothing or gift store, retailers expect to sell merchandise for roughly double their cost. This is called keystone pricing. So, if you are producing clothing that you think will retail for \$100, but you can't sell it to retailers for less than \$60, you are going to have a problem.

- If your channel is *web/mobile*, your research may be online. This may include the price of an e-commerce platform, which is typically a combination of fixed monthly fees and a percentage of sales. Or fees on Amazon as a third-party reseller. If your product is digital, your channel costs would be a payment processor and shopping cart. If you can find individuals who run online businesses to interview, don't hesitate to reach out to them.

*NOTE

NOTE: Online forums can also be an excellent place to glean information and make contacts. The Warrior Forum (<https://www.warriorforum.com/>) is an online gathering of internet marketers who often share excellent, low-cost online resources. You can visit without creating an account.

As you learn more about customer channels for your business, ask yourself if you are in the right place along the supply chain. Many aspiring business owners think only in terms of retail. Is there a better, more profitable place along the supply chain for your product or service? Producing, wholesaling, distributing, selling?

CHANNEL ECONOMICS

Different channels have different economics. It's important to understand these differences. Below, we compare the channel economics of a simple business choosing a direct sales channel with the same business choosing an indirect reseller sales channel. Watch what happens!

- **DIRECT SALES**  **UDACITY LESSONS 7.8**

Let's say your business is selling a \$100 product directly to your customers. The costs to make the product (COGs) is \$33. The overhead cost for the product is \$20 for sales costs, general administrative expenses and research

and development. The product is sold at a 10% discount, so out of \$90 in total revenue, you make a profit of \$37 (\$100 sales price discounted to \$90, minus \$33 for COGs, minus \$20 for SG&A = \$37 profit). Compare this to the analysis for indirect sales (see below).

- **INDIRECT SALES**  **UDACITY LESSONS 7.9**

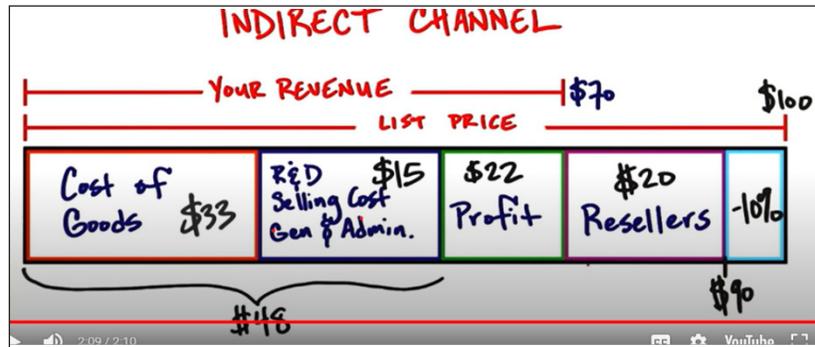
Let's say, instead of hiring your own sale team, you chose sell your \$100 product indirectly through a reseller. The cost to make the product (COGs) is still \$33. But the overhead costs for the product goes down, because you don't have to pay for a sales team. So, let's say the SG&A goes from \$20 to \$15. Now, let's say the reseller will pay you \$70 for your product so they can make \$20 in profit after a 10% discount. That means our profit is now just \$22, because we're selling through someone else. So, our selling costs are lower, but we're giving a chunk of our profit to the reseller instead of giving it to our sales team. On the other hand a reseller arrangement might increase our sales volume and more than make up for the lower profit margin.



Using the examples above, try to map out the economics for your initial channel and compare it to the economics of other potential channels.

FAST PITCH-CUSTOMER CHANNELS

Using your business as a case study, follow the steps below to prepare a three-minute “fast pitch” about your proposed Customer Channels. Your classmates will offer strategies to test them.



STEP 1: Take 10 minutes to jot down your assumptions about your initial Customer Channel and the top three reasons you selected it instead of others.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it's time to get out of the building to start validating!



HOMEWORK

1. BUILD A CHANNEL DIAGRAM

Once you've selected your initial Customer Channel, make a sketch of it on a blank piece of paper to visualize the supply chain and where each business or person is on the path between your business and the user of the product. Annotate it with the channel economics, as you understand them.

2. ANALYZE CHANNEL ECONOMICS

Using the examples discussed earlier, analyze the Channel Economics of your initial Customer Channel. Is there another type of Customer Channel that would work better?

3. CHANNEL PARTNER INTERVIEWS

Contact potential channel partners and interview or research to confirm your hypotheses about your channel economics (i.e., the costs to get your product to your customer, and your resulting profit). You are experienced enough at this point to script your own interview and design any required forms. You are gathering as much information as possible about how your channel operates. Be prepared to share what you learned with your team at the next session.

4. LOOKING AHEAD

Feel free to preview *Lesson 6: Revenue Models* in the Udacity classroom.

REVENUE MODELS

In this session you will...

Learn about Revenue Models

Share your assumptions about your Revenue Models

Interview potential customers to validate your Revenue Models

Start building a high-fidelity MVP ready for the market



TOPICS

- LESSONS LEARNED FROM LAST SESSION
- REVENUE MODELS
- HIGH FIDELITY MVP

ASSIGNMENTS

- WORKSHEET 1.1
Business Model Canvas Customer Segments
- MORE CUSTOMER DISCOVERY INTERVIEWS

OBJECTIVES

- X Understand your Revenue Model.
- X Update Revenue Models on your BMC to document what you are learning about the most appropriate sales and distribution strategies.
- X Conduct more customer discovery interviews.
- X Develop a High Fidelity MVP.



DISCUSSION

REVENUE MODEL: HOW YOU MAKE MONEY

THREE COMPONENTS OF REVENUE MODEL

 UDACITY LESSONS 9.1, 9.2 & 9.3

A revenue model is just a model of how your business will make money. Not how much, but how. There are three components:

- **Value** What are your customers paying for?
- **Strategy** (Revenue Streams): How will your customers pay?
- **Tactics** (Pricing): How much will customers pay?

Value is your solution, which we describe in Value Proposition on your BMC. Although Pricing Tactics are really part of your marketing strategy, this section will focus on validating your Pricing Tactics and your Revenue Streams.

DRILL DOWN ON STRATEGIES: TYPES OF REVENUE STREAMS

 UDACITY LESSON 9.5

Revenue strategies can be *direct* or *ancillary*. Ancillary includes rental, usage fee, subscriptions, licensing, intermediation fees, or advertising fees.

DRILL DOWN ON PRICING TACTICS

You price and pricing are really part of the “Four P’s of Marketing” (Product, Price, Position and Promotions). Here, we are not so interested in learning how much your customers will pay, but rather how they will pay and the pricing tactics you will use.

Pricing tactics include:

- **Value pricing:** based on the value delivered by the product rather than on costs.
- **Competitive pricing:** based on the price of competing products, usually in existing markets
- **Volume pricing:** encourages larger or repeat purchases, in a variety of industries.
- **Portfolio pricing:** for companies with multiple product and services. Some products may have high markups and some with low markups.

- **“Razor/Razor blade” model:** part of the product is free or low-cost, but prompts repeat, profitable purchases. (Example: the cost of ink-jet printers vs. the cost of ink cartridges).
- **Subscription:** magazines and book-of-the-month club models, this is not popular on web products and services.
- **Leasing:** lower cost of entry for customers, and provides stream of earnings for company.
- **Product-based pricing.** Usually used for physical goods, based on cost + markup



DISCUSSION

FAST PITCH–REVENUE MODEL

Using your business as a case study, follow the steps below to prepare a three-minute “fast pitch” about your proposed Revenue Model. Your classmates will offer strategies to test them.

STEP 1: Take 10 minutes to jot down your assumptions about your Pricing Tactics and your Revenue Streams.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it’s time to get out of the building to start validating!

1. CONTINUE CUSTOMER DISCOVERY INTERVIEWS

This week, focus on validating your Pricing Tactics and your Revenue Streams. Remember, you’re making a bet with yourself. You’re guessing that X number of people will agree to pay \$Y when you present your product or service. These interviews will follow the “Solution” interview format, offering your MVP at the price you’ve determined. After you make the offer, listen to the response. Wild enthusiasm? Resistance? Learn as much as you can. Do you get the number of sign-ups/sales you hypothesized? If not, were you able to discover why? Be prepared to share what you learn with your team at the next session.



HOMEWORK

2. BUILD YOUR HIGH FIDELITY MVP

“The MVP is the smallest possible group of features that will work as a stand-alone product while still solving at the “core” problem and demonstrating the product’s value.” (STARTUP OWNER’S MANUAL)

For the last session of this course, you will present your plan for a ‘high-fidelity’ minimum viable product--a “version 1.0” of your product. How can you create a simple, low-cost product or service that will solve a core problem for your customer, and test your understanding of the solution? Something with which you could actually make a sale?

You came into this course with an idea for your business. Throughout this course you have been refining that idea. Your MVP will evolve, as well. This is just to get you thinking about how you might create an MVP that is an actual product/service/site that you could use to actually create initial sales. Think simple, small and doable.

The point is not to make a profit. Discovering your costs isn’t the purpose of this exercise. The point is to see if you have identified a solution for your customer’s problem that is compelling enough to be sold.

3. LOOKING AHEAD

Feel free to preview *Lesson 6: Partners, Activities, Resources and Costs* in the Udacity classroom.

THE LEFT SIDE OF THE CANVAS

In this session you will...

Summarize key resources needed to operate your business

Summarize key cost drivers for business operation

Learn about partnerships and how they can help provide resources



TOPICS

- **LESSONS LEARNED FROM LAST SESSION**
- **RESOURCES**
- **COSTS**
- **PARTNERSHIPS**

ASSIGNMENTS

- PARTNER DISCOVERY INTERVIEWS**
Business Model Canvas Customer Relationships
- PREPARE FINAL PRESENTATION—PIVOT OR PERSEVERE**

OBJECTIVES

X Identify key resources and cost structure

X Explore potential partnerships



DISCUSSION

RESOURCES & COSTS

Key Question: What are the most important assets you need to make your business work?

1. FOUR TYPES OF RESOURCES UDACITY LESSON 11.1

PHYSICAL UDACITY LESSON 11.2

- Facilities
- Products/Service Suppliers

FINANCIAL UDACITY LESSON 11.3

- Savings
- Friends, family and fools
- Crowdfunding
- Angels
- Capital for scale (venture capital, corporate partners, bank finance)

HUMAN UDACITY LESSON 11.5

- Qualified Employees
- Teachers and Coaches: people who teach subjects or coach skills
- Mentors: people who help founders with personal development
- Advisers: people you need to advance your company (build an advisory board)
- NOT INVESTORS

INTELLECTUAL UDACITY LESSON 11.7

- Trademarks
- Copyrights
- Patents
- Trade Secrets

2. COSTS UDACITY LESSON 11.10

Here we are looking for the cost structure for the business. Not specific cost projections, but a sense of the cost key costs driving the business. Is it rent? Is it employees? Is it inventory or other COGs? General Rule: costs must be less than revenue (eventually).

PARTNERSHIPS

1. DEFINITION UDACITY LESSONS 10.1 AND 10.3

The term “partnerships” just means other people and company’s your business needs to be successful. Partners (1) have shared economics, (2) are mutually beneficial (win-win), (3) are co-developers, and (4) have common customers.

Partnerships might be between two entities of equal size (symmetrical partnerships), but they can also be a small startup partnering with a big business (asymmetrical partnerships) when a startup is ready to bring its product to the mainstream.

2. PURPOSE UDACITY LESSON 10.5

Partners = **RESOURCES!!** When you’re ready to reach beyond your “*early-vangelists*” partners can help you reach *mainstream customers* by:

- Faster time to market
- Broader (more complete) product offering
- More efficient use of combined capital
- Leveraging unique customer knowledge or expertise

Partners can help you build the *complete solution*, allowing you to focus on your core product while surrounding your product with a cloud of complementary elements (e.g., installation, training, customer service, maintenance, etc.).

3. TYPES OF PARTNERS

Strategic Alliances UDACITY LESSONS 10.6 & 10.7

Example: Starbucks + Pepsi = Frappacino

Example: iPod + Recording Labels = iTunes

Joint Ventures UDACITY LESSONS 10.8 & 10.9

Joint business development and joint promotion

Example: Microsoft Window + Intel = “wintel” PCs (“Intel Inside”)

Coopetition  **UDACITY LESSON 10.10**

When competitors come together to raise awareness for mutual benefit

Example: Trade associations and trade shows

Key Suppliers  **UDACITY LESSON 10.11**

Outsourcing (e.g., manufacturing, sales, accounting)

Direct suppliers (e.g., of components or raw materials)

4. PARTNERSHIP RISKS  **UDACITY LESSONS 10.13 TO 10.16*****Most Partnerships Fail (Eventually)!!***

- No clear ownership of customer or vision
- Churn in key personnel
- Intellectual property issues (esp. with developing countries)
- Power differential = **LOSS OF CONTROL** (go for sales deals, not investments)
- Difficult to change or unwind when no longer useful

FAST PITCH–PARTNERSHIPS

Using your business as a case study, follow the steps below to prepare a three-minute “fast pitch” about your potential partners.

STEP 1: Take 10 minutes to jot down your assumptions about potential partnerships.

STEP 2: Take 3 minutes to share your assumptions with your classmates.

STEP 3: Your classmates will have 7 minutes to propose experiments to test your assumptions.

Now, it’s time to get out of the building to start validating!



HOMEWORK

1. THIS WEEK, MAKE YOUR INTERVIEWS WITH POTENTIAL PARTNERS.

Remember to be polite and professional. Don't ask questions about their income or margins. Gather cost information, but also leave time to gather whatever wisdom they can offer about the industry and business.

2. LOOKING AHEAD:

- In the next and final session, be prepared to talk about the “before and after”—i.e., how your BMC has changed based on what you've learned.
- Be ready to answer the question, “Pivot or Persevere?” If pivot, what new learning do you need to validate?
- See if you can create a high-fidelity MVP to present at the final session. Even if you have decided to pivot, prepare a HFMVP that will allow further learning about your revised value proposition.

PIVOT OR PERSEVERE

In this session you will...

Share key lessons you've learned from the course and your homework.

Explore how the BMC can be used to write a business plan.

Talk about next steps.



TOPICS

- **LESSONS LEARNED FROM LAST SESSION**
- **BMC & BUSINESS PLAN**
- **NEXT STEPS**

ASSIGNMENTS

- Schedule time with your business advisor to plan next steps.*

OBJECTIVES

- X Identify next steps*



LESSONS LEARNED

Class members will present their final presentations reflecting on the evolution of their business idea and covering:

1. How your Business Model Canvas has changed based on what you've learned.
2. Answer the question, "Pivot or Persevere?" Is this business opportunity worth pursuing? If not, what new learning do you need to validate? If yes, what is your next step?
3. Have a high-fidelity MVP to present at the final session. Even if you have decided to pivot, prepare a HFMVP that will allow further learning about your revised value proposition.

WRITING A BUSINESS PLAN

How do you integrate your validated learning with a traditional business plan? If you write a business plan that is based on what you've learned, it will have a much better chance of surviving "first customer contact," because it will be describing things that have already happened.

If writing a business plan is your next step, you've come a long way towards creating a business plan for a business that works. The following chart show the information you've gathered and where it would go on a typical business plan (drawn from sba.gov):

VALIDATED LEARNING	BUSINESS PLAN SECTION
Business Plan Model Canvas	Company Description
Customer Discovery -Problem Interviews -Solution Interviews -Customer Segments	Market Analysis
Revenue Model Resources, Activities and Costs Partnerships	Organization & Management
Solution Interviews Channels High Fidelity MVP	Service or Product Line
Customer Relationships	Marketing & Sales
Updated Financials	Funding Request
Revenue Model	Financial Projections
A Summary of all your Insights to date	Executive Summary

WRAPPING IT UP

1. KEY TAKE-AWAYS UDACITY LESSON 11.11

A key take way from this course is to focus on metrics that matter. Not financial projections, but:

- Value proposition (market type, size of opportunity, your potential share, etc.)
- Customer relations (get-keep-grow strategies, conversion rates, CAC, LTV, etc.)
- Market type (existing market, or new market)
- Channels and channel costs
- Revenue model and streams
- Operating cost structure and “burn rate”

2. WHAT'S NEXT UDACITY LESSON 11.15

- Make a lessons-learned presentation to share with advisors and mentors.
- Use it as a prototype to continue your customer discovery process.
- Come back to it when stuck to re-evaluate your assumptions and consider pivots.
- Continue learning on www.steveblank.com and www.businessmodelgeneration.com
- Look into participating in Startup Weekend events (see www.startupweekend.org).
- Move forward to go from startup to business.
- Keep thinking and acting like an entrepreneur!!