Business Model Canvas and Customer Discovery Best Practices

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* includes material from Manuel J. Battle & Lisha Adela García
About You and Me
Six Types of Startups

• Lifestyle startup—work your passion
• Small business—make a living for you and your family
• Buyable startup—sell to a larger company for $5-$50 M
• Large company startup—innovate or evaporate
• Social startup—driven to make a difference

• Scalable startup—Born to be BIG
What a Scalable Startup Is

1. A team of people (you and others)
2. Attempting to find, formulate, and validate a business model based on a
3. Proprietary Technology* that can solve a problem for a
4. Large and rapidly growing market segment.
Not This

This.
Business Plan

• Executive Summary
• Mission
• Vision
• Project Description
• Market / Financial Justification
• Financial Projections
• Management Team
• Assumptions
• Conclusion
What Is A Business Plan?

• A document
• A set of spreadsheets
• A story

• It is all of these things, and none of them

• What you really need *before* any of these is:
A Theory of the Business

• A comprehensive, communicable, understandable explanation of
  – WHAT IS OUR BUSINESS PURPOSE?
  – HOW DO WE CREATE AND DELIVER VALUE?
  – HOW AND WHY DO WE MAKE MONEY?
UNTIL YOU GATHER **FACTS**, ALL YOU HAVE ARE HYPOTHESES

WRITE THEM **ALL** DOWN!
## The Most Important Market Entry Question: Market Type*

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<th>Existing Market</th>
<th>Resegmented Market</th>
<th>New Market</th>
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*source: *The Four Steps to the Epiphany*, Steven Gary Blank
Business Model Generation

You’re holding a handbook for visionaries, game changers, and challengers striving to defy outmoded business models and design tomorrow’s enterprises. It’s a book for the...

Business Model Generation

WRITTEN BY
Alexander Osterwalder & Yves Pigneur

CO-CREATED BY
An amazing crowd of 470 practitioners from 45 countries

DESIGNED BY
Alan Smith, The Movement

The Business Model Canvas

Key Partners
- Suppliers and Allies

Key Activities
- Required to make everything work

Value Propositions
- Products/Services that create value for a customer segment.
  - Quantitative
  - Qualitative

Customer Relationships
- Type of Relationship established with a customer
  - Channels

Customer Segments
- Groups of People or Orgs a company hopes to reach and serve
  - Common Needs
  - Common Behaviors
  - Other

Cost Structure
- All Costs Incurred

Revenue Streams
- Cash generated from customer segments

Most Important Assets
- How you communicate and reach customer segments to deliver Value Proposition

Suppliers and Allies
- All Costs Incurred
- Cash generated from customer segments
Value Propositions

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

characteristics
  Newness
  Performance
  Customization
  “Getting the Job Done”
  Design

Brand/Status
  Price
  Cost Reduction
  Risk Reduction
  Accessibility
  Convenience/Usability
Customer Segments

- For whom are we creating value?
- Who are our most important customers?
  - Mass Market
  - Niche Market
  - Segmented
  - Diversified
  - Multi-sided Platform
For **EACH** Customer Type!

The Value Proposition Canvas

- **Gain Creators**
  - Products & Services
  - *↗*

- **Pain Relievers**
  - *💊*

- **Gains**
  - ☺

- **Pains**
  - 😞

- **Customer Job(s)**

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**Strategyzer AG**
The creators of Business Model Generation and Strategyzer

strategyzer.com
Allows you to clearly articulate the problems you are solving for the client and how they interact with your product or service.

**Answers questions like:**
- For whom are we creating value?
- Who are our most important customers?
- What value do we deliver to the customer?
- What problems are we hoping to solve?
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?
  - examples
    - Personal assistance
    - Dedicated Personal Assistance
    - Self-Service
    - Automated Services
    - Communities
    - Co-creation
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?
Channels

channel phases:

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?
Adoption Model

*Everett Rogers, Diffusion of Innovations* (New York: The Free Press, 1983.)
The Target Customer

• Has the / a problem your product solves
• Knows he / she has the problem
• Feels the pain severely enough that he / she is already trying to solve it
• Has a budget to solve it
• May already have cobbled together a solution from piece parts

GO OUT AND FIND ONE!
Key Activities

- What Key Activities do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue streams?
  - categories
    - Production
    - Problem Solving
    - Platform/Network
Key Resources

- What Key Resources do our Value Propositions require?
- Our Distribution Channels? Customer Relationships?
- Revenue Streams?
  - types of resources
    - Physical
    - Intellectual (brand, patents, copyrights, data)
    - Human
    - Financial
Key Partners

- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources are we acquiring from partners?
- Which Key Activities do partners perform?
  - motivations for partnerships:
    - Optimization and economy
    - Reduction of risk and uncertainty
    - Acquisition of particular resources and activities
Revenue Streams

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

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

Fixed pricing:
- List Price
- Product feature dependent
- Customer segment dependent
- Volume dependent

Dynamic pricing:
- Negotiation (bargaining)
- Yield Management
- Real-time-Market
Cost Structure

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?
  - is your business more:
    - Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
    - Value Driven (focused on value creation, premium value proposition)
  - sample characteristics:
    - Fixed Costs (salaries, rents, utilities)
    - Variable costs
    - Economies of scale
    - Economies of scope
What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?

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?

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For what value are our customers really willing to pay?

For what do they currently pay?

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How much does each Revenue Stream contribute to overall revenues?

Who are we creating value for?

Who are our most important customers?

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?

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?

What Key Activities do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue Streams?
We are not here to “immanentize the eschaton.” We are here to solve some real problem for more than one real person. Who is the customer? What jobs are they trying to get done? What pains are they enduring in trying to get things done? What more could they get done if your product or service made doing things easier, faster, cheaper?
100
TALKING TO HUMANS

Success starts with understanding your customers

Not relatives, friends, or roommates
At least one degree of separation
Look for patterns
Prepare an interview guide
Ask open questions
Design “pass/fail” tests
Talk to one person at a time, not focus groups
Get them to tell a story
Listen, don’t talk
44 Checklists in the back cover the entire process of the Lean Launchpad methodology from setting up the Customer Discovery Team to “pivot or Proceed.”

If you follow the guidance of this book, you may or may not succeed, but you will avoid many mistakes and wasting a lot of money along the way.
Summary

• You will need a business model canvas to help you think and communicate
• It starts with a Value Proposition
• You cannot know if your Value Proposition makes sense until you Talk to Humans—LISTEN!
• Write down your assumptions—and test them!
• Perform experiments, record the results, think about what they mean.
• Use checklists for Customer Discovery, Customer Validation
• Pivot or Proceed?
Questions?
SBDC Technology Commercialization Center
Programs And Services

Mentorship

- Strategic advising
- Technology Readiness Level assessment
- Enterprise Value estimation
- Business Model Canvas design & review
- Value Proposition design & review
- Customized market research reports!
- SBIR / STTR topic search
- SBIR / STTR Proposal review and assistance
- Commercialization Readiness Level assessment

Education

- Workshops on funding, startup valuation, pitching to investors, and government funding opportunities
- Online entrepreneurial training & certification

Network Collaboration
If I can help you further, please sign up as a client of the SBDC Technology Commercialization Center and make an appointment.

Thank you!

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