



CSE3PPE / CSE5003

Professional Practices and Entrepreneurship in I.T.

Lecture 4

Semester 1 2024

Recap from last week

We started to look closely at the elements of the Lean Canvas, including

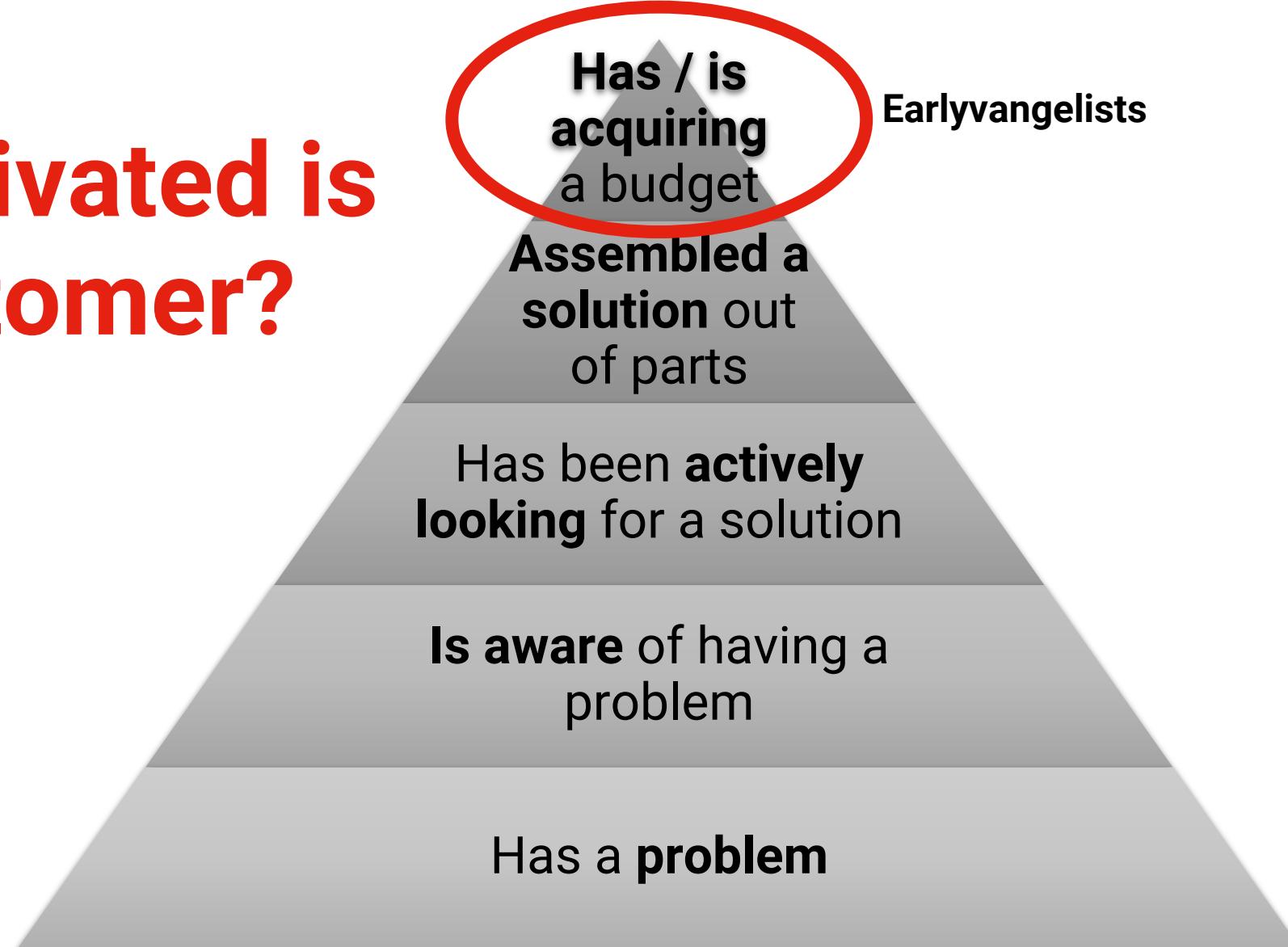
1. Identifying the problem
2. Identifying the group of customers for which this problem is most pressing
– known as the earlyvangelists
3. Discussing the importance of targeting your solutions for this customer segment.
4. Framing the value proposition (not what the product/solution does, but what benefits it provides your customers)

Recap:

Customer problems, needs or passions

- Products are sold because they solve a problem or fill a need.
 - Understanding problems and needs involves **understanding their sources**.
 - You need to discover how customers experience the problem and why (and how much) it matters to them.
- Customers will express:
- A latent problem
 - A passive problem
 - An active (or urgent) problem
 - A vision

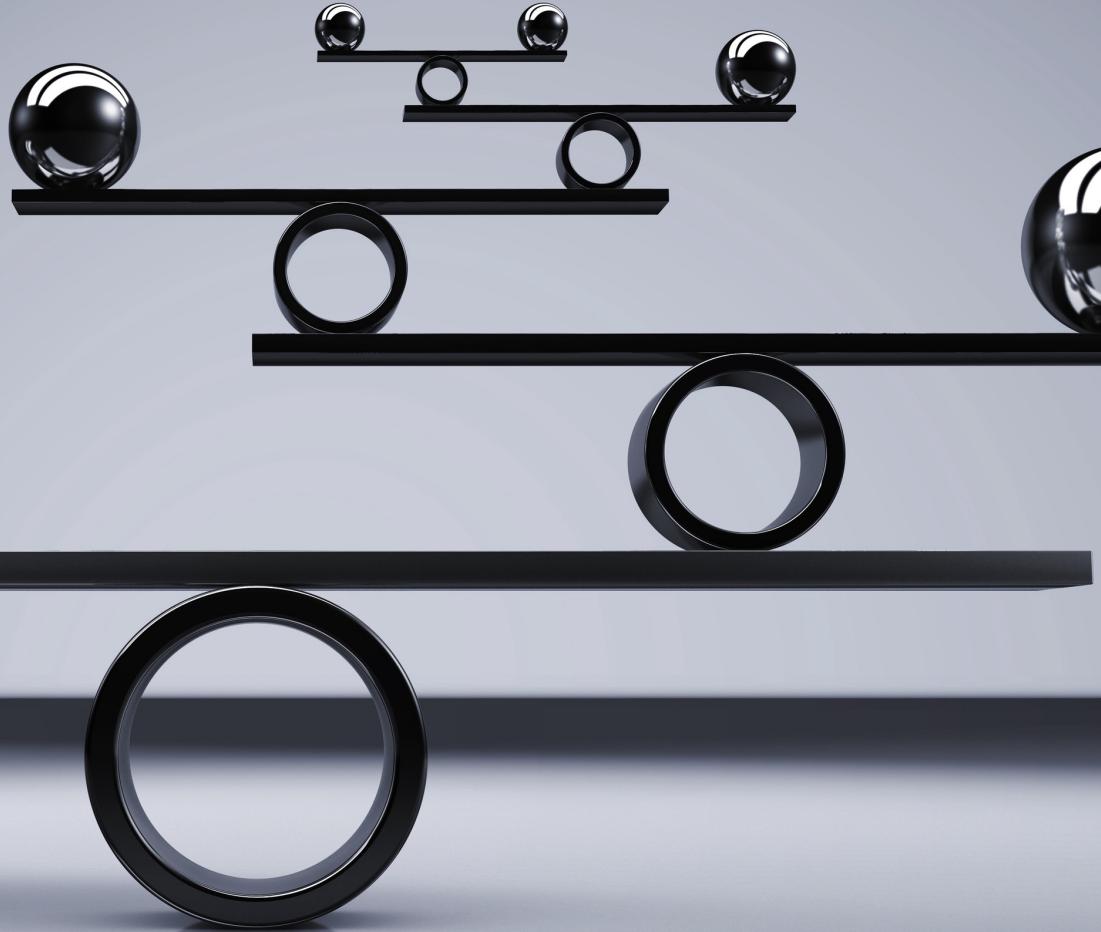
Recap: How motivated is your customer?



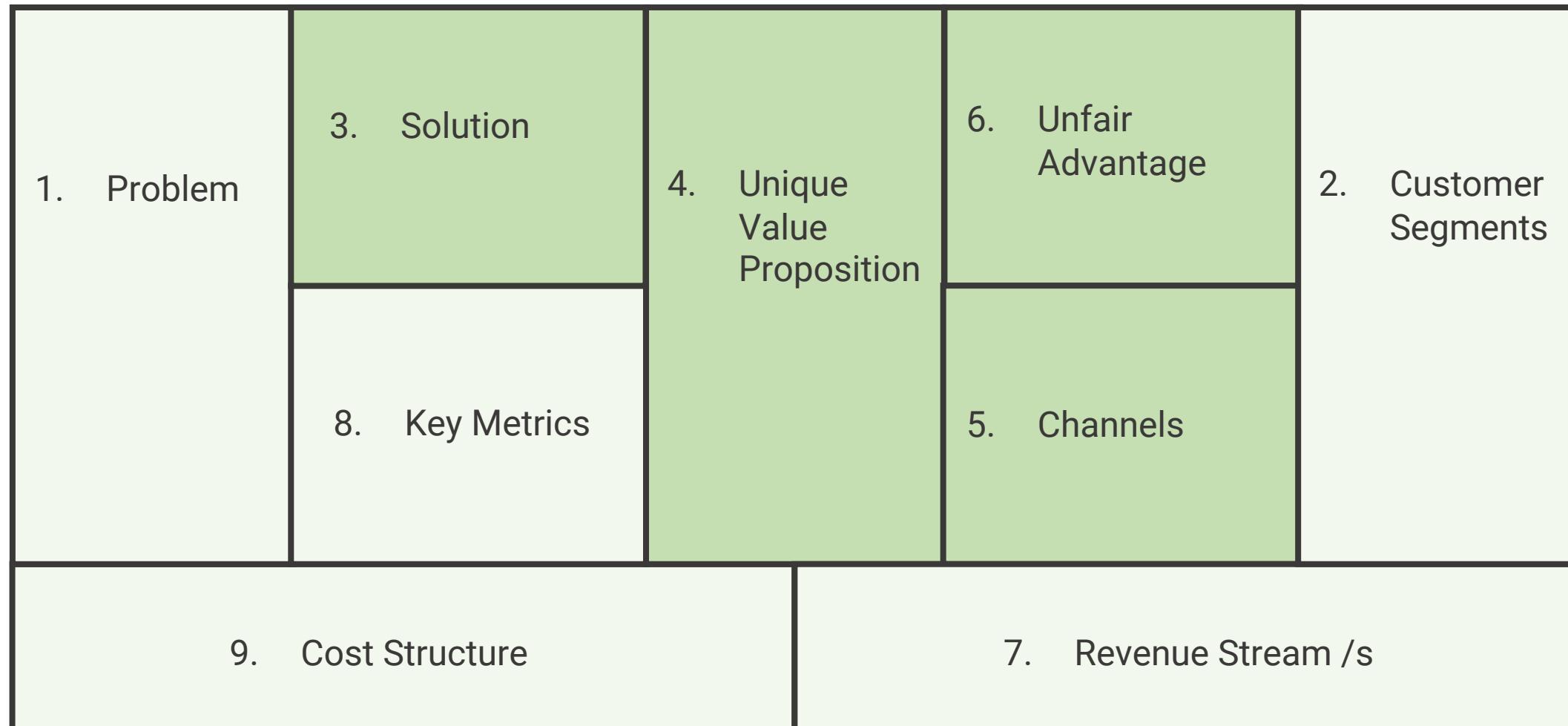
Lecture 4

The Lean Canvas

(Part 2)



The Lean Canvas



3. Solution



Getting to the solution

It comes as no surprise that start-ups often come up with a business idea or solution first, then try to retrofit this solution to a customer segment and broader target market.

Accelerator programs identify this as the leading cause of the downfall for a start-up.

Getting to the solution

A solution-first approach is problematic because it assumes we, as business founders, know what is best for our customers. *The customers just don't know it yet.*

In lean canvas, this approach is **not recommended**.

Failing to identify the key customer segment means we don't know who might potentially buy our product.

Not understanding their needs means we don't know exactly what they are looking for in a solution.

If you don't have solution that is right for your customers, **you don't have customers.**

Risks of a solution-first approach

- Increased costs from the process of developing a concept that hasn't been tested or designed for the key customer segments – heading down the wrong path
- Increased timelines from having to go back and revisit your solution phase
- Potential for not having enough start-up capital to redesign
- Lower chances of seeking finance without a proof of concept product and solution that is shown to work for customers
- Higher chance of overall start-up failure

**Solution-first
failures**

THE SUPER LEAGUE

Image source:
https://en.wikipedia.org/wiki/European_Super_League#/media/File:The_Super_League_Logo.svg

Solution-first failures



Solution-first failures



Image source: Davis (2016) <https://www.dailymail.co.uk/news/article-3748111/Box-original-Arnott-s-Barbecue-Shapes-selling-1-000-eBay-customers-backlash-against-new-bland-recipes.html>





Image source: Coles (2021) https://shopcoles.com.au/a/national/product/arnotts-original-bbq-shapes?uvtq=46abccb7e16253b0cdc3e6c5bbe6a3f0&cid=col_cpc_Generic%7CColesSupermarkets%7CPLA%7CPantry%7CAustralia%7CBroad&s_kwcid=AL!12693!3!494980809725!!u!326304616489!&gclid=Cj0KCQiAtJeNBhCVARIsANJUJ2G4PpDly0kkEc8NLgtuQ-dCUwQWcesl9s7Sbz4rRJvpU_iqsottYUoaAvjsEALw_wcB&gclsrc=aw.ds

Hungry for more examples?

<https://www.cbinsights.com/research/biggest-startup-failures/>

So how do we make sure we get the right solution?

Solution finding: design thinking ideation

A common technique for solution finding is a practice called ideation.

Ideation is commonly associated with design thinking, a process used in creative problem solving. It is very helpful in this phase.

There are some important elements to ensure an ideation works. The first is to embrace open mindedness and remove our preconceived ideas on what we think will or will not work.

One way of looking at this is to consider novelty over relevance.

Solution finding: design thinking ideation

The second is to ensure you have a diverse group of people with you to share their different perspectives and ways of looking at things.

Finally, embrace quantity over quality. Ideas and concepts will narrow as you work through those ideas, but to begin with, you need to embrace a process of lots of novel ideas in a setting where everyone feels comfortable to share their perspectives.

Design thinking - Ideate



Filtering and testing ideas

By now you have completed the customer segment phase and understood the problem from the customer's perspective.

You have identified which of your customers are earlyvangelists.

You have gone through a process of ideation: creative and judgement-free solution generation.

Now it is time to filter and test these ideas.

Filtering and testing ideas

This can be achieved by:

1. Assessing if any of your novel ideas and concepts already exist and are potentially a direct competitor
2. Researching to find if any of your ideas exist in other industries or locations
3. Testing your concept further with your customer segment.

Each of these steps are crucial to the narrowing of your ideas.

Filtering and testing ideas

Maurya (2012) provides some comforting insights on how to approach this phase of going back to your customer segments with your concepts. Key recommendations are:

- No surveys or focus groups
- Approach your engagement with customer groups as an opportunity for you to learn, not to pitch ideas to them
- Watch and listen to what they do and say, and how they might respond to your concepts.
- Ask your customer groups if they know of others you might be interested in listening to your idea/s and sharing their insights with you.

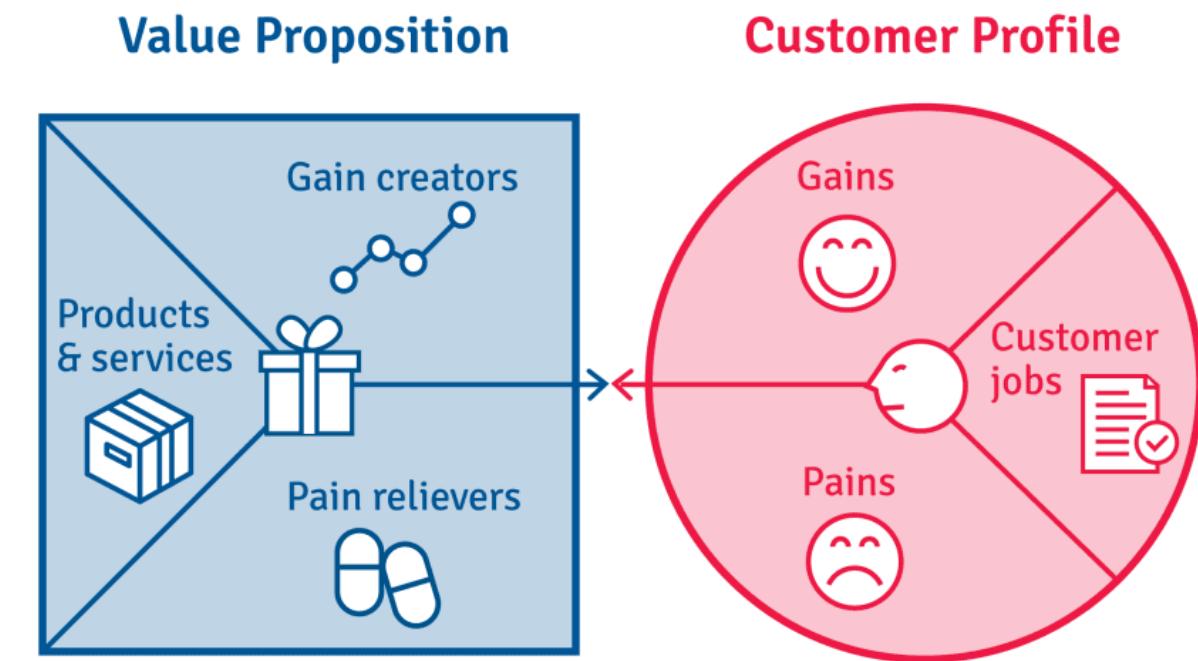
Be sure to read Chapter 6 (Maurya 2012) for more insights.

4. Value Proposition Canvas



Introducing the Value Proposition Canvas

- This is a tool to help us better understand the links between our developing product/service, and whether or not they meet the needs of our potential customers.
- It was developed by Dr Alexander Osterwalder as a framework to help ensure there is a fit between a new product and the market (those most likely to buy the product).

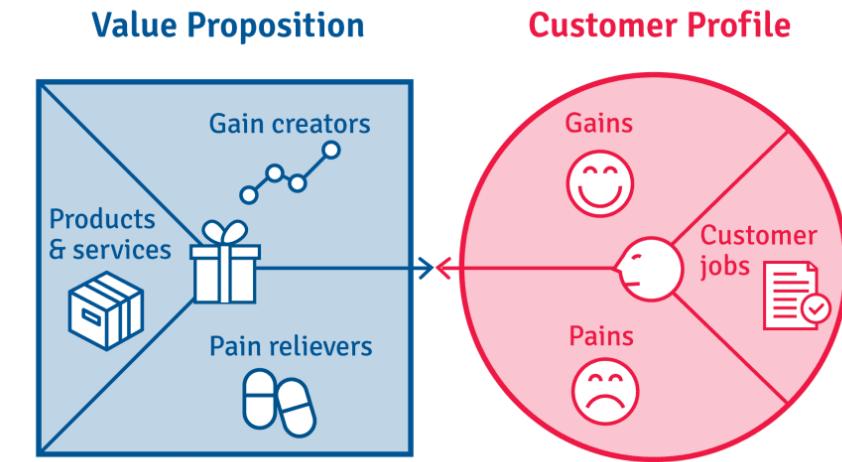


The two sides of the Value Proposition Canvas

1. The Customer Profile
2. The Value map

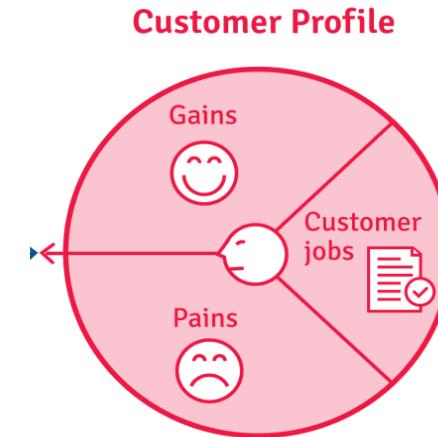
The process you follow to complete the value proposition canvas is in the same order:

1. Clarify your understanding of your customer and their needs or frustrations
2. Describe how you intend to create value for that customer (by solving their problems)



If the two sides **match** with each other then you have a **fit** in your value proposition.

Value Proposition Canvas: Customer Profile



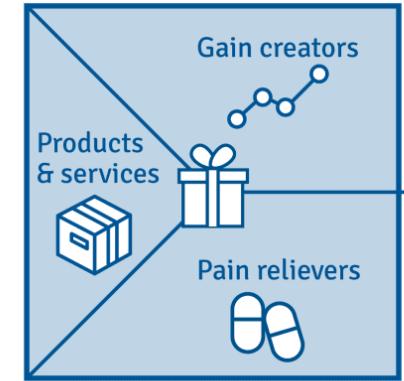
The Customer Profile should be created for each customer segment, as each customer segment will have different jobs, pains, and gains.

- Gains – the benefits which the customer expects and needs, what would delight customers and the things which may increase likelihood of adopting a value proposition.
- Pains – the negative experiences, emotions and risks that the customer experiences in the process of getting the job done.
- Customer jobs – the functional, social and emotional tasks customers are trying to perform, problems they are trying to solve and needs they wish to satisfy.

The customer profile should reflect the **existing situation**, that is, before your wonderful solution alleviates pains or creates gains for them.

Value Proposition Canvas: Value Map

Value Proposition

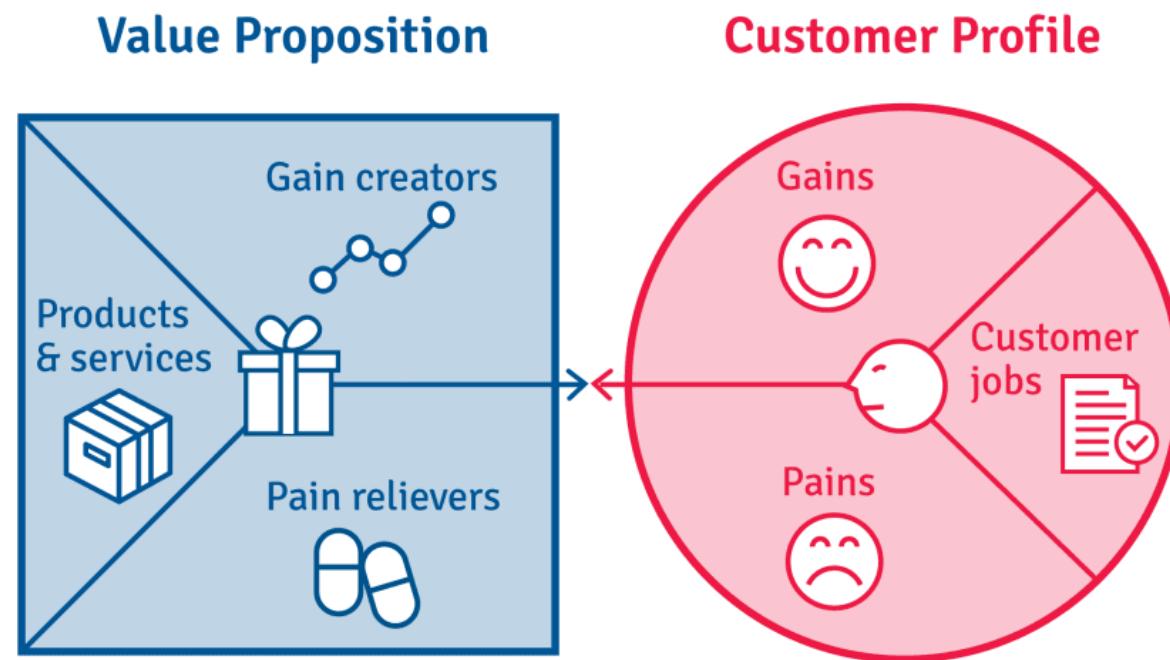


The Value Map summarises what your product or service can bring to the problems and opportunities identified in the customer profile.

- The Gain creators – how the product or service creates customer gains and how it offers added value to the customer.
- Pain relievers – a description of exactly how the product or service alleviates customer pains.
- Products and services – the products and services which create gain and relieve pain, and which underpin the creation of value for the customer.

Value Proposition Canvas

Do the two sides meet? Is it a right fit for the customer?



Activity

The **Amazon Dash** was a consumer goods ordering service which used proprietary devices and APIs for ordering goods such as laundry detergent over the Internet.

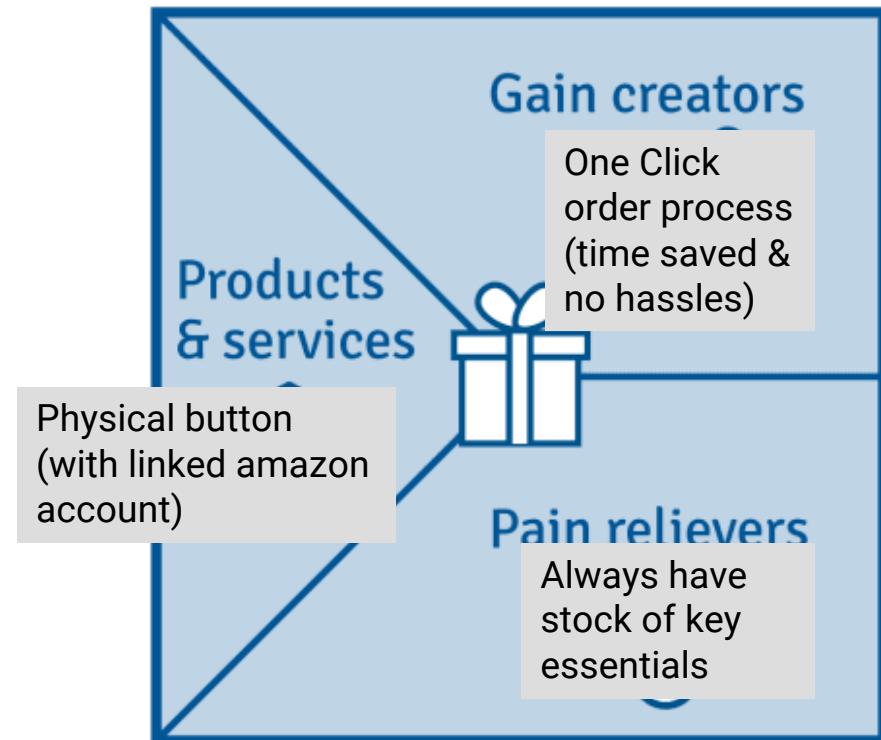
Amazon Dash Button



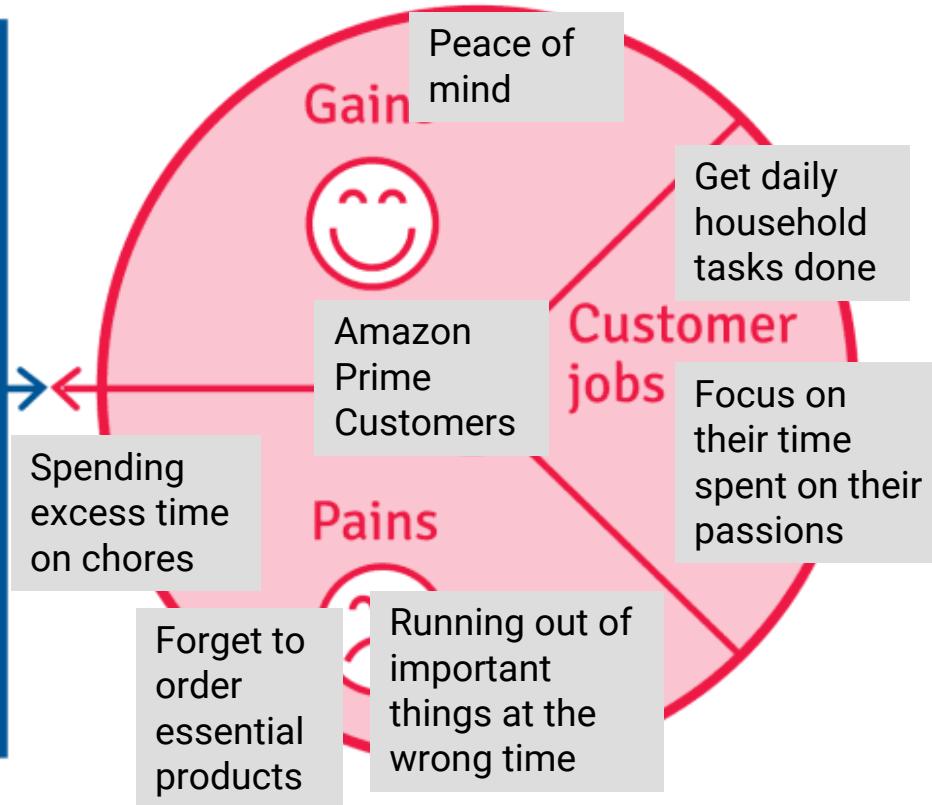
Value Proposition Canvas

Is there a product – market fit?

Value Proposition



Customer Profile



Post-script: Amazon Dash

The devices were released to the market in 2015, receiving mixed reviews from critics and reporters. In Germany, the product was deemed illegal due to insufficient information about the price of the product being given at the time of purchase.

Amazon Dash Buttons initially partnered with more than 100 brands. However the emergence of alternative ordering services such as through Alexa was thought to replace this tech.

The product was discontinued in 2019.

We could argue that the promise of value was not delivered with the implementation of the product, as the **time savings were questionable**. Customers still had to make purchases for other household items, so the time saving gained for the purchase process would not have been realised.

The customer also had no control over the price of the product, relying on Amazon to set a product price on good faith. This did not support the **gain around peace of mind**.

The Unique Value Proposition

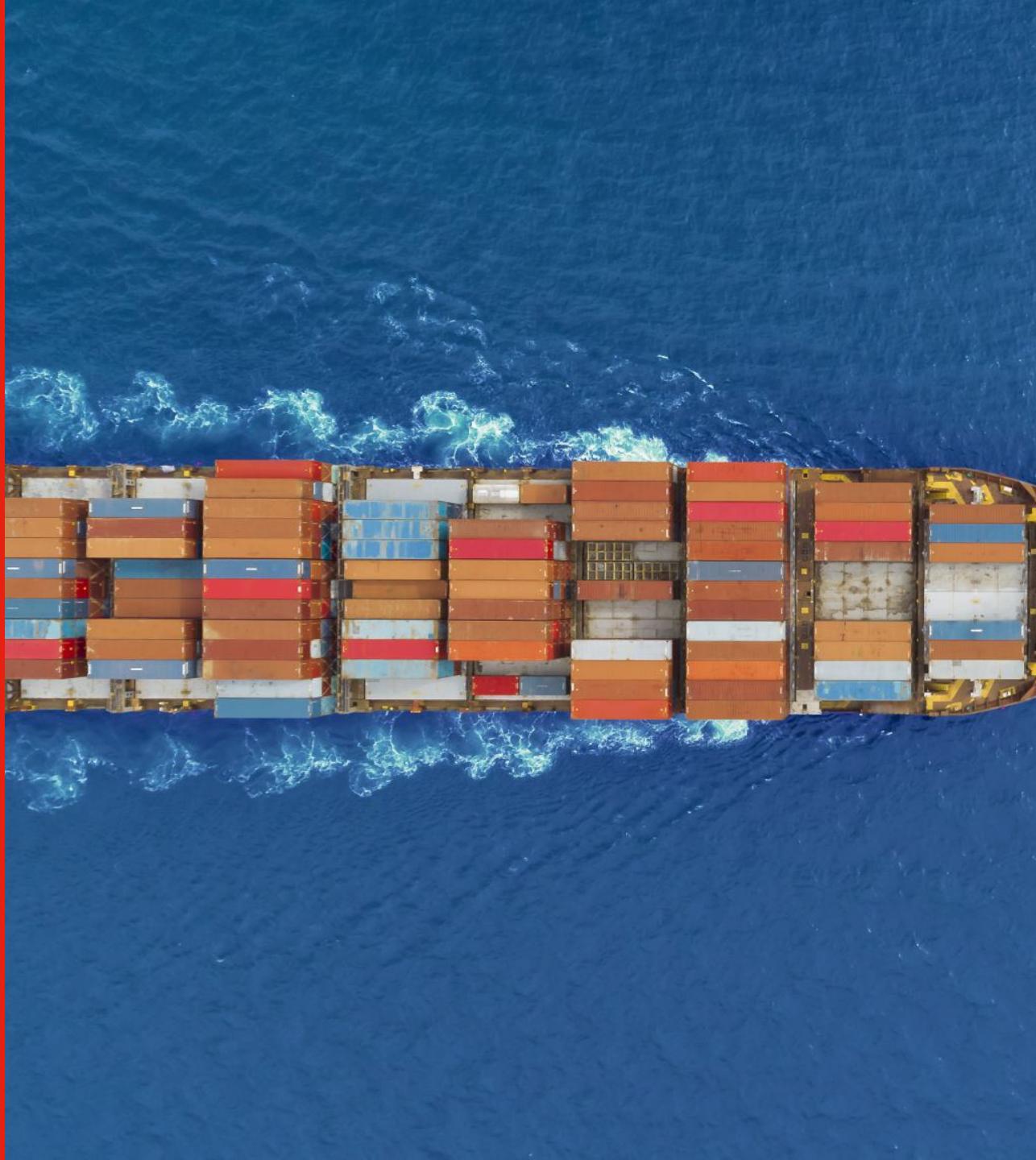
The Value Proposition Canvas is a useful tool for connecting your solution with the problems faced by your earlyvangelists.

In the lean canvas, Maurya (2012) talks of the ***unique value proposition***.

The emphasis on **unique** is to ensure new start-ups are focussed on creating different solutions to problems.

This is why it is so important to ensure you undertake competitor research as you go, checking to make sure who else has attempted to solve this, or exploring similar solutions in other industries and trying to understand if there are elements you can potentially bring across into your solution.

5. Distribution Channels

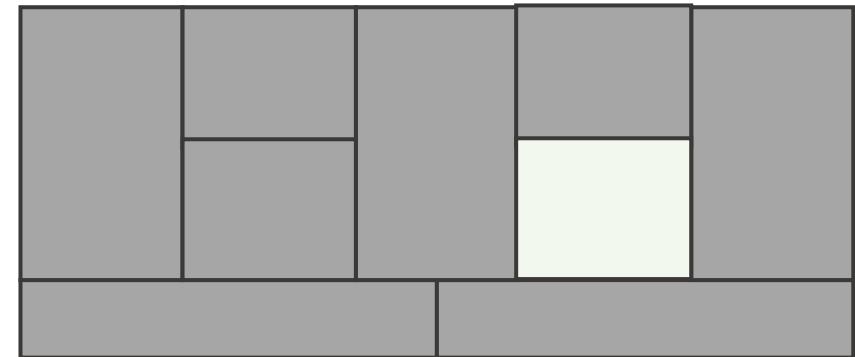


Recap: where does this fit on the Lean Canvas?

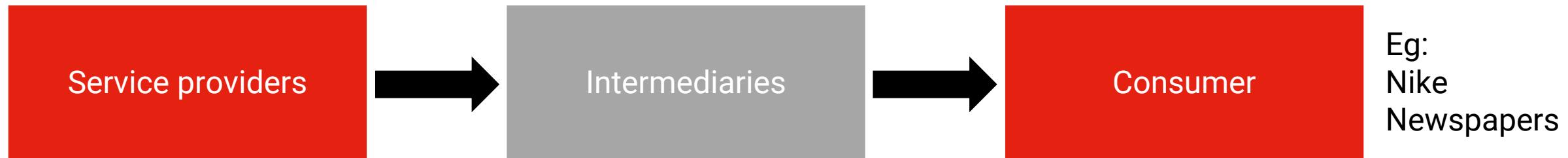
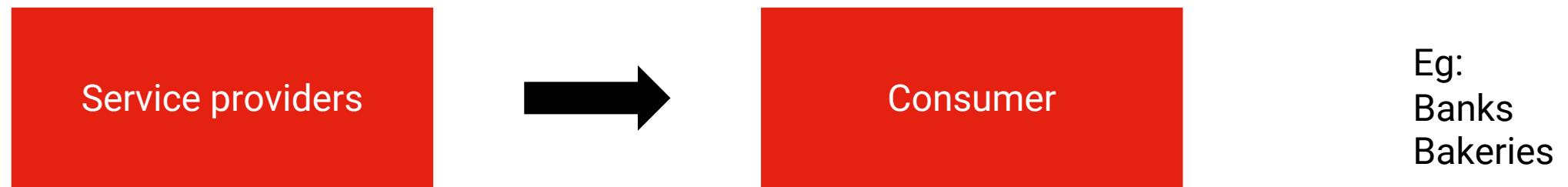
Channels:

How a company communicates with and reaches its Customer Segments to deliver the Value Proposition

- How does your product/services get to customers?



Distribution channels are typically structured in two ways:



Key questions in your distribution channel strategy

- What kind of product do you offer? (Physical/Virtual/Both)
- What is the best structure for your distribution channel? (Direct/Indirect/Licensing)
- How do you **want** to sell your product?
- Although this question is subtle, it is more important:
How does your customer **want to buy your product?**

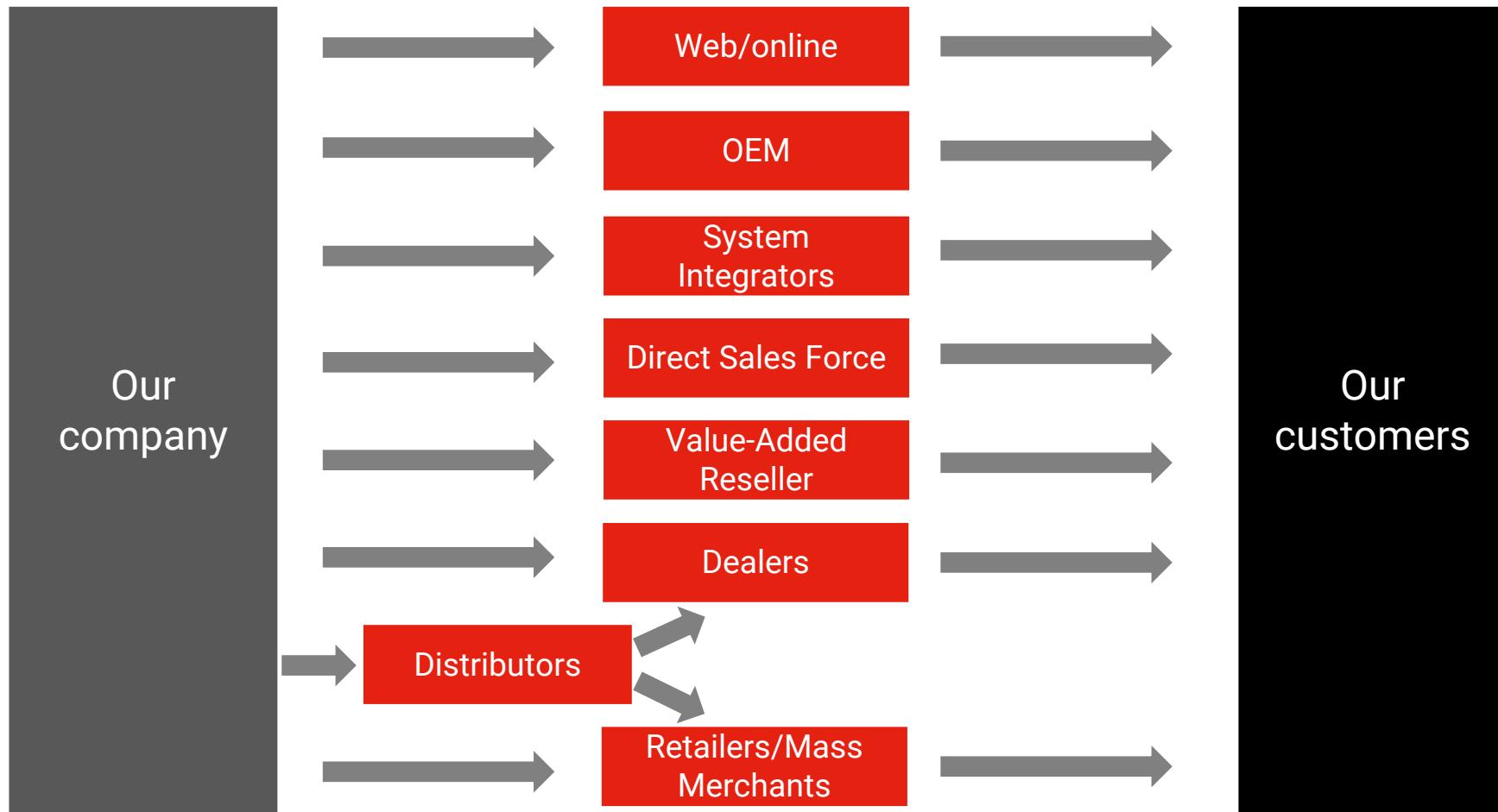
How do you want your product to get to your customer?

- Yourself
- Through someone else
- Retail
- Wholesale
- Bundled with other goods or services

How does your customer want to acquire your product from your channel?

- Same day
- Delivered and installed
- Downloaded
- Bundled with other products
- As a service

Physical Channels



Types of Channels

Direct

Indirect

Licensing

Original Equipment
Manufacturers (OEM)

Value Added Resellers (VAR)

Distributor / Reseller

Independent Sales-rep firms

Mass merchandiser

The (Physical) Channel as a Customer

Some products are embedded in others

For example, Original Equipment Manufacturers (OEMs) might buy a product to make it part of their larger product.

Example:

A PC maker buys hard drive, semiconductor, circuit boards and keyboards from different manufacturers and assembles those products into a larger and usually a more complex product.

Independent sales –rep firms

Independent salespeople represent multiple companies to a particular channel or chain, generally on a geographic basis.

Example:

Insurance broker

The (Physical) Channel as a Customer

System integrators/value-added resellers (VARs)

Unlike sales rep VARs add value to products they sell. These organizations sell principally in technology industries in B2B sales.

Examples:

Accenture & IBM

Distributor/Resellers

Mid and low volume business and consumer products are often sold through distributors-intermediaries between manufacturer and retailer.

Examples:

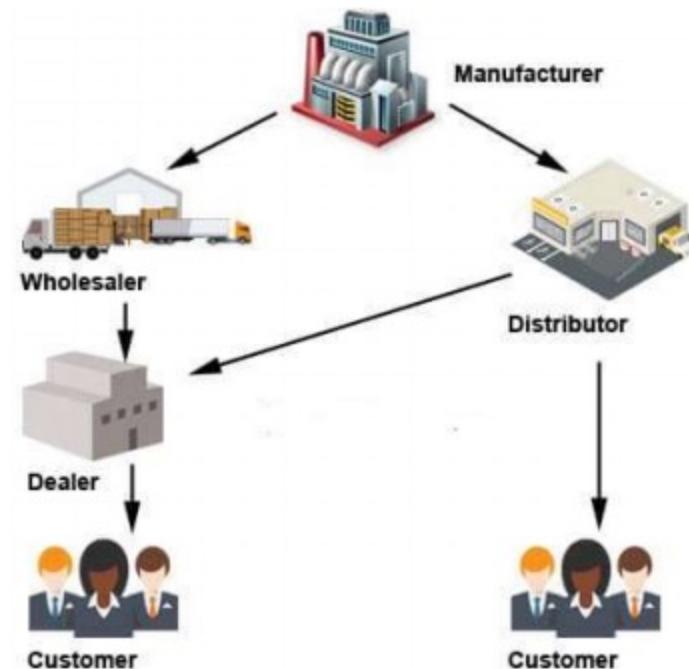
Auscomp, ACS Pacific

The (Physical) Channel as a Customer

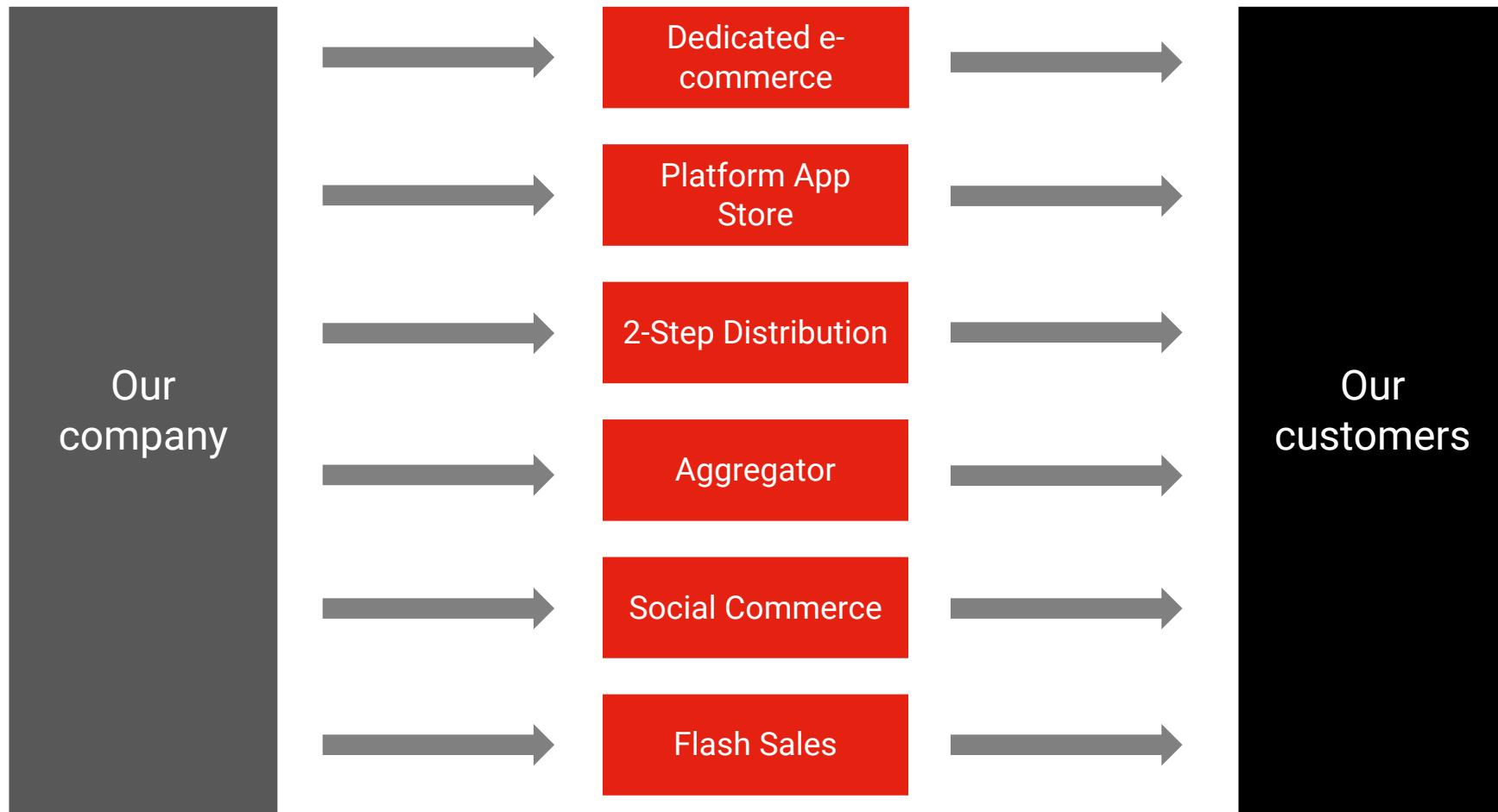
Dealers

Unlike a distributor, a dealer has **bought the product** whether they are selling to business (B2B) or consumers (B2C).

Dealers are usually independent retailers or small chains that display and promote what is generally a limited selection of products.



Web Channels



The (Web) Channel as a Customer

Dedicated e-commerce

Offers your product in your dedicated e-commerce website.

Two-step e-distribution

Can reach many more customer simultaneously selling your products on e-commerce sites that help generate awareness and demand.

Example:

Selling through Amazon.com to small e-commerce sites.

Aggregators

Online equivalent of physical shopping mall, usually a single category.

Aggregate consumers with common areas of interest and direct them through a web/mobile supermarket of products.

Example:

Zappos, LendingTree.com, cloudshowplace.com

The (Web) Channel as a Customer

Mobile-app commerce

A web/mobile app behaves in many ways like a physical channel's retail stores.

Example:

Zynga's [Farmville](#) using facebook as a platform; IOS & Android stores.

Social Commerce

Social network sites turned their platform into commerce to monetize their vast audience.

Examples:

Online gaming, Small time merchants, Young entrepreneurs

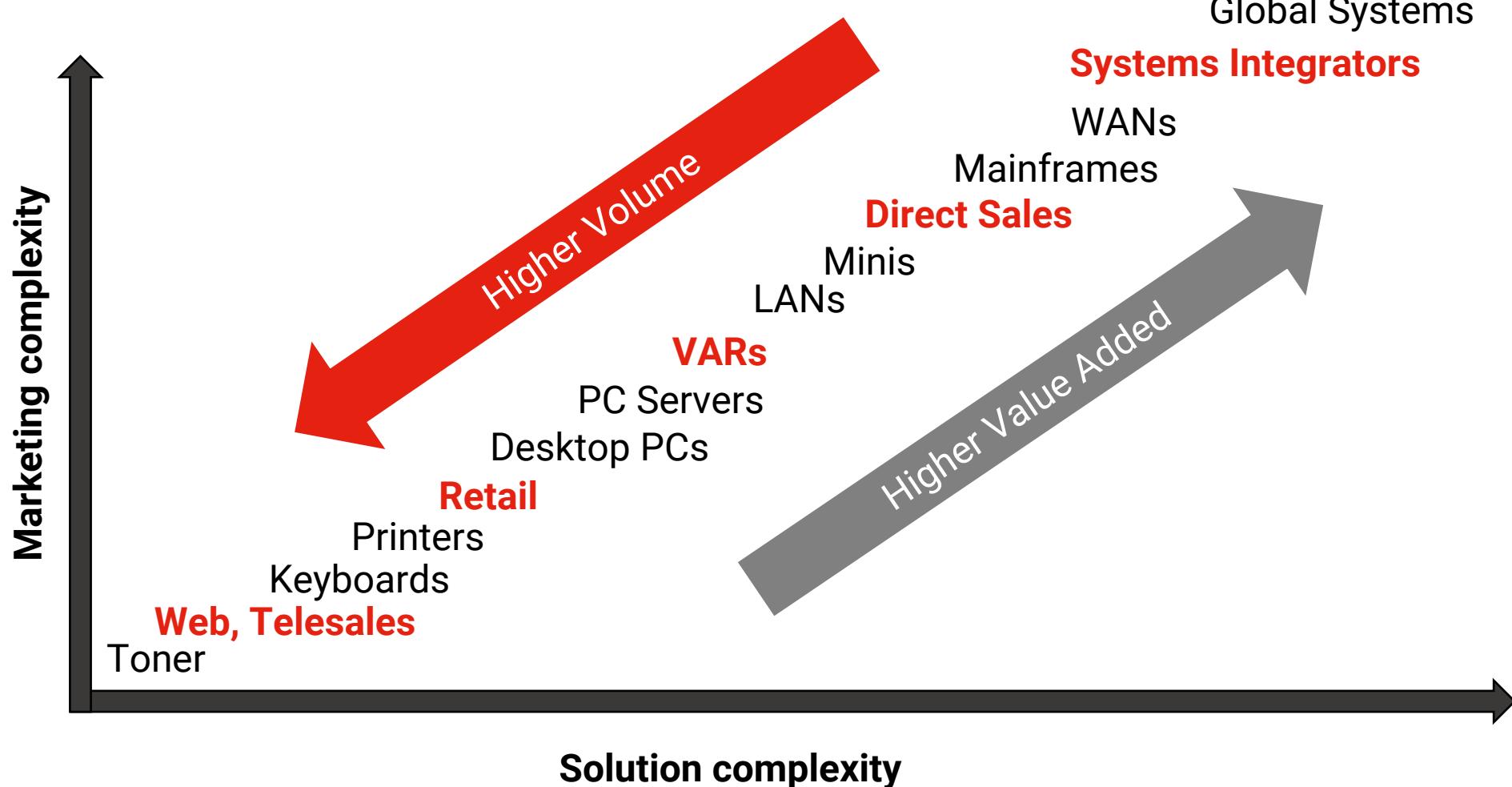
Flash sales

Offers consumers deep discounts on branded merchandise in 24 to 48 hour time periods.

Examples:

Catch of the day, Groupon

Distribution complexity



How are Channels Compensated?

- Commission
- Percentage of sales price
- Discounted pre-purchase

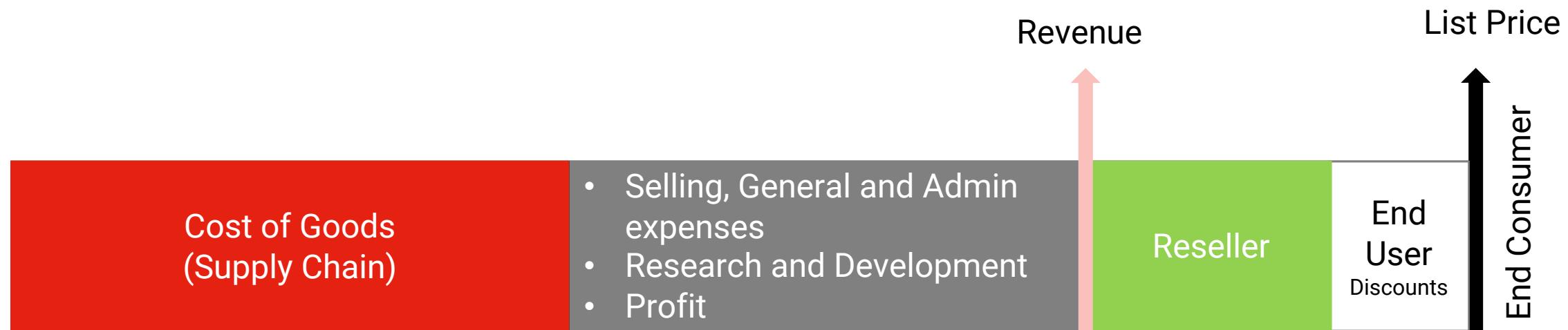
How are Channels Motivated or Incentivised?

- Money! What makes them the most?
- Training
- Marketing to the channel
- SPIF (Sales Performance Incentive Fund)

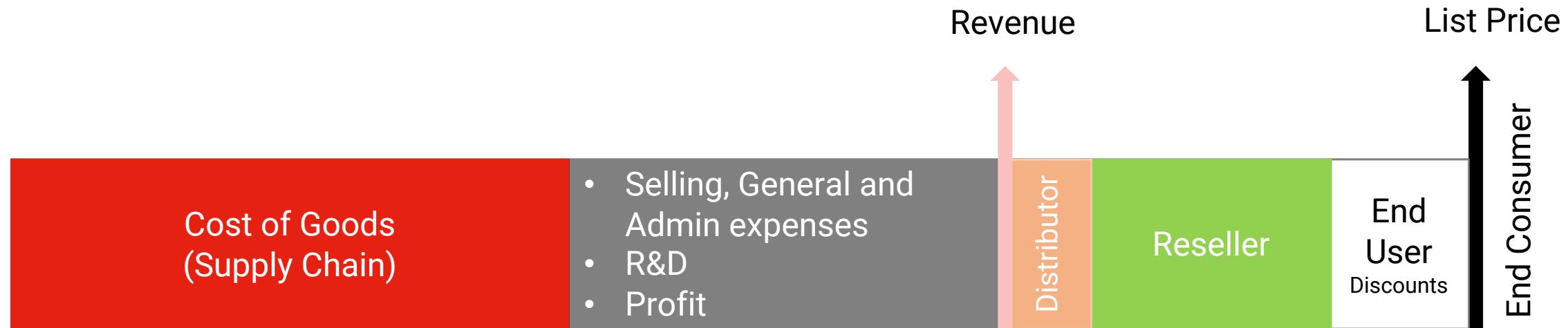
Channel Economics: Direct Sales



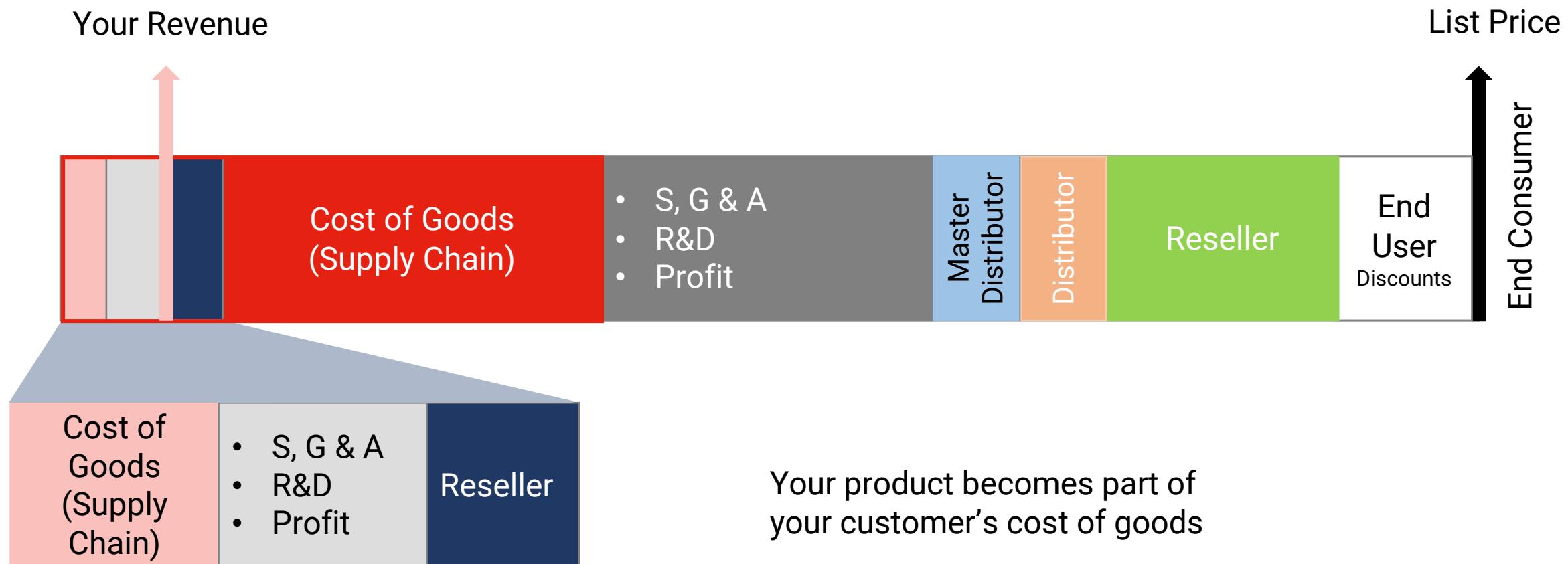
Channel Economics: Resellers



Channel Economics: Distributors/Resellers



Channel Economics: OEM or IP Licensing



Nature of Product Impacts Channel: Physical or Virtual?

- With virtual products, access to customers changes dramatically
- Logistics related to product complexity
- People as products

Channel Factor Matrix

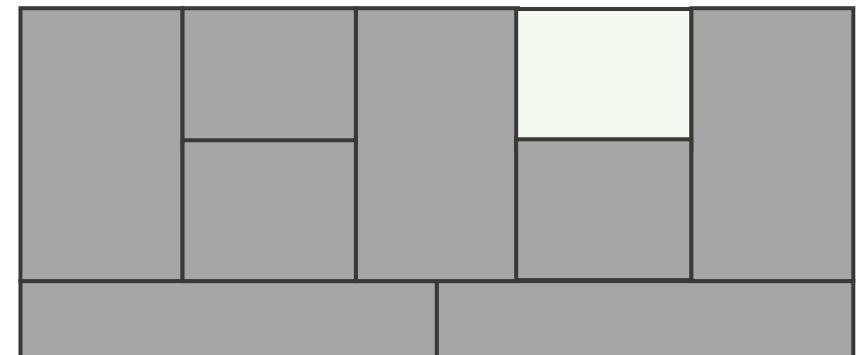
Nature of the Product	N	The Market	M
<ul style="list-style-type: none">• What is the nature of the product you are selling?• Is the product customisable?• Is the product too technical or complex to use?		<ul style="list-style-type: none">• Which are the distribution channels used by the competition?• What are the geographic locations for the intended markets and is it spread out?• Does it involve selling overseas?	
The Business	B	Legal Issues	L
<ul style="list-style-type: none">• Does this opportunity have an established distribution network? Or does one have to be built from the ground up?• How much control does the start up want over distribution?• What is the size and scope of this opportunity?		<ul style="list-style-type: none">• What are the risks if the product is sold to an inappropriate customer?• Are there limitations on the sale of the product?	

6. Unfair Advantage



Unfair Advantage

“Something that cannot be easily copied or bought”



(Cohen in Maurya (2012), p43)

Unfair Advantage

Maurya considers elements that comprise of an unfair advantage are elements that cannot easily be copied or bought, and adds to this with elements that cannot be stolen.

Protected intellectual property is one way to stop people stealing an element of your IP.

Sometimes in business you might hear the expression, 'first mover advantage'. It can be considered an advantage to be the first type of product or solution. However, the clarification here is unfair advantage. The first move advantage can easily become nullified if the idea can be easily copied, or overrun by a much larger competitor.

Unfair Advantage

Maurya considers the following examples to be unfair advantages that are more difficult to replicate:

- Insider information
- The right “expert” endorsements
- A dream team
- Personal authority
- Large network effects
- Community
- Existing customers
- SEO ranking

(Maurya 2012 p43)

Importance of Unfair Advantage

Your unfair advantage is a business asset that can be used to:

- Seek quality feedback on your ideas and solutions
- Be endorsed by someone with a larger reach
- Work as a team effectively and collaboratively
- Demonstrate to potential investors that you have what it takes to make your concept work and are therefore deserving of their money

For further insights around how to position your unfair advantage, read Maurya (2012) pp42-44.

Additional Reading

- Chapter 6 from the subject prescribed text, Running Lean (Maurya 2012)
- This video series by the Fitzroy Academy provides an excellent overview of the concepts covered today:
 - Unfair advantage – Lean, 9 of 10 (2019) <https://youtu.be/TkivEsFCrEo> (9 mins 32)
 - Testing the problem – Lean, 3 of 10 (2019) https://youtu.be/XO_cSktKaDA (8 mins 46)
 - Problem solution fit – Lean, 4 of 10 (2019) https://youtu.be/OP_mjxWwU1o (8 mins 03)
 - Early adopters and channels – Lean, 5 of 10 (2019) <https://youtu.be/letoo21qHtY> (8 mins 55)

Thank you