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How to run business model experiments: from design to validation

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Business Model Innovation: Design, Validate, Scale

Business Model Innovation can happen in diffent time-perid or development phaes of a business idea:

- ***Business Model Design***: a process of creating a first novel business model (NB: Novelty is always a relative concept: it can be novel to the firm or to the market)

- ***Busienss Model Validation***: a process of validating, testing the first novel business model (or «designed BM»)

- ***Business Model Scaling***: a process of scaling the validate business model, by increasing (exponentially) the customer base
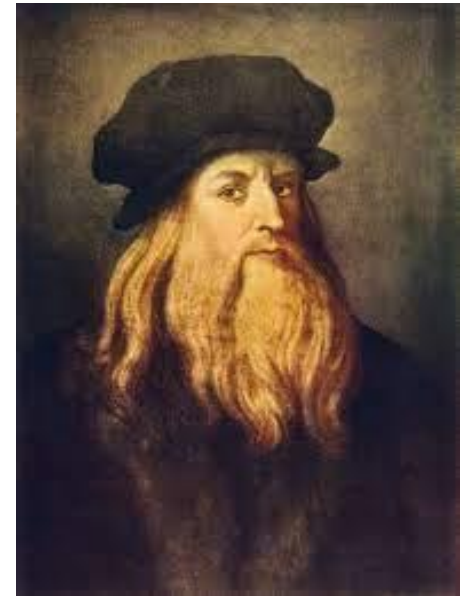
Business Modeling
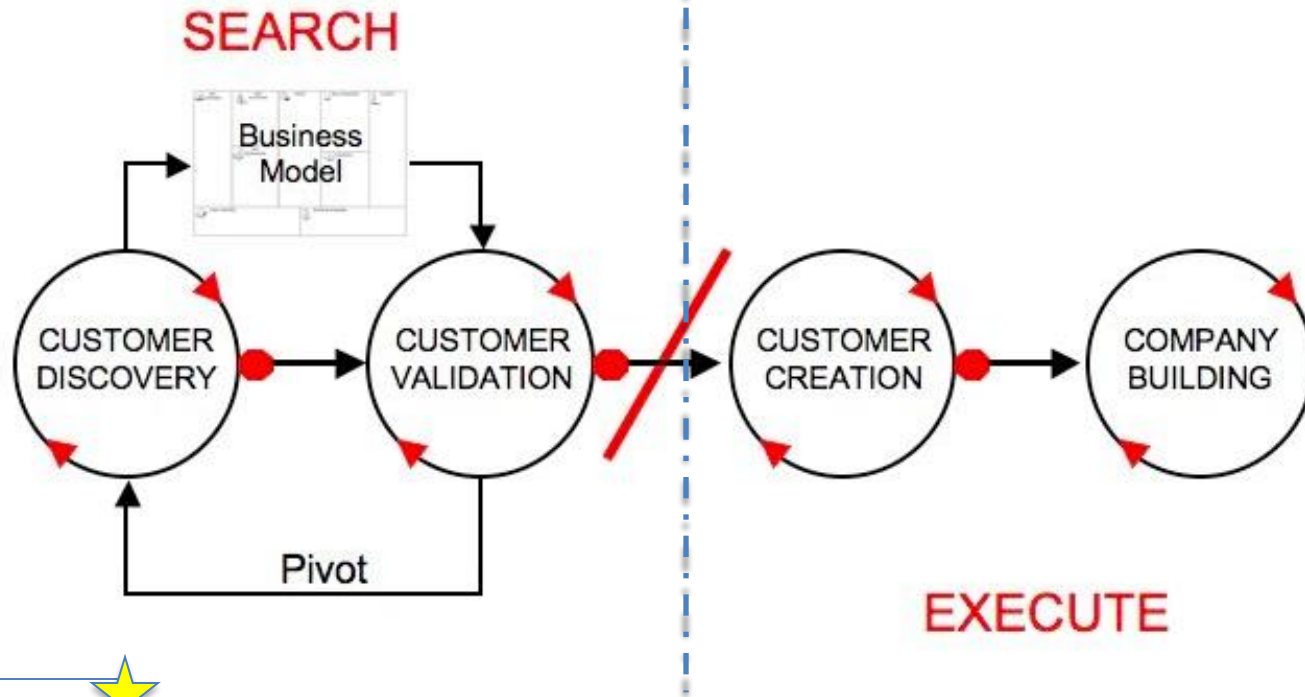
Design → Validate → Scale

LEAN STARTUP

What is Lean Startup?

Why so diffused nowadays?

"Get out of the building"

SEARCH

Business Model

CUSTOMER DISCOVERY

CUSTOMER VALIDATION

CUSTOMER CREATION

COMPANY BUILDING

Pivot

EXECUTE

"the role of early adopters"

by Steve Blank

Minimum Viable Product

NOT A PROTOTYPE

Minimal solution realized with limited investment to test the market.

Def. *"the smallest set of activities needed to disprove a hypothesis" (Eisenmann et al. 2012).*

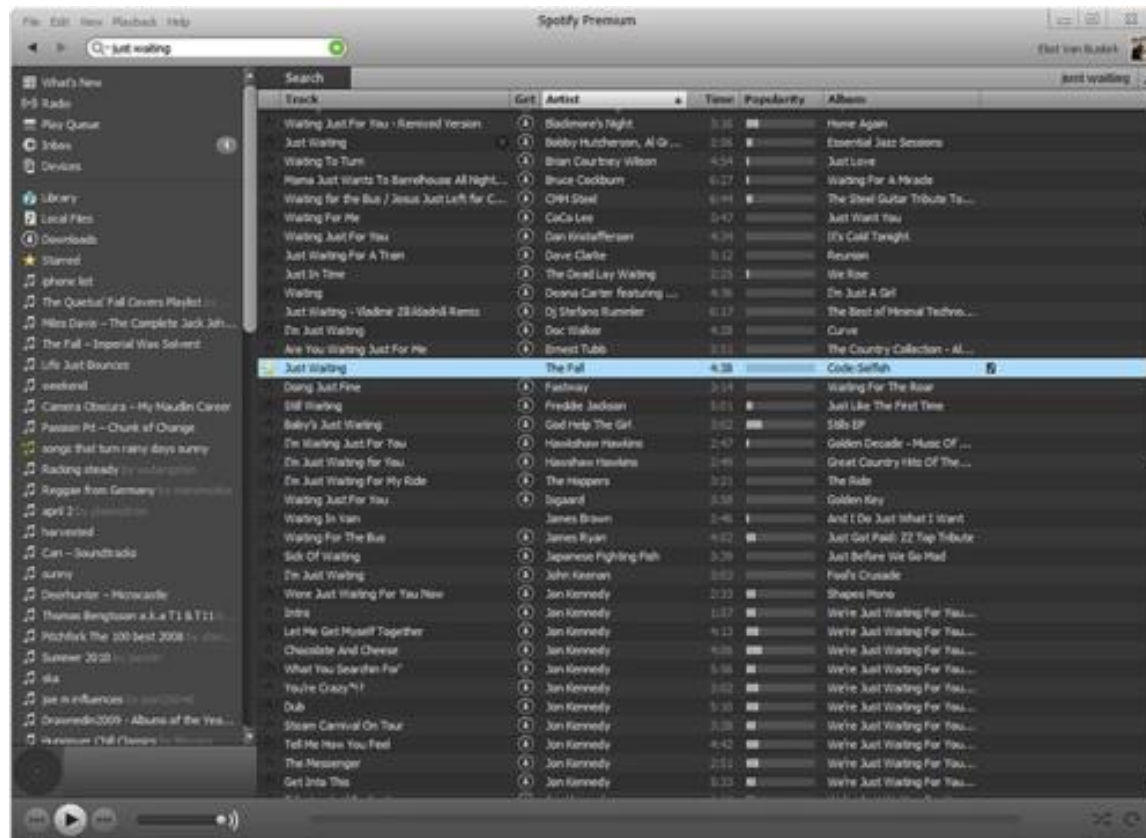**Minimum Viable Product Examples –** Instagram—Originally Burbn

Lean Startup: MVP

Minimum Viable Product Examples – AMAZON

Lean Startup: MVP

Minimum Viable Product Examples – Spotify

TESTING FOR ….

VALIDATED LEARNING

TESTING what? ….

ASSUMPTIONS

RYANAIR

Key Partners
Who are our Key Partners?
Who are our key suppliers?

- Secondary aerports
- companies for digtial payments (mastercard)
- Authorities at aerport
- Cleaning&Mantainence companies
- Providers of complementors

- rentals
- insurance compenies

Key Activities
What Key Activities do our Value Propositions require?
Our Distribution Channels?

- flight operations
- selling tickets
- planning timing of flights
- customer service
- cleaning and mantainence of planes

Key Resources
What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

- planes
- website
- aerport structures
- human resources

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?

Low-cost flights

Long trips everywhere at low-cost with a goof customer experience

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?

- Website
- Call center

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?

Website Ryanair

Customer Segments
For whom are we creating value?
Who are our most important customers?

low cost and «digital» customers

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?

- fluel
- planes (purchse and mantainance)
- Website (development and mantainance)
- employee salary

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?

- flights tickets
- complementary services (food, porfume ecc.)

Building BM assumptions

Please work in group to explicit from the underlying HPs from the Ryanair BM framework

(30 min)

Building BM assumptions

Every BM design is made by assumptions that need to be verified.

The assumptions underlying each business model can be multiple but it is important to identify the most critical ones for the initial launch of our business. Let's try together to identify the most relevant ones for the Ryanair case

HP1: Customers are willing to buy a ticket independently and online in order to pay less [Channels/Customers]
HP2: Secondary airports are very willing to host our planes and are willing to make an exclusive agreement [Partners/Activities]
HP3: Customers would do without more dedicated customer service to pay less [Customer Reletionship]

Features of these hypotheses:

– Critical to the business and distinctive from the competition, we are testing:

Whether there is a market and how large it is of low-cost customers
if the fact of not having a dedicated customer service (like other companies have) impacts us a lot on the target market
if the secondary airports are open to an exclusive agreement that allows me to offer a good customer experience which is key for my strategy

Business Model Experiments

An important part of Business Model Validation is running business experiments. Experiments <u>turn assumptions into learnings</u>

First question (entrepreneur's struggle): What should I test first?

Answer: There is not a general answer but there is another question you should ask yourself: what is the riskiest assumption to (in)validate or what do I need to learn first?

<u>**Possible methods:**</u>

- Build your own «priority matrix»
- Follow a problem-solution-revenue-scale process

Business Model Experiments

Priority Matrix Example
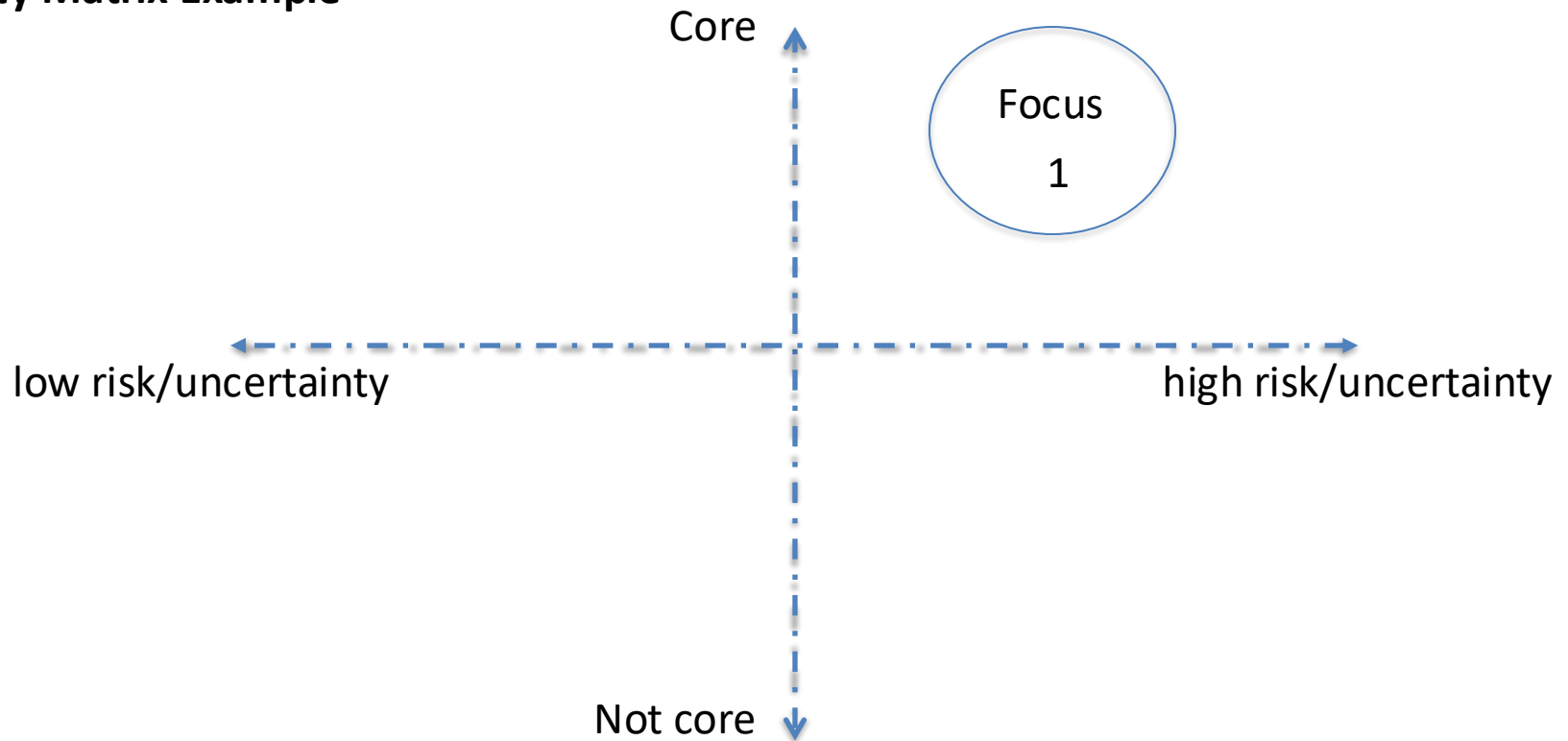
1. Define the core function/service (or the problem you want to fix)
2. Use post it to position the main assumptions of your core function/service

Business Model Experiments

What are the main gains of prioritizing?

- Entrepreneurs tend to think and over-think to many service to offer at once.
- A wide/broad scope will be very difficult to implement in early stages
- You need to focus as you will have to deal always with scarce resources
- A good way to start focusing is to test first the most important assumptions

A known example of focus:

Amazon vision in 1999: *"The vast majority of the products you buy in-store today, staple foods, paper products, cleaning products and so on, you will order online in 2020"*. Jef Bezos

Did Amazon started in 1996 by selling everthing online?

No. They started with just books!!

Business Model Experiments

Prioritazing through 'Problem-solution-revenue-scale process'
Another way to structure a framework of testing is to identfy four sequential focus area for testing assumptions:

Problem stage: you focus on the customer segment and their problems – (Customer Discovery).

Solution stage: you try to understand what your customer segment is trying to get done (the *JTBD*) and what solution would solve their problem or help them fullfill their JTBD – you already design a new value proposition (Customer Validation)

Revenue stage you focus on the reasons to buy your solution (the *Value Proposition*) and how you can earn money, or make revenue (Customer Validation)

> NB: Solution and revenue stages basically focus on the main elements and usually more critical of a BM (VP and R), but in these stages also other components of the BM that you consider critical should be tested.

Scale stage: you focus on reaching your customers and the growth engine

Busienss Model Design and Validation

Busienss Model Scaling
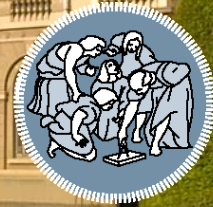
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Business Models Tools

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Test Cards – useful tool for tesiting

Test Cards – useful tool for tesiting

Video Related:
[Link](#)

Lean Startup Approaches as Experiment-based – Airbnb case

1.What is the **key factor for our growth**?

"The booking. More bookings we have more money we make"

2.**Transform your Growth Strategy in Metrics** (something specific and measurable)

"Number of nights that properties are rented"

3. **Form Hypothesis** (by intuition, by talking with clients or employees)

"Properties with better pictures are rented more often"

4. **Create the Experiment**

"e.g. Compare 2 weeks number of bookings of the same Property. One week amazing pictures made by professionals were used, while the week after pictures by the owner were used".

5. **Measure Performance**

Strategic (by impact) Change

NIGHTS BOOKED

20 photographers
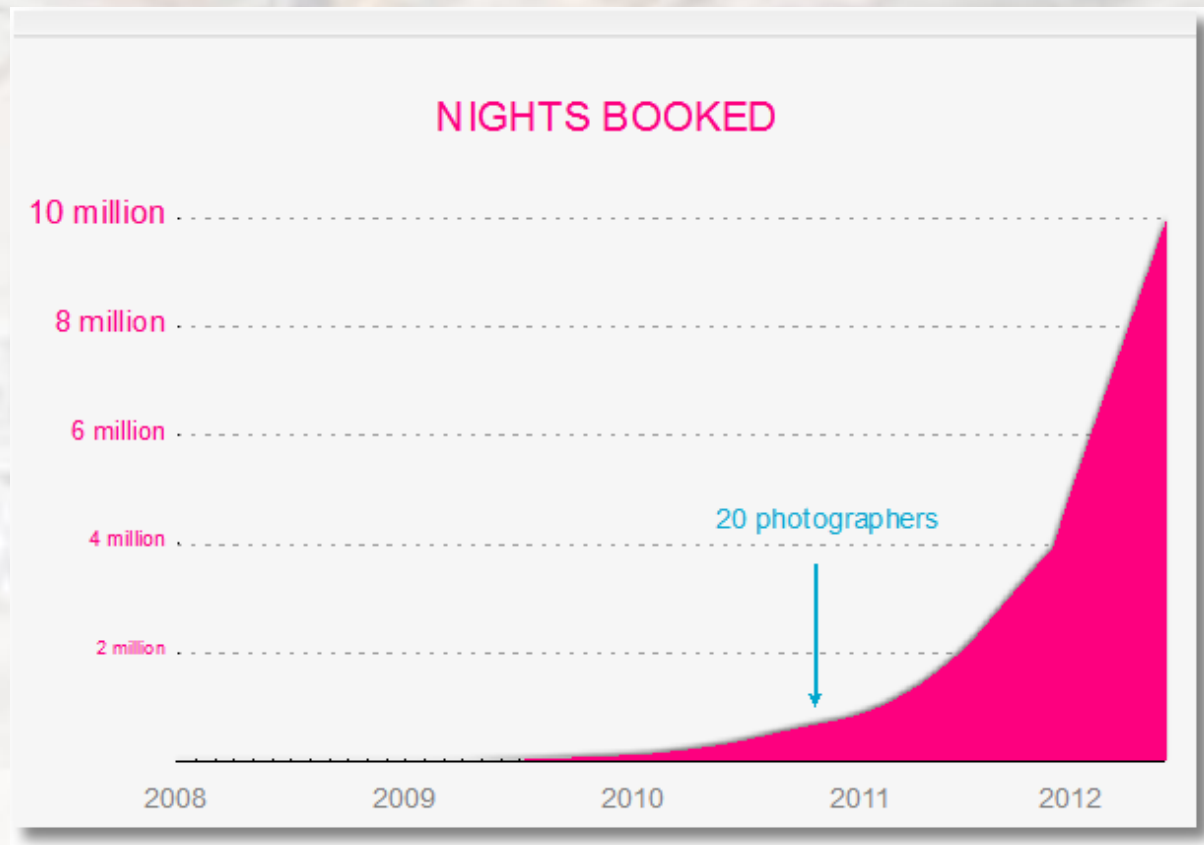
Structure an Experiment using Test Cards tool

Let's apply it to the Airbnb case together!

- What is the HP?
- What is the test?
- What is the metric?
- What is the criteria used?

Test Card — ⏱ Strategyzer

Test Name | Deadline
Assigned to | Duration

STEP 1: HYPOTHESIS
We believe that

Critical: ⚠ ⚠ ⚠

STEP 2: TEST
To verify that, we will

Test Cost: | Data Reliability:

STEP 3: METRIC
And measure

Time Required:

STEP 4: CRITERIA
We are right if

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BEFORE STARTING:

Desk Research

Some consider it as an experiment methods. We believe it is a good starting point, that may help to get know-how around problem and potential solutions. Desk research gathers and interprets available information from external sources. In other words, you are using search engines, libraries, or other sources of information to discover what others already learned and what is out there relating to your idea.

This is very useful to get a general overview of what competitors and alternatives exist related to your idea, of customer behavior towards a problem, and of technologies that can help your idea make possible (or impossible).

Experiments to validate the problem

Customer interview/survey
The customer interview/survey is almost always the best way to start. It is THE tool to learn more about certain topics and an easy way to validate assumptions. If we could only recommend one experiment, it would always be to get out of the building and talk to your customers. Your customers have the knowledge, you only have assumptions.
Customer Interviews are a tool for you can use in every stages of your company, to validate the problem as well as the solution and its evolutions.

Picnic in the Graveyard
With the picnic in the graveyard experiment you are interviewing founders or team members from failed startups, to learn what they learned in their journey, what they did wrong and why they decided to stop. The most valuable lessons are learned from people who have tried before and failed. Do they have any lessons that you can use to prevent failure?

Business Model Experiments

<u>Experiments to validate your solution</u>

Once you validated that there is an actual problem, it is wise to first test the interest in a solution, before running off and building a solution. We usually do another round of customer interviews first, but after that, there are plenty of alternatives:

Landing page

A landing page is ideal to test your value proposition and validate interest. There are hundreds of ready-made templates available and lots of services to just easily create a landing page if even a template is too technical for you. What is important when using a landing page is that you ask for some kind of currency. An email address or signup is enough, but people have to 'pay' you something to really show their interest. Visitors and pageviews are not enough.

Landing page builders: e.g. **WordPress; Squarespace**

Business Model Experiments

Explainer video

https://www.youtube.com/watch?v=w4eTR7tci6A&t=2s – Dropbox Ecxample

Dropbox got famous with their explainer video MVP. When your product is too complex to easily explain or show a prototype, an explainer video might be ideal. It was hard for the dropbox guys to show the magic of Dropbox before Dropbox existed. With an explainer video and again asking for some kind of currency, they were able to validate the interest in Dropbox. They got overwhelmed with beta signups.

Drew Huston : *"it [the video] drove hundreds of thousands of people to our website" "our beta waiting list went from 5000 to 75000 literally overnight". "It blow us away"*

Business Model Experiments

"Competitor" Usability Testing

Competitor usability testing is observing your customers use a competitor's products or services to gain insights on the mindset of the user, common issues, and potential improvements in your own product.

NB: It doesn't have to the a direct competitior:

UALA.

UALA Example: The founder spent 6 months in a beauty saloon to understand the custormer and the sector he had to deal with.

Paper Prototype

The Paper prototype is a way of quickly testing your solution by using paper drawings, flyers or even power point presentations. Mimicking user interaction or the process of the solution to learn if this is what the customer is looking for.

NB: Startups get founding just with a power point presentation – (EXAMPLE) Primomiglio sgr

Business Model Experiments

Prototype

If your team has internally already competences to do it, you can build a "real" prototype. It is suggested that anyway you don't spend too much efforts. Usually, digital prototypes (like apps) are built in 2 weeks or less. It doesn't have to be perfect it has to be an MVP. Some hard components can be built by using Wizard of Oz or Concierge Testing.

Wizard of Oz technique:
When you have costly feature to build, before you even know if those feature are relevant for your busienss you make it manually. You use manual labor to 'automate' tasks in your back-end. The customer doesn't see this.

Example: Zappos
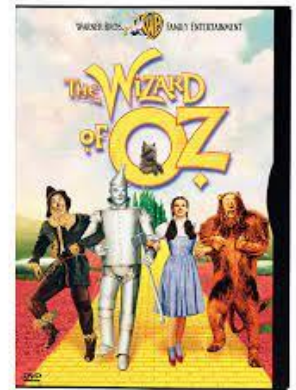
Concierge Testing
In concierge experiment product features are being imitated. Every tasks of the product is executed by a a human. The customer is fully aware that the features are being mimicked by a person. (e.g. Wealthfront and Food on the Table)

Some Useful Tools

To build wireframes:
Balsamiq Wireframes
Figma
Marvelapp

To build (simple) websites/landing pages:
WordPress
Webflow
Macaw
Unicorn Platform
Landen.
Shopify (ideal for e-commerce)

To build mobile app
Thunkable
Adalo

Email marketing
Getresponse
Activecampain

Tool to monitor matrics
Google Analytics
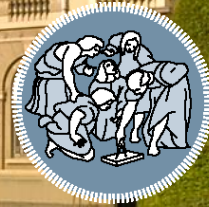Pixel (Facebook)

Where to collect feedbacks?
Betalist
Producthunt
Reddit,

Thank you!

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