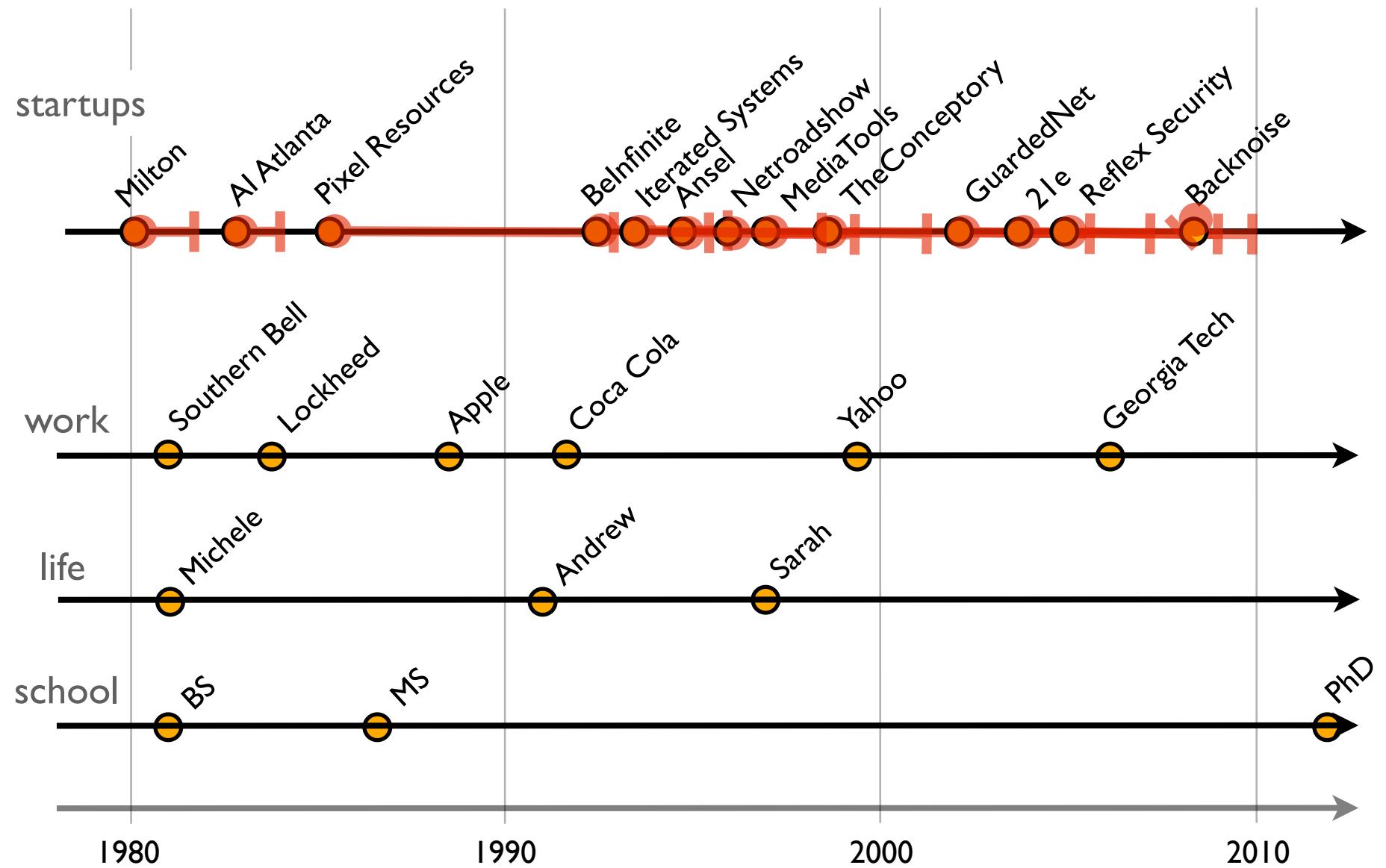


Startups @

from the Valley to the Canvas

Keith McGregor
Director of VentureLab







what we will cover in this series

Business Model Generation

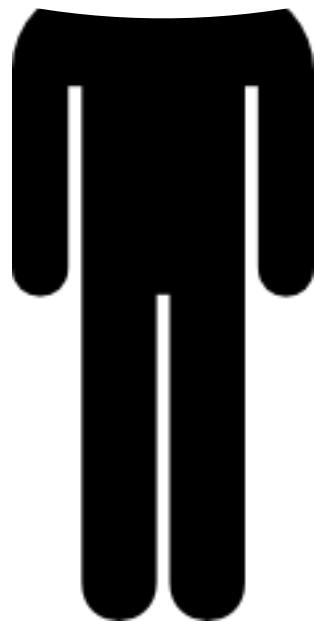
Customer Development

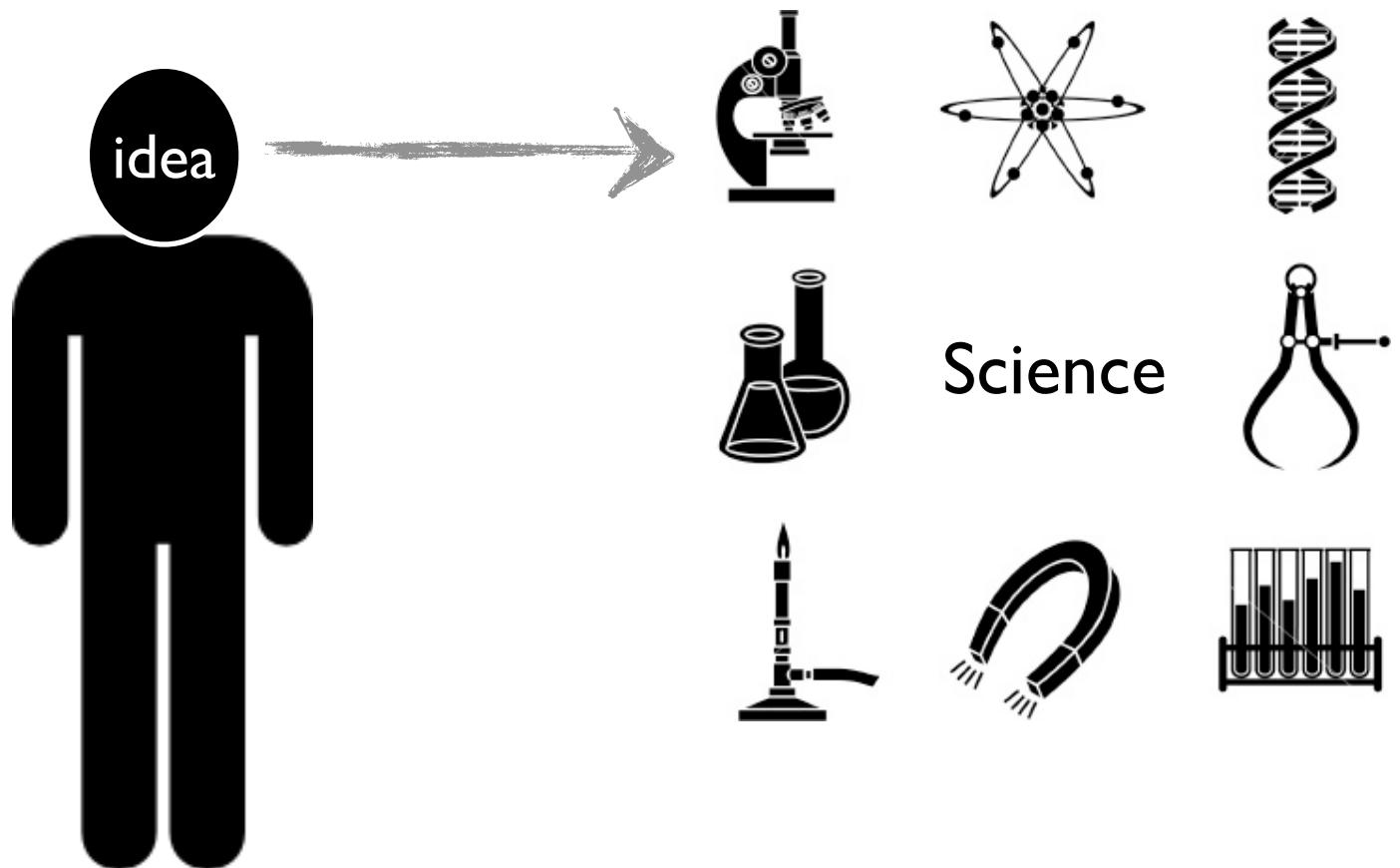
Lean Startup++

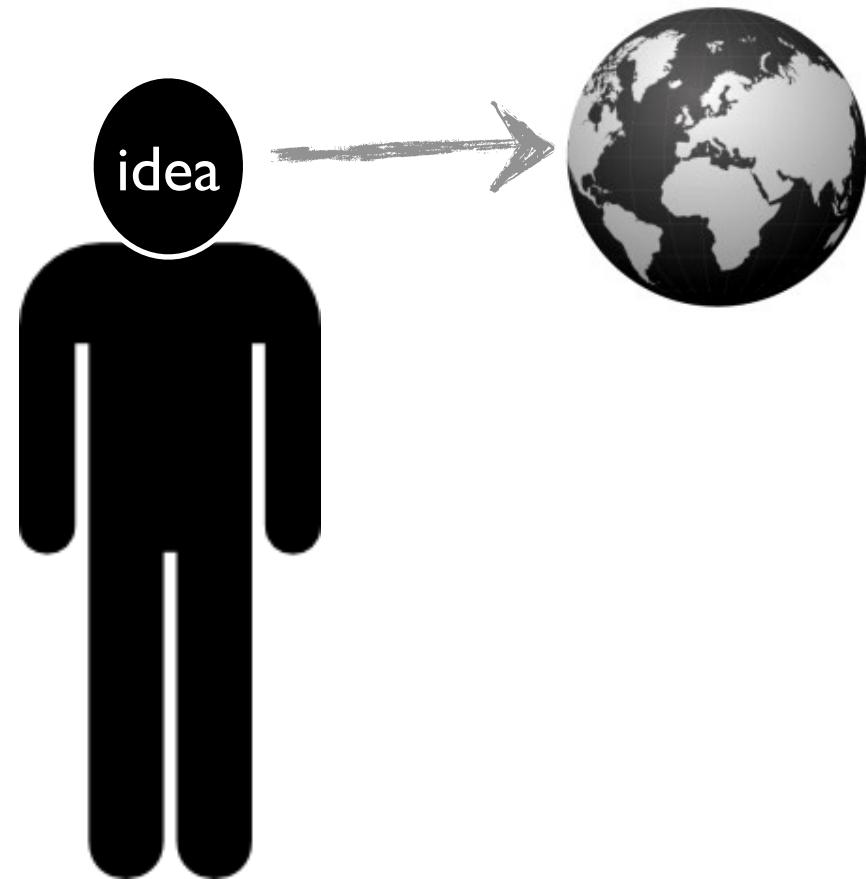


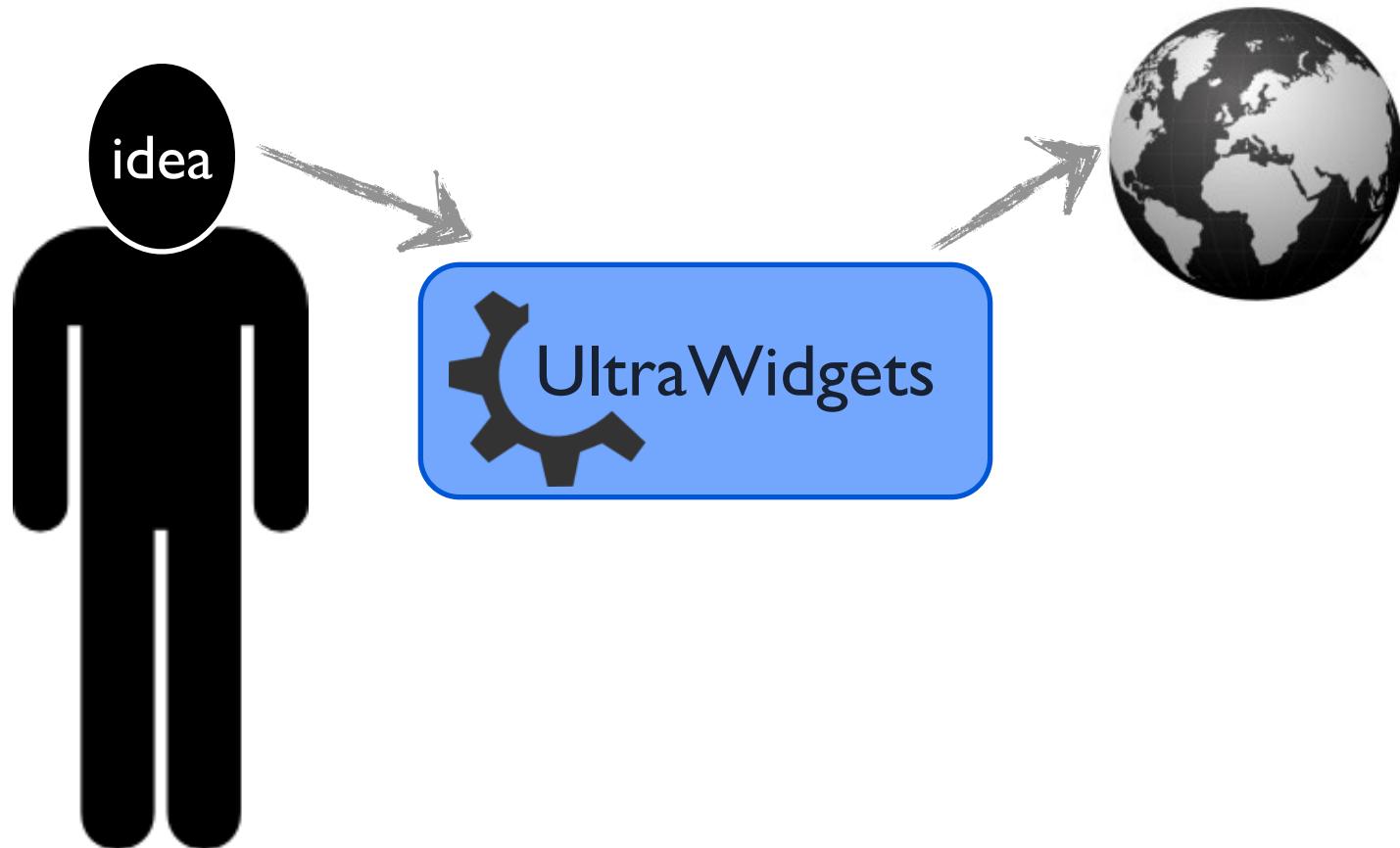
idea

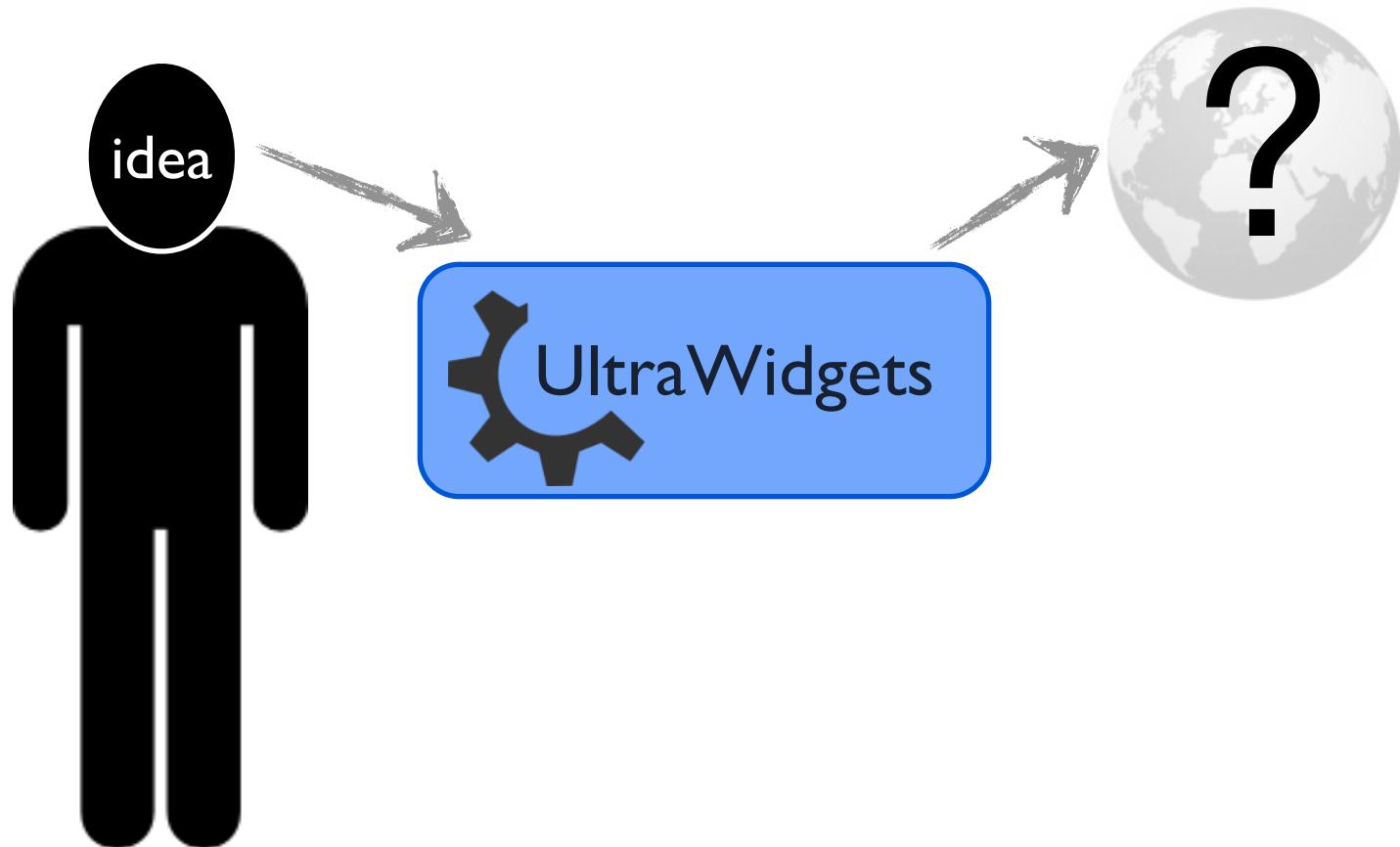
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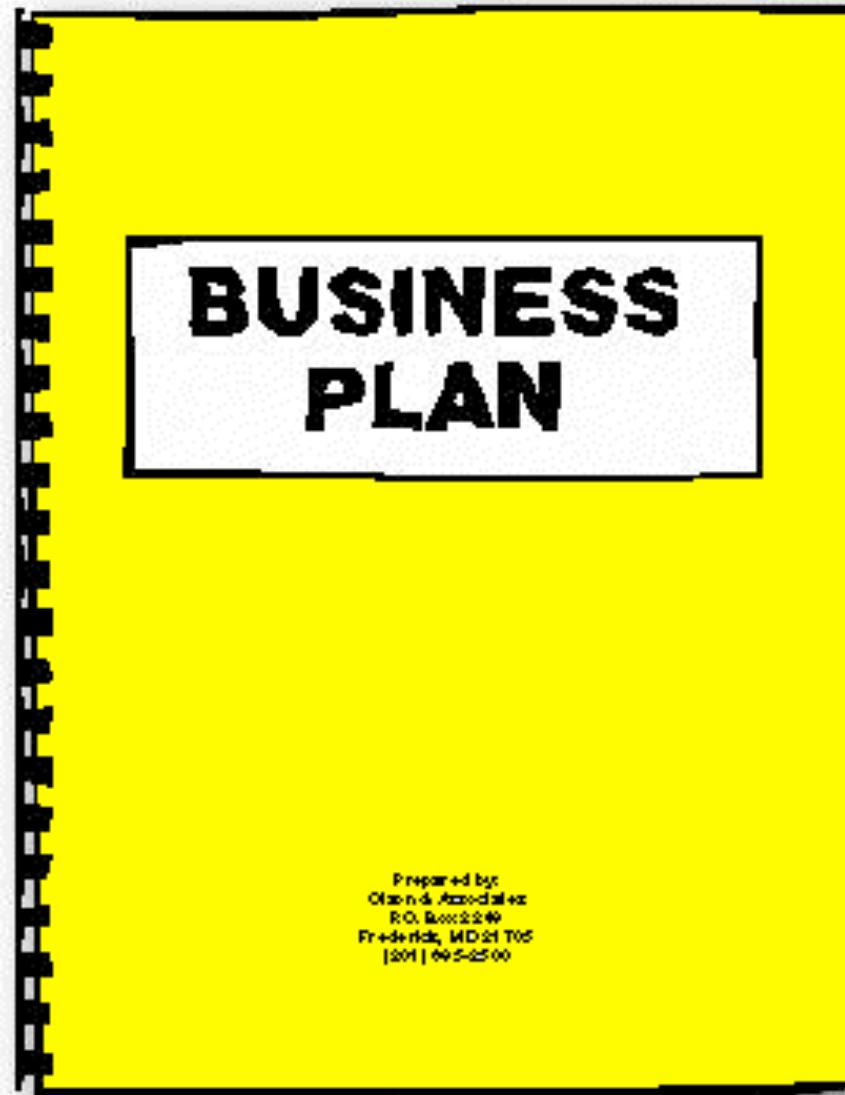
WALKER!

\$1,000,000,000,000

What We Used to Believe

**Start with an Operating Plan
and Financial Model**

All I Need to Do is Execute the Plan



All I Need to Do is Make the Forecast

	A	B	C	D	E	G	H	I	J	K	L	M	N
32	Balance Sheet												Year
33													1999 2000 2001 2002 2003
34	Assets												
35	Cash and cash equivalents*								\$4.27	\$6.38	\$7.62	\$8.83	\$7.00
36	Accounts receivable*								\$20.58	\$24.39	\$28.77	\$34.11	\$32.00
37	Inventories*								\$26.73	\$30.45	\$36.75	\$43.27	\$38.00
38	Deferred income taxes*								\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
39	Total current assets								\$51.58	\$61.22	\$73.14	\$86.21	\$77.00
40	Fixed assets												
41	Cost*								\$331.64	\$423.92	\$503.87	\$613.28	\$650.00
42	Accumulated Depreciation*								\$98.72	\$105.09	\$112.40	\$122.26	\$115.00
43	Net fixed assets								\$232.92	\$318.83	\$391.47	\$491.02	\$535.00
44	Goodwill*								\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
45	Intangible assets*								\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
46	Other assets*								\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
47	Total assets								\$284.50	\$380.05	\$464.61	\$577.23	\$612.00
48	Liabilities												
49	Accounts payable*								\$31.83	\$63.43	\$83.84	\$94.41	\$80.00
50	Current debt*								\$30.86	\$43.03	\$64.85	\$79.49	\$60.00
51	Total current liabilities								\$62.69	\$106.46	\$148.69	\$173.90	\$80.00
52	Long-term debt*								\$40.00	\$46.92	\$53.41	\$73.57	\$214.54
53	Other long-term liabilities*								\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
54	Total liabilities								\$102.69	\$153.38	\$202.10	\$247.47	\$294.54
55	Shareholders' equity												
56	Common Stock and Additional Paid in Capital*								\$90.00	\$130.00	\$160.00	\$220.00	\$200.00
57	Retained Earnings*								\$91.81	\$96.67	\$102.51	\$109.76	\$117.46
58	Total Shareholders' Equity								\$181.81	\$226.67	\$262.51	\$329.76	\$317.46
59	Total Liabilities and shareholders' Equity								\$284.50	\$380.05	\$464.61	\$577.23	\$612.00

All I Need to Do ...

	A	B	C	D	E	G	H	I	J	K	L	M	N
32	Balance Sheet												
33													
34	Assets												
35	Cash and cash equivalents*												
36	Accounts receivable*												
37	Inventories*												
38	Deferred income taxes*												
39	Total current assets												
40	Fixed assets												
41	Cost*												
42	Accumulated Depreciation*												
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51	Total current liabilities												
52	Long-term debt*												
53	Other long-term liabilities*												
54	Total liabilities												
55	Shareholders' equity												
56	Common Stock and Additional Paid in												
57	Retained Earnings*												
58	Total Shareholders' Equity												
59	Total liabilities and shareholders' Equity												

Prepared by:
Franklin Associates LLC
P.O. Box 2249
Frederick, MD 21705
(301) 695-0200

BUSINESS
PLAN

No Business **Plan** survives first
contact with customers

Plan Meets Customers



No Business Plan survives first
contact with customers

Previous 5-Year Plans



Planning comes before the plan

What We Used to Believe

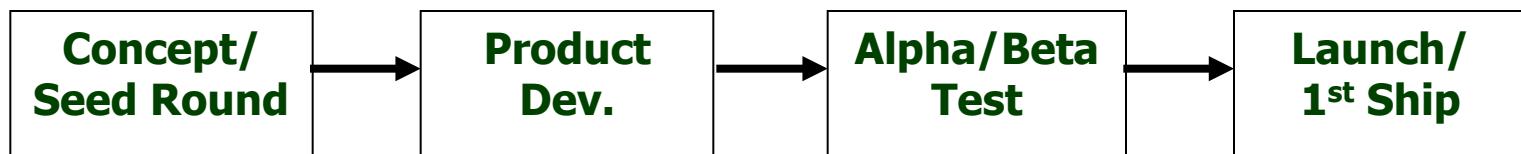
We Built Startups by
Managing Processes

Product Management

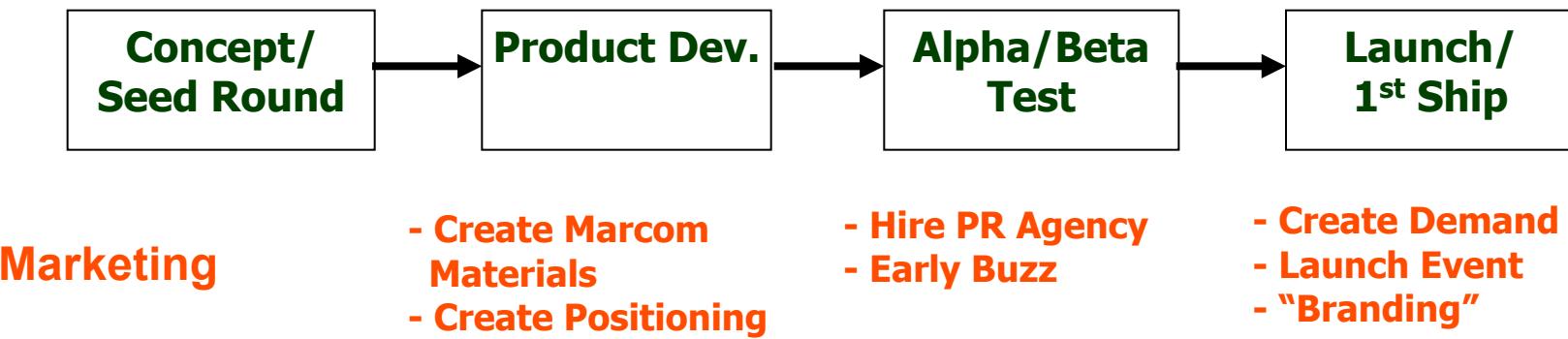
+

Waterfall Engineering

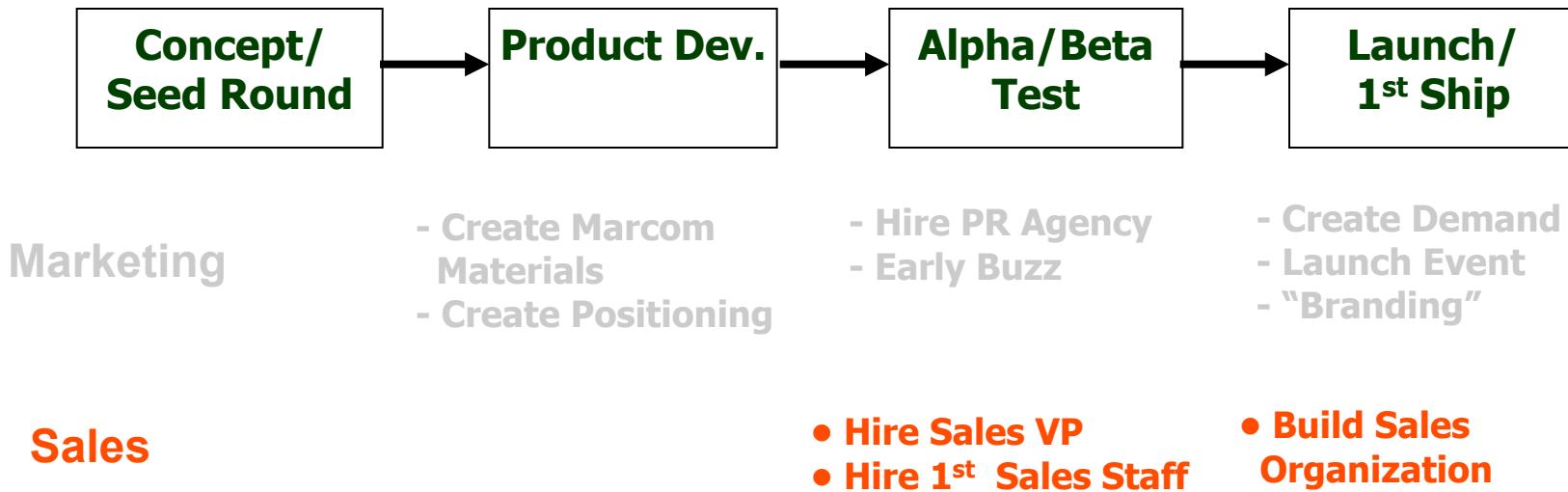
Product Introduction Model



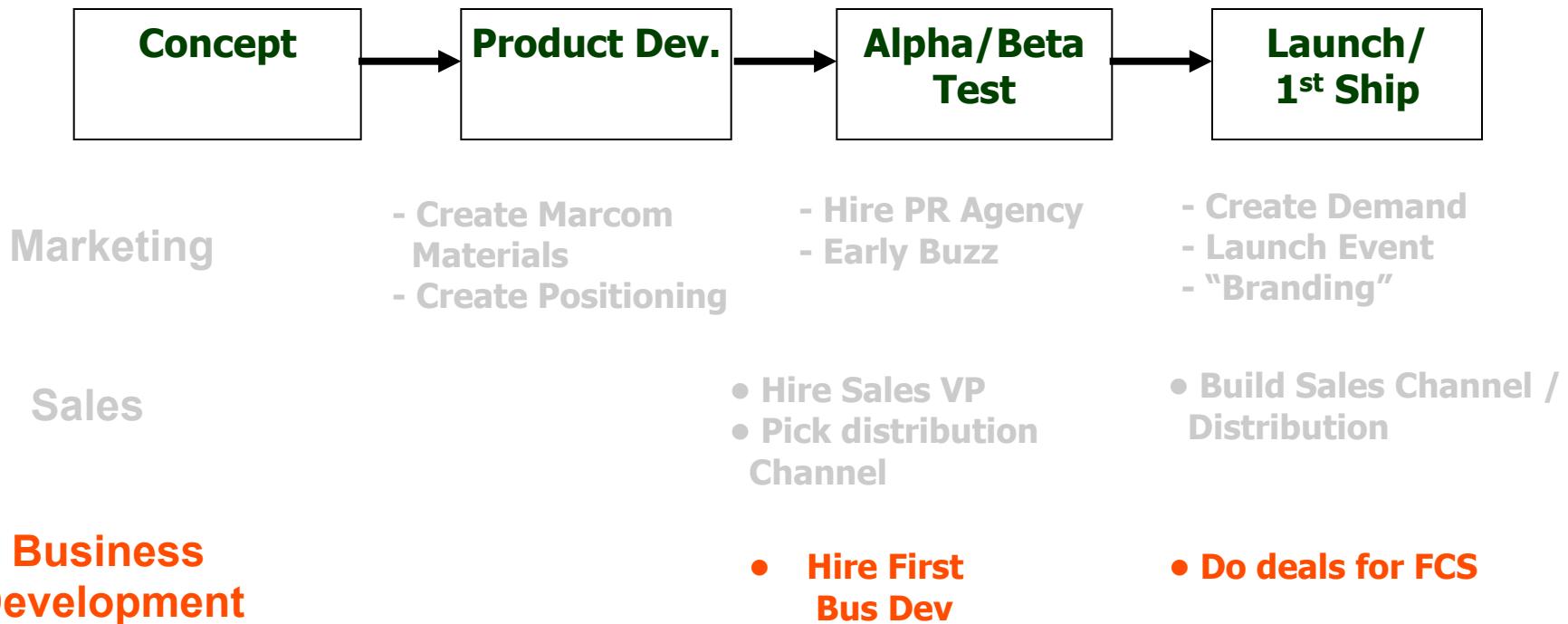
Tradition – Hire Marketing



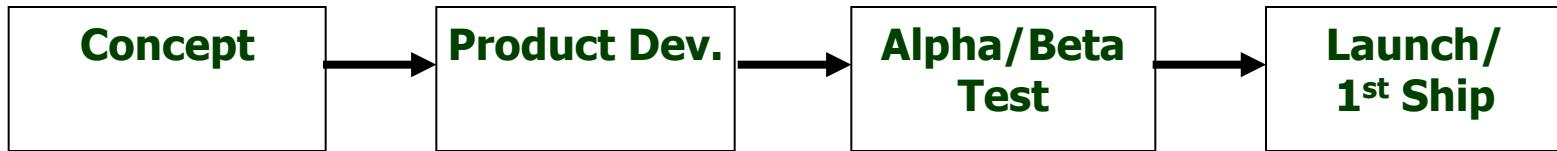
Tradition – Hire Sales



Tradition – Hire Bus Development



Tradition – Hire Engineering



Marketing

- Create Marcom Materials
- Create Positioning

- Hire PR Agency
- Early Buzz

- Create Demand
- Launch Event
- “Branding”

Sales

- Hire Sales VP
- Pick distribution Channel

- Build Sales Channel / Distribution

Business Development

- Hire First Bus Dev

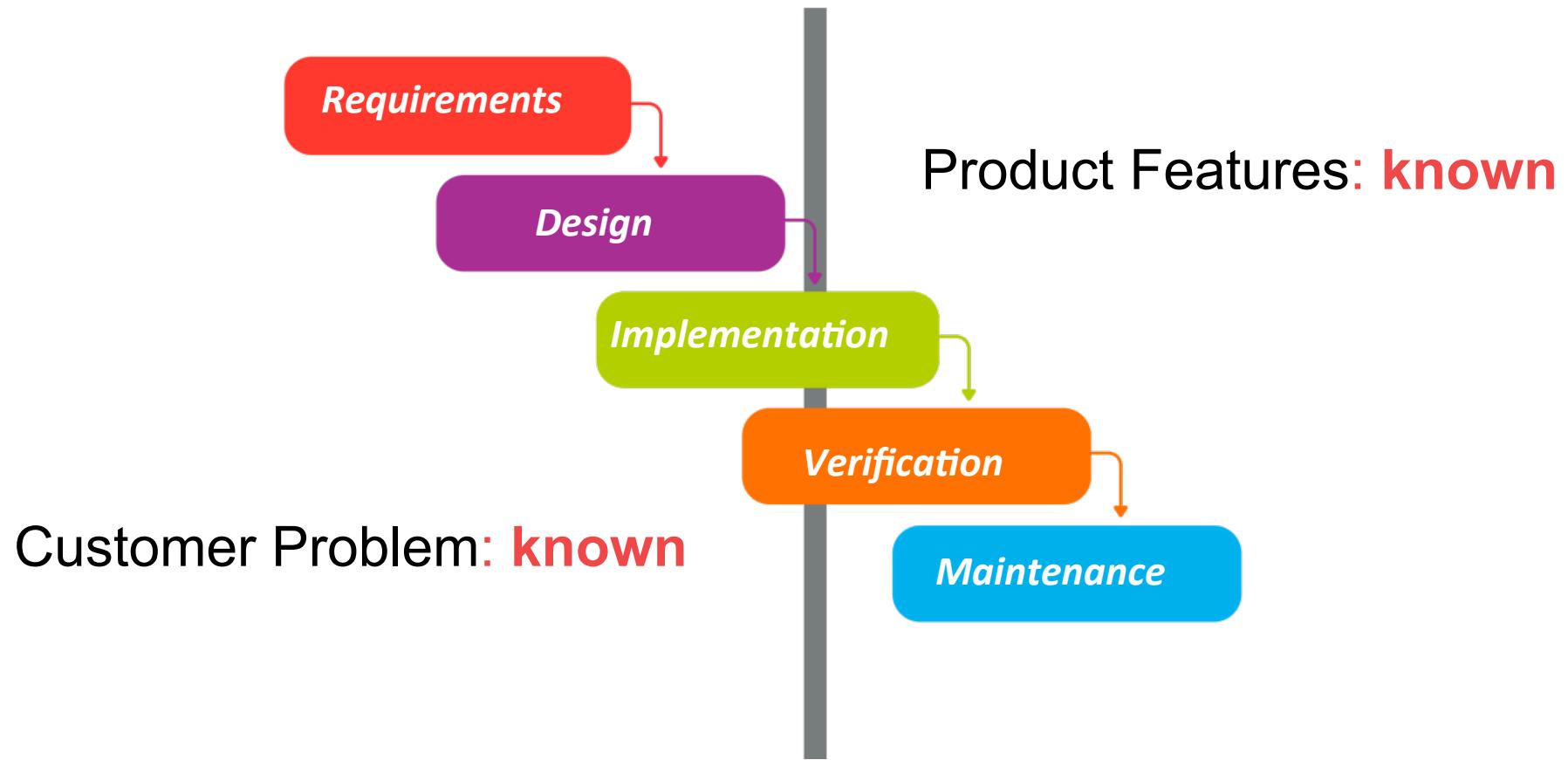
- Do deals for FCS

Engineering

- Write MRD
- Waterfall
- Q/A
- Tech Pubs

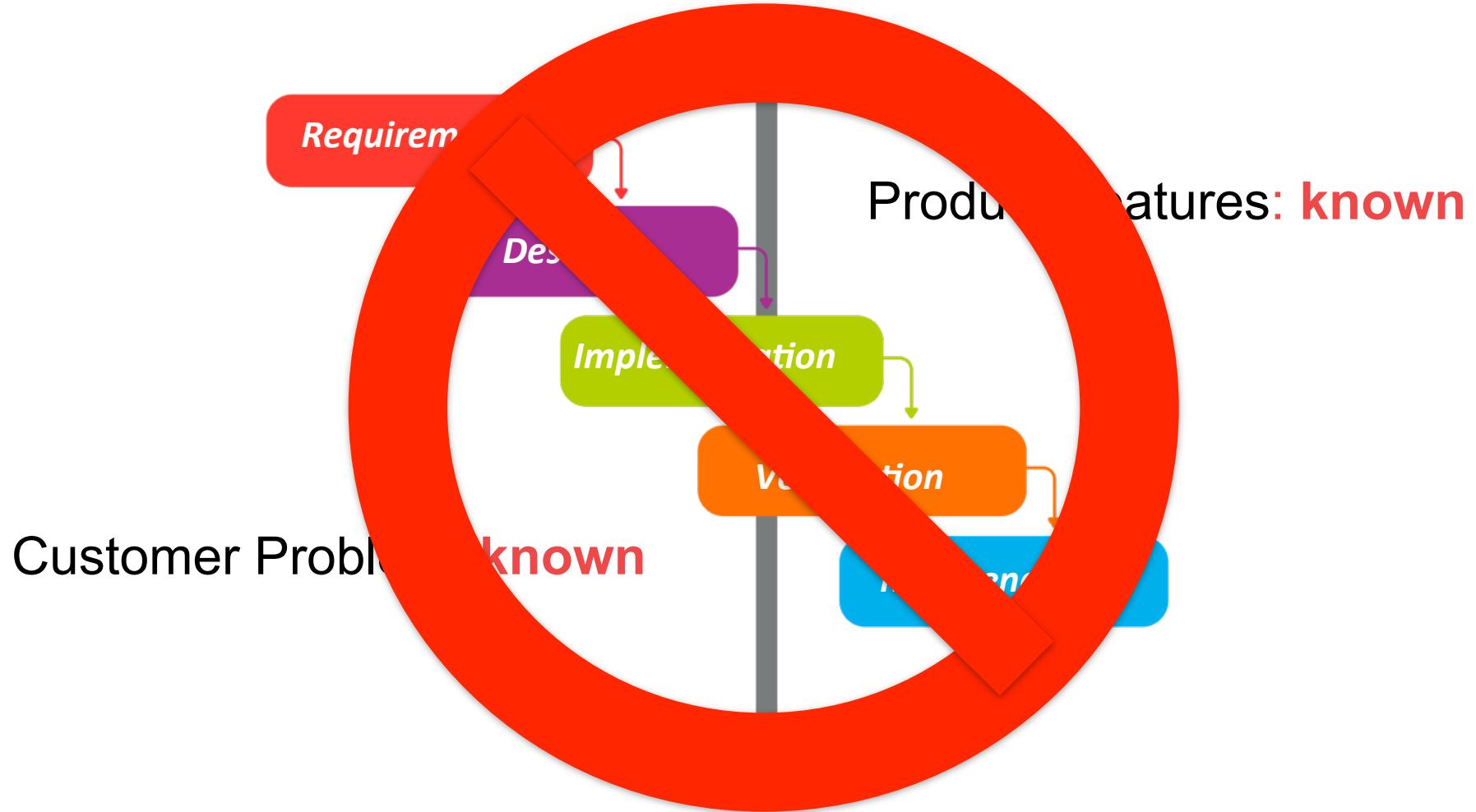
Waterfall / Product Management

Execution on Two “Knowns”



Waterfall / Product Management

Execution on Two “Knowns”



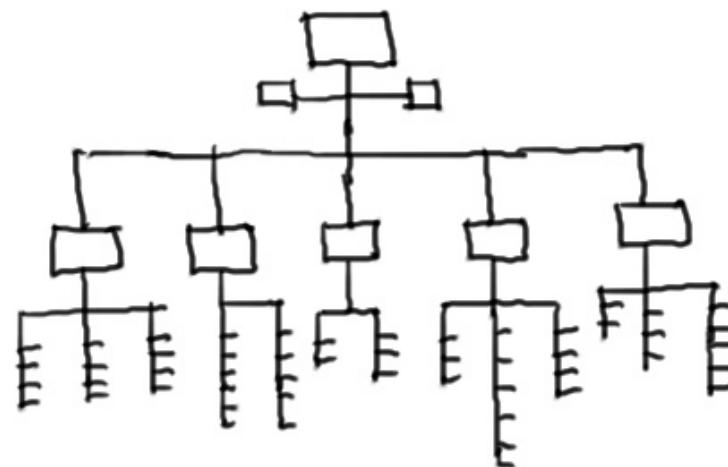
Startups don't fail because
they fail to make something.

Startups don't fail because they fail to make something.

Startups fail because they fail to make something someone wants to buy.

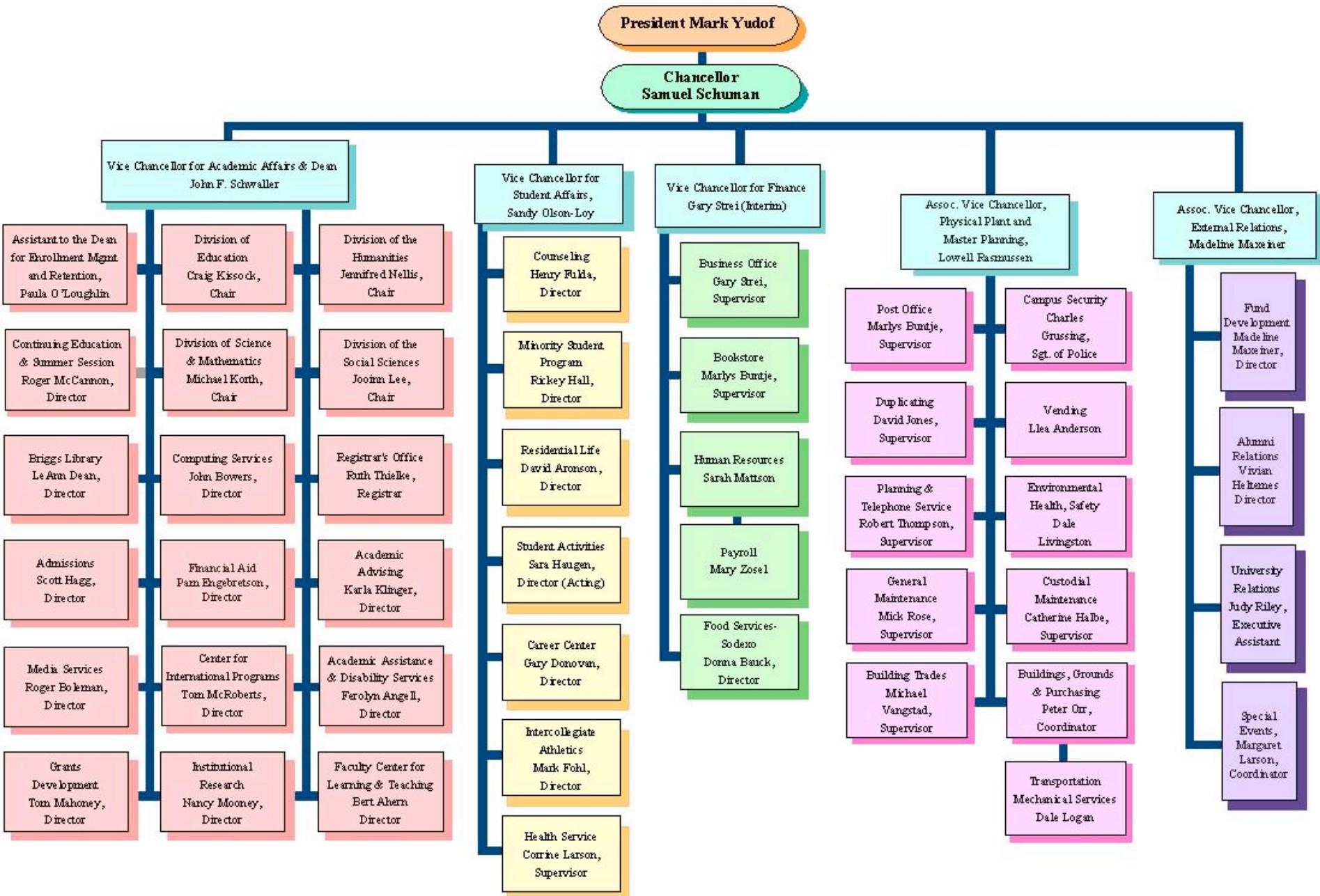
What We Used to Believe

**Hire and Build a
Functional Organization**



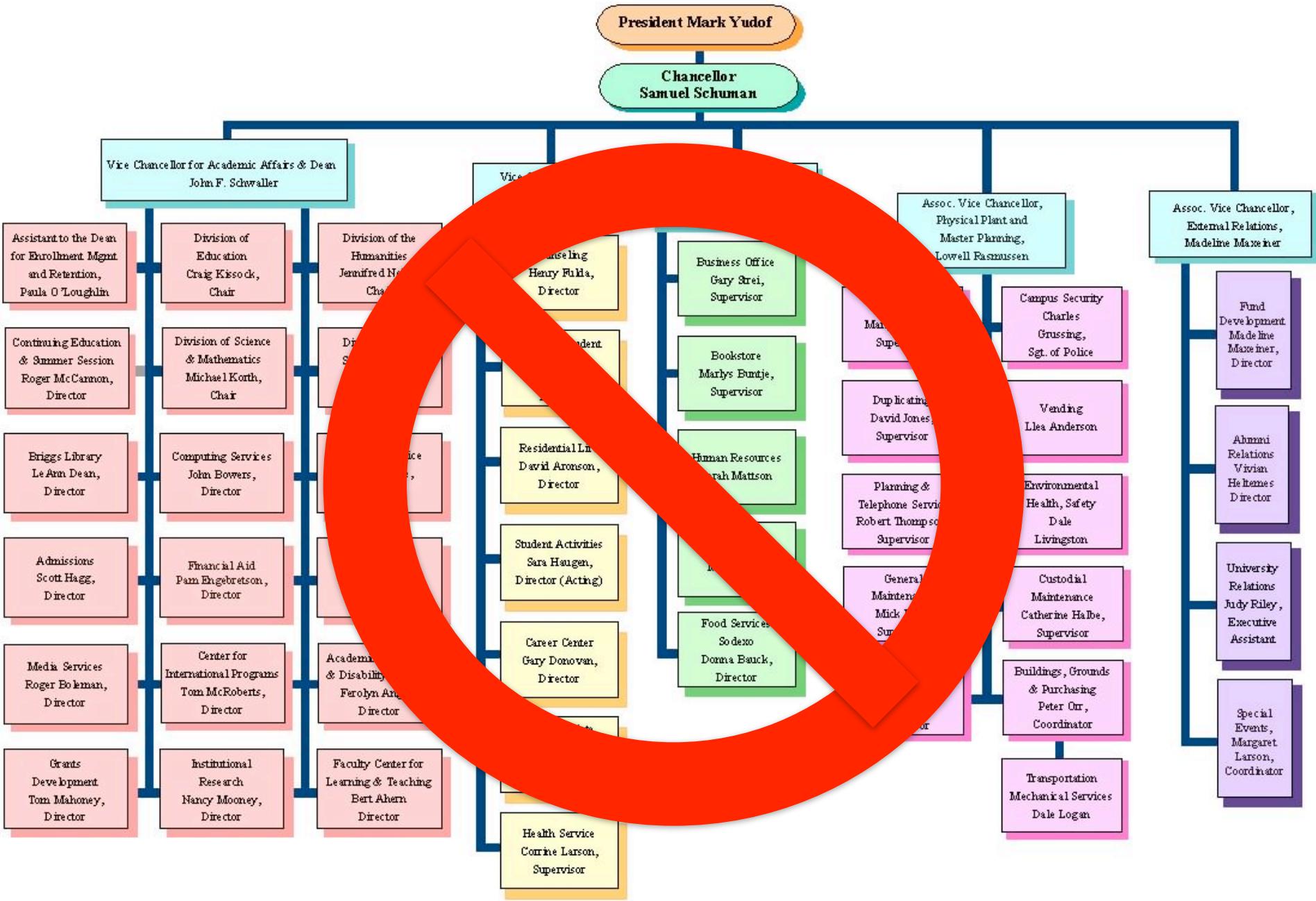
Administrative Organization

University of Minnesota, Morris



Administrative Organization

University of Minnesota, Morris



**Founders run a
Customer Development Team**

No sales, marketing and business
development

Startups are **not a smaller version
of a large company**



What's A Company?

**A business organization which
sells a product or service in
exchange for revenue and profit**

What's A Startup?

**A temporary organization
designed to search
for a repeatable and scalable
business model**

A temporary organization
designed to search
for a repeatable and scalable
business model

Startup ≠ Company

business plan

vs.

business model

business plan

a place to collect all of your
(current) hypotheses and
your rationale for them

business plan

a place to collect all of
your (current) hypotheses
and
your rationale for them

cover page
table of contents
executive summary
business description
business environment analysis
industry background
competitor analysis
market analysis
marketing plan
operations plan
management summary
financial plan
attachments and milestones

business model

a place to describe how all of
the pieces of your plan fit together

business model

the rationale of how an organization
creates, delivers, and captures value

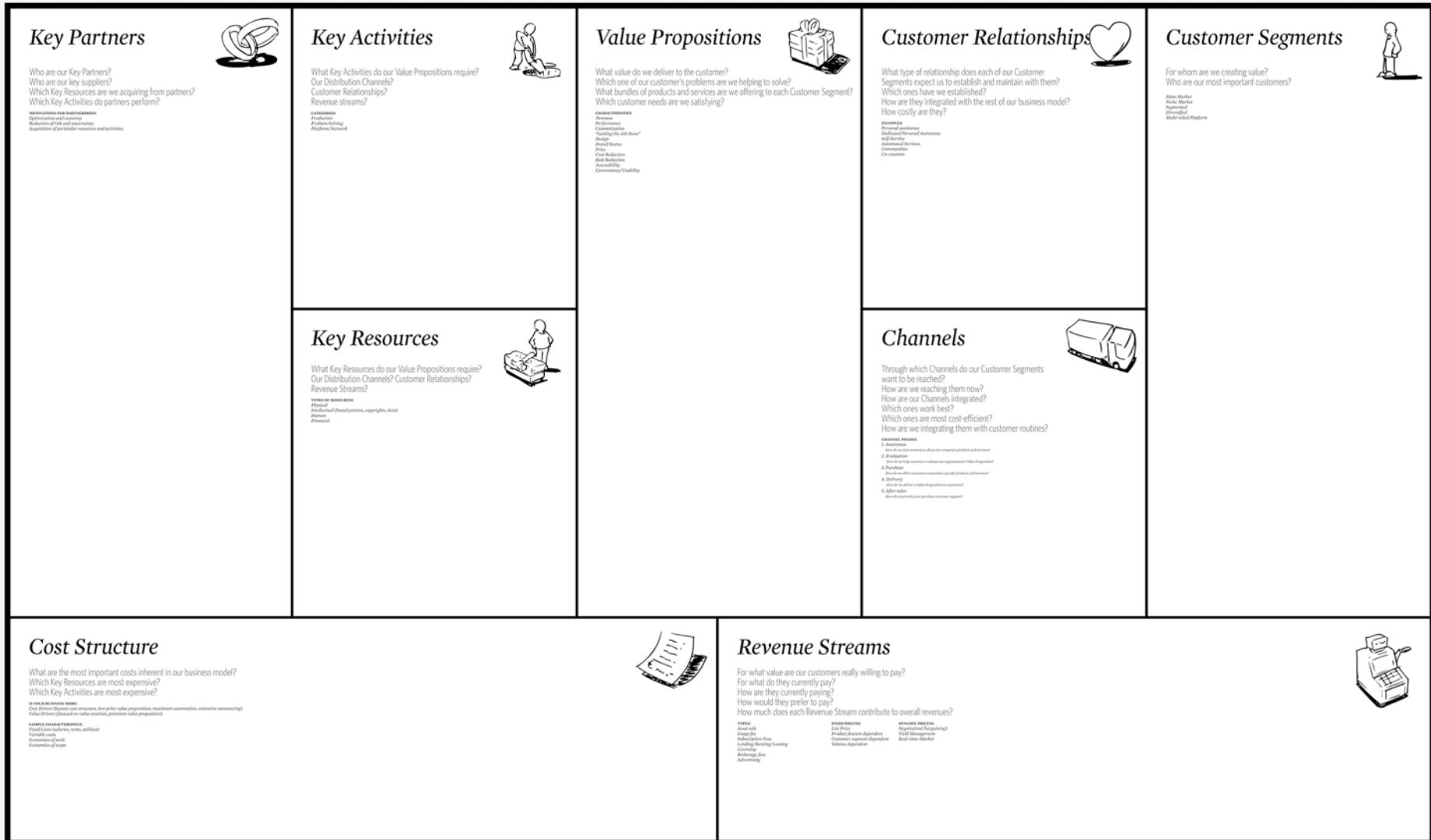
Business Models, not Plans

The Business Model Canvas

Designed for:

Designed by:

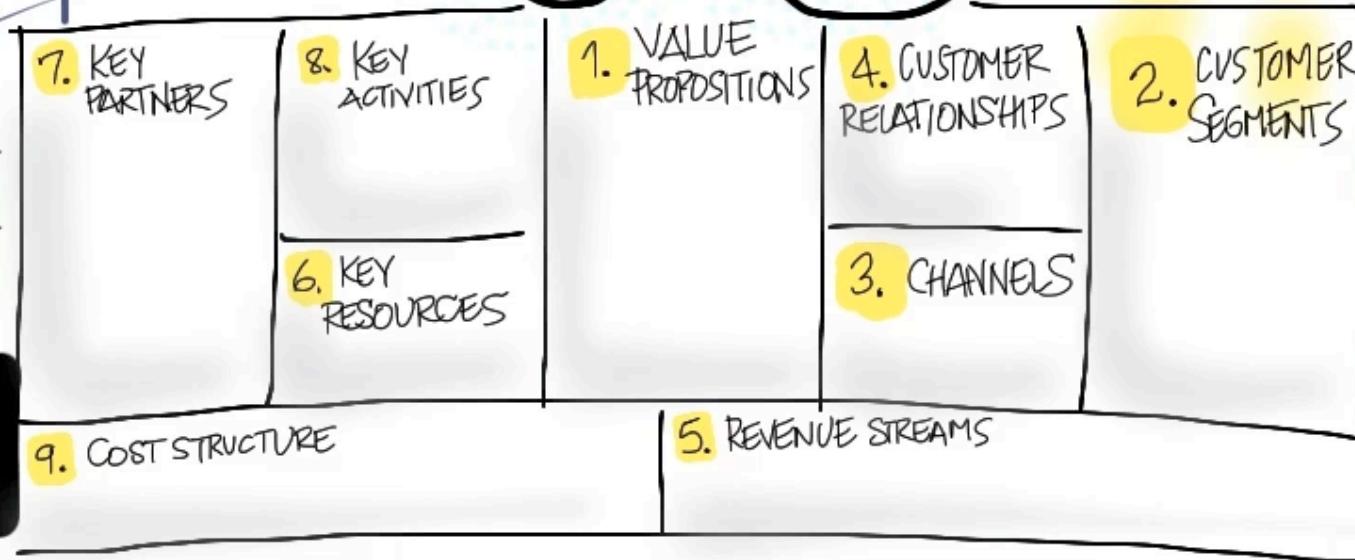
On: Day Month Year
Iteration:

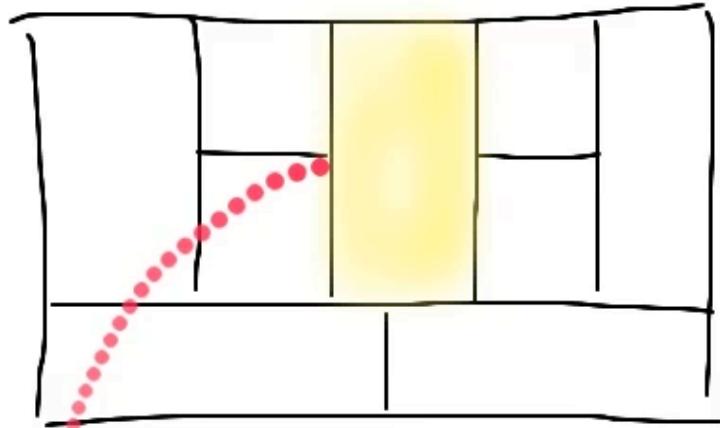


WHAT is a BUSINESS MODEL?

How a company **CREATES** **VALUE** for **ITSELF** while delivering products or services for customers.

9 Components...

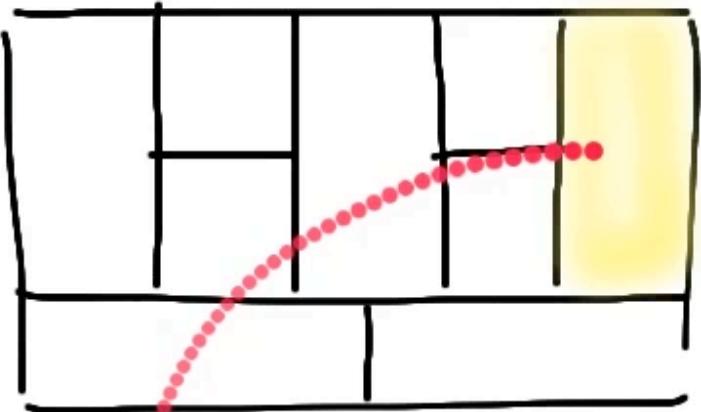




1. VALUE PROPOSITIONS

"It's not about your IDEA or PRODUCT!"





Customer
ARCHETYPE...

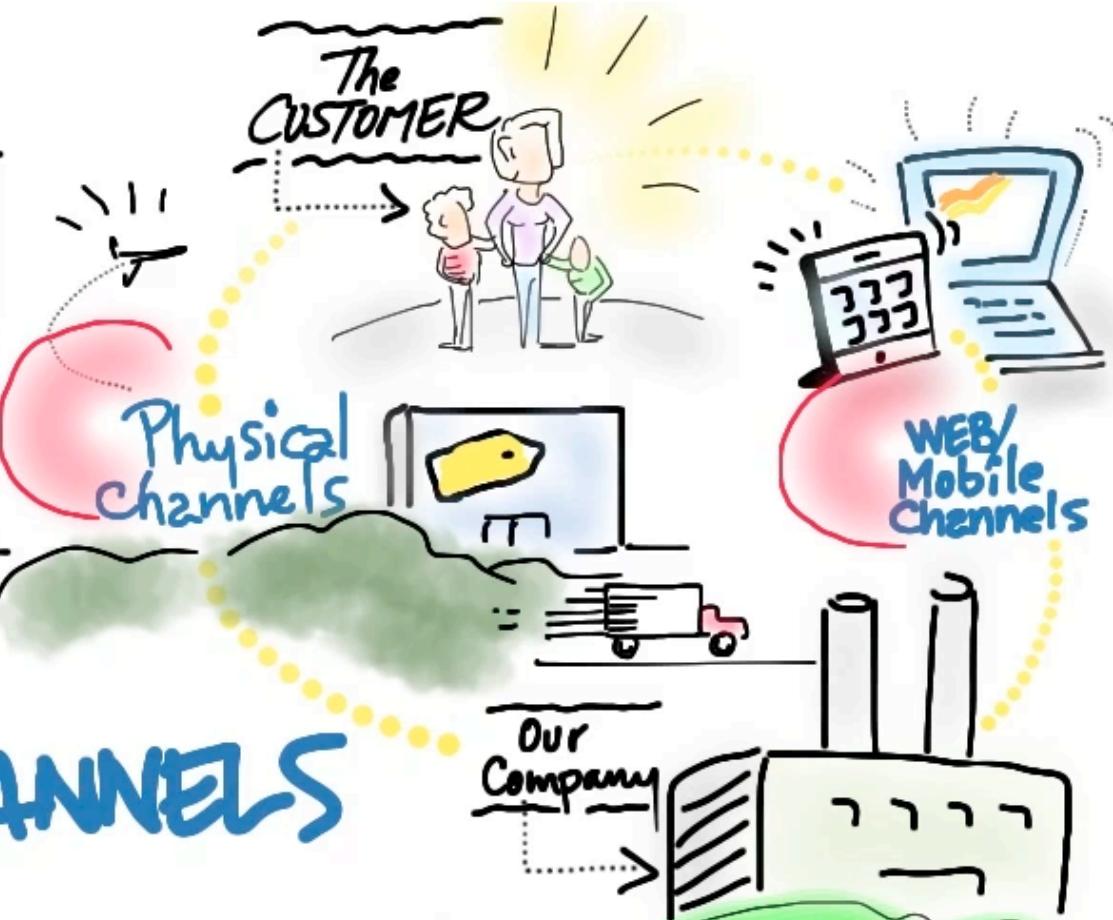
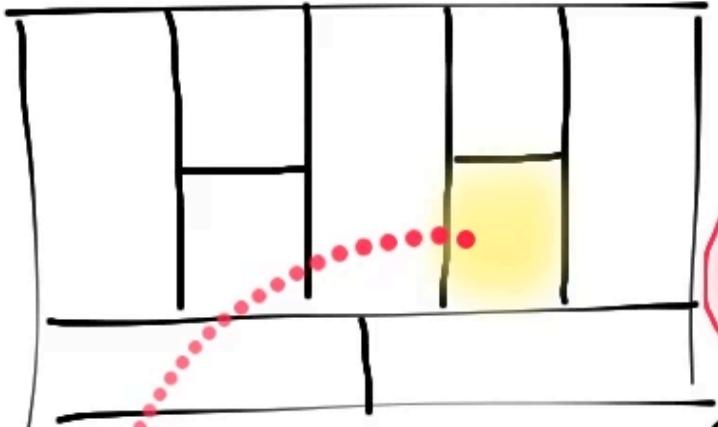
WHO are
they?
WHY would
they buy?

2. CUSTOMER SEGMENTS

- GEOGRAPHIC
- SOCIAL
- DEMOGRAPHIC

~~Your customers
do not exist to BUY.
You exist for them.~~

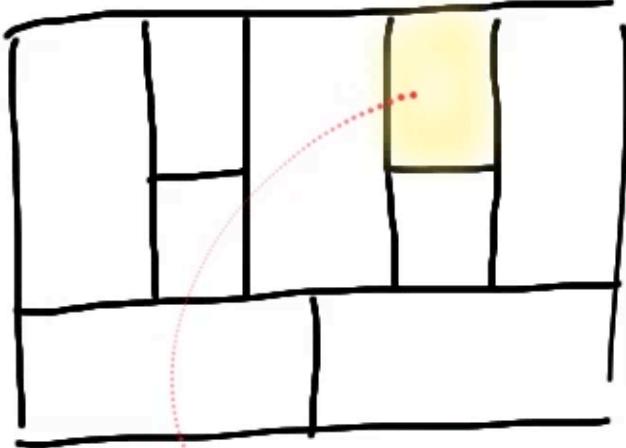




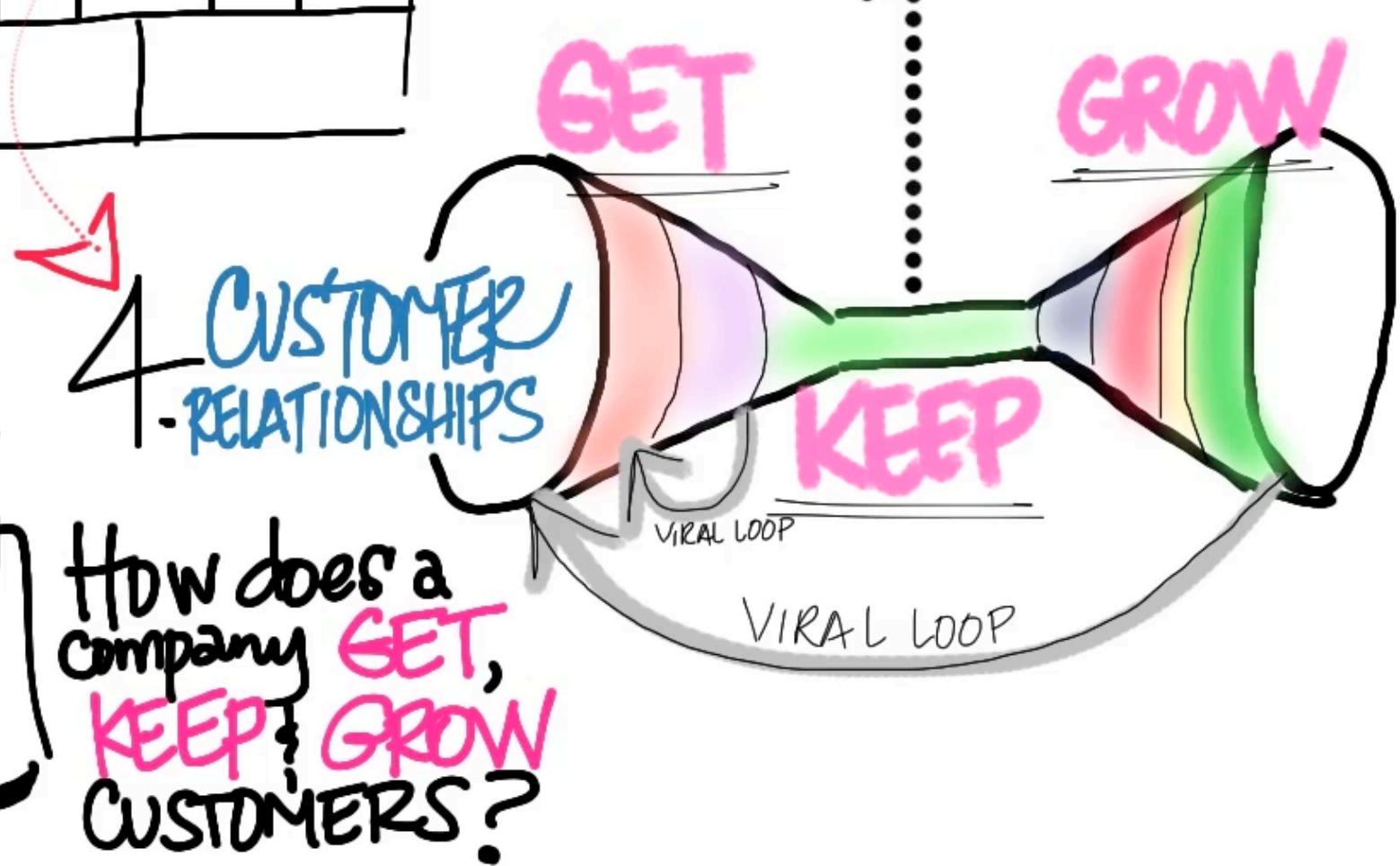
3. CHANNELS



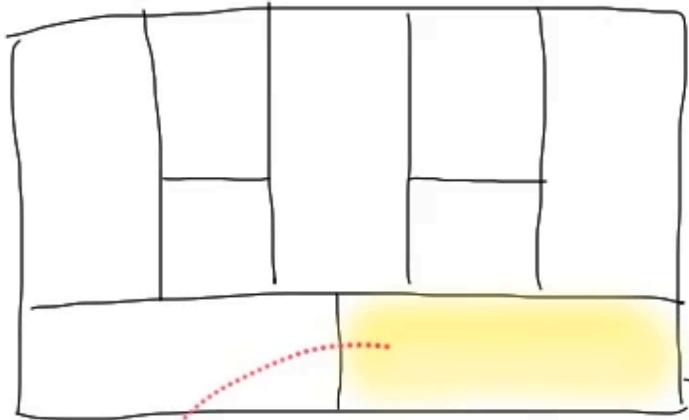
How does the product
get from our company
to the customer?



Just like in Channels,
These are DIFFERENT for
WEB/MOBILE versus
PHYSICAL ...



• What **VALUE** is the customer paying for?



5. REVENUE MODEL

• **REVENUE MODELS** (i.e. direct sales) are the **STRATEGY**.

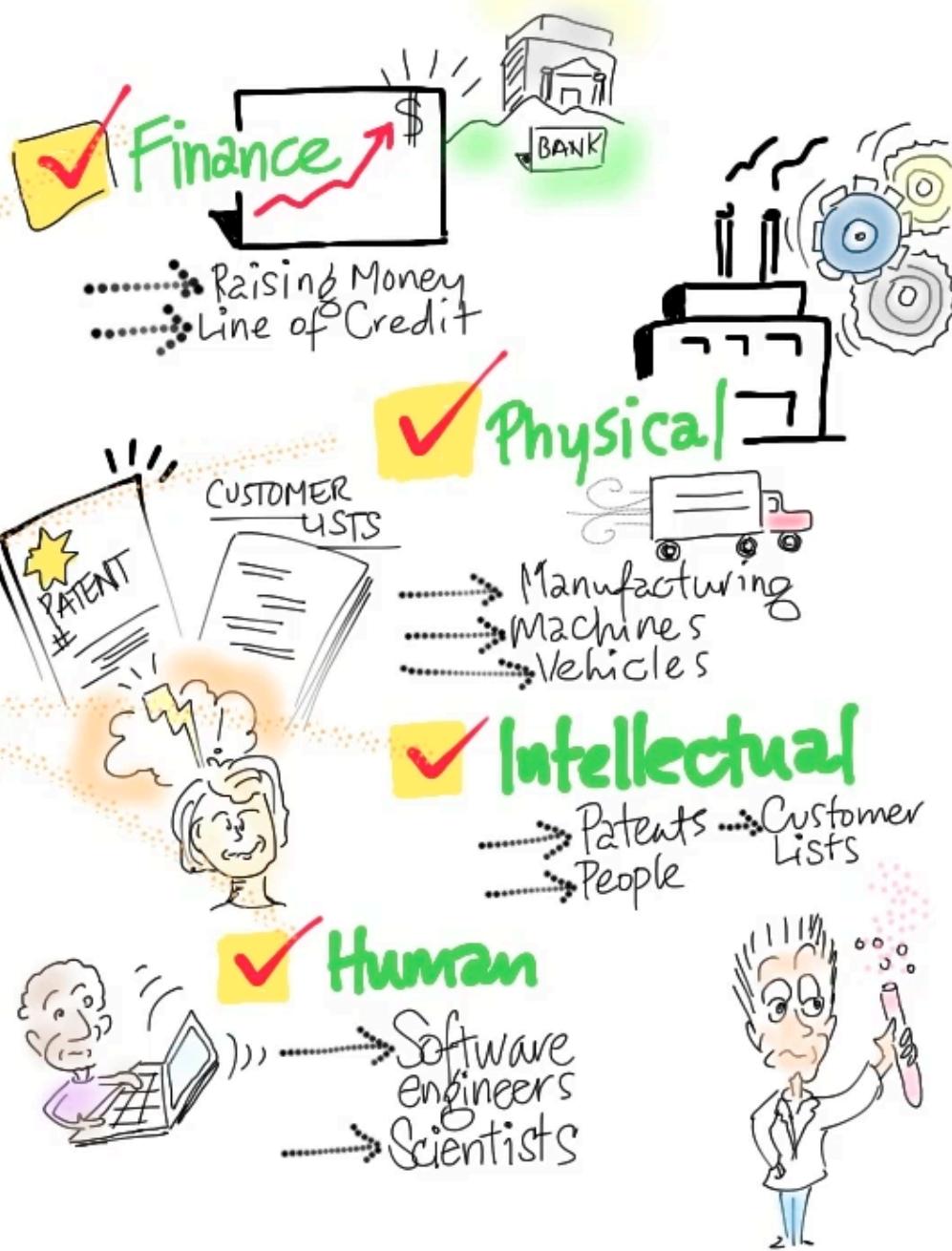
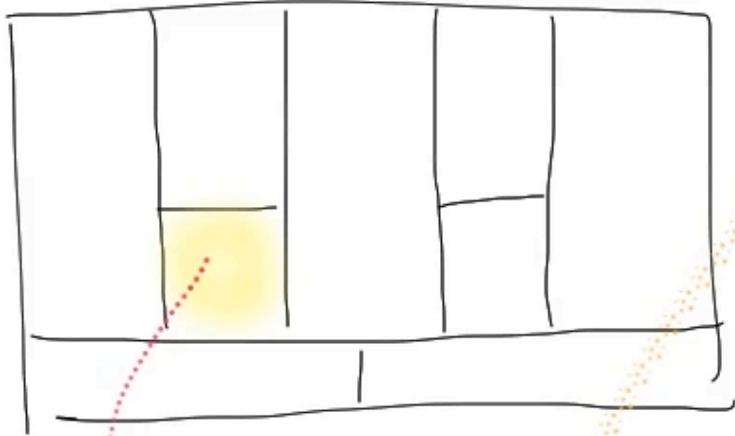
• **PRICING** is the tactics. (i.e. fees, subscriptions, etc.)

How does the company **MAKE MONEY** from each customer segment?



6. KEY RESOURCES

What are the **MOST
IMPORTANT ASSETS**
required to make the
business model WORK?



WHAT KEY RESOURCES
are we acquiring from
them?

What KEY ACTIVITIES do
they perform?

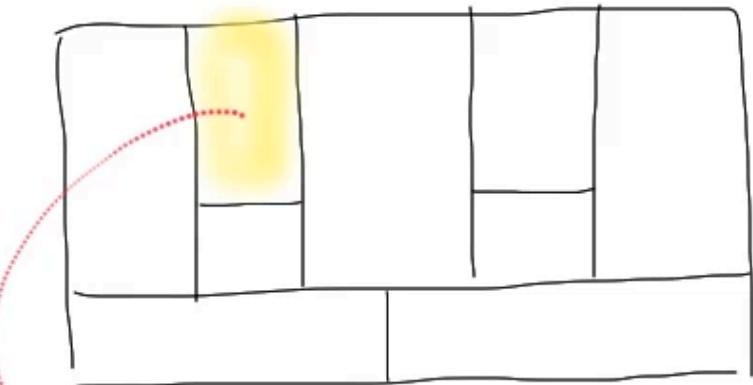
7. KEY PARTNERSHIPS

Who are the KEY
PARTNERS and
SUPPLIERS needed
to make the business
model WORK?

• JOINT VENTURES

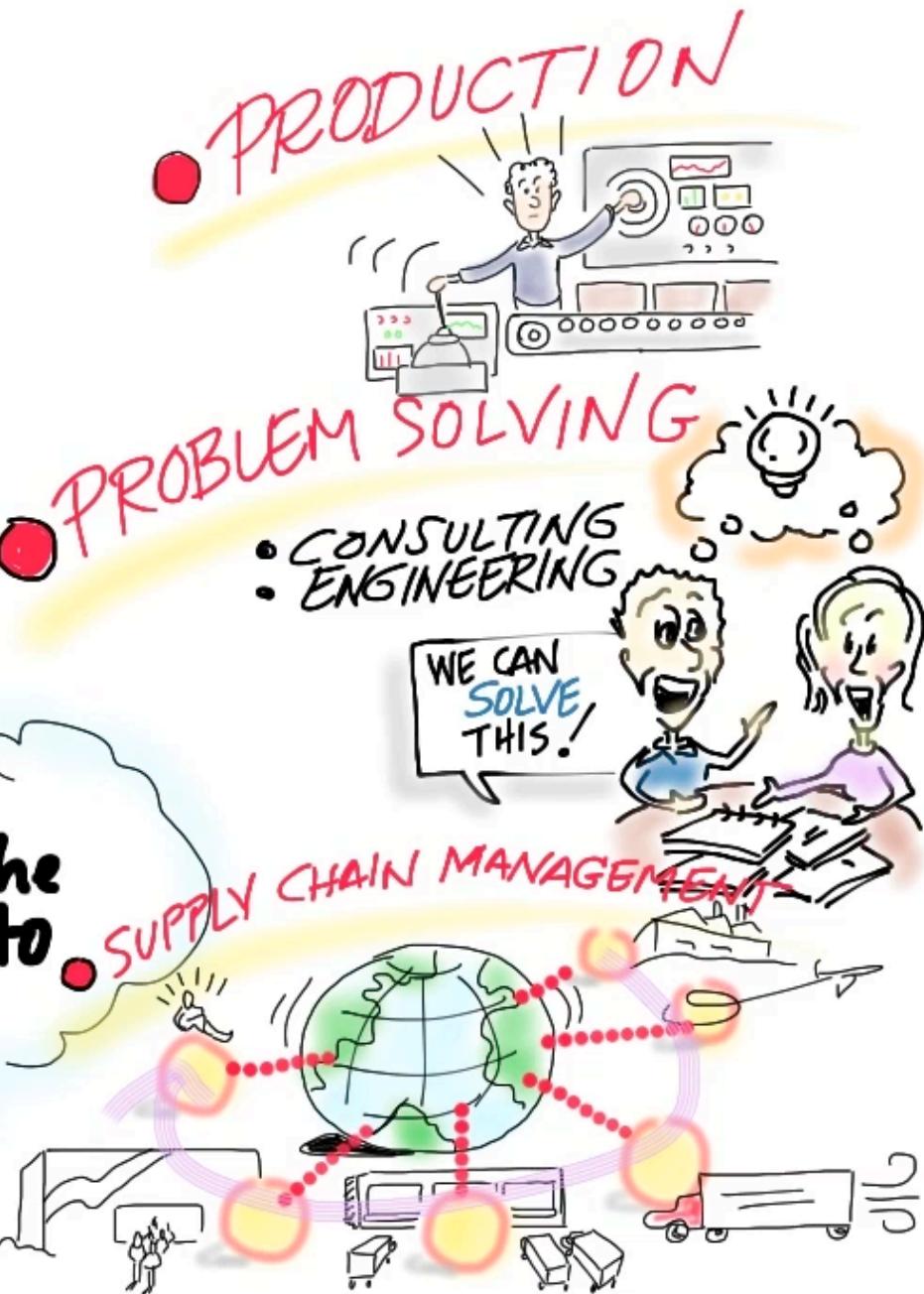
● STRATEGIC
ALLIANCES
between NON-
COMPETITORS

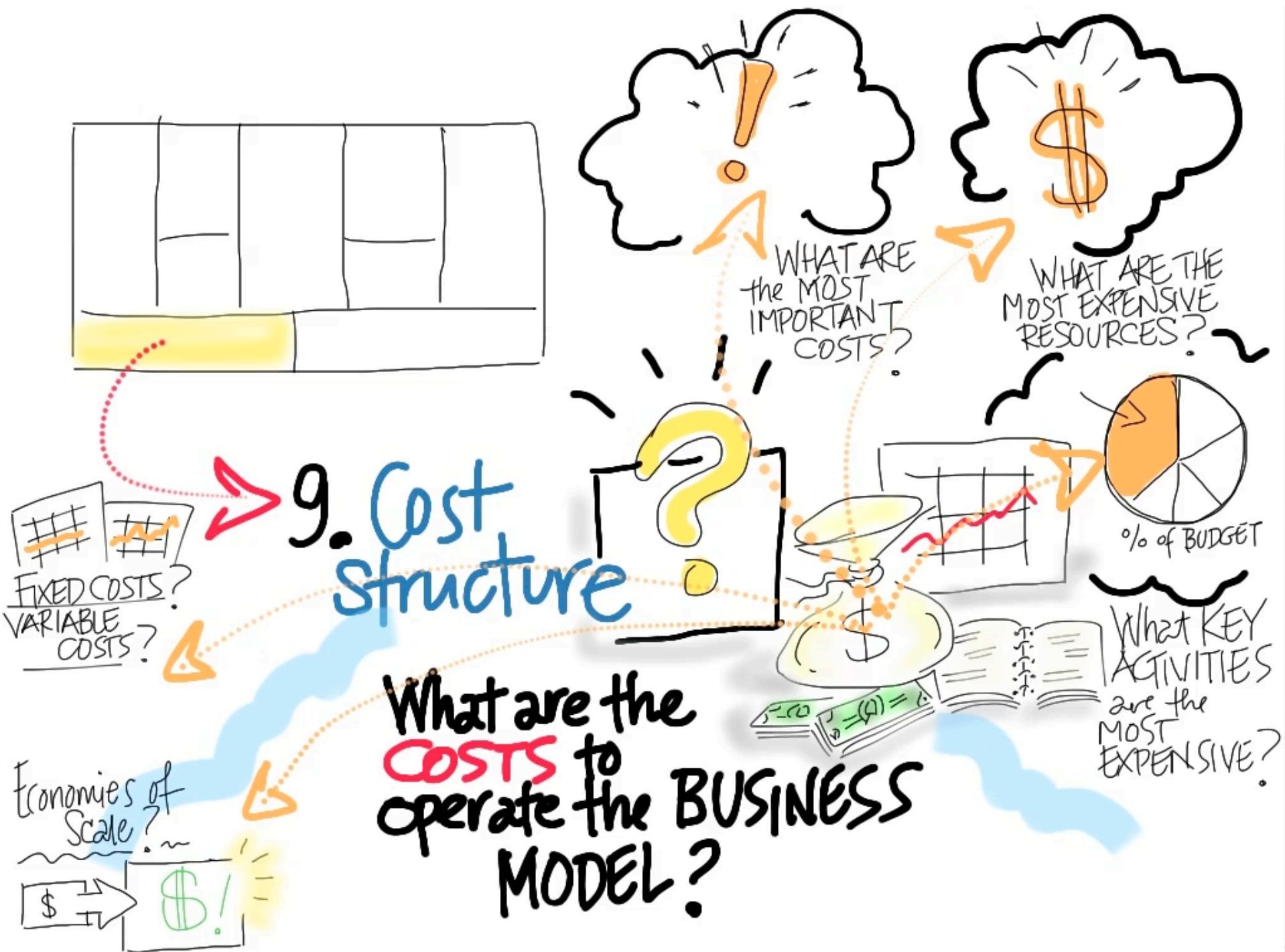




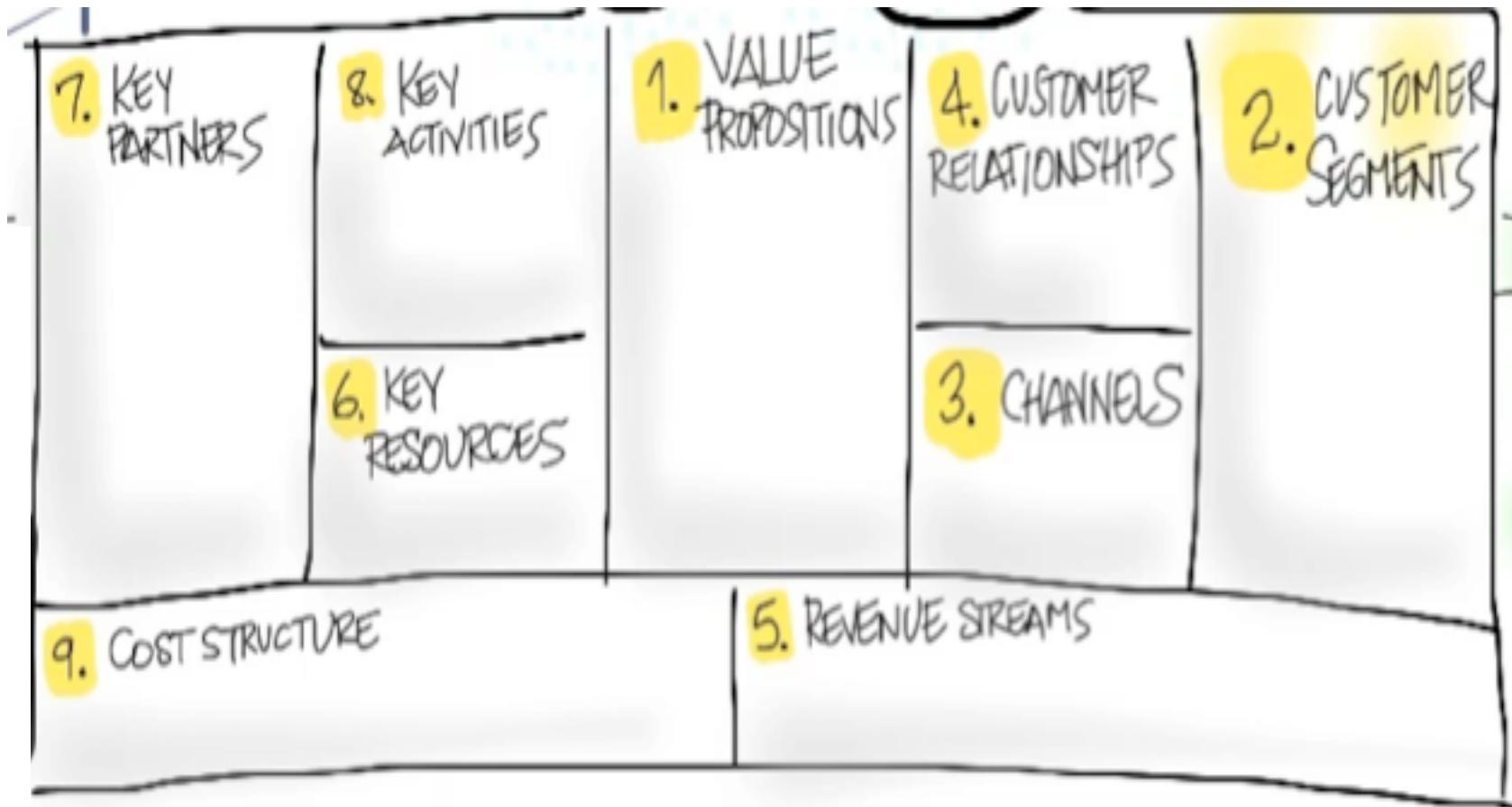
8. KEY ACTIVITIES

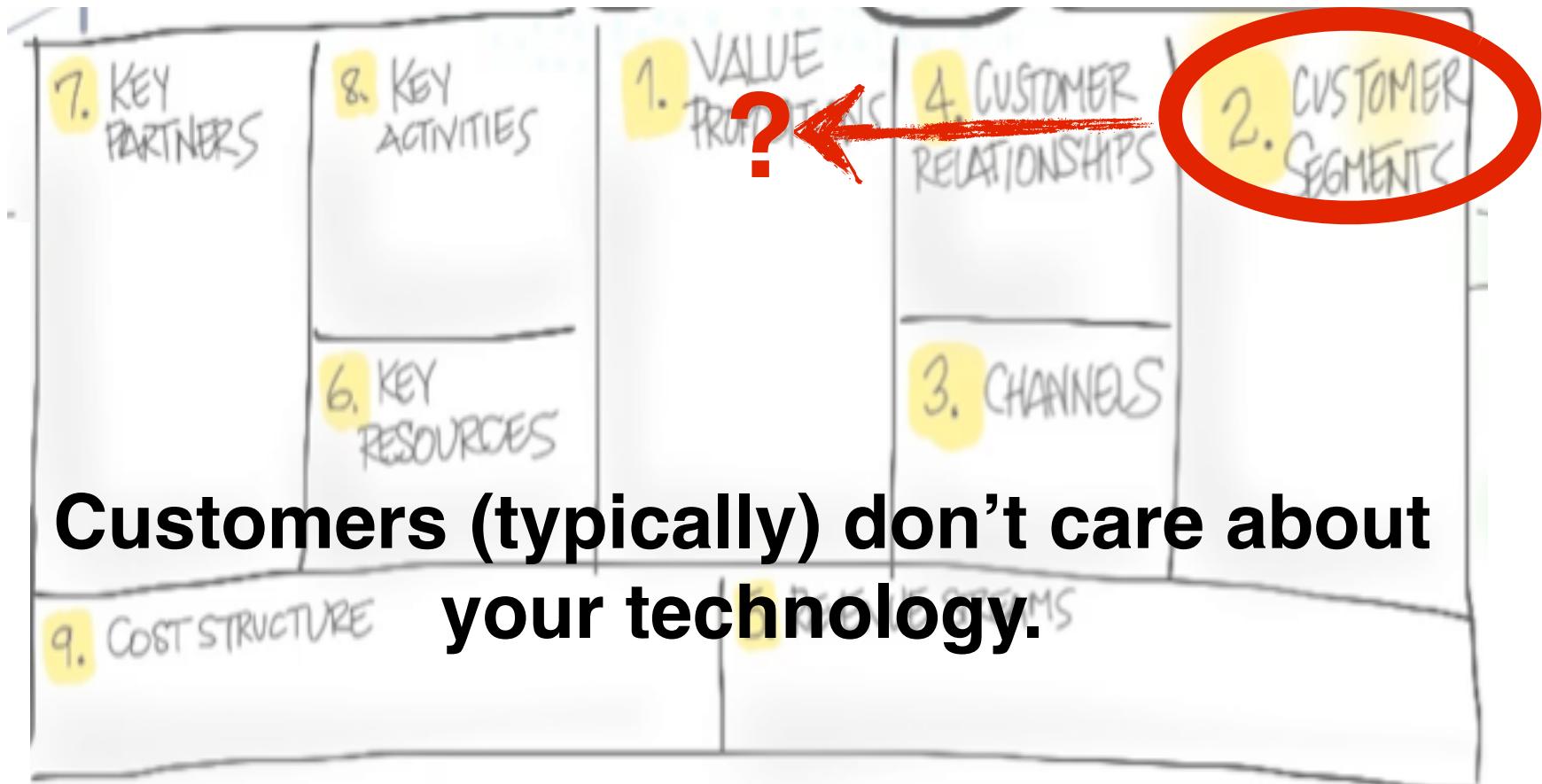
What are the **MOST IMPORTANT THINGS** the company must **DO** to make the business model **WORK**?





“What about my technology?”





Customers (typically) don't care about your technology.

They are trying to *solve a problem.*



It enables your *value proposition*.

The Business Model Canvas

Designed for:

Designed by:

On: Day Month Year
Iteration: No

Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Activities are we acquiring from partners?
Which Key Activities do partners perform?

CHARACTERISTICS:
Optimization and economy
Relationships
Acquisition of particular resources and activities

Key Activities



What Key Activities do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue streams?

CHARACTERISTICS:
Efficiency
Customer
"Minimum Job Done"
Design
R&D
Price
Cost Reduction
Risk Reduction
Automation
Convenience/Utility

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?

CHARACTERISTICS:
Novelty
Differentiation
Customer
"Minimum Job Done"
Design
R&D
Price
Cost Reduction
Risk Reduction
Automation
Convenience/Utility

Customer Relationships



What type of relationship does each of our Customer Segments expect 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
Individualized customer
Self-service
Automated services
Communities
Co-operation

Customer Segments



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

Market
Type
Segment
Demographic
Digital
Multi-channel Platform

Key Resources



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

KEY RESOURCE TYPES:
Physical
Information (Brand position, copyrights, design)
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?

CHANNEL PRINCIPLE:
1. Assume that your company produces and services
2. Assume that your company sells our organization's Value Proposition
3. Purchase
4. Sell
5. Deliver
6. After sales
then do you provide your 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?

IN COST STRUCTURE MODE:
Cost Driven (Constant cost structure, low price value proposition, minimum utilization, extensive outsourcing)

SAMPLE CHARACTERISTIC:
Fixed costs
Variable costs
Economies of scale
Economies of scope



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?

TYPE	EXAMPLES	FIXED PRICING	DYNAMIC PRICING
Usage	Subscription fees Lending/Renting/Leasing Commission fees Brokerage fees Advertising	Low Product feature dependent Customer base dependent Volume dependent	High Market Trend Management Book-time Market

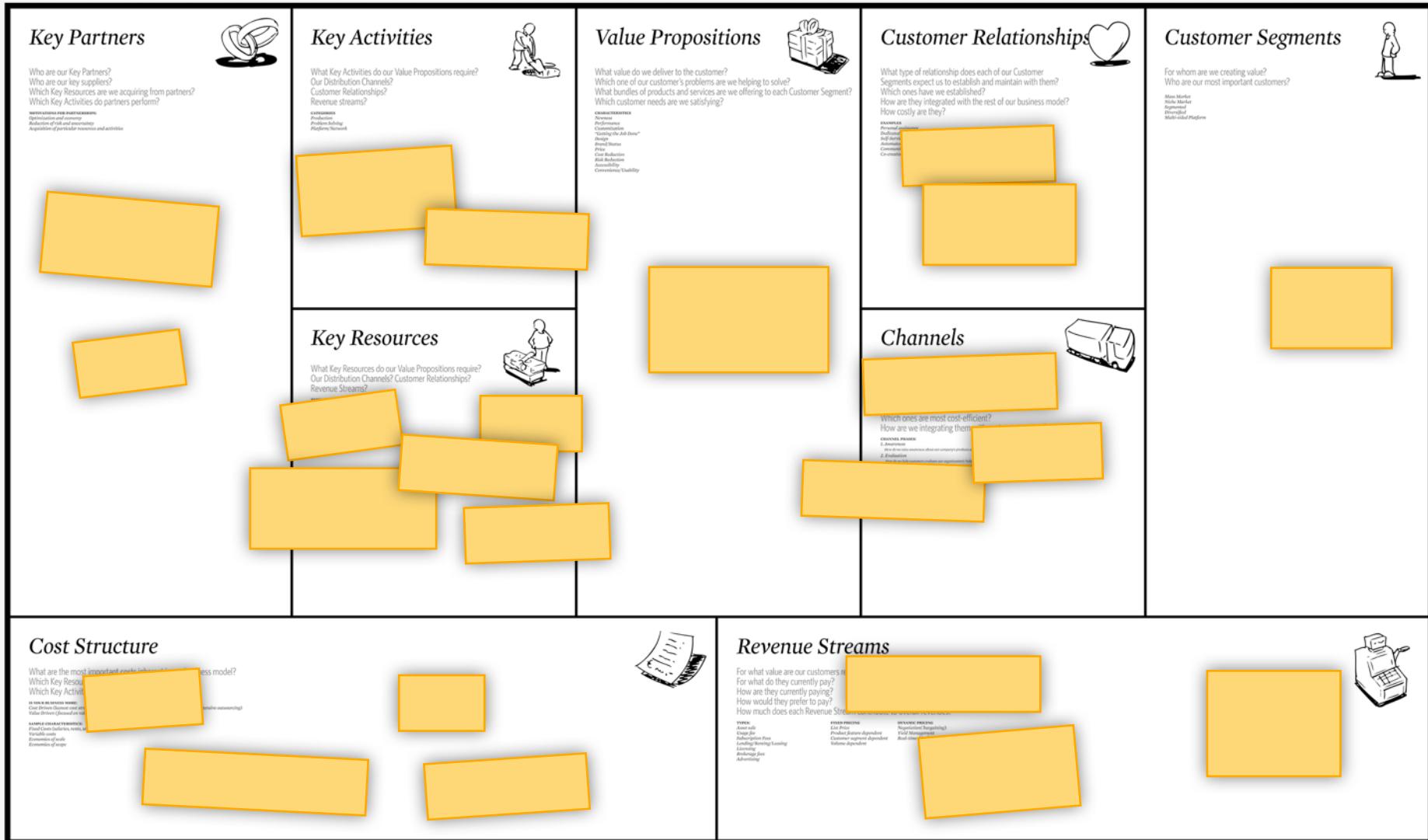


The Business Model Canvas

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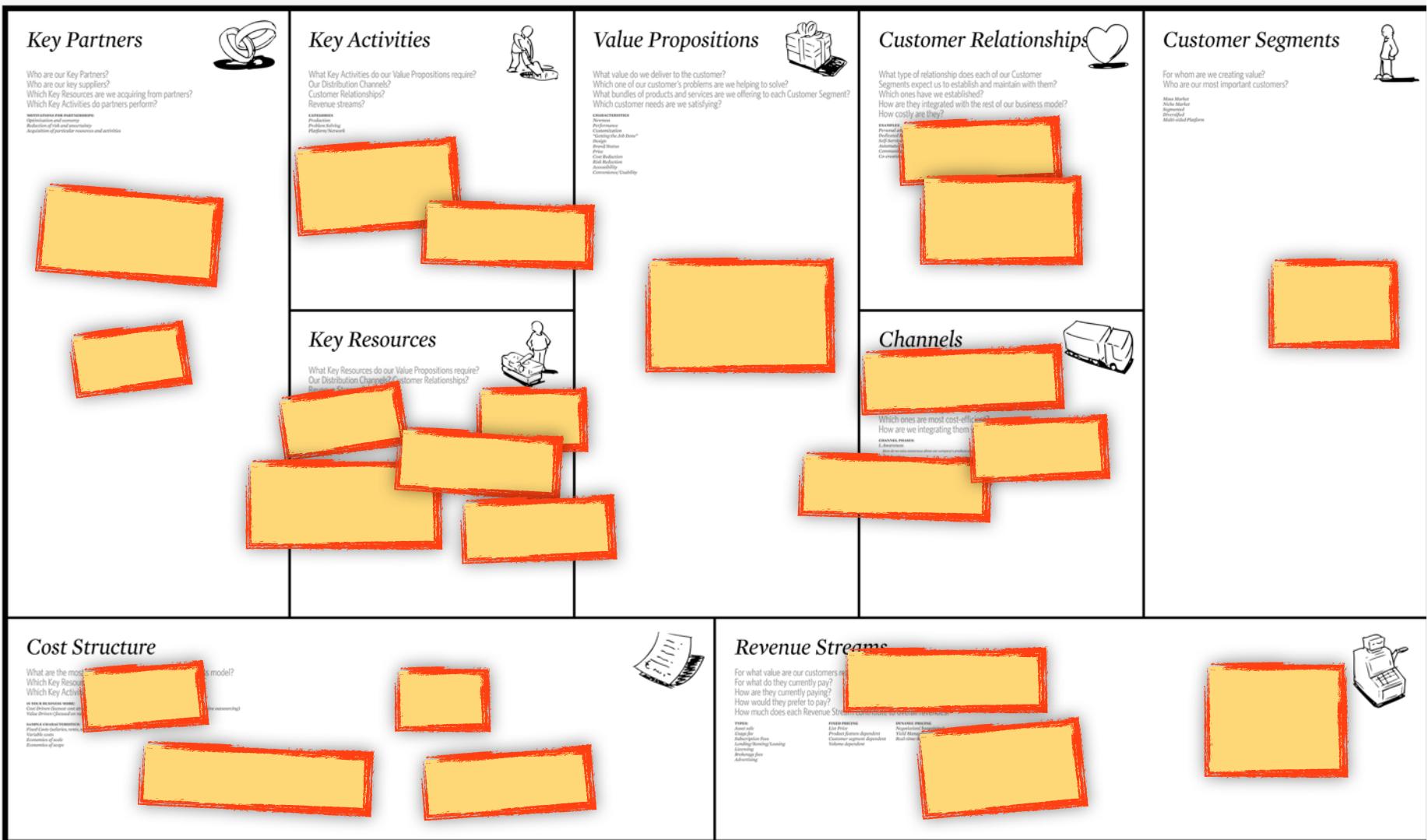
Designed by:

On: Day Month Year
Iteration: No

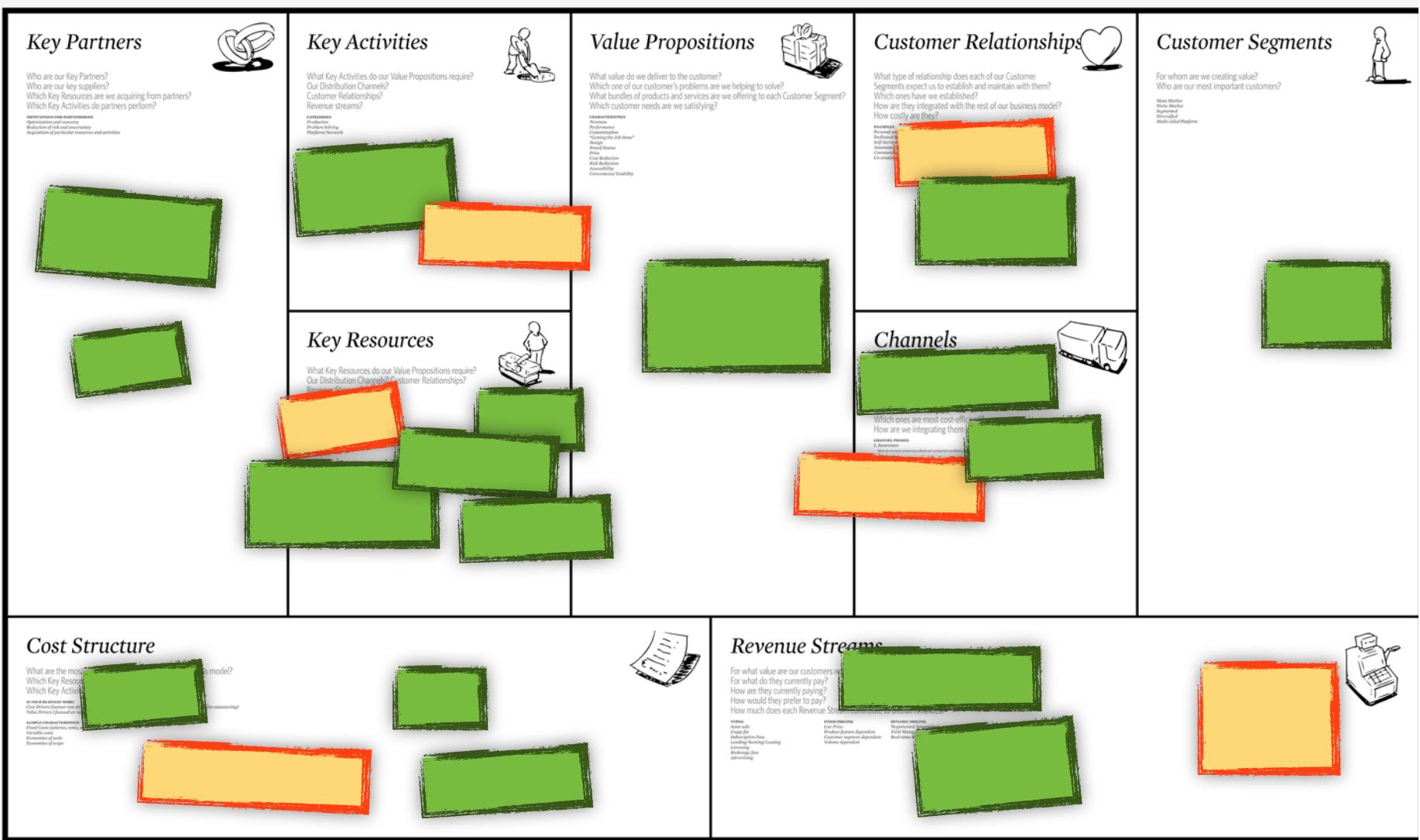


But . . .

They are just Guesses

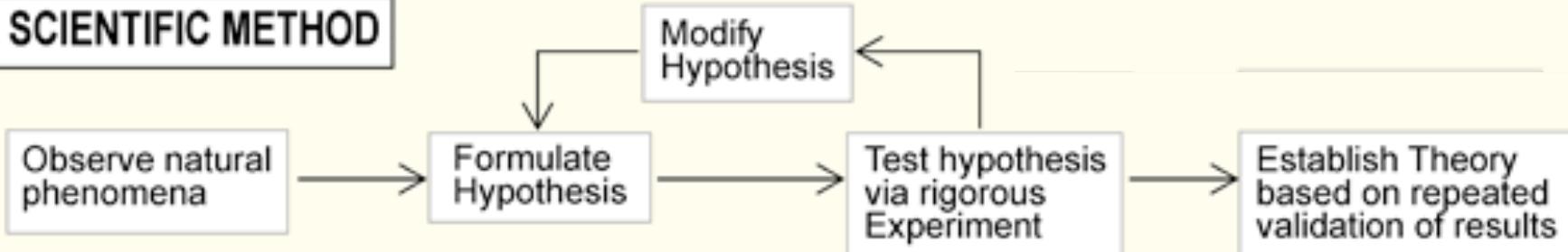


... we need FACTS!

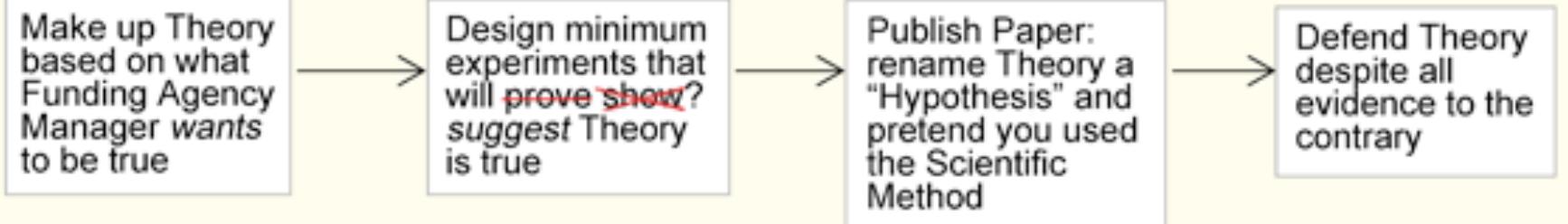


How?

THE SCIENTIFIC METHOD



THE ACTUAL METHOD



Startups are
in **SEARCH**
mode!



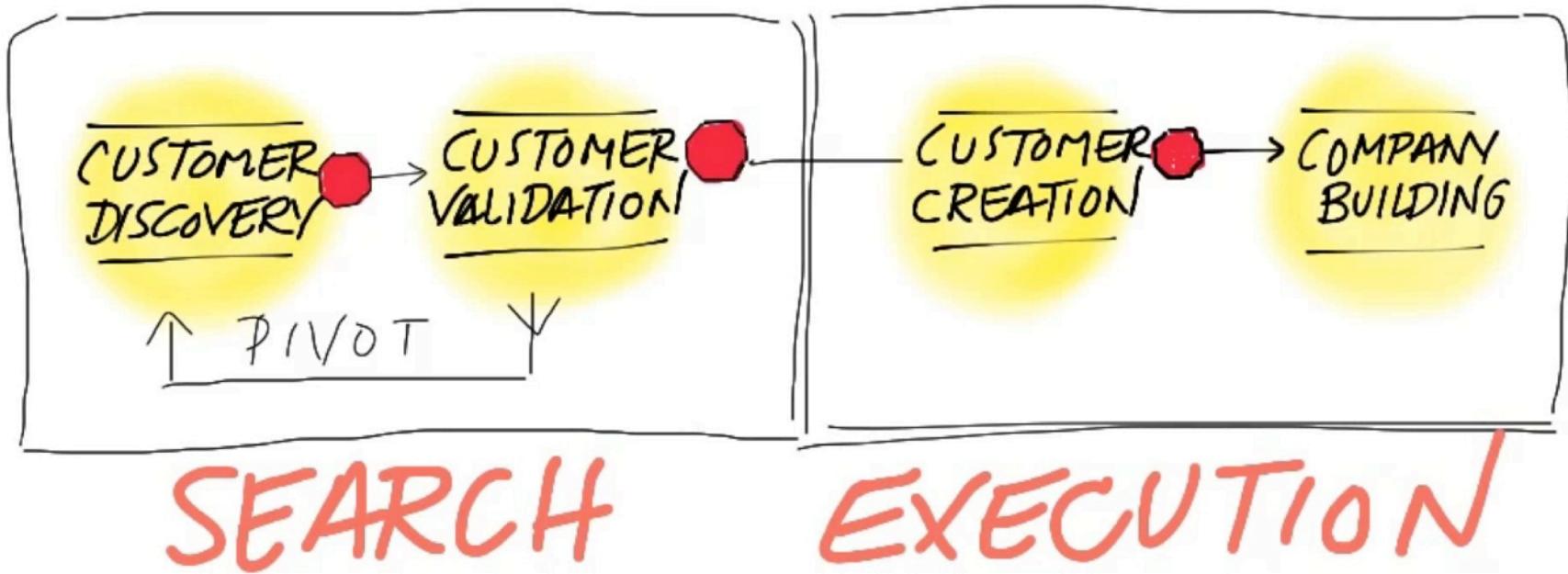
The CANVAS...

A set of
~~HYPOTHESES~~
GUESSES!

HERE'S
How...

How do we
change "guesses"
into **FACTS**?

A Startup's Journey



**Startups Search
Companies Execute**

Customer Development

**First, test your understanding
of a customer's problem.**

Then, test your solution.

The CUSTOMER DEVELOPMENT PROCESS, continued...



TEST your GUESSES...
and LOOK for INSIGHTS!

- Mark up your old canvas.
- ... but don't discard your learning.

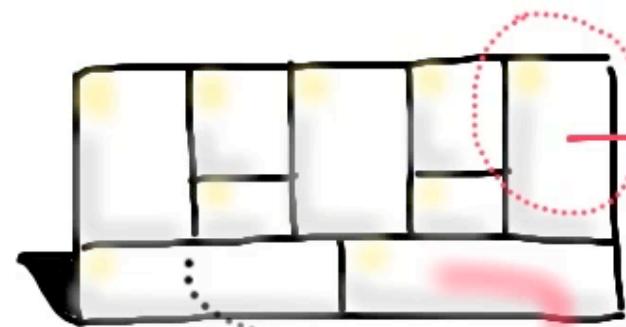


START 2 NEW CANVAS.

- New hypotheses ...
- New experiments ...
- New tests ...

... and GET OUT
of the BUILDING!





Customer
Segments

Your canvas...

Do the hypotheses
need to be
MODIFIED?

Did the results
match the hypothesis?

WHY? WHY
NOT?

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



- Run Google Adwords campaign to acquire
- COLLECT and ANALYZE the data



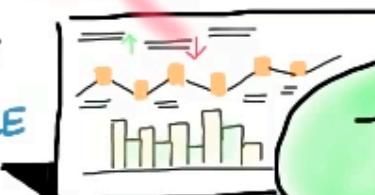
"Customers will
be MALE ...
24-35 ...
in URBAN AREAS ...
... who like
STARBUCKS ..."



HYPOTHESES

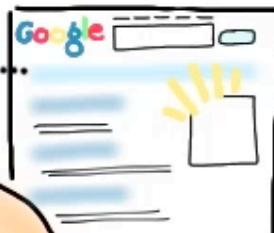
"How about
a GOOGLE
ADWORDS
campaign to
acquire?"

INSIGHT



TEST

DESIGN
EXPERIMENT



MVIP

Minimum Viable Product

Minimal Viable Product

Continued ...



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

HOW ABOUT SOMETHING DIFFERENT?

MINIMAL VIABLE PRODUCT

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

DEMO

WHAT DO YOU THINK?

CHANGE THIS!

2. QUICKLY and ITERATIVELY GET CUSTOMER FEEDBACK...

"IT'S BETTER, BUT..."
THUMBS UP!

- ▶ of TIME...
- ▶ of PEOPLE...
- ▶ of MATERIAL...
- ▶ of RESOURCES...

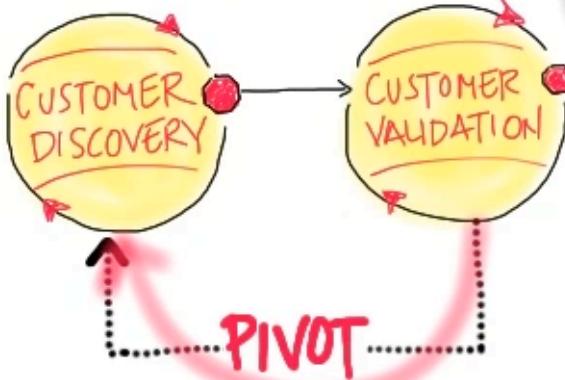
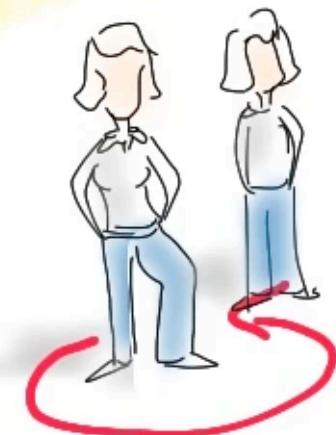


3. As you get more feedback, you can ADD MORE FEATURES.



**Don't Fail
Pivot**

PIVOT



SPEED: On the web, you can reach thousands of customers in a short amount of time.

TEMPO: Like a metronome tempo is **CONSTANT**, **CONSISTENT**, and **RELENTLESS**.



PIVOTS are the RESULT of HYPOTHESIS TESTING and EXPERIMENTATION.

REMEMBER!
Hypothesis testing involves **FAILURE!**

What do you do when **HYPOTHESES** do not match **REALITY**?

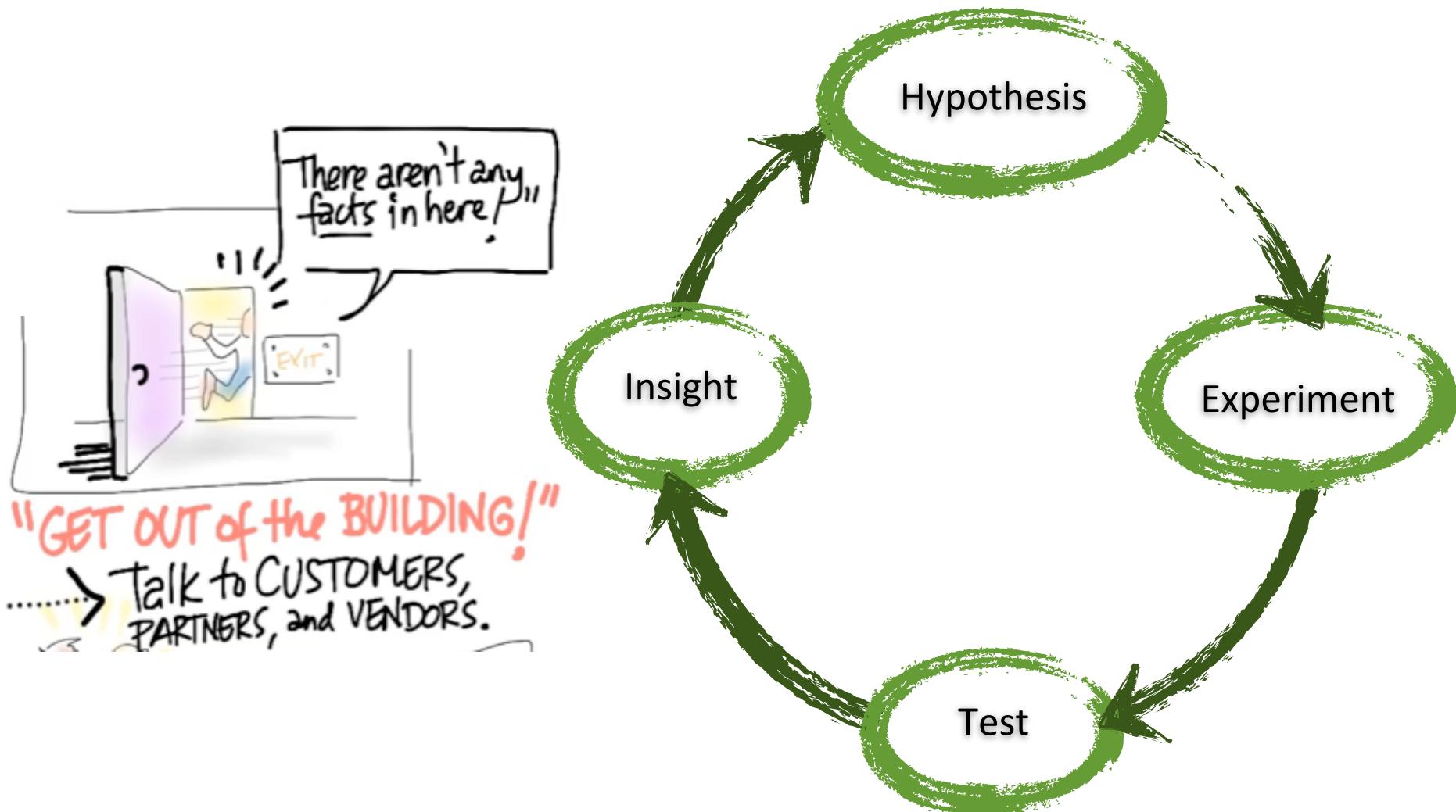
A PIVOT is a **SUBSTANTIVE CHANGE** to one or more business model components.

An **ITERATION** is a minor change...

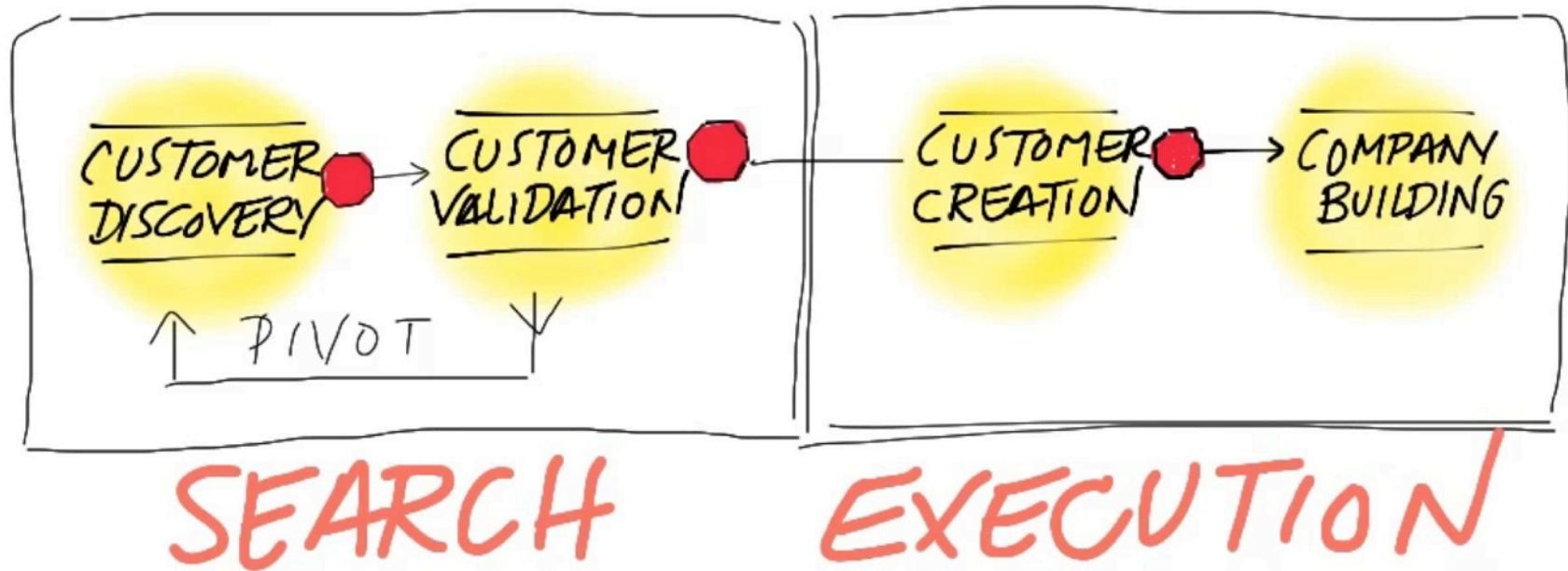


FIRE the HYPOTHESIS, not the FOUNDER.

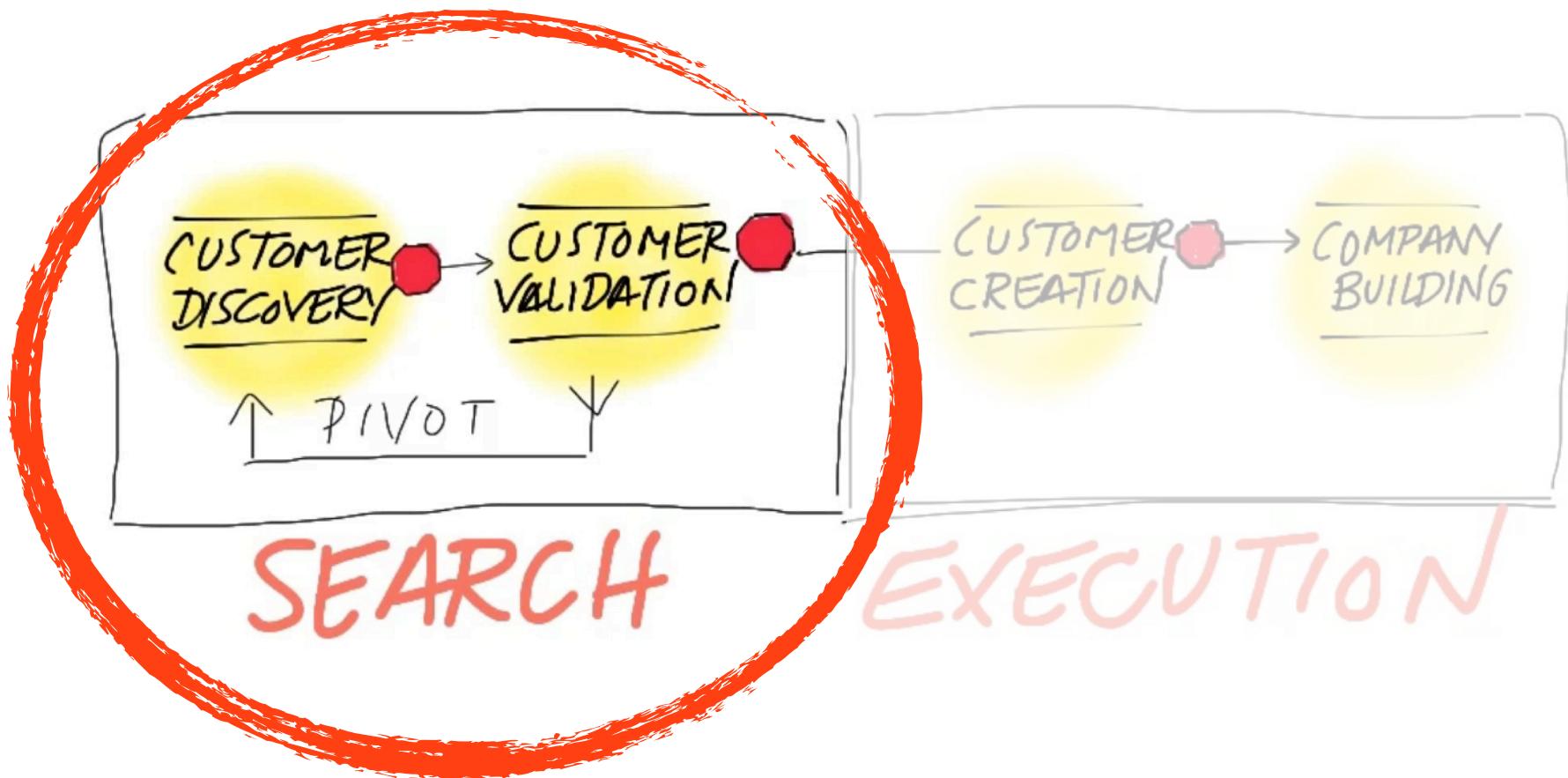
Hypotheses Testing and Insight



Customer Development is how you search for the model



Our focus is on search mode.



CUSTOMER
DISCOVERY

CUSTOMER
VALIDATION

3 Test the Solution

4

Verify or Pivot

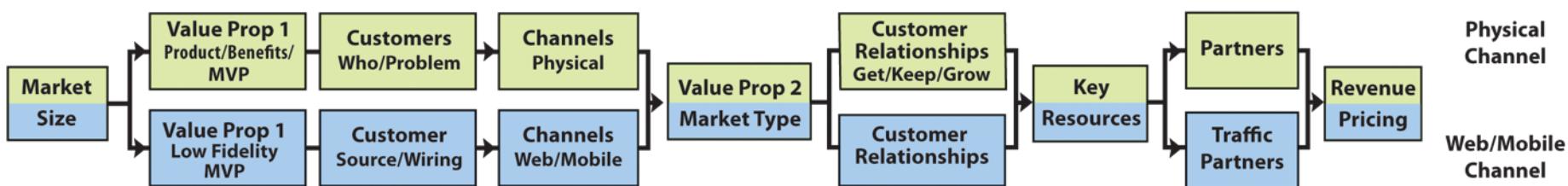
2 Test the Problem

1

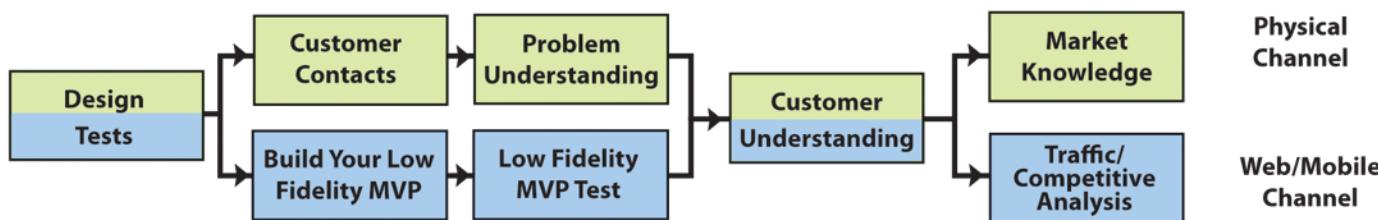
1 State Hypotheses
Draw the Canvas

↑ PIVOT

State Your Hypotheses

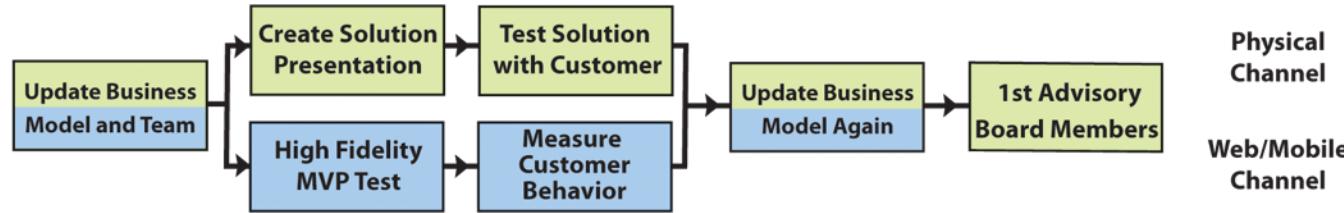


Test the Problem



Customer Discovery

Test the Solution



Pivot or Proceed



All
Channels

CUSTOMER
DISCOVERY

CUSTOMER
VALIDATION

↑ PIVOT

4

Verify

3

Develop Positioning

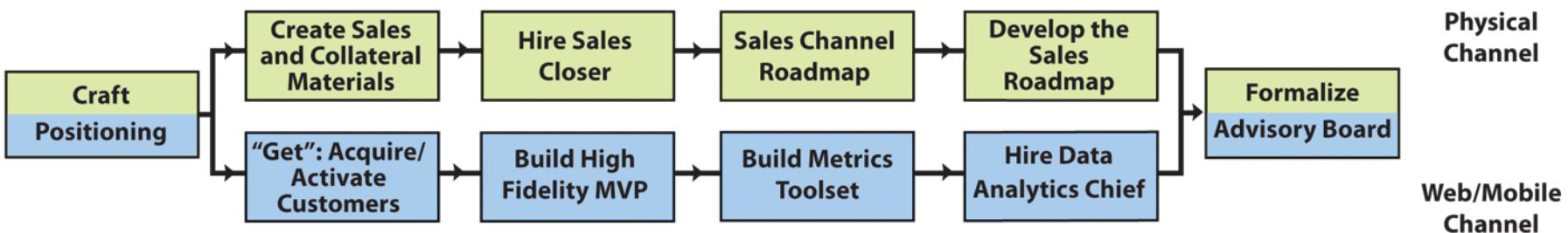
1

Get Ready to Sell

2

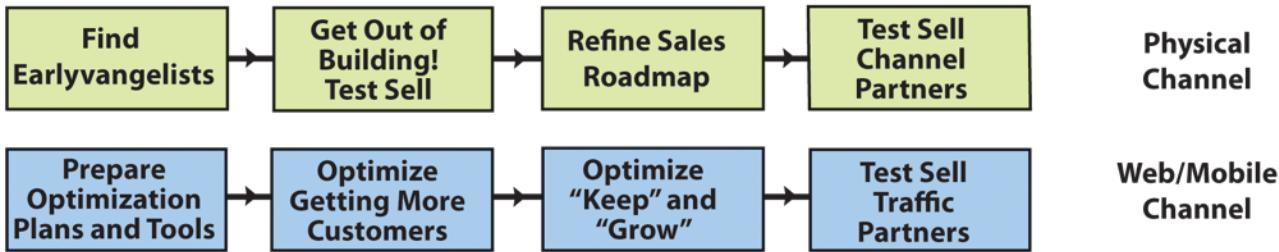
Get Out of the Building

Get Ready to Sell



Get Out of the Building and Sell to “Earlyvangelists”

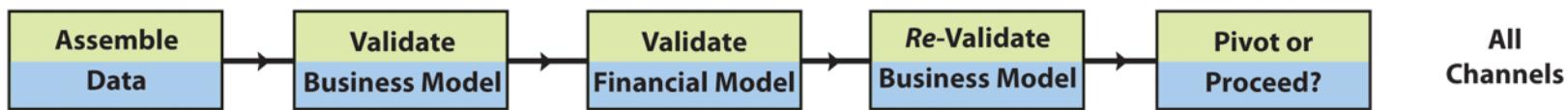
Customer Validation



Develop Positioning



Pivot or Proceed



Lean Startup++

Lean Startup

Minimum Viable Product

Continuous Deployment

A/B Testing

Actionable Metrics

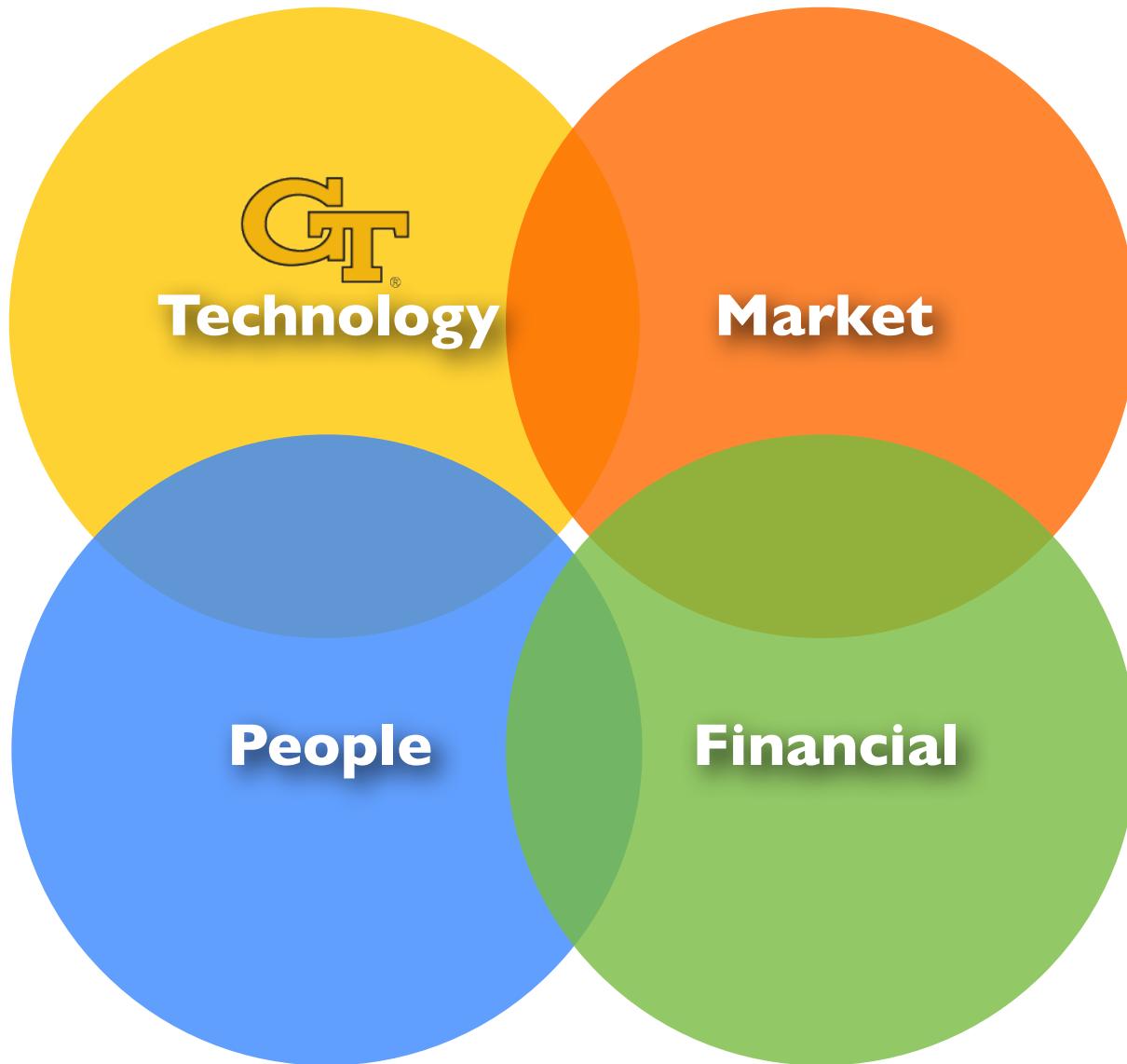
Pivot

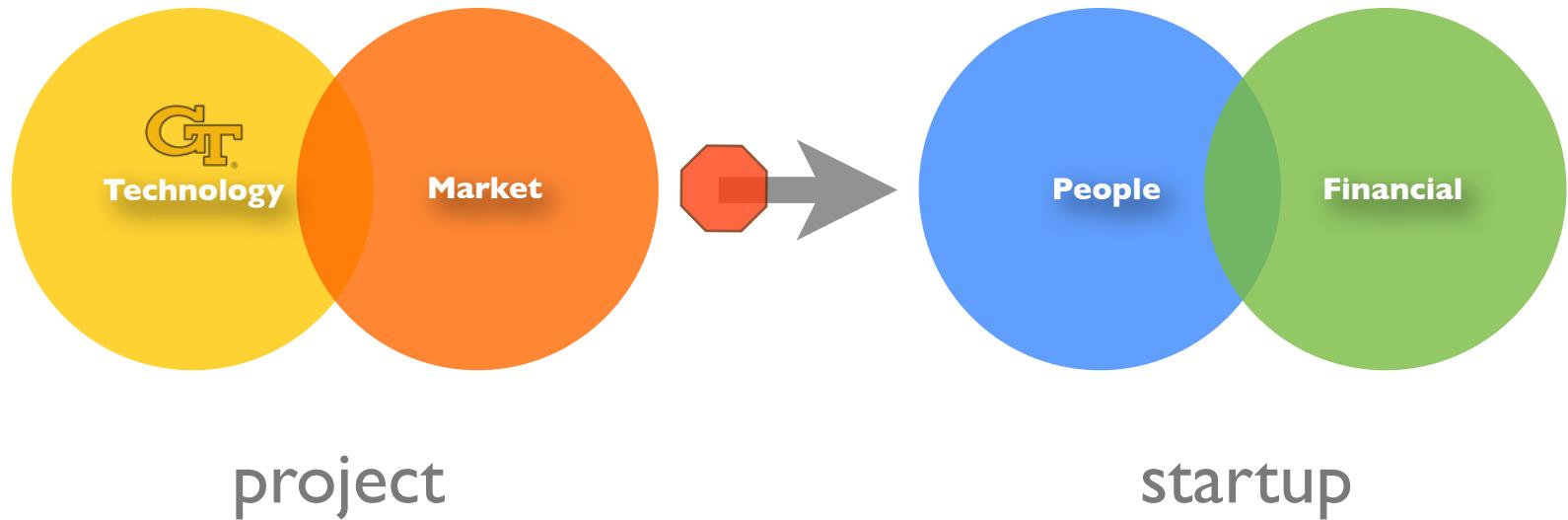
Lean Startup

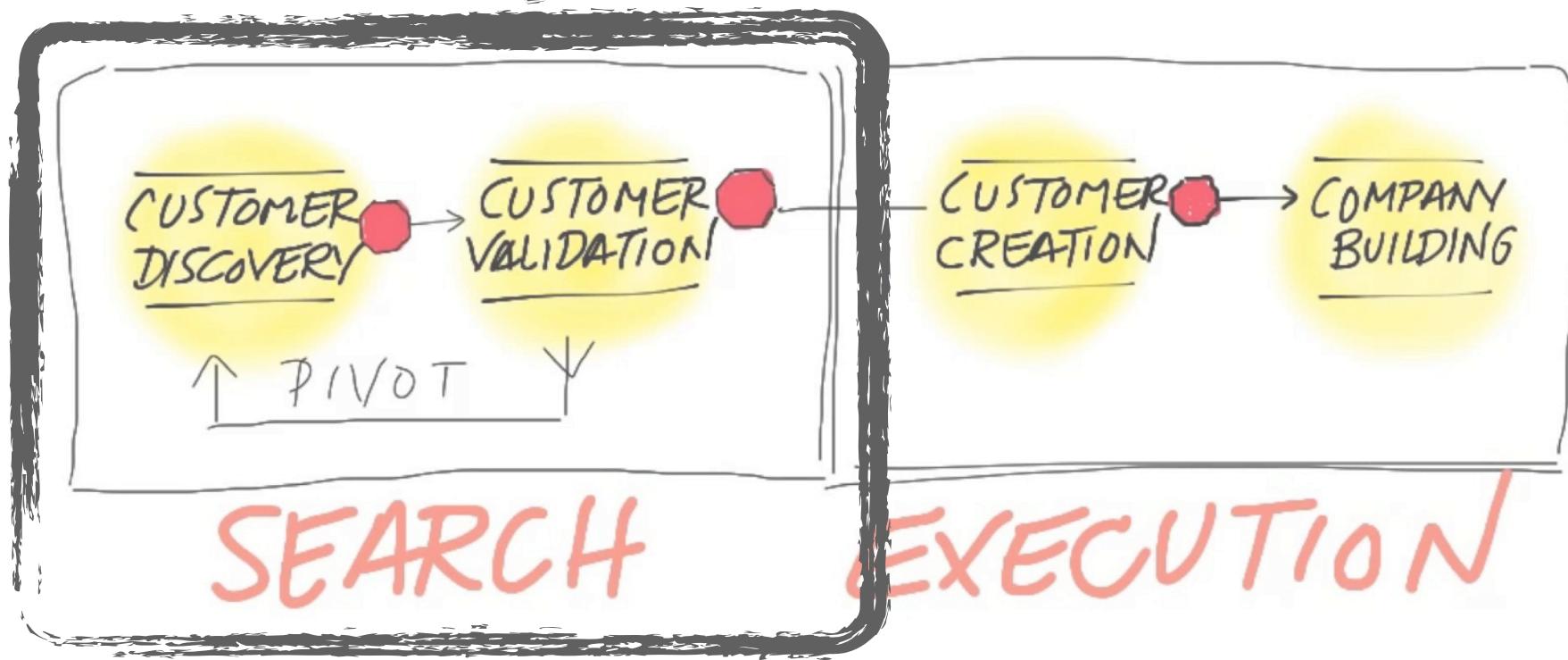
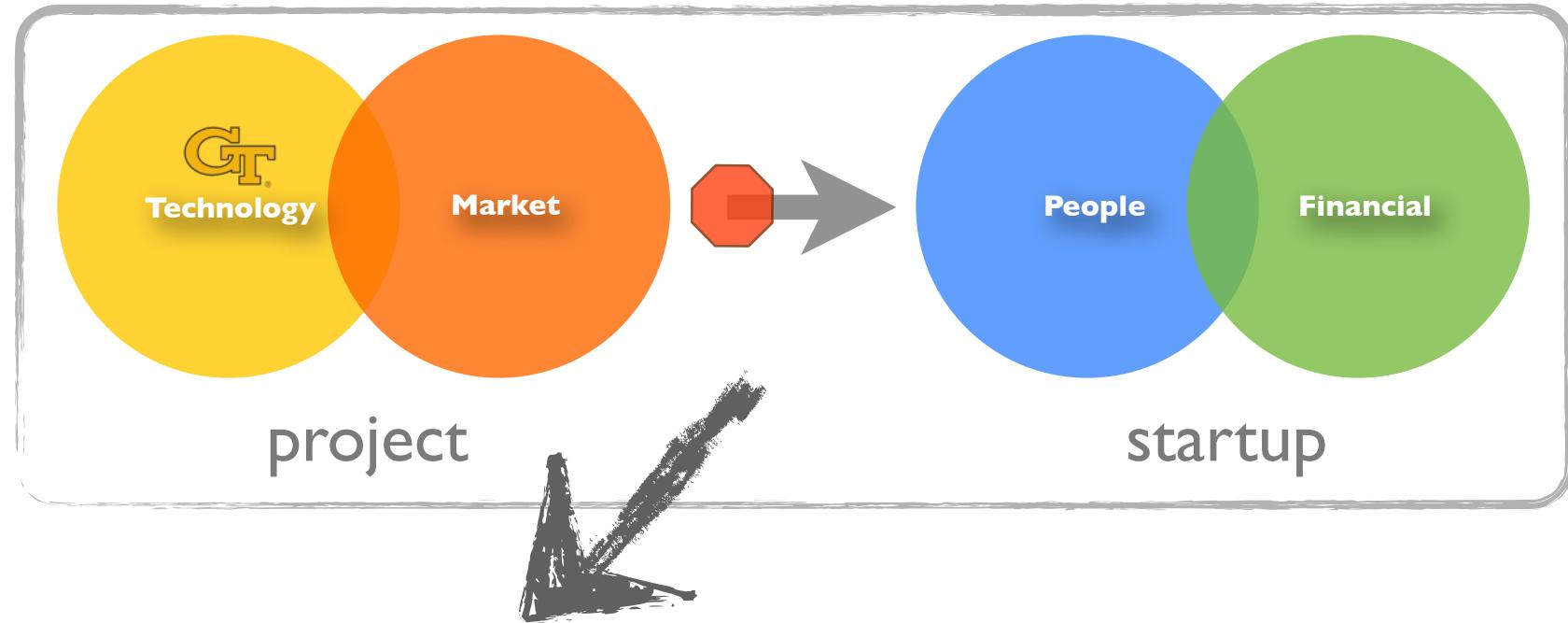
+

Four Risks

the Four Risks









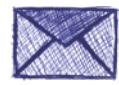
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