



MaRS | ENTREPRENEUR WORKBOOKS

Fundamentals of Entrepreneurial Management

Workbook 2 Business Model Design

Introduction: Importance of business models

All new businesses have to deal with the challenge of designing a sustainable business model. This is especially true for businesses with innovative products because they often disrupt parts of the industry value chain, which means that stakeholder relationships and revenue models must be crafted from scratch without the benefit of existing industry practices. While such a challenge might sound daunting, it also represents an opportunity to redefine an industry and reap the benefits of mastering a new way of doing business.

Workbook 2: Business Model Design

This workbook is the second in a series of two workbook guides that address the fundamentals of business strategy for startups.

- [Workbook 1: Crafting Your Value Proposition](#)
- Workbook 2: Business Model Design

Although the learning material is spread over two workbooks, you can consider them as two parts of a whole.

The workbooks have been developed specifically for early-stage startups, and they address the key issues that entrepreneurs and their teams face. The following guidelines were key in developing this material:

- The information is based on solid practices and methodology
- The workbooks are not about reading—they are about doing
- Speed and momentum are essential for startups

Relationship to value propositions

Developing your business model is best done once you have determined and validated your value proposition. The value proposition forms the core of your business model and concerns decisions of a higher order than most business model decisions. In other words, many business model decisions depend on value proposition decisions, not the other way around.

If you do not have a value proposition, then it can be difficult to determine if and how your business will make money, which partners you will need, the nature of your key operations, and even your customer acquisition and relationship activities. The value proposition is also necessary for ensuring that all of these elements—when put together—are financially viable. We therefore recommend that you go through the Value Proposition workbook guide before you begin working on your business model.

How to use these workbooks

1. Make it a team exercise

We recommend that entrepreneurs work with their team and advisors when going through the steps of this workbook. Doing so will ensure that together you develop a common understanding of where you are, the direction in which you are heading and the process of how to get there. Fundamentally, the issues addressed in these workbooks should not be explored by a single person or department in isolation—they should be a shared responsibility and experience.

2. Record and update your work

When documenting the work in the workbook activities, establish a format that suits your working style and is not too labour-intensive. Overall, we recommend that documentation be done in such a way that it does not slow the process.

One such method would be to use a slide deck—a PowerPoint template accompanies this workbook for this purpose. The presentation format lends itself to documenting your plans and progress through shorter phrases and bullet points, and we recommend that format since much of what you write will be changed, clarified or expanded over time.

3. Use the icons for help

The MaRS workbooks are created under the assumption that you have little or no experience as an entrepreneur and the topics covered in this workbook. To help provide context for some of the ideas in these workbooks, we have clarified them by defining key terms and offering real-world examples. In addition, we have provided links to articles provided by MaRS through the [Entrepreneur's Toolkit](#). For this reason, you may find it easiest to use these workbooks on a computer with an Internet connection.

Look for these icons:



denotes a key industry term that will recur in these workbooks



indicates an example drawn from a real-world business in order to illustrate an important idea



denotes a link to a more in-depth online article

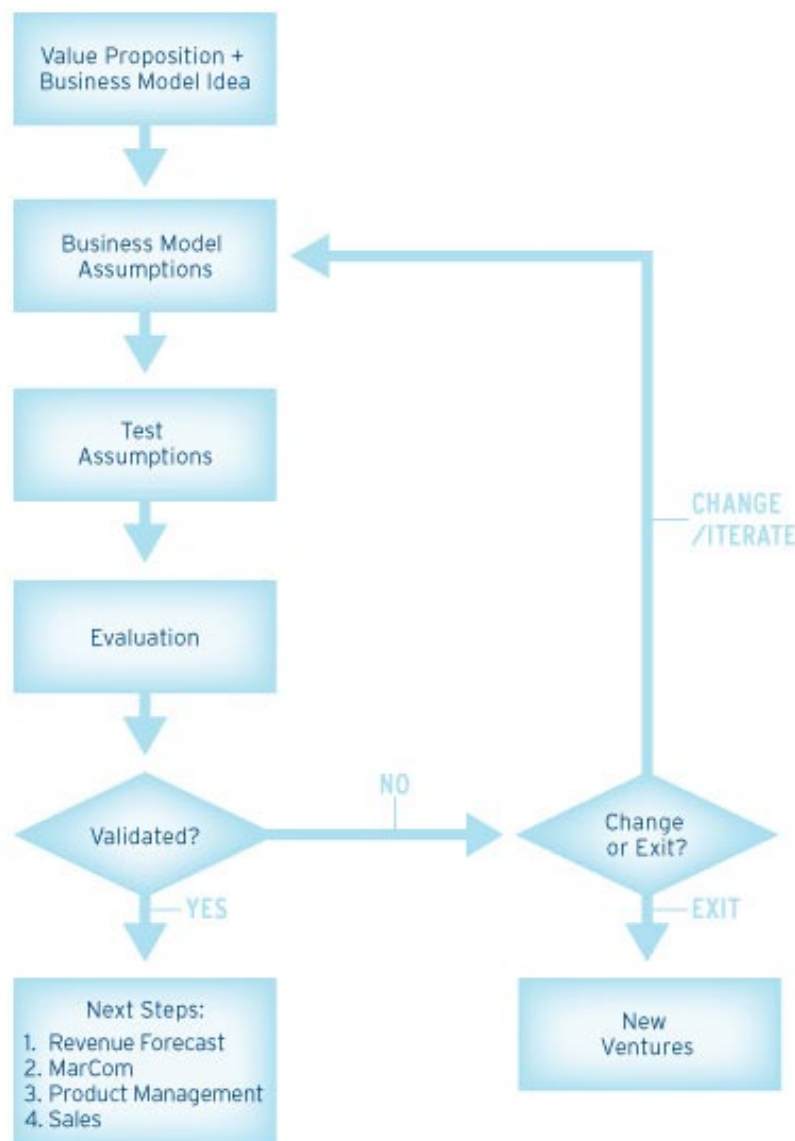


appears wherever you are asked to record something while completing the activities

Before you start

The following flowchart will help you to understand the business model process, which is the basis for this workbook. Individual steps will be explained in greater detail later in the workbook. However, it is useful to note that designing a business model is not always a linear process, but might involve several iterations before you settle on a final business model.

Business Model Process



WORKBOOK 2:

Business Model Design

1. Definition of business model

There are several ways to define a business model. Most people understand that a business model describes **how you make money**. However, a definition that focuses strictly on revenue generation is too limited for our purposes.

Entrepreneurs who are in the process of designing their business model require an approach that allows them to understand if and how a value proposition can be successfully scaled up to a profitable business. "Scaling up" refers to the process of progressing from creating and selling your first unit to a situation where you are creating and selling multiple units in a financially sustainable manner. To make such an assessment, a business model must include operations, customer acquisition and retention, supply chain management, and the aforementioned cost and revenue aspects. With that in mind, we prefer the following definition:

"A **business model** describes the value an organization offers its customers and illustrates the capabilities and resources required to create, market and deliver this value and to generate profitable, sustainable revenue streams." (Osterwalder, A., Pigneur, Y., & Tucci, C. (May 2005). Clarifying Business Models: Origins, Present and Future of the Concept. Communications of the Association for Information Systems, Volume 15)

This definition is particularly useful for entrepreneurs because it is based on a holistic perspective of the business and emphasizes the sustainability aspect of a business model.

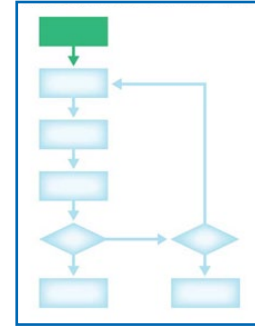


Parts of this workbook draw on the work of Alex Osterwalder and Yves Pigneur, who provided the definition of a business model.

Activity 1: Key business model questions

To begin the process of designing the business model, please answer the following questions. Answer as accurately as possible because you will need this information later in the process.

1. How do you acquire customers? Briefly describe the steps involved, the amount of time required, the typical value of a deal and the stakeholders required (including the people on your side and the customers' side) to sign a new deal.
2. After you have landed a new customer, how do you plan to relate to that customer and manage the relationship (if at all)?
3. How do you charge your customers? What is your [revenue model](#)?
4. How much do you charge your customers? Can you calculate your revenues for the next [month, quarter and year](#)?
5. What assets are available to you or under your control?
6. Who are your key partners?
7. What key activities do you need to engage in to deliver your [value proposition](#)?
8. What are your fixed costs?
9. What are your variable costs? Can you calculate your total cost for the next month, quarter and year?
10. Does your revenue forecast demonstrate increased profitability toward the end of the forecast period



Value proposition

Located at the centre of the canvas, the [value proposition](#) links the left side (i.e., the upstream or supply side) of the document with the right side (i.e., the downstream or front office). The process of arriving at a value proposition has been covered in greater detail in the first workbook, so we will refrain from going into greater detail. The Business Model Canvas is easier to complete once you have determined the value proposition. Since a value proposition is unique to each target customer, beginning the design process with a completed value proposition establishes the two most fundamental building blocks of the business model.

Channels

When addressing this building block, you must determine how to connect the value proposition with the target customer. The term “channels” refers to three different facets of making connections—communication, sales and logistics.

- Communication refers to the [channels you use to communicate](#) with your potential customers. Do you communicate through direct personal contact, interactive media or mass media (or by using a combination of methods)? The proliferation of communication channels, partially due to the emergence of the Internet in the 1990s and smartphones in the last decade, offers every company a wealth of communication options. Each communication channel has its own strengths and weaknesses that impact its suitability for your purpose. Furthermore, cost considerations influence the range of options available to you. Independent of which channels you end up choosing, the objectives for your activities are related to guiding potential customers through the stages of the [buying process](#).
- The sales channel is where buyers and sellers agree on the transaction. While there are many communication options, there are fewer sales channels. Typical sales channels include direct (over the phone or in person), via intermediary such as an agent, wholesaler or distributor, retail and web. Key factors to consider when determining which channel to use include the complexity of your product solution, the cost of the channel, and its physical or geographical reach. Aside from mass-market products, most startups (including Internet startups) deploy a direct sales model in the early stages to learn how customers buy and what messages work well. Finding a repeatable sales process is essential to a startup's success, as the absence of such a process will slow the company's growth and limit its potential. A repeatable sales process means that the sales' key characteristics are relatively stable from one transaction to another, including transaction value, length of sales cycle, buying centre and delivered product.



Read more about [sales metrics](#) to better understand the sales process.

- Logistics refers to the channels you use to physically deliver your product solution to the customer. While most software and other digital products can be delivered over the web, certain products (e.g., fresh produce, large and/or heavy equipment) might be more complex to deliver. In some cases, challenging logistics could suggest that the product solution must be manufactured or assembled close to (or at) the point of use.

Customer relationships

What type of customer relationship do your customers expect to have with you? The nature of the relationship can follow directly from your value proposition. For example, suppose that you develop a new security software program. Once a customer buys your software, they would expect you to “be around”—to provide updates and support if required. However, if you discovered a new recipe for chocolate, your customers might not expect you to “be around” to the same degree. In this case, they would expect to have a transactional relationship with the brand, which can be facilitated through your web and social media presence. Other important considerations include the cost of the relationship and the level of personal interaction required. Can the interaction be automated or does the customer expect a 24/7 concierge-style service?

Revenue streams

Revenue stream is not the same as price, although these terms are related in the sense that what and how you charge your customers impacts your revenue stream. At a basic level, your revenue streams define your business model. A computer magazine or newspaper could describe its business model as “subscription-based” or “advertising-based” and expect that it is generally understood what and how they charge their customers, how they relate to their customers and how some of their key activities are shaped. Since revenue streams are central to your business model, entrepreneurs should pay more than cursory attention to this building block.



Read more on [pricing](#) and [revenue models](#) to gather ideas on potential revenue streams.

Note: You are not limited to the practices described in the aforementioned articles. For innovative products that produce a new and unique value for customers, you might need to innovate with respect to what and how to charge. When deciding your revenue model, it is also important to develop a fundamental understanding of how your customers make money to ensure that your revenue model is not at odds with your customers’ business needs.

Key resources

The first building block on the left side of the Business Model Canvas requires you to consider the resources needed to create your value proposition. In this context, resources mean any relevant intellectual property (IP), technical expertise, human resources, financial and physical assets, key contracts and relationships. In other words, resources refer to anything within your control that can be leveraged to create and market your value proposition (e.g., a patent pertaining to your value proposition, key contacts within the industry).

Key partners

For a new venture in the early stages, the purpose of a partnership is to ensure that you have a product offering that appeals to your target market. In other words, the partnership complements your resources and key activities as required to deliver your value proposition. There are two key motives that should drive partnerships as part of a market development strategy:

1. Achieve market leadership by creating product solutions as quickly as possible.
2. Achieve and sustain market leadership by differentiating your product or service.

You should base your partnerships almost exclusively on these criteria. The goal is to significantly increase your time-to-market advantage.

Most new ventures in the early stages are short on “credibility.” Building market awareness and a track record takes time but an unknown brand and product will hinder the attraction of mainstream customers in the short term. Forming partnerships with respected and well-known brands will provide your venture with credibility and shorten the time required to achieve market leadership.

As your venture matures, the criteria for choosing partners will evolve because the credibility issue becomes less pressing. At that point, look for partners who can help you to access and develop the market and can participate in creating new niche products on a sustainable basis. At this point, a great partner offers at least one of the following:

- Particular expertise that allows you to differentiate your product and target a new market niche
- A large installed base of customers in the market niche you consider to be the next step for your venture

In some cases, entrepreneurs who are in the process of completing the Business Model Canvas get stuck when they reach this building block because they prefer to think of distributors or channels as partners, which is entirely fair. So, in which building block should you list the channel partner? Channels? Partners? Both? There are no solutions that will apply for everyone, but the following questions might help you to make a decision:

- Is the channel partner a leading entity with a brand and market position that adds to your credibility?
- Does the channel partner add expertise or resources to your product solution in a way that increases the value of the product for the end customer?
- Is the channel partner (and their brand/expertise/resources) required to land contracts with key target customers?

If you answered “Yes” to any of the questions, then we suggest listing them as both channel and partner.

A special partner case emerges when your new venture is in a supply-driven/constrained industry. In most cases, we think of such industries as commodity- and resource-based industries; the startups in these industries tend to have discovered or secured access to a precious resource. If you work within an industry where resource constraints are a possible risk to your business model, then you need to find a way to ensure access to the resource. Partners can play a key role in such a situation.

Key activities

This building block describes the key processes that are required to weave together your resources with those offered by your partners to deliver the value proposition, manage channels and relationships, and generate revenue. Examples of key activities include R&D, production, marketing, sales and customer service. If you have partners, a key activity will include managing the partner relationship. Consider the following examples:

- A marketing and sales activity would involve identifying relevant trade shows to attend, determining if you should have a booth presence and/or should attempt to deliver a presentation, and in either case preparing pre- and post-show campaigns.
- An R&D activity would include developing a technology roadmap and preparing the next set of technology validation/feasibility tests.

Cost structure

The final building block examines the cost of delivering the value proposition, including the resources needed and key activities involved. We want to answer the following key question: Does the cost structure provide a reasonable profit? Osterwalder has suggested several ways of describing and analyzing the cost structure.

Cost-driven versus value-driven business

The first perspective is a high-level take on the business model. Are you in a cost-driven business, where the quest for cost advantages will prompt decisions on issues such as outsourcing, automation and a low-cost value proposition? Or is it a value-driven business, where your product solution offers customers higher value outcomes than competing products?

While most businesses must contend with cost constraints, few technology-driven startups have sufficient volumes that make low cost the primary driver of their value proposition. The main exception to this point is web-based startups that rely on high degrees of data integration and automation, which often have relatively low capital and operating costs. This type of setup enables them to offer solutions that are highly scalable and very profitable once they hit a certain volume of customers/users.

However, if your value proposition describes the benefits to customers in terms of better performance, higher quality and improved effectiveness, then you are in a value-driven business. In this business model, there tends to be greater scope to take on more R&D, sales and marketing costs to establish and maintain that advantage.

In either case, design your cost structure so that it supports the type of business model you want to create.

Key characteristics of cost structure

The other perspective looks at the key characteristics of the cost structure, such as fixed versus variable costs and economies of scale versus economies of scope. Typical fixed costs include rent, salaries and utilities; variable costs include contractors' fees, sales commissions, production costs and logistic costs. Until the critical elements of the business model have been validated, new ventures must avoid incurring major investments in capital equipment, infrastructure and staff. In the early stages, it is critical to understand which costs are fixed and which are variable to preserve cash and maintain strategic flexibility should rapid change be required. Key questions to ask to achieve low cash burn include:

- Can you avoid entering a lease for an office/manufacturing space by operating out of a garage or basement? Can you identify incubators or shared office facilities that offer pay-per-use or short-term contracts?
- Can you avoid paying cash for work? Can you provide equity incentives or pay salespeople 100% commission? Can you hire contractors rather than salaried staff for certain positions? Can you postpone paying for services or supplies until you have achieved a certain revenue level?

Activity 2: Create your own business model

Describe your business model by completing the Business Model Canvas.

- Use the value proposition you crafted in the first workbook as your starting point.
- Use the answers from "Key business model questions" to help you complete the rest of the Business Model Canvas.



Create a Business Model Canvas in the corresponding section of the Business Model Design workbook template.

Summary

The Business Model Canvas

Designed for: _____ Designed by: _____

On: _____ Iteration: _____

Key Partners What key partners do our Value Propositions require? Who are our key suppliers? Which key resources are we acquiring from partners? Which key activities do partners perform? Why are we creating value? Who are our most important customers?	Key Activities What key activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams? What key resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?	Value Propositions What value do we deliver to the customer? What one of our customer's problems are we helping to solve? What bundle of products and services are we offering to each Customer Segment? Which customer needs are we satisfying? Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones are best? Which ones are most cost-efficient? How are we integrating them with customer routines?	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?	Customer Segments For whom are we creating value? Who are our most important customers?
Key Resources What key resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?		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 are best? Which ones are most cost-efficient? How are we integrating them with customer routines?		
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?		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?		

www.businessmodelgeneration.com

Activity 3: Consider your business model

Having completed the canvas, it is time to step back and consider it in its entirety:

- Does it work? Do the revenues outweigh the costs?
- What are the risks to your business model? What parts of your business model are most critical for your business to grow in a profitable manner?
- Are there things that can or should be changed to strengthen the business model or reduce its risk?










We recommend working through these questions with your team and/or your advisors to ensure that you develop a shared understanding of the key characteristics of the business model.



Write your answers to the points above in the corresponding section of the Business Model Design workbook template.



Example: Ryanair

<div><div>Key Partners</div><div></div><div><ul style="list-style-type: none">Local airportsCar rentalsHotels and hostelsBus companies</div></div>	<div><div>Key Activities</div><div></div><div><ul style="list-style-type: none">Network managementAirport/destination relationshipsWeb - Sales/site managementTrainingMaintenance</div></div> <div><div>Key Resources</div><div></div><div><ul style="list-style-type: none">290 BOEING 7378500 staffryanair.com</div></div>	<div><div>Value Proposition (2)</div><div></div><div><ul style="list-style-type: none">Cheap, high-frequency, direct and on-time flights from 50+ European bases to 174 destinations</div></div>	<div><div>Customer Relationships (4)</div><div></div><div><ul style="list-style-type: none">Self-serviceEmailDestination information (online)Ancillary services: hotel, car rental, credit card</div></div> <div><div>Channels (3)</div><div></div><div><ul style="list-style-type: none">ryanair.com</div></div>	<div><div>Customer Segments (1)</div><div></div><div><ul style="list-style-type: none">Self-directed, cost-conscious travellers that manage without the frills.</div></div>
<div><div>Cost Structure</div><div></div><div><ul style="list-style-type: none">AirplanesNon-unionized staffWebsiteFuel</div></div>		<div><div>Revenue Streams (5)</div><div></div><div><ul style="list-style-type: none">FaresIn-flight salesBaggage handling feesOnline adsPartner referralsCredit card feesCheck-in feesAirport fees</div></div>		

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Ryanair is a low-cost airline headquartered in Ireland. The canvas above illustrates Ryanair's current business model—a result of almost 20 years of business model innovation. While initially copying SouthWest Airlines' low-cost point-to-point operating model, Ryanair's relentless focus on deconstructing the airline value creation process to minimize cost and maximize revenue has driven continuous innovation at the business model level. In turn, this innovation has given Ryanair a competitive advantage over their traditional European carriers that translates into rapid, profitable growth. Some examples:

- While most airlines have to pay to use an airport, Ryanair charges airports for the benefit of receiving their traffic.
- Ryanair has a large number of partners offering travel-related services (e.g., hotels, rental cars, insurance)—all paying Ryanair referral fees for the business they are providing through the Ryanair.com website.
- Ryanair capitalizes on the high volume of visitors to the Ryanair.com website by selling banner ads to their partners.

One consequence of Ryanair's business model is that they have stripped any cost element from the travel experience that cannot be charged and delivered directly to individual customers, such as airport lounges and customer care. In their view, the customer is paying for the utility of being moved from point A to point B at the lowest possible cost—and the highest possible punctuality—and that is the entire focus of their organization. While some Ryanair customers miss the service levels provided by traditional airlines, Ryanair's success and growth illustrates that large market segments find the tradeoff worthwhile.



Example: LAN Airlines

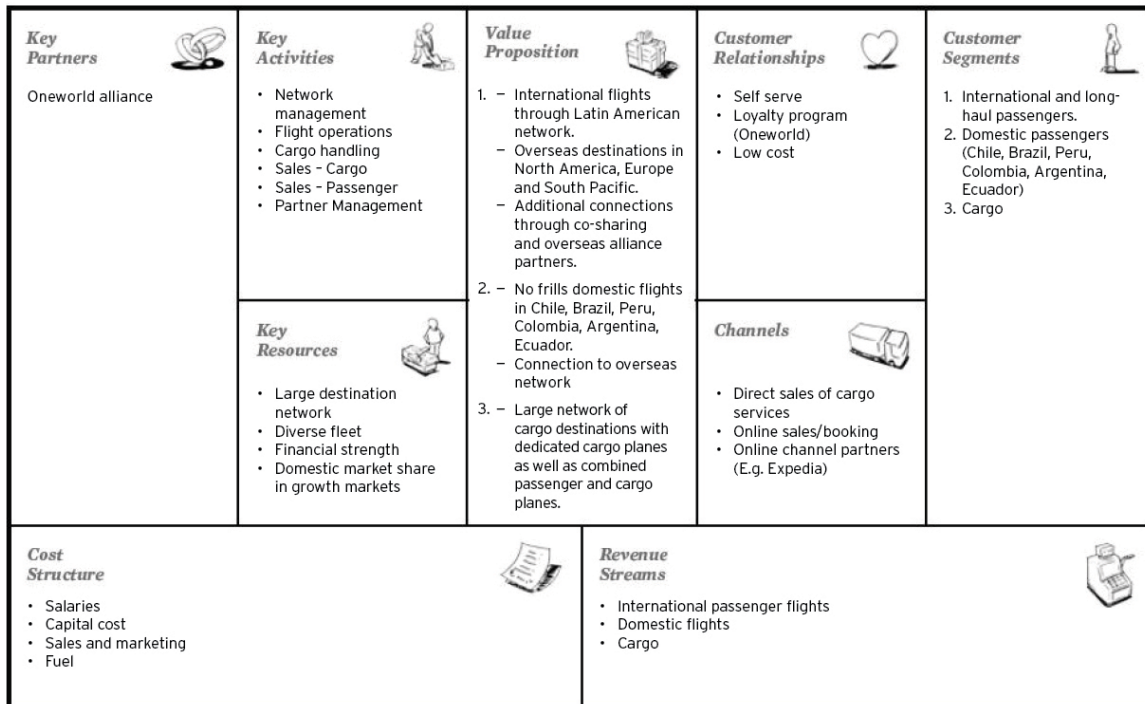
Compare Ryanair's business model to the business model of South American LAN Airlines. The South American market has much lower passenger volumes compared to Ryanair's European market. LAN Airlines operates a network of no-frills flights in its domestic markets (e.g., Chile, Argentina). However, LAN Airlines has complemented its no-frills operation with two offerings: intercontinental flights and cargo.

Offering intercontinental flights—operated by LAN Airlines or through code-share from domestic hubs—adds value to its no-frills offering by giving travellers an additional reason to fly with LAN Airlines to or from South America.

Cargo makes up about one third of LAN Airlines' revenue, and is offered through a fleet of either dedicated cargo planes or combined passenger and cargo planes. The cargo business provides LAN Airlines with network efficiencies because cargo offsets the cost of operating certain destinations that do not command high enough passenger volumes on their own.

It is critical to note that LAN Airlines' business model has become the subject of much attention, including case studies featured in *Harvard Business Review*, because there are many challenges involved in running multiple business models. For instance, many airlines have failed to combine a full-service and no-frills offering, including KLM (KLM Buzz) and Continental (Continental Lite). LAN Airlines has succeeded with its business model because it has cultivated complementary rather than competing aspects of its different business models.

For instance, the overhead cost of operating LAN Airlines' three different offerings—different range of aircraft to maintain, different customer segments—is undoubtedly higher than Ryanair's streamlined operation. However, LAN Airlines' business model allows for higher asset utilization than it would otherwise have achieved.

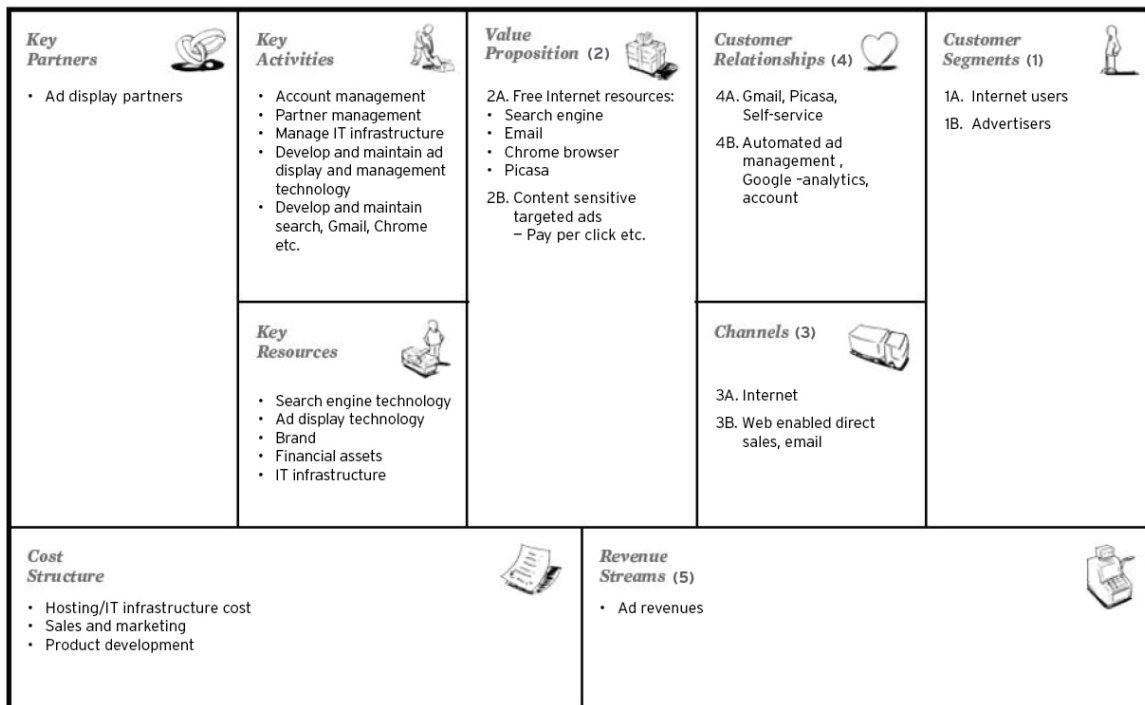


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Double-sided business model

Certain business models require the involvement of multiple stakeholders to make sense. For example, with an advertising-based business model (online or offline), advertisers pay for the attention (and impact) of the audience provided by the media property. The media property has to attract the audience's attention by creating and delivering attractive content. This is known as a "double-sided" business model. To succeed with this type of business model, you must have compelling individual value propositions and business models for both groups of stakeholders—the audience (in the form of content) and the advertisers (in the form of a desirable audience).

Other types of businesses with similar requirements include auction houses and brokerages (e.g., eBay), real estate brokers, stockbrokers and certain social enterprises. For example, charitable organizations offer services for free or at a discount to people in need, which allows them to ask sponsors and donors for their support to deliver those services.

**Example: Google**

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Google is a great example of a double-sided business model. Most people know Google for its free services, such as Google Search, Gmail, Picasa and Chrome. How can Google make money providing such high-quality services for free to large volumes of users, and why do they do it? In many double-sided business models, one side of the business effectively subsidizes the other. In Google's case, advertisers pay Google to deliver web traffic that is generated through context-sensitive advertisements. The context-sensitive ads appear throughout Google's web properties, including Search, Gmail and Picasa, and allow companies to target ads more efficiently than what is possible through most other media. The increased efficiency provides Google with its margins and funds the services that they provide for free.

When designing a double-sided business model, it is important to appreciate the increased complexity of getting started. The business model only works if you are able to offer a desirable value proposition to both sides of the business—in Google's case, Internet users on one side and advertisers on the other. For new media ventures, especially those trying to bootstrap, this is a challenge because it takes time (and money) to build the media property and attract enough users to draw advertisers. Finding ways to overcome those challenges is fundamental to the success of double-sided businesses.

3. Validating your business model

The process

The “customer validation” process described by Steven Blank in his book *Four Steps to the Epiphany* provides entrepreneurs with a conceptual way to develop the insights required to [design your business model](#) using the Business Model Canvas.

Before you can design your business model, we recommend that you first develop your [value proposition](#) (as determined in the first workbook). This two-step process will make your planning work simpler, and should also reflect the progress of your business in reality.

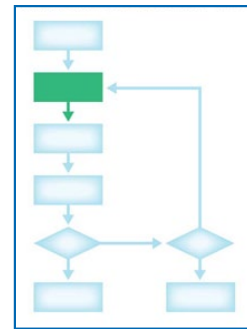
Blank’s [customer validation](#) process serves to validate the assumptions that underpin your [business model](#), especially those required for the scalability of the venture. In other words, it is critical to engage in customer validation before you invest in growing your venture—you do not yet know which levers will allow you to achieve growth.

Activity 4: Clarify your business model assumptions

The first step in the process is to clarify the key assumptions that underpin your business model. Building on your completed Business Model Canvas, we will examine the basis for each building block of your business model.

Check each response in the Building Model Canvas against the following criteria:

- How do you know what you wrote in each building block is true? Have you made an assumption or do you have solid evidence—in the form of documented facts?
 - In the cases you have facts, label the response as “Fact” and make a note of your evidence.
 - In the cases you have made assumptions, label the response as “Assumption.”
- Complete the activity by listing all the assumptions regarding your business model. The next section will address how to test those assumptions.

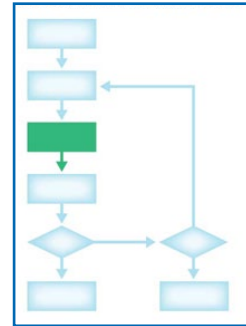


Write your responses to the questions above in the corresponding section of the Business Model Design workbook template.

4. Testing your business model assumptions

Just as we did with your value proposition, we will seek to validate the key assumptions underpinning your business model. However, some assumptions about your business model are more important than others, so we should prioritize and focus on a few key assumptions rather than test all of them. So, how do we prioritize which business model assumptions to test?

Steve Blank's customer validation process is based on the premise that a business requires a **repeatable sales process** to grow successfully. For a new venture facing customer scarcity, Blank's assertion is valid—without a repeatable sales process, that business will have difficulty finding growth, attracting investors and building economical processes. However, not all businesses face customer scarcity:



- If you are in the commodity business, bottlenecks include securing access to the resource and extracting it profitably—not finding customers.
- If you are involved with property or infrastructure development, the main bottleneck is often in de-risking the project to the point where it is financeable. De-risking a project can be a time-consuming process that requires a solid understanding of the project's regulatory environment as well as funding necessary to keep your organization functioning for the duration it takes to negate any of those regulatory hurdles.
- In some businesses, access to expertise and talent might be a bigger obstacle to growth than finding customers. For instance, in the pharmaceutical (or other regulated) industry, the expertise required to traverse and influence regulatory requirements can be more fundamental to the sustainability of your business model than a repeatable sales process.

However, for the purposes of this workbook, we will assume that your venture is neither heavily regulated nor in the resource space. The obstacle standing between you and business growth is the ability to acquire new customers in a repeatable manner. For such a venture, you should focus on testing your channel, customer relationship and revenue stream assumptions.

Blank's method for testing those assumptions is simple: Get in front of potential customers and try to sell your product solution! At this stage, it is important to know that a few deals will provide sufficient validation—until you see a pattern emerge with respect to the sales process: length, deal size, final deliverable, services, etc. Blank's approach rests on the notion that real customer insight can only be extracted once you put them in a situation that might involve handing over money and/or time (e.g., by visiting your website).

- By closing a few deals, you will uncover the customers' concerns with your company and your product, as well as the steps involved in overcoming those concerns.
- Going through the [sales cycle](#) several times will help you to identify and understand the key buyers typically involved in evaluating and signing off on the deal.

Activity 5: Prepare for customers

Before approaching customers, make sure that you are sufficiently prepared by creating:

- Any sales materials you need to present to customers, including your website, product information and a customer presentation
- A brief [channel strategy](#)
- A preliminary [sales process](#) based on information acquired during the value proposition process



Create the materials described in the corresponding section of the Business Model Design workbook template..

Begin reaching out to customers

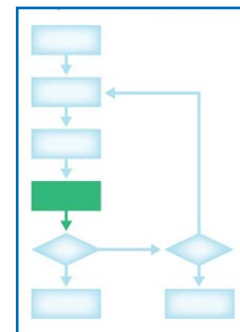
The customers to approach should be included in the “initial target list” that was created during the Value Proposition workbook process. In general, the first targets should be early adopters (or “Earlyvangelists” as Blank calls them). During the value proposition process, if you engaged directly with potential customers, then it is quite likely that you will close your first few sales from customers among that group.

However, depending on the complexity of your product solution, landing your first few deals might take time. It is important to not lose focus on the overarching objective of this process, which is to validate your sales process.

5. Evaluating and updating documentation

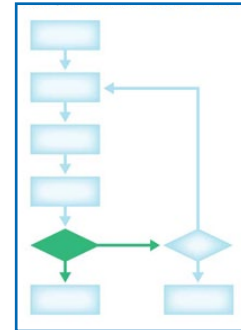
At this point, you must determine the extent to which you achieved your objectives for customer validation. Systematically review the experience of selling to customers by answering the following questions:

- Did you sell enough to validate your value proposition?
- Have you identified a repeatable customer acquisition model?
- Did you develop sufficient insights to scale your business?

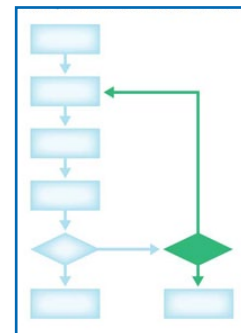


The outcome of the validation process can take you in one of three directions:

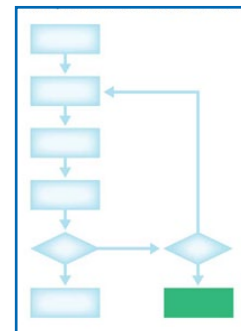
1. If you answered “Yes” to all the questions above, then you achieved the objectives of the customer validation process. Update your documentation and move to “Next steps” below



2. If you answered “Yes” to the first question, but “No” to either of the other two questions, then change your sales approach and complete another round of the customer validation process (beginning with your business model assumptions from “Key business model questions”).



3. If you answered “No” to the first question, then something in the value proposition process was not quite right. You can either go back to the Crafting Your Value Proposition workbook and explore a different product-solution fit or consider exiting the business at this stage.



Activity 6: Update your documentation

The output of the customer validation process is a sustainable business model and a validated sales roadmap. In addition, you will have developed sufficient insight to create your positioning statement.

1. Document your sales roadmap. The sales roadmap should answer the following questions:
 - Who are the [stakeholders](#) involved in the customer's [buying process](#)?
 - Who typically plays the roles of influencer and [economic buyer](#)?
 - What are the stages and the length of the [sales cycle](#)?
 - What is the [profile of the typical buyer](#)?
 - What is the best [sales strategy](#)?
2. Update your Business Model Canvas with any new insights uncovered in the process.
3. Create your positioning statement, which positions your product in a particular market. The positioning statement functions as your starting point and guiding light for your marcom activities. You can think of the positioning statement as an expanded version of the value proposition you developed in the first workbook. The addition of the “unlike” point serves to both anchor and differentiate your offering against a market leader or the status quo you are trying to replace. The following template provided by G. Moore (*Crossing the Chasm*) will help you to craft your positioning statement:

For... (target customer)

Who.... (has a problem)

Our product is... (a type of product)

That provides... (customer benefits)

Unlike... (the most likely competitor)

We have assembled/created/invented a product that.... (unique differentiating factors)

For every marketing activity you plan to roll out, use the positioning statement to answer the following question: Does this activity align with and strengthen my desired positioning?



Document your sales roadmap, update your Business Model Canvas and create your positioning statement in the corresponding section of the Business Model Design workbook template.

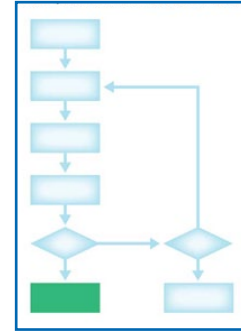
6. Next steps

Having completed your Business Model Canvas, you are ready to implement your business model.

Activity 7: Plan your next steps

The next steps address the different activities involved in that process.

- 1. Develop a revenue forecast:** Use the insights developed during your sales activities to create a revenue forecast. This [workbook](#) provides you with a framework and process for doing so.
- 2. Begin marcom:** Put together a marcom strategy that will help you to generate demand and shorten your sales cycles. This [workbook](#) will help you to create a marcom strategy that is designed for new ventures.
- 3. Product management:** Create a [product roadmap](#).
- 4. Continue selling:** Continue to engage with the customers on your “initial target list” and sell your [product solution](#).
- 5. Plan for growth:** Based on the insights garnered throughout the process, you know the needs of the business and start hiring key personnel to execute your plan.



Take the required steps as detailed in the corresponding section of the Business Model Design workbook template.

To work through these activities with other entrepreneurs and a business advisor, members of the Ontario Network of Excellence can enroll in a series of half-day, hands-on workshops. Check the [workshop schedule](#) for more information.