

Previously on E&I...

Business models and business plans: CANVAS and beyond.

A quick recap of Class 14

- ▶ CANVAS: One of many formats you can follow to prepare your business plan.
- ▶ It contains several parts you already know:
 - ▶ Value Proposition, Customer Segments, Channels, Customer Relationships
 - ▶ Key Activities, Key Resources, Key Partners
 - ▶ Cost structure, Revenue sources.
- ▶ Some strengths
 - ▶ Visual, intuitive, no previous knowledge required, very common and easy to communicate.
- ▶ Some weaknesses
 - ▶ Static, competition is left out, the marketing plan is not detailed, demand estimation is not evident.

ENTREPRENEURSHIP AND INNOVATION

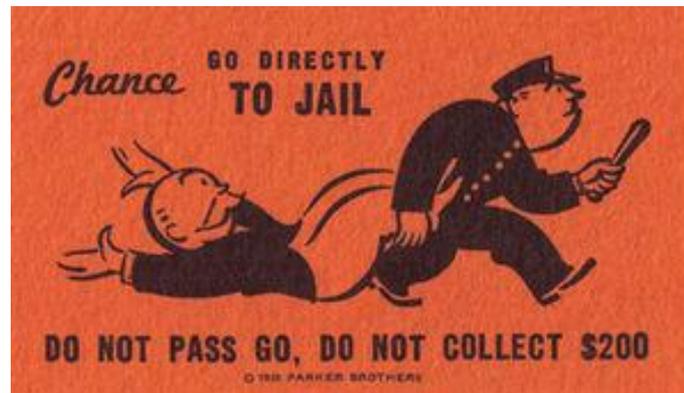
Class 15 - Validation as a learning process

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Pontificia Universidad Javeriana, Fall 2018

So what is this “validation” thing all about?

- ▶ It's nothing more than a **reality check** to make sure
 - ▶ You are not crazy
 - ▶ About to be bankrupt
 - ▶ Go to jail
 - ▶ All of the above.

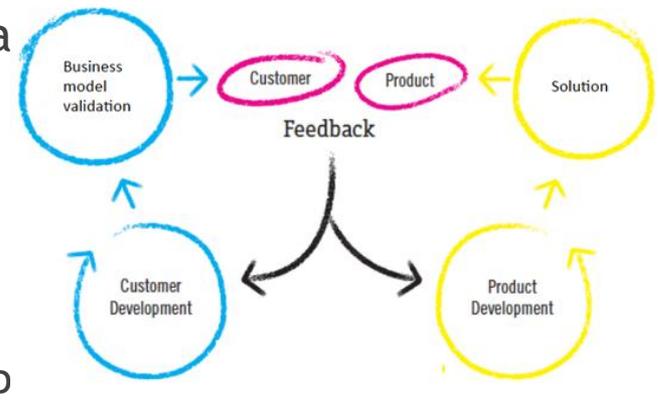


So what is this “validation” thing all about?

- ▶ Folksy wisdom...
 - ▶ *A BP does not survive the first contact with the customer*
 - ▶ *You can write anything on paper*
- ▶ A reality check is evidently necessary
 - ▶ Well-sourced data
 - ▶ Expert opinion
 - ▶ Customers' input
 - ▶ Evaluators vitriol, etc.

What does validation really stand for?

- ▶ It's a process!
- ▶ It takes place at several moments through the project's development
- ▶ Not a good idea to wait until the whole board is complete
 - ▶ We waste time
 - ▶ Loose analytical power
 - ▶ Inertia sets in
 - ▶ Misconstrued as just another "task" to complete



Why do we need to validate our BP?

- ▶ Not to run on intuitions or hypotheticals
 - ▶ Does the problem really exist? Is it relevant
 - ▶ Are we solving it at all? Optimally? Are there
 - ▶ Are there potential customers out there?
- ▶ Sound the market off
 - ▶ Is the demand large enough? Sustainable?
 - ▶ Willingness to pay? Incentives to use?
 - ▶ Copycats can be fended-off successfully? What's our competitive advantage?



Why do we need to validate our BP?

18 Mistakes That Kill Startups

- ▶ Learn: Become an expert
 - ▶ Is it doable? When? At what cost?
 - ▶ *Innovative?*
- ▶ Slowly get your hands dirty
 - ▶ How and at what cost can it be done?
 - ▶ Where and how to reach your customers?
- ▶ Avoid wasteful conducts at large scale
 - ▶ Time, money, your life...
- ▶ It is **essential** to answer all of these questions with **hard, primary-sourced data**.



1. Single Founder



2. Bad Location



3. Marginal Niche



4. Derivative Idea



5. Obscurity



6. Hiring Bad Programmers



7. Choosing the Wrong Platform



8. Slowness in Launching



9. Launching Too Early



10. Having No Specific User in Mind



11. Raising Too Little Money



12. Spending Too Much



13. Raising Too Much Money



14. Poor Investor Management



15. Sacrificing Users to (Supposed) Profit



16. Not Wanting to Get Your Hands Dirty



17. Fights Between Founders



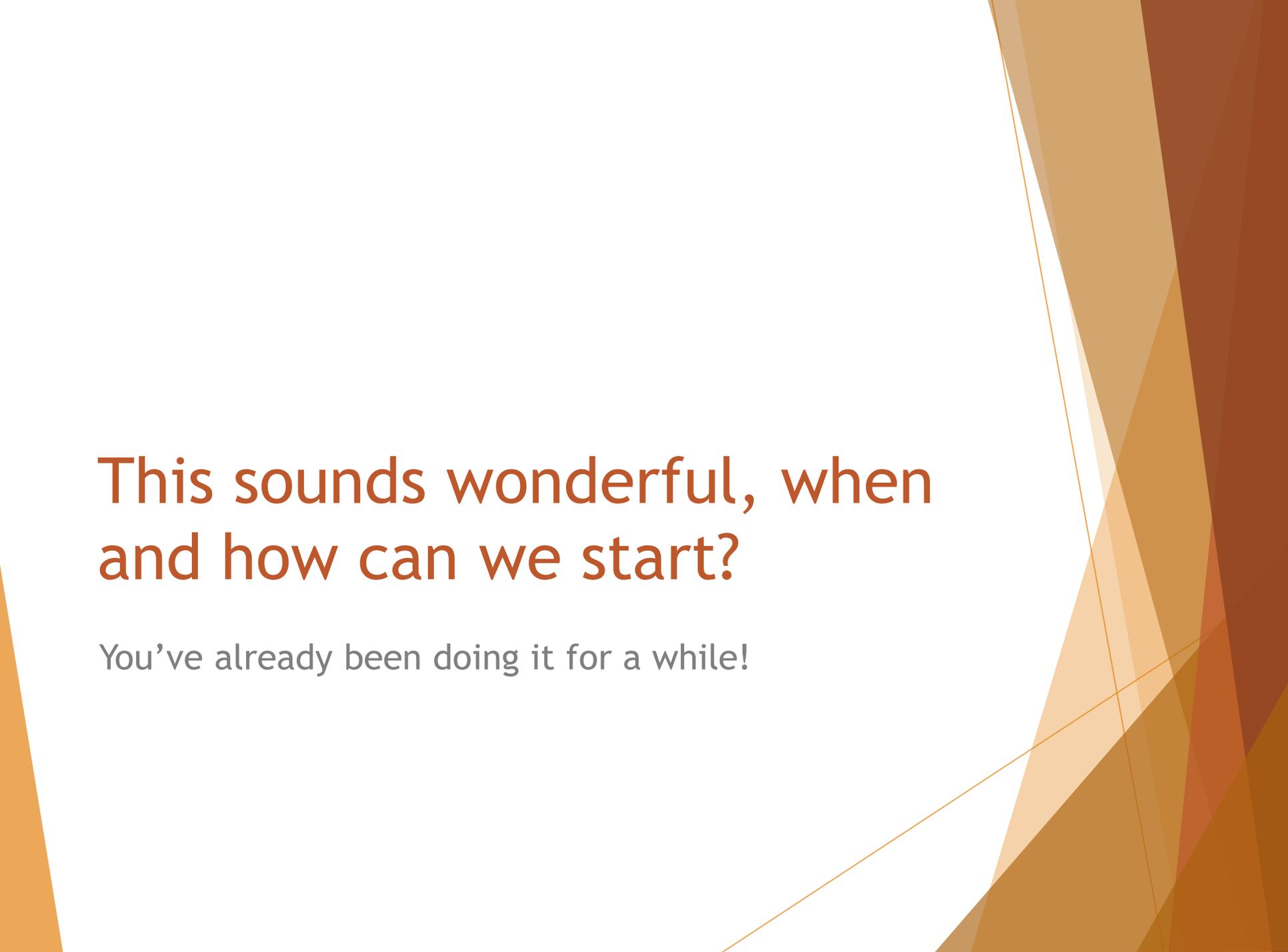
18. A Half-Hearted Effort



from
eponymous essay
by Paul Graham
<http://fni.vc/PG-01>

visualized by
Mark Vital

Build with Annalogy.com made by Preppit



This sounds wonderful, when
and how can we start?

You've already been doing it for a while!

When and how to validate a BP?

- ▶ When **the problem is stated** and a **solution proposed**
 - ▶ Interviews with a few of each type of customer
 - ▶ Interviews with (technical) experts
 - ▶ Interviews with established players in the field
- ▶ This is the earliest stage of the validation process
- ▶ Somewhat overlaps with the **Primary Market Research**

When and how to validate a BP?

- ▶ When the VP is formulated
 - ▶ FG-it using the matrix to rate the core attributes in terms of
 - ▶ Uniqueness
 - ▶ Attractiveness
- ▶ It could be seen as a part of the co-creation process for a VP

When and how to validate a BP?

- ▶ When the product is completed as a **conceptual prototype**
 - ▶ Run larger-scale assays (surveys)
 - ▶ Let customers mess with the idea

- ▶ This stage overlaps with the **demand estimation**
 - ▶ Although feedback on the prototype's design and VP can also be obtained.

When and how to validate a BP?

- ▶ When developing the **budget**
 - ▶ Elaborate comprehensive resources list:
 - ▶ Financial, technical, human, know-how, etc.
 - ▶ Quantify them.
- ▶ This stage overlaps with the **feasibility and risk analyses**
 - ▶ NPV
 - ▶ IRR
 - ▶ Revenue > Costs

When and how to validate a BP?

- ▶ At the time a beta test or **pilot run** is launched
 - ▶ Any short-run, limited-scale implementation
 - ▶ It is evaluated at the end of the timeline established for it.
- ▶ Feedback is diverse at this stage but should be mostly related to usability
 - ▶ Otherwise, interviews and focus groups can be revelatory
 - ▶ Something went amiss in the preceding validation stages
 - ▶ **A major pivot** might be in order.

When and how to validate a BP?

- ▶ Finally during the **large-scale implementation**
- ▶ At the earliest, major milestone for the marketing plan (and/or other relevant point)
 - ▶ Feedback is related to the business performance more than the product's attributes at this point.
 - ▶ The market engagement technique can be revised.
 - ▶ Quality, experiences, post-sale support, become issues.

TYPES OF STARTUP METRICS

by Anna Vital



Compound Monthly Growth Rate
(Latest Month/ First Month)ⁿ
(1/# of Months) - 1



Monthly Churn Rate
lost customers this moth / prior month total



Retention by Cohort
% of original installed base (1st month) that are still transacting



Gross Churn Rate
MRR lost in a given month/MRR at the beginning of the month



MRR

Monthly Recurring Revenue
monthly total of paid customer fees



ARR

Annual Recurring Revenue
recurring revenue on an annual basis



ARPA

Average Revenue per Account
MRR / Total # of Customers



Gross Profit
total revenue minus the cost of goods sold



Net Churn
(MRR lost - MRR from upsells) this month / MRR at the beginning of the month



Monthly Cash Burn Rate



Net Burn Rate
revenues - gross burn



Gross burn
monthly expenses + any other cash outlays



TCV

Total Contract Value
value of one-time and recurring charges



ACV

Annual Contract Value
value of a contract over a year



LTV

Lifetime Value
prediction of the net profit from the entire future relationship with a customer



Deferred Revenue
amount that was received by a company in advance of earning it



TAM

Total Addressable Market
revenue opportunity available for a product



Annual Run Rate
projection of current MRR into the future, annualized



Gross Margin
difference between revenue and cost of goods sold



Sell-Through Rate
number of units sold in a period / number of items at the beginning of the period



Billings

current quarter revenue + deferred revenue from previous quarter



CAC

Customer Acquisition Cost
full cost of acquiring one user



Customer Concentration Risk
revenue from largest customer / total revenue



DAU

Daily Active Users
users other than one-time users per day



Network Effects
effect of one user on the value of that product to other people (ex. Metcalfe's Law)



Virality
viral coefficient = avg number of invitations sent existing user * conversion rate of invitation



Net Promoter Score
how likely user is to recommend your product to a friend



Platform Risk
dependence on a specific platform or channel



MAU

Monthly Active Users
users other than one-time users per month



Number of logins



Activation rate
number of users taking a specific action to get value out of a product



MoM

Month-on-Month Growth
average of monthly growth rates



Direct Traffic
traffic that comes directly and not through an intermediary



Organic traffic
unpaid traffic from search results

When to validate a BP?

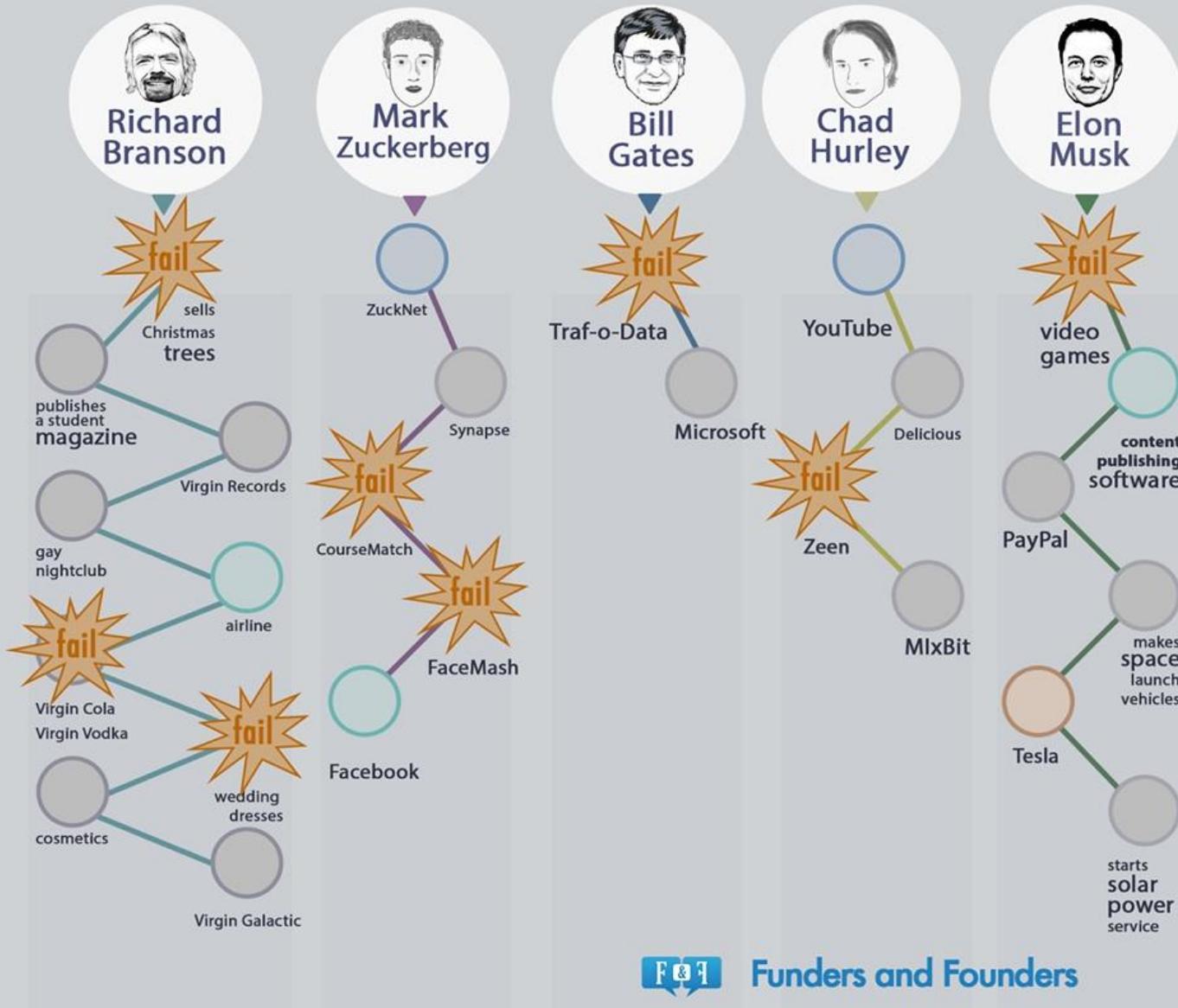
1. Problem identification
2. VP Formulation
3. Minimum viable product is created
4. Market research (Customers)
5. Feasibility analysis (Budget)
6. Pilot run
7. Continuous performance reviews

But what if we *fail* to validate?

- ▶ You won't ever come through unscathed
- ▶ After each validation point is completed, you either
 - ▶ Tweak
 - ▶ Course correct
 - ▶ Perform a major change (within the bounds of the current core features)
 - ▶ Go back to the drawing board (pivot)
 - ▶ Scrap the idea (☺).

HOW TO SUCCEED?

by Anna Vital



Percentage of entrepreneurs who try again after failure.

Fuckup
FailureInstitute



65%

NOVICE
ENTREPRENEURS

No prior entrepreneurial experience.



57%

SERIAL
ENTREPRENEURS

Started up and exited more than one venture.



29%

PORTFOLIO
ENTREPRENEURS

Operating more than one business simultaneously.



0%

LIER
ENTREPRENEURS

People that will never admit they failed.

SOURCE: C. Mandel et al. /Journal of Business Venturing Insights 5 (2016) 9-13

The validation team and resources

- ▶ Who participates?
 - ▶ The relevant team members
 - ▶ All types of customers (directly or otherwise)
 - ▶ Other actors
- ▶ How many people get involved?
 - ▶ Depends on the project, its scale and “age”.
 - ▶ Usually the number of people increases with time, until full-scale is reached
 - ▶ From 3 interviews to becoming a recurrent task (quality, management, engineers)



lean**startup**machine

Validation Board

Project Name:

How's The UX?

Team Leader Name:

Track Pivots	Start	1st Pivot	2nd Pivot	3rd Pivot	4th Pivot
Customer Hypothesis	Boot-strapped Startup Founders				
Problem Hypothesis	Cannot find or hire UX experts				
Solution Hypothesis	Platform to get help from UX experts virtually				

Design Experiments

Core Assumptions

Assumption Assumption

Riskiest Assumption

Will pay for virtual UX help from expert

M

Pitch

M S C

80% Signup

Results →

GET OUT OF THE BLDG

Invalidated		Validated	
1	2	3	4
5	6	7	8

Have trouble finding and paying for UX experts

www.ValidationBoard.com

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Hold on, I've seen these before and I...

What is a Validation Board?

- ▶ A tool
- ▶ Tracks all the “pivots” and the lifecycle of the idea
- ▶ Implements a section to “experiment”
 - ▶ Filter the riskiest and critical hypothesis to test them out
- ▶ Records all the results
 - ▶ Positive and negative hypotheses
- ▶ It’ll get you exactly to the same point
 - ▶ Not that transparent or intuitive
 - ▶ A memory device to go back in time, if that.

Wait a second, what's that Minimum Viable Product?

- ▶ The least you could sell, who you could sell it to, and how.
 - ▶ Your VP (+ prototype)
 - ▶ Main customer segment
 - ▶ Targeted promotion and distribution efforts
- ▶ In terms of the CANVAS
 - ▶ VP
 - ▶ Customers
 - ▶ Channels
 - ▶ Relationships

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

<h3>Key Partners</h3> <p>Who are our key Partners? Who are our key suppliers? Which Key Resources do we acquire from partners? Which Key Activities do partners perform?</p> <p>KEY RESOURCES TO ACQUIRE Optimization and synergy Reduction of risk and uncertainty Allocation of particular resources and activities</p>	<h3>Key Activities</h3> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <p>KEY RESOURCES Production Platform/Design Materials/Network</p>	<h3>Value Propositions</h3> <p>What value do we propose to the customer? Which one of our customer's problems are we helping to solve? What bundle of products and services are we offering to solve Customer Segments? Which customer needs are we satisfying?</p> <p>KEY RESOURCES Specialized Advanced Customized "One-off" or "one-time" Local Local Status Local Production Local Distribution Accessibility Government/Community</p>	<h3>Customer Relationships</h3> <p>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?</p> <p>KEY RESOURCES Personal assistance Dedicated Personal Assistance Self Service Automated services Communities Co-creation</p>	<h3>Customer Segments</h3> <p>For whom are we creating value? Who are our most important customers?</p> <p>KEY RESOURCES Mass Market Alpha Market Segmented Diversified Multi-Sided Platform</p>
<h3>Key Resources</h3> <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p>KEY RESOURCES Physical Intellectual Human Financial</p>			<h3>Channels</h3> <p>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 do we integrate them with customer routines?</p> <p>CHANNEL PLACES 1. Awareness How do we raise awareness about our company's products and services? 2. Evaluation How do we help customers evaluate our organization's Value Proposition? 3. Purchase How do we allow customers to purchase specific products and services? 4. Delivery How do we deliver a Value Proposition to customers? 5. After sales How do we provide post-purchase customer support?</p>	
<h3>Cost Structure</h3> <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p>BY YOUR BUSINESS MODEL Cost Drivers (based on structure, low price value proposition, maximum automation, extensive outsourcing) Value drivers (based on value creation, enhanced value proposition)</p> <p>FIXABLE COSTS STRUCTURE Fixed Costs (salaries, rents, utilities) Variable costs Economies of scale Economies of scope</p>	<h3>Revenue Streams</h3> <p>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 revenue?</p> <table border="0"> <tr> <td>FIXED Asset cost Ongoing fee Subscription fees Licensing/renting/leasing Advertising Developer fees Advertising</td> <td>SCALE DEPENDENT List Price Product Return dependent Customer segment dependent Volume dependent</td> <td>PERFORMANCE DEPENDENT Usage-based Usage-based Usage-based Usage-based Usage-based</td> </tr> </table>	FIXED Asset cost Ongoing fee Subscription fees Licensing/renting/leasing Advertising Developer fees Advertising	SCALE DEPENDENT List Price Product Return dependent Customer segment dependent Volume dependent	PERFORMANCE DEPENDENT Usage-based Usage-based Usage-based Usage-based Usage-based
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DESIGNED BY: Business Model Foundry AG
The Makers of Business Model Generation and Strategyzer

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Classwork 13

- ▶ In your groups, define your MVP.
- ▶ You have 5 minutes to submit it.

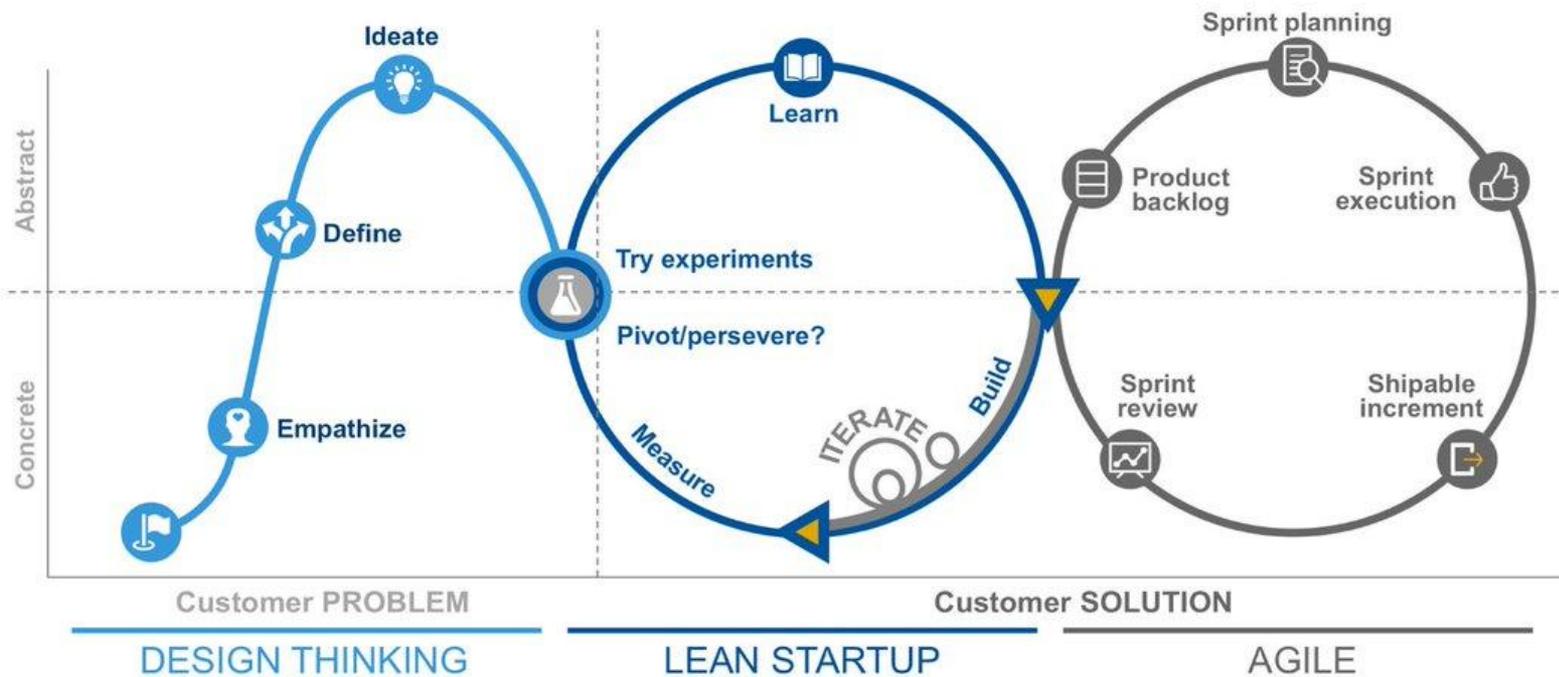
You already know the Lean Startup (Ries 2011) model

- ▶ A way to develop a product iteratively.
 - ▶ Do it fast, with few resources, implement, learn, repeat.
- ▶ Every time you have something ready to proof, run the cycle:

Build - Measure - Learn

- ▶ In different stages:
 - ▶ Problem, Solution, Expert opinions, Alternative solution implementations
 - ▶ Defined solution, Value Proposition, User feedback, Prototype/Pretotype
 - ▶ Prototype, MVP, Market feedback, Competitive Outlook, etc.

Combine Design Thinking, Lean Startup and Agile



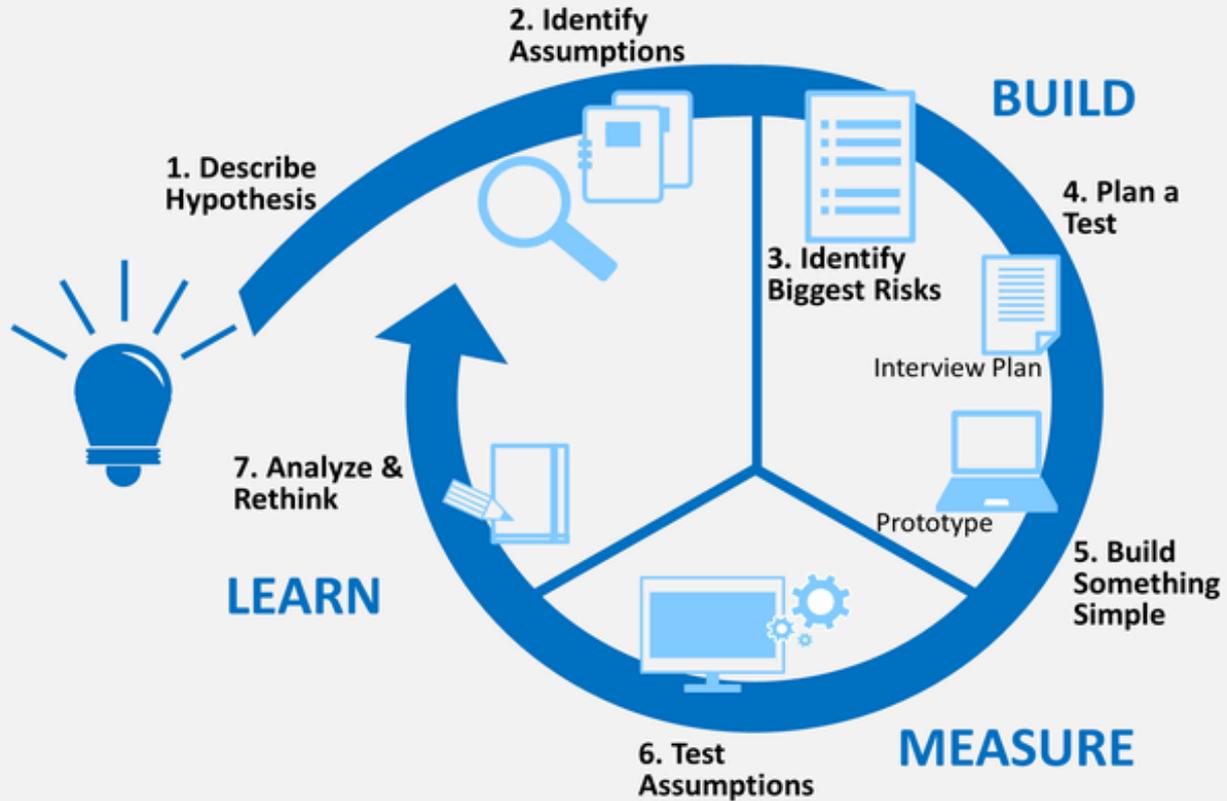
#GartnerSYM

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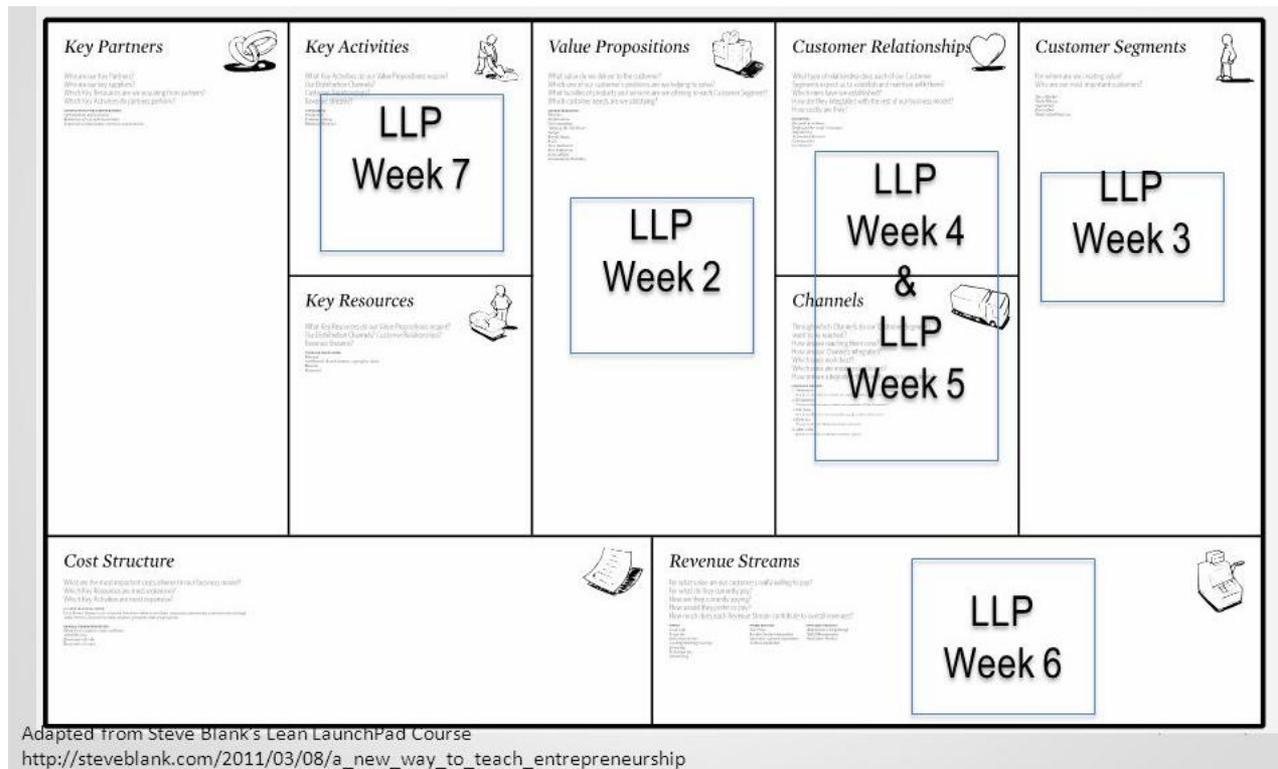
LEAN STARTUP

Enter your sub headline here



A Little bit of Lean LaunchPad too!

- Steve Blank, 2013
- Columbia University



Adapted from Steve Blank's Lean LaunchPad Course
http://steveblank.com/2011/03/08/a_new_way_to_teach_entrepreneurship

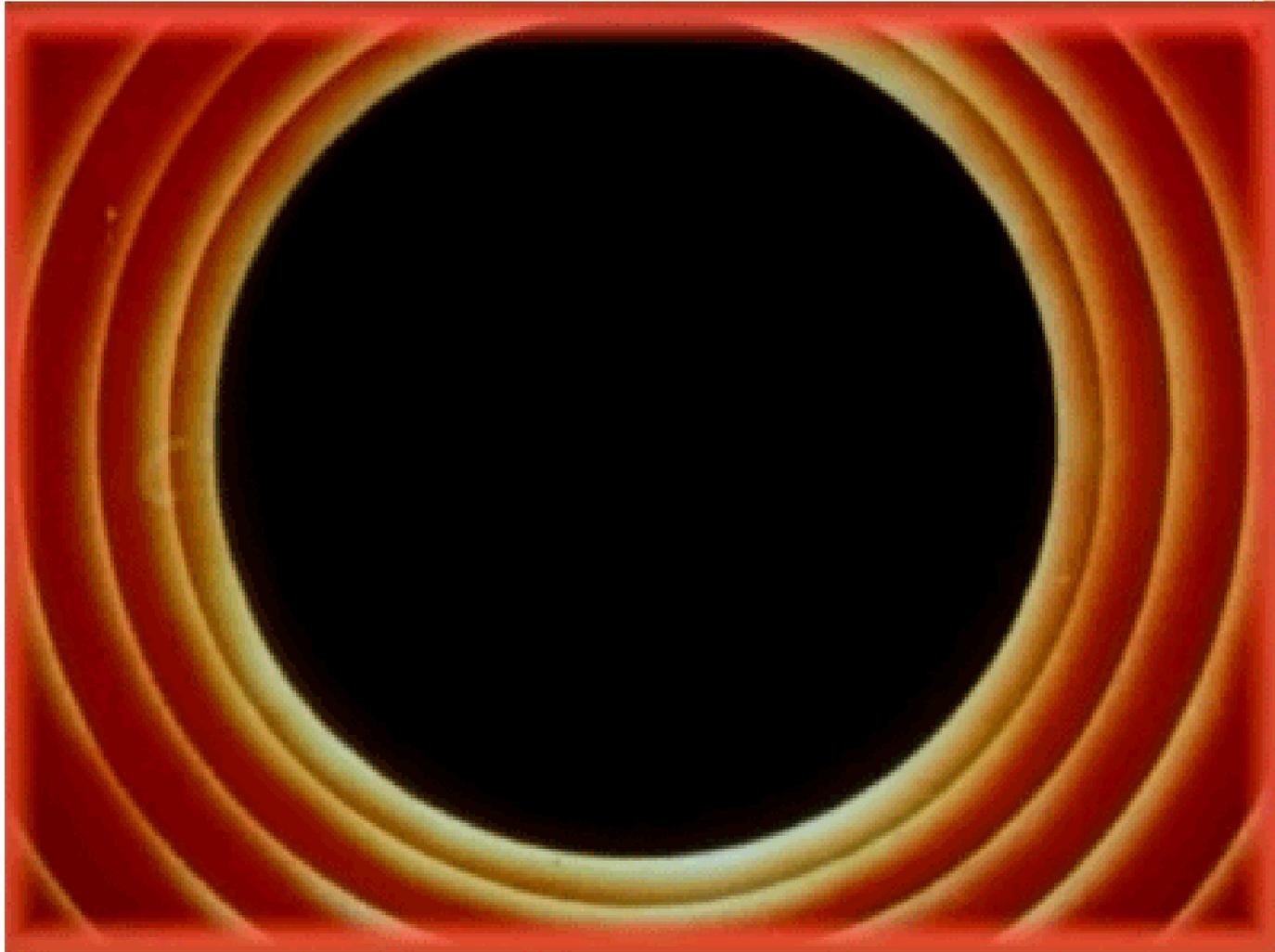
One final analogy

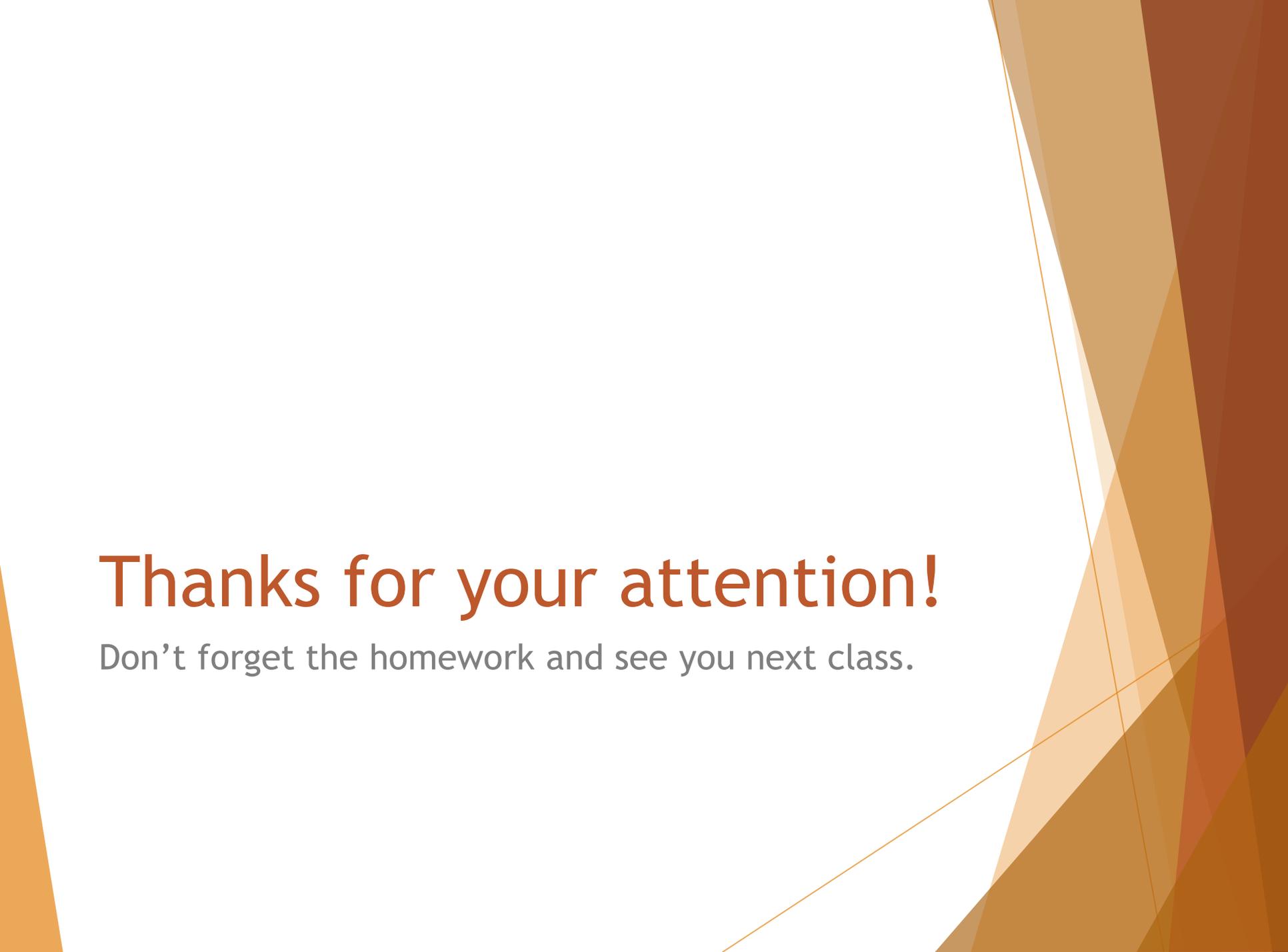
- ▶ Validation is like reading a map to reach a destination
- ▶ The business plan is nothing but a tool
 - ▶ (for learning)
 - ▶ (continuously)



Homework

- ▶ Define your Revenue Model
 - ▶ Flipped Classroom 11 might be useful.
 - ▶ It is a big part of Segunda Entrega.
- ▶ Complete your business plan following the model of your choosing.
 - ▶ You can attach the canvases or formats, if applicable





Thanks for your attention!

Don't forget the homework and see you next class.